MARKETING COMMUNICATION

GERMAN EQUITIES COMEBACK, *capitalizing on investment packages amid trade uncertainty*

INTERVIEW WITH

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THE NEW GOVERNMENT PLANS TO INVEST BILLIONS IN INFRASTRUCTURE AND DEFENSE. WILL THIS BENEFIT GERMAN EQUITIES?

After the coronavirus crisis, Germany was the laggard in Europe in terms of economic growth. Now, with the two investment packages, there is a real opportunity to address structural obstacles to growth and to unleash the great potential of its innovative companies. At EUR 500 billion, the infrastructure package surpasses even the infrastructure fund created in the 1990s to finance German reunification. This is a unique opportunity for investors to benefit from Germany's economic recovery.

While the effects may take time to materialize, medium to long term projections suggest that these investments could lift GDP growth by 0.5% to 1.4% starting in 2026, depending on how they are implemented. Corporate profits could also rise. Analysts expect double-digit growth of EPS figures for the DAX (+10%), MDAX (+35.3%) and SDAX (+49.5%). We see compelling return opportunities here for long term investors. Foreign investors have also rediscovered Germany and Europe, with strong inflows since the beginning of the year in anticipation of these political decisions.

WHAT ABOUT VALUATIONS?

The punitive tariffs threatened by US President Trump led to a sharp sell-off on all major stock markets worldwide. The German stock market was also affected. Due to the volatile and changing news situation, we expect increased volatility in the coming days and weeks. However, even after the global sell-off, the German stock market is more favorably valued than the US market. With a price/earnings ratio of around 13.6x (current earnings estimates for 2025), the DAX is still trading at a significant discount to the S&P 500 in the US (19.2x). The lower valuations now open attractive opportunities again as soon as the highly volatile phase has calmed down. Of course, the impact of the final tariffs on earnings must be considered.

Today, the market does not offer sufficient discount in the event of a recession. Should it come to that, it will be necessary to adjust the beta of exposures in order to limit the impact of a possible decline in valuations in certain segments.

WHAT IMPACT WILL THE TARIFFS HAVE ON GERMAN COMPANIES?

As a highly export-driven economy, Germany will not be able to escape the negative impact of US tariff policy on global trade. The cost of tariffs could shave 0.9% off growth in 2026, partly cancelling out the positive effects of the fiscal stimulus.

Export-strong companies, e.g. in the automotive industry, will be particularly put under pressure by the tariff increases. We will have to observe how companies react to this with their production structure. There is hope, however, that negotiations between trade partners could lead to a rollback of certain tariffs. The focus should be on companies with high pricing power. They could at least partially pass on increased tariffs in their product prices. Germany's stimulus package should have a significant stabilizing effect on the profit situation of the German economy, particularly in the defense and infrastructure sectors. It is therefore particularly important in this complex global situation. Looking ahead, we expect continued capital inflows into Europe and Germany. Rising global uncertainty, elevated inflation, and a cooling US economy may prompt further capital rotation out of the US and into European markets.

ARE THERE SECTORS AND SEGMENTS OF THE GERMAN STOCK MARKET THAT ARE NOW PARTICULARLY IN THE FOCUS OF INVESTORS?

Of course, defense stocks are in demand when defense spending increases. The sector still has a clear premium to the overall market. However, selective opportunities are arising again in this highly volatile environment. In the long term, a continuous increase in defense budgets in Europe will support the sector.

One must remember that Europe has underinvested nearly 2 trillion dollars in the defense sector since the end of the Cold War. If spending were to reach 3% of European GDP, this would represent a 50% increase between 2024 and 2030 - i.e. around 700 billion dollars cumulatively, or even up to 1,400 billion if the target were to rise to 4%. This strategic rearmament will focus mainly on equipment, which should eventually account for 50% of budgets, rather than on personnel. This implies a sharp acceleration in capital expenditure (capex). A key point is the method of financing: governments pre-finance projects, which allows companies in the sector to record positive cash flows right from the start, even though the deployment of capex is spread out over several years. This is a considerable advantage for the visibility of income, and justifies, in our opinion, a rerating of the sector towards multiples to the tune of 20 times the profits over a rolling 12-month period, similar to other segments benefiting from stable and predictable cash flows.

