GLOBAL MACRO OUTLOOK

JANUARY 2021

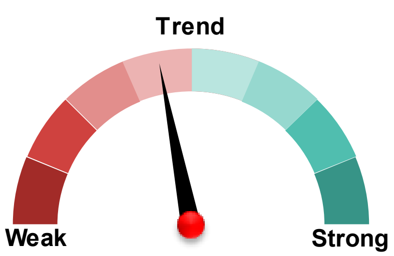
KEY FORECAST TRENDS

+ Although the near-term outlook remains challenging—especially in Europe, where output looks set to contract again in the first quarter—markets are still laser-focused on prospects for recovery once economic restrictions have been lifted.
+ With governments and central banks still providing abundant liquidity and support, the only development likely to challenge this narrative would be the emergence of a more deadly or vaccine-resistant virus mutation.
+ Reflationary hopes have been boosted by recent developments in the US. With the Democrats now in effective control of both houses of Congress, the route towards additional fiscal stimulus has cleared.
+ The outlook for bond yields has become less certain. In Europe and Japan, where monetary and fiscal policy are acting in concert and central banks are committed to implicit or explicit yield-curve control, the risk of higher yields is low.
+ By contrast, the Federal Reserve (Fed) is not committed to yield-curve control and might see additional fiscal stimulus as a reason to begin winding down its own support for the economy. Speculation about Fed tapering should remain low while COVID-19 continues to dominate the headlines but could become an important driver later in the year.
+ But even if risks are now skewed towards higher US yields, the Fed is unlikely to tolerate an abrupt increase. A return to the pre-pandemic trading range remains a distant prospect, in our view.

CONTENTS

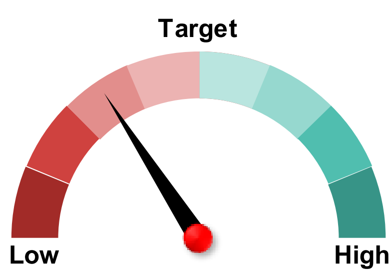
THE GLOBAL CYCLE

ECONOMIC ACTIVITY



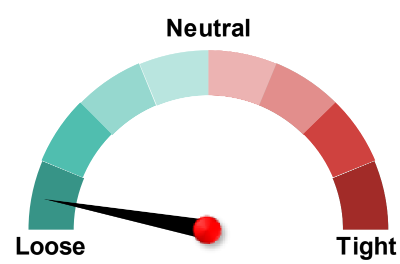
+ After a difficult first quarter, growth is likely to rebound quite strongly.
+ But a full recovery will take time. In most countries, a return to the pre-pandemic trend is likely to prove elusive.

INFLATION



+ Elevated debt and a shift in the underlying policy regime provide fertile ground for rising inflation.
+ But large output gaps and dormant inflation expectations mean this is unlikely to happen this year.

MONETARY POLICY



+ Advanced-economy policy rates are likely to remain on hold next year, and probably well beyond.
+ Central banks are likely to push back against anything other than a modest rise in bond yields.

GLOBAL FORECAST

FORECAST OVERVIEW

Key Assumptions

+ **Virus**: likely to weigh on growth in 1Q, then fade as a cyclical factor
+ **Vaccine:** effective vaccines an important part of this process, but won't allow an immediate return to business as usual
+ **Fiscal policy:** should remain highly supportive at the global level; US concerns now fading
+ **Monetary policy:** central banks to keep policy rates anchored and bond yields low
+ **Secular backdrop:** headwinds to be exacerbated by COVID-19

Central Forecast

+ **Global growth:** after a difficult 1Q, global growth is likely to rebound quite strongly
+ **Reflation:** COVID-19 scarring to prevent an early return to the pre-pandemic trend
+ **Inflation:** regime shift firmly underway, but inflation set to remain muted in 2021
+ **Yields:** upward pressure will build as growth recovers, but any increase likely to be modest
+ **USD:** likely to weaken, but our conviction has fallen

Key Upside Risks

+ Speedy vaccine rollout
+ More aggressive fiscal stimulus
+ Limited COVID-19 scarring

Key Downside Risks

+ Virus mutation / vaccine resistance
+ Accidental/premature austerity
+ Higher US bond yields

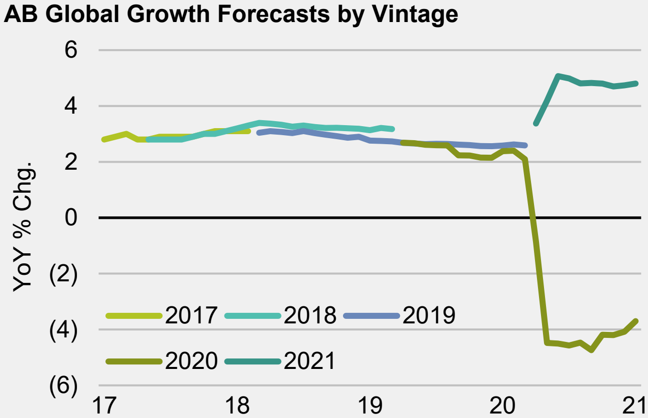
AB Growth & Inflation Forecasts (%)

	Real GDP Growth		CPI Inflation	
	2020	2021	2020	2021
US	(2.9)	4.9	1.3	2.0
Euro Area	(7.2)	2.4	0.3	0.8
Japan	(5.3)	2.6	0.2	0.3
China	2.0	8.2	2.5	2.3
Global	**(3.7)**	**4.8**	**2.0**	**2.2**
Industrial Countries	(4.9)	3.6	0.8	1.4
Emerging Countries	(2.0)	6.6	3.8	3.4
EM ex China	(5.2)	5.2	4.9	4.5

As of December 31, 2020
Source: AB

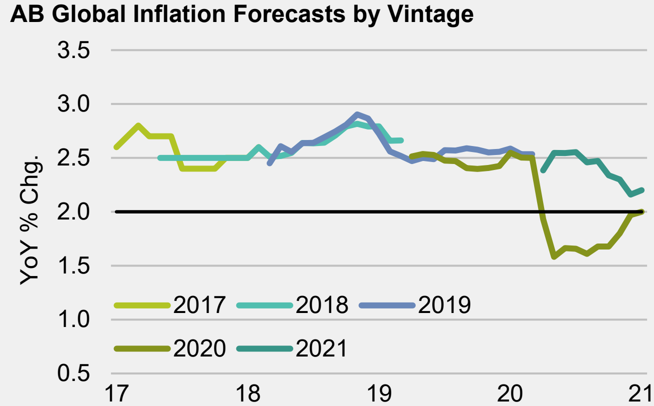
FORECASTS THROUGH TIME

AB Global Growth Forecasts by Vintage



Forecast years start in April: i.e., the first forecast for calendar-year 2017 is March 2016 and so forth.
As of December 31, 2020
Source: AB

AB Global Inflation Forecasts by Vintage



Forecast years start in April: i.e., the first forecast for calendar-year 2017 is March 2016 and so forth.
As of December 31, 2020
Source: AB

GLOBAL MARKET OUTLOOK: YIELD CURVES

GLOBAL YIELDS

Global—The overriding aim of monetary policy over the past year has been to support fiscal policy by keeping bond yields low. This consensus may start to fray as economies begin to recover. The European Central Bank (ECB) and Bank of Japan (BOJ) are committed to some form of yield-curve control. That's not the case, however, in the US, where the Fed may see additional fiscal stimulus as a signal that it can start to wind down its own support for the economy.

