

THE GLOBAL ECONOMIC OUTLOOK:
Can you be positive? You should be!

Peter Switzer

Economic forecasting becomes guesswork!

- I never studied or taught PANDEMICS 101!
- The economic data meant less in 2020 because of closures, restrictions,
- JobKeeper and other support measures but that's changing
- The vaccination effect is unknown, but it will be positive.
- Who would've thought stimulus would've been so BIG and is it over?
- China and its trade battle with the US and us — is it manageable?

One headwind, Donald Trump, gone!



- Biden promised higher taxes, more regulation but greater stimulus.
- Wall Street has given him the thumbs up.
- Donald's pluses were often offset by his minuses.
- Biden's China play is important.

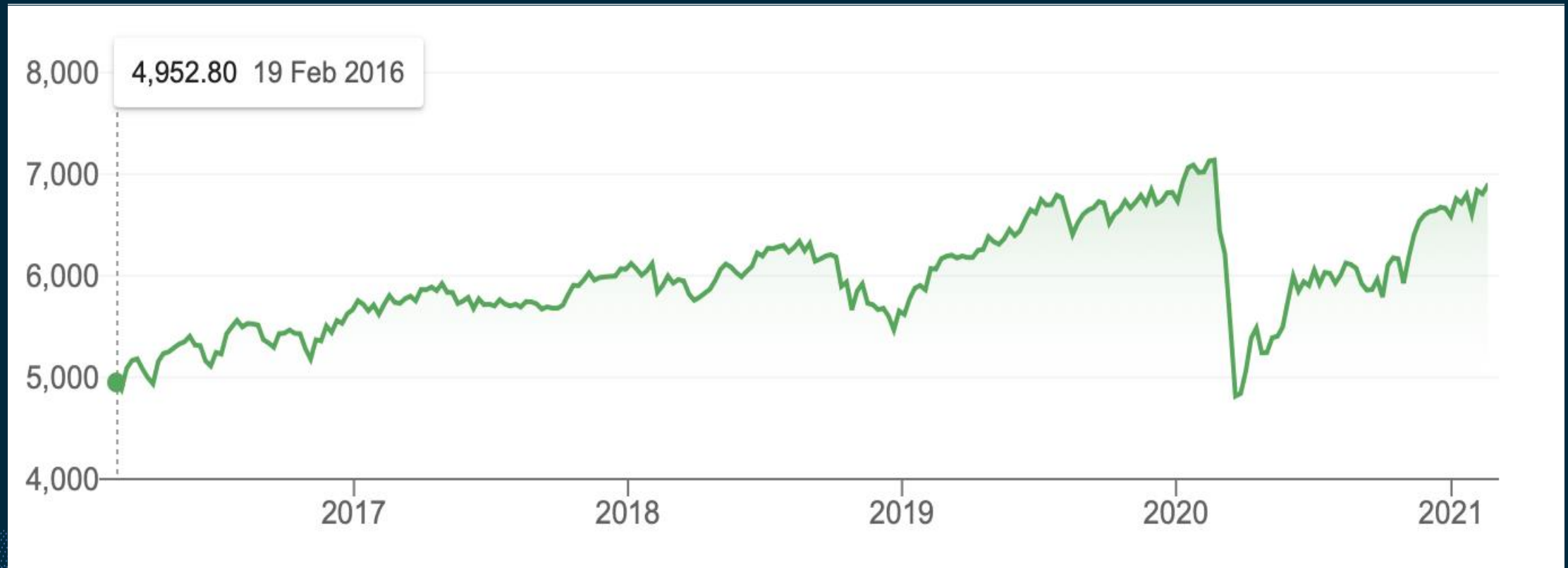
The big economic issues?

- The US stock market — can it keep defying gravity?
- The seriousness of the current lockdowns in Europe and the US.
- The magnitude of stimulus.
- China!
- The ‘make it or break it’ issue — a vaccine!!!
- What could go wrong?

What are those Yanks smoking? The S&P 500!



We're nearly joining the record high party



Why are we lagging the Yanks stocks-wise?

- We don't have FAANG stocks.
- In Australia, our index is heavily bank-dependent.
- And banks were crucial to our rescue programme + Hayne hurt.
- Europe and the UK not helped by infection + Brexit issues.
- The currency effect.
- Americans can be inexplicably optimistic!

Australians can be optimistic on the economy.

