



ECONOMIC SITUATION AND STRATEGY

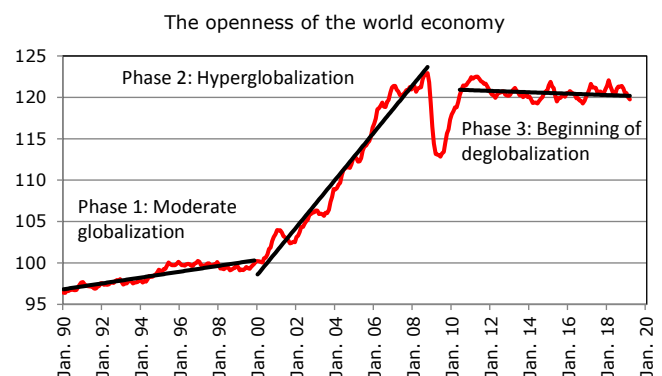
June 21, 2019

End of globalization

Globalization, particularly the growing interdependence of international trade, has been one of the dominant factors shaping world economic development in the past 30 years. The increasing importance of the internet, rapid rise of digitalization, development of new traffic infrastructure, and more efficient use of transport modes have driven globalization forward. The crucial factors in its great success have been increasing liberalization of world trade, which has lowered tariffs and other trade restrictions, and positive support from the world's largest economic power. It would never have happened without the "protection" provided by the United States. The phase of hyper-globalization observed since 2000 has increasingly fragmented production and international value chains, which has benefited the emerging markets and, among them, especially China, which joined the World Trade Organization (WTO) in 2001.

However, since the financial and economic crisis of 2008-2009, many citizens and increasingly their political representatives have called globalization into question. That is because, in particular, it has taken much more time to overcome the consequences of the crisis in Western market-oriented democracies than in many autocratic countries. The world economy grew by 3.1% per year on average between 1990 and 1999. The industrialized countries grew at 2.8% in that period, and the emerging countries at 3.6%. In the phase of hyper-globalization between 2000 and 2008, global growth accelerated to 4.3% per year. However, the industrialized countries, whose average growth fell to 2.4%, were not responsible for this, but rather solely the emerging countries, whose economic momentum increased significantly in that period and whose growth averaged 6.5% per year. Apart from the severe recession in 2009, the world economy has continued to

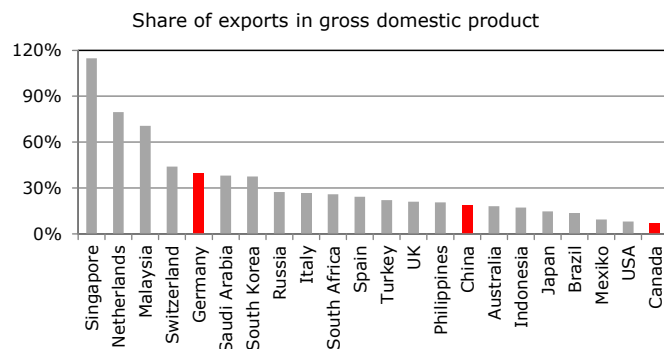
grow, but the pace has slowed to 3.4% in the last ten years. In that period, the industrialized countries have only grown at 1.5% on average, but the emerging countries at 5.0%.



This state of affairs, the continuous decline of the old industrialized countries and nearly unbridled rise of the emerging countries, and especially of China, has led in Western democracies to a loss of voter support for liberal political views and instead to greater approval for politicians and parties that represent populist and nationalist ideas. This was most obvious in November 2016, when Donald Trump was elected 45th president of the United States. With his election, if not before, a new political doctrine has emerged: a turn away from prosperity and growth as the most important political goals and towards defense and control of power. The forward-looking political strategy that preceded this has been reversed, a switch from "offense" to "defense" in sports vernacular. In the United States, the trade dispute instigated by Trump with China therefore probably has to do only superficially with reducing the trade deficit. On the other hand, it is much more critical for the US president to defend his country's own geostrategic dominance. Tariffs and trade restrictions

Economic Situation and Strategy

are means for defending economic, military, and technological dominance. It is unlikely that China will walk back its own ambitions in these important areas, however. We therefore expect the trade dispute between the two countries to continue. We do not share the hope that a breakthrough will come at the meeting between Trump and Xi next week at the G20 summit in Osaka. However, both presidents might signal willingness to engage in talks with the result that negotiations resume. That should make the stock markets happy, but a real solution of the problem is not in sight.

