

"Interest rates are rising!
Is the Recession inevitable or do we
manage a Soft Landing?"

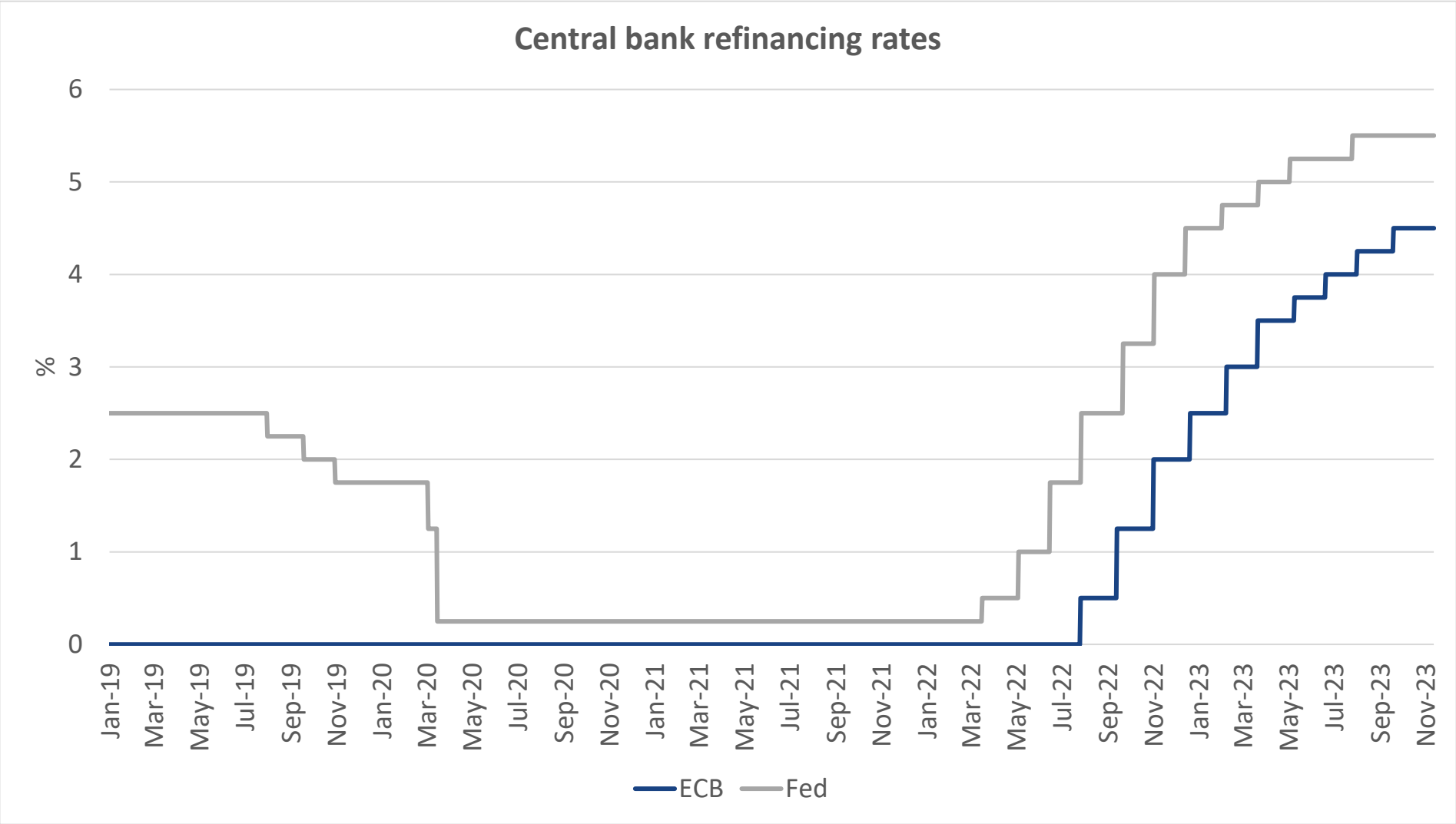
Wilhelmshaven, 14th December 2023

Dr. Jörg Rahn

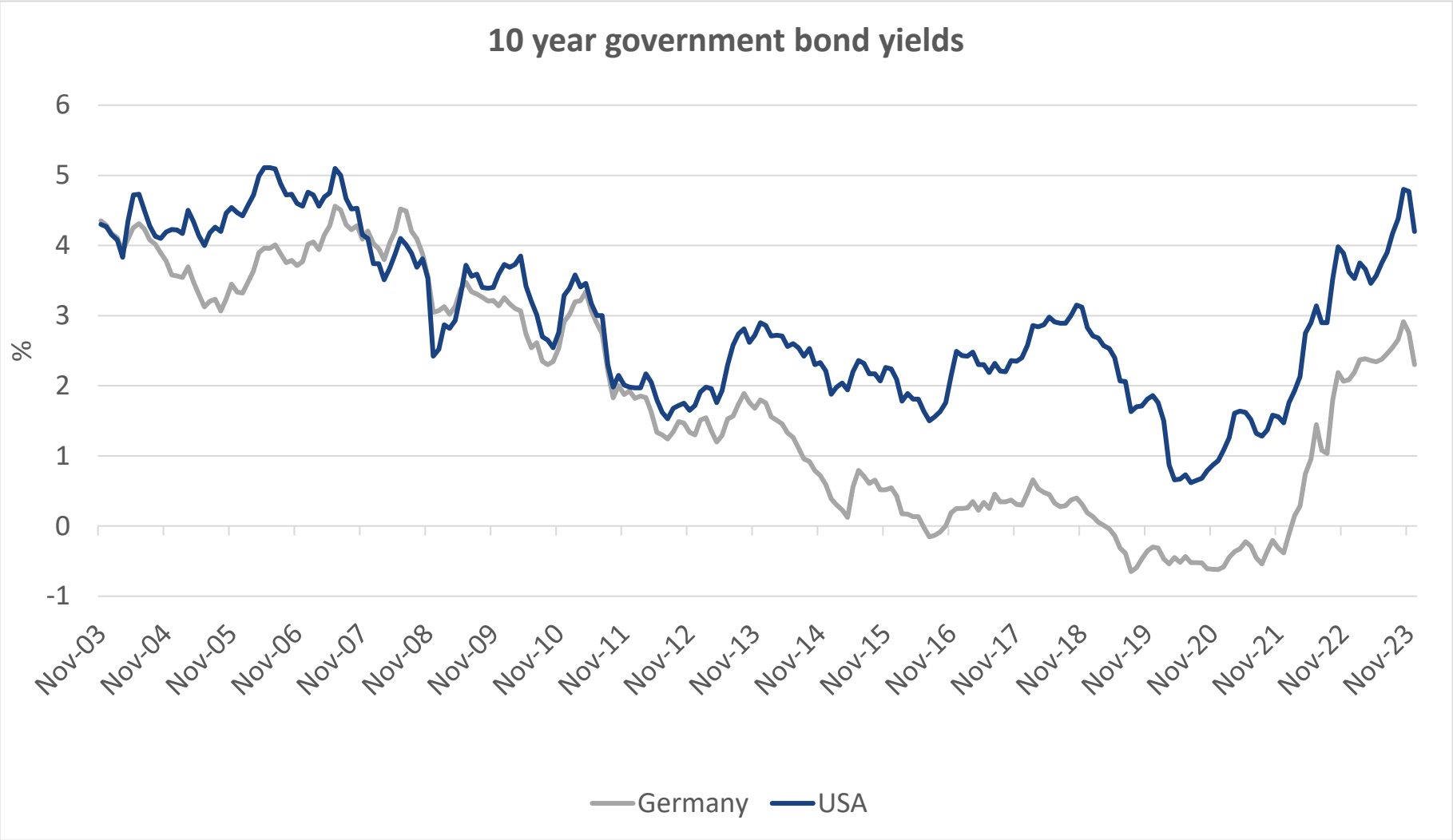
Overview

1. The most recent development of interest rates
2. What are the reasons for the latest interest rate increases?
3. Why do interest rates matter so much for the economy?
