

JBWere

The macroeconomic and markets outlook

Sally Auld
October 2021

JBWere

Agenda

1 Global growth – robust?

2 Inflation – transitory?

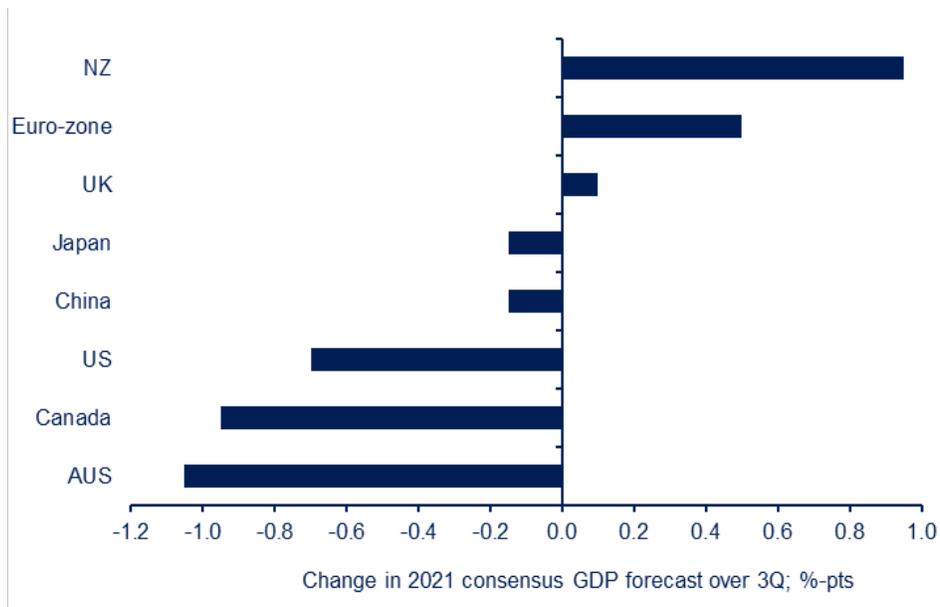
3 Outlook for markets

4 Risks

Global growth: Delta, China, Bottlenecks, Goods prices

2021 GDP forecasts have moved a lot in 3Q

Changes to calendar year GDP forecasts over the course of 3Q



Source: JBWere and Bloomberg. Past performance is not a reliable indicator of future performance.

Have we reached the end of the downgrades?

% of countries having GDP forecasts upgraded in past 3M

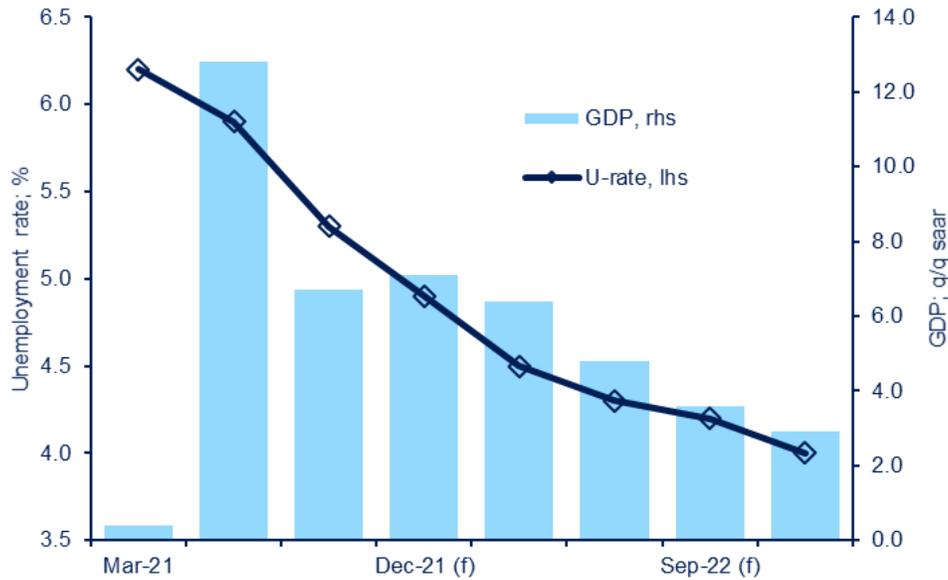


Source: JBWere and Bloomberg. Past performance is not a reliable indicator of future performance.

