# ECONOMIC OVERVIEW MONTHLY

**April 2021**

- The global economic outlook improved markedly during the early months of the year.
- In its April update of the World Economic Outlook, the IMF forecasts a stronger recovery for the global economy, with growth projected at 6% y/y in 2021.
- The upward revision to global growth for 2021 and 2022 is attributable to improved growth estimates for advanced economies, led by the United States, which is expected to grow by 6,4% this year.

CMB MONACO

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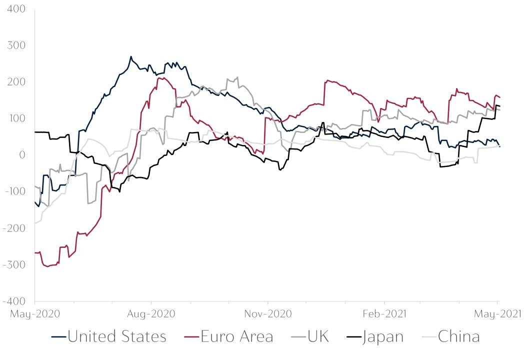
## MACROECONOMIC BACKGROUND

**Global growth**: The global economic outlook improved markedly during the early months of the year, helped by vaccination campaigns, announcements of further fiscal support and the resilience of the manufacturing sector to pandemic containment measures. The world economy is now in a phase of significant acceleration in economic growth, led by the United States, which has introduced a significant fiscal stimulus. According to estimates by the Committee for a Responsible Federal Budget, the stimulus should be able to close nearly the entire output gap estimated for 2021, reducing the probability of a slowdown in consumption in the winter months. In the short term, the economic recovery will not be uniform, neither between sectors (manufacturing vs services) nor between regions, as it will be conditioned by the speed of administration of the vaccination campaign. China, which came out ahead of the pandemic, has peaked; the US is entering its strongest quarter; the Euro Area is lagging behind, mainly due to inefficiencies in vaccination campaigns, but will engage in recovery in the second half of the year, supported by the international recovery and the implementation of the Next Generation EU. Japan should cross the bottom of the "U" shape.

**Global demand**: In its April update of the World Economic Outlook, the IMF forecasts a stronger recovery for the global economy, with growth projected at 6% y/y in 2021 (growth at its highest since 1980 and up from January's forecast of 5,5%) and 4,4% in 2022 (up from 4,2% in January), after a contraction in 2020 (estimated) of -3,3%.
However, the recovery remains very much dependent on the effectiveness of vaccination campaigns and the fiscal capacity of different countries, as well as structural factors in individual countries such as dependence on tourism. The second and third waves of infections have necessitated new restrictions in many countries. This stop-and-go has made the recovery more uneven and incomplete: GDP remains significantly below pre-pandemic trends in most countries while high-frequency indicators point to a possible further weakening in the early months of the year of the growth momentum in the services sector.
The upward revision to global growth for 2021 and 2022 is attributable to improved growth estimates for advanced economies, led by the United States, which is expected to grow by 6,4% this year.
The global composite PMI rose from 53,2 to 54,8 in March - the highest level since 2014 - led by increases in both the services and manufacturing PMIs. On a country basis, composite PMIs remained high or increased in all major economies except Brazil.

Fig. 1
Growth Expectations - Suprise index




*Source: Citi*

Fig. 2
World Economic Outlook - Growth Projections

| | | Projections (% y/y) | |
|---|---|---|---|
| | 2020 | 2021 | 2022 |
| World Output | -3,3 | 6,0 | 4,4 |
| Advanced Economies | -4,7 | 5,1 | 3,6 |
| United States | -3,5 | 6,4 | 3,5 |
| Euro Area | -6,6 | 4,4 | 3,8 |
| Japan | -4,8 | 3,3 | 2,5 |
| United Kingdom | -9,9 | 5,3 | 5,1 |
| EM and Developing Economies | -2,2 | 6,7 | 5,0 |
| Emerging and Developing Asia | -1,0 | 8,6 | 6,0 |
| China | 2,3 | 8,4 | 5,6 |
| Emerging and Developing Europe | -2,0 | 4,4 | 3,9 |
| Latin America and the Carribbean | -7,0 | 4,6 | 3,1 |

