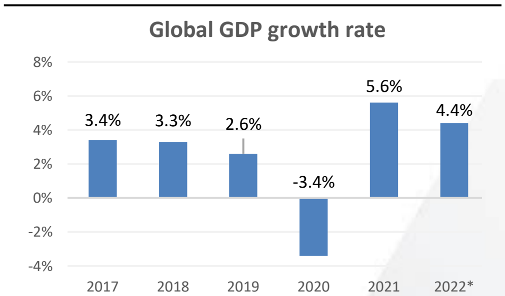
Consensuses for 2022:

GDP growth: *Global = **4.4%***
*US = **4.1%***
*Eurozone = **4.0%***

Inflation rate: *Global = **3.4%***
*US = **3.9%***
*Eurozone = **2.6%***

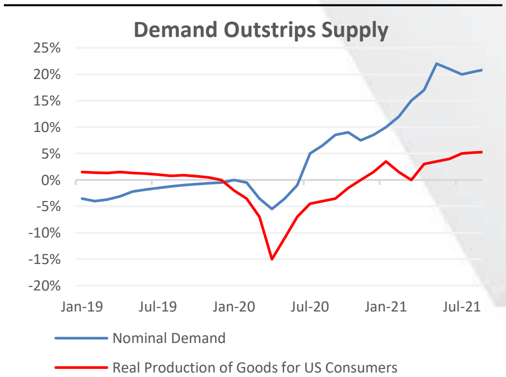
S&P 500 price: *$5,006*

Figure 1:



Source: IMF and Investment banks forecasts

Figure 2:



Source: Bridgewater

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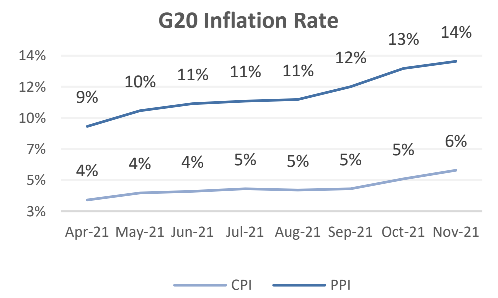
Global Markets Outlook 2022

Market focus to shift from COVID19 to inflation ahead of strong economic expectations for 2022. Monetary policies across the world remain largely unpredictable as central banks' target may promptly change from labour market to inflation. For 2022 we find great potential in the Defensive stocks in Developed markets, and in particular – the Consumer Staples sector, thanks to its pricing power and Healthcare still driven by the coronavirus effect.

- Though the fastest economic growth for the past half-century is behind us, we anticipate another strong year for the global economy, driven by the pent-up savings and cash reserves, eased supply chain issues and continuous medical improvements. The consensus for the global GDP growth is **4.4%,** and **4.1%** and **4%** for US and Eurozone economies respectively. According to the data, the funds from stimulus have not entirely entered the economy which is evident by the high corporate cash holdings and personal savings. Thus, we expect to witness a still relatively high consumption, as well as inventory restocking and strong CAPEX cycle. On the other hand, half of the world population is fully vaccinated, the number is even higher in the developed countries, the medical improvements which results in fewer deaths signal for diminishing impact from the pandemic. In tandem, these factors will favor the supply chain as the supply will catch up with the demand. We insist to emphasize on the fact that the supply chain issues were not caused by stalled production or logistic obstacles as much as the increased demand (*Figure 2*), brought about by the monetary policies. Taking this into consideration, the supply chain issues may last longer than expected, yet to a smaller extent.

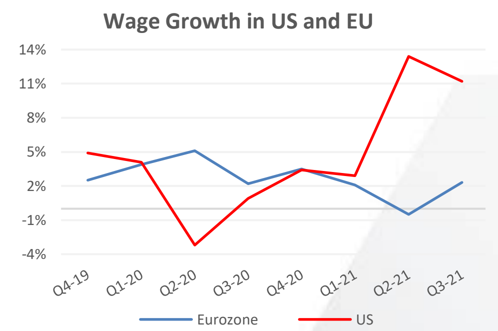
- The market analysts are consentaneous about one thing – inflation will be the main topic on the market for 2022. As shown on Figure 2, the inflation we currently see can more precisely be classified as demand-pull inflation rather than cost-push one. As mentioned earlier, we expect the aggregate global supply to slowly catch up with the demand which will stabilize the consumer prices. Moreover, we expect tighter and more aggressive monetary policies in the US coming in early 2022. Considering all of this and the fact that now the CPI index will not be compared to the deflationary 2020, we strongly believe that the inflation pressure will cool down, yet will remain higher than the pre-COVID period. The expectations for the global inflation rate at the end of 2022 is to reach **3.4%**, with huge

Figure 3:



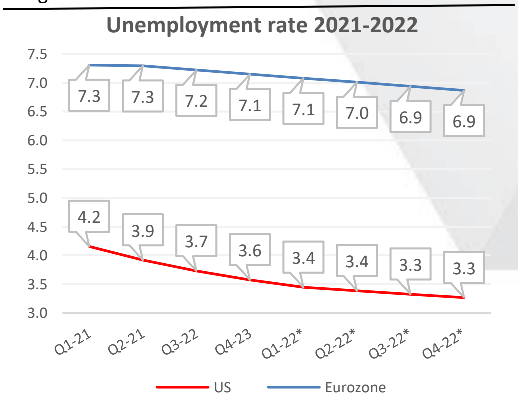
Source: OECD

Figure 4:



Source: TradingEconomics

Figure 5:



Source: OECD

difference between Eurozone **(2.6%)** and the US **(3.9%).** This could be explained by the overall weaker inflationary pressure in the Eurozone and the much lower wage growth in the area (*Figure 4*). This also stands as the main rationale behind the differences in the central banks' monetary policies in the two regions. While it is expected that the Fed will act hawkish and raise the fed funds rate three to four times this year, the ECB is more likely to be dovish until the labour market recovers fully (*Figure 5*) and tighten the monetary policy beyond 2023.

