

# The Week Ahead

## Active is: Keeping an eye on capital markets



Ann-Katrin Petersen

Vice President,  
Global Economics &  
Strategy

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### "What the Year of the Metal Rat holds in store for us"

In the Chinese calendar, the current year – the year of the Earth Pig – is also drawing to a close. As far as the capital markets are concerned, the Earth Pig – a symbol of good fortune and prosperity – doubtless lived up to its name in 2019. Performance was positive across a broad spectrum of asset classes, fuelled mainly by more expansive monetary and fiscal policy but also by progress in the trade conflict between the US and China and hopes of an upward turnaround in economic growth. As we start a new decade, what will the balance of forces look like between (geo-)politics, global economic development and monetary policy?

- To begin with, 2020 promises to be another **highly political** year, as demonstrated by the recent tensions in the Middle East. Moreover, although the uncertainty surrounding trade policy may wane somewhat in the wake of the partial US-China trade agreement, it will still remain severe compared with previous years. There is no guarantee that the rivalry between the two superpowers won't reignite after the US presidential elections (in November). In the meantime, the UK has until the summer to decide whether the Brexit transition period up to year-end will actually be sufficient to secure the framework conditions governing its complex future partnership with Europe.
- With regard to the economic outlook, the signs for 2020 are, for the time being, pointing towards more of the same **late-cycle "muddling through"** rather than a vigorous and sustainable acceleration of the world economy. Over the past weeks, prices on the financial markets had been increasingly reflecting a scenario of a global economic recovery. And indeed, the signs of stabilisation have increased recently (see our *Chart of the Week*). We remain sceptical, however, as to whether

### Publications



### Capital Markets Monthly: "What the Year of the Metal Rat holds in store for us"

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### Impact investments are the future

For a long time 'investing in a good cause' was not regarded as an investment activity in the strict financial sense, but was assigned to the area of charity. The reason for this is the lack of an intention to generate returns. But any tension between good purpose and yield is only illusory and impact investments help bridge the gap.

### Why Active? | Integrating ESG into fixed-income investing

ESG factors have historically been more commonly associated with equity investments, but the past year has seen a significant change with fixed-income investors pushing for ESG factors to be appropriately and demonstrably integrated into investment analysis and risk decisions.

this development will prove to be sustainable. After nearly two years of steady weakening, a counter-movement in global macro data is more than overdue, even if only for technical reasons, and yet the environment remains characterised by numerous negative cyclical and structural factors (including shrinking profit margins in the US, the exhaustion of monetary policy, and high levels of debt in multiple regions).

- Overall, monetary policy remains loose although there are increasing signs that **central banks are unwilling to become even more expansive in the foreseeable future**. The US Fed has signalled the end of its small interest rate cut cycle for the time being, while the European Central Bank (ECB) is gradually reaching the limits of its options after its comprehensive easing package in September. Taken by itself, this will exert moderate upward pressure on yields on the bond markets for the time being. Of even more significance in the medium term, however, will be the extent to which the Fed and the ECB adjust their operational targets and toolboxes during their ongoing **strategy reviews**.

#### What does all of this mean for the financial markets?

One thing is certain: 2020 will be another exciting year. The stock markets are currently being propped up by hopes that the global economy will experience a renewed upwards trend. Share price potential is, however, limited by the ongoing fundamental and political challenges to which the capital market environment is exposed. Alpha will continue to set the tone in an environment of low trending growth and subdued market returns (beta). The more unexpected the headlines that rain down on the markets, the more share price volatility will need to be circumvented – and the more opportunities we believe will arise for an active management style.

Thank goodness the sign for the Chinese year beginning on 25 January is the Metal Rat: Rats are clever and adaptable, and keep their cool even in unexpected situations, while the element metal is symbolic of financial opportunities.

#### Tactical Allocation

We expect moderate global economic growth to continue beneath its potential in 2020. In light of the potential for persisting (geo-)political tensions and increasing late-cyclical imbalances, the downward risks continue to dominate, despite tiny repeated glimmers of hope. Although loose monetary policy is still stimulating both the economy and equity prices, it will reach

its limits over the medium term. Investors who have been sitting on the fence for too long may feel increasingly compelled to engage. For this trend to continue, however, proof must yet be provided that economic and corporate indicators have stabilised. From an overall perspective, overweighting equities would seem expedient, albeit coupled with a readiness for tactical adjustment. Continue to expect increased market volatility, partly as a result of residual political uncertainties.