US—With fiscal stimulus already in train and more likely to follow, the scope for rates to rise has gone up. That said, we still expect the Fed to act as a restraint on rates and don't expect yields to return to their precrisis levels for some time to come.

Euro Area—The ECB expanded and extended its Asset Purchase Programme in December, but the focus is now on maintaining highly accommodative financial conditions rather than a steady volume of purchases.

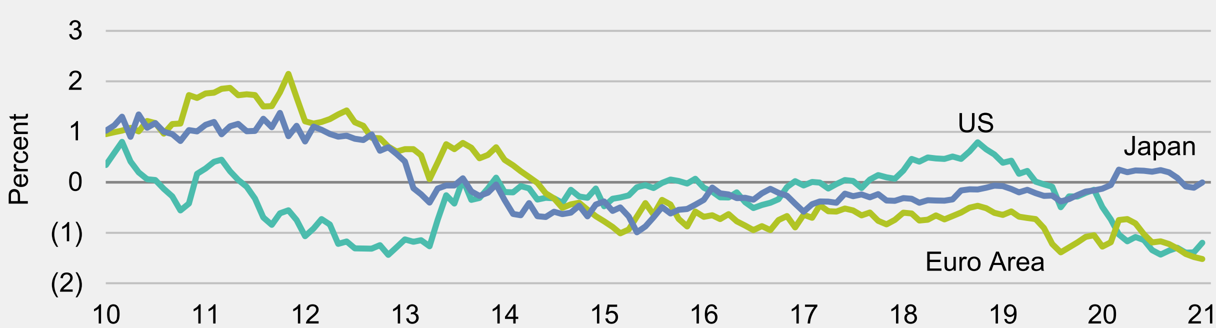
Japan—Tweaks from the BOJ—dropping the Y80 trillion-per-annum purchase target—largely validate the status quo. Yield-curve control (YCC) should anchor 10-year bond yields close to zero for the foreseeable future.

10-Year Yields: AB vs. Consensus Year-End Forecasts (%)

	AB		Consensus	
	2020	2021	2020	2021
US	0.92	1.35	0.92	1.21
Euro Area	(0.57)	(0.25)	(0.57)	(0.33)
Japan	0.02	0.00	0.02	0.05
China	3.15	3.50	3.15	3.25

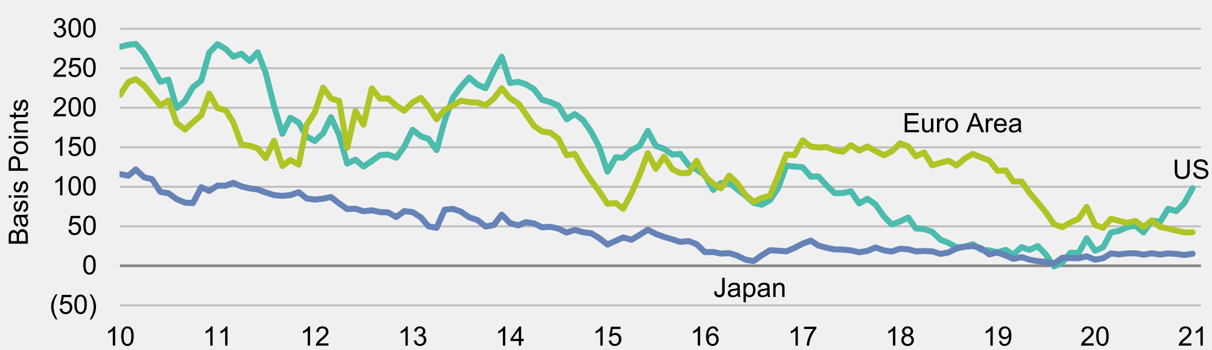
As of January 8, 2021
Source: Bloomberg and AB

Real 10-Year Bond Yields*



*Current 10-year bond yield less five-year/five-year-forward inflation swap
Through January 8, 2020
Source: Bloomberg and AB

Yield Curves: 10-Year Bond Yield Minus Two-Year Bond Yield



Through January 8, 2021
Source: Bloomberg and AB

GLOBAL MARKET OUTLOOK: CURRENCIES

FX FORECASTS

USD—All else being equal, rising prospects for global reflation should favour a weaker dollar. But gains in developed and emerging-market currencies are likely to be constrained if brightening US growth prospects lead to a return of US monetary-policy exceptionalism.

EUR—The euro has strengthened in recent weeks and is close to its highest level in almost two years against the US dollar. Further gains may be more difficult if growth lags the US during the early stages of the recovery from COVID-19 lockdowns.

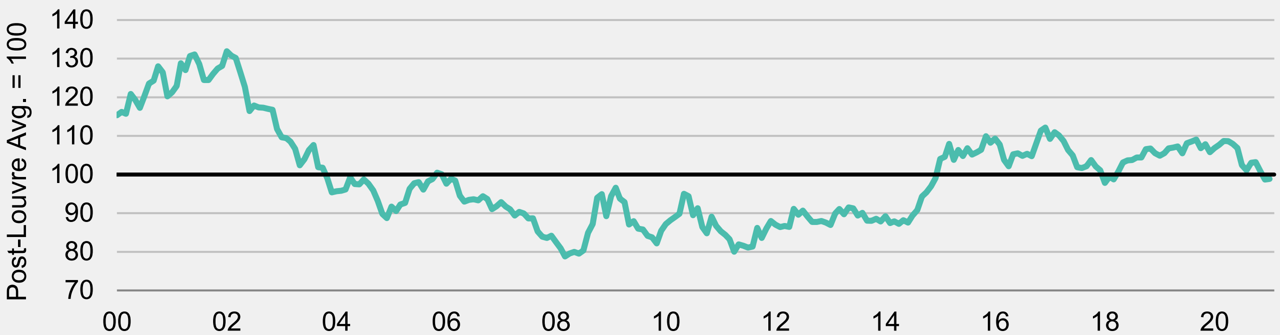
JPY—We see few Japan-specific reasons for a big shift in the yen. Policies in developed economies have converged with those in Japan. That said, we still think the yen retains its risk-off characteristics.

