

# 2022 Outlook



*Kenneth T. Kozlowski, CFP, CLU, ChFC  
Chief Investment Officer  
Equitable Investment Management*

December 2021 and January 2022 were interesting months to ask the people we hire to invest your money to look into their crystal balls. In fact, most years it's a fool's errand to guess how the markets will behave for any given period. But history tells us

a few things: every two years or so, on average, the S&P 500 Index will fall between 10% to 20% sometime during the year. And when the U.S. Federal Reserve acts to slow inflation, it generally raises rates in multiple moves. The last two years, of course, have also taught us all a lesson on the persistence of pandemics.

The vowels provide a handy outline of the themes these strategists think you'll hear about in 2022:

- 1. Uncertainty.** The year has started with a wild ride down — between interest rate worries and a pending election season, most of our strategists expect that may continue.
- 2. Omicron.** Sadly, the Covid-19 story is not over, and the possibility of future variants hangs over the outlook in these pages.
- 3. Inflation.** Strategists still don't generally believe inflation will persist over the long haul, but they expect it will contribute to volatility throughout most of 2022.
- 4. ESG.** After many years of discussion, you'll notice this year that several our contributors have begun to factor the financial impact of environmental, social and governance issues in their base macroeconomic analysis.
- 5. Asset allocation.** These outlooks include tips and strategies to help you remain diversified this year. Talk to your financial advisor about how to keep your plan on track in 2022.

Volume 12:1

**February 2022**

## In this issue

Outlooks from

**AllianceBernstein**  
**AXA Investment Managers**  
**BlackRock**  
**Capital Group**  
**Diamond Hill Capital Management**  
**Franklin Templeton**  
**GAMCO Asset Management**  
**GQG Partners**  
**Invesco**  
**J.P. Morgan Asset Management**  
**PIMCO**  
**State Street Global Advisors**  
**T Rowe Price**  
**Westfield Capital Management**

"Equitable Investment Management" is the brand name for Equitable Investment Management Group, LLC, a registered investment adviser. Equitable Investment Management is a wholly owned subsidiary of Equitable Financial Life Insurance Company (Equitable Financial) (NY, NY) and an affiliate of Equitable Advisors LLC, (member FINRA, SIPC), a registered broker/dealer (Equitable Financial Advisors in MI and TN), and AllianceBernstein (AB).



## AllianceBernstein

### Global Forecast

#### Forecast Overview

##### Key Assumptions

- **COVID-19:** the omicron variant will extend supply disruptions, keeping prices elevated for now.
- **Fiscal policy:** fiscal policy is unlikely to provide a pro-growth impulse in most jurisdictions as inflation concerns predominate.
- **Monetary policy:** central bankers have pivoted toward tighter policy, moving in that direction until inflation eases.
- **Secular backdrop:** long-term demographic trends remain unfavorable and populism is likely to impact policymaking.

##### Central Narrative

- **Global growth:** robust early in the year but likely to decelerate as tighter fiscal and monetary policy bite later.
- **Inflation:** elevated for the first part of the year but likely to come off the boil in the second half of the year.
- **Yields:** gradually moving higher, but slower growth and inflation to keep yields historically low throughout the year.
- **USD:** stronger against the euro and the yen, where monetary policy will be slower to react. Mixed to weaker against other currencies.

##### Key Upside Risks

- If inflation falls faster than expected, central banks may not need to tighten much.
- A transition to a durable world in which COVID-19 is endemic not pandemic could reduce economic headwinds.

##### Key Downside Risks

- Tighter monetary policy could bite harder than expected.
- A more pernicious COVID-19 variant could undo much of the progress made in the last year.
- Political sclerosis in the US.

