The Week Ahead

Stefan Scheurer

Director, Global Capital Markets & Thematic Research

@AllianzGI_VIEW

Resilience

Last year, when the Sino-American trade war was overshadowed by a global pandemic, even the most optimistic among us would not have dared to hope that the financial markets would ultimately prove to be so remarkably resilient in the face of the worst – and not just in an economic sense – crisis since World War II.

While some countries are currently struggling with new waves of infection and the effects of renewed lockdowns, the global economy has emerged from the recession by means of significant monetary and fiscal aid packages from states and central banks. These measures were necessary and helpful, but could have significant long-term consequences:

1. The excess liquidity brought about by the monetary stimulus had repercussions for the capital markets – in particular the high valuation of US and Euroland government bonds with predominantly negative returns is likely also due to monetary policy.
2. Public and private sector debt is now at a very high level. If recovery loses momentum in a big way, companies may have difficulty servicing their debt – which carries the risk of increased defaults.
3. The liquidity glut, virus-related lockdowns and ongoing trade conflicts, as well as the demand shocks caused by them, increase the risk of a mid-term rise in commodity and service prices.

It may be several years before the global economy returns to its former growth path following the sudden interruption caused by COVID-19. All the more so considering that global growth in gross domestic product slowed markedly in recent weeks after the rapid rise in Q3 (not least due to the re-introduction of COVID-19 restrictions in Europe and the US). Much of 2021 depends on when effective vaccines and treatment methods are widely

Publications

Investing for a sustainable future

The United Nations Sustainable Development Goals (SDGs) reflect a global consensus on the most urgent environmental and societal issues. A new crop of investments built around the SDGs are helping investors to direct capital into potential growth companies, while also addressing the biggest issues facing the planet.

Investing in a better World

"Disruption" seems to describe our present and future more aptly than any other term. Disruption is the power (not always purely creative) to destroy the old and to create something new - economic disruption ("digitalization"), disruption of the population pyramid ("demography"), environmental and climate disruption, social disruption (populism), etc. In spite of all these changes, however, there is a basic constant that is paving the way to a better world: capital.

Who is going to pay? Public debt and the low / negative yield environment

Who is going to pay? That question is heard quite often in connection with the coronavirus-related fiscal packages. Quite rightly. Governments have adopted huge packages to stabilise their economies. This article will analyse the impact of implicit interest rates, growth and inflation on debt ratios in Germany, France, Spain and Italy.

available. The first vaccinations are already being administered, including in Europe.

As the last few weeks have shown, the market has proved to be extremely robust amid economic and political uncertainty. Stocks even reached new all-time and post-pandemic highs, not least because of the agreement on a new US stimulus package, progress in Brexit negotiations and the start of COVID vaccinations. However, this resilience could be tested, as financial markets have already factored in a rapid, albeit uncertain, recovery, and consensus amongst investors is, according to recent positioning surveys, a little too optimistic when compared to past consensus. In light of this, a more diversified approach is required in 2021 – one that takes other regions, sectors and strategies into account, not just those that have developed well in recent times.

Tactical allocation: equities & bonds

• The global economy has emerged from the recession, but it may be several years before the global economy returns to its former growth path following the sudden interruption caused by COVID-19.

• Crucially, the resilience of the economy over the coming quarters will depend on when effective vaccines and treatment methods are likely to become widely available, thus allowing for a phased return to normality.

• States and central banks have responded to the recession with significant monetary and fiscal aid packages. This can, however, take an economic toll in the long term (among other things, high asset prices in some markets, high levels of debt and increasing volatility of inflation).

• Given the central banks' wide-ranging commitments, short-term interest rates are likely to remain extremely low for the time being, while the re-emergence of financial repression and enormous public debt could drive returns up at the long end of the yield curve.

• The investment crisis is further exacerbating the hunt for capital income. Stocks and riskier forms of investment should benefit from this, but given the endless number of unknown factors, investors should focus on having a balanced stock portfolio in 2021 – one that takes other regions, sectors and strategies into account, not just those that have developed well in recent times.

Investment topic: RCEP – The World's Largest Trade Agreement

• After eight years of negotiations, 15 countries from the Asia-Pacific region – the 10 member states of ASEAN, China, Japan, South Korea, Australia and New Zealand – officially signed the treaty establishing the Regional Comprehensive Economic Partnership (RCEP) in November 2020.

• This creates a new economic bloc that is home to one third of the world's population, generates almost a third of global GDP and accounts for almost a third of world trade.

