



The Great Transition: Pandemic Headwinds to Vaccine Tailwinds

Nathan Sheets, PhD, Chief Economist & Head of Global Macroeconomic Research

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May 2021



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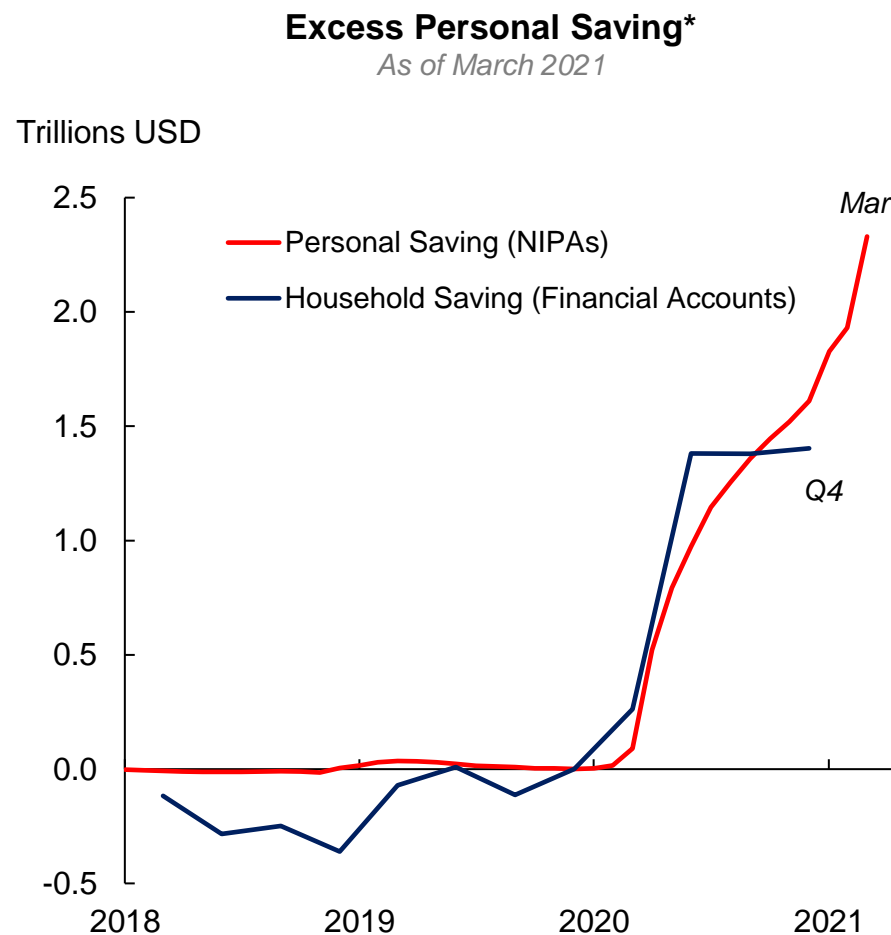
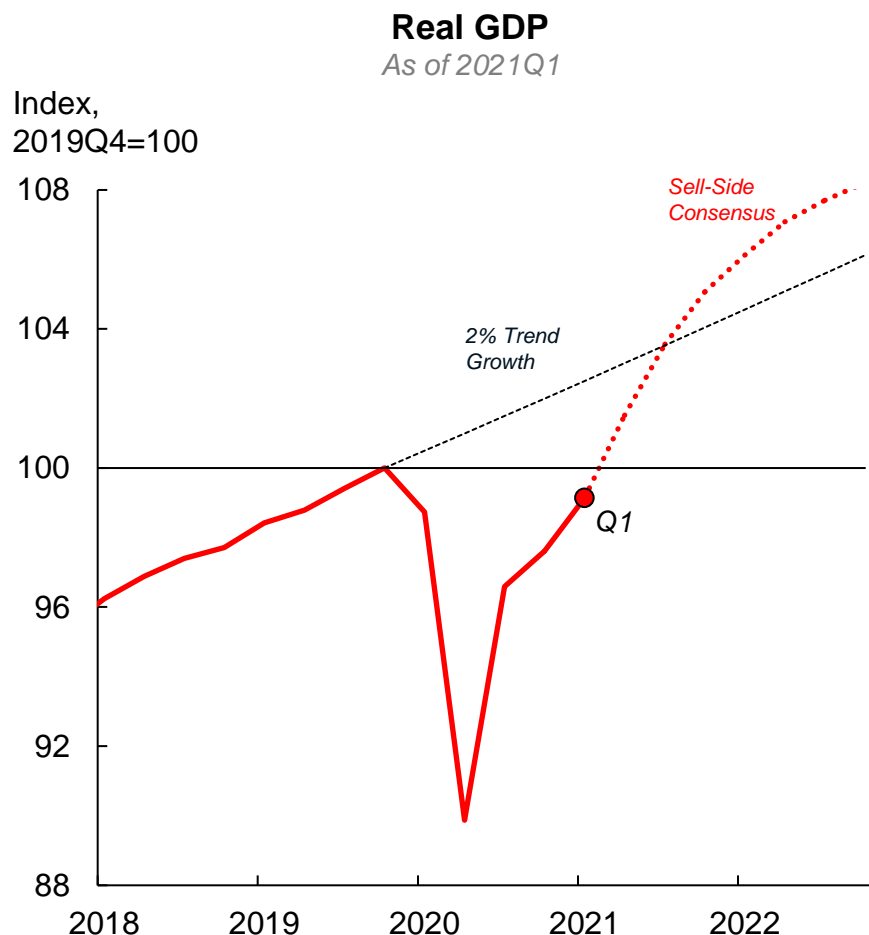


A Snapshot of the Global Economic Outlook

- The global economy continues to feel downdrafts from the virus and resulting health restrictions.
- As the year progresses, the vaccine will increasingly be in distribution—allowing the strengthening global recovery to take hold.
 - This will benefit hard-hit services sectors.
- All told, *China* and *Emerging Asia* are leading the recovery, followed by the *United States* and *Australia*, then *Europe*, and finally *Latin America*.
- Markets continue to look through the near-term uncertainty—and are focused on the recovery.



The U.S. Economy Is Seeing a Red-Hot Recovery



Source: PGIM Fixed Income, and Haver Analytics
 Note: Fourth quarter is an estimate from JP Morgan & Atlanta Fed.

