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Strong, But Uneven Recovery In 2021

Global Monthly Outlook Presentation

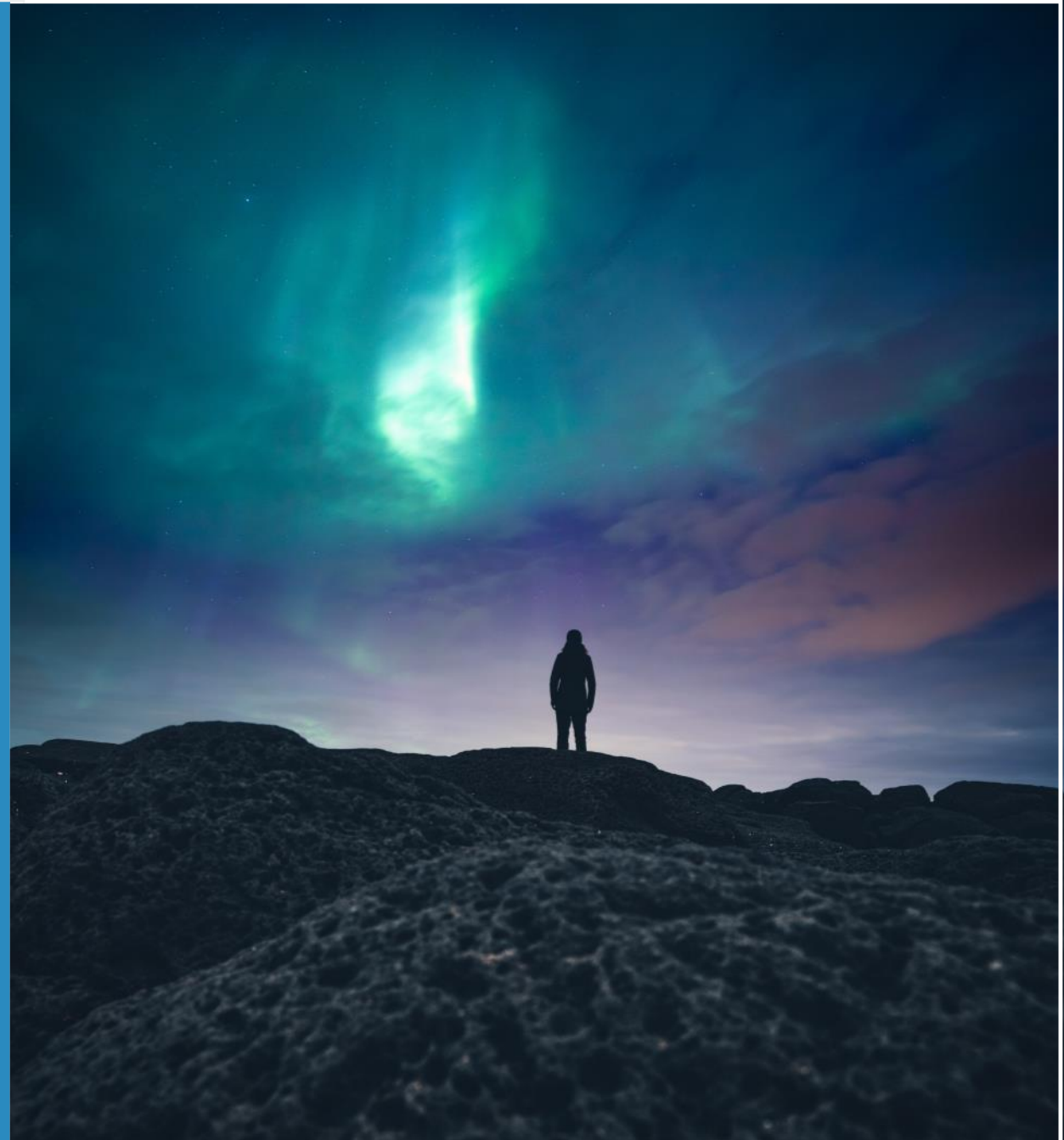
December 2020

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 - **Europe:** Paying The Price Of Lockdown 2.0
 - **Emerging Markets:** Uneven Recovery, But FX Could Be Supported
4. Key Risks To Watch



The background of the slide is a complex digital visualization. It features a central globe of the Earth, partially obscured by a grid of glowing lines. Overlaid on this are various financial data elements: a candlestick chart with green and red bars, a line graph with a green and red trend, and numerous floating numbers in purple, blue, and green. Some of the visible numbers include 1200, 1000, 146500, 10000, 1000, 8200, 1500, 31200, 60.50, 60.31, 23.4, 18.40, and 0.38. The overall aesthetic is high-tech and data-driven.

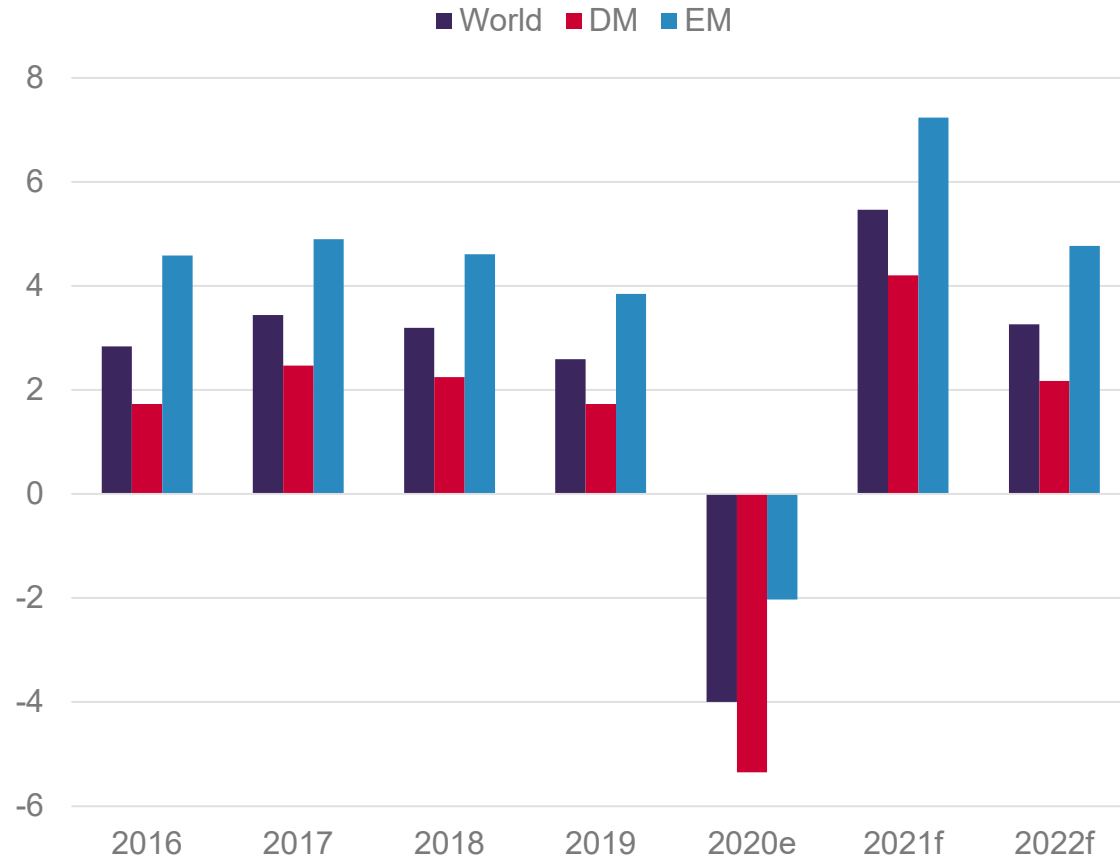
1

Global Recovery Ahead, Albeit Uneven

Global Growth To Rebound In 2021, EM And Asian Outperformance

Global Economy To See Sharp Rebound In 2021

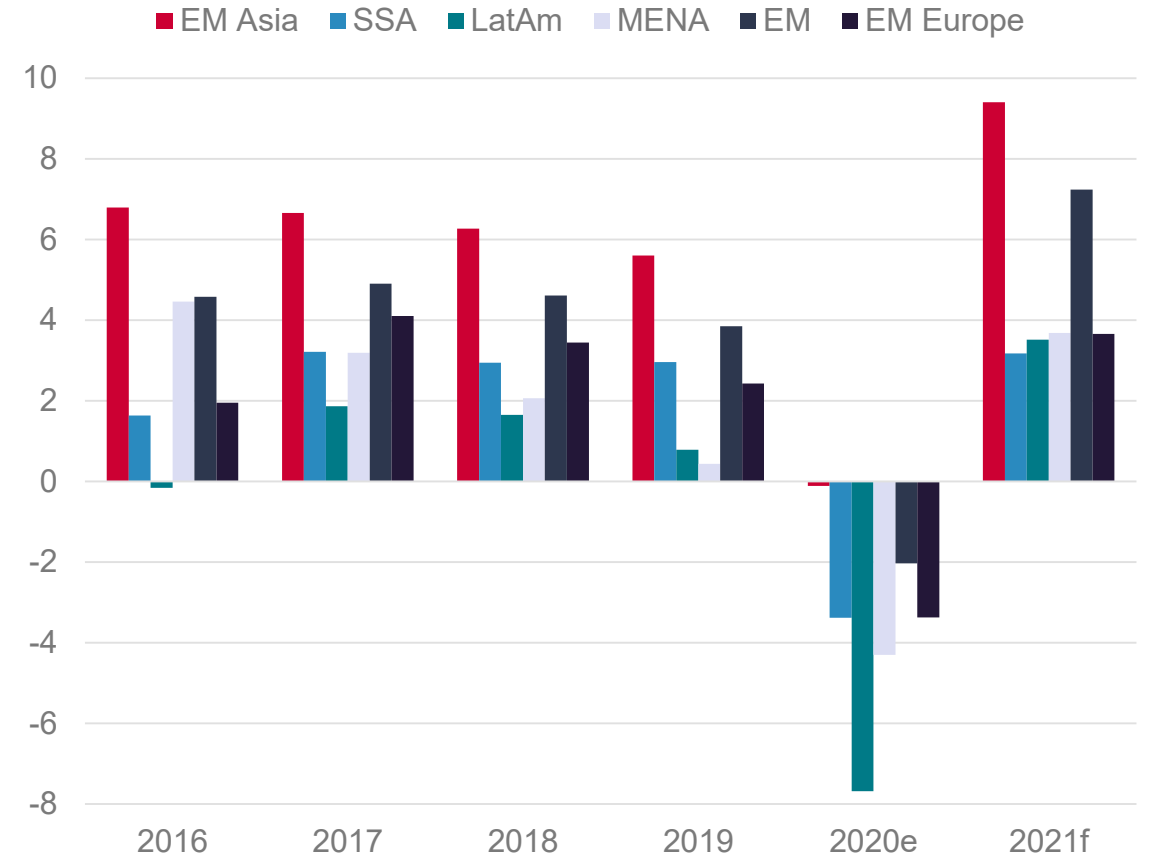
Real GDP Growth %



e/f = estimate/forecast. Source: Fitch Solutions

EM Asia Growth To Outperform This Year And Next

Real GDP Growth %

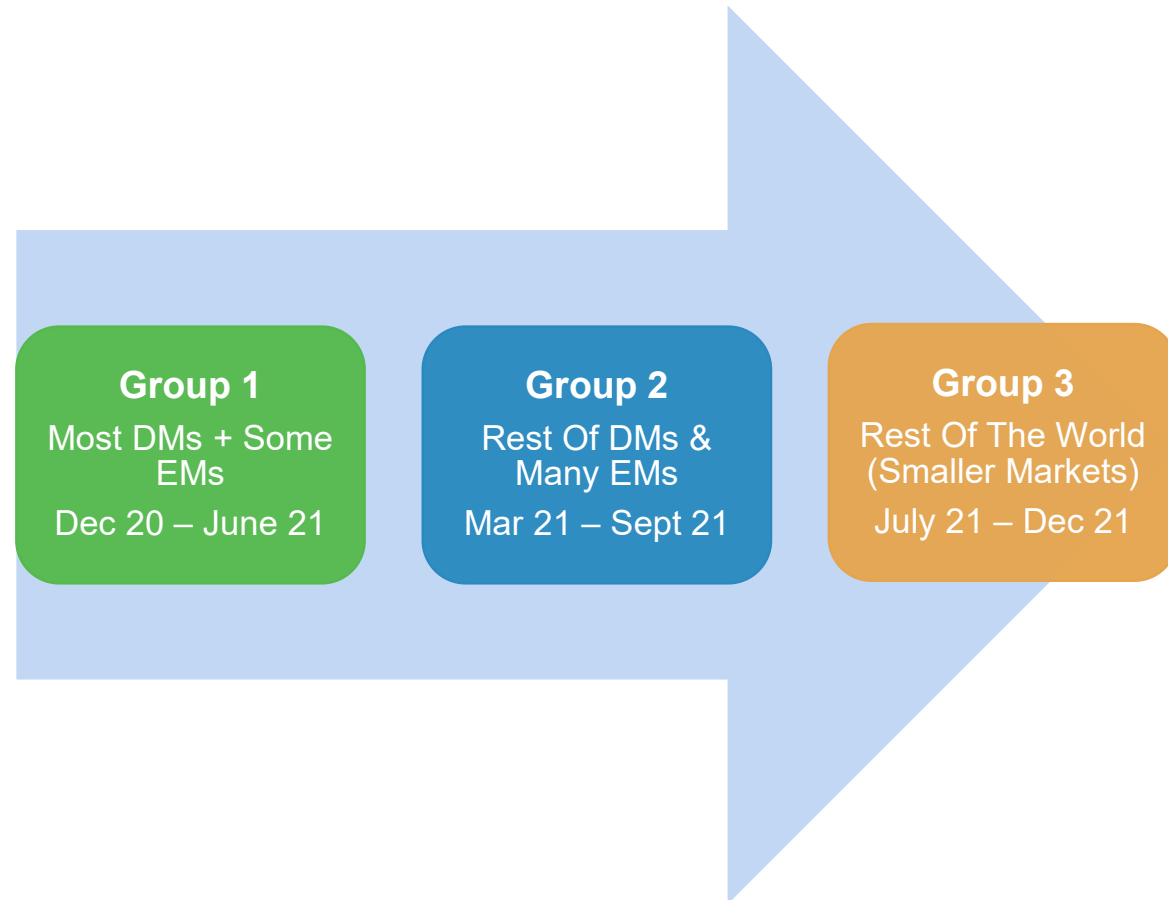


e/f = estimate forecast. Source: Fitch Solutions

Vaccine Roll-Out Is A Game Changer, But Will Be Staggered

Roll-Out Has Already Started, But Will Be Staggered

Roll-Out Calendar For Priority Populations



Source: Fitch Solutions

Country Grouping Subject To Large Changes

Roll-Out For Priority Populations By Group

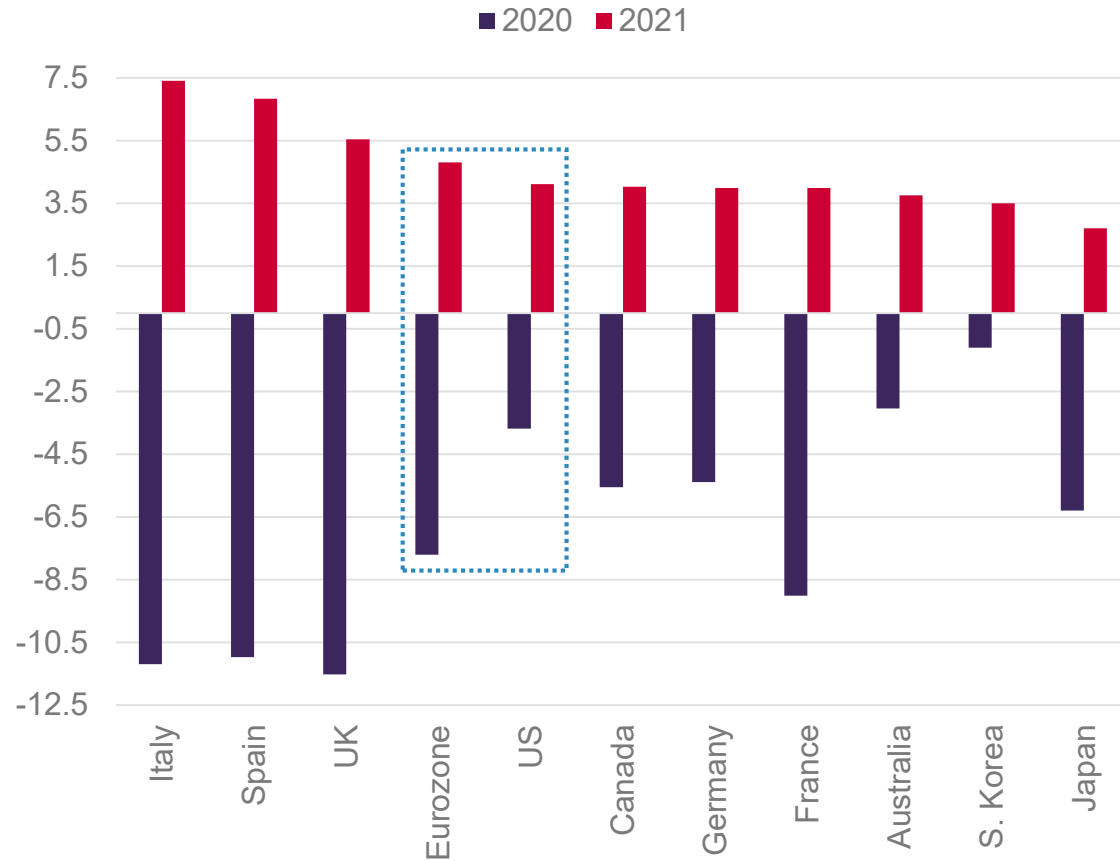
	No. Of Countries	Some Of The Largest Countries
Group 1	54	US, Canada, EU, UK, Sweden, Switzerland, Russia, China, Japan, India, Australia, New Zealand, Brazil, Chile, Saudi Arabia, Israel, Singapore
Group 2	33	Mexico, Argentina, Peru, Turkey, Bulgaria, Kazakhstan, South Korea*, Thailand, Indonesia, South Africa, Algeria, Morocco
Group 3	87	Colombia, Uruguay, Paraguay, Jamaica, Bahamas, Guatemala, Ukraine, Albania, Belarus, Bosnia, Sri Lanka, Mongolia, Brunei, Iran, Iraq, Syria, Tunisia, Zambia, Ghana, Kenya, Mozambique, Angola
Unclear	13	Aruba, Barbados, Georgia, Kyrgyzstan, Turkmenistan, Gabon

