Global Economic and Markets Outlook

Facing Headwinds

Global Macro Outlook – Key Indicators for Selective Economies

Country	GDP Growth (%)			Inflation (%)			Unemployment Rate 9%)			CA As % of GDP			Fiscal Balance % Of GDP			Gross Debt As % of GDP		
	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
Australia	-2.4%	4.2%	4.1%	0.9%	2.5%	2.1%	6.5%	5.2%	4.8%	2.7%	3.6%	1.3%	-8.7%	-8.5%	-5.8%	57.3%	62.1%	66.4%
Brazil	-4.1%	4.7%	0.3%	3.2%	7.7%	5.3%	13.5%	13.8%	13.1%	-1.8%	-0.5%	-1.7%	-13.4%	-6.2%	-7.4%	98.9%	90.6%	90.2%
Canada	-5.3%	4.7%	4.1%	0.7%	3.2%	2.6%	9.6%	7.7%	5.7%	-1.8%	0.5%	0.2%	-10.9%	-7.5%	-2.2%	117.5%	109.9%	103.9%
China	2.3%	8.1%	4.8%	2.4%	1.1%	1.8%	4.2%	3.8%	3.7%	1.8%	1.6%	1.5%	-11.2%	-7.5%	-6.8%	66.3%	68.9%	72.1%
France	-8.0%	6.7%	3.5%	0.5%	2.0%	1.6%	8.0%	8.1%	8.3%	-1.9%	-1.7%	-1.4%	-9.2%	-8.9%	-4.7%	115.1%	115.8%	113.5%
Germany	-4.6%	2.7%	3.8%	0.4%	2.9%	1.5%	3.8%	3.7%	3.6%	6.9%	6.8%	6.9%	-4.3%	-6.8%	-1.8%	69.1%	72.5%	69.8%
India	-7.3%	9.0%	9.0%	6.2%	5.6%	4.9%	NA	NA	NA	0.9%	-1.0%	-1.4%	-12.8%	-11.3%	-9.7%	89.6%	90.6%	88.8%
Indonesia	-2.1%	3.3%	5.6%	2.0%	1.6%	2.8%	7.1%	6.6%	6.0%	-0.4%	-0.3%	-1.0%	-5.9%	-6.1%	-4.8%	36.6%	41.4%	43.3%
Italy	-8.9%	6.2%	3.8%	-0.1%	1.7%	1.8%	9.3%	10.3%	11.6%	3.5%	3.7%	3.6%	-9.5%	-10.2%	-4.7%	155.8%	154.8%	150.4%
Japan	-4.6%	1.6%	3.3%	0.0%	-0.2%	0.5%	2.8%	2.8%	2.4%	3.3%	3.5%	3.3%	-10.3%	-9.0%	-3.9%	254.1%	256.9%	252.3%
Korea	-0.9%	4.0%	3.0%	0.5%	2.2%	1.6%	3.9%	3.8%	3.7%	4.6%	4.5%	4.2%	-2.2%	-2.9%	-2.8%	47.9%	51.3%	55.1%
Mexico	-8.3%	5.3%	2.8%	3.4%	5.4%	3.8%	4.4%	4.1%	3.7%	2.4%	0.0%	-0.3%	-4.5%	-4.2%	-3.5%	61.0%	59.8%	60.1%
Russia	-3.0%	4.5%	2.8%	3.4%	5.9%	4.8%	5.8%	4.9%	4.6%	2.4%	5.7%	4.4%	-4.0%	-0.6%	0.0%	19.3%	17.9%	17.9%
South Africa	-6.4%	4.6%	1.9%	3.3%	4.4%	4.5%	29.2%	33.5%	34.4%	2.0%	2.9%	-0.9%	-10.8%	-8.4%	-7.0%	69.4%	68.8%	72.3%
UK	-9.8%	7.2%	4.7%	0.9%	2.2%	2.6%	4.5%	5.0%	5.0%	-3.7%	-3.4%	-3.4%	-12.5%	-11.9%	-5.6%	104.5%	108.5%	107.1%
USA	-3.4%	5.6%	4.0%	1.2%	4.3%	3.5%	8.1%	5.4%	3.5%	-2.9%	-3.5%	-3.5%	-14.9%	-10.8%	-6.9%	133.9%	133.3%	130.7%
Turkey	1.8%	11.0%	3.3%	12.3%	17.0%	15.4%	13.1%	12.2%	11.0%	-5.2%	-2.4%	-1.6%	-5.3%	-4.9%	-5.6%	39.8%	37.8%	37.9%
Egypt	3.6%	3.3%	5.6%	5.7%	4.5%	6.3%	8.3%	9.3%	9.2%	-3.1%	-3.9%	-3.7%	-7.9%	-7.3%	-6.3%	89.8%	91.4%	89.5%
Bahrain	-5.1%	2.4%	3.1%	-2.3%	1.0%	2.7%	4.9%	3.9%	3.8%	-9.3%	-2.9%	-2.9%	-17.6%	-11.7%	-9.4%	129.7%	123.4%	125.6%
Kuwait	-8.9%	0.9%	4.3%	2.1%	3.2%	3.0%	1.3%	NA	NA	16.7%	15.5%	13.3%	-8.3%	-1.5%	1.0%	11.7%	7.9%	10.8%
Oman	-2.8%	2.5%	2.9%	-0.9%	3.0%	2.7%	NA	NA	NA	-13.7%	-5.8%	-0.9%	-18.7%	-2.6%	1.1%	81.2%	68.2%	61.7%
Qatar	-3.6%	1.9%	4.0%	-2.7%	2.5%	3.2%	NA	NA	NA	-2.4%	8.2%	11.6%	1.3%	2.8%	5.7%	72.1%	59.0%	53.1%
KSA	-4.1%	2.9%	4.8%	3.4%	3.2%	2.2%	7.4%	NA	NA	-2.8%	3.9%	3.8%	-11.3%	-3.1%	-1.8%	32.5%	29.7%	30.8%
UAE	-6.1%	2.2%	3.0%	-2.1%	2.0%	2.2%	NA	NA	NA	3.1%	9.7%	9.4%	-5.6%	-0.5%	-0.2%	39.4%	37.3%	38.6%

