

The Week Ahead

Active is: Keeping an eye on capital markets



Stefan Scheurer

Director, Global Capital Markets & Thematic Research

[@AllianzGI_VIEW](#)

Turning points?

Over the past two years, the trade tensions between China and the US have been the biggest source of uncertainty for global economic growth. After lengthy negotiations on both sides, however, a provisional agreement seems to be emerging in a move towards an initial trade deal, although the major structural issues in the trade dispute are still unresolved. Looking ahead, this potential agreement could mark the first turning point for a possible way out of the impasse. This ongoing impasse has had a growing impact on corporate and consumer trust and on corporate investment expenditure – as demonstrated, for example, by global corporate sentiment, which fell to its lowest level since early 2016.

A further turning point could also be the recent marked progress in the Brexit negotiations between the UK government and the European Union (EU), which have been stalled for months. There are no signs of a short-term solution and political uncertainty on the stock markets will therefore probably persist for a while to come. However, after the vote in the House of Commons to move the legislative process to the next phase – despite members of parliament rejecting the implementation schedule proposed by the government – an orderly exit from the EU at a later date, following a renewed extension by the European Union, now seems to be a realistic option.

Those political uncertainties are not, however, without consequences for economic development. According to the International Monetary Fund (IMF), year-on-year growth in 90% of all countries has weakened and amounted to 2.9% in Q3 2019, which was its lowest level since 2009. Studies conducted by the US Federal Reserve (Fed) and the IMF expect the trade conflict to have a negative impact of 80-110 basis points on global economic growth (see our *Chart of the Week*). This is indicated, not least, by China's growth, which is the weakest it has been in decades,

Publications



A case for greening global bond allocations

While green bond issuance is expected to increase globally, the asset class has not yet made it into most investors' fixed-income allocations. But green bonds might prove complementary in fixed-income portfolios – most likely in place of global aggregate and US aggregate allocations – as investors recognise the need for an urgent transition towards a more sustainable economy.



Helicopter Money

"Helicopter money" – the concept as such seems to be nothing but new, and with a rising debate on whether Central Banks are running out of ammunition, it seems to gain momentum. There is a growing public discussion surrounding the "monetisation of government debt" (or "helicopter money") which, to put it in a less academic way, means central banks printing money with the direct purpose of financing public sector budgets.



Artificial Intelligence – Part of everyday life, driving our future

Artificial intelligence is all around us. It is part of everyday life, and gaining ground all the time. The investment opportunities are many and varied. The "creative power of destruction" is unstoppable. On the contrary. And it's only just beginning.

although the reasons for its poor foreign trade performance can probably be attributed to both *external* and *internal* factors. Against the backdrop of ongoing (geo-)political risks, we expect global economic growth in the second half of 2019 to be *below* potential. We remain more than sceptical as to whether more expansive monetary policy – more than 40 central banks have lowered their base rates since the beginning of this year – coupled with only limited fiscal support will be sufficient to balance out the numerous negative economic and political factors in the current late-cycle economic environment.

Those potential turning points – partial resolution of the customs dispute and progress in the negotiations for the United Kingdom to leave the EU – recently produced a feeling of goodwill on the international capital markets. Some equity markets even climbed close to their all-time highs, while profit-taking was rampant on the bond markets. Whether or not this implicit optimism can continue, however, will depend partly on how the ongoing Q3 reporting season progresses. The consensus is predicting a fall in profits of around 4% for the US equity market (S&P 500) – which offers scope for positive surprises. With investors increasingly adopting a wait-and-see attitude and net cash inflows into global bond and money market funds totalling nearly 900 billion US dollars since the beginning of the year – despite negative returns on more than 13 trillion US dollars of available bonds – we might be on the verge of another turning point. After all, a further decrease in the premium for political uncertainty over the coming weeks coupled with increasingly accommodating monetary policy around the world could provide a boost to the global equity markets.

Tactical Allocation, Equities & Bonds

- Despite the continued weakening of global growth momentum and heightened downward risks in the medium term, the most recent economic figures were not as weak as feared.
- Looking ahead, the partial resolution of the customs dispute and the progress being made with the negotiations for the United Kingdom to leave the EU could constitute the first turning points that further reduce the premium for political uncertainty over the coming weeks.
- Those political uncertainties are not, however, without consequences for economic development. Against this backdrop, growth of the global economy can be expected to be below potential in the second half of this year.

