Global Capital Markets & Thematic Research

# The Week Ahead

April 27th 2018

## "Moodier Markets"

Market concerns about a protectionist spiral, which might ultimately deal a severe blow to the global economic upswing, seem to have abated somewhat. In fact, Beijing's recently announced plans to open the economy more quickly for foreign investment have rekindled hopes of a constructive solution to the US/Chinese **trade conflict**.

As a result, **economic data** came back into the limelight during the past week. Weaker economic indicators – the German ifo business climate index, which was released on Tuesday, fell for the fifth time in a row, albeit from an exuberant level – continue to point to a moderation in growth. At the same time, the jump in **oil prices** – Brent blend reached its highest level since November 2014 – made several observers wonder whether we might be in for a spike in inflation, which would cause the central banks to tighten the monetary reins sooner than expected. Both equity and bond prices were volatile in this environment. At the beginning of the week, investors sold long-time **US Treasuries** and pushed 10y Treasury yields above 3% for the first time in more than four years (see our *Chart of the Week*).

Certainly, investors will need to get used to moodier markets – and question whether we can still assume that the **"Goldilocks" scenario** (healthy global growth, relatively low inflation and a slow turnaround in monetary policy only), which has steadily supported the markets so far, will remain in place for some time to come, even though it has already become more fragile.

### The Week Ahead.

During the coming week, the PMIs for two large economies, namely China (due on Monday, Wednesday and Friday) and the US (Monday, Tuesday), should signal once again that we are in neither for another acceleration nor for a downswing in **global growth.** Against the background of persistent Brexit uncertainty, the purchasing managers are unlikely to be euphoric in the UK (index due on Tuesday), which is carrying the red lantern among the G7 countries in terms of growth. On Wednesday, we will get Q1 GDP growth figures for the euro area, which will probably disappoint. However, several special factors were at work in Q1, for example the unusual flu epidemic. In short, while the cyclical tailwinds for the markets are abating, they

## Publications

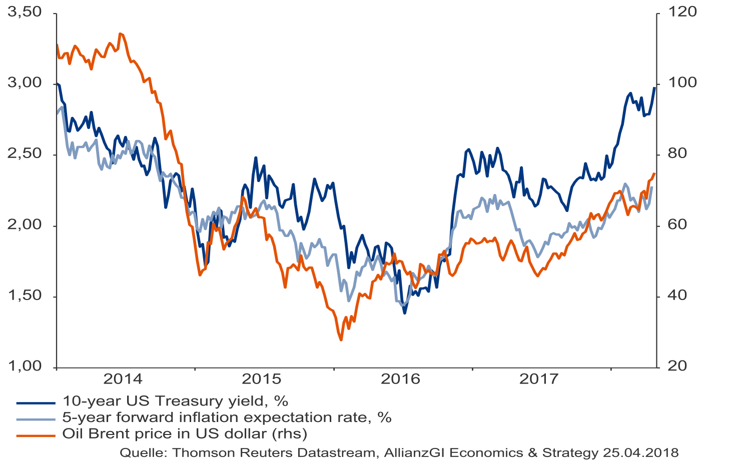

### "How can active managers offer greater value to investors?"

It's more important than ever for asset managers to understand their clients' needs precisely before offering solutions. Allianz Global Investors is focused is solving our clients' top problems by being more active, focusing more on non-financial ESG factors and making greater use of performance fees. (YouTube)


### "What's the Problem with Productivity?"

Productivity is the key driver of global economic growth, but it has stayed puzzlingly low despite a string of high-tech innovations. Ageing societies are making matters worse. If the world doesn't fix the productivity challenge, we may be sentenced to a lower-growth environment for years to come.

### Chart of the Week: 10y Treasury yield hits 3% level as oil price surge bolsters expectations about reflation and tighter Fed policy




Source: Thomson Reuters Datastream, AllianzGI Economics & Strategy 25.04.2018
Past performance and forecasts are not a reliable indicator of future results.

Allianz Global Investors

Understand. Act.

have not yet turned into headwinds. Overall, the growth environment is still robust, and so are companies' sales opportunities.

Since Easter was early this year, in comparison to 2017, consumer prices in the euro area rose more strongly in March. Inflation is therefore likely to have slowed down in April (figures due on Thursday). Regardless of these base effects, the **global "reflation scenario**" remains intact, even though core inflation (which excludes volatile energy prices and is used by the central banks to determine domestic price pressures) is slow to pick up again. Global unemployment has dropped to its lowest level in decades, at 5 ½%. This points to wage increases. By mid-week, we will get labour market data for Europe (Wednesday) and the US (Friday), which will show whether the favourable employment trend continues.

As inflation returns slowly, the **normalisation of unconventional monetary policy** makes progress. Even though the European Central Bank (ECB) is still moving cautiously, it is likely to terminate its asset purchasing programme by the end of the year. In fact, the **ECB balance sheet** is in for some reduction as early as summer if the euro-area banks use the opportunity to pay back the targeted longer-term refinancing operations ( TLTRO s) early. However, this development should not be mixed up with an active balance-sheet reduction, such as that pursued by the **Federal Reserve** (Fed) since autumn 2017. (The Fed has reduced its reinvestments of maturing government bonds.) While the Fed is likely to stay on the sidelines at its meeting on Wednesday, it will probably follow up the past three rate hikes with at least two other rate steps this year. All in all, the net central bank liquidity flows will probably become negative for the first time since 2007 this year. The rate spread between the US and other economic blocs, in particular the euro area and Japan, is widening. Taken by itself, this should support the US dollar. However, the ballooning of the US budget and current account deficit ("twin deficit") may act as a constant headwind for the Greenback.

