OUTLOOK 2021

The giants of the financial scene exude an unusual confidence on the threshold of this New Year: The leading economic indicators promise consistently robust economic growth for 2021; the global up-swing has long since started; the world economy is likely to grow well over 4%; the professional investors have full coffers and there is no lack of liquidity to fuel the stock exchanges. With so much optimism, caution is advisable. We continue to keep a close eye with caution, and there is no lack of warning voices, which is a good thing. Experience shows that long-term investors are on the safe side. The be-all and end-all is profit growth in the corporate world looking beyond 2021.

In retrospect, 2020 was a year of records. Contrary to the forecasts of the big players in the financial world, the US dollar suffered the hardest setback since 2015. At the end of March, the pandemic-induced stock market crash, pushed down the Dow Jones index to 19,000 points. At the end of the year the index recovered to an all-time high of 30,600. The month of November will also count as the best month on record of the stock market since 1929. We ended last year as the year of excess speculation and the year of records.

A global view of the economy gives hope: the economic data of China, but also those of the USA, Germany and Switzerland, are developing better than feared despite the pandemic. A large number of civil servant forecasters are generally overcautious and talk too often to the target audience. Global economic growth will surpass 4% in the next two years while moderate inflation remains under control.

This outlook is supported by important facts: the index of the world's largest container ports confirms the assessment that, contrary to many fears, the industry is much more stable. China's export activity has increased by 21%. Globalisation is on the up again, although the sensitive supply chains have made a number of western states insightful enough to bring back system-relevant production and thus the know-how and added value. Europe has signed an important agreement with China to improve mutual market access and investment protection. We will soon be able to tell if the playing field is even.

Relatively unnoticed in Europe is the megatrend looming in Asia: 15 countries agreed a duty-free trade union with RECP (Regional Comprehensive Economic Partnership) for the East Asian economic area, which reminds us of the EEC of that time. As a huge market, this zone encompasses a large part of the world's population and claims a partnership on equal terms with the western economic powers. It is no coincidence that the WEF relocated to Asia.

So different are the RCEP signatories, population and GDP

So unterschiedlich sind die RCEP-Unterzeichner

Einwohnerzahl und Wirtschaftskraft (BIP)

Land	Einwohner in Millionen	Wirtschaftskraft in Mrd. Dollar (2019)	Wirtschaftskraft je Einwohner in Dollar	Erwartetes Wachstum 2020 in Prozent
China	1439	14402	10.008	+1,9
Indonesien	273	1120	4103	–1,5
Japan	126	5080	40.317	–5,3
Philippinen	110	377	3427	–8,3
Vietnam	97	330	3402	+1,6
Thailand	70	544	7771	–7,1
Myanmar	54	69	1261	+2,0
Südkorea	51	1647	32.294	-1,9
Malaysia	32	365	11.265	–6,0
Australien	26	1387	54.392	-4,2
Kambodscha	17	27	1599	-2,8
Laos	7,3	19	2616	+0,2
Singapur	5,8	372	64.138	–6,0
Neuseeland	4,8	205	42.708	–6,1
Brunei	0,4	14	33.750	+0,1

Image source: Welt.de (Data source UN,IWF)

We have been following the **market sentiment** of professional investors for years as a reliable early warning system. The mental state of investors struggles between a perceived overvaluation of the stock markets and the actual fundamental valuation of companies. In retrospect, June 2019 signalled fair pricing in the market with a neutral 100 points. In fact, the level of sentiment has never oscillated in positive territory in the past two years. That means nothing else than that the market sentiment was always deliberately cautious - and still is today. The extremely negative sentiment reached its lowest point in April 2020 with a low of 73 points. This total undervaluation explains the positive stock market performance until the beginning of the New Year. The December values are still pending, but at the turn of the year the 'State Street Confidence Index World' shows only 90.7 points, negative 87.4 for the USA and a moderate 90.7 for Asia. Only with an indicator of over 125 points can one assume a general overvaluation of the financial markets - and we are far away from it. The positive stock market performance at the end of 2020 can be explained by the need to catch up in many areas.

Total investment sector returns and earnings growth are critical to the long-term investor. Portfolios with clear structures in the area of 'growth' achieve significantly higher total returns than the classic value portfolios '. Equities should benefit from significant earnings increases in 2021. The consensus of expectations assumes a cautious plus of 7% for the USA/ EU/ Switzerland axis. Corporate profits should also be moderately positive in 2022.

Global earnings growth for 2021/ 2022 will approach 20%. The up-swing is primarily being driven by Asia and the USA. In contrast, no growth can be expected for the UK. The earnings ratio of the large and medium-sized companies is reasonable, while that of the smaller companies can turn out to be rather disappointing.

Low interest rates, a controllable currency basket and moderate inflation are the perfect cocktail for a long-term positive stock market performance. The central banks have declared interest rates to remain low for the next two years. The capital markets are thus flooded with further trillions to promote the liquidity of the economy. With such low capital costs, a critical look at the balance sheets and the debt rates of the companies is more than important.

