

MARKET SIGHT *LINES*



Tracking Recovery: A Global Update

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As we shared our 2021 outlook earlier this year, we talked about a strong recovery here in the U.S. and abroad, driven by the support and reopening of the economies, after the pandemic shutdowns. To a good degree, the timing of the reopenings and related recovery are tied to the pace of vaccinations. Here in the U.S., the pace of vaccinations in the Southeast is slower than in other parts of the country. Outside the U.S., the pace varies as well. But we believe that we'll eventually get to herd immunity, and we anticipate above-trend, synchronous global economic growth into 2022. And as a result, we've been modestly overweight non-U.S. equities as we share our dynamic asset allocation guidance. In this week's Sight|Lines, we provide a global update as we track the robust recovery.

The Pandemic – The world combats challenges

When we talk about how a country or region can eventually reach herd immunity, Israel has become our “poster child” example. About 60% of the population has been fully vaccinated, and the average number of daily new cases has been driven down to fewer than 50 per day in recent weeks. The world is facing the fast-spreading, more virulent delta variant of coronavirus, but vaccines appear to be effective against this strain. So, the pace of vaccinations remains important. The UK has led on the vaccination front among larger European countries, with about 63% of its population receiving at least one dose. Germany, France, and Italy were slower to start, but are now catching up quickly. And, interestingly, Japan lags well behind these other developed countries in its vaccination efforts.

The eurozone actually experienced a modest contraction in economic growth in first quarter 2021, resulting in a double-dip recession as the region reimposed restrictions to stem a third coronavirus wave. But the consensus view is for 4.3% growth in the region for 2021, so recovery. Similarly, Japan contended with a rise in cases in January and in May, but its economy is forecast to expand 2.6% in 2021.

2021 G7 Summit – Cooperation for competition

The Group of Seven (G7), an intergovernmental political forum consisting of Canada, France, Germany, Italy, Japan, the UK, and the U.S., held its 47th summit meeting this week. Some takeaways:

Some Tax Cooperation: The group agreed to require large, profitable companies to pay tax on 20% of profits above a 10% margin in the country where the product or service is consumed. They also agreed to a 15% global minimum tax, applied on a country-by-country basis, to discourage profit shifting for tax minimization. This 15% level was below the preferred rate of 21% sought by the Biden administration.

Vaccines for the World: UK Prime Minister Boris Johnson announced the G7 would donate at least 1 billion COVID-19 vaccines to lower-income countries this year to help end the pandemic.

U.S. Cooperation: President Biden took a more cooperative approach than former President Trump, an approach welcomed by the other G7 leaders.

Climate Change: The group discussed measures to combat climate change, including a proposal to phase out gasoline and diesel cars and ending almost all direct government support for fossil fuels. They also backed a \$2 billion coal transition fund that would help developing countries transition away from coal, but no “end date” was mentioned for coal.

A Coordinated Approach to China: The G7 condemned China’s human rights abuses, unfair trading practices, and increasingly aggressive foreign policy maneuvers. They called for further investigation into the origins of the coronavirus. The group expressed support for Biden’s proposed *Build Back Better World* initiative and infrastructure program for developing nations designed to compete with China’s *Belt and Road* initiative. Also this week, the U.S. passed a bill designed to focus spending to help the U.S. compete directly with China. China responded to all of this with announcements that the G7 is “deliberately slandering China” and “arbitrarily interfering in China’s internal affairs.”

The G7 meetings exhibited cooperation to manage fair and transparent multinational corporate competition between countries, and competition with China.

Biden visits NATO – A renewed alliance

Former President Trump took a more aggressive stance with NATO, threatening to withdraw the U.S. from the organization and urging member nations to increase their spending. In contrast to Trump, Biden described the NATO alliance as “critically important for U.S. interests.” During these discussions, NATO signaled a growing view that China’s expanding military power presents “challenges” and that “Russia and China are both seeking to drive a wedge in our transatlantic solidarity.”

Biden meets Putin – Tensions, but a “glimpse of hope”

President Biden met Russian President Vladimir Putin in Geneva, an important summit as U.S.-Russia tensions are high. At the meeting, president Biden said he discussed, among other things, human rights violations in Russia, and he provided Putin with a list of “critical infrastructure” that should be considered as “off limits” for cyberattacks or face U.S. retaliation. In the post meeting conference, Putin described the summit as “constructive,” but acknowledged that “many of our joint positions are divergent.”

Conclusion

Our fight to combat the coronavirus pandemic has been, to a good degree, a unifying force for countries around the world. The pace of vaccinations, the reopenings, and the recovery remain in focus. But the G7 gathering, the NATO meetings, and the Biden/Putin summit are fresh reminders that global cooperation and competition will continue as we make our way through recovery.

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