

Crystal gazing economic trends of 2022!

The year 2021 has proven to be like the *Samudra Manthan* in Hindu history, according to which the churning of the ocean of milk released both Amruta (sweet nectar of life) and the *Halahala* (lethal poison). On one hand, the year saw the lethal second wave of covid and on the other hand, a never-seen-before buoyant capital market. In this article I have attempted to summarise the closing economic trends of the year which will have a bearing on 2022. To do so I will also draw upon my recent conversation with Stephen Pagliuca, Co-Chairman of Bain Capital at the Annual Convention of FICCI. Steve has a vast experience as a senior private equity investor and an in-depth understanding of markets and geopolitical equations across countries.

No economic discussion can happen without assessing the situation in the USA. Post the GFC in 2008 and the recent pandemic, the FED followed a liberal monetary policy and pumped in a lot of liquidity in the market. While this indeed helped overcome the immediate crisis and revive the economy, there have been inflation concerns. And now, the Fed is tightening the monetary policy as the inflation has been on the rise. However, as FED looks at increasing interest rates to rein in inflation, high national debt would be another area for it to look at. While in the short term, the outlook is good, a higher national debt at higher interest rates could be a concern for the US. Personally, I don't believe that the FED will allow interest rates to go up much as it will impact the US budget. Therefore, for the long term, the FED will have to figure out how to get back to regular money supply and at the same time balance the budget.

It is said that when the US sneezes, the world catches a cold. As the FED tightens monetary policy and as the liquidity recedes, there will be a cascading impact on emerging markets like India. We have seen this play out in 2013. It would have a bearing on the flow and valuations in our market which has in recent times been at an all-time high. We have already seen the markets soften in the last couple of weeks. However, the Indian corporate earnings have been quite robust. Therefore, the Indian markets by themselves should remain attractive and a global favourite.

The next largest economic giant, China, is going through phenomena unknown to it in the recent history – economic slowdown, property downturn, weakening exports and a seemingly big focus on income and wealth redistribution. The country has been the largest trade partner of the US and many other countries for last 30 years. Even before the pandemic, a dislocation in China's trade was being observed. The pandemic has accelerated the process and most global corporates are now exploring a China+1 policy for their needs. All these factors put together are leading China towards a new normal – a China which could be economically very different from what it has been in the last three decades.

As we know, economics and geopolitics go hand in hand. The current dynamics between the US, Russia and China and their bilateral relations are shaping the global geopolitical and economic situation. Till a few years back, the world had moved towards a very lop-sided global trade where some countries had bulk of the global trade share. This had already led to conversations of balancing trade relations. And then the pandemic pushed everyone to look inwards to promote domestic manufacturing and towards self-reliance, impacting global trade itself. Now with the pandemic hopefully receding, global trade is coming back. Once again, there will be a need for a more balanced global trade. In this situation, China-US relationship will be a big influencer. China is also the largest holder of US Treasury bills which will also be a matter of importance. Given the significant trade, business to business relationship and deep economic interests between the two countries their overall relationship will have to reach an equilibrium.

Our Views

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With the evolution of new age technologies and tech driven businesses, majority of the countries have introduced or are in the process of introducing stringent data privacy and cyber security requirements, equating it with national security. In some cases, even listing of companies in other countries is being questioned on account of security concerns. China has mandated some of its technology companies to delist from the US market due to data security apprehensions. While data privacy and cyber security are important areas to be diligently dealt with, taking it to another extreme calls for caution. In the coming years, some sort of balance on this front will need to be arrived at.

Another trend that will dominate in 2022 will be crypto and intense conversations around its regulation. Also, crypto and its linkages – blockchain as a technology, coins as currency or assets, and Web 3 – will have to be understood better. Web 3 is expected to be the next version of internet where services will run on blockchain. The present Web 2 operations are controlled by select tech giants, whereas Web 3 is likely to be decentralised with data distributed across networks and no single entity owning the information.

Amongst all this, I would think that India is well positioned to attract global trade with the various government incentives to promote manufacturing. Foreign investments should continue to flow in given that today Indian corporates have governance of global standards, boards with strategic focus, and a good talent pool to lead growth. The overall economic scenario in the country should remain positive with domestic demand continuing to be robust given that India has the world's largest middle class. Additionally, the various structural reforms should also boost growth.

<https://economictimes.indiatimes.com/markets/stocks/news/economic-trends-that-may-dominate-the-minds-of-investors-in-2022/articleshow/88372242.cms>

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