A Special Report from

SAVVY INVESTOR

2022 Investment Outlook: The new abnormal?

Discussing the year ahead with leading economists and strategists

Authored by Savvy Investor

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Special Report

2022 Investment Outlook: The new abnormal?

TABLE OF CONTENTS

Introduction

2022 Investment Outlook: The new abnormal?

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Sebastian Culpan-Scott is a Chartered Member of the Chartered Institute for Securities & Investment. Prior to joining Savvy in 2020, Sebastian worked as an Investment Manager at Sanlam Wealth and Investec Wealth & Investment.

"DESPITE THE VOLATILITY IN MARKETS OVER RECENT YEARS, A NUMBER OF ASSET MANAGERS BELIEVE THE YEAR AHEAD WILL BE ONE OF AN ADJUSTMENT TO THE NEW NORMALITY FOR INVESTORS."

The new abnormal?

The start of 2022 marks almost two years since the start of the coronavirus pandemic. Over the last 24 months markets have experienced a rollercoaster of highs and lows, a number of which have been unexpected. The main concern for investors in the year ahead is finding ways to protect their capital being eroded by rising inflation whilst also keeping the portfolios in line with their risk budgets.

Despite the volatility in markets over recent years, a number of asset managers believe the year ahead will be one of an adjustment to the new normality for investors. Markets across the world are expecting central banks to eventually raise real interest rates in order to deal with increasing inflation and high growth. The outlook, however, is deemed to be positive with normal levels of growth expected to resume, and a number of opportunities still available.

In BlackRock's '2022 Global Outlook', they outline the expectation that central banks will raise interest rates, but they do not expect them to pursue aggressive deflationary policy. In their paper, BlackRock also discuss the path to net zero and how the transition will potentially lead to initial disruption, before creating long term opportunities in technology and clean energy.

Invesco, in their '2022 Investment Outlook' paper, also focus on the question of inflation and how markets and policymakers may react to it. They also discuss the world's growing immunity to the coronavirus, and how they feel this issue will be less of a risk factor going forward. An area they do highlight is the growing divergence between developed markets and emerging markets due to the pandemic's effects.

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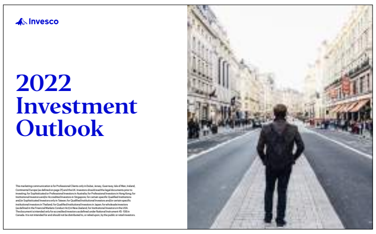
Featured Paper from Invesco:

2022 Investment Outlook



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"WE EXPECT GLOBAL GROWTH TO NORMALISE, REMAINING ABOVE ITS LONG-TERM TREND, BUT DECELERATING TO A MORE SUSTAINABLE RATE AS FISCAL STIMULUS IS GRADUALLY REMOVED."

Following the dramatic fiscal and monetary policy moves in 2020 and 2021, the stage is set for 2022 to be a year of transition as policies and economies move towards a more normal state. However, issues remain that will likely define the economic and market environment, including continued supply-chain disruptions and an upsurge in demand that threaten to keep inflation high across many economies. For 2022, our outlook is focused on the question of inflation and how markets and policymakers may react to it.

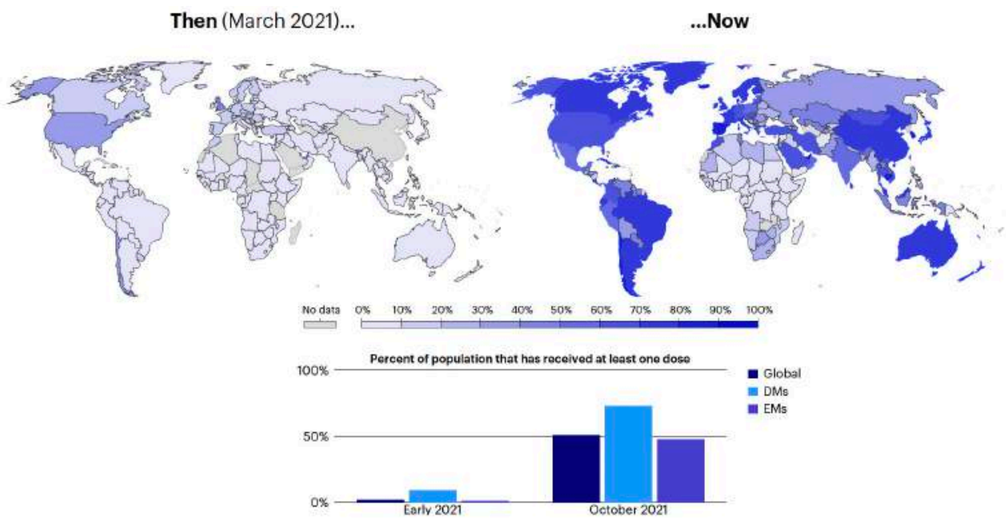
Our base case

We expect global growth to normalise, remaining above its long-term trend, but decelerating to a more sustainable rate as fiscal stimulus is gradually removed. We anticipate inflation to peak around mid-2022 and then start to slowly moderate, backing down towards target rates by the end of 2023 as supply chain issues resolve, vaccination levels increase, and more employees return to the workplace. We look for the Federal Reserve to remain relatively accommodative, but a shift in stance is likely in 2022 with the timing of a rate lift-off likely to shape market narrative. Finally, our expectation is that volatility will increase as markets digest the transition to slower growth and a gradual tightening in monetary policy.

