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Review

The month of February has once again illustrated in which difficult environment the Western capital markets have performed. The Japanese decision to introduce negative interest rates has fueled again the government bond markets sending ten-year bond yields close to their historical lows. At the end of the month, yields have reached 1.45% in the U.K, in the USA 1.75% and in Germany only 0.10%. The stock markets after hitting new lows have only recovered from deeply oversold levels but have not turned the corner yet. The growing uncertainty about economic growth, especially in China with latest estimates of only 3% plus in 2016 and slowing earnings' momentum have kept investors out of the stock markets despite of more attractive valuations. The ongoing conflict in the Middle East, the unresolved European refugee problem, the UK referendum about the future EU membership and the recent primaries in the United States have raised the overall uncertainty in the capital markets. The strong recovery of the gold price from its December low of $ 1,050 to $ 1,230 is an indication for the growing tension.

The continuous liquidation of financial assets by the oil states in order to fill their growing budget deficits caused by the low oil price have put additional pressure on the stock markets. The policy of easy and cheap money until now has acted as a safety net, but it did not prevent the markets from further growing price volatility.

Outlook

Although the central banks are prepared to inject more liquidity into the financial system, it has become very clear that their scopes to influence the allover economic recovery have not only been limited in the past but are almost exploited today. Low interest rates and money creation have indeed saved the banking systems since the financial crisis in 2008 and have significantly reduced the interest burden of undercapitalized companies and highly indebted countries. To revitalize their economies and labor markets on a sustainable basis through structural reforms and fiscal stimulus, however, is solely the fundamental task of the Western governments through government action in form of legislation. It is in the responsibility of the Western governments to provide the economic and social regime and the long-term perspectives in order to secure and to create the wealth of future generations. Industry and entrepreneurs need the political leadership in this respect and the economic incentives to invest. Western governments have not fulfilled these unconditional requirements for decades and the policies of reluctant structural investments and reforms should be ending by now. Against the backdrop of the structurally weakening global economy and dangerously falling inflation rates, namely in Europe, governments should be encouraged to use today's low and negative interest rates for government debt financed future oriented infrastructure and modernization programs in all essential parts of our civilization.

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The latest G20 FinMin-meeting in Shanghai has shown, however, how far away politicians are from the common understanding of a coordinated stimulus program, although all parties were aware, more than ever before, that something would have to be done. As always, the devil lies in the detail and at the end of the conference, the public has been left with numerous declarations of intent. The statement about the latest currency fluctuations and devaluations and their intention to work more closely together in this respect, just shows, how little politicians understand about the functionality of the capital markets and their importance for the globalized economies.

In contrast, the Germans Mr. Schäuble and Mr. Weidmann were explicitly against the endorsement of government-financed programs rebuffing the recommendation of the IMF still in favor of the consolidation of EU household deficits in their own interest. Meanwhile all EU members likewise seem to be guided by their own political and financial self-interests influenced by the political pressure from their extremist parties. This new attitude could eventually endanger the idea of a common European community bearing the risk of a collapse of the EU and its currency in the future with all its disastrous economic and social consequences. The threat is apparent now with the Brexit discussions, the growing refugee crisis in Greece and the upcoming elections in Europe and the USA.

Capital market outlook

The capital markets are still waiting for that fundamental political change. Shanghai has not given that direction but at least it raised awareness. Therefore, the capital markets are likely to stay volatile. Government bond yields should further decline, as investors will park their proceeds at the long end of the bond markets thriving for safety and for interest in avoidance of capital losses in other asset classes. The stock markets - most of them confined in bear markets - should at best move sideways in established boundaries and trading ranges, i.e. 1800 to 2000 for the S&P 500 (1950), 9800 to 10300 for the DAX (9495) and 7500 to 8400 for the Swiss Index (7840) and for Japan N225 (16030) from15400 to17400, as usual without obligation.

Commodities should stay very volatile. Oil at $36 per barrel for Brent should try to stabilize after its dramatic price erosion to $27 since the summer of 2014. Only the future will tell, whether this has been the bottom of the current bear market. The recent sharp price movement of Gold ($1230) from $1050 could signal the end of its bear market that started back in 2011 at around $1900. If so, it might fulfill its function again as a safety hedge for investors. Goldmines because of their leveraged balance sheets should only be regarded as speculative trading vehicles.

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