



Evolving Economies: International economies adopt a 'build back better' approach to recovery

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Evolving economies

International economies adopt a 'build back better' approach to recovery

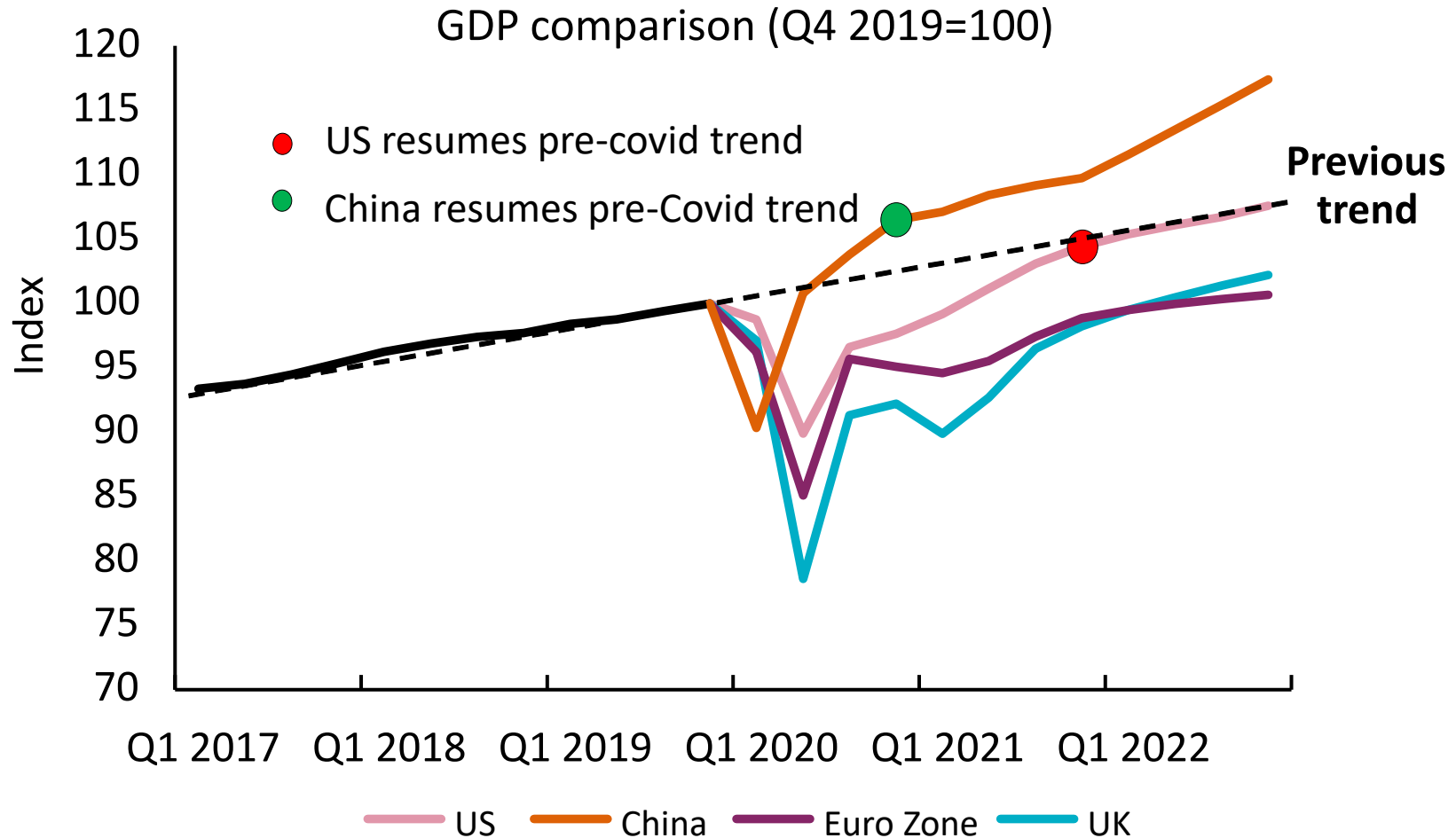
- Economies are expected to begin to recover from pandemic, but at different paces and facing different risks
- Stimulus is playing a much larger role than before, going beyond short-term support to shaping future economies
- While rebound outlook is consensus, there is much broader question about inflation outlook
- Central banks will respond to individual inflation outlooks; markets will attempt to preempt central banks
- Post-pandemic trends will play a role in longer-run inflation, but difficult to fully anticipate all of those now
- Necessary increasing focus on Climate Change – we must be hopeful that the current confluence of global leaders' aspirations delivers material commitments

Poll 1: Pathways for recovery

How do you expect economic output to evolve over the next year or so?

- a) Pent up demand will see an even quicker rebound than broadly expected
- b) Hopeful that the pace of vaccination should ensure recovery broadly as expected from here
- c) Expect some setbacks with vaccine roll out/virus management to see a softer rebound
- d) Worried that variants or other vaccine-virus developments will see us heading into another lockdown in H2 that will scupper recovery hopes

