

How will COVID-19 reshape the world economy?

There are very few periods in which forecasting the quarter ahead is as difficult as it is now. COVID-19 has substantially reduced our economic visibility and most of our economic outlook is now dependent on medical outlooks, so a change of pace for most economists and strategists.

We also have very little precedent off of which to base the current experience. No crisis resembles the one that we're experiencing now and yet we can develop working assumptions and pillars that guide our view, some of which for us include number one without hyperbole, we are about to experience on a global scale the largest core over quarter contraction that we have ever seen in modern economic history.

In part that's because what we're experiencing is a compressed recession. What would typically occur over a 12 month or longer period we expect to happen within a matter of months. Number two is that as much as the drawdown and the contraction will be very painful, we're also expecting a fairly sizeable and quick rebound in economic activity.

Though we have some concerns that consensus is thinking this may happen a little too early. We're not expecting this rebound to occur until the fourth quarter of this year and possibly later. We also need to remember that we're not likely to recoup all of what is lost over the second and third quarter. There will be structural changes that affect the way our economies operate, not just for months, but for years to come.

As we think about the rebound, we know that there will be opportunities on the horizon to take advantage of, particularly as our behaviors, as households and companies change as a result of COVID-19 those opportunities will remain critical for all investors and for markets alike.

© 2020. Manulife Investment Management. All rights reserved. Manulife, Stylized M Design, Manulife Investment Management, & Design are trademarks of The Manufacturers Life Insurance Company and are used by it, and its affiliates under license.