Flossbach von Storch

2/2025

POSITION

Thought-provoking issues for investors

ONE AGAINST ALL

USA

More debt

EUROPE

More value

CHINA

More market

Donald Trump and tariffs. This will likely become the defining issue of his second term as President of the United States. Trump presented his global tariff regime with great fanfare in the White House garden as a reaction to what he sees as decades of 'cheating' the American people. But it wasn't long before he backtracked. Bond and equity markets sounded alarm bells, and Trump, seemingly receptive, said he would take the time needed to negotiate. In fact, he said, his phone was ringing off the hook: heads of state from around the world were calling him, begging to close deals and, in his own words, 'kissing the ass' of the US president. China, however, is not playing that game. Beijing responded firmly: they are prepared to fight this battle to the end, after Trump once again toughened his rhetoric against the People's Republic. For the global economy and the future of globalisation, this is not good news. Whatever the outcome of Trump's erratic foreign and economic policy, one thing, at least for now, can be said with certainty: trust and reliability are being severely damaged.

Flossbach von Storch

POSITION 2/2025

Flossbach von Storch Invest S.A. presents the quarterly magazine
from our Fund Manager Flossbach von Storch SE, Cologne.

You can subscribe to our magazine free of charge.

IN A WORD

Germany is investing heavily in its military and its infrastructure – via new debt. I certainly have nothing against investment; on the contrary, it is more urgently needed than ever.

Anyone who takes a look at the German armed forces (Bundeswehr), our bridges, roads and schools will quickly come to a damning conclusion. Not to mention the digital infrastructure. Compared to other industrialised countries, especially those in Asia, Germany appears almost neglected.

What bothers me about the debate is the natural reflex of those in power to want to run up debt first and foremost; what are we actually burdening our children and grandchildren with?

Why are we not discussing potential savings (at least) as intensively at the same time? About ineffective subsidies and supposed social benefits, in short: about the costs of decades of clientele politics. Just imagine how modern our roads and military could be today if we had kept them in good shape instead of handing out perks at every opportunity and bloating the welfare state?

Let's be honest: even if the future government's debt plan looks like a huge economic stimulus package, restoring Europe's security and competitiveness will require far more investment. That is why we need a constructive debate about what the state must – and can – deliver in the future.

Above all, it requires the recognition that everything we spend must first be earned. One thing is certain: we will not be able to avoid painful structural reforms.

And even if many Europeans, especially Germans, do not want to hear it: in future, we will have to work harder and longer for our prosperity and security – not less.

We wish you an enjoyable read!

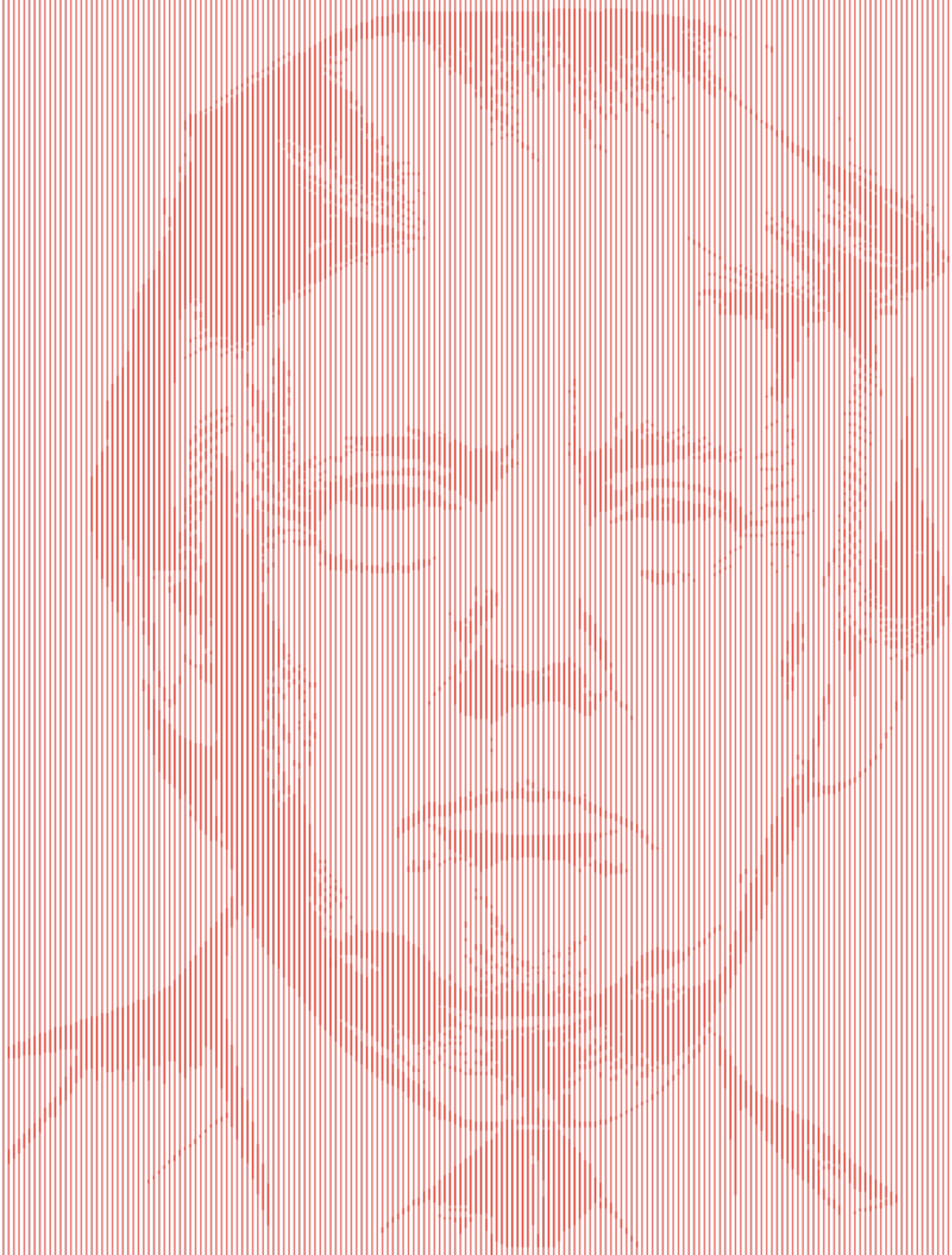
Kurt v. Storch

Kurt von Storch
Founder and Owner of Flossbach von Storch SE

Flossbach von Storch

POSITION

2/2025



Bert Flossbach

ONE AGAINST ALL

Donald Trump is imposing trade tariffs on the world. Where will it end?

It was a moment for the history books: on 2 April, a Wednesday, Donald Trump appeared before the press in the Rose Garden of the White House – and thus the entire world. The US President announced details of his new tariff policy. After half an hour of complaining about the unfair treatment of the USA (by everyone else) and the usual self-praise, he held up a board with the headline "Reciprocal Tariffs". Listed on it were tariffs that various countries allegedly impose on products from the USA – numbers that appeared astonishingly high.

Next to them were the reciprocal tariffs that the USA will impose in future. Trump described them as "mildly reciprocal" because they are mostly only half as high. For example, the EU allegedly levies 39 per cent on US goods, which the USA is now apparently responding to with a charitable 20 per cent. In fact, in 2024, the EU levied only 1.7 per cent in tariffs on goods imported from the USA (trade-weighted average).

So how does Trump arrive at his bizarrely high figures? They are, quite literally, "fake".

The calculation logic behind reciprocal tariffs is completely absurd and has nothing to do with reality. It is based on the trade deficit with another country and compares this to total imports of goods. The impact on individual countries would be devastating.

IMPORTS BAD, EXPORTS GOOD …

Take Vietnam, for example. In 2024, the country sold goods worth USD 136 billion to the USA. In return, goods worth USD 13 billion were imported from the United States. This means that the US deficit in goods trade amounted to USD 123 billion. The Trump administration then compared this deficit to the USD 136 billion worth of goods imported into the USA. This results in a reciprocal tariff rate of 90.4 per cent (123.46/136.56). Half of this results in a "mildly reciprocal" tariff rate of 46 per cent. In fact, Vietnam recently imposed a trade-weighted tariff rate of only 2.9 per cent on US goods imports (according to the World Trade Organization).

Conversely, the USA imposed a trade-weighted tariff rate of 3.2 per cent on goods imported from Vietnam. It is not only economists who are likely to tear their hair out over this absurd calculation.

Trump's tariff ideology is based on the view that imports are generally bad and exports good. A trade deficit, such as the one the USA has had for decades, is therefore proof that it is being taken advantage of by its trading partners. Trump sees the whole thing as a zero-sum game. However, the hoped-for reindustrialisation of the USA and millions of new jobs will not be achieved with a xenophobic, revanchist economic policy.

Furthermore, the USA cannot manufacture all the imported goods itself because it lacks the capacity, personnel and, in some cases, the expertise. And if it tried, the products would no longer be affordable for many Americans. If implemented on a permanent basis, reciprocal tariffs would largely bring trade with the USA to a standstill and lead to a global economic crisis.

A look at the history of US customs duties illustrates the extent of the announced tariff increases, had they actually come as announced on 2 April (see Figure 1). At an estimated 30 per cent, they would have been far higher than during the Great Depression in the early 1930s. It is therefore to be hoped that the announcement of such high tariffs will remain an absolute exception, a one-off entry in the history books.

CHAOS AT CUSTOMS PORTS

From the perspective of many countries, things did not initially turn out quite as badly as initially feared. Just a week after President Trump's infamous tariff chart sent global equity markets into a tailspin, he appeared to backtrack, at least temporarily. He announced a 90-day 'tariff pause' for a large number of countries willing to negotiate, including the European Union (EU). During this period, a universal tariff rate of just 10 per cent would apply.

Figure 1
Madness from Washington
The USA has imposed unprecedented tariffs

* Average tariff rate after application of the 'reciprocal tariff rates' announced on 2 April 2025. The study analysed (eight of) 10 trading partners with the largest trade surplus with the USA in 2024, excluding Canada and Mexico.

Source: Macrobond, Tax Foundation, Flossbach von Storch, data as at 30 April 2025

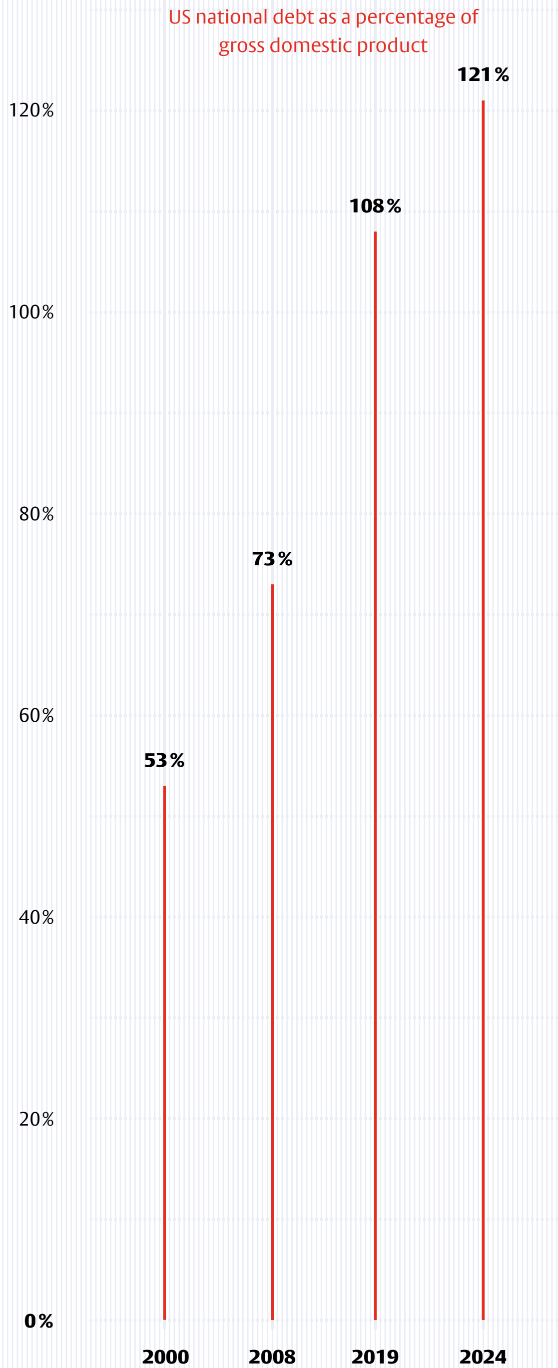


Figure 2
At record levels
Never before has the USA been so heavily indebted

Source: LSEG Datastream, Flossbach von Storch, data as at 30 April 2025

However, exceptions prove the rule. While the EU, for example, did not seek a confrontation with the world's largest economy, the Chinese response was not long in coming. What followed was an unprecedented tit-for-tat tariff escalation between the two global powers. Ultimately, both sides imposed tariffs exceeding 100 per cent. Export controls on rare earths were also introduced. The consequences of such a trade spiral are difficult to fathom. Fortunately, the US soon signalled a renewed willingness to negotiate.

Daily twists and turns in the trade conflict sometimes fuel uncertainty. This is causing chaos in the customs ports of the USA because nobody seems to know exactly what rules apply. The ability to plan for buyers and sellers, for companies and consumers suffers. The longer such a situation lasts, the greater the resulting economic damage.

In this context, the EU's proposed retaliatory tariffs on imports of bourbon whiskey, motorcycles, steel, and aluminium are unlikely to make a meaningful dent in Trump's resolve – nor will they meaningfully benefit EU coffers. A more strategic move might be to eliminate tariffs on US goods altogether. This would hand Trump a symbolic "win," while the actual impact on EU revenues would be negligible, given that duties on US imports currently amount to around EUR six billion annually. Such a move would rob Trump's complaint of its basis. We have contacted EU Commission President Ursula von der Leyen about this (see page 13).

THE DANGER LURKS WITHIN

Trump's tariff war is an example of the abuse of the USA's exceptional economic, military and financial position for his own personal goals. Any head of government of any other country would be ridiculed if they acted in a similarly ruthless manner. However, the USA has cheap energy, the world's reserve currency – the US dollar – and is surrounded by two large oceans that make it virtually unassailable from the outside.

The only true vulnerability the United States faces lies within – particularly through the erosion of the rule of law. This is precisely what is threatened by Trump's attempt to expand his powers vis-à-vis other state authorities. Although this is nothing new in US history, it has always been limited by the system of checks and balances. A prominent example is Richard Nixon, who was ultimately forced to resign in 1974 in the wake of the Watergate scandal in order to avoid impeachment proceedings.

However, Trump's starting position is different. The predominantly conservative US Supreme Court has granted the president extensive criminal immunity for official acts. Trump loyalists dominate the Republicans in Congress; Republican dissenters are intimidated. The disoriented Democratic opposition has so far been unable to counter this.

Trump disregards court rulings and thereby undermines the separation of powers. He is hollowing out democracy from within, with the full support of technology oligarchs such as Elon Musk. It feels like a post-democratic coup from above, something one would expect in Recep Tayyip Erdogan's Turkey, but not in the USA, the cradle of modern democracy. This is likely to deter foreign companies, highly skilled workers and academics and weaken the attractiveness of the USA as a location for research, development and production.

The high growth rates of recent years, which were also achieved through debt doping, seem to be a thing of the past for the time being. US national debt has now risen to an historic high of 121 per cent of gross domestic product (GDP) (see Figure 2). By the end of Trump's term in office, the debt ratio is likely to rise further. According to current estimates by the International Monetary Fund, this would then rise to 126 per cent.

