Flossbach von Storch

3/2026

POSITION

Thought-provoking issues for investors

TULIP MANIA

The mother of all bubbles

EQUITIES

Boring stocks at a discount

BONDS

Bonds Are Making a Comeback

TO BUBBLE

With SpaceX, dreams become reality – or, as Elon Musk put it: “We take the fiction out of science fiction.”

Whether living on Mars is something to aspire to is another matter. Nevertheless, the biggest IPO in history has electrified investors around the world. The rocket launch catapulted SpaceX shares into the stratosphere of the world’s most valuable companies. After soaring 50 per cent in three days, its market capitalisation reached USD 2.7 trillion – as much as Microsoft at that time. While the software giant generates nearly USD 130 billion in profit each year, SpaceX is expected to incur a loss of around USD four billion in 2026.

But who cares? One portfolio manager summed it up: “You never lose money with Elon.”

Following the successful launch, however, the share price’s rocket-like rise was swiftly brought back down to earth by gravity. Initially, the price fell sharply from its peak before recovering and moving back into positive territory.

In hindsight, SpaceX’s IPO may come to be seen as evidence of runaway stock market fantasies and irrational exuberance. It is symptomatic of the transition from optimism to euphoria – from boom to bubble.

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

You can subscribe to our magazine free of charge.

IN A WORD

Artificial intelligence (AI) will shape the coming decades, transforming both the economy and society. Businesses and governments alike will devote enormous resources to capitalising on the opportunities it presents – and to lessening the associated risks.

I would assume that, collectively, we have only the faintest inkling of what AI, when used wisely, could achieve for humanity in 10- or 20-years' time. At the same time, we know just as little about the risks and side effects.

It was much the same more than 20 years ago, when the internet began its triumphant advance. Few people at the time could have imagined the upheaval it would bring – for the economy and society, and for each and every one of us in our daily lives.

This makes it all the more difficult, from an investor's perspective, to predict today who the long-term winners of the AI revolution will be. Yet investors are trying to do precisely that – as illustrated by the recent rapid rise in share prices of chip manufacturers. But is this trend sustainable?

More than ever, in this heated environment, it is vital to keep a cool head. My business partner Bert Flossbach recently described the mood on the stock markets as a "feverish frenzy".

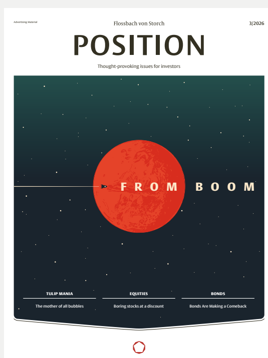
This is all the more important given that the capital markets are finally (!) gaining significance in retirement planning. We must make it clear to future generations that nobody gets rich overnight on the stock market. That trends cannot continue indefinitely. That successful investing requires patience and realistic return expectations – not pipe dreams.

If the stock market is once again viewed as a casino, as it was at the turn of the millennium, then the next generation of investors will ultimately be "burned". With a view to pensions, that would be a disaster!

We wish you an interesting read!

Kurt v. Storch

Kurt von Storch
Founder and Owner of Flossbach von Storch SE



Flossbach von Storch

POSITION

3/2026

WHO WILL WIN THE CURRENCY RACE?

Governments and central banks often make decisions that only appear positive to the public at first glance. The US dollar still dominates the global foreign exchange market. But are there any alternatives?

By Gunther Schnabl

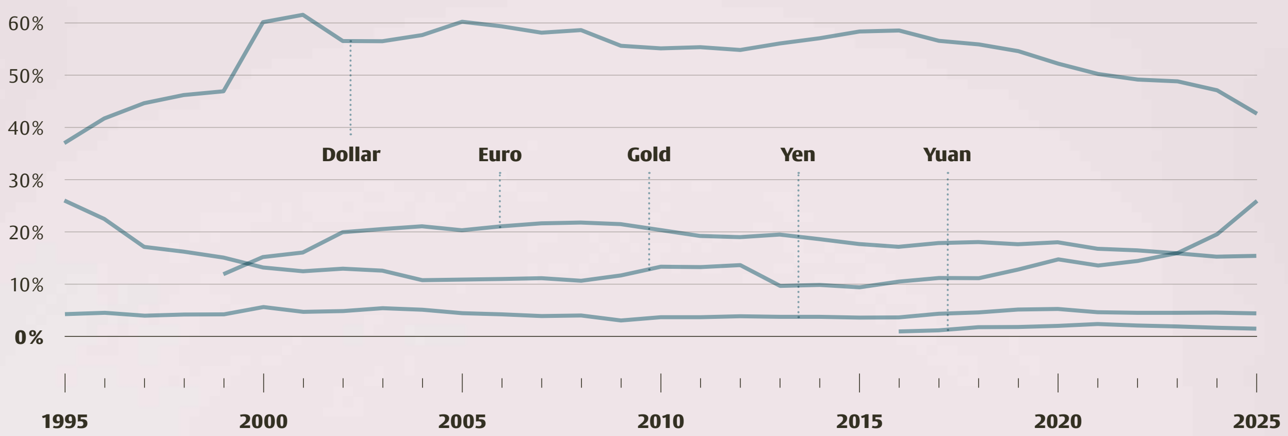


Figure 1
Share of individual currencies in global foreign exchange reserves

Source: IMF, Flossbach von Storch, data as at 12 June 2026

A glance at current monetary and fiscal policy shows just how relevant the classics of economics remain. Fifty years ago, Friedrich August Hayek published his book *"Choice in Currency: A Way to Stop Inflation"* At the outset, Hayek refers to a sentence from Adam Smith's *"The Wealth of Nations"*, the 250th anniversary of the first publication of which falls this year: rulers had time and again abused the trust of their subjects by reducing the metal content of their coins out of greed.

In his 1976 book *"The Denationalisation of Money"*, and hence exactly 200 years after publication of Smith's seminal work, Hayek lamented that people, out of ignorance, even applauded the central banks' inflationary monetary policies, even though the damage was immense.

According to Hayek, therefore, even democratically elected governments cannot act in the public interest. The temptation to address all manner of discontent by manipulating the money supply is simply too great. Cheap money creates great injustices, and not just through inflation. It also distorts relative prices, which directs factors of production into investment projects that are unsustainable in the long run. This inevitably leads to crises.

In his work, Hayek develops a solution to the problem: instead of a state monopoly on money, private banks should be allowed to issue their own currencies – enticed by substantial profits from money creation. As users would then be free to choose their currency, competition would arise between the private banks, with the most stable currencies prevailing. Whilst Hayek's idea of currency competition has met with little response to date, a form of currency competition has emerged, largely unnoticed, which may already have prompted a reorientation of monetary policy in Washington.

This burgeoning currency competition is closely linked to a creeping loss of confidence in the US dollar as the world's reserve currency. Since the late 1980s, the US Federal Reserve (Fed) has increasingly positioned itself as an ally of governments. During crises, the Fed has repeatedly cut interest rates and purchased government bonds and other securities on a large scale to stabilise the economy. Although it tightened monetary policy again during the recovery phases that followed, it did not do so to the same extent as it had eased policy during the preceding crises.

> This burgeoning currency competition is closely linked to a creeping loss of confidence in the US dollar as the world's reserve currency.

As a result, the Fed has accumulated large quantities of government bonds and mortgage-backed securities on its balance sheet. Thanks to the Fed, the US government's spending commitments and national debt have risen to historic highs. The increasingly expansionary monetary and fiscal policy environment has been associated with negative effects on growth and income distribution, which have made the USA more politically unstable.

The result is a loss of confidence in the US dollar. A flight into real assets has begun, driving US equity and property prices higher – most recently, particularly AI-related stocks. Many countries whose central banks have long held large quantities of dollars on their balance sheets are turning away from the dollar as the leading reserve currency (see Figure 1). This is because US government debt is immense, and historically, high government debt and currency stability have always been closely linked.

The euro is the dollar's strongest competitor as the world's leading currency and is the dominant international currency in Europe and some neighbouring regions. During the inflationary period of the 1970s, the Deutsche Mark wrested the status of world reserve currency in Europe from the US dollar because the independent Deutsche Bundesbank kept the Deutsche Mark much more stable than the US currency. However, with the euro's introduction, the European Central Bank (ECB) has gradually shifted towards financing government expenditure, which is why the euro has trended lower against the dollar since 2008.

When Japan experienced rapid growth in the 1980s and liberalised its financial markets, this sparked visions of the yen rising to become the reserve currency in East Asia. As late as the early 1990s, the International Monetary Fund (IMF) was discussing a "yen zone" in East Asia, in which East and South-East Asian countries would peg their exchange rates to the yen and where brisk intra-regional trade would be conducted in yen. However, by that time, the Japanese equity and property price bubble – fuelled by excessively low interest rates – had already burst, marking the starting point for Japan's economic decline, which continues to this day. As a result, the yen ceased to be of interest as a potential reserve currency.

Figure 2
Gold price per troy ounce in USD

Past performance is not a reliable indicator of future performance.
Source: World Gold Council, Flossbach von Storch, data as at 12 June 2026

Attention subsequently turned to China as East Asia's new champion. By pegging the yuan to the dollar, China had laid the foundations for an impressive process of economic catch-up. Yet the yuan's rise to become the new global reserve currency is not materialising, because a reserve currency must always be backed by a free, highly developed financial market. A state-controlled banking sector and restrictive capital controls make the yuan's rise to the status of a regional reserve currency impossible. The People's Bank of China is therefore gradually converting parts of its huge dollar reserves into gold, bringing the precious metal into focus.

The growing appreciation of gold is clearly evident from the sharp rise in the price of gold (see Figure 2). However, whilst gold serves as a good store of value during periods of inflation, it currently lacks key monetary functions. Because gold has become so valuable, it is difficult to carry out small transactions using the precious metal. Calculating in fractions of an ounce is also cumbersome. However, this shortcoming could be addressed in future by "tokenised gold" – that is, a digital asset created on an existing blockchain and backed by physical gold.

When Bitcoin was launched in 2009, it was endowed with all three monetary functions. Its store-of-value function is strong because its supply is credibly limited to 21 million. Although its price fluctuates sharply, it has risen appreciably over the long term despite the recent slump (see Figure 3). Because Bitcoins can be transferred from user to user on the blockchain without the need for banks, they also serve as a medium of exchange. What's more, the prices of all goods can be expressed and totalled in Bitcoin or its sub-unit, the satoshi (unit of account). As Bitcoins are created in a decentralised manner and cannot be manipulated, they can also be seen as a sanction mechanism against overly expansionary monetary policies and the associated instability of the banking system.

Bitcoin's impressive success has led to the emergence of many other cryptocurrencies such as Ethereum, Tether, Solana and Dogecoin. Unlike Bitcoin, the people and institutions behind these altcoins can alter their supply and rules. Stablecoins are pegged to a fiat currency at a fixed ratio. The US GENIUS Act requires a 1:1 peg to the US dollar, whereby Stablecoins may not pay interest and must be backed by secure and liquid assets such as Treasury bills. This makes US dollar-based Stablecoins attractive to both issuers and users, for example for faster international payments.

Figure 3
Bitcoin price in USD

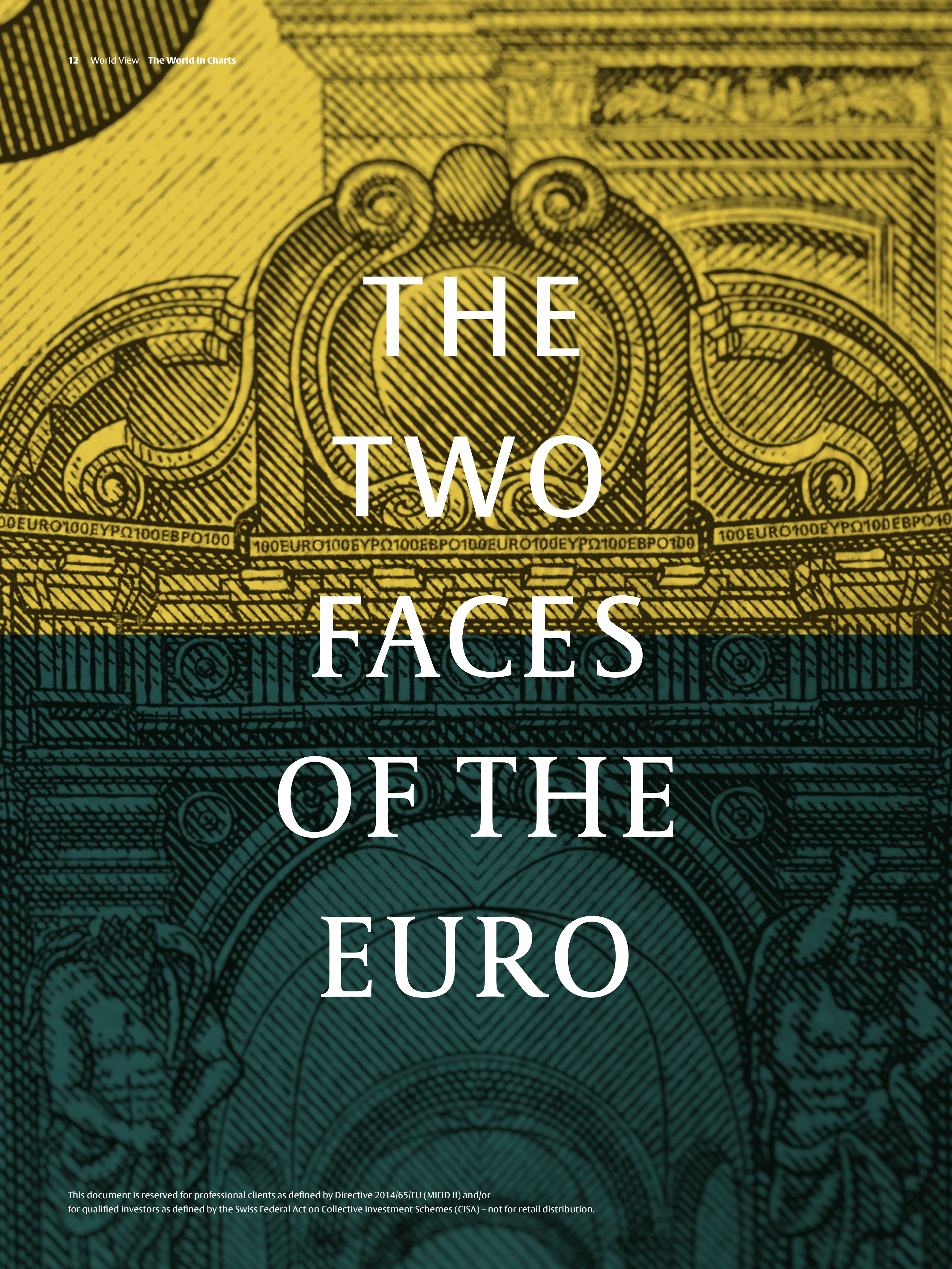
Past performance is not a reliable indicator of future performance.
Source: Bitcoin Ltd., Flossbach von Storch, data as at 12 June 2026

A global reserve currency is not easily dethroned because of network effects: as so many players use it, transactions can be processed easily and cheaply. However, public debt in the USA is high, and governments lack the resolve to cut spending. Low growth and wars are further increasing the burden. If the USA seeks to resolve its debt problem through higher inflation, the loss of confidence in the dollar will continue – and there will then be no limits to the prospect of gold or Bitcoin rising to become the new global reserve currency.

Many central banks around the world still hold large amounts of dollars on their balance sheets. The exorbitant privilege associated with this – the ability to finance high military and social spending with the help of other countries – would be lost if the Fed's balance sheet continues to grow. That is why a shift in monetary policy may be on the horizon in Washington. The new US Federal Reserve Chair, Kevin Warsh, has not only acknowledged – alongside US Treasury Secretary Scott Bessent – the negative effects of the Fed's loose monetary policy on growth and income distribution. He also intends to safeguard the stability of the dollar by reducing the Fed's balance sheet. This could then enable dollar-backed Stablecoins to replace the dollar cash circulating abroad, thereby strengthening the dollar's international role.

The ECB does indeed aim to challenge the dollar's leading role as an international currency by introducing a digital euro as an international payment system and issuing more Eurobonds as a safe international investment. However, it fails to recognise that the digital euro would destabilise the banking system and that increased government debt in the EU is a sign of monetary policy weakness. The final contest for the position of the world's reserve currency is therefore likely to take place between the dollar on the one hand and Bitcoin and gold on the other. Donald Trump's election manifesto explicitly mentioned safeguarding the dollar's status as the world's leading reserve currency. It remains to be seen whether he will find the resolve to bring US government spending under control in order to achieve this. ◆

Prof Gunther Schnabl is Director of the Flossbach von Storch Research Institute.



