AllianceBernstein

GLOBAL ECONOMIC RESEARCH

GLOBAL MACRO OUTLOOK

FOURTH QUARTER, 2021

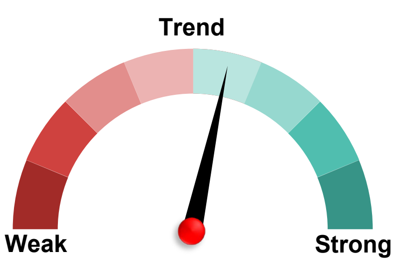
KEY FORECAST TRENDS

- The skew of risks around global growth has shifted markedly in recent months: from widespread optimism and upside risks to a more sober assessment of the outlook.
- China's property market, the US debt ceiling and soaring energy prices in Europe all cloud the outlook. We're also concerned that supply-side dislocations stemming from COVID-19 could be more pervasive and persistent than expected.
- So, while our numbers haven't changed very much—we expect the global economy to grow by 5.9% this year before slowing to 4.2% in 2022—this stability masks an important change in the narrative.
- Of particular concern to us is the specter of a more challenging growth/inflation mix and a less certain outlook for monetary policy—one in which the only choices available to central banks are difficult ones.
- For now, we share the view that inflation is likely to fall back next year. But upward pressure on prices has already been less transitory than expected, perhaps hinting at a more fundamental shift in inflation dynamics.
- How central banks respond will depend on their tolerance for higher inflation and the extent to which inflation expectations are well anchored. That's likely to mean greater dispersion—some smaller central banks have already tightened.
- But the key focus is the US Federal Reserve. As things stand, we don't expect a US rate hike until 2023. But rapid tapering would, in theory at least, leave the door open for an earlier move—something else for markets to fret about.

CONTENTS

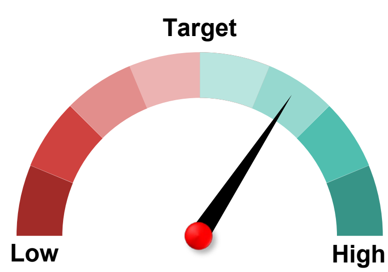
THE GLOBAL CYCLE

ECONOMIC ACTIVITY



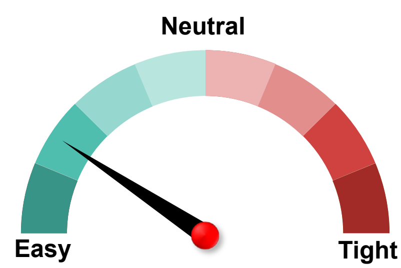
- Growth is likely to moderate somewhat as the boost from reopening starts to fade.
- Output is back at precrisis levels but is still short of where it would have been, but for COVID-19.

INFLATION



- COVID-19–related dislocations and distortions continue to put upward pressure on inflation.
- We continue to think this pressure is transitory, but risks are heavily skewed to the upside.

MONETARY POLICY



- Policy rates in the US, euro area and China are likely to remain on hold until at least the end of 2022.
- But sustained upward pressure on inflation would make this a more finely judged call.

GLOBAL FORECAST

FORECAST OVERVIEW

Key Assumptions

- **COVID-19:** fading as a cyclical driver but could inhibit consumer behavior and weigh on growth for some time to come
- **Fiscal policy:** still expansionary but scope for additional support now fading
- **Monetary policy:** should remain highly accommodative, even as central banks start to reduce bond purchases; rate hikes may soon move onto the horizon
- **Secular backdrop:** headwinds to be exacerbated by COVID-19; populism and climate policies to remain key drivers

Central Narrative

- **Global growth:** to slow but set to remain above the precrisis trend: post-lockdown momentum and highly supportive policy mix
- **Inflation:** likely to fall back, but significant risk that current price pressures prove more pervasive and persistent than expected
- **Yields:** gradual increase likely as economies normalize; central banks will want to avoid a disruptive increase
- **USD:** broadly stable against EUR and JPY with modest upside bias; global outlook now less supportive for growth-sensitive currencies

Key Upside Risks

- Monetary stimulus more effective than anticipated—could housing be the channel?
- Households spend more of their accumulated savings than expected

Key Downside Risks

- Deteriorating growth/inflation mix forces central banks to tighten policy even as growth slows
- Policy error pushes Chinese property market into hard landing
- COVID-19 variants

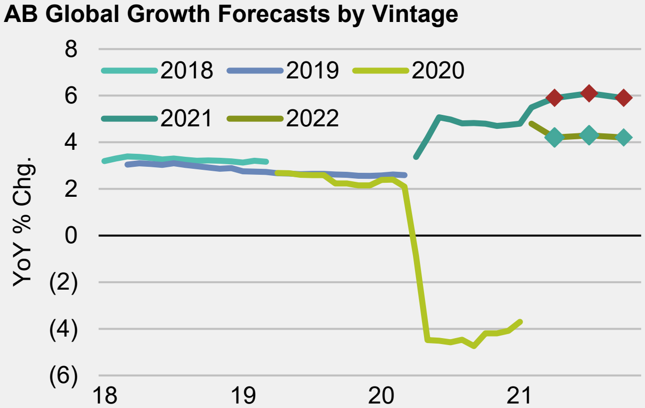
AB Growth & Inflation Forecasts (%)

