

# The Week Ahead

April 13<sup>th</sup> 2018

## They got a name for the winners in the world

Inequality has grown across much of the world in recent years, raising questions about why it's happened and what it means. To be sure, **some degree of inequality is good**: The opportunity to better one's position can edify animal spirits, strengthening the links between hard work, upward mobility, prosperity and growth.

But if the split between rich and poor gets too wide, adverse effects can develop. For instance, high-income households generally have a lower propensity to spend (they save more), suggesting that **inequality can stifle consumption**. Higher degrees of inequality are also correlated with increased levels of societal mistrust, substandard educational outcomes, poor health and stress. At the margin, these factors can weigh on productivity and thereby dampen a country's economic trajectory.

*For the 48% of Americans that don't own shares, the market's rise was probably overshadowed by years of anaemic wage growth.*

So why has inequality worsened? One factor might be **globalization**. Regional trade agreements have grown exponentially since 1990—from roughly 20 to 285. At the same time, the percent of the world population living on less than \$2/day (inflation adjusted) has been roughly halved, as new markets—and opportunities—open up. That's an awe-inspiring feat. But in retrospect, industrialized countries probably paid a price via lost manufacturing capabilities and a decline in high-paid, lower-skill production jobs.

Another factor that may have worsened inequality is unconventional monetary policy. For example, the correlation between the US Federal Reserve's balance sheet and the S&P 500—from the Fed's first large scale asset purchase program in November 2008 through today—is 0.94. Given that the wealthiest 10% of Americans own 81% of US equities, it is likely they benefitted disproportionately from the more than doubling in **stock prices** that has occurred since the start of the financial crisis. For the 48% of Americans that don't own any shares, the market rally may be overshadowed by years of anaemic **wage growth**.

## Publications



### "Allianz Global Investors Insights"

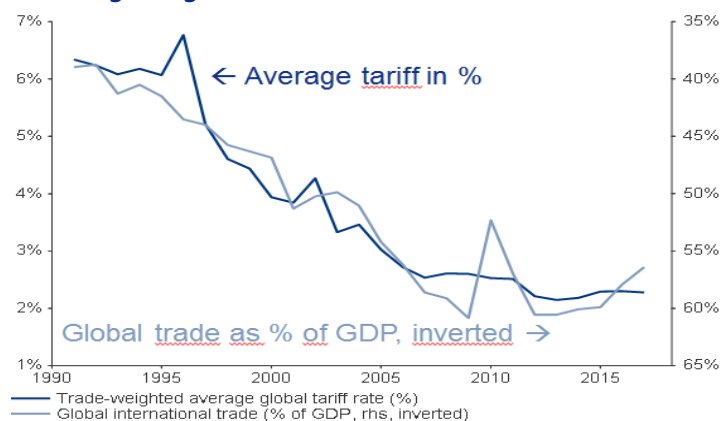
The financial crisis that affected Asia in the 1990s scarred both the region and its governments, prompting politicians and policymakers to learn from their mistakes. With structural reforms, tighter regulations and improved capital requirements, their efforts have paid off, and it is becoming abundantly clear that Asia's economy looks very different than it did just 20 years ago.



### "The Ulysses Investment Strategy (Part 2)"

Multi asset funds have become much more popular with private investors in Europe during the last few years, as shown by changes in the weightings of individual fund units in private investors' portfolios. Multi asset funds are seen not as a substitute for other types of fund, but rather as a separate asset class in their own right.

## Chart of the Week: Trade has become an increasingly important driver of global growth as tariffs have fallen



Source: AllianzGI E&S; Thomson Reuters Datastream. As of April 6, 2018



Looking to the week ahead, there are a number of events that will hint at the interplay between financial markets, globalization and equality. Starting with **Germany**, key indicators worth watching include surveys of current and expected economic conditions from the ZEW research institute. The 'expected' index, in particular, fell sharply in March amid concerns that President Trump's **steel and aluminum tariffs** could escalate and envelop Germany's auto manufacturing industry. But while those fears have eased, the risk of a tit-for-tat trade war between the US and China has grown.

Across the Channel, British investors will be focused on the strengths and weaknesses of the local economy, noting that in less than a year, **the UK** will 'Brexiteer' out of the European Union. Reports on the labor market may show continued strength in average weekly earnings, but a bottoming-out in the unemployment rate. Inflation is expected to ease, while retail sales may remain soft.

