

The Week Ahead

Active is: Keeping an eye on capital markets



Stefan Rondorf

Senior Investment
Strategist, Global
Economics & Strategy

[@AllianzGL_VIEW](#)

“The return of RORO”

After a sobering end to 2018, the first three quarters of 2019 have been **very profitable** for investors in almost all asset classes. The prospect of fresh stimulus for the economy from central banks was the main factor driving both equity and bond markets. Since the middle of the year, though, **return developments have increasingly been split**: gains were generated by **either** riskier and thus more volatile asset classes such as equities, high-yield bonds or base metals, **or** by the group of asset classes perceived as safe or defensive, such as government bonds, investment grade corporate bonds or gold. In short: “**risk-on-risk-off**” (“RORO”; see also our chart of the week).

After the capital markets had not only come to terms with the global financial crisis but also with the climax to the euro area debt crisis towards the end of 2013, a combination of solid economic activity and accommodative monetary policy paved the way for a phase of more or less concurrent returns between safe and risky asset classes. The proverbial rising tide of liquidity from central banks **lifted all boats** - with the exception of 2018, when almost all asset classes recorded a negative performance.

This environment now seems to be drawing to a close. **Doubts** about the **resilience** of the economic cycle and the **effectiveness** of further monetary policy stimulus measures, as well as the continuing high level of political uncertainty, require investors to become more **risk-sensitive** again. In particular, economic concerns were confirmed last week by September's weak preliminary purchasing managers' indices for the euro area.

The week ahead

In the aftermath of central bank meetings and before the start of the earnings season in mid-October, **economic data** should dominate the week ahead. As usual at the turn of the month, manufacturing **PMIs** will be released on Tuesday and services PMIs on Thursday for a slew of countries and regions. Preliminary data point to

Publications



„Energy transition and sustainable resourcing”

Climate change is shifting investor priorities and driving wider adoption of sustainable business models, which seek to “meet the needs of the present without compromising the ability of future generations to meet their own needs”.



„Active is: Being a rational optimist”

The world is becoming a better place. All the indicators concur: increasing life expectancy on every continent of the planet, falling child mortality and child labor, rising prosperity and, from a global perspective, declining inequality. Wherever the forces of creative disruption are allowed to unfold, we have every reason to be rational optimists. But what does this mean for investors and others?



„Active is: Combating wealth erosion”

It's been a long time since my savings account passbook had any significance to me, but at least it's a useful place for stashing the kids' pocket money, even if it hasn't paid any interest for a long time. But this time, as I stood at the bank counter emptying my kids' piggy bank, it occurred to me that I was about to harm the bank – albeit unintentionally – through my deposits. Indeed, as long as banks are not charging negative interest and instead are tolerating money at a zero interest rate, every deposit means a loss to the bank.

a further slowdown in growth, at least for the euro area. In the third quarter, Germany may even enter an initially mild "technical" recession, i.e. two consecutive quarters of negative GDP growth. In Japan, Tuesday will also see publication of the **Tankan survey** for the third quarter. In the United States, the **labour market report** on Friday should provide a little more clarity on how much monetary policy support from the Federal Reserve will still be needed this year to keep the US economic cycle afloat. Finally, the release of the **preliminary euro area consumer price inflation** forecast for September is scheduled for Wednesday.

Politically, all eyes could be on the **United Kingdom**. Following the Supreme Court's ruling that Prime Minister Boris Johnson's enforced parliamentary suspension is unlawful, political deliberations on the path towards **Brexit** are set to resume at full speed - Wednesday is start of the final month before the latest deadline of 31 October is upon us. A (forced) resignation of Boris Johnson is just as possible as a further extension to the Brexit deadline and new elections in the fourth quarter.

Active is: becoming more aware of risks

The return of the risk-on-risk-off phenomenon and weak economic data, especially from the euro area, prompt us to **remain cautious**. **Active asset allocation decisions** remain more important than ever as investment returns become increasingly differentiated.

Wishing you a successful week ahead,

Yours

Stefan Rondorf

Upcoming Political Events 2019

Oct 06: Portugal General elections

Oct 18: Annual meetings of the World Bank and the IMF

[Overview political events 2019 \(click here\)](#)

[Overview Central Banks Calendar \(click here\)](#)