*Cumulative deviation from pre-pandemic trend
 Source: BEA, BLS

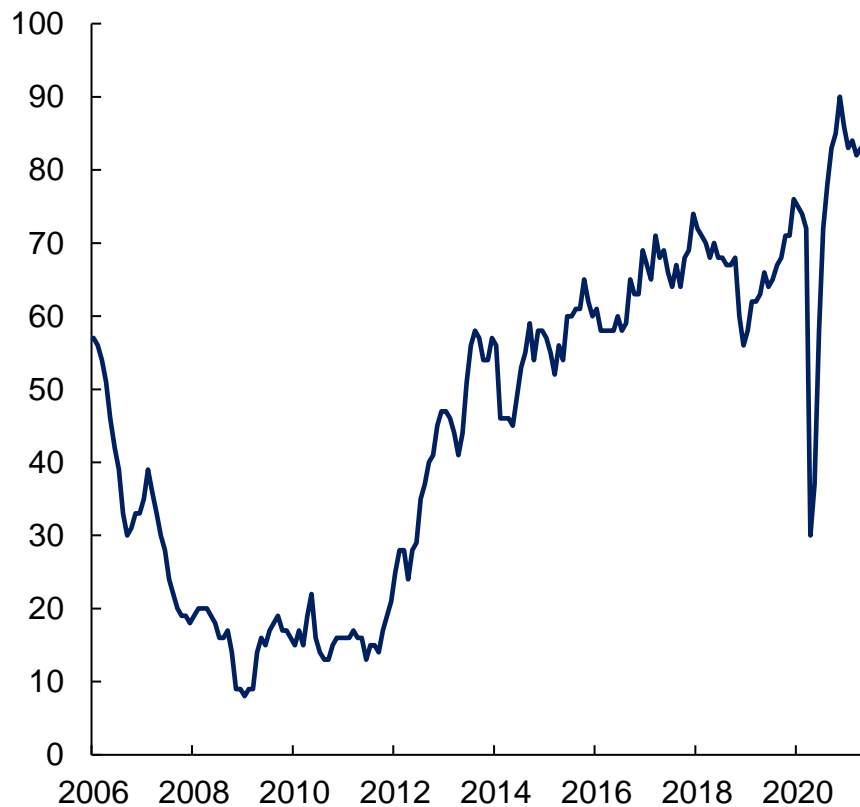


Housing Has Surged But Employment Is Still Recovering

Expectations for Sales of New Homes

As of April 2021

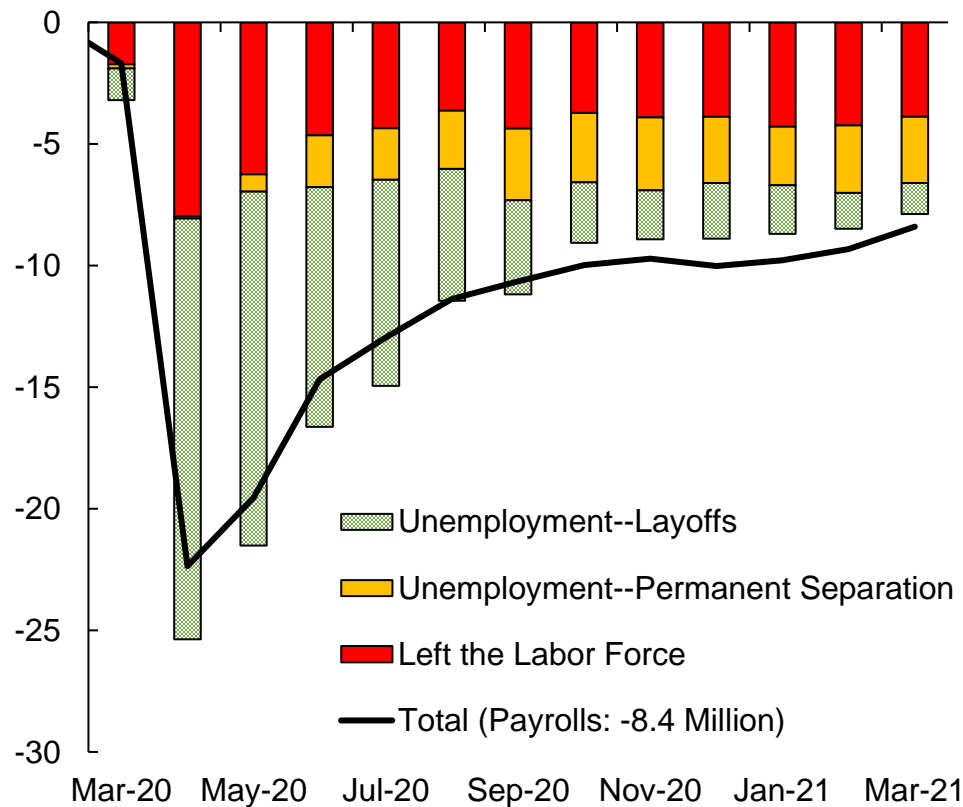
Percent Responding
"Good Conditions"



