Monthly Newsletter Savings and Investments

Optimism is back to the markets as equity indexes reach new highs

2021 July

Market overview

As the global vaccination process accelerated, governments in many countries had the opportunity to lift much of the economic restraint, so despite the resurgence of new infections around the world, daily life has gradually returned to normal. The improving pandemic situation was also reflected in rising investors' sentiments in the markets. The increased household savings in recent years, the acceleration of economic activity, and the continuing extremely favorable central banks' monetary policy allow us to expect a particularly strong second half of the year in many business sectors. As a result, the indicators of business representatives' expectations for the future are the best in many years. Economic activity has picked up sharply in recent months, with impressive second-quarter corporate results expected to be announced in July. Investor expectations of corporate results remain very high for the rest of the year and that largely explains why equity indices are storming new highs. In addition, the decline in industrial metals prices in recent weeks has led to a slight decline in market expectations of long-term inflation, which has also eased market tensions. The VIX index, which measures investors' expectations for near-term volatility, and is sometimes called investors' fear indicator, fell to 15 points in June and reached its lowest level since February 2020, when the COVID-19 pandemic hit the world.

Investors in safe government bonds continue navigating in a difficult negative yields environment. Bond interest rates, which have risen steadily since the beginning of the year, have turned down again. Investors continue to take more risk and prefer corporate stocks and higher risk but higher-yielding bonds.

Although, as mentioned, central banks remain committed to a low-interest policy for at least a few more years, it is speculated that the US Federal Reserve (FED) will announce the start of tapering of an asset purchase program which includes 120 billion USD worth of asset purchases in the market each month. This will be the first real step in tightening monetary policy, which is likely to disrupt the financial markets somewhat. However, the overall situation of the global economy remains extremely strong and this should be the decisive factor in shaping the direction of financial markets in the second half of the year.

Stock market indexes' performance (until 30th June 2021)

Region	Index	Curr.	June	2021	3 months	1 year	3 year	5 year
World	MSCI World	EUR	4,6%	16,6%	6,78%	31,69%	49,70%	87,03%
World	MSCI Emerging Markets	EUR	3,3%	10,9%	4,11%	33,45%	35,64%	72,81%
US	S&P 500	USD	2,2%	14,4%	8,17%	38,62%	58,09%	104,75%
Europe	MSCI EURO	EUR	0,8%	14,8%	4,57%	28,04%	18,21%	43,96%
Eastern Europe	MSCI EM Eastern Europe	USD	1,9%	16,1%	13,23%	30,97%	20,63%	53,78%
Asia	MSCI EM Asia	USD	-0,2%	5,2%	3,25%	38,65%	36,00%	84,22%
Latin America	MSCI EM Latin America	USD	2,4%	6,9%	13,83%	40,39%	5,79%	15,47%

Expectations

Economic recovery and GDP projections. Growth rate of the global economy remains very high, with total world GDP expected to return this year and even exceed pre-pandemic levels. The Organization for Economic Co-operation and Development (OECD), having assessed the dynamics of various economic indicators in recent months, improved its global GDP growth forecast from 5.6% to 5.8% for 2021, and from 4.0% to 4.4% fot the next year. The Baltic economies, which showed resilience last year, are expected to continue to outpace the euro area average, with the Baltic economies expected to grow by around 4.1% this year and 4.4% next year.

This year's risks. Increased inflation will remain the biggest risk in the near-term. Although commodity prices have stalled recently and many have fallen sharply, it is likely that rising household savings, an opening economy and falling unemployment could lead to inflation in excess of the level tolerable by central banks, which could force monetary tightening.

Although we saw a clear improvement in the pandemic a month ago, we are now seeing a significant increase in the number of new delta variant infections, which again increases the likelihood that national policymakers will have to take some restrictive measures, which would also have a negative impact on the economic outlook, and at the same time for the financial markets.
