The House View: Barrelling back to stagflation?

### 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.

### 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.

### 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.

### 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.

### 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
- **M** 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.
- **M** 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.

### 2021-22 MACRO EVENTS CALENDAR

- **December 2021**
  - 15 US Federal Reserve Decision
  - 16 EZ ECB Decision
  - 16 UK BoE Decision
  - 16-17 EU European Council Meeting
  - 17 JN BoJ Decision

- **January 2022**
  - 17-21 WEF Annual Meeting at Davos
  - 18 JN BoJ Decision
  - 26 US Federal Reserve Decision

- **February 2022**
  - 03 EZ ECB Decision
  - 03 UK BoE Decision

### RECENT EDITIONS
- **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