South Korea may move to Group 1 in January. Source: Fitch Solutions

Strong Rebound Ahead, With Base Effects Playing A Large Role

Above-Trend Real GDP Growth For Most DMs In 2021

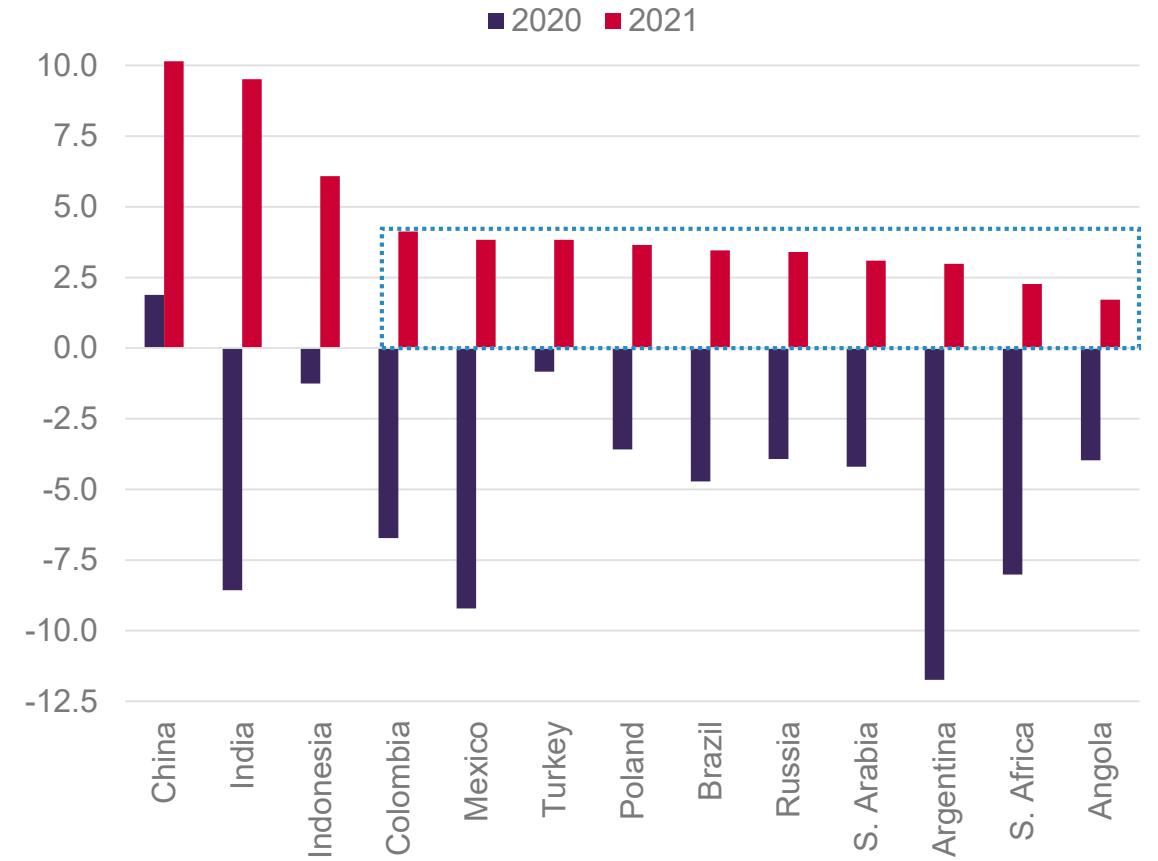
Real GDP Growth, %



2020 = estimate, 2021 = forecast. Source: Fitch Solutions

EM Asia Stand Out, Other EMs Face Challenges

Real GDP Growth, %

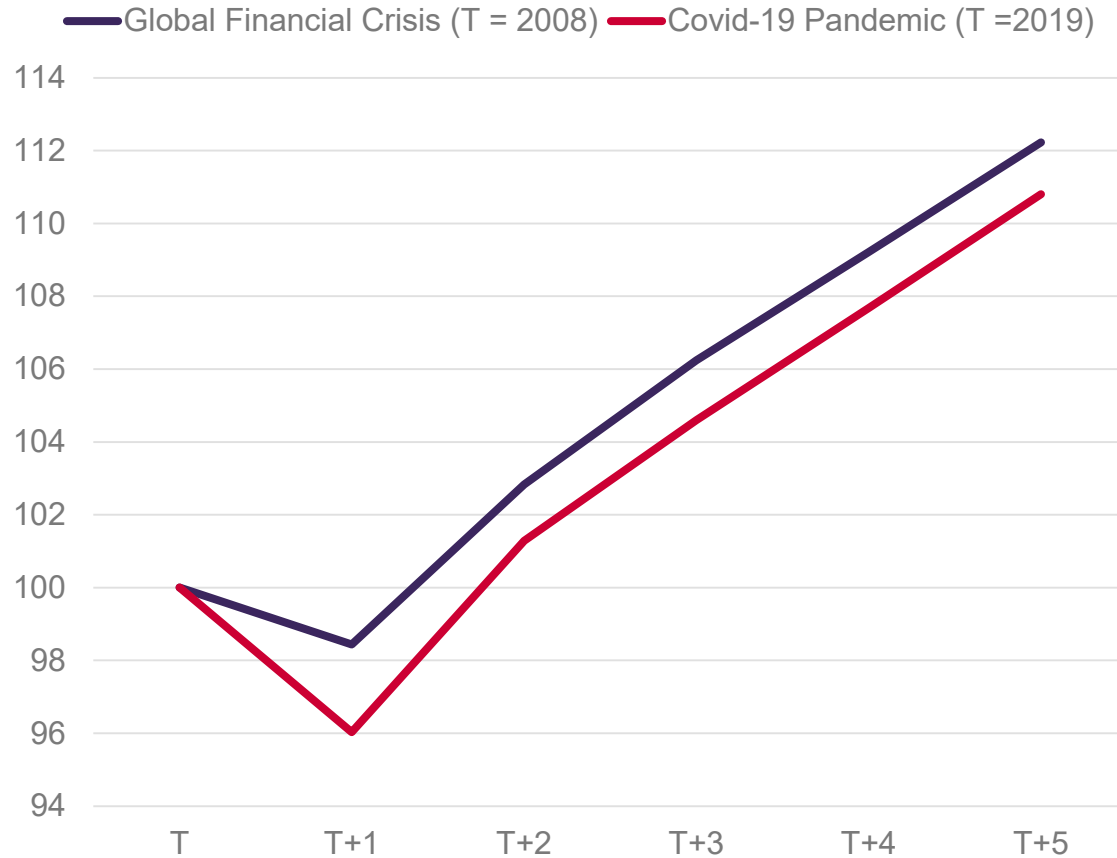


2020 = estimate, 2021 = forecast. Source: Fitch Solutions

Global Recovery Will Take Longer Than After The GFC

Global Recovery Will Be Slower Than Before

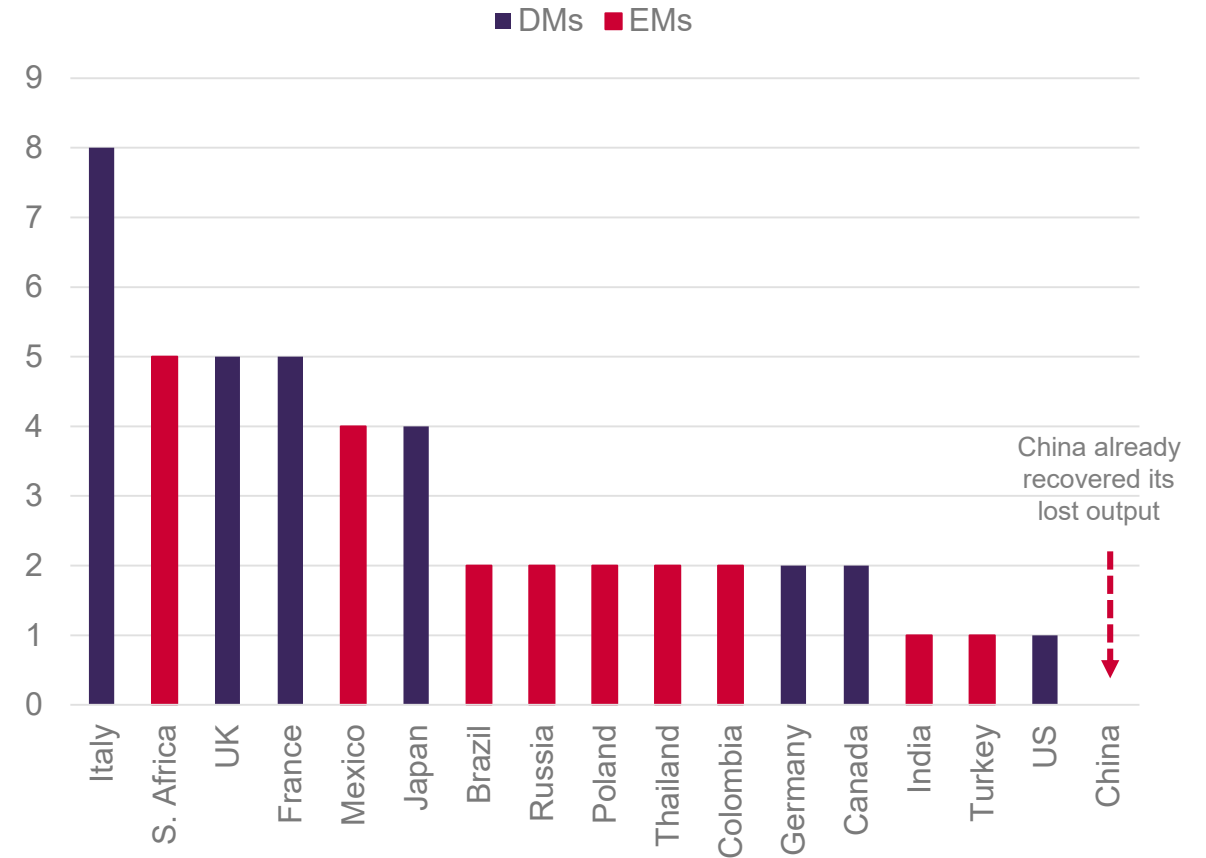
Global Economy Rebased To 100 In Both Pre-Crisis Years



Source: Bloomberg, Fitch Solutions

Some Countries Will Take A Long Time To Return To Peak

Number Of Years It Takes To Reach 2019 Real GDP Levels



Source: Bloomberg, Fitch Solutions



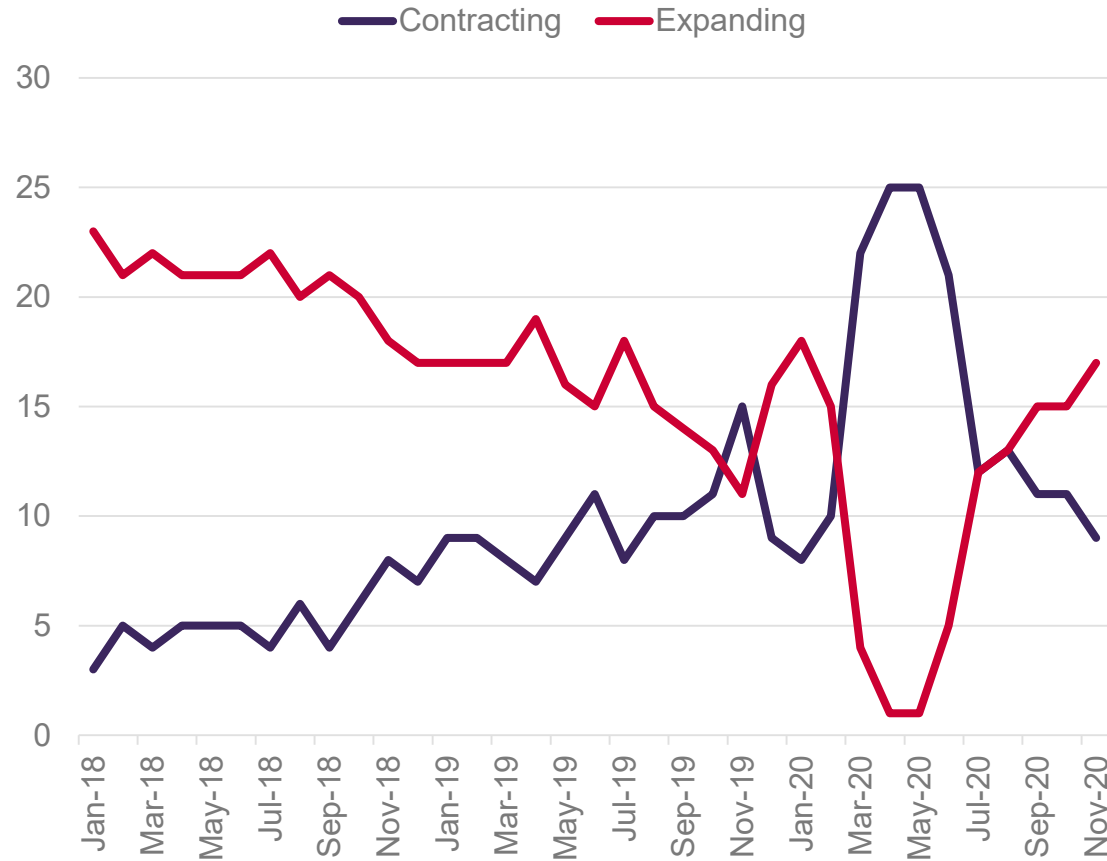
2

High Frequency Data Point To Strength & Divergence

More Countries Show PMIs In Expansion, Growth Expectations Rising

Increase In Number Of Markets Expanding

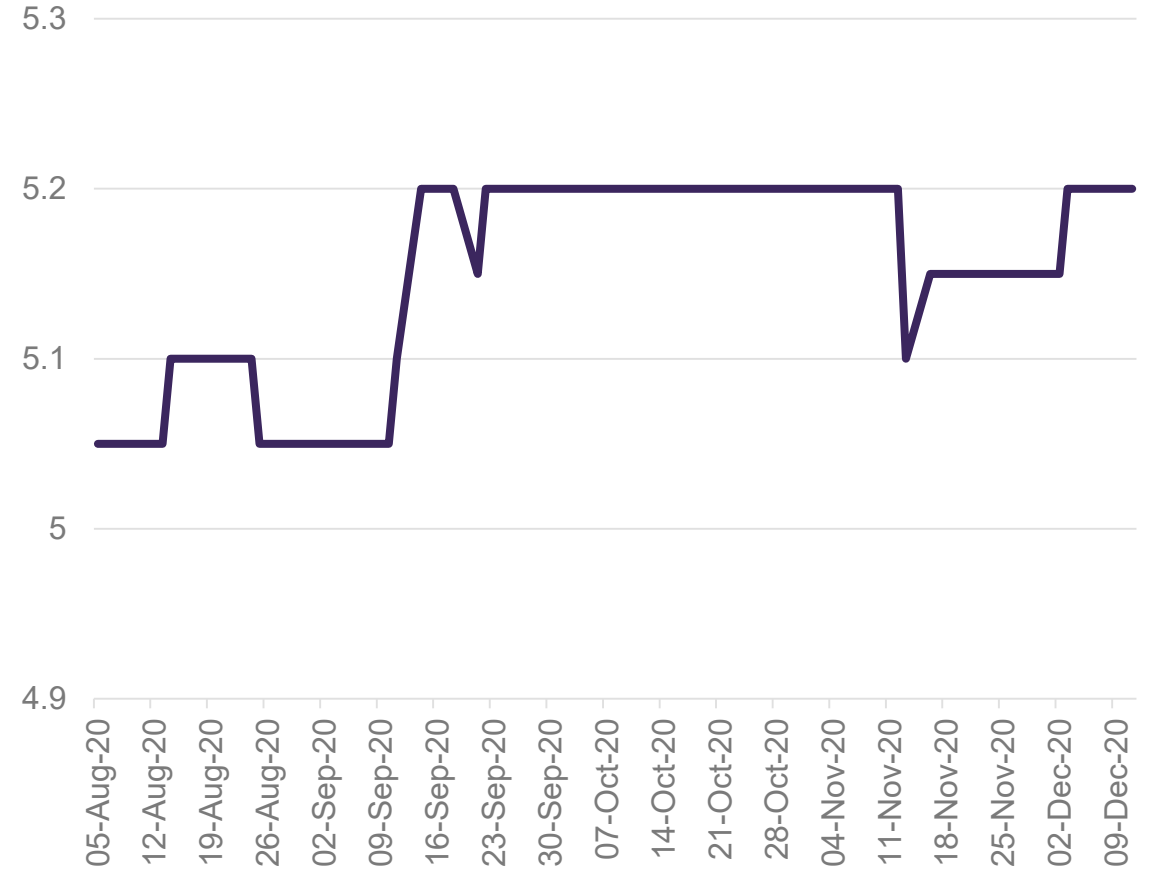
Count Of Select Economies With PMI Above Or Below 50 Level



Source: Bloomberg, Fitch Solutions

Estimate For 2021 Global Growth Strengthening

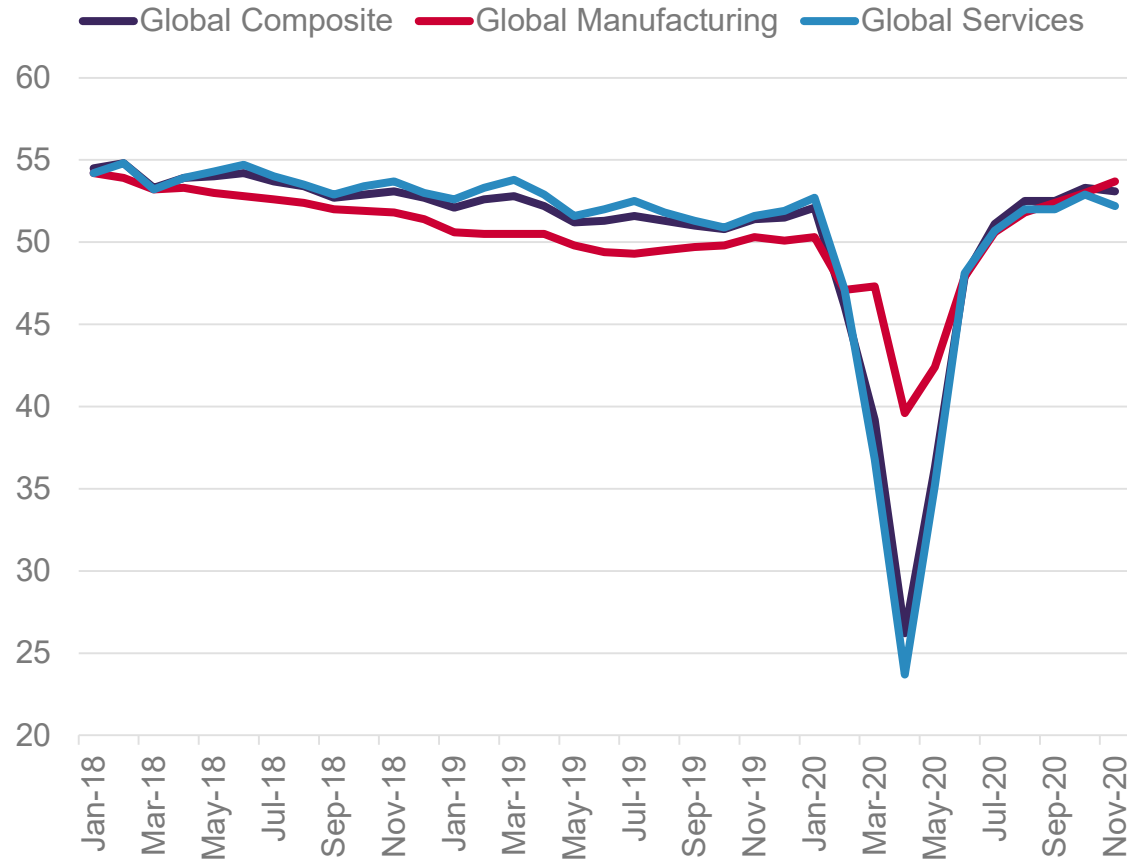
Consensus Real GDP Growth Forecast, %



Source: Bloomberg, Fitch Solutions

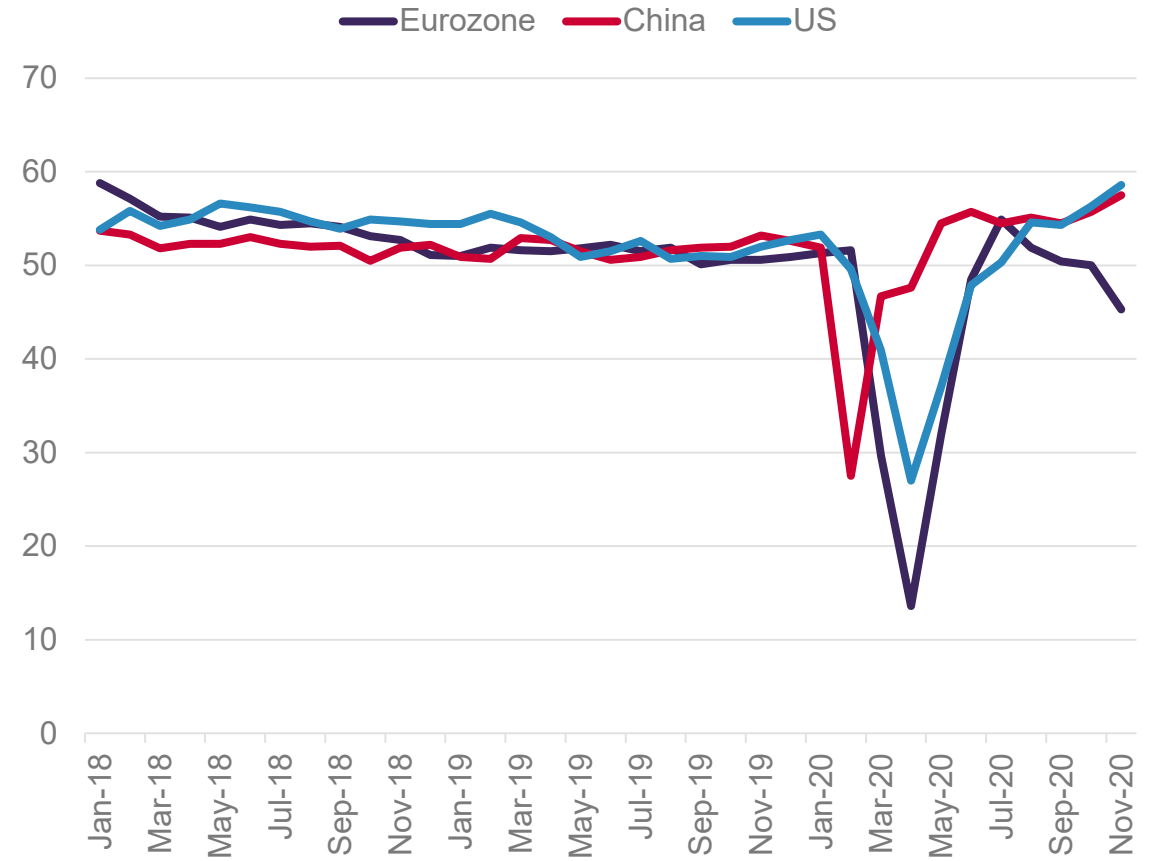
PMIs Showing A Recovery, But Also A Growing Divergence