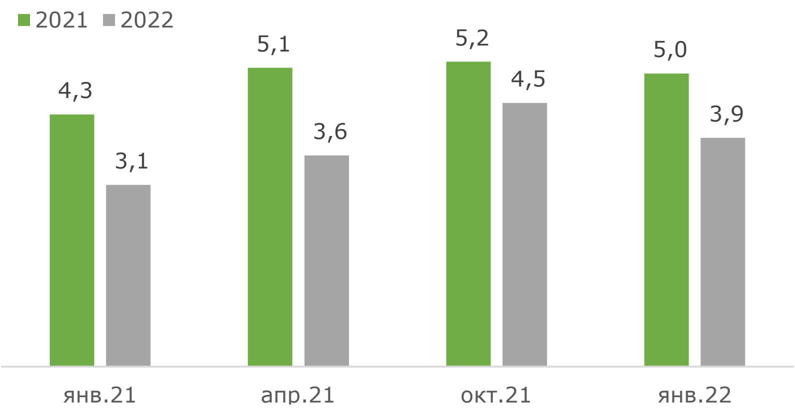
Source: IMF World Economic Outlook, October 2021, January 2022

Synchronized Recovery to Continue in 2022 With growth moderating across the globe

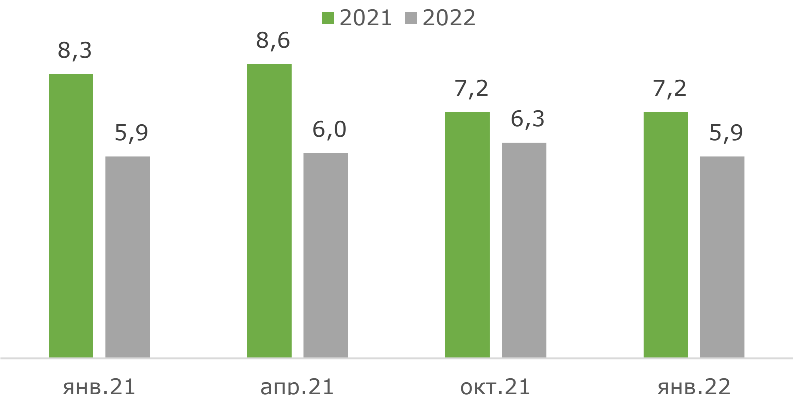
- IMF expects the global economy to grow 4.4%, lower than earlier projections of 4.9% as well as 5.9% growth recorded in 2021
- The course of the COVID-19 pandemic, inflation trajectory and central banks' monetary policy stance would be the key themes impacting the economy in 2022
- IMF expects the US to grow by 4.0% in 2022, a downward revision of 1.2% from October projections
    - Removal of impact of Build Back Better package
    - Earlier withdrawal of monetary accommodation
    - Continued supply chain disruptions
- China is expected to grow 4.8% in 2022, a downward revision of 0.8% from October
- Eurozone is projected to grow 3.9% in 2022 (5.2% in 2021) relative to October estimates of 4.3%

