Investment commentary of February 20, 2024

US inflation figures

- Contrary to expectations, inflation in the USA weakened only slightly in January. It fell from 3.4% in December to 3.1% in January. A fall to 2.9% was expected.
- Core inflation, which is particularly monitored by the FED, also stagnated at a level of 3.9%, although a decline to 3.7% was expected.
- Although there has been a clear downward trend since the high in mid/end 2022, we are still some way off the 2% inflation target and, as just explained, inflation is proving more stubborn than expected (around 3% since June 2023).

US labor market remains robust

- The labor market in the USA has developed more strongly than expected.
- In January, 353,000 new jobs were created outside of agriculture (December figure was revised upwards to 333,000). Only 187,000 were expected.
- The unemployment rate remained stagnant at a low level of 3.7% in January, even lower than expected (3.8%).
- Wage increases in January were also higher than expected. Wages rose by 0.6% compared to the previous month (0.3% expected) and by 4.5% compared to the same month last year (4.1% expected).

US economic growth also robust

- At 3.3% in Q4 2023, US GDP grew significantly faster than expected (2.0%).
- This also shows that the economy has so far coped very well with the sharp rise in interest rates.

US key interest rate left at existing level again

- At its most recent meeting in January, the FED left the key interest rate at a level of 5.25%-5.5% for the fourth time in a row.
- The combination of stubborn inflation, the unexpectedly robust economy and a solid labor market had dashed expectations of rapid interest rate cuts.
- FED Chairman Jerome Powell has stated that the interest rate peak has most likely been reached, but that the progress of the decline in inflation is not assured and an interest rate cut in March is rather unlikely.
- This caused a certain amount of consternation on the markets. Due to the developments just explained (inflation, economy, labor market), the expected interest rate cuts have also been postponed. As a result, the first rate cut is not expected until June (previously March) and it is now assumed that there will only be four interest rate cuts in 2024 instead of six.

Eurozone: (core) inflation declining slightly

- After a renewed rise in inflation (2.9%) in the eurozone in December, inflation eased slightly again in January (2.8%). However, a fall to 2.7% was expected.
- Core inflation also continued to fall slightly. It fell from 3.4% in December to 3.3% in January. However, a slightly higher decline (3.2%) was also expected here.

ECB with another interest rate pause

- At its January meeting, the ECB decided to pause interest rates for the third time in a row.
- Despite increasing economic concerns, it is leaving the interest rate at which commercial banks can borrow money at 4.5%.
- The Council agreed that it was premature to discuss interest rate cuts.
- Several economists do not expect the first interest rate move downwards until June at the earliest.

Further points:

- Inflation expectations in the US show a comfortable picture, as the 2% inflation target is well on the way to being achieved. However, this can only happen if wage increases continue to fall, as otherwise inflation will be fueled again.
- The probability of a setback in the S&P 500 is increasing: Of course, no one can predict exactly when this will happen, but the air is getting thinner, because:
    - Since the low in October 2023, it has gained a good 20% and has not had a 2% daily correction in 70 days (historically rare).
    - Lack of market breadth (very large dominance of the "Magnificent Seven" - their market capitalization is higher than any market in the G20 countries (except the USA)).
    - With the rise in interest rates, there are now serious alternatives for the stock market to generate returns (from TINA (There Is No Alternative) to TARA (There Are Reasonable Alternatives): low-risk Treasuries.
- There are signs of recession worldwide except in the USA.
- Ethereum ETF about to be approved? - Gary Gensler (head of the SEC) is known for his reluctance towards such crypto products, which is why it is assumed that approval will not be granted immediately, but that the whole thing will be postponed (similar to the approval of the Bitcoin ETF). If approval is then granted, a price development like that of Bitcoin is expected (initially a discount (profit-taking or "buy the rumor, sell the news") with a subsequent rebound).