Economic Outlook

Second Quarter 2020

Black Swan Continues to Make Waves

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

- It's been said many times that bull markets climb a wall of worry. Now, it appears that investors must learn to swim through waves of worry.
- The first wave of the novel coronavirus continued to spread throughout the U.S., Mexico, South America, Central and Eastern Europe, India, the Middle East and Africa in the second quarter of 2020.
- The rush of governments to support consumers via income-relief programs and business-aid programs amid the March-to-April plunge in economic activity was largely successful in preventing a 1930s-style Great Depression.
- Despite the ever-rising number of pandemic-related infections, hospitalizations and deaths, and the subsequently stalled global economic activity, stock markets around the world managed to mount a resounding comeback by the end of June.
- The huge rebound in equity prices was particularly stunning because it occurred in the face of a bleak economic backdrop. Investors seem to be ignoring the possibility that, even as recovery gets under way, it may be a long time before most companies achieve previous levels of profitability.
- Corporate profit margins were already under pressure before COVID-19 engulfed the world. Now companies face higher costs and increased inefficiencies. They are tasked with instituting protocols to protect the health of their workforce and customers, as well as increasing the level of available inventory to avoid supply disruptions that could alter supply chains. U.S. companies may face higher tax rates and more onerous regulations if the general election in November produces a win for likely Democratic presidential candidate Joe Biden and a majority defeat for Senate Republicans.
- The policies pursued by the Federal Reserve (Fed) have served to keep interest rates low. The central bank appears committed to keeping its policy rate at 0.1% through 2022. Additionally, the Fed is reducing upward pressure on the entire U.S. government bond yield curve through its purchases of Treasurys and mortgage-backed securities.
- Until a vaccine is readily available, sporting events, concerts, cruises and other entertainment activities that involve large crowds will remain subject to a host of risks. Investors are now gauging the likelihood of a potential second wave forcing an additional round of lockdowns and shelter-in-place orders that could lead to a double-dip recession.
- However, even if most countries manage to avoid a disruptive second wave of infections, few economies are likely to rebound fully to pre-pandemic levels anytime soon. We expect the recovery to take at least a year.
- Overall, we anticipate that investor concerns will ebb and flow, and that financial markets will subsequently remain volatile in the months ahead. But stormy conditions also present long-term investment opportunities.
- SEI hires investment managers and allocates assets to them with the expectation that those managers will remain true to their processes regardless of market conditions. Radical changes to our investment process are not something that we expect to see. Of course, volatile markets are the true test of a manager's resolve, and we are pleased to say that our mangers have stayed true to their strategies.

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

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