The U.S. economy is currently enjoying its longest uninterrupted stretch of growth on record, and our base-case forecast expects the expansion to continue. However, the world is full of uncertainty at present. How do political, geopolitical, and policy uncertainties affect the U.S. and the global economic outlook?
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Introduction & Summary

Base-Case Scenario: The Record Expansion Should Continue

The current economic upswing in the United States, which has been in place since July 2009, is the longest continuous expansion since at least the mid-1850s. Although there is a popular perception that the U.S. economy is “due” for a recession, the passage of time does not necessarily make an economy more vulnerable to a downturn. Indeed, our base-case scenario calls for the U.S. economic expansion to continue through the end of our forecast period in Q4-2021, and we forecast that economic growth will remain positive over that period in most major foreign economies as well. But as the title of this report indicates, there are a number of notable uncertainties that cloud our vision at present. In our view, an economic downturn is not likely in the foreseeable future, but one is more than just a remote possibility.

Recessions happen in one of two ways. First, an “exogenous” shock can lead to an economic contraction. For example, the moonshot in oil prices that occurred in the aftermath of the OPEC oil embargo in late 1973 was the proximate cause of the deep downturn in the U.S. economy in 1974 and 1975. A near trebling of oil prices in the months following the Iraqi invasion of Kuwait in July 1990 contributed to the 1990-1991 contraction in U.S. real GDP. But many exogenous shocks are difficult if not impossible to foresee, and most forecasters generally refrain from incorporating them explicitly in their outlooks.

Second, economies can also slip into recession when imbalances build up in an important sector, such as housing in the previous decade or the tech sector in the 1990s. A sudden unwinding of these imbalances can then lead to an economy-wide downturn. A hallmark of the current expansion in the U.S. economy is its relative lack of large and noticeable imbalances. Consequently, our base-case scenario calls for the U.S. economy to continue to expand. That said, the 2% or so GDP growth rates that we forecast for next year and 2021 are hardly robust. Similarly, we look for the global economy to continue to expand through at least the end of 2021, but the 3% growth rates that we look for over the next two years are slower than the 3.5% per annum growth rate that the global economy has averaged since 1980.

Uncertainties related to the U.S.-China trade war have held back investment spending in the United States in recent quarters, and sluggish growth in capex spending has acted as a governor on overall GDP growth in the U.S. economy. However, strong fundamentals in the household sector have continued to support solid growth in consumer spending. In our view, trade policy uncertainties, which have weighed on investment spending, are not likely to dissipate anytime soon. Although the United States and China may very well agree to a Phase I trade deal, we are skeptical that the two sides will come to agreement on a comprehensive deal that returns tariffs to their pre-trade war levels, at least not in the foreseeable future. Consequently, we forecast that growth in investment spending in the United States will remain lackluster.

If our base-case scenario of modest U.S. economic growth in the next two years is reasonably accurate, then the Federal Reserve likely will refrain from tightening monetary policy over our forecast period. Our base-case scenario looks for the Federal Open Market Committee (FOMC) to cut rates one more time (by 25 bps) in early 2020. We then look for the FOMC to maintain the resulting target range for the fed funds rate of 1.25% to 1.50% through the end of 2021.

Growth in investment spending in many foreign economies likely will also remain sluggish as long as trade tensions between the United States and China, the two largest economies in the world, continue to linger. And with monetary accommodation in many major foreign economies at its limits and with policymakers in those economies unable or unwilling to undertake expansionary fiscal policies, meaningful acceleration in foreign economic activity does not seem very likely. Although monetary policy in major foreign economies probably will not become significantly more accommodative, central banks in those economies likely will not be tightening policy anytime soon either.

The trade-weighted value of the U.S. dollar is more or less unchanged on balance relative to a year ago. Although the Federal Reserve has cut rates by 75 bps since July, most major central banks have continued to maintain extraordinarily accommodative policy stances. With interest rates expected to remain historically low for the foreseeable future, foreign exchange market participants may well look toward economic growth differentials for insight into currency market moves. With U.S. economic growth expected to slow further, at least in the near term, and with foreign economic growth showing some signs of bottoming out, we look for the U.S. dollar to depreciate modestly over the course of the coming year.
Introduction & Summary

But a Number of Uncertainties Cloud Our Vision

As noted earlier, there are a number of uncertainties that cloud our outlook. For starters, trade negotiations between the United States and China could conceivably turn acrimonious again, which could lead to even higher tariffs. Not only would another increase in tariffs weigh further on investment spending, but higher prices for consumer goods would erode growth in real income that could exert headwinds on growth in consumer spending. On the other hand, negotiators from the two countries could conceivably reach a comprehensive trade deal that leads to the complete removal of tariffs. In that event, the economic outlook would improve markedly. Unfortunately, trade policy outcomes are ultimately political decisions into which we have few insights. In other words, our vision regarding the political decisions that will determine trade policy is clouded.

There are also uncertainties related to the November 2020 U.S. election to consider. There currently are a record number of individuals seeking the Democratic nomination for president, and their policy proposals span a wide range from center-left candidates such as former Vice President Biden and Mayor Buttigieg to more progressive candidates such as Senators Warren and Sanders. President Trump likely would pursue a whole different set of policies than his Democratic rivals if he is re-elected for a second term. Although we do not opine on the candidates in this report, we offer a description of some of the major policy proposals of the frontrunners. There is also the make-up of the next Congress to consider, which is impossible to predict at this point.

How will individuals and businesses react to the inherent uncertainty that the election imparts? Although we found that prior elections have not had a discernably negative effect on the U.S. economy, could the polarized nature of American politics today and the wide range of potential policy outcomes cause consumers and businesses to take a cautious approach to spending in 2020?

The foreign economic outlook is not immune to uncertainties either. Much like the U.S. economy, the outlook in most foreign economies could be meaningfully affected by the different trade policy outcomes. That is, the outlook in these economies would brighten if trade tensions between the United States and China subside and, conversely, the outlook would darken if tensions ratchet up further. In addition, the U.K. parliamentary election on December 12 will have major implications for the Brexit process that has cast a cloud of uncertainty over the U.K. economy for more than three years. A Chinese crackdown in Hong Kong, should one occur, could impart a negative shock to global growth prospects.

In sum, we believe that the economic expansion that has been under way in the United States for more than 10 years will continue for the foreseeable future, albeit at a subdued pace. Likewise, we forecast that economic growth in most foreign economies will remain modest over the next two years. But all economic forecasts, even in the best of times, are subject to at least a bit of uncertainty. In our view, the unsettled political and geopolitical environment at present imparts more uncertainty than usual into the economic outlook.
Proceed with Caution: The Economic Outlook in an Environment of Uncertainty

2019 was the year in which the U.S. economy broke the record for the longest economic expansion (Figure 1), and our forecast anticipates that this upswing can be sustained through 2021 provided a reasonable détente can be reached in the trade war (Figure 2). U.S. economic growth remained positive this year despite a global slowdown and a pervasive sense of uncertainty for business leaders and financial markets. Recent rate cuts from the Federal Reserve have returned at least some upward slope to the yield curve, alleviating one of the recession warning signs that was flashing yellow just a few months ago. A “settled rulebook for global trade,” as Chairman Powell referred to it, would go a long way in reducing the largest source of this uncertainty, though remarkably the trade war has not been the millstone some analysts feared it might be. The slump still under way in the manufacturing sector has not yet bled into the service economy in a major way or caused serious restraints in consumer spending.

