

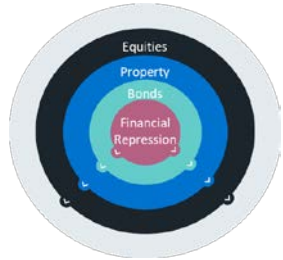
# The world after COVID-19: Are we at a critical juncture?

Subitha Subramaniam & Niloofar Rafiei



# 2020 landscape

The world before COVID



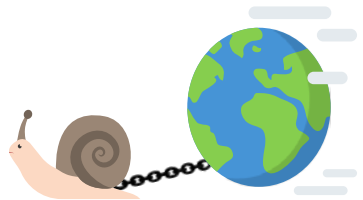
## Financial Repression (2012/2013)

- Monetary policy capture
- Low interest rates



## Walled Gardens: Local priorities over global commitments (2017)

- A national industrial policy
- Border control



## Slowbalisation (2019)

- Shifting demographics and productivity
- Slower growth



## Levelling up

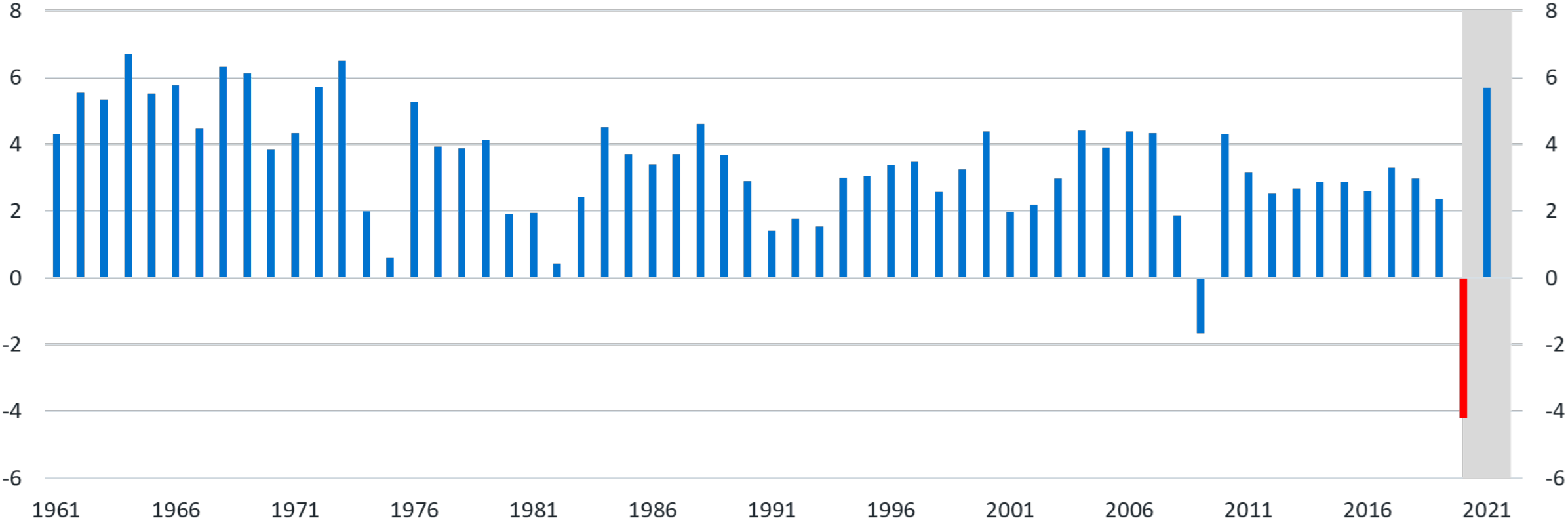
- Fiscal activism
- Pre-distribution

# Policy induced recession

Depth of economic recession and rebound



Global GDP Growth (USD, constant prices)



