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Review

Despite the political disorientation in the USA and Europe, the US equity markets under the leadership of growth and technology stocks have achieved new highs. In contrast, the European equity indices with their composition of traditional companies and the emerging markets in total have suffered from the future political and economic outlook. The Western bond and currency markets have stabilized after a temporary pick up in market volatility towards the end of the month. The majority of the EM currency and bond markets, however, have come under considerable pressure due to the flight of capital into safe haven markets. The conflict with the USA on top of the already long-lasting political and economic decline have caused a crash of Turkish interest rates and the LIRA, that meanwhile has led to currency controls. In the Eurozone, Italian long-term interest rates have nearly doubled to 3.20% after the start of the new Government and the disaster in Genova. Metal prices were in turmoil because of tariff threats; the oil price at US $ 70 has recovered somewhat from its recent lows as well as the price of gold at around 1,200 US Dollars.

Outlook

Assuming that the risk of a trade war or of a financial collapse of Italy will be minimal, the US tensions with Iran will not escalate and the threat of a further push to the right in Germany after Chemnitz and the Bavarian elections will be digested, then the financial community shall return to economic reality and the future development of corporate earnings and interest rates. One more interest rate hike by the FED this month should be priced in already. The ECB, despite a good running EU economy, decent wage growth and a high capacity utilization in various industries in Germany, will no more be in a position to change its existing monetary policy. Italy like Greece a few years ago will from now on be in a desperate need of further QE and bond purchases by the ECB.

This new liability should further increase the political pressure on Brussels to tackle at last various pending tasks in the EU. The reform of the financial system with over 5.500 banks, the harmonization of EU corporate taxes and tax incentives for infrastructure investments will be inevitable in regaining competiveness and in maintaining future corporate profitability in a growing hostile environment. The fundamental solution of a controlled immigration policy at the EU borders and the development of a common EU defense strategy should be the first steps.

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Capital Market Outlook

With the summer holiday ending on Labor Day, the large US institutions will return to their desks and decide on their investment strategies for the last months of 2018. The November mid-term elections, another interest rate hike towards yearend as well as future corporate earnings' growth will definitely play a role. The month of September, however, is usually considered to become shaky with increased volatility. Therefore, Wall Street could take a temporary timeout after the recent strong run of the NASDAQ and the S&P 500, which technically has opened a new long-term performance window surpassing 2.900 index points.

Today's solid US profits due to the strong economy and the sustainable benefits of the corporate tax reform should continue to support the attractiveness of equity investments. Therefore, the US equity markets even at their high valuations, are still on a strong footing. Especially, technology companies and the winners of digitization together with a broad spectrum of domestic mid cap companies will further drive the S&P 500 and the NASDAQ companies to new highs. Retail will go online, artificial intelligence will revolutionize many service businesses, the driverless electric car technology is looming. It will become sooner than later reality as the major mean of personal mobility. Amazon, Apple, Microsoft and Google together with a vast number of other technology companies servicing the wide spectrum of the personal needs of consumers should remain the dominant players in this changing technology environment. This also applies for the European and Japanese stock markets.

Recently the discussion has started, whether traditional value stocks due to their immense valuation gap against the high priced technology segments could reverse the existing trend of their outperformance. Historic comparisons with the end of the dot.com bubble in the year 2000 do not seem to be helpful, as today's leading corporations with their still enormously growing cash flows and earnings' generation are for real. From a technical perspective despite its obvious valuation characteristics, it is therefore too early to identify a reversal of this trend, today. However, higher inflation and interest expectations in the future could alter the existing scenario.

Lately, however, various leading companies of the biotech and pharmaceutical industries, health care, consumer staples, selective energy and financial service companies, which have lagged the recent uptrend, have recalled investors' attention. Bonds, gold and other metals as well as companies in transition like the global auto industry are still not a place of investors' interest.

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