

November 19, 2018

# The State of the U.S Economy in 2019

## Virtuous Cycle or Sugar Rush?

8<sup>th</sup> Annual Economic Forum  
Fairfield University

**Presented By:**

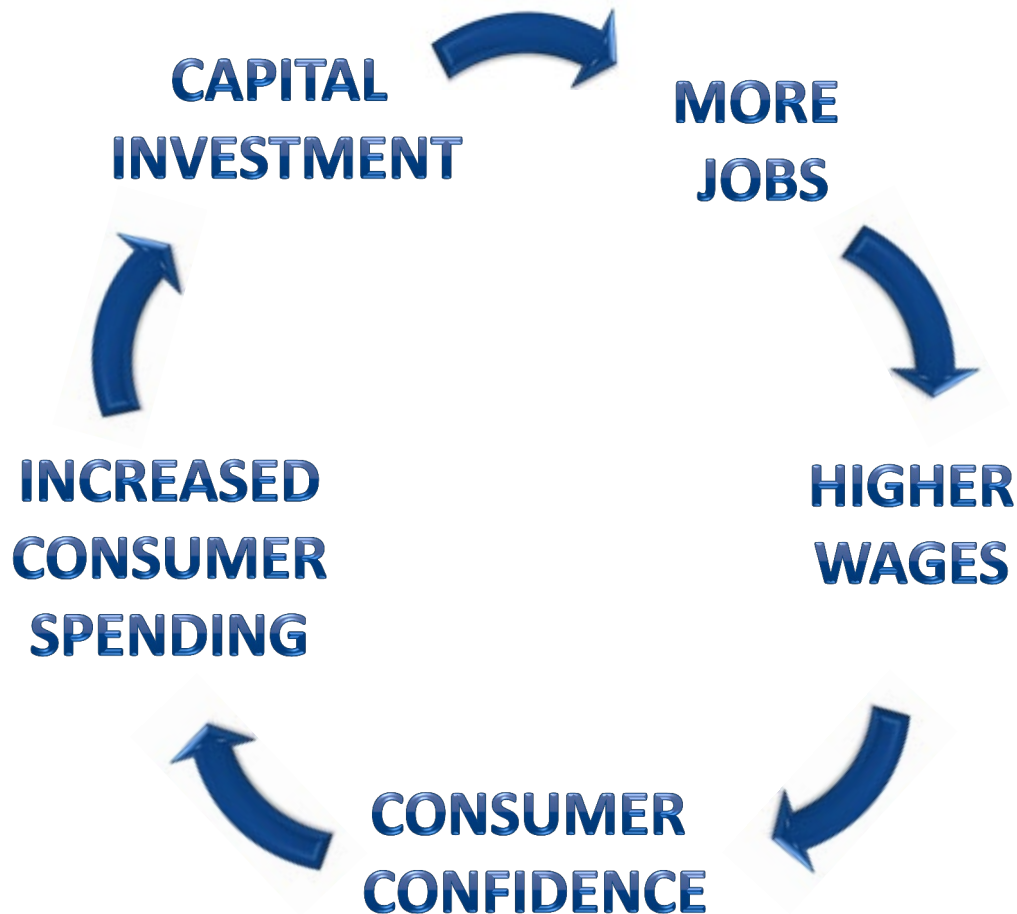
John S. Traynor  
Executive Vice President  
Chief Investment Officer



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# Two paths the Economy could take in 2019

## Virtuous Cycle



or



## Sugar high



- Repatriation and Tax Reform should elongate the expansion but not lead to the hoped-for sustainable 3%+ economic growth.

# The State of the U.S Economy

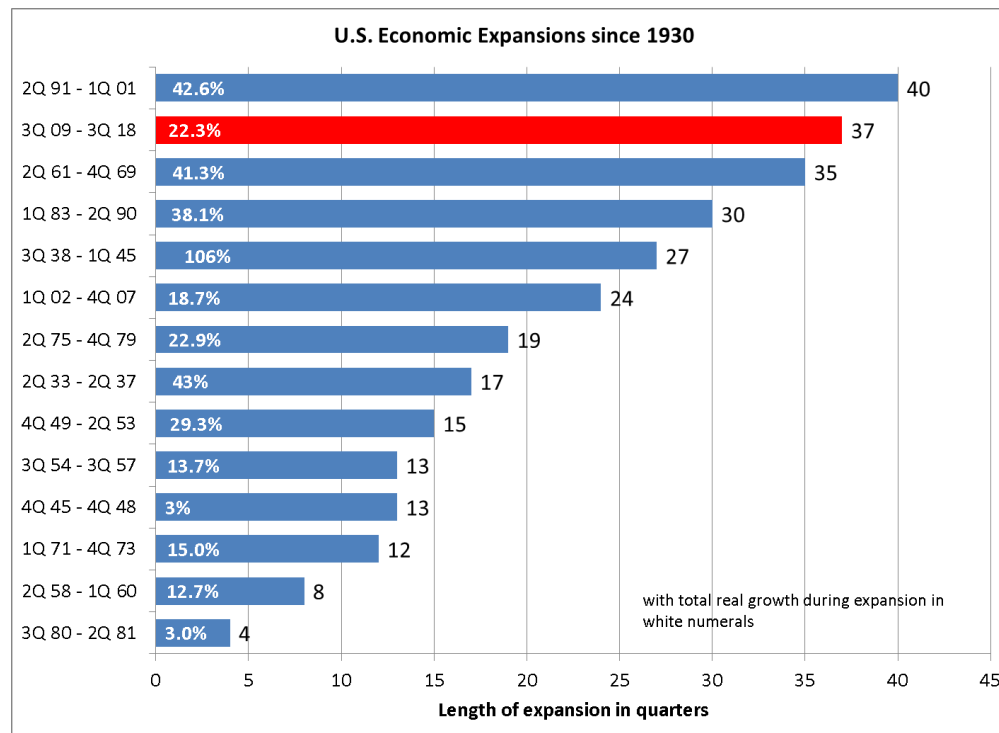
- We are in the **tenth** year of the current economic expansion.
  - In November 2016 we entered the **late cycle** phase of this expansion.
  - Equities are acting like we are in a prolonged **mid-cycle** period.

	<h2>Tailwinds</h2> <ul style="list-style-type: none"> <li>• No recession on horizon: global growth improving</li> <li>• Pro-growth U.S. policies</li> <li>• Low interest rates</li> <li>• Earnings acceleration: up 16% in 2018.</li> <li>• Consumer optimism is on the rise</li> </ul>		<h2>Headwinds</h2> <ul style="list-style-type: none"> <li>• Global populism</li> <li>• Anti-trade, anti-immigration policies/sentiment</li> <li>• Currency volatility</li> <li>• Federal Reserve (FED) raises rates faster than anticipated</li> <li>• Rising geopolitical risks</li> </ul>
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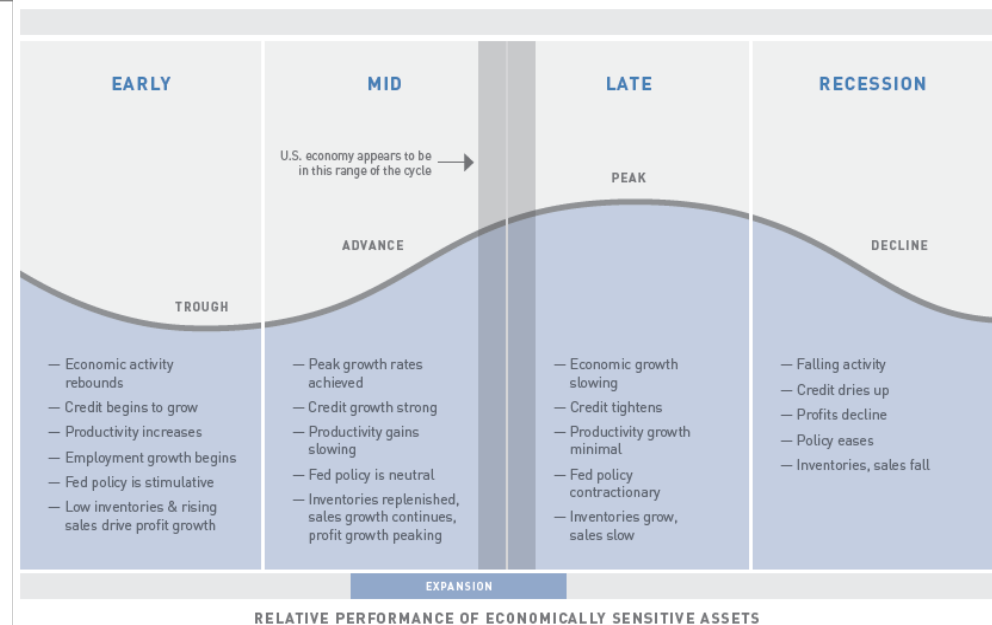
Source: People's United Advisors