Figure 1


This is occurring alongside a relentless torrent of trade-related developments, including ongoing talks with China, the ratification of the USMCA and potential (though unlikely in our view) auto tariffs. Interestingly, this is frustratingly reminiscent of how the year began, with a 35-day shutdown that did not end until January 25, 2019. Of course, 2020 is also an election year, which could impart even more uncertainty as November 3 approaches, a subject we discuss in more detail starting on page 9.

Our baseline expectation is that a trade war alone will not bring the U.S. economy to its knees. Our forecast has the slow-growth expansion getting even weaker, at least in the near term, but—critically—we avoid recession. The nuances of the forecast come down to the outlook for trade—frustratingly, an unknowable factor as it is largely a political decision. If the trade war escalates much more than we presently expect and we do get a recession, then sending in the cavalry will be trickier than in prior cycles. The fiscal policy response could be limited by large and growing budget deficits. The monetary policy response would be bounded by the fact that the fed funds rate would be starting at a much lower point than in prior cycles. So as we make our case for where we see the U.S. economy heading, we also consider the upside and downside risks to our forecast from different trade policy assumptions.

Baseline: No Recession, Expansion Continues, Proceed with Caution

We still anticipate that the earlier announced 15% tariff on $156 billion of consumer goods will kick in on December 15 as scheduled. That said, we acknowledge that the tariff hike could be delayed further or shelved altogether if a broader-than-expected Phase I deal is reached. We suspect that a comprehensive trade agreement will remain out of reach. Even without any deterioration with respect to the trade situation, we are looking for modest growth in the final quarter of 2019, with real GDP rising at an annualized rate of just 1.5%. Much of the weakness in the rate of GDP growth in Q4-2019 is due to sluggishness in business fixed investment spending and a continued drag from less inventory building. Residential construction activity, which is picking up slightly, is a silver lining in an otherwise cautious forecast. Given the tendency of homebuilding to have a multiplier effect, improvement in that sector may produce some additional follow-through into other
areas of the economy. Even with our forecast for a weak fourth quarter, real GDP remains on track for a 2.3% calendar-year gain for 2019, right in line with the average annual growth rate for this expansion.

Mark Twain once famously quipped that rumors of his death had been exaggerated. For now, Twain’s joke appears to be applicable to all the hand-wringing over imminent recession that gripped financial markets at various points earlier this year, culminating in a yield curve that remained inverted for weeks during the summer. Yet other than the pullback in manufacturing and some diminished confidence on the part of both businesses and consumers, the U.S. economy continues to expand. The FOMC has been proactive, cutting the federal funds rate 25 bps three times this year and providing needed liquidity to short-term funding markets by starting to expand its balance sheet again with purchases of short-term Treasury bills.

None of this is to suggest that slowdown fears were entirely misplaced. Job growth had indeed slowed through the first part of the year, but not declined outright even in the face of capital spending cuts, disruption in supply chains, Boeing problems with its 737 MAX and the recently settled strike at General Motors. Given those challenges, the 128,000 new jobs originally reported in October was surprisingly resilient. Employers added an average of 193,000 jobs per month in the third quarter. But the most recent jobs report revealed renewed strength in the labor market. Employers added 266,000 jobs in November and October’s gain was revised higher by 28,000 jobs. We expect that the pace of hiring will slow going forward, but it defies the rumors of death for the longest expansion on record.

Speaking of rumors, it takes little more than just a glimmer of hope to move the needle in financial markets these days in the context of a potential resolution to the trade war. The manufacturing sector is ready for an armistice. The ISM manufacturing index remained in contraction territory for the fourth straight month at 48.1 in November. Just the mere indication of a thawing in trade tensions in October lifted the export orders index 9.4 points to 50.4 in October—its largest one-month rise ever. But, the index gave back some of that gain in November, when the prospects of a Phase I trade deal subsided, falling back into contraction at 47.9. That October surge, however, indicates that capital spending could snap back quickly if the headwinds from the trade war truly subside.

Beyond the capex outlook, households are in a relatively strong position today. The Conference Board’s index of consumer confidence peaked in October 2018, but it remains historically high and the household saving rate is currently around 8%. Wages & salaries may have decelerated somewhat, but they are still up at a 4.3% annualized rate over the past three months, enough to sustain solid growth in consumer spending. Interestingly, wages are rising fastest at the lower end of the income spectrum, where workers tend to spend a larger portion of their take-home pay (Figure 3).

**Figure 3**

**Wage Growth in High & Low Pay Industries**

- **Highest Paying Industries (Top 40%): Oct @ 3.1%**
- **Lowest Paying Industries (Bottom 40%): Oct @ 4.4%**

**Figure 4**

**Real Personal Consumption Expenditures**

- **PCE - CAGR: Q3 @ 2.9%**
- **PCE - Yr/Yr Percent Change: Q3 @ 2.5%**

**Source:** U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities

Until consumer fundamentals return to where they were prior to the escalation of the trade war, we have only modest growth in our outlook, looking for real personal consumption expenditures (PCE) to rise at a rate of just 2.1% in Q4 and to remain near this growth rate throughout most of the forecast period (Figure 4). Due to low base effects after a particularly soft ending to retail sales in 2018, our 2019 holiday retail sales forecast looks for a 5.0% jump from the same period last year. The recent pick-up in home sales, should it be maintained, could be a factor that boosts consumer spending. Most of the
improvement has been in new home sales, where builders have found ways to deliver homes priced for first-time buyers. We look for new home sales to rise 9.4% this year and to grow nearly 4% in 2020.

Given the recent improvement in the economic outlook, doubts are surfacing as to whether the FOMC will cut rates any further. At least some members of the FOMC have not been on board with the three rate cuts that the Committee has already implemented. The presidents of the Boston and Kansas City Federal Reserve banks dissented at all three policy meetings, preferring to leave rates unchanged. Furthermore, Fed Chair Powell has observed that although “monetary policy is a powerful tool that works to support consumer spending, business investment, and public confidence, it cannot provide a settled rulebook for international trade.”