TRUMP LOVES DEBT

This could result in further increases in interest expenditure, which already amounted to more than USD 1.1 trillion

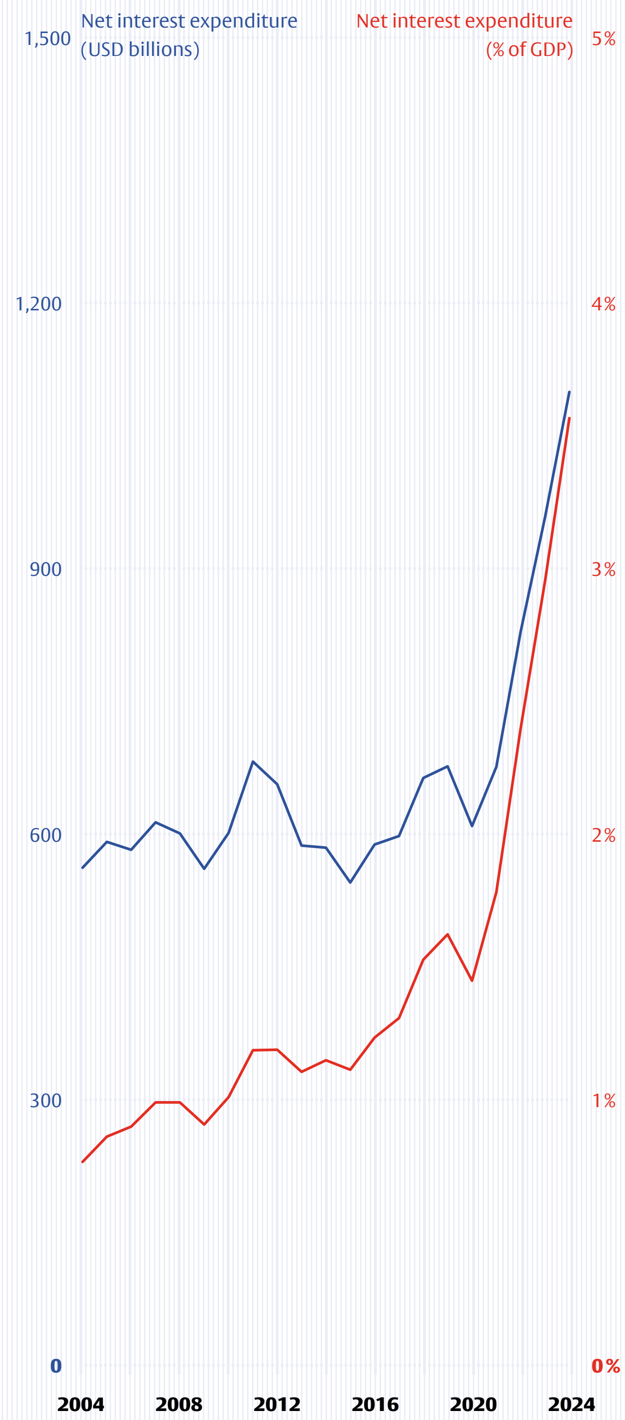


Figure 3
Headwind for Trump
Interest expenditure in the USA rises significantly

Source: LSEG Datastream, Flossbach von Storch, data as at 30 April 2025

last year (see Figure 3). At around 3.3 per cent, the average interest rate on outstanding government debt is currently still below current market yields. Without lower interest rates on the market, trillions of US dollars of maturing bonds would have to be replaced by higher-yielding securities in the coming years.

It is well known that Donald Trump loves debt. But he hates servicing it. High interest payments are anathema to him. That is why he is pushing the Fed to lower interest rates and would like to replace Fed Chair Jerome Powell, who is highly regarded on the financial markets, with a Trump loyalist.

“Powell’s resignation can’t come soon enough,” Donald Trump posted in mid-April on his social media platform, Truth Social. After the capital markets reacted nervously to such statements by President Trump, he immediately tried to soften his rhetoric – possibly knowing full well that the dismissal of senior Fed officials would not be permitted under current law, as Fed Chair Powell pointed out. Nevertheless, with Powell’s term set to expire in May of next year, a change in leadership appears increasingly likely.

In the meantime, however, considerable damage has already been done. Any attack on the independence of the Federal Reserve risks undermining global confidence in both the US dollar and the broader financial system. The recent pressure campaign directed at the Fed Chair may already be viewed as a breach of institutional boundaries. Ironically, a weaker dollar would even be to Trump’s liking as he associates it with improved competitiveness in the USA, which secures jobs. But in a scenario where the Fed is perceived as being politically manipulated, international investors might think twice before committing capital to US dollar-denominated assets or Treasuries. ◆

Dr Bert Flossbach is Founder and Owner of Flossbach von Storch SE in Cologne.

Cologne, 7 April 2025

Dear Madam President,

In response to the “reciprocal” tariffs announced by the US President, an obvious response would be to implement equivalent retaliatory measures. However, doing so would likely only provoke Donald Trump further. The result could be a disastrous trade war, with unpredictable consequences for both the global economy and the European Union.

It would therefore be advisable to completely remove all import tariffs on US goods. This would hand Donald Trump a symbolic victory and undermine the justification behind his complaints. For the EU, conversely, such a move would be financially manageable, given that tariff revenues from US trade recently totalled only around EUR six billion.

If this gesture does not persuade President Trump to largely withdraw his “reciprocal” tariffs against the EU, other measures could still be taken.

Yours sincerely,
Bert Flossbach

Flossbach von Storch

An die Präsidentin der Europäischen Kommission
Frau Dr. Ursula von der Leyen
Europäische Kommission
Wetstraat 200
1049 BRÜSSEL
BELGIEN

Köln, den 7. April 2025

Sehr geehrte Frau Präsidentin,

es läge nahe, die von US-Präsident angekündigten „reziproken“ Zölle mit entsprechenden Gegenmaßnahmen zu beantworten. Das würde Donald Trump allerdings nur noch mehr reizen. Die Folge könnte ein fataler Handelskrieg sein, mit unabsehbaren Konsequenzen für die Weltwirtschaft und die EU.

Es wäre deshalb ratsam, alle Importzölle auf US-Waren komplett zu streichen. Dies wäre ein optischer Erfolg für Donald Trump und würde seiner Klage den Boden entziehen. Für die EU wiederum wäre das leicht zu verschmerzen, da die Zolleinnahmen aus dem US-Handel zuletzt nur rund sechs Milliarden Euro betrugen.

Sollte Präsident Trump dies nicht zu einer weitgehenden Rücknahme seiner „reziproken“ Zölle gegen die EU bewegen, könnten immer noch andere Maßnahmen ergriffen werden.

Hochachtungsvoll

Bert Flossbach

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TRUMP'S TARIFF FRENZY

An arrogant USA, a sluggish Germany and an agile Switzerland

Gunther Schnabl

Although Switzerland is a small, open economy that depends on foreign trade, it has remained calm in the face of Donald Trump's tariff antics. The Swiss economy is resilient, not least because of its liberal economic system.

Donald Trump's tariff announcements on 'Liberation Day' came as a shock. According to the World Trade Organization (WTO), the average tariff level in the USA in 2024 was 3.3 per cent, but the new president announced tariffs averaging more than 20 per cent. Compare that to Lesotho (50 per cent), and China (34 per cent), the EU (20 per cent), and the United Kingdom (10 per cent) got off pretty lightly.

The outcry was huge. Stock markets around the world plummeted. Pessimism spread. 'The USA is making a sharp mercantilist U-turn,' commented the Neue Zürcher Zeitung (NZZ). The EU Parliament has already unveiled its plan of action, while China has announced massive counter-tariffs. Memories of the fatal tariff war of the 1930s have been awakened.

At a conference organised by the UBS Center for Economics in Society on the topic 'Why is Switzerland so wealthy and why might it not stay that way?', the Swiss State Secretary for Economic Affairs, however, remained unfazed. Having just returned from Washington, Helene Budliger Artieda summed up that although the decision was opaque, the atmosphere had been friendly. Donald Trump had even praised Switzerland for not being a member of the EU ...

A BENIGN TARIFF OF 31 PER CENT

The State Secretary stayed calm, even though the tariff barrier initially announced for Switzerland is considerable! The USA imported goods from Switzerland totalling USD 63.4 billion in 2024, with a bilateral trade deficit of around USD 39 billion. Based on this, the Trump team calculated an implicit tariff of 61 per cent in March, which, in addition to Switzerland's actually low tariffs, allegedly also covered other trade barriers. Perhaps an undervalued (!) Swiss franc? The so-called 'reciprocal tariff' of 31 per cent, resulting from a 50 per cent 'friendship discount', was painful because the USA is the world's largest economy and still has good growth prospects. After all, 18 per cent of Switzerland's goods exports go to the USA, making it its most important export market. This affects the watch industry and mechanical engineering, among others.

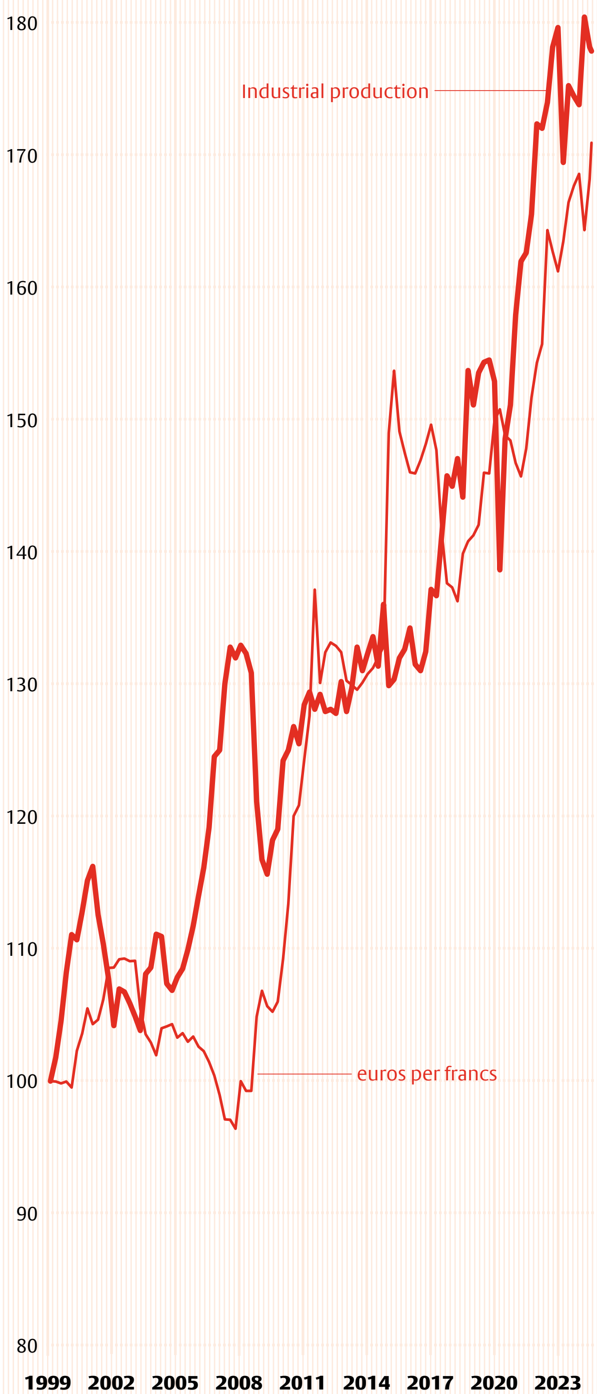


Figure 1
Switzerland: Industrial production and exchange rate
Indexed to 1999 = 100

Past performance is not a reliable indicator of future performance.

Source: OECD and IMF, data as at 30 April 2025

However, pharmaceutical products and gold, Switzerland's most important exports to the USA, were exempt. Services such as asset management and skiing in the beautiful mountains were also not affected. Services after all account for a quarter of all Swiss exports.

WHY SWITZERLAND IS RESILIENT

And the Swiss economy is resilient for at least three other reasons. Firstly, the country mainly exports high-quality goods, which means that companies can pass on exchange-rate and tariff-related price increases more easily in their target markets (even if a sudden price jump of 31 per cent is of course unrealistic).

Secondly, Switzerland exports all over the world. 82 per cent of goods exports are not destined for the USA. 51 per cent are sold to the EU, with which relations are friendly, despite often arduous negotiations.

Thirdly, the Swiss economy is in good shape. The gradual appreciation of the Swiss franc against the euro and the US dollar has repeatedly forced Swiss industry to reinvent itself (see Figure 1). In the short term, customs or exchange rate-related price increases abroad will cause profit margins to shrink, but in the medium term, companies will adapt again.

FREEDOM BRINGS PROSPERITY

There are reasons for Switzerland's high resilience, which Federal Councillor Albert Rösti presented at the above-mentioned conference as the foundation of prosperity. Switzerland has a federal structure that leaves as many decisions as possible to the people in accordance with the principle of subsidiarity. This limits the power of the state. Tax increases are usually only possible with the direct consent of the people.

For industry, this means that it is left to its own devices. There is no industrial policy such as the one currently gaining momentum in the EU, which involves spending many billions of euros. Large companies such as pharmaceutical firms have to prove themselves in the highly competitive global market because the national market is too small to cover their high fixed costs. Medium-sized companies have to constantly fend off cheaper foreign competition, not least because of the strong Swiss franc.

Thus, despite a lack of raw material resources and an unfavourable topography, great prosperity has been achieved. Even if one or two of its neighbours' economic policy mistakes are being repeated in Switzerland – such as more regulation and the expansion of public sector employment – the small country has so far been able to decouple itself from the gloomy mood in its neighbourhood thanks to economic freedom.

WHAT SWITZERLAND DOES BETTER THAN THE USA AND GERMANY

While a small circle of influential people in the USA believe they can control global trade, the Swiss government is wisely holding back. While in the USA, it is an excessive government deficit – and not trade barriers imposed by other countries – that is driving up the current account deficit, in Switzerland, restrained government spending (thanks to the debt brake) and net capital exports are ensuring current account surpluses.

While industry in Switzerland has remained lean, uncontrolled social security and rampant regulation in Germany have driven up unit labour costs, severely undermining international competitiveness. The 'soft' euro has made Germany's once dynamic industry sluggish, which is why it now has to tremble in the face of Trump's tariffs.

In the midst of a senseless global trade dispute, the agile Swiss economy is showing how it's done. Its industrial production is growing, while it is stagnating in the USA and falling in Germany (see Figure 2). From a German perspective, it would be desirable for growing state interventionism to finally come to an end. Only time will tell if big Germany will learn from little Switzerland. ◆

Prof Gunther Schnabl is Head of the Flossbach von Storch Research Institute and is a Professor at the University of Leipzig.

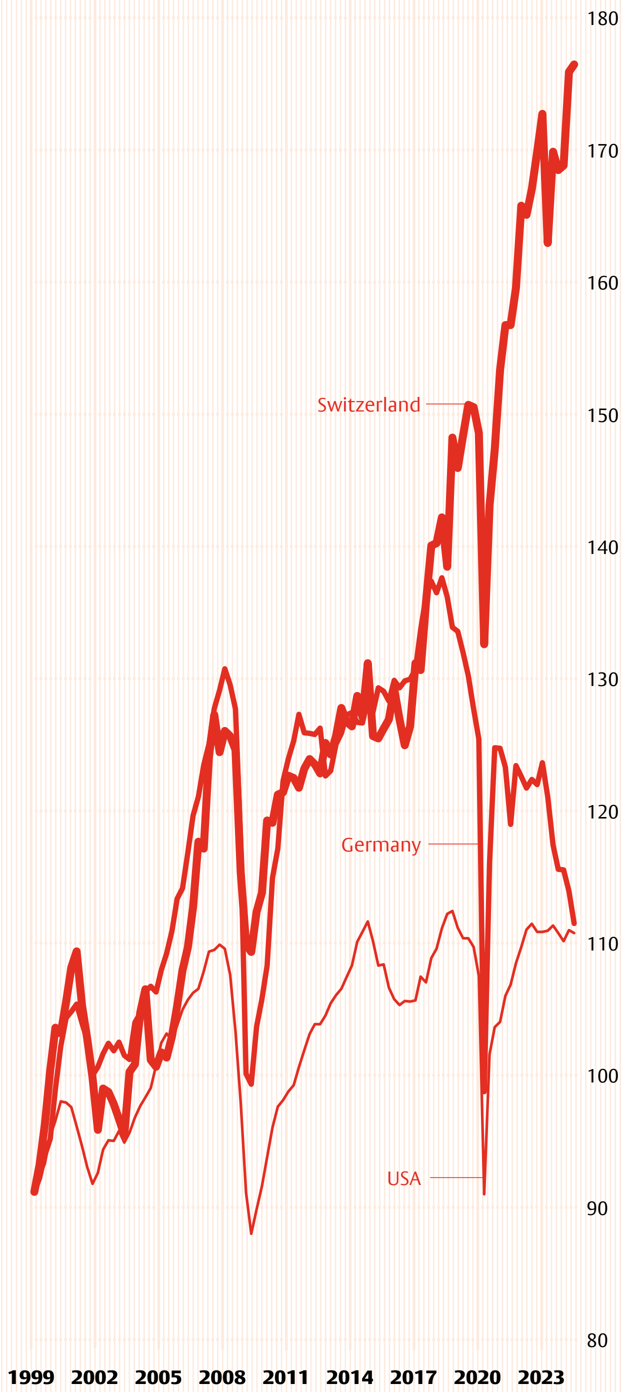


Figure 2
Industrial production in Switzerland, USA and Germany
Indexed to 1999 = 100

Past performance is not a reliable indicator of future performance.

