The Week Ahead

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Immune?

For almost three weeks now, the capital markets seem to have responded with a mixture of relief and euphoria to the encouraging **progress in testing potential Covid-19 vaccines**. At the same time, they have appeared unconcerned about lockdowns, infection case numbers and a slowdown in the pace of economic activity. In pinning their hopes on a vaccine, the markets also seem to have **immunised** themselves against bad news. This is equally true for equities – especially from Europe, Japan and several emerging markets – for high-yield bonds, and for many cyclical commodities such as base metals and oil.

Several factors are at play here, starting with the **forward-looking nature** of many capital markets. In an equity analyst's company valuation model, the next six months are less significant than a longer-term perspective. Consequently, the prospect of being able to better control – and possibly even contain – the global pandemic by means of widespread vaccination is likely to have significantly boosted medium to long-term expectations.

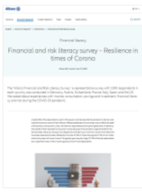
In terms of the year ahead, the recovery process should continue to be underpinned by accommodative **fiscal and monetary policy**. No government or central bank in the world is willing to risk prematurely scaling back its stimulus measures. In this respect, US President-elect Joe Biden's proposal to nominate former Federal Reserve Chairwoman **Janet Yellen** as US Treasury Secretary seems apt. Under her leadership, the Federal Reserve adopted an expansionary stance when in doubt and she is also expected to prioritise combatting unemployment.

There are also considerable **valuation differences** between various equity market segments, with certain industries that were hard hit by the pandemic being recently valued cheaply, while the beneficiaries of the crisis – most notably the major tech giants – have seen their stocks appreciate. The movement back

Publications

Should investors consider a standalone All-China equity allocation?

As China's weight within key global equity indices increases and as financial markets there mature and become more accessible, institutional investors face a dilemma: should they consider a dedicated All-China allocation or continue gaining exposure to Chinese equities as they currently do, typically via international or emerging market allocations?



Financial and risk literacy survey – Resilience in times of Corona

The "Allianz Financial and Risk Literacy Survey", a representative survey with 1000 respondents in each country was conducted in Germany, Austria, Switzerland, France, Italy, Spain and the US. We asked about experiences with income, consumption, savings and investment, financial literacy and risk during the COVID-19 pandemic.

Investing in a better World

"Disruption" seems to describe our present and future more aptly than any other term. Disruption is the power (not always purely creative) to destroy the old and to create something new - economic disruption ("digitalization"), disruption of the population pyramid ("demography"), environmental and climate disruption, social disruption (populism), etc. In spite of all these changes, however, there is a basic constant that is paving the way to a better world: capital.

towards a state of equilibrium **("mean reversion")** could persist for some time. Banks and insurance companies in particular will benefit from a fresh look at credit risks – the faster the pandemic can be brought under control, the lower the financial damage to borrowers.

The Week Ahead

The apparent resilience of many asset markets to **weaker near-term economic indicators** could be tested next week. It is likely that the final **PMIs** for November will dominate the global picture. Not surprisingly, preliminary data have revealed a marked deterioration in sentiment across the European services sector, while the mood in the United States has actually brightened for both manufacturers and service providers. Furthermore, US **labour market statistics** will be worth looking at after recent months saw a slowdown in the pace of job creation.

In addition, preliminary data on Japanese industrial production and retail sales for October are scheduled for publication. For the euro area, provisional consumer price inflation data for November will be released as well as the latest unemployment rate. Data on new orders from Germany and the United States are expected to have a forward-looking character.

Turning to politics, we are now approaching the final, genuinely critical **Brexit** deadlines. Speculation is mounting that an EU-UK trade agreement will be possible at literally the last second. This may involve certain contentious issues being postponed, for example by revisiting the controversial area of fishing rights in the future or by agreeing to a gradual reduction in fishing quotas for EU vessels.

Controlled offensive

The medium-term outlook has improved thanks to hopes of an impending Covid-19 vaccine and the lessening of political risks following Joe Biden's election victory. This is leading to **better prospects** for higher-risk asset classes such as equities and commodities. However, it remains to be seen whether recent rapid gains will be immune to potential stumbling blocks such as prolonged lockdown measures, overstretched healthcare systems or a failure to reach a Brexit deal. From a technical standpoint, cyclically sensitive equity markets in Europe and Japan appear to have broken free from the sideways range they had been stuck in since the end of May, and moved upwards.

