High-frequency data suggest the economy in the United States gained considerable traction in the last half of March, a period that coincides with the start of stimulus payment disbursements under the $1.9 trillion American Rescue Plan Act of 2021.

Greater optimism around vaccination efforts and pass-through effects of a strengthening U.S. economy support our view that emerging markets on aggregate will grow by more than the 6% outlook we communicated at the end of 2020.

**Economic growth**

- High-frequency data suggest the economy in the United States gained considerable traction in the last half of March, a period that coincides with the start of stimulus payment disbursements under the $1.9 trillion American Rescue Plan Act of 2021. The somewhat earlier-than-expected direct payments alongside a continued strong pace of vaccinations point to the U.S. economy growing above the 5% we had previously anticipated in the first quarter. Such an increase would represent a carry-forward from the second quarter, and our view that the U.S. economy will grow in a range of 7% to 7.5% for the full year hasn’t changed. The Bureau of Economic Analysis (BEA) is scheduled to release its advance estimate of first-quarter GDP on Thursday, April 29. Real GDP increased at an annual rate of 4.3% in the fourth quarter, according to the BEA’s final estimate. For all of 2020, real GDP declined by –3.5%.

- An increase in COVID-19 case numbers in France, Germany, and Italy in March has led governments to tighten restrictions, including a third national lockdown in France. That development, alongside continued slow rollout of vaccines compared with other developed markets, has led Vanguard to reconsider our view of GDP growth in the euro area. We expect 2021 GDP growth in the neighborhood of 4%, compared with our previous expectation for growth around 5%. On a positive note, cases in France and Italy have since begun to decline. GDP fell by –0.7% in the fourth quarter of 2020 compared with the third quarter on a seasonally adjusted basis, according to a second estimate by the European Union’s statistical agency, and full-year GDP fell by –6.6% compared with 2019. The final estimate of euro area GDP is scheduled to be released Monday, April 19.

- GDP in the United Kingdom increased by 0.4% in February on a seasonally adjusted basis, compared with a revised decline of –2.2% in January. A strong COVID-19 vaccination response, with more than 50% of adults having received at least one dose and a target to vaccinate all adults by July, supports the prospects for economic recovery. The bulk of restrictions on activity are set to be lifted by the end of this quarter, supporting our base case for full-year 2021 GDP growth around 6%, and GDP reaching its pre-pandemic level within a year. Supportive measures within the government’s March 3 budget announcement, including extensions to the furlough scheme, business support loans, and directed tax cuts, give Vanguard confidence that scarring in the UK economy will be relatively limited. The United Kingdom’s reading of March GDP is scheduled to be released Wednesday, May 12.
• High-frequency data suggest that recent COVID-19 outbreaks and related restrictions in China weren’t as disruptive as initially feared, with consumption indicators decreasing less than expected. The data support our assessment for full-year growth around 9%, a level to which consensus estimates have recently risen closer toward. With outbreaks in control, we expect service activities to resume fully in the coming weeks. Vanguard continues to see quarterly growth slowing, but remaining positive, to around 1% in the first quarter, compared with fourth-quarter 2020 growth of 3%. Just about 10% of the population has been vaccinated, meaning China will need to considerably ramp up vaccine distribution to hit its target of 40% by June.

• More effective COVID-19 containment efforts than in most other developed markets leave Australia in position for a relatively quicker economic recovery despite a lagging vaccination rollout. Less than 1% of the population has been vaccinated, compared with the government’s target of 70% by October. We expect Australia’s economy to reach its pre-pandemic level in the first half of 2021, and for the output gap—the difference between actual output and potential output—to be closed by the second half of 2022. We foresee full-year 2021 growth around 5%. GDP rose more than expected in the fourth quarter, by 3.1% compared with the third quarter on a seasonally adjusted basis, topping consensus estimates of 2.5%. The Australia Bureau of Statistics will report first-quarter 2021 GDP on Wednesday, June 2.