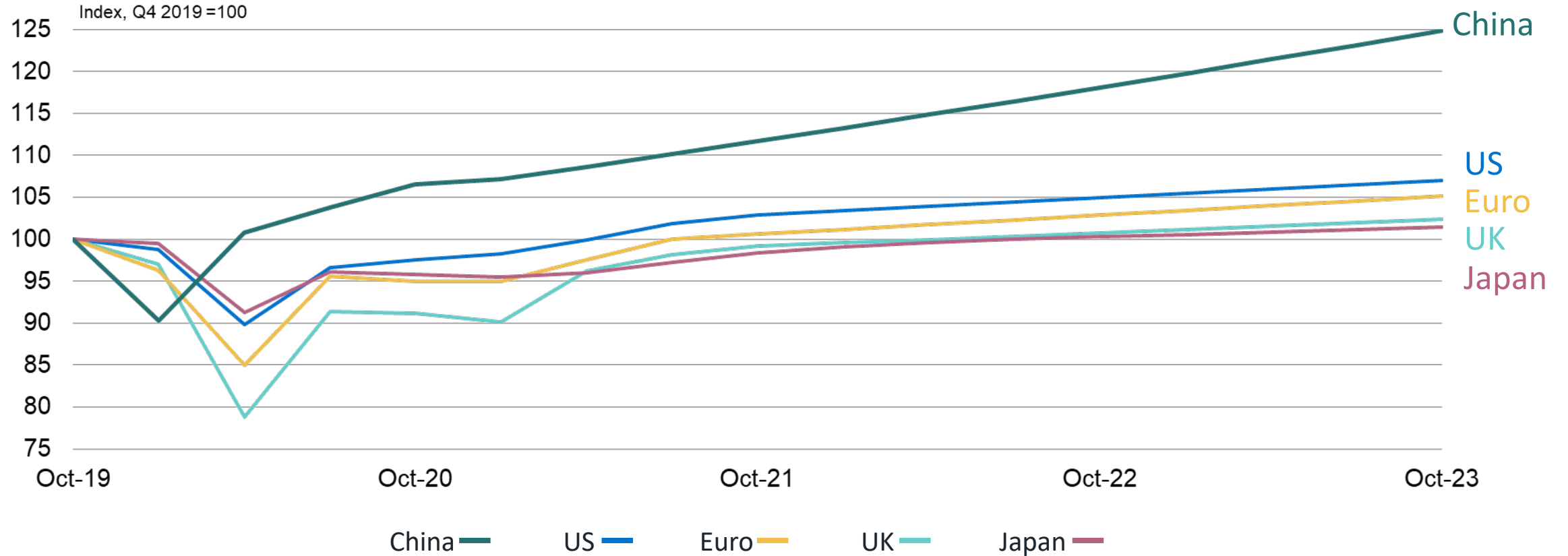
Source: Macrobond and Sarasin & Partners, Feb 2021

# Global economic outlook

On average countries will take 2-3 years to heal - China completed this process in just 1 quarter