4. Interest rates and the business cycle
5. Evaluation of the current situation and forecasts

Central bank rates: Strong rise within 18 months



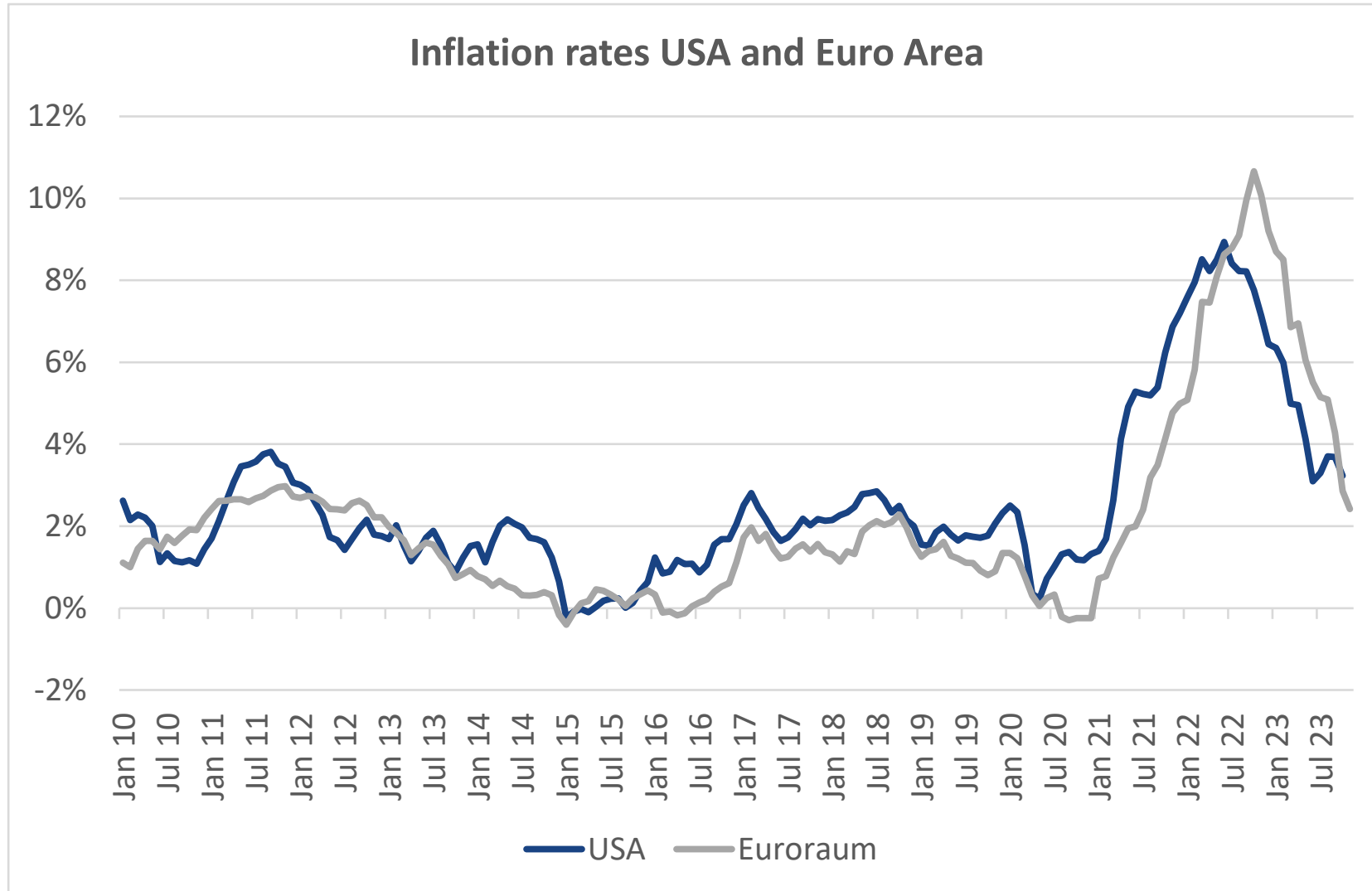
Bond yields: Sharpest rise for a long time



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Current economic indicators: Inflation rates were very high



