# 2021 Global Perspectives Forecast

**Douglas Coté, CFA**
Head of Global Perspectives

## Executive summary

- Entering the New Year bullish, we bid *good riddance* to 2020, a year marred by an epic Bear Market and global pandemic.
- Left "tail risks" trigger furious Bear Markets with increasing frequency, and should be planned for in the investment process.
- A "bunker buster" of monetary and fiscal stimulus kept financial markets and the economy functioning, with more on the way.
- The *Ten Fundamentals* are based on the A-B-Cs… through J, and are a comprehensive outlook for the economy and markets.
- Fundamentals drive markets, not valuations.

We enter 2021 bullish and say good riddance to 2020, a year marred by a Bear Market, a global pandemic, supply-side shocks, and economic lockdowns the world over. What we learned - or better yet, affirmed - is that when confronted by systemic shocks, it is more important than ever to "stick to the plan". In Global Perspectives, our plan follows a strict discipline to capitalize on the insight gained primarily by evaluating advancing corporate earnings, broadening manufacturing and of course, the consumer, aka - the *gamechanger*.

Recall that 2019 was the best year in a decade for the markets, fueling optimism as we were entering 2020, despite the warning signs. But while optimism was high in the markets, the Fed was more somber and kept its eye on those warnings. Starting in September 2019 the credit markets – short-term lending between banks – were severely disrupted and required massive Fed cash injections. However, this ended up *stoking* the markets while the mounting corporate weakness was disregarded.

A few weeks into 2020 and the Bear Market hit fast-and-furious. As a famous boxer once quipped, "everyone has a plan until they get hit in the mouth." Those with weak plans were stampeded as the crowd rushed to the exits. Investors who had a plan but didn't follow it - in retrospect- never really had a plan to begin with. But once the "P" word (pandemic) was uttered, markets crashed and particularly notorious was the week ending March 20, 2020 when:

- The S&P 500 dropped 15% for the week and 28% year-to-date;
- The Bloomberg Barclays High Yield Bond Index dropped 10.1% for the week and 18.1% year-to-date;
- Bond Market volatility reached the highest level since the Financial Crisis
- Sellers, who were all trying to raise cash at the same time, overwhelmed the $18 trillion U.S. Treasury market, exacerbating an all-ready bad situation that froze the credit markets.
- The Fed stepped in massively with trillions of dollars for REPO, QE and more.

Wait a minute, has this happened before? Yes. Was this the first Bear Market in a generation? No, it was the third Bear Market in 20 years. Did many "plans" factor in the possibility of a Bear Market? No. Well… why not? Because risk control is expensive, and the assumption - or hope - that the Federal Reserve will "save the day", is much cheaper. There is a pejorative name for these Fed bailouts; it is called "moral hazard" because the expectation of bailouts causes ever more need for bailouts. Certainly, investors need a better plan than the proverbial "Fed Put", not least because at some point the Fed will "run out of bullets".

Source: FactSet, as of 11/30/2021

But in 2020, the Federal Reserve and Federal Government, by golly, did deliver – not with a bazooka – but with a "bunker buster" bomb of cash injections. To help the markets and economy recover from COVID-19 the Federal Reserve and Federal Government increased their balance sheets by $3 trillion and $4 trillion, respectively, the most in both of their histories. There is more to come, too, with another $1.5 trillion or so on deck. This is an unfathomable amount of money, and it is finding its way to Wall Street.

The bullish case is predicated on positive earnings growth in 2021 and the "bunker buster" stimulus. This potent cocktail's impact on prices is unpredictable and positive. Most surely this triage was, and is, needed as states still have lockdowns in effect. But, if the vaccines work and America is reopened, then the markets and the economy would be awash in liquidity. High P/E ratios do not decide turning points, but they still matter and the risk of "mean reversion" is not an insignificant.

There is more though. The U.S. is currently in the most extraordinarily competitive business position it has been in for decades. Corporate taxes are at a historical low of 21%, the web of regulations have declined precipitously, and supply chains are coming back to the U.S. across all sectors including Healthcare, Industrial, and Technology. Add a phenomenal amount of infrastructure ready and able to be quickly turned back on then the seeds for fast growth have been sown. This is unequivocally bullish for the economy, jobs and the all-important consumer.

