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Review

European politics have surprised again in April 2017. In France the two political non-establishment candidates, Emmanuel Macron and Marine Le Pen made it into the runoff election on May 7, 2017. Theresa May has called for a snap election on June 8, and the outcome of the AfD party convention leaves the impression that the threat of a strong right-wing party after the various German elections is ebbing from month to month.

After a nearly 2 months' consolidation, the Western equity markets have resumed their upward trends at the end of the month. Stable domestic demand for goods and services in Europe, no trade war between the USA and China, good to better than expected corporate profits and still accommodative central bank policies were the main factors. Industrial commodities, oil and gold have been stable to slightly down over the month and the US$ and the Yen have weakened slightly against the Euro.

Outlook

After his first 100 days in office, President Trump has been brought back down to earth and his government is adjusting to political reality and rearranges political priorities. Now, NATO is useful and America depends on China to tame North Korea. Therefore, a trade war would not be a smart idea. An investment friendly tax reform and various infrastructure programs need the support of both houses on Capitol Hill. The failure of a trade agreement between Japan and the USA is a setback and increases the pressure on Mr. Abe to enact finally meaningful reforms. Europe is on a stable path to recovery and the UK is now learning that Brexit will be costly. Asia is benefiting from China's economic program with large-scale credit and investment arrangements and many emerging markets are returning to economic growth.

Although GDP numbers for the world economy have recently been revised upwards again with China and Europe surprisingly strong, there should still exist hurdles that could darken the allover positive outlook. Although the elections in France, Germany and Great Britain should produce favorable results, meaning the moderate political forces will win, interim irritations and uncertainty are always a possibility during this process. There can be doubts that the Korea crisis will mitigate over the next few weeks without any disruption. The Trump administration will also face various obstacles on its way to get the tax reform and the various investment programs through Congress. Mr. Trump meanwhile has experienced, that his political success depends on securing parliamentary majorities for his projects.

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Capital Market Outlook

Therefore, as many stock markets and equities are trading at cyclical or all-time highs, stock price temporary corrections can always occur over the next few weeks, before the political environment settles down again. European equities then should benefit most from the continuation of international capital inflows into the European equity markets. Bond markets should stay stable but do not offer great returns given the accelerating economies in the Western World. Although stock market valuations are relatively high, there is still space left for a further upside potential given the still high cash levels.

Gold has been stable at around the $ 1250 mark and oil has come down again to $ 50, while industrial metals in general have lost ground. It is a sign that the reflation trade is stuttering despite fundamental solid demand. A long-term upward trend can only develop if capital investments in infrastructure become reality. Which could be delayed until 2018. The Euro has recently recovered against the US$ and Pound Sterling in contrast to the average public opinion. A breakout over 1.10 to the Euro should in technical terms be valued as significant and would then require currency hedging for Euro based investors. Careful portfolio selection is still necessary with a bias towards European equities. Quality, growth, dividends, new technology and the emerging internet will remain dominant themes in 2017.

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