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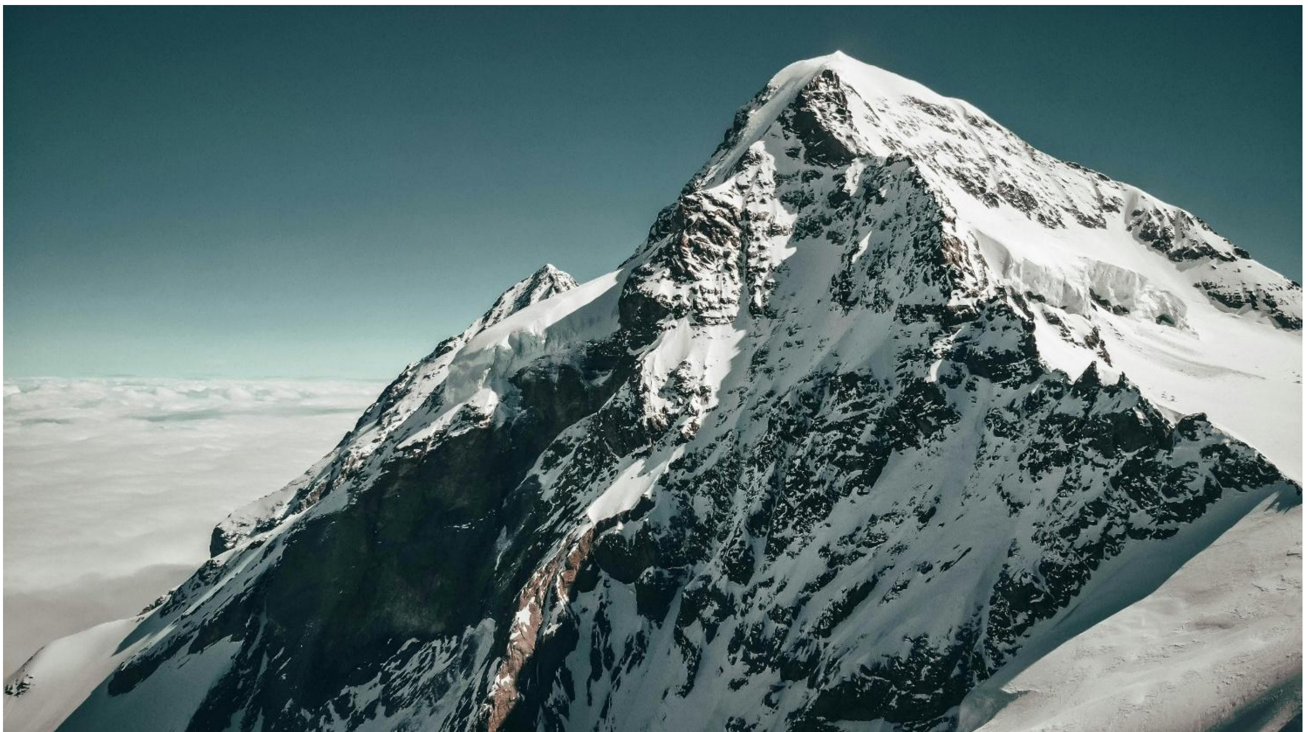

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MEGATRENDS AND THEIR IMPACT ON FINANCIAL MARKETS

The financial markets are continuously evolving, significantly influenced by megatrends. These trends can drive both price surges and declines, making it essential to closely monitor them. Currently, the following trends are particularly pivotal, as they play a crucial role in shaping investments: long-term societal, technological, and economic developments that sustainably impact stock market dynamics.

Digitalization and artificial intelligence

Digitalization and artificial intelligence (AI) are revolutionizing almost every aspect of life. Global data flow doubles every two to three years, with technological advancements driving efficiency, innovation, and automation. AI extends far beyond machine learning and neural networks, encompassing a wide array of applications such as natural language processing, autonomous driving, and personalized medicine. Virtually every sector is being reshaped by these developments. In administrative and intellectual work domains, AI has significantly shortened the time needed to complete tasks, previously requiring hours of human effort.