Remain active, is the advice of  
Ann-Katrin Petersen

#### Upcoming Political Events 2020

Jan 20: BoJ meeting

Jan 23: ECB meeting

Jan 28: FOMC meeting

[Overview political events 2019 \(click here\)](#)

[Overview Central Banks Calendar \(click here\)](#)

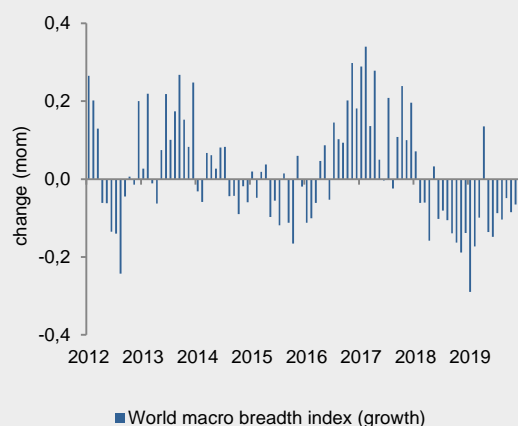
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#### Chart of the Week

Global macro data ended 2019 on a firmer note



Note: The World Macro Breadth Indices track the direction of 353 global, regional and country macro data (271 growth and 82 inflation indicators) on a monthly basis. The monthly change of the index is scaled from -1 to 1, with a value of 1 (-1) implying an increase (decrease) of all underlying data. Sources: Allianz Global Investors Global Economics & Strategy, Bloomberg, Datastream.

## Calendar Week 3:

Monday			Consensus	Previous
IT	Retail Sales YoY	Nov	--	1.0%
UK	Trade Balance	Nov	-£2500m	-£5188m
UK	Industrial Production YoY	Nov	-1.3%	-1.3%
UK	Construction Output YoY	Nov	-1.4%	-2.1%
Tuesday				
CH	Exports YoY	Dec	1.6%	-1.1%
CH	Imports YoY	Dec	8.2%	0.3%
CH	Trade Balance	Dec	\$45.0b	\$38.7b
JN	BoP Current Account Balance	Nov	--	¥1816.8b
JN	Trade Balance BoP Basis	Nov	--	¥254.0b
US	CPI YoY	Dec	--	2.1%
US	CPI Ex Food and Energy YoY	Dec	--	2.3%
US	Real Avg Weekly Earnings YoY	Dec	--	1.1%
Wednesday				
EC	Industrial Production YoY	Nov	--	-2.2%
EC	Trade Balance SA	Nov	--	24.5b
JN	Money Stock M3 YoY	Dec	--	2.3%
JN	Machine Tool Orders YoY	Dec P	--	-37.9%
UK	CPI YoY	Dec	--	1.5%
UK	CPI Core YoY	Dec	--	1.7%
UK	PPI Input NSA YoY	Dec	--	-2.7%
UK	PPI Output NSA YoY	Dec	--	0.5%
UK	House Price Index YoY	Nov	--	0.7%
US	PPI YoY	Dec	--	1.1%
US	PPI Core YoY	Dec	--	1.3%
US	Empire Manufacturing	Jan	4.0	3.5
Thursday				
EC	EU27 New Car Registrations	Dec	--	4.9%
JN	Core Machine Orders YoY	Nov	--	-6.1%
JN	PPI YoY	Dec	--	0.1%
US	Export Price Index YoY	Dec	--	-1.3%
US	Retail Sales MoM	Dec	0.5%	0.2%
US	Retail Sales Ex Auto and Gas YoY	Dec	--	0.0%
US	Import Price Index YoY	Dec	--	-1.3%
US	Philadelphia Fed Business Outlook	Jan	--	0.3
US	Initial Jobless Claims	Jan 11	--	--
US	Continuing Claims	Jan 04	--	--
US	Business Inventories MoM	Nov	0.1%	0.2%
US	NAHB Housing Market Index	Jan	--	76
Friday				
CH	Retail Sales YoY	Dec	7.8%	8.0%
CH	Industrial Production YoY	Dec	5.8%	6.2%
CH	Fixed Assets Ex Rural YTD YoY	Dec	5.2%	5.2%
CH	GDP SA QoQ	4Q	--	1.5%
EC	ECB Current Account SA	Nov	--	32.4b
EC	Construction Output YoY	Nov	--	0.3%
EC	CPI YoY	Dec	--	1.0%
IT	Current Account Balance	Nov	--	€8600m
IT	Trade Balance	Nov	--	€8057m
JN	Tertiary Industry Index MoM	Nov	--	-4.6%
UK	Retail Sales Ex Auto Fuel YoY	Dec	--	0.8%
UK	Retail Sales Inc Auto Fuel YoY	Dec	--	1.0%
US	Building Permits MoM	Dec	-0.8%	1.4%
US	Housing Starts MoM	Dec	0.8%	3.2%
US	Capacity Utilization	Dec	77.2%	77.3%
US	Industrial Production MoM	Dec	0.0%	1.1%
US	U. of Mich. Sentiment	Jan P	99.0	99.3

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