

Coronavirus & Inflation in Advanced Economies: Slower for Longer

As the economy gradually reopens, the trauma from the pandemic is more obvious than ever. The recession will be extraordinary in the first half of the year, but how will activity readjust over time? If consumers manage to recover quickly and healthily, thanks in part to so much public money being put in their hands, supply may fall short and inflation could come back. If demand is restrained, low rates of inflation may settle. Looking past that, what is the outlook for inflation beyond the next 12 months? Understanding how inflation looks on the horizon matters for taking informed decisions, including where to save and invest.

This report investigates the forces fundamental to demand and supply at the end of this pandemic and reaches unfortunate conclusions: **we don't see either structural or cyclical forces that trigger an acceleration of inflation, either now or in the next several years.** There is a scenario in which runaway fiscal spending will create an environment that fosters inflation, but the odds look very low. The risk is rather that governments stop their policy support too early, either because of a debt-fearing mindset or because markets force them to.

There are several investment implications, including:

- Low productivity gains and declining populations imply slow real GDP growth. Coupled with low inflation, this results in slow nominal growth in many of the advanced economies. This is an environment where long-term, high-quality bonds and dividend-yielding stocks do particularly well.
- With policy rates kept low for long to stimulate demand, ensure ample liquidity provision to firms, and facilitate fiscal spending, carry opportunities where a fair spread can be found are interesting.
- The search for yield will keep risk and equity markets supported—and somewhat decoupled from reality.
- The most important driver of global markets will be monetary and fiscal policies. The successful investor will have to be a good predictor of central banks' and finance ministries' decisions beyond all else.

1. Price Pressures in the Short Term (next two years)

Debt, Savings and Demand in the Short Run

How fast demand will revive once lockdowns are fully lifted is anyone's guess. One thing, however, is certain: households and businesses will come out of the lockdown with smaller net worth. Government support packages in all major economies have been fundamental in limiting the damage, but they will not replace 100% of all households' and firms' income. Liquid savings will have been at least partly used to sustain expenditures. With weaker balance sheets, households and firms will cut spending and deleverage.

Turbo-Charged U.S. Response

The downward pressure on balance sheets has been enormous. Household wage income was going to collapse as unemployment skyrocketed, and the U.S. government activated an unprecedented spending plan to offset workers' lost income. Still, an economy normally creating more than 160 million jobs now has a gap of 20 million jobs, relative to peak. With an identical labor force as in the U.S., the euro area lost less jobs, about 200,000, as policy focused on putting in place short-term schemes that kept workers attached to their job, but at home. Governments also declared moratoria on debt and tax obligations for firms and guaranteed new bank loans to SMEs to replace lost cash flows.

Wherever one looks, the numbers are huge. Yet, in Europe, income replacement did not cover 100% of income and profits for households and firms. It differs from the U.S., where assistance payments have not been income-targeted and overshot previous wage payments for many households. We estimate that income loss has been more than fully offset for all U.S. households in the bottom 80% of the income distribution (Table 1a)¹. All but the highest earners have thus seen their income unaffected or even increase during the 13 weeks of unemployment covered by the CARES Act programs². These programs were particularly supportive for low-income families, whose income we estimate rose 11%, to 42%, compared to pre-COVID levels. Feedback from investment teams focused on U.S. consumer-facing businesses seems to confirm this: the degree of financial stress as seen in requests for forbearance or payment delays has been muted so far.

How Much More Largesse?

So far, most U.S. families did not see a substantial decline in their income due to the pandemic. Whether U.S.

incomes continue to be fully protected depends on the extension of such public largesse. These programs are scheduled to run out at the end of July. Unless they are extended to cover all workers at full pay until they find a new job, household income will drop. The same is true for firms' income protection. The Paycheck Protection Program (PPP) initially covered eight weeks and was extended so funds can be used through the end of the year, though the application deadline remains June 30. The associated loans can be forgiven under specific circumstances, though it is unclear how many firms will qualify. Unless all loans are forgiven and the program is prolonged until all firms recover normal revenue streams, their net worth will decline. Judging from the costs of the CARES Act programs and the proposals tabled in Congress, we do not expect lost income to remain fully replaced.