Source: OECD and IMF, data as at 30 April 2025

Julian Marx

The World's Biggest Debtor

The USA's mountain of debt is gigantic – and continues to grow. Who finances the USA? And will there be enough creditors in the future?

In the last five years, the USA has incurred twice as much new debt as Germany can generate in a year.

Figure 1
Fiscal acceleration
It took 50 years to rack up the first USD 10 billion of new debt, and just five years for the last.
US public debt ("debt held by the public")

Source: Congressional Budget Office, Flossbach von Storch, data as at 30 April 2025

Figure 2
A colourful mix
The US government's 20 largest creditors abroad (US Treasuries held on 31 December 2024, in USD billions)

Source: US Treasury Department, Flossbach von Storch, data as at 30 April 2025

The term "debt brake" is likely to sound rather exotic to most Americans. At least, that applies to those with political responsibility. Even though these keep changing, one thing remains the same: the national debt is rising.

In the last five fiscal years alone, US government deficits totalled more than USD 10,000 billion (see Figure 1). Just how much that is can be seen from a comparison with Germany, which is, after all, the third-largest economy in the world. It takes Germany a good two years to generate a gross domestic product (GDP) of a comparable amount. So in the last five years, the USA has incurred twice as much new debt as Germany can generate in a year.

This gives the US government a unique position. After all, there is no other company or state in the world that "taps" the capital markets to anywhere near the same extent.

DEBT MOUNTAIN SIZE VARIES ACCORDING TO THE OBSERVER

When talking about US national debt, we are quickly talking about gigantic sums. In fact, the topic is quite complex. This is illustrated by a short quiz that we would like our readers to take.

> How high was the US public debt at the end of last year?
>
> a) USD 28,837 billion,
> b) USD 36,219 billion or
> c) USD 35,295 billion?
>
> All three answers are correct. They are based on different definitions of debt.

Answer a) refers to US government debt at federal level, which does not include intergovernmental loans. **Answer b)** adds these intergovernmental loans on top of the federal debt. This leaves **Answer c)**. Here, the total national debt is considered, i.e. in addition to the federal debt, the debt at state and municipal level is also included. As with Answer a), intergovernmental loans are not taken into account here. All three answers are popular with the media. Depending on the content of the article, one debt figure or another is more suitable. But one thing is indisputable when looking at each of the three debt measures: the USA has the highest mountain of debt in the world.

LOTS OF MONEY FROM ABROAD

The creditors speak many languages. In addition to comparatively high interest rates, investors from abroad are attracted by an investment in the world's reserve currency. They "park" a large part of their liquid US dollar holdings in US Treasuries. At the end of 2024, they held US Treasuries with a value of USD 8,513 billion.

The largest investor base is in Japan, where investors had around USD 1,060 billion invested in US government securities (see Figure 2). In total, foreign investors had more money invested in US Treasuries than France and Italy have outstanding government debt combined. In absolute terms, this once again highlights the exceptional position of the USA.

In relative terms, however, the picture appears somewhat less stark. For example, foreign investors recently held almost 30 per cent of marketable US Treasuries. This is an average share compared to other major economies. Similar figures to those of the USA are recorded in Canada and the UK, for example. By contrast, the proportion of foreign investors in Australian and French government bonds was noticeably higher, with 47 per cent and 54 per cent, respectively, in foreign hands. In Japan, by contrast, international investors held back. In the land of the rising sun, they hold just over 10 per cent of Japanese government securities issued.

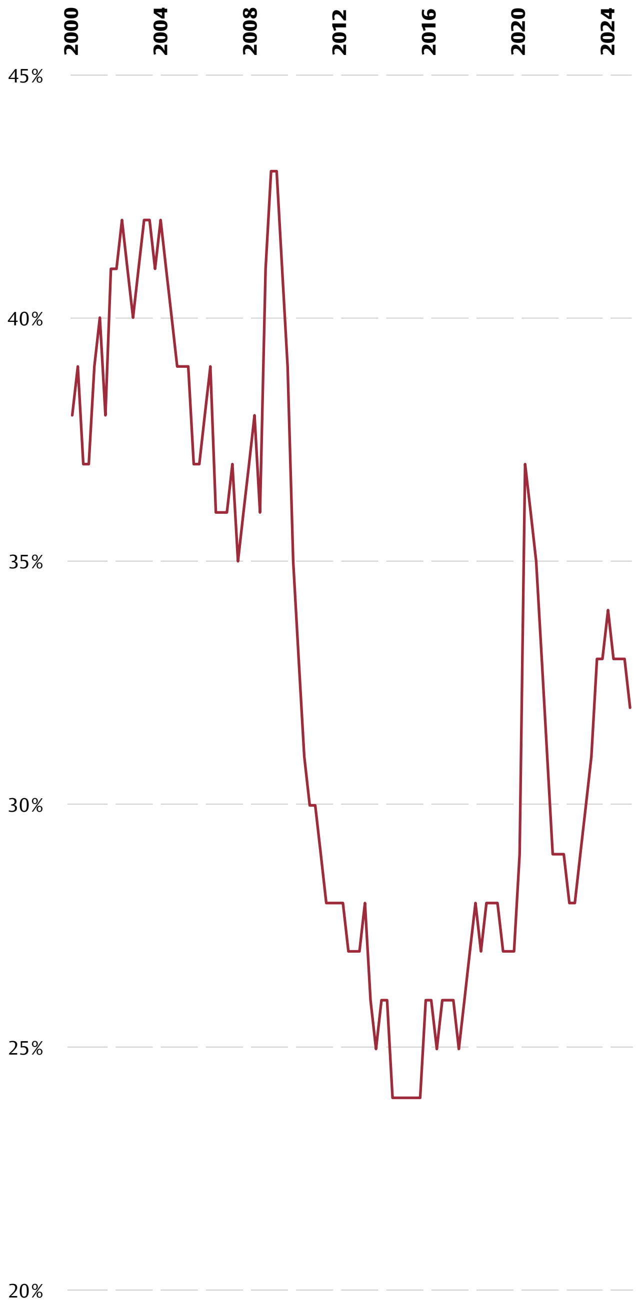


Figure 3
Accelerated rotation
Proportion of US public debt that will mature in the next 12 months

Source: US Treasury Department, Flossbach von Storch, data as at 30 April 2025

Figure 4
The key to debt sustainability
Average interest rate on outstanding US public debt (since 2001).

Source: LSEG Datastream, Flossbach von Storch, data as at 30 April 2025

LOTS OF MOVEMENT DOESN'T HURT

Investors, whether domestic or foreign, are sorely needed. In 2025 alone, USD 9,261 billion of US government securities will mature. Almost one-third of marketable US government securities will need to be refinanced this year.

This is causing a lot of movement in the US Treasury market. However, it is not really a cause for concern. At the start of the millennium, the proportion of US government securities maturing in the next 12 months was at times even higher than 40 per cent (see Figure 3).

In fact, the annual flood of government bonds is standard market practice. In particular, short-dated Treasuries with a maximum term of 12 months are naturally turned over more frequently, creating an increased refinancing requirement.

What should not be forgotten in this context is that those investor groups that were invested in maturing US government securities are likely to maintain their exposure in most cases and will continue to invest in newly issued securities in the future. If, on the other hand, they had no intention of remaining invested in US Treasuries, they would have been able to sell their highly liquid securities at an earlier stage.

DOES HIGH GOVERNMENT DEBT CONSTRAIN THE US GOVERNMENT?

The answer to this question is less clear than simplified theoretical considerations might suggest. What is clear is that (high) debt levels result in substantial interest costs. Money that is then not available for other uses. Particularly in an environment of rising yields, high debt levels can be associated with dramatically increasing interest expenses, as the recent past has shown. For example, the US government's net interest costs rose by a whopping 150 per cent to USD 881 billion p.a. between fiscal years 2021 and 2024. And the trend is still rising. New debt is creating new interest costs, and maturing government bonds from the low-interest period have to be refinanced today at less favourable conditions.

Despite such adversities, neither the increased interest costs nor the constantly growing US national debt-to-GDP ratio (of recently around 120 per cent of GDP) limit the US government's fiscal leeway. All deficits could be financed without difficulty in recent years. A high supply meets stable demand.

At the same time, the US budget currently appears anything but solid. After interest costs, the general government deficit in the USA in 2023 and 2024 was as high as seven per cent of GDP. And the primary deficit, which excludes interest costs, was also at a considerable level of more than three per cent of GDP in each year. In the short term, high government debt does not have to be a constraint, even with rising interest costs.

KEY TO DEBT SUSTAINABILITY

In the long term, growing debt and rising interest rates are, of course, not a good combination. So far, however, the average interest rate on US Treasuries is still at a comparatively moderate level. It is true that the average interest rate on outstanding US securities has roughly doubled in the past four years, rising from around 1.6 per cent to 3.3 per cent. However, if we look back not just four years, but 24, the current average interest rate of 3.3 per cent is only about half as high as it was then, when it was more than six per cent (see Figure 4).

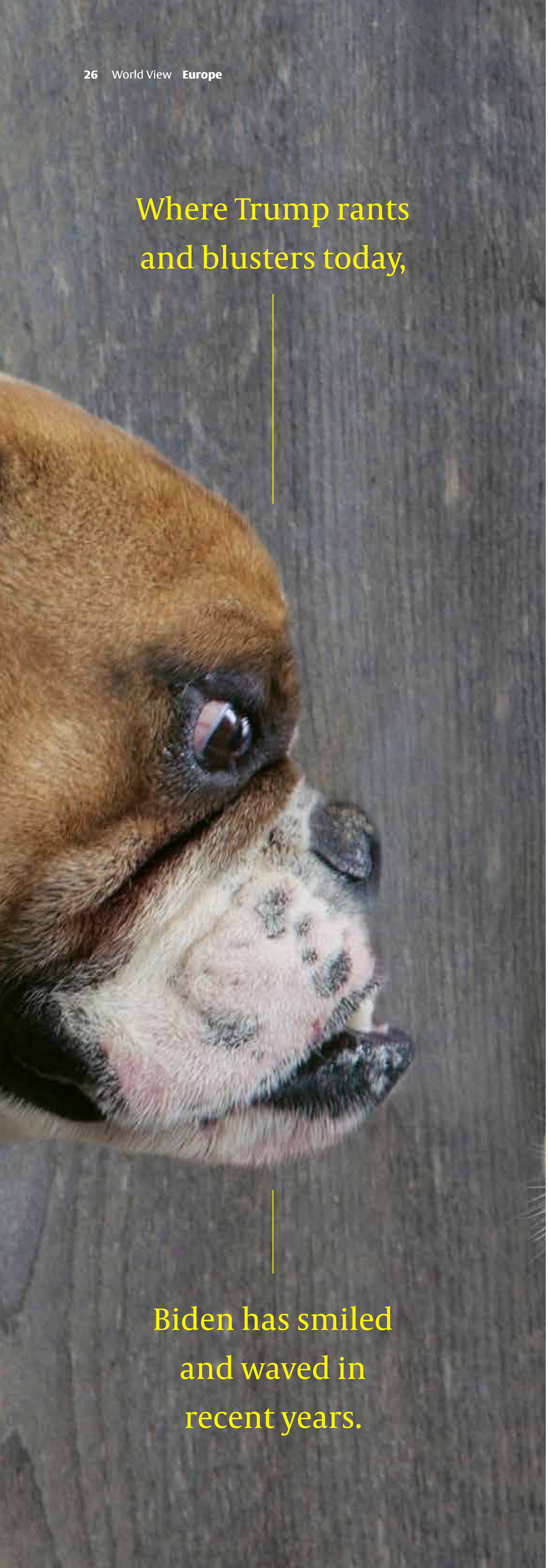
Long-term debt sustainability is not measured solely by the amount of debt or the debt-to-GDP ratio. The keys to debt sustainability are also solid economic growth and sufficiently low interest rates. And the USA has recently performed well in these areas. Whether it stays that way depends (among other things) on intelligent policies by the president and the Federal Reserve. ◆

Julian Marx is an Analyst at Flossbach von Storch SE in Cologne.

In the long term, Europe is at risk of being torn between the superpowers USA and China/Russia. It should not resign itself to this prospect.

MORE COURAGE

Philipp Vorndran



Canada, the Panama Canal or Greenland. US President Donald Trump wants to expand his horizons, by whatever means. At least that's what he said about Greenland, which has been part of Denmark since 1721.

We Europeans are shocked, even repulsed, by the recurring statements and casual insinuations from the White House; at the same time, we are somehow amused by the high entertainment factor. Is this all just Trump posturing and part of his shrill show in the White House?

We shall see.

Over the past few weeks and months, I have heard myself saying more often that, although we shouldn't take every word the US President says at face value, we should take him as seriously as possible.

IT'S ABOUT WORLD POWER STATUS

Because unlike us chronically naive Europeans, Americans think in geostrategic terms. They are concerned with spheres of influence, raw materials and resources, and access to them. These are needed to permanently assert their status as a leading world power in the face of China. The latter's alliance with Russia and its vast mineral resources is putting increasing pressure on the Americans. In this respect, Greenland would have a lot to offer from their point of view. And this is not a view held by Donald Trump alone, it's just that he happens to say it out loud.

The US claim to global leadership long predates Donald Trump. Every US President – including

Joe Biden, who may have come across to us Europeans as the friendly, peace-loving uncle next door – has in substance pursued hard-nosed strategic goals. The Inflation Reduction Act, for instance, served American interests at Europe's expense.

Biden was also a power politician, albeit more moderate in expression. Where Trump rants and blusters today, Biden has smiled and waved in recent years. But make no mistake: he wasn't handing out favours.

If Biden had wanted Ukraine not only to defend itself against Russian attacks, but to successfully push back the attackers, he would not have been so hesitant to provide aid. Biden has played the friendly helper in need, the benevolent protector, without exhausting himself in the process. He was only concerned with driving up the price for Vladimir Putin, not with Ukraine's victory.

Please don't get me wrong: I would definitely have preferred someone other than Donald Trump in the White House. Someone whose sense of responsibility towards the office and the country is greater than their own ego. But it could well be that Trump, his narcissism and his completely undiplomatic manner are a blessing for Europe and the Europeans.

BELATED REALISATION

Perhaps the second time around it needed a brash real-estate investor, and not a Teflon-coated diplomat who tells the Europeans that they finally need to grow up. They should not rely on their big brother, the USA, alone. Several generations of US delegations had previously tried to kindly "encourage" the Europeans to become more independent.

By contrast, the appearance of J.D. Vance, Trump's Vice President, at this year's Munich Security Conference was not particularly friendly. It was a kick in the shins for the Europeans. But the difference between his speech and those of his predecessors was not so much the content as the occasionally aggressive form of the presentation.

The Americans' demand for more European commitment within NATO is in fact almost as old as the defence alliance itself. So, J.D. Vance is in good company.

In the past, the Europeans always listened obediently to the exhortations to invest more in their own security and nodded dutifully to everything – but they still did not comply. Why should they? If anything went wrong, they knew their big brother would look after them – and if necessary, fight for them. After all, that's what NATO is for, isn't it? Besides, since the end of the Cold War, there has been no one who has seriously threatened the Europeans.