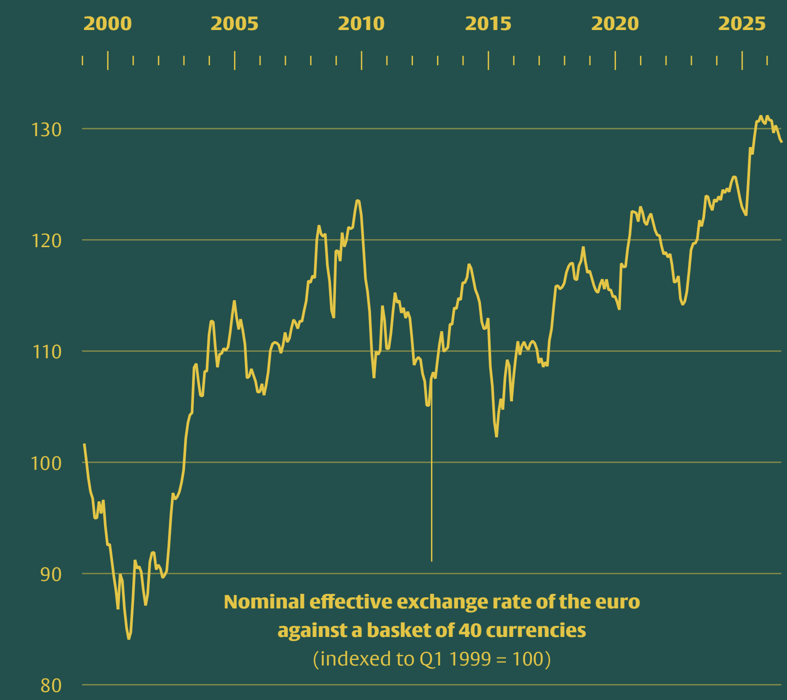
THE TWO FACES OF THE EURO

“Teuro”, “Liro” or “soft currency” – time and again, one hears or reads sometimes polemical comments about the “single currency” introduced more than 25 years ago. And indeed: zero and negative interest rates, bond-buying programmes, and statements like “Whatever it takes” would probably have been unthinkable in the days of the Deutschmark.

Ultimately, however, the same applies to the euro: it is a (single) currency, no more and no less. Compared with other currencies, its track record over the past decades does not look all that bad. This is evident from a comparison with a basket comprising some 40 currencies. Since its launch, the euro has gained nearly 30 per cent in this comparison (see Figure1).

From an investor’s perspective, however, the currency is of little use on its own, at least when it comes to preserving the value of assets in the long term. This is not due to exchange rates, but to inflation. In recent years, the European Central Bank’s target of two per cent has been significantly exceeded. Since the euro’s launch in 1999, purchasing power has fallen by a hefty 44 per cent (see Figure 2).

Figure 1
Appreciation against other currencies
Today, one euro buys more foreign currency on average than when the euro was introduced



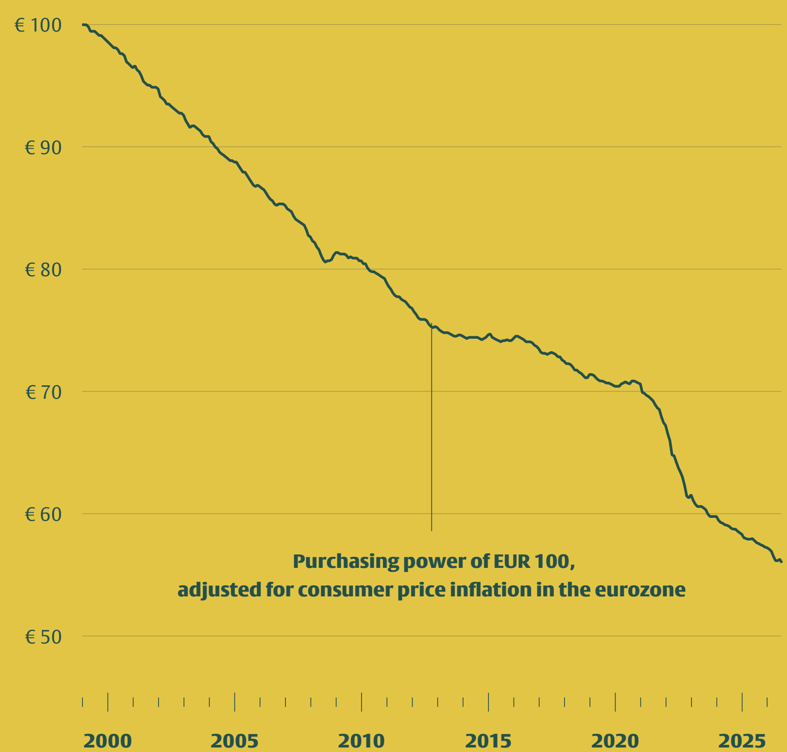


Figure 2
Gradual loss of purchasing power
Purchasing power of EUR 100 since euro inception

Past performance is not a reliable indicator of future performance.
Sources: LSEG Datastream, Flossbach von Storch, data as at 10 August 2026

Figure 3
Long-term store of value
Real gold price performance since the introduction of the euro

A look at gold reveals the other side of the euro particularly clearly. Gold is, after all, also money and can be exchanged worldwide. Compared with paper currencies, however, the precious metal cannot be multiplied. The price of gold has risen appreciably in recent years – even after adjusting for inflation – partly due to demand from central banks (see Figure 3).

When viewed through the lens of inflation, gold appears to be the more resilient currency. Its value is measured in ounces. Figure 4 shows that more and more (paper) money is needed to purchase the same amount of gold.

Figure 4
Money loses its value
EUR 1,000 buys you less gold since euro inception

Past performance is not a reliable indicator of future performance.
Sources: LSEG Datastream, Flossbach von Storch, data as at 10 August 2026

By 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. This time, the focus is on "skills", "token" prices and employee "distillation".

Artificial intelligence (AI) is a major topic worldwide and is having an increasing impact on working life in China. Recently, a case on social media attracted a great deal of attention here. An online gaming company from Shandong Province has converted the work processes of a former employee – let's call him A – into an "A.Skill". The ex-worker's chatbot continued to operate within an existing WeChat work group using this "A.Skill" as a plugin, much as it had done before. It even retained some of his personal traits, such as his distinctive way of delegating tasks.

Are you completely lost at this point? Then let me explain in a little more detail: in the age of the mobile internet, we all became accustomed to apps on our smartphones that enabled us, for example, to hail a car or book a trip. Apps are comparable to skills, which perform independent, modular functions for AI agents. However, whilst apps were written by professional developers, skills can, in theory, be created →

by anyone in a short space of time thanks to AI's programming capabilities. In China, skills are also usually available free of charge on open platforms. As a rule, however, they are significantly more fragmented than apps, or rather, more closely tailored to individual needs.

AI AGENTS PERFORM TASKS USING SKILLS

Skills are therefore essential for AI agents to carry out their tasks. Creating them requires access to data and tools. AI agents also need clear instructions that break down more complex tasks into workflows.

Some companies are now tracking employee activities to train their own AI models. Employees can thus be "distilled". This means their workflows are packaged into "skills", which in turn enable AI agents to act just like the employee – often including his or her personal quirks.

As a result, the term "skills" is increasingly being associated with employment issues in China. After all, it is a sensitive matter when employees are required to help make themselves and their jobs obsolete.

For companies, the transition is not technically difficult. As recently as last April, "Colleague.Skill" was written by a 24-year-old Chinese developer in a matter of hours and can be downloaded from the GitHub platform. The programme then utilises not only employees' work documents, emails and chats, but also the developer's subjective impression of their former colleague. And just like that, the chatbot answers questions in the ex-colleague's style as closely as possible.

LEGAL HURDLES

Nevertheless, there are hurdles here that stand in the way of this development. At the end of April, for example, a dismissed employee in Hangzhou brought a case against his former employer after the company sought to cut his salary and move him to a less important role following the deployment of such an AI system. The Hangzhou Intermediate People's Court ruled in favour of the employee. The reasoning, in brief: the employee had lost none of his skills or his willingness to use them. Furthermore, social stability is an important objective in China. Accordingly, companies should act sensitively and use AI to expand their business, not to cut staff numbers.

AI CAN ALSO HELP EMPLOYEES

This is encouraging – even if, of course, not everyone here uses AI sensibly nor creatively either. But there are some interesting developments for employees who oppose "distillation". The "Anti-Distillation.Skill" manipulates the input for a given skill so that, in the end, a seemingly professional but substantively empty response is sent out. More ambitious employees can also make use of Boss.skill in some cases. Here, employees can anticipate their bosses' decisions within 30 minutes, after the skill has been fed with input relating to the boss (speeches, emails, etc.).

After all, everyone in China has access to AI, not just the "bosses". And the financial barrier to entry isn't high, given the token prices. Chinese providers such as DeepSeek are particularly affordable, whilst US providers, such as OpenAI and Anthropic, are more than 10 times as expensive.

PRIVATE SPENDING ON AI ALMOST AS MUCH AS BUSINESS

When it comes to performance, however, price competitiveness loses importance. Normally, business customers are willing to pay more than private users. Yet there are now signs in China that private users are almost equally willing to spend on AI. This is driven primarily by the community of programmers – and the reasons are distinctly Chinese.

Chinese employers are usually very tech-savvy and, in most cases, encourage the active use of AI tools. More expensive and more powerful Western language models would therefore actually be the first choice. For most small to medium-sized enterprises, however, AI budgets are limited. As a result, employees there are usually allocated a certain monthly sum as a "token subsidy", which can be used for any large language model, be it DeepSeek, ChatGPT or Claude. If requirements exceed this amount, the remainder must be paid out of their own pockets.

China's labour market is highly competitive. So, it's not enough simply to do your job well. Most people feel they have to be better than their colleagues. It therefore makes sense for them to pay for more expensive tokens from supposedly more capable models in order to work better or faster. As a result, private users' willingness to pay for AI in China has already reached a level similar to that of business customers.

DANGEROUS GREY MARKET

Some of you may be thinking that there is a catch here – and rightly so! At present, Anthropic and OpenAI are not permitted to supply China with at least some of their more powerful models. Access to both providers is nevertheless possible, but it is highly time-consuming and costly. At best, you might find what you're looking for on digital flea markets, where "token-rich" programmers give away tokens they don't need. A second option is to buy a trial account from an intermediary whose business consists of opening thousands of new accounts every day and reselling them to token-hungry programmers. More professional middlemen operate hundreds of thousands of trial accounts and combine them into account pools. Here, a control system is available that automatically manages the remaining tokens. If, for example, a customer deposits USD 10, they receive five accounts from the pool. The risk with every purchase is inconsistent quality, as the tokens purchased may come from less sophisticated models. Data security is not guaranteed. Any account can be blocked, or the service suspended at any time.

This high degree of uncertainty costs programmers in China around two to three hours a day simply to obtain and manage tokens. There is also constant pressure to use acquired tokens as quickly as possible. Against this backdrop, some programmers additionally purchase token management systems.

NEW BUSINESS VENTURES

Credit card companies have recognised the current trend here and have already turned token volumes to their advantage, even if they do not come from Claude or ChatGPT. China Merchants Bank and American Express are collaborating with Chinese start-up Minimax on this. New customers who meet certain criteria receive up to 1.8 billion tokens per month. Another start-up has announced a similar model. Either way, people in China increasingly need to factor AI spending into their cost of living. ◆

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TRUMP
STAYS TRUE TO FORM

The US President favours deals over rules.
His style of governing weakens democratic institutions
and fosters personal dependencies.
A political essay by Norbert F. Tofall.

I

Donald Trump had already demonstrated during his first term in office that he does not feel bound by the policy programmes he announced during the election campaign. Instead, he has a penchant for issuing commands and directives depending on the mood of the day. Donald Trump wants "deals" rather than general and abstract rules (in the sense of classical economists such as Friedrich August Hayek) and initiates the negotiation of deals by insulting and blackmailing the other side. His preference for deals and coercive threats to inflict harm stem from his frivolous desire for furore and upheaval, as well as his fixation on attempting to control complex systems around the world through commands and directives.

Trump's style of deal-making takes "chessboard democracy" (Friedrich August Hayek) to extremes – that is, the kind of pursuit of special interests which distorts democracy into a haggling contest between political elites and interest groups. Under the structural conditions of modern society, however, real problems can only be solved through general and abstract rules. Donald Trump, conversely, is thoroughly infected with the political fallacy of applying a method of action typical of small groups and personal face-to-face relationships – making deals – to the vast, anonymous, complex and globally interdependent realities of modern society and international relations.

II

During the 2024 US presidential election campaign, the then incumbent President Joe Biden and his Democratic Party warned of a deliberate undermining of democracy should Donald Trump be re-elected, and of the rise of fascism in the USA. A victory for Donald Trump, they argued, would threaten a systematic undermining of the so-called "checks and balances" – in other words, a restructuring of the US constitutional order.

However, Donald Trump is certainly no fascist like Mussolini or Hitler, nor is he merely a follower of the ideology of the so-called "Conservative Revolution" in Germany from 1918 to 1932, which was not conservative but fascist. Nor does Trump fit the aesthetic of a Gabriele D'Annunzio, who occupied Fiume in 1919 and, in that municipality, cultivated many forms of fascist rule whilst anticipating ways of life associated with the later left-wing 1968 movement. Although like D'Annunzio, Donald Trump is a master of "fiction, politics and populism", he completely lacks D'Annunzio's literary education and grandeur. To recognise that Donald Trump's abysmal self-absorption and his penchant for commands and orders, which go hand in hand with an enormous lack of scruples and demagogic crudeness, can damage democratic institutions, a different approach is required.

Months before Donald Trump was first nominated as the Republican Party's presidential candidate in the USA, the Flossbach von Storch Research Institute had, in March 2016, characterised Donald Trump as the Clodius Pulcher of the USA and warned that "we should take the grand game he has been staging since 16 June 2015 very seriously":

Publius Claudius Pulcher (92 BC – 52 BC) was a politician during the decline of the Roman Republic. He came from the patrician Claudian family. He adopted the plebeian-sounding name Clodius after being adopted by a plebeian so that he could become a tribune of the people in 59 BC. One of his first acts in office as a tribune of the people was to introduce a bill providing for the free distribution of grain to the people. Three years earlier, Clodius had escaped conviction for incestum by successfully bribing the jury. In pushing through his policies, Clodius relied on the Roman plebs and deliberately used violence and street fighting to undermine public order and political institutions.

Yet the Roman plebs loved and revered Clodius. For Clodius Pulcher fought against the established elites who, in their view, were enriching themselves without restraint, exploiting Roman society, and failing to adhere to the traditional customs and rules that were so highly held in public esteem. Although Clodius himself came from this establishment and enriched himself even more unscrupulously than his peers, he openly admitted this without shame. His success lay precisely in having elevated this shamelessness and his contempt for traditional customs and rules to a principle.

Even as a media entrepreneur, Trump had already been operating according to Clodius Pulcher's formula for success and therefore had no qualms about claiming, weeks before the presidential election in November 2020, that if he were to lose the election, the Deep State would have stolen the election from him. By constantly repeating this ever since – that the Deep State stole his 2020 election victory – Trump is, on the one hand, keeping the social and political furore in the country at a boil and thereby justifying changes to electoral law that are due to take effect for the first time in the mid-term elections in November 2026. However, this deliberately undermines the role of democratic elections in fostering social harmony. On the other hand, this lie serves as a means of distinction and discipline within the Republican Party. Anyone who does not espouse this lie, or who even openly opposes it, is a traitor and is persecuted and ostracised by Trump and his supporters.

Trump is thus employing, time and time again and to this day, the very same tactic that the *"Action française"* had used in the wake of the Dreyfus Affair. Here, too, a lie – that the French officer and Jew Alfred Dreyfus was a German spy and a traitor who had betrayed state secrets – was used as a mechanism for differentiation and discipline, in the sense that those who opposed this lie were deemed enemies of France. For Trump and his supporters, to this day, anyone who opposes the lie that Trump was robbed of his 2020 election victory is an enemy of "MAGA" – an enemy of "Make America Great Again".

From this perspective, the checks and balances of the US Constitution – which are also intended to limit the scope for political action by an elected president – are denounced as part of the Deep State and come under direct attack; a Deep State that opposes MAGA.

III

Furthermore, another similarity with ancient Rome should be noted. Ordoliberal Walter Eucken argued in his *"Principles of Economic Policy"* that freedom is also threatened when the state aligns itself with private power structures, a situation reminiscent of the fall of the Roman Empire.

“There are differences between then and now; but these differences only serve to make the danger appear even greater. The population is now much larger and lives clustered together in greater masses. Above all, however, there now exists an industrial and technical apparatus which constitutes an instrument of domination and power unknown in earlier times.”

The alliance between Big Tech and Big Government orchestrated by Donald Trump constitutes an instrument of domination and power that even Walter Eucken would probably not have thought possible. The fact that, even during the US election campaign, not only the oil industry but also tech billionaires such as Elon Musk and Peter Thiel sided with Donald Trump and have since cultivated their relations with him with striking deference – despite occasional personal disagreements between Trump and Musk – is more than just an indication that, during Donald Trump’s second term as President, a pronounced system of favouritism is developing in the USA to advance special interests.

This means that it is not only the political separation of powers and the system of checks and balances that are under attack, but also the social division of labour and power between business and politics. Quite apart from the Trump family’s unprecedented self-enrichment during the first 18 months of Trump’s second term, Trump is not acting, as would be his duty as president, in accordance with political principles, but rather on the basis of personal economic self-interest. The “interdependence of the economic order with all other spheres of life” (Walter Eucken), so often cited by economists, does not, however, mean that all other spheres of life should adopt the economic logic of action. The other spheres of life or functional subsystems (politics, law, science, the media, religion, etc.) can only contribute to the overall social order (and thus also to the economic system) if they retain their own logic of action. It is precisely in the preservation of the distinct operational logic of these social subsystems that the social division of labour and power in open societies lies, a division which has enabled prosperity for all in an unprecedented manner. Donald Trump, however, is attempting at every level to undermine the independent rationales for action of politics, the law, science, the media and religion, and to subordinate them to his commands and directives.

Trump has already caused considerable damage in the process. But ultimately, even the “greatest and most successful” president the USA has ever had will not succeed, during his remaining term in office, in bringing the structural conditions of modern society under his personal and omnipotent rule. It remains to be seen, however, to what extent American voters will make Trump pay for the damage he has caused as early as the mid-term elections in November 2026. If they do, then the Deep State will certainly have stolen victory from Trump once again.