Employment Loss

As of March 2021

Change Since
Feb 2020 Millions

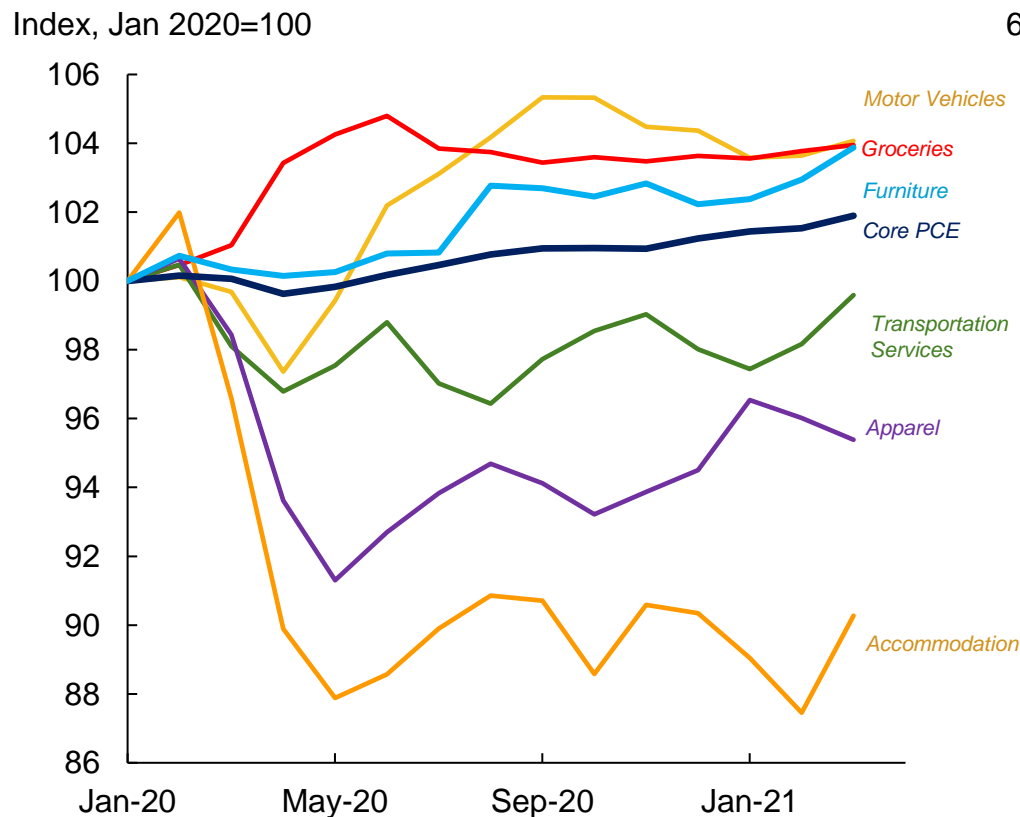


Source: BLS, Bloomberg

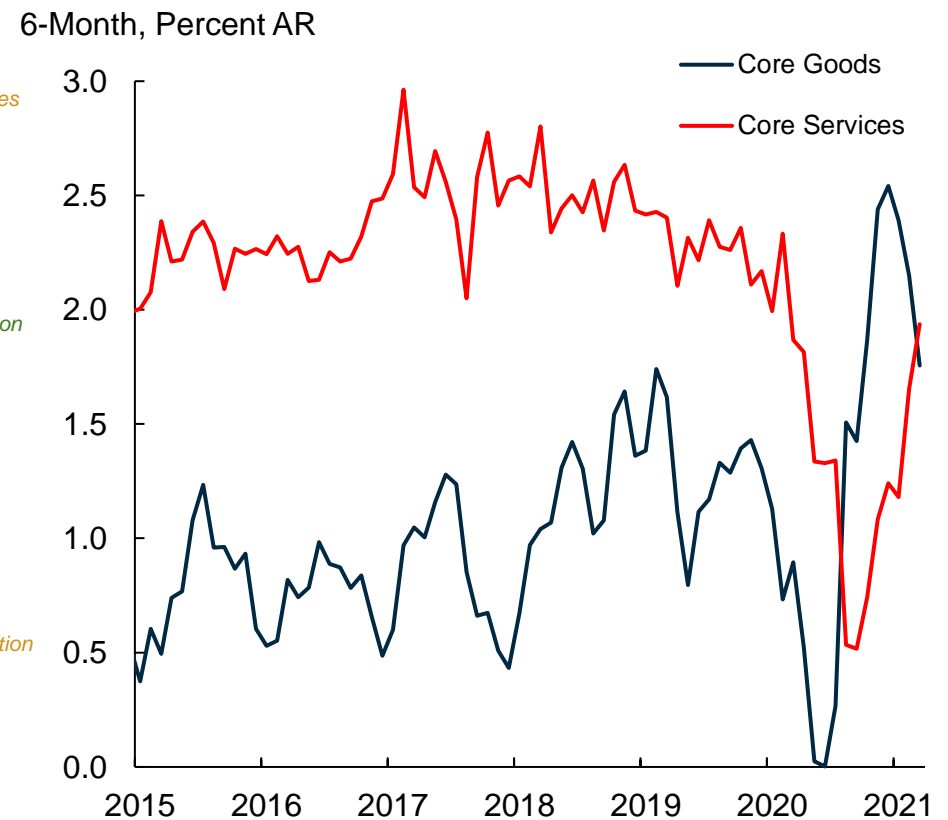


The Pandemic Has Led to a Shift in Relative Prices

U.S. PCE Price Index Categories
As of March 2021



Global Core CPI Inflation
As of March 2021

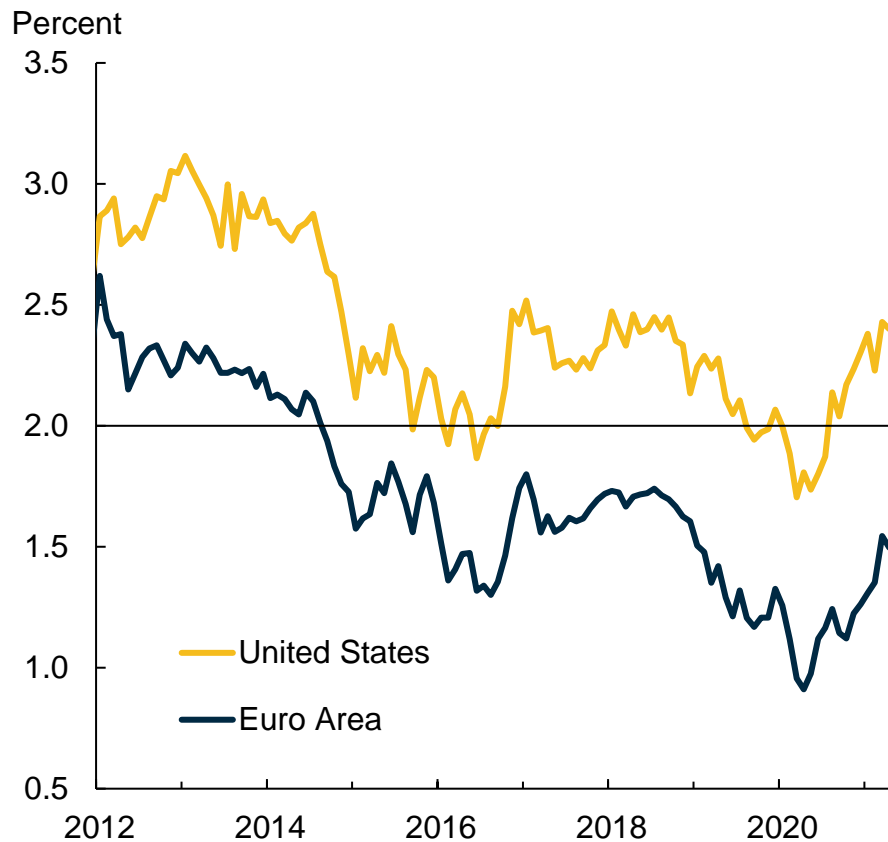


Source: BEA, Haver Analytics, PGIM Fixed Income.

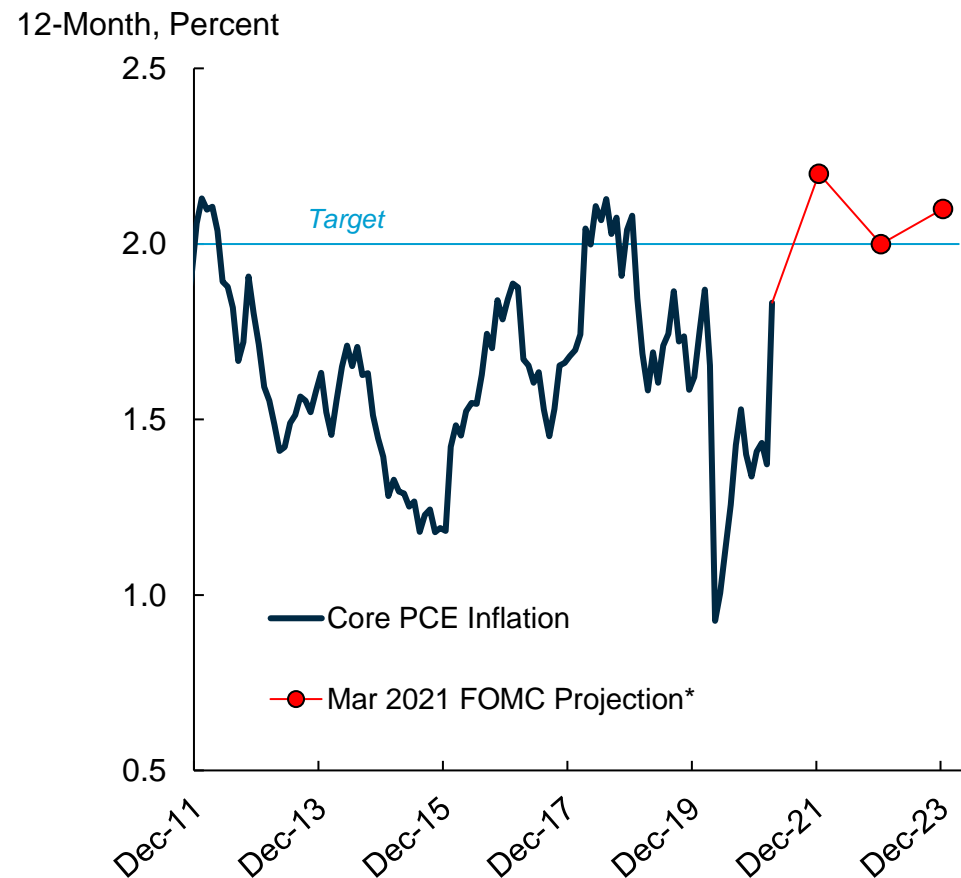


Inflation Expectations Have Remained Well Anchored

Inflation Expectations (5x5)*
As of April 2021



Core PCE Inflation
As of March 2021



*Inflation swaps. Source: BEA, Haver Analytics, Bloomberg, PGIM Fixed Income.