## Forecast 2021

The forecast for 2021 is as straightforward as what we refer to as the "A-B-C's" of the markets. We have used the "10 Fundamentals" before, but now for simplicity and transparency we use the first 10 letters of the alphabet A – J:

### Figure 1. Global Perspectives

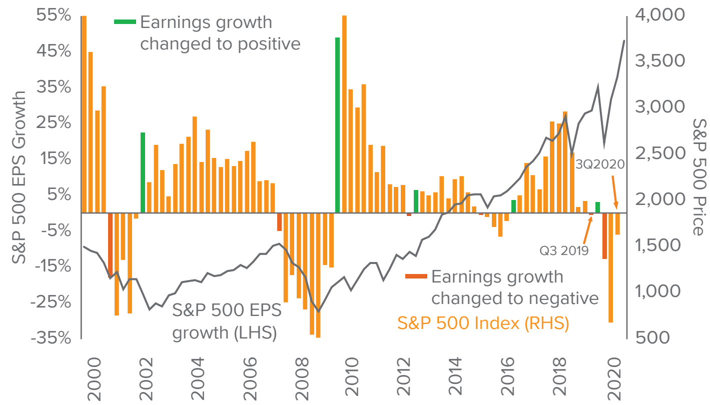
| Market Fundamentals | 2021 Forecast |
|---|---|
| S&P500 Index Level | 4500 |
| S&P500 EPS | $168 |
| Crude Oil | $60 /bbl |
| Gold | $2,200 /oz-t |
| 10 Year UST Yield | 1.50% |
| Trade Weighted $ (DXY) | 88 |
| Bitcoin (CME) continous | $45,000 |
| US GDP Growth | 6% |

### A – Advancing earnings

The S&P 500's corporate earnings for 2020 is expected to be $138.17 per share, compared to 2019's $162.93, or an expected loss of 15.2%. These extraordinarily suppressed earnings are due solely to the global pandemic-induced economic shutdowns and are expected to "revert to the mean", which is Wall Street speak for snap back to normal. This snap back is likely to be epic, and stoked by Fed liquidity, vaccinations available at the speed of light, and an incalculable amount of pent-up demand. 2020 S&P Price ended at $3756 or a P/E of 27.1. Our forecast is $168 in earnings per share, or earnings growth of 24.5%. Our forecast for the S&P 500 price in 2021 is climb back to $4500 and for a P/E of 26.2.

### Figure 2. Fundamentals Drive Markets

Earnings growth of the S&P500 is a key indicator of health for the overall stock market



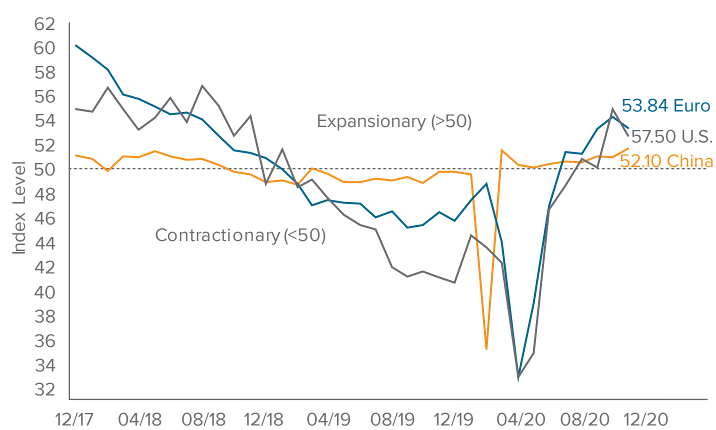

Source: Refinitiv – Thomson Reuters and FactSet, Voya Investment Management. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. The S&P 500 index is a gauge of the U.S. stock market that includes 500 leading companies in major industries of the U.S. economy. **Past performance is no guarantee of future results. Indices are unmanaged and not available for direct investment.**

### B – Broadening manufacturing

The equipment sector of the U.S. economy is booming, with capital goods shipments and orders excluding aircraft reaching all-time highs since the start of the fourth quarter. We are also seeing a sharp rebound in the mining sector with the recovery in petroleum prices. Mining output has rebounded 2.5% from the August bottom, and should post a double-digit gain in 2021 alongside rising rig counts.

