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REVIEW

It is finally official. The change of government hoped for by many will take place in the USA. The world is in the third and so far strongest corona wave. Nevertheless, thanks to China and global fiscal policy measures, the global economy continues to recover, albeit at a slower pace in the fourth quarter. The slight downturn is due to the fact that many governments, especially in Europe, have again ordered a partial lockdown out of fear of renewed bottlenecks in health care. However, the prospect of early availability of Covid-19 vaccines has further fueled expectations of a strong economic recovery next year after the pandemic has subsided. The capital markets have reacted accordingly. Increasing uncertainty about the future development of interest rates and the expectation of possible losses from bond investments ended the consolidation on the stock markets. The outcome of the election has triggered a renewed bull market in US equities, which has pushed the Dow Jones Index above the 30,000 mark for the first time in history.

OUTLOOK

The often described drift of the valuation of Internet and growth stocks against cyclically dependent industrial stocks, which has been going on for years, has come to a standstill in the current stock market movement. The diverging valuation gap between these categories has narrowed slightly since October for the first time since 2013. This is particularly evident in the relative performance of the broad-based Russel 2000 Index compared to the NASDAQ Index. As in the USA and in Europe, the shares of the "new economy" have taken a break, while the traditional cyclical stocks have become the index drivers in expectation of disproportionately rising profits after Covid-19; an example from Germany: Daimler or BASF and SAP. This constellation should not change in the foreseeable future.

The corona pandemic is an event of historical significance. The global structural changes triggered by it additionally to the ongoing Industry 4.0 revolution, will create a new normality. Its character is still to be established and visible over time only. They require new models of thought and action on the part of politics, business and society. This is especially true for Germany as an industrial location. The country is only just beginning to understand the consequences and to tackle the challenge. Politics and its federal administration are moving only very hesitantly and convey a lack of strategy. German federalism with 16 states in its current form not only hinders the necessary transformation, but is a future risk. The controversial Corona measures this year alone are proof of this.

Nevertheless, according to the ideas of doctors, economists and stock market consultants, 2021 should see a fundamental recovery of the Western economies in terms of growth and employment with the end of the pandemic. Industrialized societies would then gradually return to consumer normality. The renewed confidence would boost private as well as state-subsidized investment. This is

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particularly important for Germany as an export-intensive supplier of capital goods, as it would secure a substantial proportion of qualified jobs in the future.

Although the central banks will maintain their ultra-light monetary and interest rate policies over the next year beyond the economic recovery, there are also increasing voices that the long-standing deflationary price trend will come to an end in the course of the year. This also goes with my assumption that the longest interest rate slump has come to an end over the summer. Therefore, bond investments should become riskier. Negative interest rates that have existed for years in Europe and Japan should soon be history, which should help commercial banks to return to the normality of their traditional business activities and become profitable again. These are additional arguments for the increasing relative attractiveness of the stock markets.

The US dollar, which has weakened since the summer, is currently being supported by the central banks to prevent a further slide. From a historical perspective, however, it is doubtful whether this operation will be successful in the end. I therefore assume that the weakness of the dollar will persist. The price of gold is consolidating after its peak of over 2,050 US dollars, without the long-term upward trend having come to an end. Gold is technically oversold and should find a bottom around 1,750 US Dollars.

CAPITAL MARKET OUTLOOK

The high central bank liquidity, the high level of investor money and the incipient transformation of bonds into stocks should continue to inspire the European stock markets on their way out of the stagnation of recent years. The same should apply to Japan and the Asian stock markets. The stock exchanges in the USA will continue to set the direction, although the established upward trend will be interrupted again and again by hefty technically induced setbacks, which should then be used to boost the equity exposure. The Barbell strategy already presented, a mix of technology and growth stocks and cyclical stocks, continues to make sense against the background of the economy normalizing after Corona.

Decisive for stock selection remain the profit expectations of investors and the then actually achieved dynamics of corporate profits from quarter to quarter for the years 2021 and 2022. Therefore, there will be no "bread and butter exchanges" in the future. The stock price developments will vary greatly from industry to industry and from stock to stock. In addition to the well-known drivers in IT and digitization, which should continue to form the corset for an investment portfolio, market-leading companies that will benefit disproportionately from the economic recovery should be added from the following industries: Automobiles, consumer durables and apparel, retail, tourism, leisure and entertainment, transportation and traffic, capital goods, materials and metals. This also includes newly listed companies that have emerged from start-ups and spin-offs.

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