Economic and Market Outlook

And some other interesting sub-themes

Chris Johns

Wednesday, 24th March 2021

Chris's up to date   thoughts - podcasts and blogs - can be found at https://cjpeconomics.substack.com. He can be contacted via that sight.

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Today

- Error bounds over economic forecasts have rarely been wider.

- Evolution of the pandemic is one key driver of the outlook.

- The other is policy: stark differences between EU and US.

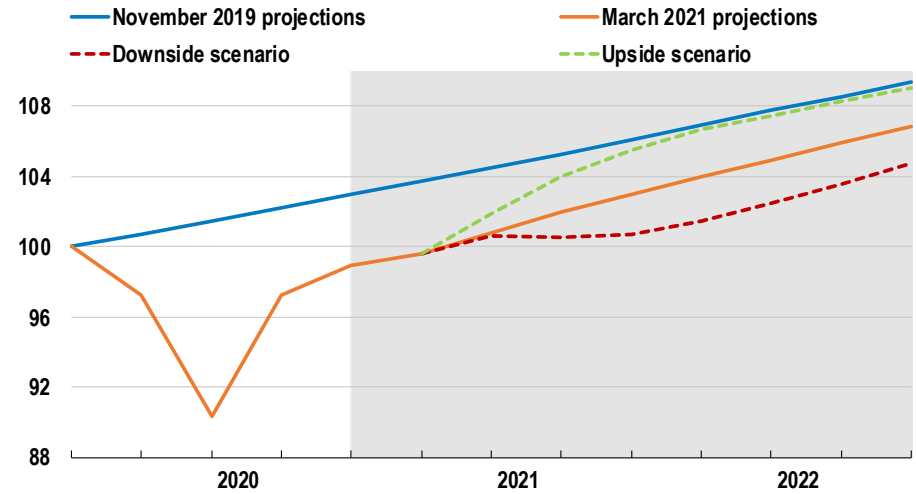- Is there a bubble?
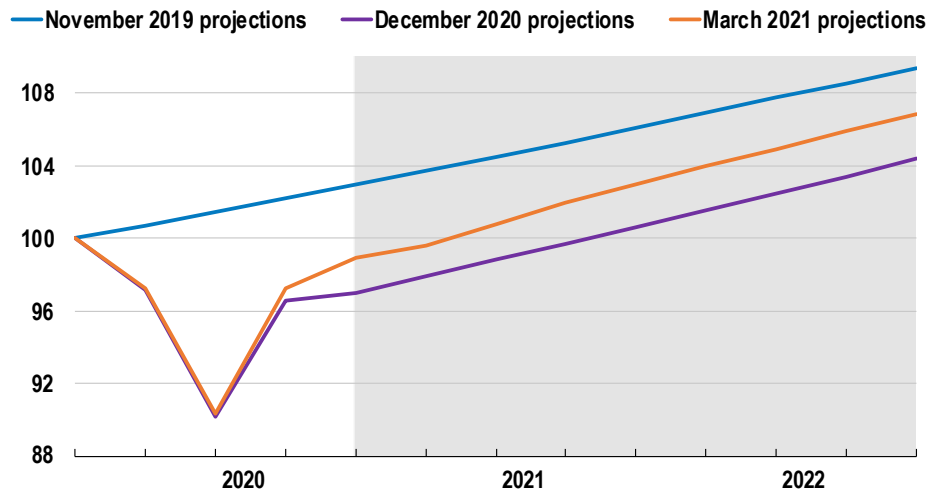
- Does Inflation lie in our future?

IMF World Economic Growth Projections

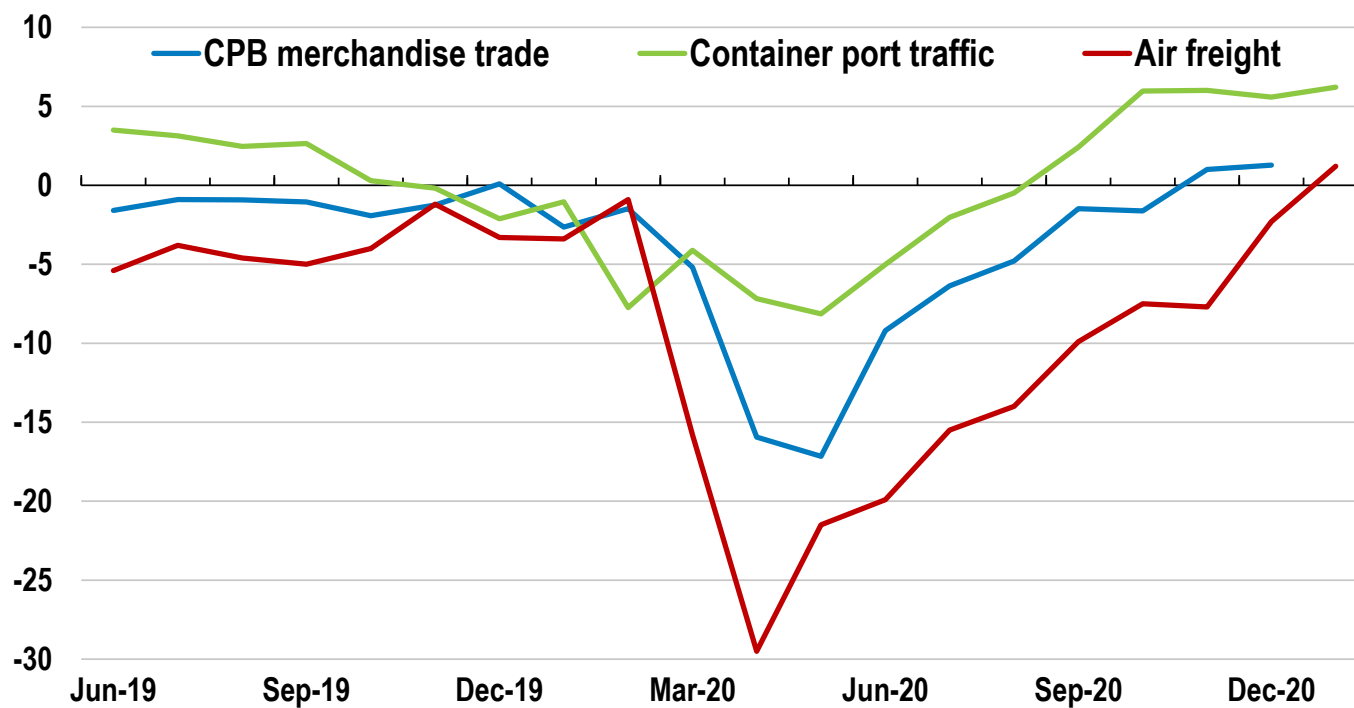## Table 1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

| | Year over Year | | | | Difference from October 2020 WEO Projections 1/ | | Q4 over Q4 2/ | | |
| | Estimate | Projections | | | | | Estimate | Projections | |
	2019	2020	2021	2022	2021	2022	2020	2021	2022
World Output	**2.8**	**−3.5**	**5.5**	**4.2**	**0.3**	**0.0**	**−1.4**	**4.2**	**3.7**
Advanced Economies	**1.6**	**−4.9**	**4.3**	**3.1**	**0.4**	**0.2**	**−3.9**	**4.6**	**1.9**
United States	2.2	−3.4	5.1	2.5	2.0	−0.4	−2.1	4.0	2.0
Euro Area	1.3	−7.2	4.2	3.6	−1.0	0.5	−6.8	5.8	2.0
Germany	0.6	−5.4	3.5	3.1	−0.7	0.0	−5.3	5.2	1.7
France	1.5	−9.0	5.5	4.1	−0.5	1.2	−8.2	7.4	2.0
Italy	0.3	−9.2	3.0	3.6	−2.2	1.0	−8.3	4.2	2.3
Spain	2.0	−11.1	5.9	4.7	−1.3	0.2	−9.8	7.1	2.0
Japan	0.3	−5.1	3.1	2.4	0.8	0.7	−2.3	2.7	1.6
United Kingdom	1.4	−10.0	4.5	5.0	−1.4	1.8	−8.3	6.0	1.9
Canada	1.9	−5.5	3.6	4.1	−1.6	0.7	−4.0	3.7	2.7
Other Advanced Economies 3/	1.8	−2.5	3.6	3.1	0.0	0.0	−2.2	4.5	1.9

