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Quarterly Global Economic Outlook

Covid-19 Recession: Downside Risks Remain

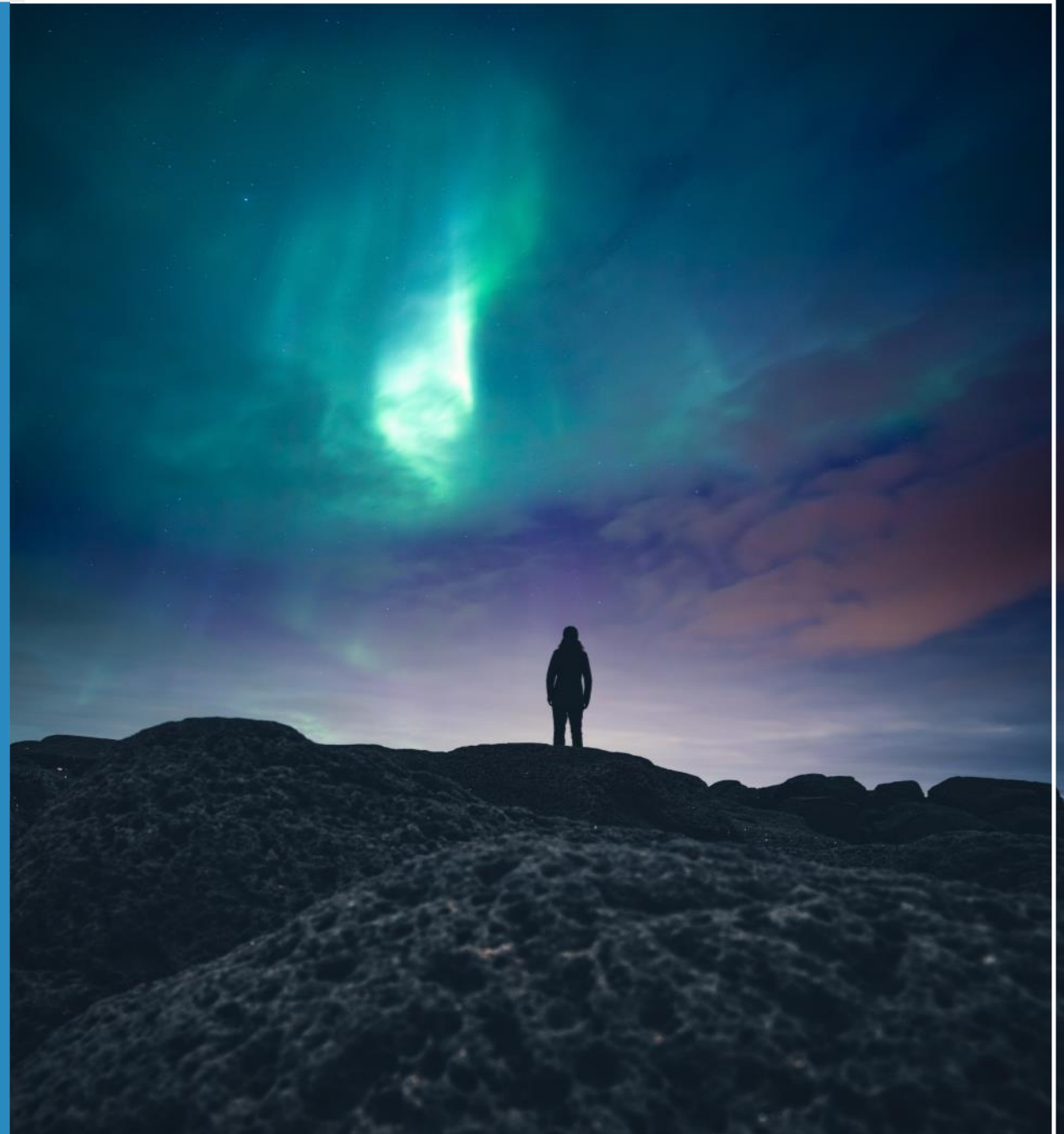
March 2020

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6. Long-Term Risks To Watch





1

Covid-19 Spreading Quickly

China Slowdown

Weaker Demand For Goods & Commodities

Supply Chain Disruption

Reduced Outbound Tourism Spend

Localised Outbreaks

Work Stoppages & Travel Restrictions

Falling Sentiment & Consumption

Weaker Earnings & Reduced Capex

Financial Stress

Equity Sell-Off & Negative Wealth Effect

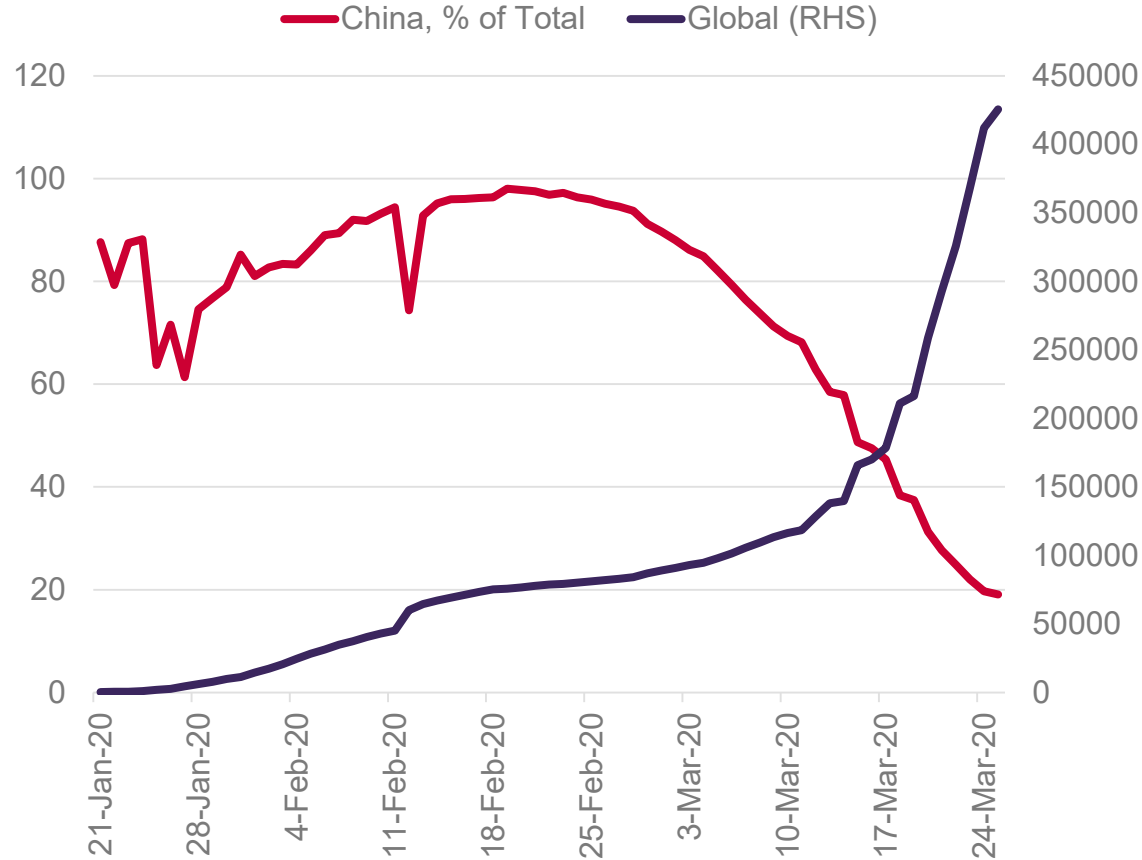
Tightening Financial Conditions

Downside Pressure On Currencies

Covid-19 Spreading Globally, Countries Struggling To Cope

Global Confirmed Covid-19 Cases Still Rising

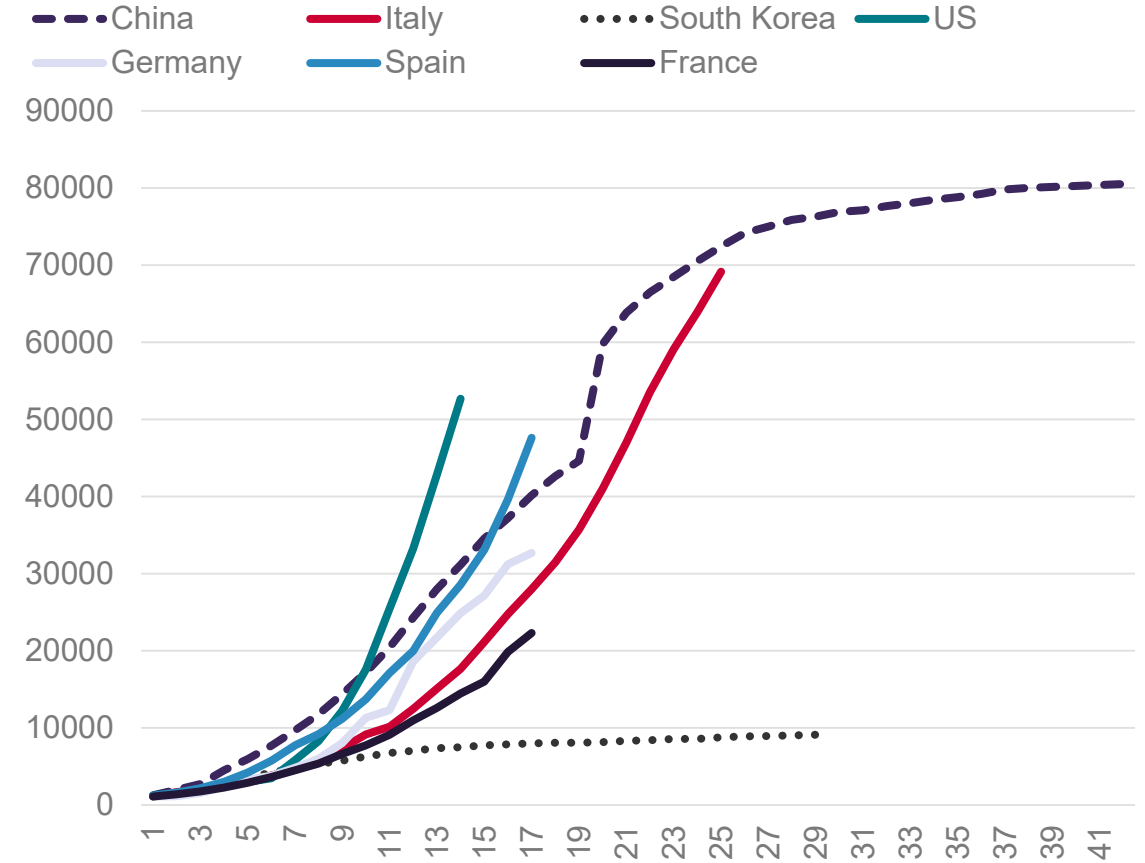
Number Of Cases



Source: WHO, Bloomberg, Fitch Solutions

Trouble With The Curve

Number of Cases Rebased To Approximately 1,000 & Number of Days



Source: WHO, Bloomberg, Fitch Solutions

Covid-19 Spread Leading To Global Lockdown

An Increasing Number Of Countries Are On Lockdown

Country	Lockdown Status	Share Of Global GDP, %	Country	Lockdown Status	Share Of Global GDP, %
US	Partial	24.6	Russia	Partial	1.9
China	Partial	16.4	South Korea	Partial	1.9
Japan	Limited	5.8	Spain	Full	1.6
Germany	Full	4.4	Australia	Full	1.6
India	Full	3.7	Mexico	Partial	1.4
UK	Full	3.2	Indonesia	Full	1.3
France	Full	3.1	Netherlands	Partial	1.0
Italy	Full	2.3	Saudi Arabia	Partial	0.9
Brazil	Partial	2.1	Turkey	Partial	0.9
Canada	Partial	2.0	Switzerland	Full	0.8

Source: Fitch Solutions

- We are still waiting for the 'curve to flatten', but the ongoing lockdowns and social distancing measures should help over the coming weeks.
- Over 80% of the global economy is currently in some form of lockdown, and we expect more countries to announce similar measures.
- This will likely result in rolling blows to economic activity as more and more countries are put on lockdown.
- Emerging markets (EMs) have only started to report a sharper rise in Covid-19 cases, and we expect to see more lockdowns there.
- We expect this to result in continued disruptions to supply chains across the global economy.



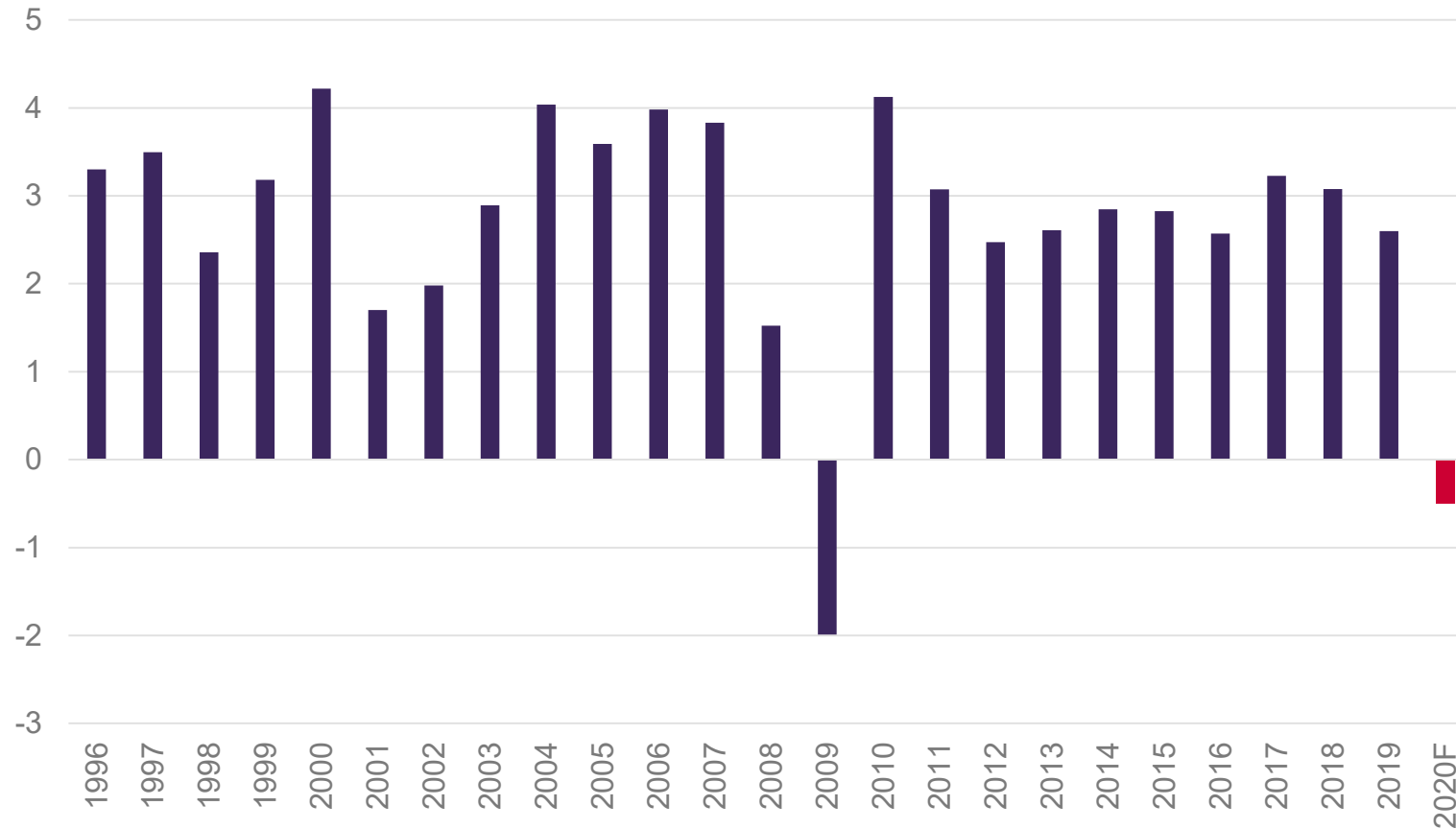
2

Global Economy In Recession

Global Economy Falling Into Recession

Global Growth To Come In Between 0.0% & -0.5%, With Downside Risks

Real GDP, %



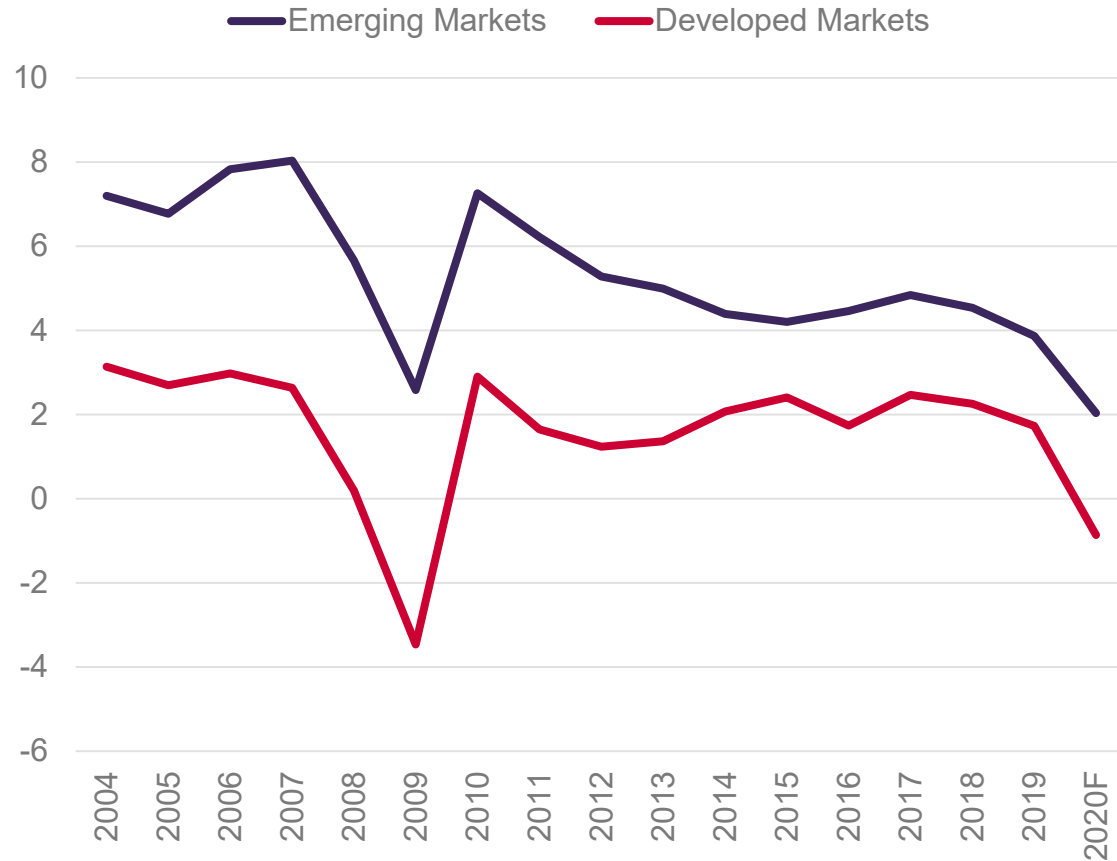
f = Fitch Solutions forecast. Source: IMF, Fitch Solutions

- We forecast the global economy to fall into recession in 2020. Growth will come in somewhere between 0.0% and -0.5%, but downside risks remain.
- Multiple Covid-19 outbreaks will cause both supply and demand shocks to the global economy as economies go into lockdowns.
- Moreover, the sharp tightening of financial conditions is leading to substantial funding pressures and liquidity constraints for businesses.
- We believe that the global economy could start to emerge from recession by late Q420, given that recessions since 1948 have averaged about 10-12 months.
- That said, this view is contingent on authorities being able to contain the spread of the virus in the next two months.

