



The House View: Snapshot

The New World: Moving Beyond Covid

MACRO VIEWS

WORLD

- The short-term growth outlook remains strong thanks to (i) successful vaccine rollouts; (ii) major fiscal support; and (iii) huge accumulated savings and pent-up demand waiting to be released.
- The main risks to this forecast are twofold. Firstly, from a new Covid variant that is more resistant to vaccines. Or alternatively, if inflation were higher-than-expected and central banks had to tighten earlier than anticipated.

EUROPE

- We expect Euro Area GDP to expand by 5% in 2021. First, vaccinations allowed for faster-than-expected Q2 rebound but momentum is now easing. Next, pent-up demand and NGEU continue to support further improvement. But, delta variant and supply disruption bring risks.

CHINA

- We recently revised down China GDP growth forecast to 8.4% this year, noting that the Covid-19 impact, land and property market cooling down, and potential slowdown in exports could all contribute to slower activity.
- We expect the PBoC to cut 10bps rate in September, with rates on hold after.

UNITED STATES

- Real GDP now exceeds its pre-Covid peak, and the economy should expand by +6.3% in 2021 (Q4/Q4).
- We have downgraded our forecast, as Q2 disappointed, the delta variant is acting as a near-term drag on activity, and supply-chain issues continue to impact production.
- We expect that an official announcement on tapering will come in November, with tapering commencing in December.

GERMANY

- We have cut our German GDP forecast to 3.1% due to more lasting and severe supply problems. Record order book levels and solid demand should spur growth to 4.5% in 2022.
- Voters go to the polls on September 26. As it stands, the only safe projection is that there will be three-way coalition. We attach roughly the same probability to either a SPD-led traffic-light coalition or a CDU-led Jamaica coalition.

EMERGING MARKETS

- EM growth has defied concerning pandemic trends. Central banks have turned more hawkish, but many are still in the early stages of normalisation.
- In Asia, growth is supported by external demand, but central banks will mostly lag other regions in normalizing policy.
- In LatAm, most of the region has already started to normalize monetary policy settings.
- In CEEMEA, growth momentum is showing signs of slowing down, but inflation pressures will mean central banks keep tightening.

KEY DOWNSIDE RISKS

- M** **Issues with Covid mutations or the vaccination rollout** – Though vaccination programmes are progressing, a new mutation in the virus or issues with the rollout could set back the point at which herd immunity is reached.
- M** **Higher-than-expected inflation** – A persistent overshoot of inflation into the 3-4% range would elicit a strong response from the Fed that would hit global financial markets and a number of emerging market economies hard, very possibly moving the global economy into recession.



MARKET VIEWS

	MARKET SENTIMENT	<ul style="list-style-type: none"> Looking for a pullback among a number of key assets We see UST 10Y at 2.25% by year-end, and a 6-10% correction in the S&P 500 as the rate of growth peaks. We also have a strategically bearish view on oil, and look for the US Dollar to weaken against other major currencies next year.
	EQUITIES	<ul style="list-style-type: none"> Expecting a significant pullback (S&P 500 -6% to -10%) given indicators of macro growth are peaking, before equities rally once again
%	RATES	<ul style="list-style-type: none"> Many drivers behind the summer rally are turning, and yields will move higher in Q4 We expect UST 10Y to end the year around 2.25% and bund yields to end the year around 0%
	FX	<ul style="list-style-type: none"> EUR/USD to end the year at 1.20, before moving to 1.25 in 2022 Our forecasts are consistent with the Fed engineering a soft-landing for the economy, without excessive overheating that creates a boom-bust cycle.
	CREDIT	<ul style="list-style-type: none"> It is difficult to be too bearish given a strong economy and central banks leaning against tighter conditions. Nevertheless, the market may get increasingly nervous about tapering and given rich valuations, we maintain a widening bias. Seasonals tend to be stronger in the final quarter and the market will likely adjust better to the prevailing higher level of yields. So we expect a year-end rally back close to current levels.
	OIL	<ul style="list-style-type: none"> We hold a strategically bearish view, and see Brent remaining around USD 72/bbl in Q4
	MONETARY POLICY	<ul style="list-style-type: none"> Fed: Keep rates near zero until Q3 2023. ECB: Keep rates on hold for the foreseeable future. BoJ: Keep rates on hold. BoE: MPC to begin liftoff in August 2022 with a 15bps rate hike. PBoC: We expect a 10bps rate cut in September, with rates on hold after.

KEY MACRO & MARKETS FORECASTS

GDP growth (%)	2021F		2022F		Central Bank policy rate (%)			Key market forecasts		
	2021F	2022F	2021F	2022F	Current	Q4-21	Q2-22	Current	Q4-21	Q2-22
Global	6.0	4.5	US: Federal Funds Rate	0.125	0.125	0.125	US 10Y yield (%)	1.37	2.25	
US	6.0	4.7	Eurozone: Deposit Facility Rate	-0.50	-0.50	-0.50	EUR 10Y yield (%)	-0.32	0.00	
Eurozone	5.0	4.5	Japan: Policy Balance Rate	-0.10	-0.10	-0.10	EUR/USD	1.18	1.20	
Germany	3.1	4.3	UK: Bank Rate	0.10	0.10	0.25	USD/JPY	110	112	
Japan	2.3	2.7	China: MLF 1Y Interest Rate	2.95	2.85	2.85	Gold (USD/oz)	1794	1650	
UK	6.7	5.0					Oil WTI (USD/bbl)	68.3	69.0	
China	8.4	5.5					Oil Brent (USD/bbl)	71.7	72.0	

2021 MACRO EVENTS CALENDAR

September			October			November		
09	EZ	ECB Decision	11-17	IMF/World Bank Annual Meetings	01-12	UN Climate Change Conference		
20	CA	Canadian Federal Election	21-22	EU European Council Meeting	03	US Federal Reserve Decision		
22	US	Federal Reserve Decision	27	UK Budget and Spending Review	04	UK BoE Decision		
22	JN	BoJ Decision	28	EZ ECB Decision				
23	UK	BoE Decision	28	JN BoJ Decision				
26	GE	German Federal Election	30-31	G20 Summit takes place in Italy				

	RECENT EDITIONS	<ul style="list-style-type: none"> The New World: Moving Beyond Covid 8 September 2021 Reopening the Global Economy 6 July 2021 Vaccinating the global economy 24 May 2021 A new chapter for the global economy 24 March 2021
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