Monthly Newsletter Savings and Investments

Investors continue focusing on a post-pandemic World

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Market overview

Despite the global vaccination process and the severe austerity measures taken by many countries around the world, new virus mutations and high rates of infection and death have so far prevented countries from reopening economies. However, vaccination is gaining momentum and, although the supply of vaccines has been struggling, in a relatively short period more than 100 million people have been vaccinated already. Therefore, looking at the developments in the financial markets, it was obvious that despite prevailing risks investors remain confident and positive about the near-term future. As a result, prices of many risky assets continued to rise during January, extending an impressive three-month period. At the same time, the safest government bond prices fell as yields remained unattractive and the need for safety dropped. The VIX index, the so-called investors' fear indicator, has fallen to its lowest level since mid-February last year when the COVID-19 virus began to spread in Europe. Such investor sentiment continues to be fueled by favorable policies by central banks and governments and, most importantly, by their clear communication that the situation will force them to stick to such a policy for quite some time. Governments and central banks have spent more than $ 21 trillion (24% of global GDP in 2019) on various stimulus measures in 2020, so they will certainly be determined to do everything they can to ensure that this money does not go to waste.

As quarantine lasted longer than many expected, more pronounced signs of economic recovery are likely to have to wait at least a few more months. However, if economic data deteriorates in the first quarter, this should only be a temporary pause and not the start of a new crisis. The global economy is expected to see a strong recovery in the second half of the year once the restraints are lifted. In the nearest future, we should also see the first steps taken by the new US President, J. Biden, who is about to launch a trillion-dollar economic recovery package. This should be a strong impetus for the world's largest economy. Besides, in many countries, personal savings have increased significantly during the pandemic 2020, and a sharp recovery in consumption can be expected once restrictions are lifted. Despite the prevailing risks of the virus, markets are expected to remain positive in the coming months, which will be a favorable environment for risky investments, in particular equities.

Stock market indexes' performance (until 31 January 2021)

Region	Index	Currency	2021 January	2021 YTD	3 month	1 year	3 years	5 years
World	*MSCI World*	EUR	-0,3%	-0,3%	11,6%	5,3%	30,3%	66,7%
World	*MSCI Emerging Markets*	EUR	3,8%	3,8%	15,9%	16,7%	16,8%	79,3%
US	*S&P 500*	USD	-1,1%	-1,1%	13,6%	15,2%	31,5%	91,4%
Europe	*MSCI EURO*	EUR	-1,6%	-1,6%	17,5%	-3,6%	-4,2%	16,8%
Eastern Europe	*MSCI EM Eastern Europe*	USD	-2,1%	-2,1%	31,3%	-13,9%	-13,4%	47,9%
Asia	*MSCI EM Asia*	USD	4,2%	4,2%	19,7%	37,5%	17,3%	98,7%
Latin America	*MSCI EM Latin America*	USD	-6,8%	-6,8%	26,5%	-17,0%	-28,5%	31,0%

Expectations

The economic recovery will take some time due to another wave of COVID-19, which accelerated in the winter, but the short-term economic downturn in the first quarter will be much smaller than at the beginning of last year. As more and more people gain immunity, economic growth should accelerate by the middle of the year. Favorable geopolitical background, large-scale stimulus programs by central banks and governments, record low interest rates should lead to a relatively rapid improvement in corporate financial performance and declining unemployment.

Our GDP forecasts. The global economy contracted by 3.7 percent in 2020 but is expected to grow by about 5 percent this year. and recover to 2019 levels. The decline of the Lithuanian economy in 2020 was one of the smallest in the euro area and in the world as a whole, reaching 1.3 per cent. We expect that the growth of the Lithuanian economy this year will be about 2 percent.

This year's risks. The COVID-19 pandemic will continue to pose the greatest risk to both the global economy and financial markets. Although the vaccination process is accelerating and there is a noticeable decrease in the number of new infections, the course of the pandemic is still difficult to predict and it may deliver some negative surprises. Another important risk is rising inflation expectations. While some increase in inflation is a positive factor for economic activity, an uncontrolled rise in inflation could force central banks to intervene by tightening monetary policy, which could slow the economic recovery.