The Trump administration will not, however, "fight" for Europe – or if it does, it will demand a very high price for it, a lucrative deal. This is also because Big Brother has realised that he is getting on in years. He can no longer – and no longer wants to – be the sheriff everywhere. The USA must economise on its resources and therefore focus on the country or countries that could pose the greatest threat to it in the long term – China.

What happens in Europe, conversely, is a matter for the Europeans. Full stop. That's how Trump sees it. He is always talking about there being a huge ocean between Europe and the USA. And because Trump behaves as he behaves, it should be clear to every European that the time for dithering and playing for time is over.

Yes, it has taken a while for this realisation to dawn; but as an optimist, I would say that it may just have come in time.

However, Europe needs courage – courage to make decisions that it has avoided for what feels like an eternity. Europe must grow closer and faster, Germany must take on more responsibility, together with France. Despite Brexit, the UK must remain closely involved. The time for small-minded squabbling is over!

DARING TO STRENGTHEN DEMOCRACY

Europe must be accessible to its citizens and dare to be more democratic by involving its people more, for example through referendums. That is why, in my opinion, we also need a directly elected EU president.

Ultimately, every country should ask itself how far it is willing to go, how European it is or wants to be ... If necessary, those states whose will for a united Europe is the strongest must move forward together.

A two-speed Europe is better than none at all!

We have to invest heavily in our own defence. Europe is a peace project – and it should remain so. Europe must never forget or sell off its history and values; but we have to get down off our high horse. Morality is sometimes interpreted differently elsewhere in the world. This has to be recognised – and we have to adapt to it.

Peace can only be secured in the long term if Europe is taken seriously in the world, instead of being smiled at; because it is strong – so strong that no one would even remotely consider testing its defence capabilities.

The financial means for this will certainly not appear out of nowhere. And before we talk exclusively about how these funds can be raised through joint debt, we should also discuss how we can strengthen the economic competitiveness of the old continent in order to expand our financial options.

Europe is poor in raw materials. All the more it needs inventiveness and technological progress. But these thrive only where they are not stifled by countless rules and regulations. Europe is a bureaucratic monster, so the widespread criticism. I cannot and do not refute it.

Where bureaucracy proliferates, nothing (new) can grow. Instead, bureaucrats desperately try to preserve the status quo, with the result that at some point they only manage the abuse. Europe simply cannot afford this in the long term! Less is more, and this applies not least to bureaucracy. A little disruption can and must be allowed.

INCENTIVES FOR INVESTORS

Europe needs a large common capital market. Young companies and technological innovations cannot exist without investment. Entrepreneurship thrives especially where it also receives financial support. The USA is miles ahead of us in this respect.

Last but not least, we all need to get more involved – we Europeans. The Spanish, Belgians, Poles, French, Italians, Austrians, Germans. Every single one of us. Europe is not least what we make of it. What we think about it. How we defend it, in every respect.

Klaus Kinkel, the former German Foreign Minister, who sadly passed away in 2019, once said before the United Nations General Assembly: "Europe is not born of treaties, but of the hearts of its citizens – or it will not be born at all."

We should confidently stand up for our interests, just as Americans and Chinese do. We are not their pawns!

Recently, on one of the many TV talk shows, I heard a question about military capabilities that I felt needed to be addressed – and which I found very apt, although I wouldn't reduce it to the military aspect for everyone: why on earth should more than 500 million Europeans let 340 million Americans protect them from 140 million Russians? ◆

Philipp Vorndran is a Partner at Flossbach von Storch.

A two-speed Europe is better than none at all!

Shenwei Li

MAIL FROM SHANGHAI

Economic engine, superpower, party dictatorship. Anyone interested in global trends looks to China. Analyst Shenwei Li provides a subjective report on her experiences from the perspective of a Chinese citizen. The start-up DeepSeek recently made headlines. How have the Chinese reacted to this innovation?

It was a bombshell when Chinese start-up DeepSeek unveiled its artificial intelligence-based language model (or 'large language model' (LLM)), DeepSeek R1, at the end of January. It is in direct competition with established systems, such as ChatGPT, but appears to require significantly less chip capacity. Chinese consumers and large companies in the country have shown a great deal of interest.

'DeepSeek' is now a household word in China that (almost) everyone understands, and DeepSeek R1 is considered the LLM of the people. Even the DeepSeek courses offered by the senior citizens' university in Guangzhou in the spring semester were booked up in no time. The fact that capacity was quickly doubled did not change this. Most of my friends have already tried to access this tool. However, due to its popularity and sudden mass rush, the company's website and app server has crashed frequently since February, and people asking questions were unable to get answers. Nevertheless, interest in artificial intelligence (AI) has been piqued. And many local Chinese LLMs, notably Doubao from ByteDance and Ernie from Baidu, reported a massive increase in users.

Chinese technology group Tencent has even integrated DeepSeek into the search function of its super app WeChat. Founded in 2011 as a communication service for smartphones, WeChat has since been expanded to include numerous features, some of which are used almost daily by its 1.2 billion users. However, Tencent also encountered problems. Although the new feature was only available to a select group, WeChat Search was quickly overwhelmed. As a result, Tencent has ended the test for the time being and redirected traffic to its own LLM Yuanbao. Before 16 February, this app was ranked 10th among local LLM apps in China, but after the DeepSeek-related traffic redirect, it rose to fourth place within a week. DeepSeek continues to reign supreme in first place by a wide margin.

DeepSeek is also widely accepted in the B2B market, especially by government agencies, public authorities and state-owned enterprises. The local government of Shenzhen is deemed the first to deploy the language model. On 8 February, DeepSeek was already being used by more than 20,000 civil servants in the Government Affairs System of Shenzhen's Longgang District. Since 18 February, 70 DeepSeek-based 'AI officials' have been performing a total of 240 tasks in the Futian district of Shenzhen. These include format corrections for government documents and the automatic recording of administrative penalties. In the case of government documents, the review time was reduced by 90 per cent, with an error rate of less than five per cent. Other cities have announced plans to use DeepSeek for similar tasks.

Among state-owned enterprises, PetroChina announced in May 2024 that it would develop the first specific energy LLM in collaboration with China Mobile, Huawei and iFlytek. However, PetroChina also successfully deployed DeepSeek on 8 February with the help of China Mobile. The same applies to Sinopec. State-owned banks ICBC and China Construction Bank have also integrated DeepSeek into their systems. Another 20 banks have announced plans to use DeepSeek in areas such as customer service, report analysis, data processing and asset management. According to the banks, DeepSeek is significantly more compatible with local Chinese computing power than other AI-based language models available in China.

Local health authorities in cities such as Beijing, Shenzhen and Qingdao are also promoting DeepSeek. This would enable health insurance enquiries to be answered 'faster, more accurately and around the clock'. In Qingdao, local government officials will be able to use DeepSeek data analysis to more easily detect cases of fraud in the state health insurance system.

In Beijing, the use of DeepSeek is now improving the timely adjustment of public transport capacity. For example, if a local transport authority official is notified at 3 p.m. that traffic in district X is expected to increase by 200 per cent and there is a risk of congestion, various data from maps, buses and the underground had to be collected and analysed manually, which meant that adjustments could only be made after two hours. Now, after about 20 minutes, a DeepSeek-based city transport assistant suggests, for example, deploying eight buses on route A and increasing capacity on route C by 40 per cent between 4 p.m. and 6 p.m. This has reduced passenger waiting times in such situations from an average of 42 minutes to 12 minutes. ◆

Analyst Shenwei Li reports from China.

“My Mantra for Difficult Times”

A background discussion focusing on the financial markets, investment strategy and core competencies with Flossbach von Storch Founder Kurt von Storch and Head of Investment Management Tobias Schafföner.

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Mr Schafföner, since the start of the year, the new US President Donald Trump has dominated the headlines with his tariff policy, his heavy-handed treatment of former allies and other erratic measures. How relevant is this for investors?

TOBIAS SCHAFFÖNER: Unfortunately, it's very relevant. Not only has the stock market climate worsened, so too has the fundamental situation of the global economy. A mercantilist foreign trade policy leads to a lose-lose situation. Trade barriers make goods more expensive for consumers, just like a tax. However, the mixing of political goals and the arbitrariness of Trump's actions are primarily stoking uncertainty – this does not create an environment in which consumer confidence and corporate investment sentiment can develop positively.

That sounds like a problematic situation. Mr von Storch, have you geared your investment strategy towards weathering difficult times?

KURT VON STORCH: Yes, this could be one of those phases where you can't simply extrapolate developments. We felt very much the same way after the dot-com bubble burst in 2000 and the downward trend on the markets continued until 2003. At that time, we were a young company with few clients. Bert Flossbach and I asked ourselves what the greatest common denominator was that connected our clients. And that was this defensive idea of preserving existing assets.

Doesn't everyone who has or is building wealth want it to grow?

KURT VON STORCH: In the long term, that must of course be the goal. But in difficult times, the first priority is to preserve the purchasing power of assets, i.e. after costs, taxes and inflation. We developed five points to achieve this in the medium term. Our Pentagram describes our investment philosophy and guides all our investment decisions. This strategy has worked well in subsequent crises. It always helps me when I find myself brooding during market turmoil.

Can you describe that? There has also been unrest on the financial markets since the start of the year.

KURT VON STORCH: There were already price declines in the first quarter, particularly in US technology stocks. When I am concerned in times like these, I remind myself of the five principles like a mantra. That means not putting all our eggs in one basket in our portfolios. Or our focus on quality. Take real estate, for example. You will (have to) pay a little more for a good location. But in return, the property is likely to remain in demand. The same applies to shares in high-quality companies, even if they may be caught up in turbulence from time to time.

TOBIAS SCHAFFÖNER: Quality companies – an ambivalent term. But companies with strong business models – with competitive advantages, a certain degree of pricing power, a solid balance sheet and, last but not least, focused management – can adapt to times of crisis. And history shows that the best not only survive such phases unscathed, but often even improve their market position.

KURT VON STORCH: And that reassures me in turbulent times – even though we naturally review our positions on an ongoing basis. Number three in our Pentagram is flexibility. Take the pandemic, for example. Things happened that no one expected, just like that, overnight. They changed our world. Then assets have to be adjusted to this new world. In addition, those who already have assets should keep the amount of debt low in order to remain solvent. We know of enough examples of companies that had too much debt at the wrong time. Finally, there is the "value" factor, which means that you shouldn't pay just any price for good quality. Periods of market turbulence, such as the current one, often present attractive entry opportunities.

Have you experienced any market turbulence or real stock market crises?

KURT VON STORCH: Oh yes. I started as a portfolio manager in New York on 5 October 1987. Black Monday followed two weeks later – a dramatic initiation into my working life. That day, the US market fell by 20 per cent – the biggest single-day loss ever. Nevertheless, the markets continued. Until the end of the 1980s, Japan went through the roof. The Nikkei reached almost 40,000 points. But at the turn of the year 1989/90, a slide began. It took 35 years for the 40,000 mark to be reached again.

But very few euro investors were invested in the Nikkei, weren't they?

KURT VON STORCH: That may be true. But at that time, the MSCI World also comprised 40 per cent of these highly valued Japanese stocks. Its composition is based on the market capitalisation of the index members. So, the better a stock performs, the higher its share. This was also observed in the past two years, when the share of US technology stocks, the "Magnificent Seven", rose to more than 23 per cent in the MSCI World and even to 41 per cent at times in the S&P 500.

"This strategy has worked well in subsequent crises. It always helps me when I find myself brooding during market turmoil."

Kurt von Storch

In the meantime, US technology stocks have already fallen back somewhat. In addition, there is now increasing talk of a "Trumpcession". Mr Schafföner, how do you assess the current situation on the US financial markets?

TOBIAS SCHAFFÖNER: From our perspective, the correction in the valuations of certain US technology stocks was not unexpected. Valuation premiums relative to the market average were high, while at the same time more and more money was being invested in artificial intelligence (AI), a topic that caused euphoria for some time. However, at the end of →

January, the presentation of the AI-based language model by Chinese start-up DeepSeek raised doubts that the technological edge that has protected US technology companies from competition like a protective wall may not be as great as expected. Trump's erratic tariff policy has further clouded the stock market climate in the USA. His attempt to strike "deals" and roll back tariffs may reduce the probability of a recession in the short term. Nevertheless, the US President's policies have undermined trust – among allies, consumers, and companies alike. This erosion of confidence is likely to weigh on US economic growth, corporate earnings, and ultimately share prices.

So, what does this complex situation mean for your multi-asset portfolios?

TOBIAS SCHAFFÖNER: To pick up on the main guiding principle of our investment philosophy: the most important thing is smart diversification. We never structure our portfolios in such a way that a negative scenario catches us completely off guard. Given the political signs, we continue to expect structural inflationary pressure – in this respect, we believe it would be wrong to reduce equity allocations too far. Interesting opportunities may also arise beneath the surface. When selecting equities in past quarters, it was important to maintain a certain degree of valuation discipline and, in particular, limit position sizes in technology stocks as valuations rose. At the same time, there were real bargains to be had in sectors such as non-cyclical consumer goods and pharmaceuticals.

And bonds?

TOBIAS SCHAFFÖNER: Despite falling key interest rates, bonds can continue to generate regular income for a portfolio – and, depending on the risk scenario, also act as a buffer when share prices fall. We saw this at the start of April in the USA: as economic concerns grew, the yield on 10-year US Treasuries fell from 4.8 per cent to 3.9 per cent. As yields fall, bond prices rise. However, this diversification effect was reversed just a few days later, which emphasises the complexity of the current situation.

Can you elaborate on that?

TOBIAS SCHAFFÖNER: US Treasuries generally have the status of a safe haven. This means that in times of crisis, such as rising economic uncertainty, investors flock to these perceived low-risk securities, which generally leads to falling yields and rising prices. However, the US president's erratic tariff policy has called this regularity into question, as foreign investors' confidence in the USA and its institutions has suffered. As a result, neither the US dollar nor US Treasuries were able to 'buffer' the recent market stress, but lost value in line with equities. Diversification must therefore always be discussed ex ante rather than with the benefit of hindsight.

Has the US dollar now lost its status as the world's reserve currency?

TOBIAS SCHAFFÖNER: I wouldn't go that far. The USA still has by far the largest capital market in the world and is strongly integrated into the global financial system. I also don't currently see any currency area that could take over the role of the US dollar in the near future. Nevertheless, the exceptional status of the US dollar and US Treasuries has shown a few cracks of late. The recent record highs in the gold price should also be viewed against this backdrop – an initial warning signal. The reasons for this development are complex and are not limited to US foreign policy. Trump has also caused a stir domestically on more than one occasion. Not least because he questioned the independence of the US central bank, the Federal Reserve (Fed), and – to put it mildly – tried to urge Fed Chair Jerome Powell to cut interest rates on several occasions.

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"In difficult times, the first priority is to preserve the purchasing power of assets, i.e. after costs, taxes and inflation."

Kurt von Storch

"After all, the greatest opportunities also tend to arise during turbulent times."

Tobias Schafföner

But the Fed Chair stood firm and has not lowered key interest rates recently …

TOBIAS SCHAFFÖNER: That's right. If we look at the economy in the USA, at tariffs, inflation and borrowing, then the Fed has good reason not to lower interest rates further. In the USA, the upside risks for inflation are greater overall than in the eurozone. And this is where Donald Trump comes into play once again. On election night, he said that he wants to reduce debt and inflation but also raise tariffs and deport migrants. At the same time, he also wants to ensure that the economy continues to grow.

KURT VON STORCH: That's like trying to square the circle. It is not possible to raise tariffs and reduce inflation at the same time.

TOBIAS SCHAFFÖNER: The way policies are currently being made, they are causing prices to rise – in Europe due to the expected increase in security and defence budgets, and in the USA due to tariff and migration policies. This has tangible implications for investors. Anyone who does not invest their money in the financial markets due to political uncertainty and leaves it in their bank account runs the risk of seeing their assets lose purchasing power. As long as inflation is at or above the central bank's target, maintaining purchasing power is not a given.

This is especially true given that debt in Europe is likely to rise significantly. In the USA, it is already extremely high.

