

The Week Ahead

March 16th 2018

“New Beginnings”

March 2018 is turning out to be a month of new beginnings on the political stage. The **new coalition government in Germany** is not the only example which comes to mind. At the beginning of the month, eleven Pacific rim countries – without the US – signed the **evolution of the Trans-Pacific Partnership (TPP) trade agreement** and thus took an important step towards free inter-continental trade. In contrast, the **Cabinet reshufflements** in the US point towards trade constraints and make markets nervous. And in China, the way is clear for Xi Jinping to become **president for life**. This may be the beginning of a new era, even though familiar personalities and goals remain in place.

At the same time, the global economic cycle is entering into a new stage, namely **late-cycle reflation**. What will be the main features of this stage?

1. While we expect **growth** to remain **above potential**, the **momentum is likely to slow** again after having accelerated for roughly one-and-a-half years. At least that is what numerous sentiment indicators suggested in February, for example PMIs from China and Japan or the German ifo business climate index.
2. Simultaneously, **inflation looks set to pick up gradually**, above all in the US. The consumer price inflation figures for February confirm this scenario, as they rose moderately to 2.2% year-on-year. The annualised three-month rate of core inflation (prices excluding energy and food) came in at over 3%. A decisive factor for how far this uptrend can take us will be wage inflation, which is gradually rising in the US and other countries, as the slack on the labour markets is diminishing.
3. Equity returns should increasingly be driven by **corporate profits**, which showed double-digit growth rates year-on-year in Europe, the US and in Japan during the past quarter. While the year-on-year growth rates are likely to decline somewhat, corporate earnings will continue to provide **significant cyclical support**. In contrast some **headwind will come from valuations**, as we will leave peak liquidity behind and the momentum of growth is likely to slow while inflation looks set to accelerate. This points to stagnating or even deteriorating P/E ratios. Still, this should not give rise to concern, as it is a common pattern during the later stages of the economic cycle. And we have seen it emerge on all major global equity markets during the past few months.

Publications



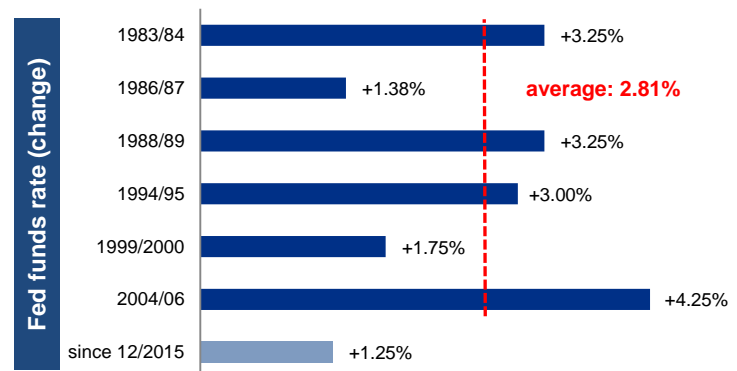
“Dividends”

In a large number of advanced countries, the current yields of governments bonds are hovering in negative territory or, at the very least, are at an insufficient level to preserve capital. Consequently, attention is increasingly shifting to dividends as a way of generating capital income; and they are becoming even more relevant as the issue of “reflation” comes to the fore with a gradual uptick in inflation rates.

“Allianz Global Investors Insights”

- Beyond the Bitcoin Bubble, the Benefits of Blockchain (Stefan Hofrichter)
- Big Tech Must Pitch in on Social Infrastructure (Karl Happe)
- Brexit Blues: Survey Shows Rising UK Consumer Concerns (Nicole Passavvas)

Chart of the Week: An unusual shallow rate hike cycle



Source: Allianz Global Investors Global Economics & Strategy, Bloomberg, Datastream. Data as of 5 March 2018.



Understand. Act.

Conclusion

Despite the slowdown in momentum, the **global growth environment remains favourable**. The risk of a recession is still low, and while the **economic cycle is maturing, it has not yet entered the downswing**. In the medium term, equities should continue to beat bonds, and earnings growth will become the key variable. As the growth momentum slows, capital markets might find it harder to deal with emerging political uncertainty and become somewhat more volatile.

The Week Ahead

The **Fed meeting** will be the most important event during the coming week. A new era is beginning at the Fed, too, as Chairman Jerome Powell seems likely to announce a Fed funds rate hike directly after the first meeting he ever chairs. The bond markets in particular will be interested in whether the voting members of the Federal Open Market Committee ("FOMC") **hint at a fourth rate step during the remainder of the year**; so far, three rate hikes are projected. We believe they may, seeing that the US administration's tax cuts will give the economy another boost. In any case, the Fed's total rate hikes of 1.25% have been unusually moderate so far during the current cycle, which started more than 800 days (or c. 27 months) ago (see our *Chart of the Week*).

In addition, a rate decision by the **Bank of England** is on the agenda, and the **PMIs** will help us to understand whether we are indeed in for a slowdown and how severe it may become. On Friday, US consumer durables order intake will give us more insight into US investment sentiment, which had recently improved.

