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# Destined for a downturn? I say the economy can weather this storm.

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## Weekly Market Compass | September 7, 2021

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My husband revealed to our children something surprising the other day: When he was in high school, his Latin teacher convinced him not to take the Latin Advanced Placement exam — the teacher assumed that my husband would bring down the average score for the entire class. So many questions swirled through my head. First and foremost: How could a teacher write off a student like that? (How bad a student was he? And how have I been married 25 years and only heard this story now?)

My husband may have missed out on the Latin A.P. exam, but he went on to graduate from high school, college and grad school and is a contributing member of society. However, the fact of the matter is that the teacher had apparently written off my husband as a Latin student before he had the opportunity to prove himself on the exam. This story reminds me of what is going on right now — the media and investors are assuming the global economy is in a significant downturn. However, from my perspective it feels as though the economy has greater potential than some might believe.

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### US jobs report contained a silver lining

Yes, August's US jobs report was a big miss. But completely overlooked in the report was the upward revision to July nonfarm payrolls to well over 1 million.<sup>1</sup> In addition, US initial jobless claims last week came in at a post-pandemic low of 340,000 — suggesting a better jobs environment currently.<sup>2</sup>

As I have said before, I don't expect the jobs situation to begin to normalize until at least September's report, when all remaining enhanced unemployment benefits roll off and children across the US are back in school. I believe that will encourage more people to seek jobs.

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### Stringency measures vary worldwide

Now I can't stick my head in the sand and say that the spread of COVID-19 isn't having an economic impact — I just don't think it's as substantial as the media is making it out to be. Yes, the US is facing some headwinds, but they seem slight. Americans are still out and about; there doesn't seem to be much self-quarantining going on. For example, mobility in the US (as of Aug. 26) has only ticked down slightly.<sup>3</sup>

The situation is similar in the UK and eurozone. For example, the Eurozone Services Purchasing Managers Index (PMI) for August was down modestly from July, but mobility (as of Aug. 26) remains good. Joe Hayes, an economist for IHS Markit, explained, "The benefit of looser lockdown restrictions has fueled two of the best expansions since mid-2006 in July and August ..." although he cautioned that growth momentum has moderated modestly.<sup>4</sup>

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Now, some economies in Asia have seen a bigger impact from COVID recently, but I think it's due to the greater stringency they have implemented. Recent PMIs for China show contraction in the services sector. That is also true for Japan, where services PMI has moved into contraction territory.

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### Learning from experience

In short, different regions are tackling the virus differently, and it is certainly having a bigger negative impact on some rather than others right now. Stringency can be a necessity, especially when countries still need to make more progress with vaccinations. However, my key takeaway is that we shouldn't assume a serious downturn is in the offing. Experience is the best teacher, and economies have learned quite a bit having managed COVID-19 since early 2020 — and they have become far more resilient. So even though many are turning pessimistic on the global economy right now, I remain optimistic.

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### What to watch in September

Of course, that doesn't mean we shouldn't be vigilant. A few things I will be watching in September:

- **The Mu variant.** I will of course be following COVID data closely. In particular, I'm concerned about the Mu variant. By way of background, this variant first appeared in early 2021 and has spread in a few countries with low vaccination rates. It was recently revealed to have been found in 49 of 50 states in the US, but represents only 1% of cases in the US (the Delta variant represents 99% of cases).<sup>5</sup> The concern about Mu is that, according to the World Health Organization, "it has a constellation of mutations that indicate potential properties of immune escape."<sup>6</sup> More studies need to be conducted to confirm whether it is indeed resistant to existing vaccines — but if it is, that would be very concerning. Now I must stress that I am confident we will not see the kind of economic devastation we saw last year as a result of COVID-19 because, even with a variant resistant to vaccines, economies have learned how to function far better than they did in early 2020 when COVID-19 first hit, but it could certainly cause some volatility for stocks.
- **Vaccinations.** The progress of vaccinations remains critically important. We have to remember that it is when COVID-19 is able to spread unchecked that variants can proliferate. And so we want to ensure that countries are effectively vaccinating their populations, and that means following progress in emerging markets countries. I am also focused on the rollout of booster shots in countries that have already effectively vaccinated large portions of their populations. There is some compelling evidence to suggest vaccines may lose their efficacy relatively quickly, which is why Israel has mobilized so quickly to provide booster shots to its citizens. I continue to look to Israel as a model for other countries to follow. I hope the US will continue with plans to provide booster shots to its population this fall. However, this is a double-edged sword as it may slow efforts of emerging markets' countries to vaccinate their populations given limited vaccine supplies.
- **Mobility.** In a world of COVID, mobility data tends to give very helpful insight into economic activity. We will want to continue to follow this closely, as mobility could provide the first indications of decreased economic activity. Recall that many countries will try to avoid increasing stringency requirements even as COVID spreads,

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which means individuals will decide whether they continue to dine out and shop, or choose to stay home. Think of mobility data as a real “canary in the coal mine” during this pandemic.

- **The Federal Reserve.** The disappointing August jobs report gives the Fed more flexibility to delay the announcement and implementation of tapering, but it remains to be seen whether the Fed will actually choose to delay it beyond the September meeting. My assumption is that they will delay it briefly, but we will want to closely follow the “Fedspeak” in coming days.

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#### Notes

<sup>1</sup>Bureau of Labor Statistics, Sept. 3, 2021

<sup>2</sup>US Department of Labor, for week ending Aug. 28, 2021

<sup>3</sup>Google

<sup>4</sup>IHS Markit, Sept. 3, 2021

<sup>5</sup>The Independent, “Mu variant found in every US state bar Nebraska, with Florida and California suffering highest numbers,” Sept. 7, 2021

<sup>6</sup>World Health Organization, “COVID-19 Weekly Epidemiological Update,” Aug. 31, 2021

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#### Important information

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

All investing involves risk, including the risk of loss.

Tapering is the gradual winding down of central bank activities that aimed to reverse poor economic conditions.

The Eurozone Services PMI (Purchasing Managers' Index) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 2,000 private service sector firms. National data are included for Germany, France, Italy, Spain and the Republic of Ireland. These countries together account for an estimated 78% of eurozone private sector services output.

The opinions referenced above are those of the author as of Sept. 7, 2021. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.