TAKING STOCK: VIRUS TRAJECTORY, AN NEPC 2021 KEY MARKET THEME

NEPC Research

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NEPC *Key Market Themes* represent our view of current drivers for the global economy. Over time, themes evolve and interact, influencing asset values and opportunities. A disruption of a theme likely alters market dynamics and our investment outlook.

VIRUS TRAJECTORY

The trajectory of the COVID-19 virus—its spread and its containment—will continue to loom over global economic activity and markets in 2021.

Its path remains uncertain and depends on a number of factors that are difficult to predict, including the challenges presented by the virus' mutations, the easing of restrictions currently in place to limit the outbreak, and the efficient distribution and widespread acceptance of vaccines. While we expect (and hope) the virus will loosen its grip this year, its longer-term effects on growth, consumer spending and labor markets remain unclear.

This largest economic disrupter of our time is mirrored by another theme, permanent interventions. The increasing willingness to bolster market sentiment with monetary and fiscal stimulus programs will soften the economic blows dealt by the pandemic in the near term, but there will likely be lingering damage to parts of the economy that will take longer to recover than in past recessions.

To be sure, a widespread and efficient inoculation program will likely speed up the economic recovery and spur consumer spending. This economic exuberance also could lift up cyclical assets and value stocks. However, an inability to contain the virus could have adverse consequences for markets, deepening the economic downturn and unleashing a prolonged spell of deflation. It is challenging to prepare an investment portfolio to withstand such a broad range of potential outcomes. To that end, we remind our clients that diversification and balance are key even in the presence of permanent interventions. In such times, safe-haven fixed income such as nominal government bonds—despite their low yields—offer liquidity in uncertain times.

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Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

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