ALLIANCEBERNSTEIN®

GLOBAL ECONOMIC RESEARCH

GLOBAL MACRO OUTLOOK

THIRD QUARTER, 2021

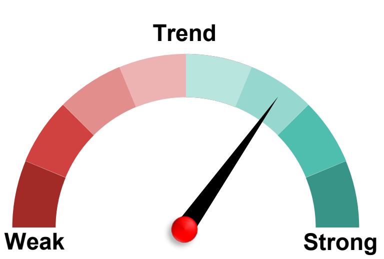
KEY FORECAST TRENDS

+ The recovery continues to gather pace. We've raised our growth forecasts and expect the global economy to grow by 6.1% this year and 4.3% in 2022. Both forecasts are well above the precrisis trend of around 3.0%.
+ It's important to maintain a sense of perspective. While global output is now back to pre-pandemic levels, it's still 3% lower than it would have been without the hit from COVID-19. This gap should narrow over the coming year, but we doubt that growth will be strong enough to close it altogether.
+ We've made significant upward revisions to our 2021 inflation forecasts to reflect the intensity of demand distortions and supply dislocations associated with COVID-19. We expect advanced-economy inflation to reach 2.4% this year (previously 1.7%), before settling back to 1.9% in 2022 as transitory factors start to fade.
+ This has become a finely judged call. Should demand growth be stronger, pandemic scarring deeper or supply-chain pressure more persistent than we expect, inflation could easily surprise to the upside. Wage- and price-setting behavior will be key.
+ Persistently high inflation would muddy the monetary-policy outlook and cast a long shadow over financial markets. As things stand, though, monetary stimulus is likely to be rolled back only very slowly in coming years.
+ That doesn't mean a uniform monetary approach. Many central banks, including the Fed, will look to gradually return monetary policy to a more "normal" setting once the crisis fades. Others, like the ECB and BoJ, are in it for the long haul.

CONTENTS

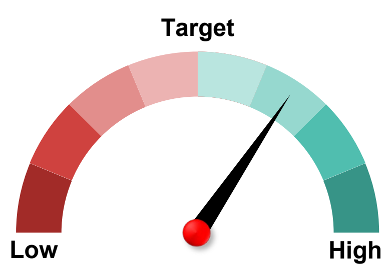
THE GLOBAL CYCLE

ECONOMIC ACTIVITY



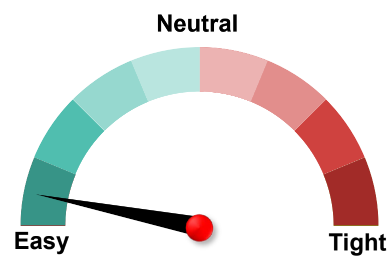
+ Buoyed by supportive policy, growth should remain above the precrisis trend in coming quarters.
+ Output is back at precrisis levels but is still short of where it would have been had COVID-19 not hit.

INFLATION



+ COVID-19-related dislocations and distortions are putting upward pressure on inflation.
+ While the bulk of these pressures are likely to prove transitory, risks are 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.
+ Central banks will continue to push back against a sharp rise in bond yields. But expect more volatility.

GLOBAL FORECAST

FORECAST OVERVIEW

Key Assumptions

- **Virus:** with vaccination programs reaching critical mass in the US and Europe, COVID-19 is fading as a key global driver
- **Fiscal policy:** to provide ongoing support; little risk of a premature tightening
- **Monetary policy:** some central banks will start to wind down bond purchases over the coming year; rate hikes still a distant prospect
- **Secular backdrop:** headwinds to be exacerbated by COVID-19, but some relief on the trade-war front under new US administration

Central Narrative

- **Global growth:** set to slow over the forecast horizon but should remain above the precrisis trend
- **Inflation:** should ease back next year if current upward pressure proves to be transitory; risks skewed to the upside
- **Yields:** likely to rise somewhat as economies start to normalize, but central banks will want to avoid a rapid increase—especially in the euro area and Japan
- **USD:** range-bound against EUR and JPY; global backdrop still supportive for growth-sensitive currencies

Key Upside Risks

- Monetary-policy stimulus more effective than anticipated—could housing be the channel?
- Households spend a much bigger proportion of the savings built up during lockdown than expected

Key Downside Risks

- High inflation more persistent than we think, forcing central banks into early tightening
- New COVID-19 mutations render vaccines ineffective

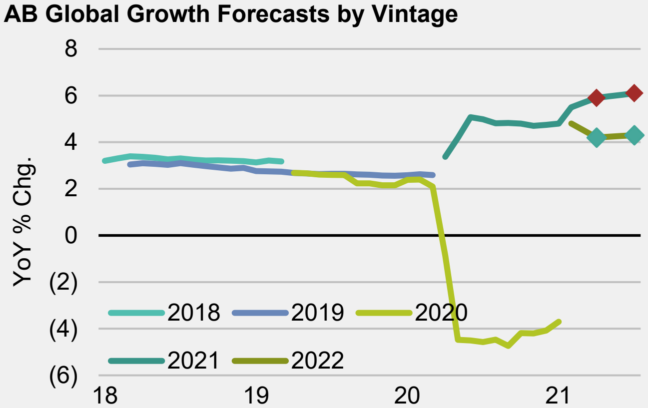
AB Growth & Inflation Forecasts (%)

