Economic Outlook

Third Quarter 2020

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Regime Change

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

- COVID-19 remains a significant public health concern that continues to hamper the global economy.
- There's no disputing that U.S. economic activity remains far below normal. A 13-week moving average to reflect quarterly gross domestic product (GDP) suggests that third-quarter GDP will be 6.2% below its level from one year ago. To put this into perspective, U.S. GDP fell by 4% peak-to-trough during the 2007-2009 global financial crisis.
- The sharp bounce in overall business activity recorded over the summer is expected to fade; although we believe there should be improvement in the months ahead.
- Incomes are now recovering as more people get back to work. Still, the danger exists that the lack of additional income support will drag down consumer spending heading into year end. It's concerning that consumer and business sentiment remain depressed.
- SEI doubts that there will be a full return to normal economic behavior until the introduction and global distribution of vaccines that are safe and effective. Positive news of vaccine development (along with the massive fiscal and monetary response) contributed to the buoyancy of equities and other risk assets during the quarter.
- Many developed and emerging economies remain under stress despite rebounds from lows in business activity. However, most countries were in a V-shaped recovery mode during the third quarter.
- We sense that the next few months will prove critical to the future course of the global economy and financial markets. Regime changes within political, economic, medical and financial spheres—which are all interconnected—will likely come into play.
- The U.S. presidential election will have a major impact on the economy and financial markets in the months and years ahead. Yet, we firmly believe that it is a mistake to base even a short-term investment strategy that requires picking November's winner; predicting the policies proposed by the new president; figuring out how those proposals will be modified by Congress on their way to becoming actual laws; and forecasting the impact those new laws would have on the economy and financial markets.
- According to the Federal Open Market Committee's official projections, the federal funds rate is expected to stay near 0% through 2023. Fed Chairman Jerome Powell recently unveiled a new framework for the conduct of monetary policy. Rather than taking pre-emptive actions against inflation when the unemployment rate reaches a very low level that might cause inflation to rise, the central bank will now wait for an actual worsening of inflation pressures before responding.
- The best economic performance during the second quarter was recorded by the major Asian economies (China, Taiwan and South Korea). The same goes for their stock markets. Their heavy tilts toward technology and advanced industrial sectors were beneficial in the current environment.
- In environments of such uncertainty, we believe it is important to maintain a risk-aware approach to wealth management through prudent planning that focuses on companies with strong fundamentals and reasonable valuations.

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

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