

THE OLD
NORMAL



2021 Global Market Outlook



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Synopsis

We believe that COVID-19 vaccine prospects are likely to make 2021 a year of global economic recovery. While markets have priced in a fair amount of the good news, more gains seem possible as corporate profits rebound and central banks remain on hold.

Key market themes

With the world in the early post-recession recovery phase of the business cycle, our medium-term outlook for economies and corporate earnings is positive. We believe that 2021 will feature an extended period of low-inflation, low-interest rate growth that favors equities over bonds. There are some near-term risks, however, such as investor sentiment, which has become overly optimistic following recent vaccine announcements. This makes markets more vulnerable to negative news, which could include renewed lockdowns in Europe and North America as virus cases escalate, logistical difficulties in distributing the vaccine and negative economic growth in early 2021—if government support measures are unwound too quickly. Geopolitics could also deliver negative surprises from China, Iran or Russia as the new administration of President-elect Joe Biden takes power in the U.S.

Our cycle, value and sentiment investment decision-making process scores global equities as expensive (with the very expensive U.S. market offsetting better value elsewhere), sentiment as overbought and the cycle as supportive. This leaves us slightly cautious on the near-term outlook, but moderately positive for the medium-term, with expensive valuations offset by the positive cycle outlook.

In the U.S., there likely will be two distinct phases to the path forward. The first—over the northern winter months—looks challenging, as COVID-19 infections explode across the country, leading to partial, localized lockdowns. However, once a vaccine is widely available, we believe that dislocated sectors (e.g., restaurants, travel and hotels) will bounce back strongly, likely in the second half of 2021. Meanwhile, the Federal Reserve (the Fed) continues to maintain an ultra-accommodative policy stance. Even with our expectation for a robust 2021, the Fed's focus on generating an inflation overshoot should leave plenty of runway for the expansion to strengthen and broaden.

The three biggest challenges we see for markets are the concentration risk in major U.S. equity benchmarks—which have a composition skewed toward the *stay-at-home* mega cap technology stocks, moderately expensive valuations in equity and credit and an increasingly optimistic industry consensus.

In Europe, the second wave of virus infections has reversed the third-quarter *V-shaped* recovery, with the region on track to record negative GDP (gross domestic product) growth in the fourth quarter. The new lockdowns are working, however, with infections across the region having peaked in early November. We believe that Europe is poised for a strong post-vaccine recovery. The region is also more exposed to global trade than the U.S., and should be a beneficiary of a recovery in Chinese demand. Notably, after five years of underperformance, we expect the MSCI EMU Index to outperform the S&P 500® Index in 2021.

COVID-19 and Brexit uncertainty have battered the UK, with the FTSE 100 Index the worst performing regional equity market (by a wide margin) in 2020 to date. However, we believe it could be one of the better performers in 2021. The UK market is cheap relative to other markets and is overweight the financials, materials and cyclical sectors that should benefit the most from a global recovery.

The Chinese economy has returned to almost pre-pandemic output levels, which is a significant achievement, given the depth of its first-quarter downturn. We think that fiscal policy in China will remain supportive through 2021.

We believe that Japan's rebound from the pandemic is likely to lag other developed economies, despite its less severe COVID-19 outbreak. This reflects the structural weaknesses that were in place before the pandemic, such as subdued consumption from its aging population.

Australia has controlled the virus outbreak better than most other countries and, with a relatively open economy, is poised to be a beneficiary of the post-vaccine global recovery. 2021 is likely to see an expansion of the Reserve Bank of Australia's quantitative easing program.

In Canada, we believe that the country's exposure to commodities—particularly oil—will benefit from a rebound in the global economy. While business investment may be slower to materialize, both the housing market and improving commodity prices will likely serve as foundations to an economic recovery.

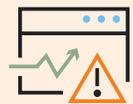


Economic views



EARLY-CYCLE RECOVERY

Once a vaccine is widely available and lockdowns have been eased, we believe that normal early-cycle recovery dynamics should resume, with a rotation toward relatively cheaper value and non-domestic stocks that are likely to benefit from a return to more normal economic activity.



GOVERNMENT DEBT

The most notable damage from the pandemic has been the rise in government debt. However, we think it's unlikely that governments will start to trim deficits through tax hikes and lower spending anytime soon.



