AllianceBernstein

GLOBAL ECONOMIC RESEARCH

GLOBAL MACRO OUTLOOK

SECOND QUARTER, 2021

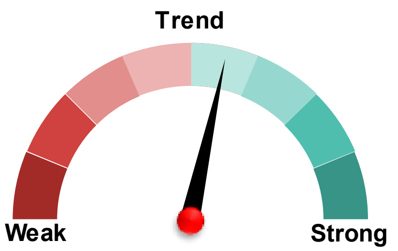
KEY FORECAST TRENDS

- The near-term outlook for global growth is likely to be determined by two key factors: the pace of COVID-19 vaccination programs and fiscal stimulus.
- The US is at a significant advantage over other advanced economies in these areas, and we expect economic growth there to reach 6.5% in 2021 and 4.6% next year. This would push the level of output above the pre-pandemic trend.
- With rising COVID-19 cases likely to delay the reopening of economies in Europe, we're more cautious on the euro area's prospects. Output there is not expected to reach pre-pandemic levels until well into 2022.
- In China, output is already above the pre-pandemic trend. With economic and social stability paramount, China is likely to exert a stabilizing influence on global growth.
- We think the global economy is on the cusp of a new, more inflationary, regime. The first signs of this may become evident as base effects and higher commodity prices push headline inflation temporarily higher.
- This is a more challenging backdrop for central banks. The US Federal Reserve (Fed) has been surprisingly relaxed about rising bond yields but may be approaching the limits of its tolerance—especially if the equity market comes under pressure.
- Other advanced-economy central banks are in a different place and will continue to push back strongly against rising bond yields. The return of US exceptionalism should continue to support the dollar against the euro and the yen.

CONTENTS

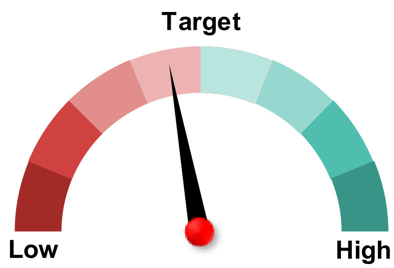
THE GLOBAL CYCLE

ECONOMIC ACTIVITY



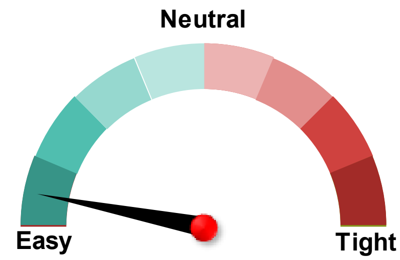
- Growth is set to rebound strongly, led by the US where output is likely to move above the precrisis trend.
- Elsewhere, the rebound is likely to be more muted; a full recovery will take time.

INFLATION



- Elevated debt and a shift in the monetary/fiscal policy regime are fertile ground for rising inflation.
- After a spike driven by base effects and commodity prices, the near-term outlook is more nuanced.

MONETARY POLICY



- Advanced-economy policy rates are likely to remain on hold until at least the end of 2022.
- Central banks will continue to push back against a sharp rise in bond yields. But expect more volatility.

GLOBAL FORECAST

FORECAST OVERVIEW

Key Assumptions

- **Virus**: cyclical impact should fade as vaccination programs start to gain traction
- **Vaccine:** pace of vaccination programs to be a key driver of near-term cyclical divergence
- **Fiscal policy:** highly supportive at the global level; the US now leads the way
- **Monetary policy:** central banks to keep policy rates anchored and yields below precrisis norms
- **Secular backdrop:** headwinds to be exacerbated by COVID-19

Central Narrative

- **Global growth:** strong rebound likely after soft first quarter
- **Reflation:** fiscal stimulus to push US output above precrisis trend; more gradual recovery elsewhere
- **Inflation:** regime shift underway; 2021 outlook still nuanced but upside risks rising
- **Yields:** joined-at-the-hip to be tested as economies recover; yield rise likely to be modest
- **USD:** higher against EUR and JPY but supportive environment for growth-sensitive currencies

Key Risks

- **Virus:** Virus mutations/vaccine failure push recovery back into 2022
- **Bond yields:** Central banks fail to control the reflation narrative; yield rise turns disruptive
- **Inflation:** Are we ignoring historical warning signs of inflation: sharp rise in demand when supply is impaired; fastest broad money growth since the 1980s; newfound acceptance of money-financed fiscal stimulus?

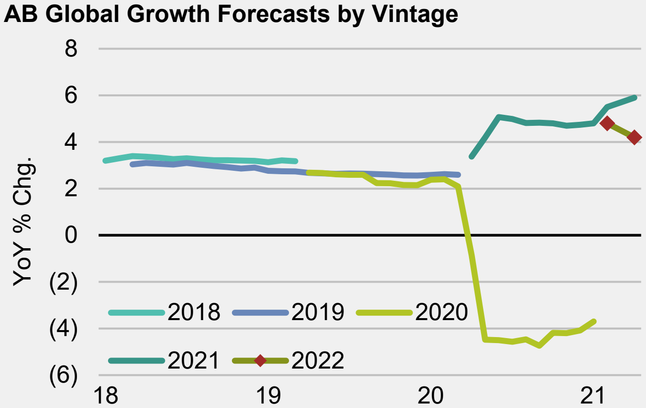
AB Growth & Inflation Forecasts (%)

