2021 Economic Outlook – Midyear Update | Event Recap

Presented by:

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THE EXECUTIVES' CLUB OF CHICAGO
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EVENT DETAILS

Thursday, June 17, 2021; Virtual Event

Speakers (in order of presentation):

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

Moderator:
Terry Savage, Nationally Syndicated Columnist, Terry Savage Productions

EVENT OVERVIEW

Just six short months ago, Donald Trump was our nation's President, a nurse in New York had just received America's first COVID-19 (Covid) vaccination, and the term "Meme Stocks" was nowhere on the radar. It safe to say that both our nation and our economy have experienced rapid changes since January, and that's why after 40 years of hosting the Annual Economic Outlook Event, The Executives' Club of Chicago (Exec Club) decided that 2021 was the perfect year to introduce a Midyear Update. The virtual event welcomed an expert panel back to revisit January predictions, discuss the current state of the economy and stock markets, and forecast what we can expect heading into the second half of the year.

Diane Swonk:
The event's first panelist was long-time Exec Club friend and contributor Diane Swonk, who began by sharing that she's feeling much more optimistic about the state of the economy than she was just six months back. In January, Swonk painted a grim picture of rising Covid cases, stunning levels of unemployment, and declining physical and mental health. However, she had also noted that the Covid vaccine had the potential to serve as a much-needed adrenaline shot, and 146 million fully-vaccinated Americans later, she appears to have been correct.

Swonk noted that in terms of the economy, we have more than filled the hole left by Covid. The US GDP is on track to exceed 7% this year, which is within striking distance of the best growth rate our nation has experienced in nearly 70 years. On the flip side, Swonk explained that with any re-entry, there is always friction and heat. She pointed to inflation as a prime example, and warned that the risk of a mis-step by the Fed is very high. Swonk is most worried about the possibility of a boom-bust cycle, and while she hopes to see a nice long expansion, she asserts that it wouldn't take much to derail the economy with a rapid increase in rates.

Swonk also touched on friction in regard to unemployment, noting that businesses are now attempting to re-open faster than they can match workers to jobs. She shared that droves of employees are now upskilling through colleges and training programs, while at the same time, many workers ages 65+ are choosing to retire. Swonk predicts that we will cross the one million mark in terms of job gains around September in tandem with school and childcare re-openings, and by the end of 2022, labor markets will go back to seeing a 3% unemployment rate.

Dr. Bob Froehlich:
Next to speak was the bullish resident of the panel, Dr. Bob Froehlich, who began by underscoring that the first six months of 2021 were impacted by two key factors—Covid, and Covid. Dr. Bob then dove a bit deeper, outlining three key takeaways from Q1 and Q2 that he feels will greatly impact the economy and markets moving forward:

1. The Impending Doom that Never Happened – On March 29, the head of the CDC delivered a now-famous speech warning that if states continued to relax restrictions and Americans started to travel, the result would be impending doom. Six weeks later, in a 180-degree turn, the CDC eased both mask and social distancing restrictions.

2. Covid by the Numbers – Both the number of new Covid cases and the number of Covid deaths are dramatically down (over 90%) from their peaks.

3. Revised Death Toll Numbers – Data suggests that many fatalities initially blamed on Covid were actually the result of pre-existing conditions.

Given the above, Dr. Bob feels that markets can finally see a light at the end of the tunnel, and the numbers we're seeing today are merely "a warm-up act". Dr. Bob is sticking by his 40,100 prediction for the DOW at the end of 2021, contending there is no way the second half of the year isn't going to see even stronger economic growth than the first. He credits his bullish outlook to the fact that the whole country is set to fully reopen to pre-Covid levels, combined with 15 months of pent-up demand, record low interest rates, affordable energy prices, and a massive government stimulus.

Dr. Bob also explained that he isn't concerned about overheated inflation due to the economy taking off. Rather, he predicts that inflation in 2021 and 2022 will simply hover around the Fed's target range of 2-2.5% rather than falling under target as it has every year for the past 13 years.

James McDonald:
Rounding out the event's panel was James McDonald, who eased up just slightly on the unapologetically bearish forecast he shared back in January. McDonald started out by acknowledging that as a nation and an economy, we are certainly back on the road to normal, and also noted that what we observed with equity prices from the beginning of the pandemic all the way through to Q1 was certainly unprecedented.

McDonald then went on to explain that while economic output and corporate earnings are projected to grow above trend for the next couple years, EPS growth in 2022 will naturally decelerate from the levels seen in the post-reopening boom of 2021. Although we are headed back to normal, McDonald noted that the stock market—and in particular the S&P 500—is still susceptible to correction before year end, meaning we could still finish 2021 in the red.

To support his market outlook, McDonald outlined four major risks:

1. Focus on the Fed in Driving the Bull Market – The Fed is the reason for the bull market, and when that abates, the market is in jeopardy.

2. Tax Hikes – The US spent fifteen times more in stimulus than in the 2008 recession. Those dollars will have to be repaid, and our new regime will increase taxes to do so.

3. Geo-Political Risk – Iran, Israel, and the US all have new leaders, and historically, this shakes markets. The risk is especially noteworthy given how connected our economies are today.

4. Cyber Terrorism – Every two to three days, major institutions are put at risk because of ransomware. This is underreported, but should not be underestimated as a major threat.

MIDYEAR INVESTMENT PICKS

- If Diane Swonk had $100,000 to invest the back half of this year, she would invest in electric vehicle batteries, and pharma companies focused on making us well from COVID.
- If Dr. Bob Froehlich had $100,000 to invest the back half of this year, he would put $50k into the US Copper Index Fund (CPER), and $50k into the Matthews Asia Growth Fund (MPACX).
- If James McDonald had $100,000 to invest the back half of this year, he would put 1/3 into personal care (SKIN), 1/3 into shorting the S&P 500, and 1/3 into whatever Dr. Bob says.

CLOSING THOUGHTS

While our diverse panel still ranged from a bear to a bull, all were in agreement that resilience has certainly carried us through the first half of the year, resulting in some rapid and exciting developments in today's economy and markets. On behalf of The Executives' Club of Chicago, we hope the insights shared at this first ever Midyear Update prove valuable as you plan for the remainder of your year. We wish you a successful and healthful six months ahead, and look forward to seeing you at the next Economic Outlook event in January!