Normalisation under way

While our base case for the global economy may resemble a mid-cycle slowdown, we believe that pandemic-driven disruptions have significantly altered traditional business cycle analysis. Instead, we view the path ahead as one of transition, marked by a period of continued growth but with a falling rate of change as economies digest the pandemic's extraordinary policy actions. 2022 looks set to be a year of transition as economies return to structural growth rates.

The world's increasing immunity to the coronavirus



Sources: Our World in Data and Invesco, as of October 31, 2021. "Early 2021" is defined as March 1, 2021.

"COVID-19 IS INCREASINGLY LESS OF A CONCERN IN OUR OUTLOOK AS THE ECONOMIC IMPACTS OF THE VIRUS CONTINUE TO FADE – THOUGH IN FITS AND STARTS ALONG THE WAY."

Whether through past infection or vaccination, people around the world are gaining immunity to the coronavirus, as confirmed in seroprevalence studies. While we remain wary of the potential of a new mutation of the virus, at present, Covid-19 is increasingly less of a concern in our outlook as the economic impacts of the virus continue to fade – though in fits and starts along the way. However, an uptick in cases in some countries remains a risk that could be accompanied by lockdowns and supply chain disruptions.

Growth is likely to return to trend

In 2022, we expect a gradual transition away from policy-led changes in growth. Instead, we see a return to more normal growth rates as business and household spending patterns normalise. The continued drawdown of unusually high household savings is likely to offset fiscal tightening, allowing for a further release of pent-up demand.

Emerging market growth is likely to diverge from developed markets

In emerging markets, we see growth picking up relative to developed markets as immunity to the coronavirus is acquired, and the U.S. dollar remains relatively neutral. Monetary policy tightening also appears relatively advanced in many emerging market economies. We expect further emerging market policy changes to reflect country-specific growth and inflation pressures as the U.S. Federal Reserve normalises in line with its guidance.

Shrinking fiscal deficits and tightening monetary policy ahead

Policy stances are changing across economies. In G7 nations, we see a combination of less fiscal support and monetary policy tightening in 2022 and beyond. Fiscal tightening should be offset by drawdowns of built-up private savings. We also expect a single rate hike from the Federal Reserve in the second half of 2022, in line with current FOMC 'dot plot' forecasts.

Inflation is likely on track to peak around mid-2022

"OUR EXPECTATION IS THAT INFLATION WILL CONTINUE TO RISE UNTIL PEAKING AROUND MID-2022, FOLLOWED THEREAFTER BY HIGH BUT FALLING READINGS."

Our expectation is that inflation will continue to rise until peaking around mid-2022, followed thereafter by high but falling readings. We are also encouraged by falling money supply growth. When viewed as a precursor to inflation, this suggests fewer inflation pressures ahead. Moreover, Covid-19 resulted in a concentration of spending in durables while supply chains became strained, resulting in heightened price pressures that appear to be resolving slowly.

Click here to download the full paper.

Ask the Expert with BlackRock Institutional:

Private Markets in 2022: Opportunities in a Time of Transition

Jim Barry is the Chief Investment Officer of BlackRock Alternatives. As CIO, Mr. Barry has accountability for all investment activities across the platform, which is comprised of the firm's investment capabilities across Real Estate, Infrastructure, Hedge Funds, Private Equity and Credit.

Jim Barry
Chief Investment Officer, BlackRock Alternatives

Sebastian Culpan-Scott
Editorial Director, Savvy Investor

"THE RAPID PACE OF CHANGE WILL CREATE WINNERS AND LOSERS WITHIN INDUSTRIES, AND BUSINESSES NEED FAST, FLEXIBLE CAPITAL, IN THE FORM OF BOTH EQUITY AND DEBT, TO COME OUT ON TOP."

We believe private market investments are critical for portfolios as we head into 2022. As we head into the new year, private markets are in good health, with plenty of opportunities for investors who can navigate the rapidly changing landscape. In light of growing competition, diversification across private markets is more crucial than ever. Real assets, credit and private equity all have the potential to be valuable sources of income for investors.

BlackRock believes 2022 will be a year of resilience and adaptation, as private market investors navigate an unprecedented market regime.

