The Week Ahead

Active is: Keeping an eye on capital markets

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Time for a breather?

Once again, news about the Covid-19 pandemic was mixed during the past week. While local outbreaks caused governments to reintroduce lockdown measures, several clinical trials of potential vaccines gave reasons to be hopeful. Backed by these hopes, and the possibility of further fiscal support, international equities climbed to new annual or sometimes even all-time highs.

Equities performed well even though numerous US states had to roll back their easing measures. To date, rapid increases in infection rates have caused 25 US states to suspend their reopening plans, and US consumer sentiment has deteriorated again. This might slow down the recovery in the world's largest economy, as household consumption is one of the key pillars of US growth. Other indicators already point to a decline in mobility and in restaurant reservations. Against this backdrop, and as the US election campaign ramps up, Congress is discussing a new Covid-19 support package. Worth several trillions of dollars, it is designed to cushion the enormous impact on the economy and finance US unemployment support beyond the end of July.

At the same time, the EU heads of state and government agreed on a fiscal package worth a total of EUR 1.8 trillion. EUR 1.074 trillion is earmarked for the upcoming seven-year fiscal framework, and another EUR 750 billion will be provided for an economic and investment programme to counteract the impact of the pandemic. This is an important step towards overcoming the crisis. Among other things, the European Commission will be entitled to fund the Recovery Fund via the capital markets.

In addition, the reporting season for the second quarter will attract some attention. So far, companies have surpassed expectations despite

Publications

Active is: Using AI to achieve more sustainability

The fourth industrial revolution is underway. "Digitisation", "disruption" and "artificial intelligence" are the buzzwords of our time. Despite all the enthusiasm for technology, one issue we should not overlook is the environment. But how can artificial intelligence contribute to a more sustainable economy? That is the question this article attempts to answer.

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 management? Dr. Hans-Jörg Naumer & Andreas Fruschki share their thoughts.

the difficult market environment. In the US, almost 80% exceeded analysts' earnings expectations and more than 70% exceeded sales forecasts. While the figures appear encouraging, they should be taken with a grain of salt, as earnings expectations had been slashed and corporate managements are cautious about the outlook.

The Week Ahead: GDP figures for Q2 will reflect the coronavirus pandemic

In the **US**, the consumer durables order intake will be the first series to be released in the coming calendar week (on Monday), followed by leading indicators by several regional Feds (Monday and Tuesday). The Conference Board consumer confidence index is due on Tuesday; the consensus expects a minor decline due to the rollback of the planned easing. The upcoming **FOMC meeting** and the press conference are important events on Wednesday. The consensus expects the pandemic and the related restrictions to have an impact on the initial GDP estimate for Q2; the annualised figure is expected to point to a contraction of more than 30%.

In the **euro area**, attention will also focus on the **preliminary GDP figures for Q2** (due on Friday). As economic activity was interrupted for much longer than in Q1, total output looks set to show a considerably stronger contraction. In contrast, sentiment indicators, such as the German ifo business climate index (due on Monday) or the French consumer confidence index (Wednesday), might improve further as restrictions are lifted. Sentiment in Europe may continue to brighten. The latest labour market data, which are due on Thursday, will indicate whether hopes of a quick labour market recovery are justified.

The **Chinese** economy recovered more quickly than expected during the second quarter, and this stabilisation is likely to be reflected in the manufacturing PMI on Friday. Meanwhile, **Japanese** industrial output (due on Friday) is likely to have declined once again as exports were sluggish during the first half of the year.

Will the equity markets take a breather?

The equity markets are still doing well, driven by sufficient liquidity and rising risk appetite. Not surprisingly, the cash ratios have dropped from 26% to 18% since March, according to a survey by the American Association of Individual Investors (AAII), and money-market funds registered net outflows of USD 78 billion during the past week alone according to EPFR. Still, we could see a short-term technical breather if the hopes of a further recovery do not materialise. According to the AAII, the proportion of bears has increased slightly – up to 45%. The put-call ratio is considerably above its long-term average, and the relative-strength indicators suggest that the European and the US equity markets are approaching an overbought level (see our *Chart of the Week*).