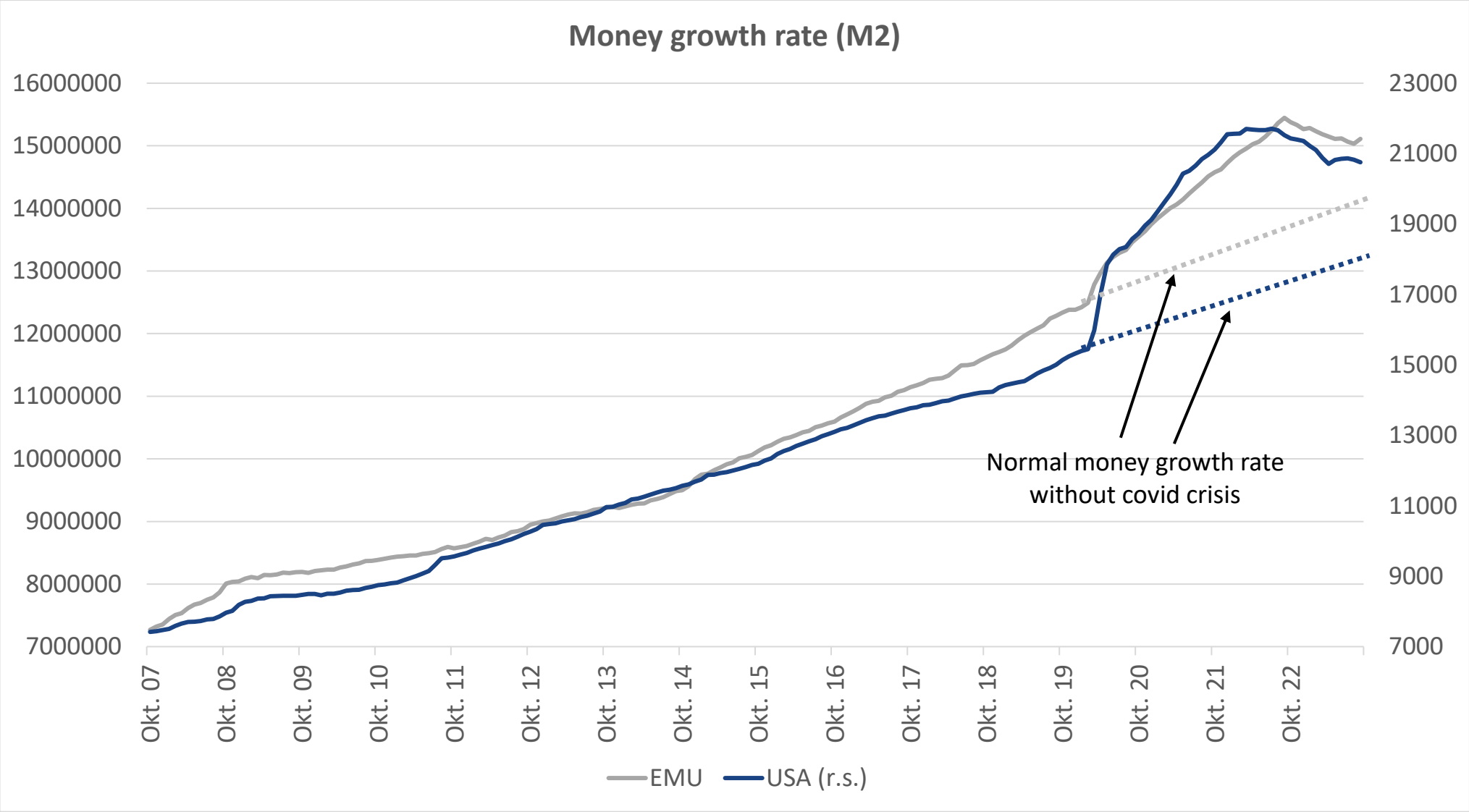
What are the reasons behind the latest interest rate increases?

- The increases are a reaction of high inflation rates

But what caused the high inflation rates?

- Expansionary monetary policy in reaction to covid crisis
- Very tight labour market
- Building boom with shortage of building materials
- Political conflicts with rising oil prices
- Energy transition to renewables
- Deglobalization trend

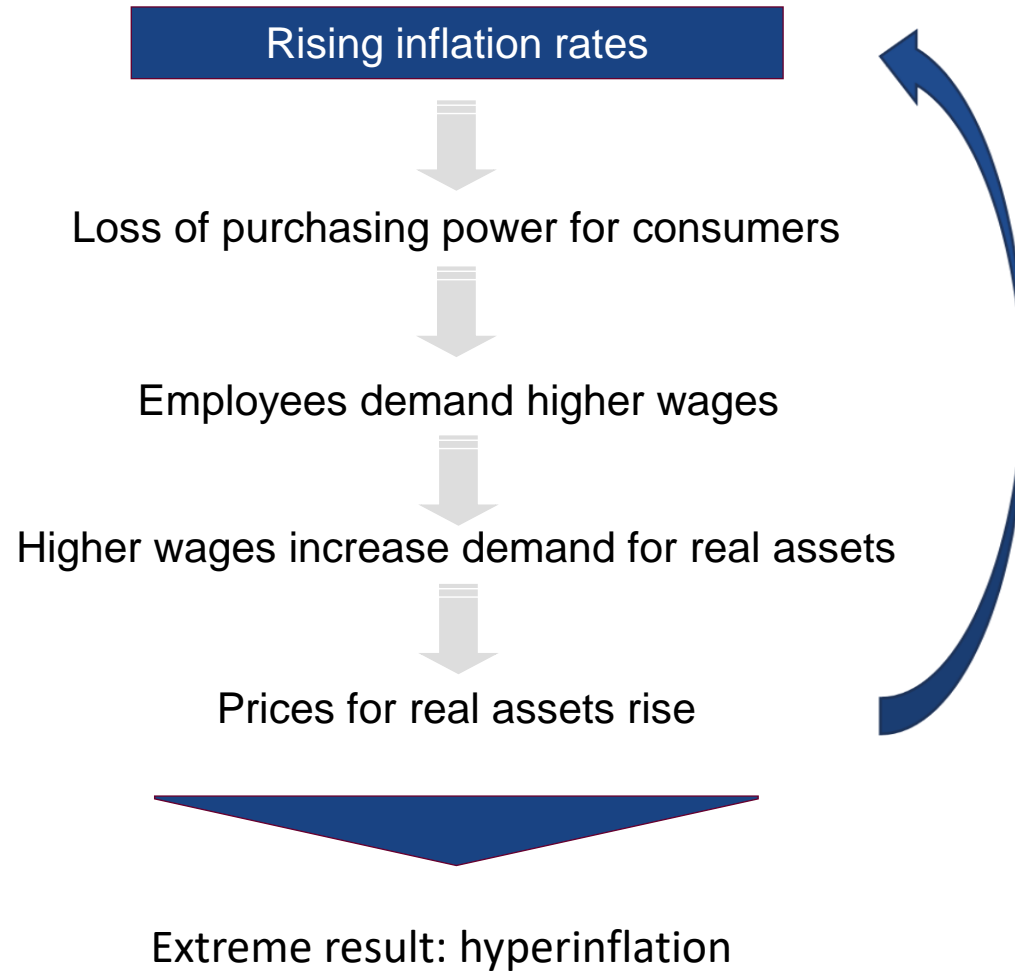
Expansionary monetary policy: Still too much money in the market



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The risk of inflation: self-fulfilling prophecy



Why do interest rates matter so much for the economy?