	Real GDP Growth		CPI Inflation	
	2021	2022	2021	2022
US	6.5	4.6	3.2	2.3
Euro Area	4.5	4.5	2.0	1.5
Japan	2.6	2.4	0.1	0.8
China	9.0	4.7	1.5	2.8
Global	**6.1**	**4.3**	**2.8**	**2.6**
Industrial Countries	5.4	4.3	2.4	1.9
Emerging Countries	7.2	4.4	3.4	3.6
EM ex China	5.6	4.2	5.2	4.5

As of June 30, 2021
Source: AB

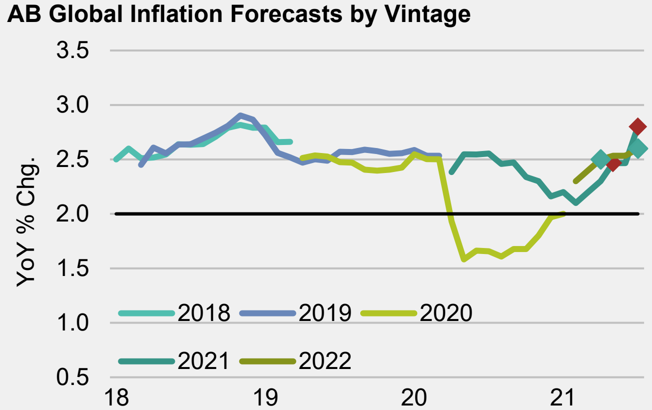
FORECASTS THROUGH TIME

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 June 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 June 30, 2021
Source: AB

GLOBAL MARKET OUTLOOK: YIELD CURVES

GLOBAL YIELDS

Global—Central banks have adopted similar approaches over the past year, slashing policy rates and launching large-scale asset purchase programs. This consensus is likely to evaporate over the coming year. Some central banks (like the Fed) will see a return to more normal economic conditions as an opportunity to start normalizing monetary policy. For others (like the BoJ and ECB), negative interest rates and quantitative easing are the new normal.

US—Yields have stabilized in recent weeks. We expect the move higher to resume as the expansion accelerates, prices rise, and the Fed starts the process of reducing its asset purchases. Still, low global rates should keep yields close to 2.0%.

Euro Area—The ECB's focus is on maintaining highly accommodative financial conditions, and it has boosted the pace of its bond purchases to prevent yields from rising. We expect this push back against higher yields to continue.

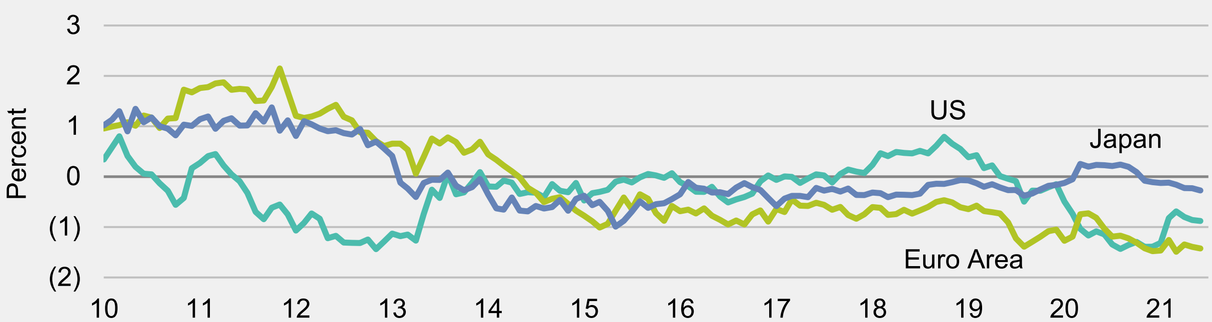
Japan—The BoJ remains cemented to yield-curve control (YCC) until at least the end of Governor Kuroda's term in 2023. Expect no change to target yields, with continued opportunistic adjustment of JGB purchases to manage the yield curve.

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

	AB		Consensus	
	2021	**2022**	**2021**	**2022**
US	2.00	2.25	1.88	2.17
Euro Area	(0.10)	0.15	(0.03)	0.16
Japan	0.00	0.00	0.11	0.12
China	3.25	3.25	3.19	3.22

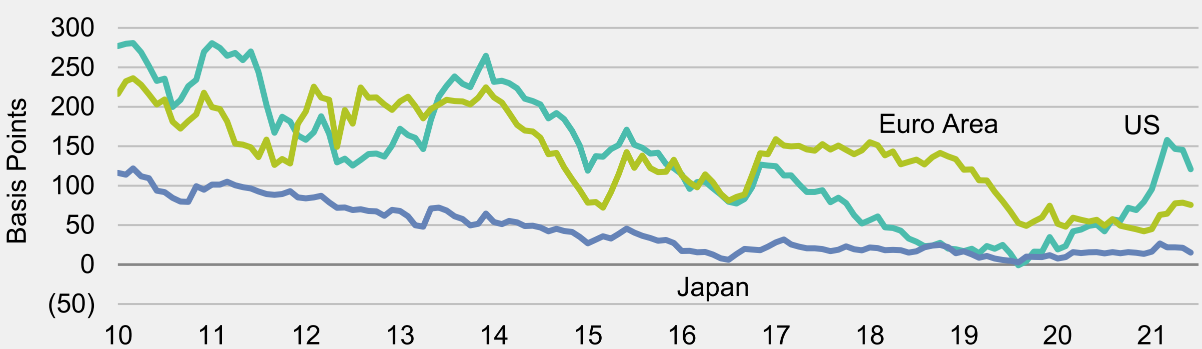
As of June 30, 2021
Source: Bloomberg and AB

