

Six Minute Strategy

So have we seen peak growth?

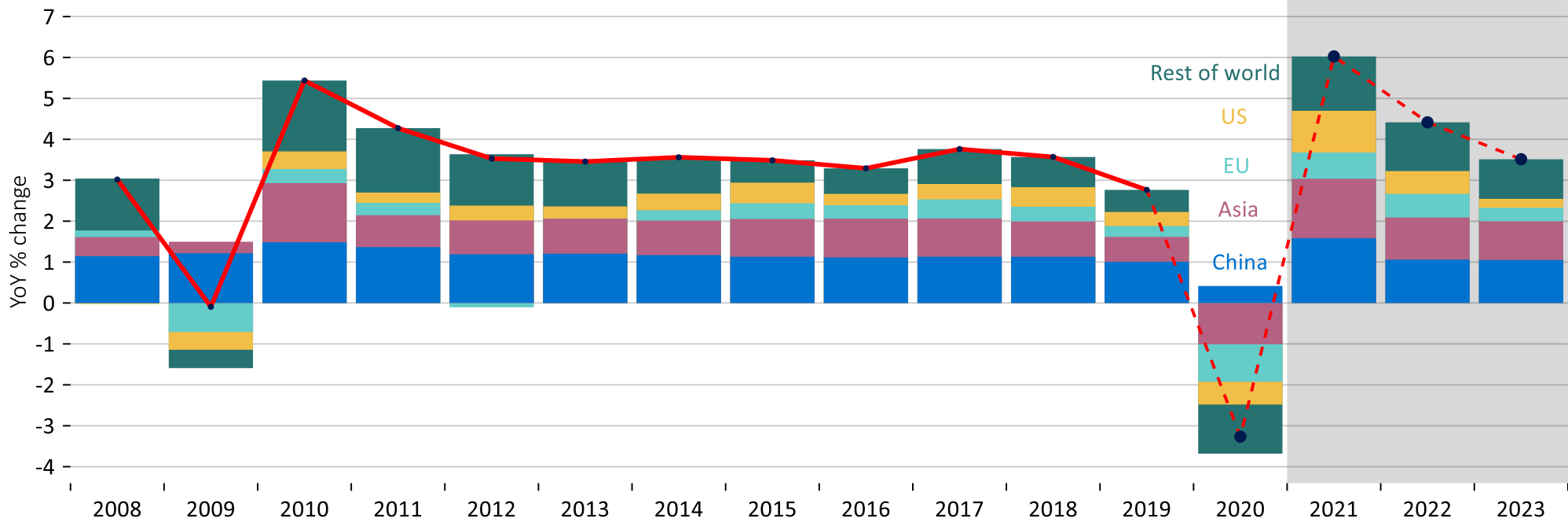
23 July 2021



Global economic outlook:

Upward revisions to global growth on the back of stronger stimulus, vaccinations and adaptation

Contribution to global GDP growth at purchasing-power parity, IMF forecasts (shaded)



Source: Macrobond, 23.07.21

Since March 2020, world governments have spent \$16 trillion in fiscal support, while global central banks have increased their balance sheets by a combined £7.5 trillion.

IMF, July 2021

So are bond markets telling us we have reached peak growth – or are they just distorted by central bank buying?