*Source: IMF, World Economic Outlook, April 2021*

Fig. 3
Composite PMI

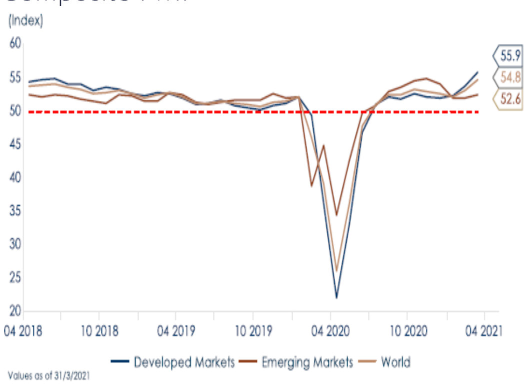
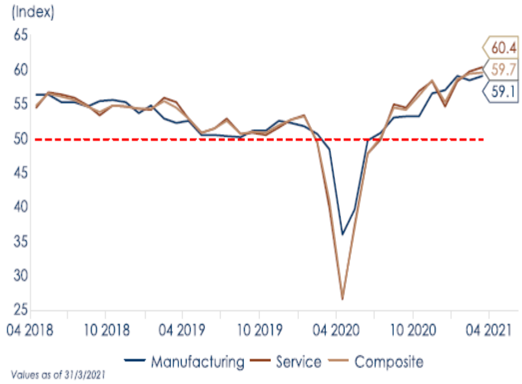
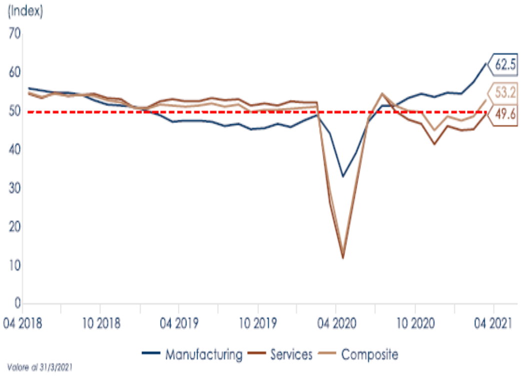


Fig. 4
US PMI Indices



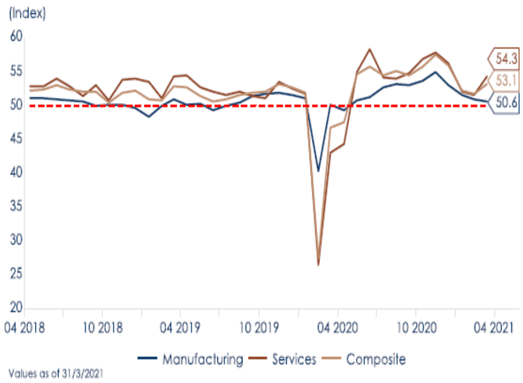

**United States**: The US will lead global growth in 2021. The business cycle indicator puts the country in an overheating phase. Economic activity will continue to gain strength in the coming months thanks to the Covid vaccines, while further fiscal stimulus will act as a reflationary bridge to support the more cyclical sectors of the economy. Congress approved tax packages of about 900 billion dollars at the end of last year and 1,9tr dollars in March. Strong fiscal support will help accelerate the economic recovery process. Household savings have accumulated, while rising stock markets and home prices have increased wealth. Spending these savings will support economic recovery. Employment growth is starting to recover and is expected to accelerate further in the coming months. We see the risks to growth as unbalanced upwards. GDP growth for 2021 is expected to be the strongest in decades. Inflationary pressure has emerged at the producer level as supply struggles to keep up with demand. However, core consumer price inflation is likely to remain subdued given the slowdown in the services sectors.

