



FPA of Austin

Macroeconomic Outlook: Post-COVID 19 Opportunities and Risks to Watch For

March 2021

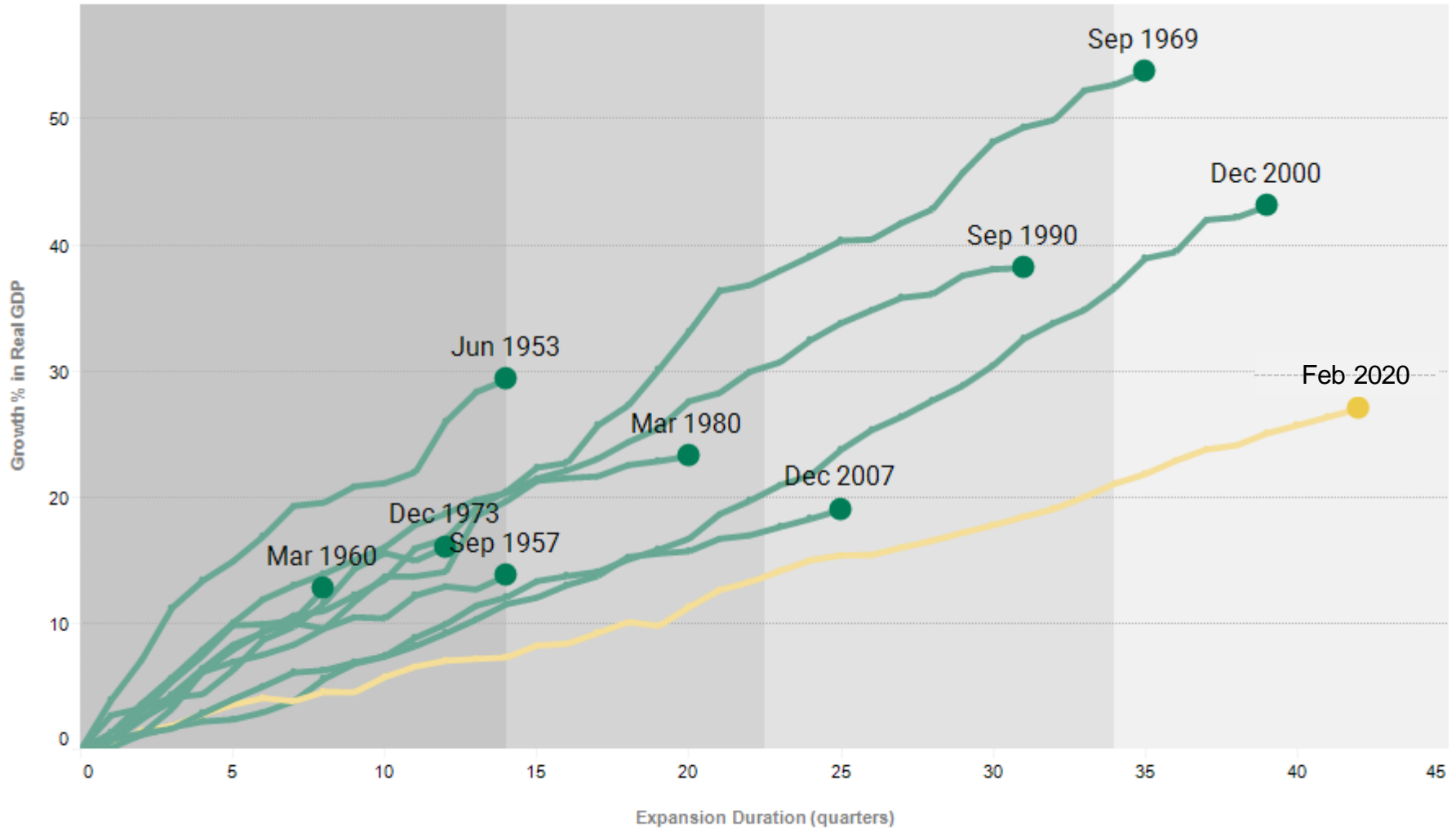
Joyce Huang

Vice President

Senior Client Portfolio Manager

The Last U.S. Growth Cycle: Long and Shallow

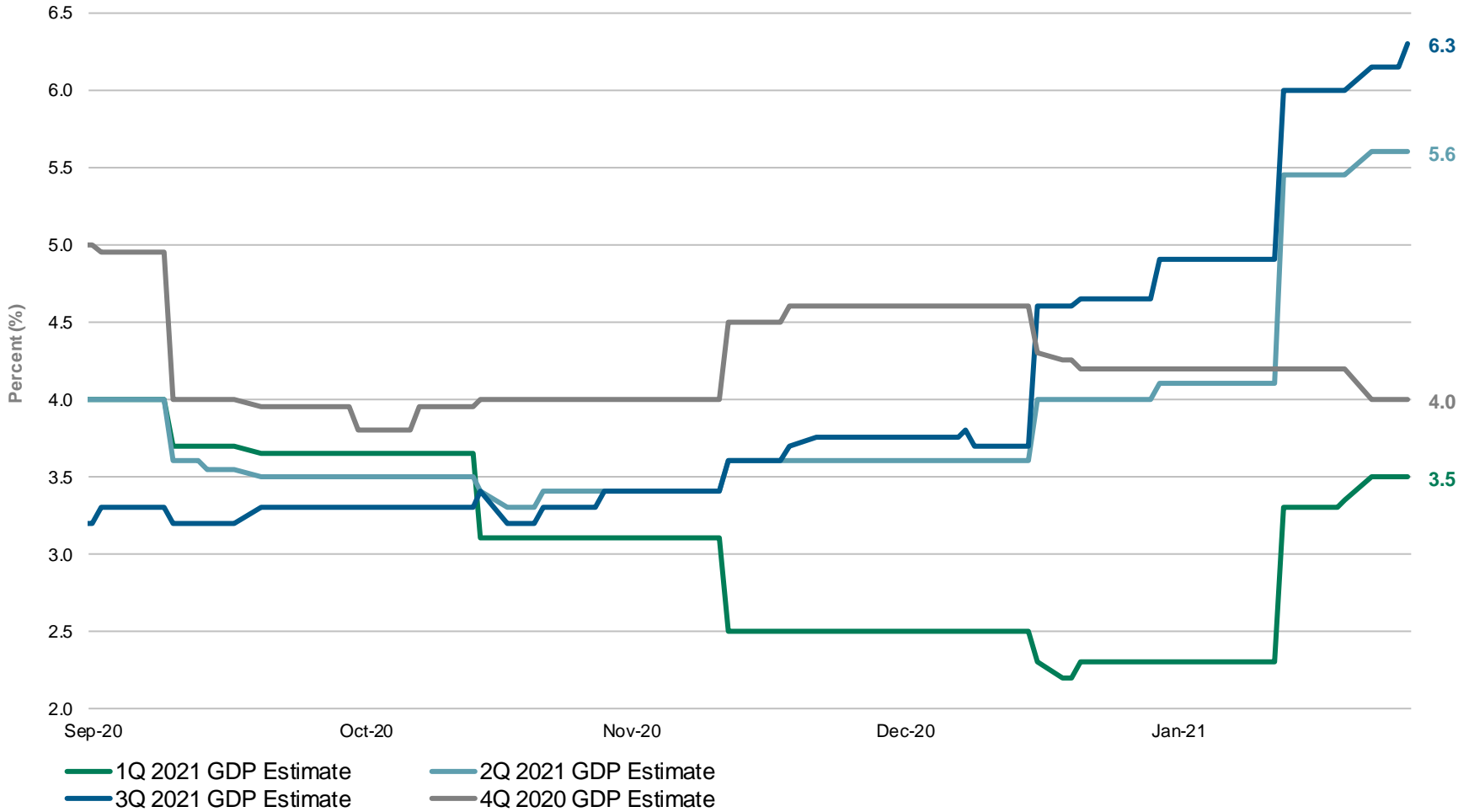
Postwar Economic Expansion: Duration vs. Magnitude



Data from 12/31/1949 to 3/31/2020. Charting the gain in the U.S. GDP, Chained 2009 Prices, SAAR.
Source: FactSet, U.S. Bureau of Economic Research.