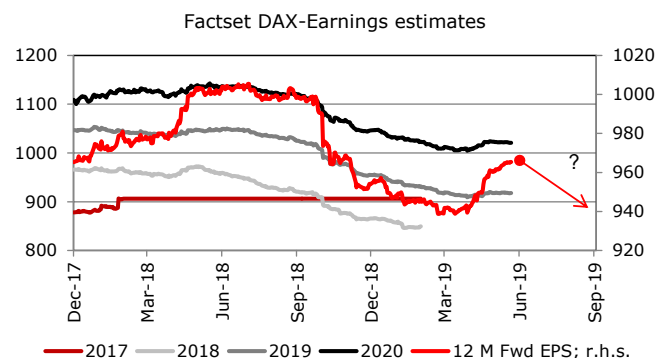


What are the implications of such an assessment? First, the US-China dispute will continue and not be resolved quickly. Since the Democrats also have a problem with China, this topic will continue to concern the markets next year regardless of the outcome of the US presidential election. Compared with Trump, the tone might sound somewhat more conciliatory with a Democratic president, but the United States may not be expected to make any great concessions on substance. Second, the US trade deficit will continue to increase. Set against a declining shortfall with China are higher deficits with countries like Vietnam, Taiwan, India, Indonesia, etc. Third, it is nevertheless not possible to halt the rise of China to become the world's largest economy. The country's economic growth will steadily slow in the years ahead, but it will remain higher than US growth simply due to demographics. China and India will thus become dominant economic powers in the coming years (China) and decades (India) – as was the case already before the industrial revolution until the beginning of the 19th century. Fourth, globalizing is ending. The growth and prosperity effects associated with it are diminishing, with the result that the global growth rate is likely to trend slower in the next few years. Countries whose growth is heavily determined by exports will have more than average to lose. They include emerging countries like Singapore, Malaysia, South Korea, Russia, and South Africa, but also industrialized countries like the Netherlands, Switzerland, Germany, and Italy.

For the capital markets, this scenario of lower growth globally means that inflation rates will remain low and

people will talk more about deflation than about inflation in the future. The global low interest rate phase will continue, and the decline of capital market yields observed now is not a temporary phenomenon but rather lasting. Greetings from Japan!

What does this mean for stocks? The "no alternative" argument is getting new fuel in view of ever lower interest rates. Since bonds are becoming more expensive, the valuation multiples of stocks could also increase. That argues for higher stock prices. However, corporate earnings will probably grow less strongly in the future, since lower economic growth tends to mean lower earnings, unless companies manage to defend their margins by lowering costs. Since the German economy, with its high export ratio of almost 40% of total output, could be one of the losers in the new global order, it will probably be a challenge for most DAX companies to continue growing earnings as they have in the past. Investors must therefore keep an especially close eye on earnings development. That goes not only for the DAX, but also for many European stocks and indexes.