Heightened Uncertainty

A temporary income support under heightened uncertainty may boost savings at the expense of consumption. In April, U.S. households saw their income rise by \$2 trillion in the aggregate and yet reduced their expenditure by twice that amount. As a result, their savings increased from \$2 trillion to \$6 trillion in a month, and the savings rate almost tripled, to 33% of disposable income. This is a textbook example of the impact of uncertainty on savings: households got considerably richer in the month and decided to save all their new-found income, and then some. This suggests that for U.S. consumption and production to bounce back to pre-COVID levels, not only does fiscal largesse need to be extended substantially, but people also need to feel as safe as they did before losing their job. So far, they clearly do not, even if their income was untouched. They are unlikely to feel safe once public support is phased out.

Drag From Inequality

TABLE 1A: U.S.—INCOME REPLACEMENT BY INCOME BRACKET (A—SIGN REFLECTS A LOSS)

Overall	-2.4%
bottom 20%	41.9%
20% - 40%	11.4%
40% - 60%	7.3%
60% - 80%	1.6%
80% - 100%	-11.4%

Source: Federal Reserve, BLS and Barings.

¹ We estimate the income loss by assuming that all household income generated in the 13 weeks of unemployment covered by the CARES Act is lost and compare this with income received from the \$1,200 paycheck and the enhanced unemployment insurance received by the average household earners (averaged across U.S. states, as unemployment insurance benefits vary substantially by state). Calculations are available if interested.

² The House Committee on Ways and Means (HCWM) [has reported](#) that up to a quarter of the \$1,200 stimulus paychecks are yet to be issued. Furthermore, various press reports suggest that tens of millions of unemployment insurance applications are still being processed. Assuming that these are just delays and all eligible citizens eventually obtain the funds, the income loss should then converge to our estimates. However, the longer the delays, the more negative the impact on consumption. Long delays would strengthen our point: households will see their income decline or at least will face expenditures without income support now.

Income inequality worsens the impact of uncertainty via different propensities to save. For wealthy households, the pandemic will mean a temporary loss in the value of their financial portfolio, already mostly recouped thanks to the staggering bounce back in global stock markets (in the U.S., only the top 20% households by earnings own securities³). These households typically hold substantial savings, which makes for a reassuring buffer in case things deteriorate in the future. The same is not true for households in the lower wealth brackets, for whom avoiding loan default—and possibly poverty—requires finding a job before public support ends in the U.S., and much sooner in countries where income was not 100% replaced.

The data paints a difficult picture for the bottom 60% of U.S. households by income bracket, with little or no savings to weather financial shocks. The U.S. median household's income and net worth amount to \$52,700 and \$97,300, respectively, and the savings rate is 8.9%, which looks fine—except the bottom 60% of income earners had negative savings rates *before* COVID (Table 1b). NBER economists Gabriel Zucman and Emmanuel Saez corroborate these numbers⁴. They find that the bottom 90% of U.S. households by income have not saved any money above interest payments since 1986. Cornerstone Macro used BLS data to estimate savings rates by income bracket and reached the same conclusion, with more granularity: not only have the majority of U.S. households not saved anything since the 1990s, but the bottom 40% had a substantially negative savings rate (Chart 1).

TABLE 1B—U.S. INCOME DISTRIBUTION (THOUSANDS OF USD) AND SAVINGS RATES

	Median Income	Median Net Worth	Savings rate
Overall	52.7	97.3	8.9%
bottom 20%	16.2	7	-125.7%
20% - 40%	33.1	30	-28.1%
40% - 60%	54.1	88.6	-1.0%
60% - 80%	86.1	170.6	13.5%
80% - 90%	135.3	396.5	*26.7%
top 10%	251.5	1629	

Source: Federal Reserve, BLS and Barings.

