ZINNECKER MONTHLY – 07 / 2018

Review

From Italy, where the Monthly has been written, the perspective is always somewhat different. 200 years ago the European empires Austria, Great Britain, Prussia and Russia had transformed the Holly Alliance together with France to the so-called Pentarchy. 100 years later Germany lost its 1100 year old empire after the end of the dreadful First World War. Today we have President Trump, the Twitterer, and Italy has its first rightist Government after 99 years. What a world! But back to the basics!

Developed world capital markets struggled in the past few weeks with the political irritations from the USA, Europe and Germany. Trade issues, Migration and Brexit discussions instead of earnings reports were dominating the trading floors. Bond markets dealt with the expected rate rise in the USA with little volatility. The high tech index NASDAQ continued its advance while the rest of the market was relatively flat to down. The gap is widening, because without the Tech stocks the main indices in the US would be in negative territory. The Euro traded around 1.16, Oil moved back to a new yearly high to $ 73 after its steep drop to 65 $ and Gold dropped to a yearly low at $ 1,250.

Economic Outlook

Europe and China have now been lectured what “America First” means. Trump puts his demands on the table backed by a strong domestic economy. This is especially difficult for Europe which has to deal with huge political problems i.e. Migration and Brexit. To develop a strong trade policy on top of those issues could prove to be difficult while Trump is using this weakness to develop his new hegemonial policy.

This is especially difficult for Germany as Europe’s largest exporter and recent surveys have already shown a slowdown in economic activity. Ms. Merkel is now dealing with negotiations about Migration and border protection issues in Europe and in her own party, with a waning support of the electorate and a weakening economy. These things are unlikely to go away over the near term. As things are slowing down in the summer anyway, the outlook for the rest of the year is likely to weaken for the global economy, especially if trade tensions should accelerate. On the other hand it is good news for inflation, interest rates and the bond markets.

Capital Markets Outlook

There is no doubt that the investment climate has weakened in the recent months despite good corporate profits. The market is finally reacting to the political tensions and is correcting in a lot of areas after a long run. In some cyclical areas like machinery, home building, car manufacturing and even semiconductors we have seen very sharp corrections, even bear markets in some cases.

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

Other areas like consumer staples, utilities, telecoms, personal and health care and pharmaceuticals have stabilized and should continue to do well during a period of slightly weaker growth and stable/falling interest rates. Oils should do well as long as the price stays above $ 60, but the big trends of industry 4.0, artificial intelligence, global internet and communications will continue to be on top of the agenda and we will keep our investments there. The Dollar should do well over the summer as Europe struggles to find its way out of the political mess. Inflation should stay low and equities are still the place to be.

30.6.2018

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