# Economic Outlook
Third Quarter 2021

SEI New ways. New answers.®

## More Bricks in the Wall of Worry

*By: James R. Solloway, CFA, Chief Market Strategist and Senior Portfolio Manager*

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

- The MSCI USA Index (a broad measure of US equity markets) has more than doubled since hitting a closing low on 23 March 2020. Outside of the US, equity market performance has been not quite as stellar, but remains impressive.

- What might be more surprising is the relentlessness of the advance in risk assets over the past 18 months. Waves of new infections around the world, the emergence of persistent shortages of goods and labour, inflation rates that have surged higher for longer than expected and the prospect of fading government relief in the months ahead have not derailed the stock-market rally.

- The summer COVID-19 wave did slow the US economy's upward momentum during the third quarter. The spread of the virus restrained consumers' willingness to spend on restaurants, hotels, air travel, entertainment and other services.

- In recent months, purchasing manager surveys have shown economic growth cooling in the U.S., although the level of activity remains quite strong versus the pre-pandemic period. Europe, led by Germany, appears to be on the upswing. The decline in delta infections, allowing for more tourism, and an increase in EU fiscal support are providing a boost to activity.

- The challenges posed by COVID-19 and the disruptions to production have pushed inflation to levels not seen in many years in various countries. The immediate concern is the cost of energy. Natural gas prices have soared on the continent as shortages prevent the normal addition to reserves ahead of the winter season.

- Energy woes probably won't cause governments to deviate from the climate change agenda they have put in place. The German election underscores this point. Although it will take a couple of months to cobble together a coalition, all likely members are committed to reducing carbon admissions.

- Beyond energy, the reopening of the European economy should cause the price of services to rise as they have in the US, albeit to a far more limited extent. The overwhelming assumption is that any pick-up in inflation will be short-lived.

- While supply chain disruption, lingering inflation and political dysfunction all present potential short-term headwinds, we believe that global economic growth will continue at a rate that significantly exceeds the sluggish pace that prevailed following the 2007-2009 global financial crisis over the next year or two.

- Globally, the earnings of publicly traded companies also remain robust, and we believe analysts are still underestimating their strength. With the exception of Japan, earnings estimates for 2021 have been raised dramatically versus just six months ago. Forecasts for 2022, on the other hand, have been cut in half from where they were six months ago, but earnings still are expected to show mid-to-high single-digit gains.

- This lowering of the bar for next year could allow for upward revisions in earnings estimates, assuming—as we do—that the renormalisation of global economic growth gets back on track with wider vaccine distribution and a declining delta wave.

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

**Important Information**

This material is not directed to any persons where (by reason of that person's nationality, residence or otherwise) the publication or availability of this material is prohibited. Persons in respect of whom such prohibitions apply must not rely on this information in any respect whatsoever. Investment in the funds or products that are described herein are available only to intended recipients and this communication must not be relied upon or acted upon by anyone who is not an intended recipient.

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. While considerable care has been taken to ensure the information contained within this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information and no liability is accepted for any errors or omissions in such information or any action taken on the basis of this information.

SEI Investments (Europe) Limited (SIEL) acts as distributor of collective investment schemes which are authorised in Ireland pursuant to the UCITS regulations and which are collectively referred to as the “SEI Funds” in these materials. These umbrella funds are incorporated in Ireland as limited liability investment companies and are managed by SEI Investments Global Limited, an affiliate of the distributor. SEI Investments (Europe) Limited utilises the SEI Funds in its asset management programme to create asset allocation strategies for its clients. Any reference in this document to any SEI Funds should not be construed as a recommendation to buy or sell these securities or to engage in any related investment management services. Recipients of this information who intend to apply for shares in any SEI Fund are reminded that any such application must be made solely on the basis of the information contained in the Prospectus (which includes a schedule of fees and charges and maximum commission available). Commissions and incentives may be paid and if so, would be included in the overall costs.) A copy of the Prospectus can be obtained by contacting your Financial Advisor, SEI Relationship Manager or by using the contact details shown below.

**Data refers to past performance. Past performance is not a reliable indicator of future results. Investments in SEI Funds are generally medium- to long-term investments. The value of an investment and any income from it can go down as well as up. Returns may increase or decrease as a result of currency fluctuations.** Investors may get back less than the original amount invested. SEI Funds may use derivative instruments which may be used for hedging purposes and/or investment purposes. **This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events.**

In addition to the usual risks associated with investing, the following risks may apply: Bonds and bond funds are subject to interest rate risk and will decline in value as interest rates rise. High-yield bonds involve greater risks of default or downgrade and are more volatile than investment-grade securities, due to the speculative nature of their investments. International investments may involve risk of capital loss from unfavourable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Narrowly focused investments, securities focusing on a single country, and investments in smaller companies typically exhibit higher volatility.

The opinions and views in this commentary are of SIEL only and are subject to change. They should not be construed as investment advice.

This information is issued by SEI Investments (Europe) Limited (SIEL) 1st Floor, Alphabeta, 14-18 Finsbury Square, London EC2A 1BR, United Kingdom. SIEL is authorised and regulated by the Financial Conduct Authority (FRN 191713).

This commentary is intended for information purposes only and the information in it does not constitute financial advice as contemplated in terms of the Financial Advisory and Intermediary Services Act.

SEI sources data directly from FactSet, Lipper, and BlackRock unless otherwise stated.