# The State of the U.S Economy

## How long can the current expansion continue?



## Phases of the Business Cycle

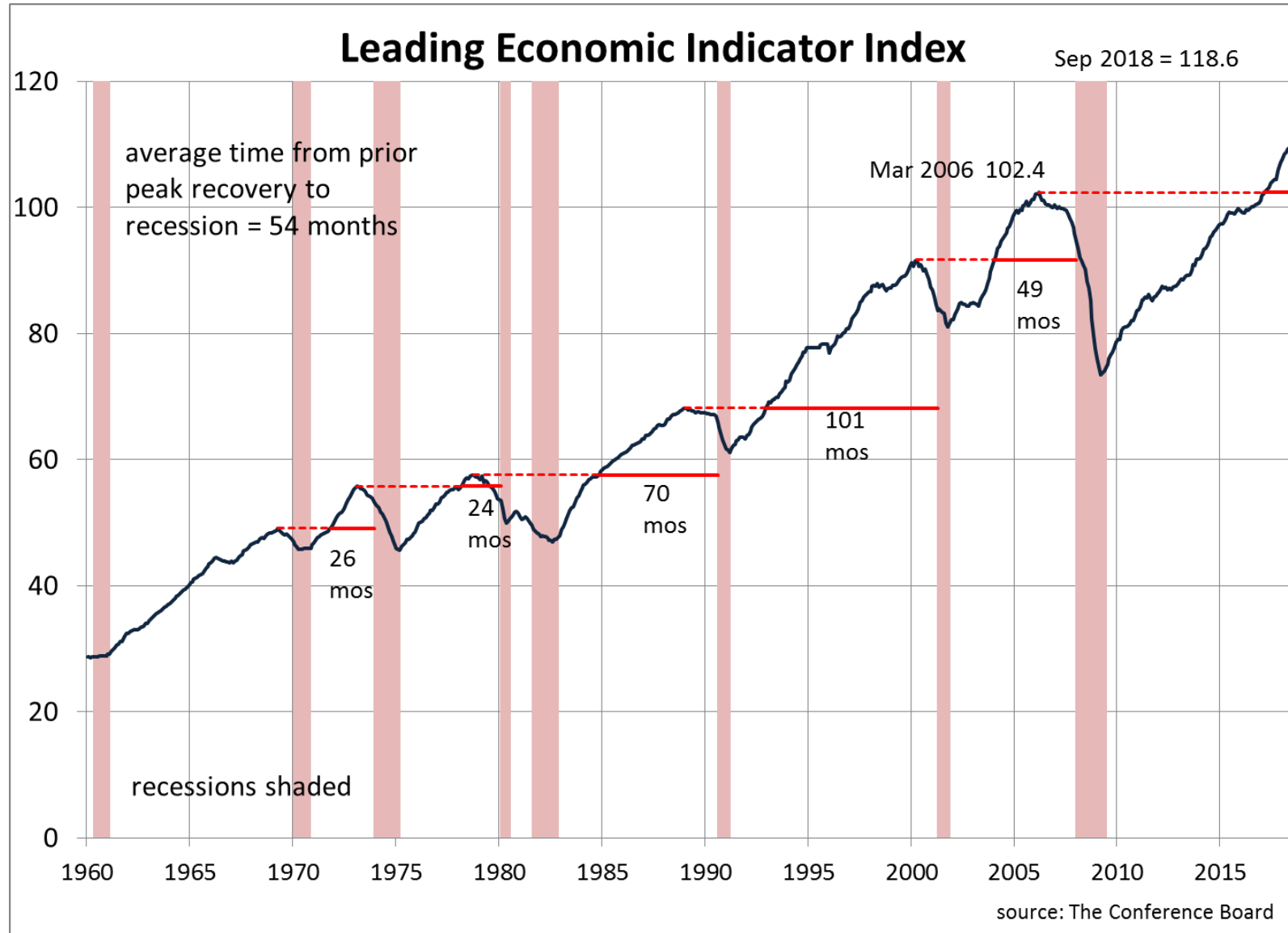


Source (exhibit, left): Wells Fargo Investment Institute, April 2018

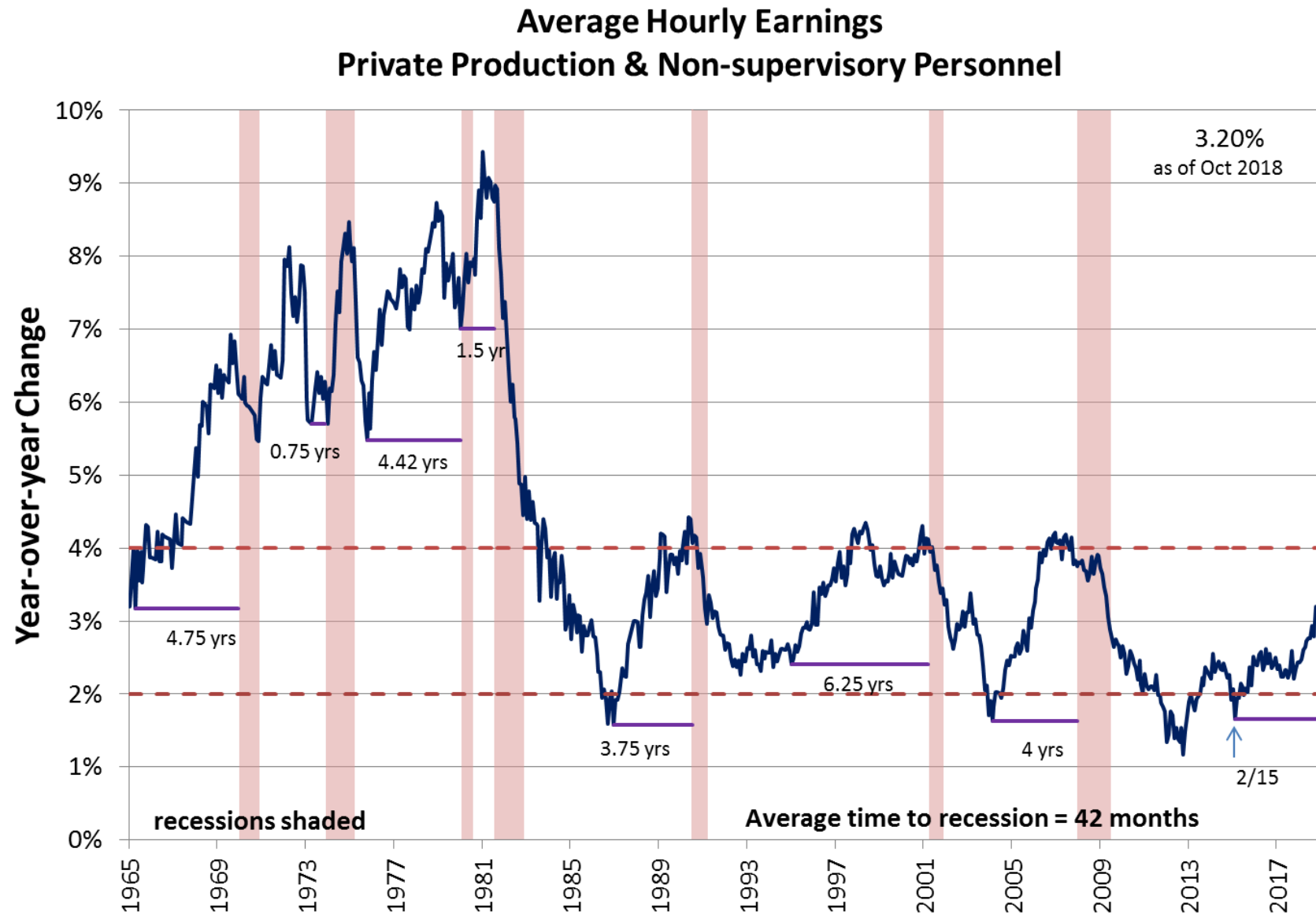
Source (exhibit, right): People's United Advisors, Inc.