★

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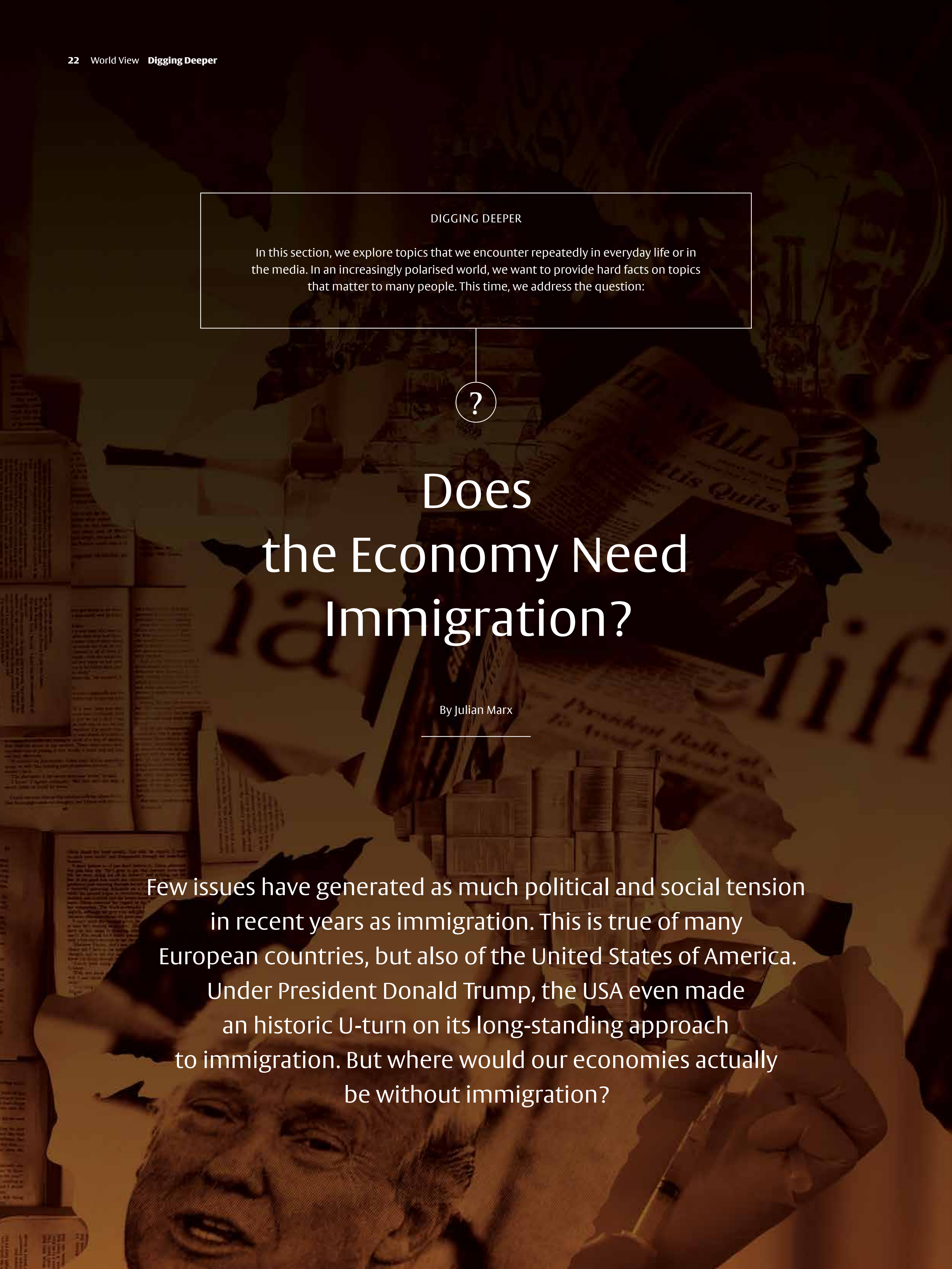


DIGGING DEEPER

In this section, we explore topics that we encounter repeatedly in everyday life or in the media. In an increasingly polarised world, we want to provide hard facts on topics that matter to many people. This time, we address the question:

?

Does the Economy Need Immigration?

By Julian Marx

Few issues have generated as much political and social tension in recent years as immigration. This is true of many European countries, but also of the United States of America. Under President Donald Trump, the USA even made an historic U-turn on its long-standing approach to immigration. But where would our economies actually be without immigration?

Sunday, 14 June 2026 – Zurich. A picture-perfect day: mostly sunny, with summery temperatures of 26 degrees Celsius. Ideal weather, then, to get your sunglasses out and enjoy the panoramic views of Lake Zurich. Or so one might think. Except that, on the same day, the city's 452,000 residents had been called upon to vote in the referendum on the "No to a 10-Million Switzerland!" initiative.

At the heart of the referendum was the question of whether Switzerland should curb its persistently high levels of immigration. It was a highly contentious issue, particularly for Zurich's residents. After all, the proportion of foreign nationals living in the city reached a new record of 33.9 per cent last year – the highest share ever recorded in Switzerland's most populous city. Only in 1912 was an even higher proportion of foreign residents recorded, at 34.2 per cent.

The concern was that Switzerland's population had already reached around 9.1 million by the end of 2025 and, according to supporters of the initiative, would soon become unsustainably large. Population growth has accelerated noticeably in recent years, and there is little indication that this trend will come to an end any time soon.

Since 2002, when the free movement of persons between Switzerland and the EU member states was introduced, the country's population has grown by 1.7 million. This increase has been driven primarily by immigration. Over this period, net migration averaged around 66,700 people per year. More and more people are therefore flocking to Switzerland. Leading the way are Germans, French, Italians and Portuguese, but Spaniards and people from the United Kingdom have also sought their fortune in the Alpine republic this millennium. These six nations alone accounted for half of all immigrants.

On the one hand, this migration is explicitly welcomed. The Swiss Federal Council's explanatory notes on the referendum state, for example: "The number of people immigrating depends primarily on the labour market. When the economy is flourishing, companies cannot find enough workers in Switzerland. Companies, as well as public institutions such as hospitals and care homes, then often recruit the missing skilled workers from within the EU."

In short: the Swiss economic model and the country's prosperity are absolutely dependent on foreign skilled workers. This is another reason why the Federal Council and Parliament recommended voting against the popular initiative. Just under 55 per cent of the votes cast followed this recommendation, meaning that the initiative "No to a 10-Million Switzerland!" was rejected. The fundamental problem underlying the referendum remains unresolved for the time being.

HOUSING SHORTAGES …

Labour migration has been accompanying Switzerland's prosperous economy for many decades. While economically indispensable, the Swiss also overwhelmingly see themselves as an open-minded nation beyond labour migration alone. In a survey conducted by the Federal Statistical Office on diversity and coexistence in Switzerland, two-thirds of Swiss respondents said they have friendships with non-Swiss citizens.

Moreover, a large proportion of new Swiss citizens have long since obtained Swiss citizenship. Since the turn of the millennium, the small Alpine nation has recorded more than one million naturalisations. By comparison, Germany, which has a population more than nine times that of Switzerland, recorded just under 3.6 million naturalisations between 2000 and 2024. Relative to population size, the number of naturalisations in Germany is therefore not even half as high (see Figure 1 on the following page).

Nevertheless, positive developments such as these, which reflect successful integration, should not obscure the fact that large-scale migration, of the kind Switzerland has experienced over recent decades, also brings a number of serious challenges.

One of the main focuses of the popular initiative, for example, was the housing →

According to the United Nations, Germany is the world's second most important destination country for international migrants.

Figure 1
New homeland for millions
Number of naturalisations since 2000

Germany *(left-hand scale)* Switzerland *(right-hand scale)*

Source: Destatis, State Secretariat for Migration SEM, Flossbach von Storch, data as at 10 August 2026 shortage and rising rents. Switzerland has seemingly faced a chronic shortage of housing for decades. Since 1980, the vacancy rate for flats and houses has consistently remained below two per cent. Between 2020 and 2025, it even fell from 1.72 to 1.00 per cent. A long-standing rule of thumb suggests that a rental market functions smoothly only when the vacancy rate is around three per cent. In recent years, the housing shortage has therefore become even more acute.

Unsurprisingly, the shortage is particularly severe in urban centres. As of 1 June 2025, Zurich's 452,000 residents were competing for just 235 vacant flats – equivalent to a vacancy rate of a mere 0.1 per cent. Just how fierce the competition for new flats is can be illustrated by a comparison with the German city of Cologne, which has one of the country's most strained housing markets. In 2022, its market-active vacancy rate was just 1.2 per cent – low by German standards, yet still broadly in line with the Swiss average.

This example shows that immigration is not a one-way street. In the case of Switzerland, the housing shortage is regarded as one of the main criticisms of high immigration. However, supporters of lower immigration also point to concerns such as the increasing development of open land, overcrowded trains and a decline in the quality of education in schools.

… AND OTHER SOCIAL TENSIONS

Germany knows from first-hand experience that Switzerland is by no means the only country facing challenges associated with immigration. This is evidenced not least by the fact that Federal Minister of the Interior Alexander Dobrindt last year spoke of the need to initiate a "turnaround in migration policy".

In Germany, however, the challenges associated with immigration have differed from those in Switzerland in recent years. As is well known, immigration to Germany in the recent past has largely not been a matter of regulated labour migration, but rather massive influxes of refugees. In 2015 and the years that followed, most arrivals came from Syria, Afghanistan and Iraq, while in 2022 the majority came from Ukraine. On balance, net immigration to Germany totalled 6.1 million people between 2015 and 2025.

Virtually overnight, millions of children, women and men had to be integrated into everyday life in Germany. However, language barriers and difficulties in recognising foreign professional qualifications have delayed the integration of migrants into the labour market.

There were also other challenges that had a direct negative impact on the local population. Staff shortages in schools, for example, meant that teachers in many places suddenly faced the dual task of supporting integration while continuing to educate existing pupils. It is therefore only understandable that teaching standards have suffered in some classrooms, without those involved necessarily being at fault.

The financial burden on the local population has also become apparent. In recent years, annual public spending running into the tens of billions of euros has been allocated to asylum seeker benefits and basic income support for migrants. Such sums can become a source of public concern when, at the same time, according to Germany's Federal Statistical Office, 21 per cent of the population is at risk of poverty or social exclusion.

WITHOUT IMMIGRATION THERE WOULD BE LABOUR SHORTAGES

Despite the understandable concerns expressed by parts of the population, it is equally true that the substantial immigration of recent years and decades has helped fill major gaps in the labour market, thereby playing a vital role in keeping the economy running. More than one in six employees subject to social security contributions in Germany is a foreign national – around six million people in total. In many occupations facing labour shortages, the situation would look bleak without →

employees with a migrant background – meaning they themselves or both of their parents having immigrated to Germany, although many of them have since acquired German citizenship. In many cases, there would likely be a complete shortage of available labour.

In Germany, around 54 per cent of all employees in the hospitality sector have a migrant background. Among bus and tram drivers, who form the backbone of the country's public transport system, the figure stands at 47 per cent. In elderly care, the figure is still 33 per cent, compared with just 26 per cent across the economy as a whole (see Figure 2).

In many cases, immigrants are now over-represented in occupations with relatively low barriers to entry, where they are helping to ease acute labour shortages. The economic benefits of immigration are likely to increase even further in the coming years.

WHEN GREYING TEMPLES BECOME THE NORM

According to estimates by the German Economic Institute (IW), Germany's labour force will shrink by more than four million people by 2036. In the near future, therefore, significantly more older people will be leaving the labour market than young people entering it. Of the 20 million baby boomers born in Germany between 1954 and 1969, six million are already over the age of 67, while the remainder will reach retirement age over the next 10 years.

This highlights another major benefit of immigration. This is because the people who have come to Germany are, on average, significantly younger than the existing population. At just 38, the average age of the foreign resident population is more than eight years younger than the average German citizen. It doesn't take a mathematician to realise that people with a migrant background will account for an ever-increasing proportion of the working population as more and more "older" Germans retire from working life in the coming years.

Even in Japan, whose society is widely regarded as highly homogeneous, there seems to be a growing realisation that labour migration is a matter of economic necessity in ageing societies. In terms of population growth, the Land of the Rising Sun is increasingly heading towards sunset. Since peaking in 2010, Japan's population has already declined by around five million to approximately 123 million. In addition, almost 30 per cent of the population is now aged 65 or over. By the end of the 2030s, more than one in three Japanese citizens is expected to be over the age of 65. By comparison, the equivalent figure in Germany currently stands at "just" 23 per cent and is not expected to reach today's Japanese level for another 10 to 15 years (see Figure 3).

Japan's labour market – and indeed its economy, which has seen little growth for the past 30 years – is therefore in urgent need of creative solutions. For many years, one approach was to increase female participation in the labour market. However, this lever now appears to be reaching its limits, with the labour force participation rate among Japanese women aged 25 to 54 rising from 67 per cent to 84 per cent since the turn of the millennium. This is well above the international average and on a par with Germany.

Immigration remains the last resort. This represents a significant step for a country such as Japan, which is often regarded as culturally insular. After all, as recently as 10 years ago, the proportion of foreign nationals was 1.3 per cent. Since then, the number of Japanese citizens has fallen by six million, while the number of foreign nationals living in Japan has risen by more than two million over the same period and has exceeded the four-million mark for the first time this year. As a result, the proportion of foreign nationals in Japan has more than doubled to just over three per cent in the space of just 10 years.

Chinese, Vietnamese and South Koreans, who are typically granted only a multi-year residence permit, make up the majority of immigrants. They are likely to be followed by further migrant workers in the years ahead if Japan is to →

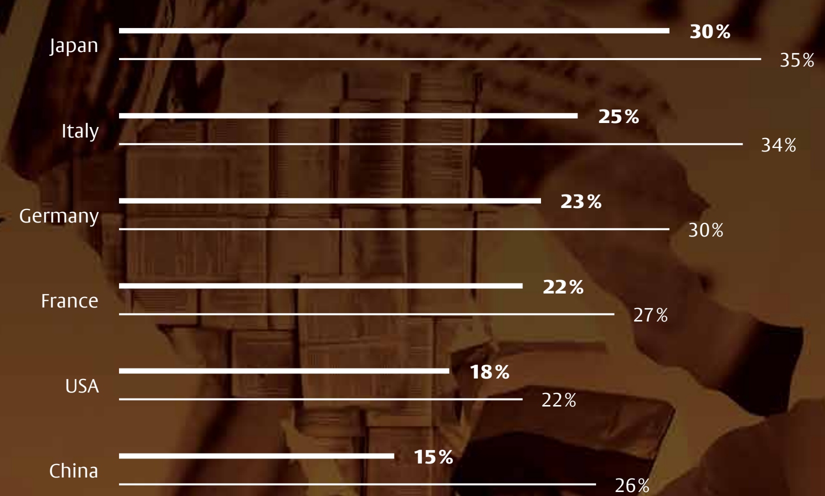
Figure 2
Many occupations with labour shortages rely on immigration
Proportion of workers with a migrant background out of total number of workers in paid employment

Source: Destatis, Flossbach von Storch, data as at 10 August 2026

Figure 3
Ageing nations
Proportion of people aged 65 and over out of total population

2025
2040

Source: LSEG Datastream, Flossbach von Storch, data as at 10 August 2026



overcome its demographic challenges. Switzerland provides an indication of what this could, at least in theory, look like: last year, around 27 per cent of the country's population were foreign nationals.

AN HISTORICAL AREA OF TENSION

In fairness, however, Switzerland is only of limited use as a benchmark for projecting future labour migration to Japan, as the country's own history suggests. For long periods, Japan was characterised by a strong sense of cultural isolation. Until 1853, the people of what was then known as Nippon lived under a strictly isolationist foreign policy that lasted for more than two centuries.

Known by the term Sakoku, which means "closed country", Japan had severely restricted contact with the outside world. This was intended to ensure internal stability and to protect the shogunate – or rather its claim to power – from external influences such as Christianity. During this period, Japanese citizens were strictly forbidden from entering or leaving the country, while foreign trade was extremely centralised and restricted to a small number of participants. European trade, for example, was reserved exclusively for the Dutch, who in return were required to refrain from any form of religious influence.

To this day, such historical influences shape the character of Japan. Despite foreign nationals accounting for just three per cent of the population, rising levels of immigration have fuelled concerns among parts of the Japanese public that large-scale immigration could undermine the country's cultural identity. This trend has also become evident in day-to-day politics. In the most recent elections to Japan's Upper House, the right-wing Sanseito party gained 14 additional seats, increasing its total representation to 15. With its slogan Nihonjin First (meaning "Japanese First"), the party has clearly struck a chord with parts of the electorate. As a result, Japan will increasingly be faced with the question in the coming years of how much cultural identity the country can afford – and wishes to maintain – in the face of its dramatic ageing population.

"SOCIAL ENGINEERING"

When it comes to cultural identity in the sense of a relatively homogeneous population, the United States is a very different case. No other country has a comparable history of immigration, with all its triumphs and tragedies: from the pursuit of the American Dream, which inspired millions of immigrants from around the world over generations, to the transatlantic slave trade, the largest forced migration in human history.

Immigrants continue to play a vital role in the United States. By the middle of last year, the country was home to more than 50 million immigrants, equivalent to just over 15 per cent of the US population. Among the workforce, their share was as high as 19 per cent. That said, immigration may now be entering a new phase following the significant tightening of migration policy under President Donald Trump. At the start of this year, the White House proudly announced that the United States had recorded negative net migration in 2025 for the first time in more than 50 years, claiming that this had "reversed decades of failure under an open-border policy". In that sense, the USA is charting a new course on immigration.

In reality, however, US immigration policy has long been a form of "social engineering". Governments have sought to encourage the immigration of people who align with the country's demographic, social and economic objectives, while limiting the inflow of those deemed not to fit that framework. From an economic perspective, a certain form of selection (or restriction on immigration) seems only logical. After all, every society operates with finite resources, meaning that migration flows must ultimately become self-sustaining and cannot be subsidised indefinitely.

