

A POSITIVE, BUT NUANCED, VIEW OF THE ROAD AHEAD

SEPTEMBER 2021

ALEXANDRE TAVAZZI, GLOBAL STRATEGIST & HEAD OF CIO OFFICE

CÉSAR PÉREZ RUIZ, CIO & HEAD OF INVESTMENTS

FREDERIK DUCROZET, GLOBAL STRATEGIST

We have a generally positive, but nuanced view of the direction of the global economy. Following China, we believe that growth momentum may gradually wane in the US, followed slightly later by Europe. At the same time, slowing growth data looks likely to give impetus to new forms of economic stimulus, including infrastructure spending in the US.

At the same time, we recognise that ambitious infrastructure plans in the US face numerous political hurdles. We also are aware that tax hikes are moving up the agenda for corporates and higher earners. Yet we remain confident that consumers in the US will continue to spend, helped by accumulated savings and a steadily improving jobs picture. **Consumer resilience, complemented by even relatively modest net new spending on infrastructure, should help US GDP, which we see growing by 6.1% in 2021 and 3.9% in 2022.** Strong growth and advanced plans for Fed tapering could continue to prop up an already quite strong US dollar in the short term (despite jitters over the debt ceiling).

We have a generally favourable view of Europe given high vaccination rates and broad economic support, as symbolised by the Next Generation EU (NGEU) and dovishness of the European Central Bank. While not denying protracted global supply issues, our internal scorecard—which looks at vaccination rates, success in bringing the pandemic under control, policy support and industrial edge—supports our positive view of Europe from a macro point of view. We recently revised up our GDP growth forecast for the euro area to 5.0% (from a previous

4.3%) and forecast growth of 4.5% in 2022.

The direction of NGEU as well as of the green hue of recovery programmes in other regions of the world mean that the ‘**Green Marshall Plan**’ has been one of our leading investment ideas this year. Italy, which is one of the biggest recipients of NGEU funds, is turning out to be a particularly interesting case study of the ability of the EU to foster a greener (and more digital) recovery. Thanks to policy support, we believe Italian GDP will spring back to its pre-pandemic level in 2022. We will also be keeping a close eye on the outcome of the German federal elections at the end of this month, which could well determine the extent of further European integration and tolerance for deficit spending.

In both Europe and the US, **inflation**—largely brought about by supply problems and rising commodity prices. Some of the drivers of higher prices could wane, but cyclical inflation issues could persist for longer than foreseen. That said, we believe the Fed and ECB will remain dovish and relatively tolerant of inflation spikes—with the Fed pointing to its ‘average inflation target’ and the ECB to its symmetric price target of 2% over the medium term. As for investments, high input prices, together with rising wage pressure, could challenge corporate margins—thus ensuring **our preference for companies with pricing power.**

Investment decisions regarding China have become more delicate recently in view of the regulatory crackdown on many leading sectors of the economy and the pressure on offshore equity listings. From a macro-economic point of view, the slowdown in

economic momentum should lead to greater fiscal support, likely to be targeted to align with the Communist regime’s new ‘common prosperity’ goals. While an increased focus on governance and on supporting key economic sectors could provide long-term benefits, and while China’s middle class continues to grow, the short-term impact of regulatory changes could be negative for corporate profits.

Other emerging markets like Brazil are trailing in their vaccination drives and also are especially vulnerable to surges in inflation. While such countries have benefited from big increases in commodity prices, more normalised growth in developed markets may mean commodity growth slows. As for Japan, the change of prime minister in Japan may be a trigger for extra policy support in Japan, where economic recovery has been lacklustre. We have a positive stance on Japanese equities.

While generally upbeat on **equities** in general in the medium term, we believe there is a risk of disappointment in the short term as the pace of earnings growth slows, supply bottlenecks keep inflation aloft and tax increases are increasingly discussed.

Despite low spreads, we still see carry opportunities in what we call the **credit trilogy**. This involves investing in so-called ‘rising stars’ (credits recently downgraded to high yield status but on the cusp of regaining their investment-grade status) as ratings upgrades outstrip downgrades. While adamant about the need to avoid the lower depths of the rating scale, we also see scope for going carefully down the capital structure to invest in the subordinated debt

of financial companies and hybrid structures—the second part of our credit trilogy. Our conviction that one can take advantage of volatility in the credit curve to pick up yield from duration plays forms the third part of the trilogy.

Finally, we would like to point to the scope for real assets to provide diversification to an asset allocation. Areas of interest include REITS and private-equity real estate, which should benefit from a post-pandemic reset of commercial property markets. ■

Disclaimers

We value the protection of your personal data and we are keen on ensuring that you understand and feel confident in the way we process them. For more information about personal data protection and how we protect yours, please refer to the Pictet Group Privacy Notice available at <https://www.group.pictet/privacynotice>

Distributors: Banque Pictet & Cie SA, Route des Acacias 60, 1211 Geneva 73, Switzerland.

Banque Pictet & Cie SA is established in Switzerland, exclusively licensed under Swiss Law and therefore subject to the supervision of the Swiss Financial Market Supervisory Authority (FINMA).

This marketing communication is not intended for persons who are citizens of, domiciled or resident in, or entities registered in a country or a jurisdiction in which its distribution, publication, provision or use would violate current laws and regulations.

The information, data and analysis furnished in this document are disclosed for information purposes only. They do not amount to any type of recommendation, either general or tailored to the personal circumstances of any person. Unless specifically stated otherwise, all price information is indicative only. No entity of the Pictet Group may be held liable for them, nor do they constitute an offer or an invitation to buy, sell or subscribe to securities or other financial instruments. The information contained herein is the result neither of financial analysis within the meaning of the Swiss Bankers Association's Directives on the Independence of Financial Research, nor of investment research for the purposes of the relevant EU MiFID provisions. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness.

Except for any obligations that any entity of the Pictet Group might have towards the addressee, the addressee should consider the suitability of the transaction to individual objectives and independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences.

Furthermore, the information, opinions and estimates in this document reflect an evaluation as of the date of initial publication and may be changed without notice. The Pictet Group is not under any obligation to update or keep current the information contained herein. In case this document refers to the value and income of one or more securities or financial instruments, it is based on rates from the customary sources of financial information that may fluctuate. The market value of financial instruments may vary on the basis of economic, financial or political changes, currency fluctuations, the remaining term, market conditions, the volatility and solvency of the issuer or the benchmark issuer. Some investments may not be readily realizable since the market in the securities can be illiquid. Moreover, exchange rates may have a positive or negative effect on the value, the price or the income of the securities or the related investments mentioned in this document. When investing in emerging countries, please note that the political and economic situation in those countries is significantly less stable than in industrialized countries. They are much more exposed to the risks of rapid political change and economic setbacks.

Past performance must not be considered an indicator or guarantee of future performance, and the addressees of this document are fully responsible for any investments they make. No express or implied warranty is given as to future performance. Moreover, forecasts are not a reliable indicator of future performance. The content of this document can only be read and/or used by its addressee. The Pictet Group is not liable for the use, transmission or exploitation of the content of this document. Therefore, any form of reproduction, copying, disclosure, modification and/or publication of the content is under the sole liability of the addressee of this document, and no liability whatsoever will be incurred by the Pictet Group. The addressee of this document agrees to comply with the applicable laws and regulations in the jurisdictions where they use the information reproduced in this document.

This document is issued by Banque Pictet & Cie SA. This publication and its content may be cited provided that the source is indicated. All rights reserved. Copyright 2020.