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Current Situation

The crazy opening of the German borders to the refugees has moved Germany into the fatal position to solve this difficult task almost by its own. In addition, the country has not been intellectually and logistically prepared to weather this asylum surge. This rush somehow reminds of the Barbarian invasion in the fifth century, when the Roman Empire was unable to secure its borders and protect the properties and the wealth of its citizens. How long the arbitrary decision of Ms. Merkel together with the arising liabilities will publicly and politically be supported has already become an open question.
Fortunately Germany is relatively well positioned despite the global economic slowing and will remain the driving force within the EU also for next year. The unemployment rate has fallen to its lowest level since the reunification and the social security has hit a historic record with more than 31 million persons insured. So Germany at least for now is in a comfortable financial position to approach the developing tasks of integrating the refugees. Despite these encouraging figures, the emerging global economic risks and the political trouble spots in our area have contributed to the critical price erosion in various capital markets over the course of the year. For that reason Mr. Draghi has already contributed his part by opening the doors for a further loosening of the monetary policy beyond September of next year. The investment community has welcomed this decision with an index recovery for the equity markets eliminating parts of the latest capital losses.

Outlook

The ECB has done almost everything it can with this step it. It is now up to the politicians and their industrial organizations in Berlin, Paris and Brussels to support the process of the economic and social regeneration of the EU in order to enhance the prospects of a secure future for its citizens. The necessary and withheld renovation and modernization of the old infrastructure and the planning and development of new industrial, educational and social facilities together with new transport systems and public health sectors is unconditional. It can only be financed through an EU wide general economic stimulus package. It should be embedded in an Agenda 2025 which should in principle require a new configuration of the fiscal and debt policy. The EU banking system and its capital markets would fundamentally profit from this over a longer period.
The rest of the Western countries with various means strive to restore economic growth. China has lowered its interest rates for the fifth time and to a great surprise has abandoned the one-child-policy in order to counteract the looming effects of the aging population - an important step forward. Japan still firmly believes in the success of “Abenomics” hoping to achieve the envisaged goal of 2% inflation in 2016. In Europe the economies are slowly recovering though at varying rates and are still profiting from a weak Euro and low oil prices. The US position is somewhat

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different. Despite of quasi full employment, slow wage growth and still falling inflation rates have hindered the Fed until now to raise the already manifold advertised first interest rate hike in order to return towards a normalized monetary policy. The latest wording, however, indicates that it will happen at its last meeting before Christmas.
On the other hand the earnings of many US corporations have started to suffer from the strong Dollar and rising labor cost which can only partially be passed on to retail prices. The insufficient enhancement of the labor productivity in recent years is a main factor.

Financial Market Outlook

The fear of a global recession caused by China that has unfavorably dominated the equity markets over the summer fortunately seems to be out of the way. After the end of the consolidation the Western stock markets should be able not only to recuperate the losses but also in some cases should achieve new highs towards spring of 2016. From now on, however, the picture will be even more differentiated, mainly for two reasons. The ongoing financial cycle has already matured at the end of its sixth year. On the other hand the economic initial situation at the end of 2015 varies from country to country and from sector to sector together with the fact that some country cycles are delayed in time.
This applies to both the bond- and the equity markets and as well for the currencies. The future returns from the EU bond markets will differ from those of the US, because of their drifting monetary policies. The future equity returns will even more differentiate due to late cycle characteristics. Many sectors and corporations will be effected by cyclically and structurally changing business and market conditions, sinking or rising cash flows and corporate profits. This development will shape future equity strategies and tactical asset allocations. Performance drivers will be markets of equity sectors and stocks. This trend has become already apparent during the latest correction and base building. So for instance traditional retailing, many cyclical consumer goods and industries as basic materials, gold mines, energy and capital goods technically have been in bear markets for quite some time, while late cycle industries, non-cyclical consumer goods, internet- and software services, health and biotech’s with still rising cash flows and earnings, just to mention a view, are still striking new highs or are about to break out again. Late equity cycles historically have been momentum driven.
From a top down approach the German and EU stock exchanges also with regard to a possible economic stimulation package, partially the USA and also Japan and China should be regarded as preferred investment areas.

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