Reform-Resistant Germany

As the warm days of late summer begin to fade, hopes for radical structural reforms in Germany are also fading. The bold promises made by then-chancellor candidate Friedrich Merz have given way to yet another "GroKo 3.0," which – like its predecessors – is focused on preserving the status quo and expanding the role of the state.

New ministries, new working groups, new advisory councils, a national security council, and countless new civil service positions have been created. At the same time, massive amounts of debt are being piled onto future generations to fund state-run investment programs. The government hopes this will mark a departure from the "de-growth" strategy of the previous coalition and initiate a return to economic growth.

But there is no willingness to address Germany's increasingly uncompetitive structural conditions. The excessively high tax and social contribution burden remains untouched – just like the disastrously executed energy transition, which is effectively being continued in its current form. Meanwhile, new state-sponsored benefits (such as a supplementary pension for mothers) are being introduced, and the pension system is becoming increasingly financed by taxpayers. The demographic outlook remains bleak, and for the first time in history, more babies are now being born in the United States than in all EU countries combined.

Capital investors understand that both equity markets and the decision to start a family require a certain basic level of optimism. The lack of such optimism has contributed not only to Germany's poor demographic trend but also to its underdeveloped investment culture. The consequences of both are severe: the aging parties, CDU and SPD, lack the youthful energy needed to counteract decline and defend prosperity. Meanwhile, the Left and the Greens are caught up in socialist fantasies, the real-world consequences of which can be seen in places like Cuba and Venezuela. The AfD, excluded from coalition talks, continues its role as a fundamental opposition party – and gains support in the process. At any rate, a political majority for genuine reform is nowhere in sight.

This realization has not gone unnoticed by the financial markets. The initial enthusiasm triggered by debt-financed stimulus programs has now faded. Private investment has remained weak for years, and despite a shortage of skilled labor, unemployment is once again becoming a pressing issue.

Unlike governments, companies cannot afford to delay reforms for long without losing market share, revenue, and margins. This explains why many listed companies are currently scrutinizing and optimizing their internal structures typically including costcutting measures. Fortunately, many German companies are highly international in scope, allowing them to seize global market opportunities.

Despite the bizarre and ultimately damaging U.S. tariff policy – and the EU's embarrassing capitulation in the face of it – economists still expect the global economy to grow by around 3% this year.

As equity investors, we aim to participate in this expanding pie. The LOYS Philosophie Bruns fund, with its conservative international stock selection strategy, has delivered strong results so far this year. Recent investments in the U.S., China, and Japan have contributed meaningfully. Looking ahead, intelligent global asset and currency allocation will likely remain a key driver of success.

Sincerely yours,

Fund managers and co-investors

Dr. Christoph Bruns Ufuk Boydak

This text was originally published in German.

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