Synchronized Recovery to Continue in 2022
Led by the US, China and Eurozone

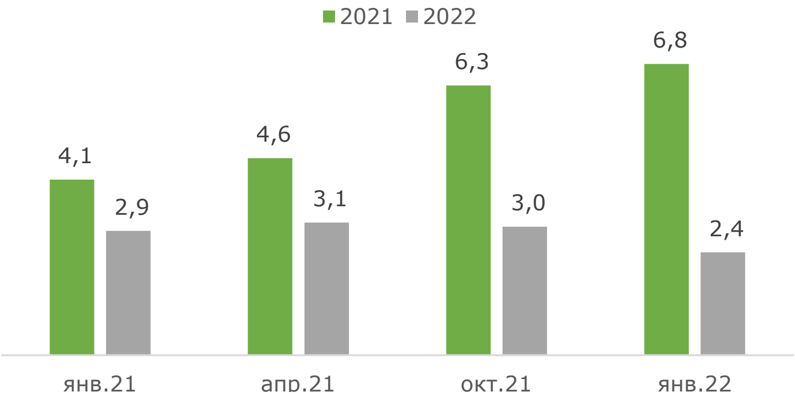
ADVANCED ECONOMIES
Change in IMF Projections (%)



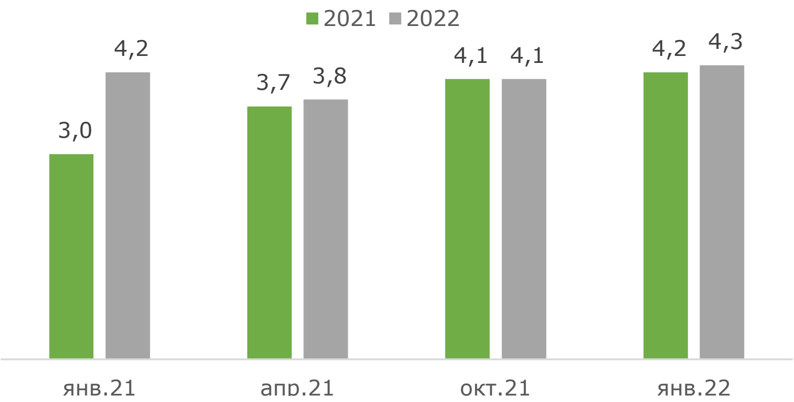
EMERGING AND DEVELOPING ASIA
Change in IMF Projections (%)



LATIN AMERICA
Change in IMF Projections (%)



MIDDLE EAST AND CENTRAL ASIA
Change in IMF Projections (%)



Source: IMF World Economic Outlook, January 2022

Inflation Strikes Back

- Combination of easy monetary and fiscal policies during 2020 and 2021 achieved the desired results for policymakers as global economy bounced back from the Covid-19
  - Strong revival in personal consumption
  - Recovery in labor markets
  - easing of financial conditions
- Last decade witnessed persistently lower inflation, with most central banks missing the target on the downside and hence followed a policy of “lower for longer” to lift inflation
- Central banks “wish” for higher inflation has finally been granted with prices of both goods and services climbing rapidly globally
- Rising inflation is forcing most central banks to adopt a tighter stance on monetary policy

