

The Week Ahead

April 20th 2018

“The Fragile Goldilocks Scenario”

Data on the economy – and not just that due next week – should continue to be interpreted in the context of a fragile “Goldilocks scenario”. The “Goldilocks scenario” is the currently established paradigm which, when transposed to the capital markets, means everything is always “just right”: the economy is not overheating and neither is inflation; monetary policy provides support and makes adjustments wherever they are needed. Depending on how the story continues, though, three bears turn up at the end of the fairy tale.

“For the fact is that the cycle of global economic growth has reached an advanced stage.”

For the fact is that the cycle of global economic growth has reached an advanced stage. Although the most important key indicators have made slight gains over the last few weeks, as shown by our own “Macro Breadth Growth Index” (see also: *chart of the week*), the first signs of weakness are lurking beneath the surface. At the same time, the economy is growing above its potential and labour markets are tight. Monetary policy will not be able to counteract this trend and the **US Federal Reserve (Fed)**, in particular, may well end up raising interest rates more often than financial markets currently expect; a badly-timed fiscal stimulus would be the final straw. So, there are no easy choices for Fed Chairman Jerome Powell and his colleagues across the pond. What is more, the consequences of potential trade wars are impossible to predict, apart from the fact that the costs of trade tariffs will not be passed on to consumers.

This means **one of the potential “bears”** has been identified: geopolitics, reflected among other things in trade conflicts.

“The history of humankind is a history of conflicts over the distribution of resources. Its future, too.”

The **second potential bear**: economic data. In this respect, leading indicators are becoming ever more important. Among others, the week ahead will see the publication of the Purchasing Managers’ Index for the **USA** (Monday), the Ifo Business Climate Index for **Germany** (Tuesday) and the GfK Consumer Confidence Index for the **UK** (Wednesday). The economic sentiment indicator for the EU will then bring the week to a close. Although all three indicators remain within expansionary territory, they have recently been slipping.

Publications



“Innovation Is an Inconsistent Booster of Equity Returns”

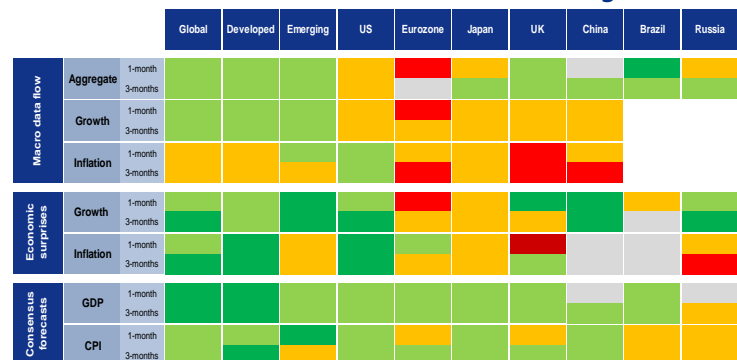
Today’s high-tech innovations have not only failed to lift official productivity measurements, but they could be less likely to boost overall equity returns than many people think. Our research shows that investors may need to be very selective and active to capitalize on the technology boom.



“Could Public Pressure Turn FANG Firms Toothless?”

The tech stocks that fuelled the last bull market have seen their share prices plummet as an onslaught of bad headlines takes its toll. More regulation and taxation are almost certainly on the horizon amid growing concerns about privacy, governance and profitability.

Chart of the Week: Macroeconomic environment at a glance



Source: AllianzGI Global Economics&Strategy, Bloomberg, Datastream, UBS, Consensus Economics (data as of 31 March 2018)
Past performance and forecasts are not a reliable indicator of future results.



Then there is the **third member of the sloth**: the first quarter reporting season, which has already got off to a good start in the USA. US **banks** can look back on a strong first quarter; and the first of the major **tech companies** presented their figures as well. A promising foretaste for the segment as a whole. On top of that come the tax reforms, which have put the wind in the sails of companies in every sector. They are also likely to ensure that corporate analysts change their behaviour this time around. Whereas they normally tend to tone down their expectation in the run-up to the reporting season, leaving all the more scope for positive surprises, this has not been the case with the tax reforms. Thus, the **“surprise ratio”** should be lower.

Old **Continental Europe**, on the other hand, does not kick off the reporting season until the new week. It is expected to be somewhat patchier. Increases are going to be difficult for car manufacturers and it is getting tougher for food producers to achieve organic growth, probably a sign of a saturated market. European banks can but look overseas in envy.

Overall, this is likely to contribute to the reporting season having at least a calming/supporting effect on the markets.

