The Week Ahead

Active is: Keeping an eye on capital markets

Dr. Hans-Jörg Naumer

Director Global Capital Markets & Thematic Research

@AllianzGI_VIEW

Investing in coronavirus times

Things had looked quite promising at the beginning of the past week. Several US and German leading indicators painted a more encouraging picture: According to the Conference Board, US consumer confidence strengthened slightly in February. The nationwide activity index of the Chicago Federal Reserve improved. The Dallas Federal Reserve's index for regional manufacturing activity firmed. And the ifo business sentiment index for February surprised to the upside, if only by a small margin. While the assessment of the current situation deteriorated somewhat, the expectations component rose. This might suggest that the coronavirus (Covid-19) has not yet affected the economic data. However, some caution is warranted. In fact, the British and euro-area PMIs have risen for the wrong reasons. Delivery times have lengthened. While this development usually indicates an economic upswing, it now suggests that the coronavirus is causing delays along the global supply chains. The International Monetary Fund (IMF) actually had good reasons to reduce its forecasts for China and the global economy by 0.4 and 0.1 of a percentage point, respectively. It remains to be seen whether the figures need to be marked down further. In any case, the capital markets went into risk-off mode at the beginning of the past week as concerns about the virus outbreak intensified.

The Week Ahead

And investors are unlikely to relax during the coming week. Several economic data will probably come in on the weak side. On Monday, attention will focus on the Chinese Caixin manufacturing PMI. Analysts are already expecting the index to drop below the expansion threshold of 50. In the US and Italy, the ISM index and the Markit manufacturing PMI will be released, respectively. While the US data are unlikely to reflect the latest coronavirus cases, both indices look set to retreat slightly. On Tuesday, we will get consumer price inflation figures for the euro area. The year-on-year rate

Publications

Artificial Intelligence – Part of everyday life, driving our future

Artificial intelligence is all around us. It is part of everyday life, and gaining ground all the time. The investment opportunities are many and varied. The "creative power of destruction" is unstoppable. On the contrary. And it's only just beginning.

Proxy voting record highlights AllianzGI's commitment to being an active, engaged investor

Allianz Global Investors has published analysis of how it voted on nearly 100,000 shareholder and management proposals in 2019.

Active is: Anticipating the change

Human consumption is now estimated to be the equivalent to 1.7 times of what the Earth can naturally restore in a year and set to reach 2 times of Earth's capacity by 2050. To bring the size of the ecological Earth overshoot back to a sustainable level, we must rethink our lifestyles and economy.

is unlikely to put pressure on the European Central Bank (**ECB**). In fact, the Bank will probably be more concerned about growth in times of Covid-19 than about inflation. US order intake (due on Thursday) and German order intake (on Friday) are unlikely to provide a ray of light either.

Active is: Investing in coronavirus times

It is quite impossible to forecast how the coronavirus is likely to spread (at least, the number of new cases has started to decline, and initial vaccines are being tested), and the latest news of the outbreak may drive the markets in either direction. At the same time, next week's economic data are unlikely to provide much stimulus. The virus has unfortunately emerged during the late phase of a mature cycle, when risks of a recession are higher anyway. Growth needs to be stimulated right now, not dampened. While some measures have been taken to prop up activity (in fact, the Chinese government has already shifted towards a more expansionary monetary and fiscal policy; see graph of the week), there are good reasons to expect that these steps will not be sufficient to provide a more sustained boost. Market participants are turning to the Federal Reserve (**Fed**) and the ECB, but both central banks have been pursuing an expansionary monetary policy for considerable time now and do not have much ammunition left. Nevertheless, the money markets expect two rate cuts of 25 basispoints each by the Fed this year.

Investing in coronavirus times means: Even as almost 25% of all outstanding bonds worldwide (or almost USD 14 trillion) carry negative returns, risk premiums will be adjusted further as uncertainties increase. Sectors with significant exposure to Asian supply chains will be the most vulnerable. Defensive industries will probably be more resilient, as will be government bonds, which will serve as "safe havens". In any case, the markets will probably remain in risk-off mode. Fortunately, the technical indicators do not point to any urgent need to act. The relative-strength indicators for the large equity markets point to an oversold situation, which suggests that investors may purchase equities.

