
A POST-ELECTION ECONOMIC & MARKET OUTLOOK IN 10 CHARTS OR LESS

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12/03/2020

*All aboard ha ha ha ha ha
Ay, ay, ay, ay, ay, ay, ay
Crazy, but that's how it goes
Millions of people living as foes
Maybe it's not too late
To learn how to love
And forget how to hate
Mental wounds not healing
Life's a bitter shame
I'm going off the rails on a crazy train
I'm going off the rails on a crazy train
(From "Crazy Train" by Ozzy Osbourne, 1987)*

OK, so the election is sort of behind us—a great deal rests on the outcome of the dual Senate runoff elections in Georgia in early January. If the Democrats win both of those seats, they will control the presidency and both houses of Congress, and policy and legislative decisions going forward may take a very different turn than if there is a “divided government.”

In the meantime, whatever the outcome, Americans will have to deal with the current and expected economic and market regimes. Over the past few months, we've published a [Market Insights paper](#), a [Mid-Year Outlook](#) and a follow-up [asset allocation blog post](#) that summarized our views prior to the election.

But where do we see things going from here now that the election is (for the most part) behind us? In other words, regardless of the *political* landscape, what will the next Administration and Congress be handed from an economic and market perspective?

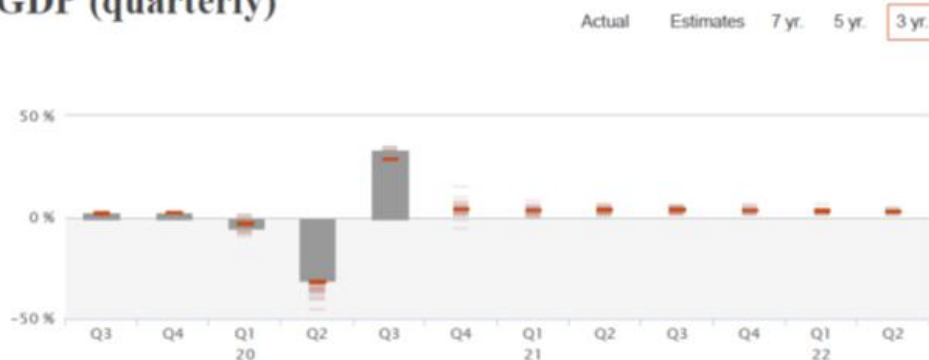
This is a blog post and not a position paper, so we will be succinct and focus on what we believe are the five primary economic and market *signals* that may provide perspective on where we go from here: [GDP](#) growth, [earnings](#), [interest rates](#), [inflation](#) and central bank policy. The caveats to these signals, of course, are the future course of the coronavirus pandemic and corresponding federal, state and local responses, and the outcome of the ongoing fiscal stimulus negotiations.

But those are “known unknowns.” Let's focus on what we can currently observe.

GDP Growth

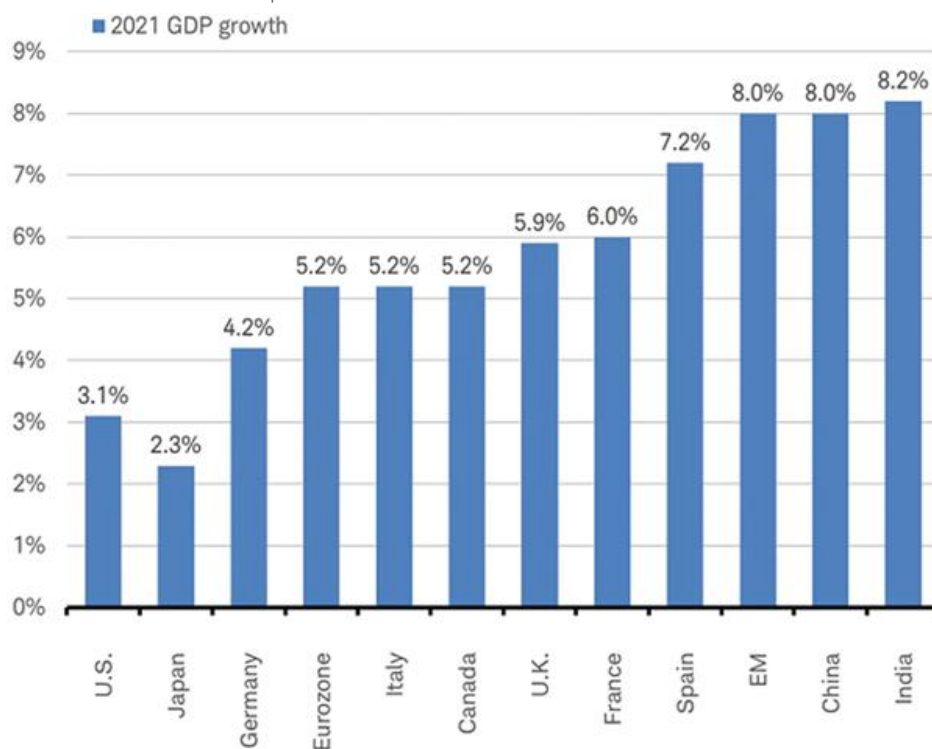
The consensus forecast from *The Wall Street Journal* calls for a continuation of the current economic recovery, with anticipated year-over-year growth rates of roughly 3%–3.5% through 2021 and into 2022:

GDP (quarterly)



Source: The Wall Street Journal Economic Forecasting Survey, as of 11/13/20.

The outlook is even more positive for most non-U.S. economies:



Source: Charles Schwab Investment Management, as of 11/23/20.

Translation: A generally positive environment for "risk on" assets.

Earnings

After the horrific (but priced in) second quarter earnings numbers, the consensus is for steady improvement through 2021:

Return of Earnings Growth May Be Just One Quarter Away

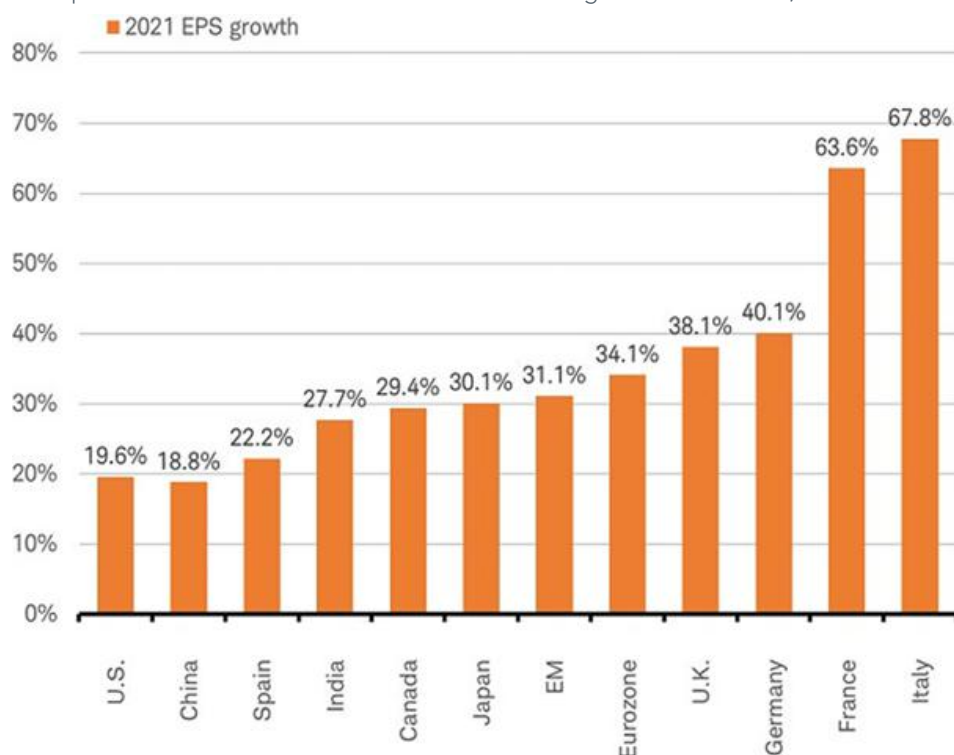
Strong Q3 2020 Earnings Season Sets the Stage for a Strong Earnings Recovery in 2021



Source: LPL Research, FactSet, 11/11/20

Estimates may not develop as predicted. Less than 10% of S&P 500 companies have yet to report results for Q3 2020.