Composite PMIs Showing Still Positive Momentum
Index



Source: JP Morgan Bloomberg, Fitch Solutions

Clear Divergence Between China/US And Eurozone PMIs
Composite Index

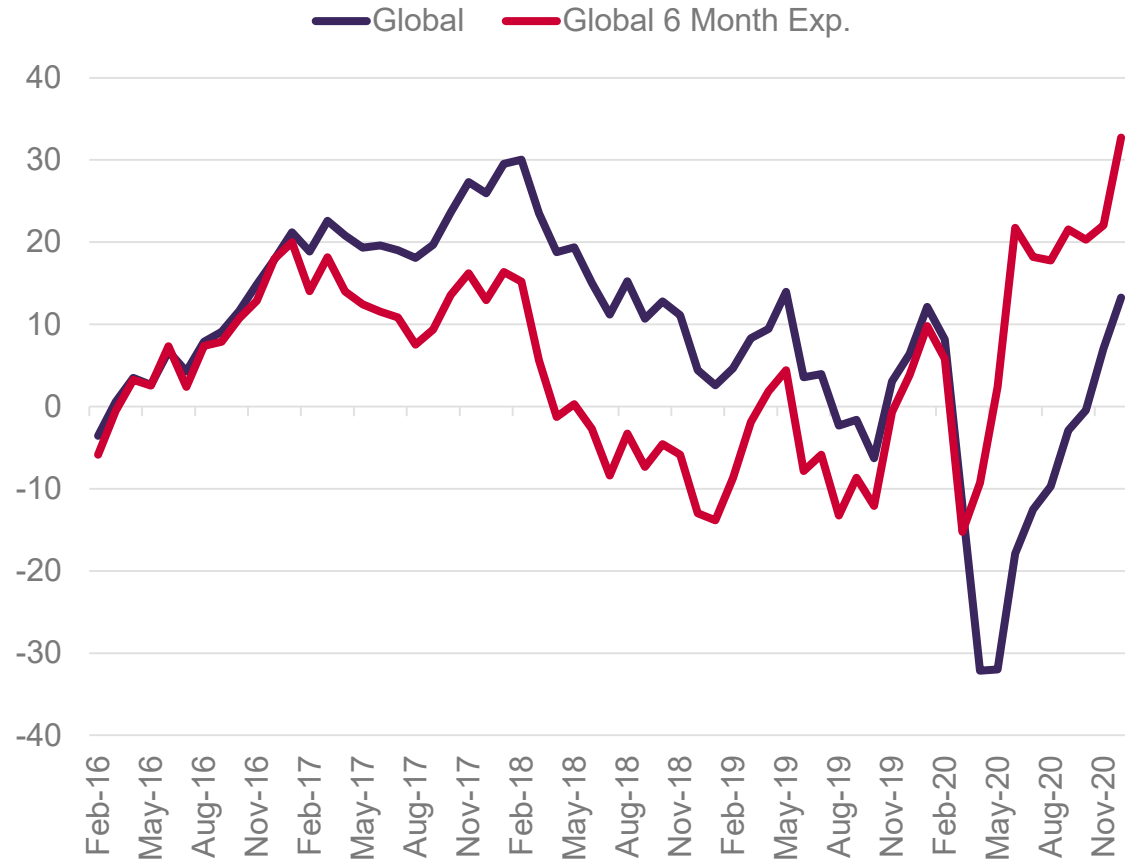


Source: Bloomberg, Fitch Solutions

Sentiment Remains Strong, Which Is Positive

Sentix Global Sentiment Index Pushing Higher

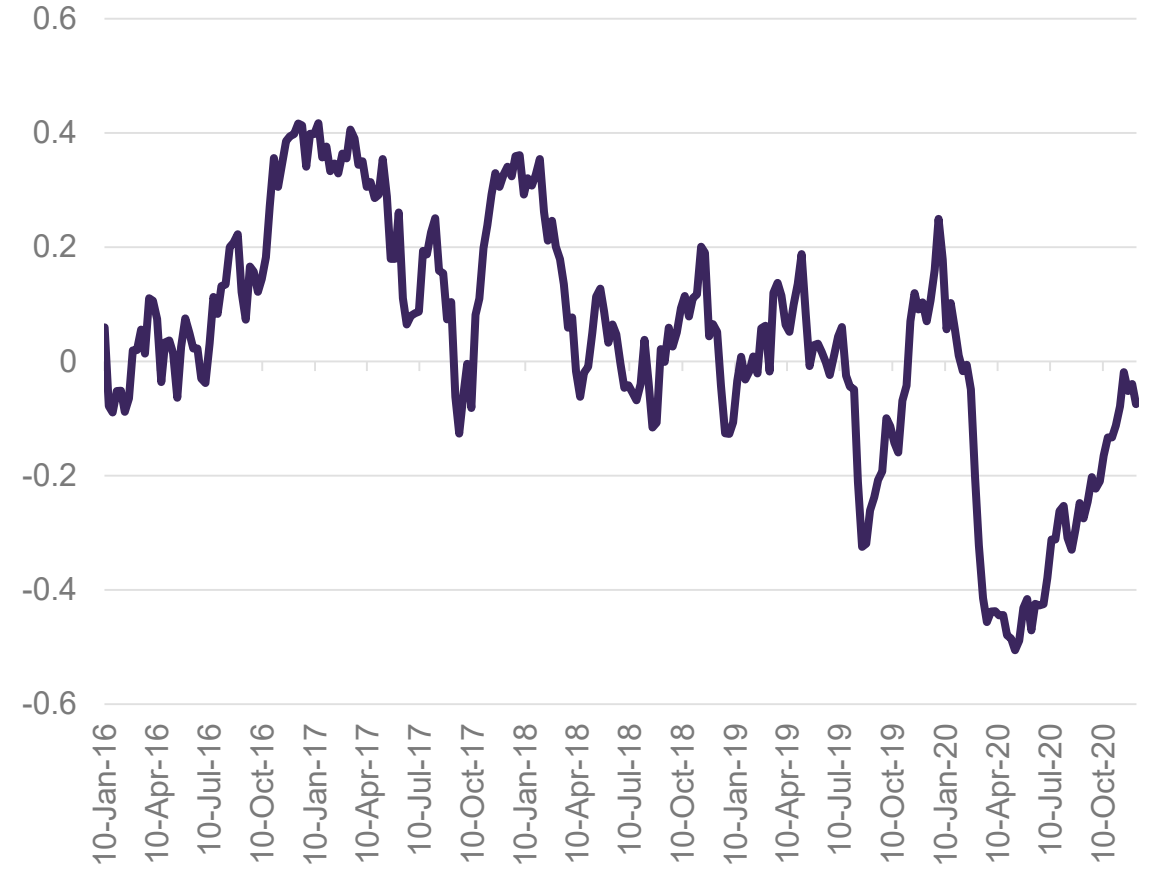
Index



Source: Sentix, Bloomberg, Fitch Solutions

San Francisco Fed News Sentiment Index Also Positive

Index

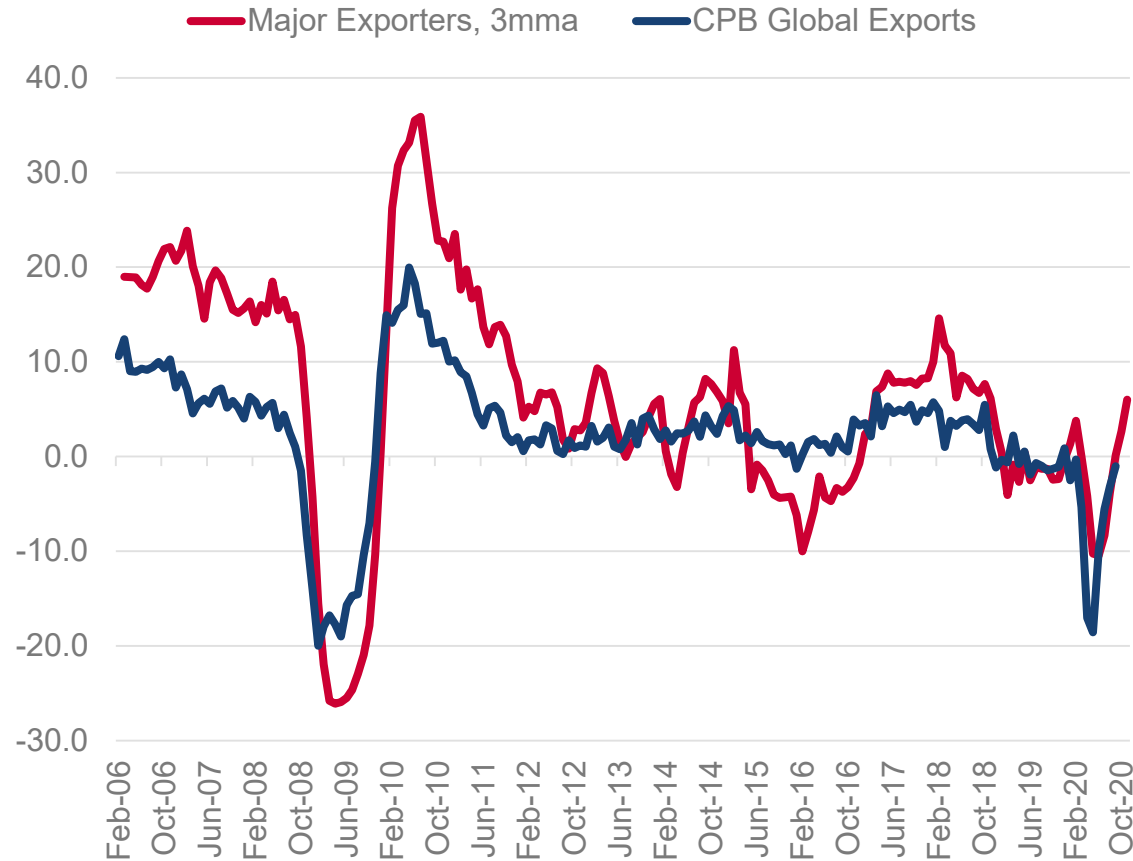


Source: SFF, Bloomberg, Fitch Solutions

Global Exports Already Recovering And New Orders Point To Strength

Majors* Show Strong Recovery In Export Growth

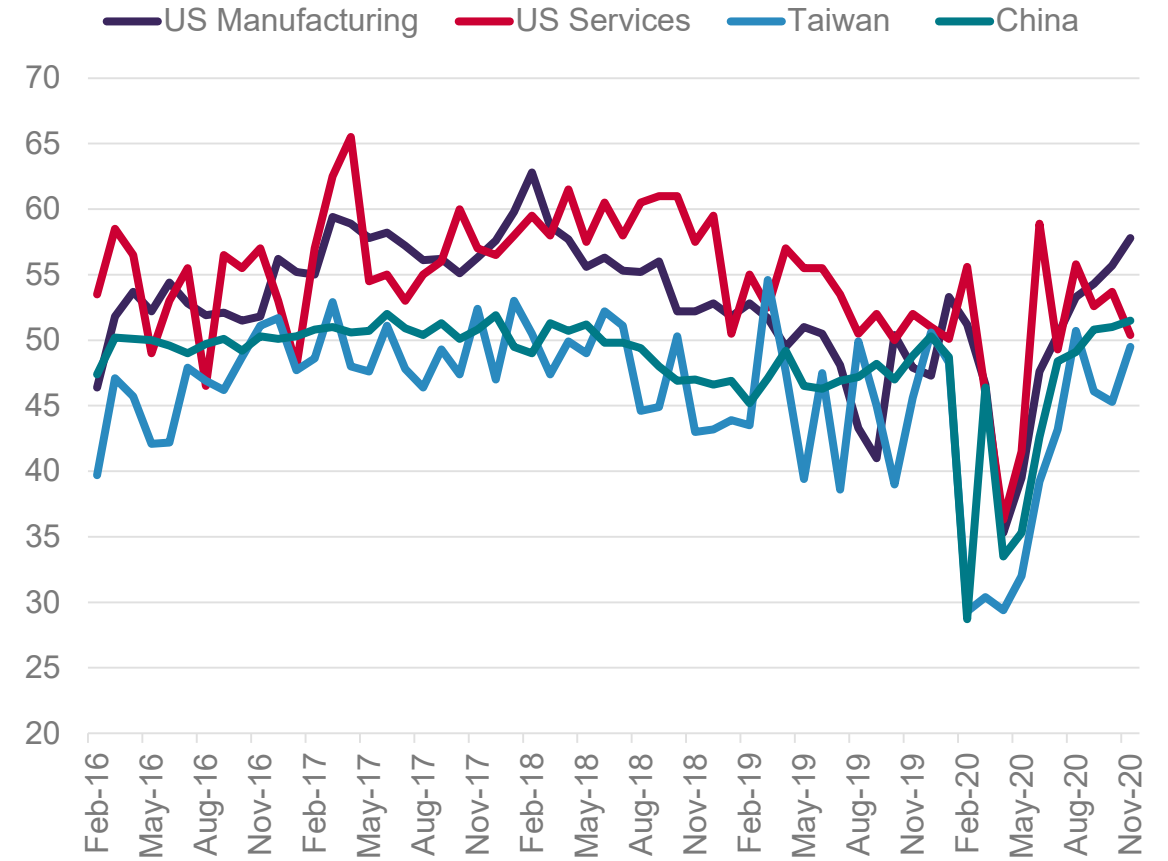
% y-o-y



*Weighted average export growth. Source: CPB, Bloomberg, Fitch Solutions

New Export Orders Point To Further Strength In Trade

PMI Sub-Components, Index

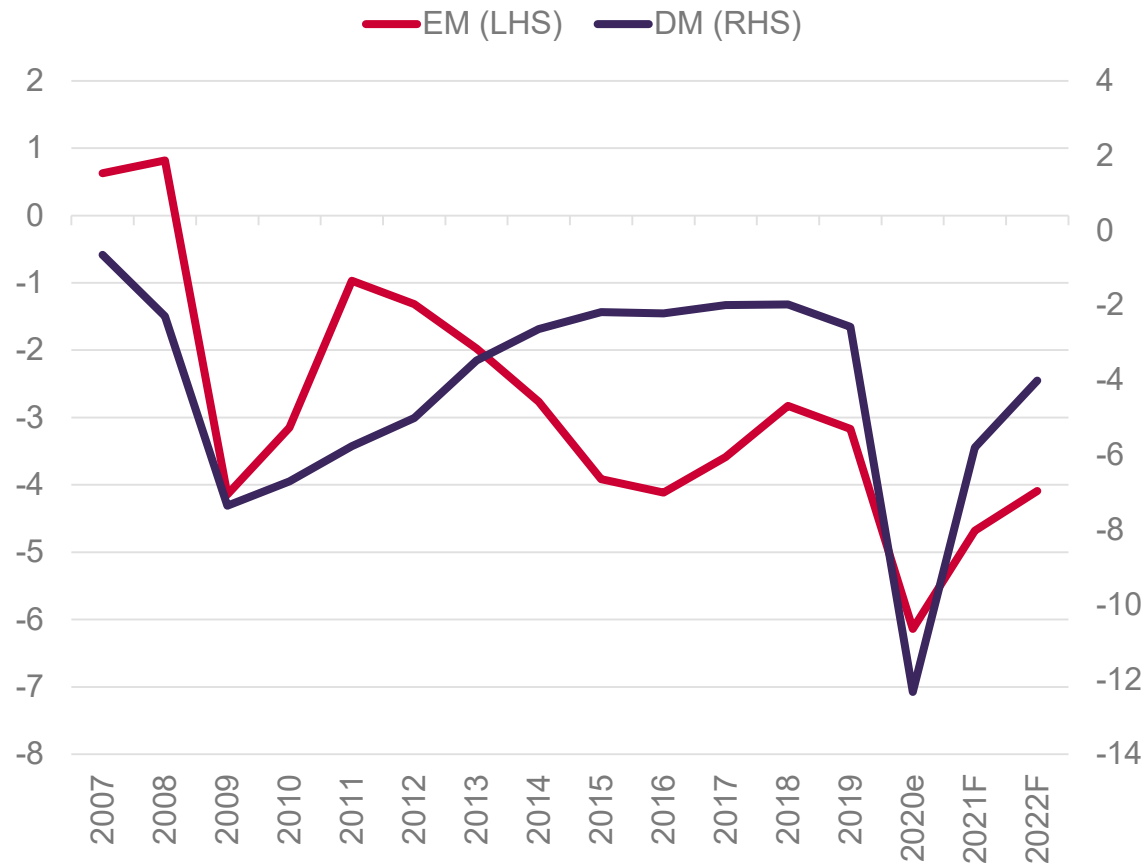


Source: Bloomberg, Fitch Solutions

Despite Narrowing Fiscal Deficits, Spending Will Remain High

Fiscal Deficits Will Narrow, But Remain Wide Vs 2019

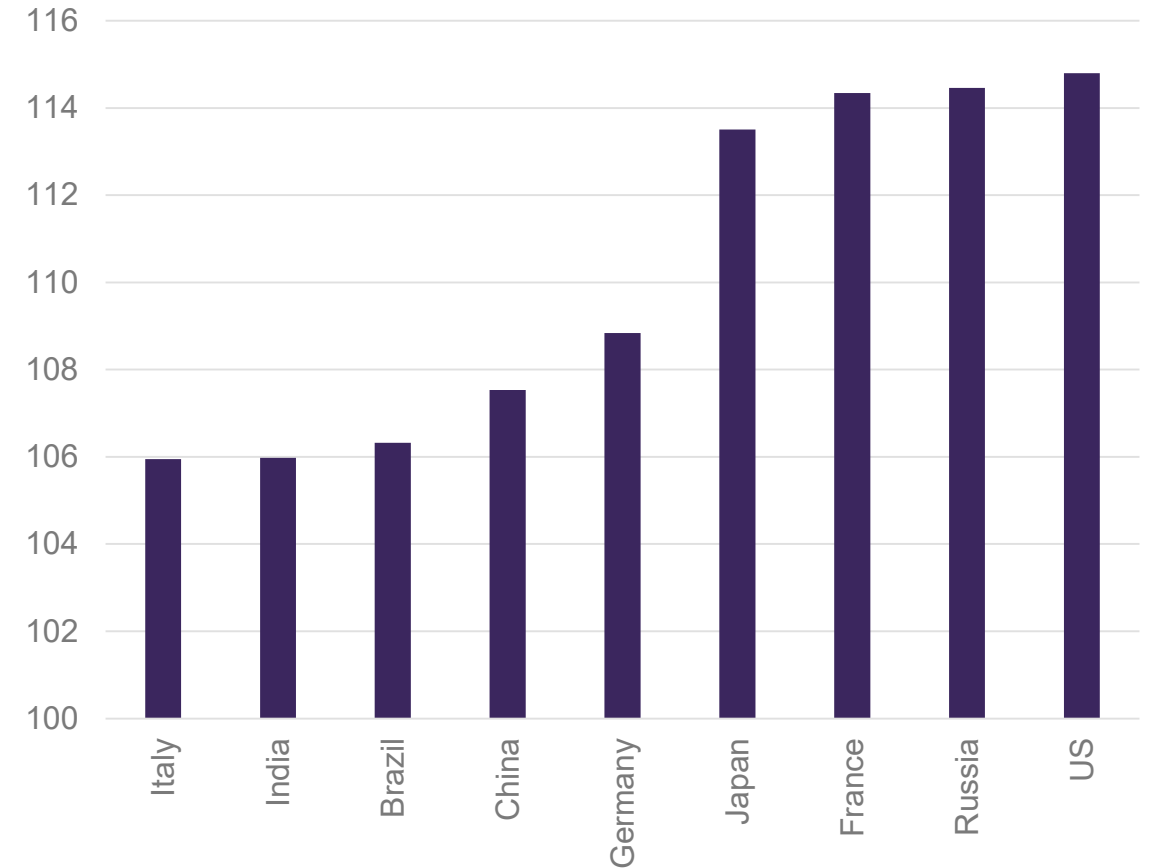
Budget Balance*, % of GDP



*Weighted average. e/F = Fitch Solutions estimate/forecast. Source: Fitch Solutions

High Levels Of Public Spending Relative To 2019 Levels

Rebased To End Of 2019 = 100

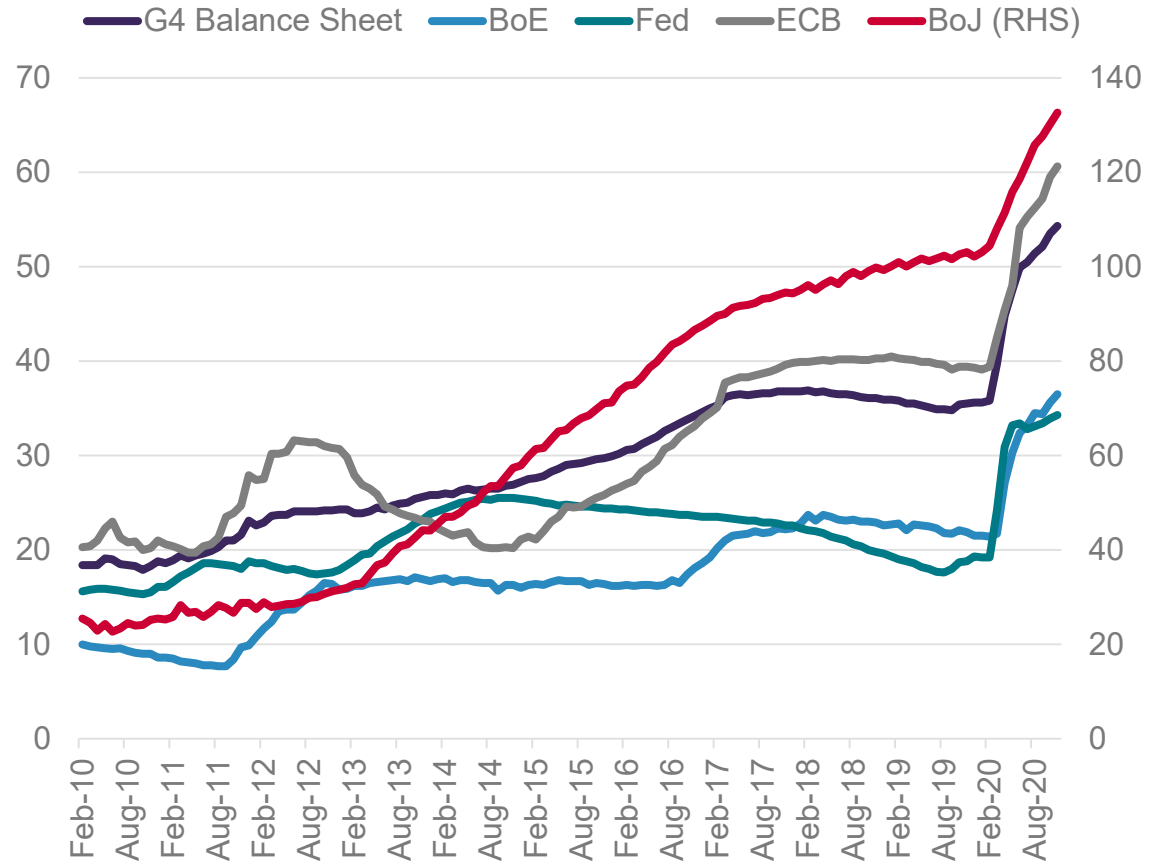


Source: Fitch Solutions

Monetary Policy Will Remain Dovish

Central Bank Balance Sheets Continue To Rise

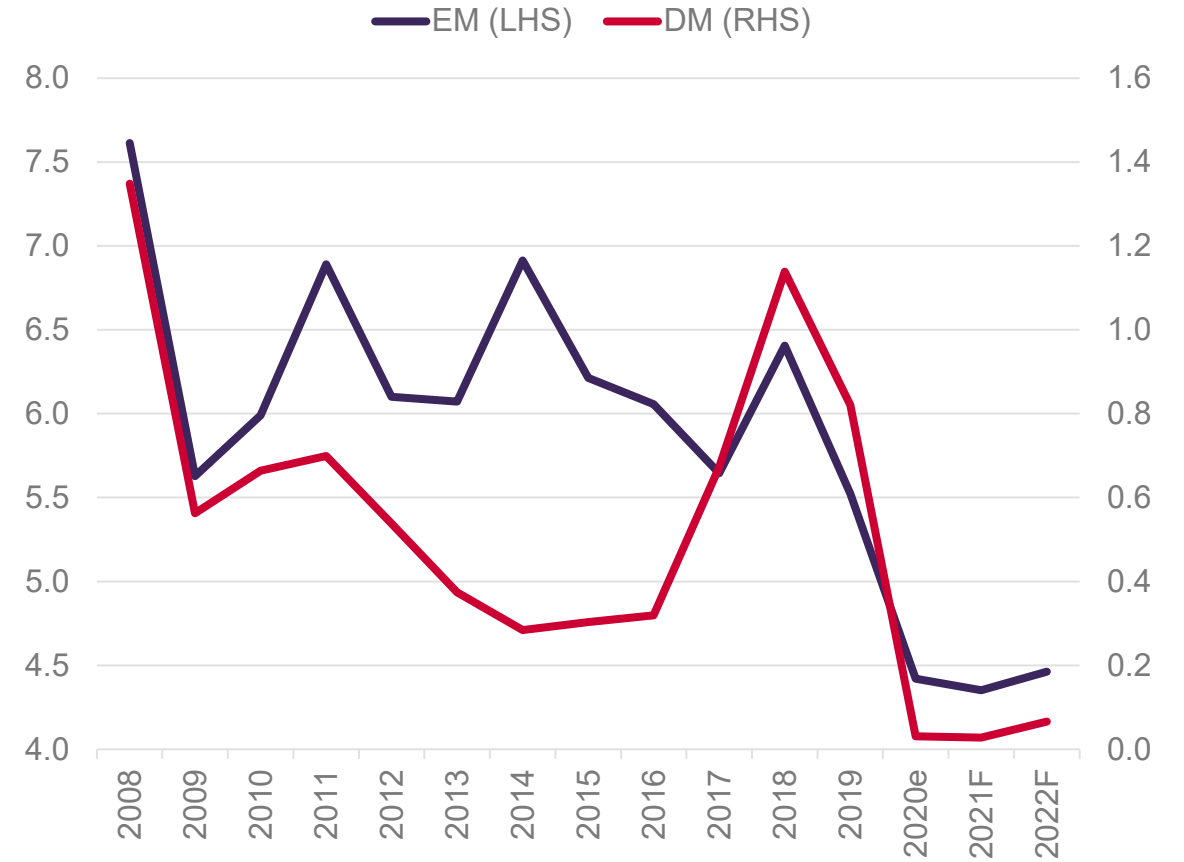
% of GDP



Source: Fitch Solutions

Central Banks Will Keep Interest Rates Low

*Benchmark Policy Interest Rate, %

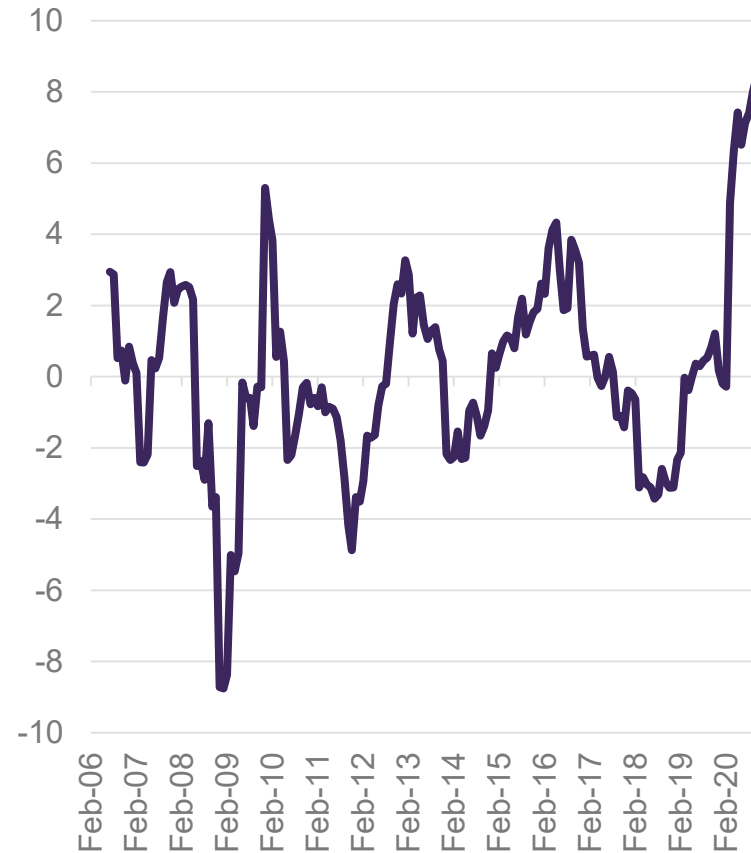


*Weighted average. e/F = Fitch Solutions estimate/forecast Source: Fitch Solutions

