



**SOLVING**  
FOR 2022

# The Year Ahead: Outlook And Challenges

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NEUBERGER BERMAN

# The Great Inflection Of 2022

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## Key Inflection Points:

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- Monetary & Fiscal Policy
- Liquidity
- Inflation
- Energy Transition
- China

# Views From A Year Ago

## Our Economic Outlook a Year Ago:

- ✓ Post-COVID Growth Recovery as Vaccine Rollout Supports Economic Re-openings
  - U.S. growth expected to top 4% supported by stimulus and pent-up consumer demand
  - Europe and Japan poised to rebound strongly as global growth recovers
  - China expected to grow at 7-8% as strong credit expansion drive rising economic activity
  - Emerging markets more broadly to benefit from improving global growth, rising commodity prices and softening U.S. dollar
- ✓ Aggressive Monetary Policy to Keep Interest Rates Low
  - Fed has indicated at zero bound into 2023, yield curve could steepen as growth improves
  - European Central Bank and Bank of Japan maintaining negative policy rates
  - Emerging market rates have latitude to decline amidst easy global financial conditions
- ✓ Inflation Likely to Rise Due to Base Effects
  - Easy money and economic re-opening likely lead to increasing price expectations
  - Significant excess capacity and longer-term secular stagnation headwinds could limit inflation upside
- ✗ Political Risks – Uncertainties of the Post-COVID, Post-Trump World
  - Cyber-attack on U.S. government and potential retaliation highlights a key ongoing risk
  - US-China tensions reduced, but potential for conflict remains
  - Post-Brexit Europe potentially facing challenges from periphery
  - Middle East crises have potential to roil markets

## Our Investment Outlook a Year Ago:

### EQUITIES:

- ✗ Post-COVID-19 re-openings along with pent up consumer demand provide support to cyclical, value, and smaller company stocks while high valuations present a headwind for overall market levels
- ✓ European stocks boosted by fiscal and monetary stimulus as well as cyclical recovery
- ✓ Japanese equities poised to benefit from global growth rebound and strong China credit impulse
- ✗ Emerging markets valuations appear attractive; China stimulus and easier global financial conditions could provide boost

### FIXED INCOME:

- ✓ Underweight bias towards developed market global bonds where low yields provide little cushion for rising rates
- ✓ Seek yield with limited duration:
  - Short duration corporate credit
  - Bank loans and collateralized loan obligations
  - Emerging markets including exposure to local currency sovereign debt

### ALTERNATIVES:

- ✓ Commodities to benefit from reflationary growth; precious metals can hedge currency devaluation
- ✓ Incorporate uncorrelated return drivers and strategies to seek to diversify equity volatility
- ✓ Attractive opportunities available in private equity, particularly in secondaries
- ✓ Pursue dislocations in private credit

