



# “US interest rate cut coming soon?”

Our Opinion  
August 2024

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Dear Readers

The article “US interest rate cut coming soon?” discusses what factors favour an imminent interest rate cut in the United States.

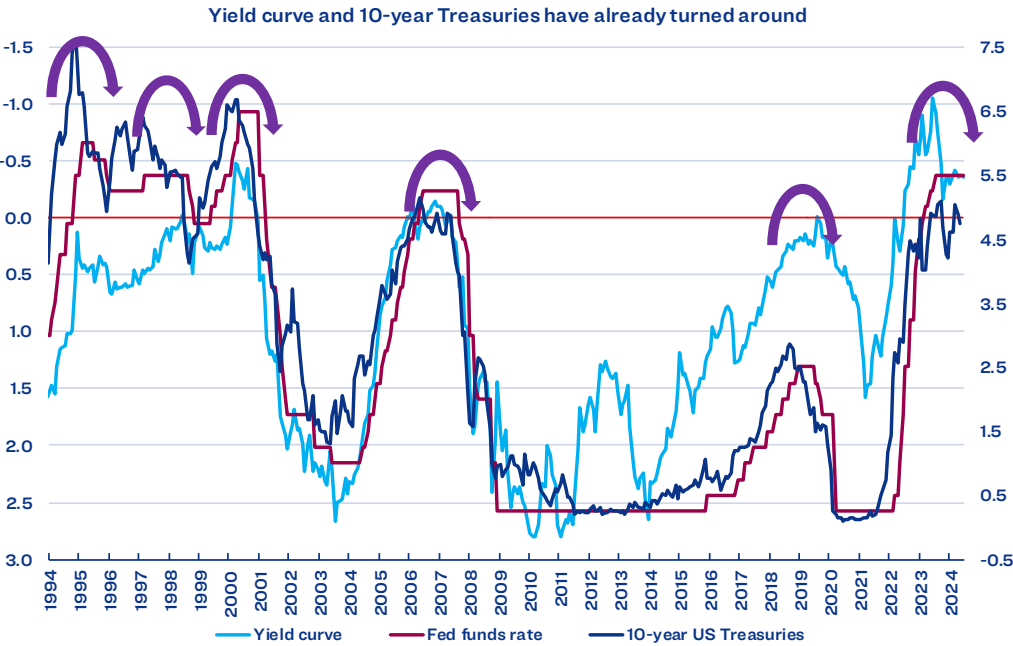
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We wish you a pleasant read.  
Your Advisory Team

# “US interest rate cut coming soon?”

## Bonds

The Swiss National Bank has already done it twice, the European Central Bank once – only the US Federal Reserve (Fed) has been holding back with interest rate cuts so far. At the beginning of the year, up to seven interest rate cuts were expected in the US, but prices rising above the inflation target have caused the Fed to keep key rates at the current level for now. This has caused a further rise in yields and corresponding losses on bond positions.