Wishing you an immune response to developments.

Stefan Rondorf

Upcoming Political Events 2020

Nov 30: OPEC meeting

Dec 10: ECB meeting

Dec 12: China Central Economic Work Congress

Overview political events 2020 (click here)

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

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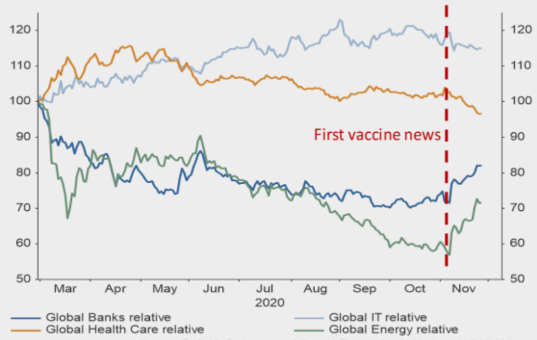
Chart of the Week

First step towards mean reversion

Relative performance of selected global equity sectors since March 2020



Source: Refinitiv Datastream, AllianzGI Economics & Strategy 11/26/2020

Calendar Week 49:

Monday			Consensus	Previous
CH	NBS Manufacturing PMI	Nov	51.5	51.4
CH	NBS Non-manufacturing PMI	Nov	56.0	56.2
GE	CPI YoY	Nov P	--	-0.5%
GE	Retail Sales NSA YoY	Oct	5.2%	6.5%
IT	CPI YoY	Nov P	--	-0.6%
JN	Industrial Production YoY	Oct P	-4.6%	-9.0%
JN	Retail Sales MoM	Oct	1.0%	-0.1%
JN	Construction Orders YoY	Oct	--	-10.6%
UK	Mortgage Approvals	Oct	--	91.5k
UK	M4 Money Supply YoY	Oct	--	12.3%
US	MNI Chicago PMI	Nov	59.2	61.1
US	Pending Home Sales NSA YoY	Oct	--	21.9%
US	Dallas Fed Manf. Activity	Nov	14-May	19-Aug
Tuesday				
CH	Caixin Manufacturing PMI	Nov	53.5	53.6
EC	CPI Estimate YoY	Nov	--	-0.3%
EC	CPI Core YoY	Nov P	--	0.2%
GE	Unemployment Change	Nov	--	-35.0k
GE	Umemployment Rate	Nov	--	6.2%
IT	Markit Italy Manufacturing PMI	Nov	--	53.8
JN	Jobless Rate	Oct	3.1%	3.0%
JN	Vehicle Sales YoY	Nov	--	31.6%
US	ISM Manufacturing	Nov	57.6	59.3
US	Construction Spending MoM	Oct	0.8%	0.3%
Wednesday				
EC	PPI YoY	Oct	--	-2.4%
EC	Unemployment Rate	Oct	--	8.3%
IT	Unemployment Rate	Oct P	--	9.6%
JN	Monetary Base YoY	Nov	--	16.3%
JN	Consumer Confidence Index	Nov	--	33.6
US	ADP Employment Change	Nov	500k	365k
Thursday				
CH	Caixin Composite PMI	Nov	--	55.7
CH	Caixin Services PMI	Nov	56.4	56.8
EC	Retail Sales YoY	Oct	--	2.2%
IT	Markit Italy Services PMI	Nov	--	46.7
IT	Markit Italy Composite PMI	Nov	--	49.2
US	Initial Jobless Claims	Nov-28	--	778k
US	Continuing Claims	Nov-21	--	6071k
US	ISM Services Index	Nov	56.0	56.6
Friday				
GE	Factory Orders YoY	Oct	--	-1.9%
GE	Markit Construction PMI	Nov	--	45.2
IT	Retail Sales YoY	Oct	--	1.3%
UK	Markit Construction PMI	Nov	--	53.1
US	Change in Nonfarm Payrolls	Nov	500k	638k
US	Unemployment Rate	Nov	6.8%	6.9%
US	Average Hourly Earnings YoY	Nov	4.2%	4.5%
US	Trade Balance	Oct	-$64.8b	-$63.9b
US	Factory Orders MoM	Oct	0.8%	1.1%
US	Factory Orders ex. Transport MoM	Oct	--	0.5%