Allianz Global Investors

09/2024

Capital Markets Monthly

"September rain"?

While the beginning of August could hardly be described as a bed of roses, things turned out well in the end. The month kicked off with ominous signs of a "market meltdown" sparked by concerns over US growth, but also by speculators caught off guard by the twin forces of an appreciating yen and rising (base) rates. Just a few days later and losses had been recouped. As Japan's leading index, the **Nikkei 225** needed a bit more time until it was back into positive territory - it had fallen the furthest after all. But even it managed to drag itself out of the maelstrom. By September, it was practically sunshine and smiles again.
Curiously, while the German economy shrunk in the second quarter and investment and consumer spending declined, the DAX - the benchmark for the German equity market - soared to new highs. This is testament to how the "open economy" (to paraphrase the philosopher Karl Popper) is good for companies and a taster of what "**deglobalisation**" may yet have in store as a large proportion of DAX-listed corporate earnings are generated outside of the country.
At the time of writing, some of the other major indexes were also on the verge of topping, or had already topped, their all-time highs. These include the equally weighted S&P 500 for the US market.
Having entered the final third of the year, markets are already looking beyond the impending interest rate decision by the **Federal Reserve** (Fed) almost as far as the new year. Among other things, the outcome of the US **presidential election** on 5 November is likely to be pivotal in determining how 2025 unfolds.
The nomination of Kamala Harris by the Democrats has injected fresh momentum into the race and has also led to a shift in opinion polls. However, it remains far from certain who will ultimately be the 47th President of the United States ("**POTUS**") nor what majorities she or he will have to work with in both houses of Congress, as a third of the Senate and the entire House of Representatives are also up for re-election. That leaves plenty of room for uncertainty.
And uncertainty leads to the calendar effect, something that should not exist according to the doctrine of rational expectations and efficient capital markets. In fact, however, based on the average performance of indexes such as the MSCI World or the DAX over the last few decades, September has delivered negative returns. So, are we heading for a washout in September, in other words "September rain"?

Dr Hans-Jörg Naumer
Director
Global Capital Markets & Thematic Research

Publications

→ Decarbonisation
An brand new academic white paper comes to the conclusion, that the large majority (almost 90%) of #degrowth studies are opinions rather than analysis. Degrowth is not an option to stop climate change. We need green growth.

→ Dimensions of disruption: Demographics
Demographic growth implies that there will be further economic growth in the future. However, this will go hand in hand with higher wages and inflationary pressure as the number of people working shrinks relative to the total population. In this respect, there is a connection between demographic shifts and the other dimensions of disruption.

→ 7 habits of successful investors
Seven simple habits can help to accumulate capital calmly and composedly. After all, your money should be
working for you, not the other way around.

A word of caution when it comes to schematic thinking. While it is true that the median and average prices of the MSCI World and the DAX have been negative in recent decades (cf. chart), the deviation from these numbers is also very big. No reason, then, to dismiss fundamentals as they still support a "soft landing" scenario.
Following somewhat sub-potential growth in the second quarter of 2024, momentum in the global economy slowed further in the second half of the year. Among the major industrialised countries, it was the **United States** that recorded the most pronounced deceleration. But the **euro area** and the **United Kingdom** economies also showed signs of backsliding, having staged a recovery in prior months. One economy that defied the downward trend was **Japan**, which is on track for stronger GDP (gross domestic product) growth in the last six months of the year. Sentiment in the overall economy remained gloomy, with weaker business sentiment worldwide partially offset by a slight improvement in consumer confidence.
This, coupled with the current inflationary backdrop, suggests there is nothing to prevent the major central banks from launching (Fed) or continuing (e.g. ECB, the BoE (Bank of England) and the Swiss National Bank) their policy of monetary easing.

