FRANK TH. ZINNECKER

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Review

The second round of the French election crowned Macron as President and it send a signal of a liberal-democratic revival through Europe and the world. The capital markets reacted positively. The bond markets have recovered from the fear of rising inflation and have performed well in the last 4 weeks despite a possible second interest rate hike in the USA in June. On top of this, the European bond markets received additional support from Mr. Draghi's comments, that the ECB will maintain its easy monetary policy without any timely limit. From its point of view, the EU economy is still too weak and inflation is still too moderate. During the month, the US Dollar has violated the critical level of 1.10 against the Euro.

Various equity markets under the lead of the IT and technology driven NASDAC and the S+P 500 have achieved new record highs over the course of the month, together with the UK, the EM Korea, Indonesia, India and Mexico. The German Midcaps and Tec stocks represented in the MDAX and TECDAX Indices have accomplished new all-time highs, too. They have outperformed the broader German and European stock indices by far, that still are trading below their highs reached in 2015.

Outlook

The month of June is traditionally a poor reporting month. Politics and the upcoming elections, however, could keep the capital markets busy. Mr. Trump obviously believes that he can run the Presidential Office in the same way as his real estate business, which has irritated politicians and the public to the same degree upon his first appearance in Europe. As expected, there was no consensus on climate issues. More important, however, the US will stay committed to global trade and to NATO and agrees to stand up against ISIS and North Korea. It has to be valued as a success despite the rebuke that Germany has run a large trade surplus for too long against the USA and has not met its obligation on defense expenditures. After that meeting, Ms. Merkel delivered a clear statement during a visit to Bavaria that the EU would continue to fully cooperate with its US and British allies, but time has also come that the EU members should strive for more independence and they should be ready to take the future into their own hands.

It should be all grist to the mill of Mr. Macron, who strives for a respectable liberal-democratic majority in the French parliament, in order to be able to fulfill his national and European goals. He possibly will remain Ms. Merkel's only friend and ally on the way to a unified Europe, should she get reelected in September. Finally, a possible Italian snap election should take place in autumn, where the moderates could win as well. Before, the British election which will take place on June 8, should then give some sort of clarity with regard to Brexit. Mr. Trump, meanwhile back to the USA,

Holzhecke 7 – 60528 Frankfurt am Main
Telefon (069) 59 79 30 31 - Fax (069) 59 79 34 40 - Mobil (0171) 79 78 174
Email: frankzinnecker@t-online.de

should be able to finally present some sort of a negotiable tax bill to the public, who is very much in favor of it, and to Capitol Hill.

Capital Market Outlook

Therefore, from a political point of view the next few weeks until the summer break seem to look favorable for the markets. The weakening US$ should start to help US corporates and the US trade balance. So some tensions might be reduced and the political tone from the USA could soften. An improving outlook of the global economy and future strong corporate profits towards 2018 should underpin the existing trends. The low market volatility suggests that upward pressure in the equity markets still exists. As the central banks will stay accommodative, the bond risk profiles are pretty well defined. The expected rate hike by the Fed should be already priced in and therefore long-term bond yields should hover around these levels, possibly with a slight falling bias in the EU periphery.

The lack of a Trump stimulus, the better European economy and the weaker US$ has raised the appetite for European stocks by US pension funds. With stronger economic growth outside the USA, investors should continue to look for investment opportunities outside the US$ area, which should further weaken the US$.

One of the major reasons for the global deflationary trends is the increasing dominance of internet businesses. Companies like Amazon, Ali Baba, Google, Facebook just to name a few have a huge global reach and tend to drive down prices. In addition, artificial intelligence, internet of things, industry 4.0 and the rising implementation of robots and 3d printers have started to cast clouds over the future economic structures and should raise the productivity and keep inflation low for quite some time. All the industries and companies involved therein have unique fundamental joint features. They are passing through a personal life and growth cycle, cyclically largely independent and they are global players. In any economic environment, they should be able to grow their earnings stronger than the rest of the equity universe. One could add many other companies from the software industry, the medical instrumentation industry, medical services and the life-style industry, for instance. Although all these growth companies have already carried high valuations for quite some time and although strong technical reactions are always a possibility at any time, they should be corner stones within a long-term determined equity portfolio.

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Holzhecke 7 – 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