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Investment Symposium 2022

Global macroeconomic outlook

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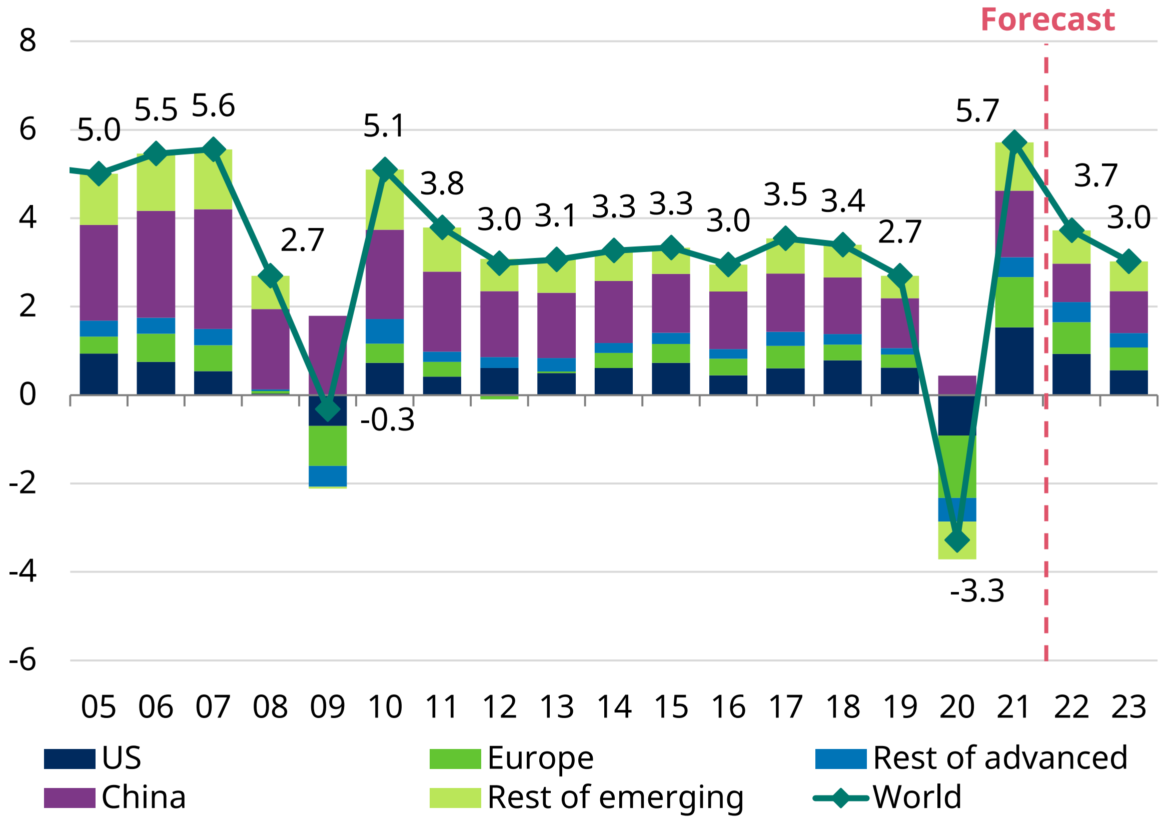
March 2022

Agenda

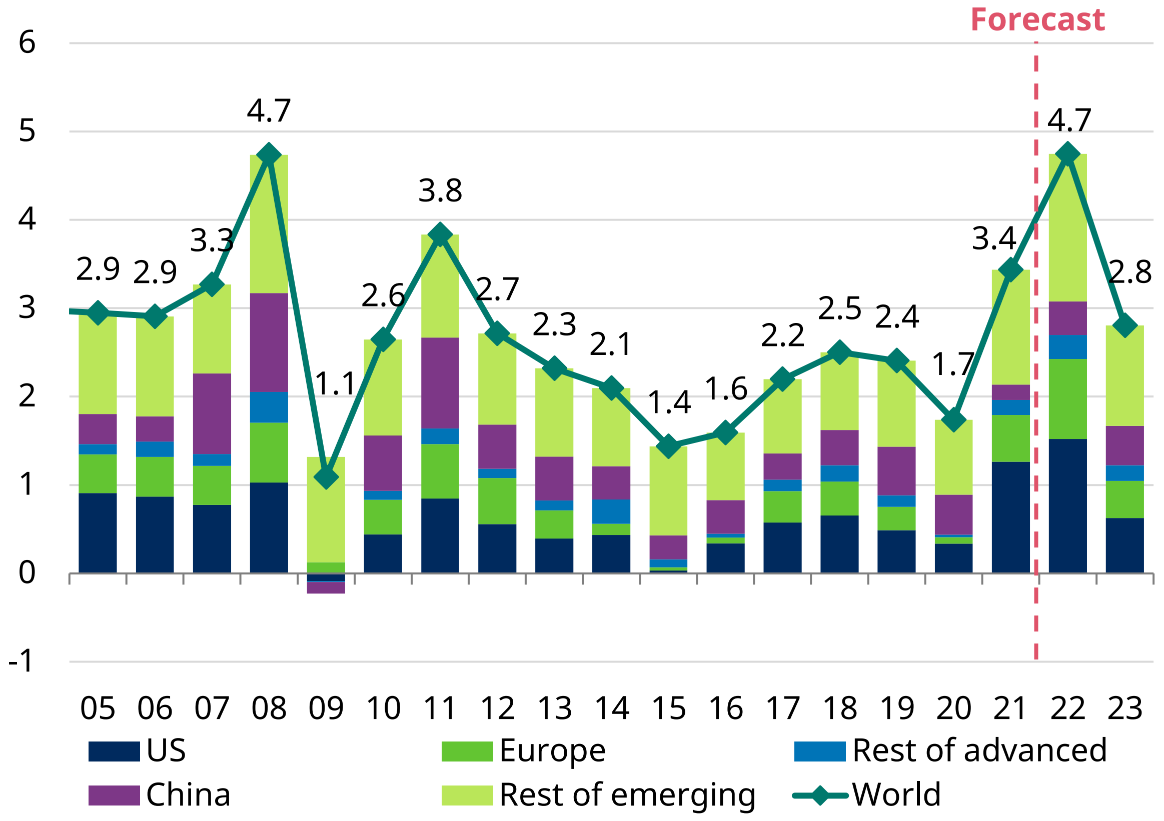
Strong global growth but with higher inflation

In contrast to the post-GFC, developed markets are in the driving seat

Contributions to World GDP growth (y/y)



Contributions to World inflation (y/y)



Source: Schroders Economics Group. 25 February 2022. Please see the forecast risk warning on the important information slide.

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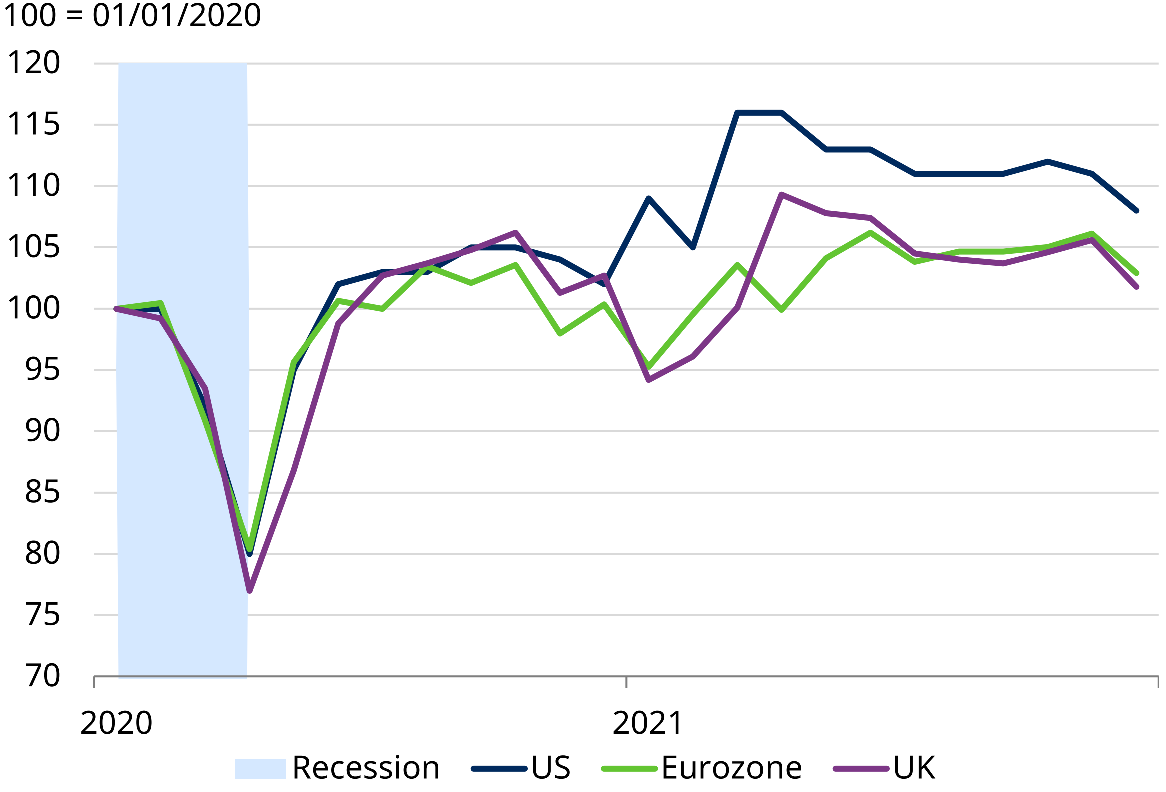
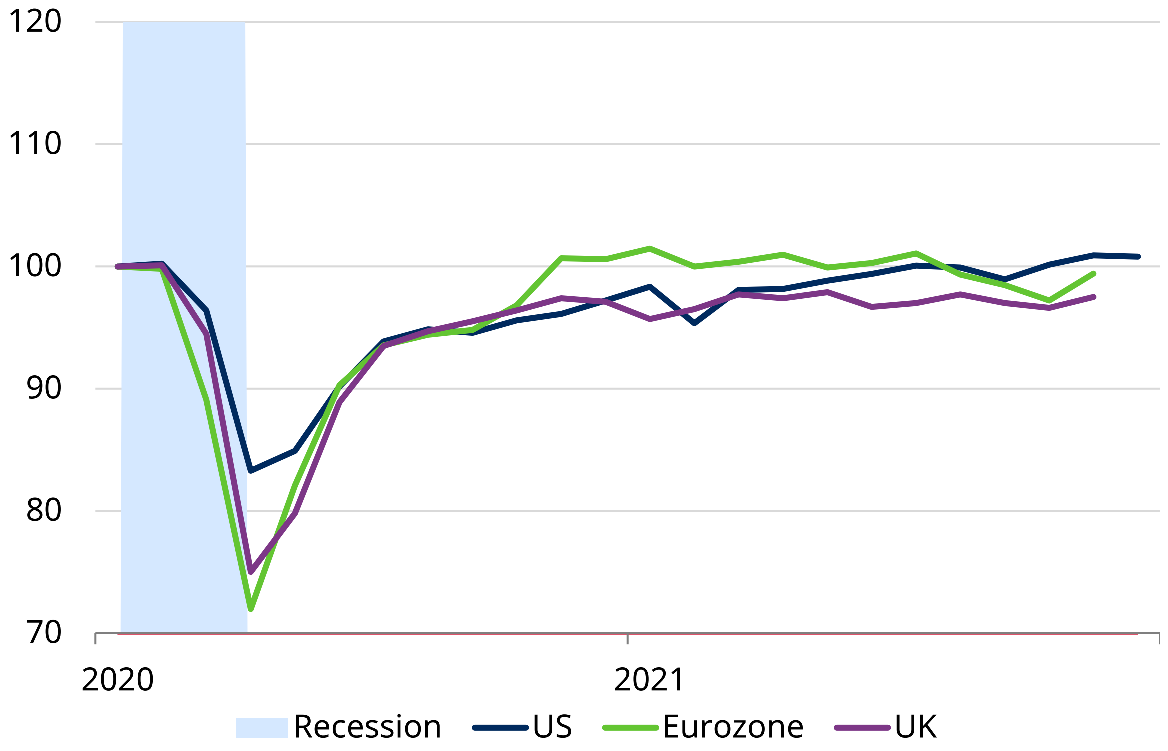
An unbalanced recovery, particularly in the US