Digitalization is transforming traditional industries, creating new business models, and accelerating global networking. Companies developing digital platforms benefit from economies of scale, while AI technologies enhance productivity considerably. However, challenges such as data protection and job losses due to automation also emerge.

Technology companies like Alphabet (Google), Microsoft, Amazon, and Nvidia particularly benefit from the growing demand for AI solutions. Industries such as fintech, e-commerce, and semiconductors are intricately linked to digitalization. Companies like ASML and TSMC, critical players in microchip production, are key beneficiaries of this trend. Conversely, companies resisting these changes or operating in regions with heavy AI regulation or constrained workforce restructuring face substantial risks. These limitations can hinder productivity gains from AI. For instance, in Europe, particularly in countries like Germany and France, regulatory measures and trade union influence slow the pace of structural transformation. Although these changes are inevitable, such constraints delay progress for AI-driven companies.

Demographic change

Demographic change, especially the aging population in China, the USA, and Europe, presents one of the most significant challenges and opportunities of the 21st century. In most industrialized nations, the proportion of older individuals is rapidly increasing, while birth rates stagnate or decline. This trend pressures pension and healthcare systems, reduces labor supply, and dampens economic growth.

An aging population alters consumption behavior: demand for healthcare services, medications, and elderly care rises, while consumption of durable goods decreases. Simultaneously, companies face mounting pressure to boost productivity to offset the shrinking workforce. AI plays a central role in addressing these challenges.

Healthcare and pension-related companies are poised to benefit. Pharmaceutical giants like Roche, Johnson & Johnson, and Pfizer, along with nursing home operators and senior-focused product providers, stand out as key beneficiaries. Technological advancements in age-friendly living and telemedicine also offer substantial growth potential. Furthermore, AI can mitigate

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workforce shortages and enhance quality of life for seniors through tools like speech recognition and driverless vehicles.

Health and biotechnology

Biotechnology is at the forefront of innovations aimed at improving lives. Through genetic research, personalized medicine, and AI-driven diagnostics, new and more efficient therapies are being developed. The biotechnology market is expanding rapidly, fueled by significant investments in research and development.

Biotechnology facilitates precise and cost-effective treatments, improved diagnostics, and efficient vaccine and medication production. Given global challenges such as pandemics and antibiotic resistance, the sector plays a vital role.

Leading companies like Moderna, BioNTech, and Amgen spearhead these advancements, while specialized start-ups and lab equipment providers like Illumina also enjoy substantial growth prospects. Investors are particularly drawn to firms with innovative approaches in this dynamic market.

Urbanization

Urbanization is a global phenomenon driven by population growth and the pursuit of better economic opportunities. By 2050, an estimated 68% of the global population will reside in urban areas, with rapid growth observed particularly in Asia and Africa.

Urbanization generates immense infrastructure demands—roads, energy supplies, housing, and public services require significant expansion. Simultaneously, challenges such as air pollution, traffic congestion, and social inequality call for innovative solutions.

Construction, infrastructure, and sustainable technology companies benefit greatly. Siemens and ABB, for instance, develop smart solutions for urban challenges, while real estate developers like Vonovia and AvalonBay Communities capitalize on rising housing demand. Electric vehicle providers like Tesla and BYD are also gaining importance as urbanization intensifies.

Conclusions

Megatrends have a long-term impact on financial markets, creating new opportunities for investors. While these trends bring challenges, they offer substantial prospects for companies and industries capable of adapting. A well-diversified portfolio aligned with these megatrends can deliver attractive long-term returns.

We offer specialized certificates in the AI and biotechnology sectors to enable diversification into these high-growth areas with modest investment amounts:

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GERMANY: FROM EUROPE'S ENGINE TO A CAUSE FOR CONCERN?

Germany, long regarded as Europe's economic engine and a symbol of stability, is now grappling with mounting challenges. Political, economic, and structural issues have led to stagnation and, most recently, even a recession. This development is generating significant uncertainty among citizens and investors. However, these challenges also create opportunities.