• Real GDP rose by a greater-than-expected 0.7% in January in Canada on a seasonally adjusted basis compared with December 2020, a ninth consecutive monthly increase. But total economic activity remained about 3% below February 2020 levels, before the onset of the pandemic. Meanwhile, Canada’s largest province, Ontario, is in the midst of a four-week lockdown amid a surge in COVID-19 cases, posing a downside risk to the pace of recovery in face-to-face sectors. We’ll be paying attention to the mix of rising cases amid positive growth numbers. Initial data suggest, however, that the economic effect of this lockdown may not be as significant as with prior lockdowns, and U.S. economic growth is a tailwind. A preliminary estimate for month-on-month growth of 0.5% in February is in line with our estimate of first-quarter growth in a range around 5.0%. We foresee full-year growth in a range of 4% to 5%. First-quarter GDP figures are scheduled to be released on June 1.

• Greater optimism around vaccination efforts and pass-through effects of a strengthening U.S. economy support our view that emerging markets on aggregate will grow by more than the 6% outlook we communicated at the end of 2020. We continue to see emerging Asia leading the way, with 2021 growth above 8%. The region has been largely successful in managing the pandemic, and its export-driven model is likely to prosper as global growth accelerates. We’d expect Latin America to trail, with 2021 growth of around 4% not making up for a contraction of – 7.4% in 2020.

• The economy in Mexico contracted by – 8.5% in 2020, according to final government figures (linked content in Spanish). Mexico’s next reading of GDP is scheduled to be released Friday, April 30.
Monetary policy

- The U.S. Federal Open Market Committee voted on March 17 to leave the target range for its federal funds rate unchanged at 0%–0.25% and its bond-buying program unchanged. Chairman Jerome Powell has emphasized that the Fed would communicate potential changes to its $120 billion-per-month bond-buying program well in advance of any tapering of purchases. Mr. Powell on several occasions has said the Fed wasn’t going to even talk about talking about tapering. Given U.S. economic strengthening and a quickening in the pace of COVID-19 vaccinations, however, Vanguard expects that in the second half of the year the Fed will start to issue guidance around how and when it might start the unwinding of its balance sheet. We continue to anticipate a lift-off for the Fed’s interest rate target only in the third quarter of 2023. The Fed’s next monetary policy decision is scheduled for Wednesday, April 28.

- The European Central Bank (ECB) left its key rates intact at its March 11 policy meeting but signaled a significantly higher pace of asset purchases under its Pandemic emergency Purchase Programme (PEPP). That accelerated pace doesn’t yet appear to have materialized, but Vanguard believes the ECB remains poised to use the PEPP to keep a lid on real yields and ensure that financial conditions don’t materially tighten. The bank said it would continue asset purchases under the PEPP until at least the end of March 2022, and, in any case, at least until it judges that the coronavirus crisis phase is over. The ECB kept its main deposit rate unchanged at negative 0.50%. The ECB is scheduled to announce its next policy decisions on Thursday, April 24.

- Given the encouraging progress of vaccine rollout in the United Kingdom and the economic outlook, we expect the Bank of England (BOE) to slow the pace of its asset purchases over the coming quarters, and to continue such purchases only until the end of the year. We anticipate that the BOE will start lifting its bank rate from December 2022. The BOE maintained its bank rate at 0.1% at its March 17 Monetary Policy Committee meeting and left its bond purchase program target unchanged at £875 billion. The bank’s next policy announcement is scheduled for Thursday, May 6.

- The Reserve Bank of Australia (RBA) left its cash rate and three-year government bond target intact at 0.10% at its April 6 policy meeting. The bank noted that a stronger-than-expected economic recovery was well under way. Nevertheless, it said wage and price pressures are likely to remain subdued “for some years,” with unemployment “still too high”. The bank said it wouldn’t raise the cash rate until actual inflation is sustainably within its 2% to 3% target range, which would require wage growth and a return to full employment, conditions it doesn’t foresee occurring at least until 2024. An initial AUD100 billion (USD 76 billion) bond-buying program is complete, and a second program of the same size is just underway. The RBA said it would undertake further purchases if doing so “would assist with progress toward the goal of full employment and inflation”. Given anticipated economic recovery, we expect the RBA by the third quarter to start to discuss a slowing in its pace of asset purchases. The RBA’s next policy announcement is scheduled for Tuesday, May 4.