Real 10-Year Bond Yields*



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

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



Through June 30, 2021
Source: Bloomberg and AB

GLOBAL MARKET OUTLOOK: CURRENCIES

FX FORECASTS

USD—The dollar has been sensitive to expectations around Fed monetary policy this year. When the market perceives the Fed to be moving toward tighter policy, the dollar tends to benefit. We think that the Fed will move slowly over the next few years and that many other central banks will move in the same direction, so the dollar is likely to be range-bound for the time being.

EUR—The euro has fluctuated in a relatively narrow range around 1.20 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.

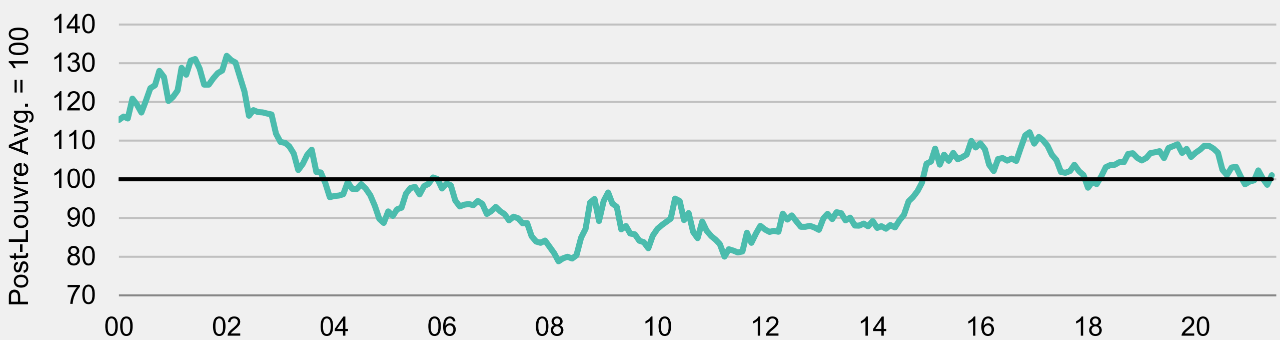
JPY—The yen has been the weakest-performing G-10 currency year to date, in part reflecting the relative monetary-policy environment: talk of "normalization" elsewhere versus "no change" in Japan. But we suspect that this phase of yen weakness may have run its course, particularly as Japan's growth prospects brighten somewhat in 2H.

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

	AB		Consensus	
	2021	**2022**	**2021**	**2022**
EUR/USD	1.20	1.20	1.21	1.24
USD/JPY	112	112	109	110
USD/CNY	6.30	6.10	6.40	6.30
EUR/GBP	0.83	0.80	0.85	0.85

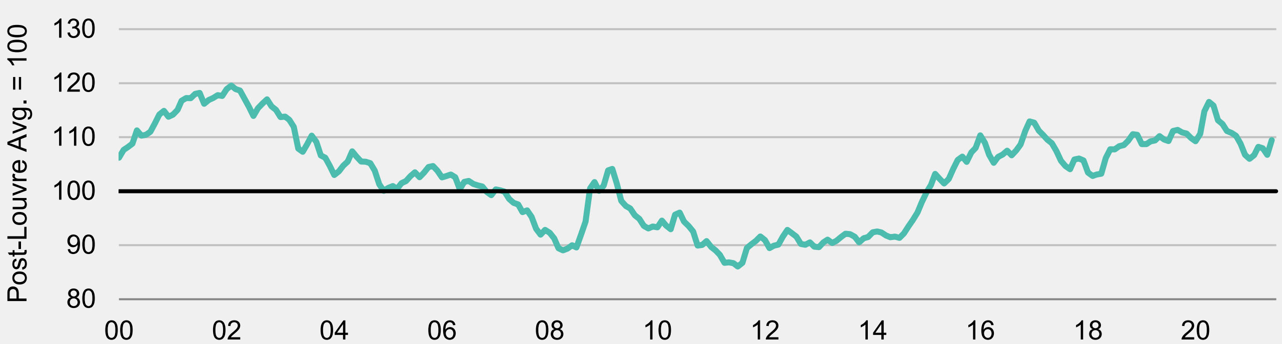
As of June 30, 2021
Source: Bloomberg and AB

Nominal USD Exchange Rate: US Dollar Index



Through June 30, 2021
Source: Bloomberg and AB

Real USD Broad Trade-Weighted Exchange Rate



Through June 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	6.5	4.6	3.2	2.3	0.13	0.13	2.00	2.25

OUTLOOK

- The expected growth boom has arrived: with society reopening and COVID-19 receding, the economy is likely to post its highest YoY growth rate in nearly 40 years during 2021. That will take GDP back to and beyond the precrisis trend as pent-up demand and strong household finances combine to push consumption up.
- With demand surging, the supply side of the economy is under pressure. Bottlenecks in global supply chains and labor shortages are pushing prices higher and will continue to do so over the summer.
- We believe that most of the price pressures are transitory, however, and therefore that momentum behind rising prices should slow as the year progresses. That will allow the Fed to be patient and wait to begin the process of reducing quantitative easing (QE) in the fourth quarter. Rate hikes remain a distant prospect at this stage.

