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Roadmap for the future

Chief Economists' Forum

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Themes for 2019, beyond

- **Ending a decade of suppressed interest rates**
 - Main Street prospers; Wall Street struggles
 - Financial markets remain volatile
- **Life after globalization**
 - Middle class wages: the next bull market

Economies grow

- Main Street prospers
 - US recession fears overdone
 - Negative sentiment not good for investment
 - But, robust consumer spending
 - Increasingly healthy wage gains
 - Plentiful household savings
 - Housing activity rebounds
 - World economy slowing but growing

Wall Street struggles

- Ending central bank suppressed interest rates
 - Stock rally: an extension of monetary policy
 - That policy reversing
 - Central banks withdrawing liquidity
 - Policy change brings disruption
 - Adjust to slower growth
 - Too much earnings optimism?

Financial roadmap

- **2019: tale of two halves**
 - **Stocks: bear market may not be over**
 - Earnings may disappoint
 - **Interest rates: Fed pauses**
 - Lower long-term rates possible
 - **Second half: recession not likely**
 - Stocks may recover; stay range-bound
 - Yields work higher into 2020, beyond

What's an investor to do?

- **Short-term caution**
 - Bond investors: short-term, high quality
 - Stock investors: defensive
 - Real estate may outperform
- **Recovery likely second half**
 - Good long-term returns may be hard to find
 - Active managers excel

Life after globalization

- What is globalization?
 - Vast numbers of low-wage, underemployed workers
 - Competed with middle class workers
 - Jobs lost, especially manufacturing
 - Years of slim wage gains
 - A huge boon for majority
 - Reduce income inequality; low inflation, interest rates
 - But, many left behind

A long look ahead

- **Globalization: a cycle that's turning**
 - Brought political change
 - Low-wage workers don't stay that way
 - Robust wage gains in China
 - Not nearly as competitive
- **Ahead: good economy; modest inflation**
 - Worker share of output rises
 - Middle class wages: the next bull market

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