RAMBLER
INVESTMENT FUND

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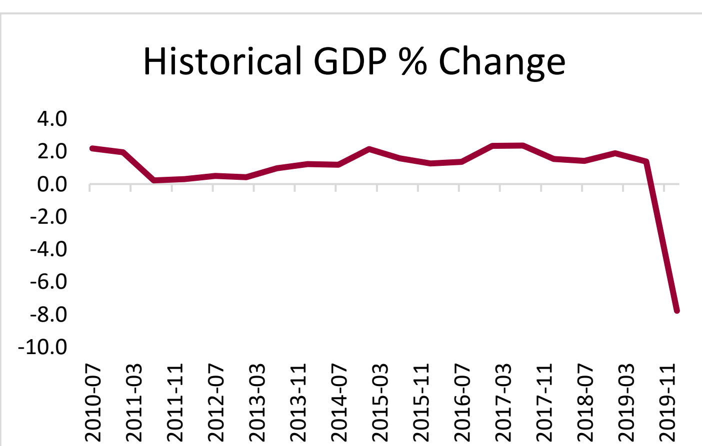
EU Macroeconomic Overview

Economic Profile

Country	European Union
Currency	Euro
Population	446 Million
Economy	Developed
GDP	3395 Billion
GDP PPP	46.79 thousand
Largest Trading Partner	USA

Market Outlook

Point in Economic Cycle	Trough
Outlook	Bullish



GDP Growth of the European Union, Percent Change from Year to Year ago, Previous 5 Years (Source: St. Louis FRED)

Macroeconomic Thesis

After careful analysis of many leading, lagging, and coincidental indictors of economic wellbeing, I believe that the European Union is currently in the trough of the business cycle. My outlook for the market is that it has the potential to be bullish in the future depending on various geopolitical factors, most notably the impact of Brexit and COVID-19 vaccination distribution.

I chose to focus on the European Union because of its pivotal role in maintaining the stability, prosperity, and security of many of the countries in Europe. During this time of uncertainty, I thought it would be interesting to analyze a global leader other than the US to see how they have been impacted by COVID-19 and what their recovery process has looked like thus far. I was intrigued by the amicableness of the EU leaders while developing their initial coronavirus response plan, and wanted to research in detail how that plan affected their economy as a whole.

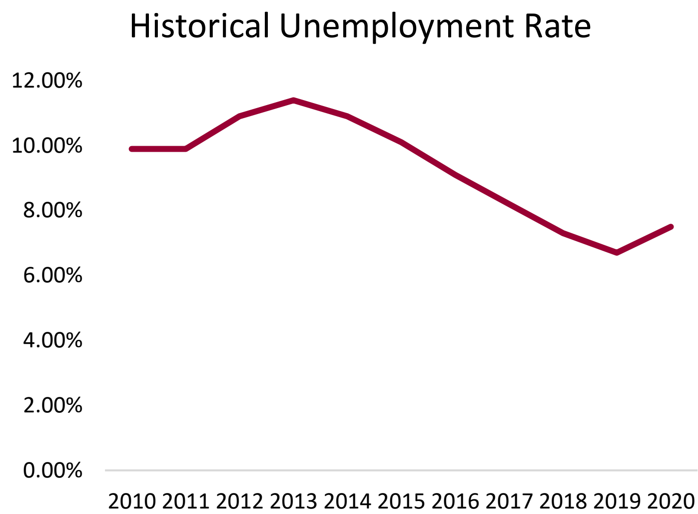
After examining various economic criterion such as unemployment rate, consumer price index, German manufacturing PMI, the EURO STOXX 50, the Euro, and consumer spending, it is reasonable to say that the European Union is approaching recovery mode and to be cautiously optimistic about future growth. Unemployment has not bounced back yet, which can be attributed to the delay in reopening the economy because of their slow vaccine rollout. Inflation is difficult to measure at this point but it is expected to be back in positive ranges in 2021. Their stock market index continues to consistently gain points and the Euro is strengthening. Consumer spending is expected to rise contingent upon the success of their vaccine distribution.

