ZINNECKER BIMONTHLY - FEBRUARY / MARCH 2020

REVIEW

The Western central banks, led by the US and the EU, will continue their extremely light interest rate and monetary policy and the monetization of debt by purchasing bonds also through 2020. This policy would only change if the annual inflation would exceed the long-established inflation limits. These targets and the assumption that the global economy and earnings would recover in the course of the year have moved investors to expanding their equity investments in the New Year at the expense of bonds. As in the past, the US stock exchanges have lead the markets that recorded new all-time highs in the period under review. The European stock markets also benefited from this, albeit with lower gains. At the end of the month, the spread of the corona virus in China and abroad has abruptly ended the expansion that had been underway since October. Profit taking heralded the consolidation of stock markets that were already highly valued and technically overbought, especially in the US. This in turn benefited government bonds. Currencies have so far remained largely unaffected by this development.

OUTLOOK

There is no doubt that despite the measures already taken, the disease will have a negative impact on many areas of the global economy. However, it is too early to speculate how long the cooling caused by the disease will last. Medical and scientific feverish efforts are underway worldwide to contain the further spread of the virus. Nevertheless, international air traffic and shipping, the raw material markets for crude oil and metals, international tourism, internationally networked electronics technology and, of course, the luxury goods industry will be affected by it for the near future. This also applies to the traditional export goods industries in Europe and especially in Germany, which have been struggling with recession for some time now due to the global economic slowdown, trade conflicts and stricter climate policy requirements. This shows once again how susceptible the globally networked economies have become to even non-political disruptions.

I assume that this disruption will delay the global economic recovery, but that it will not call it into question due to the improving leading economic indicators. Therefore, after several months of a bull market, the correction should be regarded as a catalyst of a due consolidation of the stock markets and not as the beginning of a trend reversal. As already witnessed for quite some time until to date, the stock market performance has been heterogeneous and highly selective. Technology and growth stocks were again the performance drivers in January, while cyclical and economically sensitive stocks have come repeatedly under pressure due to their uncertain earnings outlook. As a result, the valuation gap between growth stocks and cyclical stocks widened even further, which once again sparked discussion among financial analysts and investors about the possible end of this movement. This is particularly evident in the example of the German and European stock markets, when luxury goods companies and technology stocks vastly outperformed those of chemical or automotive industries.

Irrespective of the answer to this question, however, it must be assumed that there will be no return to the so-called "bread and butter stock markets". The future-oriented investment themes and the earnings dynamics of the industry sectors and their companies will as in the past again determine and dominate the market trends. These include the healthcare and pharmaceutical industries (Roche, Novartis), the expansion of the Internet and telecommunications (Apple, Alphabet, Amazon), green energy and the security of electricity supplies (Neste), and the realignment of transportation mobility (VW, Linde, NEL, Alstom), to name but a few areas that will secure the economic and social future. In addition, sustainability will increasingly become an important selection criterion for institutional investors. Larry Fink, head of the world's largest investment company, Black Rock, recently raised sustainability as a strategic investment maxim in an open letter.

This provides the framework and long-term investment policy for the **Millennium Global Opportunities Fund** we advise. We will take advantage of the stock market correction to align the fund even more than before in terms of theme and stock selection and from performance expectations. Investor awareness of climate change and sustainability is changing rapidly and we want to accommodate this.

CAPITAL MARKET OUTLOOK

After the end of the quarterly reporting season, the longer-term economic development and the impact on corporate earnings for the years 2020 and 2021 will return to the focus of investors. We expect the equity markets to move sideways in the weeks of the realignment, albeit with greater price fluctuations, before resuming their upward movement in the further course of the year. Although political disruptive factors on the part of the USA or England following their withdrawal from the EU will temporarily influence the stock markets, they will not become market-determining factors. It will be much more important to sound the all clear for the corona virus epidemic, as the uncertainty among investors has increased noticeably.

The future direction of the US stock markets will heavily depend on the continuation of the economy cycle and the earnings recovery in the election year. In the EU and in Germany, fiscal policy measures and investment incentives for modernizing the infrastructure would not only regain the investor confidence in equities as an sustainable investment medium, but would also attract investors' interest in neglected cyclical equities. This would considerably improve the market breadth, an important positive technical indicator for the stock markets, which subsequently should reduce the extended valuation gap between growth and value. The ongoing consolidation should therefore be used to increase the investment degree for equities at the expense of money market instruments.

31.1.2020