- Interest rates have dampening effects on the economy

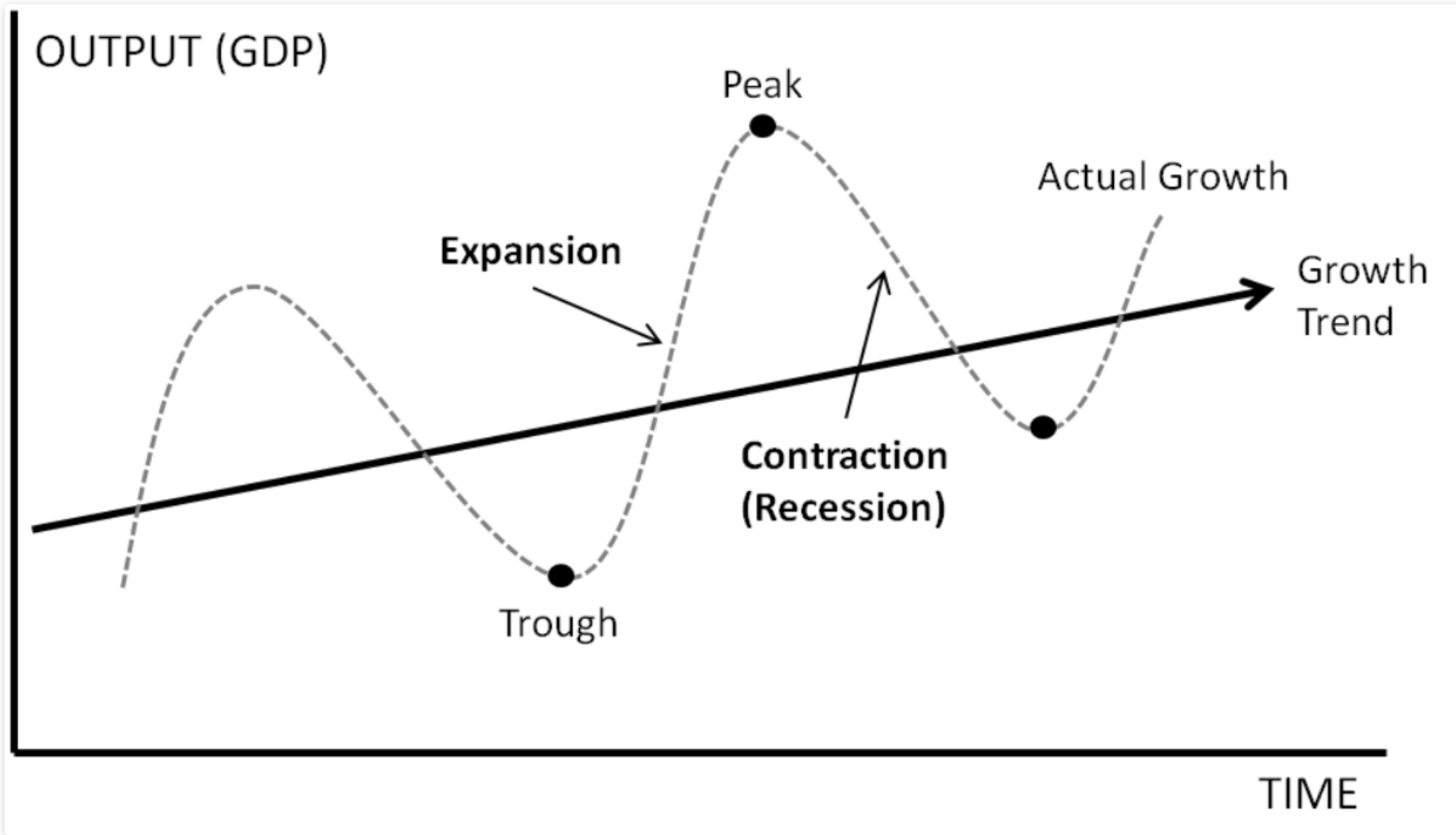
But why?

- They lead to declining investments as costs for capital rise
- Consumption decreases as loans become more costly
- Property investments are limited