Consensus Inflation Forecasts are on the Rise in 2022

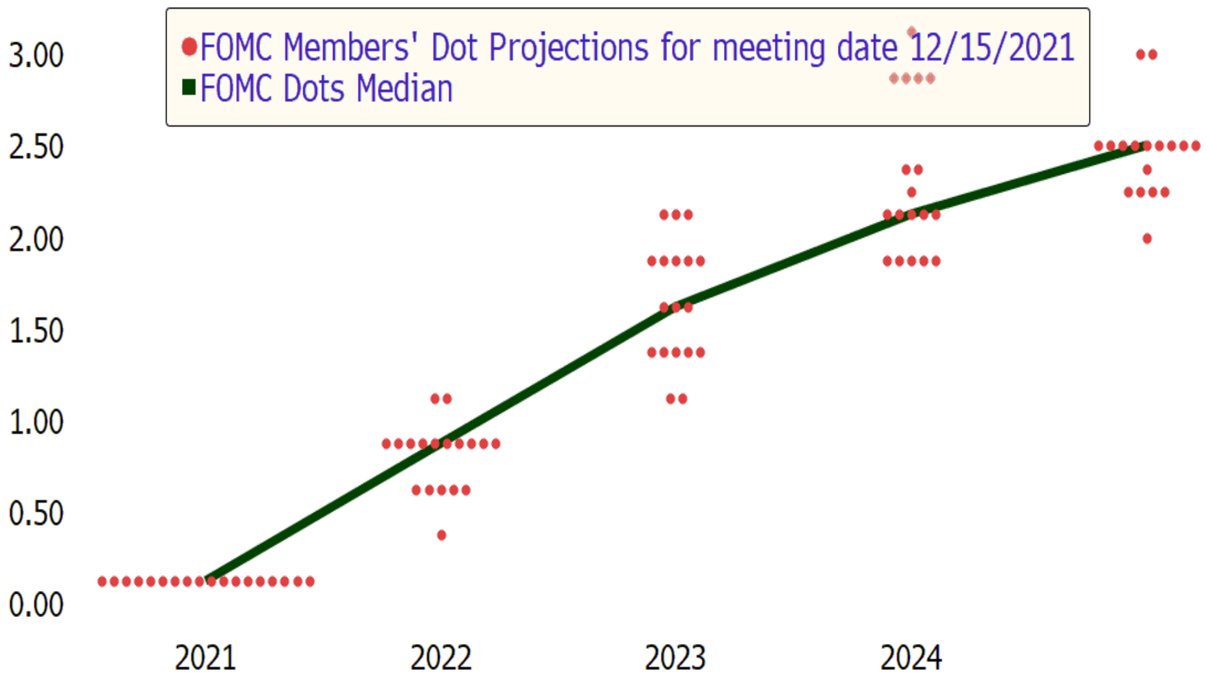
	2021	2022	2023	2024
US CPI	4.7%	6.2%	2.6%	2.2%
US PCE	3.9%	5.1%	2.4%	2.1%
US Core PCE	3.3%	4.4%	2.5%	2.2%
Eurozone CPI	2.6%	5.4%	2.0%	1.8%
UK CPI	2.6%	6.5%	3.0%	2.0%
EM CPI	2.9%	4.9%	3.9%	2.8%