#### Growth and Inflation Forecasts (Percent)

	Real GDP Growth		CPI Inflation	
	2022	2023	2022	2023
US	3.4	1.9	2.7	1.9
Euro Area	4.3	2.2	2.5	1.8
Japan	3.2	2.0	1.0	1.0
China	5.3	5.4	1.9	2.3
Global	4.1	3.0	3.2	2.5
Industrial Countries	3.7	2.1	2.5	1.8
Emerging Countries	4.7	4.5	4.3	3.6
EM ex China	4.1	3.7	6.5	4.9

## AXA Investment Managers



### ***The fight against climate change to boost growth (for now)***

*Gilles Moëc AXA Chief Group Economist, Head of AXA IM Research*

We think it has become impossible to elaborate a macroeconomic outlook without taking into account the impact of the fight against climate change.

COP26 [Note: The U.N.'s most recent climate summit] has not delivered enough. The intermediate targets pledged by the governments for 2030 are still consistent with an average rise in temperature of 2.4 degrees by the end of the century according to Climate Action Tracker (2021, November). With the exception of the deal on methane, which will create new constraints for the oil & gas industry, and possibly the deforestation, none of the announcements in Glasgow have any tangible impact on corporate behaviour, and hence on economic activity. The most glaring hole is the failure to make progress towards carbon pricing at the global level. Indeed, investors and corporates need visibility on the future trajectory of carbon price.

Still, it would be wrong to consider that the fight against climate change is not already having an impact on the economy. It is often seen as a cost. But the notion of cost is ambiguous when it comes to decarbonising the world. An essential part of the process is to reallocate capital towards the sectors and businesses which are transitioning to a net zero economy. This may result in some destruction of capital in the sectors and firms which did not adapt, but GDP cares only about gross investment. And the investment effort needed to get to net zero is going to be massive and is becoming tangible. Thanks to the Next Generation EU programme coupled with national initiatives, we can expect an investment effort of between 2 and 6% of GDP in the key countries of the Euro area between now and 2026 towards the fight against climate change.

## BlackRock



### ***Thriving in a new market regime***

We are entering a new market regime unlike any in the past half century: We see another year of positive equity returns coupled with a down year for bonds. The powerful restart of economic activity will be delayed - but not derailed - due to new virus strains, in our view. Central banks will start to raise rates but remain more tolerant of inflation. We see inflation settling above pre-COVID trends - we're going to be living with inflation. We favor equities over fixed income as a result, but have dialed back our risk-taking given the wide range of potential outcomes in 2022.

We see 2022 heralding a new regime by delivering global stock gains and bond losses for a second year - what would be a first since data started in 1977. This unusual outcome is the next phase of our new nominal theme that is still playing out: Central banks and bond yields are slower to respond to higher inflation in the powerful restart than in the past. That should keep real, or inflation-adjusted, bond yields historically low and support stocks.

The big change in 2022: Central banks will be withdrawing some monetary support as the restart does not need stimulus. We see more moderate equity returns as a result. We expect the Fed to kick off rate hikes but remain more tolerant of inflation. The Fed has achieved its inflation target, so its interpretation of its employment mandate will determine the timing and pace of higher rates. The European Central Bank, facing a weaker inflation outlook, is likely to stay even easier on policy. We had flagged inflation - and now we're Living with inflation. We see inflation settling at levels higher than pre-COVID even as supply bottlenecks ease.

Source: BlackRock Investment Institute

## Capital Group



### *Bonds can still do well in rising rate environments*

Markets expect rate hikes to begin in 2022. That makes some investors nervous. However, the Federal Reserve's communications and desire not to disrupt markets suggests a measured hiking approach, like last time around. Longer term bond yields are likely to rise at a modest pace, with persistent demand from sources such as non-U.S. investors and pension funds.

But what do rising rates mean for bonds? Consider the last seven hiking periods. The core bond benchmark, the Bloomberg U.S. Aggregate Index, declined in only two of those periods and averaged a nearly 4% return. Those two periods, with low single-digit losses, were also a far cry from the double-digit corrections stocks often experience.

Core bond funds provide a critical function in a balanced portfolio. First, they offer diversification from equities. That is especially important at a time when the stock market is hitting new highs. Uncertainties, such as slowing global growth, an unknown COVID trajectory and a weaker Chinese economy, could result in heightened volatility. Active core bond managers can work to identify bonds with maturities that could hold up relatively well should rates drift higher. They can also invest in Treasury Inflation-Protected Securities to combat rising prices. It is important as ever to maintain a strong core bond allocation.

