

# The Week Ahead

May 4<sup>th</sup> 2018

## Distribution conflicts

At the beginning of May this year, it will have been 200 years since the birth of Karl Marx. While not necessarily a reason to celebrate, this does give cause for thought. His dictum that “the history of humanity is the history of class struggle” misses the point. It’s not about “classes”; it’s about resources: the history of mankind is a history of distribution conflicts. The same applies to its future.

Little wonder that geo-politics and world trade are firmly back on the agenda – certainly on capital markets – particularly given a background of growing resource consumption and current account imbalances. Former socialist countries – having converted to market economies – are rapidly catching up with Western standards of prosperity, while trade with China and emerging markets continues to grow. While the political scene in Europe may have calmed down after a series of elections, the debate about trade policy is getting louder.

And yet, the picture is more varied than you might expect. While some think in terms of tariffs and walls, others are in the process of switching their geographical focus. China, for example, is pushing ahead with its plans to revive the Silk Road on land and water, and has in its sights not just Asia, but also the Middle East, Africa and Europe. Meanwhile, the European Union is working on new free trade agreements at bilateral level, particularly with the ASEAN nations that make up the world’s fastest-growing region.

Tweets are more eye-catching than deeds; investors would be well advised to stick to hard facts. Right now the key to allocation decisions is the knowledge that the reflation scenario will continue. Production capacity utilisation is good, even though the global economic cycle is at a late stage. And although the Federal Reserve may still be good for few surprises that the market hasn’t yet priced in, monetary policy continues to support equities overall.

Growth is the best antidote to distribution conflicts. To create growth, you eliminate trade barriers and invest. Good opportunities for the latter option certainly still abound.

## Publications



### Capital Markets Monthly: “Distribution conflicts”

The history of mankind is a history of distribution conflicts. The same applies to its future. Little wonder that geo-politics and world trade are firmly back on the agenda. But tweets are more eye-catching than deeds; investors would be well advised to stick to hard facts. Right now the key to allocation decisions is the knowledge that the reflation scenario will continue.

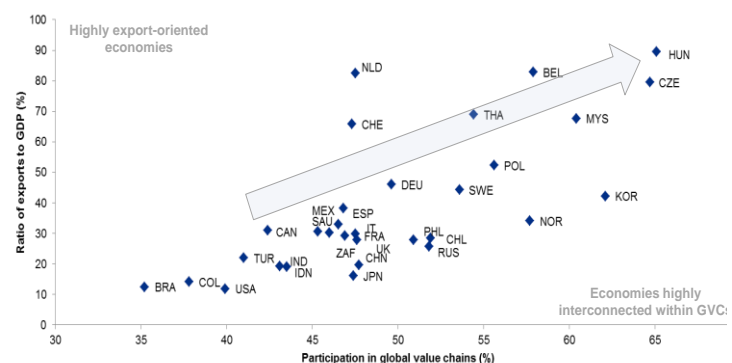


### “Vindication for the Fed’s Plans for Gradual Normalization”

The latest US economic data appear to support the Fed’s strategy and match the market’s expectations: no rate rises after the FOMC’s May meeting, but three or four hikes by the end of the year. Longer term, however, the market’s expectations don’t match what the Fed is likely to do, which could create turbulence.

## Chart of the Week: What if... a global trade war really came to pass?

The higher the degree of openness (top right corner), the more vulnerable to a rise in protectionism



1) The imposition of tariffs would lead to transitory “one-off” increase in the price level near-term and a possibly curtailed supply-side capacity and inflationary rebuild in the medium-term. According to OECD estimates, a 10%-point increase in global trade costs would lower global GDP by 1-1.5 %-points mid-term.

Sources: Datastream, OECD, AllianzGI Global Economics & Strategy.

## Tactical Allocation, Equities & Bonds

- Although political risks have diminished in recent months, they have not vanished by any means.
- Capital market valuations continue to differ between asset classes, such as the equities and government bonds of industrialized countries. The differences in valuation on the equity markets, in particular, are very considerable in terms of their cyclically-adjusted price/earnings ratios (Shiller P/E): high in the US, moderate in Europe, good value for money in the emerging markets.
- From an overall perspective, we favor continuing to moderately overweight equities.
- Active investment can be beneficial in a market environment that is expected to be volatile! And that applies both within asset classes and across all asset classes.

