23 November 2021 Investors Banks Savings Banks

Helaba Markets and Trends 2022: All-inclusive recovery

- Economic growth in Germany to accelerate to 4 percent
- Recovery reinvented: sustainable growth the only way forward
- ECB not to raise interest rates before 2023
- A new era begins, with higher inflation here to stay
- DAX projected to reach 16,000 points at end of 2022

Having endured a severe recession in the spring of 2020, the global economy has since picked up speed despite some intermittent periods of disruption. In 2022, it is set to embark on a new journey. Helaba's Economic and Capital Market Outlook explores the questions of where this journey will take the global economy and what it will experience on the way. The baseline scenario is entitled "All-inclusive recovery". However, unforeseen turbulence could also send the economy and the financial markets on the "Worst. Vacation.Ever" (negative scenario). In our positive scenario, the world economy sets off on a "Dream Trip" that is driven by the low-carbon transformation of industry.

Baseline scenario: “All-inclusive recovery”

Probability of occurrence 75 percent

The global economy will continue along the road to recovery from the shock of the pandemic, but the rebound will be highly unusual. “Pent-up demand and accommodative monetary and fiscal policies are making huge contributions to the recovery. In other words, countries find themselves in an upturn that is underpinned by, as it were, all-inclusive stimulus packages from central banks and governments. This recovery is set to continue well into 2022 and will keep on boosting labour markets. At the same time, supply bottlenecks and increasing price pressure, which are normally late-cycle phenomena, will be accompanying us on this journey almost from the beginning”, explains Dr. Gertrud R. Traud, Helaba’s Chief Economist.

In major industrialised economies, the momentum of economic growth will remain above long-term trends. For Germany, Helaba’s economists expect gross domestic product (GDP) to accelerate from just under 3 percent in 2021 to 4 % in 2022. They expect the euro area, on the other hand, to post a growth rate of almost 4 percent and thus below that of the previous year (5.1 percent). Their forecasts call for an increase in GDP of 4 percent in the United States, following 5.5 percent in 2021.

Focus on climate change

Sustainability and the political realisation of transitioning to a zero-carbon economy will be enormous issues in Germany and elsewhere in 2022. Given the fact that public finances are, in many cases, strained to the limit and that key sectors of the economy, such as construction, are operating at full capacity, the investment needed to achieve this is fraught with potential for conflict. Faced with limited resources, the efficient and targeted use of funds should therefore be the defining criteria for any measures that are taken. In addition, decisions will have to be taken as to who should ultimately pay for the spending these policies will require. The extent to which political initiatives are effective in bringing countries closer to a more sustainable economy will be a crucial factor in 2022 in determining sentiment on the financial markets, in the overall economy as well as among the population.

Economic policy triggers greater imbalances

Fiscal and monetary policy have already exhausted most of their options in the last few years. Efforts to simulate the economy served the public well in the pandemic, but they now make it almost impossible to inject any new economic stimuli in the short term. Even if a considerable sum of money were to be spent on climate policy as soon as 2022, fiscal policy is having a restrictive effect in most industrialised countries anyway. At the same time, enormous imbalances have been created. “Because expansionary economic policies have whipped up demand to such an extent that supply simply cannot keep pace and critical shortages are now causing a surge in inflation, the likes of which have not been seen in many places for decades”, says Dr. Gertrud R. Traud.

In the euro area, consumer prices will see an average year-on-year increase of 2.4 percent in 2022, similar to the year before, while in Germany this will be slightly higher at 2.7 percent. Inflation in the United States will reach 4 percent, still above the Federal Reserve’s target.

Despite robust growth and high inflation, the world's major central banks will only proceed at a very slow pace. The Fed is not expected to raise key rates until the autumn of 2022, after it has terminated its purchase programme. The ECB will taper its bond purchases but will not make any changes to the key interest rates until 2023.

Alternatives for investors

In view of the records that have meanwhile been hit, high valuations and ongoing uncertainties, Helaba’s economists expect equity markets to trade within a corridor of 15,000 to 16,500 points amid high volatility. Therefore, if investors want to achieve attractive returns comparable to the historical average performance of the DAX of around 8 percent per annum, the key will be getting the timing right. Towards the end of 2022, the DAX should have returned to a level of around 16,000 points.

As experience has shown, **bonds** fare badly in an inflationary environment and prices are also set to fall next year. However, central banks will presumably have a moderating effect on this decline, which is likely to be kept in check. Despite this, 10-year German Bunds will depart from negative territory and settle at around 0.2 percent by the end of 2022.

Real estate will continue to benefit from extremely low interest rates. This asset class has weathered the crisis in good shape and will resume its recovery in 2022. While structural shifts such as e-commerce and the increasing popularity of working from home will act as a brake on the commercial segment, the upward trend in residential property will continue unabated with brisk demand and a shortage of supply.

Helaba's economists also forecast considerable volatility for **gold**, albeit the omens are pointing in the other direction to equities. The precious metal should be able to maintain a level of around 1,800 US dollar (1,500 euro) per troy ounce, as its hand luggage will also be carrying worries over inflation in the new year.

Negative alternative scenario “Worst.Vacation.Ever”

Probability of occurrence 10 per-cent

In the negative alternative scenario, external shocks, structural problems as well as political missteps combine to take the economy and financial markets with them on the worst vacation ever. Fixed-income securities, the US dollar and the gold price all rise while there is a major correction on equity markets. Despite the recessionary economic environment, residential real estate performs well thanks to persistently negative interest rates.

Positive alternative scenario “Dream Trip”

Probability of occurrence 15 percent

In Helaba’s positive alternative scenario, the world’s economies set off on a dream trip together. The low-carbon transformation of our societies holds out the prospect of lasting improvements. Public and private investment have seldom promised such a high "rate of return" as they do today, not only because they are ultimately the key to solving the bottleneck dilemma. Equities are the winner in this constellation, with the DAX soaring to as much as 18,000 points. Interest rates increase more strongly, whereas the gold price slumps. Due to rising interest rates, prices of residential property are not able to match the performance in the baseline scenario.

In addition to forecasts for the capital markets, the Annual Outlook also comprises 14 country analyses as well as brief reports on the German federal states of Hesse, Thuringia, North Rhine-Westphalia and Brandenburg.

Markets and Trends



watch and read online (German only)

Contact



Ursula-Brita Krück

Deputy Press Officer

+49 69 / 91 32 - 21 92

LinkedIn

Send a message