GDP Forecast

Quarterly GDP Forecasts

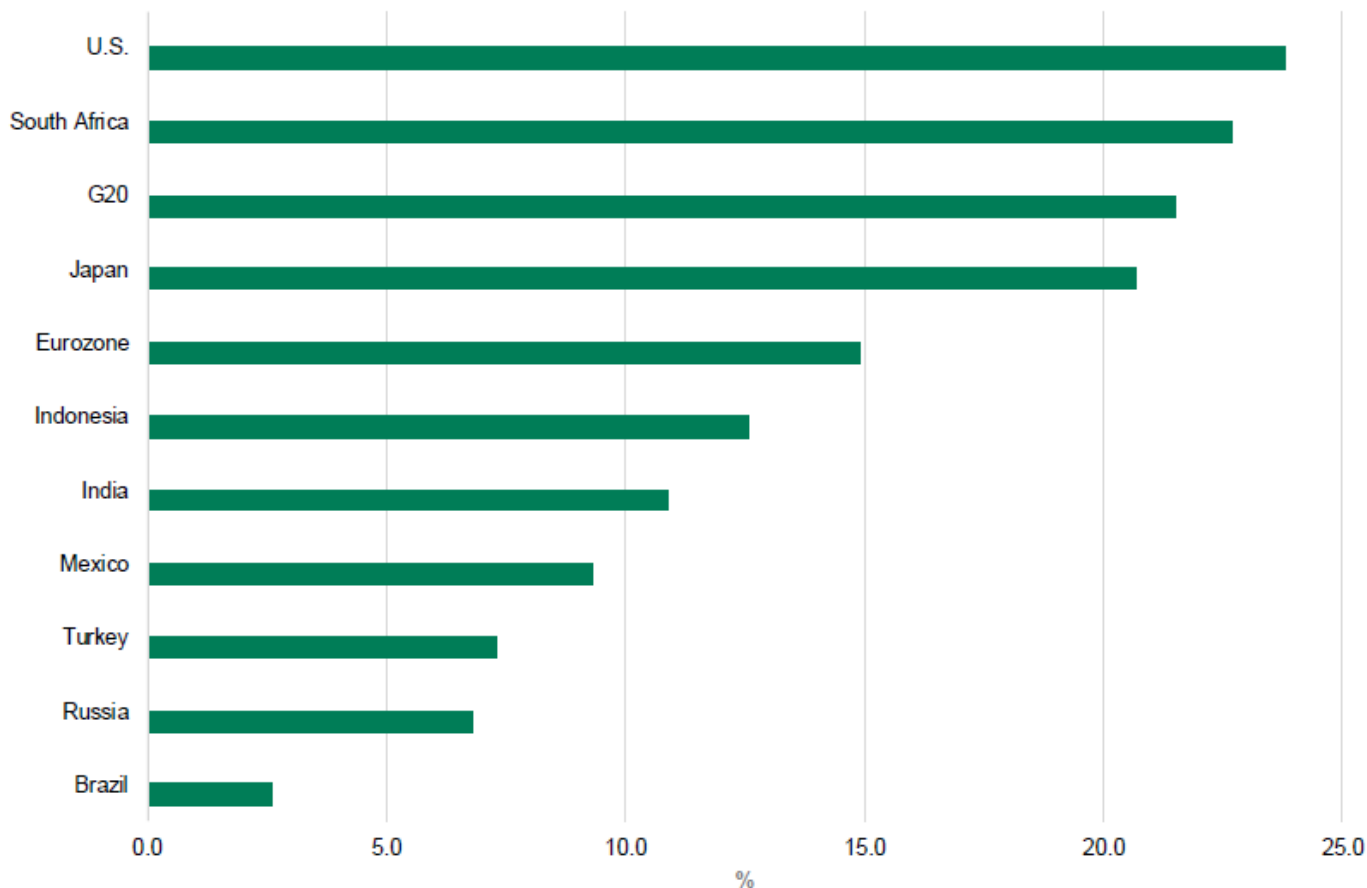


Data from 9/30/2020 to 2/28/2021
Source: Bloomberg



Fiscal Stimulus

Increase in Debt to GDP (2019-2021)



Data as of 1/27/2021
 Sources: IMF, Haver
 Forecasts are not a reliable indicator of future performance.

General Government Gross Debt as a % of GDP

Economy	2019	2021
U.S.	108.2	132.5
Eurozone	84.0	99.0
Japan	234.6	258.7
G20	112.7	134.7
Brazil	87.7	92.1
Mexico	53.3	63.0
South Africa	62.2	84.9
Turkey	31.7	40.3
Russia	13.8	20.7
Indonesia	30.6	43.1
India	73.0	83.1

Data as of 1/27/2021
 Sources: IMF, Haver
 Forecasts are not a reliable indicator of future performance.



Early Signs of Economic Recovery

Several market and economic indicators are showing signs of economic recovery

- U.S. Stock market, Corporates BAA Spread and ISM Manufacturing PMI

Sample Recession Monitor

	Current	Last Month	-3 Months
Composite	6.1	5.5	4.6
ISM Mfg PMI	1.0	1.0	1.0
Initial Claims (4w)	7.0	7.0	1.7
Leading Indicators YoY	8.0	8.0	8.0
US 10-2 Slope	10.0	8.7	8.0
Corporate BAA Spread	4.0	3.0	3.0
S&P 500 6m Return	3.0	2.0	1.0
VIX (22d avg.)	8.0	8.0	8.0

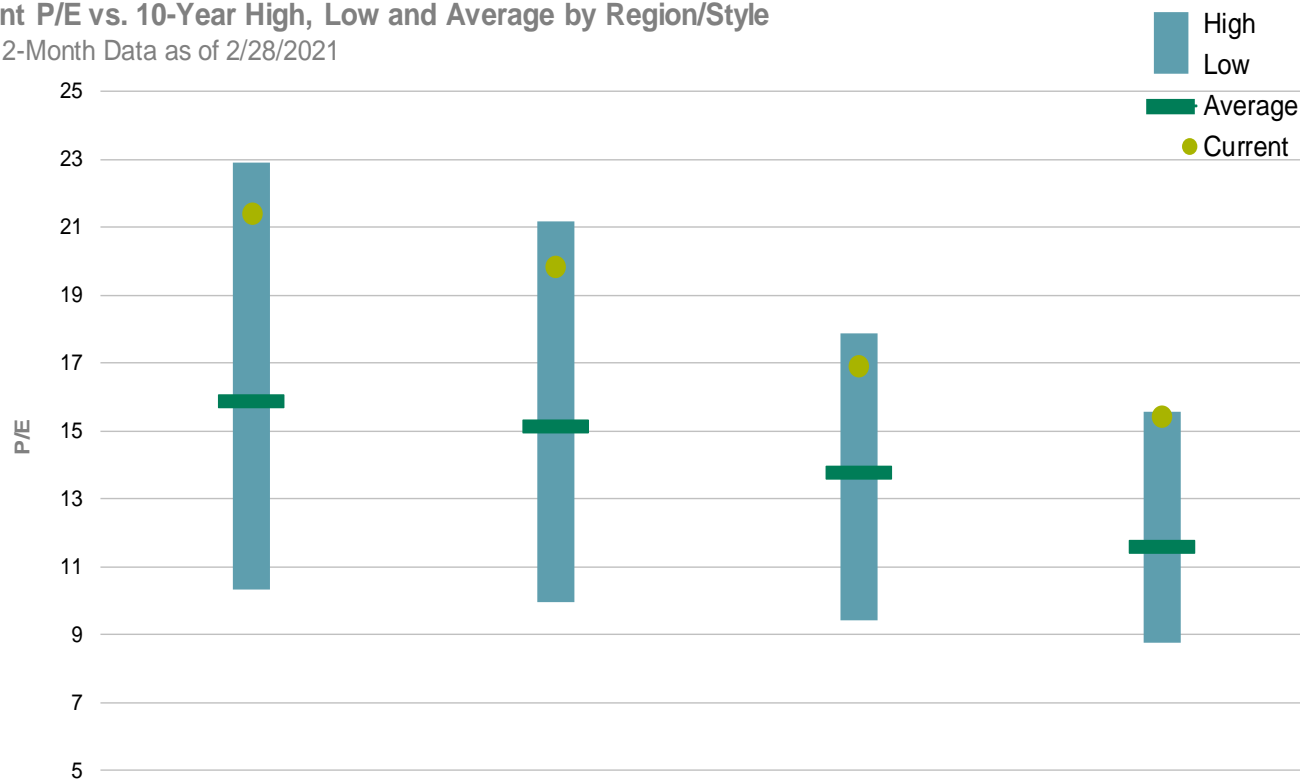
- >= 8** Underweight High Yield, Cyclical Sectors
- (5.5, 8) Neutral, but watch for higher scores
- (3, 5.5) Neutral, but watch for lower scores
- <= 3** Overweight High Yield, Defensive Sectors

- Composite score measures the likelihood of significant spread (between HY and IG) widening over the next 6 months
- Scores higher than 8 would imply moving to underweight HY, while less than 3 would overweight

Valuations at High End Ranges

Current P/E vs. 10-Year High, Low and Average by Region/Style

Next 12-Month Data as of 2/28/2021



	S&P 500	MSCI World	MSCI EAFE	MSCI Emg Mkts
High	22.9	21.2	17.9	15.6
Low	10.3	10.0	9.4	8.7
Average	15.9	15.1	13.8	11.6
Current	21.4	19.8	16.9	15.4