Sebastian Culpan-Scott: What are the main megatrend themes to watch out for in private markets in 2022?

Jim Barry: We've identified six megatrends that are driving change across the economy and making a big impact on private markets: (1) technology growth, (2) healthcare growth, (3) decarbonization, (4) changing life patterns, (5) growth in Asia and (6) sustainable investing. Let's take a brief look at each of these megatrends.

The adoption of technology is accelerating in all sectors as more activity moves online and also as companies confront supply chain and inflation challenges. It's creating opportunities for investors to finance both tech companies (especially in cloud services and AI) and traditional firms continuing to embrace digitalization. The rapid pace of change will create winners and losers within industries, and businesses need fast, flexible capital, in the form of both equity and debt, to come out on top.

Healthcare was an attractive sector even before the pandemic hit, and today the tailwinds are even stronger, especially in healthcare technology and telemedicine. As the population ages and income levels rise, we're seeing a strong flow of opportunities across private equity and private credit.

Decarbonization presents a historic opportunity, with a lot of potential for private capital to work in partnership with public capital. We know that the transition will be uneven, and it will present both regional and sector opportunities. For investors, the task is to think broadly and systematically about where financing is needed.

The ways we work, play, shop and learn are rapidly evolving, with major consequences for real assets, especially real estate. We see demand for property evolving as tenants look for sustainably engineered buildings. While asset-specific factors will continue to drive returns, investors may also benefit from inflation-linked returns.

We also continue to see Asia as a major source of growth in private markets. One powerful driver of growth will be the demand for infrastructure. China in particular presents a strong investment opportunity over the long term.

Finally, sustainability across private markets continues its rapid ascent. The global events of the past two years have intensified investor demand for sustainable investments, and we see a wide variety of sustainable opportunities in markets today. For example, impact investments in under-explored themes such as financial inclusion may open up new sources of alpha across private asset classes.

> “We know that real assets contribute about 40% of greenhouse gas emissions, so they will likely see more intense scrutiny over time.”

“TO ACHIEVE NET ZERO, ANNUAL INVESTMENT IN KEY SECTORS MUST MORE THAN TRIPLE TO $4 TRILLION BY 2030, THE INTERNATIONAL ENERGY AGENCY PROJECTS.”

Sebastian: **What role will the net-zero transition play in investment markets this year?**

Jim: Much has been said about the net-zero destination. The question is: How do we get there? Predicting this path will create opportunities for investors in power, transportation, industry and agriculture. Doing so will require a solid understanding of policy, innovation, cost and resilience.

We see a wealth of opportunities across private markets. To achieve net zero, annual investment in key sectors must more than triple to $4 trillion by 2030, the International Energy Agency projects. Investing in food security via temperature-controlled shipping is one good example of a more specific opportunity in this area. We’re also keeping an eye on emerging energy technologies – for example, carbon capture and electric vehicle charging – as they take advantage of falling costs, rising economies of scale and improving commercial viability. And then there’s the big, essential buildout that must happen in renewable energy sources such as wind and solar.

We know that real assets contribute about 40% of greenhouse gas emissions, so they will likely see more intense scrutiny over time. Investors in real assets can play a vital role in the net-zero transition by improving the ESG impact of their portfolio. We don’t believe incorporating ESG hinders investment performance objectives, rather that they are recognized as critical to protect value, mitigate depreciation and reduce climate-related investment risks. In our experience, there is ample opportunity to add returns by lifting occupancy, income and liquidity, as well as improving ESG credentials.

> “Climate-related investments may be the biggest opportunity set, but we’re also optimistic about opportunities in advancing good health and wellbeing, as well as education and financial inclusion.”

When it comes to private equity, we think it’s well positioned to lead in the transition to a sustainable economy. Private equity has a long-term focus, direct governance, skill at improving operations and management and track record in financing innovation – all aspects that benefit the transition. Climate-related investments may be the biggest opportunity set, but we’re also optimistic about opportunities in advancing good health and wellbeing, as well as education and financial inclusion.

Sebastian: **Do you expect private equity to continue to outperform public markets?**

Jim: We’re cautiously optimistic. A low-rate borrowing environment, open capital markets and an abundance of dry powder are combining to

"IN NORTH AMERICA AND EUROPE, WE SEE OPPORTUNITY IN FAST-GROWING SUBSECTORS, ESPECIALLY IN COMPANIES WITH THE POTENTIAL TO INCREASE REVENUES AND MARGINS THROUGH ACTIONS THAT AREN'T CORRELATED TO BROADER MARKETS."

create auspicious conditions for private equity. As transactions become increasingly global, we believe there is room for continued growth, and we expect the current rapid pace of investment to continue in 2022.

We expect valuations to remain high, which means selectivity will be critical. Global sourcing capabilities, deep industry knowledge and access to proprietary data will continue to provide important advantages in this changing landscape.