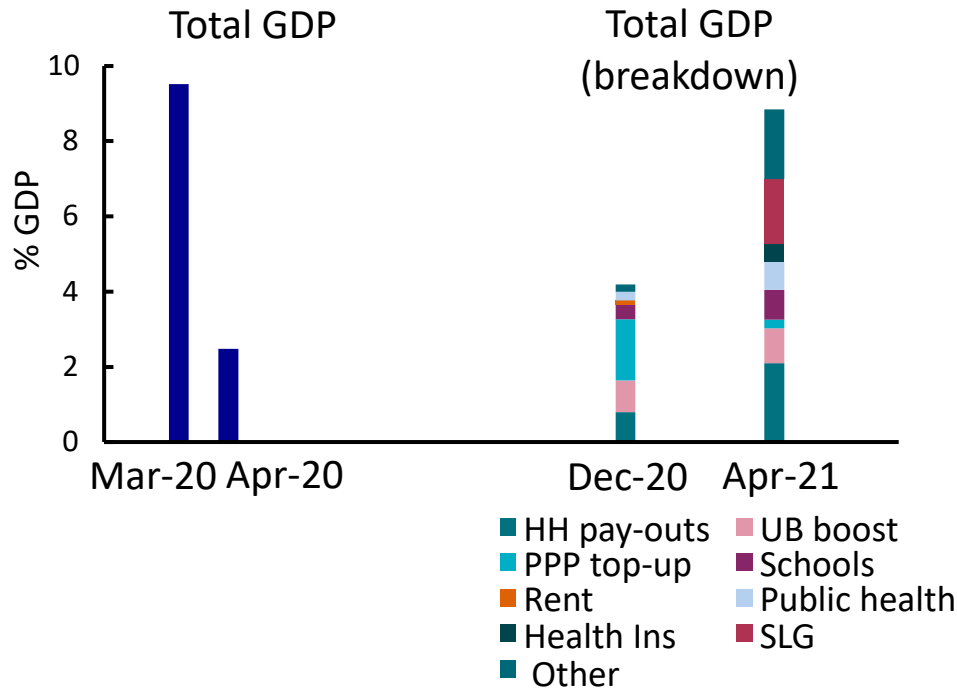
Recoveries are not created equal



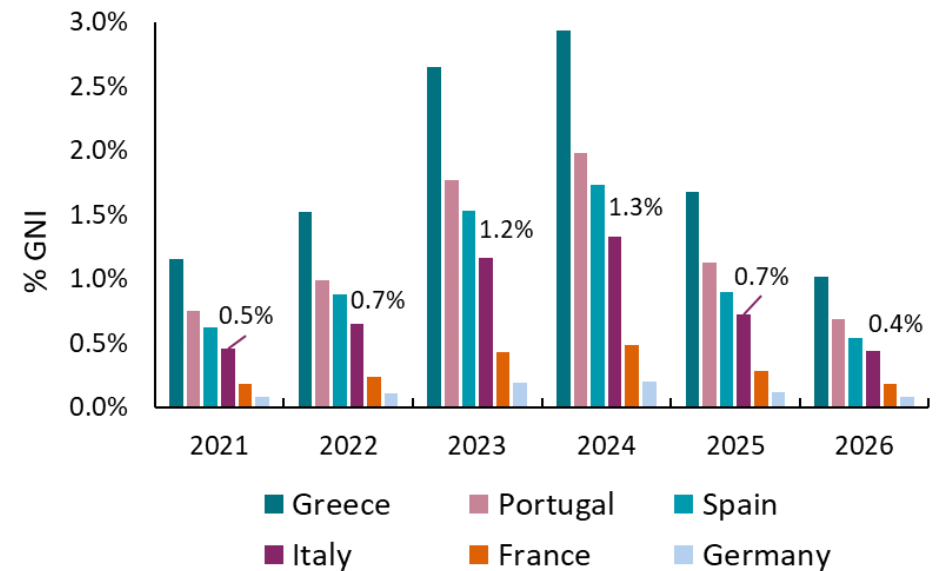
Source: BEA, ONS, Eurostat, Bureau of Statistics of China and AXA IM Research, April 2021

Fiscal stimulus has provided material boost in the US

US fiscal stimulus



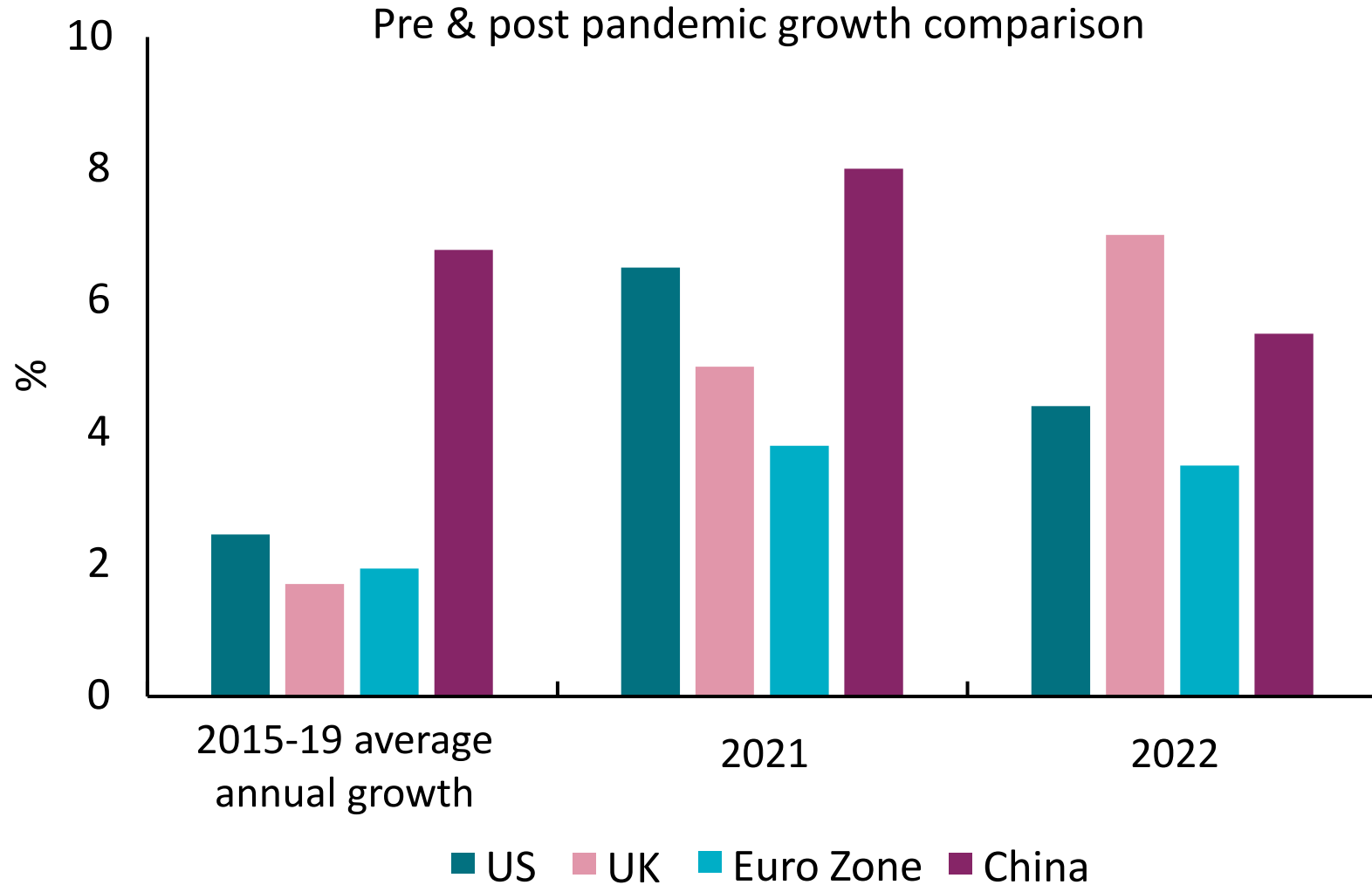
Payments from Next Generation EU (NGEU) grants



Source: CBO, JCT, AXA IM Research, April 2021

Source: European Commission, AXA IM research, April 2021

Growth differentials to even out



Source: BEA, ONS, Eurostat, Bureau of Statistics of China and AXA IM Research, April 2021

Poll 3: US inflation expectations

Where do you expect inflation to settle over the next two years?

- a) Deflation risk – inflation falls back meaningfully back towards 0%
- b) Subdued – settling back around 1-1.5% and shy of central bank inflation targets
- c) Broadly around target of 2%
- d) A period of modest inflation overshoot around 2.5%
- e) Moving into a period of significant and accelerating inflation 3% or more