Source: [capitalgroup.com](https://capitalgroup.com), Outlook 2022 Edition

## Diamond Hill Capital Management



### *2022 Market Outlook*

Vaccination progress around the globe has enabled economies to reopen, leading to sharp recoveries in many countries. While we expect the recovery to continue in 2022, an uptick in coronavirus cases due to new variants, supply chain issues and higher costs may slow the earnings recovery for many businesses. In some areas, price increases due to short-term supply/demand imbalances will eventually prove transitory, while others may persist for a longer period. Wage inflation is one area we are keeping an eye on.

The sharp economic rebound in the U.S., along with continued stimulus, wage growth and instances of supply/demand tightness, have resulted in elevated inflation levels. To the extent this is sustained, rising inflation and the higher interest rates that may come with it could be a headwind for equity markets and are risks we are monitoring closely.

Although economic stimulus remains high, it is starting to diminish as the recovery persists. President Biden and Congress are having difficulty agreeing on the details of new fiscal spending measures, including the Build Back Better Act, while the Fed has started to taper and is prepared to raise interest rates multiple times in 2022 if inflation remains elevated.

## Franklin Templeton



### *Implications For Multi-Asset Investment Strategy*

We continue to favor equities over bonds into 2022, as corporate earnings generally remain healthy, indicating that businesses have been able to preserve profitability by passing rising input costs on to customers. This has been facilitated by high demand and demonstrates how certain inflation is not necessarily bad for equities.

If margins remain robust throughout 2022, equity markets could strengthen further as inflation normalizes. On the other hand, elevated valuations, relative to historic levels, could come under pressure if high expectations for earnings performance are not met. The ongoing threat from new variants of COVID-19 is one risk that could certainly suppress earnings, particularly if governments choose to act cautiously. Lockdowns and travel restrictions of greater or lesser severity will all serve to disrupt business activity and affect consumer sentiment.

One interesting consideration is how inflation has impacted industry sectors differently, notably around wage growth, in an environment where increasing wages reduce earnings per share. We have observed that rising wages are having a greater impact on companies with lower-paid workforces such as transportation and food retail, so we will be factoring this data into our equity investment decisions during 2022.

Elsewhere, the U.S. Treasury yield curve is no longer steepening, which is a good indicator that the bond market is pricing in a peak for inflation. We believe this confirms our preference for equities, and given the risks attached to persistent inflation, we will maintain most of our fixed income holdings in short-duration bonds with lower interest-rate sensitivity. Such a stance signifies meaningful yield is difficult to achieve, although that can be addressed, in our view, by investing in high-yield corporate bonds which offer significant carry over U.S. Treasuries with an attractive risk-return profile. Cash and short-term U.S. Treasuries also play an important role in our investment strategy, offering protection against the elevated volatility expected as a product of monetary policy normalization.

## GAMCO Asset Management



### *Interest Rates*

In response to price levels above its 2% target, the Federal Reserve has quickened its taper of bond purchases and signaled three rate hikes in each of 2022 and 2023 before reaching its desired neutral rate of 2-2.5%. Re-nominated Chairman Jerome Powell will need to run the gauntlet between dampening inflation, avoiding recession, supporting demand for \$29 trillion in government debt (every 1% increase in rate is \$290 billion more interest expense!) and pleasing the political class as well as the bond vigilantes. The current 1.4% yield on the 10-year Treasury bond is low not only compared to history, but also versus the 2.3% it averaged during the ten years between the Great Financial Crisis and COVID. As a practical matter, a departure from near-zero short term rates makes the purchase of goods marginally more onerous and many heretofore loss-making businesses will face the discipline of a higher cost of capital. In theoretical terms, higher interest rates make cash flows in the future worth less, taking some of the air out of the stock prices of some growth-at-any-cost companies.