- Since 2009, we have been in the midst of the **second longest** and one of the **slowest** expansions on record.

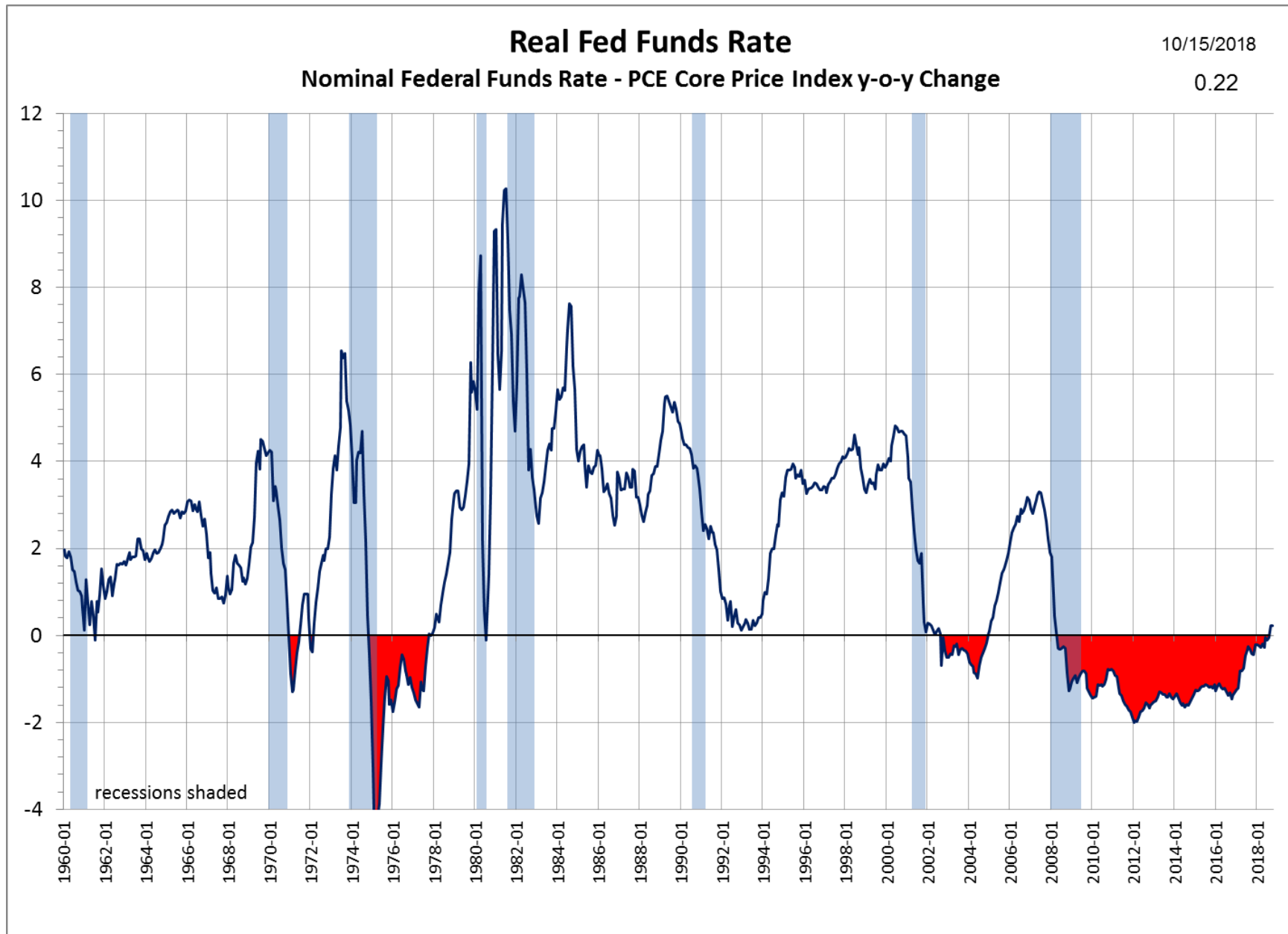
# Continued Economic Growth



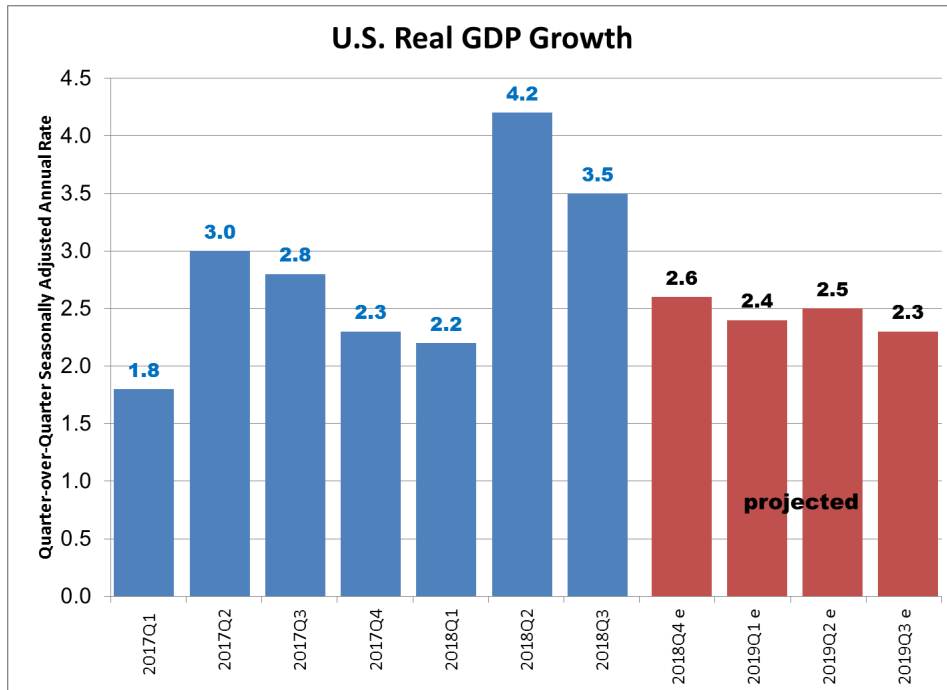
# Continued Economic Growth



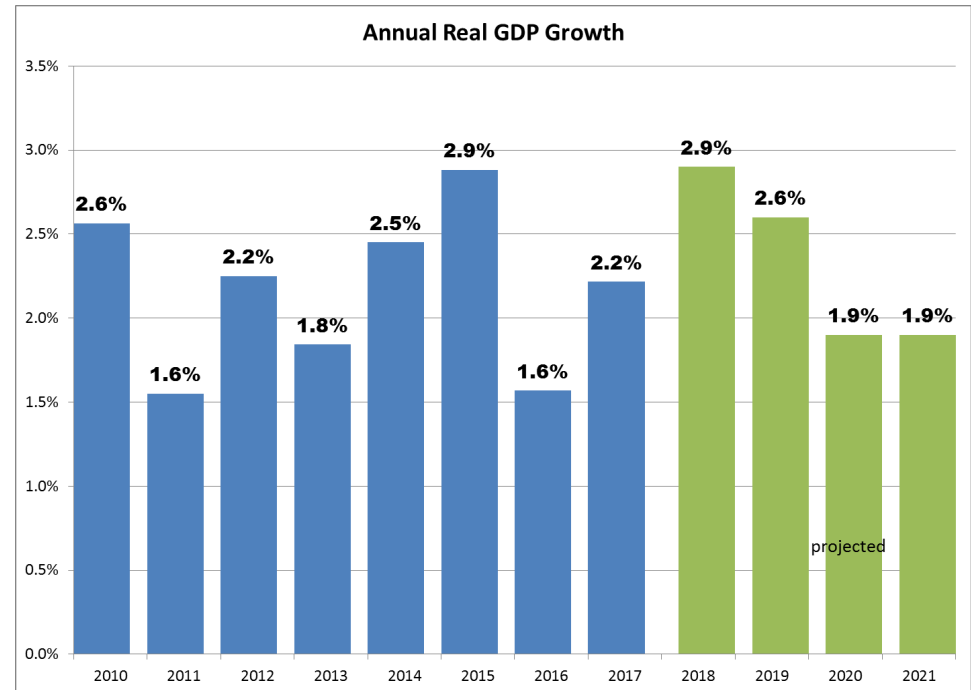
# Continued Economic Growth



# The State of the U.S Economy



- Second and third quarter growth reflect impact of Tax Cuts and Jobs Act and higher government spending.
- Fast second quarter growth was boosted by exports in anticipation of tariffs.
- Consumer remains the principal driver of economic growth



- Tax cut and fiscal stimulus impact expected to fade in 2019 and beyond.
- Real growth will revert to slower pace constrained by tight labor market, low productivity, and higher interest rates.
- Higher growth depends on business investment to boost productivity

Source: Bureau of Economic Analysis and Bloomberg



# Economic Overview

## SIX KEY INDICATORS

Indicator	Late- cycle warning signal/trend	Current/Latest	
Leading Economic Indicator	Surpassing previous peak	118.6 (Sep '18), passed previous peak in Feb '17	
Monetary Policy - Treasury Yield Curve (10yr – 2yr)	Flat to inverted	+ 0.25 slope, near lowest since financial crisis, but 10 yr-3mo at +0.70	
Monetary Policy – Real Fed Funds rate	3% - 4% historic 1% - 2% new normal?	+0.20% (est.)	
ISM – Purchasing Managers' Indices	Below 50 / declining	Mfg. PMI at 57.7 (Oct), Serv. at 60.3 - just below recent peaks	
Consumer confidence/sentiment & Business optimism	Peaked / declining	Consumer confidence & business optimism near peak levels	
Composite Global LEI/PMIs	Peaked / declining	PMIs past peak	

**Positive**

**Neutral**

**Negative**

Economic Metric*	2017	2018	2019
	Actual	Estimates	Estimates
U.S. GDP (y-o-y)	2.3%	2.9%	2.5%
Global GDP	3.7%	3.9%	3.9%
Inflation (core PCE)	1.5%	2.1%	2.2%
Fed Funds	1.25 – 1.50%	2.25– 2.50%	2.75– 3.00%
10yr Treasury	2.40%	2.8 - 3.1%	2.8 - 3.25%
Unemployment	4.1%	3.9%	3.6%
Crude Oil (WTI)	\$57.88	\$65 - \$80	\$65 - \$85

\*All values are for period-end except GDP. Global GDP estimates are from IMF April '18 World Economic Outlook

- Global economic expansion with accelerating U.S. growth in 2018.
- Low probability of a U.S. recession within 18 months.
- Pace of interest rate hikes subject to growth and inflation outlooks.
- Oil price dependent on OPEC/Russian supply and U.S. output.

People's United Advisors, economic views as of July 2018. People's United Advisors develops multiple investment strategies and utilizes various instruments to execute those strategies for clients. The perspectives and outlook of individual strategists may differ from those reflected herein.

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The Dow Jones Business and Financial Weekly

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Special Section Inside

## BEST & WORST RUN STATES

The nation's healthiest balance sheets belong to South Dakota, Iowa, and Tennessee, while high debt levels and pension liabilities in Connecticut, Illinois, and Hawaii should give municipal-bond investors pause. Why Puerto Rico's bonds are no vacation.