Poll 2: Euro inflation expectations

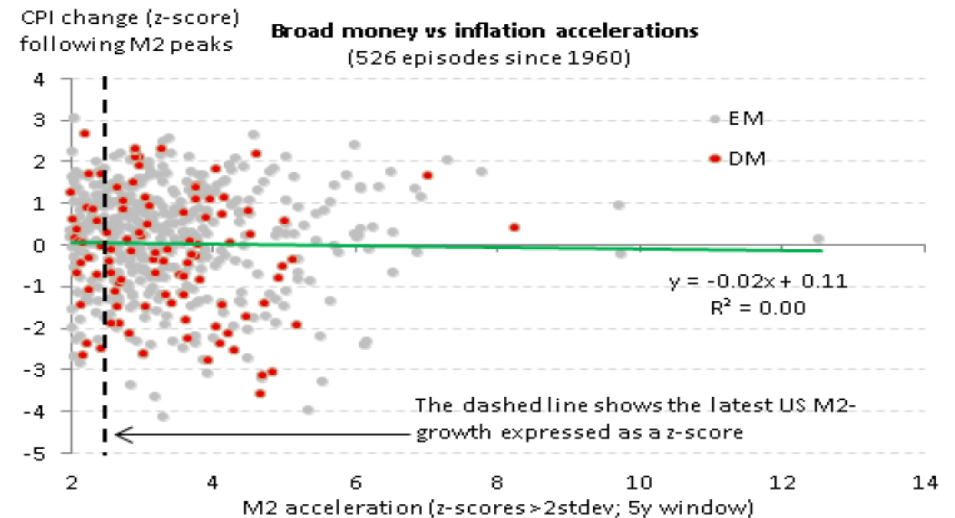
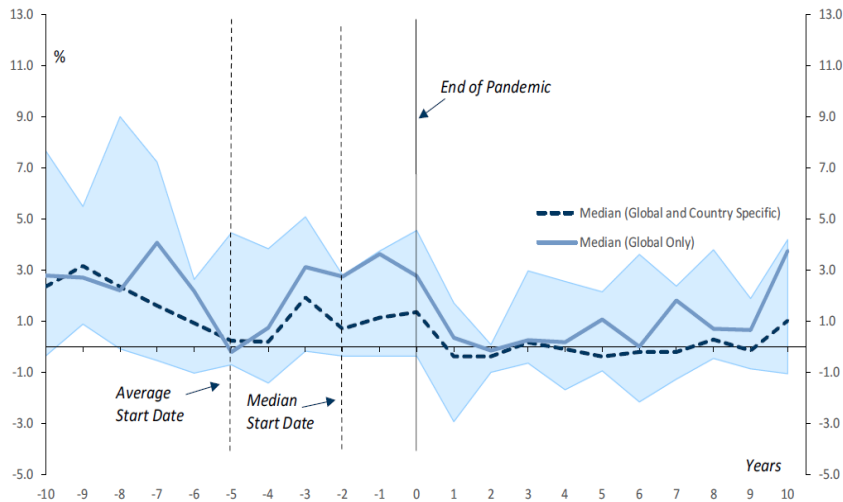
Where do you expect inflation to settle over the next two years after the base-effect spikes expected over the coming months?

- a) Deflation risk – inflation falls back meaningfully back towards 0%
- b) Subdued – settling back around 1-1.5% and shy of central bank inflation targets
- c) Broadly around target of 2%
- d) A period of modest inflation overshoot around 2.5%
- e) Moving into a period of significant and accelerating inflation 3% or more

Neither pandemics, nor money supply surges underpin sustainable inflation increases

Inflation has typically remained weak in the aftermath of major pandemics

Broad money and inflation are poorly correlated

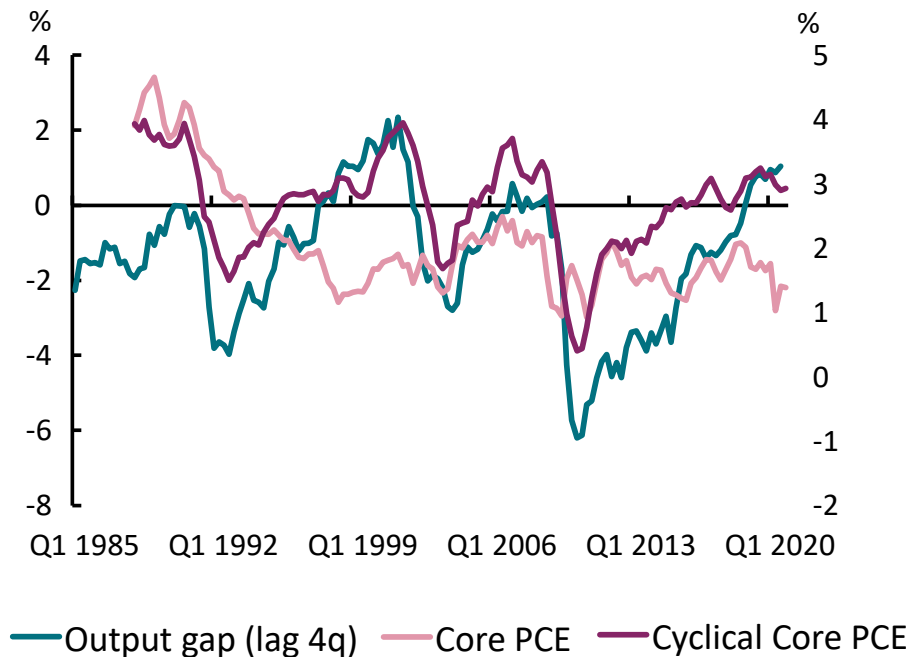


Source: Goldman Sachs, Bank of England, March 2021. CPI Inflation (% yoy) around pandemics, median and interquartile range.

