

Roadmap for a new decade

Chief Economists' Forum

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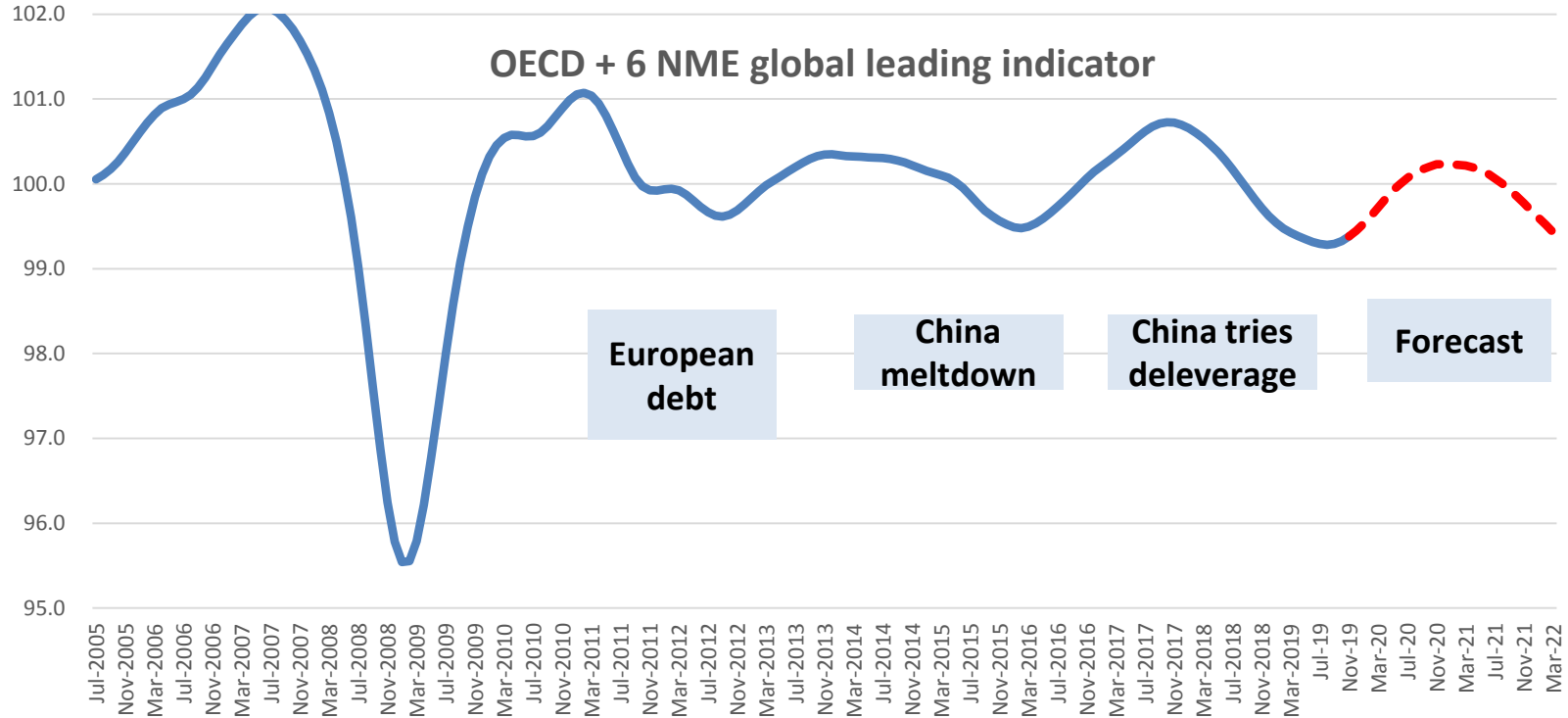
February 2020



Agenda

- **Themes for 2020, beyond**
 - **Third wave of growth revival**
 - From manufacturing recession
 - **Neither as long nor dynamic as in the past**
 - Signs of end-cycle in U.S.
 - **Financial roadmap mirrors economy**
 - Consensus: “lower for longer for sure”
 - Could that change?

I. World growth recovering



Sources: Organization of Economic Cooperation and Development; Principal Global Investors.

