Manulife Investment Management

Global Macro Outlook 2020 – fiscal policy in 2020

Will fiscal policy play a bigger role in boosting economic growth?

One of the most important pillars of our Global Macro Outlook is our expectation that almost every major central bank in the world will continue to provide extraordinary levels of accommodation. This extraordinary accommodation comes via two channels.

The first is low interest rates that are likely to stay low, we think for many years. And second, balance sheets, of course, quantitative easing once against growing, adding liquidity to this market.

And why will central banks keep interest rates low even if growth is reaccelerating? Well mostly it's because inflation is still extremely low and most global central banks are keen on not just producing 2% inflation, but an overshoot of 2% in order to compensate for years of sub-2% inflation.

The Federal Reserve may cut interest rates again in the first half of 2020 depending on a series of factors, but the most important part of the story is in our view, a multi-year period of the Federal Reserve that does not hike interest rates—that is stable, low interest rates for many years, coupled with 2% growth. For risk assets, that's a fantastic combination and very important to our view that we should be over-weighting risk in the medium term.

Now, meanwhile, while the past decade was one fueled by monetary policy dominance, as we look not just to 2020, but into the next 10 years, we expect the focus to shift towards fiscal stimulus, government spending that targets the need to combat demographics, infrastructure, technology, productivity. If it's successful, that'll be an important part of raising growth over the next several years.

Is 2020 the year where we discover fantastic fiscal stimulus that changes global growth? No, but it could be the very beginning of an important trend-change of the economic story.

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