DM In Contraction, EM Lower Than Levels Seen During GFC

Developed Market Growth Back In Contraction

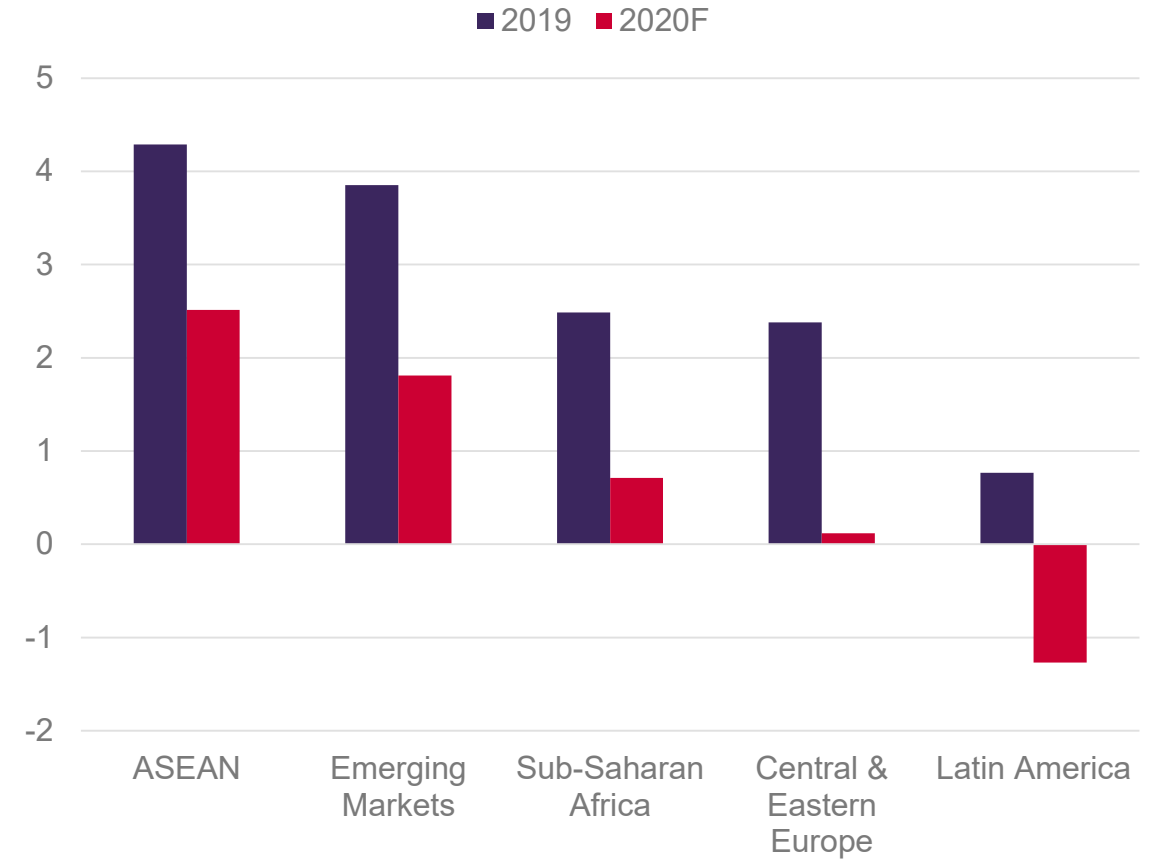
Real GDP Growth, %



F = forecast. Source: Fitch Solutions

Sharp Slowdown, With More Downward Revisions Ahead

Real GDP Growth, %



f= forecast. Source: Fitch Solutions

Revisions To Global Growth May Continue For Weeks

Recent Changes To Key Forecasts, More To Come

Real GDP, %

Country	Previous Forecast	New Forecast	Country	Previous Forecast	New Forecast
US	0.9	-1.0	Spain	-1.2	-2.0
China	4.2	2.6	Germany	0.2	-1.0
Japan	-0.2	-1.1	Greece	2.0	-0.3
Philippines	6.0	4.0	Italy	-2.1	-2.9
Indonesia	5.1	4.8	Turkey	3.0	0.4
India	5.4	4.6	Russia	1.4	-1.3
France	-1.0	-1.8	South Africa	0.2	-1.9
Brazil	1.6	-1.9	Mexico	-0.2	-2.8

Source: Fitch Solutions

- Our growth forecasts remain highly fluid and are subject to significant downside risks.
- We have revised down US growth to -1.0% and China to 2.6%, but note that we may revise these down again.
- European countries such as Italy, Spain and France will see their economies contract in 2020 as the outbreak continues to spread and lockdowns remain in place. Again, we see significant downside risks to these forecasts given their inability to dramatically slow the number of Covid-19 cases.
- Latin America's and Africa's largest economies will also fall into recession as localised outbreaks emerge.
- Even fast-growing countries such as the Philippines and Vietnam will be hit hard.

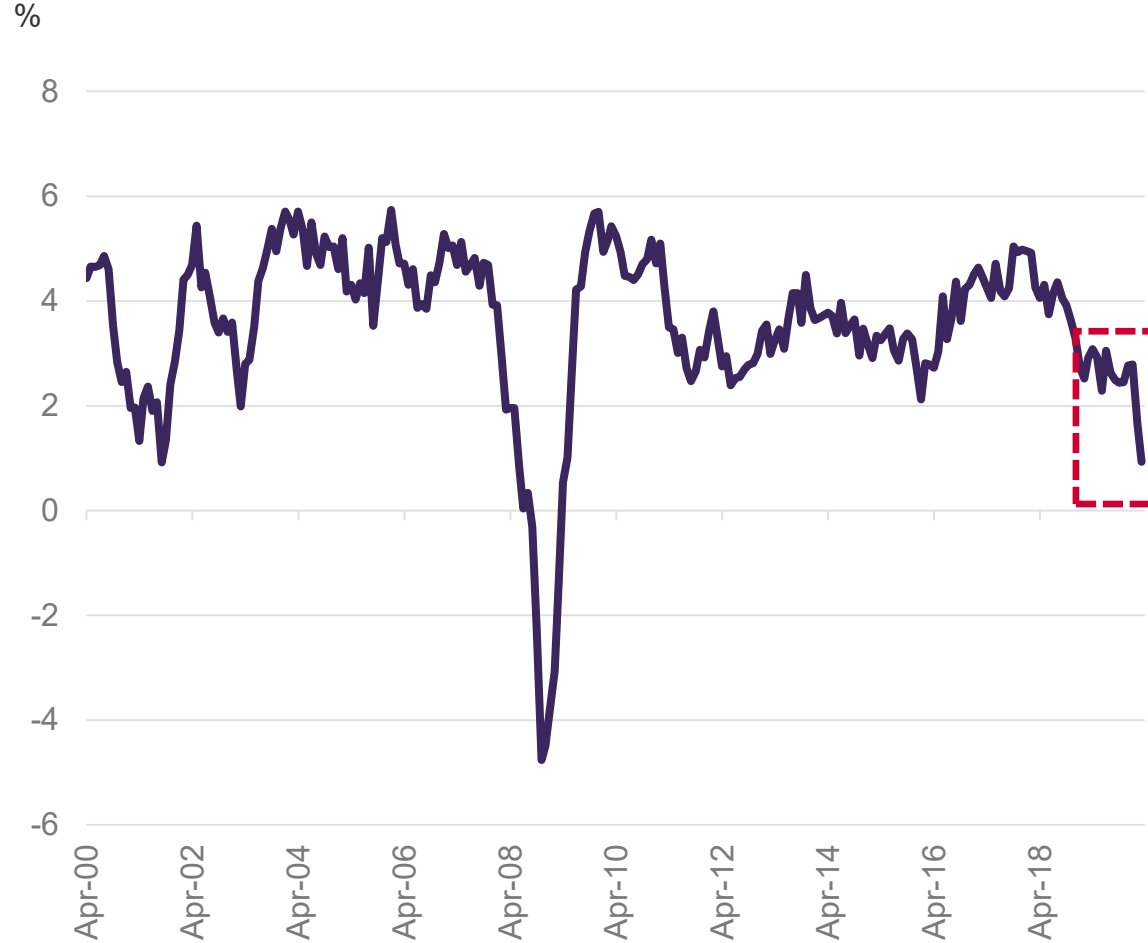


3

High Frequency Indicators Look Terrible

Global Economy Tracking Sharply Lower

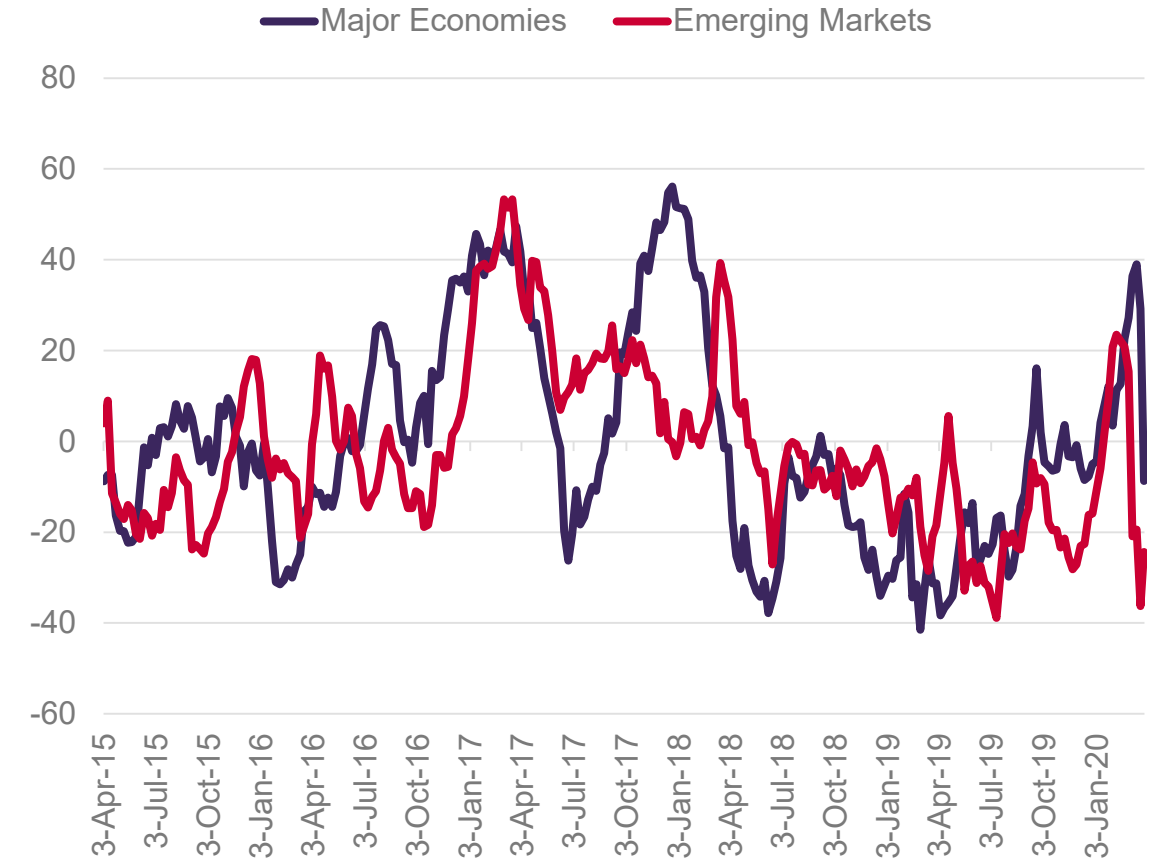
Global Economic Momentum Turning Down Quickly