There are reasons to remain optimistic medium term

Even as growth slows, the u-rate will still decline

US GDP and labour market forecasts



Source: JBWere and Bloomberg. Past performance is not a reliable indicator of future performance.

Loose financial conditions presage robust GDP

Goldman Sachs Financial Conditions Index and US GDP growth



Source: JBWere and Bloomberg. Past performance is not a reliable indicator of future performance.

Inflation: How long is transitory?

Keeping up with reality

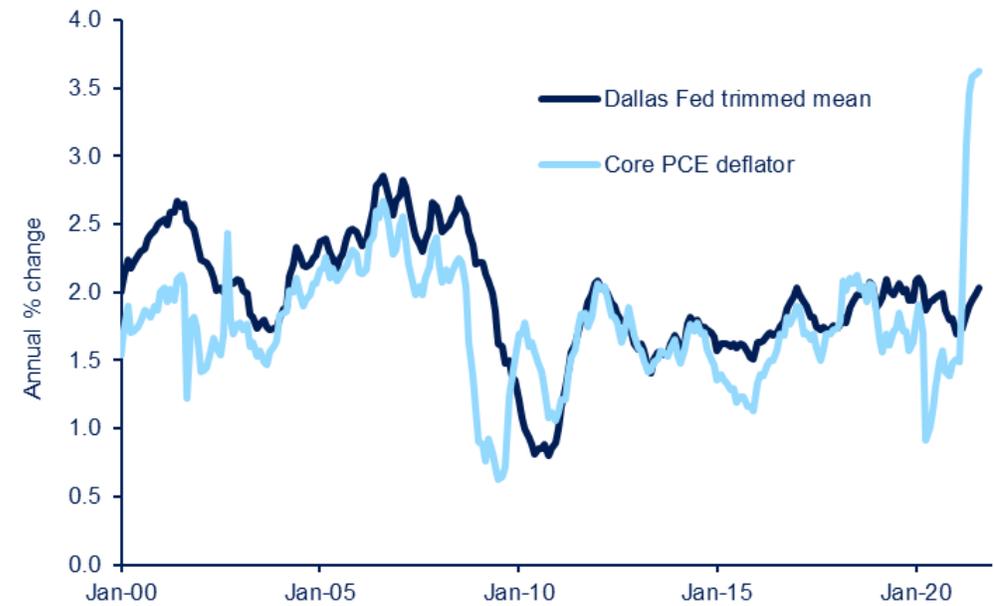
Global and US CPI forecast revision index



Source: JBWere and Bloomberg. Past performance is not a reliable indicator of future performance.

Trimmed mean core inflation is at 2%

Various measures of core inflation in the US

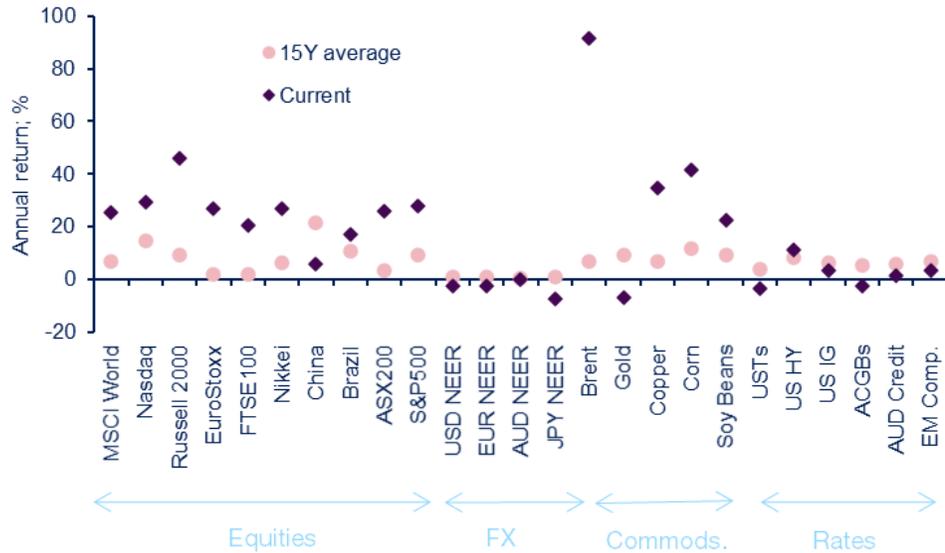


Source: JBWere and Bloomberg. Past performance is not a reliable indicator of future performance.