### Figure 3. Manufacturing Closed Out The Year in Expansion Territory

Global Manufacturing PMIs




Source: Institute of Supply Management, FactSet. The Purchasing Managers' Index (PMI) is an indicator of economic activity in the manufacturing sector. Measures above 50 indicate economic expansion, measures below 50 indicate economic contraction. PMI's as of 12/31/2020, Industrial Production as of 10/31/2020.

## C – Consumer

The consumer is "The Gamechanger" and continues to deliver the goods. In fact, there are not enough superlatives to emphasize the benefit from the consumer in 2020 and beyond. For example:

- The consumer is nearly 70% of U.S. GDP
- U.S. wealth hit an all-time high in 2020 of $123 trillion
- Retail Sales for November 2020 were 4.1% above November 2019 at $546.5 billion
- By October 2020, consumer credit had the largest string of gains since 2001
- Online shopping sales grew by a gargantuan 49% between October 11 and December 24

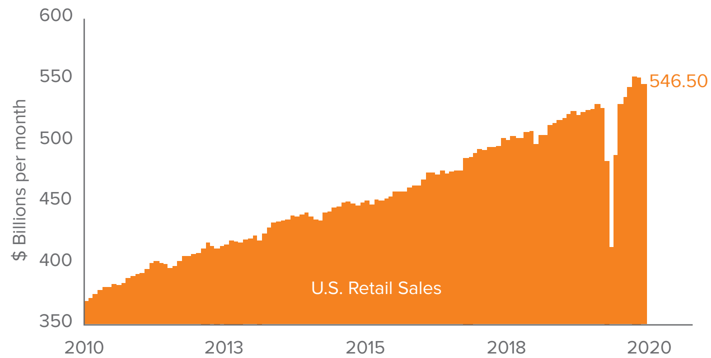
We've seen a rotation in the national consumption basket, and though the media has focused on the demand shortfalls in the restaurant, travel and entertainment industries, demand for goods outside of these targeted areas has surged to new highs. Payments from the CARES Act, and now additional distributions to the public with a second stimulus package, has supported an enormous 7.4% rise for disposable income in 2020, marking the largest increase since 2000. Income will get an additional boost in 2021 with new stimulus spending, while prospects for a big infrastructure spending bill in the coming year suggest further fuel to support most industries, despite the devastation that will continue to depress some businesses.

## D – Diversification

2020 for decades to come will be the *raison d'etre* for diversification. The epic moment was during the first quarter Bear Market when the S&P 500 plummeted 19.6%, while the super-safe U.S. 20-Year Treasury Bonds skyrocketed 21.5%, or a mere 41.1% return differential in one quarter! That was what we usually think of when talking about risk control – protect the downside.

**Figure 4. Consumer as a *Game Changer***

At about 70% of GDP, the U.S. consumer is a *gamer changer*




Source: FactSet. U.S. retail sales, as of 11/30/2020

But what about upside risk? Diversification wins by expanding the opportunity set. In the fourth quarter the tables turned, and the market was blazing. The "market" as defined by the S&P 500 was up big, by an astounding 13%. But investors missed an epic record. The market's brethren the S&P 600 small-cap index. The small-cap index skyrocketed an also epic 30% in that same 90 days, the fastest on ever.

Matt Toms, Voya Investment Management's CIO of Fixed Income, recently published "Global Debt Explodes: 2021 Fixed Income Outlook" and captured the key elements driving Emerging Markets, Central Banks and Global Growth, among others. Below are respective quotes from that piece.

