



# 2020 Macro Economic Outlook Chart Book (Snapshot)

December 2019

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# December Economic Chart Book (Snapshot)



Enclosed are select charts from Torsten's 2020 Macro Economic Outlook discussing:

- Trade War update
- FOMC & Global Central Banks
- Interest Rates
- The State of the Consumer
- The US 2020 Presidential Election

[Link to Torsten Slok's full 2020 Global Macro Outlook can be found here.](#)

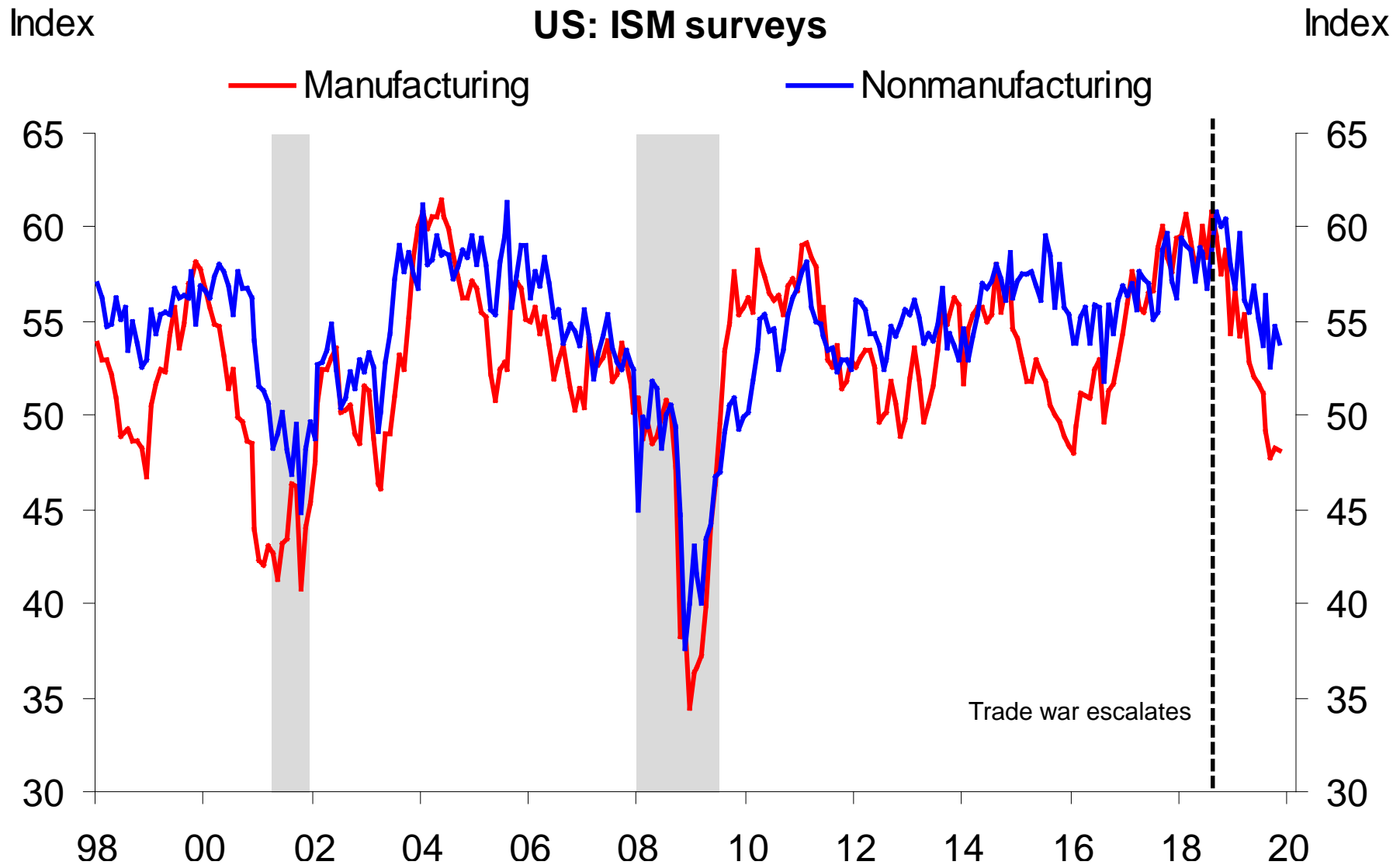


## 20 risks to markets in 2020

1. Continued increase in wealth inequality, income inequality, and healthcare inequality
2. Phase one trade deal remains unsigned, continued uncertainty about what comes after phase one
3. Trade war uncertainty continues to weigh on corporate capex decisions
4. Ongoing slow growth in Europe and Asia triggering significant US dollar appreciation
5. Impeachment uncertainty & possible government shutdown
6. US election uncertainty; implications for taxes, regulation, and capex spending
7. Antitrust, privacy, and tech regulation
8. Foreigners lose appetite for US credit and US Treasuries following Presidential election
9. MMT-style fiscal expansion boosts growth significantly in US and/or Europe
10. US government debt levels begin to matter for long rates
11. Mismatch between demand and supply in T-bills, another repo rate spike
12. Fed reluctant to cut rates in election year
13. Credit conditions tighten with more differentiation between CCC and BBB corporate credit
14. Credit conditions tighten with more differentiation between CCC and BBB consumer credit
15. Fallen angels: More companies falling into BBB. And out of BBB into HY.
16. More negative-yielding debt sends global investors on renewed hunt for yield in US credit
17. Declining corporate profits means fewer dollars available for buybacks
18. Shrinking global auto industry a risk for global markets & economy
19. House price crash in Australia, Canada, and Sweden
20. Brexit uncertainty persists

