Vanguard’s outlook for 2020 GDP in markets we serve is largely unchanged from last month. However, recent readings of high-frequency data, including in the vulnerable face-to-face sectors, in Asia and Australia suggest the next change to our outlook in those regions could be to the upside. Our current growth outlooks assume that restrictions on economic activity are largely eased by the end of June and that any second waves of infection don’t require national lockdowns.

The National Bureau of Economic Research confirmed on June 8 that the United States economy entered into recession in February 2020. As ISG projected back in March, the United States is likely experiencing the deepest economic contraction on record. But Vanguard economists expect the recession to be short-lived (in fact, the shortest ever), with recovery likely starting in the third quarter. And there are already signs—such as a stronger-than-expected May jobs report and a report Tuesday, June 16, showing that retail and food services sales rose 17.7% in May—that economic activity is picking up. Vanguard’s outlook for 2020 includes a U.S. economic contraction in a range of –7% to –9% and for second-quarter contraction as deep as –30% to –40%. But our economists foresee positive growth rates starting in the third quarter and growth potentially reaching double digits in the second half of the year. We’re also cognizant that significant risks to the economy remain. In a blog, A third line of defense for the U.S. economy, Vanguard global chief economist Joe Davis advocates for the use of an existing mechanism to provide impaired businesses with cash if such risks to the economy materialize.

Data released Monday by the National Bureau of Statistics of China suggest China’s return to growth may occur sooner than we had expected, as soon as the second quarter. ISG hasn’t changed the full-year outlook for growth in a range of 1% to 3%, however, as our China economists expect a greater external demand shock for China’s export industries in the second half of the year. Attempts to fulfill the Phase 1 trade deal through imports of U.S. goods represent a downside risk as reduced net exports would detract from second-half GDP. Industrial production rose by 4.4% compared with May 2019 and by 0.5% compared with April 2020, driven by a strong rebound in autos and high-tech segments. We expect those segments to cool in the coming months, though, as order backlogs are fulfilled and spending on remote work equipment starts to plateau. Infrastructure investment, up 11% year-on-year, remains a bright spot, suggesting stimulus measures aimed at encouraging local governments to use special bonds to fund infrastructure have been successful. Retail sales remained in negative territory, down –2.8%, but property and auto sales rebounded strongly. These are the sectors we believed consumers would return to most quickly given their easy adherence to social distancing protocols. But face-to-face service activity remains well-below pre-COVID-19 levels and could experience a further setback with news of a recent disease outbreak in Beijing.
• **Japan**’s economy contracted for a second straight month in the first quarter, and Vanguard believes it will contract again in the second, by around –8%. But ISG foresees a moderate rebound in the third and fourth quarters amid stronger-than-expected pandemic-related stimulus of around 11% of GDP. Additionally, Japan has fared better than many countries with the coronavirus outbreak, with fewer than 18,000 cases and a steady decline in daily case growth since early May. One risk to Japanese growth is muted demand for its exports, particularly those of durable goods. We foresee Japan’s full-year GDP contracting in a range around –3% to –5%.

• High-frequency data reveals a faster pace of pickup in economic activity than expected in **Australia**, including in face-to-face businesses such as restaurants, especially in Queensland and New South Wales. Limited incidence of disease transmission—new daily cases are in the mid-10s on average—may give consumers confidence, and pent-up demand may emerge sooner than we had expected. But an increase in demand may well prove to be temporary, and we don’t foresee demand returning fully in the more vulnerable sectors before a vaccine is developed or herd immunity is achieved. Meanwhile, GDP contracted less than expected in the first quarter at –0.3% compared with the fourth quarter of 2019, with net exports rising on the back of increasing commodity prices and imports of capital and consumer goods falling. The first quarter captured only a small part of the COVID-19 lockdown restrictions, however, and we expect a much weaker GDP reading, around –6% to –8%, for the second quarter. We’ve maintained our outlook for economic contraction for 2020 in the range of –3% to –5%. Australia’s treasurer confirmed on June 3 that Australia’s economy would enter recession for the first time in 29 years.

