Investment commentary of October 10, 2023

Further increase in U.S. headline inflation

- In the US, inflation has declined from its peak in June 2022 (9.1%) to 3% in June 2023. Since then, it has increased again for two months in a row - in July to 3.2% and most recently to 3.7% in August. The experts expected increases however, in August of 3.6%.
- But the far more important number is still on the decline. Core inflation, excluding the volatile prices of energy and Food, fell to 4.3% in August.
- The trend is clearly downward, but nevertheless, still a long way away from the 2% inflation target mark.

US key interest rate left at existing level

- After the first interest rate break in June (after ten hikes in a row), the FED decided to raise the key interest rate to a level of 5.25%-5.50% in July. At the September meeting, it was decided to take another break on interest rates and left the key interest rate unchanged at existing level.
- However, as explained previously, the core rate of the Inflation remained stubbornly high and headline inflation rose for the second consecutive month. The risk of inflation has therefore not yet been averted.
- The FED is leaving its further monetary policy course open, as interest rate hikes have a time-delaying effect and the interest rate steps taken so far have not yet had their full impact. It will analyze economic developments and the underlying data on an ongoing basis and make a new decision at each meeting.

New Dot Plot

- The economic growth forecasts for 2023 (from 1.0% to 2.1%) and 2024 (from 1.1% to 1.5%) was revised upwards. The FED also assumes a low unemployment rate.
- FED members continue to expect another rate hike this year. However, they see fewer interest rate reductions next year than in the last survey. This means that interest rates are likely to remain higher than before for a longer period assumed.
- However, this will depend on economic developments. If a recession occurs, interest rates are likely to fall much more sharply.

Eurozone: Headline and core inflation down

- Inflation is falling again in the Eurozone. After 5.3% in July, prices rose by 5.2% in August compared to the same month last year. This was below expectations of experts who expected inflation to reach 5.3% in August.
- Also, the Core inflation fell from 5.5% in July to 5.3% in August.
- As it turns out in the US, core inflation is also very stubborn in Europe, and it will take time until this will have reached the target level of 2%.

ECB raises interest rates to 4.5%

- The ECB raises the key interest rate for the tenth time in a row to combat inflation, which remains high. It raises the interest rate by 0.25%. This means commercial banks can get fresh money from the ECB at an interest rate of 4.50%.
- Recently, the key interest rate was down as high as the bursting of the dot-com bubble in 2001.
- Like the FED, the ECB does not want to give any concrete details on its further course of action. The next steps will depend entirely on the underlying data situation.
- However, the ECB's decision-making body announces that the key interest rate has now reached a level which makes, or will make, a significant contribution to combating inflation.
- Lagarde emphasized, however, that the key interest rate will be kept at a sufficiently high level for as long as necessary and added that this should not mean that the peak has been reached.
- In contrast to the USA, the economic forecasts for the Eurozone have been downwards corrected. This means growth of 0.7% is expected for 2023 (June forecast: 0.9%) and 1.0% for 2024 (June forecast: 1.5%).

Excursus: Escalation in Israel at the weekend

- Hamas (and Hezbollah) attack on Israel on Saturday (and Sunday).
- Brief uncertainties on the markets on Monday morning – but during the day, this was put into perspective.
- If the conflict takes place within the existing parties, the likelihood of global impact is small(er).
- It could become problematic if other parties get involved, for example Iran (as a Hamas supporter) and the USA (as an Israel supporter).
- There is a possibility of an energy crisis. Iran belongs to the top ten global oil producers and could block an important trade route (Strait of Hormuz) for energy sources (oil and gas - 20% of global oil shipments pass through the Strait of Hormuz). Iran had already threatened to block the road in the past. The result would be 20% less oil, with fatal consequences for the oil price.
- Limited scope for action by the USA to influence oil prices due to the significant depletion of strategic energy reserves in recent times.
- If the conflict is not resolved quickly, the oil prices can rise to well over 100, which can easily lead to a 10% discount in the markets.
- This means that the risk of growing inflation increases again.

Further points:

- The following two points could counteract a further interest rate hike by the FED: Thanks to low gasoline prices, inflation could continue to come back and the high yields of 10-year

Treasuries partially take over the task of the FED's restrictive monetary policy.

- USA has positive real interest rates - Europe has not yet achieved this.
- The statistical history speaks for a positive Q4.
- Yields on long-term US government bonds should fall a little more to support stocks. If this does not happen, it will weigh on stocks.
- Cryptos: Is certainly a market that has grown up, which should mean that the prices no longer fluctuate as drastically as in the past and volatility has decreased. Furthermore, one is clear about the further development is not entirely agreed upon - it is certainly also a question of conviction. However, one is convinced that if something happens macroeconomically and the FED has to lower interest rates (significantly), this will benefit the crypto market.
- In today's high interest rate environment, gold has a tough time because it does not have a coupon and the (US) government bonds are also considered a safe haven.