



# Press Release

Brussels, 14 January 2021 (11 a.m. CET)

## **KBC economists look forward to 2021**

**Following one of the most severe yet probably also shortest recessions ever, we will move towards economic recovery in 2021 in large parts of the world. Ongoing and unconstrained support from the monetary and fiscal authorities will act as a turbocharger: central banks are contributing low financing rates and additional money creation, while governments are providing massive amounts of fiscal stimulus.**

### **Down with inflation, up with the consumer**

Debt ratios have risen sharply since the beginning of 2020 due to the substantial increase in public-sector deficits. The pandemic has pushed the customary warnings about the growing mountain of global debt into the background. All the same, concerns regarding the sustainability of government debt and the need to bear down on budget deficits will resurface in 2021, especially as the economic shock of the Covid epidemic gradually recedes. Governments will be obliged in the longer term to keep inflation under control by removing excess liquidity from the economy, which means they might push difficult policy choices into the future, creating risks for economic and financial systems.

We expect a more nuanced debate in 2021 regarding the limits of debt in the economy, particularly since this relates to the role of central banks in supporting budgetary policy. It will be a real tour-de-force in an environment like this to get growth back up to full speed in the European Union. A policy mix of highly loose monetary policy and substantial budgetary efforts will pave the way towards a sustainable recovery and kindle fresh investment momentum via inflation expectations. Within a scenario of economic normalisation, consumers will start spending the excess savings that have built up recently as the effects of lockdown play out.

### **Down with bonds, up with shares**

Meanwhile, investors will continue to benefit from historically high liquidity levels, which will swiftly find their way into high-quality assets. KBC Asset Management expects that in 2021 we will evolve away from a highly concentrated market, driven and dominated by technology and growth stocks, to one that is more broadly-based. Besides the structural winners, cyclical stocks have their place in this. Within a climate of increased risk appetite, small cap businesses too ought to be able to improve in 2021 at the expense of typically defensive sectors. Widening the market would be good news generally, moreover, as a broadly based market will make any increase in share prices more sustainable.

### **Japanese style has to be learned**

KBC Asset Management does not expect sovereign yields in the European core and periphery to rise quickly, and certainly not in 2021. The ECB's quantitative actions cannot be wound up quickly either, if public-sector finances are to remain viable. Believers in 'interest-rate normalisation' remained disappointed in 2020, along with savers hoping for the higher rates that would give them a return on their cash sufficient to offset inflation. The ECB and European governments will have to continue to support both consumers and producers in 2021 through a persistently loose monetary policy and substantial budgetary efforts. All this makes the European interest-rate environment increasingly similar to Japan's, while the Japanese experience

teaches that it is no longer possible to safeguard purchasing power through risk-free investments in such a situation.

### **Biotech or real estate?**

The pharmaceutical and biotech sectors are making substantial progress through wide-ranging and rapid innovation, even without Covid-19. And the arsenal of possibilities for the development of medicines, the pharmaceutical industry's tool box, will continue to expand in 2021. The innovative drive of these sectors will first and foremost benefit patients, the prospects for whom are improving year by year. Nowhere is this effect as obvious as the field of oncology, in which the fundamental impact on patients' lives will remain central in 2021, more so even than any winners the stock market can produce.

The Covid picture looks very different on the distribution side. KBC Securities does not expect bricks-and-mortar shops to disappear entirely. This insight could be interesting in terms of share prices in the retail segment, in which listed retailers and office real estate have paid a heavy price for the restrictions Covid-19 imposed on shops. The sense of pessimism could swiftly dissipate, however, as soon as it becomes apparent that these players too could recover in 2021.

### **Does Biden like chips?**

The trade conflict between the US and China continued to rage unabated. A key area of dispute has been the microchip industry, which has seen the targeted boycotting of Chinese firms by the US to hinder the development of a fully fledged Chinese chip industry. Meanwhile, the Covid pandemic has hugely accelerated long-term trends that were already benefiting the chip sector. Without sufficient storage capacity and processing power, for instance, e-commerce, cloud computing, working from home and online entertainment would not have been possible. However, the traditional model of integrated chip companies that take charge of both design and production will lose much of its remaining gloss in 2021. This year will be the moment of truth for Intel, which missed out entirely on the mobile revolution.

### **Green or blue?**

Covid has accelerated the shift towards digitalisation. However, the associated computing and storage capacity requires immense amounts of energy and precisely this additional demand for renewables as the most important energy source is increasingly dominating the political debate. KBC believes that we are evolving towards a system of largely renewable and locally generated electricity. This local 'green short chain' will develop strongly in 2021, making the most important contribution to newly installed sustainable production capacity.

### **Wall Street's throne is teetering**

Fifteen Asian countries have joined forces by signing the Regional Comprehensive Economic Partnership, the world's biggest ever trade accord. The RCEP will intensify the focus on the region's economic strength – especially that of China – in 2021, which will also highlight the local stock markets. Asian companies already amount for 21% of the world's largest listed businesses and its share will only increase, just as that of the United States declines and Europe's marks time. Wall Street's star is waning...

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