• The **euro area** economy contracted by –3.8% in the first quarter, the most ever recorded. Vanguard expects that contraction to be easily surpassed in the second quarter, however, reaching about –20% before the economy begins to recover in the second half of the year. The spread of the virus has eased considerably in Italy, France, Spain, and Germany, and high-frequency data is revealing increased economic activity. Our outlook for a full-year economic contraction of –11% to –13% is unchanged. Vanguard was surprised, positively, by the proposed€750 billion Next Generation EU fiscal response to the pandemic. The program led by France and Germany, which offers grants and loans to regions and sectors hit hardest by the pandemic, is an important first step toward a fiscal union.

• The **United Kingdom** is lagging slightly behind the major economies in the euro area in containing COVID-19 and faces greater risk of a second wave of infections and potential reversal of easing of containment measures. (Non-essential shops in the United Kingdom were allowed to reopen on June 15 after 12 weeks of lockdown.) GDP fell by 20% in April, the Office for National Statistics reported on June 12 (in line with Vanguard’s expectations), and we continue to foresee a full-year contraction in the range of –8% to –10%.

• Similar to other countries, Vanguard expects the brunt of economic decline in **Canada** to occur in the second quarter. Fiscal support thus far appears adequate to avert a default cycle among highly leveraged Canadian households, but such an event remains a key risk. Vanguard foresees Canada’s economy contracting by around –18% in the second quarter compared with the first quarter (Canada’s GDP fell by –2.1% in the first quarter, Statistics Canada reported on May 29) and by –6% to –8% for all of 2020 on an annualized basis. But an upside may be within reach judging by a better-than-expected May jobs report.

• The International Monetary Fund (IMF) predicts that **emerging markets** will contract by –1.0% in 2020, with emerging Asia bucking the trend with positive growth of 1.0%. The IMF sees Latin America contracting by –5.2% and **Mexico** being hit harder, with a contraction of –6.2%, for 2020.
Vanguard expects central banks to keep monetary policy accommodative for the foreseeable future as economies face contraction and job losses and as inflation isn’t an immediate threat.

The U.S. Federal Reserve said on June 10 that it expected to keep benchmark interest rates near zero at least through 2022. The Fed acknowledged that, as more is learned about the depth of the recession and path of recovery, it may need to do more from a monetary policy standpoint and that Congress may need to do more from a fiscal policy standpoint to shepherd the U.S. economy through the pandemic. The Fed said on June 15 that it had updated the Secondary Market Corporate Credit Facility to enable its purchase of individual corporate bonds to support market liquidity and credit for large employers.

The European Central Bank increased the size of its Pandemic Emergency Purchase Program by €600 billion, to a total of €1.35 trillion, and extended the program to June 2021 at its June 4 policy meeting. The ECB’s governing council said the bank would conduct net asset purchases under the PEPP “until it judges that the coronavirus crisis phase is over.” The ECB maintained the interest rate on its deposit facility at –0.50% and said it would continue monthly asset purchases of €20 billion as long as needed to reinforce its accommodative stance.

The Bank of England maintained its bank rate at 0.1% at its May Monetary Policy Committee meeting and voted to increase its purchases of U.K. government and corporate bonds to £645 million. The BOE meets next on Thursday, June 18. We expect the BOE will provide further monetary stimulus in the coming months to ensure financial conditions remain highly accommodative. This is likely to be in the form of additional quantitative easing purchases and potentially a reduction in the rate applied to the Term Funding Scheme.

The Bank of Japan left its key short-term rate target at –0.1% at its meeting June 16, with Governor Haruhiko Kuroda saying rates would likely remain ultralow into 2023. The BOJ additionally said it would continue to purchase Japanese government bonds as needed to maintain ten-year yields around 0%.

