

---

# ECB'S BUSINESS ANALYST ON THE EURO, NEGATIVE RATES AND THE INVERTED YIELD CURVE

**Jeremy Schwartz — Global Chief Investment Officer**  
**04/02/2019**

Last week on the “Behind the Markets” podcast, Professor Jeremy Siegel from The Wharton School at the University of Pennsylvania and I had the pleasure of speaking with Dr. Diego Rodriguez-Palenzuela, who heads the European Central Bank’s (ECB) business analysis division.

Given the recent [yield curve](#) inversion, Rodriguez-Palenzuela is keeping a closer eye on the U.S. but believes that the natural or equilibrium rate of interest is low on a global scale and the U.S. is not the only country affected by low natural rates.

Although Europe has negative [short-term rates](#), it doesn’t possess a negative term structure, and European economic growth is still significantly lower than that of the U.S. Part of the reason for low growth in Europe is due to external factors such as the low growth in emerging markets and protectionist trade policies.

The yield curve inversion may not be a sign to get overly [bearish](#), and Rodriguez-Palenzuela says the ECB is still confident in the European recovery taking place.

Unlike past guests who see more adverse impacts of a negative interest rate environment, Rodriguez-Palenzuela acknowledged setbacks but noted the upsides of negative rates, including governments that can finance themselves very cheaply—not just safe havens such as Germany but also Spain.

Professor Siegel added that central banks aren’t directly responsible for low [interest rates](#), but market forces are. Rodriguez-Palenzuela believes demographics and the global savings glut is also contributing to low rates in addition to the slow global growth.

Rodriguez-Palenzuela finds the relationship between the ECB and EU to be a harbinger for maintaining European unity, despite the initial difficulties that countries faced when joining the EU.

Although Rodriguez-Palenzuela said it is hard to examine counterfactuals of how unity would have *developed without the euro*, what is happening with the United Kingdom trying to leave the European Union is perhaps an indicator that more countries might have left the EU earlier if they had not joined the euro currency union.

Looking ahead, there are still many things the ECB is working to improve upon. Rodriguez-Palenzuela highlighted the fragmented markets and the need to instill unity and integration and allow companies to scale.

Furthermore, he said he is focusing much of his research on inequality gaps caused by technology and the role for [monetary policy](#) and collateral when human capital and technology is becoming increasingly important.

Kevin Flanagan, WisdomTree's Head of Fixed Income Strategy, reacted to the discussion with Professor Siegel and [noted in many ways](#) that the markets have cut rates for the [Federal Reserve \(Fed\)](#) with a drop in borrowing rates. He also noted the yield curve was barely inverted when comparing it with the 80 and 40 [basis point](#) inversions that preceded the last two U.S. recessions. Although a yield curve inversion has been strong indicator of economic deceleration in the past, it shouldn't be seen as a sure sign.

In the last segment of the podcast, Jillian Fornito highlighted her time with the Global Interdependence Center (GIC), an organization that hosts conferences across the world to facilitate dialogue among academics, bank heads and investors to help expand global banking and economic perspectives. WisdomTree is a global sponsor of the GIC, and we have enjoyed talking to many of the speakers from its events on our podcast. We hope to see you at some of the GIC's upcoming events.

Please listen to the full conversation below.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

## **IMPORTANT INFORMATION**

**U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.**

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

## DEFINITIONS

**Yield curve** : Graphical Depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

**Short-term rates** : the rate of interest on a debt instrument maturing in two years or less.

**Bear market** : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

**Interest rates** : The rate at which interest is paid by a borrower for the use of money.

**Monetary policy** : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

**Federal Reserve** : The Federal Reserve System is the central banking system of the United States.

**Basis point** : 1/100th of 1 percent.