



Investment commentary of June 26, 2023

Further decline in US inflation

- In the US, high inflation continues to recede. Compared to the same month last year, consumer prices rose by 4% in May, which means a decline of almost 1% (April: 4.9%; March: 5.0%).
- However, core inflation (excluding volatile energy and food prices) remains stubborn. This rose by 5.3% compared to the same month of the previous year, which corresponds to a decrease of only 0.2% compared to the figures for April.
- Despite falling inflation, the country is still a long way from the 2% inflation target.

US interest rates remain at the same level for the first time in over a year

- After the 10th increase in a row, the FED, as expected, took a first interest rate pause. At its June meeting, it decided to keep interest rates at a level of 5.00%-5.25%.
- This would give them additional time to evaluate further information and to better assess the impact of previous decisions, since increases in key interest rates always take effect with a certain time lag.
- Despite declining inflation, Committee Chair Jerome Powell stressed the firm's determination to fight inflation.
- Further rate hikes are to be expected this year, as the target of 2% inflation is still a long way off. Core inflation is also proving to be more persistent than expected.
- This is also reflected in the new June interest rate forecasts by the Fed members. In March, they still expected interest rates to be 5.1% at the end of the year. However, the new forecast puts this at 5.6%. Future borrowing costs are also seen to be higher - end of 2024: 4.6% (previously 4.3%); End of 2025: 3.4% (previously 3.1%).

Inflation in the euro zone falling

- After a slight increase in April (+0.1%), inflation in the euro zone has fallen further.
- This was 6.1% in May, which also corresponds to a reduction of almost 1%.
- With an increase of 14.9% in May 2023 compared to the same month last year, food is still the biggest price driver.
- The core rate of inflation is also declining and was 5.3% in May (April: 5.6%).
- However, it can also be seen in the euro zone that the target of 2% inflation is still a long way off.
- The core rate of inflation is also proving to be very stubborn. It only reached its temporary peak in March and has only fallen by 0.4% since then.
- According to a Forsa survey, the following proportions of Germans limit their consumption as follows:
 - 44% food



- 76% energy consumption
- 61% bars and restaurants
- 56% vacation

ECB raises rates to 4.00%

- Under pressure that inflation is still stubborn, and the inflation outlook is too high for a long time, the ECB has raised interest rates by a further 0.25% to 4.00%.
- This is the eighth consecutive rate hike and shows the ECB's determination to fight inflation.
- This determination is also underlined by the changed rhetoric. After the last meeting, no precise statements were made about further interest rate hikes. After the most recent meeting, it was made clear that there was a high probability that interest rates would be raised further in July and that there would be no thought of an interest rate pause, as the Fed did.
- The interest rate level can therefore be kept high for a longer period to bring inflation to 2% in the long term.