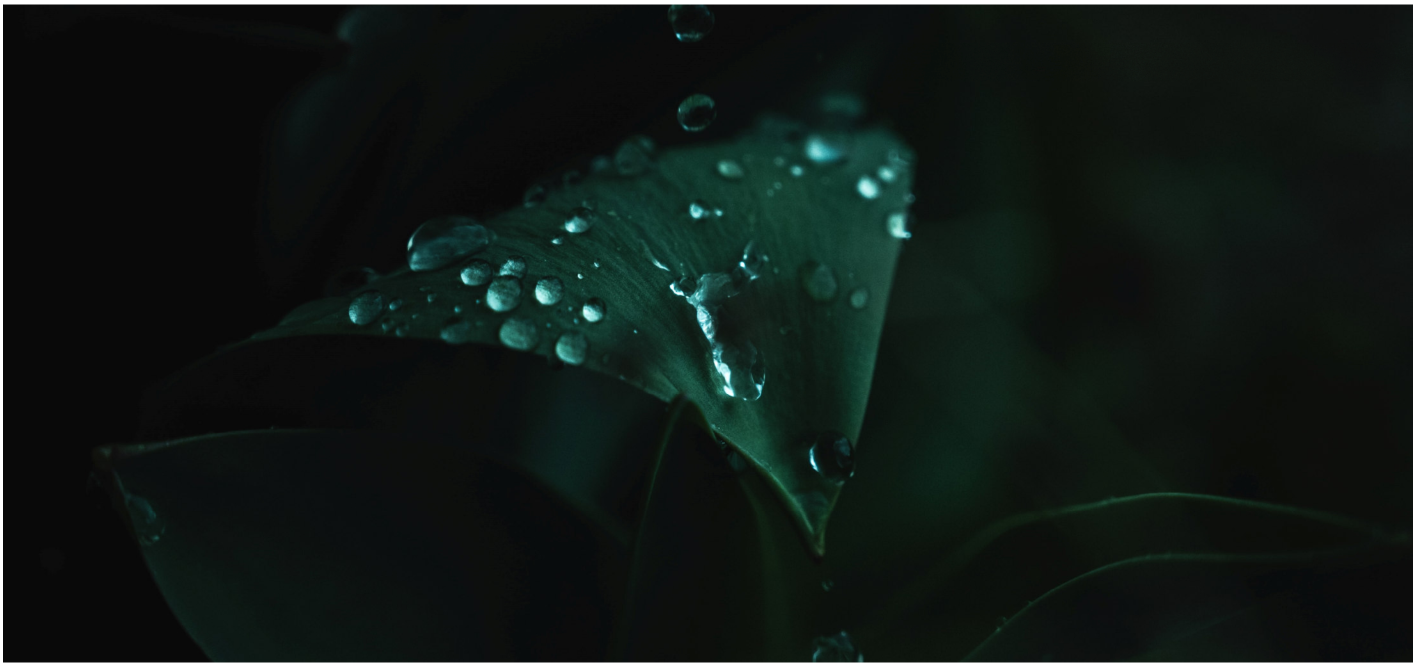
Teflon Stock Exchange



One of the main characteristics of this stock market boom of the century is the robustness of price developments despite crisis-ridden economic developments around the world. One could say that these are Teflon stock markets because negative news largely drip off without consequence. Whether it's the Greece bailout, the migration crisis, the Trump presidency, the Corona pandemic, or the current Afghanistan fiasco, even severe political and economic cuts cause share prices to fall only briefly, before immediately shifting back into forward gear.

Central banks will inevitably be credited with playing a central role in this stock market development. In fact, for several decades now, people in the U.S. have been talking about the so-called Greenspan put, named after the dazzling former Federal Reserve Chairman. This is an expression for the non-codified assurance of the U.S. Federal Reserve Bank to intervene in the interest rate market whenever there is trouble in the economy and on the stock markets. In any case, this is exactly what has happened over the past two decades. Whether after the terrorist attacks of September 11, 2001, or during the subprime crisis, the Fed stood ready to prevent the stock market train from derailing. Central bankers are well aware of the spill-over effects that falling share prices can have on the economy, especially in the USA.

Admittedly, zero interest rate policies produce substantial wealth effects in themselves. Bond investors have indeed benefited for years from government-initiated interest rate cuts through rising prices. However, with coupons melting away, the actual yield on many bonds has been negative in real terms for some time. In contrast, equity investors continue to benefit from the ebb in interest rates. Not only has the main competitor to equity investment disappeared, but companies are also benefiting from better financial results and an interest-rate-driven increase in the present value of future corporate profits. Only the pension obligations of the companies look higher due to the lower discount rates.

Unfortunately, particularly Germany is one of those countries where the population does not benefit from this development. Stock investments in Germany are still not as important as one might expect given the size of the country's economy. Literacy in capital market topics is low and, in addition, confused views on the morality of profit-making prevent a clear economic view. Furthermore, German politicians understand little about the benefits of large and deep financial markets. It speaks for itself that the Minister of Economics recently admitted in an interview with the Berliner Zeitung that he owns no shares but a savings book and a modest property. The Finance Minister of the Federal Republic of Germany spoke in a similar vein a year ago, when he expressed his aversion to shares and his preference for a savings book.

Since its establishment at the end of 2004, LOYS AG has been constantly promoting for citizens the participation in value creation of the global economy. The relevant instrument for this would be investing in an equity fund, and the high growth in value of all our funds since then confirms our findings. We cannot see that this fundamental assessment will change much in the next ten years. Meanwhile, we see the behavior of the state and predominantly its central banks as a risk factor that we have to keep a careful eye on.

Sincerely yours,

Fund managers and co-investors

Dr. Christoph Bruns Ufuk Boydak

This text was originally published in German.

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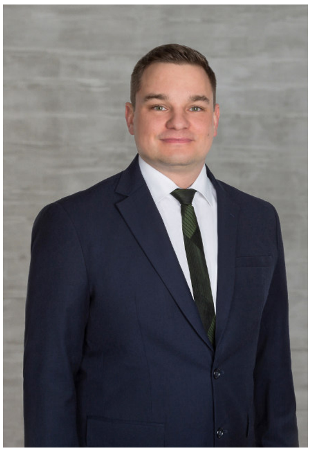

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