FRIDAY, 7 JUNE 2024

The Week Ahead

Beyond monetary policy

In the first months of this year capital markets focused on the question of when (and by how much) interest rates would go down again. While market observers anticipated six rate cuts in the US at the beginning of the year, the number of expected rate cuts is now down to markedly less than two. At the moment, it seems that the European Central Bank (ECB) will indeed reduce its key rate at its June meeting; after all, it has extensively prepared the markets for such a step. In contrast, the Federal Reserve (Fed) and other central banks will keep to the sidelines for now and pursue a "data-dependent" policy, as they tend to put it.

However, there are numerous other noteworthy developments beyond the rate outlook – and they may offer investment opportunities as well.

1. **Europe** will get much attention during the coming weeks, and not just from soccer fans. The "old continent" might become more interesting to investors, too. As mentioned above, the euro area might benefit from the fact that the ECB is more likely to cut rates than any other major central bank. Moreover, most countries seem to have passed the cyclical trough; in particular, sentiment and leading indicators are improving again. Exporters are happy to see foreign orders bottoming out. The **European elections** will attract some attention as well. While the short-term impact on the markets will probably be limited, fiscal rules as well as competition and trade policies will shape the longer-term picture. In addition, elections in the **UK** will be taking place surprisingly soon, namely at the beginning of July. Domestic investors appear quite calm about a potential change in government. Labour seems to be campaigning on a realistic, pragmatic platform. This may reduce the political risk premium which has weighed on British assets since Brexit.

2. The **Chinese** authorities are increasing their efforts to combat the prolonged real-estate crisis. In particular, the inventory of unsold and, in some cases, unfinished residential real estate is to be reduced. That is why regulations related to real-estate purchases have been relaxed and mortgage rates cut in order to attract new buyers. At the same time, local governments are to use several vehicles to buy apartments from developers; they have been

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Publications

→ **Dividends: Stability in an era of disruption**
Be it deglobalisation, digitalisation, demographics or decarbonisation, disruption is in full swing wherever you look. It is also a long-term, structural phenomenon. These drivers of transformation are also likely to have an impact in 2024. Then there are the current (geo)political, macroeconomic and monetary policy developments. Taken together, this makes the question as to how equities can provide stability in a portfolio all the more pressing. Welcome to our new white paper on dividends.

→ **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.

→ **Workers' welfare**
Safeguarding the rights of workers throughout supply chains is a growing sustainability concern.

offered financial support from the central government or the central bank for this purpose. Roughly 4% of Chinese gross domestic product (GDP) might be used for such efforts. Together with support measures for the equity markets, these news have breathed new life into the suffering equity markets in Hong Kong and Shanghai.

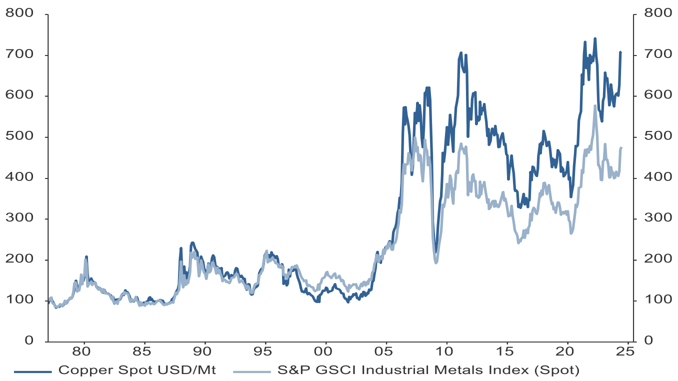
3. **Copper prices** have reached record highs, as the medium-term supply outlook is limited, demand is structurally increasing due to the trend towards electrification and economic data from China and other countries have improved. Other industrial metals have recently become more expensive, too. As a general rule, that is a sign of healthy global growth; in fact, we believe global growth to be near potential right now, which means that capacity utilisation is roughly normal. At the same time, that means that it will become more difficult to **fight inflation** without dampening demand.

The equity markets in particular have adapted well to an environment of stronger-than-expected growth, higher inflation and later rate cuts. Now and then, investors would do well to shift their attention away from central banks and towards other developments in Europe, China or the metals markets – they might find attractive opportunities.

Wishing you successful investing

Stefan Rondorf

Copper and Industrial Metals prices indicate a robust cyclical and structural demand environment
Prices indexed to 100 in 1977



Source: LSEG Datastream, AllianzGI Economics & Strategy 6/5/2024

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

The current environment is characterised by robust growth, an uncertain rate outlook and slightly less obvious investment opportunities. It suggests the following **tactical equity, bond and FX allocations**:

