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REVIEW

Over the two-month reporting period, international capital markets have performed quite differently. The US stock markets again set record highs with index gains of +10% for the NASDAQ 100 and +5% for the S+P500. The US dollar closed at 1.19 and gained 3% against the euro. In their wake, Europe also made another high with +2% for the Stoxx 600, but weakened towards the end, which was also true for the German stock market, which only left the period unchanged as measured by the Dax. Japan and China, on the other hand, lost ground with index losses of -5% and -6% respectively. Hong Kong brought up the rear with -11%. The reasons for this are the slowdown in China's recovery, the worsening political controversy between Beijing and its tech companies and the renewed explosion of COVID, especially in Japan. This is now already the 5th and strongest wave.

In the USA, several positive factors converged to drive the good stock market performance. There were the positive statements by the Federal Reserve on interest rate and monetary policy which, contrary to my expectations, caused bond yields to fall further from 1.56% to 1.24% for 10-year treasuries despite the booming economy in the second quarter and rising inflation rates. Pent-up demand for consumer and capital goods, rising employment and the global recovery were their main drivers. Accordingly, corporate profits rose disproportionately and well above prevailing expectations in Q2, reigniting investors' appetite for risk in equities and in the absence of other investment alternatives. This includes the weakening gold price, which lost 2 % in the quarter at 1.813 US dollars.

Even though in Germany and the EU the economy has also picked up considerably since the spring and corporate profits have also jumped, similar to the US, the overall performance on the stock markets, especially in Germany, has fallen short of expectations. This also applies to the bond markets. The reasons should be attributed to the development in China as an essential European trading partner, the upcoming Bundestag elections and the discussions about appropriate measures for a future-oriented climate protection policy. The lack of profile of all parties after the years of the grand coalition, the uncertain election outcome and the uncertainty as to which direction the country will take socially and economically with the new government are causing headaches not only for voters but also for capital investors. The situation is similar in France, which will elect a new president in the spring.

OUTLOOK

Regardless of the political, national and international influences and the renewed spread of the pandemic, a further strengthening of the global economy towards a new economic normality can be expected in the coming quarters. However, the road to this will be bumpy due to the structural disruptions caused by Corona in the areas of labor, basic services, production and distribution. The impact of inequalities of the supply/demand chains for goods of all kinds has become visible not only in the US and Europe, but also globally. It takes months and quarters to address the production bottlenecks caused by broken supply chains, shortages of industrial inputs such as

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semiconductors, and special raw materials. In addition, there are increasing bottlenecks in land and sea transport and shortages in parts of the skilled labor market.

On the other hand, due to the pandemic, which has now lasted 18 months, a pile-up of demand for investment and consumer goods has developed, which in the second quarter set in motion the inflationary spiral that has not existed for years. Price increases in real estate, in house construction, in means of transport, in durable consumer goods and in wages and salaries due to the tense situation in the skilled labor markets are already a reality, at least in the USA, and are also becoming visible in Germany and the EU in the early stages. The US Federal Reserve's position on this issue is well known. This surge in inflation, which at over 4% is currently far above the long-term targets, is said to be merely due to technical factor caused by COVID, and the price structure will return to the targeted level of 2% once the US economy returns to normal. This expectation is currently also supported by US bond investors. Economic growth and inflation should have already peaked in the third quarter. The German Bundesbank sees things differently. It assumes that the topic of deflation is already history and that the assessment of future risks of inflation should return to the focus of central bank policy from now on.

CAPITAL MARKET OUTLOOK

The inflation debate, whether merely technical or sustainable from now on, could become a crucial issue going into the autumn. Depending on which way the pendulum swings, the bond and equity markets may not only become more volatile, but also temporarily come under pressure. This would not be unusual against the backdrop of record index levels and capital gains since the beginning of the year, especially as the US quarterly earnings reporting season is gradually coming to an end and the major index heavyweights have already reported. A stock market correction of the market leader USA in the coming months would also fit into the long-term statistical pattern without changing the existing positive trend. The European stock markets, whose reporting season has just begun, could then, as in the past, only escape this trend to a limited extent, although equity valuations are not extremely high.

The recovery in the global economy and corporate profits and the significant improvement in labor markets will be sustained through the year into 2022. This is especially true for the US. President Biden does not have much time left to implement the government infrastructure programs if he wants to emerge victorious from the mid-term elections in November 2022. This will give the US economy an additional boost. It will not be much different in Europe, where the modernization of the entire infrastructure is also on the agenda for the next few years. This should increase the attractiveness of the stock markets again in the further course of the year, especially when the discussion about inflation will have calmed down.

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