The Week Ahead

Active is: Keeping an eye on capital markets

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On the way to recovery

The global economy is mired in the deepest recession since World War II, if not since the 1930s. While the global economy is likely to have hit its lowest point by Q2 2020, the subsequent course of the recovery remains uncertain, even though several leading indicators have recovered very significantly, including the purchasing managers' indices in the major regions of the world. China stands out positively in terms of economic recovery. The extensive monetary and fiscal countermeasures taken around the globe may have helped. However, this does not yet ensure that a sustained economic rebound will be achieved quickly. Even before the outbreak of the crisis, the economic situation was too weak for that.

The economy is on its way to recovery, but it is far from being healed. It is still striking that the capital markets are anticipating a particularly rapid rebound. The S&P 500, which represents the broad US market, took 33 days to go from its high to its interim low point, and just 72 days more to recover three-quarters of its losses from this low after its collapse due to COVID-19. Compared with the bear markets (defined as a 20% or greater decline in the stock market) over the past 75 years, this is a record recovery time. All 11 bear markets since 1946 have taken years to achieve a similar recovery. This means that the stock markets are anticipating a very rapid, V-shaped recovery. However, they remain vulnerable to disappointment. This is all the more so now that the "dance" phase of the pandemic has begun. This is the phase after the general lockdown to combat the virus, in which highly flexible, localised measures are implemented in a targeted manner in response to the spread of infection hotspots, and a second wave of the virus can never be completely ruled out. But "dancing" means not always going in one direction.

<u>Tactical Allocation, Equities & Bonds</u>

- The actions announced and already implemented by the global central banks (including large-scale bond purchases) are leading to a huge increase in central bank liquidity, which will end up larger than in the global financial crisis of 2008/2009.
- This liquidity pressure should ensure that the low/negative yield environment in the bond markets

Publications

Pandemic: The "hammer" and the "dance" on the road back to normality

Beyond its human impact, the coronavirus has the global economy firmly in its grasp. A global recession is all but a foregone conclusion and the collapse in growth will be even worse than the global financial crisis of 2008/2009. The question now is, what shape will the recovery take? The answer depends to a large extent on how successful the fight against the virus proves to be.

The coronavirus has accelerated changes in energy supply and demand

One of the immediate impacts of the coronavirus crisis was a fall in global energy use. While demand will likely rebound to previous levels, the overall energy mix is changing. Renewables are playing a bigger role as traditional sources such as coal become increasingly uneconomic. This trend was already in place when the pandemic hit, but is now proceeding at an accelerating pace.

Investing for a sustainable future

The United Nations Sustainable Development Goals (SDGs) reflect a global consensus on the most urgent environmental and societal issues. A new crop of investments built around the SDGs are helping investors to direct capital into potential growth companies, while also addressing the biggest issues facing the planet.

lasts longer than was expected before the pandemic hit.

• This, in turn, will lead to an investment crisis, which should bolster riskier investment categories such as equities; even so, the valuation situation for equities is somewhat tense.

• Hopes for a rapid recovery in value could be disappointed.

Currencies

• In recent weeks, both the euro-to-US dollar and the US dollar-to-pound sterling ratios have detached themselves from the interest rate differential of the different investment regions, which is otherwise so influential in exchange rates.

• As the net positions in the futures markets show, the appetite for speculation about appreciation of the US dollar has subsided, which has benefited the Japanese yen.

• Beyond this speculative momentum, however, the greenback should continue to benefit from its status as a "safe haven" in a world of uncertainty in the wake of the coronavirus.

• Its importance as both a debt and an investment currency has increased even further over the last few years. China is by far the biggest holder of US dollars.

Commodities

• The price of oil is, in some cases, painfully below the price needed to balance the budget in the oil-exporting countries.

• On average, Organization of Petroleum Exporting Countries (OPEC) member countries would need an oil price of USD 90 per barrel. This indicates the existing pressure to increase production capacity, although OPEC no longer has the price-setting power it wielded in the past, as new producers such as the US have come onto the scene.

• The fact that the lowest point of the economic cycle seems to have passed should help oil and commodities, but it will not solve the surplus oil supply.