The main central banks printed around USD 5 trillion in new money last year, while inflation fell around 2%. In connection with the Corona aid programs, the finance ministers can go all in. Thanks to the negative interest rates, the state even earns money with debt. The classic savers as well as the pension and provision funds pay the bill through collapsing returns, which in fact leads to a loss of purchasing power. In the next 2 years, interest investments will bring negative returns, i.e. losses. Negative interest plus inflation and possibly taxes lead to this loss. If politicians were still thinking about tax increases or property taxes in this context, the saver would be punished twice.

In relation to economic output, solid states can easily service this debt regime. The budgets of USA and Germany would be in balance by 2022. However, the debt rate of previous years, the ideal state of 2019 in relation to gross domestic product (GDP), will only be achieved in 7 years, i.e. 2027. The prospects for Greece, Italy and France are comparatively alarming. Ideally, Italy would take 13 years to reach 2019 levels, which still reached a worrying 135% of GDP. France is particularly worried as it is heading for a similar situation. If in this situation calls for debt relief were to be heard from the South, i.e. ECB, please remove 2.5 trillion in lending from your books, it would not only be a hard blow for the taxpayer but for the usual suspects, too, it would be a starting signal for unrestrained debt accumulation. Tax cuts are therefore not only illusory thanks to Corona and will probably be off the table for a long time.

Europe falls deeper into the debt hole

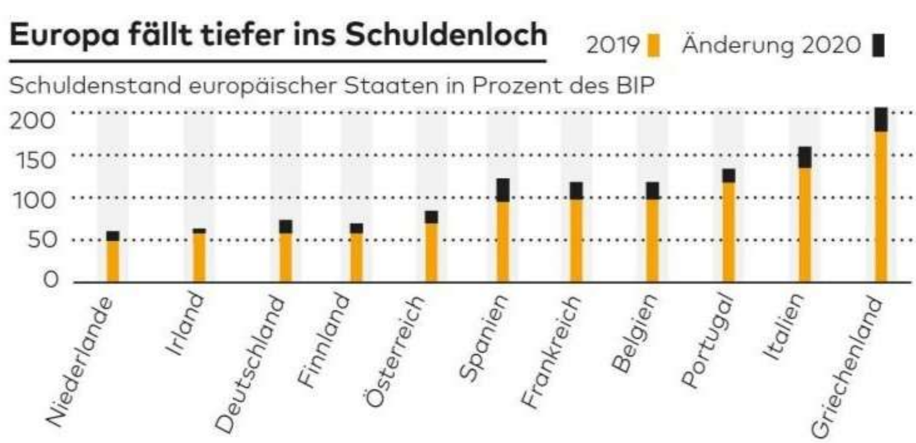

Image source: Welt.de (Data source EuroStat)

Social responsible sustainability is becoming increasingly important in the financial market. In response to pressure from investors, fund companies, pension funds and many large investors are calling for a clear stance on environmental issues and social responsibility. Companies that operate under the radar screen of this social megatrend will be severely punished by the stock markets. With a clean business model, companies and investors can expect lower costs of capital and better returns in the long term.

A study shows that 90 percent of the financial scandals and bankruptcies of the last 30 years could have been prevented if the socio-ecological component had been taken into account.

With the election of the new US President and his future envoy of climate, John Kerry, this becomes will be very topical. We expect initiatives and regulations similar to those in finance. Apart from the requirements of the UN and the EU, the Paris Agreement should be breathed back into life. A wake-up call for Asia with the WEF in Singapore as an opportunity shows a value: 85% of global "clean" investments go to the USA and Europe and only 15% to the rest of the world.

Politics is penetrating the business world more and more. Governments are massively expanding their influence on the economy. If there was a regulatory push in the years after 2009, the pandemic-related policy is influencing supply chains, opening times, company closures and work bans. In the wake of the pandemic, IT threatens to turn against the economy and the people. Personal freedom is decreasing worldwide. Democracy and the free economy are being put to the test. Some believe they are in a controlled society and fear a big brother economy - Marx through the back door, so to speak. The predictably unpredictable US policy, caused serious diplomatic damage to its reputation, was of little help. The trade war of recent years has become an own goal for many American businesses and families. The hopeful expectations of the new administration Biden are high. Anyone who hopes too much here could be disappointed. The pragmatic minimised deal for Brexit at the last minute is no longer a glimmer of hope. What is celebrated as a great success by the politicians involved is rather a “least of all evils”. The devil is in the details. The governor of the Bank of England speaks plainly: The United Kingdom is facing its worst recession in 300 years. The corona pandemic and Brexit are the poisonous cocktail. Despite the agreement, a few bubs need to be ironed out in the sensitive area of movement of goods. The important service area remains unconsidered in the agreement, or the rather partial agreement.