RISK FACTORS

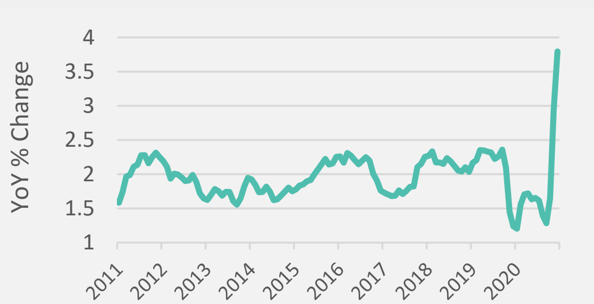
- If rising prices are more durable than expected, inflation expectations could reset higher. That could force an unexpected change in monetary policy that would likely be disruptive to financial markets.
- Fiscal policy remains on an uncertain course. While we believe that some sort of infrastructure and/or social spending is likely, if such spending fails to materialize it could lead to slower growth in 2022 and beyond.

OVERVIEW

With COVID-19 largely in the rearview mirror for now, the economy has surged. We expect the momentum to continue—household finances are in good shape, and there is pent-up demand for a variety of goods and services. That should lead to a consumption-led expansion that is likely to put the US economy on or perhaps above its precrisis trend in the quarters to come. That surge in demand, while very much expected, is nonetheless straining the capacity of producers. Global supply chains are not yet fully reopened, and transportation bottlenecks are impeding the flow of goods. Domestically, a combination of lingering health concerns, uncertain child-care arrangements and enhanced unemployment benefits have made labor hard to find in some industries, exacerbating production pressures. The good news is that most of the strains are likely to be temporary—enhanced benefits expire over the summer, schools appear likely to reopen, and vaccination progress continues. We expect robust hiring as the year progresses, which should ease concerns about overheating or that the ongoing recovery could leave millions of workers behind.

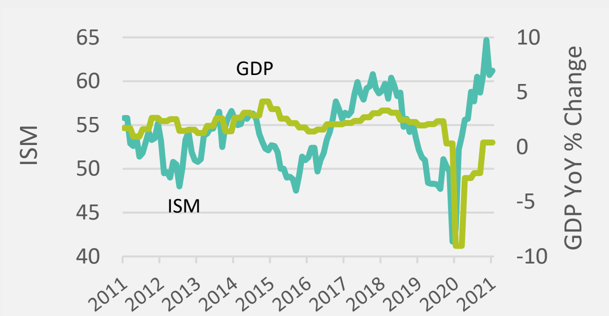
While we, like other forecasters, have been surprised by the magnitude of price increases so far this year, the magnitude is less important than the duration; inflation is a persistent rise in prices, not a short-term adjustment in the price level. We believe, and the Fed agrees, that most of the near-term pressure will fade as the reopening progresses. We expect the Fed to start slowly normalizing policy by gradually reducing asset purchases later this year but making clear that rate hikes remain a distant prospect.

Core CPI



Through May 2021
Source: Refinitiv Datastream

ISM and GDP



Through May 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	4.5	4.5	2.0	1.5	(0.50)	(0.50)	(0.10)	0.15	1.20	1.20

OUTLOOK

+ After a challenging few months, the euro-area outlook is improving as vaccine programmes start to reach critical mass. We have revised up our growth expectations to 4.5% both this year and next. We estimate that output was roughly 4% below precrisis levels in the second quarter and that this gap will have closed by the end of the year.
+ We have also revised our 2021 inflation forecast upward to 2.0% to incorporate rising supply-chain tension and other COVID-19-related dislocations. This would be the first time that annual inflation has reached the ECB's target since 2012.
+ Inflation is likely to rise further in the second half of the year. However, we judge that underlying inflation pressure is still muted and expect the headline rate to drop back to 1.4% in 2022.
+ A full recovery will require ongoing support from the ECB, partly in order to provide direct monetary stimulus and partly to encourage governments not to tighten fiscal policy prematurely. We remain confident that this support will be provided. While the central bank is likely to lower the pace of its bond purchases over the coming year, we expect it to continue buying enough bonds to keep yields anchored at very low levels. A rate hike remains a very distant prospect.

RISK FACTORS

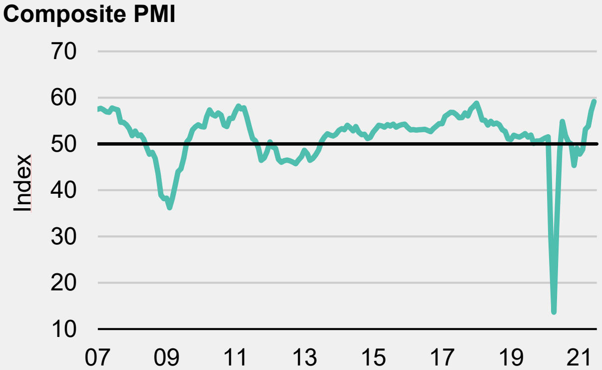
+ Visibility is low on the near-term outlook for inflation; the risks to our forecasts are skewed to the upside. If inflation is more persistent than expected, this could encourage ECB hawks to push for an early withdrawal of monetary stimulus.
+ After a relatively quiet period, the European political calendar is about to heat up, with the German federal election in September and French presidential election next April. The stability of the Italian government could also be called into question next year.

