Fitch Solutions Global Pulse Survey

Seventh Edition

November 2020

www.fitchsolutions.com

Pulse In Numbers

We continue to partner with our Fitch Solutions key clients to understand the economic, business and banking sector impacts of the Covid-19 pandemic. This is what survey participants believe are the biggest concerns and forecasts for the global economy over the next 18 months.

Biggest Economic Concerns

48% of respondents indicated that persistently negative economic growth was their biggest economic concern over the next 18 months

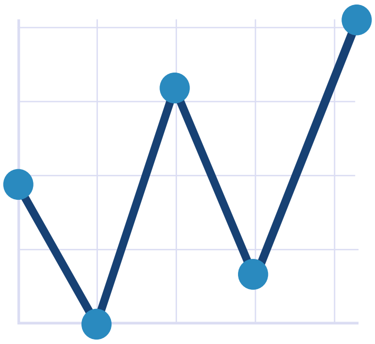
19% Insufficient fiscal and monetary policy response to Covid-19

1% Brexit fallout

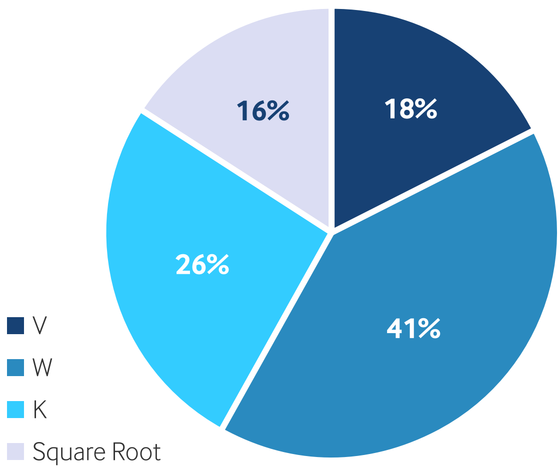
9% Rising populism

8% Continued liquidity shock /volatility spike

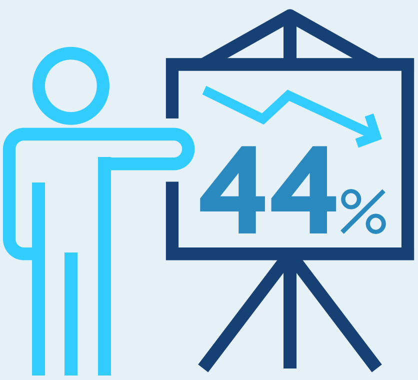
Type Of Economic Recovery



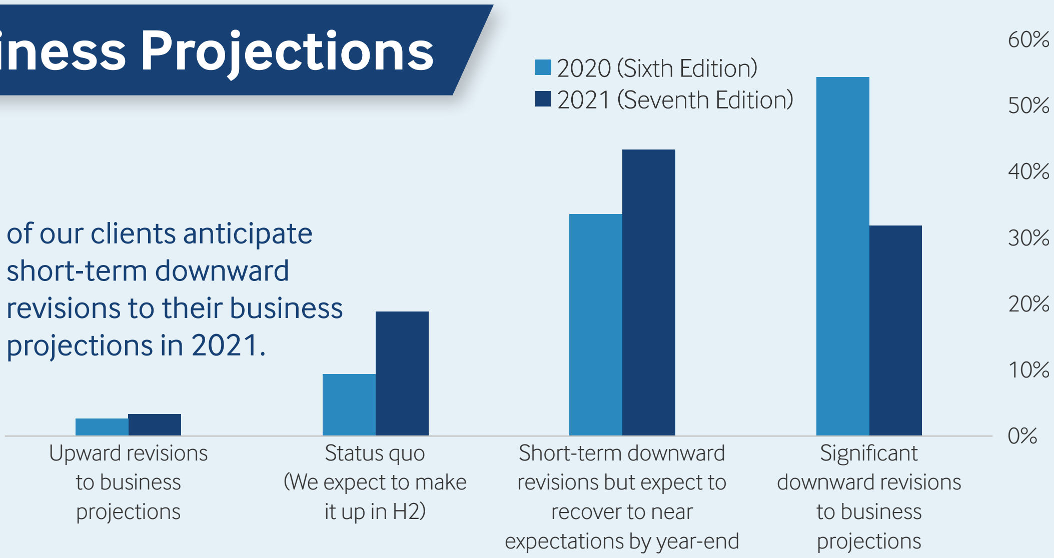
41% of our clients expect a rocky, W-shaped economic recovery from the global recession



Impact On Business Projections



of our clients anticipate short-term downward revisions to their business projections in 2021.

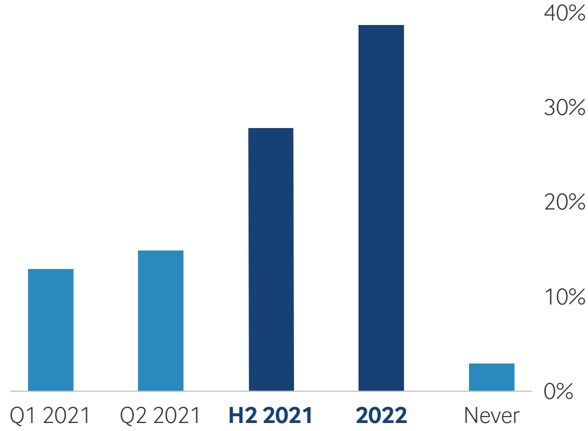


Pulse In Numbers

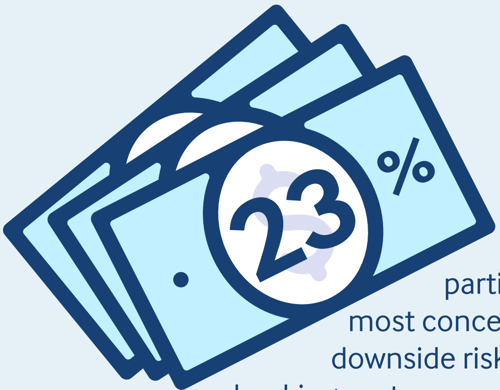
Normalizing Business Operations Post-Pandemic

