

# The economic outlook for a post-pandemic world

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# The economic outlook for a post-pandemic world - Introduction

Delta provides another wave, but vaccines protect those that have them

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Synchronised growth rebound, but different rates of recovery

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Inflation spikes – transitory (with risks) – but medium-term outlook could diverge further

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Fiscal stimulus a key source of divergence (for US) – outlook key for markets in 2022

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Fed to move to tighter policy – others with slower demand recovery to lag – exceptions in EM and UK

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Yields to rise globally, but slowly with headwinds to real yields persistent

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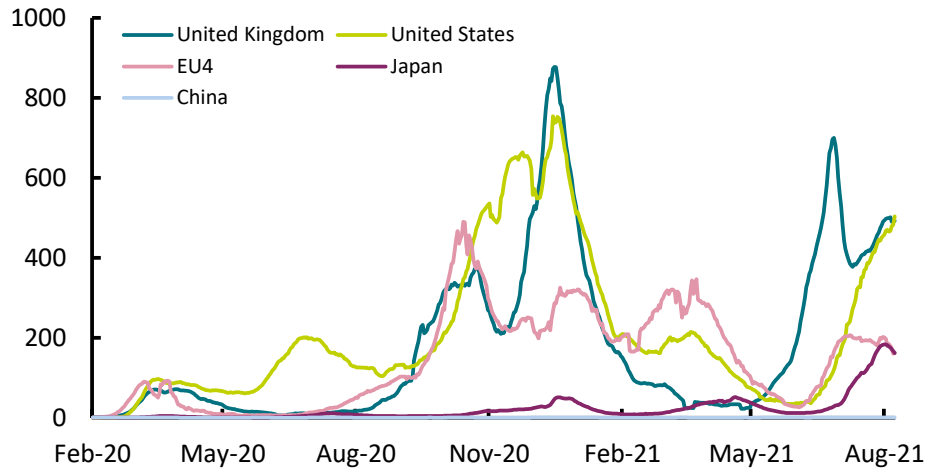
Climate change mitigation policies an increasing part of the economic landscape