Although the statement at the conclusion of the October 30 FOMC meeting acknowledged a “strong” labor market and an economy “rising at a moderate rate,” it also noted that both headline and core inflation are stuck below the Fed’s 2 percent target. The Committee pledged to monitor incoming information. In our view, the FOMC is signaling that it likely is nearing the end of its “mid-cycle” period of easing, but it also does not have a preconceived notion of how policy will necessarily evolve. Therefore, we are not convinced the FOMC is done cutting rates just yet. With real GDP appearing to grow at a sub-2% rate in Q4-2019 and an inflation rate that is having difficulty edging above 2% on a sustained basis, we think the Committee will decide to cut rates another 25 bps in Q1-2020. This forecast is predicated, at least in part, on our assumption that additional tariffs are levied on December 15. Financial markets are not priced at present for additional tariffs, and market volatility could return, which would tighten financial conditions. If, as we forecast, real GDP growth edges a bit higher later next year, then we think the Committee will decide that no further easing is needed. But we also forecast that the FOMC will refrain from raising rates for the foreseeable future. In other words, interest rates likely will remain low for quite some time.

**Downside Risk: What If the Trade War Is Not Resolved?**
The trade war has already taken a toll on various measures of U.S. manufacturing activity. The ISM manufacturing survey has included references to the tariffs or trade war in every month of 2019. We have also seen weakness in hard data such as orders and shipments. Core capital goods shipments rose 0.8% in October, but that came after declining the prior three months, leaving the three-month annualized rate of growth for this category at -3.3% (Figure 5). It is difficult to get excited about a near-term turnaround in business investment given the fact that despite a 1.1% gain in October, core capital goods orders declined the prior two months and are down 1.8% on a three-month annualized basis. The most recent data mean equipment spending is poised for a slight rebound in Q4, but nevertheless the trend in orders growth remains generally uninspiring. When we look at forward-looking measures of equipment spending like surveys and capital expenditure plans, there is a similar lack of conviction on the part of purchasing managers (Figure 6).

**Figure 5**
Core Capital Goods Shipments
SA, Nondefense, Excluding Aircraft, 3-Month Moving Averages

**Figure 6**
Capex Plans Six Months Ahead
Fed Manuf. PMIs (Diffusion Indices); NFIB % Increasing Capex

**Source: U.S. Department of Commerce, Federal Reserve System, NFIB and Wells Fargo Securities**
There have been instances—for example in May—when prospects of a major trade deal between the United States and China appeared to be at hand only for the budding agreement to be scuppered. In prior instances of failed talks, the United States has upped the ante by either raising tariff rates or exposing a new category of goods to tariffs (Figure 7). If, as we expect, a new round of tariffs goes into

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We are not convinced the FOMC is done cutting rates just yet.
effect on December 15, then 97% of U.S. imports of Chinese goods will be subject to tariffs (Figure 8). Without much in the way of new categories to subject to tariffs, further increases in the tariff rates would appear to be the most likely next step. So if the gloves come off completely, it stands to reason that businesses will hunker down and put off any major spending plans until the dust has settled on trade policy. Supply chain disruption, not just in the United States but all over the globalized manufacturing system, would become more difficult to avoid.

Figure 7
The Rising Cost of the Trade War
Annualized Cost Based on Value of Goods x Tariff Rate
2018 U.S. Import Levels, Billions of USD

Source: Office of the U.S. Trade Representative, U.S. Department of Commerce and Wells Fargo Securities

Amid the backdrop of apprehension over the past year, solid growth in consumer spending has been a needed and sometimes vital counterweight to those fears. Dissenting voters in the FOMC have even pointed to the robust pace of consumer spending to raise doubts about the need for more accommodative monetary policy. Initial concerns that the tariffs would immediately lead to higher inflation and hit consumers’ wallets have proven to be ill-founded. Because the initial rounds of tariffs largely targeted intermediate goods, they have so far—and by design—avoided directly impacting the typical U.S. consumer. More recent rounds impact finished goods such as toys, clothing and consumer electronics. This more direct consumer exposure gives this last round of tariffs the capacity to impact U.S. inflation and consumer spending more meaningfully than earlier rounds did.

Still, consumer spending will not necessarily crater just because tariffs may push up prices of consumer goods. A typical household devotes only a third of its overall spending to goods. The other two-thirds is devoted to services, which have not been subject to tariffs. But higher good prices will lead to lower sales of those items, or squeeze wallet share for other spending, including services. The saving rate could also recede as consumers would only be able to stretch a paycheck so far.

Although further increases in tariffs likely would push up inflation, the FOMC probably would respond to any intensification in the trade war by cutting rates further. Tariff hikes probably would cause just a one-off rise in the price level. That is, inflation would not continue to climb steadily higher on an ongoing basis. But any slowing in consumer spending growth due to deacceleration in real income would cause further slowing in overall real GDP growth. In our view, the FOMC would look through the one-off increase in the price level and would ease monetary policy further in an effort to cushion the economy from the tariff-induced weakening in real PCE growth.

Upside Risk: What If the Trade War Is Resolved Amicably?
If the United States and China actually agree to a comprehensive (i.e., more than just $40 billion or so of American exports of agricultural goods) trade deal, then there is scope for the economy to find a higher gear in the year ahead. Without political editorializing, it stands to reason that with the election approaching, the current administration could reap some benefit from an amicably resolved trade situation and the faster growth backdrop that would likely accompany it.

The most vulnerable part of the economy in 2019 has been the retrenchment in capital spending and the production cuts and softening in manufacturing employment that have come with it. Based on the fact that the export orders component of the ISM posted a record monthly increase in October on the mere indication of a trade deal suggests to us that the manufacturing sector is like a coiled spring that is being held back, at least in part, by the difficulty of complying with an ever-changing list of imported goods...
subjected to tariffs. The survey data from the ISM corroborate a similar sentiment that we hear in client meetings and trade shows with businesses in the manufacturing sector.

As noted previously, the consumer impact from the trade war is evident in two ways. The first is that confidence, while still elevated, has been knocked down from the highs of autumn 2018 before the trade war with China picked up in earnest. The second is the fact that the latest rounds of tariffs has the potential to meaningfully impact prices for consumer goods that were not previously subject to tariffs. Both of these factors would reverse if the United States and China were to agree to a trade deal. In such an environment, consumer spending could return to the healthier pace of growth that existed prior to the escalation of the trade war, perhaps on the order of 3- to-4% on an annualized basis.

As the economic outlook improves, the case for further Fed easing would not be very compelling. In fact, the FOMC could even start to reverse its recent rate cuts. Such a complete trajectory reversal would be unlikely in 2020, particularly as the FOMC might wish to avoid any perception of monetary policy interference as the election approaches, but rate hikes could become more likely in 2021 in such a scenario.
Major Economic Policy Proposals: What Do the Candidates Support?
The campaign to be the Democratic nominee for the U.S. presidency is well underway at this point, with just 54 days until the Iowa caucus, the first state to formally cast its lot in the primary season. In this section, we tackle where the candidates stand on some of the major economic policy issues of the election. This section draws heavily from a recent series we did on the U.S. election and its implications for the U.S. economy. We encourage our readers who are interested in a deeper dive on this subject to read the series in its entirety.