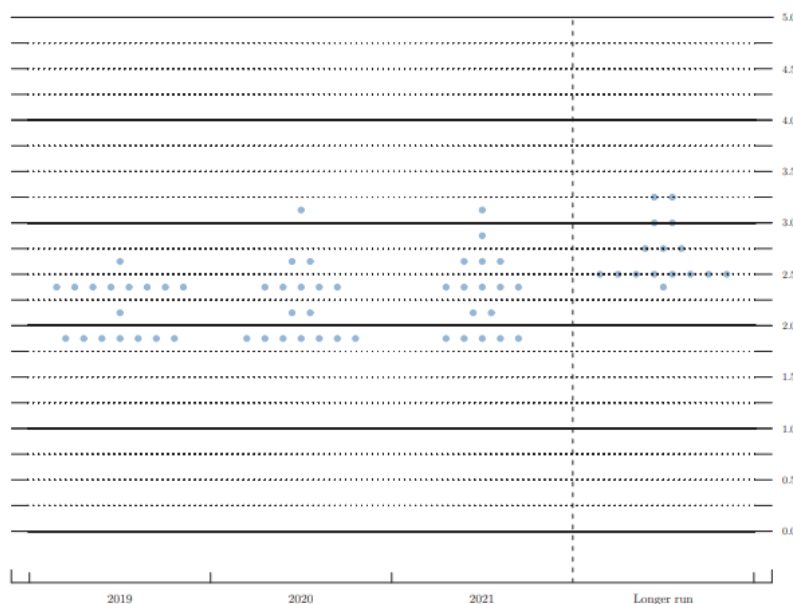
Weekly Outlook for June 24-28, 2019

	Feb.	Mar.	Apr.	May	June	July	Release
DE: Ifo business climate index	98.8	99.7	99.2	97.9	98.7		June 24
DE: Ifo business expectations	94.0	95.6	95.3	95.3	95.0		June 24
DE: Ifo current conditions	103.8	104.0	103.4	100.6	101.0		June 24
DE: GfK consumption climate	10.8	10.7	10.4	10.2	10.1	10.0	June 26
DE: Inflation rate, m/m – flash	0.5%	0.5%	1.0%	0.3%	0.2%		June 27
DE: Inflation rate, y/y – flash	1.7%	1.4%	2.1%	1.3%	1.4%		June 27
DE: Import prices, m/m	0.3%	0.0%	0.3%	0.1%			June 28
DE: Import prices, y/y	1.6%	1.7%	1.4%	1.5%			June 28
EUR19: Business climate	0.69	0.54	0.42	0.30	0.29		June 27
EUR19: Economic confidence	106.2	105.6	103.9	105.1	104.3		June 27
EUR19: Consumer confidence – final	-7.4	-7.2	-7.9	-6.5	-7.2		June 27
EUR19: Industrial confidence	-0.4	-1.6	-4.3	-2.9	-3.4		June 27
EUR19: Inflation rate, y/y – flash	1.5%	1.4%	1.7%	1.2%	1.3%		June 28
EUR19: Core inflation rate, y/y – flash	1.0%	0.8%	1.3%	0.8%	0.8%		June 28

MMWB estimates in red

Chart of the Week: Fed opens door for interest rate cuts

Fed dot plot in June 2019



As expected, the Federal Reserve left its policy interest rate unchanged between 2.25% and 2.50% at the FOMC meeting on Wednesday. But interest was keener in any case in hearing about future interest rate development. Before the meeting, the financial markets were already pricing in two interest rate cuts this year in view of growth risks and weaker inflation. Even though the new dot plot does not imply any rate steps yet, investor expectations have by no means been disappointed. Fed Chair Powell stated that uncertainty, particularly due to

trade conflict, had increased and the Fed would react to a weaker economic outlook (the intention to remain "patient" no longer appears in the current statement). When asked, Powell did not even rule out a rate cut by 50 basis points in July. The meeting has thus raised the probability of interest rate reductions further. The timing of the first rate step will depend on the economic data in the coming weeks.

