

**4Q20 Highlights: Optimism entering 2021, but near-normal operations mostly expected second half or later**

- Just 18% of CFOs rate the North American economy as good, but 59% expect better conditions in a year; views on China improved and led.
- Own-company optimism was again strong, rising slightly to +46.
- YOY growth expectations continued to rebound from pandemic-driven lows across all industries, with several hitting multi-year highs.
- On average, CFOs say they expect to achieve 88% of their originally budgeted 2020 revenue; there are substantial industry differences.
- Eighty percent of CFOs say equities are overvalued, but nearly 60% expect the S&P 500 to be higher next year.
- Just 18% say they are already at/above their pre-crisis operating level or will be by the end of 2020; 64% say 3Q21 or later, and 26% say 1Q22 or later.
- About 75% of CFOs expect the US economy to improve in 2021; few expect faster growth over the next five years than pre-pandemic.
- CFOs mostly expect low interest rates and yields below 2% in 2021. They expect the renminbi to gain on the US dollar and for its use as a trading currency to rise substantially; expected use of digital currencies rose.
- CFOs overwhelmingly support a stimulus package, infrastructure investment, de-escalating US-China trade tensions, less protectionist trade, and the federal government leading a COVID-19 response.

How do you regard the status of the North American, European, and Chinese economies? Eighteen percent of CFOs rate the North American economy as good, and 26% rate it is bad (much better than last quarter's 60%); those expecting better conditions in a year rose from 43% to 59%. Europe was flat at 5% and 37%, and China improved markedly to 47% and 60%.

What is your perception of the capital markets? Eighty-seven percent of CFOs say debt financing is attractive (same as 3Q); equity financing attractiveness rose sharply to 44% (39% to 46% for public company CFOs, and 38% to 41% for private company CFOs). Eighty percent now say US equity markets are overvalued (down from 84%, but among the highest levels in survey history).

Compared to three months ago, how do you feel about your company's financial prospects? The proportion of CFOs saying they are more optimistic rose slightly from +43 to +46. Fifty-seven percent expressed rising optimism, and just 11% cited falling optimism.

What is your company's business focus for the next year? Following the first-ever shift toward cost reduction over revenue growth in 2Q20, companies continued to expand their revenue focus this quarter; the bias toward current geographies and organic growth continues.

How do you expect your key operating metrics to change over the next 12 months?* Consistent with strong growth out of pandemic-driven lows, expectations for most metrics (and for most industries) rose substantially—several to multi-year highs. Revenue growth rose from 1.0% to 7.7%, and earnings growth rose sharply from 3.7% to 13.8% (both are now at 9-year highs). Capital spending rose sharply from 0.2% to 8.0% (2-year high). Domestic hiring climbed from 0.2% to 1.7%, and dividend growth rose from 1.1% to 2.5%.

How do you expect your final 2020 revenue to compare to pre-pandemic expectations? Just over 40% of CFOs say they expect 95% or more of their budgeted revenue, with the average at 88%. Healthcare/Pharma, Technology, and Financial Services are the most optimistic; Retail/Wholesale is by far the least.

When do you expect your company to return to a near-normal operating level? Just 18% say they are already at/above their pre-crisis operating level or will be by the end of 2020 (down from May and August); 64% say 3Q21 or later, and 26% say 1Q22 or later (mostly Retail/Wholesale, Manufacturing, and Services).

What are your 2021 expectations for your company? There are industry differences, but there is a general trend toward M&A, broader offerings, a smaller real estate footprint, and diversified supply chains. Other expectations vary greatly by industry.

What are your 2021 expectations for the macroeconomy? About 75% of CFOs expect the US economy to improve, with outlooks for Canada and Mexico also positive. Few expect economies to grow faster over the next five years than pre-pandemic.

What are your 2021 expectations for the capital markets? CFOs mostly expect rates to stay low (but are fairly split) and expect bond yields below 2%. They expect the renminbi to gain on the US dollar and for its use as a trading currency to rise substantially; expectations for the euro and digital currencies rose as well.

What are your views on US government policy over the next four years? CFOs overwhelmingly support a second stimulus package, infrastructure investment, de-escalating US-China trade tensions, less protectionist trade, and the federal government leading a COVID-19 response. Industry differences are substantial.

What are your hopes for Washington over the next four years? CFOs' hopes center largely on bipartisanship and cooperating to get important things done; they also expressed hopes to unify the country with "moderation," "transparency," and "decency."

*Averages have been adjusted to eliminate the effects of stark outliers.

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