Economic Outlook

Second Quarter 2021

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Good News is Still Good News

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

- It is full-steam ahead for both the global economy and the rally in risk assets (equities, commodities, high-yield bonds, real estate and currencies).
- The relative success of vaccination efforts in the US has resulted in a significantly stronger economy this year. Meanwhile, countries like Brazil and India continue to struggle to contain the virus, but are nevertheless showing signs of economic recovery.
- The delta variant of the virus continues to challenge economic progress across the globe, but all countries are expected to register solid increases in second-quarter GDP, albeit not as strong as the gain expected in the US. We anticipate that other advanced economies should post strong results in the second half of the year and into 2022.
- It is SEI's contention that the global recovery and expansion have a long ways to go, especially since many countries are still restricting freedom of movement and commerce to at least some degree.
- Cyclical stocks, financials and commodity prices pulled back sharply in the days following the mid-June US Federal Reserve policy meeting. We remain optimistic that the more cyclical and value-oriented sectors and geographies will bounce back from their modest stumble in June.
- Global equity markets have long anticipated the economic improvement we now are seeing. In the past quarter, performance was strong and rather uniform across the major developed-counties, with returns ranging from 4% to 9%. Japan was the major exception, with its benchmark gaining only 0.4% for the same three-month period.[1]
- With economies around the world slowly opening up and interest rates hovering at extraordinary low levels, the dominant trend signals further price gains over the next year or two.
- Although economists correctly point out that the US has employed direct fiscal measures (emergency spending, income support and tax breaks) more aggressively than any other nation, other countries have used different tactics that far exceed the US effort.
- The European Central Bank seems dedicated to maintaining its pandemic-related monetary support at least through March 2022. As a percentage of GDP, the ECB's balance sheet has risen more than 25% since the beginning of the COVID-19 crisis, more than any other major central bank besides the Bank of Japan.[2] The ECB's actions have succeeded in keeping peripheral Europe's sovereign bond yields behaved through the crisis period.
- As vaccination rates slow in the developed world, more shots will be available for the rest of the world. We expect a rolling reopening of the global economy that will extend well into 2022. This wave of recovery could resemble an extended up-cycle that keeps the pressure on supply chains, leading to continued shortages of goods and labour.
- Investor faith in the "transitory inflation" narrative probably will be tested as we head into year-end and into 2022.

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

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[1] Source: MSCI.
[2] Source: FactSet.

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