WHERE WE STAND

LOOKING AHEAD TO 2021

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As the second wave of COVID-19 inflicts exponentially rising damage throughout global society, the markets strive to look to the other side of the virus as high-efficacy vaccines will soon be accessible.

However, as widespread distribution of these treatments could take months, and fiscal stimulus from Congress remains elusive, investors may need to brace for slowing rates of economic growth and market volatility in the early part of 2021 before the recovery accelerates in the spring and summer months, providing a favorable backdrop for investors as the year moves forward.

ELECTION AFTERMATH — The aftermath of the presidential and congressional elections have allayed pre-election fears of a contested outcome. However, all eyes will be on Georgia in January for two runoff elections determining majority control of the Senate and therefore a presumptive impact on fiscal stimulus and President-elect Biden's expected tax plan. History infers a decided market preference for split-party control of the White House and Congress.

U.S. ECONOMY — While economic growth could be challenged in 1Q 2021 as COVID-19 cases continue to rise, we look for the U.S. economy to accelerate meaningfully in 2H 2021 as vaccine accessibility dovetails with an accommodative interest rate environment and eventual fiscal stimulus, driving pent-up demand by consumers and businesses. This could result in annual gross domestic product (GDP) growth of 4% in 2021 helping the economy return to pre-virus levels of real aggregate GDP by year-end.

U.S. STOCKS — We believe there are strong long-term opportunities in U.S. stocks, however investors may need to incur some downside risks during the first few months of 2021 before the vaccines reach widespread distribution. Thereafter catalysts include economic and earnings recoveries, a lower-for-longer interest rate environment, and additional liquidity-based monetary stimulus from the Federal Reserve. Our year-end price target on the S&P 500® is 4,200, and we believe value stocks could finally be setting up for a meaningful catch-up period versus growth stocks as the year moves forward.

INTEREST RATES — Short-term interest rates should remain in a lower-for-longer environment as the Federal Reserve maintains the fed funds rate at a lower bound of zero for the foreseeable future. The Fed is also likely to continue large-scale, open-market asset purchases at or near current levels throughout the year, providing further tailwinds for the broader markets. We see a range for the 10-year Treasury rate of 0.75%–1.35%, trending toward the upper end as the yield curve steepens throughout the year.

CREDIT MARKETS — While credit fundamentals in the bond markets are likely to continue to improve, current credit spreads appear to reflect that. Therefore, we believe high-yield and investment-grade bond investors should expect coupon-type total returns in the year ahead. Excess returns can still potentially be achieved through active managers with proven credit expertise capable of identifying individual opportunities not found in passive bond indexes.

INTERNATIONAL STOCKS — Although the global economy will likely conclude 2020 with annual contraction worse than -4%, we believe there could be attractive opportunities for long-term international equity investors given the expected recovery in 2021. Investors need to recognize many uncertainties will affect the timing and magnitude of this recovery, as numerous regions and countries battle the second wave of COVID-19. We believe those who stay the course with both developed and emerging markets in the year ahead could be well rewarded.

These topics and others will be covered in more detail in the upcoming, "Where We Stand: Transamerica 2021 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 25 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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