Fig. 5
Euro Area PMI Indices




**Euro Area**: Economic activity in the Euro Area was affected by the evolution of the pandemic and the slow pace of the vaccination programme, especially when compared with the United States and the United Kingdom. The ECB announced that it is scaling back its bond-buying programme to ensure accommodative financial conditions. The fiscal policy will remain supportive in the Euro Area. In the second part of 2021, the NGEU fund will provide further support by stimulating investment. However, the recovery continues. Fiscal support remains strong. The February PMI indices confirm the liveliness of the manufacturing sector, while also confirming the weakness of the services sector, which will probably translate into a Q1 still with negative growth in the Area. Temporary factors will cause inflation to rise but stronger demand will be needed to generate a lasting recovery. Inflation will remain far from the ECB target throughout all of 2021.

Fig. 6
China PMI Indices




**China**: Unlike many other countries, China closed 2020 with positive growth of 2,3%, outperforming the consensus (2,1%). China's economic recovery will provide stability to global growth as advanced economies face the second wave of Covid-19. Monthly frequency data were overall positive and consistent with robust growth despite decelerating slightly in the last few months. Economic policy remains accommodating in an effort to normalise without the risk of creating abrupt slowdowns. Monetary policy will keep liquidity reasonably ample. Fiscal policy will continue to support smart infrastructure and the green economy, as well as local governments. The Regional Comprehensive Economic Partnership, the largest free trade agreement ever signed, will facilitate China's increasingly prominent role in international trade.

# ECONOMIC OVERVIEW MONTHLY

Fig. 7
Global vaccine distribution gains momentum

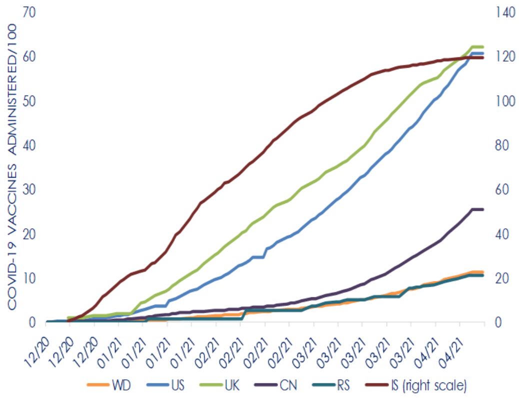



Fig. 8
Vaccination campaign in the Euro Area although still slower, is speeding up

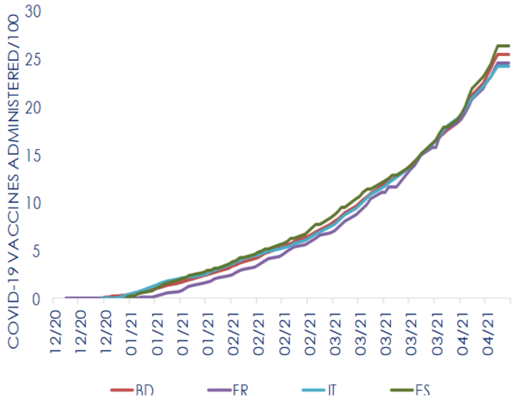
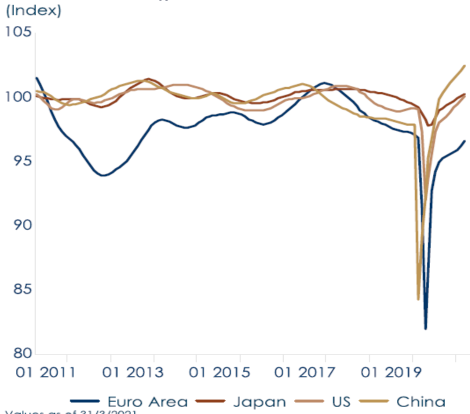



Fig. 9
OECD leading economic indicators
(Index)




Values as of 31/3/2021

## DISCUSSION POINTS

### Virus variants and vaccinations

Continued vaccination campaigns and support from economic policies have been reflected in an improved global outlook.
In the short-term, the ongoing economic recovery remains tied to how the pandemic will evolve. The risks associated with the epidemic have not yet completely disappeared.
The economic recovery is not uniform, neither between sectors (manufacturing vs services) nor between regions. China has peaked; the US is entering its strongest quarter; Europe and Japan are expected to cross the bottom of the U-shape.

