Economic Outlook

Fourth Quarter 2019

SEI's Outlook for 2020: No Boom, No Bust, No Bear

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

- We expect that the US and global economies will likely continue to expand in 2020, although at a slower pace. This should support further gains in stocks and other higher-risk assets. The combined effects of positive economic growth and positive equity markets should keep inflation at bay. We believe that a tame inflation environment will encourage global central banks to continue to err on the side of easy monetary policy. We also think that quantitative easing should keep global fixed-income yields steady, despite government deficit-spending accelerating. Overall, this scenario should be beneficial for risk assets.
- We believe that the US economy is converging with the rest of the world. Economic and earnings growth in the US contracted during the year. Therefore, we expect international markets to outperform US equities in the New Year due to the disparity in stock-market valuations.
- We think that the US dollar will likely move lower after a period of buoyancy. The US Federal Reserve's (Fed) pivot toward an aggressive approach to supporting the overnight lending market has the potential to significantly increase the global supply of dollars. Since the greenback appears overvalued on a fundamental basis, we believe that a US currency depreciation is a high-conviction call. This would be a tailwind for non-US economies and financial markets.
- Boris Johnson now enjoys the largest Tory majority in Parliament since 1987, when Margaret Thatcher was re-elected Prime Minister for a third term. The victory eliminated the possibilities of a dramatic remaking of the British economy as envisioned by the Labour party, or a hung Parliament which could have prolonged the uncertainty surrounding Brexit.
- Of course, uncertainty still remains because the UK now needs to negotiate its future trading relationship with the EU. A no-deal Brexit would provide a substantial negative shock to merchandise trade because dealings with the EU would revert to the most-favoured-nation rules of the World Trade Organization. Trade in financial services, a category critical to the UK's economic well-being, may be saddled with increased regulations, paperwork and costs.
- Going into the New Year, we are hoping for less Brexit uncertainty and a trade deal between the UK and European Union. We expect rational minds to prevail, but a no-deal Brexit remains a residual risk. As the year-end 2020 transition deadline approaches, UK and European markets could experience renewed volatility if the negotiations appear to be foundering on irreconcilable differences. In the near-term, equity investors may still react positively as signs of improved global economic growth accumulate.
- Looking at the big picture for the year ahead, we expect the US and global economies to continue growing but at a sluggish pace. This should keep inflation under control and encourage central banks to remain accommodative. Quantitative easing also should help keep fixed-income yields relatively steady even as government deficit spending picks up. Altogether, this scenario should be positive for risk assets.

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

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