ZINNECKER MONTHLY – 12 / 2017

Review

The performance of the Western Fixed income, currency and equity markets of last month was mixed. Fixed income markets were flat to slightly positive with the exception of high yield bonds losing about 0.7%. The US$ index continued to lose ground against most currencies and finished the month with a loss of nearly 2%. The S&P was up by nearly 2%, Japan about the same, and slightly better resource prices drove Russia and Brazil over 2%. As 75% of the quarterly earnings came in better than expected the global equity markets are still on a solid footing. Especially technology and semiconductor firms profited from a very good earnings season, which however experienced from overbought conditions a wave of profit taking towards month end. In contrast, the German and other European stock markets were all down by between one and two percent.

President Trump's trip to Asia did not receive the media attention he was hoping. The investment community was far more focused on the impending tax reform in the USA and the change at the top of the FED. In Europe, despite the very strong economic recovery, especially in Germany, politics heavily weighed on the performance of their capital markets. The British and Northern Irish conflict about the border issue with Ireland in case of the Brexit and the disastrous outcome of the German elections have raised major concerns by investors about the future political stability in Europe.

Outlook

Politics will be back on the forefront until the end of the year and into the first quarter of 2018. In the USA, The tax reform is on top of the agenda and it is very important for the Republicans and Donald Trump to bring the new law through the senate and let it become effective within the first quarter of next year. The UK needs to enter the second stage of Brexit talks with a solution of the all-important border issue with Northern Ireland.

Germany for the first time in its postwar history is without a new operational government 11 weeks after the election. The failure of the coalition talks between the CDU/CSU, FDP and the Greens has send shock waves through the political establishment in Berlin. The angst of a new election that could catapult the AfD to new highs has prompted President Steinmeier to take the parties to task and to remind them of their political assignment. So a new extraction of a grand coalition or a minority government again under Frau Merkel should become reality, probably already before yearend. In 12 years under her chancellorship, she has perished two coalitions with the SPD and in 2013 had a share in the kick out of the liberals from parliament. Frau Merkel never stood out as a visionary leader. She solely had chaired the coalitions. She never felt responsible, when things went wrong, like the hasty exit from nuclear power in 2011, her initiated wave of refugees into the EU in 2015 or lately the dramatic defeat in the election. Therefore, not too much should be expected from a new government under her reign and it is already questionable today, how long it will last.

Holzhecke 7 – 60528 Frankfurt am Main
Telefon (069) 59 79 30 31 - Fax (069) 59 79 34 40 - Mobil (0171) 79 78 174
Email: frankzinnecker@t-online.de

Fortunately, at times of technology change and insecurity over the longer-term economic future global growth is on a healthy path at 3.6% and also for 2018 and 2019 due to the latest projections of the OECD. More and more areas of the global economy are participating, so does the EU and its economic draft horse Germany. The OECD has raised its GDP growth from 1.7% to 2.2% for this and from 2.0 to 2.2% for next year. Low inflation and interest rates, rising employment and healthy private consumption together with mounting capital spending expectations should create the positive environment for future profit growth and dividend increases.

Capital Market Outlook

The US equity markets should continue the recent break to the upside as we are entering the seasonal strongest period of the year, which could last well into the first quarter of 2018. I should also send out positive signals to the European markets, which have lagged due to a stronger Euro and the momentary political irritation in Great Britain and Germany. In late business cycles besides the still favored but highly valued growth stocks of the new-economy also cyclical investment themes will come back to the fore.

Black Friday gave a very strong showing of the healthy consumer climate, of the growing acceptance of online sales and the dominance of Amazon and Alibaba in this market. If Amazon’s growth will continue in this manner and if it should expand into other areas, then it could gain up to 30% of the US retail market within 7years. Apple has increased its production and hopes to achieve record cellphone sales with its new blockbuster the iPhone X despite its rich € 1150 plus price tag.

5G is looming and with the network extension, the gigabit age will start. The latest industry statistics also prove that the trend towards industrial digitization and automatization in every field of industrial and consumer products, 3D printers or driverless and electro cars is gaining further momentum. The extension and upgrading of broadband, internet and high-performance electricity grids is unconditional, if the politically set goals towards industry 4.0 should be met. In this respect, Germany for political reasons has failed over the last 10 years to give it a priority up and ranks internationally in the rear. This public attitude should dramatically change in the future. Therefore, network companies like Ericsson and Cisco, memory chip and machinery producers, European electric utilities like RWE, E.On, Iberdrola or leading automotive companies, just to mention a few, should benefit from this new development.

The prudent management of money supply and interest rates by the central banks, the strong global economic outlook, expanding private and public spending thru rising cash flows and tax income should generate the positive background for further stock market gains in 2018. Notwithstanding technical corrections and crossways from politics, investors will certainly develop on this basis various profitable investment themes.

1.12.2017

Holzhecke 7 – 60528 Frankfurt am Main
Telefon (069) 59 79 30 31 - Fax (069) 59 79 34 40 - Mobil (0171) 79 78 174
Email: frank.zinnecker@zinnecker-consult.com