Source: IMF World Economic Outlook: January 2021

OECD Economic Forecasts

Left chart legend: November 2019 projections — December 2020 projections — March 2021 projections

Right chart legend: November 2019 projections — March 2021 projections — Downside scenario — Upside scenario
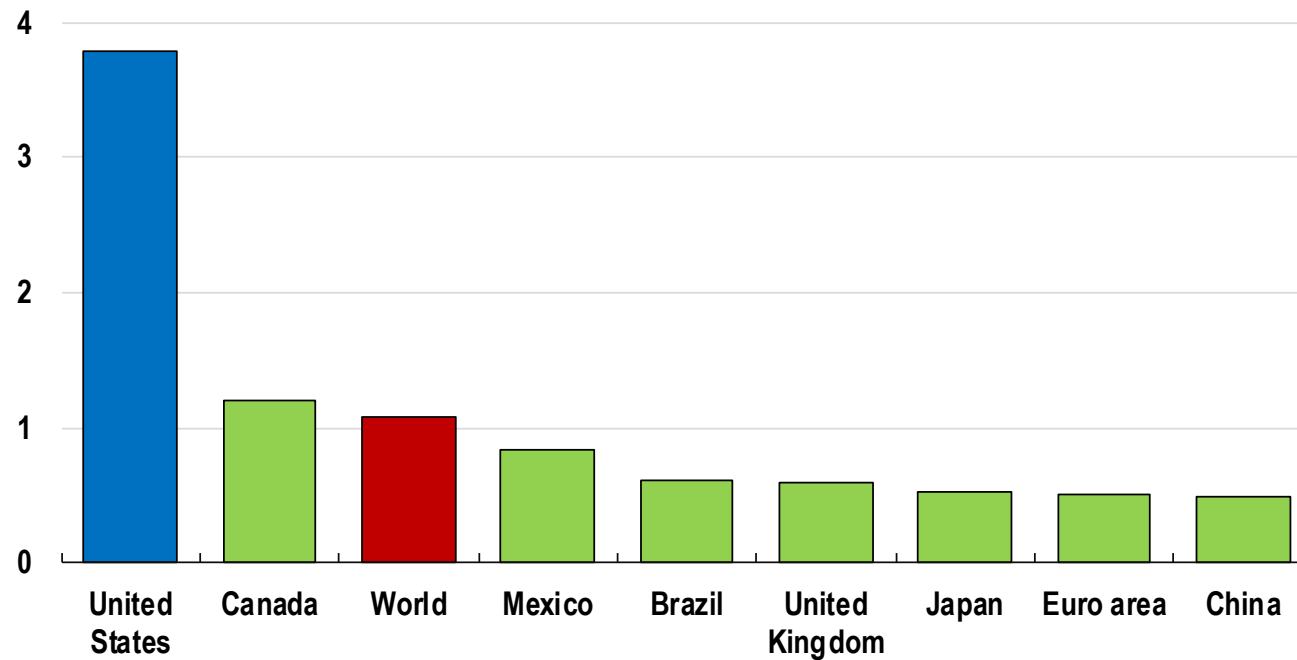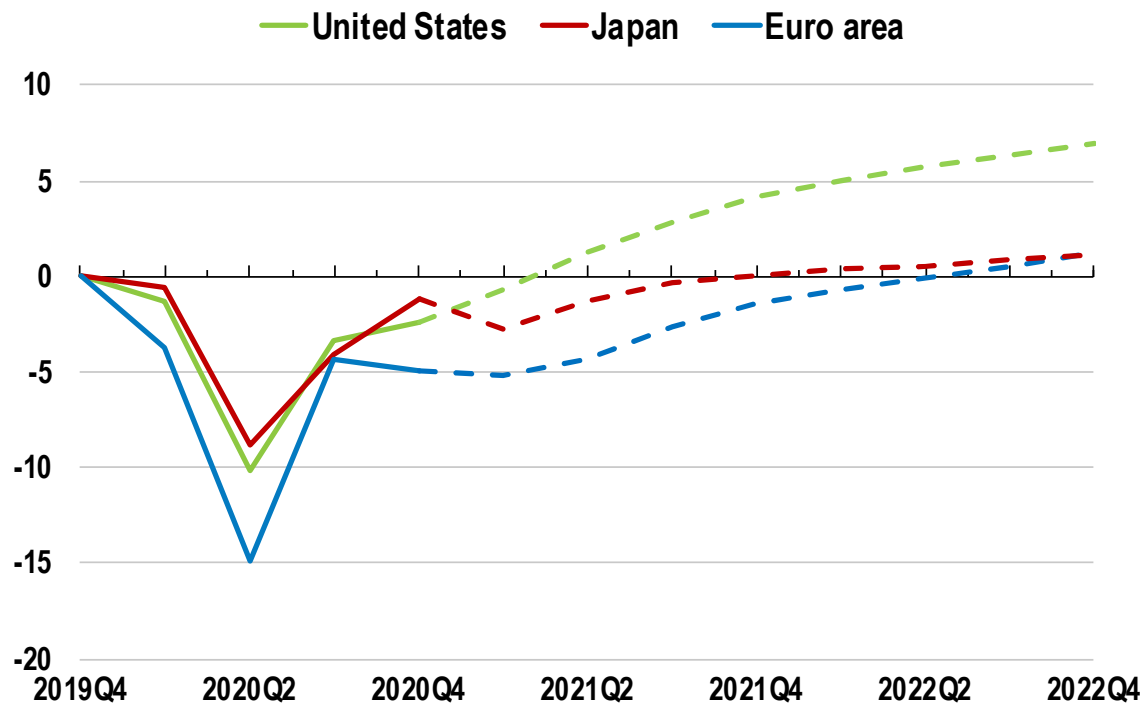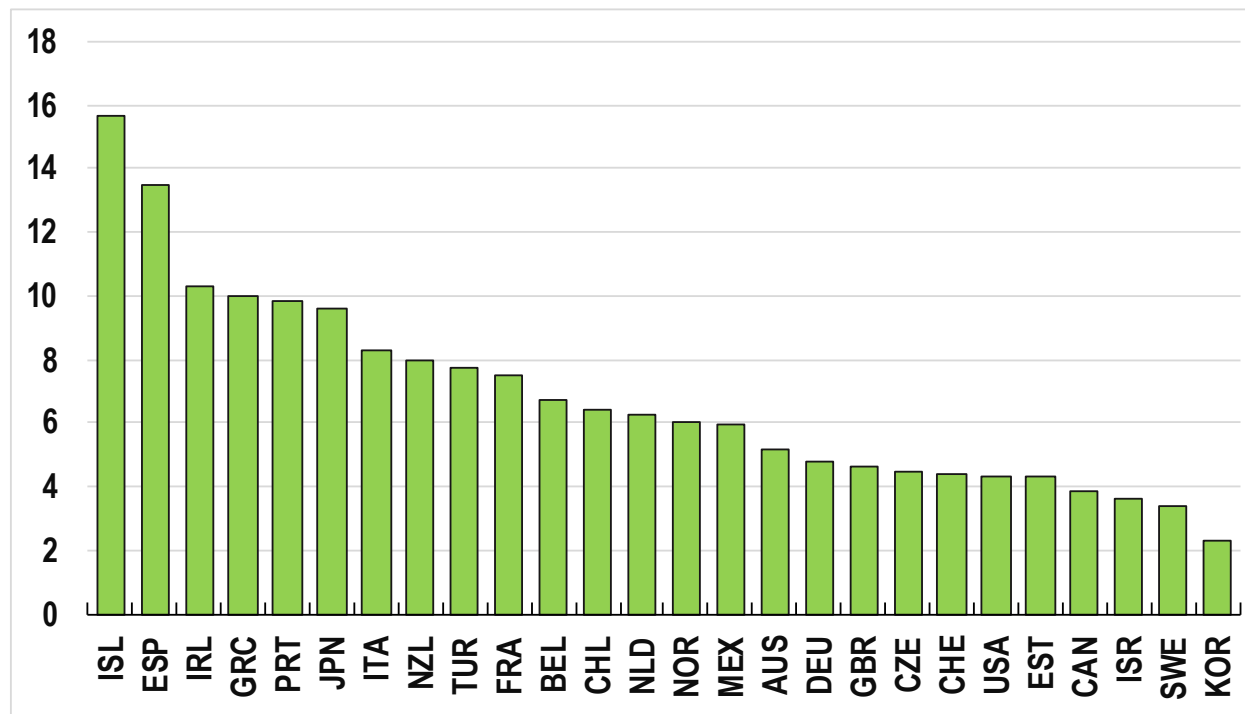
Looking like a V