Investment theme: Investing in the world of tomorrow

• Interest in thematic investment is increasing. More investors are wondering how they can benefit from megatrends. Four megatrends are shaping the present and the future: demographic change, urbanisation, resource scarcity, and technological progress including the keywords "digitalisation" and "artificial intelligence".

• But how to invest in these megatrends? Megatrends themselves are too abstract to invest in directly. Ultimately, megatrends must be broken down into investment themes through an analytical process.

• Currently, seven themes derived from megatrends appear to be particularly interesting, all of which can be invested in by combining specifically selected individual securities: clean water and soil, digital life, health technology, energy of the future, education, artificial intelligence, and the pet economy.

• When it comes to these themes, flexibility comes out on top. This is because, as with good football players, long-term equity issues sometimes suffer from weaknesses or injuries, and quick action needs to be taken in response. That's when it is important to have good alternatives on the substitute bench.

Stay safe,

Dr Hans-Jörg Naumer

Upcoming Political Events 2020

Jul 16: ECB meeting

Jul 21: BoJ meeting

Overview political events 2020 (click here)

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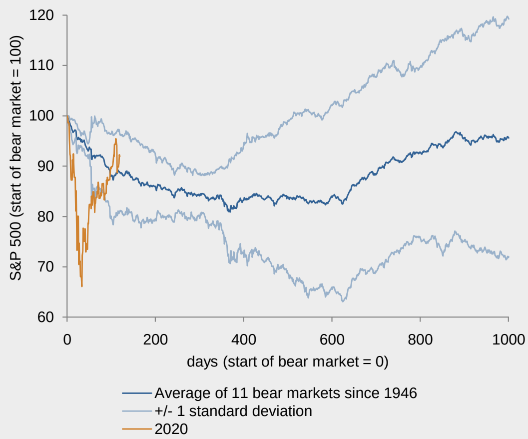
Chart of the Week

All bear markets (equities down by 20% or more)



Source: Allianz Global Investors Global Economics & Strategy, Bloomberg (data as at 17 June 2020)

Calendar Week 28:

Monday			Consensus	Previous
CH	PPI YoY	Jun	--	-3.70%
CH	CPI YoY	Jun	--	2.40%
GE	Trade Balance	May	--	3.5b
GE	Current Account Balance	May	--	7.7b
GE	Exports SA MoM	May	--	-24.00%
GE	Imports SA MoM	May	--	-16.50%
JN	Money Stock M2 YoY	Jun	--	5.10%
JN	Money Stock M3 YoY	Jun	--	4.10%
JN	Core Machine Orders YoY	May	--	-17.70%
JN	Machine Tool Orders YoY	Jun P	--	-52.80%
US	Initial Jobless Claims	Jul-04	--	--
US	Continuing Claims	Jun-27	--	--
Tuesday				
CH	Foreign Reserves	Jun	--	$3101.69b
FR	Trade Balance	May	--	-5021m
FR	Current Account Balance	May	--	-5.4b
GE	Industrial Production YoY	May	--	-25.30%
IT	Retail Sales YoY	May	--	-26.30%
JN	Labor Cash Earnings YoY	May	--	-0.60%
JN	Leading Index	May P	--	--
JN	Coincident Index	May P	--	--
UK	Unit Labor Costs YoY	1Q	--	2.40%
Wednesday				
FR	Industrial Production YoY	May	--	-34.20%
FR	Manufacturing Production YoY	May	--	-37.10%
IT	Industrial Production YoY	May	--	-42.50%
JN	PPI YoY	Jun	--	-2.70%
US	PPI YoY	Jun	--	-0.80%
US	PPI Core YoY	Jun	--	0.30%
Friday				
FR	Bank of France Business Sentiment	Jun	62	83
JN	BoP Current Account Balance	May	--	¥262.7b
JN	Trade Balance BoP Basis	May	--	-¥966.5b
US	Consumer Credit	May	--	-$68.779b
Sunday				
EC	Sentix Investor Confidence	Jul	--	-24.8
EC	Retail Sales YoY	May	--	-19.60%
GE	Factory Orders YoY	May	--	-36.60%
GE	Markit Construction PMI	Jun	--	40.1
UK	Markit Construction PMI	Jun	--	28.9
US	ISM Non-Manufacturing Index	Jun	50.1	45.4