# Covid-19

Learning to live with the virus

## Delta provides another wave of Covid

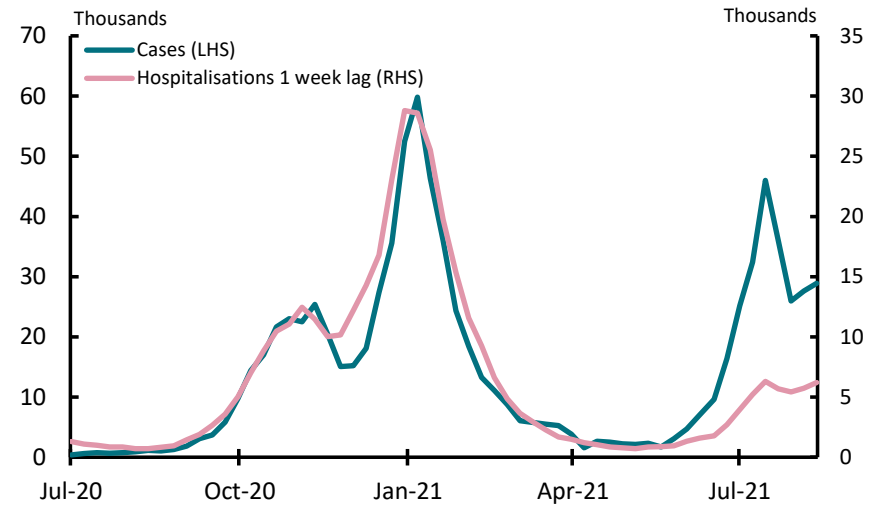
New cases per million population



Source: Our World in Data, AXA IM Research, Sep 21

## Vaccines reduce impact on severe cases

UK Covid-19 Cases and Hospitalisations



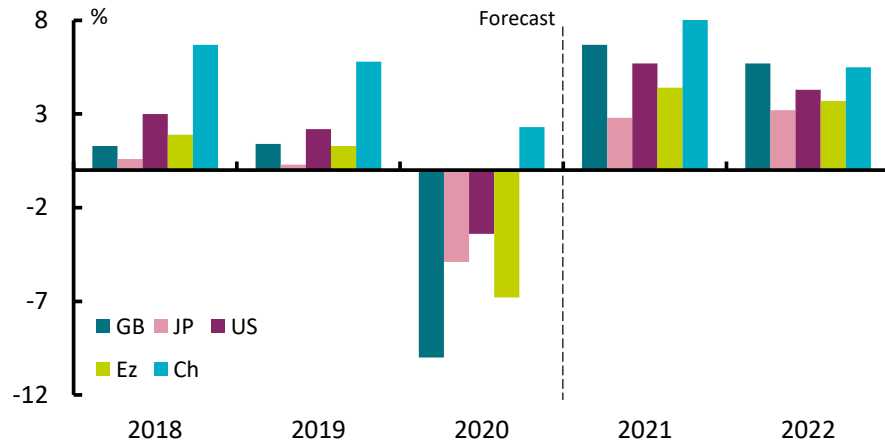
Source: PHE, AXA IM Research, Sep 21

# GDP

## A synchronous growth rebound, but different scales of recovery

### Synchronous rebound in global growth rates

GDP Growth Rates

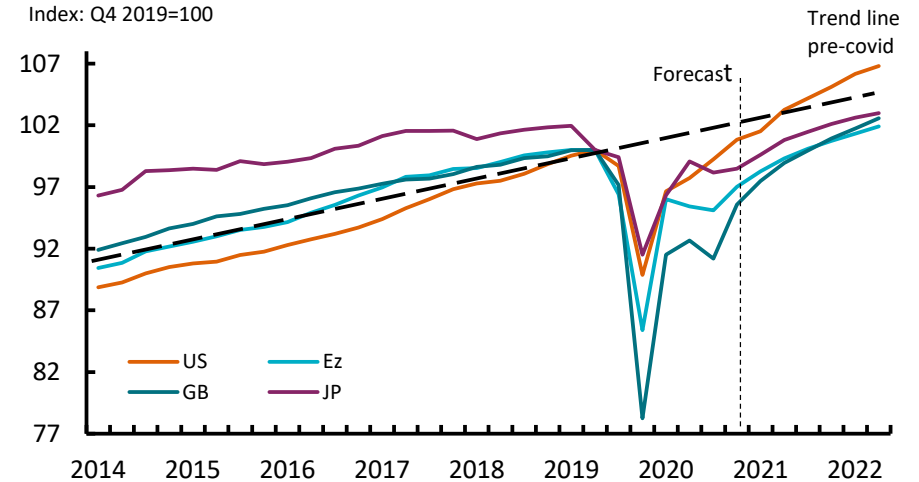


Source: National sources, AXA IM Research, Sept 2021

### Scale of rebound differs across economies

GDP Level

Index: Q4 2019=100



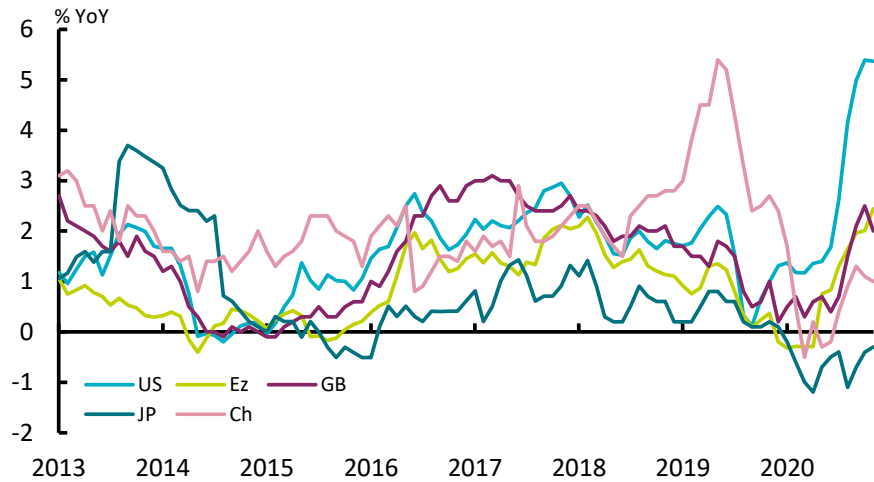
Source: National sources, AXA IM Research, Sept 2021

