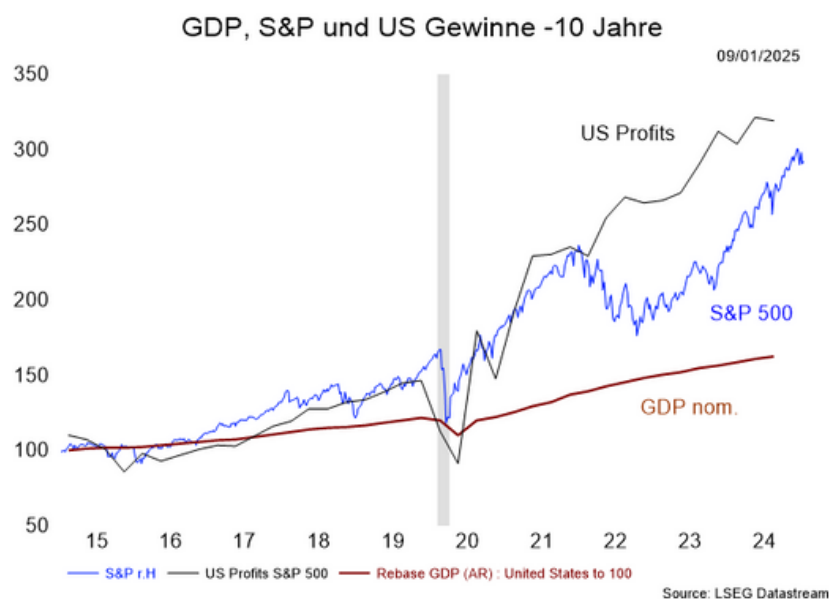


The global economy has recovered well from major shocks

Endanger autocrats and neo-colonialists the weakened Western democracies?

The global economy is in an enviable situation. This is especially true for the USA. The chart below shows that nominal GDP has increased by 35%, the S&P stock index by 79% and the profits of S&P firms by 68% over the past 5 years. Europe has similar values. This is all very astonishing because the world has experienced an unprecedented cascade of shocks in the period mentioned.



First, the global pandemic, which had prevented many workers from showing up at work. This was followed by a boom in demand, which was intended to compensate for the forced abandonment of consumption during the pandemic. Then came the Ukraine war with serious consequences for the energy markets. Europe was hit particularly hard by this, as energy supplies from Russia came to an abrupt end.

Reversions in the fight against the pandemic led to major disruptions in supply chains. They resulted in far-reaching production losses in almost all industries. The lack of supply allowed companies to significantly increase margins and prices. A state of affairs that is immanent in market economy systems, but which has resulted in inflation figures skyrocketing. This prompted the US Federal Reserve in particular to make a shock-like braking movement, which was also followed by the European Central Bank. The move was justified by the fear that a wage-price spiral could be set in motion, as was common in the 1970s and 1980s and could only be stopped with a drastic braking movement and a subsequent recession. Many economists did not share this assessment. They argued with the fact that the wage formation process had become largely decentralised in the last thirty years and that the degree of organisation of the trade unions had been reduced to an insignificant level. The price increases were only due to balancing supply and demand. With the market clearance, the price increases disappeared relatively quickly, even before the lag in monetary policy (around 18 months) reached the real markets. The price increases were therefore only transitory in nature.

The price of this new pattern of inflation is that wages are only adjusted to inflation with a delay. For the catch-up phase, the term "Cost of Living Crisis" has become established – especially in the Anglo-Saxon area. This is good news for assessing future supply inflation. They make it advisable to handle monetary policy much more calmly in such situations. A neutral monetary policy is more likely to do justice to the situation.

The opportunities offered to companies by the shortage of supply in the event of price increases, as well as the delayed adjustment of wages, largely explain the excellent profit situation of many capital market companies. The high stock market gains of recent years are therefore fundamentally well justified. With exceptions, there can be no talk of a bubble forming. If one also takes into account that the market imbalances caused by the shocks have largely been resolved and that the central banks' braking movement could have been completed long ago, there is further supportive impact for risk assets.

Even the high expectations of the AI revolution have not been disappointed so far. It is evident that the diffusion of this innovation has picked up speed on a broad scale. It promises capital investors high productivity gains and a reduction in labor costs.

Trump's election is also likely to significantly improve the framework conditions for American companies. The program for the far-reaching reduction of civil servant positions is an efficient method of implementing and controlling undesirable laws only in a weakened form or no longer at all. This has a faster effect than changes in the law. The areas of environment, social affairs, energy and competition are likely to be particularly affected. Other states will not be able to escape these liberalization efforts. However, it is critical that Trump has significantly radicalized his foreign policy ambitions. They testify to a spirit that no longer has much to do with the much-praised liberal democratic values. Practically every day, he makes decisions that indicate that he sees the independence of the state institutions as an obstacle to his government. He is also hardly interested in the demarcation between the private and public spheres, even if conflicts of interest are obvious. Nepotism is part of this concept.

However, the obvious will to disregard international agreements and treaties should be assessed even more critically in terms of investment policy. Until recently, it was assumed that his threat of tariffs was only intended to serve as considerations. However, with his press conference on 7 January, it became clear that he does not shy away from territorial claims. He also does not rule out military actions. Even if they are friends within NATO (e.g. Denmark, Canada and Mexico). He is deliberately putting him on the level of Putin, whom he has always admired and whom he even defends with regard to the war against Ukraine. He understands the security policy need not to want NATO troops in his forecourt. The U.S. has similar security needs. The tariffs he has threatened Europe with could very well result in demands that make it easier for him to make a deal with Russia. He is also bothered by the large trade surpluses of the EU and Canada with the USA.

In the case of Canada, he explicitly asserted territorial claims at the aforementioned press conference. "The artificial line between the two states should be abolished. The prospects for both sides would be excellent with this integration." A journalist asked whether he would use military actions to achieve his goals. This is not necessary, as economic power of pressure are sufficient. For the takeover of the Panama Canal, on the other hand, he could not rule out military actions. After all, the canal is a security policy risk. It is already operationally managed by the Chinese. The takeover serves not only the USA, but the entire free world. The takeover of Greenland is also necessary in terms of security policy. With regard to the trade policy surpluses of the Europeans, he had to state that he did not need these products at all. They would have had enough of it.

These "revelations" raise serious questions for Europe. If power is to determine what is to apply and no longer legal principles, then Europe is in a difficult position. The continent is in a desolate state in terms of security policy. Incapable of defending itself. In addition, an integrated air defense and nuclear shield is missing. It is also hardly capable of acting in foreign policy and, with the failure of migration policy, is increasingly exposed to the extreme demands on the right. In this state, politicians who act according to the principle of power will have to pay a high price. Be it in favour of Russia or – now – in favour of America or even both.

This new starting position prompts us to abandon the offensive investment policy path of recent years in favour of equities until there is more clarity about the foreign and economic policy course of Trump II. We are therefore reducing the overweight in equities to a neutral position, with a slight underweight in Europe in favour of the US. We still see room for interest rate cuts, especially in European short-term interest rates, from which real estate will also benefit. Gold is likely to continue to be in demand in this environment. The Swiss franc will also benefit from this and force the SNB to lower interest rates further, as the renewed build-up of foreign exchange on the balance sheet is likely to be considered only as a second-best solution.

With warm greetings,

Prof. Dr. Josef Marbacher & CORUM Investment Office



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