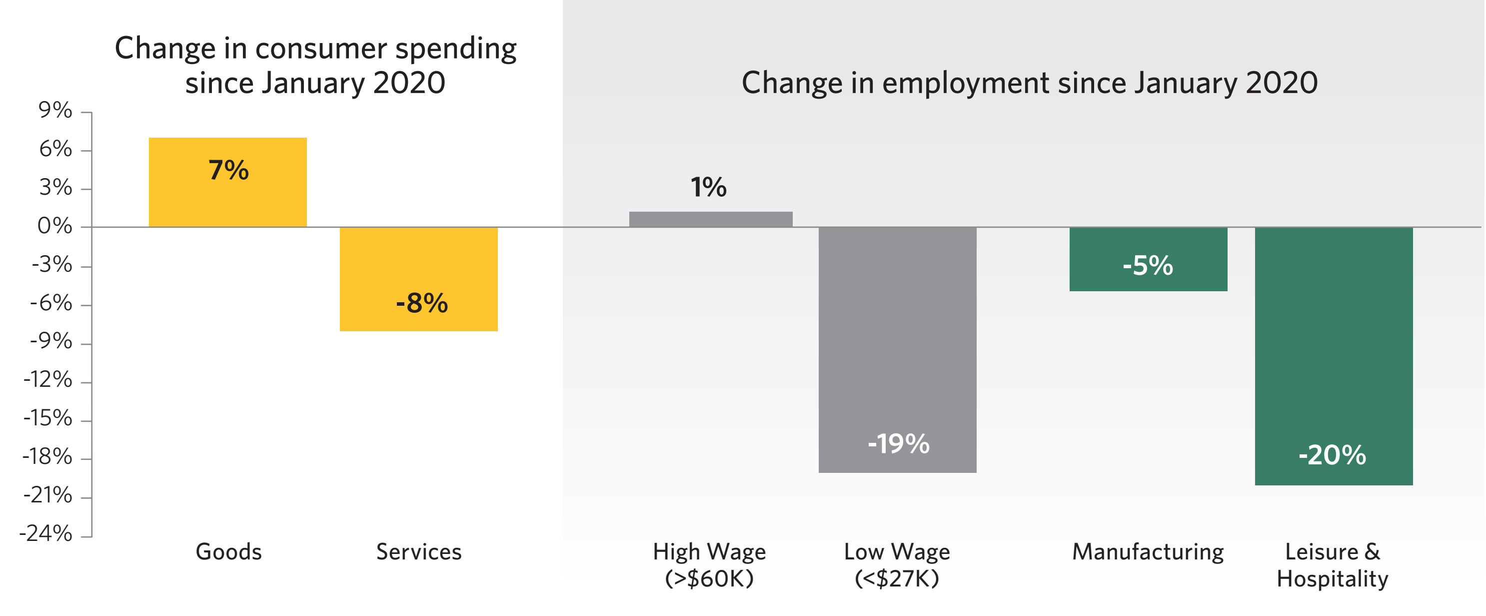
Post-vaccine Phase to Facilitate a Faster and More Even Recovery



Source: FactSet, tracktherecovery.org, 1/5/2021.

QUARTERLY MARKET OUTLOOK: **FIRST QUARTER 2021**

Economic Outlook

We expect the economy to make further progress this year in returning to its pre-crisis path. Widespread vaccine distribution, low interest rates and government aid should help extend the bull market. While the slack in the economy remains large, the outlook is improving, and 2021 could kick off a multi-year economic expansion. The trajectory of growth will be bumpy early on, but we project above-average GDP growth north of 4% for the full year.

A slow start to 2021 – The recent surge in COVID-19 cases and new restrictions will likely take a toll on the economy and labor market in the months ahead. We expect a slowdown in first-quarter GDP as areas such as retail and leisure-hospitality remain depressed until the economy enters a post-vaccine phase.

Economic reopening accelerates later – Beyond the first quarter, the outlook brightens as the vaccine rollout clears the way for a self-sustaining rebound in economic activity. As virus-related restrictions ease and pent-up demand unleashes, we expect the economy to be closer to its normal state by year-end. A return to typical spending habits will further heal the labor market and facilitate a faster and more even economic recovery.

Fiscal aid a bridge to the vaccine – The recent round of fiscal aid – including extended unemployment benefits, direct payments to households and support for small businesses – provides a bridge, in our view, until a vaccine becomes widely available and economic activity normalizes. At about 17% of GDP, the unprecedented government support has prevented a more severe and prolonged downturn and bolstered household savings. This extra buffer could support spending while the labor market continues to recover.

▸ *Action for Investors*

Owning a diversified mix of equity asset classes, including small-cap and international stocks, can position portfolios to participate in an up cycle, while an appropriate mix of bonds can help smooth out returns.

Diversification does not guarantee a profit or protect against loss in declining markets.

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