

POSITION

Thought-provoking issues for investors



WHAT REMAINS OF THE DOLLAR

THE EURO

It would be much better
in digital form

TECH STOCKS

Valuations are currently
very high

GOLD

Still considered the currency
of last resort



Attack is the best form of defence, as the saying goes. Donald Trump rarely seems to be anything but in “attack mode.” For the US President, the law of the jungle prevails – at home in the United States, as well as abroad. This is felt not only by the heads of government of other countries, but also by the Chair of the US Federal Reserve (Fed), Jerome Powell.

Trump calls him a wasteful fool who has already cost the USA a great deal of money – because he has no control over the cost of renovating the Fed headquarters, but above all because he refuses to finally lower interest rates!

Such attacks on the head of an independent institution are certainly not a mark of glory. But Trump cares little about that. He wants lower interest rates. He needs lower interest rates to get the national budget under control. And with his repeated attacks on the Fed, he is damaging international investors’ confidence in the reliability of the USA, especially in the US dollar.



Flossbach von Storch
POSITION 3/2025

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

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IN A WORD

Share prices have continued to rise on the stock markets of late. Despite Donald Trump’s erratic policies. Despite his tariffs. Despite the wars in Ukraine and in the Middle East. Many investors inevitably ask themselves how this all fits together. The question is justified. And the answer is probably well known.

The topic of artificial intelligence (AI) is currently overshadowing many issues that could potentially harm the capital markets. The investments made by the large tech companies are impressive, even enormous – and the expectations for these investments are even greater. Whether they can actually be fulfilled in the long term is difficult to predict with any degree of certainty. We are and remain sceptical.

For history has taught us one thing: when the best is priced into the stock market, it usually doesn’t take much to convince investors of the opposite. And then the euphoria is over ...

From an investor’s perspective, this means that these days it can’t hurt to look at companies outside the tech sector. To consider business models that may appear less spectacular than the supposed AI winners. To focus on business models whose long-term earnings potential is reasonably reliable and therefore easier to assess than that of the ‘high-flyers’ – and whose share prices have recently taken a beating. One or two consumer goods manufacturers, for example. In short: ‘boring’ stocks.

That is certainly not meant in a negative way. Long-term investing should, ideally, be as “boring” as possible.

Notwithstanding this, we hope you find this issue interesting.

Kurt von Storch
Founder and Owner of Flossbach von Storch SE



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POSITION
3/2025

WORLD VIEW

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Tariffs

More and More Obstacles

World trade is anything but free. Trump is not alone to blame for this.

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Gold

The Vaults are Filling Up

The major central banks are buying gold – on a large scale. And they are likely to continue doing so.

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MORE AND MORE OBSTACLES

Agnieszka Gehringer

Donald Trump has been making headlines with his tariff policy. But a study reveals that the world has been stuck in a protectionist quagmire for quite some time now.

Every mainstream-trained economist values cross-border free trade. Since Adam Smith, the advantages of the division of labour have been recognised, and since David Ricardo, the benefits of specialisation in international trade have been understood. Protectionism or restrictions on free trade undermine the welfare gains of cross-border free trade. It is therefore no surprise that US President Donald Trump's tariff policy has been unanimously condemned by mainstream economists.

The economists' sermons leave Trump cold. Before his election, he said: "For me, the most beautiful word in the dictionary is 'tariff', and it is my favourite word." And shortly after being elected, he presented a bizarre list of 'reciprocal' tariffs with rates of up to 50 per cent. Fortunately, the tariff schedule has so far proved to be mostly theatrical thunder. Instead of being implemented one-to-one, it merely opened the door to negotiations.

The actual tariffs were lower on average than the 'reciprocal' tariffs, but still higher than before. Despite Trump's partial retreat, the fundamental question remains as to how the USA's trading partners should respond in the best possible way, especially the European Union (EU). From an economic perspective, refraining from countermeasures could even increase prosperity for Europeans. This is what theory and history show.

But the fact is that the Europeans too are already pretty deep in the quagmire of protectionism.

PROMOTING PROSPERITY THROUGH FREE TRADE

David Ricardo published his magnum opus in 1817. In his famous example of the advantages of free trade, England specialises in the production of cloth and Portugal in the production of wine. Because each country does what it does best, the total production of both goods rises. As a result, the English can consume more imported wine and the Portuguese more imported cloth than they could without free trade.

If Portugal were to introduce tariffs on cloth imports, Portuguese demand for imported cloth would decline. England would then have less income and could afford less Portuguese wine. And prosperity would decline in both countries. If England were to retaliate by imposing tariffs on imported wine, English consumption of Portuguese wine would decline even more, and the Portuguese would buy even less imported cloth. The loss of prosperity would strengthen.

To break out of this downward spiral, English textile producers could lower their export prices, which could neutralise the effect of the tariffs, so that the volume of trade would remain roughly the same. The Portuguese state would receive tariff revenues and be the winner in the short term. However, if the price reduction were accompanied by an increase in productivity, the English would win. This is because cloth would also become cheaper for domestic consumers. Demand and production would therefore rise, and the additional tax revenue for the British government

could ultimately exceed the customs revenue for the Portuguese government. The losers would be Portuguese consumers, who would have to pay higher prices for cloth.

So, David Ricardo's advice would be no counter-measures against customs duties.

LESSONS FROM HISTORY

History also shows how high tariffs can negatively affect an economy. In June 1930, US import tariffs were set to increase by 20 per cent. At the time, 1,000 economists signed a letter to incumbent US President Herbert Hoover to persuade him to veto the bill after it had passed the House of Representatives at the second attempt. An unprecedented move!

This strong resistance was not based solely on theoretical convictions. The Fordney-McCumber Tariff Act had been in force in the USA since September 1922, and five years later import duties on selected goods averaged 38.5 per cent. Major European economies had already imposed counter-tariffs, for example on cars, which hit parts of US industry hard. The Tariff Act was intended to impose a further 20 per cent on a total of 20,000 products from 1930 onwards.

After it was signed, what economists had predicted to their president came to pass: the new law triggered retaliatory measures, world trade collapsed, domestic consumers were hurt by rising prices, and the economic downturn sharpened. The latter led to the Great Depression. →

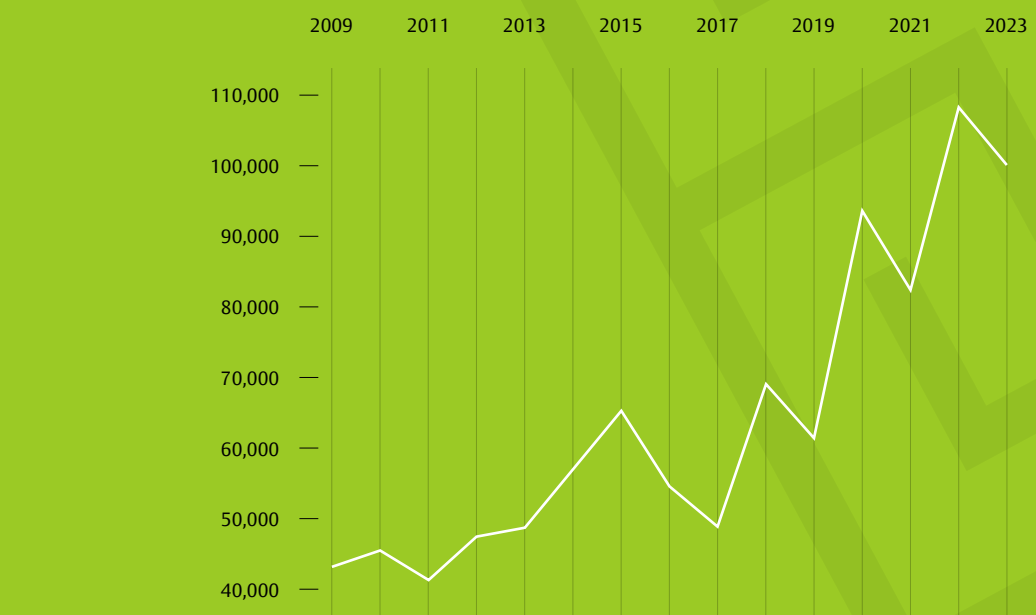


Figure 1
Total number of government interventions worldwide that discriminate against foreign economic interests.

