



US MARKETS GETTING BACK TO REALITY



TEN SURPRISES FOR 2021

EMLeaders has distilled “Ten Surprises for 2021” which differ from the consensus expressed by Wall Street firms: **JP Morgan** predicts that 2021 “could deliver the strongest growth and the fewest geopolitical shocks in a decade” whereas **GZero** anticipates that “US-China tensions broaden”. **Blackstone** suggests that the FED will “openly embrace Modern Monetary Theory” whereas **GMO** anticipates the “last dance” of the “epic bubble” in the US. Blind bulls better be careful!

Welcome into 2021, it is time to buckle up again!

1. The **pandemic** will impose much higher damage than currently admitted. Vaccine rollouts could experience substantial delays. The US may impose a new lockdown in February while [death rates](#) only peak in April and daily infections may remain above 100,000 until August as states quarrel on public health restrictions.
2. **US growth** will benefit from additional fiscal support during Q1 to avoid a W-recession but the [recovery will be much slower](#) with GDP growing less than 4% during 2021 and [remaining below pre-Covid levels](#) until 2022. Infrastructure programs will contribute to accelerated growth in 2022 when the US fiscal impulse is reversing.
3. East Asia will remain the main driver of **global growth**, and China will continue to expand by 8%. China and the US may be able to conclude a **new trade and climate agreement** late in 2021. However, [global growth](#) will be unequal and only average 5%, well below its forecast potential for 2021.

4. The **Federal Reserve** will continue to expand its toolset into [yield-curve control](#) (YCC) to cushion the economy during the first half of 2021 and to reverse a steepening [yield curve](#). Long-term rates will remain below 2% and default rates will remain low, leading to another \$1 trillion borrowing from unsustainable [zombie companies](#).
5. [Modern monetary theory](#) (MMT) will fail decisively when inflation roars back later in 2021 as wages and commodity prices rise significantly, leading [CPI](#) to exceed 2% by late 2021 and doubling by 2022. The **dollar** will stabilize early but then depreciate by over 10% during 2021, leading to a stronger Chinese currency.
6. **Equity markets** will experience a seesaw in 2021 and the [S&P 500](#) will end the year below 3,800 as earnings recover only to \$160 and multiples stagnate. Small-cap and cyclical stocks outperform, while value and quality stocks further disappoint. Expected sector rotations initially stall and slowly materialize later in the year.
7. The [tech bubble](#) will burst during 2021, and Tesla's market cap of \$770 bn may decline by 70% (back to June 2020 levels) while Facebook may take political heat for failing to address disinformation; its stock price may crumble from regulatory actions. Big Tech may struggle for years while investing into the next innovation cycle.
8. **Emerging markets** will start a decade of outperformance while the [US dollar](#) enters a bear-market. During 2021, East Asia will lead the advance, but substantially [undervalued markets](#) in Latin America and Eastern Europe as well as frontier markets recover strongly later during 2021, and **EM local active managers** add large alpha.
9. [Geopolitical risks](#) may rebound during 2021 with provocations from Iran and Russia, leading to military conflict originating from a new right-wing government in [Israel](#). Meanwhile, a substantially improving [US-Chinese relationship](#) will moderate risks arising from North Korea, Taiwan, and the South China Sea.
10. [Higher education](#) will rebound strongly after the new administration grants some [student debt forgiveness](#) and re-opens access for international students as in-person education restarts in fall 2021. Partnerships with industry will accelerate growth in technology and health, and tuition rates will grow way above CPI levels.

Wall Street Outlook for 2021

www.bloomberg.com/graphics/2021-investment-outlooks/

Blackstone Surprises of 2021

www.blackstone.com/insights/article/blackstone-quarterly-webcast-the-ten-surprises-of-2021/

Eurasia Group Risks for 2021

www.gzeromedia.com/top-risks-2021

Atlantic Council Risks for 2021

www.atlanticcouncil.org/blogs/new-atlanticist/the-top-ten-risks-and-opportunities-for-2021/

GMO Major Bubble Prediction for 2021

www.gmo.com/americas/research-library/waiting-for-the-last-dance/

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<http://www.emleaders.com/pdf/eml-2021.pdf>