

2021 Economic Outlook | Event Recap

Presented by:



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**THE EXECUTIVES' CLUB
OF CHICAGO**
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EVENT DETAILS

Thursday, January 14, 2021; Virtual Event

Speakers (in order of presentation):

- Jeffrey Gundlach; Chief Executive Officer & Chief Investment Officer, DoubleLine
- Diane Swonk; Chief Economist, Grant Thornton LLP
- James McDonald; Founder, Hercules Investments
- Dr. Bob Froehlich; Owner, Kane County Cougars Baseball Club & Former Vice Chairman, Deutsche Asset Management

Moderator:

Terry Savage, Nationally Syndicated Columnist, Terry Savage Productions

EVENT OVERVIEW

With the door having just closed on one of the most unpredictable years in our nation's history, the energy from over 2,500 eager attendees was palpable even virtually at this year's Annual Economic Outlook Event, hosted by The Executives' Club of Chicago. Last year at this time, we were celebrating an all-time high for the stock market, a record low for unemployment, and newfound levels of consumer confidence. Today, in the midst of a deadly pandemic and both social and political unrest, a humbled panel touched on the resiliency of our nation, combining optimism with realism as they answered the difficult question on everyone's mind: "what's next?"

Jeffrey Gundlach:

The event's first panelist, Jeffrey Gundlach, began by voicing his concerns about inflation and an economy that's propelled exclusively by borrowing. He believes with certainty that inflation will move higher in the next five months as the base effect of the initial lockdown wears off.

Gundlach asserted that the stock market is extremely overvalued and worries that consumer confidence has not improved from the depths of lockdown. Because we still haven't seen job growth rebound anywhere close to its pre-pandemic peak, Gundlach believes we are still in a recession.

Next, Gundlach turned to the Nasdaq, which he believes has relinquished its leadership role. He referred to the Super Six (Facebook, Amazon, Apple, Alphabet, Netflix and Microsoft) as "the Generals", noting that it's a bad sign when the Generals who previously led the charge are leaving the battlefield, as it often means there is a rotation.

Lastly, Gundlach predicts that unemployment will continue to rise, as well as begin climbing the economic ladder. He also foresees significant organizational restructurings in the near future, asserting that at one year of lockdown, CEOs have to start asking themselves “When am I going to start restructuring my business, and stop pretending that this is just temporary?”

Diane Swonk:

Second to provide her forecast was the always passionate Diane Swonk, who began by describing how COVID-19, once considered a sprint, has evolved into a marathon. Today, she believes we’re in “the hardest mile”, where fatigue has set in, but we must press forward if we want to reach the finish line of herd immunity and be able to reopen our economy more fully.

Unfortunately, Swonk believes conditions will get worse before they get better, and painted a grim picture of rising Covid cases, stunning levels of unemployment, and declining physical and mental health. Swonk also discussed how the pandemic has exposed and exacerbated inequalities, observing that Wall Street is highly disconnected from Main Street. For example, the current unemployment rate for the bottom 25% of wage earners is now 20%, the unemployment rate for the top 25% of wage earners is 5%, and the top 1% of wage earners are actually better off than they were a year ago.

On a positive note, Swonk believes the adrenaline shot out there is the vaccine. Only if we fully embrace it, she believes we have the potential to reach herd immunity by fall, allowing the economy to reach its previous peak by the end of 2021. In the meantime, Baby Boomers are likely to save instead of spend, which will continue to take a toll on our economy.

Finally, Swonk explained that economic recovery is not just about regaining the ground we’ve lost, but also regaining what could have been. For example, we are down 10 million jobs today, but it can’t be overlooked that a year ago, we were also generating almost 200,000 new jobs per month. Swonk also acknowledged that women and minorities are being disproportionately affected by the pandemic. Her hope is that in the end, Covid will be a catalyst for economic reforms that allow for more even, inclusive growth.

James McDonald:

New to the panel this year was James McDonald, who was the unapologetic bear of the group. McDonald believes that the market will retest the lows in 2021 before rebounding, and also believes that the real recession hasn’t really begun.

Much of McDonald’s bear outlook is based around what he refers to as economic fundamentals. First, he asserted that the action of the Fed has been more successful at inflating asset prices and the money supply rather than the economy and GDP. He went on to explain that because Covid will continue to impact the economy, real GDP forecasts are going to fall below the long-term growth rate, which creates a wider wealth gap and exasperating social challenges.

McDonald then went on to outline how the economic shutdown has taken a dramatic toll on small businesses, and forced many companies to take on overwhelming debt loads. As policy makers buy junk debt, he worries that they may inadvertently be directing the flow of capital to unproductive firms, depressing employment and growth for years to come.

