

# The Week Ahead

## Active is: Keeping an eye on capital markets



**Greg Meier**

Senior US Economist  
Director

[@AllianzGL\\_VIEW](#)

### “Glimmers of Hope”

The outlook for **global growth** offers some glimmers of hope. Concerns about a hard Brexit (31 October) and the US-China trade war have eased amid cooler thinking among politicians. Economic data has proven stronger-than-expected, at least in the US. America’s **inverted yield curve**—the difference between 10-year and 3-month Treasury rates—has gotten less negative, suggesting diminished risk of an imminent downturn.

The fact the yield curve held relatively steady after last week’s apparent drone and missile strikes on **Saudi Arabian oil facilities** is both encouraging and sensible. The attack knocked 5.9 million barrels of Saudi production—roughly 6% of global supply—offline. But while oil prices jumped 9%, our research shows prior ‘oil shock recessions’ occurred when prices rose more than 100% (see our *Chart of the Week*).

How should investors frame this environment? To be clear: Our models have pointed toward structural headwinds, increased fragility and rising market volatility for some time. The important question is whether a recession in the next 12 months is inevitable. On that front, the answer is a clear “no”. We have weathered slowdowns in the past. Recall 2015-2016, when Chinese currency devaluations segued into global growth concerns, waves of selling across risky assets and oil falling to \$26/bbl. US industrial production contracted, payroll growth slowed and **the Fed** took an easier monetary stance—similar to today.

Looking back, concerns about 2015-2016 proved overly pessimistic. Today—as we’ve said previously—a huge weight rests on President Xi and President Trump doing a **trade deal**. The outcome is far from certain, but recent developments are moving in a positive direction. While we expect the world economy to grow below potential in H2/2019, 2020 will be a critical year in which the fate of this business cycle will be decided.

### Publications



### “Simply Red – or: Heaven for Debtors and Hell for Creditors”

It’s been a long time since my savings account passbook had any significance to me, but at least it’s a useful place for stashing the kids’ pocket money, even if it hasn’t paid any interest for a long time. But this time, as I stood at the bank counter emptying my kids’ piggy bank, it occurred to me that I was about to harm the bank – albeit unintentionally – through my deposits...



### „Facing growing geopolitical risks, Fed will likely cut rates”

While domestic growth appears robust, international risks are rising – including worsening US-China trade tensions and the growing risk of a hard Brexit. As such, we think the Fed won’t take any chances and expect the central bank to announce a 25bp rate cut at its next meeting.



### „How do you identify winners using Artificial Intelligence?”

Global Chief Investment Officer Equities Steve Berexa explains the potential for active asset managers to embrace Artificial Intelligence as an Investment strategy & theme.

## The Week Ahead

The upcoming week will be critical for the global economic outlook. On Monday, we get preliminary September manufacturing and service sector **Purchasing Manager Indexes** (PMI) for the Eurozone, France, Germany, Japan and the US. While the service sector in most countries remains in expansion, manufacturing companies are on the bleeding edge of the gathering slowdown in global trade and investment.

On Tuesday and Wednesday, **consumer confidence** will be in the spotlight, with fresh data set for release for Germany, France and the US. Note that although confidence in France has been improving, US data has moved sideways and the outlook among Germans recently deteriorated to a 28-month low.

Thursday's calendar is tilted toward **the US**. Consensus estimates suggest that the final revision to 2Q19 GDP will be unchanged at 2.0% growth. While that is a slowdown from 3.1% in 1Q19, it is still above US long-run potential (about 1.8%) and its better than the current real-time forecasts from the Atlanta and New York Federal Reserve Banks for 3Q19 GDP (1.8% and 1.6%, respectively). We will also get updates on US jobless claims, wholesale inventories and pending home sales.

The week concludes Friday with **Eurozone** economic confidence (recently improving), measures of Japanese and French inflation (both trending south), UK consumer confidence (recently weakening), and US personal incomes, personal spending and durable goods orders (all expected to firm).

### Active is: Taking account of market technicals

The S&P 500 has finally broken from its trading range amid thoroughly higher volumes. The momentum trade—which supported growth and defensive sectors through most of 2019—is correcting. New **cyclical leadership** has favored European shares, autos and bank stocks, some of which were trading near recessionary valuations. Safe-havens assets, including gold and Treasuries, have consolidated, while copper—a proxy for global industrial demand—is recovering.

