

# The Week Ahead

## Active is: Keeping an eye on capital markets



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### Downside risks in check

While many of our readers will have celebrated this year's Easter in a rather modest and introspective way, capital markets have welcomed the more positive news of recent weeks. The combination of a slowdown in the rate of new Covid-19 infections and a significant move by the US Federal Reserve to keep crisis-related credit risks in check has provided additional momentum to the recovery on the equity markets. The rally has even resulted in the priced default risks on corporate bonds returning to a lower level (please have a look at our *Chart of the Week*).

In addition, by reaching an agreement over Easter, OPEC and its affiliated oil producers have demonstrated a capacity for action that nobody would have predicted a few weeks ago. They decided to cut oil production by almost 10 million barrels per day by June and to increase it gradually again in several stages over subsequent months. Even though this agreement was essentially prompted by a dramatic collapse in demand – and the contribution of other producers such as the USA, Canada and Brazil remains unclear – it has most likely alleviated the downside risks to the oil price.

The risks of an immediate global financial crisis may also have been alleviated. However, this is less a reflection of any tangible improvement in economic growth prospects than the willingness of major central banks – notably the Federal Reserve – to accept securities with a poorer credit quality as collateral if necessary, or to purchase them directly on the markets. These announcements have already prompted investors to seek out more opportunities in these market segments. Nevertheless, this will not have any effect in averting the risk of insolvencies as a result of stifled demand brought about by government measures to deal with the pandemic.

### Publications



#### What signs of a rebound should investors watch for?

As the coronavirus crisis continues, we are seeing signals that this bear market has likely not reached its bottom. While investors should be cautious, they should also actively look for evidence that typically signals a rebound.



#### Behavioural Finance in the Era of Coronavirus

While the virus is spreading, but at the same time massive countermeasures are being introduced worldwide by monetary and fiscal policymakers, it is good to recognize yourself as an investor so that you can react in a considered manner. Dr. Hans-Jörg Naumer, Director Global Capital Markets & Thematic Research, explains common behavioural patterns such as loss aversion and framing - and how we can consciously avoid them.



#### How to help prepare for future shocks to bond liquidity

In recent weeks, the status quo of bond liquidity has been turned on its head. Amid high levels of volatility, high-quality bonds have sometimes looked more stressed than their so-called riskier counterparts. While these assets and best-quality credit should still outperform past the current market crisis, there are two main lessons for bond investors from the recent market dislocation.

## The Week Ahead

Currently, the numbers of new coronavirus cases and deaths are at least moving in the right direction. Despite this, they should not be ignored. Next week is likely to see attention shifting to the political arena with statements by various governments on when and how they might take the first tentative steps towards a normalisation of public life; while some countries announced very gradual steps to re-open parts of the economy in this week, others prolonged key restrictions until early May. There are several factors at play here, such as the availability of virus tests, personal protective equipment and masks. The reproduction rate of the virus, ie, the number of people who catch the virus from an infected person, may also play a role. In addition, observers will be closely monitoring China's efforts to restart its economy to see how successful it is or whether there are any problems.

In terms of the overall macroeconomic picture, on Thursday flash PMI estimates will take centre stage throughout the world. With the final numbers for March showing a record deterioration in economic activity, April's figures are likely to include the full force of the initial restrictions. It should be noted that the aim of this survey is solely to reflect changes in activity compared to the previous month, so any potential improvement or deterioration should be seen in the context of the previous month's very weak survey. Other sentiment data are also on the agenda over the course of the week: the German Ifo index on Friday and the EU Commission's Consumer Confidence Indicator as well as the outlook for French manufacturing on Wednesday. US durable goods orders are also due to be released on Friday. Some of these figures may show unprecedented declines.

### Active is: Continuing to take the virus seriously

There has recently been a reduction in some potential downside risks: the virus is spreading more slowly due to the strict lockdown measures, central banks are mitigating the risk of uncontrolled accidents in the financial system, and the danger of a complete meltdown in the oil price has receded. This could create opportunities for corporate bonds. The outlook for growth and earnings has also taken a clear step towards a more realistic scenario, although we continue to view as rather optimistic the expectation of a decline in earnings for the year of around 10 % for the US S&P 500 benchmark index.