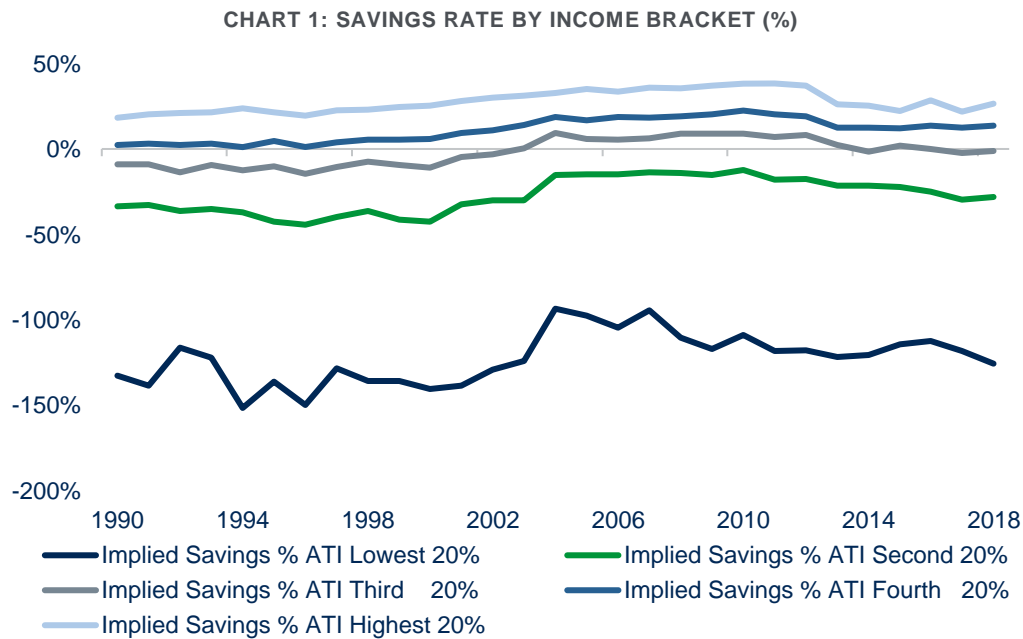
* Refers to top 20%, for lack of data

Even in the rosiest scenario in which public support lasts until labor markets recover fully, low-income households are likely to increase their savings rate (or rather reduce their borrowing rate) in order to create a buffer, keeping a brake on demand.⁵ While inequality is generally lower in Europe, particularly in terms of income after tax and transfers due to a much stronger welfare system, it is still high and increasing—which is why a rise in savings can be expected as well. Also, worker income support was somewhat lower in European countries, suggesting poorer households are already digging into their savings to smooth the shock on their living standards.

³ See Chen, Bing and Stafford, Frank P. "Stock Market Participation: Responses Before and During the Great Recession." (2016) *Journal of Money, Credit, and Banking*.

⁴ Saez, Emmanuel, and Gabriel Zucman. "Wealth inequality in the United States since 1913: Evidence from capitalized income tax data." *The Quarterly Journal of Economics* 131.2 (2016).

⁵ There is no recession in the past 30 years after which savings fell. Whatever drop there may have been in richer households' savings, it was insufficient to offset the rise in the savings of poorer ones.



Source: Cornerstone Macro. As of December 31, 2018.

Supply Side Effects in the Short Run

Disruptions Unlikely to Accelerate Inflation

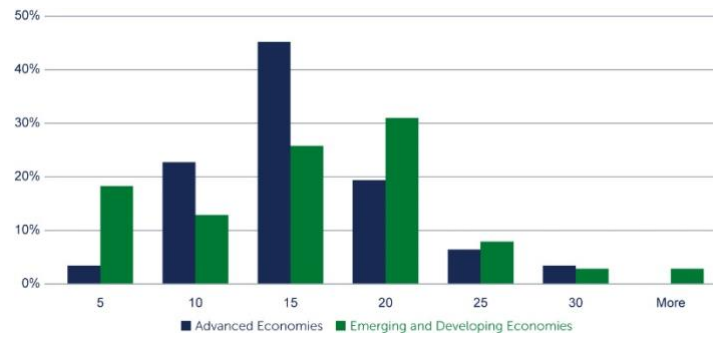
The supply side seems to be recovering, despite lingering value chain disruption and bankruptcies.

- Early evidence from China shows that industrial production is close to pre-pandemic levels, while export orders are still close to the trough. Supply disruption does not seem to be an issue; it is the lack of export orders that constrains producers.
- Bankruptcies are unlikely to hamper supply meaningfully. Furthermore, should a pervasive wave of failures materialize instead, it would trigger balance sheet issues at lenders, followed by credit tightening, and a new uptick in unemployment. This would impact demand even more, through an income reduction, so it could even be disinflationary.
- Disruptions affecting a few sectors may take place, but these shocks would cause changes in relative prices, not the generalized price increase that defines inflation.

Adding Oil Into the Mix

Further exacerbating these price dynamics is the sharp decline in the price of oil. Oil has a median weight of 15% in the CPI basket of advanced economies (Chart 2). The fall in its price therefore represents a significant disinflationary factor. Even if oil remains around the current level of \$40/barrel, it would still have collapsed 25% Y/Y in 2020. The reopening of the economy will certainly raise oil demand as traffic recovers and car usage should overshoot previous levels, given a likely avoidance of public transport. It still has a long way to go this year to pressure inflation.

CHART 2: DISTRIBUTION OF THE OIL SHARE IN THE CPI BASKET



Source: IMF

All in all, the short-run demand and supply dynamics point firmly to a global inflation slowdown. Most analysts agree the short-term impact is very deflationary—the disagreement comes in the medium run.

