The Week Ahead

Active is: Keeping an eye on capital markets

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Staying active is essential

2020 will be a year of decisions. Decisions about how the economy progresses. Will it commence an orderly descent, hit the ground running, or have a crash landing (recession)? Decisions about monetary policy. Even lower interest rates, even more cheap money? Decisions about **geopolitical uncertainties**. Will President Trump be re-elected? Will he be succeeded by someone else? How is the global trade conflict going to develop? Will there be an orderly Brexit?

As far as **economic development** is concerned, we are looking ahead to the new year with subdued optimism. Economic development is expected to continue below its potential, accompanied by a slowdown in growth in the US and, at the same time, the risk of the trade conflict having an even more adverse effect on economic development.

Monetary policy will remain expansive and should benefit equity markets overall. In the US, at least, the Federal Reserve Bank (Fed) has engaged and is keeping a very close eye on the path the economy is taking. The European Central Bank (ECB) is exhibiting much less appetite in that respect. A further move in interest rates would only produce a negative surprise while the central bank more recently has been emphasising the undesirable side effects of its policies more strongly – or actually, for the first time ever – and thus at the same time calling for fiscal action. Whatever happens on this front, there is more than enough liquidity going around. Unlike the will to consume or invest more as a result, which is scarcely noticeable. As Karl Schiller, Germany's former minister for economic affairs, said: *"You can lead a horse to water but you can't make it drink."*

Negative interest rates will continue to torment us. Geopolitics is causing uncertainty. Volatility will likely prevail, which is why we believe "Active" is essential. Given the likelihood of subdued market returns ("β"), negative interest rates continuing to whittle away investors'

Publications

Capital Markets Monthly: Staying active is essential

2020 will be a year of decisions. Decisions about how the economy progresses. Will it commence an orderly descent, hit the ground running, or have a crash landing (recession)? Decisions about monetary policy. Even lower interest rates, even more cheap money? Decisions about geopolitical uncertainties. Staying active will be essential...

Why active? Preparing for impact

Impact investing's recent growth looks set to continue, coupling social and environmental benefits with financial returns to help meet investors' evolving demands.

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.

wealth – yields are negative on 12.4 trillion US dollars' worth of bonds, and we haven't even mentioned inflation yet – "**α**"[1] is going to have to produce the results. Not just from stock picking, but also from rotating among the various asset classes. At the same time, signs are emerging that the markets are again increasingly adopting a "risk on/risk off" attitude, i.e. less of the correlation among asset classes, which was often noticeable in the past, and increasingly more of a swap-and-change approach. Multi-asset strategies are our strategy of choice in these circumstances. Why not add in a structural theme, such as artificial intelligence? Oh yes, and by the way, the dividend season is approaching. Corporate profit distributions need to display their "airbag" nature again.

Tactical Allocation, Equities & Bonds

- We expect the global economy to continue growing beneath its potential in 2020. In light of persisting (geo-)political tensions and increasing late-cyclical imbalances, the downward risks continue to dominate, despite repeated tiny glimmers of hope.
- Although monetary policy is still stimulating equity prices, it will reach its limits over the medium term.
- Following net inflows of nearly one trillion US dollars into money market and bond funds since the beginning of the year, rotation set in about five weeks ago. Global equity funds recorded inflows in excess of 30 billion US dollars, following net outflows of more than 220 billion US dollars over the course of the year. Investors who have been sitting on the fence for too long may feel increasingly compelled to engage. For this trend to continue, however, proof of economic stabilisation must yet be provided.
- The equity markets have emerged unscathed from the autumn – a typically difficult season – and could be gearing up for the year-end rally.
- In such conditions, overweighting equities would seem expedient, albeit coupled with a readiness for tactical adjustment.