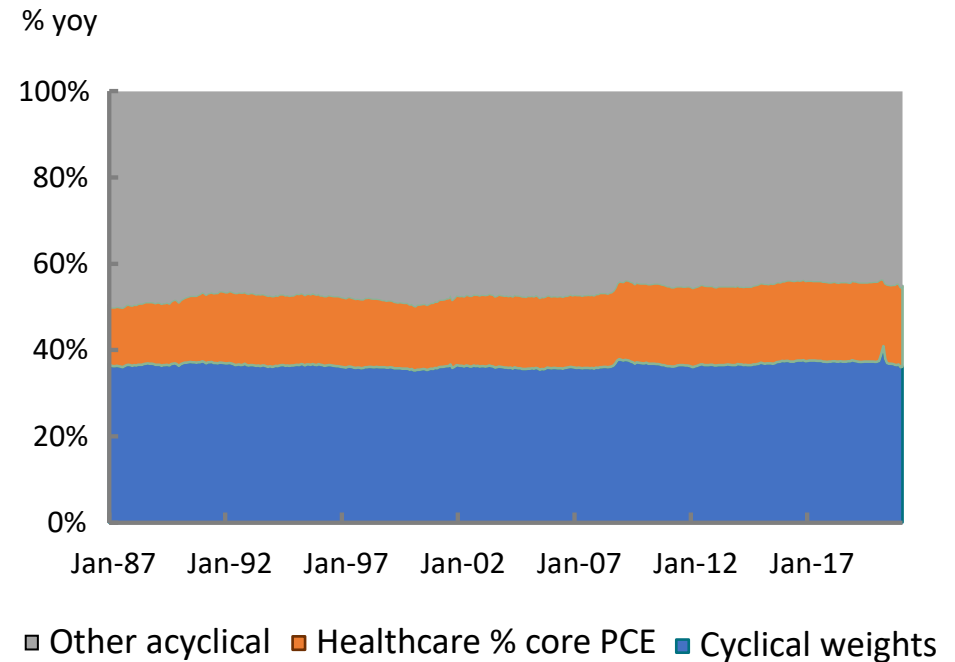
Source: UBS, March 2021

Economic overheating only impacts some of inflation outlook

US CBO output gap and 'core' Personal Consumption Expenditure (PCE) inflation



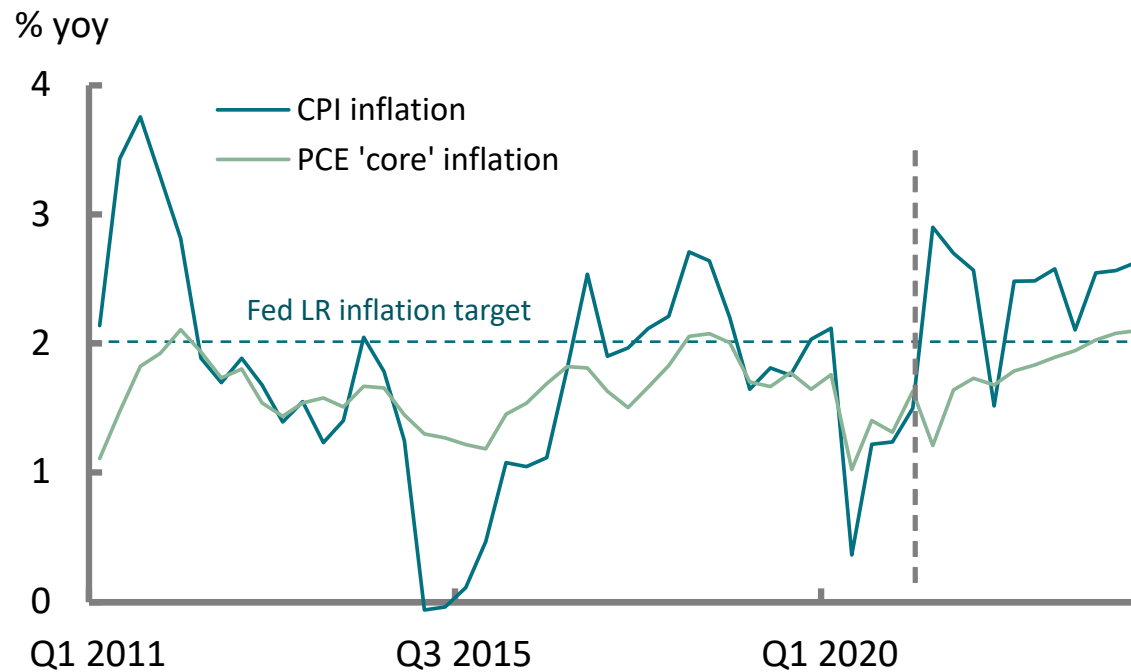
Weights of components in 'core' PCE index



Source: BEA, CBO, FRB SF, AXA IM Research. April 2021. CBO = US Congressional Budget Office.

Fed on track to meet inflation target

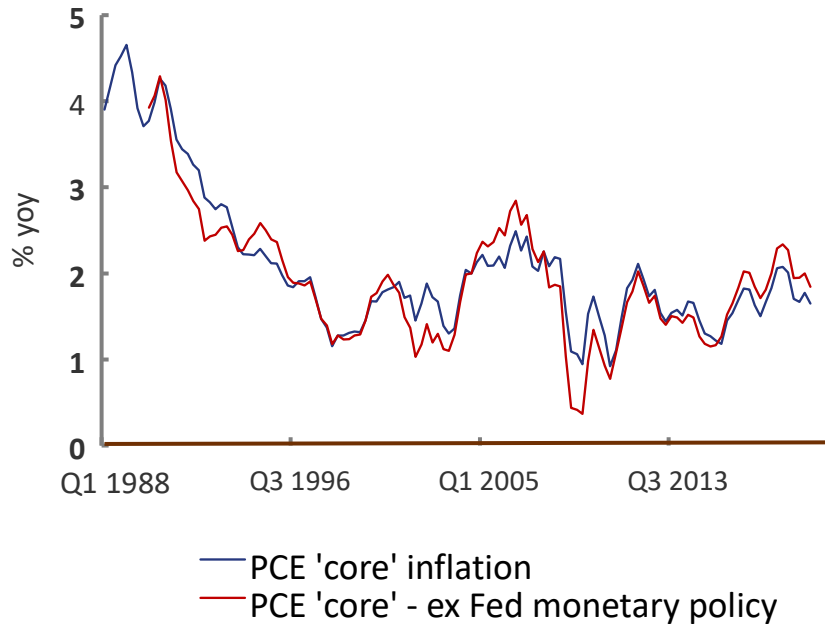
Inflation historic and projected



Source: BEA, Commerce Dept, AXA IM Research, April 2021

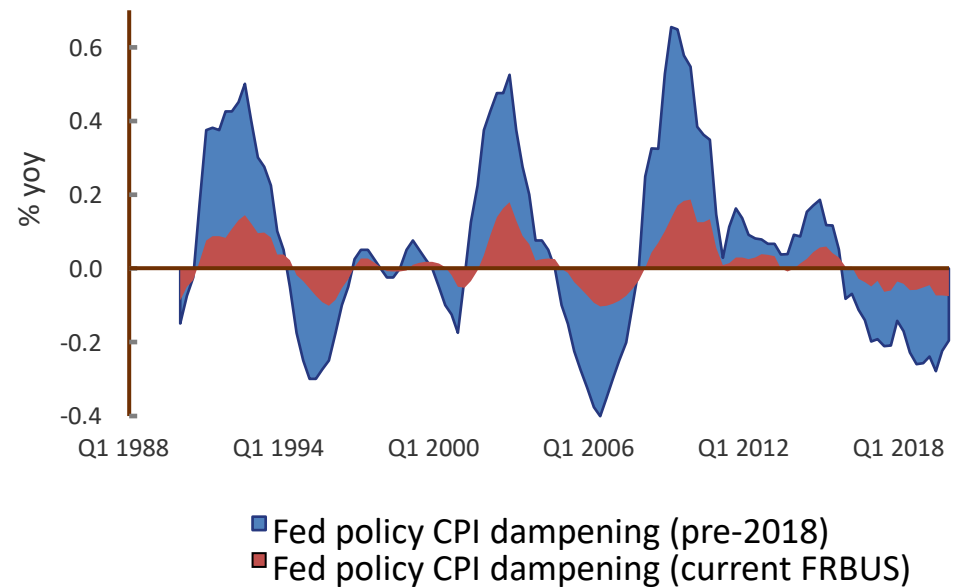
Fed reaction function change on outlook for inflation

Anticipatory monetary policy and 'core' PCE inflation



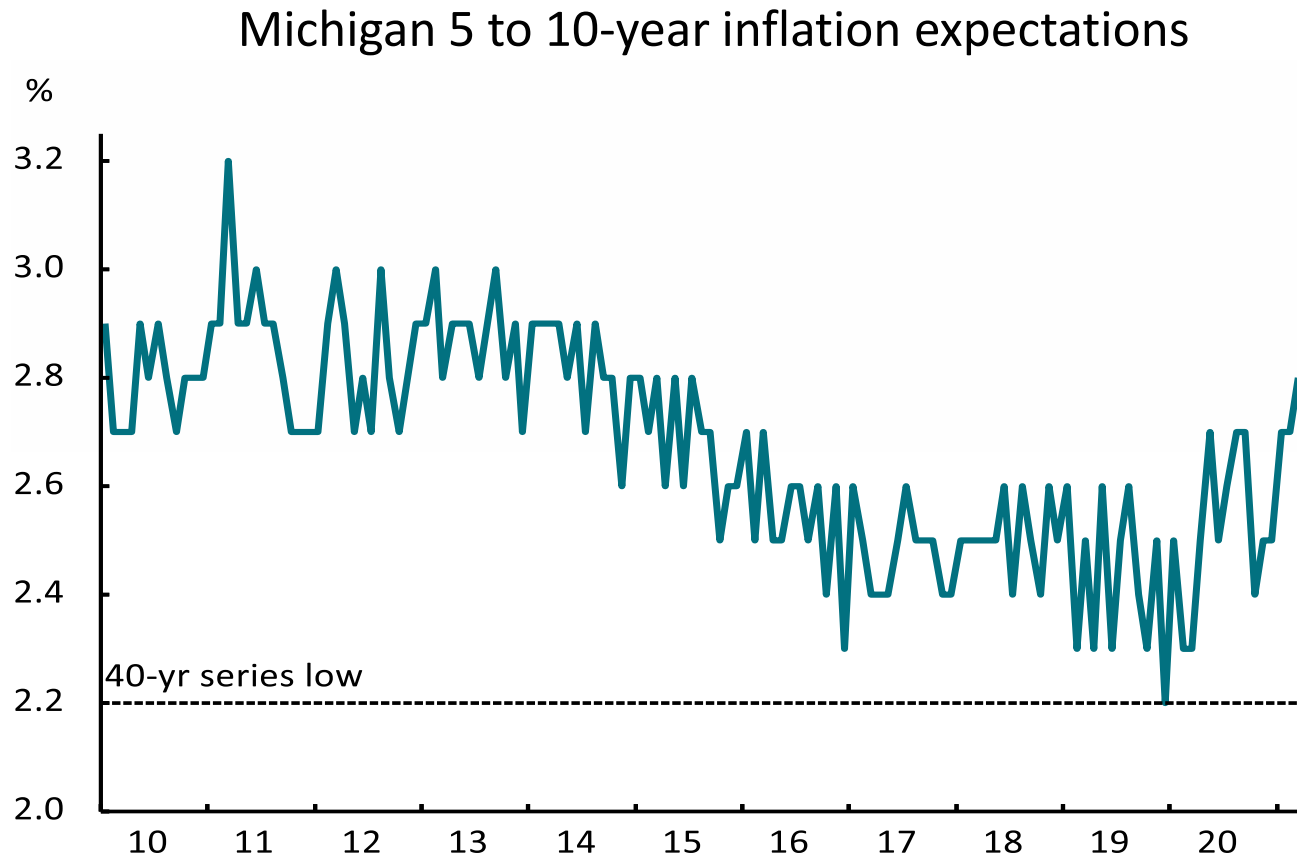
Source: BEA, FRB, AXA IM Research, Apr 2021

