

November 29, 2021

BIL Investment Outlook



Twenty two questions for 2022

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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and, as such, the return to "normality" is not all plain sailing, and the investment world is faced with a lack of historical reference points.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.

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