The Week Ahead

Active is: Keeping an eye on capital markets

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Litmus test

After numerous equity markets topped new all-time highs last month, it came time for the litmus test: The increasing global spread of the new coronavirus caused the strongest decline on the global equity markets for more than two years. While 30-year US Treasury yields dropped to a new all-time low, gold reached its highest price in seven years.

Admittedly, the impacts of the coronavirus are extremely uncertain at present and depend on the duration, spread and geographic reach of the epidemic. One thing is certain, however – China is now tied much more closely into the supply chains in Asia and the global economy than was the case during the SARS outbreak in 2002/2003. Back in 2002, China accounted for around 8% of global gross value added, whereas this share has since risen to 19%. The risk that the current consensus opinion – that global growth will only be adversely affected for a brief period (as was the case with SARS) and that it will recover fully over the course of this year – may prove to be overly optimistic and should therefore not be ignored. Not to mention the as yet immeasurable implications for Chinese growth and the associated negative knock-on effects along the entire value creation chain in Asia and worldwide. In response, the International Monetary Fund recently downgraded its growth forecast for China and now expects the Chinese economy to grow by 5.6% (compared to 6.0% in January) in 2020 – provided it is able to return to normal in the second quarter.

Bearing in mind our basic scenario of "muddling through" this late-cycle period, the risks of an economic downswing therefore continue to dominate, despite the easing of (geo-)political tensions. By the same token, a growing number of companies are issuing warnings in the present Q4 reporting seasons that they will be unable to meet their sales targets due to the coronavirus and the associated production delays. The outbreak of the virus has not only dampened inflation expectations, in spite of the oil price

Publications

Capital Markets Monthly: Litmus test

After numerous equity markets topped new all-time highs last month, it came time for the litmus test: The increasing global spread of the new coronavirus caused the strongest decline on the global equity markets for more than two years. While 30-year US Treasury yields dropped to a new all-time low, gold reached its highest price in seven years.

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.

recovery in February; it has also impacted expectations with regard to short-term interest rates. After the rate cut, prices on the money market are reflecting another two interest rate moves by the US central bank between now and year-end, whereas the European Central Bank (ECB) is expected to lower its base rate by 10 basis points.

Right now, the litmus test is seeing how far the coronavirus spreads and, in its wake, how the risk premiums on the markets continue to increase and burden the economy.

Tactical Allocation

The risk that the current consensus opinion – that global growth will only be adversely affected for a brief period and that it will recover fully over the course of this year – may prove to be overly optimistic should not be ignored. Bearing in mind our basic scenario of "muddling through" this late-cycle period, the risks of an economic downswing therefore continue to dominate. A more cautious approach to allocation is advisable, not least in light of the uncertainty surrounding the coronavirus. 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.

Hoping you remain steadfast, your

Stefan Scheurer

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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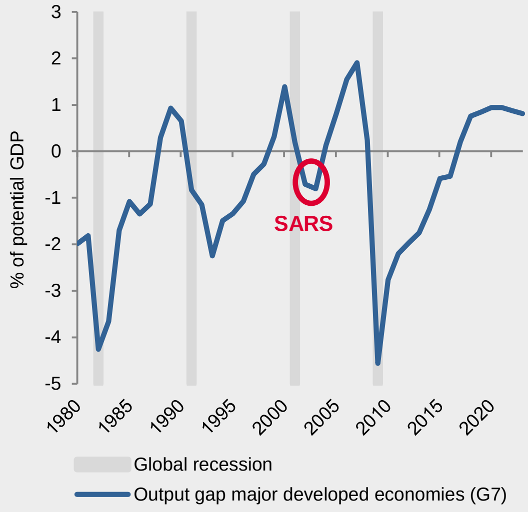
Chart of the Week

Global expansion is at different stage today (late cycle) compared to 2002/03 (early cycle)



Sources: AllianzGI Global Economics & Strategy (data as of January 2020)

Calendar Week 11:

Monday			Consensus	Previous
EC	Sentix Investor Confidence	Mar	--	5.2
FR	Bank of France Business Sentiment	Feb	--	96
GE	Trade Balance	Jan	--	15.2b
GE	Current Account Balance	Jan	--	29.4b
GE	Exports SA MoM	Jan	--	0.10%
GE	Imports SA MoM	Jan	--	-0.70%
GE	Industrial Production YoY	Jan	--	-6.80%
JN	BoP Current Account Balance	Jan	--	¥524.0b
JN	Trade Balance BoP Basis	Jan	--	¥120.7b
Tuesday				
CH	PPI YoY	Feb	-0.20%	0.10%
CH	CPI YoY	Feb	5.20%	5.40%
FR	Industrial Production YoY	Jan	--	-3.00%
FR	Manufacturing Production YoY	Jan	--	-3.20%
GE	Labor Costs WDA YoY	4Q	--	3.10%
IT	Industrial Production YoY	Jan	--	-4.30%
JN	Money Stock M2 YoY	Feb	--	2.80%
JN	Money Stock M3 YoY	Feb	--	2.30%
JN	Machine Tool Orders YoY	Feb P	--	-35.60%
Wednesday				
IT	PPI YoY	Jan	--	-3.10%
UK	Industrial Production YoY	Jan	--	-1.80%
UK	Manufacturing Production YoY	Jan	--	-2.50%
UK	Trade Balance GBP/Mn	Jan	--	£7715m
UK	Construction Output YoY	Jan	--	5.00%
US	CPI YoY	Feb	2.20%	2.50%
US	CPI Ex Food and Energy YoY	Feb	2.30%	2.30%
US	Real Avg Weekly Earnings YoY	Feb	--	0.00%
Thursday				
EC	Industrial Production YoY	Jan	--	-4.10%
EC	ECB Main Refinancing Rate	Mar 12	--	0.00%
EC	ECB Deposit Facility Rate	Mar 12	--	-0.50%
JN	PPI YoY	Feb	--	1.70%
US	PPI YoY	Feb	1.70%	2.10%
US	PPI Core YoY	Feb	--	1.70%
US	Initial Jobless Claims	Mar 7	--	--
US	Continuing Claims	Feb 29	--	--
Friday				
JN	Tertiary Industry Index MoM	Jan	--	-0.20%
US	Import Price Index YoY	Feb	--	0.30%
US	Export Price Index YoY	Feb	--	0.50%
US	U. of Mich. Sentiment	Mar P	--	101