Source: Goldman Sachs, Bloomberg, Fitch Solutions

Data Already Coming In Below Expectations

Citi Surprise Index

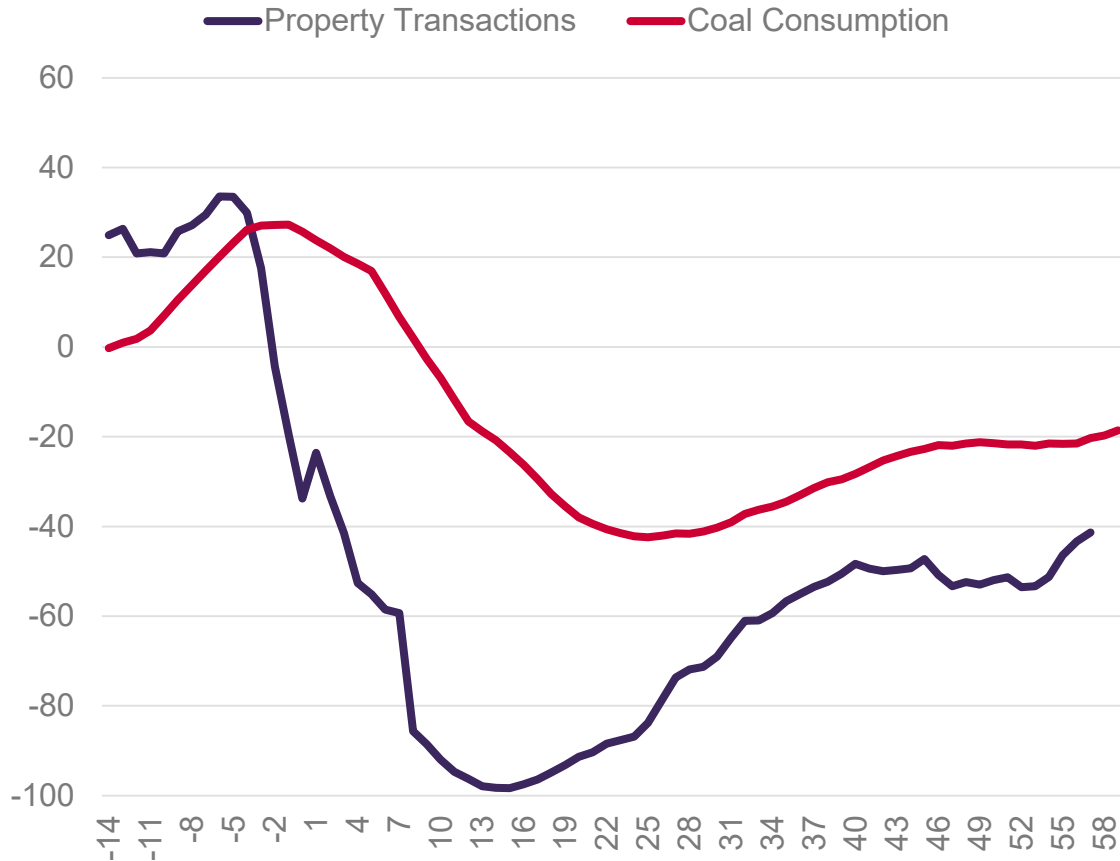


Source: Citi, Bloomberg, Fitch Solutions

Chinese Growth Tanking Following The Lockdowns

Activity Down Sharply As Lockdowns Hit Hard

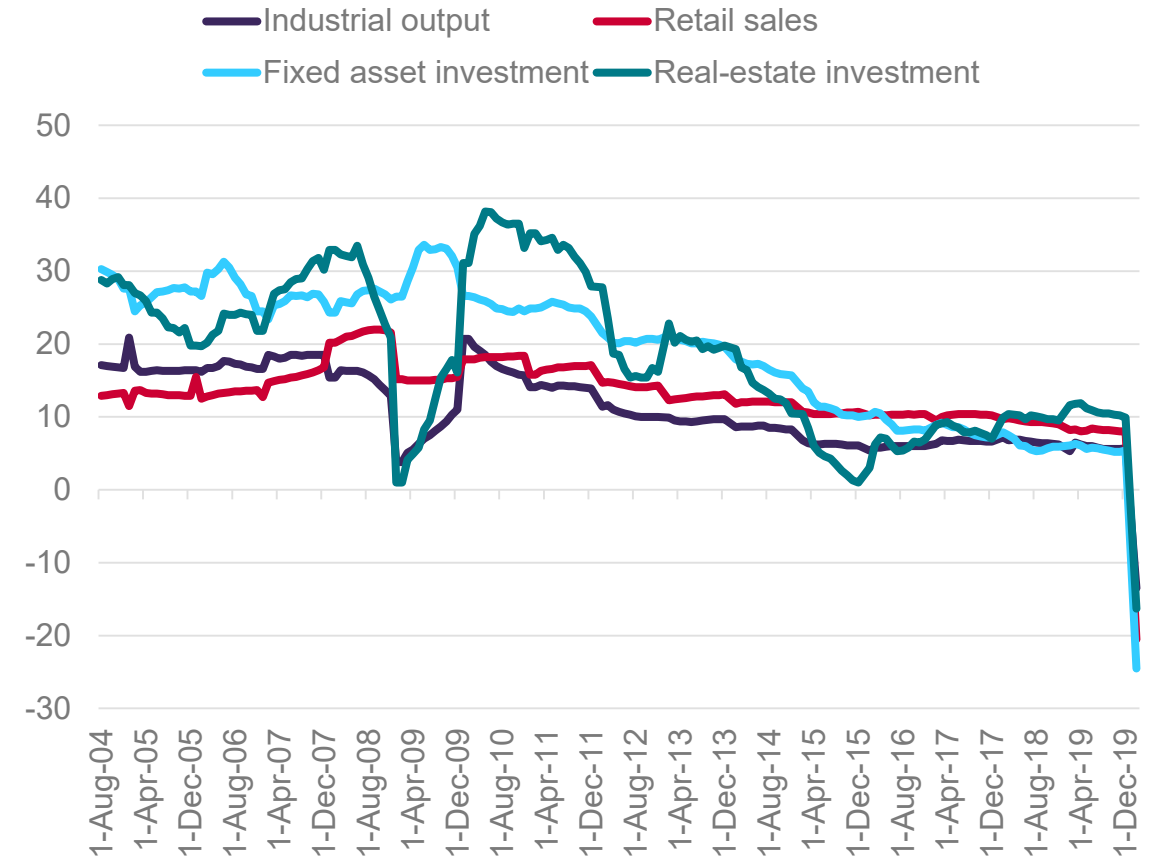
% chg y-o-y In The Days Before & After Lunar New Year



Source: Wind, Fitch Solutions

Various Sectors Of The Economy Collapsing

% chg y-o-y

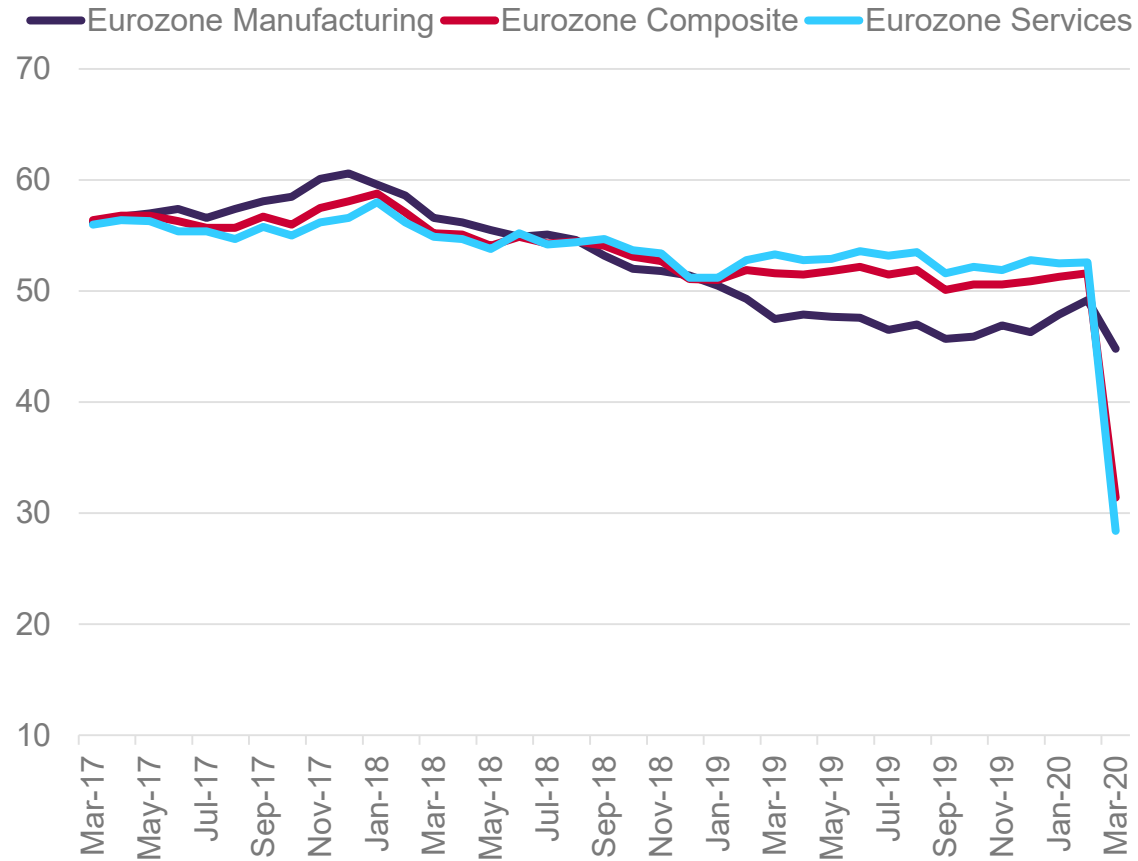


Source: Bloomberg, Fitch Solutions

Eurozone PMIs Point To Sharp Contraction

Eurozone Services Sector PMIs In Freefall

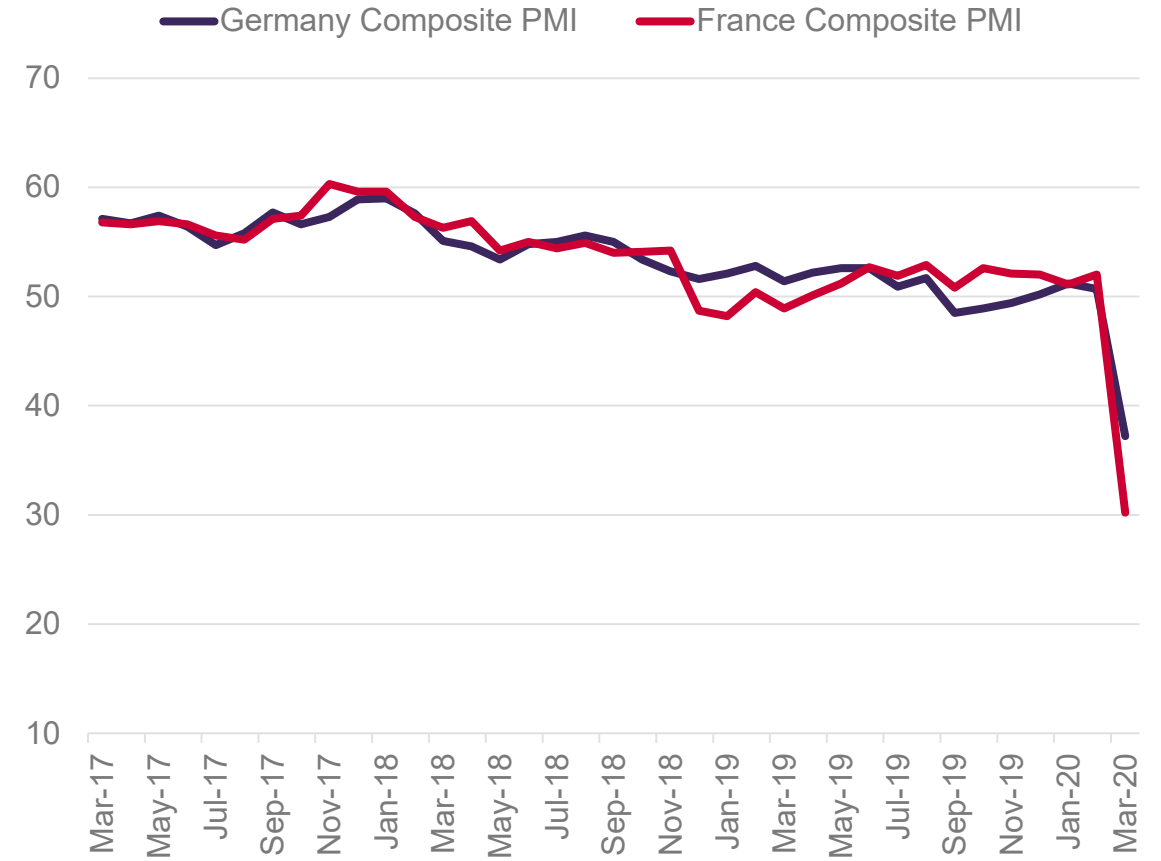
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Source: Markit, Bloomberg, Fitch Solutions

German & French Economies Under Pressure

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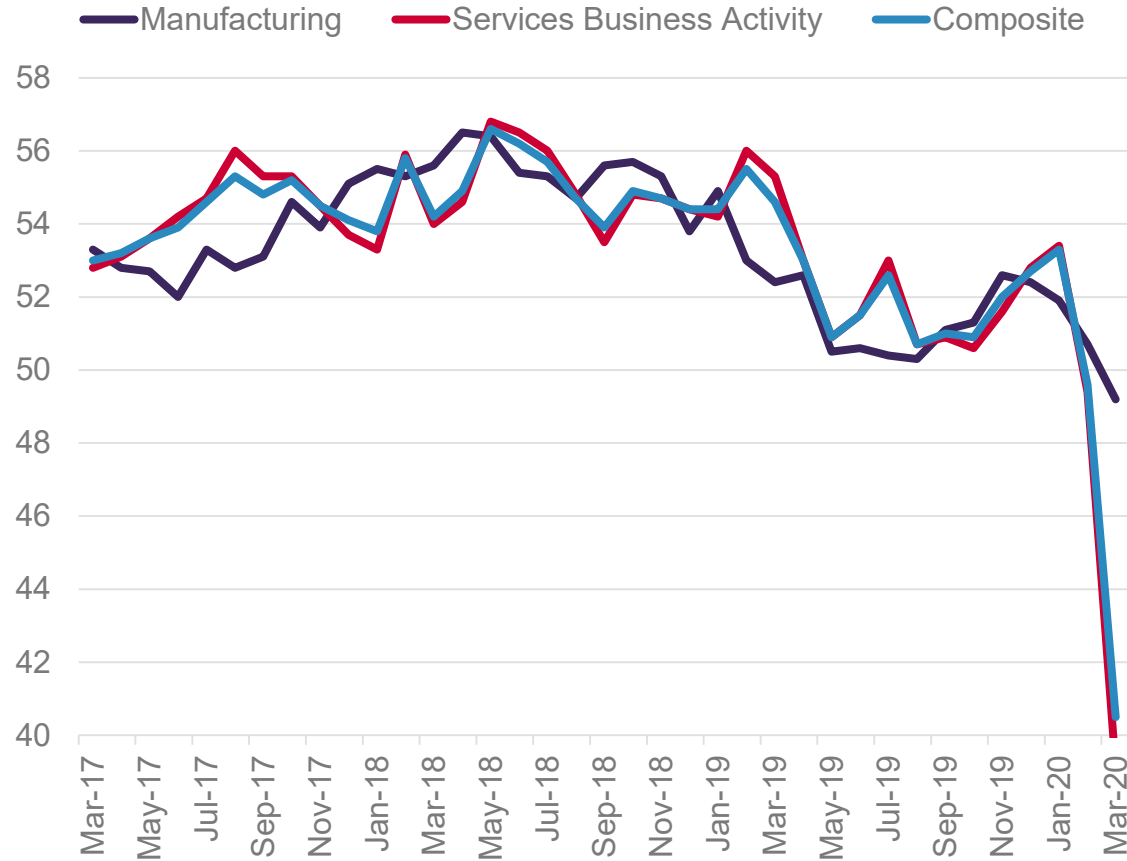


Source: Markit, Bloomberg, Fitch Solutions

US Growth Starting To Collapse, But Worst Still To Come

US PMI Data Starting To Tank

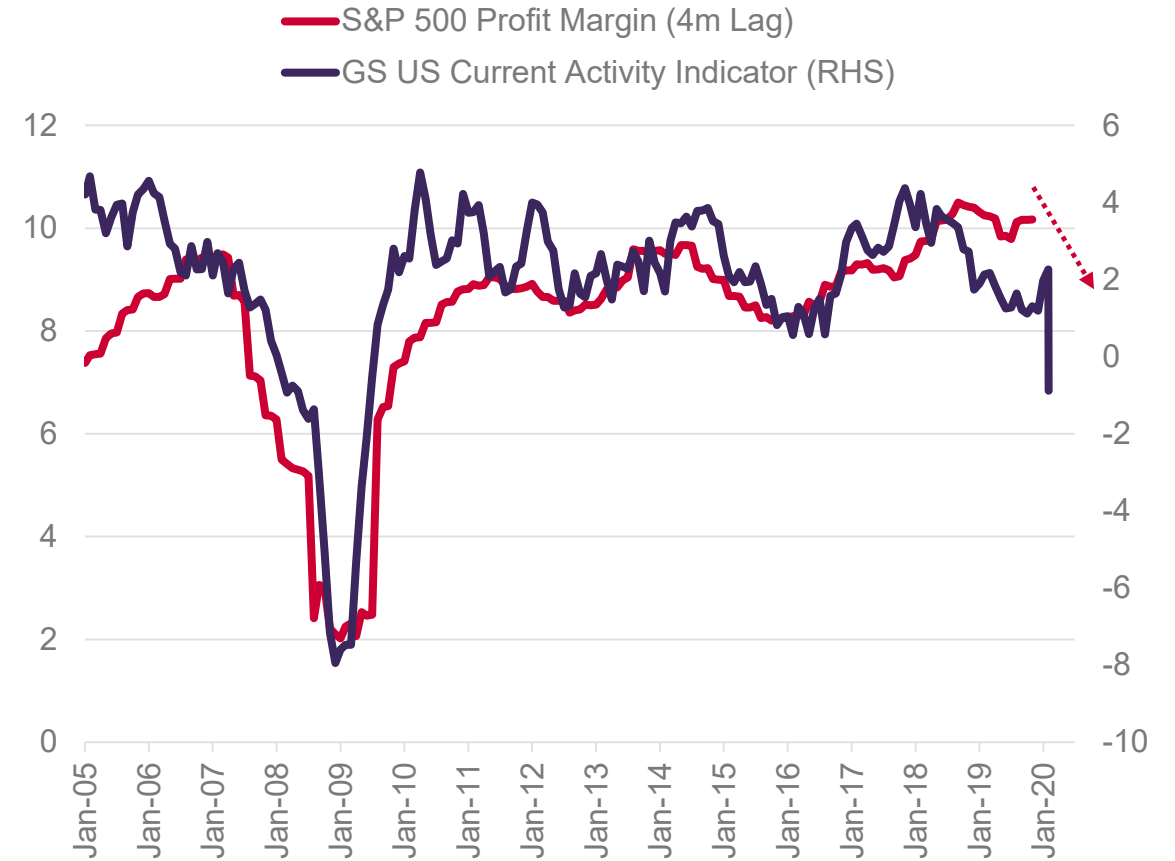
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Source: Markit, Bloomberg, Fitch Solutions

