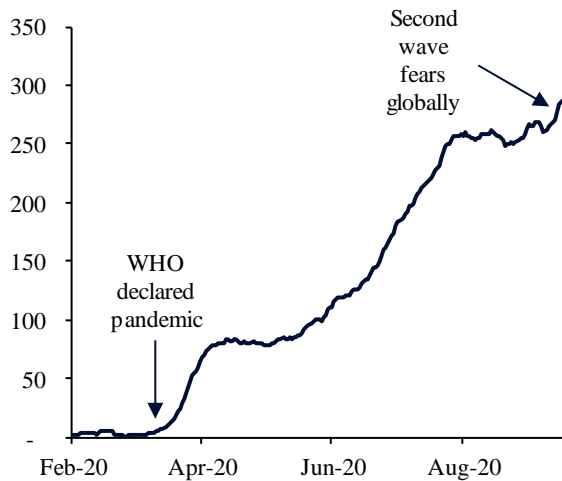


Global economic recovery challenged by key headwinds

Optimism and hope have dominated investor sentiment globally over the last several months. This was driven by aggressive policy stimulus, the stabilization of the Covid-19 pandemic in some key countries and the gradual “re-opening” of major advanced economies. However, over the last couple of weeks, a plethora of significant headwinds have started to gain momentum, threatening the incipient global economic recovery. Our analysis delves into three main risks associated with such headwinds.

Global confirmed new Covid-19 cases
 ('000 per day, 7-day moving average, as of September 22nd)

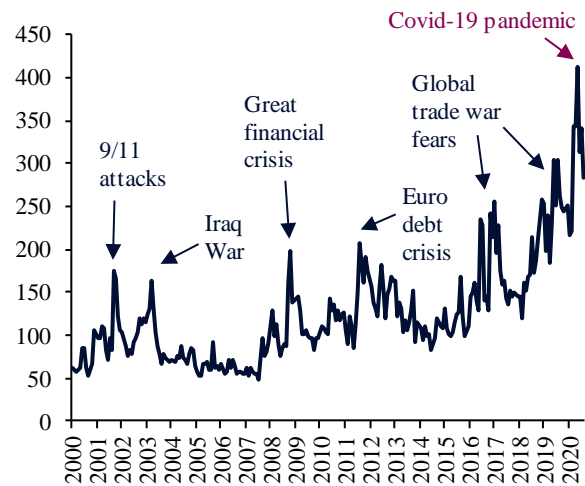


Sources: John Hopkins University, QNB analysis

First, a new resurgence of Covid-19 cases are creating “second wave” epidemic fears across different countries and regions. The stabilization of the pandemic in the US and Europe has favoured a more positive economic outlook, with activity picking up, economies gradually re-opening and optimism gaining ground. There was an apparent clear path to “normalization,” including a ramp up in case containment infrastructure and availability of medical supplies, which should underpin a transition from horizontal social distancing (entire regions or populations) to vertical social distancing (only the most vulnerable and the infected patients as well as specific municipalities/ regions/ clusters). But the acceleration of new cases ahead of the flu season on the Northern Hemisphere may challenge that notion. A few countries are already pondering the idea of new lockdowns. A full blown global “second wave”

would create a “double dip recession” or “stop-and-go” activity patterns that can derail the current recovery.

Global economic policy uncertainty index
 (Major shocks highlighted by main driver; Mean = 100)



Sources: Haver, Policy Uncertainty, QNB analysis

Second, economic policy uncertainty is still high and is set to increase further over the coming months. In fact, according to the Global Economic Policy Uncertainty Index, which measures uncertainty based on newspaper coverage frequency in 20 major economies, uncertainty levels are not only several-fold above their long-term mean but significantly above periods of stress during other major shock events. And the Covid-19 shock may be an amplifier for more policy uncertainty.

After unprecedented stimulus measures from monetary and fiscal authorities in advanced economies in H1 2020, there is now uncertainty over the willingness and ability of policymakers to enact additional rounds of stimulus over the short-term. In the European Union, the aggressive fiscal package sponsored by Germany and France in June faced severe opposition from the “frugal four” countries (Austria, the Netherlands, Denmark and Sweden). Fresh demands for additional spending can amplify the “North-South” European divide, potentially leading to policy paralysis. In the US, political polarization ahead of the November 3rd presidential election is also undermining the prospect for new

fiscal stimulus. Discussions for new measures have failed several times due to differences between Republicans and Democrats. While economic weakness would inevitably push different actors to support new stimulus measures, delays can be costly and authorities may be “behind the curve” or too late to act before another significant slump is triggered.

Third, a profusion of high and rising political, geopolitical and other tail risks are still threatening global economic conditions, making investor and consumer sentiment vulnerable to bad newsflow. The US presidential election looms large in the agenda. Unprecedented political polarization is setting the scene for further division and even localized violence. A close race can be contested by both Democrats and Republicans. Additional sources of risk include trade tensions amongst major

economies, broad-based strategic rivalry between the US and China, and even the potential for post-Covid-19 civil strife.

All in all, the coming months are going to be decisive as downside risks may come to fruition. However, we maintain a moderately positive outlook for the global economy over the medium term. Covid-19 treatments are improving and the prospects for a vaccine are increasing. Low interest rates create additional fiscal space for stimulus measures in the future. And no matter the results of the presidential election, the US is set to continue being an economic powerhouse that spurs technology and innovation across the globe.

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