Steering the Economy

The Mechanics of Monetary Policy

No matter how interest rates change, Zurich has proven its expertise as a committed investment manager for over 40 years, delivering award winning investment performance.* From the high interest rates in the 1980s to the low rates in 2016, Zurich has adapted to different economic conditions.

Our strategy focuses on consistency and stability, providing reliable investment solutions that stand the test of time. This infographic shows our journey through various monetary policies, highlighting our dedication to achieving lasting success for our investors.

Remember, markets are influenced by many factors, including global trends, technology, and geopolitical events. It's important to stay informed about monetary policy but not to overreact to short-term market changes.

For personalised advice and a comprehensive strategy, we recommend speaking to your Financial Broker or Advisor.

*Source: Brokers Ireland Excellence Awards 2024 and Business and Finance Financial Services Awards 2024

What is Monetary Policy?

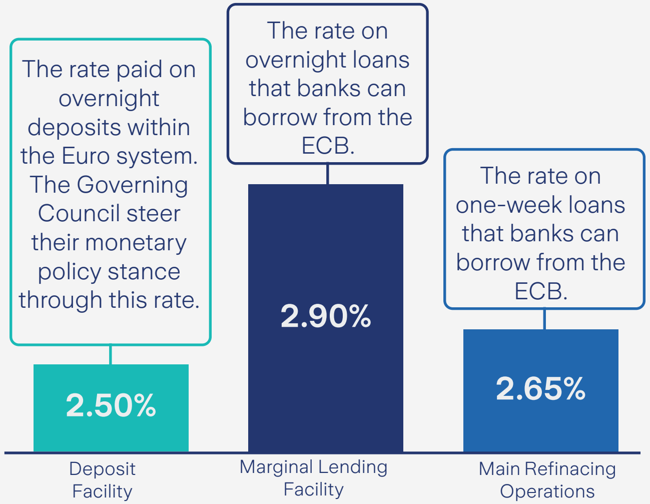
Monetary policy is the action that a nation's central bank can take to adjust the money supply in an economy in order to achieve a broader objective.

The European Central Bank's (ECB) objective is to keep prices stable by maintaining inflation at the 2% target level. Other central banks, such as the US Federal Reserve, have a dual mandate, aiming to keep prices stable **and** attain maximum sustainable employment.

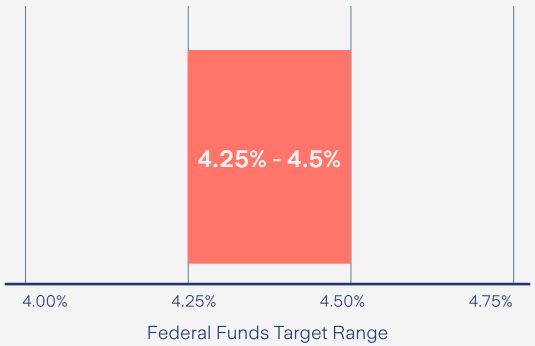
A snapshot of interest rates today

Key ECB Interest Rates

The ECB use three key interest rates for the Euro Area which are set by The Governing Council:



Source: European Central Bank, March 2025



Source: Federal Reserve Board, March 2025

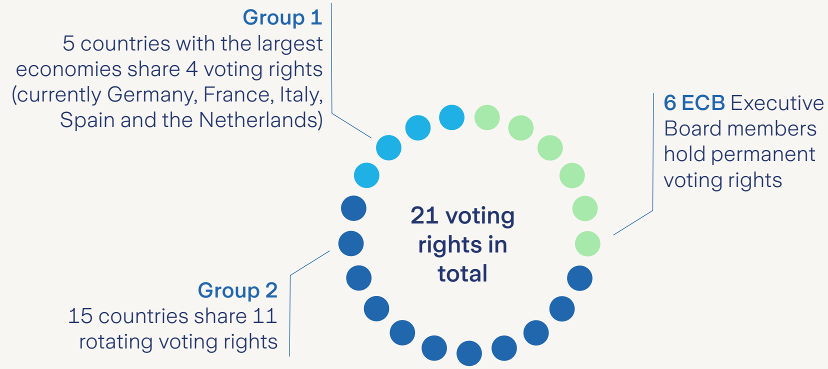
Federal Reserve Interest Rate

The Federal Reserve use the Federal Funds rate which is set within a target range decided by the Federal Open Market Committee (FOMC). This is the rate that commercial banks pay each other when borrowing and lending their excess reserves overnight. The Federal Reserve switched to using a target range rather than a target rate in December 2008 while responding to the Global Financial Crisis. The use of a target range offered greater flexibility to the Federal Reserve when reacting to fluctuations in both the economy and the markets.

How are interest rate decisions made?

