The Week Ahead

Active is: Keeping an eye on capital markets

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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.

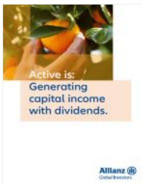
While it is not unusual that equity prices rise before earnings, this **phenomenon mostly occurs at the beginning of an economic cycle**, when equity market investors expect a strong economic and earnings upswing. The actual earnings figures do not improve until several quarters later. What does this 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

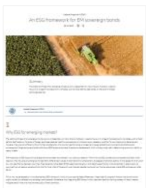
20 years into the 21st century, here's what investors need to know

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:

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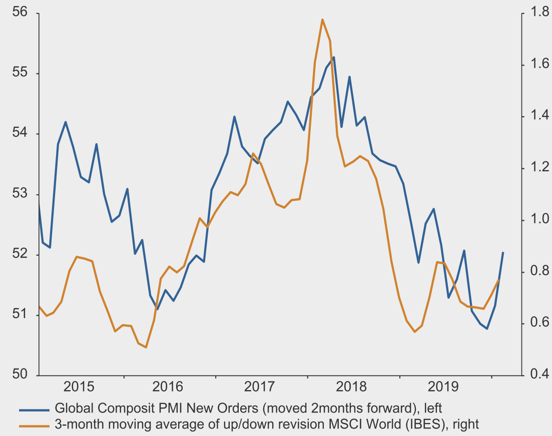
Chart of the Week

Recovery of global business sentiment may signal improvement for earnings revisions



Source: Refinitiv Datastream, AllianzGI Economics & Strategy 30/01/2020

Calendar Week 6:

Monday			Consensus	Previous
CH	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
Tuesday				
EZ	PPI YoY	Dec	--	-1.4%
IT	CPI YoY	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%
Wednesday				
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
IT	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
Thursday				
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	--	--
Friday				
CH	Exports YoY	Jan	--	7.6%
CH	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