Global FX: AB vs. Consensus Year-End Forecasts (%)

	AB		Consensus	
	2020	**2021**	**2020**	**2021**
EUR/USD	1.22	1.30	1.22	1.24
USD/JPY	103	101	103	103
USD/CNY	6.53	6.30	6.53	6.40
EUR/GBP	0.89	0.93	0.89	0.91

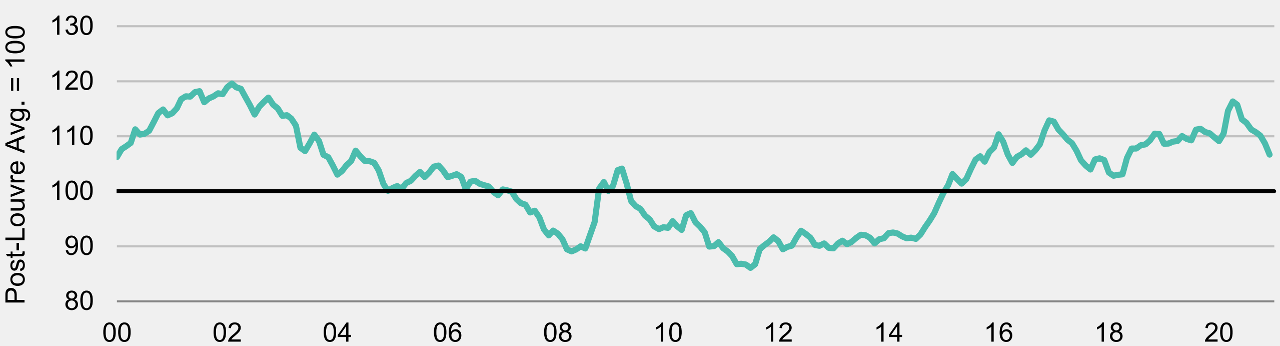
As of January 8, 2021
Source: Bloomberg and AB

Nominal USD Exchange Rate: US Dollar Index



Through January 8, 2021
Source: Bloomberg and AB

Real USD Broad Trade-Weighted Exchange Rate



Through December 31, 2020
Source: Haver Analytics and AB

US

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
US	(2.9)	4.9	1.3	2.0	0.13	0.15	0.90	1.35

OUTLOOK

+ The near-term outlook for the US will be determined by the balance between two countervailing forces: On one hand, the virus situation has clearly worsened, and this will inevitably have a negative impact on growth. Fiscal support, however, should offset much of the damage and allow households to smooth consumption over time. On net, we still anticipate positive growth in early 2021, but stronger growth rates will likely have to wait until later in the year.
+ If, as we assume, vaccines allow for the economy to reopen broadly over the summer, the scene is set for the economy to enjoy robust growth for several quarters to come. Fiscal support—delivered and expected—has kept household balance sheets whole and pent-up demand in sectors that have been distressed during the crisis should push growth up sharply. Therefore, we have revised upward our full-year growth forecasts to nearly 5.0%
+ Monetary policy is largely out of the game for the time being, with the Fed set to continue providing significant accommodation to support growth. As the year progresses, the Fed will have to decide how long and at what pace to continue quantitative easing (QE), while the process of communicating its forward plans to the market could trigger volatility.

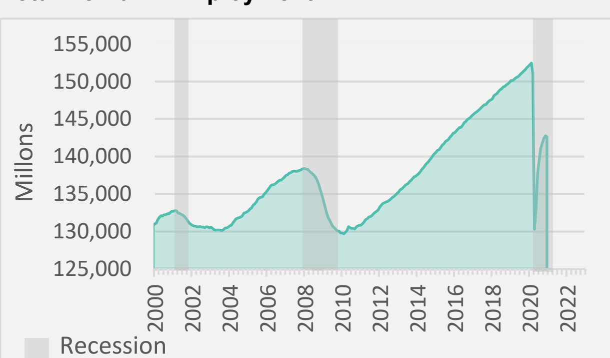
RISK FACTORS

+ The obvious risk is if newer strains of COVID-19 worsen the outlook pre-vaccines or, worst case, prove vaccine resistant, which would change the outlook dramatically. Even just a sluggish vaccine rollout could delay our anticipated growth boom and increase the amount of permanent economic damage from COVID-19.
+ While we expect the Fed to leave its policy rate at zero for several years, the Federal Open Market Committee (FOMC) is likely to consider reducing the size of its QE purchases later this year or early 2022. Changes to QE could be disruptive and it will take a lot of skill for chairman Jerome Powell and colleagues to navigate those waters.

OVERVIEW

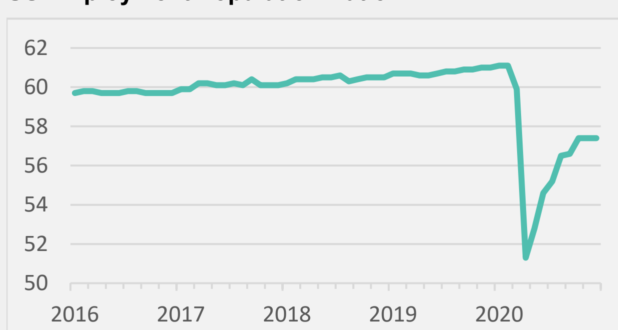
We remain upbeat about the medium-term outlook—especially in the wake of significant stimulus passed late last year and now Democratic control of the Senate, which will likely mean even more fiscal support in the coming months. Before the full impact of such spending can be felt, however, the public health situation must improve. Our expectation is that vaccine distribution will accelerate, and economic reopening will follow suit, in the next few months. But until that happens, uncertainty will overhang the outlook. The other overhang is longer-term: government debt. While we remain firmly convinced that fiscal support is essential to the near-term outlook, one consequence is rising debt, which will be a headwind to longer-term growth. With interest rates low--and likely to stay low for several years— the cost of servicing that debt is manageable for the time being. Eventually, however, either interest rates will have to rise, or expanding financial market bubbles will become unsustainable. this is unlikely to be an issue in 2021, or even 2022, leaving the outlook bright for now.