On the Republican side, we restrict our analysis to what a second term under President Trump would look like. On the Democratic side, we limit our analysis to the top four polling candidates at the national level: Joe Biden, Elizabeth Warren, Bernie Sanders and Pete Buttigieg. Together, these four candidates account for a bit less than three-quarters of the support in the Real Clear Politics national polling average (Table 1). We would like to discuss the proposals of all of the candidates, but given that there are at present still 15 Democrats running, according to the NY Times’ tracker, we need to draw the line somewhere for brevity’s sake. If you would like to investigate the views of a candidate/policy issue not listed below, we encourage you to check out this useful issue tracker put together by POLITICO, or visit the candidates’ campaign websites.

Table 1

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<th>The 2020 Democratic Primary State of Play</th>
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<tr>
<td></td>
<td>National Polling Average on Real Clear Politics as of December 9, 2019</td>
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<tr>
<td>1</td>
<td>Joe Biden</td>
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<tr>
<td>2</td>
<td>Bernie Sanders</td>
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<td>3</td>
<td>Elizabeth Warren</td>
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<td>4</td>
<td>Pete Buttigieg</td>
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<tr>
<td>5</td>
<td>Michael Bloomberg</td>
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Source: Real Clear Politics and Wells Fargo Securities

Before discussing the policy proposals of these candidates, we believe there are two important points to keep in mind. First, the priority a candidate places on a policy position can matter as much, if not more, than the policy position itself. Candidates naturally try to offer policy proposals on every topic imaginable, but in recent years, presidents have often been able to pass only a few major pieces of legislation during their time in office. President Obama was able to push through the Affordable Care Act (ACA) and Dodd-Frank, for example, but fell short on carbon pollution cap-and-trade legislation. President Trump managed to overhaul the U.S. tax code, but he has not been able to successfully push through a large scale infrastructure plan. And neither President Obama or President Trump (at least thus far) enacted comprehensive immigration reform. Thus, which policy issue is first in line for attention is critical, and something we will be monitoring closely as the field begins to narrow.

Second, what is proposed and what is enacted are often two very different things. Donald Trump’s initial 2015 campaign proposal called for a tax cut that analysts at the Tax Policy Center projected would reduce federal revenues $9.5 trillion over 10 years. A revised tax plan released by the Trump campaign closer to the election was projected by the same analysts to cut federal revenues a smaller $6.2 trillion over 10 years. In the end, the Joint Committee on Taxation projected that the Tax Cuts and Jobs Act (TCJA) would reduce federal revenues about $1.5 trillion over 10 years. We encourage our readers to bear in mind that just because something is proposed by a candidate does not mean that the end result will be identical, or even close, to the size and scope of the original plan.

President Trump
In terms of health care priorities, it is a bit unclear what President Trump’s second term would resemble. After Republicans failed to fully repeal and replace the ACA in 2017, health care has largely taken a back seat to other legislative priorities. Perhaps repeal and replace could make a comeback if Republicans swept Congress and the White House. More likely, in our view, is that the Trump administration would continue to tinker with the ACA via executive action, as it has done over the course of the past few years.
U.S. Political Uncertainties

Some health care areas that have seen hints of bipartisan support in the current Congress include reducing prescription drug prices and pushing back on “surprise billing.” These could be areas of focus by the Trump administration in its second term, should it come to pass.

A second term for President Trump would likely include a focus on some form of “Tax Cuts 2.0,” an idea that has come up periodically since the TCJA was passed at the end of 2017. In our view, the major policy aim of Tax Cuts 2.0 would be to make the temporary parts of the TCJA permanent, rather than to enact another large, new round of tax cuts. Although most of the TCJA changes to the corporate tax code were permanent, many of the changes to individual and pass-through sections, such as the individual tax rate reductions and the doubling of the standard deduction, expire at the end of 2025. Republican policymakers have expressed a strong desire to make these tax changes permanent. President Trump’s second term would finish in 2024, and making these tax cuts a permanent fixture of the law would likely be a key priority before leaving office. Other proposals that could be on the table as part of Tax Cuts 2.0 legislation include eliminating some ACA taxes, indexing capital gains to inflation and expanding saving vehicles like 529 education accounts. In our view, more across-the-board tax cuts are unlikely unless enacted as part of a stimulus plan to deal with a recession.

The specifics of what trade policy would look like under President Trump’s second term will of course depend on how trade developments unfold over the next 12 months, in particular whether a trade deal is reached with China and whether Congress finally passes the USMCA, the heir apparent to NAFTA. Even if a trade deal is reached with China (something our forecast does not assume) and USMCA becomes law sometime before the 2020 election (something our forecast does assume), we think trade policy would be unlikely to disappear from the scene in President Trump’s second term. Compliance will likely be a big ongoing issue in any U.S.-China trade deal, and some bumps along the road in that regard would not surprise us. The United States and Europe continue to go back and forth on various trade issues, such as automobiles, that could easily stretch past 2020. Furthermore, the president has shown a willingness to utilize tariffs to achieve other policy goals, such as his threat in May 2019 to implement tariffs on Mexico if border security was not improved. In short, we believe trade policy will remain a major policy issue so long as President Trump remains in office, even if the particulars shift over time.

Infrastructure is an area where there often appears to be much bipartisan agreement on the surface. President Trump and all of the Democratic candidates we will discuss have, at some point or another, argued for increased infrastructure spending in areas such as clean water and transportation. Indeed, after the 2016 election many analysts believed that infrastructure spending represented an area of potential common ground between President Trump and the Democrats in Congress. Three years into the president’s term, however, there have been several false starts and not much to show for them. The main challenge is how to pay for such a program. One obvious source of revenue would be to raise the federal gas tax, which at 18.4 cents a gallon has not been increased since 1993. Republicans are generally opposed to raising this tax, however, while Democrats have concerns about the regressive nature of such a tax hike. Policymakers could simply choose not to pay for a large investment in infrastructure spending, but if they elect to go the deficit-financed route, there are often other policies that take precedence, such as the TCJA for Republicans.

Joe Biden
On health care, the core tenet of Biden’s position is the protection and expansion of the Affordable Care Act. Perhaps the biggest change to current law promoted by the Biden campaign is the idea of introducing a public health insurance option. Under the ACA, qualified individuals receive subsidies to purchase private health insurance plans that meet ACA qualifications; under Biden’s proposal, a public option would be offered by the federal government to compete with private insurance plans. A less expansive public option was considered back when the ACA was being written but ultimately did not make it into the final legislation. Biden has also proposed making the ACA subsidies more generous, stopping surprise billing and offering premium-free access to the public option for individuals who would be eligible for Medicaid but live in states that have not expanded Medicaid as part of the ACA.

