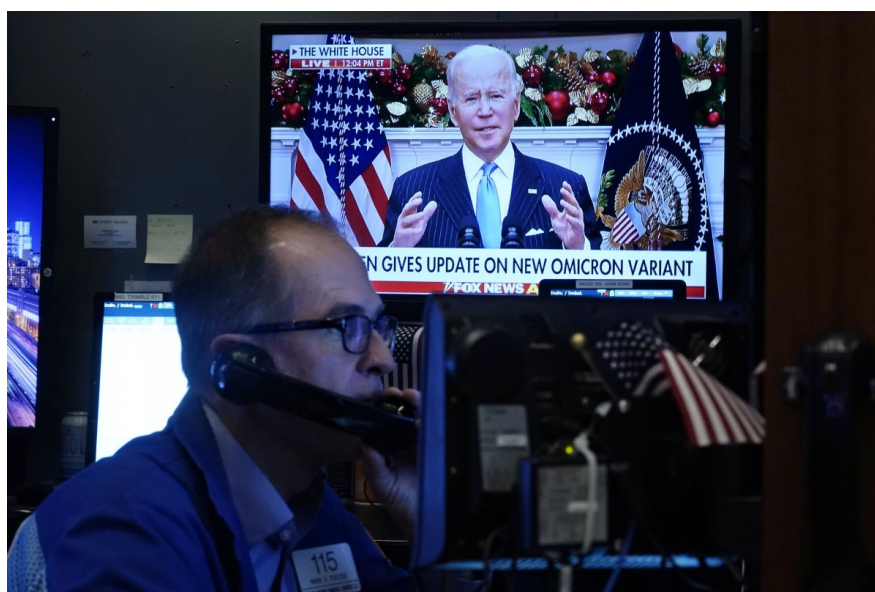


Three calls for the US

Inflation, the Fed and political pressures will dominate the United States' economic trajectory next year



President Biden giving a TV update seen on screens in the New York Stock Exchange

1 Inflation to stay above 3% throughout 2022

Supply chain strains, labour market shortages and the arrival of corporate pricing power have pushed inflation to a 30-year high. The Federal Reserve expects these influences to fade through 2022, but we are not so sure. Firms have millions of job vacancies to fill so competition to find workers with the right skill set will remain intense. Demand-supply issues are a global phenomenon with semiconductor producers warning shortages could last through 2023. In an environment of strong demand, record order backlogs and ongoing supply constraints, cost increases can continue to be passed onto customers.

2 Federal Reserve to act harder and faster

Omicron obviously warrants caution, but our base case remains for a strong year for economic growth as income and wealth gains propel consumer spending. Together with strong private and public investment growth, and the desire to boost inventory levels, 4%+ GDP growth is achievable. With inflation likely averaging something similar, the case for an early end to QE and a minimum of two interest rate increases looks strong.

Biden's Blues

The Democrat party is already looking nervously towards next November's mid-term elections. Despite overseeing a strong economy, rising asset prices and delivering a major infrastructure plan, President Biden's approval rating is deep in negative territory. Lingering Covid worries and growing voter anxiety over the rising cost of living mean that the Democrats are lagging well behind Republicans in national polling. All members of the House of Representatives are up for re-election, as are 34 of the 100 seats in the Senate (14 of which are currently Democrat, 20 Republican). Should the Democrats lose control of Congress, President Biden's legislative aspirations for the second half of his term will be curtailed and he would be forced to focus more on trade policy and international relations.

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