

Economic Situation and Strategy

4 September 2025

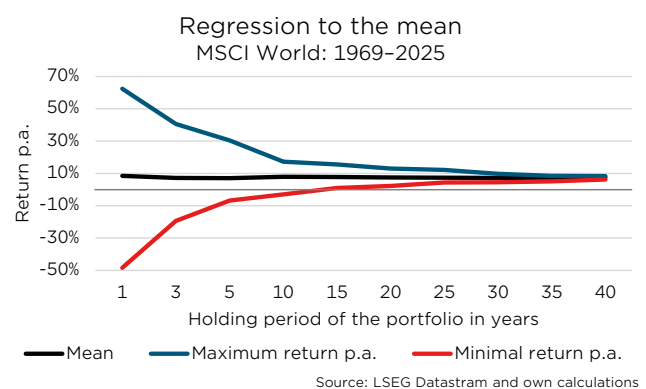
From Pocket Money to Portfolio: Kids' First Investments

Parents invest an average of around €200,000 in their child by the time they reach adulthood – and the trend is rising, as higher living costs directly impact the family budget. But even with the 18th birthday, financial responsibility rarely ends: by the time they complete their studies, total expenses for a child often amount to around €250,000 or more. Young adults often face further, sometimes significant, expenses during this phase, such as for a driver's license or their first apartment. The state child benefit of currently €255 per month is far from sufficient for this.

Many parents want to provide for their children's education and come across a variety of financial products – from call money accounts to so-called training insurance. While call money accounts are good for short-term parking of money, their interest rates are usually not even sufficient to offset inflation. They are therefore not suitable for long-term wealth creation. Traditional training insurance policies are even more critical. They combine a financial investment with life insurance and promise a guaranteed payout when the child starts their education. In practice, however, acquisition costs and insurance premiums are initially deducted from the invested amount, which significantly reduces the return. The German Consumer Protection Agency therefore also advises against such combination products: they are often expensive, lack flexibility, and usually offer only modest returns compared to other investment options.

Capital market instead of combination product

Especially for long-term investments, there are many advantages to investing in the capital market. Those who have invested broadly over at least 15 years – for example, in equities – have consistently achieved positive results, despite any fluctuations in the meantime. While annual returns fluctuate considerably, these fluctuations increasingly balance out over longer holding periods. This statistical effect, known as regression to the mean, ensures that returns converge on the average over the long term. For example, those who hold shares in an MSCI World ETF for many years benefit from the fact that short-term market fluctuations become less significant and the overall return becomes more stable.



For this chart, we analyzed the performance of MSCI World portfolios since 1969. We calculated the average annual return an investor could achieve depending on the holding period. The y-axis shows the annual return and the x-axis the respective holding period in years. The chart shows that the average annual return remains surprisingly stable across different investment periods.

The two other curves are particularly revealing. The red line shows the lowest return achieved with an MSCI World portfolio (in US dollars) over various holding periods, and the blue line the highest return achieved over short investment periods. This clearly demonstrates the extent of volatility over short investment periods: in the worst case, the result for a single year was minus 48 percent, while in the best case, it was plus 62 percent.

It is noteworthy, however, that even the worst result would have been positive over a holding period of 15 years. After 40 years, the lowest annual return achieved was just over six percent, while in the best case, eight percent was achieved. This underscores the extent to which so-called outliers, that is, particularly bad or particularly good years, are evened out over longer periods through the effect of regression to the mean. For investors, this means: the longer the investment horizon, the more reliable the return and the lower the risk of suffering losses. Anyone who invests in stocks should therefore be prepared to have the necessary patience.