OVERVIEW

With vaccination programmes finally gathering pace, COVID-19 cases at very low levels and economies unlocking, the worst of the pandemic appears to be over. This has been reflected in recent data, with the composite PMI rising to 59.2 in June, the highest reading since 2006. Consumer confidence has also risen, though this has been accompanied by a huge increase in the number of respondents saying that now is a good time to save. This may simply reflect the improved financial position of many households over the past year. But it may also reflect some reluctance to spend the "surplus" funds accumulated during lockdown.

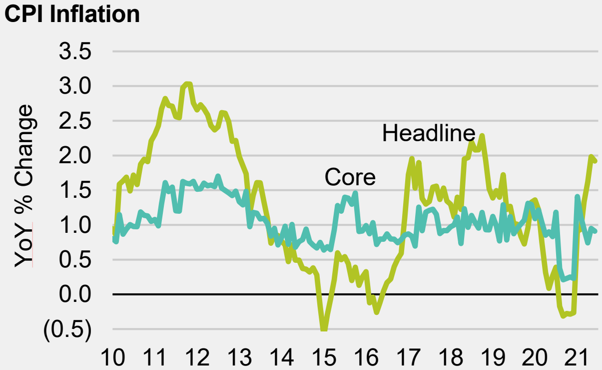
The ECB left policy unchanged at its June Governing Council and promised to continue buying bonds at a more elevated pace during the third quarter. We continue to expect the ECB to resist anything other than a modest increase in core and peripheral bond yields. That's partly because the recovery is still young and core inflation is still far from target, making it essential to avoid a premature tightening of financial conditions. But it's also because a material increase in yields would quickly undermine debt sustainability in the periphery.

Composite PMI



Through June 2021
Source: Haver Analytics and IHS Markit

CPI Inflation



Through June 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	9.0	4.7	1.5	2.8	4.35	4.35	3.25	3.25	6.30	6.10

OUTLOOK

- China's GDP has recovered strongly, returning to its pre-pandemic path before the end of 2020. The growth run rate has slowed and is perhaps a little below trend.
- 2021 marks the 100th anniversary of the Communist Party; maintaining economic stability will be paramount.
- Attention has turned back toward other policy objectives: controlling leverage; leaning against potential speculative excesses; internationalization of its currency.

RISK FACTORS

- COVID-19: vaccine effectiveness as new variants emerge. Caution in international border opening.
- Policy error: could micro-level tightening (property, commodities, pollution) have oversize macro impact?
- Geopolitical backdrop: US (West) conflict—trade, technology, military incidents.

OVERVIEW

China's recovery from the COVID-19 shock outstripped that in the rest of the world. Partly, this was a "first-in-first-out" phenomenon, but it also reflected policy support and the success of strict and effective lockdowns in controlling the virus spread. By 4Q:2020, China's GDP was back above its pre-COVID-19 path.

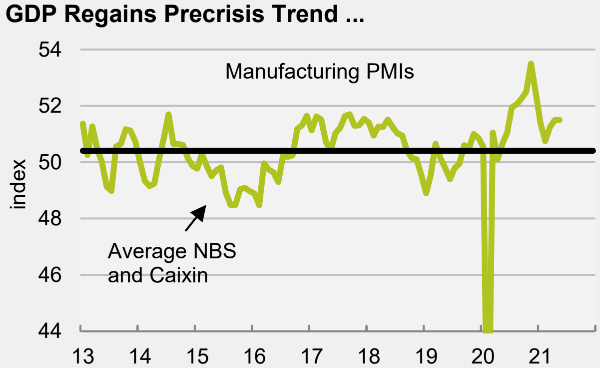
By late June, vaccine doses delivered were averaging more than 20 million daily. In per-capita terms, this puts China at the top of the list in Asia; if the current pace of vaccinations continues, China is on track to hit herd immunity well before the end of the year.

Aside from its handling of the pandemic, China has benefited significantly from the boom in goods exports across the globe, as the combination of restrictions and support measures generated a huge swing from services to goods spending.

With GDP largely "normalized," policymakers have been able to shift their focus from supporting post-lockdown growth toward other "stability" goals. These include controlling overall leverage in the system and leaning against speculative excesses in the property and commodity markets (and cryptocurrencies) and managing carbon emissions.

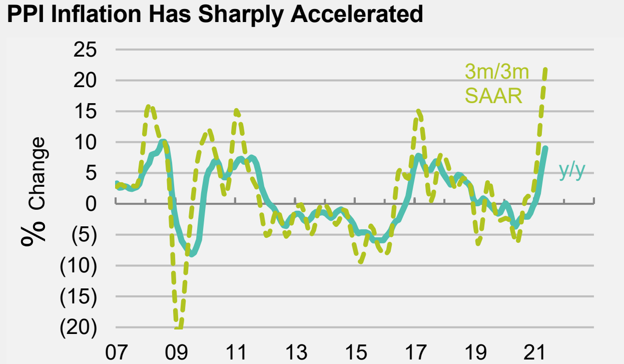
Inflation is also on the radar screen. PPI inflation has increased sharply over recent months, jumping 9% YoY in May. To date, however, the breadth of increases is fairly narrow, concentrated in mining and raw materials. In contrast, CPI inflation has been well behaved, edging up to 1.5% YoY in May. As is the case everywhere, base effects in China are playing a role. But base effects alone are not enough to get alarm bells ringing. Monetary-policy stability remains the order of the day.