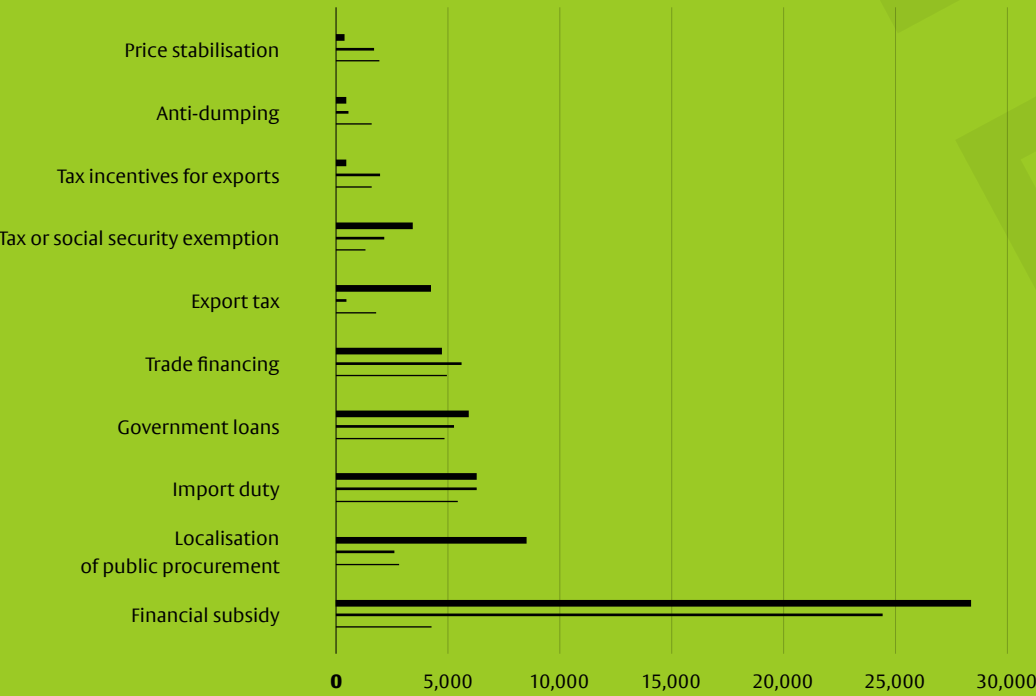


Figure 2
The 10 most important government interventions worldwide in 2009, 2015 and 2023

— 2009
— 2015
— 2023

Source of all figures:
Flossbach von Storch
Research Institute's own
representation based on Global
Trade Alert (GTA) database.
data as at 15 November 2024

History therefore also warns against losses in prosperity when customs duties are increased.

PROTECTIONISM HAS LONG BEEN IN VOGUE

And just as an extremely restrictive foreign trade policy had already gained ground in the USA from 1922 onwards, the wave of protectionism was already well advanced when Trump held up his tariff boards on “Liberation Day” last April.

Surveys by Global Trade Alert (GTA) – a comprehensive database that collects detailed information on various forms of government intervention that affect economic relations between countries – show that the current wave began shortly after the great financial crisis. However, the first noticeable acceleration in measures aimed at harming trade competitors occurred more recently, namely during Donald Trump’s first presidency from 2017 to 2021 (see Figure 1).

However, the nature of protectionism – in terms of the measures taken – has changed. While Trump’s stated preference for tariffs continues, both the USA and other major global players are increasingly turning to alternative forms of government intervention that (are intended to) harm foreign trade interests. Apart from the classic standard instruments of tariffs and quotas, a new form of protectionism has emerged in recent decades, comprising a long list of barriers to free international transactions that are less obvious and more subject to the

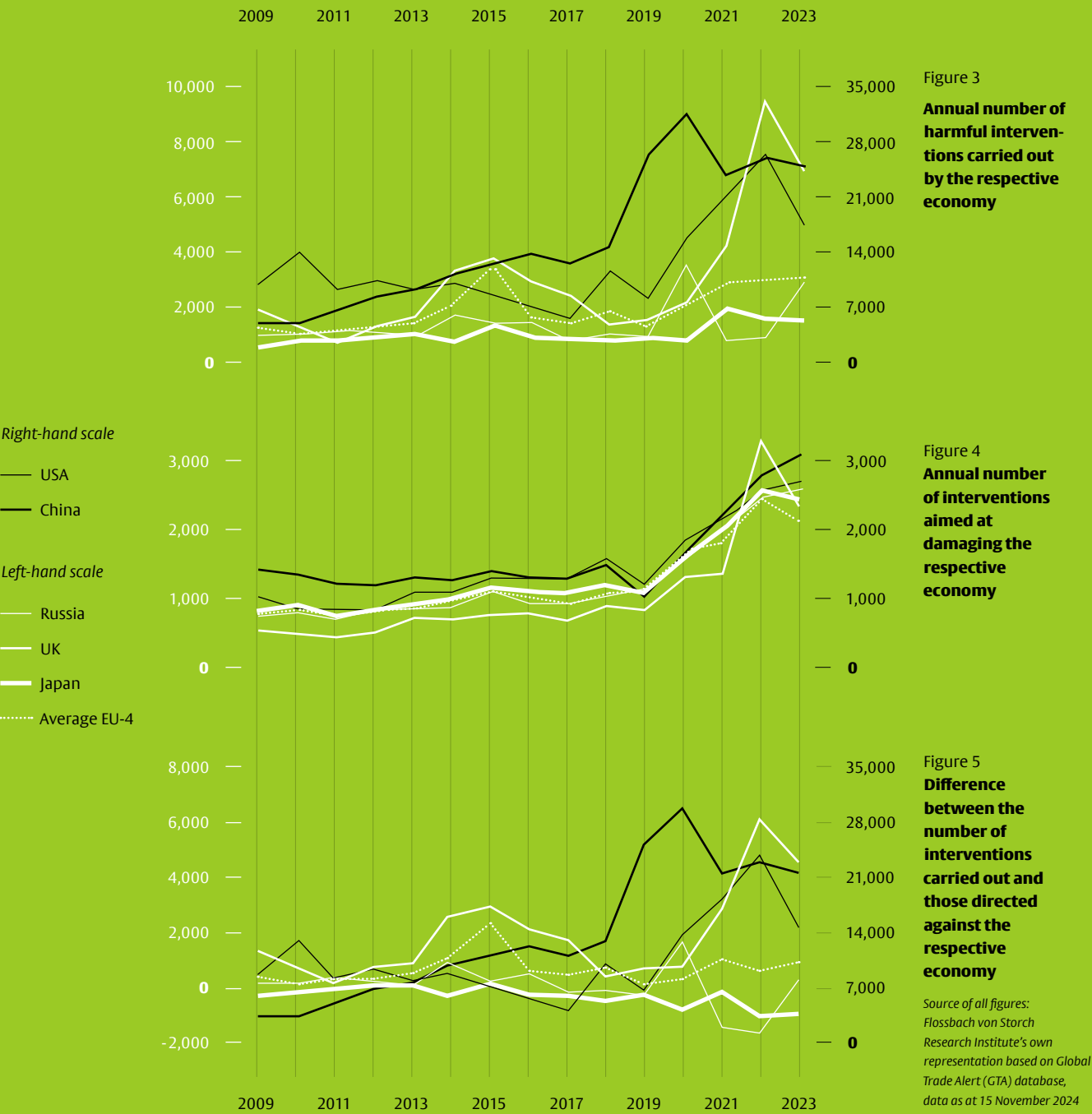
discretion of foreign trading partners. These barriers are politically easier to justify and implement.

The GTA database lists a total of 57 variants of protectionist measures, which are divided into nine categories. The interventions recorded range from national legislation to contractual terms and conditions of individual government agencies. Each database entry contains information on the direction of the change (harmful to trade or liberalising), the announced policy instrument, the sectors affected by the declaration, and the trading partners potentially affected.

Based on GTA data, most government interventions since 2009 have been discriminatory. Among the harmful interventions, import duties, trade finance and government loans were the most frequently used measures in 2009. Although they remain high on the list of preferred interventions, financial subsidies and public procurement had gained significantly in popularity by the end of 2023 (see Figure 2).

It is important to note that the GTA database probably even underestimates government intervention, especially in cases where protectionism is embedded in regulations, subsidies or tax policies that do not explicitly fall under trade-related policies. This seems to be the case, for example, with environmental regulations, which are frequently adopted in the EU, or with fiscal incentives that include domestic content requirements, such as the Inflation Reduction Act in the USA. These measures are more difficult to classify as trade interventions.





**USA LEADS THE WAY
IN PROTECTIONISM**

Nevertheless, according to the GTA data, the USA and China were the world leaders in implementing protectionist measures at the end of 2023. In particular, the trade war with China instigated by the first Trump administration led to a significant increase in harmful trade policy interventions by both countries compared to the rest of the world. With the war in Ukraine, Russia also became an avid issuer of measures that harm its trading partners. The four largest EU countries (Germany, France, Italy and Spain – EU-4 average) also stepped up their harmful measures. However, the level here was (still) well below that of China and the USA (see Figure 3).

If we now consider the number of harmful interventions affecting the respective economies, we see a similar level among the major global players, even though they, like the EU-4 average, implemented significantly fewer measures in line with the GTA yardstick (see Figure 4).

Finally, a comparison between the harmful measures implemented by the countries themselves and the number of measures introduced by third parties that affect the national economy shows a positive balance, particularly in the USA, China and Russia. The result is also positive for the EU-4. In other words, more interventions were carried out by the countries themselves than measures were imposed that affected the respective national economies. In the United Kingdom, the balance turned negative after Brexit. In Japan, too, it remained almost always negative (see Figure 5).

WHAT TO DO?

The likelihood that this wave of protectionism will escalate into a negative-sum game is therefore high and rising with the growing intensity of harmful government intervention worldwide. With Donald Trump taking office, another wave of new US tariffs is heading towards the USA's trading partners.

Past experience has shown that the negative effects of protectionism are likely to go beyond tariffs, as non-tariff measures are gaining in importance and encompass a wide range of harmful measures. These measures shift resources to less efficient domestic industries.

Either way, all parties involved ultimately face economic losses that are likely to be unevenly distributed. After all, free trade creates prosperity, while trade barriers reduce it. This centuries-old economic law remains unchanged today. It is therefore not advisable to respond to tariffs imposed by a trading partner with counter-tariffs. Refraining from countermeasures avoids a downward spiral of prosperity and companies in the affected country also receive incentives to increase their productivity.

For the current trade dispute between the USA and the EU, this means that the USA will lose out in any case as a result of the trade barriers. The EU, however, will only lose out if it responds to the US tariffs with counter-tariffs. ♦

Prof Agnieszka Gehringer works at the Flossbach von Storch Research Institute.



