August 7, 2020

The Week Ahead

Active is: Keeping an eye on capital markets

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Taking stock

Many investors are still rubbing their eyes in amazement. The global MSCI World Index has gained more than 40% since its low in March, and risk premiums on US corporate bonds have moved to within a few basis points of pre-crisis levels. Following this record-setting recovery rally on global capital markets, which has defied all of the negative news flow, it is almost inevitable that investors will want to take stock of what is driving the markets.

Economically, we have emerged from the deep slump caused by lockdowns imposed in March and April. The recovery began rapidly but has slowed somewhat in recent weeks. Nevertheless, in terms of economic indicators such as production levels, many economies are running at only 80%-90% capacity compared to the beginning of the year. In some sectors of the service industry, capacity utilisation is still well below this level. The picture varies regionally: China was able to report positive growth again in the second quarter, and monthly economic data is mostly improving. In Europe, most indicators are also showing a positive trend. The US economy is a cause for concern: jobless claims are rising again, and consumer confidence is falling. Consumer spending could suffer considerably if the government cuts unemployment benefits, which have been quite generous in recent months.

The economic trends are reflected in the **infection rates**: economies where the spread of the virus is more controlled are showing stronger recovery tendencies. As a result, US equity markets could react with unease to the apparent difficulties of containing the virus in the US – even if the case numbers in the heavily affected states have stabilised slightly in recent weeks and the number of deaths relative to the number of infections is declining. From a global perspective, the virus remains active. The markets are drawing great hope from the progress made in the development of a vaccine, not least because the first drug candidates are now entering the critical phase of testing.

Politically, we face several issues. The EU heads of government have sent a strong signal with their agreement on a recovery fund. For the first time in the history of the EU, this means joint debt issuance and a large fiscal redistribution. Many governments face the question of whether they should extend measures to cushion the Covid-19 crisis, such as income transfers and loan guarantees. This is a challenge for national budgets, but it is an important

Publications

Why the coming months are critical to a decisive green transition

As the world battles the Covid-19 pandemic, responsible investors can help make the economic recovery sustainable and inclusive by engaging with the right stakeholders. A PRI working group has developed recommendations for a policy-engagement framework to help guide the investment community's actions. Here are highlights of the group's findings.

Two ways credit can add relative value as the cycle turns

The risk/reward profile of corporate bonds is less attractive now than when the coronavirus crisis began. Since then, bonds from higher-rated firms have been buoyed by central bank support. As the credit cycle turns, we suggest prioritising both issuer and security selection to seek outperformance – potentially with fallen angels and secured bonds.

3 ideas for investors seeking diversification and growth potential

After months of strong outperformance, US markets may face new challenges, including a resurgent coronavirus and political uncertainty. Our US Investment Strategist has three ideas for investors seeking diversification and growth potential: sustainable investing, private-market debt, and securities in Asia and Europe.

step towards strengthening the economic recovery. Particular attention is being paid to the timely extension of unemployment benefits and a new fiscal package in the US.

It is therefore good to have one constant in place: central banks are maintaining their policy of maximum monetary support. Exemplary, the US Federal Reserve has just extended its safety nets for money market funds, mortgage loans and corporate loans until the end of the year.

All in all, Covid-19 continues to have a major impact on our lives and the economy. Regional differences in the management of the crisis are becoming apparent, with corresponding investment opportunities, even though there could be a pause in the recovery rally in the meantime.

Tactical Allocation, Equities & Bonds

• The economic recovery, and an unprecedented stimulus from monetary and fiscal policy, have been instrumental in the rapid recovery of all risky asset classes.

• The scarcity of investment opportunities triggered by massive liquidity injections from central banks has probably led investors to accept higher valuations in some market segments.

• The hopes expressed for a rapid recovery in valuations may result in disappointment. In many regions, including the US, the Covid-19 pandemic remains difficult to control.

• In the meantime, regionally different strategies to contain the virus and mitigate its economic consequences are emerging, which is likely to create new opportunities for active investors.

Currencies

• Since the financial markets bottomed out in the spring, the US dollar has depreciated. Initially, this was probably due, in the main, to the lowered risk aversion of market participants, which likely hurt the greenback because of its status as a "safe haven". Moreover, the dollar was highly valued against many currencies.

• Other aggravating factors that could place the US dollar under pressure include a flare-up in the trade dispute with China, the sluggish containment of the coronavirus, and the increasing political uncertainty in view of the upcoming presidential election.

• At the same time, the political signal from the EU recovery fund has made the euro and other European currencies more attractive, and many classic commodity currencies have also been able to catch up. As long as the positive mood on the markets persists, these developments could continue.