## Global GDP projections - an uneven recovery across regions

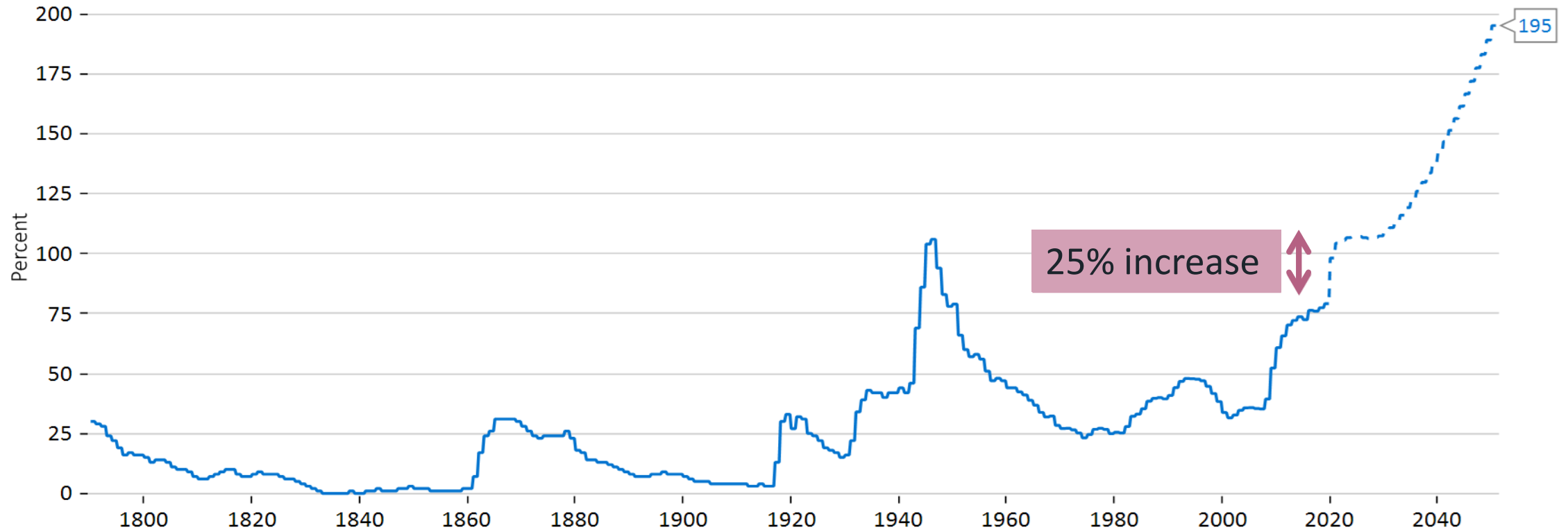


Source: Sarasin & Macrobond, February 2020

# Go big, go fast



## US government debt as % of GDP

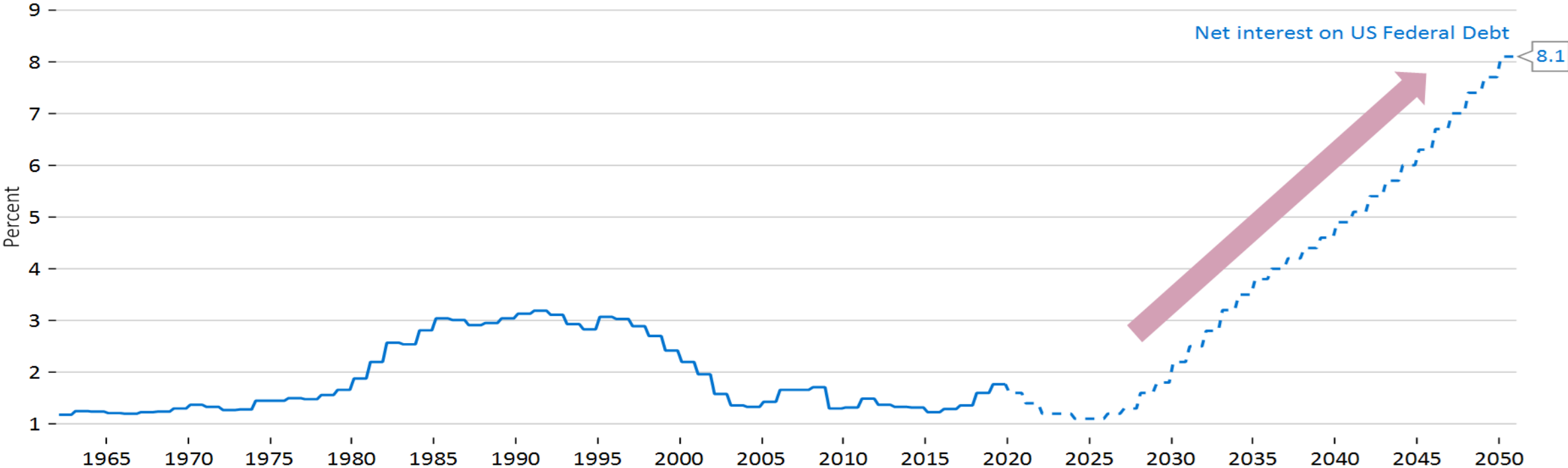


Source: Macrobond, 08.02.21

# Go beyond?



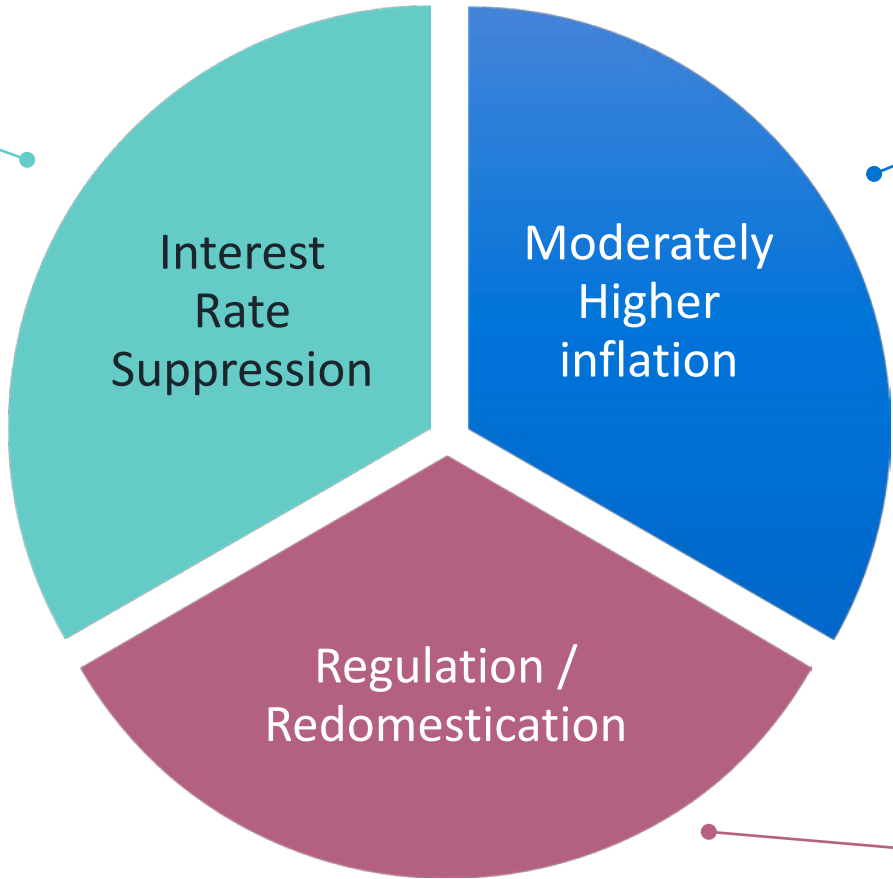