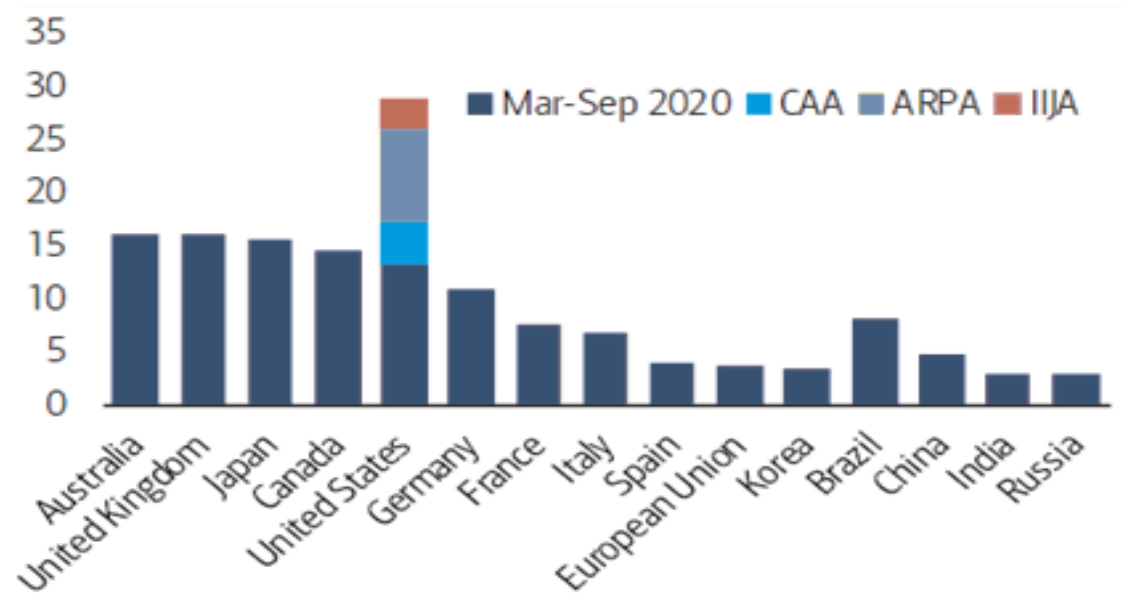
Source: Neuberger Berman

Inflection Point: Monetary And Fiscal Policy

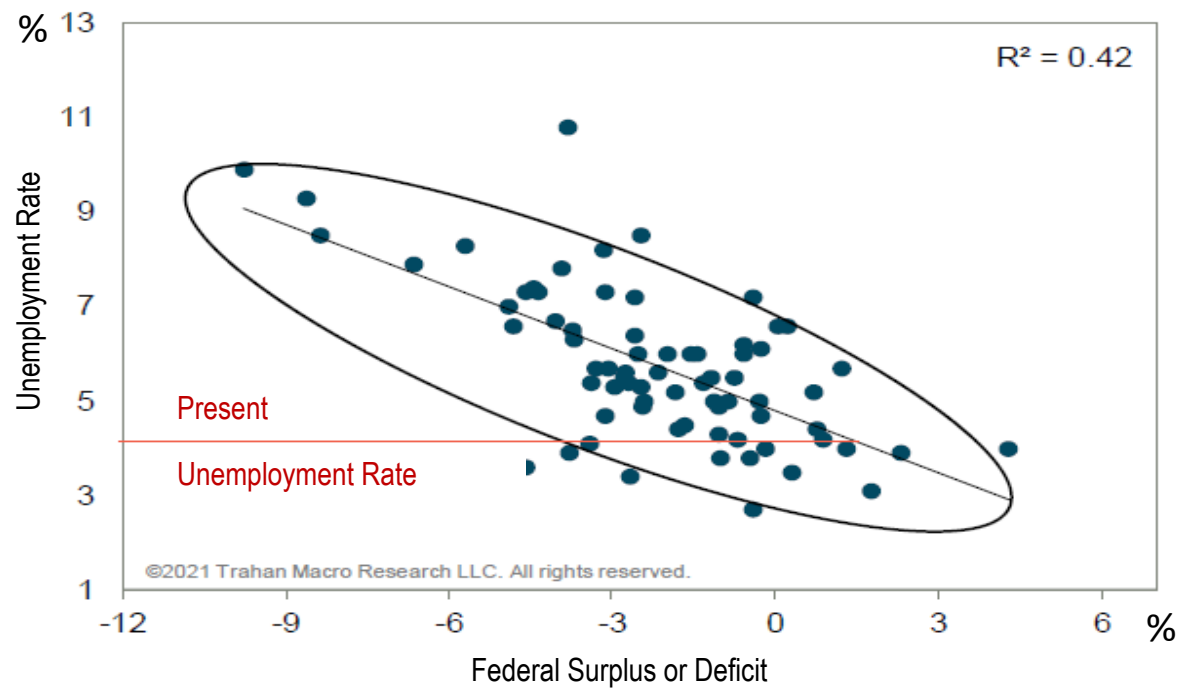


# Unprecedented Amount Of Government Stimulus

Fiscal Policy: DM and EM Economies (% of GDP)  
US is leading in Fiscal Stimulus

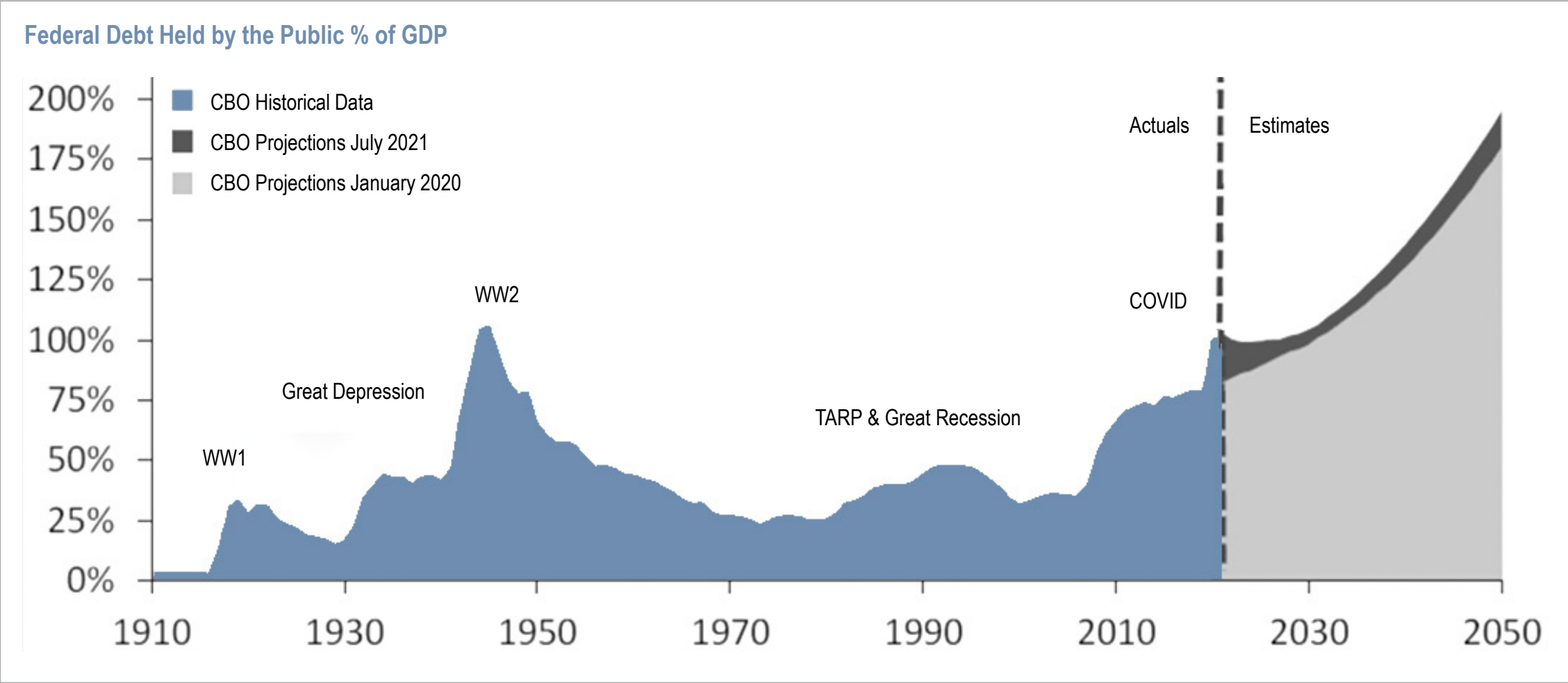


US Unemployment Rate and Federal Budget



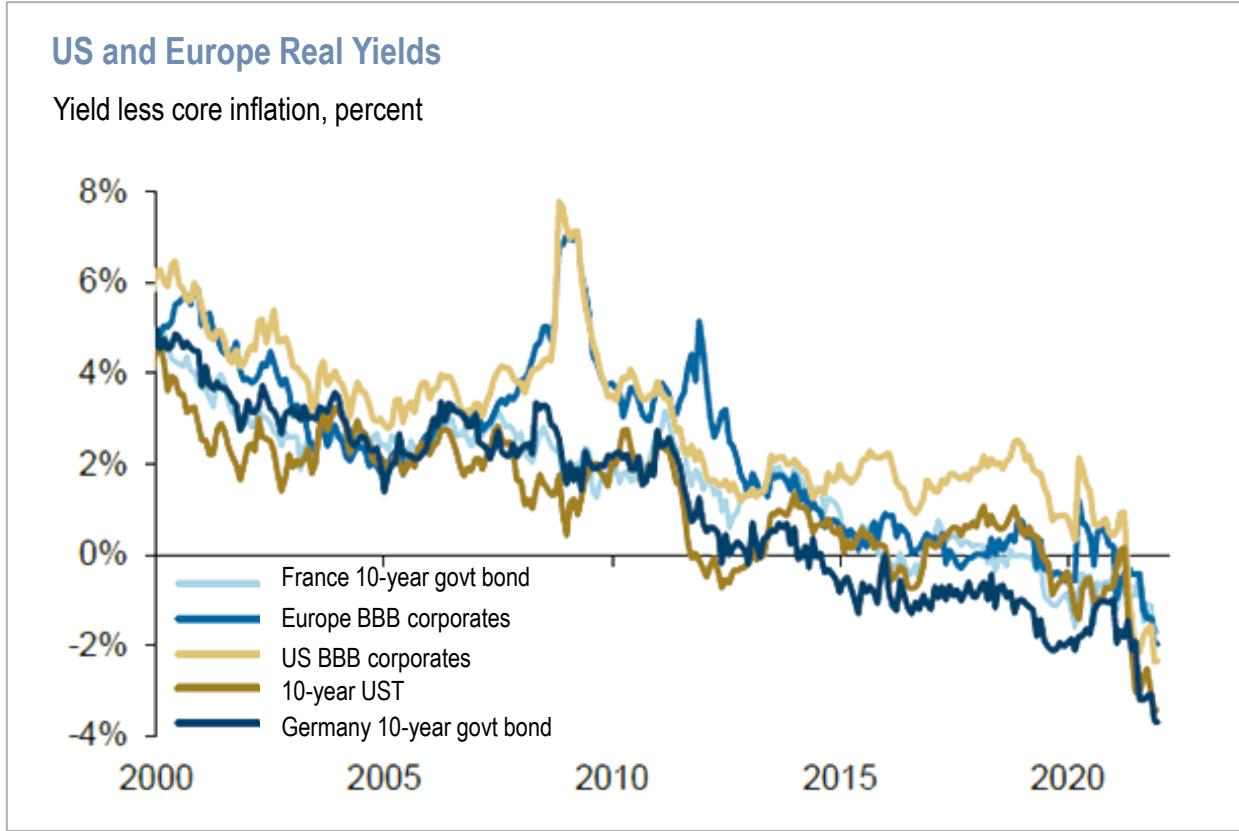
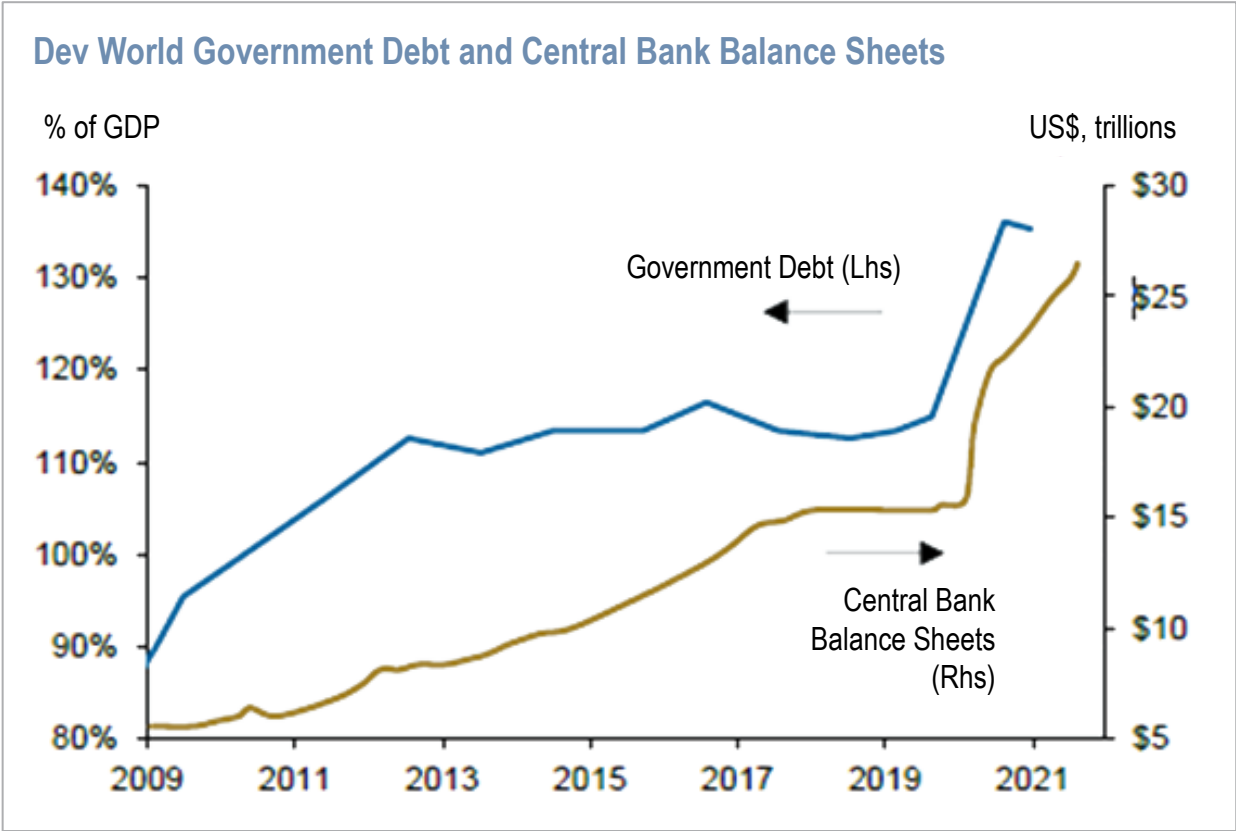
Source: Bank of America, Trahan Macro Research