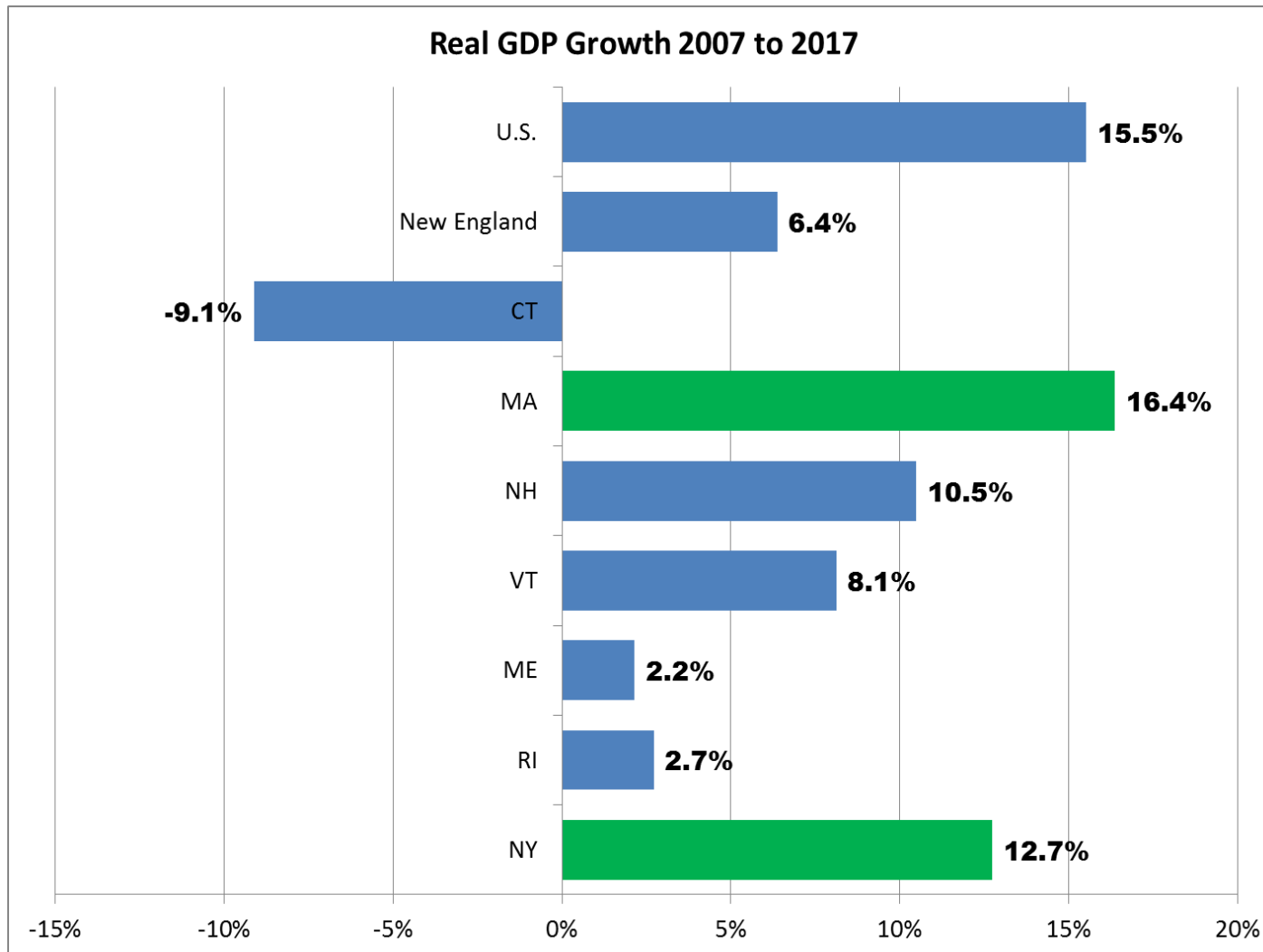
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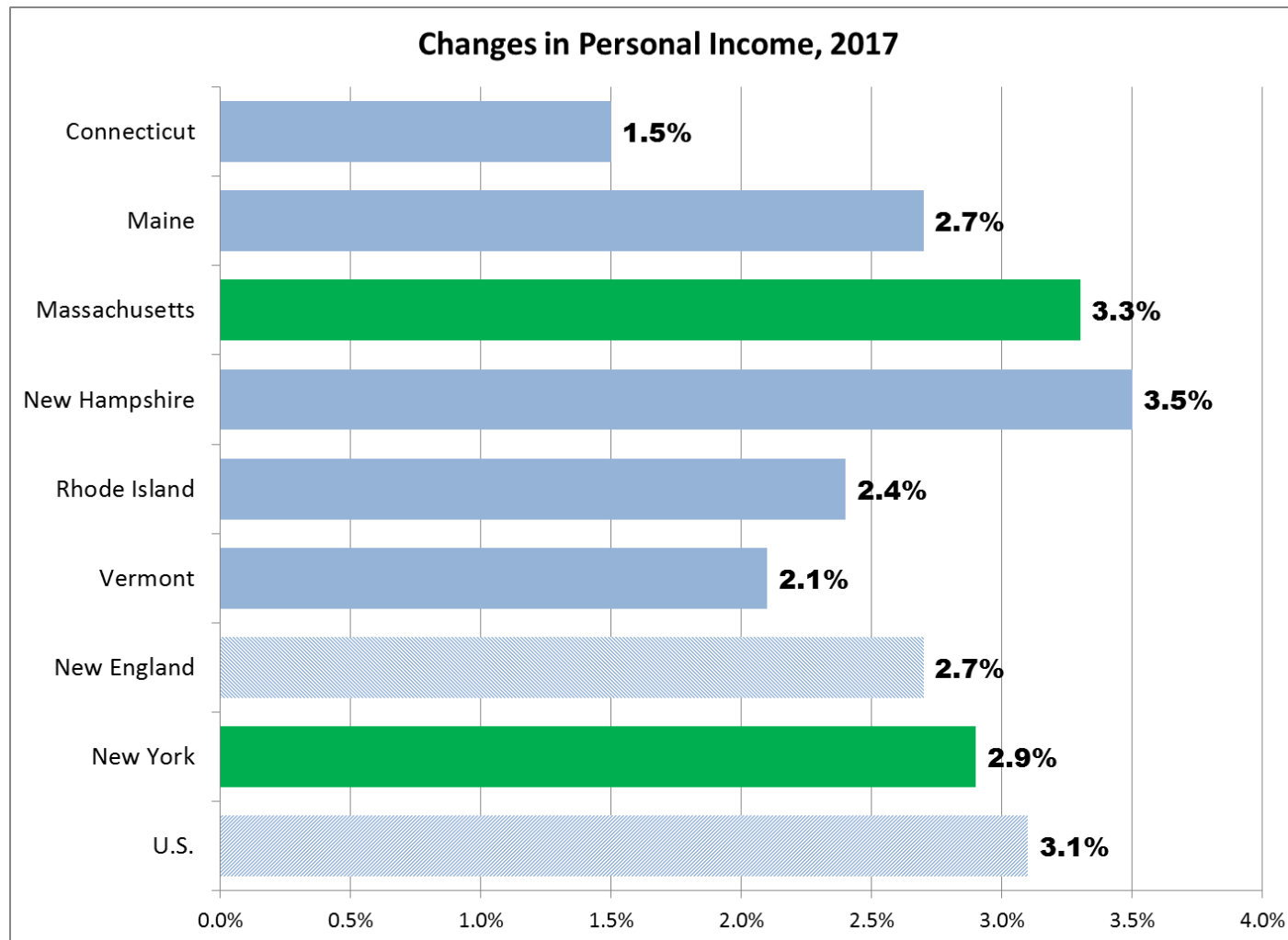
# Northeast Economic Review



Source: Bureau of Economic Analysis

- Connecticut's decline since the year before the recession has been terrible.
- Massachusetts and New York have both rebounded strongly considering the heavy weight of the financial services industry in their respective economies.