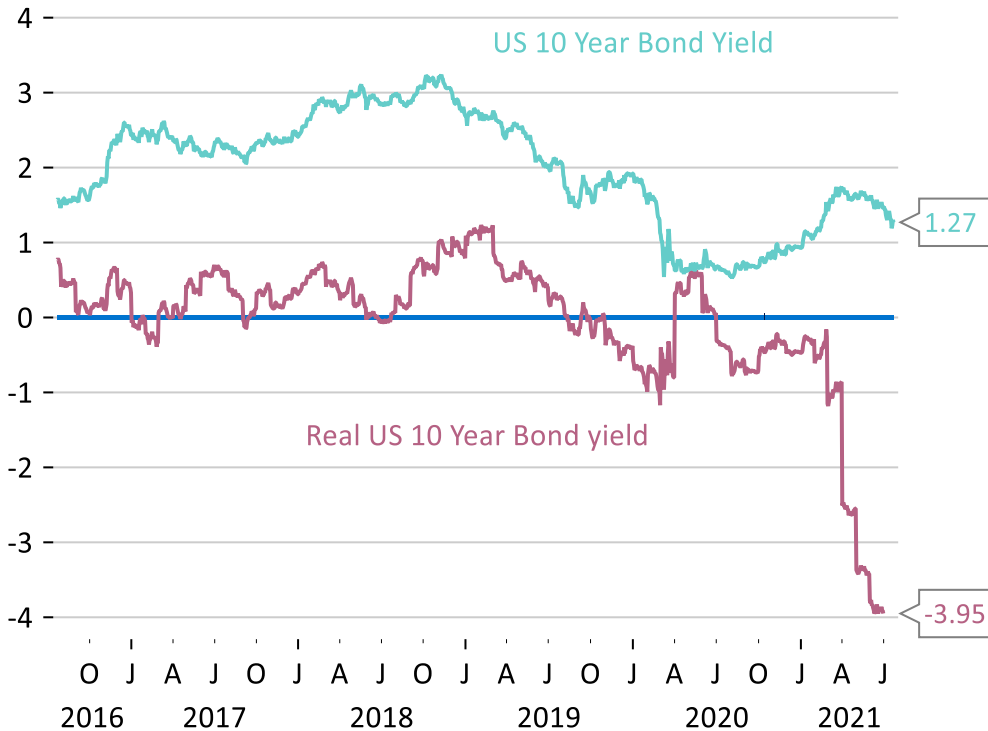


US real bond yields collapse to 40 year lows



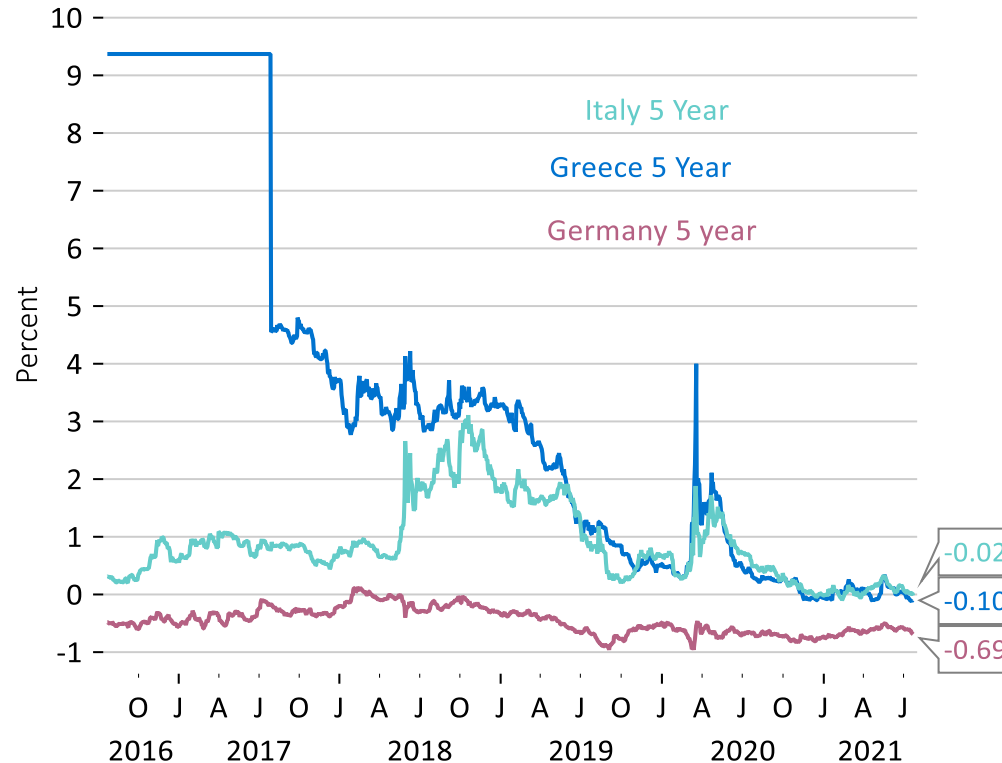
Even Greek 5 year bonds now have negative yields (!)

