FED raises interest rates by 0.25%.

- Due to the declining trend in inflation, the pace of interest rate hikes was, as expected, further reduced at the beginning of February and the Fed only increased the key interest rate by 0.25% to 4.5%-4.75%. In fear of spiraling and entrenching inflation, previous rate hikes were far more aggressive. This was the eighth consecutive rate hike, with the rate increasing by 0.75% four times in the last five sessions.
- However, Fed Chair Jerome Powell also stated that further measures would be appropriate to bring inflation back into the target range of 2% in the medium term, even if this could have a negative impact on economic development.
- He also made it clear that if the economy develops as expected, no interest rate cuts are to be expected in 2023, which some market participants are already assuming.

Inflation falls to 6.4%: US inflation continues to fall.

- US inflation has been declining for several months. In January, the inflation rate was still 6.4% (December: 6.5%). While this is well below the high of 9.1% reached in the middle of last year, it is still well above the Fed's long-term target of 2%.
- However, a higher fall in inflation was expected (6.2%). Core inflation, which excludes volatile food and energy prices, was also higher than expected at 5.6% (5.5%).
- To get inflation back to 2% in the medium to long term, the aim of the FED is to slow down the labor market, wage increases and consumption. However, the labor market is still booming. In January, 517,000 jobs were created, far more than expected (189,000). However, the average hourly wages increased less strongly (4.4%) than in the previous month, which, with the current inflation, means a drop in real wages. However, US consumer spending also increased more than expected in January.
- All of this is now burdening the stock markets, which had made a brilliant start to the year.

Eurozone: ECB raises interest rates by 0.50%.

- The European Central Bank also raised the key interest rate at the beginning of February. She increased this by 0.50% and raised it to 3.00%.
- Furthermore, the ECB Governing Council announced that it intends to raise interest rates by a further 0.50% at the next meeting in March, while also holding out the prospect of further rate hikes.
- High inflation in the eurozone eased in January for the third month in a row. Consumer prices increased by 8.6% compared to the same month last year. In December it was still 9.2%. Nonetheless, inflation is still well above the 2% target.
- The less volatile core inflation (excluding energy and food), on the other hand, rose from 5.2% to 5.3%. This is the highest value since the introduction of the euro and shows that the sharp rise in prices is not only affecting energy and raw materials.

Leading indicators

- Individual leading economic indicators also paint a not very optimistic picture. If, for example, the ISM Manufacturing Index – the indicator for economic activity in the USA – is looked at. Above 50 means positive economic development, below 50 negative. This is currently at 47.4%, suggesting negative economic development and confirming the negative trend of recent months.
- The yield curve in the USA, which has not inverted so much since 1981 (10-year Treasury minus 2-year Treasury), also points to negative economic growth. Since the mid-1970s, an inversion has always been followed by a recession.
- This also underlines the recession model of the New York Fed. This reflects the probability of a recession in the next 12 months. If the probability was over 30%, this model has always been able to correctly predict an economic downturn over the past 50 years. The probability is currently over 57%.