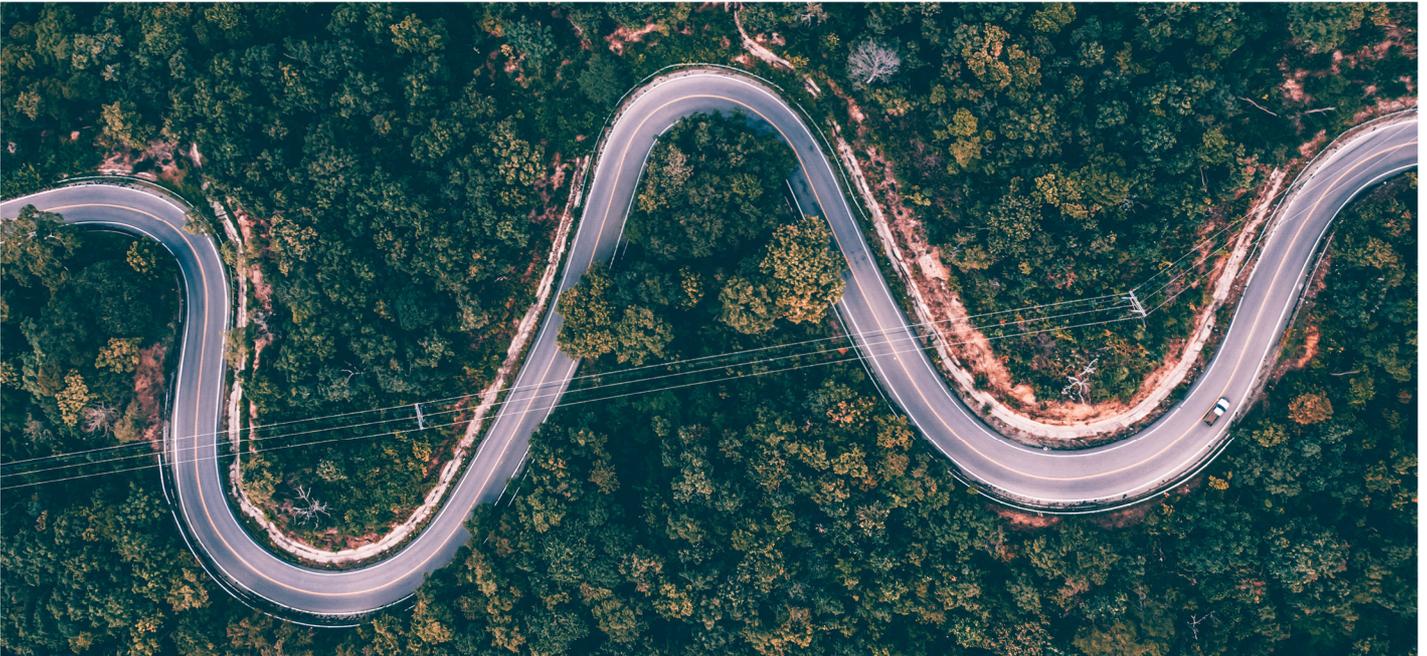


The Tide is turning



Ludwig Erhard is said to have stated that economics is 50% psychology. The same is also said of the stock market, and in politics, the same may be true. There where people are involved, ambition, vanity, envy, fear, hope, worry and euphoria always play a role.

As media coverage in Germany over the last few weeks and months shows, the mood has recently taken a sharp turn. Not a day goes by without reports of bureaucratic thickets, incompetence on the part of the government, energy price increases, shortages of skilled workers, housing shortages, relocation of businesses, insolvencies, construction slumps, recessions and the like.

The current situation and the pessimism it engenders may hide the opportunity for substantial reforms. Indeed, such reforms have been overdue for many years. Stephan Weil, recently spoke in this context of a "state reform" that was necessary. An 'Agenda

2030' along the courageous lines of the Gerhard Schröder / Joschka Fischer duo is also occasionally called for. However, it should first be remembered that at the beginning of her sixteen-year term in office, former Chancellor Merkel clairvoyantly stated that Germany's influence in the world was due to its strong economy. Unfortunately, Merkel was unable to create improved conditions for the German economy through appropriate reforms. On the contrary, she quickly raised the value-added tax from 16% to 19% and then doggedly administered the benefits that accrued to her from Schröder's Agenda 2010.

Even if we as asset managers in Germany are still able to select

very interesting companies, we can no longer close our eyes to Germany's decline. This has already started many years ago and is based on structural disadvantages such as demography, a bloated state, high taxes, high energy prices with decreasing security of supply and constantly new regulations.

The trigger for the change in mood, however, is the high devaluation of money and the accompanying loss of purchasing power in Germany. The unique experiment of the European Central Bank, consisting of negative interest rates, enormous money printing and state financing via gigantic bond-buying programs, has left behind a devastating damage to

prosperity. COVID policy had raged negatively on the German economy and now the Ukraine war is contributing the rest.

Continuing and sitting it out, as was the case under the long-standing CDU chancellors Kohl and Merkel, is no longer an option for Olaf Scholz if he does not want to go down in the annals as the chancellor of decline. De-industrialization and the ever-increasing share of public spending must urgently be stopped. Concerning energy policy and security it would be wise to say goodbye to green ideology and instead take an example from

Germany's neighbouring countries. There, the issue is handled much more pragmatically and successfully, as are Japan and the United States. It may even soon be possible to correct the damage done by Germany's quota policy. The country must find a way to fill important positions according to competence, integrity and experience and not according to gender or "vitamin B"; with pleasure also with lateral entrants without a suitable party book. In general, we will have to think about whether the party system is not discouraging suitable people from becoming politically active.

Ludwig Erhard once said that, as Minister of Economics, he spent 80% of his energy fighting mischief. In this spirit, the serious missteps of recent years must now be corrected so that a new opportunity can emerge from the crisis.

Sincerely yours,

Fund managers and co-investors



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