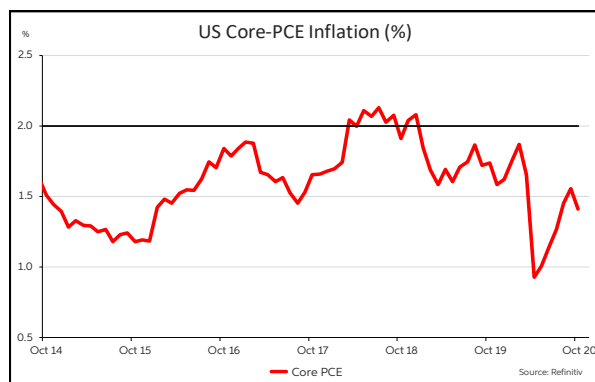


20/20 Hindsight

- 2020 was always going to be a challenging year for investors following the stellar performance across virtually all asset classes in 2019 that yielded very handsome returns, led by gains of circa 30% on many stock markets.** Add in that 2020 saw the biggest global pandemic in a century and the deepest global recession since the Great Depression of the 1930's and you would have been very fearful about the performance of nearly all asset groups. However, as 2020 draws to a close, it has turned out to be yet another year of strong performances across most markets. Global stock markets are up by more than 10%, ten year bond yields have declined by a further 50-100bps in advanced economies, credit spreads have tightened even more, while gold is up by over 20%.
- Although, it has not been a uniformly strong performance across all markets and Covid has certainly had an impact.** Chinese, Japanese and US stock markets are up by 12-15% in 2020. On the other hand, the FTSE is down by 13%, while the Eurostoxx 50 has fallen by 5%, largely reflecting the fact that the Covid-19 pandemic had a particularly severe impact on the UK and Eurozone economies. There have been very large gains in certain sectors which have benefitted from Covid, such as technology and pharma, while the negative impact of the pandemic can be seen in losses in areas such as travel and hospitality. Meantime, oil prices are down by over 20% year-to-date as a result of the pandemic, but non-energy commodity prices are up some 10%. Commercial real estate has had a difficult year, but residential property prices have risen. Overall, though, it has been another good year on financial markets.
- However, after the strong performances in recent years, there are concerns that we may now be in bubble territory in stock, bond and credit markets.** US stock market valuations look very stretched with PE ratios at very elevated levels, bond yields are at historic lows with negative yields now the norm in nearly all Eurozone sovereign debt markets, and credit spreads are exceptionally tight. Financial markets, though, are being sustained at these elevated levels by the exceptionally loose stance of monetary policy in the shape of official rates either being close to zero per cent, or negative in the main economies, and central banks engaging in enormous QE programmes. Monetary authorities are indicating that these policies will remain in place for the next few years. As long as ultra-low rates and QE stay in place, markets are likely to remain at elevated levels.
- So what could upset the apple cart and cause monetary policy to change course?** It is not strong growth as central banks have indicated that this will not trigger monetary tightening. The principal risk is an unexpected rise in inflation as the low interest rate environment is predicated on ongoing subdued price pressures. With slack in labour markets and ongoing digitisation, price pressures should stay subdued, but inflation trends bear close watching. There is a risk that with the ongoing disruption to supply chains caused by Covid, the reversal of globalisation trends (which weakens competitive pressures), and the scope for price rises in hard pressed service sectors as spending rebounds, that inflation could pick up more quickly than expected. It is a small tail risk, but one that would have major consequences for financial markets.
- Turning to data in the week ahead, the focus will be on the demand side of the US economy.** Household consumption is forecast to fall by 0.2% in November, while personal income is expected to decline by 0.3%. Durable goods orders are expected to increase by 0.7%, reflecting the strong rebound in the manufacturing sector. The final reading of Q3 GDP is forecast to remain unchanged at a record 33.1% annualised growth rate.
- In terms of inflationary developments, the Fed's preferred measure, core-PCE is due.** It is envisaged that the annual rate edged higher to 1.5% in November from 1.4% as price growth remains subdued. Regarding the labour market, initial weekly jobless claims will garner some attention, and arrive a day early this week as Christmas Eve falls on Thursday. Jobless claims have moved higher over the past few weeks from already elevated levels as the labour market recovery loses momentum. We will also get an update on the housing market in the US in the form of November existing and new home sales, with both segments of the market expected to fall by circa 1% in the month.
- In Europe, the macro schedule is quite bare as the week is cut short by Christmas holidays.** The only release of note in the Eurozone is the flash consumer confidence reading for December, which is forecast to remain unchanged at a subdued level of -17.6. On a national level, the German measure of consumer sentiment is expected to fall to -9.5 from -6.7 as tighter restrictions have been extended into the new year. **Lastly, in the UK, the final reading of Q3 GDP will be released.** However, it is expected to remain unchanged at +15.5% q/q.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2020	2021	2021
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
BoJ OCR	-0.10	-0.10	-0.10	-0.10

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q4	End Q1	End Q2
		2020	2021	2021
EUR/USD	1.2229	1.23	1.24	1.25
EUR/GBP	0.9070	0.88	0.88	0.89
EUR/JPY	126.54	127	127	128
GBP/USD	1.3483	1.40	1.41	1.40
USD/JPY	103.45	103	102	102

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:			
	BoE Speakers:			
	Fed Speakers:			
Mon 21st	UK: 11:00	CBI Distributive Trades (December)	-25	
	EU-19: 15:00	Flash Consumer Confidence (December)	-17.6	-17.6
Tue 22nd	GER: 07:00	Gfk Consumer Sentiment (January)	-6.7	-9.5
	UK: 07:00	GDP (Q3: Final Reading)	+15.5% (-9.6%)	+15.5% (-9.6%)
	US: 13:30	GDP (Q3: Final Reading)	+33.1% s.a.a.r	+33.1% s.a.a.r
	US: 13:30	PCE (Q3: Final Reading) - Core	+3.7% +3.5%	+3.7% +3.5%
	US: 15:00	Existing Home Sales (November)	6.85m / +4.3%	6.73m / -1.0%
Wed 23rd	FRA: 07:45	PPI (November)	+0.1% (-2.0%)	
	SPA: 08:00	GDP (Q3: Final Reading)	+16.7% (-8.7%)	+16.7% (-8.7%)
	ITA: 09:00	Consumer Confidence (December)	98.1	
	US: 13:30	Personal Income / Consumption (November) - Core PCE Inflation	-0.7% /+0.5% +0.0% (+1.4%)	-0.3% / -0.2%
	US: 13:30	Durable Goods (November)	+1.3%	+0.6%
	US: 13:30	Initial Jobless Claims (w/e 14th December)	885,000	
	US: 15:00	Final Michigan Consumer Sentiment (December)	81.4	81.4
	US: 15:00	New Home Sales (November)	+0.999m / -0.3%	+0.988m / -0.9%
Thurs 24th	JPN: 23:30	CPI Inflation (December)	(-0.7%)	(-0.8%)
	JPN: 23:30	Jobs/Applicants Ratio (November)	1.04	1.04
	JPN: 23:30	Unemployment Rate (November)	3.1%	3.1%
	JPN: 23:50	Retail Sales (November)	(+6.4%)	(+1.7%)
	IRL/UK/EU-19/US:	Christmas Eve (early market close)		
Fri 25th	IRL/UK/EU-19/US:	Christmas Day (Market Holiday)		

◆ Month-on-month changes (year-on-year shown in brackets)
All forecasts AIB ERU, historical data in the Economic Diary derived from publicly available sources

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