Total Nonfarm Employment



Through December 15, 2020
Source: Refinitiv Datastream

US Employment/Population Ratio



Through December 15, 2020
Source: Refinitiv Datastream

Euro Area

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Euro Area	(7.2)	2.4	0.3	0.8	(0.50)	(0.50)	(0.50)	(0.25)	1.22	1.30

OUTLOOK

+ While the development of effective vaccines offers light at the end of the COVID-19 tunnel, the euro area still faces a difficult winter. Significant restrictions on economic and social activity are likely to be in place until spring. Moreover, full-scale national lockdowns are possible if the new, and more transmittable, virus mutation gains a foothold.
+ With the economy is likely to contract again in the first quarter, we have lowered our 2021 economic growth forecast from 4.0% to 2.4%. But our forecast masks a sustained recovery from the second quarter onward. Given this trajectory and strong momentum, we expect the euro area to expand by 5.5% in 2022.
+ With a weak near-term outlook, persistent failure to generate inflation and an ongoing need to support fiscal policy, monetary policy will remain highly accommodative for the foreseeable future. In December, ECB extended its PEPP Asset Purchase Programme until at least March 2022 and increased its size by €500 billion to €1.85 trillion (about 16% of GDP). The focus of the program, however, has switched to keeping financial conditions highly accommodative rather than maintaining a constant volume of purchases.

RISK FACTORS

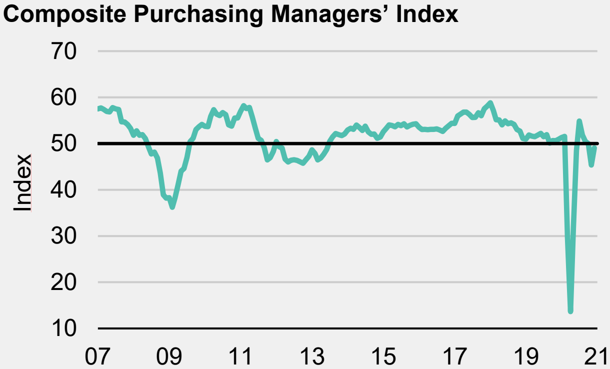
+ While our forecasts assume a further tightening of restrictions on economic and social activity during the first quarter, we have not incorporated a more significant hit to activity. This could be possible, however, if the new virus mutation leads to explosive growth in COVID-19 cases.
+ Media reports point to very slow vaccine rollouts and significant opposition to vaccination in many euro-area countries. In a worst-case scenario, these could delay the achievement of herd immunity and leave countries open to another seasonal resurgence in COVID-19 later this year.

OVERVIEW

The current trajectory of euro-area output growth is being driven in large part by restrictions needed to control COVID-19. The composite Purchasing Managers' Index (PMI) rose to 49.1 in December from 45.3 in November, driven by recoveries in France and Spain. These countries were starting to relax restrictions on activity after being forced to impose earlier and harsher measures than other large euro-area countries. INSEE, the French national statistics institute, estimates that the economy contracted by about 4% in the fourth quarter, about 9% below 4Q 2019.

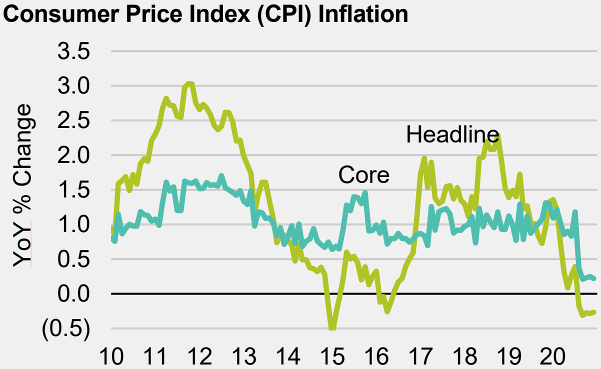
Barring a significant pickup in COVID-19 cases, the French economy is probably past the worst. But that's unlikely to be the case in Germany, for example, where the government tightened restrictions on economic and social activity further in the middle of December. The net result is that the euro-area economy is likely to contract in both the 4Q of last year and first quarter of 2021—we have penciled in 2% contractions for both quarters, though with an unusually large margin of error.

Composite Purchasing Managers' Index



Through December 31, 2020
Source: Haver Analytics and IHS Markit

Consumer Price Index (CPI) Inflation



Through December 31, 2020
Source: Haver Analytics

China

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
China	2.0	8.2	2.5	2.3	4.35	4.10	3.30	3.50	6.50	6.30

OUTLOOK

- We expect China 2021 real GDP growth to rebound to about 8.2%, on the back of economic activity normalization post COVID-19, extended monetary and fiscal easing measures, and 2020's low starting point.
- 2021 marks the first year of China's 14th Five-Year Plan, and we expect big and strategically important projects that are usually launched upon each plan's onset to bolster growth.
- 2021 also marks the 100th anniversary of the Communist Party and we believe economic stability is fundamental to ensure social and political stability. As a result, continued monetary and fiscal easing will be indispensable in 2021.

RISK FACTORS

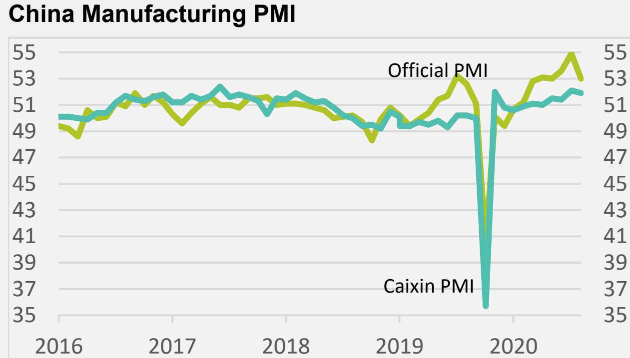
- Increasing COVID-19 cases, city lockdowns, and tighter social distancing measures will cloud the on-going economic recovery and block its full normalization.
- Faster-than-expected economic recovery may also prompt the People's Bank of China (PBOC) toward tightening, and even though that is not our base case, it could potentially threaten the current economic recovery.
- A bigger-than-expected rise in pork prices and increase in importer inflation may result in higher-than-expected broader inflation, and this may constrain PBOC's easing magnitude.

