
EL-ERIAN'S VIEWS ON THE U.S. DIVERGENCE

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Mohamed El-Erian, chief economic advisor at Allianz and senior global fellow at the Joseph H. Lauder Institute at the Wharton School, joined me and Professor Siegel on our “Behind the Markets” podcast last week. It was a great, wide-ranging conversation on why El-Erian sees a divergence for the U.S. economy over Europe and other international economies. We also discussed why he still favors the U.S. as investment destination over foreign markets. Some of the highlights of the conversation touched on the following:

- How the U.S. economy continues outperform and diverge from the rest of the world. El-Erian sees little risk of a U.S. **recession** in 2020, with the consumer being the backbone of the U.S. economy.
- El-Erian's worries concern the health of the global economy and the uncertainty over how long the U.S. can continue to diverge from the global economy. He believes the U.S. can sustain its outperformance for some time, and he still favors investing in the United States.
- El-Erian described recent stability in Europe's economy as potentially being an L-shaped recovery that flatlines at 1% growth, instead of bouncing back materially higher.
 - **Negative rates** are encouraging increased German savings instead of more consumption.
 - El-Erian sees excessive risk-taking caused by low rates that could lead to misallocation of capital.
 - El-Erian sees low rates enabling **zombie companies** to stay alive, which could depress productivity figures.
- El-Erian expects heightened **volatility**—he believes passive **beta** benchmarks made good decisions over the last five years, but he sees a rise in volatility as making a case for more dynamic market timing strategies.
- He also views more exotic asset classes, such as emerging market debt and **high-yield** bonds, as ripe for helping **active managers** to shine; he believes active managers' performance lagged the market in the past due to a low **liquidity factor**.

El Erian's views provided an interesting contrast to Professor Siegel's, who favors emerging markets because assets prices are already discounted to reflect risks to performance in these markets. Please listen to the full conversation below.

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