Generally speaking, Biden has thus far proposed a much less ambitious expansion of federal spending compared to some other leading Democratic candidates, and as such his tax proposals have not been nearly as aggressive. In addition to his health care program, Biden has also released an education/job training plan that proposes policies such as doubling the maximum size of Pell Grants, increasing the generosity of income-based student loan repayments, making two years of community college tuition-free and investing $50 billion in workforce training programs. Biden has also put out a $1.3 trillion infrastructure plan, and perhaps a Biden presidency would offer the highest likelihood of a large infrastructure deal, given that this is one of his more ambitious spending programs.
To pay for these programs, Biden has proposed reversing elements of the TCJA that have benefited high earners and corporations. For example, Biden has proposed restoring the top marginal income tax rate to 39.6% and raising the corporate tax rate to 28%, up from the current 21% but below the 35% rate that prevailed before the TCJA. Biden has also suggested taxing long-term capital gains at 39.6% for taxpayers earning more than $1 million annually. At present, long-term capital gains are taxed at a maximum preferential rate of 20%, even though the top marginal income tax rate is currently 37% for single filers earning $510,300 or above. Biden also supports expanding Social Security benefits, paid for by lifting the cap on the Social Security payroll tax. At present, only earnings up to $132,900 (for 2019) are subject to the 12.4% payroll tax that is split between employers and employees.

Generally speaking, the Democratic candidates have adopted a “support the goal, change the approach” strategy to trade policy with China, while opposing some of the trade actions taken/threatened against more traditional U.S. allies, such as Canada and Europe. Among the four Democratic candidates we will examine, Biden’s comments on the campaign trail have generally been the most supportive of free trade. Biden has highlighted the potential damage done to American farmers/manufacturers by recent tariffs, and he appears to be modeling his campaign more in line with the general free trade views of President Obama. Biden, for instance, was a strong advocate for the Trans-Pacific Partnership (TPP), a free trade deal negotiated under President Obama from which President Trump withdrew upon taking office. Biden also voted yes to the original NAFTA back in 1993. That said, even a Biden presidency is no guarantee that trade policy would return to the quiet background of past presidencies. For example, Biden has expressed a more recent desire to renegotiate parts of the TPP. And according to the POLITICO issue tracker, Biden has said that further changes to the USMCA are needed before he can support it. Even still, when compared with the rest of the field we are examining, Biden is probably the candidate most likely to bring the trade war with China to a close, in our view.

**Figure 9**

Federal Gross Investment Expenditures
As a Percent of Nominal GDP

Source: U.S. Department of Commerce, Congressional Budget Office and Wells Fargo Securities

**Pete Buttigieg**

Pete Buttigieg pitches his health care plan as “Medicare for All Who Want It.” In some ways, his positions bear a resemblance to the Biden proposals. Buttigieg supports the introduction of a public health insurance option, and says of it, “This affordable public plan will incentivize private insurers to compete on price and bring down costs. If private insurers are not able to offer something dramatically better, this public plan will create a natural glide-path to Medicare for All.” As in Biden’s plan, individuals with lower incomes in states that have not expanded Medicaid would automatically be enrolled in the public option. Buttigieg also supports ending surprise billing, boosting subsidies to those who purchase health insurance on their own, capping out-of-pocket costs for seniors on Medicare and limiting what health care providers can charge for out-of-network care to twice what Medicare pays for the same service.

In addition to his health care plan, Buttigieg has also proposed a variety of other spending plans, such as spending $430 billion on affordable housing and investing $700 billion in early childhood and K-12 education. His campaign has also released a plan to spend $500 billion to make tuition at public colleges free for families with income below $100,000 and cheaper for families earning between $100,000 and $150,000. To pay for these proposals, Buttigieg would increase the corporate tax rate back to 35%. He would also target the top 1% of earners by raising capital gains tax rates on these

**Figure 10**

Water and Transportation Infrastructure Spending
Billions of 2017 Dollars, Combined Federal, State & Local

Source: U.S. Department of Commerce, Congressional Budget Office and Wells Fargo Securities
individuals, as well as implementing mark-to-market taxes on capital gains. Buttigieg has at times entertained the idea of a wealth tax, but at this point in time, we are not aware of any concrete proposal his campaign has on the matter. Buttigieg supports subjecting earnings above $250,000 to Social Security payroll taxes in order to expand spending on the program. Buttigieg has also floated an increase in the earned income tax credit, a refundable tax credit aimed at low- to moderate-income households.

Buttigieg, having never been a member of Congress, does not have a federal voting record on trade issues to which we can turn. He has at times expressed skepticism of the U.S. tariffs on China, saying in a CNN interview in August that it’s “a fool’s errand” to think China will change the fundamentals of its economic model due to pressure from tariffs. At the same time, Buttigieg has been critical of China on other fronts, such as human rights and environmental issues, and he has expressed skepticism about joining the CPTPP (the successor to TPP after the United States left the pact). And like Biden, Buttigieg has demanded further changes to the USMCA agreement before he can support it. In our view, Buttigieg probably falls closer on the trade spectrum to Biden than to Warren and Sanders, though all of them likely have more of a protectionist lean than other recent American presidents.

Elizabeth Warren
Elizabeth Warren is a co-sponsor of the Medicare for All Act of 2019 introduced by Bernie Sanders. In short, this bill would transition the United States health care system to one where all Americans receive health insurance from the federal government. All private insurance, either bought individually or provided through an employer, would be eliminated. Furthermore, with the exception of prescription drugs and a few other small things, all premiums, deductibles and other forms of cost-sharing would be eliminated.

Estimates for the cost of such a plan are varied, but one widely cited estimate by the Urban Institute pegs the total cost at roughly $34 trillion over 10 years. Medicare for All plans like the ones supported by Warren and Sanders are easily among the most expensive proposed changes to the federal budget. To put the $34 trillion number into context, consider that the cost of forgiving all student loan debt would be roughly $1.5 trillion, which is about the same as the estimated 10-year cost of the TCJA.

Some of this additional federal spending on health care can be paid for by simply re-routing money already spent by households and businesses to the government. For example, the Centers for Medicare & Medicaid Services project American businesses will spend roughly $9 trillion over the next decade on health care for their employees. In theory, if this money were instead sent to the federal government, it would not be any additional cost to the company, all else equal. That said, even after accounting for moves like these, taxes on households would need to go up substantially to pay for Medicare for All to keep the federal budget deficit from ballooning.

Warren has proposed some of the most detailed and far-reaching changes to the tax code.