	Real GDP Growth		CPI Inflation	
	2021	2022	2021	2022
US	6.1	3.9	4.0	2.3
Euro Area	5.1	4.0	2.4	2.5
Japan	2.1	3.7	(0.1)	0.6
China	8.0	5.3	0.9	1.8
Global	**5.9**	**4.2**	**3.2**	**2.6**
Industrial Countries	5.2	4.0	2.9	2.2
Emerging Countries	6.9	4.6	3.3	3.3
EM ex China	5.9	4.0	6.2	4.7

As of September 30, 2021
Source: AB

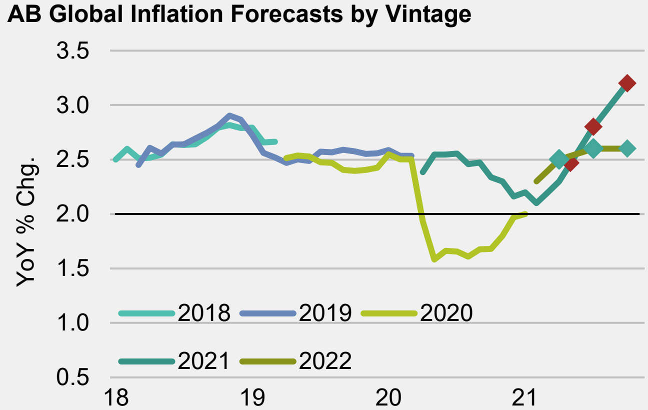
FORECASTS THROUGH TIME

AB Global Growth Forecasts by Vintage



Forecast years start in February: i.e., the first forecast for calendar year 2022 is February 2021.
As of September 30, 2021
Source: AB

AB Global Inflation Forecasts by Vintage



Forecast years start in February: i.e., the first forecast for calendar year 2022 is February 2021.
As of September 30, 2021
Source: AB

GLOBAL MARKET OUTLOOK: YIELD CURVES

GLOBAL YIELDS

Global—We've made limited changes to our yield forecasts and still expect a modest increase through 2022. Our yield targets for the end of 2022 are 2.00%–2.50% for 10-year Treasuries and 0.00%–0.50% for 10-year Bunds.

US—Yields have moved higher as inflation has persisted and the Fed signaled an imminent taper. We expect rates to continue rising, but the global environment and percolating political risks suggest that the move is likely to be more modest than past cycles.

Euro Area—The ECB's focus on preventing a premature tightening of financial conditions means it's likely to push back against a rapid increase in bond yields. But with the medium-term inflation outlook improving and inflation expectations rising, the Governing Council is likely to be more comfortable accommodating a gradual increase in Bund yields.

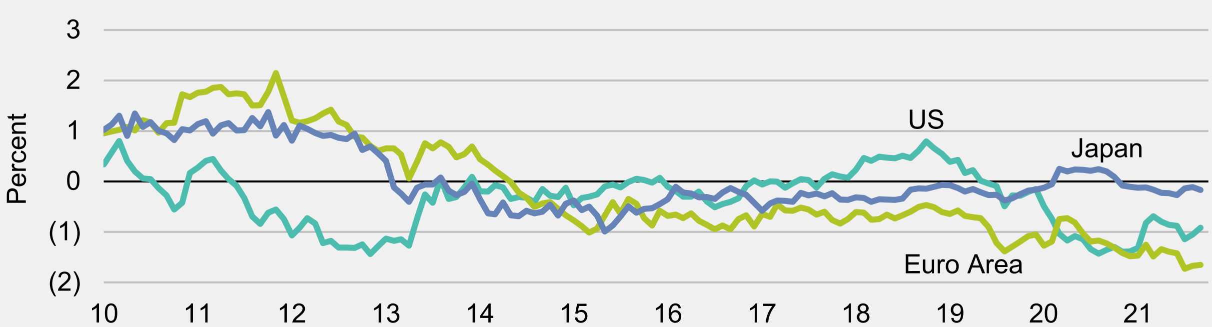
Japan—The BoJ remains cemented to yield-curve control (YCC) until at least the end of Governor Kuroda's term in 2023. Expect no change to target yields, with continued opportunistic adjustment of JGB purchases to manage the yield curve.

10-Year Yields: AB vs. Consensus Year-End Forecasts (%)

	AB		Consensus	
	2021	2022	2021	2022
US	1.75	2.25	1.59	1.99
Euro Area	(0.10)	0.25	(0.21)	(0.01)
Japan	0.00	0.00	0.07	0.12
China	2.90	3.10	2.88	2.95

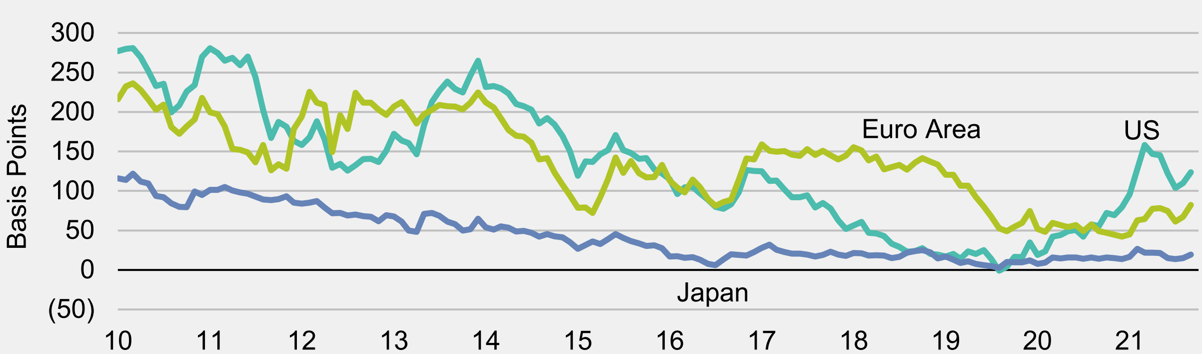
As of September 30, 2021
Source: Bloomberg and AB

