



Macroeconomic  
Comment



# Thoughts for the New Year

---

December 31, 2020, Peter von Elten

## The Pandemic Reinforces Existing Trends and Permanently Changes the World

---

At the end of 2019, I summarized my thoughts on the topic of "limits", which we may have already reached or already overstretched: limits to growth, debt, environmental pollution, monetary policy, and globalization. For years, it has been apparent that we can only achieve economic growth with rapidly growing government debt, with over-exploitation of our planet, with massive money creation by central banks, and with extremely low or negative interest rates.

The pandemic has amplified and made visible these and several other trends. Once the pandemic is over, we will not be able or willing to return to the previous state. Klaus Schwab, the founder of the World Economic Forum (WEF), has developed the term "The great reset" for the meeting planned for next year in Singapore. This "great reset" may be dramaturgically overdrawn. However, the theme underlines the deep cut caused by the "black swan" in the form of the pandemic and highlights the need to correct undesirable developments that have become even more pronounced through the pandemic. At the same time, however, the topic was probably chosen very consciously with a view to the change of presidency in the USA and the hope of a return to fact-based, international cooperation. The issue will be how the global community can regain momentum, with the major sustainability issues of our time playing a central role.

After World War II, America created an architecture for global governance of geopolitical and world economic challenges through institutions such as the United Nations (UN), the World Bank, and the International Monetary Fund. However, emerging nations such as China, India, and Russia are now taking exception to the proximity of these institutions to America and are calling for new structures that are better suited to today's multilateral world. Great importance is therefore attributed to the organization of the G20 nations, which should be in the best position to orchestrate a globally oriented "new start."

Below, I have briefly described what are probably the most important, longer-term after-effects of the pandemic.

## Global Debt Surge

---

The Institute of International Finance, the world's banking association, expects the global debt of all countries, companies, banks, and households to rise by around 15 trillion dollars in the pandemic year 2020, and speaks of a debt tsunami. The pandemic has once again accelerated the already strong rise in debt over the course of the last decade to an almost unimaginable extent. In the year of the pandemic, Europe broke free from the shackles of austerity policies. Massive support programs at national levels are likely to drive up public debt in the EU by more than 15% to around 94% of GDP. Moreover, with the €750 billion reconstruction program, the European Union has created a new debt layer that allows the EU direct borrowing. It seems paradoxical that any increase in the debt level favors an extension and expansion of the low interest rate policy, because otherwise the sustainability of the debt mountain would be jeopardized. Negative interest rates are practically an invitation to take on more debt. Countries such as Germany and Switzerland are currently earning a premium from investors if they place even long-dated bonds at zero interest rates. The extreme monetary policy is reflected in the money supply development of the European Central Bank (ECB). Since the financial and economic crisis of 2008, the gross national product of the EU is expected to have grown by around 15% by the end of 2020. However, the ECB has increased its balance sheet by more than a fivefold during this period, thus keeping interest rates artificially low. As a result of the excess liquidity, there is a monetary surplus, which has led to inflation in tangible assets, but can only moderately stimulate consumption, not least because savers are being gradually expropriated in the face of negative real interest rates. Empirical studies show that the growth-promoting effect of the extreme monetary and government debt policies pursued for years is slowly diminishing.

## Technology-Driven Transformation / Digitalization Boost

---

The pandemic has forced us to significantly reduce physical presence and contact, and has unleashed a wave of working and living online. Online shopping, home offices in professional practice, and distance learning in schools and universities have all entailed a technological upgrade in a remarkably short time. Even after the pandemic is over, many of these changes will continue and be technologically advanced.

## Climate Change / Decarbonization

---

The pandemic has highlighted the vulnerability of large urban centers and congested infrastructures as hotspots for the spread of viruses. Air pollution is believed to be responsible for the weakening of the immune system and thus for susceptibility to disease. Thanks to the massively restricted possibilities for travel and entertainment, CO2 emissions have been reduced overall, even if only temporarily. Environmental awareness has increased. The outcome of the US elections has raised legitimate hopes that the US under President Biden will not only rejoin the Paris climate agreement, but that it is ready to take a leadership role. Decarbonization will be at the center of climate protection and is likely to become a megatrend in the coming three decades.

## Stronger Regional Focus at the Expense of the Global Division of Labor

---

In the pandemic crisis, the globally oriented optimization of supply chains revealed dangerous dependencies on monopolistic supply structures. The dependence on countries such as China and India for the supply of vital medical raw materials and consumer goods is to be reduced by regionally oriented structures. Even before the start of the pandemic, globalization was under increasing criticism due to the relocation of jobs and permanent wage pressure from low-wage countries, and has promoted protectionist efforts in recent years.

## Global Supremacy - Which Social Order Will Prove Superior in the Long Term?

---

Recent estimates by British economists suggest that China will replace the US as the largest economy as early as 2028, which is five years earlier than previously assumed. Asia and China in particular have coped better with the pandemic than the Western world. China was able to further strengthen its economy. China's gross national product will have increased by about 10% at the end of 2021 compared with the end of 2019, while in the US it will have returned to roughly the same level at the end of 2021 as it was before the start of the pandemic. Historically, supremacy replacement processes have always occurred under considerable tension, and we can see it hap-

pening again now. Under the new US presidency, the struggle for economic, military, and geopolitical supremacy will continue unabatedly hard, but probably more objectively and consistently. An improved dialogue with America will oblige Europe to stand more firmly on America's side in the geostrategic structure between America and China.

## Impoverishment / Inequality

---

Other important issues that have been the focus of the pandemic include impoverishment and inequality, which have increased during the crisis. It is estimated that 150 million people - mainly in Africa - have fallen below the poverty line as a result of the pandemic. Inequality has risen further because richer nations have been able to devote substantially more resources to overcoming the pandemic.

## Conclusion

---

The pandemic has caught us largely unprepared and has increased the urgency to initiate changes in various areas. It has highlighted the need for international cooperation on important human issues such as health and the environment. Chances are good that we will be better prepared for events like Covid-19 in the future. Europe has grown together under the burden of the crisis. The great European construction program under the ambitious title "Next Generation EU" has evoked an unprecedented European solidarity. The UK's exit was finally sealed with an agreement that should allow for constructive cooperation, especially in economic and military matters. If, as expected, the pandemic is averted by mid-2021, a dynamic economic upswing is likely to set in globally and especially in Europe, supported by a large backlog of demand, massive government reconstruction programs and a continued extremely expansive monetary policy. However, the high costs and after-effects of the crisis will restrict potential growth in subsequent years. The return to a sustainable budgetary policy will be a challenge for politicians and citizens alike.

With best wishes for a most carefree and peaceful New Year.

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 holds various board mandates and was previously a member of the board of directors of Fortune Wealth Management AG, Zurich. Prior to that, he was General Manager of Schroder & Co Bank AG, Zurich, from 1995 to 2003. Furthermore, Mr. von Elten's passion is art; he is a co-founder of the gallery Elten & Elten.

This publication is for your information only and does not constitute an offer, quotation or invitation to make an offer and/or to buy or sell investment products. The information and opinions contained in this publication are taken from reliable sources. Nevertheless, BELVOIR CAPITAL AG rejects any contractual or tacit liability for incorrect or incomplete information. All information and opinions are subject to change without notice.

---

## CONTACT

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