Policy Differences (% GDP)
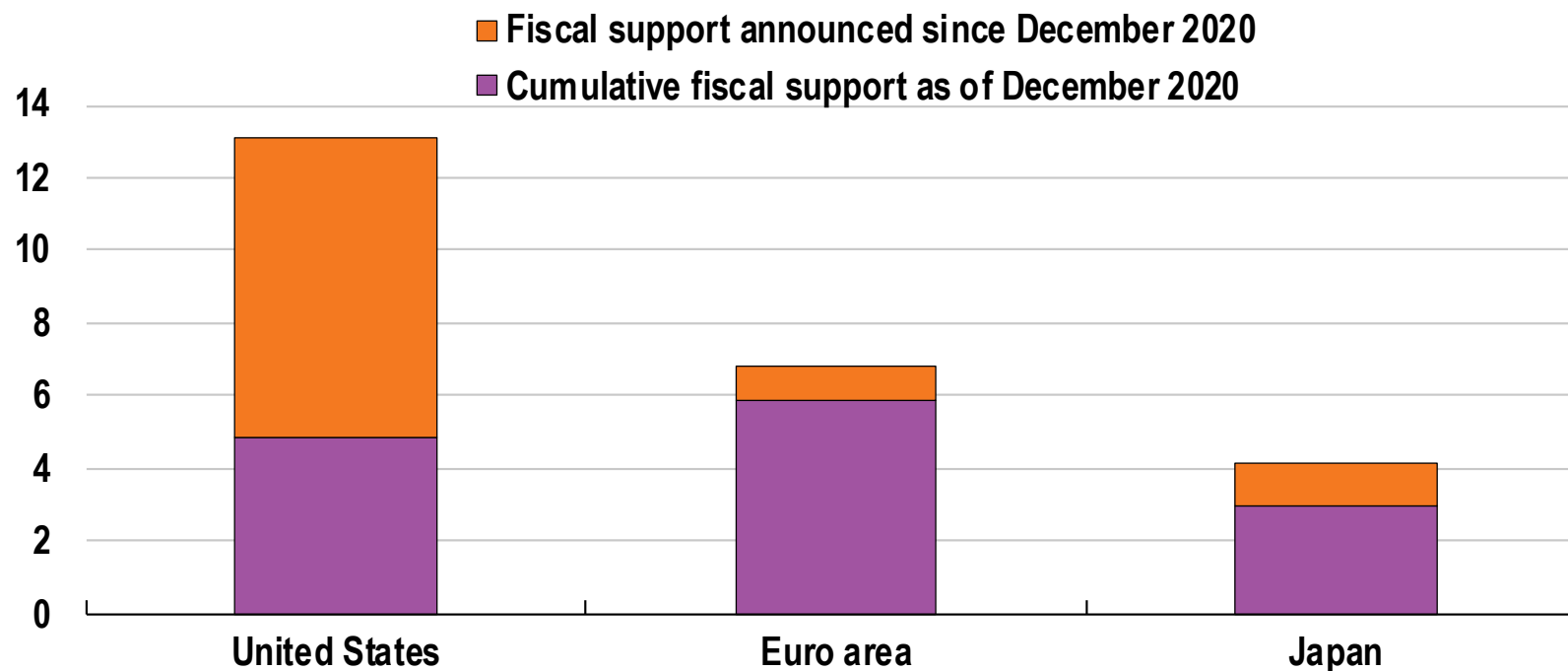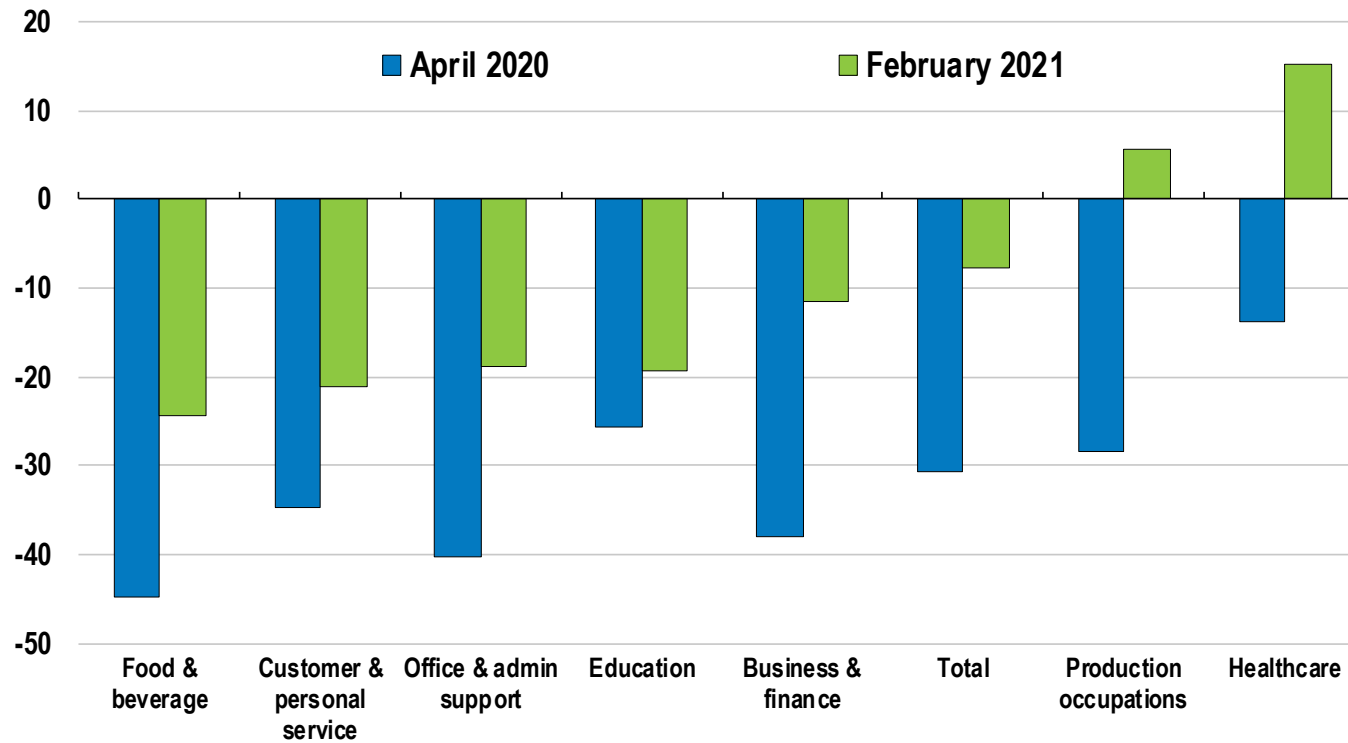
Impact of Recent Biden Stimulus (GDP %)