# Inflation

Transitory, but with risks

## Inflation spikes on base and price level effects

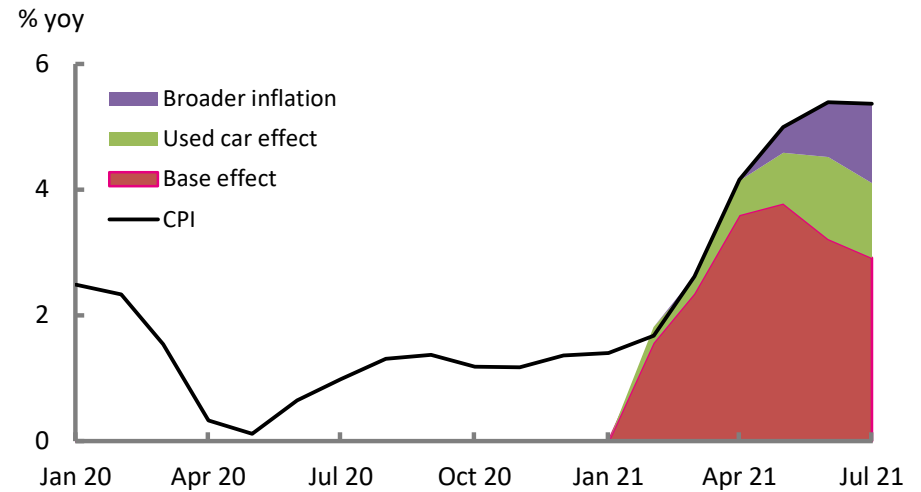
Historic CPI



Source: National sources, AXA IM Research, Sept 2021

## Most of US inflation spike is concentrated, or base effect

A decomposition of the rise in CPI inflation

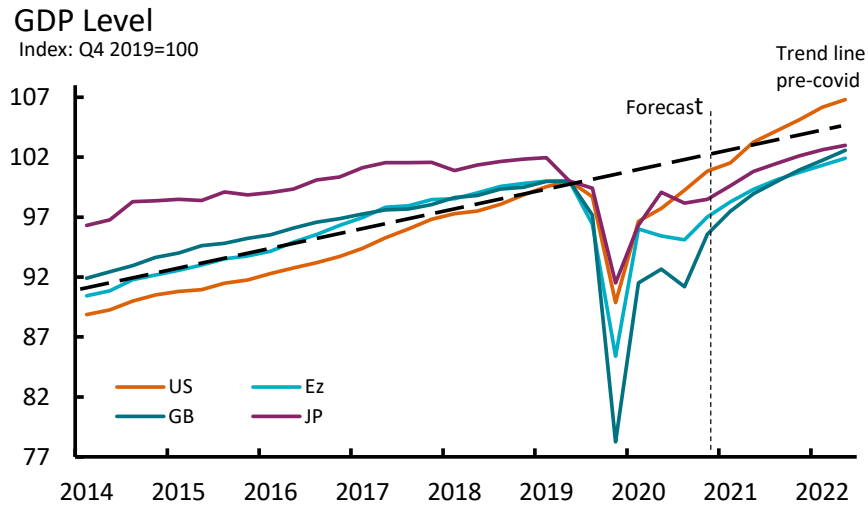


Source: BLS, AXA IM Research

# Inflation

Medium-term inflation outlook depends on jurisdiction – disinflation may persist in some regions

