



## Economic Review and Outlook

4Q20

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## 2020 is Over



The virus continued to influence the global economy at the end of 2020. A resurgence in infections and a move to more restrictions caused the pace of economic recovery to slow by the end of the fourth quarter.



Vaccine development provided hope to businesses and consumers. However, by the end of the year, bottlenecks in the distribution emerged.



Despite global shutdowns, production indicators showed improvement during the quarter. The Global Purchasing Managers Index (PMI) survey, including for both manufacturing and service sectors, showed significant progress from the start of the pandemic.



The Fed and global central banks continued accommodative actions, supporting financial markets and economic growth with “lower for longer” interest rate policies.



In the US, signs the rebound shows signs of stalling. Jobless claims and non-farm payrolls rose at the end of the quarter. Retail sales declined and consumer confidence softened. Core inflation was steady and below target.

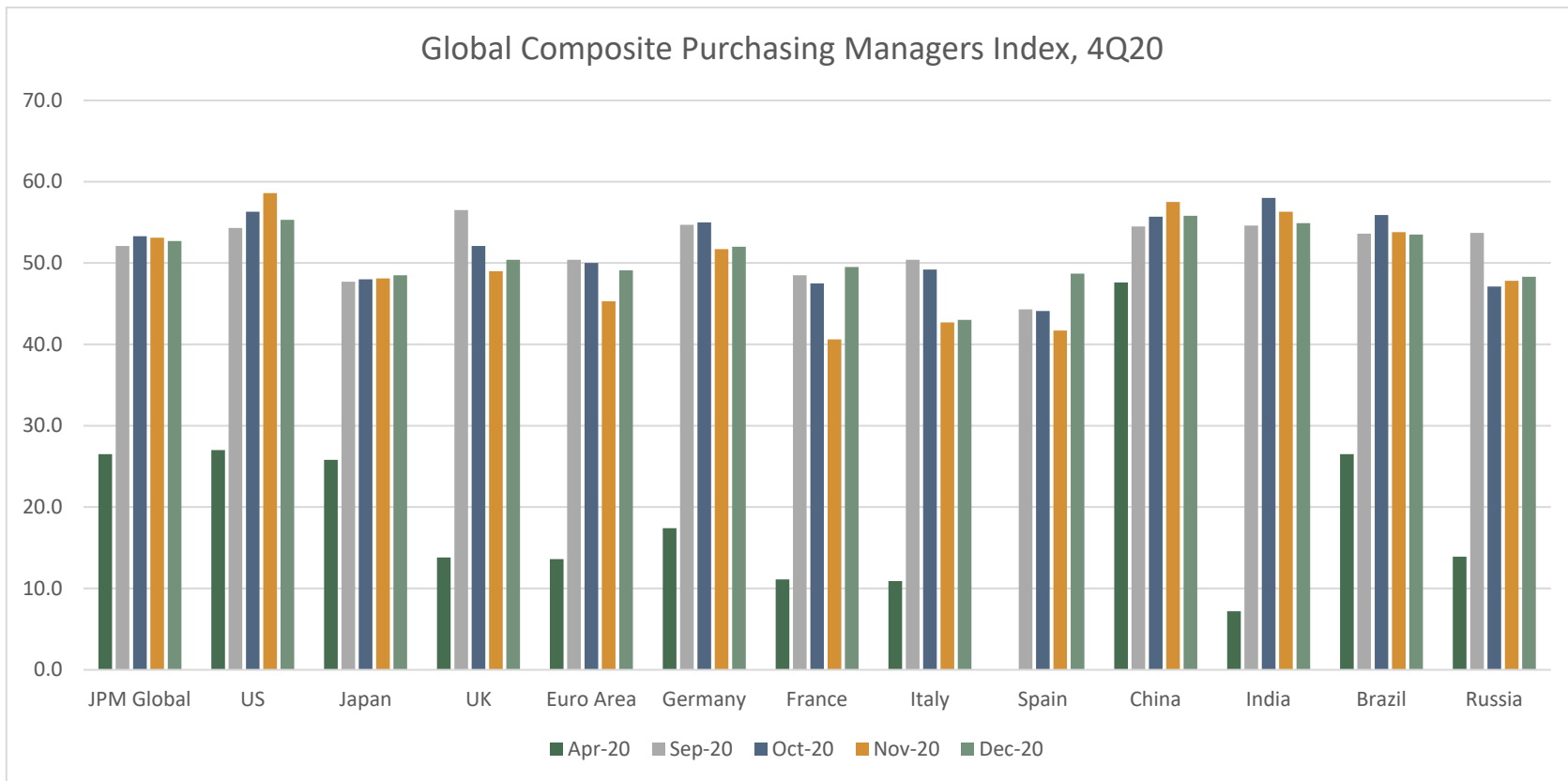


Financial markets viewed the election results favorably and expect a narrow Democrat victory will result in moderate policies; significant tax policy changes are not anticipated in the near term.

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## The State of the Global Economic Recovery

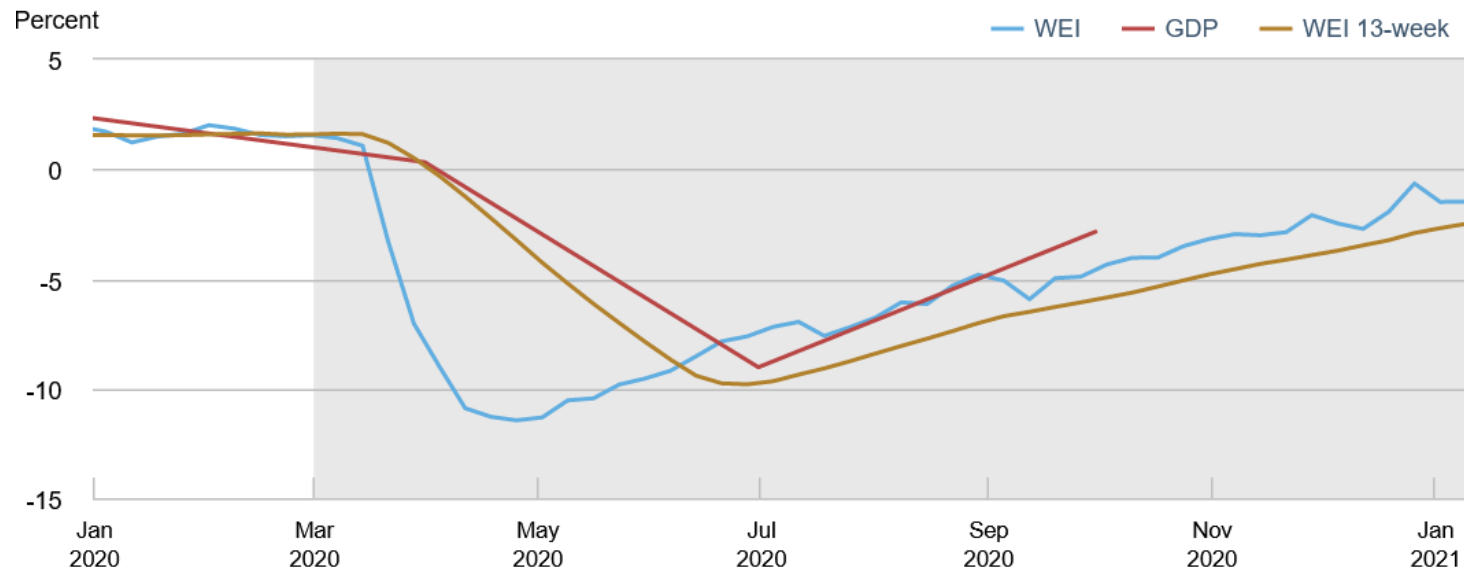
- ▲ Global economic expansion data remained positive at the end of the fourth quarter. Manufacturing sectors outperformed service categories. In China, new orders continued to support quarterly output in both the manufacturing and service sectors.
- ▲ However, at the end of the quarter, US activity and forward-looking expectations slowed for the first time since September, as the next wave of the pandemic caused additional business closures.



