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# ZINNECKER MONTHLY – 02 / 2017

## Review

Improving economic conditions, corporate earnings, and a speedy implementation of infrastructure measures and corporate tax cuts in the USA right after the inauguration of Mr. Trump have catapulted the DJ-Average for the first time in history over the magic mark of 20.000. This development, which also spilled over to other stock markets namely in Europe, caught the international investment community again by surprise, as the President's first decisions by executive orders and verbal statements in his first week in office were mostly confusing and controversial.
In the month of January, the major Western government bond markets were flat to down and the US Dollar has retreated by about 2% after its surge over the last 3 months. This has helped several EM bond and currency markets to recover somewhat after last years' corrections.

## Outlook

Political irritation from the USA and Europe will surround the public for quite a while and therefore will negatively weigh on the capital markets and investment decisions. Investors, however, should not get too much confused and keep track of the fundamentals, as they develop in 2017. The global economy according to the World Bank should rise again to 2.7% this year after its sluggish 2.3% in 2016. It is far below the average rate of 3.7%, achieved in the years 2002 to 2007 mainly by the extraordinary growth period of China, but it should be enough to help to grow corporate profits on an international perspective.
The US real GDP should recover to 2% from 1.6% of last year, which should create about $ 128 per share for the S&P 500 up from $ 116 in 2016. This figure could even increase by another 5 Dollars, if a fiscal stimulus package - tax cuts and deregulation – would occur in time. The EU previsions are far more cautious for 2017 with GDP growth of only 1.5% after 1.6% for last year, although the economies of Germany, France and Spain have picked up in the last quarter. The surprise, however, could be on the upside, once the election in France will be out of the way. Japan and the Emerging Markets should also economically reaccelerate in 2017 after the slowdown in 2015-2016.
Against this background, consumer-prices have slowly begun to reflate. They are approaching the 2%-targets set by the central banks in the EU and in the USA. Therefore, the Fed will increase interest rates again in time. If it were already to happen before summer, it would put the ECB even more under pressure to alter its excessive monetary policy, much earlier than originally planned. Such a step would definitely not find the support of the majority of Mediterranean policy makers. Furthermore, public criticism is rising over falling interest incomes for savings accounts and private retirement schemes.

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A monetary policy of too much too late bears the risk of not only falling too far behind the yield curve at the late stage of this economic cycle but it also could reignite unwarranted inflation and negative side effects for the currencies in the aftermath.

**Capital market outlook**

The direction is set for further rising bond rates, which for quite some time should limit long-term government bonds as an investment alternative over equities. It applies also for the short end at least in Europe, which has produced negative real returns for over two years. From a fundamental perspective, there are no investment alternatives other than equities and possibly gold again. Global stock market risk parameters and price volatilities, however, have risen considerably due to very irritating and dubious political activities out of Washington, Great Britain and out of continental Europe.
As already described in the last report, the preferred investment areas will remain unchanged. Technology, semiconductors and internet, financials, basic materials, transportation and capital goods industries as a theme for the redevelopment of the industrial infrastructure in the USA and Europe should build the corner stones of a portfolio in 2017.

31.1.2017

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