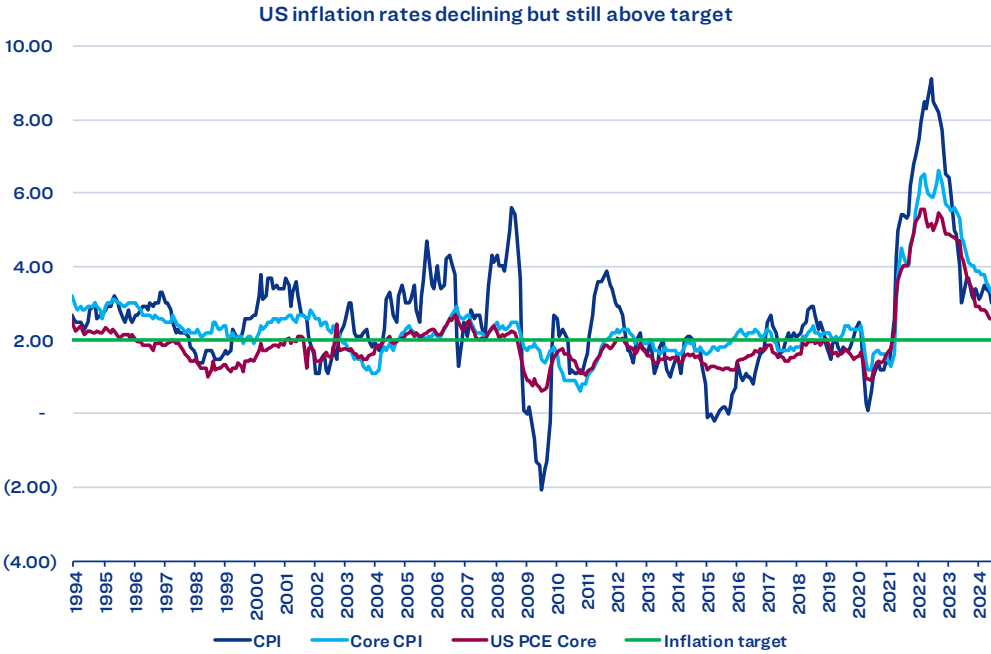
Source: Bloomberg, Neue Bank AG

However, a look at the chart above shows that both the yield curve (10-year minus 2-year rates, shown inverted) and 10-year yields have peaked. As history has shown, this is generally a signal that the US Federal Open Market Committee (the decision-making body headed by the chair of the Federal Reserve) will likewise decide to lower interest rates. An interest rate cut can therefore be expected at the next

meeting on 18 September, which should ultimately also give bonds a boost again.

**Economy**

As mentioned, inflation has not yet fallen back below the target level. It's important to note that there are different ways of measuring price increases. Consumer price indexes (CPI) measure a common basket of goods. The core CPI rate excludes energy and food price trends, given that they are often subject to short-term fluctuations. The Fed, however, mainly follows the core personal consumption expenditures (core PCE) index, which is not tied to a specific basket and often moves slightly below the core CPI rate.



Source: Bloomberg, Neue Bank AG

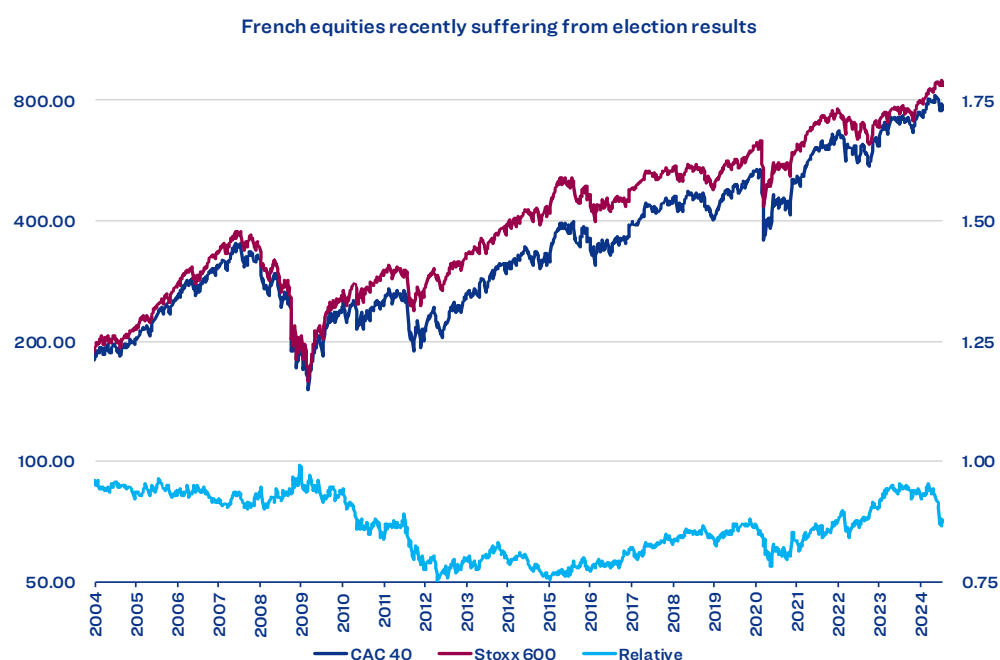
As the above chart shows, the Fed's preferred inflation measure is still above the inflation target – but unlike the CPI basket of goods, it is still moving in the desired direction. The scenario of interest rate cuts is also supported by the slightly gloomier economic data.

