Energy Crisis ?

With the Corona pandemic now largely over, new dark clouds have appeared in recent weeks. Capital markets and politicians are concerned by exorbitant increases in the prices of natural gas, coal, electricity and oil.

But while consumers are groaning under this financial burden, politicians could actually be rejoicing. Nothing would be more conducive to advancing the energy transition than high prices for conventional energy sources. After all, these would give alternative power generation from wind and sun a competitive position. By imposing new taxes, German politicians have been trying to make conventional energy sources more expensive for many years. The price of gasoline serves as a paradigm of the tax policies implemented by German governments over the past twenty years. Energy taxes account for a considerable part of German tax revenues. The more expensive crude oil becomes on the international markets, the higher the revenue from mineral taxes and, above all, from value-added taxes. As the VAT is also levied on the mineral oil tax, there is, on top of that, an efficient multiple taxation. With a share of more than 2/3, the tax burden dominates the price of gasoline. It would therefore be easy for those responsible in politics to reduce the burden on the citizen. However, this would make a mockery of their own energy transition policy. It will therefore be interesting to see what happens in this area, especially since other EU countries have promised their citizens relief from rising prices.

Nuclear energy is affected by short-sighted decisions as well, as nuclear power will be phased out in Germany at the end of 2022. Nevertheless, recent media articles suggest a reconsideration of this decision, especially since nuclear energy is experiencing an upswing worldwide and France, European heartland of nuclear power, is scoring increasingly favorably in surveys on climate protection and security of supply.

However, the energy issue is by no means unique to Europe. Supply shortages and power cuts have also been reported from China and India. The most recent growth figures from the Middle Kingdom already indicate an impairment of economic performance. There is also talk of a renaissance of coal as a primary energy source, since natural gas prices have really exploded. It is primarily the strong demand from Asia which has caused euphoria on the natural gas market.

All of this is reflected in the sharp rise in inflation rates. But here, too, German policymakers might remain calm; cold progression may enable our government to reduce the high level of new debt in real terms. Admittedly, citizens are paying for this development with a substantial loss of purchasing power. Owners of nominal assets such as bonds also suffer a loss of purchasing power. It is therefore right to remind people that real assets - dynamic real assets in particular, i.e. stocks - are the smartest way to preserve real wealth.

Sincerely yours,

Fund managers and co-investors

Dr. Christoph Bruns Ufuk Boydak

This text was originally published in German.

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