What Remains of the Dollar →

The US currency has recently depreciated against other currencies to an extent unseen in decades. Once again, the dollar privilege enjoyed by Americans is being called into question – and rightly so?

Bert Flossbach

The story of the end of dollar dominance has been written many times; numerous (specialist) books have been filled with the topic. Recently, this ‘genre’ is said to have experienced a small surge in demand. At least, that is what a publisher known to us has reported – anecdotal evidence.

In fact, the US dollar has frequently made headlines in (business) newspapers in recent weeks and months. The reason: after a long period of strength, the US currency has recently come under significant pressure against other currencies. Investors from the eurozone who have invested in US equities or bonds have experienced this to their cost.

The closely watched dollar index, which tracks the performance of six currencies

against the dollar, lost around 11 per cent in the first half of the year (see Figure 1). This was the sharpest decline in the first half of a year since 1973.

The reason for the growing scepticism towards the world’s reserve currency is the US president’s policies, which do little to inspire confidence – his budget policy (‘Big Beautiful Bill’), the accompanying growing mountain of debt, and, last but not least, the recurring and increasingly fierce attacks on the US Federal Reserve (Fed) and its Chair, Jerome Powell.

WHEN THE ALARM BELLS RING

The Fed is an independent institution. It pursues an ‘apolitical’ monetary policy,

or at least it is supposed to. It is committed to two goals alone: monetary stability and economic prosperity in the United States. When a president, as Donald Trump is doing, tries to use the central bank for their political goals, alarm bells ring on the capital markets.

What is remarkable is not only the regularity of the attacks, but above all the vehemence with which Trump repeatedly attacks Fed Chair Jerome Powell, a Republican whom he himself once installed.

For example, he called him the “dumbest and most destructive person” in front of rolling cameras. Or accorded him the sobriquet “TOO LATE”, because Powell stubbornly refuses to comply with Trump’s wishes for quick and significant interest-rate cuts. So, it comes as no surprise that the US president is pushing ahead undeterred for changes in the Fed’s powerful committee.

Trump’s construction site visit fits in with this. Together with Powell, he inspected renovation work at the Fed’s headquarters in Washington at the end of July. He criticised the Fed chief for letting the costs get out of hand. When Powell shook his head, Trump took a document out of his jacket pocket that was supposed to document this waste – it had just been discovered, Trump whispered. Powell put on his reading glasses and said that the president had added a building to his “calculation” that had already been completed five years ago. Stromberg couldn’t have thought it up better himself ...

Powell’s term as Fed Chair expires in May 2026. Until then, he must take on the role of scapegoat for Trump. Whenever things go wrong somewhere, Trump can blame him or the Fed.

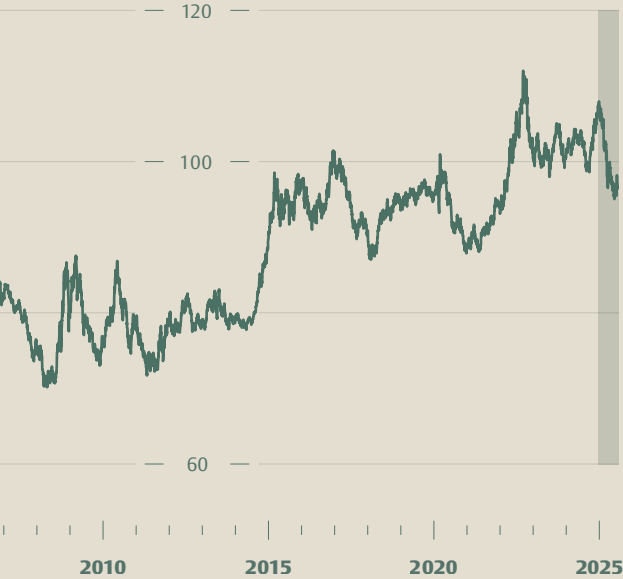


Figure 1
Loss of trust – The world’s reserve currency becomes a political issue
Dollar index: US dollar performance against a basket of six currencies (indexed to 1 January 2000 = 100)
Past performance is not a reliable indicator of future performance.
Source: Bloomberg, Flossbach von Storch, data as at 15 August 2025

POSITIONS FOR LOYALISTS

Trump’s goal is to fill as many positions as possible with loyalists who support a loose monetary policy. However, this is not so easy, because reappointing the Fed chair is not enough. Interest-rate decisions are made by 12 voting members, and Trump can only

replace two of them before the end of his term. If Trump had a completely free hand here, the dollar would probably have fallen much more sharply than it has.

But knowing Trump, that won’t stop him from wanting to gain as much influence over US monetary policy as possible. Also serving this purpose are the public discussion about Powell’s possible successor and hasty nomination before the year is out – an unusually early date that sends a clear signal.

This could result in the installation of a shadow chair who would influence market expectations of future interest-rate policy well before the actual change in office, reducing the incumbent central bank chief to a lame duck.

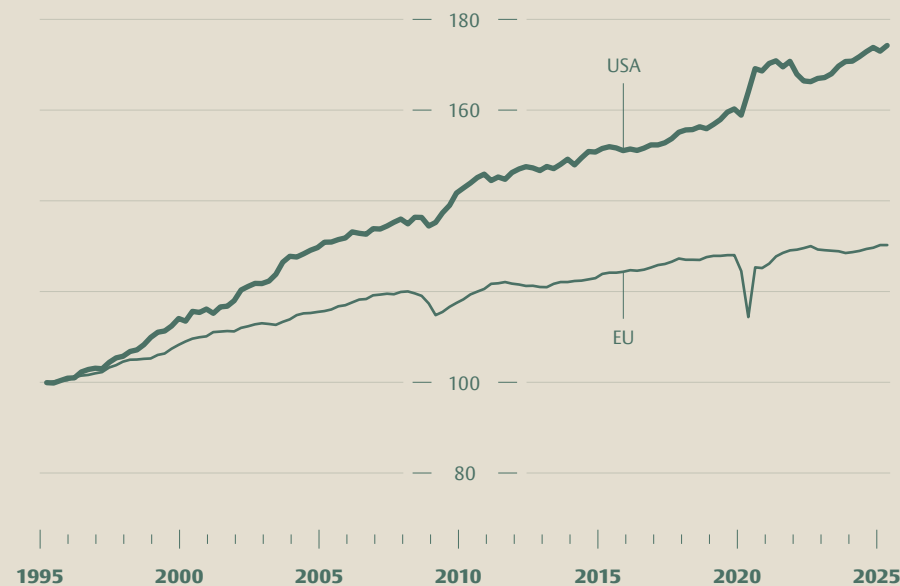


Figure 2
Americans are more productive
 Output per worker
 (indexed to 1995 = 100)

Source: Eurostat, U.S. Bureau of Labor Statistics,
 Flossbach von Storch,
 data as at 15 August 2025

IN THE END, SOMETHING ELSE COUNTS ...

Of course, Trump would prefer to take the post himself. Since he is denied this, he will do everything in his power to gradually expand his influence over the Fed. This is unlikely to help confidence in the US dollar.

Ultimately, however, it is a country's economic prosperity that determines the value of its currency. And there is much to be said for the USA – still. The economy is growing robustly, and the labour market remains very stable. Americans make up just four per cent of the world's population, yet they generate more than a quarter of global economic output and around a third of global corporate profits. According to estimates by the European

Commission, US companies account for 42 per cent of global spending on research and development. The figure for software development is as high as 70 per cent.

This is a key reason for the high level of productivity in the USA, which has risen significantly more than in Europe over the past 20 years (see Figure 2). Productivity growth accelerated again after the 2008 financial crisis. This is due to massive investment and innovation in the high-tech sector. The major technology companies have established a dominant global position, which is also reflected in significantly higher stock-market valua-

tions. At the end of 2008, the market capitalisation of the companies included in the S&P 500 was only USD eight trillion. Most recently, it was over 50 trillion, which is more than six times as much.

FOR A LACK OF ALTERNATIVES

Alexis de Tocqueville described the USA in his 1830s work "Democracy in America" as a unique country characterised by democracy, individualism and equal opportunities; a country that differed from European societies due to a special combination of freedom, religion and economic progress.

For decades, the dollar has been in demand worldwide as a store of value. Trade in the most important raw

For this reason, once again,
 it is premature to talk
 about the "end of the dollar".
 Above all because – quite simply –
 there are no real alternatives.

materials is largely conducted in US currency. No economy has such a 'deep' capital market as the USA.

In this respect, it is too early to write off the dollar – even this time. Especially since there are simply no suitable alternatives. The euro? It is unsuitable by design. The Swiss franc or the Norwegian krone? Robust currencies, but far too illiquid. China's renminbi? No legal certainty for international investors. The US dollar is still needed.

However, if the US economy weakens and inflation nevertheless remains above the target rate of two per cent, a Trump-loyal central bank chief could ignore monetary stability and place himself/herself at the service of the government. If this happens, the dollar is likely to remain weak.

What does this mean for the future? The dollar's status as a reserve currency is not in jeopardy. However, its importance could decline. Investors, including us, may come to believe that the ideal share of dollars in a global, broadly diversified portfolio should be (significantly) lower in the future than it has been in the past.