## Net interest on US Federal Debt



Source: Macrobond, 08.02.21

# Financial repression is here to stay

Policy rates kept low.  
Quantitative Easing or Yield  
Curve Control keep bond  
yields low



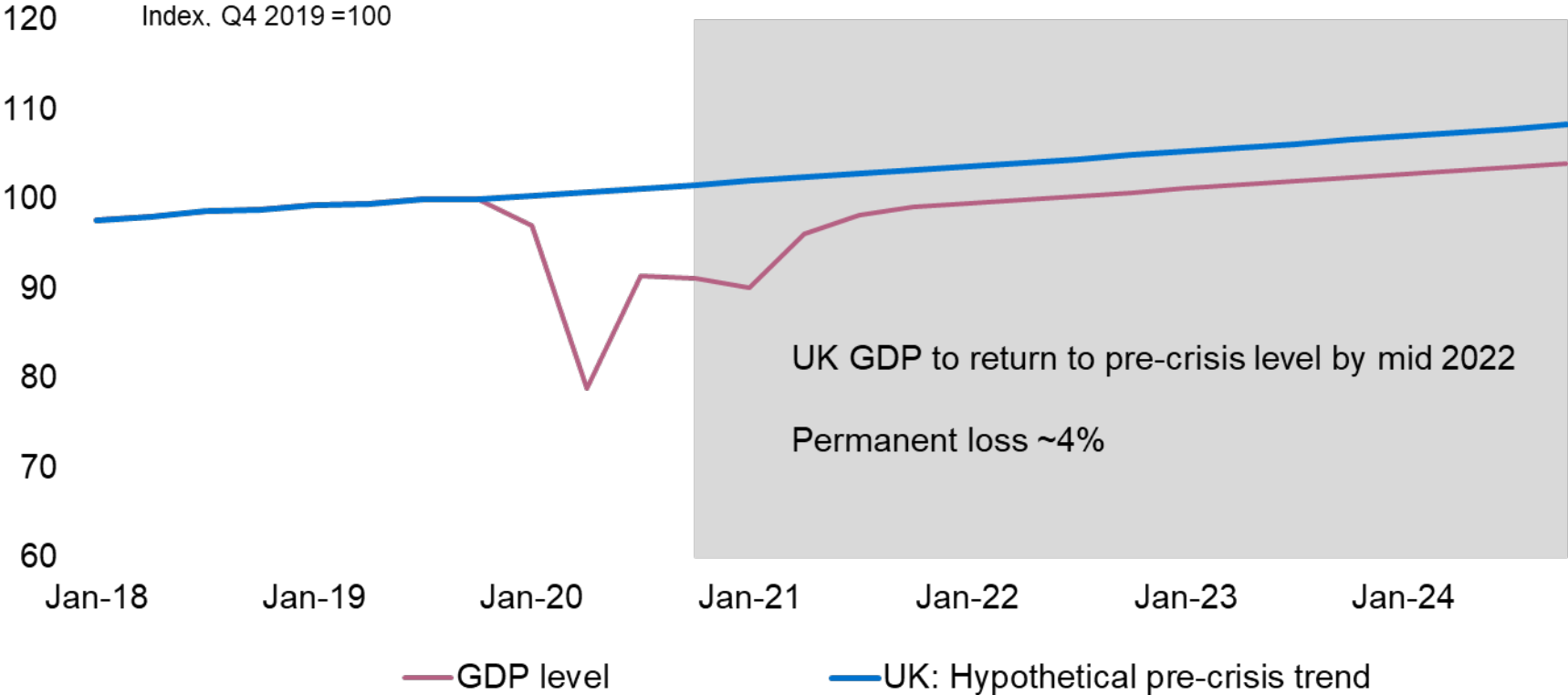
Average inflation targeting  
reflects a greater tolerance  
for running the economy  
'hot'

