

The Week Ahead

Active is: Keeping an eye on capital markets



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Hours of truth

With the world under siege from the coronavirus, the capital markets vacillated between hopes and fears during the past week: hopes for signs of improvement and fears of the pandemic spreading, the humanitarian cost, and the impact on the global economy. It is therefore not surprising that the outbreak is starting to affect the economic indicators. The Ifo Business Climate Index is pointing to a recession in Germany, the euro-area purchasing manager indexes (PMIs) dropped like a stone, and the US labour market is undergoing a turnaround. Corporates are gradually reviewing their **earnings guidance** downwards.

The **hours of truth** will come at some point in the next few weeks: 1) Will we see accelerated contagion? 2) Will the sweeping monetary and fiscal policy measures have an effect? 3) What will the future path of the economy look like? Taking those items in turn:

1) While the Robert Koch Institute is cautiously indicating that the **coronavirus** spread might be slowing in Germany, it is not clear yet whether contagion in the US is accelerating or slowing; the next few days will provide us with more data. We will also learn more about how the virus can be fought directly. Initial medical results have raised hopes that an anti-malaria drug might shorten the Covid-19-related illness. Moreover, a tuberculosis vaccine candidate developed by a Max Planck Institute might provide an immune boost against the coronavirus.

2) Unprecedented **monetary and fiscal stimulus** is being provided around the globe to help stabilise the economy and reduce the risks. The **Federal Reserve** alone has launched the biggest emergency programme in its history. It is using its full arsenal and has not set itself any limits; its measures include government bond and mortgage purchases as well as corporate loan programmes. In addition, cheap consumer loans are available, municipal bonds are being supported, and corporate bonds are being stabilised.

Publications



Active is: Investing in a Better World

“Disruption” seems to describe our present and future more aptly than any other term. Disruption is the power (not always purely creative) to destroy the old and to create something new - economic disruption (“digitalization”), disruption of the population pyramid (“demography”), environmental and climate disruption, social disruption (populism), etc. In spite of all these changes, however, there is a basic



Artificial Intelligence – Part of everyday life, driving our future

Artificial intelligence is all around us. It is part of everyday life, and gaining ground all the time. The investment opportunities are many and varied. The “creative power of destruction” is unstoppable. On the contrary. And it’s only just beginning.



Added value or a mere marketing tool? What does ESG mean for investments?

“Sustainability”, in the broadest sense of the term, has long ceased to be a new concept for investors. It encompasses, among other things, “corporate social responsibility” (CSR) and “environmental, social and governance” (ESG) criteria. But what does all this mean for investing?

The **US Senate** adopted a support package worth more than USD 2 trillion. The German government has adopted a large-scale fiscal package – and these are just some of the recent developments. **It seems as if monetary and fiscal policy have become two sides of a single coin.**

3) The **economic data** due during the coming week will not yet reflect these measures. However, the hours of truth are approaching: we will have to wait and see whether the global economy experiences a trajectory that is “L-shaped” (deep dip, long recession, no recovery in sight), “U-shaped” (deep dip, recession, sustainable recovery) or “V-shaped” (quick dip, quick recovery).

The Week Ahead

During the coming week, the focus will probably be on sentiment indicators. Right at the beginning of the week, the NBS and the Caixin manufacturing PMIs for **China** will be released. With production being resumed, an improvement or at least a stabilisation of these key indices would be an encouraging signal. The Tankan Index compiled by the **Bank of Japan** (due on Wednesday) gives a clue on business sentiment in Nippon and is likely to move downwards. Friday will be an important day, too, as the ISM Non-Manufacturing Index for the **US** will be released. The US labour market is already being affected by the virus, and the PMI is unlikely to escape its impact either. The Markit PMI for **Italy** might get some attention, too. Italy was the first and remains the most heavily affected European country, and the PMI will probably give an indication of how seriously the containment measures are dampening the economy.

Active is: Keeping a calm head

During the coming week, it is not only the markets that will continue to vacillate between hopes and fears. The relation between the price-earnings ratio and volatility (as measured by the volatility index VIX) has declined considerably in the US and is suggesting that the “exuberance” is over (see our Chart of the Week). Nevertheless, investors should be prepared for still-elevated volatility. The end of the bear market is not yet in sight, but the good news is that medical and economic measures to fight the virus have been taken at the international level.