## Equities

Among equity markets, the French market in particular has stood out recently. Following the shift to the right in the European elections in June, President Macron called for parliamentary elections. Right-wing parties won the first round, but in the second round of voting, a left-wing alliance of environmental parties, left-wing populists, communists, and socialists won the most seats. The French president would certainly have wished for a different outcome. The CAC 40 (index of the 40 largest French companies) corrected significantly relative to other European equities:

## Neue Bank traffic light

- strongly bearish
- bearish
- neutral
- slightly bullish
- bullish
- strongly bullish



The light blue line in the chart above shows the relative performance of French equities to the Stoxx 600 (600 largest European equities). A massive underperformance – such as recently – occurs mainly in times of crisis (e.g. 2011 euro crisis or 2020 pandemic). In these cases, both the French and the European index corrected – the CAC 40 simply corrected more sharply due to its more cyclical composition. French equities are currently losing ground, while European equities are trending sideways. Now that neither the left, centre, nor right have a majority in France, it will not be easy to form a government. The right around Le Pen will probably remain on the sidelines. Macron, who achieved the second most votes with his electoral alliance, has announced that he will not appoint a new prime minister before the end of the Olympic

Games in mid-August. This means the uncertainties will persist for now. All in all, this is not a good omen – also not for other upcoming elections on both sides of the Atlantic. However, since nothing is often quite as bad as it looks, the equity market adage “political stock markets are short-lived” may also turn out to be true. Our traffic light is still light green, so that we continue to slightly overweight equities.

## **Currencies**

The trend of the Norwegian krone is once again weak. Over the last 10 years, the NOK/CHF exchange rate has almost halved. After initially appearing to have bottomed out, our trend measurements in the previous month again indicated a hedging signal. The signal was similar for the NOK/EUR exchange rate. Anyone investing in Norwegian equities should keep an eye on the currency risk, because although Norway is economically and politically very stable, the currency continues to weaken.

## **Alternative investments**

We are invested in catastrophe bonds, which insure against losses caused by natural disasters. One of the most frequent insured events is storm damage (hurricanes), which normally occur between August and October. This year, the first hurricane already occurred between the end of June and the beginning of July. Ocean temperatures are exceptionally high, which favours the formation of these tropical storms. If they make landfall and hit urban centres, there is always a risk of major damage, which can cause catastrophe bonds to default. We are invested in these bonds via funds. This ensures broad diversification, not only in regional hurricane insurance, but also across entirely different natural catastrophes worldwide. Nevertheless, the past has shown that – even without actual defaults – increased volatility may occur in these investment vehicles during hurricane periods. We are already advising investors to remain calm.

# PRIMUS–PASSIVE

For anyone wishing to make a long-term investment according to strategic principles and be fully invested when the equity markets rise again, we recommend the PRIMUS-PASSIVE asset management mandate. Under this mandate, we use strategic asset allocation to invest the available assets in cost-effective index products. We would be pleased to discuss the special characteristics of this innovative solution with you in person. We look forward to your call.

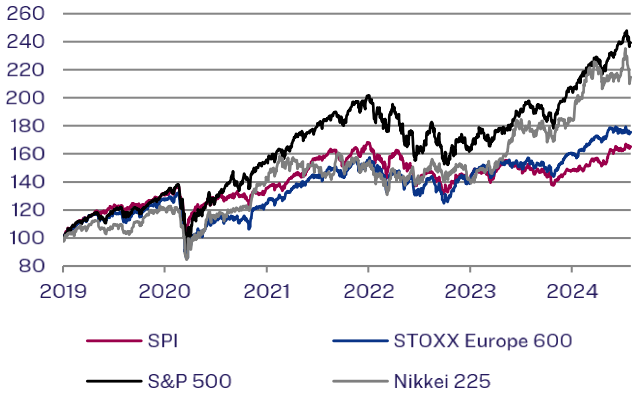
## Key Performance Indicator PRIMUS–PASSIVE Balanced EUR<sup>1</sup>