- With a rising discount factor, real assets like stocks or property become less valuable
- Cash is invested in bonds instead of stocks

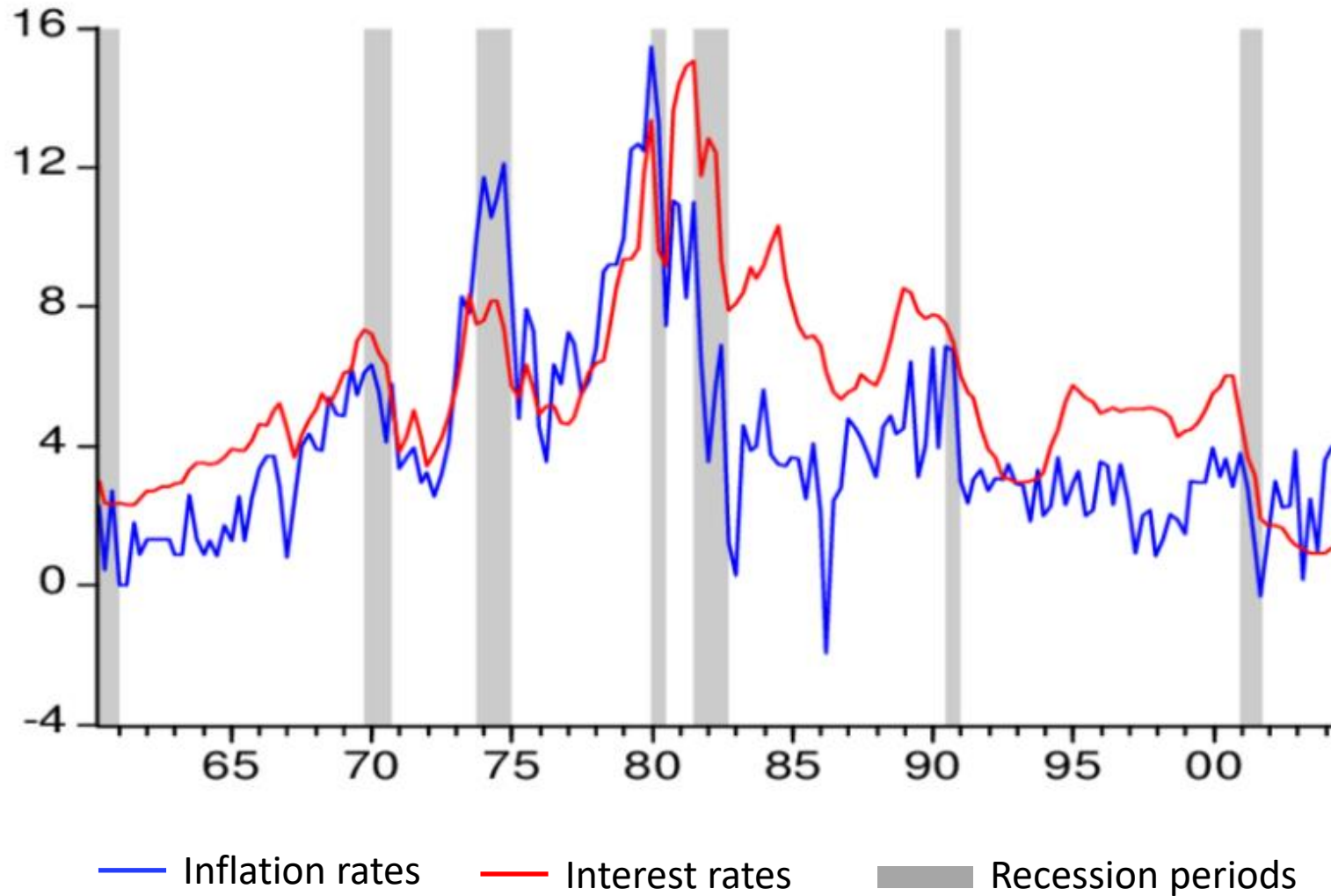
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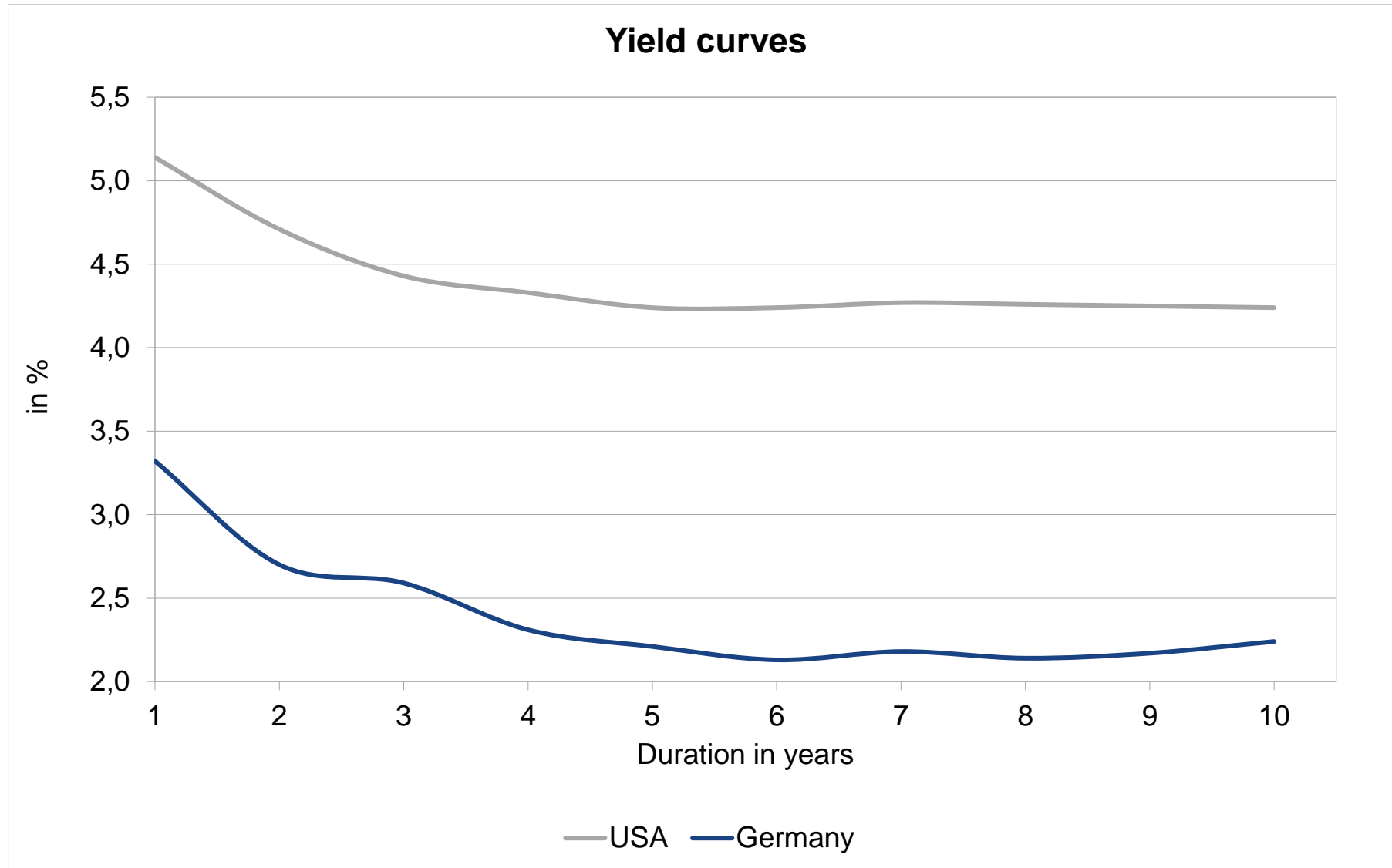
Interests rates and business cycles



