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Review

The world economy is in full swing with the USA growing by about 3%, China by about 6.5% Japan and Europe at 2% or better. After nine years of the global recovery, many economic data hint at the USA as the largest driver with 25% of the world GDP and that it has entered the late stage of the current business cycle. Labor markets have tightened considerably on both sides of the Atlantic; the crude oil price has risen by over 20% since November and inflation in the USA has excelled the level of 2%. The Western bond markets have reacted to it. Under the leadership of the USA 10-year government bonds have reached the level of 3% for the first time since 2013. It also has affected the European bond markets, however to a lesser extent, as the allover state of the economies can only be partially compared with the USA.

Under the leadership of Wall Street, with the exception of Tokyo most equity markets have extended their correction over the month of April, though at a declining volatility. The US Dollar has stabilized against the Euro and the Swiss Franc at 1.20 versus the Euro has nearly returned to the level before the last revaluation of 2015.

Economic Outlook

Almost certainly, the current economic cycle has reached its top in terms of growth, which has ended the goldilocks scenario for investors. The times of low and sinking interest and inflation rates, relaxed central bank policies and steadily growing corporate earnings will belong to the past for quite some time.

The risk of rising US inflation over the course of the summer is more pronounced than in the Eurozone or in Japan, but inflation should be contained at around 2%. Even though the Fed should already prepare for its next interest rate hike, I do not expect 10-year treasuries strongly to exceed the 3% level. A likely surge in business investment on the back of further deregulation, public spending and the corporate tax reform should result in rising labor productivity that should offset wage increases and higher cost on energy. As already in the past, US corporations should report further rising earnings for the rest of the year.

Inflation in the Eurozone should not exceed the rate of 1.5% for the year, although cost of labor has been on the rise due to tense labor markets everywhere. The ECB therefore should remain accommodative, at least as long as Italy is in the process of forming a new government. The latest EU corporate earnings in contrast to the USA have been mixed, mostly due to the strong Euro. Profits of European multinationals, however, should slowly recover for two reasons. The dust over the trade friction with the US should settle over time with a new trading agreement. The Dollar (92.40) should not only stabilize but also recover from its technical long-term support at around 90 of the Dollar index. After the tax reform, multinationals like Apple will repatriate their huge foreign cash reserves over time and long term Treasuries at 3% with real yields of 1% should from now on attract international capital. Lower prices of imported goods and services should relieve pressure on US inflation.

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Since 2009, political issues have only had a limited impact, as monetary policies and corporate events have mostly geared the capital markets. From now on, however, various mounted problems and disputes could negatively affect the global economic future, if not resolved in time. The handling of the US trade agreements with China and Europe, the conflict with Syria, Iran and Israel, the stressed relationship with Russia, the Brexit and Korea should foremost determine the future direction of the currency and capital markets. EU politicians will only be partially involved, as their political weight has become less and less important within the concert of global political affairs, as the recent German and French visits to Washington have clearly demonstrated. Therefore, the creation of the sustainable political structure of the EU in whatever kind of composition has become the pestering duty for these two countries for the next two years.

Capital Market Outlook

Against the background of these economic and political crosscurrents, the markets have entered the year's most difficult period with the month of May. As the confusion about the future direction of the stock markets and market risk have prevailed for half a year the question after the steep correction should rather be, "Buy instead of Sell in May". A strengthening Dollar should encourage investors to return to the longer end of the US Treasury market, as the risk of further growing inflation seems slowly to disappear. The European equity markets after having been hit most should earlier than their American peers stabilize at the index levels already achieved despite political disruptions from time to time. US equity investors, however, should distinguish more than before at the late stage of the US economy between sectors and selection of stocks, between cyclical and long-term growth.

Below the group of the famous large cap FANG hundreds of companies have built unique business models within the world of the internet of things, digitization and cloud services on the way towards industry 4.0. They are already part of international supply chains and will become leaders in diversified production processes and software systems. Productivity enhancement and the invention and creation of new goods and services have been is the dominant economic driver. Supply chain management, transportation and distribution logistics, the gaming industry for the centennials, 3D-systems and human medicine are just a couple of fields, where our world will be revolutionized through the immense input of human intelligence. Within this new economy, either hundreds of investment grade companies will emerge as new global leaders or they will be merged.
Although the global old economy has entered a long lasting transition period, the industries and their companies of the new economy will slowly and sometimes not visibly proceed. One example: The new containership MS Munich Maersk has installed a revolutionary logistic cockpit system for onboard containers designed by Porsche and built by Airbus that optimizes the handling and distribution of goods at the "last mile".

After the ongoing contraction of the equity markets will have phased out, the bull market should resume its positive market trend. Many stocks from the new economy will then climb to new all-time highs. Stay fascinated.

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