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Current Situation

The destruction of a Russian tourist jet over Egyptian skies on the way to Russia by a terrorist bomb, the terrorist attacks in Paris and the shooting of a Russian fighter at the Syrian-Turkish border by the Turkish air force have not led to another correction of the capital markets. The recovery from the October lows has continued and it seems that investors pay much more attention to the monetary stimulus in Europe and the potential for a stronger global economy in 2016 than the political Middle East tensions between NATO/Turkey and Russia. Although these problems will stay with us, hope remains that the recently initiated common idea of a Syrian seize fire and the ending of the war will not be lost out of sight.

The oil and commodity producing countries have been hit by the dramatic decline of the commodity prices in 2015. The earnings slump has led to the reduction of jobs and deep cuts of future capital investments with the negative impact on economic growth of these countries. On the other hand Japan and Europe seem to have benefited from it due to weak commodity prices and the US $ strength/stability.

Outlook

The global economy seems to have entered calmer waters by now. As oil and other resources have probably completed most of their price declines, some of the resource intense economies and industries should do better from now on, at least on a relative basis. We do not expect, however, any significant changes of the current situation, so that global growth should stabilize at around 3% in 2016, which will not create enough space to generate the desired rate of inflation towards 2%. Against this background the FED should not be able to increase rates significantly. Many economists therefore have already altered their estimates from 1% to 0.8% for FED funds by the end of 2016.

Elsewhere outside the USA, the central banks will stick to their loose monetary policies; they eventually could be forced to increase the money supply again. Apart from that the EU should benefit from public spending programs for the strengthening of the inner security and for the integration of the Islamic refugees. This large additional economic stimulus package on top of the already existing programs should move the European capital markets to the top of the attraction list for 2016.

Capital market outlook

Investors in general should assume that the growth rates of the Western economies and their industries will more than before differ from region to region and from country to country in the coming year. It should also have an important influence on future of company earnings in the countries they are operating in. For a lot of

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companies 2016 could turn out to be bumpy. Therefore the ability of corporate managements to properly steer their company fortunes in rough waters should also be a valuable asset for future investor's equity investment decisions. These deliberations should become even more essential as the majority of the bond markets, as in 2015, eventually will not offer adequate investment returns also next year.

The Western equity bull markets are slowly approaching year eight and stock valuations have become quite demanding. In the United States, for instance, S&P 500 earnings estimates of $ 130 for 2016 with a multiple of 17, which is in balance with historical valuations, would generate a price target of 2200 to 2250 or just 8% from here. The situation is similar for other industrialized markets like Japan and Europe. The Emerging stock markets with a world free market capitalization of only 9.6% are harder to evaluate even at these levels, as their fortunes like in the past still depend on the Western and Chinese economies and the reacceleration of growth in 2016. As this does not seem to be likely, the capital markets could face another transition year.

Therefore next year's portfolio returns should again not be driven by index performances but by proper stock selection. As already pointed out in my latest publications history proves that it is very likely that in the later stage of a bull market the current market leaders should maintain their leadership unless the allover fundamental environment would profoundly change.

In today's economic environment with its low interest rate profile these should be again the growth companies and the global market leaders and presumably not the companies from old and cyclical industries with their uncertain earnings outlook. The shares of consumption, technology and biotechnology belong to this category, especially food, beverages, personal care, internet and internet software, healthcare and pharmaceuticals. An example from Germany might illustrate this point: this year's performance of the shares of Deutsche Bank, RWE and Bilfinger on the downside and Airbus, Fresenius and Deutsche Börse on the upside.
The crux, however, is that many growth stocks are already richly priced because of their relatively secure long-term earnings growth expectations and/or their dividend continuity. In some cases it will however not last forever as history shows. Following the Nifty 50 in the United States of the late sixties and early 70s of the last century, today's global Nifty 100 would fall into this category. Among those were stocks like Avon Products, Coca Cola, Eastman Kodak or Mc Donald's. Today the list would contain stocks like Amazon, Gilead, Google, Starbucks or Facebook. Even though these stocks are momentum driven as in the past, international investors should not get around still paying up for those names as long as the growth story prevails despite their future risk of failure. Therefore 2016 should become a very challenging and volatile investment year. As usual, it is my private opinion and without any obligation to buy or to sell stocks.

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