- NAB business confidence index rose from 4.7 points in Dec to 10 in Jan, while long-term average is 5.1 points.
- The business conditions index fell from a 28-month high of 15.8 to 7.2, It's also still above the long-term average of 5.3.
- Westpac Consumer Confidence up Feb to 109.1 – the second highest reading in 7 years. And get this: the index is now 14.2% above its pre-pandemic level in February 2020 and up 44.3% on the 29-year lows hit in April 2020 of 75.6!
- Skilled internet vacancies rose by 1.6% in Jan to be up 11.1% on the year. Vacancies are at 19-month highs.

More positive data?

- National payroll jobs are now level with a year ago.
- The number of actively trading businesses in the economy increased by 2% or 46,651 to 2,422,404.
- Job ads, as measured by SEEK, rose by 4% in January to be up 6.5% on the year.
- We spent \$350 billion on retail in 2020 (\$263 a week per person), up 6.2% and the biggest calendar year lift in a decade!
- Council approvals to build new homes rose by 10.9% in December to 33-month highs of 19,537 units (consensus: 3%).
- The Australian Industry Group (AiGroup) Performance of Construction Index (PCI) rose by 2.3 points to a 3½-year high of 57.6 in January. Readings above 50 indicate an expansion of activity.

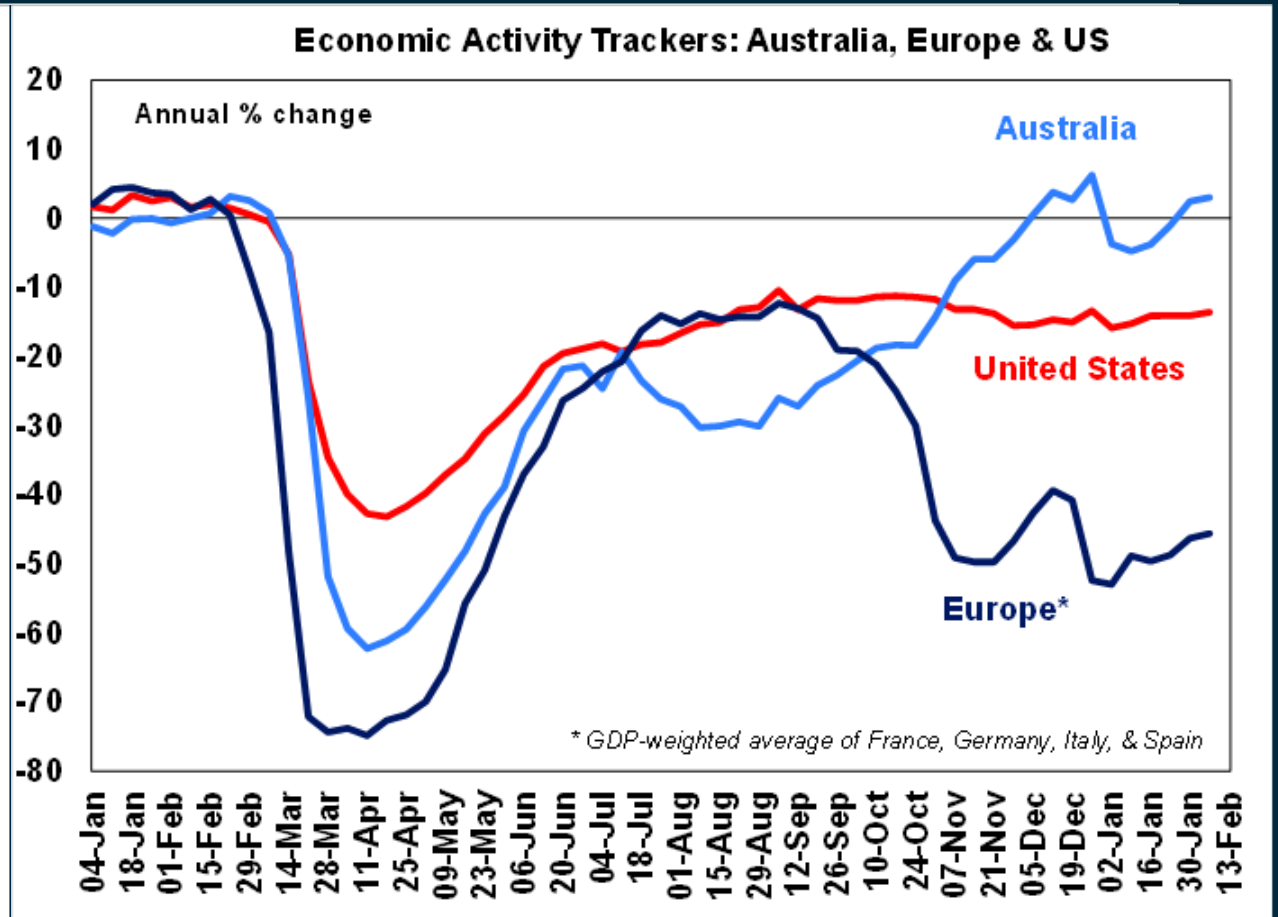
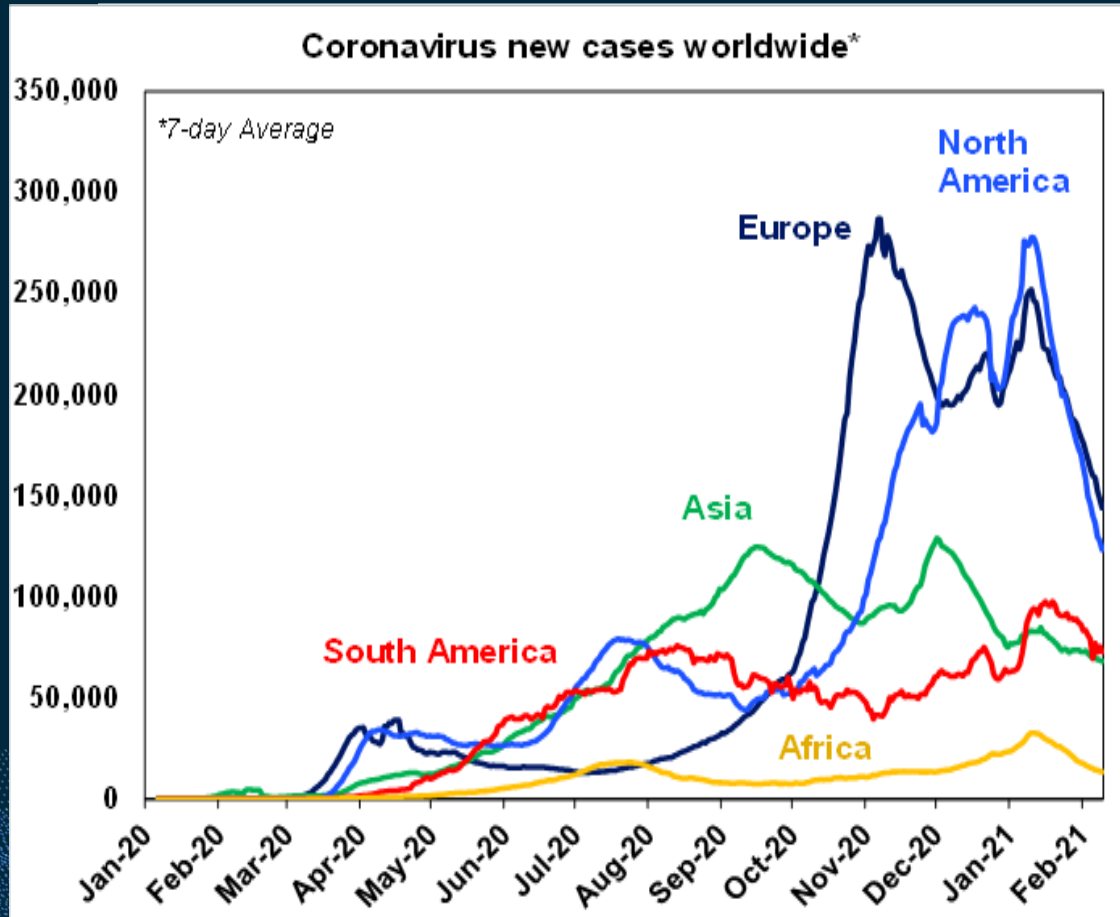
More reasons to be positive

- IHS Markit services PMI fell from 57 to 55.6 in January but any reading over 50 means expansion.
- Craig James CommSec: “After a strong ‘V-shaped’ economic recovery, the Reserve Bank expects ‘above-normal’ growth through to 2023.”
- Interest rates low for 3 years and QE from RBA says Dr Lowe is doing a Mario Draghi “whatever it takes” approach.
- Wine Australia reported that the value of Australian wine exports fell by 1% to \$2.89 billion in December from a year ago. The value of exports to Europe surged 22% to a decade high of \$704 million