Market Data Overview

Stock marktes	As of	Change versus				
	21.06.2019 14:28	14.06.2019 -1 week	20.05.2019 -1 month	20.03.2019 -3 months	20.06.2018 -1 year	31.12.2018 YTD
Dow Jones	26753	2,5%	4,2%	3,9%	8,5%	14,7%
S&P 500	2954	2,3%	4,0%	4,6%	6,8%	17,8%
Nasdaq	8051	3,3%	4,5%	4,2%	3,5%	21,3%
DAX	12347	2,1%	2,5%	6,4%	-2,7%	16,9%
MDAX	25578	1,3%	0,4%	2,0%	-3,6%	18,5%
TecDAX	2851	2,0%	0,4%	6,4%	0,7%	16,3%
EuroStoxx 50	3467	2,6%	2,9%	2,8%	0,8%	15,5%
Stoxx 50	3182	1,7%	2,4%	2,2%	4,0%	15,3%
SMI (Swiss Market Index)	9948	1,0%	3,8%	5,1%	16,2%	18,0%
Nikkei 225	21259	0,7%	-0,2%	-1,6%	-5,7%	6,2%
Brasilien BOVESPA	100303	2,3%	9,1%	2,3%	39,1%	14,1%
Russland RTS	1376	2,6%	9,5%	12,2%	22,9%	29,1%
Indien BSE 30	39194	-0,7%	-0,4%	2,1%	10,3%	8,7%
China Shanghai Composite	3002	4,2%	4,6%	-2,9%	3,0%	20,4%
MSCI Welt (in €)	2183	2,0%	2,4%	3,7%	5,5%	17,3%
MSCI Emerging Markets (in €)	1054	3,3%	4,6%	-1,1%	-1,4%	10,4%
Bond markets						
Bund-Future	172,64	86	585	839	1113	910
Bobl-Future	134,31	22	83	191	238	179
Schatz-Future	112,25	9	22	44	21	31
3 Monats Euribor	-0,34	-2	-2	-3	-2	-3
3M Euribor Future, Dec 2017	-0,48	-7	-12	-20	-35	0
3 Monats \$ Libor	2,34	-6	-18	-26	1	-46
Fed Funds Future, Dec 2017	1,68	-7	-47	-63	-99	-1
10 year US Treasuries	2,02	-7	-40	-52	-91	-67
10 year Bunds	-0,30	-4	-21	-38	-67	-54
10 year JGB	-0,16	-4	-12	-13	-20	-17
10 year Swiss Government	-0,51	7	-3	-9	-48	-27
US Treas 10Y Performance	624,30	0,8%	4,0%	5,3%	11,5%	7,5%
Bund 10Y Performance	665,82	0,6%	2,2%	3,9%	8,3%	6,2%
REX Performance Index	497,51	0,2%	0,8%	1,7%	2,8%	2,0%
US mortgage rate	0,00	0	0	0	0	0
IBOXX AA, €	0,27	-10	-17	-29	-51	-61
IBOXX BBB, €	1,05	-19	-29	-49	-50	-101
ML US High Yield	6,44	-20	-26	-31	3	-157
JPM EMBI+, Index	882	2,0%	5,2%	5,3%	12,9%	11,5%
Convertible Bonds, Exane 25	7381	0,0%	1,4%	2,9%	-0,3%	7,1%
Commodities						
CRB Spot Index	411,76	-0,1%	-0,4%	-2,4%	-7,5%	0,6%
MG Base Metal Index	294,81	2,1%	-0,2%	-8,1%	-15,1%	0,0%
Crude oil Brent	65,04	4,5%	-10,5%	-4,8%	-13,7%	22,4%
Gold	1395,62	3,4%	9,2%	7,2%	9,5%	8,9%
Silver	15,41	3,2%	6,6%	0,7%	-5,7%	-0,6%
Aluminium	1756,50	1,4%	-0,5%	-8,2%	-18,9%	-5,7%
Copper	5960,50	2,8%	-0,7%	-8,1%	-11,9%	0,2%
Iron ore	107,21	2,8%	11,2%	25,5%	64,9%	54,9%
Freight rates Baltic Dry Index	1194	10,0%	14,7%	68,4%	-13,0%	-6,1%
Currencies						
EUR/ USD	1,1317	0,5%	1,3%	-0,3%	-2,3%	-1,2%
EUR/ GBP	0,8939	0,4%	2,0%	3,9%	1,7%	-0,4%
EUR/ JPY	121,58	-0,3%	-0,9%	-4,0%	-4,6%	-3,4%
EUR/ CHF	1,1100	-1,0%	-1,4%	-2,1%	-3,8%	-1,5%
USD/ CNY	6,8732	-0,8%	-0,6%	2,6%	6,1%	0,0%
USD/ JPY	107,31	-1,2%	-2,5%	-3,1%	-2,8%	-2,1%
USD/ GBP	0,79	-0,4%	0,6%	4,2%	4,1%	0,6%

Carsten Klude
+49 40 3282-2572
cklude@mmwarburg.com

Dr. Christian Jasperneite
+49 40 3282-2439
cjasperneite@mmwarburg.com

Dr. Rebekka Haller
+49 40 3282-2452
rhaller@mmwarburg.com

Bente Lorenzen
+49 40 3282-2409
blorenzen@mmwarburg.com

Martin Hasse
+49 40 3282-2411
mhasse@mmwarburg.com

Julius Böttger
+49 40 3282-2229
jbottger@mmwarburg.com

This information does not constitute an offer or an invitation to submit an offer, but is solely intended to provide guidance and present possible business activities. This information does not purport to be complete and is therefore not binding. The information provided should not be considered a recommendation to purchase financial instruments individually, but serves only as a proposal for a possible asset allocation. The opinions expressed herein are subject to change without notice. Where statements were made with respect to prices, interest rates or other indications, these solely refer to the time when the information was prepared and do not imply any forecasts about future development, particularly regarding future gains or losses. In addition, this information does not constitute advice or a recommendation. Before completing any deal described in this information, a product-specific consultation tailored to the customer's individual needs is required. This information is confidential and exclusively intended for the addressee described herein. Any use by parties other than the addressee is not permissible without our approval. This particularly applies to reproductions, translations, microfilms, saving and processing in electronic media as well as publishing the entire contents or parts thereof.

This analysis is freely available on our website.