

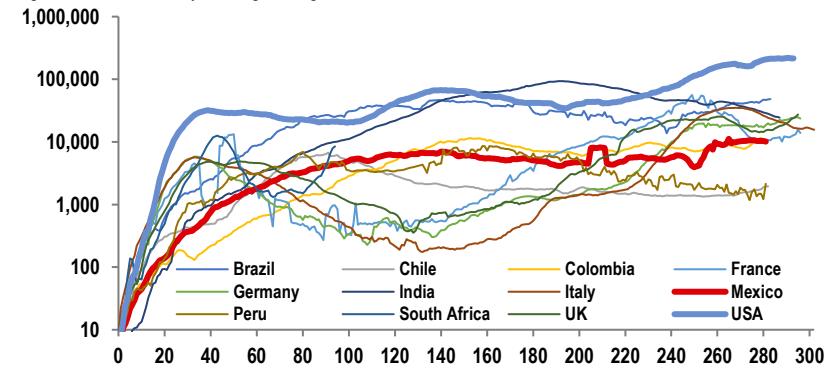
The ten issues to watch in 2021

There is no doubt that 2020 was a quite particular year indeed. The COVID-19 pandemic made us at least not take for granted many things we were able to do and triggered the worst economic recession in the past 90 years. Nevertheless, people learned to coexist with the virus, despite the risks, and the economy somehow reopened, so we will continue to recover in year 2021. Is in this context that we present the ten issues to watch next year.

1. The vaccine. The ‘light at the end of the tunnel’ was sighted for the first time in the second half of year 2020 and, by the end of the year, the vaccination process began. While scientists around the world expected an immunization factor of less than 80%, several efforts reached a 90% to 95% efficiency. The vaccination process started with medical personnel, moving to the most vulnerable age groups, and then the rest of the population. Relevant challenges will have to be dealt with, from both, the supply side –from approvals, mass production, to distribution–, and the demand side, *i.e.* people willing to be vaccinated. However, given the highly uncertain effects of COVID-19 in each human being, we do expect a high share of the population will be vaccinated by the end of next year. Just as the violent demonstrations worldwide in 2019, and COVID-19 in 2020, the vaccine is going to be the main topic in 2021.

Daily confirmed COVID-19 cases*

Logarithmic scale, 7-day moving average



*Note: Day zero begins after the moving average reaches 5 cases per day
Source: Our World in Data

2. Economic recovery. The overall shutdown imposed by the pandemic shocked economic activity up to the point to observe its worst recession in almost a century. As the first wave of contagion began in China, the economic impact was felt in phases. First Asia, then Europe, and then it spread out to the US and the Americas. As a result, the negative economic impact struck even before health issues became apparent in Europe and the US via foreign trade. In this context, the global manufacturing supply chain came to a halt, as factories were challenged with even seemingly irrelevant missing parts that ended up awkwardly stopping production lines worldwide. Then, shutdowns became the norm, hitting all other sectors of the economy. Later on, even though economies did reopen and surfed between troughs and peaks in the number of COVID-19 cases, many sectors operated with a substantially weaker demand.

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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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So, the economy might continue to behave in an intermittent fashion, as long as there is not a significant share of the population vaccinated. However, everybody expects positive GDP growth rates in 2021. In the case of Mexico, we expect GDP to grow 4.1% in 2021, from a 9.0% decline in 2020, the worst since 1932 (see charts below).

2021 GDP: Aggregate supply

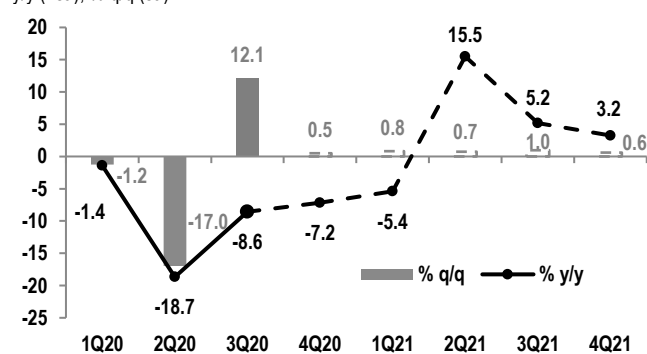
% y/y (nsa); % q/q (sa)

% y/y	1Q21	2Q21	3Q21	4Q21	2021
GDP	-5.4	15.5	5.2	3.2	4.1
Primary activities	1.0	2.4	-3.6	-1.6	-0.4
Industrial production	-6.1	22.6	4.3	2.0	4.7
Services	-5.4	13.2	5.7	4.1	4.0
<hr/>					
% q/q	1Q21	2Q21	3Q21	4Q21	2021
GDP	0.8	0.7	1.0	0.6	--

Source: Banorte

GDP

y/y (nsa); % q/q (sa)