- Vanguard expects China to gradually normalize fiscal and monetary policy over the course of 2021 as it continues to balance near-term growth and medium-term financial stability. On the fiscal side, we expect the government to aim to reduce its official fiscal deficit target from 3.6% to 3.2%, while on the monetary side, policymakers will aim to slow credit growth in line with nominal GDP. We don’t, however, expect the People’s Bank of China to increase policy rate this year.

- The Bank of Canada (BOC) kept the target for its overnight rate at 0.25% and left other key rates unchanged at its March 10 policy meeting. Since then, citing “continued improvement in the general functioning of Canadian financial markets”, the BOC announced an end to various market-liquidity focused crisis programs, to occur in April and May. And in a March 23 speech, Deputy Governor Toni Gravelle discussed the bank’s plans to pare back its asset-purchase program, saying the process would be “gradual” and “measured”. Vanguard anticipates that initial tapering details may coincide with the bank’s next policy statement, on Wednesday, April 21. We foresee the end
of the bank’s asset purchases, currently around CAD 4 billion per week, by January 2022. But a non-trivial risk exists that tapering could be delayed while the BOC assesses the economic impact of a recent increase in COVID-19 case counts.

- Vanguard expects central banks in emerging markets broadly to seek stability in the face of fiscal expansion in the United States. Of the last 14 emerging market central banks to review policy, 11 have left interest rates on hold while three – Russia, Brazil, and Turkey – have increased rates, partly in response to their own domestic factors. Banco de México, Mexico’s central bank, maintained the target for its overnight interbank rate at 4.0% at its March 25 meeting while noting “major challenges for monetary policy” in a “highly uncertain environment.” U.S. rate dynamics make another cut in the near term unlikely.

### Inflation

- The Consumer Price Index (CPI) in the United States rose 0.6% in March on a seasonally adjusted basis compared with February, the largest increase since August 2012, with higher gasoline prices accounting for nearly half the increase. Core CPI, which removes volatile food and energy prices, rose 0.3%. Compared with a year earlier, the broad price index rose 2.6%, while core prices were up by 1.6%. These numbers compare with the Federal Reserve’s preferred inflation measure, the core Personal Consumption Expenditures (PCE) index. Core PCE rose 0.1% in February compared with January on a seasonally adjusted basis, and by 1.4% compared with a year earlier, less than its increases in January. Vanguard expects core U.S. inflation above 2% in the second quarter, given base effects, or comparisons to weak year-earlier numbers. We expect some volatility on a sector-by-sector basis; some sectors could see temporary mismatches between supply and demand as consumers reengage with the economy. But we believe these mismatches will be temporary and we expect that a continuation of the long-term structural trends that have kept inflation low for more than a decade will continue to limit price rises. The PCE reading for March is scheduled to be released Friday, April 30, while the CPI for April is scheduled to be released Wednesday, May 12.

- The consumer price index in Canada rose 1.1% in February compared with February 2020, driven by a rise in gasoline prices. Absent the effect of gasoline prices, CPI would have increased by 1.0%, lower than January’s 1.3% growth. On a seasonally adjusted monthly basis, CPI rose 0.1% in February. Vanguard expects core inflation to climb above 2% in coming months because of base effects—comparisons to weak year-earlier numbers—with the effects fading in the third quarter. Energy prices could cause volatility in headline inflation in the interim. We expect the overshoot to be temporary, and that core inflation will then settle back below the Bank of Canada’s 2% target for the rest of the year. The CPI data release for March is scheduled for Wednesday, April 21.

- Headline inflation rose by 1.3% in the euro area in March on an annual basis, up from 0.9% in February, according to a flash estimate from Eurostat, the European Union’s statistical agency. The gains were driven almost exclusively by energy prices. Core inflation, which excludes volatile food and energy prices, was estimated to have risen by 0.9%, the weakest gain in three months. We expect headline inflation to surpass 2.0% in the second half of the year on continued gains in energy prices. We expect that supply chain bottlenecks in the manufacturing sector will also exert upward inflationary pressure. We foresee core inflation rising toward 1.5% as the pace of economic recovery increases in the second half of the year, but underlying price pressures remain subdued amid weak labor bargaining power and low inflation expectations. A full inflation data release for March is scheduled to be released Friday, April 16, while a flash estimate for April inflation is scheduled for Friday, April 30.