### The return to global growth seems within reach and will be guided by the US and China

The global economic outlook improved markedly during the early months of the year, helped by vaccination campaigns, announcements of further fiscal support (particularly in the USA) and the resilience of the manufacturing sector to pandemic containment measures.

### Reflation Trade

The main movement that characterized the first quarter was the rise in yields on government bonds of advanced economies.
The movement originated in the United States and led to a steepening of the term structure of Treasuries, but it also spread to the other side of the Atlantic: yields on long-term government bonds in the Euro Area increased significantly, although remaining at low levels overall.

### Inflation remain very low but expectations of a pick-up are rising

Inflation is clearly accelerating. The extent to which inflation acceleration moves from transitory to structural is likely to depend on the extent to which a wage/price spiral develops.

Fig. 10
Consumer Inflation

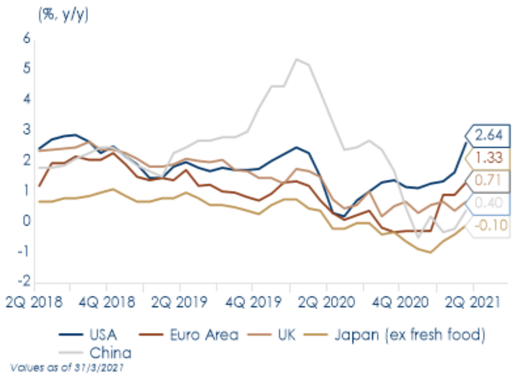



Fig. 11
Producer Inflation

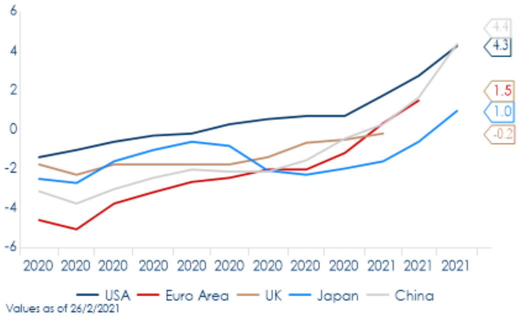



Fig. 12
Manufacturing PMI: input prices

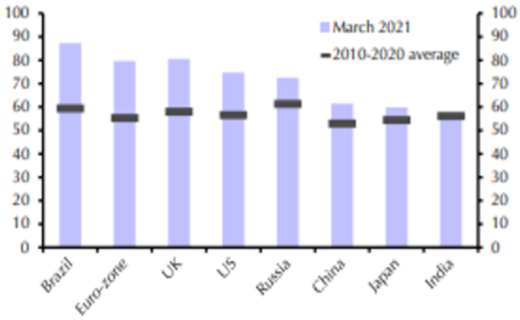
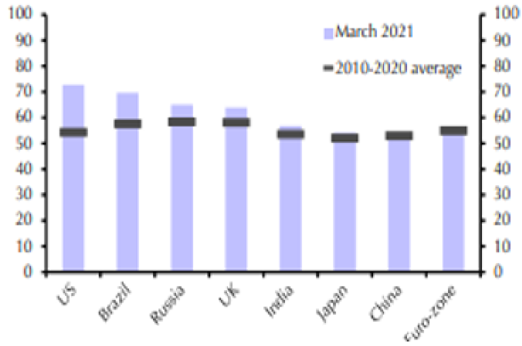



Fig. 13
Services PMI: input prices




## FOCUS OF THE MONTH - 1/2
## GLOBAL INFLATION

- Inflation has rebounded, incorporating base effects and higher oil prices. The rebound in inflation seen early in the year, and still ongoing, has been amplified by transitory factors such as semiconductor shortages and increases in maritime freight rates.