US 10 year Treasury yields less US inflation



Source: Macrobond, 23.07.21

European Government 5 Year Bond Yields



Source: Macrobond, 23.07.21

1. We are not out of the woods

Delta variant cases rise sharply in UK although deaths are thankfully stable

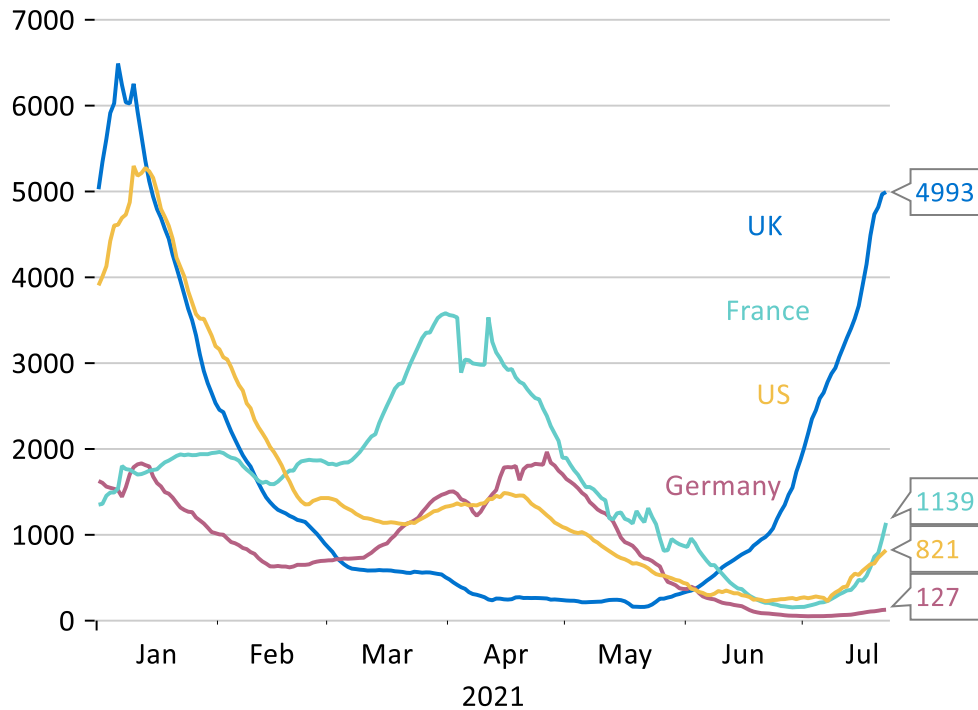