# U.S. Federal Debt Projected To Get Worse



Source: Wolfe Research

# Central Bank Policy And Real Yields

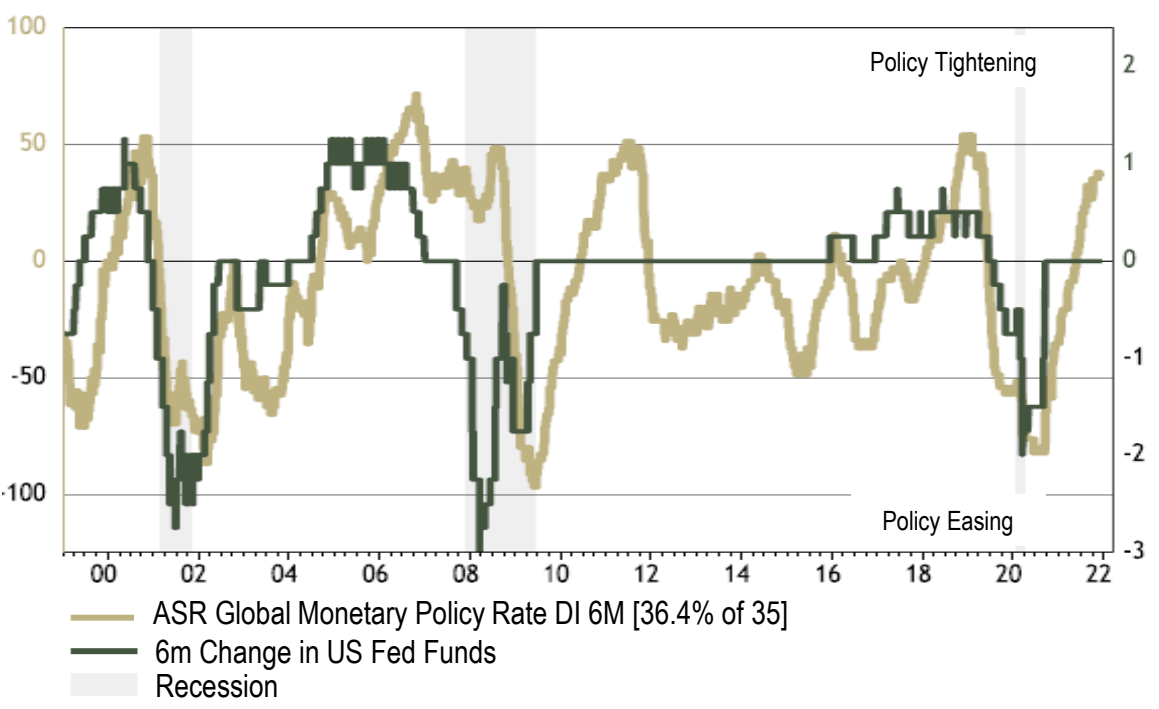


Source: JPM Asset Management

# Policy Will Get Tighter In 2022

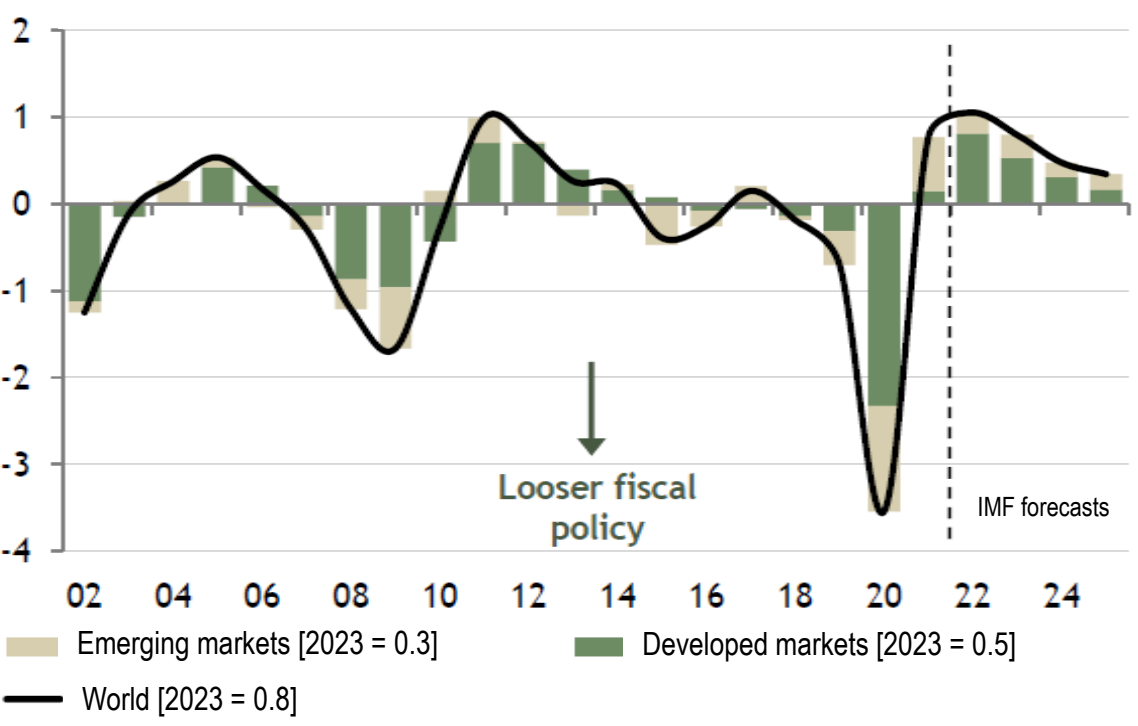
## One Third of Central Banks are Raising Rates

Net Percentage of CBs Raising or Cutting Rates in the Last 6 Months & US Fed Funds



## Fiscal Policy Will Tighten in 2022

Annual Change in Structural Primary Fiscal Balance (% pts of GDP)