TOBIAS SCHAFFÖNER: It's easy to get caught up in a spiral of negativity when discussing this topic. However, investors can also draw pragmatic conclusions. Portfolios need to contain a sufficient proportion of real assets – so, in addition to equities, we should also be talking about gold. In our opinion, it acts as a hedge against risks in the financial system. And it has performed so well recently that it's almost uncanny.

KURT VON STORCH: Gold for us is a strategic investment. We agreed early on that it should be part of our allocation. We see it as a currency and part of diversification, not as a commodity. The backdrop to this has always been the situation of rising debt. And that has continued to worsen.

The price of gold has skyrocketed to new records, while the US stock markets have suffered setbacks. So, is it better to sell your equities?

TOBIAS SCHAFFÖNER: No, equities remain the asset class with the highest return potential for long-term investors. And ultimately, they are also the asset class with the best built-in inflation protection.

Thank you very much for talking to us.

Flight to Safety

Lars Conrad

What once held true may no longer apply. The 'West', a community of many states that stood for democracy, freedom and justice, is threatening to disintegrate. Fears of epochal change are spreading.

This was most recently demonstrated when Donald Trump presented the world with a list of tariffs that have the potential to push the global economic system into a serious crisis. Or when, in a display of theatrical diplomacy, the erratic US President and his Vice President publicly belittled Ukraine's President Volodymyr Zelenskyy before dismissing him altogether. Since these episodes, it has become increasingly clear that the Pax Americana, which has stood for geopolitical and economic stability since the Second World War, is under threat.

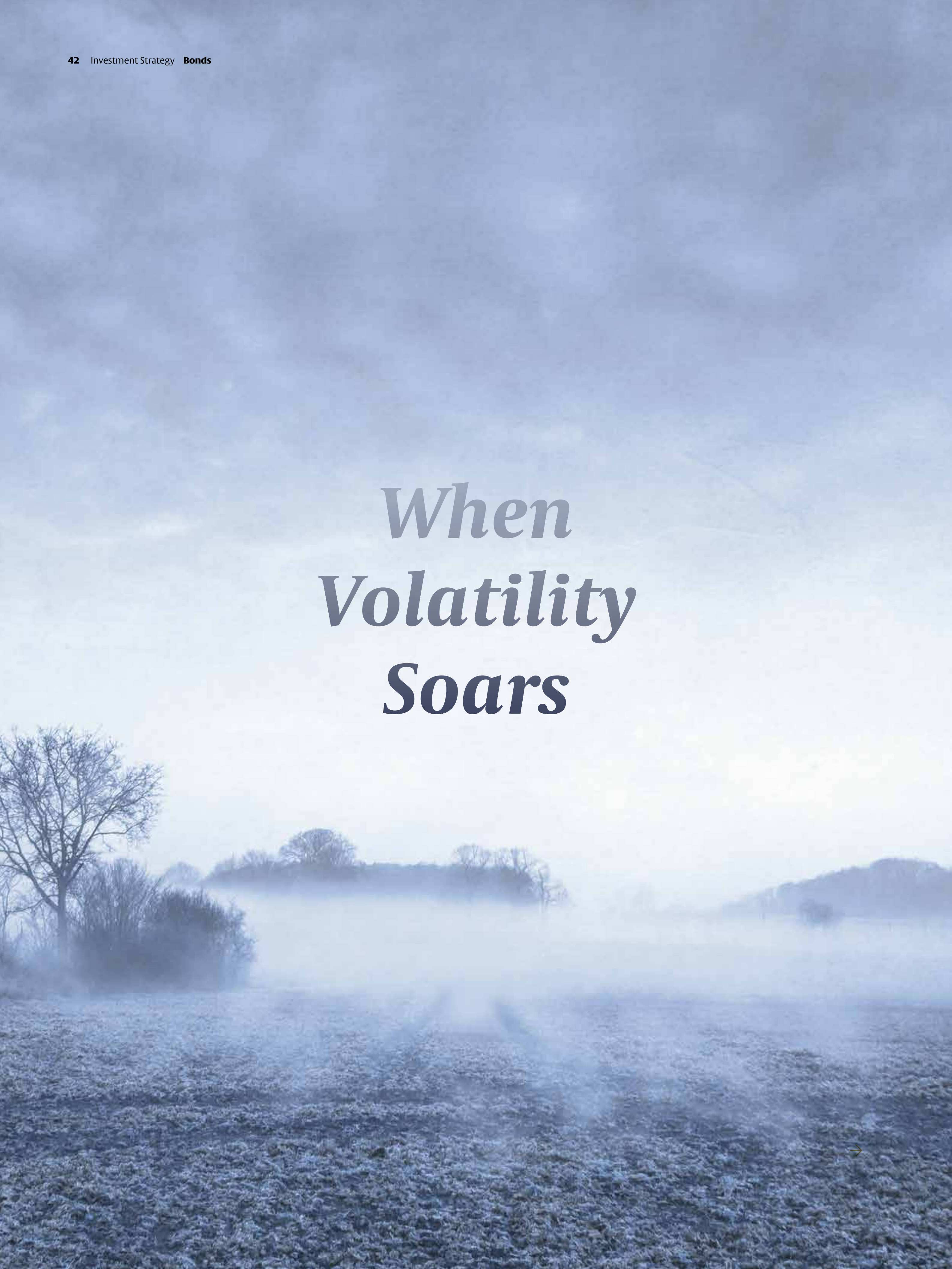
Perhaps the best indicator of geopolitical upheaval is the bond market. When equity markets falter, investors typically flee to safety. In such moments, bonds from issuers perceived as rock-solid – those where there was (previously) no risk of default – become highly sought after.

> When equity markets falter, investors typically flee to safety.

There is also the threat of a new flood of bonds on the markets. And not just because of overly distributive politicians or because old loans from the years of zero interest rates have to be refinanced at the recently significantly higher interest rates. Europe must now take its own security into its own hands. Rearmament must be financed – and that can only be done on the free market. The scale of the resulting debt issuance, which took many by surprise, has been reflected in the sharp rise in yields on German Bunds.

Likewise, despite some turbulence, there was no massive sell-off on the bond market and the major financial crisis did not materialise. US Treasuries and German Bunds are traditionally considered safe havens in turbulent stock market times. Will this still be the case under President Donald Trump?

When Volatility Soars



The announcement that the USA intended to impose historically high tariffs on its trading partners sent shockwaves through the international financial markets. Initially, US Treasuries were in high demand as safe-haven assets – but doubts soon crept in.

Liberation Day brought Americans – and the rest of the world – one thing above all else: more uncertainty. Shortly after US President Donald Trump unveiled a list of new tariffs on Liberation Day, the markets reacted. Fears of a global trade war spread, and the global equity markets plummeted.

At the same time, the price of US Treasuries rose. Investors sought refuge in safe havens, such as Treasuries, which have been considered largely risk-free investments for generations and currently still offer an acceptable interest rate. Rising demand makes a commodity more expensive, and this is also the case on the bond market.

During the ‘critical phase’, prices for US Treasuries rose, especially for long maturities. And when prices rise, interest rates fall. At their peak, 10-year bond yields fell by around 40 basis points in two trading days. Such movements in interest rates are highly unusual in the bond market over such a short period of time and are ultimately an indicator of a crisis.

New narratives began to circulate, both in terms of the ‘big picture’ – i.e. macroeconomic developments – and in the development of specific market scenarios for the future. Overriding all forecasts was the fear of looming stagflation in the USA (at least if excessive tariffs remained in place), with the economy weakening first and then giving way to a spike in inflation. Although the duration and severity of such a scenario are generally very difficult to predict, fears of a major economic crisis spread like wildfire. Investors reorganised their investments and opted not to take risks. Quality was back in vogue. Equity portfolios were restructured, while demand for lower-rated issuers declined in fixed income portfolios.

Soon, all eyes were on the central banks. Such a situation puts the Federal Reserve (Fed) between a rock and a hard place. One possibility was that there would be fewer interest-rate cuts in an environment of accelerating inflationary momentum. Or, in the event of a recession, that there would be faster rate cuts if inflation proved to be ‘transitory’ in that scenario.

Fed Chair Jerome Powell reacted with caution, warning of significantly increased risks but preferring to maintain a wait-and-see attitude. In such a confusing situation, a change in official interest rates in either direction would probably be a risky move, even if market expectations increased in the ‘critical phase.’ During the turmoil, investors expected interest-rate cuts of 80 basis points (bps) by the end of 2025; before Trump’s tariff announcement, the figure was still at 70 bps. Short-term inflation expectations also skyrocketed: one-year US inflation swaps rose overnight by 20 bps to 3.45 per cent. By comparison, in October last year, this hedging instrument was still hovering around 2.2 per cent.

But narratives can change, also for the bond markets. Donald Trump's behaviour (along with the reactions of the president and his advisors) has left us with one thing above all: a loss of confidence in the world's largest economy. When it comes to tariffs, those responsible clearly lack basic economic knowledge. Despite all the warnings and alarm signals from the financial markets, they did not change their nationalistic policy for the time being. There was also little headwind from the Republicans, who lead Congress and the House of Representatives.

Although volatility on the stock markets continued for the time being, despite falling expectations of economic growth and no stimulus from the Fed, yields on US Treasuries rose again. Within a few days, they had returned to their pre-crisis level, even though the cause of the crisis had not yet been resolved. This indicates above all that the attractiveness of US Treasuries has declined. Rumours of China selling Treasuries have been doing the rounds.

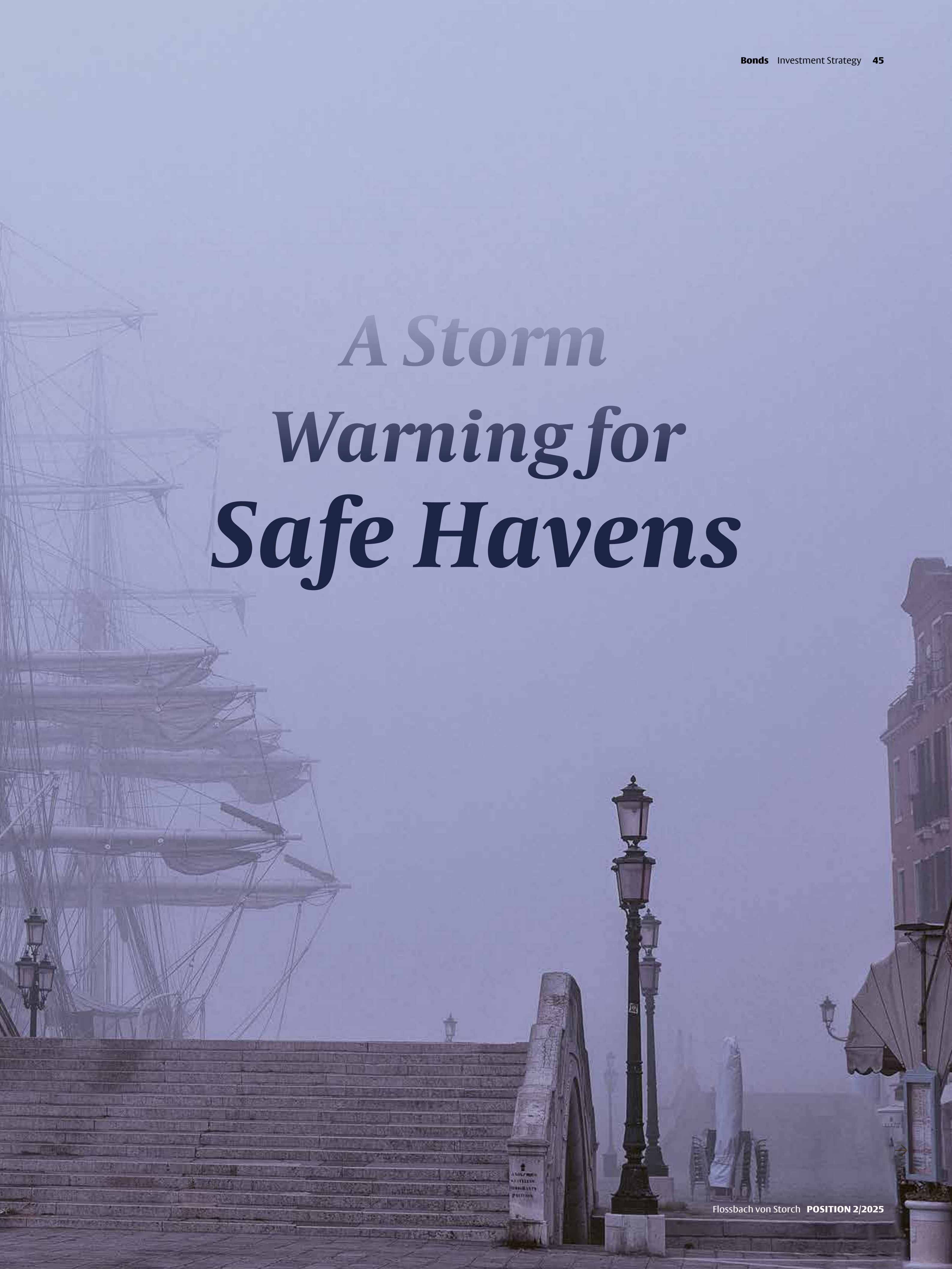
Trust is the basis of any credit transaction, whether at the local savings bank or on the government bond market. Treasuries continue to enjoy a good reputation worldwide, but for this to remain the case in the future, a reliable policy in line with economic reality is needed.

So, what does this mean for investors? It is in times of crisis that bonds fulfil their true function: to act as a buffer against unexpected stock market fluctuations. But for this to work, the bond portfolio must be carefully selected. In our bond portfolios, for example, we already had a rather defensive positioning before the recent developments. In terms of credit quality, the focus has long been on top qualities, such as corporate bonds. We keep an eye on currency risks.

Then the wind changed, especially in the USA. That is why, even in the case of government bonds – which is supposed to be crisis-proof – we seek to diversify the portfolio carefully, both regionally and in terms of inflation protection. After all, there are alternatives to traditional US Treasuries. Comparable securities from Australia or New Zealand offer similar yields with lower levels of debt. Inflation-linked bonds are useful when prices are expected to rise again.

Our objective is to build a robust bond portfolio. Flexibility is equally important. In turbulent times, markets tend to overreact, which can offer opportunities for active investors. Sell-offs are a good time to find bargains, bonds from issuers that have been unfairly punished.

A Storm Warning for Safe Havens



The aim of Donald Trump's administration is disruption – also regarding geopolitics. This is evident in the case of German Bunds. Even before the tariff crisis, yields had risen more sharply than at any time since reunification.

When the earth shakes, the tremors can be felt far away. Not with the same intensity as at the epicentre, but the 'seismograph' still goes off.

In the wake of the turmoil on the financial markets following Donald Trump's tariff announcements, not only US Treasuries but also German Bunds were in demand. Bunds are considered particularly safe investments. In the critical phase of the US tariff announcements, their prices rose, albeit not as steeply as their US counterparts. The yield on 10-year Bunds temporarily fell by up to 0.2 percentage points at the beginning of April. The yield differential to US Treasuries narrowed, peaking at just over 1.3 percentage points.

Even though the effects of the US bond quake are also visible in German Bund markets, there is a difference. This is because Germany's bond market had already reached a turning point before the tariff crisis.

Faced with huge costs for defence and infrastructure, the German Bundestag and Bundesrat decided to lift the "debt brake", a mechanism enshrined in the Constitution that limits the annual net borrowing of what is still a (relatively) low-debt country to 0.35 per cent of gross domestic product. Following the easing of the debt brake, the intention is to finance future defence spending resulting from the US withdrawal and the infrastructure package worth around EUR 500 billion over the next 10 years through loans.

The market reaction was swift: German Bund yields, which have always been one of the safe havens of the fixed income market, suddenly shot up. On 5 March, 10-year Bunds rose by more than 30 basis points, the biggest move since reunification in 1990.

In addition, the yield curve, which shows the yields on German Bunds with different maturities, steepened significantly. Long-term bonds yielded more than short-term securities, which ultimately reflects, among other things, greater uncertainty. Traditionally, short-term bond yields are more influenced by current central bank policy, while potential sources of uncertainty (e.g. regarding increased public debt issuance) are more likely to be reflected in long-term securities.