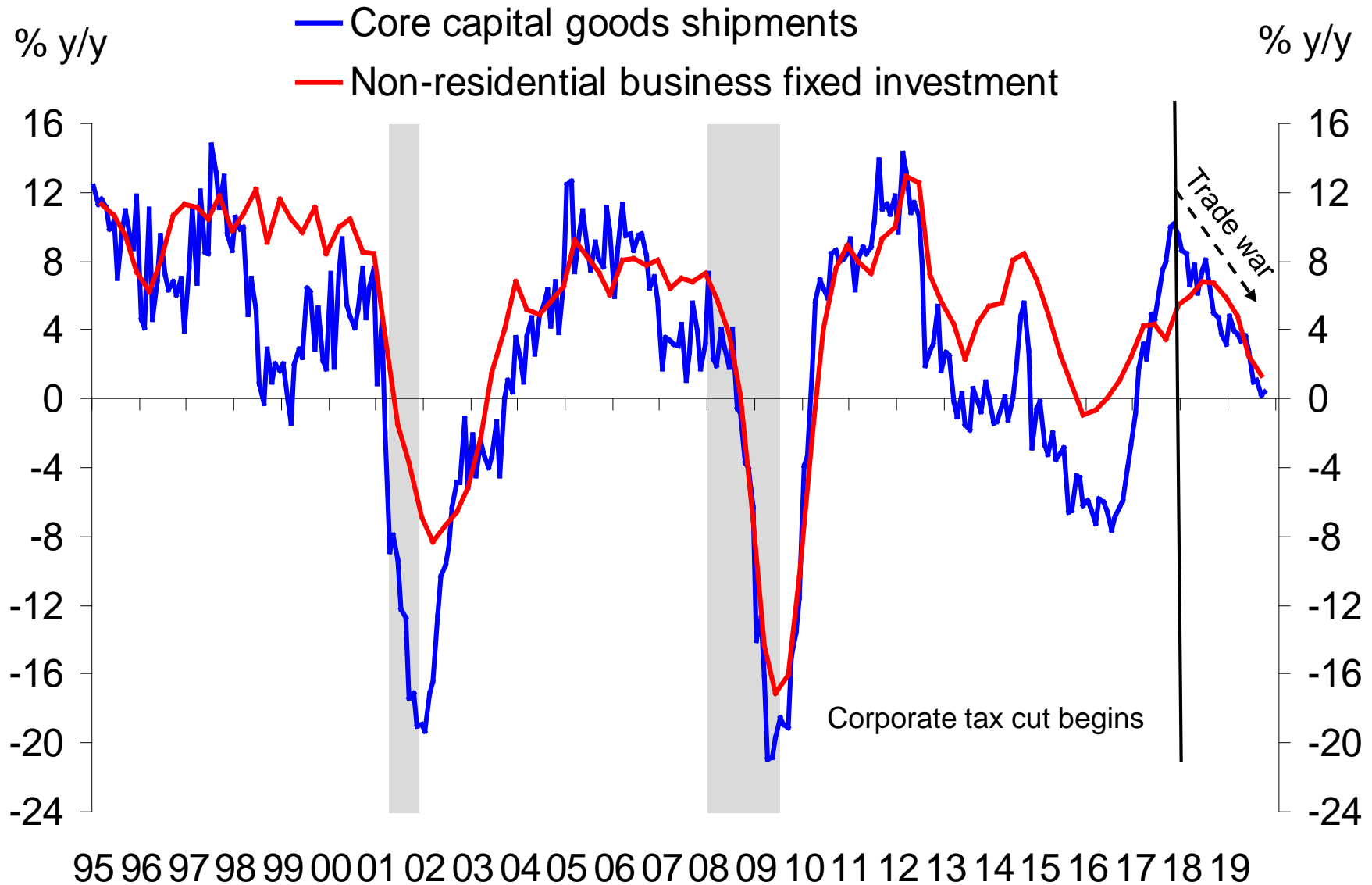
Source: DB Global Research

# Trade war uncertainty also dragging down the service sector



Source: ISM, Haver Analytics, DB Global Research

# Slowing capex has negative impact on hiring

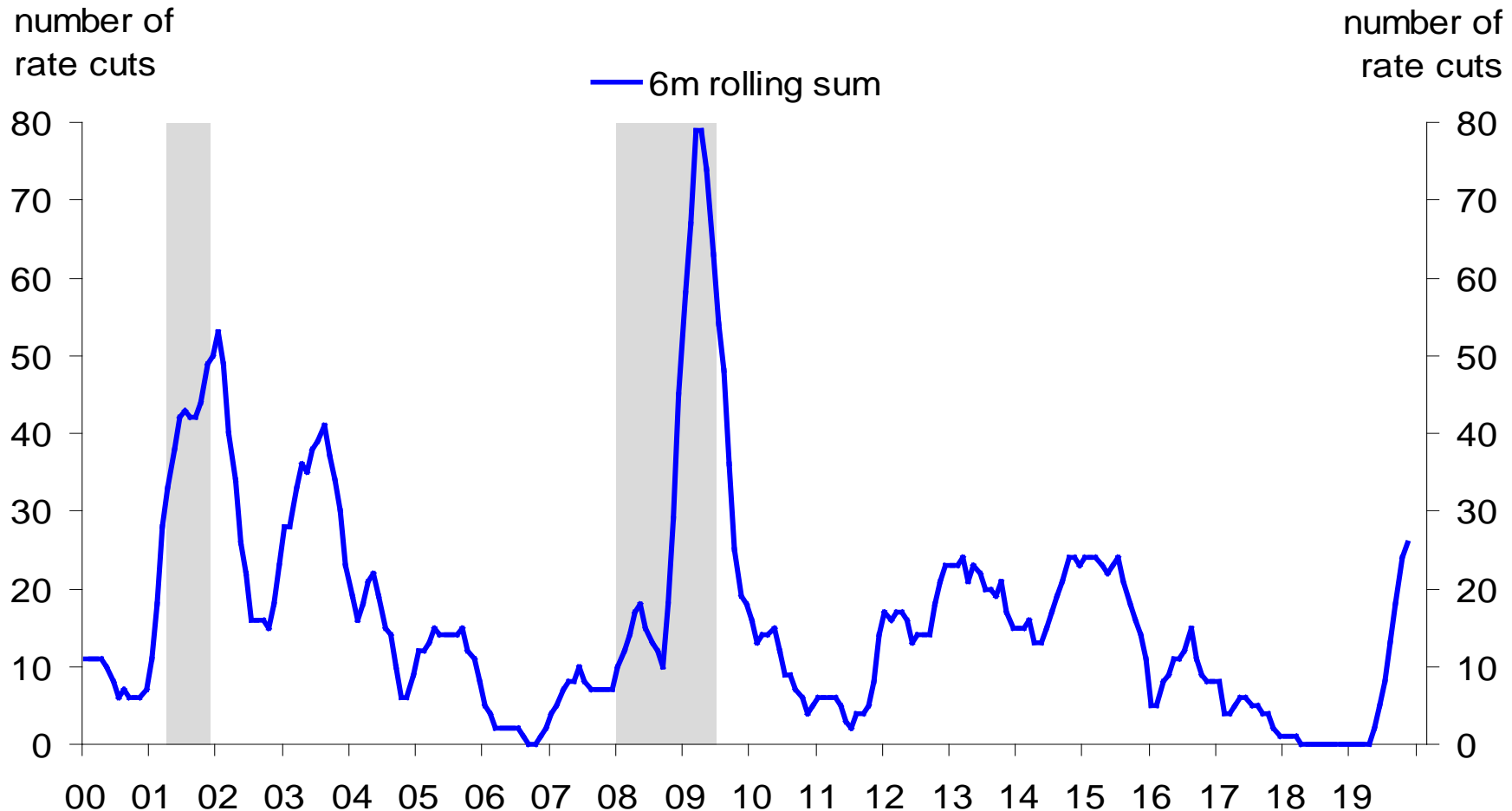


Source: Census, BEA, Haver Analytics, DB Global Research

