Click or scan the QR code to visit us online

The year ahead - a brief recap of consensus expectations

Fabian Scheler, CFA, FDP[12]

[1] *Amadeus Capital SA* [2] *Amadeus Quantamental SARL*

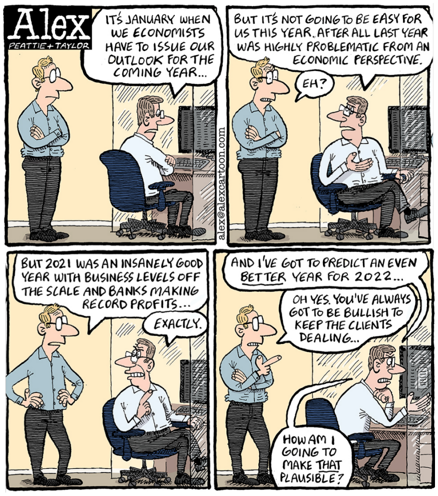
- January is the month of investment outlooks.
- According to our experience, these publications tend to be quickly overtaken by time - which has not stopped us from binging a bit on them.
- This article provides a highly consolidated overview of consensus views and expectations we have found in reports from large financial institutions in the U.S. and Europe.
- In 2022 outlooks, we note strong consensus on the future path of the world economy and its implications for equities and limited dispersion in the views on sectors and styles.

January 28, 2022

December and January are the months of investment outlooks. Every major bank or asset manager traditionally gathers its views on the economy and major asset classes in extensive publications usually accompanied by roadshows and presentations. Given the vast number of such works, we think there is little value in adding to this body of literature. However, we skimmed read quite a few 'year ahead' publications and briefly summarised their key points.

1 Forecasting is very difficult, especially when it involves the future.

There is a saying that in financial forecasting, you should always mention what you think is going to happen or when it will happen but never both. This makes the publication of annual outlooks a particularly thankless game. Not only is the forecaster expected to provide an opinion on what is going to happen, but, as if this was not difficult enough, the prediction is also supposed to fit into an arbitrary time. 2022, in particular, seems to do everything possible to mock economic and market augurs, given that the first weeks of January already prompted such substantial changes in the economic and market environment. We, therefore, have a lot of respect for the analysts who tirelessly produce the comprehensive investment outlooks that keep the buy-side busy in January.



2 Macroeconomy

Having gone through the outlooks of a range of large financial institutions, including Blackrock, Credit Suisse, Julius Baer, Swisscanto, Citibank and Morgan Stanley, we found surprisingly little dispersion in consensus' views on the economy.

2.1 Macroeconomy

Mid-cycle is the word of the moment. At the time of publication there was a broad consensus that after the rapid recovery, **economic growth is poised to stay elevated in 2022**. Most analysts highlighted that the Covid pandemic will permanently impact economic dynamics and, most importantly, continue to fuel **productivity growth**.

2.2 Inflation

No publication we have studied expected a significant breakout in inflation rates. Instead, it was a generally accepted consensus that inflation in major markets will **peak in 2022 and return to elevated but manageable levels**. However, analysts were warming up to the idea that the pandemic started a shift towards a regime of permanently higher inflation levels.

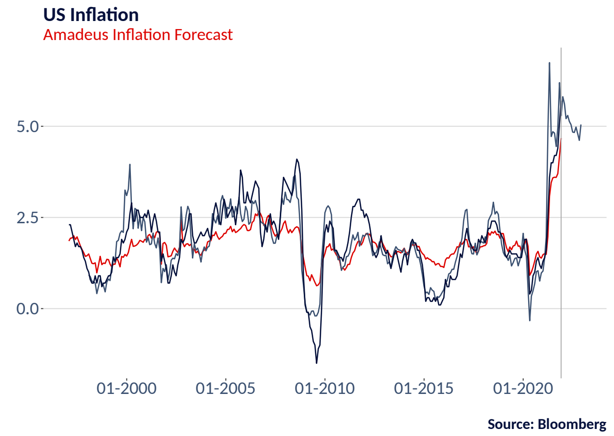


Figure 1: *Fading base effects have failed to pull back inflation as new upwards pressure has been coming from labor markets, transportation and energy costs.*

2.3 Monetary Policy

Monetary policy was generally expected to stay accommodative in the U.S. and Europe as central banks were forecasted to **tolerate elevated inflation levels**. Nevertheless, a potential policy error was now considered the most critical risk factor. While the consensus did not expect FED and ECB to become overly hawkish economists, agree that central banks would be less supportive as we advance. This is certainly an area in which January already enforced major revisions.

