Economic Forecast – Outlook for 2020

November 15, 2019
It was the best of times, it was the worst of times...
Central Banks Ease Monetary Policy

Breakdown of global government bonds by yield

- Below 0%
- Below 1%
- Above 1%

U.S. 10-year: 1.68%

Bloomberg;

Guide to the Markets – U.S. Data are as of September 30, 2019.
Confidence Ebbs

Experts are Pessimistic About the Economy
Balanced satisfaction and outlook scores for the next 6 months*

* How do you expect the overall economy in... to develop over the next 6 months?"; Single Pick; “How satisfied or dissatisfied are you with the overall economic situation of...”

Base: 1,725 Business experts
Source: Global Economic Outlook Score Q3 2019
Why Such Pessimism?
Comparing U.S. States to Entire Countries by GDP

Article & Sources:
https://howmuch.net/articles/comparing-us-states-to-entire-countries-by-gdp-2019
GDP by Country - International Monetary Fund - https://www.imf.org
Stocks Hit All-Time Highs

Chart 48: S&P 500

Sources: Bloomberg, Refinitiv, NY Fed
Employment Growth Slows

Chart 29: Markit Employment PMI & Private Payrolls

Sources: Refinitiv, CE, Markit
GDP Growth Trends Lower

Chart 1: GDP (% y/y)

Sources: Refinitiv, Federal Reserve, Capital Economics

This presentation is for Institutional Investors Only – Not for Public Distribution
Budget Deficit Rises After Tax Cut

The 2019 Federal Budget
CBO Baseline forecast, USD trillions

Total spending: $4.4tn

- Other: $497bn (11%)
- Net int.: $372bn (8%)
- Non-defense disc.: $662bn (15%)
- Defense: $670bn (15%)
- Social Security: $1,038bn (24%)
- Medicare & Medicaid: $1,172bn (27%)

Borrowing: $960bn (22%)

- Other: $278bn (6%)
- Social insurance: $1,247bn (28%)
- Corporate: $228bn (5%)
- Income: $1,698bn (39%)

2019 Federal Budget is based on the Congressional Budget Office (CBO) August 2019 Baseline Budget Forecast. CBO Baseline is based on the Congressional Budget Office (CBO) August 2019 Update to Economic Outlook. Other spending includes, but is not limited to, health insurance subsidies, income security, and federal civilian and military retirement. Note: Years shown are fiscal years (Oct. 1 through Sep. 30). Economic projections as of August 2019.

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Budget Prior to Tax Cut

A comparison between 2019 and 2017

- Spending +$400 Billion
  - Interest Expense +$103 Bln
- Revenue +$133 Billion
  - Individual & Small Business +$124 Bln
  - Corporations -$82 Bln
  - Social Insurance +$83 Bln
- Borrowing +$267 Bln
Budget Surplus/Deficit as Percentage of GDP

Source: CBO. J.P. Morgan Asset Management.
Corporate Profits

S&P 500 profit margins
Quarterly operating earnings/sales

Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.

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Stock Buybacks Buoy Equity Markets

S&P 500 announced buybacks
Value of announced buybacks, $bn

Source: Bloomberg, Compustat, FactSet, Standard & Poor’s, J.P. Morgan Asset Management.

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Consumer Confidence

Chart 11: Uni. of Michigan Consumer Confidence

Sources: Refinitiv, BEA, NY Fed

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Consumption Drives the Economy

Components of GDP
2Q19 nominal GDP, USD trillions

- 68.0% Consumption
- 17.5% Gov't spending
- 13.9% Investment ex-housing
- 3.7% Housing
- -3.1% Net exports

Source: BEA, FactSet, J.P. Morgan Asset Management.

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Middle Class Stress

Average income and expenses, percentage change over three decades

- Household income
- Housing prices
- Personal health-care expenditures
- College tuition

Sources: U.S. Census Bureau (income); the Centers for Medicare and Medicaid Services (health-care expenditures); S&P CoreLogic Case-Shiller National Home Price Index (housing); College Board (tuition)
Debt among U.S. households increased by nearly $9 trillion between 1989 and 2018, and 74% of that was issued to the bottom 90% of households by net worth. A majority of the growth in assets went to the top 10% of households.