US Corporate Profits & Profit Margins Will Collapse

%

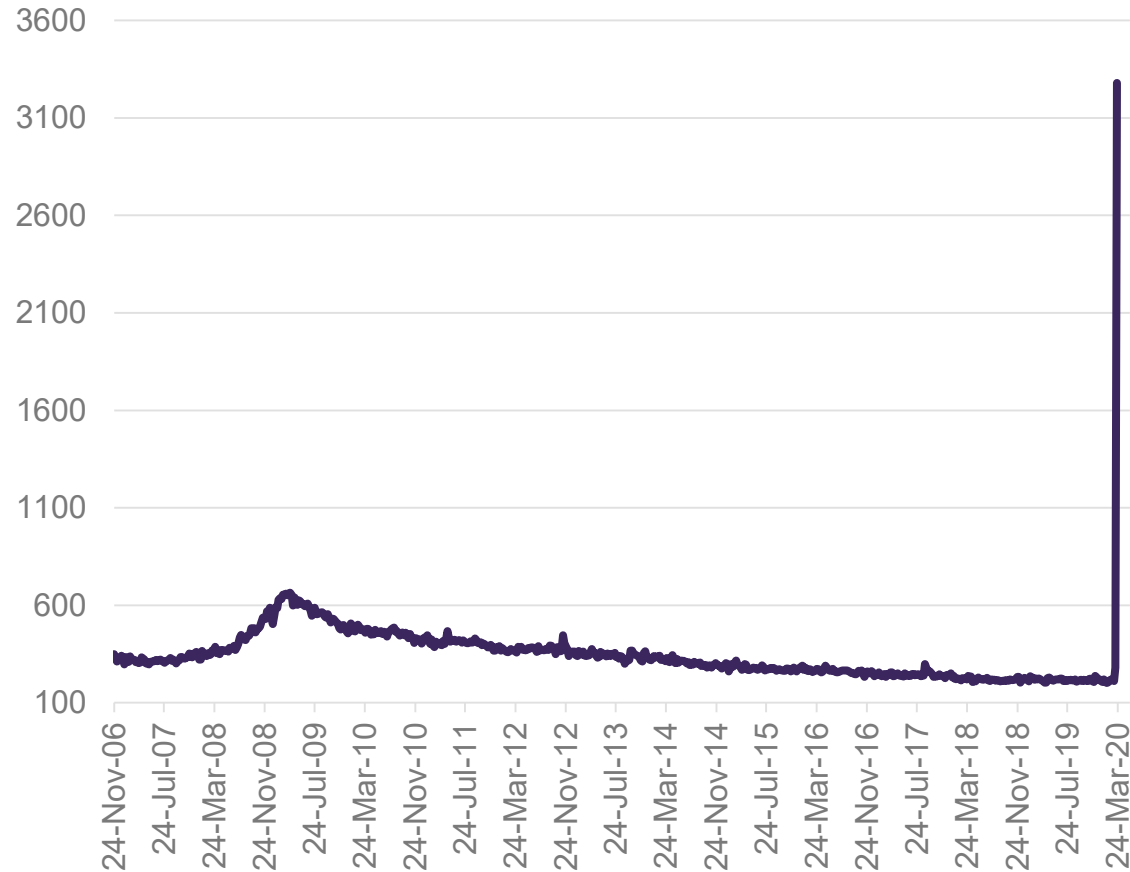


Source: Goldman Sachs, Bloomberg, Fitch Solutions

US Labour Market Reversing Quickly

US Initial Jobless Claims Hit A Record

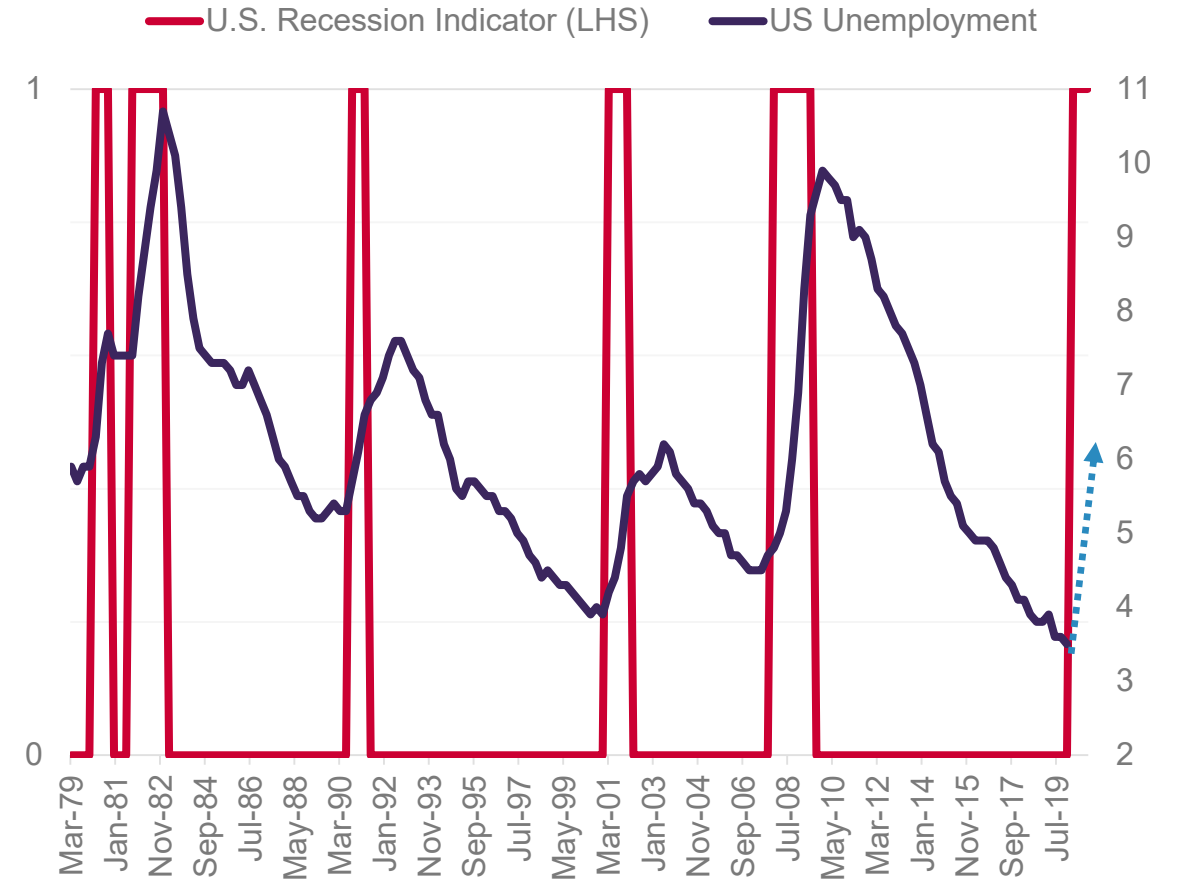
'000, Weekly



Source: Bloomberg, Fitch Solutions

Unemployment Set To Rise Sharply

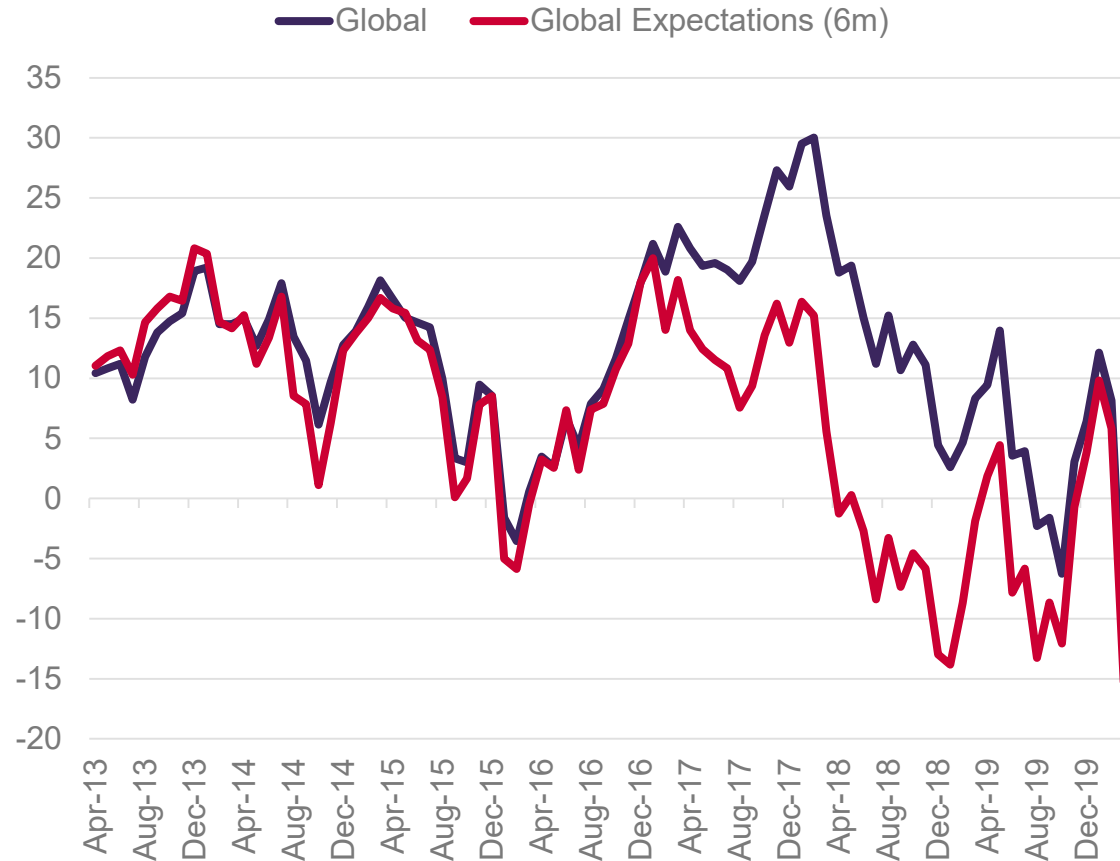
%



Source: Bloomberg, Fitch Solutions

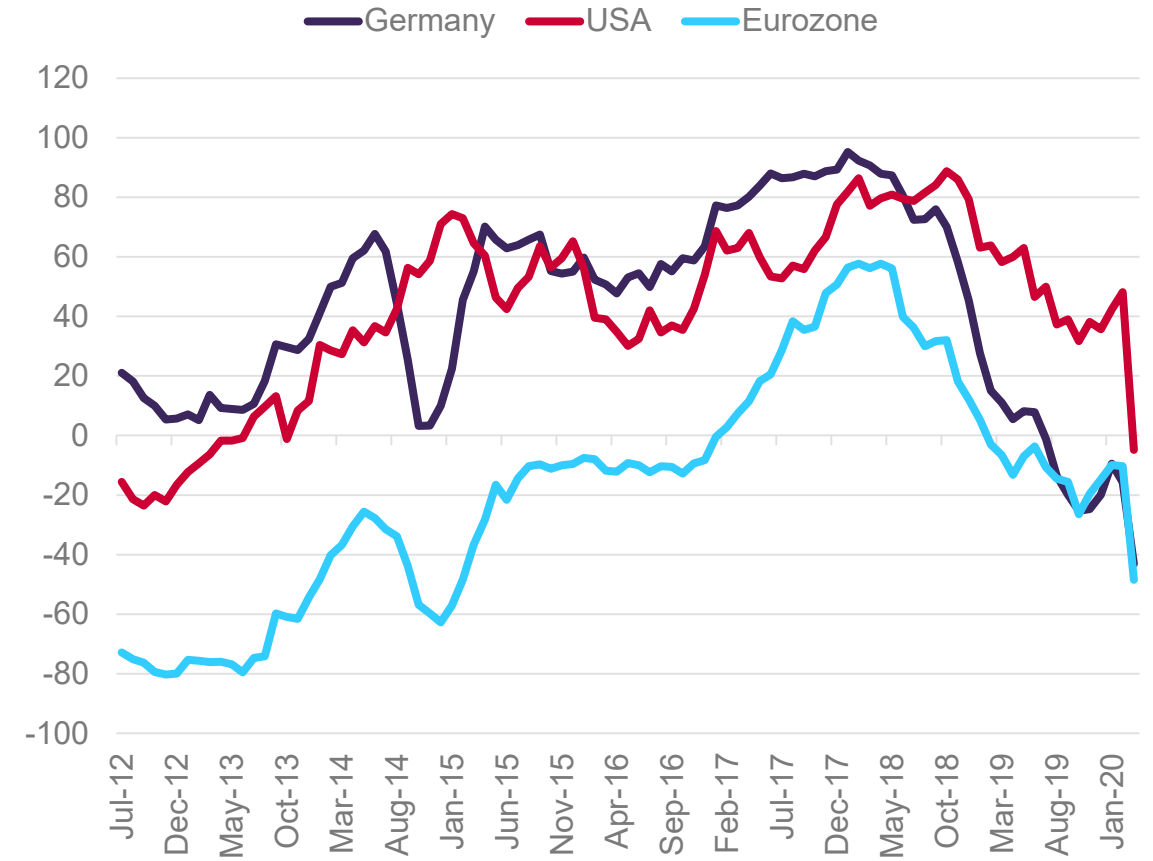
Global Confidence And Sentiment Collapsing

Sentix Sentiment Surveys Point To Slower Growth
Index



Source: Sentix, Bloomberg, Fitch Solutions

Zew Surveys Show A Sharp Decline
Index

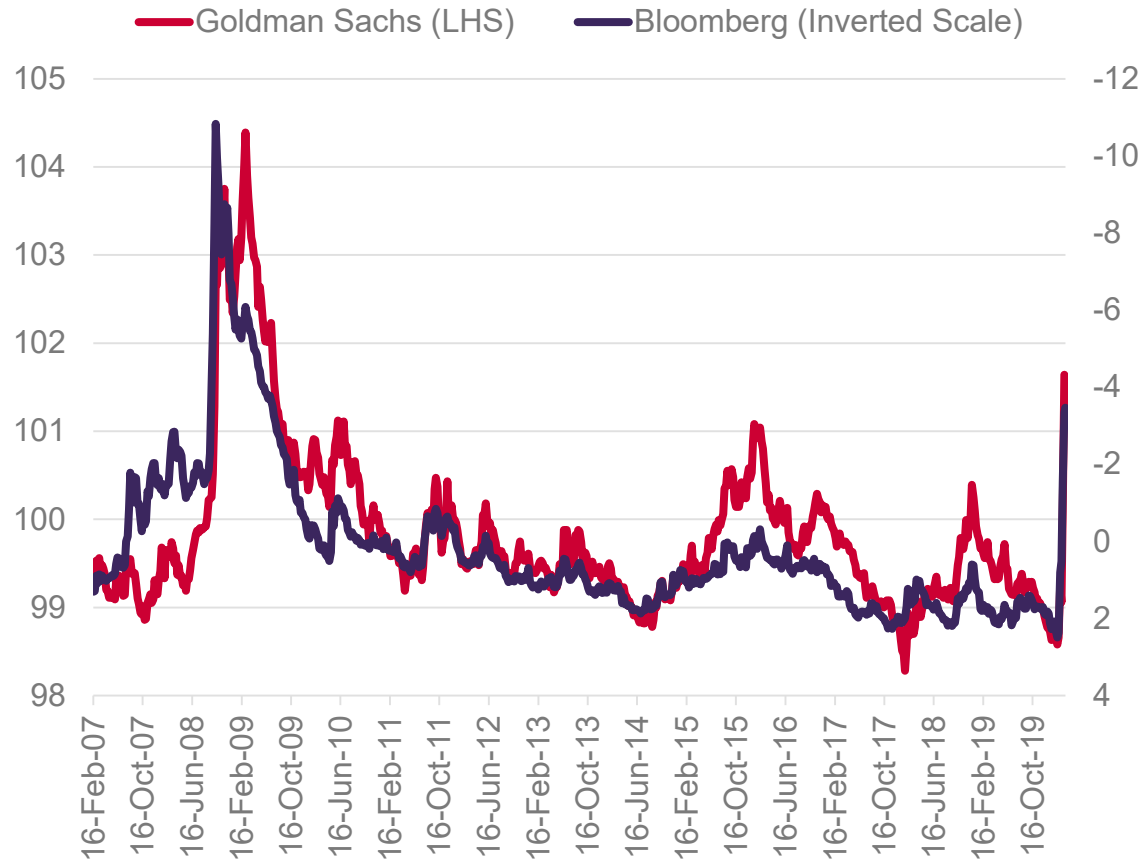


Source: Zew, Bloomberg, Fitch Solutions

Financial Conditions Tightening, Especially High Yield

Financial Conditions In The US Have Tightened

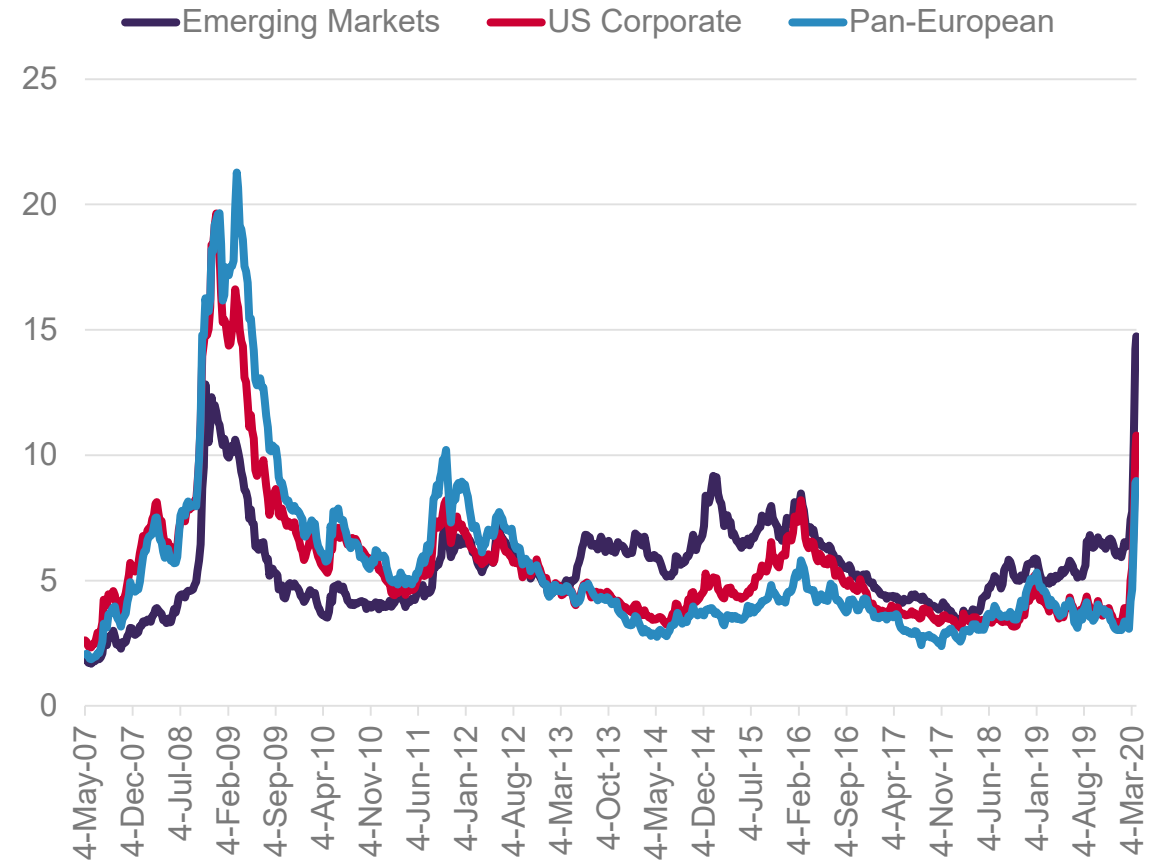
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Source: Bloomberg, Fitch Solutions