Infection rates surge in the UK – Europe climbing



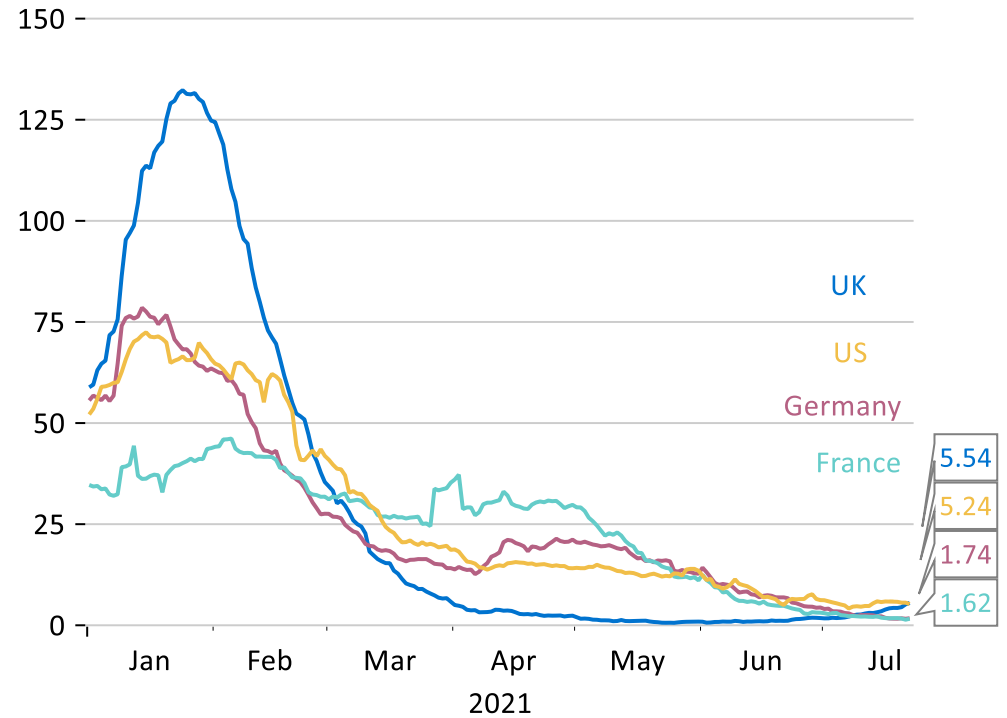
Death rates remain stable

New Covid-19 cases (per 1 million people) in the last 7 days



Source: Macrobond, 23.07.21

Recorded Covid-19 deaths (per 1 million people) in the last 7 days

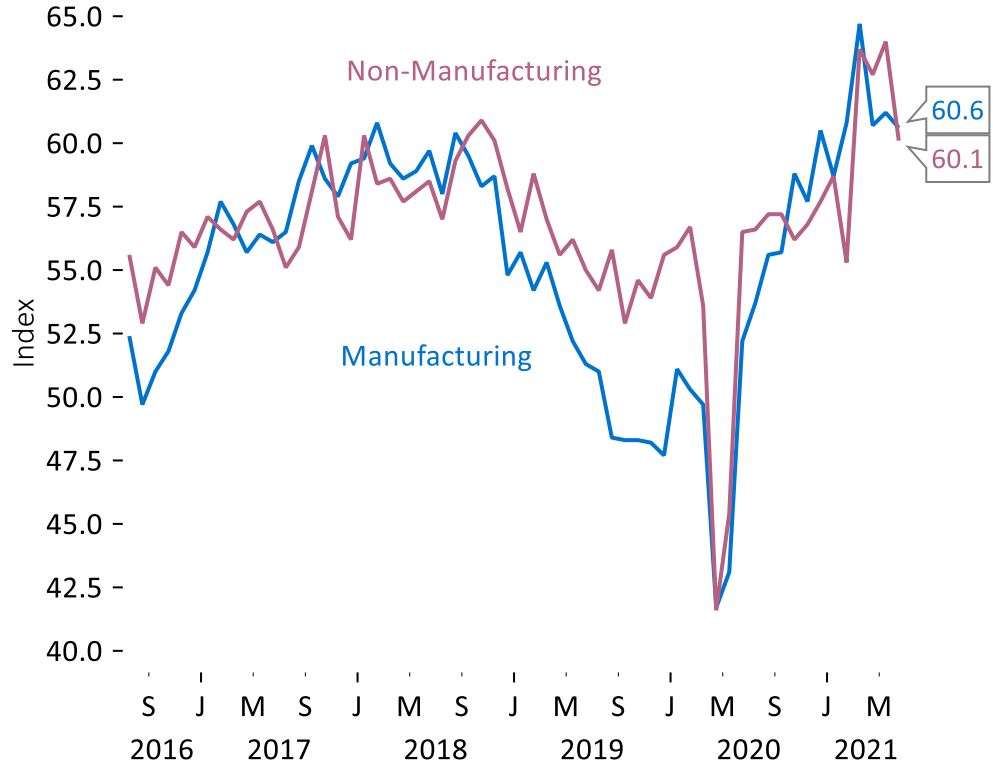


