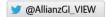
# The Week Ahead

### Active is: Keeping an eye on capital markets



Stefan Rondorf

Senior Investment Strategist, Global Economics & Strategy



### Let's play earnings recovery

Right now, attention largely focuses on the **coronavirus**, which is likely to have a short-term – if certainly tragic – impact. We believe, however, that investors should not lose sight of **fundamental factors**, such as **corporate earnings**. In 2019, earnings in many developed markets stagnated or rose slightly at best, even as most equity prices went through the roof. As a result, **P/E ratios widened** considerably; at the moment, the P/E ratio for the global MSCI World index stands at 17x (based on 12-month forward earnings). In comparison, it averaged only c. 15.4x during the past 20 years.

While it is not unusual that equity prices rise before earnings, this phenomenon mostly occurs at the beginning of an economic cycle, when equity market investors expect a strong economic and earnings upswing. The actual earnings figures do not improve until several quarters later. What does this mean in the current situation? Equity market investors seem to have overcome their recession fears felt at the beginning of 2019 and to expect another (re-)acceleration of both economic and earnings growth, despite the maturing cycle.

These hopes are not completely unfounded, as the recovery of several leading indicators confirms (see our Chart of the Week). However, the price uptrend seems to have **outpaced** the cautious rise in economic indicators. And the momentum of the (usual) downward revisions of earnings expectations is slow to decline. This combination increases equity market vulnerability, as the "black swan" coronavirus outbreak showed last week.

### **Publications**



### 20 years into the 21st century, here's what investors need to know

In the last two decades, the global economy experienced major transformations. Here are some of the top stories from the start of the 21st century – and what investors can learn from them



## 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. For that reason, dividends seem to get more attention. They could help to achieve capital income and stop the drain on wealth.



## An ESG framework for EM sovereign bonds

The creditworthiness of an emerging market country is dependent on many factors. Typically, investors focus on a range of macroeconomic variables, such as fiscal deficits, debt levels, or the stock of foreign exchange reserves.



#### The Week Ahead

As in every first week of the month, the manufacturing and services PMIs will be released on Monday and Wednesday, respectively. According to preliminary figures, the gradual recovery of the last few months is likely to continue. Otherwise, attention is likely to focus on economic and political news from the US. On Friday, the monthly labour market report is due; the consensus expects employment to remain healthy.

From a geopolitical vantage point, a decisive phase of the US presidential election campaign will begin on Monday, with the **first Democratic caucus in Iowa**. President Donald Trump's Democratic opponent will be chosen in a series of caucuses and primaries across all US states. Right now, observers expect a neck-and-neck race between Joe Biden and Bernie Sanders in the Iowa caucus. If Bernie Sanders, an outspoken critic of capitalism, wins, the US capital markets might get a bit nervous. This almost overshadows the fact that **the UK will no longer be an EU Member State** as of next week.

## Active is: Keeping an eye on the pace of the recovery

In the short term, the capital markets appear vulnerable to the coronavirus. As the central banks are sticking to their expansionary monetary policies for now and a recession is not imminent, equities should offer moderate upward potential in the medium term. However, higher corporate earnings and rising willingness to invest will be necessary for a sustained recovery.

Wishing you a successful week

Yours,

Stefan Rondorf

### **Upcoming Political Events 2020**

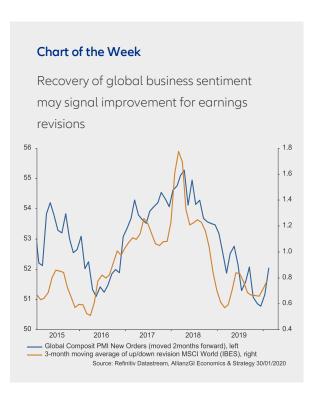
Mar 12: ECB meeting Mar 17: FOMC meeting Mar 18: BoJ meeting

Overview political events 2019 (click here)

Overview Central Banks Calender (click here)

### Global Capital Markets & Thematic Research goes MP3, iPod & Blackberry:

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



#### Calendar Week 6:

Mon	day		Consensus	Previous
СН	Caixin Manufacturing PMI	Jan	51	51.5
IT	Markit Italy Manufacturing PMI	Jan		46.2
JN	Vehicle Sales YoY	Jan		-9.5%
US	Construction Spending MoM	Dec	0.4%	0.6%
US	ISM Manufacturing	Jan	48	47.2
Tues	day			
ΕZ	PPIYoY	Dec		-1.4%
IT	CPLYoY	Jan P		0.5%
JN	Monetary Base YoY	Jan		3.2%
UK	Markit Construction PMI	Jan		44.4
US	Factory Orders MoM	Dec	0.7%	-0.7%
US	Factory Orders ex. Transport MoM	Dec		0.3%
Wed	Inesday			
CH	Caixin Composite PMI	Jan		52.6
CH	Caixin Services PMI	Jan	52	52.5
EZ	Retail Sales YoY	Dec		2.2%
IT	Markit Italy Services PMI	Jan		51.1
İT	Markit Italy Composite PMI	Jan		49.3
US	ADP Employment Change	Jan	155k	202k
US	Trade Balance	Dec	-\$46.0b	-\$43.1b
US	ISM Non-Manufacturing Index	Jan	55	55
	•			
	sday			
GE	Factory Orders YoY	Dec		-6.5%
GE	Markit Construction PMI	Jan		53.8
US	Unit Labor Costs YoY	4Q P	0.9%	2.5%
US	Initial Jobless Claims	Feb 01		
US	Continuing Claims	Jan 25		
Fride	ау			
СН	Exports YoY	Jan	-	7.6%
СН	Imports YoY	Jan		16.3%
CH	Trade Balance	Jan		\$46.79b
FR	Industrial Production YoY	Dec		1.3%
FR	Manufacturing Production YoY	Dec		1.2%
FR	Trade Balance	Dec		-5584m
FR	Current Account Balance	Dec		0.5b
GE	Trade Balance	Dec		18.3b
GE	Current Account Balance	Dec		24.9b
GE	Exports SA MoM	Dec		-2.3%
GE	Imports SA MoM	Dec		-0.5%
GE	Industrial Production YoY	Dec		-2.6%
IT	Retail Sales YoY	Dec		0.9%
JN	Labor Cash Earnings YoY	Dec		-0.2%
JN	Leading Index	Dec P		90.8
JN	Coincident Index	Dec P		94.7
US	Change in Nonfarm Payrolls	Jan	153k	145k
US	Unemployment Rate	Jan	3.5%	3.5%
US	Average Hourly Earnings YoY	Jan		2.9%
US	Consumer Credit	Dec		\$12.513b

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. [\*] Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted. This material has not been reviewed by any regulatory authorities. In mainland China, it is used only as supporting material to the offshore investment products offered by commercial banks under the Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of his document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional/professional investors only, and is not directed to the public or individual retail investors. Allianz GIAP is not licensed to provide financial services to retail clients in Australia. Allianz GIAP (Australian Registered Body Number  $160\,464\,200$ ) is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws. This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors Distributors LLC, distributor registered with FINRA, is affiliated with Allianz Global Investors U.S. LLC; Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG, licensed by FINMA (www.finma.ch) for distribution and by OAKBV (Oberaufsichtskommission berufliche Vorsorge) for asset management related to occupational pensions in Switzerland; Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424, Member of Japan Investment Advisers Association and Investment Trust Association, Japan]; and Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan, 1073438