3 Equities

The V-shaped recovery from Covid followed by labour market shortages, supply chain shocks, and a considerable jump in commodity prices have shown how difficult it is to predict even near-term economic developments. In front of this background, it is surprising how well in sync the macroeconomic outlooks we studied were. Reviewing the views on equities, therefore, was to be a bit more interesting.

3.1 Broad Market

There was a very strong consensus that **equities would continue outperforming bonds** in 2022. Even though analysts expected real yields to stay low in 2022, elevated inflation rates were predicted to drive nominal yields higher, resulting in an environment favouring real assets. All publications we have studied expected further **strong growth in earnings** to support stocks and enable high single-digit to low double-digit returns. Aggregate valuation levels were considered elevated but still reasonable and not a notable concern.

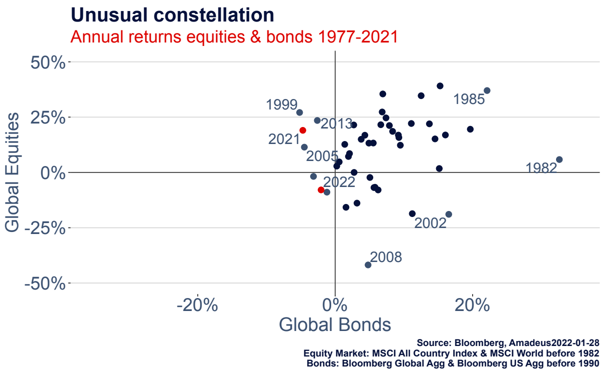


Figure 2: *Equities retraced slightly since the start of the year but the really significant moves occured under the surface. There is a strong consensus view that stocks will continue to outperform bonds in 2022.*

3.2 Geographies

The regulatory crackdown and declining growth in China resulted in a pronounced underperformance of the region in 2021. For 2022, the majority **expressed the opinion that the worst is over**, but we sense a somewhat cautious attitude towards the country. Most publications foresaw strong returns in US equities, but we also stumbled over one outlook from a bulge bracket that expected the market to decline. Europe and Emerging Market stocks seemed to be viewed most favourably as analysts expected them to benefit from more robust economic growth paired with lower valuation levels. Amid a more general defensive mood, some banks stressed the attractiveness of Swiss equities.

3.3 Cyclicals vs Defensives

Most publications we read expected **defensive sectors to outperform** in 2022 as the initial post-Covid rebound fades, and the stocks that benefited the most from it won't drive the market higher anymore. Many analysts highlighted the increase in consumer spending on goods versus services that has been observed during the lockdowns and expressed the expectation that this trend will reverse in 2022.

3.4 Styles

The first weeks of 2022 have brought a fast paced **style rotation in the U.S. and Europe** as Value, and Dividend stocks rallied while Growth, Momentum, and Quality got poorly hit. This intra-market turmoil is mainly attributed to a **surprise jump in real yields**. Nevertheless, the investment outlooks we have studied

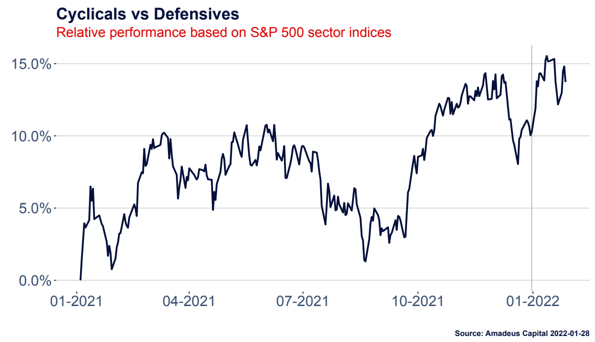


Figure 3: *Cyclicals started the year on a strong note but most market observes expect defensives to outperform during today's mid cycle environment.*

tend to expressed more favourable views on growth and quality stocks. Small-caps were expected to benefit from continued economic growth and moderately supportive monetary policy. Some publications highlighted dividend strategies, but we have encountered only one truly bullish note on European value stocks.

3.5 Thematic Equities

Thematic investing has become a mighty trend in equities. Our clients know that our view on this approach to investing tends to be very cautious and admittedly a bit cynical. One key takeaway from the outlook presentations we have read is the dominance of ESG. Still somehow smiled at a couple of years ago, the commitment to **net-zero has become a mainstream topic in the industry**. As a result, many thematic calls for the year now bear names such as Circular Economy, Climate Change, UN SDGs, Future Mobility, or Healthy Life. Beyond that, the high-profile hacker attacks over the past months have increased awareness for cyber security, both as an investment opportunity and a risk factor.