Source: Macrobond, 23.07.21

2. US business and consumer surveys may be rolling over

US business surveys have peaked but are still robust

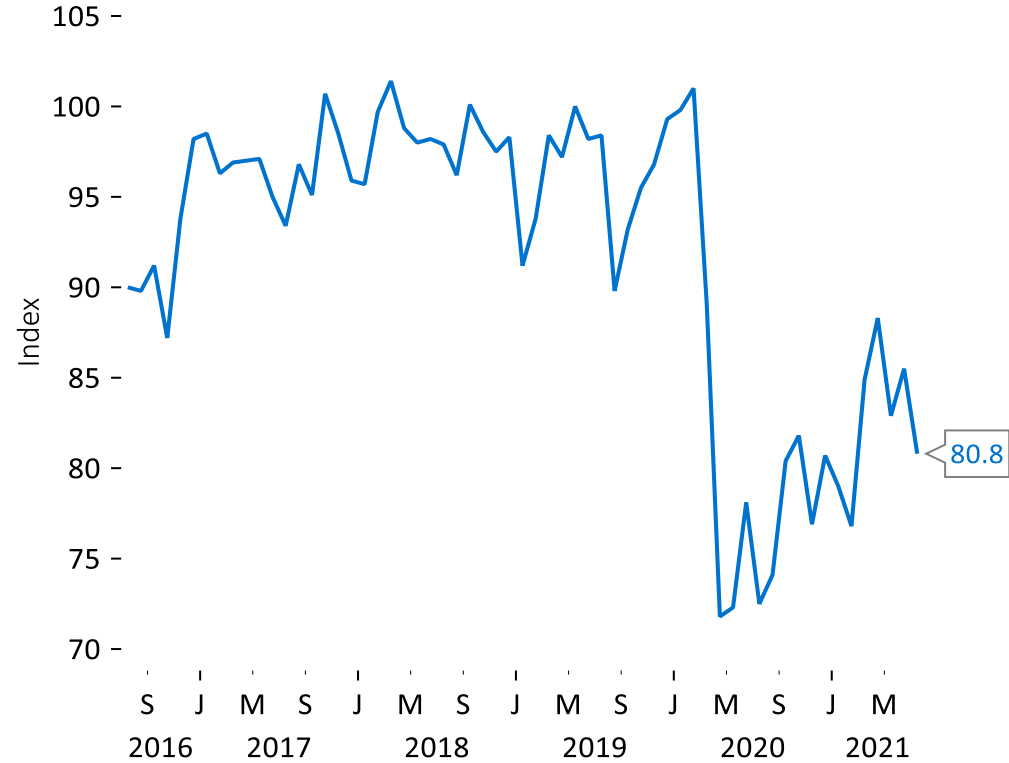
US ISM Business Survey



Source: Macrobond, 23.07.21

US consumer confidence fades

US Consumer Confidence (University of Michigan)



