



## 2022 fixed income outlook

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It'll be important to take an active approach in 2022 because the margin for error is smaller. With central banks no longer easing and fiscal policy a headwind, not to mention lower yields. There can be sources of volatility throughout the year. And an active approach will allow investors to take advantage of opportunities and also avoid potential pitfalls along the way.

From a high level we think that investors need to be more cautious, even though the economic backdrop is strong. We're moving from a recovery phase into a traditional expansion phase of the business cycle. This is one where investors should focus on corporate bonds with better fundamental balance sheets, but not be focused on price gains, unless there are specific situations like credit upgrades that are in play.

In an environment of waning monetary support, we can't be relying on price gains to drive total return. We have to be thinking about preserving the price stability that we have and really focusing on income generation. So focusing on shorter maturity bonds, really focused on that price stability is going to be key.

The two most fundamentally strong positioned balance sheets going into 2022 are the consumer and the corporation. On the consumer side, we are seeing improving incomes, particularly at the intermediate and lower level. And that supports consumer investments, including asset backed and mortgage-backed securities. On the corporate side, we're talking about corporate bonds, both high quality and riskier corporate balance sheet. Now in general, we expect high yield default rates to be exceptionally low in 2022. This should support the outlook for corporate fixed income investing.

There are a few things that stand out from a global perspective as we look into 2022. First, we see a stronger growth backdrop in the U.S., relative to other European markets and also Asian markets, where we see countries like China really slowing down. So the growth advantage in the U.S. is clear. The other thing that stands out, is that the corporate balance sheet repair story has been very consistent across the developed world. So both in the U.S. and in Europe, we're seeing opportunities to invest in companies who could be rising stars, or see credit upgrades.

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