CIO VIEW

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ONE MONTH AFTER THE REFORM PACKAGE: THE DAX CONTINUES ITS RECORD-BREAKING RUN

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- DAX reaches a new record high
- Reforms introduced by the CDU/SPD coalition provide positive momentum
- Cautious optimism for German equities

The German stock market index (DAX) surpassed the 26,000-point mark on Monday of this week, reaching an all-time high. This placed the DAX once again above the level it had attained following the Federal Government's announcement of its reform package in early July. As is often the case with stock market success, many factors contribute to rising share prices. The gains cannot, of course, be attributed directly to the government's reform plans alone. Nevertheless, with appropriate caution, it can be said that the reforms presented by the CDU/SPD coalition government on July 2 represent a step in the right direction and should help improve the economic environment over the medium to long term. This would also support a more favorable backdrop for German equities.

As early as 2003, Germany was often referred to as the "sick man of Europe." At that time, the Social Democratic-Green coalition government under Chancellor Gerhard Schröder launched the Agenda 2010 reforms, providing important impetus for the modernization of the German economy. In the years that followed, German equities significantly outperformed many comparable European indices. The DAX rose from a cyclical low of just under 2,200 points in March 2003 to more than 8,000 points by the summer of 2007. During the same period, the Euro Stoxx 50 increased from around 2,000 points in spring 2003 to more than 4,500 points in May 2007.

As is true today, Agenda 2010 alone did not trigger this impressive outperformance of German equities, particularly since the coalition government collapsed in November 2005 without interrupting the rally in the German stock market. However, without these structural reforms, the strong appreciation in German equities might have been less pronounced.

In recent years, gloomy assessments have accompanied the German equity market: Germany was said to be incapable of reform, high energy prices were viewed as a burden on industry, and excessive bureaucracy was seen as stifling economic activity. Criticism of the current reform package, which the government must still translate into legislation, has similarly focused on claims that it does not go far enough.

Certainly, this package alone will not eliminate the entire backlog of reforms. However, it marks an important beginning that will hopefully be followed by further measures. Taken together, the approved initiatives provide positive momentum across a wide range of policy areas:

- Efforts to reduce bureaucracy are being launched. Numerous reporting and documentation requirements for businesses and public authorities are to be eliminated, provided they do not originate from EU legislation. A reversal of the burden of proof will apply to federal ministries: if they wish to introduce or maintain new reporting requirements, they must explicitly justify them in the future.
- Applications submitted to public authorities will be deemed approved if the administration does not indicate a need for further review within four months.
- The Supply Chain Due Diligence Act, unpopular among many medium-sized companies, will be abolished for 95% of businesses.
- Planning and approval procedures are to be accelerated, particularly for industrial and infrastructure projects.
- The reform of the public pension system is limited to a minimum compromise. The statutory retirement age is to be increased, but only from 2031 onward and then by just six months spread over a ten-year period.

- The reform also envisages a stronger role for funded pension arrangements in both the public and private retirement systems. The government and many experts expect this to generate higher long-term returns on contributions paid and strengthen Germany's capital market.
- In its final report of January 2026, the Commission on Welfare State Reform (KSR) presented 26 recommendations. These are to be implemented in full. This is expected to increase work incentives for low-income earners, for example through a less restrictive offsetting of higher earnings against social benefits. The planned consolidation of benefits will also simplify the overall system.
- Greater flexibility in working hours and employment contracts is also envisaged.
- The corporate tax rate is to be reduced to 25%. However, implementation is not scheduled until 2028 and will be phased in over more than five years. A faster implementation would have been preferable, but at least the process has begun.
- As early as February 2026, the government agreed on the Startup Nation Act, intended to strengthen venture capital financing for young companies. This should help reduce one of the existing gaps in innovation financing.

Most business associations would have preferred a more ambitious package. However, if all these individual measures are implemented by the end of the current legislative term, even many of these believe that Germany would have taken a major step forward.

Spain's labor market reform, which entered into force in March 2022, is likewise frequently associated with the country's impressive economic upswing. And the performance has indeed been remarkable: in 2026, the Spanish economy could expand by 2.7%, while Germany is unlikely to grow by much more than 0.4%. However, the OECD notes that roughly two-thirds of Spain's economic growth between 2021 and 2024 can be attributed to increased employment rather than productivity gains. The expansion has also been supported by low electricity prices, particularly from wind and solar power. As for the Spanish stock market, a significant share of the gains in the benchmark IBEX 35 index has been driven by major banks such as Santander, BBVA, and Caixa. These institutions have benefited only indirectly, if at all, from labor market reforms and lower energy prices.

Against the backdrop of historical experience, the immediate impact of German reform plans on equity markets should not be overstated. At the same time, such reforms should not be dismissed lightly. They can provide important support to the market environment, particularly when they foster a sense of renewal and optimism. It is somewhat like a fine dining experience: candles and an elegantly set table help showcase a carefully prepared meal to its fullest effect.

Overall, we remain cautiously positive on German equities. While the political framework may be improving, numerous challenges from a market perspective remain. Examples include intensifying competition from China, which is placing growing pressure on key sectors of the German economy such as automotive manufacturing, mechanical engineering, and chemicals. Germany also lags behind in areas such as artificial intelligence, data centers, and semiconductors, at least from today’s perspective. Nevertheless, the German economy retains significant strengths, and the current earnings performance of many exchange-traded German companies demonstrates this convincingly. In our view, the German market remains well worth watching.

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