High-Yield Debt Facing A Crisis

%

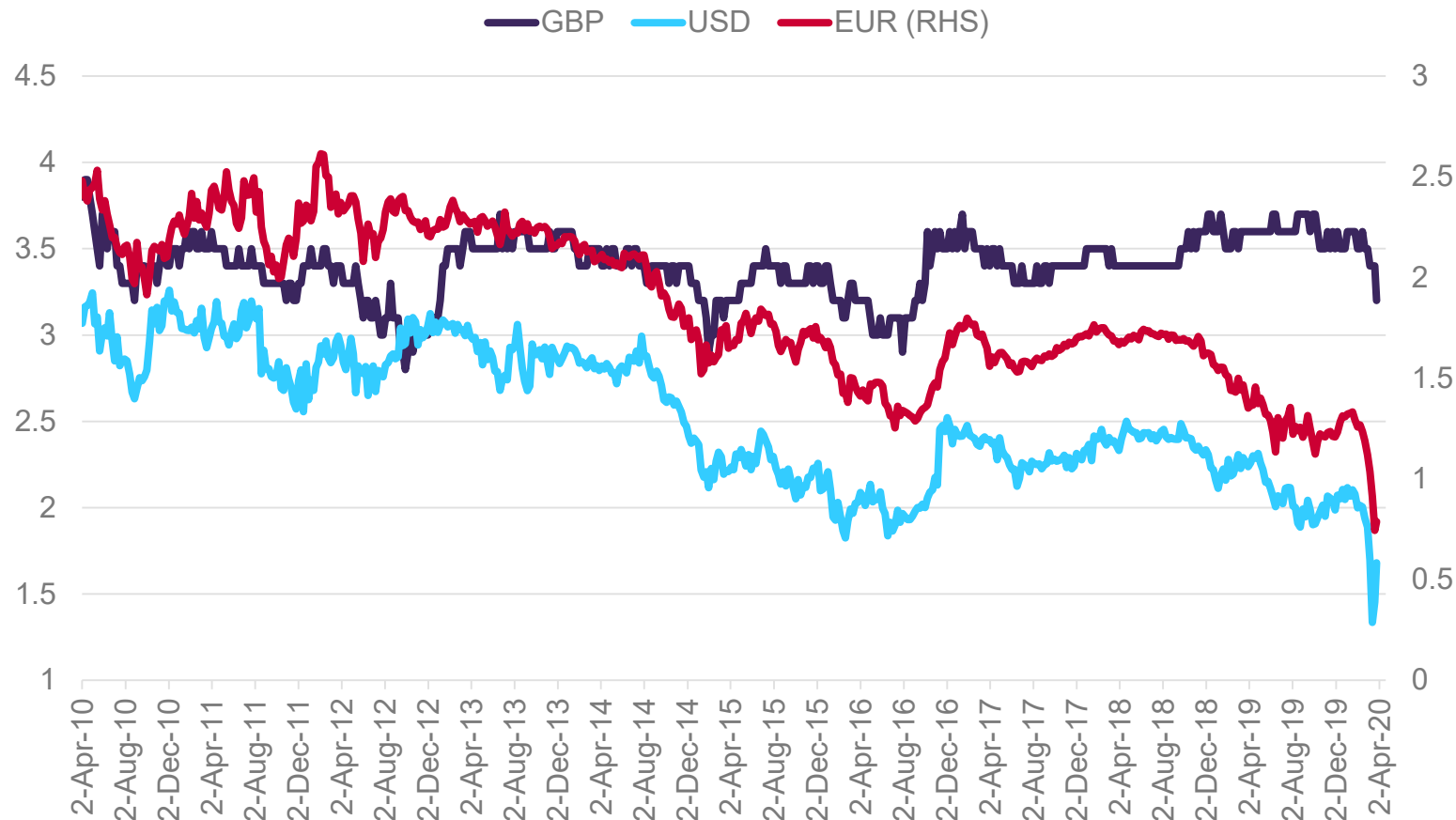


Source: Bloomberg, Fitch Solutions

Inflation To Remain Low...For Now

Inflation Expectations Have Declined Sharply

Five-Year Swaps, %



Source: Bloomberg, Fitch Solutions

- The collapse in global growth and commodity prices will exert downside pressure on inflation across the board over the coming months.
- However, over the medium to longer term there are risks that inflationary pressures could start to emerge.
- Supply chain disruptions could lead to a temporary increase in agricultural prices as food export restrictions are implemented by major suppliers.
- For EMs, a sharp weakening of their currencies could also result in imported inflation.
- Over the longer term, significant fiscal and monetary stimulus globally, combined with low productivity growth could result in a structural rise in inflationary pressures.



4

Emerging
Markets To Feel
More Pain

EMs To Come Under More Pressure

Historical Periods Of Stress & Impact On EMs

%, pp, bps

	GFC Oct 07-Oct 08	Fukushima Mar 11-Oct 11	Oil + China Jul 14-Jan 16	Trade War Jan 18-Oct 18	Average	Average w/o GFC
MSCI EM Equity Index %	-66	-31	-37	-26	-40	-31
MSCI EM FX Index %	-20	-9	-15	-8	-12.9	-10.7
Global EMBI, bps	697	174	227	100	300	167
Brazil	-7.3	-4.6	-6.6	-0.3	-4.7	-3.9
Mexico	-7.6	-1.0	0.9	-1.8	-2.4	-0.6
South Africa	-6.9	-0.8	-2.0	-0.9	-2.6	-1.2
Malaysia	-8.9	0.0	-1.2	-1.1	-2.8	-0.8
Turkey	-12.3	-3.2	-3.6	-8.8	-7.0	-5.2
Russia	-16.4	0.3	-3.8	-0.2	-5.0	-1.2
Indonesia	-1.7	-0.4	-0.4	0.0	-0.6	-0.3
India	-3.1	-2.7	0.7	-1.4	-1.6	-1.1
Weighted Av.	-8.0	-2.1	-2.4	-1.5	-3.5	-2.0

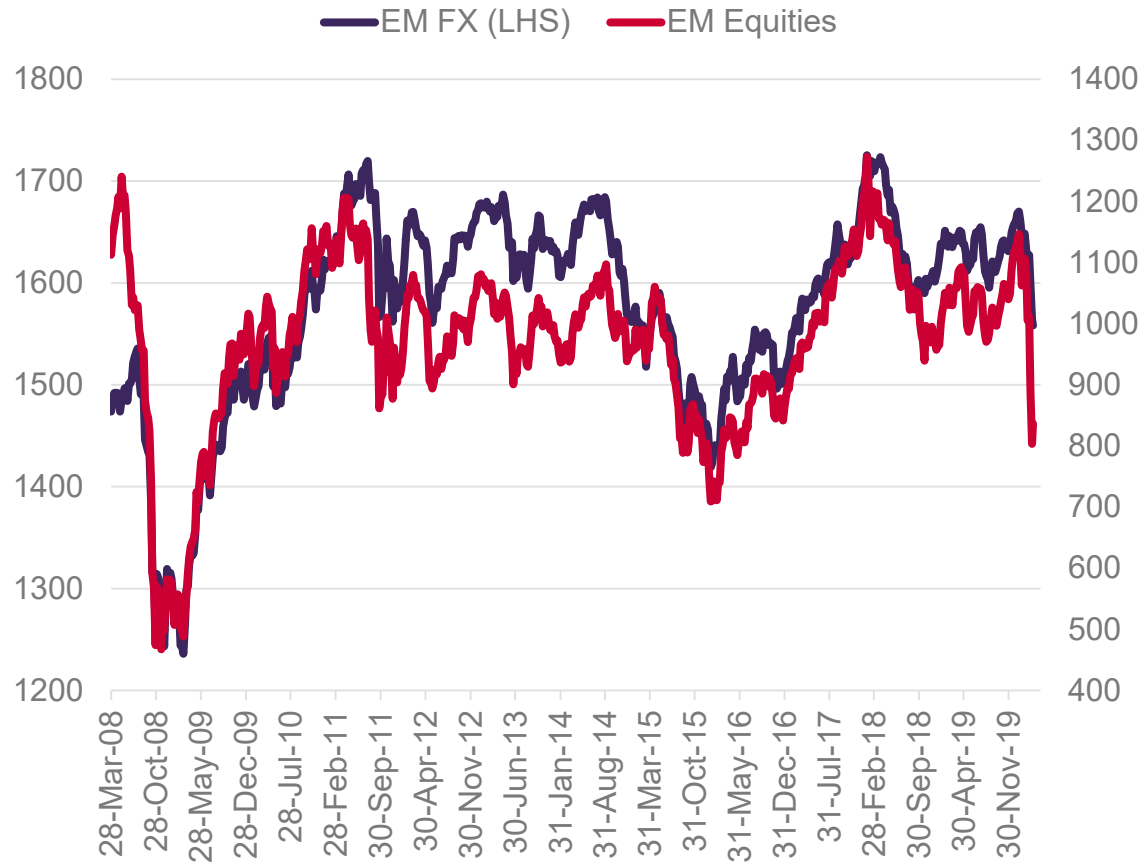
The financial market indices are measured as percentage change from peak to trough. However, the countries show the change (or comparison) between the average real GDP growth rate four quarters prior to financial market stress, with the average growth rate of the weakest consecutive four quarters after periods of financial market stress for each country and is measured in percentage points (pp). Source: Fitch Solutions

- EMs are facing a combination of slowing demand, weaker commodity prices, tightening US dollar liquidity and broad financial market stress.
- Historically, these factors have weighed heavily on growth in the following quarters.
- The table shows the performance of financial markets from peak to trough during different episodes of stress.
- It also compares the average real GDP growth rate four quarters prior to financial market stress with the average growth rate of the weakest consecutive four quarters after periods of financial market stress.
- Combined with localised Covid-19 outbreaks, EM growth will remain under pressure.

