The Week Ahead

April 6th 2018

Bull markets don't die of old age

There are concerns that the bull market is coming to an end and, therefore, that the economic cycle will be broken. If you trace bull markets from the start of the 1970s to the present day, only the upwards movement in equity markets from summer 1982 to December 1989 was stronger in terms of performance (on average, prices rose by more than fivefold), even though this phase was shorter than the 105 month period of recovery that has occurred since the US housing bubble burst. And only the dotcom bubble that burst in 2000 was longer: it lasted for over 116 months. The three other upswings (early '70s; during the second half of the '70s; end of 2002 to autumn 2007) lasted for a shorter time.

So it is quite understandable that markets are becoming nervous. Events resulted in, amongst other things, the pricing-in of a reflationary scenario, which led to fears of an increase in pace at least by the Federal Reserve.

Additionally, there are repeated fears that the global economy might have passed its peak, and the inverse position of the US yield curve is used as a precedent for this. In the past, an inverse yield curve has actually been a reliable leading indicator for US recessions, which, since the mid-1950s, have occurred on average 16 months after inverse positions, while the benchmark S&P 500 reached its peak eight months later.

But bull markets don't die of old age – they just don't "know" how old they are. They die when the economic upswing ends or when monetary policy becomes too tight or over-restrictive.

Besides, inverse yield curves are more a symptom that reflects a general tightening of the monetary and financial conditions in the economy as a whole. A symptom, but not a trigger. This role could be taken by the economic indicators, but they are still too stable at present. The creation of a plateau shown here is indicative of a switch to the next phase of the economic cycle, not of an economic downturn.

Bearing in mind the almost linear upwards movement in the last twelve months, the recent corrections we have seen appear an overdue purge after a long carefree phase and set the stage for an altogether more volatile trend.

Publications

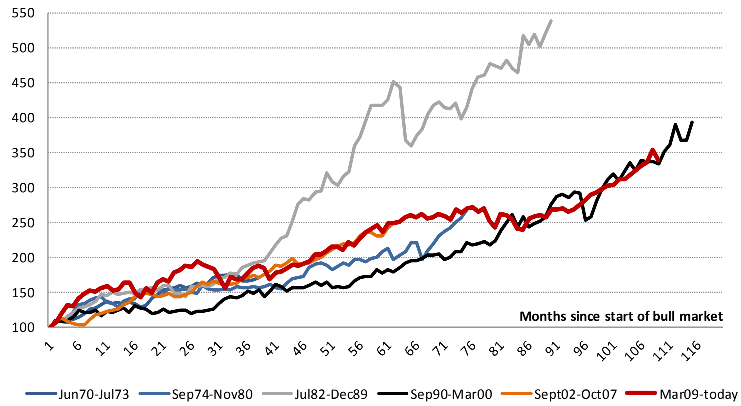
"The Ulysses Investment Strategy (Part 2)"

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: inflows into these funds barely correlate with inflows into equity or bond funds, for example. …

"What's Fueling the Growing Appetite for Asian Bonds?"

To move past the financial crisis of the 1990s, Asian economies made a host of important structural changes – and Asian fixed income is positioned to benefit. Not only is there growing demand for Asian bonds from Asian investors, but outside investors are looking to the asset class particularly sovereign debt – for its potential to enhance returns and reduce risk.

Chart of the Week: Today's bull run in global equities: 2nd longest and 2nd/3rd strongest since 1970 (MSCI World Total Return)



Source: AllianzGI E&S. Monthly data ending on January 31th 2018.
Past performance and forecasts are not a reliable indicator of future results.

Allianz Global Investors

Understand. Act.

Tactical Allocation, Equities & Bonds.

- Despite a slight improvement in global economic data, as measured by our proprietary Macro Breadth Growth Index, on balance, macro indicators were weaker in key developed markets such as the US, the eurozone and Japan.
- The increasing loss in cyclical momentum indicates that the global economy is nearing the next stage of the current economic cycle. In this reflationary phase late in the cycle, continued global growth above potential should be anticipated, but no further acceleration.
- We believe investors can continue to hold a cautious overweighting in equities, but should expect increased volatility, as previously.

