

FRANK TH. ZINNECKER

ZINNECKER MONTHLY – 07-08 / 2017

Review

Capital markets around the world, in general, have continued their positive trends also in the month of June. It is remarkable that longer-term Western government bonds under the leadership of the US have further recovered despite the second rate hike of the FED as expected. We saw again all-time highs of the US stock markets that towards the end of the month have come under pressure by profit taking in the Tech and Internet area. The US Dollar after a six weeks' stabilization period has lost ground again against the Euro at month end, while the Pound stayed range bound despite the uneasy political situation in the UK. Texas Crude Oil seems to have settled well below \$ 50. Gold is moving sideways, like most other metal prices, which could signal that the global economy is not as booming as the public might believe. The strong majority of Macron's party in the French Parliament and Frau Merkel's big lead in the German polls should create strong arguments to justify long-term equity investments in the Euro zone, although the new situation has not paid off been term.

Outlook

The annual political summer theatre is about to begin with Mr. Trump as this year's media star. Despite all promises, it seems to be unlikely that the Trump administration and the Republicans will be able to agree on a common health care bill and tax reform before the summer break. The continuous talk about the Mexican wall to be furnished with solar cells and the immigration issue has diverted the debate from these two critical and essential issues.

In the UK, Theresa May has suffered an epic election loss. After moving into the polls with a 20% lead ahead of Jeremy Corbyn she ended up with the loss of her majority. It is a very strong signal from the electorate that wants something different, possibly a soft Brexit or none at all and the end of austerity. The big question has come up, how it will be financed with an unsecure Tory leadership. The problem became more apparent with the Grenfell Tower fire, where the slogan was "Go Away, Theresa May". The fire also opened the book on another problem, the lack of investment in infrastructure and public services over the past 10 years. The evacuation of four other buildings has reemphasized the critical London housing issue and the shortage of cheap living space.

Not only politicians in England but also in the rest of Europe have to realize and accept that investment in infrastructure, housing and public security is unconditional, in order to convince its citizens that their lawmakers have finally understood. France has a strong leader, Germany might reelect one and Spain has left austerity. Italy still faces deep structural economic and social problems with an again postponed general election. Greece has been saved again and the question remains open, how long it will last this time. The allover political situation in Europe remains fragile and with the threat of further job losses through industry 4.0 and the digitalization of Europe's day-to-day life the pressure is increasing steadily.

Macron's election was a strong signal from the center and if France can implement reforms and show to the rest of Europe how to deal with the new national and global challenges, the entire continent could change gear and secure over time a sustainable social and economic period of wealth.

Capital Market Outlook

Many investors have stayed at the sidelines due to the political turmoil in the Western world and the relatively high priced equity markets. What the investment community, however, underestimates is that corporations have been benefitting for already quite some time from very cheap financial conditions, high productivity gains due to the merits of digitalization, falling oil and energy prices and rising cost efficiency through new methods of production and service logistics. This mixture helps many global leaders to continuously develop their profits and enables young entrepreneurs to open thousands of startups that tend to disrupt old established businesses in areas like internet, technology, retail, finance and automotive. To phrase it with Schumpeter, we have entered a phase of creative destruction, which eventually will lead to new global leaders. Google, Amazon, Apple, Netflix, Tesla, Facebook, just to name a few, have already emerged and have larger market caps than Walmart, Exxon, and JP Morgan. It shows that stock selection as already in the past should also be a very important corner stone for capital returns over the summer months.

It is expected that the equity markets should continue their positive trends even under these difficult political and economic circumstances. The 2500 points of the S&P 500 Index should be regarded as a strong technical resistance at least in the near term. The leading world equity index should also influence other equity markets capping at least temporarily their further advances. Oil and metals should continue their sideway movements and the US Dollar, after having broken 1.12 against the Euro has entered a negative trend. The coming weeks could turn out to be more shaky market wise but bull markets climb on walls of worry.

30.6.2017