TIM UNDERWOOD

Monthly Report – May 2023

The investment world is still divided on when the major central banks will stop raising interest rates. This is important because different assets perform differently at times in the rate cycle. In the US rates have gone up from near zero to 5% in less than one year and some now see the next meeting in mid June as a time when they will "pause". Other suggest they need to keep raising rates to reduce inflation, which is the reason why they raise rates. Other suggest the potential for a global recession later this year means it is time to stop now.

The latest GDP numbers from Germany show that country has already slipped into recession as measured by GDP growth dropping in two consecutive quarters.

But that has not got the head of the ECB worried and Mrs Laguarde said in a speech on 1 June in Germany "Today, inflation is too high and is set to remain so for too long. We are determined to bring it back down to our 2% medium-term target in a timely manner". Inflation is currently 7% in the Eurozone. But given inflation is, according to some, always a monetary phenomenon and the M2 money supply grew by only 0.9% year on year in April, the lowest in history, they run the risk of deflation. At the moment the US central bank, like the ECB and Bank of England, are focussed on inflation and keeping rates high, if not higher.

One of the problems is that a guide to their interest rate policy is the rate of unemployment which at the moment seems not to be an issue. However by the time it is an issue it might be too late to act. Once unemployment rises central banks will be swift to reduce rates and that might be supportive for the economy. Best not to get too focussed on short term movements in interest rates, but step back and be clear on investment objectives,

Best wishes

Tim 5 June 2023

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