Economies are Diverging, driven by Policy Differences (% difference in real GDP from pre-pandemic levels)

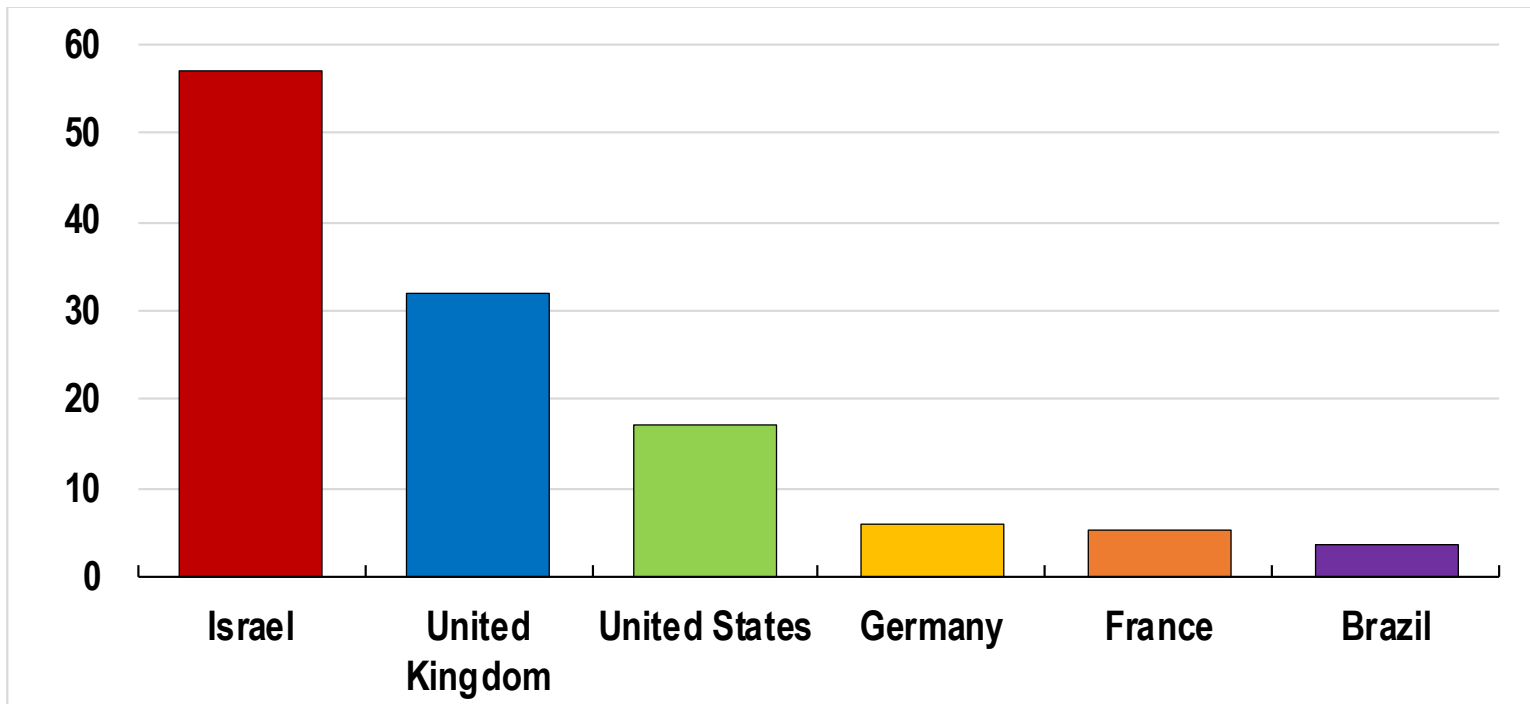# Employment in Tourism (% of total employment) – not so V

Missing Jobs

Vaccines: Population Coverage so Far (%)

Conventional Wisdom

- UK, US and Israel are having a good vaccine war.

- The EU is not.

- Nor is the poorer parts of the globe.

- 'Good' vaccinators are having rapid success.

- Not so fast: be very careful of extrapolating from recent trends.

- Let's look at those recent trends.

Recent Data (1)

Daily new confirmed COVID-19 cases per million people
Shown is the rolling 7-day average. The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.

Our World in Data
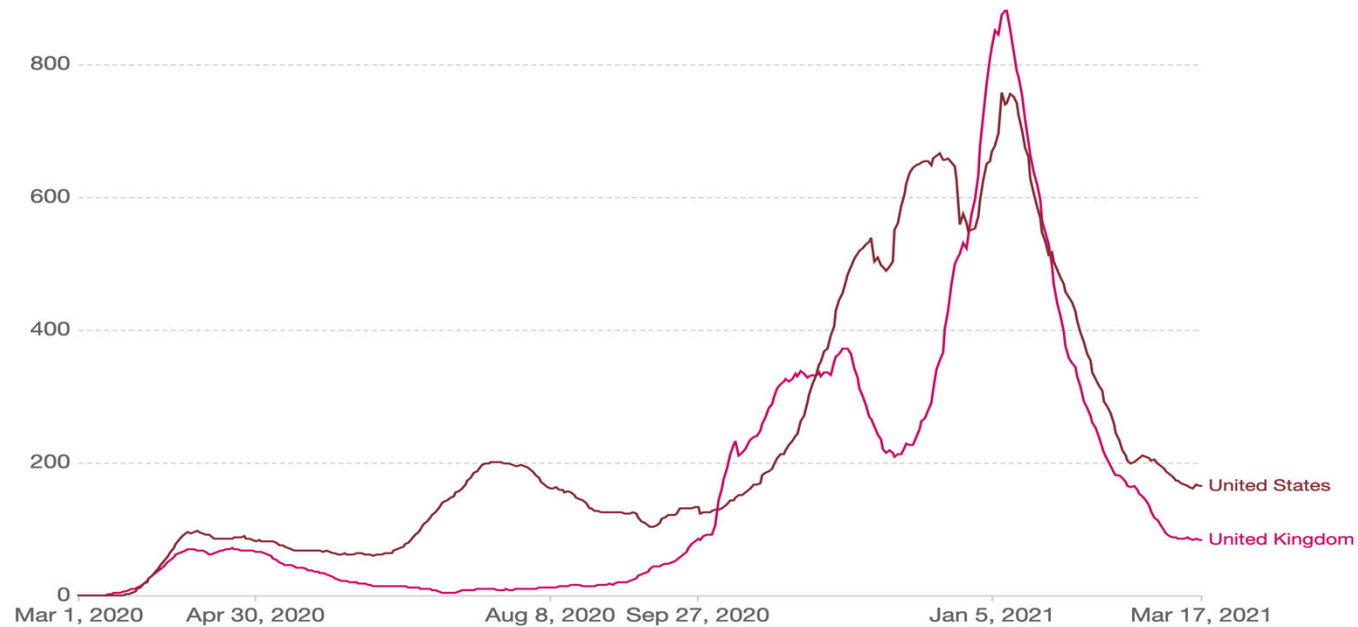
Source: Johns Hopkins University CSSE COVID-19 Data

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Recent Data (2)

Daily new confirmed COVID-19 deaths per million people
Shown is the rolling 7-day average. Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19.