On the **technical side**, there appears to be hardly anything standing in its way: the relative strength index is at a relaxed, neutral level. Sentiment indicators among investors show that the bulls have lost ground over the last couple of weeks, so there are no signs of exuberance at all.

Taken together, the situation shows that the bears should be contained. Let us hope that geopolitics does not throw a spanner in the works. At the moment, it looks as if the (fragile) Goldilocks scenario is going to continue.


Wishing you well-tempered financial markets!



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Upcoming Political Events 2018

April:

26 Apr ECB Council meeting
26 –27 Apr BoJ meeting

May:

May European Commission Spring 2018
1-2 May FOMC meeting
1-2 May BoJ meeting

[→ Overview political events 2018](#)

Other publications:



“The Ulysses Investment Strategy (Part 2)”

Multi asset funds have become much more popular with private investors in Europe during the last few years, as shown by changes in the weightings of individual fund units in private investors’ portfolios. Multi asset funds are seen not as a substitute for other types of fund, but rather as a separate asset class in their own right.

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Calendar Week 17:

Day	Indicator		Est.	Prior							
Mon	EC	Markit Manufacturing PMI	Apr P	--	56.6	Wed	FR	Consumer Confidence	Apr	--	100
	EC	Markit Services PMI	Apr P	--	54.9		JN	All Industry Activity Index MoM	Feb	--	-1.8%
	EC	Markit Composite PMI	Apr P	--	55.2	Thu	EC	ECB Main Refinancing Rate	Apr 26	--	0.000%
	FR	Markit Manufacturing PMI	Apr P	--	53.7		EC	ECB Deposit Facility Rate	Apr 26	--	-0.400%
	FR	Markit Services PMI	Apr P	--	56.9		GE	GfK Consumer Confidence	May	--	10.9
	FR	Markit Composite PMI	Apr P	--	56.3		US	Initial Jobless Claims	Apr 21	--	--
	GE	Markit Manufacturing PMI	Apr P	--	58.2		US	Continuing Claims	Apr 14	--	--
	GE	Markit Services PMI	Apr P	--	53.9		US	Wholesale Inventories MoM	Mar P	--	1.0%
	GE	Markit Composite PMI	Apr P	--	55.1	US	Durable Goods Orders	Mar P	1.0%	3.0%	
	JN	Nikkei Manufacturing PMI	Apr P	--	53.1	Fri	EC	Economic Confidence	Apr	--	112.6
	US	Chicago National Activity Index	Mar	--	0.88		EC	Business Climate Indicator	Apr	--	1.34
	US	Markit Manufacturing PMI	Apr P	55.6	55.6		FR	GDP QoQ	1Q A	0.5%	0.7%
	US	Markit Services PMI	Apr P	54.0	54.0		FR	CPI YoY	Apr P	--	1.7%
	US	Markit Composite PMI	Apr P	--	54.2		GE	Unemployment Rate	Apr	--	5.3%
US	Existing Home Sales MoM	Mar	0.5%	3.0%	GE		Retail Sales YoY	Mar	--	1.3%	
Tue	FR	Business Confidence	Apr	--	109		JN	Jobless Rate	Mar	--	2.5%
	GE	IFO Business Climate	Apr	--	114.7		JN	CPI YoY	Apr	--	1.0%
	GE	IFO Expectations	Apr	--	104.4		JN	CPI Core YoY	Apr	--	0.8%
	GE	IFO Current Assessment	Apr	--	125.9		JN	Retail Sales MoM	Mar P	--	0.4%
	GE	Import Price Index YoY	Mar	--	-0.6%	JN	Industrial Production YoY	Mar P	--	1.6%	
	IT	Consumer Confidence Index	Apr	--	117.5	JN	Construction Orders YoY	Mar	--	19.2%	
	IT	Economic Sentiment	Apr	--	106.0	JN	BoJ 10-Yr Yield Target	Apr 27	--	0.000%	
	UK	PSNB ex Banking Groups	Mar	--	1.3b	JN	BoJ Interest Rate	Apr 27	--	-0.100%	
	US	FHFA House Price Index MoM	Feb	0.4%	0.8%	UK	GfK Consumer Confidence	Apr	--	-7	
	US	New Home Sales MoM	Mar	1.6%	-0.6%	UK	GDP QoQ	1Q A	--	0.4%	
	US	Richmond Fed Index	Apr	17	15	US	GDP Annualized QoQ	1Q A	2.2%	2.9%	
	US	Conf. Board Consumer Confidence	Apr	126.0	127.7						

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