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REVIEW

All stock market forecasts for a year-end rally were wrong. The exact opposite has happened. In the USA, the S&P 500 and Dow Jones indices posted their worst December results since 1931 with losses of -5.6% and -6.4%, respectively carrying all other stock markets away to the same extent. At the end of an already difficult year, investors capitulated and caused a price slump that can partly be compared with the 1987 crash. Once again, the US Federal Reserve Bank had been the trigger with its contractive monetary and interest rate policy throughout the year. It has amplified investors' already existing political and economic concerns to such an extent that they no longer wanted to rule out recessions in 2019, not least because of the weakening economy in China and the unresolved trade dispute with the USA. Consequently, the flight into fixed-income government securities was the alternative for investors.
After the holiday season, however, reason gradually returned to the stock markets, and the majority of capital market players concluded that this sell-off on the stock markets was technically excessive despite the uncertainty that had arisen. When follow-up sales failed to materialize at the beginning of the year, short sales were closed and the willingness to invest has gradually returned at lower price levels, the tide has turned again. Some of the index losses incurred were therefore made up in January. The currency markets remained largely unaffected by this. Although the gold price has continued to recover from its lows, it has not yet reversed its existing bear market trend.

OUTLOOK

The development of the global economy, in particular that of the USA and China, and the upcoming trend-setting political decisions in Europe will be the dominant topic in the coming months. The capital markets will then try to sound out whether the economies just cross a weakening of growth rates with subsequent stabilization, or whether some countries will undergo a longer dent with emerging recessions. Without a doubt, the outcome of the trade conflict between the USA and China plays the dominant role. The majority of the Democrats in the House after the November elections has made President Trump's annoying governance of the Stop and Go considerably more difficult. In addition to the many open construction sites, Venezuela has joined the ranks of others that could tie up additional forces that he no longer has. Closing these quickly do not seem to be easy because Russia supports President Maduro and his covering military in the background. Therefore, in my opinion, the chances are increasing that Donald Trump will negotiate a new trade agreement with China acceptable to both parties in the course of the next few weeks and thus solve a major problem. That would also be in the spirit of broad circles in Congress, and on the other hand, it would stimulate global economic growth in the future. It would also significantly increase the lost planning security of corporations and the policy makers in the European countries, some of which have been already close to recession.

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After years of political bumbling about and disagreement in almost all-important economic and social questions, Europe and the EU are at a crossroads this year with two far-reaching decisions: the Brexit and the elections to the European Parliament. The outcome will be of great importance for the future political standing of England and the EU in the world and for their economic strength and future prosperity. In the coming weeks, the citizens and their parliaments will have it in their hands to vote for a new profound start in Brussels and London towards a united Europe. The latest news and surveys indicate that, following the failure and flops of recent years, the European citizens and their politicians are gradually becoming aware of the immediate and lasting economic and social consequences of failure. The European capital markets will seismographic accompany this development in the coming weeks and months.

CAPITAL MARKET OUTLOOK

There is no doubt that many company valuations have fallen back to attractive levels for long-term investors following last year's substantial price losses. However, after the strong recovery of share prices in January, it should be assumed that the stock markets, measured by their indices, would enter a waiting loop from now on. Investors will only return to the markets until there is more clarity about the economic trend in 2019 and the development of future corporate earnings. After last year's in part enormous price and capital erosion, the stock markets have fallen to valuation levels that have already priced in a large part of economic uncertainty. The index levels reached in December (DAX at 10350, S&P 500 at 2350 or TSEI 225 at 19100) should therefore represent from now on resilient support levels, even if these are short term undercut again in the event of another negative flood of data. The expectation that the annual average inflation levels targeted and achieved by the central banks should also support these assumptions. The Fed's policy of interest rate hikes should then be over, which after years of strength should weaken the US Dollar against the Euro. Due to the weakening of the European economies, the ECB should deviate from its plan to adopt a more restrictive stance and maintain its easy monetary policy well into 2020. This also applies to China, which expects growth to slow to 6% plus this year. Therefore, there will globally be ample monetary liquidity to reignite economic growth and to support the capital markets.
If the scenario designed should become reality, i.e. a global slowdown in economic growth rates over the course of the year, avoiding recessionary phases, then the investment year should end in a positive note.

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