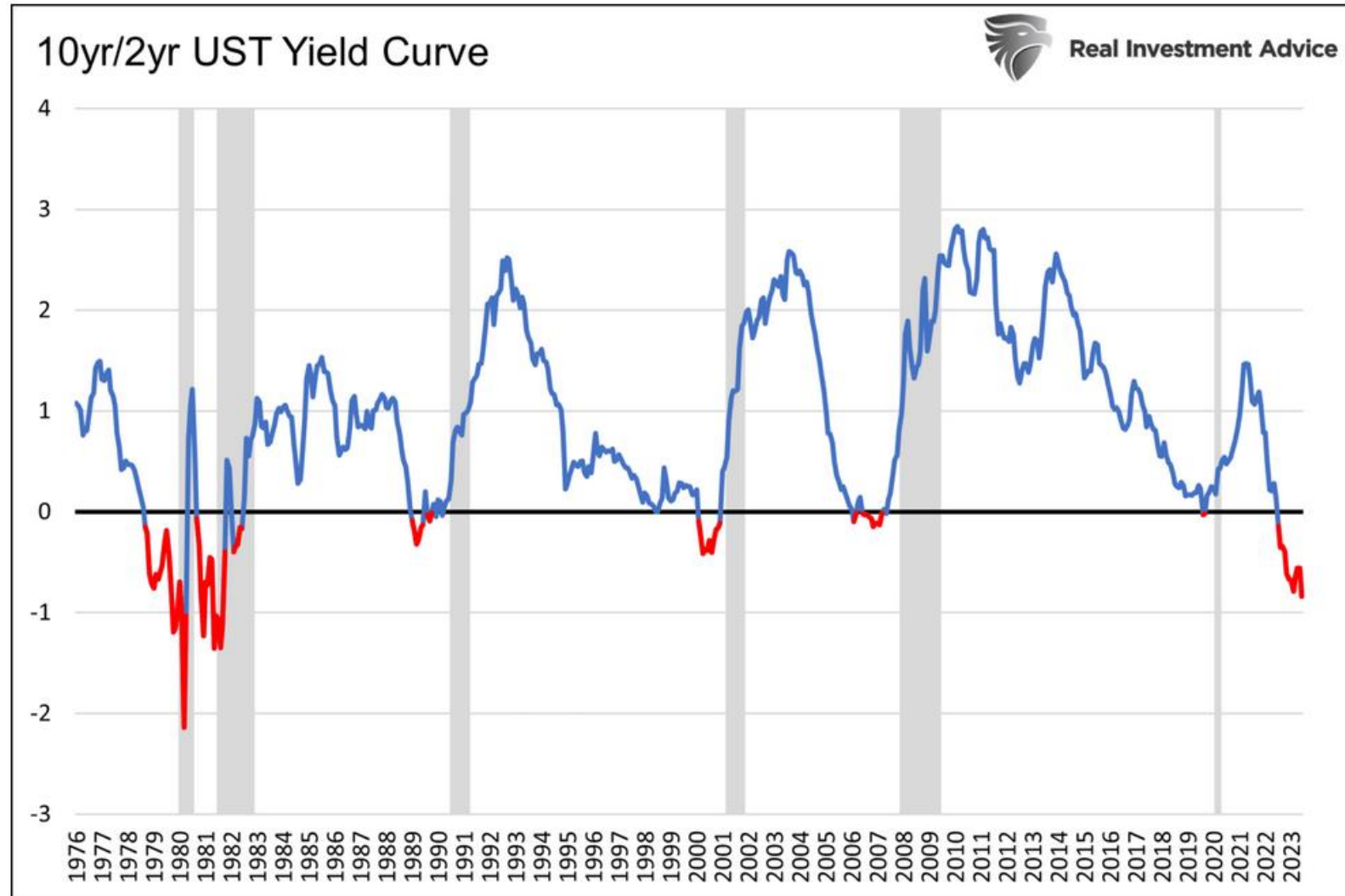
USA: Interests rates and recessions



USA and Germany: Yield curves are a warning signal



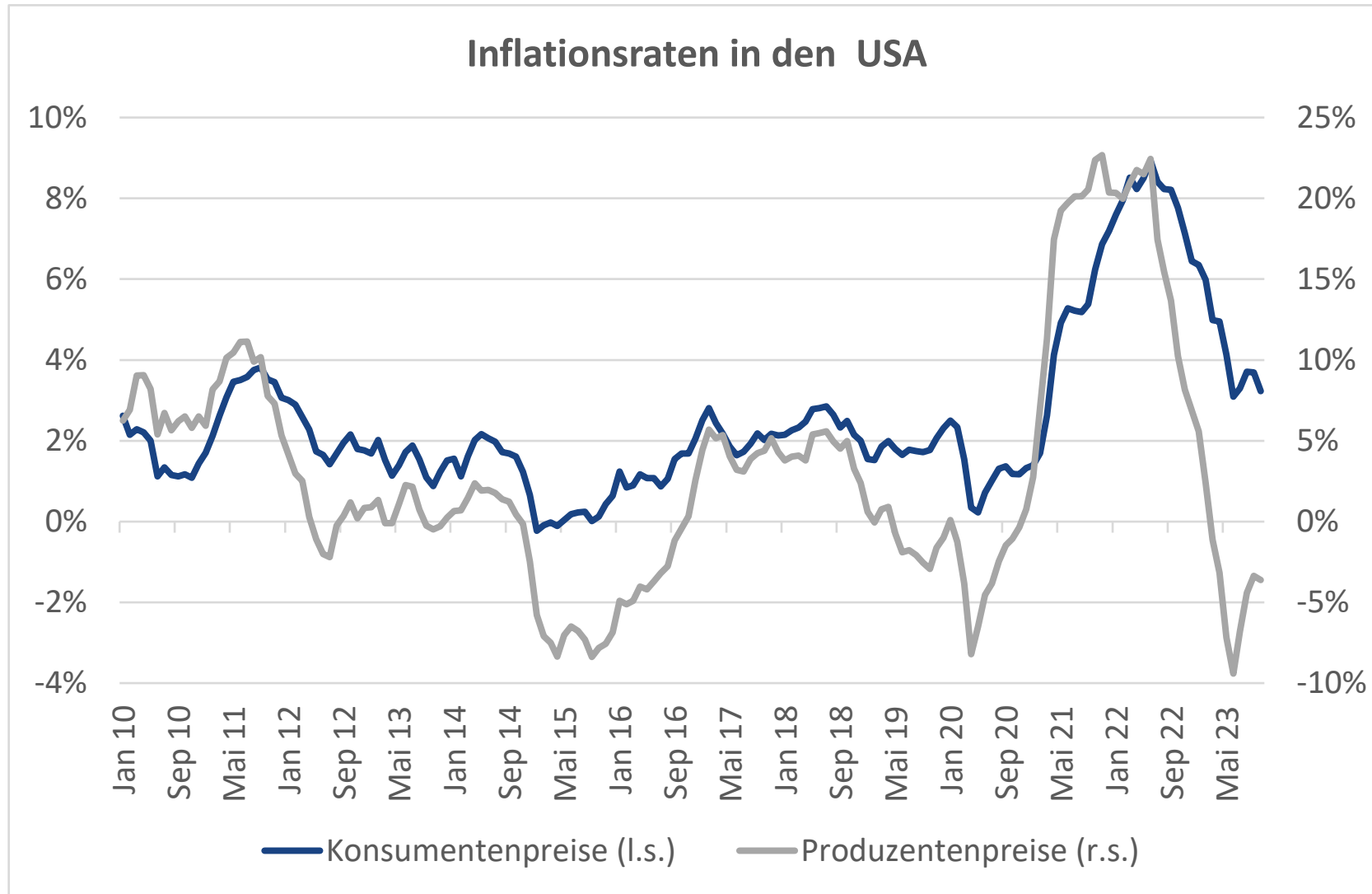
USA: Yield curve as a recession indicator



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Current economic indicators: Producer prices are signaling an easing situation