Monetary And Credit Conditions Remain Loose

Credit Impulse* Remains Strong

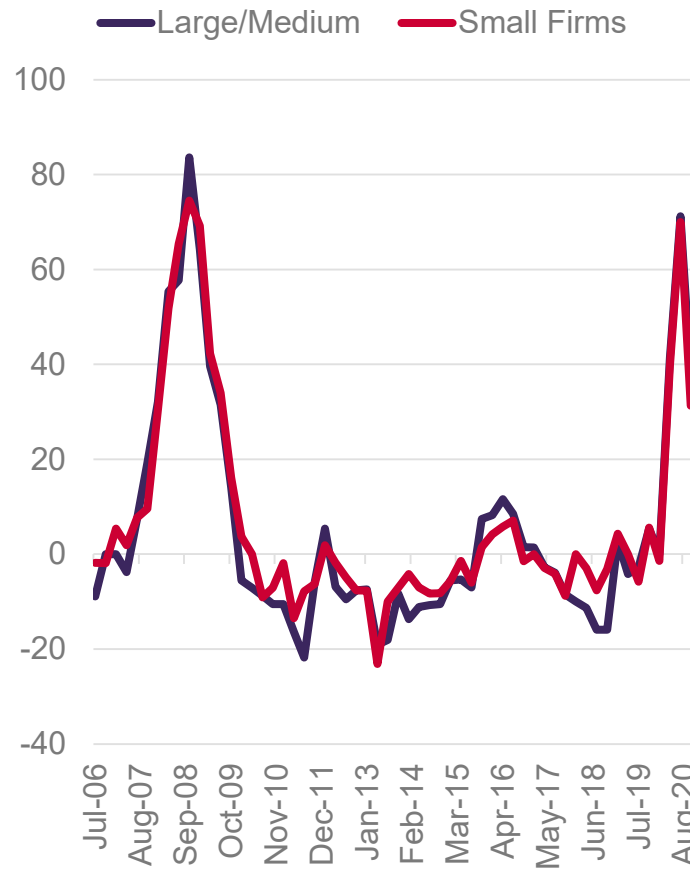
% y-o-y



*Equal weighted index for US, China and eurozone.
Source: Bloomberg, Fitch Solutions

Less Tight Standards At US Banks

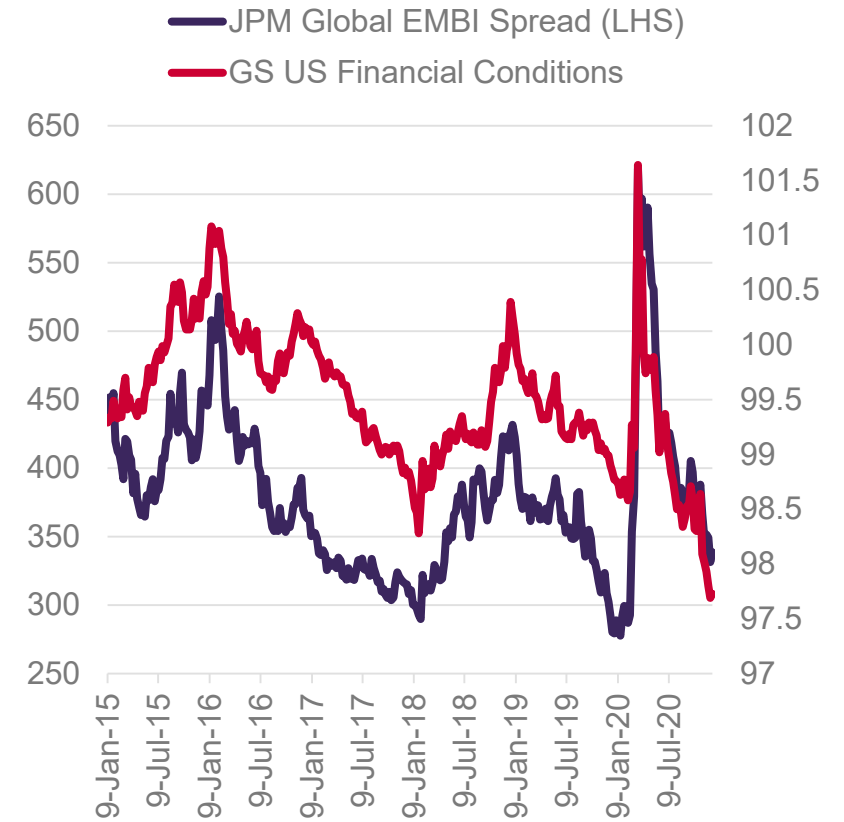
Tightening Standards* For C&I Loans By Firm Type



*By Net Percentage of Domestic Banks. Source: US Federal Reserve, Bloomberg, Fitch Solutions

Credit Markets Point To Easy Conditions

Bps, Index



Source: Bloomberg, Fitch Solutions

Earnings Starting To Improve, But Still Negative Compared With 2019

Small Caps Earnings Coming Back Very Quickly

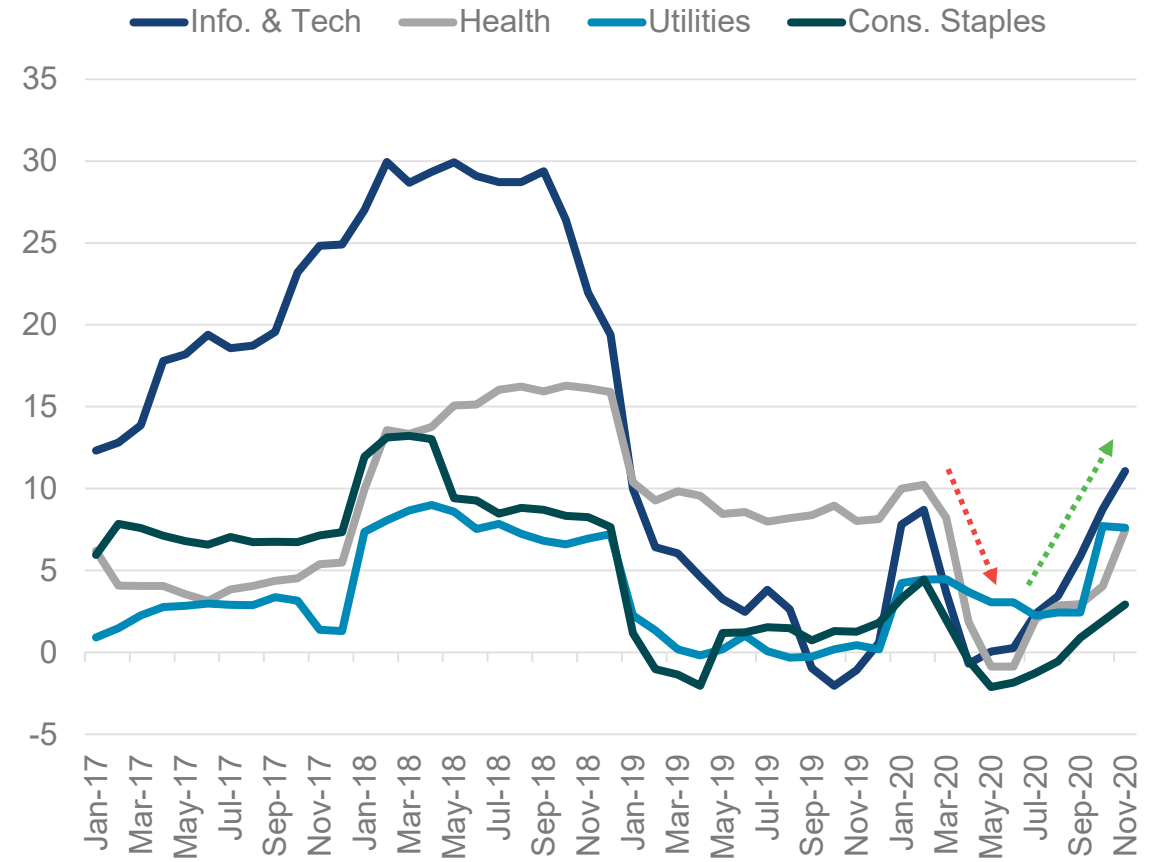
Earnings Per Share Growth, %



Source: Bloomberg, Fitch Solutions

Some Sectors Already Seeing Growth

Earnings Per Share Growth, %

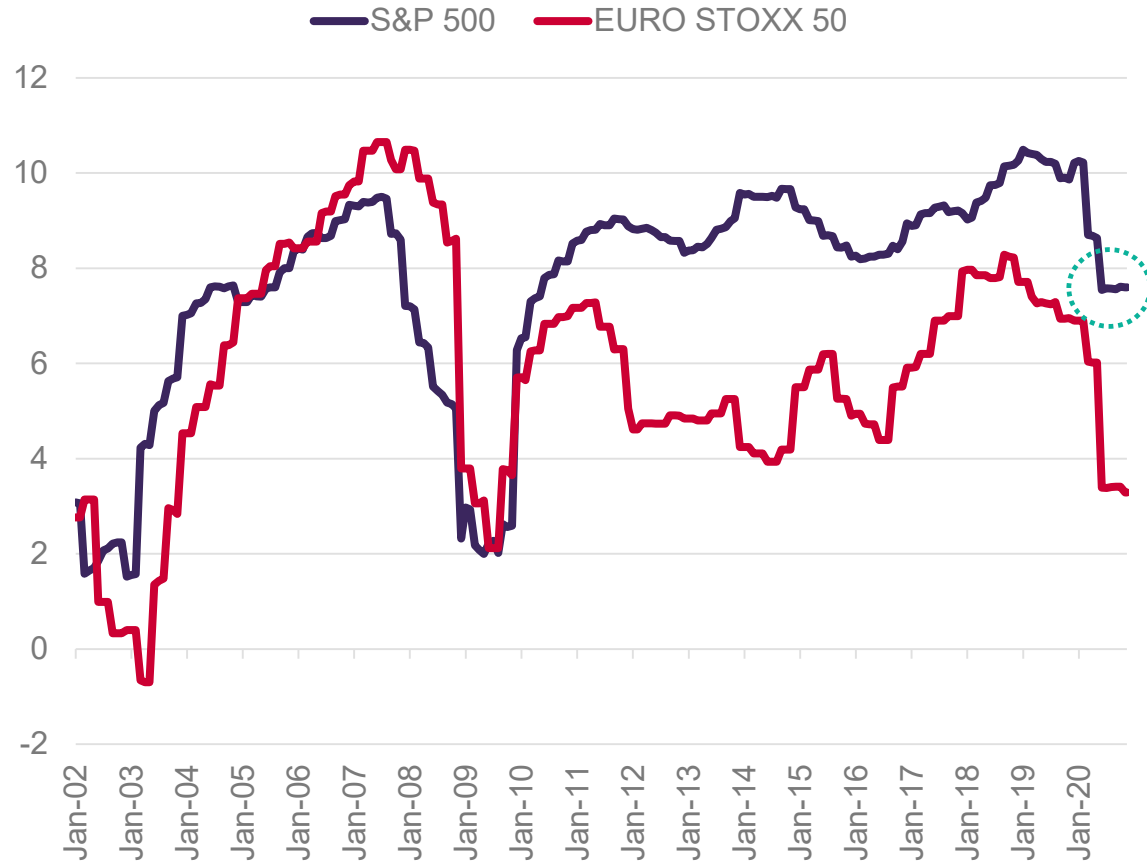


Source: Bloomberg, Fitch Solutions

Corporate Profitability Starting To Return

Profit Margins Have Held Up And Could Yet Rise

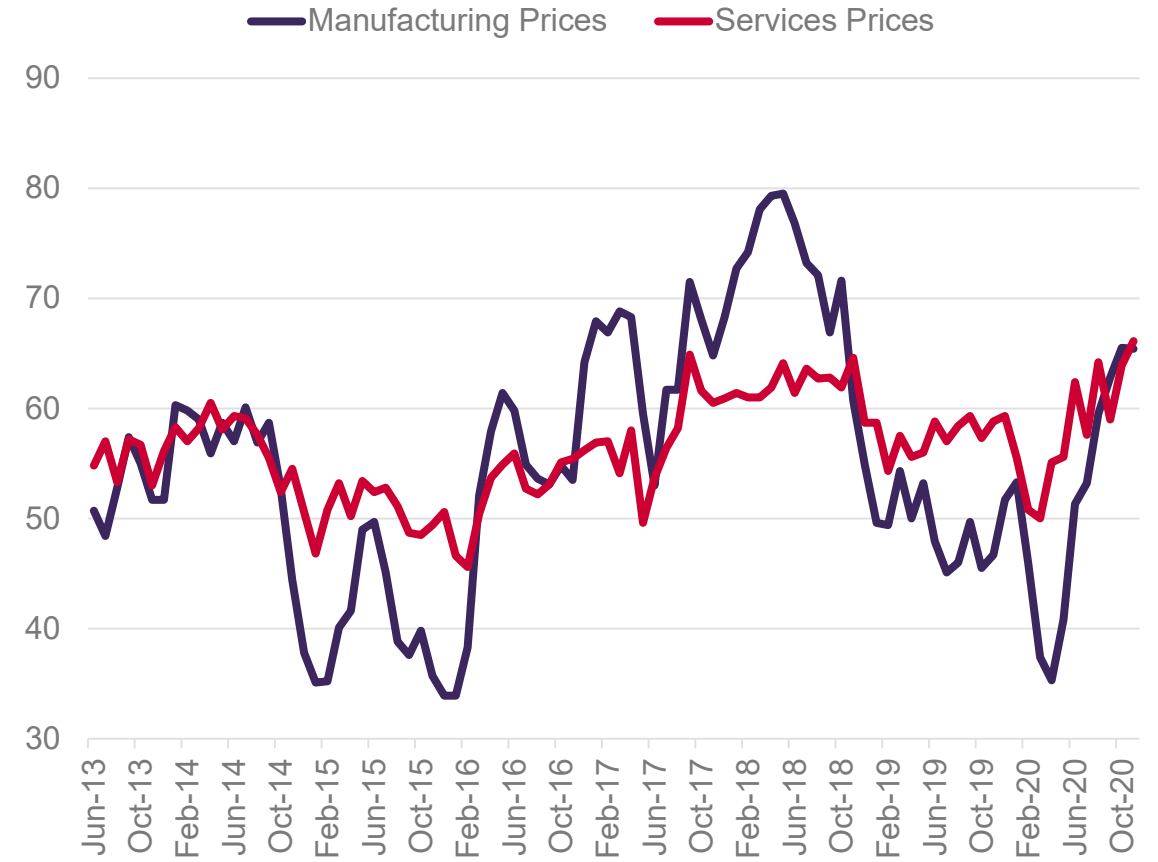
Trailing Profit Margin, %



Source: Bloomberg, Fitch Solutions

Companies Seem To Be Regaining Pricing Power

ISM PMI Subcomponent

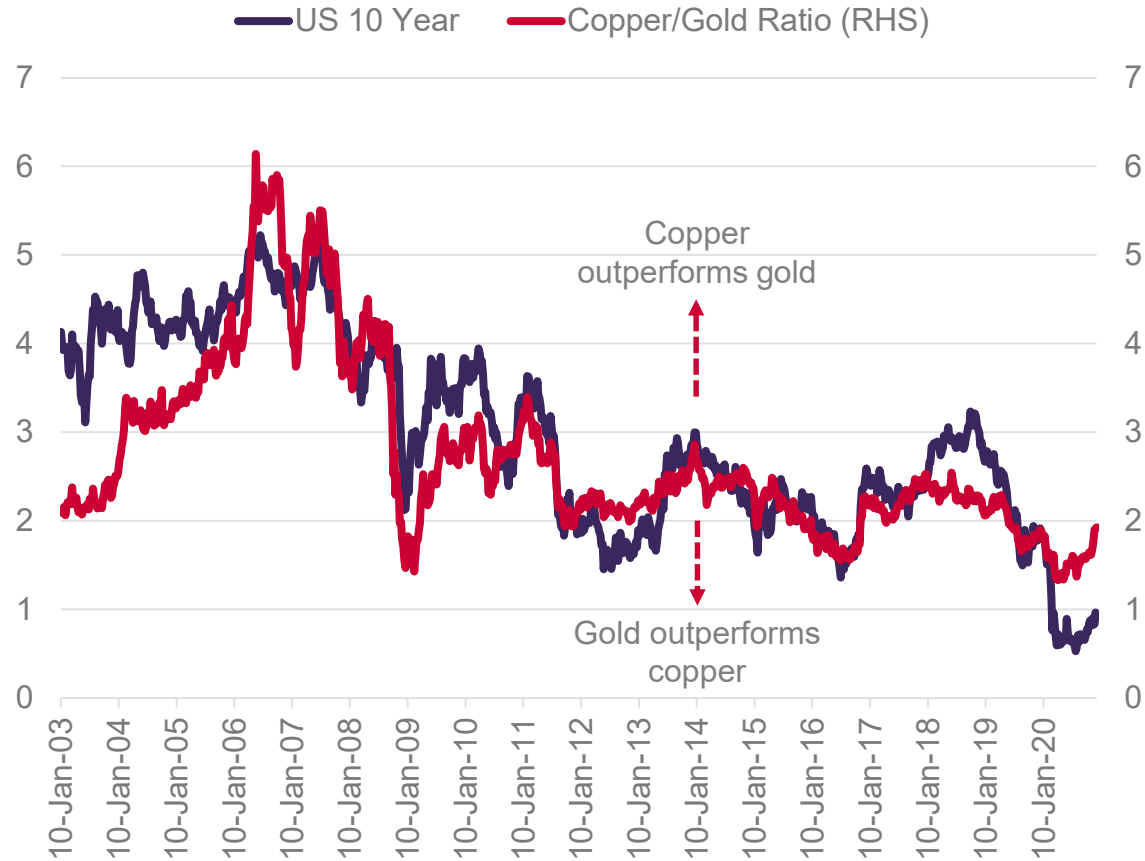


Source: ISM, Bloomberg, Fitch Solutions

Financial Markets Pricing In A Stronger Recovery

Copper/Gold Ratio Points To Higher Bond Yields

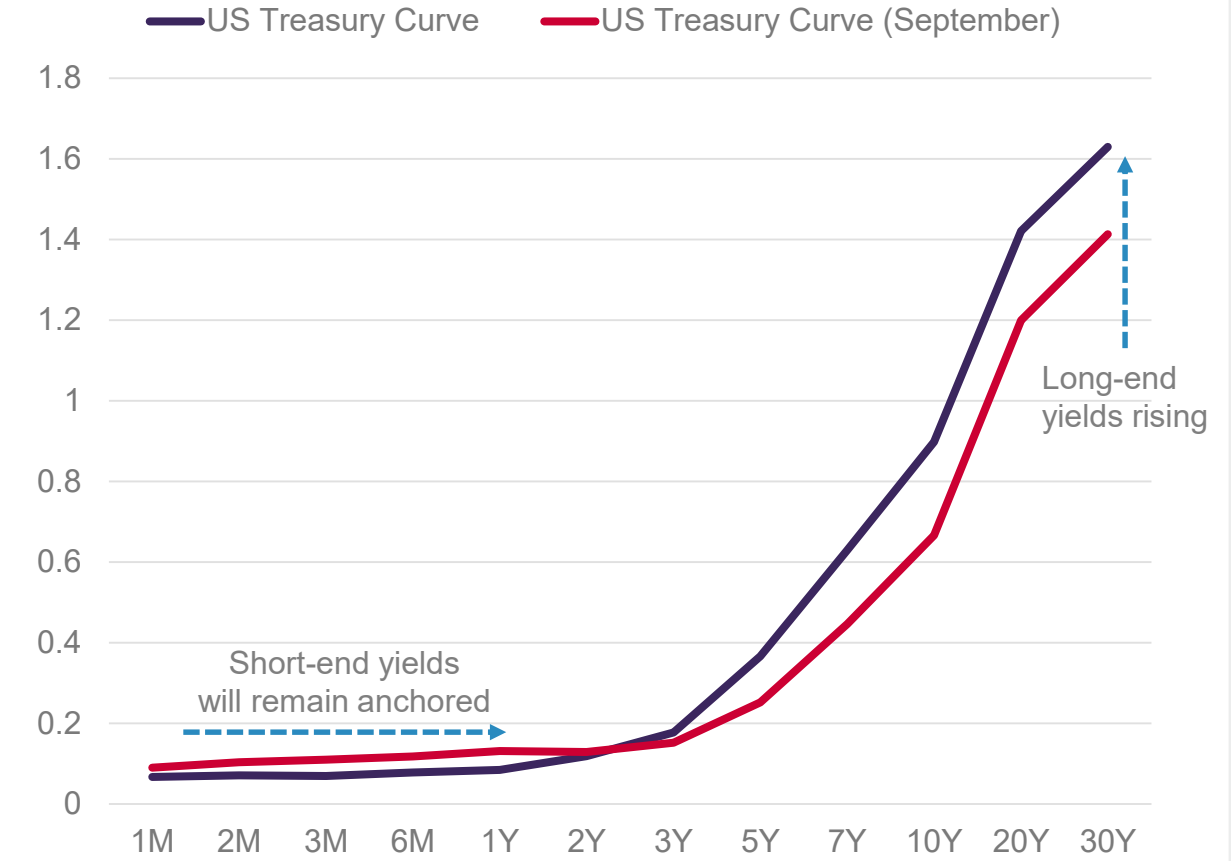
US 10-Year Bond (%) & Ratio Of Copper To Gold



Source: Bloomberg, Fitch Solutions

Steepening US Yield Curves Are Typically Bullish

%



Source: Bloomberg, Fitch Solutions

Analysis Points To Broad Global Sectoral Recovery

Assessment of Sector Performance In 2020 & 2021

Sector	Covid-19 Impact On 2020	2021 Outlook	Output Recovery vs 2019 Levels
Oil & Gas	Very Negative	Moderate	Incomplete for some regions
Agribusiness	Neutral	Strong	Complete
Mining	Negative-To-Neutral	Strong	Complete
Infra, Power & Renewables	Negative	Moderate-To-Strong	Incomplete for some regions (SSA and LatAm)
Food & Drink	Neutral-To-Positive	Moderate	Complete (no real downturn in 2020)
Autos	Very Negative	Moderate-To-Strong	Incomplete
Consumer	Very Negative	Strong	Incomplete for non-essential spending (exception of China and the US, among others)
Pharma & Healthcare	Positive	Strong	Complete (no real downturn in 2020)