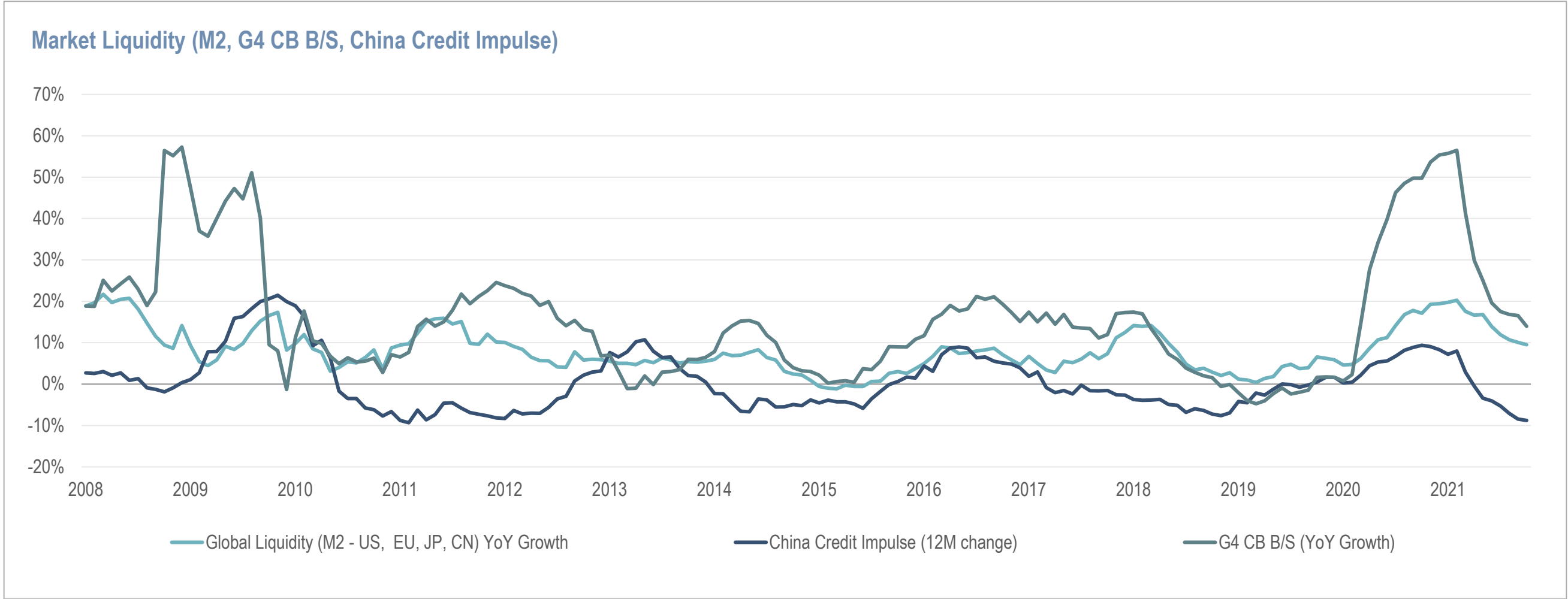


Source: Absolute Strategy Research



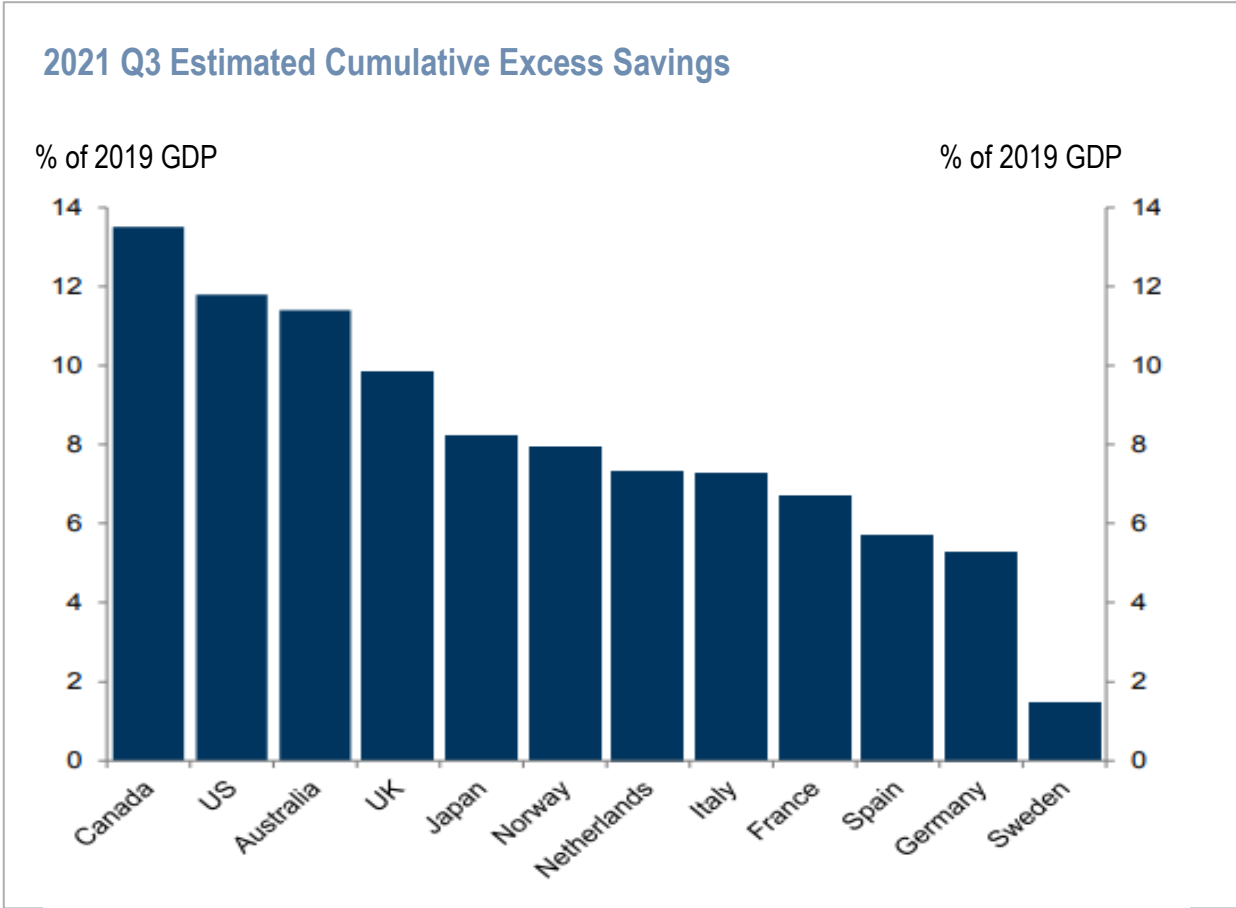
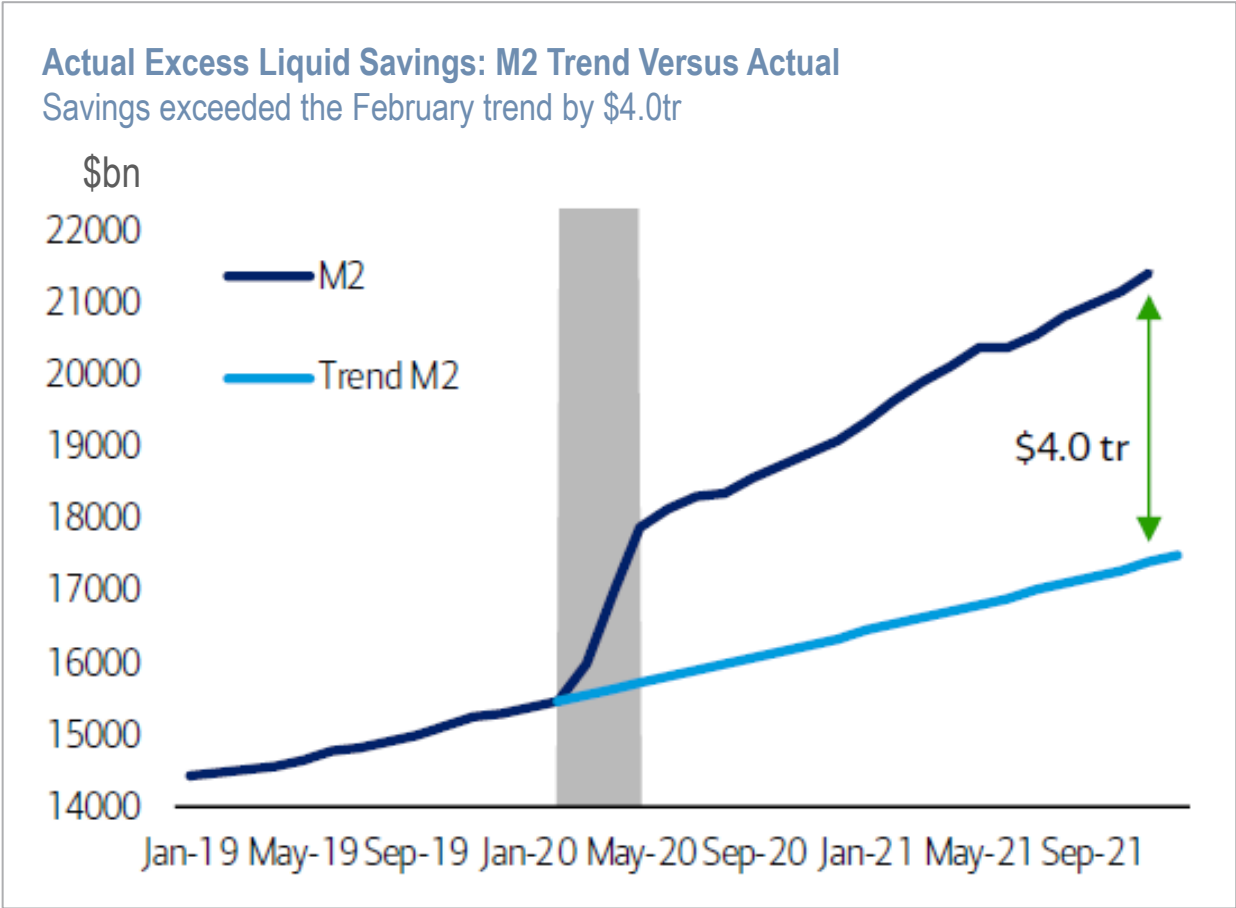
Inflection Point: Liquidity

