DIPL.-KFM.
FRANK TH. ZINNECKER
ZINNECKER CONSULT

ZINNECKER MONTHLY 04 / 2014

Current Situation

At the start of the second quarter it has to be noted that many economies and their financial markets have not acted as initially projected at the beginning of the year. The tremendous outflow of EM investment money into DM equities has in general not been sufficient enough to propel the Western stock markets from their December consolidation patterns to new index highs. The US equity markets fared somewhat better, however only by a very small margin, while the Japanese Nippon 225 index has lost nearly 10% over the entire period. Only long term government bonds of the EU periphery together with their equity markets were the exception.
The latest global economic data and the political conflict between NATO and Russia over Crimea and the Ukraine have been the dominant reasons for that. After the referendum for the Russian reintegration of Crimea the political tensions have been substantially diminished, when it became obvious that the mutual economic interests were by far outweighing the possible risks of a widening of the conflict.
On the economic front, however, many positive projections for this year had already to be altered in recent weeks and it clearly demonstrates once again how tricky economic forecasts can be. The experienced Ms. Janet Yellen should also know it and interest rate predictions for next year are not very helpful and just cause confusion. It is assured, however, that QE definitely will be finished before year end and that the USA after the cold winter will from now on experience stronger economic quarters due to the pent-up demand for goods and services.
The world has been confronted with falling commodity prices for already quite some time and Europe as well as the USA, aware of the recent Japanese history, begins to be concerned about possible economic side effects of deflationary price spirals. The starting point of this dilemma is China, where all economic forecasts have been lowered from 7 and in some cases towards 5% in 2014. In this respect the slow devaluation of the Yuan since February becomes self-explanatory. Chinese exports should become more competitive on the world markets dominated by Japan and SE Asia and also by Germany and Europe, where all Mediterranean states still suffer from the austerity programs. France meanwhile can also be included, because the latest unemployment figures are worrisome.

Economic Outlook

With the exception of the USA for now the rest of the industrialized world is today confronted with retreating growth rates rising and the fear of creeping deflation. This new and non-anticipated situation does afford not only monetary but in various states additional fiscal stimulus and further economic reforms, if the risk of a later recession should even not become a possibility. This call in the first place goes to Japan and the EU and secondly to China. The ECB and finally the German central bank, until recently an opponent of quantitative easing, have recognized that the EU banks on top of low interest rates and liquidity need the help of the ECB through the purchase

Holzhecke 7 – D 60528 Frankfurt am Main
Telefon (069) 59 79 30 31 - Fax (069) 59 79 34 40 - Mobil (0171) 79 78 174
Email: frank.zinnecker@zinnecker-consult.com

of their loans and assets. This step would mean a radical mental change for the policy makers just at the point where the US Federal Reserve is paring back its own asset buying program. In this respect it is also remarkable that the EU central bank officials for the first time in many years have cautiously expressed concerns about the strength of the Euro. EU officials have finally begun to realize the gravity of the aftermath of the debt crisis and its possible long term negative financial impact on the EU and its currency.

Financial Markets

The US bond markets should remain stable over the summer. There will still be a lid on long term interest rates at around 3% as long as US inflation rates decline. Bond investors have not only profited from the ongoing bull market of EU government bonds but even more so from the interest convergence of the periphery. This process should not be over yet as under given financial and economic conditions the ECB will be forced to remain accommodative not only for 2014 but possibly also for quite some time next year.
This should be good news for the stock markets. The US equity markets will definitely depend under given central bank conditions on future corporate fundamentals, earnings and dividends. The European stocks, however, will be driven more so by monetary and liquidity conditions and to a lesser extent by earnings. Within the global universe these two markets should be the most exiting places for the months ahead. Recently neglected large international companies should return to the focus of investor’s interest as they are regarded being less risky in times of relative uncertainty. These big caps should be able to lift their indices to new highs even in an environment where stock valuations are considered to be extended.

Frank Th. Zinnecker
31.3.2014

Holzhecke 7 – D 60528 Frankfurt am Main
Telefon (069) 59 79 30 31 - Fax (069) 59 79 34 40 - Mobil (0171) 79 78 174
Email: frank.zinnecker@zinnecker-consult.com