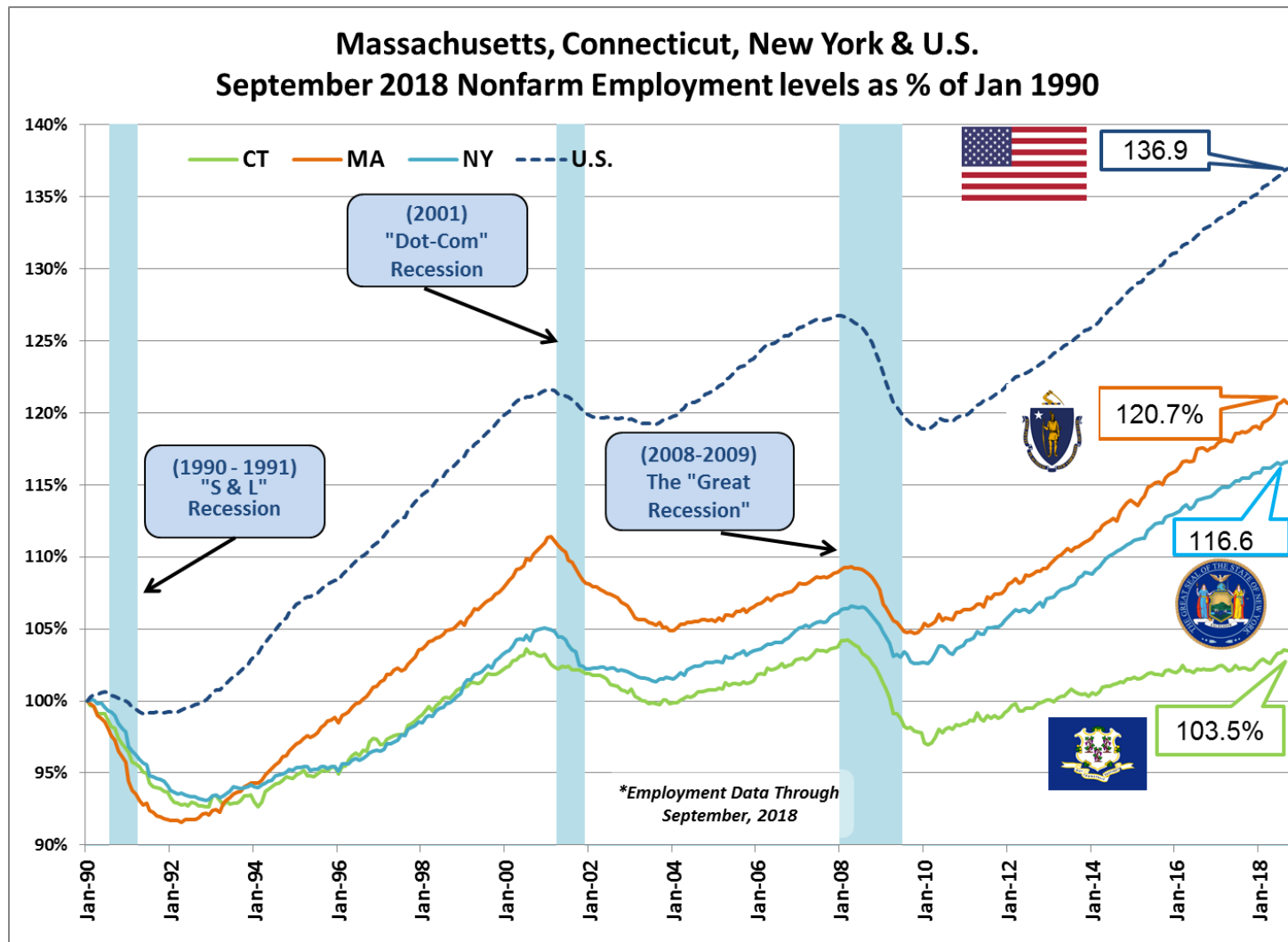
# Northeast Economic Review



Source: Bureau of Economic Analysis

- Connecticut ranked 44<sup>th</sup> out of 50 states in 2017.
- Looking only at wages and salaries, Connecticut ranked 49<sup>th</sup>.
- That Connecticut has done so poorly, while being between New York and Boston, during a tremendous rally in financial assets is especially disconcerting.