The political situation and the challenge of forming stable coalitions

Germany's political landscape is increasingly fragmented. The traditional dominance of major parties—CDU/CSU and SPD—is waning, while smaller parties such as the Greens and AfD are gaining prominence. This fragmentation complicates the formation of stable coalitions. The resulting lack of clear majorities and coherent political goals fosters an impression of paralysis and disorientation in German politics. This uncertainty adversely affects the economy, as businesses hesitate to invest amid political ambiguity.

Causes of Germany's economic difficulties

The automotive sector, a cornerstone of Germany's economy, faces enormous challenges. The global shift toward electromobility pressures German manufacturers, who were slow to transition from internal combustion engines. International competitors, particularly from China, dominate the burgeoning electric vehicle market. Supply chain disruptions and chip shortages further exacerbate these issues, leading to job losses in the automotive industry and its supply chain while diminishing exports. Experts estimate that around 20-25% of German jobs are directly or indirectly tied to the automotive sector, weakening the broader economic structure.

Germany's high wage levels, coupled with steep social contributions and strict labor regulations, strain competitiveness. Consequently, many companies relocate production abroad to cut costs, further undermining the global competitiveness of German products.

An aging population is shrinking the labor force, while younger professionals gravitate toward less labor-intensive industries or seek opportunities abroad. Reduced working hours and a growing emphasis on work-life balance impact productivity, stifling innovation and dynamism in key sectors.

In energy policy, Germany's unyielding phase-out of nuclear power has led to reliance on coal plants and gas imports to fill gaps left by inconsistent wind and solar energy. This approach has resulted in high energy costs, missed climate targets, and increased foreign dependence. Without revisiting nuclear energy, Germany cannot meet CO2 reduction goals or guarantee a secure energy supply.

In addition, elevated energy costs, complex regulations, and slow digital infrastructure development hamper economic progress. Emerging technologies like AI receive insufficient support. German society and politics focus primarily on the risks of innovation, imposing restrictive regulations that diminish the country's appeal as a business destination.

How Germany can regain competitiveness

Flexibility in working hours and reductions in ancillary wage costs would enable companies to create jobs and make investments. Promoting digital skills, STEM education, and lifelong learning

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could address labor shortages and bolster innovation. A reform akin to Gerhard Schröder's Agenda 2010 could incentivize employment and reduce dependence on social security systems.

Targeted support for high-tech sectors, such as AI, robotics, biotechnology, and quantum computing, is essential to maintain technological competitiveness. Simultaneously, innovation should be less constrained by excessive regulations. Entrepreneurs require simplified bureaucracy, tax incentives, and improved access to venture capital. These measures could foster new industries and job creation.

Reducing electricity costs through targeted subsidies, faster renewable energy expansion, and a revival of nuclear energy would enhance industrial competitiveness. Investments in hydrogen technologies could also contribute to long-term energy security.

Comprehensive digital infrastructure expansion and accelerated administrative processes are crucial for boosting productivity. While company formation is increasingly streamlined in other countries, regulatory hurdles and bureaucracy make it challenging in Germany. Particularly in construction, slow approval processes and stringent regulations hinder new developments despite housing shortages.

Germany must pursue a new "Agenda 2010" encompassing labor market and social reforms alongside digitalization and energy policy updates. The past 14 years have been marked by regression and the erosion of earlier progress. It is to be hoped that a future government will take decisive action to resolve these issues, including energy reforms.

Winning and losing sectors in Germany

- Losing sectors:
  - **Automotive industry:** Undergoing significant structural shifts.
  - **Energy-intensive industries:** Chemical and steel sectors struggle with high energy costs and stringent environmental regulations.
  - **Retail:** Traditional business models face pressure from online commerce.
- Winning sectors:
  - **Technology and digitalization:** Companies in AI, big data, and cybersecurity have global potential.
  - **Healthcare:** Aging populations drive demand for healthcare services and medical technology.
  - **Logistics:** Germany's central location in Europe benefits from the growing importance of e-commerce.

