

# Economic Outlook

Second Quarter 2021

## Back to Normal (Almost)

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SEI recently released its second-quarter Economic Outlook. A summary of the conclusions is provided below:

- It has been full-steam ahead for both the global economy and the rally in risk assets (equities, commodities, high-yield bonds, real estate and currencies).
- Canada has taken a more cautious and mostly unified approach to combatting COVID-19 compared to the U.S. response. This has been evident in the marked difference between the two countries' reported infection rates throughout the pandemic.
- Now that the COVID-19 vaccine distribution in Canada is proceeding rapidly, there is reason to hope the populace can return to normal life in the months immediately ahead.
- The delta variant<sup>1</sup> of the virus continues to challenge economic progress across the globe, but all countries are expected to register solid increases in second-quarter GDP, albeit not as strong as the gain expected in the U.S. We anticipate that other advanced economies should post strong results in the second half of the year and into 2022.
- It is SEI's contention that the global recovery and expansion have a long ways to go, especially since many countries are still restricting freedom of movement and commerce to at least some degree.
- Equity markets have long anticipated the economic improvement we now are seeing. In the past quarter, performance was strong and rather uniform across the major developed-countries, with returns ranging from 4% in Germany to almost 9% in Canada. Japan was the major exception, with its benchmark gaining only 0.4%.
- Relative to history, Canadian equities are trading at a rather high multiple, but the earnings trend has been quite strong and should continue to head higher through 2021 and into 2022; also, bond yields remain quite low, largely justifying (in our view) the high multiples sported by Canadian equities.
- With economies around the world slowly opening up and interest rates hovering at extraordinary low levels, the dominant trend signals further price gains in global equities over the next year or two.
- Measures of Canada's core consumer-price index, which excludes energy and food, are also rising. We suspect that price pressures will persist through the rest of the year and into 2022 as businesses that provide goods and/or services struggle to keep up with demand.
- The Canadian dollar, meanwhile, has shown exceptional strength since hitting bottom in March 2020. While it can help to moderate inflation by lowering the cost of imported goods from the U.S., it can also hurt Canada's competitive position by increasing export costs to Canada's most important customer.
- The Bank of Canada appears to be hedging its bets regarding inflation. It already announced a tapering of its security-purchase program. The bank's governing council also expects to raise its overnight policy rate in 2022, ahead of any move made by the U.S. Federal Reserve.

A full-length paper is available if you wish to learn more about these timely topics.

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<sup>1</sup> The Delta variant, also known as lineage B.1.617.2, is a variant of lineage of SARS-CoV-2, the virus that causes COVID-19. It was first detected in India in late 2020.

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