The Week Ahead

Active is: Keeping an eye on capital markets

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"Past the peak in earnings growth"

Over the last few weeks, the capital markets have been severely battered, with the blows coming from all sides. Some leading indicators pointed to a slowdown in global growth momentum. Investment activity was scaled back in some regions, above all in China. And numerous political issues (just think of the Italian budget draft, the trade conflict between the US and China or Brexit) are still unresolved.

Despite challenging conditions, equity investors could always rely on strong corporate earnings growth. Companies, particularly US companies, have seen their earnings rise steadily since spring 2016; in fact, US earnings growth recently amounted to considerably above 20%. And European and Japanese companies often registered two-digit earnings increases as well. The earnings expansion was supported by robust global growth, an expansionary monetary policy, largely stable financial markets and "operating leverage", which means that sales growth is outpacing any (fixed) cost increases.

Company reports for the third quarter now raise the question of whether we have passed the peak in earnings growth. In fact, it seems so. Corporate earnings reflect the gradual deterioration of the environment in which companies do business: wages and tariffs are rising, and political uncertainty has increased. In addition, European carmakers have to deal with temporary production losses due to new emissions test procedures. As a result, numerous analysts have recently revised their earnings estimates downwards (see our Chart of the Week).

Nevertheless, earnings growth should remain solid in the coming quarters, despite the slowdown, and the risk of a recession appears small for the next 12 months. Against this background, the (sometimes significant) dip in cyclical equities, above all in Europe and Japan, seems exaggerated. Still, investors should prepare for increased volatility in the long run.

Publications

"Maintaining momentum during times of volatility"

Investors have enjoyed following the bull market of recent years, but a return to volatility would mean an active approach is essential to navigating opportunities while With mid-terms over, markets may feel reliefrisks.

"With mid-terms over, markets may feel relief"

Although the Democrats now control half of the US Congress, we believe President Trump's economic agenda is unlikely to be significantly altered. A divided government could also give equities a bounce, particularly now that election-related uncertainty has been removed.

"China: The One Belt, One Road Initiative"

Over 2,000 years ago, the land and maritime Silk Road enabled people from various countries to defy national borders and conduct trade. History therefore provides us with a useful source of wisdom for addressing today's challenges as we are facing rising protectionism and louder voices against globalization and trade. But can the initiative channel more positivity towards global economic growth?

Donald Trump's political elbowroom will be more restricted after the mid-term elections in the US. As expected, the Democrats won a majority in the House and the Republicans continue to control the Senate. This will reduce President Trump's options for providing new fiscal stimulus. New regulation initiatives for the pharmaceutical and the financial sector have become less probable. However, investors may take hope from the fact that the equity markets have tended to rise after the **mid-term elections** in the past.

The Week Ahead

During the coming week, we will get **industrial output data** from many countries around the world, such as Italy (on Monday), China, the euro area (on Wednesday) or the US (on Friday). In addition, revised euro-area GDP data for the third quarter are due on Wednesday, including the figures for Germany. This will tell us more about the extent to which lower output in the auto industry reduced growth in Germany and the euro area and about how strong a recovery in the coming months may be. Moreover, **inflation data** from the US and the UK are on the agenda.

Active is:

The capital market environment remains challenging, we seem to be past the peak in terms of GDP and earnings growth, and political disagreements remain an issue. Nevertheless, equity investors' recent growth fears appear somewhat premature. This may give active managers a chance of selectively exploiting major price declines.

Please do not get the autumn blues!