- Inflation is clearly accelerating. The extent to which inflation acceleration moves from transitory to structural is likely to depend on the extent to which a wage/price spiral develops.

- In emerging markets, global inflation jumped from 3,1% to 3,5% in March, driven mainly by higher fuel inflation. Indeed, core inflation fell, while food inflation was fairly stable in several large emerging markets last month.

- PMI indices continue to suggest that pressures on costs are increasing. Supplier delivery times have continued to lengthen and backlogs of work continue to grow as supply struggles to keep pace with demand.

- Between rising energy and shipping costs, as well as various component shortages, input prices are rising across a much wider range of companies than usual in several major economies. To date, cost pressures in the services sector remain generally contained, with the exceptions of the USA and Brazil.

## FOCUS OF THE MONTH - 2/2
## ECB LENDING SURVEY

Fig. 14

ECB lending survey: changes in credit standards for loans or credit facilities to enterprises

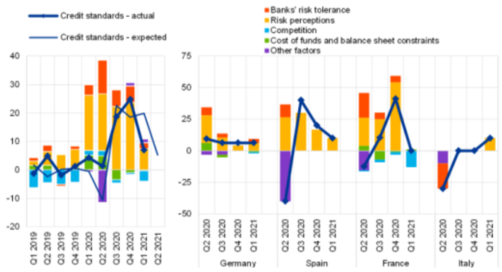
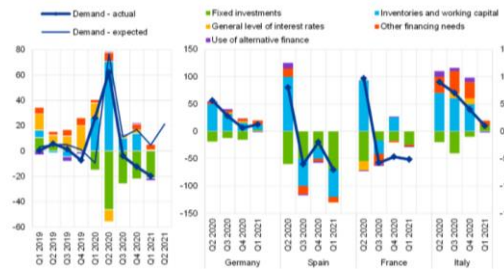



Fig. 15

ECB lending survey: changes in demand for loans or credit facilities to enterprises