Data as of 2/28/2021

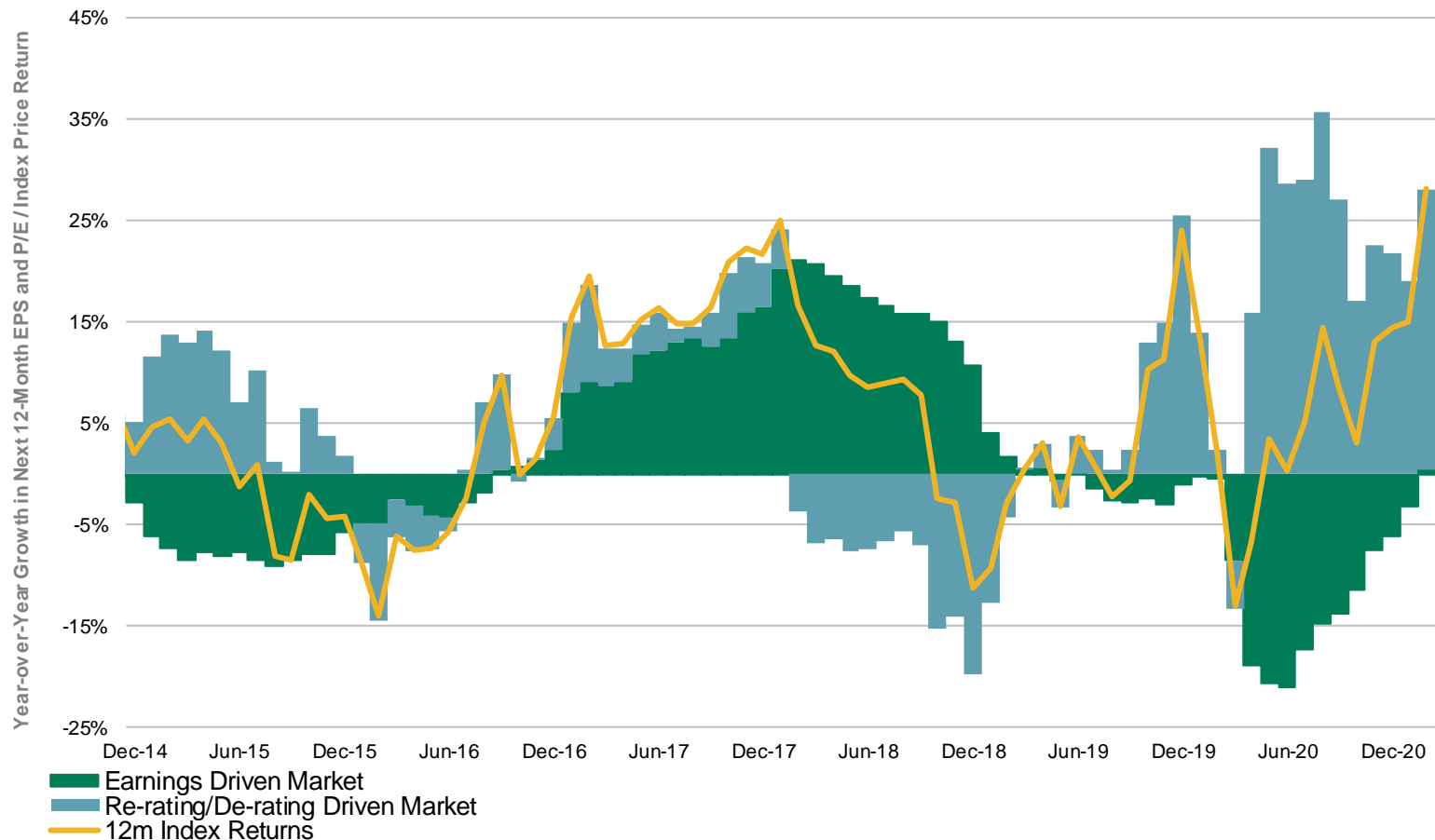
Source: FactSet



Market Performance Supported by Multiple Expansion

EPS Growth vs. PE

MSCI ACWI



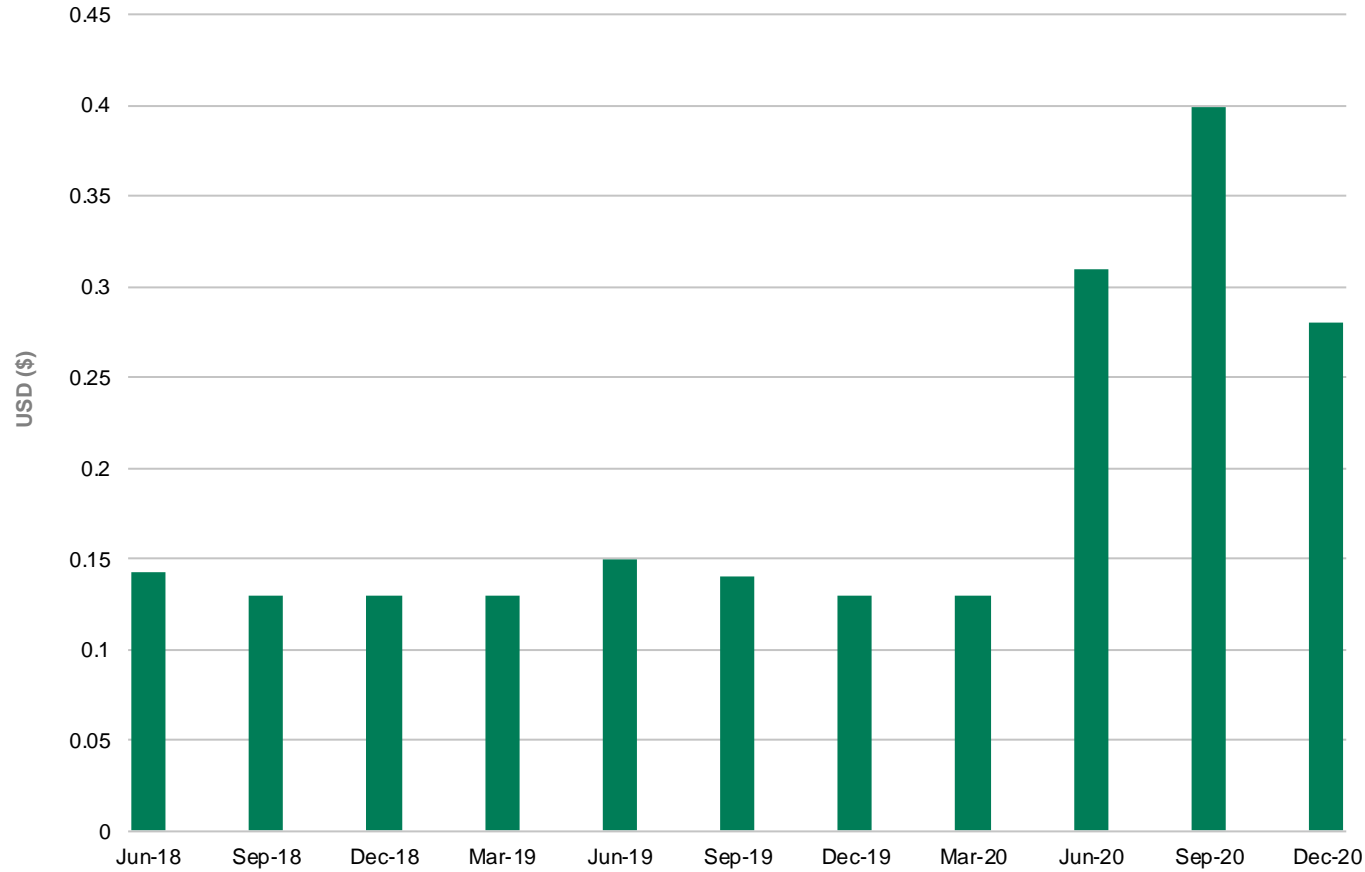
Earnings Driven Market = Year-over-year growth in next 12-month EPS, Re-rating/De-rating Driven Market = Year-over-year growth in next 12-month P/E ratio
 Data from 12/31/2014 to 2/28/2021
 Source: FactSet