In line with this economic logic, the USA passed a general immigration act as early as 1882, which was intended to exclude from immigration "any person who is unable to provide for themselves without becoming a burden". More than 140 years ago, however, immigration policy was shaped not only by economic considerations but also by broader social concerns. The legislation also sought to exclude convicted criminals from immigration. This reflected a legitimate desire to safeguard domestic security. Consequently, when Germany today debates the deportation of foreign nationals convicted of crimes, it is engaging in a discussion that is far older than those currently taking part in it.

IMMIGRATION AS AN OPPORTUNITY

Concerns about domestic security, cultural identity or the availability of housing all play an important role in the migration debate – today just as they did in the 19th century in the USA or in the 17th century in Japan. All these issues require consideration within a broad societal debate.

From a purely economic perspective, however, the issue of (regulated) immigration appears to be relatively uncontroversial. In some industrialised countries, continued labour migration may even be unavoidable in the face of an ageing population if domestic labour shortages are to be prevented and current levels of prosperity maintained or increased.

Even massive, unregulated refugee movements, such as those experienced by Germany since 2015 in entirely exceptional circumstances, can prove to be an economic benefit in the medium to long term: A study by the Institute for Employment Research concluded that the employment rate among 18- to 64-year-old asylum seekers (mainly from Syria, Iraq and Afghanistan), who arrived in Germany between 2013 and 2019, was 68 per cent eight years after their arrival, meaning it has already come significantly closer to the population average of 77 per cent. Among male refugees, the employment rate of 86 per cent even slightly exceeded the male population average, whereas among female refugees it fell significantly for various reasons, such as taking on care responsibilities (particularly for young children).

Ultimately, migration offers enormous opportunities. The American Dream – that every person, regardless of their background, can achieve social advancement and prosperity through diligence and hard work – is likely to inspire people worldwide. As a cosmopolitan country, Germany can benefit from those who are seeking a better life. According to the United Nations, Germany is the world's second most important destination country for international migrants and most recently hosted around 17 million of them.

Only the USA has a higher number, having been one of the world's most powerful economies by far for many decades. Time and again, immigrants there – who take risks and drive American progress – write extraordinary stories. Sergey Brin, the Moscow-born co-founder of Google, and Elon Musk, who grew up in South Africa, are certainly among their most prominent representatives.

In Switzerland, one of the very few economies whose per capita gross domestic product exceeds the USD 100,000 mark, more than 40 per cent of the Swiss population now has a migrant background – multiculturalism exists in the Alps too.

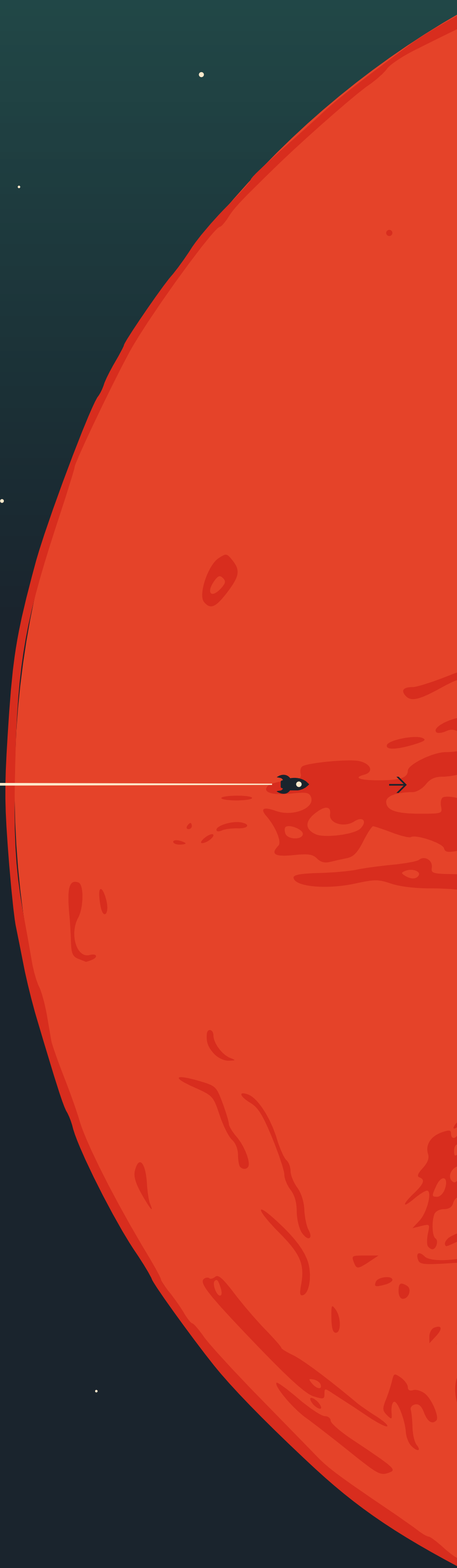
Although the debate on immigration is complex, a purely economic analysis actually leaves no room for two conclusions. This remains true, at least, as long as care for the elderly or scaffolding work is not yet carried out by humanoid robots. ◆

Julian Marx is an Analyst at Flossbach von Storch SE.

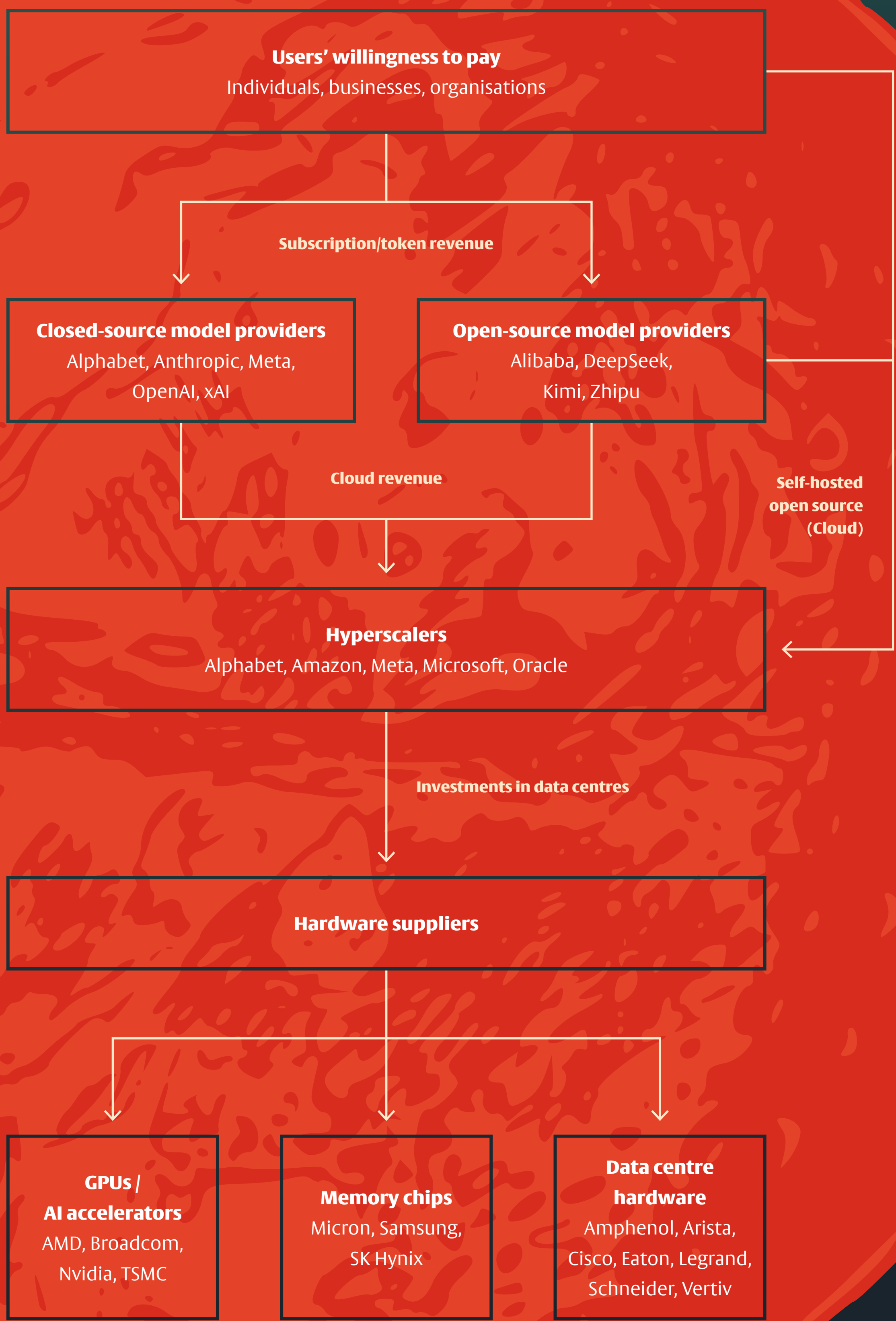
FROM BOOM

By Bert Flossbach

T O   B U B B L E



A feverish frenzy has gripped the financial world. Driven by a groundbreaking technology whose possibilities are as breathtaking as they are unsettling, it is fuelling investors’ imaginations. Where will it all end?


Users' willingness to pay
Individuals, businesses, organisations
Subscription/token revenue
Closed-source model providers
Alphabet, Anthropic, Meta, OpenAI, xAI
Open-source model providers
Alibaba, DeepSeek, Kimi, Zhipu
Cloud revenue
Self-hosted open source (Cloud)
Hyperscalers
Alphabet, Amazon, Meta, Microsoft, Oracle
Investments in data centres
Hardware suppliers
GPUs / AI accelerators
AMD, Broadcom, Nvidia, TSMC
Memory chips
Micron, Samsung, SK Hynix
Data centre hardware
Amphenol, Arista, Cisco, Eaton, Legrand, Schneider, Vertiv

The long-term potential of artificial intelligence (AI) is enormous – possibly even greater than is generally expected today. The situation was similar at the turn of the millennium with the internet: although it was already obvious back then that this new technology had huge potential, it took years before it became clear which business models would create the greatest value and which companies would profit most from them.

Yahoo was once regarded as one of the big winners of the internet age but was subsequently overtaken by Google. Facebook, on the other hand, only emerged 10 years after the internet's commercial breakthrough. The situation with AI is likely to be similar.

Disruption is not a gentle, linear change. It often arrives unexpectedly – from a direction that few had previously anticipated. It remains unclear who will prevail in the competition to offer the best products, how costs and prices will develop, which new technologies might displace existing solutions, how great the risk of autonomous digital agents becoming uncontrollable may be, and what regulations might result from this.

Today's winners may be tomorrow's losers – and vice versa. The financial markets try to anticipate this, but often overshoot the mark in the process. Memory chip manufacturers who were unloved and unprofitable just yesterday have become stock market stars within a matter of months and are driving share indices upwards. Meanwhile, software providers once prized for their reliable earnings are suddenly being treated by the market as though they were on their last legs.

A MARKET LEADER TODAY ...

Old certainties disappear, new ones come and go. A company leading the market for AI language models today could find itself overtaken by competitors tomorrow.

There is little doubt that the development of AI will continue to attract substantial investment. Whether, and to what extent, this will pay off for companies along the AI investment chain (see diagram on the left) is another matter entirely.

Much depends on how much businesses and private customers are willing to pay for AI applications in the long term. For providers of AI models, this is the all-important question. Ultimately, it is the AI users who determine the economic potential of the entire AI value chain.

In the long term, their willingness to pay will be measured by the concrete benefits that AI models offer them. For private individuals' purposes, free or low-cost model variants are usually entirely sufficient.

Disruption is not a gentle, linear change. It often arrives unexpectedly – from a direction that few had previously anticipated.

The real potential lies in business applications. Only if companies can achieve significant, sustainable cost savings and productivity improvements through the use of AI will they be prepared, in a few years' time, to pay hundreds of billions to AI model providers.

… OVERTAKEN TOMORROW!

However, the market is highly competitive. A handful of ambitious competitors are vying for dominance. Leadership positions can change rapidly due to the high pace of innovation. Low-cost open-source models, such as those from China, limit the pricing power of the leading providers, at least in areas where the absolute top-of-the-range version is not required. Their performance is not far behind that of the leading US models, yet they cost only a fraction of the price.

The competitive landscape and business potential for AI model providers are therefore not as rosy as the ambitious valuation expectations of IPO hopefuls OpenAI and Anthropic would suggest.

China has vast data centre capacity and cheap electricity. The country is strong in fundamental AI research and, thanks to the open architecture of its models, has a huge community of AI developers. The aim is to match the performance of US models as quickly as possible using its own chips (Huawei instead of Nvidia) and to be able to offer them at a significantly lower price.

Should US AI providers attempt to switch their previously subsidised enterprise subscription models to expensive token-based billing, the price shock could prompt many "heavy users" to opt for Chinese models despite any security concerns. In this way, AI could become a new export hit for China.

The scale of potential revenue streams for the entire AI value chain remains uncertain. Optimists often cite just a percentage of the global wage bill as market potential, which usually amounts to several USD trillion. More tangible than such estimates are the annualised revenues of the leading Western model providers. Taken together, these are currently rising sharply and could reach the USD 100 billion mark by the end of the year.

However, caution is advised when extrapolating this trend. Many companies are in an experimental phase. Employees are encouraged to make intensive use of AI and are assessed on their token consumption: the more, the better.

WITHOUT REGARD FOR ADDED VALUE

The result is a token-maximisation strategy that takes no account of the associated added value. Apart from pure programming activities, however, this is often difficult to measure. Alex Karp, CEO of Palantir, criticises the fact that these usage incentives lead to bogus work and disposable scripts rather than genuine value creation.

Companies such as Amazon, Uber and Tesla are therefore increasingly introducing caps on their employees' token consumption. As with software, companies tend to view AI as an important tool for employees, not as a replacement for them. This also applies to us.

The competitive landscape and business potential for AI model providers are therefore not as rosy as the ambitious valuation expectations of IPO hopefuls OpenAI and Anthropic would suggest.

The situation is better for the hyperscalers. Providers such as Amazon, Microsoft and Alphabet are benefiting from the growing demand for computing power, regardless of which individual AI model prevails. They generate high operating profits, have economies of scale over potential new competitors and have established customer relationships.

However, their business model has become significantly more capital-intensive. By 2030, a total of around USD seven trillion could be invested in the construction and expansion of data centres – that is, around USD 1.4 trillion per year. That would correspond to a good four per cent of US economic output and would eclipse all previous investment booms.

Around USD five trillion – or a good USD one trillion per year – is expected to come from just a handful of companies: the four established hyperscalers Alphabet, Amazon, Microsoft and Meta, with Oracle as the fifth member of the group.. With xAI, a sixth major provider of cloud computing power is also on the horizon.

Goldman Sachs had outlined a galactic scenario as part of the IPO of SpaceX, xAI's parent company. By 2030, xAI's cloud revenue is set to increase a hundredfold to USD 322 billion. Such far-fetched scenarios are symptomatic of a highly speculative environment. After all, the investment banks also have an interest in keeping the music playing for as long as possible.

It is remarkable just how much the scale of the investment boom has recently been underestimated. As recently as last autumn, investment for this year was estimated at around USD 450 billion. In fact, it is likely to reach around USD 800 billion (see Figure 1). Estimates for 2027 were around USD 500 billion. Today, over USD one trillion is expected. From 2028 onwards, a further rise to around USD 1.2 trillion per year is assumed.

EVEN A SUPERCYCLE REMAINS A CYCLE

However, due to the considerable uncertainties, this assumption is not based on a robust fundamental foundation, but rather represents a moderate extrapolation

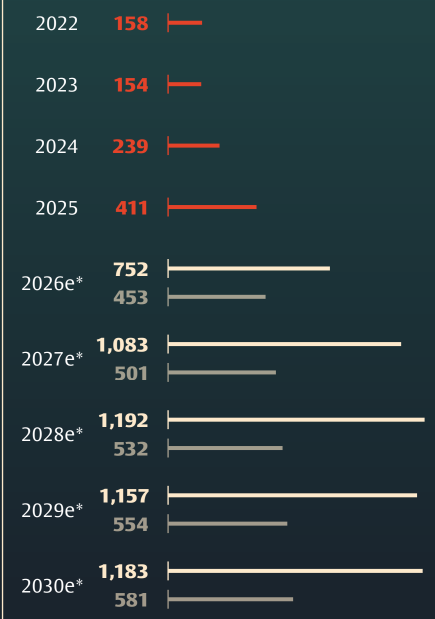


Figure 1
The hyperscaler investment boom: gold rush or delusions of grandeur?
Capex in USD billions*

Investments to date
Estimates at the end of Q2 2026
Estimates at the end of Q3 2025

* Bloomberg consensus estimates from 2026 onwards. Aggregated figures for Amazon, Alphabet, Meta, Microsoft and Oracle.

This does not constitute an offer to sell, purchase or subscribe to securities or other instruments. The information contained herein does not constitute investment advice or any other recommendation. Actual performance may differ from the assumptions set out here. Past performance is not a reliable indicator of future performance.
Source: Bloomberg, Flossbach von Storch, data as at 10 August 2026

Figure 2
Free cash flow is falling, debt is rising
Free cash flow and net debt of hyperscalers in USD billions*

Free cash flow
Net debt, including lease liabilities

* Bloomberg consensus estimates from 2026 onwards. Aggregated figures for Amazon, Alphabet, Meta, Microsoft and Oracle.

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of the trend to date. The suppliers' secret hope that the hyperscalers' investment volume might surprise on the upside once again is unlikely to be realised; after all, some of them are already investing more than they earn from their operating activities.

A look at the trend in cash flow (operating cash inflow minus capital expenditure) and net cash reserves illustrates this. Free cash flow has fallen from over USD 200 billion into negative territory, and cash reserves have now been largely depleted. To finance their ambitious investment plans, they would therefore have to issue new shares and/or take on debt (see Figure 2).