We expect the People’s Bank of China to make additional cuts to the reserve requirement ratio, and we believe a cut in one-year deposit and lending rates are becoming increasing likely, considering recent low inflation prints. While fiscal stimulus measures have almost exclusively focused on investment and the corporate sector, targeted measures to boost lower-income households (who have been disproportionately affected by the economic shock) would fit into policymakers’ recent shift toward de-emphasizing GDP growth in favor of poverty and inequality reduction measures to maintain social stability.

The Reserve Bank of Australia maintained its cash rate and three-year government bond target at 0.25% on June 2. The bank said it had purchased government bonds only once since its last policy meeting given that government bond markets are operating effectively and the yield is around its 0.25% target.

The Bank of Canada maintained its target for the overnight rate at 0.25% at its policy meeting on June 3. The BOC said that short-term funding conditions had improved, allowing it to scale back term repurchase operations to weekly. It said its programs to purchase federal, provincial, and corporate debt were continuing at their present frequency and scope.
• December 31, 2020, will be the last day of the relationship between the United Kingdom and the European Union under EU membership terms. The UK government said as much on June 12 when it notified the European Union that it planned not to seek extension by a June 30 deadline of a transitionary period that maintains the parties’ relationship under such terms until year’s end.

• In the absence of a trade deal by year’s end, future trade will be conducted under broad World Trade Organization rules, a situation Vanguard views as akin to a no-deal Brexit that could increase trade-related costs and initially cause trading disruptions. The UK Cabinet Office indicated this month that it would introduce border controls on EU goods in stages until July 1, 2021, to give UK businesses already affected by the COVID-19 pandemic more time to prepare. The European Union responded that it wouldn’t reciprocate, and that it would enforce full customs and regulatory checks on U.K. goods beginning January 1, 2020.

• The sides have agreed to conduct negotiations weekly from June 29 through July as they try to conclude at least a narrow trade agreement by the end of September. Vanguard believes that, in practice, the end of October is likely the real deadline for concluding a deal, so clarity may remain elusive in the months ahead.

• Meanwhile, Her Majesty’s Treasury recently concluded a consultation on the proposed post-Brexit regulatory framework governing overseas retail and money market funds being sold into the United Kingdom. Vanguard broadly supports the Treasury’s approach, which would base the Overseas Funds Regime (OFR) on an outcomes basis rather than a more technical assessment of the more than 8,000 non-UK funds currently available to investors in the United Kingdom. Vanguard believes the OFR should ensure that UK investors continue to have access to diversified, low-cost investment products such as UCITS funds. We also argued that a key outcome of the OFR should be that it create the least possible disruption, costs, and complexity for UK investors. The consultation closed on May 11.

• Global trade may be a matter of the good, the bad, and the ugly. The good is characterized by early signs of a price rise in commodities, including oil, which settled in the United States on June 16 at $38.38. Just eight weeks earlier, the front-month futures contract had settled at negative—$37.63. Global demand for oil and copper isn’t falling as sharply as expected, and a bottom for global trade may be in sight in the July-August timetable. The bad is characterized by having to wait for confirmation of the good, as trade data is typically reported with two to three months’ lag. And the ugly is the presence of persistently strong structural headwinds in the form of amplified U.S.-China tensions, a situation Vanguard doesn’t foresee improving in a U.S. presidential election year and that is likely to accelerate the regionalization of supply chains.

• For now, Vanguard’s leading trade index implies that global trade will continue to contract into the third quarter. Asian trade data is showing signs of stabilization, commensurate with Asia’s primary position in the chronology of easing lockdown measures, while declines accelerate in Europe and North America.

• Vanguard expects that an eventual increase in supply of goods as economies reopen will be met with weak private demand due to lost income and fears of COVID-19 transmission. As such, Vanguard believes that disinflation—a slowing in the rate of inflation—is likely to prevail in the medium term. [Vanguard U.S. senior economist Andrew Patterson tackles the topic in a recent blog.]

• The consumer price index in the United States fell 0.1% in May, the third straight monthly decline. The Federal Reserve, in the summary of economic projections it released June 10, suggested it didn’t see core U.S. inflation above its 2% target before the end of 2022.