# Trade war uncertainty being offset by central banks easing monetary policy at fastest rate since the financial crisis



## Cumulative interest rate cuts in OECD countries

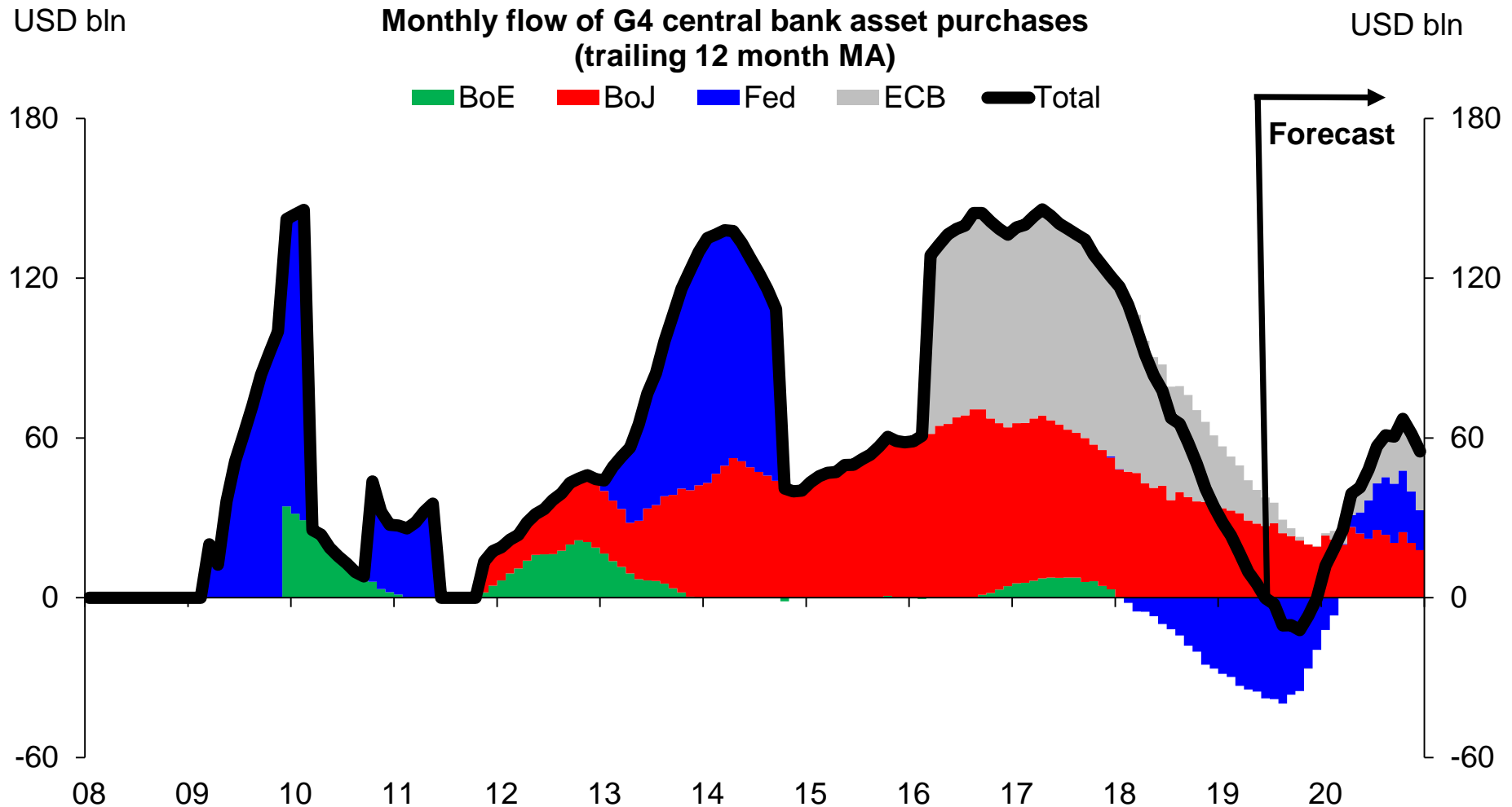


Note: Central banks/countries considered are ECB, Fed, BoE, Australia, Canada, Chile, Denmark, Hungary, Iceland, Israel, Japan, South Korea, Mexico, New Zealand, Norway, Poland, Sweden, Switzerland, and Turkey..

