The Week Ahead

Active is: Keeping an eye on capital markets

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Monitoring market technicals

Signs of economic stabilization have supported a rally in risky assets this year. The question today is whether conditions will continue to strengthen in the face of freshly forming headwinds.

The edification of "animal spirits" is unmistakable: Share prices have soared to all-time highs amid better-than-expected data in Europe, the US and Asia. Meanwhile, central bankers still have the pedal to the metal, more concerned about dampening downside threats than the risk of overheating.

This confluence—sustained economic activity amid historically low interest rates—has helped companies return to profit growth. According to FactSet, S&P 500 earnings probably expanded 0.7% y/y in 4Q19. That is hardly impressive compared to the +20% growth rates seen through much of 2018. But it is a lot better than the 1.7% drop predicted at year-end and, if realized, it shuts the door on three quarters of earnings contraction.

What's embedded in the 2020 market outlook? Analysts think earnings will continue accelerating, rising 8.3% this year. And the CBOE Volatility Index—a measure of the cost of insuring against a prospective sell-off—is at 15.0, meaningfully lower than the index's 19.1 long-run average. Combined, this suggests investors—don't just see glimmering profits—they also don't feel much need for protection.

Yet the "goldilocks" environment that has lifted equities through a record-long bull-run faces new challenges. The most obvious is the coronavirus, which has resulted in 1,115 lives lost at the time of writing. On one hand, the spread of the virus is slowing, indicating a potential short-term economic shock followed by a V-shaped recovery. That was the playbook during the 2002-4 SARS outbreak, and it supports the idea that investors should position now for healthier days ahead – but don't forget: Past performance is no guarantee for future returns. (See our Chart of the Week.)

Publications

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.

Active is: Generating capital income with dividends

Bond yields are currently deep in the red. Almost 25 % of all outstanding bonds world-wide carry a negative nominal yield. In Germany, yields are below zero for roughly 90 % of outstanding government bonds. The percentage for the euro area is 60 %. And that is even before considering inflation. The hunt for income is becoming more difficult than ever. For that reason, dividends seem to get more attention. They could help to achieve capital income and stop the drain on wealth.

Active is: Being a rational optimist

The world is becoming a better place. All the indicators concur: increasing life expectancy on every continent of the planet, falling child mortality and child labor, rising prosperity and, from a global perspective, declining inequality. Wherever the forces of creative disruption are allowed to unfold, we have every reason to be rational optimists. But what does this mean for investors and others?

On the other hand, the unknowns are extensive. The virus has spread a lot faster than SARS, and the global economy is more interconnected and reliant on China than in 2002-2004. Then, China accounted for 4% of global GDP; today it is 18%. A **vaccine** is possible in coming months, but large-scale work-outages could also keep production offline longer-than-anticipated, creating the possibility for a U- or L-shaped economic recovery.

The Week Ahead

The juncture of recently strong growth, record-high equities and coronavirus uncertainties means incoming data is more important than usual. During the upcoming week, **Asia watchers** will monitor virus updates and company-level reports on factory capacity utilization. No major economic releases are slated for China, so investors may focus on **Japan** for indications of regional strength. While we will likely see confirmation that Japanese GDP contracted in 4Q19, trade and manufacturing data for January and February may be more informative.

In Europe, **Germany's manufacturing powerhouse** will be under the microscope, with February PMI data available Friday. On Tuesday and Thursday, we will also get business expectations and consumer confidence, respectively. Pre-coronavirus data showed that the German economy—one of the world's most trade-reliant—was gathering steam.

Surveys suggest that the **US economy** may also be picking-up. Consensus expectations point to a recovery in leading indicators, building permits, producer price inflation and New York area manufacturing. Given the downturn in oil markets, investors may pay heightened attention to US oil inventories (Thursday) and the rig count (Friday). **America's elections** will continue to get headlines, with the next Democratic primary in Nevada on February 22. Bernie Sanders—a self-described democra tic socialist—has been ahead in the betting markets in Nevada and nationally.

Active is: Monitoring market technicals

Investors have proven resilient to the recent coronavirus news and energy market correction. Long-only equity investors continue to buy the dip and fund flows remain supportive. This suggests that—while **market breadth** has weakened—the recovery seems to be in place still. From an asset allocation perspective, commodities have failed to hold short-term bottoming patterns, but gold has done well. Bonds have profited from the recent risk-off environment, but the Treasury curve inversion hints at rising risk.