Keep well! Yours

Stefan Scheurer

Upcoming Political Events 2020

Jul 28: FOMC meeting

Overview political events 2019 (click here)

Overview Central Banks Calender (click here)

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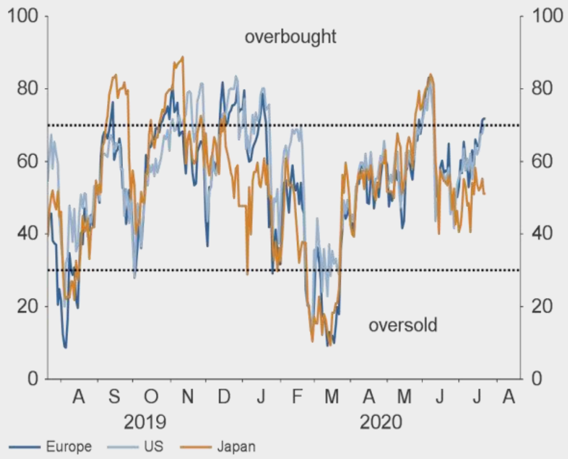
Chart of the Week

Time for a breather? Relative-strength indicators suggest that markets are approaching an overbought level.



Source: Refinitiv Datastream, AllianzGI Global Capital Markets & Thematic Research 7/23/2020

Calendar Week 31:

Monday			Consensus	Previous
EC	M3 Money Supply YoY	Jun	--	8,90%
GE	Ifo Business Climate	Jul	--	86,2
GE	ifo Expectations	Jul	--	91,4
GE	ifo Current Assessment	Jul	--	81,3
JN	All Industry Activity Index MoM	May	--	-6,40%
US	Durable Goods Orders MoM	Jun P	6,50%	15,70%
US	Durables Ex Transportation MoM	Jun P	3,50%	3,70%
US	Dallas Fed Manf. Activity	Jul	--	-6,1
Tuesday				
US	Conf. Board Consumer Confidence	Jul	96,5	98,1
US	Richmond Fed Index	Jul	--	0
Wednesday				
FR	Consumer Confidence	Jul	--	97
IT	PPI YoY	Jun	--	-7,20%
UK	Mortgage Approvals	Jun	--	9.3k
UK	M4 Money Supply YoY	Jun	--	11,90%
US	Wholesale Inventories MoM	Jun P	--	-1,20%
US	Pending Home Sales NSA YoY	Jun	--	-10,40%
US	FOMC Rate Decision (Upper Bound)	Jul-29	0,25%	0,25%
Thursday				
EC	Economic Confidence	Jul	--	75,7
EC	Industrial Confidence	Jul	--	-21,7
EC	Services Confidence	Jul	--	-35,6
EC	Unemployment Rate	Jun	--	7,40%
FR	PPI YoY	Jun	--	-4,10%
GE	GDP SA QoQ	2Q P	--	-2,20%
GE	Unemployment Change	Jul	--	69.0k
GE	Umemployment Rate	Jul	--	6,40%
GE	CPI YoY	Jul P	--	0,80%
IT	Unemployment Rate	Jun P	--	7,80%
JN	Retail Sales MoM	Jun	--	2,10%
US	GDP Annualized QoQ	2Q A	-32,80%	-5,00%
US	Personal Consumption QoQ	2Q A	--	-6,80%
Friday				
CH	NBS Manufacturing PMI	Jul	--	50,9
CH	NBS Non-manufacturing PMI	Jul	--	54,4
EC	GDP SA QoQ	2Q A	--	-3,60%
EC	CPI Estimate YoY	Jul	--	0,30%
EC	CPI Core YoY	Jul P	--	0,80%
FR	GDP QoQ	2Q P	--	-5,30%
FR	CPI YoY	Jul P	--	0,20%
FR	Consumer Spending YoY	Jun	--	-8,30%
IT	GDP WDA QoQ	2Q P	--	-5,30%
IT	CPI YoY	Jul P	--	-0,40%
IT	Retail Sales YoY	Jun	--	-10,50%
JN	Jobless Rate	Jun	--	2,90%
JN	Industrial Production YoY	Jun P	--	-26,30%
JN	Vehicle Production YoY	May	--	-46,10%
JN	Construction Orders YoY	Jun	--	-6,10%
US	Personal Income MoM	Jun	0,50%	-4,20%
US	Personal Spending MoM	Jun	5,60%	8,20%
US	PCE Deflator YoY	Jun	--	0,50%
US	PCE Core Deflator YoY	Jun	--	1,00%
US	MNI Chicago PMI	Jul	43,5	36,6