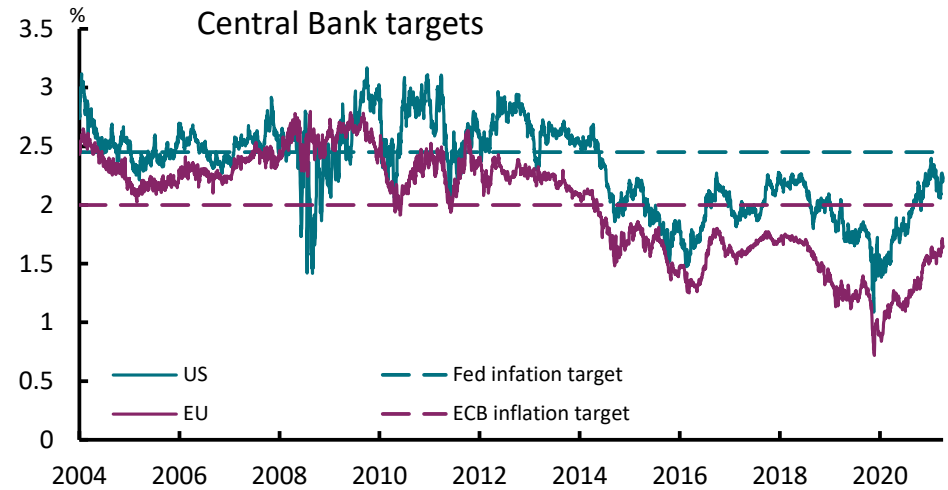
## Indicators of spare capacity in the economy



Source: National source, AXA IM Research, Sep 21

## Long-term inflation expectations (Market 5y/5y)

### Long-term market inflation expectations and Central Bank targets



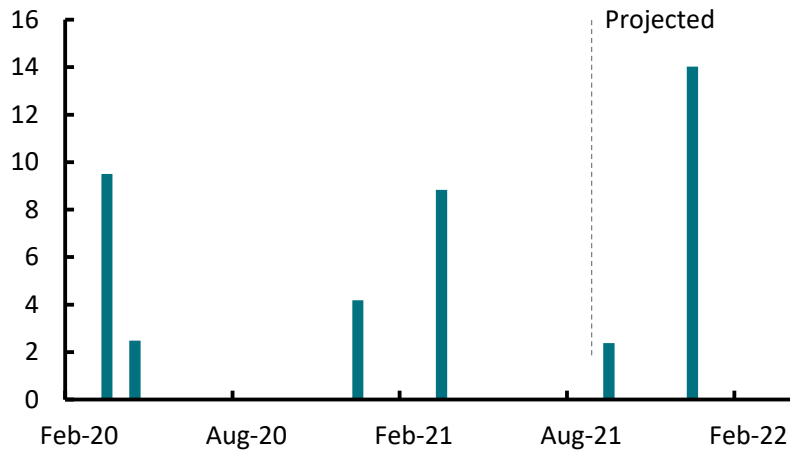
Source: Bloomberg, AXA IM Research, Sep 21