67%

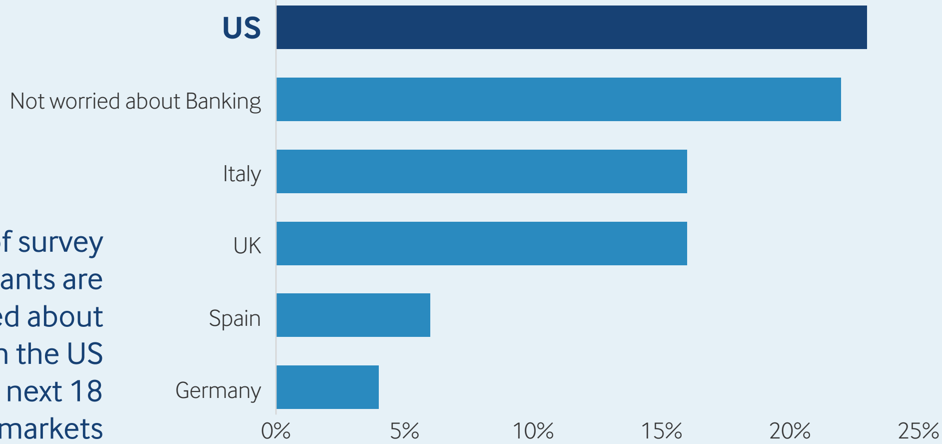
of our clients expect their business operations to resume normally post-pandemic in 9-12 months or later



US Banking Sector Of Most Concern



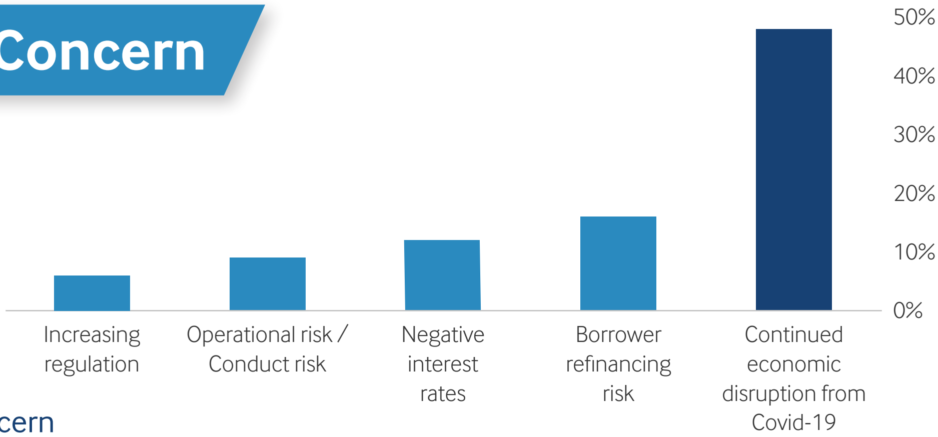
of survey participants are most concerned about downside risks in the US banking sector over the next 18 months among developed markets



Industry Trends Of Concern

48%

of survey participants cited the continued economic disruption from the Covid-19 pandemic as the global banking sector's greatest industry concern