2. Inflation Risk in the Medium Term (three-to-five years)

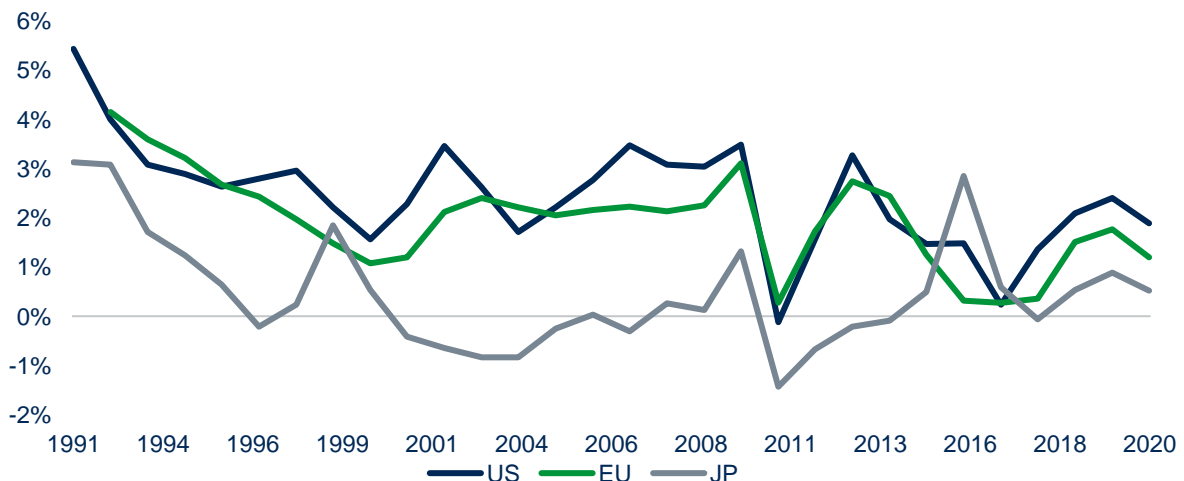
Structural Disinflationary Forces

Three Decades of Structural Disinflation

Once the effects of the unprecedented demand and supply shocks witnessed in recent months have played out, structural factors will determine the growth of money and credit that the economy can sustain without creating inflation. They will ultimately determine the inflation rate in the long term.

For the past three decades, the rate of inflation has been declining in developed markets. Since the Global Financial Crisis (GFC), major central banks have struggled to bring inflation close to their mandated levels, let alone keeping it there (see chart below). While inflation data is likely to be noisy during the pandemic, it is already pointing decidedly down: even netting out the effects of the oil drop, core inflation has dropped in most advanced economies and is close or below 1% in the U.S., EU, U.K. and Japan.

CPI INFLATION YOY 12-MONTH AVERAGE

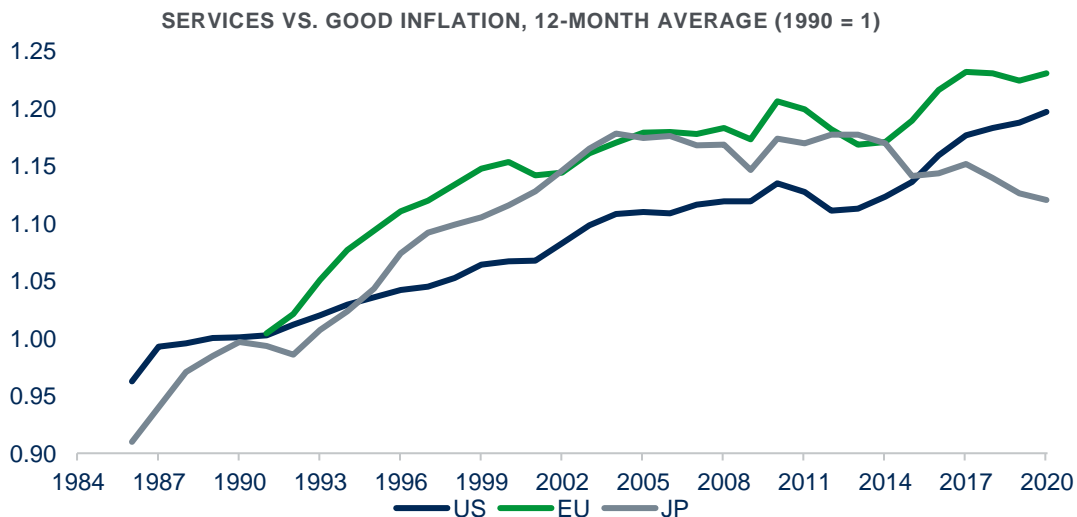


Source: Bloomberg. As of June 1, 2020.