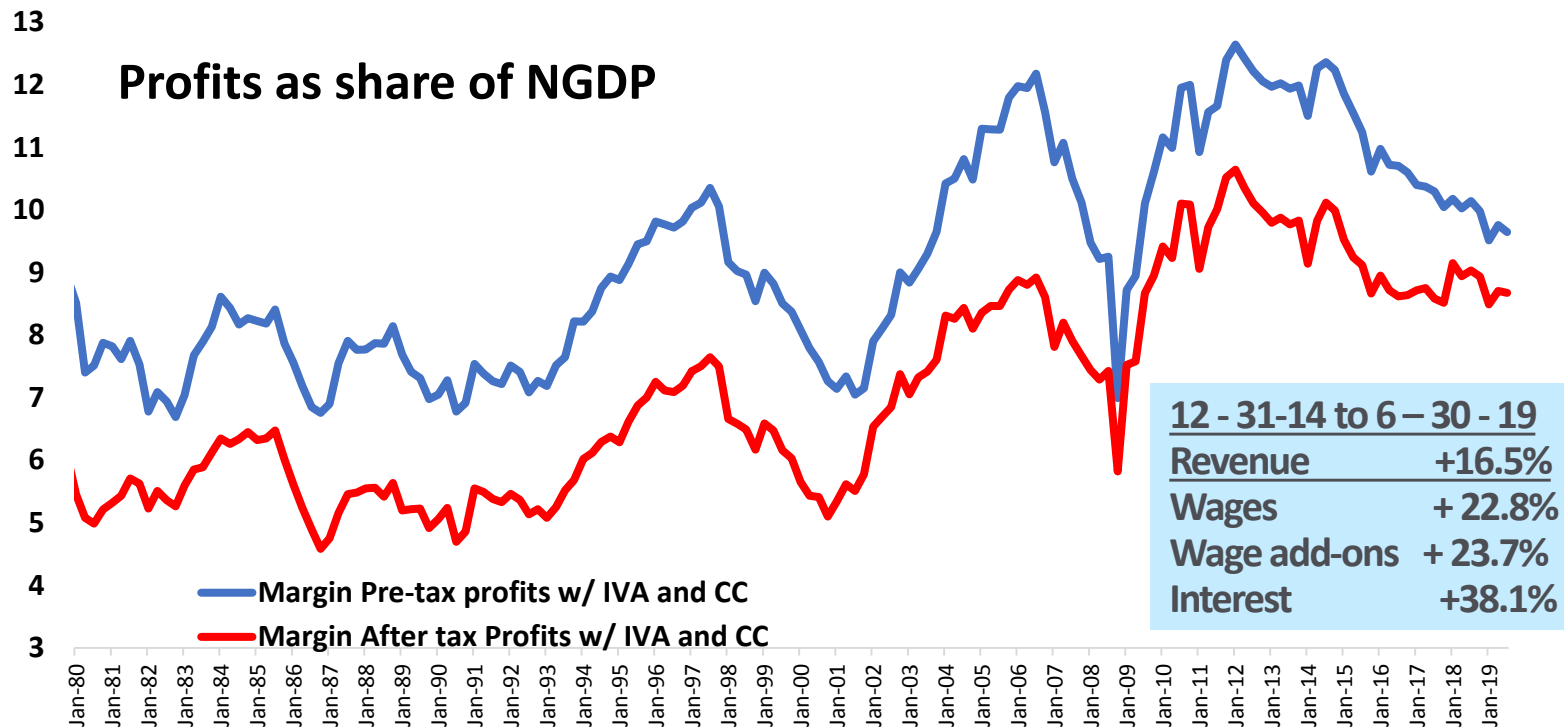
Third wave of revival

- Upturn mostly consensus now
 - Eurozone, Japan economies
 - Trough likely fourth quarter
 - China data shows evident uptrend
 - Coronavirus could limit the turn
 - U.S. shows improving momentum
 - Households resilient; robust job market, wage gains
 - Capital spending should pick up

