

A QUARTERLY ECONOMIC AND MARKET OUTLOOK IN 10 CHARTS OR LESS

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"I just dropped in to see what condition my condition was in"

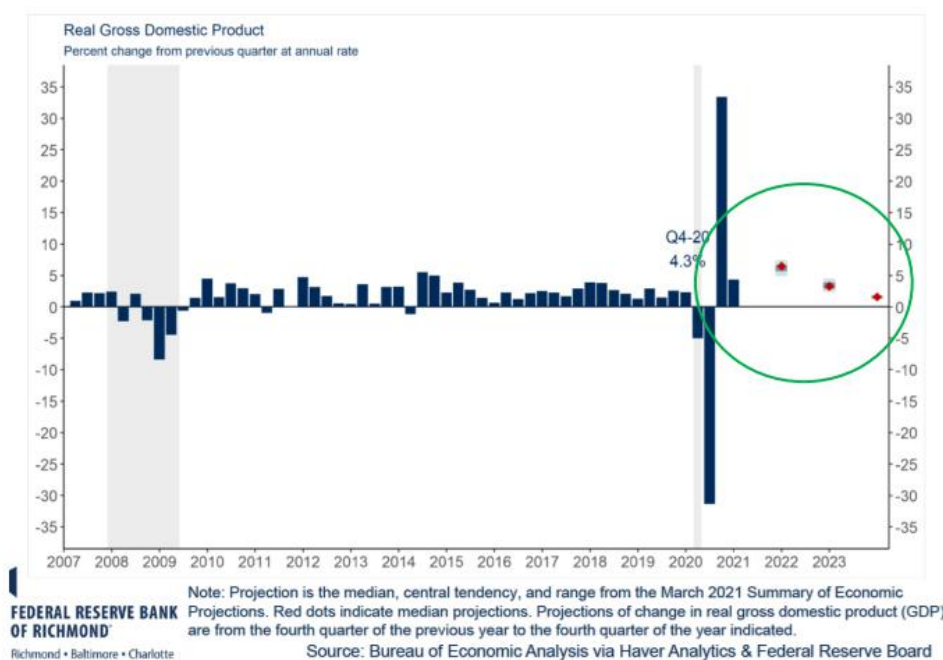
(By Kenny Rogers & The First Edition, 1967)

When reviewing the [current state of the global economy and investment markets](#), we recommend focusing on market signals and weeding out market noise. We believe the five primary economic and market signals that may provide perspective on where we go from here are [GDP growth](#), [earnings](#), [interest rates](#), [inflation](#) and [Central Bank policy](#).

GDP Growth

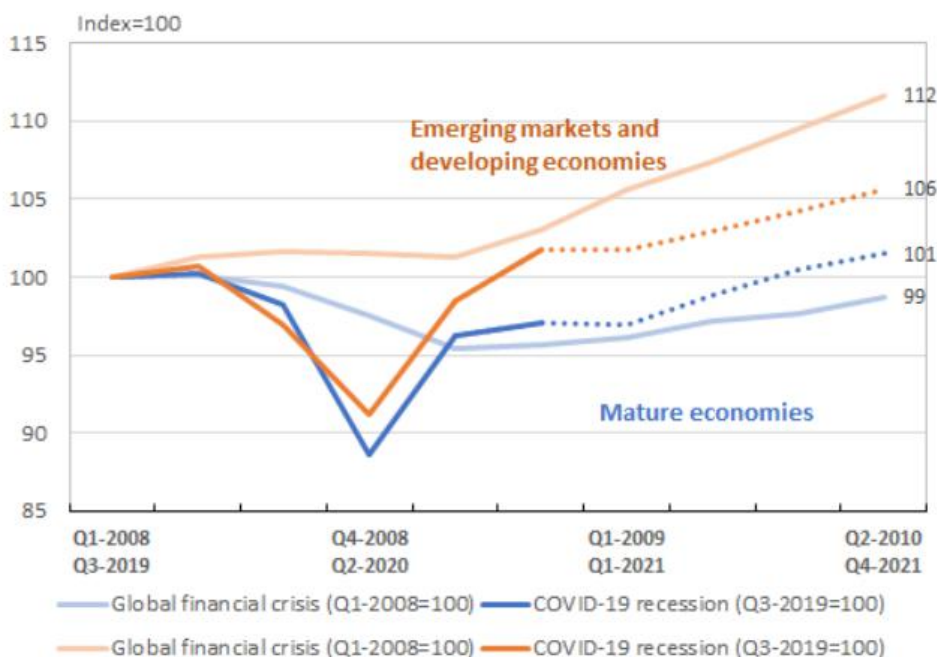
Global growth is expected to accelerate over the course of 2021. The current Wall Street Journal Economic Forecast Survey calls for a U.S. Q1 GDP growth rate of 4.9% and a Q2 estimate of a whopping 7.0%. The Richmond Federal Reserve Bank is also calling for strong growth over the next 2–3 years.

