# Global Economy

Risk assets finished the year on a positive note despite headwinds from the rapid spread of the Omicron variant and continued high inflation. Daily coronavirus cases rose to record highs both in the US and globally as the new strain of virus proved highly transmissible. However, investor sentiment was boosted as hospitalization rates and deaths remained contained relative to case counts, suggesting Omicron was resulting in more mild illness. Economic data was generally positive, as monthly payroll figures came in below expectations but unemployment still declined from 4.6% to 4.2% and consumer confidence surprised to the upside. At the December FOMC meeting, the Fed announced it would be accelerating its recently announced tapering plan and further tilted hawkish with updated rate projections now predicting three rate hikes in 2022. This is a notable change from September, when half the committee believed rate increases would wait until 2023. In US fiscal policy, the "Build Back Better" plan is on hold after Senator Manchin pulled support, and prospects for passing that or any other fiscal stimulus package have dropped under the current Congress. End-of-year estimates project fourth quarter GDP to rebound from the weaker third quarter figure, and the consensus is for 2022 growth to slow but remain elevated relative to pre-Covid trends, though virus induced volatility remains a possibility going forward.

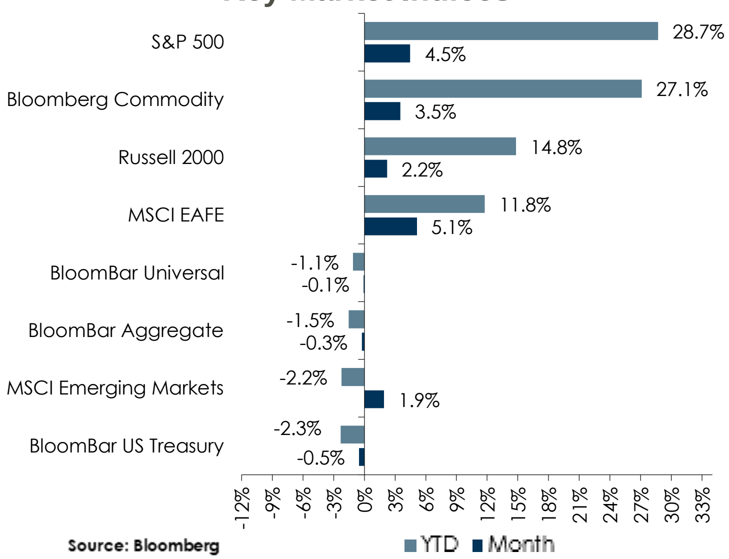
# Global Markets

- **Global Equity –** Equity indices were positive in December as fear of the new variant faded somewhat amid indications of milder disease outcomes. Estimates for calendar year 2021 S&P 500 earnings growth are a robust +45%, and earnings growth is expected to slow in 2022 but remain above average and supportive of equity returns. Equities will remain vulnerable to volatility as slowing growth, tighter central bank policy, and high inflation create less margin for error. However, they still retain some appeal, as valuations have become more favorable in recent months, particularly in non-US regions and US Small Caps, and a well-positioned consumer should continue to support earnings. Relative valuations also favor equities over credit given low interest rates and tight credit spreads.

- **Global Fixed Income –** Fixed income indices were mixed as rates rose on US Treasuries and most global government bonds. The US Treasury curve flattened further as the short-end of the curve rose on expectations of more 2022 rate hikes. Credit outperformed government bonds in the month and delivered positive returns, particularly lower quality segments, as credit spreads tightened amid light issuance and robust demand. Core fixed income investing remains a challenge with nominal yields trailing forward inflation breakeven rates across the entire treasury curve and many grades of corporate credit. Although spreads remain tight relative to history, credit markets remain supported by above-trend growth, strong demand, and low default rates. ACG continues to value Absolute Return strategies that often benefit from volatility and can offer downside protection, while a marginally higher cash allocation provides portfolio flexibility.

- **Global Real Assets & Private Markets –** The third quarter was the best for US Core Real Estate since 2005, with all property sectors generating positive returns. Industrial properties continued to lead with apartment returns also strong while office, hotel and retail lagged. Global PE activity set a record for total deal volume in 2021. Strong investor demand helped drive activity, and measures for private equity purchase price multiples remain elevated as managers look to deploy dry powder. The broad commodities index was positive in the month to wrap up a year of strong returns. CPI (+6.8%) and Core CPI (+4.9%) both rose from the prior month with Headline CPI marking its highest yearly increase since 1982. Measures of future inflation expectations also rose with the 10-year inflation breakeven up 8 bps to 2.59% and the 5-year rising 10 bps to 2.91%.

## Key Market Indices




Source: Bloomberg

| | Current | 20-Dec |
|---|---|---|
| US GDP (%) | 2.30 | 4.30 |
| US Unemployment (%) * | 4.20 | 6.70 |
| CPI (Core) (%) | 4.90 | 1.60 |
| Fed Funds (%) | 0.00 – 0.25 | 0.00 – 0.25 |
| 10 Year UST Yld (%) | 1.51 | 0.92 |
| S&P 500 Div Yld (%) | 1.27 | 1.57 |
| S&P 500 P/E (Trailing) | 26.21 | 29.92 |
| Gold/oz. | $1,828.60 | $1,895.10 |
| Oil (Crude) | $75.21 | $48.52 |
| Gasoline (Natl Avg) | $3.38 | $2.33 |
| USD/Euro | $1.14 | $1.22 |
| USD/GBP | $1.35 | $1.37 |
| Yen/USD | ¥115.08 | ¥103.25 |

* Data as of November 31, 2021

Source: Bloomberg

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