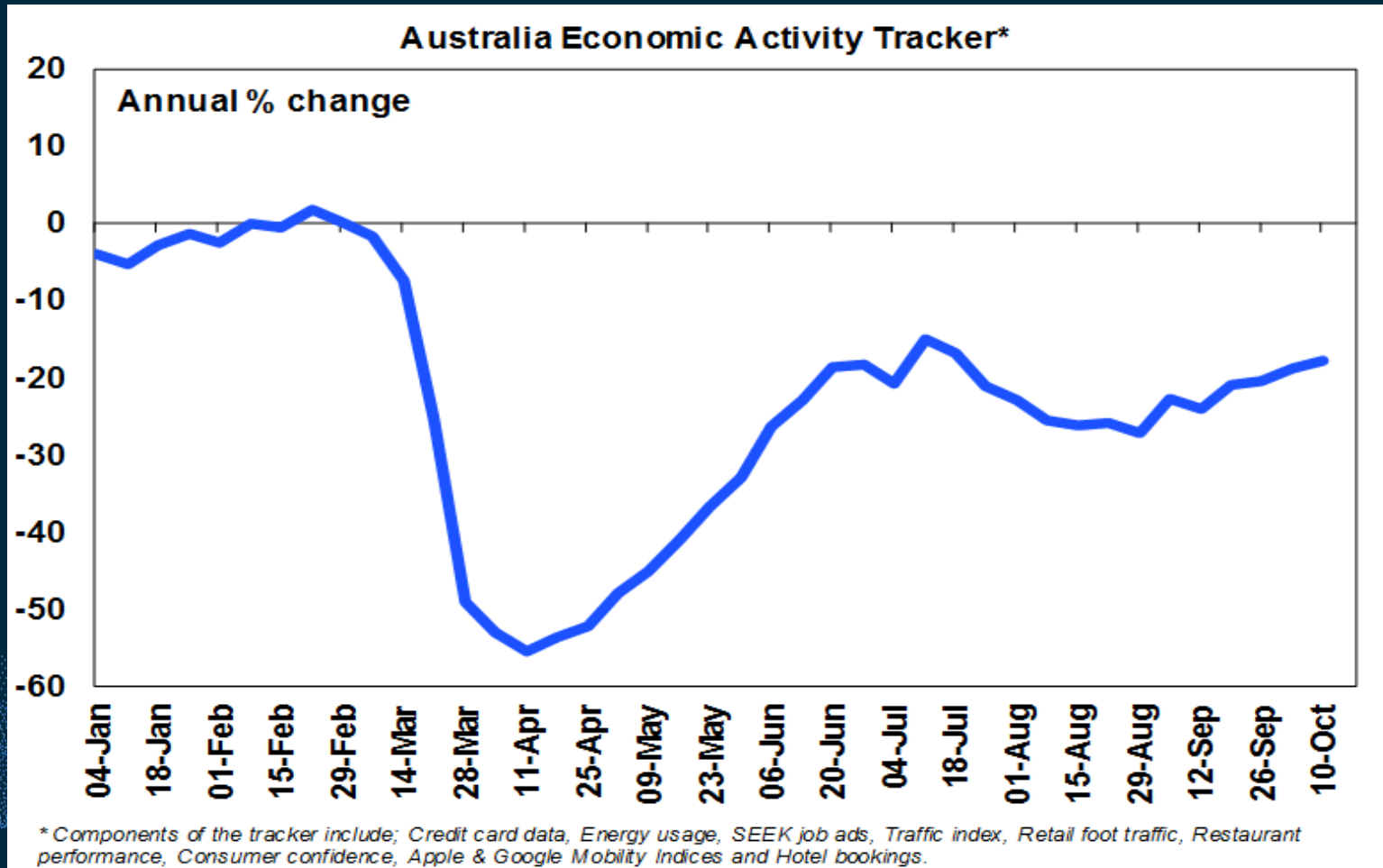
And it's getting positive overseas as well!

- Maersk, the world's largest container shipping firm, posted an upbeat outlook for 2021.
- I liked this CNBC headline: "CEO of Singapore's largest bank [DBS] says it sees 'signs of strength' in most of its markets."
- Vaccination rates are rising globally.
- Rough estimates suggest herd immunity can be reached in developed countries by the December quarter, with the US around mid-year, and in first half next year in most emerging countries. 40% of Israel's population has now received one dose of vaccine, 20% in the UK and 10% in the US.
- AMP Capital's Shane Oliver reported that "New coronavirus cases continue to decline globally in most regions, with new deaths starting to follow." And he showed this heartening chart...