In North America and Europe, we see opportunity in fast-growing subsectors, especially in companies with the potential to increase revenues and margins through actions that aren't correlated to broader markets. In Asia, geopolitical tensions and increased regulation bring some short-term risks, but we believe China continues to offer strong long-term opportunities, especially in technology, healthcare and consumer goods.

Sebastian: With interest rates still near historically low levels, where do you expect to find opportunities in credit markets?

Jim: We believe credit markets remain a critical source of income, and both public and private credit should be core holdings in portfolios. Higher equity volatility and changes in fixed income will likely create a continued demand for credit assets as investors increase their preference for income-driven return over price returns. Private credit in particular looks to benefit from these circumstances, given the yield premiums available.

> **"Non-cyclical sectors such as technology, healthcare and business services have been a focus of deal flow, since they've been less impacted by Covid compared to retail, travel and leisure."**

Non-cyclical sectors such as technology, healthcare and business services have been a focus of deal flow, since they've been less impacted by Covid compared to retail, travel and leisure. We continue to see opportunities to partner with companies whose liquidity needs are not met by the traditional capital markets and require alternative sources of financing, especially capital solutions to fund growth.

Sebastian: What is your outlook for real assets markets, including real estate and infrastructure?

Jim: We believe 2022 will see a broad, strong real asset market upswing, marked by a fast rebound upon reopening and a slow rebuild to recover lost capacity.

Infrastructure markets will be driven by the three Ds: decarbonization, digitalization and decentralization. The push to decarbonize the global economy requires a massive energy transition from fossil fuels to renewables, not just with the mainstays of solar and wind, but increasingly with carbon capture, battery storage and blue and green hydrogen. Meanwhile, the digital world continues to transform our daily lives, with online work, shopping, schooling and entertainment markedly accelerated by the pandemic. We see robotics and automation continuing to deliver big productivity gains. Finally, infrastructure services are decentralizing on several fronts, as location becomes less important for virtual work and shopping, and as holdings diversify for resilience and operational efficiency.

The three Ds will also play out across real estate markets, alongside additional drivers. In particular, the wide divergence in performance between winners and losers will likely continue in 2022, providing opportunity for alpha from sector selection. At the same time, distressed and dislocated real estate segments are starting to show signs of deep

"SHORT-TERM MACRO RISKS LIKE INTEREST RATE RISES AND INFLATION ARE HIGH ON MOST INVESTORS' LIST OF CONCERNS."

value, and unlocking these opportunities demands on-the-ground, off-market sourcing capabilities. Looking further ahead, long-run demographic drivers remain important. For example, local differences in population and aging trends make compelling cases for childcare centers in Australia, multifamily housing in the U.S. and senior living in Japan.

Sebastian: What are the risks that could derail markets this year?

Jim: Short-term macro risks like interest rate rises and inflation are high on most investors' list of concerns. Together with geopolitics they create the potential for a market shock and a reduction in risk appetite. However, we don't think these considerations should be overemphasised in one's view of private market investments, where it's the long-term trends that matter most and investments can be underwritten for resilience.

That's not to say these risks don't matter. Inflation is running at the highest level since the early 1980s in the U.S., driven by supply chain disruptions and high labor and input costs. We believe inflation is likely to be elevated but in control in 2022. Three approaches can help investors even if this risk proves greater than expected.

First, they can investigate biases within portfolios and the ways investments react in different market environments. Some private market investments offer growth, inflation protection, and/or floating rate returns as a potential counter to inflation-related risks. Second, investors should keep in mind that pricing power is highly differentiated by sub-industry. In general, technology-intensive businesses can maintain pricing power, giving them more flexibility. Third, investors can ignore the temptation to time the market, thereby achieving a more consistent return stream. Rising interest rates are another obvious risk. Rising inflation may prompt a reduction in stimulus and higher funding costs. In this context, floating-rate lender exposures are better to hedge against rising rates, even though fixed-rate assets are still popular with debt investors for liability matching.

Sebastian: How are you structuring your portfolios for the year ahead?

Jim: Portfolio construction is an increasingly important driver of returns, so we asked our Alternative Solutions Group to model a portfolio that reflects our views. The starting point is a market-weighted portfolio, in which allocations are sized proportionally to the assets under management in corresponding sectors. We then increased exposure to infrastructure and real estate to reflect the decarbonization and digitalization themes. This also brings an element of inflation protection. Meanwhile, the model retains exposure to technology and healthcare through its allocations to private equity and credit, but with lower expected risk overall.

This isn't a specific investment recommendation, but we do think the exercise shows the importance of portfolio construction, especially in a climate like the current one.

Please see additional content on opportunities within Chinese markets:
[The growing opportunity in China's private markets | BlackRock]

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In partnership with Eden Reforestation Projects, we have committed to the planting of a tree for every new Savvy Investor member.