Source: Central Banks, Haver Analytics, DB Global Research



# Central bank asset purchases coming back



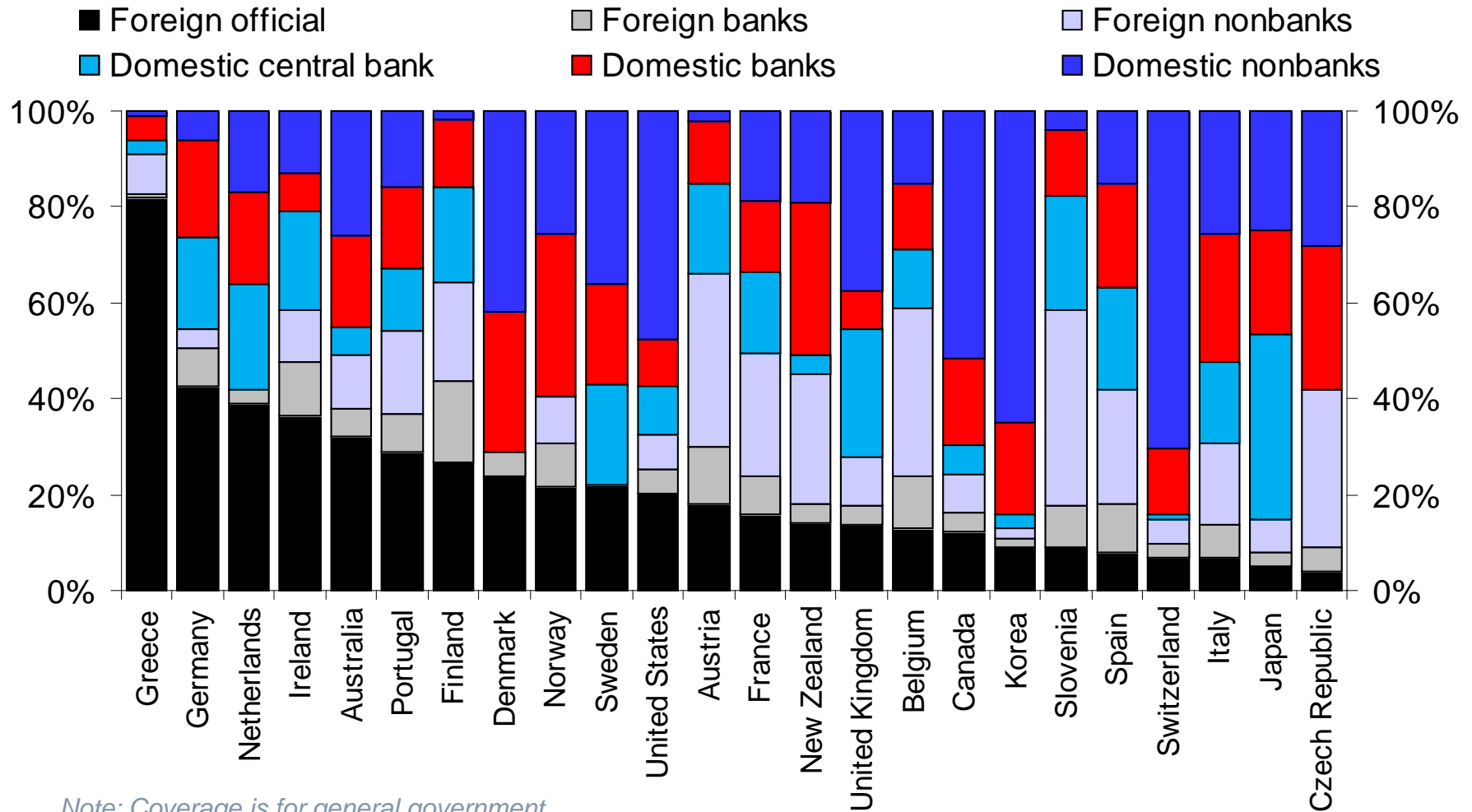
**Assumptions:** Fed to purchase monthly \$ 60 bn assets in December 2019; \$ 30 bn between January & March 2020 and \$ 10 bn between April and June 2020 and then hold till December 2020; ECB to purchase EUR 20 bn assets monthly till December 2020; BoE to maintain assets as is through December 2020; BoJ to stealth taper asset purchases such that monthly purchases to become zero by December 2020. All FX forecasts assumed to be the same as November 2019.