# Liquidity - Global Liquidity Growth Has Reversed



Source: Bloomberg

# Excess Savings Is Still Significant

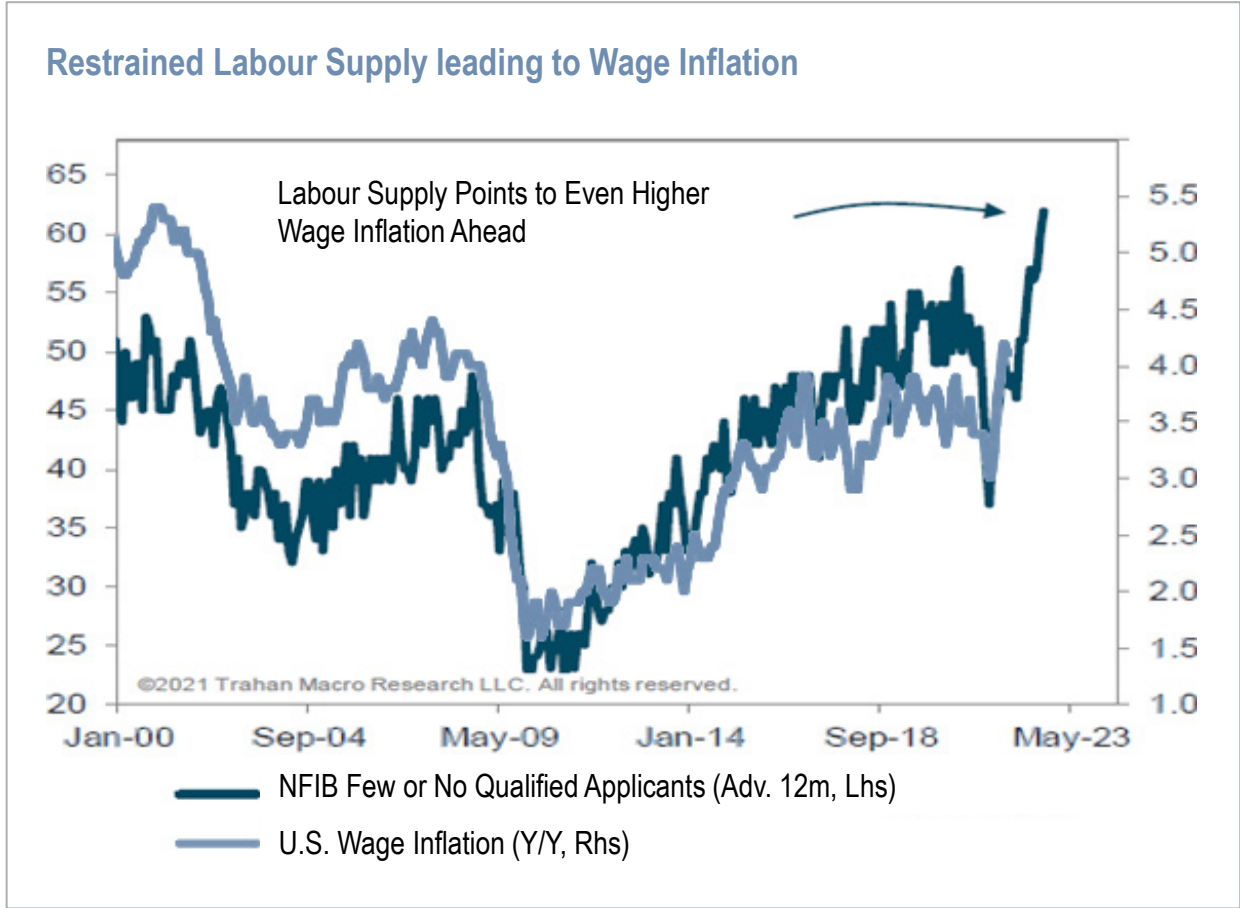


Source: Bank of America, GS

Inflection Point: Inflation



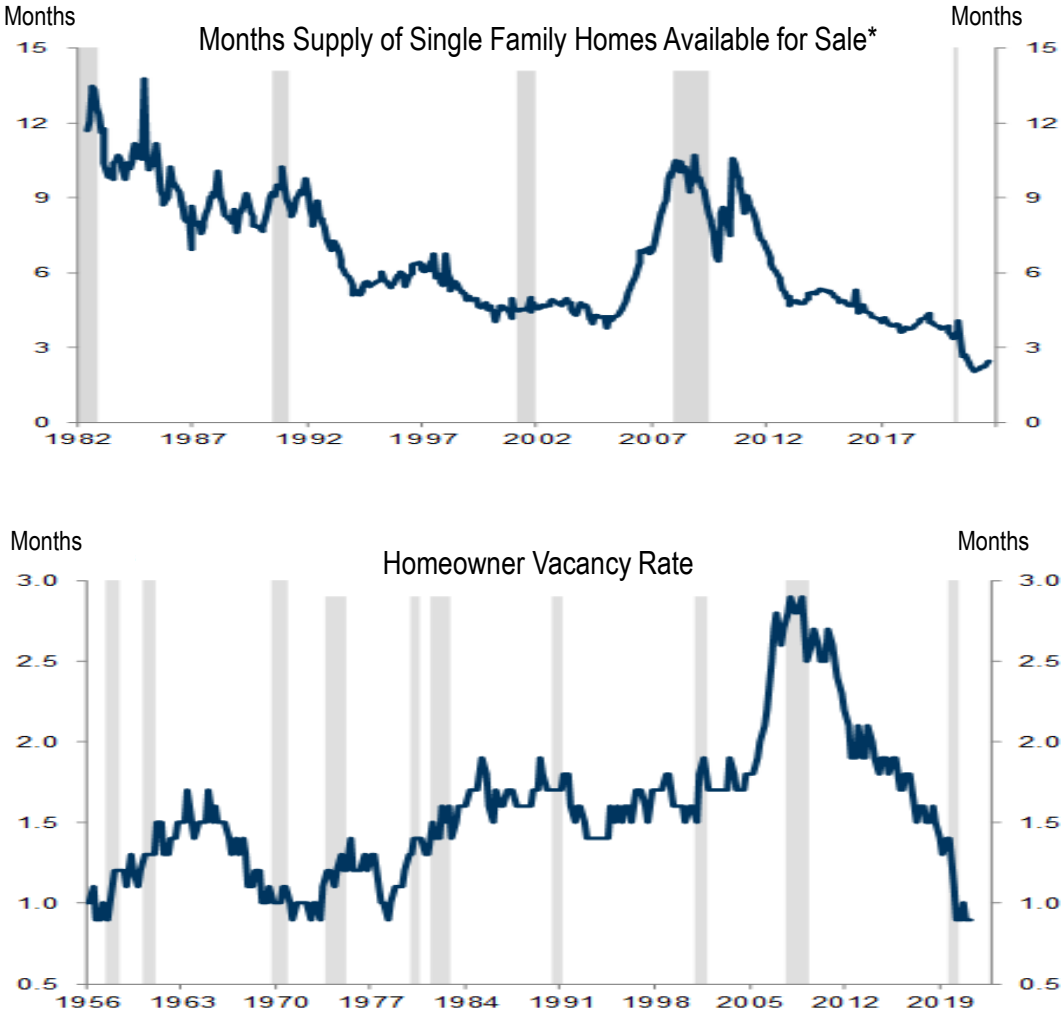
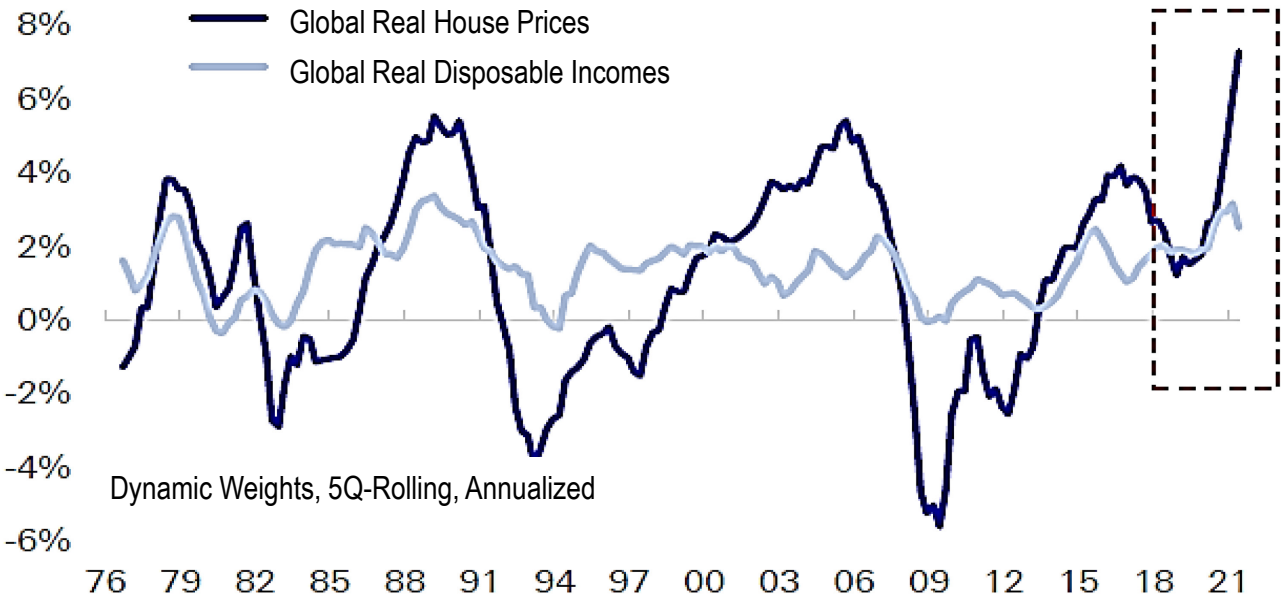
# Labour Market May Remain Unbalanced