This example shows that, as in any market, exaggerated reactions can also occur in the bond market. The rise in yields following the lifting of the debt brake was probably somewhat exaggerated. After peaking, 10-year Bunds, for example, fell gradually again, thanks in part to the tariff crisis triggered by Trump in recent weeks.

When it comes to infrastructure projects in particular, it is worth looking at the details, and this also applies to the implementation of the debt brake exit. Although the German Bundestag and Bundesrat have already given the green light, it is likely that at least some of the measures will come into force with a considerable delay. Construction projects and the execution of defence contracts take time, so we will still have to wait before they are financed with loans – and before the supply of government bonds on the market increases significantly.

This event, which dominated the headlines for weeks, at least in Germany, therefore demonstrates one thing above all: speculative exaggerations are rarely permanent. Turbulence on the markets can always offer opportunities – at least if investors analyse the situation with a cool head and in an independent manner. And if they invest actively and their liquidity is secure.

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Our “Bonds in the Spotlight” series offers timely, expert insights directly from the Flossbach von Storch Fixed Income Team. You’ll find these updates regularly on our website and in social media – whenever monetary policy shifts or market developments demand closer attention.

Lars Conrad is Portfolio Director Fixed Income at Flossbach von Storch SE in Cologne.

Michael Altintzoglou

Signs of a Paradigm Shift

For a long time, there was little in the way of good news on China's stock markets. Now there are increasing signs that the market is making a comeback.

When it became known at the end of January that the Chinese start-up DeepSeek had made significant progress in artificial intelligence (AI), semiconductor shares fell worldwide. The share price of US manufacturer of high-performance chips Nvidia plummeted by more than 17 per cent, wiping out a market value of around USD 600 billion – the biggest one-day loss for a company in history. DeepSeek's open-source AI model was reportedly developed with far less computing power and at a fraction of the cost of competing US systems.

The stock exchanges in Shanghai and Hong Kong, conversely, have seen an upward trend in the first few weeks since the start of the year. Their performance had previously been disappointing for several years. On 2 April, when US President Donald Trump also imposed excessive tariffs on China, the upward trend on the Chinese stock markets was (initially) interrupted and shares plummeted. Moreover, the long-term effects are still unclear. Nevertheless, the question arises as to whether DeepSeek's breakthrough could be a signal that international investors' perception of China is changing again and they are returning to these stock markets.

> Although the United States still maintains its leadership in artificial intelligence, China could quickly close that gap.

AWAKENING AI POWER CHINA

We believe that this change is possible. Although China still lags behind the USA in the field of AI, the gap could close quickly. China is home to almost half of the world's AI talent, compared to less than 20 per cent living in the USA. More science, technology, engineering and maths students are educated here each year than in any other country in the world.

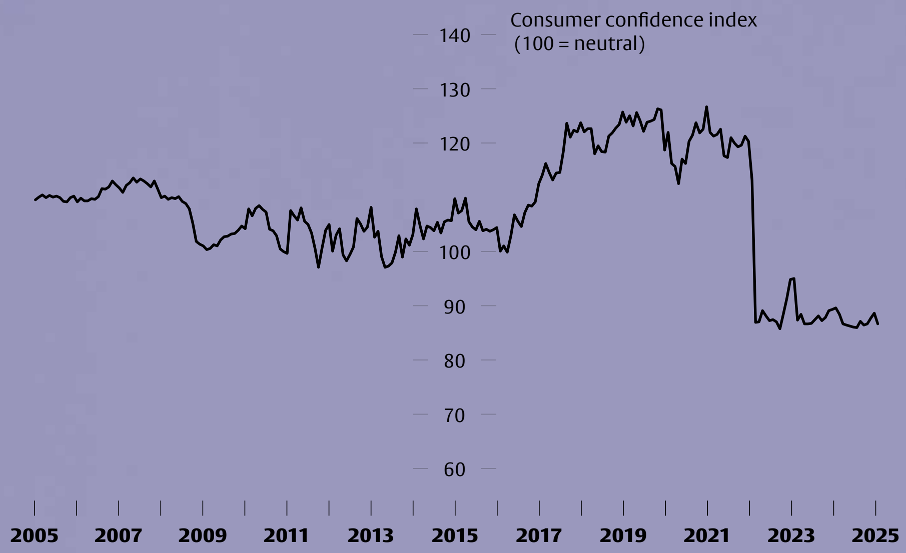
China is also a leader in AI patents and the number of programmers. Due to US semiconductor export controls, Chinese technology companies have had to optimise their software to compensate for the country's less advanced hardware. DeepSeek's latest model shows that great strides have been made in software innovation. And it wasn't just DeepSeek that attracted attention.

Humanoid robots from Unitree Robotics made further headlines when they danced alongside human performers at a Chinese New Year gala. What made these robots so special was their ability to adapt their movements to the rhythm of the music in real time. This was made possible by advanced AI algorithms.

Just as DeepSeek's latest large language model competes with OpenAI's ChatGPT, the Unitree robots appear to be competing with Elon Musk's Optimus robots. It is also worth noting that the development teams of Chinese companies are largely made up of young people who have graduated from local universities. →

Figure 1
Sentiment at rock bottom
Chinese consumers are unsettled

Past performance is not a reliable indicator of future performance.
Source: FactSet, Flossbach von Storch, data as at 30 April 2025



POLITICAL BLESSING FOR CHINESE HIGH-TECH

Some Chinese high-tech stocks had already soared on the stock markets during the Coronavirus crisis. However, shortly before a planned IPO of Alibaba subsidiary Ant Financial at the end of 2020, the sector lost the goodwill of the Xi Jinping government after Alibaba co-founder Jack Ma criticised the Chinese banking system. An unexpected wave of regulation began in which some business models were severely curtailed. Many international investors withdrew at the time and the share price performance was disappointing.

Now, however, a symposium between the Chinese president and private entrepreneurs has made headlines. State media showed Xi Jingping shaking hands with Alibaba co-founder Ma, who had disappeared from the limelight since the end of 2020.

This could signal his rehabilitation. The meeting was also Xi's first high-profile encounter with private entrepreneurs in years. He emphasised their role in China's economic strength and promised a level playing field between state-owned and private companies.

MORE TRUST IN THE PRIVATE SECTOR

The new tone could indicate a change of direction, meaning that there will be less political risk for private companies in the future. The presence of Chinese Prime Minister Li Qiang emphasised Beijing's commitment to restoring the confidence of the private sector. Ultimately, promoting the private sector is in line with the government's interest in boosting the economy. Alibaba also recently announced a partnership with the US company Apple to support AI services for iPhones in

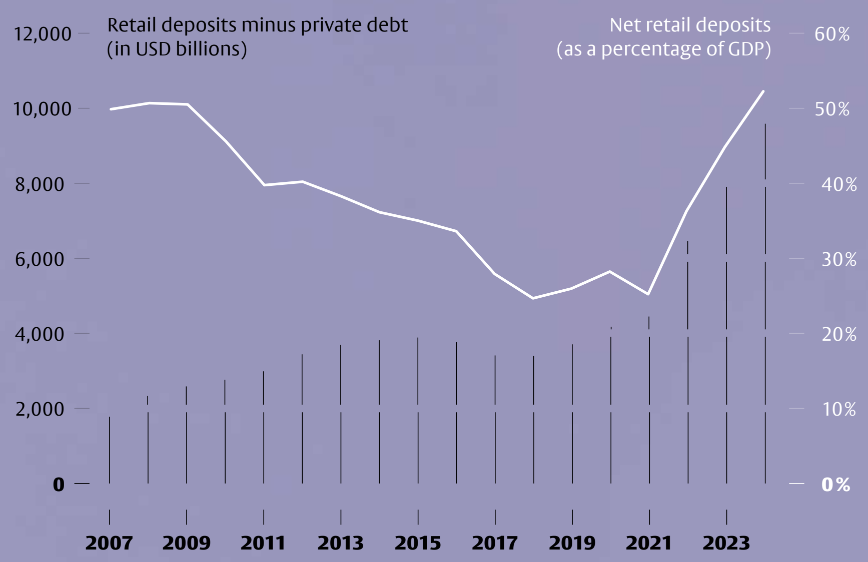


Figure 2
Lots of powder kept dry
Chinese net retail deposits in USD billions and as a percentage of GDP

Past performance is not a reliable indicator of future performance.
Source: National Financial Regulatory Administration, The People's Bank of China, IMF, Flossbach von Storch, data as at 30 April 2025

China. There are more iPhone users there than in the USA. AI integration is crucial for Apple as sales of its devices are declining in China due to increasing competition from domestic rivals. Given the size and importance of both companies, this partnership also has a high symbolic value.

REGULATORY THAW COULD PUT THE BRAKES ON GROWTH

Not only Xi, but also Chinese companies and consumers need positive news after years of slowing economic growth and increasing geopolitical tensions. The labour force has been suffering for some time from a weak labour market, slow wage growth and a troubled real-estate market.

As a result, consumer confidence is still at the level of the Covid lockdown. Consumer demand is more restrained and bank deposits from private customers have risen by the equivalent of almost USD 10 trillion to more than USD 21 trillion. Excluding private debt, this is more than half as much as China's gross domestic product last year (see Figures 1 and 2).

These challenges will not disappear overnight. However, in our view, Beijing's accelerated regulatory easing could prove to be even more effective than the country's fiscal and monetary policies.

For example, the regulatory scrutiny of internet companies that began with the cancellation of Ant Financial's IPO in 2020 led to a sharp rise in risk premiums for Chinese tech stocks and thus to a significant devaluation, even though their fundamentals remained relatively stable for the most part (see Figure 3). With an approach that favours the private sector, the market could now refocus on fundamentals.

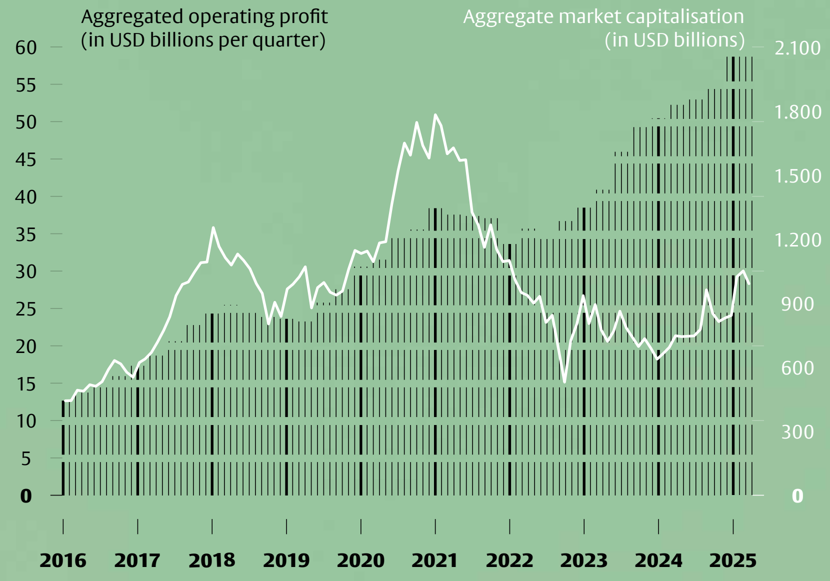


Figure 3
Divergence
Development of operating profit and market value of five Chinese tech stocks

Share basket includes:
Tencent, Alibaba, NetEase, JD.com, Baidu

Past performance is not a reliable indicator of future performance.
Source: FactSet, Flossbach von Storch, data as at 30 April 2025

US TARIFF CONFLICT AS A RISK

The intensifying tariff conflict with the USA is working against the market recovery. However, US exports currently only account for just under three per cent of China's gross domestic product, meaning that the impact of trade barriers cannot be overestimated. In addition, the erratic behaviour of the US president does not allow for any reliable forecasts, which could also play into the hands of the Chinese: while the premium for political risks in China could tend to fall, it is likely to have risen for the USA from the perspective of many investors. Especially as the shares of leading Chinese technology companies still appear favourably valued compared to their US counterparts after years of lean times.

After years of disappointing performance on the Chinese equity market, in which some investors even regarded it as 'uninvestable', we believe that a rethink could begin. And the still considerable 'China discount' of Chinese equities could shrink (see Figure 4). Less than 10 per cent of Chinese equities are currently held by foreign investors.

CONFIDENCE AS A LEVER

In our view, restoring confidence in the private sector is therefore a decisive factor for further economic success. To achieve this, however, the Chinese president's words must be followed by action, for example through market-friendly reforms, incentives for more investment or support measures to increase consumer demand.

There were initial indications of this at the recently held National People's Congress. For example, it was decided that the budget deficit in relation to gross

Figure 4
MSCI China index
Price-to-earnings ratio (P/E ratio) based on expected earnings for the next 12 months

Forecasts are based on specific assumptions. Actual results may differ significantly from these estimates.

Past performance is not a reliable indicator of future performance.
Source: LSEG Datastream, Flossbach von Storch, data as at 30 April 2025

domestic product should increase from around three per cent to four per cent in the current year. The quotas for the issue of special bonds by local governments were also increased.

However, Chinese government officials have also emphasised that there will not be a one-off comprehensive economic stimulus package. Rather, it can be assumed that it will be more of a gradual but steady policy change of a supportive nature. This also includes the promotion of technological developments and a vigorous attempt to boost private consumer demand.

For example, an action plan presented by the State Council proposes a trade-in programme for consumer durables, whereby consumers who exchange old appliances for new ones can expect a subsidy. This would be comparable to the 'scrappage scheme' that was introduced for car purchases in Germany in the wake of the major financial crisis in 2009. An increase in childcare subsidies and improvements to the social safety net were also announced.

In our opinion, the official announcements that the decline in the real-estate market is to be halted and the equity market stabilised have more credibility this time than in the past. And so, we can see some encouraging signs that the Chinese equity market could be on the road to a lasting recovery. ◆

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GOLD

THE MOST APOLITICAL OF ALL ASSET CLASSES

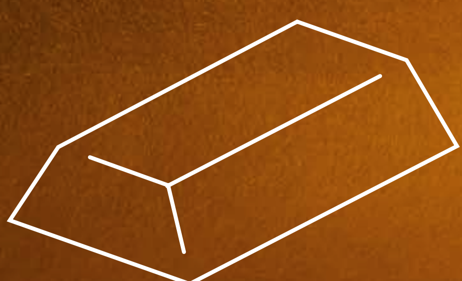


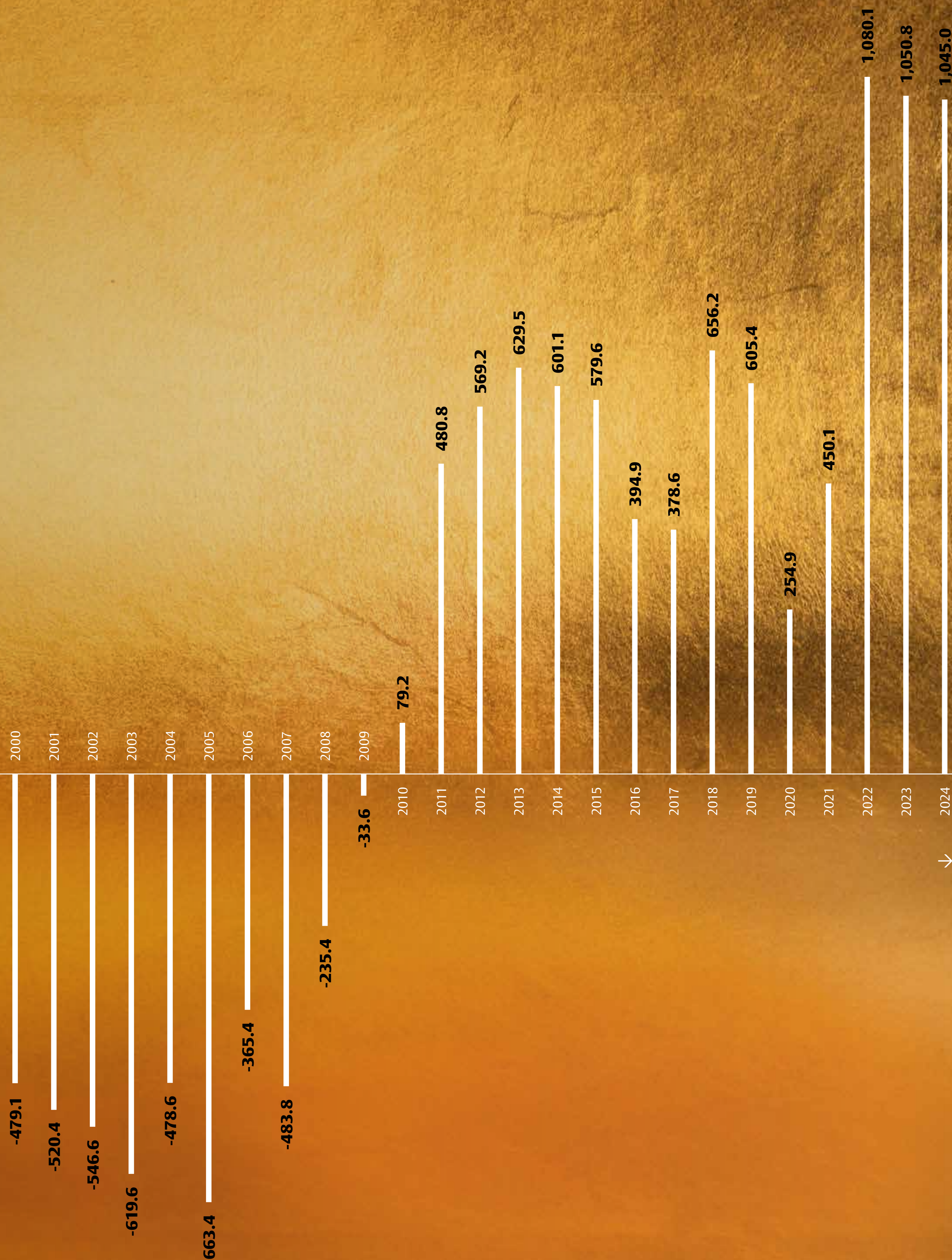
Figure 1

The apolitical currency of last resort

Net gold purchases by central banks in tonnes per year

Past performance is not a reliable indicator of future performance.

