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Why it's all about Time, Place… …and Luck.

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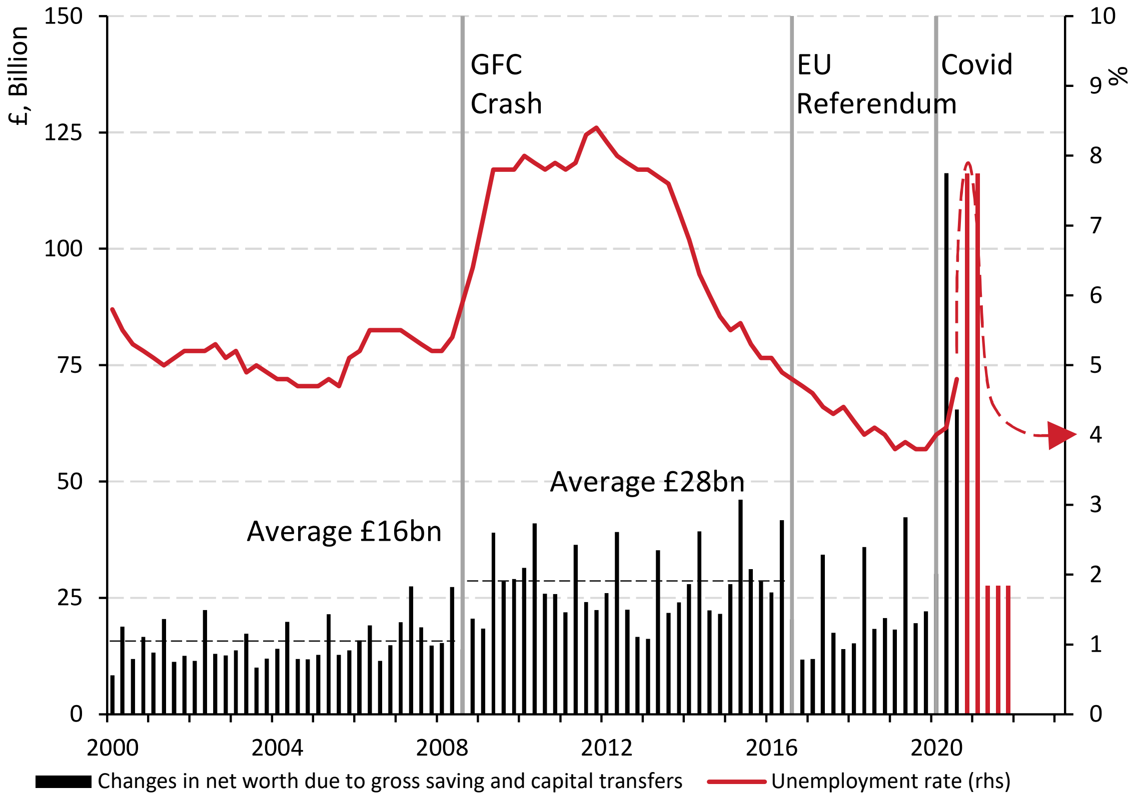
Chief Economist
February 2021

When 2008 struck…. matters are very different now

- According to all reasonable measures, & subsequent experience, the pound was overvalued
  - NOW IT IS BELOW ITS TRUE WORTH
- UK property markets were over elevated with CRE particularly exposed to currency carry-traded leveraged from across the EZ – the small rock that is Iceland was also somehow a large UK player
  - NOW NO SUCH ISSUES EXIST (*caveat,* new builds have an incubating issue because of HTB)
- UK banks were extremely leveraged & poorly capitalised – remember Bradford & Bingley, Northern Rock, Alliance & Leicester, Halifax, RBS…
  - ENTERING 2020 BANKS WERE EXTREMELY PRUDENTIAL BECAUSE THE BoE DEMANDED THEY WERE
- UK e-commerce and e-finance were still in their infancy
  - NOW THE UK LEADS THE WORLD IN BOTH
- China was still in its own macro-economic infancy & under reserved
  - NOW IT IS A MACRO POWERHOUSE
- The UK public sector was labour "HIGH"
  - NOW IT CAN ONLY HIRE & HIRE
- 10 year Gilt yields were c5%
  - NOW THEY ARE 0.3% WITH THE REAL COST OF GOVERNMENT BORROWING NEGATIVE

