France at a crossroads

France's political landscape took on considerable momentum in June. Triggered by the results of the European elections, French President Macron decided to dissolve the National Assembly and call new elections at the earliest opportunity.

The decision triggered tumultuous developments in the political arena and on the financial markets. Nevertheless, it can be said that Emmanuel Macron has heard the voice of the people and logically assigned the sovereign the task of distributing political power according to their will. It is fair to say that this approach is consistently democratic, especially as such consistent action in accordance with the will of the electorate is the exception rather than the rule in other comparable democracies. Macron's decision has, of course, caused horror among the prevailing species of power politicians.

After all, the youthful French president has already come up with several positive surprises during his time in office and remains true to himself here once again. Although the forty-six-year-old has rarely enjoyed general popularity in France, he has succeeded in introducing major pension and tax reforms. For decades, such reforms were considered completely unthinkable in France. Macron's active work in strengthening Paris as a financial center and attracting investment from foreign companies must be highly credited to the educated and professionally experienced French president. It is no coincidence that Paris, and by far not Frankfurt, has become the main beneficiary of the UK's BREXIT. However, it should be noted that the French see their president as an elitist. Admittedly, one wonders how a country, an institution or a company should not be led by a certain knowledge and competence elite? In any case, the German path of mediocrity is not an attractive alternative for many countries, however representative the path may be.

A look at the proportions between France and Germany reveals important differences between the two countries. While Germany's gross domestic product is around 45 % higher than that of France, the corresponding German per capita figure is only 20 % higher than its French counterpart. In contrast, the French stock market, measured by the CAC40 index of 40 stocks, is almost 50 % more valuable than the DAX index, which also comprises 40 stocks. Let us also not forget that the median financial assets in France, for example, are considerably higher than in Germany. All in all, this is a disgraceful finding for the German equity culture. A toxic mixture of financial illiteracy and ideological capital market aversion have led to the situation described above. The resulting lower level of prosperity in Germany is the logical consequence of the misguided attitudes of recent decades.

Of course, France's Achilles' heel is its enormous national debt. And the promising candidates for the office of Prime Minister have already announced that they will provide voters with new state benefits. One can only hope that the financial markets will have a disciplining effect on politics. In any case, the political turmoil since the European elections has meant that the Grande Nation will have to shoulder a much higher interest burden. Debt and high interest charges limit the ability of politicians to shape policy. It would be desirable if the people's representatives could remember that debt is a crutch and that crutches are made for the lame. At least that is how the great German humanist Johann Gottfried Seume put it in his travel report 'A Stroll to Syracuse'. It is high time to take this old wisdom as a guide on both sides of the Rhine.

Sincerely yours,

Fund managers and co-investors

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This text was originally published in German.

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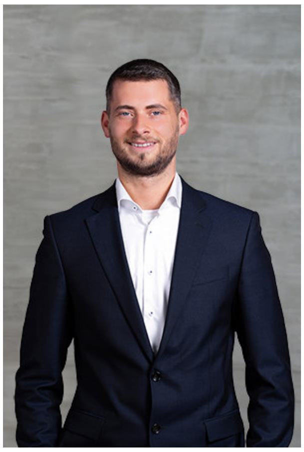

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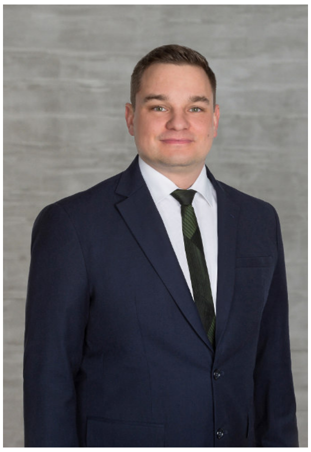

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