Our World in Data

United States
United Kingdom
Israel

Oct 6, 2020   Oct 27, 2020   Dec 6, 2020   Jan 15, 2021   Mar 17, 2021

Source: Johns Hopkins University CSSE COVID-19 Data

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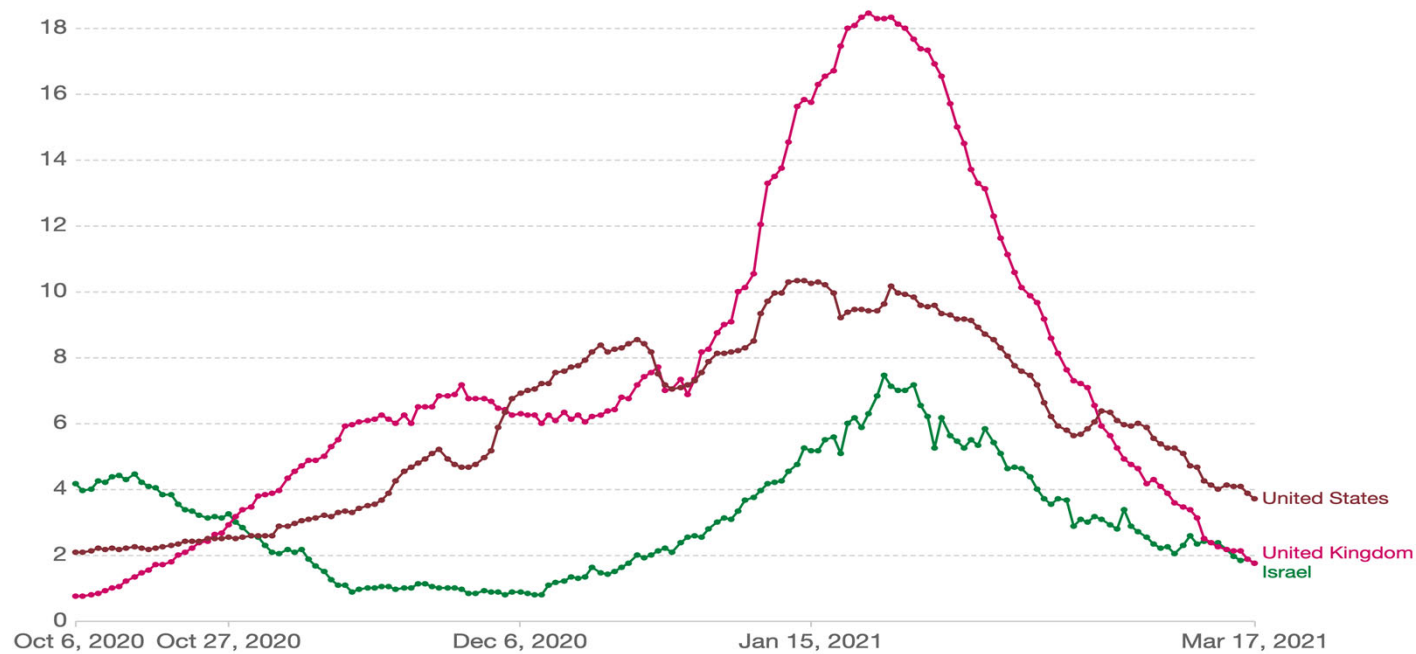
Daily new confirmed COVID-19 deaths per million people

Shown is the rolling 7-day average. Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19.

Source: Johns Hopkins University CSSE COVID-19 Data

Markets

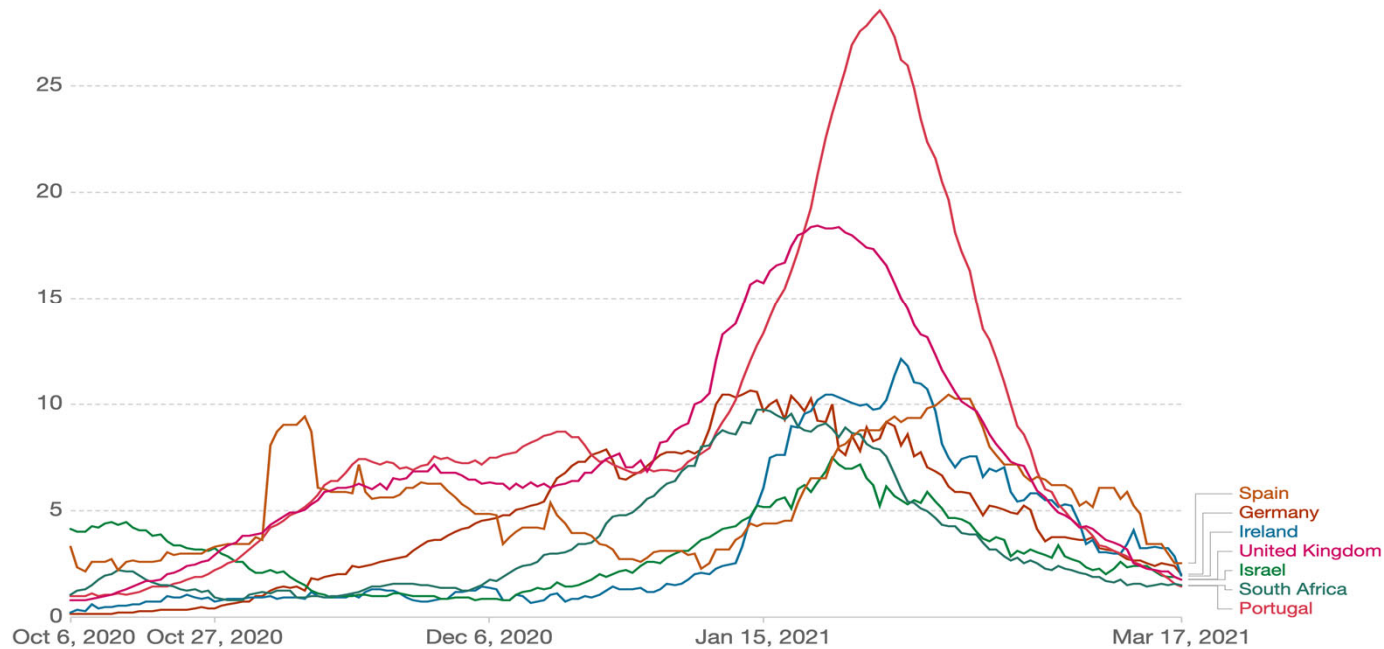Bonds, particularly of the US variety, are key. The day after the Fed:
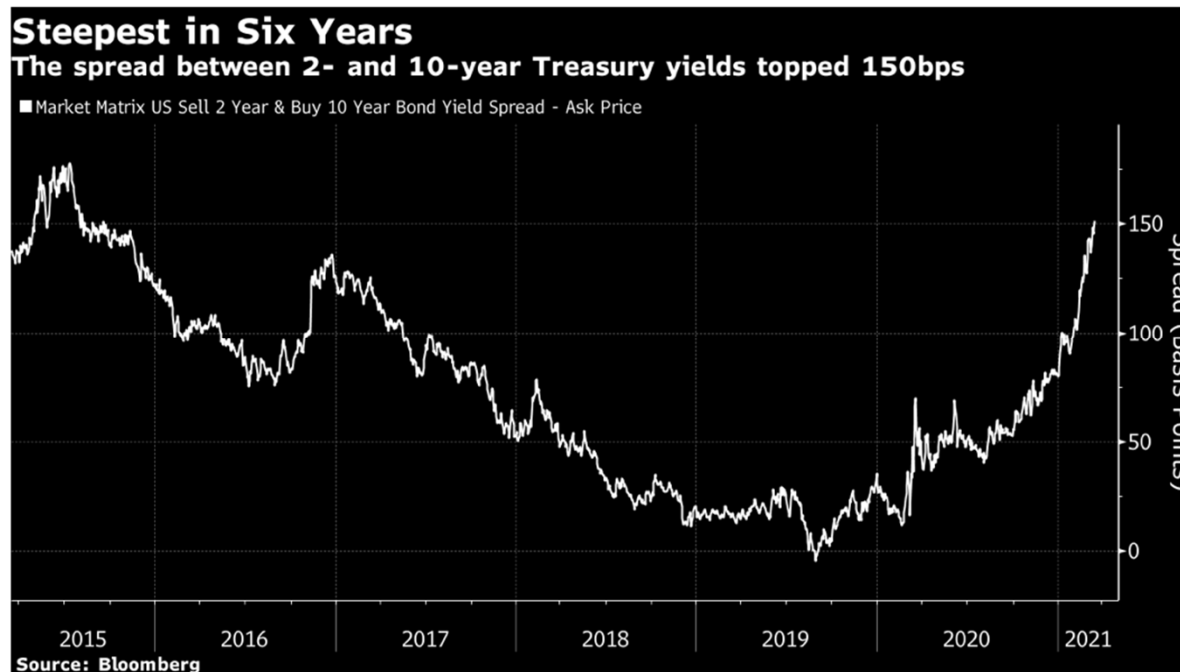
Data is Everything, as is a Long Run Perspective