The breakneck pace of investment by the hyperscalers is shaping the fate of the entire AI value chain. At present, chip manufacturers – particularly those producing memory chips – are benefiting the most. Yet even a supercycle remains a cycle, with all that this entails: skyrocketing prices, turnover and profits – supplier dominance, customer powerlessness. Data centres are becoming increasingly expensive; the cost per gigawatt of computing power is rising until, at some point, it is no longer worthwhile.

Even companies such as Apple, which are not suffering from the soaring costs of data centres, are affected and, in some cases, have to raise the prices of their products significantly because chips are becoming ever more expensive.

THE EXAMPLE OF FREIGHT RATES

A clear example of the impact of shortages on product prices and corporate profits was provided by the explosion in container freight rates during the Coronavirus pandemic (see Figure 3). Supply chain bottlenecks and a lack of available freight capacity caused container freight rates to increase fivefold within a short space of time. The profits of Hapag-Lloyd, one of the biggest beneficiaries, increased twentyfold within two years.

However, once supply chains had returned to normal and additional capacity came onto the market, freight rates soon fell back to their previous levels. A similar pattern can currently be observed in the market for memory chips. High demand, particularly for high-bandwidth memory chips (a specific category of DRAM), is meeting limited supply that cannot be expanded overnight. Here, too, prices have risen roughly fivefold, whilst profits have increased twentyfold.

Although the chip shortage is likely to last longer than the container bottleneck during the pandemic, the idea that this is a sustainable trend is naïve. Under pressure from their customers and driven by government investment programmes (particularly in South Korea), chip manufacturers are beginning to massively expand their capacity. SK Hynix, one of the world's largest memory chip manufacturers, plans to double its production capacity within five years. Other companies are following suit.

The so-called "boom-bust cycle" is a defining feature of the (memory) chip industry and has led to wild fluctuations in profits and share prices over recent decades. The share price of Micron Technology, now a memory chip giant, lost around 99 per cent between its peak in 2000 and its low eight years later. In 2024, the previous all-time high was surpassed for the first time, and today the company is the world's most valuable memory chip manufacturer, with a market capitalisation of USD 1.2 trillion.

This high market capitalisation is based on the assumption that the "boom-bust cycle" will be much more moderate this time round. Micron and other chip manufacturers are attempting to limit the risk of overcapacity and falling prices through longer-term supply contracts. Whilst this may cushion the next downturn, it does nothing to alter the inherently cyclical nature of the industry. Thus, the current boom already carries within it the seeds of the next bust.

It would be presumptuous to attempt to pinpoint the exact timing of the end of the AI investment boom. However, numerous factors point, at the very least, to a significant slowdown:

— 1 —

A new, groundbreaking technology storms the world

No one can accurately predict its economic potential, but it appears to be enormous. The more intangible the whole thing is, the less it can be refuted. There are no limits to the imagination, because there appear to be none.

— 2 —

The speculative frenzy

More and more investors are speculating without any knowledge of the companies' fundamental data. Share price movements are becoming the all-important factor. What rises is good; what stagnates or falls is bad. The share price performance over recent months defines the quality of the share and the company behind it. In South Korea, retail investors have been liquidating or pledging secure savings and insurance products on a massive scale in order to pour the money into the stock market, which essentially consists of the two chip manufacturers Samsung Electronics and SK Hynix. Multi-leveraged ETFs tracking the US semiconductor index are also among the hottest bets for Koreans. In the USA, these instruments are also highly

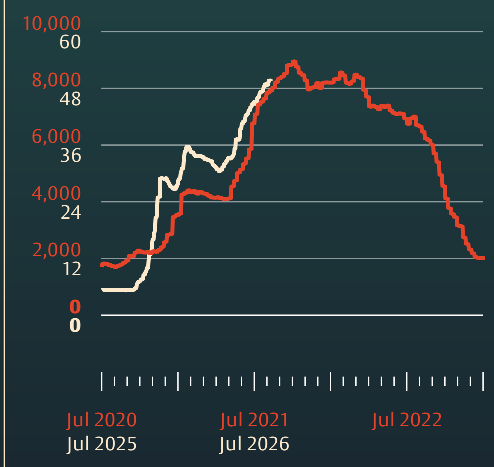

Figure 3
Price cycles determine profit trends
Freight rates yesterday, memory chips today?

Memory chip price in USD; DDR5 16Gb
Container freight rates in EUR; World Container Index

Past performance is not a reliable indicator of future performance.
Source: Bloomberg, Flossbach von Storch, data as at 10 August 2026

favoured by retail investors. Citadel Securities, one of the country's largest trading platforms, reports that US retail investors are speculating more heavily than ever before with leveraged ETFs – focusing on the semiconductor sector – and extremely short-term options.

— 3 —

Experience becomes a disadvantage

Warnings from experienced investors often come prematurely. Investors, conversely, who act unburdened by adverse past experiences, continue to ride the bubble undeterred. Success proves them right. Their self-confidence grows to the point of feeling infallible.

— 4 —

The basis for valuation

Conventional valuation methods are increasingly being suppressed. During the dotcom bubble, it was clicks rather than turnover. During the financial crisis, it was toxic products and volatile returns on equity. Now, it is the elusive revenue potential of a new technology that is expected to lead to a historically unprecedented investment boom. This fuels analysts' optimistic expectations regarding the revenue and profit potential of AI beneficiaries. The potential for disappointment is high.

The consequences of a waning investment boom would be severe.

— 5 —

Volatility rises

In June, the daily fluctuations in the Philadelphia Semiconductor Index averaged 4.3 per cent – almost twice as high as in the first four months of the year.

— 6 —

Investment and speculation suck money from other sectors

Anything that does not benefit from the AI boom is being sidelined. In both the real economy and the financial markets, competition for scarce capital is intensifying. Companies outside the favoured sectors have to accept higher interest rates and find it harder to raise equity capital.

— 7 —

Passivity through index investing

The trend towards index investing is intensifying the formation of bubbles. Funds that do not track the index (the benchmark) have increasingly been left behind in the bull market of the last 15 years, driven by the major index constituents. Semi-active portfolio managers are aligning their investment strategies more closely with the index. They buy shares not out of conviction, but because these carry a high weighting in the index.

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One theme drives the index

The market capitalisation of the S&P 500 Index rose by around USD six trillion in the first half of the year. The market capitalisation of the chip manufacturers and data centre equipment suppliers included in the S&P 500 Index rose by USD 5.8 trillion (the semiconductor sector by USD 4.1 trillion, other equipment suppliers and hardware providers by USD 1.7 trillion). Currently, semiconductor manufacturers' share of S&P 500 profits already stands at a record high of 10 per cent. According to analysts' estimates, this share is likely to almost double to 19 per cent by 2029.

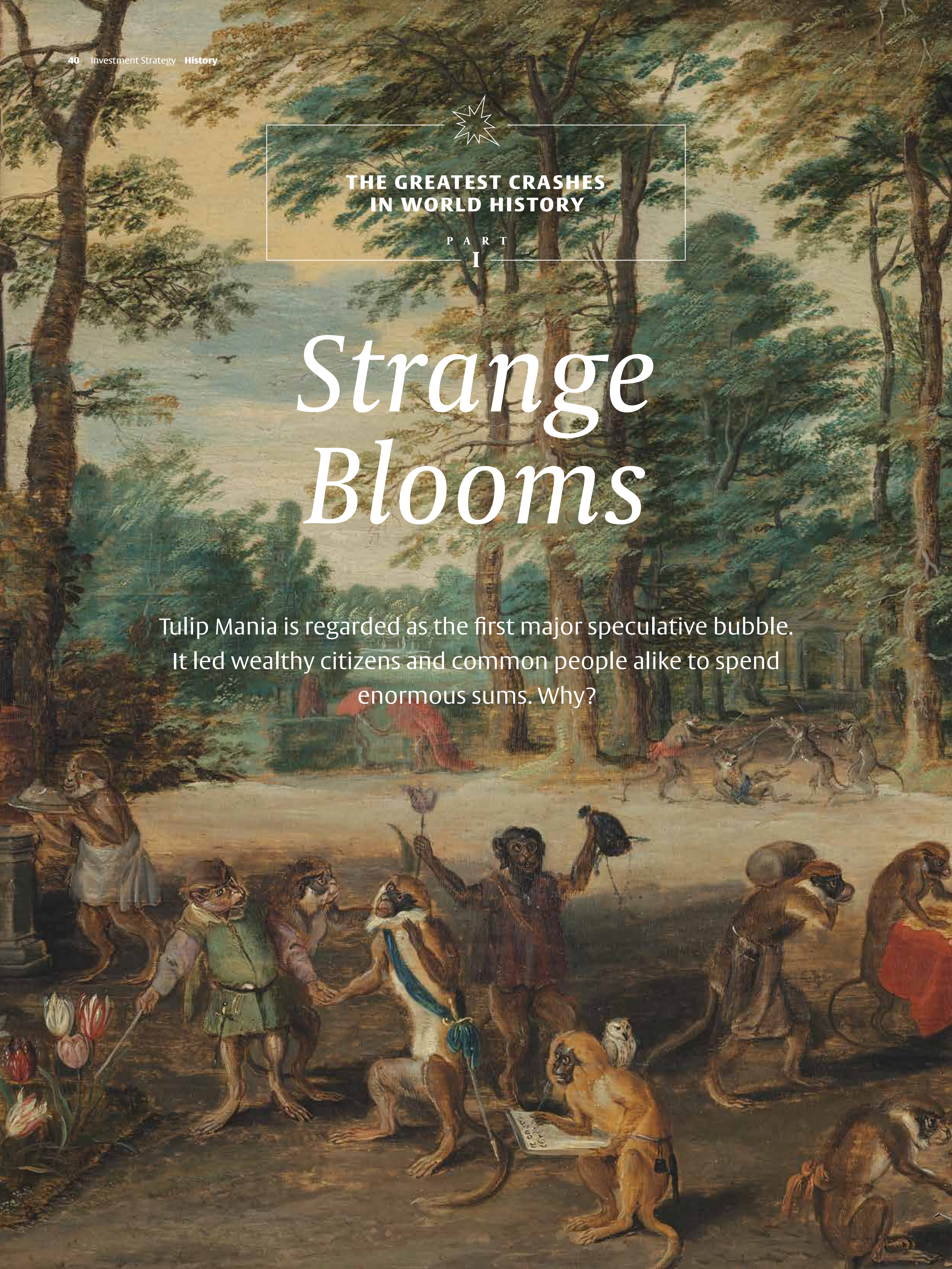
The consequences of a waning investment boom would be severe. Companies in the semiconductor sector would be hardest hit, but other data centre equipment suppliers would also be affected. Given their high market capitalisation and significant index weighting, this would also have a major impact on the overall stock market performance. What's more, a downturn in the investment boom would also severely affect other sectors or companies that, at first glance, appear to have little to do with the technology sector. One example is Caterpillar, which supplies diesel emergency power units and natural gas generators for data centres and whose high valuation (price-to-earnings ratio of 40) stems primarily from the anticipated potential of the data centre business. Ultimately, the entire economy would also be affected – not only due to a lack of investment, but also because of significant share price losses on the stock markets.

There would therefore be many losers, which is why the stakeholders in the investment boom will do everything in their power to ensure it continues for as long as possible and to keep the narrative of the AI gold rush alive. The hyperscalers, whose growth story is based on AI; the AI model providers planning their IPOs; the investment banks looking to profit from it; creditors financing the construction of data centres; the US President, who needs a strong US economy as a barometer of his success; and tens of millions of Americans who are invested in AI shares, either directly or indirectly through their pension schemes. They all hope that the investment boom will never end.

So there is a great deal at stake. That is why the financial markets' expectations that the boom will continue into the 2030s and could even accelerate should be seen as wishful thinking rather than rational expectations. The development of AI will progress further, just as was the case with the internet following the bursting of the dotcom bubble. However, this does not mean that the investment supercycle will continue unabated. ◆

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

The development of AI will progress further, just as was the case with the internet following the bursting of the dotcom bubble.



THE GREATEST CRASHES
IN WORLD HISTORY

PART
I

Strange Blooms

Tulip Mania is regarded as the first major speculative bubble. It led wealthy citizens and common people alike to spend enormous sums. Why?

One day in the spring of 1637, a Dutch merchant named Francois Koster paid the exorbitant sum of 6,650 guilders for a few dozen tulip bulbs – a remarkable price at a time when an entire family could live on 300 guilders for a year. [...] Koster had bought them to resell, and he was confident that this trade would turn a profit for him. [...] For more than two years, prices had been rising rapidly and steadily. There was no reason to believe that this trend would change.

(Tulipomania, Mike Dash, p. 11 ff.)

Yet in the two weeks that followed, the prices of most bulbs plummeted to 10 per cent of their previous value. The collapse of the Tulip Mania was therefore faster than the stock market crash of 1929, when prices took two years to fall by around 90 per cent. How could enthusiasm for a flower turn into a state of collective psychological frenzy – and in the Calvinist Republic of the United Netherlands, of all places?

DISCOVERY: EXOTIC BEAUTY MEETS FERTILE SOIL

In 1562, a ship carrying fabrics from Istanbul docked in Antwerp. Presumably, the first tulip bulbs to reach Northern Europe were tucked away amongst the bales. According to legend, the fabric merchant fried some of them for dinner and planted the rest in his vegetable garden. When the flowers bloomed the following spring, he drew them to the attention of merchant and gardening enthusiast Joris Rye, who knew the botanist Carolus Clusius. The latter is said to have enjoyed recounting this anecdote.

InTurkey, the tulip – which had been received so ungraciously – was held in high esteem at that time. Originating in a region north of the Himalayas, it had travelled west with migrating Turkic peoples. In Persia, it inspired poets; after conquering Constantinople in 1453, the Ottomans cultivated tulips in magnificent gardens. Rare varieties were considered precious, and sultans liked to display them as symbols of status. When the tulip arrived, Antwerp was the most important port in the Netherlands, which were ruled by the Spanish Habsburgs. High taxes and the persecution of Protestants led to the Revolt of the Seven Northern Provinces in 1568, which triggered the Eighty Years' War. The River Scheldt was blockaded and the centre of trade shifted to Amsterdam. From the turn of the century, the Dutch began to dominate the lucrative spice trade. The foundations for their Golden Age had been laid.

This growing prosperity was crucial for the tulip. The wealthy saw rare plants and flourishing gardens as a way of displaying their wealth without contravening Calvinist customs. In North Holland, country houses with elaborately designed gardens began to spring up. Initially, tulips were mainly bred and exchanged by connoisseurs. Clusius, for example, sent bulbs and seeds to contacts throughout Europe. He classified the varieties and established the botanical garden in Leiden. There, he spent more than 20 years researching cultivation and propagation.

From the very beginning, cultivated hybrids were particularly sought after, especially flamed varieties such as the white-and-red *"Semper Augustus"*. Their striking markings were caused by what was later identified as the tulip mosaic virus. Because infected plants were weaker and reproduced poorly, these varieties remained extremely scarce. Some existed in quantities of only a dozen or so, and certain owners were extremely reluctant to part with them. When selling them, they could demand almost any price.

ENTHUSIASM AND THE FIRST RECORD PRICES

From the Netherlands, the tulip spread to France. Around 1610, aristocrats vied with one another to impress the ladies at court with rare blooms. At the wedding of Louis XIII in 1615, the ladies wore tulips on their décolletage; some were as valuable as diamonds. Reports speak of 1,000 guilders being paid for a single bloom.

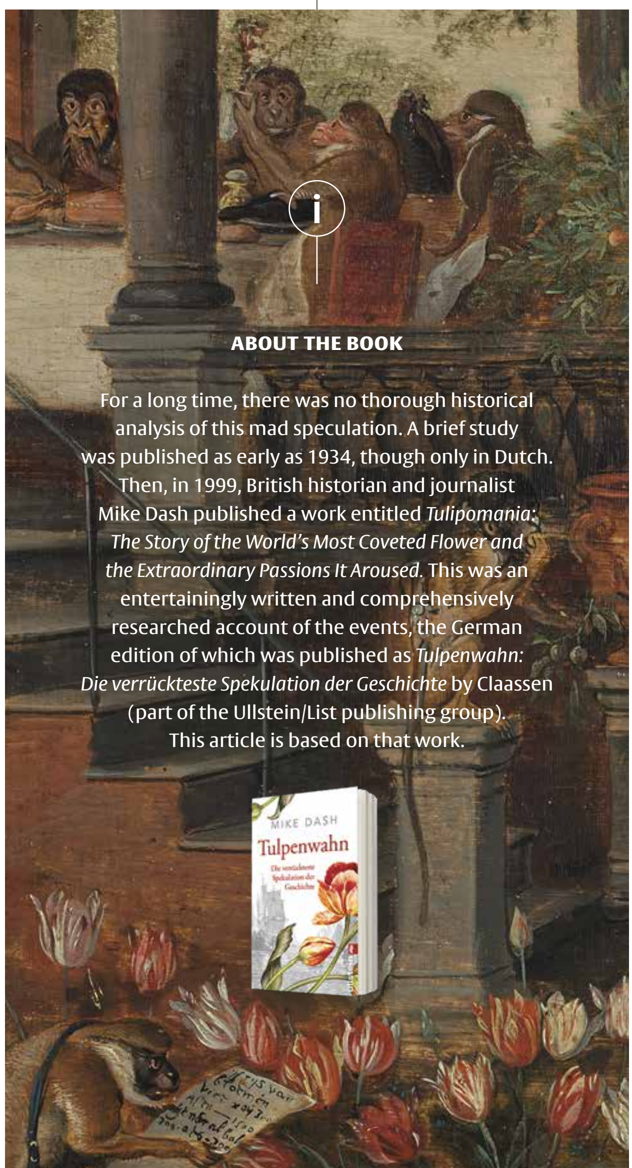
In the Netherlands, tulip enthusiasts were not aristocrats, but so-called “regents”. These were wealthy citizens, such as doctors, lawyers and merchants. As wealth grew and the fashion for gardening became more widespread, demand rose. However, many new customers lacked the connections needed to purchase bulbs. Gardeners and growers filled this gap and continually tapped into new customer groups, including those abroad. But how could people there get an idea of what the flower looked like when all they could see was the bulb? An illustrated botanical compendium published in 1612 served as a model for later catalogues. With these, exports began to flourish.