A quick return of job confidence will unleash spending



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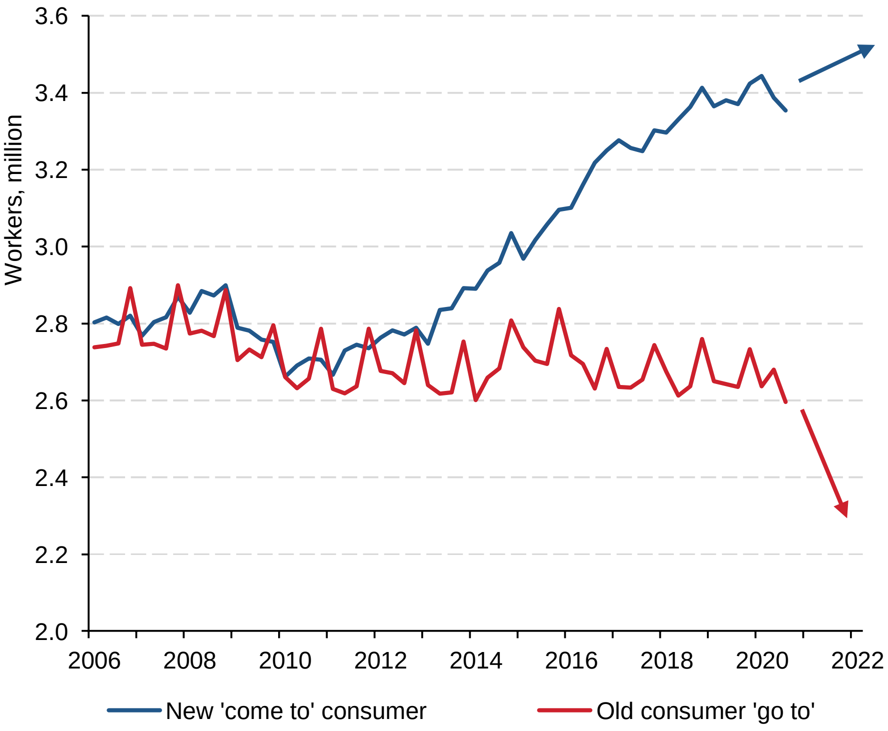
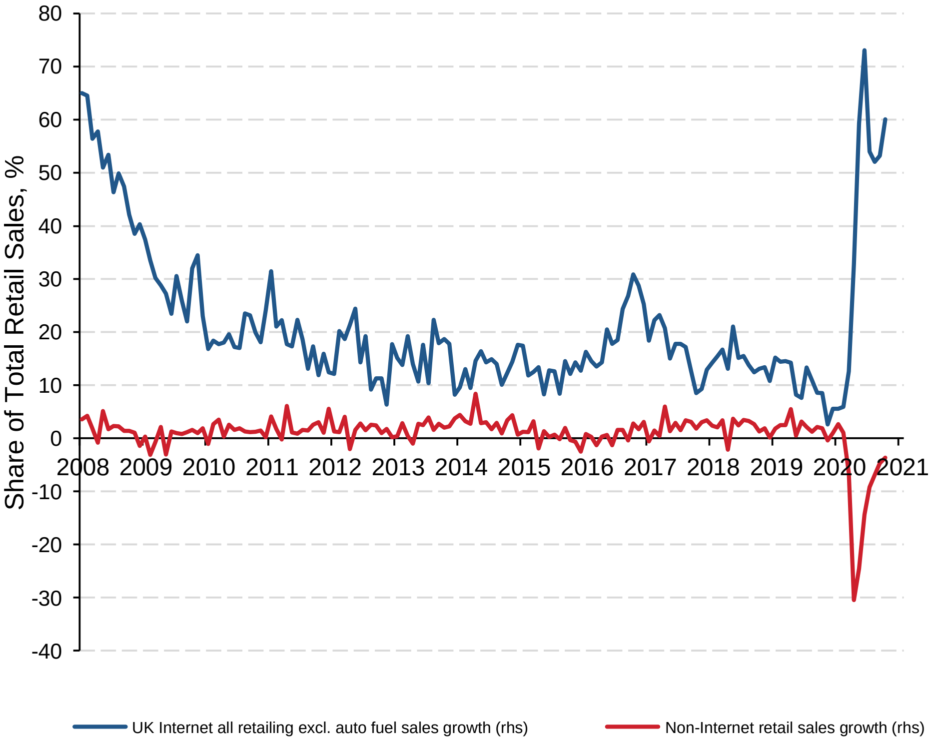
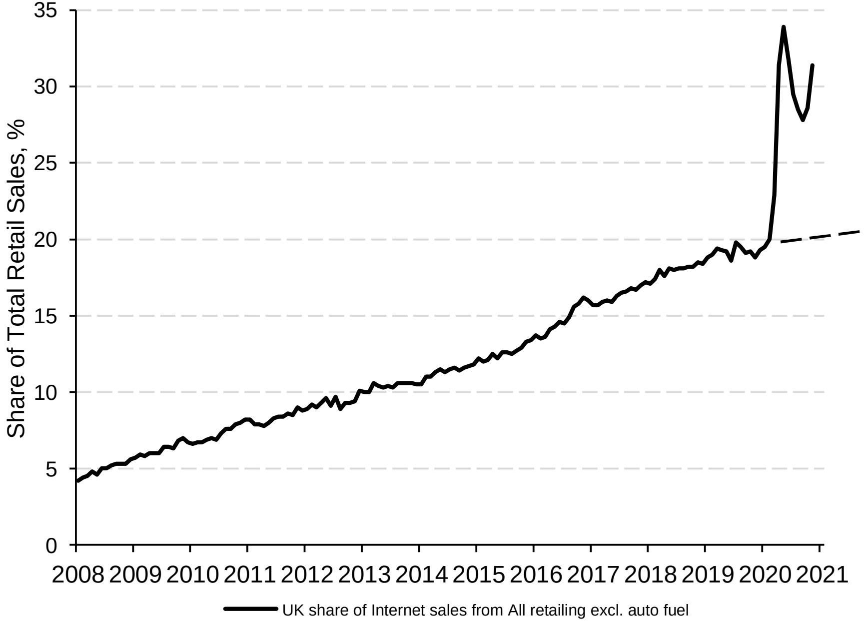
Seeing new forms of consumerism in 2020