Secular Changes Conjuring Up

Powerful and well-established, long-term structural drivers increase savings, reduce consumption and investment, and create a disinflationary force. They have required stimulus in the form of fiscal or monetary expansion to maintain employment and create inflation. These factors are slow-moving and appear to be engrained in developed economies, so it is hard to see why they should now invert. They are:

- **Demographics:** as life expectancy increases in most advanced economies, households tend to save more to provide for more retirement years.
- **Declining productivity:** this reduces the return on capital and thus the demand for investment, which depresses aggregate demand and the interest rate at which demand and supply of investment projects equate. This may revert in the longer run, in particular if technological progress and pervasive automation raise labor productivity.
- **Increasing inequality:** high-income families save a larger share of their income than low-income ones because basic consumption (food, shelter) uses less of their total income. For each unit of money redistributed from the poor to the rich, savings increase and consumption and inflation decline. On top of structural factors, monetary policy, by supporting asset prices, works through a wealth channel that benefits those with financial investments, accentuating inequality in the absence of redistribution through fiscal policy.
- **Globalization:** The opening of capital markets and the sharing of global savings have pushed interest rates down in advanced economies, a factor amplified by the lack of safe assets. The integration of China in global supply chains has also exerted downward pressure on global wages, particularly in labor-intensive productions that moved to China. This is often cited as a disinflationary force. Goods prices' inflation has indeed been considerably lower than services inflation in advanced economies (see chart below showing the ratio of services to good inflation). However, this does not explain why overall inflation has slowed down. If goods become cheaper, consumers have more money left to spend on services. Service inflation should then pick up the slack left by goods inflation. Another factor must be behind a generalized slowdown in prices. This factor could be inequality: as low-skilled jobs in advanced economies got hit particularly hard by the transfer of production to China, the poorer strata of Western workforces saw their wages losing ground relative to those of high-skilled jobs.



Source: Bloomberg. As of June 1, 2020.

These structural factors have pushed the natural interest rate⁶ (r^*) to extremely low levels; the Fed estimates it has dropped from 3.5% to below 1% during this period (Chart 3), and this was before COVID—recent Fed estimates put r^* at between -3% and -8% (Table 2).

CHART 3: R* FOR THE UNITED STATES



Source: Laubach and Williams (2003).

Note: We plot estimates of the natural rate of interest (r^*) along with those for the trend growth rate of the U.S. economy, a source of change driving r^* .

TABLE 2: TAYLOR RULE FED FUNDS PRESCRIPTION HEATMAP FOR 2020: Q2

Measure of gap (consistent with Congressional Budget Office)						
	Fed U-3 Gap	U-3	ZPOP	U-6	Emp-Pop	GDP
2%	-6.95	-6.62	-6.23	-5.93	-5.27	-3.22
FOMC Longer-run	-8.45	-8.12	-7.73	-7.43	-6.77	-4.72
HLW 2017 model	-8.46	-8.13	-7.74	-7.44	-6.78	-4.73
LW 2003 model	-8.15	-7.82	-7.42	-7.13	-6.46	-4.42
LM 2015 model	-8.32	-7.99	-7.59	-7.29	-6.63	-4.59

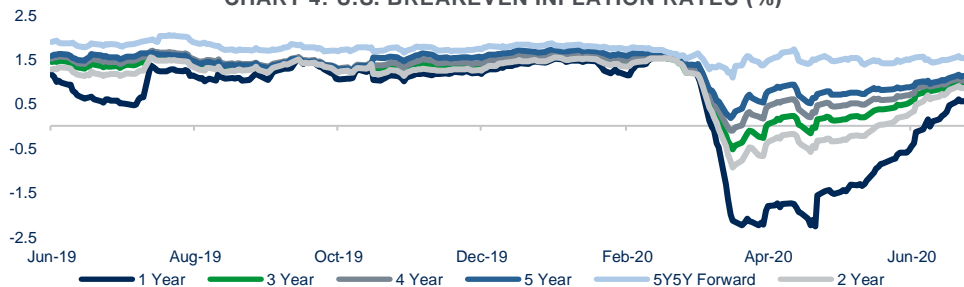
Inflation target: 2.0 percent. Inflation measure: Core PCE inflation, 4-quarter. Fed funds rate: Predicted effective fed funds rate assuming no change I target range (0.0665). Weight on gap: 0.5. Interest rate smoothing: 0. Source: Atlanta Fed.