*Note: Dotted lines signal forecast
Source: INEGI, Banorte

3. Monetary and fiscal easing. Fortunately, in contrast to what the US Fed did back in 1929 –i.e. tightened monetary policy–, the FOMC, as well as a plethora of central banks around the world underwent ultra-lax policies, including setting interest rates as low as possible, as well as implementing broader quantitative easing and other liquidity measures. Moreover, contrary to what happened in the Global Financial Crisis (GFC) back in 2008-2009, this time around these measures were accompanied by vast fiscal stimulus packages across the globe. We will continue to see monetary easing throughout 2021 and probably some scattered fiscal efforts to continue to stretch out bridges for firms and employment to survive from a non-vaccine world to an immunized society. The austerity that the Mexican President has pursued, continued to be the rule, with a limited fiscal stimulus put in place. However, the central bank of Mexico acted decisively, cutting the reference rate by [275 basis points since March 2020](#), and implemented [fifteen liquidity measures](#), including the use of the swap line with the US Fed to provide US dollar liquidity as well, with no use of the central bank’s foreign reserves.

4. Joe Biden’s presidency. In our view, Joe Biden’s victory was a triumph of universal values, openness, and hopefully, the beginning of the end of the 21st century wave of populism. Nevertheless, we do not foresee significant changes in the economic front in the short run. On the one hand, tackling the pandemic and rebuilding the government will be Biden’s top priority. On the other hand, geopolitical tensions with China will remain. Even though we do expect insults, mad tweets, and nonsense tariffs to be left out, the fight for commercial, geopolitical, and technological predominance will not allow the relationship between these two countries to be at ease. This circumstance could benefit emerging economies such as Mexico, as global businesses look to diversify their China investment risk, moving suppliers closer to the main production lines (i.e. nearshoring). It is also likely that there will be tensions between Mexico and the US in terms of the divergent energy policies that each country follows.

- 5. Post-pandemic structural change.** When the pandemic struck, the global business cycle was already overextended. Since the sixties, global economic cycles have tended to last 5 years on average. This cycle lasted 10 years, since the GFC. In this context, in the later stage, there are always several sectors and companies that might be at a breakpoint between adopting a major shift in their business model and going bankrupt. COVID-19 did not only offer an opportunity for firms to do it but demanded it. We are sure there will be modifications to the firms' cost structures, potentially fostering substantial layoffs, as well as important hiring processes in companies whose businesses were boosted by the pandemic. This will also have to cope with permanent changes that COVID-19 will leave behind, such as an almost generalized acceptance that home office really works. This is making firms to abandon their building leasing agreements, prompting a secular decline in commercial real estate. Economies will have to pay these transition costs and it is highly likely that low growth rates will be observed in the post-pandemic world, at least in the short run. Once these costs are absorbed, we could then see something similar as 'the roaring twenties' a century ago, after the Spanish flu.
- 6. 2021 electoral environment and other geopolitical factors.** We might be facing an electoral fatigue from the rather lengthy US process in 2020. Nevertheless, several elections of high relevance will happen in 2021 (see table below). Such is the case of Japan, Germany, and the Netherlands, as well as in Israel, Chile, Peru, and Ecuador, to mention a few. These electoral processes will be relevant during a crucial recovery phase following the aftermath of Coronavirus. Strong leadership and global cooperation are needed to help firms and households sail through a challenging post-pandemic new reality. In this regard, we expect results to be strongly influenced by people's perception of how governments have dealt with the sanitary crisis (*e.g.* economic policy response, lockdowns and health measures). Moreover, any political shift in Europe will be crucial for implementing a most likely non-deal Brexit. In the particular case of Mexico, the country will experience its most important midterm elections ever, in which not only the Lower House will be fully renewed, but several local congresses and mayors will be chosen, and most importantly, there will be 15 (out of 32) gubernatorial elections as well. These states account for a third of the country's population and GDP. It is also worth noting that even though there is always a local touch in these elections, it is highly likely that this will be seen as a referendum of President Lopez-Obrador's handling of the country in his first 30 months of administration (out of a total of 72 months with no reelection). Other key geopolitical factors will come from the evolution of Sino-American relations under a new Joe Biden administration in the US, following strong tensions during Trump's mandate that trespassed the trade arena. Although we expect a more conciliatory approach from President-elect Biden *vis-à-vis* Trump's radical strategy, we shouldn't rule out some tensions in terms of national security, trade, climate change, financial regulations, and other relevant topics.

Another geopolitical aspect hovers around the Middle East, with Iran settling a strategic alliance with China. This should result in a complicated international agenda for the US, in addition to other tensions in different regions such as Saudi Arabia, Iraq or even the Western Sahara.