Countries such as China have been trying for some time to make their foreign exchange reserves less dependent on the dollar, albeit for more geo-strategic reasons. This can be seen not least in the significant rise in the price of gold in recent years. →

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





→ Putting the Brakes on Growth

History has proven that rising tariffs are not a growth booster. A prominent example is the Smoot-Hawley Tariff Act of 1930, which is described on the US Senate’s website as one of the most disastrous pieces of legislation in the history of Congress.

The aim at the time was to help farmers in distress. In the end, the average tariff burden rose by around 20 percentage points. America’s most important trading partners responded with aggressive counter-tariffs and import restrictions on American goods. US exports to countries that took retaliatory measures plunged by up to 33 per cent. Particularly fatal was the fact that the decline was especially felt in the most valuable American export products, such as cars and agricultural products – even though the law was intended to protect precisely these.

A US deficit in goods trade has been the norm for decades (see Figure 3). Even higher US tariffs will do little to change this. At the same time, the USA enjoys a high surplus in its services balance, which is mainly generated by large US technology companies. This gives the USA’s trading partners, especially the European Union (EU), an advantage, as they could theoretically use the same argument as Trump to impose tariffs on US services in response to trade surpluses. However, such tariffs would hardly be advisable, not least because Trump would view such a move as a provocation and it would likely prompt him to take further counter-measures.

It is still impossible to accurately assess how severely the tariff dispute will ultimately impact growth in the USA and the global economy as a whole – but it has undoubtedly not helped. And there are also question marks over whether the deals recently concluded by Trump will hold up in the longer term. Just a few days after the trade agreement with the EU, the US President had already threatened to raise the agreed tariffs from 15 per cent to 35 per cent if EU companies did not invest the intended amount of USD 600 billion in the USA in the coming years. It therefore seems almost certain that Trump will continue to use his favourite means of exerting pressure, depending on the situation and mood. ♦

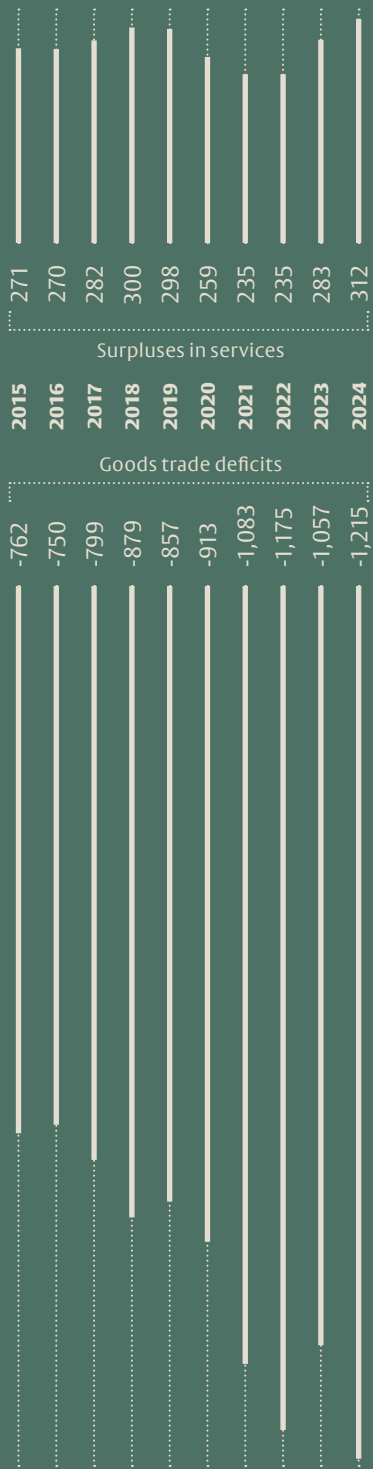


Figure 3
Historical imbalance
US deficits in goods trade and surpluses in services
Source: LSEG Datastream, Flossbach von Storch,
data as at 15 August 2025

(Not) Made of Sugar!?

**Concerns about the independence
of the US Federal Reserve (Fed)
have flared up repeatedly in recent months.
Are these concerns justified?
We take a look at the resilience of the
world's most powerful central bank.**

Julian Marx



Karoline Leavitt, the 28-year-old Press Secretary for US President Donald Trump, is used to dealing with the media.

Every week, she faces questions from the press at the White House. As the US President’s spokesperson, she usually carries notes with her, the contents of which she presents to the cameras. The paper she holds is not normally the focus of the camera lenses.

But on 30 June 2025, things were different. Leavitt held a piece of paper up in the air for all to see. It showed the key interest rates in 44 currency areas, sorted by interest rate, and a few handwritten, somewhat scrawled lines from the US President addressed directly to Jerome Powell, Chair of the US Federal Reserve:

‘Jerome, you have cost the USA a fortune and should lower interest rates significantly!’,
it said on the note. An unmistakable message.

In Trump’s view, the USA should be at the top of this list, with key interest rates of less than two per cent. To his annoyance, however, the United States of America found itself at the bottom of the list with a key interest rate of 4.5 per cent. This added another curious scene to the drama surrounding the direction of US interest-rate policy. In the months leading up to this, Trump had already made numerous attempts to exert political pressure on monetary policy. So far, to no avail.

But concerns remain that political influence could undermine the Fed’s independence. It would not be the first time in the Fed’s history that monetary policy has been guided by the needs of a President.

AN INGLORIOUS PAST

It was the story of two men, one of whom feared for his re-election as US President and the other who was supposed to help him succeed. We are talking about Richard Nixon, the 37th President of the United States (from 1969 to 1974), and Arthur Burns, whom Nixon successfully nominated as Fed Chair in 1969.

Burns was considered an expert in the field of economic cycles. However, there may have been another reason for his nomination. Nixon also valued Burns as a

Republican loyalist from previous encounters. In March 1960, Burns called then Vice President Richard Nixon to warn him that the economy was likely to collapse before the November elections.

Burns is said to have urged him emphatically to do everything possible to avert this development. In vain. Presidential candidate Nixon was unable to persuade President Eisenhower to adopt a more expansionary fiscal policy, and so Nixon blamed a slight rise in the US unemployment rate for his election defeat in 1960.

The defeat hit Nixon hard. It was a fate that should not befall him again. Eleven years later, when he himself was president and the unemployment rate rose from just under five per cent to over six per cent in the course of 1971, Nixon was understandably alarmed. As a result, attempts to exert political influence on US interest-rate policy became increasingly obvious, as tape recordings prove.

When Fed Chair Burns finally visited the US President in the Oval Office on 10 October 1971, Nixon made his position clear: ‘I don’t want to leave town in a hurry,’ he said, apparently referring to the possibility of losing the upcoming re-election. Numerous discussions followed, in which Nixon pressed for a more expansionary monetary policy. Burns was to do him the favour.

And so, Nixon relentlessly sought to undermine the independence of the Fed, just as he had announced to Arthur Burns in October 1969, shortly after his nomination as Fed Chair:

“I know there is a myth about the Fed’s autonomy,” Nixon said.
“My relationship with the Fed will be different from that of [former Fed Chair] Bill Martin. He was always six months late when he wanted to do something. I am counting on you, Arthur, to save us from a recession.”

The rest is history. Nixon won the presidential election in November 1972 with a landslide victory, receiving almost 61 per cent of the votes cast. Meanwhile, US monetary policy in the 1970s was confronted with the so-called ‘Great Inflation’ – high inflation rates resulting from oil price shocks and expansionary monetary and fiscal policies.



Ultimately, it is not at all easy to exploit the Federal Reserve for political purposes. Not even for a President of the United States.

Whether Burns acted primarily in response to political pressure or out of personal conviction in pursuing his expansionary monetary policy will perhaps never be fully clarified. What remains is a bitter aftertaste.

A CRITICAL PRESENT

It remains to be seen how strong the negative sentiment under a US President Donald Trump could become. The fact that Trump can nominate a new Fed Chair because Powell’s four-year term as Fed Chair ends in May 2026 is causing controversy. There is a risk that he could install a Fed Chair whose loyalty lies primarily with Trump and his desire for low interest rates, rather than with the dual mandate of the US central bank.

In this respect, the verbal skirmishes over the possible indoctrination of the next Fed Chair are likely to continue for some time. The practical test will then come next year. However, the question arises as to how far the influence of a ‘misguided’ Fed chair could actually extend.

THE BATON IS PASSED ON

This is because interest-rate decisions are not made behind closed doors in the office of the Fed chair. Rather, they are a majority decision of a 12-member committee, the Federal Open Market Committee, or FOMC for short. And a single US President has only very limited influence over its composition. Only seven of the 12 voting members of the FOMC are nominated by a US President. These seven individuals form the Board of Governors, the governing body of the Federal Reserve System, which is based in Washington, D.C.

The remaining five members of the FOMC are the Presidents of the 12 Federal Reserve Banks, which perform operational duties, such as banking supervision in their respective districts in the United States and, together with the Board of Governors, form the Federal Reserve System. While the President of the Federal Reserve Bank of New York has a permanent seat on the FOMC, the remaining four seats are allocated to the Presidents of the other 11 Federal Reserve banks on a rotating basis. And the US President has no direct influence on the nomination of these 12 Presidents.

The influence of the US President is also very limited when it comes to the seven members of the Board of Governors, whom the President can nominate. This is

because a full term of office for a member is an impressive 14 years. In addition, appointments to the Board of Governors are staggered, with the term of office of one governor expiring every two years. It is precisely this staggering that contributes significantly to the Fed’s political independence. This is because a President cannot use their power to appoint governors to replace all Fed governors during their four-year term and rely exclusively on those who support their policies. During Trump’s remaining presidency, only two terms on the Board of Governors will expire: in January 2026 by Adriana Kugler, who, however, resigned at the start of August and thus vacated her post prematurely, and Jerome Powell, the current Chair of the Federal Reserve, in January 2028. The staggered terms thus ensure stability and continuity in the Board of Governors.