Supply-demand imbalance is driving inflation

Retail sales (volume)



Industrial Production



Source: Refinitiv Datastream, Schroders, 4 February 2022.

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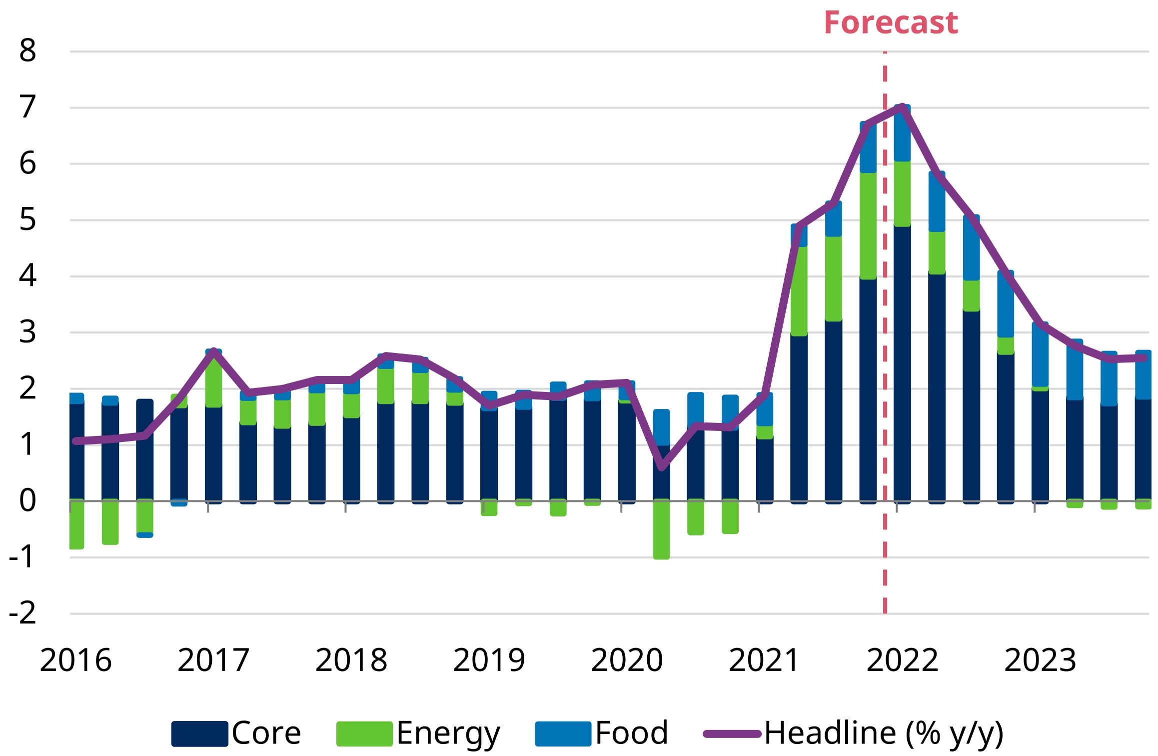
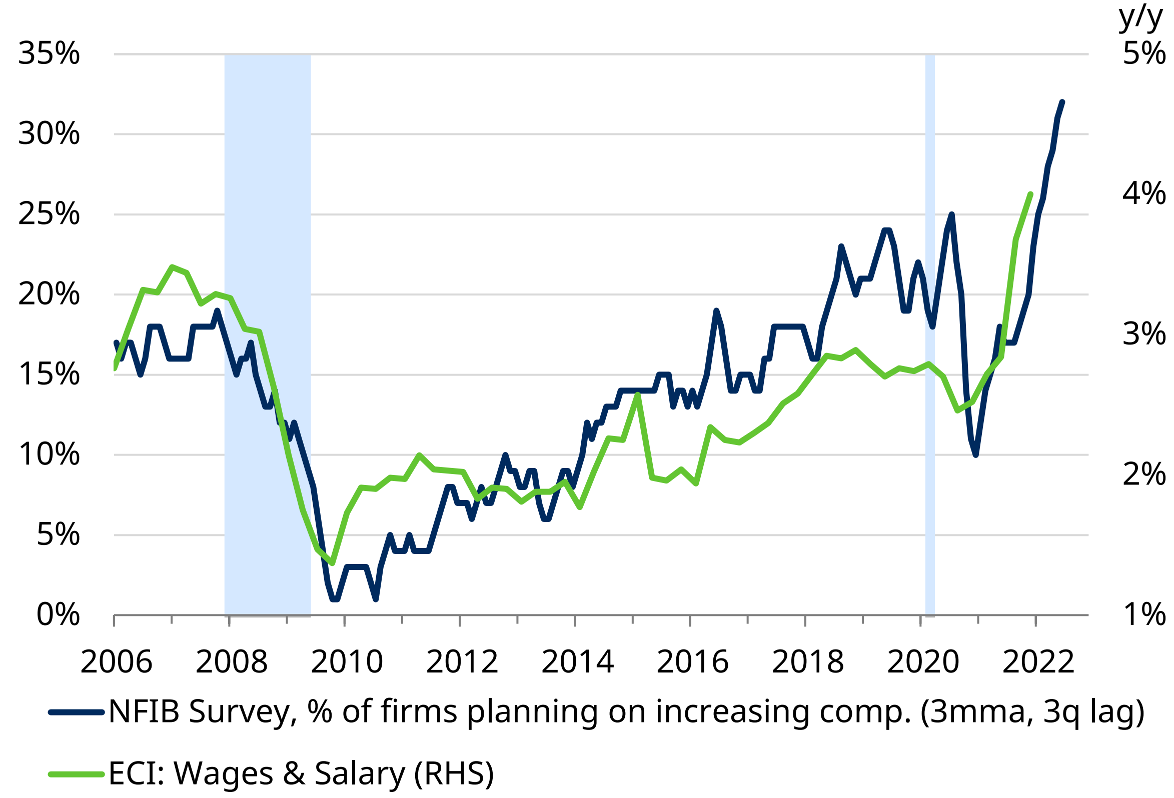
US inflation expected to fall, but risks of second round effects

Strong labour market has supported wage growth

Contributions to headline CPI



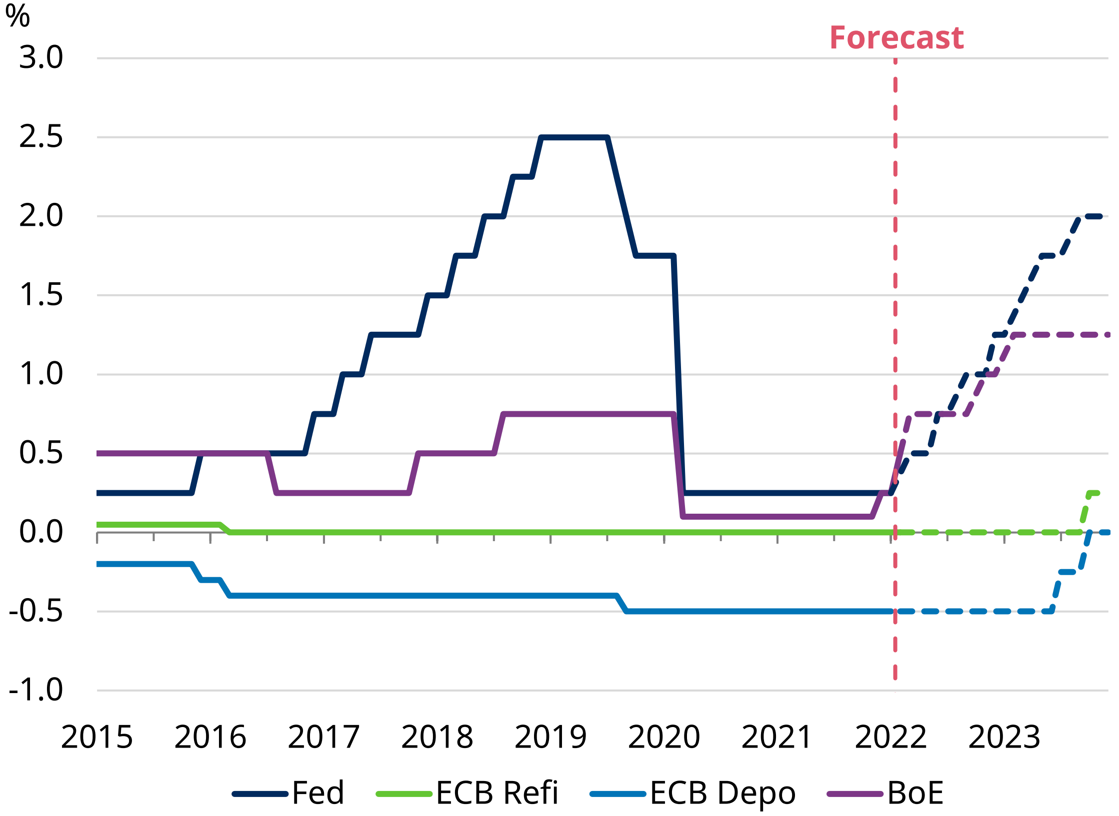


Source: Refinitiv Datastream, Schroders Economics Group. 23 February 2022. Our forecasts are based on our own assumptions which may change. We accept no responsibility for any errors of fact or opinion and assume no obligation to provide you with any changes to our assumptions or forecasts. Forecasts and assumptions may be affected by external economic or other factors.