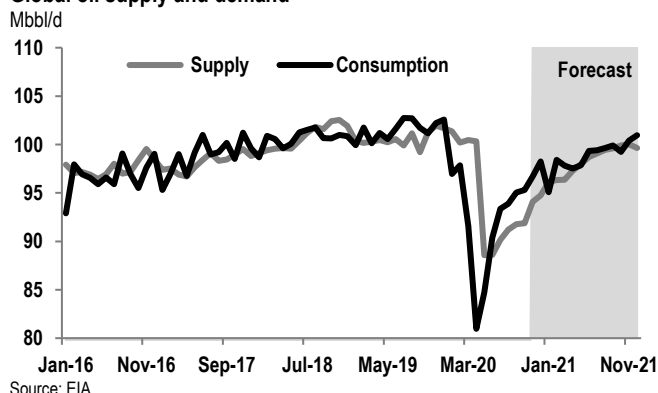
Relevant elections in 2021

Date	Country	Electoral process
Jan 24	Portugal	Presidential
Mar 14	Honduras	General
Mar 17	The Netherlands	General
Apr 14	Chile	Municipal
Apr 11	Peru	General
Apr 11	Ecuador	General
May 6	United Kingdom	Local
Jun 6	Mexico	Midterm/legislative & provincial
Jun 18	Iran	Presidential
Sep 5	Hong Kong	Legislative
Sep 13	Norway	Parliamentary
Sep 26	Germany	General
Oct 22	Japan	General
Oct 22	Argentina	Legislative & provincial
TBD	Israel	Presidential
TBD	Italy	General
TBD	Syria	Presidential

Source: Bloomberg and some government websites
 NBD = To be determined

7. Challenging backdrop for the oil market. Oil producing countries have been dealing with an adverse dual shock –supply and demand– that has strongly affected prices since 2014, which has been exacerbated by the negative effects steered by the COVID-19 pandemic. Unfortunately, most of the challenges faced by the oil market will remain in 2021. Despite the [joint efforts from OPEC+ members](#) to curb the growing supply observed in the last decade, it has not been enough to offset the weaker demand expected for the following years according to the most recent projections from the International Energy Agency, US Energy Information Agency and other organizations (see chart below). This situation suggests that key references such as WTI or Brent will continue trading around 50 and 60 dollars per barrel in a twelve-month horizon, far below the 100 US\$/bbl mark observed in 2013, before this structural shift. The implications in terms of financial costs, liquidity, solvency and investments for oil-related countries and firms are troublesome in a highly challenging 2021.

Global oil supply and demand



Source: EIA

- 8. Market outlook 2021.** Financial markets are likely to extend the recent rally supported by vast liquidity and lower risk aversion offsetting the sell-off during the initial phase of the pandemic. Several assets were strongly affected in the first half of 2020, following the deep economic recession inflicted by the SARS-CoV-2 sanitary crisis and the need for strict lockdowns. However, the story for the second half was antipodal, showing a strong recovery steered by unprecedented fiscal and monetary responses worldwide, the implementation of programs to reopen the economy and, later on, by positive news in terms of the development of vaccines. The positive inertia could extend in 2021, as central banks are likely to expand the monetary stimulus by nearly US\$2.8 trillion and governments will extend the fiscal response reaching 15% of global GDP. These policy actions will assist a sustained economic recovery across the board and also provide unparalleled liquidity to financial markets. In addition, the positive news in terms of massive production and distribution of a COVID-19 vaccine from several pharmaceutical firms will boost consumer and business confidence to return to normal activity sooner, resulting in a risk-on mood among investors. All in all, the combination of these factors should result in an extension of the recent rally, especially in risky assets.
- 9. Social and inequality deterioration.** Gita Gopinath, the IMF's Chief Economist, mentioned a few months ago that the economic impact of COVID-19 could increase poverty in the world by 80 million people. This is extremely sad and not only means the fight against poverty levels will move several steps back, but also reflects the serious inequality problems our planet continues to experience. Covid-19 health and economic consequences have had quite unequal effects among regions, countries, regions within countries, as well as across the socioeconomic pyramid. Lessons must be learned from 2019 violent riots and 2020 COVID-19 pandemic in terms of improving the population's safety net and expand social mobility opportunities. In Mexico, Nora Lustig, an economics scholar at Tulane University in New Orleans, published a research paper about the economic impact of COVID-19 pandemic in several countries in Latin America. A truly dreadful finding is that it is highly likely that poverty in Mexico will increase by 10 million people in 2020 and 2021, mainly due to the lack of a fiscal stimulus package. According to the latest figures from CONEVAL, poverty in Mexico was 41.9% in 2018 and could increase to 48.7% in 2021.
- 10. Unknowns 2021.** It is odd to mention that there will be 'unknowns' in year 2021. Unknowns are always present. However, these are usually either unthought of or could have a very large degree of severity, with a very low probability of occurrence (so-called 'black swans'). So, this is why these are usually left out. However, this is to create awareness that climate change-related disasters or massive cyberattacks might be issues that we will better be prepared to deal with, either by avoiding them or buying insurance –if possible–, or facing them as it is, with all the costs involved. Year 2020 brought us many unsuspected challenges, so why not give it a thought this time, explicitly.

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