An economic outlook for 2021  
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As the year 2020 fades more and more into the rearview mirror, that old saying, “Hindsight is 2020,” has never been more accurate. No one could have predicted the challenges of 2020 that our schools, commonwealth and the world faced this past year. To me, the most important takeaway from 2020 has been that we are continuing to find ways to succeed.

2020 fourth quarter recap
The U.S. economy continued to face ongoing challenges caused by the winter wave of COVID-19 infections that prompted some states to impose new restrictions. The U.S. has surpassed 20 million confirmed cases since the outbreak began with the number of COVID-related deaths approaching 400,000. The resurgence in the fourth quarter coincided with colder weather and the holiday season that resulted in many Americans gathering to celebrate despite recommendations of health officials. Even as numbers continue to rise, there is strong optimism that the pandemic is turning a corner now that several vaccines have been approved worldwide with millions of people already receiving them.

Employment numbers began to wane in the fourth quarter compared to the recovery experienced in prior quarters. Nonfarm payrolls decelerated and jobless claims are no longer improving as the increased lockdown measures have likely limited labor market demand. The labor market has now regained nearly 12 million of the 22 million jobs lost at the beginning of the pandemic. The unemployment rate continues to modestly fall, recorded as 6.7% as of November. This will be a key factor to monitor for the first half of 2021.

Despite the COVID concerns and lukewarm economic data, markets performed better than expected. Equity markets continued to rally throughout the quarter, with the S&P 500 ending the year with strong positive returns. There was also encouraging stimulus news to end the year as Congress approved a $900 billion package that will provide additional relief to Americans who have struggled to make ends meet this past year.

Federal Reserve
The Federal Reserve played an integral role in supporting financial markets this past year. The aggressive action to cut interest rates and launch or bolster various facilities to promote liquidity was vital in keeping markets from fully crashing at the height of the crisis. Since then, the Federal Reserve has maintained a steady hand, keeping the target federal funds rate near 0% and continuing to purchase U.S. Treasury securities and agency mortgage-backed securities by $80 billion and $40 billion per month, respectively. The Federal Reserve expects to maintain its accommodative policies for the foreseeable future, projecting no increases in the federal funds rate through 2023.

It is somewhat anticipated that the Federal Reserve may update its inflation methodology to target an average of 2% inflation over time. This seemingly modest change in policy has enormous implications for future Federal Reserve policy decisions. In order to achieve the new target, it will have to aim for inflation to be moderately above 2% for some time before justifying any change to its accommodative polices. Inflation has persistently been below 2% for over a decade and long-term demographic and technological changes will continue to provide headwinds to future inflation. In the context of these decisions, most economists anticipate rates to remain low for the foreseeable future.

Economic outlook
In 2021 there is renewed optimism that the worst of the COVID-19 pandemic may be coming to an end. As more people get vaccinated and daily life slowly begins to return to normal, there is hope that the recently passed stimulus will help bridge the gap for many Americans as they get back on their feet. Aside from COVID, other headwinds/uncertainties could come from the U.S. political transition, the U.K. post-Brexit and geopolitical concerns (particularly between the U.S. and China/Russia).

The current expectation is that the 2021 U.S. gross domestic product will rebound with an increase of 4%. Unfortunately (as noted earlier) interest rates are expected to remain low with the Federal Reserve likely on hold from raising rates for years.