To that end, Warren has proposed some of the most detailed and far-reaching changes to the tax code, in line with the aggressive expansion of federal government spending she supports, such as Medicare for All, cancelling up to $50,000 in student loan debt per borrower (with a sliding scale depending on household income), making public college free, spending $3 trillion on a Green New Deal-style initiative and investing $500 billion into affordable housing. Most of these proposed taxes are aimed at high
earners and corporations. Warren has promised to repeal the TCJA while also enacting a “real corporate profits tax” that would implement a surtax on U.S. corporations equal to 7% of the worldwide profits reported on a corporation’s income statement. To finance Medicare for All, Warren has proposed a slew of changes, the full details of which can be found here. One point worth noting is that American companies with 50 or more employees would, instead of making premium payments to private insurers, be required to redirect that money to the federal government (this is the implementation of the “re-routing” of business spending on health care discussed in the previous section).

For additional financing, Warren has signaled support for a wealth tax. The wealth tax would be an annual tax on net worth above certain levels. Warren’s proposed wealth tax would start at 2% on net worth above $50 million and climb to 6% on net worth above $1 billion. Warren has also proposed taxing capital gains as ordinary income for households in the top 1% of earners, implementing a mark-to-market tax system on capital gains for the top 1% of households, and enacting a 0.1% financial transactions tax on most stock, bond and derivative transactions. To fund an expansion of Social Security benefits, Warren would impose a 14.8% Social Security payroll tax—split evenly between employers and employees—on individual wages above $250,000. Finally, Warren also proposed establishing a 35% country-by-country minimum tax on foreign earnings, thus shifting the United States back to a worldwide corporate tax regime, as opposed to the territorial system that was adopted in 2017 and exempts most profits earned abroad from U.S. corporate income taxes.

On trade policy, Warren probably falls more neatly into “support the goal, change the approach” camp, as she has generally been less supportive of traditional free trade views than other Democratic candidates, such as Biden. During her time in the Senate, for example, she was an opponent of the TPP that Biden supported as vice president. Warren laid out a trade policy plan in July—the details of which can be found here—that included the line “while I think tariffs are an important tool, they are not by themselves a long-term solution to our failed trade agenda and must be part of a broader strategy that this Administration clearly lacks.” In the plan, Warren advocates for laying out stringent labor, environmental and human rights rules that a country must meet as a precondition to a trade agreement with the United States. Warren opposes the USMCA as it currently stands, though it is unclear if it were to become law whether she would try to renegotiate it, as President Trump did with NAFTA. **Bernie Sanders**

Bernie Sanders’ proposed expansion of federal spending is roughly similar to Warren’s, such as adopting Medicare for All, cancelling all student loan debt and making public college free. On infrastructure, Sanders introduced a few years ago the Rebuild America Act in 2015, a bill that called for an investment of $1 trillion over five years to rebuild and expand infrastructure. We could not find a more recent dollar figure for infrastructure on Sanders’ campaign website, but the site did include a call to “create 20 million jobs as part of the Green New Deal, rebuilding our crumbling infrastructure and creating a 100% sustainable energy system.”

Sanders does not have quite as explicit of a plan to pay for Medicare for All as Warren, though his office did lay out some options earlier this year. These included a 7.5% payroll tax paid by employers, a 4% income-based premium paid by employees, a more progressive federal income tax system and a fee on large financial institutions, among others. Sanders supports restoring the corporate tax rate to 35% and ending full expensing of capital investment, among other aspects of the TCJA that Sanders would like to reverse. Sanders has proposed a financial transactions tax, though with more brackets than Warren’s. Sanders’ wealth tax also has more brackets; it starts at a 1% rate for net worth of $32 million-$50 million and eventually climbs to an 8% annual tax on net worth above $10 billion. Sanders supports taxing capital gains as ordinary income for those with household income above $250,000, as well as applying the Social Security payroll tax on income over $250,000 to expand benefits for the program.

Sanders also has a history of supporting more protectionist trade policies. Sanders voted against NAFTA in 1993, for instance, and opposed the TPP. On more recent trade issues, Sanders has opposed the “haphazard and reckless plan to impose tariffs on Canada and the European Union” while also “strongly support(ing) imposing stiff penalties on countries like China, Russia, South Korea and Vietnam to prevent them from illegally dumping steel and aluminum into the U.S. and throughout the world.” Sanders opposes the USMCA as it currently stands, though it is unclear if it were to become law whether he would try to renegotiate it. Like a Warren presidency, a Sanders presidency would likely be marked by trade policy being a more major issue for the economy and financial markets than it was in the pre-Trump era.
Global Economic Outlook & Uncertainties

Another Tough Year Ahead for the Global Economy

It has been a challenging year for the global economy in 2019, and 2020 is not shaping up to be much, if any, easier. We project global GDP growth will be 3.0% this year, which would be the slowest pace of growth since the global recession of 2008 and 2009. For 2020, we do not expect any firming in activity, but rather expect global GDP growth to hold steady at 3.0%. Several factors—by sector, industry and geography—are combining to restrain the performance of the global economy.

Figure 13

Global Industrial Output
Year-over-Year Percent Change

Source: Datastream, Bloomberg LP and Wells Fargo Securities

The most pronounced area of weakness has been the industrial sector, with industrial output in contraction territory for many key economies during recent months, including the Eurozone, Japan, the United Kingdom and Canada. In fact, growth in industrial activity has also edged into negative territory in the United States, and remains only marginally positive for the world as a whole (Figure 13). Forward-looking confidence surveys are not especially encouraging at present and, for the time being, point to a continuing contraction in manufacturing across the major economies. One of the key factors contributing to the industrial downturn has been the extended and persistent escalation of trade tensions between China and the United States, with a series of tit-for-tat tariffs having been implemented by both countries over the past several quarters. Not only have tariff increases had a direct effect on global trading activity—global export volumes fell 1.4% year-over-year in September, compared to a 5.5% gain as recently as October 2018—but elevated uncertainty surrounding trade developments has had a restraining influence on investment spending (Figure 14).

Cautious Companies

These trade-related uncertainties are adding to a business environment that has already been looking less favorable in many countries. With unemployment falling in several countries, there has been a widespread pickup in wage growth across many regions, such that unit labor costs are rising more quickly than underlying CPI inflation trends, hinting at potential pressure on margins (Figure 15). Indeed, various measures of growth in corporate profitability have weakened in recent quarters in the United States, Japan, the United Kingdom and the Eurozone (Figure 16). Absent a pickup in productivity that would help restore margins or a positive demand shock that leads to an increase in sales, waning corporate profitability could see investment growth slow further (even given low interest rates) and keep the manufacturing sector in recessionary territory.

Weak investment growth in various economies should remain a headwind.

For countries and regions with reasonably sizable industrial sectors as a proportion of their overall economy (these include, among others, Japan and the Eurozone at 22% and 20% of GDP, respectively), weak investment growth should remain a continued headwind to the overall economic growth outlook. As an example, we see Eurozone GDP growth at 1.0% in 2020, down slightly from 1.1% in 2019. For Japan, we forecast GDP growth of only 0.4% in 2020 compared 0.9% in 2019, with the consumption tax increase that went into effect in October also a negative for the outlook. Finally, the longer the industrial

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1 Profit measures are Corporate Profits for the United States, Net Entrepreneurial Income for the Eurozone and United Kingdom and Ordinary Profits for Japan.
sector remains under pressure, the greater we believe the risk of a spillover of weakness into the consumer and services sectors, especially in major foreign economies but even in the United States, a topic to which we will return subsequently.

