

The U.S. announces interest rate turnaround



The U.S. Federal Reserve, in the person of its President Powell, has announced raising short-term interest rates. Interest rates are to be raised twice by the end of 2023. In addition, a thought process has begun in the land of unlimited money-printing as to whether the Fed should continue to buy approximately \$120 billion in bonds per month on the market with freshly printed money. This thought process has been triggered by a skyrocketing inflation rate in the U.S.

Meanwhile, the U.S. central bank has been trying to withstand the inflationary pressure with composure. At any rate, U.S. government bonds recorded significant price increases in the weeks following the announcement of prospectively rising interest rates. In public speeches, officials are in fact committed to characterizing the emerging inflation as 'temporary'. Putting it in correct terms, it is likely that the rate of price increases will level off, but it is unlikely to see prices themselves falling back to where they came from. In general, it struck how appeasing the head of the U.S. Federal Reserve appeared. For example, Jerome Powell referred to the indeed recently falling prices for U.S. lumber. It re-

mains to be seen whether this cherry-picking will help credibility. In any case, a reference to more relevant commodities such as oil or copper should have led to a more divergent assessment.

On the contrary, the President of the European Central Bank, Christine Lagarde, was almost defiant in pointing out that the European central bank was perfectly capable of lowering interest rates even further. At the same time, Ursula von der Leyen continued her European tour, handing out fat checks to the respective governments. The debt union in the eurozone is thus taking shape. Anyone who asks critical questions about it, as the German Constitutional Court did weeks

ago, can expect to be indicted by Brussels (known as infringement proceeding). When the euro was introduced in 1999, the CDU still declared that no country would be liable for the debts of other countries. Hans Eichel (SPD), Germany's former finance minister, even went as far as claiming that the euro would be much better than the Deutschmark. For German exporters, this statement may have proved to be true, but for citizens, the picture is not as rosy.

Foreign exchange markets reacted less relaxed than the interest rate markets to the announcement of a prospective rise in U.S. interest rates. The U.S. dollar saw sharp rises, while the euro and,

not least, emerging currencies suffered severe setbacks. The weaker economic development in Europe compared with the United States may also have contributed to the strengthening of the greenback. Certainly, the spread of the coronavirus delta variant is damaging the economic recovery in the affected countries. The United Kingdom stands out in particular. A country that has already responded to Corona and Brexit with a significant economic slump in 2020.

Nevertheless, the economic recovery from the pandemic is

gathering pace. This development is due not least to existing catch-up effects, which in particular should provide a boost for the service sector. However, it is questionable whether there will be a vacation season without restrictions.

To a certain extent, on the stock markets, the above-mentioned economic recovery trends have already been priced in. For companies, much will now depend on whether they succeed in passing on the increased prices for intermediate products to consumers. However, a wave of new issues

and takeovers is causing continuing tension in the equity markets. These will remain the smartest place for money to work in the foreseeable future.

Sincerely yours,

Fund managers and co-investors



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