Source: Fitch Solutions

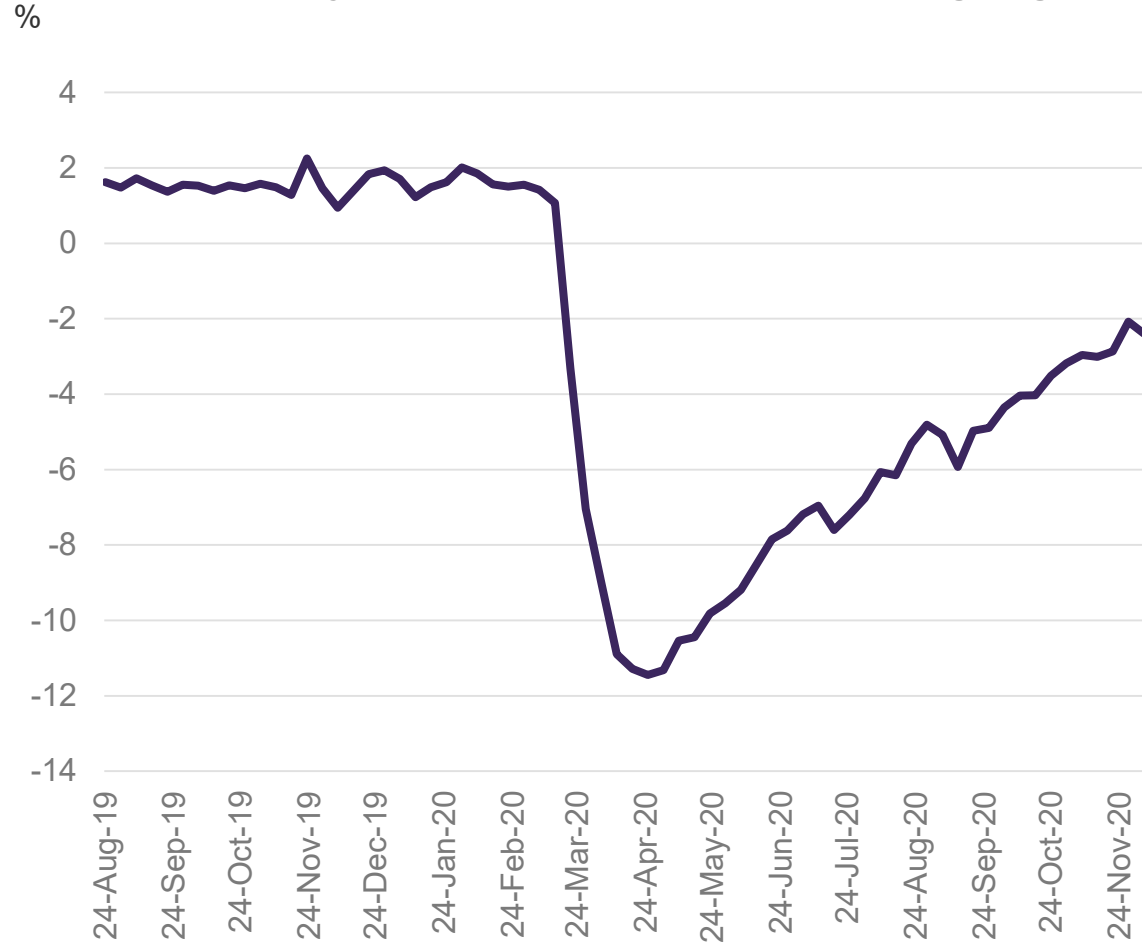


3

US & Chinese Strength, Eurozone Weakness

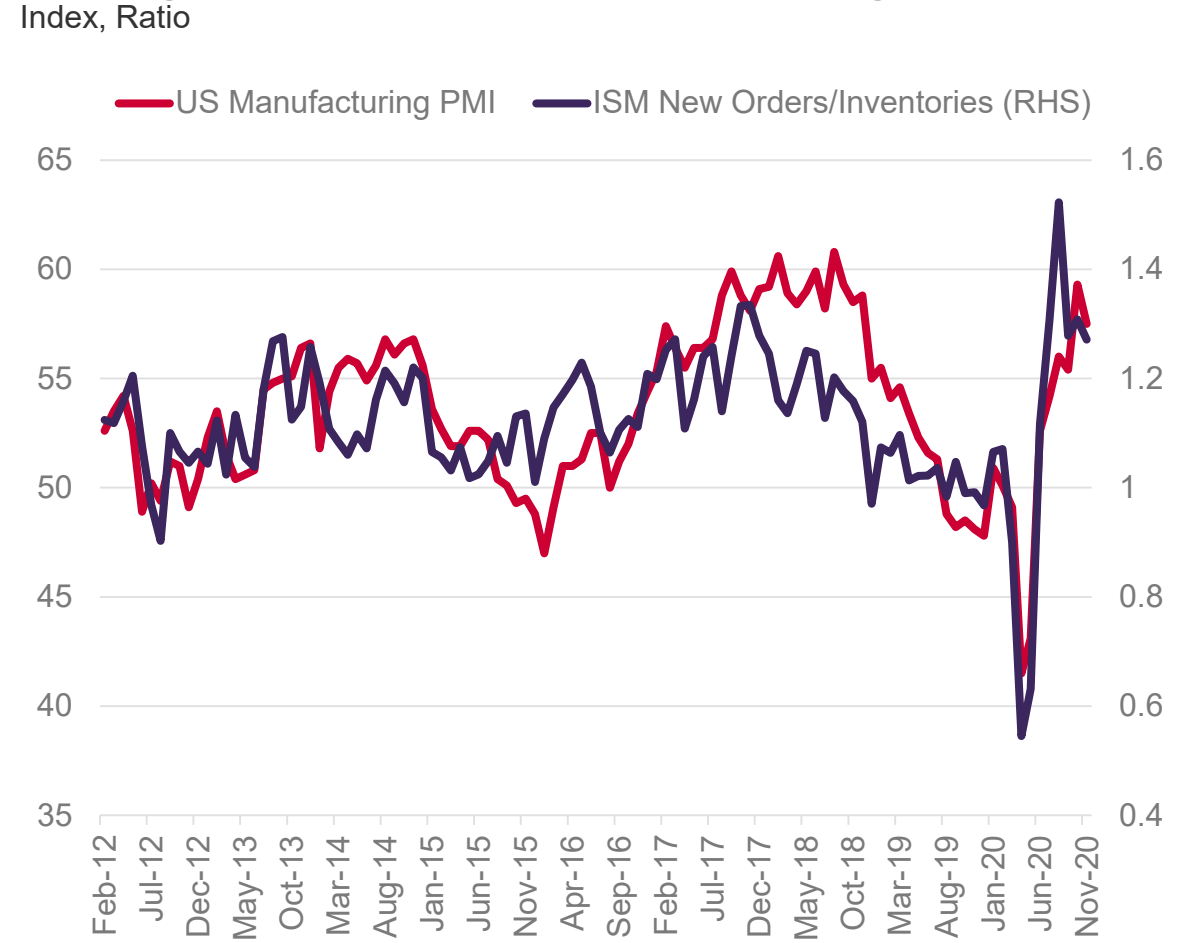
US Activity Has Remained Resilient Despite Third Wave

NY Fed's Weekly Economic Index Still Trending Higher



Source: Bloomberg, Fitch Solutions

Leading Indices Point To Continued Strength As Well

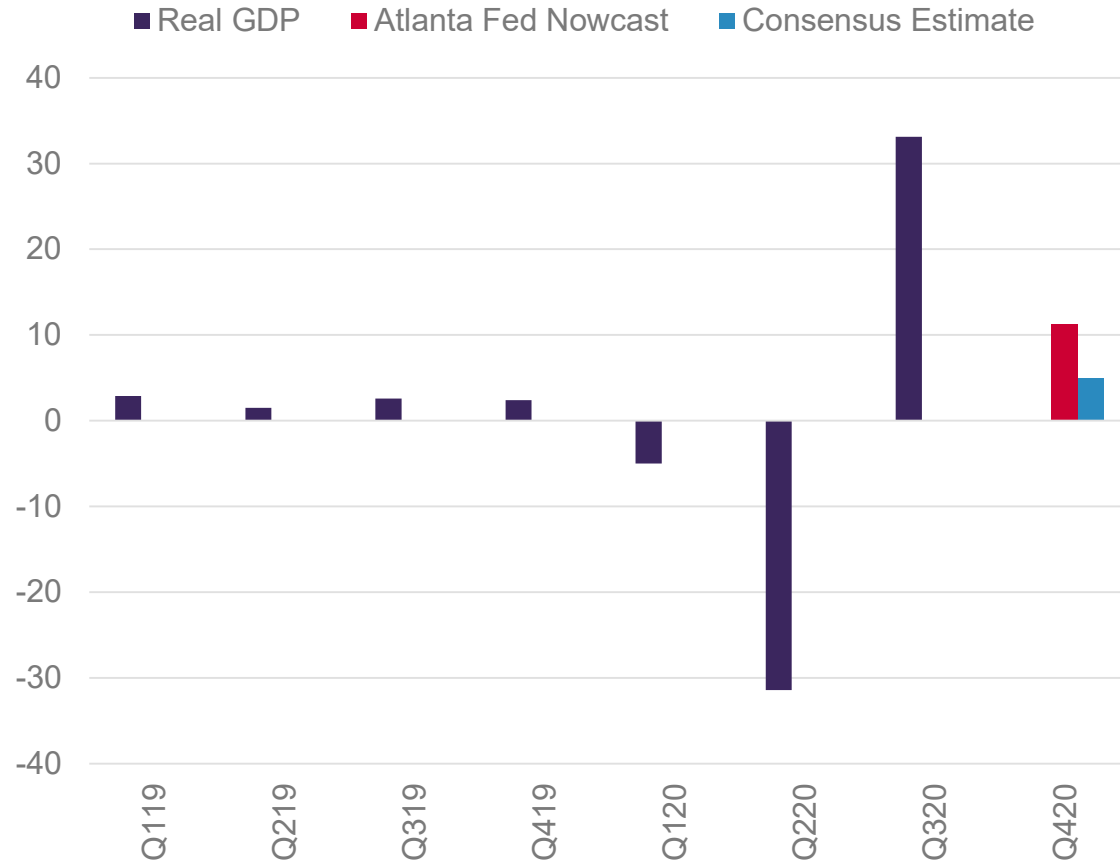


Source: Bloomberg, Fitch Solutions

US Economy Has Room To Rebound

GDP Estimates Point To Strong Growth In Q4

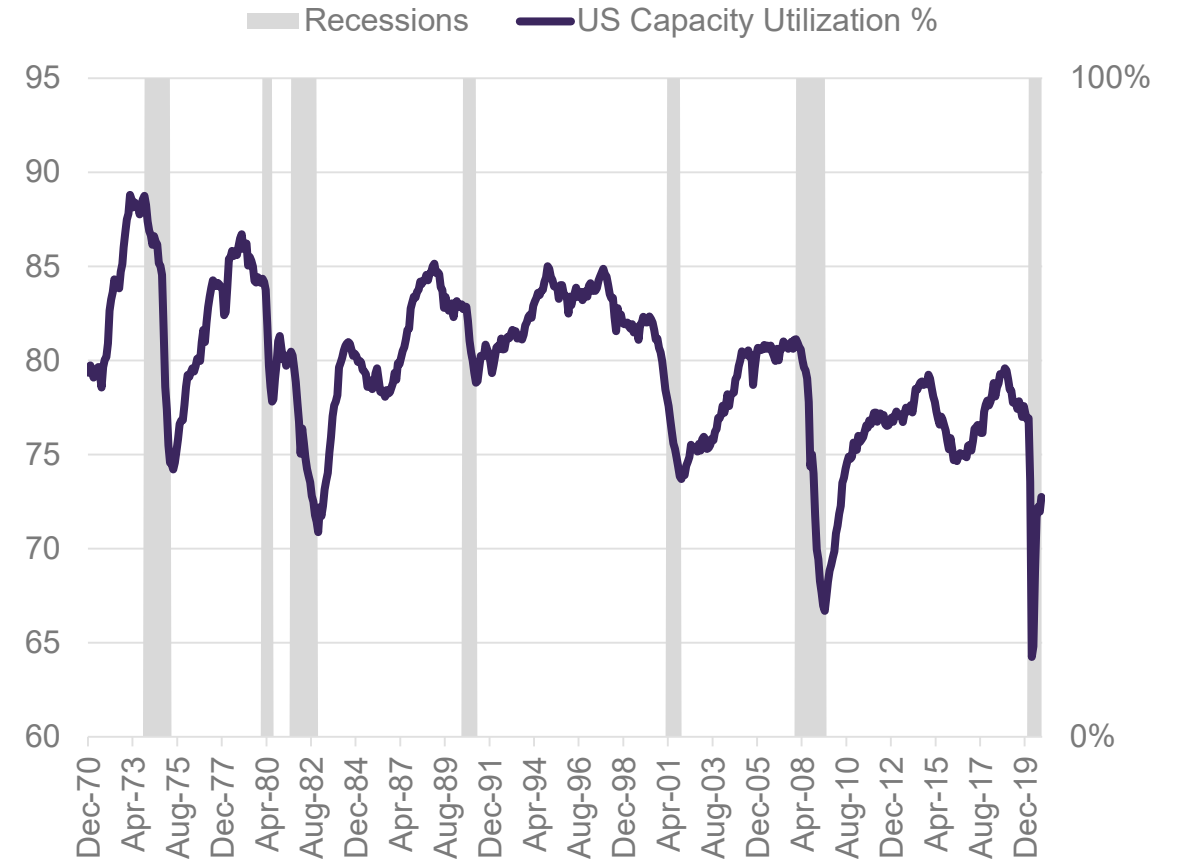
% q-o-q annualised



Source: Bloomberg, Fitch Solutions

Capacity Utilisation Suggests There Is Room To Run

%

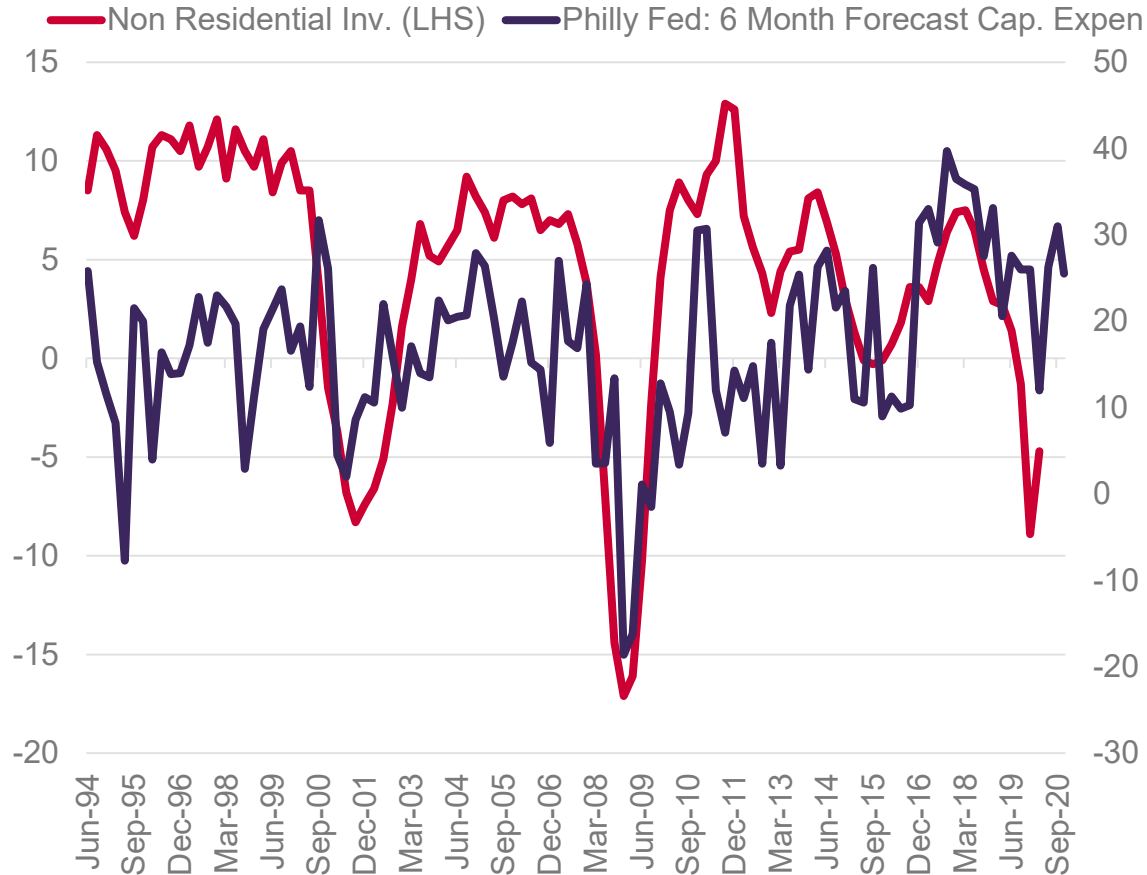


Source: Bloomberg, Fitch Solutions

US Capex Surveys & Low Interest Rates Will Support Investment

US Capex Surveys Point To A Rebound In Investment

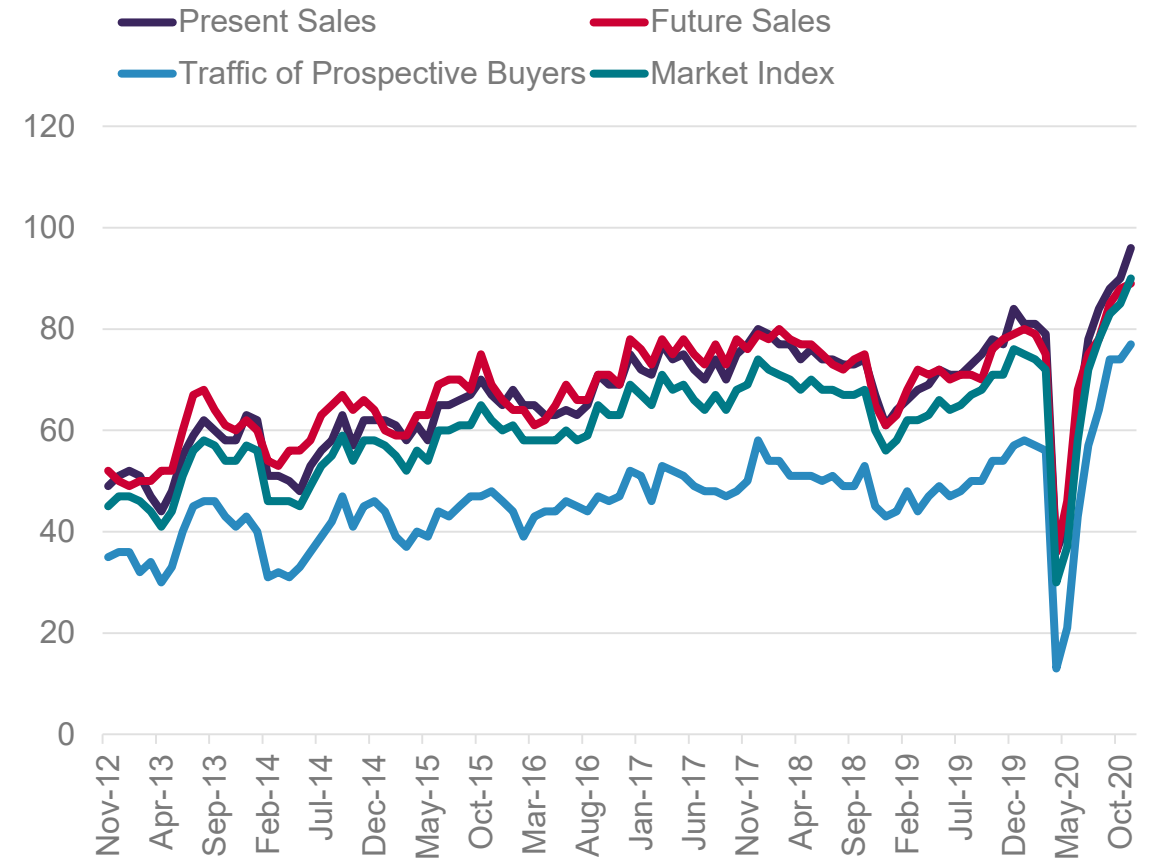
% chg y-o-y, Index



Source: Bloomberg, Fitch Solutions

Housing Market Goes From Strength To Strength

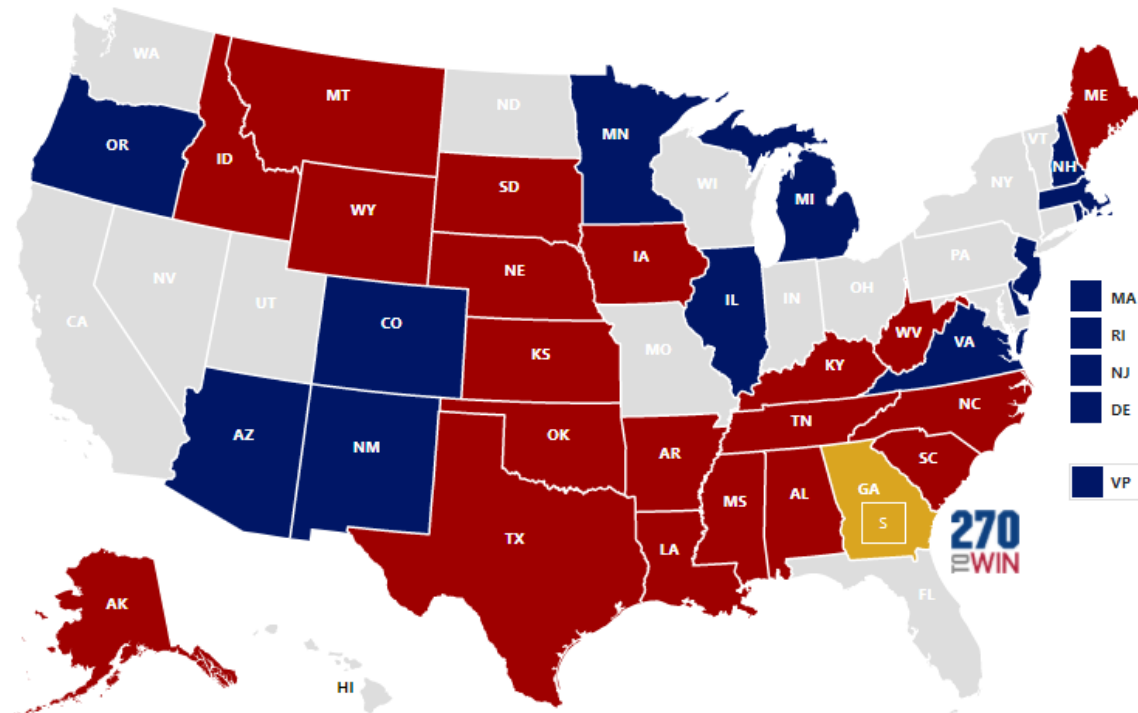
National Association Of Home Builders Indices



