Monthly Macro Insights

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Rothschild & Co
Asset Management

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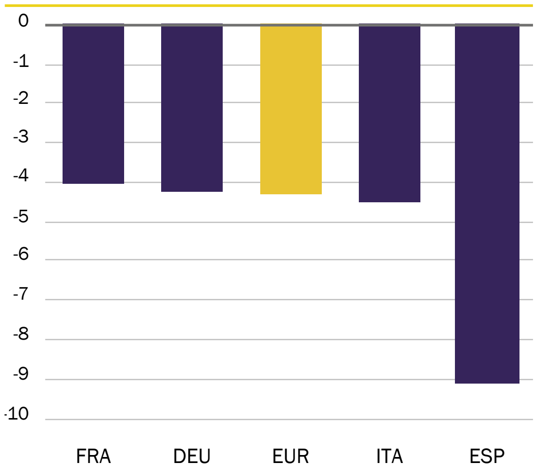
While recovery in most countries has been somewhat faster than expected after they reopened in early April, the global economy's recovery remains uncertain. Admittedly incoming GDP reports show a historic surge in Q3 2020, but only to mirror the Q2 dramatic plunge. With the resurgence of COVID-19 infections, re-openings have paused, and targeted shutdowns are being reinstated in many countries, mainly in Europe, which will weigh heavily on activity. Meanwhile, the impact of the health crisis could be much more long-lasting than investors expect.

US GDP surged 7.4% q/q – exceeding analysts' estimates – driven by robust consumer spending and residential investment. Business investment also rose but was nonetheless not as strong as what confidence surveys had suggested. In fact, while overall GDP remains -3.5% below Q4 2019 level, business investment is still -4.9% lower. Fed officials have been vocal about the need for more fiscal support, but the preliminary results of the US election seem to suggest that a comprehensive fiscal package is unlikely in the short-term and any agreement is likely to be on the low side of what has been bandied about through various proposals.

In the eurozone, GDP (12.7% q/q) also topped forecasts thanks to abundant governments support and all four of the biggest economies beat expectations, showing the breadth of the outperformance. However, despite the strong rebound, GDP remains below pre-pandemic level, especially in Spain due to the huge weight of tourism-related economic activity.

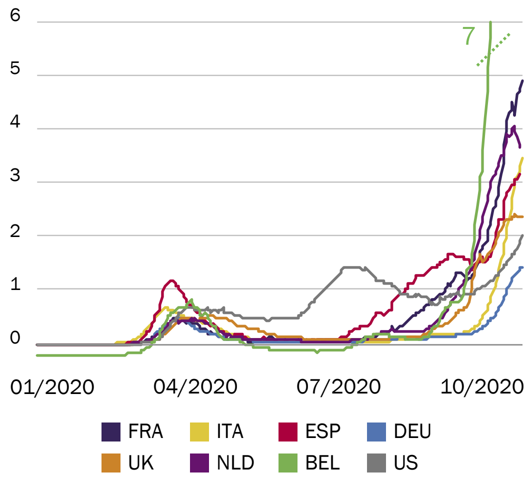
Eurozone - GDP growth
in %, Q3 2020 / Q4 2019



Source: Macrobond, Rothschild & Co Asset Management Europe, October 2020.

In recent weeks, European countries have been struggling to contain the COVID-19 second wave and the virus has continued to grow exponentially, putting major strain on already stressed healthcare systems. Looking ahead, a double-dip downturn seems inevitable as most countries have announced a tighter set of restrictions, although the drop might not be as important compared to Q2. In Italy and Spain, curfew style regimes with strict limitations to the hospitality/entertainment businesses have been put in place. France and Germany plunged back into lockdown and people are required to stay at home with few exceptions,

World- Covid-19 new cases per 1M
weekly, in thousand

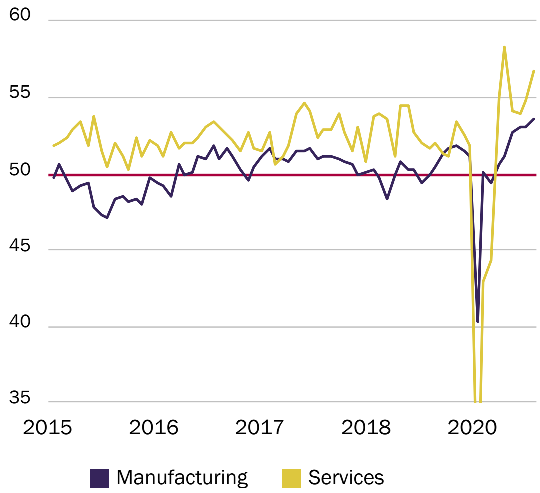


Source: Macrobond, Rothschild & Co Asset Management Europe, October 2020.

although in both countries, schools will stay open.

Overall, the global expansion remains unbalanced and therefore vulnerable. Indeed, the reopening of economies after COVID-19's first wave has sponsored several gaps: first between China and the rest of the world (the "first-in-first-out" phenomenon), then between manufacturing and services, and now between China/US and Europe. While divergences can be sustained, Europe's recent experience raises concerns that skew economic growth risks to the downside. Indeed, historically, European growth weakness has generated negative spill overs on the global economy. What's more, Europe's second wave could well be a harbinger for the rest of the world. In fact, with the winter months still ahead, the localized outbreaks in the US could well broaden, weighing on mobility and thus hurting economic

China - Markit business confidence - index



Source: Macrobond, Rothschild & Co Asset Management Europe, October 2020.