Source: LSEG Datastream, Flossbach von Storch, data as at 30 April 2025


2000
-479.1
2001
-520.4
2002
-546.6
2003
-619.6
2004
-478.6
2005
-663.4
2006
-365.4
2007
-483.8
2008
-235.4
2009
-33.6
2010
79.2
2011
480.8
2012
569.2
2013
629.5
2014
601.1
2015
579.6
2016
394.9
2017
378.6
2018
656.2
2019
605.4
2020
254.9
2021
450.1
2022
1,080.1
2023
1,050.8
2024
1,045.0

The relentless rise in the price of gold to over USD 3,000 per ounce is a reflection of global uncertainty. If foreign central banks and investors want to protect their currency reserves from access (or rather manipulation) by the US government, gold is practically their only option. Here, they face neither confiscation nor a transaction tax, as was recently discussed even for US Treasuries (the "Mar-a-Lago Accord").

Last year, net gold purchases by central banks exceeded 1,000 tonnes for the third year in a row (see Figure 1). The biggest buyers included the Chinese, Indian, Polish and Turkish central banks.

However, the gold price has recently received a boost not only from central banks, but also, for the first time in years, from financial investors, who mostly invest in gold in the form of ETFs. In the first quarter of 2025, global ETF gold holdings rose by around 200 tonnes to 2,800 tonnes. This has halted the downward trend of recent years (see Figure 2).

The recent rise in demand for ETFs may also be due to a catch-up effect. The continuous rise in the price of gold has been extremely frustrating for all those who sold their holdings in recent years. Hopes for favourable entry levels have been repeatedly dashed. And now the geopolitical situation is becoming even more clouded.

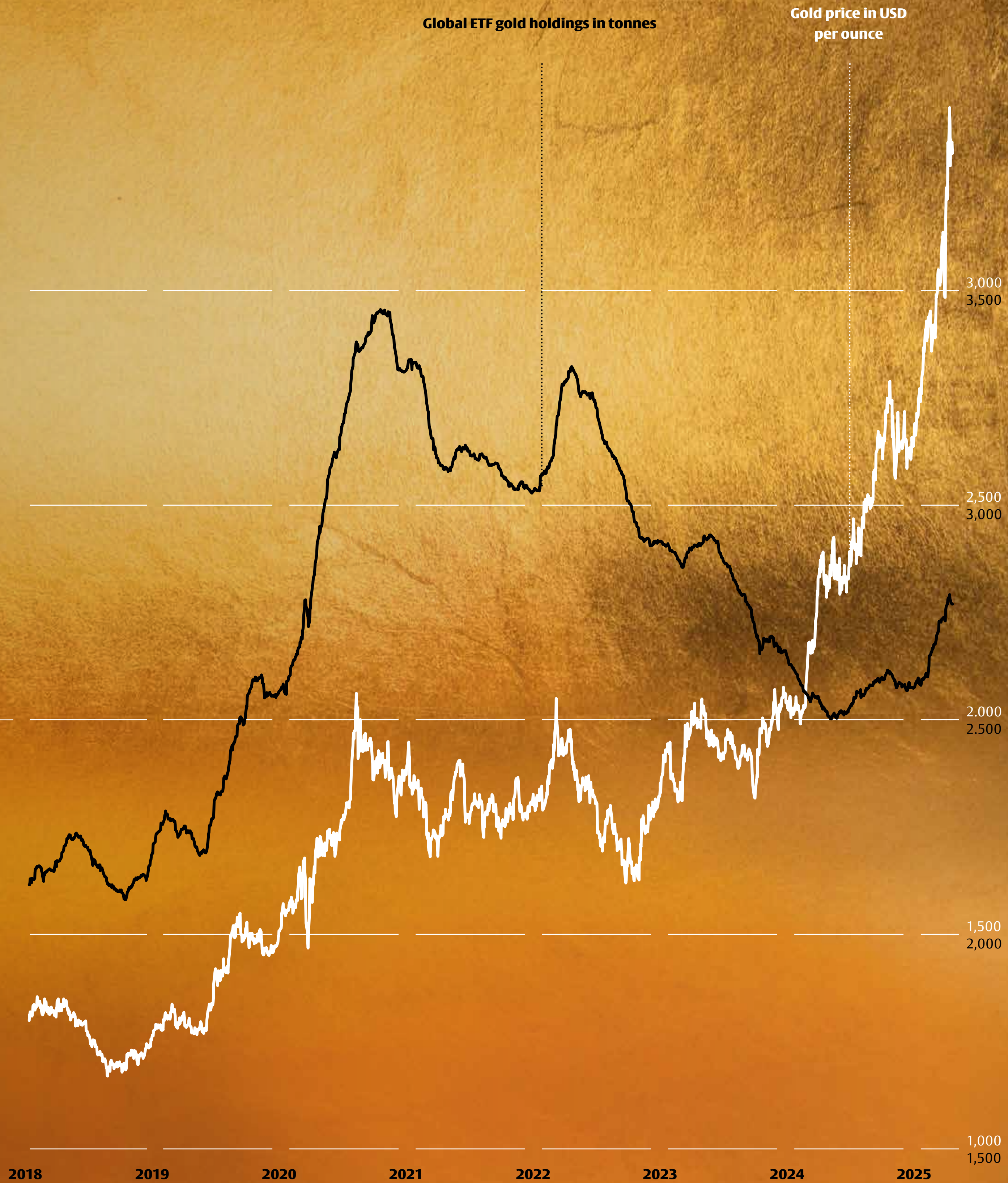
Here, too, the new US president is the focus of attention. China remains Donald Trump's main rival. With his friendship with Vladimir Putin, he wants to isolate the only world power that can stand up to the USA. This is one reason why the Chinese prefer to invest their currency reserves in gold rather than US Treasuries.

Ultimately, therefore, the gold rally is no cause for celebration. Even those who hold gold are likely to view the price rise with mixed feelings. ◆

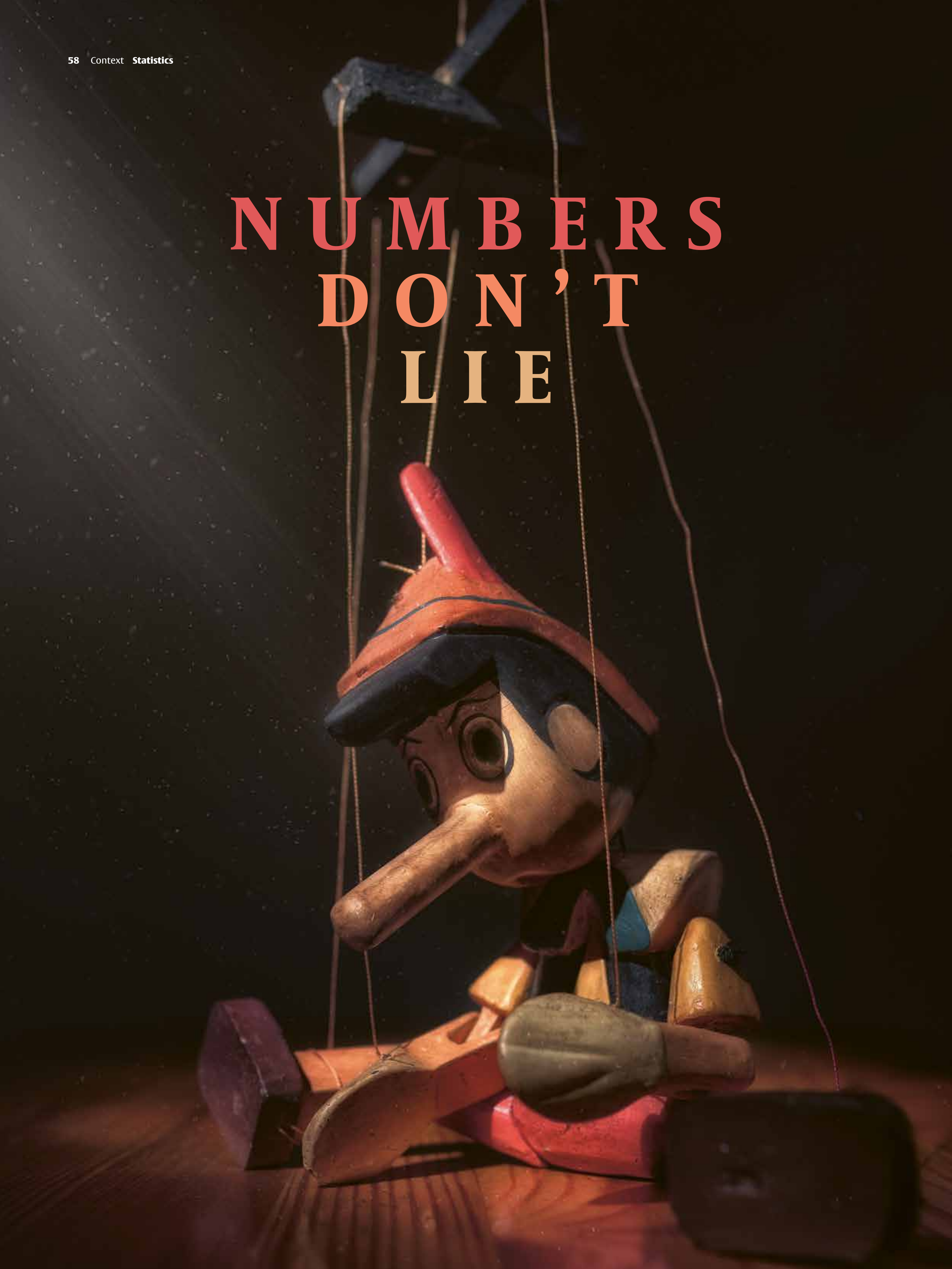
Even those who own gold are likely to have mixed feelings about the price rise.

Figure 2
Investment demand has stabilised
Global ETF gold holdings: financial investors are now buying gold again

Past performance is not a reliable indicator of future performance.
Source: Bloomberg, Flossbach von Storch, data as at 30 April 2025


Global ETF gold holdings in tonnes
Gold price in USD per ounce
3,000
3,500
2,500
3,000
2.000
2.500
1,500
2,000
1,000
1,500
2018
2019
2020
2021
2022
2023
2024
2025

NUMBERS DON'T LIE



…DO THEY?

Julian Marx

"Fake news" is a term that US President Donald Trump coined during his first term in office. However, this phenomenon has been around forever. Here's how even statistics can paint a false picture.

On just the second day of his first presidency, Donald Trump, then the 45th President of the United States, declared the media to be the enemy. He said that they spread "fake news" about him. The term quickly became a household phenomenon.

Fake news is created by sensational headlines, manipulated images and claims that give a false impression but sound like real news at first glance. And Trump himself is likely to be one of the kings of this art. According to a Washington Post statistic, he made a total of 30,573 false or misleading statements in the four years of this first term. Even as president, Trump used his private Twitter account to present his policies – until his account was shut down after the storming of the Capitol in January 2021 – despite having 88 million followers.

FACT CHECKS ABOLISHED

Right at the start of his second term, as 47th President of the United States, the fact-checking he disliked on major social media was abolished. So how can you protect yourself from becoming a victim of fake news?

The modern media landscape in particular offers users enormous opportunities to form their own opinions, supported by the possibilities of artificial intelligence (AI). Anyone conducting research online is just a few clicks away from being able to find comprehensive information on almost any topic. And indeed, search queries show that for most people, the internet is no longer just about their favourite sports team, their next holiday or a new recipe, as it was in the early days. Topics such as retirement planning and current world and political events are now also very popular. Opportunities for gathering information abound – and have never been as fast and accessible as they are today.

DANGEROUS TRAP IN THE SUBCONSCIOUS

But as we all know, there are two sides to every coin. Gaining information is one thing but understanding and categorising it correctly is quite another. While some quality media outlets often provide important theses that can be substantiated by multiple sources, or where each individual fact can be supported with source references, the information provided on the internet is often not filtered at all.

What's more, the subconscious makes people particularly susceptible to fake news. Loud headlines usually attract more attention than knowledge-based texts, a fact that was the subject of a study by the renowned Massachusetts Institute of Technology (MIT) in 2018. For this purpose, the study authors analysed approximately 126,000 message cascades from the Twitter messaging service, which were tweeted over 4.5 million times by around three million people between 2006 and 2017. One of the study's findings was that, in this social medium, truthful statements take about six times longer to reach 1,500 people than false statements.

According to the authors of the study, information theory provides an explanation for results such as these. According to this theory, new information can contribute to productive decision-making and promote the exchange of information because it updates our understanding of the world. That is why supposedly ground-breaking information is considered particularly valuable and attracts people's attention. In addition, social aspects play a role in the absorption of information. New information can convey a social status, indicating that you are "in the know" or have access to "inside information". This makes people particularly receptive to loud or shrill news – whether it is true or false.