The Uncertainty of Earnings

Median Spread in Analysts' Earnings Estimates

S&P 500



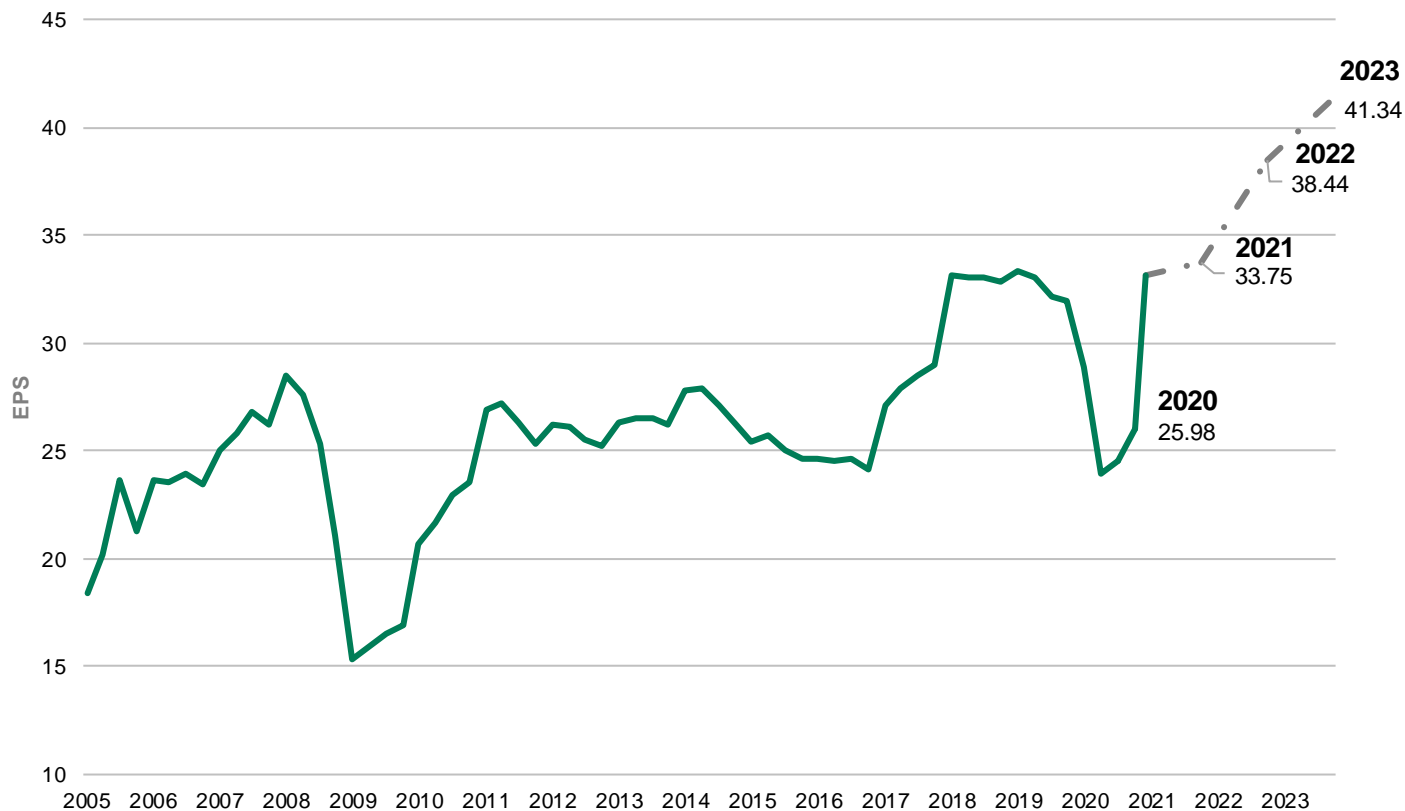
Data as of 12/31/2020
Source:FactSet

Notes



MSCI ACWI – Earnings Back to 2019 Levels

MSCI ACWI
EPS



Data from 3/31/2005 to 2/28/2021. 2021 forward is estimated.
Source: Bloomberg
Forecasts are not a reliable indicator of future performance.

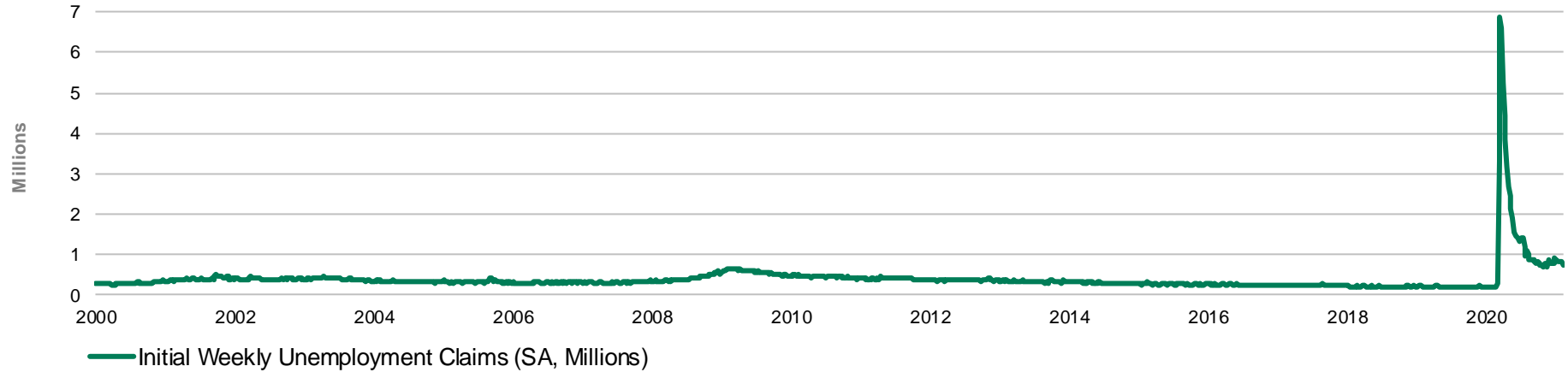
Notes



Unemployment

Unemployment in the United States

Initial Weekly Unemployment Claims and Continuing Claims

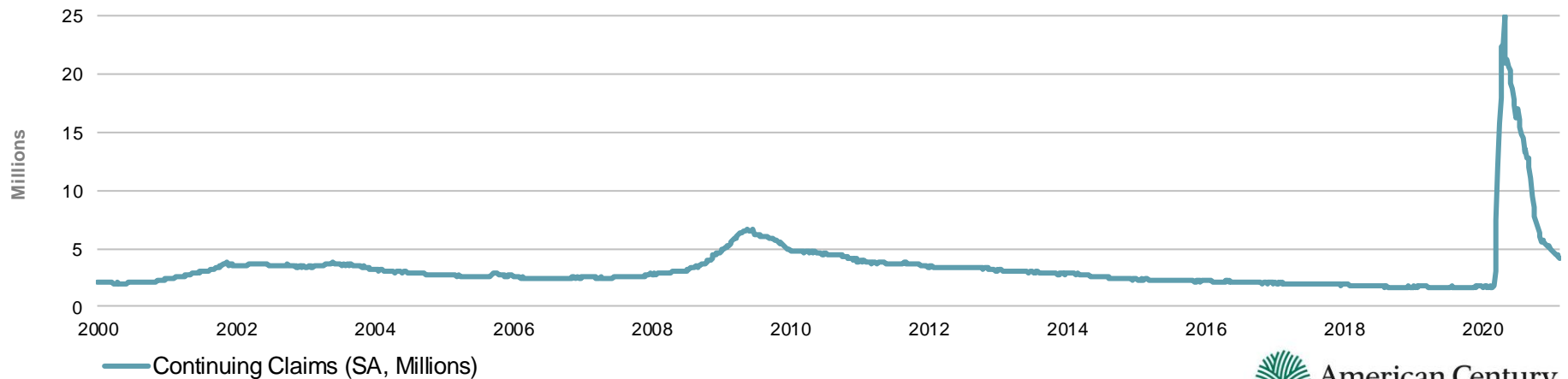


Data from 1/7/2000 to 2/26/2021

Source: Bloomberg, U.S. Department of Labor

Unemployment in the United States

Initial Weekly Unemployment Claims and Continuing Claims



Data from 1/7/2000 to 2/26/2021

Source: Bloomberg, U.S. Department of Labor



Inflation has Been Depressed for Decades Due to

- Aging demographics
- Technological advances
- Globalization
- Rising debt
- Other factors

United States Inflation



Data as of: 1/31/2021
Source: Bloomberg



What's Different This Time?

Powerful new secular and structural forces are emerging...

- The Third Pivoting: new social-economic trends (Equality and Justice) to favor labor over capital
 - The first pivoting: 1932 Election Roosevelt “New Deal”
 - The second pivoting: 1980 Election Reagan “Reaganomics”

- Mindset shift in economic / fiscal / monetary policy-making (MMT, UBI, FAIT, etc.)
 - Deficit spending, higher taxes, redistribution, unprecedented money printing...
 - Fiscal mindset: low cost, no inflation, free option, greater social good = “magic formula”
 - Fed mindset: target higher inflation, and pull back just at the right moment = “magic wand”

- De-globalization, geo-political conflicts, supply constraints
 - Trade war, technology war, protectionism, global supply chain rearrangement, reshoring, national security concerns...

Short/Medium (6-18 month)Term Outlook

As of 3/3/2021

Our call: The inflation backdrop is such that improving inflation metrics will overshoot market consensus and support higher nominal interest rates and wider inflation breakeven rates.

Positioning: American Century Investments' fixed income strategies are overweight inflation in varying degrees, roughly 5-10%, via TIPS and inflation swaps

Rebound from COVID – Q2 2021

- CPI positive base effects from pandemic. Estimates range from 3-5% CPI prints in April and May.
- Vaccine roll out is improving which should support pent-up demand from service sector.

Aggressive policy support:

Monetary support:

- Fed's policy mandate change to move to average inflation targeting framework (FAIT) allows for a 'moderate' overshoot in inflation.
- Fed's balance sheet is at \$7.6 trillion and moving higher (Fed will continue to purchase \$80 billion Treasuries and \$40 billion on mortgages monthly).
- M2 money supply growth growing at 25%.

Fiscal support:

- U.S. Federal deficit is at 16% of GDP (Higher than WW I, lower than WW II and highest ever in peacetime).
- Additional spending expected in 2H2021 with potentially \$2 trillion in infrastructure spending.
- The percentage of personal income from government assistance is 20%, highest since 1960s.