May your heart stay healthy and investments glimmer,

Greg Meier

Upcoming Political Events 2020

Mrz 12: ECB meeting

Mrz 17: FOMC meeting

Mrz 18: BoJ meeting

Overview political events 2019 (click here)

Overview Central Banks Calender (click here)

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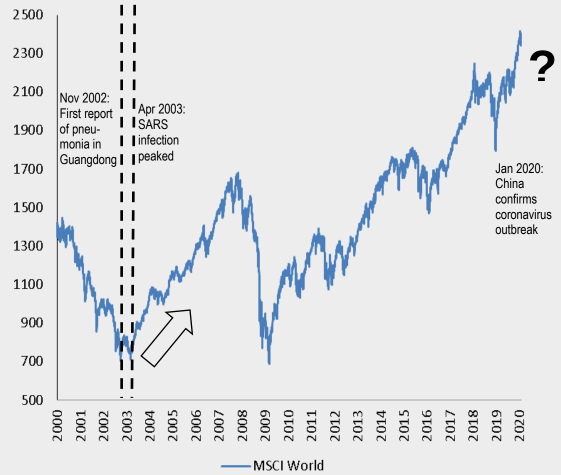
Chart of the Week

Both MSCI World and MSCI China performed positively in the aftermath of the SARS pandemic



Sources: Bloomberg, AllianzGI Global Economics & Strategy. Past performance is no guarantee for future returns.

Calendar Week 8:

Monday			Consensus	Previous
EC	Construction Output YoY	Dec	--	1,40%
JN	GDP Annualized SA QoQ	4Q P	-3,80%	1,80%
UK	Rightmove House Prices YoY	Feb	--	2,70%
Tuesday				
EC	EU27 New Car Registrations	Jan	--	21,70%
EC	ZEW Survey Expectations	Feb	--	25,6
GE	ZEW Survey Expectations	Feb	--	26,7
GE	ZEW Survey Current Situation	Feb	--	-9,5
UK	Jobless Claims Change	Jan	--	14.9k
UK	Average Weekly Earnings 3M/YoY	Dec	--	3,20%
UK	ILO Unemployment Rate 3Mths	Dec	--	3,80%
US	Empire Manufacturing	Feb	5	4,8
US	NAHB Housing Market Index	Feb	75	75
Wednesday				
EC	ECB Current Account SA	Dec	--	33.9b
IT	Current Account Balance	Dec	--	4921m
JN	Trade Balance	Jan	--	-¥152.5b
JN	Exports YoY	Jan	--	-6,30%
JN	Imports YoY	Jan	--	-4,90%
JN	Core Machine Orders YoY	Dec	--	5,30%
UK	CPI YoY	Jan	--	1,30%
UK	CPI Core YoY	Jan	--	1,40%
UK	PPI Input NSA YoY	Jan	--	-0,10%
UK	PPI Output NSA YoY	Jan	--	0,90%
UK	House Price Index YoY	Dec	--	2,20%
US	Building Permits MoM	Jan	2,10%	-3,90%
US	Housing Starts MoM	Jan	-13,60%	16,90%
US	PPI YoY	Jan	--	1,30%
US	PPI Core YoY	Jan	--	1,10%
US	FOMC Meeting Minutes	Jan 29	--	--
Thursday				
EC	Consumer Confidence	Feb A	--	-8,1
GE	GfK Consumer Confidence	Mar	--	9,9
GE	PPI YoY	Jan	--	-0,20%
UK	Retail Sales Ex Auto Fuel YoY	Jan	--	0,70%
UK	Retail Sales Inc Auto Fuel YoY	Jan	--	0,90%
US	Philadelphia Fed Business Outlook	Feb	10	17
US	Initial Jobless Claims	Feb 15	--	--
US	Continuing Claims	Feb 08	--	--
US	Leading Index	Jan	0,20%	-0,30%
Friday				
EC	Markit Manufacturing PMI	Feb P	--	47,9
EC	Markit Services PMI	Feb P	--	52,5
EC	Markit Composite PMI	Feb P	--	51,3
EC	CPI YoY	Jan	--	1,40%
FR	Markit Manufacturing PMI	Feb P	--	51,1
FR	Markit Services PMI	Feb P	--	51
FR	Markit Composite PMI	Feb P	--	51,1
GE	Markit Manufacturing PMI	Feb P	--	45,3
GE	Markit Services PMI	Feb P	--	54,2
GE	Markit Composite PMI	Feb P	--	51,2
IT	Industrial Sales WDA YoY	Dec	--	0,10%
IT	Industrial Orders NSA YoY	Dec	--	-4,30%
JN	CPI YoY	Jan	--	0,80%
JN	CPI Core YoY	Jan	--	0,70%