Keep a cool head and stay well! Yours

Dr Hans-Jörg Naumer.

Upcoming Political Events 2020

Apr 27: BoJ meeting
Apr 28: FOMC meetin
Apr 30: ECB meeting

[Overview political events 2020 \(click here\)](#)

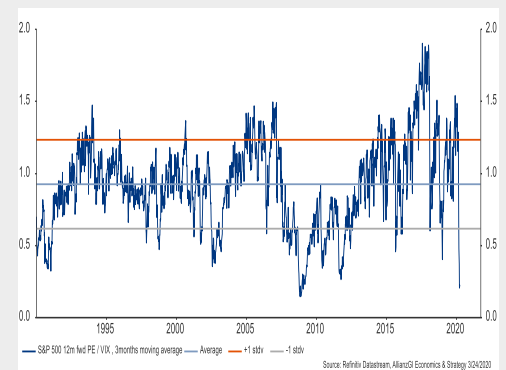
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Chart of the Week

S&P500: 12m Forward Price/Earnings



Calendar Week 14:

Monday			Consensus	Previous
EC	Economic Confidence	Mar	--	103.5
EC	Industrial Confidence	Mar	--	-6.1
EC	Services Confidence	Mar	--	11.2
GE	CPI YoY	Mar P	--	1.7%
UK	M4 Money Supply YoY	Feb	--	4.7%
US	Pending Home Sales NSA YoY	Feb	--	6.7%
US	Dallas Fed Manf. Activity	Mar	--	1.2
Tuesday				
CH	NBS Manufacturing PMI	Mar	--	35.7
CH	NBS Non-manufacturing PMI	Mar	--	29.6
EC	CPI YoY	Mar P	--	1.2%
EC	CPI Core YoY	Mar P	--	--
FR	CPI YoY	Mar P	--	1.6%
FR	PPI YoY	Feb	--	0.2%
FR	Consumer Spending YoY	Feb	--	-0.9%
GE	Unemployment Rate	Mar	--	5.0%
IT	CPI YoY	Mar P	--	0.2%
IT	PPI YoY	Feb	--	-3.4%
JN	Jobless Rate	Feb	--	2.4%
JN	Retail Sales MoM	Feb	--	0.6%
JN	Industrial Production YoY	Feb P	--	--
JN	Vehicle Production YoY	Jan	--	-8.5%
JN	Construction Orders YoY	Feb	--	-17.0%
UK	GfK Consumer Confidence	Mar	--	-7
UK	Current Account Balance	4Q	--	-15.9b
US	MNI Chicago PMI	Mar	--	49
US	Conf. Board Consumer Confidence	Mar	--	130.7
Wednesday				
CH	Caixin Manufacturing PMI	Mar	--	40.3
EC	Unemployment Rate	Feb	--	7.4%
IT	Markit Manufacturing PMI	Mar	--	48.7
IT	Unemployment Rate	Feb P	--	9.8%
JN	BoJ Tankan Survey with Diffusion Index of Business Confidence	1Q	--	0
US	ADP Employment Change	Mar	--	183k
US	Construction Spending MoM	Feb	--	1.8%
US	ISM Manufacturing Index	Mar	--	50.1
Thursday				
EC	PPI YoY	Feb	--	-0.5%
JN	Monetary Base YoY	Mar	--	3.6%
UK	Markit Construction PMI	Mar	--	52.6
US	Trade Balance	Feb	--	-\$45.3b
US	Initial Jobless Claims	Mar 28	--	--
US	Continuing Claims	Mar 21	--	--
US	Factory Orders MoM	Feb	--	-0.5%
Friday				
CH	Caixin Composite PMI	Mar	--	27.5
CH	Caixin Services PMI	Mar	--	26.5
EC	Retail Sales YoY	Feb	--	1.7%
IT	Markit Services PMI	Mar	--	52.1
IT	Markit Composite PMI	Mar	--	50.7
US	Change in Nonfarm Payrolls	Mar	--	273k
US	Unemployment Rate	Mar	--	3.5%
US	Average Hourly Earnings YoY	Mar	--	3.0%
US	ISM Non-Manufacturing Index	Mar	--	57.3

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