Monthly Macro Insights

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Rothschild & Co
Asset Management

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The global economy is off to a rough start in 2021, weighed down in the short term by the resurgence of Covid-19. Markets, by contrast, are buoyant on the hopes that mass vaccination will sever the link between COVID-19 and economic activity, and that increasingly expansionary public policies will lift global growth. This outlook is expected to develop in two stages: first painfully, until spring brings a boom. Correspondingly, the "reflation trade" – stronger growth, higher inflation, increasing interest rates – has regained its former glory.

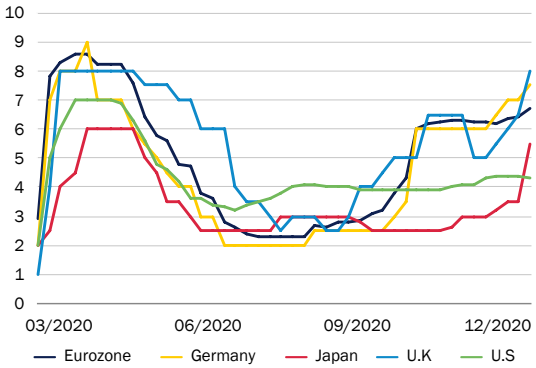
Covid resurgence

The pandemic continues to exert a substantial toll on economies and societies. In the northern hemisphere, the holiday season and cold weather have been conducive to a resurgence of contaminations, forcing many countries to tighten restriction measures. In the US, the number of hospitalisations and daily deaths is reaching new heights, but so far there has been no Federal-level strategy and each State remains responsible for the development of its crisis management strategy. Germany has decided to extend and tighten its partial containment, meaning most non-food stores, restaurants, cultural and leisure venues, and schools will remain closed at least until the end of January.

England and Scotland, meanwhile, entered new national lockdowns to prevent the health care system from collapsing. The rapid acceleration of transmissions and hospitalisations, as well as the deterioration of the national health service's ability to function fully, is explained in part by a new strain of Covid-19. While mutations are common, this new variant appears to make the virus more contagious. In addition, researchers fear the possibility it may render vaccines ineffective. However, scientific data are still fragmented and the pharmaceutical companies that have developed the vaccines are currently attempting to reassure governments and the public.

World - Covid-19 restriction rating

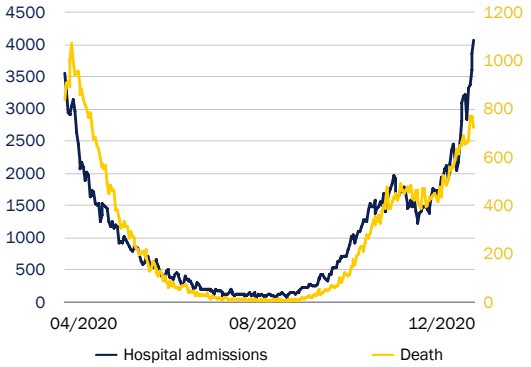
Index rating the level of restriction on a scale of 1 to 10



Source: UBS, Rothschild & Co Asset Management Europe, January 2021.

UK - Evolution of Covid-19 pandemic

Hospital new admissions and deaths



Source: UK Gov., Rothschild & Co Asset Management Europe, January 2021.

Hope pinned on vaccines...

Despite these setbacks, the economic outlook has brightened, although the extent of expected growth improvement for 2021 will depend on the challenges surrounding vaccine production, distribution and efficacy. Due to the complex logistics, mass vaccination is expected to occur gradually, preventing the full normalisation of national economies and international mobility for at least one more year.

Furthermore, the pandemic will have damaged the socio-economic fabric of countries worldwide and reinforced pre-existing imbalances related to public and private debt – impacts which could prove to be persistent.

Still, hope looms large. The rebound in economic activity is expected to strengthen thanks to the measures put in place at the onset of the pandemic to support employment and businesses, which will accelerate the pace of growth once restrictions are lifted and businesses reopen.

... and fiscal policy as Democrats regain control

Nowhere is fiscal policy set to support the economy as much as in the US. In December, Congress delivered a stimulus package that prevented the removal of benefits at the start of this year, with higher transfers expected to cushion the current-quarter slowdown in growth.

What's more, the Democratic Party won two senator seats in Georgia, a southern state in which this party had not obtained any since 1992. The Senate will, as a result, be divided into two equal camps of 50 parliamentarians, but the Vice President-Elect Kamala Harris will have the final say in the event of a tie, thus giving the majority to Joe Biden's party, which also controls the House of Representatives.