Initially, bulbs were traded individually. Later, they were also bought by the bed or by the basket. However, as only select tulips fetched good prices at first, some growers gave away bulbs of simpler varieties to itinerant traders, who in turn searched the whole country for special specimens. In this way, tulips found their way onto farmers’ markets at affordable prices and became accessible to those of more modest means. By 1633, there were more than 500 varieties. At this time, a new group emerged: the so-called “florists”, who traded in bulbs and were primarily interested in making a (quick) profit.

BOOM CREATES NEW OPPORTUNITIES

Whilst initially only the prices of selected varieties had risen, those for the more common varieties soon followed suit. Several developments accelerated the boom. For instance, tulips became a means of payment: in 1633, for example, a house in Hoorn changed hands for three bulbs. Furthermore, trading by weight became the norm. As a bulb produces off-set bulbs in a single season, its weight can easily multiply. This promised additional profit.

From 1635 onwards, bulbs that were still in the ground were increasingly sold. IOUs were issued for these, enabling trade to continue throughout the year. These were forward contracts: buyers undertook to purchase specific bulbs at a later date at a fixed price and often had to pay only a 10 per cent deposit. So, anyone with 50 guilders could purchase bulbs worth 500 guilders and speculate that they could sell the contract on at a higher price before it fell due. However, this was a venture that only paid off if prices continued to rise.



ABOUT THE BOOK

For a long time, there was no thorough historical analysis of this mad speculation. A brief study was published as early as 1934, though only in Dutch. Then, in 1999, British historian and journalist Mike Dash published a work entitled *Tulipomania: The Story of the World’s Most Coveted Flower and the Extraordinary Passions It Aroused.* This was an entertainingly written and comprehensively researched account of the events, the German edition of which was published as *Tulpenwahn: Die verrückteste Spekulation der Geschichte* by Claassen (part of the Ullstein/List publishing group). This article is based on that work.

It was no coincidence that the tulip trade attracted more and more people. After all, for many, everyday life was hard: war-induced waves of refugees were driving down wages, housing was in short supply, and in the skilled trades, 14-hour working days were the norm – even at the start of the Golden Age.

FROM EUPHORIA TO MANIA

As the number of buyers rose, prices climbed more and more rapidly. By the end of 1634, an acceleration had set in which continued into 1635 and culminated in extreme price surges during the winter of 1636/37. Some bulbs doubled in price within a week. A "*Generael de Generaelen van Gouda*", for example, rose in price by two-thirds within a year from the end of 1634, then by a further 50 per cent in six months, and had tripled in value by January 1637.

Trading usually took place in taverns. For instance, florists in Haarlem would meet once or twice a week at the "*Goldene Traube*". As newcomers usually entered the market with basic bulk goods, the price of these now jumped dramatically: a bundle of "*Gheele Croons*" cost around 20 guilders in October 1636, but around 1,200 guilders by the end of January 1637.

When the auctioneer called out a bid, buyers and sellers wrote their asking prices on slate boards. A broker proposed a middle price. If the amount remained on the board, the transaction was registered by the tavern committee; if it was wiped away, no deal was concluded. In either case, a tip was due – deals were sealed with a round of drinks.

CRASH: 90 PER CENT LOST IN TWO WEEKS

On the first Tuesday in February 1637, the crash began in Haarlem. At an auction, a respected florist offered a pound of "*Witte Croons*" for 1,250 guilders. No one came forward. Even at 1,100 and finally 1,000 guilders, there were no bids. Within a few days, the buyers' strike had spread across the whole country.

What had happened? Previously, demand had far outstripped supply. There was a shortage of cheaper varieties that would have allowed new buyers to enter the market. But when the influx of new participants dried up, there was no next buyer willing to pay even higher prices.

After the crash, many were left with nothing. Most florists had pawned their tools and belongings and committed themselves to high payments through forward contracts. They faced ruin. And yet this crash did not trigger a nationwide recession. Authorities and market participants reacted pragmatically. Growers in North Holland soon proposed cancelling contracts concluded after November 1636 in return for a 10 per cent payment. Although the proposal was not implemented, the courts in many places took little action against tulip-related cases. In Alkmaar, forward contracts were eventually declared null and void; in Haarlem, buyers were allowed to terminate their contracts in return for three to five per cent of the sale price, in instalments if necessary.

The tulip trade also quickly stabilised again. Rare varieties had remained expensive, and speculation had made the tulip famous throughout Europe. Exports helped many growers to offset domestic losses. And when a new tulip craze took hold in Istanbul around 1703, the original home of the Dutch tulip imported thousands of bulbs from the Netherlands every year. Only the ridicule surrounding tulip mania endured for many years to come. ◆

Pages 40 & 42
show an excerpt from Jan Brueghel's work
"Satire of Tulipmania".

Jan Brueghel (the younger) painted the picture in 1640 – three years after the disastrous end of the "tulip mania". Brueghel was born in Antwerp and, like his father, was a painter of the Baroque period, which was regarded at the time as "modern art". Bruegel is known for his socially critical themes, setting him apart from many medieval masters whose work was often shaped by religious subjects or their dependence on powerful patrons.

“Just so There’s no Misunderstanding ...”

The artificial intelligence (AI) rally is going from strength to strength, despite a few (minor) setbacks. In this interview, Kurt von Storch discusses the mood on the stock markets, his experience and the long-term outlook.

Investors are gradually snapping up shares in companies that stand to benefit particularly from AI – most recently, chip manufacturers. Their share prices have multiplied in a very short space of time. How does that feel for an investor who isn't "snapping them up"?

It's challenging – for us and our investment approach, our investment philosophy. Because diversification and a value-oriented approach simply aren't paying off as usual these days. And that inevitably makes you reflect – and question yourself.

And what's the result of that reflection?

The worst possible move would be to abandon our convictions and our philosophy on a whim. We've been in the business too long for that, and we know only too well what can happen if you blindly chase the market out of fear of missing out. More often than not, that goes spectacularly wrong.

So, are you still avoiding the AI winners?

Just so there's no misunderstanding: of course, we invest in companies that – as things stand today – are among the AI beneficiaries. But sometimes for other reasons. And, just as importantly: their weighting in the portfolios isn't as disproportionately high as in the major equity indices. So, we're more cautious.

Which, conversely, means that you are currently sacrificing returns ...

We accept that, yes, even if it may hurt for the time being. However, far more important than the present moment – or individual moments – is the long-term perspective: in other words, the sum of a great many moments.

How are your clients reacting to this?

It varies greatly. The vast majority have known us for a very long time and know exactly what we do, but above all, what we don't do – and why. And, of course, there are also those who ask why their wealth isn't growing – or is growing only slowly – in the midst of such a rally, when the share prices of AI beneficiaries race from one record high to the next and the broader indices continue to rise ever higher. Some are disappointed. Incidentally, that's a perfectly valid question.

Anyone who lags behind the market must explain all the more clearly why that is the case.

And what is your answer to that?
Let's take the shares of chip manufacturers as an example – the stars of the moment. The chip industry has always followed a "boom-bust" cycle, characterised by wild fluctuations in corporate profits and share prices. Micron Technology's share price, for example, shed around 99 per cent from its peak in 2000 to its low eight years later. It wasn't until 2024 that the previous all-time high was reached again.

Today, the company is the world's most valuable manufacturer of memory chips …
The high market capitalisation is based on the assumption that the boom-bust cycle will be much more moderate this time round. This is because the industry is trying to limit the risk of overcapacity and falling prices through longer-term supply contracts.

And you have your doubts that this will work?
Whilst this may cushion the next downturn somewhat, it does nothing to alter the industry's susceptibility to volatility. The current boom will be followed by the next crash – the only question is when.

What do you think?
Believing isn't enough. And guessing isn't a good strategy. It simply cannot be predicted with any certainty. It's quite possible that the rally will continue for a while yet, but that's by no means certain. Market valuations in this sector are now very stretched. My colleague Bert Flossbach calls it "airy". Reason enough for us to be more cautious.

The world belongs to the brave …
That may well be true in various areas of life. On the stock market, however, I'd be a little more cautious with that statement. Especially as it's not our job to be brave.

So, what is your job?
To preserve wealth and grow it over time. As long-term investors, we always consider both opportunities and risks – with risks carrying at least equal, if not greater, weight in our assessment.

Could you elaborate on that?
What we value and need is reliability. Applied to the stock market, this means we look for companies whose long-term earnings prospects can be predicted as accurately as possible. These are often companies from more defensive sectors; take consumer staples and health care as examples. In other words, precisely those sectors that are currently being overlooked by many investors. Speculation trumps dependability, at least these days. It is very difficult to predict the long-term earnings performance of many AI high-flyers.

But AI will fundamentally change the world …
We see it exactly the same way, so please don't get the wrong idea. And we're probably all vastly underestimating the potential. Nevertheless, it is impossible to predict who the big winners of this technological revolution will be in the long run.

Would you compare today's AI rally to the dotcom bubble at the turn of the millennium?
I am generally wary of comparisons, even though this one is obvious and has been widely discussed for some time. There are parallels, but also significant differences. One thing we can certainly say is that there has never been a technology boom that did not eventually lead to excess and, ultimately, a painful downturn. Especially as we can still remember the turn of the millennium very well.

Why does that period remain so vivid for you, even though it was a quarter of a century ago?
Because it had a profound impact on us as a company. We were still very young back then – and not just us as entrepreneurs. The company itself, which was still called Flossbach & von Storch at the time, was also in its infancy. It hadn't been long since it was founded. And then came this massive boom. The enormous expectations placed on companies – even those that were only remotely connected to the internet. Getting rich overnight. That was the wish of many investors back then, not to put a finer point on it.

How did you deal with those expectations back then?
We allowed ourselves to be guided by them, even though we found the boom unsettling and were convinced that the share prices of many companies were absurdly high –

too high. There was an enormous amount of speculation involved. But as a young company, we did not want to alienate the clients we had at the time. What good would it have done us to be proved right eventually if we had no clients left?

So, you went along with it back then …

I wouldn't call it "going along with it"; we remained cautious but did add a few stocks to our portfolio. Eventually, the bubble burst. Not with a huge bang – that is, suddenly and painfully – but the air seeped out very slowly, over the course of years. One low point followed another – and then things continued to go downhill. And further. And further. That was even more painful. For all those who wanted to get rich overnight, it was pure torment. But even those who had previously claimed that price fluctuations wouldn't bother them eventually threw in the towel, completely exasperated and disillusioned. Something like that leaves its mark.

Why?

Above all, it humbles you.

And?

It was during this phase that the Flossbach von Storch Pentagram was developed – five guiding principles, key concepts, our investment philosophy. Diversification is one of these concepts. Diversification reflects the investor's realisation that they cannot know everything but want to be as well prepared as possible for everything that might happen on the stock markets.

Aren't you worried that the rally might continue – without you?

No. The portfolios are well positioned and broadly diversified, with potential to catch up. I'm confident that this will pay off in the long term. Managing assets isn't a sprint – it's a marathon. ◆

Kurt von Storch is Founder and Owner of Flossbach von Storch SE.

"Managing assets isn't a sprint – it's a marathon."

Kurt von Storch

Avoiding *a Shipwreck*

The AI rally, geopolitics, a dip in the gold price – there's a great deal going on in the capital markets.

→ And that raises questions.

We've compiled the ones we're asked most frequently – and tried to answer them.

→ Why doesn't Flossbach von Storch offer exchange-traded funds (ETFs)?

Our roots lie in traditional wealth management – preserving and growing wealth over the long term by diversifying across different asset classes. The tasks our clients set for us are varied. And they can rarely be fulfilled by tracking one or more indices on a one-to-one basis. For us, it is not least a question of risk tolerance. How must a portfolio be structured so that the investor can sleep soundly, time and again? To fulfil this task, independence is required. And this independence also means not having to base investment selection on benchmark indices. This stance has not changed.

→ Are active fund managers still needed at all?

More than ever, we would argue. But our answer is unlikely to come as a serious surprise to anyone. ETFs and actively managed funds cater to different investor interests and preferences. The former are particularly suitable for investors with prior knowledge, especially when making a one-off investment of a larger sum. Investors who, above all, can withstand price fluctuations. Who may wish to invest quite deliberately in very specific markets or sectors. Actively managed funds, on the other hand, are better suited to investors who wish to delegate decision-making. For whom it is important to know that the fund manager selects the companies in whose shares and/or bonds he/she invests according to specific, transparent criteria – and in this way attempts to reduce potential risks relative to the overall market, thereby allowing investors to sleep soundly.

In this respect, there is a need for both: the ETF and the actively managed fund. Now as before.

→ Why has the performance of Flossbach von Storch's strategies (equities and multi-asset) been lagging behind the broader market for some time now, and also compared to competitors?

Because, for various reasons, we have not invested in – or have not invested to the same extent in – certain sectors that have been the main drivers of the indices in the recent past. Take the defence sector, for example, in which we were unable to invest until recently for regulatory reasons. Or financial stocks (universal banks), which we have always avoided because their balance sheets – despite significantly better capitalisation than at the time of the financial crisis – are vulnerable in periods of stress. Or the (supposed) AI winners, the big theme on the capital markets these days. The weighting of the so-called hyperscalers in the relevant indices is somewhat reminiscent of the market concentration seen in a particular sector during the dotcom era – the rally, in a sense, feeds the rally. Whilst we are also invested in the tech sector, for the sake of diversification our exposure is far less prominent than the indices would "suggest".

The AI sector is currently absorbing a large proportion of investor capital. Other sectors, by contrast, are being sidelined; take consumer staples and health care as examples. Companies in these sectors, with tried-and-tested business models, are at times trading at their lowest valuations on the stock market for a decade. These are the sectors we favour due to their long-term reliability – and which we weight accordingly within the strategies.

In this respect, the problem lay not only with those companies in which we have not invested, or have invested only to a limited extent, but also with those in which we have invested or currently hold positions.

However, as their turnover and profits have developed roughly in line with our forecasts, we are optimistic that the current portfolio composition of the strategies harbour potential for catch-up and will deliver attractive returns going forward.

→ Why are the AI winners weighted so low in the strategies?

Diversification is one of our guiding principles that shape our investment strategy. Quality is another. By quality, we mean above all the predictability of a company's future turnover and earnings.

No sector is as disruptive as the technology sector. Today's winners may well be tomorrow's losers. This is particularly true during periods of technological upheaval. The share prices of many companies reflect a great deal of speculation and high expectations. These still need to be realised. We are somewhat more cautious in this regard, whilst fully aware that the rally may continue for some time yet.

→ Instead, German car manufacturers and sports goods manufacturers rank among the holdings – why is that?

Both are undoubtedly highly cyclical, meaning that the predictability of future earnings is not as clear-cut as, for example, with companies in more defensive sectors.

Ultimately, as commercially minded investors, we are always concerned with the risk-reward profile of a potential investment – and, not least, with its valuation. And there are always market phases in which precisely these cyclical business models are punished disproportionately and then appear attractive to the long-term investor. In the case of German car manufacturers, there is also a dividend history which, in recent years, has compensated for the sometimes more pronounced price fluctuations and which should not be overlooked when assessing an investment's yield.

→ Are the investment philosophy and strategy still relevant today?

We are firmly convinced that our active and commercially prudent approach offers added value for a great many investors, even though there are recurring phases in which it is regarded as boring and outdated because it lags behind the broader market. In the long term, however, it has performed excellently. And we are optimistic that it will continue to do so in the future.

Although this does not mean that we do not continually question it and – where necessary – adapt or refine it.

→ Why is the bond allocation in the largest multi-asset funds so low?

Ultimately, it is always about the risk-reward profile of an investment or an asset class. And at present, the valuations of "bond-like" shares – that is, companies in defensive sectors – are in some cases significantly more attractive than those of their bond counterparts.

That said, this is a snapshot – and could well change rapidly should opportunities arise in the bond market. The strategies are flexible enough to be able to react swiftly to such developments at any time.

→ Is gold still a "safe haven" at all?

In our view, gold (whether physical or non-physical) should be, and remain, an integral part of a broadly diversified portfolio – a form of insurance against the known and unknown risks of the financial system. We are well aware that the price of gold can sometimes fluctuate very sharply. In this respect, the need for a long-term perspective probably applies more to gold than to other asset classes. In the short term, the precious metal is of no use as a hedge against either inflation or crisis. In the long term, however, it has always fulfilled its function as a store of value.

→ What happens if the wars in the Middle East and Ukraine, as well as the conflict over Taiwan, escalate?

Such scenarios can never be ruled out. However, no serious investment strategy should be based solely on potential disasters. Investing must always be – and remain – constructive. Anyone who always assumes the very worst will ultimately be unable to preserve the purchasing power of their assets. In this respect, a constructive understanding of risk is essential. This means diversifying a portfolio so broadly that investors do not suffer a total loss should the capital markets become turbulent – without, however, giving up all potential returns. This requires a certain tolerance for volatility. ◆

When markets are rallying, investors should not lose sight of the fundamentals. Consumer goods stocks are a case in point.

Away From the Spotlight

By Simon Jäger

When all the spotlights on stage are trained on a single star and the noise reaches fever pitch, it can pay to look at the sidelines. That certainly holds true of the stock market, where exaggerations occur time and again.