NOT MADE OF SUGAR

All in all, it is not that easy to use the Fed for one’s own purposes. Not even for a US President. The imminent appointment of a new Fed Chair does not necessarily mean that monetary policy will be aligned with Trump’s agenda. After all, the Fed Chair has 11 other members who also have a say and cannot simply be replaced by Trump.

Nevertheless, a ‘misguided’ Fed Chair could cause considerable turmoil at the world’s most powerful central bank. Ideally, however, this should not call into question the independence of an entire institution such as the Fed. To ensure that this remains the case, however, the integrity of those involved is essential. The members of the Fed usually have long and successful careers behind them and are established personalities at the peak of their careers.

If Donald Trump really wants to continue challenging their independence, they are the ones who will be at the forefront of deciding the fate of an institution that is more than a hundred years old.

Let’s hope that the members of the FOMC are not made of sugar and do not want to join the inglorious ranks of Arthur Burns. Then the noise made by Donald Trump should not be able to do much damage to the independence of the US Federal Reserve. ♦

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THE EURO AS INTERNATIONAL RESERVE CURRENCY

At the end of last year, financial journalists and bank analysts were still praising “American exceptionalism”. They were trying to lend gravitas to the exceptional performance of the American stock market. At the start of this year, we pointed out that the analogy with the neologism coined by French aristocrat Alexis de Tocqueville is justified not primarily because of the performance of the stock market, but because of the development of the economy.

Thomas Mayer

The US economy has been impressive for some time with high productivity growth, especially compared to Europe and Japan. At the time, we concluded: “Even today, a correction of previous stock price rises is likely to come sooner or later. However, it would be wrong to conclude from this that American exceptionalism is coming to an end and that conditions similar to those following the bursting of the Japanese bubble economy in the early 1990s are on the horizon.”¹

Since the US stock market began to weaken in early 2025, the same people who recently praised it are now writing off “American exceptionalism”. The correction on the stock market, the decline in the bond market and the weakness of the US dollar are seen as signs that American dominance of the global financial markets is coming to an end. Of course, there are always geopolitical shifts and associated changes in global financial supremacy, from the Roman Empire to the British Empire. However, it seems premature to proclaim the end of the dollar’s dominance. Despite all the weaknesses of the USA, which are particularly noticeable under Donald Trump’s administration, there is still no realistic alternative to the US dollar as an international reserve currency. The British pound is a shadow of its 19th-century self, the Japanese yen is the currency of a shrinking population, and the Chinese yuan lacks any legal certainty.

A much-touted alternative would be the euro. However, in its current state, it is an unfinished currency. Its completion threatens to fail due to the inability of the

European population to form a fiscal and banking union through political unification. However, a political union is only an indispensable prerequisite for a complete currency if it is designed as state money in the form of fiat credit money. In the following, I would like to show that the euro could be completed if it were set up in a different form. It would then also fulfil the necessary conditions that could make it an international reserve currency.

WHAT A RESERVE CURRENCY REQUIRES

The concept of a reserve currency dates back to the era of fixed exchange rates. If the external balance of payments (current account and capital account) fell into deficit, currency reserves were needed to finance this deficit. Otherwise, there was a risk of currency devaluation – and potentially national bankruptcy if the debt was denominated in foreign currency, the devaluation had been delayed for too long, or the balance of payments could not be restored in a timely manner. With the advent of flexible (or “floating”) exchange rates after the collapse of the Bretton Woods monetary system in the early 1970s, currency reserves initially seemed to have become superfluous. However, it soon became clear that foreign exchange markets did not always ensure balance of payments equilibrium smoothly, but could sometimes develop a life of their own, which policymakers sought to counter with interventions. This meant that a reserve currency was still needed.

But what does a currency need to become a reserve currency? It must display at the international level the well-known characteristics attributed to money at the national level. It must therefore (1) be accepted as a global means of transaction, (2) be suitable for storing value, and (3) serve as a unit of account. These characteristics, which are usually listed lexicographically, are interrelated. For a currency to be a global means of transaction, it must be introduced as a unit of account and – in order to be available at the time of the transaction – it must be storable. Similarly, its function as a unit of account depends on it being used as a means of transaction. And the function of store of value is redundant if it is not accepted as a means of transaction and unit of account. On the other hand, the functions as a means of transaction and unit of account cannot develop if the possibility of value storage is lacking.

The US dollar was the reserve currency of the Bretton Woods exchange rate system, which was launched in 1944. There, it had the function of an anchor currency to which other currencies were pegged. Due to the economic importance of the USA for the Western world at that time, the US dollar was also the natural heir to the British pound as an international means of transaction, international unit of account and store of value.

With the end of the Bretton Woods system and the liberalisation of capital markets, global financial markets experienced an enormous boom. The dollar now became

increasingly important as a means of transaction on the international financial markets, where it assumed the status of a global vehicle for liquidity. At the same time, US Treasuries developed into a ‘safe haven’ investment. Their yield serves as a benchmark for the yield of all other financial instruments worldwide.

HOW THE EURO COULD BECOME AN INTERNATIONAL RESERVE CURRENCY

Compared to the US dollar, the euro suffers from three main weaknesses. First, it has uniform credit quality only in the form of cash issued by the European Central Bank (ECB). The quality of deposits created by banks through lending depends on the financial capacity of the states that ultimately guarantee these deposits. This guarantee is likely to be worth more in Germany than in Italy or Greece, for example, due to the country’s (still) relatively solid public finances.

Secondly, international transactions often involve the US dollar, as US banks play a central role as correspondent banks in the Swift network for transfers. This makes it difficult to make euro payments across national borders without the involvement of US institutions. European countries learned this the hard way when they tried to get around the US sanctions on trade with Iran imposed by the first Trump administration and created a payment system independent of the US called INSTEX (Instrument in Support of Trade Exchanges). Implementing the system turned out to be complex and required

As a reserve currency, a foreign currency must be accepted as a global means of transaction, be suitable for storing value and serve as a unit of account.



The first step towards a euro that is 100 per cent digital central bank money would be to create a euro bank deposit that is fully backed by central bank money.



extensive bureaucratic processes that made it difficult to operate. In addition, companies feared US sanctions if they used the system – a risk they were unwilling to take. As a result, INSTEX remained largely ineffective.

Third, the eurozone lacks a safe haven where euro-denominated transaction assets can be parked. In the eurozone, German Bunds are considered a safe haven. The volume of the market for German Bunds may be sufficient for the eurozone to function as a safe haven, even though it is smaller than the market for Italian government bonds. However, the market for German Bunds is simply too small to serve as a global safe haven: its volume is only one-eleventh of the market for US Treasuries.

There is no shortage of ideas for creating a safe European asset denominated in euros. The introduction of “Eurobonds”, for which eurozone countries would be jointly liable, has been discussed for a long time.² Or there are calls to make the issuance of EU bonds, as supposedly issued on a one-off basis for the NextGenerationEU fund, a permanent feature. However, this is opposed by Germany and other countries with sound public finances, as they do not want to assume the default risks of more heavily indebted eurozone countries.

To circumvent this obstacle, US economist Markus Brunnermeier and others have proposed structured bonds called “European Safe Bonds” (ESBies).³ As with collateralised debt obligations, government bonds from eurozone countries would be bundled and

two tranches of the total portfolio covered by them would be issued. A senior tranche would have priority in repayment and would therefore be particularly secure. The junior tranche would serve as a buffer for the senior tranche and carry a higher risk (which would be compensated by a higher yield). However, implementation of this plan has so far failed due to fears among the financially stronger countries that they would be held liable if defaults exceeded the volume of the junior tranche. Furthermore, the creation and administration of ESBies is technically complex and would probably require another EU authority.

However, the introduction of a digital euro offers an opportunity to remove these obstacles. The digital euro could be made available to all users as electronically transferable central bank money, its transfer could be independent of US-related payment systems, and the ECB could issue a “safe asset”.

THE DIGITAL EURO AS
“FULL MONEY”

In earlier publications, I have already described in detail the establishment of the digital euro as “full money”.⁴ The first step towards a 100 per cent digital central bank money euro would be the creation of a euro bank deposit that is fully backed by central bank money. The central bank money required to back the deposit would in turn be backed by government bonds (as proposed in the Chicago Plan of 16 March 1933). Between 2015 and 2022, the ECB purchased large quantities of public and private bonds

in order, according to its own statement, to increase the money supply and thus inflation. In contrast, the secure deposit would replace existing deposits without increasing the money supply.