GDP Regains Precrisis Trend ...



Through 4Q:2020
Source: Haver Analytics and Bloomberg

PPI Inflation Has Sharply Accelerated



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	2.6	2.4	0.1	0.8	(0.10)	(0.10)	0.00	0.00	112	112

OUTLOOK

+ Vaccine rollout has accelerated sharply, setting the stage for better growth in 2H.
+ After the Summer Olympics, attention will turn to politics and the Lower House election.
+ The BoJ remains wedded to yield-curve control—no change there for the foreseeable future.

RISK FACTORS

+ A sharply stronger yen; COVID-19 third wave.

OVERVIEW

On the COVID-19 front, the extension of the state of emergency will clearly drag on 2Q GDP—with closures of retail stores, bars and so on. But the case count has dropped sharply, and, after being very slow out of the blocks, the pace of Japan's vaccine rollout has picked up sharply in recent weeks. It's now running on par with continental Europe. There is still some way to go, obviously, but these are very positive developments. And they should contribute to an acceleration in activity through the second half of the year as pent-up spending demand is unleashed.

As elsewhere in Asia, the continuing strength of goods exports has cushioned the COVID-19 drag. There are other positives in the pipeline: the delayed 2020 Summer Olympics will proceed soon—although without international spectators, so the hoped-for boost in tourism will remain elusive. And with elections due at the end of the year, another supplementary budget is in the offing.

The inflation picture in Japan remains weak. Some special factors are at work (downward pressure from mobile phone prices, for example). But both core and headline inflation were marginally in negative territory in May and still a long way shy of the BoJ's 2% inflation target. 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.

The yen has been the weakest-performing G-10 currency year-to-date, in part reflecting the relative monetary-policy environment: 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 in 2H.

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	5.4	2.9	2.6	2.3	0.10	0.10	1.90	2.15	0.78	0.78
New Zealand	5.5	3.3	2.5	2.2	0.25	0.75	2.00	2.35	0.75	0.7

AUSTRALIA/NEW ZEALAND

+ COVID-19 remains generally well contained in Australia and New Zealand, with limited cases of community spread. With the exception of international travel (business, tourists, students), life has pretty much returned to normal. But vaccine rollout is lagging significantly; outbreaks remain a key downside vulnerability.
+ That said, the economic data have clearly been much stronger than expected. Labor-market data illustrate this well. In NZ, unemployment dropped below 5%, while in Australia unit, employment is back above pre-COVID-19 levels and participation is at a record high. Closed borders are having a bigger impact on supply (labor shortage) than demand.
+ Antipodean central bank behavior is beginning to diverge. The RBNZ has taken some steps toward normalization, and we would not be surprised to see hikes in 2H:2022. In contrast, the RBA still seems likely to hold the line—not adjusting rates 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	2.8	2.1	0.25	0.50	2.00	2.50	1.18	1.15

OUTLOOK

- After a few false starts, Canada appears finally to have turned the corner in dealing with COVID-19, opening the door to a rapid economic recovery. Buoyant commodity prices are also a tailwind for the Canadian economy.
- As is the case elsewhere, supply disruptions are going to push prices higher for a time. While the Bank of Canada remains generally unconcerned, the central bank nonetheless appears further along the path toward normalization than is the Fed, having already begun the process of reducing its asset purchases.

RISK FACTORS

- Commodity price volatility is an ever-present risk for Canada. If prices turn lower as the year progresses, the tailwind that they have provided in recent months could become a headwind.

OVERVIEW

Canada's economic expansion is under way and should continue through the next several quarters. The labor market has lagged the recovery thus far, but we expect hiring to pick up as economic and mobility restrictions are lifted. Prices are likely to rise for a time, but it remains too early to determine how long the increases will last. The Bank of Canada has begun to reduce its asset purchases as it begins the journey back toward a normal monetary-policy setting. While that journey will be a long one, the central bank has hinted at willingness to move more quickly than we expect the Federal Reserve to move, and we now expect the Bank of Canada to start raising rates in 2022.

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	7.00	5.5	1.8	2.3	0.10	0.50	1.15	1.40	1.45	1.50

OUTLOOK

- Although the final removal of restrictions on economic and social activity has been postponed until mid-July, the economy is now growing very strongly, and we have raised our 2021 growth forecast to 7.0%. Growth is likely to remain strong next year—5.5%—supported by the continued recovery from COVID-19, ongoing fiscal support, and a buoyant housing market.
- Second-quarter data have been very strong. Both the manufacturing and service sector PMIs are over 60, retail sales are more than 10% above precrisis levels, and GDP looks set to rise by close to 5.0% during the quarter. This would leave output about 4% below precrisis levels, similar to our expectation for the euro area. Given the scale of the UK's underperformance last year and Brexit disruption, this is no mean feat and owes much to the speed of the vaccination programme.
- Headline inflation rose to 2.1% in May and is likely to rise further in coming months. In spite of this and the speed of the recovery, the Bank of England remains in downside risk-management mode and monetary policy is likely to remain on hold for the remainder of the year. In contrast to some central banks, though, there is little evidence that the bank's reaction function has changed year, and we expect this risk assessment to shift as the economy begins to normalize. We also expect the bank to raise interest rates to 0.50% in the second half of next year. As was the case before the pandemic, monetary tightening is likely to take place at a "a gradual pace and to a limited extent."

