BELVOIR
CAPITAL AG

August 2021

Macroeconomic Comment

Global Economy – Growth Momentum with Flattened Tendency

August 18, 2021, Peter von Elten

For the global economy, **high growth rates are forecasted for the second half of 2021**, but their validity remains limited because they are based on weak comparative figures from the previous year and on partly massive government intervention. The elimination of pandemic-related restrictions, still considerable pent-up demand on the consumer side, and ongoing expansionary monetary and fiscal policy form the basis for the expected robust recovery, which is also expected to continue in the following year, albeit at a slower pace. In 2021 and 2022, the industrial countries are predicted to achieve growth rates of over 5% and 4%, while the emerging countries are forecast to grow 1% more. However, several factors and events have dampened the euphoria somewhat in recent weeks and are likely to have an impact on the economic trend. These factors include the renewed **sharp rise in the number of Covid-19 cases, declining economic growth in China, significantly higher inflation, the costs of climate change, and the continued strong influence of the state on the economy.**

Pandemic

The anticipated salvation from the scourge of the pandemic is once again postponed. In the current wave, up to 700,000 cases per day are again being reported globally. Despite high vaccination rates, the western industrial countries are also reporting a significant increase in the number of cases, although these primarily affect the younger, unvaccinated population groups and lead to significantly less severe courses. However, many **developing and emerging countries** are only at the beginning of the vaccination campaign and they are experiencing a new wave of infections that will dampen growth expectations. The imbalance between supply and demand caused by the pandemic continue to lead to ongoing shortages and to necessary adjustments in international supply chains. However, with the objective of reduced dependency on foreign countries, the abandonment of economies of scale is required which will lead to rising costs.

Deceleration of Growth in China

Chinese growth is slowing, as can be seen from credit growth, which has almost halved compared with previous years. Growth forecasts for the second half of the year are below 4% in some cases, but should rise again in the direction of 5%-6% in the following year. It seems reasonable to assume that China is using the phase of international economic recovery to push ahead with debt consolidation at home. The Chinese government's crackdown on various economic entities such as technology companies Alibaba, Didi, and Tencent, on cryptocurrencies, on privately run education companies, and on price drivers in the real estate market illustrates the Chinese leadership's strong need for control. Guidelines just issued by the Chinese authorities are intended to prevent anti-competitive and power-dominating behavior, especially by the leading technology groups. The government wants to strengthen social cohesion and national security needs, especially in the area of data transmission. However, the danger of stronger slumps in the stock market is to be avoided, because this could have repercussions for private households, which account for nearly 80% of investment in the local stock market.

Inflation Trend

The sharp rise in inflation in the USA to over 5% and toward 3% in the euro area is mainly seen as transitory and explained by base effects and distortions caused by the pandemic. The interest rate markets have confidence in the central bank's promises to continue their expansionary monetary policy despite higher inflation. Nevertheless, the decline in long-term interest rates in the US at a time of sharply higher inflation is surprising. Even if a broader wage/price spiral is not perceivable at present, significant wage and price increases can be observed in some areas of the economy. In the US, there are increasing signs that the inflationary trend has already peaked. Consumer demand in the US and consumer expectations for the coming months were weaker than expected by the market. However, the inflation base is likely to remain well above 2%. As in other countries, the exuberant supply of liquidity combined with interest rates in the zero range is fostering **significant real asset inflation**. This is particularly true of house prices, which have risen by over 16% (Case-Shiller-Index) within a year and are driving up rental costs.

Costs of Climate Change

The accumulation of massive damage and loss of live caused by heat, drought, fire and floods in many parts of the world in recent weeks highlight the urgency of **rigorously countering resource consumption**. This year, the Earth Overshoot Day already fell on July 29. The dramatic conclusion of the latest report by the UN Intergovernmental Panel on Climate Change (IPPC) makes it clear

that even if the Paris climate targets were met worldwide, climate-related damage would continue to increase globally, albeit at a slower rate. At the same time, the powerlessness of the global community to enforce compliance with the Paris climate targets through legally binding commitments is becoming clear. Many developing and newly industrializing countries accuse the highly developed countries of having brought about today's climate catastrophe through excessive consumption of resources and expect considerable technological and financial support in combating it. The total expenditure to meet the Paris targets is difficult to estimate, but is likely to be much higher than commonly assumed. For example, one US think tank projects annual spending just on biodiversity conservation at more than $700 billion by 2030. Hopes for tougher and more binding climate targets now rest on the COP 26 climate conference, which will meet in Glasgow in November.

State Intervention in the Economy

As part of the fight against the pandemic, states have increasingly intervened in economic processes, taken over corporate stakes and pursued enacted industrial policies. This influence will tend to intensify in the fight against climate change. The government-imposed implementation of stricter climate targets is likely to place a heavier burden on companies and consumers than previously expected. The dimension of the cost burdens of climate change will go far beyond those of the pandemic and will be permanent.

Peter von Elten

Peter von Elten

Belvoir Capital AG, Macro Advisor

Mr. von Elten has decades of experience in the banking industry. Since 2008 he has been a member of the advisory board of BSZ AG, which took over IFP AG in 2014 and thus became Belvoir Capital AG. He enjoyed an international career at JP Morgan for close to 30 years. He returned to Switzerland as General Manager of Schroder & Co Bank AG from 1995 to 2003. Furthermore, Mr. von Elten's passion is art; he is a co-founder of the gallery Elten & Elten.

CONTACT

BELVOIR CAPITAL AG
Beethovenstrasse 9
CH-8002 Zürich
+41 (0) 44 206 30 40
info@belvoircapital.com