- The **equity markets** should be able to cope with fewer or postponed rate cuts as long as those are a result of healthy demand (in the US) or a pick-up in growth (in Europe and China). In contrast, stubborn inflation accompanied by flatter growth might be detrimental – but for now, such a scenario appears unlikely.
- A regional **broadening of growth** beyond the US would provide equities with a broader basis. Neglected markets such as China or the British FTSE 100 index have recently started to catch up.
- The same applies from a sectoral vantage point. More broad-based growth, perhaps supported by rising order intake in European or Asian manufacturing, would reduce the markets' dependence on the US technology sector.
- **Bond markets** have recently been oscillating, depending on whether the incoming data appeared to increase or decrease the probability of rate cuts. Euro-area government bonds in the medium maturity range offer positive, but not really attractive real yields. Their most interesting use case appears to serve as a hedge for a cyclical downturn. Corporate credit spreads offer historically low default risk premiums, but in combination with the quasi-secure government bonds yields they appear to offer sufficiently attractive overall return prospects for many investors.
- The **US dollar** might continue to benefit from higher-for-longer US rate expectations, even though the interest advantage over the euro, for example, may increase at a slower pace compared to recent months.
- The **Japanese yen** will probably remain under pressure due to the recently unfavorable widening of the interest rate differential, despite several interventions. As a result, the Bank of Japan will remain under pressure to shift towards a less expansionary monetary policy going forward.

UPCOMING POLITICAL EVENTS 2024

11–12 June	US	Meeting of the US Federal Open Market Committee (FOMC)
13–15 June	G7	G7 summit in Italy
20 June	GB	BoE announcement and minutes
27–28 June	EU	European Council meeting

→ Overview political events 2024 (click here)

Investment topic: Putting equity markets on a broader footing

- During the last few years, equity index increases were driven only by a small number of stocks. In particular, the performance of US equity indices was largely due to a small number of **technology and platform companies**.
- With index returns being the result of the performance of only a handful of stocks, **equity indices are highly concentrated** in a historical comparison. In fact, the top ten companies of the S&P 500 index have a share of about one-third in total market capitalisation.
- Some investors may be reminded of the "dot.com" bubble around the millennium or the "Nifty 50" exaggerations at the beginning of the 1970s. However, these two periods are negative outliers in a historical comparison. A look at the past 55 years shows that, from a statistical vantage point, periods with a narrow leadership on US equity markets have no bearing on the overall index performance in the subsequent 12 months.
- What the statistics show, however, is that the neglected segments tend to perform better in subsequent periods. This suggests that, for example, **small caps** might outperform large caps and **value stocks** might outperform growth stocks in the future.
- Valuations support this favourable statistical picture. **Valuations** of small caps versus large caps and of value versus growth stocks appear attractive across all regions.
- If declining inflation triggers a central bank rate-cut cycle and growth rates remain positive ("soft landing"), small caps should do well. If nominal growth remains high and broad earnings growth remains healthy, value stocks should benefit.

Market overview as of 03.06.2024

Equity Indices		
DAX		18.608
Euro Stoxx 50		4.955
S&P 500		5.283
Nasdaq		16.829
Nikkei 225		38.837
Interest Rates %		
USA	3 Months	5,60
	2 Years	4,88
	10 Years	4,49
Euroland	3 Months	3,79
	2 Years	3,21
	10 Years	2,63
Japan	3 Months	0,30
	2 Years	0,35
	10 Years	1,03
FX		
USD/EUR		1,084
Raw Materials		
Oil (Brent, USD/Barrel)		78,5

Calendar Week 24

Monday			Consensus	Previous
EC	Sentix Investor Confidence	Jun	--	-3.6
JN	BoP Current Account Balance	Apr	--	¥3398.8b
JN	Trade Balance BoP Basis	Apr	--	¥491.0b
Tuesday				
JN	Money Stock M2 YoY	May	--	2.2%
JN	Money Stock M3 YoY	May	--	1.6%
JN	Machine Tool Orders YoY	May P	--	-8.9%
UK	Average Weekly Earnings 3M/YoY	Apr	--	5.7%
UK	ILO Unemployment Rate 3Mths	Apr	--	4.3%
UK	Jobless Claims Change	May	--	8.9k
Wednesday				
CH	PPI YoY	May	--	-2.5%
CH	CPI YoY	May	--	0.3%
GE	Current Account Balance	Apr	--	27.6b
JN	PPI YoY	May	--	0.9%
UK	Industrial Production YoY	Apr	--	0.5%
UK	Manufacturing Production YoY	Apr	--	2.3%
UK	Construction Output YoY	Apr	--	-2.2%
UK	Trade Balance GBP/Mn	Apr	--	-£1098m
US	CPI YoY	May	--	3.4%
US	CPI Ex Food and Energy YoY	May	--	3.6%
US	Real Avg Weekly Earnings YoY	May	--	0.5%
US	FOMC Rate Decision (Upper Bound)	Jun 12	5.50%	5.50%
Thursday				
EC	Industrial Production YoY	Apr	--	-1.0%
US	Initial Jobless Claims	Jun 08	--	--
US	Continuing Claims	Jun 01	--	--
US	PPI YoY	May	--	2.2%
US	PPI Core YoY	May	--	2.4%
Friday				
EC	Trade Balance SA	Apr	--	17.3b
JN	Tertiary Industry Index MoM	Apr	--	-2.4%
JN	Capacity Utilization MoM	Apr	--	1.3%
US	Import Price Index YoY	May	--	1.1%
US	Export Price Index YoY	May	--	-1.0%
US	U. of Mich. Sentiment	Jun P	--	69.1

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.

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