Midyear Outlook 2021: Finding Our Way Back to Normal

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Halfway through 2021, we can finally see the light at the end of the pandemic tunnel. There has been much progress with public health and the economy. Vaccines have controlled the virus and brought new case growth down to pandemic lows. Millions of jobs have returned as the country has reopened. But as we enter the second half of the year, new problems have emerged: those of success. Labor and supply shortages, plus the shadow of inflation, are calling the recovery into question. The initial bounce back has been strong, but will we get back to normal by year-end?

Based on what we know today, the answer is yes. Of course, medical risks remain—the virus is still out there. But its ability to cripple the economy looks to be played out, especially at a national level. At the moment, there is a disconnect between jobs and workers. Still, the workers are there, and those jobs will be filled. Supply chains also have some gaps, creating shortages and high prices. At the same time, suppliers are working hard to fill those gaps, and in some areas (lumber and copper, notably), supplies are already up and prices down. And with the labor market and business supply chains normalizing, inflation should pull back by year-end.

Markets Expecting a Return to Normal

Despite the headlines, that pending normality is what's driving markets. In fact, markets have reached new records throughout the year. Investors see the economy moving ahead, and corporate earnings have validated that positive outlook. They continue to grow by double digits, a trend that's expected to persist through the end of the year. People are working and spending, and businesses are hiring and investing. This growing economy will likely lead to markets rising even further. We are in a virtuous recovery cycle here in the U.S. And as the rest of the world gets the virus under control, we may well benefit even further.

Beyond the healthy and improving fundamentals, other tailwinds should keep the economy and markets moving. On the fiscal side, more governmental stimulus in the form of infrastructure spending is likely to start by year-end. This spending is sure to help growth. On the monetary side, the Federal Reserve has committed to keeping interest rates low at least through the end of 2021. Rather than slowing things down, the government will keep pushing the economy forward.

Risks on the Road to Full Recovery

Risks remain, of course. The Delta variant of the virus could lead to local outbreaks in areas with low vaccination rates. Even if that happens, though, a national outbreak looks unlikely. Further, the risk is dropping by the day as more people get vaccinated.

On the economic side, job growth could well slow. But there are millions of openings, and supplemental unemployment insurance will soon expire. Given that, slow job growth is likely to be a localized and solvable problem. Finally, markets have been trending higher but remain vulnerable to adverse events—which has always been the case. With an expanding economy and rising earnings, conditions remain favorable.

Brighter Days Ahead

So, where are we now? The virus is still out there, millions of people remain out of work, and there are visible gaps in the economy. Clearly, our job is not done. For the first time since the pandemic started, however, we can see a clear path forward that will take us to normal.

We will certainly experience setbacks over the next six months. Despite that, the progress we've seen thus far will continue. It may not be a smooth road, but it will be a clear one. The country is almost entirely reopened. There are enough jobs to take employment back to normal, once we match the workers with them. And while gaps remain in the supply chain, we can see those closing on a weekly basis. They, too, will get back to normal, in most cases by year-end. With a normal and growing economy, financial markets also will have the support they need.

Are we back to normal yet? No. Can we see our way there? Yes. Can we get there by year-end? Yes, we can.

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