

The Week Ahead

Active is: Keeping an eye on capital markets



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Is the optimism justified?

The markets got off to a good start into 2020, being obviously buoyed by geopolitical developments, as the signing of the "phase 1" deal between the US and China alleviated the tensions. Moreover, market participants appear quite optimistic about growth. Growth and (geo-)politics are, in fact, interrelated: if (geo-)political risks decline, capital expenditure tends to rise. And higher capital spending is quite necessary, as the development in manufacturing is the main reason for the recent slowdown in growth. This applies to the US as well as to Europe and the emerging markets. It is truly a global phenomenon. And in fact, our broad global macro-economic indicator rose for the first time in eight months in December, led by the US.

Investors are currently on a shopping spree. This is evident not only from equity prices, but also from the large proportion of bulls among private investors and the increased willingness to overweight riskier asset classes visible in our survey among professional investors.

The Week Ahead

Nevertheless, the optimism should be supported by fundamentals, which is why the upcoming economic data will play an important role. The **ifo business climate index** for Germany is the first indicator to be released. After having climbed to a 6-month high in December, the index will need to defend or even improve its level.

Manufacturing will play a major part in this endeavour, seeing that this sector was the main reason for the past decline. On Tuesday, we will get manufacturing order intake and the **Conference Board consumer confidence index** from the US. While the direction of the ISM index has recently been unclear, consumer confidence seems to be remaining stable at a high level. On Thursday, euro-area economic sentiment will be released. This series recently indicated a stabilisation. And towards the end of the week, euro-area GDP and the GfK consumer confidence index for the **UK** are on the agenda.

Publications



Active is: Generating capital income with dividends

Bond yields are currently deep in the red. Almost 25 % of all outstanding bonds world-wide carry a negative nominal yield. In Germany, yields are below zero for roughly 90 % of outstanding government bonds. The percentage for the euro area is 60 %. And that is even before considering inflation. The hunt for income is becoming more difficult than ever.



In the Year of the Rat, think even longer term

This Chinese New Year, more than a billion people globally will celebrate the Year of the Rat. We believe investors everywhere can also find reason to celebrate China as a source of continued economic growth. Even if US-China tensions linger, China's heavy investment in advanced manufacturing and regional partnerships should strengthen its position as a global economic powerhouse in the years ahead.



Being a rational optimist

The world is becoming a better place. All the indicators concur: increasing life expectancy on every continent of the planet, falling child mortality and child labour, rising prosperity and, from a global perspective, declining inequality. Wherever the forces of creative disruption are allowed to unfold, we have every reason to be rational optimists. But what does this mean for investors and others?

The latter is showing signs of improvement from a low level. And last but not least, the Chicago PMI will be published, which is likely to confirm signs of a turnaround.

While the **European Central Bank** (ECB) is continuing its strategic review, the **Federal Reserve** (Fed) is unlikely to see much reason for action in this environment. A rate step is therefore improbable.

In Europe, the corporate **reporting season** will start in earnest next week. There is no reason for excessive optimism.

Active is: Beware of unjustified optimism.

The optimism comes with some side effects, not all of which are desirable. Our “exuberance” indicator for the equity markets, which describes the relationship between the P/E (“price/earnings”) ratios of the S&P 500 and equity price volatility in the US, is more than one standard deviation above the long-term average registered since the 1990s, which suggests a latent loss of touch with reality. This is probably the main reason for the bout of equity market weakness last Tuesday. Market observers suggested that equities suffered from the emergence of a new coronavirus in China. In reality, however, they might have been searching for firmer ground. This is in line with the fact that, according to our relative strength indicators, equities are clearly overbought in the major investment regions (see our *Chart of the Week*). Overbought equities and a large number of bulls – that constellation raises the question of who should buy equities if everyone has already done so?

Beware of unjustified optimism and wait for the facts. Yours

Dr. Hans-Jörg Naumer.