**Figure 15**

OECD Unit Labor Costs vs. Core CPI

**Figure 16**

Corporate Profit Growth

*Source: Datastream and Wells Fargo Securities*

**Calm Consumers**

Although the industrial sector has been a source of concern, the consumer and services sector have, so far, generally been a source of comfort. Job growth has been relatively solid and, with unemployment rates low by recent standards, wage growth has picked up across many countries and regions. Moreover, the modest rate of CPI inflation across many economies has added to the real purchasing power of consumer incomes. For the past few years, real household disposable incomes have grown more quickly than in the early years of this decade, and also generally exceeded growth in real consumer spending, which, we would argue, should be supportive of ongoing household spending (Figure 17). As a result, service sector activity (as reflected in the hard data as well as most confidence surveys) has until recently been quite resilient and, even though our forecast for 2019 and 2020 is for the slowest global GDP growth since 2008-09, is likely helping to prevent an even sharper economic downturn.

That said, the transition of income growth from the business sector to the household sector does carry some risks for our growth outlook. With corporate profits under pressure, and investment spending as well as industrial output likely to remain or become further subdued, the next shoe to drop could be some retrenchment in employment growth. This is probably most relevant for economies with relatively large industrial sectors (for example, we highlighted Japan and the Eurozone earlier), but even economies like the United States are unlikely to be completely immune. In fact, there are some indications that job growth has already begun to slow, with employment for the OECD economies up just 0.9% year-over-year in Q2.

One possible factor that could cushion any slowdown in household incomes would be an easing of fiscal policy among the world’s major economies. More expansionary fiscal policy could take the form of tax cuts or transfer payments that offer a direct boost to household incomes, infrastructure spending or corporate income tax cuts that could offer indirect support by boosting job growth. With accommodative monetary policy having led the way for the past several years as the key policy channel that has underpinned the growth outlook, some central bankers have become more vocal in their calls for governments to step up and ease fiscal policy as a means of boosting growth, where budget positions allow.

This is particularly the case for the Eurozone, with Germany’s substantial budget surplus offering scope for expansionary fiscal policy, even within the constraints of Germany’s own fiscal rules. However, German policymakers have suggested that the ongoing domestic slowdown is not dire enough at this time to warrant substantial fiscal easing, suggesting any loosening in the budget purse-strings is still some way away. Looking at the International Monetary Fund’s latest economic outlook, the fiscal policy stance for the Eurozone should be broadly steady in 2020 after a moderate easing in 2019, while in Japan, the tightening from the recent consumption tax increase should partly or fully be offset by a recently announced package of fiscal stimulus measures (Figure 18). Overall, easier fiscal policy is not
expected—at least for now—to provide a trigger for a meaningful rebound in global GDP growth in 2020 and 2021.

**Figure 17**

OECD Household Income vs. Consumer Spending

*Year-over-Year Percent Change*

- Real Household Gross Disposable Income: Q2 @ 2.2%
- Real Household Consumer Spending: Q2 @ 1.7%

**Figure 18**

Change in Structural Budget Balance

*Percent of GDP*

- Fiscal Tightening
- Fiscal Stimulus

Source: OECD, Datastream and Wells Fargo Securities

With monetary policy settings in most major economies already aggressively easy and fiscal policy seemingly unlikely to loosen much, the outlook remains for steady and subdued economic growth (Figure 19). This is not only the case for major advanced economies, but also for China—a critical barometer of growth from a global perspective. China’s export and industrial sectors have been hard hit by trade tensions between China and the United States, with growth of industrial output registering its slowest gains since the early 1990s. While we expect adjustments to monetary and liquidity policy in response to China’s subdued economic performance (for example, through further reductions in the central bank’s reserve requirement ratio), we believe that policy adjustments will be calibrated with the aim of achieving an orderly growth slowdown, rather than generating a sharp upswing in growth. As a result, we see China’s GDP growth slowing to 5.8% in 2020 and to 5.6% in 2021, from 6.1% in 2019.

For major advanced economies, we also expect only moderate monetary policy easing in 2020. The Federal Reserve has signaled that a pause in rate cuts could be imminent. In countries where policy interest rates are already low or negative, central bank balance sheets are already large, and where there is some policymaker hesitation surrounding additional easing measures, we see only limited scope for further monetary policy adjustments (Figure 20). For example, we currently expect that the European Central Bank will cut its deposit rate only 10 additional bps (i.e., to -0.60% in Q1-2020 from -0.50% at present).

**Figure 19**

Real Global GDP Growth

*Year-over-Year Percent Change, PPF Weights*

- Period Average
- WF Forecast

**Figure 20**

G20 Real Short-Term Interest Rate

*GDP-Weighted, Nominal Rate Less Core CPI*

- G20 Real Rate: Dec @ 0.5%

Source: Datastream, IMF and Wells Fargo Securities

We expect only moderate policy easing in 2020 for major advanced economies.
Global Economic Outlook & Uncertainties

Economic Growth Trends Could Mean a Gentle Dollar Slide
After a strong gain through 2018, the trade-weighted U.S. dollar has steadied in 2019, with only a moderate gain of 0.2% against the currencies of advanced foreign economies so far this year. One factor that we believe has at least partly contributed to a more subdued U.S. dollar performance is Federal Reserve monetary easing. While admittedly beginning from a higher starting point, the cumulative 75 bps of rate cuts this year from the Fed has outpaced monetary easing delivered by the world’s other major central banks. At times, global factors have also weighed on the greenback—for example, as trade tensions between the United States and China ratcheted higher during 2019, the U.S. dollar softened at times versus the major currencies on expectations those tensions would result in more accommodative Fed policy. At the same time, those tensions also supported the U.S. dollar against growth-sensitive and China-sensitive currencies, including many emerging currencies as well as the Australian and New Zealand dollars.

To be sure, while these monetary policy and global factors have put some downward pressure on the greenback at times during 2019, they have not weighed on the U.S. dollar excessively or on a prolonged basis. Foreign exchange market volatility has generally remained remarkably low, both for major and emerging currencies, while the correlation (or closeness of the relationship) between the U.S. dollar and interest rates or equity markets has also weakened noticeably. Thus, while this year’s Federal Reserve easing was arguably a fundamental negative for the U.S. currency, the overall impact of that easing has been limited by historical standards. For 2020, it is possible that monetary policy and interest rate factors will continue to be a less important influence than usual in driving currency market trends. In particular, we expect that major central banks will become less active on the monetary policy front, reinforcing the recent diminished influence of interest rates on currency markets. We look for the Federal Reserve to ease only an additional 25 bps and for the ECB to be ease policy only 10 bps, during the first quarter of 2020.