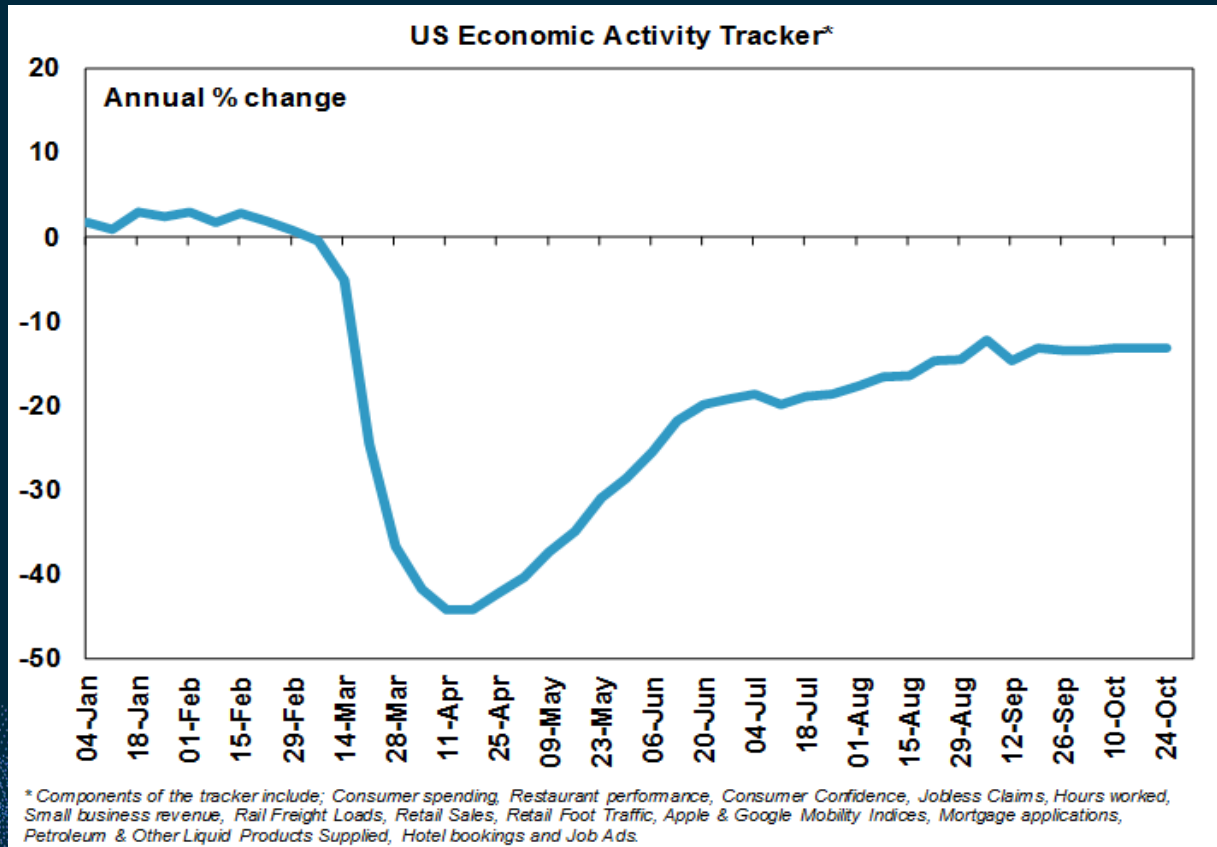
Great charts on infections and economic growth



Ec Activity Tracker: up until Vic's 2nd lockdown



The US economic activity tracker



Listen to the right experts. Chris Joye Oct 2020

- “Australia’s resilient housing performance has again made a mockery of the consensus’s extremely bearish forecasts for large price falls of 10% to 30%..” (AFR)
- But can this continue? Immigration and a vaccine will be crucial.
- Joye on current house price rises: “This accords with our heterodox March 2020 forecast for the local market to suffer negligible losses of between zero and negative 5 per cent over a six-month period followed by capital gains of 10 per cent to 20 per cent.”
- Joye tips immigration will come back faster than doomsday scenario — talent time!
- Joye on a vaccine: “With Pfizer revealing overnight that they expect “a conclusive readout on [the] efficacy [of its vaccine]...by the end of October”, Australia should be able to start welcoming both foreign students and migrants back early next year. A flood of money (and people) will likely come in from embattled Hong Kong, Taiwan, and mainland China.

