November 29, 2021

BIL Investment Outlook

Twenty two questions for 2022

Our Investment Outlook for the year ahead is now available.

EN FR DE NL

Introduction from our CIO, Fredrik Skoglund

Fredrik Skoglund, Group Chief Investment Officer

We've come a long way since the darkest days of the pandemic, with vaccines gradually replacing the need for complete lockdowns, curfews and closed borders. The economy has also come a long way since its 2020 nadir, with 2021 delivering stronger-than-expected growth and corporate profits, thanks to a powerful confluence of fiscal and monetary stimulus. Indeed, in July this year, the National Bureau of Economic Research's Business Cycle Dating Committee judged that in the US, the pandemic-induced recession was the shortest on record, lasting only two months. Short though it was, it was definitely not sweet: it was also the steepest and, as such, the return to "normality" is not all plain sailing, and the investment world is faced with a lack of historical reference points.

Early last year, many economists predicted that the great reopening would catalyse an economic boom akin to the Roaring Twenties or, as the OECD more dryly put it, "private consumption is set to benefit from the lifting of containment measures and the concomitant fall in household saving, which finances sizeable pent-up demand." After a year of being couped up at home, consumers were expected to hit the malls and spend like the Great Gatsby on his fourth cocktail, ushering in a new era of economic prosperity. However, data shows Americans and Europeans are still sitting on $2.7 trillion in excess savings banked during the crisis.

The "consumer boom" scenario was rapidly confronted with supply constraints. Shortages that initially affected things like pasta and protective equipment at the beginning of the pandemic have spread to cover a wide array of things: semiconductors, car parts, ships, shipping containers, workers. This new chapter of scarcity is not the result of one big bottleneck in, say, Chinese factories or container ships. It is due to dizzying demand being met with a hydra of bottlenecks as companies struggle to piece together highly-complex supply chains which often crisscross the globe (often traversing countries which still have restrictive measures in place).

The good news is that supply-chain issues are expected to ease over the next year, opening up the possibility of more robust growth down the road. The bind is that a combination of surging demand, shortages and higher energy costs has contributed to rising inflation around the world. Both headline and core prints in many places are at the highest levels seen in well over a decade.

For now, key central banks such as the Fed and the ECB are pretty adamant that inflation will prove transitory, but markets are already betting that it is going to be stickier. This tug-of-war will be the focal point of 2022. Our base case is that inflation will moderate at manageable levels after winter as volatile energy prices retreat and as more kinks in supply chains are ironed out. However, inflation drivers are starting to broaden out and if companies meaningfully adjust their pricing and pay policies, what might have been a temporary burst of inflation could become more ingrained. In this scenario central banks would probably be forced to tighten quicker than expected, putting growth in jeopardy.

A more permanent form of inflation and monetary tightening that chokes growth are the key

risks we face next year. Another risk is the fact that the health crisis still lingers; this winter will be the real litmus test as to the success of vaccination campaigns thus far, though recent medical advances, including the experimental oral antivirals from Pfizer and Merck give reason for optimism.

With this in mind, it is likely that investors will face trickier terrain next year. Growth is still intact and, while the environment for risk assets is still constructive, the rising tide that lifted all boats in 2021 is set to become a lot choppier. That said, seasoned investors know that risk always creates opportunities.

Beyond cyclical opportunities, next year we will emphasise long-term structural opportunities in areas such as digitalisation and the sustainable transition. The fight to reduce carbon emissions and combat climate change will remain at the fore next year after having been cast into the spotlight at the COP26 summit in Glasgow. We at BIL have a strong ambition to play our part in the transition to a more sustainable economy.

All the aforementioned topics will be explored in more granularity in this Outlook. To make it easier to digest, we have adopted a new format this year, choosing twenty two of the most pressing questions to put to our in-house investment specialists. I hope you will enjoy the read and that you will have a safe and enjoyable holiday period.

Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeless of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent,- subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified. All Financial data and/or economic information contained herein can also quickly become out-of- date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch ı L-2953 Luxembourg ı RCS Luxembourg B-6307 ı Tel. +352 4590 6699 ı www.bil.com.