*Median projection.



Demographic Trends Are Also a Headwind for Inflation

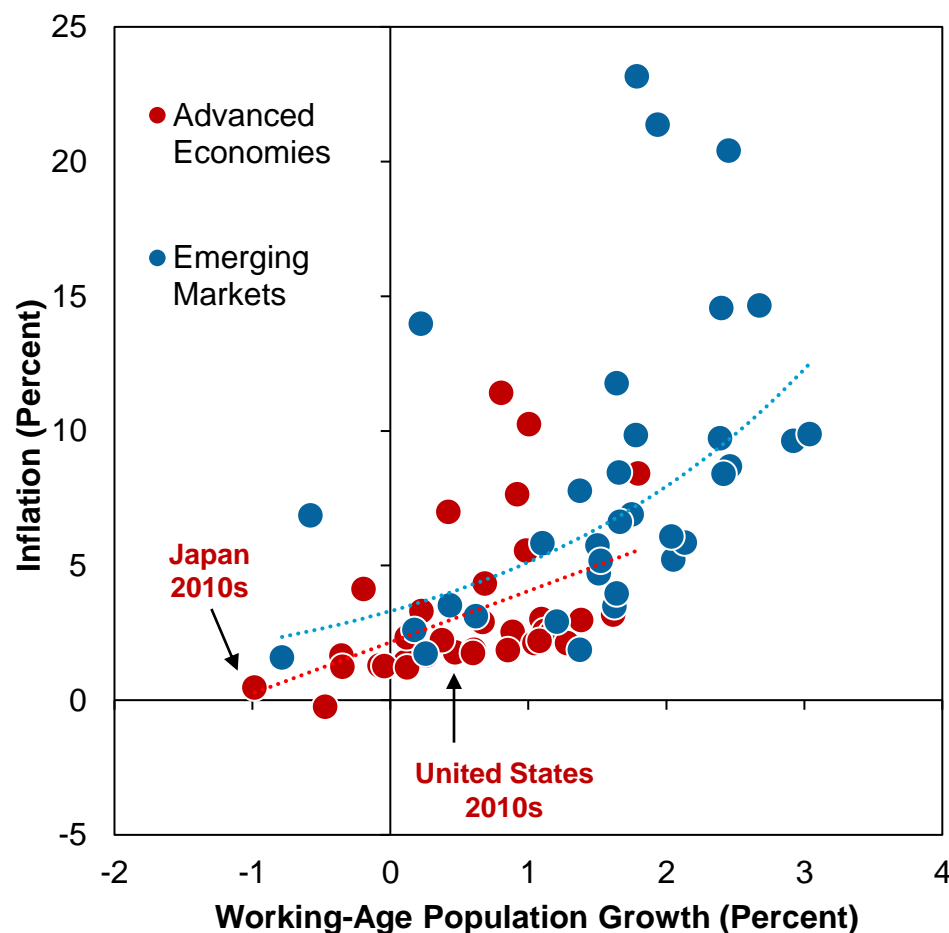
Features of the Post-Pandemic Economy

- Aging global demographics
- High debt levels—and deleveraging
- Labor-saving innovation/automation
- Low, entrenched inflation expectations

➔ *Likely to resemble pre-pandemic conditions: Subdued growth, soft inflation, & low policy rates*

Working-Age Population & Inflation

1980s to Present



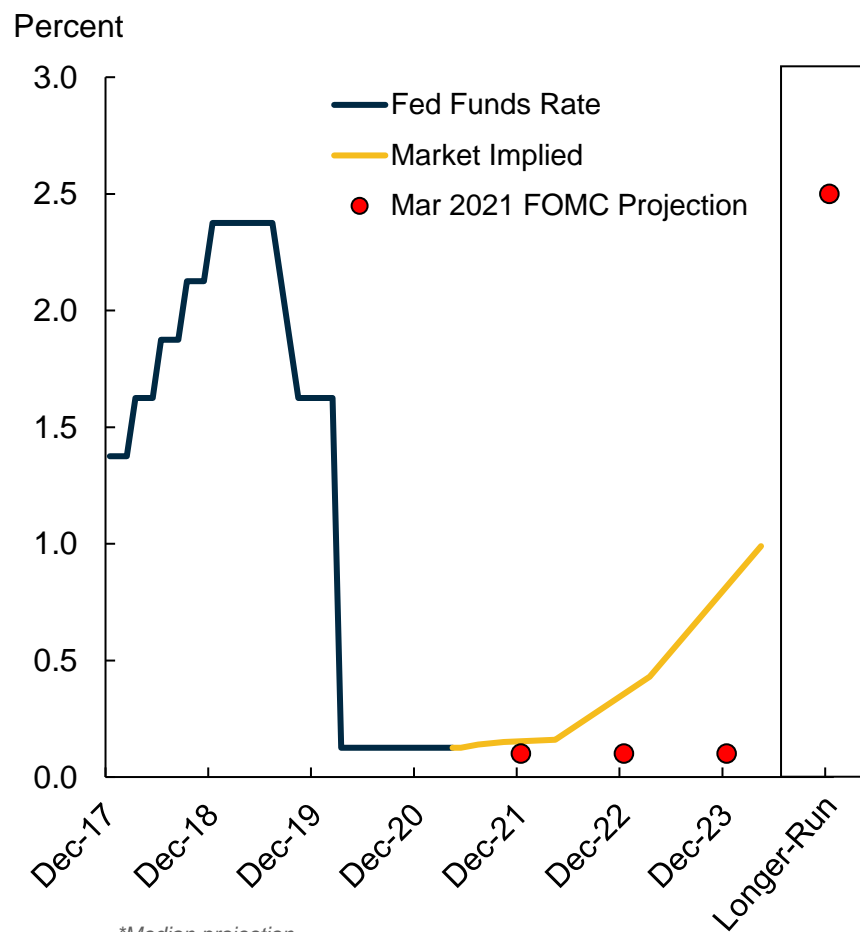
Note: Decadal observations for 20 countries; EM decadal inflation rates above 25% are excluded.
Source: PGIM Fixed Income, IMF, United Nations.



