

The Week Ahead

Active is: Keeping an eye on capital markets



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Bridge Over Troubled Waters

We are navigating turbulent times. Throughout 2019 – while equities rallied to all-time highs – we reported to our investors an elevated level of risk. In fact, as we have consistently noted: conditions last year looked eerily similar to those that predominated in the lead-up to past recessions.

We indicated three potential triggers that could tip growth from slowdown to downturn: the US-China trade war, high corporate debt levels and the typical late-cycle sequence of tight slack leading to inflation, and US Federal Reserve rate hikes. The actual trigger – **a global pandemic** – wasn't forecastable. The pandemic has significantly accelerated an already challenging backdrop.

This recession isn't typical. It didn't emanate from the industrial sector, banking or housing. It's not just affecting consumer demand, supply chains or business investment. It's not contained to one or a few countries. It's global and, so far, it is largely the outcome of damage created by the need for **"social distancing."** Factories can't easily operate if workers get each other sick. Restaurants and airlines can't easily sell services if they might infect customers.

The answer seems simple. Our healthcare analysts think a **vaccine** could be ready in a record-breaking 12-18 months. In the interim we need bridges: stimulus programmes to help households and businesses survive, funding facilities to prevent a liquidity crisis, and therapies to help sick people recover faster and dampen the threat of health system overload.

We also need **innovative pandemic mitigation policies**. Blanket quarantines, stay-at-home orders and business closures "hammers" (in the terminology used by virologists) that have inevitable impacts on the economy. It may be possible to reduce infection rates through other measures – rigorous testing, contact tracing, location-tracking apps, "micro-quarantines," temperature checkpoints, etc. This concept of

Publications



Coronavirus – Emerging Markets Outlook

Social distancing and other containment measures are creating significant risks to EM economies. Still, some countries – including Russia, Brazil and China – could be set to rebound when capital begins flowing back in.



Investing in the world of tomorrow

How can investors benefit from megatrends? How can these be turned into specific investment themes? Is there even a need for theme-based investing at all, or are major trends already considered in all mandates anyway, due to active



Grassroots Research Market Monitor

This edition of the quarterly Grassroots Research Market Monitor contains research summaries on: Manufacturing production resumption in China, cybersecurity spending, IFAs' relationships with insurers – Germany, Plant-based meat – US, Pet insurance – Japan.

"dancing" around the virus instead of hammering it gives us hope.

The Week Ahead

The economic data flow next week looks lighter than usual. However, there are several key reports that should help investors understand how the pandemic is affecting the global economy and what recovery may look like.

A critical area of focus will be **China**, the world's second-largest economy and the first country to effectively contain the pandemic. While disinflation pressures look set to worsen in China, recent weakness in industrial production, fixed asset investment and retail sales should continue to ease. Elsewhere in Asia, investors will watch **Japan**, where leading indicators recently bounced from the worst levels in at least a decade.

In Europe, preliminary data on 1Q20 GDP should garner attention. The euro zone appears to have contracted 3.8% q/q, the worst showing since at least 1999, when the common currency was officially launched. **German GDP** is forecast to fall 1.1% q/q, the most since the 2008-9 global financial crisis.

The **US economic calendar** is more substantial. Similar to China, US consumer price disinflation is expected to accelerate. New claims for unemployment insurance may fall below three million, but that still compares to a pre-pandemic peak below 700,000. US retail sales likely fell 14% m/m in April, considerably worse than record -8.7% plunge in March. April industrial production is thought to have dropped 10.5% m/m, the worst showing in data starting in 1919.

Active is: Watching market technicals

Risky assets have rallied hard in recent weeks, as the virus spread slows, economies re-open and policymakers provide plentiful monetary and fiscal stimulus. Looking ahead, we think much of the low-hanging fruit has been picked. While a lot of good news is priced-in, uncertainty around the virus is still high. From a **technical standpoint**, it is important to be cognisant of the fact that the period from now until September is seasonally-challenged by the so-called "sell in May and go away" effect (see our Chart of the Week). We don't think equities are about to fall to new lows, but we caution that the case for continued near-term gains is weakening.

On the other side of the bridge awaits a brighter future,

Greg

Upcoming Political Events 2020

Jun 04: ECB meeting

Jun 09: FOMC meeting

Jun 15: BoJ meeting

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

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Chart of the Week

MSCI Europe – average monthly performance and "hit-ratio"*) since 1970



Calendar Week 20:

			Consensus	Previous
IT	Industrial Production YoY	Mar	--	-2,40%
Tuesday				
CH	PPI YoY	Apr	-2,60%	-1,50%
CH	CPI YoY	Apr	3,70%	4,30%
FR	Bank of France Business Sentiment	Apr	--	--
JN	Leading Index	Mar P	--	91,7
JN	Coincident Index	Mar P	--	95,5
US	CPI YoY	Apr	--	1,50%
US	CPI Ex Food and Energy YoY	Apr	--	2,10%
US	Real Avg Weekly Earnings YoY	Apr	--	0,70%
Wednesday				
EC	Industrial Production YoY	Mar	--	-1,90%
JN	BoP Current Account Balance	Mar	--	¥3168,8b
JN	Trade Balance BoP Basis	Mar	--	¥1366,6b
UK	Industrial Production YoY	Mar	--	-2,80%
UK	Manufacturing Production YoY	Mar	--	-3,90%
UK	Construction Output YoY	Mar	--	-2,70%
UK	Trade Balance GBP/Mn	Mar	--	-£2793m
UK	GDP QoQ	1Q P	--	0,00%
US	PPI YoY	Apr	--	0,70%
US	PPI Core YoY	Apr	--	1,40%
Thursday				
FR	ILO Unemployment Rate	1Q	--	8,10%
IT	Trade Balance	Mar	--	6085m
JN	Money Stock M2 YoY	Apr	--	3,30%
JN	Money Stock M3 YoY	Apr	--	2,70%
JN	Machine Tool Orders YoY	Apr P	--	-40,70%
US	Import Price Index YoY	Apr	--	-4,10%
US	Export Price Index YoY	Apr	--	-3,60%
US	Initial Jobless Claims	May 9	--	--
US	Continuing Claims	May 2	--	--
Friday				
CH	Industrial Production YoY	Apr	2,10%	-1,10%
CH	Retail Sales YoY	Apr	-5,90%	-15,80%
CH	Fixed Assets Ex Rural YTD YoY	Apr	-8,80%	-16,10%
EC	Trade Balance SA	Mar	--	25,8b
EC	GDP SA QoQ	1Q P	--	-3,80%
GE	GDP SA QoQ	1Q P	--	0,00%
IT	Industrial Sales WDA YoY	Mar	--	0,90%
IT	Industrial Orders NSA YoY	Mar	--	-2,60%
JN	PPI YoY	Apr	--	-0,40%
US	Retail Sales MoM	Apr	-14,00%	-8,70%
US	Retail Sales Ex Auto and Gas YoY	Apr	--	-3,10%
US	Empire Manufacturing	May	--	-78,2
US	Industrial Production MoM	Apr	-11,60%	-5,40%
US	Capacity Utilization	Apr	--	72,70%
US	Business Inventories MoM	Mar	--	-0,40%
US	U. of Mich. Sentiment	May P	--	71,8

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