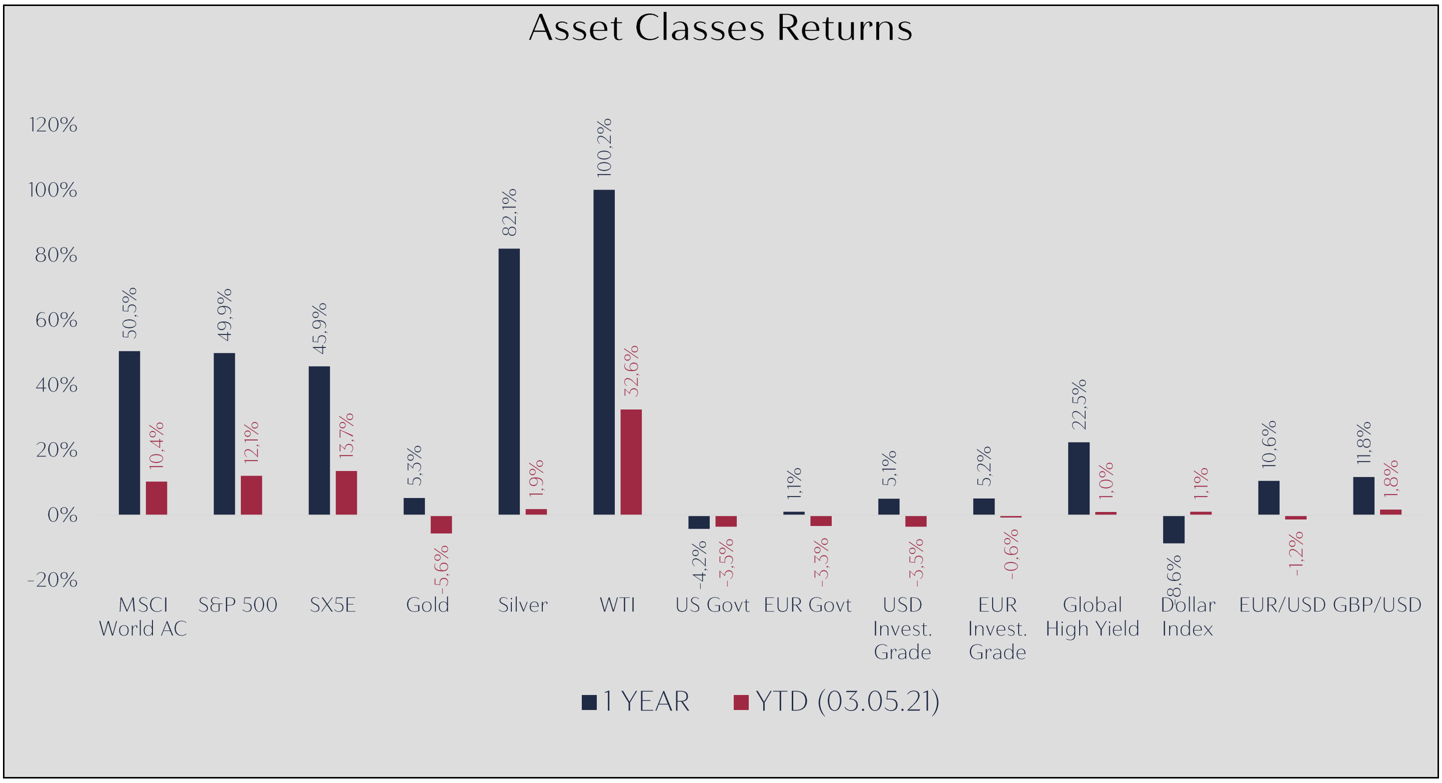

- **Credit standards for corporate lending tightened moderately in the first quarter of the year**, with banks mainly referring to perceived risk associated with borrowers' creditworthiness and lower risk tolerance as factors that had a more severe impact on their credit standards. On the contrary, competitive pressures have mainly contributed to an easing off on credit standards. In the second quarter of 2021, banks expect credit standards for business and household loans to tighten.

- **Loan demand from businesses and households declined**: financing needs for fixed investment continued to dampen loan demand as businesses, especially in the sectors most affected by the pandemic, tended to postpone investments. In addition, firms did not, on balance, require additional working capital funding, reflecting the availability of cash reserves and direct government liquidity support, especially for small and medium-sized enterprises.

- Finally, most banks again reported that the ECB's QE and TLTRO III programs had a positive impact on their financial situation. But only 13% of banks said they would participate in future TLTROs, down from 23% and 65% who participated in December 2020 and March 2021, respectively. Half of the respondents are still undecided.

## MARKET UPDATE

Another month, another S&P 500 record. The S&P 500 touched new highs in April (+5,2% m/m) led by Real Estate, Communication Services and Consumer Discretionary. Investor sentiment towards equities is at record high levels In the meantime US GDP in Q1 grew by 6,4% quarter-on-quarter annualized; the consensus forecast is for 8,1% growth in Q2. In countries where the vaccine rollout has been rapid (such as the UK where more than 60% of the population have received at least one dose), Covid-19 cases are falling sharply, allowing the government to loosen restrictions Monetary and fiscal policy remain highly accommodative. Bond yields have fallen back moderately from recent highs over the past month: The US 10-year Treasury yield is back at 1,63% from 1,75% in March. However, the dip was mostly technical. US bonds have become attractive for overseas investors when swapped back into their home currencies.
The global economic outlook improved markedly in the first months of the year, helped by vaccination campaigns, announcements of further fiscal support and the resilience of the manufacturing sector to pandemic containment measures. We expect a gradual economic recovery in 2021 accompanied by a recovery in growth and a rebound in corporate earnings, especially stocks exposed to the cyclical recovery. Over the coming months, we expect reflation to materialise in the outperformance of equity markets and the more cyclical sectors (Europe, Japan, EM; Financials, Energy, respectively), and of the Value versus Growth style. The dollar is set to weaken, weighed down by the public deficit, reduced private savings and increased (deficit) investment, which will produce a marked deterioration in external balances.