Investment theme: Investing in the world of tomorrow

• Interest in thematic investment is increasing. More investors are wondering how they can benefit from megatrends. such as demographic change, urbanisation, resource scarcity and technological progress, along with the keywords "digitalisation" and "artificial intelligence".

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

• Currently, it is noted that certain themes -- like clean water and clean soil, digital living, health technology, energy of the future, education, artificial intelligence and pet economics etc. -- are derived from these megatrends and could be carefully selected through individual stocks The same principle applies to all these themes: flexibility is key. After all, just as with good footballers who are unable to play after an injury, there can be bumps in the road for long-term equity investments. In these circumstances, it is essential to react quickly. For this reason, it is particularly important to have good alternatives on the substitutes' bench.

Stay safe,

Stefan Rondorf

Upcoming Political Events 2020

Overview political events 2020 (click here)

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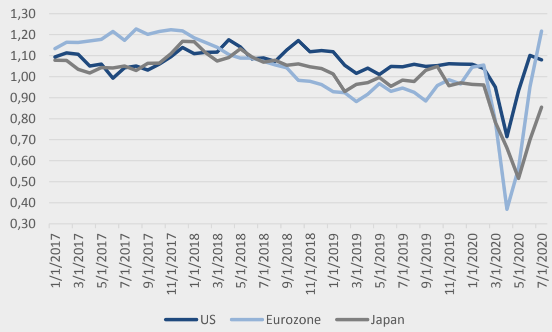
Chart of the Week

Some regionally different dynamics: Orders-to-inventory ratios of the July Manufacturing Purchasing Manager Indices (PMI)



Source: Bloomberg, Markit, as of August 5 2020

Calendar Week 33:

Monday			Consensus	Previous
CH	PPI YoY	Jul	-2,50%	-3,00%
CH	CPI YoY	Jul	2,60%	2,50%
EC	Sentix Investor Confidence	Aug	--	-18,2
FR	Bank of France Business Sentiment	Jul	--	89

Tuesday				
EC	ZEW Survey Expectations	Aug	--	59,6
GE	ZEW Survey Expectations	Aug	--	59,3
GE	ZEW Survey Current Situation	Aug	--	-80,9
JN	BoP Current Account Balance	Jun	--	¥1176.8b
JN	Trade Balance BoP Basis	Jun	--	-¥556.8b
UK	Jobless Claims Change	Jul	--	-28.1k
UK	Average Weekly Earnings 3M/YoY	Jun	--	-0,30%
UK	ILO Unemployment Rate 3Mths	Jun	--	3,90%
US	PPI YoY	Jul	--	-0,80%
US	PPI Core YoY	Jul	--	0,10%

Wednesday				
EC	Industrial Production YoY	Jun	--	-20,90%
JN	Money Stock M2 YoY	Jul	--	7,20%
JN	Money Stock M3 YoY	Jul	--	5,90%
JN	Machine Tool Orders YoY	Jul P	--	-32,10%
UK	Industrial Production YoY	Jun	--	-20,00%
UK	Manufacturing Production YoY	Jun	--	-22,80%
UK	Construction Output YoY	Jun	--	-39,70%
UK	Trade Balance GBP/Mn	Jun	--	£4296m
UK	GDP QoQ	2Q P	--	-2,20%
US	CPI YoY	Jul	0,70%	0,60%
US	CPI Ex Food and Energy YoY	Jul	1,10%	1,20%
US	Real Avg Weekly Earnings YoY	Jul	--	4,60%

Thursday				
FR	ILO Unemployment Rate	2Q	--	7,80%
JN	PPI YoY	Jul	--	-1,60%
US	Import Price Index YoY	Jul	--	-3,80%
US	Export Price Index YoY	Jul	--	-4,40%

Friday				
CH	Industrial Production YoY	Jul	5,10%	4,80%
CH	Retail Sales YoY	Jul	0,20%	-1,80%
CH	Fixed Assets Ex Rural YTD YoY	Jul	-1,60%	-3,10%
EC	Trade Balance SA	Jun	--	8.0b
EC	GDP SA QoQ	2Q P	--	-12,10%
JN	Tertiary Industry Index MoM	Jun	--	-2,10%
US	Retail Sales MoM	Jul	1,40%	7,50%
US	Unit Labor Costs YoY	2Q P	6,00%	5,10%
US	Retail Sales Ex Auto and Gas YoY	Jul	--	6,70%
US	Industrial Production MoM	Jul	3,00%	5,40%
US	Capacity Utilization	Jul	71,00%	68,60%
US	Business Inventories MoM	Jun	-1,20%	-2,30%
US	U. of Mich. Sentiment	Aug P	71	72,5