• The RCEP is an important step towards broader regional integration in Asia. In the medium term, it will strengthen regional supply chains and enable greater economic integration, thus boosting growth across the region.

• Closer trade and investment relations should, in turn, deepen financial market integration in the Asia-Pacific region. It is likely that the ASEAN countries will become integrated into China's supply chain to a greater extent.

• China is likely to benefit significantly from the Agreement, which removes barriers to exports to other Asian countries. But for other RCEP member states, the benefits could be even greater. In future, the ASEAN countries, South Korea and Japan, should be better equipped to develop their value chains.

Hoping you remain steadfast,

Stefan Scheurer

Upcoming Political Events 2021

Overview political events 2021 (click here)

Overview Central Banks Calender (click here)

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

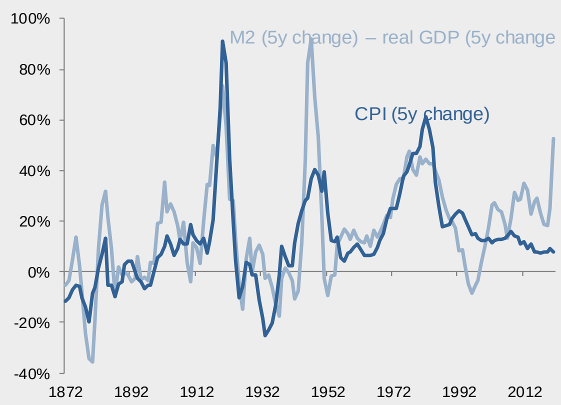
to our publications (click here)

to our twitter feed (click here)

Chart of the Week

Excess liquidity points to higher inflation

Worldwide



Source: Allianz Global Investors Global Economics & Strategy, Bloomberg

Calendar Week 2:

Monday			Consensus	Previous
CH	PPI YoY	Dec	-0.8%	-1.5%
CH	CPI YoY	Dec	0.0%	-0.5%
EC	Sentix Investor Confidence	Jan	--	-2.7
Tuesday				
FR	Bank of France Business Sentiment	Dec	--	96
JN	BoP Current Account Balance	Nov	¥1586.5b	¥2144.7b
JN	Trade Balance BoP Basis	Nov	¥509.3b	¥971.1b
Wednesday				
EC	Industrial Production YoY	Nov	--	-3.8%
IT	Industrial Production YoY	Nov	--	-2.1%
JN	Money Stock M2 YoY	Dec	9.3%	9.1%
JN	Money Stock M3 YoY	Dec	7.8%	7.6%
JN	Machine Tool Orders YoY	Dec P	--	8.6%
US	CPI YoY	Dec	1.3%	1.2%
US	CPI Ex Food and Energy YoY	Dec	1.6%	1.6%
US	Real Avg Weekly Earnings YoY	Dec	--	4.7%
Thursday				
CH	Exports YoY	Dec	15.0%	21.1%
CH	Imports YoY	Dec	5.7%	4.5%
CH	Trade Balance	Dec	$70.00b	$75.43b
JN	Core Machine Orders YoY	Nov	-15.6%	2.8%
JN	PPI YoY	Dec	-2.2%	-2.2%
US	Initial Jobless Claims	Jan-09	--	--
US	Continuing Claims	Jan-02	--	--
US	Import Price Index YoY	Dec	--	-1.0%
US	Export Price Index YoY	Dec	--	-1.1%
Friday				
EC	Trade Balance SA	Nov	--	25.9b
JN	Tertiary Industry Index MoM	Nov	0.4%	1.0%
UK	Industrial Production YoY	Nov	--	-5.5%
UK	Manufacturing Production YoY	Nov	--	-7.1%
UK	Construction Output YoY	Nov	--	-7.5%
UK	Trade Balance GBP/Mn	Nov	--	-£1738m
US	PPI YoY	Dec	0.7%	0.8%
US	PPI Core YoY	Dec	1.3%	1.4%
US	Empire Manufacturing	Jan	3-Aug	4-Sep
US	Retail Sales MoM	Dec	-0.3%	-1.1%
US	Retail Sales Ex Auto and Gas YoY	Dec	--	-0.8%
US	Capacity Utilization	Dec	73.3%	73.3%
US	Industrial Production MoM	Dec	0.3%	0.4%
US	Business Inventories MoM	Nov	0.4%	0.7%
US	U. of Mich. Sentiment	Jan P	79.5	80.7