Synchronized global growth

- Global economy led by U.S. and China is bouncing back from the pandemic.
- CRB raw materials index and ISM prices paid are the highest in 10 years.
- Weaker dollar to promote higher import prices.

Risks to our call:

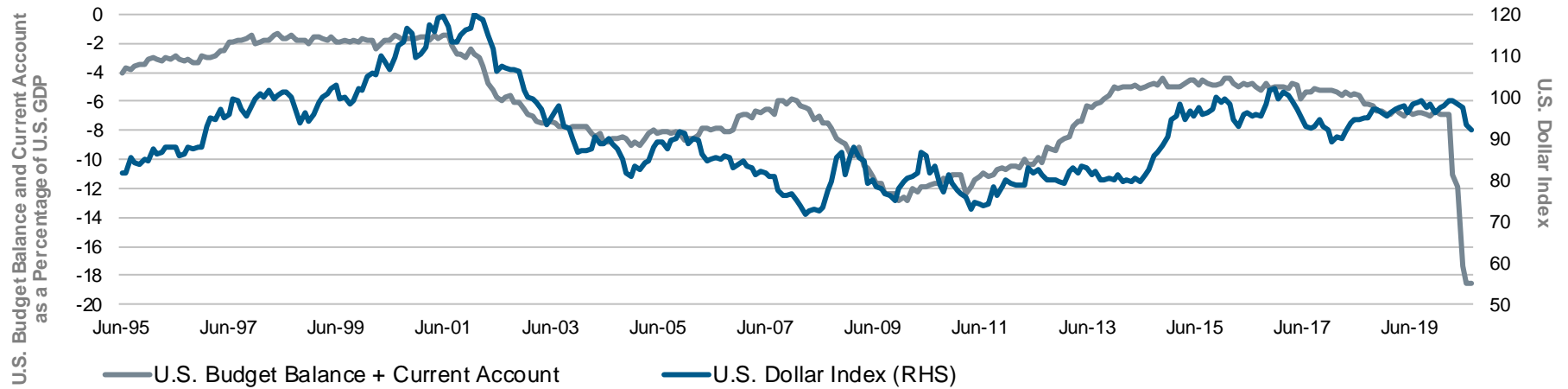
- New virus strain leads to more lockdowns which could slow the economy and inflationary pressures.
- Political deadlock leads to disappointments in fiscal stimulus and inflation expectations.
- Continued technology advances overpowers deglobalization and supply chain constraints.



Case for Higher Inflation

U.S. Twin Deficit and the Dollar

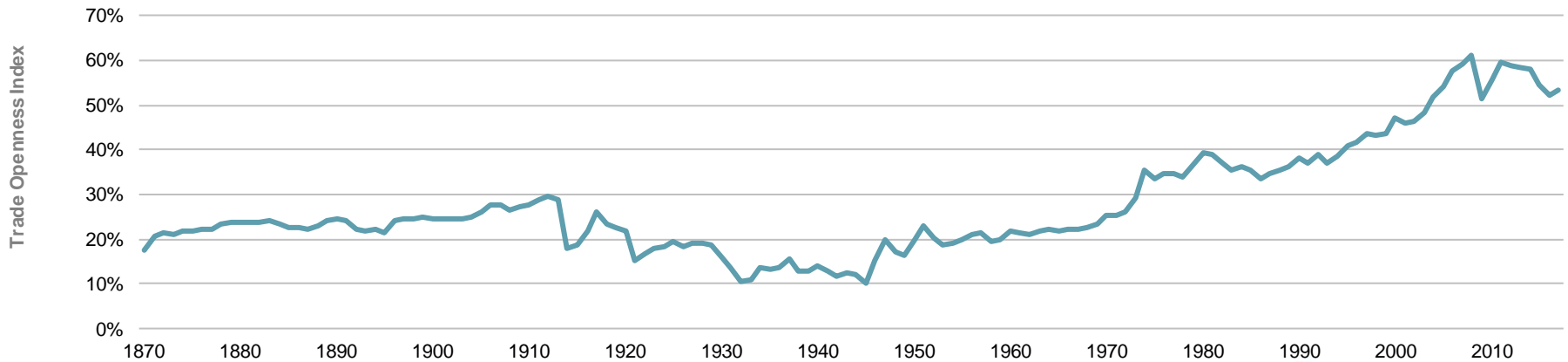
U.S. Budget Balance and Current Account as a Percentage of U.S. GDP Relative to the U.S. Dollar Index



Data from 6/30/1995 to 8/31/2020
Source: Bloomberg

Trade Openness Index

Global

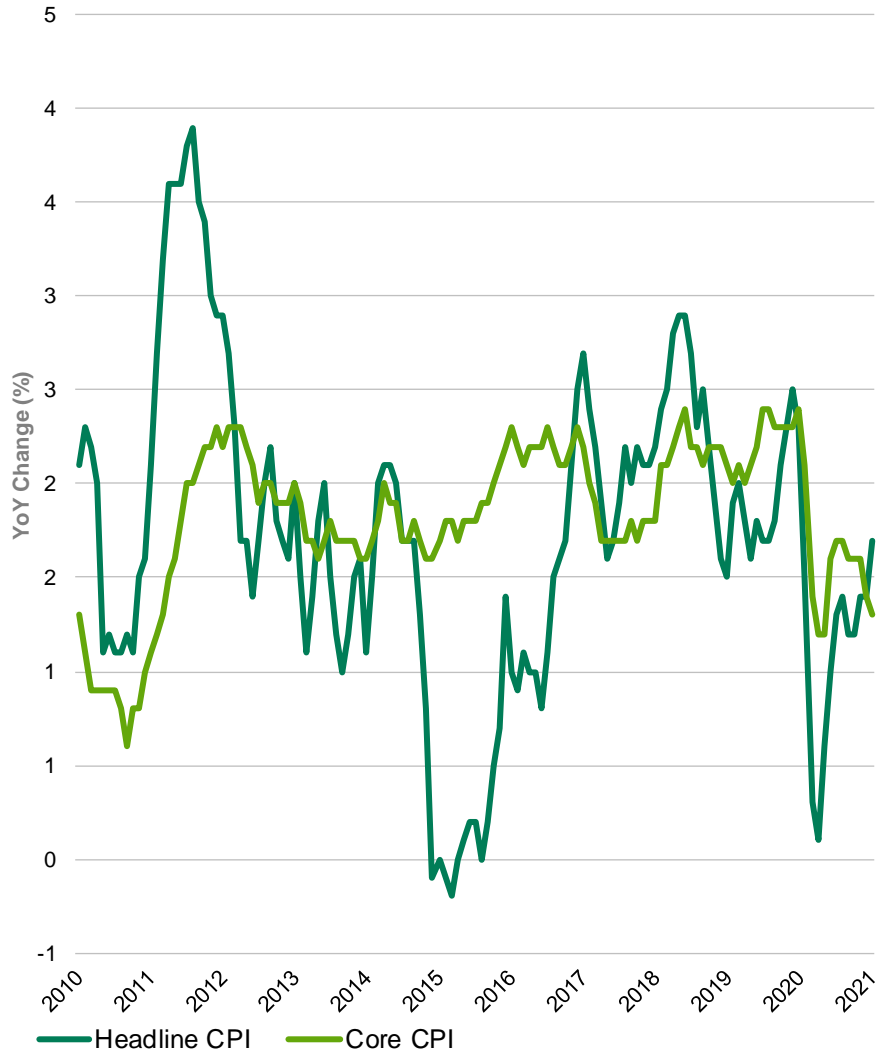


The Trade Openness Index is defined as the sum of world exports and imports divided by world GDP.
Data from 1870 to 2017
Source: Our World in Data