Be agile, recommends

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→ Capital Market Monthly

Upcoming Political Events 2018

April:

Apr	IMF World Economic Outlook
Apr	ASEAN Summit Singapore
8 Apr	Hungarian Parliamentary elections
26 Apr	ECB Council meeting
26 –27 Apr	BoJ meeting

→ Overview political events 2018

Other publications:

"The Case for Alternatives"
After a 30-year bull market in bonds and a strong, multi-year recovery in equities, investors wonder what lies ahead for financial markets. The current low-interest-rate environment and the search for market-neutral solutions is increasingly prompting investors to rethink their allocation decisions with regard to alternative investment strategies.

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Calendar Week 15:

Mon	GE	Trade Balance	Feb	--	17.4b
	GE	Current Account Balance	Feb	--	22.0b
	GE	Exports SA MoM	Feb	--	-0.5%
	GE	Imports SA MoM	Feb	--	-0.5%
	UK	Halifax House Price 3Mths/Year	Mar	--	1.8%
	JN	BoP Current Account Balance	Feb	--	¥607.4b
	JN	Trade Balance BoP Basis	Feb	--	-¥666.6b
	JN	Consumer Confidence Index	Mar	--	44.3
	EC	Sentix Investor Confidence	Apr	--	24.0
Tue	FR	Industrial Production YoY	Feb	--	1.2%
	FR	Manufacturing Production YoY	Feb	--	3.3%
	IT	Industrial Production WDA YoY	Feb	--	4.0%
	JN	Machine Tool Orders YoY	Mar P	--	39.5%
	CH	Money Supply M2 YoY	Mar	8.9%	8.8%
	CH	Aggregate Financing CNY	Mar	1900.0b	1170.0b
	CH	Money Supply M0 YoY	Mar	--	13.5%
	CH	Money Supply M1 YoY	Mar	8.8%	8.5%
	US	PPI Final Demand YoY	Mar	2.9%	2.8%
	US	PPI Ex Food and Energy YoY	Mar	--	2.5%
Wed	FR	Bank of France Ind. Senti-ment	Mar	--	105
	IT	Retail Sales YoY	Feb	--	-0.8%
	JN	Core Machine Orders YoY	Feb	--	2.9%
	UK	Industrial Production YoY	Feb	--	1.6%
	UK	Manufacturing Production YoY	Feb	--	2.7%
	US	CPI YoY	Mar	2.3%	2.2%
	US	CPI Ex Food and Energy YoY	Mar	2.1%	1.8%
	CH	PPI YoY	Mar	3.2%	3.7%
	CH	CPI YoY	Mar	2.6%	2.9%
	JN	Core Machine Orders YoY	Feb	--	2.9%
	JN	PPI YoY	Mar	--	2.5%
	UK	Trade Balance	Feb	--	-£3074
	UK	Construction Output SA YoY	Feb	--	-3.9%
	US	Real Avg Hourly Earning YoY	Mar	--	0.4%
	US	FOMC Meeting Minutes	Mar 21	--	--
Thu	EC	Industrial Production WDA YoY	Feb	--	2.7%
	JN	Money Stock M2 YoY	Mar	--	3.3%
	JN	Money Stock M3 YoY	Mar	--	2.8%
	US	Initial Jobless Claims	Apr 07	--	--
	US	Import Price Index YoY	Mar	--	3.5%
	US	Continuing Claims	Mar 31	--	--
	US	Export Price Index YoY	Mar	--	3.3%
Fri	EC	Trade Balance SA	Feb	--	19.9b
	US	U. of Mich. Sentiment	Apr P	101.0	101.4
	CH	Trade Balance	Mar	$24.90b	$33.74b
	CH	Exports YoY	Mar	10.9%	44.5%
	CH	Imports YoY	Mar	12.7%	6.3%