Fed policy effect on PCE inflation



Source: BEA, FRB, AXA IM Research, Apr 2021

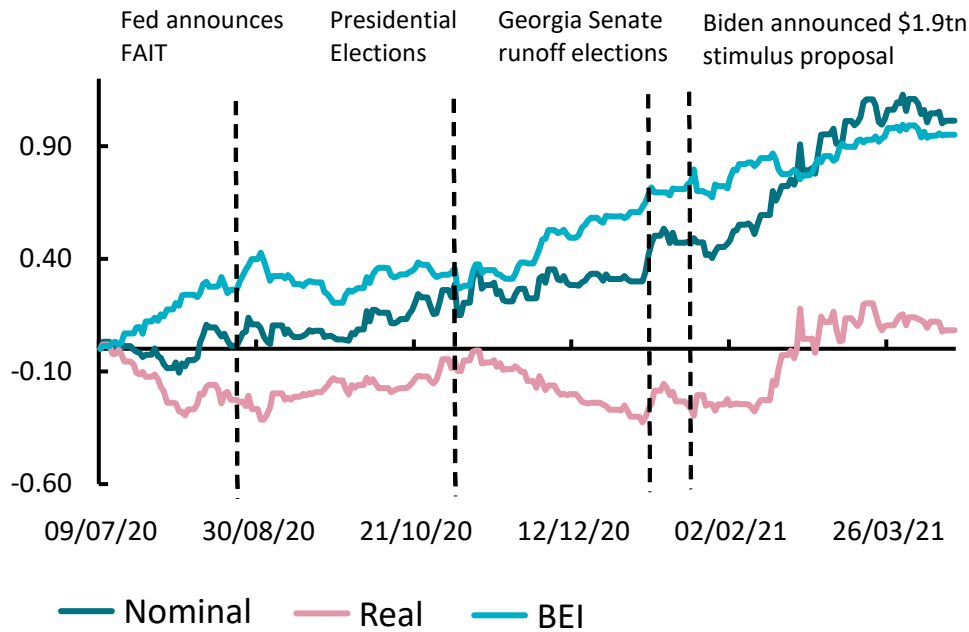
Inflation expectations have responded



Source: University of Michigan Surveys of Consumers, April 2021

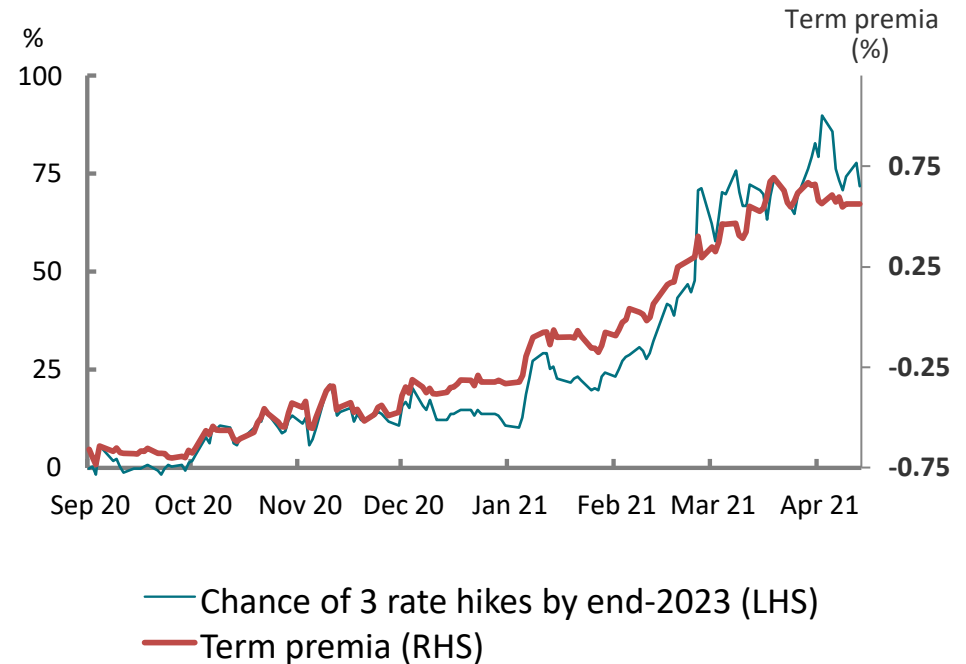
Movement in market rates reflects attitudes to inflation (and Fed policy)

A decomposition of US Treasury yield movements



Source: AXA IM Research, Apr 2021

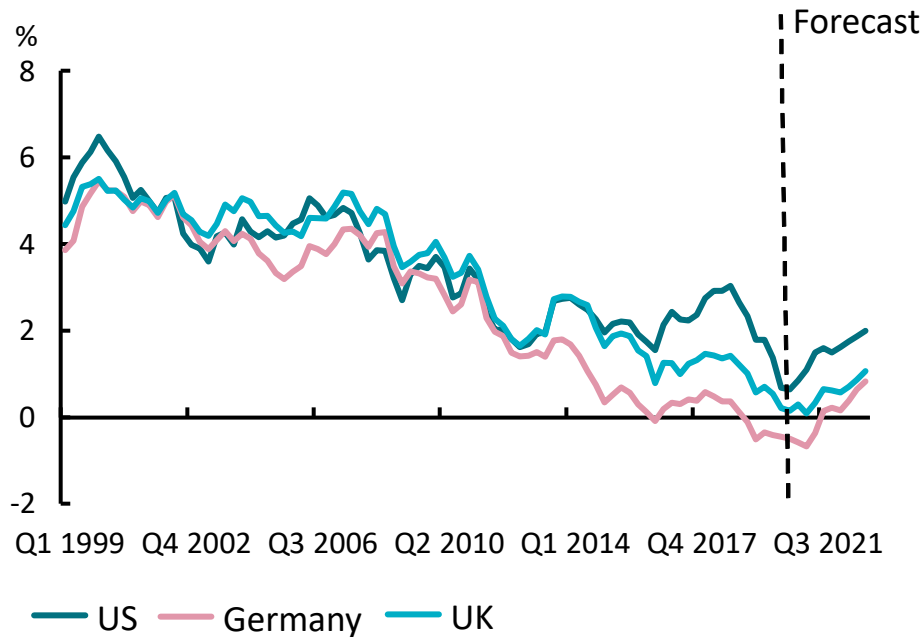
Term rates reflect rising perception of rate hikes



