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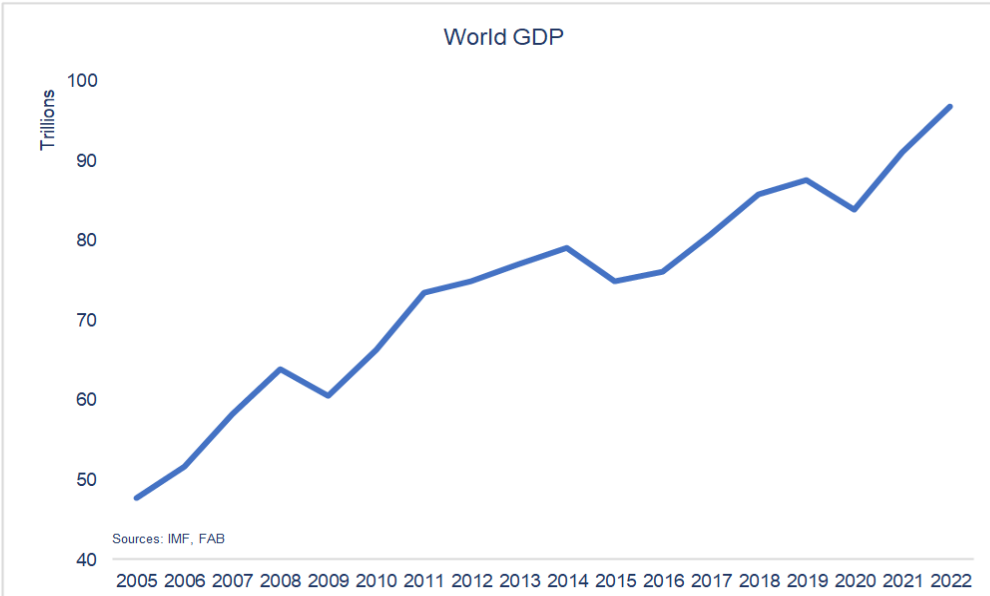
The IMF has just gotten more bullish about the world economy

♦ The International Monetary Fund published its World Economic Outlook yesterday and upgraded its estimated 2020 growth by 0.9 percentage point to a contraction of 3.5%.

♦ The IMF has also upgraded its growth forecast for this year by 0.3 percentage point to a 5.5% expansion.

♦ The bullish forecast, however, does not include the potential effect of additional stimulus in the US and other developed countries.

♦ The FAB AAC has an overweight position in equities, IG and EM bonds, and gold, and underweight alternatives.



Economics are known as the ‘dismal science’ because practitioners are often painting gloomy pictures of the future. The economists at the International Monetary Fund, however, have just painted a rosier-than-expected image of what is to come.

The IMF’s latest World Economic Outlook said that the multilateral bank now estimates the world economy contracted 3.5% last year, 0.9 percentage point better than it had originally forecast.

More importantly, the IMF has predicted that global GDP will expand by 5.5% this year, a 0.3 percentage point higher than the forecast growth in the last World Economic Outlook, published in October. If this materializes, global GDP will end the year at US$91.03 trillion, 3.9% higher than where it was at the end of 2019. These numbers put this recovery ahead of what happened in the last major financial crisis, when the globe contracted 5.3% in 2009, and two years later had expanded 3.6%.

In simple terms, all the stimulus being thrown at the crisis is working. Perhaps, the cherry on top is that this forecast from the IMF does not even include the new stimulus package being negotiated in the US, which could boost growth further.

The IMF is also predicting that some of the world’s biggest emerging economies are going to speed ahead and make up for the lost year. The growth forecast for India this year, for instance was revised up by 2.7 percentage points to 11.5% thanks to all the stimulus the country devoted to lifting it out of the pandemic-induced slowdown.

Chinese growth, however, was revised slightly lower to 8.1% this year, but that was more than compensated by the full year growth of the country, which closed at 2.3% in 2020, higher than the 1.9% the IMF had forecast in October. The strength of these two economies explains why the IMF expects emerging markets to grow 6.3% this year, higher than the 6% it was forecasting in October.

If the IMF forecast proves correct, by the end of the year, world GDP will surpass 2019’s

Not all is positive in the report, though. The IMF said the forecasts hinge on the expectation that vaccines are widely distributed this year and that the world emerges from lockdowns. Also, Nigeria and South Africa had their growth forecasts cut by 0.2 percentage point.

But the opposite is also true and there is plenty of room for the forecast to be seen as conservative a year from now, especially if more countries do even more stimulus this year. Ultimately, the message the IMF is now sending is not different from the one flagged by stock markets for months: once things go back to some sort of normality, all the money printed will give the world a boost. And while there may be bad days, like today, fighting the Fed is always a bad idea.

Investment Strategy Update

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