The Fed Has Cut Rates to the Zero Lower Bound

Fed Funds Rate

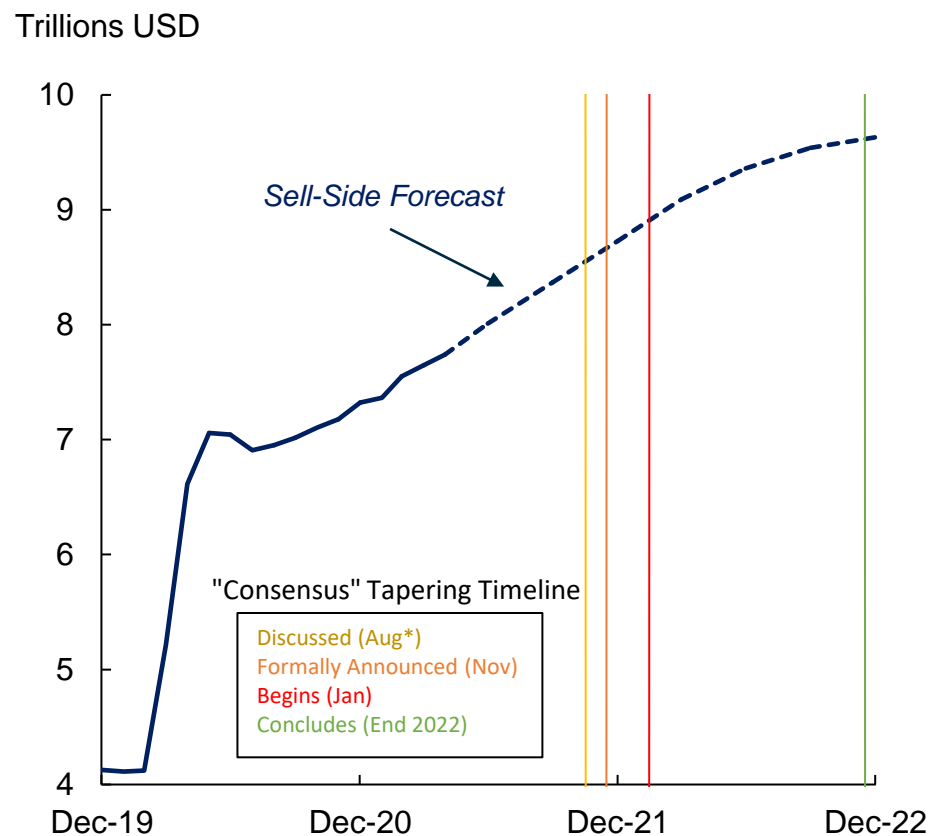
As of April 2021



*Median projection.
Source: Federal Reserve Board, BEA

Evolution of Fed Balance Sheet


As of April 2021



*Jackson Hole.
Source: Federal Reserve Board



Fiscal Priorities for the Biden Administration

Actions	Possible Content	Timing/Vehicle	Comment	Prob
Stimulus (\$1.9 trillion) 	<ul style="list-style-type: none"> • Checks to households—topped up to \$2,000 • State & local aid • UI benefits 	March (Senate approval via reconciliation)	Democrats have shown remarkable cohesion	100%
Infrastructure & Social Spending (\$3+ trillion)	<ul style="list-style-type: none"> • Traditional bricks & mortar • Mfg, R&D, EVs and other green investment • Childcare/tax credits 	Debated over the next several months. (Requires 60 votes in Senate or reconciliation)	Efforts for many years to do infrastructure—but Biden seems to be finding a formula	90%
Tax Hikes	<ul style="list-style-type: none"> • Corporate rate (28%); top household rate (39.6%); capital gains tax ↑ • SALT deductions? • Wealth tax? 	Part of proposed spending packages. (Approval through reconciliation)	Likely to prove contentious—SALT a complicating factor.	75%

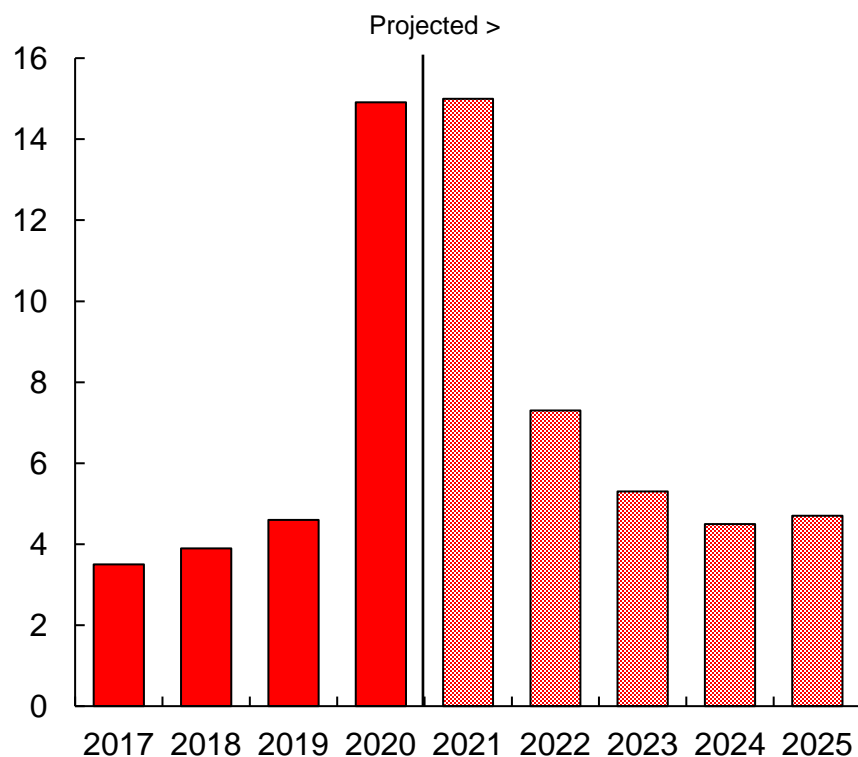


Federal Debt and Deficits Have Surged to Historically High Levels

Federal Government Deficit

As of 2020

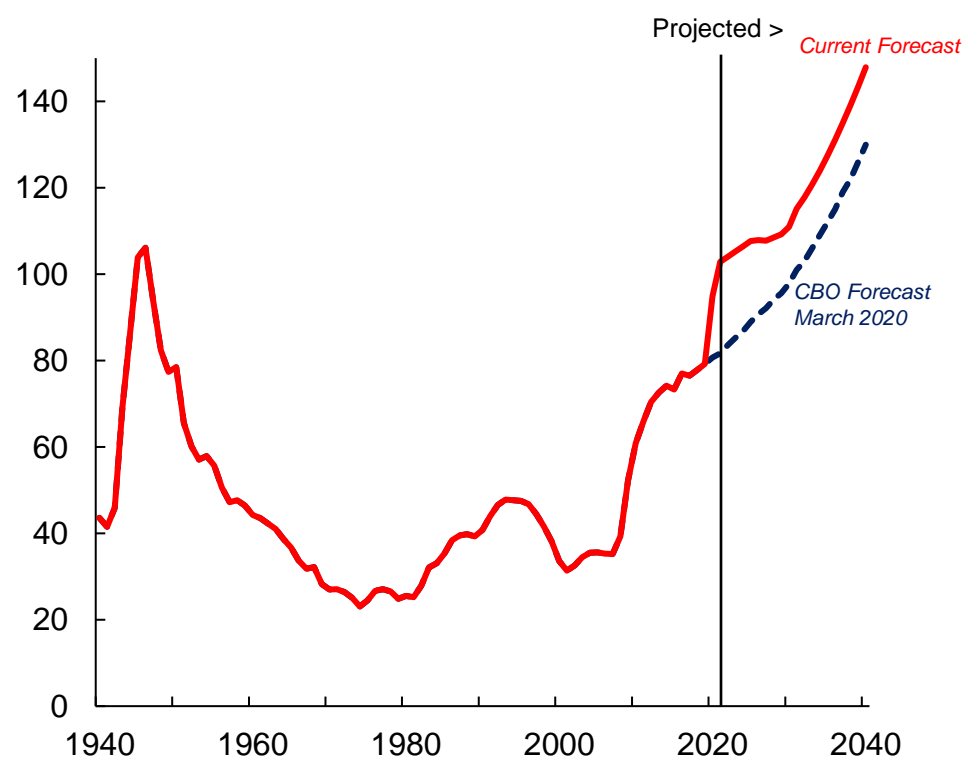
Percent of GDP



Federal Government Debt

As of 2020

Percent of GDP



Source: PGIM Fixed Income, CBO, JPM.

