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Review

Brexit and the US elections caught everybody by surprise. The media, with their failed forecasting ability and the entire political class in the Western world did not expect that the people would vote for a politically unexperienced entrepreneur with a “questionable credibility”. The US electorate, however, has very clearly stated that it does not wish to continue the policies of inequality and social and economic mismanagement in existence since the times of the former president Clinton. Against all expectations, his victory, after a short-lived shock the morning thereafter has ever since led to a strong US \$, to new highs in the US stock market and in a selloff in government bonds worldwide.

The future US president Donald Trump immediately after the election has publicized his concept of his new Agenda “America First!”. He is ready to change the existing political landscape and infrastructure in the USA. The new legislative period could therefore be the start of a paradigm shift, not experienced in decades. Mr. Trump seems to be very serious with the immediate implementation of his paper of the first 100 days after his inauguration. The plan foresees among others a long dated economic program to rebuild the US infrastructure that will create thousands of jobs for Americans and together with Congress a middle class tax reform. His foreign policy will be a lot more confrontational than that of his predecessors. Mr. Trump has very strong views with regard to NATO, defense in general and trade. He wants countries to contribute more, if they want US patronage and he strongly opposes the destruction of American jobs due to global wage dumping. Unlike Ms. Clinton, he can count on both Republican majorities in Congress to implement his projects.

Outlook

The new US-policy will put all American partners under substantial political pressure. While China, Russia, the UK and Japan will wait until they hear from the new president how their future relationship will develop, Europe will be in a much more difficult position, as there are various elections ahead with many new political faces to deal with. The French conservatives have already elected their candidate, Francois Fillon. He is in opposition to the US-American hegemony and pro Russia and a free market economist, who wants to free France from its long economic anemic administrative crisis with various radical reforms. The orthodox and catholic former Minister President should become a strategic problem for Marine Le Pen and her Front National in the upcoming French elections. Italy's Mr. Renzi will be confronted with various social and economic head winds in case that he should lose the referendum of his constitutional reform. Eventually he will lose his mandate in a not too far distance. The Netherlands will hold parliamentary elections in March, possibly also moving to the political right with Mr. Geert Wilders, a protagonist of the “Nexit”.

Ms. Merkel has already decided to run again for the September elections, long before the critical election in NRW in May of next year, the largest German federal state with almost 18 Million inhabitants. It could generate enormous political headache for the

great coalition and for all established parties in Berlin, if the populist party AfD would become a political power due to the partly desolate social and economic living conditions and the foreign infiltration through the Moslem refugees in this state. Such a possible outcome should also be valued as a vote against the German establishment and would cast its shadow upon the federal election in September of 2017. The idea of a third extraction of the last two great coalitions with the same old cast and mantra could therefore be fatal. A large part of the German electorate would probably not back that idea any longer. Time has come in Germany, too, calling for a change towards a "Reconstruction of the West" following "the Reconstruction of the East" after 1990, a new fabric with new political crews on board. The perspective is not there yet. A failure could not only create unwarranted and weak coalitions but also destroy the Eurozone support for the German idea of the European project. It then could become a very toxic cocktail for Ms. Merkel, her party, the SPD and for Germany.

Capital Market Outlook

Therefore, international politics should weigh more heavily than before on the EU capital markets and their future capital returns. Meanwhile interest rates have turned the corner in the USA due to better economic and labor conditions and rising inflation expectations. The Fed therefore will raise interest rates for the second time in December. The Western currency and bond markets have already reacted.

Although the implementation of the large infrastructure program will probably not take effect before 2018, the probability of further rising US-interest rates during 2017 has risen. This is bad news for Italy and the EU, where the banking crisis has again intensified. As a traditional bail out will become more expensive, a temporary nationalization and control of the affected banks à la USA in 2009 will definitely be a cheaper alternative for Italy, the other conflicted EU-banks and their central banks.

Even though the expected reflation of the Western economies will lead to higher inflation expectations in 2017, the central banks and namely the ECB should keep close control of the short end of the interest rate structure. It also would lead to a steepening of the yield curve, a typical phenomenon at later phases of economic cycles and a positive for the equity bull markets.

In the new global interest rate environment, it should become even more difficult to achieve pleasant returns from bond investments and therefore investors should put their focus towards equity investments. Investors have already begun to change horses. After a long period of the outperformance of non-consumer cyclicals and internet companies the future US index drivers should be stocks from cyclical industries like capital goods, raw materials, building materials, chemicals, fiber optics, transportation, electricals, technology hard ware, semiconductors, banks and insurance. Australia, Canada and to some extent Brazil and Russia as large producers of resources should also profit from this change.

The European equity markets are directionless and should revive, when it becomes visible, where the EU and Great Britain will politically be heading for and what kind of tasks these countries will shoulder nationally as well as abroad.

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