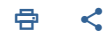


Active is: Anticipating what's ahead  
**2021 mid-year outlook**

The economic outlook is positive at the mid-year point, thanks in large part to the significant economic stimulus packages over the past year, but all this growth may come at a price.



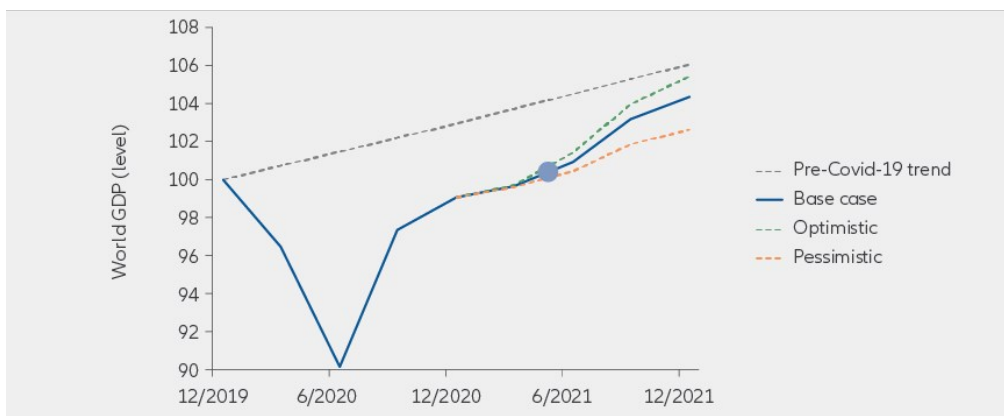
# What's ahead for the rest of 2021?

Overall, economic growth has returned forcefully after last year's severe pandemic-related slowdown, bringing a boost to capital markets – though growth will likely remain below the pre-pandemic growth trend for years (see chart). While the Covid-19 crisis isn't over, vaccines are helping some parts of the world turn the corner and the hope is that pandemic risks will decrease as the year progresses. This boom in the economy and markets comes at a potential price – not least a rise in inflation. Investors will also need to navigate uneven levels of economic growth across countries and sectors. And with diverging amounts of fiscal and monetary stimulus around the world, policymakers are responding in a way that investors will want to factor into their strategies.

**Investment implications**

- A spike in inflation this year – and potentially beyond – makes it important to preserve purchasing power with additional sources of return.
- The recent jump in inflation was a major factor behind the US Federal Reserve's decision to implement small rate hikes in 2023. The market has also been expecting the Fed to start "tapering" its bond-buying, probably in 2022. Both these moves could trigger some volatility depending on how they are managed by the Fed.
- We still have a bias for risk assets – albeit with some caution. As such, we don't think investors should "de-risk" their portfolios, but rather consider a more neutral position along the risk/return spectrum – at least for the short term.

**Despite a sharp rebound, global growth is below the pre-Covid trend – which was already subdued**  
GDP forecast (2020-2021)



Source: Bloomberg, Allianz Global Investors. Data as at May 2021.

Listen to Head of Global Economics and Strategy [Stefan Hofrichter](#) discuss our mid-year global economic outlook, including his views on growth, inflation, productivity, labor shortages, supply issues, demographics and more. Also: Stefan contextualizes his forecasts in terms of portfolio positioning and available opportunities in the current fluid environment.

## Key takeaways for investors



Keep an eye on inflation



Setbacks in Chinese equities are opportunities



Sustainable investing is the new standard

### In this “lower for even longer” environment, keep an eye on inflation

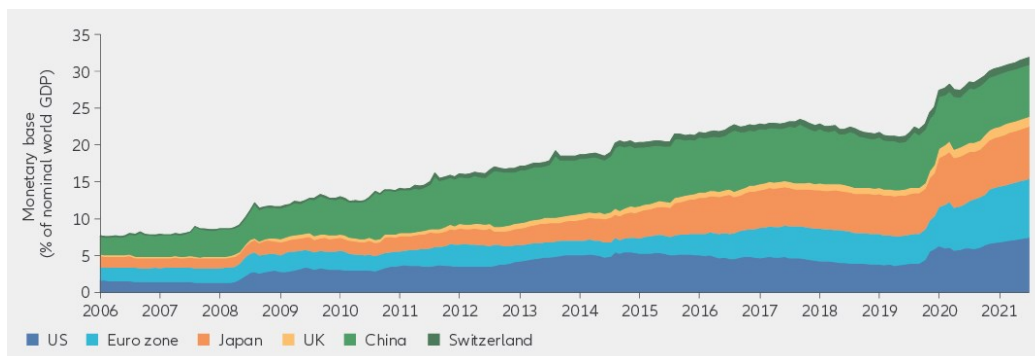
Governments and central bankers dug deep in their pockets to address the Covid-19 crisis, and economic stimulus will continue to be a major factor for financial markets in the second half of 2021. It will likely be lower than the record-setting levels implemented last year, and some emerging markets are expected to raise interest rates. Still, stimulus will likely keep flowing in developed markets – particularly in the US. This is raising concerns about “nanny capitalism”, with central banks effectively beholden to their governments by funding this spending. Major central bank balance sheets are at all-time highs and rising (see chart).