Measures of Inflation

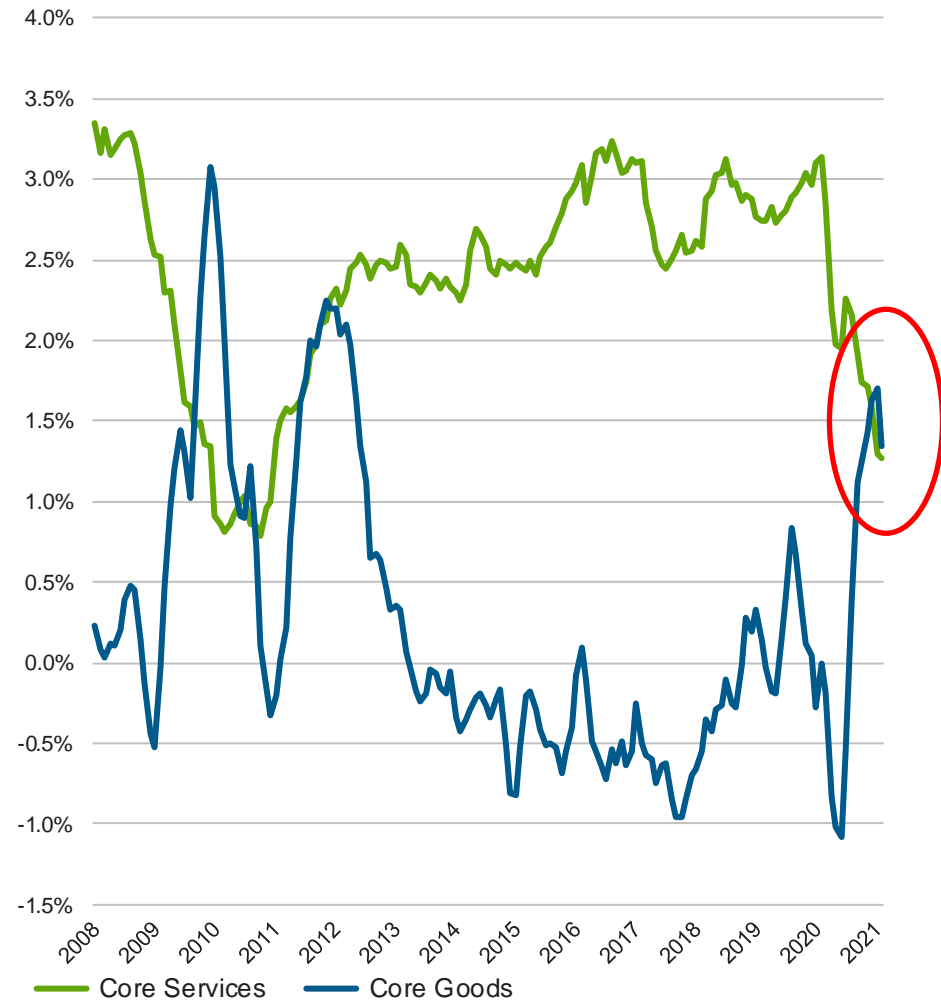
United States Inflation



Data as of: 2/28/2021
Source: Bloomberg

CPI Core Services vs. Core Goods

Year-Over-Year Percent Change



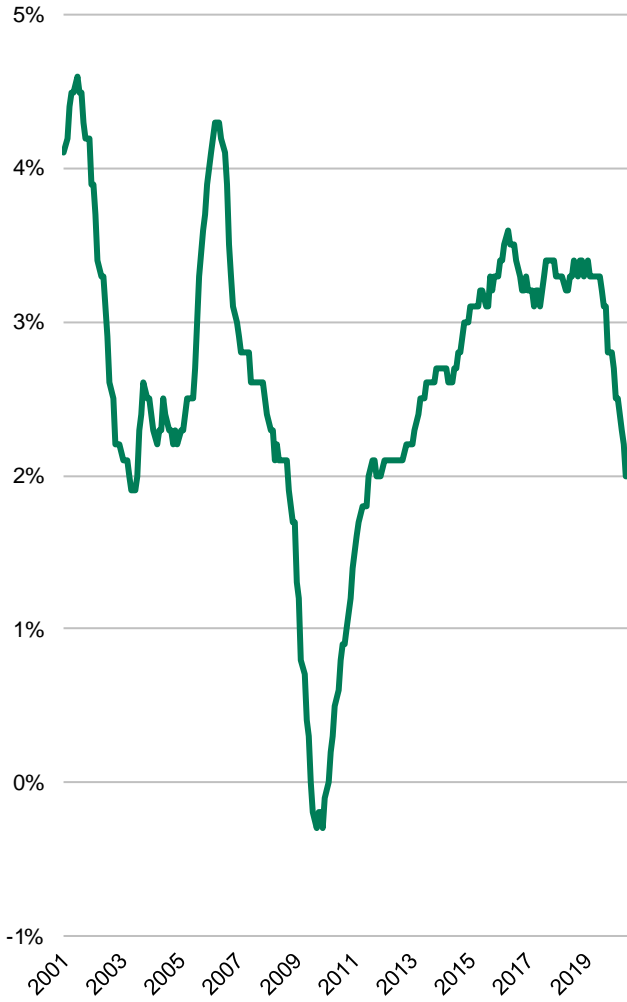
Data from 1/31/2008 to 2/28/2021
Source: FactSet, BLS. Data is seasonally adjusted.



Services

Rents

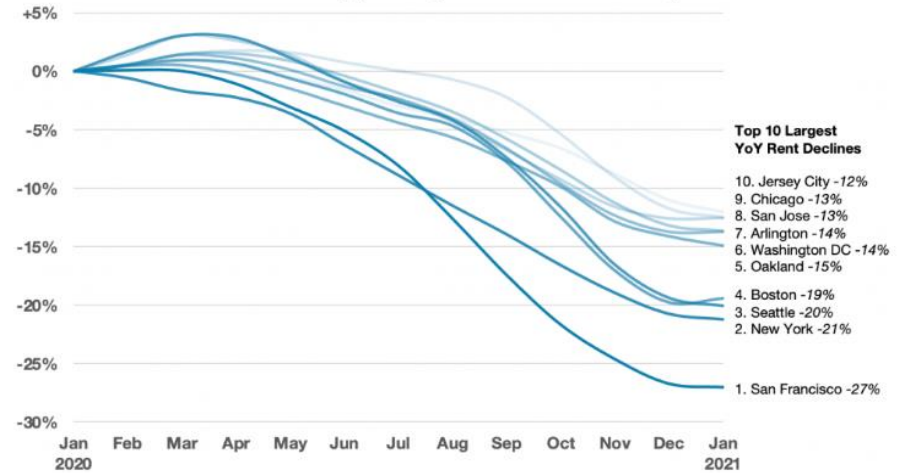
Year-Over-Year Change in CPI Owner's Equivalent Rent



Data from 9/30/2001 to 2/28/2021. Source: Bloomberg

Rent Declines Are Slowing in the New Year

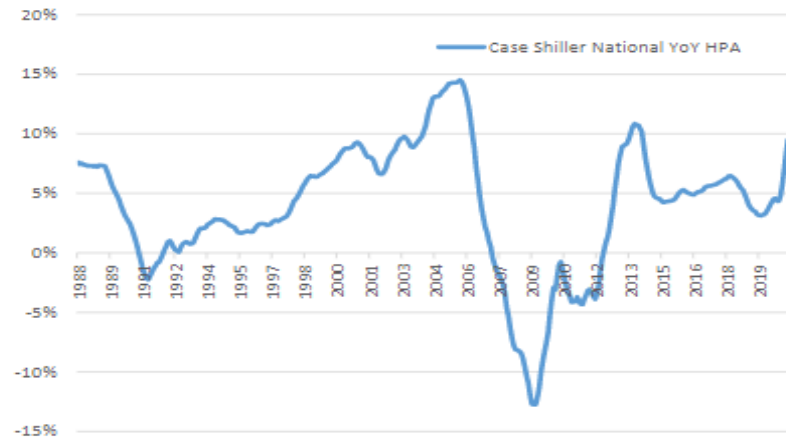
Cumulative YoY Rent Change, Among Ten Cities with the Largest Rent Declines