Source: Bloomberg, Fitch Solutions

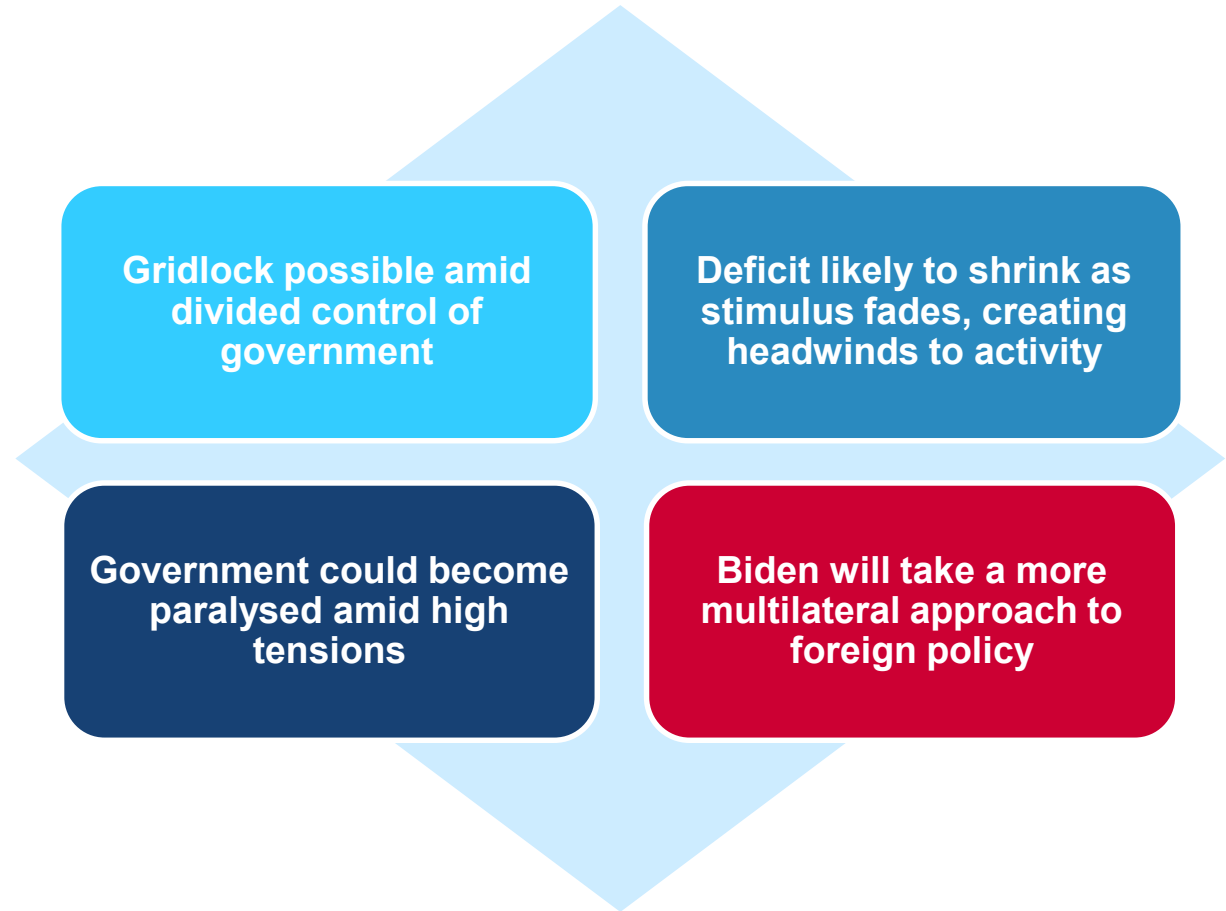
US May Face Policy Challenges Ahead

Georgia Will Help Determine The Balance Of The Senate Senate Races & Results



Source: 270 To Win

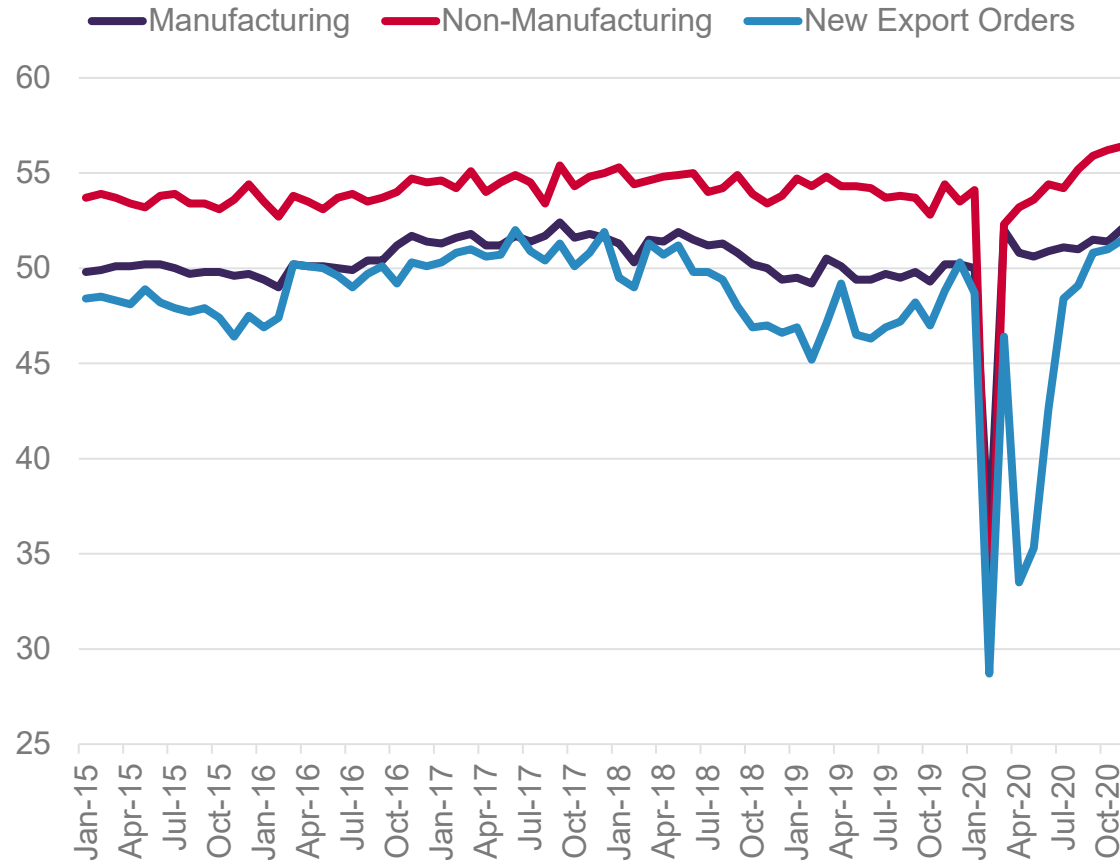
Potential For Policy Gridlock, But Improved Diplomacy



Source: Fitch Solutions

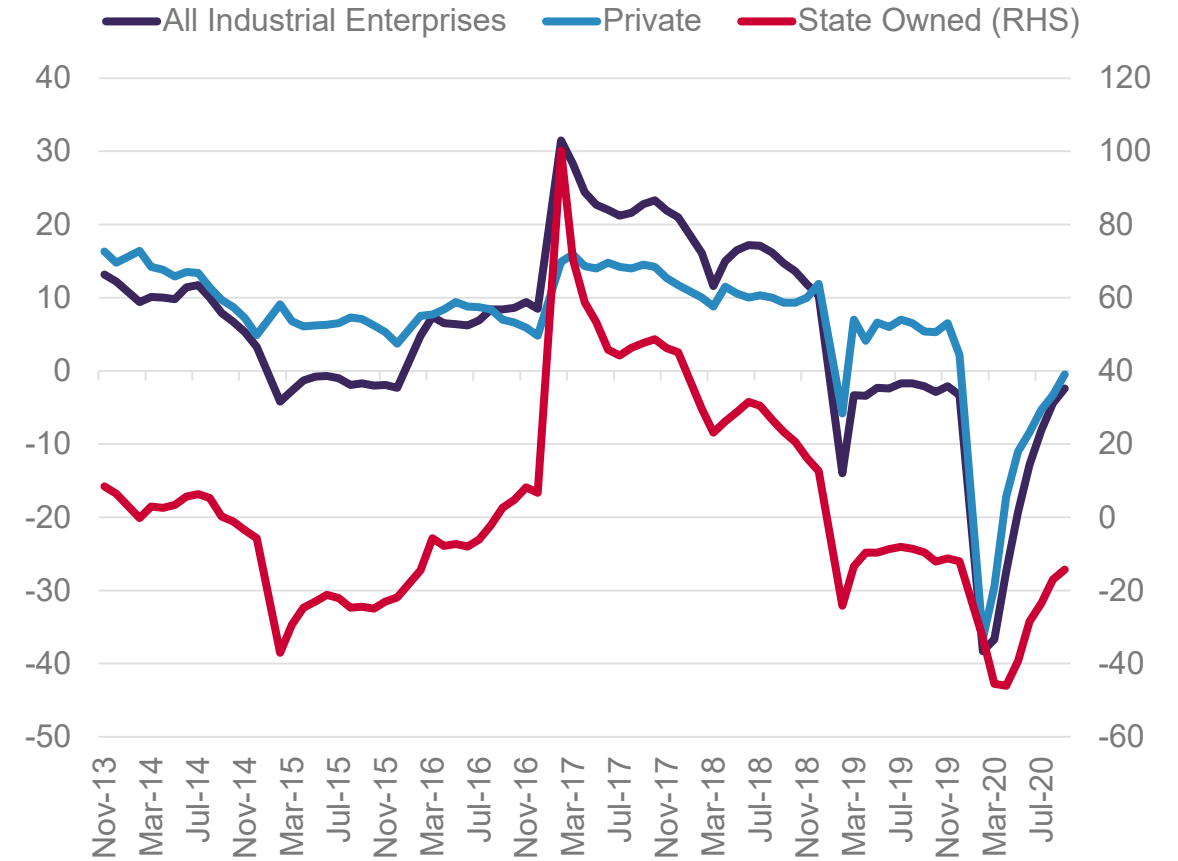
V-Shaped Recovery With Chinese Characteristics

Chinese Economy Back To Trend Growth As PMIs Rise
Index



Source: Bloomberg, Fitch Solutions

Industrial Profits Rebouncing, But SOEs Lag
Cumulative Growth, % y-o-y

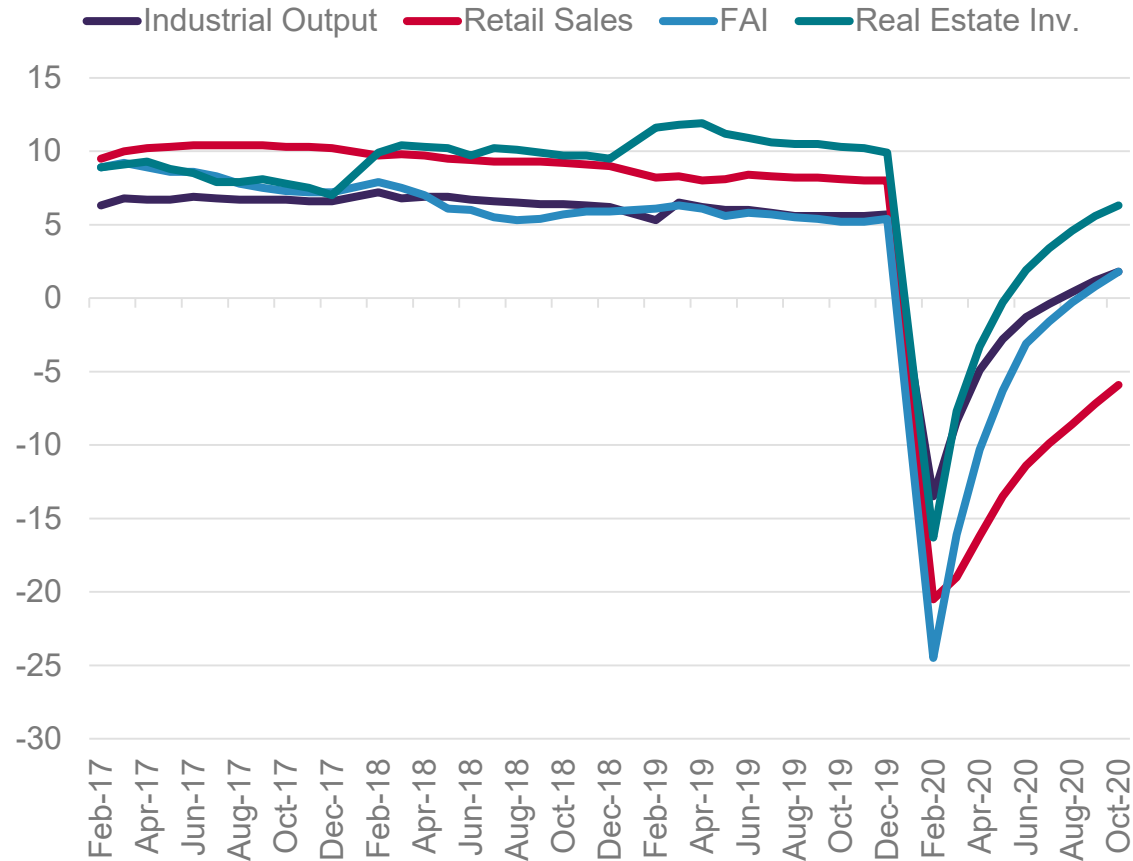


Source: Bloomberg, Fitch Solutions

Industrial & Real Estate Sectors Lead, Consumer Lags

Investment Leading, Retail Sales Still Lagging

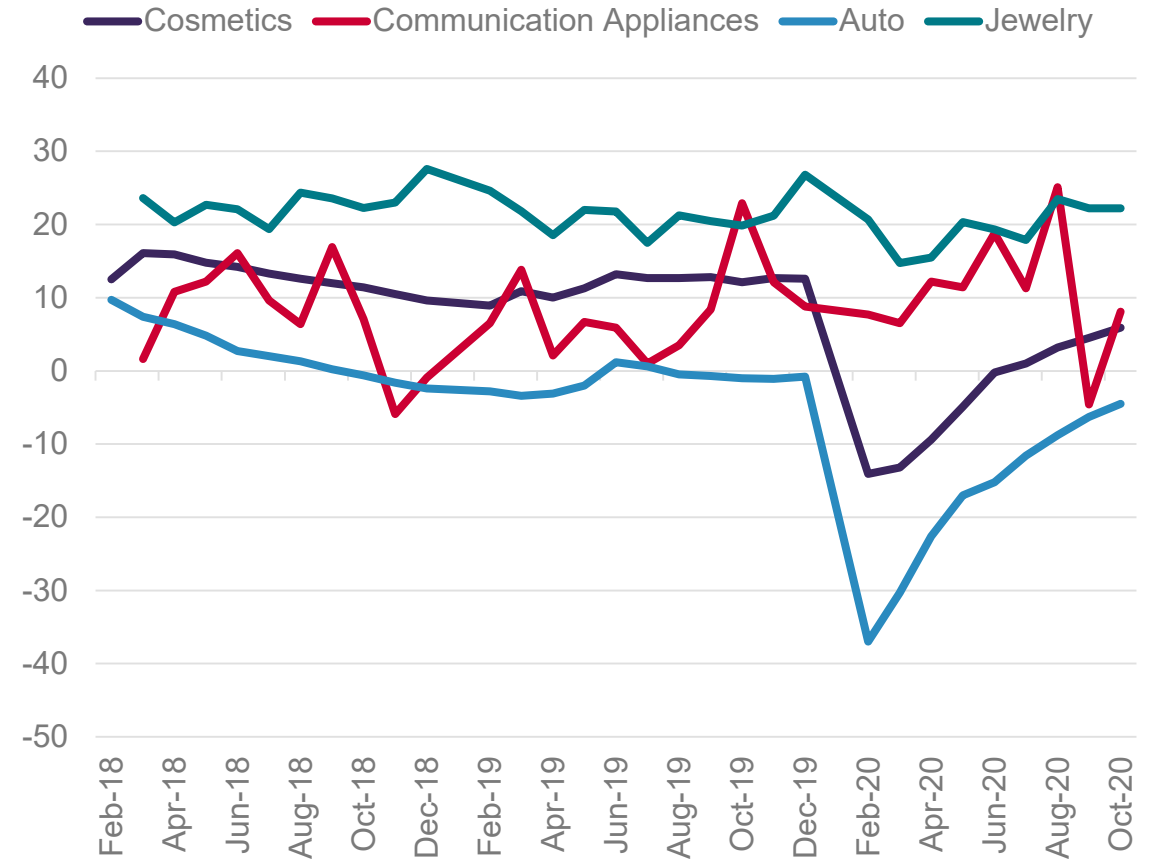
Cumulative Growth, % y-o-y



Source: Bloomberg, Fitch Solutions

Consumer Spending Still Patchy, But Improving

%

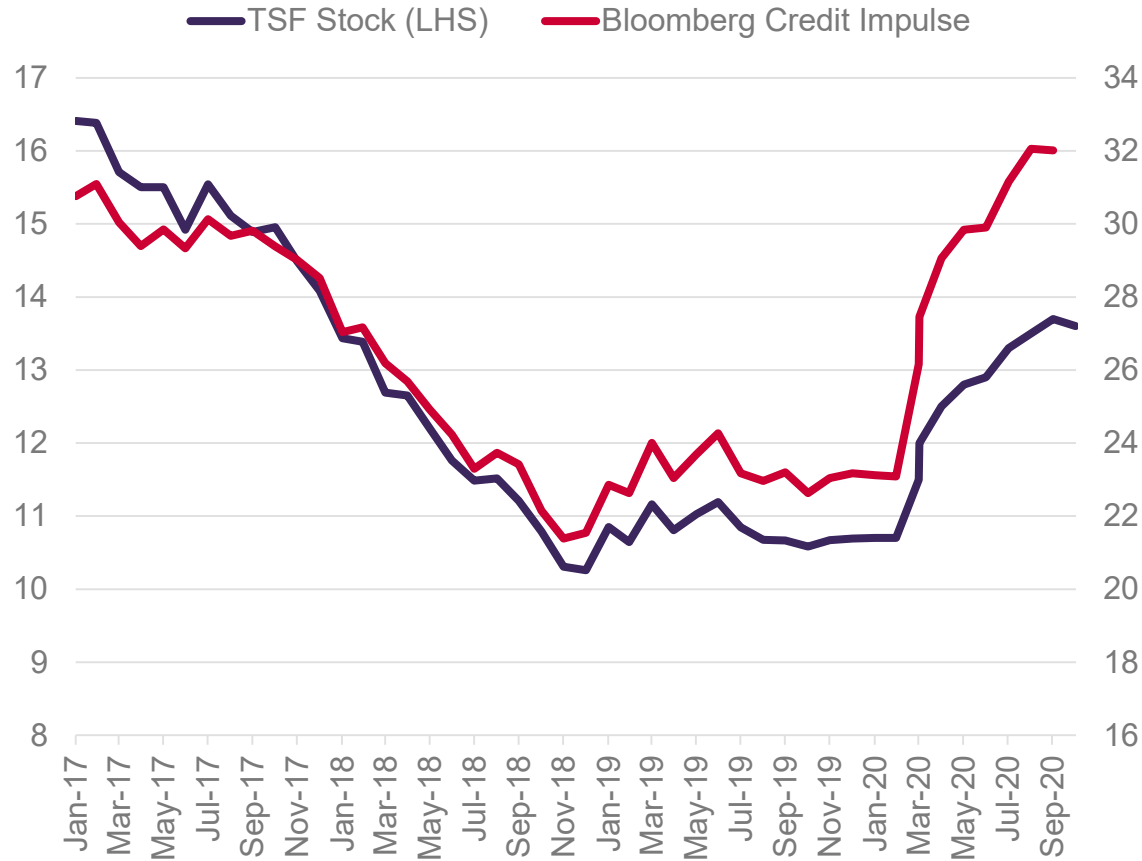


Source: Bloomberg, Fitch Solutions

Debt Build Up Will Slow The Pace of Reducing Financial Risks

Credit Greasing The Wheels Of Growth

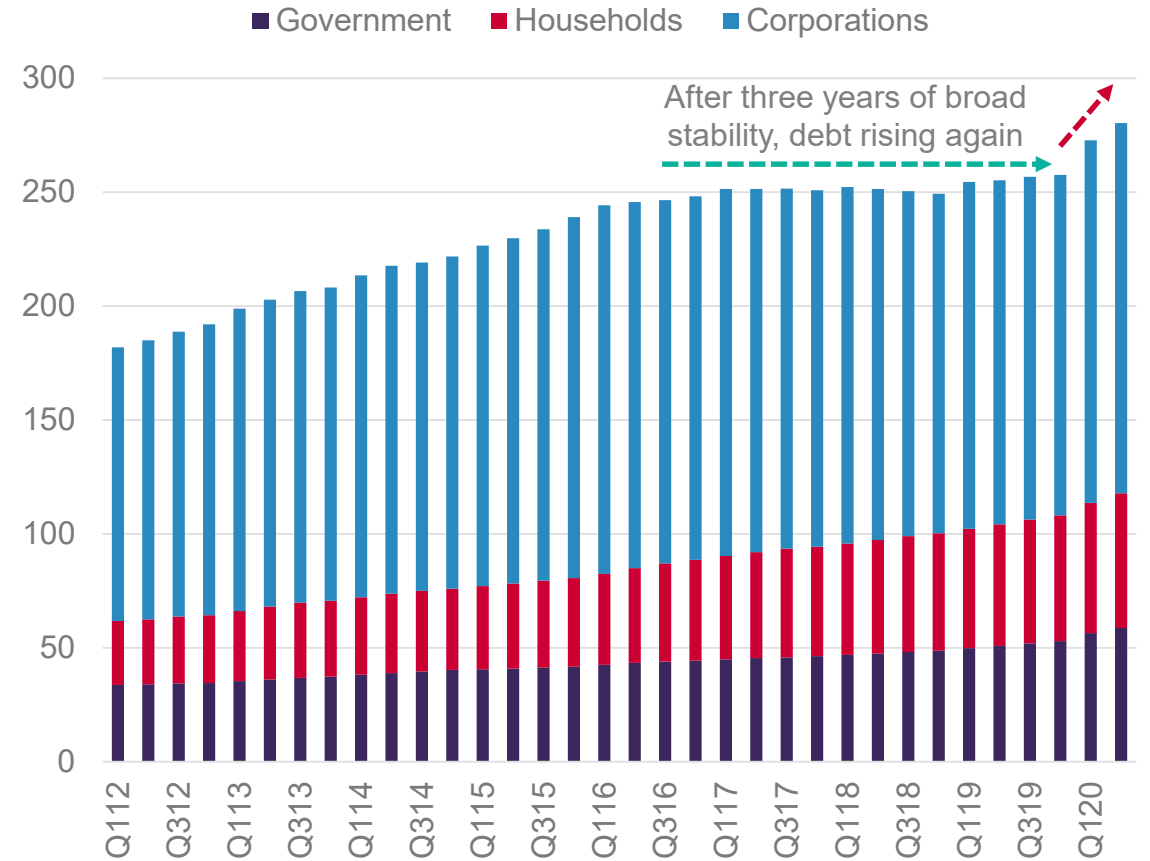
% (LHS), & % of GDP (RHS)



Source: Bloomberg, Fitch Solutions

Non Financial Debt Increased By 23pp In H120

% of GDP



Source: BIS, Fitch Solutions

EZ: Second Lockdowns Are Working And Could Be Extended...