How good was the Budget!

- Budget Deficit of \$213 billion.
- \$50 billion tax relief for households and business.
- \$10 billion for infrastructure; \$4 billion JobMaker; \$15.6 billion JobKeeper.
- We contract by 3.75% in 2020 but...
- We grow by 4.25% in 2021.
- Most important assumption of the Budget?
- A vaccine by the end of 2021! "Mr Frydenberg said on Wednesday a failure to roll out a vaccine next year could result in a 1 per cent hit to gross domestic product, or \$55 billion over two years, but if a vaccine was approved six months earlier than expected "that would lead to a \$34 billion increase". (SMH)

2020 stats will be BAD but what about 2021?

- The European Commission said the 19-nation single currency area would contract by a record 8.7% in 2020 (previous estimate -7.7%) before rising by 6.1% in 2021.
- IMF on Oz: Shrinks by 4.5% in 2020 and grows by 4% in 2021
- Knox: Could be a Roaring 20's re-run!
- Rates record lows + Budget Deficits record highs + the world is infrastructure mad = Post-'WAR' BOOM!



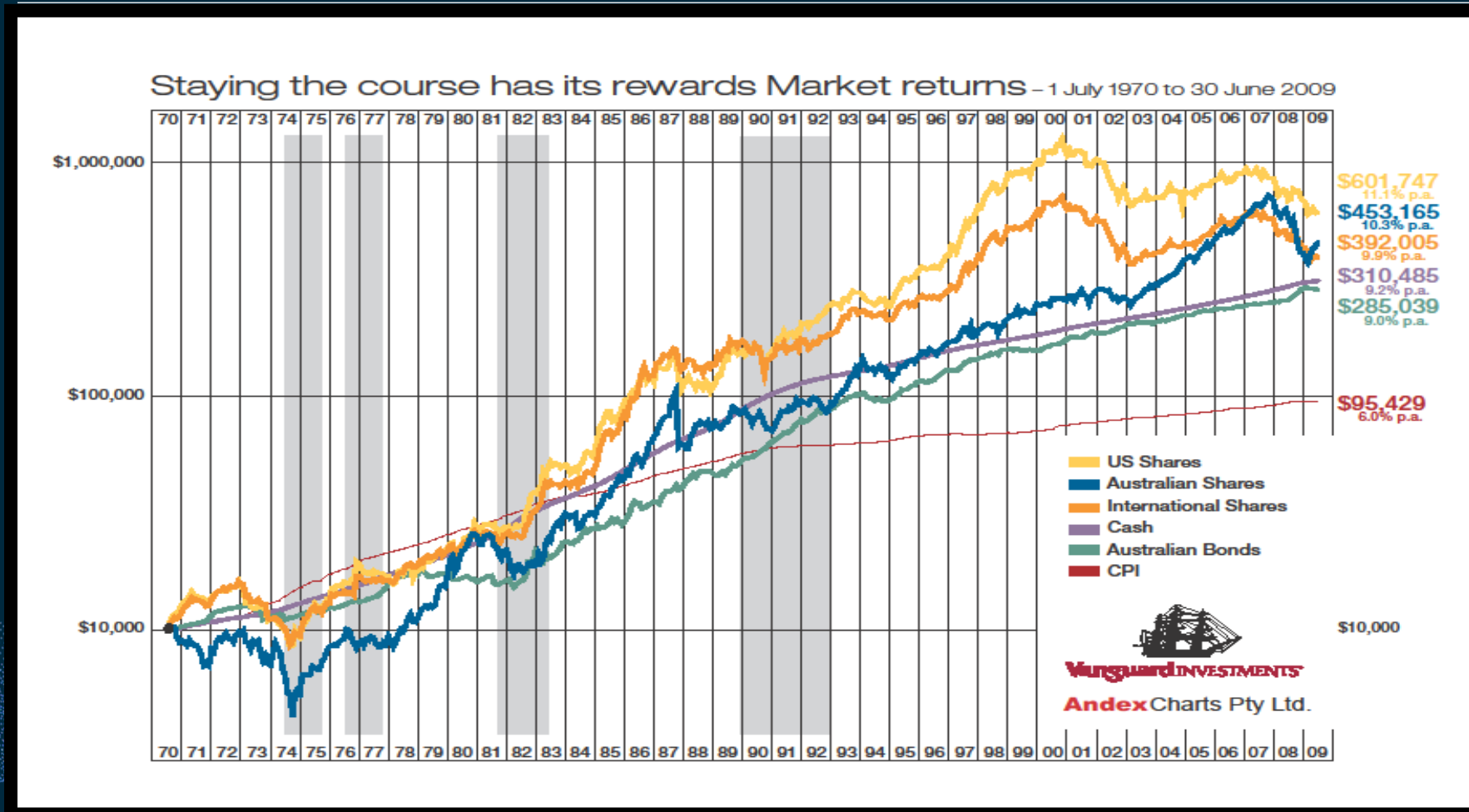
China! Manageable for at least a year.