ECB Voting Rights

21 voting rights are shared between the 26 representatives, and voting rights are rotated every month. The 6 ECB Executive Board members hold permanent voting rights. The remaining voting rights are shared between two groups:

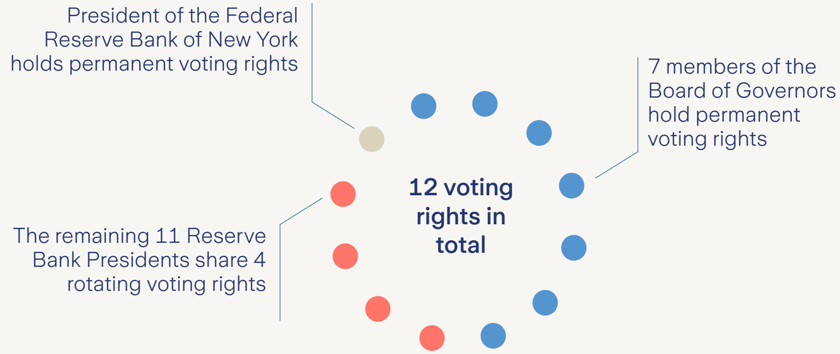


6 weeks

The ECB makes its monetary policy decision every 6 weeks

Federal Reserve Voting Rights

12 voting rights are shared between a group consisting of 7 members of the Board of Governors of the Federal Reserve System (nominated by the President and confirmed by the US Senate), the president of the Federal Reserve Bank of New York, and 4 of the remaining 11 Reserve Bank presidents, who serve one-year terms on a rotating basis.



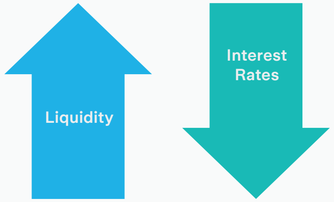
8 meetings

The FOMC makes its monetary policy decision after each of 8 scheduled meetings per annum

Key terms explained

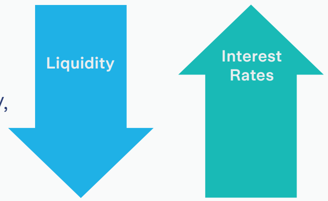
Hawkish
To be hawkish is to have a preference for tighter monetary policy (i.e. Raising interest rates / Keep rates high) with the aim of stabilising inflation.

Dovish
To be dovish is to have a preference for looser monetary policy (i.e. Lowering interest rates / Keep rates low) with the aim of boosting the economy.

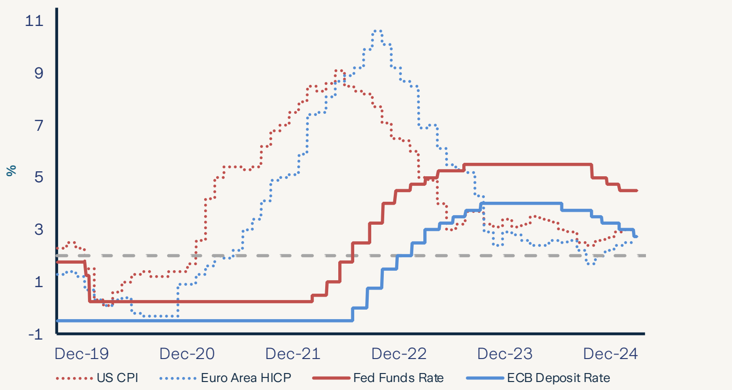


Quantitative Easing
Quantitative Easing (QE) aims to spur economic growth. Central banks buy securities from banks, thus injecting money into the economy, which raises liquidity, and in turn lowers short-term interest rates. Lower rates incentivise consumer spending and business investment.

Quantitative Tightening
Quantitative Tightening (QT) is the reverse of QE. It aims to slow down the economy and prevent runaway inflation. Central banks sell securities to banks, thus taking money out of the economy, which lowers liquidity, and in turn raises short-term interest rates. Higher rates disincentivise consumer spending and business investment.



Recent Inflationary Period



Source: Federal Reserve Bank of St. Louis, US Bureau of Labor Statistics, Eurostat, March 2025

10.6%

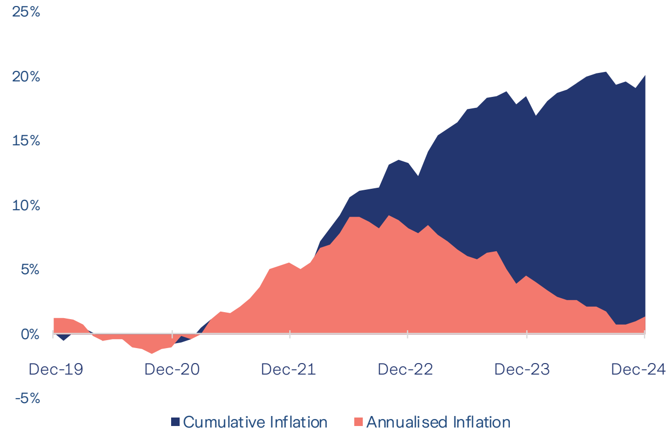
In October 2022, inflation in the Euro Area reached its highest ever level.