Regulations force the  
banking system to become a  
natural buyer of  
government debt

# Long term effects on the economy



## Estimates of long term economic scarring



**Bank of England:**  
**1 ¾ per cent shortfall in annual GDP represents £39bn / year or a third of the education budget**

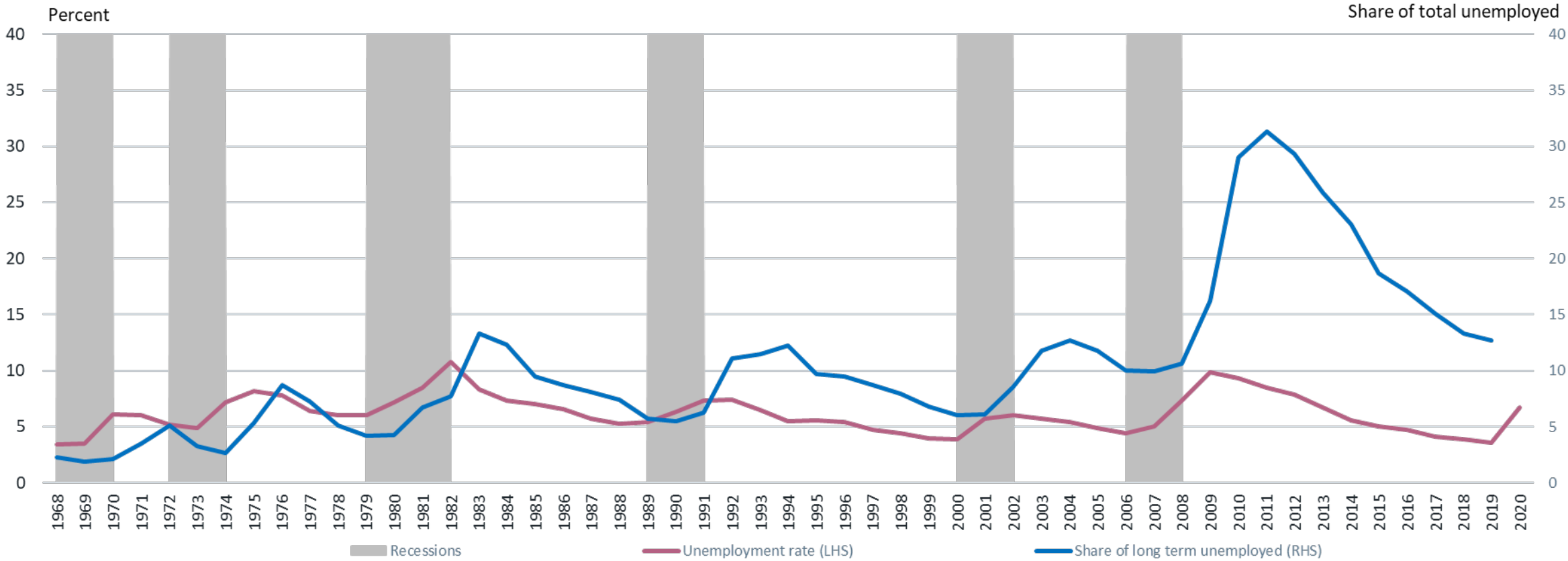
Source: Macrobond and Sarasin & Partners, Feb 2021