Source: AXA IM Research, Apr 2021

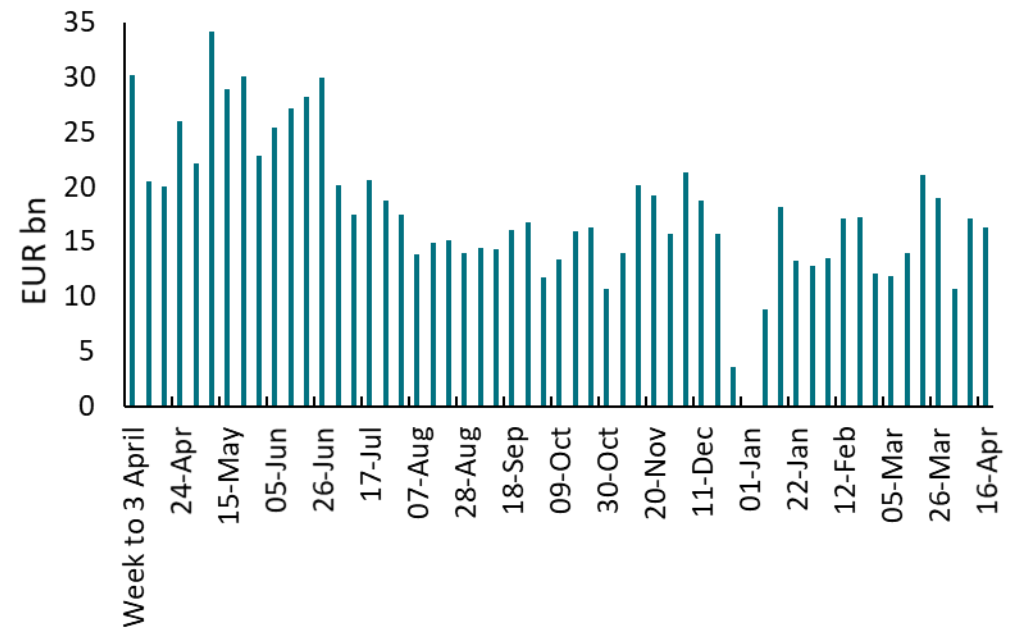
ECB protects against inappropriate tightening in financial conditions

US Treasuries correlation with German Bund



Source: BEA, FRB, AXA IM Research, Apr 2021

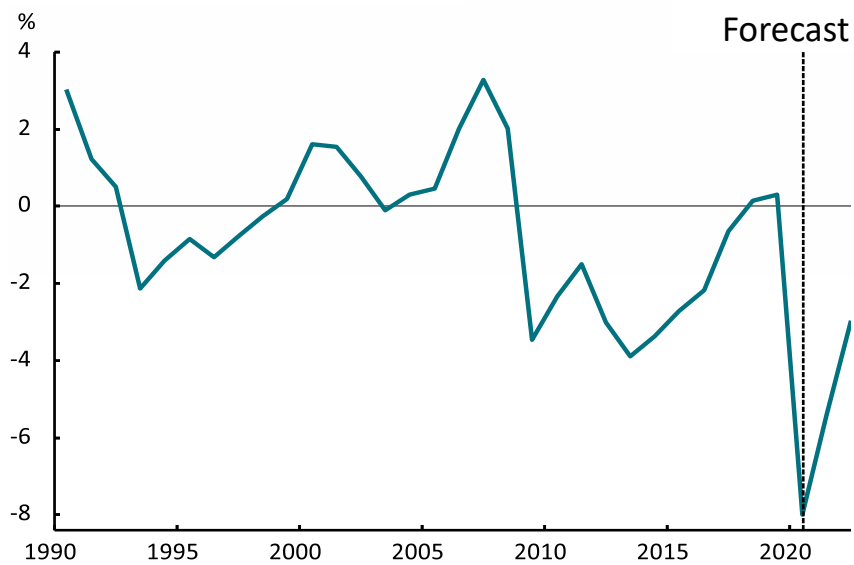
ECB PEPP purchases (weekly: net purchases)



Source: ECB, AXA IM Research, Apr 2021

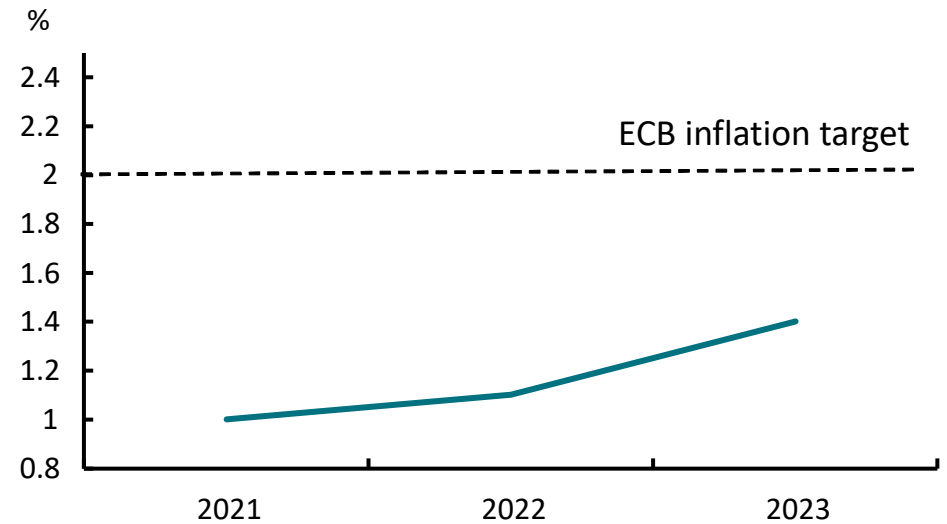
European Inflation Outlook Much More Subdued

Eurozone output gap (OECD)



