KATHREIN PRIVATBANK

MONDAY MARKETS MAIL

Key topics at a glance.

Has the bottom already been reached?

Kathrein Statement

Quarterly averages. Sources: BLS, ONS Eurostat, Berenberg

The question many are asking is, has the bottom already been reached? The world stock index in euros is down by around 23%, technology stocks by around 30% and European stocks by almost 20%, depending on the index. Even those who bet more heavily on bonds were bitterly disappointed this year, as safe government bonds in Europe fell by around 14% across all maturities. Corporate and high-yield bonds have not lost much less, even though the interest rate sensitivity (duration) is much lower here.

The question many are asking: Has the bottom already been reached? The cause of this development is well known, inflation figures the likes of which we have not seen since the 1980s. Initially, these were seen as a short-term phenomenon of the pandemic and rebounding global recovery. With the war in Ukraine and the subsequent sanctions, the price increases became firmly entrenched. The ultra-low interest rates of the last few years have carried equities as well as bond markets to lofty heights, so the change in direction is now more intense. The current yield levels after years of negative interest rates are positive for investors; currently one can buy ten-year Austrian bonds with a yield of 2.2% and German bonds with a yield of 1.7%.

What are the factors to keep an eye on?

The forecasts do not expect inflation to return to two to three per cent until the end of 2023. It is to be hoped that, as is widely expected, we have now seen the peak of inflation. This will mainly depend on the so-called second-round effects, i.e. whether the higher prices also push up wages and salaries.

In the case of bonds, the question is how much real interest on government bonds is allowed by the ECB. In recent years this has been negative, but in the long term it has always been between one and three percent.

On the question of whether we expect a recession in the USA and or also in Europe, we look primarily at the purchasing managers' indices, which have deteriorated but are still mostly above the critical 50-point mark. These leading indicators show 57.0 in the USA and 54.2 in the euro zone. Other indicators also do not currently point to a recession.

For a sustained improvement in the capital markets, a significant decline in the inflation figures is needed, so that we can really assume that we are moving in the direction of two to three percentage points of inflation.

In the current quarter, a slight decline in corporate earnings growth is expected in the US and Europe. Recovery in earnings expectations is then in sight from the third quarter onwards. In view of the uncertain outlook, we should hold off on buying equities. Currently, we remain underweighted in the equity markets and as short as possible in bonds.

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.

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