	Real GDP Growth		CPI Inflation	
	2021	2022	2021	2022
US	6.5	4.6	2.1	2.2
Euro Area	3.5	4.3	1.6	1.3
Japan	2.8	1.7	0.2	0.8
China	9.5	4.2	1.4	2.8
Global	**5.9**	**4.2**	**2.3**	**2.5**
Industrial Countries	5.0	4.2	1.7	1.7
Emerging Countries	7.4	4.1	3.2	3.6
EM ex China	5.5	4.1	4.8	4.4

As of March 31, 2021
Source: AB

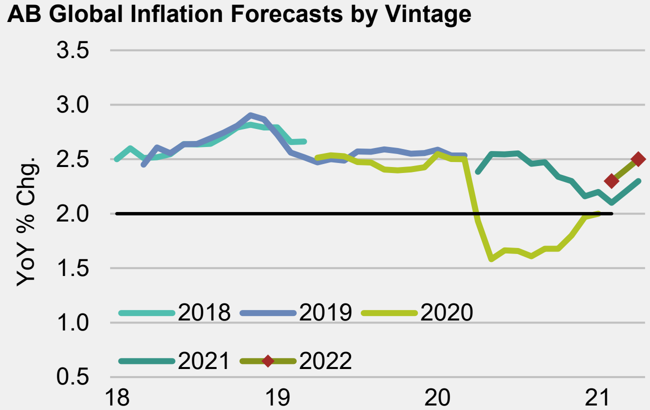
FORECASTS THROUGH TIME

AB Global Growth Forecasts by Vintage



Forecast years start in February: i.e., the first forecast for calendar year 2022 is February 2021.
As of March 31, 2021
Source: AB

AB Global Inflation Forecasts by Vintage



Forecast years start in February: i.e., the first forecast for calendar year 2022 is February 2021.
As of March 31, 2021
Source: AB

GLOBAL MARKET OUTLOOK: YIELD CURVES

GLOBAL YIELDS

Global—The aim of monetary policy over the past year has been to support fiscal policy by keeping bond yields low. This consensus is starting to fray as economies begin to recover. The European Central Bank (ECB) and Bank of Japan (BOJ) are committed to some form of yield-curve control (YCC). But that's not the case in the US, where the Fed may see more fiscal stimulus as a signal that it can start to wind down its own support for the economy.

US—With fiscal stimulus already in train and more likely to follow, US rates are likely to head higher. Still, low global rates and ongoing Fed purchases should limit the increase and we expect yields to remain below precrisis levels through 2021.

Euro Area—The ECB's focus is on maintaining highly accommodative financial conditions and it has boosted the pace of its bond purchases to prevent yields from following the US higher. We expect this push back against higher yields to continue.

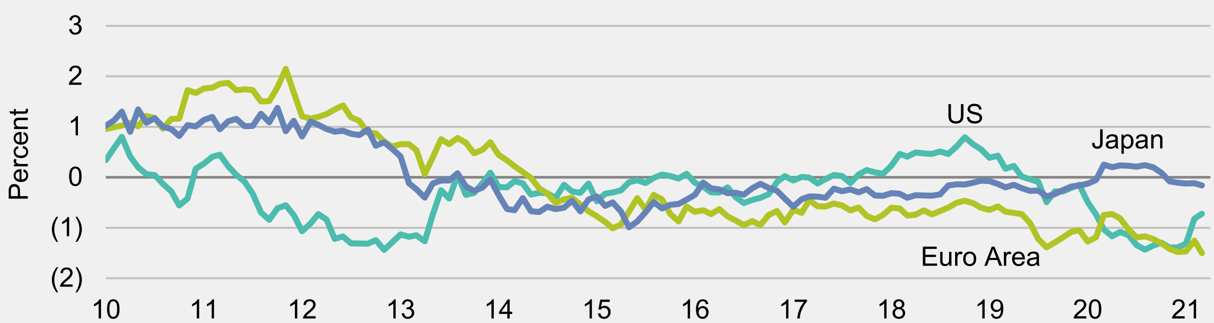
Japan—Tweaks from the BOJ at the March policy announcement largely validate the status quo and set the stage for framework longevity. YCC should anchor 10-year bond yields close to zero for the foreseeable future.

10-Year Yields: AB vs. Consensus Year-End Forecasts (%)

	AB		Consensus	
	2021	**2022**	**2021**	**2022**
US	1.75	2.25	1.71	2.02
Euro Area	(0.25)	0.00	(0.18)	0.03
Japan	0.00	0.00	0.09	0.09
China	3.25	3.25	3.19	3.19

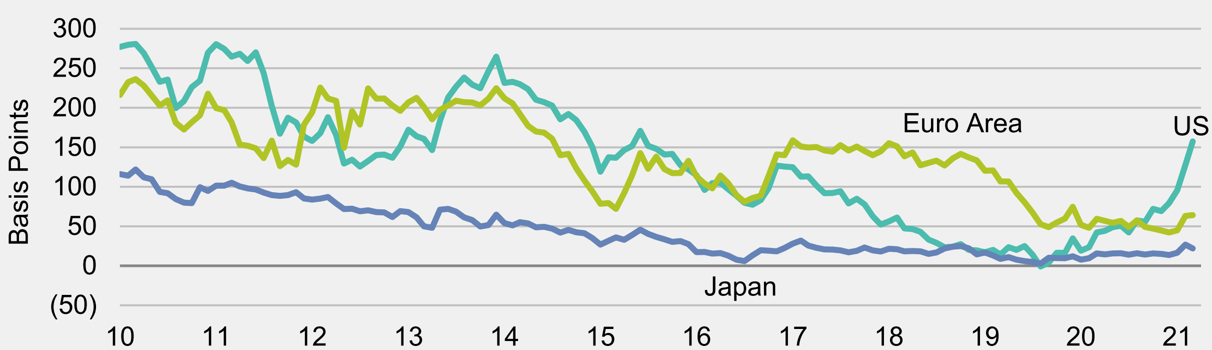
As of March 31, 2021
Source: Bloomberg and AB

