



## Friday Morning Coffee

### Nr. 56 — A feel of unease

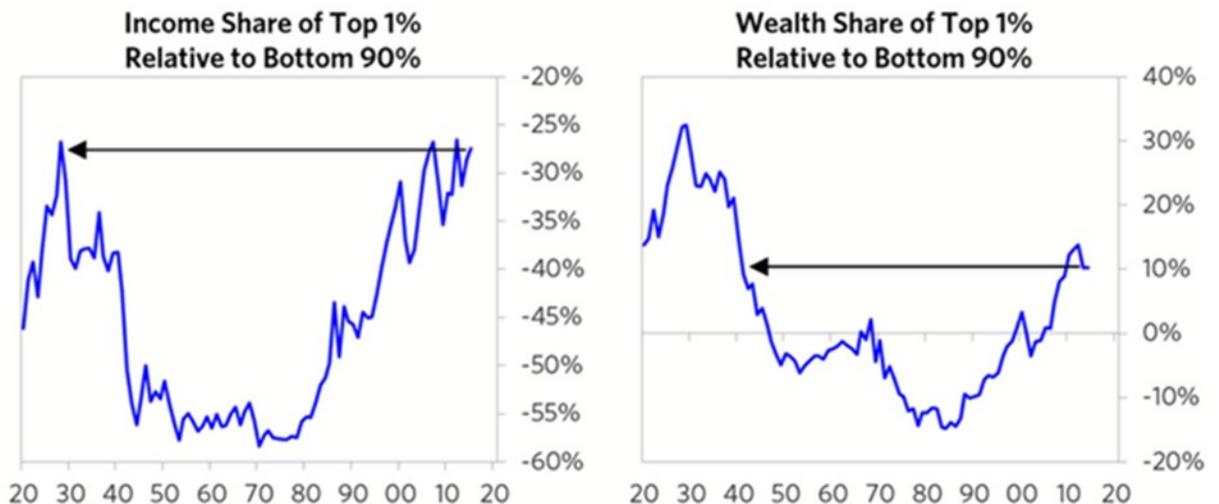
While it is raining here in Luxembourg on the newly created legal holiday where we celebrate Europe, I can not help but voicing a certain feel of unease. Yes, our focus is to pick stocks, to analyse businesses and hence to leave politics to the politicians. We are pure bottom-up investors. However I believe it would be unwise for us to ignore the political and societal developments around us that will ultimately shape the operating environment faced by the businesses we invest in. So, if we like it or not, the success of our investments is influenced by politics, trade policies, monetary policies and societal developments.

The head of the German Young Socialist ( Juso ) Kevin Kühnert proposed recently to socialize big companies like BMW and to expropriate bigger companies owning real estate. We were not surprised by these proposals as the young socialists have a long tradition in making proposals that question the foundations of the German social capitalism. The young Gerhard Schröder for example expressed views close to Marxism when he presided the young socialists at the beginning of the 70's. That did not prevent him to cut social benefits later as a German Chancellor. We were however somewhat surprised by the reactions to Kühnert's proposals. Measuring the media attention he got in the German press and the fierce reactions from the established political parties and the trade organizations, he has definitely touched a nerve. To us it shows the difficulty of our political leadership to provide satisfactory answers to the complex challenges our societies are facing.

**The unequal distribution of wealth in our societies is definitely one of these challenges. The central bank policies put in place to fight the financial crisis have exacerbated the issue: stock markets and real estate prices around the world have increased substantially while wage inflation staid contained making housing for many unaffordable.** Ray Dalio from Bridgewater has summarized the situation in the US very well in a recent article :

*"As shown below, the income gap is about as high as ever and the wealth gap is the highest since the late 1930s. Today, the wealth of the top 1% of the population is more than that of the bottom 90% of the population combined, which is the same sort of wealth gap that existed during the 1935-40 period (a period that brought in an era of great internal and external conflicts for most countries). Those in the top 40% now have on average *more than 10 times as much wealth as those in the bottom 60%. That is up from six times in 1980.* "*

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Source : <https://www.economicprinciples.org/Why-and-How-Capitalism-Needs-To-Be-Reformed/>

Again, we are not in the business of reforming a capitalistic system that has created and is still creating wealth and prosperity for mankind. It is however far from perfect. On our side, **we are not investing in a vacuum and are staying vigilant to all political and societal developments that could harm the ability of companies to generate earning power and hence our ability to generate investment returns.**

I wish you a nice weekend,

Léon Kirch, CFA  
Partner & Chief Investment Officer  
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