Price correction marks the start of the year

The stock market start into the new year was clearly spoiled in January. After a splendid 21, markets went into correction mode. Worried by fears of interest rate hikes and war preparations on the border between Russia and Ukraine, there was some heavy selling on the capital markets. Previously highly popular stocks with sometimes astronomical valuations (Peloton Interactive, Zoom Communications, DocuSign, Moderna, etc.) led the pack of losers. Meanwhile, the level of stock indices was somewhat maintained by the fairly stable performance of some highly weighted stocks.

In the meantime, a broad consensus of market participants assumes that in the United States interest rates will turn around. The U.S. central bank, the Fed, has announced three interest rate hikes of 0.25% for the current year. An end to monthly bond purchases is planned by yearend. Overall, real interest rates (nominal interest rates minus inflation rate) will therefore remain negative, as no trend reversal is expected on the inflation front. At best, economists expect a slowdown in the rate of monetary depreciation. Irrespective of this, inflation is likely to remain uncomfortably high in 2022, meaning that the population will have to prepare for a real loss of purchasing power. By no means, only energy prices will continue to rise significantly in 2022. In the meantime, second-round effects have meant that most categories in the statistical basket of goods are affected by price increases. Moreover, there is a risk of a wage-price spiral, as employees will demand compensation for high inflation rates. In addition, the state contributes to inflation by imposing marked increases in taxes and levies as well as in the minimum wage and pensions.

Against this background, the sluggish attitude of the European Central Bank is astonishing, insofar as it shows little commitment to putting a stop to inflation. A study of classic textbooks would have led the reader to expect something different. Furthermore, the ECB's weak currency policy contributes to inflation, especially in the case of imported goods from abroad, such as oil.

Of course, experienced policy observers will know that new heads can also result in changed policies. Consider, for example, the new term “greenflation”, which describes some of price rises associated with government action to limit CO2 emissions. Even the term of a “feminist foreign policy”, as it could recently be read in the Frankfurter Allgemeine Zeitung, still takes some getting used to. In the past, one would have wanted a primarily smart foreign policy. Today, people seem to want something different. And the word “ecological patriotism”, which the new German Climate Minister Habeck announced on his recent trip to Bavaria, may also arouse some concern, especially since hardly any concept in human history has been used in such a manipulative way as that of patriotism. Things get exciting when it comes to the topic of prosperity. According to reports, the new minister of economics wants to say goodbye to the gross national product and redefine prosperity. This could prove to be a good idea, because the losses in prosperity that the Germans are facing according to traditional calculations perhaps could then be redefined as gains in prosperity.

Regardless of this, we at LOYS want to cling to the tried and true. The quadriga of quality, undervaluation, diversification, and time is likely to remain the smartest thing to do in terms of investing in the coming months and years. The days when interest investments will be an attractive alternative to equity fund investments are still very far in the future.

Sincerely yours,

Fund managers and co-investors

Dr. Christoph Bruns Ufuk Boydak

This text was originally published in German.

Contact us

Frank Trzewik

Managing Partner Sales

trzewik@loys.de

Tel. +49 (0) 441 92586-0

Raphael Riemann

Managing Partner Organization / Sales

riemann@loys.de

Tel. +49 (0) 69 2475444-01

Matthias Gindert

Sales Manager

gindert@loys.de

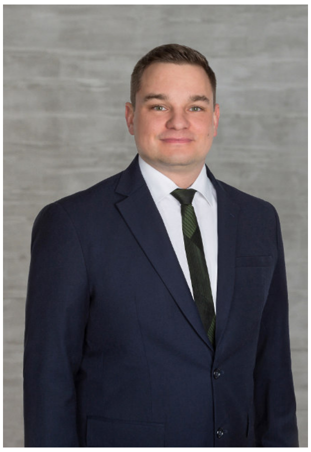
Tel. +49 (0) 69 2475444-02

Chris Thiere

Sales Manager

thiere@loys.de

Tel. +49 (0) 69 2475444-16



Alexander Piira

Sales Manager

(LOYS Suisse AG)

piira@loys.de

Tel. +41-41 766 77 35

Impressum - Company Details

Publisher:

LOYS AG
Heiligengeiststr. 6-8
26121 Oldenburg

Contact us:

Telephone: +49 (0) 441-925 86-0
info@loys.de

Responsible person:

Frank Trzewik
Managing Partner LOYS AG
www.loys.de