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# Will the 'Pax Europaea' succeed?

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**Even though the challenges are enormous and it is still unknown whether or not Europe will succeed in establishing a "Pax Europaea" on the European continent after the "Pax Americana" era, which appears to be coming to an end, we continue to see a wide variety of investment opportunities that can be used to navigate this politically difficult environment.**

Europe is facing major political upheavals—and not solely because the federal elections in Germany are now behind us and the new government coalition is tasked with leading the country out of the misery that plagued it for the past half decade. Just as important for Europe is the recent wake-up call where US congressmen stunned the continent at the Munich Security Conference as well as at the NATO summit before that in Brussels. The US is no longer willing to shoulder the largely sole responsibility of military security in Europe. The word "willing" could just as easily be replaced by "able": With an interest burden ratio of over 10 percent—the US Treasury Department has to spend every tenth tax dollar to pay interest on the almost USD37 trillion in national debt—Americans are now spending more on debt service than on their armed forces. It is not surprising that, in view of this burden, the US is now turning with all its might to containing its rival China in the Pacific region and is burdening the Europeans with securing a possible peace agreement in Ukraine.

This brings to an end a decades-old era in which the European states were able to reap the so-called peace dividend and turn to expanding their welfare states; as the "Pax Americana" is coming to an end, Europeans must now focus on a "Pax Europaea" for their own continent and direct much more resources to their defense budgets. And this at a time when the Trump administration, with the threat of reciprocal tariffs, is likely to overturn the existing World Trade Organization regime. Challenging years lie ahead for European foreign and trade diplomacy.

What does all this mean for investors? First, it is important to navigate skillfully through the potentially more volatile market phases. It helps to focus on broadly diversified, more defensive investments in the core portfolio. Structured products with a certain degree of capital preservation are also suitable for this purpose, whether based on equities or on gold or gold mining stocks. At the same time, however, it is also important to include in the portfolio, through satellite investments, those stocks

that would have above-average gains in the event of a possible end to the war in Ukraine. These include, for example, small- and medium-sized companies from the eurozone, which are also attractive from a valuation perspective. Despite all the geopolitical headlines, it should not be overlooked that profound structural upheavals are creating investment opportunities that should remain in place regardless of political developments. These include the rapidly developing areas of artificial intelligence, where companies in the semiconductor sector stand to benefit at the level of the underlying basic infrastructures, but also increasingly select companies at the intelligence and finally the application level. Last but not least, we would like to point out our recommendation to focus on companies that have established a leading position in various areas of the value chain in the energy and commodity sector.

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