Source: Trahan Macro Research, JPM Asset Management

# An Inflationary Housing Market

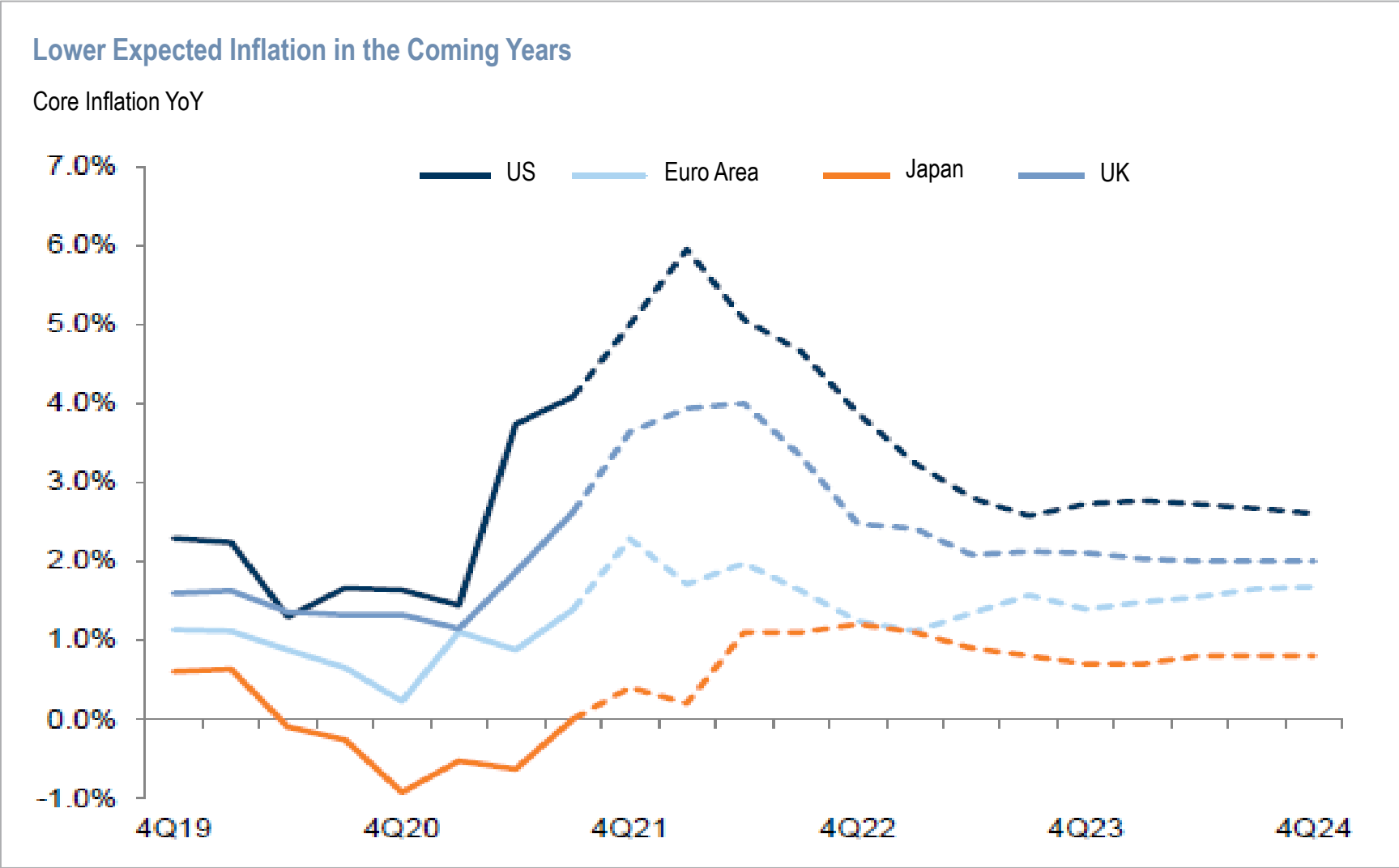
Booming Demand has Reduced the Supply of Homes to the Lowest Level Since the 1970s



\*Includes both new and existing homes. Series seasonally adjusted by GS.  
Note: Shading indicates NBER defined recession shading.

Source: Deutsche Bank, Haver Analytics, Dallas Fed, GS.

# Inflation Remains Sticky But Is Expected To Fade In 2022

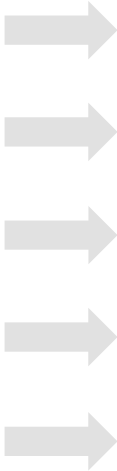


Source: GS

# Inflation: More Than Just ‘Transitory’

## Short-term Inflation Pressures:

- Supply chain disruption
- COVID-related monetary & fiscal stimulus
- COVID wage pressure
- Housing – liquidity-driven demand
- Fossil fuels demand



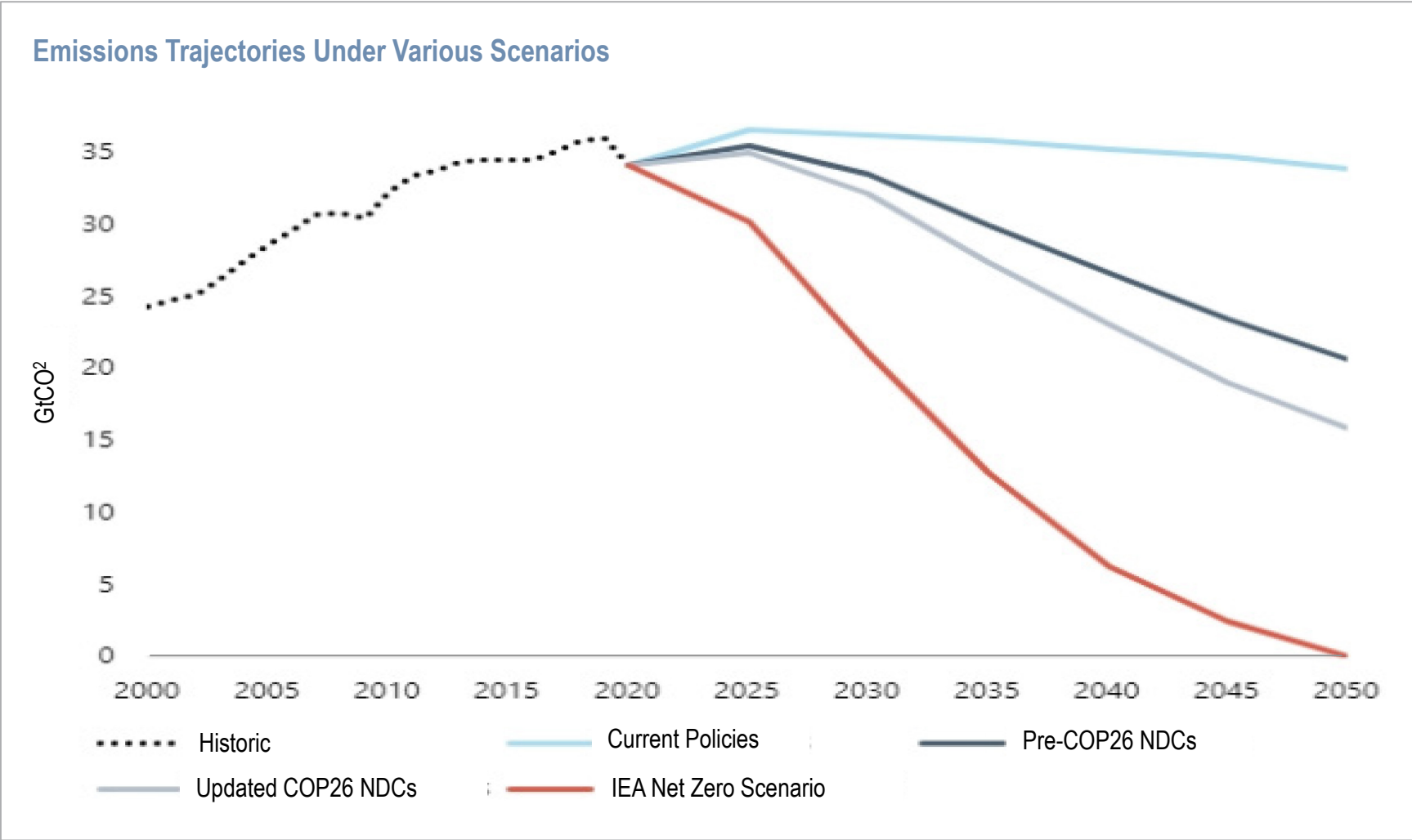
## Long-term Inflation Pressures

- “Just in case” inventory model
- Structurally higher government spending
- Labor force participation, skills mismatch
- Housing – supply shortage
- “Green-flation”



Inflection Point: Energy Transition

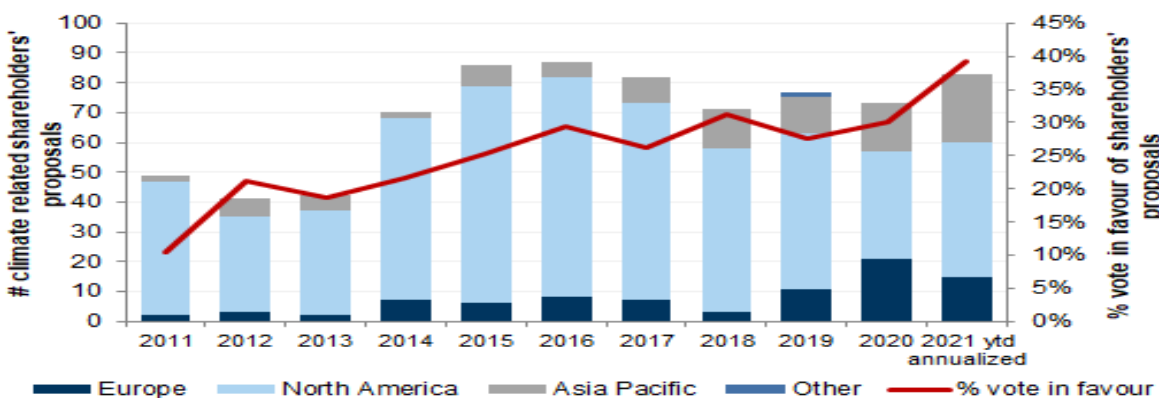
# Global CO<sup>2</sup> Emissions Trajectories Following COP26