One consequence of this stimulus has been a notable spike in inflation that started in the second quarter. The Fed has already reacted by announcing small rate hikes in 2023, and other central banks could follow. But we continue to believe that over the long term, real interest rates (which are adjusted for inflation) will stay low compared with their long-term averages. That’s because economic growth is also likely to stay low, and economic growth and interest rates historically track each other relatively closely.

#### Investment implications







- **Fixed income.** We have a bias for keeping durations short. Many bonds are expensive, including sovereign, investment-grade and high-yield debt. If bond markets get nervous about inflation and central bank action, yields may rise (and prices fall). Investors will want to manage their positions actively in this environment, but lower prices may also present an attractive opportunity. Income replacement will continue to be a challenge in today’s low-yield environment.
- **Equities.** Central bank liquidity and a general “risk-on” attitude have pushed up the prices of equities. US stocks are expensive – perhaps they’re even in bubble territory – but could move higher in the near term. European and Asian equities are cheaper. We favour the value style of investing over growth but, in the long run, tech stocks have an important role to play. Focusing on companies that emphasise sustainable business practices – including environmental, social and governance (ESG) issues – can help investors navigate a possibly bumpy road ahead.
- **Risk management.** Consider agile risk management strategies. In a low-yield environment, many investors acknowledge that they will need to take more risk to achieve their objectives. The key is to take this risk in a managed way.

**Central banks have ramped up already massive asset purchases**  
Monetary base (bank reserves + money in circulation) as a % of GDP



Source: Bloomberg, Allianz Global Investors. Data as at May 2021.

# Our 2021 mid-year regional outlooks

 <b>United States</b>	▼
 <b>Euro zone</b>	▼
 <b>United Kingdom</b>	▼
 <b>China</b>	▼
 <b>Japan</b>	▼
 <b>Emerging markets</b>	▼

[DOWNLOAD OUR FULL 2021 MID-YEAR OUTLOOK](#)

## Disclosure

<sup>1</sup>2022: The growth opportunity of the century, PwC

**Investing involves risk.** The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Equities have tended to be volatile, and do not offer a fixed rate of return. 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. Bond prices will normally decline as interest rates rise. The impact may be greater with longer-duration bonds. Credit risk reflects the issuer's ability to make timely payments of interest or principal—the lower the rating, the higher the risk of default. Emerging markets may be more volatile, less liquid, less transparent, and subject to less oversight, and values may fluctuate with currency exchange rates. Investments in alternative assets presents the opportunity for significant losses including losses which exceed the initial amount invested. Some investments in alternative assets have experienced periods of extreme volatility and in general, are not suitable for all investors. Environmental, Social and Governance (ESG) strategies consider factors beyond traditional financial information to select securities or eliminate exposure which could result in relative investment performance deviating from other strategies or broad market benchmarks. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is used only as supporting material to the offshore investment products offered by commercial banks under the Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of his document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional/professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP (Australian Registered Body Number 160 464 200) is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors Distributors LLC, distributor registered with FINRA, is affiliated with Allianz Global Investors U.S. LLC; Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424, Member of Japan Investment Advisers Association and Investment Trust Association, Japan]; and Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan.

**Our firm**

- Career
- What we do
- Our history
- Our culture
- Inclusion & diversity
- Corporate responsibility
- Our experts
- Our leadership team
- Our offices

**Insights**

- Allianz Global Investors Academy
- Outlook & commentary
- The Investment Intelligence Podcast
- A new investment era
- Growth. The China Way.
- Don't downsize your dreams

**Capabilities**

- Alternatives
- Equity
- Fixed Income
- Multi Asset
- Sustainable Investing
- Development Finance
- Research
- risklab

**Press centre**



Allianz Global Investors is comprised of the [AllianzGI Affiliated Entities](#) worldwide. Product availability will vary by jurisdiction.