The Week Ahead

Active is: Keeping an eye on capital markets

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Pausing

At the beginning of the past week the markets could not decide on a clear direction. This changed, however, when several merger and acquisition transactions were announced and signs of an economic revival emerged; for example, Chinese data once again surprised to the upside. While the upswing was initially driven by pent-up demand for consumer goods, recent data suggest that corporate and inventory investment has started to recover as well – not just in China, but in the US too. The "order intake" sub-component of the US ISM index reached its highest level in 16 years in August. And with retail sales back to their pre-crisis level, US importers re-stocked their inventories to prepare for strong demand. According to the Shanghai Containerized Freight Composite Index (SCFI), shipments from Shanghai to the US West Coast have risen to an all-time high, and costs have doubled during the past three months.

The Federal Reserve also appears to expect a broad-based upswing and made upward revisions to its growth and inflation forecasts for 2020, even though inflation expectations for the next five or 10 years have recently stalled. To some extent, this development is probably due to oil prices, which have come under pressure as concerns about future oil demand have increased and the OPEC+ have raised their supply (see our *Chart of the Week*). Consequently, the first US rate steps are expected in 2023 at the earliest.

Overall, the path of the economy will continue to depend on the course of the pandemic. The World Health Organisation (WHO) has provided a ray of hope. By now, more than 170 potential vaccines are in different stages of clinical trials. Provided they are effective, some of them might be approved soon. Even hopes of such a development might result in a quicker and stronger pick-up in cyclical growth.

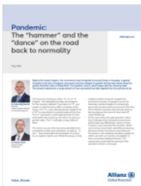
Publications

3 policy differences for investors to watch in the US presidential race

President Trump and former Vice President Biden have notably different views about corporate taxes, energy and US-China trade, which may have a substantial impact on markets and portfolios.

Coronavirus – Emerging Markets Outlook

Social distancing and other containment measures are creating significant risks to EM economies. Still, some countries could be set to rebound when capital begins flowing back in.



Pandemic: The "hammer" and the "dance" on the road back to normality

Beyond its human impact, the coronavirus has the global economy firmly in its grasp. A global recession is all but a foregone conclusion and the collapse in growth will be even worse than the global financial crisis of 2008/2009. The question now is, what shape will the recovery take? The answer depends to a large extent on how successful the fight against the virus proves to be.

The Week Ahead: A pause in the recovery

In the **US,** several leading indicators will be released at the beginning of the coming calendar week (ie, on Monday and Tuesday). Just like the preliminary Markit PMI, which is due on Wednesday, they may suggest that the expansion is taking a breather after a rapid upswing. While the number of initial claims might come in somewhat lower again on Thursday, the US labour market still faces difficulties. On Friday, consumer durables orders will be released. Following a large increase in the preceding month, the consensus only expects growth of 1% year-on-year.

In the **euro area,** the preliminary manufacturing PMIs (due on Wednesday) will be in the limelight. In particular, investors will be interested to see whether, and to what extent, the recent increase in infections – above all in **France** and in the **UK** – has affected the manufacturing sector. In **Germany**, attention will focus on the GfK consumer confidence index on Wednesday and the ifo business climate index on Thursday. German business sentiment improved considerably in August, so the key question is whether the uptrend has continued in September.

In **Asia**, the **Japanese** manufacturing PMI (due on Wednesday) is the most important data release; the index is likely to lag behind its global peers.

Business sentiment improves, investors remain sceptical

The US equity market jitters triggered by technology stocks seem to have abated after losses of up to 10% within two weeks. Investors took advantage of the "pause" to build new positions, even though prices have already risen by 60% (S&P 500) and by more than 70% (Nasdaq) since mid-March. However, there are some (geo)political risks that investors should watch. The Brexit negotiations are entering their final phase, and the US presidential elections will take place in only seven weeks, with topics ranging from tax to trade policy (in particular versus China) playing a role in the campaigns. This might lead to increased volatility and some tactical opportunities, particularly with a view to 2021. If, as anticipated, the S&P 500 stocks achieve earnings growth rates of considerably more than 20% year-on-year, and the US economy grows by more than 5%, we may see additional capital inflows and a more diversified investor base. While business sentiment is improving, investor positioning points to continued scepticism; according to the American Association of Individual Investors (AAII), almost 50% of all US investors are currently bearish.