## RISKS OF SCENARIO

| | Main Risks | Risk Evaluation | | |
|---|---|---|---|---|
| | | Impact | Probability | Development |
| ECONOMIC | **World:** The pandemic will continue to be the main obstacle to economic recovery over the winter. If the vaccines distribution is either delayed or less effective, there will be a downside risk to growth, while the recent virus mutation could lead to greater efforts to achieve herd immunity later in the year. | HIGH | MEDIUM | ↓ |
| | **World:** US-China relations are likely to remain tense, although the Biden election could lead to a multilateralism return. | HIGH | MEDIUM | ↓ |
| | **World:** Labour market weakness remains high. In the US, the recovery of the labour market may prove more difficult than expected. In Europe, the risk is that temporary measures will only postpone the moment when unemployment rises. | MEDIUM | MEDIUM | = |
| | **United States:** Covid-19 has deeply affected the U.S. labor market and consequently the consumption component, which could remain depressed for a long time if faced with an increase in precautionary savings in the presence of persistent uncertainty about the evolution of the epidemic. | HIGH | MEDIUM | = |
| | **United States:** Government bond yield curve steepening. | HIGH | MEDIUM | ↑ |
| | **United States:** Fed exit too early on easy monetary policy in the event of a sudden rise in inflation. | HIGH | LOW | = |
| | **Eurozone:** Eurozone countries economic asymmetry is increasing. The COVID-19 has asymmetrically affected the Eurozone countries, which have been able to implement different fiscal measures and, above all, will have to face different financing conditions on the markets. | HIGH | MEDIUM | ↑ |
| | **Euro Area:** Euro Area Inflation remained in negative territory. The area risks slipping into deflation. | HIGH | MEDIUM | = |
| | **Emerging countries:** The main scenario risk is that of a sudden slowdown in capital flows to emerging economies, which amplifies their degree of vulnerability and brakes their growth. | HIGH | LOW | ↓ |
| POLICY | **Euro Area:** Credit standard tightening on the back of phasing-out of state guarantees. | HIGH | LOW | = |
| | **Euro Area:** There is a risk of execution of the Next Generation EU tax plan. | HIGH | MEDIUM | ↓ |
| POLITICAL | **World:** There is a progressive loosening of global cooperation. | HIGH | HIGH | ↓ |
| | **World:** Geopolitical issues (e.g. Hong Kong, Latin America...) continue to present many unresolved elements. The results could spark a new screwiness in the world economy and weigh on the recovery. | MEDIUM | MEDIUM | = |

## POSITIONING

In this scenario:

- we are taking a **negative view** of **core European government bonds**. We prefer peripheral bonds to core European countries, also in light of the Draghi government's takeover. We remain **neutral on US government bonds**;
- the **corporate bond market** is **not yet offering attractive valuations**, although the support provided by the purchases of central banks, **especially the IG component**, remains significant;
- we are maintaining our **positive view of equities**. Even after the recent recovery, we see forecast 12-month returns on equities as more attractive than those for fixed income, in line with **an economic cycle** that, according to our base scenario, **will rebound with the support of policy makers**. We continue to favour emerging market equities and the Chinese stock market in particular, assuming the country's higher relative growth. The Euro Area stands to benefit from the change of pace in fiscal policy, **while Italy should benefit from the authority, stability and competence of Prime Minister Draghi**.

| | NEGATIVE | | NEUTRAL | | POSITIVE |
|---|---|---|---|---|---|
| FIXED INCOME | | | ● | | |
| Sovereign EUR | ● | | | | |
| Sovereign USD | | | ● | | |
| Corporate IG | | | ● | | |
| High Yield | | | ● | | |
| Emerging Market Sovereign | | | ● | | |
| EQUITY | | | | ● | |
| USA | | | ● | | |
| EMU | | | | ● | |
| JAPAN | | | | ● | |
| Emerging Market | | | | ● | |

*Source: CMB Monaco, Mediobanca SGR*