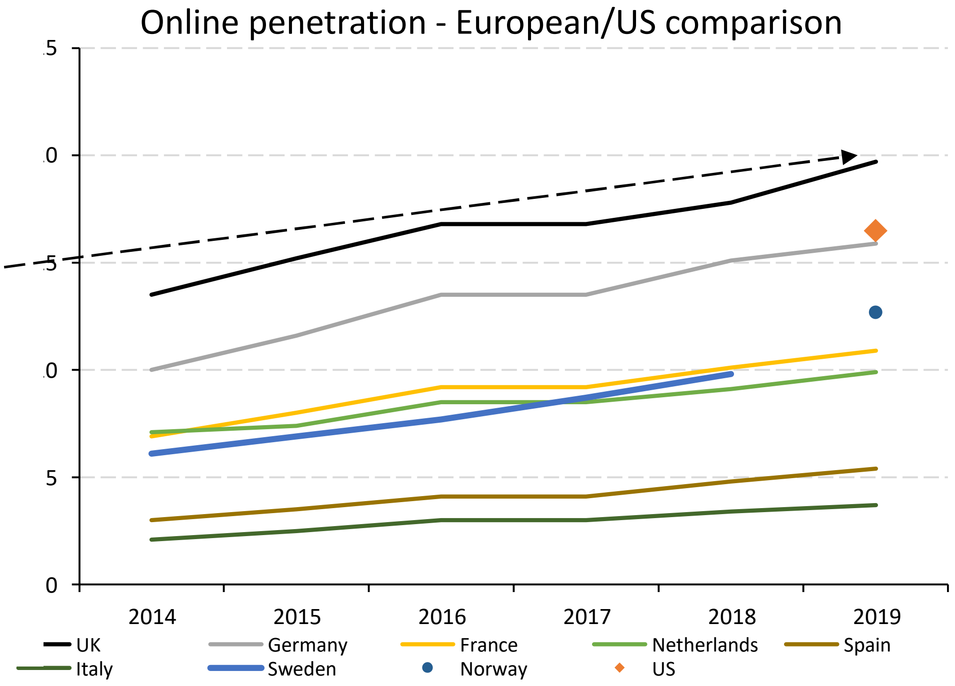




Source: ONS (Employment data to Q2 2020 – Retail data to October), Toscafund

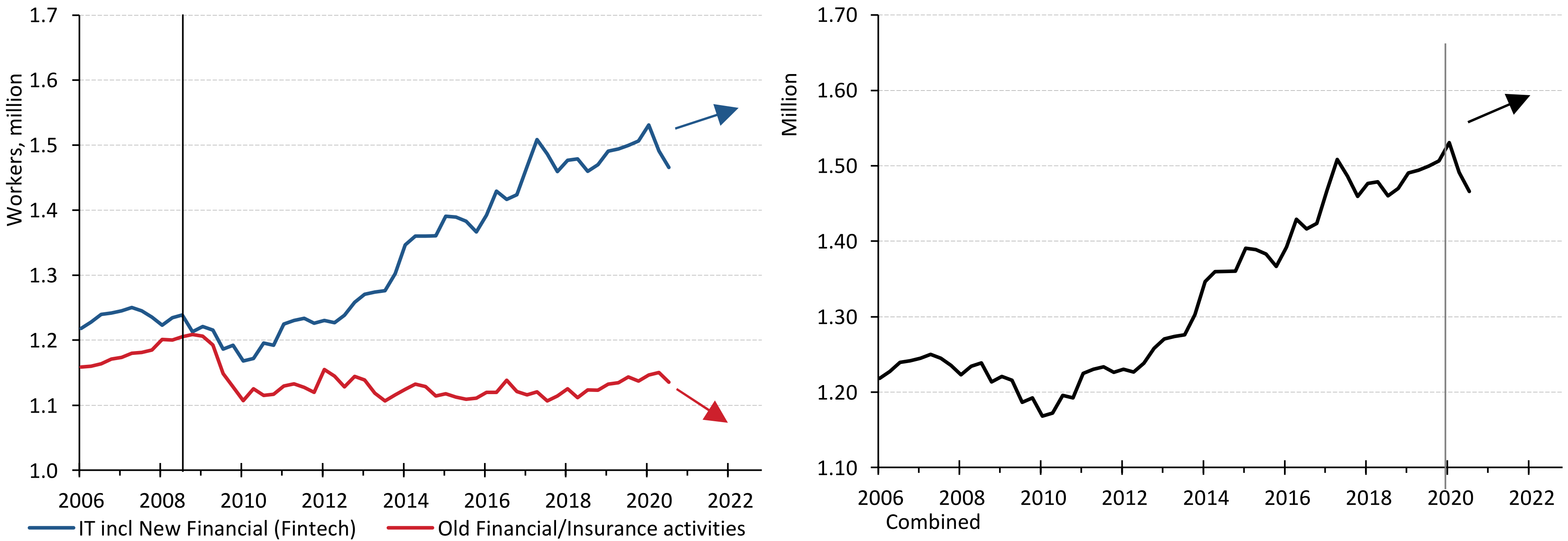
Seeing new forms of consumerism in 2020





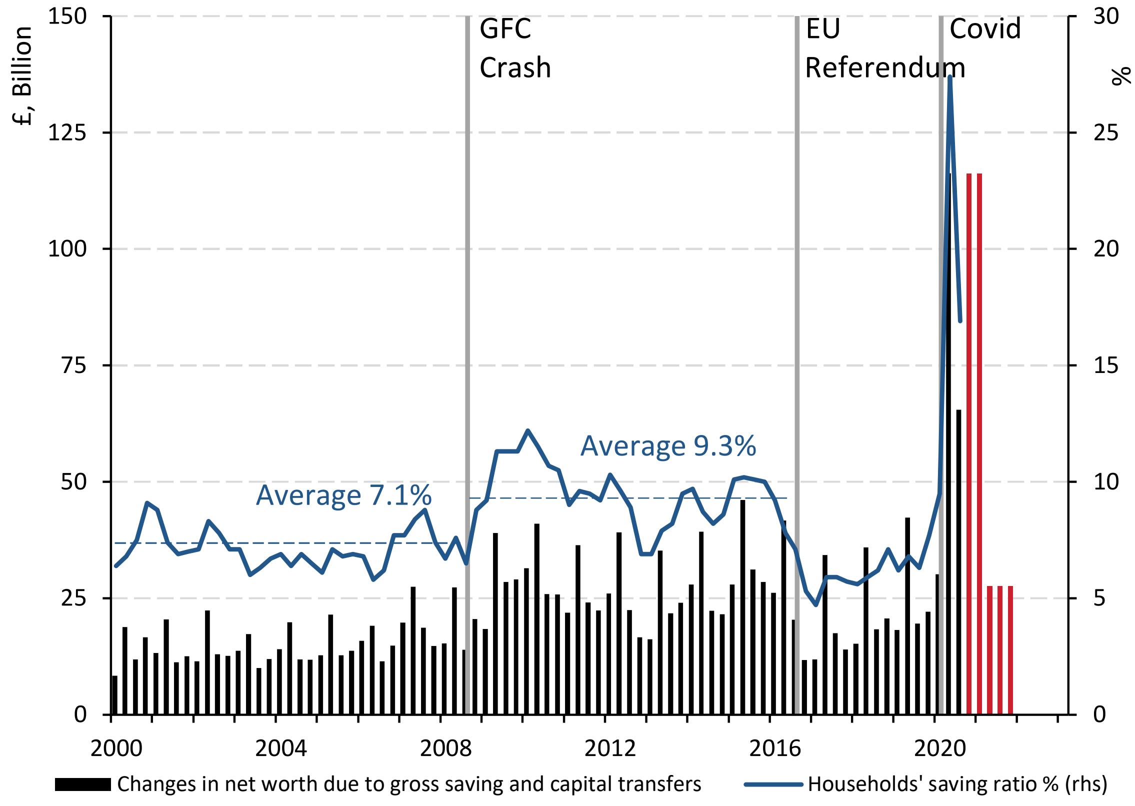
Source: ONS (Employment data to Q3 2020 – Retail data to October), Toscafund

