ZINNECKER BIMONTHLY – October / November 2019

REVIEW

The interest rate cuts by the USA and the ECB have once again boosted the bond markets and since July have occasionally led to new interest rate lows. Negative interest rates now prevail in 13 countries. By contrast, to the surprise of many market participants, the currency and equity markets have moved sideways. The renewed bond bull market since the beginning of August has been driven by investors' fear that the increasingly opaque political situation in East and West could put an further strain on the already weakening global economy. In addition to the old hot spots, concerns arose in the financial markets that the governments involved might lose control over the worsening conflict areas in Hong Kong and the Gulf between Persia and Saudi Arabia. Added to this was the renewed controversy over the climate crisis caused by the appearance of young people at the UN summit in New York.

OUTLOOK

However, the current calm on the stock markets could still be considerably disturbed if it should turn out in the course of the year that politicians will not succeed in getting the international trouble spots under control and getting the global economy back on track. This applies in particular to Europe with its unresolved homemade problems. As the conflicts have become even more acute, politicians are under pressure to find solutions and approaches to relaxation on the one hand and to tackle the long overdue investments in infrastructure on the other. This is even more true now, as the central banks must be relieved from their political responsibility to rescue the financial and fiscal economy. The latest interest rate decisions by the Fed and the ECB have been counterproductive and have clearly demonstrated that the central banks are at their wits' end. It would be a ludicrous and dangerous fallacy to believe in saving the world financially and economically with negative interest rates and quantitative easing. From the outset, this policy has benefited corporations and the rich, and harmed the savers.

In addition, the events surrounding climate protection in recent weeks have made it clear that this issue can no longer be ignored. It has become a permanent part of world politics. This also applies to the USA and China, which have so far neglected national environmental grievance. With its climate protection program 2030, Germany wanted to make an initial contribution to this, which in its original intention will by far not deploy the necessary effect. It is actually a political deceptive package with the purpose of keeping the government and its entourage alive, until 2021. It is even not a realistic economic stimulus package of 54 billion euros.

Everyone knows that globalization and the Internet revolution have created facts, which are irreversible. All industrial societies should now request a fundamental strategic policy change from their political and economic elites, if they are not to jeopardize the economic and social future of their upcoming generations. This will be

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a tough process and a long and rocky road, but one that must be taken. I have been repeating myself on this point for a long time, but I believe that 2019 represents a turning point. Depending on how the decisions will turn out, it will go either downwards or upwards from 2020 on. The times of ho-hum policymaking has definitely ended.

CAPITAL MARKET OUTLOOK

Whether the first signs in one direction or the other will already become apparent in the coming quarter cannot yet be fathomed from today's perspective. For that reason, the question of a global economic recovery in 2020 can also not be answered at present. The future direction of interest rates and the stock markets will probably provide the most information about where the hare is heading. If, however, everything in politics and at the central banks were to remain the same, investors should prepare for further falling interest rates with new lows and then also for falling share prices, especially in the EU.

After the recent events and the consequences that have become visible, this scenario does not seem actually to become likely. On the contrary, new political constellations and constraints also permit a view that could gradually shed light on the bleak picture to date. The USA and China are increasingly under pressure to close a new trade agreement, which has been so high on Mr. Trump’s political agenda since his election. He, therefore, needs a success before the presidential elections in 14 months' time. China cannot put off the "Hong Kong" problem also for domestic political reasons. Both countries will also have to give higher priority to their own long-standing environmental problems and climate change, if they want to remain credible also before the world public.

On 1 November the new term of office of the EU Commission begins, which should set new accents in order to revive the idea of Europe and facilitate the social integration of the member states. After the turmoil of the last weeks, England and the EU could find a new solution of the future co-operation beyond October replacing today's Brexit-Patt. Germany should find ways in quickly tackling the planned capital investments despite the revived “NO THANK YOU” policy on the part of numerous environmental organizations. Following this example, other EU countries could also set in motion economic stimulus infrastructure programs through a modified debt policy in agreement with the ECB and Brussels, in order to free the stagnating economies and their labor markets.

There is a whole basket of possible changes for the better, which could bring about a fundamental reorientation in politics and economy. It just needs rationality, good will and respect among politicians, when they return to the negotiating tables. This expectation will shape the mid-term investment policy of the MILLENNIUM GLOBAL OPPORTUNITES Fund. The management expects the interest rate and bond markets to normalize by the end of the year and counts on an upturn of the stock markets in 2020.

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