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### U.S. Economic Progress Continues at a Slower Pace

U.S. Economic Activity: The New York Fed's Weekly Economic Index (WEI)\*



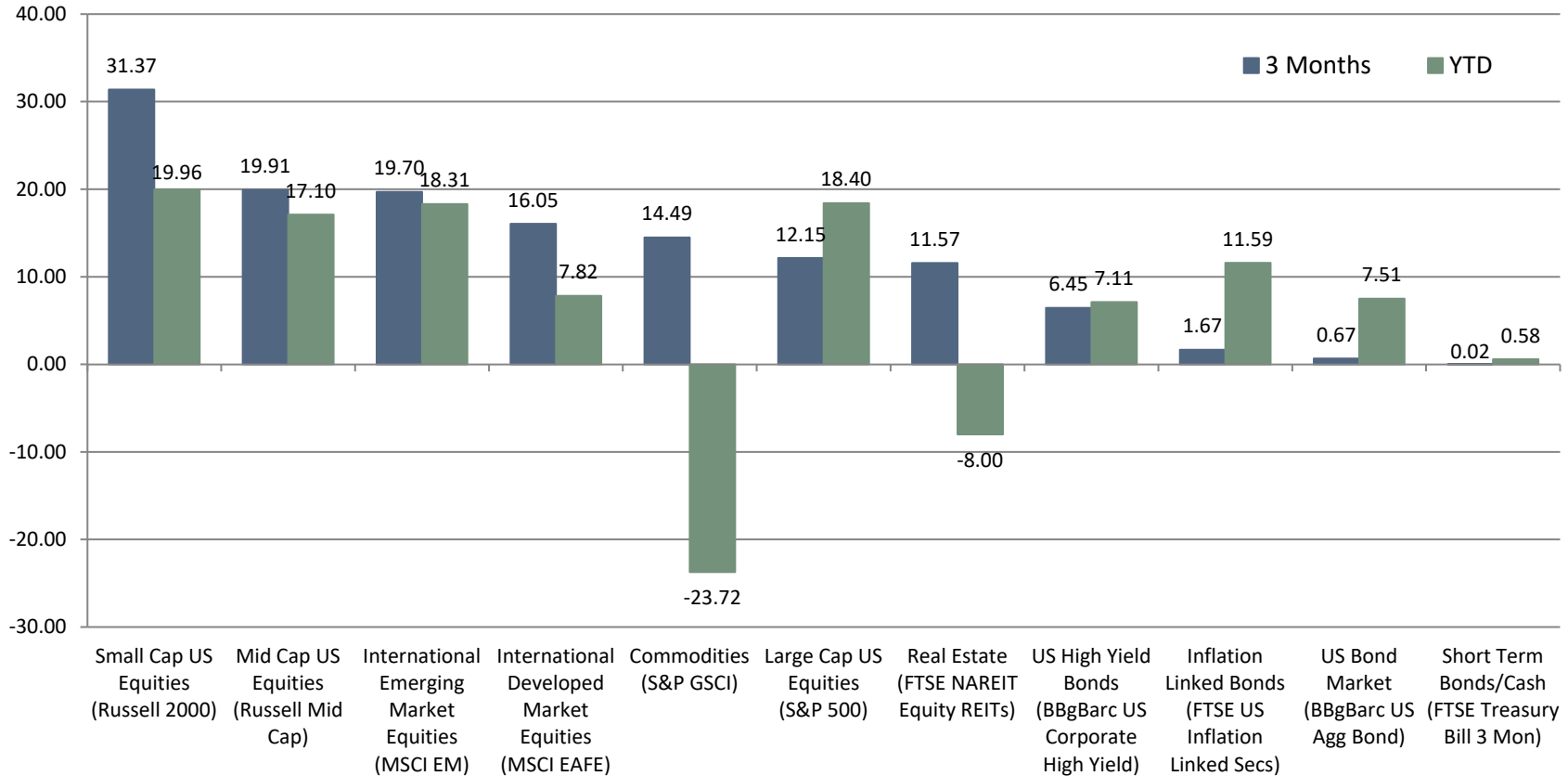
*\*The WEI is an index created to reflect more immediate changes in the U.S. economy. The index includes ten weekly indicators of real economic activity that reflect consumption, employment, and consumer confidence data. The index is scaled to have the units of four-quarter percent change of real GDP. This data series differs from the N.Y. Fed's Nowcast, which reflects low-frequency data.*



