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Review

The developed capital markets have completed their technical recoveries from recent lows in early February. This also applies to the price of oil. The current consolidation reflects the economic and political uncertainty, which will continue to influence future decision-making processes of investors over the course of 2016. The latest decisions by the FED not to change rates and the ECB by further extending QE have indeed stabilized the markets but have not led to an allover increase in investors' confidence about a quick turnaround of global economic growth. The profit outlook for the large Western international companies is still murky, although the Euro has recovered by almost 5% against the US$ in the first quarter. In addition, looming elections in the US and Europe and the public poll in Great Britain in the month of June with insecure outcomes have also discouraged investors to increase their equity exposure despite the background of unattractive or negative interest rates.

The latest terrorist attacks in Brussels demonstrate that they have become part of day-to-day life in Europe and the population will have to cope with this. However, the mode of how these attacks have been organized and carried out, leads to the assumption that the IS intellectually and physically has lost power and threat due to the more stringent anti-terror security measures. As the refugee and immigration problem will remain with Europe for long, it has become more and more urgent that German politicians together with their foreign counterparts should even more stringently press ahead with sustainable solutions to the Middle Eastern crisis instead of showing daily presence in the media, deploring the unbearable situation. Growing xenophobia and the rise of the right wing party AfD in the latest elections are warning signs.

Outlook

Negative news with regard to these issues could lead to short lived irritation and to higher market volatility, but they should not have any lasting effects on the general direction of the capital markets. After the central banks have almost shot their total wad, investors are increasingly returning their attention again to the economic facts. China, the global economic slowdown, the Western labour market data, the further development of the oil prices and first quarter corporate profits should be the main determinants for the capital market movements in the coming weeks. As expectations are generally low, investors should remain at the sidelines and moderate their investment strategies after the latest capital market gains. There is room for upside surprises, however, as the still growing monetary liquidity is further weighing on the markets.

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Capital market outlook

Worries about inflation, deflation and potential Central bank actions have not stopped investors' hunt for yield, which also has led to a considerable reduction of yield spreads between high yield and government bonds. Given the current interest rate outlook the positive trend should continue. Therefore, foreign investors operating out of a negative interest rate environment should further be buyers of long dated US-treasuries; even more so, as the US Dollar has become more attractive and should stabilize at around 1.14 against the Euro.

The stock market sell offs in recent months caused by global weak economic data, poor profits and political uncertainty have reduced expectations largely. The worries about the global economy will persist, but the start of the dividend season in Europe, possibly better employment data in the US and Europe should help stabilizing the equity markets at these levels. In addition, the final nomination of the US presidential candidates in the coming months could be a stimulus for the US capital markets.

The stock market has had a roller coaster ride, after the sharp correction in cyclical/value names over the second half of 2015. We have seen a strong rebound in coincidence with a recovery in oil and other resource prices during the last 6 weeks. In contrast, we saw the favorites of 2015, i.e. pharmaceuticals, biotechnology and some technology names correcting sharply during the 1st quarter of 2016. As these companies have not seen drastic earnings revisions, it is very likely that these steady growers will attract investors' interest again over the coming months.

The declining oil price to the low of 27 US$ had a significant, mostly negative influence on all equity markets during the last 12 months. It is not out of hand that we have seen the lows, followed by a bottom building process, which could set room for positive surprises. The positive impact on consumption and the consumer product companies should therefore still be ahead of us. It could play a significant role for the allover economic and profit recovery in the Western world and should therefore have a positive influence on the equity markets into the summer of 2016. Gold had a good run since late 2015 and should consolidate here; a recovery of the emerging economies over the next 12 months could revive the upward trend.

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