# Reallocation shock: Long term unemployment



## US unemployment rate, and share of long term unemployed

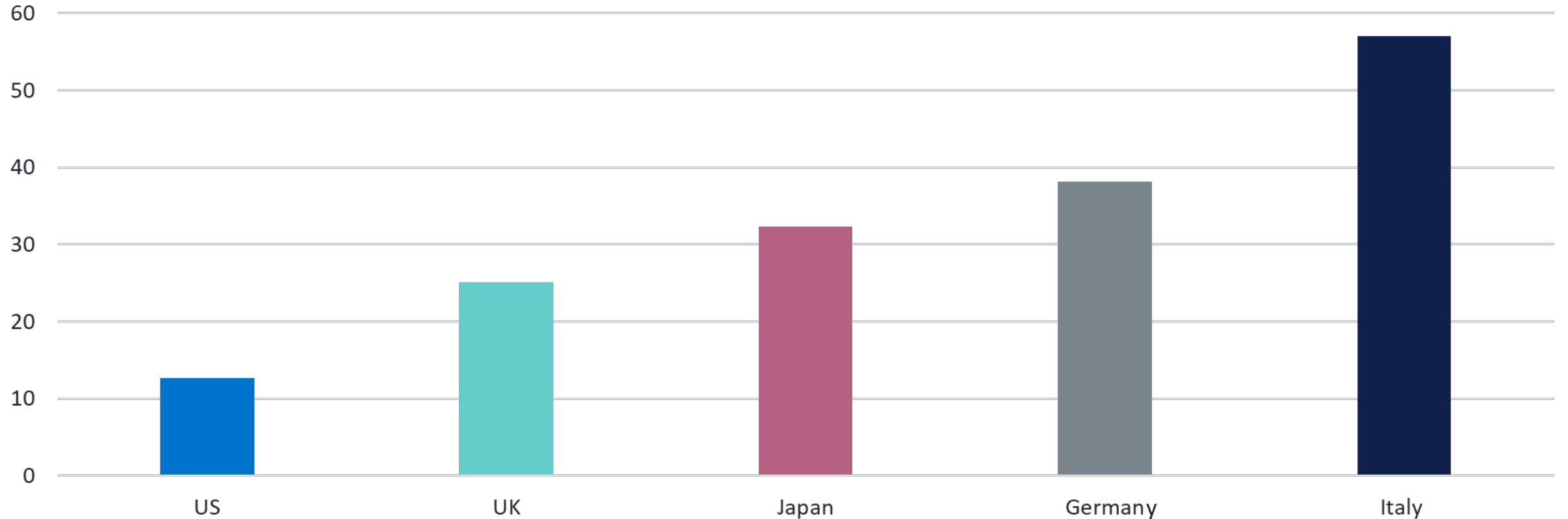


Source: Macrobond and Sarasin & Partners, Feb 2021

# The share of long term unemployed across countries



Share of long term unemployment across countries



Source: Macrobond and Sarasin & Partners, Feb 2021

# Why critical junctures matter?

The example of the Black Death



75-200 million dead

## WESTERN EUROPE

- Labour shortage
- Broke the feudal system that had lasted 600 years
- Free labour, free market capitalism
- **Renaissance**

## EASTERN EUROPE

- Labour shortage
- Greater repression
- **Second Serfdom**

Outcomes can be dramatically different

# COVID-19 as a critical juncture

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1. COVID-19 has upended how we live and work
2. Disruption is of long duration
  - Well past any threshold for new habit formation
3. COVID-19 has disrupted inertial thinking and incrementalism in problem solving