Nevertheless, the strong recovery on equity markets now appears to reflect a very favourable scenario regarding the course of the pandemic: there are hardly any signs of a risk buffer in case of setbacks in containment measures or of a slower than anticipated normalisation in the economy. Thankfully, as an active manager, our advantage is that we can be very selective in our approach to equities.

Take care and stay healthy!

Yours,

Stefan Rondorf

## Upcoming Political Events 2020

Apr 28: BoJ meeting

Apr 29: FOMC meeting

Apr 30: ECB meeting

[Overview political events 2020 \(click here\)](#)

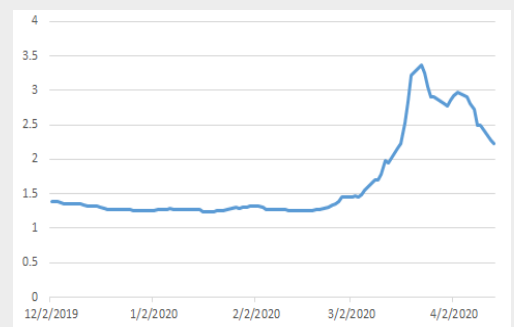
## Global Capital Markets & Thematic Research goes Social Media:

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

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## Chart of the Week

Spread of BBB-rated US Corporate Bonds to 10-year treasuries



Source: Bloomberg, Allianz Global Investors Economics & Strategy, Data as of April 15<sup>th</sup> 2020

## Calendar Week 17:

Monday			Consensus	Previous
EC	ECB Current Account SA	Feb	--	--
EC	Trade Balance SA	Feb	--	--
JN	Trade Balance	Mar	--	--
JN	Exports YoY	Mar	--	--
JN	Imports YoY	Mar	--	--
US	Chicago National Activity Index	Mar	--	--
Tuesday				
EC	ZEW Survey Expectations	Apr	--	--
GE	ZEW Survey Expectations	Apr	--	--
GE	ZEW Survey Current Situation	Apr	--	--
UK	Jobless Claims Change	Mar	--	--
UK	Average Weekly Earnings 3M/YoY	Feb	--	--
UK	ILO Unemployment Rate 3Mths	Feb	--	--
US	Existing Home Sales MoM	Mar	--	--
Wednesday				
EC	Consumer Confidence	Apr A	--	--
IT	Industrial Orders NSA YoY	Feb	--	--
UK	CPI YoY	Mar	--	--
UK	CPI Core YoY	Mar	--	--
Thursday				
EC	Markit Manufacturing PMI	Apr P	--	--
EC	Markit Services PMI	Apr P	--	--
EC	Markit Composite PMI	Apr P	--	--
FR	Markit Manufacturing PMI	Apr P	--	--
FR	Markit Services PMI	Apr P	--	--
FR	Markit Composite PMI	Apr P	--	--
GE	GfK Consumer Confidence	May	--	--
GE	Markit Manufacturing PMI	Apr P	--	--
GE	Markit Services PMI	Apr P	--	--
GE	Markit Composite PMI	Apr P	--	--
JN	Markit Manufacturing PMI	Apr P	--	--
JN	Markit Services PMI	Apr P	--	--
JN	Markit Composite PMI	Apr P	--	--
UK	Markit Manufacturing PMI	Apr P	--	--
UK	Markit Services PMI	Apr P	--	--
UK	Markit Composite PMI	Apr P	--	--
UK	Retail Sales Ex Auto Fuel YoY	Mar	--	--
US	Initial Jobless Claims	Apr 18	--	--
US	Continuing Claims	Apr 11	--	--
US	Markit Manufacturing PMI	Apr P	--	--
US	Markit Services PMI	Apr P	--	--
US	Markit Composite PMI	Apr P	--	--
US	New Home Sales MoM	Mar	--	--
US	Kansas City Fed Manf. Activity	Apr	--	--
Friday				
GE	Ifo Business Climate	Apr	--	--
GE	Ifo Expectations	Apr	--	--
GE	Ifo Current Assessment	Apr	--	--
IT	Consumer Confidence	Apr	--	--
IT	Economic Sentiment	Apr	--	--
JN	CPI YoY	Mar	--	--
JN	CPI Core YoY	Mar	--	--
US	Durable Goods Orders MoM	Mar P	--	--

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