



2020 Review & 2021 Outlook

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2020 has changed our thought patterns, both in terms of health and economics. But, as the markets have quickly integrated it, we need to look "beyond the valley".

The health crisis has challenged many established beliefs. With regard to economic mechanisms, we have noted in particular:

- The marginal impact on household income, despite a decline in produced wealth of around 5% in the United States, and 8% in Europe⁽¹⁾, thanks to transfers to the states;
- A fall in government rates, despite an increase in public debt of around 20 percentage points of GDP on both sides of the Atlantic⁽¹⁾.

Of course, this can be explained by the past response of states and monetary institutions.

By protecting income, governments give cause for hope of future consumption, and lower rates allow deferred profits to be valued more. This act of looking "beyond the valley" is at the origin of the good behaviour of the markets, which swiftly erased

the losses of the second quarter, ending the year at an all-time high, both with regards to equities (MSCI World) and bonds (JPM Global Bonds).

From then on, all eyes are on 2021

Once again, the changes in interest rates will be the key point. Indeed, the markets can patiently wait for the recovery of profits, in line with the rebound of the economy once the health crisis has passed and especially as vaccines are deployed.

Based on economists' estimates, the rebound in the economies would return to the 2019 level of activity from 2021 in the United States, and from 2022 in Europe. Corporate profits from the main equity indices should follow the same curve, the one in Europe having a much more pronounced "V" shape than that of the United States, due on the one hand, to the amplitude of the cycle and, on the other, to sectoral composition.

(1) Source: OECD, November 2020.

The rise in the markets would give rise to higher valuation levels than the average of the last five years, while at the same time preserving significant risk premiums, compared to sovereign spreads.

We therefore understand that the catch-up movement of assets (overdue equities and High Yield⁽²⁾ bonds) can continue, as long as investor optimism does not affect long-term rates, particularly in the United States, and hamper the action of central banks, by an effect of contagion in other areas. Assuming, of course, that we have

overcome the health crisis. Once this readjustment has taken place, the potential for appreciation would be limited by the loss of potential nominal growth in the medium term and by covering the current discount on variable-income assets.

Unless we consider that the crisis, by accelerating the process of “digitalisation” of the economy, will finally make it possible to improve the productivity of production factors and therefore the growth potential. ■

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(2) Bonds with a high credit risk. Their financial rating is below BBB- according to Standard & Poor's scale.

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