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The Week Ahead

Active is: Keeping an eye on capital markets

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Hope alone is not enough

In slightly more than 20 trading days, 2019 will be over – and so far, it has been quite a good year for the markets. Numerous international equity indices recently climbed to new all-time highs, boosted by the long-term uptrend in risk appetite. Following signs of concessions on both sides of the US/Chinese trade conflict, some hopes of a cyclical pick-up also contributed to the recent increase in equity prices.

However, hope alone is not enough. So far, the broad economic data do not confirm a cyclical acceleration. While Germany avoided a recession in the third quarter and the healthy US labour market continues to support household consumption, US industrial output disappointed in October; in fact, the year-on-year rate was the lowest since October 2016. Japanese exports declined in year-on-year terms for the eleventh month in a row (by the biggest rate in three years), and overall weak Chinese activity data temporarily pushed industrial output down to its lowest level since 1998.

In response, the Chinese authorities started to stimulate the flagging economy. The People's Bank of China (PBoC) reduced its key rates across the board during the past week. The interest rate for medium-term loans to financial institutions (MLF), the interest rate for one-week repo transactions (short-term PBoC loans to commercial banks) and the reference interest rates for short and long-term loans (LPR) were cut by 5 bp each, to 3.25%, 2.50%, 4.15% and 4.80%, respectively. In addition, the authorities provided more liquidity to the financial system.

It seems that the recent pick-up in risk appetite is largely triggered by hopes of a quick end to the trade conflict between the US and China and of an improvement (or at least a stabilisation) of the economic environment in the coming weeks so that the services sector remains unaffected. If these hopes are disappointed, the risk of a setback will increase.

Publications

Our 2020 vision: sustainable strategies may offer a path through volatile markets

In 2020, we expect markets to pivot between embracing and avoiding risk as they process muted economic growth, low rates and heightened political uncertainty. Consider managing risk actively rather than accepting volatile index returns, and think beyond the benchmark by investing sustainably and adopting thematic approaches.

Is the ECB using a misguided inflation measure?

Inflation can significantly erode purchasing power, but the ECB may be underestimating the true increase in consumer prices by relying on a narrow measurement. Investors may want to ready their portfolios for a higher rate of real-world inflation in the euro zone, perhaps by employing an actively managed mix of equities, real estate and commodities.

Added value or a mere marketing tool? What does ESG mean for investments?

"Sustainability", in the broadest sense of the term, has long ceased to be a new concept for investors. It encompasses, among other things, "corporate social responsibility" (CSR) and "environmental, social and governance" (ESG) criteria. But what does all this mean for inves-ting? Part 1 of this study explains the concepts and examines how ESG has become increasingly important in the investment world.

The Week Ahead

During the coming week, we will get a plethora of sentiment and hard data. In the **US**, the focus will be on numerous leading indicators released by regional Feds at the beginning of the week, namely the Chicago activity index and the Dallas Fed index for manufacturing (both on Monday) as well as the Richmond Fed index (on Tuesday). The consensus expects these indicators to paint a slightly better picture of the US economy, which might fuel additional hopes of a cyclical upswing. On Wednesday, we will also get consumer durables orders, which might be impacted by the smouldering trade conflict – even though orders look set to increase slightly if the volatile transport sector is excluded. In the **euro area**, attention will focus on preliminary consumer price inflation figures on Friday. Oil prices have been an important reason for the acceleration in inflation during the past year. The slowdown at the end of 2018 and the beginning of 2019 was probably due to basis effects from oil prices and will likely result in a small pick-up in inflation towards the end of the year. In **Germany**, the ifo sentiment index (due on Monday) will be in the spotlight. After sentiment remained unchanged at the top echelons of German corporate management in October, the expectations component might improve further and point to a stabilisation of the German economy. Data on consumer confidence (on Tuesday) and the labour market (on Friday) might once again confirm that consumption is currently the main pillar of growth in Germany. In **Asia** investors' attention will focus on **Japan**. The controversial VAT hike from 8% to 10%, which had been postponed twice, finally entered into force in October, and the government and the central bank believe that the impact might be smaller than at the time of the preceding hike in 2014. Retail sales (due on Thursday) will give a first indication of recent developments; however, they look set to have been boosted by reduced tax rates, reward points, rebates and shopping vouchers. Despite the tight labour market and slightly stronger wage growth, consumer prices (due on Friday) look set to have remained unaffected.