Quarterly contribution to overall growth in assets and debt, by wealth group

Note: Based on inflation-adjusted dollars
Source: Wall Street Journal analysis of the Federal Reserve’s distributional financial accounts
Debt Levels are Rising

Types of nonhousing debts

$1.50 trillion

Note: Based on inflation-adjusted dollars.

Sources: Wall Street Journal analysis of New York Federal Reserve’s Consumer Credit Panel data; U.S. Federal Reserve’s consumer credit data (credit cards)
Interest Rate Levels Remain Elevated

**Chart 10: Household Borrowing Interest Rates (%)**

Sources: Refinitiv, Capital Economics
Median Sales Price for Existing Homes

Florida
Single-Family, Existing Homes

Source: Florida Realtors

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General Revenue FY 18/19

- Sales Tax/GR: $3,139.90 (9%)
- Insurance Premium Tax: $912.10 (3%)
- Corporate Filing Fees: $545.90 (2%)
- Counties' Medicaid Share: $877.10 (3%)
- Corporate Income Tax: $912.10 (3%)
- Documentary Stamp Tax: $398.80 (1%)
- Intangibles Tax: $385.20 (1%)
- Service Charges: $298.70 (1%)
- Highway Safety Lic. & Fees: $1,079.00 (3%)
- Beverage Tax & Licenses: $1,079.00 (3%)
- Other: $481.40 (1%)

Total General Revenue: $25,385.30 (75%)
Summary

Global Economic Growth is Anemic

- Monetary policy – negative interest rates - is not working
- Threats of war, civil unrest and Brexit have sapped investor confidence

U.S. Economy is Resilient

- Lower interest rates have supported equity markets
- The 2017 Tax Cut & Jobs Act has produced more tax revenue
  - Corporate investment has lagged
- Will consumers continue to spend?

Florida Economy

- Real estate values are gradually rising
  - Above pre-recession levels
- Economic activity = Sales Tax revenue
Top Ten Reasons Why America is Great

1. **Generosity** - 1% of America’s budget goes to help other nations - $26 Billion
2. **Creativity, Productivity, and Innovation** - 1870 feather duster, 1888 drinking straw, 1877 phonograph, 1903 Airplane
3. **Freedom of Religion** - free from persecution
4. **Entrepreneurial Spirit** — Ellis Island/Statue of Liberty
5. **Compassion in War** — Marshall Plan that rebuilt Europe after WWII, $44.3 billion in loans and grants (nearly $400 billion in today’s dollars)
6. **Guardianship of Democracy** — we are still the biggest contributor to the United Nations
7. **Ability to Right Past Wrongs** — we are not perfect
8. **Ability to Meld Different Cultures** — true melting pot
9. **Culture** — Levi’s blue jeans, McDonalds, Yum Brands, Coca Cola, Apple
10. **Beauty** — see next slide

Source - toptenz.net
Beach sunrise over Ohio Key in the Lower Keys

Source – New York Times
Questions
David Jang is a partner, Client Advisory Services for Water Walker Investments and has over 28 years of treasury and investment advisory experience with emphasis in the Florida government sector the past 14 years. Mr. Jang has served on various Florida Government Finance Officers Association (“FGFOA”) School of Governmental Finance subcommittees since 2003 and has given presentations on treasury, investment and economic topics at the FGFOA School of Governmental Finance, FGFOA Annual Conference, Florida School Finance Officers Association (FSFOA), Florida Association of School Business Officers (FASBO), Council of Business Affairs (COBA), and various FGFOA Local Chapter meetings. Mr. Jang has advised his clients on bringing more efficiencies to their banking/custodial relationships and consulted and managed on their operating surplus investment and bond proceeds portfolios to ensure adherence to state investment statutes and bond indentures.

Mr. Jang earned his bachelor’s degree in economics from the Wharton School, University of Pennsylvania. Mr. Jang earned the Association of Financial Professionals (AFP) designation of Certified Treasury Professional (CTP).

Mr. Jang also has FINRA Series 7, 24, 63 and 65 licenses and is a Registered Investment Advisor with the Florida Department of Professional Regulation.

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