Source: Fed, ECB, BoJ, BoE, Haver Analytics, DB Global Research



# Who owns different countries' government bonds?

## Investorbase of advanced economies, 2019-Q2 (as % of total)

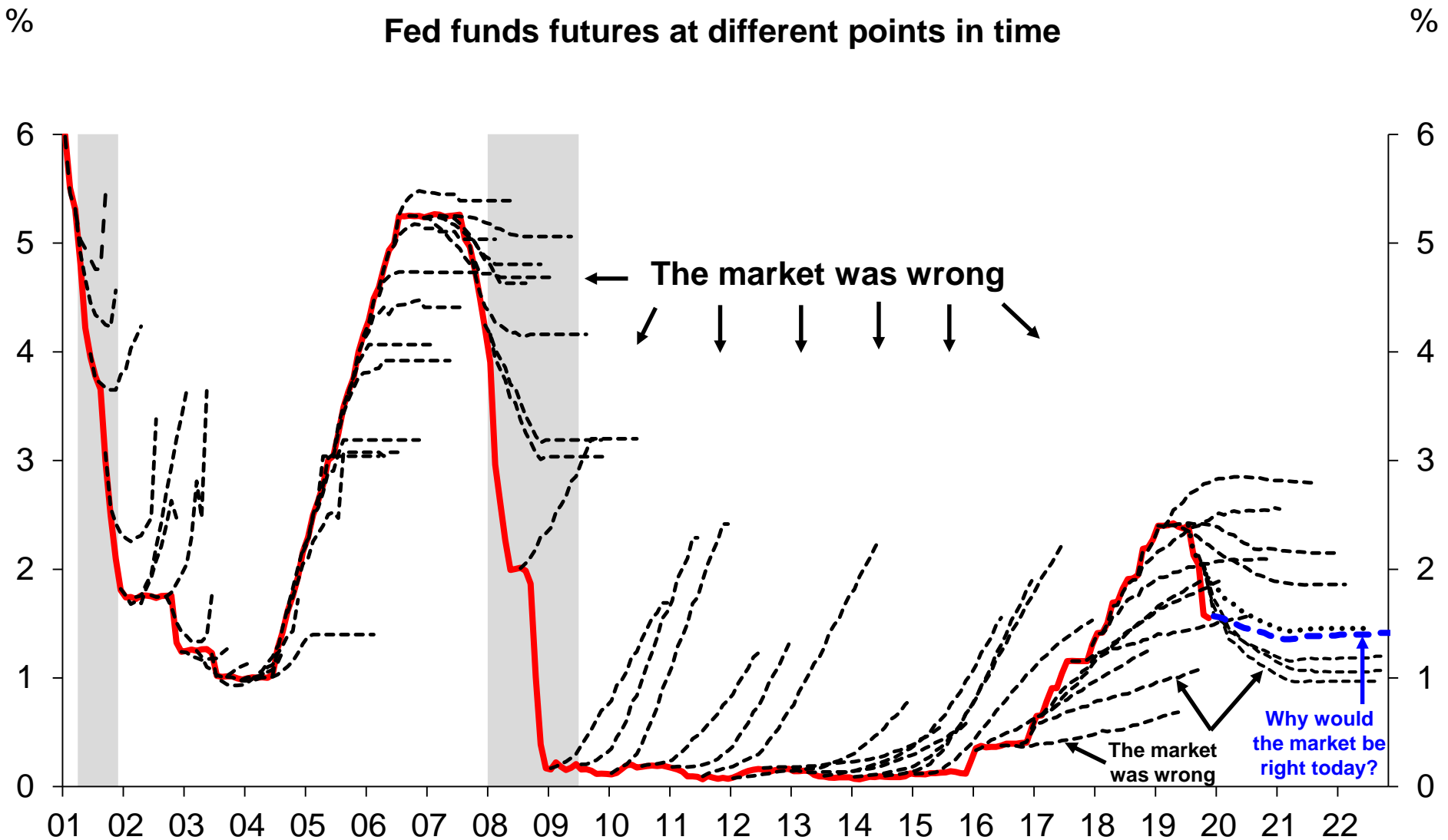


Note: Coverage is for general government

Source: IMF Sovereign investor base estimate by Arslanalp and Tsuda, DB Global Research