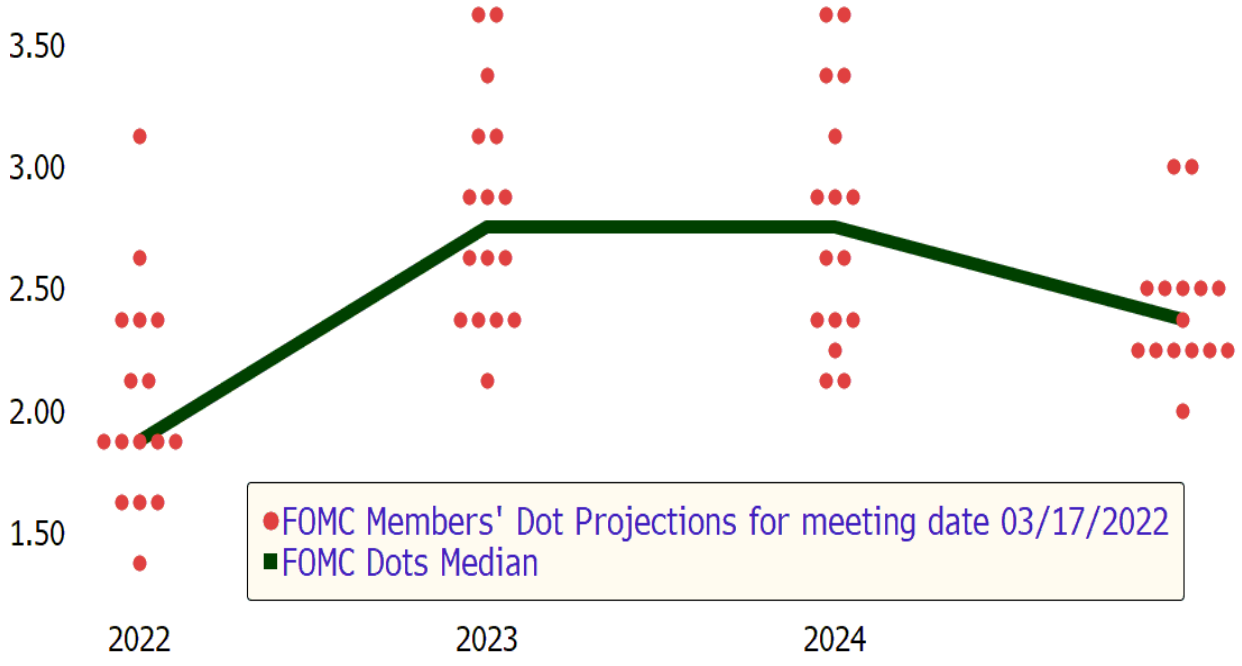
Source: Bloomberg

The Return of the Hawks

- Until late 2021 there was a divergence in response from the central banks to rising inflation
- The Fed turned more concerned about inflation in December and indicated an urgency to act highlighting strengthening economy and higher inflation as grounds for earlier and faster hikes
- The hawkish tilt was reaffirmed in January and acted upon in March despite a challenging geo-political environment
- The Fed started a new hiking cycle with a 25 bps hike and confirmed that it was “serious” about price stability as it signaled a rate hike of at-least 25 bps in each of the remaining meetings of 2022
- The ECB was also hawkish with President Lagarde stating that inflation was not only high, but the war had pushed it higher still
- The BOE also hiked rates in March but appeared a bit dovish over the pace of future hikes