The 500 billion infrastructure investment package could provide a strong growth impetus for the construction industry over the next few years. In addition to contractors, especially those involved in underground construction, manufacturers of building materials and construction chemicals will also benefit. Industrial groups that manufacture equipment such as transformers or IT for the

infrastructure needed to expand the power grid, for example, will also benefit.

Additionally, digitalization in Germany should continue. Investments in second-line stocks from the MDAX (Mid-Cap DAX) could be particularly interesting. In contrast to the more export-oriented DAX stocks, these companies are more dependent on domestic orders. In our ODDO BHF German Equities fund, we therefore invest not only in the well-known DAX stocks, but also in carefully selected mid-caps. It is important that the trade dispute calms down in the coming months and that the exact areas of investment in Germany are specified and that the corresponding packages are then channeled into these areas quickly and efficiently. At the same time, the administration in Germany should be reformed and unnecessary bureaucratic hurdles removed. This is the only way to ensure that the large amounts of investment can be used in a targeted manner.

THE ODDO BHF GERMAN EQUITIES FUND IS NOW MORE THAN 50 YEARS OLD. WHAT CHARACTERIZES THE FUND, WHICH IS ONE OF THE FEW GERMAN EQUITY FUNDS TO HAVE BEEN ON THE MARKET FOR OVER HALF A CENTURY?

For over half a century, the fund has navigated diverse market conditions – from the oil crises of the 1970s to the stock market boom of the 1990s and the financial market turmoil that began in 2008. Throughout all these years, the fund managers in charge have selected what they consider to be the best German equities. This is done through rigorous analysis, meetings with top executives, and in-depth evaluations of business strategies, products and corporate structures. Ultimately, they always found attractive companies that opened long-term earnings prospects. In doing so, the fund management had to repeatedly adapt the portfolio to new trends and learn new things – from PCs to the internet and AI. When investing in equities, our characteristic long-term orientation pays off. Short-term setbacks can be offset by long-term growth phases. The longer the investment horizon, the lower the risk of loss in the stock market. Anyone who has invested their capital in a broadly diversified stock index such as the MSCI World since 1969 has never suffered a nominal loss in any 15-year period. Investors with a long-term horizon can benefit from trends such as digitalization, artificial intelligence, innovative medicine and medical technology, which we believe will be important for the future. Long-term saving pays off. According to our calculations, investors who started a monthly savings plan with ODDO BHF German Equities when the fund was launched in May 1974 – with an initial deposit of 100 euros and totally 60,400 euros over time, would now have a retirement fund of approximately 475,00 euros*.

AND WHAT IS THE CURRENT ORIENTATION OF THE FUND?

Our focus remains on building a portfolio of companies in which we have strong long-term confidence. We will monitor these positions closely and intend to meet with each company in which we invest as often as possible, ideally once a quarter. The fund strategy relies on a fundamental stock picking approach, emphasizing high-quality businesses with attractive valuations. We also take

into consideration non-financial criteria such as corporate governance, social and environmental aspects. Currently, 89% of the fund is invested in large and medium-sized companies with a market capitalization of over 5 billion euros. In contrast to our benchmark, we are also taking advantage of the opportunities offered by Small and Mid caps, with a share of 10 %. These stocks have recently lagged due to the still weak overall economic situation and therefore present catch-up potential, especially in view of the planned spending programs. Industrial companies will also benefit from this, and are clearly overweighted compared to the benchmark, with a share of over 22 %.
With investment momentum building, we believe Germany presents compelling opportunities for long-term equity investors.

Christoph Ohme is Head of German Equities at ODDO BHF Asset Management. He joined ODDO BHF in January 2024 after working as a fund manager for German equities at DWS for 18 years. Christoph Ohme, CFA, graduated from the University of Karlsruhe and is a DVFA-certified ESG analyst.

Find out more

ODDO BHF GERMAN EQUITIES

*** Past performance is not a reliable indicator of future returns and is subject to fluctuation over time.**