Real 10-Year Bond Yields*



*Current 10-year bond yield less five-year/five-year-forward inflation swap
Through September 30, 2021
Source: Bloomberg and AB

Yield Curves: 10-Year Bond Yield Minus Two-Year Bond Yield



Through September 30, 2021
Source: Bloomberg and AB

GLOBAL MARKET OUTLOOK: CURRENCIES

FX FORECASTS

USD—The dollar continues to be sensitive to monetary-policy expectations, and with the Fed moving closer to tapering, the dollar has benefited. Because we do not expect a rate hike in 2022, however, the dollar's upside is probably limited outside periods in which risk-off sentiment predominates. That leaves us expecting the dollar to be largely range-bound against most major currencies in the coming quarters.

EUR—The euro has fluctuated in a relatively narrow range against the US dollar this year. We expect this to continue, though faster US growth and a widening yield differential point to a near-term bias toward euro weakness.

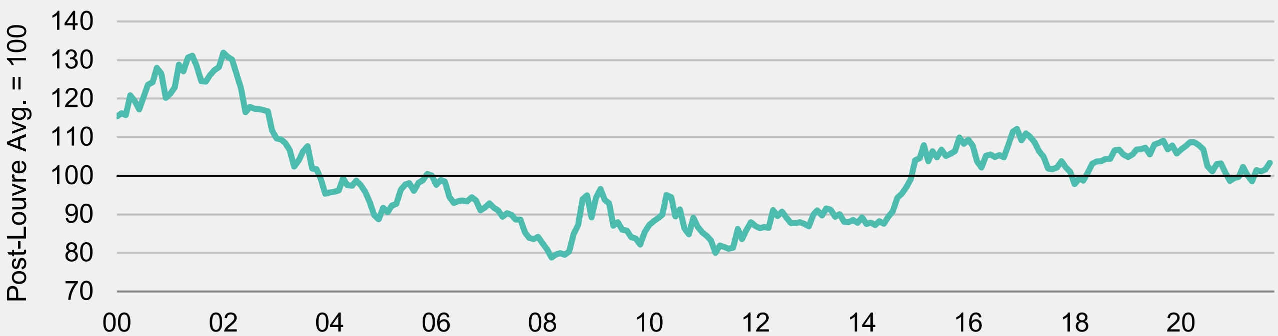
JPY—The yen has been the weakest-performing G-10 currency year to date, in part reflecting the country's relative monetary-policy environment: there is talk of "normalization" elsewhere versus "no change" in Japan. But we suspect that this phase of yen weakness may have run its course, particularly as Japan's growth prospects brighten somewhat.

Global FX: AB vs. Consensus Year-End Forecasts (%)

	AB		Consensus	
	2021	**2022**	**2021**	**2022**
EUR/USD	1.18	1.18	1.18	1.18
USD/JPY	110	110	111	112
USD/CNY	6.45	6.30	6.45	6.40
EUR/GBP	0.87	0.87	0.85	0.85

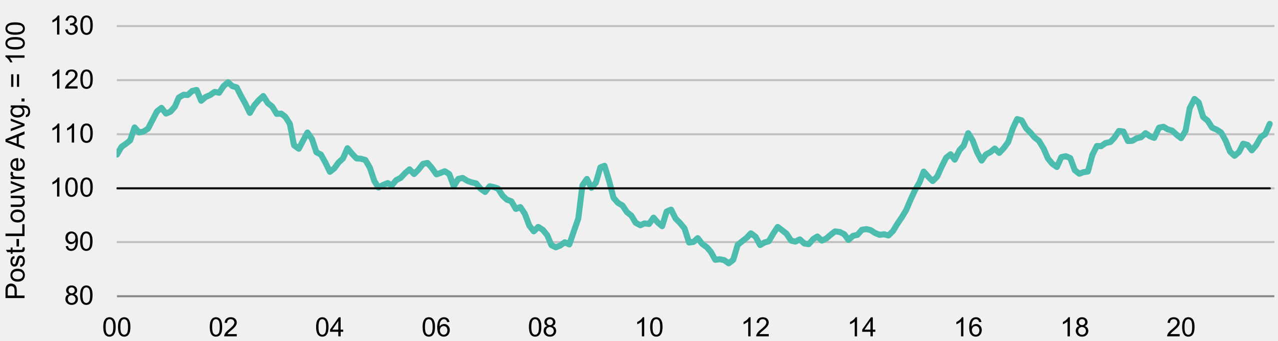
As of September 30, 2021
Source: Bloomberg and AB

Nominal USD Exchange Rate: US Dollar Index



Through September 30, 2021
Source: Bloomberg and AB

Real USD Broad Trade-Weighted Exchange Rate



Through September 30, 2021
Source: Bloomberg, Haver Analytics and AB

US

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
US	6.1	3.9	4.0	2.3	0.13	0.13	1.75	2.25

OUTLOOK

- Robust policy support means that 2021 is likely to be the best year for growth in nearly four decades, with GDP rising more than 6%. As these measures fade in 2022, we expect growth to moderate but remain above the long-term trend.
- Consumer demand has rebounded very quickly as the economy has reopened, with the supply side of the economy struggling to keep up. Those struggles have been more persistent than we expected, in part because the delta variant continues to have global impact while supply chains have not rebooted as quickly as forecast. The resulting imbalance between supply and demand has pushed prices higher.
- We believe that most of the price pressures are transitory and inflation should decelerate in 2022. If we are correct, it will allow the Fed to remain accommodative across the forecast horizon. But if price pressures spill over into inflation expectations, the central bank may have to respond more quickly than it, or we, anticipate.