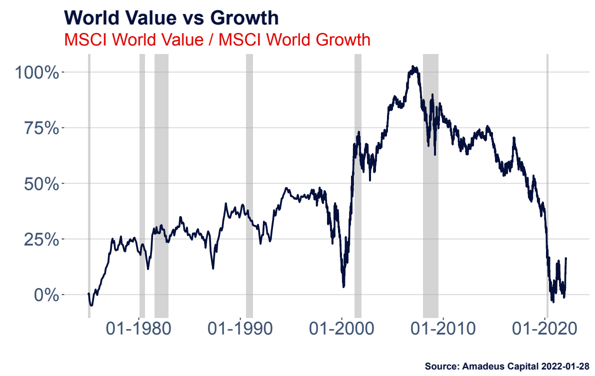


Figure 4: *Value has made a comeback this January but the factor still has a long way to go before reaching pre-pandemic levels.*

4 Fixed Income

As Blackrock showed in a beautiful chart late last year, 2021 was outstanding as equities rallied while bonds suffered. At the end of 2021, the consensus seemed to expect a reoccurrence of this phenomenon.

4.1 Government Bonds

All articles we have seen predicted an **increase in government bond yields across the board** putting pressure on the asset class's performance. Shorter-term yields and the mid of the curve seemed to be expected to experience a more significant uptick than long-maturity bonds. Worries about long-duration bonds' capability to act as a portfolio stabilizer during bear markets and the expectation of elevated rate volatility make the asset class rather unattractive according to the consensus' eyes. There is **disagreement about the future path of inflation-linked bonds**. Most analysts still expressed a bullish view on the asset class on the back of elevated inflation rates and the expectation of stable real yields. However, some publications argued that TIPS will no longer deliver outperformance in 2022.

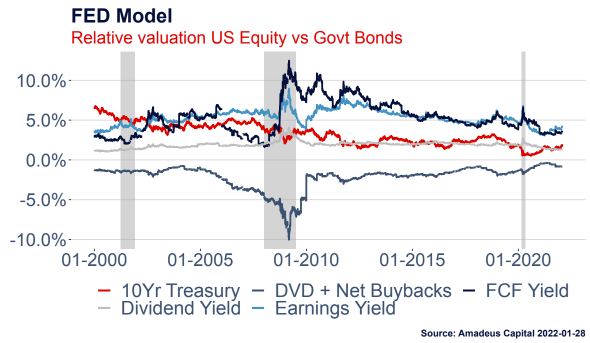


Figure 5: *U.S. valuation multiples have decreased slightly on the back of strong earnings growth. Most market observers expect inflation to remain elevated and yields to rise further. Now companies need to prove that they can sustain their growth momentum in this more challenging environment.*

4.2 Credit

There is little love for credit either in 2022 outlook articles. The **consensus considered credit spreads too low** to adequately compensate for the extra risk, especially in developed markets.

5 TINA narrative still dominates

"**T**here **i**s **n**o **a**lternative" has been the dominating argument in favour of risk assets for years, and the 2022 investment outlooks published in December and January overwhelmingly supported this idea. However, the narrative has shifted away from strong profit growth alongside elevated inflation rates, which are now considered the major drivers of equity returns. **Instead, maintaining purchase power has evolved as a top priority in investors' minds again.** Having studied a range of macro and market outlooks from various large banks and asset managers, we note very little disagreement about the path of the world economy, monetary policy and major asset classes. This is good news for lazy investors. You probably don't need to study many years ahead publications to develop a certain sense of the dominant story.

> *Never ask anyone for their opinion, forecast, or recommendation. Just ask them what they have—or don't have—in their portfolio.*
>
> Nassim Nicholas Taleb

The broad, bullish consensus on equities leaves us with an uneasy feeling, especially after the many surprises we have observed over the past two years. The past weeks confirmed our impression that the half-life of macroeconomic and market forecasts is usually much shorter than advertised. The major style rotation this January and the surprise jump in real yields have already given us a foretaste for what could await us this year. We are looking forward to revisiting this article in 11 months.

Read more

Check out out our latest blog posts and articles and stay up-to-date by subscribing to our Newsletter or following us on Linkedin or Twitter.

- The Shiller P/E at 40x; a look in the rear mirror.
- Some thoughts on cross-asset correlation.
- How justified are the record P/E spreads in equity markets?
- Are value stocks a good inflation hedge?
- How many stocks sufficiently diversify a portfolio?