## World View

- 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.

## 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.

## 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.

## 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.

## 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.

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## Emerging Markets

- EM growth has defied concerning pandemic trends. Central banks have turned more hawkish, but many are still in the early stages of normalization.

- 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

- 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 that would hit global financial markets and a number of emerging market economies hard, very possibly moving the global economy into recession.
The House View: Snapshot (Continued)
08 September 2021

MARKET VIEWS

MARKET SENTIMENT
- 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
- Expecting a significant pullback (S&P 500 -6% to -10%) given indicators of macro growth are peaking, before equities rally once again

RATES
- 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
- 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
- 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.
- Seasonal trends 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
- We hold a strategically bearish view, and see Brent remaining around USD 72/bbl in Q4

MONETARY POLICY
- 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

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

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<td>ECB Decision</td>
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<td>23 UK</td>
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<td>26 GE</td>
<td>German Federal Election</td>
<td>30-31 G20 Summit takes place in Italy</td>
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RECENT EDITIONS
- 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