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REVIEW

Western bond markets did not reach again their August highs. Despite the renewed US interest rate cut, they have fallen further over time. On the other hand, after another brief slump at the beginning of October, the stock markets continued their upward trend for various reasons. Again, in the wake of Wall Street, which has recorded new all-time highs, the remaining stock exchanges have also reached annual highs. This turnaround can be explained by the gradual growth in the perception of many market participants that a global economic upturn can only be brought about by infrastructure measures and changes in fiscal policy on the part of the industrialized countries and no longer by the continuation of the dubious ultra-light interest rate and monetary policy of the central banks. In addition, investors continue to expect a new trade agreement between the USA and China to be concluded in the near future despite the existing uncertainty. This is why in recent months, especially in Europe, there has been a cautious reallocation of assets from lower-risk interest rate to riskier investments in equities.

OUTLOOK

These economic, monetary and fiscal policy demands and expected measures will be additionally influenced by the outcome of upcoming elections and the associated changes in parliaments, their governments and parties. This begins now in December, and the resulting structural shifts should shape the political and economic future of all countries far beyond the American presidential elections. 2020 could in many respects trigger a paradigm shift.

It already begins in Germany. With the surprising result of the Socialists board election with the new leadership by Mrs. Esken and Mr. Walter-Borjans the GroKo has no more future. From now on, the Christian Democrats, CDU, under Chancellor Merkel will be confronted with a tougher pace of the Socialists in their coalition work, which now threatens to divide the CDU programmatically. The party landscape has become so dynamic that early Bundestag elections early next year could be an alternative. The elections in Great Britain will follow immediately. If Boris Johnson wins, leaving the EU will be a done deal, along with an extensive capital-spending program through the creation of national debt.

However, the changing political environment around President Trump seems to be of greater importance for global politics. On the one hand, the weakening economic growth in the USA is tying up additional forces if he does not make a deal with China soon. On the other hand, in addition to the pending impeachment proceedings, the appearance of media magnate and billionaire Michael Bloomberg as a potential challenger to the presidency has created a truly serious and dangerous opponent.

For the assessment of the direction of the capital markets in 2020, political changes are one side of the coin. The other deals with the factors influencing the future development of the world economy. The key to a secure economic future for the

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world's population lies in solving the challenges facing climate protection, improving infrastructure and education, and the growing challenge of digitization. This applies to all civilizations, no matter on which continent they are located. Since the financial crisis, the lack of jointly developed strategies for the future and the lack of regulatory objectives on the part of politicians have led to the dislocation of capital, the destruction of capital and to economic and social imbalances everywhere. This also applies in particular to Europe and the EU. The banking system, the reconstruction and expansion of almost all infrastructures, education, the spread of telecommunications and the Internet as well as climate protection have almost fallen by the wayside in many countries.

The resulting economic and social future risks have been visible for years, particularly in Germany as the central business location for Europe, and have now assumed a threatening scale, so that a rethink has finally taken place in Berlin, in business and in the media. One of the reasons for this is the insight that the ECB policy as a regulatory factor has already been counterproductive for a long time. The ultralight monetary and interest rate policy has neither led the states out of the debt crisis and the growth anemia, nor saved the banking system. On the other hand, negative interest rates and negative real rate of returns in recent years have caused considerable economic distortions and socially unacceptable wealth imbalances.

Mrs Lagarde will therefore not continue the policy of her predecessor in the same way and has been urging EU politicians for a long time to fulfil their constitutional regulatory mandate in order to create the conditions for sustainable economic growth and secure and prospering labor markets for the coming generations in Europe. The same applies to the USA. The catalogue of failures is incredibly long and can only be removed over time within the framework of concerted actions with long-term government-sponsored infrastructure investments. The implementation in Germany, however, is not only opposed by lengthy approval procedures, encrusted public bureaucracies and technical authorities overburdened by reduced staffing levels, but also by environmental organizations of all kinds and citizens' initiatives. This is where politics first has to start in terms of personnel and legislation if the intergenerational project is not to begin in the same way as the construction of the new Berlin airport.

CAPITAL MARKET OUTLOOK

Assuming normalization of trade relations between the US and China, the global economy should gradually recover in the coming year. This development will be accompanied by more moderate interest rate and monetary policies. Negative interest rates and QE in the EU should therefore soon belong to the past. This also marks the end of austerity and restrictive fiscal policies in Europe. In the course of the year, these changes should shift the risk-reward profiles to the detriment of bond and in favor of stock investments, especially in Europe. Therefore, a sustained recovery of the bond markets after the highs reached in August should no longer be likely. Bond investments in industrialized countries are becoming increasingly riskier. Despite technical recoveries, they could become non-rewarding after many good years.

The stock markets should benefit in the coming year in anticipation of rising corporate profits resulting from increased investments in infrastructure and from a general recovery of economic growth. This should apply above all to the European

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stock markets, whose performance since April 2015 has suffered from below-average profit growth. They are today more attractively valued relative to those of the USA. The performance scissors have diverged so much since then because US profits have increased due to the stronger economy and the 2018 tax reform. During this period, the S&P500 Index gained almost 50%, while the European STOXX600 Index has not even regained its previous highs despite the good equity performance to date. This gap should narrow again in the coming year, as the growth momentum should be in Europe's favor. This should apply above all to Germany, whose economic performance is heavily dependent on exports and capital goods.

If these assumptions apply in principle, then European stock markets should benefit disproportionately from portfolio regroupings and the attraction of foreign capital that has been abstinent for years. Despite the good equity performance in Europe this year, which has only offset the index losses of 2018, 2020 should become another good year for equity investments. Technical market corrections, which will eventually occur, would just be a confirmation of a new bull market in place.

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