

# The Week Ahead

## Active is: Keeping an eye on capital markets



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### Here comes Santa Claus

Investors have set the table in hope for an end-of-year “**Santa Claus Rally**”. A recent fund manager survey showed optimism in the global economic outlook brightening at the fastest pace in at least 25 years. With recession fears replaced by FOMO (“fear of missing out”), cash levels have fallen to a 77-month low.

This isn’t exactly unexpected. The holidays tend to be a seasonally favorable time. Stocks have logged gains during more than two thirds of the Decembers since 1969, propped-up by year-end celebrations and book-settling. But as festivities get underway, a **shot of moderation** could help.

It is important to note that this year’s gains haven’t been the product of rapidly improving **corporate fundamentals**. To the contrary, since the December 24, 2018 market low, while the S&P 500 is up about 32%, profits have increased only 2%. As a result, stock valuations have gotten richer—up 30%.

Meanwhile, economic growth has slowed. Now, some weakness was expected due to the natural fade of fiscal stimulus in the US and transitory problems with vehicle and airplane production. But the **trade war** is the primary culprit. In fact, the recent rise in US recession risk has happened concurrently with an increase in “trade policy uncertainty” (see our *Chart of the Week*).

That’s the first time this has occurred. The only other time policy was similarly uncertain was when NAFTA was announced in 1994. But NAFTA was a positive uncertainty shock: Reduced tariffs raised growth trajectories for the US, Canada and Mexico. The current increase is a negative **uncertainty shock** – its impairing capital investment and dampening global trade flows.

This suggests the rise in **fund manager optimism** is a bet that a prospective US-China trade deal could reduce the uncertainty weighing on the global economy. An important question is whether US tariff threats might persist even after trade deals, as was recently the case with Mexico, Argentina and Brazil.

### Publications Europe and the US could succumb to Japanification



Japan has experienced 30 years of low rates, low growth and low inflation – a phenomenon called “Japanification” that may be afflicting Europe and could soon strike the US. With flat to low index performance likely to render a buy-and-hold strategy insufficient, active management and fundamental research may be needed to provide much-needed return potential.



### 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.

## The Week Ahead

The upcoming week is jammed with important economic releases, many of which are expected to point to stabilizing or improving conditions, according to consensus estimates. On Monday, this includes Chinese retail sales, industrial production and fixed asset investment—all of which are forecast to trough and turn higher. We'll also learn whether **global manufacturing** might be bottoming, with purchasing manager indices (PMIs) for the euro area, Germany, France, Japan, the UK and the US on the docket. A casualty of the trade war, manufacturing has been contracting for much of 2019, though data has improved somewhat recently.

The UK—which remains in the throes of Brexit and narrowly avoided recession last quarter—will come into focus toward the middle of the week, with fresh figures on labor conditions, inflation, home prices and retail sales. The **Bank of England** and the **Bank of Japan** are both scheduled to announce a policy decisions on Thursday, with the former expected to hold rates steady and the latter expected to cut deeper into negative territory.

For **the US**, Tuesday and Thursday are the days to watch. Reports are expected to show a slight slowdown in the housing market, with starts, building permits and home resales turning lower. But industrial production is forecast to return to growth after contracting for two months, while leading economic indicators are expected to bounce following three straight down-months. The sixth Democratic Party presidential debate is Thursday evening, with Joe Biden, Elizabeth Warren and Bernie Sanders leading in the polls.

### Active is: Unwrapping market technicals

Despite a number of uncertainties, the **technical trading backdrop** continues to support an overweight in equities. The market's strength has been underscored by the weakness of recent consolidations and renewed flows into equities. "Short volatility" positioning is elevated, but credit markets aren't showing much stress.

May your week be filled with holiday cheer,

Greg

## Upcoming Political Events 2019

Dec 19: BoE meeting and minutes

Dec 24: BoJ minutes

Jan 20: BoJ meeting

[Overview political events 2019/20 \(click here\)](#)

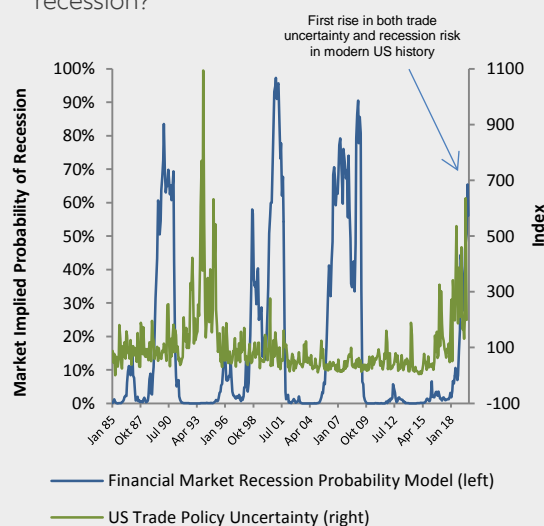
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### Chart of the Week

Could the US-China trade war cause a recession?