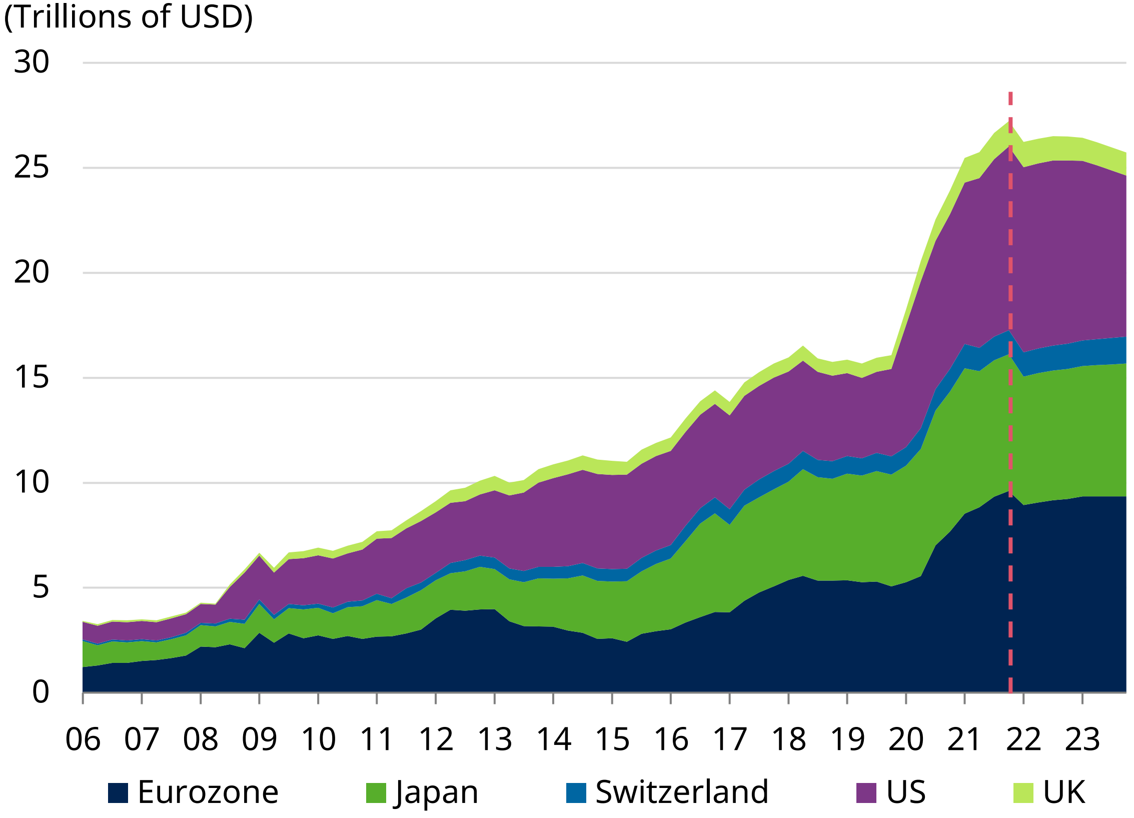
Policy implications

Fiscal and monetary policy will be less supportive in 2022

Base rate



Value of assets in central banks' balance sheets

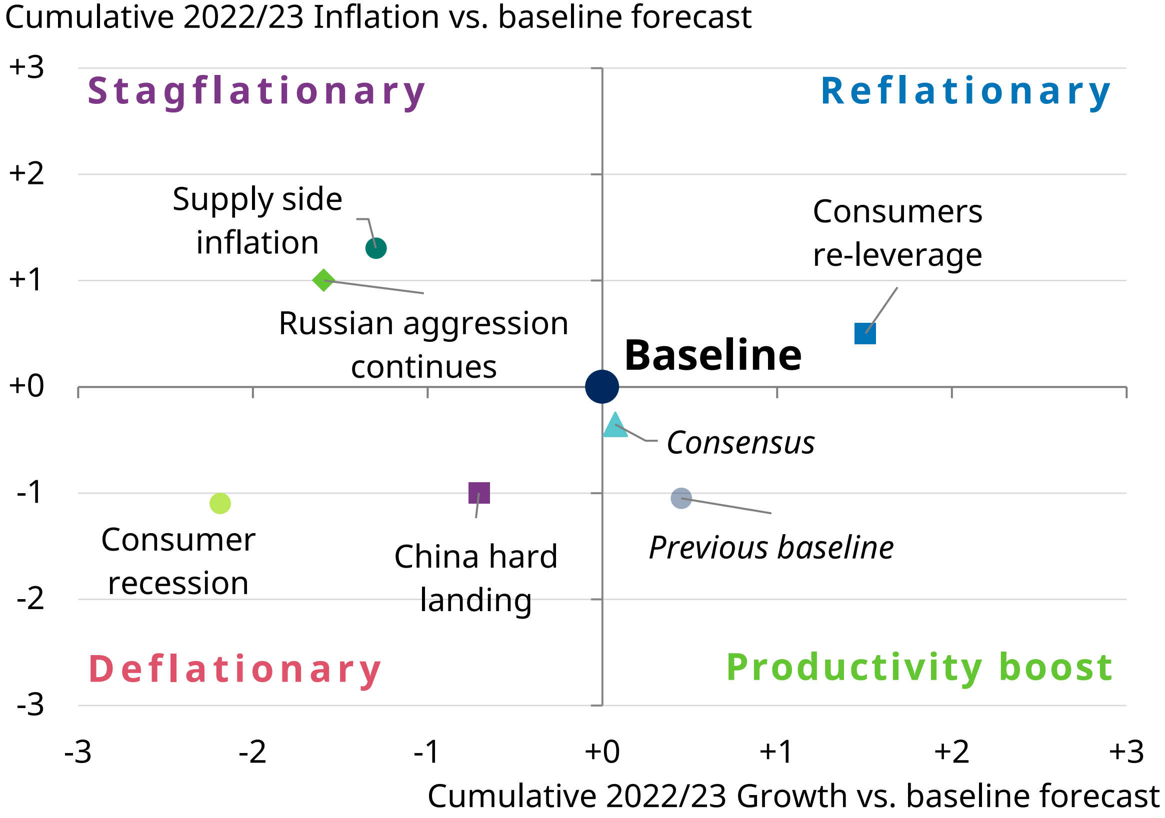


Source: Refinitiv, Datastream, Schroders, 24 February 2022.

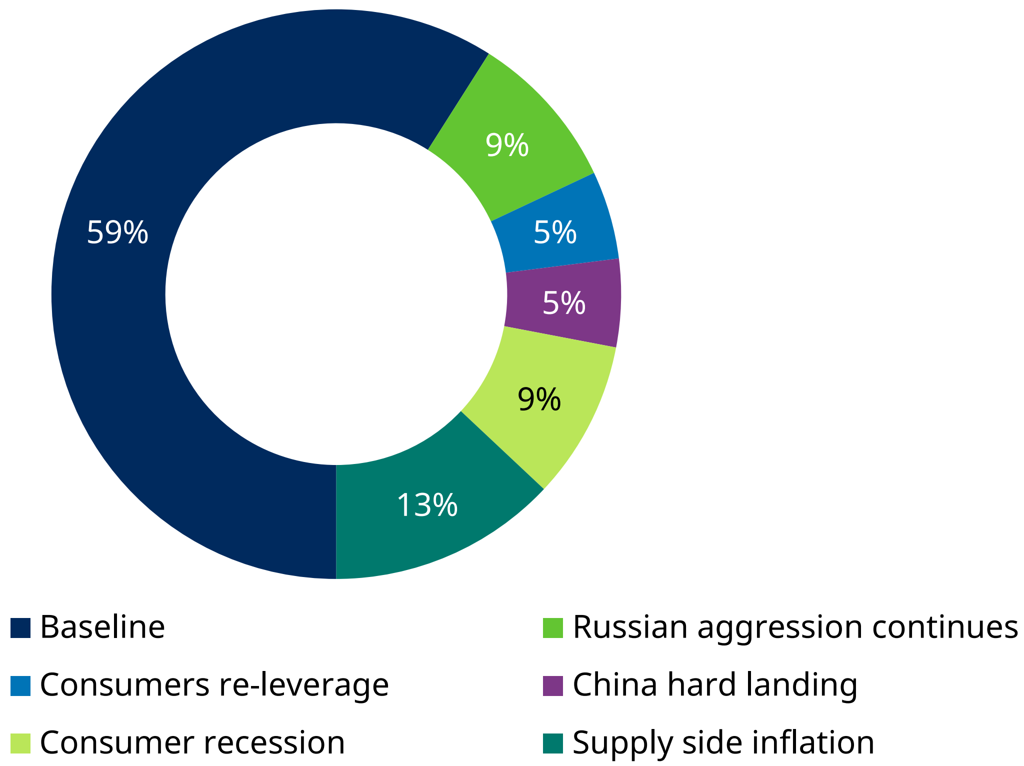
Risks to forecast skewed by stagflationary scenarios

