## The House View: Barrelling back to stagflation?

### 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.

#### 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.

#### 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.

#### 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.

#### 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.

#### 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 CEE and Asia, 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.
• 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.

• We remain cautious on the outlook. After 5 blockbuster quarters, the Q3 earnings season saw beats move down toward the historical norm.

• We expect UST 10Y to end 2021 at 1.80%, and bund yields to end the year at -0.10%.

• 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.

• 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.

• 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.

• 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.

### GDP growth (%) 2021F 2022F

<table>
<thead>
<tr>
<th>Country</th>
<th>2021F</th>
<th>2022F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>5.8</td>
<td>4.2</td>
</tr>
<tr>
<td>US</td>
<td>5.6</td>
<td>4.4</td>
</tr>
<tr>
<td>Eurozone</td>
<td>5.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Germany</td>
<td>2.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Japan</td>
<td>2.1</td>
<td>2.7</td>
</tr>
<tr>
<td>UK</td>
<td>7.1</td>
<td>3.6</td>
</tr>
<tr>
<td>China</td>
<td>7.9</td>
<td>5.1</td>
</tr>
</tbody>
</table>

### Central Bank policy rate (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Policy Rate</th>
<th>Current</th>
<th>Q4-21</th>
<th>Q4-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>US: Federal Funds Rate</td>
<td>0.125</td>
<td>0.125</td>
<td>0.755</td>
<td></td>
</tr>
<tr>
<td>Eurozone: Deposit Facility Rate</td>
<td>-0.50</td>
<td>-0.50</td>
<td>-0.50</td>
<td></td>
</tr>
<tr>
<td>Japan: Policy Balance Rate</td>
<td>-0.10</td>
<td>-0.10</td>
<td>-0.10</td>
<td></td>
</tr>
<tr>
<td>UK: Bank Rate</td>
<td>0.10</td>
<td>0.25</td>
<td>0.50</td>
<td></td>
</tr>
<tr>
<td>China: MLF 1Y Interest Rate</td>
<td>2.95</td>
<td>2.95</td>
<td>2.95</td>
<td></td>
</tr>
</tbody>
</table>

### Key market forecasts

<table>
<thead>
<tr>
<th>Country</th>
<th>10Y yield (%)</th>
<th>EUR 10Y yield (%)</th>
<th>EUR/USD</th>
<th>USD/JPY</th>
<th>Gold (USD/oz)</th>
<th>Oil WTI (USD/bbl)</th>
<th>Oil Brent (USD/bbl)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>1.47</td>
<td>-0.29</td>
<td>1.16</td>
<td>113</td>
<td>1826</td>
<td>84.2</td>
<td>85.1</td>
</tr>
<tr>
<td>Eurozone</td>
<td>-0.10</td>
<td>-0.10</td>
<td>-0.10</td>
<td>110</td>
<td>1700</td>
<td>71.0</td>
<td>74.0</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.10</td>
<td>-0.10</td>
<td>-0.10</td>
<td>100</td>
<td>1700</td>
<td>71.0</td>
<td>74.0</td>
</tr>
</tbody>
</table>

### Oil (USD/bbl)

- 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