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## Current Situation

What a year! The US Dollar Index, a basket of the major world currencies, increased by 13%. Long dated safe-haven Sovereign bonds enjoyed total returns on average between 10 and 15 % and more and the equity markets thanks to Wall Street ended still up by a meager 3% in US Dollar terms, measured by the MSCI World Index. The stock markets of Japan, SE Asia, Brazil and Europe with the exception of Turkey and Switzerland were disappointing. This fact is even more severe as at the end of 2013 the majority of the global investment community had expected equities not only to perform well but also to outperform bonds by a wide margin in 2014. Therefore the year 2014 has finally turned out to be a difficult and also not rewarding investment year for many investors and active managers.
Many geopolitical, economic and financial expectations did not materialize: the slow-down of the Ukraine conflict, the reacceleration of the world economy, higher wages and slowly reflating consumer prices. To the contrary the world economy has begun to stagnate and deflationary forces have come to the fore again. The ‘Abenomics’ program in Japan was just a flash in the pan, economic growth in China has faltered, Italy has returned to a recession, France is not far behind. Russia has felt the weight of the Western economic and financial sanctions. Consequently Russian exports, the Ruble and its capital markets have collapsed. The country finds itself in a recession since November and it eventually will slide into a depression next year, if politics should slip out of hand. Last but not least the steadily growing oversupply of crude oil has led to a lasting decline of the price of oil. Breaking the important 100$ mark in July the price of Texas Light has ever since declined below $ 54 with no end in sight. Most other commodities have outstripped demand in 2014 and in technical terms most commodity markets following the gold price have also entered bear markets. The pressure on falling inflation has become visible and they should turn negative in various countries like in Japan some years ago. The USA has made their traumatic experience from the Thirties of the last century. The trend bears watching.

## Economic Outlook

Though the creation of excessive monetary liquidity through Quantitative Easing has saved the Western finance industry, the revitalization of the economies and the creation of full employment and growing wage income did not materialize. It will also apply for the forthcoming QE in the EU. Although still differently valued, it will become a vital necessity for the EU banking system, as several important and still fragile banks will additionally be stressed by their deteriorating Russian assets.
Today global economic growth rates are on retreat and a normalization of growth and employment seems to have been pushed far out into the future. It will become even more severe, if the world, indeed, would be faced with a period of secular economic stagnation. At today’s state of knowledge this possibility should not be ruled out any longer. Since the nineties of the last century with small interruptions in 1998 (Russia)

and 2009 (Lehman), the world until today through vast infrastructure and capital investments has created a huge supply chain of goods and services, which finally seems to outstrip global industrial and consumer demand. This excess supply probably cannot any longer be absorbed, as the global buying power has not adequately kept pace with the global economy, neither in the USA, the EU, and Japan nor in the newly industrialized countries China, India and Brazil.
Should this picture become reality, then a period of lower global growth, ongoing deflationary pressure and financial chaos in fable societies could lie ahead and could be the start of the destruction of capital formation. It should last as long as the excess-supply for goods and services will persist. Crude oil and the future of the oil industry should be a good directory.
How to cope with the change? Conventional economic, monetary and fiscal models like those at work in Japan today will not take effect and are a waste of national wealth. As already drafted in the last reports, 2015 could already be the year of profound economic change and therefore should politically be used as the start of long delayed structural reforms and sustained capital investments for the economic safeguard for future generations in every country on the globe. The Western world in particular needs an Agenda 2025 now! The themes are education and health care, energy and utilities, telecommunication and transport by water, land and in the air. It is a huge task for policy makers and requires massive deficit spending over the years to come. The situation should logistically be regarded as the situation after the Second World War.

Financial Markets

Geopolitics, economies and capital markets will be linked even more closely to each other than at any time before. The financial markets will closely monitor the direction that countries will take from 2015 on. The tasks are manifold: USA- the restauration of the Middle Class and the modernization of the whole infra-structure; RUSSIA and China – the necessity of democratization and modernization of their countries; EU – overcoming the anxiety to implement reforms and social market economy; investment in education and integration of foreigners. Where does India go, will Japan succeed with Abenomics and how to deal with chaos states like Brazil, Argentina, Venezuela or Greece? The famous sentence of Mr. Gorbachev comes to my mind again.
Investors will be confronted with themes as faltering economic growth, political stress and deflation, commodity-, currency- and interest rates movements, employment and consumer buying power and last but not least corporate earnings. It is a large focus and the financial markets will be torn between the possibilities of a 'New Deal' or anemic growth. The future will be accompanied with higher market volatility, which could therefore lead to even more risk-off investment and safe-haven strategies.
The bull market story of safe-haven sovereign bonds does not seem to be over yet and still could last quite a while, as the central banks will be forced to stick to their existing policies, until the disinflationary pressure should be ending. The US Dollar will further play a dominant roll and the stock markets, richly valued, will be driven by earnings and will remain as in 2014 markets of stocks. As a result 2015 could become an even more delicate but also a rewarding investment year.

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