Reference

Presenter Biographies



Nathan Sheets, PhD, is Chief Economist and Head of Global Macroeconomic Research at PGIM Fixed Income. Mr. Sheets is responsible for the oversight of the Firm's Global Macroeconomic Research team, leading the formulation of the global macroeconomic outlook, supporting fundamental views on developed and emerging countries, and the analysis of global interest rate, currency, sovereign, and credit markets. He is a member of the senior investment team and provides thought leadership on global monetary and fiscal policy and macroeconomic trends. Prior to joining the Firm in 2017, Mr. Sheets was the undersecretary of the U.S. Treasury for international affairs, representing the U.S. government on international economic policy. Previously, he held positions with Citigroup, as global head of International Economics, and with the Federal Reserve Board, most recently as director of the Division of International Finance and FOMC Economist. In addition, Mr. Sheets was a senior advisor to the executive director of the International Monetary Fund and a visiting fellow at the Peterson Institute for International Economics. He earned a bachelor's degree in economics from Brigham Young University and a Ph.D. from the Massachusetts Institute of Technology.

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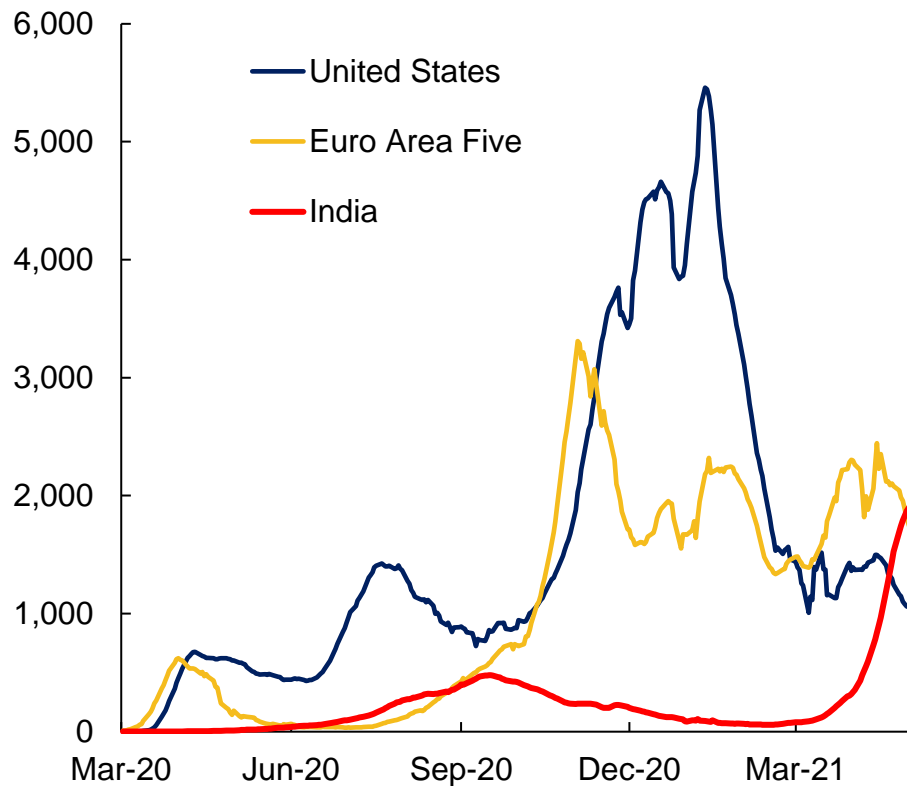