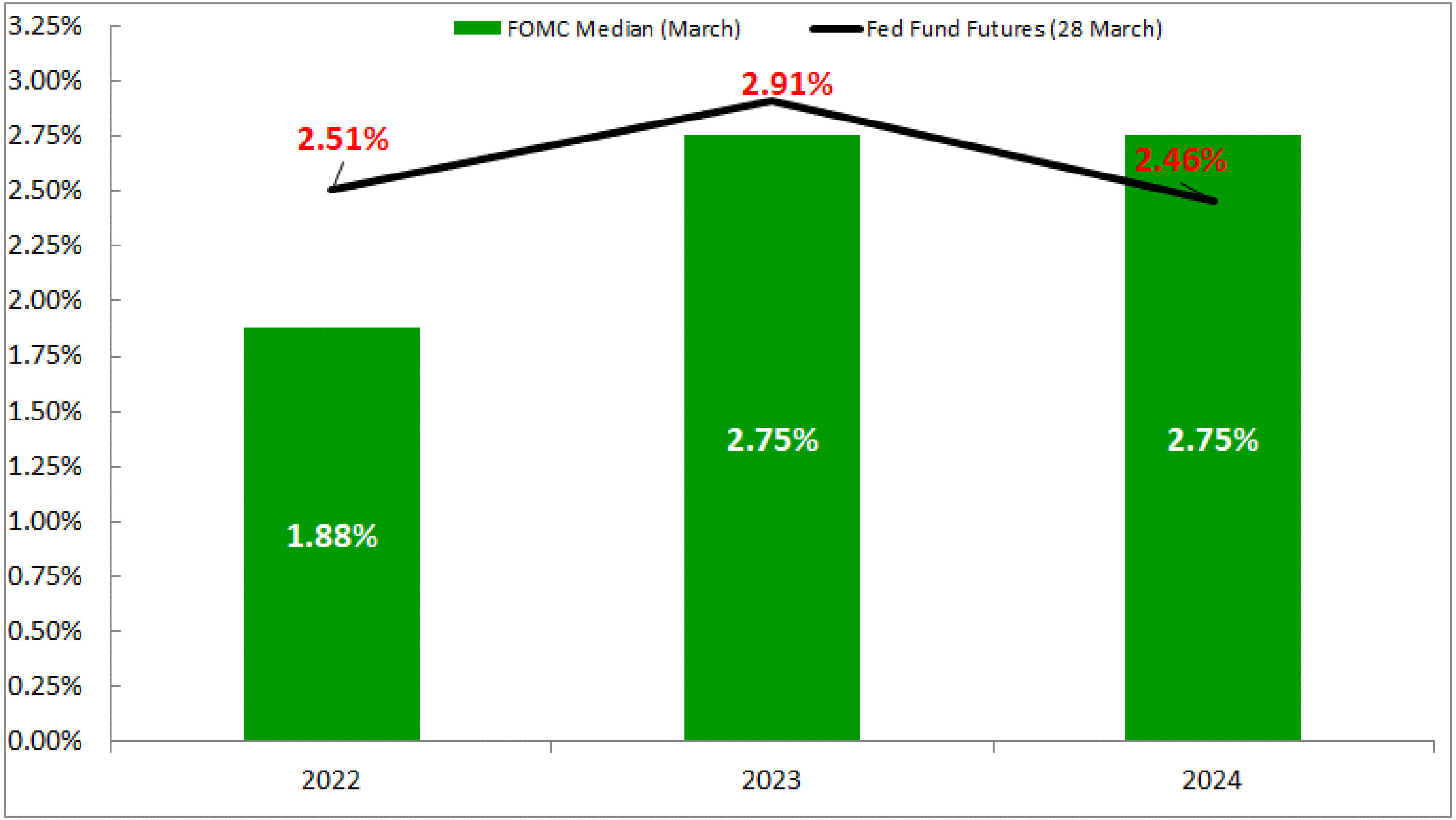
Shifting Dots Show Inflation Concerns



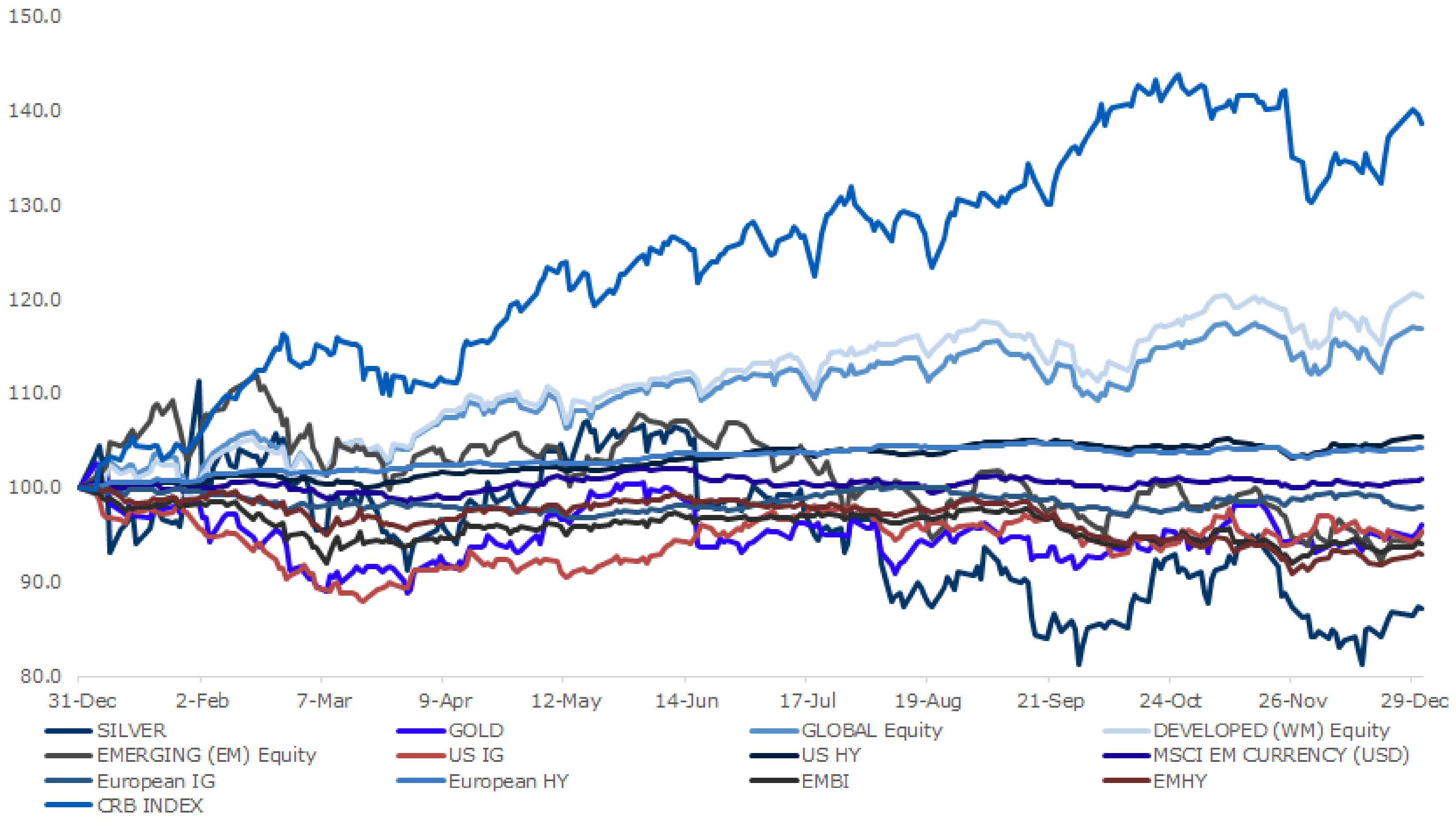


Source: Bloomberg

The Fed vs The Market – More Hawkish



Asset Class Returns in 2021 - Commodities Topped, followed by DM Equities



Equity markets – Poised for correction

- In 2021 equities were among the best performing asset class, supported by post-recession economic recovery, rapid roll out of vaccines, fiscal stimulus and continuation of accommodative monetary policy
- Equity markets across the globe saw broad based sell off in January 2022 amidst monetary tightening signals from central banks
- Geo-political risks, slowing growth/earnings and tighter monetary policy are likely to keep equities under pressure in 2022

Sovereign bond yields Rising in response to policy tightening

- Hawkish monetary policy by major central banks would be the theme in 2022 as inflation remains elevated amidst increasing energy prices, supply chain disruptions and tight labor markets
- We expect government bond yields to continue the upward trend that started in late 2021
- Curve inversion is an outcome of rapidly tightening monetary policy, and not a recession warning
- QT will start from June this year and will impact liquidity conditions meaningfully in 2023

Commodities – Seeing demand driven and supply constrained price growth

- Growth momentum is likely to be supportive to base metals prices as demand improves
- Gold prices are likely to get support in 2022 amidst continued inflation concerns and geo-political risks
- Crude oil prices recovered significantly in 2021. Positive demand outlook and geopolitical concerns are likely to provide further support to oil prices even as OPEC+ members are gradually relaxing the output cuts implemented when demand collapsed in H1 of 2020.
- Agricultural commodities are experiencing a sharp spike in prices due to supply concerns