Source: Macrobond, 23.07.21

3. The cost of the crisis

A very unequal outcome

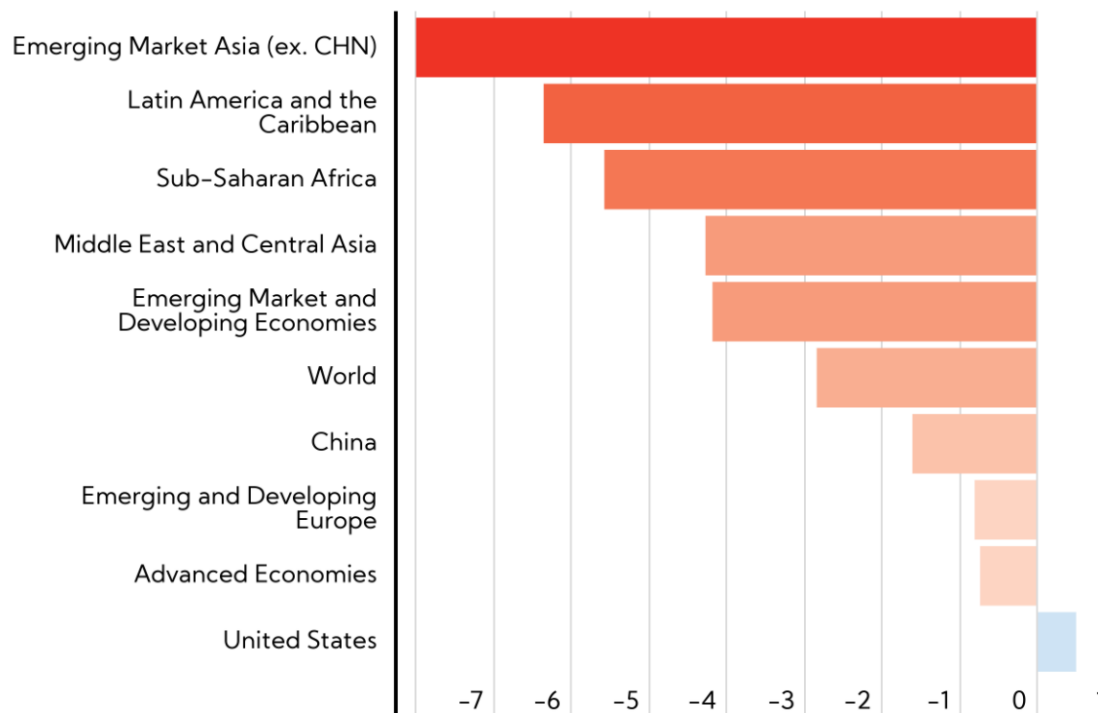


The world has lost \$15 trillion in output as a result of COVID-19 relative to IMF estimates in January 2020

Output loss

Global output in 2024 is projected to be 2.8 percent below what was expected prior to the pandemic.

(revisions to projected 2024 GDP levels between the January 2020 and April 2021 WEO forecasts, percent)



Sources: IMF staff estimates, WEO April 2021.



Central banks

Policy makers likely to remain dovish as inflation targets are lifted



ECB inflation target



‘The Governing Council considers that price stability is best maintained by aiming for **two percent inflation** over the medium term. The Governing Council’s commitment to this target is **symmetric**. Symmetry means that the Governing Council considers negative and positive deviations from this target as equally undesirable.’

ECB, July 2021



Federal Reserve inflation target



‘The Committee seeks to achieve inflation that **averages 2 percent over time**, and therefore judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve **inflation moderately above 2 percent** for some time.’