The Race Is Now Afoot—Virus vs. Vaccine

New Coronavirus Cases

As of April 2021

Weekly, Per Million

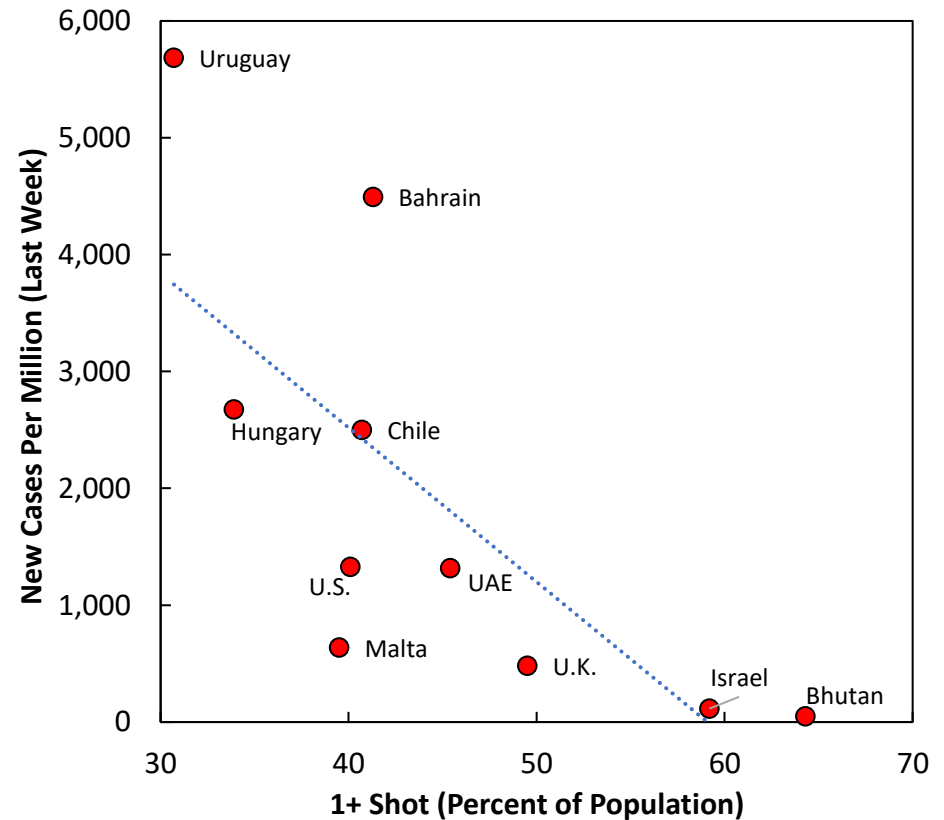


Euro Area: Germany, France, Italy, Spain, Netherlands. Population: 273 Million

Source: Haver

Global Vaccinations

As of April 2021

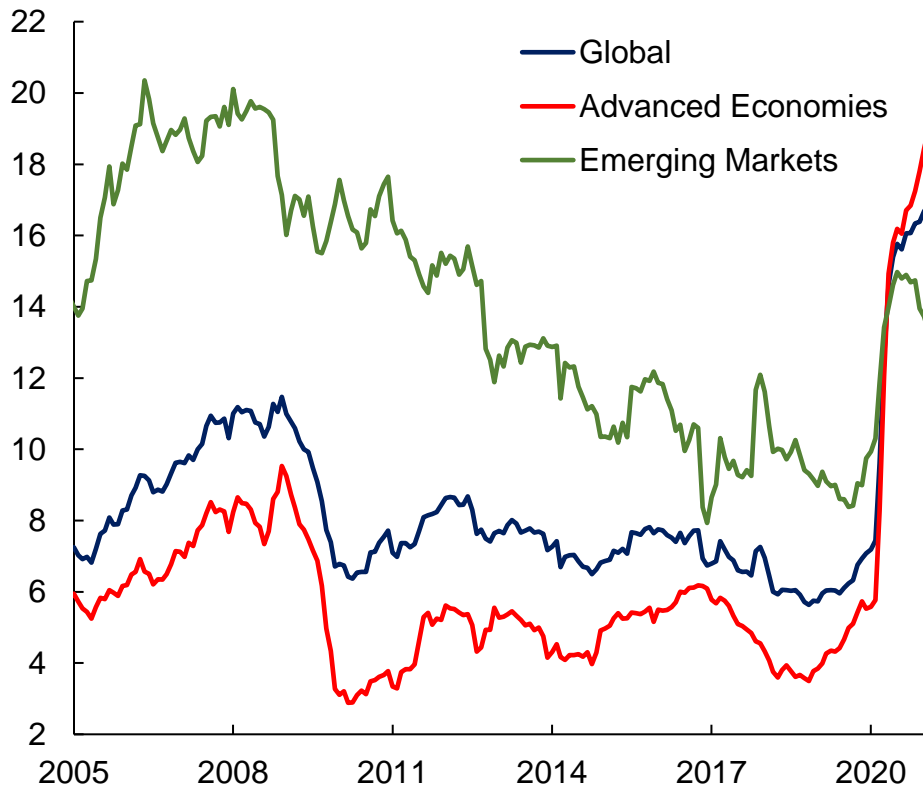




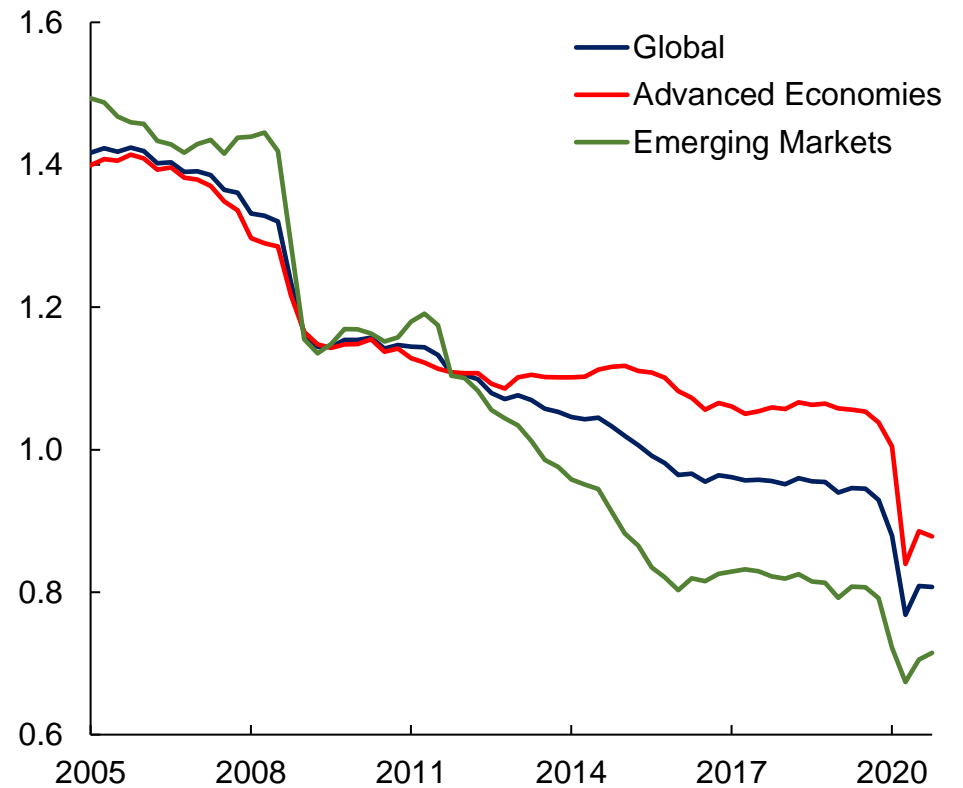
Surging Money Growth Has Triggered a Collapse in Money Velocity

M2 Growth
As of February 2021

12-Month,
Percent



M2 Velocity
As of 2020Q4



Source: National Statistical Agencies, Haver, PGIM Fixed Income.



U.S. Inequality—A Story of Divergent Tails

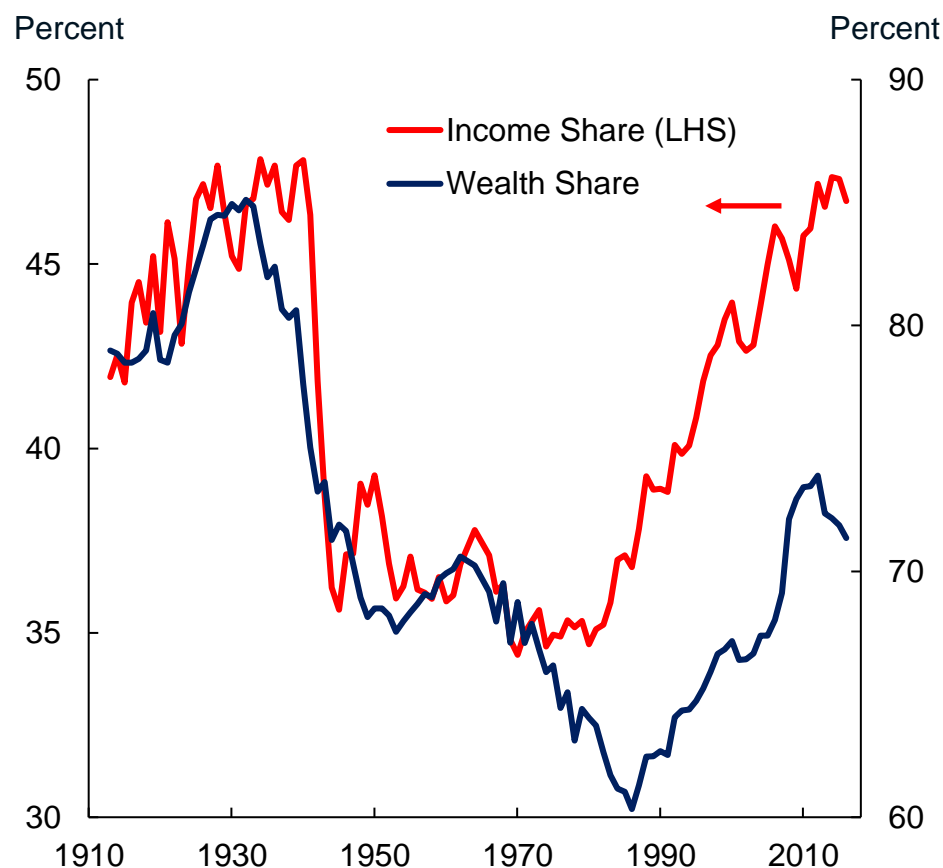
U.S. Household Wealth (Average)

As of 2020Q3

	Bottom 50%	Next 40%	Next 9%	Top 1%
	(Thousands of USD)			
Net Assets	37	651	3,851	28,164
<i>Of Which:</i>				
Net Real Estate	22	159	595	3,086
Public Equity	3	65	927	12,344
Deposits & Debt Securities	8	112	645	4,730
Pension Entitlements*	13	239	1,181	1,200
Private Business Ownership	3	34	339	5,372

*Pension Entitlements include both defined benefit and defined contribution plans, but exclude Social Security benefits.