Scenario analysis

Scenario impact on growth and inflation



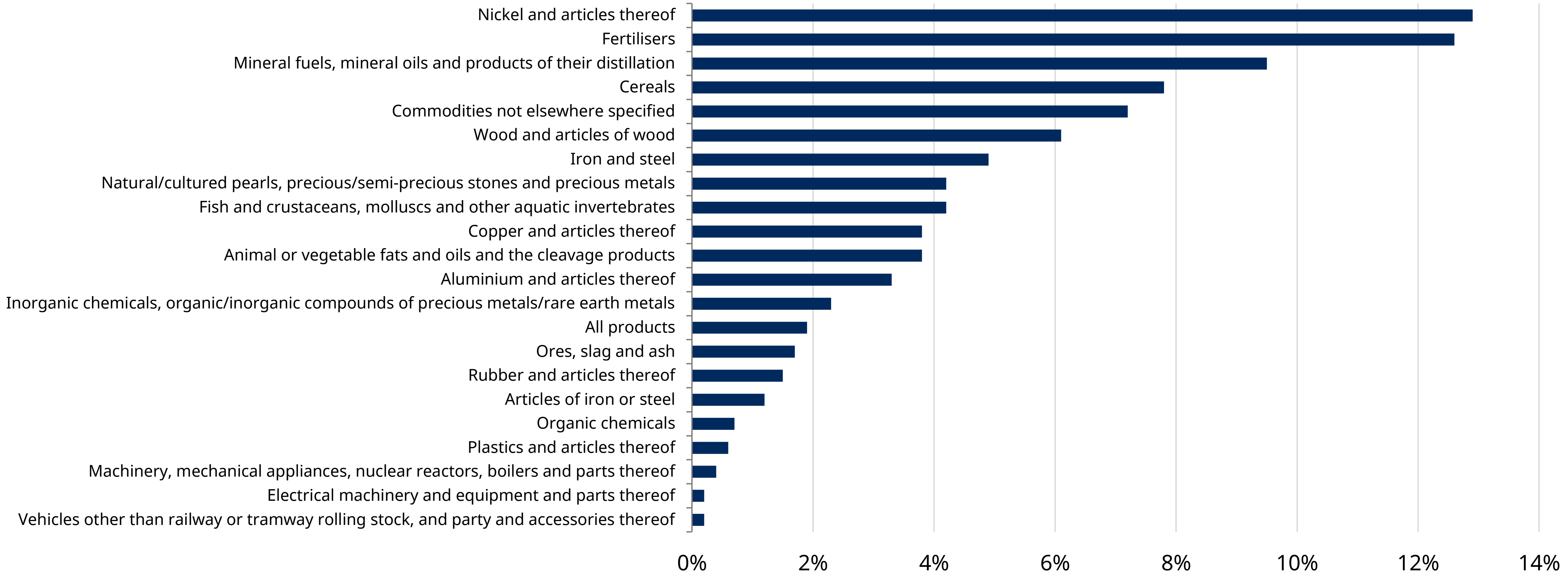
Scenario probabilities



Source: Schroders Economics Group. 25 February 2022. Please see the forecast risk warning on the important information slide.

Problems in Russia can disrupt commodity markets

Share of World Exports (%, 2020)



Source: Trademap.org, Schroders Economics Group. 25 February 2022.

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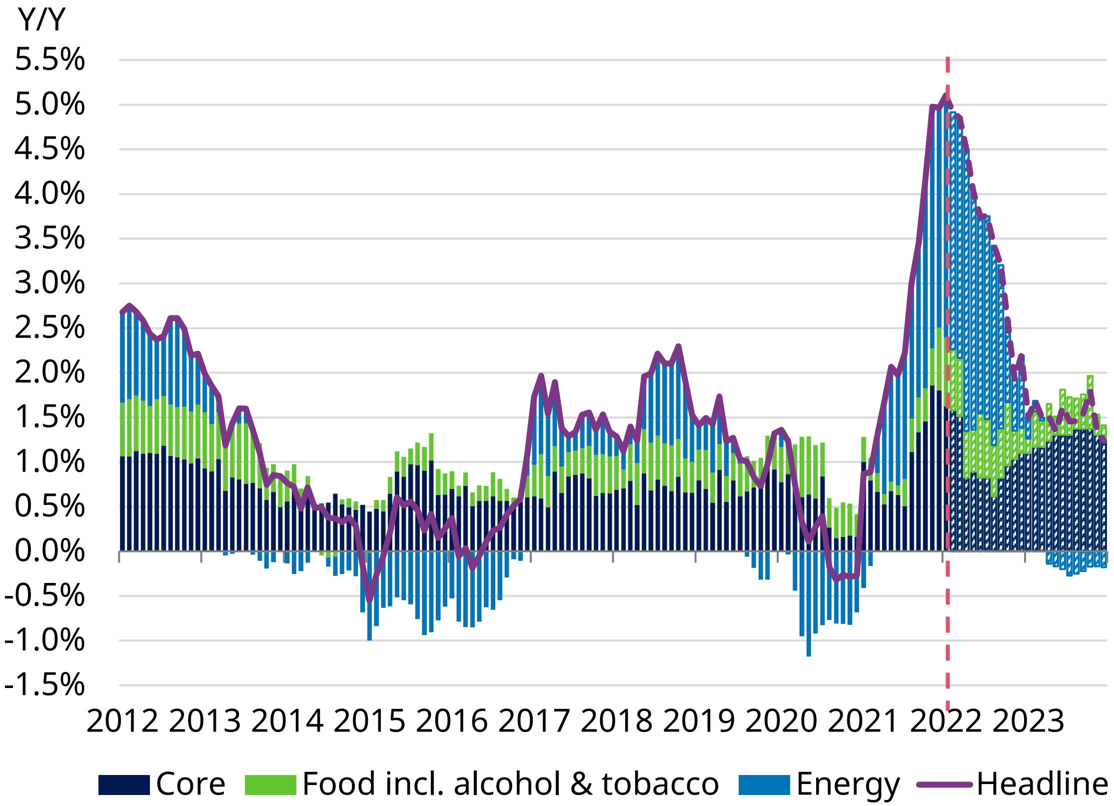
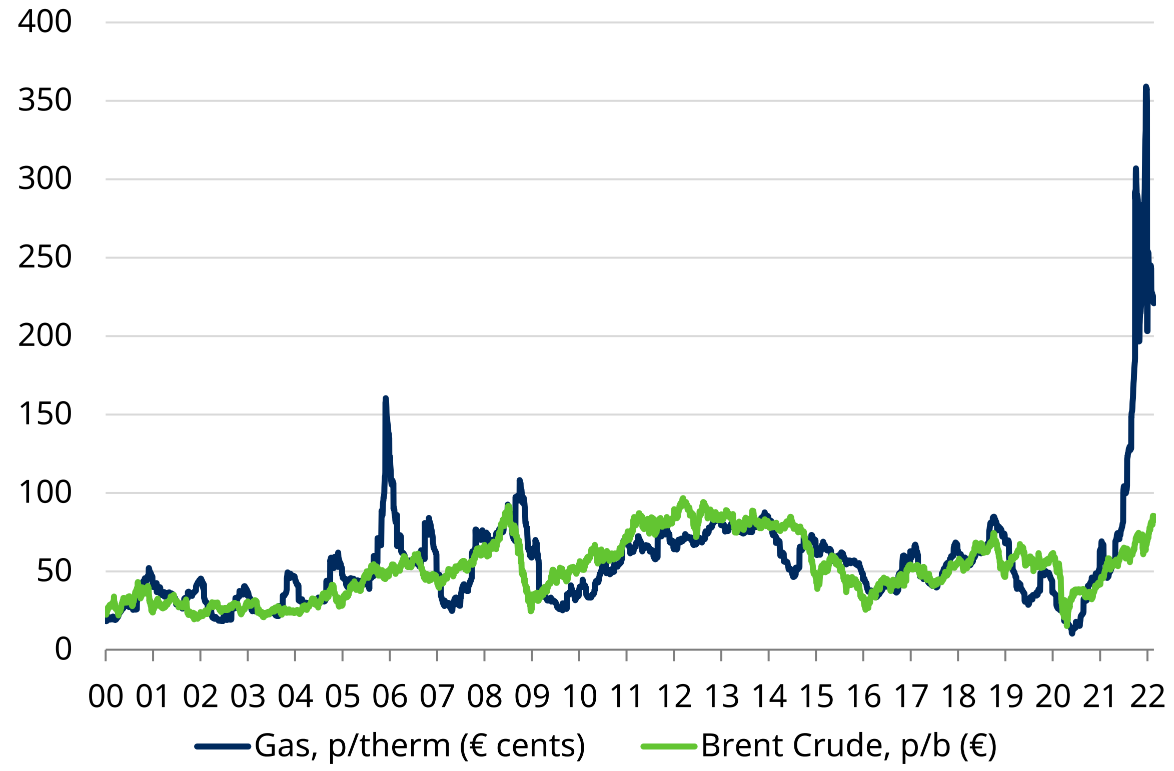
Europe is vulnerable to any further increase in energy costs

