Vanguard®

APPROACHING THE DAWN

Get ready for 2021

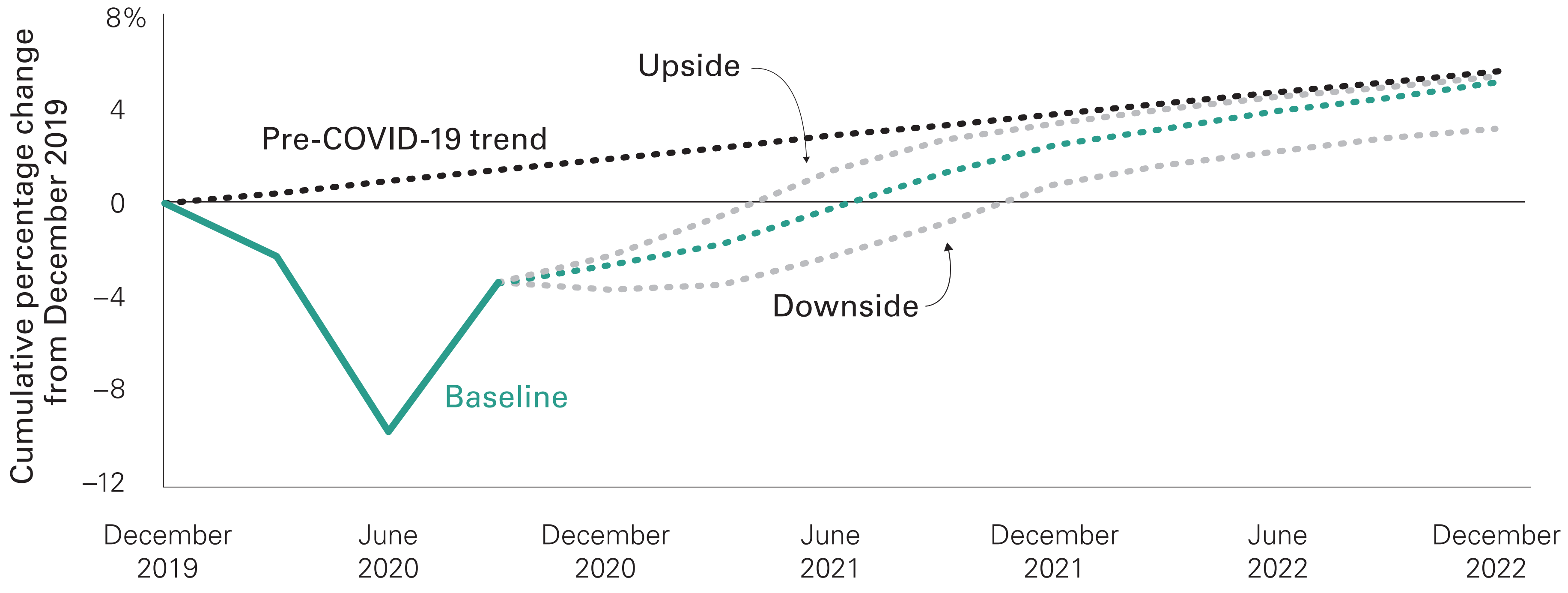
The year 2020 was a brutal one for the economy and for our daily lives. The pandemic caused a strong downturn, and unemployment spiked in the spring. Economic conditions have only just started to turn around. So how fast will things get back to normal? Here’s a high-level look at the forces that will shape the economy and markets in 2021—a great starting point for discussions with your advisor.

The course of the pandemic will be key

Vanguard's economic outlook for 2021 is based on positive coronavirus-related health outcomes for the broader population. If people get vaccinated and start resuming travel, entertainment, and other consumer activities, the economy can get back into gear. A healthy economy begins and ends with a healthy population.

But the recovery is likely to be uneven, with face-to-face sectors such as restaurants likely the last to fully recover.

Health outcomes drive next phase of recovery



Notes: The y-axis represents the GDP-weighted level impact from the baseline, which is December 2019 for major global economies. The teal and gray dotted lines represent three forecasts: our base case and upside and downside scenarios. The downside scenario is characterized by a failure to significantly reduce virus transmission in the short term, which would cause a slower recovery. Potential problems with the efficacy, adoption, distribution, or safety of a vaccine could also surface. The upside scenario is characterized by a speedy, large-scale distribution of an effective vaccine, which will see the economy return to normal more quickly than we currently expect.