Real 10-Year Bond Yields*



*Current 10-year bond yield less five-year/five-year-forward inflation swap
Through March 31, 2021
Source: Bloomberg and AB

Yield Curves: 10-Year Bond Yield Minus Two-Year Bond Yield



Through March 31, 2021
Source: Bloomberg and AB

GLOBAL MARKET OUTLOOK: CURRENCIES

FX FORECASTS

USD—As the US economy accelerates more than its developed-market peers, we expect the dollar to rise against the euro and the yen. But faster global growth should support emerging-market (EM) and commodity-sensitive currencies.

EUR—The euro has fallen back below 1.20 against the dollar. We expect further softness, driven by a widening growth and yield gap with the US. In the wake of the vaccine-rollout controversy, it's possible that politics could also weigh on the euro, especially when next year's French presidential election comes onto the horizon later this year.

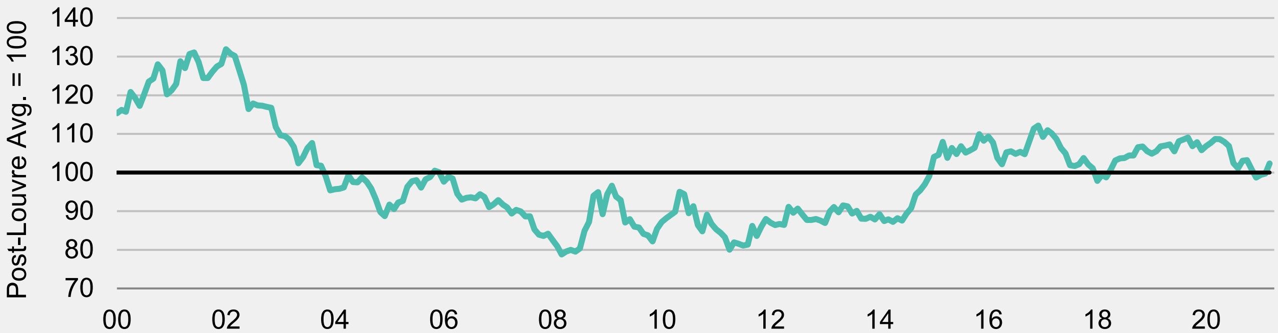
JPY—While we do not see a Japan-specific catalyst for an abrupt further shift weaker in the yen, Japanese growth is likely to lag peers (not helped by slow vaccine rollout) and the joined-at-the-hip nature of policy leaves us biased towards softness continuing.

Global FX: AB vs. Consensus Year-End Forecasts (%)

	AB		Consensus	
	2021	**2022**	**2021**	**2022**
EUR/USD	1.15	1.15	1.23	1.24
USD/JPY	112	112	105	107
USD/CNY	6.30	6.10	6.38	6.28
EUR/GBP	0.85	0.85	0.86	0.85

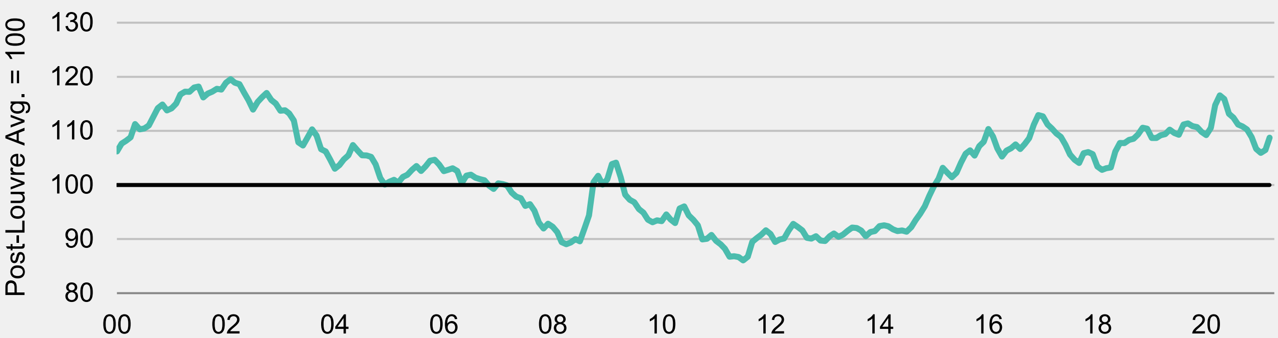
As of March 31, 2021
Source: Bloomberg and AB

Nominal USD Exchange Rate: US Dollar Index



Through March 31, 2021
Source: Bloomberg and AB

Real USD Broad Trade-Weighted Exchange Rate



Through March 31, 2021
Source: Bloomberg, Haver Analytics and AB

United States

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
US	6.5	4.6	2.1	2.2	0.00	0.00	1.75	2.25

OUTLOOK

+ A dramatic change in the policy mix will define the economy in 2021. Aggressive fiscal policy combined with accommodative monetary policy sets the stage for robust growth, assuming that COVID-19 gradually retreats in the coming months.
+ Prices are likely to rise in the middle of 2021 as the demand side of the economy reopens faster and receives more support from fiscal policy than the supply side. Whether that increase in prices is transitory or durable is the most important question for the medium-term outlook. We lean toward transitory, but the question won't be answered convincingly for several months to come.
+ The Fed has made clear it intends to provide maximal support to the economy for most of 2021. Rate hikes are off the table, and even a reduction in quantitative easing (QE) purchases is highly unlikely until close to year-end.

