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Review

The month of September was better than its statistical reputation and the allover retracement in the equity markets has not taken place. The bond markets were focused on the renewed increase of US interest rates by another 25 bps without an escalation of yields for longer-term maturities. The stock markets in Japan and the USA even achieved new highs, while the European stock indices could just recover parts of their preceding losses. This applied foremost to the German stock market, which had to digest contradictive news from the economy, profit warnings from BASF, BMW and Continental and the political unrest in front of the important state election in Bavaria and Hesse. There were no noteworthy changes with the currency markets and Gold has tried to defend its yearly lows at around 1,180 Dollars.

Outlook

The Global economy, which is still moving ahead on its growth path, is still occupied and concerned about Donald Trump's attacks on free trade and tariffs. Politically, however, a couple of things have gained momentum last month, which should occupy the public and the media over the new quarter. After the party convention of Labour the odds have risen for a second Brexit referendum, which in fact could vote for a revocation of article 50 and the remaining of Great Britain in the EU. Meanwhile, a growing British majority is concerned about the consequences and disadvantages of the exit. Great Britain has already reached the bottom of the EU league in terms of its economic growth. It shows what rigid populism can cause in such a short period.

Mr. Trump begins to realize that his political style and his practices against the rest of the industrialized world is hitting limits. He meanwhile drives his country visibly into isolation, which due to the latest polls could cost him and his party many votes at the upcoming midterm elections. In the worst case, the Republicans could lose the majority in both houses, which would end his political career.

In Germany, it has become reality, which was discussed in this report twelve months ago, the dawn of the aging political elites. After the causa Maassen and the election of Ralph Brinkhaus as new Chairman of the CDU/CSU fraction in the German Bundestag, the political ending of the GroKo, Minister of the Interior Horst Seehofer and Chancellor Angelika Merkel has become likely before the elections in 2021. The upcoming elections in Bavaria and Hesse in October will accelerate this process and will have an impact on the future political configuration of the leadership in other parties.

All these cases combine the hope that in these countries and in the EU a new spirit will lead to a recommencement and revitalization of national and international affairs over time. Any changes in this direction should encourage the accomplishment of many upcoming and still unresolved lateral and multilateral duties. The tired capital markets in Europe, in particular, should profit from it in the end.

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Capital Market Outlook

While the US economy is booming due to the tax reform, Europe starts stuttering. 2.5% plus GDP growth in the USA, possibly 1.5% in the EU and only 1% in the UK are the growth predictions for 2019. They already provide the direction and attractiveness of their equity markets irrespective of their diverging valuations. Despite the fact that the FED will continue to raise the rates into 2019 I do not expect the long end of the treasury market to leave the 3.0 to 3.5% yield corridor due to contained inflation at around 2%. The ECB will keep the monetary policy at least until the end of Mr. Draghi's term.
So monetary conditions should further support the valuations of the stock markets and the further attractiveness of investments in risk instruments. This applies for the USA the most. The stock markets in its late cycle will mainly be earnings' driven and no longer by multiple extension. Therefore, sector and stock selection will account for the future investment performance. Despite new all-time highs and high valuations, the universe surrounding industry 4.0 together with telecommunication technologies (5G), soft and hardware industries and IoT, at possible setbacks, should remain on investors' focus lists. Lately, various groups out of the value universe like oils, pharmaceuticals and healthcare companies and capitals goods servicing the renewal of the global infrastructure have also come back to the fore. It applies also for comparable sectors and companies in Europe, although the international flow of funds are still limited due to unresolved political and industrial problems, like the auto and financial industries in the EU.
I also would like to emphasize on Japan and it's stock market. In technical terms, the TOPIX Index (1817) has taken out its overhead resistance at 1800 at the start of the year for the first time since 1996 and is supposed to advance to new highs in the future. It is a market that has been out of favor for decades. Obviously the structural change of economic and micro fundamentals are about to reverse after three decades of weak GDP growth rates. Deflation has ended; private capex is rising for the first time since the end of the bubble economy and Japan today accounts for the highest growth rates of labor productivity. Large corporations with its excellence in technology and quality of industrial products are in the forefront of investing heavily in AI and robotics, big data, IoT and 5G, in human resources and medical technology. I am just scratching the surface, but the deeper occupation with this subject could possibly lead to an interesting long-term investment concept.

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