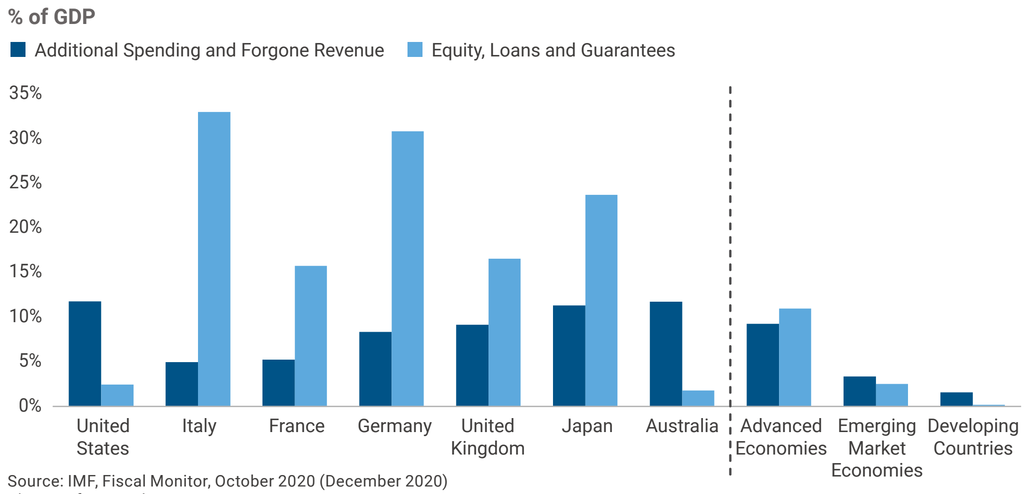
Hamilton Lane

2021 Market Overview: Looking Ahead — Outlook for the Markets & Economy

Adding to our confidence that 2021 will experience economic growth is the fiscal response from governments globally.

Chart 1: Discretionary Fiscal Response to COVID-19 Crisis



Source: IMF, Fiscal Monitor, October 2020 (December 2020)
Please refer to endnotes.

The world has not witnessed this kind of coordinated central bank and government response, probably not even during the Great Depression. We expect that this will continue through 2021, providing ongoing support for economic growth. It is worth considering why the response has been so different from that during the GFC. In 2008, many parts of the population and government viewed the economic downturn as something caused by banks, or failed regulation, or a general failure of economic policy. It is difficult to marshal full support for unlimited government response when many view certain actors or the government itself as responsible.

By contrast, the pandemic was viewed, correctly, as no one's fault. It was the classic force majeure, unexpected and with devastating impacts on health and economic stability. There was no one to blame and a large majority of people feel it is incumbent on governments to support economies until the pandemic is over or at least manageable, which is likely to be well into 2021.

As a result, our prediction for 2021 and, likely, 2022 includes a few key features:

a. Continued economic growth, supported by ongoing central bank and government stimulus.

b. Continued low interest rates.

c. Continued higher stock markets, with increasing multiples, driven by the recognition that low interest rates for longer mean higher multiples and prices.

d. At some point, probably mid-to-late 2021, an inflation scare in the capital markets when the pent-up demand for consumer goods and services explodes, as widespread vaccination reduces the worry over COVID-19. We will read that inflation is returning, and interest rates will surge, and consumer price index readings will increase. It will be a scare and nothing more. As long as unemployment remains high, which it will, inflation will not return. It will be a temporary adjustment to that demand.

e. Our biggest worry? The idea that risk is irrelevant. In this environment, investors should take on as much risk as they can. You have, for some period of time, central banks and governments supporting you in that pursuit. We all know it cannot last, but we don't know how long it will last. As investors, we cannot sit on the sidelines, if for no other reason than we have no idea whether this lasts one year or five years, and being five years early to a market turn is to admit you are not an investor, just stubborn. However, when no one is factoring risk, it can be a very risky environment, particularly for illiquid assets.

Request a full copy of the 2021 Market Overview here.

Endnotes

Chart 1: The timeframe for the announced measures is country-specific, but the bulk of the measures announced so far are short-term crisis-response measures to be implemented in 2020-21. Country group averages are weighted by GDP in U.S. dollars adjusted by purchasing power parity.

Disclosures

As of February 16, 2021