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The Week Ahead

Active is: Keeping an eye on capital markets

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Timid recovery

Recent weeks have seen signs – albeit timid – of recovery in economic growth. A host of key leading indicators are pointing to abating headwinds for economic development. One of the most recent examples is the Belgian business climate index, which functions as a key indicator in the eurozone and which has soared. The purchasing managers' indices for the US have also been showing improvements. Overall, the mid-term risks of recession have waned slightly, although a recession in the US in the course of the current year still remains a possibility.

At the same time, geopolitical tensions have relaxed, although they cannot yet be completely ignored as a potential risk factor. The trade conflict between the US and China has had a particularly adverse effect on economic growth. The Brexit process is also providing a greater degree of predictability now that the UK's departure from the EU is confirmed. As a result, the waning geopolitical risks can be expected to weigh less heavily on industry sentiment and the reticence – surrounding investments in equipment, for example – will likely decrease. This would all be good for economic development.

The ongoing process adopted by the European Central Bank (ECB) and the US Federal Reserve (Fed) to review their respective monetary policy strategies remains fascinating. During the financial crisis in 2008 and 2009, the credit multiplier decreased substantially in both the US and the eurozone, and has still not recovered to this day. While monetary policy is as expansive as ever, it is clearly not translating into increasing lending activities on the part of the banks. Even the negative deposit interest charged by the ECB, which acts as a penalty for banks, does not seem to be bringing about any change. Inflation is also failing to pick up pace. Those core rates (inflation rates excluding energy and food) that are less prone to volatility should gradually increase further as production gaps narrow, but this will probably not be

Publications

Capital Markets Monthly

Recent weeks have seen signs – albeit timid – of recovery in economic growth. A host of key leading indicators are pointing to abating headwinds for economic development. What is important now is that these signs of recovery continue and build a foundation for corporate earnings as well, …

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For the year ahead, there are a few certainties, questions, and points we need to keep an eye on. In terms of the certainties, the major influence of the central banks on asset prices looks set to continue. However, current market anticipations raise the question of whether a quasi status quo in terms of monetary policy in the US and eurozone is justified over the next 12 months.

20 years into the 21st century, here’ what investors need to know

In the last two decades, the global economy experienced major transformations. Here are some of the top stories from the start of the 21st century – and what investors can learn from them.

sufficient to prompt the Fed or the ECB to adopt a more restrictive stance.

What is important now is that these signs of recovery continue and build a foundation for corporate earnings as well, since valuations in some key segments on the equity market are already very ambitious and need to be substantiated to avoid disappointment.

Tactical Allocation

- Slightly improved economic data, combined with monetary policy that is as expansive as ever, justifies neutral allocation to risky asset classes.
- The corona virus causes increased uncertainty. Compared with the SARS virus, which broke out 17 years ago and was more dangerous, the impact on the global economy should be limited.
- However, longer-term/strategic overweighting of equities is only recommended once the signs of economic recovery have stabilised further.
- Government bonds will likely continue to be dominated by low/negative yields. In light of current monetary policy, this scenario will probably not change any time soon, despite ambitious valuations of bonds from industrialised countries.
- We believe active investment is a must! And that applies both within asset classes and across all asset classes, especially in times of low earnings prospects in the medium term.

Let's hope the signs of recovery stabilise.

Dr Hans-Jörg Naumer

Upcoming Political Events 2020

Mar 12: ECB meeting

Mar 17: FOMC meeting

Mar 19: BoJ meeting

Overview political events 2019 (click here)

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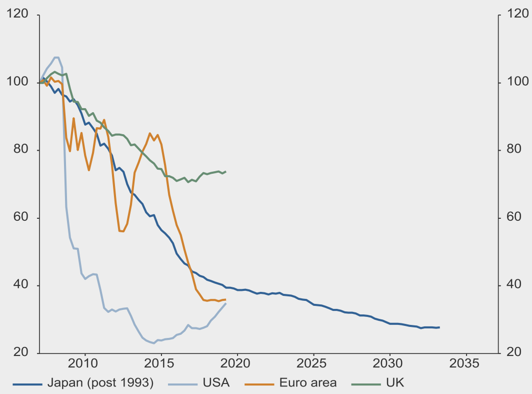
Chart of the Week

How effective is monetary policy post-GFC?

Credit multipliers are edging up in the US and UK and possibly stabilising in the Euro area



Source: Refinitiv Datastream, AllianzGI Economics & Strategy 04/02/2020

Calendar Week 7:

Monday			Consensus	Previous
CH	PPI YoY	Jan	--	-0.5%
CH	CPI YoY	Jan	--	4.5%
EC	Sentix Investor Confidence	Feb	--	7.6
FR	Bank of France Business Sentiment	Jan	--	97
IT	Industrial Production YoY	Dec	--	-0.6%
JN	BoP Current Account Balance	Dec	--	¥1436.8b
JN	Trade Balance BoP Basis	Dec	--	-¥2.5b

Tuesday				
UK	GDP QoQ	4Q P	--	0.4%
UK	Industrial Production YoY	Dec	--	-1.6%
UK	Manufacturing Production YoY	Dec	--	-2.0%
UK	Trade Balance GBP/Mn	Dec	--	£4031m
UK	Construction Output YoY	Dec	--	2.0%

Wednesday				
EC	Industrial Production YoY	Dec	--	-1.5%
JN	Money Stock M2 YoY	Jan	--	2.7%
JN	Money Stock M3 YoY	Jan	--	2.3%
JN	Machine Tool Orders YoY	Jan P	--	-33.5%

Thursday				
FR	ILO Unemployment Rate	4Q	--	8.6%
JN	PPI YoY	Jan	--	0.9%
US	CPI YoY	Jan	--	2.3%
US	CPI Ex Food and Energy YoY	Jan	--	2.3%
US	Real Avg Weekly Earnings YoY	Jan	--	0.0%
US	Initial Jobless Claims	Feb 08	--	--
US	Continuing Claims	Feb 01	--	--

Friday				
EC	Trade Balance SA	Dec	--	€19.2b
EC	GDP SA QoQ	4Q P	--	0.1%
GE	GDP SA QoQ	4Q P	--	0.1%
IT	Trade Balance	Dec	--	€4872m
JN	Tertiary Industry Index MoM	Dec	--	1.3%
US	Import Price Index YoY	Jan	--	0.5%
US	Export Price Index YoY	Jan	--	-0.7%
US	Retail Sales MoM	Jan	0.3%	0.3%
US	Retail Sales Ex Auto and Gas YoY	Jan	--	0.5%
US	Industrial Production MoM	Jan	-0.2%	-0.3%
US	Capacity Utilization	Jan	76.8%	77.0%
US	Business Inventories MoM	Dec	0.1%	-0.2%
US	U. of Mich. Sentiment	Feb P	--	99.8