

The Week Ahead

Active is: Keeping an eye on capital markets



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"All that glitters is not gold"

Eight years ago, on 6 September 2011, **gold** reached its all-time high at c. USD 1,920 per ounce. Following the normalisation of monetary policy around the middle of the decade, the metal had mostly traded between USD 1,050 and 1,350 before the price jumped above the threshold of USD 1,500 in summer 2011.

There are good reasons to assume that gold prices may continue to rise in the medium term. Central banks around the globe (with some exceptions, such as Norges Bank) have reverted to monetary easing, which will lead to persistent downward pressure on bond yields. On Thursday, the **European Central Bank** (ECB) announced a sweeping easing package that includes a 10bp reduction in the deposit rate and renewed monthly net asset purchases of EUR 20bn. Interest rates have dropped below zero not only in real (i.e. inflation-adjusted), but also in nominal terms. Gold, a currency with a 0% yield, is actually benefiting from negative opportunity costs of holding gold. However, **in the short term, gold appears overbought.**

Also with regard to the **stock exchanges**, many investors are currently wondering whether all that glitters is really gold. The bull market in equities (the MSCI World index has risen by 18% since the beginning of the year and by 5% in year-on-year terms) seems to be driven mainly by the central banks' efforts to provide additional stimulus. At the same time, **global growth continued to decelerate** in August, despite the tentative stabilization in "soft" leading and sentiment indicators. During the past three months, macro data for all major developed and emerging markets have deteriorated, and at the global level, they declined in 17 out of the past 19 months (see our *Chart of the Week*). This development is certainly no reason for excessive enthusiasm. Whether market sentiment remains bright will depend on economic policymakers achieving a rare feat and engineering a "soft landing" of the ageing global economic cycle, which may then lay the foundation for a renewed upswing. **High market expectations on central bankers and ministers of finance may result in some disappointment** (as the countermovement on the markets for core government bonds during the past week has shown).

Publications



"Impact Investments – a new philosophy of investing"

Investors are increasingly starting to realize that they have the power to make an impact by choosing where and how to invest their assets. Allocating capital with the intention to create impact allows investors to influence the way the economy works or how a company operates.



"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...



"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.

Still, some **potential political hurdles seem to have been removed** at least. The new Italian government is likely to take a less confrontational fiscal stance towards Brussels. The British parliament recently reduced the likelihood of a no-deal **Brexit** by 31 October. PM Boris Johnson will need to reach a new agreement with the EU by 19 October or else ask for another delay. And the trade negotiations between the US and China have led to tentatively positive signals.

The Week Ahead.

The central banks will continue to shape developments on the capital markets during the coming week. In the **US**, attention will focus on the **Federal Reserve's rate decision** on Wednesday. The US money market attaches a probability of c. 95% to a second "insurance" rate cut of 25 bp, which would put the Fed funds rate target corridor at 1.75 – 2.00%. In the past, any Fed "insurance rate cuts" in a non-recessionary environment summed up to 75 bp at most.

The **Bank of England** (BoE) is still faced with a dilemma. Even though domestic price pressures are increasing – during the three months up to July, the unemployment rate dropped to its lowest level in 44 years, at 3.8%, and wages rose by 4.0%, i.e. at the highest rate than in more than a decade – the BoE will probably stay on the side lines on Thursday against the background of persistent Brexit-related uncertainty. Whether the BoE does adjust its key rate once again (and in what direction) will depend on how Brexit develops.

While the **world economy** is clearly not in free fall and heading inexorably towards a recession in the near future, persistently weak trade figures and geopolitical uncertainties remain a heavy burden on global manufacturing. Investors will closely watch the domestically oriented services sector, which has remained resilient so far, for any signs of spillover effects. During the coming week, attention will focus on the question of whether **industrial output** in the world's largest economies, namely China and the US, recovered as expected in August (the figures are due on Monday and Tuesday, respectively). On Tuesday, the ZEW index will indicate whether euro-area heavyweight **Germany** entered into a "technical" recession in the third quarter of the year. In **Japan**, exports will probably point to moderate GDP growth in the short term on Wednesday. Moreover, concerns about the resilience of household consumption recently emerged ahead of the VAT hike scheduled for October. In this environment, the **Bank of Japan** is likely to stick to its loose monetary policy on Thursday, in line with market expectations. Still, a rate step by end-October would not be a surprise for the money market.

Active is:

What does all this mean for investment decisions? In itself, the imminent loosening of monetary policy

should support riskier asset classes. However, it is still doubtful whether a more accommodating monetary policy alone is sufficient to brighten market sentiment in the long run, particularly if economic activity and corporate earnings do not pick up. This suggests that investors should broadly diversify their portfolios and take a cautious tactical stance on riskier assets under a multi-asset approach, combined with active security selection as an additional source of income potential.

For a global equity portfolio, we currently prefer the **US equity market** on the grounds of its low beta (i.e. historically lower sensitivity to the global equity market) and **defensive sectors**. The broad **US dollar exchange rate** looks set to remain firm against the background of political and economic burdens and the expected global, synchronised monetary accommodation. Beneath the surface, the dollar looks set to strengthen **against Asian emerging markets currencies** and moderately depreciate against international reserve currencies and "safe havens" such as the Japanese yen and the Swiss franc.

