The Week Ahead

Active is: Keeping an eye on capital markets



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🈏 @AllianzGI VIEW

"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

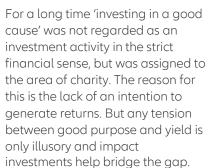
Publications



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

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. As we start a new decade, what will the balance of forces look like between (geo-)politics, global economic development and monetary policy? One thing is certain: 2020 will be another exciting year. It's therefore all the better that it will be the Year of the Metal Rat. Read more about what drives financial markets as the year turns in our latest Capital Markets Monthly.







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 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

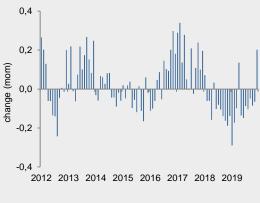
Overview political events 2019 (click here) Overview Central Banks Calender (click here)

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to our publications (click here) to our twitter feed (click here)

Chart of the Week

Global macro data ended 2019 on a firmer note



World macro breadth index (growth)

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, Datastraam

Calendar Week 3:

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