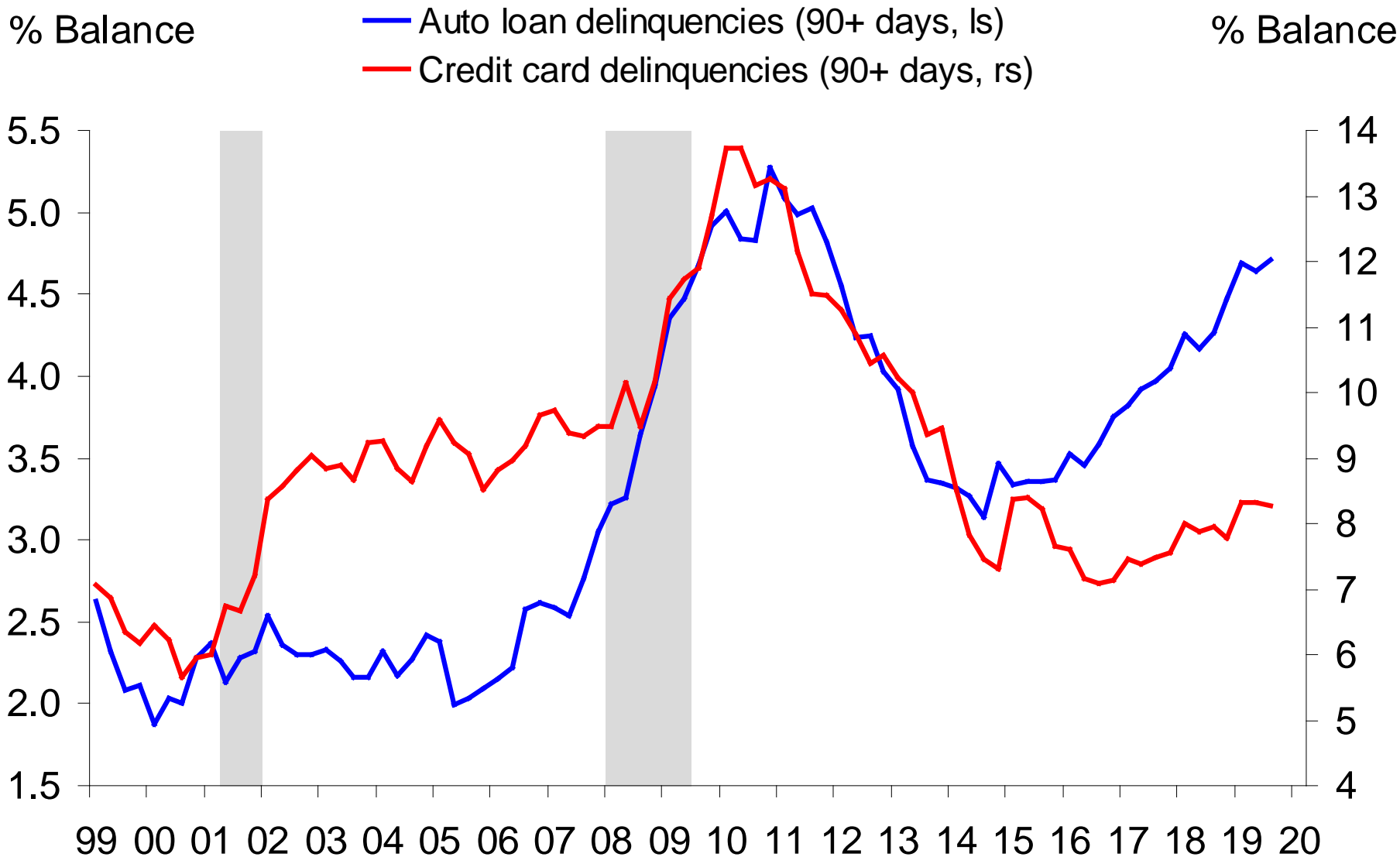


# The market is almost always wrong about what the Fed will do



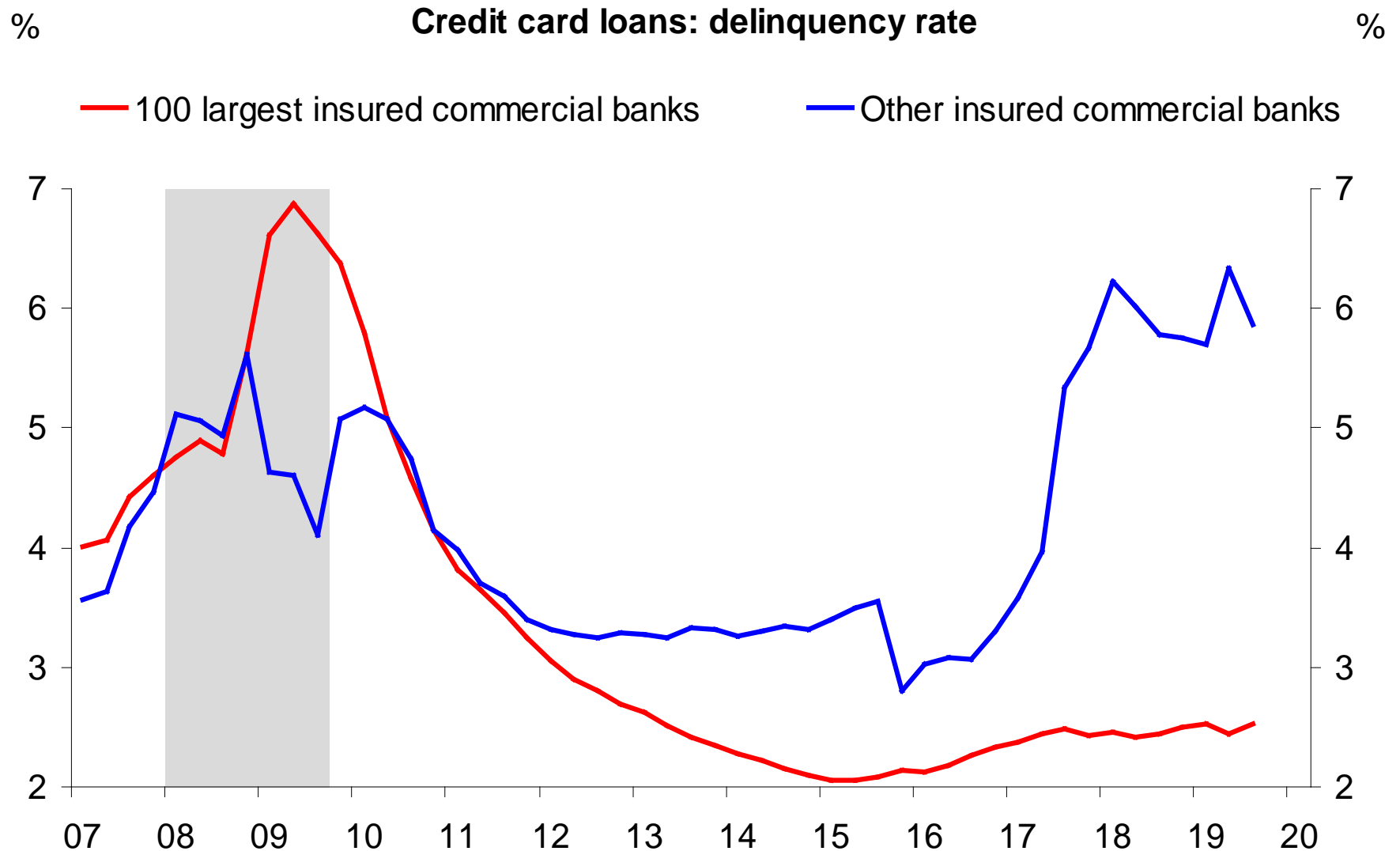
Source: FRB, Bloomberg Finance LP, DB Global Research