Overall, the picture described above would lend itself to the following **tactical allocation for equities and bonds:**

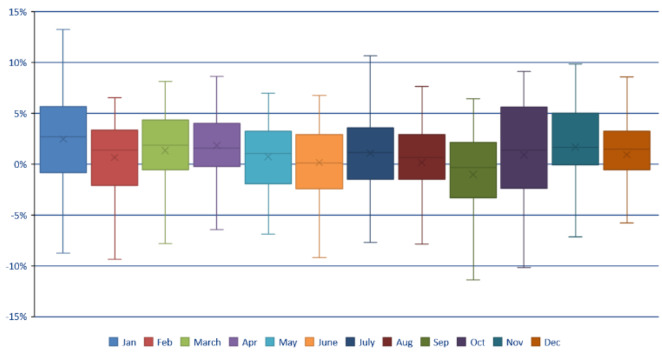
- Given looming interest rate cuts, cash is becoming increasingly unattractive to hold as an investment.
- An expected steepening of the yield curves away from short and medium maturities means longer maturities will become more appealing.
- In light of a slowdown in the economy, longer maturities should prove stable as inflationary pressure subsides.
- Higher-risk, and thus higher-yielding, forms of investment such as equities are coming to the fore.
- Based on our broad set of valuation criteria, equity markets are priced at varying levels of attractiveness depending on the region.
- While our in-house valuation "traffic light" for the euro area, the United Kingdom and emerging markets is "amber" or even "green", there is a more challenging pricing environment for US equities.
- However, it is important to consider the high valuation of the 'big 7' stocks separately. When these are excluded, the tech segment and the market as a whole do not appear overvalued.
- In addition, valuations should be seen in the context of earnings performance. As corporate earnings reports for the second quarter have shown, US companies still enjoy significant pricing power.
- What is noticeable is that, after the "meltdown" in August, investors' fascination with the "Magnificent 7" stocks appears to be waning. This is to be welcomed and will help to broaden the base of the equity market.
- S&P 500 stocks, both equally and market capitalisation weighted, have indeed recovered strongly. However, the relative performance of both index measurements shows that the equally weighted S&P 500 performed better. For instance, the latter has even outperformed the NASDAQ and the FANG+ index, most recently at the turn of the month.
- If the equally weighted index performs better in relative terms, this indicates that the dominance of the previously leading index members has diminished. That is why it is important to monitor this development carefully.

And while we are on the subject of rain: there is also such a thing as warm "November rain". Historically, the last two months of the year have been favourable ones for equity markets. This year, the November effect may coincide with elections in the United States in as much as the post-election period is often the better one in terms of performance, as uncertainties that arise in the run-up to election day are then priced out again.

Wishing you a warm shower of returns on your investments.

Yours,
Dr Hans-Jörg Naumer

Boxplot of the monthly returns of the MSCI World since 1970 (in %)



Source: Datastream, AllianzGI Global Capital Markets & Thematic Research. Data status: January 2024.

Past performance, or any prediction, projection or forecast, is not indicative of future performance.

Investment topic:
Dividends – Stability in an era of disruption

- **Deglobalisation**, **digitisation**, **demographics** or **decarbonisation** – disruption is all around us. And it is here that dividends have a role to play. Their stabilising effect on the overall performance of an equity portfolio should not be underestimated.
- As our calculations show, dividends have made significant contributions to total equity returns in the past. During the past 40 years, their share of total returns of European equities amounted to more than one third.
- In addition, companies tend to stick to their dividend policy and to increase rather than cut dividends, even if their earnings grow more slowly.
- In fact, stocks of dividend-paying companies have usually been less volatile than stocks of companies which do not pay dividends.
- This also brings investment income into focus: why not invest in the expectation of receiving an "extra income" in addition to your current income from your work or pension?

Market overview as of 03.09.2024

Equity Indices		
DAX		18.747
Euro Stoxx 50		4.851
S&P 500		5.529
Nasdaq		17.136
Nikkei 225		37.048
Interest Rates %		
USA	3 Months	5,27
	2 Years	3,95
	10 Years	3,92
Euroland	3 Months	3,47
	2 Years	2,66
	10 Years	2,28
Japan	3 Months	0,44
	2 Years	0,37
	10 Years	0,88
FX		
USD/EUR		1,104
Raw Materials		
Oil (Brent, USD/Barrel)		74,1

UPCOMING POLITICAL EVENTS 2024

10 Sep	UN	UN General Assembly
12 Sep	EZ	ECB Governing Council meeting
17–18 Sep	US	Meeting of the US Federal Open Market Committee (FOMC)
19	GB	BoE announcement and minutes
20	JN	Bank of Japan meeting

→ Overview political events 2024 (click here)