8 Centuries of Global Real Government Yields

Trend decline:

All-time (1317-): **-1.59bps p.a.**
Post Bullion famine (1494-): **-1.36bps p.a.**
North-Weingast (1694-): **-1.44bps p.a.**
Post-Napoleonic (1820-): **-2.29bps p.a.**

Legend:
- Global real rate, 7-Y MA
- North-Weingast global R slope (1694-)
- Linear (Global real rate, 7-Y MA)
- Post-Napoleonic global R slope (1820-)
- Post-Bullion famine global R slope (1494-)

Source: Paul Schmelzing: Bank of England Working Paper 845

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Global Fixed Income Spreads & Returns

Fixed income spreads
%, option-adjusted spread

Current
Range since 2000
Average

Euro IG: 0,9
US IG: 1,0
UK IG: 1,1
EMD (USD sov.): 3,5
Euro HY: 3,5
US HY: 3,9
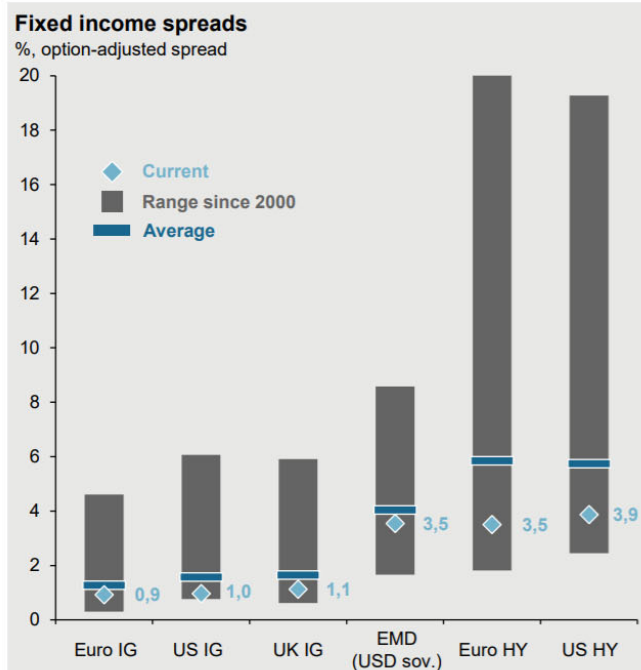
Fixed income returns

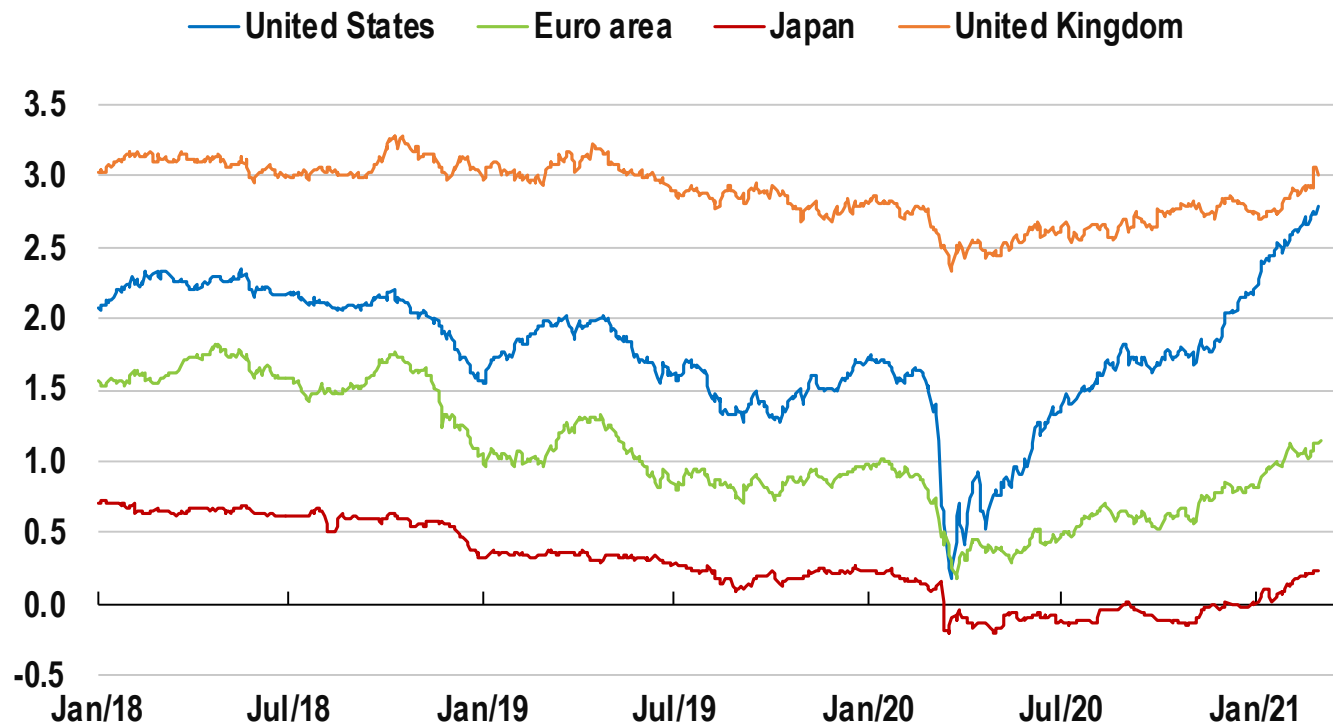| 2016	2017	2018	2019	2020	4Q '20	10-year ann. return
€: 21,0% US HY LCL:17,5%	6,3% Euro HY 6,3%	5,9% US Treas. 0,9%	17,2% EM Debt 15,0%	5,0% Euro Gov 5,0%	5,3% Euro HY 5,3%	7,6% US HY 6,6%
13,5% EM Debt 10,2%	2,4% Euro IG 2,4%	2,7% US HY -2,3%	16,6% US IG 14,5%	3,1% Infl Linked 3,1%	3,1% Infl Linked 3,1%	7,2% EM Debt 6,2%
10,2% Euro HY 10,2%	1,4% Infl Linked 1,4%	2,4% US IG -2,5%	16,5% US HY 14,4%	2,8% Euro IG 2,8%	2,0% US HY 6,5%	6,6% US IG 5,6%
9,3% US IG 6,1%	0,2% Euro Gov 0,2%	1,3% Portfolio -1,4%	11,2% Portfolio 10,1%	2,2% Euro HY 2,2%	2,0% Euro IG 2,0%	6,1% Euro HY 6,1%
8,1% Portfolio 6,4%	-2,8% Portfolio 4,3%	1,0% Euro Gov 1,0%	10,9% Euro HY 10,9%	0,9% Portfolio 5,8%	1,4% EM Debt 5,8%	5,5% Portfolio 4,9%
4,7% Euro IG 4,7%	-3,2% EM Debt 10,3%	0,6% EM Debt -4,3%	8,8% US Treas. 6,9%	0,8% US IG 9,9%	1,2% Euro Gov 1,2%	4,7% Euro Gov 4,7%
4,1% US Treas. 1,0%	-5,6% Euro IG 7,5%	-1,3% Euro Gov -1,3%	6,8% US Treas. 6,8%	-0,9% US Treas. 8,0%	0,5% Portfolio 2,9%	4,3% US Treas. 3,3%
3,8% Infl Linked 3,8%	-6,5% US IG 6,4%	-1,5% Infl Linked -1,5%	6,6% Infl Linked 6,6%	-2,7% US HY 6,1%	-1,2% US IG 3,1%	3,9% Euro IG 3,9%
3,2% Euro Gov 3,2%	-10,1% US Treas. 2,3%	-4,0% Euro HY -4,0%	6,2% Euro IG 6,2%	-3,4% EM Debt 5,3%	-5,0% US Treas. -0,8%	2,5% Infl Linked 2,5%

