A New Cycle of Interest Rate Cuts

The interest rate market has shown significant momentum since the beginning of the year, spanning both short and long ends of the yield curve. Following three key rate cuts by the European Central Bank (ECB), the money market rate for six-month deposits in Germany currently stands at just under 3%. In the United States, the comparable rate is 4.5%. This marks the central banks' successful initiation of a new cycle of interest rate reductions.

With inflation rates normalizing in recent months, central banks saw justification for lowering short-term rates. However, October data hints at persistent upward pressure on prices. Surprisingly, weak economic performance was cited as the primary rationale for these rate cuts, particularly in the U.S. and even more so in Europe. It's worth noting that the ECB has no official mandate to support economic growth, as its sole statutory obligation is to ensure monetary stability. Yet, as the Maastricht Treaty illustrates, adherence to treaties has never been the Eurozone's strong suit.

These rate cuts have provided a tailwind for real estate and, to a lesser extent, equity markets. The real estate sector, in particular, breathed a sigh of relief. Even the beleaguered bond market, which has endured several challenging years, initially benefited from rate cut expectations this year. Nevertheless, price declines in late October trimmed the Rex Performance Index (RexP) to a modest year-to-date gain of 0.25%. Notably, bonds from emerging markets have performed remarkably well.

In the coming months, interest rate trends will hinge on developments in the inflation landscape. It's striking that crude oil and natural gas prices on global markets have returned to levels seen before the inflation surge of around 20%. On balance, services have emerged as a key inflation driver, with upward pressure persisting in this sector. Consider, for instance, insurance premiums, which have risen significantly in recent years. Rental costs, depending on the composition of official inflation baskets, also remain a critical inflation factor. This is hardly surprising given the acute housing shortage on both sides of the Atlantic, exacerbated by increased migration driving additional demand for housing.

Thus far, the new cycle of rate cuts has had a limited impact on equity markets. Despite the lack of economic momentum, equity markets have managed impressive gains since the beginning of the year. At LOYS, we are proud to manage the top-performing funds in their respective categories: LOYS Premium Deutschland and Vates Aktien USA. While LOYS Premium Deutschland has posted a robust 21% gain year-to-date, Vates Aktien USA has outperformed dramatically, boasting a net return of approximately 42% over the same period.

Sincerely yours,

Fund managers and co-investors

Dr. Christoph Bruns Ufuk Boydak

This text was originally published in German.

Contact us

Gerrit Braith

Managing Partner Sales / Marketing

braith@loys.de

Tel. +49 (0) 69 2475444-01

Sebastian Erdmann

Sales Manager

erdmann@loys.de

Tel. +49 (0) 69 2475444-24

Franziska Grosch

Sales Manager

grosch@loys.de

Tel. +49 (0) 69 2475444-16

Benjamin Hots

Sales Manager

hots@loys.de

Tel. +49 (0) 69 2475444-14

Peter Maser

Sales Manager

maser@loys.de

Tel. +49 (0) 69 2475444-02

Alexander Piira

Sales Manager

(LOYS Suisse AG)

piira@loys.de

Tel. +41-41 766 77 35

Impressum - Company Details

Publisher:

LOYS AG
Heiligengeiststr. 6-8
26121 Oldenburg

Contact us:

Telephone: +49 (0) 69-2475444-0
info@loys.de

Responsible person:

Ufuk Boydak
CEO LOYS AG
www.loys.de