EMs Facing Similar Symptoms

EMs Under Financial Pressure

Index



Source: MSCI, Bloomberg, Fitch Solutions

EM Equities, Commodities & EM Currencies Selling Off

% Change From Q120 Peak To Trough

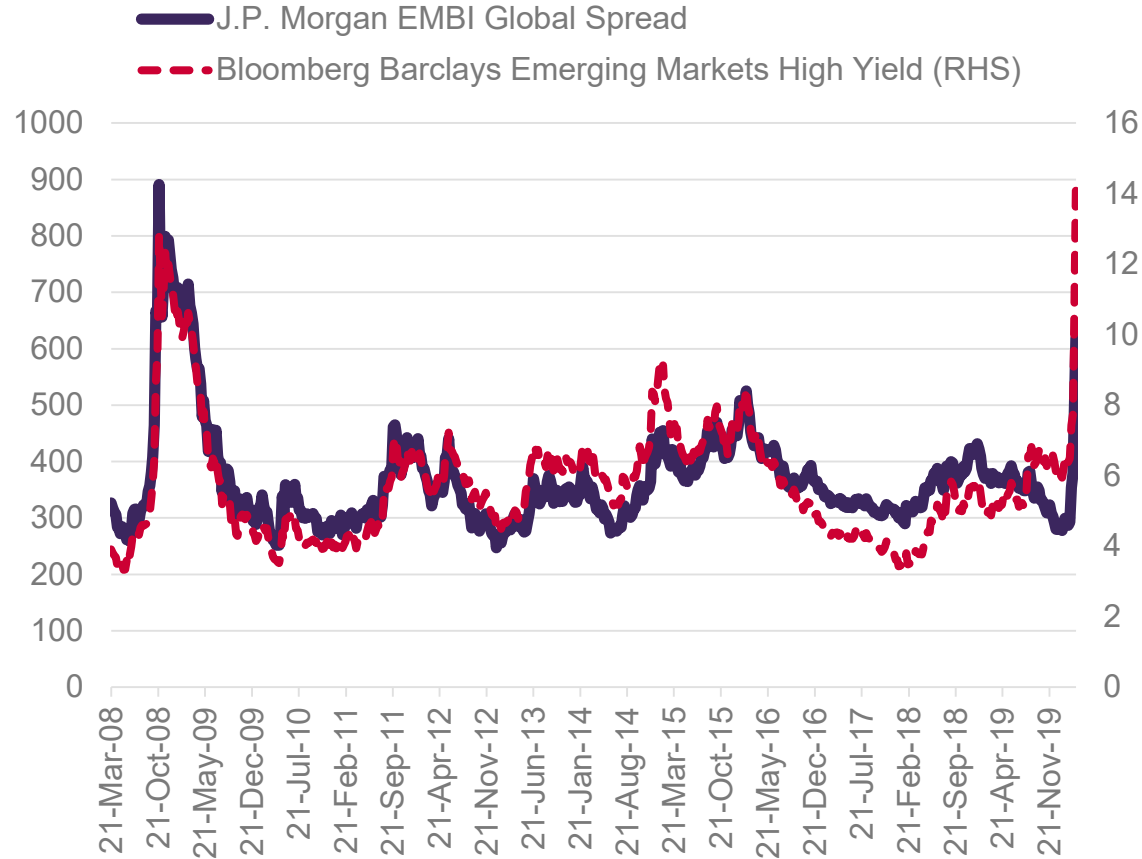


Source: Bloomberg, Fitch Solutions

EMs Facing A Credit Crunch And High Debt Loads

Funding Costs Rising For EMs

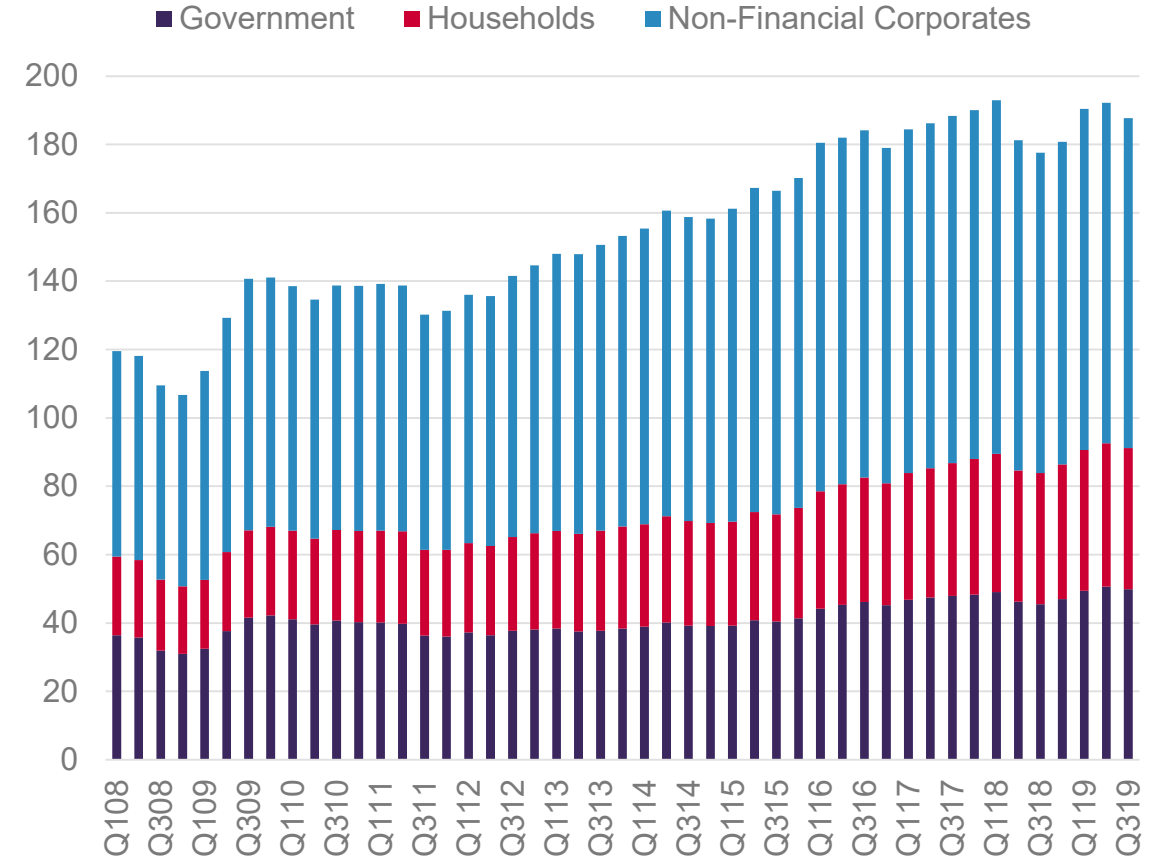
bps, %



Source: Bloomberg, Fitch Solutions

EMs Have Seen A Sharp Increase In Debt

% Of EM GDP

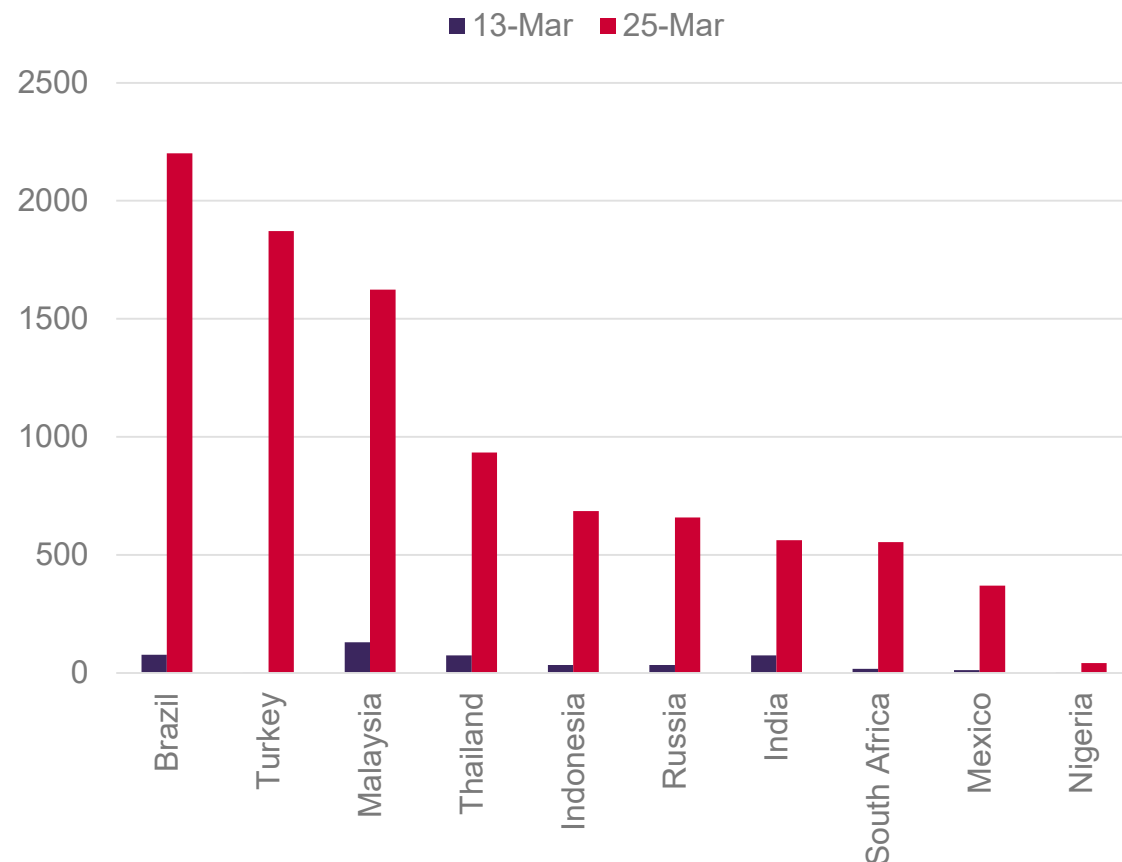


Source: BIS, Fitch Solutions

Covid-10 Cases Will Continue To Surge, Policymakers Will Struggle

Confirmed Covid-19 Cases Has Surged As Testing Rises

Number Of Cases



Source: WHO, Bloomberg, Fitch Solutions

Policymakers Have Less Room To Manoeuvre

Economy	2020 Growth, %	Fiscal Space	Monetary Space
Russia	-1.3	High	High
Peru	1.1	High	Medium
Saudi Arabia	0.6	High	Medium
Thailand	-1.4	High	Low
Chile	0.5	High	Low
Indonesia	4.8	Medium	Medium
South Africa	-1.9	Medium	Low
Malaysia	3.7	Low	Medium
Brazil	-1.9	Low	Low
Vietnam	6.3	Low	Low
India	4.6	Low	Low
Angola	-1.3	Low	Low

Note: This table is not a ranking. Source: Fitch Solutions



5

This Too Shall
Pass ...

... But How Long Will
It Last?

Three Scenarios For Growth

Factors That Could See Larger Declines In Economic Output

	Global Growth Rate	Containment Efforts (US/Europe/Japan)	Lockdowns	Unemployment	Financial Stress
Baseline	0 to -0.5	New cases peak in April/early May, steady reduction in the number of new cases.	Major lockdowns start to be lifted in May.	Sharp rise but quick decline as businesses re-open.	Bottom in equity and credit markets seen in April/May if not before.
Downside Scenario 1	-0.5 to -1.5	New cases only start to peak in late May or June.	Lockdowns remain in place until June, slow lifting of lockdowns thereafter.	Sharp rise and a slow decline as businesses take a while to re-open.	Bottom in equity and credit markets seen in early H220.
Downside Scenario 2	-1.5 to -2.5	New cases only start to peak in late June or July.	Lockdowns remain in place until July-August, slow lifting of lockdowns thereafter.	Sharp rise and a slow decline as businesses take a while to re-open.	Bottom in equity and credit markets seen in late H220. Banking sector to come under pressure.

Source: Fitch Solutions

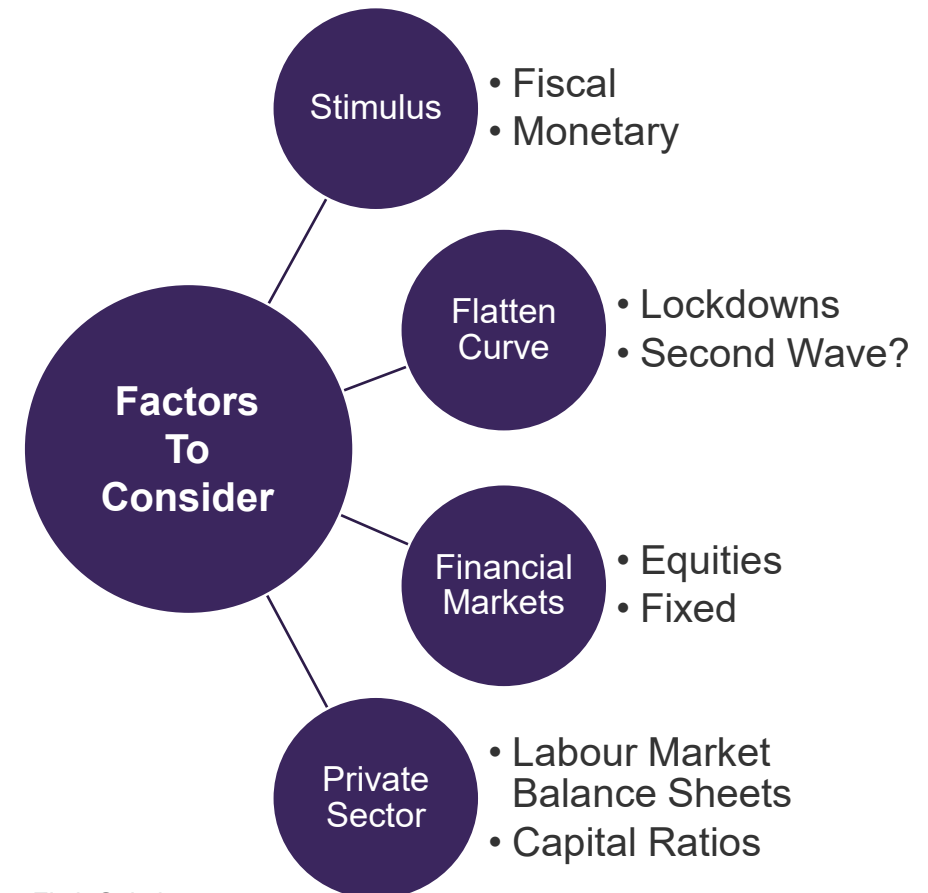
How Long Will The Global And US Recession Last?

Recession Length Could Be Around Historical Average

Start	End	Duration, month
Nov-1948	Oct-1949	12
Jul-1953	May-1954	11
Aug-1957	Apr-1958	9
Apr-1960	Feb-1961	11
Dec-1969	Nov-1970	12
Nov-1973	Mar-1975	17
Jan-1980	Jul-1980	7
Jul-1981	Nov-1982	17
Jul-1990	Mar-1991	9
Mar-2001	Nov-2001	9
Dec-2007	Jun-2009	19
Average		12
Av. Excl. Oil Shocks And GFC		10

Source: Fitch Solutions

Four Factors To Consider To Time The Recession



Source: Fitch Solutions

Stimulus: Unprecedented ‘Whatever It Takes’ Measures

Key Stimulus Measures

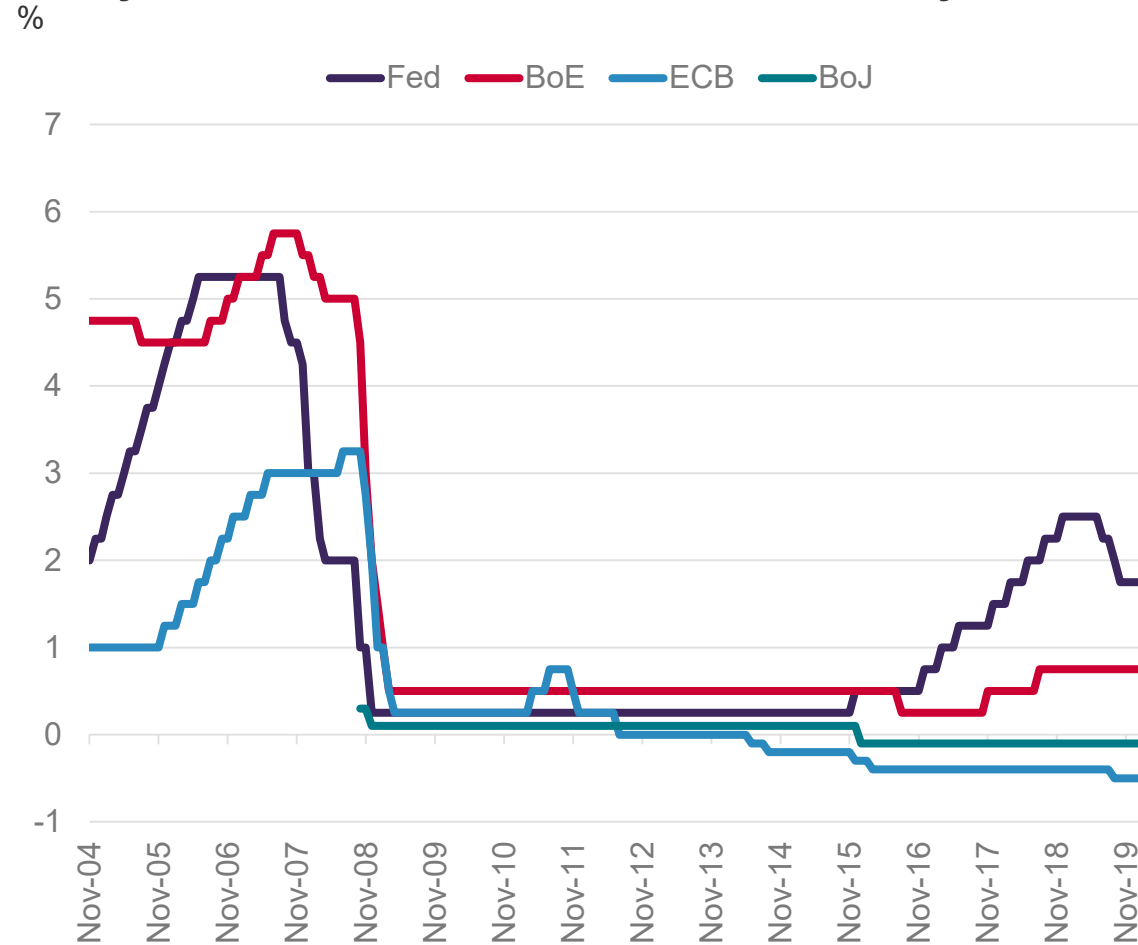
Country	Fiscal Policy	Monetary Policy
US	Potential for USD2.3trn package, more than 10% of GDP.	150 basis points (bps) of interest rate cuts and unlimited asset purchases.
Australia	1.0% of GDP, plus loan guarantees.	100bps of interest rate cuts, asset purchases.
Germany	Loans and direct measures worth 10% of GDP.	European Central Bank (ECB) expanding public and private-sector securities by EUR750bn.
UK	GBP330bn worth of loans (15% of GDP) and GBP20bn of other measures (0.9% of GDP).	65bps of interest rate cuts and asset purchases up to 9% of GDP.
France	EUR45bn in direct tax breaks and direct state payments; EUR300bn of bank loans.	ECB expanding public and private-sector securities by EUR750bn.
China	CNY1.84trn worth of new local government bonds, 14 infrastructure projects brought forward.	10bps cut to policy rate.
Brazil	Package worth 2.1% of GDP.	100bps of interest rate cuts.

- Despite a slow and somewhat uncoordinated start, global policymakers have started to announce large stimulus measures.
- The G20 pledged USD5trn in funds to support households and businesses impacted by Covid-19, stating that they would do ‘whatever it takes’.
- Many countries have launched a mix of direct fiscal spending plus significant loan guarantees.
- As interest rates reach the lower bound, monetary stimulus will mainly be delivered through an increase in the bond-buying (QE) programme, which will increase the size of bank balance sheets, while more countries will also launch their own QE programmes.

Source: Fitch Solutions

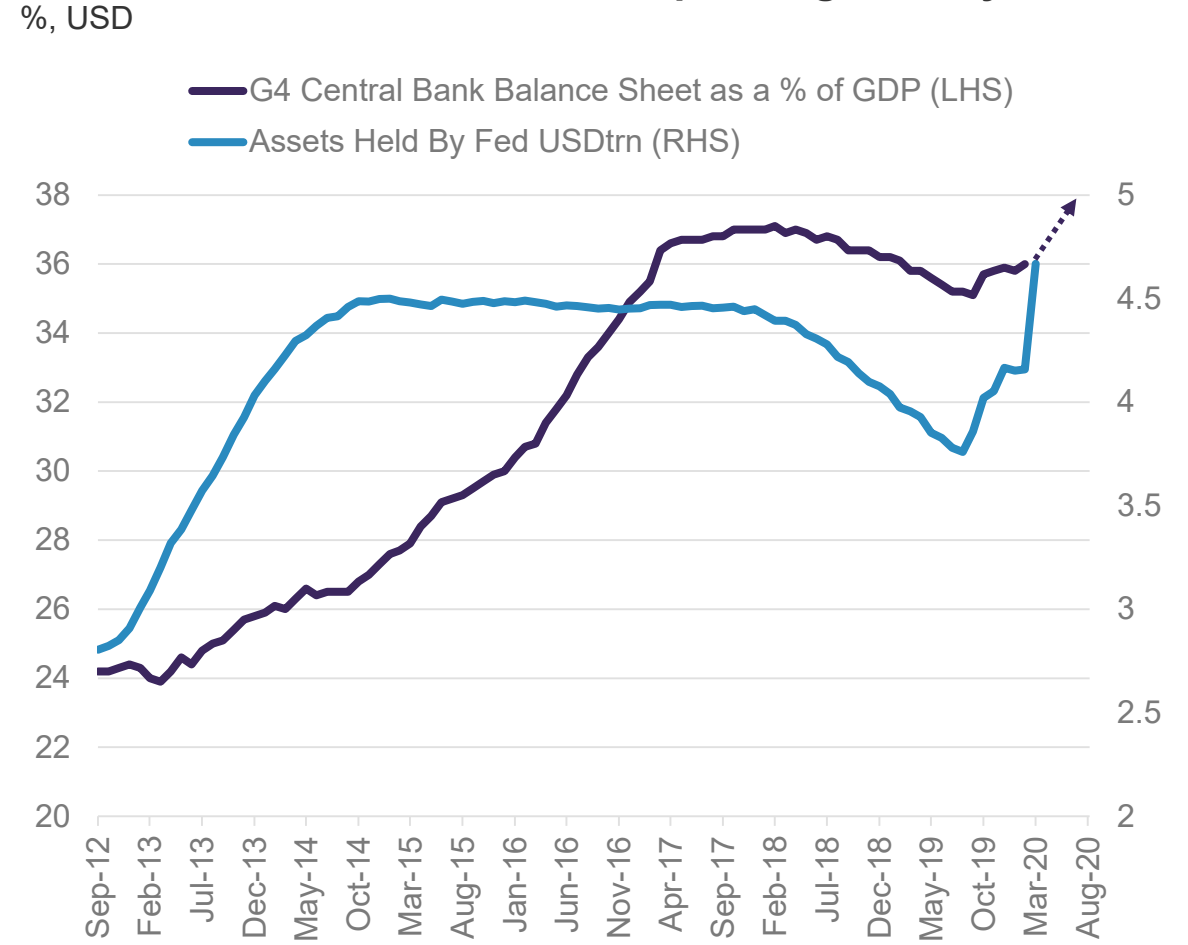
Central Banks Stimulus: Flooding The Market With Cheap Money