Seeing UK finance linked jobs



Source: ONS (data to Q3 2020), Toscafund

UK household savings ratio, *c.* £.3tn excess to be spent



Europe’s Tourist TRAPS

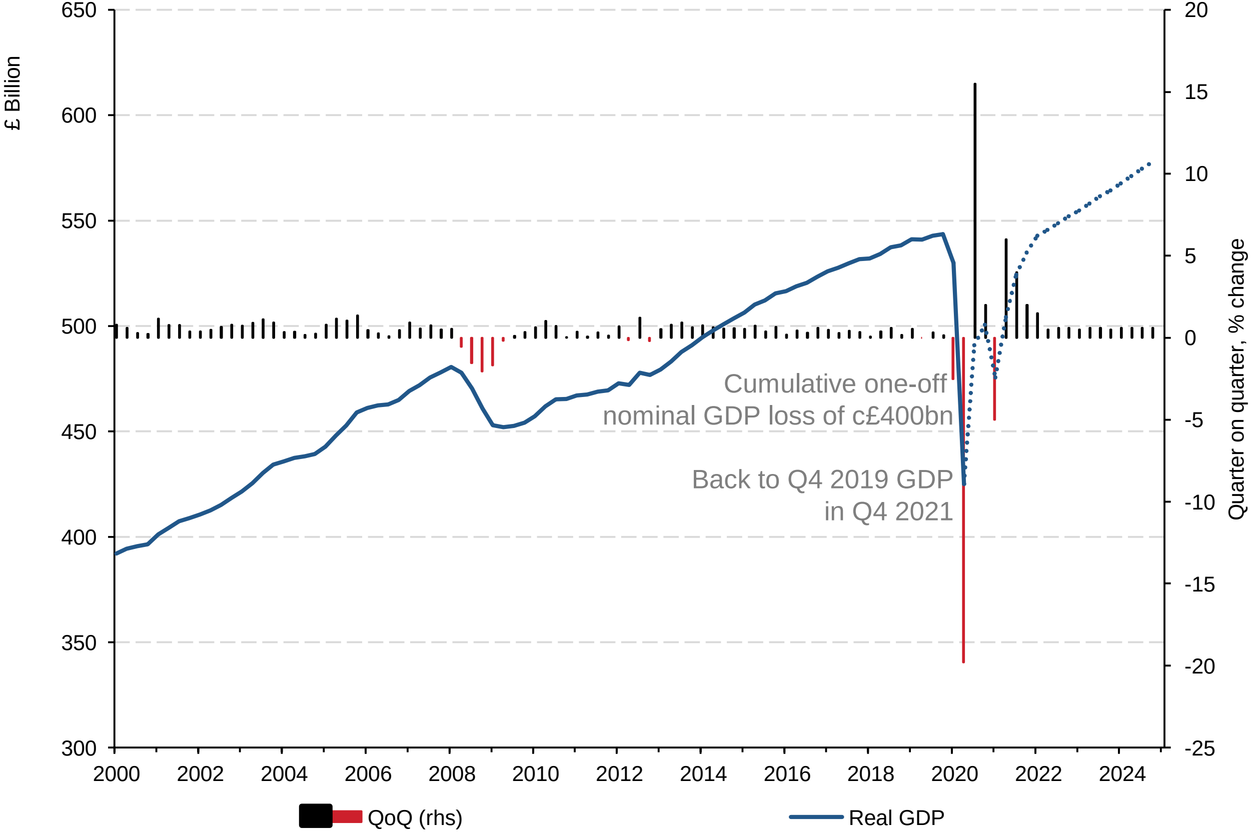
Table 1: The importance of inward travel and tourism across Europe

Country	% contribution of GDP 2019	% share of Employment 2019	Balance on tourism *per capita* 2018	Annual tourist numbers relative *per capita* 2019	Monthly Flights, in thousands 2019	Monthly Flights, in thousands 2020	% change of flights
Croatia	25.0	25.1	22.8	4.2	9.5	4.0	57.6
Iceland	22.8	21.9	38.3	5.9	2.9	1.1	62.4
Greece	20.8	21.7	15.7	3.0	46.6	23.1	50.5
Portugal	16.5	18.6	14.1	1.7	35.8	16.5	53.9
Malta	15.8	21.1	29.7	6.3	4.6	2.0	57.1
Spain	14.3	14.6	11.7	1.8	170.1	72.9	57.1
Italy	13.0	14.9	3.2	1.1	128.6	54.7	57.5
Austria	11.8	12.5	12.4	3.6	28.4	12.0	57.7
Estonia	11.7	11.3	2.4	2.4	3.8	1.7	54.4
Turkey	11.3	9.4	2.5	0.6	109.6	53.9	50.8
Slovenia	9.9	10.3	7.5	2.3	2.2	0.7	65.3
Germany	9.1	12.5	6.3	0.5	180.0	77.5	56.9
UK	**9.0**	**11.0**	**3.0**	**0.6**	**197.6**	**80.9**	**59.1**
France	8.5	9.4	2.7	1.4	140.8	64.8	54.0
Hungary	8.3	10.0	4.4	1.7	10.2	4.3	58.4
Sweden	8.2	9.8	3.1	0.7	57.1	23.2	59.3
Norway	8.0	11.4	21.4	1.1	62.3	39.6	36.5
Latvia	7.6	8.3	1.5	1.0	7.0	2.9	58.2
Finland	7.5	8.1	4.4	0.6	5.1	2.1	57.8
Denmark	6.6	6.9	2.4	2.3	29.3	12.4	57.7
Slovakia	6.3	6.3	1.0	1.0	2.3	0.8	64.0
Netherlands	5.7	10.1	2.3	1.1	50.0	24.8	50.4
Lithuania	5.5	5.8	0.4	1.0	4.5	2.2	52.1
Poland	4.7	5.0	1.1	0.5	34.7	15.3	56.0
Ireland	4.3	5.9	2.5	2.3	23.9	9.5	60.4