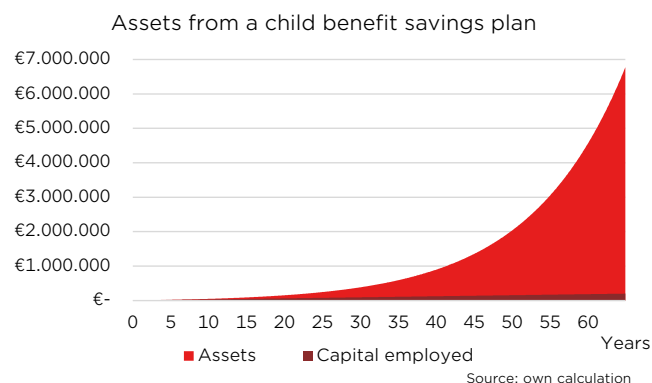
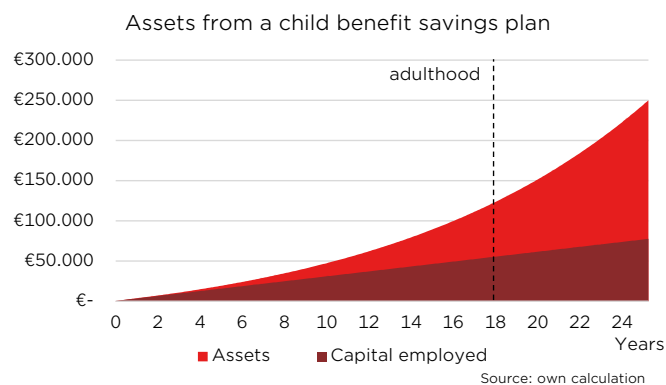
From child benefit to millions

In addition to a one-time investment, setting up a savings plan is particularly advisable for those with a long-term investment horizon. This is not only flexible and can be individually tailored to one's needs, but also allows you to continuously benefit from the compound interest effect, one of the most important principles of long-term wealth creation. Compound interest is often called the "eighth wonder of the world." In addition to the invested capital, the decisive factor for the effectiveness of compound interest is time. This opens up great opportunities, especially for junior portfolios.

The concrete effect of compound interest can be clearly illustrated with a simple example: if 100 euros are paid interest at five percent for one year, the capital grows to 105 euros. However, the difference only arises if the interest is not withdrawn but reinvested. In the second year, 110.25 euros already earn interest, meaning that not only the initial capital but also the returns from the first year work for you. Over a period of 20 years, there is a significant difference: while simple interest would yield €100 only €200, compound interest increases the assets to approximately €265.

The potential of compound interest becomes particularly clear when considering a savings plan for a junior portfolio. For example, if the monthly child benefit of currently €255 were invested broadly in stocks and

achieved an average annual return of eight percent, assets of almost €122,000 would accumulate by the time the child reaches adulthood. If the savings plan is continued until the child completes their studies at age 25, the capital would already grow to approximately €250,000. Hypothetically, if the savings plan is continued until retirement age of 65, the assets could total approximately €6.8 million – with a total deposit of just €200,000.



Monthly savings plan for child benefit (255€)

	Assets	Capital employed	Interest income
Reaching adulthood	122.421,96 €	55.080,00 €	67.341,96 €
Graduation	250.073,91 €	77.520,00 €	172.553,91 €
Retirement	6.822.221,32 €	199.155,00 €	6.623.066,32 €

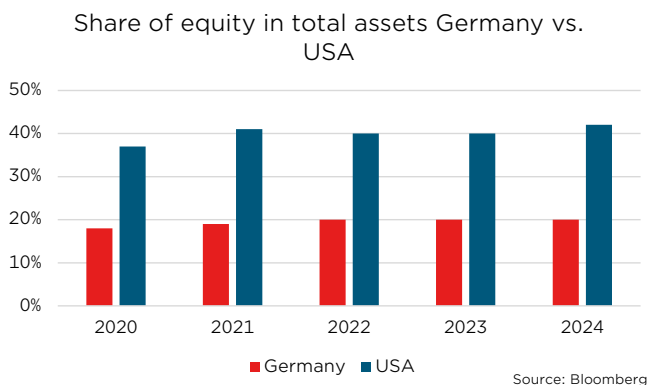
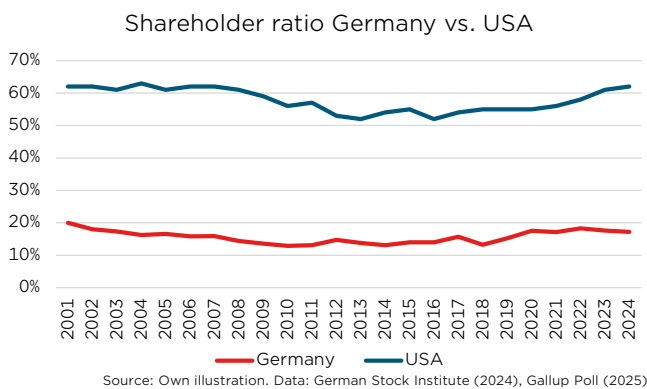
Source: own calculation

