EL-ERIAN'S VIEWS ON THE U.S. DIVERGENCE

Jeremy Schwartz — Global Chief Investment Officer
12/10/2019

Mohamed El-Erian, chief economic advisor at Allianz and senior global fellow at the Joseph H. Lauder Institute at the Wharton School, joined me and Professor Seigel on our "Behind the Markets" podcast last week. It was a great, wide-ranging conversation on why El-Erian sees a divergence for the U.S. economy over Europe and other international economies. We also discussed why he still favors the U.S. as investment destination over foreign markets. Some of the highlights of the conversation touched on the following:

- How the U.S. economy continues outperform and diverge from the rest of the world. El-Erian sees little risk of a U.S. recession in 2020, with the consumer being the backbone of the U.S. economy.
- El-Erian's worries concern the health of the global economy and the uncertainty over how long the U.S. can continue to diverge from the global economy. He believes the U.S. can sustain its outperformance for some time, and he still favors investing in the United States.
- El-Erian described recent stability in Europe's economy as potentially being an L-shaped recovery that flatlines at 1% growth, instead of bouncing back materially higher.
    - Negative rates are encouraging increased German savings instead of more consumption.
    - El-Erian sees excessive risk-taking caused by low rates that could lead to misallocation of capital.
    - El-Erian sees low rates enabling zombie companies to stay alive, which could depress productivity figures.
- El-Erian expects heightened volatility—he believes passive beta benchmarks made good decisions over the last five years, but he sees a rise in volatility as making a case for more dynamic market timing strategies.
- He also views more exotic asset classes, such as emerging market debt and high-yield bonds, as ripe for helping active managers to shine; he believes active managers' performance lagged the market in the past due to a low liquidity factor.

El Erian's views provided an interesting contrast to Professor Siegel's, who favors emerging markets because assets prices are already discounted to reflect risks to performance in these markets. 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)

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, 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.