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ZINNECKER MONTHLY 10 / 2016

Review

After the expected decision of the FED to leave US interest rates unchanged, the bond markets have recovered from their Mid-September correction. The stock markets have resumed their consolidation that has already begun in August, but with considerable price divergences from industry to industry. Leading companies representing the digital transformation or the “New economy”, semiconductors and information technology stocks have done very well with new breakouts to the upside or with new all-time highs, while most financial companies, particularly in the EU, have come under considerable pressure again. It is obvious that the recovery process of the financial sector by far is not completed and that the various measures of the Central Banks have reached their limits. They have tried to return the ball of the political responsibility reminding the politicians of the still pending reforms in order to prepare the ground for future social and economic prosperity. Mr. Draghi was very clear about this in his latest statement.

Outlook

With the economy in the USA growing at a decent rate and unemployment at low levels, we should expect the Fed to raise rates after the presidential election in December. Both presidential candidates have advocated in their first battle the necessity of a structural investment program not only in infrastructure i.e. energy transformation, transportation, airports etc., but also in the fields of the “digital revolution” – telecommunication, broadband networking, internet - and investments in the national educational system. The year of 2017 could in fact turn out to be the beginning of the next industrial revolution. It is unconditional, that the industrialized countries have to deal with these issues, if their societies do not want to risk their long-term future. Although the exorbitant level of public debt created after 2008 is pending above all administrations when to determine the prospective budgets, it should however be out of any doubt that the securing of the economic future for the next generation will always have priority.
These tasks are very similar and apply to the EU as well. Railways, roads, electricity, telecom networks and education need to be rebuild or modernized in order to retain the prosperity of its people in the future. Together with the still missing administrative economic and fiscal reforms, this catalogue of duties will occupy the Western societies for years to come. It comes on top of the immigration issues in Europe and the USA, where trend-setting solutions are not at sight.

Capital market outlook

A continuation of the low interest rate environment should help to secure the public and private sector financing of these investment projects. Their implementation will not only protect employment in the lower wage categories but also will eventually

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increase economic productivity. Capital investments in education and health provoked by the digital revolution should over time offer completely new ways in the creation of new, more valuable jobs and in the structural transformation of today's labor force.
It is a slow moving process and not visible yet. However, there are first signs that the things are about to develop into this direction, at least in Germany. Since the start of the year and until today, various industries and their leaders from the new economy have outperformed the stock markets by a great number. In addition, some more cyclical industries in the fields of hardware technology, software application, materials and various capital goods producers have also done quite well, which might be taken as an indicator that long term institutional money has already started to commit proceeds into companies that might become benefiters from these structural long term economic changes.
With the insecurity over the outcome of the US election in November, the future steps of Great Britain concerning Brexit and the EU banking system the market volatility should persist for the time being. The quarterly earnings announcements starting at the middle of the month with their relative good readings against last year should then change the investment climate for the better. The outcome of the US election together with the anticipation of a slowly improving world economy should trigger a yearend equity rally, which then should also positively affect the European stock markets.

2.10.2016

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