With stock market valuations partly ambitious and monetary policy likely to become less accommodating, corporate earnings will play a key role for equity price developments. Markets will therefore focus on the **Q1 reportings**. So far, companies have met the high expectations in the US, where tax cuts boosted earnings. However, in most cases prices took a small hit after the favourable reportings, probably due to profit taking. In Europe, attention will focus on whether the strong euro exchange rate has weighed on companies' business.

### Understand. Act.

Overall, it seems that the "Goldilocks" scenario will remain in place for now, even though it has become more fragile. As growth remains robust, but the markets get moodier, we recommend investors to take a controlled and actively managed offensive approach.

Wishing you steadfastness!

Yours,

Ann-Katrin Petersen

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**Ann-Katrin Petersen**
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## Upcoming Political Events 2018

**May:**

| | |
|---|---|
| 1-2 May | FOMC meeting |
| 1-2 May | BoJ meeting |
| 10 May | BoE meeting, minutes and inflation report |

→ Overview political events 2018

## Other publications:


### "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.

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## Calendar Week 18:

### Monday

| | | | | |
|---|---|---|---|---|
| CH | NBS Non-manufacturing PMI | Apr | 54.4 | 54.6 |
| CH | NBS Manufacturing PMI | Apr | 51.2 | 51.5 |
| EC | M3 Money Supply YoY | Mar | -- | 4.2% |
| GE | CPI YoY | Apr P | -- | 1.5% |
| GE | Retail Sales YoY | Mar | 1.6% | 1.3% |
| IT | CPI YoY | Apr P | -- | 0.9% |
| US | PCE Core YoY | Mar | 2.0% | 1.6% |
| US | Personal Income MoM | Mar | 0.4% | 0.4% |
| US | Personal Spending MoM | Mar | 0.4% | 0.2% |
| US | PCE Deflator YoY | Mar | -- | 1.8% |
| US | Chicago Purchasing Manager | Apr | 58.0 | 57.4 |
| US | Pending Home Sales NSA YoY | Mar | -- | -4.4% |
| US | Dallas Fed Manf. Activity | Apr | 25.0 | 21. Apr |

### Tuesday

| | | | | |
|---|---|---|---|---|
| JN | Vehicle Sales YoY | Apr | -- | -4.9% |
| UK | Mortgage Approvals | Mar | -- | 63.9k |
| UK | M4 Money Supply YoY | Mar | -- | 4.1% |
| UK | Markit Manufacturing PMI | Apr | -- | 55.1 |
| US | Construction Spending MoM | Mar | 0.3% | 0.1% |
| US | ISM Manufacturing | Apr | 58.6 | 59.3 |

### Wednesday

| | | | | |
|---|---|---|---|---|
| CH | Caixin Manufacturing PMI | Apr | 50.8 | 51.0 |
| EC | Unemployment Rate | Mar | -- | 8.5% |
| EC | GDP SA QoQ | 1Q A | -- | 0.6% |
| IT | Markit Manufacturing PMI | Apr | -- | 55.1 |
| IT | Unemployment Rate | Mar P | -- | 10.9% |
| IT | GDP WDA QoQ | 1Q P | -- | 0.3% |
| JN | Monetary Base YoY | Apr | -- | 9.1% |
| JN | Nikkei Services PMI | Apr | -- | 50.9 |
| JN | Nikkei Composite PMI | Apr | -- | 51.3 |
| JN | Consumer Confidence Index | Apr | -- | 44.3 |
| UK | Markit Construction PMI | Apr | -- | 47.0 |
| US | ADP Employment Change | Apr | 204k | 241k |
| US | FOMC Rate Decision (Upper Bound) | May 2 | 1.75% | 1.75% |

### Thursday

| | | | | |
|---|---|---|---|---|
| EC | PPI YoY | Mar | -- | 1.6% |
| EC | CPI Core YoY | Apr A | -- | 1.0% |
| EC | CPI Estimate YoY | Apr | -- | -- |
| UK | Markit Services PMI | Apr | -- | 51.7 |
| UK | Markit Composite PMI | Apr | -- | 52.5 |
| US | Initial Jobless Claims | Apr 28 | -- | -- |
| US | Unit Labor Costs YoY | 1Q P | 3.1% | 2.5% |
| US | Continuing Claims | Apr 21 | -- | -- |
| US | Trade Balance | Mar | -$56.0b | -$57.6b |
| US | ISM Non-Manf. Composite | Apr | 58.3 | 58.8 |

### Friday

| | | | | |
|---|---|---|---|---|
| CH | Caixin Composite PMI | Apr | -- | 51.8 |
| CH | Caixin Services PMI | Apr | 52.7 | 52.3 |
| EC | Retail Sales YoY | Mar | -- | 1.8% |
| FR | Trade Balance | Mar | -- | -5186m |
| FR | Current Account Balance | Mar | -- | -2.0b |
| IT | Markit Services PMI | Apr | -- | 52.6 |
| IT | Markit Composite PMI | Apr | -- | 53.5 |
| US | Change in Nonfarm Payrolls | Apr | 185k | 103k |
| US | Unemployment Rate | Apr | 4.0% | 4.1% |
| US | Average Hourly Earnings YoY | Apr | -- | 2.7% |