The Week Ahead

Active is: Keeping an eye on capital markets

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Until we see signs to the contrary

The global equity markets are currently expecting a **robust recovery** – and indeed, chances of such a development appear to be good, at least until evidence to the contrary emerges. From a fundamental vantage point, the recovery is supported by **three pillars**:

(1) The pandemic has been **contained** in most countries, at least for now

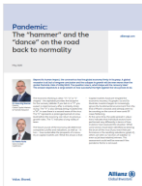
(2) Leading indicators and mobility data have **reached a trough**, and hopes of a pick-up appear justified as lockdown rules are lifted. In fact, the expectations component of the ifo index has jumped *(pls refer to the Chart of the Week)*, as have the expectations for US consumer confidence, according to the Conference Board

(3) **Financial conditions** have quickly improved considerably, as central banks have flooded the markets with liquidity and governments have offered fiscal support. Corporate bond spreads and risk premiums in money markets have declined accordingly.

Two other developments may provide further **opportunity for upside**. First, **medical breakthroughs** regarding the treatment of Covid-19 or the development of a virus vaccine might come sooner than expected. Second, governments might announce **additional fiscal packages** in the coming weeks, with the focus shifting from limiting damage to **stimulating demand**. France and Germany have proposed a recovery fund for the euro area, and some countries, such as the US or Germany, are working on (further) national fiscal packages.

Right now, the markets tend to focus on positive news and disregard risks. However, the risk of a renewed escalation of the political tensions between the US and China has recently increased again, reminding us that the **trade conflict** has not yet been resolved.

Publications



Pandemic: The “hammer” and the “dance” on the road back to normality

Beyond its human impact, the coronavirus has the global economy firmly in its grasp. A global recession is all but a foregone conclusion and the collapse in growth will be even worse than the global financial crisis of 2008/2009. The question now is, what shape will the recovery take? The answer depends to a large extent on how successful the fight against the virus proves to be.

Coronavirus – Emerging Markets Outlook

Social distancing and other containment measures are creating significant risks to EM economies. Still, some countries – including Russia, Brazil and China – could be set to rebound when capital begins flowing back in.

Investing in the world of tomorrow

How can investors benefit from megatrends? How can these be turned into specific investment themes? Is there even a need for theme-based investing at all, or are major trends already considered in all mandates anyway, due to active management? Dr. Hans-Jörg Naumer & Andreas Fruschki share their thoughts.

The Week Ahead

The coming week will be quite interesting for investors. The focus will probably be on the **ECB** meeting on Thursday and the US labour market report on Friday. In particular, investors will pay attention to the new ECB growth projections: how serious do the ECB experts expect the recession to become, and what will be the impact on inflation? It is not clear whether the ECB will provide additional stimulus as soon as next week; capital market pressures have declined considerably. Moreover, press conference participants are likely to ask questions about the recent ruling of the German Constitutional Court which potentially limits future ECB stimulus actions.

The **US labour market report** will give us more insight into the full impact of the lockdown measures; the unemployment rate might rise towards 20%. Euro-area unemployment figures are due as well; they will be released on Wednesday. Moreover, we will get April order intake figures for the US (on Wednesday) and Germany (on Friday) and the final global PMIs for May. The flash estimates point to a stabilisation, with the series rising from historical lows to still recessionary levels.

Active is: Taking advantage of the risk-on sentiment until evidence to the contrary emerges.

As long as there is no evidence to contradict the recovery scenario expected by the markets, equity investors may stick to their risk-on sentiment, particularly as oil prices stabilise and the situation on the credit markets appears to become more relaxed. The gradual lifting of the restrictions provides room for speculation, not least because investors are still quite pessimistic. Even energy, financials, travel and leisure, ie, the sectors which are suffering right now, might finally see a **light at the end of the tunnel.** If the S&P 500 jumped above its 200-day line, the markets would get a strong technical signal. However, index valuations are high, particularly in the US. This suggests that there is no safety net. Markets are not prepared for a significant rise in infection numbers or an escalation in geopolitical tensions.

Investors will continue to need stamina and inner strength.

Yours

Stefan Rondorf

Upcoming Political Events 2020

Jun 04: ECB meeting

Jun 09: FOMC meeting

Jun 15: BoJ meeting

Overview political events 2020 (click here)

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

to our publications (click here)

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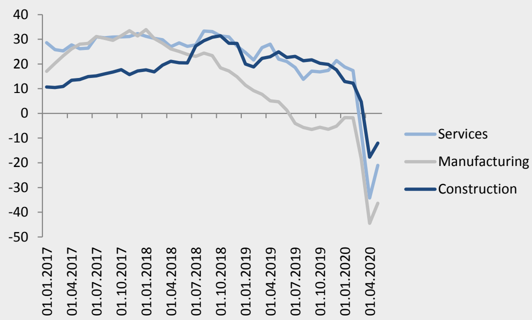
Chart of the Week

IFO Business Climate for different sectors:

Bottoming Out?



Source: Ifo Institute, Bloomberg (as of May 26th 2020)

Calendar Week 23:

Monday			Consensus	Previous
CH	Caixin Manufacturing PMI	May	49.8	49.4
CH	Exports YoY	May	--	3.50%
CH	Imports YoY	May	--	-14.20%
CH	Trade Balance	May	--	$45.34b
CH	Foreign Reserves	May	--	$3091.46b
EC	Retail Sales YoY	Apr	--	-9.20%
EC	ECB Main Refinancing Rate	Jun-04	--	0.00%
EC	ECB Deposit Facility Rate	Jun-04	--	-0.50%
GE	Markit Construction PMI	May	--	31.9
IT	Markit Italy Services PMI	May	--	10.8
IT	Markit Italy Composite PMI	May	--	10.9
JN	Vehicle Sales YoY	May	--	-25.50%
UK	Markit Construction PMI	May	--	8.2
US	Construction Spending MoM	Apr	-7.60%	0.90%
US	ISM Manufacturing	May	43	41.5
US	Trade Balance	Apr	-$38.0b	-$44.4b
US	Initial Jobless Claims	May 30	--	--
US	Continuing Claims	May 23	--	--

Wednesday				
GE	Factory Orders YoY	Apr	--	-16.00%
IT	Retail Sales YoY	Apr	--	-18.40%
JN	Leading Index	Apr P	--	84.7
JN	Coincident Index	Apr P	--	90.2
US	Change in Nonfarm Payrolls	May	-7000k	-20537k
US	Unemployment Rate	May	19.50%	14.70%
US	Average Hourly Earnings YoY	May	8.10%	7.90%
US	Consumer Credit	Apr	-$21.500b	-$12.044b

Thursday				
IT	Markit Italy Manufacturing PMI	May	--	31.1
JN	Monetary Base YoY	May	--	2.30%
UK	Mortgage Approvals	Apr	--	56.2k
UK	M4 Money Supply YoY	Apr	--	8.10%

Friday				
CH	Caixin Composite PMI	May	--	47.6
CH	Caixin Services PMI	May	--	44.4
EC	PPI YoY	Apr	--	-2.80%
EC	Unemployment Rate	Apr	--	7.40%
GE	Unemployment Change	May	--	373.0k
GE	Umemployment Rate	May	--	5.80%
IT	Unemployment Rate	Apr P	--	8.40%
US	ADP Employment Change	May	-9000k	-20236k
US	Factory Orders ex. Transport MoM	Apr	--	-3.70%
US	Factory Orders MoM	Apr	-14.80%	-10.30%
US	ISM Non-Manufacturing Index	May	44.4	41.8