Source: The World Travel & Tourism Council (WTTC), Organisation for Economic Co-operation and Development (OECD), the World Tourism Organization (UNWTO), EuroControl, Toscafund

UK Real GDP – The shape of recovery isn't alphabetical but logical

	Toscafund	OBR Central scenario		
		Nov.	Jul.	Mar.
2013	2.1			
2014	2.6			
2015	2.4			
2016	1.9			
2017	1.9			
2018	1.3			
2019	1.4			
2020	**-10.3**	**-11.3**	-13.3	-12.8
2021	**5.5**	**5.5**	11.8	17.9
2022	**7.6**	**6.6**	3.7	1.5
2023	**2.3**	**2.3**	1.9	1.3
2024	**2.3**	**1.7**	2.0	1.4



Source: ONS (data to Q2 2020), OBR, Toscafund

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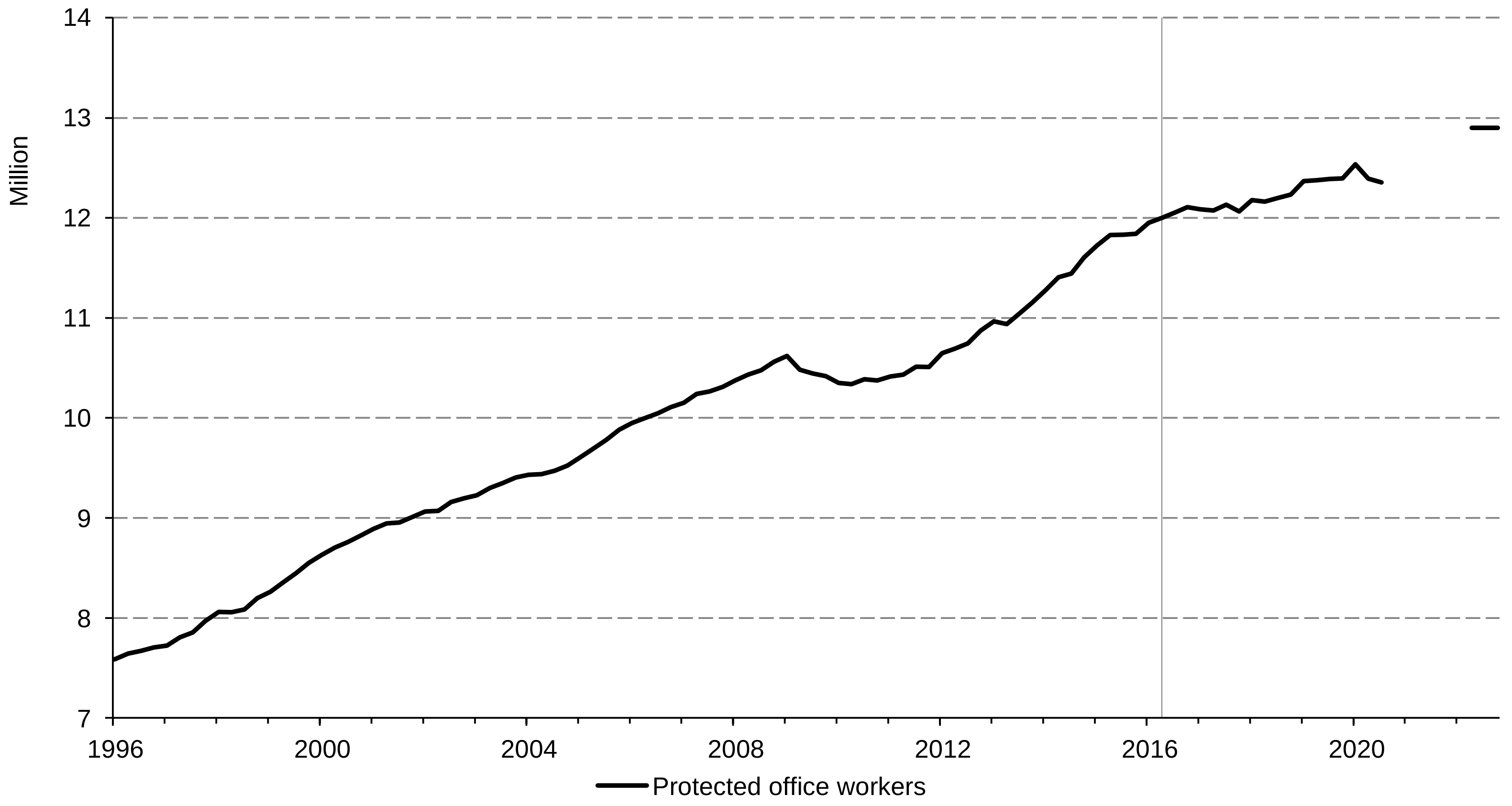
Well-protected private sector office workers, with forecasts