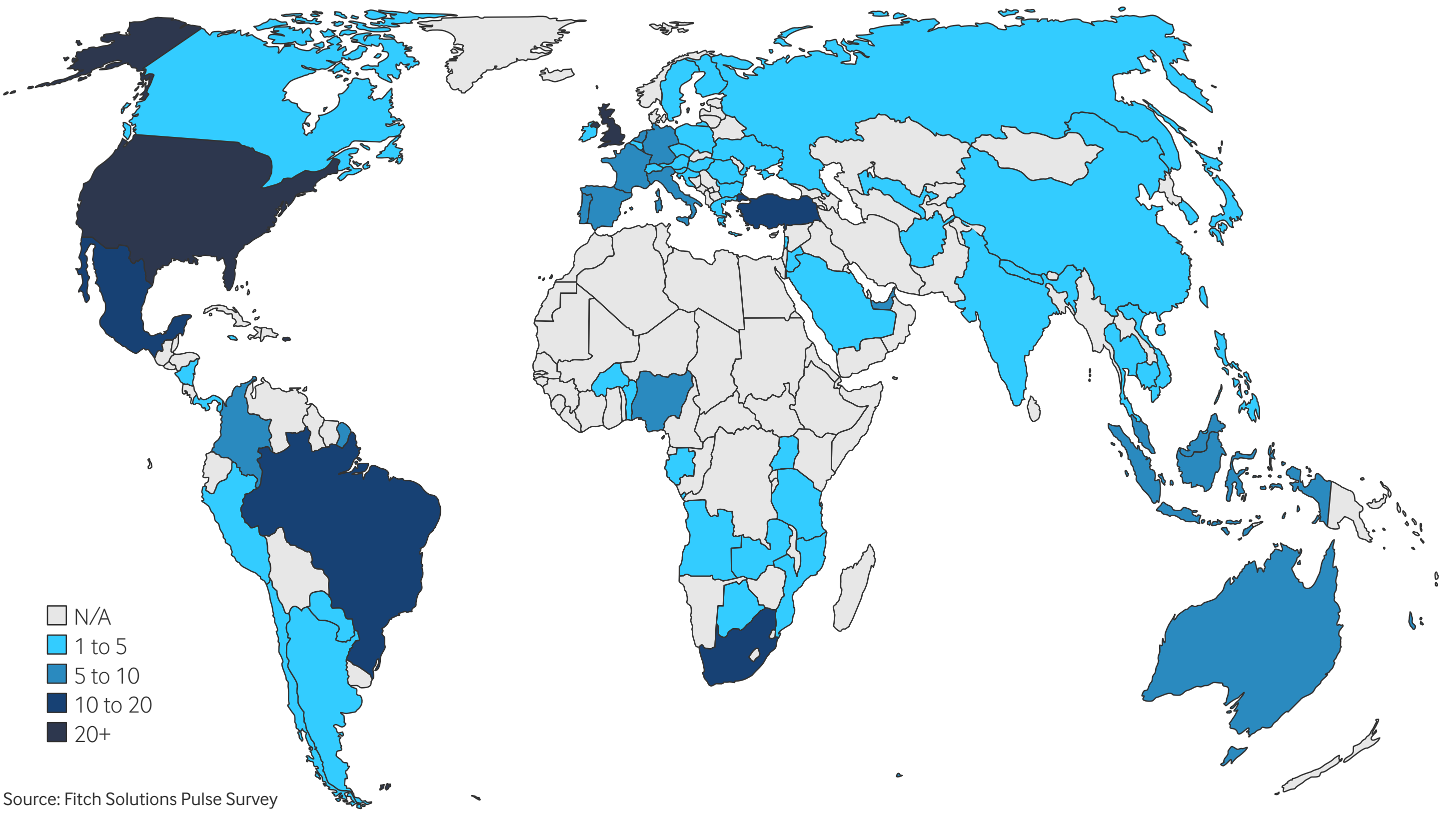


Pulse Survey | Full Report

Following a loosening of restrictions in Q320, as well as colder weather and school reopenings, Europe and the US in particular are experiencing a resurgence of Covid-19 cases. Recent vaccine trial results have been positive, but the timeline for the pandemic's economic and business disruptions looks set to stretch well into 2021.

In this context, the Seventh Edition of The Pulse Survey, conducted in October-November 2020, shifts focus towards the next stage of the Covid-19 pandemic and its economic and credit consequences. We looked to understand our clients' major economic and banking sector concerns, as well as their perspectives on the shape of the economic recovery and the timeline for resuming normal business operations.

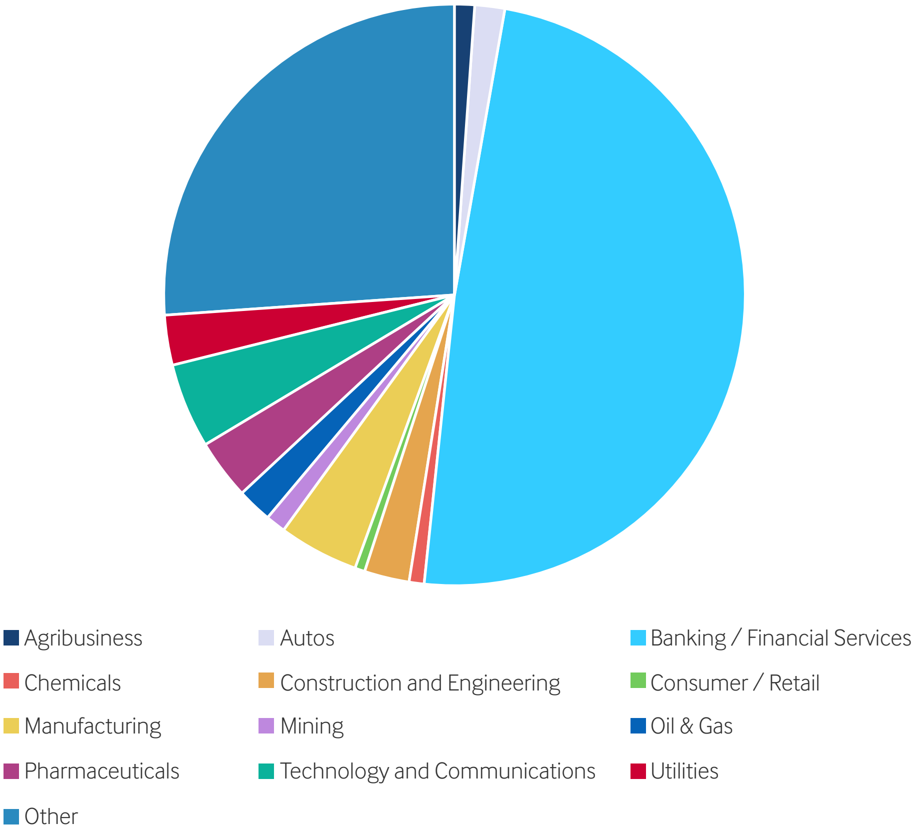
Survey Participants By Geography, number of participants



Source: Fitch Solutions Pulse Survey

Our 314 survey participants are key clients and decision makers based in 77 markets from Brazil to South Africa, the US and the UK. Nearly half work in the Banking and Financial Services sector while the balance span industries from Technology and Communications (4.7%), to Manufacturing (4.4%) and Pharmaceuticals (3.1%).

