

FRIDAY, 05 APRIL 2024

# The Week Ahead

## High Spirits

Capital market participants were obviously in high spirits during March. The S&P 500, the Nikkei, the EuroSTOXX and the DAX all exceeded or at least defended former highs. Bitcoin and gold prices rose as well.

The financial stress indices compiled by the European Central Bank (ECB) and the Kansas and St. Louis Federal Reserve Banks continued to decline. And investor sentiment, as measured by the Sentix, is buoyant, too. Only German investors seemed still a bit subdued, but their spirits are improving as well. In fact, there is a whiff of complacency if we look at the relationship between the price-earnings (P/E) ratio for the S&P 500 and the VIX index (as a proxy for risk). Market participants are not really pricing in risks at all.

At the same time, the financial markets have undergone a reality check since the beginning of the year, as economic news was unexpectedly good and the major central banks introduced subtle changes in their communications. With the consensus

still expecting healthy global growth and a slowdown in inflation, rate-cut expectations for the US Federal Reserve (Fed) and the ECB have shifted and are now approaching our forecasts. The Fed has provided us with some clues about what we may expect. While the Federal Open Market Committee will probably cut the Fed Funds Rate three times during the remainder of the year, as expected by the markets, such a development is not yet a certainty. At the same time, recent economic data suggest that the probability of a stable trend in growth has increased. Consequently, a recession seems to be off the table for the time being.

“Bonds are back”: Bonds, as an asset class, are indeed back – and that is not really a surprise after the speedy rate reversal in 2022. What is new, however, is that the era of “NIRP” (the “negative interest rate policy”) is over, too. After having kept interest rates in negative territory for years, the Bank of Japan (BoJ) changed course in mid-March and raised its short-term rate by about 10 basis points, to 0.10%. Yield curve control (YCC) measures are being stopped as well. While the rate step is very small and the bank plans further bond purchases, what is important is that the BoJ has started to tighten monetary policy. The key signal is that the Bank believes that its inflation target of 2% in two years’ time is finally (!) within reach and that the years of fighting deflation are coming to an end.

## Publications

### → Multi Asset: The comeback

The aim behind “multi asset” is to improve the risk/return profile of an investment by allocating capital across a multitude of assets. This approach to investment struggled during the phase of low and negative returns. Meanwhile, it may be poised for a comeback.

### → 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.

### → From the transition of regulation to the regulation of transition

Our fourth theme for 2024 looks at how sustainability regulation is beginning to promote tangible progress on climate transition.



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

Nevertheless, challenges for investors remain. Lessons from the past show that riskier assets, in particular equities, might do well in the coming months, provided that the Fed and other major central banks succeed in steering the economy towards a soft landing, keeping inflation low in the long run and easing monetary policy. If they fail in one of these respects – i. e. if a recession sets in, if inflation accelerates again or if, contrary to expectations, monetary policy remains tight – the markets might be quite disappointed. Short-term sentiment on the financial markets might suffer if observers begin to expect easing steps to be smaller or to start at a later point in time and if inflation surprises to the upside.

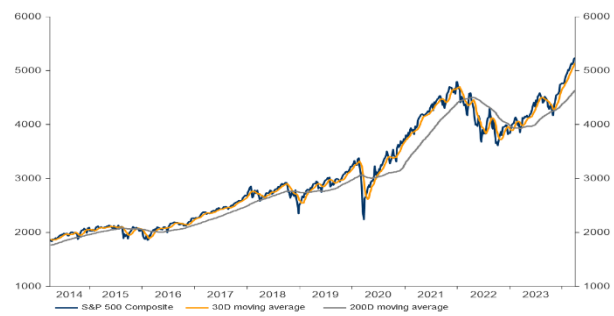
**In this environment the following tactical allocation for equities and bonds appears plausible:**

- The constructive outlook for equities is supported by fundamentals, in particular the predominant soft landing scenario.
- Volatility is likely to increase. The major central banks will probably continue their quantitative tightening efforts. While the markets are now pricing in rate cuts, investors should not forget that the central banks will continue to normalise their balance sheets – and their doing so will have an impact on liquidity.
- Even though spirits are high, there is a risk of setbacks. Some valuations are ambitious, and the equity markets appear to be pricing in a “best of all worlds” scenario.
- A slowdown in growth would affect corporate earnings, and that might be unwelcome news in view of the fact that some valuations, for example for technology stocks, appear clearly elevated.
- It seems plausible in the current environment to focus on high-quality stocks with strong cash flows – ideally non-cyclical stocks – and on strategies which rely on steady **dividend payments**.
- If the ECB and the Fed cut rates as expected, yield curves are likely to steepen.
- Corporate bond risk premiums (“spreads”) should be supported by the predominant “risk on” attitude and some carry. Investors who expect a cyclical slowdown should focus on highly rated bonds.