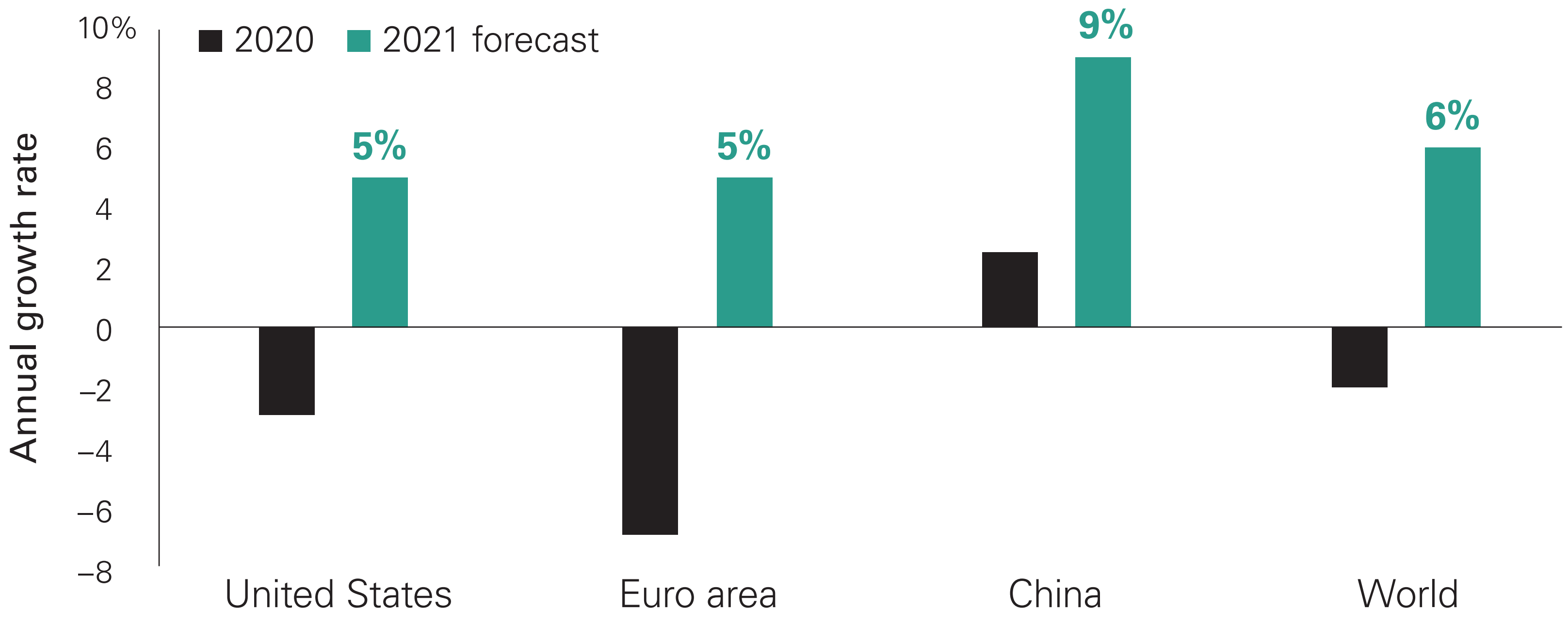
Sources: Vanguard and Refinitiv, as of November 30, 2020.

Growth is expected to begin making up for lost ground

The hit we saw to the global economy in early 2020 was the largest since World War II, but the early pace of recovery has also been sharp. Thanks to swift government response, economies around the world continue on their paths to recovery. We see this second phase of the recovery playing out over the next year or two as businesses and consumers regain a sense of normalcy.

China has made swift return to near pre-pandemic output, and Vanguard sees that extending in 2021 with growth of around 9%. We expect growth of approximately 5% in the U.S. and 5% in the euro area, with those economies ending at or marginally below their pre-pandemic output levels. In emerging markets, we expect an uneven and challenged recovery, with an aggregate growth of about 6%.

Global growth: Better in 2021



Notes: Growth for 2020 includes Vanguard estimates for the fourth quarter. Growth figures are rounded.

Sources: Vanguard and Refinitiv, as of September 30, 2020.

Inflation should be tame, and the job picture is set to improve

Some worry that rising debt levels from stimulus packages may cause inflation levels to soar. Vanguard sees the potential for a bump in inflation early in the year, but we don't expect that to be sustained. Inflation will likely end the year below 2%.

As the health picture improves in the second half of 2021, look for a sharp acceleration in job growth, and an unemployment rate near 5% at the end of 2021.

Market returns may be modest

Vanguard's outlook for global asset returns is guarded. This is most true for stocks, as high valuations and lower economic growth rates mean you can expect lower returns over the next decade. Possible bright spots: international and value stocks, which have been laggards for years.

Given the strong, if not uniform, recovery in global stock prices, the risk of a sharp downturn (defined as a greater than 20% drop) over the next three years remains elevated.

For bonds, lower interest rates and flatter yield curves (where there's not a lot of difference between short-, mid-, and long-term rates) are expected to weigh on returns for the foreseeable future. But instead of viewing this asset class as a primary return-generating investment, think of bonds more from a diversification and risk-mitigating perspective.

Where do you go from here?

In the coming months, your advisor will stay focused on what matters most: your progress toward achieving your goals. You can tune out the financial news and ignore market gyrations—both positive and negative—because your advisor has that covered. You can rest assured that you're prepared for whatever comes your way because of all the work you've done together.

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