# Fiscal stimulus

Different scale of government interventions

## Unprecedented fiscal support

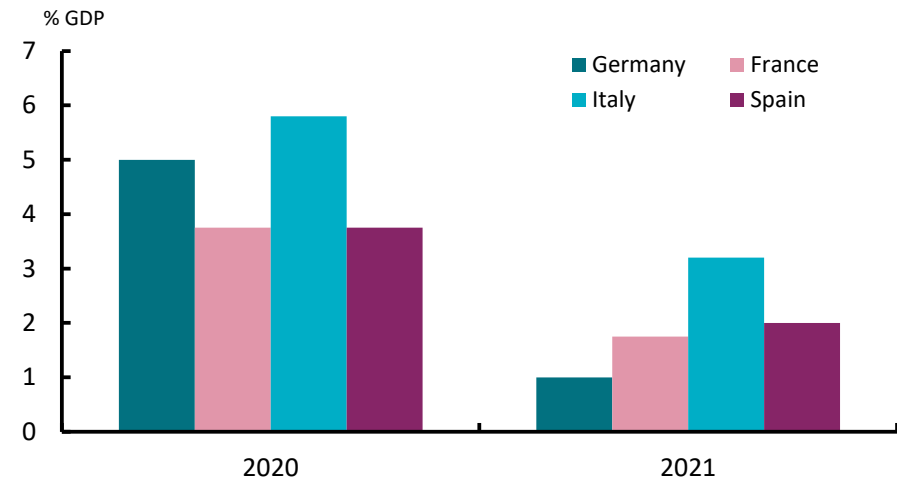
US fiscal stimulus  
% GDP



Source: The White House, BEA, AXA IM Research, Sept 2021

## Dwarfs sizeable Eurozone support

EU Fiscal Stimulus  
% GDP



Source: European Commission, AXA IM Research, Sept 2021

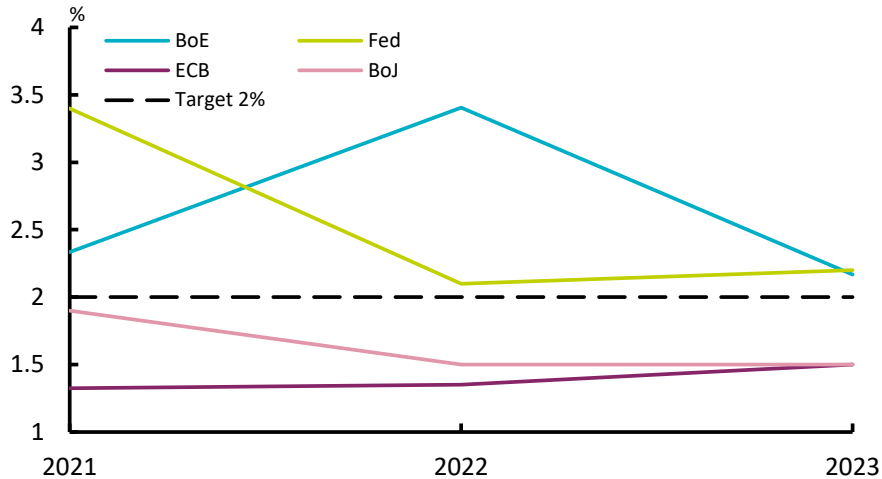
# Central Bank Policy

Inflation determines central bank policy

In developed markets = divergence of policy

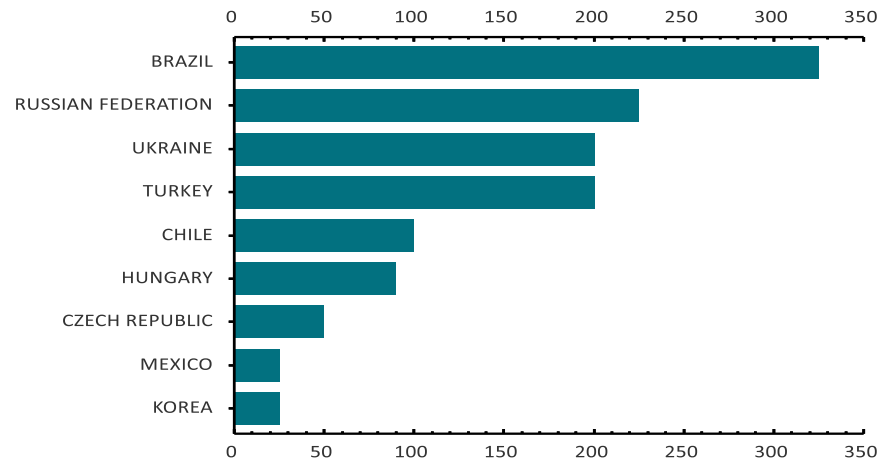
EMs with weak expectations anchors have seen rates already rise

