# The House View: Reopening the Global Economy

## 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. We expect the world economy to expand by more than 6% this year.
- 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.

### UNITED STATES
- Thanks to massive fiscal stimulus that’s projected to move GDP well above its pre-virus path, we expect annual growth of +7.0% in 2021, the strongest since 1984.
- Beyond this year, we see a significant moderation in growth as fiscal stimulus wears off.
- We anticipate an official announcement on tapering from the Fed at the December FOMC meeting.
- Inflation has risen sharply. Baseline view is it should moderate late this year and into 2022 as bottlenecks ease.

### EUROPE
- We expect Euro Area GDP to expand by 4.6% in 2021, thanks to (i) the vaccine rollout; (ii) pent-up demand; (iii) NGEU disbursements; and (iv) US export demand.
- We think the ECB will be cautious and exit its pandemic policies slowly. At the very least we expect them to implement transitional arrangements to a smooth exit from PEPP in 2022 and maintain an easy policy stance.

### GERMANY
- For Germany, we expect 2021 to grow 4.0%, with the catalysts for a strong expansion falling into place.
- The Greens have fallen back in the opinion polls since the spring, though are still in second place ahead of September’s federal election. The CDU/CSU have been the beneficiaries and have seen a rising lead over recent weeks.

### CHINA
- We expect the Chinese economy to grow by 9.4% this year, with output expected to gradually converge to its pre-covid path in the next few quarters.
- We expect the PBoC will hold its policy rates unchanged in 2021, with the first MLF rate hike likely in 2022.

### 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 likely to run below G3 growth from Q3 despite an impulse from abroad.
- In LatAm, growth is surprisingly positively, and central banks are responding to rising inflation.
- In CEEMEA, there is a multi-speed growth recovery underway as CBs respond to rising inflation.

### KEY DOWNSIDE RISKS
- 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.
- Higher-than-expected inflation – A persistent overshoot of inflation into the 3-4% range would elicit a strong response from the Fed. This 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
- More positive on European assets relative to the US.
- 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.

EQUITIES
- With signs that indicators of macro cyclical growth are peaking, we look for a significant consolidation/pullback in equity markets (S&P 500 -6% to -10%).

RATES
- We expect UST 10Y to end the year around 2.25% and bund yields to end the year around 0%.
- If inflation were to surprise enough to lead the market to completely price a shift back to the 1998-2014 inflation regime, UST10Y should be around 3%.

FX
- We have a neutral view on EUR/USD this year, forecasting 1.20 for Q3 and Q4.
- It’s not just the Fed prompting a shift, but also China pushback to CNY appreciation, a "steady hand" from the ECB, the lingering risks of the delta variant to European reopening, and the reduced odds of an upside German election surprise.

CREDIT
- It’s hard to be too bearish in 2021 given a strong economy and central banks leaning against tighter conditions. But the market could get nervous about tapering and given rich valuations, we maintain a widening bias.

OIL
- Brent crude is likely to break above 80/bbl this year, but retrace somewhat in 2022.
- Longer term on Covid, uneven vaccination and difficulty establishing international vaccine certificates may hinder long-haul air passenger traffic, while new variants may push herd immunity out of reach.

MONETARY POLICY
- ECB: Keep rates on hold for the foreseeable future.
- BoJ: Keep rates on hold.
- BoE: MPC to remain on the sidelines for the next two years.
- PBoC: Keep policy rates unchanged in 2021, with the first MLF rate hike likely in 2022

KEY MACRO & MARKETS FORECASTS

<table>
<thead>
<tr>
<th>GDP growth (%)</th>
<th>2021F</th>
<th>2022F</th>
<th>Central Bank policy rate (%)</th>
<th>Current</th>
<th>Q4-21</th>
<th>Q2-22</th>
<th>Key market forecasts</th>
<th>Current</th>
<th>Q3-21</th>
<th>Q4-21</th>
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<tbody>
<tr>
<td>Global</td>
<td>6.3</td>
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<td>US: Federal Funds Rate</td>
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<td>US 10Y yield (%)</td>
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<td>Eurozone: Deposit Facility Rate</td>
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<td>EUR 10Y yield (%)</td>
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<td>Japan: Policy Balance Rate</td>
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<td>UK: Bank Rate</td>
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<td>China: MLF 1Y Interest Rate</td>
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<td>Gold (USD/oz)</td>
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<td>China</td>
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<td>Oil Brent (USD/bbl)</td>
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2021 MACRO EVENTS CALENDAR

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RECENT EDITIONS
Reopening the Global Economy 6 July 2021
Vaccinating the global economy 24 May 2021
A new chapter for the global economy 24 March 2021
Hope on the Horizon 25 November 2020