Source: ONS (data to Q3 2020), Toscafund

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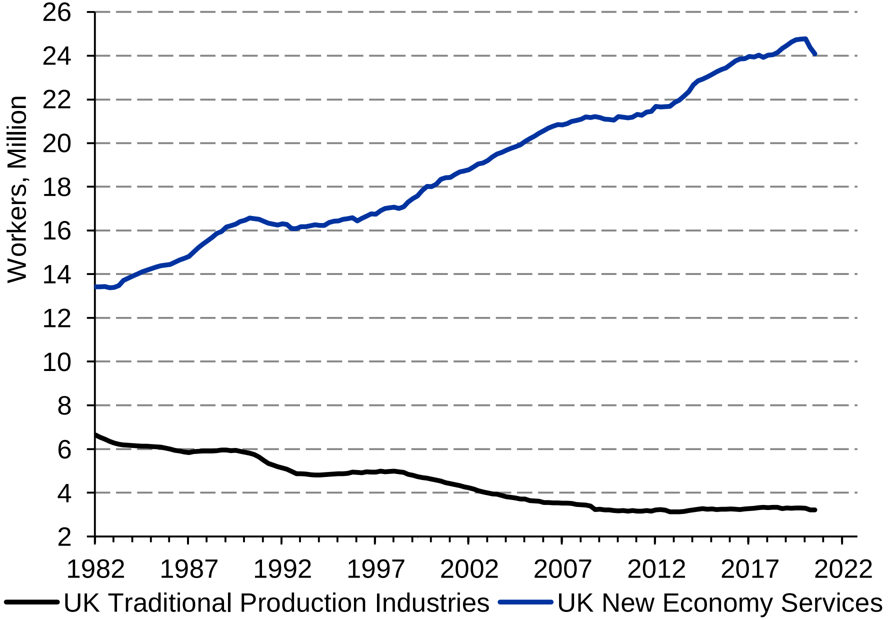
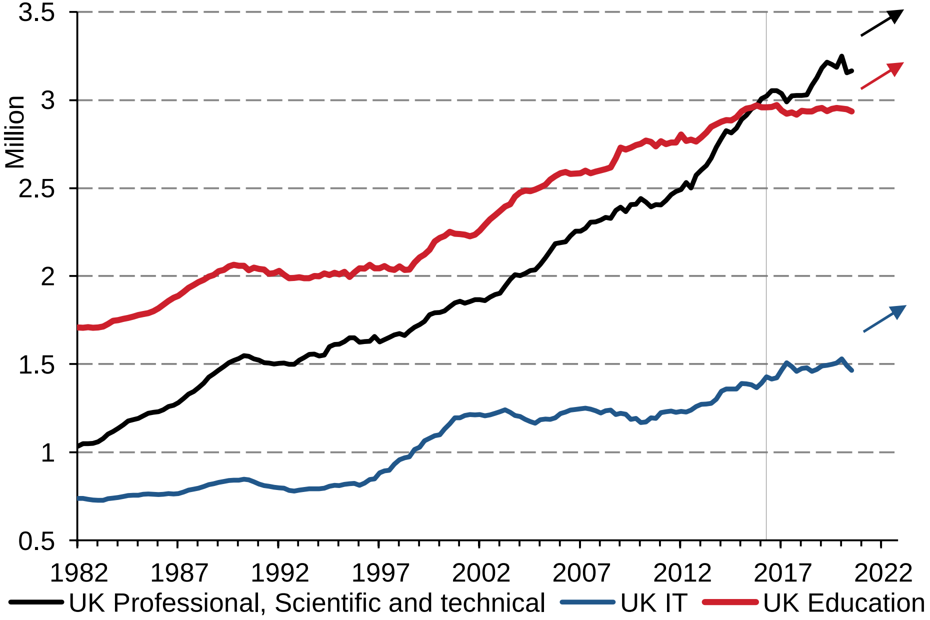
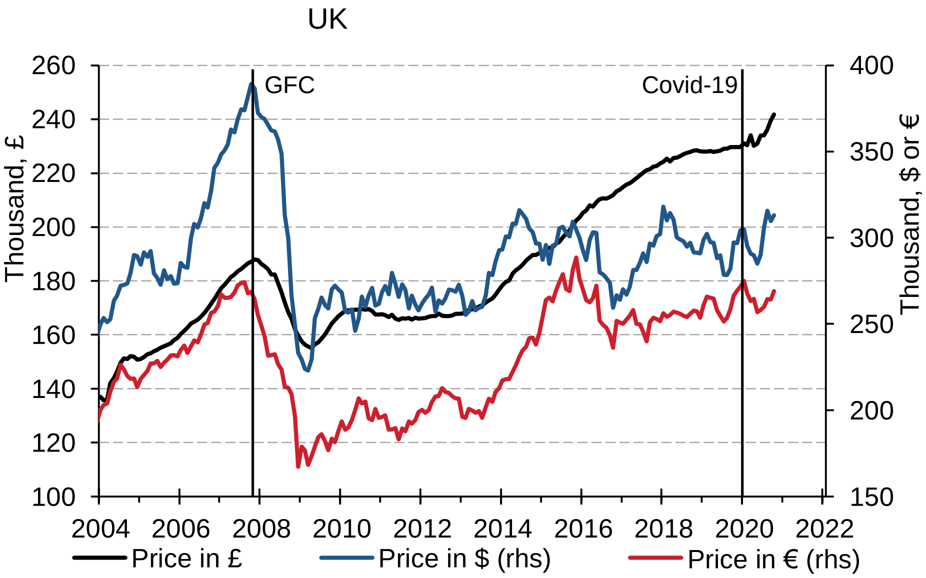
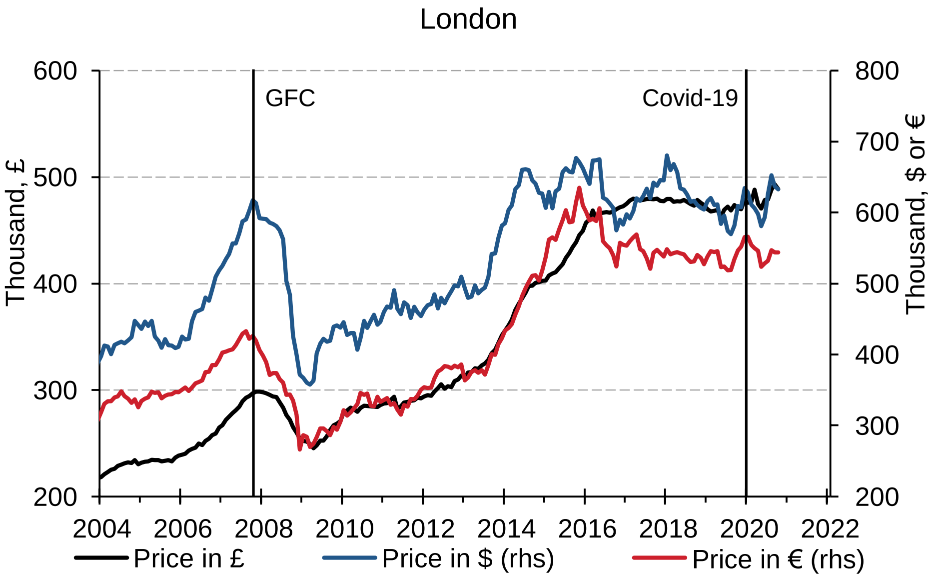
UK jobs created through service strength in HIGH value-add sectors