# Delinquency rates moving up for consumers



Source: FRB, Haver Analytics, DB Global Research

# Credit card delinquencies above 2008 levels for smaller lenders



Source: Federal Reserve Board, Haver Analytics, DB Global Research

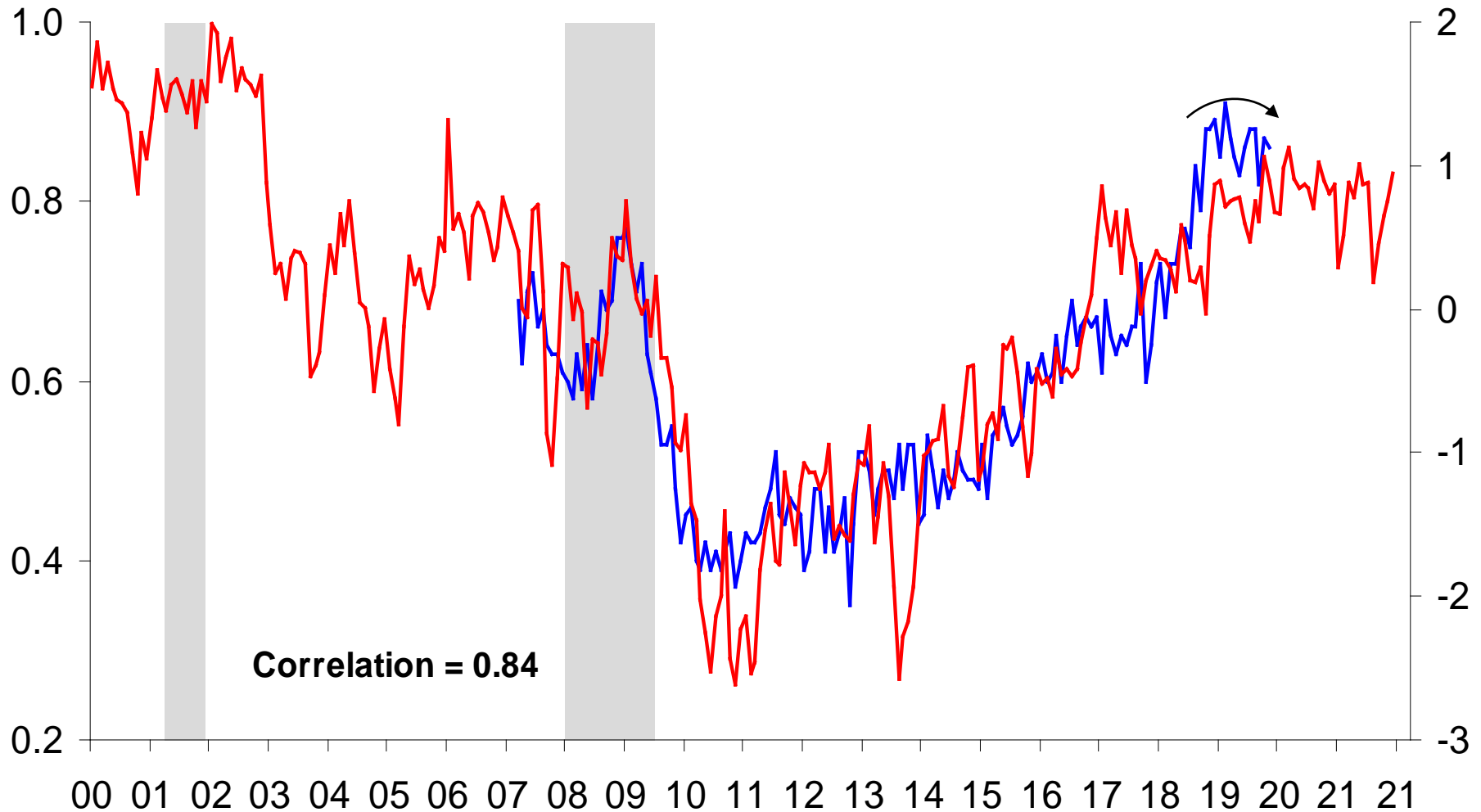


# Wage growth slowing down

chg. y/y,  
\$/hr

- Avg hourly earnings: total private industries (ls)
- Consumer sentiment (24m lead, rs)

