

The harsh winds of the global economy

Exclusive report for ACATIS Investment: Prof. Dr. Dr. h.c. Lars P. Feld, University Freiburg and Walter Eucken Institute

The turbulent start in 2026 is still raising questions - for investors in capital markets, and for greenfield and expansion investments. Where can one invest, considering the problems that seem to be everywhere; which assets offer both significant returns and tolerable risk; is there even such a thing as a safe haven? There is no shortage of answers to these questions.

But the overall economic environment is complicated. Let us start with the US: The US economy probably grew about 2 percent in 2025. However, employment growth has slowed down - from approximately 2 million new jobs in 2024 to around 600,000 in 2025. The US inflation rate, which ended the year at 2.7 percent, has persisted above the inflation target of 2 percent. The former chief economist and subsequent Deputy Managing Director of the International Monetary Fund (IMF), Gita Gopinath, recently calculated that about 0.8 percentage points of the inflation rate are due to Trump's tariffs.

So even in the US the situation is not all rosy. The tariffs make investment decisions much more difficult. Some companies, which invest in China for cost reasons but buy most of their raw materials from the US, which also happens to be their main sales market, are now moving production to the US in response to the tariffs. On the other hand, companies like Volkswagen are responding to the tariffs by reconsidering their expansion investments in the US, as tariffs have the effect of significantly increasing the production costs in a complicated value chain, not least due to the high extra tariffs on steel and aluminum. This heterogeneous incentive structure is accompanied by the weakness in the US dollar and the enormous government debt.

The signals from China are just as inconsistent. In Germany, there is a growing sense that China is in the process of leaving German companies in the dust, technologically speaking. Indeed, China has caught up to, and in some cases overtaken, Germany in the three model disciplines of German industry - automotive, equipment manufacturing and chemicals. While many German companies are able to defend their technology leadership position against Chinese companies, it has become more difficult to export state-of-the-art technology to China due to sanctions and trade barriers. In any case, we see how Chinese products are increasingly pushing into European markets.

To be sure, China urgently needs the resulting increase in exports. Because its domestic economy continues to struggle. The Chinese subsidy policies of recent decades have created enormous excess capacities. This has long been evident in the steel sector. Now it also increasing-

ly applies to electric cars. But what is much worse is the excess capacity in the real estate sector, which already created problems for Chinese real estate corporations a while ago. Even though the central government has recapitalized the affected banks and deleveraged the municipalities that suffer as a result, the crisis is still affecting domestic consumption. Many private investors invested in apartments to fund their retirement, and now these apartment sit empty and do not generate any income. This forces people to increase their savings rate. Added to the above is a youth employment rate of around 20 percent. Without the stimulus from exports, the Chinese economy would in fact lag far behind the targets.

Then there is the European Union (EU). The three main founding countries (Germany, France and Italy) are all struggling. Based on initial estimates, Germany's GDP grew by 0.2 percent in 2025, compared to 0.4 percent for Italy; France is probably a bit higher at 0.7 percent, but it faces a high degree of political fragility and the resulting budgetary crisis. There are no signs that the situation will improve in the foreseeable future. In Germany, GDP growth is driven by additional expenditures that are financed with debt. But this could just be a statistical artifact, as each euro in additional government expenditure raises the GDP in the national accounts. This is not a self-sustaining upward trend that is driven by dynamic private investments.

Equity markets appear largely unaffected, and bond markets seem rather nervous. Many would rather invest in silver and gold, and they too had to absorb losses recently. The correlation between high volatility and higher yields should provide some reassurance in this context. And even more important: Other countries in Europe are in a better position than the three large founding states. Small countries such as Denmark and Switzerland offer good investment opportunities with an overall stable political environment. Poland and Portugal are showing robust economic momentum. New trade agreements also offer new and interesting opportunities. As always, it pays to take a second look - in order to identify good locations for direct investments and the right assets for portfolio investments.



Prof. Dr. Dr. h.c. Lars P. Feld