Primary Sector Of Survey Participants, %

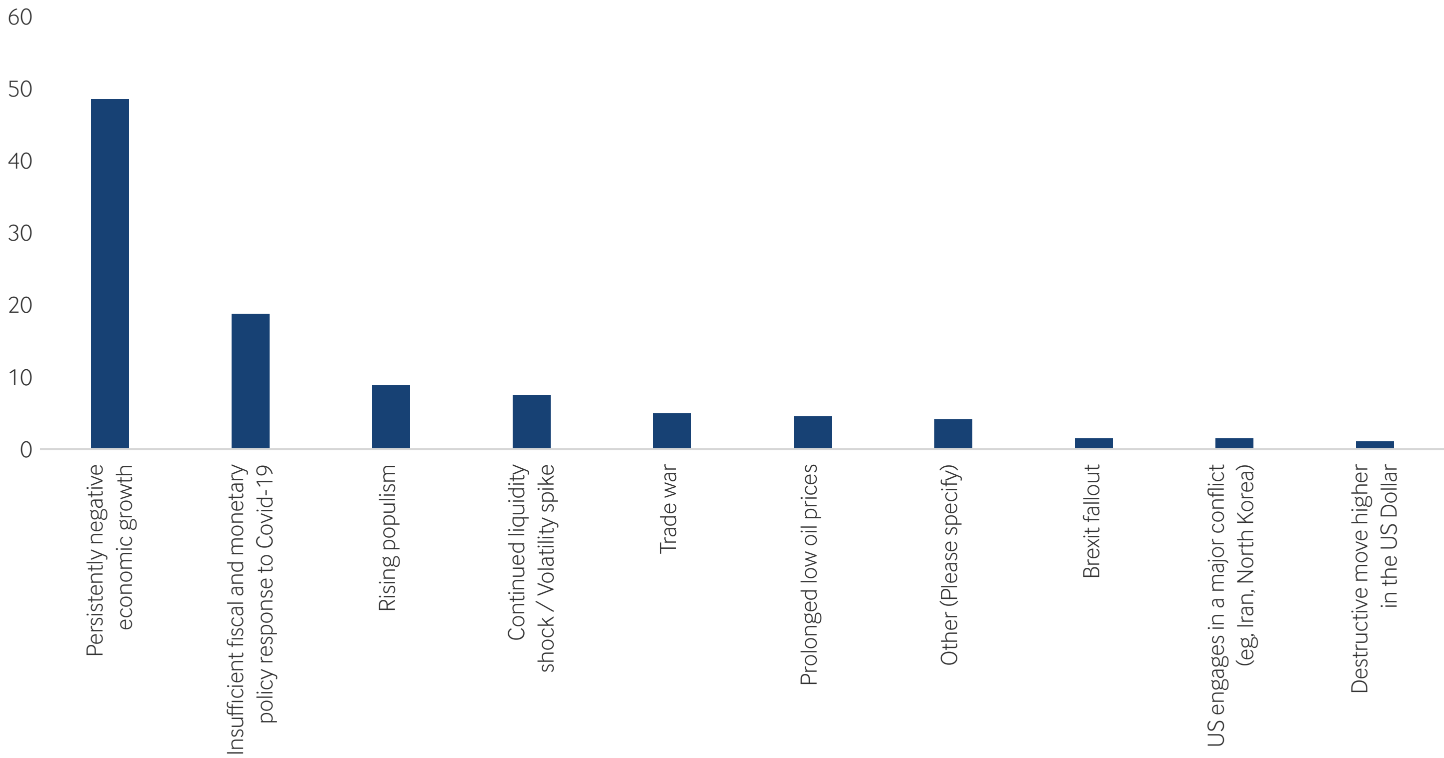


Source: Fitch Solutions Pulse Survey

Negative Growth Once Again Tops Client Concerns

Persistently negative economic growth remains our clients' biggest economic concern over the next 18 months, for the third consecutive Pulse Survey. This likely reflects concerns over a slowdown of growth in Q420 following a robust rebound in Q320, as discussed in our **November 2020 Global Macro Outlook**. We forecast a 4.1% contraction of real GDP in 2020.

What Is Your Biggest Economic Concern Over The Next 18 Months?, %

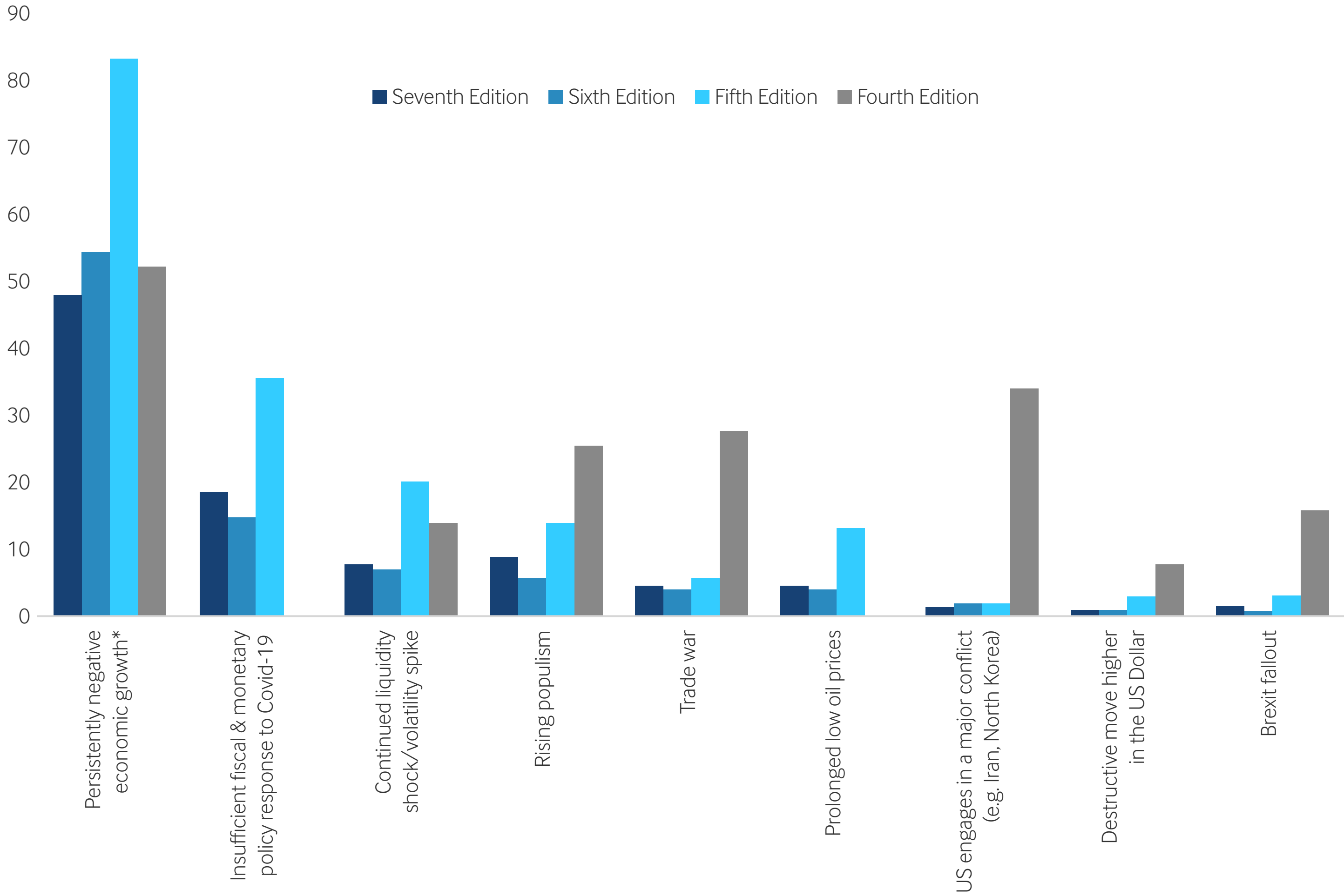


Source: Fitch Solutions Pulse Survey

The survey results may also reflect some pessimism about the pace of recovery in 2021. We forecast global GDP will nearly return to pre-Covid-19 levels by end-2021, but see a significant discrepancy between the pace of recovery in developed and emerging markets. Emerging markets will recover faster, reaching pre-Covid levels by about mid-2021, while developed markets will lag, reaching pre-crisis levels only by end-2022. This more nuanced view of our headline growth numbers for 2021 may echo our clients' concern that persistently negative economic growth will remain an issue beyond 2020.