RISK FACTORS

- Politics are again at the forefront. The debt ceiling looms, and the course of fiscal policy remains uncertain. We expect some additional fiscal support but, if we are incorrect, the growth outlook will deteriorate meaningfully.
- Inflation has started to seep into public discussion in ways not seen in years. If this changes behavior or weighs on sentiment, it could have a negative economic impact and increase the odds of more durable price pressures.

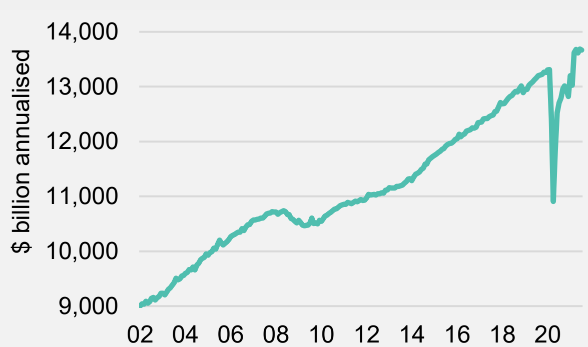
OVERVIEW

Just a few months ago, it appeared that COVID-19 was largely behind us. While the delta variant has not had the level of economic impact of the first wave of the virus, it's a timely reminder that public health remains a precondition for economic health. We are encouraged by rising vaccination rates, and falling outbreaks, and we don't expect COVID-19 to be the dominant economic variable in the next few quarters. Even so, the growth outlook has moderated. The initial, reopening-driven boom has largely passed, and more normal rates of growth look set to take hold. We still believe fiscal policy is a crucial component of the forward-looking outlook and are closely watching developments in Washington.

Inflation remains persistently elevated, and we do not expect this to change for several months. It's true that large parts of price increases are attributable to sectors specifically impacted by COVID-19. But it's also likely that increasing housing and rental prices will start to impact the series in the coming months. We still expect the balance to tilt toward a deceleration in prices, but not quickly.

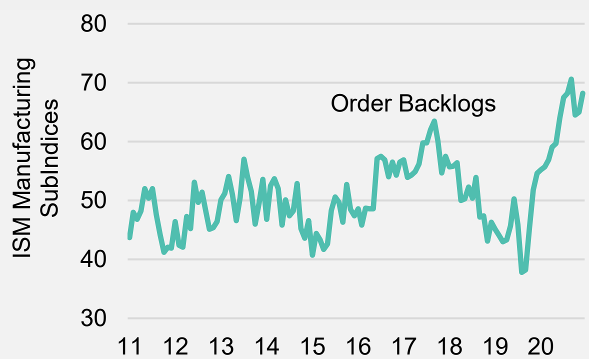
As we approach 2022, we see both growth and inflation decelerating, returning to their long-term trends. We expect the Fed to pull back on QE; after all, if growth and inflation are moving toward normal, so too should monetary policy. But we don't see the central bank raising rates next year; with growth and inflation both moving lower, there's no urgency to act.

Personal Consumption



Through July 2021
Source: Refinitiv Datastream

Capacity Constraints in Manufacturing



Through August 2021
Source: Refinitiv Datastream

Euro Area

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Euro Area	5.1	4.0	2.4	2.5	(0.50)	(0.50)	(0.10)	0.25	1.18	1.18

OUTLOOK

+ We have raised our 2021 growth forecast to 5.1% from 4.5%. This mainly reflects a better-than-expected performance during the first half of the year when governments were largely successful in shielding their economies from the full impact of restrictions on economic and social activity. However, we also draw confidence from the recent success of COVID-19 vaccination programs which, after a shaky start, are now approaching critical mass.
+ We expect the underlying pace of growth to slow next year and have lowered our calendar-year forecast to 4.0%. That's still significantly higher than the economy's trend rate of growth, reflecting strong post-lockdown momentum and a very accommodative policy mix.
+ The biggest changes to our forecasts are on the inflation front. Despite government attempts to cushion the blow, surging natural gas prices are likely to push headline inflation sharply higher in coming months—perhaps above 4.0%. We have raised our 2021 and 2022 headline inflation numbers to 2.4% and 2.5% respectively.
+ A surge in headline inflation is likely to embolden the hawks on the ECB Governing Council to push for an accelerated withdrawal of monetary accommodation. But if (as we expect) core inflation, wage growth and inflation expectations remain subdued, most Council members are likely to regard these pressures as transitory and look past price spikes. We continue to expect the ECB to slow the pace of its asset purchases next year, but to buy sufficient bonds to prevent a sharp increase in bond yields. A rate hike is still a very distant prospect.