Upcoming Political Events 2020

Jan 28: FOMC meeting

Jan 30: Lunar New Year holiday

Mar 12: ECB meeting

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

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

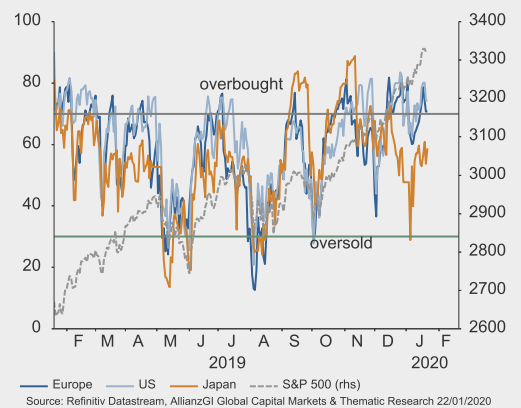
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Chart of the Week

According to our relative strength indicators, equities are clearly overbought in the major investment.



Calendar Week 5:

Monday			Consensus	Previous
GE	Ifo Business Climate	Jan	--	96.3
GE	Ifo Expectations	Jan	--	93.8
GE	Ifo Current Assessment	Jan	--	98.8
US	New Home Sales MoM	Dec	0.8%	1.3%
US	Dallas Fed Manf. Activity	Jan	--	-3.2
Tuesday				
US	Durable Goods Orders MoM	Dec P	1.7%	-2.1%
US	Durables Ex Transportation MoM	Dec P	0.4%	-0.1%
US	Conf. Board Consumer Confidence	Jan	128.1	126.5
US	Richmond Fed Index	Jan	--	-5
Wednesday				
EZ	M3 Money Supply YoY	Dec	--	5.6%
FR	Consumer Confidence Index	Jan	--	102
GE	GfK Consumer Confidence	Feb	--	9.6
IT	Consumer Confidence Index	Jan	--	110.8
IT	Economic Sentiment	Jan	--	100.7
JN	Consumer Confidence Index	Jan	--	39.1
US	Wholesale Inventories MoM	Dec P	--	-0.1%
US	Pending Home Sales NSA YoY	Dec	--	5.6%
US	FOMC Rate Decision (Upper Bound)	Jan 29	1.75%	1.75%
Thursday				
EZ	Economic Confidence	Jan	--	101.5
EZ	Industrial Confidence	Jan	--	-9.3
EZ	Business Climate Indicator	Jan	--	-0.25
EZ	Services Confidence	Jan	--	11.4
EZ	Unemployment Rate	Dec	--	7.5%
GE	Unemployment Rate	Jan	--	5.0%
GE	CPI YoY	Jan P	--	1.5%
UK	Bank of England Bank Rate	Jan 30	--	0.75%
UK	BoE Asset Purchase Target	Jan	--	£435b
US	GDP Annualized QoQ	4Q A	2.2%	2.1%
US	Personal Consumption QoQ	4Q A	--	3.2%
US	Initial Jobless Claims	Jan 25	--	--
US	Continuing Claims	Jan 18	--	--
Friday				
CH	NBS Manufacturing PMI	Jan	--	50.2
CH	NBS Non-manufacturing PMI	Jan	--	53.5
EZ	GDP SA QoQ	4Q A	--	0.2%
EZ	CPI Estimate YoY	Jan	--	1.3%
EZ	CPI Core YoY	Jan P	--	1.3%
FR	GDP QoQ	4Q P	--	0.3%
FR	PPI YoY	Dec	--	-0.8%
FR	CPI YoY	Jan P	--	1.6%
IT	GDP WDA QoQ	4Q P	--	0.1%
JN	Tokyo CPI YoY	Jan	--	0.9%
JN	Tokyo CPI Core YoY	Jan	--	0.8%
JN	Jobless Rate	Dec	--	2.2%
JN	Retail Sales MoM	Dec	--	4.5%
JN	Industrial Production YoY	Dec P	--	-8.2%
JN	Construction Orders YoY	Dec	--	-1.2%
UK	GfK Consumer Confidence	Jan	--	-11
UK	M4 Money Supply YoY	Dec	--	4.5%
US	Personal Income MoM	Dec	0.3%	0.5%
US	Personal Spending MoM	Dec	0.3%	0.4%
US	PCE Deflator YoY	Dec	--	1.5%
US	PCE Core Deflator YoY	Dec	1.6%	1.6%
US	MNI Chicago PMI	Jan	49.0	48.9

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