The Week Ahead

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The second wave

As the second wave of the coronavirus pandemic sweeps around the world – given the number of new infections and deaths, the US could even be said to be experiencing a third wave – it raises the question: will 2021 bring a return to normal?

In the fight against the coronavirus, a return to normal is probably more than we can hope for, but it is encouraging that vaccines have already been found that can be rolled out over the next year. There is a need for more scepticism in the economy, however – at least if normality is defined as the pre-pandemic growth level. Even before the virus, the economic path was fragile, and future progress may more closely resemble a reverse square root sign (ie, a recovery, but no permanent and immediate return to previous levels) rather than a V-shaped, rapid recovery. The economic improvements should flatten accordingly in the coming months. Virus-related uncertainties remain, despite massive monetary – and fiscal – countermeasures.

And what about the geopolitical environment? While under US President-elect Joe Biden, the tone in foreign policy is likely to be more conciliatory, he is not expected to instigate a complete departure from trade disputes. In fact, perhaps quite the opposite. Founded only recently, the Asia-Pacific Regional Comprehensive Economic Partnership, or RCEP, is a tectonic shift towards a multi-polar world order. It also represents a challenge for the incoming US administration.

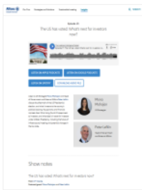
Meanwhile, Mr Biden may struggle to get his planned investment programme through the Senate, with its likely Republican dominance. Markets must also prepare themselves for higher corporate taxes in the US, which are also part of Mr Biden's policy platform. Not a good signal for the US equity markets, which are valued highly.

Monetary policy on both sides of the Atlantic is not expected to turn away from the new normal, which is: when in doubt, provide more liquidity.

Publications

2021 outlook

Portfolios need a broader mix as the pandemic prolongs the uncertainty. While investors can approach 2021 with optimism that an effective Covid-19 vaccine will be available, the path of the economic recovery remains unclear. A broader toolkit of investments is needed – not just the regions, sectors and strategies that have recently done well.



The US has voted: what's next for investors?

The Listen to US Strategist Mona Mahajan, and Allianz Head of Government and External Affairs Peter Lefkin discuss the aftermath of the US Presidential election, and what it means to the country's political balance, the economy and financial markets.

Who is going to pay? Public debt and the low / negative yield environment

Who is going to pay? That question is heard quite often in connection with the coronavirus-related fiscal packages. Quite rightly. Governments have adopted huge packages to stabilise their economies. While there is no shortage of suggestions for how the new public expenditure and old debt is to be funded, many people seem to be overlooking the fact that the current low or negative interest-rate environment is already making a major contribution to

COVID-19 has triggered a second wave of financial repression. Investors will feel the implications for some time, and should continue to favour tangible assets (ie, equities), beyond any expected volatility.

Tactical allocation: equities & bonds

- The shape of the global economy over the coming quarters will depend crucially on how quickly COVID-19 vaccines can be rolled out and enable a phased return to normality.
- In the baseline scenario, we expect the economic path to plateau, following the rapid global recovery after the March slump – a path that should be shaped like a reverse square root sign. This path is, however, dependent on the fight against the pandemic.
- As certainty regarding the new US president and the composition of the House and Senate increases – and there's greater clarity around the UK's departure from the EU – the political risks are likely to weaken, but will not disappear. Trade conflict remains on the agenda.
- The second wave of financial repression will accompany us into the new year and beyond. The prevailing low/negative interest-rate environment will probably not change very quickly. The investment crisis is further exacerbating **the hunt for capital income**.
- Overall, this suggests that equities and riskier forms of investment will generally remain in favour, beyond any expected volatility.

Investment theme: Invest as a rational optimist

- Through industrialisation, mankind has achieved an unprecedented increase in prosperity and living standards, which – after a certain time lag – should also reach those countries that were late in converting to a market economy.
- At the beginning of the 1980s, around 45% of the world's population still lived in absolute poverty (defined as the proportion of the world's population that has to survive on less than US $1.90 a day), whereas now it is 10% – even though the world's population has grown to around 7.5 billion people.
- Not only has the number of people increased, but their life expectancy has too. Global average life expectancy at the end of the 18th century was less than 30 whereas it is now more than 70 years old.
- Innovations are the driver, and these have also carried us through major crises. They shape the megatrends of demographics, urbanisation, sustainable management and technological change, and deliver solutions to the greatest challenge of our time: the fight against climate change.
- There are plenty of grounds for rational optimism, even at the time of a pandemic. This should also be reflected in our investment decisions.