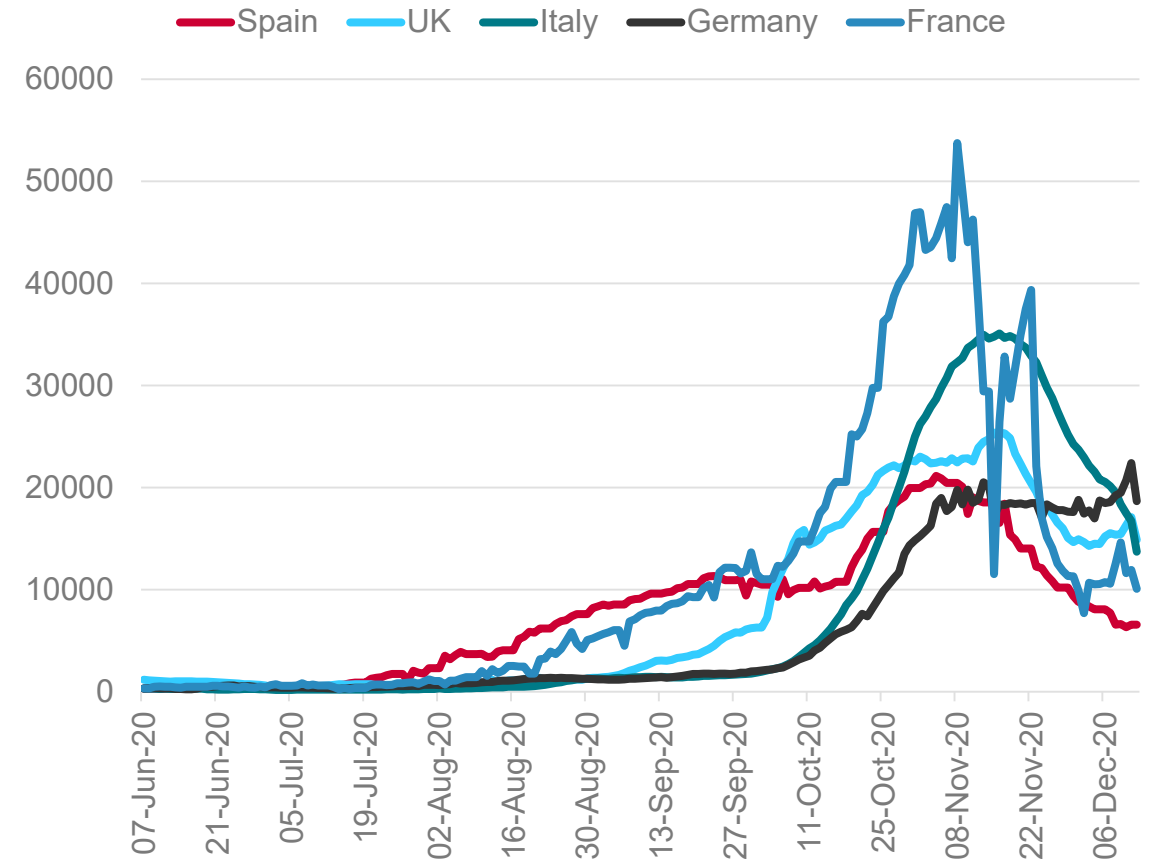
Covid-19 Lockdown Measures For Select Countries

Country	Status	Intensity Vs Q2	Impact Vs Q2
Germany	Near-full lockdown to come into force on December 16, until at least January 10 (extension likely)	Equivalent (from December 16)	Low
France	Partial lockdown to be lifted on December 15, but other restrictions (such as night-time curfew) will tighten	Medium	Medium
Italy	Local tiered lockdowns, risk of extensions/tightening is easing outside of major cities	Low	Medium
Spain	Local lockdowns to ease	Low	Medium
Netherlands	Likely extension & increased intensity after mid-December	Equivalent	Medium

Source: Fitch Solutions

European Cases Fall After Another Round of Lockdowns

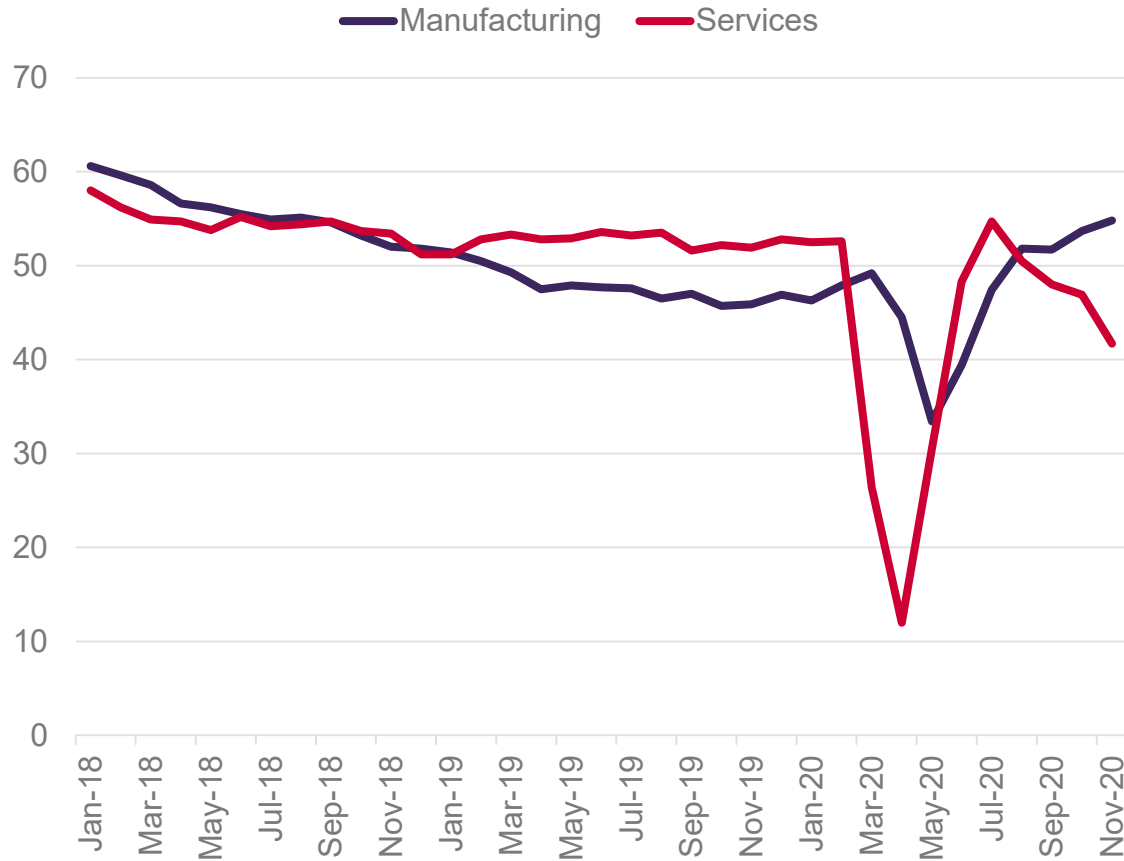
New Covid-19 Cases, seven-day average



Source: Bloomberg, Fitch Solutions

... But They Come At A Cost Of Weaker Activity And...

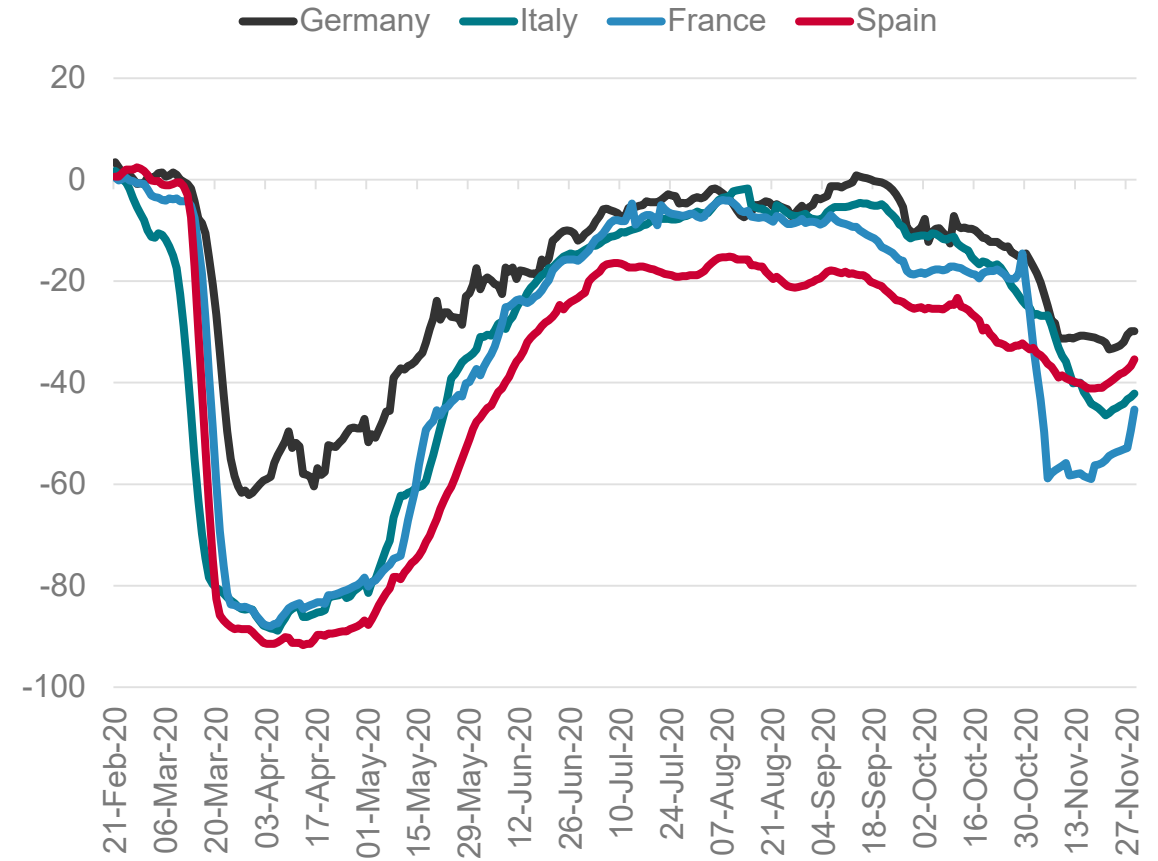
PMIs Dipping Again, But Manufacturing Holding Up
Index



Source: Bloomberg, Fitch Solutions

Double Dip For Retail & Entertainment

Google Mobility Patterns*, seven-day moving average (% from baseline)