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## Asset Class Performance

Trailing Performance as of December 31, 2020



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## Financial Market Performance

### Trailing Performance (%) as of December 31, 2020

DOMESTIC EQUITY							
	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Broad Market	DJ Industrial Average	10.73	9.72	9.72	9.90	14.65	12.97
	S&P 500	12.15	18.40	18.40	14.18	15.22	13.88
	NASDAQ Composite	15.63	44.92	44.92	24.39	22.12	18.46
	Wilshire 5000 Total Market	14.47	20.82	20.82	14.46	15.52	13.79
Large Cap	Russell 1000	13.69	20.96	20.96	14.82	15.60	14.01
	Russell 1000 Growth	11.39	38.49	38.49	22.99	21.00	17.21
	Russell 1000 Value	16.25	2.80	2.80	6.07	9.74	10.50
Mid Cap	Russell Mid Cap	19.91	17.10	17.10	11.61	13.40	12.41
	Russell Mid Cap Growth	19.02	35.59	35.59	20.50	18.66	15.04
	Russell Mid Cap Value	20.43	4.96	4.96	5.37	9.73	10.49
Small Cap	Russell 2000	31.37	19.96	19.96	10.25	13.26	11.20
	Russell 2000 Growth	29.61	34.63	34.63	16.20	16.36	13.48
	Russell 2000 Value	33.36	4.63	4.63	3.72	9.65	8.66

Source: Morningstar

INTERNATIONAL EQUITY								
	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year	
Developed	MSCI ACWI	14.68	16.25	16.25	10.06	12.26	9.13	
	MSCI ACWI Ex USA	17.01	10.65	10.65	4.88	8.93	4.92	
	MSCI EAFE	16.05	7.82	7.82	4.28	7.45	5.51	
	MSCI EAFE Growth	13.09	18.29	18.29	9.67	10.50	7.51	
	MSCI EAFE Value	19.20	-2.63	-2.63	-1.24	4.20	3.37	
	MSCI EAFE Small Cap	17.27	12.34	12.34	4.85	9.40	7.85	
	MSCI Europe	15.61	5.38	5.38	3.55	6.78	5.32	
	MSCI Europe Ex UK	15.25	10.91	10.91	5.51	8.18	6.08	
	MSCI Pacific Free	16.72	11.93	11.93	5.50	8.80	5.95	
	MSCI Pacific Free Ex Japan	20.07	6.55	6.55	4.20	8.96	4.84	
	MSCI Japan	15.26	14.48	14.48	6.06	8.65	6.50	
	Emerging	MSCI EM	19.70	18.31	18.31	6.17	12.81	3.63
		MSCI BRIC	15.26	17.65	17.65	7.75	14.73	3.60
MSCI EM Latin America		34.82	-13.80	-13.80	-1.83	8.93	-3.44	
MSCI EM Europe		22.46	-12.50	-12.50	0.66	9.06	-1.79	
MSCI EM Asia		18.86	28.38	28.38	8.98	14.43	6.57	