OVERVIEW

China's December 2020 PMI data surprised to the downside, with official Manufacturing (MFG) PMI down -0.2 to settle at 51.9, and the Non-MFG PMI at 55.7, down -0.7. The Caixin MFG PMI fell -1.9 to 53 and the Caixin Non-MFG PMI dropped –1.5, reaching to 56.3. This is mainly driven by three things: 1. a colder-than-usual winter, resulting in some economic activity suspension; 2. power shortages due to the harsher winter, with outages especially in some provinces in industrial sectors; 3. some pickups in domestic COVID-19 cases, and stricter social distancing measures and travel bans in some provinces. We think the weakness in economic activity is temporary until colder weather passes. China's December 2020 Consumer Price Index (CPI) improved to 0.2%, up from –0.5% in November, while its Producer Price Index (PPI) improved to –0.4% in December, up from –1.5% the previous month.

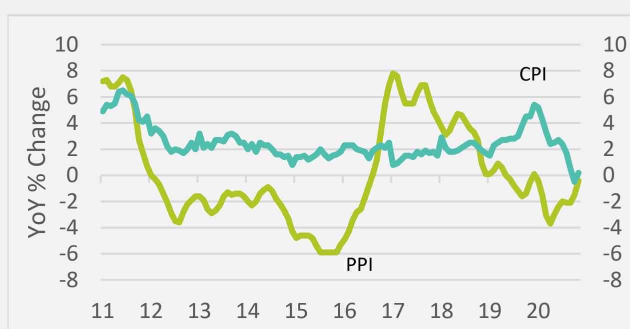
China announced more than nine million people are now inoculated for COVID-19 and is on schedule to expand vaccinations nationwide. Given that the Chinese COVID-19 vaccine uses traditional technology not requiring colder-temperature storage and distribution, along with China's advanced logistics system, we believe China may lead the world in inoculation. We therefore believe China will continue to be a source of stability to the global economy in 2021.

China Manufacturing PMI



Through December 31, 2020
Source: Bloomberg and AB

China CPI & PPI



Through December 31, 2020
Source: Bloomberg and AB

Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Japan	(5.3)	2.6	0.2	0.3	(0.10)	(0.10)	0.02	0.00	103	101

OUTLOOK

+ COVID-19 cases continue to rise in Japan, leading to the imposition of new state-of-emergency restrictions.
+ The popularity of new PM Yoshihide Suga has slipped sharply, increasing political uncertainty in an election year.
+ Monetary policy setting remains unchanged, with yield-curve control anchoring interest rates.
+ More fiscal stimulus is in the pipeline.

RISK FACTORS

+ A sharply stronger yen would apply additional economic squeeze.

OVERVIEW

A third wave of COVID-19 cases continue to rise in Japan. While still well below that experienced in the US, UK or Europe, its 50 daily cases per million has climbed sharply since mid-December. New PM Suga has declared a second "state of emergency" for Tokyo and surrounding prefectures until the first week of February and it's likely to be extended to other regions. As a result of the requested restrictions (Japan's government still lacks the authority to compel business closures, although amended legislation is in the works), it's highly likely that economic activity will soften further in early 2021.

As elsewhere, rising cases provided renewed impetus for more fiscal policy support via an additional supplementary budget, which was finalized last month. Once again, this will be facilitated by the "unlimited" bond buying by the BOJ. Japan remains at the forefront of fiscal-monetary cooperation— "joined-at-the-hip"—and there's no indication it's about to change. Accordingly, bond yields will remain anchored despite any additional supply.

While the change in political leadership in Japan occurred smoothly, with cabinet secretary Suga taking over as PM from Abe, the new administration has suffered a sharp deterioration in popularity, in large part because of perceptions around the handling of the pandemic. Whilst it is unlikely that the broad thrust of policy will be affected, political uncertainty is rising again.

Australia/New Zealand

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Australia	(2.5)	3.0	0.7	1.5	0.10	0.10	0.97	0.90	0.77	0.75
New Zealand	(2.7)	4.5	1.6	1.4	0.25	(0.10)	0.99	0.90	0.72	0.72

AUSTRALIA/NEW ZEALAND

+ COVID-19 cases remain contained in Australia. The big jump in cases in July/August—centered in the state of Victoria—rapidly reversed thanks to stringent restrictions and state border closures. Those restrictions were relaxed significantly through November. While cases in the state of New South Wales ticked higher around Christmas, the outbreak seems to have been managed via contact tracing, rather than substantial restrictions.
+ Accordingly, the hit to activity from lockdowns has been more modest than expected, and the recovery a little more robust. But the Reserve Bank of Australia (RBA) continues to fret about the medium-term outlook. In early November, it cut rates and implemented a US$100 billion bond purchase program—to supplement its three-year yield-curve control target. This policy is unlikely to be reassessed in 2021.
+ In New Zealand, the story is similar. COVID-19 has effectively been eliminated within the country. But restrictions on international travel and tourism will have to continue—a significant headwind for the economy going into 2021. The Reserve Bank of New Zealand (RBNZ) is set for more policy easing: it unveiled a funding-for-lending scheme in November and will likely still move to a negative-interest-rate policy in early 2021.

Canada

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Canada	(3.0)	4.0	0.5	2.0	0.25	0.25	0.80	1.20	1.24	1.22

OUTLOOK

+ With COVID-19 again dominating the narrative, Canada's economy is unlikely to expand meaningfully during the winter months. Thereafter, however, the outlook brightens considerably if the vaccine rollout is successful, which we expect it will be eventually.
+ The Bank of Canada will continue to provide support, complemented by fiscal policy, for the time being to assure that the medium-term outlook remains solid.
+ We expect the Canadian dollar to benefit from a reflationary environment and to appreciate against the USD in 2021.

RISK FACTORS

+ Just as it has been, until COVID-19 is convincingly in the rearview mirror it remains the dominant risk in the global and the Canadian economy.

OVERVIEW

With COVID-19 again dominating the narrative and the rising risk of newer, more contagious strains, the Canadian economy is likely to go into hibernation for the next couple of months as lockdowns and economic restrictions limit activity. If, as we expect, vaccine distribution and delivery is effective, however, the outlook should improve as the year moves along. We expect strong growth in the coming quarters, but the next few weeks and months will be difficult.