Please stay well!

Dr Hans-Jörg Naumer

Upcoming Political Events 2020

Mar 12: ECB meeting

Mar 17: FOMC meeting

Overview political events 2019 (click here)

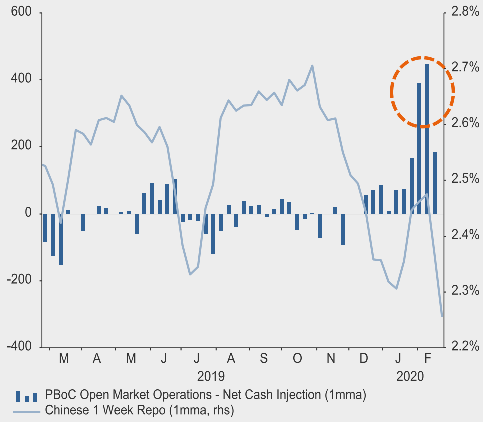
Global Capital Markets & Thematic Research goes Social Media

to our publications (click here)

to our twitter feed (click here)

Chart of the Week

PBoC Open Market Operations - Net Cash Injection



Source: Refinitiv Datastream, AllianzGI Economics & Strategy 26/02/2020

Calendar Week 10:

Monday			Consensus	Previous
CH	Caixin Manufacturing PMI	Feb	49.4	51.1
IT	Markit Italy Manufacturing PMI	Feb	--	48.9
JN	Vehicle Sales YoY	Feb	--	-11.1%
UK	Mortgage Approvals	Jan	--	67.2k
UK	M4 Money Supply YoY	Jan	--	3.8%
US	Construction Spending MoM	Jan	0.8%	-0.2%
US	ISM Manufacturing	Feb	50.5	50.9
Tuesday				
EC	PPI YoY	Jan	--	-0.7%
EC	CPI Core YoY	Feb P	--	1.1%
EC	CPI Estimate YoY	Feb	1.2%	1.4%
EC	Unemployment Rate	Jan	--	7.4%
IT	Unemployment Rate	Jan P	--	9.8%
JN	Monetary Base YoY	Feb	--	2.9%
JN	Consumer Confidence Index	Feb	--	39.1
UK	Markit Construction PMI	Feb	--	48.4
Wednesday				
CH	Caixin Composite PMI	Feb	--	51.9
CH	Caixin Services PMI	Feb	--	51.8
EC	Retail Sales YoY	Jan	--	1.3%
IT	Markit Italy Services PMI	Feb	--	51.4
IT	Markit Italy Composite PMI	Feb	--	50.4
US	ADP Employment Change	Feb	185k	291k
US	ISM Non-Manufacturing Index	Feb	55.5	55.5
Thursday				
GE	Markit Construction PMI	Feb	--	54.9
US	Initial Jobless Claims	Feb 29	--	--
US	Continuing Claims	Feb 22	--	--
US	Factory Orders MoM	Jan	-0.5%	1.8%
US	Factory Orders ex. Transport MoM	Jan	--	0.6%
Friday				
FR	Trade Balance	Jan	--	-4053m
FR	Current Account Balance	Jan	--	-0.6b
GE	Factory Orders YoY	Jan	--	-8.7%
IT	Retail Sales YoY	Jan	--	0.9%
JN	Labor Cash Earnings YoY	Jan	--	0.0%
JN	Leading Index	Jan P	--	--
JN	Coincident Index	Jan P	--	--
US	Trade Balance	Jan	-$48.8b	-$48.9b
US	Change in Nonfarm Payrolls	Feb	190k	225k
US	Unemployment Rate	Feb	3.6%	3.6%
US	Average Hourly Earnings YoY	Feb	3.0%	3.1%
US	Consumer Credit	Jan	$17.50b	$22.055b
Saturday				
CH	Exports YoY	Feb	--	--
CH	Imports YoY	Feb	--	--
CH	Trade Balance	Feb	--	--