

Will There be Growth in the Spring?

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

- A sluggish first quarter and an inverted Treasury yield curve have raised concerns regarding the bull market's health.
- Until we see a more significant deterioration in the economic and financial fundamentals that have underpinned the global bull market in risk assets over the past two years, our default investment stance is to stay the course.
- We expect that U.S. equities will remain well-bid, although international markets are long overdue for a period of improved relative performance versus the U.S. stock market.
- Markets around the globe experienced a sharp risk-off move in late March. Concerns about European economic growth were one cause of the setback.
- We believe that hints of economic revival in China, the likelihood of a trade agreement between the U.S. and China, and a dovish turn in the monetary policies of the U.S. Federal Reserve (Fed) will help equities grind their way higher in the months ahead.
- On March 20, the Fed made some modest downward revisions in its latest projections of economic growth and inflation, and dramatically reduced its median forecast of the federal-funds rate. In addition to easing off the interest-rate brake, the Fed signaled that quantitative tightening will end in September 2019. This should be a positive development for equities and other risk assets.
- Emerging-market valuations remain attractive, in our opinion. There's no denying that a sustained improvement in emerging markets depends on better global growth. In our view, China is the linchpin; we are optimistic that the country's economic conditions will improve as it begins to feel the lagged impact of easier economic and monetary policies.
- Our near-term optimism, however, is tempered somewhat by strategic considerations for the longer run. It's quite likely that U.S.-Chinese relations will remain tense as a result of the geopolitical competition that continues to build between the world's preeminent superpower and its up-and-coming competitor.
- History seems to be repeating itself on a weekly basis when it comes to the debate about Brexit. Over the course of three days in early March, the British Parliament: (1) voted against the current deal that Prime Minister Theresa May negotiated with the European Union; (2) voted against a "hard" (or "no-deal") Brexit; and (3) voted to delay Brexit, which was scheduled to occur at the end of March.
- The plunge in risk assets during the fourth quarter and subsequent bounce-back in the first quarter of this year is a reminder that one should always expect the unexpected when it comes to investing. In a world where the best- and worst-performing asset classes tend to dominate the headlines, it's easy to lose sight of the fact that a diversified investment portfolio is generally the most reliable approach for meeting long-term investment objectives.

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

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