Gains have been broad as we traversed the recovery phase

Equities and commodities vs. fixed income

12M returns vs. 15Y average of 12M trailing returns



Source: JBWere and Bloomberg. Past performance is not a reliable indicator of future performance.

No longer on the highs

% of markets beating 15Y average returns (as of 30-Sep)



Source: JBWere and Bloomberg. Past performance is not a reliable indicator of future performance.

The good news is that equities don't peak until just before the next recession

Still scope for equities to outperform bonds

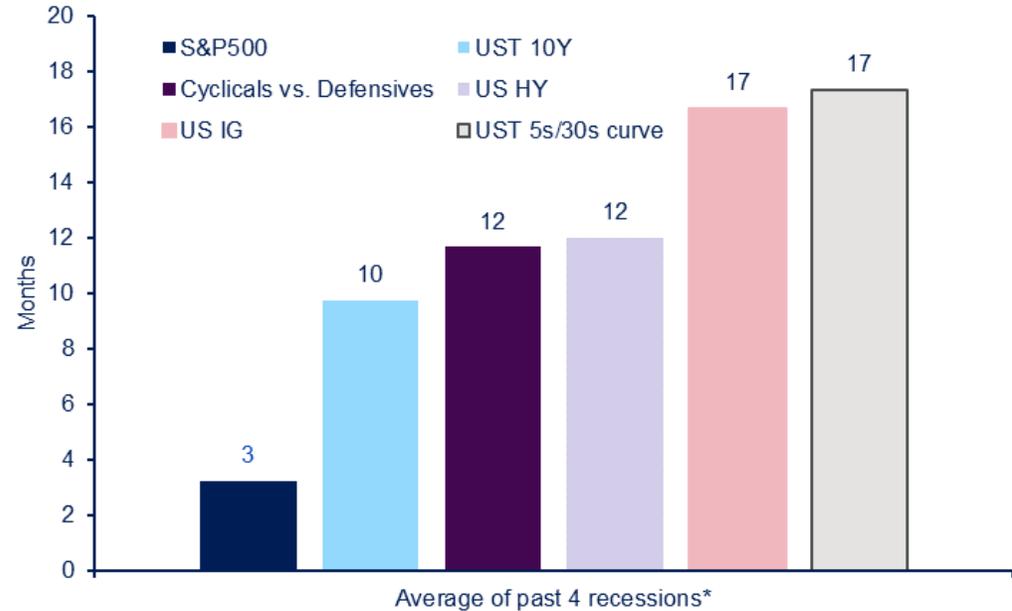
Equities vs. bonds (trailing returns) and the economic cycle



Source: JBWere and Bloomberg. Past performance is not a reliable indicator of future performance.