UK

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
UK	(10.7)	2.3	0.8	1.6	0.10	0.10	0.25	0.50	1.37	1.40

OUTLOOK

+ The UK's was one of the worst-hit economies by COVID-19 last year and with the emergence of a new, more transmittable, virus mutation a similar pattern seems to be emerging entering 2021. At the beginning of January, the government imposed another, stricter national lockdown, likely until at least mid- February.
+ While not as draconian as measures in March of last year, the new lockdown includes the closure of schools and universities and is likely to have a substantial negative impact on the economy. With additional disruption from the end of the Brexit transition phase, we expect the economy to contract by 4.5% in the first quarter of 2021, following a 2.5% contraction in the fourth quarter of 2020. Both forecasts are subject to unusually wide margins of error.
+ Thereafter, we expect the economy to rebound strongly, driven by several supportive factors: rapid vaccine rollout, especially compared with most other European countries; a significant recovery in consumer spending supported by healthier household balance sheets; and a partial recovery in business investment now that there's greater clarity on the new trading relationship with the European Union.
+ It's also worth noting that the British economy is operating much further below pre-pandemic levels than most other European economies. The flipside is that there's greater upside as activity starts to normalize. We have lowered our 2021 economic growth forecast to 2.3% from 3.5% but expect the economy to grow by almost 9% in 2022. While this is a large number, it puts the economy back at only pre-pandemic output levels at the very end of next year.

RISK FACTORS

+ There are risks in both directions. In the very near term, it's possible that the economy will prove more resilient than we expect. Further out, there are risks of a more muted recovery if vaccine rollout is slower than expected or if there's a more long-lasting impact than anticipated from the end of the Brexit transition period. The future shape of fiscal policy will also have an important impact on the outlook, but the risks from this direction are evenly balanced.

Asia ex Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Asia ex Jap/Ch	**(4.9)**	**6.3**	**2.8**	**2.4**	**2.30**	**2.03**	**3.56**	**3.51**	**—**	**—**
Hong Kong	(7.0)	5.0	0.5	1.0	1.00	0.90	0.70	0.80	7.75	7.77
India	(8.6)	9.3	7.0	4.5	4.00	3.50	5.81	5.70	74.00	72.00
Indonesia	(2.0)	5.0	2.1	2.3	3.75	3.25	5.86	5.70	14,100	13,800
South Korea	(0.7)	3.3	0.5	0.8	0.50	0.50	1.73	1.75	1,087	1,050
Thailand	(6.3)	5.2	(0.9)	1.1	0.50	0.50	1.28	1.35	30.0	31.50

OUTLOOK

+ In general, the virus is contained in most countries across the region, but cases continue to rise in Malaysia, leading to the imposition of tighter restrictions.
+ Regional exports of goods have recovered—initially on the technology side before flowing more broadly to non-tech. But exports of services, like tourism, remain weak.
+ Substantial monetary and fiscal support has been delivered. Questions persist around how far “unconventional” policies can be pushed, even if market concerns have subsided for now.

RISK FACTORS

+ COVID-19, US-China tensions

OVERVIEW

In general, Asia continues to effectively control the spread of COVID-19. Cases in countries such as Taiwan and Vietnam are close to zero. Cases in India, Indonesia and the Philippines remain elevated, but still controlled. The main exception is Malaysia, where cases continue to surge, leading to further tightening of the Conditional Movement Control Order (CMCO) restrictions. The region isn’t out the woods, to be sure, but the virus is becoming less of a dominant factor.

At the same time, a global trade recovery has clearly helped the region. Exports, initially tech-related but now across the board, have bounced sharply, and are benefiting countries like Taiwan and Korea. For those more exposed to services—for example, Thailand, with its heavy reliance on tourism—the outlook remains bleak. It’s difficult to see a rapid recovery until the emergence of widespread vaccination, which seems unlikely to occur fast enough across the region to restore normality until 2022.

The economic policy response to date has been positive—with monetary easing and substantial fiscal support being delivered across the board. This should help underpin a recovery. But across the region an end to the monetary easing cycle is close. Fiscal policy—supported by central bank action—is now dominant.

The Philippines, India and Indonesia, among others, have ventured down a path of unconventional monetary policy, intervening in domestic government bond markets to smooth volatility and facilitate fiscal deficit financing. Indonesia has an explicit “burden-sharing” agreement between the finance ministry and the country’s central bank. And in the Philippines, the central bank provided substantial loans in 2020, an arrangement that will continue in 2021. To date, market concerns have been eased by the commitment that these are “one-off” measures. This may prove to be the case. But history tells us that advancing down this path seldom stops at the first step.

Latin America

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Latin America	**(7.0)**	**4.1**	**8.2**	**7.3**	**6.68**	**5.47**	**5.80**	**6.01**	**—**	**—**
Argentina	(11.0)	4.0	45.0	40.0	38.00	30.00	—	—	82.6	120.00
Brazil	(4.3)	3.0	3.0	3.6	2.00	2.50	6.91	7.50	5.19	5.00
Chile	(6.0)	5.1	3.0	2.5	0.50	0.75	2.50	3.00	712	700
Colombia	(7.6)	4.9	3.0	2.5	1.75	1.50	5.40	5.25	3,429	3,750
Mexico	(8.7)	4.5	3.6	3.5	4.25	3.50	5.50	5.25	19.9	20.8

OUTLOOK

+ Growth in Latin America is recovering more slowly than elsewhere in emerging markets. Brazilian growth is expected to lag the rest of the region because of structural constraints and political negotiations slowing the approval of key reforms.
+ Low capacity to deliver public services efficiently will hamper the speed of recovery even after securing enough COVID-19 vaccines. Moreover, new lockdowns will imply more pressure on already-stretched fiscal accounts.

RISK FACTORS

+ While most countries in the region have procured vaccines for more than 50% of their populations, an increase in COVID-19 cases in the coming months may impact economic activity in the first half of 2021.

OVERVIEW

In Brazil, a second wave of COVID-19 cases has reignited discussions among lawmakers for further fiscal stimulus. Following unprecedented stimulus in 2020, Brazil had intended to end all COVID-19 related measures at the end of the year and resume the fiscal consolidation plan in place before the pandemic. The resurgence of the virus increases the risk that Congress will approve measures that will cause a breach of the spending cap, one of Brazil's fiscal rules. This could lead to deterioration in investor confidence as market players worry about a return to fiscal dominance. While not our base case, the tail risk remains. Monetary policy is likely to remain accommodative for most of the year, but the Brazilian central bank is expected to begin hiking the policy rate as early as the third quarter as inflation approaches the midpoint of the target range.

The increase in fiscal stimulus in the US would sustain Mexico's recovery in 2021 by improving private consumption through remittances and manufacturing exports. By late 2020, manufacturing activity continued to improve as the economy gradually re-opened, mobility increased, and external demand improved, but it is still running around 10% below early 2020 levels. Both investment demand and government spending will remain a drag on overall domestic demand. Currency appreciation and inflation close to target in 2020, as well as a more dovish central bank board, will permit monetary easing to continue in 2021 when we expect at least three cuts in the monetary policy rate.

