FRANK TH. ZINNECKER

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REVIEW

The extent of the third Corona wave had already significantly dampened expectations of a rapid revival of the Western economies in the second quarter, particularly in Europe. In addition, burgeoning inflation fears in the USA left their mark on the development of the capital markets during the quarter. U.S. bond yields with longer maturities rose by half a percent and the U.S. dollar strengthened by around 2 percent against the currency basket. They then triggered a rolling correction in the equity markets since mid-February. While the highly valued technology stocks represented by the Nasdaq 100 and young speculatively overextended Internet stocks suffered in some cases substantial price losses, cyclical and value-oriented stocks in the automotive, chemicals, banking, transportation and capital goods sectors fell out of favor. As a result, the U.S. Technology Index has lost more than 8% since the peak, while broader-based indices such as the S+P 500, Japan's Nikkei, Europe's Stoxx 600 and the Dax Index still achieved new highs for the year as they progressed.

OUTLOOK

Economists are in the process of revising economic and business forecasts for 2021. The changes will vary from region to region and country to country. They depend on the achievement of a certain herd immunity and thus a return to economic normality. When that will happen depends on the extent and duration of the current wave, the amount of vaccine doses available and administered, and the sanity of citizens in continuing to deal with the pandemic. Depending on the country, it could drag on into the fall. While Israel, the U.K. and the U.S. are getting closer to this goal faster, the EU and especially Germany, France and Italy are still lagging far behind. Mainly, this is because since the first wave, key political, organizational and logistical decisions to contain and manage the pandemic have not really worked well on the part of the EU and its countries.

But we are on a good path! So far, according to Our World in Data, 30% in the U.S. are already first-vaccinated and 16% second-vaccinated; in England, 46% and 5.5%; and in the three EU countries, about 12% and 5%, respectively. With sufficient vaccine supply and expansion of vaccination centers to include physicians and other medical care institutions, the rate of vaccination should more than double over the course of each quarter, e.g., in Germany from the current level of about 300,000 doses per day to more than 700,000, thus gradually closing the gap with other countries.

In the U.S., because of the new Biden administration's accelerated vaccination campaign and the $1.9 trillion stimulus package, GNP growth for 2021 has been raised dramatically from 5.9% to 7.3%, from 3.5% to 4.4% for England and from 2.4% to 2.7% for Japan, according to Morgan Stanley analysts, while the estimate for the euro area has been lowered from 5% to 4%. It is questionable whether Germany will reach the 4%, although the latest IFO business climate index of a surprising 96.6 after 92.7 gives reason for hope. For China, the estimate for 2021 is unchanged at 9%.
Contrary to our assessment, the revival of inflation has already become an issue, at least in the USA. Two percent plus for the year is currently the common assumption. The increase is already expected this quarter due to a demand-induced rise in prices caused

Holzhecke 7 – 60528 Frankfurt am Main
Telefon (069) 59 79 30 31 - Fax (069) 59 79 34 40 - Mobil (0171) 79 78 174
Email: frankzinnecker@t-online.de

by pent-up consumer demand and supply bottlenecks for consumer goods, intermediate products and raw materials. Only in the further course of the year will it become clear how long this period will last and where its peak will be. Is it merely technical in nature and therefore containable in terms of time, or is it the start of a cyclically induced longer-lasting inflationary movement? An early change in central bank policy will also depend on this, but according to the Fed's latest press conference, this is not expected to take place until 2023. This does not apply to the EU, because the normalization of the EU economy will be delayed into the second half of the year due to the worsening of the pandemic. In any case, the inflation uncertainty that has arisen will prompt a rethinking of risk positions in investment strategies and portfolio construction.

CAPITAL MARKET OUTLOOK

As in the past, the USA as the leading financial market will continue to determine the development of the Western capital markets through its interest rate and market leadership. Three factors will determine the direction of the bond and equity markets in 2021: the rise in inflation, the level of U.S. capital market interest rates, and the massive increase in corporate profits and cash flows. In two weeks, the U.S. corporate earnings reporting season for the first quarter begins. Analysts expect an average increase of more than 30% compared to the same quarter last year, which should help the stock markets to reach new highs. Even an increase in the U.S. inflation rate of over 2.5% during the quarter, which currently stands at 1.4%, should not change the fundamental direction. The assumption here is that the surge in inflation is merely technical and limited in time. For this reason, yields on 10-year Treasuries should not exceed 2% and then, similar to 2019, move in a band between 1.5% and 2% for the rest of the year. For this reason, we continue to regard investments in government bonds as relatively unattractive.

The Millennium Global Opportunities fund's investment policy, which has been based on the barbell equity strategy since the fall, has proven its worth and will become even more important as the economy picks up. We continue to focus on cyclical, value and dividend-oriented stocks as well as the strategic classics of Industry 4.0, especially since a price shakeout of highly speculative and overvalued stocks in the technology, internet and digitalization sectors has begun since February. The default and forced liquidation of shares in hedge fund Archegos Capital Management, which has affected some banks, fits into the picture. Therefore, technology-driven indices such as the Nasdaq 100 or the Chinese SSE should continue to underperform broader-based indices such as the S+P500 and the Stox600 going forward. The momentum of future corporate earnings and dividend increases in cyclical sectors and stocks driven by economic activity and value will be significant drivers of future investment performance. Future pro-growth tax regimes could reinforce the trend. Management is therefore increasingly focusing on strategic equity investments in these areas. Germany, the EU and Japan are preferred investment countries as well as the USA, despite expected tax increases.

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Holzhecke 7 – 60528 Frankfurt am Main
Telefon (069) 59 79 30 31 - Fax (069) 59 79 34 40 - Mobil (0171) 79 78 174
Email: frankzinnecker@t-online.de