**Figure 5. Global Effective Diversification Has Beaten the S&P 500 Over a Long Period of Time**

| Index | 2020 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | 3 years | 5 years | 10 years | 20 years |
|---|---|---|---|---|---|---|---|---|---|
| **Equity** | | | | | | | | | |
| S&P 500 | 18.4 | -19.6 | 20.5 | 8.9 | 12.1 | 14.2 | 15.2 | 13.9 | 7.5 |
| S&P Midcap | 13.7 | -29.7 | 24.1 | 4.8 | 24.4 | 8.4 | 12.3 | 11.5 | 9.3 |
| S&P Smallcap | 11.3 | -32.6 | 21.9 | 3.2 | 31.3 | 7.7 | 12.4 | 11.9 | 9.8 |
| Global REITs | -8.2 | -28.3 | 10.3 | 2.3 | 13.5 | 2.5 | 4.7 | 6.3 | 8.1 |
| EAFE | 8.3 | -22.7 | 15.1 | 4.9 | 16.1 | 4.8 | 8.0 | 6.0 | 5.0 |
| Emerging Mkts | 18.7 | -23.6 | 18.2 | 9.7 | 19.8 | 6.6 | 13.2 | 4.0 | 9.9 |
| Average | 10.4 | -26.1 | 18.4 | 5.6 | 19.5 | 7.4 | 11.0 | 8.9 | 8.3 |
| **Fixed Income** | | | | | | | | | |
| Corporate | 9.9 | -3.6 | 9.0 | 1.5 | 3.0 | 7.1 | 6.7 | 5.6 | 6.1 |
| U.S. Treasury 20+ | 18.1 | 21.5 | 0.1 | 0.1 | -3.0 | 10.0 | 8.0 | 8.2 | 7.3 |
| Global Aggregate | 9.2 | -0.3 | 3.3 | 2.7 | 3.3 | 4.8 | 4.8 | 2.8 | 4.8 |
| High Yield | 7.1 | -12.7 | 10.2 | 4.6 | 6.5 | 6.2 | 8.6 | 6.8 | 7.8 |
| Average | 11.1 | 1.2 | 5.7 | 2.2 | 2.4 | 7.0 | 7.0 | 5.9 | 6.5 |
| Overall Average | 10.6 | -15.2 | 13.3 | 4.3 | 12.7 | 7.2 | 9.4 | 7.7 | 7.6 |

Source: FactSet, FTSE NAREIT, Voya Investment Management. The Overall Average model allocation includes 10 asset classes, equally weighted: S&P 500, S&P 400 Midcap, S&P 600 Smallcap, MSCI U.S. REIT Index/FTSE EPRA REIT Index, MSCI EAFE Index, MSCI BRIC Index, Bloomberg Barclays U.S. Corporate Bonds, Bloomberg Barclays U.S. Treasury Bonds, Bloomberg Barclays Global Aggregate Bonds, Bloomberg Barclays U.S. High Yield Bonds. Returns are annualized for periods longer than one year. **Past performance is no guarantee of future results. An investment cannot be made in an index.**

Unless otherwise indicated, all economic information provided by Action Economics, LLC. All stock information provided by FactSet. As of 11/30/2021, unless otherwise indicated.

### E – Emerging markets

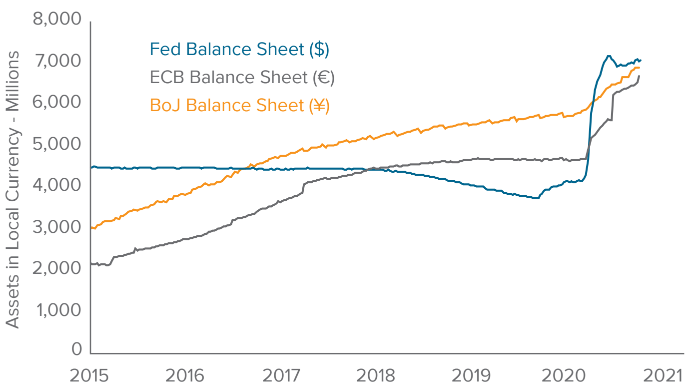
"While lagging the initial rebound, EM's higher potential growth rate will be a key incremental source of global growth as longer-term demographic and debt headwinds increasingly weigh on more advanced economies. Global monetary and fiscal accommodation combined with less uncertainty and a more multilateral trade environment will benefit EM, attracting abundant capital which will further stimulate growth."

### F – Federal reserve

**Central Banks:** "Central banks still fear deflation and will prioritize support for growth and broad labor market dynamics over the containment of cyclical inflationary pressures.  Competing QE purchase activity between the Fed and the ECB will control the direction of the dollar with the ECB seeking to limit significant appreciation of the euro."