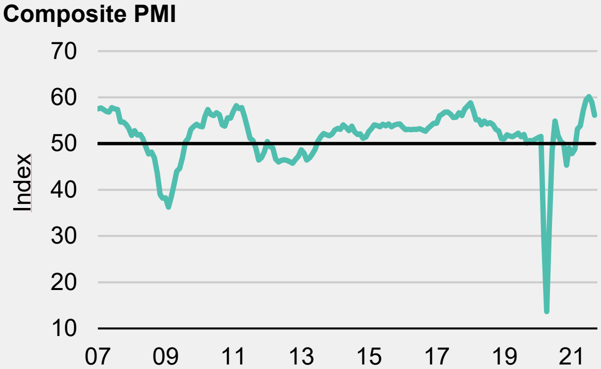
RISK FACTORS

+ Any evidence that price pressures are seeping into core inflation, wage growth or inflation expectations could give ECB hawks the ammunition needed to force a more aggressive withdrawal of monetary stimulus.
+ French and Italian politics are set to move into the spotlight. While President Macron looks well placed to win April's presidential election, it probably won't prevent markets from fretting over a possible right-wing victory. Meanwhile, the selection of a new Italian president could undermine the stability of Mario Draghi's government.

OVERVIEW

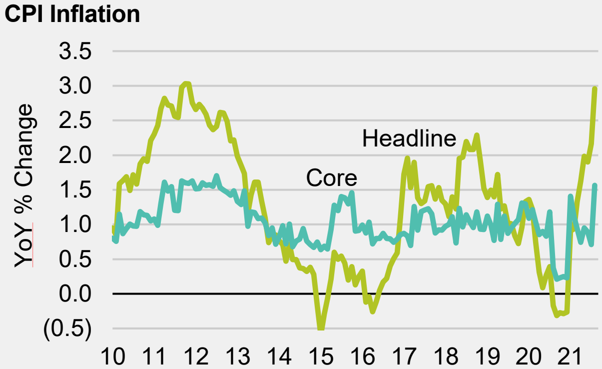
The euro-area economy has performed better than expected this year. Real GDP rose by 2.2% in the second quarter, putting output 2.5% below precrisis levels. Hard data for the third quarter remain scarce but estimates from INSEE, the French national statistics institute, point to a gain of almost 3% in French output during the period. Survey data and mobility indicators also point to an ongoing, if less vigorous, pace of expansion. Indeed, consumer confidence rose in September and is now close to the 20-year highs last seen in 2017. For now, positive news on the COVID-19 vaccine front and the fading threat from the delta variant are outweighing concerns about surging natural gas prices, which are likely to send domestic fuel costs sharply higher in the fourth quarter.

Composite PMI



Through September 2021
Source: Haver Analytics and IHS Markit

CPI Inflation



Through August 2021
Source: Haver Analytics

China

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
China	8.0	5.3	0.9	1.8	2.20	2.20	2.90	3.10	6.45	6.30

OUTLOOK

+ GDP growth is likely to decelerate materially in the third quarter, partially due to temporary factors. With organic drivers like private consumption and capital spending still sluggish, export momentum limited, hawkish property policy (though with some local flexibility), and production restrictions likely, cyclical policy needs to ramp up quickly to shore up the economy. While we do not expect the massive policy stimulus seen in previous downward cycles, this should be sufficient to help growth rebound in the fourth quarter.
+ The broad policy paradigm has shifted in recent years, from a single objective (growth stability) to multiple objectives. Policymakers have been trying to balance those goals in a pragmatic way. Coordination failure is possible, but the government has been accumulating experience—reducing the risk of a serious misstep.
+ China is at a key development stage. It is crucial for the government to accelerate structural reforms to help deal with distortions and to have a more sustainable and balanced growth trajectory. Although this is difficult to achieve near term, recognizing this pressure for change is vital to understanding how the Chinese economy is likely to develop in coming years.

RISK FACTORS

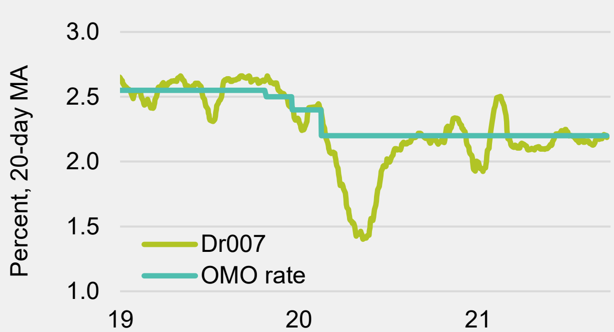
+ Another COVID-19 outbreak could hit consumption again.
+ Policy coordination failure may lead to downward pressure on growth.
+ Changes in policy goals could potentially affect cyclical policy and the growth outlook.

OVERVIEW

Chinese growth has slowed notably in recent months. Several factors, some idiosyncratic, have contributed to this, such as another COVID-19 outbreak, flooding, subdued export momentum, a slowdown in the property sector and, more recently, production and power restrictions. Looking ahead, export upside is likely to remain limited and household consumption sluggish. Another key driver, private investment, has also moderated in recent months, with worsening profitability amid higher commodity prices and rising uncertainty. The property sector may also face more downward pressure and property investment could slow further. Production restrictions might also bring additional headwinds.

