Belt tightening

If you look at media headlines, you might think you're in a dream concert. The Minister of Agriculture is calling for the abolition of value-added tax on fruit. His colleague the Minister of Labor is calling for higher state subsidies for pensions. An increase in the commuter allowance is also declared desirable, as is a heating allowance. The chancellor wants to spend no less than 100 billion euros in addition to the annual defense budget on the armed forces.

Of course, not a single cent is to be saved on the welfare state. Meanwhile, the Foreign Minister is traveling the world and promising greater financial commitment from Germany everywhere. Robert Habeck, the Minister of Economics and Climate Change, pours out the cornucopia of German tax money for natural gas from Qatar and Texas. Meanwhile, the Finance Minister declares that Germany's financial capacities are finite. Regardless of this, the state now wants to invest heavily in LNG terminals. And the insolvent MV shipyards in Wismar and Warnemünde are to be continued by the German armed forces, i.e. by the taxpayer, in the future.

As is often the case in life, it is more important to develop sensitivity to what is not being said as opposed to the ritualistic demanding of the state. There are virtually no incentives for sound fiscal policy. Savings are not popular with voters, which is why election promises are usually the key to electoral success. This would not have to be the case if, for example, the adoption of spending programs would immediately lead to higher taxes for citizens. It is permanent debt financing that obscures the connection between spending and taxes and is therefore booming worldwide.

Now that the turnaround in interest rates has occurred at the long end of the capital market, the chimera of a 'black zero' and balanced budgets is collapsing like a house of cards. As the federal and state governments face rising interest expenses in the future, the unrealistic self-image of the solid housekeeper is crumbling.

In times of high inflation, the state succeeds in reducing its net debt in real terms, mainly thanks to cold progression, but the prosperity of its citizens is dwindling. In view of this gloomy outlook, the state should actually take the lead and tighten its belt considerably. A smaller Bundestag, shrinking of the Bundesbank, Public Broadcasting, BaFin and many other mega-authorities would be the order of the day. But the state wants to grow, because that brings more posts and money. It is no different with private companies in the economy, they too want to grow and become more valuable. Unlike the state, companies have to come up with products and services that are advantageous in the eyes of potential users. However, this is not enough for success in the marketplace; efficient delivery of products is also one of the success factors. One of the strengths of companies is sometimes their ability to cut costs in difficult economic times. Here, the state could learn a lot from well-managed, private companies. Those companies that are particularly good at adapting to changing conditions have long-term advantages. The same is likely to be true for governments.

The current bear market is causing share prices to fall, even for strong companies. If we at LOYS manage to rely on the quadriga of quality, undervaluation, diversification and time, unperturbed by the siren sounds of the zeitgeist, we have nothing to fear from the coming months.

Sincerely yours,

Fund managers and co-investors

Dr. Christoph Bruns Ufuk Boydak

This text was originally published in German.

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