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FRANK TH. ZINNECKER
HOLLYHEDGE CONSULT GMBH

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Current Situation

The economic and monetary conditions have not changed significantly in the past month. Relatively weak US data (GDP -0.7%), a slowdown in economic growth in Germany despite the weak oil prices and strong dollar have surprised in the first quarter and have shown how wobbly the global economic recovery still is. In Italy, however, the bourgeois acceptance of the reforms seems to grow, so that a structural economic recovery seems to be well on its way. The municipal elections in seven regions this weekend will be a big test. The general election has enabled David Cameron's Conservative party to govern Great Britain with the absolute majority and has paved the way for an EU in or out referendum possibly as early as 2016. In Spain though not unexpectedly, the two new parties Podemos and Ciudadanos have gained significantly in the local election at the expense of the established parties. These new formations will have to be taken very seriously by Prime Minister Rajoy in the forthcoming National elections.

The financial markets have now corrected the price excesses in oil, the dollar and the bond market. The fear of the continuous decline of the growth rates of the global economy and the anxiety of deflation have been overdrawn so that the feared May correction has not materialized. In contrary reasonable earnings reports in the USA and Japan have led to new highs in the U.S (S&P 500) and Japanese (NIKKEI 225) stock markets.

Outlook

The political situation (political unrest in the Ukraine and Syria, Greece and, U.S. Presidential nominations etc), lack of economic reforms and the still weak recovery of the world economy will increase the volatility in the capital markets. With every notch of more economic growth, however, bonds should become less attractive. So in relative terms equities should remain the preferred asset.

After almost seven years of financial crisis all governments are desperate for economic growth and employment. This applies not only for the US, China and Japan, but even more so for the EU member states, as they are particularly plagued by high unemployment, high social security cost, lack of reforms, unpopular political parties and the unresolved Greek crisis. Europe finally needs to understand that the financial markets and the EU banking crisis were not able to heal themselves as it was to be and that the QE program should have been implemented already in 2009 in order to clean up the EU banking system and to eliminate its weakest participants. In the aftermath it was a big mistake to be taken in by the bankers' advice in those days. These inconvenient decisions are still pending and should not be further delayed. On the other hand every politician in Europe knows by now that the countries need more economic growth at any price and that politically is

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: fz@hollyhedge-consult.com

unconditional. Therefore the Greek threat might become less important in the future as governments need to turn their attention back to their home front and push for the necessary reforms and programs that create jobs and growth and help to tighten the future of the Euro.

Greece will be on the verge of technical bankruptcy at the end of June. The current Greek government has not only lost the trust of its European partners but also the faith of its people as well. No one has been candid over the course of the last two years to tell the Greek population that there will be no future economic and social security for the nation without a functioning tax collection system and the necessary real estate, labor and pension reforms. Due to its rigid attitude during the latest negotiations, this government seems even to accept that the country could possibly slip into anarchy. This would be the real Greek tragedy. The exit from the euro zone and the use of the EU currency similar to that of Montenegro or Kosovo also remains an option, but it then will be on the expense of the EU, its citizens and the IMF.

Financial Markets

Regardless of the future interest rate policy of the United States or England, the ECB for the various reasons mentioned above will have to hold on to its existing central bank policy for a long time. It also raises the question whether it does not have to accelerate the QE program from here on, if the Greek tragedy will become reality and economic growth will not pick up over the summer. It could give the US dollar a further boost against the euro with another liquidity impulse out of Europe towards the USA. Although the long-term positive equity market outlook remains valid, long term equity investors should not worry too much about a few volatile summer months. Japan might be an exception due to its solitary political, monetary and economic situation.

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