Central Bank Inflation Forecast



Source: FRB, ECB, BoJ and BoE

Policy rates (change year-to-date, bps)



Source: Refinitiv DataStream, AXA IM Research, Aug 21

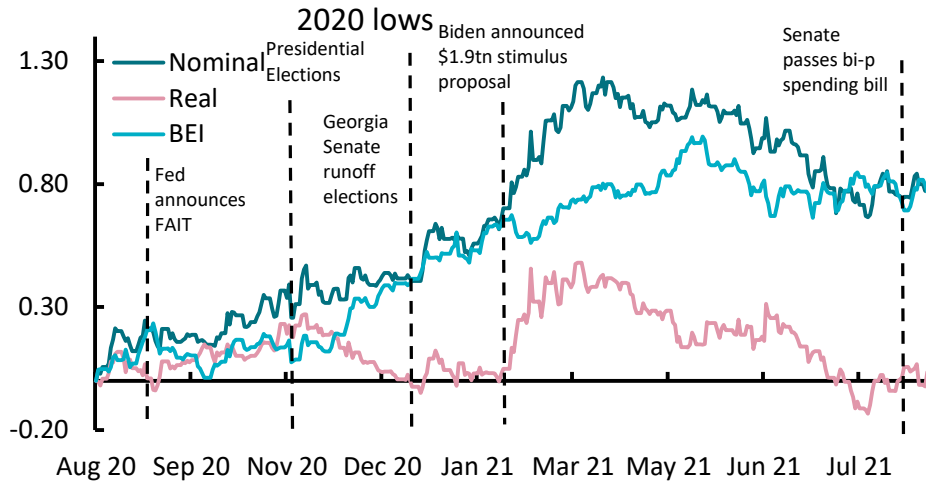


# Yields

Yields to rise, but real yield component will face headwinds

## US 10-year yield rise fully accounted for by BEI

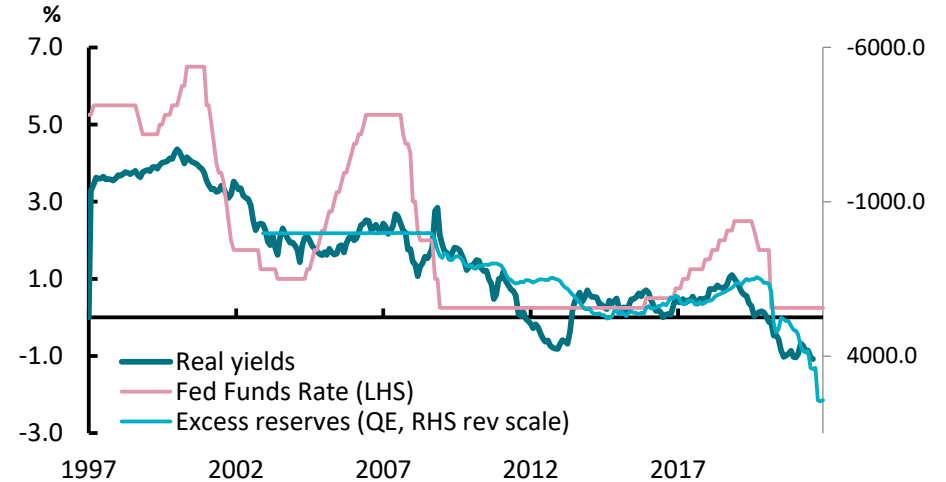
A decomposition of US Treasury yield moves from Aug