This alignment of power in the hands of Democrats, both in Congress and the White House, has instilled a wave of optimism. Investors are anticipating the implementation of the ambitious nearly $4 trillion plan, unveiled by the President-Elect during his election campaign, much of which is devoted to infrastructure and the Green Deal.

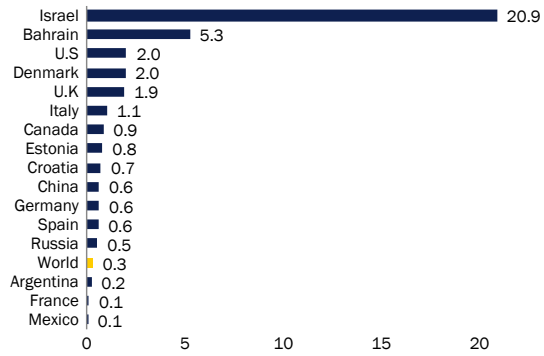
From a macroeconomic point of view, the plan could have significant long-term implications thanks to major investments in health care, education and infrastructure, all of which should spur productivity and improve US potential GDP growth. In that regard, it is a genuine supply policy.

However, while some measures could rally a bipartisan compromise, much of the envisioned plan remains controversial, and the Democrats' room for manoeuvre hangs by a thread. Its financing will also be subject to debate due to the controversial intended tax hikes on businesses and top income households.

In fact, the first two years of Donald Trump's mandate, when he enjoyed a much larger majority, showed the limits of presidential power: his Administration has been unable to revoke the Health Care Reform – Obamacare – because of defections of Republican senators.

World - Covid-19 Vaccination

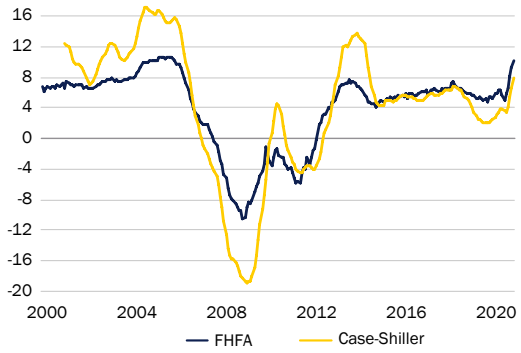
Administrated doses per 100 people



Source: OurWorldinData, Rothschild & Co Asset Management Europe, January 2021.

US - Housing prices

Index in %, y/y



Source: Macrobond, Rothschild & Co Asset Management Europe, January 2021.

Uncertainty from unconventional monetary policy

The development of monetary policy is also a grey area. Long before the Covid-19 crisis, several central bankers were increasingly worried about the side effects caused by their unconventional monetary policies. Since then, the central banks' balance sheets have swelled even more, raising fears of possible bubbles forming in certain market segments.

In the US, housing prices are showing signs of overheating, and the meteoric rise in the price of Bitcoin seems emblematic of a questionable use of liquidity from central banks. Incidentally, many international organisations have pointed out that high levels of valuation may appear to diverge from the level of economic activity, thus constituting a source of vulnerability.

In short, despite the current halt in the economic recovery due to the pandemic, optimism has spread rapidly thanks to vaccines and the support of public policies. In turn, interest rates have registered some notable moves in the past few weeks, notably in the US where yields in longer-dated bonds have increased and produced a steeper yield curve. Yet, the outlook continues to be exceptionally uncertain. With public and private indebtedness reaching record levels, the recent rise in interest rates is a cause for vigilance as it could intervene too quickly and exacerbate pre-existing vulnerabilities of a potentially systemic nature for the global financial system. ■

US - 10-Year sovereign bond

Source: Macrobond, Rothschild & Co Asset Management Europe, January 2021.

Bitcoin price

Source: Macrobond, Rothschild & Co Asset Management Europe, January 2021.

Performance of the indices and interest rate levels

	Price as of 31/12/2020	1 month % change	2020 % change
Equity markets			
CAC 40	5 551	0.6%	-7.1%
Euro Stoxx 50	3 553	1.7%	-5.1%
S&P 500	3 756	3.7%	16.3%
Nikkei 225	27 444	3.8%	16.0%
Currencies			
EUR/USD	1.22	2.4%	8.9%
EUR/JPY	126.18	1.4%	3.6%

		Price as of 31/12/2020	1 month bp	2020 bp
Interest rates				
3 M	**Eurozone**	-0.77%	-8	-13
	United States	0.06%	-1	-149
10 Y	**Eurozone**	-0.57%	0	-38
	United States	0.91%	7	-100

(1) Basis point.
Source: Bloomberg, data as of 31/12/2020. Performances in local currency.
Past performance is not a reliable indicator of future performance and is not constant over time.

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