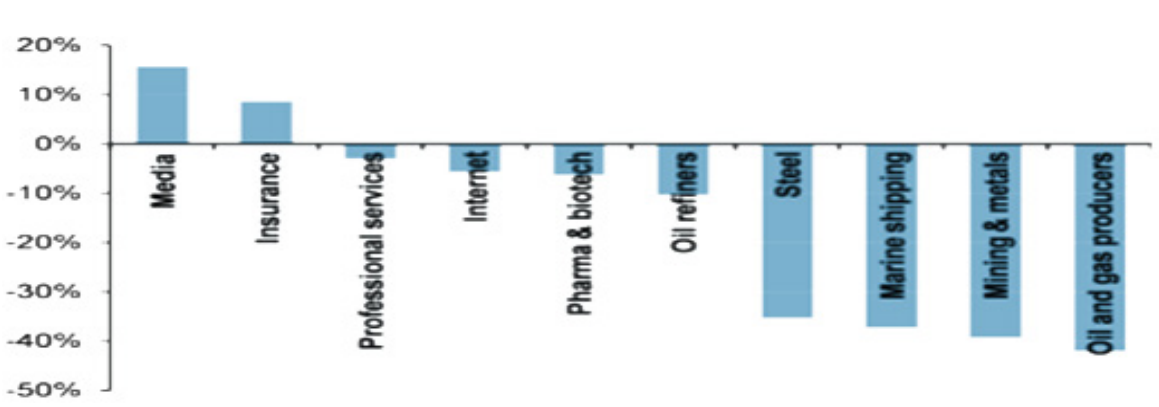
Source: Jefferies

# “Greenflation”: ESG Push May Exacerbate Inflationary Impulses

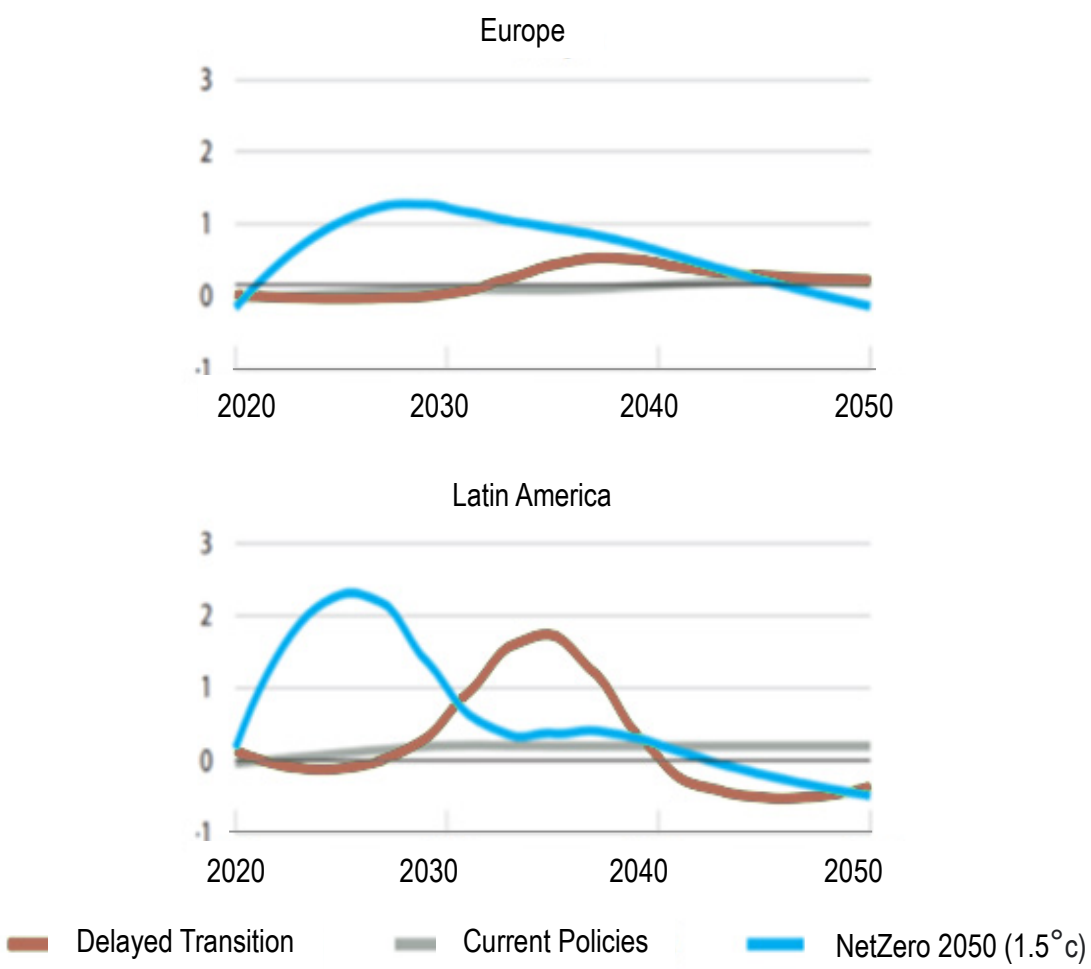
Capital Markets' Engagement in Climate Change Keeps Rising



Collapse in Global Investment in Energy-Intensive Industries: 2022 Expected Investment Level Vs 10-year Average



Impact of Carbon Pricing on Inflation Under Different Transition Scenarios

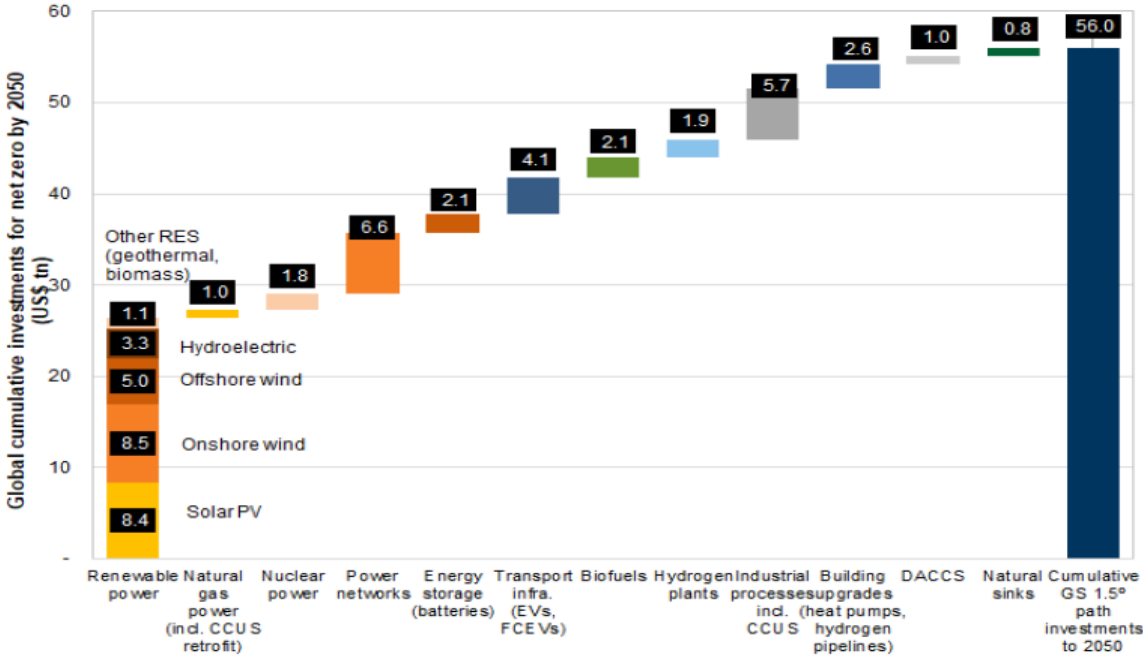


Source: GS, JPM Asset Management, JP Morgan

# Infrastructure Investment To Accelerate

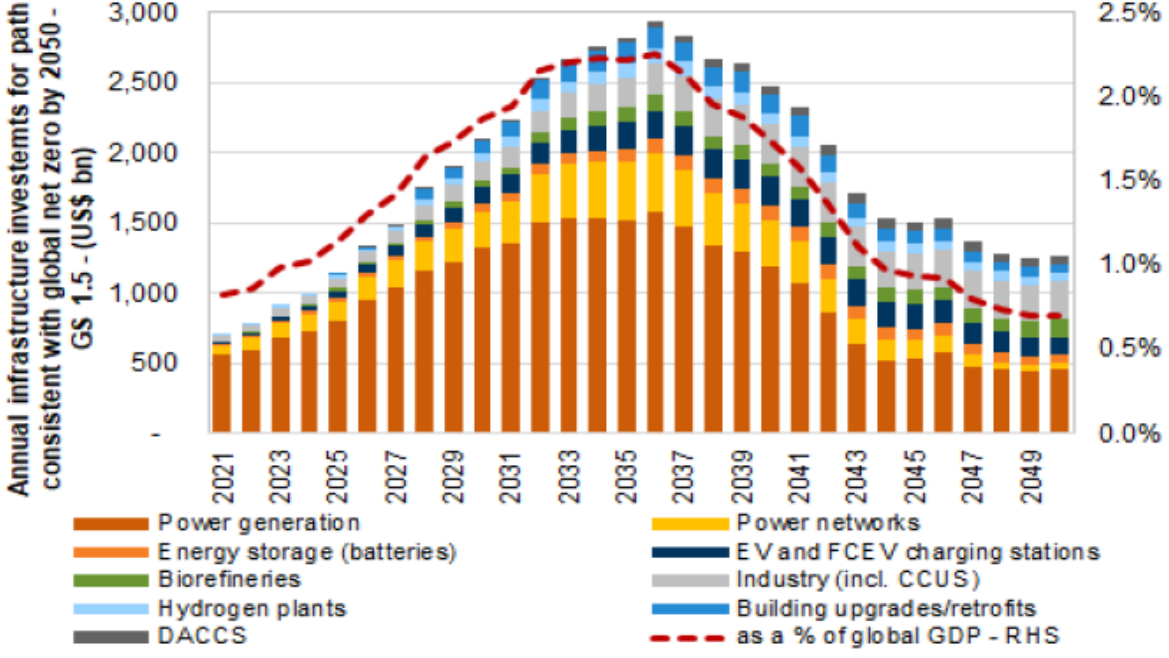
## We Expect US\$56 tn of Infrastructure Investments to Global Net Zero Carbon...