Closer scrutiny is worthwhile particularly in an environment where "all that glitters is not gold". Yours

Ann-Katrin Petersen

Upcoming Political Events 2019

Sep 17: UN General Assembly

Sep 18: FOMC meeting and projections

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

Overview Central Banks Calender ([click here](#))

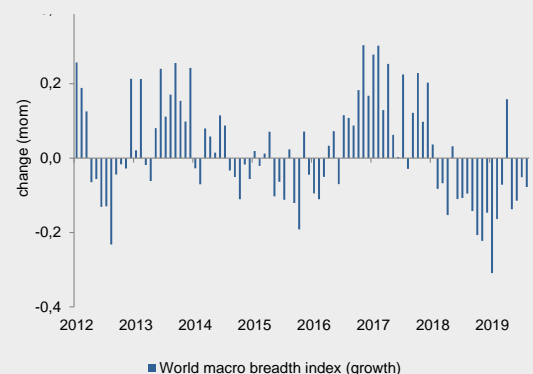
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Chart of the Week

Steady (but orderly) global economic slowdown continued in August: Global macro data has deteriorated in 17 of the last 19 months



Note: The World Macro Breadth Indices track the direction of 353 global, regional and country macro data (271 growth and 82 inflation indicators) on a monthly basis. The monthly change of the index is scaled from -1 to 1, with a value of 1 (-1) implying an increase (decrease) of all underlying data. Sources: Allianz Global Investors Global Economics & Strategy, Bloomberg, Datastream. As of 6 September 2019.

Calendar Week 38:

Monday

Monday			Consensus	Previous
CH	Fixed Assets Ex Rural YTD YoY	Aug	5.7%	5.7%
CH	Industrial Production YoY	Aug	5.2%	4.8%
CH	Retail Sales YoY	Aug	8.0%	7.6%
UK	Rightmove House Prices YoY	Sep	--	1.2%
US	Empire Manufacturing	Sep	2	4.8

Tuesday

EC	ZEW Survey Expectations	Sep	--	-43.6
GE	ZEW Survey Current Situation	Sep	--	-13.5
GE	ZEW Survey Expectations	Sep	--	-44.1
US	Industrial Production MoM	Aug	0.1%	-0.2%
US	Capacity Utilization	Aug	77.6%	77.5%
US	NAHB Housing Market Index	Sep	66	66

Wednesday

EC	EU27 New Car Registrations	Aug	--	-7.8%
EC	Construction Output YoY	Jul	--	1.0%
IT	Industrial Sales WDA YoY	Jul	--	-0.8%
IT	Industrial Orders NSA YoY	Jul	--	-4.8%
IT	Trade Balance	Jul	--	€5728m
JN	Exports YoY	Aug	--	-1.6%
JN	Trade Balance	Aug	--	-¥249.6b
JN	Imports YoY	Aug	--	-1.2%
UK	CPI YoY	Aug	--	2.1%
UK	CPI Core YoY	Aug	--	1.9%
UK	PPI Input NSA YoY	Aug	--	1.3%
UK	PPI Output NSA YoY	Aug	--	1.8%
UK	House Price Index YoY	Jul	--	0.9%
US	Building Permits MoM	Aug	-0.9%	8.4%
US	Housing Starts MoM	Aug	5.0%	-4.0%
US	FOMC Rate Decision (Upper Bound)	Sep 18	2.0%	2.25%

Thursday

EC	ECB Current Account SA	Jul	--	18.4b
IT	Current Account Balance	Jul	--	€5047m
JN	All Industry Activity Index MoM	Jul	--	-0.8%
JN	BoJ Interest Rate	Sep 19	--	-0.1%
JN	BoJ 10-Yr Yield Target	Sep 19	--	0.0%
UK	Retail Sales Ex Auto Fuel YoY	Aug	--	2.9%
UK	Retail Sales Inc Auto Fuel YoY	Aug	--	3.3%
UK	Bank of England Bank Rate	Sep 19	--	0.75%
UK	BoE Asset Purchase Target	Sep	--	£435b
US	Current Account Balance	2Q	--	-\$130.4b
US	Philadelphia Fed Business Outlook	Sep	--	16.8
US	Initial Jobless Claims	Sep 14	--	--
US	Continuing Claims	Sep 07	--	--
US	Leading Index	Aug	--	0.5%
US	Existing Home Sales MoM	Aug	-0.9%	2.5%

Friday

EC	Consumer Confidence	Sep A	--	-7.1
GE	PPI YoY	Aug	--	1.1%
JN	CPI YoY	Aug	--	0.5%
JN	CPI Core YoY	Aug	--	0.6%

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Diversification does not ensure a profit or protect against a loss. There is no guarantee that actively managed investments will outperform the broader market. Equities have tended to be volatile, and do not offer a fixed rate of return. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted. This material has not been reviewed by any regulatory authorities. In mainland China, it is used only as supporting material to the offshore investment products offered by commercial banks under the Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of this document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Panama, Peru, and Uruguay. This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors Distributors LLC, distributor registered with FINRA, is affiliated with Allianz Global Investors U.S. LLC; Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG, licensed by FINMA (www.finma.ch) for distribution and by OAKBV (Oberaufsichtskommission berufliche Vorsorge) for asset management related to occupational pensions in Switzerland; Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424, Member of Japan Investment Advisers Association and Investment Trust Association, Japan]; and Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan. 950012