- We remain more than sceptical as to whether more expansive monetary policy (with only limited fiscal support) will be sufficient to balance out the numerous negative economic and political factors in the current late-cycle economic environment.
- Monetary policy will probably continue to act as a stimulus but is likely to get ever closer to its limits. Market volatility will probably increase, partly as a result of residual political uncertainties.

Wishing you positive turning points,

Stefan Scheurer

Upcoming Political Events 2019

Nov 01: New European Commission President and Commissioners take office

Nov 05: US Gubernatorial elections

Nov 06: BoJ minutes

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

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

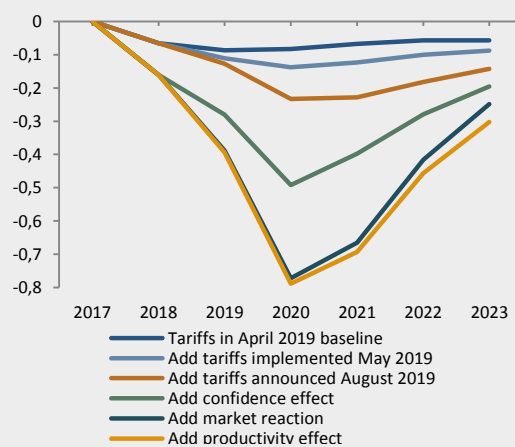
Global Capital Markets & Thematic Research goes MP3, iPod & Blackberry:

[to our publications \(click here\)](#)

[to our twitter feed \(click here\)](#)

Chart of the Week

The trade conflict has already left its mark on global economic growth.



Source: IMF, Allianz Global Investors Global Capital Markets & Thematic Research, Data as of October 2019.

Calendar Week 45:

Monday			Consensus	Previous
EC	Sentix Investor Confidence	Nov	--	-16.8
IT	Markit Italy Manufacturing PMI	Oct	--	47.8
UK	Markit Construction PMI	Oct	--	43.3
US	Factory Orders MoM	Sep	-0.5%	-0.1%
US	Factory Orders ex. Transport MoM	Sep	--	0.0%
Tuesday				
CH	Caixin Composite PMI	Oct	--	51.9
CH	Caixin Services PMI	Oct	51.7	51.3
EC	PPI YoY	Sep	--	-0.8%
JN	Monetary Base YoY	Oct	--	3.0%
UK	Markit Services PMI	Oct	--	49.5
UK	Markit Composite PMI	Oct	--	49.3
US	Trade Balance	Sep	-\$55.4b	-\$54.9b
US	ISM Non-Manufacturing Index	Oct	53.8	52.6
Wednesday				
EC	Retail Sales YoY	Sep	--	2.1%
GE	Factory Orders YoY	Sep	--	-6.7%
IT	Markit Italy Services PMI	Oct	--	51.4
IT	Markit Italy Composite PMI	Oct	--	50.6
US	Unit Labor Costs YoY	3Q P	2.9%	2.6%
Thursday				
CH	Foreign Reserves	Oct	--	\$3092.4b
GE	Industrial Production YoY	Sep	--	-4.0%
GE	Markit Construction PMI	Oct	--	50.1
IT	Retail Sales YoY	Sep	--	0.7%
UK	Bank of England Bank Rate	Nov 07	--	0.75%
UK	BoE Asset Purchase Target	Nov	--	435b
US	Initial Jobless Claims	Nov 02	--	--
US	Continuing Claims	Oct 26	--	--
US	Consumer Credit	Sep	\$15.0b	\$17.90b
Friday				
CH	BoP Current Account Balance	3Q P	--	\$46.2b
CH	Exports YoY	Oct	--	-3.2%
CH	Imports YoY	Oct	--	-8.5%
CH	Trade Balance	Oct	--	\$39.65b
FR	Trade Balance	Sep	--	-5019m
FR	Current Account Balance	Sep	--	-2.5b
FR	Industrial Production YoY	Sep	--	-1.4%
FR	Manufacturing Production YoY	Sep	--	-1.6%
GE	Trade Balance	Sep	--	16.2b
GE	Current Account Balance	Sep	--	16.9b
GE	Exports SA MoM	Sep	--	-1.8%
GE	Imports SA MoM	Sep	--	0.5%
JN	Labor Cash Earnings YoY	Sep	--	-0.2%
JN	Leading Index	Sep P	--	91.9
JN	Coincident Index	Sep P	--	99
US	U. of Mich. Sentiment	Nov P	--	95.5
Saturday				
CH	CPI YoY	Oct	--	3.0%
CH	PPI YoY	Oct	--	-1.2%

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. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional/professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP (Australian Registered Body Number 160 464 200) is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws. 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. 199907169Z]; 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. 996480