The Week Ahead

Active is: Keeping an eye on capital markets

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"Hip to be square"

Risky assets have rallied impressively in recent weeks as investors look to the other side of the deepest recession since the Great Depression. The belief is that – unlike prior downturns – this one was man-made. Consumers, businesses and governments deliberately went into hibernation, a conscious decision to prioritise health and safety first. That's because the initial threat from **Covid-19** was highly uncertain. What we knew was the disease was sending many thousands of people into hospitals and placing health systems at risk of collapse from Wuhan to Milan and New York.

Today the daily death toll from the virus remains similar to early April. We've learned a lot about Covid-19, but previous hot spots are being replaced by new (or newly reawakened) ones. Still, much of the world is climbing out from quarantine and into a **process of reopening**.

This development has whetted investors' appetite. If the virus can be managed through measures like distancing, masks, testing, contact tracing and temperature checkpoints, maybe we can limit the use of quarantines and return to "normal" faster. This carries implications for the shape of the recovery, and it's part of the reason we've seen **"V-shaped markets"** (See our Chart of the Week).

But economic expectations have moved more slowly. Some of the pandemic's effects – consumer behaviour changes, permanent job losses and government/corporate spending cuts – are expected to persist. Remote working and shopping are normalising, and we may not see full-capacity business conferences, sports arenas or airplanes for some time.

How can the market-economy dichotomy be squared? The first phase of the economic recovery may prove abrupt, perhaps potent – similar to the initial shutdown. But after the economy reopens, a second phase seems likely: fixing **longer-term structural damage**. The current outlook seems

Publications

Mid-year outlook: markets could rise more despite the recession

The financial markets reacted to the coronavirus with an unprecedented first-quarter drop, then turned around quickly. This appetite for risk in the face of the deepest recession since the 1930s is quite unusual, but the markets are being driven by optimism about potential economic improvement down the road – so we can't exclude a further rise in equity prices.

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.

more uncertain than usual – both on the downside and upside.

The Week Ahead

The economic data flow is about to get thick. Starting Monday, we will dig into the health of **China's post-pandemic recovery**. The earliest known country hit by the virus, China has recently contained infections without resorting to mass quarantines and business closures. In Wuhan – the initial epicentre of the pandemic – the government just tested nearly 10 million people over 19 days (finding only 300 asymptomatic infections). Consensus estimates point to another monthly improvement in May in Chinese industrial production, retail sales and fixed asset investment.

On Tuesday, we will get a Bank of Japan monetary policy decision, ZEW economic survey data for Germany and UK unemployment figures, plus a swathe of reports on the **US economy** including retail sales, industrial production, business inventories and homebuilder confidence. The US data is expected to strengthen from some of the worst levels on record, while UK joblessness and German economic expectations may deteriorate slightly.

The calendar continues into Wednesday and Thursday, with Japanese exports and imports (expected to weaken further), UK core inflation (forecast to firm) and a **Bank of England** policy decision. In the US, the focus will be on housing starts, leading indicators and weekly jobless claims, all three of which are expected to show sequential improvement.

The week ends with a lighter schedule on Friday, including UK retail sales, German producer prices and Japanese consumer prices. While UK outlays are expected to collapse more than 18% m/m, deflation in Germany and Japan could ease marginally.

Active is: Reviewing reflation

Investor surveys continue to show safe-haven demand and high cash levels. But a **reflationary regime** is building across several asset classes. Oil prices have bottomed-out and US Treasury yields have reversed trend and pushed higher. This shift in market dynamics – if it holds – should favour cyclical stocks, small caps, European equities and Japanese equities. The US dollar may be challenged by elevated short positioning (a contrarian signal) and a backdrop of strengthening commodity currencies (Australian dollar, Canadian dollar and Norwegian krone). Gold prices look short-term toppish.