Source: Bloomberg, AXA IM Research, Sept 2021

## Monetary policy pressure on real yields to persist

Real yields and monetary policy

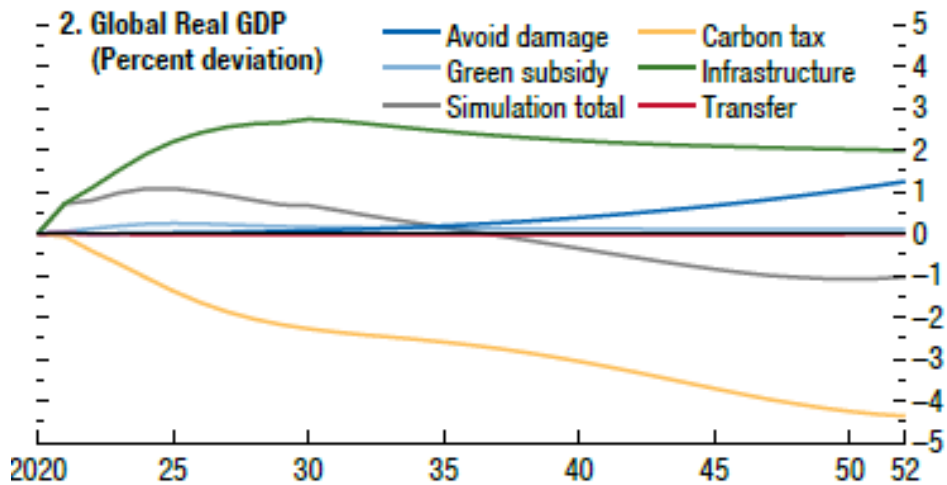


Source: FRB, Bloomberg, AXA IM Research, Sept 2021

# Climate Change

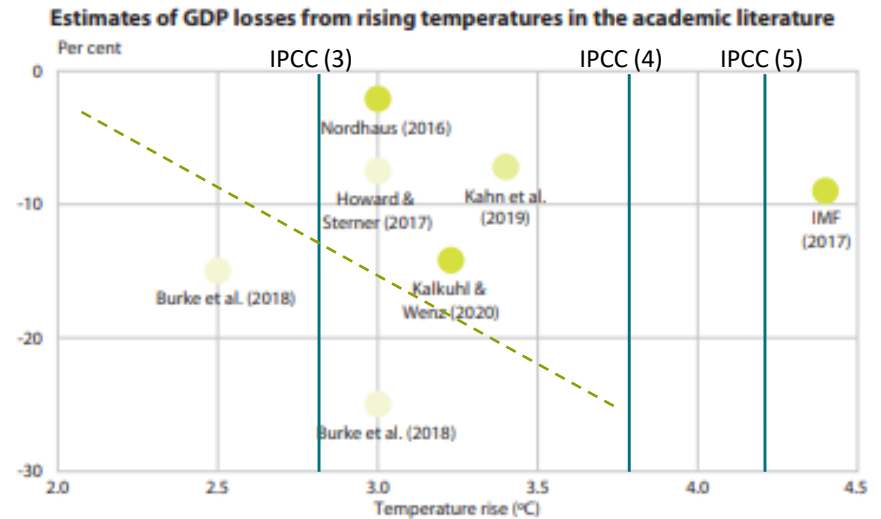
Climate change policy to increasingly influence macro data

## Projection of impacts of climate divergence



Source: IMF, October 2020.

## Estimates of cost of unmitigated climate change



Source: NGFS, AXA IM Research, June 2021.

# The economic outlook for a post-pandemic world – Conclusion

Covid remains a risk, but decreasing significance for GDP – watch supply chains

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Growth outlook for continued recovery particularly in Europe, Japan and UK

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Inflation will fall back sharply next year – in US will still require monetary restraint, disinflation risks persist for EU/Japan

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Fiscal stimulus has helped restore balance in US – may have gone too far – in Eurozone it will be the key debate for 2022

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Fed to begin to reduce accommodation – ECB / BoJ far from that and BoE its own case with a more hawkish tone

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Yields to rise, but real yields to remain subdued historically

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Climate change mitigation policies to increasing impact macro-outlook

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