In addition to their vaccination distribution bearing significant weight on their economic wellbeing, the impact and fallout of Brexit will be something to watch. New approaches to trade, services, travel, fishing, data, and security is opening a new chapter for international diplomacy and could potentially set an example for other countries in the EU to follow in the future.

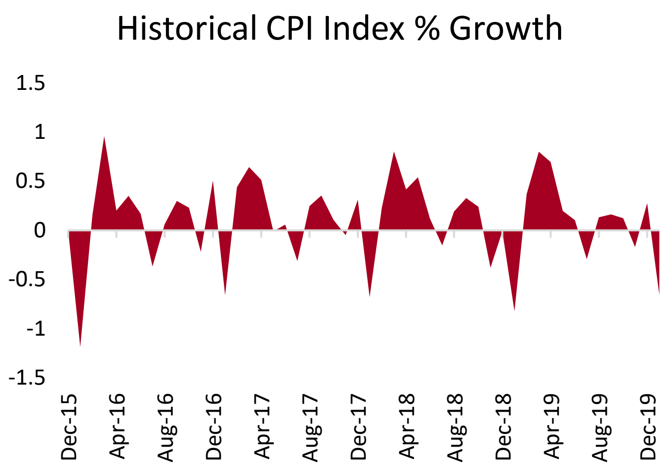
Economic Indicators

Unemployment

Unemployment is a key indicator of whether a region's economy is strong or weak at a given moment, and also has a direct impact on the purchasing power of consumers. Historically, the unemployment rate in the EU has been consistently lower than the Euro Area. The EU's unemployment rate was 7.5% in November of 2020 which was a decrease from 7.6% in October 2020, but still an increase from 6.6% in November of 2019. 1.6 million people were unemployed in December of 2020. Outliers to the current unemployment rate include Greece and Spain on the high end and Poland and Czech Republic on the low end. Despite COVID-19, unemployment rates remained lower than the 10-year historical highs seen in 2012-2014.



Harmonized 10 Year Unemp. Rate: Total All Persons for EU, Annual Percent (Source: St. Louis FRED)



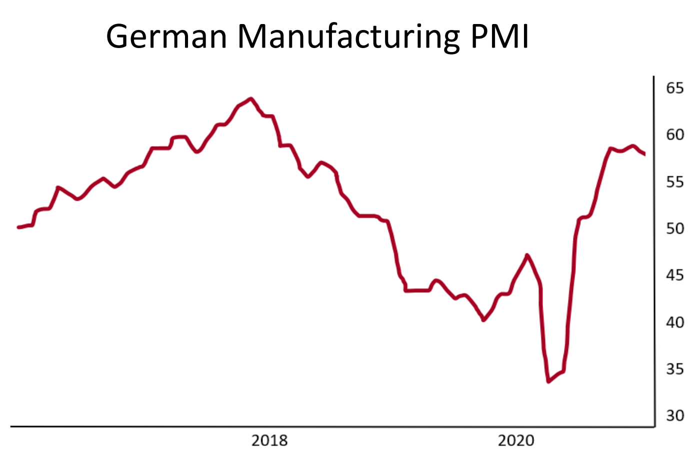
Consumer Price Index: All Items for EU % Change. Index 2015 = 100 (Source: St. Louis FRED)

Consumer Price Index

The Consumer Price Index serves as a benchmark for inflation. It uses a basket of goods and compares the price of those goods and the basket as a whole from year to year. CPI growth is discouraged because a higher CPI means interest rates have increased. Inflation is controlled by the EU Central Bank and National Central Banks of the EU Member States. EU CPI increased to 105.97 points in Dec 2020 from 105.69 in November 2020. Inflation in 2021 is expected to head back in positive ranges as a result of price increases in Germany and the Netherlands, but COVID-19 makes inflation difficult to precisely measure at this point.