• The consumer price index in Canada fell 0.2% in April. Vanguard expects that, amid the COVID-19 pandemic, both headline and core CPI will face significant downward pressure. We foresee headline inflation between 0% and 1% for all of 2020.
The United States created rather than shed jobs in May, surprising market watchers. The unemployment rate fell to 13.3% from 14.7% in April, reflecting a nation getting back to work amid the COVID-19 pandemic. In our baseline scenario, Vanguard would expect to see the unemployment rate fall to around 10% by year’s end.

Canada similarly surprised the market by creating rather than shedding jobs in May. The unemployment rate rose to 13.7%, the highest since comparable data first became available in 1976, despite the increase of 290,000 jobs. Growth in unemployment was driven by an increase in job seekers, with the labor force participation rate climbing by 1.6 percentage points to 61.4%. Many of the job gains were realized in Quebec, which started to reopen its economy earlier than other provinces. Vanguard would expect job gains to increase from here, though recovery will likely be uneven and we’d expect considerable data revisions.

Unemployment rose to 7.3% in the euro area in April, a figure that Vanguard expects will rise over 13% as furloughs end in the months ahead. The unemployment rate in the United Kingdom remained unchanged in the three months to April at 3.9%, under the official International Labor Organization measure, supported by the government’s furlough scheme and a sharp reduction in the participation rate. However, the more timely claimant count measure suggests the unemployment rate was around 7.8% in May. Vanguard anticipates the unemployment rate will rise to around 10% as furlough schemes end.

The unemployment rate in Japan, where the job market was tight before the pandemic, rose to 2.6% in April. Vanguard doesn’t anticipate a significant change in the months ahead except potentially stemming from decreased demand in export-oriented industries.

The unemployment rate reached 6.2% in Australia in April, up from 5.2% in March. This was roughly in line with ISG forecasts but lower than market expectations, with the rise cushioned by the sharp fall in the labor force participation rate and the government’s JobKeeper wage scheme. Weekly payroll data released by the Australian Bureau of Statistics seem to suggest a trough in job losses at the end of May, with employment down –7.5% from mid-March but up 1.6% from mid- April. The monthly increase was driven by a partial rebound in sectors that experienced sharp falls in April, including accommodation and food services (+5.0%) and retail trade (+3.1%). That said, we expect that the forthcoming labor force report, on June 18, will likely still show a loss in jobs because the official survey takes place over the first two weeks of the month and may not fully reflect the recovery suggested in the weekly data. We additionally expect that some of the workers who had left the labor force in April will re-enter it in May and be actively seeking work. The combination of modest further job losses and people returning to the workforce should push the unemployment rate higher in May.

In Japan, where annual inflation has exceeded 2% only once in 28 years, the consumer price index fell 0.2% in April from the month before. The Bank of Japan said on June 16 that it expected the year-on-year change in CPI to be negative for the time being, turning positive and increasing gradually as the economy improves.

Headline CPI inflation in the euro area fell to 0.1% in May compared with April’s 0.3% print, driven by a 12% decline in energy prices. Market-based measures of longer-term inflation expectations are hovering around 1%, which Vanguard believes has the potential to raise credibility risks for the European Central Bank. Headline CPI inflation in the United Kingdom fell to 0.5% in May from 0.8% in April, also driven by falling energy prices.

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Asset class return outlooks

- Vanguard’s 10-year annualized outlook for asset class returns is unchanged from what we presented in the May 2020 economic and market update. The probabilistic return assumptions depend on market conditions at the time of the running of the Vanguard Capital Markets Model® (VCMM) and, as such, can change with each running over time.

- ISG updates these numbers quarterly. The projections below are based on the March 31, 2020, running of the VCMM. Projections based on the June 30, 2020, running of the VCMM will be communicated through the August 2020 economic and market update.

- Kevin DiCiurcio, who oversees the VCMM within ISG, discussed the model and Vanguard’s outlook in a freshness article, Beyond the pandemic: What to expect from stocks, bonds, last month. (The link is to the U.S. version of the article; Canada, Mexico, U.K., euro area, Japan, China, and Australia versions were also prepared for respective Vanguard websites.)