Data as of 1/31/2021

Source: Morgan Stanley Research

Case-Shiller's home price metric has inflected higher over the past 4 months

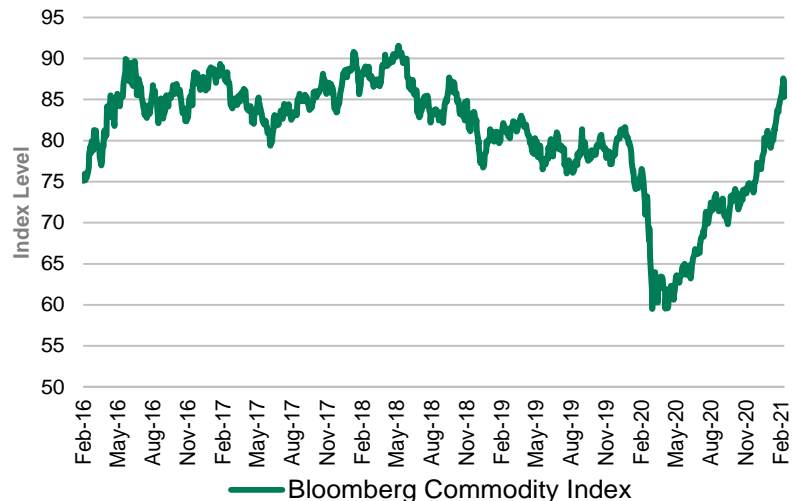


Data as of 1/31/2021

Source: Morgan Stanley Research

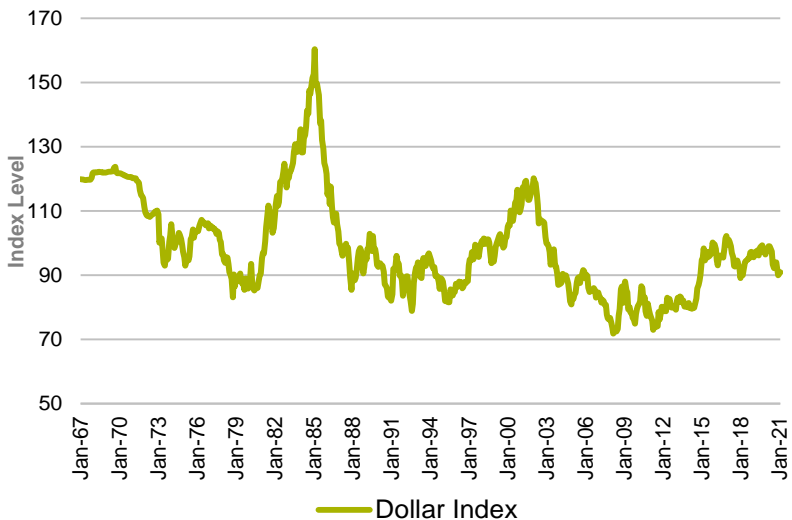
Goods

Bloomberg Commodity Index



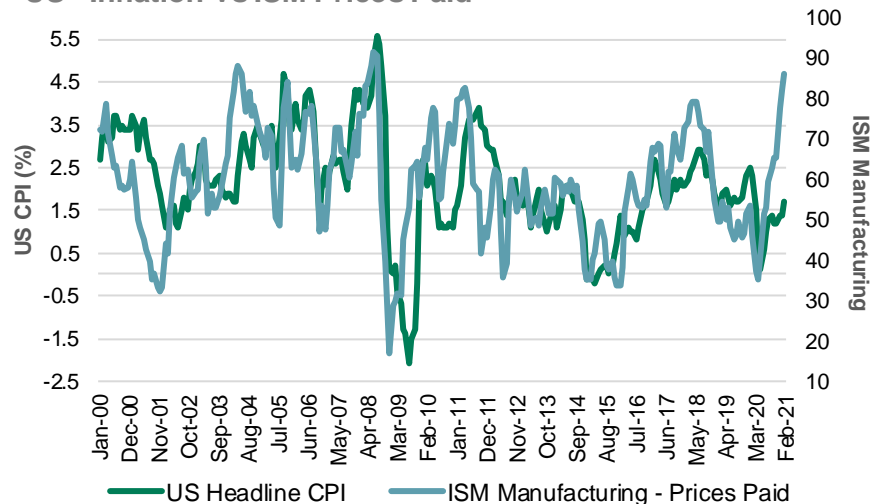
Data from 2/18/2016 to 2/28/2021
Source: Bloomberg

Dollar Index



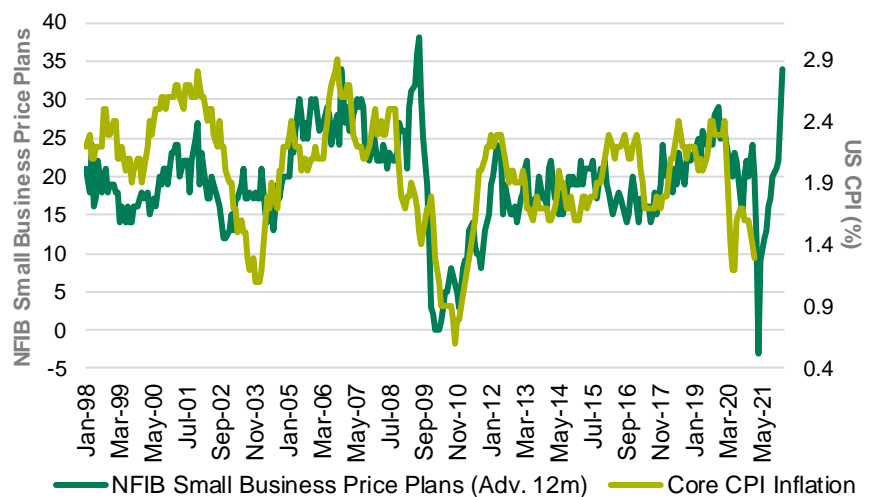
Data from 1/1/1967 to 2/28/2021
Source: Bloomberg

US - Inflation vs ISM Prices Paid



Data from 1/31/2000 to 2/28/2021
Source: Bloomberg

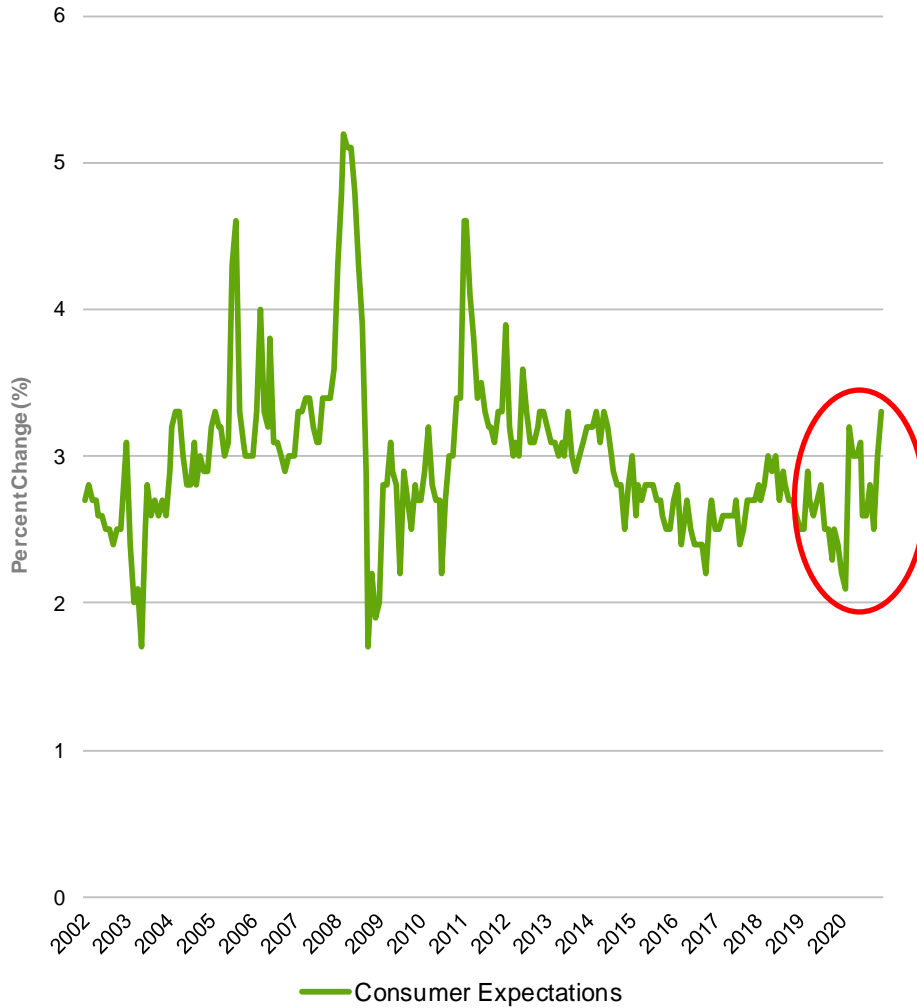
NFIB Small Business Price Plans & Core CPI Inflation



