KATHREIN PRIVATBANK

MONDAY MARKETS MAIL

Key topics at a glance.

Strong dollar, weak stock markets

Kathrein Statement

While the broad US stock index slipped into bear market territory for the first time and lost more than 20 % of its value compared to the high for the year, the US dollar is benefiting from global uncertainties and the Fed's interest rate steps. One euro is currently worth 1.05 US dollars, compared to around 1.2 US dollars a year ago. What are the reasons for the USD rally and does this have implications for investors?

FED interest rate policy and volatility as price drivers

Volatility in the currency markets has increased, which favours the USD and thus is seen as a safe haven. The main reason for the increased volatility is the tighter monetary policy of the US Federal Reserve (FED), which has raised interest rates and is scaling back bond purchases. This has given the USD a boost against the euro.

However, the ECB is now also expecting 3-4 interest rate hikes this year. Whether this will strengthen the euro is questionable since the economic forecasts for the euro zone have been downgraded. In order to strengthen the euro, apart from a quick intervention by the ECB on interest rates, positive signals for an end to the war in Ukraine are also needed. It is therefore likely that the USD will retain its strength in this environment and that parity, a EUR/USD exchange rate of 1:1, will be reached.

Impact of the strong US dollar on investors

The US equities in the portfolio benefit from the rise in the US dollar in the form of exchange rate gains, which at least partially mitigate the fallen prices. But that is already the end of positive effects. Oil and gas are often traded in USD, and the appreciation causes prices to rise further. Loans taken out in USD become more expensive. Especially for the emerging markets (EM), this development has a dampening effect. Overall, the strong US dollar is contributing to a worsening of the inflation problem (except for the USA, which is now benefiting from cheaper imports), combined with fears of recession, this currently means a very challenging climate for investors. This environment is expected to remain in place over the next few months.

About us

Kathrein Privatbank AG, headquartered in Vienna's first district, was founded by Carl Kathrein in 1924 and is one of the leading private banks in the German-speaking countries. Our core competence lies in the management of private, corporate and institutional assets as well as the assets of private foundations. As a subsidiary of Raiffeisen Bank International AG, Privatbank offers the advantages of a flexible, independent as well as service-oriented institution and the security of a stable, international banking group.

NEWSLETTER ABBESTELLEN

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