Conclusions

Germany's challenges stem from both political and economic issues. The decline of the automotive sector, high labor costs, and waning motivation to innovate hinder competitiveness. However, targeted reforms, investments in future-oriented industries, and stronger European collaboration could restore Germany's position as Europe's economic powerhouse. Achieving this requires decisive, long-term measures. Until these issues are resolved, caution is advisable in the German market. Investments should prioritize companies that adapt well to current conditions. Reassessing the situation after the next elections will be essential.

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UNCONVENTIONAL SOLUTION TO THE DEBT PROBLEM: CENTRAL BANKS WRITE OFF GOVERNMENT BONDS

The debt problem of many nations has reached unprecedented levels in recent years. Some politicians have proposed that central banks write off government bonds they hold to alleviate national debt. But what are the potential benefits and risks of such an approach?

Government bonds held by central banks

In numerous countries, central banks hold a substantial portion of national debt. In the United States, the Federal Reserve Bank (FED) owns about 25% of the national debt, amounting to around USD 33 trillion by the end of 2023. These bonds were mainly purchased during quantitative easing programs to stabilize the economy during crises such as the 2008 financial crisis and the COVID-19 pandemic.

The European Central Bank (ECB) follows a similar strategy. By the end of 2023, the ECB held roughly 30% of member states' government bonds, acquired through initiatives like the Pandemic Emergency Purchase Programme (PEPP) and the Asset Purchase Programme (APP). The proportion of bonds held by the ECB is particularly high in heavily indebted nations such as Italy and Spain.

Writing off government bonds as a solution

A radical proposal involves central banks forgiving the debt by writing off government bonds they hold. This would immediately reduce debt-to-GDP ratios and free up fiscal resources, as interest and principal repayments on these bonds would no longer be required. Theoretically, this could allow for investments in critical areas like infrastructure or climate protection. Advocates argue that the asset side of a central bank's balance sheet is irrelevant, making this step appear cost-free.

However, such write-offs could have far-reaching negative consequences. While central banks cannot technically go bankrupt, this approach would severely impair their balance sheets. Such over-indebtedness could undermine confidence in the independence and seriousness of central banks, damaging trust in monetary policy. Additionally, central banks would lose their ability to act effectively if they lack the resources to repurchase issued currency.

Risks: inflation and currency depreciation

One significant risk is rising inflation. If part of the money supply is no longer backed by central bank reserves, prices in the economy could increase, potentially triggering uncontrollable inflation.

Investor confidence in the currency might also wane, leading to currency depreciation. This would result in higher import prices and further inflationary pressure. Simultaneously, the attractiveness of government bonds denominated in that currency would diminish, complicating future refinancing efforts for the state.

Moreover, writing off debt might signal that governments are incapable of addressing their debt issues through sustainable fiscal policies. This would undermine the credibility of both the affected states and their central banks, discouraging investment and destabilizing the economy.

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Conclusions

Writing off government bonds held by central banks might seem like an easy solution to the debt issue. However, the risks—ranging from inflation to currency depreciation and loss of credibility—make it a precarious experiment. Sustainable fiscal reforms, coupled with a strategic mix of growth-oriented policies and debt management, remain the prudent path to long-term stability. Nevertheless, it cannot be entirely ruled out that heavily indebted nations may eventually resort to such measures. For investors, this would be a clear signal to distance themselves from the affected states.

Emerging markets are particularly vulnerable, as they often resort to similar measures or declare state bankruptcies to escape debt. Argentina's nine state bankruptcies exemplify this risk, raising questions about why investors repeatedly fund the nation despite its history of defaults.

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RISING NATIONAL DEBT

National debt has become one of the most pressing economic issues of our time. The relentless increase in national debt is a contentious topic, with implications for both investors and society at large. It raises the fundamental question of whether financial system stability is more endangered by the debt itself or by extreme measures to reduce it.