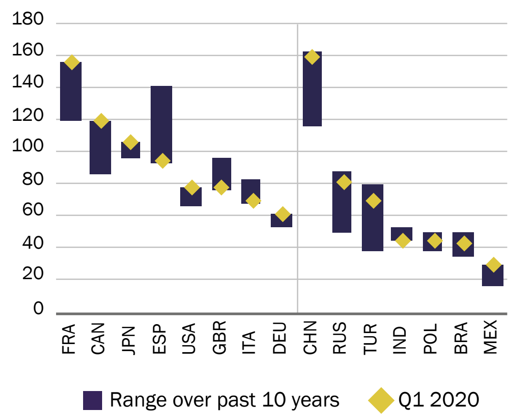
activity.

Admittedly, accommodative monetary policy and loose fiscal policy will continue supporting the economy. Progress with vaccines and treatments may also allow activity to return more rapidly to pre-pandemic levels than currently projected, without triggering repeated waves of infection. Social distancing might continue for some time but would subsequently fade over time if vaccine coverage expands and therapies improve. However, the persistence of the pandemic shock remains uncertain as the deep downturn could damage potential GDP growth to varying degrees across economies.

Economic theory points to a positive relationship between global trade and productivity, as engaging in trade is considered to promote advances in productivity. Yet, trade is expected to contract by over -10% in 2020, a pace similar to during the global financial crisis in 2009, and is likely to exhibit subdued growth in the next few years, reflecting, in part, shifts in supply chains as firms re-shore production to reduce perceived vulnerabilities from reliance on foreign producers.

What's more, in the years leading up to the pandemic, relatively slow business investment growth and more modest improvements in human capital were factors that dragged productivity growth lower across many economies. In order to help maintaining the flow of credit to the economy, unprecedented and timely policy response has recently been put in place. Taking advantage of the massive easing in financial conditions, businesses have stepped up their bond issuance and increased their borrowing from banks to cope with cash shortages and build precautionary cash buffers. However, this further expansion of corporate debt is adding to already high debt levels in several economies and may lead to a deterioration in productivity, namely through lower ability to investment.

World - Non fin. corporate debt
in % of GDP



Source: Macrobond, Rothschild & Co Asset Management Europe, October 2020.

Public debt has also soared dramatically in the past few months and could reach a historical high of 100% of GDP in 2020. Although the prospects of low interest rates over a longer period can help alleviate debt burdens, sovereign indebtedness represents a tremendous challenge, especially as lower potential growth imply a smaller tax base that makes it harder to service the debt.

Meanwhile, the pandemic will reverse the progress made since the 1990s in reducing global poverty. According to the IMF, up to 90 million people could fall below the $1.90 a day income threshold of extreme poverty this year. Furthermore, inequality is set to increase because the crisis has disproportionately affected younger workers, women and those with relatively lower educational attainment, and school closures during the pandemic pose a significant new challenge that could severely hinder human capital accumulation.

In sum, the path to economic recovery remains highly uncertain and vulnerable to multiple waves of infections. Beyond the staggering economic impacts, the pandemic might also have severe and long-lasting socio-economic impacts that may well weaken long-term growth prospects.

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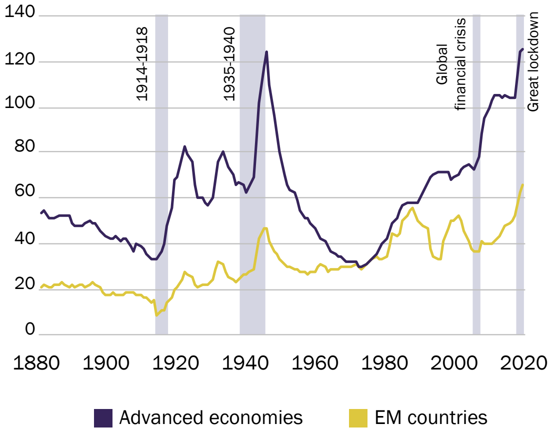
World - Public debt
in % of GDP



Source: Macrobond, Rothschild & Co Asset Management Europe, October 2020.

Performance of the indices and interest rate levels

	Price as of 09/30/2020	1 month % change	2020 % change
Equity markets			
CAC 40	4 594	-4.4%	-23.1%
Euro Stoxx 50	2 958	-7.4%	-21.0%
S&P 500	3 270	-2.8%	1.2%
Nikkei 225	22 977	-0.9%	-2.9%
Currencies			
EUR/USD	1.16	-0.6%	3.9%
EUR/JPY	121.93	-1.4%	0.1%

		Price as of 09/30/2020	1 month bp	2020 bp
Interest rates				
3 M	Eurozone	-0.67%	-3	-4
3 M	United States	0.09%	-1	-146
10 Y	Eurozone	-0.63%	-11	-44
10 Y	United States	0.87%	19	-104

Source: Bloomberg, data as of 30/10/2020. Performances in local currency.
(1) Basis point.

About Rothschild & Co Asset Management Europe
As the specialised asset management division of the Rothschild & Co group, we offer personalised asset management services to a broad client base of institutional investors, financial intermediaries and distributors. Our development is focused on a range of open-ended funds, marketed under four strong brands: Conviction, Valor, Thematic and 4Change, and leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and established in 10 European countries, we manage more than 21 billion euros and employ nearly 170 people. More information at: www.am.eu.rothschildandco.com

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