RISK FACTORS

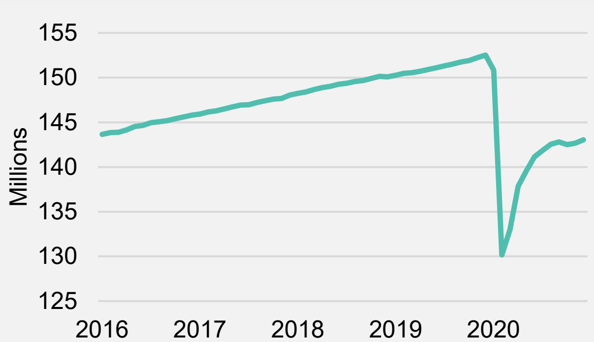
+ The optimism around growth depends on continued public health progress. If COVID-19 surges again, and forces renewed economic restrictions, all bets are off.
+ With the market more concerned than the central bank about inflation, the risk has risen that yields could move higher in a disorderly way and disrupt broader financial markets.

OVERVIEW

The outlook for US growth has never been more robust than it is in 2021. Reopening from the pandemic amid massive amounts of fiscal and monetary support should lead to growth rates not seen in decades as the economy tries to make up lost ground. Normally the cost of rapid growth is accelerating inflation, but we would caution against focusing too much on the pace of growth when considering inflation. Remember that growth remains below its precrisis level, as is evident from the nearly 10 million people still out of work. That should suppress prices in the medium term, where policymakers are focused. In the short term, prices will rise because demand is likely to be strong—consumers have received considerable financial support from Washington and a recovering labor market should boost incomes as well—but the economy's supply side will face capacity constraints as reopening progresses. That will push prices higher for a time, but a short-term increase in prices is not the same as inflation, which is more of a sustained process.

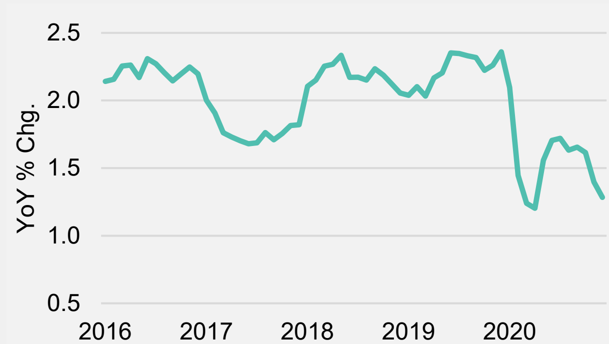
Because policymakers see the world in much the same way that we do, even a period of higher prices in the spring and summer is unlikely to trigger a response from the Fed. As the year progresses, we will learn more about the possibility of additional fiscal innovation, perhaps around long-awaited infrastructure projects that could boost growth in future years. All of this spending brings up questions about the impact of mounting government debt, but those are for another day. Until the economy is fully recovered from the pandemic, fiscal support remains a critical part of the policy framework.

Employment



Through February 2021
Source: Refinitiv Datastream

Core CPI Inflation



Through February 2021
Source: Refinitiv Datastream

Euro Area

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Euro Area	3.5	4.3	1.6	1.3	(0.50)	(0.50)	(0.25)	0.00	1.15	1.15

OUTLOOK

+ The euro area is set to recover this year, but a resurgence in COVID-19 cases and the slow rollout of vaccines means that the rebound is likely to lag behind other advanced economies in terms of both timing and magnitude. The level of output is unlikely to regain pre-pandemic levels until well into 2022.
+ Temporary factors have driven inflation higher in recent months, but underlying inflation pressures remain weak. Once these distortions have dropped out of the index, core inflation should fall back to 1.0%, in line with the precrisis trend and well below target.
+ It is vital that the European Central Bank (ECB) prevents a premature tightening of financial conditions. To this end, the ECB will continue to make full use of the flexibility embedded in its asset purchase programs—and, if necessary, increase the absolute size of those programs—to keep bond yields anchored close to current levels.

RISK FACTORS

+ We have assumed a relatively modest impact from new COVID-19 restrictions on euro-area output. If this is wrong—or should new virus mutations gain traction before vaccination programs have been completed—economic growth could be significantly weaker than anticipated.
+ A resurgence in COVID-19 represents a major threat to the summer tourist season upon which some euro-area nations are heavily reliant. This could exacerbate intra-euro area divergence.