At the moment, all eyes are on artificial intelligence (AI). A growth boom has turned into euphoria; risks are being ignored, and valuations are playing a secondary role. Investors are desperate for growth, no matter what the cost or how vulnerable a business model might become.

Even if it seems like a tentative move, this is precisely when it is important to face up to reality. How predictable and sustainable are the profits of companies in the AI sector? What price do you pay for one euro of profit from these companies? How secure are their business models for the future? When it becomes difficult to provide these answers, opportunities often reveal themselves elsewhere. Shares that are overlooked by the market, but which may be more predictable than investments in the AI sector.

One example of this is consumer staples companies. Everyone is familiar with their products from the supermarket or the shop round the corner. Consumer staples thrive on their strong brands – coffee, cereals and sweets are all part of their range.

Everyone is familiar with the products of defensive consumer goods companies from the supermarket or the shop round the corner. Consumer staples thrive on their strong brands – coffee, cereals and sweets are all part of their range.

IT ALL COMES DOWN TO SELECTION

Consumer stocks certainly face headwinds that need to be taken into account. These include, for example, demographics. The world's population is growing at a slower rate than before, whilst China's is shrinking. Retail chains' own-brand products are making life difficult for consumer goods companies' brands. Armed conflicts are on the rise and leading to increases in energy prices, as the example of Iran shows. All of this can weigh on the profits of consumer goods companies.

At the same time, the major brands are not resting on their laurels. Nestlé generates less than half of its turnover from traditional food products. The company has expanded its range and is now also active in the areas of pet care, baby food, nutrition and coffee.

The "premiumisation" of the product range can be seen at Unilever and Nestlé in the beauty and skincare sectors, or in coffee, where profits have risen considerably. An increasingly older, affluent population could change its consumption habits in the future. Older people often prefer different products to younger generations. New trends require agility – a crucial trait, particularly for large companies. Looking to the future, size and market share may well be less important than adaptability.

As well as the products, management always plays a role. There can be major differences here. Take Nestlé, for example: former CEO Mark Schneider initiated a large number of acquisitions. In our view, this not only led to a loss of focus on the essentials, but also resulted in significant cost burdens and a deterioration in the balance sheet. Following the change in leadership, the new management is now refocusing on the major, high-margin brands and operational efficiency.

Or take Unilever: here, too, there is a new management team that is refocusing on the key drivers of the business. These examples show that, even in the consumer staples sector, it is not just about the product range. The concrete, pragmatic implementation of an idea into day-to-day business operations is at least as important.

THE "BETTER BONDS"

> Given their predictability, defensive consumer stocks can act as the "better bonds" within a mixed portfolio.

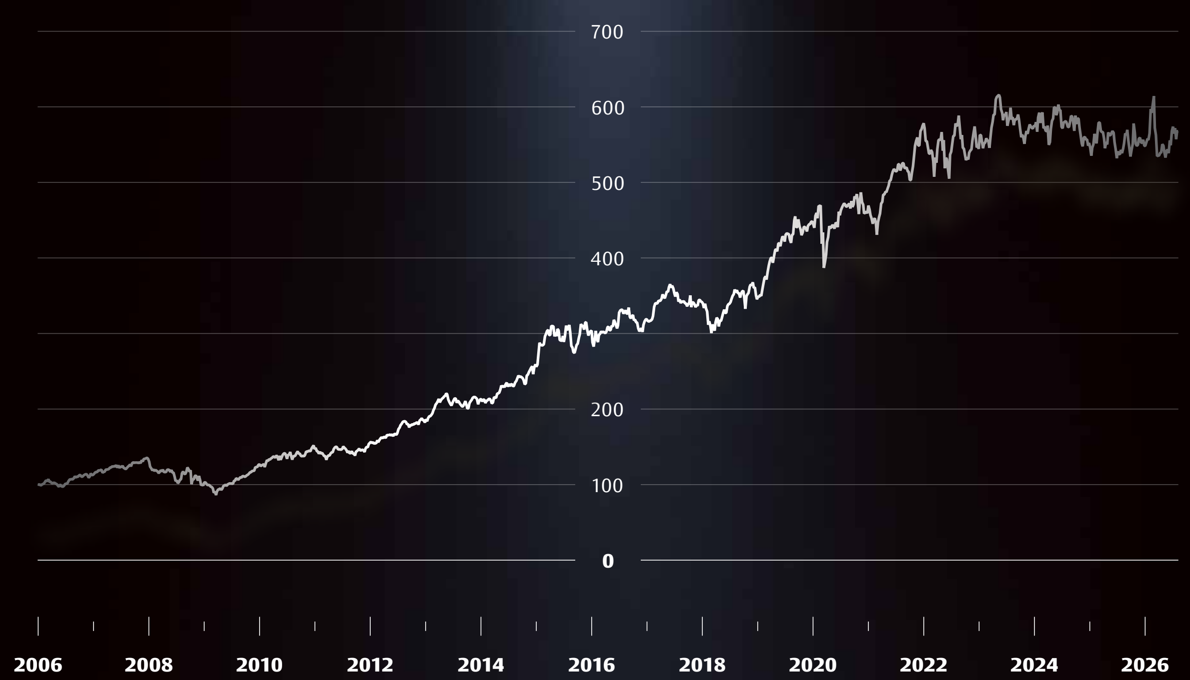
Defensive consumer stocks may not match the returns that high-growth, high-quality shares can deliver. However, given their predictability, they can act as the "better bonds" within a mixed portfolio. Their free cash flow – that is, the money remaining after all investments and expenditure – is similar to an interest coupon that savers receive annually. For many years, this sector has not seen such high profit yields as it has recently. In some companies, the ratio of expected annual free cash flow to current market capitalisation stands at just under six per cent. According to this calculation, a buyer of such a company – or, more precisely, its shares – would have recouped their invested capital after 17 years. This is, of course, a somewhat oversimplified calculation, but it illustrates the fundamental attractiveness of such shares, particularly when compared with bonds.

The risk of temporary price fluctuations plays a lesser role for long-term investors who hold several of these shares in their portfolio (see graph). The higher yields highlight their attractiveness compared with bonds of comparable quality.

A BRIEF SUMMARY

For investors who, like us, expect these companies to achieve modest growth over the medium term, the consumer goods sector currently offers attractive opportunities that – unlike bonds – provide not only appealing valuations but also a degree of protection against inflation. After all, bargains are not only found in the supermarket, but on the stock market too. ◆

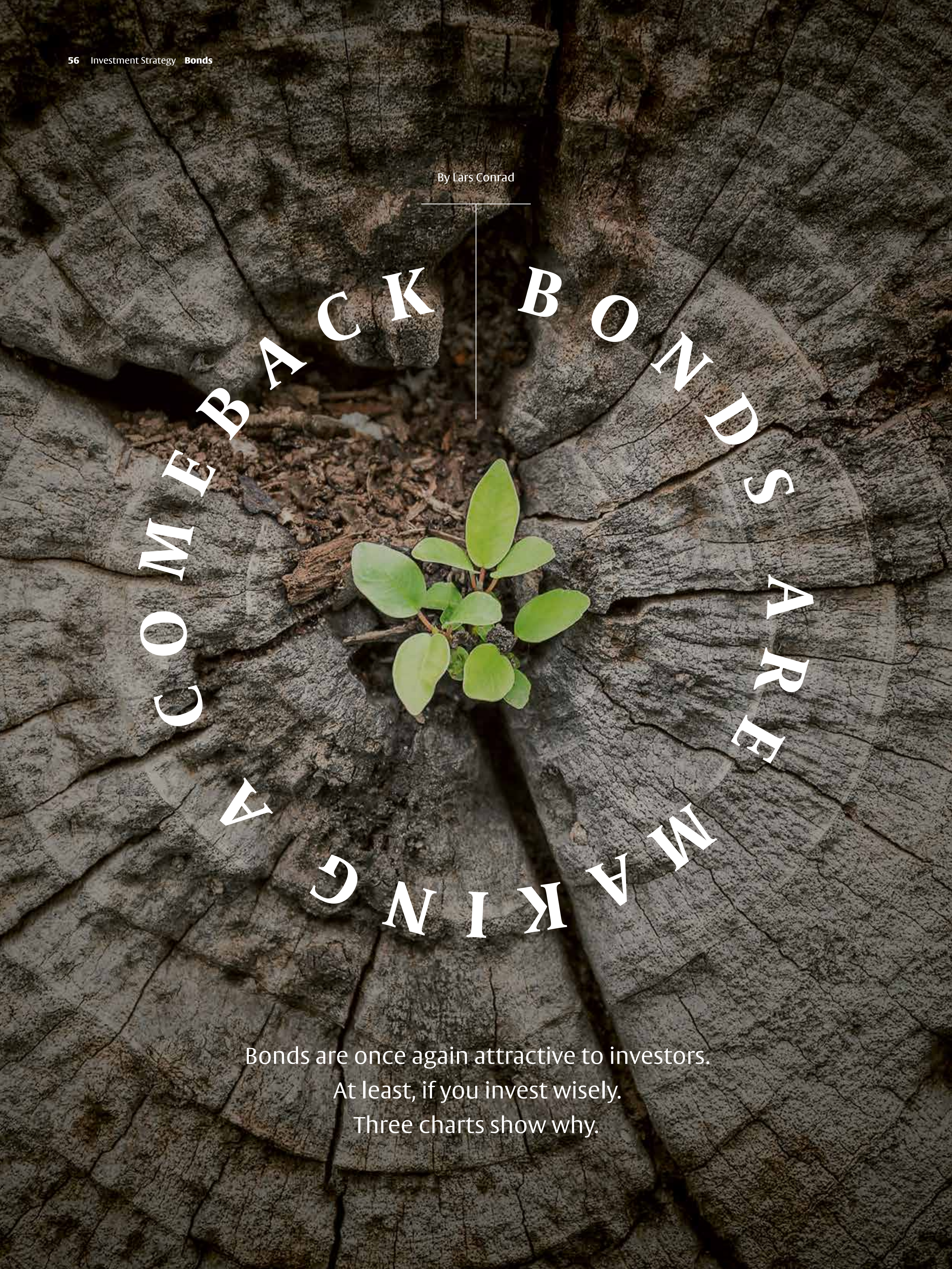
Simon Jäger is an Analyst at Flossbach von Storch SE.



Consistency in the portfolio

Indexed performance of a basket of six consumer stocks
(Nestlé, Unilever, Reckitt, PepsiCo, Procter & Gamble, L'Oréal)
over the past 20 years
(Figures in EUR, indexed to 2006 = 100)

This does not constitute an offer to sell, purchase or subscribe to securities or other instruments.
The information contained herein does not constitute investment advice or any other recommendation.
Past performance is not a reliable indicator of future performance.
Source: LSEG Datastream, Flossbach von Storch, data as at 10 August 2026



By Lars Conrad

BONDS ARE MAKING A COMEBACK

Bonds are once again attractive to investors.
At least, if you invest wisely.
Three charts show why.

The financial markets have seen a number of record highs in recent months. Aside from artificial intelligence (AI), memory chips and high-tech, one asset class – the one in which the most wealth is invested globally – has made a comeback: the yields on many bonds with a very high credit rating have recently reached their highest levels in more than 20 years.

This applies, at least, to government bonds issued by major issuers. Ten-year German Bunds were recently yielding more than three per cent, whilst Treasuries and Gilts – as the US and UK counterparts are known amongst investors – were yielding close to five per cent. These are yields the market has not seen for almost 20 years (see Figure 1).

Most recently, a resurgence of hostilities in the Middle East conflict has provided a new impetus. Rising energy prices are fuelling inflation fears, which in turn are driving up interest-rate expectations. Against the backdrop of increasingly spiralling government debt, yield expectations are also on the rise. Even Japan – a country long associated with zero and negative interest rates and characterised by extremely low interest rates for many years – has recently seen a sharp rise in yields.

Whilst finance ministers groan, many investors are delighted with high-quality bonds that are once again offering attractive current yields. The advantage is that the current yield – also known as the coupon or carry – can be collected quite independently of short-term price fluctuations. This is because bonds are traded daily on the markets. When investors' expectations change, this is reflected in the prices. The advantage is that should the bond market take a downturn, the carry now provides a substantial buffer.

At the same time, yield curves – which show the yields for different maturities of a bond – have returned to normal in many markets. This creates additional potential for returns. This applies, for example, to the so-called "rolldown" effect, where bonds with longer remaining maturities "roll forward" along the yield curve. In the event of an early sale, there are capital gains for bonds with longer maturities →

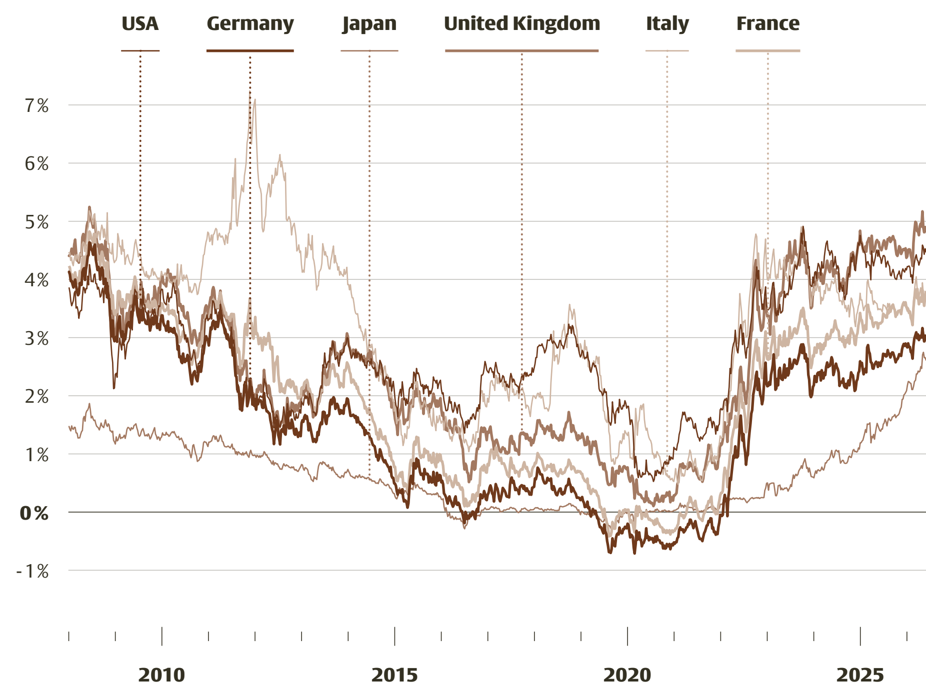


Figure 1
In our view, yields are historically attractive
Nominal yields on 10-year government bonds

Past performance is not a reliable indicator of future performance.
Source: Bloomberg, Flossbach von Storch, data as at 7 August 2026

because they offer higher yields than short-term bonds. These two effects alone significantly improve the long-term return prospects compared with the lean years of the low interest-rate environment.

ATTRACTIVE BALANCE OF OPPORTUNITIES AND RISKS

If interest rates fall again in the near future, further potential for price gains will open up. After all, it seems rather unlikely that interest rates will continue to rise indefinitely. With yields now at these levels, the cost of financing for governments, companies and individuals is rising.

A burden that has an enormous dampening effect. Investment costs for companies are rising, as are loans for property or consumer spending. Governments are also affected: particularly in highly indebted countries such as France or Italy, rising interest payments are increasingly restricting fiscal policy manoeuvre. Or to put it another way: the higher yields already are, the less scope there is for a sustained rise in interest rates.

A few years ago, interest rates rose sharply once before. Following Russia's invasion of Ukraine, energy prices soared. Compared with the Middle East conflict, however, there was one key difference back then: the energy price shock of 2022 coincided (following COVID-19) with significantly higher inflation, a very expansionary monetary policy, and substantially lower capital market yields.

Currently, inflation figures are appreciably lower. Monetary policy is much more restrictive, and bond yields are already at a high level. In our view, therefore, there are strong indications that the risk of a new, self-reinforcing spiral of inflation and interest rates is considerably lower.

Even in light of recent geopolitical tensions, the focus is likely to shift back to sluggish growth alongside inflation in the near term. This is an environment in which high-quality bonds are typically in demand.

A brief summary

High current yields, the roll-down effect of steep yield curves and an attractive risk-reward profile by historical standards currently make a compelling case for bonds. At the same time, current yield levels are increasingly acting as a natural constraint on further unlimited rises in interest rates.

Attractive yields from high-quality bonds

However, not all bonds are the same. Corporate bonds, for instance, traditionally offer attractive yield premiums compared with government bonds. They are therefore an important source of income in a well-diversified bond portfolio.

Recently, active investors have once again been able to achieve attractive additional returns, particularly in the investment-grade segment. The yield spreads between bonds with very high credit ratings and high-yield bonds have recently been close to their lowest levels of the past 10 years (see Figure 2).

Or to put it another way: investors are currently receiving only a comparatively small additional return for the significantly higher default and volatility risk associated with high-yield bonds. A development which, in our view, has recently been a strong argument in favour of high-quality corporate bonds.

What's more, supply in the market for high-quality corporate bonds has risen markedly of late. This was due, amongst other things, to the extensive bond issues by major technology companies to finance their investments in AI infrastructure. As a result, yields in this segment have risen appreciably. Investors can therefore now achieve attractive current returns from corporate bonds with good credit risk whilst maintaining a high credit rating.

LITTLE ROOM FOR MANOEUVRE IN HIGH-YIELD BONDS

A look at the other end of the bond market reveals a completely different picture. Despite geopolitical uncertainties and temporary fluctuations, yields on so-called high-yield bonds are now back near historic lows.