# Northeast Economic Review

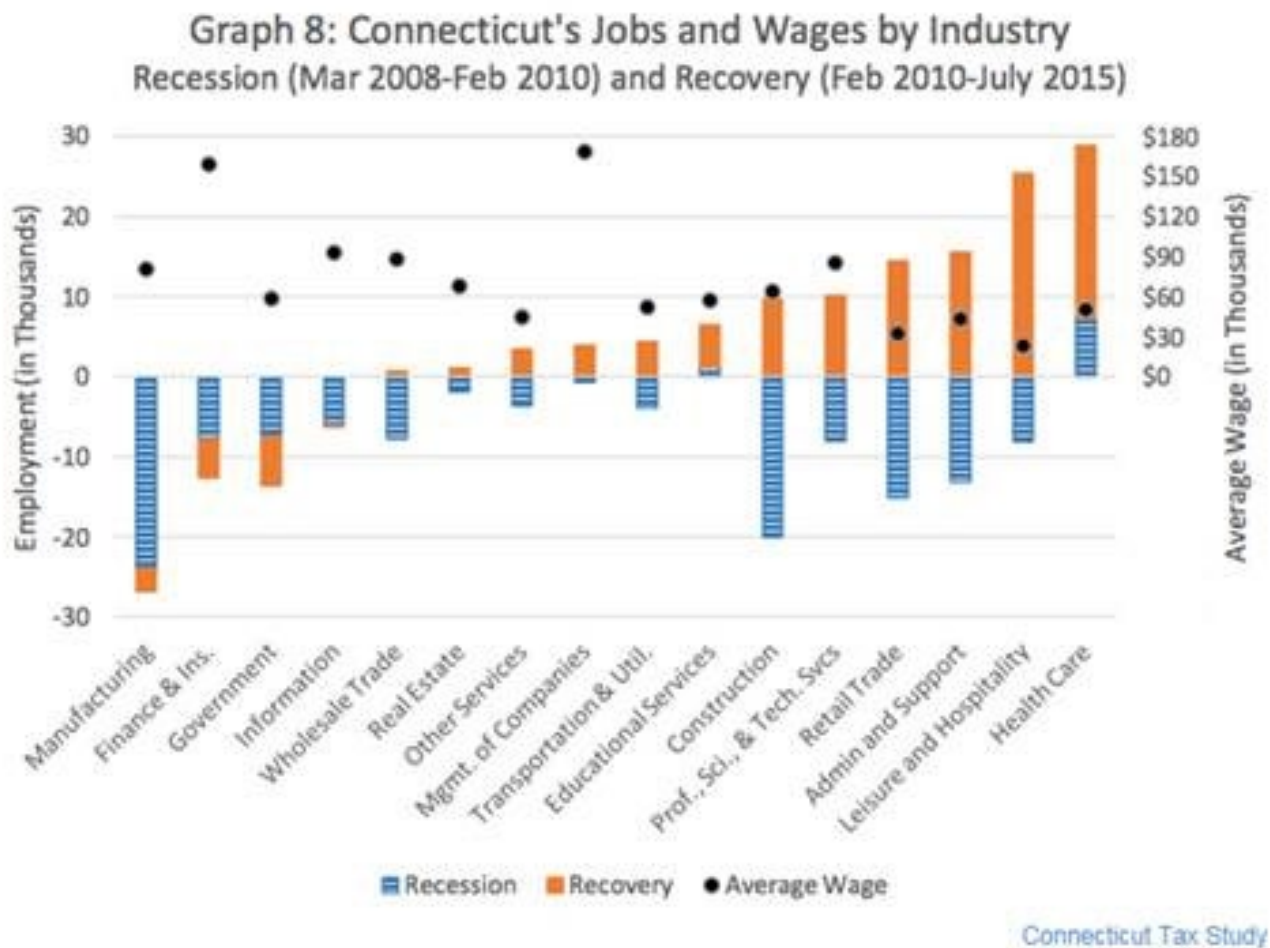


**Connecticut has gained a total of *only* 23,000 jobs over the past 29 years.**

- Since peak employment CT has lost **11,400** jobs
- CT has gained back just 90% of jobs lost during recession.
- US has gained back 227%.
- Massachusetts has regained 350% of jobs lost since 2009.



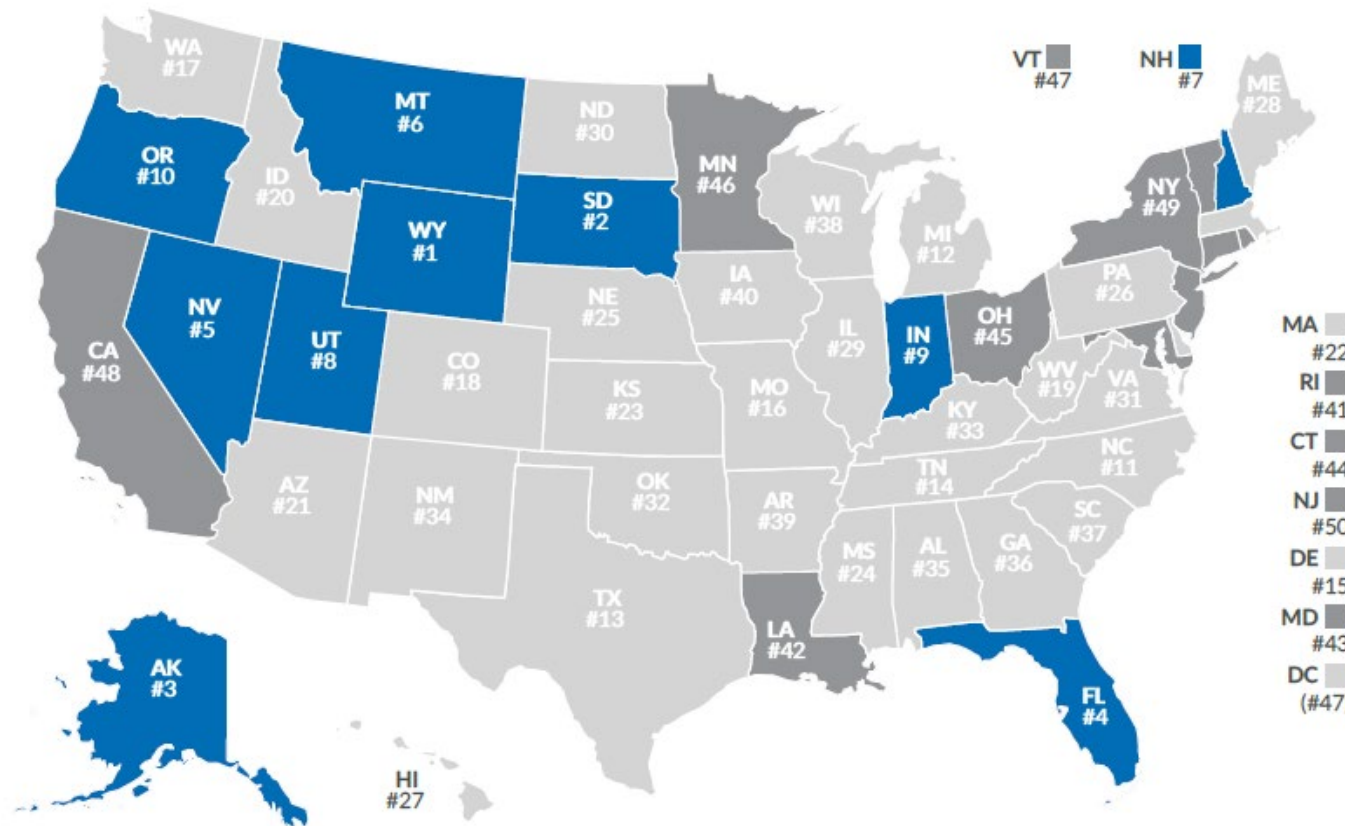
## The Big Swap: Losing High-Wage Jobs, Adding Low-Wage Jobs