Bund Future: Downward trend has been broken => Interest rates are declining



Stock market: DAX at all-time high

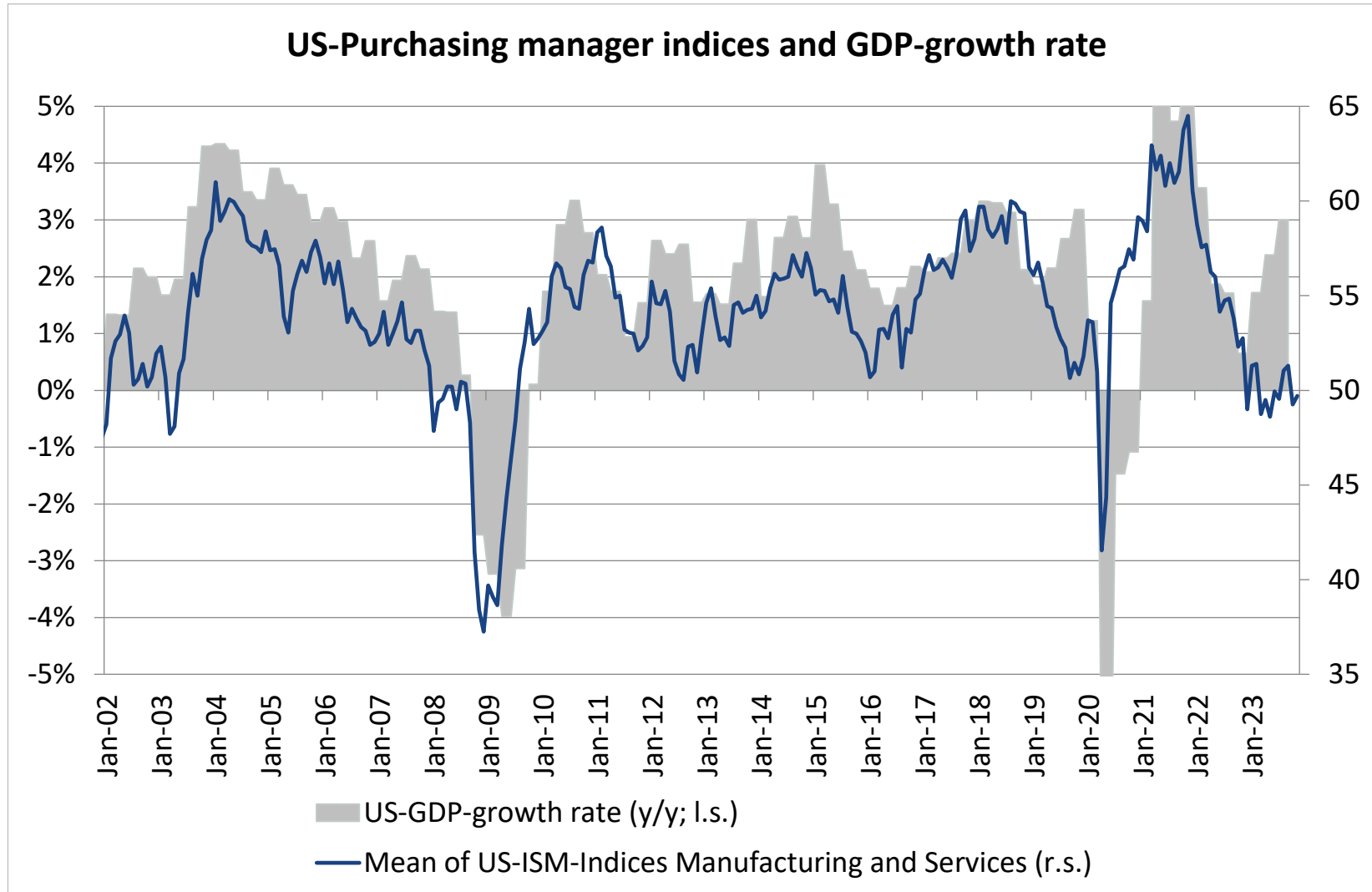
DAX 40 Chart - 1 Jahr

Chart-Typ ▾ Optionen ▾

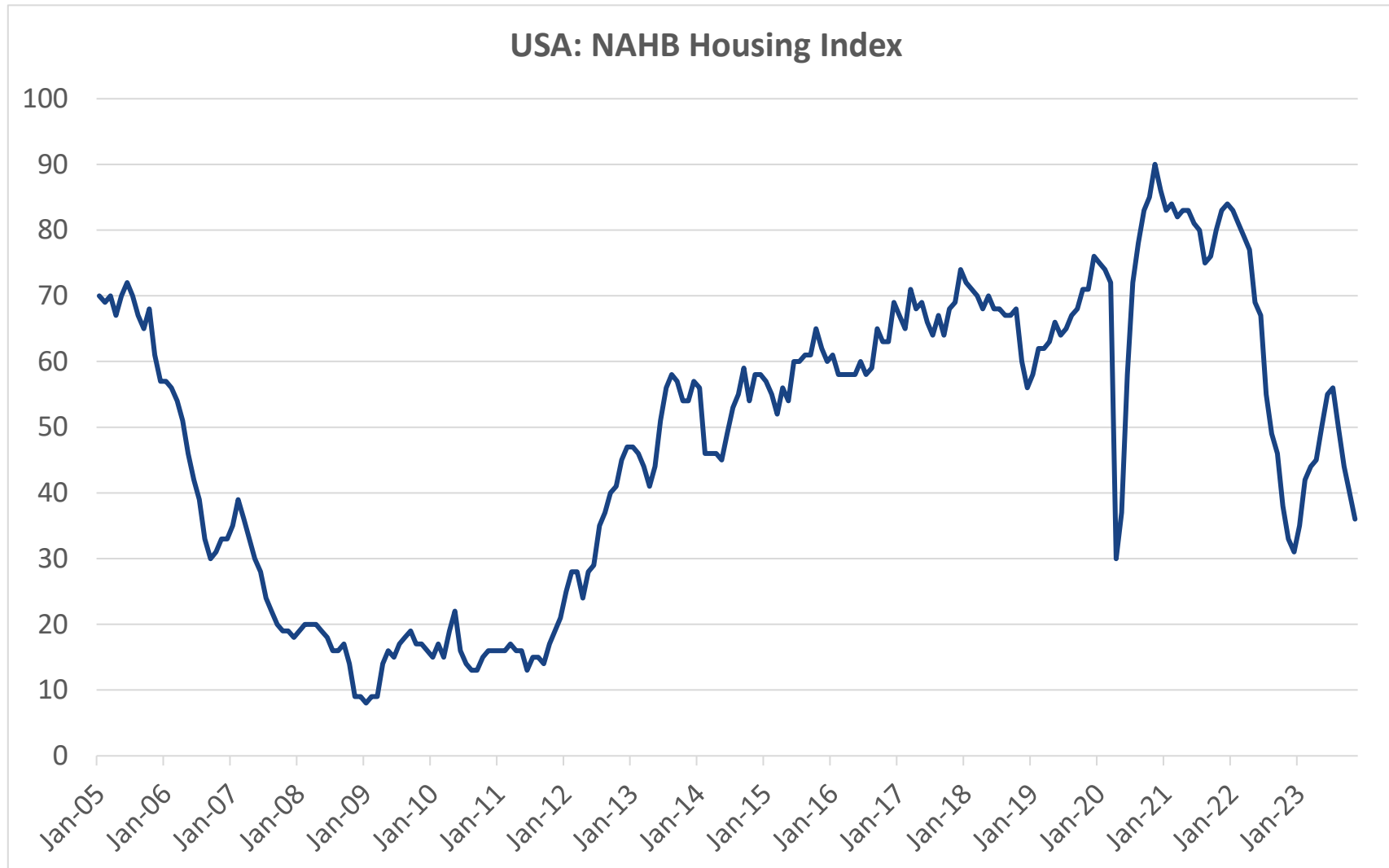
Push Intraday 1W 1M 3M 1J 3J 5J MAX



Current economic indicators: Surveys suggest stagnation, but not a recession



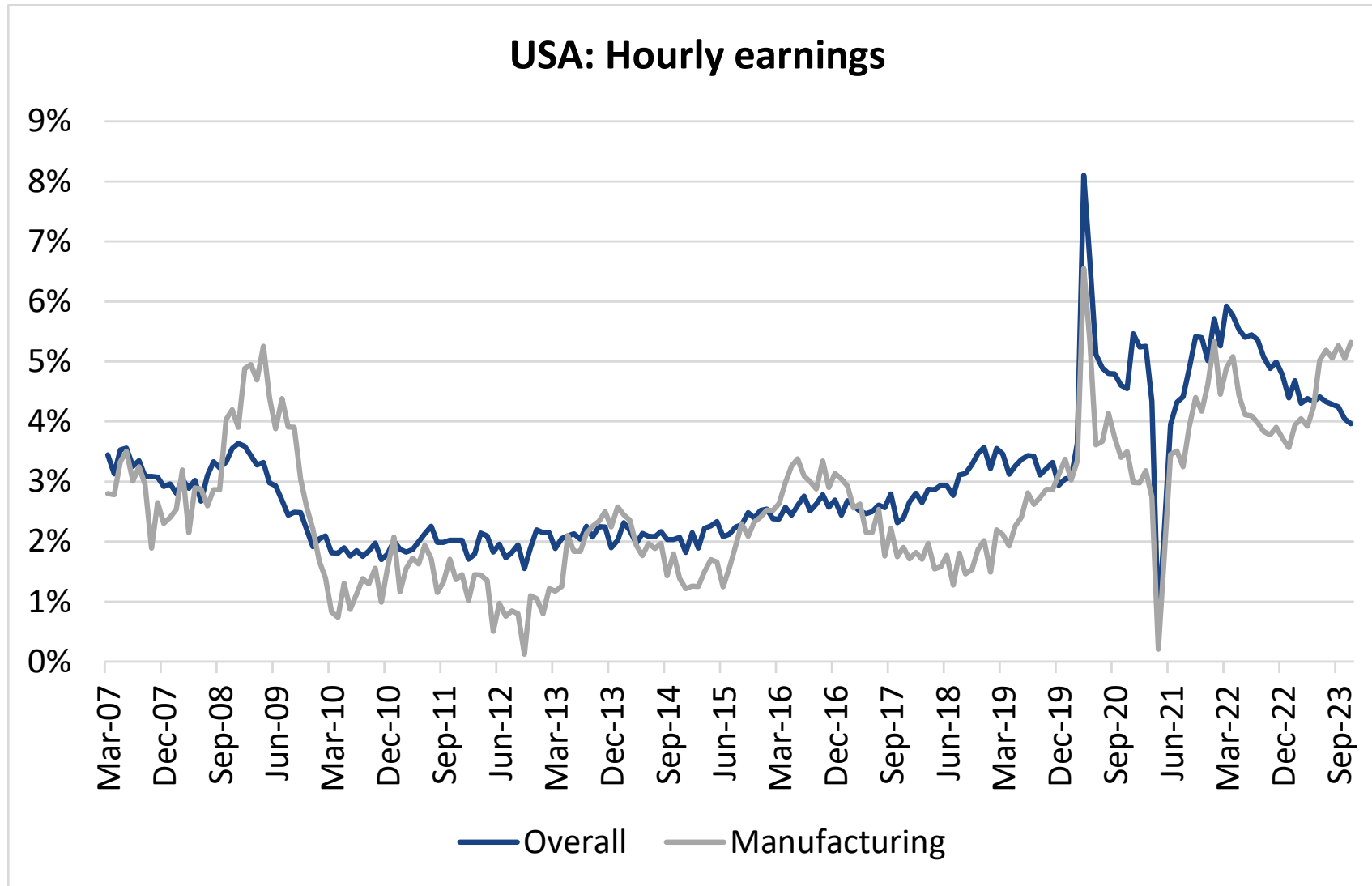
Current economic indicators: US real estate market under pressure, but not in trouble



Current economic indicators: US unemployment rate still at historically low levels

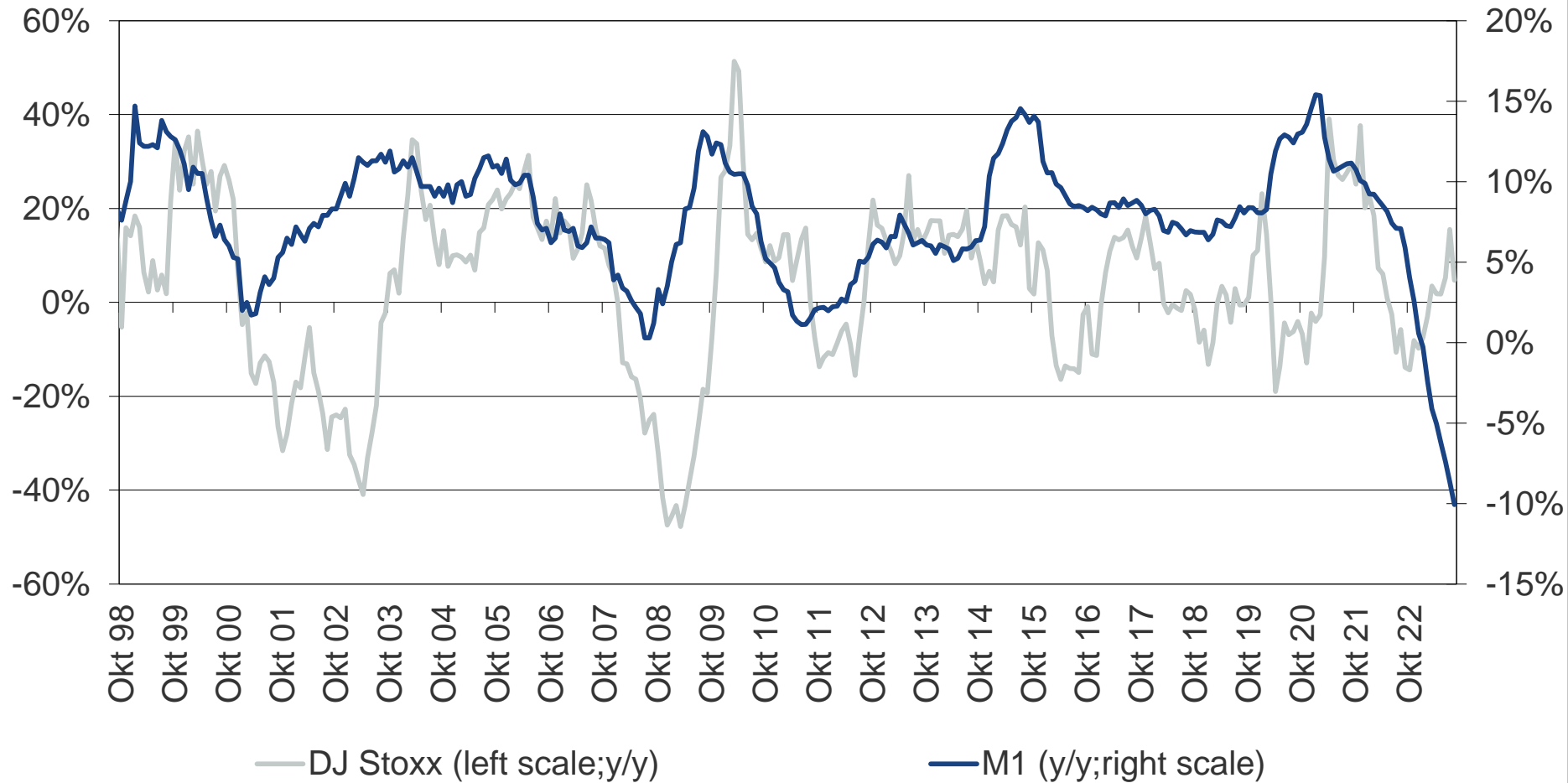


Current economic indicators: Wage rises far above sustainable levels



Current economic indicators: Declining money growth is a burden for stocks

Europe: Money growth rate M1 and DJ Stoxx 600



Conclusion

- Declining interests rates are a glimmer of hope
- Markets already expect a change in monetary policy
- However: The risks of sticky high inflation are not yet banned
- Problems: Too much money in the system and rising wages
- Risk of a recession is still given
- Current market optimism might be too early

The end

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