Turning point in Europe

The eternally oscillating cycle of upswing and downturn has led financial markets into new waters. A new era has begun after four decades of falling interest rates and interest rate cuts as a ritualized impulse to fight a crisis by central banks. Despite persistent dithering, the European Central Bank will initiate a turnaround in interest rates as well.

Coinciding with the big turnaround on the bond markets, Europe is once again experiencing a war. Certainties that have grown up over decades are now rapidly being called into question. The issue of supply security and energy policy is rising to new prominence. The hectic activity of the the so-called 'traffic light coalition' hints at the panic that is likely to prevail behind the scenes. The nationalization of the energy sector is gaining momentum. Meanwhile, in the face of elementary threats, luxury issues are losing importance. Politicians suspect that security of supply may become a central plot of future elections. But security of supply alone is not enough; it must also be available at affordable prices. Therefore, there is now much to suggest that the entire energy policy of recent decades needs to be rethought from the ground up. It would be advisable to study closely what other countries are doing in this area. The self-absorbed ignorance of German politics towards the approaches of Japan, the USA, Switzerland, Great Britain and France has in any case contributed to the present disaster.

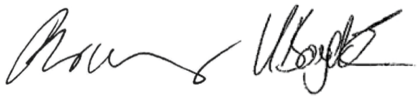
The situation gets further complicated by the unfavorable demographic development in Germany. The labor market now shows daily that there is a shortage of suitable workers on many fronts. This is further fueling the wage-price spiral that has been set in motion. Demands by the unions for full compensation for inflation through collectively agreed wage increases are becoming louder. Admittedly, the elimination of unemployment can be seen as beneficial progress. Generations of politicians have worked hard to combat unemployment.

The trend toward full employment brings new opportunities. The more people are employed, the more the social systems are relieved and the economy faces rising disposable income. It is therefore of paramount importance that incomes are not devalued by inflation. Perhaps the German government would be well advised to counter this danger effectively and without much bureaucracy by a spirited cut in VAT.

The outlook for the stock markets is also by no means as negative as the macroeconomic situation would seem to suggest. It should be borne in mind that most shares are now available at prices twenty percent lower than at the beginning of the year. Single-digit price/earnings ratios are becoming the norm and brokers are lowering their price targets across the board. It remains true, however, that bear markets are born in bull markets. But it is equally true that the seeds of a stock market upswing ripen in rampant pessimism. Accordingly, the fund management of LOYS AG does not allow itself to be misled by the flood of negative economic sentiment. We invest in individual companies, not in countries. Especially when the balance sheets are clean, the market position is solid, the management board is shareholder-oriented, and the valuation is attractive, we do not want to lose sight of the long-term prospects.

Sincerely yours,

Fund managers and co-investors



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This text was originally published in German.

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