In Chile and Peru, political developments will remain at the forefront in the first half of the year. In Chile, voters will elect their representatives to the constitutional assembly that will oversee the rewriting of the constitution after country-wide protests in 2019 demanded changes in social services. The assembly's composition will determine the depth of the institutional changes and how much the public sector's balance sheet could deteriorate. In Peru, after a 2020 characterized by a health, economic and political crisis, the market's desired scenario of economic policy and political stability would be achieved if the presidential election winner also manages to garner enough support in Congress. With elections in early April, we will closely observe the polls, political alliances and candidates' platforms to assess what to expect after the new government takes office by the second half of the year.

Eastern Europe, Middle East and Africa (EEMEA)

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
EEMEA	**(4.1)**	**3.7**	**5.2**	**5.5**	**5.86**	**4.43**	**6.32**	**6.51**	**—**	**—**
Hungary	(5.7)	5.4	2.9	3.2	0.60	0.75	1.90	2.20	350	330
Poland	(4.5)	5.5	3.3	2.6	0.10	0.10	1.20	1.50	4.56	4.50
Russia	(4.2)	2.9	3.3	3.8	4.25	4.00	5.90	6.00	74.0	71.0
South Africa	(8.0)	2.7	3.2	3.5	3.50	3.50	9.20	9.50	15.0	15.5
Turkey	(0.8)	3.5	12.3	14.1	17.00	11.50	12.00	13.00	7.44	7.60

OUTLOOK

+ Economic growth was relatively weak in the last quarter of 2020 and renewed lockdowns could continue to weigh on activity in several EEMEA countries early in 2021. The gradual distribution of a vaccine should start to reignite the economic recovery during the first half of the year, but output will remain below pre-pandemic levels for quite some time.
+ Central banks responded swiftly to the COVID-19 crisis by easing monetary policy and implementing bond purchase programs to support domestic financial liquidity. While further modest interest-rate cuts are possible in Russia, other countries such as South Africa have likely come to the end of their easing cycles. Although we don't think the interest-rate cycle in the region has turned, Turkey has been forced to tighten monetary policy owing to exchange-rate pressures.

RISK FACTORS

+ The resurgence of COVID-19 cases in some countries and varying vaccine procurement and distribution plans could lead to diverging rates of economic recovery.
+ The timing and the degree of normalization of international travel and a revival of the tourism industry will also remain important risk factors for countries such as Turkey.

OVERVIEW

The Turkish central bank's (CBRT's) additional 200 basis point (b.p.) hike to 17% at the December 2020 monetary policy committee meeting signaled a greater commitment to price stability, at least over the near term. Combined with the ex-post real policy interest rate running at 2.5%, this had a continued positive impact on capital flows. Total non-resident inflows into local bond and equity markets amounted to US$2.3 billion in December, following US$1.8 billion of inflows in the previous month, supporting lira appreciation. So far, CBRT monetary tightening hasn't been able to stop the local dollarization trend, as corporates and households both continued to accumulate foreign exchange deposits over the course of December, although more recently at a seemingly slower pace. It is important to note that three-month lira deposit rates saw a meaningful rise, ending the year at around 19.6% and offering ex-post real yields of 5%, the highest level since October 2019. Provided the CBRT maintains its hawkish bias, the increase in domestic real deposit rates should support a further slowdown and a potential reversal in the dollarization trend. While headline inflation will need to be monitored carefully over the coming months (reaching a peak of 15.5% in April), our baseline remains that the CBRT will remain on hold until the end of the second quarter, at which point price pressure should subside slightly going into year-end and the central bank will have room to cut the policy rate. Needless to say, the CBRT's reaction function and the speed of expected cuts during the second half of the year will be key indicators as to whether recent policy changes represent a permanent shift towards more responsible and orthodox monetary policy making.

South Africa's growth outlook deteriorated over the past month as the second wave of COVID-19 led to the reintroduction of lockdown measures. While the new restrictions aren't as stringent as those which brought the economy to a near standstill in 2020, the health situation is concerning, and South Africa is lagging in procurement of vaccines. The PMI eased to 50.3 in December from 52.6 in November, with declines in the business activity index (44.9 in December from 52.2 in November) and the new sales orders index (45.2 from 49.0) pointing to a meaningful loss in momentum. The reintroduction of lockdown measures and the return of load shedding at the start of the year could lead to very weak economic growth in the first quarter of 2021. The pandemic exposed South Africa's economic and fiscal vulnerabilities and its recovery appears delayed by domestic (new lockdown measures and electricity supply shortages) and external factors (slowdown in key export markets like the euro area). But the pandemic also led to—or forced—promising political and policy reform and we think sustained momentum on this front could ultimately overshadow near-term macroeconomic weakness.

At the start of 2021 the Gulf Security Council (GCC) countries managed to come to an agreement with Qatar on the diplomatic and economic blockade dating back to June 2017. Despite President Trump's initial support for Qatar's blockade, the US has been pressuring the GCC for years to find a solution to the regional rift. Hence the Saudi leadership, in particular Crown Prince Mohammad, likely wanted to accelerate a resolution before the Biden administration takes office, given the latter's more critical stance on other issues in the region such as the war in Yemen and human rights. While oil prices will remain the main determinant of the region's economic fortunes, Qatar's reintegration into the GCC will improve regional trade, investment and financial flows, adding to the positive regional investment impetus following the UAE–Israel peace agreement signed in September 2020. Regional tourism should also benefit during the 2022 Qatar Football World Cup. Potential foreign policy divergences between Qatar and Saudi/UAE could present obstacles and possible setbacks down the line. In particular, a renewed shift in Qatar's support for the Muslim Brotherhood or its support for Turkey's regional ambitions, and how this impacts Qatar's relations with the rest of the GCC, are aspects that will need to be monitored closely.

Frontier Markets

Zambia announced early last year that it would seek to restructure its external debt. In September, it requested a six-month debt service suspension on all commercial debt. The government's proposed extraordinary resolutions (including the deferral of interest payments) were not passed by bondholders and Zambia defaulted in November. The IMF indicated that it had visited the country early in December for high-level discussions with authorities after their request for a financing arrangement. Later that month, Zambia published its Economic Recovery Programme (ERP) to address the country's economic and debt challenges. While the authorities now seem to be aiming for an IMF program by mid-2021(i.e., before the presidential election, the ERP is not very ambitious; finalization of debt negotiations isn't projected until the end of 2022 and the clearance of external arrears expected only by the end of 2023. The IMF's assessment of the credibility of the ERP will be important to monitor in determining the prospect of a funded program. But we think the IMF could remain quite cautious in its dealings with Zambia before the August 2021 election.

