February 2023

Market Commentary

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In large part of the world, economic development at the end of 2022 was more positive than initially assumed. These improved starting points are the reason why some financial institutions have made upward revisions to GDP forecasts and inflation forecasts for 2023.

However, these data are not yet a reason to dismiss the risk of recession this year. In particular, consumption-dependent sectors and construction are likely to suffer significantly due to still-high inflation and tighter financing conditions imposed by the Federal Reserve. The US markets are already ahead of the European markets in this cycle.

Looking at the February meetings of the Fed and the ECB, both central banks raised their key interest rates again. The ECB raised its rates by another 50 bps and already envisaged a further rate hike for the March meeting. A deposit rate of at least 3 per cent thus appears to be quite realistic. In addition, the roadmap for the gradual dismantling of the APP bond-buying program was concretized.

Unsurprisingly, the Fed has also taken a further interest rate step of 25 bp. As a result, the key interest rate level in the USA is currently 4.5 - 4.75 per cent. The short-term euphoria of the stock markets, which had expected sharper words on the part of Jerome Powell in the run-up to the interest rate decision, does not seem to have been consolidated against the background of the current interest rate and inflation risk. In addition to the rise in commodity markets due to the reopening in China and the structural labour shortage in the US, this could delay the rapid return to the Fed's inflation target.

In Focus: Economic development 2023 still open

- Demand-slowing factors remain.
- The central banks are not yet budging from their course of interest rate hikes.
- Intensification of the liquidity situation and high market volatility is realistic.

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