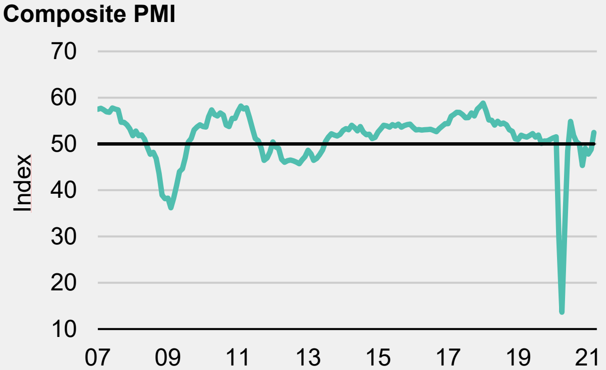
OVERVIEW

The euro area has had a mixed start to 2021. With new virus mutations taking hold and vaccination programs still making only hesitant progress, COVID-19 cases are again rising strongly across the region, forcing governments to either tighten or extend restrictions on economic and social activity. Yet, with manufacturing booming and governments shielding their service sectors to a greater extent than a year ago, growth has performed better than expected in recent months.

This is apparent in recent survey data, with the composite Purchasing Managers' Index (PMI) rising to 52.5 in March from 48.8 in February and a string of records for the manufacturing PMI: the headline index and the orders and output components all reached record highs in March while the supplier-delivery index hit a record low, hinting at looming problems in the supply chain. While the PMI data remain difficult to interpret, earlier fears of a sharp contraction in output at the beginning of 2021 now look misplaced.

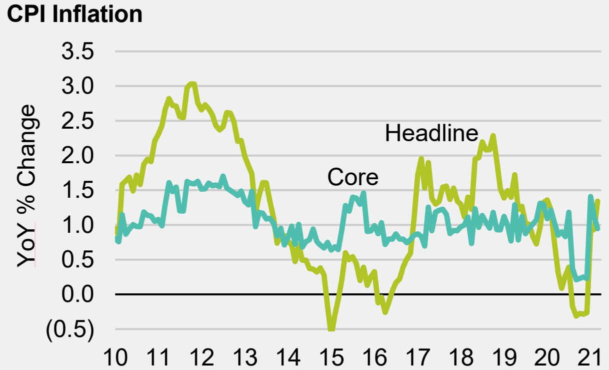
At its March Governing Council meeting, the ECB sought to head off fears of rising bond yields by promising to step up the pace of its bond purchases. The ECB's messaging is unnecessarily complicated, in our view. But one thing is clear: at a time when US yields are under upward pressure, it will do everything it can to keep bond yields anchored close to current levels.

Composite PMI



Through March 2021
Source: Haver Analytics and IHS Markit

CPI Inflation



Through March 2021
Source: Haver Analytics

China

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
China	9.5	4.2	1.4	2.8	4.35	4.35	3.25	3.25	6.30	6.10

OUTLOOK

+ China ended 2020 in relatively good shape, and reasonable growth is set to continue in 2021.
+ 2021 marks the first year of China's 14th Five-Year Plan, and the 100th anniversary of the Communist Party; maintaining economic stability will be paramount.
+ But with economic activity normalizing, attention is turning back toward other policy objectives: controlling leverage; leaning against potential speculative excesses; internationalization of its currency.

RISK FACTORS

+ COVID-19: rising cases, city lockdowns and tighter social distancing measures.
+ Policy error: could a faster recovery prompt excessively aggressive tightening measures (PBOC, property, regulation)?
+ Geopolitical backdrop: under the Biden administration, the rhetorical heat may cool, but missteps are possible.

OVERVIEW

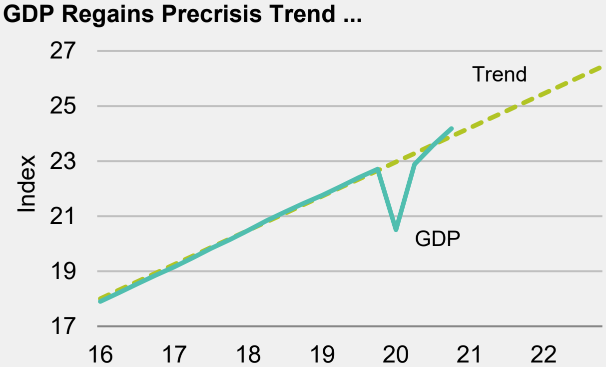
China ended 2020 in reasonable shape. GDP increased smartly in the fourth quarter, to end the year 6.5% above the 4Q 2019 level. China's position is unique, with its return to the pre-pandemic trend well ahead of any other major economy. The data for January and February show continued solid momentum—particularly for exports and manufacturing activity—partly helped by the limits on workers' ability on travel home for the Lunar New Year holidays.

But global export demand is likely to ebb—particularly through the second half of the year—as vaccine rollouts allow resumption of services consumption, and a switch away from goods. Along with the rest of Asia, China is likely to feel the winds of that compositional shift.

On the policy front, with GDP largely "normalized", policymakers have been able to shift their focus from supporting post-lockdown growth towards other "stability" goals, like controlling overall leverage in the system and leaning against speculative excesses in the property and equity markets. The supportive-but-tight policy regime to remain in place through 2021 implies some winding back of the augmented fiscal deficit, and relative stability in interest rates.

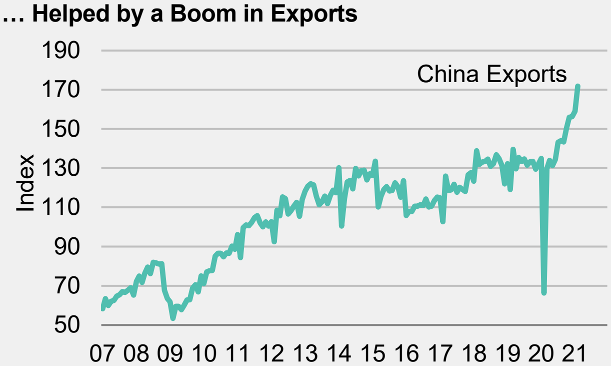
The other policy goal that may garner more attention this year is renminbi internationalization. Accommodating modest, and sustained, currency appreciation is part of that goal. After solid gains last year, we expect further modest CNY strength in 2021.