Source: Morningstar

FIXED INCOME							
	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
	BBgBarc US Agg Bond	0.67	7.51	7.51	5.34	4.44	3.84
	BBgBarc US Government	-0.79	7.94	7.94	5.17	3.76	3.26
	BBgBarc US Credit	2.79	9.35	9.35	6.80	6.44	5.40
	BBgBarc US Govt/Credit Interm	0.48	6.43	6.43	4.67	3.64	3.11
	BBgBarc US Govt/Credit Long	1.68	16.12	16.12	9.80	9.35	8.16
	FTSE US Inflation Linked Secs	1.67	11.59	11.59	6.13	5.30	3.95
	BBgBarc EM USD Aggregate	4.50	6.52	6.52	5.53	6.91	6.01
	BBgBarc ABS	0.36	4.52	4.52	3.60	2.87	2.59
	BBgBarc US MBS	0.24	3.87	3.87	3.71	3.05	3.01
	FTSE Treasury Bill 3 Mon	0.02	0.58	0.58	1.56	1.16	0.60
	ICE BofAML 1-3Y US Trsy	0.05	3.10	3.10	2.74	1.90	1.30
	BBgBarc US Corp Aaa	1.47	12.30	12.30	8.06	7.10	5.61
	BBgBarc US Corp A	2.22	10.06	10.06	6.70	6.13	5.34
	BBgBarc US Corp Baa	3.99	9.88	9.88	7.46	7.51	6.16
	BBgBarc US Corporate High Yield	6.45	7.11	7.11	6.24	8.59	6.80
	BBgBarc US HY Caa	9.91	2.27	2.27	2.50	9.34	6.35

Source: Morningstar

STABLE VALUE & MONEY MARKET							
	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
	Median Taxable Money Market Fund	0.00	0.28	0.28	1.19	0.81	0.40
	Average Stable Value Fund	0.51	2.25	2.25	2.33	2.15	2.10
	Consumer Price Index	0.01	1.30	1.30	1.83	1.93	1.74

Source: PEI

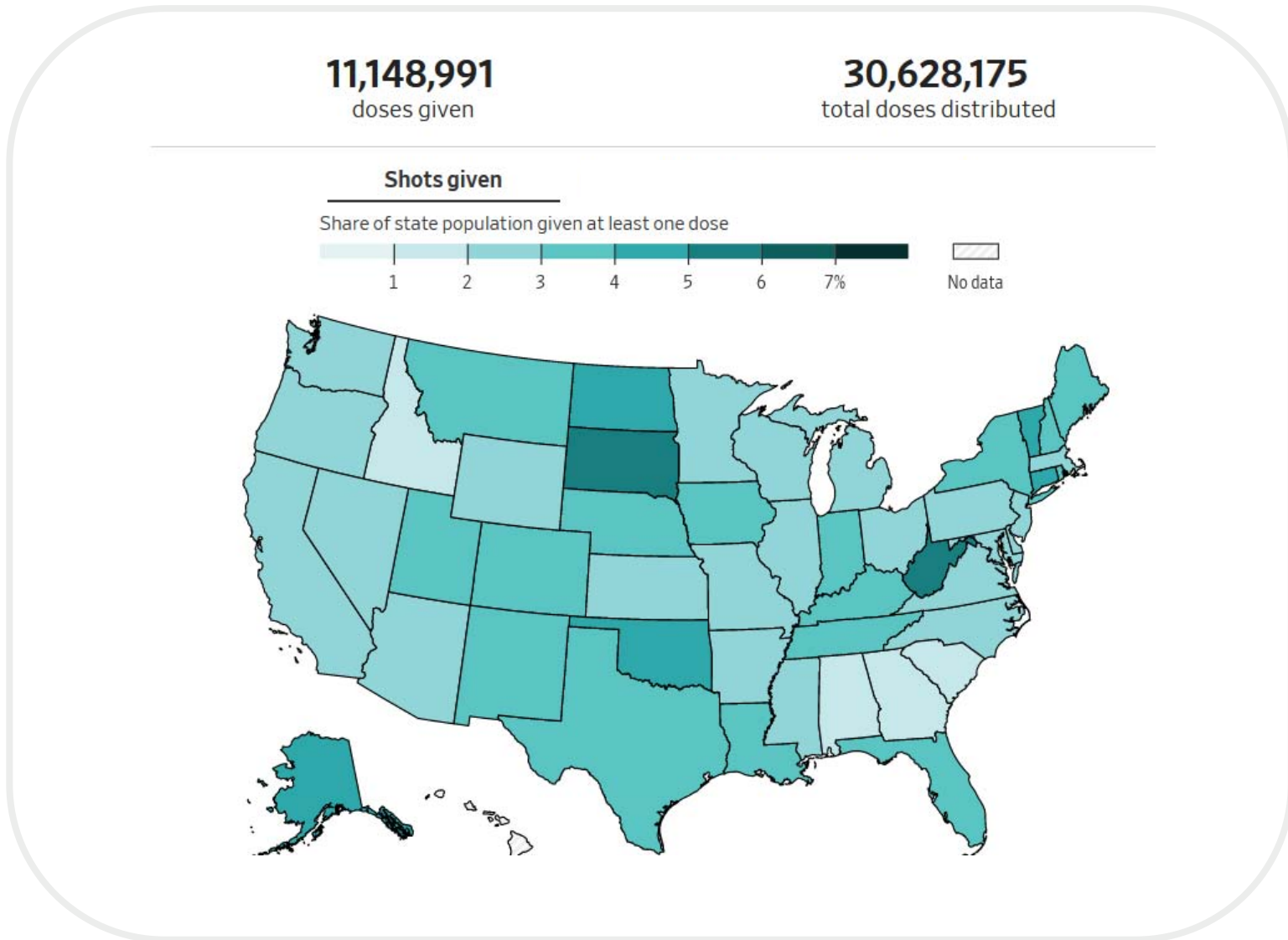
REAL ASSETS							
	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
	FTSE NAREIT Equity REITs	11.57	-8.00	-8.00	3.40	4.77	8.31
	Bloomberg Commodity	10.19	-3.12	-3.12	-2.53	1.03	-6.50
	S&P GSCI	14.49	-23.72	-23.72	-8.21	-1.85	-8.76

