# ZINNECKER BIMONTHLY – JUNE / JULY 2020

## REVIEW

**The expected bottoming out of the equity markets failed to materialize after the end of the severe bear market in the first quarter. Instead, the stock markets have continued their upward trend to date under the leadership of US Internet and growth stocks.** The development, which was unexpected by investors, can be attributed to the unprecedented financial bailout by Western central banks and their governments. The gigantic expansion of the money supply and the various government rescue packages on an undreamt-of scale had become necessary when it became clear that the global lockdown has triggered an unprecedented economic slump. Policy makers were threatened that the plunge of the global economy into a paralysis could eventually get out of control. The resulting liquidity glut inevitably found its way into all areas of the money and capital markets. As a result, not only the depressed stock markets benefited from it, despite the total uncertainty about the financial future of many companies, especially in the "old economy", but also the global bond markets. Measured by the dollar index, the main currencies against the US dollar remained virtually unchanged over the period, while the price of gold rose by around 10% to US$ 1,730.

## OUTLOOK

**Since its outbreak, the corona epidemic has revealed many new and in part suppressed undesirable developments, which politicians, the pharmaceutical industry and companies must now constantly deal with and remedy. Although the actors are only gradually gaining experience of the effect and extent of this virus, they must make social and economic decisions in the knowledge of fallibility in order to get the pandemic under control - a merciless task and heavy responsibility for all decision-makers. This problem is also reflected in the different government approaches to solving the desaster.** However, we must already assume today that this pandemic represents an irreversible turning point in all areas of human life. It is in part comparable with the caesuras following the two world wars, but with the significant difference that the economic collapse was artificially triggered by the politically ordered lockdown. In all cases, however, the advancing technical and industrial changes also played an important role in the shaping and reorientation of societies. In hindsight, this decision could turn out to have been a historical error leaving long lasting financial, civic and social fractures behind.

Completely unexpected, however, was the sudden awareness that many capital-intensive and service industries of the old economy were suddenly facing economic collapse. They had been struggling already for years with economic transformation, the upheavals of globalization and the Internet revolution. For a long time, the existing equity capital and liquidity reserves had obviously been too thin to cope with the consequences of the lockdown on their own. The result was an explosion in unemployment, forcing all Western governments to launch rescue packages worth billions. The precarious situation is also forcing the EU to launch an additional 750 billion euro reconstruction program for the first time since its existence to help the severely battered EU economy back on its feet. This major effort is remotely comparable to the post-war Marshall Plan. The proposed measures cannot even guarantee the revival of the traditional economy leaving an exorbitant increase in national debt at the end. The costs of the necessary technological restructuring of the economy will continue to rise and will put an additional burden on the already shaken corporate balance sheets.

For ten years now, the stock markets have been reflecting this trend by the growing divergence between the performance of growth stocks (Internet) and value stocks. During this time, there have only been three ever-shorter phases of reversal. However, it appears that with the state-induced reopening of the economies, after two years, a fourth wave towards value stocks could follow. The valuation differential has simply become too large in the last 12 months. However, the duration of this development will depend on the extent and quality of the global economic recovery.

**CAPITAL MARKET OUTLOOK**

**The threat has become too big that a persistent growth anemia could reduce private consumption in favor of savings, which has accounted for over 50% to 70% of the economy in the past. On top, private capital investment could stall in the case of rising future economic uncertainty despite all government and fiscal effort. Therefore, all Western governments, in cooperation with their central banks, are forced to do everything possible to reverse the depression caused by the lockdown as quickly as possible**. It results in a huge and growing liquidity framework and even further falling interest rates that should continue to boost the stock markets until 2021**.** Nevertheless, many investors still worry about a renewed setback to the levels of the recently achieved index lows. However, after this years' experience, I do not believe that this is a likely possibility, especially since many investors are still underinvested and waiting for a suitable entry.

Institutional investors have already ticked off the poor corporate earnings of 2020 and are now concentrating on the recovery and the earnings upswing in 2021. Optimistic forecasts no longer rule out the possibility of corporate earnings' even exceeding those of 2019, at least for the US. Nevertheless, corrections of 10% and more are conceivable in the course of the summer, should economic or medical irritations or renewed investor euphoria gain the upper hand. Such setbacks will offer investors the opportunity to return to the market for the long-term build-up and realignment of international equity portfolios. Looking for still relative attractive bond investments then 30-year US treasuries yielding 1.45% merit attention.

The repeatedly formulated investment principles remain even more valid today: product leadership, balance sheet quality, free cash flow generation, dividend continuity and future-oriented corporate policies. Shares that meet these conditions continue to be found in the technologically oriented growth sector but are also increasingly being found in the value sector. The companies still preferred by **Millennium Global Opportunities** are in the categories infrastructure development, IT and software, health, nutrition, education and high-quality consumer goods.

30.5.2020

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