That said, the percentage of our clients identifying negative economic growth as their chief concern declined for the second consecutive survey, to 48.3%. In addition, we saw a notable uptick in concerns about the fiscal and monetary policy response to the pandemic, with 18.9% of clients identifying insufficient economic policy support as their chief concern over the next 18 months. We also received several responses in the 'other' category that noted concern that much of the fiscal and monetary policy response has benefited the financial sector rather than the real economy.

What Is Your Biggest Concern Over The Next 18 Months? Choose up to two, %



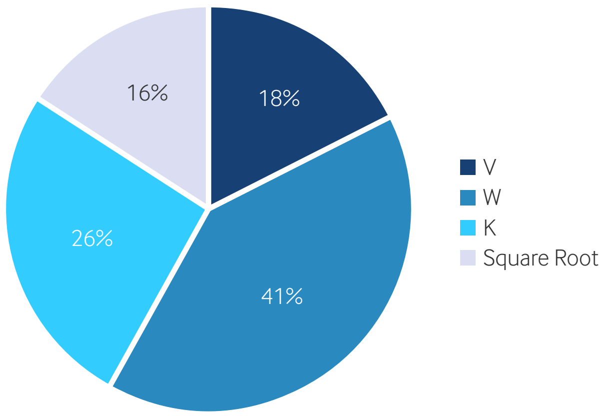
* Previously 'global economic recession'. 'Other' excluded from chart.
Source: Fitch Solutions Pulse Survey

Our clients appear to be increasingly thinking beyond the initial phase of the pandemic's economic effects. This is reflected in the diversification of clients' responses, a trend we expect to continue in subsequent surveys. A greater percentage of our clients identified a continued liquidity shock or volatility spike (7.5%) and rising populism (8.9%) as their greatest concern over the next 18 months in the latest edition of our survey as compared to the previous edition, conducted July-August 2020.

Rocky Economic Recovery Most Likely

Most of our clients (40.7%) expect a W-shaped recovery, anticipating a rocky return to pre-crisis GDP levels. This is broadly aligned with our view at Fitch Solutions that the recovery will be erratic for the duration of 2020 and perhaps into early 2021. As previously mentioned, we expect a divergence between emerging and developed markets, with the former recovering faster than the latter.

What Type Of Economic Recovery Do You Expect?, %



Source: Fitch Solutions Pulse Survey

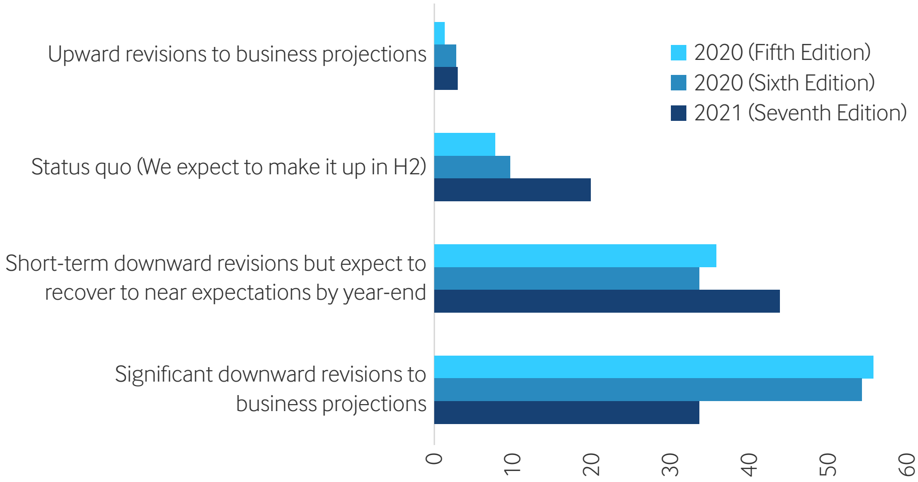
The second largest proportion of our survey respondents expect a K-shaped recovery (26.1%), which will exacerbate social and economic divisions within countries. We have identified this as a risk in our US Country Risk analysis, noting that the magnitude of job losses for lower wage workers compared to higher salary occupations suggests increased likelihood of a bifurcated recovery.

The balance of our survey participants are split between a more optimistic V-shaped (17.6%) and a square-root shaped recovery (15.6%).

Clients Slightly Less Pessimistic About 2021 Business Projections

Our clients are slightly less pessimistic about their 2021 business projections. A plurality of our clients (43.8%) indicated that they have made short-term downward revisions to their 2021 business projections but expect them to recover to near previously-projected levels by year-end. 19.8% indicated that their 2021 business projections are status quo and in line with their pre-pandemic forecasts. Nevertheless, 33.4% of survey respondents indicated that they had made significant downward revisions to their 2021 business projections.

How Has This Pandemic Impacted Your Business Projections?, %



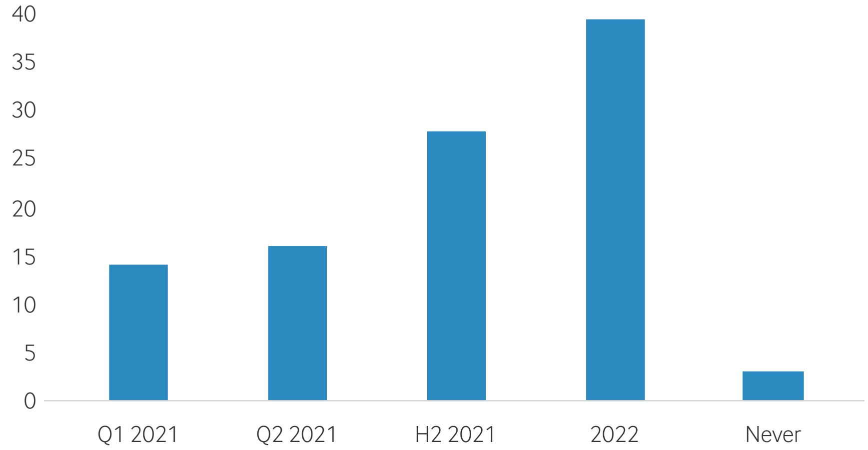
Source: Fitch Solutions Pulse Survey

In contrast, in the previous edition of The Pulse Survey, the majority of respondents (54.3%) indicated that they had made significant downward revisions to their 2020 business projections while 34.5% indicated that they had made short-term downward revisions. Just 9.5% had noted that their 2020 business projections were status quo and that they expected them to recover by year-end.