- It’s important to note that the outlooks are based on a point-in-time measure. Extreme volatility can affect the outlooks as valuations change. Changes to our 10-year outlooks typically are gradual, however.

- Our 10-year annualized nominal return projections are as follows. Please note that the figures are based on a 1-point range around the 50th percentile of the distribution of return outcomes for equities and a 0.5-point range around the 50th percentile for fixed income. Numbers in parentheses reflect median volatility.

### U.S. dollar investors

- **U.S. equities**: 5.5%-7.5% - (17.2% median volatility) Global equities ex-U.S. (unhedged): 8.5%-10.5% (18.4%) U.S.
- **U.S. growth**: 4.0%-6.0% (22.9%)
- **U.S. large-cap**: 5.4%-7.4% (17.9%)
- **U.S. small-cap**: 6.2% - 8.2% (23.0%)
- **U.S. REITs**: 4.1%-6.1% (19.7%)
- **U.S. aggregate bonds**: 0.9%-1.9% (4.3% median volatility)
- **U.S. Treasury bonds**: 0.4%-1.4% (4.3%)
- **Global bonds ex-U.S. (hedged)**: 0.7%-1.7% (2.2%)
- **U.S. credit**: 1.8%-2.8% (6.1%)
- **U.S. high-yield corporate**: 4.8%-5.8% (11.4%)
- **U.S. TIPS**: 0.2%-1.2% (6.7%)
- **U.S. cash**: 0.6%-1.6% (1.0%)
- **U.S. inflation**: 0.5%-1.5% (2.4%)

### British pound investors

- **U.K. equities**: 6.0%-8.0% (19.2% median volatility) Global equities ex-U.K. (unhedged): 6.6%-8.6% (19.3%)
- **U.K. aggregate bonds**: 0.6%-1.6% (6.3%)
- **Global bonds ex-U.K. (hedged)**: 0.6%-1.6% (3.1%)

### Euro investors

- **Euro area equities**: 6.5%-8.5% (26.0% median volatility)
- **Global equities ex-euro area (unhedged)**: 5.2%-7.2% (19.4%)
- **Euro area aggregate bonds**: 0.0%-1.0% (1.8%)
- **Global bonds ex-euro area**: 0.0%-1.0% (3.9%)
Japanese yen investors
Japanese equities: 4.6%-6.6% (24.2% median volatility)
Global equities ex-Japan (unhedged): 5.9%-7.9% (21.5%)
Japanese aggregate bonds: Negative 0.4%-0.6% (4.0%)
Global bonds ex-Japan (hedged): 0.0%-1.0% (2.9%)

Chinese yuan investors
Chinese equities: 7.6%-9.6% (27.9% median volatility)
Global ex-China equities (unhedged): 6.8%-8.8% (16.3%)
Chinese aggregate bonds: 2.8%-3.8% (4.0%)

Australian dollar investors
Australian equities: 6.6%-8.6% (20.7% median volatility)
Global ex-Australia equities (unhedged): 6.8%-8.8% (19.6%)
Australian aggregate bonds: 0.5%-1.5% (4.2%)
Global bonds ex-Australia (hedged): 1.0%-2.0% (3.2%)

Canadian dollar investors
Canadian equities: 6.2%-8.2% (17.7% median volatility)
Global ex-Canada equities (unhedged): 6.8%-8.8% (19.0%)
Canadian aggregate bonds: 0.9%-1.9% (3.9%)
Global bonds ex-Canada (hedged): 0.7%-1.7% (3.0%)

Mexican peso investors
Mexican equities: 8.9%-10.9% (32.0% median volatility)
U.S. equities (unhedged): 9.6%-11.6% (22.5%)
Global ex-U.S. developed market equities (unhedged): 12.3%-14.3% (23.1%)
Mexican sovereign bonds: 5.9%-6.9% (11.1%)
Global bonds (hedged): 7.2%-8.2% (6.0%)

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