German PMI

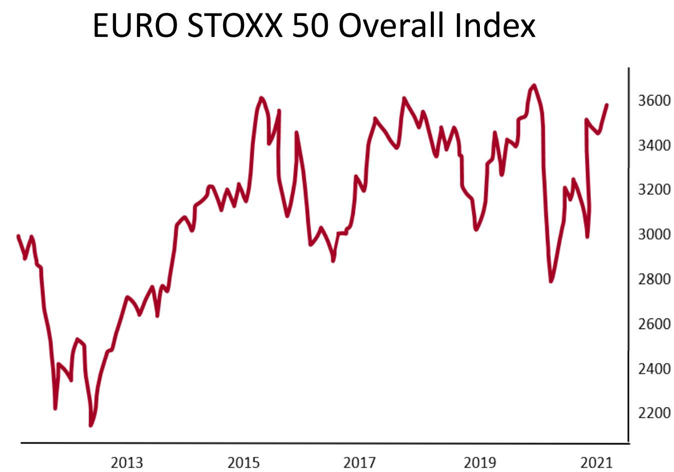
Purchasing manager's index shows the direction of economic trends in the manufacturing and services sectors. It summarizes whether market conditions are expanding, contracting, or staying the same in the eyes of purchasing managers. Post Brexit, Germany is one of the biggest economies in the EU so their PMI is very indicative of the health of Germany and gives insight to how the EU is doing as a whole. PMI decreased from 58.3 in December 2020 to 57.1 in January 2021. Supply chain bottlenecks during COVID-19 lead to spikes in input cost inflation and lower inventories. Firms are optimistic that demand will recover as vaccines continue to be distributed, but at this time it is difficult to estimate how long that recovery will take.



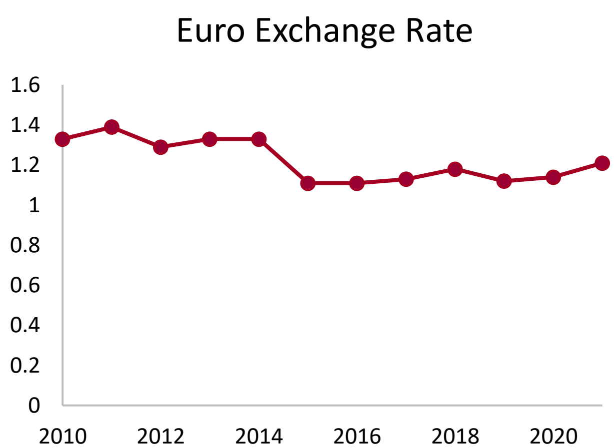
Historical German Manufacturing PMI 2015-2020, (Source: www.tradingeconomics.com)

EURO STOXX 50 Performance

Fluctuations of the stock markets in the individual EU countries overtime is another key indicator of the wellbeing of the economy because it shows how well the corporations are performing collectively. The EURO STOXX 50 is a stock index of Eurozone stocks designed by STOXX, an index provider owned by Deutsche Börse Group. It is currently trading at 3547.37 and is on track to reach pre-pandemic levels by the end of 2021. Euronext 100 undertook a 286 point drop between December 2019 and March 2020, and has had a positive growth rate ever since with the exception of June-July 2020.



Graph of "EURO STOXX 50 Overall Index" for the past 10 years (Source: www.tradingeconomics.com)



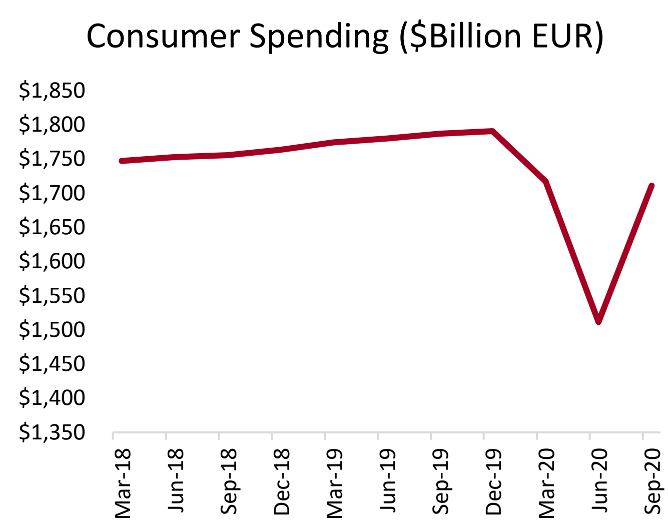
Real Broad Effective Exchange Rate for Euro Area, Index 2010 = 100, Not Seasonally Adjusted (Source: St. Louis FRED)