Again, the outlook for earnings outside the U.S. is even stronger (based, in part, on the fact that the U.S. came out of the initial pandemic-induced recession faster because of higher stimulus levels):

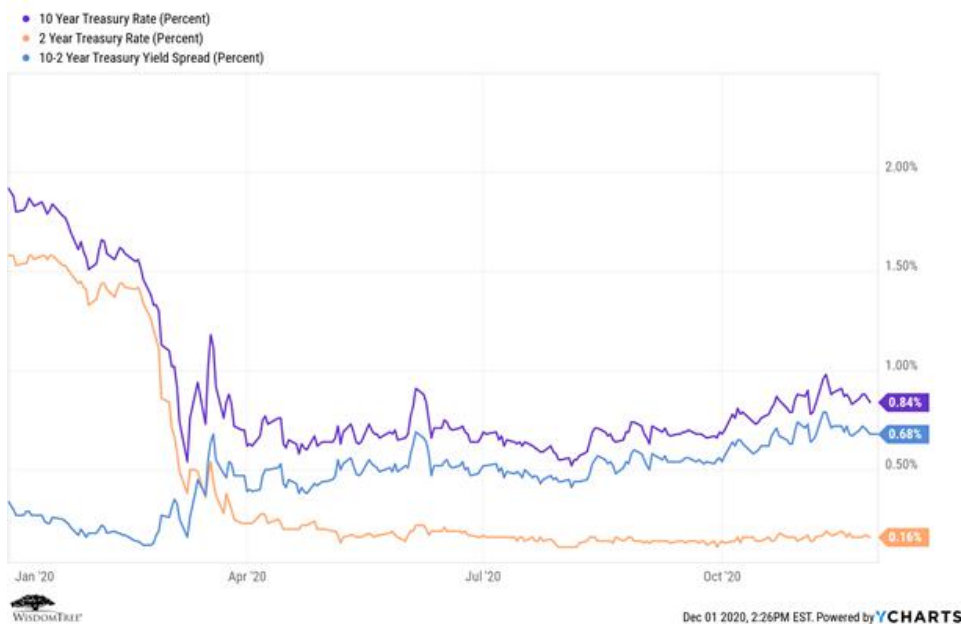


Source: Charles Schwab Investment Management, as of 11/23/20.

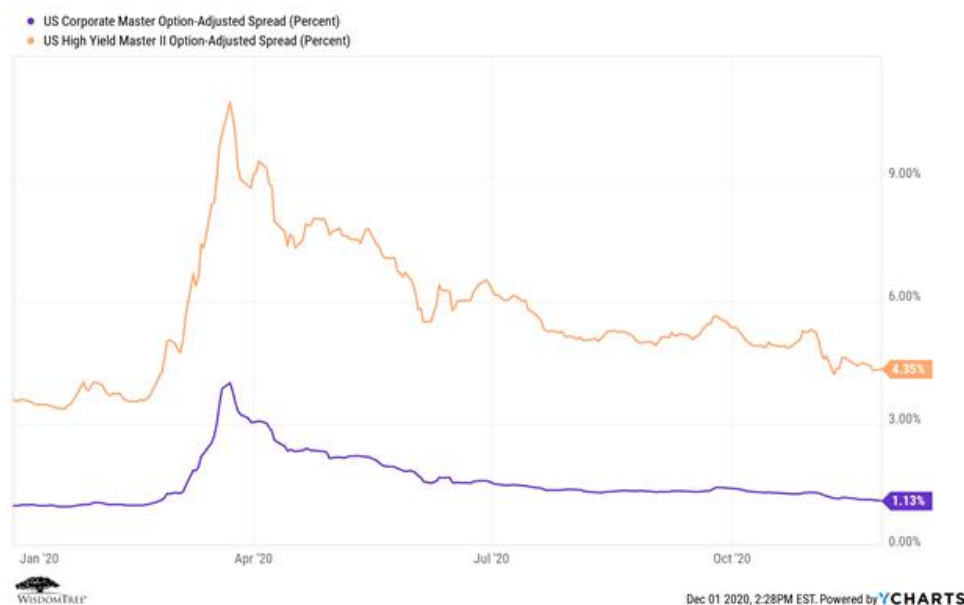
Translation: A generally positive environment for "risk on" assets.

Interest Rates and Spreads

We maintain our outlook that (a) rates may grind higher from here as the economy improves and inflation picks up marginally, (b) the [yield curve](#) will continue to steepen, (c) we generally remain in a "lower for longer" rate environment and (d) credit spreads have retraced most of their "blow out" in the early days of the pandemic, but still have potential to move lower:



Source: YCharts, data as of 11/30/20.



Source: YCharts, data as of 11/30/20.

Translation: We maintain our positioning of being under-weight duration and over-weight credit, with a focus on quality security selection, especially in high yield.

