

The World Gets a Shot in the Arm

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SEI recently released its fourth-quarter Economic Outlook. A summary of the conclusions is provided below:

- COVID-19 remains a significant public health concern and continues to hamper the global economy. The successful production and delivery of vaccines will be the two most important factors that determine the pace of economic recovery in 2021.
- Economic activity in the U.S. has continued to improve from April's low and is now 2.5% off its year-ago level (implying that the economy is still operating almost 5% below capacity).
- The economic rebound was driven by three factors. First, a large portion of the U.S. population has been able to continue working and shopping virtually. Second, manufacturing and construction experienced strong recoveries. Third, income-support programs and the emergency lending facilities were successful in preventing a downward self-reinforcing spiral in consumption and employment.
- There is fear that U.S. business activity could be throttled by additional lockdown orders during the first quarter. However, investors are looking beyond the valley. The promise of vaccines being widely available in the U.S. and other developed countries has encouraged a risk-on, pro-cyclical posture in financial markets.
- Growth and momentum stocks were the big winners of 2020, dominated by information technology. The communication services, consumer discretionary and health care sectors were also well-represented.
- U.S. small caps performed well in November and December. Lower-quality stocks rallied, while higher-quality stocks lagged. Growth beat value in December. The roll-out of vaccines energized the rotation into cyclical stocks.
- Emerging-market equities have been on a tear since they bottomed in March, with the MSCI Emerging Markets Index soaring by more than 70%. For the year, emerging-market equities climbed by 16.4%.
- At the start of 2020, the 10-year U.S. Treasury bond yielded 1.9%. It currently yields just under 1%, which is still below the likely future rate of inflation. While it seems sensible to predict further increases in bond yields, there is the possibility that the Federal Reserve will actively suppress that rise via quantitative easing and yield-curve control operations.
- Even after the economic recovery of the past seven months and the likelihood of further improvement in 2021, inflation expectations remain near the low end of the range recorded since the global financial crisis.
- We think central banks around the world share the goal of keeping a fairly tight rein on yields across the maturity spectrum in order to limit their government's debt service burdens.
- While we have seen some evidence of a "Great Rotation" from growth to value and cyclical investing, we believe it is too early to tell if this is the beginning of a major secular shift in equity investment themes.

A full-length paper is available if you wish to learn more about these timely topics.

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