War in Ukraine

The unimaginable for many has become true: War reigns again in Europe. Yet again, Carl von Clausewitz has been proven right: "War is the continuation of politics by other means." Wars are essential turning points in the history of mankind. Russia's war of aggression against Ukraine will at least change Europe noticeably. In Germany, there will even be a drastic reorientation. The security and energy policy that has been pursued for more than two decades under various German chancellors must be reconstructed. Life lies and illusions are now being exposed as such.

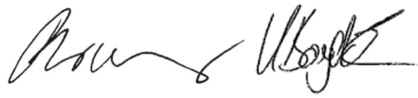
Despite all this, as fund managers we must look ahead. Without a doubt, events will have a significant impact on interest rates, prices, economic growth and debt. The stock markets have already sent out clear signals as to what changes are expected. The flight into American securities and thus the U.S. dollar is conspicuous. The Japanese yen also trended higher recently. Since this is a war in Europe, it is not surprising that the common currency, the euro, is under pressure. To make matters worse, inflation will tend to remain high. The warlike events will at times lead to supply bottlenecks, as we are already experiencing with cable harnesses for passenger car production. In any case, VW and BMW have announced partial shutdowns of their production due to a lack of preliminary products from Ukraine. On the commodity markets, Putin's attack on Ukraine has led to sharp price jumps, especially for energy resources. This is not surprising, as the Ukraine war is fueling fears of restrictions on Russian natural gas and oil supplies. According to data, about 10% of daily global natural gas and oil demand comes from Russian sources. These volumes cannot be substituted by other suppliers, certainly not in the short term. The substitution by liquefied natural gas claimed by politicians is a self-delusion. The situation for coal is by no means more comfortable. Since the beginning of the year, prices for this fuel have risen by almost 70%. Consumers should therefore brace themselves for further increases in electricity and fuel prices.

It is somewhat less clear how the war in Eastern Europe will affect interest rates. While we at LOYS assume that the U.S. Federal Reserve will complete the turnaround in interest rates in March, there are indications that the European Central Bank will remain hesitant. Regardless of galloping inflation, the war is increasing the financing needs of countries quite substantially. Germany alone has announced that it will spend an additional 100 billion euros on national defense. In addition, a new wave of refugees is on the horizon. In case of doubt, the ECB will print additional money. Consequently, optimism about economic development is likely to wane. A recession can no longer be ruled out.

And the stock markets? The stock markets are also under the shock of the start of the war. Emotionality and the first signs of irrationality are evident, and daily volatility is high. Without a calming down on the Ukrainian front, the picture is unlikely to brighten. Nevertheless, interesting opportunities will present themselves in the context of stock selection, especially for investors with a longer-term view. For the time being, however, market prices continue to be dominated by the negative sentiment.

Sincerely yours,

Fund managers and co-investors



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