Here's hoping you get through the second wave in good shape,

Dr Hans-Jörg Naumer

Upcoming Political Events 2020

Overview political events (click here)

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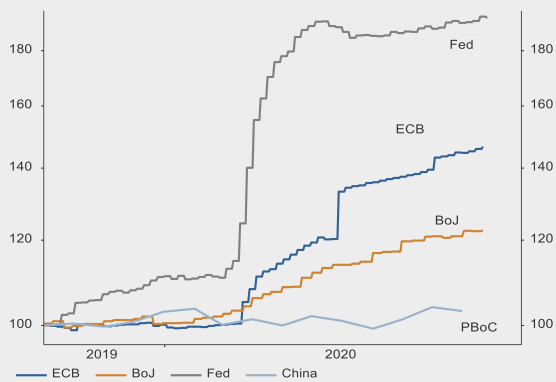
Chart of the Week

Central Banks' balance sheets

(12/2019=100)



Source: Refinitiv Datastream, AllianzGI Economics & Strategy 12/1/2020

Calendar Week 50:

Monday			Consensus	Previous
CH	Exports YoY	Nov	--	11.4%
CH	Imports YoY	Nov	--	4.7%
CH	Trade Balance	Nov	--	$58.44b
CH	Foreign Reserves	Nov	--	$3127.98b
EC	Sentix Investor Confidence	Dec	--	-10.0
GE	Industrial Production YoY	Oct	--	-7.3%
JN	Leading Index	Oct P	--	92.5
JN	Coincident Index	Oct P	--	81.1
US	Consumer Credit	Oct	--	$16.214b

Tuesday				
EC	ZEW Survey Expectations	Dec	--	32.8
FR	Trade Balance	Oct	--	-5745m
FR	Current Account Balance	Oct	--	-5.7b
GE	ZEW Survey Expectations	Dec	--	39.0
GE	ZEW Survey Current Situation	Dec	--	-64.3
JN	Labor Cash Earnings YoY	Oct	--	-0.9%
JN	BoP Current Account Balance	Oct	--	¥1660.2b
JN	Trade Balance BoP Basis	Oct	--	¥918.4b

Wednesday				
CH	PPI YoY	Nov	--	-2.1%
CH	CPI YoY	Nov	--	0.5%
FR	Bank of France Business Sentiment	Nov	--	97
GE	Trade Balance	Oct	--	20.8b
GE	Current Account Balance	Oct	--	26.3b
GE	Exports SA MoM	Oct	--	2.3%
GE	Imports SA MoM	Oct	--	-0.1%
GE	Labor Costs WDA YoY	3Q	--	5.1%
JN	Money Stock M2 YoY	Nov	--	9.0%
JN	Money Stock M3 YoY	Nov	--	7.5%
JN	Core Machine Orders YoY	Oct	--	-11.5%
JN	Machine Tool Orders YoY	Nov P	--	-6.0%

Thursday				
EC	ECB Main Refinancing Rate	Dec 10	--	0.000%
EC	ECB Deposit Facility Rate	Dec 10	--	-0.500%
FR	Industrial Production YoY	Oct	--	-6.0%
FR	Manufacturing Production YoY	Oct	--	-6.3%
JN	PPI YoY	Nov	--	-2.1%
UK	Industrial Production YoY	Oct	--	-6.3%
UK	Manufacturing Production YoY	Oct	--	-7.9%
UK	Construction Output YoY	Oct	--	-10.0%
UK	Trade Balance GBP/Mn	Oct	--	£613m
US	Initial Jobless Claims	Dec 5	--	--
US	Continuing Claims	Nov-28	--	--
US	CPI YoY	Nov	--	1.2%
US	CPI Ex Food and Energy YoY	Nov	--	1.6%
US	Real Avg Weekly Earnings YoY	Nov	--	4.4%

Friday				
IT	Industrial Production YoY	Oct	--	-5.1%
US	PPI YoY	Nov	--	0.5%
US	PPI Core YoY	Nov	--	1.1%
US	U. of Mich. Sentiment	Dec P	--	76.9