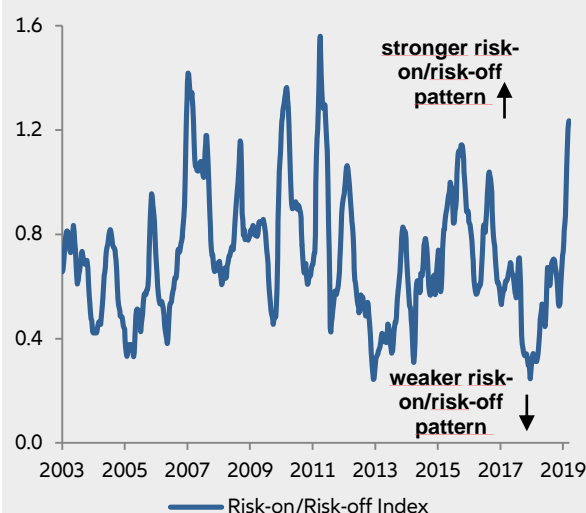
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Chart of the Week

Risk on/risk off pattern has become more visible again – Financial markets increasingly driven by overarching risk sentiment



AllianzGI Risk-on/Risk-off Index: Sum of average correlations between asset classes classified as low / elevated volatility respectively, minus average correlation between low and elevated volatility asset classes. Return correlations over rolling 180-day periods.

Calendar Week 40:

Monday			Consensus	Previous
CH	NBS Manufacturing PMI	Sep	--	49.5
CH	NBS Non-manufacturing PMI	Sep	--	53.8
CH	Caixin Manufacturing PMI	Sep	--	50.4
EC	Unemployment Rate	Aug	--	7.50%
GE	Unemployment Change	Sep	--	4.0k
GE	Unemployment Rate	Sep	--	5.00%
GE	CPI YoY	Sep P	--	1.00%
IT	Unemployment Rate	Aug P	--	9.90%
IT	CPI YoY	Sep P	--	0.50%
JN	Retail Sales MoM	Aug	--	-2.30%
JN	Industrial Production YoY	Aug P	--	0.70%
JN	Vehicle Production YoY	Jul	--	-1.50%
JN	Construction Orders YoY	Aug	--	26.90%
UK	Current Account Balance	2Q	--	-30.0b
UK	Mortgage Approvals	Aug	--	67.3k
UK	M4 Money Supply YoY	Aug	--	2.70%
US	MNI Chicago PMI	Sep	50	50.4
US	Dallas Fed Manf. Activity	Sep	1.5	2.7
Tuesday				
EC	CPI Core YoY	Sep A	--	0.90%
EC	CPI Estimate YoY	Sep	--	1.00%
IT	Markit Italy Manufacturing PMI	Sep	--	48.7
JN	Jobless Rate	Aug	--	2.20%
JN	BoJ Tankan Survey with Diffusion Index of Business Confidence	3Q	2	7
JN	Vehicle Sales YoY	Sep	--	4.00%
UK	Markit Manufacturing PMI	Sep	--	47.4
US	ISM Manufacturing	Sep	50.3	49.1
US	Construction Spending MoM	Aug	0.40%	0.10%
Wednesday				
JN	Monetary Base YoY	Sep	--	2.80%
JN	Consumer Confidence Index	Sep	--	37.1
UK	Markit Construction PMI	Sep	--	45
US	ADP Employment Change	Sep	140k	195k
Thursday				
EC	PPI YoY	Aug	--	0.20%
EC	Retail Sales YoY	Aug	--	2.20%
IT	Markit Italy Services PMI	Sep	--	50.6
IT	Markit Italy Composite PMI	Sep	--	50.3
UK	Markit Services PMI	Sep	--	50.6
UK	Markit Composite PMI	Sep	--	50.2
US	Initial Jobless Claims	Sep 28	--	--
US	Continuing Claims	Sep 21	--	--
US	Factory Orders MoM	Aug	-0.10%	1.40%
US	Factory Orders ex. Transport MoM	Aug	--	0.30%
US	ISM Non-Manufacturing Index	Sep	55.3	56.4
Friday				
GE	Markit Construction PMI	Sep	--	46.3
US	Change in Nonfarm Payrolls	Sep	145k	130k
US	Unemployment Rate	Sep	3.70%	3.70%
US	Average Hourly Earnings YoY	Sep	3.20%	3.20%
US	Trade Balance	Aug	-\$55.0b	-\$54.0b

Purchasing Managers Index (PMI) Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted. This material has not been reviewed by any regulatory authorities. In mainland China, it is used only as supporting material to the offshore investment products offered by commercial banks under the Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of his document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Panama, Peru, and Uruguay. This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors Distributors LLC, distributor registered with FINRA, is affiliated with Allianz Global Investors U.S. LLC; Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG, licensed by FINMA (www.finma.ch) for distribution and by OAKBV (Oberaufsichtskommission berufliche Vorsorge) for asset management related to occupational pensions in Switzerland; Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 1999071692]; Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424, Member of Japan Investment Advisers Association and Investment Trust Association, Japan]; and Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan. 962794