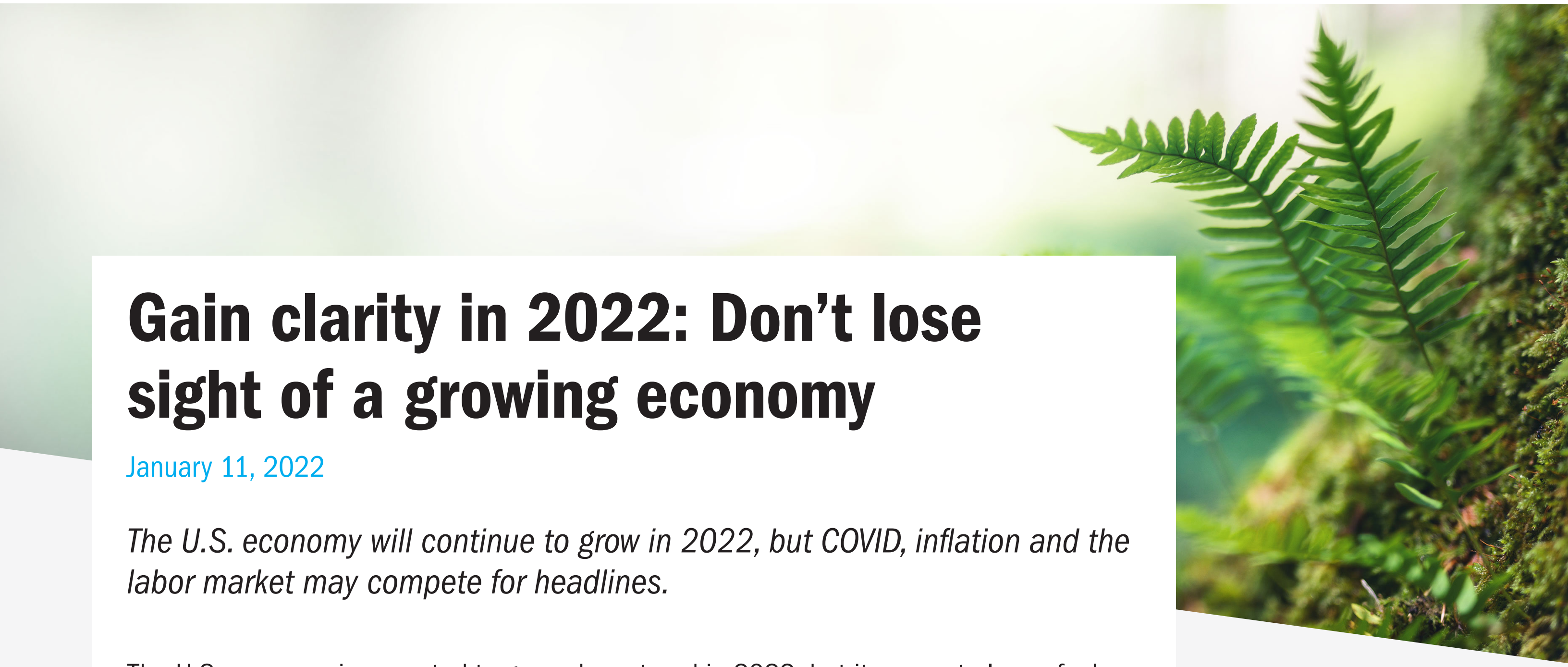

Gain clarity in 2022: Don't lose sight of a growing economy

January 11, 2022

The U.S. economy will continue to grow in 2022, but COVID, inflation and the labor market may compete for headlines.

The U.S. economy is expected to grow above trend in 2022, but it may not always feel that way. Find out why — and what we think you shouldn't lose sight of.

We are not recovering from a typical recession.
The intentional shutdown of the economy and the massive, global synchronous fiscal and monetary support have created distortions across the economy — from shifts in consumption patterns to the labor force. This has put policymakers and central bankers in uncharted waters; it's unusual to have higher-than-expected inflation alongside a labor market that's still recovering.

Global Perspectives 2022

The upcoming year is all about finding clarity so investors can concentrate on their long-term goals. Focus on insights, backed by research, as we look beyond the noise we've experienced in the past year.