On the other side of the pond, a flood of **US economic data** is set for release. Consensus estimates point to a rebound from recent weather-impacted housing figures, with construction starts and building permits warming up, and homebuilder confidence holding near a 13-year high. While industrial production growth is thought to have slowed, the percent of capacity in use may have reached the best level in 37 months.

Asian investors will want to keep an eye on **China**, where growth may have slowed during the first quarter from 6.8% to 6.7%. Meanwhile, trade and inflation data are expected to take center stage in **Japan**, where the recent strength in the yen could be weighing on export growth and consumer price inflation. In its decades-long fight against deflation, the Bank of Japan has become the leader in global unconventional monetary policy, buying—not just government bonds—but REITs and equity ETFs.

Have a winning week!



**Greg Meier**  
Senior US Economist  
Vice President

Yours,

Greg Meier



## Upcoming Political Events 2018

**April:**

26 Apr	ECB Council meeting
26 –27 Apr	BoJ meeting

[→ Overview political events 2018](#)

## Other publications:



### “Liquidity Shock: The Hidden Risk in Modern Markets”

The risk of volatility spikes and liquidity shortages is rising, and it could get worse with new “quantitative tightening” policies from central banks. Politicians and regulators may eventually step in, but investors should take steps now to help guard against the possible loss of liquidity.

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## Calendar Week 16:

Day	Country	Indicator	Month	Est.	Prior						
Mon	US	NY Empire Manufacturing	Apr	19.6	22.5	JN	Imports YoY	Mar	--	16.6%	
	US	Retail Sales	Mar	0.3%	-0.1%	EC	EU27 New Car Registrations	Mar	--	4.3%	
	US	Retail Sales Ex Auto and Gas	Mar	--	0.3%	EC	Construction Output YoY	Feb	--	3.7%	
	US	Business Inventories	Feb	0.6%	0.6%	IT	Industrial Orders NSA YoY	Feb	--	9.6%	
	US	NAHB Housing Market	Apr	70.5	70	UK	CPI YoY	Mar	1.9%	2.7%	
Tue	CH	GDP SA; YoY	1Q	6.7%	6.8%	UK	CPI Core YoY	Mar	--	2.4%	
	CH	Retail Sales YoY	Mar	9.8%	9.4%	UK	PPI Input NSA YoY	Mar	--	3.4%	
	CH	Industrial Production YoY	Mar	6.4%	6.2%	UK	PPI Output NSA YoY	Mar	--	2.6%	
	CH	Fixed Assets Ex Rural YoY	Mar	7.7%	7.9%	UK	House Price Index YoY	Feb	--	4.9%	
	GE	ZEW Current Situation	Apr	--	90.7	US	Federal Reserve Beige Book				
	GE	ZEW Expectations	Apr	--	5.1	Thu	EC	ECB Current Account SA	Feb	--	37.6b
	EC	ZEW Expectations	Apr		13.4	IT	Current Account Balance	Feb	--	-1266m	
	IT	Trade Balance Total	Feb	--	-87m	UK	Retail Sales Ex Auto Fuel YoY	Mar	--	1.1%	
	JN	Industrial Production MoM	Feb	--	4.1%	UK	Retail Sales Inc Auto Fuel YoY	Mar	--	1.5%	
	UK	Jobless Claims Change	Mar	--	9.2k	US	Initial Jobless Claims	Apr 14	--	--	
	UK	Avg Weekly Earnings	Feb	--	2.8%	US	Continuing Claims	Apr 07	--	--	
	UK	Unemployment Rate 3Mths	Feb	4.4%	4.3%	US	Philly Fed Business Outlook	Apr	20.0	22.3	
	UK	Employment Chng 3M/3M	Feb	--	168k	US	Leading Index	Mar	0.25%	0.6%	
	US	Housing Starts MoM	Mar	1.9%	-7.0%	Fri	EC	Consumer Confidence	Apr A	--	0.1
	US	Building Permits MoM	Mar	0.3%	-5.7%	GE	PPI YoY	Mar	--	1.8%	
	US	Industrial Production MoM	Mar	0.4%	1.0%	JN	Natl CPI YoY	Mar	--	1.5%	
US	Capacity Utilization	Mar	78.3%	77.7%	JN	Natl Core CPI YoY	Mar	0.9%	1.0%		
Wed	JN	Trade Balance	Mar	--	¥2.6b	JN	Tertiary Industry Index MoM	Feb	--	-0.6%	
	JN	Exports YoY	Mar	--	1.8%						

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