Yours

Stefan Rondorf

Upcoming Political Events 2018

5 – 16 Nov: UN Climate Change conference

12 – 18 Nov: APEC Summit

30 Nov: G20 Summit, held in Argentina

Overview political events 2018
(click here)

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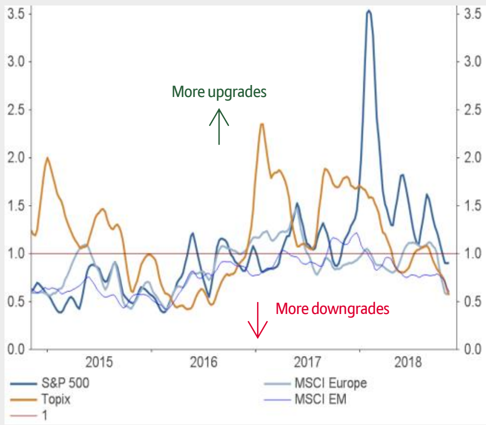
Chart of the Week

Ratio of analyst's earnings revisions (up/down) , 1month moving average



Source: AllianzGI Economics & Strategy, Datastream.
Data as of 7 November 2018.

Calendar Week 46:

Monday			Consensus	Previous
FR	Bank of France Business Sentiment	Oct	--	105
IT	Industrial Production YoY	Sep	--	-0.8%
JN	PPI YoY	Oct	--	3.0%
JN	Machine Tool Orders YoY	Oct P	--	2.9%
Tuesday				
EC	ZEW Survey Expectations	Nov	--	-19.4
GE	ZEW Survey Current Situation	Nov	--	70.1
GE	ZEW Survey Expectations	Nov	--	-24.7
UK	Jobless Claims Change	Oct	--	18.5k
UK	Average Weekly Earnings 3M/YoY	Sep	--	2.7%
UK	ILO Unemployment Rate 3Mths	Sep	--	4.0%
Wednesday				
CH	Retail Sales YoY	Oct	--	9.2%
CH	Industrial Production YoY	Oct	--	5.8%
CH	Fixed Assets Ex Rural YTD YoY	Oct	--	5.4%
EC	Industrial Production YoY	Sep	--	0.9%
EC	GDP SA QoQ	3Q P	--	0.2%
GE	GDP SA QoQ	3Q P	--	0.5%
JN	GDP Annualized SA QoQ	3Q P	-1.10%	3.0%
JN	Tertiary Industry Index MoM	Sep	--	0.5%
JN	Capacity Utilization MoM	Sep	--	2.2%
UK	CPI YoY	Oct	--	2.4%
UK	CPI Core YoY	Oct	--	1.9%
UK	PPI Input NSA YoY	Oct	--	10.3%
UK	PPI Output NSA YoY	Oct	--	3.1%
UK	House Price Index YoY	Sep	--	3.2%
US	CPI YoY	Oct	--	2.3%
US	CPI Ex Food and Energy YoY	Oct	--	2.2%
US	Real Avg Weekly Earnings YoY	Oct	--	1.1%
Thursday				
EC	EU27 New Car Registrations	Oct	--	-23.5%
EC	Trade Balance SA	Sep	--	16.6b
UK	Retail Sales Ex Auto Fuel YoY	Oct	--	3.2%
UK	Retail Sales Inc Auto Fuel YoY	Oct	--	3.0%
US	Empire Manufacturing	Nov	--	21.1
US	Retail Sales MoM	Oct	0.5%	0.1%
US	Philadelphia Fed Business Outlook	Nov	--	22.2
US	Retail Sales Ex Auto and Gas YoY	Oct	--	0.0%
US	Import Price Index YoY	Oct	--	3.5%
US	Export Price Index YoY	Oct	--	2.7%
US	Initial Jobless Claims	10. Nov	--	--
US	Continuing Claims	03. Nov	--	--
US	Business Inventories MoM	Sep	--	0.5%
Friday				
IT	Industrial Sales WDA YoY	Sep	--	3.2%
IT	Industrial Orders NSA YoY	Sep	--	0.9%
IT	Trade Balance	Sep	--	2564m
US	Industrial Production MoM	Oct	--	0.3%
US	Capacity Utilization	Oct	--	78.1%
US	Kansas City Fed Manf. Activity	Nov	--	8