z-score



Source: BLS, University of Michigan, Haver Analytics, DB Global Research

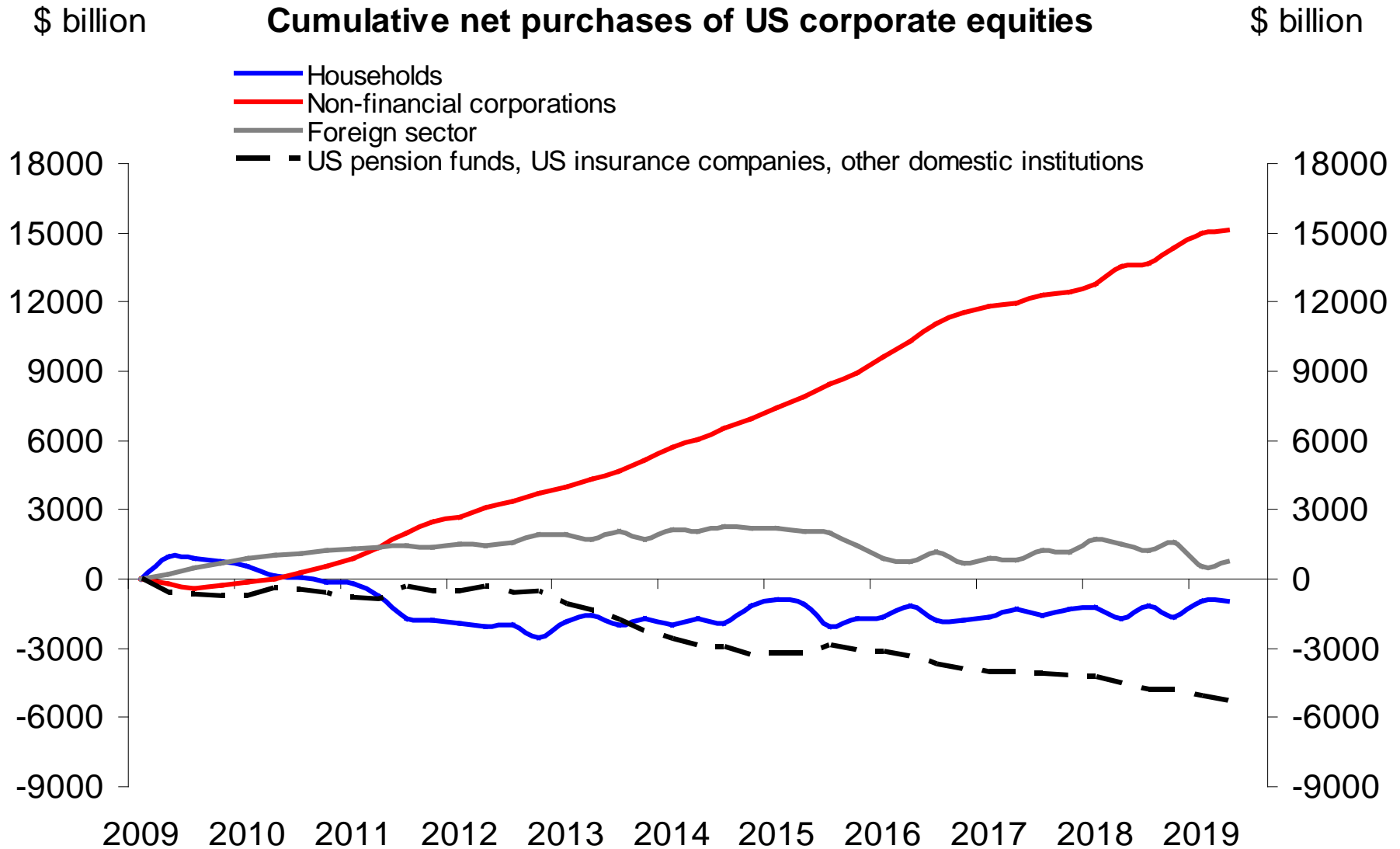
# Democratic candidates' proposals



Elizabeth Warren	Joe Biden	Bernie Sanders	Pete Buttigieg
<ul style="list-style-type: none"> <li>Raises the minimum wage to \$ 15/hr</li> <li>2% annual tax on household net worth between \$ 50 million - \$1 billion; 4% annual surcharge on household net worth over \$ 1 billion</li> <li>Proposes 7% tax on corporate profits above \$ 100 million</li> <li>Intends to establish a “small fee” on “40 or so largest banks in the country”</li> <li>Proposes to bring back the Glass-Steagall act</li> <li>Eliminates up to \$ 50,000 of student debt for borrowers earnings less than \$ 100,000 with proportionally less relief for those earning up to \$250,000</li> <li>Nearly quadruples Title 1 funding</li> </ul>	<ul style="list-style-type: none"> <li>Raises minimum wage to \$ 15/hr</li> <li>Rolls back the rate cut of capital gains tax and restores it to almost 40%</li> <li>Raises corporate tax rate to 28%</li> <li>Intends to make two years of community college or other high quality and would eliminate payments on undergraduate federal student payments for those earning less than \$ 25,000 annually and everyone else will pay 5% of their discretionary income</li> <li>Would nearly triple teacher pay</li> </ul>	<ul style="list-style-type: none"> <li>Raises minimum wage to \$ 15/hr</li> <li>Proposes an “extreme wealth tax” on the top 0.1% households whose net worth is above \$ 32 million</li> <li>Companies with large gaps between CEOs and median worker pay would see progressively higher corporate tax rates</li> <li>Would raise \$ 4.35 trillion over the next decade and cut the wealth of billionaires in half over 15 years</li> <li>Would break up too-big-to-fail banks</li> <li>Enact a federal jobs guarantee act</li> <li>Proposes to bring back the Glass-Steagall act</li> <li>Supports free college education and cancel all of the student debt</li> <li>Supports a starting salary of \$ 60,000 for teachers</li> </ul>	<ul style="list-style-type: none"> <li>Raises minimum wage to \$ 15/hour</li> <li>Intends to reverse 2018 corporate tax cut</li> <li>Proposed to raise top individual tax rate to 49.9%</li> <li>Intends to invest \$ 430 billion in affordable housing with plans to build or restore over 2 million new units for low income people</li> <li>Intends to boost rural economy through development programs and partnerships</li> </ul>
<p>Supports</p> <ul style="list-style-type: none"> <li>•Medicare for All</li> <li>•Drug price negotiation</li> <li>•Reference pricing and</li> <li>•Allows the US government to make generics</li> </ul>	<p>Would keep the Affordable Care Act and would build on it by giving Americans more choice on public insurance like Medicaid &amp; reducing health care costs and making the health care system less complex</p>	<ul style="list-style-type: none"> <li>• Proposes Medicare for All, single-payer national health insurance program completely free at the point of service</li> <li>• Proposes eliminating \$ 81 billion past-due medical debt</li> </ul>	<p>Medicare for Who Wants It</p> <p>Plans to cut out-of-pocket spending on prescription drugs by at least 50% by the end of first term; cap the spending on prescription drugs under \$ 250 per month for everyone choosing Medicare for Who Wants It</p>
<p>Trade negotiation drafts to be publicly disclosed; will prioritize views of workers and consumers</p>	<p>Does not want to use tariffs to pressure other countries; also would want changes made to the UMSCA agreement and supports joining CPTPP</p>	<p>Suggests rewriting all trade deals to prevent outsourcing of jobs and raise wages</p>	<p>Does not want to use tariffs to pressure other countries; also would want changes made to the UMSCA agreement and opposes joining CPTPP</p>
<p>Proposes net zero emissions by 2050</p> <p>Bans fracking everywhere &amp; reduces carbon emissions</p>	<p>Supports nuclear power to tackle climate change; suggests a possible creation of 10 million jobs on the right strategy for climate change</p>	<p>Create a Green New Deal which makes 100% renewable energy and create 20 million jobs and rebuilding infrastructure to create a 100% sustainable energy system</p>	<p>Supports nuclear power and implement a Green New Deal with all available tools and supports investments to build a 100% clean energy society</p>
<p>Supports Citizenship for Dreamers and wants to repeal Sec 1325</p>	<p>Supports citizenship for Dreamers and leaves Sec 1325 in place</p>	<p>Supports Citizenship for Dreamers and wants to repeal Sec 1325</p>	<p>Supports Citizenship for Dreamers and wants to repeal Sec 1325</p>

Source: Candidates' campaign websites, Politico, DB Global Research

# What's the source of the rally in the stock market since 2009? Buybacks



Note: Other domestic institutions includes Property-Casualty Insurance Companies, Life Insurance Companies, Private Pension Funds, Federal government retirement funds and state/local government employment defined benefit retirement funds

Source: FRB, Haver Analytics, DB Global Research

# Investment implications summarized



<p>Fed outlook – <b>Fed on hold but downside risks still dominate</b></p>	<p>US growth is slowing. Trade war, fading positive effects of tax cuts, slowing global growth, and late-cycle headwinds weighing on the US economic outlook.</p>
<p>Bond markets - <b>Downside risks to long rates</b></p>	<p>Trade war, slowing growth, and late-cycle headwinds weighing on long rates. Fundamental forces driving long rates are 1) US inflation, 2) Treasury supply, and 3) global QE, 4) Hedging costs, and 5) Europe and China outlook.</p>
<p>Credit - <b>Credit spreads wider as slowdown continues</b></p>	<p>Dovish central banks and negative interest rates without a US recession is bull case for US credit. Global QE and lower hedging costs means more demand for US credit from abroad. But more Treasury supply pulls dollars out of risky assets, especially IG. Sharper economic slowdown because of trade war is a risk to corporate default rates.</p>
<p>Stock markets - <b>Trade war weighing on equities</b></p>	<p>Trade war, slowing global growth, and emerging election uncertainty are downside risks to equities</p>
<p>FX - <b>Dollar down as slowdown continues</b></p>	<p>EURUSD 1.13 and USDJPY 105 by end-2019.</p>
<p>Commodities - <b>Moving lower</b></p>	<p>Slowing growth and peak global growth are downside risks to commodities, in particular energy.</p>
<p>Emerging markets - <b>Imbalances in some EM countries</b></p>	<p>Speed of US growth slowdown is risk to EM. But dovish Fed and ECB helpful for EM.</p>

Source: DB Global Research





## Torsten Slok, Ph.D.

- **Chief Economist, Managing Director**
- **Deutsche Bank Securities, Inc.**
- Torsten Slok joined Deutsche Bank Securities in the fall of 2005.
- Mr. Slok's Economics team has been top-ranked by Institutional Investor in fixed income and equities since 2010. Slok currently serves as a member of the Economic Club of New York
- Prior to joining the firm, Mr. Slok worked at the OECD in Paris in the Money and Finance Division and the Structural Policy Analysis Division. Before joining the OECD he worked for four years at the IMF in the Division responsible for writing the World Economic Outlook and the Division responsible for China, Hong Kong, and Mongolia.
- Mr. Slok studied at University of Copenhagen and Princeton University. He has published numerous journal articles and reviews on economics and policy analysis, including in Journal of International Economics, Journal of International Money and Finance, and The Econometric Journal.



# Appendix 1

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