

## Weekly Flash

### We remain constructive on 2022 growth outlook

MARKET PERFORMANCES (as of October 22, 2021 – 15:30 CET)

	CURRENT	CHANGE 1 WEEK	CHANGE YTD		CURRENT	CHANGE 1 WEEK	CHANGE YTD
S&P 500 Index	4'549.78	1.75%	21.13%	Gold	1'805.03	2.12%	-4.92%
S&P/Toronto Stock	21'212.39	1.36%	21.68%	Silver	24.46	4.92%	-7.37%
EuroStoxx 50	4'191.44	0.20%	17.98%	Oil WTI	83.33	1.28%	71.74%
SMI Index	12'042.60	0.68%	12.51%	EUR/USD	1.1638	0.32%	-4.73%
DAX Index	15'580.65	-0.04%	13.57%	EUR/CHF	1.0661	0.44%	1.42%
Nikkei Index	28'804.85	-0.91%	4.96%	USD/CHF	0.9160	0.75%	3.36%
Emerging Market Index	73'123.05	0.65%	1.99%	USD/JPY	113.78	0.39%	9.25%
Yield 10Y US Treasuries	1.666	0.0948	0.7512	CAD/USD	0.8107	-0.23%	-3.13%
Yield 10Y German Bund	-0.097	0.0728	0.4781	USD/CNY	6.3887	0.74%	-2.17%

[Source: Bloomberg]

#### Summary

- China's GDP on track to meet the official 6% growth target in 2021
- Global growth outlook for 2022 remains constructive

#### China's Q3 2021 GDP growth missed expectations

Is the glass half full or half empty? After the tad weaker than expected release of Chinese Q3 GDP growth numbers, the investment community treats it as half empty. GDP growth slowed more than expected to 4.9% y-o-y (Bloomberg consensus was 5.0%). Despite the weak numbers for Q3, base effects still imply that China's GDP increased by 9.8% y-o-y in the first nine months of 2021 and the country is well on track to meet the official 6% growth target in 2021. It is hard to blame a single factor for the weak growth numbers. Several factors can be blamed for the rather slow growth witnessed: a tough policy stance in both fiscal and monetary policy as well as the countless number of new regulation and policies on certain industries. On top of the general policy stance, the virus outbreaks weakened the Q3 growth numbers by causing challenges in the service sector in August. In September growth was weak in manufacturing due to problems in energy supply. Keep in mind that the Chinese leaders 5-year plan is focused on several key issues like deleveraging, especially in the real estate sector, high-tech self-sufficiency, anti-monopolistic policies and tackling environmental issues. All these trends can make China's economy more sustainable in the long run. However, at the same time it causes a lot of risks in the short term. Virus outbreaks had a negative impact on the service sector in August whereas problems in the energy sector had a downside effect in the manufacturing sector. Another reason was weak development in fixed asset investments. Evergrande and tight real estate policies together with a tough stance on infrastructural investments have implied a downward trend in investment growth rates and thus weaker development in manufacturing.

#### Conflicting economic signals in the U.S. and Europe

Global supply chain disruptions affecting the production and transportation of goods remained a key theme this week. At the same time, oil continues to climb steadily, and gas prices remain high but also much more volatile considering the recent news flow about potential additional supply from Russia to Europe. Government bond yields in developed countries are still in upwards trajectory. China's September PPI print reached 10.7% y-o-y for the first time since 2008, reflecting high global commodity prices, although CPI inflation remained subdued with an increase of 0.7% y-o-y. However, recent data show some encouraging signs that supply bottlenecks may be easing step-by-step, including in the key shipping (Freightos Baltic Index) and warehousing sector, suggesting that rising core goods prices may be past peak levels. Recently, US data were mixed as well. US retail sales for September were higher than expected supporting a strong base for consumption growth in Q4 2021. In addition, an easing of Delta infections should lead the services sector to re-accelerate. European industrial production data for August confirmed the persistent drag that supply disruptions are having on output, not only in the auto sector but also in the computer and electronics industry.

#### Conclusion

**We believe the growth outlook for 2022 remains constructive and far from a stagnation scenario. The recent deceleration and data downside surprises follow very high momentum and elevated expectations. The signs of easing in shipping costs are a good reminder that supply constraints in the goods sector will ultimately fade. Thus, 2022 could include a boost in production to make up for the steep inventory drawdowns seen during 2021 and meet pent-up demand. In addition, if infection risks recede further in 2022, the services sector has even a higher catch-up potential. With a constructive view on 2022 economic growth, we believe that interest rate will increase further. We remain underweight in fixed income in our multi-asset mandates, favour corporate over government bonds and keep maturities on the shorter end.**

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