Source: (All charts) Bloomberg, Bloomberg Barclays, ICE BofA, J.P. Morgan Economic Research, Refinitiv Datastream, J.P. Morgan Asset Management. UK IG: Bloomberg Barclays Sterling Agg. – Corporates; US HY: ICE BofA US High Yield Constrained; EM Debt: J.P. Morgan EMBI Global Diversified; Euro HY: ICE BofA Euro Developed Markets Non-Financial High Yield Constrained; US IG: Bloomberg Barclays US Agg. – Corporate – Investment Grade; US Treasuries: Bloomberg Barclays US Agg. Gov. – Treasury; Euro IG: Bloomberg Barclays Euro Agg. – Corporate; Euro Gov.: Bloomberg Barclays Euro Agg. Government; Infl Linked: Bloomberg Barclays Euro Gov. Inflation-Linked. Hypothetical portfolio (for illustrative purposes only and should not be taken as a recommendation): 20% Euro Gov.; 15% US Treasuries; 10% Linkers; 15% US IG; 10% Euro IG; 10% US HY; 5% Euro HY; 15% EM Debt. Annualised return covers period 2011 to 2020. Returns are unhedged in euros and local currencies. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - Europe.* Data as of 31 December 2020.

J.P.Morgan
Asset Management

Is there a Bubble?

- For some, it is obvious:

- *"The long, long bull market since 2009 has finally matured into a fully-fledged epic bubble. Featuring extreme overvaluation, explosive price increases, frenzied issuance, and hysterically speculative investor behavior, I believe this event will be recorded as one of the great bubbles of financial history, right along with the South Sea bubble, 1929, and 2000."*

- *(Jeremy Grantham, GMO)*

Inflation Expectations (from Bond Yields)

Simple US Equity Valuation

Cyclically-Adjusted Price to Earnings Ratio and Long-Term Interest Rates

Source: http://www.econ.yale.edu/~shiller/data.htm

Excess CAPE Yield (ECY) and Subsequent Annualized Real
10-Year Excess Returns

Source: http://www.econ.yale.edu/~shiller/data.htm
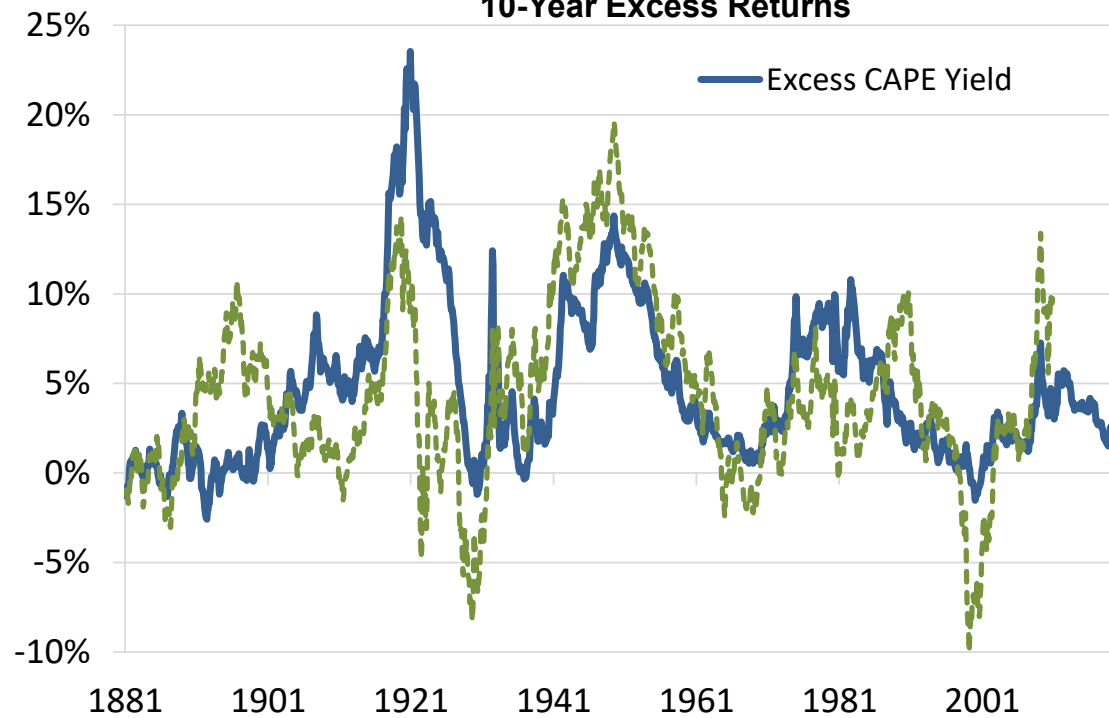
Asset Class Returns

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	4Q '20	10-year ann. return	Vol.
EMD 10,9%	REITs 18,3%	DM equities 21,9%	REITs 44,8%	REITs 13,9%	HY bonds 18,2%	EM equities 21,0%	Govt bonds 4,6%	DM equities 30,8%	EM equities 8,9%	EM equities 14,8%	DM equities 11,5%	REITs 16,3%
REITs 10,9%	HY bonds 17,5%	Portfolio 3,4%	EMD 22,3%	EMD 12,7%	Cmdty 15,1%	DM equities 8,1%	HY bonds 1,5%	REITs 30,4%	DM equities 6,9%	DM equities 9,3%	REITs 10,1%	EM equities 13,0%
Govt bonds 9,9%	EM equities 16,8%	HY bonds 3,3%	DM equities 20,1%	DM equities 11,0%	EM equities 14,9%	Portfolio 1,7%	IG bonds 1,3%	EM equities 21,1%	Portfolio 1,6%	Cmdty 5,6%	HY bonds 7,6%	EMD 10,1%
IG bonds 7,8%	EMD 15,6%	Hedge funds 2,1%	IG bonds 17,5%	Govt bonds 7,7%	EMD 13,5%	Cash -0,3%	REITs 0,7%	Portfolio 18,9%	IG bonds 1,3%	Portfolio 5,0%	EMD 7,2%	DM equities 10,0%
HY bonds 6,1%	DM equities 14,7%	Cash 0,2%	Portfolio 16,3%	IG bonds 7,4%	REITs 12,6%	EMD -3,2%	EMD 0,6%	EMD 17,1%	Govt bonds 0,5%	REITs 4,6%	Portfolio 6,7%	Cmdty 9,6%
Cash 1,7%	Portfolio 10,6%	REITs -1,3%	HY bonds 13,8%	Hedge funds 7,3%	DM equities 11,4%	HY bonds -3,2%	Cash -0,3%	HY bonds 15,8%	Cash -0,3%	HY bonds 3,0%	IG bonds 5,5%	HY bonds 7,5%
Portfolio 1,1%	IG bonds 9,5%	IG bonds -4,0%	Hedge funds 13,2%	HY bonds 6,7%	Portfolio 10,3%	REITs -4,0%	Portfolio -1,6%	IG bonds 13,6%	HY bonds -0,9%	EMD 1,4%	EM equities 5,0%	IG bonds 6,7%
DM equities -1,8%	Hedge funds 1,9%	EM equities -6,5%	Govt bonds 13,0%	Portfolio 6,3%	IG bonds 7,4%	IG bonds -4,2%	Hedge funds -2,0%	Hedge funds 10,6%	Hedge funds -2,2%	Hedge funds 0,5%	Govt bonds 3,2%	Portfolio 6,5%
Hedge funds -5,8%	Cash 1,2%	Govt bonds -8,4%	EM equities 11,8%	Cash 0,1%	Hedge funds 5,6%	Govt bonds -5,8%	DM equities -3,6%	Cmdty 9,7%	EMD -3,4%	IG bonds -0,1%	Hedge funds 2,2%	Govt bonds 6,4%
Cmdty -10,4%	Govt bonds 0,3%	EMD -9,3%	Cash 0,3%	EM equities -4,9%	Govt bonds 4,7%	Hedge funds -6,9%	Cmdty -6,8%	Govt bonds 7,5%	Cmdty -11,1%	Cash -0,1%	Cash 0,2%	Hedge funds 6,4%
EM equities -15,4%	Cmdty -2,6%	Cmdty -13,4%	Cmdty -5,5%	Cmdty -16,1%	Cash -0,2%	Cmdty -10,7%	EM equities -9,9%	Cash -0,3%	REITs -13,6%	Govt bonds -1,1%	Cmdty -5,6%	Cash 0,7%

