Evolving global macro-economic conditions:

Dare we look beyond Covid-19

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2020 sources of uncertainty, volatility, but also of opportunity
Macro forecasts and dreams cratered by the COVID-19 crisis
The ‘R’ number and regional pockets of infection
Seasonal effects. How many waves? Vaccine expectations

An uphill struggle

**COVID-19 confirmed infection cases in millions**
- Worldwide: 55 million
- EMEA: 19.8m
- US: 11.2m
- Brazil: 5.9m
- India: 8.9m

**COVID-19 confirmed deaths in thousands**
- Worldwide: 1.33 million
- EMEA: 458.8k
- US: 247.2k
- Brazil: 166.0k
- India: 130.5k

Source: Bloomberg/FAB
Low rates/fiscal accommodation, but for how long?

Keeping the policy sluice gates open

Source: Bloomberg/FAB
With short yields anchored, bear steepening trend in rates

Source: Bloomberg/FAB
Divorce between fundamentals and valuations

Not out of the woods just yet

- U.S. Real GDP - Annual QoQ % (RHS)
- S&P 500 Index (LHS)

Source: Bloomberg/FAB
Impact on sentiment from unwinding stimulus/furlough schemes

COVID-19 could potentially reverse the record labour market tightness

- U.K. Unemployment Rate (%)
- U.K. Unemployment Rate Forecast (%)
- UK Labour Force Employment Change (Monthly)

Source: Bloomberg/FAB
Outlook for labour market conditions and consumption

Labour markets outlook still uncertain

Consumption took a major hit
180 degree swing in global growth (expansion to recession)

Climbing back from the abyss

- **China Quarterly GDP % Growth**: Q3'20 Reported: +2.7%, IMF FY'20 Forecast (Oct update): +1.9%, FY'20 Street Consensus: +2.0%
- **US Quarterly GDP % Growth**: Q3'20 Reported: +33.1%, IMF FY'20 Forecast (Oct update): -4.3%, FY'20 Street Consensus: -3.6%
- **Eurozone Quarterly GDP % Growth**: Q3'20 Reported: 12.6%, IMF FY'20 Forecast (Oct update): -8.3%, FY'20 Street Consensus: -7.4%
- **UK Quarterly GDP % Growth**: Q3'20 Reported: 15.5%, IMF FY'20 Forecast (Oct update): -9.8%, FY'20 Street Consensus: -10.7%

Source: Bloomberg/IMF/FAB
More discerning approach to risk

*From mid-March the FED started various measures to boost liquidity to support markets

*In mid-June, the FED expanded bond buying under its Secondary Market Corporate Credit Facility (SMCCF) to a broad portfolio that now includes individual corporate bonds

Source: Bloomberg/FAB
Could economies survive a second wave? Central banks have limited ammo now

Central banks in “whatever it takes” mode to protect markets

- **LIBOR Rate - USD 3 Month**: 0.222%
- **Fed Funds Target Rate - Upper Bound**: 0.250%
- **ECB Main Refinancing Rate**: 0.000%
- **UK Bank of England Official Bank Rate**: 0.100%
- **Bank Of Japan Policy-Rate Balance Rate**: -ve 0.100%

Source: Bloomberg/FAB
‘V’ sounds attractive, but ‘U’ may be more sustainable

A slow climb back to health

S&P 500 index all securities earnings trend

- Avg. % Sales Growth
- Avg. % Earnings Growth

Q3'19 | Q4'19 | Q1'20 | Q2'20 | Q3'20F | Q4'20F | Q1'21F | Q2'21F | Q3'21F
-31.3 | -14.0 | -9.5  | -8.9  | -10.7  | 3.3   | 13.1   | 41.1   | 7.9

Street forecast

Source: Bloomberg/FAB
Uncertainty feeds a defensive bias

Sovereign Returns (Returns at different time interval of market gyrations in 2020)

GCC / EM Aggregate Returns (Returns at different time interval of market gyrations in 2020)

Source: Bloomberg/FAB
Focus on liquidity, quality and yield

Bubble size indicates the average credit rating of the index. Bigger the bubble better the credit quality

Levels shown as at the end of Q3 2020

Source: Bloomberg/FAB
GCC risk attractive as infection numbers improve and oil prices recover

Escalating coronavirus infections vs rising hopes of a vaccine will keep volatility and investor caution elevated. But medium-term bear steepening trend should underpin the bid for quality (haven) GCC risk.

Source: Bloomberg/FAB
Thank You

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