

Wealth recession



'Recession' is becoming an established word in the public debate. The economic departments of banks and research institutes are also predicting a decline in economic output in Germany and Europe. In doing so, they are probably running behind reality, especially as the USA has already been showing an - albeit slight - economic contraction since the beginning of the year. Irrespective of this, there is a flight of capital from the euro zone into the dollar.

The high loss of purchasing power that people have already been suffering for at least eighteen months is completely unquestionable. In this respect, one could speak of a purchasing power recession. This recession affects every citizen, because without consumption, even if it is only for food, no citizen can make ends meet on a daily basis.

On top of this, there is also a recession in assets and savings, because bond and share prices are in a severe slump. However, while stock price setbacks occur every few years, the market for fixed-income securities is characterized by a price slump not seen for a long time. After nine

months, the REXP, which measures the net performance of a basket of German government bonds, has seen prices plunge by almost 11%. The trioka of economic recession, purchasing power recession and asset recession inevitably leads to a severe curtailment of prosperity. Moreover, the negative interactions of the three phenomena are considerable. The wealth recession, for example, will quite inevitably make an accelerating contribution to the economic downturn as people cut back on their consumption in the face of declining savings.

At the same time, it does not look as if the high tax and contribution

burdens will ease in the future. On the contrary, government spending is soaring and debt is being significantly expanded. In view of the rise in interest rates, the interest burden on public budgets will increase sharply in the coming years. The state's inability to use the good economic years to reduce debt is now taking its revenge. The only hope for debt reduction is high inflation.

Meanwhile, there are no realistic prospects for streamlining the state apparatus. The EU's two parliamentary seats in Brussels and Strasbourg are a symbol of the impossible nature of efficient state structures. In Germany, the giant Bundestag with its more

than 700 members may be seen as a symbol of this sad situation, as is public broadcasting, which has been in the headlines recently.

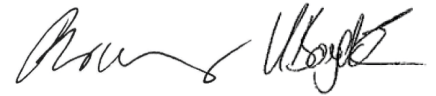
At least there are indications that inflation will pass its peak in the coming year, so that relief on this front is conceivable in perspective. Above all, relief is approaching from the commodities side, because the prices for crude oil and industrial metals such as cop-

per and aluminum have recently corrected significantly. Wage development is likely to be the Achilles' heel of monetary devaluation. Moreover, an end to the Ukraine war would be helpful, but that is unlikely to happen in the short term.

The stock markets, which react to such developments like a seismograph, will remain on guard until there is light on the macro horizon.

Sincerely yours,

Fund managers and co-investors

A handwritten signature in black ink, appearing to read 'Christoph Bruns' and 'Ufuk Boydak'.

Dr. Christoph Bruns Ufuk Boydak

This text was originally published in German.

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