The Week Ahead

Dr. Hans-Jörg Naumer

Director Global Capital Markets & Thematic Research

@AllianzGI_VIEW

Sell in May and go away?

The past week was somewhat underwhelming after stock markets had reached new all-time highs. On the other hand, it is difficult to keep on surprising with a constant flow of positive forecasts. Vaccination efforts are making progress and the first economies are emerging from their lockdowns, albeit not universally. The number of coronavirus infections is rising sharply in some countries, especially Brazil and India. Very gradually the realisation is dawning that the road back to normality will be a winding one and it will involve a further rise in inflation rates. It is also clear that the justification for the major central banks' loose monetary policy is increasingly evaporating. In the United States and the euro area, breakeven inflation rates have been steadily creeping up but the European Central Bank does not seem to have noticed yet. Its meeting last Thursday was uneventful, with caution dominating proceedings as usual. But what are they being cautious about? It is only a question of time before the bank must ask whether it is behind the curve – in other words, behind bond market expectations.

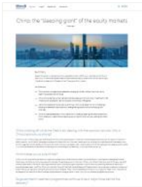
Economic activity and forecasts are pointing towards a recovery and the new week should once again confirm this trend.

Finally, it is the turn of the Bank of Japan and the US Federal Reserve to meet. In both cases, no change to monetary policy is expected. However, by placing the emphasis on an economic recovery, the Fed may send out the first tentative signs of a return to normal in terms of liquidity supply.

<u>The week ahead</u>

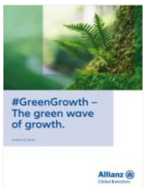
Data in the week ahead will be skewed towards leading sentiment indicators. Monday sees the publication of the ifo Business Climate Index for Germany as well as durable goods orders and the Dallas Fed Manufacturing Index from the United States. These will be followed on Tuesday by the Conference Board's Consumer Confidence indicator for the world's largest

Publications



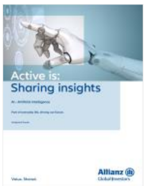
China: the "sleeping giant" of the equity markets

Despite the coronavirus pandemic and ensuing global slowdown, 2020 was a watershed year for China in many ways. William Russell, Global Head of Product Specialists Equity, explains how China is delivering on its long-term strategy and what opportunities this can provide for investors.



#GreenGrowth – The green wave of growth.

Since the Industrial Revolution at the end of the 18th century, five long cycles of growth can be identified, each triggered by the emergence of new technologies. The burning question now is: what will shape the next long wave of growth?



Artificial Intelligence – Part of everyday life, driving our future

Artificial intelligence is all around us. It is part of everyday life, and gaining ground all the time. The investment opportunities are many and varied. The "creative power of destruction" is unstoppable. On the contrary. And it's only just beginning.

economy. Then on Wednesday, it is time for the GfK Consumer Confidence Survey for Germany. This will provide a key indicator of what is dominating the mood in the country: justified optimism about rising vaccination rates or discussions about a tighter lockdown. Thursday will feature the Economic Sentiment Indicator for the **euro area** and, finally, first quarter GDP figures for the US and the euro area will close out the week on Friday. It is likely that the entire batch of data will reflect diverging trends in the fight against the pandemic.

Positive surprises remain the order of the day regarding the economy; in other words, reality is evolving so quickly in a positive direction that macroeconomists' forecasts simply cannot keep up with it. But we expect this dynamic to subside. Growth expectations have been raised for all regions many times already. According to Bloomberg, the consensus expectation for the United States is that growth in 2021 will average 6.2% in real terms.

The trend in **revisions to earnings forecasts** alone suggests that they will peak over the next few weeks, while the current **reporting season** is characterised by strong upward momentum. Just over 10% of companies in the S&P 500 have already reported, 84% of which have exceeded analysts' earnings expectations. The figure for financials was as high as 94%, while only 75% of non-cyclical consumer durables came in better than anticipated.

From a **technical** point of view, the best months of a year on the stock markets – historically from October to April – are coming to an end. It is true that the age-old saying "sell in May and go away" is not set in stone, but at the very least we can expect to see some turmoil. **Sentiment** among private investors, as measured by the percentage of investors who feel bullish about the direction of markets according to the American Association of Individual Investors, is extremely buoyant – which often acts as a contra-indicator. Volatility has continued to decline. However, the calmer the situation becomes the more rapidly it can be disrupted by negative surprises. Relative strength indices point to "overbought" equity markets in many areas. Trending inflation rates and associated monetary policy expectations, especially those of the US Federal Reserve, provide possible opportunities to unwind positions, as do negative macroeconomic shocks.

Likewise, the **Bitcoin token**, which is widely regarded as a currency, can also be viewed as an indicator of excessive market insouciance. Although prices have fallen recently as Bitcoin fans increasingly face the risk of regulatory action, the Bitcoin phenomenon remains, among other things, a phenomenon of excessive central bank liquidity (see chart of the week) and can be considered an early **indicator of a bubble**. The same goes for the Elon Musk-inspired flights of fancy surrounding "Dogecoin".

Overall, it would seem that greater vigilance is called for in the weeks ahead among higher-risk asset classes.