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Headline inflation rose by 0.4% in February in the United Kingdom compared with a year earlier, down from a 0.7% rise in January. Vanguard expects both headline and core inflation to rise in the months ahead, toward the Bank of England’s 2% target, as the effects of sharply lower energy prices and short-term tax cuts unwind, and as the economy strengthens. The UK Office for National Statistics will release March inflation data on Wednesday, April 21.

Despite some modest base effects, or comparisons to low year-earlier prices, Vanguard doesn’t expect core inflation in Australia to approach the Reserve Bank of Australia’s (RBA’s) 2% to 3% target range anytime soon. We expect that spare capacity in the broad economy and in the labor market will leave core inflation below target in the next two years. Consumer prices rose 0.9% on a seasonally adjusted basis in the quarter ended December 2020 compared with the September 2020 quarter, and by 0.9% compared with a year earlier. First-quarter 2021 inflation data is scheduled to be released on Wednesday, April 28.

The producer price index in China surged to a 4.4% year-on-year gain in March, and a 1.6% month-on-month gain, as commodity prices rose amid global economic recovery. Vanguard expects greater increases in the second half of the year given base effects, or comparisons to weaker year-earlier figures. Consumer prices also returned to positive territory, increasing by 0.4% year-on-year in March compared with a decline of – 0.3% in January/February. Core inflation, which excludes volatile food and energy prices, led the gains as the impact of cross-region travel restrictions around the Lunar New Year holiday period on consumer spending faded. We expect consumer price inflation to strengthen further in the second quarter as economic activity normalizes further and base effects from last year’s high food prices fade out, but we do not foresee a significant pass-through from high producer prices given strong competition in the consumer market.

Emerging markets continue to diverge, with disinflation (inflation well below target), a concern in parts of Southeast Asia, notably Indonesia and the Philippines. Inflationary pressures appear to be easing in India, which we believe will allow the Reserve Bank of India to avoid rate hikes. We expect that inflation could lead to rate hikes in Brazil this year, while we see inflation moderating in Mexico.

Consumer prices in Mexico rose at an annualized rate of 4.67% in March, up from 3.76% in February. Core inflation, which strips out volatile food and energy prices, rose 4.12%

Employment

The unemployment rate in the United States fell to 6.0% in March as 916,000 jobs were created in a broad-based recovery. We expect job gains to average more than 500,000 per month for the remainder of the year, with gains front-loaded in this quarter and the next, and the unemployment rate falling toward 5.0% by year’s end. But as these job market talking points explain, we foresee overall employment in the medium term, by the end of 2023, around 1.2 million lower than we had forecast before the pandemic. The April U.S. jobs report is scheduled to be released on Friday, May 7.

The unemployment rate in Canada fell sharply for a second straight month in March, to 7.5% compared with 8.2% in February and 9.4% in January. More than 300,000 jobs were created in March, and the labor underutilization rate fell 1.9 percentage points to 14.7%, the lowest since February 2020. With continued strong job-creation numbers, Vanguard foresees the unemployment rate falling to around 5% to 5.5% by year’s end. Canada’s April jobs report is scheduled to be released Friday, May 7.

Unemployment in the euro area remained steady at 8.3% in February on a seasonally adjusted basis compared with a revised reading of 8.3% in January. The unemployment rate has risen only modestly from 7.3% in February 2020, before the pandemic shock. Euro area employment figures for March are scheduled to be released Friday, April 30.
• The unemployment rate in the **United Kingdom** registered 5.0% in the three months ended in January, down slightly from 5.1% in the quarter ended in December 2020 but up by 1.1 percentage points compared with a year earlier. The economic inactivity rate, the percentage of the working-age population not employed or seeking employment, stands at 36.6%, its highest since September 2017, suggesting a growing number of potential workers discouraged by the pandemic-era job market or not in position to take on work. Vanguard expects employment to be supported by the extension of the Coronavirus Job Retention Scheme through September as part of the UK’s recently announced budget. The next unemployment reading is scheduled to be released Tuesday, April 20.