Have a great week and stay hip, Greg

Upcoming Political Events 2020

Jun 15: BoJ meeting

Jun 30: Funo's term ends, Basic Policies for Economic and Financial Management Reform, strategic growth plan

Jul 16: ECB meeting

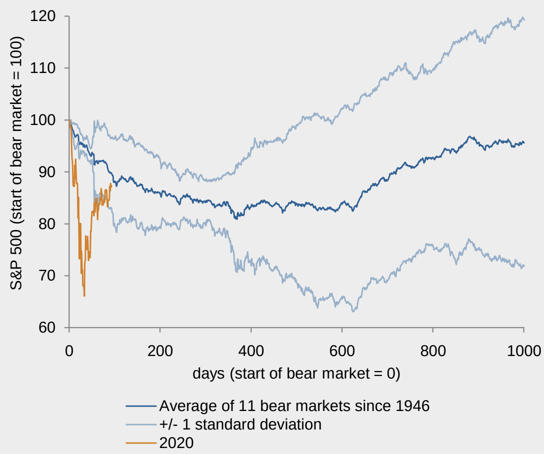
Overview political events 2020 (click here)

Global Capital Markets & Thematic Research goes Social Media:

to our publications (click here)

Chart of the Week

All bear markets (equities down by 20% or more)



Source: Allianz Global Investors Global Economics & Strategy, Bloomberg (data as at 22 May 2020)

to our twitter feed (click here)

Calendar Week 25:

Monday			Consensus	Previous
CH	Industrial Production YoY	May	--	3.90%
CH	Retail Sales YoY	May	--	-7.50%
CH	Fixed Assets Ex Rural YTD YoY	May	--	-10.30%
EC	Trade Balance SA	Apr	--	23.5b
JN	Tertiary Industry Index MoM	Apr	--	-4.20%
US	Empire Manufacturing	Jun	--	-48.5
Tuesday				
EC	Labour Costs YoY	1Q	--	2.40%
EC	ZEW Survey Expectations	Jun	--	46
GE	ZEW Survey Expectations	Jun	--	51
GE	ZEW Survey Current Situation	Jun	--	-93.5
JN	BoJ Interest Rate	Jun-16	--	-0.10%
JN	BoJ 10-Yr Yield Target	Jun-16	--	0.00%
UK	Jobless Claims Change	May	--	856.5k
UK	Average Weekly Earnings 3M/YoY	Apr	--	2.40%
UK	ILO Unemployment Rate 3Mths	Apr	--	3.90%
US	Retail Sales MoM	May	--	-16.40%
US	Retail Sales Ex Auto and Gas YoY	May	--	-16.20%
US	Industrial Production MoM	May	--	-11.20%
US	Capacity Utilization	May	--	64.90%
US	Business Inventories MoM	Apr	--	-0.20%
US	NAHB Housing Market Index	Jun	--	37
Wednesday				
EC	EU27 New Car Registrations	May	--	-76.30%
EC	Construction Output YoY	Apr	--	-15.40%
IT	Industrial Sales WDA YoY	Apr	--	-25.20%
IT	Industrial Orders NSA YoY	Apr	--	-26.60%
JN	Trade Balance	May	--	-¥930.4b
JN	Exports YoY	May	--	-21.90%
JN	Imports YoY	May	--	-7.20%
UK	CPI YoY	May	--	0.80%
UK	CPI Core YoY	May	--	1.40%
UK	PPI Input NSA YoY	May	--	-9.80%
UK	PPI Output NSA YoY	May	--	-0.70%
US	Housing Starts MoM	May	--	-30.20%
US	Building Permits MoM	May	--	-20.80%
Thursday				
IT	Trade Balance	Apr	--	5685m
UK	Bank of England Bank Rate	Jun-18	--	0.10%
US	Philadelphia Fed Business Outlook	Jun	--	-43.1
US	Leading Index	May	--	-4.40%
Friday				
EC	ECB Current Account SA	Apr	--	27.4b
GE	PPI YoY	May	--	-1.90%
IT	Current Account Balance	Apr	--	4136m
JN	CPI YoY	May	--	0.10%
JN	CPI Core YoY	May	--	-0.20%
UK	Retail Sales Ex Auto Fuel YoY	May	--	-18.40%
UK	Retail Sales Inc Auto Fuel YoY	May	--	-22.60%
UK	PSNB ex Banking Groups	May	--	62.1b
US	Current Account Balance	1Q	--	-$109.8b