Reliance on Russian oil and gas has already fed through to inflation

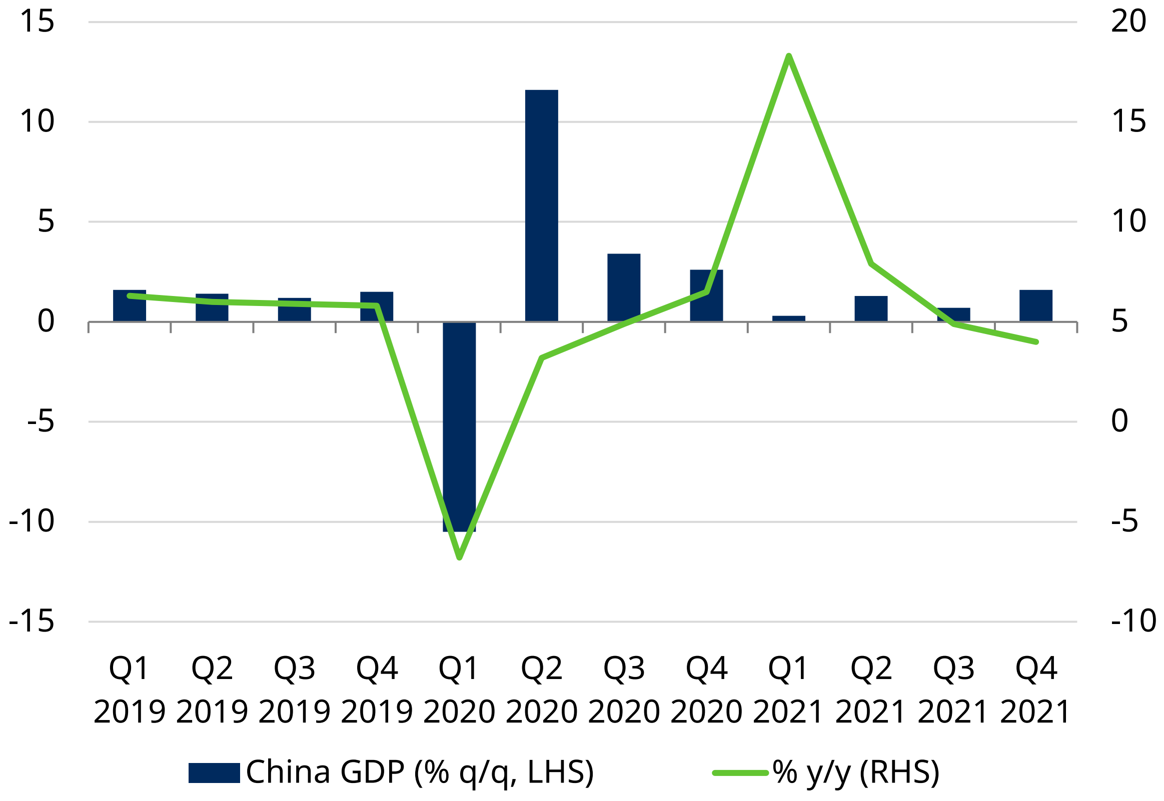


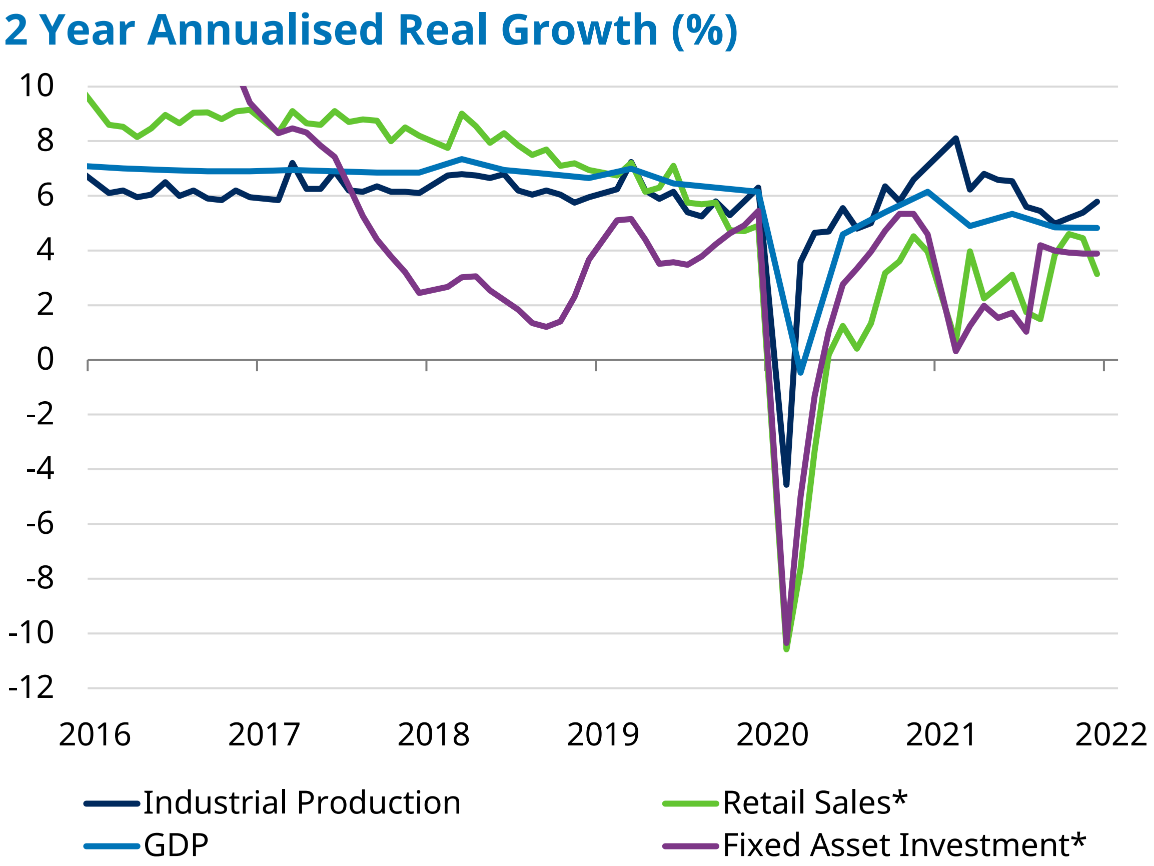


Source: Refinitiv Datastream, Schroders Economics Group. 22 February 2022.

China: Growth continues to slow, consumption lagging

Uptick in industrial production offset by weaker retail sales and FAI





Source: Refinitiv Datastream, Schroders Economics Group. 31 January 2022.

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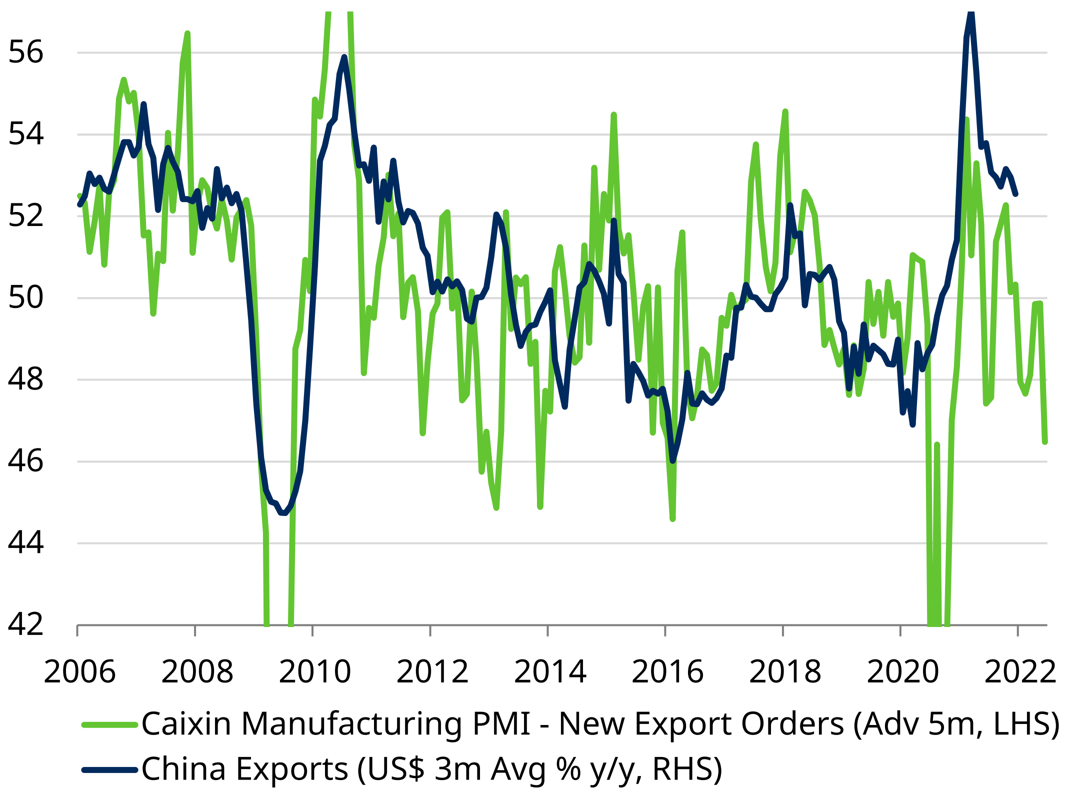
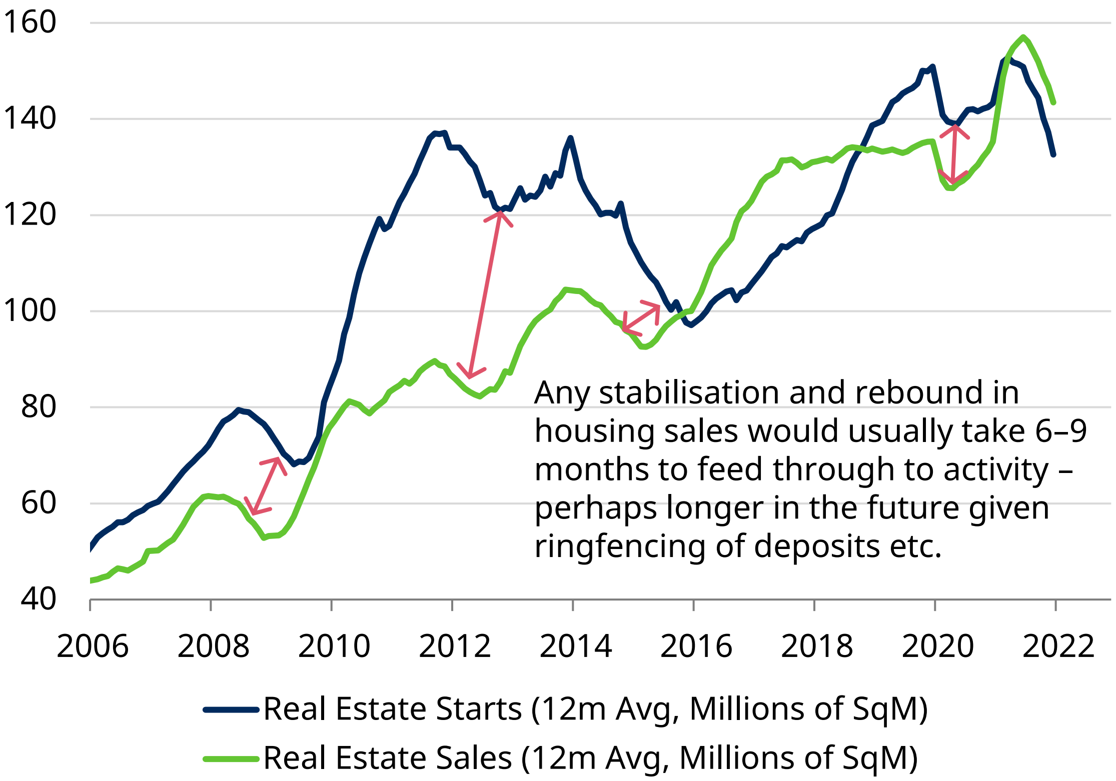
Export growth set to weaken, real estate sector still soft

Slowdown in exports may pressure renminbi





Source: Refinitiv Datastream, Schroders Economics Group. 15 February 2022.