McDonald believes that demand is the key to future expectations for growth, and it's going to have to come from Main Street. However, the reality is that 50% of Americans say they are worse off today than last year, nearly 40% say they will be in survival mode in 2021, and 65% say they plan to save more money in 2021. In short, he believes the consumer will **not** rescue the economy this year.

That said, McDonald does believe that our economy and the people of our nation are resilient, and all hope is not lost. He shared that in a global survey by Bank of America in December, 75% of fund managers said they believe the Covid vaccines will start to positively affect the economy by the end of Q2.

Dr. Bob Froehlich:

Rounding out the event's panel was the always optimistic and entertaining Dr. Bob Froehlich. Dr. Bob began by explaining that it was a perfect storm that hit the US in 2020. We experienced our nation's worst healthcare crisis of the past 100 years, the worst social unrest of the last 60 years, and the most polarized political landscape in at least 200 years. "We just had the ice age, the stone age, and the industrial revolution all happen in the exact same year," he said, reinforcing that this perfect storm will never happen again. That said, Dr. Bob believes there are four seismic shifts occurring right now as a result of 2020 that will have major investment implications:

- WFH (Work from Home): Because Covid-related office closures extended far beyond what was expected, employers and employees have learned to embrace working from home. This has provided welcomed benefits for both parties and led to a new equilibrium between autonomy and accountability. Moving forward, employers who don't fully embrace the WFH concept will be at a disadvantage for talent.
- It's Woke Up Time: With endless access to news via technology and social media, our nation is more aware and informed than ever when it comes to unjust current events. To be successful moving forward, companies have to be willing to speak out and take a stand on social and environmental issues because employees, consumers, and stakeholders are now demanding it. The cost of silence is too much.
- Digging From China: Covid exposed just how fragile the world's supply chain is, especially for organizations that are completely reliant on China. In the next two years, Dr. Bob predicts there will be more supply chain diversification than ever before to protect against disruptions. While China will remain the world's manufacturing leader due to its labor cost advantage, this shift will bode well for other Asian nations.
- FOGO (Fear of Going Out): Where our nation once suffered from "FOMO", or fear of missing out, Covid has brought about a new inverted trend to take its place. Instead of fearing what will be missed by staying home, Americans now fear the cost they'll pay for going out. Dr. Bob suggests we keep an eye on the buttered popcorn index as an indication of when people are comfortable venturing out of their homes again.

KEY 2021 PANEL PREDICTIONS

- Jeffrey Gundlach predicts the Dow at 28,000, Nasdaq at 10,000, and interest rates (10-year treasury) at 1.95%. If he had \$100,000 to invest this year, he would put half into INDA, 25% into the US Copper Index Fund (CPRR), and 25% into TLT.
- Diane Swonk predicts the Dow at 28,000, Nasdaq at 10,000, and interest rates (10-year treasury) at 1.3% if we can achieve herd immunity against Covid. If she had \$100,000 to invest this year, she would put \$50k into single family housing, and \$50k into clean energy.
- James McDonald predicts the Dow at 25,000, and Nasdaq at 11,500. If he had \$100,000 to invest this year, he would put it all into volatility as an asset class (UVXY and VOLQ).
- Dr. Bob Froehlich predicts the Dow at 40,100, Nasdaq over 17,000, and interest rates (10-year treasury) between 1-1.5%. If he had \$100,000 to invest this year, he would put \$25k into the US Copper Index Fund (CPRR), \$25k into MPACX, \$25k into Kate Spade (KATE), and \$25k into Lululemon (LULU).

2021 ATTENDEE PREDICTIONS

At the start of this year's event, three virtual polls invited attendees to join in the forecasting fun. Below are the participants' predictions for the coming year:

- Dow Jones Industrial Average – 70% of attendees predict it will end 2021 higher than today, and 30% predict lower.
- 10-Year Treasury (Mortgages) – 88% of attendees predict rates will close out 2021 higher than today, and 12% predict lower.
- Bitcoin – 73% of attendees believe Bitcoin will close out 2021 lower than today, and 27% predict higher.

CLOSING THOUGHTS

From a growling bear to a buoyant bull, this year's panel certainly demonstrated the diversity of thought leadership coming out of an unprecedented year. On behalf of The Executives' Club of Chicago, we hope the expert insights provided will assist you in planning for the year ahead, and for the first time, we are excited to share that the panel will be providing a mid-year update in June. In the meantime, we'll proceed with cautious optimism as we wait to see which of our esteemed panelists will come closest with their economic forecast. We firmly believe in the resiliency of our nation's people and look forward to seeing what we can accomplish together in 2021.