Inflation ante portas

Central banks acted wisely by calmly suggesting for months that a significant increase in the inflation rate would be acceptable and not fought in the future. In this way, central bankers are preventively avoiding the inevitable public pressure that they would face by announcing a significant increase in inflation rates (March: 1.7% in Germany!). Also, they are administering initial tranquilizers to financial markets, which they are keen to keep under control.

But what exactly is inflation? It is the rise in the general price level in an economy. The consequence of this monetary erosion is that a citizen can buy less of the goods and services this year than he could with the same amount of euros last year. Immediately, it becomes clear that 'monetary stability' should be a desired goal to strive for in the economic policy.

Until 2008, the world's major central banks marched more or less united behind the banner of monetary stability, although they did not always take this very seriously. Since then, triggered by the great financial crisis, there has been an inversion of this approach. Today, the central banks' unspoken goal is to generate monetary devaluation, which manifests itself, among other things, in zero interest rate policies, unprecedented bond-buying programs, and a stellar expansion of the money supply. Ultimately, inflation is also the only feasible way to reduce government debt in real terms. After all, it can be taken as a foregone conclusion that governments cannot save money, irrespective of their political convictions. Also in Germany, the annual level of national debt, regardless of the black zeros in past decades, only had one way: up!

In this respect, the central banks' approach is understandable and in line with their new role as crisis fighters and public financiers. Serious observers stopped talking about the independence of central banks a long time ago. In this context, an increasingly important question must be asked, too: Should inflation still be measured by government agencies, or are government institutions now too biased to truthfully report inflation trends? The boom in alternative currencies (i.e. cryptocurrencies) indicates a growing distrust of government currency and inflation control.

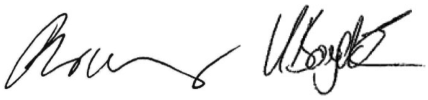
But how are investors doing? Can they face an ongoing debasement of the value of money with as much composure as publicly pretended by government institutions? Unfortunately, investors cannot afford dismissing general increases in the price level as temporary and venial trifles.

Rather, every single citizen who participates in economic life is exposed to monetary erosion to a greater or lesser degree. John Maynard Keynes had already pointed out about one hundred years ago that inflation allows the state to confiscate part of its citizens' wealth quite unobserved, secretly and legally. The no less important American economist Milton Friedman compared inflation to an additional tax imposed on citizens.

For investors, a continued monetary erosion would imply a retreat from nominal values. The trend toward real assets, which has been evident for months, is likely to accelerate further the more visibly inflation cranes its ugly head upwards. Equity markets, and with them the LOYS funds, are likely to remain among the beneficiaries of this trend.

Sincerely yours,

Fund managers and co-investors



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