Data from 1/31/1998 to 2/28/2021
Source: Bloomberg

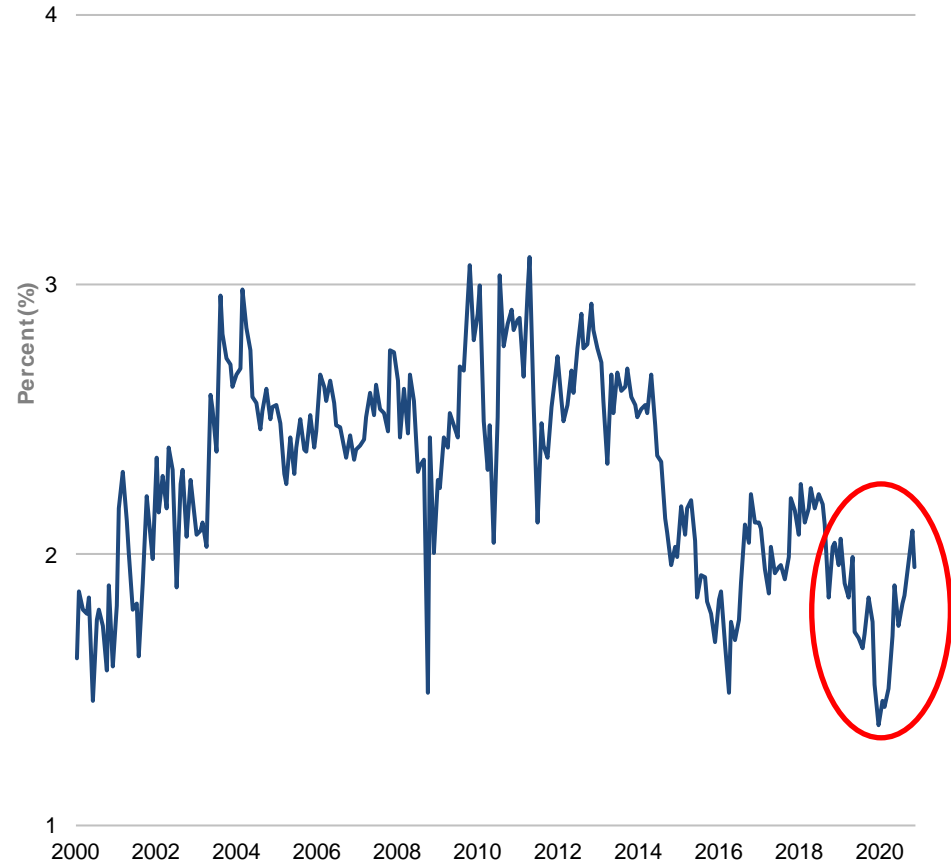
Inflation Expectations

University of Michigan and Cleveland Federal Reserve Surveys- 12 Months Forward



Data from 3/29/2002 to 2/28/2021
Source: Bloomberg, FactSet

U.S. Five-Year Breakeven Inflation Rate, Five Years Forward



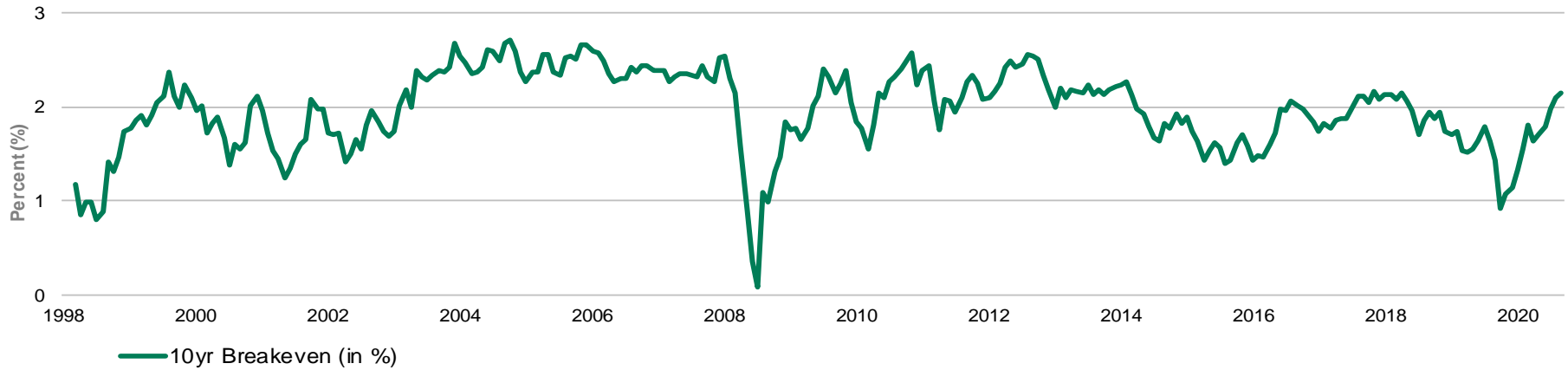
Data from 3/31/2000 to 2/26/2021
Source: Bloomberg



Market Price of Inflation

United States 10-Year TIPS Breakeven Rate

August 1998 to February 2021



Source: Bloomberg Barclays

United States 10-Year Real Yield

August 1998 to February 2021



Source: Bloomberg Barclays

Case for Lower Inflation

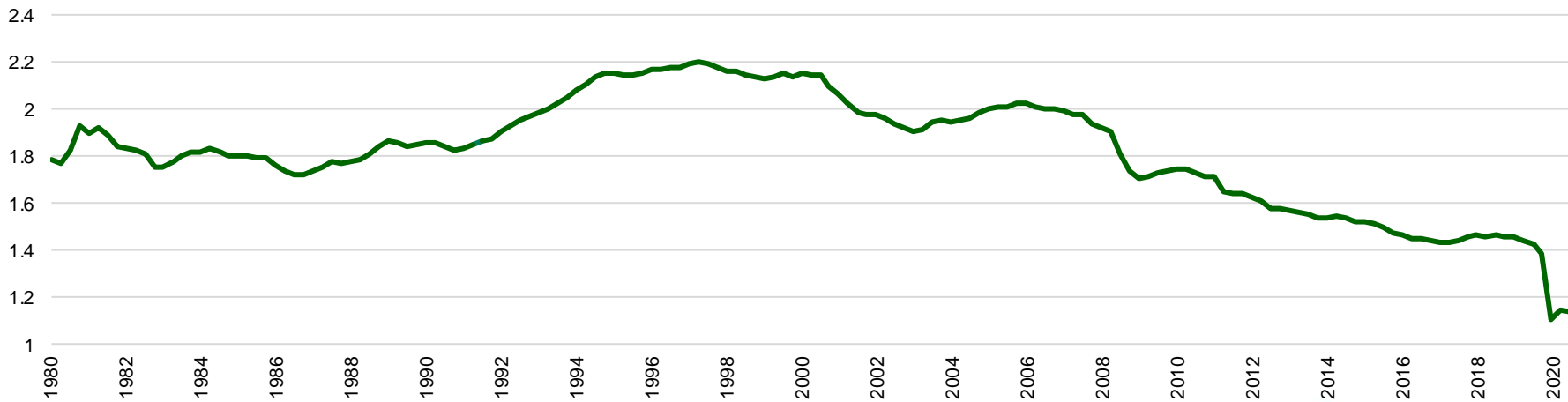
Savings in the U.S.

U.S. Personal Savings as a Percentage of Disposable Personal Income



Data from 4/30/2005 to 1/31/2021
Source: Bureau of Economic Analysis, Bloomberg

Velocity of M2 Money Supply



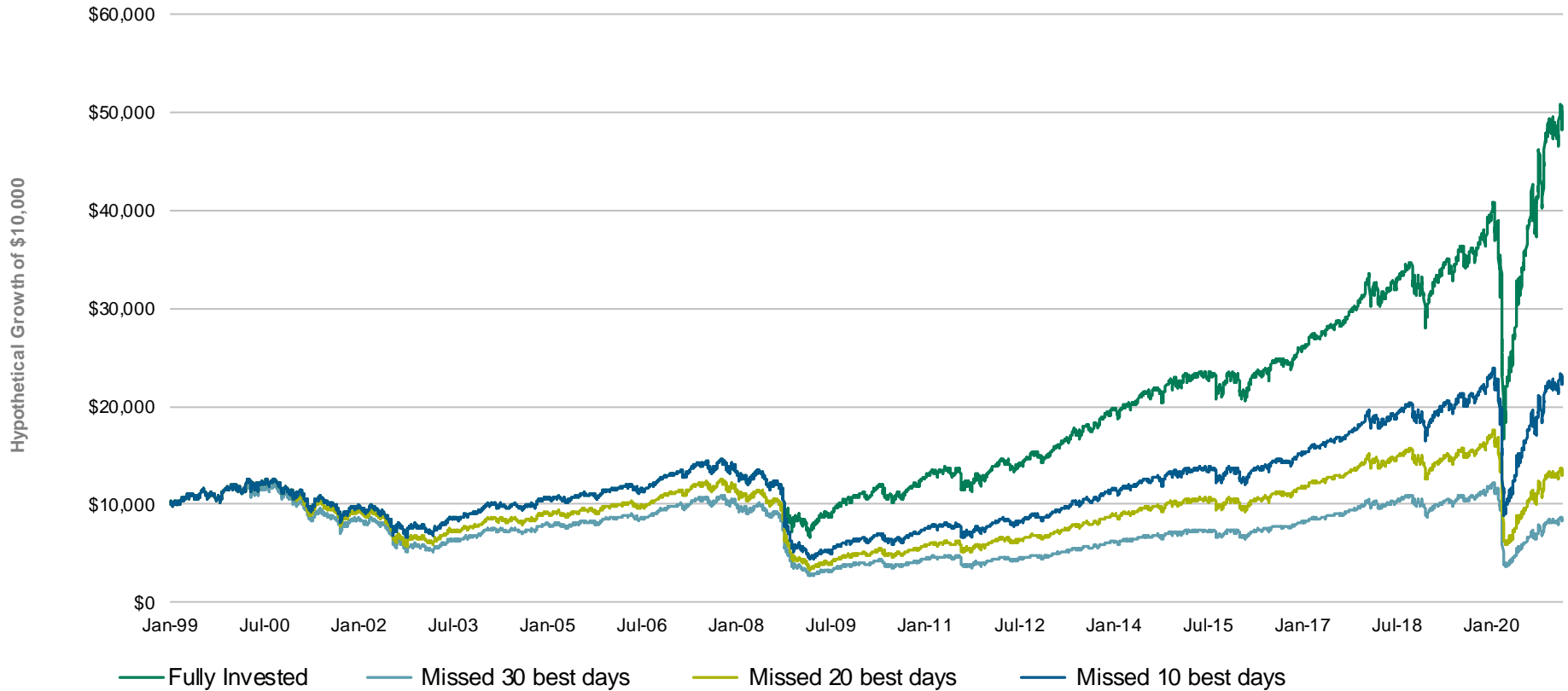
Data from 6/30/1980 to 12/31/2020
Source: Bloomberg



Keep it Consistent

Why a Consistent Allocation Matters

The Cost of Missing the Best Days of S&P 500 Performance



Data from 1/1/1999 to 2/28/2021

Source: FactSet

This hypothetical situation contains assumptions that are intended for illustrative purposes only and are not representative of the performance of any security.

Past performance is no guarantee of future results.

There is no assurance similar results can be achieved, and this information should not be relied upon as a specific recommendation to buy or sell securities.



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