Eden Reforestation Projects is a 501c3 non-profit charity whose mission is to provide fair wage employment to impoverished villagers as agents of global forest restoration. Their ‘employ to plant methodology’ results in a multiplication of positive socio-economic and environment measures.

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Featured Paper from BlackRock Institutional:

2022 Global Outlook: Thriving in a new market regime


BlackRock

2022 Global outlook

BlackRock Investment Institute

Thriving in a new market regime

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"IN 2022, WE BELIEVE NEW VIRUS STRAINS WILL DELAY BUT NOT DERAIL THE POWERFUL ECONOMIC RESTART."

Thriving in a new market regime

The Covid-19 pandemic continues to disrupt global economies, causing major market shifts. In 2022, we believe new virus strains will delay but not derail the powerful economic restart. Given the unique circumstances facing economies around the world, we see a wide range of potential outcomes for markets in the coming year. We've identified three themes for to help guide investors through this unpredictable time-cutting through confusion, living with inflation and navigating net zero.

> **"In 2021 global stock returns were positive, while bonds were negative – a rarity in the same calendar year. However, we see the possibility that this could happen again for second consecutive year in 2022."**

Cutting through confusion

In 2021 global stock returns were positive, while bonds were negative – a rarity in the same calendar year. However, we see the possibility that this could happen again for second consecutive year in 2022. A historical first since data started being collected in 1977. In this new regime, it will be important for investors to cut through the confusion that has taken hold of markets.

The 2021 restart resulted in severe inflation pressures and supply bottlenecks. Real yields remained low even as inflation climbed, and growth surged. Central banks across developed markets had a muted response. and market started to price in higher inflation. Nominal bond prices fell, yet real yields stayed historically low. Corporate earnings surged in the restart, driving big stock gains. This was the new nominal in action.

2022 is the next phase of this story. The restart no longer requires the same level of monetary support, despite being delayed by new Covid-19 strains and central banks are poised to nudge up policy rates. However, we don't expect them to react aggressively to persistent inflation. Rather real yields may rise gradually but persist on the lower end of historical levels.

Living with inflation

Last year's sharp rise in inflation was mostly due to supply and demand mismatches. Supply chains needed to be revamped to account for changes in consumer behavior (brick and mortar to online), while Covid-19 and the post pandemic economy created additional supply chain disruption. Even after these bottlenecks ease, we believe inflation will settle at higher than pre-pandemic levels. Major central banks have adjusted their approach and signaled they are more comfortable with higher levels of inflation and will most likely continue with a more muted policy reaction.

Taking a look at the U.S. Federal Reserve, we believe they will kick off rate hikes in 2022, but not to aggressively moderate inflation. One of the most anticipated moments we are monitoring is how the Fed interpret its own 'broad and inclusive' employment objective to guide rate expectations. Under the mandate the Fed will wait to see further progress on the return of people to the workplace. As labor markets rebound, we expect rates to gradually rise, and remove some of the stimulus added during the 2020 shock.

The European Central Bank (ECB) is taking a different approach and still wants inflation to settle at 2% rather than falling well short, as it has for years. The ECB's medium-term inflation projections are likely to settle below its 2% target. As a result, we believe the ECB will not lift rates significantly for a few more years, and it is likely to increase its regular asset purchases as the special pandemic program ends next year.

> **"There is a popular notion that tackling climate change may lead to higher economic costs and inflation. We don't agree."**

Navigating net zero

There is a popular notion that tackling climate change may lead to higher economic costs and inflation. We don't agree. Yes, the growth outlook would be better if climate change didn't exist. But that's not an option; climate change is real. No climate action or a disorderly transition could impede growth and result in even higher inflation. Whereas in our view the better alternative is a smooth net-zero transition that can create higher growth with lower inflation.

We believe the transition will be an ongoing driver of asset returns over the coming years thanks to the tectonic shift of capital to retool economies. Sudden divestment from carbon-heavy companies and sectors could be disruptive, adding to inflation pressures. Carbon-heavy companies changing business models to reduce emissions will also require capital. Additionally, the huge investment required to build new technologies and clean energy infrastructure, may provide significant opportunities for investors.

"PRIVATE MARKETS ARE INCREASINGLY BECOMING AN IMPORTANT SOURCE OF CAPITAL, AND MANY COMPANIES NOW FACE DIFFICULT DECISIONS ABOUT WHETHER TO GO PUBLIC OR PRIVATE FOR THEIR FINANCING NEEDS."

These three themes – cutting through the confusion, living with inflation and navigating net zero – will play out across both public and private markets. Private markets are increasingly becoming an important source of capital, and many companies now face difficult decisions about whether to go public or private for their financing needs. What is clear is that even as competition for assets continues to increase, opportunities for private market investments abound.

