

# BANK OF CYPRUS

## Investment opportunities in a negative interest rates environment.



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he economy can be stimulated or slowed down by governments by the use of two sets of policy tools. The first is fiscal policy – using taxes and public expenditure – and the other is monetary policy – raising or cutting interest rates. Since the US financial crisis in 2008, the so-called “credit crunch”, Central Banks have employed unconventional monetary policy measures. Interest rates were set at the 0% bound, while deflationary pressures mounted across the world. In order to combat deflation and stimulate growth, the European Central Bank (ECB) introduced in September 2014 negative interest rates on the deposit facility, while maintaining the main refinancing operations at 0%. Further to that, in March 2015, the ECB inaugurated its asset purchasing programme, Quantitative Easing (QE), to prevent deflation in a faltering euro area economy that was struggling from the debt crisis. The first round of QE ended in December 2018. ECB chief Mario Draghi said that inflation was likely to decline before rising again towards the end of the year, unveiling a fresh stimulus measures to boost the eurozone economy. At its latest monetary policy meeting in September, the ECB lowered its base rate from -0.4% to -0.5% and re-instated the second round of QE that will run indefinitely and will amount to €20 billion per month from November 1. The move comes as the ECB fights an economic slowdown, stating that its new asset purchase



programme will “run for as long as necessary”, while interest rates remain at their present levels, until eurozone inflation reaches its target rate of 2%. Under its previous QE programme, the ECB bought €2.6 trillion of bonds between 2015 and 2018. According to the ECB’s current QE rules, Greece can be included in its asset purchase programme if it continues to make progress in implementing reforms. For Greece to participate in bond purchases, it must have least one investment grade credit rating from a major rating agency, and its debt must be deemed as sustainable by the ECB. The negative rates in Europe and Japan, and historically low rates in the US, have forced global interest rates lower and created global interest rate settings never previously experienced. Around the world, there is now almost \$US15 trillion worth of mainly government bonds with negative interest yields. According to an announcement in August by Deutsche Bank, that

number’s recent peak was about \$US17 trillion. In Germany, the government issued 30-year bonds with an interest rate of -0.11% earlier this year. Investors are humbled. With rates almost at zero, the main impact for savers is that they will struggle to find any significant return on cash investments. Falling deposit rates are forcing investors to look around for alternative options. We live in a world of historically low interest rates and investors are looking for ways to enhance returns. Investing is the solution but with investment comes risk. Investors face a number of challenges in this market when constructing a portfolio to meet their long-term goals. Many are looking for income but are struggling to find assets that provide decent and sustainable returns. They can invest in many different asset classes such as Bonds, Equities, Property, Hedge Funds, Private Equity and Commodities but different asset classes require different investment strategies

in this environment. Investors are well aware that all investments involve risks, including the loss of the principal invested. It is important before investors build an investment portfolio to understand their risk profile. A risk profile typically depends on a person’s age, life goals and the duration of the investment and, depending on these, that person can tolerate different risk levels. Investing successfully means choosing investments that are appropriate to your level of risk tolerance and this will change over the course of your life. Investors should consider individual circumstances and investment goals when making investment decisions. Even though diversification does not remove investing risk, it can help you manage it better. A well-diversified portfolio has been proven to help investors avoid the worst of the financial markets’ ups and downs. With enough variety in your portfolio, you will usually own some investments that are in favour, even if some others are doing badly. If you are considering investing in any financial products, you should first consult an investment professional. A professional in the area will have the expertise and knowledge to guide you through the process and provide you with appropriate financial advice, helping you select the best product to invest in, based on your personal risk profile. Ultimately, you will be able to choose a better product to invest in than one you would have chosen by yourself. In the constantly changing market environment we live in, any interested investors should be prudent, not only in deciding where and how to invest their money but how this is managed in the long term. For a long time now, Bank of Cyprus has gone beyond the traditional banking offering with its Wealth and Markets division. A full-fledged division with long time and extensive expertise on



the subject matter, it is readily available to offer advice and tailor-made solutions to interested investors to satisfy their risk profile and needs. The division has been successful in providing services to clients over the years that have led to strong long-term relationships of trust, constantly working by their side with integrity, honesty, respect and responsibility. A comprehensive range of specialized services is offered, which clients can utilize to better structure and manage their wealth including:

- Private banking;
- Institutional wealth management;
- Global markets and brokerage;
- Asset management;
- Investment banking;
- Custody and depositary service

Our experienced investment professionals are here to listen, challenge and respond to any concerns, fully understand your goals and offer professional advice that caters to your individual and unique needs.

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