- They need our iron ore.
- We still have a year of not needing their tourists.
- Our annual spend on tourism OS is \$69 billion.
- It's why our retail spending is going through the roof.
- President Biden could change the heat in the China narrative compared to Donald Trump.
- The UK post-Brexit is a promising trading partner.
- India and Vietnam as well as South Korea offer trading opportunities.

We shouldn't be in this market/economic mess!

| | Mar-00 | Oct-07 | Now |
|---|-----------|------------|------------|
| Global Equity Valuations | | | |
| Trailing PE | 33 | 17 | 18 |
| Fwd PE | 24 | 14 | 15 |
| DY | 1.3 | 2.1 | 2.5 |
| CAPE | 48 | 30 | 24 |
| Global Equity Risk Premium | 1.0% | 3.3% | 5.2% |
| US Yield Curve (10Y minus 2Y, in bp) | | | |
| | -50 | 0.0 | 1bp |
| Sentiment | | | |
| Global Analyst Bullishness (std dev) | 1.7 | 1.0 | 0.4 |
| US Panic Euphoria Model | 1.09 | 0.42 | -0.11 |
| Global Equity Fund Flows (3y as % of Mkt cap) | 2.9% | 0.7% | 0.1% |
| Corporate Behaviour | | | |
| Global Capex Growth (YoY) | 8% (1999) | 11% (2007) | 0% (2020e) |
| M&A (Previous 12m as % of Mkt cap) | 11.4% | 8.1% | 4.8% |
| IPOs (Previous 12m as % of DM Mkt cap) | 0.70% | 0.40% | 0.2% |
| Profitability | | | |
| Global RoE | 12.2% | 16.1% | 12.9% |
| Global EPS (\$, % from previous peak) | 35% | 117% | 13% |
| Balance sheets / credit markets | | | |
| Asset/Equity (US Financials) | 16x | 16x | 10x |
| Net Debt/EBITDA (US ex Fins) | 1.8x | 1.4x | 1.6x |
| US HY Bond Spread | 600bp | 600bp | 475bp |
| US IG Bond Spread | 175bp | 175bp | 130bp |
| # of sell signals | 17.5/18 | 13/18 | 4/18 |
| Source: Citi Research | | | |