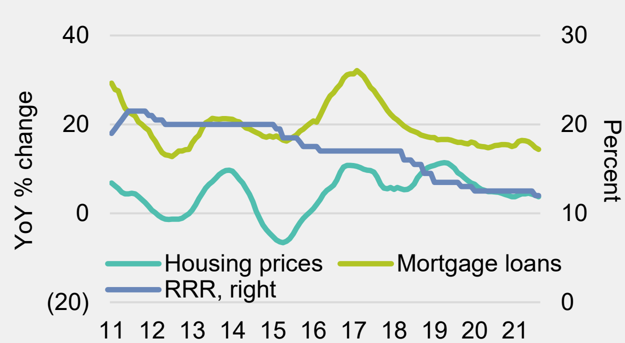
Policymakers have expressed their concerns around downside risks, and started to take measures to support growth, particularly on the fiscal front. Our expectation for the resulting policy mix is: a more expansionary fiscal policy, with accelerated on-budget spending and public investment; a supportive and stable interest-rate policy with a bias toward targeted liquidity support to small and medium-sized enterprises; and a continued hawkish bias in nationwide property policy, but with flexibility at the local level to release some suppressed demand from first-home buyers.

Repo Rate and Policy Rate



Through Sept 23, 2021
Source: Haver Analytics

China Housing Policy



Through May 2021
Source: Haver Analytics

Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Japan	2.1	3.7	(0.1)	0.6	(0.10)	(0.10)	0.00	0.00	110	110

OUTLOOK

+ After peaking in late August, COVID-19 cases have fallen sharply, setting the stage for a fourth-quarter bounce back.
+ Fiscal stimulus will also help—a key commitment of incoming PM Kishida.
+ The BoJ remains wedded to yield-curve control—no change for the foreseeable future.

RISK FACTORS

+ Stumble in global growth and a sharply stronger yen

OVERVIEW

After a significant third wave of COVID-19 infections—as high as 25,000 per day through August—the case count has dropped sharply to about 2,000 per day near the end of September. Acceleration in vaccine rollouts is clearly helping—despite a slow start—and close to 60% of Japan's population is now fully vaccinated. As a result, the government announced that the state of emergency would be lifted at the end of September. A decent bounce in areas of the economy affected by restrictions is clearly in the offing through the fourth quarter.

COVID-19 and Olympics aside, the key development over the past three months has been on the political front, with the resignation of the widely unpopular PM Yoshihide Suga. This set up a four-way contest for the leadership of the ruling LDP, which was won by former foreign minister Fumio Kishida. He will be confirmed as Japan's prime minister in parliamentary session on October 4. In our view, this is likely to prove to be a conservative (traditional) choice. Beyond implementing a post-lockdown fiscal stimulus package, it seems unlikely there will be a big reset on the macro front, or major changes to Japan's geopolitical approach. It's worth noting that Kishida won't take the helm as "the people's choice;" Taro Kono, the other leading candidate, is much more popular among rank-and-file voters. So, the stage is set for a return to "revolving door" politics, which we saw pre-Abe, should there be any major stumbles.

Importantly, that sense of status quo applies to monetary policy too. Accordingly, we expect no material change to the monetary-policy environment. The BoJ remains cemented to yield-curve control (YCC), at least until the end of Governor Kuroda's term in April 2023.

Australia/New Zealand

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Australia	4.0	3.2	2.5	1.9	0.10	0.10	1.45	2.00	0.71	0.74
New Zealand	5.5	3.3	2.8	2.5	0.75	1.25	2.00	2.35	0.73	0.75

OUTLOOK

+ The delta variant has played havoc with the COVID-19 narrative in Australia and New Zealand. After spending most of 2021 as "COVID-19–zero" countries, the delta outbreak in Sydney in July, and subsequent spread to other states and NZ, has seen the reimposition of restrictions and a sharp fall in economic activity.
+ NZ still seems better placed. We expect the RBNZ to hike rates at the next opportunity, maintaining its relatively hawkish posture. In their view, hiking on the day that a new lockdown was announced would be "bad optics;" but their desire to normalize policy remains intact. The contrast with the RBA remains stark. Despite expecting a bounce as COVID-19 risks fade, the Australian central bank maintains that conditions for a rate hike won't be in place until well into 2024.

Canada

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Canada	4.5	4.0	3.8	2.3	0.25	0.50	1.75	2.50	1.23	1.18

OUTLOOK

- The Canadian economy is largely tracking the global trend. A robust recovery is set to fade into a more normal expansion, albeit one in which supply bottlenecks raise the risks around inflation.
- We expect the Bank of Canada to be a few months ahead of the Fed in winding down its QE purchases next year and also anticipate one rate hike in 2022.

RISK FACTORS

- Rising commodity prices could boost growth and lead to more rapid monetary tightening.

OVERVIEW

After Canada's election resulted in no significant political change, we see little reason to alter our forecasts meaningfully. Price pressures may be more persistent than previously thought, as is the case elsewhere, and growth seems set to slow somewhat next year in line with the global trend. The Bank of Canada seems less inclined to leave maximally accommodative monetary policy in place compared with the Fed, but the difference is one of timing rather than direction. A gradual deceleration in growth and inflation should lead to a gradual tapering and eventual tightening of monetary policy, which is unlikely to disrupt either the economy or financial markets.