These factors are also among those that explain why, before the pandemic, the slope of the Phillips curve⁷ had been flat. It remains a puzzle why, since the GFC, the continued fall in unemployment has not been inflationary, neither in the U.S. nor Europe. Some of the reasons cited have to do with the fact that new jobs were being created at the bottom of the pay scale, and mostly with temporary contracts, resulting in little bargaining power for the employed. Also, in the U.S. in particular, participation rates have remained low, both for men and women, leaving much slack in the labor market and the demand side of the economy.

The Role of Expectations

The cyclical deflationary factors described in the previous section magnify these structural trends. If they persist long enough, they may entrench low inflation expectations, adding another disinflationary force to the mix. As people expect lower inflation, they accept lower wage increases and lower interest on their investments, thus causing inflation to actually slow down, in a self-fulfilling prophecy. The U.S. bond market is currently pricing in very low inflation at or below 1.5% for the next 10 years (Chart 4).

CHART 4: U.S. BREAK-EVEN INFLATION RATES (%)



Source: Bloomberg. As of June 1, 2020.

⁶ The natural interest rate is a theoretical economic concept that can be understood as the rate that sustains full employment and stable inflation. It is neither too low so that it stimulates demand and accelerates inflation, nor too high to contract the economy and lead to disinflation.

⁷ The Phillips curve shows an inverse relationship between unemployment and inflation. First developed by William Phillips in the late 1950s as a statistical finding rather than a generalized theory, it was then accepted as a permanent feature of economics and criticized for that. Other factors, including expected future inflation, enter this relationship. The Phillips curve is still used as a simplified way to describe the relationship between economic activity and price inflation in an economy.

New Structural Shocks to Supply

Permanent shocks to global supply chains are possible but unlikely to be relevant for inflation. Some argue structural supply-side shocks following the pandemic are potentially inflationary. They would result from the rise in prices necessary for firms to offset higher wage costs if value chains are relocated on-shore for economic independence motives. Certainly, the virus (and rising U.S.-China tensions) will have spooked some executives, yet labor costs in China are only one-seventh of those in the U.S. (Table 3). The ratio falls further in neighboring countries, to one-tenth in Vietnam and one-twentieth in India. Even in Taiwan, where R&D and engineering capabilities are at U.S. levels, wages are just above half those in the U.S. The labor force available in these countries is large, skilled and extremely cheap compared to both the U.S. and Europe. Firms remain aware that competition takes place on a global stage, particularly with the rise in e-commerce. The opposite would require one to assume a total trade war that results in closed borders.

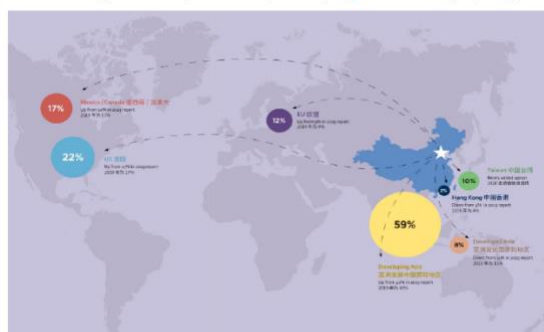
TABLE 3: COMPARISON AMONG KEY SUPPLY-CHAIN COUNTRIES

	Greater China		Southern East Asia					Mexico	US
	China	Taiwan	Vietnam	Thailand	Indonesia	Philippines	India		
Labor force numbers (mn ppl)	807	12	55	38	125	43	522	55	160
Minimum annual wages (US\$)	2,030	9,089	1,526	3,034	1,304	2,770	767	2,369	15,080
RD capability	Medium	High	Low	Low	Low	Low	Medium	Low	High
Engineers talent availability	Medium	High	Low	Low	Low	Low	Medium	Low	High
Education level	Medium	High	Low	Medium	Low	Medium	Low	Low	High
Official languages	Mandarin Chinese	Mandarin Chinese	Vietnamese	Thai	Bahasa Indonesia	English	Hindi and English	English and Spanish	English

Source: Taiwan Ministry of Education, OECD, World Bank, CIA.