Real Gross Domestic Product



Source: The Richmond Federal Reserve Bank National Economic Indicators, April 2021.

Economic growth outside the U.S. is expected to be even higher, especially in emerging and developing economies.



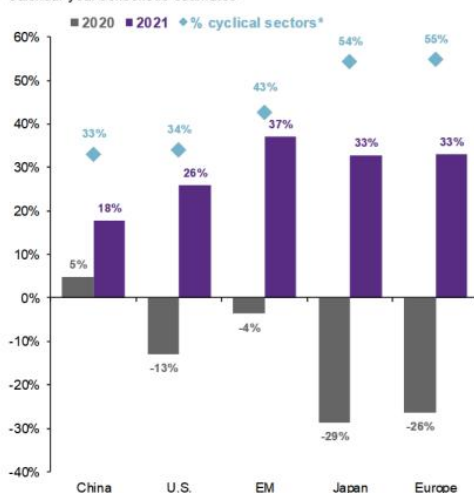
Source: The Conference Board Global Economic Outlook, March 2021.

Translation: A positive environment for “risk-on” assets and supportive of our “emerging markets” investment theme for 2021.

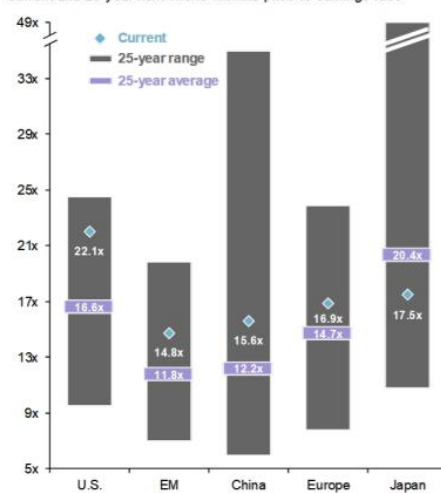
Earnings

Earnings growth is expected to be strong as we move through 2021, especially in cyclical sectors, as the global economy re-expands.