Invest early, understand better: the idea of the child start-up allowance

Early participation in the capital market is also becoming increasingly important from an economic perspective. The German Council of Economic Experts has developed the concept of a so-called children's start-up allowance (Kinderstartgeld). The goal is to enable as many children in Germany as possible to gain practical experience with securities investments at an early age, regardless of their parents' financial situation. It is proposed that, starting with their sixth birthday, the government pay a small monthly amount (approximately ten euros) for each child into a broadly diversified fund with a high equity component. The savings phase should extend over twelve

years, thus allowing children and their families to experience different market phases and develop a basic understanding of opportunities and risks.

The children's start-up allowance is deliberately not intended as a pure wealth-building program, but rather as a means of strengthening financial literacy and promoting equity culture in Germany. While the shareholder rate in Germany has increased in recent years, it is still significantly below the level in other countries, such as the USA. This difference reflects the traditional risk aversion of Germans, which is also evident in the fact that, over long investment periods, the potential for riskier investments such as stocks is often not fully exploited. A child start-up allowance could provide an important impetus here, increasing the shareholder share, especially among young investors, and reducing fears about stock market risks.



The selection of investment products for the child start-up allowance would be limited to low-cost, broadly diversified funds, with contributions remaining invested

throughout the entire savings phase. The accumulated capital would only be freely available upon reaching adulthood. The program could be accompanied by age-appropriate educational offerings that combine practical experience in the capital market with in-depth knowledge. Thus, the child start-up allowance could make an important contribution to strengthening financial education and participation for broad sections of the population and, in the long term, to placing wealth creation in Germany on a broader basis.

Differences in account opening

A key aspect of investing for children is whether the account should be opened in the child's name or in the name of a parent. If the account is held directly in the child's name, the child benefits from their own tax allowances: each child is entitled to the savings allowance of currently €1,000 per year. Capital gains – such as interest, dividends, or capital gains – remain tax-free up to this limit. If the child has no other income, they can even use the basic income tax allowance (€12,096 in 2025), so that larger portions of the capital gains remain tax-free. If, however, the investments are held in the name of a parent, only their personal allowances can be used – the child's tax advantages are lost.

Another difference concerns availability: a custody account in the child's name also means that the assets legally belong to the child. While the parents manage the account until the child reaches adulthood, they cannot freely dispose of the money – for example, for their own purposes. By their 18th birthday at the latest, the child receives full control over their savings. This requires discipline and foresight in investing, but also ensures transparency and protects the assets from reckless spending by the parents. Families who plan for the long term and trust their children with financial responsibility at an early age benefit twice: from tax advantages and a clear legal framework.