Click here to download the full paper.

Ask the Expert with Invesco:

Is Inflation the Main Risk for Investors This Year?

Kristina Hooper is Chief Global Market Strategist at Invesco. In this role, she leads Invesco's Global Market Strategy (GMS) Office, which has strategists on-the-ground in North America, Europe and Asia. Ms. Hooper and her team formulate macro views of the markets and economy, examine the investment implications of those views, and share their insights with clients and the media around the world.

Kristina Hooper
Chief Global Market Strategist, Invesco

Sebastian Culpan-Scott
Editorial Director, Savvy Investor

"WE HAVE LONG HELD THE VIEW THAT THE HIGH INFLATION WE ARE SEEING IS LARGELY A FUNCTION OF THE UNIQUE ISSUES CREATED BY THE PANDEMIC."

Sebastian Culpan-Scott: Can you provide some insight into the process that Invesco uses to generate investment outlooks?

Kristina Hooper: Invesco highly values diversity of thought which is why this process is first and foremost a collaborative effort. We bring together some of our most experienced investment professionals and thought leaders, representing different regions and asset classes, to undergo a multi-step process. We begin by developing GDP projections and inflation projections based on a variety of inputs. We also factor in fiscal and monetary policy in various countries and regions to help form our view. We then determine where in the economic cycle we are as well as our views on the forward direction of policy, which informs our asset class preferences. In our process of addressing the breadth of possibilities that lie ahead in the current macro environment, we supplement our high conviction base case with two additional tail risk scenarios and contemplate the investment implications of each. This allows us to identify and address how risks may impact our investment views.

Sebastian: How did you and your colleagues come to your base case views on inflation, which anticipate it peaking mid-year 2022 before beginning to moderate towards target rates in 2023?

Kristina: We have long held the view that the high inflation we are seeing is largely a function of the unique issues created by the pandemic: elevated household savings, pent-up demand, lower supply driven by Covid-related disruptions and Covid-related employee shortages. And that led us to the view that while inflation has been trending higher, it is likely to reverse course by mid-2022 as the economic and policy environment normalises.

> **"We expect supply chain issues to resolve, vaccination levels to increase, and more employees to return to the workforce."**

We expect supply chain issues to resolve, vaccination levels to increase, and more employees to return to the workforce. This could take time to fully normalise, but we expect material improvement in these extraordinary conditions by mid-2022.

Sebastian: What monetary policy are you expecting central banks to adopt in order to deal with inflation?

Kristina: There is significant pressure on the Fed, especially since this is an election year and politicians are very focused on inflation. We expect the Fed to utilize three different monetary policy tools: asset purchase tapering, rate hikes, and balance sheet reduction. We believe there is less pressure on other central banks, such as the ECB and the Bank of Japan, to act as aggressively given more subdued inflation expectations and relatively low inflation.

Sebastian: **Which countries / nations are you expecting to drive global growth over the next year?**

Kristina: We expect developed countries to experience a deceleration in growth in 2022, but that they will remain modestly above trend. We expect emerging markets countries to experience an acceleration in growth. China in particular should help drive global growth as its economy re-accelerates, helped by an increase in fiscal and monetary stimulus.

Sebastian: **How are you expecting emerging markets recover over the next year?**

Kristina: We expect emerging markets to benefit from rising vaccination levels, which will enable EM countries to experience a more robust economic re-opening. We believe the US dollar already reflects the shifted stance of the Federal Reserve and will be relatively neutral from its current level in 2022, which also supports our preference for emerging markets. I also provide the caveat that many idiosyncratic factors have driven the performance of EM in 2021 and may well continue to do so in 2022. We will follow up with more specific views on different areas within emerging markets.

> “We expect further supply chain stress as China pursues targeted lockdowns in line with its zero Covid strategy.”

“OUR OUTLOOK REMAINS LARGELY INTACT, WITH THE NOTABLE EXCEPTION THAT WE EXPECT A NEAR-TERM NEGATIVE IMPACT ON GROWTH IN Q1 DUE TO OMICRON THAT IS THEN MADE-UP FOR LATER IN THE YEAR.”

Sebastian: **What impact has the recent global spike in Covid-19 cases had on the views that you laid out earlier?**

Kristina: Our outlook remains largely intact, with the notable exception that we expect a near-term negative impact on growth in Q1 due to Omicron that is then made-up for later in the year – possibly as soon as Q2 given how fast-moving Omicron is. Also due to Omicron, we expect further supply chain stress as China pursues targeted lockdowns in line with its zero Covid strategy. This should exacerbate inflationary pressures in the shorter term. This also is likely to negatively impact Chinese growth but not derail it.

> “The other significant risk is the emergence of a variant that is not protected against by any existing vaccines – and is far more dangerous than the Omicron variant.”