Recessions and asset class performance

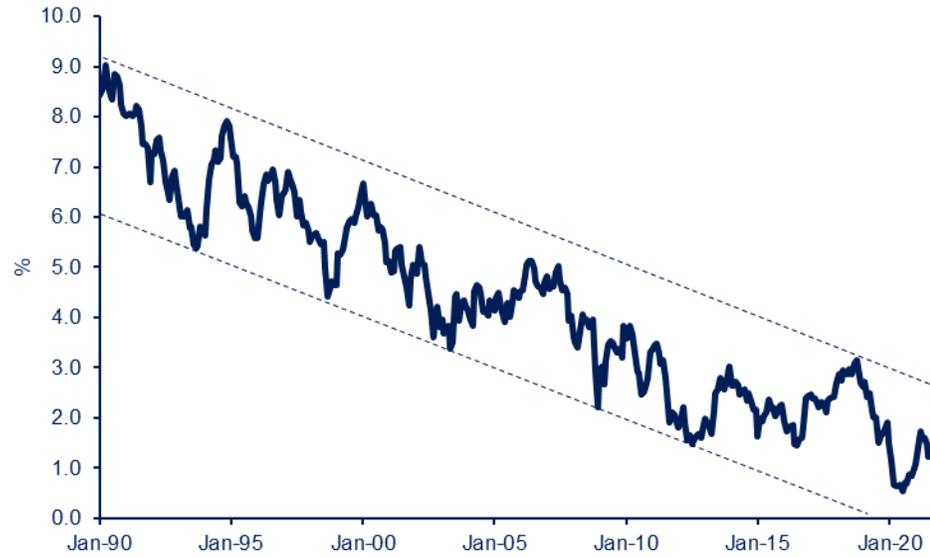
Months before recession* that a market peaks



Source: JBWere and Bloomberg. Past performance is not a reliable indicator of future performance.
*2020, 2007, 2001 and 1991 recessions.

A bull market in term interest rates

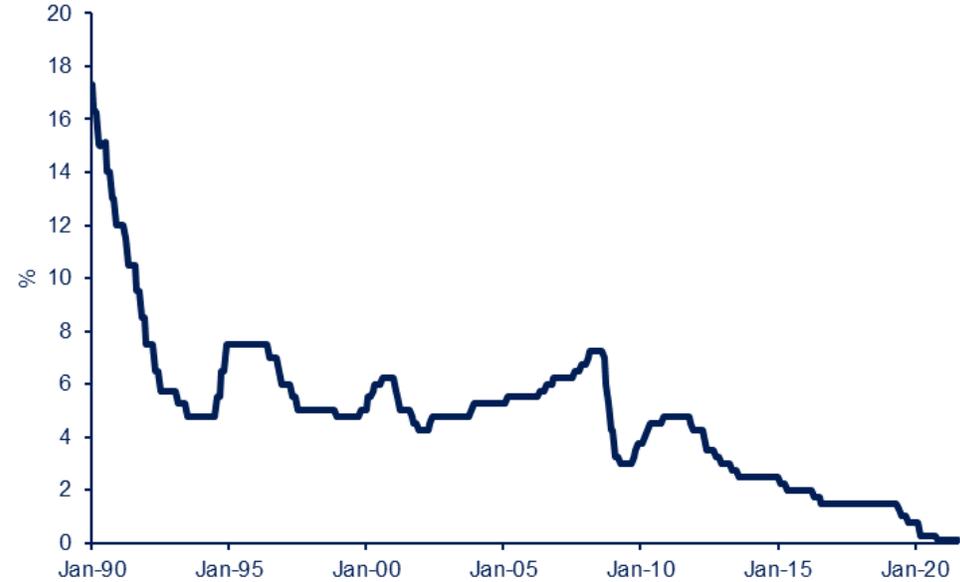
US Treasury 10Y yield



Source: JBWere and Bloomberg. Past performance is not a reliable indicator of future performance.

RBA cash rate

Last rate hike was in November 2010...



Source: JBWere and Bloomberg. Past performance is not a reliable indicator of future performance.

Inflation / early withdrawal of liquidity

- One risk for markets is a more rapid withdrawal of monetary stimulus if economies continue to recover ahead of expectations.
- The abundance of liquidity and low interest rates, together with central bank commitments to extended periods of policy rate stability, have delivered elevated valuations in many markets.
- Were these supports to disappear sooner than expected, then we would expect significant repricing of risk markets. A sustained surge in inflation is likely to be the driver of any such dynamic.

Vaccines and variants

- The pandemic is not over and a return to pre-pandemic life will remain elusive while a large proportion of the world's population do not have access to a vaccine.
- The slower the pace of vaccination, the more likely the chance that new vaccine resistant variants can emerge.
- We see these risks as more pressing for the EM complex, relative to the DM complex.

Complacency

- Markets are priced for strong growth and easy policy. There appears to be little, if any, risk premia in markets for any disruptor to this outlook, financial or otherwise.
- If 2020 taught financial market participants anything, it was that complacency can have serious ramifications.