It is difficult to see how strategic considerations will bring production lines back to the Western world in any meaningful way. The double whammy of COVID and geopolitical tensions may accelerate relocations out of China that were already underway, but mostly to other emerging economies, rather than the U.S. or Europe. A Bank of America Merrill Lynch study documents this⁸ and, looking at Apple, found that most of its suppliers are now investing heavily outside China, primarily in Vietnam, Thailand, Indonesia, the Philippines, India, Mexico, and Taiwan (and only a few in the U.S. too). More broadly, the study found an upsurge in FDI from China to Vietnam this year. Of the companies that relocated out of China, the American Chamber of Commerce found that the vast majority relocated to emerging Asia (pictured). The much-advertized TSMC investment in a new chip production plant in Arizona does not seem to be part of a general trend. Given these considerations, it is hard to see on-shoring becoming a continued global driver of inflation in years to come.

To which regions have you moved, or do you plan to move, capacity?



Source: American Chamber of Commerce in China Mar 2020
Survey conducted: Oct 24 2019 – Nov 29 2019

Policy Response I: Monetary Expansion

Standard Policies

As employment recovers in the coming years, it is hard to find a reason why the Phillips curve would steepen now when it did not in the previous 10 years. It is likely that economic policy will have to act to avoid

⁸ “Faster and multiple non-China investment”, Bank of America Merrill Lynch Global Research, May 19, 2020.

pervasive disinflation. Don't count on monetary policy. With inflation decelerating, real interest rates increase for any given level of nominal interest rates, incentivizing saving further. This forces central banks to lower policy rates just to keep policy as accommodative as today, never mind stimulating growth and inflation. All major central banks are in a similar predicament. Interest rate policy has run its course.

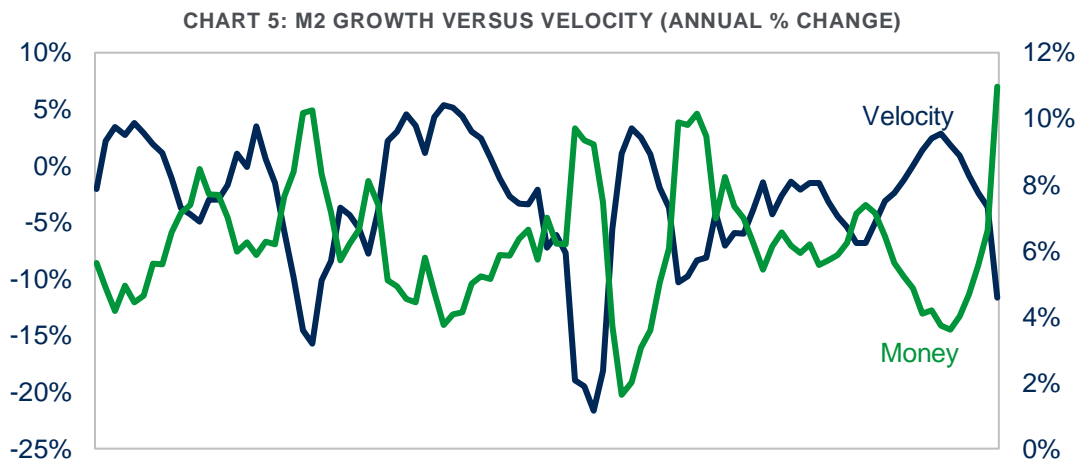
Non-Standard Policies and Velocity

Of course, unorthodox policies could be pursued, and they have been. Central banks have implemented large liquidity injections of about 15% of GDP in the U.S. and the euro area. A monetarist view of the situation would imply that the resulting increase in monetary aggregates is inflationary. There are two issues with this argument.

First, central banks create bank reserves, not credit (or broad money). If banks do not or cannot extend credit, and if households and firms prefer to deleverage, the central bank can do little to stimulate the economy. The score of non-standard policies from the last decade (and Japan's last two decades), in particular quantitative easing (QE) and forward guidance, shows that, while these were successful tools in defusing financial instability with liquidity provision and asset price support, they were not particularly effective in creating inflation and growth.

Second, and related, velocity has declined. Money velocity can be loosely defined as the amount of transactions any bill in circulation will be used for in a year. When households and firms are happy to borrow and spend, the same bill will not remain in anybody's hand for very long. It will be spent and re-spent many times around. A lot of consumption and investment will be generated by the same bill. Velocity will be high. On the contrary, if everyone is wary and risk-averse, the bill will probably be kept in a bank deposit (ready to be spent on rent or food), and it will not generate much consumption and investment. Velocity will be low.