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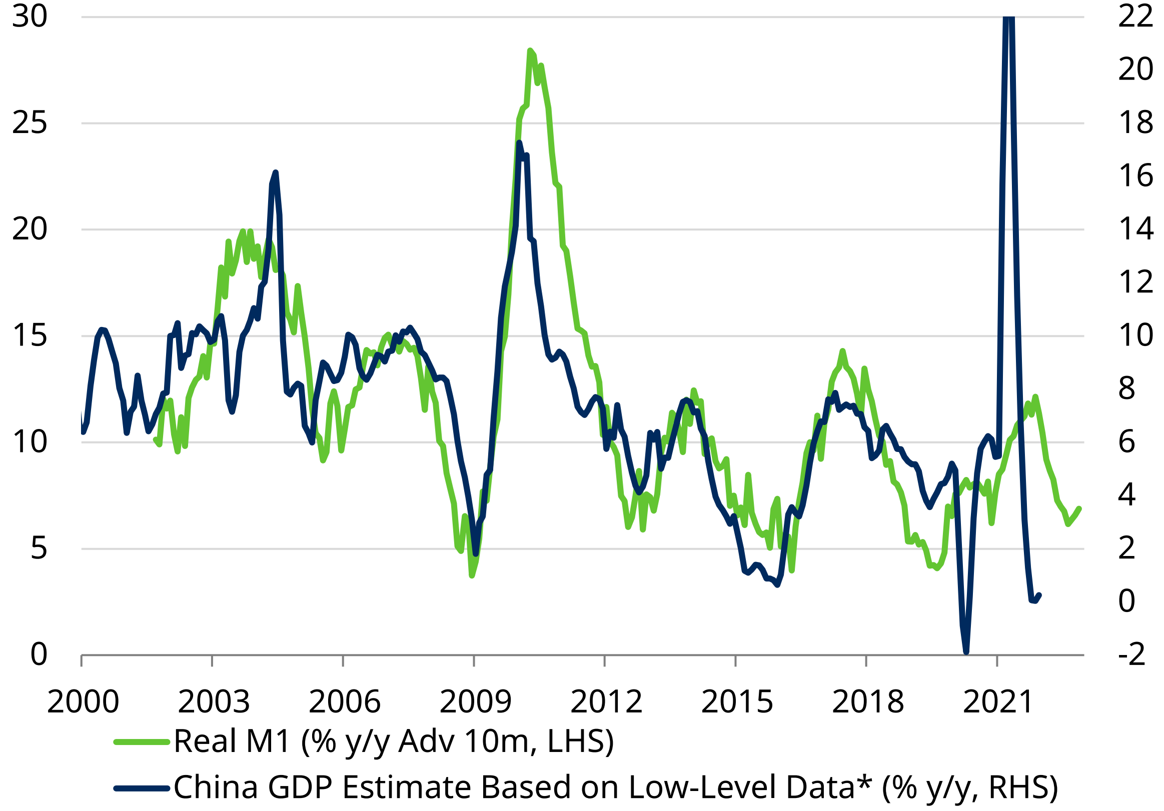
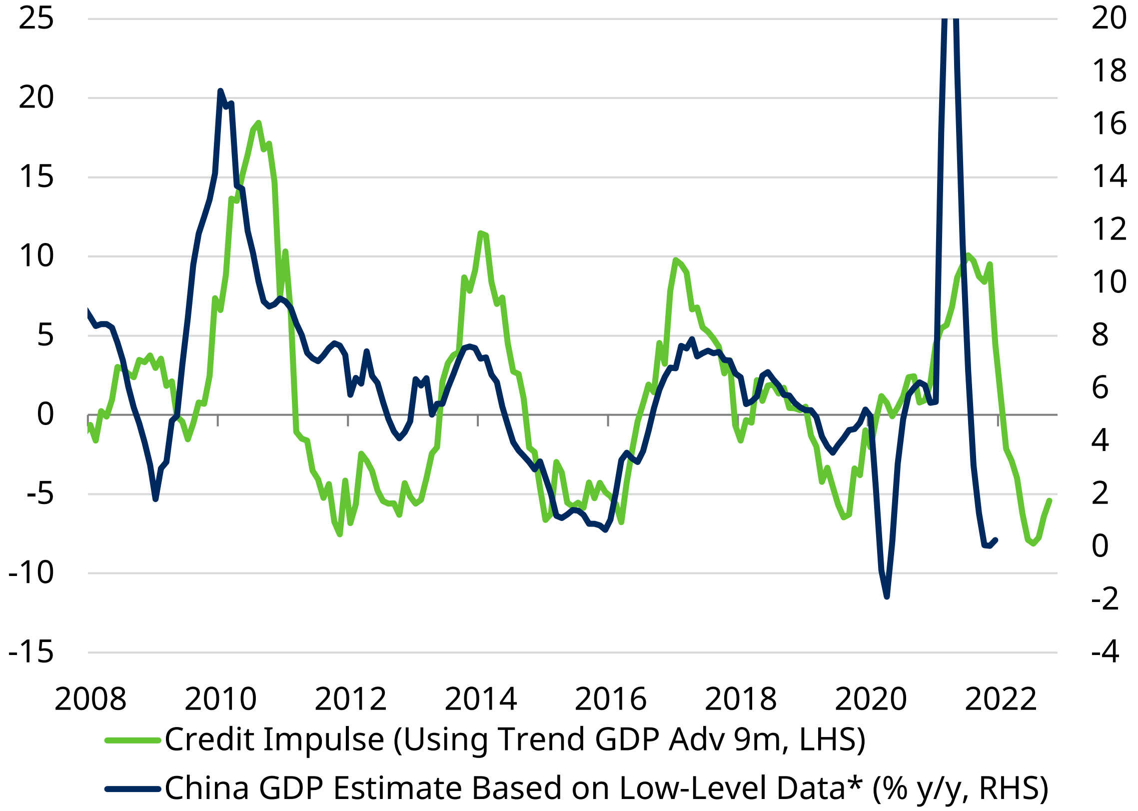
Light at the end of the tunnel as leading indicators improve

Economic conditions soft at least until summer





Source: Refinitiv Datastream, Schroders Economics Group. 22 February 2022.
*Railway freight, seaport cargo, parcel volumes, vehicle production & sales, electricity production, railways & airline passengers, new housing starts, cement production, excavator & truck sales, industrial metals import volumes.