**Markets:** "A rebounding economic environment, fostered by a duality of fiscal and central bank support, will push spreads uncomfortably tight. Already heavy use of economic stabilizers creates fragility to shocks and will leave investors exposed to increasingly asymmetric risk profiles. Diversification, tail risk hedging and careful analysis of cyclical vs. structural factors are necessary to mitigate downside risks."

**Figure 6. The U.S. Federal Reserve's Stimulus is Unprecedented and Massive**




Source: FactSet, Voya Investment Management, as of 10/02/20. ECB = European Central Bank.

### G – Global growth

"The recovery in services spending coupled with resilience in goods demand will usher in an extended period of above trend global growth, easing pressure on the income divide. China will be a key driver of global growth near-term, but its cyclical influence will wane over time as it evolves from a global goods producer and exporter of disinflation to a service-driven economy."

### H – Housing

Most home sales measures are fluctuating around highs not seen since the 2003-2006 housing boom, leaving 14-year highs for most measures. New home sales are now heavily skewed toward homes not started yet, leaving a solid flooring for construction activity well into 2021. The NAHB housing market index slipped to its second highest reading ever of 86.0 in December, after a seven-month surge through four consecutive all-time highs to a peak of 90 in November.

This is in no small measure, and it is attributable to:

- Mortgage rates setting record lows – 2020's were a full percentage point below 2019's
- An 88% increase in mortgage applications in 2020 from 2019
- The $1.78 trillion mortgage refinancing expected in 2020, the highest since 2003, according to Mortgage Bankers Association
- The 2.3 months' supply of homes – the lowest ever

### I – Inflation

The purpose of the massive stimulus in the global economy may be rendered absolute soon due to vaccines, herd immunity or other exogeneous factors. The likelihood of governments removing the excess stimulus once it is no longer needed is slim-to-none. This creates a concern of rampant inflation with the money supply growing faster than the economy.

However, Voya's Fixed Income CIO Matt Toms has a different view on inflation and a warning on "tail risk" that was perfectly framed in "Global Debt Explodes: 2021 Fixed Income Outlook". He said that Resurging global growth will produce an inflationary pulse that will prove muted in magnitude and duration as lingering excess supply and productivity growth allow capacity to exceed the increasing level of demand. The return of service demand will create localized but less globally transmissible pockets of inflation.

### J – Jobs

Payrolls over the May-November period have reclaimed 57% of the jobs lost in March and April, while hours-worked have reclaimed 68% of the drop. Quite impressive. The big concern though, is that Government "Lockdowns" are still the tool of choice for the U.S. and Europe. Lockdowns create uncertainty, cost jobs and push businesses into bankruptcy. In my view, the best stimulus would be to fully reopen the economy and end the use of lockdowns, which are creating unintended consequences.

Our forecast is a 5% unemployment rate. This is extraordinarily bullish for the consumer.

That ends the "Fundamental 10" commonly referred to as the "A,B,Cs" or more accurately "A – Js"

## Conclusion

Stocks are hot, stoked by gargantuan Central Bank stimulus and government fiscal spending. The adage "Don't Fight the Fed" is correct, and that means even a severely over-priced market can keep going up. In other words, valuation cannot decide turning points like fundamentals can. There are two equally powerful risks we mentioned - "tail-risk" and "mean-reversion" - which simply means that when the sentiment switches the rush for the exits is not orderly. Welcome 2021, but just remember that "Fundamentals Drive Markets".

Unless otherwise indicated, all economic information provided by Action Economics, LLC. All mortgage and housing information provided by Mortgage Bankers Association. As of 11/30/2021, unless otherwise indicated.

**Disclosures**

**General Investment Risks:**

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. All security transactions involve substantial risk of loss. Diversification does not guarantee a profit or ensure against loss.

**Important Information**

This paper has been prepared by Voya Investment Management for informational purposes. Nothing contained herein should be construed as (i) an offer to sell or solicitation of an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing or selling any security. Any opinions expressed herein reflect our judgment and are subject to change. Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differmaterially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (1) general economic conditions, (2) performance of financial markets, (3) interest rate levels, (4) increasing levels of loan defaults, (5) changes in laws and regulations and (6) changes in the policies of governments and/or regulatory authorities.



**Past performance is no guarantee of future results.**



XXXXXX • XXXXXX • XXXXXX • WLT250006774