

# Three headwinds to global growth

By Michael O'Dea

18 August 2021



As expected, the global economy is rebounding very strongly in 2021, led by the US in the first half and likely to be followed by Europe and emerging market economies in the second half as lockdowns and other social mobility restrictions ease. Here we discuss our market outlook.

Global growth was very strong in the first half and is expected to accelerate in the second half of 2021 as the vaccination roll-out continues apace, releasing pent up demand by reopening

economies in the developed world. Growth is expected to slow in 2022 as fiscal policy becomes a drag and pent up demand is satisfied. As a result, profit estimates for this year and next continue to be revised up, so much so that 2022 earnings per share in the US are expected to be almost a third higher than in 2019.

There are, however, some more problematic developments for the market outlook:

- Inflation in the US has been much higher than expected in recent months. These misses have been attributed to 'transitory factors' caused by supply side bottlenecks, most notably in used cars (as a spill-over from excess demand for new cars) as well as sporting goods, furniture and appliances. A lot hinges on this assessment as monetary policy settings are so extreme – our own view is that core inflation will subside from recent levels back towards 2% next year as some of these 'one-offs' reverse. With growth estimates expected to be well above potential growth, however, average core inflation will likely be somewhat higher than we previously estimated.
- The emergence of the highly contagious Delta variant has wreaked havoc in India, become the dominant strain in the UK and Australia, and is growing rapidly elsewhere. The growth in cases in the UK has happened despite a population with a high level of natural immunity and vaccinations. On the more encouraging side, there are some indications that the vaccine is working to significantly reduce the risk of severe disease.
- The outlook for Australia is especially delicately poised given the combination of a highly contagious variant and low levels of vaccination and natural immunity. The economy has recovered very well, but the second half of 2021 is going to be difficult to navigate if the virus becomes established in the most populous states.

Financial markets are continuing to run hard with the upbeat growth and profits story, while largely ignoring the risks created by recent higher inflation prints and the emergence of the Delta variant. In fact, there are very few signs of distress in financial markets as equity, credit and commodity markets all continue an amazing run of performance, which began in the depths of despair at the onset of the COVID-19 crisis in March last year. However, we will be keeping a close eye on some of the dark clouds we see on the horizon.

Find out more about [Perpetual's Diversified Real Return Fund](#).

This information has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML does not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act. This information, including any assumptions and conclusions is not intended to be a comprehensive statement of relevant practice or law that is often complex and can change.

The product disclosure statement (PDS) for the relevant Fund, issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au). No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance.