

Economic Outlook

Second Quarter 2020

Black Swan Continues to Make Waves

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

- It's been said many times that bull markets climb a wall of worry. Now, it appears that investors must learn to swim through waves of worry.
- The first wave of COVID-19 continued to spread throughout the US, Mexico, South America, Central and Eastern Europe, India, the Middle East and Africa in the second quarter of 2020.
- The rush of governments to support consumers via income-relief programs and business-aid programs amid the March-to-April plunge in economic activity was largely successful in preventing a 1930s-style Great Depression.
- Despite the ever-rising number of pandemic-related infections, hospitalisations and deaths, and the subsequently stalled global economic activity, stock markets around the world managed to mount a resounding comeback by the end of June.
- The huge rebound in global equity prices was particularly stunning because it occurred in the face of a bleak economic backdrop. Investors seem to be ignoring the possibility that, even as recovery gets under way, it may be a long time before most companies achieve previous levels of profitability.
- Investors do not seem to be too concerned about the speed of Europe's economic recovery or the impact of the health crisis on countries' fiscal positions. The bond yields of the most economically fragile countries remain close to those of German bund yields, although spreads have widened from pre-pandemic levels. The European Central Bank has been quite successful in short-circuiting the liquidity crisis and flight-to-safety that threatened the euro area's financial structure.
- This laid-back view would be severely challenged if the 27 members of the European Union fail to approve a €750 billion emergency fund when the EU's leaders meet again in July. Although Germany has joined forces with France to push the package forward, there is still resistance from the likes of the Netherlands, Sweden, Denmark and Austria.
- The COVID-19 crisis has pushed Brexit concerns off the front pages. As the 31 December transition deadline nears, it could become an economic factor nearly as important as a second wave of the virus. If a deal on the U.K.-EU trading relationship is to be delivered before year-end, it probably should be concluded by the end of October so that countries have time to approve the treaty into law.
- Even if most countries manage to avoid a disruptive second wave of infections, few economies are likely to rebound fully to pre-pandemic levels anytime soon. We expect the recovery to take at least a year.
- Overall, we anticipate that investor concerns will ebb and flow, and that global financial markets will subsequently remain volatile in the months ahead. But stormy conditions also present long-term investment opportunities.
- SEI hires investment managers and allocates assets to them with the expectation that those managers will remain true to their processes regardless of market conditions. Radical changes to our investment process are not something that we expect to see. Of course, volatile markets are the true test of a manager's resolve, and we are pleased to say that our managers have stayed true to their strategies.

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

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