Why stocks go higher

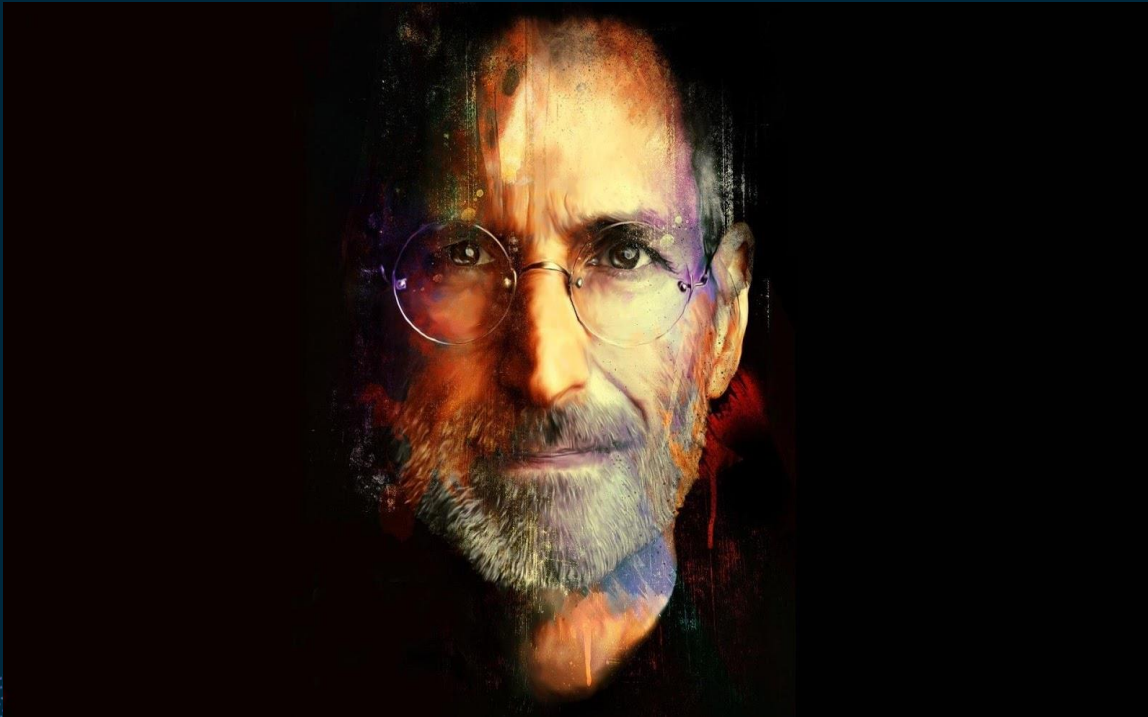


The smartest guy



- In challenging times, think laterally...
- Put yourself in your customers' shoes.
- Anticipate their needs.
- Become their trusted partner.
- KO complacency.
- Get out of comfort zone.
- Embrace self-leadership.
- It's the year to change and get ahead of the pack.
- What will be your running shoes?

Steve Jobs showed us



- Retail is dead...NOT!
- He did it at Pixar too.
- “Our brand is the embodiment of trust.”
- A relentless and passionate commitment to what customers want.”
- Fanatically opposed to second-rateness

You have to want to win...

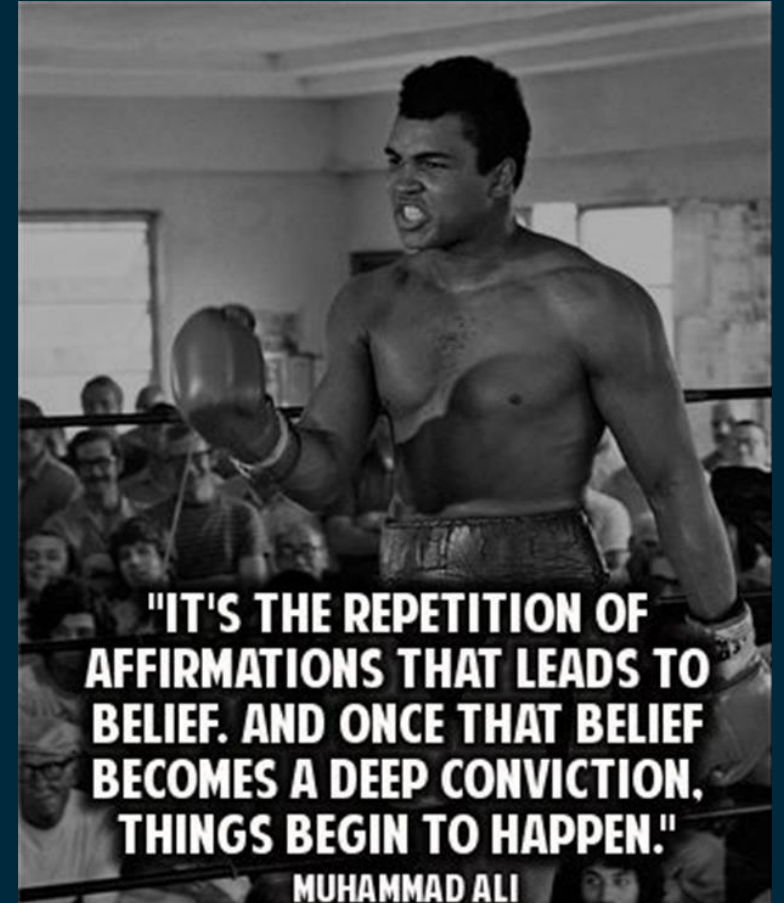


“There were times when deep down I wanted to win so badly I could actually will it to happen. I think most of my career was based on DESIRE.” – Chris Evert

- It's about self-leadership!
- John Maxwell and self-leadership.

I'm a believer and you should be too!

- Don't underestimate the power of policy.
"Don't fight the Fed!"
- What's the affirmation?
- Remember this and share it with your people!
- Have a great 2021 and follow me!!!





www.switzer.com.au

info@switzer.com.au