Since the central banks seem to be leaning towards an even more expansionary policy if necessary, this environment should be beneficial for riskier assets, including equities.

Keep well! Yours

Stefan Scheurer

Upcoming Political Events 2020

Sep 24: Special European Council

Overview political events 2019 (click here)

Overview Central Banks Calender (click here)

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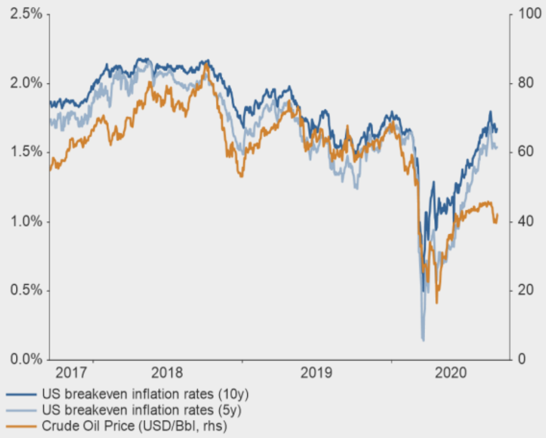
Chart of the Week

High correlation between US breakeven inflation rates and the oil price



Source: Refinitiv Datastream, AllianzGI Economics & Strategy 9/17/2020

Calendar Week 39:

Monday			Consensus	Previous
UK	Rightmove House Prices YoY	Sep	--	4.6%
US	Chicago National Activity Index	Aug	Jan 18	Jan 18

Tuesday				
EC	Consumer Confidence	Sep A	--	-14.7
UK	PSNB ex Banking Groups	Aug	--	26.7b
US	Existing Home Sales MoM	Aug	1.5%	24.7%
US	Richmond Fed Index	Sep	12	18

Wednesday				
EC	Markit Manufacturing PMI	Sep P	--	51.7
EC	Markit Services PMI	Sep P	--	50.5
EC	Markit Composite PMI	Sep P	--	51.9
FR	Markit Manufacturing PMI	Sep P	--	49.8
FR	Markit Services PMI	Sep P	--	51.5
FR	Markit Composite PMI	Sep P	--	51.6
GE	GfK Consumer Confidence	Oct	--	-1.8
GE	Markit Manufacturing PMI	Sep P	--	52.2
GE	Markit Services PMI	Sep P	--	52.5
GE	Markit Composite PMI	Sep P	--	54.4
JN	Jibun Bank Japan PMI Mfg	Sep P	--	47.2
JN	Jibun Bank Japan PMI Services	Sep P	--	45.0
JN	Jibun Bank Japan PMI Composite	Sep P	--	45.2
JN	All Industry Activity Index MoM	Jul	--	6.1%
UK	Markit Manufacturing PMI	Sep P	--	55.2
UK	Markit Services PMI	Sep P	--	58.8
UK	Markit Composite PMI	Sep P	--	59.1
US	FHFA House Price Index MoM	Jul	0.4%	0.9%
US	Markit Manufacturing PMI	Sep P	--	53.1
US	Markit Services PMI	Sep P	--	55.0
US	Markit Composite PMI	Sep P	--	54.6

Thursday				
FR	Business Confidence	Sep	--	91
GE	Ifo Business Climate	Sep	--	92.6
GE	ifo Expectations	Sep	--	97.5
GE	ifo Current Assessment	Sep	--	87.9
US	Initial Jobless Claims	Sep 19	--	--
US	Continuing Claims	Sep 12	--	--
US	New Home Sales MoM	Aug	-2.9%	13.9%
US	Kansas City Fed Manf. Activity	Sep	--	14

Friday				
EC	M3 Money Supply YoY	Aug	--	10.2%
IT	Consumer Confidence Index	Sep	--	100.8
IT	Economic Sentiment	Sep	--	80.8
US	Durable Goods Orders MoM	Aug P	1.0%	11.4%
US	Durables Ex Transportation MoM	Aug P	1.1%	2.6%