Main takeaways

• U.S. economy firing on all cylinders
  – Solid growth, steady hiring, and stable inflation
  – Fed expected to raise rates

• Three possible bumps in the road
  – Stock and house prices are flattening out
  – Trade disputes disrupt supply chains and raise costs
  – Slowing global economic growth

• Concern is economy’s speed limit
  – Aging population and slow productivity growth drag on trend growth
All systems go for U.S. economy
Solid growth in economic activity

Real GDP growth
Quarterly Observations; Annualized growth rate; Seasonally Adjusted

Source: Bureau of Economic Analysis, Federal Reserve Bank of Philadelphia (SPF)
Record low unemployment rate

Civilian Unemployment Rate
Monthly Observations; 3-Month MA; Seasonally Adjusted

Unemployment Rate
Mean Forecast
Inter-quartile Range

Continued job growth

All Employees: Total Nonfarm Payrolls
Monthly Observations; 3-Month MA; Seasonally Adjusted

- Employment level
- Mean Forecast
- Inter-quartile Range

Inflationary pressures focus of Fed

PCE: Chain-type Price Index
Monthly Observations; 3-Month MA; Annualized Inflation; Seasonally Adjusted

Source: Bureau of Economic Analysis, Federal Reserve Bank of Philadelphia (SPF)
Interest rates rise as Fed tightens

3-Month Treasury Bill: Secondary Market Rate
Monthly Observations; 3-Month MA; Not Seasonally Adjusted

Source: Board of Governors of the Federal Reserve System, Federal Reserve Bank of Philadelphia (SPF)
Recessions tend to hit us by surprise
Three possible bumps in the road

- Stock and house prices
- Trade disputes
- Global growth
Stock market valuations high

S&P 500 Stock Market Index

Daily observations; not seasonally adjusted

- Historically high P/E ratio
- Fed rate hikes affect asset prices
- Past returns partially reflect share buybacks

Source: S&P Dow Jones Indices LLC

Hobijn - November 28, 2018
Mixed signals from housing market

S&P/Case-Shiller Home Price Index
Monthly observations; seasonally adjusted; 20-city composite index

Source: S&P/Case-Shiller
Delayed impact of global trade disputes
Real GDP Growth in Big 6 Economies
Year-over-year growth; forecasts for 2018 onwards

Source: International Monetary Fund. Shaded area is IMF staff forecast
Concern is economy’s speed limit

Labor and technology drags on trend growth
GDP growth forecast to slow below 3

Real GDP growth
Quarterly Observations; Annualized growth rate; Seasonally Adjusted

Source: Bureau of Economic Analysis, Federal Reserve Bank of Philadelphia (SPF)
Drivers of economic growth

Output/Production

\[ Y = A \cdot F(K, L) \]

- Technology
- Capital
- Labor
## Concerns about U.S. trend growth

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<tr>
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Long-run fiscal drag on growth due to dire fiscal outlook
How does this affect you?

- Strategize based on investment horizon
  - Increased downside risk on equities in short-run
  - Hedge or insure if short-run investment horizon

- Long run investment outlook unchanged
  - No indication of change in risk-return profiles of major asset classes
In case you walked in late...

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