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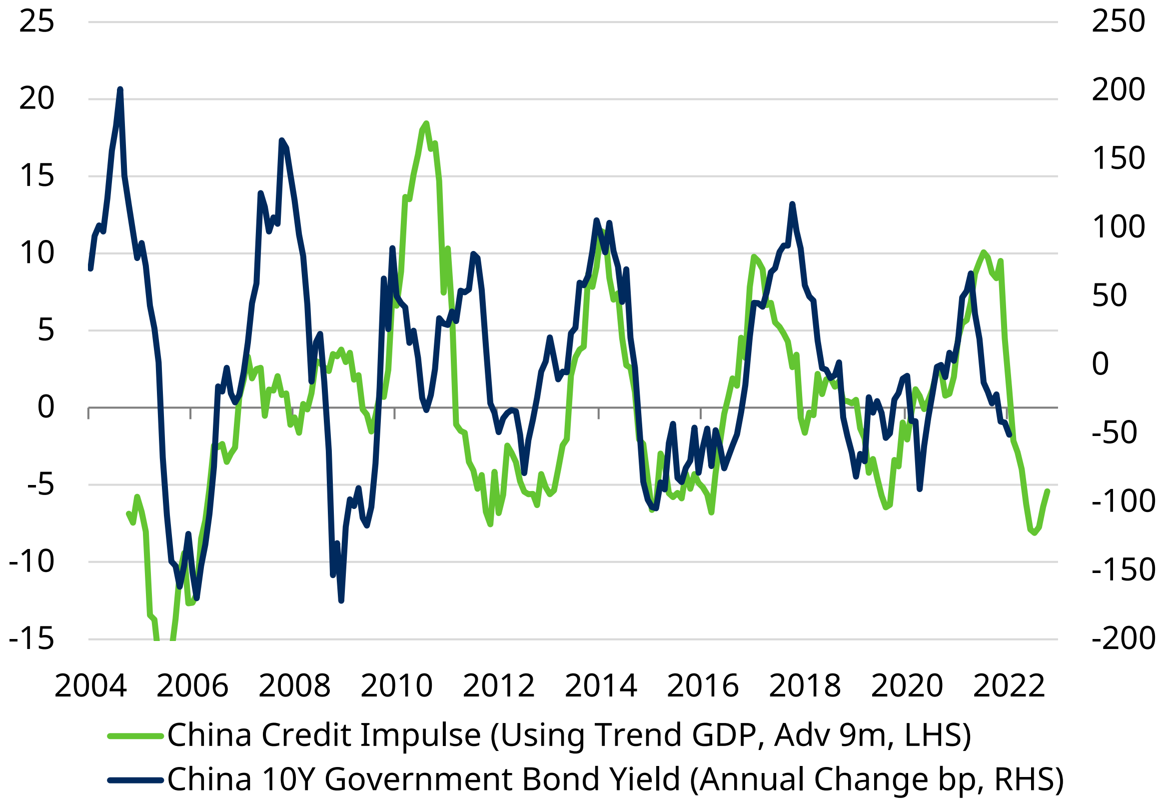
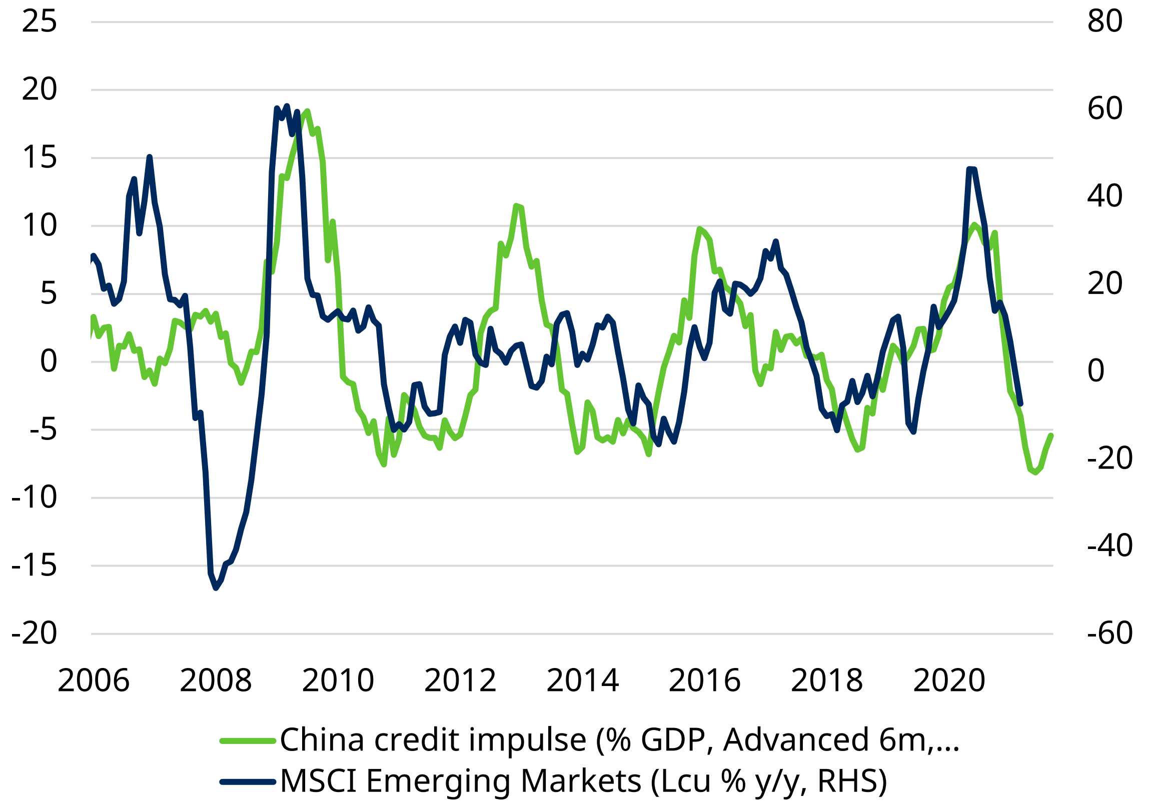
What does China's cycle mean for markets

Still supportive of CGBs in the near term, the time for equities may be approaching





Source: Refinitiv Datastream, Schroders Economics Group. 22 February 2022.

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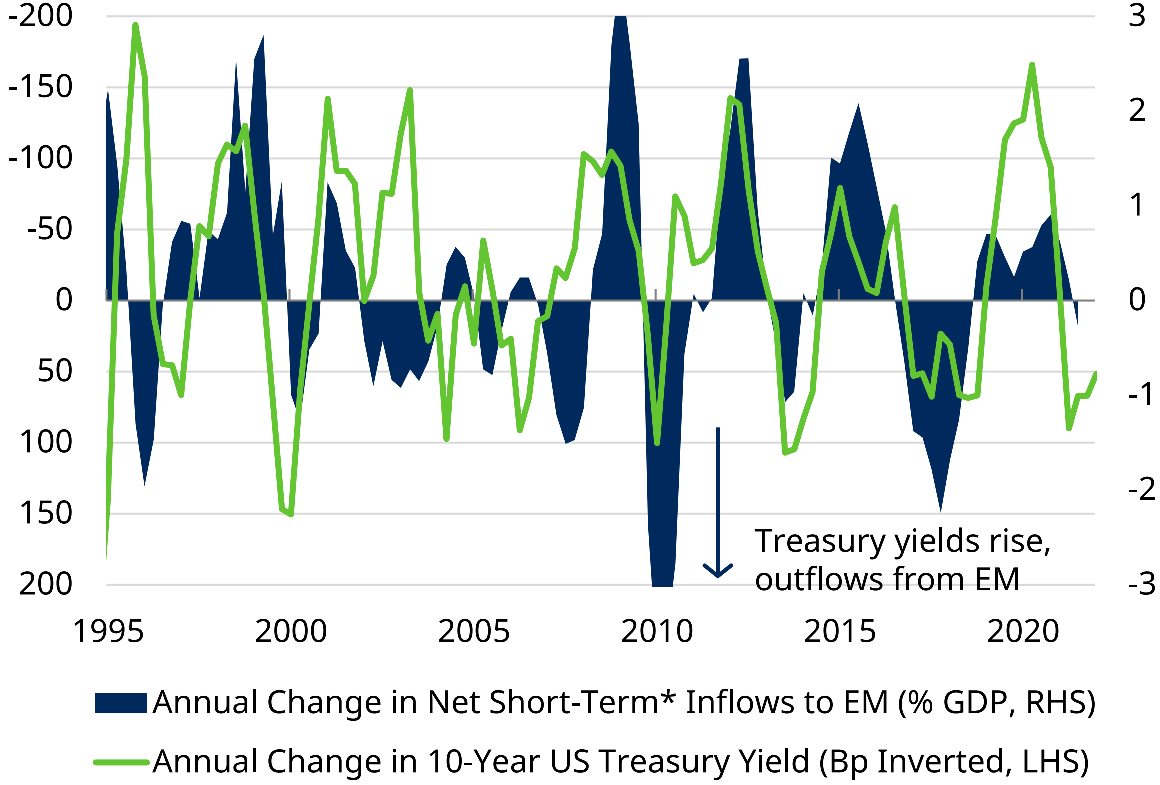
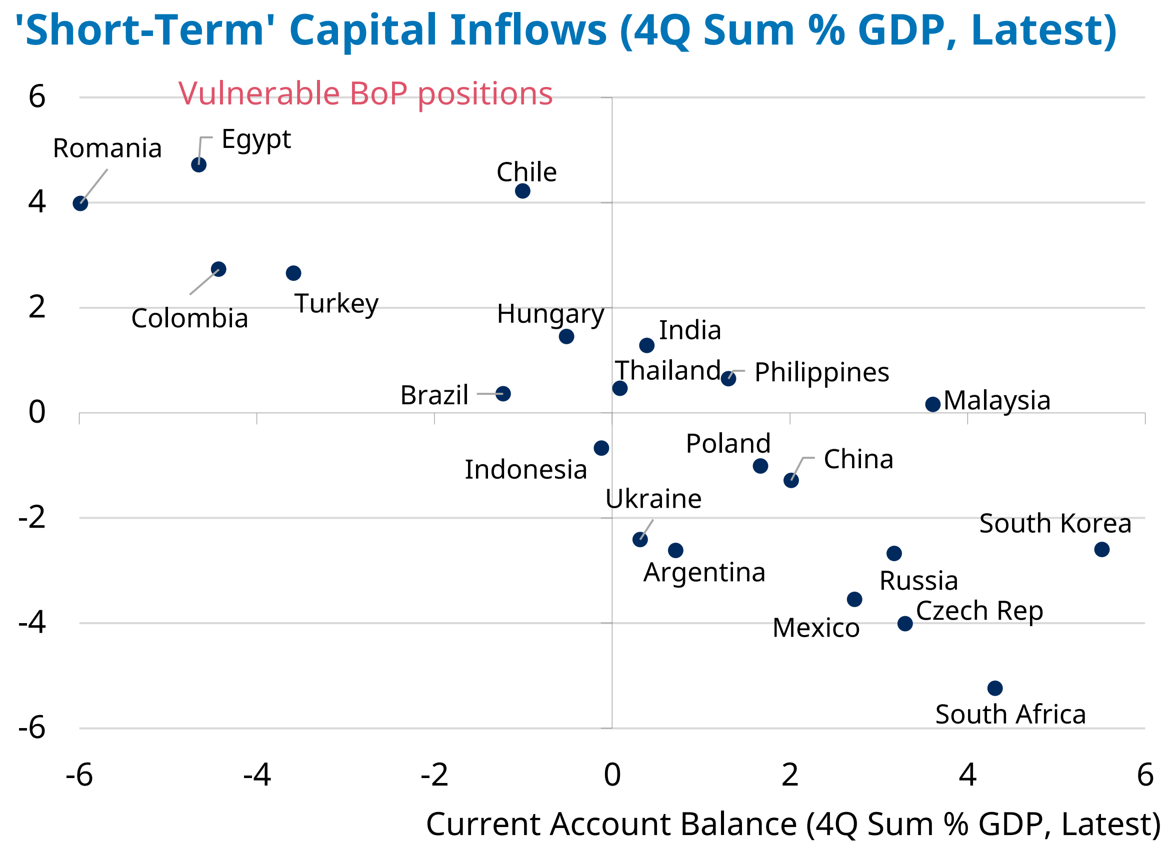
EM external positions are relatively good – no crisis

