# Economic Outlook

Second Quarter 2021

## A Good News is Still Good News

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

- It has been 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 U.S. 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[1] 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 U.S. 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.

- 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.

- Cyclical stocks, financials and commodity prices pulled back sharply in the days following the mid-June U.S. Federal Reserve (Fed) policy meeting. We remain optimistic that the more cyclical and value-oriented sectors and geographies will bounce back from their modest stumble in June.

- 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.

- The combination of (1) above-average economic growth, (2) significantly higher inflation than seen in the past decade, (3) a fiscal policy that expands the size of the Federal government spending as a proportion of GDP and (4) extreme monetary ease aimed at suppressing interest rates is the perfect backdrop for risk assets.

- The big question is whether the price pressures seen this year are transitory, as central bankers around the world say they are. In the latest economic projections from the U.S. Fed, the Federal Open Market Committee (FOMC) sharply raised its median forecast for its preferred measure of inflation (the personal-consumption expenditures (PCE) price index, excluding food and energy) to 3.0% from 2.2% just three months ago. Yet the FOMC's inflation forecasts for 2022 and 2023 barely changed from the median reading for both at 2.1%.

- Investors in the bond market appear to agree with the Fed's point of view. Although U.S. bond yields rose sharply in the first quarter, they have fallen over the past three. The 10-year benchmark bond currently trades below 1.50%, a noticeable decline of almost 0.25% since the end of March. There's no telling how long bond investors will maintain such a calm perspective if prices keep rising at a pace that has not been seen in almost 30 years.

- We expect the central bank to remain cautious when it comes to tightening the monetary reins.

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

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[1] The Delta variant, also known as lineage B.1.617.2, is a variant of lineage of SARS-CoV-2, the virus that causes COVID-19. It was first detected in India in late 2020.