Stay hopeful,

Greg Meier

## Upcoming Political Events 2019

Sep 25: BoJ minutes

Oct 06: PT General elections

Oct 18: Annual meetings of the World Bank and the IMF

[Overview political events 2019 \(click here\)](#)

[Overview Central Banks Calendar \(click here\)](#)

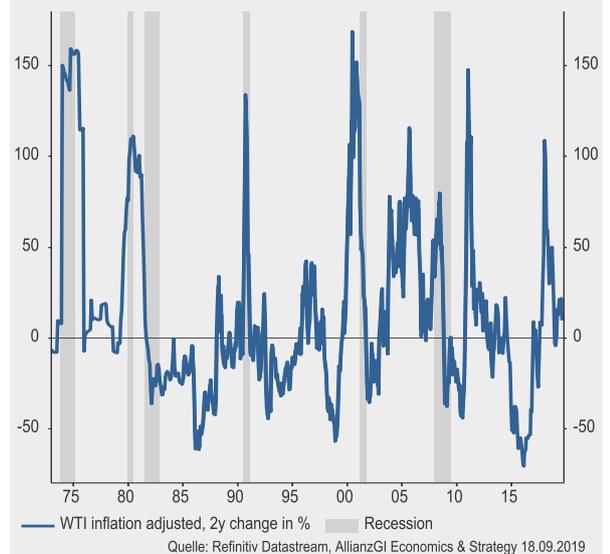
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### Chart of the Week

Prior 'oil shock recessions' occurred when prices rose more than 100%.



## Calendar Week 39:

Monday			Consensus	Previous
EC	Markit Manufacturing PMI	Sep P	--	47
EC	Markit Services PMI	Sep P	--	53.5
EC	Markit Composite PMI	Sep P	--	51.9
FR	Markit Manufacturing PMI	Sep P	--	51.1
FR	Markit Services PMI	Sep P	--	53.4
FR	Markit Composite PMI	Sep P	--	52.9
GE	Markit Manufacturing PMI	Sep P	--	43.5
GE	Markit Services PMI	Sep P	--	54.8
GE	Markit Composite PMI	Sep P	--	51.7
JN	Jibun Bank Japan PMI Mfg	Sep P	--	49.3
JN	Jibun Bank Japan PMI Composite	Sep P	--	51.9
JN	Jibun Bank Japan PMI Services	Sep P	--	53.3
US	Chicago National Activity Index	Aug	--	-0.36
US	Markit Manufacturing PMI	Sep P	--	50.3
US	Markit Services PMI	Sep P	--	50.7
US	Markit Composite PMI	Sep P	--	50.7
Tuesday				
FR	Business Confidence	Sep	--	105
GE	Ifo Business Climate	Sep	--	94.3
GE	ifo Expectations	Sep	--	91.3
GE	ifo Current Assessment	Sep	--	97.3
GE	Import Price Index YoY	Aug	--	-2.10%
UK	PSNB ex Banking Groups	Aug	--	-1.3b
US	FHFA House Price Index MoM	Jul	--	0.20%
US	Richmond Fed Index	Sep	--	1
US	Conf. Board Consumer Confidence	Sep	--	135.1
Wednesday				
FR	Consumer Confidence	Sep	--	102
GE	GfK Consumer Confidence	Oct	--	9.7
US	New Home Sales MoM	Aug	--	-12.80%
Thursday				
EC	M3 Money Supply YoY	Aug	--	5.20%
US	GDP Annualized QoQ	2Q T	--	2.00%
US	Wholesale Inventories MoM	Aug P	--	0.20%
US	Personal Consumption QoQ	2Q T	--	4.70%
US	Initial Jobless Claims	Sep 21	--	--
US	Continuing Claims	Sep 14	--	--
US	Pending Home Sales NSA YoY	Aug	--	1.70%
US	Kansas City Fed Manf. Activity	Sep	--	-6
Friday				
EC	Economic Confidence	Sep	--	103.1
EC	Business Climate Indicator	Sep	--	0.11
EC	Industrial Confidence	Sep	--	-5.9
EC	Services Confidence	Sep	--	9.3
FR	PPI YoY	Aug	--	0.00%
FR	Consumer Spending YoY	Aug	--	0.10%
FR	CPI YoY	Sep P	--	1.30%
GE	Retail Sales NSA YoY	Aug	--	4.40%
IT	Consumer Confidence Index	Sep	--	111.9
IT	Economic Sentiment	Sep	--	98.9
IT	PPI YoY	Aug	--	-0.80%
JN	Tokyo CPI YoY	Sep	--	0.60%
JN	Tokyo CPI Core YoY	Sep	--	0.70%
UK	GfK Consumer Confidence	Sep	--	-14
US	Personal Income MoM	Aug	--	0.10%
US	Durable Goods Orders MoM	Aug P	--	2.00%
US	Personal Spending MoM	Aug	--	0.60%
US	Durables Ex Transportation MoM	Aug P	--	-0.40%
US	PCE Deflator YoY	Aug	--	1.40%
US	PCE Core Deflator YoY	Aug	--	1.60%

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