
AN OUTLOOK FOR THE SECOND HALF OF 2020

Jeremy Schwartz – Global Chief Investment Officer
06/23/2020

Last week's Behind the Markets podcast featured Ellen Zentner, Chief Economist at Morgan Stanley. Zentner's team just released their outlook for the second half of 2020, and we discussed what they see coming in the latter half of the year.

The Economic Revival

We talked about what will help reignite the economy, including pent-up demand finally being released. Given that demand activity was simply not allowed to take place during much of the second quarter, due to the economic shutdown, we may see a strong revival beginning in the summer months.

Zentner sees this in the retail sales reports and motor vehicle sales. She expects to continue to see more evidence of this as we continue reopening the economy. This is helping drive market sentiment, as we extrapolate these recent trends.

What Zentner is more concerned about is what happens six months from now when unemployment is still high, and we see how many more permanent jobs were lost as a result of the economic shutdown. We do not know how much of the recent job gains were driven by Paycheck Protection Program (PPP) loans, which required companies to rehire staff. Zentner does not see us out of the woods yet.

Consumer spending is driven by confidence. Morgan Stanley's team surveyed thousands of households, and one of the encouraging data points for her was that 60% of respondents did not need to see a vaccine to return to their daily activities. Few people said they would never go to a movie theater again because of the coronavirus. Zentner sees pent-up demand continuing to drive a modest recovery through July, and then expects it to take eight quarters for consumer spending to get back to pre-coronavirus levels.

By comparison, it took fourteen quarters to get to the previous peak of consumer spending after the global financial crisis, so she expects this to be a much faster recovery. Households went into this downturn with debt levels that were at 20-year lows, and mortgage delinquency rates were also at record lows. In the 10 years after the global financial crisis, the growth in debt never outpaced growth in income. It took five years to deleverage balance sheets after 2008, which restricted consumer spending.

Half of the respondents to the Morgan Stanley survey said they have some work-from-home (WFH) capability in their jobs, which was up from 15% prior to the virus, according to Bureau of Labor Statistics surveys. WFH spending more resembles retirement spending, and Zentner's team at Morgan Stanley is thinking about how that shift will affect consumer trends.

Is higher [inflation](#) coming?

In his media appearances, Professor Jeremy Siegel has been discussing the potential for 3%-5% inflation over the next few years. While Zentner is skeptical the [Federal Reserve](#) would allow inflation to run that hot, she does see structural trends beyond the coordinated policy measures that could contribute. Trends that suppressed [deflation](#) over last 30 years may no longer do so going forward. Policy makers are dissatisfied with the very low share of income that laborers get, and labor's share of profits may be rising. Likewise, a trend towards globalization looks to be reversing and that also may reverse

deflationary pressures.

You can listen to our full conversation with Ellen Zentner below.

Behind the Markets Podcast: Ellen Zentner

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.

DEFINITIONS

Inflation: Characterized by rising price levels.

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Deflation: The opposite of inflation, characterized by falling price levels.