Source: AllianzGI Global Economics & Strategy; Policyuncertainty.com  
As of 12/06/19

## Calendar Week 51:

Monday			Consensus	Previous
CH	Fixed Assets Ex Rural YTD YoY	Nov	5.2%	5.2%
CH	Industrial Production YoY	Nov	5.0%	4.7%
CH	Retail Sales YoY	Nov	7.6%	7.2%
EC	Markit Manufacturing PMI	Dec P	--	46.9
EC	Markit Services PMI	Dec P	--	51.9
EC	Markit Composite PMI	Dec P	--	50.6
EC	Labour Costs YoY	3Q	--	2.7%
FR	Markit Manufacturing PMI	Dec P	--	51.7
FR	Markit Services PMI	Dec P	--	52.2
FR	Markit Composite PMI	Dec P	--	52.1
GE	Markit Manufacturing PMI	Dec P	--	44.1
GE	Markit Services PMI	Dec P	--	51.7
GE	Markit Composite PMI	Dec P	--	49.4
JN	Jibun Bank Japan PMI Composite	Dec P	--	49.8
JN	Jibun Bank Japan PMI Mfg	Dec P	--	48.9
JN	Jibun Bank Japan PMI Services	Dec P	--	50.3
JN	Tertiary Industry Index MoM	Oct	--	1.8%
UK	Rightmove House Prices YoY	Dec	--	0.3%
UK	Markit Manufacturing PMI	Dec P	--	48.9
UK	Markit Services PMI	Dec P	--	49.3
UK	Markit Composite PMI	Dec P	--	49.3
US	Empire Manufacturing	Dec	4.0	02. Sep
US	Markit Composite PMI	Dec P	--	52.0
US	Markit Manufacturing PMI	Dec P	--	52.6
US	Markit Services PMI	Dec P	--	51.6
US	NAHB Housing Market Index	Dec	--	70
Tuesday				
EC	EU27 New Car Registrations	Nov	--	8.7%
EC	Trade Balance SA	Oct	--	18.3b
IT	Trade Balance	Oct	--	2779m
UK	Jobless Claims Change	Nov	--	33.0k
UK	Average Weekly Earnings 3M/YoY	Oct	--	3.6%
UK	ILO Unemployment Rate 3Mths	Oct	--	3.8%
US	Housing Starts MoM	Nov	-0.3%	3.8%
US	Building Permits MoM	Nov	-5.4%	5.0%
US	Industrial Production MoM	Nov	0.9%	-0.8%
US	Capacity Utilization	Nov	77.2%	76.7%
Wednesday				
EC	Construction Output YoY	Oct	--	-0.7%
GE	PPI YoY	Nov	--	-0.6%
GE	Ifo Business Climate	Dec	--	95.0
GE	ifo Expectations	Dec	--	92.1
GE	ifo Current Assessment	Dec	--	97.9
JN	Trade Balance	Nov	--	¥17.3b
JN	Exports YoY	Nov	--	-9.2%
JN	Imports YoY	Nov	--	-14.8%
UK	CPI YoY	Nov	--	1.5%
UK	CPI Core YoY	Nov	--	1.7%
UK	PPI Input NSA YoY	Nov	--	-5.1%
UK	PPI Output NSA YoY	Nov	--	0.8%
UK	House Price Index YoY	Oct	--	1.3%
Thursday				
FR	Business Confidence	Dec	--	105
JN	BoJ Interest Rate	Dec 19	--	-0.100%
JN	BoJ 10-Yr Yield Target	Dec 19	--	0.000%
UK	Retail Sales Ex Auto Fuel YoY	Nov	--	2.7%
UK	Retail Sales Inc Auto Fuel YoY	Nov	--	3.1%
UK	Bank of England Bank Rate	Dec 19	--	0.750%
UK	BoE Asset Purchase Target	Dec	--	435b
US	Current Account Balance	3Q	--	-\$128.2b
US	Philadelphia Fed Business Outlook	Dec	9.0	10. Apr

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<b>US</b>	Initial Jobless Claims	Dec 14	--	--
<b>US</b>	Continuing Claims	Dec 7	--	--
<b>US</b>	Leading Index	Nov	0.2%	-0.1%
<b>US</b>	Existing Home Sales MoM	Nov	-0.7%	1.9%
<b>Friday</b>				
<b>EC</b>	ECB Current Account SA	Oct	--	28.2b
<b>EC</b>	Consumer Confidence	Dec A	--	-7.2
<b>FR</b>	PPI YoY	Nov	--	-1.4%

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