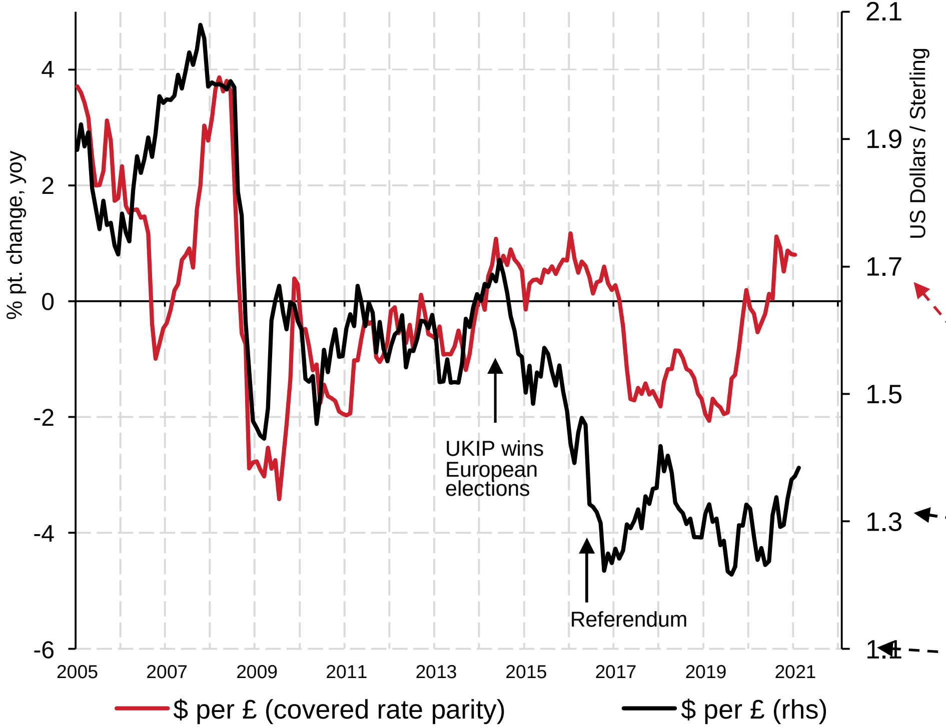


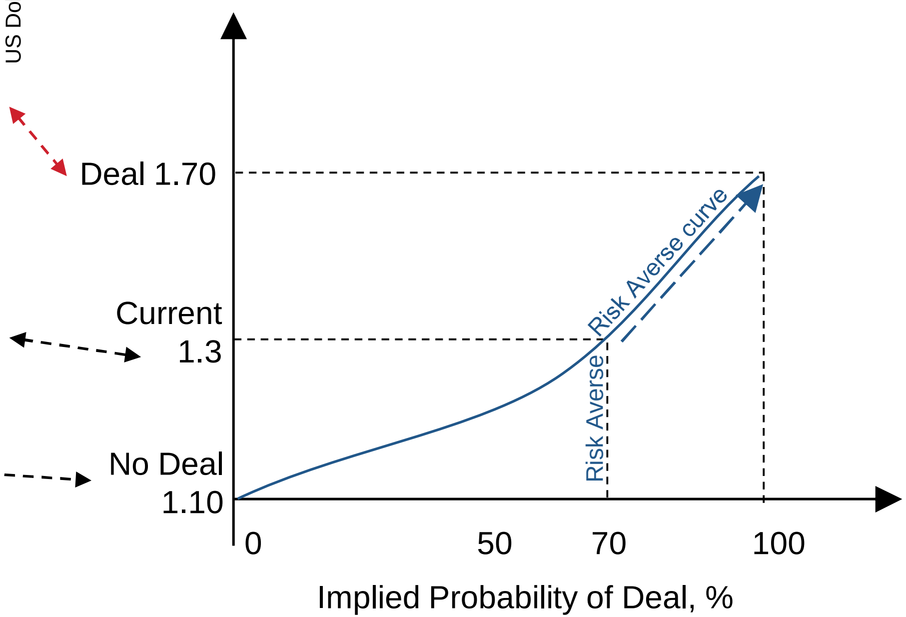
UK/London resi-prices: far from excessive in ANY currency