• The unemployment rate in **Australia** fell to 5.8% in February from a revised 6.3% in January, the Australian Bureau of Statistics reported on March 18. The JobKeeper Payment scheme concluded on March 28, which could lead to near-term volatility in the unemployment rate starting with the April Labor Force Survey reading on Thursday, May 20. Vanguard estimates that without the program the unemployment rate could have reached 12%, as opposed to its actual peak of 7.5% in July 2020. We estimate that the program’s end could cause 60,000 to 80,000 job losses in April, representing a 0.4- to 0.6-percentage-point increase in the unemployment rate, with workers in the hospitality and recreation sectors affected most greatly. But we then expect the downward trend in the unemployment rate to continue as the economy improves. Results of the March Labor Force Survey are scheduled to be released Thursday, April 15.
**Asset class return outlooks**

- Vanguard’s 10-year annualized outlooks for equity and fixed income returns are unchanged since the March 2021 economic and market update. The probabilistic return assumptions depend on market conditions at the time of the running of the Vanguard Capital Markets Model® (VCMM) and, as such, can change with each running over time.

- ISG updates these numbers quarterly. The projections below are based on the December 31, 2020, running of the VCMM. Projections based on the March 31, 2021, running of the VCMM will be communicated through the May 2021 economic and market update.

- Our 10-year annualized nominal return projections are as follows. Please note that the figures are based on a 1-point range around the 50th percentile of the distribution of return outcomes for equities and a 0.5-point range around the 50th percentile for fixed income. Numbers in parentheses reflect median volatility.

### U.S. dollar investors

<table>
<thead>
<tr>
<th>Equities</th>
<th>Return projection</th>
<th>Median volatility</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. equities</td>
<td>3.0%-5.0%</td>
<td>16.9%</td>
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<tr>
<td>Global equities ex-U.S. (unhedged)</td>
<td>6.1%-8.1%</td>
<td>18.6%</td>
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<tr>
<td>U.S. value</td>
<td>4.4%-6.4%</td>
<td>18.9%</td>
</tr>
<tr>
<td>U.S. growth</td>
<td>-0.1%-1.9%</td>
<td>17.9%</td>
</tr>
<tr>
<td>U.S. large-cap</td>
<td>2.9%-4.9%</td>
<td>16.5%</td>
</tr>
<tr>
<td>U.S. small-cap</td>
<td>3.2%-5.2%</td>
<td>21.9%</td>
</tr>
<tr>
<td>U.S. REITs</td>
<td>3.0%-5.0%</td>
<td>19.6%</td>
</tr>
<tr>
<td>U.S. aggregate bonds</td>
<td>0.8%-1.8%</td>
<td>4.2%</td>
</tr>
<tr>
<td>U.S. Treasury bonds</td>
<td>0.5%-1.5%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Global bonds ex-U.S. (hedged)</td>
<td>0.6%-1.6%</td>
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<tr>
<td>U.S. credit</td>
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<tr>
<td>U.S. high-yield corporate</td>
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<td>10.1%</td>
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<tr>
<td>Emerging market sovereign</td>
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<td>10.5%</td>
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<tr>
<td>U.S. TIPS</td>
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<tr>
<td>U.S. cash</td>
<td>0.7%-1.7%</td>
<td>1.0%</td>
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<tr>
<td>U.S. inflation</td>
<td>1.1%-2.1%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

### Mexican peso investors

<table>
<thead>
<tr>
<th>Equities</th>
<th>Return projection</th>
<th>Median volatility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexican equities</td>
<td>6.8%-8.8%</td>
<td>28.3%</td>
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<tr>
<td>U.S. equities (unhedged)</td>
<td>6.3%-8.3%</td>
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<tr>
<td>Global ex-U.S. developed market equities (unhedged)</td>
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<tr>
<td>Mexican sovereign bonds</td>
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<tr>
<td>Global bonds (hedged)</td>
<td>5.6%-6.6%</td>
<td>6.7%</td>
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