



MACRO VIEWS



World

- The global economic outlook has improved since September thanks to the positive vaccine news, and we now see global GDP returning to its pre-virus levels in Q2 2021.
- Significant risks around this forecast remain both to the downside (if the virus were to spread more severely this winter or a vaccine rollout were delayed) and the upside (if a vaccine rollout is quicker than anticipated).



US

- The US economy will expand by an annualised 2.3% in Q4, with annual 2020 growth seeing a -3.6% decline.
- With the election looking likely to deliver a divided government with a Biden presidency and Republican senate, we maintain our assumption of \$750bn stimulus legislated in Q1 by the Biden administration.
- We anticipate the Fed will extend the duration of their purchases and provide further forward guidance about asset purchases by Q1.



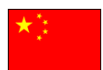
Europe

- We see Euro Area GDP contracting by -7.4% this year, the largest annual contraction since the formation of the single currency.
- Due to the latest restrictions to combat the second wave of the virus, we think GDP will contract again in the fourth quarter.
- 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-Covid level by Q3 2021.
- While renewed restrictions mean we anticipate GDP to contract again in Q4, lower infections rates as a result of seasonal factors and vaccinations mean we expect strong growth in the summer half.



China

- We think the Chinese economy will grow by 2.2% this year, reflecting a faster than-expected recovery in services activity, before the economy sees growth of 9.5% in 2021.
- We expect the PBoC will hike its MLF policy rate in H2 2021.



Emerging Markets

- Q3 was better all around for emerging markets, but the second wave has made differentiation more obvious.
- LatAm saw improved activity in Q3, but it will take time to get back to pre-Covid levels.
- In CEEMEA, Q3 was also good, but second wave-related restrictions have diluted the positivity.
- Asia has been ahead of the curve, with North Asia doing significantly better than South Asia.

Key
downside
risks

- H Covid-19 – The pace of recovery could slow in the coming weeks in the Northern hemisphere if the virus is worse than anticipated, leading to accompany restrictions on economic activity.
- 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"> We see room for US equities to weaken, though credit spreads could tighten a bit further. We still see the dollar on a downward trajectory.
Equities	<ul style="list-style-type: none"> We maintain our year-end S&P 500 target for 3250, though see it rising up to 3450 by year-end 2021. We are overweight European and Japanese equities vs the US.
Rates	<ul style="list-style-type: none"> In the coming months, a worsening Covid-19 crisis in the US, reduced upside to fiscal policy post-election, and a potential WAM extension from the Fed should keep yields under mild downward pressure. We expect EUR rates to underperform US rates.
FX	<ul style="list-style-type: none"> A big cycle USD top is very likely in place, with our EUR/USD 1.20 year-end forecast intact. We then see EUR/USD moving to 1.25 for end-2021 and 1.30 for end-2022.
Credit	<ul style="list-style-type: none"> There's a good chance that the combination of improving fundamentals and unwavering stimulus will lead spreads to "overshoot" and push towards cyclical highs around mid-year. We may see a small correction in H2 2021 as markets look back towards the second year of recovery when stimulus is likely to be pared back.
Oil	<ul style="list-style-type: none"> The oil market is still working from a position of elevated inventory, so recovering demand on a vaccine deployment would need to moderate these inventory levels before suggesting brighter prospects for oil prices.
Monetary Policy	<ul style="list-style-type: none"> Fed: We expect the Fed will keep rates near zero until at least end-2023 ECB: We think the ECB will ease further in December, likely via more asset purchases. BoJ: We think the BoJ will stick with its current policy in the coming months. BoE: We expect no change to the policy setting for 2021 PBoC: We expect the PBoC will hike its MLF policy rate in H2 2021.

Key macro & markets forecasts

GDP growth (%)			Central Bank policy rate (%)			Key market				
	2020F	2021F	Current	Q4-20	Q4-21	Current	Q4-20	Q4-21		
Global	-3.7	5.7	US: Federal Funds Rate	0.125	0.125	0.125	US 10Y yield (%)	0.88	0.70	1.15
US	-3.6	4.0	Eurozone: Deposit Facility Rate	-0.50	-0.50	-0.50	EUR 10Y yield (%)	-0.57	-0.40	-0.05
Eurozone	-7.4	5.6	Japan: Policy Balance Rate	-0.10	-0.10	-0.10	EUR/USD	1.19	1.20	1.25
Germany	-5.5	4.5	UK: Bank Rate	0.10	0.10	0.10	USD/JPY	104	100	90
Japan	-5.5	2.1	China: MLF 1Y Interest Rate	2.95	2.95	3.15	S&P 500	3635	3250	3450
UK	-11.3	4.6					Gold (USD/oz)	1816	1900	2000
China	2.2	9.5					Oil WTI (USD/bbl)	45.6	42.0	47.0
							Oil Brent (USD/bbl)	48.5	45.0	50.0

Current prices as of Nov 25, 2020

2020-21 Macro Events Calendar

December			January			February		
10	EZ	ECB Decision	05	US	Georgia Senate runoff elections	04	UK	Bank of England decision
10-11	EU	European Council Meeting	06	US	Joint Session of Congress counts electoral votes			
14	US	Electoral College votes						
16	US	Federal Reserve Decision	20	US	Presidential Inauguration			
17	UK	Bank of England Decision	21	JN	Bank of Japan Decision			
18	JN	Bank of Japan Decision	21	EZ	ECB Decision			
31	UK	Brexit transition period ends	27	US	Federal Reserve Decision			

Recent editions	<ul style="list-style-type: none"> Hope on the Horizon 25 November 2020 Navigating the New Normal 23 September 2020 The long road to recovery 30 June 2020 Covid-19: Health check on the global economy 12 May 2020
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