Monthly Newsletter
Savings and Investments

Global investors are getting used to the tensions

2022 March

In March, the financial markets were dominated by the themes of war in Ukraine and inflation. Sanctions against Russia continue to put pressure on energy commodity markets, so rising energy prices have pushed inflation to new highs unseen for decades. 8% inflation in the US forced the country's Federal Reserve (FED) to raise interest rates for the first time since 2018. Although financial markets have digested the first US rate hike quite well, it is likely that the Fed will remain determined this year and may raise interest rates to 3% by the end of the year. In recent weeks, tensions in the markets have been fueled by the accelerating wave of the COVID-19 pandemic in China, which has forced the country to take extremely drastic measures to stop the virus from spreading. There is no doubt that this will have significant consequences not only for the Chinese economy but also for the global economy.

Despite the tensions, the overall global stock index MSCI All Country World rose just over 3%. The largest part of the rise can be attributed to developed countries index "MSCI World", which rose by almost 4%. The emerging markets index, more than a third of which is made up of Chinese companies, fell 1,3% during March. Investors' optimism can be explained by the fact that the outlook for the global economy, although somewhat lower than some months ago, remains relatively good. Fed chairman J. Powell, commenting on the first interest rate hike in four years, stressed that the U.S. economy is expected to grow at around 3 per cent this year, which is still a relatively strong growth rate (the Fed forecasted 4% growth for 2022 in December).

As mentioned, although there was plentiful of bad news in the markets, global investors are gradually getting used to the war in Ukraine, high inflation and tightening central bank policies - the US investor fear index VIX fell from 30 to a normal 20 points in March. Inflation is expected to peak in March, as we will already compare the annual change in prices in April with the April of last year, when prices have already jumped sharply (a base effect will kick-in). However, the global economy will still face relatively large supply and demand imbalances in the coming months - although the pace of economic activity is expected to accelerate in the post-pandemic reopening and consumer demand should grow, the war in Ukraine and the pandemic in China are unlikely to weight on the supply side.

As inflation rose and the tone of central banks tightened, bond yields have spiked, which pushed down bond prices. Bond prices in the euro area fell by almost 2% in March alone and by about 4% since the beginning of the year. German ten-year bond yields, which had been negative at the beginning of the month, exceeded 0,5% at the end of the month. The European Central Bank, like the Fed, is likely to turn up interest rates in the second half of the year, so interest rates in European bond markets are likely to continue to rise.

Equity market returns (as of March 31st 2022)

Region	Index	Curr	2022 March	2022 YTD	3 month	1 year	3 years	5 years
World	MSCI World	EUR	3,7%	-3,1%	-3,1%	24,1%	57,6%	73,3%
World	MSCI Emerging Markets	EUR	-1,3%	-4,9%	-4,9%	-4,8%	19,3%	30,9%
US	S&P 500	USD	3,6%	-4,9%	-4,9%	18,9%	62,7%	91,7%
Europe	MSCI EURO	EUR	-0,8%	-9,4%	-9,4%	7,5%	17,3%	18,9%
Central Europe	MSCI EM Eastern Europe	USD	-59,4%	-78,4%	-78,4%	-75,5%	-75,9%	-72,5%
Asia	MSCI EM Asia	USD	-3,3%	-8,9%	-8,9%	-19,1%	14,6%	32,1%
Latin America	MSCI EM Latin America	USD	12,2%	26,1%	26,1%	21,3%	-4,8%	3,3%