Source: OECD, Apr 2021

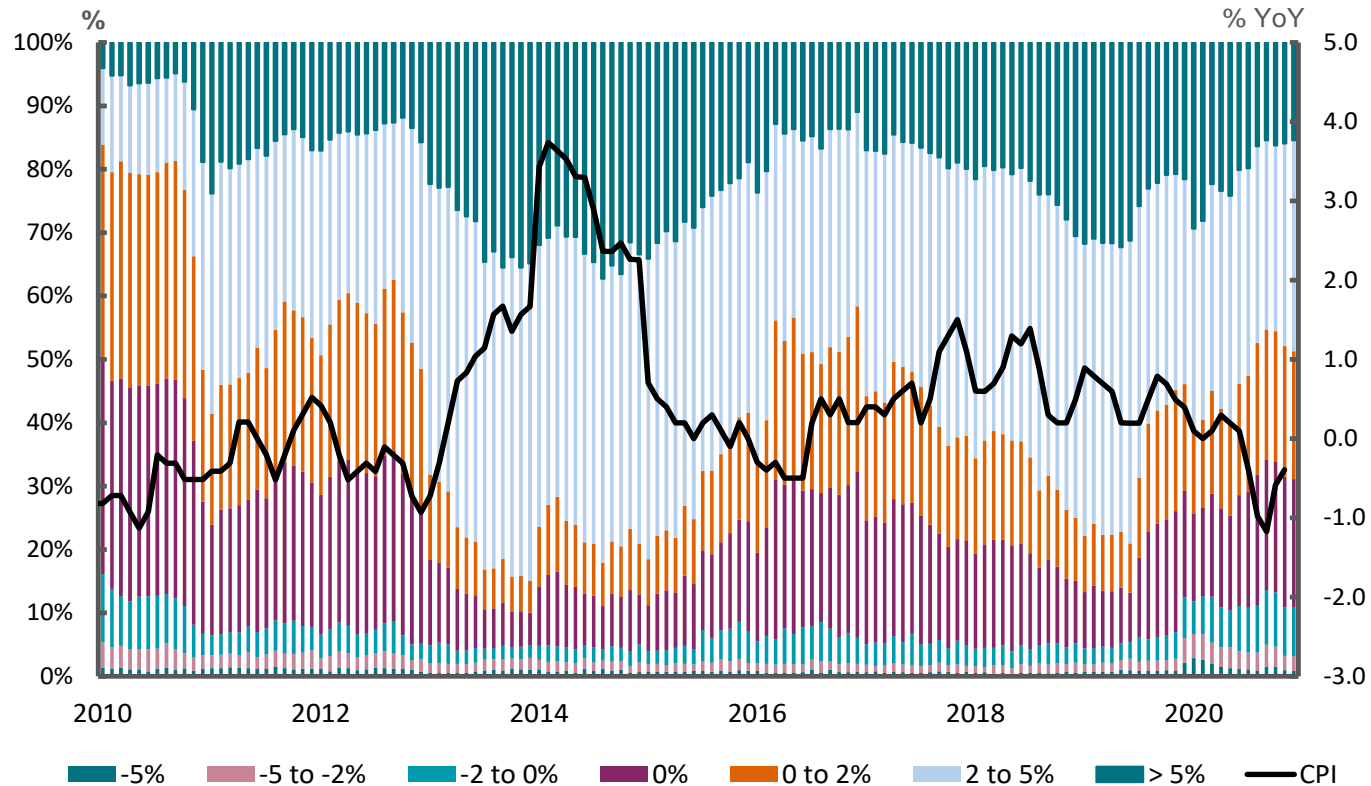
ECB inflation expectations



Source: ECB, AXA IM Research, Apr 2021

Japan's struggle with inflation expectations

Japanese inflation and households price expectations



Source: JP Cabinet Office, AXA IM Research, April 2021

Poll 4: The world post-Covid

What do you think the biggest post-Covid change will be?

- a) Less business travel / more work-from-home
- b) Productivity boom as economy re-configures to incorporate increased use of technology
- c) Prolonged slump – economies struggle to re-configure with significant unemployment from sectors that struggle to recover
- d) The biggest changes post-Covid have yet to be anticipated
- e) Other (*please add details in Chat*)

Long run inflation trends affected by the pandemic



Globalisation



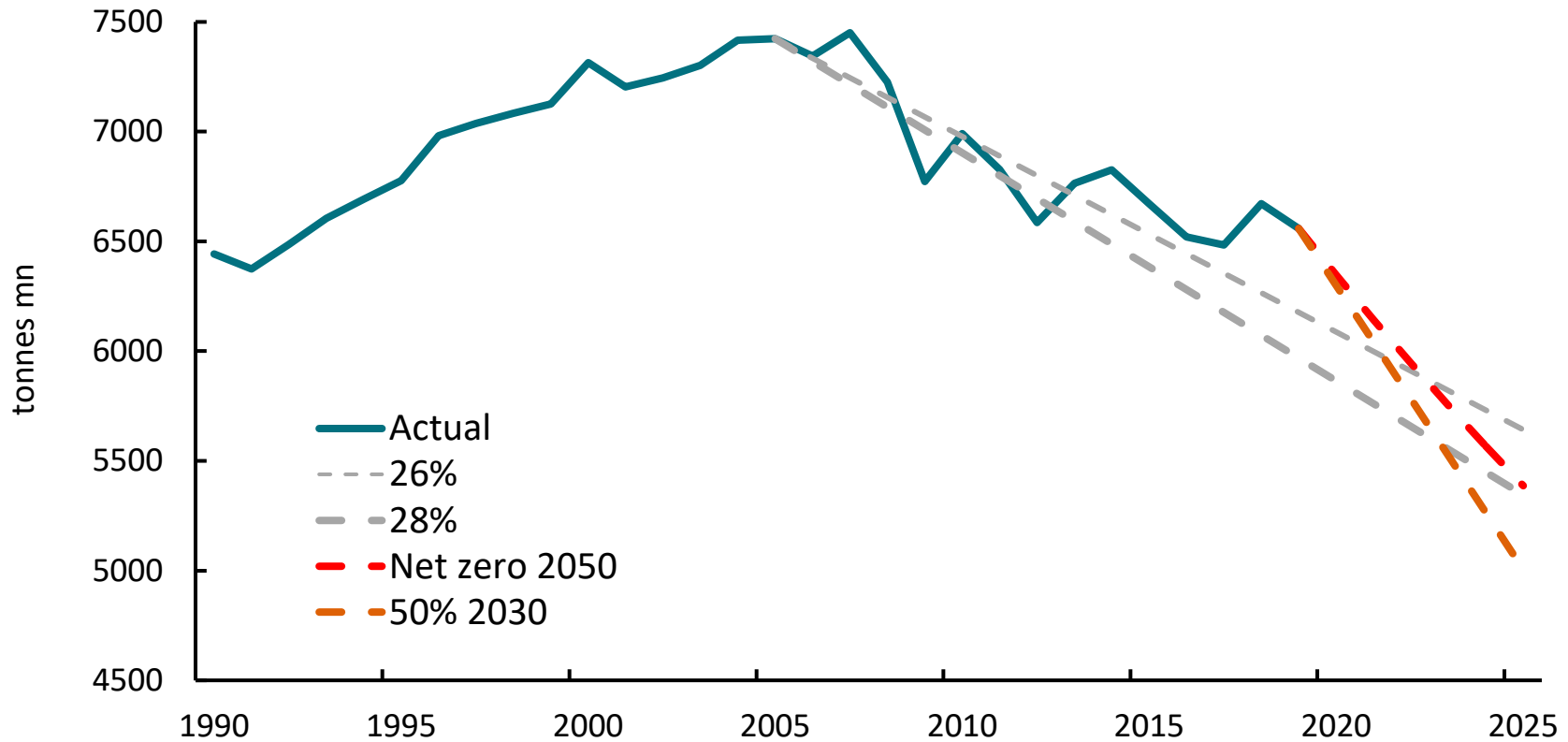
Digitalisation and tech



Demographics

President Biden committed to net-zero – can he commit the US?