UK

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
UK	6.2	5.3	2.3	3.0	0.10	0.75	1.15	1.50	1.35	1.35

OUTLOOK

- After a strong second quarter in which output grew by 4.8% (non-annualized) as the economy reopened, economic growth has slowed to a more modest pace. We have lowered our 2021 growth forecast to 6.2% from 7.0%, and even this could prove optimistic given looming supply-side challenges.
- The most pressing challenge is the surge in natural gas prices, which is likely to push domestic fuel prices sharply higher and weigh on real incomes in the fourth quarter. We expect headline inflation to rise to 4.0%, or higher, by year-end and have raised our 2022 inflation forecast to 3.0%.
- But the biggest conundrum surrounds the labor market. At the beginning of the pandemic, there was a widely held view that the economy would emerge with surplus labor as some jobs and activity were lost forever. But the opposite seems to be happening, with more signs of labor-market dislocation and stress. Job vacancies have reached record highs and there are signs of upward pressure on wage growth.
- This severely complicates the Bank of England's task, and minutes from the September Monetary Policy Committee (MPC) meeting indicated that a rate hike might not be far away. Much will depend on the labor-market response when the Coronavirus Job Retention Scheme is wound down at the end of September. But we now expect the first rate hike during the first half of 2022 and for Bank Rate to rise to 0.75% by the end of next year.

RISK FACTORS

- Partly because of Brexit, the UK may be uniquely exposed to supply-side disruption. In a worst-case scenario, this could lead to a combination of slowing growth, higher inflation, and rising interest rates. The labor market will be pivotal.
- Relations with the European Union remain tense and there is a risk that this could spill over into a mini trade war and even a repudiation of the recently negotiated trade agreement.

Asia ex Japan & China

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Asia ex Jap/Ch	**5.9**	**4.9**	**3.1**	**3.1**	**2.34**	**2.83**	**4.01**	**4.37**	**—**	**—**
Hong Kong	6.5	2.9	1.6	1.2	0.50	0.50	1.30	1.60	7.75	7.75
India	9.0	6.7	5.2	5.0	4.00	4.75	6.25	6.70	73.50	75.00
Indonesia	3.3	4.4	2.0	3.1	3.50	4.25	6.10	6.50	14,300	14,600
South Korea	4.5	3.0	2.0	2.0	1.00	1.25	2.15	2.50	1,160	1,050
Thailand	1.0	3.5	1.2	1.2	0.50	0.50	1.75	2.15	33.5	35.0

OUTLOOK

+ COVID-19 outbreaks continue to cause problems; vaccine rollouts remain slow.
+ Regional exports of goods continue to perform strongly—although there are some hints of slowing momentum. Exports of services, such as tourism, remain weak.
+ Inflation remains muted versus other emerging market (EM) regions; Asia will lag other EM regions in policy normalization.

RISK FACTORS

+ Spillover from China slowdown; abrupt swing in global demand from goods to services.

OVERVIEW

COVID-19 outbreaks continue to cause problems and have again had an impact on our GDP growth forecasts for the region. As a result, we have shaved a bit more from 2021 and added to 2022. This reflects the impact of extended restrictions and we think the outbreaks will also further delay the recovery in travel and tourism. Thailand is the most leveraged to these developments; despite pushing ahead with the “Phuket Sandbox”, we expect full recovery in the tourism sector to remain on a slow track.

At the same time, the global trade recovery continues. That said, there are some incipient signs of slowing momentum, and risks from supply chain disruption and a weaker China have grown more evident. We continue to expect that a shift in the composition of global demand—away from goods and toward services as economies reopen—will see some correction in the export story.

On the inflation front, the pickup in headline inflation rates has been relatively modest—certainly well shy of the rises seen in other EM regions. We don’t think that those inflation prints are concerning enough on their own to drive monetary-policy tightening. Therefore, Asia is likely to continue to lag LATAM and EEMEA in the “normalization” process. The likely exception is the Bank of Korea, where concerns over financial stability have already triggered a rate hike, with more to come.

Emerging Markets

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
EM ex China	**5.9**	**4.0**	**6.2**	**4.7**	**5.34**	**5.45**	**6.34**	**6.63**	**—**	**—**
Asia	5.9	4.9	3.1	3.1	2.34	2.83	4.01	4.37	—	—
LATAM	6.7	2.6	10.8	6.8	9.26	9.74	8.94	9.51	—	—
EEMEA	5.0	3.3	7.3	5.9	7.00	6.26	8.30	8.46	—	—

OUTLOOK

+ We expect EM and developed market (DM) economic growth rates to ease in 2022. Potentially deeper economic scarring from COVID-19 and protracted monetary-policy tightening could, however, compress EM's relative growth premium.
+ EM central banks might have to tighten monetary policy extensively to keep inflation in check and to reinstate carry.

RISK FACTORS

+ The inflation risk premium could continue to increase over the next few months.
+ Rising core yields would add pressure to EM debt-service costs amid more vulnerable debt positions.

OVERVIEW

EM generally lagged DM during the post-pandemic economic recovery phase. More generous fiscal support, swifter vaccinations and smoother reopening gave DM an advantage. But the combination of external tailwinds (normalization of world trade volumes and elevated commodity prices) and domestic tailwinds (vaccination acceleration and loose monetary and fiscal policies) propelled EM growth in 2021. We expect EM and DM economic growth rates to ease in 2022. Potentially deeper economic scarring from COVID-19 and protracted monetary-policy tightening could, however, compress the growth premium of EM relative to DM.