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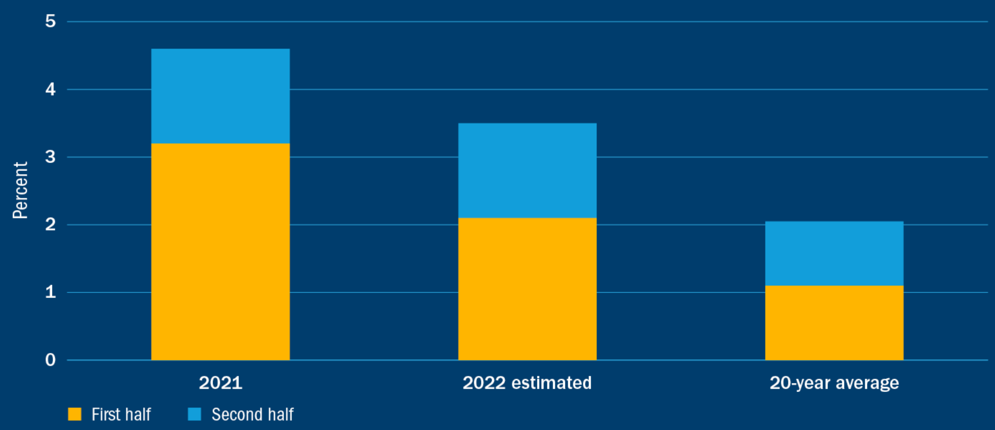
Inflation data will get worse before it gets better.
Inflation is proving to be both more persistent and higher than the Fed (and the markets) initially anticipated. Rising costs are impacting a wider set of goods and services, and the supply distortions driving this are not likely to end quickly. While the Fed wants to see some level of inflation, timing the use of its tools to control higher prices requires new surgical precision. If the various forces keeping inflation high ease next year, then the Fed can implement rate hikes in a measured fashion. This is the *Goldilocks scenario.* The differing expectations on when rate hikes may occur set the stage for higher volatility in the markets — so flexibility in portfolios will be critical. It's also important to remember that lower inflation (when it happens) will not mean lower prices for many goods (although used car prices may fall). The price gains that we've seen for many products will continue to be a reality and may create an even greater need for retirement income.

Pay attention to the labor market if you want to understand the Fed's plan for interest rates.
The central bank famously has a dual mandate: stable prices and maximum employment. While the Fed's inflation target for a rate hike has already been met, the usually reliable labor market dynamics are much harder to discern. Sector-specific labor shortages are creating distortions in wage gains. Meanwhile, the Fed's new maximum employment mandate isn't well understood. We know that the central bank is looking beyond the headline unemployment rate at measures such as labor force participation, but it's unclear how maximum employment is measured. Given that the Fed has stated that both its inflation and employment goals must be met for it to hike rates, it will be important to listen to the language on labor (rather than a magic data point); if we see continued inflationary pressure and improvement in the labor market, we may see a much swifter pace of action — even if the central bank expects inflation to eventually moderate.

A decelerating growth environment is still a growth environment.
Amid the concern around inflation, lower fiscal spending, the supply chain and higher energy prices, it can be easy to lose sight of the fact that the U.S. will continue to grow in 2022, and that growth will likely be above the long-term trend. The U.S. is still a consumer-led economy, and we expect consumer demand to stay strong as we enter the new year. The strong labor market and healthy consumer balance sheets will be helpful, so keep an eye on these measures. Historically, above trend growth has been a good environment for risk assets like equities.

2022 GDP growth is expected to be strong in the first half of the year and above its 20-year trend



As of January 2022. Source: Columbia Threadneedle Investments. Because of the pandemic-related extreme distortions in data in the first half of 2020 (–10.1% GDP growth), data for that period has been excluded from the 20-year average.

In 2021, we knew the Fed would stay accommodative. We don't have that certainty in 2022.
For the markets, the flood of supportive programs introduced during the pandemic had the beneficial effect of lifting nearly all assets. As that support is withdrawn, there will be clear winners and losers. The shift from risk on to risk off can happen dramatically, and investors will need to stay nimble in their portfolios. This makes the case for employing active managers and possibly a model portfolio that can make quick tactical shifts accordingly.

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