- Connecticut has lost high paying finance and manufacturing jobs during this expansion and replaced them with low wage service sector jobs.

# Northeast Economic Review

## 2018 State Business Tax Climate Index



The 10 lowest ranked, or worst, states in this year's Index are:

41. Rhode Island
42. Louisiana
43. Maryland
44. Connecticut
45. Ohio
46. Minnesota
47. Vermont
48. California
49. New York
50. New Jersey

Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. DC's score and rank do not affect other states. The report shows tax systems as of July 1, 2017 (the beginning of Fiscal Year 2018).

Source: Tax Foundation.

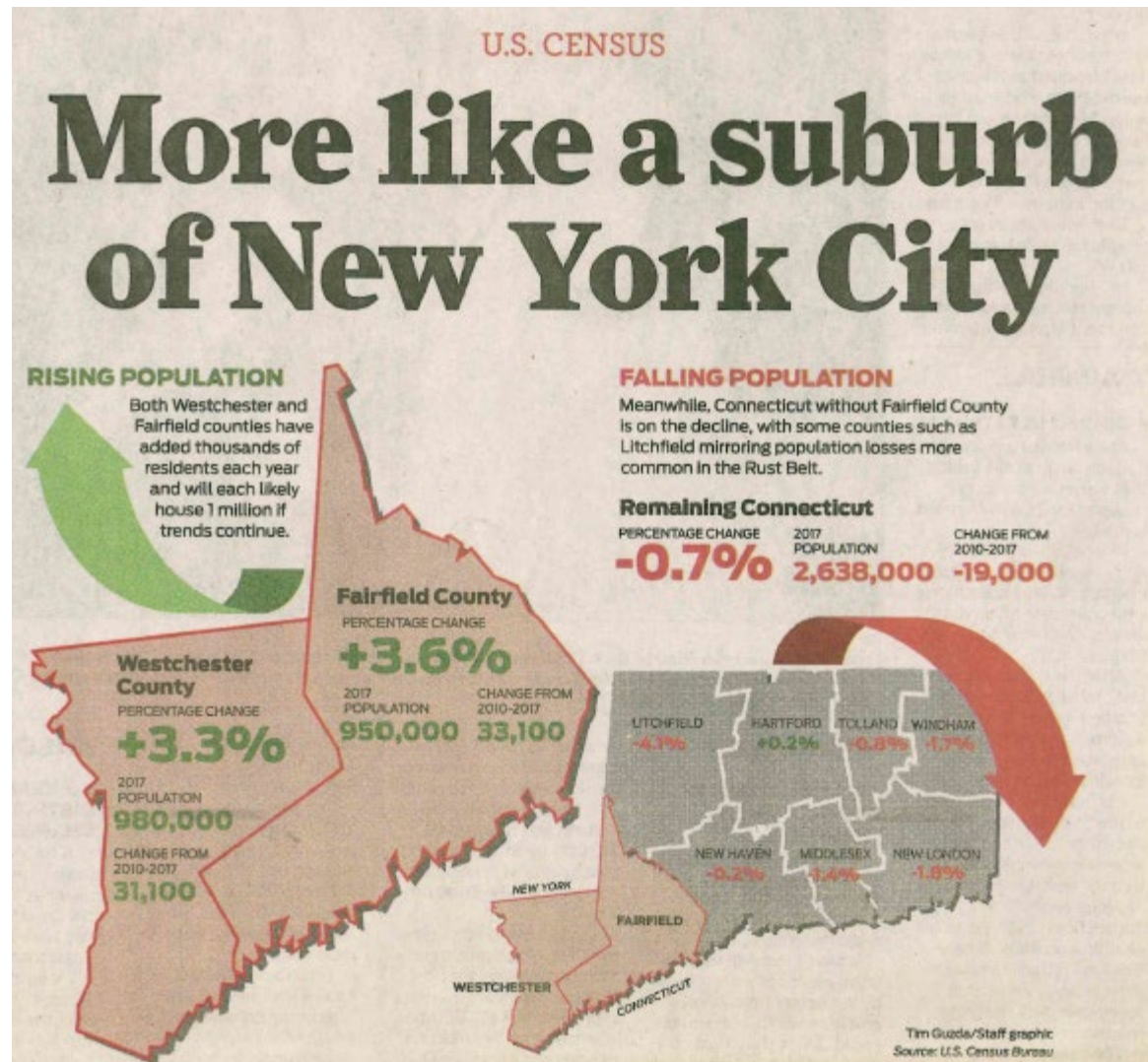
- 10 Best Business Tax Climates
- 10 Worst Business Tax Climates



# Northeast Economic Review

	July 2000 Population estimate	July 2010 Population estimate	Annual compound growth rate
Connecticut	3,411,726	3,526,937	+0.33%
Maine	1,277,211	1,312,939	+0.28%
Massachusetts	6,363,015	6,631,280	+0.41%
New Hampshire	1,240,446	1,323,531	+0.65%
Rhode Island	1,050,736	1,056,870	+0.06%
Vermont	609,903	622,433	+0.20%
New England	13,953,037	14,473,990	+0.37%
New England ex RI	13,343,134	13,851,557	+0.37%
Westchester County NY	925,549	961,499	+0.38%
Long Island (Nassau & Suffolk counties NY)	2,759,778	2,885,956	+0.45%
Putnam & Rockland Counties NY	383,421	401,204	0.45%
New York City (New York, Bronx, Kings, Queens, & Richmond counties)	8,015,209	8,431,336	+0.51%
Passaic, Bergen, & Hudson NJ counties	1,985,390	1,994,853	+0.05%
Newark-Union metro division (Essex, Morris, Sussex, Union NJ counties & Pike, PA county)	1,977,829	1,991,703	+0.11%
New York metro area (ex Edison NJ metro div)	16,047,176	16,673,769	+0.38%
<b>New England plus New York metro</b>	<b>30,000,213</b>	<b>31,147,759</b>	<b>+0.38%</b>
New England (ex RI) plus Westchester & Long Island	17,028,461	17,699,012	+0.39%
<b>United States</b>	<b>282,171,957</b>	<b>309,050,816</b>	<b>+0.91%</b>

- The Northeast trails the nation in population growth.



