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Review

Most of the Western equity markets have not only recovered their capital losses from the beginning of the year by the end of the month but also have ended to the surprise of many market participants at a positive note. The worries about weaker economic growth and corporate profits, risks of falling commodity prices and further deflation, the risky future of interest rate decisions by the central banks and the pessimism about the direction of politics in Europe and the USA were widely overdone and they should have been widely priced in by now. Even the BREXIT discussion, the refugee crisis and the odd primary elections in the USA, that have dominated the media for so long, have not stopped the major equity markets recovering from important technical support levels achieved in February. On top of that, as already discussed in last month’s report, many stock indices under the lead of the USA have meanwhile reached critical resistance levels. A transgression of these overhead levels in the weeks ahead would identify these advances from a technical perspective as the continuation of the 2009 equity bull markets.

Outlook

The two important catalysts of such a market development would be the overall improving economic and business conditions mainly in Europe, the USA and in Asia after a nearly 2-year consolidation and foremost the fundamental changes in politics due to the growing public anger against the manifest establishments and the failed and loss bringing hegemonic foreign activities since 1989.

The latest reported economic data hint at slow but sincere recovery of allover economic activities at both sides of the Atlantic, be it labor, consumer confidence, capital investment, inflation and commodities, and finally yet importantly rising earnings expectations after the trough of the first quarter. It does not only apply for Germany and the USA but also for France and Great Britain. The latest US numbers of personal income and spending for the month of April have again strongly underlined these assumptions. One also should expect a further acceleration of business activities once Brexit will be out of the way. It also should help crude oil prices to stabilize further and help to foster future inflation numbers and the currency markets, too.
It then should put the Fed into place to raise interest rates at the end of June and again after the presidential elections towards year-end. These two steps, however, should mostly be priced in by now. The financial markets have meanwhile conceived that zero or negative interest rate policies have not been a solution to the restoration of the global financial system nor to sustainable stimulation of economic growth. Mr. Draghi and some EU governments obviously have not shared this view until now.

After the latest experience with its so-called sovereign and its move to the right in Europe and in the USA politicians meanwhile have captured that their people are

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ready for fundamental change towards economic and social security and they will stand up for that. In the USA, Donald Trump will be the republican candidate and according to the latest polls, he has a good chance to become the next president. Both presidential candidates have already outlined parts of their economic plans to revitalize the American dream from 40 years ago through legal and fiscal reforms and large infrastructure investments. It will turn out to be a huge task as it concerns the future prosperity of a whole nation in a socially and economically not friendly global environment

It is the whole basket of mobility investments of any kind, electrification and water supply, tele-communication and internet, education, and healthcare. As first time presidents, they will be taken by their word and they will have to deliver.

The allover social and economic situation and its future is not that much different in Europe. On top of that, the administration has still not yet resolved the legal and fiscal problems around the Euro. In addition, it has to cope with an unresolved tremendous secular immigration problem. As the public pressure upon the establishment has become so strong, the large political parties have to relocate their focus on their electorate, i.e. on employment, job and inner security and economic prosperity. With elections looming in 2017 the democratic center parties in Germany and France will have to deal with these problems, if they want to stay in power. It could then set free the long term debated structural reforms as well as the still restrained infra structure investments in all parts of Europe.

Capital Markets

If this were to become reality, it would in fact create a historic paradigm shift and would completely change the long-term picture of the Atlantic capital markets, not only in direction but also in style. So far it has been a fascinating and intriguing speculative idea and investors will learn more about it in the weeks and months to come.

Under today's cyclical economic conditions and expectations, the positive long-term picture of declining US treasury yields together with its long-term bond investment concepts is finally ending. Therefore, investors should be forced to focus even more on riskier investment strategies, in order to achieve respectable investment returns.

Currency wise the dollar should remain range bound between 1.10 and 1.15 against the Euro, while the Yen and the Renminbi currencies against the US Dollar are still weak. Gold is consolidating after its recent move and so are gold mining shares.

In Europe, there is a very good chance to play catchup with the US. Corporate profits should improve again from here on. The crisis in Greece has been resolved once again, the Spanish election results could surprise on the other side and once BREXIT will be out of the way the equity markets could be ready for a strong summer rally. It could move the DAX and STOXX indices back to their recent highs. Exporters, technology, construction- and industrial companies should be the main beneficiaries in Europe, while in the USA, banks, technology, certain cyclicals and selected healthcare names should remain in focus.

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