Wishing you support for continued high spirits

Yours, Dr Hans-Jörg Naumer

**S&P 500: 30- & 200-days moving average**



Source: LSEG Datastream, AllianzGI Global Capital Markets and Thematic Research 02.04.2024

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

**UPCOMING POLITICAL EVENTS 2024**

10 Apr	CA	Bank of Canada meeting
11 Apr	EZ	ECB Governing Council Meeting
15–21 Apr	IMF	World Bank Group – IMF Spring Meetings
25-26 Apr	JR	Meeting of the Bank of Japan

[→ Overview political events 2024 \(click here\)](#)

## Calendar Week 15

Monday			Consensus	Previous
EC	Sentix Investor Confidence	Apr	--	-10.5
GE	Industrial Production YoY	Feb	--	-5.50%
GE	Exports SA MoM	Feb	--	6.30%
GE	Imports SA MoM	Feb	--	3.60%
JN	Labor Cash Earnings YoY	Feb	--	2.00%
JN	BoP Current Account Balance	Feb	--	¥438.2b
JN	Trade Balance BoP Basis	Feb	--	-¥1442.7b
Tuesday				
JN	Consumer Confidence Index	Mar	--	39.1
JN	Machine Tool Orders YoY	Mar P	--	-8.00%
Wednesday				
JN	PPI YoY	Mar	--	0.60%
US	CPI YoY	Mar	--	3.20%
US	CPI Ex Food and Energy YoY	Mar	--	3.80%
US	Real Avg Weekly Earnings YoY	Mar	--	0.50%
US	FOMC Meeting Minutes	Mar 20	--	--
Thursday				
CH	PPI YoY	Mar	--	-2.70%
CH	CPI YoY	Mar	--	0.70%
EC	ECB Main Refinancing Rate	Apr 11	--	4.50%
EC	ECB Deposit Facility Rate	Apr 11	--	4.00%
GE	Current Account Balance	Feb	--	29.7b
JN	Money Stock M2 YoY	Mar	--	2.50%
JN	Money Stock M3 YoY	Mar	--	1.80%
US	PPI YoY	Mar	--	1.60%
US	PPI Core YoY	Mar	--	2.00%
US	Initial Jobless Claims	Apr 06	--	--
US	Continuing Claims	Mar 30	--	--
Friday				
CH	Trade Balance	Mar	--	\$39.71b
CH	Exports YoY	Mar	--	5.60%
CH	Imports YoY	Mar	--	-8.20%
JN	Capacity Utilization MoM	Feb	--	-7.90%
UK	Industrial Production YoY	Feb	--	0.50%
UK	Manufacturing Production YoY	Feb	--	2.00%
UK	Construction Output YoY	Feb	--	0.70%
UK	Trade Balance GBP/Mn	Feb	--	-£3129m
US	Import Price Index YoY	Mar	--	-0.80%
US	Export Price Index YoY	Mar	--	-1.80%
US	U. of Mich. Sentiment	Apr P	--	79.4

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.

If not mentioned otherwise data and information sources are from LSEG Datastream.

**Diversification does not guarantee a profit or protect against losses.**

**Investing involves risk.** The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. 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 for Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations and is for information purpose only. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. 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, except for the case of explicit permission by Allianz Global Investors. 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 Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional /professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors UK Limited, authorized and regulated by the Financial Conduct Authority; in HK, by Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; in Singapore, by Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; in Japan, by 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, the Investment Trust Association, Japan and Type II Financial Instruments Firms Association; in Taiwan, by Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan; and in Indonesia, by PT. Allianz Global Investors Asset Management Indonesia licensed by Indonesia Financial Services Authority (OJK).