Euro Exchange Rate

The exchange rate of the Euro indicates how well the currency of the EU compares to those of their trading partners. It is a key factor in the determination of how well EU companies that operate on an international scale will do outside of the region. One Euro is currently equal to 1.21 US dollars. The EU recently announced that they will be preventing any strengthening of the Euro that could possibly undermine inflation. This includes cutting interest rates as well as intentions to examine whether the Euro strength since the start of the pandemic can be attributed to stimulus policies.

Consumer Spending

If consumers are spending more, the economy is growing. If they are spending less, it is indicative of a more volatile economic environment. This is why consumer spending habits are another great indicator of the health of the economy, and it correlates well with GDP. In the EU, consumer spending took a 15.6% nosedive between January and July of 2020 due to COVID-19, and has been increasing ever since. It is expected to trend around 1796 EUR billion in 2021, which is slightly higher than it was prior to the onset of the pandemic. This estimate depends heavily on the EU's ability to distribute the vaccines and the overall success of the vaccination.



European Union Consumer Spending Since 2017 (Source: www.tradingeconomics.com)

Geopolitical Factors

Brexit

Brexit is a major geopolitical factor for the EU because it is basically an act that goes against globalization. Although very unlikely, it could inspire other powerful countries in the EU to exit as well which would set the EU on the path to irrelevancy. The United Kingdom officially exited the European Union on January 31st, 2020, however both sides agreed to keep a lot of things the same as it was prior to the split until 2020 came to a close. Now that 2021 has begun, the European Union's relationship with the UK will see changes when it comes to trade, services and qualifications, travel, data, and security. When it comes to trade, there will not be any taxes on goods or caps on the amount of things that can be traded between the EU and the UK. Tariffs and quotas were something that many people feared about Brexit because it would make goods more expensive, so this comes as a relief. However, there will be new procedures and required paperwork at different ports so businesses will need to come prepared to handle those changes, otherwise there could be significant delays and backlogs. Businesses that offer services like banking, architecture, and accounting will no longer have an automatic right of access to the European Union markets. Occupational qualifications held by people like doctors, dentists, chefs, and architects will no longer be recognized by the European Union, and professionals coming from the UK will have to meet the requirements of the individual EU country that they are attempting to practice in. This sounds like more of a downside for residents of the UK than the EU because it will make it difficult for them to practice anywhere that is not the UK, but it also is slightly less than ideal for the EU because it limits the talent pool when selecting people to preform a desired service. From a travel perspective, citizens of either region no longer have the luxury of being able to live and work between the UK and the EU. Citizens of the United Kingdom will also need a visa if they are intending to stay in the EU for more than 90 days in a 180 day period. More discussion is to come about data and security, but right now the UK no longer has to comply with the EU standards of data protection. The impact of Brexit, positive or negative, will be pivotal to the continued success and popularity of the EU in the future.

COVID-19 Vaccine Rollout

In the short time since a vaccine for COVID-19 has been introduced, the European Union has already gained a poor reputation for its ability to distribute vaccinations to its citizens. Countries in the EU generally have older populations and a lot of high-risk people. According to the NY Times, in order to fully vaccinate all of the high risk people prior to the reopening of the economy, the EU would need 210 million doses of either vaccine. Currently they have administered merely 17 million doses, putting them far behind the United States and UK in terms of the percentage of the population that is vaccinated. This slow start can be attributed to The European Medicines Agency (EMA) taking considerably longer to approve Pfizer, Moderna, and AstraZeneca. Economic recovery is directly contingent upon vaccine distribution, so this delayed rollout could have detrimental effects on the EU's ability to reopen as fast and as safely as everyone else. Competition with Britain for vaccine doses has already caused additional strain on their newly charted relationship post-Brexit. Oxford Economics based out of London is predicting continued economic contraction for the first three months of 2021 due to this slow start with vaccinations.