Inflation

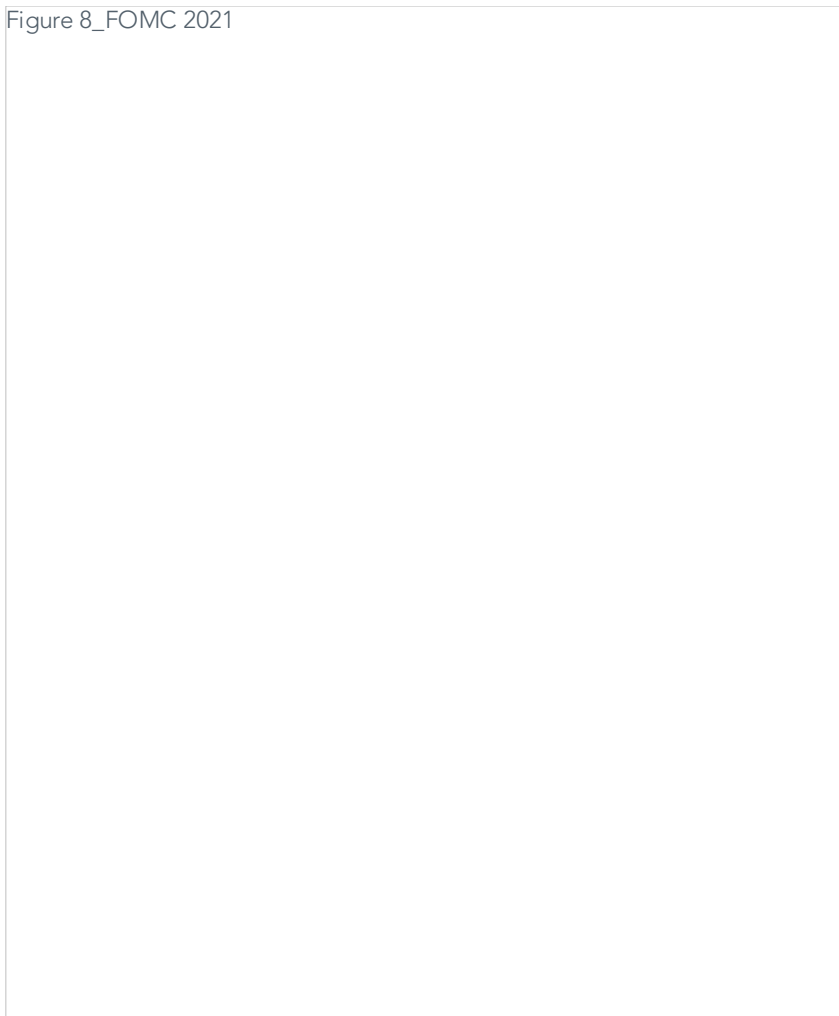
There are pockets of higher inflation in specific sectors or industries (food, automobiles, suburban home prices, etc.), but the overall inflation picture remains largely benign (remember that the historical Fed "target" rate for inflation was ~2%):

Translation: A generally positive environment for "risk on" assets.

Central Bank Policy

The Fed consistently has signaled that it will remain "accommodative" into the foreseeable future, and it is willing to let inflation "run hot" if it means allowing the economy to continue to recover:

Figure 8_FOMC 2021



Translation: A generally positive environment for “risk on” assets.

Conclusion

When focusing on what we believe are the primary market “signals,” we conclude that 2021 will enjoy a generally positive economic and market environment. Our caveats to that conclusion are (1) uncertainty regarding the coronavirus and governmental response, (2) the outcome of the Georgia Senate races, (3) the outcome of fiscal stimulus negotiations, (4) current valuations, which in many areas are very high by historical standards and therefore perhaps unsustainable, regardless of the market environment, and (5) currently unforeseeable “unknown unknowns” (e.g., U.S.-China relations, Iran, etc.).

So, while we are cautiously optimistic in our outlook for 2021, we continue to recommend focusing on a longer time horizon and the construction of “all-weather” portfolios, diversified at both the asset class and risk factor levels, so that your portfolios can handle whatever may come their way...even an unforeseen “crazy train.”

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

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DEFINITIONS

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Core Earnings : Income generated by the company's daily operations rather than one-time events or market fluctuations.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Inflation : Characterized by rising price levels.

Yield curve : Graphical Depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

Duration : A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

Credit : A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future.