Policy Interest Rates Have Fallen Substantially



Source: Bloomberg, Fitch Solutions

Central Bank Balance Sheets Expanding Quickly

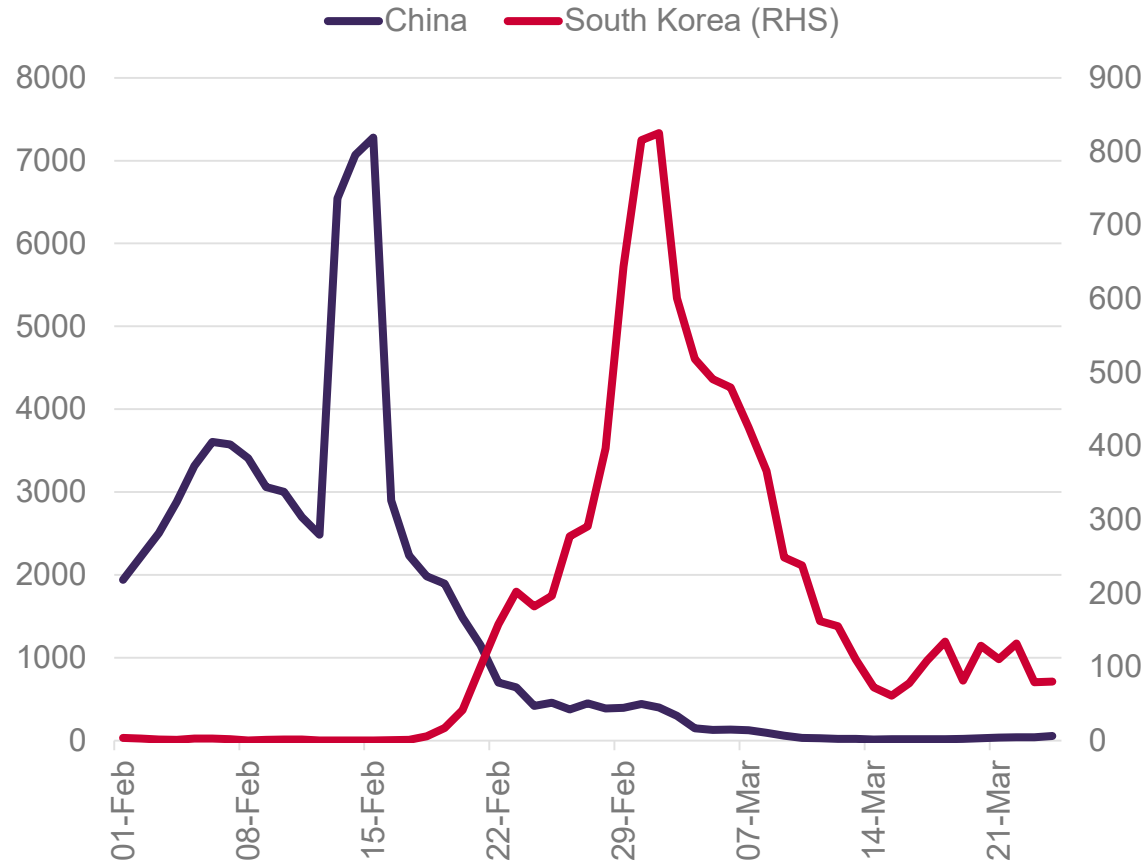


Source: Bloomberg, Fitch Solutions

Flattening The Curve: Are We There Yet?

New Cases In China And Korea Under Control

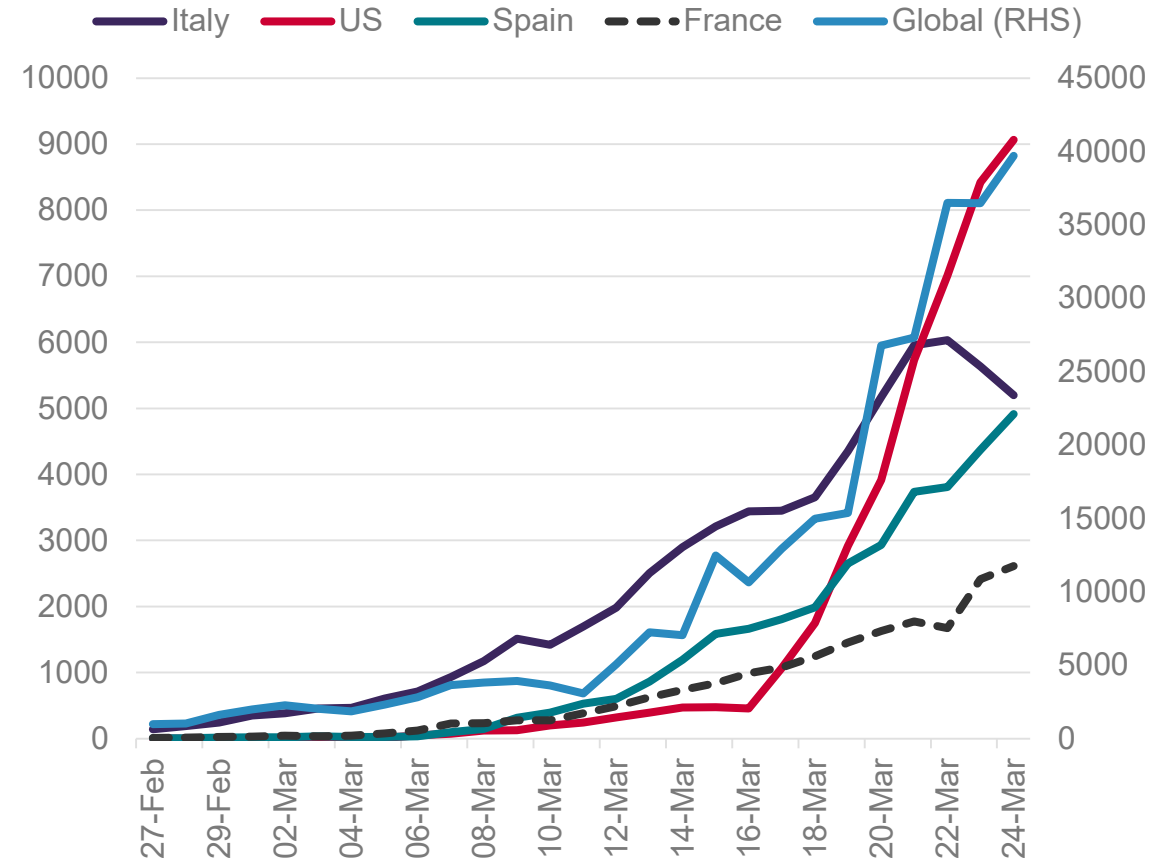
Number Of Cases, Three-Day MA



Source: WHO, Bloomberg, Fitch Solutions

Number Of Daily New Cases Still Rising Elsewhere

Number Of Cases

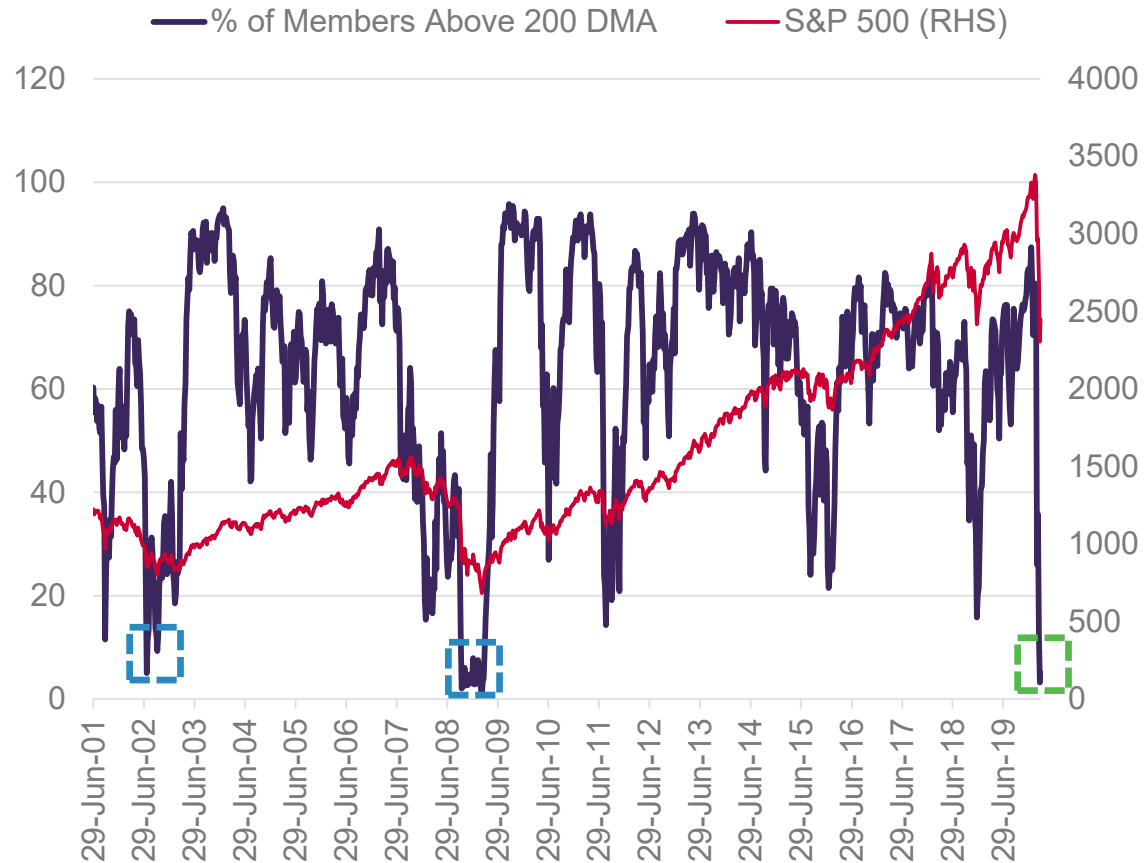


Source: WHO, Bloomberg, Fitch Solutions

Financial Markets Typically Bottom First: Are Equities Bottoming Out?

Technical Factors Point To A Potential Bottom

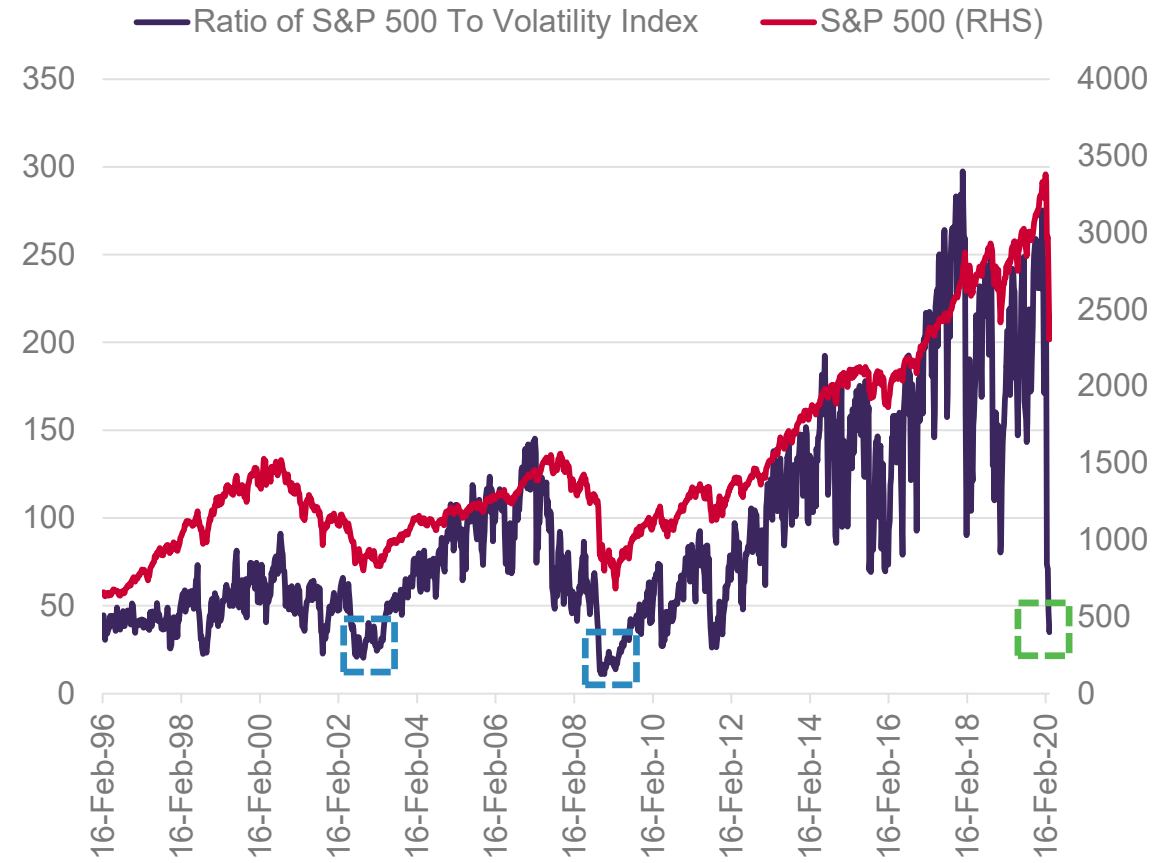
% , S&P 500 Index



Source: Bloomberg, Fitch Solutions

Relative Valuation Points To Potential Bottom

Ratio, Index

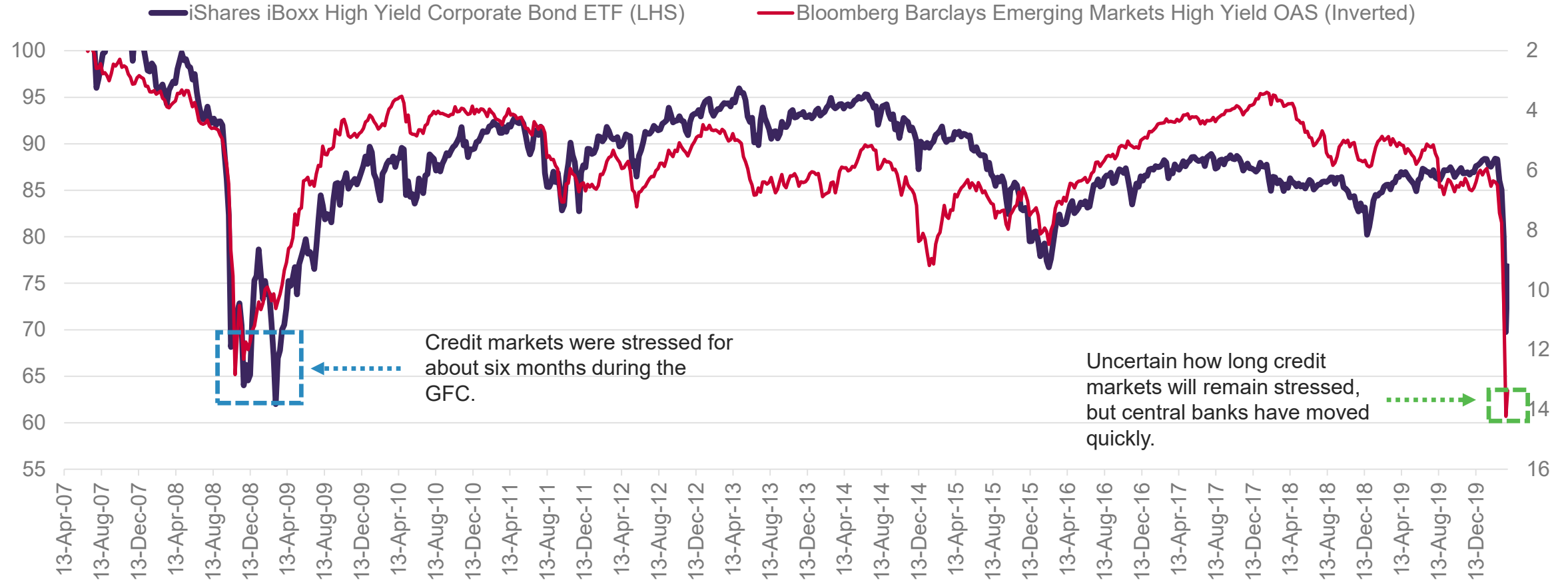


Source: Bloomberg, Fitch Solutions

Credit Markets Are Key To Watch For Sustained Stress

Credit Markets Still Hurting, But For How Long?

