



# Economic recovery in 2021 – will it be as strong as expected?

Market Comment, January 2021

**2020 was a difficult but above all volatile year. We must assume that the coronavirus pandemic and the attempts to combat it with vaccines will remain the most important – and indeed an unpredictable – factor for the global economy. It is vital that central banks and governments continue to provide monetary and fiscal stimulus. The low comparative base for corporate earnings in a poor 2020 should enable 2021 to record high year-on-year growth. But pre-pandemic levels of global economic output and corporate earnings will hardly be easy to achieve this year.**

The coronavirus crisis remains the decisive – but unpredictable – factor in the development of the global economy. Market expectations of a strong recovery presuppose a rapid success with the corresponding vaccines. As little is known about the long-term effects, however, the market consensus should be viewed with caution:

- For the **US economy**, the market is expecting a decline in gross domestic product of around 4% for 2020, followed by a recovery of a similar magnitude in 2021.
- For the **Eurozone**, a stronger decrease of 7-8% is expected for 2020 – followed, however, by a more vigorous recovery (4-5%) in 2021.
- For **Switzerland**, the expectation is -4.5% for 2020 and +3.5% in 2021.
- For **China**, an even stronger recovery is expected by the consensus – namely around 7-8% in 2021 after a solid business trend in 2020. China's relatively more stable economic development in 2020 is attributable to its greater success in combating the coronavirus pandemic, which in turn can be explained by the greater freedom of manoeuvre open to a dictatorship. More stringent curbs on activity followed by state-decreed production made the difference here.

Because of the pandemic, the principal driver of the decline in economic output in 2020 was consumer spending, which decreased more sharply than the economy as

a whole. However, corporate investment activity also waned in many countries in 2020, with numerous companies choosing to hold back their cash reserves due to the imponderables of the coronavirus situation. The production side of the global economy and exports were affected in 2020 for two reasons: Firstly, supply chains were partly disrupted due to the pandemic outbreak in China. Secondly, the governments of many countries also enforced production shutdowns in factories as a way of containing proliferation of the virus. The recovery of consumer spending, industrial production and corporate earnings in the summer and autumn fortunately proved stronger than expected by the consensus. This was crucial to the rapid recovery of equity markets.

**“The low comparative base in 2020 will facilitate higher earnings growth, but pre-coronavirus levels will not be easy to achieve.”**

Gérard Piasko, Chief Investment Officer

An obvious stabilizing factor for the global economy in 2020 was the surge in government expenditure. Although it may rightly be pointed out that this has entailed a rise in government indebtedness, avoiding a liquidity crisis was absolutely critical. The experiences of the crises of 2000 / 2001 and 2008 / 2009 showed that short-term financial stimulus from governments is a better strategy than driving companies into bankruptcy. If the pandemic were to bring further acute phases, therefore, the affected sectors should receive sufficient support to ward off any wider credit crisis for the economy as a whole. If the authorities in Europe and America had been swifter to communicate their bond purchase programmes back in the spring of 2020, equity markets would not have slumped by some 35% in record-fast time. While there has never been such a dramatic collapse in market history as that witnessed in March 2020, it is also true that there has never been such a rapid recovery.

As we see it, central banks are certain to support the economy in 2021, and governments will probably do so too. Short-term interest rates will therefore have to be held at historic lows, while the middle and long segments of yield curves (i.e. bond markets) should react to the economic swings – which will in turn depend on how the coronavirus situation evolves. Bonds will therefore be more volatile. Although global inflation should rise somewhat in 2021, it will still be below average when viewed in historical terms. The goal of central banks will remain the prevention of deflationary developments.

Where equity markets are concerned, two key factors stand out: 1. The low-baseline effect will have a positive impact. In other words, thanks to the slump in earnings in 2020 there is a low base from which companies should be able to report double-digit earnings growth in 2021

following the grim prior year. 2. The less positive factor is that corporate earnings and the global economy are unlikely to get back to their pre-pandemic levels until 2022. A balanced investment strategy involving diversification elements such as gold remains the appropriate stance.

Gérard Piasko

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Editorial deadline: 7 January 2021

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