Global earnings growth
Calendar year consensus estimates



Global valuations
Current and 25-year next twelve months price-to-earnings ratio



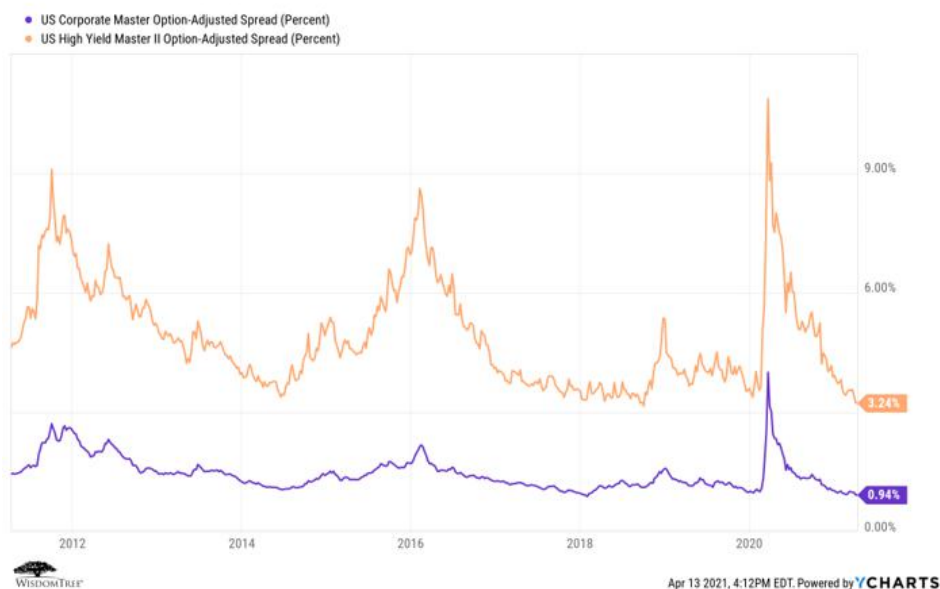
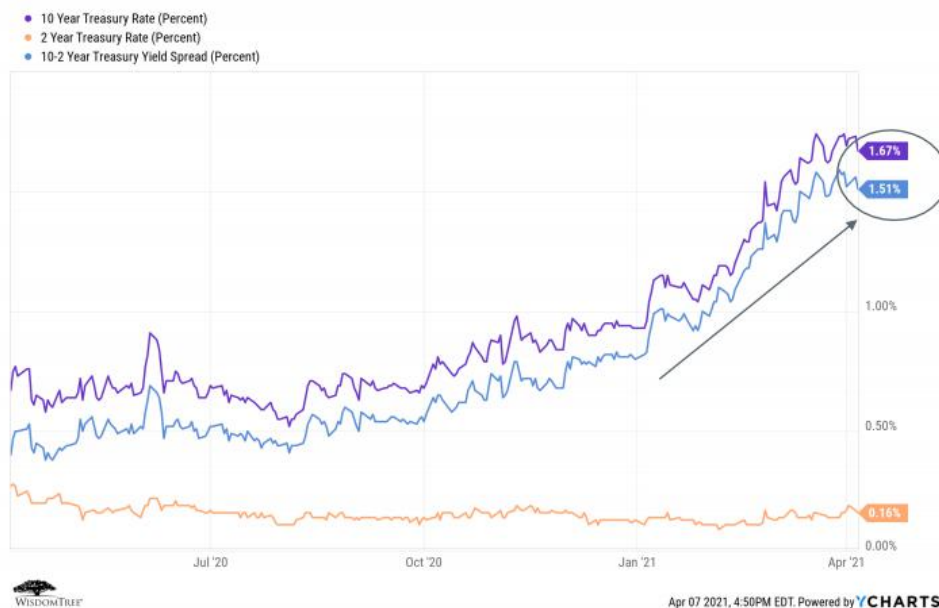
Source: JP Morgan Asset Management Guide to the Markets, Q2 2021.

Translation: A positive environment for “risk-on” assets and supportive of our strategic global diversification philosophy, as well as our 2021 investment theme of “cyclical rotation” (i.e., factors that tend to perform well during expansionary economic regimes—small cap, value and EM).

Interest Rates and Spreads

We maintain our outlook that (a) rates will grind higher from here as the economy improves and inflation picks up and (b) the [yield curve](#) will continue to steepen, but (c) we remain in a generally “lower for longer” rate environment. In addition, credit spreads are at tight levels we have rarely seen over the past 10 years.

This will continue to make fixed income a difficult place to generate [yield](#) in a risk-controlled manner.