Inflation continues to surprise to the upside in EM and DM. Food inflation remains elevated while the recent rise in oil prices could further dilute/delay the disinflationary process, which in turn risks dislodging inflation expectations in EM. A key risk to the EM growth trajectory is the possibility that EM central banks might have to tighten monetary policy extensively to keep inflation (expectations) in check and to reinstate carry to counterbalance financing pressures from potential DM interest-rate normalization. We maintain that the US Fed's tapering won't trip up EM the way it did during the 2013 taper tantrum, but earlier-than-expected rate hikes across DM could be disruptive. Rising core yields would add pressure to EM debt-service costs (with-debt relief measures expiring) amid elevated debt levels.

We think that a weak growth environment could fuel public discontent, push politicians to pursue populist policies and potentially delay fiscal consolidation. We've already seen cases where social safety measures that have been introduced during the pandemic have been extended (Brazil, South Africa) and where burden sharing arrangements between central banks and governments could last for longer than previously expected (India, Indonesia).

Downside risks to economic growth and upside risks to inflation argue for a more cautious approach, in our view.

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Global	5.9	4.2	3.2	2.6	1.46	1.50	2.40	2.73	-	-
Industrial Countries	5.2	4.0	2.9	2.2	(0.07)	(0.02)	0.97	1.37	-	-
Emerging Countries	6.9	4.6	3.6	3.3	3.80	3.81	4.63	4.83	-	-
EM ex China	5.9	4.0	6.2	4.7	5.34	5.45	6.34	6.63	-	-
United States	6.1	3.9	4.0	2.3	0.13	0.13	1.75	2.25	-	-
Canada	4.5	4.0	3.8	2.3	0.25	0.50	1.75	2.50	1.23	1.18
Europe	5.2	4.2	2.4	2.6	(0.36)	(0.24)	0.17	0.51	1.69	1.69
Euro Area	5.1	4.0	2.4	2.5	(0.50)	(0.50)	(0.10)	0.25	1.18	1.18
United Kingdom	6.2	5.3	2.3	3.0	0.10	0.75	1.15	1.50	1.35	1.35
Sweden	4.0	3.5	2.0	2.5	0.00	0.00	0.55	0.75	10.2	10.0
Norway	3.8	3.5	3.0	2.8	0.50	1.00	1.65	2.00	9.8	9.8
Japan	2.1	3.7	(0.1)	0.6	(0.10)	(0.10)	0.00	0.00	110	110
Australia	4.0	3.2	2.5	1.9	0.10	0.10	1.45	2.00	0.71	0.74
New Zealand	5.5	3.3	2.8	2.5	0.75	1.25	2.00	2.35	0.73	0.75
China	8.0	5.3	0.9	1.8	2.20	2.20	2.90	3.10	6.45	6.30
Asia ex Japan & China	5.9	4.9	3.1	3.1	2.34	2.83	4.01	4.37	-	-
Hong Kong	6.5	2.9	1.6	1.2	0.50	0.50	1.30	1.60	7.75	7.75
India	9.0	6.7	5.2	5.0	4.00	4.75	6.25	6.70	73.5	75.0
Indonesia	3.3	4.4	2.0	3.1	3.50	4.25	6.10	6.50	14,300	14,600
Korea	4.5	3.0	2.0	2.0	1.00	1.25	2.15	2.50	1,160	1,050
Thailand	1.0	3.5	1.2	1.2	0.50	0.50	1.75	2.15	33.5	35.0
Latin America	6.7	2.6	10.8	6.8	9.26	9.74	8.94	9.51	-	-
Argentina	6.5	2.5	50.0	30.0	38.00	38.00	-	-	115.0	150.0
Brazil	5.0	1.5	8.0	4.0	7.75	8.50	11.50	13.00	5.25	5.00
Chile	10.0	3.5	4.0	4.5	2.75	4.00	5.30	5.40	780	800
Colombia	9.0	4.0	3.0	4.0	2.50	3.50	7.50	7.60	3,900	3,900
Mexico	7.0	3.2	5.0	4.4	5.25	5.75	6.85	6.80	20.0	20.5
EEMEA	5.0	3.3	7.3	5.9	7.00	6.26	8.30	8.46	-	-
Hungary	6.2	4.1	4.4	3.5	2.00	2.25	3.10	3.40	350	340
Poland	5.0	4.2	3.4	4.0	0.35	1.10	2.10	2.40	4.50	4.40
Russia	3.9	2.8	5.7	4.0	7.00	6.25	7.25	7.00	70.0	67.0
South Africa	5.0	1.6	4.4	4.7	3.75	4.50	9.50	9.90	15.0	15.4
Turkey	7.3	4.0	17.3	13.5	16.50	13.50	18.00	19.00	9.00	9.25

Growth and inflation forecasts are calendar year averages.
Interest rate and FX rates are year end forecasts.
Long rates are 10-year yields unless otherwise indicated.
The long rates aggregate excludes Argentina; Argentina is not forecasted due to distortions in the local financial market.
Real growth aggregates represent 31 country forecasts not all of which are shown

Contributors

Armando Armenta armando.armenta@alliancebernstein.com	Guy Bruten guy.bruten@alliancebernstein.com	Katrina Butt katrina.butt@alliancebernstein.com
Adriaan du Toit adriaan.dutoit@alliancebernstein.com	Zhennan Li Zhennan.Li@alliancebernstein.com	Markus Schneider markus.schneider@alliancebernstein.com
Darren Williams darren.williams@alliancebernstein.com	Eric Winograd eric.winograd@alliancebernstein.com	

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