9.1%

In June 2022, inflation in the US hit its highest level in over 40 years.

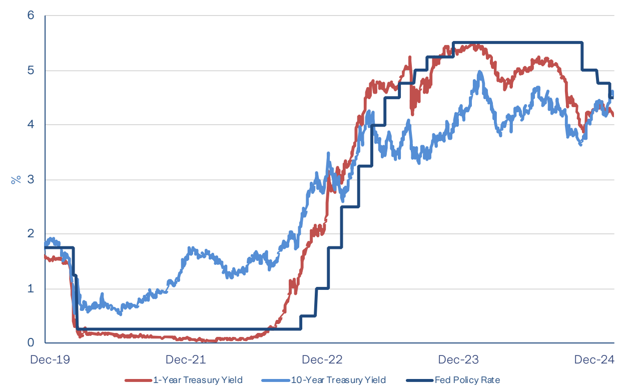
Current Situation:

Inflation in Ireland
Ireland currently has one of the lowest annual inflation rates of all Euro Area countries, but the cumulative inflation over the past 5 years tells a different story. While the rate of acceleration has slowed, prices are still growing from an already elevated position. This environment means people should be speaking to their Financial Broker or Advisor to understand the long-term impact on their savings and investments.



Source: Central Statistics Office, February 2025

Effect on Bond Yields
Central bank policy rates influence short-term interest rates. Changes to policy rates have a direct impact on the cost of borrowing/lending in the short-term, therefore having a more immediate effect on short-term bond yields relative to long-term bond yields. Long-term bond yields incorporate the market's expectations for monetary policy over a longer horizon and are therefore less sensitive to current monetary policy decisions.



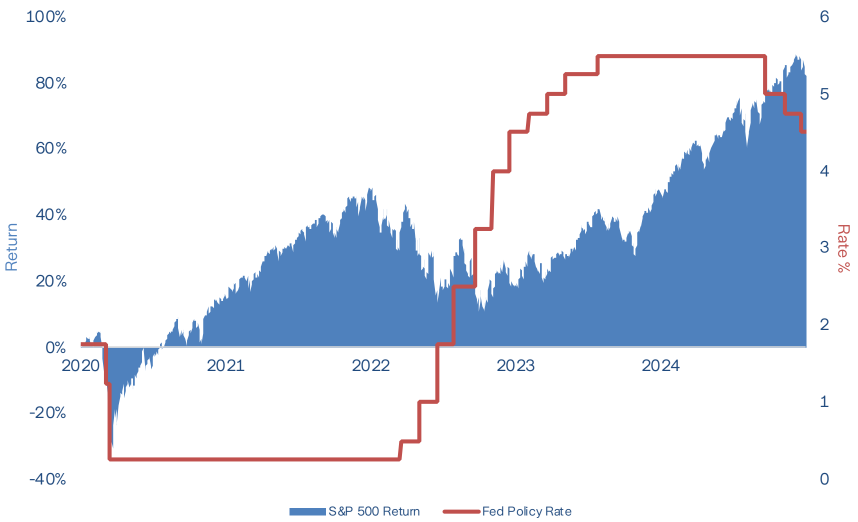
Source: Federal Reserve Bank of St. Louis, February 2025

Effect on Equity Returns

Monetary Policy impacts stock valuations due to the effect it has on borrowing costs for businesses. During QE, borrowing conditions become more accommodative and company earnings typically rise. During QT, it becomes more expensive for businesses to borrow money, which typically stifles expansion and earnings growth. Because stock prices are forward-looking, the market's expectation for future interest rate changes also have an influence on stock prices.

In the period 2020-2021, low interest rates acted as a catalyst for the market rally following the COVID crash. High rates of inflation led to QT in 2022, which helped to drag stocks into a bear market. Throughout 2024, stabilising inflation led investors to project interest rate cuts. These projections, coupled with actual rate cuts, fostered enthusiasm, leading to growth in equity prices.

Effect of Monetary Policy on Equity Returns



Source: Federal Reserve Bank of St. Louis, S&P Global, February 2025

Trust in the expertise of Zurich

While history doesn't always repeat itself, we maintain an open outlook and continue to monitor the situation as it evolves. Through the lens of our top-down active investment process, we continue to have a strong emphasis on the economic cycle and the path of monetary policy.

It's essential to remember that markets are shaped by a variety of economic influences, including global trends, technological progress, and geopolitical events. Therefore, while it's crucial to stay informed about monetary policy, it's equally important not to overreact to short-term market movements.

For tailored advice and a comprehensive strategy that takes all these factors into account, we recommend consulting your Financial Broker.

For more information on Zurich's Savings, Investments and Funds

- **Talk** to your **Financial Broker** or **Advisor**
- **Call** our Financial Planning Team on **0818 202 102**
- **Email** us at **customerservices@zurich.com**
- **Visit** our website at **zurich.ie**

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