Stock markets burdened by interest rate fears

A specter is haunting the stock markets, one might say in reference to Karl Marx's famous Communist Manifesto. However, it is not about the specter of communism, as in Marx, but about an 'interest rate turnaround'.

It is important to keep in mind that interest rates on U.S. government bonds have been falling for almost forty years. Since the United States, with its huge financial market, is the North Star for the rest of the capital market world, interest rate changes in the world's leading nation also play a central role in Europe. Consequently, yields on government bonds in Germany and Europe rose in sync. As expected, central banks have signaled their intention to counteract rising interest rates.

Stock markets were sensitive to the bond market's price declines. After all, the traditional link between bonds and equities is still valid: higher interest rates are cet. par. poison for the stock market, while falling interest rates are a refresher for it. There is no doubt that a relevant part of the fulminant stock market boom since March 2009 has been due to the aggressive interest rate reduction policies of central banks.

The observed price losses in bonds do carry their logic. Indeed, first inflation concerns have recently become more pronounced. Strongly rising raw material prices, tight logistics capacities, bottlenecks in chips for the auto industry, and supply chain disruptions are all favoring the scope for price increases at many companies. The just planned German 'Supply Chain Act' will do the rest. Increased taxes and levies, e.g. on energy, will provide additional upward pressure on prices. What applies to the goods markets has already been observed on the asset markets for years. These have seen enormous and often exaggerated price increases, especially for interest-bearing securities, real estate, and, in some sectors, equities.

Irrespective of this, equity investments still have no alternative. However, in selecting stocks, care must be taken to stay out of over popular securities. There are certainly several examples of overpriced stocks in sectors like internet and software, as well as in the field of electric vehicles and hydrogen technology. While it may be tempting to believe the rosy narrative of such sectors, it would be foolhardy to put your money on them without a thorough look at their figures. Elder stock market participants will still remember how the bold dreams of the Neuer Markt or the dot.com wave crumbled in those days.

Against this backdrop, the seven LOYS funds delivered a commendable contrast in February. All funds posted encouraging net value developments in February. Our most recent fund, LOYS Premium Deutschland, which was launched at the beginning of the year, took the top spot in terms of performance. The performance accumulated since launch amounts to no less than 17% at the end of February.

Sincerely yours,

Fund managers and co-investors

Dr. Christoph Bruns Ufuk Boydak

This text was originally published in German.