---

## GQG Partners



### *As stimulus abates, inflation lingers, companies are left to stand on their own*

The emergency policy responses enacted during the depths of the COVID crisis have been accretive to economic growth and asset prices. While we continue to be encouraged by the incremental improvement in economic growth and corporate earnings, we must be cautious as policy shifts to combat inflation, and asset prices and economic growth will have to operate without its assistance. Corporations will face the pressures of both inflation and rising rates on margins and earnings at a time when rising rates can weigh on multiples. In light of this, we believe it is prudent to taper down valuations within portfolios without forgoing our quality bias. What we mean by this is that our portfolio P/Es have come down below the benchmark, but the earnings growth outlook for our portfolio is still above the benchmark. Essentially, we're paying a below market rate multiple for above market rate growth at a point in time where financial markets and global economies are transitioning from emergency policy responses and attempting to stand on their own two feet. We believe this is a prudent form of risk management and that it will likely put us in a strong position to both protect and compound our client's capital moving forward.

---

## Invesco



### **2022 Investment Outlook**

Following dramatic fiscal and monetary policy moves in 2020 and 2021, the stage is set for 2022 to be a year of transition as policies and economies move toward a more normal state. However, issues remain that will likely define the economic and market environment, including continued supply-chain disruptions and an upsurge in demand that threaten to keep inflation high across many economies. For 2022, our outlook is centered on the question of inflation and how markets and policymakers may react to it.

### **Our Base Case**

We expect global growth to normalize, remaining above its long-term trend but decelerating to a more sustainable rate as fiscal stimulus is gradually removed. We anticipate that inflation will peak in mid-2022 and then start to slowly moderate, backing down toward target rates by the end of 2023 as supply chain issues resolve, vaccination levels increase, and more employees return to the workforce. We look for the Federal Reserve (Fed) to remain patiently accommodative, with a rate lift-off in the back half of 2022, although other developed countries' central banks might act more quickly. Finally, we expect volatility will increase as markets digest the transition to slower growth and a gradual tightening in monetary policy.

### **Transitory Inflation Risk**

In our transitory inflation risk scenario, current inflation fears prove to be overblown, with inflation gradually coming off its current highs towards something close to or below 2%. We see growth higher than normal in this environment, ultimately pointing to economies being earlier in the cycle than we currently judge them.

### **Persistent Inflationary Risk**

In our persistent inflationary risk scenario, developed central banks' messaging fails to convince markets that inflation is transitory, with further elevated prints throughout 2022. We see the problem as stemming from a combination of elevated demand driven by past monetary expansion and supply-side disruptions. This causes inflation expectations to become unanchored, with medium-term expectations rising above the 4% mark persistently. This would signal a loss of credibility for those central banks, requiring action that prompts a significant risk of ending the current economic cycle.

## J.P. Morgan Asset Management

### *Eye on the Market Outlook 2022: Reflation Endgame*

For the S&P 500, we expect 10%-14% earnings growth in 2022 as trend growth returns and as the Fed begins to raise rates. P/E multiples should contract as this occurs, delivering total returns of 7%-10% including dividends. In other words, another version of 2021 when earnings rose by 36% and P/E multiples fell by 6.1%. If this were to occur, it would be the 16th year out of the last 20 in which stocks outperform bonds, during which time cumulative returns on stocks and bonds have been 697% and 111%, respectively. Increased buybacks and dividends should help; U.S. companies have a lot of spare accumulated cash.

Despite rising labor, intermediate goods and raw materials costs, S&P 500 profit margins defied expectations in 2021 and rose vs pre-pandemic levels (12.3% in Q3 2021 vs 11% in 2019). Many companies simply passed cost increases on to consumers. Profit margins in the national accounts (all private and public companies) rose as well to record highs in 2021. We think input cost increases will be harder to pass along in 2022, and margins may fall by 1% or so back to 2017-2019 trend levels.