Wishing you investment success,



Hans-Jörg Naumer

@AllianzGI\_VIEW

**Hans-Jörg Naumer**  
Global Head of Global  
Capital Markets &  
Thematic Research

→ Capital Market Monthly

## Upcoming Political Events 2018

### May:

May  
10 May European Commission Spring 2018  
BoE meeting, minutes and inflation report

### June:

8-9 Jun G-7 Summit, Quebec, Canada  
12-13 Jun FOMC meeting and economic projections

→ Overview political events 2018

## Other publications:



### "Added value or a mere marketing tool? What does ESG mean for investors?"

"Sustainability", in the broadest sense of the term, has long ceased to be a new concept for investors. After Part 1 of this study looked into the change in meanings and the increased importance of sustainable investment, this second part provides an overview of academic research into the issue.

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

→ to our publications

→ to our twitter feed

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 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 GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); 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. AdMaster #487888

## Calendar Week 19:

Monday

			(Est.)	(Prior)
CH	Foreign Reserves	Apr	\$3133.00b	\$3142.82b
EC	Markit Retail PMI	Apr	--	50.1
EC	Sentix Investor Confidence	May	--	19.6
FR	Markit Retail PMI	Apr	--	50.0
GE	Factory Orders YoY	Mar	--	3.5%
GE	Markit Construction PMI	Apr	--	47.0
GE	Markit Retail PMI	Apr	--	51.5
IT	Markit Retail PMI	Apr	--	48.0
US	Consumer Credit	Mar	\$16.000b	\$10.601b

Tuesday

CH	Trade Balance	Apr	\$29.35b	-\$4.98b
CH	Imports YoY	Apr	16.0%	14.4%
CH	Exports YoY	Apr	8.0%	-2.7%
CH	Foreign Direct Investment YoY CNY	Apr	--	0.4%
GE	Trade Balance	Mar	--	18.4b
GE	Current Account Balance	Mar	--	20.7b
GE	Exports SA MoM	Mar	--	-3.2%
GE	Imports SA MoM	Mar	--	-1.3%
GE	Industrial Production YoY	Mar	--	2.6%
UK	Halifax House Price 3Mths/Year	Apr	--	2.7%

Wednesday

FR	Industrial Production YoY	Mar	--	4.0%
FR	Manufacturing Production YoY	Mar	--	2.4%
IT	Retail Sales YoY	Mar	--	-0.6%
JN	Labor Cash Earnings YoY	Mar	1.0%	1.3%
JN	Leading Index	Mar P	105.1	106.0
JN	Coincident Index	Mar P	116.4	116.1

US	PPI YoY	Apr	--	3.0%
US	PPI Core YoY	Apr	--	2.7%

Thursday

CH	PPI YoY	Apr	3.4%	3.1%
CH	CPI YoY	Apr	1.9%	2.1%
CH	Money Supply M2 YoY	Apr	8.5%	8.2%
CH	Money Supply M0 YoY	Apr	--	6.0%
CH	Money Supply M1 YoY	Apr	7.1%	7.1%
IT	Industrial Production YoY	Mar	--	2.5%
JN	BoP Current Account Balance	Mar	¥2929.3b	¥2076.0b
JN	Trade Balance BoP Basis	Mar	¥1017.1b	¥188.7b
UK	Trade Balance	Mar	--	-£965
UK	Industrial Production YoY	Mar	--	2.2%
UK	Manufacturing Production YoY	Mar	--	2.5%
UK	Construction Output SA YoY	Mar	--	-3.0%
UK	Bank of England Bank Rate	May 10	0.500%	0.500%
UK	BoE Asset Purchase Target	May	--	435b
US	CPI YoY	Apr	2.5%	2.4%
US	Initial Jobless Claims	May 5	--	--
US	CPI Ex Food and Energy YoY	Apr	2.2%	2.1%
US	Continuing Claims	Apr 28	--	--
US	Real Avg Weekly Earnings YoY	Apr	--	0.9%

Friday

JN	Money Stock M2 YoY	Apr	3.2%	3.2%
JN	Money Stock M3 YoY	Apr	2.8%	2.8%
US	Import Price Index YoY	Apr	--	3.6%
US	Export Price Index YoY	Apr	--	3.4%
US	U. of Mich. Sentiment	May P	98.0	98.8

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 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 GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); 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. AdMaster #487888