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The Global Economy: Through a Glass Darkly

The economic and healthcare outcomes of the current pandemic are entwined and inseparable. Experts offer **Emma Carroll** their 12-month predictions for both

The fiscal policies taken by governments to save lives and protect economies amount to some $8 trillion, according to the IMF. As deficits and public debt ratios grow by the day, the hope is that answers are found which help to safeguard people's health and enable them to get back to work and kickstart the global economy. The question is, when?

As might be expected, economists have proffered different shapes of recovery. Initially, there was an optimistic "V" and then this was revised to a slower U-shaped return to growth. The complexity of the pandemic now lends itself to the opinion that we'll see spikes and declines as each country navigates its own way through to recovery.

Guy Foster, Head of Research at Brewin Dolphin, comments, "There is nothing concrete in place at the moment to prevent a W-shaped scenario. However, even under most pessimistic scenarios, you'd expect there to be some upward trend as businesses, households and governments find different ways to mitigate the effects.

"The things that might prevent that pattern, and give more of a 'V-shaped scenario, would be positive news on immunity, antibody testing, or the holy grail of a vaccine."

All the while, governments and central banks are trying various means to mitigate the effects of lockdown. "The nature, cause and speed we have gone into this recession are unprecedented, but so is the degree of fiscal back-stopping that is there to prevent a recessionary spiral," **Guy** says.

> *" Politically we may be local but economically we are very connected "*

Another New Normal

In the UK, the IMF has predicted the UK economy will contract by 6.5 percent in 2020, set against a global fall of 3 percent. Announcements made by the UK's Chancellor were generally well received, but there have needed to be additional top-up measures – such as for the self-employed – and there have been challenges with implementation. This week saw the Government's furloughing scheme go live – with 67,000 claims in the first 30 minutes – and many businesses will be depending on its timely and efficient delivery.

Kim Horsburgh, Senior Relationship Manager at Criticaleye, says, "The high number of profit warnings shows that companies across multiple sectors are unsurprisingly struggling to meet their pre-COVID market expectations.

"Business leaders are acting quickly to preserve cash and rework strategic priorities in an effort to trade their way out of this crisis."

Although it's early stages, the signs are that banks, funds and investors are doing what they can to give businesses the support and breathing space they need. **Tom Attenborough**, Head of International Business Development – Primary Markets at London Stock Exchange, says: "The FTSE 100 closed below 5000 on 22 March, which was around a 35 percent decrease since the start of the crisis. It has now recovered to 5800, up 16 percent from the bottom, but it is still over 20 percent down from mid-February.

"The volatility in equity markets has been extraordinary – the VIX Index, which measures volatility in the US S&P 500 Index and was at around 12-15 for most of last year, peaked at about 85. Even in the depths of the financial crisis in autumn 2008, the VIX didn't get above 80."

Tom says that investors have recovered from the initial shock and are now grappling with the fact that there will need to be a very substantial recapitalisation across a broad array of sectors. "This isn't just about balance sheet repair – it is about raising capital to bridge short-term liquidity concerns.

"We have already seen a number of companies tap equity markets. Many of these are companies in sectors hardest hit by the lockdown, such as travel, retail, events and leisure. Companies, including WH Smith, ASOS, Informa, Hollywood Bowl, The Restaurant Group, The Gym Group and SSP, have raised non-preemptive capital in the last fortnight," he says.

Boards need to have well thought out funding strategies. "Although there isn't an infinite pot of money, investors have been clear that they are happy to support these non-pre-emptive raises where companies have a clearly defined set of COVID-19 mitigation policies, whether that's around dividend retrenchment, capex pullback or terming-out their debt facilities," **Tom** explains. >

"What the financial crisis taught us is that you don't want to be at the back of the queue for funding. I suspect we will now see a significant wave of equity placings as companies look to restore confidence in their long-term financial health."

In the US, a complex picture is emerging as different policymakers undertake a damage limitation exercise for the economy. **Guy** says, "In all the previous recessions of my career the Fed has been at the vanguard of efforts to fight the crisis, but in this case the combined responses of central banks, the Treasury, the healthcare system and the Department for the Interior will determine success.

"Health and containment measures are outside the control of economic policymakers, but the Treasury and central banks need to try and reduce any second-round recessionary effects."

The central banks and federal government are insuring incomes on a scale that has never been seen before. **Guy** argues that the priority of the Fed will be to keep markets working: "They have cut interest rates and, unusually, they will be lending directly to companies through the primary and secondary markets – valuable lessons have been learned from the global financial crisis and they are acting on these."

There is a view that if China's economy revs up it could be a catalyst for wider economic growth. In reality, this simplifies the complexities of the global economy. "China is less of an open economy than in the past and so it doesn't impact global growth as much as it has done," says **Guy**. "It is a very integrated global supplier, however, the fact that its ability to supply is returning isn't that useful when demand remains subdued in the rest of the world."

Understanding the Pandemic

The confirmed cases of COVID-19 currently stand at 2.4 million across 210 countries. **Mark Spelman**, who works at the World Economic Forum on the Digital Economy and New Value Creation, argues that recovery must be viewed in the context of the wider global picture. "Medically, the epicentre is currently in Europe and North America, however the pandemic will peak in other countries through 2020."

Mark, who is also a Board Mentor at Criticaleye, continues: "In the Middle East, watch out for the infection rates in Turkey, Iraq and Egypt – all of these countries have quite large populations and may be critical. The country to watch in Africa is Nigeria, which has a bigger population than Russia. In the Indian subcontinent a lot of the focus has been on India and Bangladesh, but I would be particularly concerned about Pakistan.

"There are strong commonwealth links between many of these countries and the UK, and one of the lessons that's come out of China is the risk of not looking at secondary and tertiary infection rates."

In the emerging markets, he perceives real challenges: "Dollar flight is a major issue and funding of SMEs will be a struggle. There will be sanitation problems and healthcare systems won't be able to respond. Therefore, contagion may continue for longer than in more developed markets."

Each country and region will be responding at different speeds. "We can't look at this situation without thinking carefully about how the contagion may play through both the developed world and the emerging markets. Politically we may be local but economically we are very connected," he says.

The hoped-for vaccine is, in all likelihood, a long way off. "Today there are 62 vaccines in development, of which the general view is that eight have a pretty good chance of success. The problem is you can test vaccines in relatively small numbers but if you want to do mass vaccination then the authorities get scared unless there are lots of safeguards in place. The more safeguards you put in place the longer it takes.

"The health-side of the economic equation says to me that recovery is going to be more muted, slower and deeper, because the current supply shock is going to play through on the demand side – we won't see a pick-up in many industries as soon as people think," **Mark** comments. ■

Featuring Commentary From:

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