If the holders of existing deposits transfer their money to a secure deposit, the total amount of deposits and thus the money supply remains unchanged.⁵ To create the reserve coverage, banks could use the large amounts of excess reserves they have already acquired through the settlement of asset purchases for the ECB. They could obtain additional reserves to back deposits by selling government bonds held on their balance sheets to the ECB or, if they do not hold government bonds, by purchasing them on the market in exchange for other assets they hold. If necessary, the ECB could also accept bank loans other than government bonds from banks in exchange for reserve balances and replace these claims with government bonds when they are repaid. This would create a safe deposit and an asset that is just as safe as banknotes, without the need for deposit insurance by governments. In a second step, the secure deposit could be converted into digital central bank money (using distributed ledger technology (DLT) for transfer).⁶

Any future increase in the money supply would take the form of additional purchases of government bonds by the ECB. The purchases would have to be decided independently of political influence and with a long-term perspective. In this way, the growth of the digital euro money sup-

ply could be based on Milton Friedman’s “K-Percent Rule” and aligned with the long-term growth rate of the real gross domestic product (growth potential) of the euro area economy as estimated by a specific international organisation (e.g. the OECD). Changes in the potential growth rate that add up to more than 0.5 per cent in either direction could lead to an adjustment of the algorithm in the context of a “Hard Fork”, provided that the network participants, the “nodes”, reach a consensus on the adjustment (see below). This would mean that money would no longer be an instrument of discretionary economic policy. However, given the destabilising role that monetary policy has played in the credit money system, this would hardly be a disadvantage.

With the digital euro as full money, monetary union would be complete even without fiscal and banking union, as both paper and electronic money would now be an obligation of the ECB and would therefore have a uniform credit quality.

A PAYMENT SYSTEM
INDEPENDENT OF THE USA

The digital euro would be transferred peer-to-peer using DLT, so that all national and international payments could be made outside the traditional payment system dependent on the USA, with decentralised and private verification. To minimise transaction costs and maximise transaction speed, payments could be organised via a permissioned DLT. Private actors accredited by the



With the digital euro as full-reserve money, the monetary union would be complete even without a fiscal and banking union.

The euro could be used as an electronic medium of exchange both within the euro area and globally.

→ ECB, such as banks or software companies, would check and verify the transactions (i.e. take on the role of “nodes”). This would allow the euro to be used as an electronic medium of exchange both within the euro area and globally.

A “SECURE” INVESTMENT
ISSUED BY THE ECB

The idea of ESBies as proposed by Brunnermeier and co-authors has not yet gained widespread support, mainly because of concerns about whether the junior tranche can provide a secure buffer in the event of payment defaults. It also seems difficult to reach a consensus among all the institutions involved on the management structure of the structured bond. This would probably require another EU institution, which would have to be approved by all member states. On the other hand, issuing the safe asset through the ECB would probably encounter fewer obstacles.

Dirk Meyer and Arne Hansen examined the practice of central bank bond issuance in an article published in 2021. They found that “central bank debt instruments ... are, from a historical perspective, a frequently used instrument”.⁷ Of 57 central banks, 41 per cent used the instrument for various reasons, while 33 per cent allowed it but did not implement it, and 26 per cent prohibited it. After examining the legal framework for the ECB, Meyer and Hansen conclude that “the ECB also has this instrument at its disposal in accordance with its Guideline (EU) 2015/510 on the implementation

of the Eurosystem’s monetary policy framework (ECB/2014/60)”. The tradability of ECB bonds is not restricted, but stricter eligibility criteria apply to counterparties for their issuance. The maturity is limited to less than 12 months and the allocation is rounded to EUR 100,000, so that only institutional investors are eligible (Article 39 (1)). However, the maturity limit on ECB bonds need not be an obstacle to their role as a “safe investment”, as their maturity can be extended through maturity extension swaps.⁸

Meyer and Hansen propose issuing ECB bonds in order to collect the money created by the quantitative easing policy. Here, however, the aim is to create a safe European investment. If the ECB issues its own debt securities backed by government bonds on the assets side of its balance sheet, this raises suspicions of state financing. However, if the digital euro is established as full money, as described above, with clear quantitative rules governing its creation, money issuance and bond issuance can be separated. The motive for issuing bonds is to create a safe investment, so that the volume of the issue is determined by the demand for a store of value for the digital euros held as foreign exchange reserves. Neither here nor in the issuance of the digital euro as money should the financing needs of the eurozone countries play a role.

CONCLUSION

At present, the euro is no substitute for the US dollar as an international reserve currency.

Since the euro cannot be held in a safe investment in the necessary volume, its usefulness as a means of transaction and thus also as a unit of account is limited. The issuance of ECB debt securities could remedy this situation.

Conceptually, ECB bonds would be similar to ESBies. The junior tranche would be represented by the ECB’s own capital. There would be no risk of default on the senior tranche because a central bank can operate even with negative equity. However, confidence in a currency and debt securities issued by an issuer with negative equity would be rather low. This circumstance should prompt the ECB to be selective when choosing eurozone bonds that are eligible as cover assets for money and debt securities. Instead of purchasing according to the “capital key” (as in the quantitative easing policy), purchases should be made on the basis of quality. This would also be an incentive for eurozone countries to strengthen their credit quality through sound fiscal policies. ♦

Prof Thomas Mayer is Founding Director of the Flossbach von Storch Research Institute.

1 Thomas Mayer: *American Exceptionalism*. Flossbach von Storch Research Institute, MAKRO 09/01/2025, p. 10.

2 See, for example: “*Now is the time to reopen the Eurozone bond debate*”, Financial Times, 27 May 2025.

3 Markus K. Brunnermeier; Sam Langfield; Marco Pagano; Ricardo Reis; Stijn Van Nieuwerburgh; Dimitri Vayanos: *ESBies: Safety in the tranches*. ESRB: Working Paper Series No. 21 / September 2016.

4 Thomas Mayer: *The digital euro: An opportunity likely to be missed*. Flossbach von Storch Research Institute, Macroeconomics 12 September 2023.

5 For a detailed description, see Mayer (2023).

6 With distributed ledger technology (DLT), several independent entities are responsible for verifying transactions. The best-known example is Bitcoin’s blockchain, where, in principle, anyone can qualify for verification in a competitive process. Another option is a “permissioned” DLT, where a central authority selects the verifiers. In contrast to DLT, in the “central ledger” (CLT) approach, a central authority performs all verification. DLT is likely to enjoy greater trust among users than CLT due to the independence of the verifiers.

7 Dirk Meyer / Arne Hansen: *Inflation control through ECB debt securities?* Zeitschrift für das gesamte Kreditwesen 15 / 2021, p. 19.

8 In a maturity extension swap, two parties exchange the maturities of their bonds. One party receives a longer-term bond in exchange for a shorter-term bond. To ensure that the swap does not result in a deterioration in credit quality, the demand for longer-term bonds could be met by swaps into corresponding German Bunds. To meet demand, the German government could borrow mainly by issuing long-term bonds.



Despite tariff turbulence, despite wars in Ukraine and in the Middle East, share prices are rising worldwide. This is because expectations for artificial intelligence (AI) seem to know no bounds.

THE CRUCIAL QUESTION

Bert Flossbach

At the forefront of the AI investment boom stand the four US corporations Microsoft, Alphabet, Amazon and Meta. This year, they alone are investing more than USD 300 billion in new data centres to build up sufficient storage and computing capacity. By 2030, according to estimates by Bank of America, global investments are expected to rise to around one trillion, 84 per cent of which will be AI-related.

The crucial question is: how can this expenditure be monetised – and how much of the future expectations are already priced into share prices today?

Naturally, new technologies are greeted with great fanfare, especially when they are ground-breaking innovations, such as AI. How much money can be made from them is secondary at first. From a business perspective, the main concern is that one of the competitors could dominate the market.

WHAT IS THE GREATER RISK?

The large AI companies can afford to take the risk of overinvesting. They even have to do so in order not to risk lagging behind.

As certain as the advance of AI is, still uncertain is the associated earnings potential. The most tangible growth is in storage and computing requirements in the cloud. Microsoft recently reported growth rates of 175 per cent in its AI business, which would mean annualised revenue of USD 13 billion. That sounds like a lot, but it is less than five per cent of total revenue. At OpenAI (ChatGPT), the annualised figure is around USD 10 billion. In both cases, costs are likely to exceed revenues.

The following company announcement illustrates just how expensive the business model is: OpenAI plans from 2028 to lease additional data centre capacity of around 4.5 gigawatts →

from Oracle, which is equivalent to the energy production of four nuclear reactors and the demand of around three million US households. The cost of this is estimated at USD 30 billion per year.

Less clear, however, is how much revenue from advertising and user subscriptions will increase as a result of AI. Meta claims it can improve the advertising efficiency of its corporate customers through the use of AI; however, it does not provide any specific information on how this will affect advertising revenue. Revenue from subscription fees, such as for the top versions of ChatGPT, comes mainly from corporate customers. Most private users are content with the free versions.

SPREADING OPTIMISM ...

It is therefore far from certain whether the revenue potential of AI will be sufficient to recoup the huge investments. Companies that invest heavily in AI must spread optimism in order to justify their investments to shareholders. This fuels high expectations, but also increases the potential for disappointment, especially since the digital world is particularly disruptive.

That is why it makes sense to invest in companies from different categories of the digital value chain. Large technology companies, such as Microsoft, Amazon, Meta, Alphabet and Apple, could also be described as “digital utilities”. They score highly with comparatively secure earnings because they are firmly integrated into the lives of almost all people and companies.

A second category comprises specialists who dominate a significant business segment, operate profitably, and have a high barrier to entry for existing and potential competitors. Prominent examples include booking platforms, such as Booking, Airbnb and Uber, streaming services, such as Netflix

and Spotify, cyber security companies, such as Palo Alto and Fortinet, but also established providers of enterprise software, such as SAP and Salesforce, IT consulting firms, such as Accenture and Infosys, and financial service providers, such as Visa and Mastercard.

