

## Could this be the moment that European politics actually help markets?

Over the past decades, the political turmoil that has often arisen within Europe has been an unwanted distraction, and over the past few years this has only increased. France has had four prime ministers in the past 24 months, with the latest incumbent only narrowly avoiding another vote of no confidence; Italy is on its 12<sup>th</sup> prime minister in 24 years, which by comparison makes the UK's eight over the same period look rather pedestrian.

German chancellors tend to last longer than their neighbours' prime ministers, and Olaf Scholz being forced to call forward the general election after also failing a vote of no confidence, makes him the shortest serving chancellor since Kurt Georg-Keisinger in 1969. The reign of Scholz will be seen as one of the most disastrous periods for Germany since reunification as its image of stability and the powerhouse of Europe with a vibrant mittelstand has been undermined in recent years.

**German IFO Business climate survey.**



Source: Bloomberg/IFO

Enter Chancellor Merz, the leader of the CDU/CSU coalition, with a reputation of a strict work ethic, who argues those who can work, should work, and past positions on Blackrock's board and is a keen proponent of less regulation. His pro-business mentality may be just the tonic that the German economy needs, but he will have his work cut out to revive confidence in the German machine; perhaps he will be able to find a little of the 'Vorsprung Durch Technik' that seems to have gone missing.

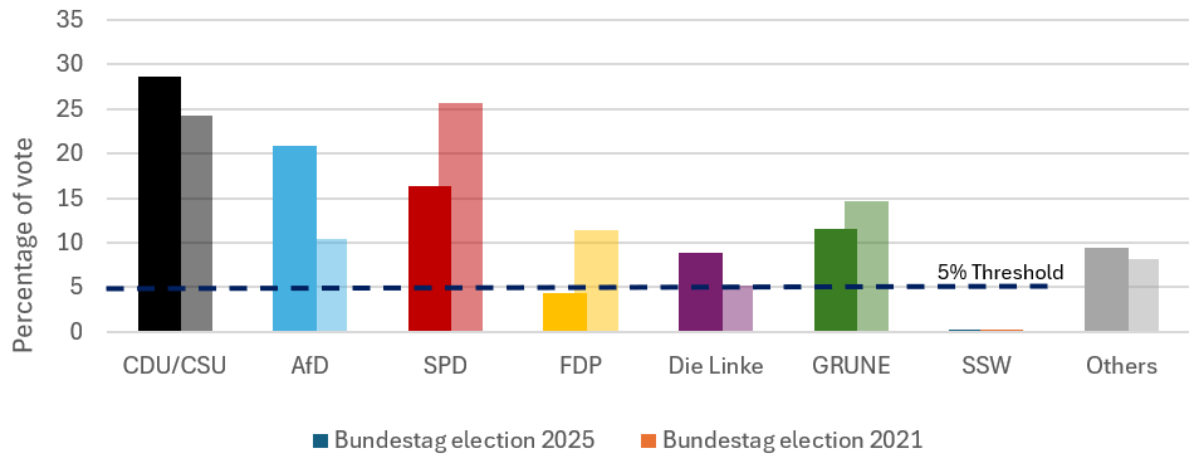
With Chancellor Scholz being relegated to third place in the election, by the resurgence of the CDU/CSU, and the rise of the far-right Alternative für Deutschland party, there will be considerably less opposition to his road map of policies. In any combination of the ruling coalition, it is unlikely to see any of the junior parties taken into the governing body of the Bundestag to have any senior roles.



Capital at Risk – the value of investments can fall as well as rise and you may not get back what you invested

Past performance is not a reliable indicator of future results.

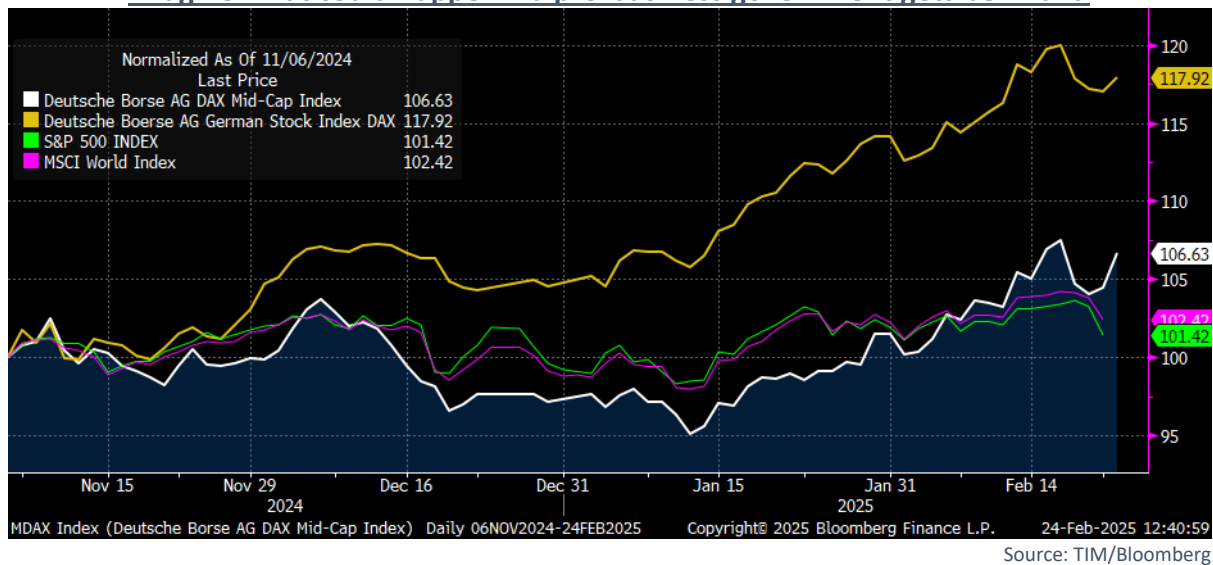
**The CDU/CSU hold all the strings as the centrist parties have a majority.**



Source: TIM/ The Federal Returning Officer (Provisional result @ 12:00 24/02/25)

German equity markets are likely to react positively to any headlines on deregulation and other pro-business initiatives, however the DAX index has been performing well throughout the period of malaise and is the best performing developed market index so far this year - up 12%. There are 11 of the DAX's 40 companies up over 15% year-to-date, and the MDAX index of medium companies is also up 9.7% so far this year. The chart below shows that despite all the attention that the US has had post the election of President Trump, the German equity markets have outperformed despite the political turmoil.

**Imagine what could happen if a pro-business government gets behind it.**



Source: TIM/Bloomberg

We maintain our belief that the German economy is merely dormant, not dead, and that under a leadership with a steady hand, and a sense of what is good for the economy, the region can thrive once again, and perhaps investors should broaden their horizons beyond US equities for future returns.

**Richard Scrope, Fund Manager, VT Tyndall Global Select Fund, 26<sup>th</sup> February 2025**

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