Be prepared for intermittent selloffs, since market internals are less favorable than they were last spring:

- Young and unprofitable companies make up the largest share of market cap since 1999; Bridgewater estimates \$200 bn in “YUC” supply in 2022 from primary/secondary issuance and insider lockups expiring
- There were a lot of highly valued, crowded-trade stocks which fell by 35% or more in 2021, which is unusual for a year when market returns were ~25%; another development we have not seen since the late 1990’s
- A rising number of companies are now more sensitive to changes in liquidity conditions and monetary policy than their counterparts that are more sensitive to changing economic growth
- There’s a high concentration of S&P 500 market cap and total return that is reliant on a handful of stocks
- Signs of weakness in momentum/liquidity plays (fintech, renewable energy, IPOs and SPACs)

## PIMCO

### *Cyclical Outlook*

- Peak fiscal policy support, and therefore peak real GDP growth, was likely realized in 2021, and the global economy now appears to be rapidly progressing toward late-cycle dynamics. Monetary policy in most regions has shifted course toward normalization.
- Frictions in both goods and labor markets have spurred inflation. Our base case has global inflation peaking by the first quarter and then moderating closer to central bank targets by the end of 2022, and we are closely monitoring upside risks to that view.
- Risk premiums and yields don’t reflect potential downside scenarios, in our view, which warrants caution and a rigorous approach to portfolio construction.
- We generally favor a duration underweight relative to the benchmark, and look to position portfolios for a steeper yield curve. Given the likelihood for higher volatility, we anticipate active duration management to potentially be a more significant source of alpha than in the past.
- We seek credit exposure from diversified sources, including non-agency U.S. mortgages, select COVID-19 recovery themes, and single-name opportunities. We have a constructive view on global equities, but are preparing for late-cycle dynamics, with greater focus on security selection.