Cumulative Infrastructure Investment Opportunity for our GS1.5° Global Net Zero by 2050 Model (US\$ tn)



## ... Reaching >2% of GDP by 2032 in the 1.5 Degree Scenario

Annual Infrastructure Investments for GS1.5° Path to Net Zero by 2050 (US\$ tn)



Source: GS

Inflection Point: China



# China – “Common Prosperity”

## China’s policy shift:

- Shared prosperity
- Reining in tech-related national champion companies
- US-China relations
- Tradeoff between pace vs structure of growth



To achieve common prosperity and long-term self-sufficient growth, China will focus on six key production input factors: **labor, ideology, capital, information, resources, and technology.**

## Governance (e.g., execution capability)

### Output (prosperity)

#### Production factors

1. **Labour**  
(e.g. “third child” policy, reducing housing, education, healthcare costs)
2. **Capital**  
(e.g. direct investment from property / finance to real economy)
3. **Productivity**  
(e.g., manufacturing upgrading)

#### Market function and market order

(e.g., anti-monopoly, financial regulations, commodity market)

### Distribution (common)

#### Income / wealth equality

1. **Primary distribution**  
(wage share of GDP)
2. **Secondary Distribution**  
(taxes and transfers)
3. **Tertiary distributions**  
(charitable donations)

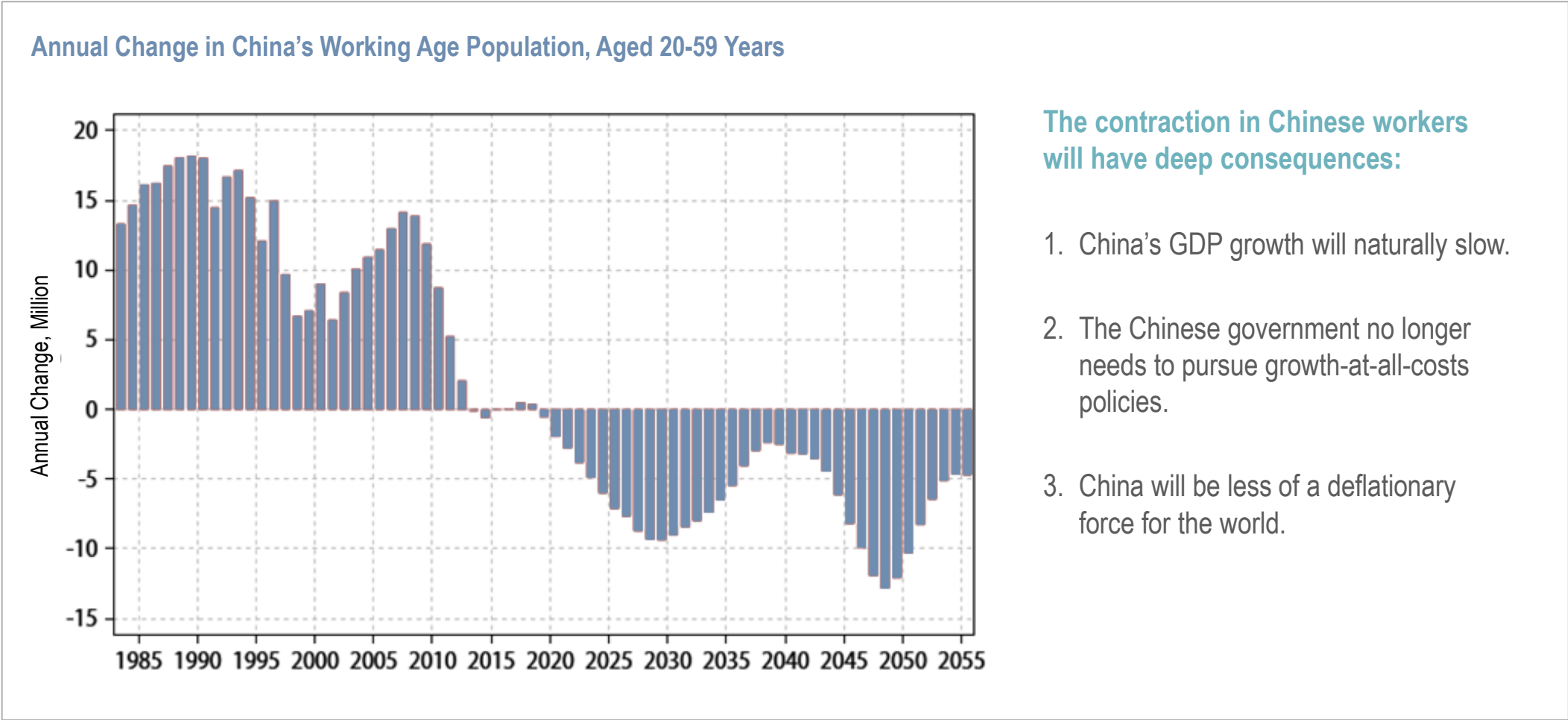
#### Non-income / wealth equality

1. **Education**  
(e.g. restrict after-school tutoring and gaming)
2. **Access to services**  
(e.g., Hukou, migrant workers)

## Security (e.g., data security, energy and food security)

Source: GS

# Demographics Are Also A Headwind

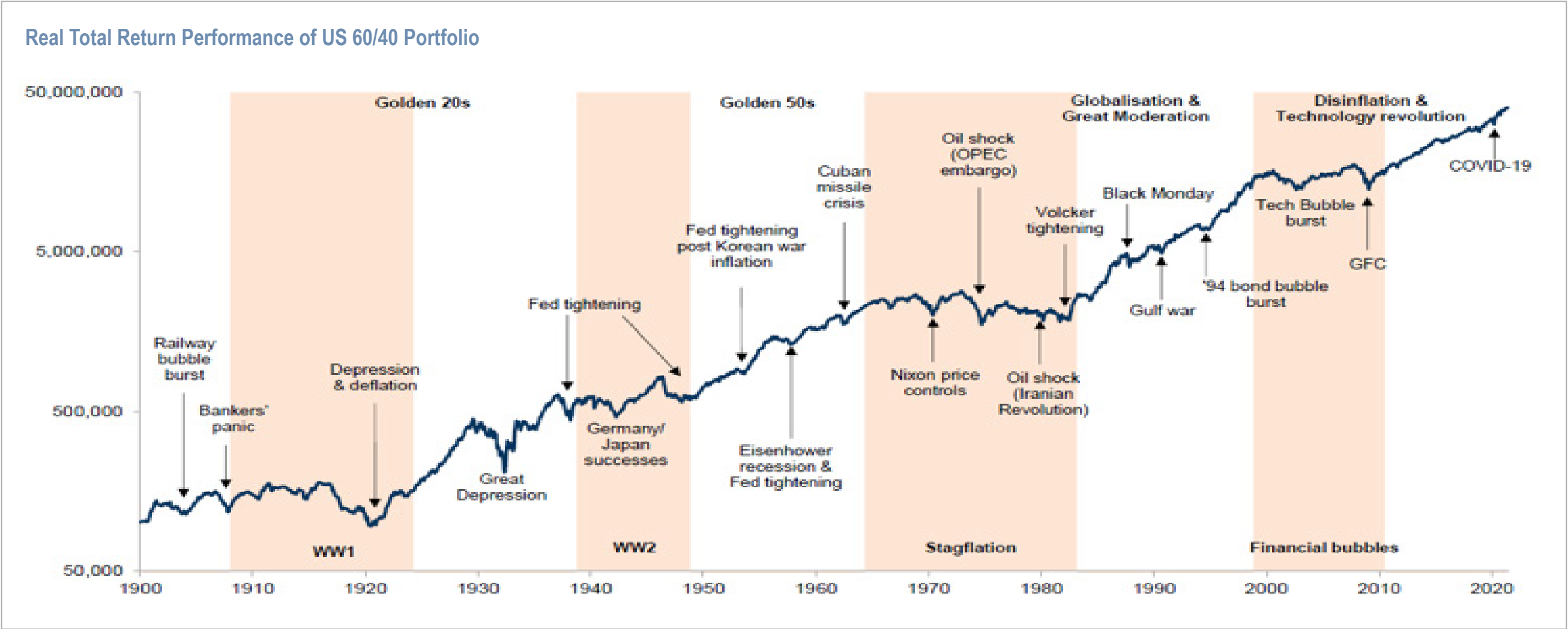


Source: GS

Takeaways



# Which Period In History Should Be Our Guide – If Any?



Source: GS

# Takeaways

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1. **Year of transition** = Liquidity,  Rates 

2. **Readjustment of risk pricing** = Volatility 

3. **Inflation structurally higher** = Real rates 

4. **Return to normalization** = Growth 

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