

GDP to Rebound in 2021

After a collapse in 2020 that occurred particularly early in the year, real GDP appears poised to significantly rebound in 2021. Unprecedented amounts of fiscal and monetary stimulus, combined with the rapid development of COVID vaccines, have resulted in estimates for 2021 economic growth trending higher in recent months. In late January, the International Monetary Fund raised its 2021 forecast of real GDP for the U.S. from +3.1% to +5.1%, which would mark a remarkable recovery from last year's recession. An increase in GDP of 5.1% this year, if achieved, would rank among the highest levels of GDP growth in the post WWII era (see chart to the upper right).

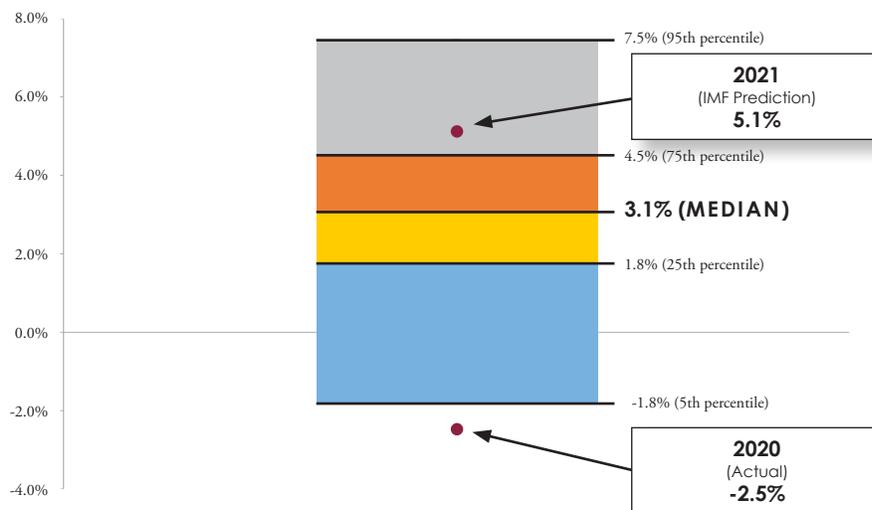
Unlike many previous recessions, household balance sheets have, in the aggregate, been relatively unscathed over the past year, and the savings rate has reached historically high levels. Moreover, interest rates are at historic lows, leading to a booming housing market. Direct checks issued by the government have also provided stimulus payments that are immediately available to be circulated in the economy, speeding up prospects for economic growth.

Based on history, a GDP gain of 5% or more has been associated with

good gains in both corporate profits and stock prices (see table to the lower right). While history is an imperfect guide to the future, we believe

that a strong economic recovery this year will likely be accompanied by a recovery in corporate earnings and further gains in stocks.

RANGE OF ANNUAL CHANGES IN REAL GDP 1948–PRESENT



Data from 1/1/1948–12/31/2020.
Source: Bureau of Economic Analysis, International Monetary Fund

FOUR-QUARTER GDP CHANGE VS CHANGES IN CORPORATE PROFITS⁽¹⁾ AND S&P 500 1948–PRESENT

WHEN GDP RISES (OR FALLS)...	AVERAGE CHANGES (OVER SAME PERIOD)	
	CORPORATE PROFITS	S&P 500 PRICE
>5%	17.4%	14.4%
3–5%	9.2%	12.9%
0–3%	5.0%	7.3%
<0%	-8.5%	-9.7%

⁽¹⁾National Income and Product Accounts (NIPA) after-tax corporate profits.
Data from 1/1/1948–12/31/2020.
Source: Bureau of Economic Analysis, International Monetary Fund

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REFERENCED INDEX

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S&P 500 Index—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.