Wishing you an active 2020,

Hans-Jörg Naumer

[1] excess return over a benchmark index

Upcoming Political Events 2019

Dec 11: FOMC meeting and projections

Dec 12: ECB Governing Council meeting

Dec 19: BoE meeting and minutes

Overview political events 2019 (click here)

Overview Central Banks Calender (click here)

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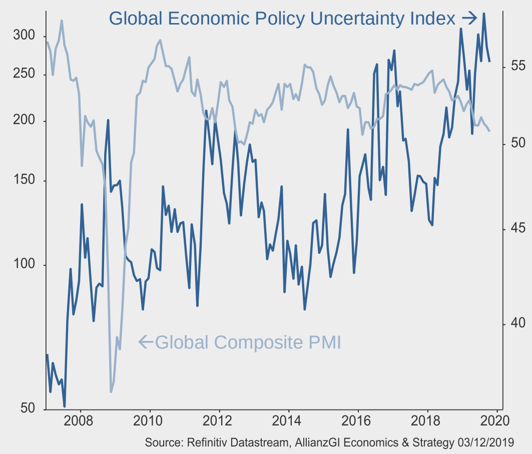
Chart of the Week

Economic Policy Uncertainty Index vs Purchasing Manager Index



Calendar Week 50:

Monday			Consensus	Previous
EC	Sentix Investor Confidence	Dec	--	-4.5
FR	Bank of France Business Sentiment	Nov	--	98
GE	Trade Balance	Oct	--	21.1b
GE	Current Account Balance	Oct	--	25.5b
GE	Exports SA MoM	Oct	--	1.5%
GE	Imports SA MoM	Oct	--	1.3%
GE	Labor Costs WDA YoY	3Q	--	3.2%
JN	BoP Current Account Balance	Oct	--	¥1612.9b
JN	Trade Balance BoP Basis	Oct	--	¥1.1b

Tuesday				
CH	CPI YoY	Nov	4.2%	3.8%
CH	PPI YoY	Nov	-1.4%	-1.6%
EC	ZEW Survey Expectations	Dec	--	-1.0
FR	Industrial Production YoY	Oct	--	0.1%
FR	Manufacturing Production YoY	Oct	--	0.4%
GE	ZEW Survey Current Situation	Dec	--	-24.7
GE	ZEW Survey Expectations	Dec	--	-2.1
IT	Industrial Production YoY	Oct	--	-2.1%
JN	Money Stock M2 YoY	Nov	--	2.5%
JN	Money Stock M3 YoY	Nov	--	2.1%
JN	Machine Tool Orders YoY	Nov P	--	-37.4%
UK	Industrial Production YoY	Oct	--	-1.4%
UK	Manufacturing Production YoY	Oct	--	-1.8%
UK	Trade Balance GBP/Mn	Oct	--	-£3360m
UK	Construction Output YoY	Oct	--	0.5%

Wednesday				
JN	PPI YoY	Nov	--	-0.4%
US	Real Avg Weekly Earnings YoY	Nov	--	0.9%
US	CPI YoY	Nov	2.0%	1.8%
US	CPI Ex Food and Energy YoY	Nov	2.3%	2.3%
US	FOMC Rate Decision (Upper Bound)	Dec 11	1.75%	1.75%

Thursday				
EC	Industrial Production YoY	Oct	--	-1.7%
EC	ECB Main Refinancing Rate	Dec 12	--	0.00%
EC	ECB Deposit Facility Rate	Dec 12	--	-0.50%
JN	Core Machine Orders YoY	Oct	--	5.1%
US	PPI YoY	Nov	--	1.1%
US	PPI Core YoY	Nov	--	1.6%
US	Initial Jobless Claims	Dec 7	--	--
US	Continuing Claims	Nov 30	--	--

Friday				
IT	Industrial Sales WDA YoY	Oct	--	-1.6%
IT	Industrial Orders NSA YoY	Oct	--	0.3%
JN	BoJ Tankan Survey with Diffusion Index of Business Confidence	4Q	--	5
JN	Capacity Utilization MoM	Oct	--	1.0%
US	Import Price Index YoY	Nov	--	-3.0%
US	Export Price Index YoY	Nov	--	-2.2%
US	Retail Sales MoM	Nov	0.4%	0.3%
US	Retail Sales Ex Auto and Gas YoY	Nov	0.4%	0.1%
US	Business Inventories MoM	Oct	0.2%	0.0%