This reflects the optimism in the market: the risk associated with bonds from significantly weaker issuers is apparently not considered particularly high. Similarly, even a return of risk premiums to historically average levels in the future could lead to noticeably weaker performance in the high-yield segment.

Figure 2
Low risk premiums for lower-quality bonds
Yield spread between seven-year euro-denominated corporate bonds rated BB and AA (weekly data since March 2016)

Past performance is not a reliable indicator of future performance.
Source: Bloomberg, Flossbach von Storch, data as at 7 August 2026

QUALITY CREATES STABILITY AND LIQUIDITY

In our view, high-quality corporate bonds therefore not only currently offer a more attractive risk-reward ratio but also enhance the stability of a portfolio. Another advantage is that high-quality bonds generally enjoy greater market liquidity, which can be a significant benefit, particularly during periods of market volatility. For example, if, during a period of exceptional news, a large number of an issuer's bonds are sold onto the market simultaneously, there should be sufficient potential buyers. In a tight market, price declines may be a risk.

A brief summary

Corporate bonds remain an attractive source of returns within an actively managed portfolio. However, we have recently seen the greatest added value in the high-quality investment-grade segment. In our view, the additional yield from high-yield bonds does not currently sufficiently offset the higher risk.

More than just the coupon: many sources of return

Bonds are not savings accounts. The current interest income from a bond is an important source of return – but by no means the only one. Numerous additional opportunities can arise, particularly in an environment characterised by geopolitical risks, diverging economic cycles and differing central bank policies. An actively managed bond portfolio can capitalise on these opportunities in a targeted manner and adapt flexibly to changing market conditions.

The most attractive opportunities often arise in areas not adequately covered by traditional bond indices. Benchmark-tracking funds or ETFs often weight issuers in the portfolio according to their outstanding debt volume. This means that particularly highly indebted countries or companies automatically receive a higher weighting. An active approach can avoid these distortions and deploy capital specifically where the risk-reward ratio appears most attractive.

How does active bond picking work in practice? Above all, it is about utilising all the return levers that this asset class offers. A key return lever for bonds is what is known as "duration" – in other words, a portfolio's sensitivity to interest rates. If capital market yields fall, bonds can also benefit from price gains.

The extent to which a portfolio benefits from this can be specifically influenced through active duration management. The basis for this is correct positioning along the yield curve. This is because it is not only the degree of sensitivity to interest-rate movements that is decisive, but also the maturities in which investments are made.

Depending on the market phase, different segments of the yield curve offer attractive opportunities. Flexible management makes it possible to capitalise on these opportunities in a targeted manner and to deliberately limit risks – for example, at the very long end of the curve.

ACTIVE MANAGEMENT CAN HARNESS ALL SOURCES OF RETURN

Ultimately, however, the same principle applies in any market situation: do not put all your eggs in one basket. The selection of currency areas and regional markets also contributes significantly to the overall return. This is because different economies often do not develop at the same pace, thereby opening up additional opportunities for diversification. In addition, inflation-protected bonds can make the portfolio more robust and have a stabilising effect, particularly during periods of rising inflation.

Flexible strategies can also tap into market opportunities through other sources of return – for example, through the targeted use of options, a selective choice of corporate bonds or opportunistic adjustments to credit risk. But that is not all: there are also additional returns from the so-called “rolldown” effect, which can unlock further potential returns when yield curves develop normally.

A brief summary

Today, a successful bond portfolio relies on far more than just the coupon. Active management opens up numerous additional sources of return – from duration management and positioning along the yield curve to the targeted selection of countries, instruments and credit risks.

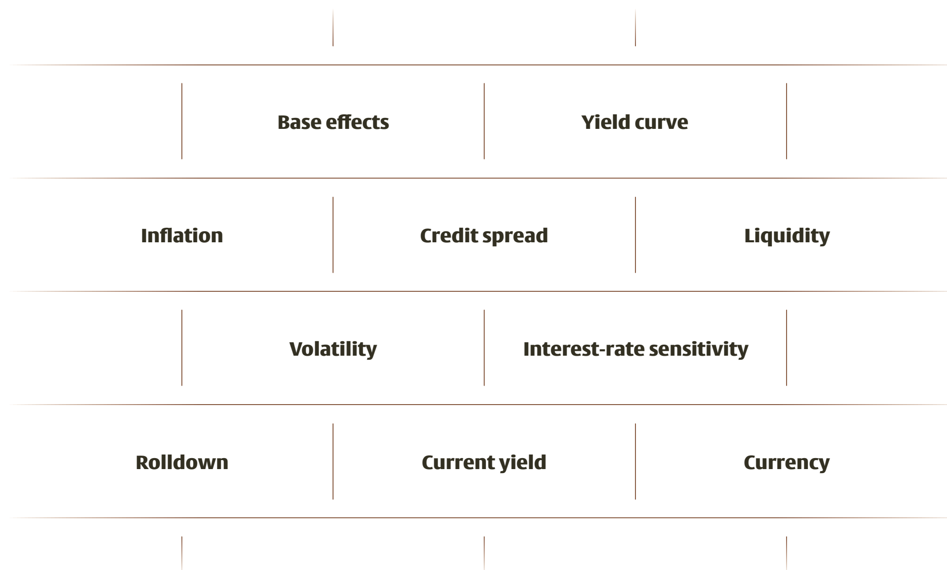


Figure 3
More than just the coupon: many sources of return

Source: Flossbach von Storch

It is the combination of these various sources of return that makes an actively managed bond portfolio more resilient and less dependent on a single market scenario.

Particularly in an uncertain market environment, this flexibility becomes a decisive competitive advantage. ◆

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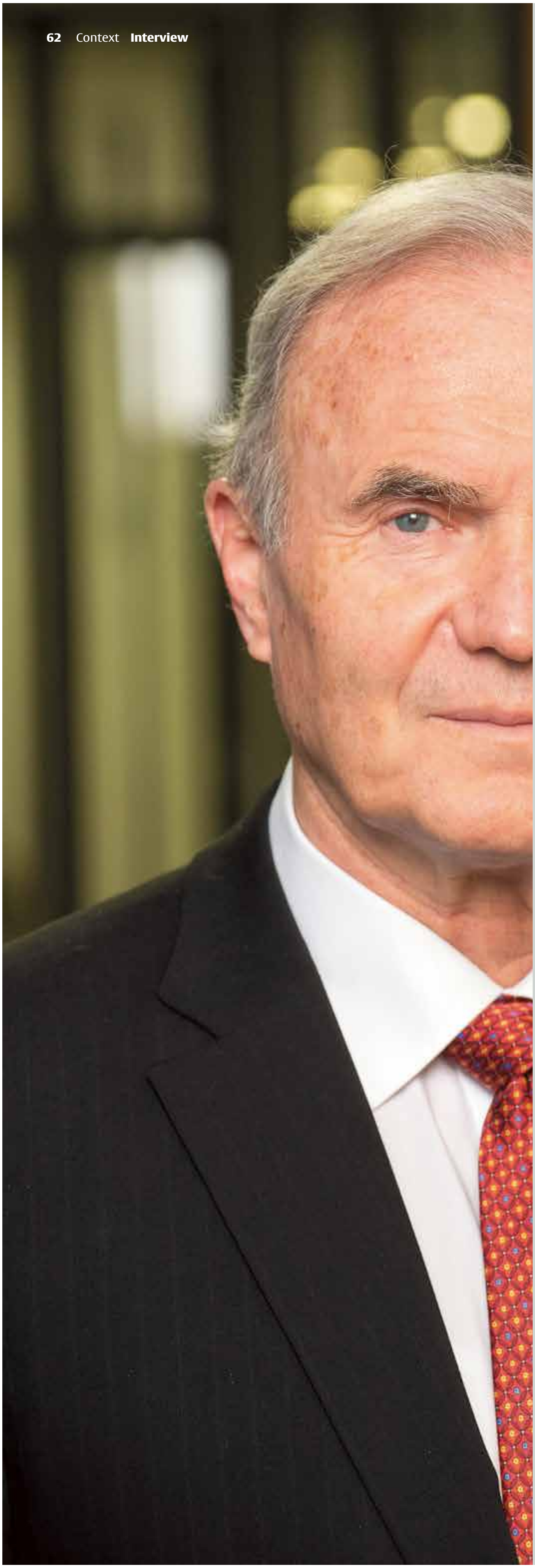

"Is Monetary Policy More Difficult Nowadays, Professor Issing?"

Around the time the euro was introduced, Otmar Issing served as Chief Economist of the Deutsche Bundesbank and later of the European Central Bank (ECB). In this interview with Marius Kleinheyer, Senior Research Analyst at the Flossbach von Storch Research Institute, he discusses his latest book, *"Von der D-Mark zum Euro" (From the D-Mark to the Euro)*. Here is an extract.

Professor Issing, from 1990 at the Bundesbank and from 1998 at the then newly founded ECB, you helped lay the foundations for the introduction of the euro. At the time, some people expected the single currency to fail. One of the best-known sceptics was Nobel laureate Milton Friedman, arguably the most important proponent of monetarism, with whom you were in contact at the time.

Yes, we had a typically American, collegial friendship. When I was appointed to the ECB, he sent me a letter which read as follows: "Dear Otmar. You know I don't think much of the euro. I am convinced that it will fail soon. But as you're now at the ECB, it will take a little longer." After that, he kept extending his prediction of the euro's demise year after year. Whatever one may think of the euro today, after more than 25 years there can surely be no question of it failing.

You moved into your office at the ECB in June 1998. After that, you had about half a year to lay the foundations for the monetary policy that was due to go into action in December. What was it like at the start?

When we started, the carpet hadn't even been laid in my office. There were no statistics. What's more, we were also a small team of just 470 employees, including the lift operator. By comparison, the national central banks had a combined workforce of 55,000 at the time. Critical media outlets such as the Financial Times made fun of us back then. But we were determined to achieve a stable currency. And I'd been given complete freedom by President Wim Duisenberg to develop a strategy for the ECB. In short, this is how the two-pillar strategy came about, the core principle of which still shapes the ECB's monetary policy today: on the one side, monetary developments; on the other, developments in inflation, prices and costs. The data is then examined through "cross-checking", as we called it, and recommendations are derived from this. If the data aligns, it's straightforward. Should the data contradict one another, a decision must be made as to which is given greater weight.

The ECB's inflation target, by contrast, has undergone an interesting evolution. At the launch of the euro, it began at "below two per cent", then it was "two per cent as a target". This then became "two per cent on average" …

… or rather let's say, "in the medium term". After all, "average" implies that deviations must be corrected. The origin of this was that the ECB's Statute states that it is the central bank's task to maintain price stability. But what does that mean? Any ordinary person would say that stable prices mean zero increase in the price level. However, there are objections to this, and the academic community had more or less agreed that the term "price stability" meant two per cent inflation per annum. So, I put forward this proposal – and had everyone on the Governing Council against me.

A difficult situation.

My advantage was that there were three different groups opposed to it. The first said, why should we commit to anything at all? If we miss the target, we'll be criticised. And the Bundesbank didn't have an explicit inflation target either. The second group thought a maximum of two per cent was too ambitious. After all, the annual average inflation rate over the 50 years we had the D-Mark – and it was exactly 50 years – had stood at between 2.7 and 2.8 per cent. So, did we want to be more ambitious than the Bundesbank? And the third group pointed to the inflation rate in the euro area, which at the time was approaching the one per cent mark from above. In light of this, talking about a two per cent target could therefore have been misinterpreted – as if we were doing everything we could to push the inflation rate upwards. As a compromise, we agreed at the time on the wording "below two per cent". It was clear to me from the outset that this would have to be revised at some point. That is indeed what happened, and I think that's fine.

Despite all the doom and gloom, the single currency got off to an extremely stable start. The years up to 2006, when you left the ECB, went smoothly.

To be honest, I do not particularly like the word "smoothly". Getting the euro successfully off the ground was a task unlike →

any that had ever been faced in the history of currency. Eleven sovereign countries had handed over responsibility for monetary policy to a European institution and abandoned their own currencies. So much could have gone wrong. But we had our strategy and announced it two months in advance. I was convinced that we would succeed. However, nobody had expected it to go so smoothly. I have occasionally used the image of an economist from Mars who would be provided with all the statistics for that period. They would then be asked to determine whether there was any indication of a significant event. Long-term interest rates, inflation expectations – there was no spike or dip anywhere.

However, after you left the ECB, that changed rapidly. First came the financial crisis, then the euro crisis, and finally Mario Draghi with his "Whatever it takes" statement. Was that a particularly courageous moment? Or did the ECB use the crisis to assume a particular role?

Let me take a step back. In July 2012, Draghi said, "We will do whatever it takes to save the euro, and we will succeed." A look at the charts of long-term interest rates at the time shows that the spreads – that is, the yield differential between, for example, Italian government bonds and German Bunds, but also between Greek and Spanish government bonds, which had previously skyrocketed – fell back precisely at the moment the statement was made. Seen in this light, it was the most successful communication strategy ever, and the ECB didn't spend a single euro to achieve it.

But that was not the only consequence of Draghi's statement.

What also remains is something very dangerous. For with this statement, the ECB assumed political responsibility for the composition of the monetary union, under the motto that no country should be allowed to leave. That was the fall from grace. An independent central bank – an institution that, by its very design, is entirely apolitical – assumed a responsibility that is, at its core, the responsibility of national governments. But at the time, the governments were neither able nor willing to rescue the situation. The issue was sovereign debt; interest rates on sovereign debt, for which the ECB has no responsibility. And to me, this assumption of political responsibility is a burden that weighs very heavily.

Would you say that it is more difficult today to achieve the ECB's inflation target of two per cent than it was 20 years ago?

To assess that, one would first have to consider various factors. To begin with, there is war in Ukraine and in Iran. This raises a number of questions: how long will these conflicts last? And, related to that, what will happen to oil and energy prices? This could turn out to be a difficult and protracted period, or it might not. But it would probably be a temporary shock.

What else is there to consider?

High levels of debt remain and are likely to increase. In addition, ageing societies face rising healthcare and pension expenditure, while the working population is shrinking. Price stability would now mean that other goods would have to become cheaper. Central banks are facing a very difficult period. And once again: hopefully, this war in Iran is only temporary. Otherwise, it would be an additional shock.

In theory, the agreed Maastricht criteria were supposed to exert fiscal pressure on the eurozone member states. It now seems, however, as though the ECB is shouldering the sovereign debt burden of European countries.

No, it isn't doing that at the moment. But it did so to a large extent during the 2010s. The massive purchase of government bonds at that time primarily benefited the highly indebted countries. At this point, I must once again recall Helmut Kohl. For him, monetary union was a political project. When he presented the Maastricht Treaty to the Bundestag in Bonn back then, he said it would be absurd to create a monetary union without simultaneously creating a political union. At that time, two trains were put on the tracks: one for monetary union and one for political union. But the train on the political track never set off. And so, the monetary union began with the fiscal side as the weak point of the structure.

Why did the Stability and Growth Pact fail?
In 2003, Germany and France had breached the Stability Pact. At the time, Germany had exceeded the deficit ceiling of three per cent of gross domestic product. I then had to witness how Germany prevented sanctions from being imposed. Back then, the Council of Ministers should have followed the European Commission's recommendations and decided on sanctions. But Italy was also struggling, and so the representatives of the three major states blocked the majority, suspended the procedure and instead committed themselves to austerity measures without the immediate threat of penalties. This damaged the Pact so severely that it has never recovered. All the "reforms" that followed have only served to make things increasingly complicated and to strip the Stability Pact of its teeth.

And then public debt spiralled out of control, which is also problematic for monetary policy today, as rising interest rates can create difficulties for individual countries.
We now have higher levels of public debt worldwide than we did after the Second World War. Just imagine that. Historically, the highest levels of debt have always occurred at the end of a major war, which was often financed by printing money. So that is where we stand now, and on top of that we have an ageing population.

Would you say that Eurobonds could be a way forward or a starting point for political union?
No. On the contrary, I am convinced that Eurobonds undermine the idea of political union. Eurobonds, as most people envisage them, are bonds issued to finance European measures, perhaps also distributed to individual countries that cannot afford them. Everyone is liable for them, without the countries having to relinquish their fiscal sovereignty.

Professor Issing, thank you very much for speaking to us.

You can find the full interview in German language here
(You can activate the relevant subtitles)

ABOUT THE PERSON

Otmar Issing
Alongside his academic career (notably, Professor Otmar Issing headed the Institute for Economics, Money and International Economic Relations at the University of Würzburg from 1973 to 1990), Issing was a member of the Kronberg Circle until 1990 and sat on the German Council of Economic Experts. In 1990, he became Chief Economist and a member of the Executive Board of the Deutsche Bundesbank. In 1998, Issing took on the same roles at the then newly founded ECB. He left the ECB in 2006 at the age of 70. For many years afterwards, Issing served as President of the Center for Financial Studies (CFS) in Frankfurt and was awarded an honorary doctorate by Goethe University. The list of his advisory roles is long.

His latest book, *Von der D-Mark zum Euro: Erinnerungen des Chefökonomen (From the D-Mark to the Euro: Memoirs of a Chief Economist)*, was published in German by Munich-based Vahlen Verlag in 2024. In it, Issing reflects on his academic career and his time at both the Bundesbank and the European Central Bank. The book is currently available in German only.

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.

European Long-Term Investment Funds (ELTIFS) – Funds that can invest in private equity, private loans, infrastructure projects or companies that are not listed on a stock exchange.

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

High-yield bonds – Bonds offering high current yields, usually issued by issuers with a lower credit rating.

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 leading index for the Japanese equity market. It tracks the performance of 225 of Japan’s largest listed companies. The Nikkei 225 is a price-weighted equity index.

Portfolio – A collection of investment securities.

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.

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.

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A comprehensive glossary of topics and terms (in German) can also be found at www.flossbachvonstorch.com/glossar/.

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