P I M C O

**State Street Global Advisors**

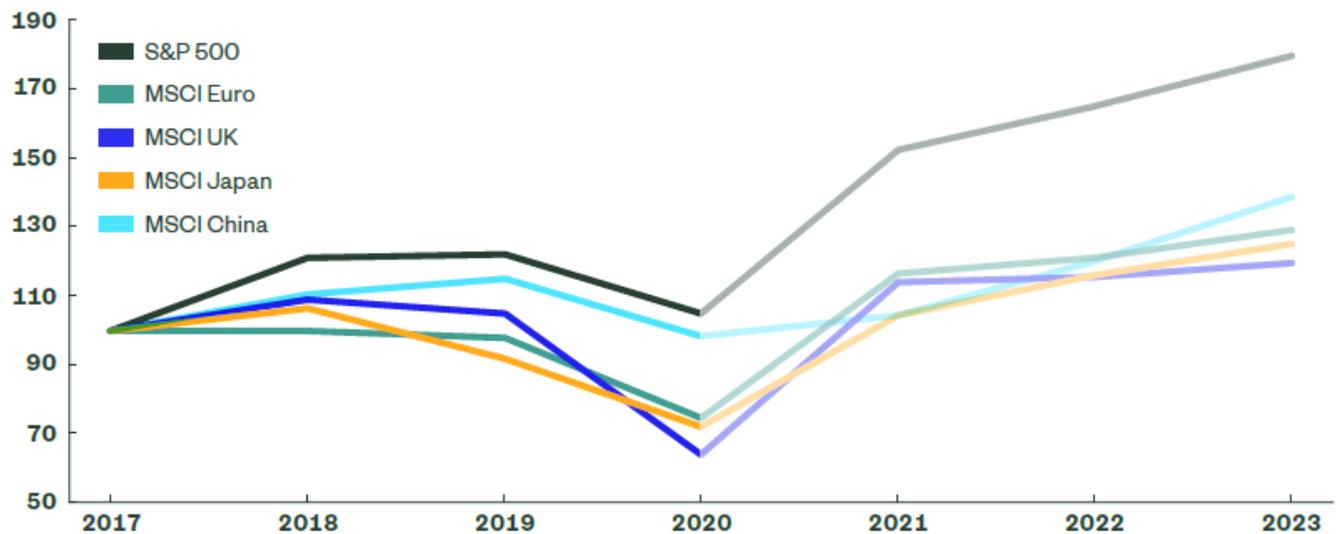
**STATE STREET  
GLOBAL ADVISORS**

*European equities are in a sweet spot*

U.S. stocks have led global equity performance for years – but we believe Europe may pull ahead in 2022. In the search for reasonable bargains and strong return potential, we think European equities will represent a find in the coming year. European stocks offer potentially attractive valuations relative to their U.S. counterparts. The current price-to-earnings discount for MSCI Europe is below 10-year averages, and relative earnings per share (EPS) and relative prices for European stocks compare quite favorably to the same measures for U.S. stocks (see source below). Furthermore, European equities currently boast the strongest earnings and growth expectations across developed markets. If our expectations for U.S. equities exceeded those for Europe in the past, those expectations were based in part on anticipated earnings. With earnings growth in Europe now expected to outstrip the U.S., we think equity markets are poised to catch up.

**Europe Currently Boasts the Strongest Earning Expectations within Developed Markets**

Earnings Growth Expectations, Rebased to 2017



Source: State Street Global Advisors, FactSet, S&P, MSCI, as of November 2, 2021

Projected characteristics are based upon estimates and reflect subjective judgments and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

## T Rowe Price

### Growth Delayed, Not Derailed



Investment Idea	Rationale	Examples
Balanced View on Equities	Global economic growth could slow but should remain relatively strong. Inflation is a headwind. This suggests a broadly cautious approach, which could favor durable businesses with reasonable valuations.	<ul style="list-style-type: none"> <li>Modest Equity Underweight</li> <li>Tilt Toward Quality Cyclical</li> </ul>
Shorter-Duration Fixed Income	Elevated inflation and central bank tightening could make longer-duration bonds unattractive. Shorter-duration bonds could help reduce portfolio volatility. Inflation-linked securities adjust to keep pace with inflation.	<ul style="list-style-type: none"> <li>Shorter-Duration U.S. Treasury Inflation-Protected Securities (TIPS)</li> <li>Global Inflation-Linked Bonds</li> <li>Underweight Long U.S. Treasuries</li> </ul>

For illustrative purposes only. This is not intended to be investment advice or a recommendation to take any particular investment action.

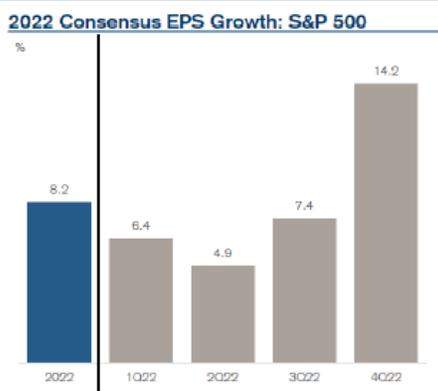
## Westfield Capital Management



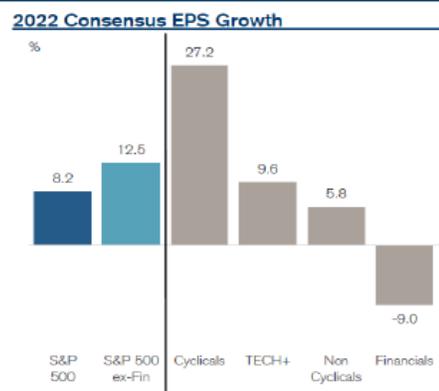
### Earnings Need to Come Through for Stocks to Push Higher

- Earnings and valuations are going to be more important than ever with interest rates and inflation moving higher.
- We expect downward pressure on multiples, and earnings need to come through for stocks to outperform.
- In our view, cyclicals remain poised to grow earnings faster than the rest of the market.

**A Return to Fundamentals: Stock Prices are Likely to Follow Earnings Growth in 2022**



**Cyclicals Look Poised to Grow Earnings Faster Than The Market**



Source: Credit Suisse as of 1/11/2022  
 Past performance is not indicative of future results.  
 Content is based on Westfield's views and is subject to change.