Jan Mooren

Market data

	As of 05.09.2025 13:07	29.08.2025 -1 week	04.08.2025 -1 month	Change versus 04.06.2025 -3 months	04.09.2024 -1 year	31.12.2024 YTD
Stock marktes						
Dow Jones	45621	0,2%	3,3%	7,5%	11,3%	7,2%
S&P 500	6524	1,0%	3,1%	9,3%	18,2%	10,9%
Nasdaq	21708	1,2%	3,1%	11,5%	27,1%	12,4%
DAX	23812	-0,4%	0,2%	-1,9%	28,1%	19,6%
MDAX	30033	-0,8%	-1,7%	-3,2%	18,7%	17,4%
TecDAX	3641	-1,7%	-3,5%	-7,3%	10,9%	6,5%
EuroStoxx 50	5355	0,1%	2,1%	-0,9%	10,5%	9,4%
Stoxx 50	4575	0,4%	3,5%	0,1%	2,7%	6,2%
SMI (Swiss Market Index)	12406	1,8%	5,0%	0,9%	1,9%	6,9%
Nikkei 225	43019	0,7%	6,8%	14,0%	16,1%	7,8%
Brasilien BOVESPA	140993	-0,3%	6,0%	2,9%	3,6%	17,2%
Indien BSE 30	80711	1,1%	-0,4%	-0,4%	-2,0%	3,3%
China CSI 300	4460	-0,8%	9,6%	15,3%	37,1%	13,4%
MSCI Welt	4189	0,3%	2,9%	7,3%	17,0%	13,0%
MSCI Emerging Markets	1262	0,2%	2,0%	7,6%	17,5%	17,3%
Bond markets						
Bund-Future	129,46	-9	-81	-161	-508	-398
Bobl-Future	117,45	-1	-15	-159	-57	-41
Schatz-Future	107,03	-3	-13	-29	69	4
3 Monats Euribor	2,08	2	8	12	-137	-64
3M Euribor Future, Dec 2025	1,97	2	10	24	-12	8
3 Monats \$ Libor	4,16	-7	-19	-28	-102	-21
10 year US Treasuries	4,15	-5	-4	-20	39	-42
10 year Bunds	2,70	3	12	18	55	34
10 year JGB	1,57	-2	7	8	68	49
10 year Swiss Government	0,30	-4	0	9	-14	2
US Treas 10Y Performance	630,35	0,5%	0,8%	2,8%	1,3%	6,5%
Bund 10Y Performance	559,66	0,0%	-0,5%	-0,6%	-1,4%	-0,9%
REX Performance Index	458,30	-0,2%	0,0%	-0,3%	1,5%	1,2%
IBOXX AA, €	3,15	2	8	9	2	11
IBOXX BBB, €	3,46	3	10	2	-18	1
Commodities						
MGBase Metal Index	432,76	0,4%	1,9%	3,2%	7,4%	6,7%
Crude oil Brent	66,42	-2,5%	-3,4%	2,3%	-9,4%	-11,1%
Gold	3551,79	3,2%	5,3%	5,3%	42,3%	35,3%
Silver	32,54	0,0%	0,0%	0,0%	15,5%	9,6%
Aluminium	2595,01	-0,9%	1,7%	4,8%	9,3%	2,7%
Copper	9830,84	0,1%	2,0%	1,7%	11,2%	13,6%
Iron ore	104,53	2,7%	3,7%	8,6%	12,5%	0,9%
Freight rates Baltic Dry Index	1963	-3,1%	-0,4%	31,8%	3,2%	96,9%
Currencies						
EUR/ USD	1,1688	0,3%	1,1%	2,7%	5,8%	12,5%
EUR/ GBP	0,8671	0,1%	-0,3%	3,0%	2,9%	4,9%
EUR/ JPY	173,17	0,8%	1,6%	5,5%	8,1%	6,2%
EUR/ CHF	0,9387	0,2%	0,5%	0,2%	-0,1%	-0,3%
USD/ CNY	7,1378	0,1%	-0,6%	-0,6%	0,3%	-2,3%
USD/ JPY	148,49	1,0%	1,0%	4,0%	3,3%	-5,5%
USD/ GBP	0,74	0,3%	-1,4%	0,8%	-2,3%	-7,1%

Source: LSEG Datastream

Carsten Klude
+49 40 3282-2572
cklude@mmwarburg.com

Dr. Christian Jasperneite
+49 40 3282-2439
cjasperneite@mmwarburg.com

Dr. Rebekka Haller
+49 40 3282-2452
rhaller@mmwarburg.com

Simon Landt
+49 40 3282-2401
mlandt@mmwarburg.com

Martin Hasse
+49 40 3282-2411
mhasse@mmwarburg.com

Jan Mooren
+49 40 3282-2132
jmooren@mmwarburg.com

This article does not constitute an offer or an invitation to submit an offer but is solely intended to provide guidance and present possible business activities. This information does not purport to be complete and is therefore not binding. The information provided should not be considered a recommendation to purchase financial instruments individually but serves only as a proposal for a possible asset allocation. The opinions expressed herein are subject to change without notice. Where statements were made with respect to prices, interest rates or other indications, these solely refer to the time when the information was prepared and do not imply any forecasts about future development, particularly regarding future gains or losses. In addition, this information does not constitute advice or a recommendation. Before completing any deal described in this information, a product-specific consultation tailored to the customer's individual needs is required. This information is confidential and exclusively intended for the addressee described herein. Any use by parties other than the addressee is not permissible without our approval. This particularly applies to reproductions, translations, microfilms, saving and processing in electronic media as well as publishing the entire contents or parts thereof.

This article is freely available on our website.