National deficits and debt levels as of the end of 2023

National debt levels vary significantly across countries, shaped by historical developments and economic policies. The following table illustrates debt ratios (as a percentage of GDP) and deficits for selected nations:

Country	National debt (% of GDP)	Deficit (% of GDP)
USA	124%	6.3%
Japan	260%	5.5%
Germany	66%	2.1%
France	111%	4.8%
Italy	144%	5.6%
Eurozone	91%	3.7%
Switzerland	26%	[0.8]% (Surplus)

The data highlight that Japan and Italy face exceptionally high debt ratios, while Germany appears relatively stable. The USA and France occupy a middle ground but contend with substantial deficits. The current debt levels underscore the extent to which present generations are living at the expense of future ones, which will bear the burden of repayment or, at minimum, servicing the debt.

Negative consequences of rising national debt

One severe consequence of mounting national debt is the interest payment burden. In the USA, interest payments on national debt reached approximately USD 900 billion in 2023, surpassing the Department of Defense's budget. These interest costs perpetuate deficits, driving an endless debt cycle. Rising interest rates further exacerbate the problem, crowding out funding for critical areas like education and infrastructure, thereby impeding long-term economic growth.

High debt limits governments' ability to implement fiscal stimulus during crises. For example, during the COVID-19 pandemic, heavily indebted nations like Italy and France quickly exhausted their capacity for fiscal intervention. Such limitations can also lead to political instability, as citizens demand robust government support during economic uncertainty. Rapidly mobilizing financial resources for emergencies often exacerbates deficits, as seen in Spain following severe floods.

High national debt can also crowd out private investments. The state's significant demand for capital drives up interest rates, making it more expensive for private entities to borrow. This stifles economic growth, as businesses and households have reduced access to affordable credit.

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Small and medium-sized enterprises are particularly affected, as they rely on favorable financing conditions to invest and create jobs.

A critical risk of high national debt is eroding investor confidence in a state's repayment capacity. This can lead to a collapse in the bond market, as seen during the Euro crisis when Greece temporarily lost access to affordable borrowing. Drastic austerity measures and a severe recession ensued. If a larger economy, such as Italy, were to face a similar scenario, it would endanger the stability of the entire Eurozone and global financial markets.

Radical measures like state bankruptcy, debt restructuring, or currency reforms often result in significant debt devaluation, posing severe risks to investors. Inflation, too, is sometimes used to reduce real debt burdens. Combined with financial repression—requiring banks and insurers to hold government bonds—this approach was effective in Europe after World War II. Current developments suggest that some nations might resort to similar measures again.

Indirect national financing by central banks

Central banks play a pivotal role in financing national debt by purchasing government bonds and increasing the money supply. While this can lower financing costs in the short term, it carries significant long-term risks.

Expanding the money supply often leads to inflation. For example, the ECB's extensive bond-buying programs stabilized the Eurozone economy during the pandemic but risked driving inflation to uncontrollable levels. Rising living costs are already a pressing issue in many countries.

Moreover, expansive monetary policies can exacerbate wealth inequality. Increased money supply typically first flows into financial markets, inflating asset prices like stocks and real estate, disproportionately benefiting wealthier populations. Meanwhile, lower-income groups are more affected by inflation in everyday goods.

Reliance on central banks for government financing can also create a dependency on low interest rates. As rates rise, highly indebted nations may struggle to meet obligations, challenging central banks to balance price stability and economic support.

Conclusions

National debt cannot perpetually increase without consequence. While moderate debt can finance growth-oriented initiatives, excessive debt poses significant risks. Interest burdens, reduced fiscal flexibility, crowding-out effects, and waning investor confidence present formidable challenges. Indirect central bank financing further exacerbates inflation risks and wealth disparities.

For investors, government bonds entail notable risks. Rising interest rates can erode bond values, even if states repay them at maturity. Investing in corporate stocks or bonds offers historically better long-term returns than government bonds. Currency considerations are also critical, as currencies of highly indebted nations are prone to depreciation. The Swiss Franc, as a stable "safe haven," is likely to remain strong in the coming years.

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