

Press Release

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AllianzGI: Agility through diligent active investing remains priority amid uncertain markets

- *Maintaining purchasing power is crucial in climate of continued financial repression*
- *Search for income is undiminished given monetary policy is expected to remain lower for longer*
- *Economic growth dynamics are expected to be subdued and possibly fragile*
- *With global debt levels remaining high, investors should keep an eye on core inflation underlying the headline rate which is currently driven by commodities*
- *Political landscape is changing and geopolitical risk means we should be prepared for greater uncertainty and volatility*
- *Active investing and risk taking is more important than ever in order to deliver returns*

Notwithstanding the Federal Reserve's recent rate hike heralding a turn in the rate cycle, the financial repression dynamics that have characterised markets in recent years remain firmly in place, according to Allianz Global Investors (AllianzGI) during the firm's 2016 global investment outlook press conference. Global monetary policy is expected to remain lower for longer, which would reinforce the need for investors to pursue strategies that protect purchasing power and generate income. Moreover, risk assets are expected to be an important contributor to alpha.

The beginning of the rate hike cycle has added ambivalence to the US outlook. The strong USD is expected to hurt US corporate earnings. Yet this is unlikely to deter further rate increases from happening in the US, especially during the first half of 2016, even though this may weigh on economic growth.

Europe is looking less gloomy as austerity fades and euro weakness is sustained. AllianzGI renews its optimism on Europe in 2016, under the expectation of steady economic growth, aided by an extended QE and a weak euro. The European Central Bank's (ECB) policies are beneficial to the Eurozone – delivering credit into the economy, and in turn boosting investment and employment.

Structural reform and commodity prices will continue be the dominant themes in Asia. Economic growth in Asia, particularly the emerging economies, is likely to remain dull given the ramifications of China's slower economic growth, a strong USD and collapse in commodity prices. That said, the uninterrupted focus on preserving purchasing power could be a powerful catalyst for economies such as Japan and South Korea in particular. The upward trend in Japan's dividends and share buybacks

demonstrate much room to improve returns. The reform programmes in countries such as India and Indonesia should begin to bear fruit in the form of accelerating economic growth.

Income will stand out as the key theme more than ever in 2016, as investors continue to search for alpha amid a low growth environment. **Neil Dwane, Global Strategist at AllianzGI**, elaborates, "Risk assets continue to be highly relevant amid low interest rates environment, and staying active and taking smart risks are the key to generating returns. Under the expectation of fragile global economic growth and the necessary adjustment pains from China's rebalancing effort, AllianzGI expects developed markets to outperform emerging markets in 2016 despite diverging monetary policies."

"Apart from income assets, we think oil could be the source of some opportunistic gains at its current low level." adds **Neil Dwane**.

Turning to China, troubled by the sudden RMB depreciation and volatility at the beginning of the year, the market is overshadowed by nervousness inside out as the country continues to rebalance its economy. "The market still has doubts towards China's assertiveness in responding to the economic rebalancing in the country." **Raymond Chan, Chief Investment Officer, Equity Asia Pacific at AllianzGI** points out. However, with rebalancing its economy remaining a priority for the Chinese government, AllianzGI does not expect substantial further devaluation in the RMB because it would impair purchasing power, the progress of urbanisation and the rise of the middle class. "The favoured sectors are likely to be services and consumer-focused sectors as the economic force shifts from manufacturing to consumer goods. We also see positive catalysts for the insurance, tourism and discretionary consumer sectors." **Raymond Chan** adds.

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¹As of 30 September 2015

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