GDP Regains Precrisis Trend ...



Through 4Q 2020
Source: Haver Analytics and AB

… Helped by a Boom in Exports



Through February 2021
Source: Haver Analytics

Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Japan	2.8	1.7	0.2	0.8	(0.10)	(0.10)	0.00	0.00	112	112

OUTLOOK

+ Japan is likely to remain a growth laggard through 2021; vaccine rollout remains slow.
+ The popularity of new PM Yoshihide Suga has slipped, increasing political uncertainty in an election year.
+ Monetary policy was tweaked in March, with the priority now on the sustainability of the current setting.

RISK FACTORS

+ A sharply stronger yen; COVID-19 third wave.

OVERVIEW

Japan's macro story is likely to remain relatively unexciting through 2021. We expect to see a modest recovery in economic activity, but Japan looks set to lag other developed-market economies as the pace of vaccine rollout remains slow. As elsewhere in Asia, the switch in composition of global demand from goods to services will be a drag as the year progresses. And while the delayed 2020 Summer Olympics will proceed this year, there will be no spectators, so the hoped-for boost in tourism will be elusive.

On the monetary-policy side, the long-heralded March framework review shows that the BOJ remains cemented to yield-curve control (YCC). Yes, there were some tweaks: the range on 10-year YCC target yield was explicitly set at +/- 25 basis points (b.p.), with the tool of fixed-rate purchase operations should yields look like threatening the band; the purchase target for ETFs was abandoned; and the door for cutting rates further into negative territory was pushed further ajar. This is mostly about the BOJ providing a platform for longevity, while enhancing the optionality to provide more stimulus if necessary.

These Japan-specific factors—along with US exceptionalism—leave us biased towards seeing the yen continuing to weaken through 2021. In addition, with PM Suga's popularity rating plunging, politics is in the mix again.

Australia/New Zealand

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Australia	4.0	2.5	1.7	1.5	0.10	0.10	1.75	1.75	0.78	0.75
New Zealand	4.5	3.0	1.4	1.5	0.25	0.25	1.75	1.75	0.72	0.72

AUSTRALIA/NEW ZEALAND

+ COVID-19 remains contained in Australia and New Zealand, with cases of community spread at, or very close to, zero on most days. With the exception of international travel (business, tourists, students) and major public events, life has pretty much returned to normal.
+ As a result, the economic data have generally printed on the stronger side in both economies. The labor-market data illustrate this well. In NZ, unemployment dropped below 5%, while in Australia, employment is back above pre-COVID-19 levels. While positive, some risks remain. An element of fiscal austerity is returning in Australia as the "Jobkeeper" and "Jobseeker" support programs are unwound.
+ Despite these better-than-expected outcomes, we anticipate that both the Reserve Bank of Australia (RBA) and Reserve Bank of New Zealand (RBNZ) will continue with ultra-accommodative monetary settings.

Canada

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Canada	4.5	4.0	1.8	2.0	0.25	0.25	1.75	2.25	1.20	1.22

OUTLOOK

+ Canada's economy appears poised to recover resoundingly in 2021, buoyed by a rising global tide as well as local reopening. Fiscal support has been impressive, more in line with US policy than the more subdued policies enacted elsewhere, which should provide a further lift to growth.
+ The Bank of Canada (BOC) is on hold for now, leaving policy accommodative until the expected rebound materializes. The BOC seems somewhat less likely than the Fed to run the economy hot, but we still expect the basic course of policy to remain very supportive of growth.

RISK FACTORS

+ COVID-19 remains the predominant risk, but the possibility that kinks in the global supply chain could persist could either help Canada by forcing US demand toward its closest trading partner or hurt Canada by limiting its exports to other parts of the world.

OVERVIEW

The Canadian economy is set for a very strong year, but until that strength is realized rather than merely forecast, policymakers will not conclude that the job is done. That means that Canadians should expect expansionary fiscal and accommodative monetary policy through the coming months. We expect that will lead to a strong rise in growth but only a limited rise in inflation for the time being.

United Kingdom

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
UK	5.5	6.0	1.7	1.9	0.10	0.10	1.00	1.25	1.35	1.35

OUTLOOK

+ The UK economy contracted by 9.9% last year, one of the worst performances among the advanced economies. With COVID-19 cases surging around the turn of the year and the end of the UK’s Brexit-transition period creating additional disruption, 2021 started in similar vein with the economy contracting by 2.9% in January. As a result, the level of output was almost 10% below pre-pandemic levels.
+ Fortunately, the worst appears to be over. With almost 50% of the population having received its first COVID-19 vaccinations, a permanent route out of lockdown is finally in sight. We expect the economy to rebound strongly from the second quarter (2Q), with the path forward likely to be eased by supportive fiscal policy.
+ March survey data were consistent with this upbeat view. The composite PMI surged from 49.6 to 56.6, the highest reading since the third quarter of 2020 when output rebounded strongly following the 2Q slump. The commentary accompanying the PMI made no mention of any disruption related to the end of the Brexit-transition phase. This may mean that some of the difficulties reported in January are beginning to ease.

