The Week Ahead

Dr. Hans-Jörg Naumer

Director Global Capital Markets & Thematic Research

@AllianzGI_VIEW

Year-end rally

2020 is probably the first year during my career in which I was not asked in November/December whether a year-end rally was around the corner. This is understandable since the markets have, in effect, experienced a "year-end rally" since the March collapse, even though the recovery has been interrupted several times. While the **STOXX 600** is down somewhat in year-on-year terms, it has come back quite impressively after the coronavirus outbreak. The **S&P 500** – the tech-heavy US equity market index – even registered its best monthly performance since 1928 in November. The index has achieved a two-digit increase in percentage points during the past 12 months, as has the MSCI index for the emerging markets. This performance comes despite – or perhaps owing to – the pandemic. Fiscal and monetary policy have fuelled investor speculation around the world, and it remains to be seen whether reality can keep up. Even though several vaccines against the virus are being developed, the way back to normality is still long and difficult. Remember that **Germany, the UK** and the Netherlands are entering further **hard lockdowns**, and the US is discussing a tightening of restrictions. The second wave of the pandemic has the world in its grip, and many countries are taking more forceful measures again. The **Google mobility data**, which are based on data from our smartphones, suggest that customers in shops and participants in leisure activities have fallen considerably in both the US and Europe, including the UK. This trend is also visible in numerous emerging markets. At the same time, so-called "stringency" indicators show that governments around the world are tightening restrictions in the fight against the virus.

Still, there is **reason for hope: vaccination campaigns** have started in the UK, the US and Canada, and Europe will follow suit before the new year. News from the global economy has been good too, with Japanese industry doing well at the beginning of the fourth quarter.

Publications

How a new trading bloc signals a gravitational shift eastward

The recently announced Regional Comprehensive Economic Partnership will likely enhance China's continued growth story – and will help boost global GDP.

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.

Why Active? | Integrating ESG into fixed-income investing

ESG factors have historically been more commonly associated with equity investments, but the past year has seen a significant change with fixed-income investors pushing for ESG factors to be appropriately and demonstrably integrated into investment analysis and risk decisions.

According to the December Tankan survey by the **Bank of Japan,** companies have become considerably more optimistic due to the upswing in exports and output. The Japanese economy is obviously recovering (see our Chart of the Week).

The Week Ahead: stay on the sidelines and prepare for Christmas

Major additional gains are unlikely; I believe that we have seen most of the performance for this year. So I suggest you stay on the sidelines and prepare for Christmas – and look for reasons to be optimistic. After all, **2021** will bring its own set of important issues. The newly elected US president will take office in January, and all eyes will be on his geopolitical strategy and fiscal policy. It will be interesting to see which bills President-elect Biden can bring through Congress and who will back them. In Germany, parliamentary elections are scheduled for September. The Covid-19 pandemic is likely to be pushed back by the vaccines. The central banks are continuing their liquidity injections: the **European Central Bank** has recently expanded its Pandemic Emergency Purchase Programme by EUR 500 billion. And fiscal policymakers are wondering how to fund the virus-related deficits. One thing is clear: low or negative interest rates will help to close the gaps. And that means that profitable investments will remain few and far between; investors will probably continue to put their money in equities.

Moreover, another issue may return to the agenda: **inflation.** This issue is not getting any attention yet, neither in the macroeconomic projections of the ECB nor on the markets (as the breakeven rates show) nor in surveys (see the latest survey by the University of Michigan). But economists Charles Goodhart and Manoj Pradhan have developed the theory that demographic developments in western countries might push up prices once again. Their idea is increasingly being discussed. Recent monetary policy decisions reinforce the secular argument. The central banks are continuing to provide liquidity regardless of vaccine developments; just take a look at the most recent **Federal Reserve** decisions. In the US, M1 alone grew by USD 809 billion in the second half of November. This was the strongest increase within two weeks in the history of the Fed. Excess liquidity, which is calculated as the difference between the five-year rate of change of the broader monetary aggregate M2 and the five-year rate of change of real GDP, might drive inflation upwards in the medium to long term.

I hope that, despite the challenges of this unique year, you have found moments of success and happiness in all aspects of your lives (including your investments). I wish you and your families very happy holidays and all the best for 2021.

Hans-Jörg Naumer.

N.B. We will be back on 8 January 2021.

Upcoming Political Events 2020

Jan 1: Brexit Transition Period ends

Jan 5: Judicial Conference of the United States

Jan 6: FOMC Meeting Minutes

Overview political events 2020 (click here)

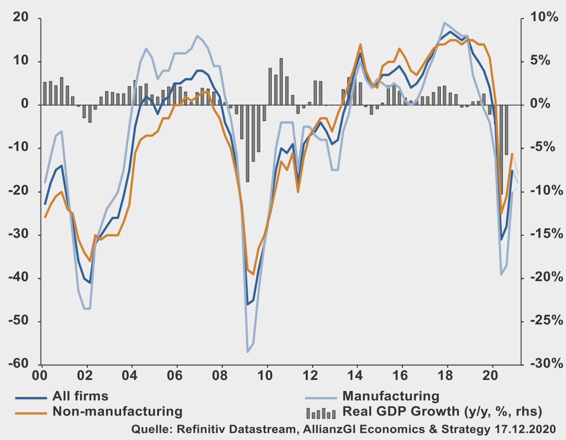
Global Capital Markets & Thematic Research goes Social Media:

to our publications (click here)

to our twitter feed (click here)

Chart of the Week

Tankan survey: Business Conditions vs. real GDP growth (Japan).



Calendar Week 52:

Monday			Consensus	Previous
EC	Consumer Confidence	Dec A	--	-17.6
UK	Rightmove House Prices YoY	Dec	--	6.3%
US	Chicago National Activity Index	Nov	--	0.83
Tuesday				
GE	GfK Consumer Confidence	Jan	--	-6.7
UK	PSNB ex Banking Groups	Nov	--	22.3b
UK	Current Account Balance	3Q	--	-2.8b
US	GDP Annualized QoQ	3Q T	--	33.1%
US	Personal Consumption QoQ	3Q T	--	40.6%
US	Conf. Board Consumer Confidence	Dec	--	96.1
US	Existing Home Sales MoM	Nov	--	4.3%
US	Richmond Fed Index	Dec	--	15
Wednesday				
FR	PPI YoY	Nov	--	-2.0%
IT	Consumer Confidence Index	Dec	--	98.1
IT	Economic Sentiment	Dec	--	82.8
US	Personal Income MoM	Nov	--	-0.7%
US	Personal Spending MoM	Nov	--	0.5%
US	PCE Deflator YoY	Nov	--	1.2%
US	PCE Core Deflator YoY	Nov	--	1.4%
US	FHFA House Price Index MoM	Oct	--	1.7%
US	New Home Sales MoM	Nov	--	-0.3%
Thursday				
US	Initial Jobless Claims	Dec 19	--	--
US	Continuing Claims	Dec 12	--	--
US	Durable Goods Orders MoM	Nov P	--	--
US	Durables Ex Transportation MoM	Nov P	--	--
Friday				
JN	Tokyo CPI YoY	Dec	--	-0.7%
JN	Tokyo CPI Core YoY	Dec	--	-0.7%
JN	Jobless Rate	Nov	--	3.1%
JN	Retail Sales MoM	Nov	--	0.4%
JN	Construction Orders YoY	Nov	--	-0.1%