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GLOBAL PERSPECTIVE *from the Investment Advisory Group*

## World Economy Stronger than Updated IMF Estimates Suggest

The International Monetary Fund (IMF) upgraded its global economic outlook for 2020, however, reiterated the risk of an uneven and prolonged recovery. We argue that these estimates are still too pessimistic.

### What Happened

In its October update, the IMF revised its global growth outlook upward for 2020 from -5.2% to -4.4% and downward for 2021 from 5.4% to 5.2%. Better than expected economic forecast figures are a direct result of sizeable, rapid and coordinated fiscal policy actions that are coupled with monetary stimulus measures surpassing the 2008-09 period.

In June projections, the IMF had a bleak outlook for 2020, especially for the US economy. At that time, the expectation was a -8% drop in economic activity for the US in 2020. In its recent outlook, the US economic projections for 2020 were revised upward to -4.3%, still an awful figure, but not quite as bad as the earlier projections.

Germany and France benefited from strong fiscal policy measures in Europe, but countries with an aggressive resurgence of the virus, like the UK and Spain, lagged their European peers. Improvements in consumer confidence and businesses are at risk with the re-introduction of mandatory social distancing rules in major European cities like Paris, Berlin, or Madrid.

In Asia, China's recovery is remarkable. The country's GDP is already above the 2019 level in Q2 of 2020, the first major economy to achieve that milestone. On the other hand, India has struggled to contain the virus, and its fiscal measures were unable to lessen the impact on its economy (Figure 1).

Past performance does not guarantee future results.

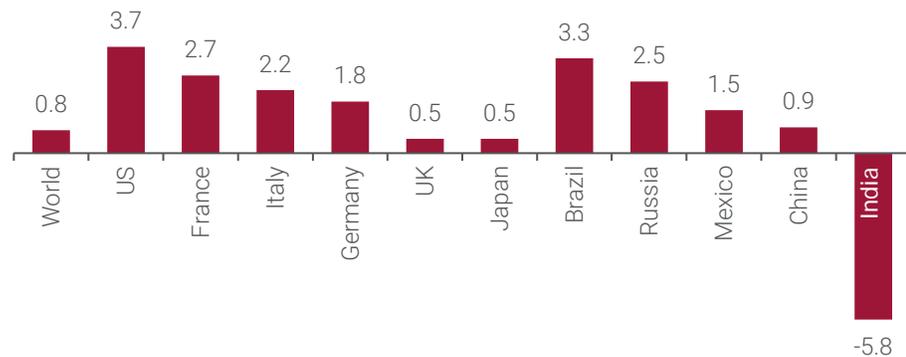
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WEALTH

Figure 1: IMF 2020 GDP Estimate Change % (June versus October Forecast)



Data Source: SunTrust IAG, Bloomberg

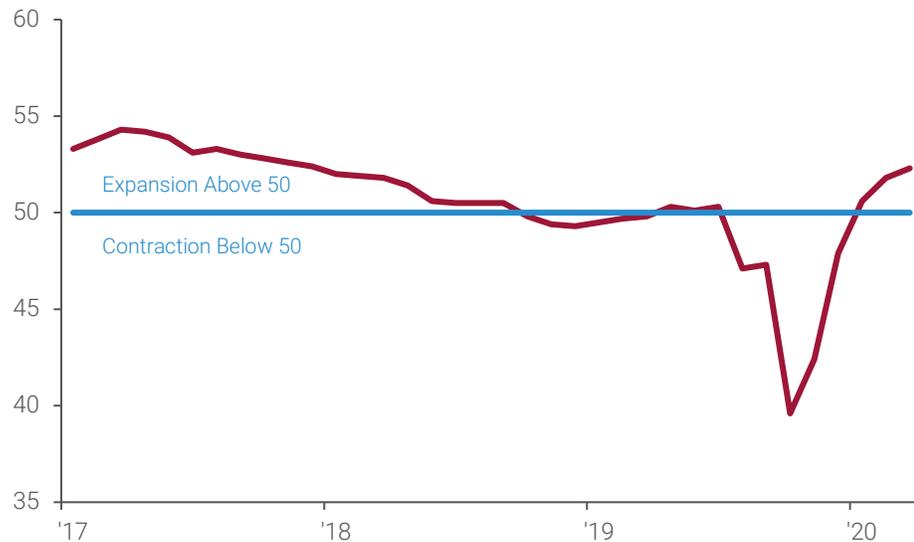
## Our Take

During the summer months, the global economy recovered strongly from the COVID-19 induced economic collapse, which was triggered by mandatory lockdowns or social distancing measures to combat the virus' spread.