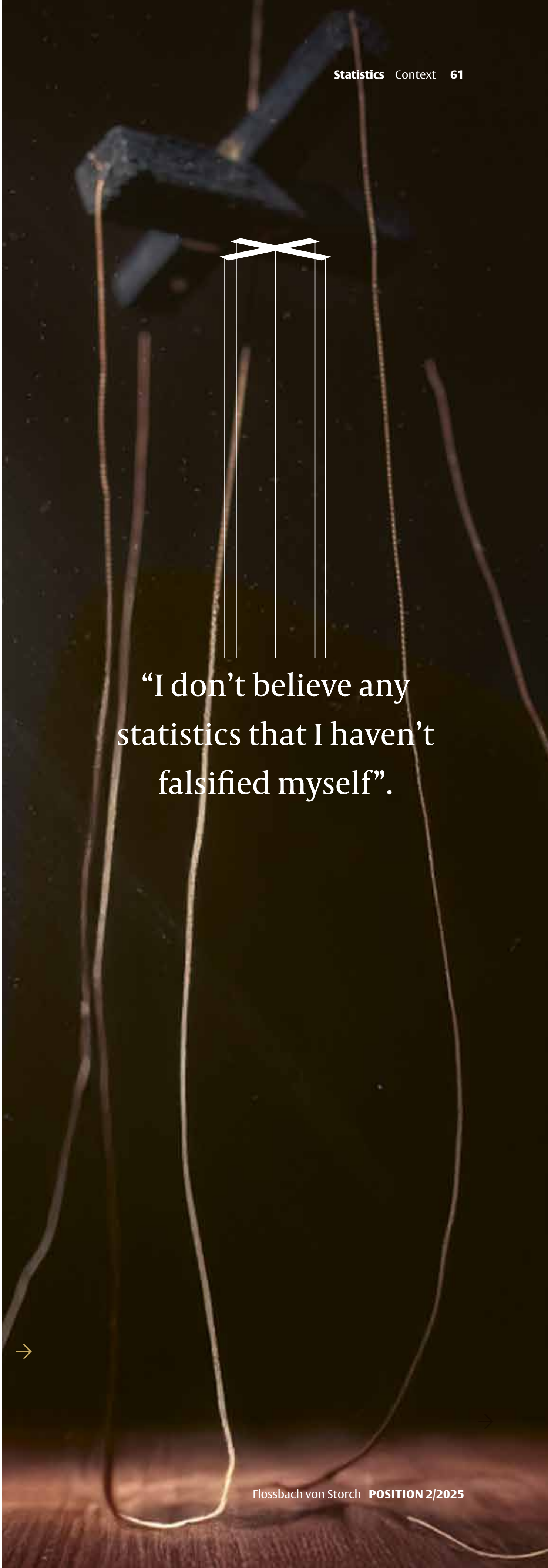
So, it is not always possible to distinguish between truth and lies intuitively. It helps to have a critical attitude that doesn't take everything at face value – especially when it comes to supposedly ground-breaking news. But sometimes even information that you wouldn't initially suspect can be wrong: hard facts!

A QUOTE THAT EVERYONE KNOWS ...

An elderly gentleman who liked to smoke cigars and had a penchant for pithy phrases, winner of the Nobel Prize for Literature in 1953 and the driving force behind British resistance against Adolf Hitler during the Second World War: former British Prime Minister Sir Winston Churchill. He is said to have said: “I don’t believe any statistics that I haven’t falsified myself”. For decades, this quote was attributed to him in this country. As a dictum, it found its way into numerous speeches and writings. Yet there is no evidence for it. Quite the opposite.

Werner Barke, a former consultant at the State Statistics Office of Baden-Württemberg, spent many years looking into the origin of the quote. In his opinion, “there is nothing to suggest that it is true and everything to suggest that it is not”. This quote is completely unknown in Great Britain. Neither the country’s statistics office nor the high-circulation British daily newspaper “The Times” has apparently ever heard of it. So, was it simply a pack of lies?

Not quite. During the Second World War, Churchill demonstrably expressed considerable doubt about Hitler’s military success statistics. At the same time, the media in the German Reich – on the instructions of the then propaganda minister Joseph Goebbels – were supposed to present Churchill as a liar and often resorted to using falsified figures for this purpose themselves. Presumably at some point, Churchill’s propagated status as a liar and his doubts about German military statistics became intertwined, and so this quote, which probably never existed, has been attributed to him in German-speaking countries. Contrary to what the quote might suggest, Churchill was considered a great supporter of accurate official statistics. During the Second World War, for example, he emphasised that it was “vital” that information about British ship losses did not fall into the wrong hands. Doing so would provide the enemy with important information about the success or failure of their ever-new attack formations.



“I don’t believe any statistics that I haven’t falsified myself”.

So, Winston Churchill held figures and statistics in high regard. Nevertheless, the former British Prime Minister was aware that the information content of figures and statistics is also linked to responsible handling of them.

DOES THE GERMAN STATE EMPLOY TOO MANY PEOPLE?

It is not without reason that the principles of neutrality, objectivity and professional independence apply to the work of official statistics in this country. However, even with correct data, there is a risk of misinterpretation, as the following example illustrates.

The necessity of reducing bureaucracy was an important topic in the recent election campaign. And when it comes to talking about German government offices, almost everyone feels they can have a say. For many years, countless examples have illustrated that red tape is rampant. For example, people have to wait too long for building permits, work permits for foreign skilled workers often take years to process, are too expensive or forms are getting longer and longer and more and more difficult to understand. In short, the public sector is repeatedly perceived as being (too) sluggish. Yet the number of people employed in the public sector has risen from 4.5 million to 5.3 million since 2008 (see Figure 1).

How does that fit together? For those who want to criticise a sluggish public sector, such figures are a godsend. Along the lines of: “In 15 years, 800,000 new jobs have been created and the problems have increased.”. But be careful! Another statistic paints a different picture.

... OR ARE THERE TOO FEW CIVIL SERVANTS?

Figures from the Organisation for Economic Co-operation and Development (OECD) could even suggest that public services in Germany may be under-resourced. In 2021, the proportion of the total workforce employed in the public sector in this country was 11 per cent, which is relatively low by international standards. The OECD average was just under 19 per cent – putting Germany on a par with model student Switzerland, which is known for its high level of innovation and has been ranked first in the Global Innovation Index for years.

So, what is the actual situation regarding the public sector? Have we employed too many “sloths”? The statistics above already make it clear: a jigsaw puzzle consists of many pieces. Accordingly, a valuable analysis cannot be limited to individual pieces of the puzzle.

A LOOK BEHIND THE SCENES

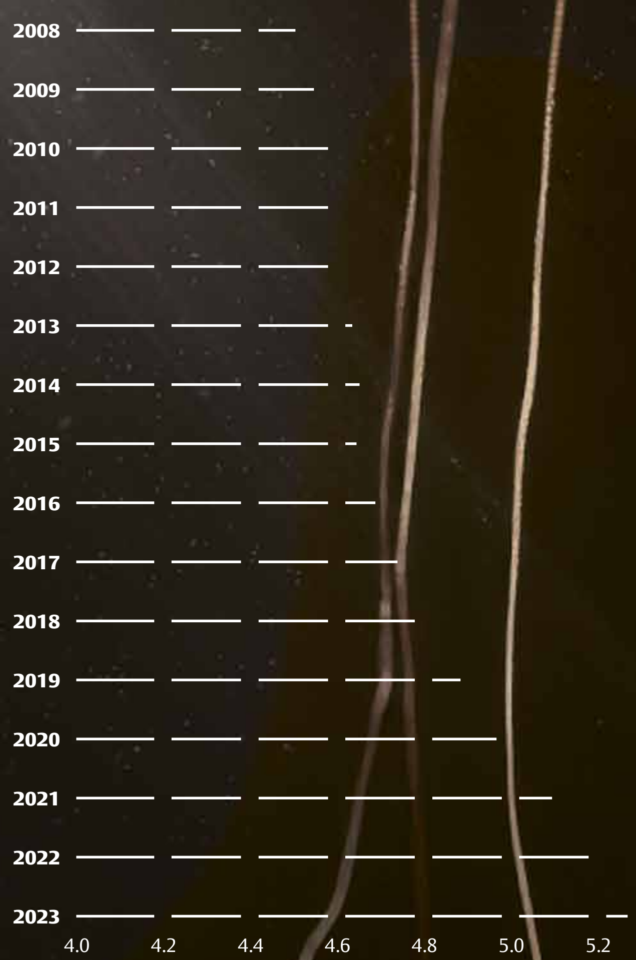
A first step towards a better overall impression would be to take a closer look at the areas in which employment growth was particularly high during this period. The increase in staff numbers at child day-care centres is particularly striking. Between 2008 and 2023, the number of educators more than doubled to 278,900. This explains almost one fifth of the increase in employment.

This should help to calm tempers somewhat: after all, this increase is well justified. On the one hand, the demand for childcare has increased significantly. Not only has the number of children in day-care centres risen from almost 3.3 million to more than 3.9 million between 2014 and 2024 alone. The amount of time each child spends in childcare has also increased. In 2014, around 42 per cent of children were in childcare “more than 35 hours per week”; most recently, the figure was 46 per cent. The social value of child day-care centres goes beyond the social component, in that they offer the first place of secondary socialisation. From an economic point of view, day care is also an essential cornerstone. The expansion of daycare facilities is likely to have contributed significantly to the increase in the employment rate among women from 58 per cent in 2000 to almost 74 per cent in 2023.

Figure 1
Too many public sector employees?
Their number in Germany has risen by 17 per cent since 2008.

Number of public sector employees (in millions)

Source: Federal Statistics Office, Flossbach von Storch, data as at 30 April 2025



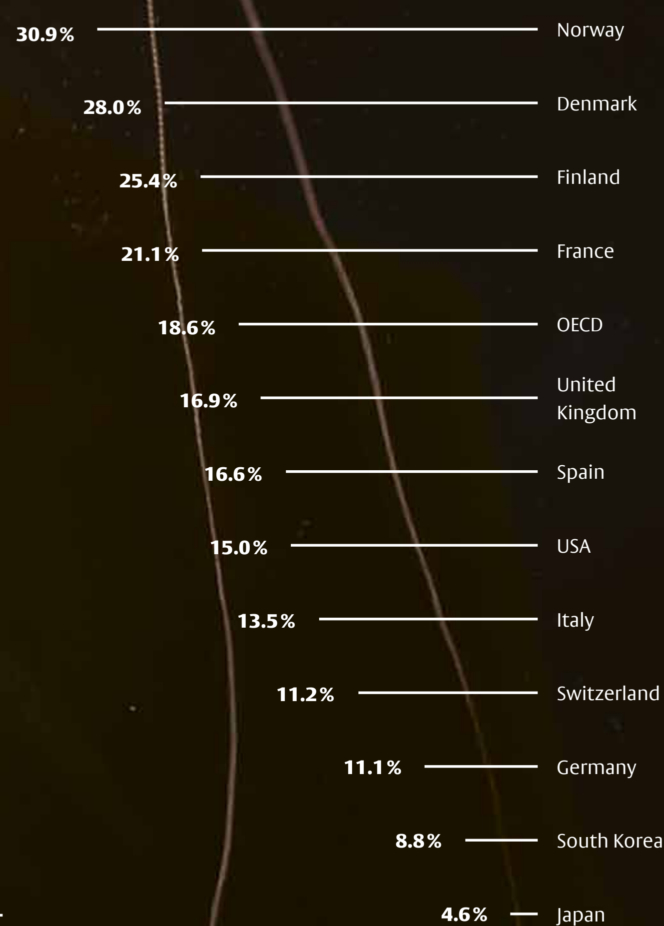


Figure 2
Too few public sector employees?
Rate in relation to total employment in 2021 is below the OECD average.

Number of employees in the public sector in relation to total employment (in %)

Source: OECD, Flossbach von Storch, data as at 30 April 2025

> Common sense can help us here – even, or perhaps especially, in the information jungle of the digital age.

In addition to daycare workers, the number of people employed in higher education rose by around 189,000 to almost 622,000 between 2008 and 2023. An increase of 44 per cent. The number of students has also increased by 42 per cent. As in the area of day-care centres, the number of employees at universities can also be explained by the increased demands. Both examples show that the staffing levels have simply been expanded in line with demand. Nevertheless, not all points of criticism regarding bureaucracy can be dismissed out of hand.

WHAT IS TOO MUCH REGULATION?

There is also little dispute among business leaders and economists that we have too much regulation in Germany and the European Union. For example, the number of federal laws and regulations continued to climb between 2014 and 2024 – from 4,391 to 4,646. The number of individual standards contained in them has increased even more sharply, by 17 per cent to 96,427.

Regulation is not bad per se. On the contrary, it can also be interpreted as a sign of progress. One example is environmental protection, for which there was almost no legislation in the early 1960s. In 1961, for example, future Chancellor Willy Brandt called for “the sky over the Ruhr area to turn blue again”. In doing so, he brought environmental protection into the focus of social debates. Since then, environmental policy has provided numerous positive impulses. For example, the water quality in German bathing lakes has remained at a consistently high level for more than 20 years now. In 1992, not even 30 per cent of bathing lakes met the prescribed limit values, but more than 90 per cent of bathing lakes were recently certified as having “excellent” bathing water quality. In the area of road traffic, increased safety requirements and traffic regulations have contributed to a reduction in the number of traffic deaths over time. In 1970, the number of traffic deaths in the former territory of the Federal Republic of Germany alone was still as high as 19,193;

in today's Federal Republic of Germany, it has recently fallen to less than 3,000.

But despite such successes, bureaucracy must never become an end in itself. Increasing prosperity, but also a change in social values, have led to various interest groups constantly demanding new regulations: more and more data protection, more and more banking regulation, more and more ESG requirements for companies. Taken individually, many of the proposed laws are well-founded and address the understandable needs of the population. However, the result is a regulatory thicket that has reached such an extent that different regulations often even "block" each other. This makes increasingly complex legal coordination and ever more extensive administrative enforcement necessary – with a correspondingly higher demand for personnel in many administrative areas.

THE "DEMOCRATIC RESPONSIVENESS TRAP"

In this context, political scientists regularly speak of the "democratic responsiveness trap" – a benevolent state becoming entangled in increasing bureaucracy. This slows down and complicates processes such as investment decisions; it paralyses the economy. A study conducted by the Ifo Institute for Economic Research last year estimated the administrative costs in the form of lost economic output in Germany at EUR 146 billion per year. Different interests and laws can collide not only between different departments, as in the case of weighing up data protection and a personalised medical file for efficient and optimal patient care. Conflicting goals can even arise within a department. This is well known in environmental policy. It is not uncommon for species protection and the desire to expand renewable energies to collide.

The example of public employment shows how difficult it can be to avoid one-sided interpretations, even with simple statistics. In many areas of the public sector, the right and necessary measures have been taken. The enormous increase in the number of daycare places for children is a necessary prerequisite for many families so that both parents can go out to work.

On the other hand, the public sector is undoubtedly also facing enormous challenges. It has to find a way out of the democratic responsiveness trap.

DISCUSSING INSTEAD OF JUMPING TO CONCLUSIONS

Obviously, the world is not just black and white. In an increasingly polarised environment, objective discussion of a wide range of topics is becoming more important. Figures and statistics are valuable tools for finding our way in an ever more complex world. They do not lie, but they need to be critically examined.

Far more important than worrying about the improper use of numbers are the possibilities that good statistics offer. Used well, they can contribute to efficiency gains and progress. For example, today's birth rates can be used to estimate how high the demand for teachers is likely to be in 10 years. We need to make use of these insights. Common sense can help us here – even, or perhaps especially, in the information jungle of the digital age. ◆

Glossary

Economic terms in brief

Asset class – Financial products with similar characteristics can be allocated to different groups. Traditional asset classes include, for example, equities, bonds, real estate and precious metals.

Bonds – Securities that an issuer can use to borrow in the capital market. Bonds can be issued in different currencies and can have different maturities and coupon rates.

Diversification – The allocation of assets across various investment classes, individual securities, regions, sectors and currency zones – with the aim of reducing potential risks in investments by distributing investments widely.

Equity index – An equity index is an indicator of the average price development of the share basket of a country, a region or even individual sectors. It tracks the price level of the selected shares.

Gross domestic product (GDP) – The value of all goods and services produced in an economy during a year.

Inflation – A general increase in the price of goods that is accompanied by a loss in the purchasing power of money.

Liquidity – Liquidity means the "money proximity" of assets, i.e. their potential to generate immediate or short-term cash inflows. The liquidity of a market must be distinguished from the liquidity of assets. This is the case when the difference between the bid and ask price is low and larger volumes can be traded without substantially influencing the market price.

MSCI World Index – The MSCI World equity index shows the performance of stock markets in the industrialised countries. It is based on more than 1,600 equities in 23 countries.

Nikkei 225 Index – The Nikkei 225 is the benchmark index for the Japanese stock maket. It tracks the performance of 225 of Japan's largest listed companies. The Nikkei is a price-weighted share index.

Portfolio – A collection of investment securities.

S&P 500 Index – An equity index that shows the performance of the broad stock market in the USA and includes the 500 largest listed companies in the USA.

Share – A share is a security that makes its holder a co-owner of a public limited company. When a share is purchased, the shareholder acquires a portion of the company's share capital. There are common shares and preferred shares. Common shares give their holders voting rights in general meetings. Holders of preferred shares do not have voting rights, but instead receive a preferred dividend that is generally larger.

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