Unemployment back in the spotlight

For many years, the issue of unemployment has not featured prominently in the public discourse. Demographic change – specifically, the fact that more people retire each year than young people enter the workforce – has significantly eased pressure on the labor market. But it hasn't always been that way.

In the 1990s, unemployment remained a major challenge, despite solid economic growth. When Chancellor Helmut Kohl's government was replaced in 1998 by the red-green coalition under Schröder and Fischer, the new Chancellor famously declared that his tenure should be judged by his ability to reduce unemployment. However, because the unemployment rate remained in double digits, Chancellor Schröder realized that comprehensive reforms in the areas of labor, pensions, taxes, capital markets, etc. were necessary to get the problems under control. Under the banner of "Agenda 2010" sweeping and unprecedented reforms were introduced, and these ultimately led to a marked improvement in Germany's economic indicators. From 2005 onward, unemployment began to fall sharply. Despite this success, the "Agenda 2010" initiative caused a rift between much of the SPD and its Chancellor, leading to Schröder's defeat in a snap election in September 2005. It was Angela Merkel – personally popular and unburdened by the reform backlash – who then reaped the economic rewards of Schröder's policies. In retrospect, both CDU/CSU under Kohl and Merkel showed little inclination for reform, and the SPD ultimately distanced itself from "Agenda 2010" in cooperation with the labor unions.

Today, CDU/CSU and SPD are back in government together and once again face rising unemployment. But the situation is even more difficult now than it was under Schröder and Fischer. Particularly tragic is the failure of earlier efforts to supplement Germany's pension system with a capital-funded pillar (such as the "Riester" and "Rürup" pensions), which collapsed due to serious design flaws. In the meantime, the intergenerational contract has all but broken down, and a large share of today's pensions is now financed from general tax revenues. On top of that, Germany's energy transition – uniquely implemented and without international imitation – has led to extremely high electricity prices, prompting the relocation of energy-intensive industries and jobs abroad. Heavy industry, along with former flagship sectors such as automotive and mechanical engineering, have been particularly affected. There are striking parallels to past deindustrialization trends in the UK and U.S. However, Germany lacks Britain's capital market culture – and certainly nothing resembling Silicon Valley. Instead, aging demographics, high tax and social contribution burdens, misguided immigration policy, excessive bureaucracy, and political resistance to reform make the country increasingly unattractive, especially for skilled young foreigners. The rapid economic rise of China and the war in Ukraine have only added to these pressures.

So far, the German equity index has remained largely resilient to this downward trend. However, it's worth noting that DAX-listed companies conduct most of their business abroad. Moreover, the majority of large publicly traded German companies are now majority-owned by foreign investors. The situation is different further down the market cap spectrum. While these small- and mid-cap stocks may be less internationally diversified, there are still many attractive opportunities to be found in these segments. As evidenced by the strong performance of the LOYS Philosophie Bruns fund, we are consistently seizing those opportunities.

Sincerely yours,

Fund managers and co-investors

Dr. Christoph Bruns Ufuk Boydak

This text was originally published in German.

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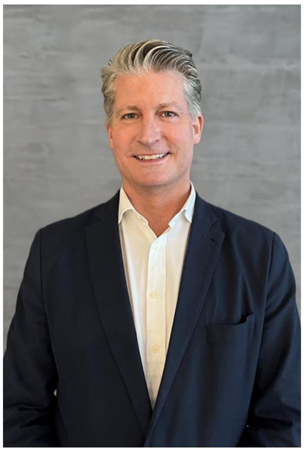

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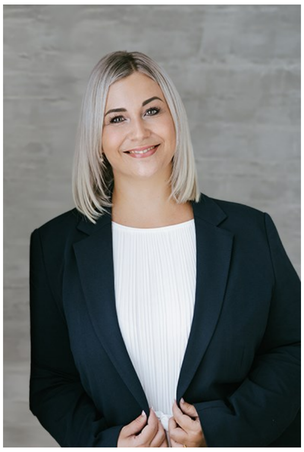

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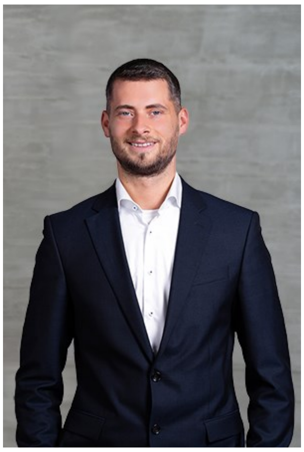

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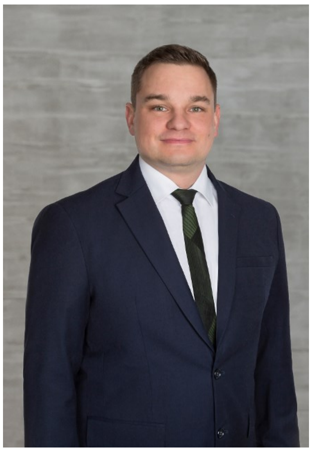

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