- Aside from inflation, investors are also eyeing the labour market. The reason why the EU job market is lagging behind the US one in terms of wage growth is because of the better unemployment handling. Thanks to the introduced short-term work scheme in the EU, the labour force shortage effect was not as severely felt as in the US. The unemployment rate is near the pre-COVID levels, yet little uplifted – 3.9% in the US and 7.2% in the EU. However, there are some 5.5 million workers short in the US according to the pre-pandemic trend. There is a complex of reasons behind that – on the one hand, people are not willing to vaccinate in order to be employed and, on the other hand, some prefer to live off the unemployment aids. In 2022 this is expected to change as the health risks recede and the hourly wage grows as much to be attractive. In terms of the global point of view, some analysts predict that the global unemployment rate would fall to **4.9%** at the end of the year from nearly 6.4% currently. For the US and Eurozone unemployment, the expectations are at the end of the year to converge to the pre-pandemic levels.

Appendix:

	Real GDP growth			Inflation rate			Equities
	World	**US**	**Eurozone**	**World**	**US**	**Eurozone**	**S&P500**
J.P.Morgan	*4.3%*	*3.8%*	*4.6%*	-	-	-	*5,050*
Goldman Sachs	*4.5%*	*3.9%*	*4.4%*	*2.3%*	*4.3%*	*2.4%*	*5,100*
Morgan Stanley	*4.7%*	*4.6%*	*4.6%*	*3.0%*	*2.5%*	*2.2%*	*4,400*
Credit Suisse	*4.3%*	*3.8%*	-	*3.7%*	*4.5%*	-	*5,200*
Wells Fargo	*4.5%*	*4.5%*	*3.4%*	*3.7%*	*4.0%*	*2.7%*	*5,200*
Barclays	*4.5%*	*3.8%*	*4.0%*	-	*3.2%*	*2.5%*	*4,800*
RBC	*3.9%*	*3.5%*	*3.5%*	*3.0%*	*3.8%*	*2.5%*	*5,050*
Deutsche Bank	*4.3%*	*4.6%*	*3.8%*	*4.6%*	*4.7%*	*3.0%*	*5,250*
Average	***4.4%***	***4.1%***	***4.0%***	***3.4%***	***3.9%***	***2.6%***	***5,006***

- **Investment Outlook:**
    - ***Equities over Fixed-Income***: In an environment of low real rates, the Fixed-Income securities tend to drastically underperform the Equities. Although some central banks plan on hiking the rates, overall, they will remain historically low. Moreover, the strong economic growth and reasonable valuations are also favourable for equities.
    - ***Developed Markets over Emerging Markets:*** We witness an asymmetrical recovery in the different parts of the world. Developed economies have retrieved to the pre-pandemic levels much faster than the undeveloped ones. Moreover, the emerging economies now face way tighter monetary policies compared to the others, which we believe will be a headwind for the growth of the equities in these regions.
    - ***EU stocks over US stocks:*** We believe the Eurozone economy still has plenty of room to grow and recover compared to the US. Nevertheless, we expect the corporate earnings in the US to remain strong and superior, but still, the more attractive valuations in the EU outweigh.
    - ***Defensive over Cyclicals:*** Although the recovery is still ongoing, we reckon that the cyclical stock prices have predominantly reflected the economic rebound. The forward-looking behaviour of the market could mean that it is eyeing a time of economic expansion, where the defensive stocks may outperform the cyclical. Defensive equities with strong pricing power such as Consumer Staples will be better off in periods of lifted inflation, and the still lasting pandemic may favour the Healthcare sector.

2015	2016	2017	2018	2019	2020	2021
Growth Stocks 1.8%	Small Cap Stocks 10.9%	Emerging Markets 34.2%	Growth Stocks -7.8%	Growth Stocks 32.2%	Growth Stocks 32.7%	REITs 38.8%
REITs -1.5%	Value Stocks 9.3%	Growth Stocks 26.4%	REITs -8.6%	Developed Markets 25.2%	Emerging Markets 15.9%	Large Cap Stocks 21.0%
Small Cap Stocks -1.8%	Emerging Markets 8.6%	Small Cap Stocks 20.9%	Large Cap Stocks -9.5%	Large Cap Stocks 25.2%	Small Cap Stocks 14.4%	Growth Stocks 20.4%
Developed Markets -2.7%	Developed Markets 5.3%	Developed Markets 20.1%	Developed Markets -10.4%	Small Cap Stocks 24.1%	Large Cap Stocks 14.1%	Developed Markets 20.1%
Large Cap Stocks -2.9%	Large Cap Stocks 5.2%	Large Cap Stocks 19.9%	Value Stocks -13.2%	REITs 20.9%	Developed Markets 14.1%	Value Stocks 19.3%
Value Stocks -7.2%	REITs 4.2%	Value Stocks 14.2%	Small Cap Stocks -15.2%	Value Stocks 18.4%	Value Stocks -3.6%	Small Cap Stocks 14.4%
Emerging Markets -16.9%	Growth Stocks 1.4%	REITs 0.9%	Emerging Markets -16.5%	Emerging Markets 15.4%	REITs -11.1%	Emerging Markets -4.6%

Source: Bloomberg data and SIS calculations

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