RISK FACTORS

+ Our forecasts assume that the government’s vaccination program remains on track and that almost all restrictions on (domestic) economic and social activity will be lifted by the summer. However, the possible imposition of vaccine export controls by the European Union (EU) would put this at risk and lead to materially lower growth.
+ It is still difficult to gauge how long border disruption related to Brexit will last, particularly given the recent souring of relations between the UK and the EU, related to COVID-19 vaccine supplies.

Asia ex Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Asia ex Jap/Ch	**6.8**	**5.1**	**2.6**	**3.0**	**2.24**	**2.68**	**3.97**	**4.20**	**—**	**—**
Hong Kong	5.0	2.8	1.0	1.5	0.50	0.50	0.80	1.00	7.77	7.80
India	10.5	7.0	4.7	5.0	4.00	4.50	6.15	6.30	72.00	72.00
Indonesia	5.0	5.2	2.3	2.8	3.50	4.00	6.50	6.70	14,000	14,000
South Korea	4.3	2.4	1.2	1.8	0.50	1.00	2.00	2.50	1,100	1,050
Thailand	5.6	7.1	1.1	1.2	0.50	0.50	1.85	2.00	32.0	32.0

OUTLOOK

+ In general, the virus is contained in most countries across the region. But cases have started to rise again in the Philippines and India.
+ Regional exports of goods have recovered strongly—initially on the technology side before flowing more broadly to non-tech. But exports of services, like tourism, remain weak.
+ Substantial monetary and fiscal support has been delivered. Questions persist around how far “unconventional” policies can be pushed, even if market concerns have subsided for now.

RISK FACTORS

+ COVID-19; China slowdown; rising US rates.

OVERVIEW

In general, Asia continues to effectively control the spread of COVID-19. Cases in countries such as Taiwan and Vietnam are close to zero. The surge in cases in Malaysia—which saw the reimposition of the Conditional Movement Control Order (CMCO)—has reversed. The region isn’t out the woods, to be sure—evidenced by the recent case increases in India and the Philippines—but the virus is becoming less of a dominant factor, and the (slow) pace of vaccine rollout is becoming more of a focus.

At the same time, a global trade recovery has clearly helped the region. Exports, initially tech-related but now across the board, have bounced sharply, and are benefiting countries like Taiwan and South Korea. Those gains have continued into the early part of 2021. For those more exposed to services—like Thailand, with its heavy reliance on tourism—the outlook remains bleak. It’s difficult to see a rapid recovery until the emergence of widespread vaccination, which seems unlikely to occur fast enough across the region to restore normality until 2022.

The economic policy response to date has been positive—with monetary easing and substantial fiscal support being delivered across the board. This should help underpin the recovery. But across the region an end to the monetary easing cycle is close. Fiscal policy—supported by central bank action—is now dominant.

The Philippines, India and Indonesia, among others, have ventured down a path of unconventional monetary policy, intervening in domestic government bond markets to smooth volatility and facilitate fiscal deficit financing. Indonesia has an explicit “burden-sharing” agreement between the finance ministry and the country’s central bank. In the Philippines, the central bank provided substantial loans in 2020, an arrangement that will continue in 2021. And in India, the Union Budget delivered a much sharper deterioration in the deficit than expected; the Reserve Bank of India will almost certainly be called on again to help absorb the additional issuance.

To date, market concerns have been eased by the commitment that these are “one-off” measures, betting that boosting growth trumps credit concerns. This may prove to be the case. But history tells us that advancing down this path seldom stops at the first step.

Emerging Markets

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
EM ex China	**5.2**	**4.1**	**4.8**	**4.4**	**4.21**	**4.36**	**5.58**	**5.66**	**—**	**—**
Asia	6.8	5.1	2.6	3.0	2.24	2.68	3.97	4.20	—	—
Latam	4.5	2.6	7.7	6.3	6.57	6.64	6.56	6.39	—	—
EEMEA	3.5	3.4	6.1	5.3	5.49	5.32	7.64	7.80	—	—

OUTLOOK

+ The global growth outlook remains constructive, commodity prices remain firm and additional liquidity support through a new round of IMF Special Drawing Rights (SDR) now seems imminent.
+ We think the speed of monetary-policy normalization could vary significantly across EM.

RISK FACTORS

+ The inflation risk premium could continue to increase over the next few months.
+ There are a few countries where COVID-19 cases have recently crept up again (Brazil, India, Kenya and the Philippines, for example), but we do not expect meaningful economic disruption in these countries.

OVERVIEW

The global growth outlook remains constructive, commodity prices remain firm and additional liquidity support through a new round of IMF Special Drawing Rights (SDR) now seems imminent. Rising real rates in developed markets and the Fed’s reticence to guide yields lower have, however, dampened early-cycle enthusiasm and arrested High Yield/Investment Grade (HY/IG) sovereign credit spread compression. EM currencies have also lost ground against the US dollar while EM local debt markets are being pressured by higher core yields and rising local inflation. We do not think an increase in core yields will weigh on EM in the way it did during the 2013 Taper Tantrum (when the Federal Reserve signaled future tapering of asset purchases) because EM basic balances are more robust now and the strong global growth impulse should lift many boats. We do, however, think that the emerging-market inflation risk premium could continue to increase over the next few months and that EM assets could remain on the back foot as a result.