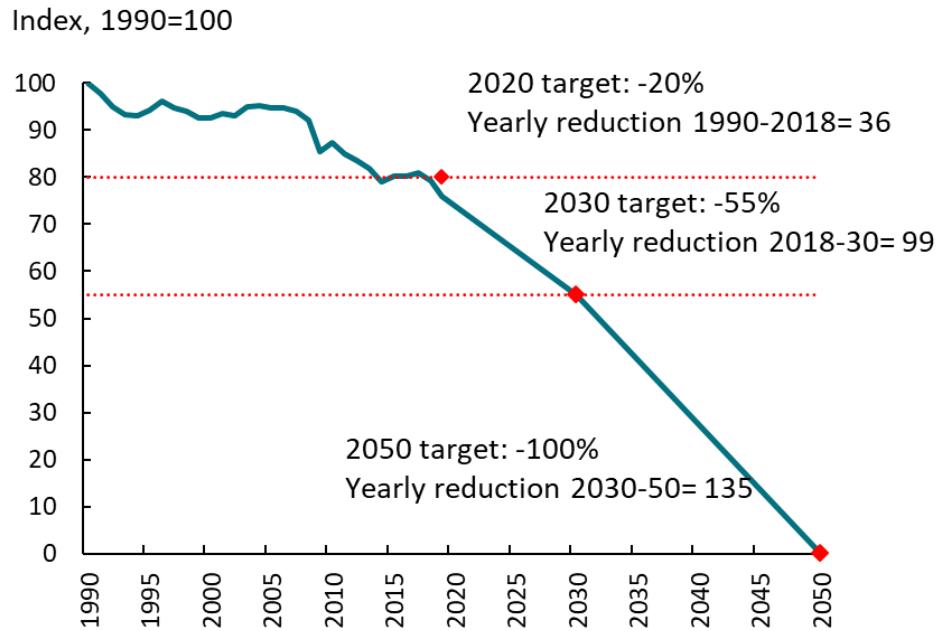
Total greenhouse gas emissions CO2 equivalence



Source: EPA, AXA IM Research, Apr 2021

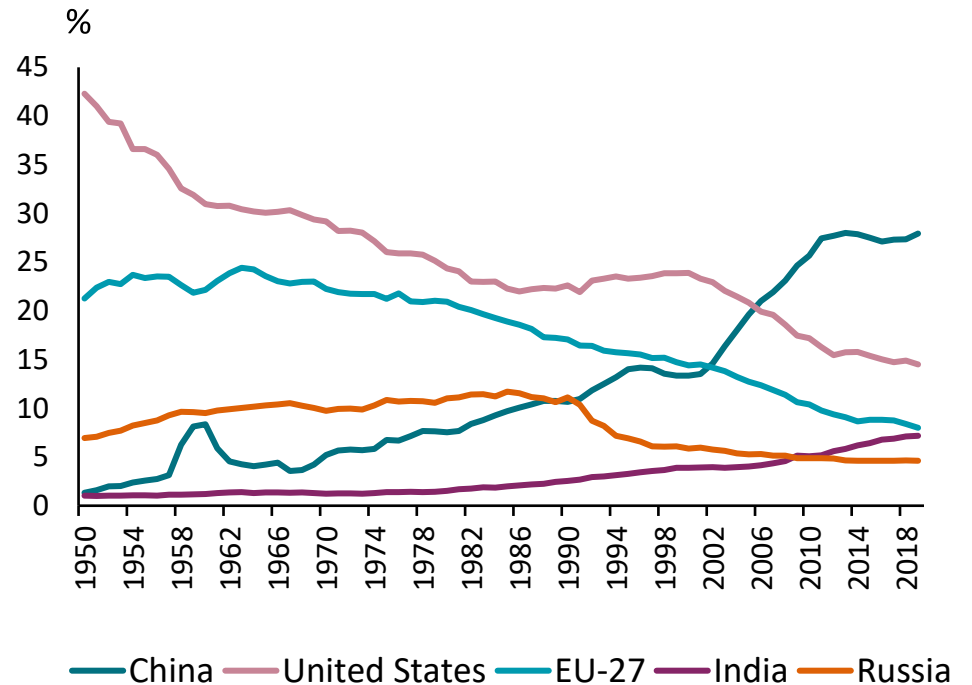
Europe ahead in climate policy, but faces own challenges

EU GHG emissions developments



Source: EEA, AXA IM Research, Apr 2021

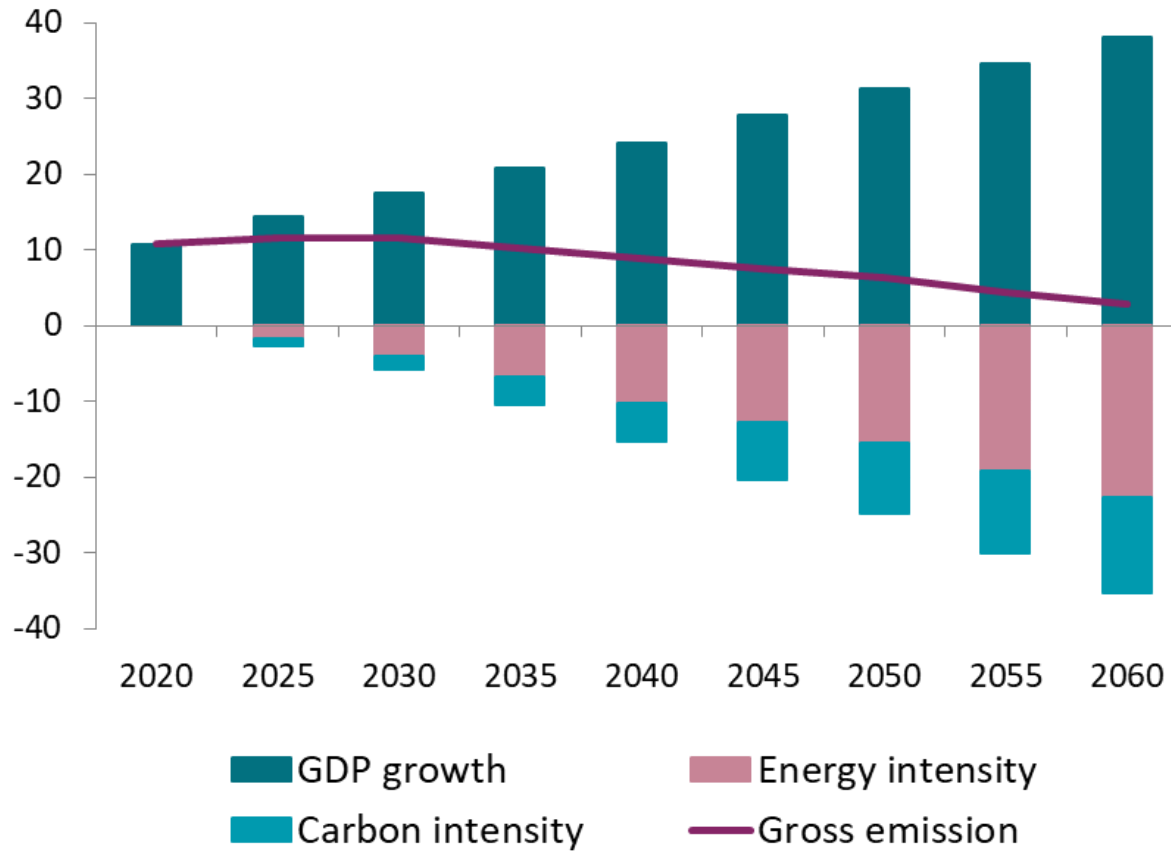
Annual share of CO2 emissions



Source: Our World In Data, AXA IM Research, Apr 2021

China's more recent commitment creates greater challenge

Decomposition of gross carbon emission (tonnes bn)



Source: Tsinghua. UBS and AXA IM Research, as of March 2021

Evolving economies

Conclusions

- We forecast solid growth across regions in 2021 and 2022, but China and US recoveries will lead Europe
- Faster growth will reduce government indebtedness, but 2020s likely to include wholesale reassessment of governments' tax and spend functions
- The pandemic was a disinflationary shock – most areas will struggle with subdued inflation – economies that recover quickly have better chance of returning inflation to target
- Globalisation, tech and demographic headwinds to prices likely less than before
- Post-pandemic trends likely to take time to emerge
- Countries beginning to commit serious investments to achieve climate change priorities





Q&A

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