ZINNECKER MONTHLY – 10 / 2017

Review

Long-term interest rates of government bonds have gone up again in September following the FED's decision to raise rates again in December and further in 2018. The US stock market has achieved marginal new all-time highs after only a short correction in August. The continuous inflows of billions of investment dollars through passive instruments like ETF's and I-shares, despite growing international tensions with North Korea, have been responsible. Consequently and fueled by decent economic numbers, the major European stock markets could regain parts of their index losses since May. The US Dollar, which has weakened since the start of the year, stabilized against the Euro and other major currencies before the German election, which ended in a landslide debacle for the governing parties.

Outlook

In the US the presidential theatre continues. Obamacare is here to stay, the wall will not be built and the tax reform, the last big project for the administration, is now on the agenda. The Southern states and the Caribbean Islands are battling with the devastation of the hurricanes Harvey and Irma. These regions require immediate public help to rebuild the destroyed infrastructure. It will substantially add to the US economic growth in the coming years. These storms have refueled the discussion on climate change, an uncomfortable subject for Mr. Trump, who meanwhile has opened verbal battlegrounds with North Korea, the Iran and now with the NFL.
Germany voted and the three large parties, i.e. the conservatives CDU and CSU and the socialists SPD, which have governed for the last 4 years in their second grand coalition after 2005-2009, have suffered landslide losses. It was just one grand coalition too much. Merkel's policy to gradually occupying the political themes of the center left has paralyzed the democracy, destroyed the SPD and marginalized the Green party. Exiting nuclear power resulting in high electricity prices for the consumer, saving the corrupt state Greece with astronomical financial contributions and opening the borders for all willing refugees have just been too much for the public. Combined with stagnating wages, an unsecure economic future through the threat of digitization, social Angst and the German subliminal xenophobia has led large parts of the vote to turn their back on the established parties. The result: the door opening for the right wing AfD with a brutal 12.6%, but also the strong comeback of the reformed liberal party, the FDP, which kicked herself out of parliament in 2013 because of the loss of its political competence and credibility after a 4 year coalition with the CDU/CSU.
The SPD courageously walked out of office immediately after Election Day and decided with an overwhelming majority to seek the political renovation as the leading parliamentary opposition party. It definitely was a shock to Ms. Merkel, as she was again in favor of a renewal of the alliance with the SPD for a third time. She, however, in her political stubbornness just did not realize the political turn of the tide. The alternative now is the formation of the so-called Jamaica coalition together with the Liberals, the Greens and her sister party the Bavarian CSU under Mr. Seehofer. During the consultations, CDU and CSU will be forced to offer them various

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unwanted concessions, as the political and programmatic visions and requirements of the FDP and the Greens differ a lot, especially with the immigration policy of Mr. Seehofer. In fact, it could there already lead to a crucial test between the CDU/CSU and the Greens. There are other obstacles, which need to be smoothed out with respect to Mr. Macron's ideas of a stronger and more closely integrated Europe with a common budget, new rules and regulations and above all a very close German-French relationship. It will be a long and intensive debate and all participants in this process are required to bring in all their political responsibility, intellectual capability and their creativity, if in the end a new and strong coalition should come to life. An unwanted failure would lead to new elections in 2018, then however with new leaders within the three populist parties. It would further destabilize the already stagnating European unification process and would negatively affect the European capital markets for a while.

Capital Market Outlook

Challenging weeks lie ahead and the markets will have to digest a lot of political and sometimes controversial news, which will certainly lead to an increased volatility in October. All eyes are on Germany, where the beaten Chancellor Merkel is condemned to form a new government, if she does not want to risk her political end already then. It is not an easy task for her and the sister party CSU. But if it were to happen, then together with Mr. Macron the EU could be ready for at a structural and dynamic economic restart after years of stagnation. The recent Tallinn Digital Summit meeting of the Council of the EU has already given an idea of the possible future economic growth path for the EU, which in fact could already become reality in 2018. The strong recovery of the relatively cheap EU stocks last week has already given a foretaste of the future EU equity markets. So let us wait and see!
Otherwise, the world economy is on a healthy path of growth. Corporate profits are strong and financial analysts have consistently upgraded their earnings' estimates over recent months. The surprisingly constant flows of money into equities have strongly influenced the equity markets worldwide. Another reason are the latest comments of the Fed to end the US easy money policy for good, which has been in place since 2009. It is just a question of time, when the other Western central banks will follow, including the ECB. The times of ultra-cheap money supply are over and interest rates along the yield curve shall gradually rise in line with inflation from now on. Therefore, investing in bonds is not overly attractive.
The industrial revolution fueled by the internet is gaining more and more traction and is changing our economies and societies. Companies like Amazon, Facebook, Apple, Google, only to name a few will continue to drive this change and the businesses which accept the challenges will survive and thrive, others will go down like Polaroid, Eastman Kodak, Blockbuster in the past and Toys R Us recently. Stock markets structurally still look healthy. In the past, rising interest rates have changed the relative attractiveness of groups and stocks away from growth towards value. It could again be the case from now on with a renewed focus on value and cyclical companies. Therefore, capital goods in a wider sense, commodity and financial stocks should benefit as well as the pharmaceuticals. The month of October has always been a rocky month for stocks, but as we should move into a prolonged period of seasonal strength thereafter, any market corrections should offer new investment opportunities.

30.9.2017

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