A central bank can create money but does not control velocity. During the GFC, velocity plummeted and has since recovered only slowly and unstably (Chart 5). This is the key reason why massive money injections by all major central banks failed to create inflation. Velocity will likely drop more as a result of the pandemic, thus further limiting the effect of QE and other unorthodox measures in stimulating credit, consumption and investment. High public debt levels will also tend to keep velocity low. This is because the private sector will anticipate a rise in future taxes to cover present enormous outlays, which should be another factor incentivizing saving and reducing money velocity.



Source: Bloomberg. As of June 1, 2020.

Some argue that the real risk from large monetary expansion is not inflation but a loss in confidence in fiat money, which could trigger a run on the currency.⁹ Velocity would then rise rapidly. This could result, for example, from fiscal dominance where central banks would be influenced by fiscal authorities and reluctant to raise interest rates and reduce quantitative easing when necessary, depreciating the value of money. Under this scenario, central banks would extend the current unprecedented levels of government monetary financing for years or decades to come, to support the financing of higher public debts.

Monetary authorities could indeed face pressure to keep interest rates low, capping the cost of servicing ballooned government debt while allowing inflation to erode it too. But even this would have limits. Are central banks ready to institutionalize what is a once-in-a-lifetime policy package designed to contain a once-in-a-lifetime shock? Only if they throw away their handbooks and decades of experience in economic and financial policymaking. The U.S. and euro area central banks have too much credibility to make this likely. That fear may however help explain the rising price of gold and cryptocurrencies.

Policy Response II: Joint Fiscal and Monetary Policy, Maybe MMT

While monetary policy alone is unlikely to create inflation, joint fiscal and monetary expansion, if they became permanent, could. The Bank of England announced that it would “advance” £400 million to the Treasury and establish an “overdraft” account. In this process, the central bank is directly paying the bills of the Treasury by printing money, and new debt is not created when new money is spent. The overdraft ceiling is low enough not to trigger inflation expectations at this stage, and the depressing Brexit outlook will keep demand depressed. Nonetheless, should the facility expand substantially, it is possible to envision low growth with inflation, or stagflation, later.

Fiscal policy can be inflationary if spending is not reversed once the economy moves close to full employment. Deficit monetary financing, or Modern Monetary Theory (MMT), argues to do just that: run expansionary fiscal policies until the economy reaches full employment, and disregard the public deficit necessary to do so by financing it with newly printed money. Fiscal policy therefore becomes the driving policy toolkit. MMT is based on the principle that taxes are raised to control inflation, but this part of the argument is often forgotten. There is no reason to believe, however, that governments are better than central banks at controlling credit, economic activity and inflation, particularly given wrong incentives from the election cycle and the temptation to provide short-term boosts to the economy. The outcome of years of unlimited deficit monetary financing could easily be hyper-inflationary. So yes, you could get inflation, but not the kind you want.

Some argue that MMT is in a way already happening as central banks have embarked on the purchase of huge amounts of government bonds both on the primary and secondary markets. For now, however, this is considered a temporary tool justified by fighting the impact of a health crisis. Crucially, the fiscal expansions currently implemented around the world aim at covering losses income and demand, they are not aiming at expanding demand, which is instead the aim of MMT in a context of high unemployment. Hence, what we are seeing now is not MMT. Demands for fiscal restraint and balanced budgets may have a hard time gaining traction when there is so little inflation on the horizon. However, between the current (substantial) support of central bank to public spending to unlimited deficit monetization there is a quantum leap.

3. Conclusions

In the coming months, inflation could accelerate slightly from the current depressed levels, if a vaccine is found quickly, lockdowns do not reoccur and the massive policy intervention proves to be successful in

⁹ O. Blanchard, J. Pisani-Ferry "[Monetization—Do not panic](#)", Vox, April 10, 2020.

limiting the damages to aggregate demand and supply, ensuring a quick return to employment for most workers.

Even in this most rosy scenario, however, the inflation acceleration will prove temporary. Increased savings in the context of damaged balance sheets, uncertainty and wealth inequality will keep consumption, growth and prices subdued. These cyclical factors add impetus to the structural factors that have been depressing inflation in advanced economies for decades, and continue to do so. There is no reason to believe that population ageing, inequality and declining productivity trends have been somehow weakened by the pandemic. Barring some really exceptional developments, such as a change in policy orthodoxy or a new exogenous supply shock, the future points to disinflation in most advanced economies, and possibly deflation in some.

An environment with low nominal growth in much of the advanced economies is one where carry and dividend income are welcome. Since the most important driver of global markets should be monetary and fiscal policies, at least in the short run, more than anything the successful investor will have to be a good predictor of central banks' and finance ministries' decisions.



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26 June 2020 | Research Note

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