EXPECTATIONS FOR THE ECONOMY IN 2020

Jeremy Schwartz – Global Chief Investment Officer
11/26/2019

The U.S. stock market closed last week very close to all-time highs. The news of the “Phase One” trade deal with China moved the market back and forth like a pendulum, but the week concluded with the hope of a deal coming together.

Last Friday, for the “Behind the Markets” podcast, Professor Jeremy Siegel and I interviewed Patrick Harker, president and CEO of the Federal Reserve Bank of Philadelphia, about how he views the economy and monetary policy. Harker will be a voting member of the Federal Open Market Committee (FOMC) next year.

Harker’s Expectations

- Harker expects GDP growth to come back to trend levels of just above 2% this year and stabilize at 2% for 2020. As we return to trend levels, he expects job growth to continue at 100,000 jobs a month, a level that we are still above today despite being late in the economic cycle.
- The Federal Reserve (Fed) expected the labor force participation rate would trend down, bringing more pressure on wages, but this measure recently moved up to a seven-year high, with employees coming off the sidelines and back into the workforce.
- Generally, Harker sees the economy in a good position that will continue to grow at trend levels, which should allay concerns of recession.

When asked if he was properly characterized as a hawk, Harker noted he was neither a dov e nor a hawk but rather an eagle for his hometown team.

- Harker noted he did not support the Fed’s December 2018 interest rate hike. Rather, he thought rates were in a neutral policy stance before the hike, and he thus supported the first rate cut in 2019. Harker does not think the next two cuts were warranted.
- Harker sees uncertainty in business investment hampering the current environment, but he does not believe interest rates, and specifically lowering the cost of capital, would address or mitigate these other often trade-related uncertainties.

Should the Fed Start a Permanent Repurchase Facility?

- Harker believes some spikes in repurchase (repo) rates are natural, but the Fed does not want excessive spikes (as we saw in September). Harker wants the Fed to help offset volatility in the repo market, but he does not want the Fed to explicitly take over a private market function.
- Harker’s diagnosis of the problem: 80% of $1.5 trillion of financial market reserves are held by five financial institutions, and when those institutions don’t trade, there can be spikes in the rates due to a shortage in available funds. Harker believes some regulatory friction caused the recent spikes.

- Harker believes there's zero evidence the high repo rates are signs of problems at one of the large banks.

Will Technology Automation Eliminate Jobs?

- Harker believes what is different about this wave of innovation is the *pace* of change.
- Harker has studied his district closely and believes one-fifth of all jobs have a high risk of being automated away. Harker pointed to fully automated fast-food restaurants as an example, where everything is done robotically.

The limiting growth factor, he contends, for the U.S. economy is a lack of skilled labor.

- Harker sees a lot of creativity in companies trying to train workers and bring new workers off the sidelines given the tightness in the labor markets.
- Harker also believes apprenticeship programs are something that can help people both earn and learn at the same time, and they are a model the U.S. needs to explore in much greater force than it does today.

Harker said there is a new space race in quantum computing, and these machines are going to dominate the world economy. Harker believes these machines will be developed to solve real problems, including data encryption, over the next decade.

While artificial intelligence and machine learning is important, Harker claims that the quantum computing revolution is significantly more important.

The U.S., historically, has not been the lowest-cost producer of anything, but our comparative advantage has been as the low-cost innovator.

This was a great conversation with Professor Siegel and Harker; please listen to the full conversation below.

For standardized performance and the most recent month-end performance click here NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our Economic & Market Outlook

View the online version of this article here.

IMPORTANT INFORMATION

U.S. investors only: Click here to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.