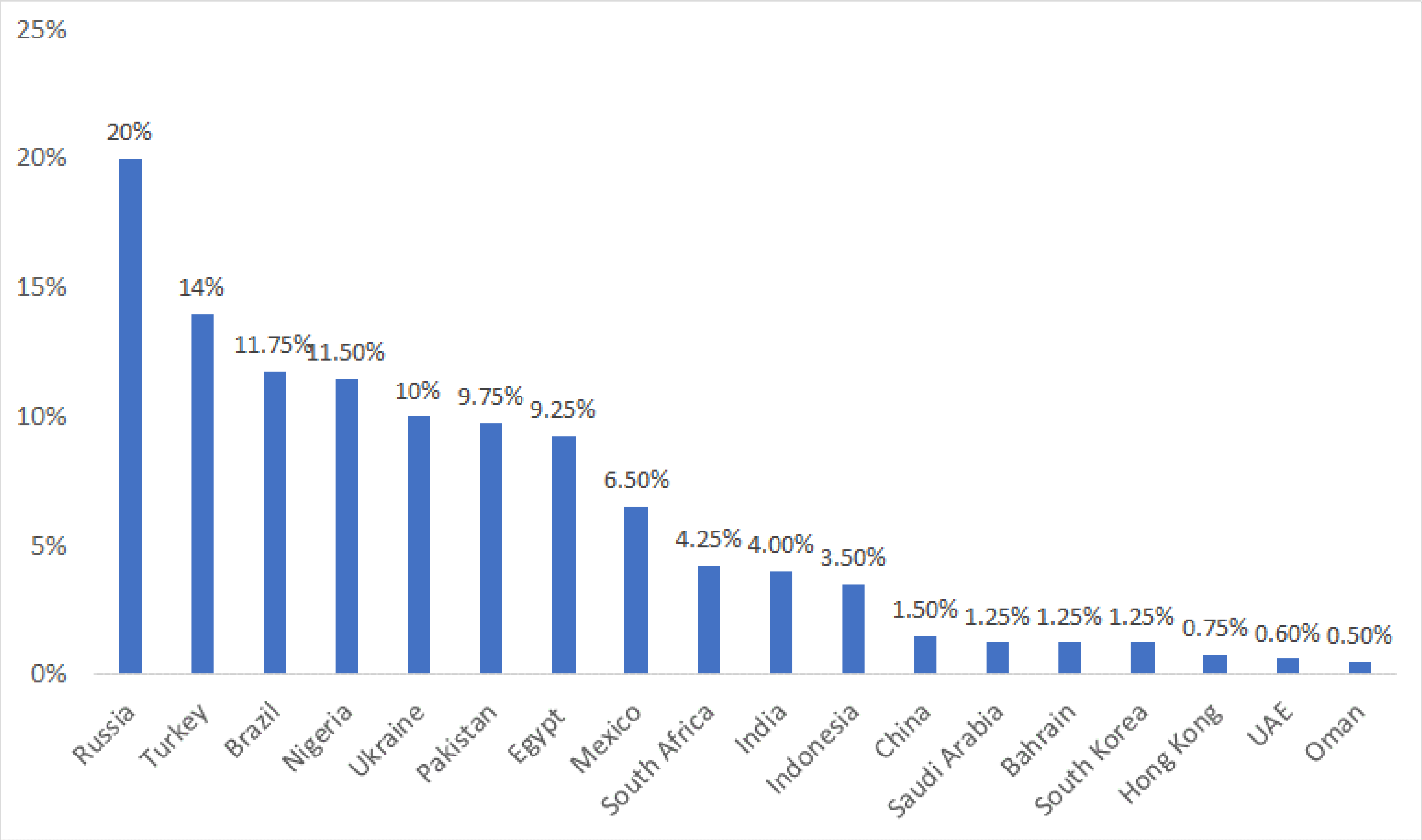
Currency markets – Another year of dollar gains

- US dollar is poised for another strong year, on improving economic activity and higher US rates
- Continued accommodative monetary stance by the ECB, despite some signals of a hawkish shift, is likely to keep Euro under pressure
- JPY and GBP to weaken further as both BOE and BOJ appear dovish on rates outlook
- For EM currencies, the degree of monetary tightening by central banks amidst higher inflation will be the key factor driving movements against the USD

EM Credit – Under Pressure but Selectively Attractive

- EM Credit is under pressure due to expected monetary policy tightening in the US and geo-political developments
- Many EM economies, barring China and India are already on a tightening path
- Some EM economies that import both oil and food commodities are vulnerable to shocks and hence need policy tightening and multilateral support
- New Issuance is much slower this year
- Fund flows are negative, mostly out of EM HC debt funds
- We expect mixed performance for EM bonds as gradual economic normalization and policy rationalization would have positive impact, whereas rising US rates, capital reversal and geo-political risks will keep EM Bonds under pressure
- We expect spread to compress from 2nd half of 2022 and end the year at under 375 bps
- HG names such as KSA, AD and Qatar are new safe havens
- We like Brazil, Chile, Colombia, Mexico, Indonesia, Nigeria, Oman, Bahrain and South Africa
- We are cautious on Jordan, Turkey, Egypt and Pakistan
- We are negative on Ghana, Sri Lanka and Tunisia

EM Monetary Policy Rates – Selective Economies



EM Credit Spread

Thank You!