

## The Year Ahead: Moderate Growth, Rising Volatility

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SEI recently released its fourth-quarter Economic Outlook. A summary of the conclusions is provided below:

- It is impossible to look at the global economy through any lens but one tinted by COVID-19.
- While COVID will remain a challenge in the New Year, we don't see the world economy headed toward a recession.
- We look for a deceleration in US gross domestic product (GDP) growth in 2022, with the gain in overall economic activity around 4% (appreciably above the economy's long-term growth potential of 2%).
- We also expect other countries to continue to post above-average advances as they recover from the past two years' worth of lockdowns and shortages.
- Our expectation for growth, however, assumes that the world will continue to manage through the periodic setbacks in the battle against the disease.
- The year ahead promises to be another one of extremely tight labour markets (especially in the US), where we expect wages to continue their sharp climb as businesses bid for workers.
- A disparity in compensation trends among six of the richest industrialized nations<sup>1</sup> means that fiscal policy responses are likely to diverge.
- In our view, the real anomaly in the financial markets is the ultra-low levels of interest rates in the face of higher inflation and above-average growth in much of the world. This may force central banks to adopt more aggressive interest-rate policies than they and market participants currently envision.
- In addition to the start of a new monetary tightening cycle, some economists have expressed concern about the next "fiscal cliff" facing various countries, the US in particular, as stimulus efforts are reduced or eliminated.
- This latest fiscal cliff doesn't look quite as scary against the backdrop of the economy's current strength.
- The shift in Fed policy probably represents a formidable headwind for emerging-market economies in 2022.
- Geopolitically, investors need to deal with uncertainty all the time. It is not often, however, that geopolitics become a focus that exerts a big impact on markets, either positive or negative.
- Still, China's performance in 2022 is one of the key unknowns that will influence global economic growth. Tension with Russia and the negotiations with Iran over its nuclear development program are also worth watching.
- Outside of these main issues, there are mundane developments that could deliver surprises that have market impact. Elections in France, Brazil and the US are all on the radar.
- In the financial markets, the emergence of the Omicron variant has further delayed a long overdue rotation to cheaper, more cyclical stocks that are also less correlated to bond prices.
- We are maintaining our optimistic view that global growth will re-accelerate as this latest COVID-19 wave fades.

A full-length paper is available if you wish to learn more about these timely topics.

<sup>1</sup> Source: Organisation for Economic Co-operation and Development

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