WHERE WE STAND

MID-YEAR MARKET OUTLOOK

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MARKET ENVIRONMENT — Although stock prices have reached record highs and credit spreads are now below pre-pandemic levels, a new series of market concerns have emerged for investors. These include the risks of rising inflation, federal tax increases, higher interest rates, stock valuations, and a potentially looming market correction. While investors should pay close attention to all of these, we believe the trade-off between them and higher economic and earnings growth still favor the markets moving higher.

COVID-19 — The successful distribution of vaccines is now showing up in dramatically declining COVID-19 case trends and strongly improving recovery rates. While there is still much ground remaining to eradicate the virus, these rapidly improving results should provide a strong boost for the economy and add further confidence to the markets.

U.S. ECONOMY — We see the U.S. economy accelerating impressively in the year ahead and believe calendar year (CY) 2021 gross domestic product growth could exceed 7%. Such economic growth is likely to be driven by increasing vaccine distribution, falling COVID-19 case trends, national business reopenings, and continuing fiscal and monetary stimulus — all of which should result in large, pent-up consumer demand being unleashed as the year progresses. This is likely to result in an official V-shape recovery by year-end and an expansionary environment as 2022 begins.

U.S. STOCKS — We believe U.S. stocks continue to be well positioned for future gains in the year ahead as corporate earnings growth for CY 2021 should be substantial and meaningfully eclipse pre-pandemic record levels. The shift in leadership from growth to value stocks is likely to continue, in our judgment, and could be indicative of further market strength. Our year-end 2021 price target on the S&P 500® is 4,600 and our one-year target is 4,800. While there is risk of a short-term market correction, we would likely view such an event as a buying opportunity.

INTEREST RATES AND FED POLICY — We believe the Federal Reserve will not begin tapering its monthly open market large-scale asset purchases until 2022 and will maintain the fed funds rate at its current target range of 0–0.25% into 2023, therefore continuing market-friendly monetary policy throughout the year ahead. While inflation remains somewhat of a wild card, we believe the Fed will be thorough and deliberate in determining its impact on policy. The yield curve will likely steepen further, with the 10-year Treasury rate challenging or modestly exceeding 2% by year-end.

CREDIT AND INCOME — While fundamentals continue to improve since last year's crisis, credit spreads for high-yield and investment-grade bonds are now at multiyear lows, creating a highly challenging environment for income-seeking investors. Against this backdrop, a possible wave of high-yield rating upgrades in the year ahead could potentially provide excess returns for those capable of identifying them. We believe a diversified mix of several nontraditional, income-oriented asset classes can provide for more competitive yields with lower overall interest rate risk.

INTERNATIONAL STOCKS — While increasing COVID-19 vaccine distribution will be vital in the year ahead and investor patience may be required at times, we believe opportunities in both international developed and emerging markets are likely given a potentially strong global economic recovery. As global economic growth rates reverse from last year's contraction, central banks are likely to remain highly accommodative, making the case for international stocks stronger than it has been in recent years. Spiking COVID-19 cases, particularly in India, present the highest risk to this scenario.

To read the complete Transamerica 2021 Mid-Year Market Outlook please go to transamerica.com/market-outlook.

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Tom oversees investment and mutual fund development and the sub-adviser selection process. He heads Transamerica's investment thought leadership with advisors, clients, and media. Tom has more than 30 years of investment experience and has managed large mutual funds and sub-advised separate account portfolios. Tom holds a bachelor's degree in political science from Tulane University and an MBA in finance from the Wharton School at the University of Pennsylvania.

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Past performance does not guarantee future results.

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Fixed income investing is subject to credit rate risk, interest rate risk, and inflation risk. Credit risk is the risk that the issuer of a bond won't meet their payments. Inflation risk is the risk that inflation could outpace a bond's interest income. Interest rate risk is the risk that fluctuations in interest rates will affect the price of a bond. Investing in floating rate loans may be subject to greater volatility and increased risks.

Growth stocks typically are particularly sensitive to market movements and may involve larger price swings because their market prices tend to reflect future expectations. Growth stocks as a group may be out of favor and underperform the overall equity market for a long period of time, for example, while the market favors "value" stocks.

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Indices are unmanaged. The figures for the index reflect the reinvestment of all income or dividends, as applicable, but do not reflect the deduction of any fees or expenses which would reduce returns. Investors cannot invest directly in indices.

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