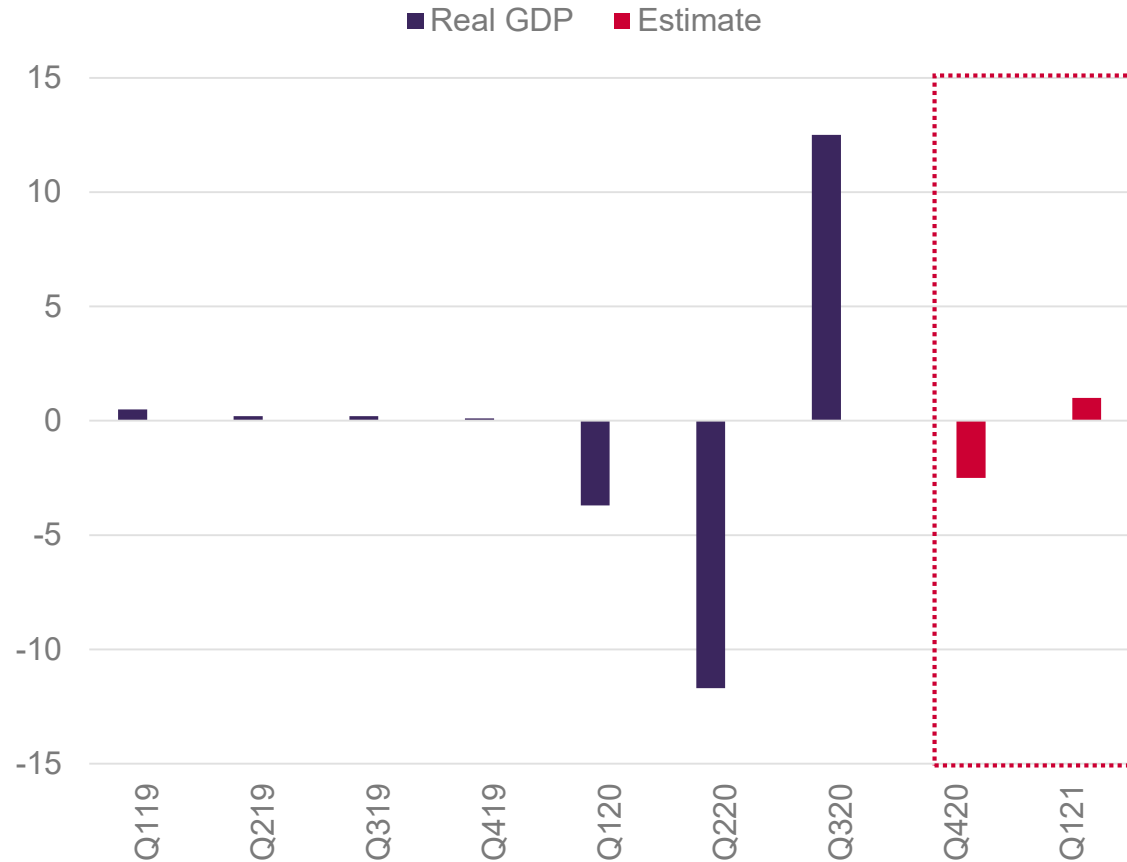


*Retail & Entertainment. Source: Google Mobility, Fitch Solutions

... A Double Dip Recession, With A Weak, Unequal Recovery

Eurozone Q4 Double Dip, With Weak Q1 Recovery

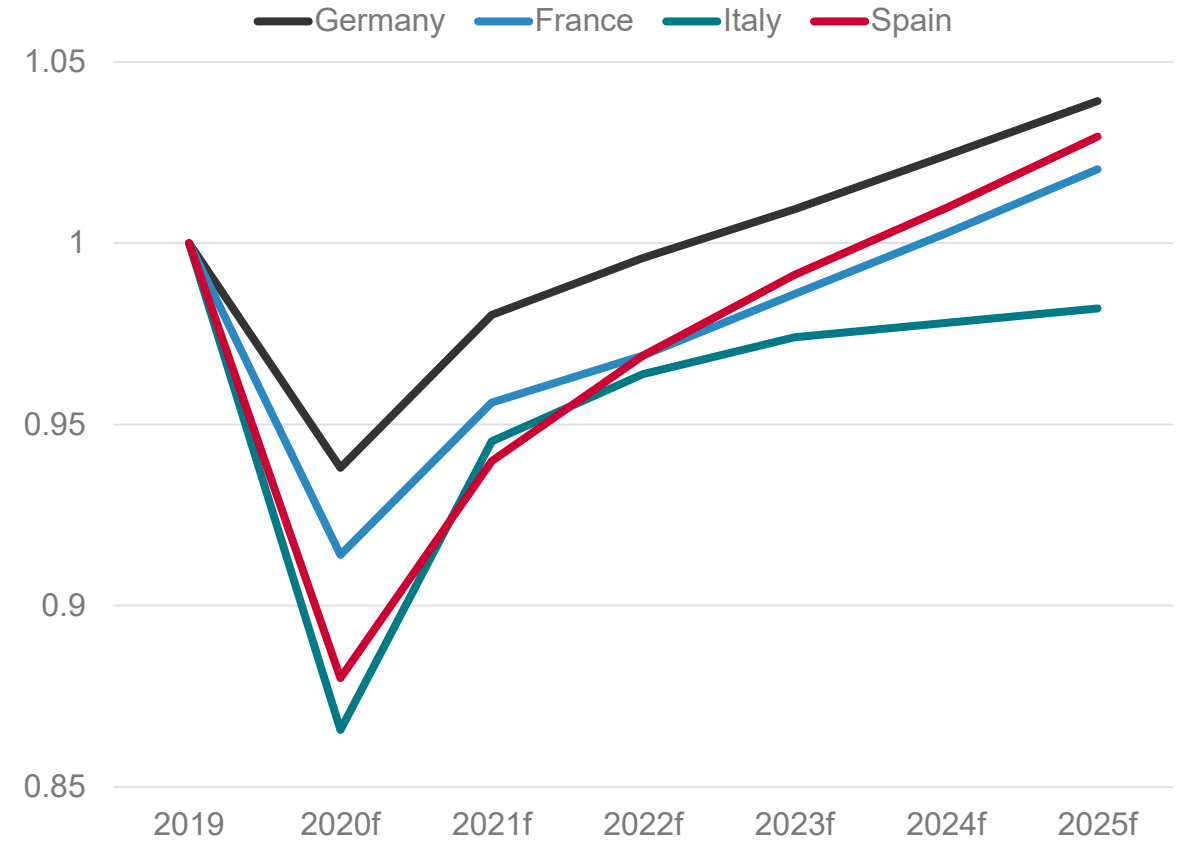
%, q-o-q



Source: Bloomberg, Fitch Solutions

Structure Of German Economy To Support Rebound

Real GDP, % of 2019 level*



2019 = 1. f = forecast. Source: Fitch Solutions

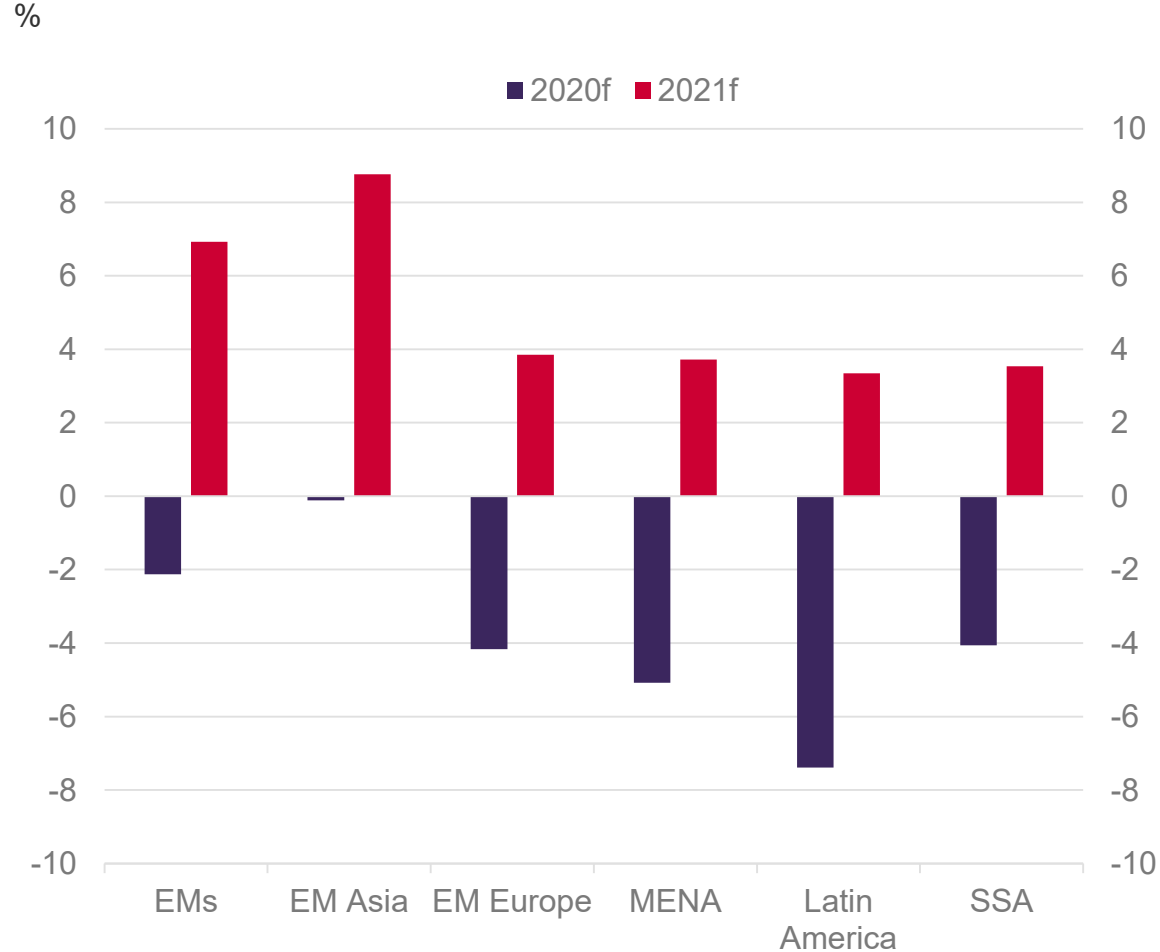


4

EMs Face Challenges

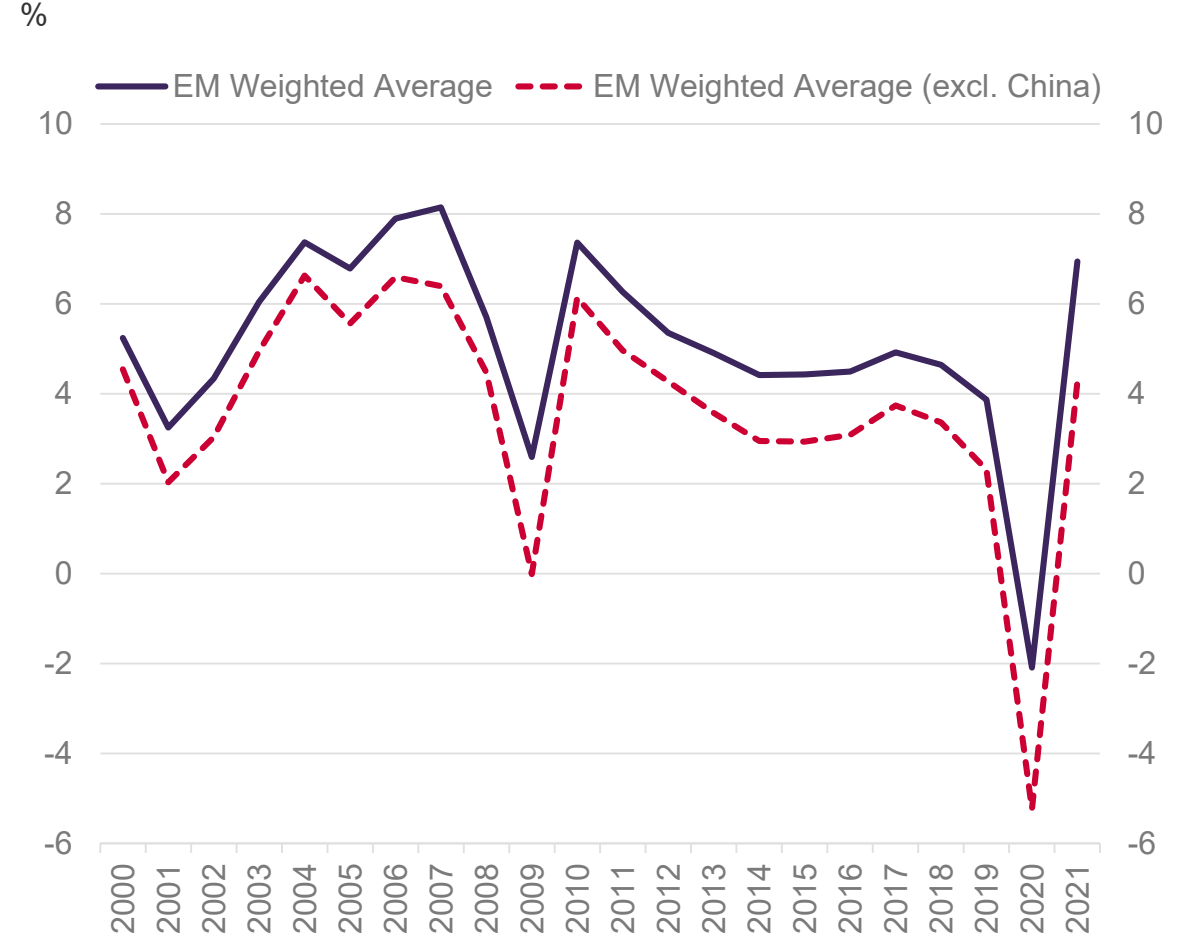
EM Performance Boosted By China

Generally Weak Post-Recession GDP Growth Recovery



f = forecast. Source: Fitch Solutions

Chinese GDP Growth Distorts EM Picture

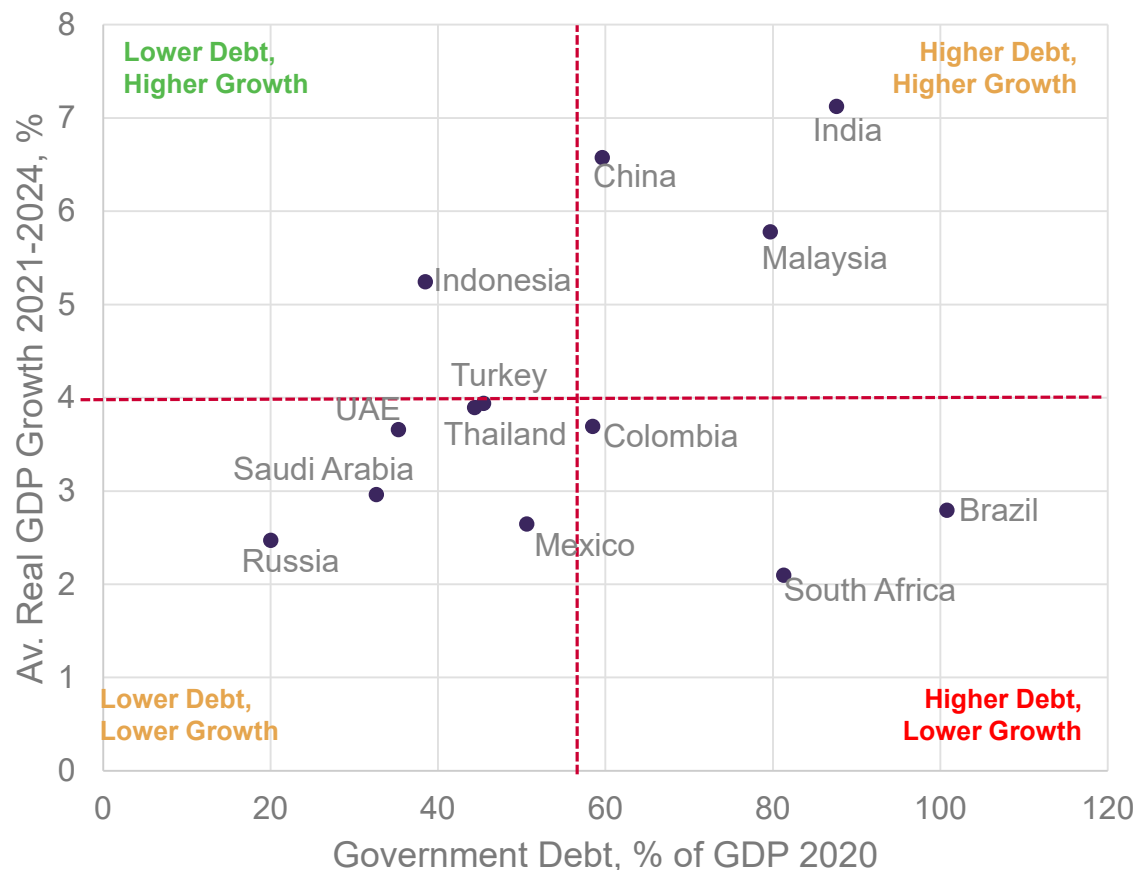


Source: National sources, Fitch Solutions

Weaker Economic Fundamentals Could Lead To Political Risk

Higher Debt Loads And Slower Average Growth Ahead

Av Real GDP Growth, % & Government Debt, % of GDP



Source: Fitch Solutions

Busy Political Calendar For Key EMs In 2021

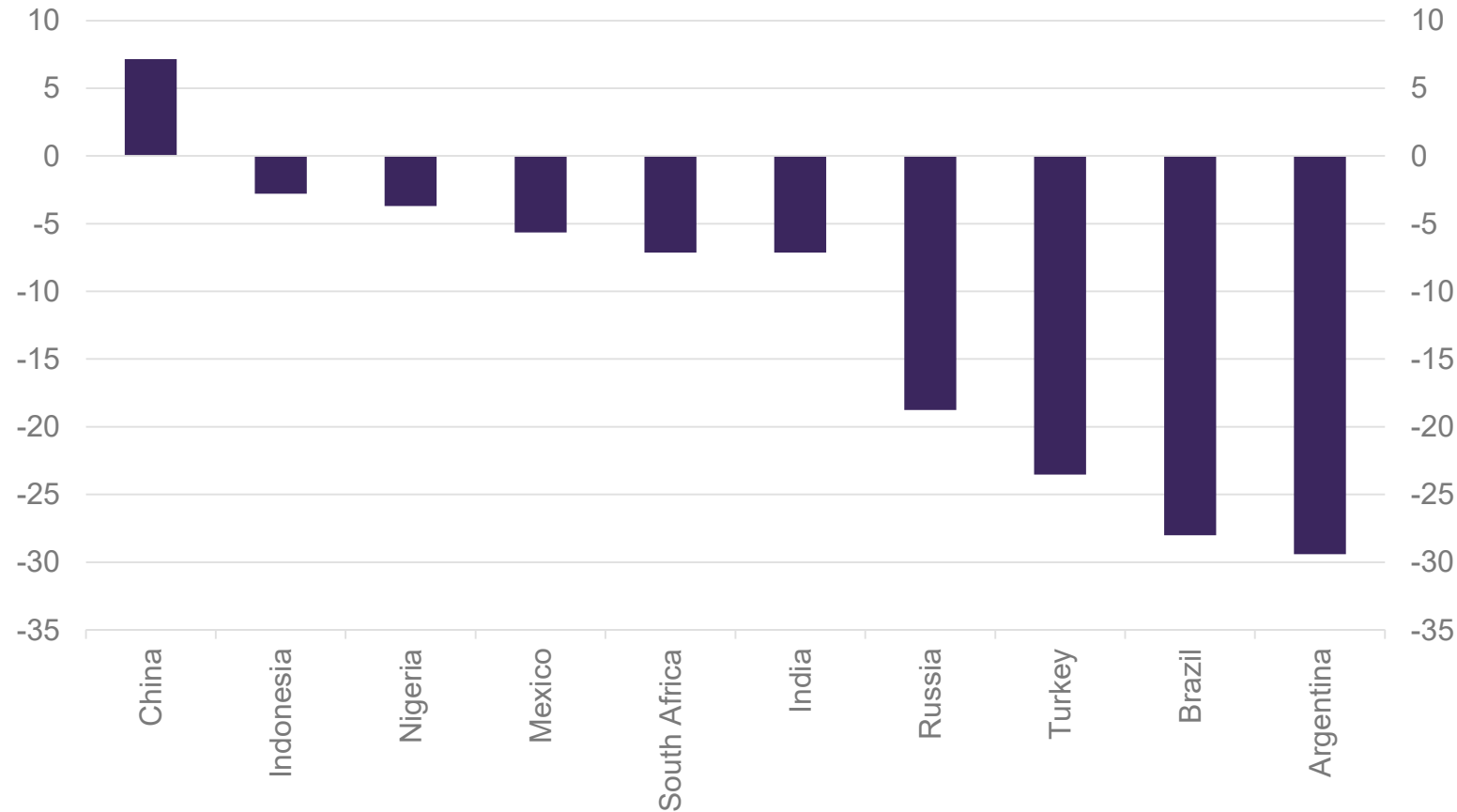
Date	Country/Event	Date	Country/Event
Jan	Vietnam (PC), North Korea (PC), Kazakhstan (L)	Jul	China 100 th Anniversary of Communist Party
Feb	Ecuador (P), Somalia (P), El Salvador (L)	Aug	Zambia (P/L), South Africa (O)
Mar	Congo, Republic (P), Bulgaria (L), Laos (L), Cape Verde (L), Kosovo (P)	Sept	Russia (L)
Apr	Chile (L/O), Peru (P), Albania (L)	Oct	Argentina (L), Bulgaria (P), Cape Verde (P), Morocco (L), Czech Republic (L)
May	Vietnam (L)	Nov	Nicaragua (P), Chile (P), Honduras (P)
Jun	Mexico (L), Iran (P), Mongolia (O), Syria (P)	Dec	Gambia (P)

Source: Fitch Solutions

EM Currencies Took A Hit This Year, Next Year Could Be Different

Many Countries Saw Significant Pressure

YTD Currency Returns Vs USD, %

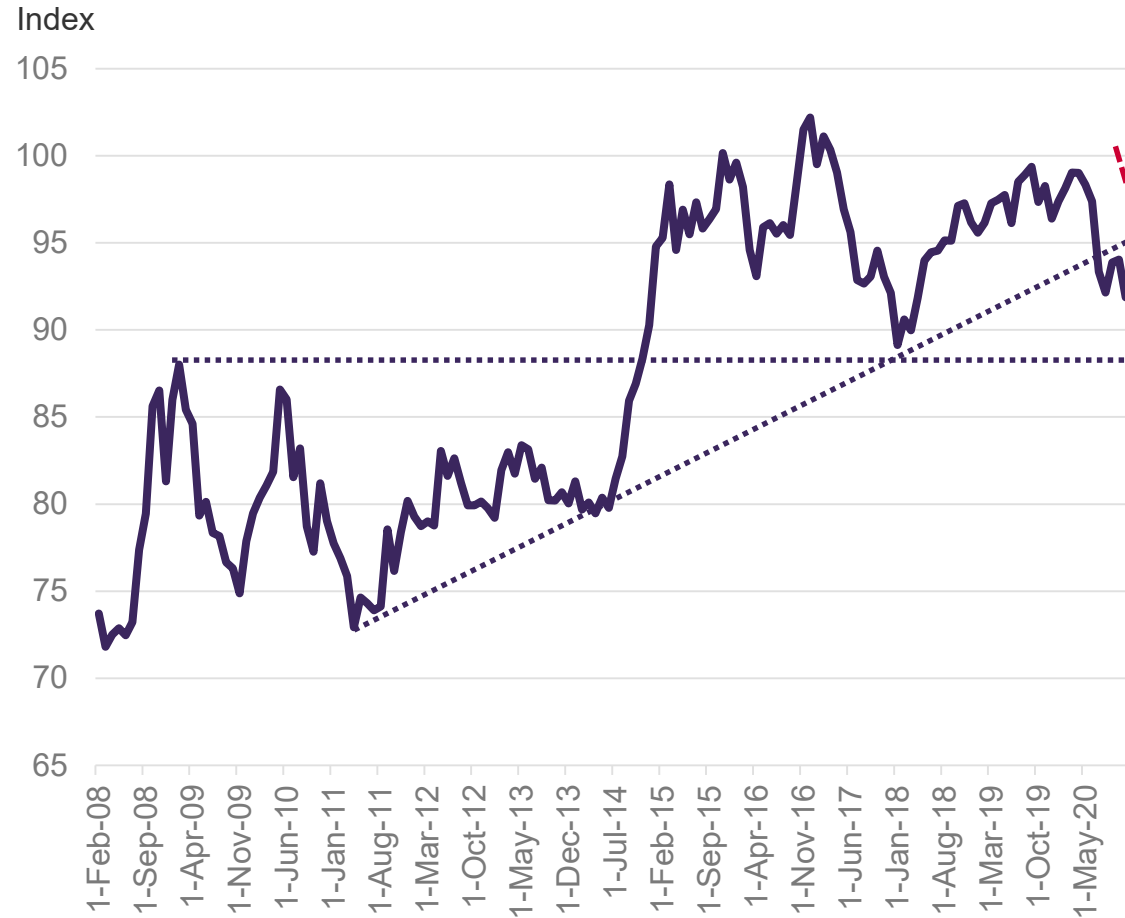


Source: Bloomberg, Fitch Solutions

- We believe that pockets of EM FX will remain supported in 2021 due to various factors.
- A weaker US dollar and stronger Chinese yuan should help to support EM FX over the coming quarters, and some currencies have already recovered from their losses at the start of the year.
- Our expectations for still-elevated commodity prices in 2021, combined with a pick-up in economic activity and attractive valuations will also help to support EM FX.
- That said, we remain somewhat cautious as weaker fundamentals – higher debt, lower growth, slow vaccine roll-out and very low real interest rates – may cap currency appreciation for several EM currencies, despite many of them being undervalued.

Weaker US Dollar And Undervalued Currencies Could See EM FX Rally

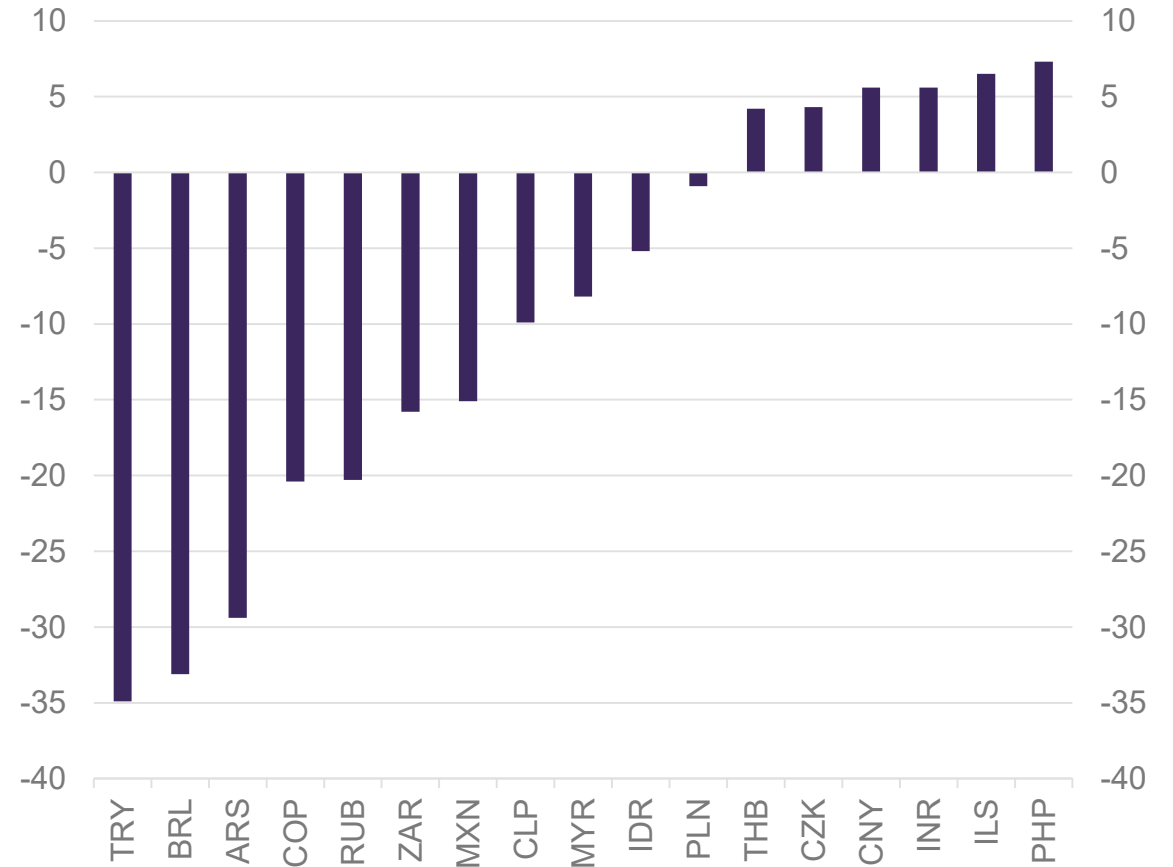
Dollar Index Will Maintain A Weaker Bias



Source: Bloomberg

Are EM Currency Valuations Attractive Enough?

REER Vs 10-Year Average, % Deviation



Source: Fitch Solutions



5

Key Risks To Watch

Key Risks To Watch In 2021

Covid-19 Infections

More Lockdowns

Weak Employment Growth

Slow Roll-Out of Vaccine

Market Volatility

Steep Valuations

Markets 'Over Pricing'
Good News

Inflation Risks?

Political Uncertainty

US Policy
Gridlock/Elections

Geo-Political Tensions

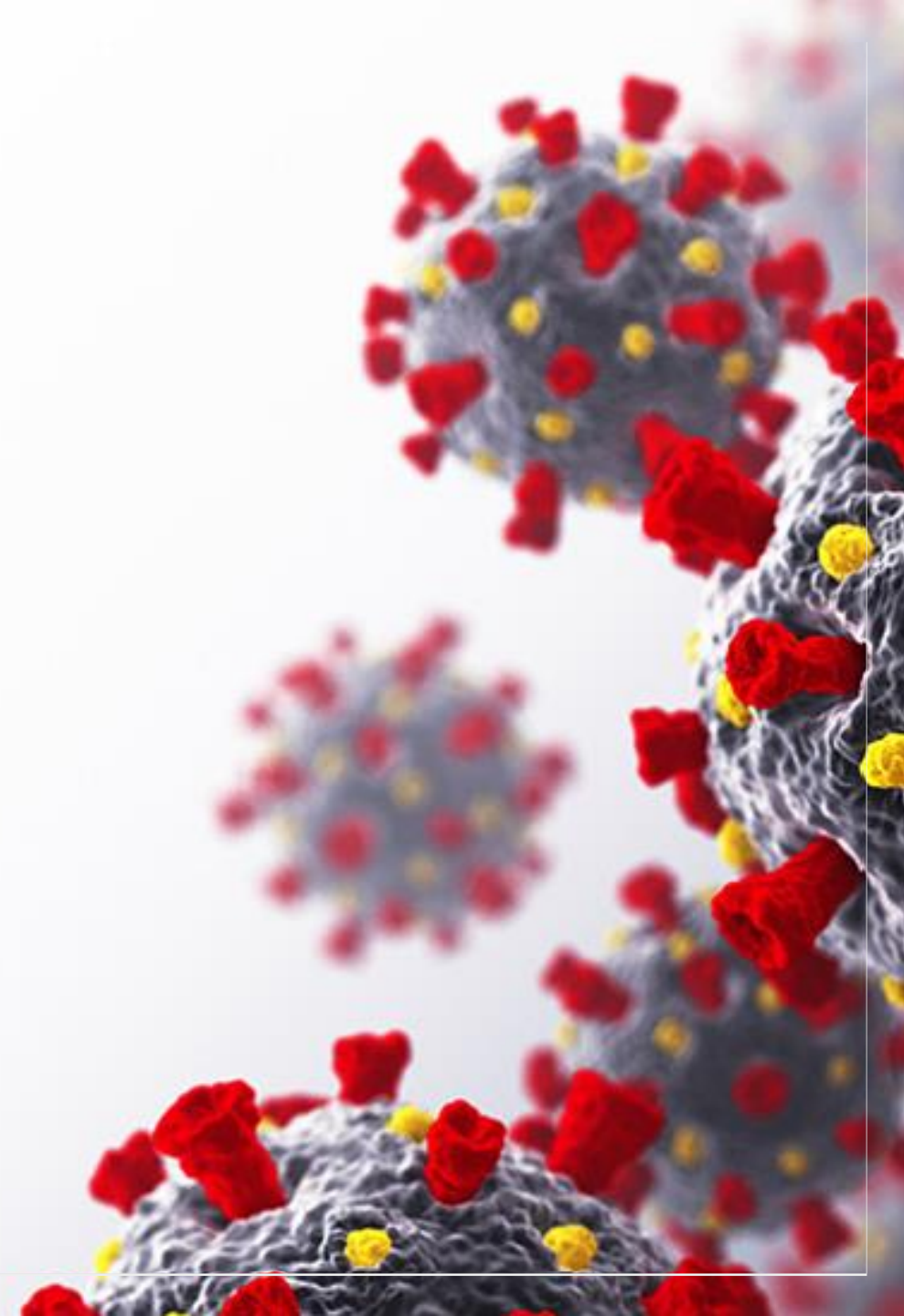
Hard Brexit?

Source Fitch Solutions

Connected Thinking in Challenging Times

Coronavirus research from Fitch Ratings, Fitch Solutions Country Risk & Industry Research, and Fitch Solutions Leveraged Finance Intelligence is now available to all on Fitch Connect.

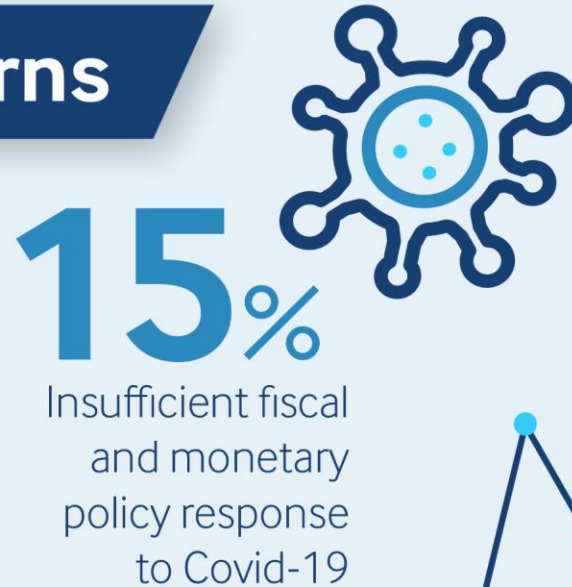
Find out more at fitchsolutions.com/coronavirus



Biggest Economic Concerns



of respondents indicated that persistently negative economic growth was their biggest economic concern over the next 18 months



Read the latest report to see how your sentiment aligns with those of your peers.
The report is available for you to download via the resource list.

Learn More

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