This leaves infrastructure providers as the third category of companies. They are an important part of the digital value chain. These primarily include hardware suppliers that are relevant for AI infrastructure, such as chips, data centres, power supply, etc. – including traditional industrial companies, such as Schneider Electric, Legrand and Amphenol, for whom AI upgrades are mostly an additional business, albeit one of growing importance. Machine manufacturers, such as ASML and Applied Materials, also fall into this category as suppliers to chip manufacturers.

However, companies that are benefiting from the AI boom are not necessarily good investments. The decisive factor is how much future potential is already reflected in today's stock market prices and what opportunities and risks the shares offer.

THE PRIME EXAMPLE: NVIDIA

No company is the subject of as much debate about the relationship between the risk-reward profile as Nvidia, the world's most valuable company with a market capitalisation of more than USD four trillion (data as at 31 July 2025). Depending on which scenario plays out, its market value could double or halve in the next few years.

However, it would take a lot of imagination to see the company's value double to an astronomical USD eight trillion. Either all AI investments expected for 2030 would have to end up in Nvidia's order books, or major customers would have to invest almost all of their profits in Nvidia chips. Both seem unlikely.

Conversely, a noticeable slowdown in the investment boom would be enough to halve the company's value. However, a levelling-off of the AI boom does not mean the end of it. But the sharp share-price fluctuations of the beneficiaries require investors to have strong nerves and sometimes a lot of patience, especially as there are currently some warning signs in the AI sector that point to temporary overheating. These include discounts on paid AI services, high prices for company acquisitions and AI experts, and, in some cases, extreme valuations.

THE EMPEROR'S NEW CLOTHES

In addition, it is necessary to take a closer look at the published profits of technology companies. Quite a few companies exclude a large cost item when reporting their profits. It is common practice in the industry to pay a significant portion of salaries as stock-based compensation (SBC). This usually takes the form of stock options. Although the associated option costs are included in the official profit and loss statement, they are often deducted again in an adjusted version (“adjusted earnings”).

The idea behind this is to eliminate non-cash effects in order to enable a better comparison of results. This makes sense in principle, which is why analysts and investors focus primarily on the adjusted results. However, share-based payments are not one-off costs, but are incurred every quarter. For some companies, they account for more than 10 per cent of sales or half of profits. In some cases, they are even higher than the total profit, which means that these companies are actually making losses even though they report (adjusted) profit. This is where caution is needed, because in many cases the companies or their shares are significantly more expensive than the adjusted profits suggest. In phases of strong growth, such objections are often brushed aside. But when the mood changes and investors take a closer look, it becomes apparent that some emperors have no clothes. ♦

Companies that are benefiting from the AI boom are not necessarily good investments. The decisive factors are how much of the future is already reflected in today's stock-market prices and what the potential risk-reward profiles of the shares are.



Concerns YES Crisis Mood NO

Fund Manager Michael Illig shares impressions from his recent trip to the USA and explains why US quality companies remain important for his portfolio despite tariff turmoil.

Mr Illig, you recently travelled to the USA, attended a technology conference and visited a number of companies. What was the mood like?

I would describe the mood among companies and US investors as cautious, but by no means negative. Despite all the references to increased uncertainty in view of the numerous political changes in direction, almost all the company representatives I met described the current demand scene as largely robust.

You also visited companies in the United States last December, shortly after Donald Trump was elected US President. How has sentiment changed?

Last December, numerous discussions with company representatives revealed the extent of frustration with the Democrats' economic policy in previous years, which was perceived as highly interventionist and increasingly ideological. Trump's unpredictability was therefore a constant topic after his election but seemed manageable to many given the hope for a business-friendly approach. As a result, my perception in December was one of optimism bordering on a spirit of elation. This time, it was different. Such sentiments have given way to much more sober statements, without turning into a mood of crisis. In my view, the current mood among companies is best reflected in an old English slogan: 'Keep calm and carry on.'

At the start of April, Trump imposed massive tariffs on US imports, the validity of which was then postponed for the time being. How is his erratic tariff policy perceived by US companies?

The tariffs were one of the main reasons for the increased uncertainty emphasised by many companies. Everyone wanted more planning security – perhaps with the exception of a few consulting firms and software providers that can help companies cope with the increased complexity. However, most of the people I spoke to also assumed that the actual tariffs would ultimately be far lower than the reciprocal punitive tariffs rumoured at the start of April.

Do you think it is now better for US companies to refrain from criticising politics?

I don't want to speculate about that. In any case, I have heard virtually no direct criticism of the government from business leaders in public.

Were there any positive comments about Trump and his policies?

Reservations among companies went both ways – overall, the topic of politics was largely avoided, apart from specific questions about tariffs or government savings measures. I heard strong opinions on political developments mainly from some Uber-drivers. These included ardent Trump supporters who praised his policies as a solution to what they see as dramatic problems in Europe. Some other Spanish-speaking Uber-drivers, conversely, expressed great concern about the situation – although they themselves are in the country legally, they fear that their right to remain will change. These conversations reflected the strong polarisation of society and political debate, as well as the different positions of the news channels when channel-hopping in the hotel room.

Many experts are very sceptical about the US tariff policy for the United States. Some expect a recession if the tariff plans are implemented as originally planned. How did company representatives there comment on the economic environment?

The participants at the technology conference were naturally primarily interested in the IT landscape. Although the words 'uncertainty' and 'caution' were on everyone's lips, no one there spoke of a serious decline in IT investment. The general consensus was that transformation projects are continuing. In some cases, the perceived urgency of modernisation was even perceived as having increased due to the back-and-forth on tariffs and the heightened geopolitical uncertainty. There was also the observation that growth here in Europe had picked up recently – albeit from a weaker base in the previous year.



During your trip, you also dealt with individual companies from the industrial sector. How were things there?

There were reports of a slight slowdown, but none of my conversation partners saw any significant declines in April. According to feedback from companies, concerns that businesses and consumers may have hit the brakes on all non-short-term investments across the board following the tariff shock in early April do not appear to have materialised so far.

That sounds reassuring at first. But given the uncertainties, isn't it risky to have more than half of the Fund's assets invested in the USA?

If the import tariffs announced by Trump and later postponed were to come into effect as originally planned, we believe the economic impact could indeed be dramatic. However, we consider this scenario to be unlikely. Overall, we expect higher tariffs than before and ongoing trade disputes. This will weigh on growth, but it will not suddenly wipe out the strengths of the dynamic US economy and its many successful companies. Especially since the effect is not limited to the US economy – countries with high export shares to the USA would also feel the headwinds.

But higher tariffs are also likely to increase costs for US companies in your portfolio and put corresponding pressure on profits. Those are not good prospects, are they?

This development is clearly a headwind and should slow global economic growth. However, it is important to differentiate between individual companies. Companies with a strong competitive position – for example, because their products are important to customers and difficult to replace – generally have good pricing power. We are convinced that many of the companies in our portfolios would be only marginally affected by potential tariffs. In addition, we generally try to maintain a balanced portfolio and avoid path dependencies and cluster risks. However, the location of a company's headquarters plays only a minor role in this regard.

As at the end of May, around 60 per cent of the Fund's assets were invested in the USA ...

... measured in terms of the share of revenue that all our companies generate in the USA, the portfolio weighting is closer to 45 per cent. This is because many of our US companies are globally positioned, with quite a few generating the lion's share of their revenue outside the United States. We also attach great importance to our companies' high adaptability and resilience. Not only because of their strong competitive position, but also because of other factors, such as a solid balance sheet. This should ensure that they do not find themselves in existential danger even in the event of a deeper economic crisis and higher tariffs.

Not finding yourself in existential danger may help in extreme situations, but it does not seem especially appealing.

I have described a minimum requirement here. A high-quality company must, of course, also have good long-term prospects for increasing its profits and generating value for its shareholders. But for this to happen, companies must be able to weather temporary setbacks without suffering substantial damage. And regardless of whether the current events surrounding the trade war or geopolitical conflicts turn into such a setback, the next crisis will inevitably come. You cannot avoid such crises, nor, in my view, can you predict them. But you can be prepared for them – and that is precisely what we focus on when selecting companies.

So, the quality of the companies should reduce their vulnerability to crises. In difficult stock market conditions, such as those seen in April, prices nevertheless fall across the board, even for the shares of high-quality companies. How do you experience such phases as a fund manager?

That's right – in such phases, we are of course not immune to price declines. In more pronounced crisis phases, however, these have historically been at least below average. Ultimately, however, it is not volatility, i.e. short-term fluctuations,

that counts for us. What really matters to us is that short-term fluctuations do not turn into permanent losses in value. This happens above all when companies suffer damage to their substance. This means that their earnings power is permanently reduced. Our intimate knowledge of our companies and our assessment of their high resilience allow us to sleep more peacefully in times of crisis. This also makes it much easier to take advantage of emerging opportunities.

Why does this make it easier to identify opportunities, and did they arise during the recent market correction?

It makes it easier to focus on opportunities when we are not too busy putting out fires. If many of our companies were thrown into turmoil by a crisis, we would already be busy analysing the damage and, if necessary, taking action, such as selling shares. However, the high resilience of our companies gives us more time to look for cases where the baby has been thrown out with the bathwater, as often happens in times of crisis on the stock market. When we are confident that a company's earnings prospects have not been significantly impaired, but its share price has corrected sharply, we see good opportunities for additional purchases. This is exactly what happened at the start of April, when we were relatively active by our standards and, in addition to adding to existing positions, also acquired a new holding.

So the ups and downs definitely offer opportunities. Thank you very much for talking to us!

Michael Illig is a Fund Manager at Flossbach von Storch SE.