The percentage of respondents indicating that they have made upward revisions to their business projections has also increased over the course of the last three surveys, although it remains the smallest percentage by far at 2.9% as of the Seventh Edition of our Survey. Those specifying the basis of the upward revisions cited rising sales in the consumer packaged goods segment, increased opportunities for distressed investments and rising mortgage originations.

Normal Business Operations Still A Ways Off

When Do You Expect Your Business Operations To Resume Fully Post-Pandemic?, %



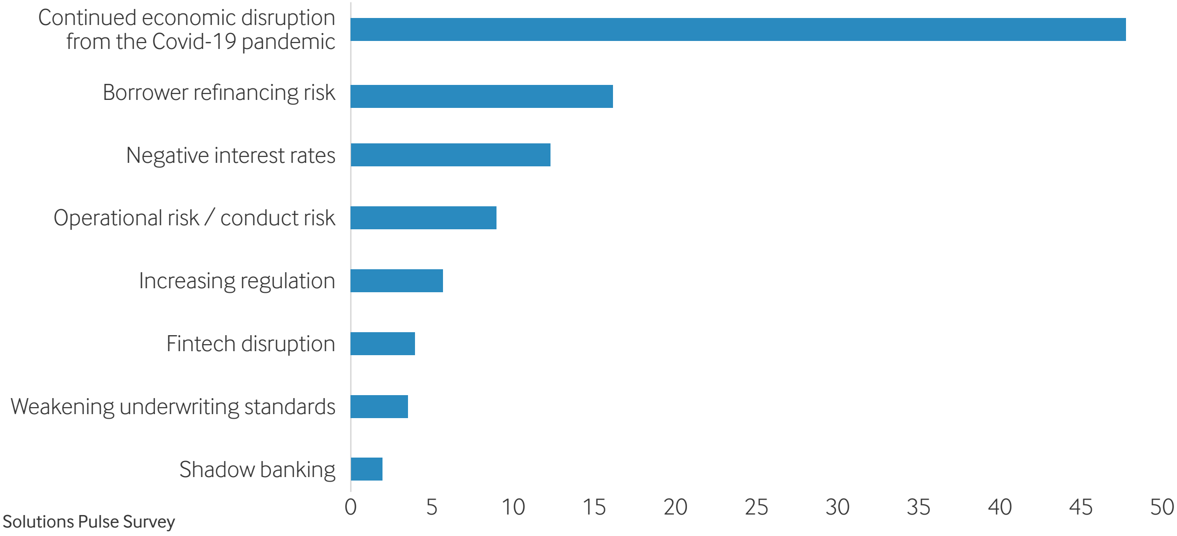
Source: Fitch Solutions

Our clients expect to get back to business as usual in H221 or 2022 by and large. A plurality of our clients (39.3%) see 2022 as the time they will fully resume their business operations post-pandemic. This is followed by H221 at 27.8%. Those indicating that they expect to normalise their business operations in H121 are split between Q121 (13.9%) and Q221 (15.9%). This illustrates that the majority of our clients believe the timeline for the pandemic and the resumption of normal pre-pandemic activities, such as normal business operations, is likely nine-12 months off still.

Pandemic Remains Greatest Concerns for Banking Sector

For the banking sector, persistent economic disruption from the Covid-19 pandemic continues to weigh heavily on survey respondents. This is the third Pulse Survey result where this was the greatest concern. While there were signs of economic recovery in Q320, the recent introduction of targeted shutdowns across many developed and emerging markets will be a drag on economies and will result in negative impact to the banking sector. Further weakening of bank profitability will continue and the benefits of monetary and fiscal policy measures may begin to erode if economic weakness continues over the long term.

Which Industry Trends Are You Concerned Will Have The Most Negative Impact On The Global Banking Sector Over The Next 18 Months?, %



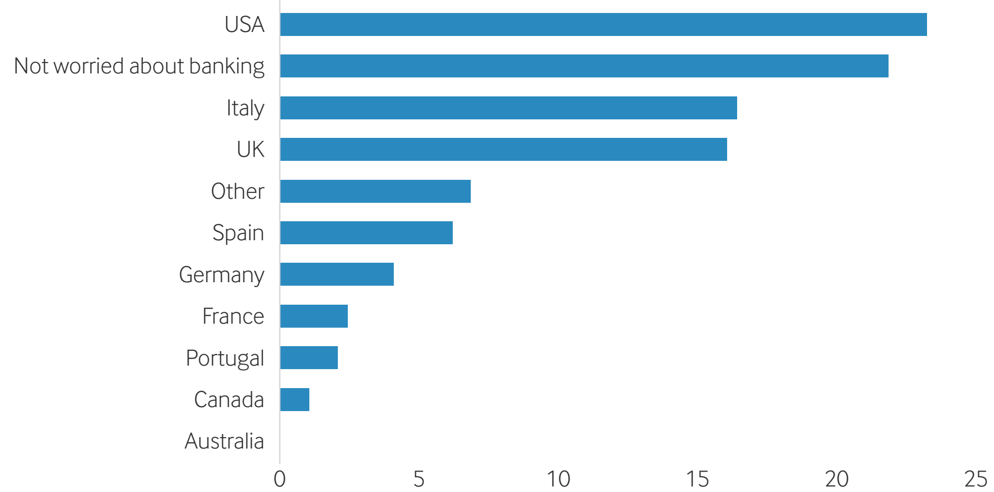
Source: Fitch Solutions Pulse Survey

Borrower refinancing risk came up as the second most cited concern, though much less of a concern on a relative basis, which is also consistent with the last two Pulse Surveys. The worsening credit conditions resulting from the pandemic are likely to make refinancing more challenging despite persistently low interest rates. The pandemic will weigh on borrowers' credit profiles and ability to refinance as the pandemic continues to put a strain on on economic activity.