	31.07.2024	2023	2022	2021	2020	2019
PRIMUS-PASSIVE Balanced EUR	6.75 %	10.83 %	-12.90 %	13.76 %	1.56 %	17.05 %
Benchmark	6.93 %	10.68 %	-12.28 %	13.37 %	1.63 %	15.61 %

<sup>1</sup> Past performance is not an indicator of future performance and offers no guarantee of success in the future. The presentation of performance is gross without taking into account your individual tax liability. The net performance is lower due to fees. You can also find Our Opinion on our website: [www.neuebankag.li](http://www.neuebankag.li) S.E.& O.

# Market data

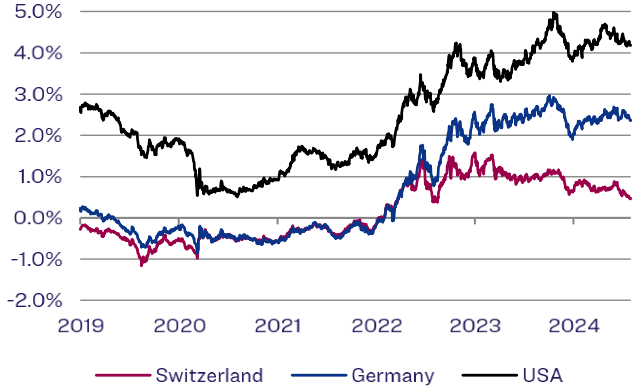
### Stock market (indexed)



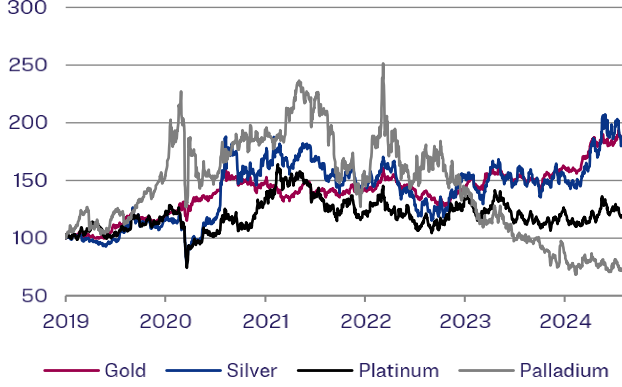
### EUR/CHF and USD/CHF



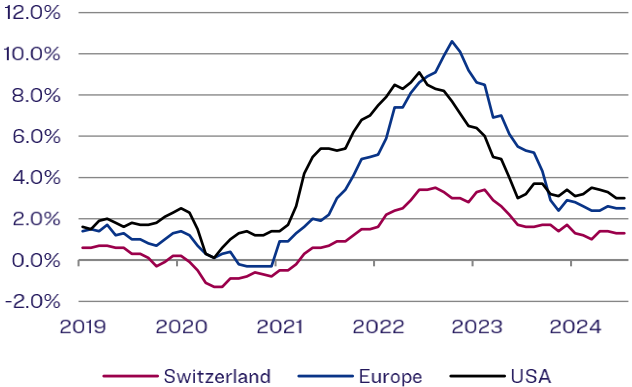
### 10-year government bond yield



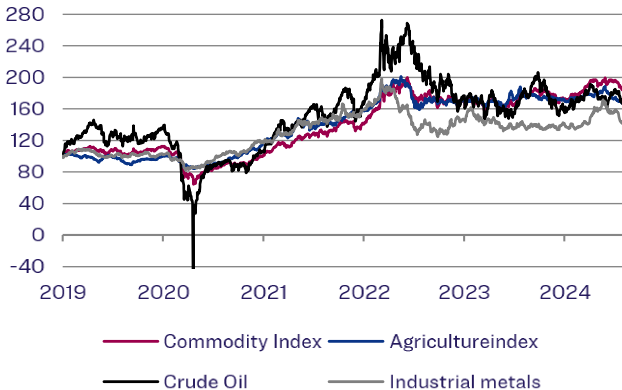
### Precious metals (indexed)



### Inflation rate



### Raw materials (indexed)



The price developments are shown over 5 years.



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