Germany

Locomotive of Europe

German capital market history changed radically after World War II. In the first half of the 20th century, German equities lost two-thirds of their value in World War I. In the hyperinflation of 1922–23, inflation hit 209 billion percent, and holders of fixed income securities were wiped out. In World War II and its immediate aftermath, equities fell by 88% in real terms, while bonds fell by 91%.

There was then a remarkable transformation. In the early stages of its "economic miracle," German equities rose by 4,094% in real terms from 1949 to 1959. Germany rapidly became known as the "locomotive of Europe." Meanwhile, it built a reputation for fiscal and monetary prudence. From 1949 to date, it has enjoyed the world's second-lowest inflation rate, its strongest currency (now the euro), and an especially strong bond market.

Today, Germany is Europe's largest economy. Formerly the world's top exporter, it has now been overtaken by China. Its stock market, which dates back to 1685, ranks seventh in the world by size, while its bond market is among the world's largest.

The German stock market retains its bias towards manufacturing, with weightings of 22% in basic materials, 22% in consumer goods, and 16% in industrials. The largest stocks are Siemens, BASF, Beyer, SAP, and Allianz.

Capital market returns for Germany

Figure 1 shows that, over the last 113 years, the real value of equities, with income reinvested, grew by a factor of 29.9 as compared to 0.1 for bonds and 0.1 for bills. Figure 2 displays the long-term real index levels as annualized returns, with equities giving 3.1%, bonds –1.7%, and bills –2.4%. Figure 3 expresses the annualized long-term real returns as premia. Since 1900, the annualized equity risk premium relative to bills has been 5.9%. Bond/bill returns and premia omit 1922–23. For additional explanations of these figures, see page 35.

Figure 1

Cumulative real returns from 1900 to 2012

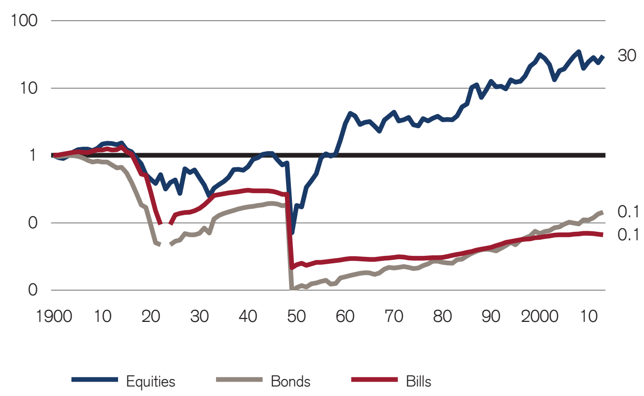


Figure 2

Annualized real returns on major asset classes (%)

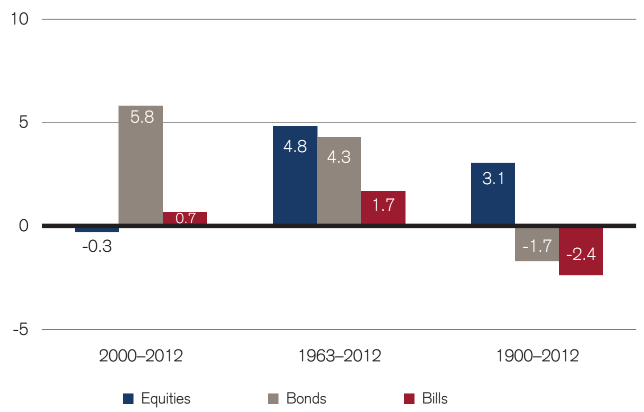
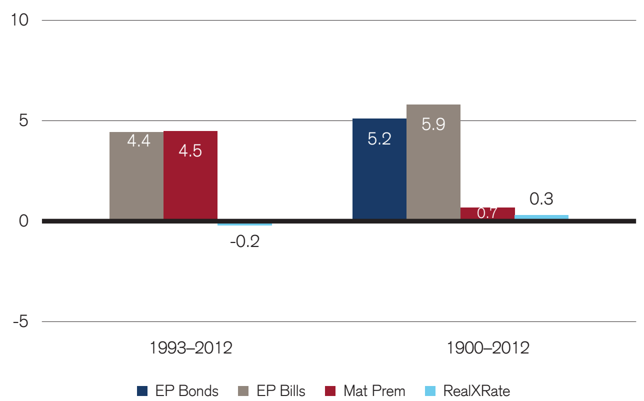


Figure 3

Annualized equity, bond, and currency premia (%)



Note: EP Bonds denotes the equity premium relative to long-term government bonds; EP Bills denotes the equity premium relative to Treasury bills; Mat Prem denotes the maturity premium for government bond returns relative to bill returns; and RealXRate denotes the real (inflation adjusted) change in the exchange rate against the US dollar.

Source: Elroy Dimson, Paul Marsh, and Mike Staunton, Credit Suisse Global Investment Returns Sourcebook 2013.