But even if you believe in the old "sell in May" adage, you should not forget the second part of this stock market rule: remember to come back in September (at the latest). Investment pressure remains as high as ever. Recent developments have illustrated that hikes in yields on (US) government bonds do not inevitably lead to falls in equity prices. The world is inoculating itself from the pandemic and has a lot of catching up to do in terms of consumption.

Have an enjoyable May,

Dr. Hans-Jörg Naumer

Upcoming Political Events 2021

Apr 27: BOJ Meeting

May 06: ECB Economic Bulletin

May 19: FOMC Meeting Minutes

Overview political events 2020 (click here)

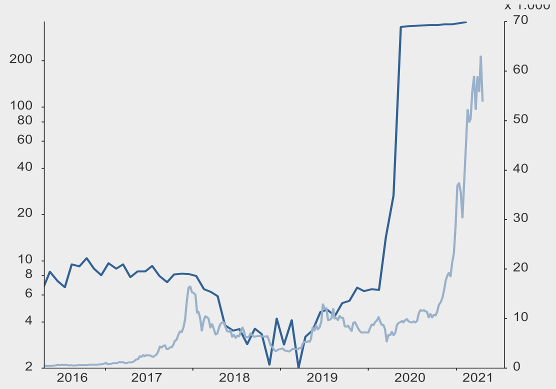
Global Capital Markets & Thematic Research goes Social Media:

to our publications (click here)

to our twitter feed (click here)

Chart of the Week

Bitcoin vs. M1 yoy



Quelle: Refinitiv Datastream, AllianzGI Economics & Strategy 22.04.2021

Calendar Week 17:

Monday			Consensus	Previous
GE	ifo Expectations	Apr	--	100.4
GE	ifo Current Assessment	Apr	--	93.0
GE	Ifo Business Climate	Apr	--	96.6
US	Durable Goods Orders MoM	Mar P	--	--
US	Durables Ex Transportation MoM	Mar P	--	--
US	Dallas Fed Manf. Activity	Apr	--	28. Sep
Tuesday				
IT	Consumer Confidence Index	Apr	--	100.9
IT	Economic Sentiment	Apr	--	93.9
JN	BoJ Interest Rate	Apr 27	--	-0.100%
JN	BoJ 10-Yr Yield Target	Apr 27	--	0.000%
US	FHFA House Price Index MoM	Feb	--	1.0%
US	Conf. Board Consumer Confidence	Apr	--	109.7
US	Richmond Fed Index	Apr	--	17
Wednesday				
FR	Consumer Confidence	Apr	--	94
GE	GfK Consumer Confidence	May	--	-6.2
JN	Retail Sales MoM	Mar	--	3.1%
US	Wholesale Inventories MoM	Mar P	--	--
US	FOMC Rate Decision (Upper Bound)	Apr 28	0.25%	0.25%
Thursday				
EC	M3 Money Supply YoY	Mar	--	12.3%
EC	Economic Confidence	Apr	--	101.0
EC	Industrial Confidence	Apr	--	2.0
EC	Services Confidence	Apr	--	-9.3
GE	Unemployment Change	Apr	--	-8.0k
GE	Umemployment Rate	Apr	--	6.0%
GE	CPI YoY	Apr P	--	--
IT	PPI YoY	Mar	--	0.7%
US	Initial Jobless Claims	Apr 24	--	--
US	Continuing Claims	Apr 17	--	--
US	GDP Annualized QoQ	1Q A	--	4.3%
US	Personal Consumption QoQ	1Q A	--	2.3%
US	Pending Home Sales NSA YoY	Mar	--	-2.7%
Friday				
CH	NBS Non-manufacturing PMI	Apr	--	56.3
CH	NBS Manufacturing PMI	Apr	--	51.9
EC	Unemployment Rate	Mar	--	--
EC	CPI Estimate YoY	Apr	--	1.3%
EC	CPI Core YoY	Apr P	--	--
EC	GDP SA QoQ	1Q A	--	-0.7%
FR	Consumer Spending YoY	Mar	--	-0.1%
FR	GDP QoQ	1Q P	--	-1.4%
FR	PPI YoY	Mar	--	1.8%
FR	CPI YoY	Apr P	--	--
GE	GDP SA QoQ	1Q P	--	0.3%
IT	Unemployment Rate	Mar P	--	--
IT	GDP WDA QoQ	1Q P	--	-1.9%
IT	CPI YoY	Apr P	--	--
JN	Jobless Rate	Mar	--	2.9%
JN	Tokyo CPI YoY	Apr	--	-0.2%
JN	Tokyo CPI Core YoY	Apr	--	-0.1%
JN	Industrial Production YoY	Mar P	--	--
JN	Construction Orders YoY	Mar	--	2.5%
JN	Consumer Confidence Index	Apr	--	--
US	Personal Income MoM	Mar	--	-7.1%
US	Personal Spending MoM	Mar	--	-1.0%
US	PCE Deflator YoY	Mar	--	1.6%
US	PCE Core Deflator YoY	Mar	--	1.4%
US	MNI Chicago PMI	Apr	--	66.3