RISK FACTORS

- Relations with the European Union remains tense, especially with respect to the implementation of the Northern Ireland protocol. Although an immediate rupture seems to have been avoided, there is a risk that this will spill over into a mini trade war and, in a worst-case scenario, 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	**6.2**	**5.2**	**3.0**	**3.1**	**2.24**	**2.80**	**3.95**	**4.21**	**—**	**—**
Hong Kong	5.8	3.0	1.5	2.0	0.50	0.50	1.25	1.25	7.76	7.76
India	9.0	7.0	5.2	5.0	4.00	4.75	6.10	6.30	73.00	75.00
Indonesia	5.0	5.2	2.3	2.8	3.50	4.25	6.35	6.70	14,250	14,500
South Korea	4.5	3.0	1.2	1.8	0.50	1.00	2.00	2.50	1,100	1,050
Thailand	2.0	6.0	1.2	1.2	0.50	0.50	1.85	2.00	32.0	32.0

OUTLOOK

+ Sporadic COVID-19 outbreaks continue to cause problems; vaccine rollouts—for ASEAN, in particular—remain slow.
+ Regional exports of goods continue to perform strongly—initially on the technology side before flowing more broadly to nontech. But exports of services, such as tourism, remain weak.
+ Inflation readings have picked up, but more modestly than in other regions; Asia to lag other EM in policy normalization.

RISK FACTORS

+ COVID-19 and slow vaccine rollout; China slowdown; abrupt swing in global demand from goods to services.

OVERVIEW

Sporadic COVID-19 outbreaks continue to cause problems, with a renewed surge in Indonesia and persistently elevated cases in the Philippines, Thailand, and Malaysia. Even countries that had previously dodged outbreaks—such as Taiwan and Vietnam—saw a lift in case counts during 2Q, illustrating the risks of complacency against a backdrop of limited vaccine rollout. Despite some acceleration in recent weeks, the pace of vaccine delivery remains relatively slow (particularly for ASEAN ex Singapore).

COVID-19 outbreaks have had an impact on our GDP forecasts for the region. This not only reflects the impact of extended restrictions (Malaysia, Philippines); the outbreaks also likely delay even further the prospects of a 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 (particularly given China’s announcement that outbound tourism will remain restricted for another 12 months).

At the same time, the global trade recovery still has legs. In the 2Q-to-date, exports from the bellwether producers South Korea, Taiwan and Singapore are up 25% vs. pre-COVID-19 levels. Tech-related exports still dominate—up 35% vs. 4Q:2019—but nontech exports (up 20% vs. 4Q:2019) have closed some of the gap, highlighting a broadening of the goods trade recovery. We continue to expect that a shift in the composition of global demand—away from goods and back toward services as economies reopen—will see some correction in the export story. But at this juncture, momentum remains solid. As a result, we’ve revised our growth numbers a bit higher for the more export-exposed countries in the region.

On the inflation front, the pickup in headline inflation rates has been relatively modest. Across the high-income economies (South Korea, Taiwan, Singapore, Hong Kong), headline CPI inflation averaged 2.4% in May, up from (0.4)% a year ago. But core inflation remains subdued (1.2% across this group vs. 0.2% a year ago). The aggregate story across the ASEAN-4 group (Indonesia, Philippines, Thailand, Malaysia) is similar (headline running at 2.6%) but with more divergence, dominated by higher inflation in the Philippines and Malaysia. We don’t think that those inflation prints are concerning enough on their own to drive monetary-policy tightening; so, 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 are likely to drive rate hikes, perhaps before the end of this year.

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	**5.6**	**4.2**	**5.2**	**4.5**	**4.77**	**4.88**	**5.90**	**6.00**	**—**	**—**
Asia	6.2	5.2	3.0	3.1	2.24	2.80	3.95	4.21	—	—
LATAM	6.2	2.7	8.2	6.4	8.16	7.90	7.47	7.24	—	—
EEMEA	3.8	3.4	6.6	5.4	6.04	5.91	8.15	8.36	—	—

OUTLOOK

+ The global growth outlook remains constructive. We expect downside risks to the EM growth outlook to decline as vaccinations accelerate through the second half of 2021.
+ The EM monetary-policy normalization process is generally being led by countries where currencies are undervalued, but we think that more EM central banks could start interest-rate-hiking cycles over the next few quarters.

RISK FACTORS

+ The inflation risk premium could continue to increase over the next few months.
+ EM local debt and currencies remain undervalued, but if inflation takes off, valuation gaps could close quickly.

OVERVIEW

India's growth outlook deteriorated as the second wave of COVID-19 cases weighed on community mobility and economic activity. It's a setback for India because weaker growth raises the probability of credit-rating downgrades (to noninvestment-grade) over the next 12–18 months. But it's also a setback for the aggregate EM growth outlook and a reminder that the pandemic remains a risk in some EM countries. Fortunately, the growth outlook has been improving in LATAM and EEMEA—on the back of buoyant commodity prices—which is counterbalancing the drag from India. While projected aggregate economic growth in EM is not meaningfully higher than in DM, we think that downside risks to the EM growth outlook will decline as vaccinations accelerate through the second half of 2021.