Source: Morningstar



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## Vaccination Distribution is Proceeding Slowly



Source: Wall Street Journal, January 15, 2021



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### The American Rescue Plan

On January 14, 2021, Joe Biden unveiled an economic stimulus program to counter the Covid-19 pandemic. The substantial proposal was anticipated, but some measures may require a 60-vote Senate majority for passage.

Financial markets initially reflected concern that the proposal went beyond pandemic relief, putting additional burden on corporations and taxpayers at some point in the future. Economists generally do not believe now is the time to restrict spending, especially since the country's debt servicing costs are low. However, legislators will have to confront the debt level when the pandemic is behind us.

#### President Biden's \$1.9 Trillion Rescue Plan: A Proposal for Economic Stimulus

- ▲ Additional stimulus checks for \$1400 to individuals to supplement the previous payments in December 2020.
- ▲ Increase to the previously approved supplemental unemployment insurance to \$400 per week, now extended to September 2021. Freelance workers would also see benefits extended to that time.
- ▲ Extension of the moratorium on evictions and homeowner foreclosures also through September 2021.
- ▲ \$350B in aid to state and local governments, and \$70B for Covid-19 testing and vaccinations.
- ▲ An additional \$130B to reopen schools, and an expansion to the child tax credit.
- ▲ An increase in the federal minimum wage to \$15 per hour.

Missing from the proposal is an extension of student loan payment deferrals or loan forgiveness, which was proposed during the campaign.

President Biden is also expected to introduce a long-term economic recovery plan and spending bill which may focus on infrastructure and climate change.





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## 2021 Drivers of the Economy and Financial Markets

*Economic recovery will be driven by the trajectory of the virus and vaccine distribution.*

### The Path of the Virus

Recent spikes in hospitalizations and disappointing delays in the vaccine roll-out could delay the economic recovery further into 2021. Until the virus is contained through mass inoculation, herd immunity, and better therapeutics, expect rolling restrictions or shutdowns.

### Fiscal Policy

New stimulus proposals should provide another boost to the economy. Large increases in income support programs and government spending will release consumption. GDP growth may overshoot trend levels before settling down in 2022. High debt levels will be dealt with at another time, if interest rate levels remain low and debt servicing is manageable.

### Federal Reserve Policy

The FOMC's stated interest rate policy will remain accommodative for an extended period, using targets for average inflation (~2%) and maximum employment (unemployment ~4.1%) as their guide. They are not considering reductions in asset purchases and want to avoid a "taper tantrum".