Sebastian: **What other significant risks do you see to your base case view beyond the path of inflation?**

Kristina: The other significant risk is the emergence of a variant that is not protected against by any existing vaccines – and is far more dangerous than the Omicron variant. While we view this risk as low probability, it would have a substantial impact on our outlook. However, in that event we expect a less severe hit to the economy than in the early days of the pandemic: Much activity has moved online, and many services have not fully reopened. Instead of another major downturn, the economic rebound would be restrained, probably requiring extended monetary and fiscal policy support.

"WE EMPHASIZE THAT DIVERGENCE AMONG INDIVIDUAL COUNTRIES IS LIKELY TO CONTINUE AND SO REGIONAL SELECTION IS A CRITICAL FACTOR."

Sebastian: Where do you see potential opportunities for investors?

Kristina: We believe there are opportunities for investors who actively invest in emerging markets, given the potential of the asset class and its attractive valuations, though we emphasize that divergence among individual countries is likely to continue and so regional selection is a critical factor. An exciting contrarian play is Chinese equities, especially China tech, given concerns about regulation and unease over recent property market events. Such events have spooked investors away from what we view as a solid structural opportunity.

> **"This is a time for broad diversification across and within asset classes given our expectations for higher volatility."**

Sebastian: Are there any asset classes investors should avoid?

Kristina: Investors should avoid over-concentration in any asset class. This is a time for broad diversification across and within asset classes given our expectations for higher volatility. Indeed, our outlook thesis is for a convergence of returns across asset classes, with empirical evidence suggesting that this time in the economic cycle is a challenging one to choose particular winners. This emphasizes the role of diversification in spreading one's portfolio across a range of asset classes as appropriate.

Savvy Investor's Top Recent Investment Outlook Papers

TOP 30

The following table features 30 of the top investment outlook papers recently uploaded to the Savvy Investor site.

The growth in renewable energy is expected to accelerate in 2022, due to the growing concern for climate change and the demand from investors for companies and governments to meet net zero targets. Deloitte and IEA discuss the recent developments in renewable energy and provide forecasts for the sector going forward.

PGIM Real Estate and Hazelview Investments provides an outlook for real estate markets in 2022 and outline key trends that are expected to drive the real estate market in the year ahead. They also highlight areas and sectors where they expect to be attractive growth opportunities going forward.

A number of papers also discuss investment outlooks for credit markets, Asian markets and cryptocurrencies.

SAVVY INVESTOR'S TOP RECENT INVESTMENT OUTLOOK PAPERS (BY DATE)

PAPER TITLE	DATE PUBLISHED
Global Credit Outlook 2022 (S&P Global)	07/01/22
Global Cryptocurrencies 2022 Outlook (Bloomberg)	07/01/22
Asia-Pacific Real Estate Outlook 2022 (Knight Frank)	07/01/22
Renewable Energy Outlook for 2022 (IEA)	07/01/22
2022 Equity Sector Outlook (Wells Fargo Advisors)	07/01/22
2022 Banking and Capital Markets Outlook (Deloitte)	07/01/22
2022 Economic and Global Markets Outlook (AXA IM)	07/01/22
2022 Outlook: Inflation, risk appetite, and China (Absolute Return Partners)	07/01/22
2022 Outlook: Middle East and North Africa sovereigns (Fitch Ratings)	07/01/22
2022 Global Real Estate Outlook (Hazelview Investments)	07/01/22
Global Macro Outlook 2022: Moving from stagflation to growth (Manulife IM)	07/01/22
2022 Asian Equities: Opportunities in a diverging market landscape (Manulife IM, Dec 2021)	06/01/22
2022 Global Market Outlook (T. Rowe Price, Dec 2021)	05/01/22
2022 Outlook (PGIM Quantitative Solutions, Dec 2021)	05/01/22
Infrastructure Outlook for 2022 (UBS AM Dec 2021)	05/01/22
Real Estate 2022: Annual strategy outlook (Principal Real Estate Investors)	04/01/22
2022 Renewable Energy Industry Outlook (Deloitte)	04/01/22
2022 Insurance Industry Outlook (Deloitte)	04/01/22
Outlook 2022: Private assets (Schroders)	04/01/22
Multi-asset Outlook and Thoughts for 2022 (Insight Investment)	04/01/22
Webinar: Asia and China 2022 outlook (State Street, Dec 2021)	04/01/22
Global Investment Outlook – New Year 2022 (RBC GAM, 2021)	03/01/22
2022 Global Property Markets and Sectors Outlook (AEW)	29/12/21
2022 Insurance Outlook: Three transition year themes (Wellington Management, Dec 2021)	24/12/21
2022 Global Outlook: Thriving in a new market regime (BlackRock, 2021)	22/12/21
2022 Outlook for the Economy, Commercial Real Estate, and REITs (Nareit)	21/12/21
2022 Sovereign Outlook (Scope Ratings)	21/12/21
2022 Investment Outlook: A new balancing act (Janus Henderson Investors, 2021)	17/12/21
2022 Outlook: Real estate trends set to shape the next 12 months (PGIM Real Estate, Dec 2021)	17/12/21
2022 Investment Outlook (Invesco, Dec 2021)	16/12/21