FOMC, January 2021

Markets: Performance 2021-to-date

Equities lead global asset returns – growth style catches up

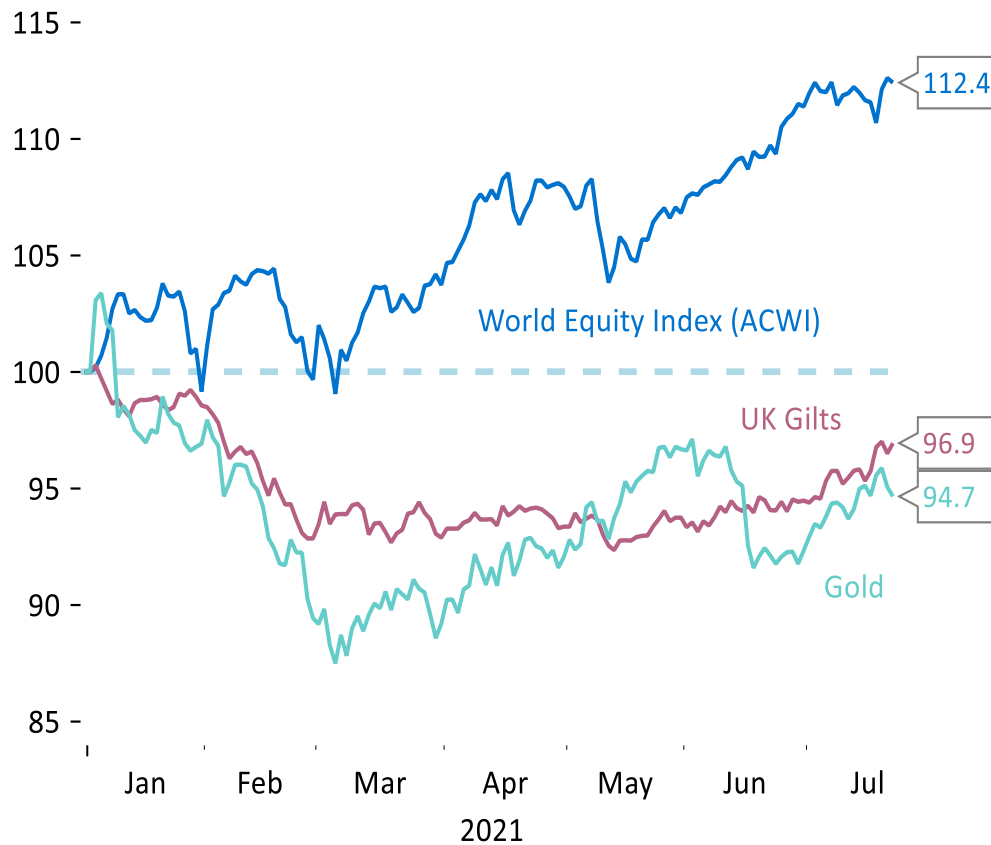


Global equities rally – UK equities stall



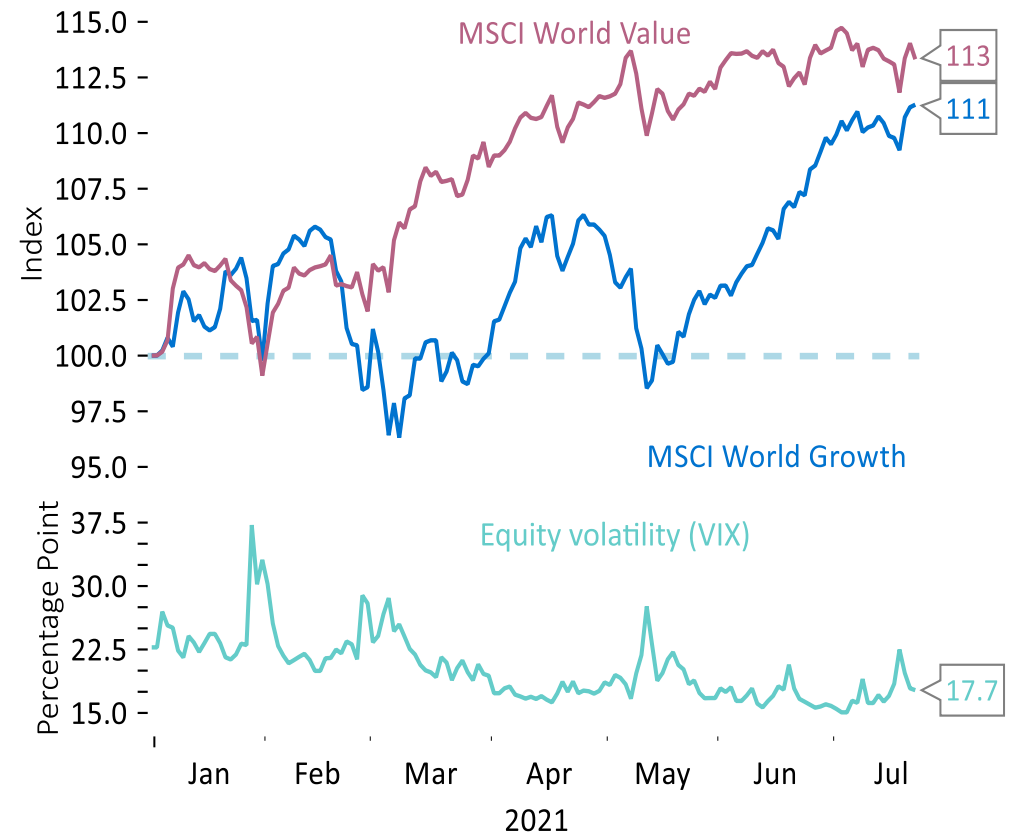
Growth rallies strongly

Global Asset Class Returns 2020 (£) to date



Source: Macrobond, 23.07.21

World Equity Style 2021



Source: Macrobond, 23.07.21

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