Income and Wealth Share of Top 10%



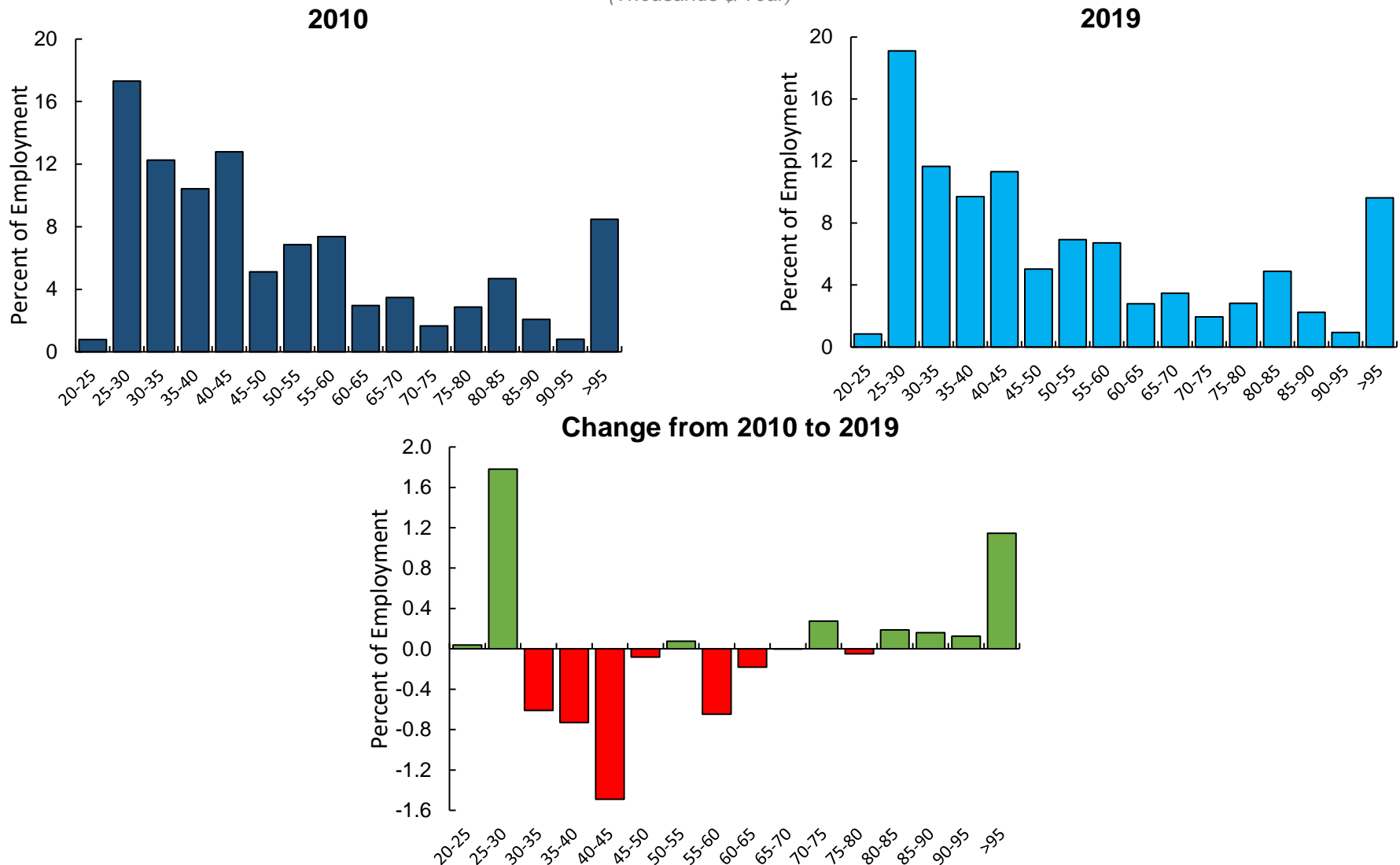
Source: World Inequality Database

Source: Federal Reserve Board



The U.S. Labor Market Has Become More “Polarized”

U.S. Salary Distributions
(Thousands \$/Year)



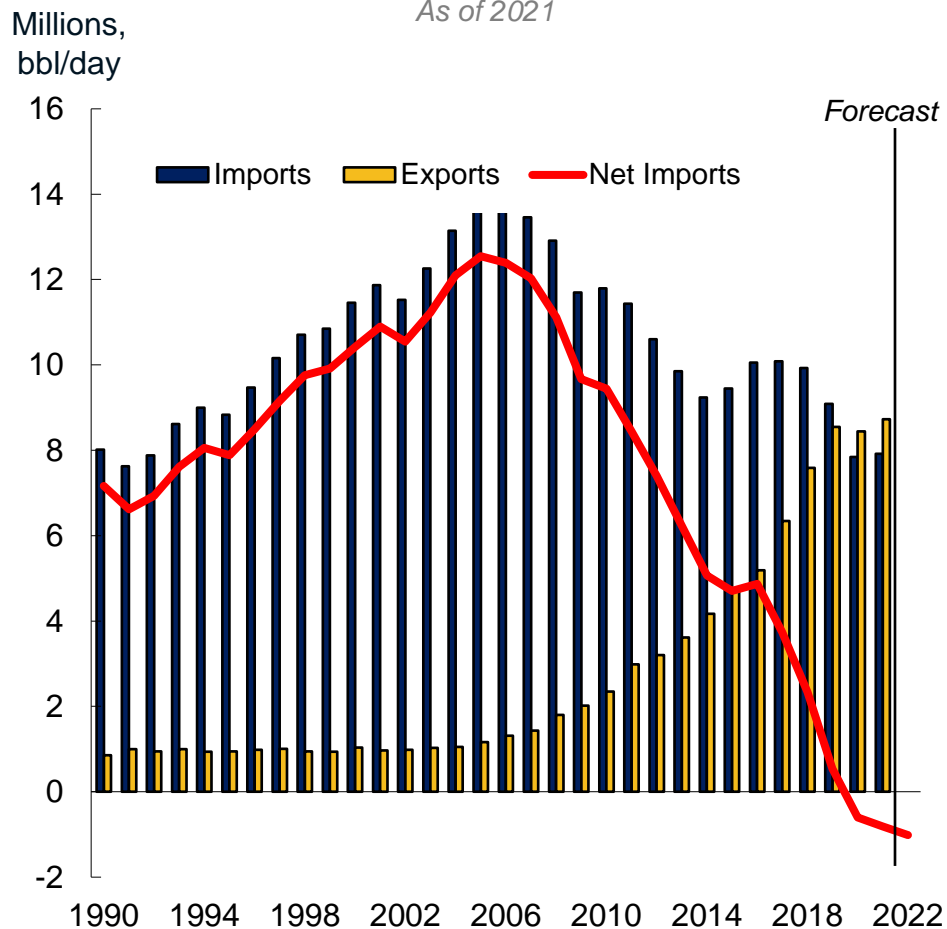
Note: The graphs display shifting employment shares with fixed 2019 salaries.
Source: PGIM Fixed Income, BLS



U.S. Oil Exports Have Soared—But Will Shale Survive the Shock?

U.S. Petroleum Imports and Exports

As of 2021



WTI Oil Price

As of May 2021



Source: EIA and BEA

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