



The House View: Barrelling back to stagflation?

Snapshot

MACRO VIEWS

WORLD

- The short-term growth outlook has weakened amidst supply-chain issues and an energy shock that has boosted inflation. But there is still major fiscal support, whilst vaccines and other medicines will help against Covid.
- If inflation proves even higher than anticipated, that could lead to tighter monetary policy that knocks growth off course.

EUROPE

- We expect Euro Area GDP to expand by 5% in 2021. Growth momentum has peaked and supply shortages are creating headwinds. However, excess savings, the NGEU rollout and an improved labour market will support the underlying resilience of the recovery.

CHINA

- Downward pressures on growth will likely persist in the near term, and we see growth slowing from 7.9% in 2021 to 5.1% in 2022. We think activity will remain slow at the beginning of 2022 but will likely rebound by mid-year.

UNITED STATES

- US growth is set to slow as stimulus wears off. The economy has now surpassed its pre-covid peak and we see growth at +5.3% in 2021 (Q4/Q4).
- Price pressures will persist, with core CPI ending 2022 around 2.9%, but inflation is still expected to return to the Fed's target over time.
- We expect the Fed to commence a lift-off in rates in December 2022.

GERMANY

- We see growth of 2.5% in 2021 and 4.5% in 2022.
- Supply-chain issues will prevail throughout the winter half and only taper off very gradually during 2022.
- The SPD, Greens and liberals are currently in formal coalition negotiations. As things stand, Germany will very likely be governed by a new traffic-light coalition before the end of the year.

EMERGING MARKETS

- EM growth has been hampered by stop-go restrictions and the pace of vaccination.
- In Asia, external demand has moderated but is still reasonable, whilst central banks will mostly lag other regions in normalizing policy.
- In LatAm, the region is well on its way to normalizing monetary policy settings.
- In CEEMEA, the focus is on inflationary pressures, though with markedly divergent policy reactions between CEE, Russia and places like Turkey and South Africa.

KEY DOWNSIDE RISKS

- Ⓜ **Higher-than-expected inflation** – A persistent overshoot of inflation would elicit a faster tightening cycle from central banks that would hit global financial markets and a number of emerging market economies hard.
- Ⓜ **Issues with Covid mutations or the vaccination rollout** – Though vaccination programmes are progressing, a new mutation in the virus that renders vaccines ineffective would be a major setback for the global economy.



MARKET VIEWS

	MARKET SENTIMENT	<ul style="list-style-type: none"> Caution prevails on a number of key assets. We see yields moving higher into year-end and H1 2022, and remain cautious on the equity outlook as well. Tight credit valuations also leave spreads susceptible to potential volatility and widening.
	EQUITIES	<ul style="list-style-type: none"> We remain cautious on the outlook. After 5 blockbuster quarters, the Q3 earnings season saw beats move down toward the historical norm
	RATES	<ul style="list-style-type: none"> We expect UST 10Y to end 2021 at 1.80%, and bund yields to end the year at -0.10%.
	FX	<ul style="list-style-type: none"> We modestly upgraded our dollar forecasts for year-end: persistently stagflationary dynamics – lower growth but higher inflation expectations and a hawkish Fed bias – leave little room for a dollar downtrend.
	CREDIT	<ul style="list-style-type: none"> Valuations remain tight and therefore spreads are susceptible to potential volatility and widening. However, technicals remain supportive including a seasonal slowdown in supply into YE.
	OIL	<ul style="list-style-type: none"> Having been bullish on oil for the better part of this year, we expect the steady supply ramp-up primarily from OPEC/OPEC+ countries to turn deficits into surpluses in the near future.
	MONETARY POLICY	<ul style="list-style-type: none"> Fed: First hike expected in December 2022, followed by 3 hikes in each of 2023 and 2024. ECB: Keep rates on hold. BoJ: Keep rates on hold. BoE: MPC to begin liftoff in December 2021 with a 15bps hike, followed by 25bps hikes in May 2022 and February 2023. PBoC: Keep rates on hold.

KEY MACRO & MARKETS FORECASTS

GDP growth (%)	2021F		2022F		Central Bank policy rate (%)			Key market forecasts		
	2021F	2022F	Current	Q4-21	Q4-22	Current	Q4-21	Current	Q4-21	
Global	5.8	4.2	US: Federal Funds Rate	0.125	0.125	0.755	US 10Y yield (%)	1.47	1.80	
US	5.6	4.4	Eurozone: Deposit Facility Rate	-0.50	-0.50	-0.50	EUR 10Y yield (%)	-0.29	-0.10	
Eurozone	5.0	4.0	Japan: Policy Balance Rate	-0.10	-0.10	-0.10	EUR/USD	1.16	1.16	
Germany	2.5	4.5	UK: Bank Rate	0.10	0.25	0.50	USD/JPY	113	110	
Japan	2.1	2.7	China: MLF 1Y Interest Rate	2.95	2.95	2.95	Gold (USD/oz)	1826	1700	
UK	7.1	3.6					Oil WTI (USD/bbl)	84.2	71.0	
China	7.9	5.1					Oil Brent (USD/bbl)	85.1	74.0	

2021-22 MACRO EVENTS CALENDAR

December 2021			January 2022			February 2022		
15	US	Federal Reserve Decision	17-21		WEF Annual Meeting at Davos	03	EZ	ECB Decision
16	EZ	ECB Decision	18	JN	BoJ Decision	03	UK	BoE Decision
16	UK	BoE Decision	26	US	Federal Reserve Decision			
16-17	EU	European Council Meeting						
17	JN	BoJ Decision						

	RECENT EDITIONS	<ul style="list-style-type: none"> Barrelling back to stagflation? 10 November 2021 The New World: Moving Beyond Covid 8 September 2021 Reopening the Global Economy 6 July 2021 Vaccinating the global economy 24 May 2021
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