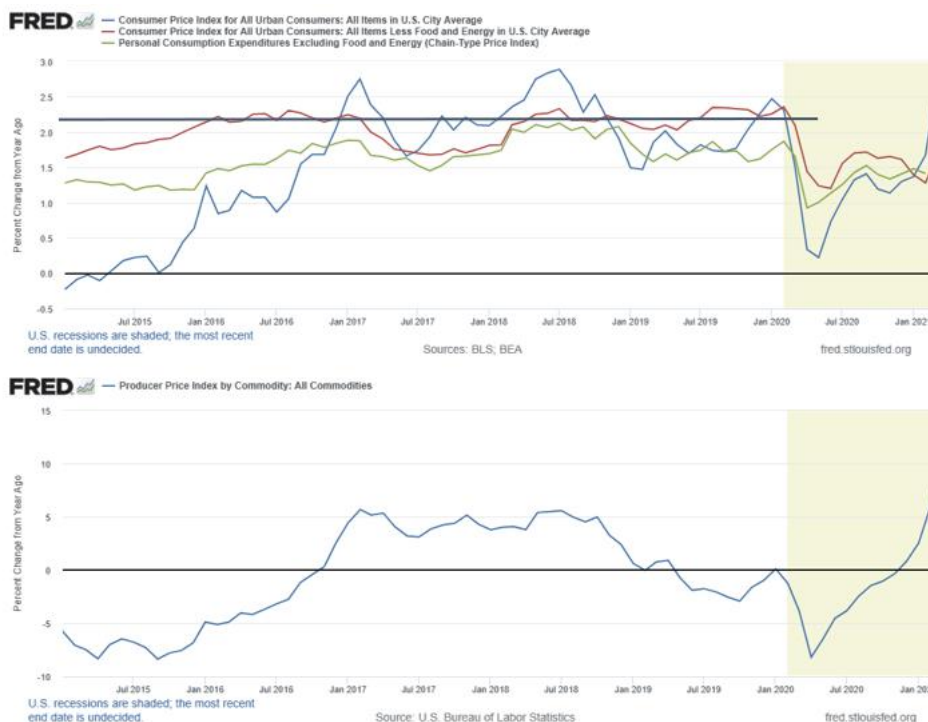


Source: YCharts, as of 4/12/21.

Translation: We maintain our positioning of being under-weight in duration and over-weight in credit, with a focus on quality security selection, especially in high yield. This also plays into our “quality and income” investment theme for 2021.

Inflation

While the “headline” inflation levels remain under control, there are distinct signs that inflation is reappearing, especially in input costs (as measured by the Producer Price Index). This will be reflected in higher inflation rates as we move through 2021.



Source: The St. Louis Federal Reserve Bank (FRED), March 2021.

Translation: A generally positive environment for “risk-on” assets and very supportive of our “reflation” investment theme for 2021.

Central Bank Policy

While the U.S. Fed continues to signal that it will remain “accommodative” into the foreseeable future, we are beginning to see increased divergence of opinion as to when it will be appropriate to begin [raising rates](#) again. James Bullard, president and CEO of the St. Louis Fed and a voting member of the [Federal Open Market Committee \(FOMC\)](#), recently went on record saying that the Fed “may” consider “tapering” once the U.S. COVID-19 vaccination rate reaches 75% (which is expected later this summer).

Figure 7_Central Bank Policy

Outside the U.S., we see an increasing number of central banks (especially in emerging markets) moving to raise rates as inflation fears pick up.

Translation: A generally positive environment for “risk-on” assets, though this increasing divergence of global central bank policy bears watching.

The “Known Unknowns”

While the market signals we follow generally point to a constructive and “risk-on” economic and market environment for the rest of 2021, conditions are always subject to exogenous events. The ones we can identify but not foresee the outcomes to we refer to as “known unknowns.”

As we write this, the known unknowns we can identify include:

1. The outcome of ongoing additional infrastructure/fiscal stimulus
2. The impact of anticipated increases to taxes and regulation in the U.S.
3. The longer-term impact of massive increases in U.S. governmental debts and deficits
4. The future direction of the relationships between the U.S. and China, Iran and Russia
5. The evolution of both COVID-19 variants and vaccination rates/effectiveness

Summary

When focusing on what we believe are the primary market signals, the “condition our condition is in” seems healthy, and we maintain our position that 2021 will enjoy a generally positive economic and market environment. But there are some significant known unknowns out there that could dramatically influence global conditions, either positively or negatively.

So, while we are optimistic in our outlook for 2021, we continue to recommend focusing on a longer-term time horizon and the construction of “all-weather” portfolios, diversified at both the asset class and risk factor levels.

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.

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DEFINITIONS

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

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

Inflation : Characterized by rising price levels.

Cyclical stocks : Refers to stocks in the Consumer Discretionary, Energy, Industrials, Materials, Financials and Information Technology sectors.

Small caps : new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

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.

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

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.

Producer Price Index : weighted index of prices measured at the wholesale, or producer level.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.