Monthly Newsletter Savings and Investments

Financial markets paused on raising yields

March 2021

Market overview

Global equity markets, which had risen at the beginning of the year, paused at the end of February. While economic data remains good and global growth is expected to pick up as constraints are being eased, investor anxiety has risen in recent weeks as rising bond yields and inflation expectations increased fears that central banks will be forced to tighten monetary policy and start raising interest rates. Rising yields not only led to lower bond prices but also harmed equity markets, especially growth stocks whose share prices are sensitive to changes in interest rates. And while there are many reasons for inflation to pick up (economy reopening, rising demand, higher commodity prices, huge economic stimulus programs), a possible rise in inflation in the coming months is likely to be short-lived due to a low base effect which should vanish at the end of the year. Also, the COVID-19 pandemic has had more serious long-term economic consequences (higher unemployment, higher number of bankruptcies, greater uncertainty about the future), which should not allow inflation to gather pace.

Due to the increased interest rates, announcements from the world's major central banks will attract a lot of attention in March. They are likely to try to calm financial markets by reiterating that there are no plans to change the direction of monetary policy in the coming years and keep interest rates close to zero or even negative. Previously, it was forecasted that US interest rates will remain unchanged until 2023, so the March announcement by the US Federal Reserve (FED) will be crucial - financial market participants will catch every word of FED Chairman J.Powell's report in an attempt to hear whether the recent jump in yields will have any effect on FED policies.

In addition to central bank policies, global economic developments and moods in the financial markets will remain heavily dependant on the global pandemic situation. The vaccination process is gaining momentum, with about 15 percent of the population vaccinated in the United States and 30% in the UK. The European Union is lagging far behind in this race, with just over 5% of the population vaccinated in the region so far. It is estimated that by maintaining a similar vaccination pace the UK would reach a critical level of 70% in May, the US in September, and the European Union only in 2023. However, vaccine manufacturers are expected to be able to overcome some supply chain disruptions shortly, and the process in Europe should then accelerate pathing more optimistic future in the region.

Stock market indexes' performance (until 26 February 2021)

Region	Index	Currency	2021 February	2021 YTD	3 month	1 year	3 years	5 years
World	*MSCI World*	EUR	2,7%	2,4%	4,31%	17,05%	36,57%	73,15%
World	*MSCI Emerging Markets*	EUR	0,9%	4,7%	9,87%	23,12%	20,87%	81,93%
US	*S&P 500*	USD	2,6%	1,5%	5,23%	29,01%	40,43%	97,24%
Europe	*MSCI EURO*	EUR	4,1%	2,4%	4,04%	9,44%	3,90%	25,65%
Eastern Europe	*MSCI EM Eastern Europe*	USD	1,5%	-0,7%	8,84%	1,83%	-9,81%	47,53%
Asia	*MSCI EM Asia*	USD	0,9%	5,2%	12,38%	42,90%	25,16%	103,34%
Latin America	*MSCI EM Latin America*	USD	-3,1%	-9,7%	0,78%	-8,20%	-27,82%	22,73%

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. After approving 900 billion USD economic support program in the USA it was expected that the biggest global economy will expand by about 4%. However, after passing the 1.9 trillion USD program it is possible that the year-on-year growth in Q2 and Q3 could reach a double-digit growth. Still, global economic developments will remain dependent on the pandemic situation which is hardly predictable.

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 the pandemic is a big unknown – after witnessing stabilizing infection numbers a month ago today we see that the situation is worsening again. 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.