



MACRO VIEWS



World

- The global economic outlook has improved since May, and we now see the world economy contracting by -4.0% this year, with global activity returning to its pre-virus level by the second half of next year.
- Significant risks around this forecast remain both to the downside (a second wave would put further downward pressure on activity) and upside (a vaccine is developed and social distancing subsidies).



US

- The US economy will contract by -4.0% this year, followed by growth of 3.3% in 2021 and 3.6% in 2022.
- Fiscal uncertainty is a major issue, and we assume no significant further support will be forthcoming until after the election.
- The Fed's dot plot shows rates near zero until at least 2023, though our view is that further easing measures will likely require unexpected adverse developments to the economic outlook.



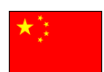
Europe

- We see Euro Area GDP contracting by -8.0% this year, the largest annual contraction since the formation of the single currency.
- The shock is asymmetric: Germany sees the smallest deterioration while France and Italy perform worse.
- We think the ECB will ease further in December, likely via more asset purchases.



Germany

- For Germany, we have lifted our GDP forecast for 2020 to -5.5% and see the economy returning to its pre-crisis level by the end of 2021.
- A more widely available vaccine will reinvigorate animal spirits and consumer optimism in H2 2021.



China

- We have upgraded our 2020 growth forecast for China to 2.0%, and see 9.0% growth in 2021.
- Industrial output has already returned to its pre-Covid growth trend, led by heavy industries such as steel and auto makers.
- We expect the PBoC will hike its MLF policy rate twice by 20bps in total in H2 2021.



Emerging Markets

- While North Asia and CE3 have done well, there's a lot of dispersion in the rest of EM.
- LatAm has been the heaviest hit region and the most vulnerable. There are some signs of traction in Brazil.
- In CEEMEA, the outlook is mixed, with Turkey's policy constraints the most concerning.
- Asia has been ahead of the curve, though North Asia is doing significantly better than South Asia.

Key
downside
risks

- H A second wave of Covid-19 – A second wave of the virus would have negative implications for growth, preventing a meaningful recovery for some time as countries are forced to re-impose lockdown measures and fearful consumers are reluctant to go out.
- M Financial disruption – Growing overvaluation of assets and mounting debt levels have often touched off financial crises in the past.
- M Global trade tensions. Tensions between the US and China continue to rise and spread to other parts of the world.



MARKET VIEWS

Market sentiment	<ul style="list-style-type: none"> Future performance will depend on the path of the pandemic, with downside risks prevalent if a second wave led to further economic turmoil. The US election also acts as a source of uncertainty.
Equities	<ul style="list-style-type: none"> We maintain our year-end S&P 500 target for 3250, which is slightly below where we are trading currently. We are also overweight global over US equities.
Rates	<ul style="list-style-type: none"> Central banks will remain structurally dovish, anchoring the front end. The intellectual consensus around fiscal policy has shifted, with the odds of a more persistently easy fiscal policy having risen.
FX	<ul style="list-style-type: none"> Our EUR/USD 1.20 year-end forecast remains intact, and we then see the exchange moving to 1.25 for end-2021 and 1.30 at end-2022. A global second Covid-19 wave denting growth and risk appetite materially is the biggest near-term risk to our dollar negative view.
Credit	<ul style="list-style-type: none"> We expect a moderate widening in credit spreads in Q4 2020, before a gradual spread normalization next year. This is because of relatively tight starting spreads, meaningfully reduced economic activity, political uncertainty, and likely continued nervousness as virus cases pick up during the winter.
Oil	<ul style="list-style-type: none"> We have a modestly bullish bias for the year ahead. We think market deficits are likely to prevail, resulting in the slow but steady drawdown of accumulated inventory in the first half of 2020.
Monetary Policy	<ul style="list-style-type: none"> Fed: Keep rates near zero for a long time. ECB: Ease further in December, likely via more asset purchases. BoJ: Stick with its current policy in the coming months. BoE: A further £60bn of QE in November. PBoC: Hike its MLF policy rate twice by 20bps in H2 2021.

Key macro & markets forecasts

GDP growth (%)			Central Bank policy rate (%)			Key market				
	2020F	2021F		Current	Q3-20	Q4-20		Current	Q3-20	Q4-20
Global	-4.0	5.3	US: Federal Funds Rate	0.125	0.125	0.125	US 10Y yield (%)	0.66	0.60	0.70
US	-4.0	3.3	Eurozone: Deposit Facility Rate	-0.50	-0.50	-0.50	EUR 10Y yield (%)	-0.52	-0.45	-0.40
Eurozone	-8.0	5.4	Japan: Policy Balance Rate	-0.10	-0.10	-0.10	EUR/USD	1.17	1.15	1.20
Germany	-5.5	4.5	UK: Bank Rate	0.10	0.10	0.10	USD/JPY	105	100	100
Japan	-6.2	1.7	China: MLF 1Y Interest Rate	2.95	2.95	2.95	S&P 500	3237		3250
UK	-10.2	4.7					Gold (USD/oz)	1857	1740	1800
China	2.0	9.0					Oil WTI (USD/bbl)	39.6	37.0	42.0
							Oil Brent (USD/bbl)	41.5	40.0	45.0
							Current prices as of Sep 24, 2020			

2020 Macro Events Calendar

September			October			November		
29	US	First Presidential Debate	01-02	EU	Special European Council Meeting	03	US	Presidential Election
			12-18		IMF/World Bank Annual Meetings	05	US	Federal Reserve decision
			15-16	EU	European Council Meeting	05	UK	Bank of England decision
			15	US	Second Presidential Debate	21-22	G20	Summit
			22	US	Third Presidential Debate			
			29	EZ	ECB Decision			
			29	JN	Bank of Japan Decision			

- Recent editions**
- [Navigating the New Normal](#) 23 September 2020
 - [The long road to recovery](#) 30 June 2020
 - [The House View: 2020 Macro events calendar \(includes a calendar outlook update\)](#) 13 May 2020
 - [Covid-19: Health check on the global economy](#) 12 May 2020