II. World upturn stays mild

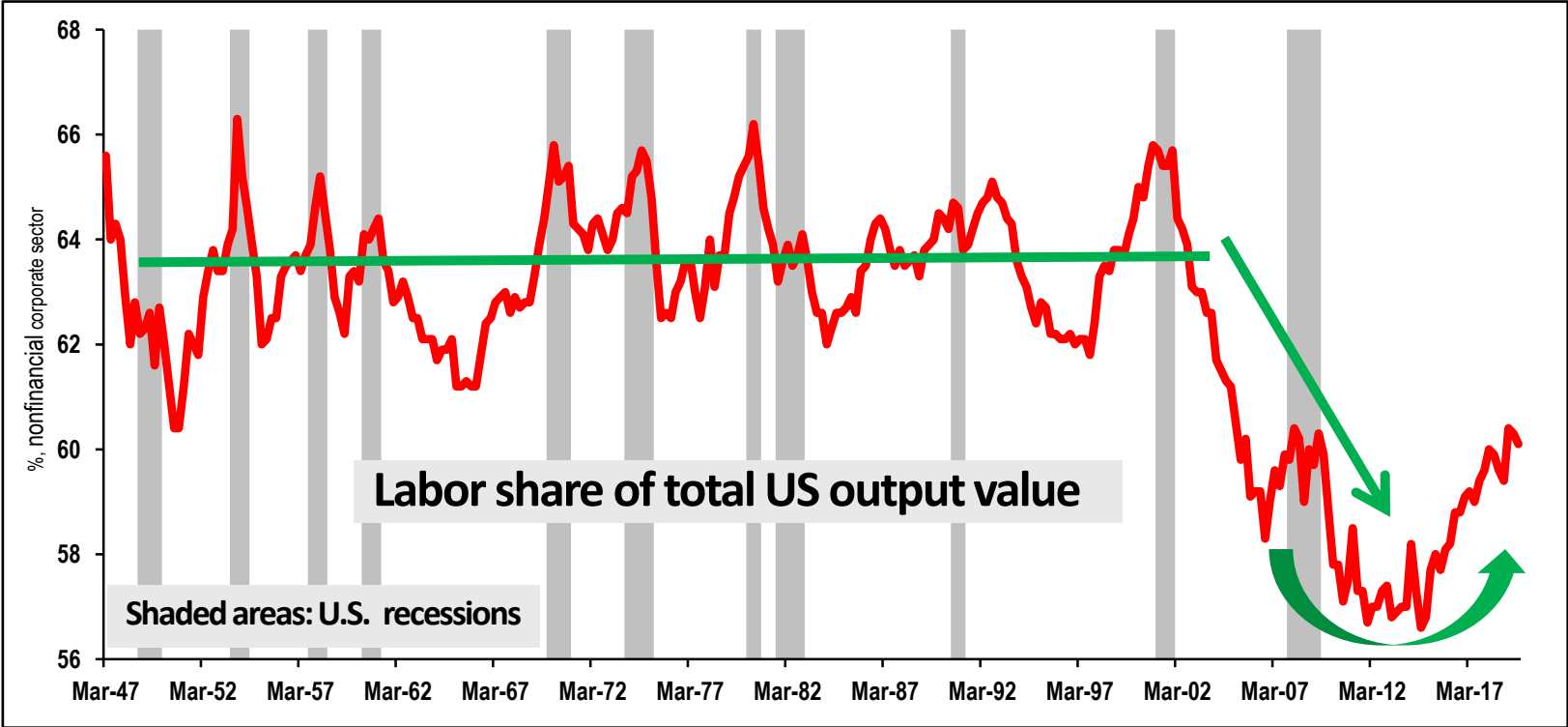
- **Neither long nor dynamic**
 - **Geopolitical tensions persist**
 - **China: no credit-driven growth surge**
 - **Fear of future debt crisis**
 - **Eurozone, Japan recoveries stay muted**
 - **Depend on China**
 - **U.S. profits under pressure**
 - **Key signs of end-cycle**

Margins faltering



Sources: U.S. Bureau of Economic Analysis; Principal Global Investors.

Ongoing de-globalization



Sources: Bureau of Labor Statistics, JP Morgan Research, Principal Global Investors.



Economic roadmap

- **Two-handed U.S. outlook into 2021**
 - **1. Expansion just lasts and lasts**
 - Profits perk up with better growth
 - **2. Hazards mount: typical signs of expansion's end**
 - Fast wage gains turn profits into losses
 - Weak companies succumb to debt burdens
 - Potential economic problems in 2021
 - **Slightly higher probability to #2**

Financial roadmap

- **Markets mirror economic trends**
 - **Modest upside: equities, long-maturity yields 2020**
 - Melt-up since September: fear of missing out
 - Risk rises as end-cycle approaches,
 - Valuations rich, optimism high
 - **Potential downdraft if upturn stalls 2021**
 - Stick to high-quality bonds
 - Balanced stock portfolios

Longer-term outlook

- **Potential risks**
 - **U.S. November election**
 - **Change to consensus of “lower for longer...for sure”**
 - **Inflation isn’t dead**
 - **U.S. dollar weakens further**
 - **Wage costs accelerate**
 - **Implies a radically different investment climate**
 - **Robust financial returns might be hard to find.**

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