Persistent growth divergence

- It is possible that economies with slower or stilted recoveries suffer more scarring than those that continue upon strong and consistent recovery trajectories.
- This divergence in “recovery experience” has the potential to drive a more permanent wedge between these two groups of economies given the impact that the speed of recovery from recession can have on relative potential growth rates.

Important Notice

This report has been prepared by JBWere Limited (JBWere) and comprises general advice only. In preparing it, JBWere did not take into account your investment objectives, financial situation or particular needs. Before acting on any advice contained in this report, you should consider whether the advice is appropriate in light of your financial circumstances or contact your adviser. JBWere recommends that you consider the relevant Product Disclosure Statement or other disclosure document, where relevant, before making investment decisions in relation to any particular product mentioned in this report.

JBWere's advisers and other professionals may provide oral or written market commentary or trading strategies to clients that reflect opinions that are contrary to the opinions expressed in this report, and they may make investment recommendations that are inconsistent with the recommendations or views expressed in this report.

Ownership and Material Conflicts of Interest

JBWere requires all research personnel to disclose to JBWere any material investment position or financial interest in issuers that they review. Research personnel are paid in part based on the profitability of the National Australia Bank Limited group (NAB Group), which includes JBWere.

No business units within the NAB Group which provide corporate advisory services, including JBWere's markets division (which provides capital raising services) have any input into determining the budget decisions, bonuses or allocations of resources for any business units within JBWere which produce research. The revenue and results of JBWere's markets division are not taken into account when determining JBWere's research budgets or expenses.

In the last twelve months, JBWere has played a role in transactions for certain entities which may be referred to in this report. For details, go to [Deal Flow Participation](#).

JBWere's research analysts may from time to time hold financial products that are the subject of a JBWere research report. The [Managing Conflicts of Interest and Maintaining the Integrity of Research Policy](#) sets out how JBWere manages these conflicts. Please refer to the [list of financial products currently held by JBWere's research analysts](#).

The NAB Group and associates, may have provided, provides or seeks to provide investment banking, capital markets and / or other services, to the issuers and their associates mentioned in this report.

Our research process

Further information about the methodology applied by JBWere in preparing research reports is available on the [JBWere website](#).

General Disclosures

This report is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. The information contained in this report is subject to change without notice. The price and value of the investments referred to in this report and the income from them may fluctuate. Past performance is not a guide to future performance. Future returns are not guaranteed and a loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors.

In producing research reports, members of JBWere's Investment Strategy Group may attend site visits and other meetings hosted by the entities mentioned in those reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if JBWere considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting.

JBWere's research is disseminated primarily electronically, and, in some cases, in printed form. Electronic research is generally made available simultaneously to all clients.

General Disclaimer

So far as laws and regulatory requirements permit, JBWere, its related companies, associated entities and any officer, employee, agent, adviser or contractor thereof (JBWere Group) does not warrant or represent that the information, recommendations, opinions or conclusions contained in this report (Information) is accurate, reliable, complete or current and it should not be relied on as such. The Information is indicative and prepared for information purposes only and does not purport to contain all matters relevant to any particular investment or financial instrument. Subject to any terms implied by law and which cannot be excluded, the JBWere Group shall not be liable for any errors, omissions, defects or misrepresentations in this report (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the Information. If any law prohibits the exclusion of such liability, the JBWere Group limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable.

Research Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of JBWere. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed in this report.

Other Research Providers

This report may contain a restatement, summary or extract of a report prepared by UBS Securities Australia Limited (UBS) or a related body corporate (UBS Report). Please contact your JBWere adviser if you would like a copy of the UBS Report. For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research, please visit www.ubs.com/disclosures

This report has been prepared for distribution only to clients of JBWere (and potentially to clients of other financial advisers). It may not be reproduced or distributed without the consent of JBWere. Please refer to the full details of the important disclosures, available in the [Disclosures](#) section of the JBWere Limited website.

Copyright© 2021 JBWere Ltd ABN 68 137 978 360 AFSL 341162

Beyond

JBWere

1840