Inflation has been surprising to the upside in EM and DM. Rising food and oil prices and persistent pandemic-induced price distortions (partly due to supply constraints) risk dislodging inflation expectations. The risk of a vicious inflation cycle—fueled by higher inflation expectations—is greater in EM than in DM. With significant risks to the inflation outlook and the Federal Reserve potentially starting policy normalization (tapering of asset purchases) later this year, more EM central banks are shifting toward a hawkish direction. The EM monetary-policy normalization process is generally being led by countries where currencies are undervalued (Brazil, Mexico, Russia, and Turkey), but we think that more EM central banks could start interest-rate-hiking cycles over the next few quarters. Some divergence is possible, however, with Asia potentially staying on the sidelines for longer than LATAM and EEMEA. The greater hesitancy to hike rates in Asia will likely be driven by relatively contained inflation trajectories and the risk that monetary tightening could complicate some central banks' fiscal support measures (India and Indonesia).

We maintain that the Federal Reserve's tapering of asset purchases will not trip up EM the way it did during the 2013 Taper Tantrum because EM basic balances are more robust now. Buoyant commodity prices and the strong recovery in world trade volumes bode well for EM asset prices, but risk premium could remain elevated over the next few months due to inflation uncertainty and diverging monetary-policy trajectories. EM local debt and currencies remain undervalued, in our view. But if inflation takes off, the valuation gaps could close quickly.

AB Global Economic Forecast

July-21

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Global	6.1	4.3	2.8	2.6	1.74	1.79	2.46	2.62	-	-
Industrial Countries	5.4	4.3	2.4	1.9	(0.08)	(0.04)	1.10	1.34	-	-
Emerging Countries	7.2	4.4	3.4	3.6	4.52	4.57	4.58	4.59	-	-
EM ex China	5.6	4.2	5.2	4.5	4.77	4.88	5.90	6.00	-	-
United States	6.5	4.6	3.2	2.3	0.13	0.13	2.00	2.25	-	-
Canada	4.5	4.0	2.8	2.1	0.25	0.50	2.00	2.50	1.18	1.15
Europe	4.9	4.6	2.0	1.7	(0.37)	(0.29)	0.17	0.41	1.73	1.73
Euro Area	4.5	4.5	2.0	1.5	(0.50)	(0.50)	(0.10)	0.15	1.20	1.20
United Kingdom	7.0	5.5	1.8	2.3	0.10	0.50	1.15	1.40	1.45	1.50
Sweden	3.5	3.0	1.8	2.0	0.00	0.00	0.55	0.65	10.2	10.0
Norway	3.5	3.5	2.7	2.4	0.25	0.75	1.65	1.90	10.0	9.8
Japan	2.6	2.4	0.1	0.8	(0.10)	(0.10)	0.00	0.00	112	112
Australia	5.4	2.9	2.6	2.3	0.10	0.10	1.90	2.15	0.78	0.78
New Zealand	5.5	3.3	2.5	2.2	0.25	0.75	2.00	2.35	0.75	0.78
China	9.0	4.7	1.5	2.8	4.35	4.35	3.25	3.25	6.30	6.10
Asia ex Japan & China	6.2	5.2	3.0	3.1	2.24	2.80	3.95	4.21	-	-
Hong Kong	5.8	3.0	1.5	2.0	0.50	0.50	1.25	1.25	7.76	7.76
India	9.0	7.0	5.2	5.0	4.00	4.75	6.10	6.30	73.0	75.0
Indonesia	5.0	5.2	2.3	2.8	3.50	4.25	6.35	6.70	14,250	14,500
Korea	4.5	3.0	1.2	1.8	0.50	1.00	2.00	2.50	1,100	1,050
Thailand	2.0	6.0	1.2	1.2	0.50	0.50	1.85	2.00	32.0	32.0
Latin America	6.2	2.7	8.2	6.4	8.16	7.90	7.47	7.24	-	-
Argentina	6.0	2.5	40.0	30.0	35.00	25.00	-	-	120.0	180.0
Brazil	5.0	2.3	5.0	3.6	6.50	8.00	9.00	8.50	4.85	4.65
Chile	7.5	3.5	3.5	3.5	1.00	1.75	4.15	4.45	730	750
Colombia	7.0	3.5	2.8	3.4	2.25	3.00	7.00	7.25	3,600	3,800
Mexico	6.5	3.0	4.5	4.0	5.00	5.50	6.50	6.50	19.7	20.5
EEMEA	3.8	3.4	6.6	5.4	6.04	5.91	8.15	8.36	-	-
Hungary	4.5	4.7	3.9	3.5	1.20	1.50	3.00	3.25	350	340
Poland	4.1	4.5	3.4	3.2	0.10	0.60	2.00	2.25	4.50	4.40
Russia	3.3	2.8	4.9	4.0	6.25	6.25	7.30	7.00	70.0	67.0
South Africa	4.0	2.0	4.0	4.3	3.75	4.50	9.10	9.30	14.0	15.0
Turkey	4.5	3.5	15.5	12.0	14.00	12.50	17.50	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

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