Calendar Week 37

Monday			Consensus	Previous
JN	Current Account NSA JPY	Jul	--	1,533.5B
JN	Current Account Bal SA	Jul	--	1,776,300M
JN	Trade Bal Cust Basis SA	Jul	--	-440,580.00M
JN	GDP Rev QQ Annualised	Q2	--	3.1%
JN	GDP Revised QQ	Q2	--	0.8%
JN	GDP Cap Ex Rev QQ	Q2	--	0.9%
CN	PPI YY	Aug	--	-0.8%
CN	CPI YY	Aug	--	0.5%
CN	CPI MM	Aug	--	0,5%
EC	Sentix Index	Sep	--	-13.9
US	Wholesale Invt(y), R MM	Jul	--	0.3%
US	Consumer Credit	Jul	--	8.93B
Tuesday				
CN	Exports YY	Aug	--	7.0%
CN	Imports YY	Aug	--	7.2%
CN	Trade Balance USD	Aug	--	84.65B
JN	M2 Money Supply	Aug	--	1,250.8T
JN	Broad Money	Aug	--	2,168.3T
GE	CPI Final MM	Aug	--	-0.1%
GE	CPI Final YY	Aug	--	1.9%
GE	HICP Final MM	Aug	--	-0.2%
GE	HICP Final YY	Aug	--	2.0%
UK	Claimant Count Unem Chng	Aug	--	135.0k
UK	ILO Unemployment Rate	Jul	--	4.2%
UK	Employment Change	Jul	--	97k
UK	Avg Wk Earnings 3M YY	Jul	--	4.5%
UK	Avg Earnings (Ex Bonus)	Jul	--	5.4%
UK	HMRC Payrolls Change	Aug	--	24k
CN	M2 Money Supply YY	Aug	--	6.3%
Wednesday				
JN	Reuters Tankan N-Man Idx	Sep	--	24
UK	GDP Est 3M/3M	Jul	--	0.6%
UK	GDP Estimate MM	Jul	--	0.0%
UK	GDP Estimate YY	Jul	--	0.7%
UK	Services MM	Jul	--	-0.1%
UK	Services YY	Jul	--	1.2%
UK	Industrial Output MM	Jul	--	0.8%
UK	Industrial Output YY	Jul	--	-1.4%
UK	Manufacturing Output MM	Jul	--	1.1%
UK	Manufacturing Output YY	Jul	--	-1.5%
UK	Goods Trade Balance GBP	Jul	--	-18.894B
US	Core CPI MM, SA	Aug	0.2%	0.2%
US	Core CPI YY, NSA	Aug	--	3.2%
US	CPI MM, SA	Aug	0.2%	0.2%
US	CPI YY, NSA	Aug	--	2.9%
US	CPI Wage Earner	Aug	--	308.501
Thursday				
UK	RICS Housing Survey	Aug	--	-19
JN	Corp Goods Price MM	Aug	--	0.3%
JN	Corp Goods Price YY	Aug	--	3.0%
EC	ECB Refinancing Rate	Sep	--	4.25%
EC	ECB Deposit Rate	Sep	--	3.75%
US	PPI Final Demand YY	Aug	--	2.2%
US	PPI Final Demand MM	Aug	--	0.1%
US	PPI exFood/Energy YY	Aug	--	2.4%
US	PPI exFood/Energy MM	Aug	--	0.0%
US	Initial Jobless Clm	2 Sep, w/e	--	--
US	Cont Jobless Clm	26 Aug, w/e	--	--
US	PPI Machine Manuf'ing	Aug	--	184.6
Friday				
EC	Industrial Production MM	Jul	--	-0.1%
EC	Industrial Production YY	Jul	--	-3.9%
US	Import Prices MM	Aug	--	0.1%
US	Import Prices YY	Aug	--	1.7%
US	U Mich Sentiment Prelim	Sep	--	67.9

The calendar data for the current week comes directly from Bloomberg. They are published in the week in which “The Week Ahead” appears. These are economic data that come from official sources. Where available, the previous figure is collected together with the consensus estimate. The consensus estimate is collected by Bloomberg through a survey of analysts and economists. It is the average of all estimates submitted.

September 2024 AdMaster: 3826608