Views for 2022

Our Predictions

1. **New era for financials markets globally.** Markets are faced with dynamics that have not occurred since the 1970's as following years of policies that have been implemented to prevent deflation and stimulate growth, inflation is currently at 30-year highs across developed economies and a paradigm shift is taking place. Investors and policymakers have not seen this scenario before with high inflation, record debt levels and the reversal of ultra accommodative monetary policy including quantitative tightening.

2. **Monetary policy tightening will accelerate.** Inflation will continue to increase peaking around 8% in both the United States and United Kingdom, central banks are in a difficult position, behind the curve and will be forced to tighten policy to control inflation even as growth slows reducing the value of financial assets and weighing on growth.

3. **Global growth slowdown**. Following the initial rebound in global growth as restrictions were removed, the reversal of both fiscal and monetary policy support and a trade-off between rising inflation and economic activity will slow global growth to 4.2% in 2022.

4. **Dislocations in energy markets will continue.** As investment continues to be diverted from oil and gas exploration to renewables there will be ongoing supply issues and related cost pressures as the market adapts to the demands of energy storage and the transition to a growing portion of energy being provided from renewable sources.

5. **Volatility across financial markets will increase.** Financial markets dislike uncertainty and as participants adjust to a new paradigm and reassess asset valuations volatility will rise and remain elevated across asset classes.

6. **Diverging monetary policies will provide opportunities**. As developed central banks remove accommodation multiple emerging economies where monetary policy has been normalised have the capacity to cut rates and provide stimulus to their economies. This may allow their economic growth to outperform and provide returns to investors particularly in Asia.

7. **Covid-19 remains a concern.** Although Covid-19 case numbers are declining and restrictions are being lifted, the potential for new variants to develop that may evade current vaccines remains a threat. Only 61% of the world's population has received at least 1 dose of a vaccine and low vaccinated populations provide a breeding ground for the virus to mutate. A return to full lockdowns is unlikely however the impact on supply chains of short-term restrictions will further add to inflation pressures.

8. **Geopolitical events pose a risk to financial markets.** In 2021 markets were focused on the path of Covid-19 however geopolitical tensions between the global powers are rising. Tensions in the South Pacific are rising as China asserts its dominance and Russian aggression in Eastern Europe both have the potential to present negative surprises to economic growth, supply chains and financial markets. In addition, elections in France and mid-terms in the US all add further uncertainty.

9. **Opportunities in the Metaverse.** As the internet is now a fundamental component of our lives the next development of linking our physical and digital worlds through avatars and virtual reality is a new area for investors to provide returns. These developments will include next generation streaming, social media and enhanced computing power.

10. **Seeking assets that protect portfolios in the new era.** Traditional asset class diversification has been undermined by years of stimulative central bank policies. In a world of persistent inflation establishing which assets will provide a real return to investors in periods of volatility and instability will be particularly challenging.