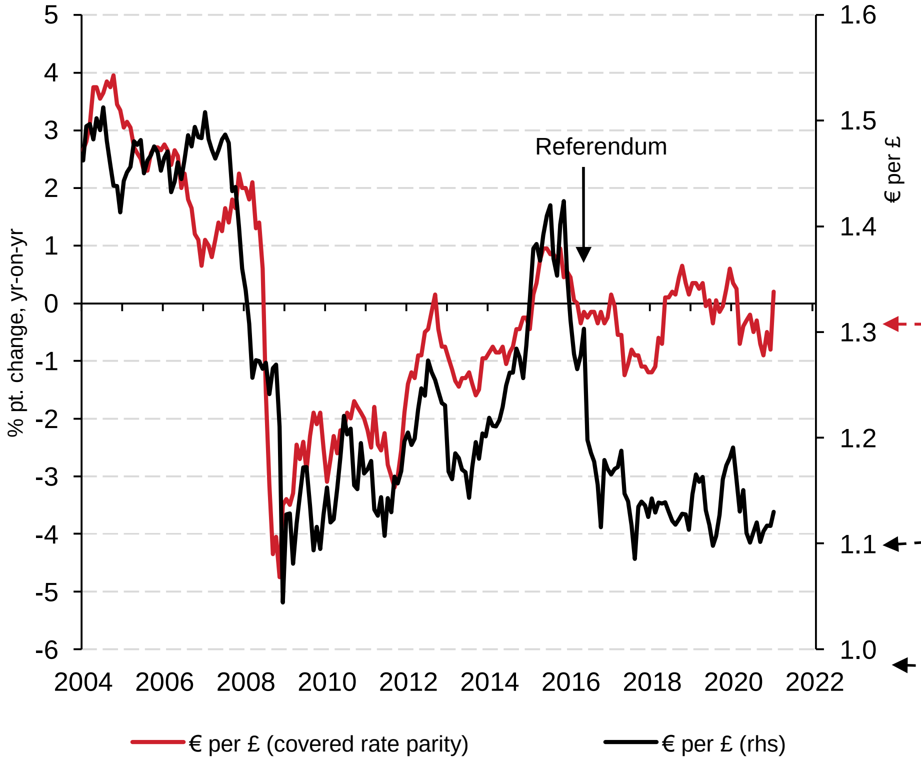
Where £ should Real-ly be if you are interest-ed ($ per £)

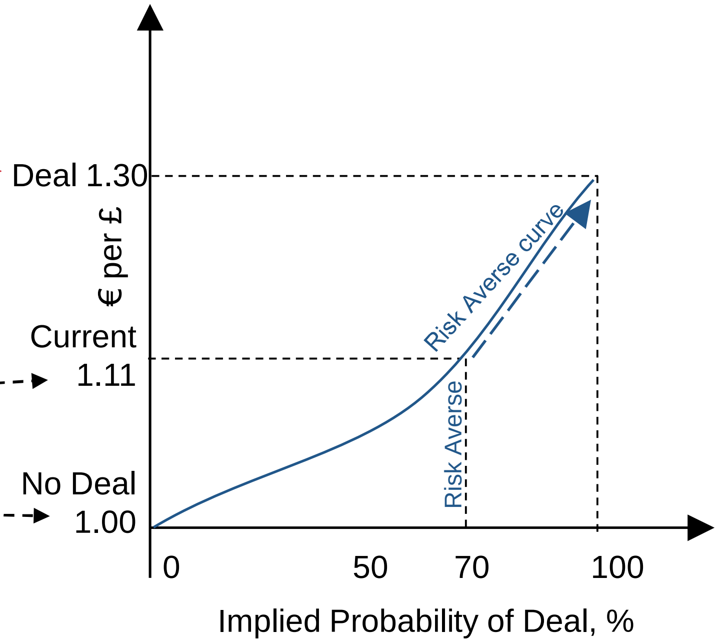




Source: Bloomberg, Respective Country Statistical sites & Central Banks (Dec data), Toscafund

Where £ should Real-ly be if you are interest-ed (€ per £)





Source: Bloomberg, Respective Country Statistical sites & Central Banks (Dec data), Toscafund

Where things will stand in 2022 *(Published June 2020)*

Table 1: Forecasting where things will stand in 2022

	Prognosis
United States	Engulfed by stagflation. Corporates with overseas earnings, exporters and 'inflation-winners' benefit at the expense of those far more domestically geared. Treasury & wider fixed income markets distressed. A tough job indeed awaits the FOMC
Euro-zone	Stronger € not merely against the $ and ¥ but neighbouring currencies, albeit weaker relative to the £. Corrections to unfold in the wake of a Brexit deal. Eurozone consumed by deflation, and prime-age evacuation to amongst other nations; the UK, Australia, New Zealand and Canada. A tough job indeed awaits the ECB
EU excluding EZ	At least one devaluation plus electoral shifts towards nationalists, Russia enjoying what it sees
China	Robust internal growth, upwardly revalued currency and ever more expansive middle-class. Covid shock long forgotten
Hong Kong	Monetarily decoupled from the United States and "fully consumed" by China
South Korea	Thawing relations with North Korea moving quickly to *détente*. Talk that the Koreas to imitate the two Germanys
UK	Domestic recovery driven by continued economic engagement with China and continued net inward migration. A Brexit-Deal was achieved with a new visa system in operation (see charts 9 and 10) Sterling has corrected higher, with interest rates little changed from 2020. Devolution has become a major domestic political-economic theme
Japan	Continuing in its moribund state. Not fully engaged with China and nervous and suspicious of détente between 'The Koreas'
Australia/Canada	Impressive economic growth underpinned by good demographics and engagement with China
South America	Ever closer engagement with China and greater distance from the US, and ever greater frustration that Brazil's potential isn't realised
Africa	Ever closer engagement with China
Rest of Asia	Ever closer engagement with China and disengagement from the US
Turkey	Its 2020 devaluation followed by another in 2021. Greater engagement eastwards
Russia	Ever more engaged with China and keen to divide and separate certain EU nations from others
Commodities	The days of hard-wired dollar pricing have ended

Source: Toscafund

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