In mid-February, Ecuadorians will go to the polls to elect their new president. The leading candidates–right-winger Guillermo Lasso, former president Rafael Correa's ally Andres Arauz, and indigenous leader Yaku Perez–represent a binary outcome for economic policymaking and commitment to the IMF program. Slow economic growth, COVID-19 restrictions and government austerity measures to comply with the IMF program have created an environment primed for political change; the vast majority of the population is unhappy with the Moreno administration and the political establishment in general. Lasso has been in politics for decades and this year will be his third attempt at the presidency. But he represents the friendliest outcome for the capital markets, maintaining policies to promote fiscal consolidation and ensure the dollarization regime remains feasible. Arauz has strong ties to former president Rafael Correa and while there is a risk that he would impose populist policies and break ties with multilateral institutions, we don't believe this is the base case. Arauz is a trained economist and committed to the dollarization regime, which creates endogenous constraints and limits the extent of heterodox policy. While the IMF program would likely be renegotiated under an Arauz presidency, we don't believe it would be completely eliminated. Yaku Perez is the wildcard candidate; he's running on a pro-environment platform, which while positive for the country's Amazon and other protected lands would likely be negative for future development of the mining sector. Perez has refused to engage with multilateral institutions during the run-up to the election. In our view, Perez would create the most uncertainty for the future of the Ecuadorian economy. Ecuador complied with all the requirements of the IMF program in the latest review, which unlocked US$2 billion in financing, but the future of the program depends on the outcome of the election. The first round is scheduled for February 7. A run-off will be held on April 2 if no candidate receives over 50% of the vote or over 40% with a 10% margin over the next-closest candidate.

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Global	(3.7)	4.8	2.0	2.2	1.66	1.45	1.81	2.04	-	-
Industrial Countries	(4.9)	3.6	0.8	1.4	(0.08)	(0.07)	0.35	0.66	-	-
Emerging Countries	(2.0)	6.6	3.8	3.4	4.34	3.78	4.10	4.18	-	-
EM ex China	(5.2)	5.2	4.9	4.5	4.41	3.54	4.88	4.92	-	-
United States	(2.9)	4.9	1.3	2.0	0.13	0.15	0.90	1.35	-	-
Canada	(3.0)	4.0	0.5	2.0	0.25	0.25	0.80	1.20	1.24	1.22
Europe	(7.6)	2.4	0.4	1.0	(0.37)	(0.37)	(0.34)	(0.08)	1.76	1.81
Euro Area	(7.2)	2.4	0.3	0.8	(0.50)	(0.50)	(0.50)	(0.25)	1.22	1.30
United Kingdom	(10.7)	2.3	0.8	1.6	0.10	0.10	0.25	0.50	1.37	1.40
Sweden	(3.5)	2.5	0.6	1.3	0.00	0.00	(0.15)	0.10	10.0	10.0
Norway	(3.5)	2.5	1.4	2.4	0.00	0.00	0.75	1.10	10.8	10.5
Japan	(5.3)	2.6	0.2	0.3	(0.10)	(0.10)	0.02	0.00	103	101
Australia	(2.5)	3.0	0.7	1.5	0.10	0.10	0.97	0.90	0.77	0.75
New Zealand	(2.7)	4.5	1.6	1.4	0.25	(0.10)	0.99	0.90	0.72	0.72
China	2.0	8.2	2.5	2.3	4.35	4.10	3.30	3.50	6.50	6.30
Asia ex Japan & China	(4.9)	6.3	2.8	2.4	2.30	2.03	3.56	3.51	-	-
Hong Kong	(7.0)	5.0	0.5	1.0	1.00	0.90	0.70	0.80	7.75	7.77
India	(8.6)	9.3	7.0	4.5	4.00	3.50	5.81	5.70	74.0	72.0
Indonesia	(2.0)	5.0	2.1	2.3	3.75	3.25	5.86	5.70	14,100	13,800
Korea	(0.7)	3.3	0.5	0.8	0.50	0.50	1.73	1.75	1,087	1,050
Thailand	(6.3)	5.2	(0.9)	1.1	0.50	0.50	1.28	1.35	30.0	31.5
Latin America	(7.0)	4.1	8.2	7.3	6.68	5.47	5.80	6.01	-	-
Argentina	(11.0)	4.0	45.0	40.0	38.00	30.00	0.00	0.00	82.6	120.0
Brazil	(4.3)	3.0	3.2	3.6	2.00	2.50	6.91	7.50	5.19	5.00
Chile	(6.0)	5.1	3.0	2.5	0.50	0.75	2.50	3.00	712	700
Colombia	(7.6)	4.9	3.0	2.5	1.75	1.50	5.40	5.25	3,429	3,750
Mexico	(8.7)	4.5	3.6	3.5	4.25	3.50	5.40	5.25	19.9	20.8
EEMEA	(4.1)	3.7	5.2	5.5	5.86	4.43	6.32	6.51	-	-
Hungary	(5.7)	5.4	2.9	3.2	0.60	0.75	1.90	2.20	350	330
Poland	(4.5)	5.5	3.3	2.6	0.10	0.10	1.20	1.50	4.56	4.50
Russia	(4.2)	2.9	3.3	3.8	4.25	4.00	5.90	6.00	74.0	71.0
South Africa	(8.0)	2.7	3.2	3.5	3.50	3.50	9.20	9.50	15.0	15.5
Turkey	(0.8)	3.5	12.3	14.1	17.00	11.50	12.00	13.00	7.44	7.60

Growth and inflation forecasts are calendar year averages.
Interest rate and FX rates are year end forecasts.
Long rates are 10-year yields unless otherwise indicated.
The long rates aggregate excludes Argentina; Argentina is not forecasted due to distortions in the local financial market.
Real growth aggregates represent 31 country forecasts not all of which are shown

Contributors

Armando Armenta armando.armenta@alliancebernstein.com	Adriaan Du Toit adriaan.dutoit@alliancebernstein.com	Darren Williams darren.williams@alliancebernstein.com
Guy Bruten guy.bruten@alliancebernstein.com	Mo Ji mo.ji@alliancebernstein.com	Eric Winograd eric.winograd@alliancebernstein.com
Katrina Butt katrina.butt@alliancebernstein.com	Markus Schneider markus.schneider@alliancebernstein.com	