Banking Sector Downside Risks

Respondents were asked in which developed markets' banking sectors they are most concerned about downside risks over the next 18 months. Consistent with our last survey, clients remain most concerned about the US. This is despite a strong rebound in Q320 growth, with large banks reporting stronger earnings from lower loan loss provisions and a boost from capital markets revenues for those active in that business. Rising Covid-19 infection rates, delays to additional fiscal stimulus and the resulting potential drag on the economy are likely contributing to these concerns. Asset quality is modestly weakening but remains relatively strong. Forbearance and stimulus measures to date have helped maintain credit quality at banks, but without more fiscal stimulus, risks to the banking sector are higher.

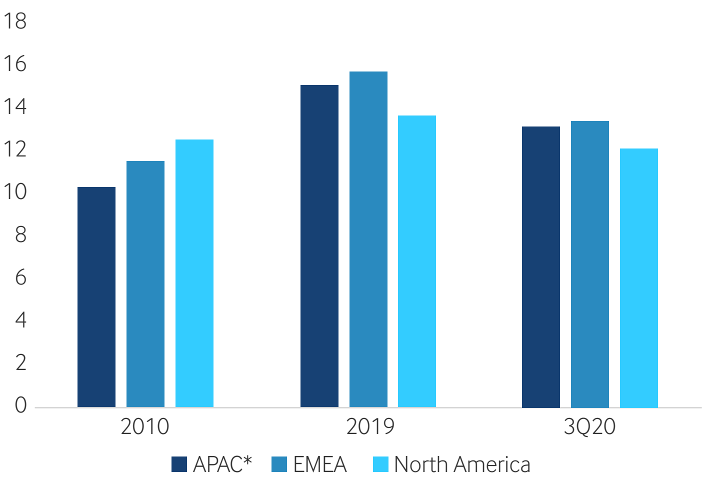
Which Developed Market Country's Banking Sector Are You Most Concerned About Downside Risks Over The Next 18 Months?, %



Source: Fitch Solutions Pulse Survey

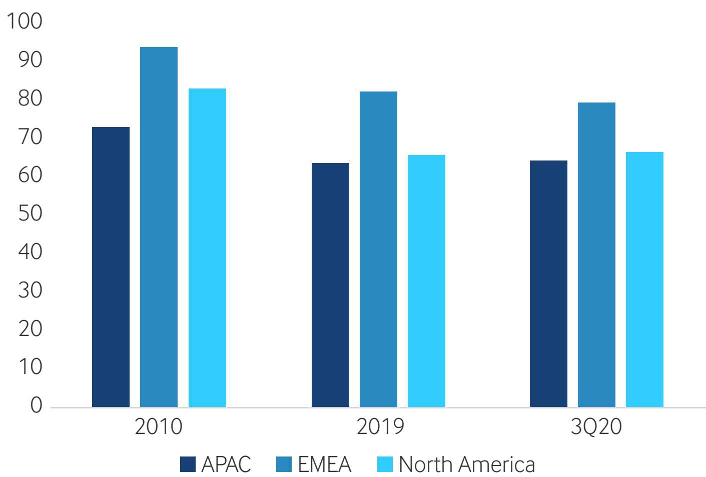
Consistent with the last survey results, a high number of respondents are not worried about the banking sector, which may reflect the lag effect on the banking sector when there is an economic downturn, as well as the quick recovery in some countries from the contraction in Q220. It is likely that the post-financial crisis regulatory reforms in the banking sector are contributing to this sentiment. Globally, banks had improved capital, built up liquidity buffers, cleaned up problem loans and reduced riskier activities. While they will face challenges, banks are also benefiting from the regulatory forbearance and unprecedented monetary and fiscal policy easing. Despite the significant improvements in capital and liquidity from 2010 to 2019, Global Systemically Important Banks (GSIBs) are seeing capital levels erode, though loans to deposits remain quite low.

GSIBs' Tier 1 Capital Ratio, %



Source: Fitch Solutions. *BOC & ICBC data NA.

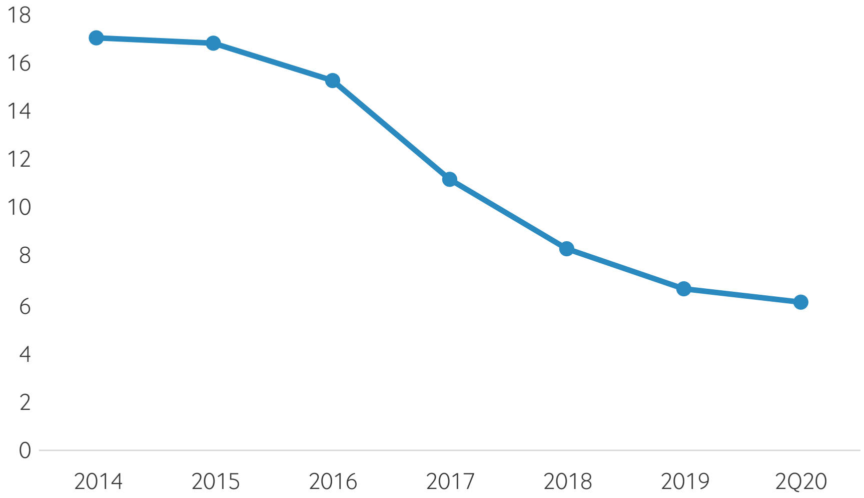
GSIBs' Loan To Deposit Ratio, %



Source: Fitch Solutions

Italy has also re-emerged as a concern for our clients. Going into 2020, Italy faced a weak economic outlook, and despite strong progress in improving problem loans, non-performing loans (NPLs) remained relatively high. The sharp downturn in Q220 from the Covid-19 induced shutdowns likely exacerbated some of these concerns, though Q320 GDP growth came in stronger than expected. Asset quality problems will likely drag on with the hit to the economy despite fiscal measures, such as Italian government guarantees for SMEs. Mortgage relief programmes that allow borrowers to delay or reduce loan repayments will counter some of the benefits of the fiscal programmes. We expect regulatory forbearance, temporary capital and liquidity requirement reductions will also provide short-term relief to the banks, but they will also extend the duration of these asset quality and earnings problems down the road.