To new beginnings – may they prove beneficial for you!



Stefan Rondorf

Senior Investment Strategist,
Global Economics & Strategy

Yours,

Stefan Rondorf



Upcoming Political Events 2018

March:

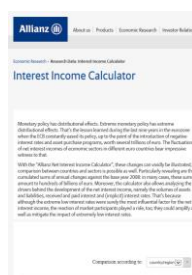
18 Mar	China National People's Congress
18 Mar	Russian presidential election
20-21 Mar	FOMC meeting and economic projections
22 Mar	BoE meeting and minutes

April:

Apr	IMF World Economic Outlook
Apr	ASEAN Summit Singapore

[→ Overview political events 2018](#)

Weitere Publikationen:



"Interest Income Calculator"

Monetary policy has distributional effects. Extreme monetary policy has extreme distributional effects. That's the lesson learned during the last nine years in the eurozone when the ECB constantly eased its policy, up to the point of the introduction of negative interest rates and asset purchase programs, worth several trillions of euro. The fluctuations of net interest incomes of economic sectors in different euro countries bear impressive witness to that.

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Calendar Week 12:

Monday

- Japan:
 - Trade Balance (Feb) (-¥944.1bn)
 - Exports (Feb) (12.3% y/y)
 - Imports (Feb) (7.9% y/y)
- UK:
 - Rightmove House Prices (Mar) (1.5% y/y)
- Italy:
 - Industrial Production, wda (Jan) (4.9% y/y)
- Eurozone:
 - Trade Balance, sa (Jan) (€23.8bn)
 - Construction Output (Jan) (0.5% y/y)

Tuesday

- Germany:
 - PPI (Feb) (2.1% y/y)
 - ZEW Survey Current Situation (Mar) (92.3)
 - ZEW Survey Expectations (Mar) (17.8)
- UK:
 - CPI (Feb) (2.1% y/y)
 - CPI Core (Feb) (1.8% y/y)
 - PPI Input, nsa (Feb) (4.7% y/y)
 - PPI Output, nsa (Feb) (2.8% y/y)
 - House Price Index (Jan) (5.2% y/y)
- Eurozone:
 - ZEW Survey Expectations (Mar) (29.3)
 - Consumer Confidence (Mar A) (0.1)

Wednesday

- UK:
 - Jobless Claims Change (Feb) (-7.2k)
 - Average Weekly Earnings, 3M (Jan) (2.5% y/y)
 - ILO Unemployment Rate (Jan) (4.4%)
 - Public Sector Net Borrowing ex Banking (Feb) (-£10.0bn)
- US:
 - Current Account Balance (4Q) (-\$100.6bn)
 - Existing Home Sales (Feb) 0.7% m/m (-3.2% m/m)
 - FOMC Rate Decision 1.50%-1.75% (1.25%-1.50%)

Thursday

- Japan:
 - Nikkei Manufacturing PMI (Mar P) (54.1)
 - All Industry Activity Index (Jan) (0.5% m/m)
- France:
 - Markit Manufacturing PMI (Mar P) (55.9)
 - Markit Services PMI (Mar P) (57.4)
 - Markit Composite PMI (Mar P) (57.3)
- Germany:
 - Markit Manufacturing PMI (Mar P) (60.6)
 - Markit Services PMI (Mar P) (55.3)
 - Markit Composite PMI (Mar P) (57.6)
 - Ifo Business Climate (Mar) (115.4)
 - Ifo Expectations (Mar) (105.4)
 - Ifo Current Assessment (Mar) (126.3)
- Eurozone:
 - Markit Manufacturing PMI (Mar P) (58.6)
 - Markit Services PMI (Mar P) (56.2)
 - Markit Composite PMI (Mar P) (57.1)
 - Current Account Balance, sa (€29.9bn)
 - ECB Publishes Economic Bulletin
- UK:
 - Retail Sales ex Auto and Fuel (1.5% y/y)
 - Retail Sales inc Auto and Fuel (1.6% y/y)
 - Bank of England Bank Rate (0.50%)
 - Bank of England Asset Purchase Target (¥435bn)
- US:
 - Initial Jobless Claims (17 Mar)
 - Continuing Claims (10 Mar)
 - Markit Manufacturing PMI (Mar P) (55.3)
 - Markit Services PMI (Mar P) (55.9)
 - Markit Composite PMI (Mar P) (55.8)
 - Leading Index (Feb) 0.3% m/m (1.0% m/m)
 - Kansas City Fed Manufacturing Activity (Mar) (17)

Friday

- Japan:
 - CPI (Feb) (1.4% y/y)
 - CPI Core (Feb) (0.9% y/y)
- US:
 - Durable Goods Orders (Feb P) 1.8% m/m (-3.6% m/m)
 - New Home Sales (Feb) 3.7% m/m (-7.8% m/m)

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