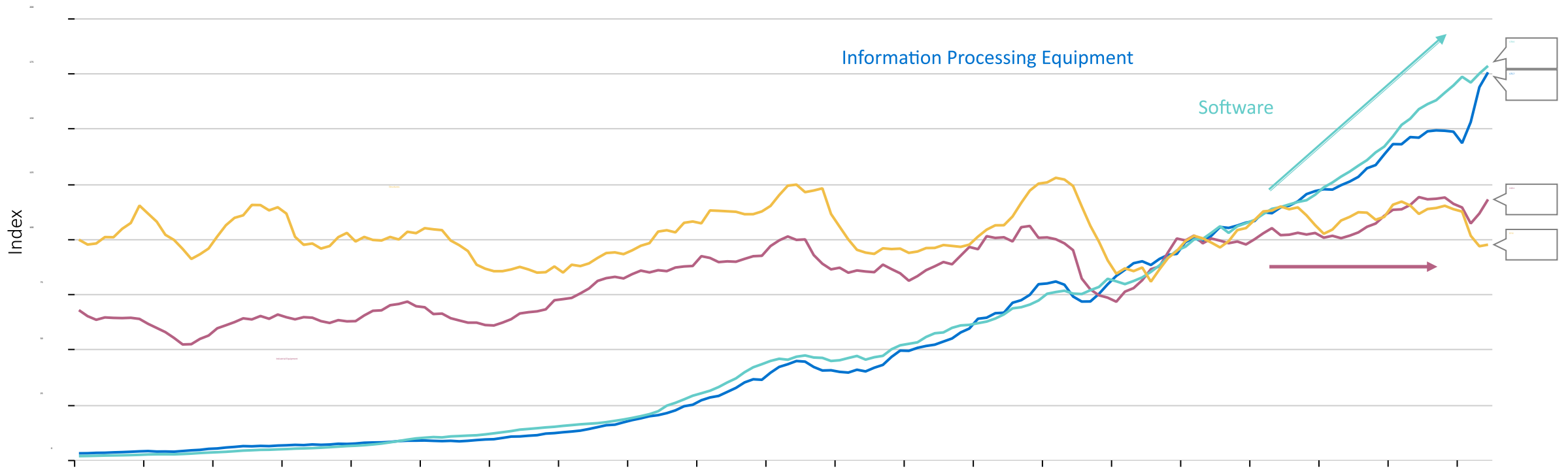


# COVID is accelerating the shift to a data driven / virtual future

Rising investment spending could lift productivity



## Breakdown of non-residential spending on equipment



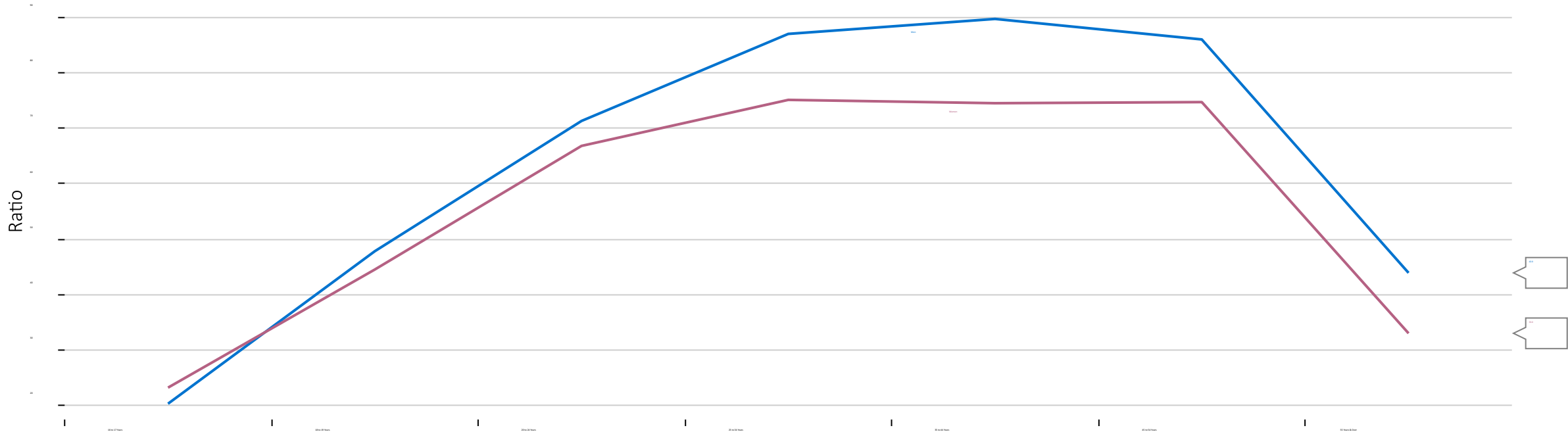
Source: Macrobond, 15.02.21

# COVID could raise the participation of women in the labour force



An increase in flexible working can raise female participation

## US Labour force participation

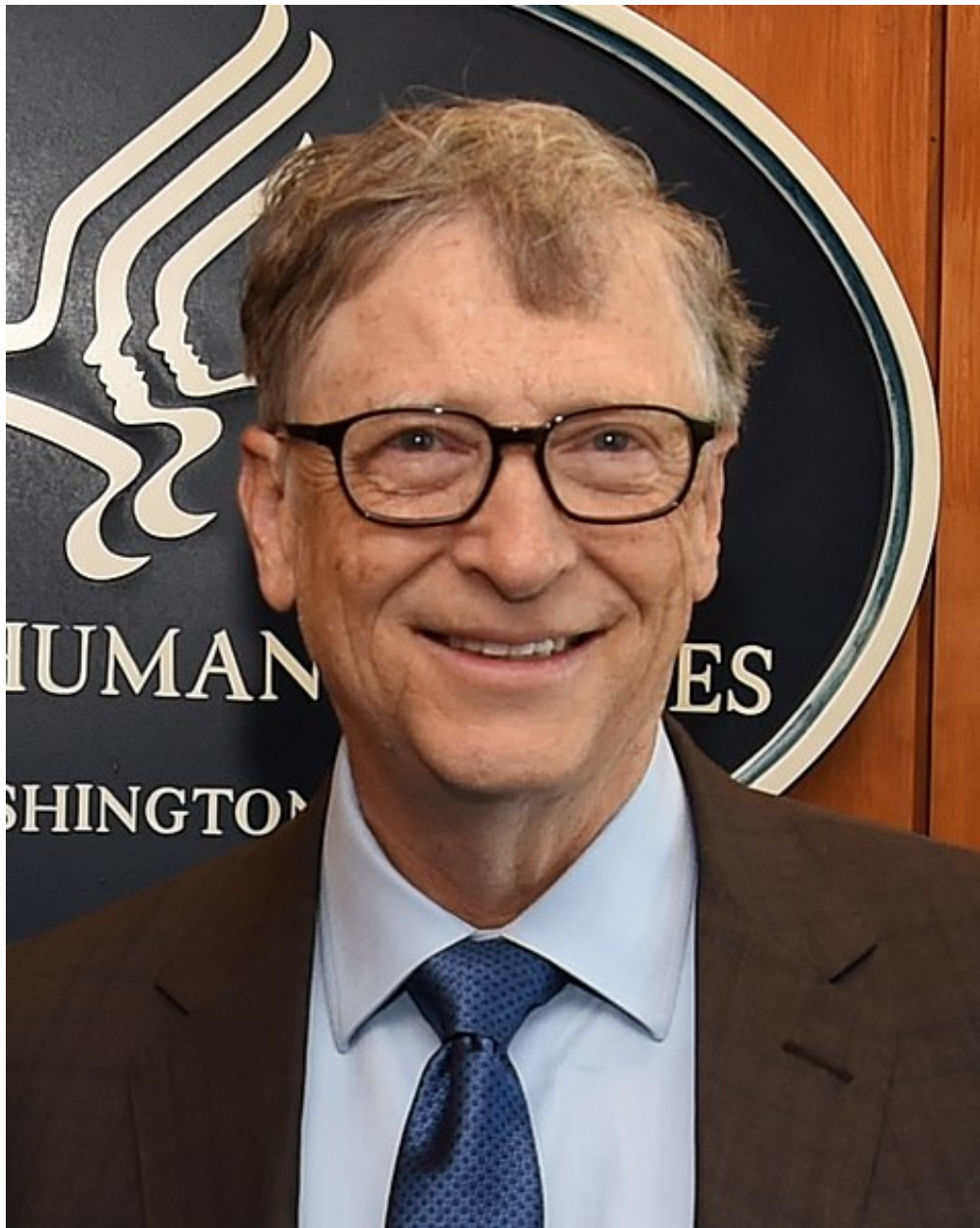


Source: Macrobond, 15.02.21

# Conclusion

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1. Strong but uneven economic recovery with risk of scarring
2. Financial repression to continue to dominate markets: nominal interest rates will remain low and below inflation
3. COVID-19 will be viewed as a critical Juncture, one that has the potential to unleash the forces of creative destruction and ultimately growth



“We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don’t let yourself be lulled into inaction.”

**Bill Gates**



# Important information

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