With a market of 60% of the world population, the demographical aspect shifts our focus to Asia. The World Economic Forum will take place in Singapore this year: where global trends are triggered, it is important to follow it closely. Geopolitics and with it the economy have shifted. In a few years, China will replace the USA as the leading economic power and would also wish to increase their political power. China's investments are feared as a Trojan Horse or are even criticized as colonialism through debt diplomacy. In the pandemic year, many third world countries have to cope with severe economic setbacks. The transfers of the emigrants as the most important source of money, resp. as indirect development aid have seeped away. A look at the books of the Western Union shows that such a capital inflow is a significant, if not the most important item on the balance sheets of poorer countries.

A look at politics is becoming more and more important for the investment strategy. So far, political influences on the risk-related volatility of the stock markets have been more of a threat to short- to medium-term investors. The increased influence of politics in the corporate world and the geopolitical shifts are also forcing long-term investors to rethink and adopt more up-to-date strategies, particularly in the context of long-term negative interest rates.

Visions and megatrends: the headline 'billions in losses versus pandemic winners' is forcing investors to make tectonic shifts in their portfolio structures. A closer look at the portfolios of investment giants such as central banks, Blackrock, Fidelity and others reveals interesting things. The pandemic in particular is driving the digitization of many areas of life and business. The winners are online providers and entertainment systems, 5G applications, home sports and health. Cyber security as protection against attacks on the lifelines of the networked world requires gigantic investments. Even the luxury industry is going digital. Asia is the market with a luxury-hungry young population. With so much high-tech, let's take a look at demographics: the USA with 4% and Europe with 6% of the world population dominated the global economy - so far. basic needs of life, food, housing, health and mobility are always worth an investment. There is always building, and architecture is becoming greener. Systems in construction technology and infrastructure are a worthwhile investment. In terms of consumer goods, we favour infrastructure and the champions in online shopping.

We recommend caution when it comes to investments in the financial, chemical and pharmaceutical sectors. The health structures are being put to the test worldwide. The state has a say. Wherever subsidies flow, we are deliberately cautious about investments. Often people ask about the potential of the most populous country, India. The subcontinent is often deeply socially divided and is too opaque as an economic area, and investments in India are simply too risky. In this environment, MPM's portfolios concentrate on 3 topics: global trends, social-ecological responsibility and digital life. With these three investment profiles, the market average of the stock exchanges, but above all economic growth and the inflation rate, should be clearly exceeded.

Risks continue to threaten investors in the New Year as well. Unbridled enthusiasm often comes with costly side effects. Poor quality bonds are currently trading at prices as if the world is all right. The credit system borne by the central banks with negative interest rates and by government aid programs create a false sense of security. The credit banks' default risks are played down. Banks and insurance companies are threatened by an increasing attack on their basic business model. Digital money and the competition from the IT giants that are turning into the financial industry at the cost of the established financial institutions. Banks and insurance companies are increasingly cross-examined by discerning discerned customers.

The pandemic does have winners, but the economic victims are prominently placed in the limelight: a wave of bankruptcies among medium-sized and smaller companies can cause a chain reaction of shock waves and massively cloud consumer and investor enthusiasm. The victims are the leisure and travel sectors, airport services and their suppliers, the world of culture, events and gastronomy to name just a few. The suffering retail sector has to struggle with online shopping anyway. There is still too little discussion about the costs of the pandemic and the restructuring of economic structures. In the USA and the EU, cross-party trouble is brewing over the behaviour of some IT giants. A congress committee would like to scrutinise the giants of the industry with microscopic precision. Facebook and Amazon are accused of having a monopoly and obstructing competition and should be put on a shorter leash. In China, Alibaba is confronted with the same allegations, not least as a demonstration of political power. Pharmaceutical companies must also expect politicians to interfere in pricing. Political pressure is likely to influence, if not hinder, many business models.

The structural change in renewable energies puts the Arab world in an uncomfortable position. Iran is perceived as a threat. There is also a myriad of forgotten conflicts. Terrorist acts can cause the stock exchanges to tremble at any time. 2021 will be the super election year in Germany. A business-un-friendly election result would upset investors. An eternal topic is also investment fraud, which is increasingly shifting to the anonymity of the internet. Production- and supply chains and their IT systems are particularly susceptible to cyber-attacks.

An undoubtedly bumpy stock market year 2021 will not be without surprises. In a mentally comprehensive company, asset management requires strong nerves and good support.

A look beyond the short term…

Image source: Welt.de (Data source Bloomberg)

…supports long-term investment approaches

A fundamentally stable investment concept and a clear strategy are becoming more and more important beyond all understandable emotions. The long-term and prudent look has proven itself over the years. Anyone who invests incorrectly or hesitantly will only have half of the purchasing power in a few decades. The financial market functions without emotion and mercilessly sorts into losers and winners in times of crisis. With the hope that there will be no Black Swan crashing our parade this year, we wish you a year of relaxation and success in 2021.

January 2021/GM/MPM