The degree of fiscal deterioration and debt sustainability were key risk parameters in 2020. The speed of fiscal consolidation will remain an important differentiating factor through 2021, but the focus has shifted to the potential speed of monetary-policy normalization. Turkey’s interest-rate hiking cycle is already mature, but we do not think it is a credible guide to the general interest-rate path in EM. The recent derating of Turkish assets (following the replacement of the central bank governor) should, in our view, also not spill over to other emerging-market assets. The commencement of monetary tightening in Brazil and Russia in March also appear to be exceptions rather than the rule.

The EMs that have hiked rates thus far (Brazil, Russia and Turkey) all have deeply dislocated currencies. We think currency valuations could be one of the guideposts for the potential speed of EM policy normalization (i.e., earlier hikes where currencies are undervalued and vice versa). EM policy rates are, however, still calibrated for economic recession and, while the speed of monetary-policy normalization could vary significantly across EM, the balance of risks has shifted towards higher policy rates. While EM local debt valuations are starting to look attractive, we think it sensible to remain patient through the initial stages of inflation and monetary-policy normalization.

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs USD	
	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Global	5.9	4.2	2.3	2.5	1.59	1.63	2.28	2.49	-	-
Industrial Countries	5.0	4.2	1.7	1.7	(0.14)	(0.13)	0.92	1.26	-	-
Emerging Countries	7.4	4.1	3.2	3.6	4.23	4.31	4.39	4.40	-	-
EM ex China	5.5	4.1	4.8	4.4	4.21	4.36	5.58	5.66	-	-
United States	6.5	4.6	2.1	2.2	0.00	0.00	1.75	2.25	-	-
Canada	4.5	4.0	1.8	2.0	0.25	0.25	1.75	2.25	1.20	1.22
Europe	3.8	4.5	1.6	1.4	(0.37)	(0.37)	0.02	0.26	1.68	1.67
Euro Area	3.5	4.3	1.6	1.3	(0.50)	(0.50)	(0.25)	0.00	1.15	1.15
United Kingdom	5.5	6.0	1.7	1.9	0.10	0.10	1.00	1.25	1.35	1.35
Sweden	3.0	3.5	1.3	1.5	0.00	0.00	0.40	0.50	10.3	10.0
Norway	3.3	3.5	2.4	2.0	0.00	0.25	1.50	1.75	10.0	10.0
Japan	2.8	1.7	0.2	0.8	(0.10)	(0.10)	0.00	0.00	112	112
Australia	4.0	2.5	1.7	1.5	0.10	0.10	1.75	1.75	0.78	0.75
New Zealand	4.5	3.0	1.4	1.5	0.25	0.25	1.75	1.75	0.72	0.72
China	9.5	4.2	1.4	2.8	4.35	4.35	3.25	3.25	6.30	6.10
Asia ex Japan & China	6.8	5.1	2.6	3.0	2.24	2.68	3.97	4.20	-	-
Hong Kong	5.0	2.8	1.0	1.5	0.50	0.50	0.80	1.00	7.77	7.80
India	10.5	7.0	4.7	5.0	4.00	4.50	6.15	6.30	72.0	72.0
Indonesia	5.0	5.2	2.3	2.8	3.50	4.00	6.50	6.70	14,000	14,000
Korea	4.3	2.4	1.2	1.8	0.50	1.00	2.00	2.50	1,100	1,050
Thailand	5.6	7.1	1.1	1.2	0.50	0.50	1.85	2.00	32.0	32.0
Latin America	4.5	2.6	7.7	6.3	6.57	6.64	6.56	6.39	-	-
Argentina	4.0	2.5	40.0	30.0	30.00	25.00	-	-	120.0	180.0
Brazil	3.0	2.3	4.0	3.5	5.00	6.00	8.00	7.50	5.20	4.50
Chile	6.5	2.9	3.0	3.3	0.50	1.50	3.00	3.25	720	750
Colombia	5.7	3.9	3.0	3.3	1.75	2.25	5.85	6.00	3,700	3,800
Mexico	5.0	2.5	4.0	3.8	3.75	4.25	6.10	6.25	20.3	21.0
EEMEA	3.5	3.4	6.1	5.3	5.49	5.32	7.64	7.80	-	-
Hungary	4.1	4.5	3.2	3.5	0.60	1.00	2.35	2.60	375	358
Poland	3.9	4.5	2.6	3.2	0.10	0.10	1.50	1.75	4.70	4.50
Russia	2.9	2.8	4.4	4.0	5.25	5.50	6.50	6.40	70.0	67.0
South Africa	3.0	2.0	3.9	4.2	3.50	4.50	9.20	9.30	15.0	15.5
Turkey	4.5	3.5	15.5	12.0	14.00	12.50	17.50	19.00	8.75	9.25

Growth and inflation forecasts are calendar year averages.
Interest rate and FX rates are year end forecasts.
Long rates are 10-year yields unless otherwise indicated.
The long rates aggregate excludes Argentina; Argentina is not forecasted due to distortions in the local financial market.
Real growth aggregates represent 31 country forecasts not all of which are shown

Contributors

Armando Armenta armando.armenta@alliancebernstein.com	Guy Bruten guy.bruten@alliancebernstein.com	Katrina Butt katrina.butt@alliancebernstein.com
Adriaan du Toit adriaan.dutoit@alliancebernstein.com	Markus Schneider markus.schneider@alliancebernstein.com	Darren Williams darren.williams@alliancebernstein.com
Eric Winograd eric.winograd@alliancebernstein.com		