Italy – NPL Ratio, %

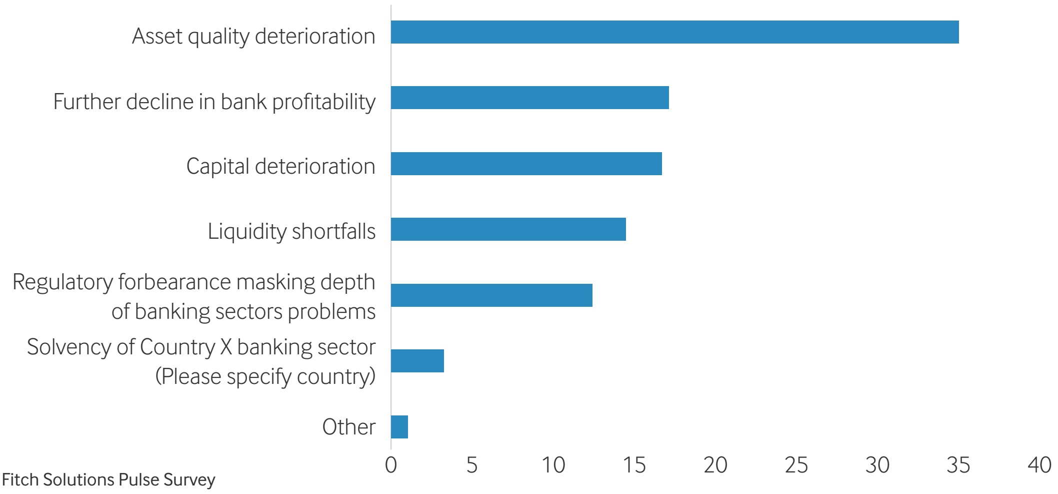


Source: Fitch Solutions

Asset Quality and Bank Profitability at Risk

Consistent with the last two Pulse Surveys, participants ranked asset quality deterioration from slowing global growth as their greatest concern for banks. This will be a medium-term issue for the sector as asset quality is being propped up by forbearance, fiscal stimulus and monetary policy. Asset quality deterioration is a lagging indicator, typically weakening post-recession. The length of economic weakness will likely dictate how quickly asset quality problems emerge and how prolonged they are. While early indications point to rebounds in most economies from the initial shutdowns and economic contraction from the pandemic, new waves are resulting in new restrictions that will drag on economies in Q420. As noted in prior Pulse Surveys, countries that have strong asset quality going into the pandemic, such as the US, the UK, many Northern European countries and developed APAC, have sufficient room to accommodate asset quality weakening. However, other countries that were making progress in cleaning up problem loans, such as Italy and Portugal have less ability to absorb deteriorating asset quality.

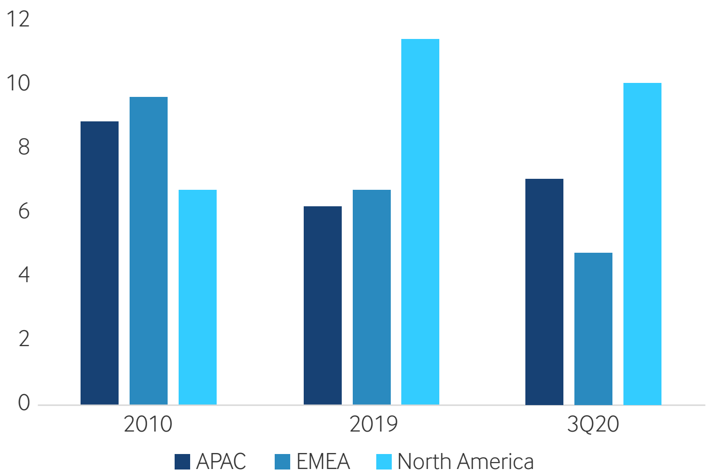
Given The Slowdown In Global Growth, Please What Are Your Greatest Concerns For The Banking Sector Globally, %



Source: Fitch Solutions Pulse Survey

Further declines in bank profitability ranked second among our clients' greatest concerns, consistent with the last Pulse Survey. Signs of weakening bank profitability have already emerged, particularly in Europe. However, while US banks saw earnings weaken in the first half of 2020, results have shown improvement in Q320. Ultimately, the continued impact of the pandemic and the potential for additional loan provisions will likely weigh on bank profitability for at least the next year or longer.

GSIBs' ROE, %



Source: Fitch Solutions

Conclusion

The Pulse Survey provides a unique window into how our clients perceive economic and banking sector risks, helping to inform our perspectives on these issues. As we try to understand what 2021 will look like, our key clients have provided us invaluable insights about the next year. The majority of our clients expect the economic recovery to be challenging, most likely W-shaped or K-shaped. Moreover, more than half of survey participants indicated that normal business operations will not resume for at least nine-12 months. Our clients' views on the banking sector have remained consistent in recent months, with asset quality deterioration due to slowing growth as their top concern for the third consecutive Pulse Survey. Taken together, this points to a challenging 2021 even as we move out of the acute phase of the pandemic-induced recession.

For additional research on the topics covered in this report, and many more, please visit our **Coronavirus Topic Page** on Fitch Connect.

About Fitch Solutions

Fitch Solutions provides credit and macro intelligence solutions helping clients to excel at managing their counterparty risk, gain deeper insights into the debt and fixed income markets, and get comprehensive intelligence about the macroeconomic environment. Our solutions, powered by Fitch Connect, are built on our history of credit, macro and industry expertise to help you make more informed business decisions.

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A dedicated team of Fitch client services professionals based in New York, London, Singapore, Hong Kong and Tokyo provide 'follow the sun' client support.

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