Active is:

According to the monthly fund manager survey by Bank of America (BofA) Merrill Lynch, international investors were quite cautious during the last few weeks. They watched from the sidelines as the global equity markets (driven by hopes) climbed to new all-time or annual highs. Many investors shifted away from their defensive allocation, preferred cyclical stocks and became more willing to take risks. The put-call ratios point to increasing optimism, and according to the latest American Association of Individual Investors (AAII) survey, more investors moved from the bear to the bull camp. Net inflows into money market and fixed income funds since the beginning of the year amount to almost USD 1 trillion; however, a rotation started four weeks ago. Following net outflows of more than USD 220 bn in the current year, global equity funds recently registered inflows of more than USD 30 bn (see our *Chart of the Week*). In particular, European equity funds saw first inflows again after more than 80 weeks of outflows. However, if this trend is to continue, the economy will likely stabilise. Still, hope springs eternal.

Yours

Stefan Scheurer

Upcoming Political Events 2019

Nov 30: End of term Council President Tusk

Dec 11: FOMC meeting and projections

Dec 12: ECB Governing Council meeting

Overview political events 2019 (click here)

Overview Central Banks Calender (click here)

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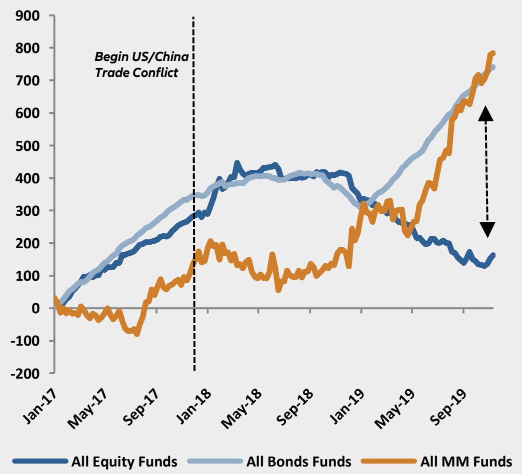
Chart of the Week

Beginning Rotation? Global equity funds recently registered net inflows of more than USD 30bn over the last 4 weeks.



Rebased to 2017.
Sources: EPFR, AllianzGI Economics & Strategy, as of Nov 20th 2019.

Calendar Week 48:

Monday			Consensus	Previous
GE	Ifo Business Climate	Nov	--	94.6
GE	ifo Expectations	Nov	--	91.5
GE	ifo Current Assessment	Nov	--	97.8
US	Chicago National Activity Index	Oct	--	-0.45
US	Dallas Fed Manf. Activity	Nov	-2	-5.1
Tuesday				
GE	GfK Consumer Confidence	Dec	--	9.6
US	FHFA House Price Index MoM	Sep	--	0.2%
US	Richmond Fed Index	Nov	--	8
US	Conf. Board Consumer Confidence	Nov	125.5	125.9
US	New Home Sales MoM	Oct	0.4%	-0.7%
Wednesday				
FR	Consumer Confidence	Nov	--	104
US	GDP Annualized QoQ	3Q S	1.9%	1.9%
US	Durable Goods Orders MoM	Oct P	-0.7%	-1.2%
US	Durables Ex Transportation MoM	Oct P	0.3%	-0.4%
US	Initial Jobless Claims	Nov 23	--	--
US	Continuing Claims	Nov 16	--	--
US	Personal Income MoM	Oct	0.3%	0.3%
US	Personal Spending MoM	Oct	0.2%	0.2%
US	PCE Deflator YoY	Oct	--	1.3%
US	PCE Core Deflator YoY	Oct	--	1.7%
US	Pending Home Sales NSA YoY	Oct	--	6.3%
Thursday				
EC	M3 Money Supply YoY	Oct	--	5.5%
EC	Economic Confidence	Nov	--	100.8
EC	Business Climate Indicator	Nov	--	-0.19
EC	Industrial Confidence	Nov	--	-9.5
EC	Services Confidence	Nov	--	9
GE	CPI YoY	Nov P	--	0.9%
JN	Retail Sales MoM	Oct	--	7.1%
Friday				
EC	Unemployment Rate	Oct	--	7.5%
EC	CPI Estimate YoY	Nov	--	0.7%
EC	CPI Core YoY	Nov P	--	1.1%
FR	CPI YoY	Nov P	--	0.9%
GE	Umemployment Rate	Nov	--	5.0%
IT	Unemployment Rate	Oct P	--	9.9%
IT	CPI YoY	Nov P	--	0.2%
JN	Jobless Rate	Oct	--	2.4%
JN	Tokyo CPI YoY	Nov	--	0.4%
JN	Tokyo CPI Core YoY	Nov	--	0.5%
JN	Industrial Production YoY	Oct P	--	1.3%
UK	GfK Consumer Confidence	Nov	--	-14