Source: Bloomberg Barclays, FTSE, J.P. Morgan Economic Research, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Annualised return covers the period from 2011 to 2020. Vol. is the standard deviation of annual returns. Govt bonds: Bloomberg Barclays Global Aggregate Government Treasuries; HY bonds: ICE BofA Global High Yield; EMD: J.P. Morgan EMBI Global Diversified; IG bonds: Bloomberg Barclays Global Aggregate – Corporates; Cmdty: Bloomberg Commodity; REITs: FTSE NAREIT All REITS; DM equities: MSCI World; EM equities: MSCI EM; Hedge funds: HFRI Global Hedge Fund Index; Cash: JP Morgan Cash Index EUR (3M). Hypothetical portfolio (for illustrative purposes only and should not be taken as a recommendation): 30% DM equities; 10% EM equities; 15% IG bonds; 12,5% government bonds; 7,5% HY bonds; 5% EMD; 5% commodities; 5% cash; 5% REITs and 5% hedge funds. All returns are total return, in EUR, and are unhedged. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - Europe*. Data as of 31 December 2020.
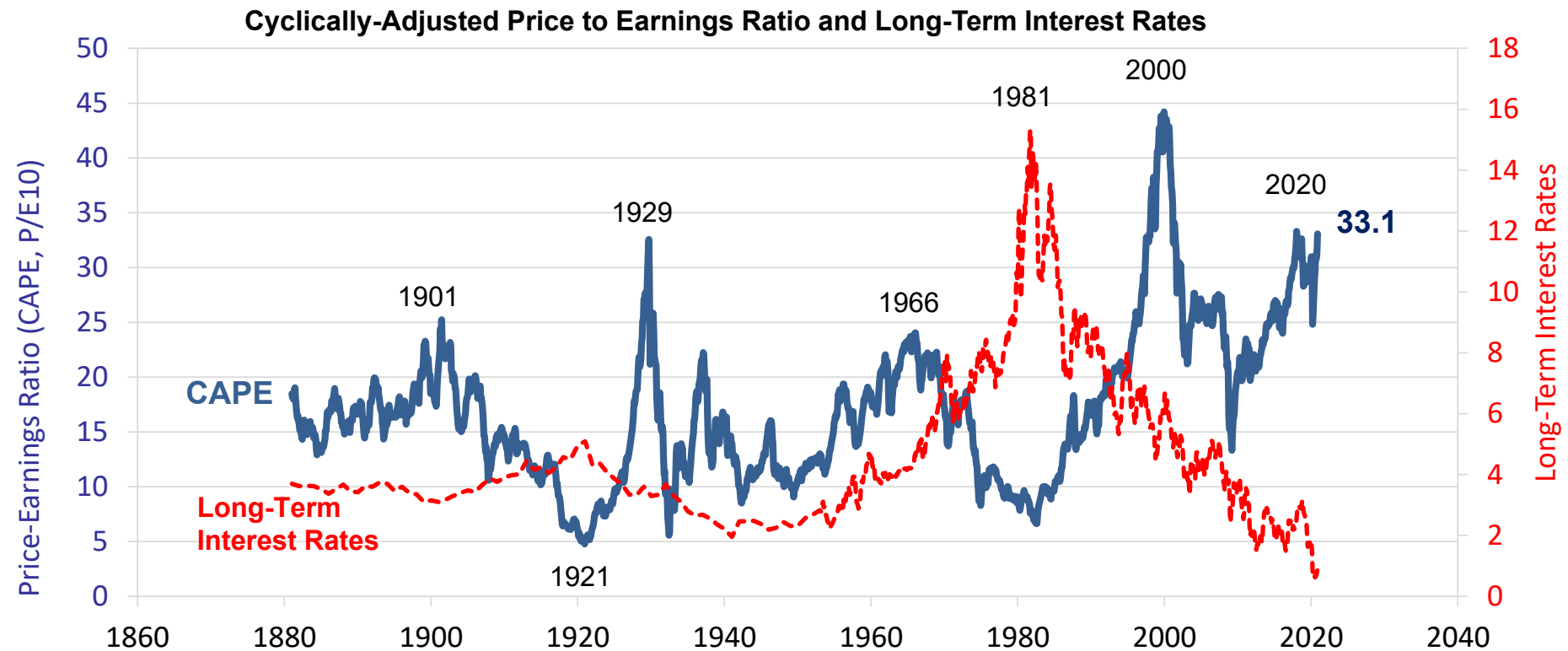
J.P.Morgan Asset Management

Asset Return Expectations

2021 Long-Term Capital Market Assumptions expected returns in coming 10-15 years
%, annualised return in EUR

Asset class	
Emerging markets	
Asia ex-Japan	
Eurozone large cap	
Japan	
European ex-UK core real estate	
Global infrastructure	
US large cap	
Euro investment-grade corporate bonds	
Euro government bonds	
Euro government inflation-linked bonds	
Euro cash	

Legend:
- Equity
- Fixed income
- Alternatives
- ◆ Historical return since 2009

Source: *2021 Long-Term Capital Market Assumptions*, J.P. Morgan Multi-Asset Solutions, J.P. Morgan Asset Management. Returns are nominal and in EUR. Past returns are calculated from the start of 2009 up to the end of October 2020, or the most recent available data. The projections in the chart above are based on J.P. Morgan Asset Management's proprietary long-term capital market assumptions (10-15 years) for returns of major asset classes. The resulting projections include only the benchmark return associated with the portfolio and do not include alpha from the underlying product strategies within each asset class. The assumptions are presented for illustrative purposes only. Past performance and forecasts are not reliable indicators of current and future results. *Guide to the Markets - Europe.* Data as of 31 December 2020.

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Source: J.P. Morgan Asset Management Guide to the Markets 1Q 2021

Summary & Conclusions

- Remember: all forecasts are wrong.

- Governance budget: spend it on plans for what you will do when those forecasts turn out to be wrong, not on the forecasts themselves.

- Inflation outcome will drive most of the action once the pandemic is over.

- The rest of the action will be driven by economic policy, itself a driver of, and influenced by, that inflation outlook.

- Expected returns: focus on these and your time horizon.