Balance of payments may deteriorate in net energy importing EMs

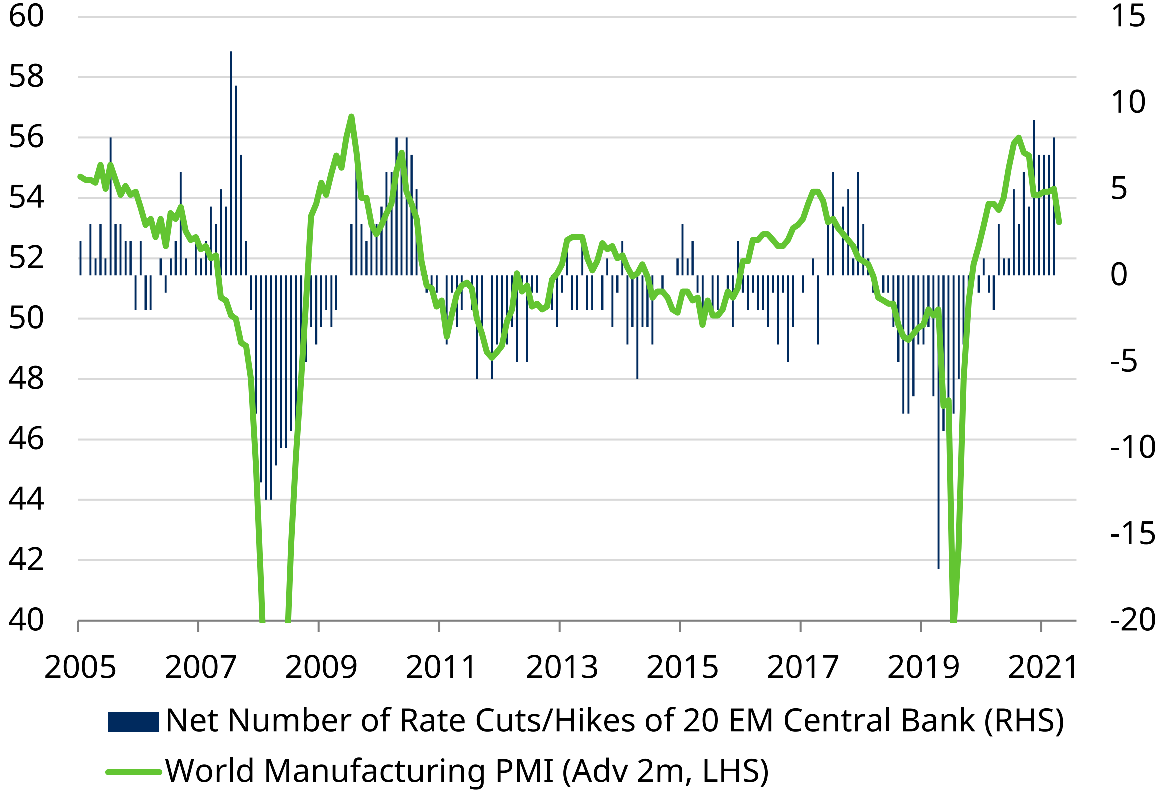




Source: IMF, Refinitiv Datastream, Schroders Economics Group. 4 February 2022. *Portfolio + Other, 21 Ems.

EM central banks have hiked rates aggressively

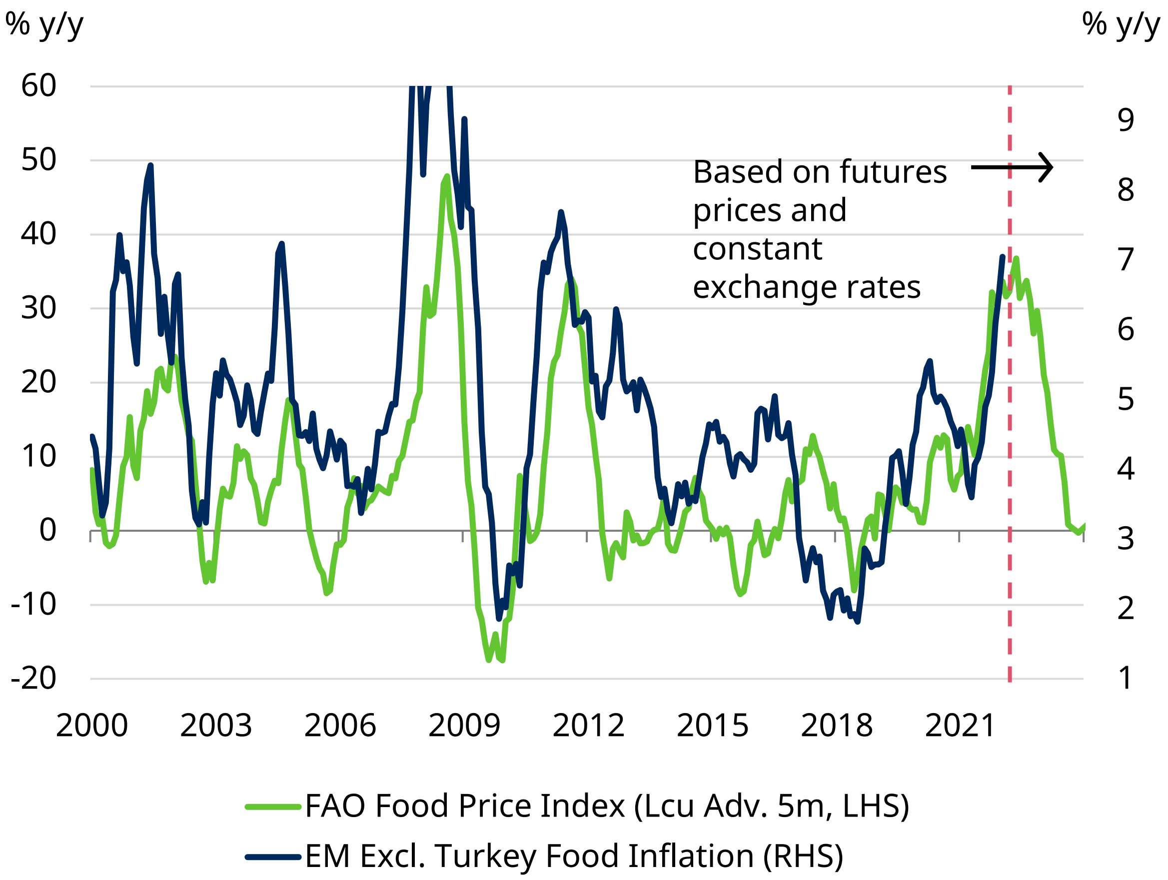
Growth expectations rolling over as tighter policy bites

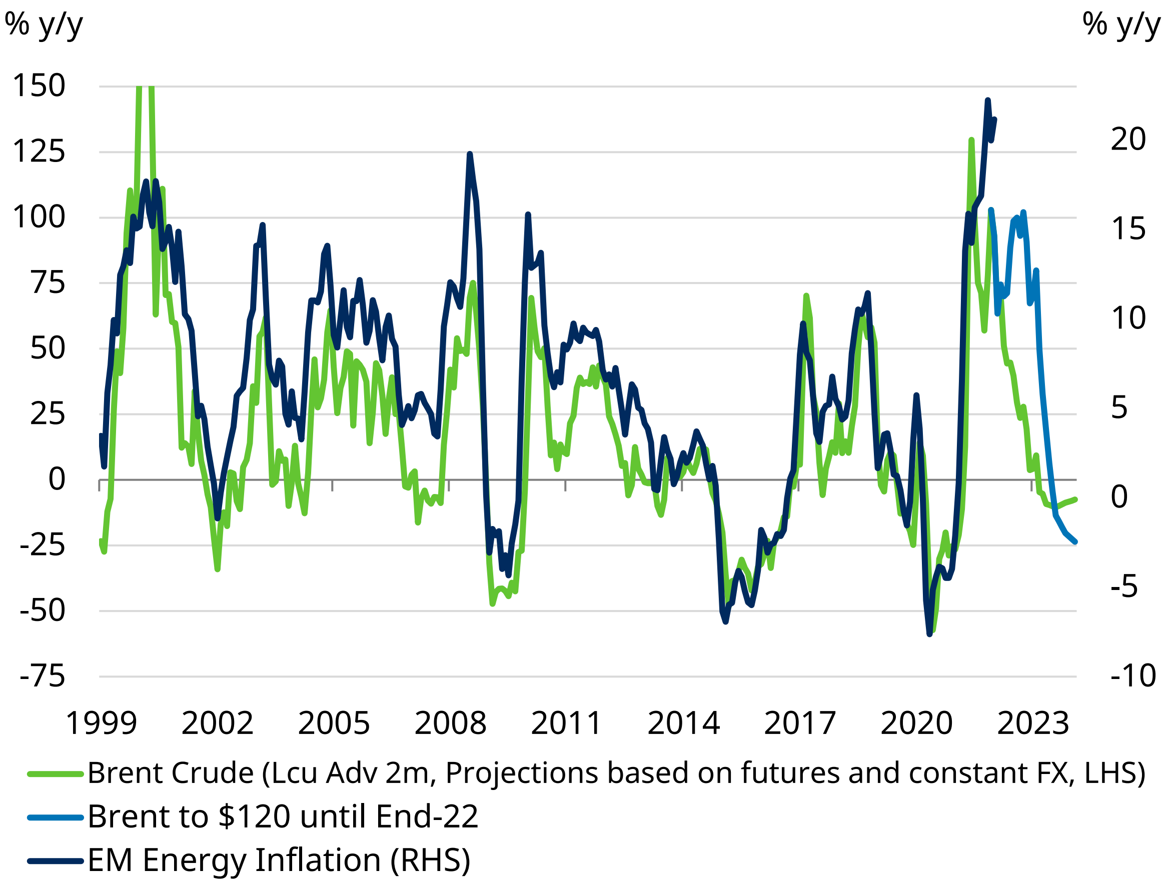


Source: Refinitiv Datastream, Schroders Economics Group. 23 February 2021.

Food and energy inflation to fall during 2022

Higher commodity prices and obvious risk





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Conclusions

1

Solid growth

A slowdown in global growth is inevitable, but it should remain robust driven by developed markets. China should improve later this year

2

Higher interest rates

The peak in inflation is in sight but central banks will hike rates to ward-off upside risks, particularly in the Fed. Energy costs a threat

3

Russia/Ukraine

Geopolitical tensions are a clear risk to the outlook and much depends on how bad relations becomes. Most outcomes are stagflationary

Source: Refinitiv, Schroders Economics Group. 23 February 2022.

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