

INSIGHT INVESTMENT: THE ERA OF BIG GOVERNMENT IS UPON US

SYDNEY – September 21, 2020: A new era of big government has begun and is likely to remain underway for decades to come, according to analysis from the global macro research team at Insight Investment, a global investment manager with more than A\$1.3trillion under management¹

The team has adopted a term, 'Neofiscalism', to define the era which has begun to emerge, under which governments take a more direct and proactive role in economic policy and management through fiscal policy. This is in stark contrast to the current regime under which central banks have been largely able to make monetary policy decisions without political interference, it argues.

Gareth Colesmith, Head of Global Rates and Macro Research at Insight, said: "The neoliberal paradigm of smaller government involvement in the economy is under threat. Longer term trends were already moving in this direction, but emergency policies implemented to deal with the COVID-19 crisis have created a potential tipping point."

Five implications for markets, according to Insight's global macro research team:

1. Bond markets may become Japanese-like for a long period. Relatively low volatility by historical standards could lead to a grab for yield that compresses spreads and flattens yield curves.
2. Inflation could trigger spikes in bond yields if it causes quantitative easing to be tapered. Such opportunities are likely to be attractive entry points, as long as the longer-term expectation is for inflation to return to target following the funding squeeze in the real economy.
3. For sovereigns without full control over the currency they issue in, government effectiveness could be key. Effective governments that are able to raise productivity and trend growth could more swiftly reduce debt/GDP ratios.
4. Identifying governments able to maximize trend growth is likely to become important for equity markets as this will become a key driver of earnings.
5. Corporates with state support could have an advantage during funding droughts.

Bruce Murphy, director of Insight Australia and New Zealand, said: "The COVID-19 crisis has pushed fiscal and monetary policy to extraordinary levels. While Australia's debt to GDP levels have historically been far lower than many developed economies, we expect the prolonged lockdown in Victoria will see fiscal deficits materially widen on par with the UK, and our debt to GDP ratio to increase significantly. We

believe higher deficits are here to stay and governments will be forced to maintain fiscal deficits at these levels for a prolonged period of time.”

	Fiscal balance (% GDP)			Debt to GDP (%)		
	2019	2020 (f)	2021 (f)	2019	2020 (f)	2021 (f)
Australia	0.2	-12.5	-5.0	42	67	75
China	-5.5	-12.0	-9.0	54	65	73
US	-4.6	-20.0	-12.5	107	132	136
UK	-2.8	-12.5	-5.0	80	98	98

Source: Insight data as at 30 June 2020. The forecasts [f] are a result of our on-desk research, using both 3rd party research and proprietary spreadsheets.

For more detail on this viewpoint, please read [“Neofiscalism: Implications of Big Government in a Post-COVID World”](#).

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About Insight Investment

Insight Investment is a leading asset manager focused on designing investment solutions to meet its clients' needs. Founded in 2002, Insight's collaborative approach has delivered both investment performance and growth in assets under management. Insight managed more than A\$1.3trn of assets as of June 30, 2020 across its core liability-driven investment, risk management, liquidity management, fixed income and credit capabilities.¹ Insight Investment is owned by BNY Mellon, a global leader in investment management and investment services with \$1.9 trillion in assets under management.

Insight takes responsible investment seriously. In our view, it is as an essential part of managing risk and deciding whether an investment is fair value. We were a founding signatory to the UN-supported Principles for Responsible Investment (PRI) in 2006 and have been systematically integrating environmental, social and governance (ESG) issues in our research process for more than a decade. Where we identify material ESG risks, we engage to better understand the issues. In 2020, Insight was awarded A+ ratings by the PRI for strategy and governance, and for the integration of responsible investment-related issues across our fixed income business. We believe this reflects our ongoing commitment to integrating responsible investment practices across all aspects of our business.²

More information about Insight Investment can be found at: www.insightinvestment.com

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² The PRI, launched in 2006, is an independent organization that works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. More details are available at www.unpri.org/. [Click here](#) for further details

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