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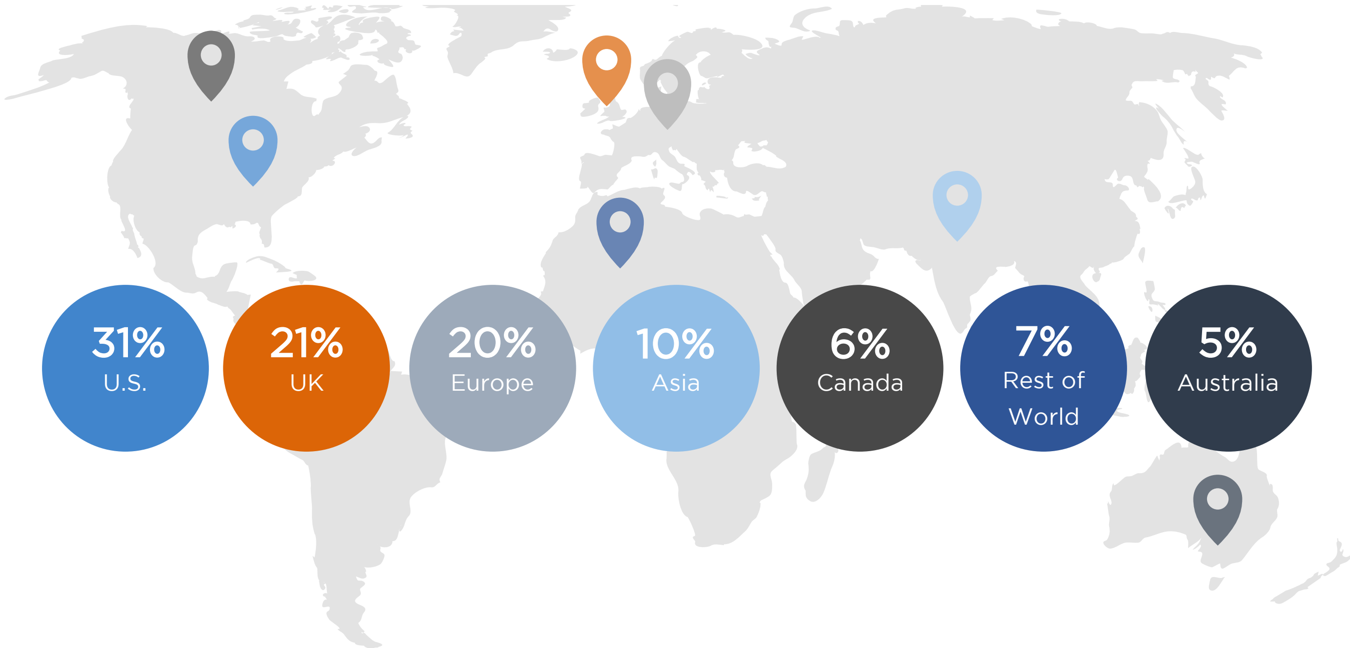

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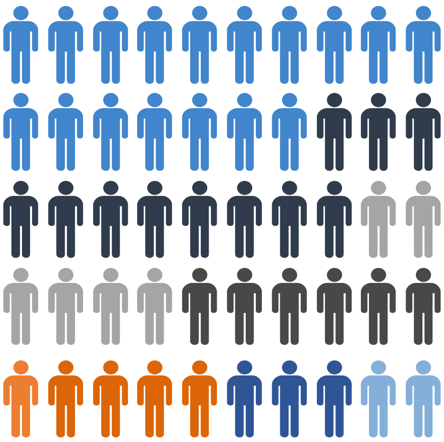

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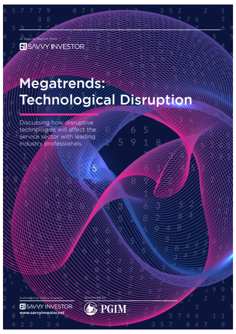

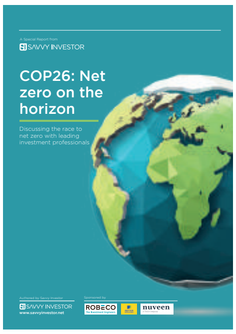

February 2022

Thematic Investing

March 2022

Real Assets

ESG Landscape

April 2022

Emerging Markets

Climate Change / ESG Investing

May 2022

Fixed Income

Alternative Assets

Subject to demand (at any time)

The Business of Asset Management

Insurance Asset Management

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