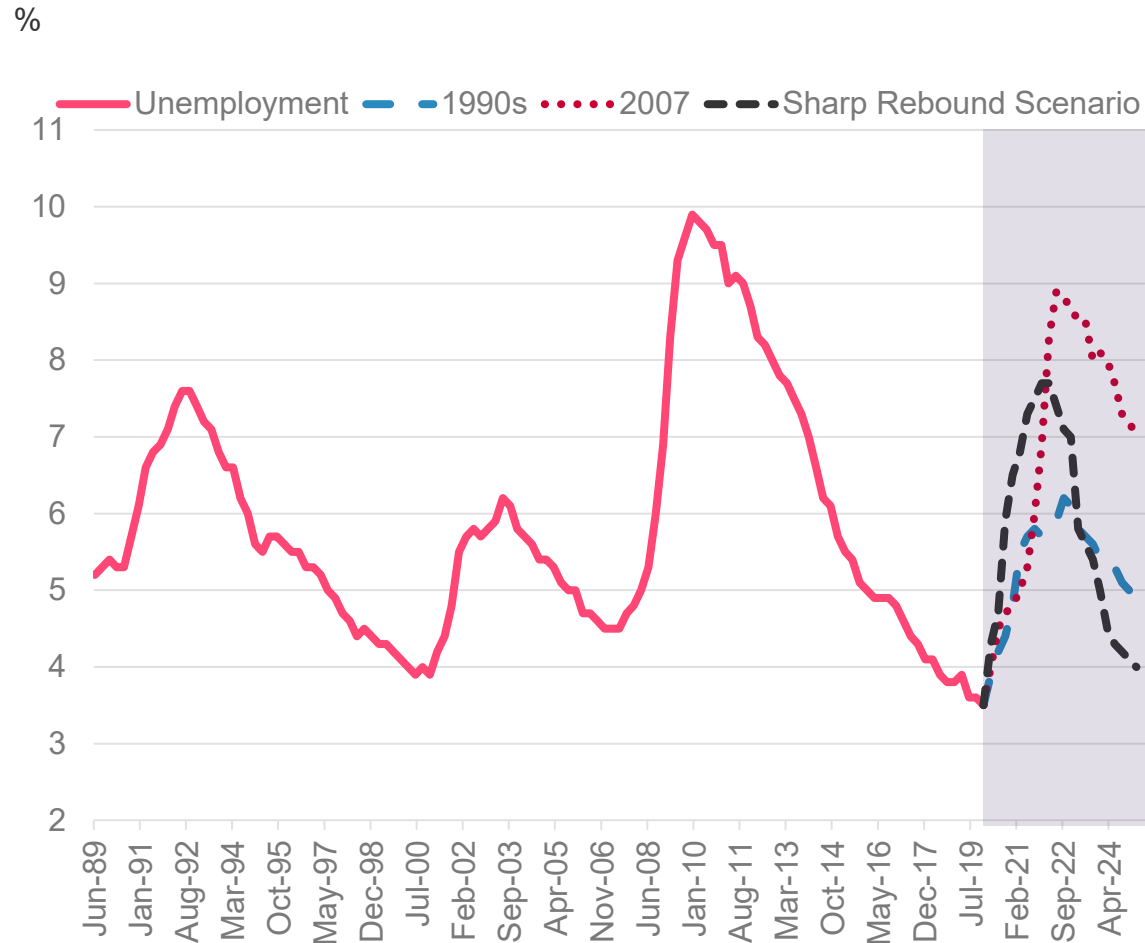
Index, %



Source: Bloomberg, Fitch Solutions

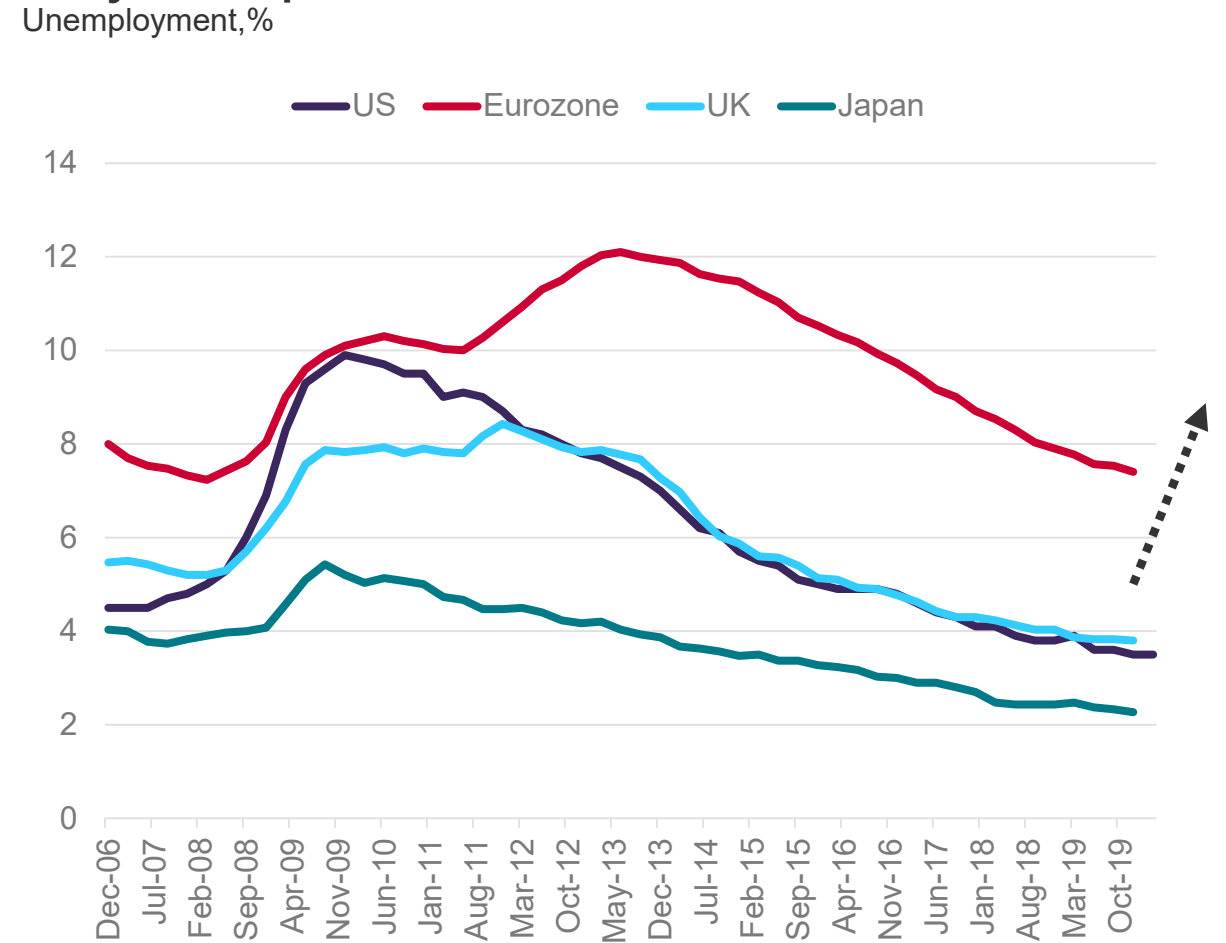
Labour Market Trajectory Will Help Determine Type Of Recession

Different Scenarios For US Labour Market



Source: Bloomberg, Fitch Solutions

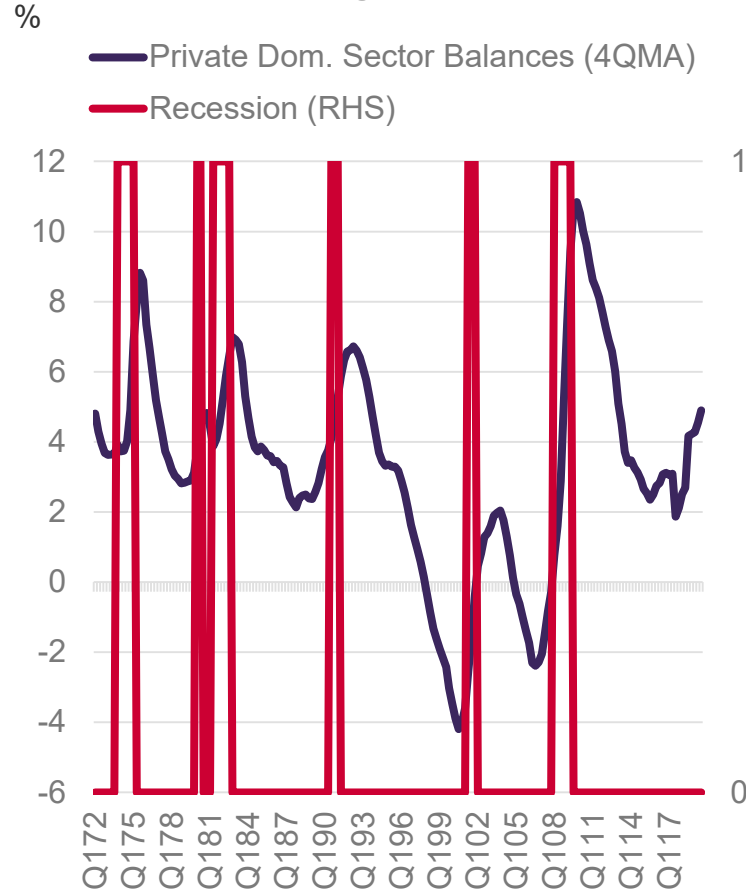
Many Developed Labour Markets At Risk Of Reversal



Source: Bloomberg, Fitch Solutions

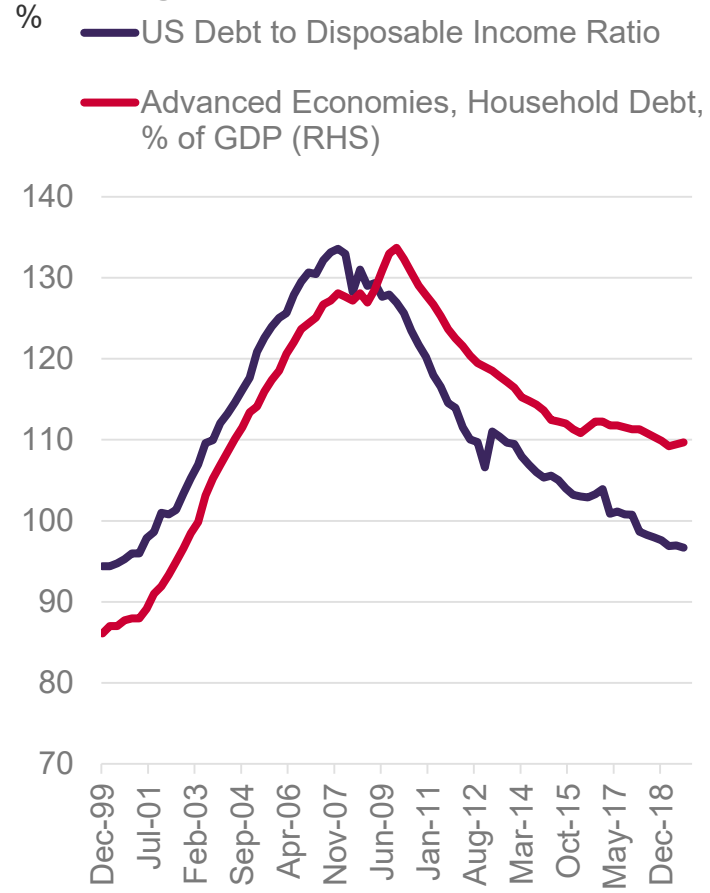
Private Sector: Starting From A Stronger Position

US Private Domestic Sector Balance In Strong Position



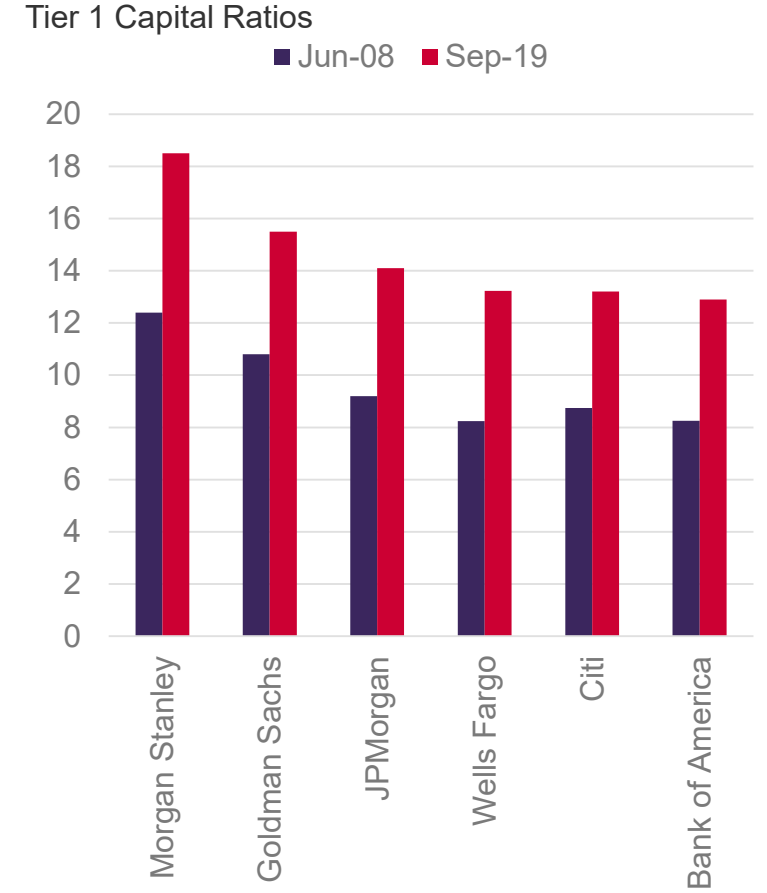
Source: FRED, Bloomberg, Fitch Solutions

Developed Market Households Less Leveraged



Source: BIS, Bloomberg, Fitch Solutions

US Banks Have Stronger Buffers Than Before The GFC



Source: Bloomberg, Fitch Solutions

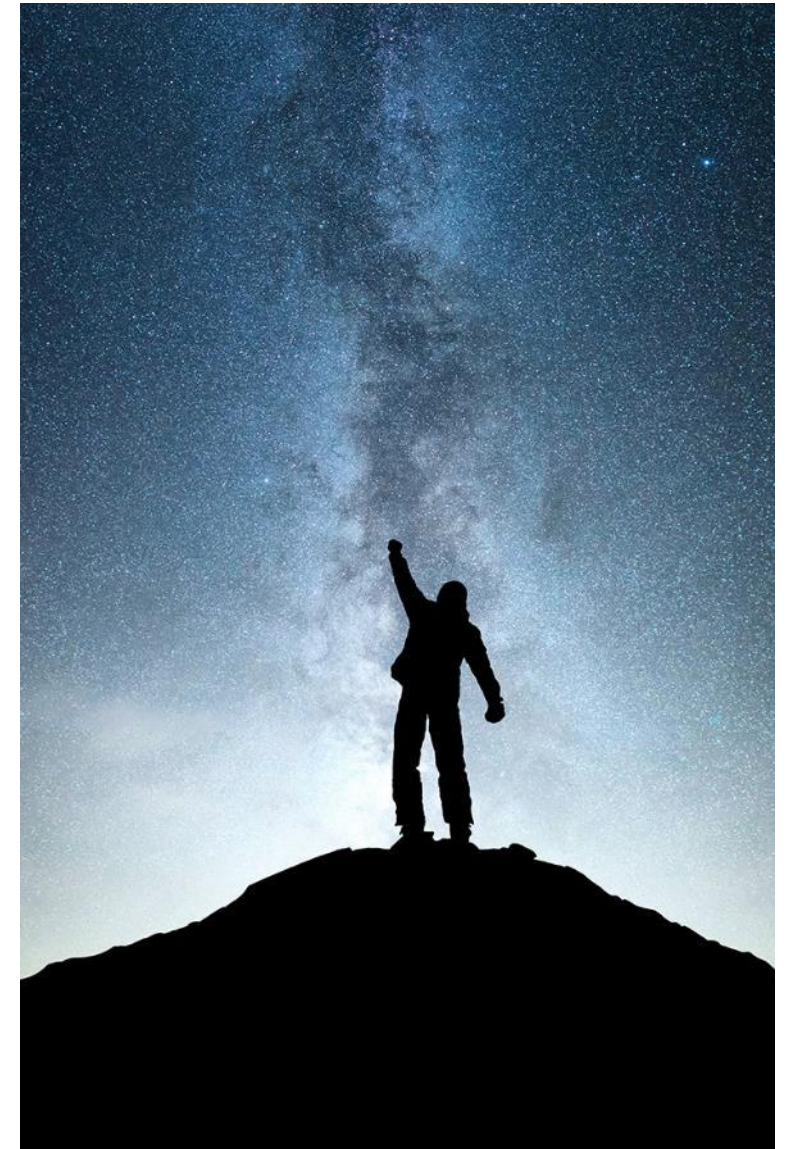


6

Longer-Term Risks To Watch

Long-Term Risks To Watch

- Record fiscal stimulus will result in higher debt loads across the public and private sectors, which could see lower growth in the future. Monetary policy will remain loose for longer to help anchor bond yields.
- In particular, we believe that the eurozone will look increasingly like Japan in terms of high debt loads, weakening demographics and low growth.
- Tensions between China and the West could deteriorate further, with the risk of an acceleration to the process of fragmenting supply chains and de-globalisation.
- Wider fiscal deficits will become increasingly politicised. Rising unemployment and income inequality could see social discontent and political risk rise.
- In turn, we will likely see demands for rising spending on social issues, such as healthcare, but also transfers in the form of direct payments of types of universal basic incomes.
- We believe that in this environment, global reform momentum could slow dramatically, again weighing on long-term growth and adding to upside inflationary pressures.



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The Fitch Solutions Client Services team is committed to providing the highest quality of service possible to our clients. Our dedicated team of service professionals provide global "follow the sun" support for Fitch Solutions products to our clients via telephone and email. We also provide product training on-site or via WebEx customized to the client's needs and requirements.

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