Figure 21
Growth Spread vs. Trade Weighted Dollar
Percentage Point Spread, Year-over-Year Percent Change

Figure 22
Trade Weighted Dollar
Advanced Foreign Economies Dollar Index, 2006=100

Source: Datastream, Board of Governors of the Federal Reserve System and Wells Fargo Securities

If monetary policy is providing less guidance than usual for currencies, market participants may well be looking elsewhere or seeking different perspectives for FX market direction. If the world of relatively calm currencies persists, it may be that currencies with relatively higher interest rates could perform reasonably well, a factor that could limit the extent of any U.S. dollar slide. In addition, in the absence of any significant monetary policy moves, it may be that market participants turn toward economic growth differentials for insight into currency market moves. Over the past several years, there has been a broad and general relationship between the GDP growth spread of the United States versus other major countries, and the trade-weighted U.S. dollar (Figure 21). Acknowledging that this growth relationship is not quite as tight as the more typical historical interest rate relationship, we believe the global growth outlook points to moderate U.S. dollar weakness during 2020. For the United States, we expect some further slowing in GDP growth into early 2020 and, while we do not expect global GDP growth to strengthen much from its current subpar pace, we expect global growth to at least be broadly steady. As a result we forecast gradual weakness in the U.S. dollar over the course of the next year (Figure 22).

Finally, we would point out that U.S.-China trade tensions are a key input into our forecast. We expect some of the optimism around trade talks in recent weeks to wane, which should lead to renewed softness.
in the Chinese renminbi as well as contributing to a mixed performance among emerging currencies. We believe emerging currencies with strong fundamentals and relatively stable politics (e.g., Thailand, Colombia, Brazil) will likely strengthen over our forecast horizon, while currencies associated with weaker fundamentals and elevated political risks (e.g., Argentina, Turkey, Chile, Mexico) could see additional downside.

**Uncertainties Could Push Growth and Currencies in Either Direction**

While our base-case forecast for the global economy in 2020 is one that sees most economies “muddling through” with lackluster growth, we acknowledge that there are clearly prominent risks that could push the actual outcomes in either direction. We have already discussed the potential for weakness in the business sector to spill over into consumption, either through higher consumer price inflation as companies try to protect margins or through cutbacks in employment. Another prominent downside risk, and one that is more exogenous in nature, would be a deterioration in the Brexit situation, which has clearly been extremely fluid over the past year in particular. Optimism around Brexit has increased in recent weeks, but remains guarded, given uncertainty over the U.K. election outcome and the possible implications for the next steps in the process. Our base case is that the Brexit deal reached by the United Kingdom and the European Union a few months ago will be ratified by U.K. Parliament in the early part of next year, allowing the two sides to begin longer-term trade negotiations.

However, if the election results in further gridlock and disagreement over the best path forward, we could easily be facing the renewed risk of a no-deal Brexit heading into the next deadline on January 31. Even in the scenario in which Prime Minister Johnson’s Brexit deal is passed and trade talks begin, the uncertainty over the future EU-U.K. relationship and the realization that trade barriers are likely to increase may be enough to dent growth in both economies more than we expect. Still, barring a catastrophic no-deal Brexit that leads to a deep U.K. recession, we doubt there will be much impact from the Brexit process on the U.S. economy.

That said, risks are not only to the downside for the global economy, with trade-related developments encompassing both upside and downside risks. One possible upside risk is potentially positive spillovers if the recent discussions do in fact lead to a Phase I trade deal, though that is still far from assured. Moreover even if a Phase I deal were reached, given doubts over whether the two sides could reach a more comprehensive agreement that addresses the structural issues at hand, we are skeptical that trade developments will herald a significant strengthening in global GDP growth in 2020. In fact, given the ongoing and persistent protest activity in Hong Kong, and U.S. congressional and executive support for those protests, complications could still arise in U.S.-China trade negotiations, and a further imposition of tit-for-tat tariffs cannot yet be ruled out.
### Wells Fargo U.S. Economic Forecast

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**Notes:**
(a) Compound Annual Growth Rate Quarter-over-Quarter  
(b) Year-over-Year Percentage Change  
(c) Quarterly Sum – Billions USD; Annual Data Represents Fiscal Yr.  
(d) Fed.Reserve Adv. Foreign Economies Index, 2006=100 – Fourth End  
(e) Average Monthly Change  
(f) Millions of Units – Annual Data – Not Seasonally Adjusted  
(g) Quarterly Data – Average Monthly SAAR, Annual Data – Actual Total Vehicles Sold  
(h) Average Monthly Change  
(i) Quarterly Average of Daily Close  
(j) Annual Numbers Represent Averages

**Source:** Federal Reserve Board, IHS Markit, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities
### Wells Fargo International Economic Forecast

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Forecast as of: December 11, 2019

1 Aggregated Using PPP Weights

Source: International Monetary Fund and Wells Fargo Securities
## Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

### Central Bank Key Policy Rate

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<tr>
<th>Country</th>
<th>Q4-2019</th>
<th>Q1-2020</th>
<th>Q2-2020</th>
<th>Q3-2020</th>
<th>Q4-2020</th>
<th>Q1-2021</th>
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<td>1.50%</td>
<td>1.50%</td>
<td>1.50%</td>
<td>1.50%</td>
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<tr>
<td>Eurozone¹</td>
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<td>-0.60%</td>
<td>-0.60%</td>
<td>-0.60%</td>
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<tr>
<td>United Kingdom</td>
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<td>0.75%</td>
<td>0.75%</td>
<td>0.75%</td>
<td>0.75%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.10%</td>
<td>-0.10%</td>
<td>-0.10%</td>
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<td>-0.10%</td>
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<tr>
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<td>1.75%</td>
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### 2-Year Note

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<th>Q2-2020</th>
<th>Q3-2020</th>
<th>Q4-2020</th>
<th>Q1-2021</th>
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<tbody>
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<td>1.55%</td>
<td>1.60%</td>
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<tr>
<td>Eurozone²</td>
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<td>-0.70%</td>
<td>-0.65%</td>
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<tr>
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<td>0.60%</td>
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<td>0.90%</td>
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<tr>
<td>Japan</td>
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<td>-0.15%</td>
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<td>-0.05%</td>
<td>0.00%</td>
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<td>1.80%</td>
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### 10-Year Note

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<th>Q2-2020</th>
<th>Q3-2020</th>
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<tbody>
<tr>
<td>United States</td>
<td>1.70%</td>
<td>1.75%</td>
<td>1.85%</td>
<td>1.95%</td>
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<td>1.70%</td>
<td>1.80%</td>
<td>1.85%</td>
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</table>

Forecast as of: December 11, 2019

¹ ECB Deposit Rate ² German Government Bond Yield

Source: International Monetary Fund and Wells Fargo Securities