“You cannot avoid such crises, nor, in my view, predict them. But you can be prepared – and that is precisely what we focus on when selecting companies.”

The Vaults Are Filling Up

Julian Marx

Central banks around the world rely on gold as a store of value. Their holdings are growing rapidly – and this is unlikely to change in the foreseeable future.



For the Deutsche Bundesbank, gold is not a passing fad. No, the yellow precious metal has been an integral part of monetary policy for many decades. In 1961, its gold reserves exceeded the 3,000-tonne mark for the first time. Since then, this level has remained largely stable.

The storage facilities are correspondingly well stocked. The German Bundesbank hoards around 3,361 tonnes of gold (at the end of last year) in three storage facilities in Frankfurt, New York and London. This makes the Bundesbank the world's second-largest holder of gold among central banks and international financial organisations. Around 51 per cent of the gold was stored in Frankfurt, just under 37 per cent in New York and the remaining 12 per cent in London.

The regional distribution of gold reserves was not arbitrary but rather is based on the two most important functions of gold reserves: building trust domestically and enabling gold to be exchanged for foreign currencies at liquid gold trading centres abroad within the shortest time. From the perspective of numerous central banks, both functions are likely to have assumed greater importance in recent years.

TRUST IS ERODING

To date, most central banks' currency reserves are still concentrated on the greenback. Excluding gold, just under 58 per cent of global currency reserves were denominated in US dollars at the end of last year. This is not entirely surprising. In 2024, for example, slightly more than 60 per cent of foreign currency bonds and loans were issued in US dollars. In this respect, the dominance of the US dollar in international finance is still omnipresent, and its status as the world's reserve currency is not immediately threatened.

Nevertheless, the desire for greater financial autonomy in many regions of the world is very understandable. Three years ago, the freezing of Russian foreign exchange

reserves in response to the war in Ukraine was likely a warning signal for the USA's geopolitical adversaries. In addition, the trade conflict initiated by US President Donald Trump and conducted in a harsh tone this year caused a significant loss of confidence in the USA and its institutions. Trump's repeatedly expressed desire to make Canada the 51st state of the USA also played into this, causing uncertainty even among long-standing allies. This is fuelling doubts about the undisputed leadership role of the USA and the dollar.

For a geopolitical rival like China, such developments are likely a welcome opportunity to expand its own footprint as much as possible. As a result, the share of the domestic renminbi in the settlement of Chinese foreign trade in goods rose from 26 per cent in 2023 to 38 per cent in 2024. So far, this increase mainly reflects the greater use of the renminbi in Russia's trade with China, which has risen sharply since sanctions were imposed following the full-scale invasion of Ukraine.

However, these developments have not left other central banks unscathed, as a look at the "Central Bank Gold Reserves Survey" shows – an annual survey conducted by the World Gold Council (WGC) in which central bank representatives around the globe are interviewed. The survey, published in June 2025, paints a picture of growing scepticism towards the dollar (see Figure 1).

When asked, "What percentage of foreign currency reserves do you think will be denominated in US dollars in five years' time?", 73 per cent of respondents said that they believed the US dollar's share of currency reserves would decline. Twenty-eight per cent even anticipated a significantly lower share of the US dollar in currency reserves, an increase of 15 percentage points over the previous year. Meanwhile, only 10 per cent of the institutions surveyed expected the US dollar to account for a higher share of global currency reserves in the future. →



Looking ahead,
there are also
indications that
central banks' demand
for gold will not
subside overnight.
Quite the contrary.

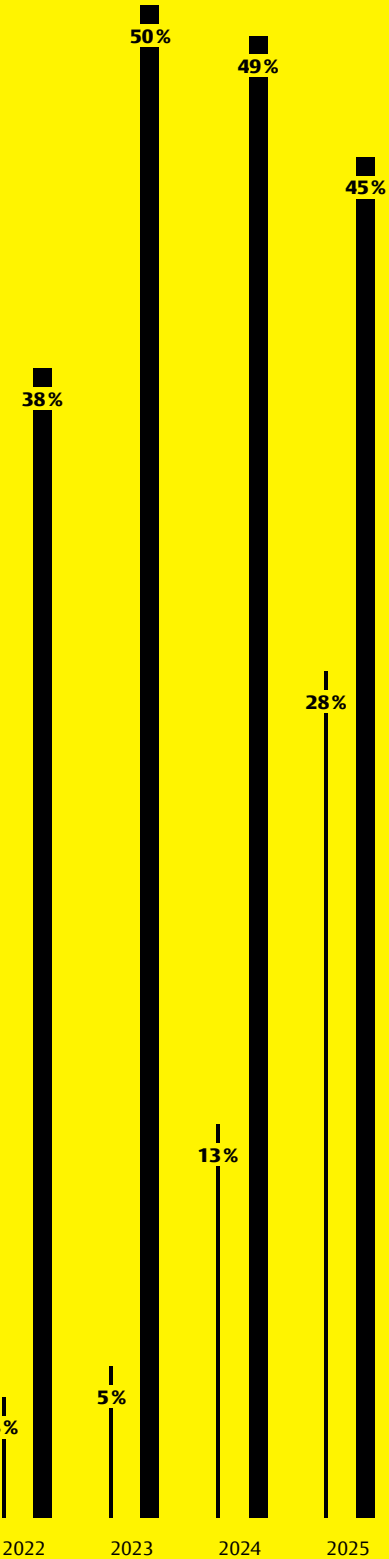
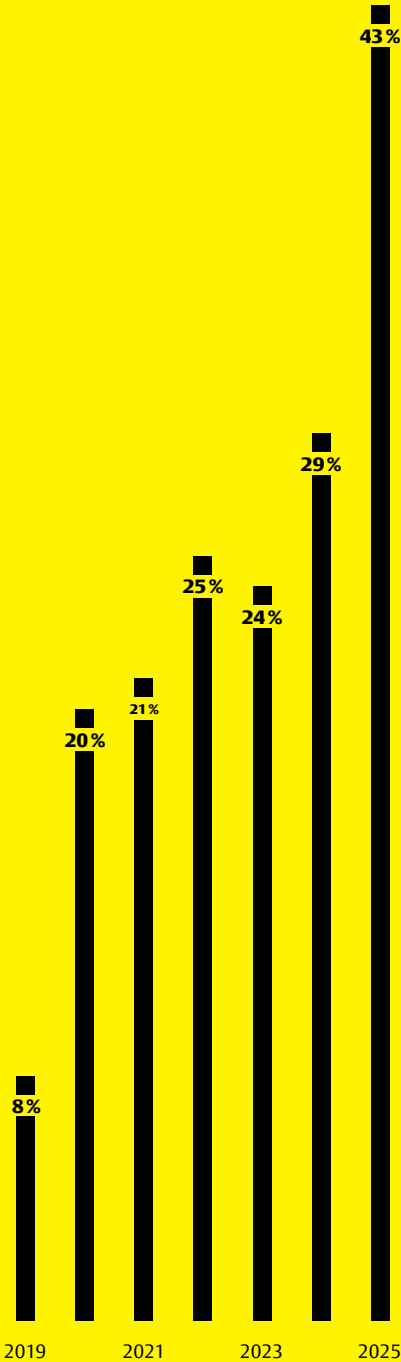


Figure 1
Growing Scepticism towards the Dollar
“What percentage of reserves do you think will be denominated in US dollars in five years’ time?”

Source: World Gold Council’s
“Central Bank Gold Reserves Survey”;
Flossbach von Storch, Data as at June 2025

— A significantly lower proportion
■ A slightly lower proportion

Figure 2
Gold Buyers have taken the Helm
“How do you expect your institution’s gold reserves to develop over the next 12 months?”



■ Percentage of central banks that expect their gold reserves to increase in the next 12 months.

A ‘GOLDEN’ AGE

One person’s loss is another’s gain,” as the saying goes. And while the popularity of the US dollar has declined somewhat in recent years, demand for gold has remained unbroken. Between 2022 and 2024, global net gold demand by central banks was already more than 1,000 tonnes, more than twice the average for the 2010s.

Looking ahead, there are also indications that central bank demand for gold will not abate overnight. Quite the contrary. As the latest WGC survey shows, geopolitical uncertainties are likely to remain a driver of this demand. This is because 77 per cent of official currency reserve managers consider geopolitics to be a key factor in determining their portfolios. This makes further gold purchases likely in view of numerous crisis hotspots. An impressive 43 per cent of the institutions surveyed said they intended to increase their gold holdings in the next 12 months – a new record (see Figure 2). At the same time, none of the respondents expected their gold reserves to decline.

If the current trend continues, it is only a matter of time before new records are set for the global gold reserves of central banks and international financial organisations. The all-time high from 1965 is already within reach. At the time of the Bretton Woods system, when gold could be exchanged for US dollars at a predefined rate, central banks’ gold reserves totalled around 38,000 tonnes. At the beginning of this year, official gold reserves already amounted to around 36,300 tonnes.

This means that the 60-year-old record could be consigned to the history books in just a few years, further cementing gold’s role as a reserve currency. In 1965, however, the price fixed by the government in the USA was still around 35 dollars per ounce and has increased almost a hundredfold to date (calculated in paper money). ♦



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.

Inflation – A general increase in the price of goods that is accompanied by a loss in the purchasing power of money.

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

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. There are common shares and preferred shares. Common shares give their holders voting rights in general meetings. Holders of preferred shares do not have voting rights, but instead receive a preferred dividend that is generally larger.

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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