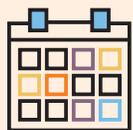
U.S. GROWTH FORECAST

In the U.S., we believe that the post-vaccine recovery period will lead to real GDP growth in excess of 5% in 2021.



EUROPEAN OUTPERFORMANCE

We believe Europe's exposure to financials and cyclically sensitive sectors gives it potential to outperform in the post-vaccine phase of the recovery, when economic activity picks up and yield curves steepen.



LIMITED RISE IN TREASURY YIELDS

Major central banks have made it clear that they will wait until after inflation rises before raising rates. We think a slow-acting Fed should limit the rise in the 10-year U.S. Treasury yield to between 1.1% to 1.4%—compared to its current level of 0.85% in early December.

Asset class views

Equities: Preference for non-domestic equities

We prefer non-domestic equities to U.S. equities. The post-vaccine economic recovery should favor undervalued cyclical value stocks over expensive technology and growth stocks. Relative to the U.S., the rest of the world is overweight cyclical value stocks.

We like the value in emerging markets (EM) equities. China's early exit from the lockdown and stimulus measures will likely benefit EM more broadly, as should the recovery in global demand and a weaker U.S. dollar.

Fixed income: Bonds universally expensive

We see government bonds as universally expensive. Low inflation and dovish central banks should limit the rise in bond yields during the recovery. U.S. inflation-linked bonds offer good value with break-even inflation rates well below the Fed's targeted rate of inflation. We view high-yield and investment-grade credit as slightly expensive on a spread basis, but believe they have an attractive post-vaccine cycle outlook.

Currencies: U.S. dollar should weaken during recovery

The U.S. dollar should weaken amid the global economic recovery, given its counter-cyclical behavior. The dollar typically gains during global downturns and declines in the recovery phase. The main beneficiaries should be the economically sensitive *commodity currencies*—the Australian dollar, the New Zealand dollar and the Canadian dollar. We believe the euro and British sterling are undervalued, and expect that both currencies will be boosted by the post-vaccine recovery.



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IMPORTANT INFORMATION

The views in this Global Market Outlook report are subject to change at any time based upon market or other conditions and are current as of December 7, 2020. While all material is deemed to be reliable, accuracy and completeness cannot be guaranteed.

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Keep in mind that, like all investing, multi-asset investing does not assure a profit or protect against loss.

No model or group of models can offer a precise estimate of future returns available from capital markets. We remain cautious that rational analytical techniques cannot predict extremes in financial behavior, such as periods of financial euphoria or investor panic. Our models rest on the assumptions of normal and rational financial behavior. Forecasting models are inherently uncertain, subject to change at any time based on a variety of factors and can be inaccurate. Russell believes that the utility of this information is highest in evaluating the relative relationships of various components of a globally diversified portfolio. As such, the models may offer insights into the prudence of over or under weighting those components from time to time or under periods of extreme dislocation. The models are explicitly not intended as market timing signals.

Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not representative of a projection of the stock market, or of any specific investment.

Investment in global, international or emerging markets may be significantly affected by political or economic conditions and regulatory requirements in a particular country. Investments in non-domestic markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation. Such securities may be less liquid and more volatile. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and political systems with less stability than in more developed countries.

Currency investing involves risks including fluctuations in currency values, whether the home currency or the foreign currency. They can either enhance or reduce the returns associated with foreign investments.

Investments in non-domestic markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation.

Bond investors should carefully consider risks such as interest rate, credit, default and

duration risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage-backed securities, especially mortgage-backed securities with exposure to sub-prime mortgages. Generally, when interest rates rise, prices of fixed income securities fall. Interest rates in the United States are at, or near, historic lows, which may increase a Fund's exposure to risks associated with rising rates. Investment in non-domestic and emerging market securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries.

Performance quoted represents past performance and should not be viewed as a guarantee of future results.

The FTSE 100 Index is a market-capitalization weighted index of UK-listed blue chip companies.

The S&P 500® Index, or the Standard & Poor's 500, is a stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

The MSCI EMU Index (European Economic and Monetary Union) captures large and mid cap representation across the 10 developed markets countries in the EMU. With 246 constituents, the index covers approximately 85% of the free float-adjusted market capitalization of the EMU.

Indexes are unmanaged and cannot be invested in directly.

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