The current optimism is already visible in real economic numbers, especially in Asia, in the US, and in some parts of Europe. Like the Global Manufacturing Purchasing Manager Index (Figure 2), a survey-based indicator suggests a continued strong recovery during the last quarter of 2020. Therefore, we argue that the IMF's current estimates for 2020 are still portraying an overly pessimistic view for the world economy, even with the recent sizeable upward revisions.

The IMF's previous dire assumptions of an extreme tightening of financial conditions did not materialize, thanks to monetary and fiscal authorities' strong backstop. Financial markets functioned as expected, and unlike in the 2008-09 period, credit was readily available for trade, consumption, and corporate borrowing this time. Amid the global recession, countries like Argentina and Ecuador could renegotiate outstanding US dollar-denominated debt, indicating favorable liquidity conditions even for the global financial system's most challenging constituents.

Figure 2: Global Manufacturing Purchasing Manager Index



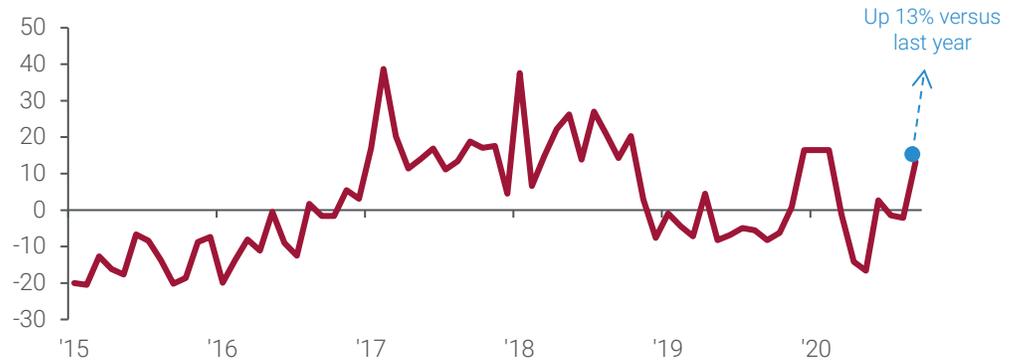
Data Source: SunTrust IAG, Bloomberg

During the summer months, with declining COVID-19 infection and death rates, global consumers in many economies experienced a return to some normalcy. Mobility data suggested that, in many countries, consumers are eager to return to their previous habits.

According to IMF estimates, the recovery expected in 2021 at 5.2% could be an easy yardstick to beat, particularly if successes from vaccine development come in sooner than expected or advancement in therapeutics reduces the mortality rate significantly.

China, the world's second-largest economy, is the only major economy this year to achieve meaningful positive economic growth. With this crisis, China proved that its transition to a consumption-based economy from a manufacturing-based is mostly achieved. The Chinese consumer is willing to consume, and the country's import volume is running fast, allowing export or commodity-oriented economies to benefit, like Germany, South Korea, Japan, Brazil, or Russia (Figure 3).

Figure 3: Chinese Imports in USD (Year-over-Year % Change)



Data Source: SunTrust IAG, Bloomberg

Especially in developed economies, lost income was successfully supplemented by the fiscal policy, and consumers with enough savings continued with their consumption patterns. Ultra-loose monetary policies could offer enough impetus to a healthy recovery for 2021 and many years later.

It is apparent that the pandemic is far from over, and the uneven economic recovery is evident, not only at the broader macroeconomic level but also at the microeconomic level. It may take many years to replenish lost income or wealth for many, and in some sectors, prospects are still grim. On the other hand, global consumers learned to adapt to the new transitory reality by allocating some portion of their income and savings for residential housing and vacation homes, which led to improvement in sentiment for the construction sector.

### Bottom Line

During the upcoming winter, the virus could linger longer, or the speed of its spread may bring renewed mandatory social distancing measures that limits social mobility. Additional fiscal measures are expected to be announced to mitigate the effects of lost incomes, and monetary policy is expected to stay accommodative for many years. The synchronized global recovery is underway and could accelerate significantly next year when the expected medical breakthroughs in a vaccine or therapeutics are realized.

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