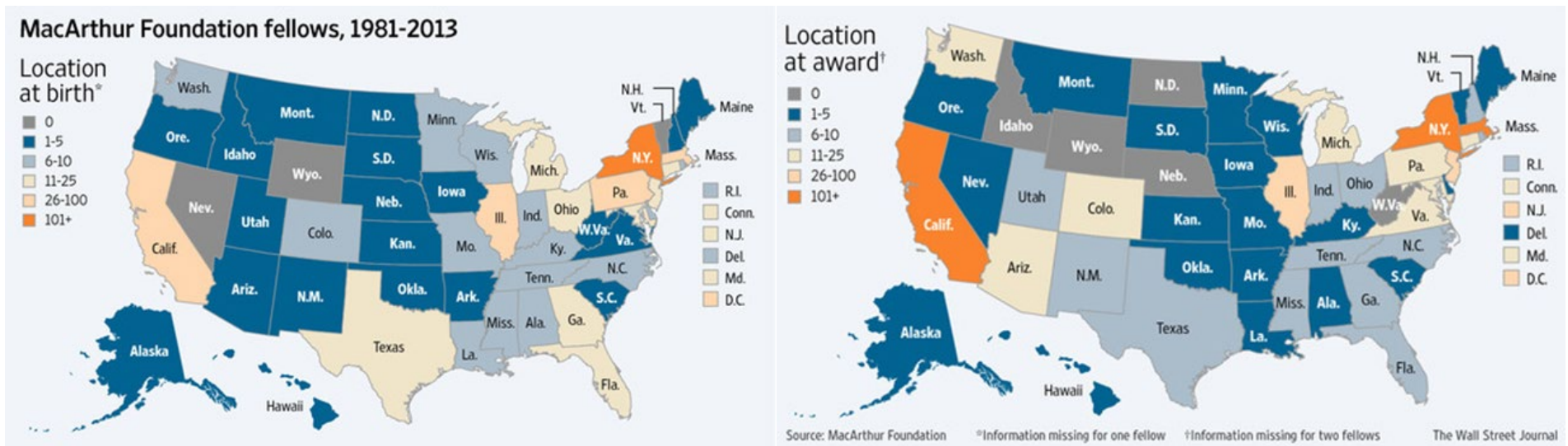
Source: CT Post June 26, 2018, U.S. Census Bureau

# Northeast Economic Review

Educational attainment for population 25 years and older	No high school diploma	High school diploma, no college	High School diploma, some college	Bachelor's degree or higher
<b>Connecticut</b>	<b>11.8%</b>	<b>28.8%</b>	<b>24.4%</b>	<b>35.1%</b>
Maine	10.7%	35.5%	27.7%	26.1%
Massachusetts	11.6%	27.2%	23.4%	37.8%
New Hampshire	9.5%	30.2%	27.9%	32.4%
Rhode Island	16.6%	28.7%	24.9%	29.8%
Vermont	9.8%	32.3%	24.9%	32.9%
<b>Total New England</b>	<b>11.7%</b>	<b>29.0%</b>	<b>24.6%</b>	<b>34.7%</b>
Westchester, Putnam, Rockland counties NY	12.1%	24.0%	21.0%	42.9%
Long Island (Nassau & Suffolk Counties NY)	10.4%	28.7%	25.1%	35.7%
New York City (New York, Bronx, Kings, Queens, & Richmond Counties)	21.0%	26.0%	19.8%	33.1%
Bergen, Hudson, Passaic counties NJ	15.3%	28.1%	20.3%	36.2%
Newark-Union metro division	13.5%	28.8%	21.9%	35.8%
Total New York metro area (ex Edison NJ metro division)	16.8%	26.9%	21.2%	35.0%
<b>Total New England &amp; New York metro area</b>	<b>14.4%</b>	<b>27.9%</b>	<b>22.8%</b>	<b>34.9%</b>
<b>United States</b>	<b>15.5%</b>	<b>29.3%</b>	<b>27.7%</b>	<b>27.5%</b>

# Northeast Economic Review

## The Northeast shows its Smarts



- More MacArthur fellows are born in NY than any other state

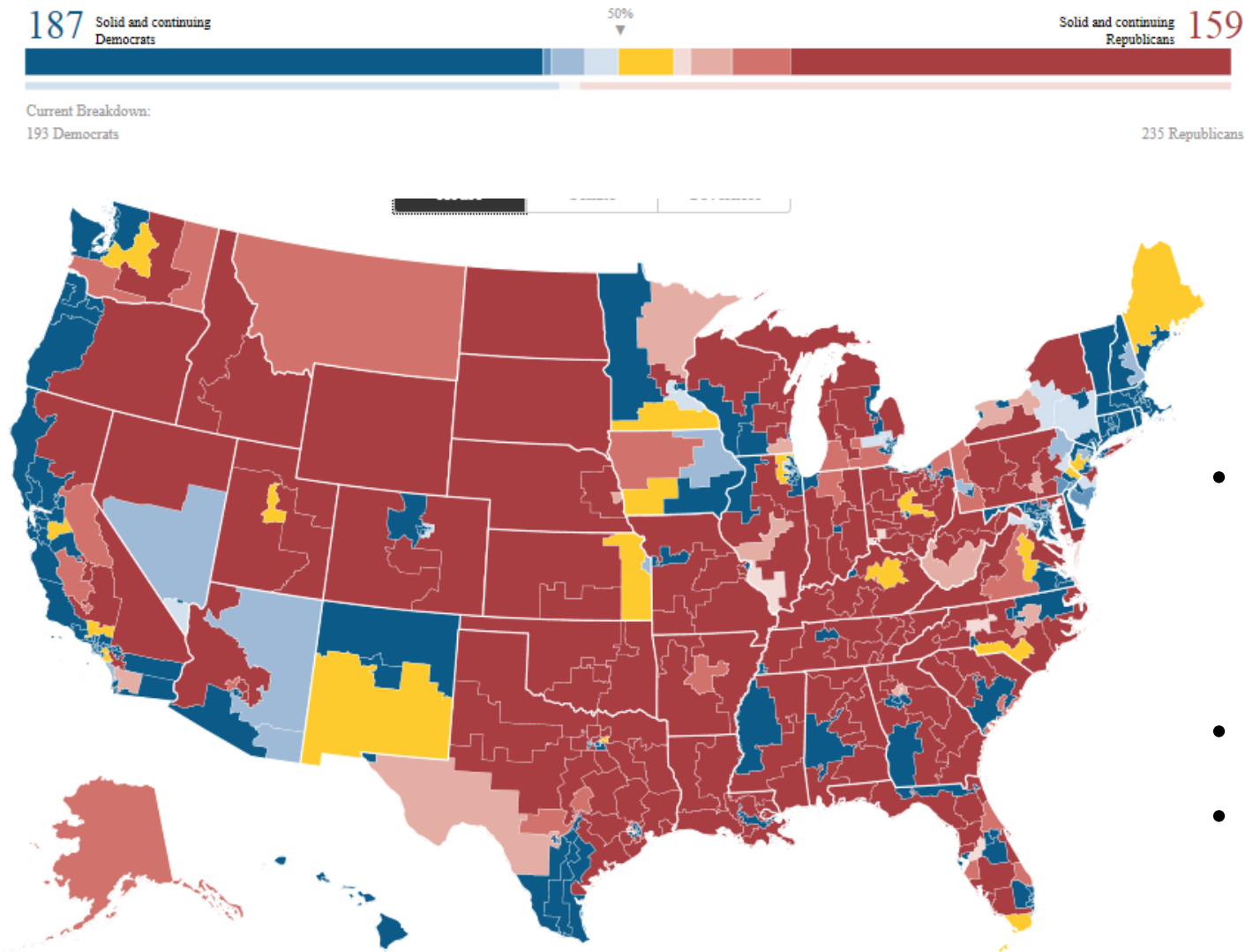
- The Northeast dominates the country in attracting MacArthur fellows

### Top locations per 100,000 people

1. Washington DC
2. Massachusetts
3. New York
4. Rhode Island
5. **Connecticut**
6. Vermont

20

# Investing in the Age of Trump



- The electoral map shows a further cleaving of the electorate.
- Red got redder
- Blue got bluer



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