### Economic Growth

Once the US reaches herd immunity through vaccinations, pent-up demand should drive economic growth in the later quarters of 2021. In the meantime, expect volatility in employment and confidence data.

### Legislation

A narrow margin in both houses of Congress suggest a more moderate policy stance from the Biden Administration. Expect spending increases and stimulus programs, including infrastructure and clean energy projects. Given the urgency of the pandemic, tax reform has probably been moved out to 2022 and beyond. A less aggressive corporate tax hike may be considered, as a major tax overhaul would most likely require more than the current majority. Global trade, climate, and healthcare initiatives are expected to be reinstated.



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### 2021 Outlook Expectations

2021 Forecasts	Global GDP	US GDP	US CPI	Fed Rate Increases	2021 Themes/Expectations
BlackRock	-	3.8%	1.9%	0	<ul style="list-style-type: none"> <li>An increase in infections at the end of 2020 and variants of the virus will lead to a delay in the economic recovery. The pace of the vaccine distribution underpins timing of economic outlook.</li> <li>Additional fiscal stimulus is expected following the election results, and a “policy revolution” will drive growth beyond 2021.</li> </ul>
Citibank	4.0%	3.9%	0.9%	0	<ul style="list-style-type: none"> <li>Given the path of the virus, expect a flat or negative first quarter US GDP, but vaccinations will drive second quarter growth.</li> <li>Global trade volumes and capital expenditures /corporate profits expected to rise as the new administration seeks out multilateral trade deals and tariffs are possibly removed.</li> </ul>
Goldman Sachs	6.5%	6.6%	1.8%	0	<ul style="list-style-type: none"> <li>With Democrats controlling both houses of Congress, expect additional stimulus in the form of checks to individuals and aid to state and local governments for fuel above consensus growth.</li> <li>Fed continues interest rate policy and asset purchases through 2021; tapering possible by 2022, but rate hike not until 2024. Global monetary policy will also remain very favorable to economic growth.</li> <li>Unemployment in US will reach 4.5% by year end, but the slower pace of vaccinations will extend rebound in consumer spending over 2021. Global inflation remains below targeted levels.</li> </ul>
JP Morgan	5.0%	3.3%	1.5-2.0%	0	<ul style="list-style-type: none"> <li>Easy monetary and fiscal policy will be the backdrop for economic recovery and “front-loaded” market momentum. Growth will be below trend in the first half followed by significant expansion in the second half.</li> <li>Additional fiscal stimulus will provide consumer momentum and Congress may deliver an infrastructure spending bill for an additional boost in 2022 and 2023.</li> <li>Labor market slack will keep inflation below targeted levels.</li> </ul>



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### 2021 Outlook Expectations (continued)

2021 Forecasts	Global GDP	US GDP	US CPI	Fed Rate Increases	2021 Themes/Expectations
Morgan Stanley	6.4%	5.9%	2.0%	0	<ul style="list-style-type: none"> <li>• Additional stimulus will move US GDP to the pre-COVID-19 trend line by the second quarter of 2021.</li> <li>• Vaccinations and hopefully adequate hospital capacity will allow economies to stay open, driving a sharp rebound in global demand. Economies appear to have “limited scarring” as corporate balance sheets and household credit are showing few signs of stress.</li> <li>• Global growth will be driven by China and India, with 9.0% and 9.8% GDP in 2021.</li> </ul>
Federal Reserve*	-	4.2%	1.8% (Core PCE)	0	<ul style="list-style-type: none"> <li>• The FOMC has stated that they will maintain an economically favorable monetary policy until long-term inflation is “well-anchored at 2 percent” and will continue to monitor the economy recovery from the pandemic.</li> </ul>
Consensus**	-	4.3%	2.1%	0	<ul style="list-style-type: none"> <li>• About 90% of the those surveyed think it is likely that taxes will be increased during the Biden Administration.</li> </ul>



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## Brexit is Complete, Although Some Details Remain

On December 31, 2020, the UK left the EU customs union and single market. Control for monetary policy, immigration, border policy, and ocean rights were ceded back to the UK, and legal jurisdiction of the European Court of Justice was ended.