## IMPORTANT INFORMATION

Information provided in this newsletter is general in nature, is provided for informational purposes only and should not be construed as investment advice. The views and opinions expressed are those of the authors as of the date of their contribution, and do not necessarily represent the views of their affiliated investment advisors, Equitable Investment Management Group, LLC or its affiliates. Any such views and opinions are subject to change at any time based on market, or other conditions, and are not intended to be a forecast of future events, a guarantee of future results or investment advice. Securities and sectors referenced should not be construed as a solicitation or recommendation, or be used as the sole basis for any investment decision.

All investments contain risk and may lose value. Commodities contain heightened risk, including market, political, regulatory and natural conditions, and may not be appropriate for all investors. Investing in the bond market is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. Equities may decline in value due to both real and perceived general market, economic and industry conditions.

The correlation of various indexes or securities against one another or against inflation is based upon data over a certain time period. These correlations may vary substantially in the future or over different time periods that can result in greater volatility.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

Past performance is not a guarantee of future results. Portfolio re-balancing and diversification do not guarantee a profit or protection against loss in a declining market.

No guarantee or representation is made that investment objectives and/or opinions stated will be achieved. The experience of each specific client or investor may vary.

The information has been established on the basis of data, projections, forecasts, anticipations and hypotheses, which are subjective. These analyses

and conclusions are the expression of an opinion, based on available data at a specific date. Due to the subjective aspect of these analyses, the effective evolution of the economic variables and values of the financial markets could be significantly different from the projections, forecasts, anticipations and hypotheses, which are communicated in this material.

Take Five Views features commentary from individuals who are affiliated with investment portfolios that are available through variable life insurance policies issued by Equitable Financial Life Insurance Company of America (Equitable America) (AZ stock company, main administrative office in Jersey City, NJ), and Equitable Financial Life Insurance Company (Equitable Financial) (NY, NY), variable annuities issued by Equitable Financial Life Insurance Company (Equitable Financial) (NY, NY) and mutual fund products. AXA Investment Managers, Blackrock, Capital Group, Diamond Hill Capital Management, Franklin Templeton, GAMCO Asset Management, GQG Partners, Invesco, J.P. Morgan Asset Management, PIMCO, State Street Global Advisors, T Rowe Price, and Westfield Capital Management are not affiliated with Equitable America, Equitable Financial or their affiliates.

Co-distributors: Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI and TN) and Equitable Distributors, LLC. Equitable Investment Management Group, LLC is a wholly owned subsidiary of Equitable Financial. All companies are affiliated and, except for Equitable America, all are located at 1290 Avenue of the Americas, NY, NY 10104, (212) 554-1234.

1290 Funds is part of the family of mutual funds advised by Equitable Investment Management Group, LLC (EIM). EIM is a wholly owned subsidiary of Equitable Financial Life Insurance Company (Equitable Financial), NY, NY. Equitable Distributors, LLC is the wholesale distributor of the 1290 Funds. Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI and TN) offers 1290 Funds to retail investors.

**An investor should consider investment objectives, risks, charges and expenses carefully before investing. Obtain a copy of the prospectus at [1290funds.com](http://1290funds.com), which contains this and other information, or call (888) 310-0416. Read the prospectus carefully before investing.**

The Funds are distributed by ALPS Distributors, Inc., which is not affiliated with EIM, Equitable Financial Life Insurance Company, Equitable Distributors, LLC, Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI and TN) or the subadvisors.

**Please consider the charges, risks, expenses and investment objectives carefully before purchasing a variable life insurance policy or variable annuity. For a prospectus containing this and other information, please contact a financial professional or visit [equitable.com](http://equitable.com). Please read the prospectus carefully before you invest or send money.**

Variable Life Insurance, Variable Annuities and Mutual Funds: • Are Not Deposits of Any Bank • Are Not FDIC Insured • Are Not Insured by Any Federal Government Agency • Are Not Bank Guaranteed • May Go Down in Value

© 2022 Equitable Holdings, Inc. All rights reserved. GE-2132749.9 (2/22) (Exp. 2/24) | Cat. #164452 (2/22)



EQUITABLE