Monthly Newsletter Savings and Investments

Investors preparing for a hot summer as equity markets hit new highs

2021 May

Market overview

Positive sentiments continued to dominate financial markets in April. Solid first-quarter GDP data, the accelerating vaccination process, and central banks who managed to stabilize market yields helped to push equity prices higher. While the rapidly growing economic activity and a huge amount of cheap money in the markets are worrying investors about uncontrolled inflation, the positive news on the front of other economic data has outweighed these fears. Over the month, the MSCI World stock index rose 2,2% and has risen more than 11% since the start of the year. Emerging countries, where the pandemic situation is much worse and access to vaccines is much lower than in developed countries, have lagged behind global markets over recent months. Here, equity index MSCI Emerging Markets since the beginning of the year have risen much less - by about 6.5%.

As usual, the largest economy in the world, the United States, has played a key role in the history of global economic recovery. Mr. Biden is fulfilling his promise to vaccinate U.S. citizens as soon as possible, and the effects of a successful vaccination process are already visible as the country lifts restrictions and opens up faster than expected. Various direct payments and wage growth boosted U.S. household disposable income significantly in March and much of that money has yet to be spent. This suggests a potentially huge jump in consumption during the summer.

In general, declining corporate inventories and growing consumption forecast a busy season in many industries to meet growing demand. Growing business sentiments are also reflected in the jump in the World Manufacturing PMI (an index measuring expectations of the global manufacturing sector representatives), which has reached its highest level since 2010. Rapidly recovering consumption and, at the same time, not fully rebuilt supply chains are increasing inflationary pressures, which has been fueling market tensions for some time. It is feared that by trying to control economies from overheating, central banks may be forced to undertake monetary tightening much earlier than planned. Still, most analysts agree that the jump in inflation in the coming months will be largely due to the low price base a year ago. Inflation in the US is expected to return to close to a 2% level in the second half of the year.

Although equity indices have reached all-time highs, many investors remain positive about the outlook of the global economy over the next few months. As a result, investors are likely to continue to take on more risk in their portfolios and will use any correction in the markets as an opportunity to add cheaper stocks to their portfolios. The biggest risk, as mentioned, will remain higher-than-expected inflation, which could change the highly market-friendly monetary policy of central banks.

Stock market indexes' performance (until 30 April 2021)

Region	Index	Currency	2021 April	2021 YTD	3 month	1 year	3 years	5 years
World	MSCI World	EUR	2,2%	11,6%	11,93%	46,93%	49,09%	83,46%
World	MSCI Emerging Markets	EUR	0,1%	6,6%	2,65%	47,96%	24,72%	71,44%
US	S&P 500	USD	5,2%	11,3%	12,57%	61,77%	57,90%	102,45%
Europe	MSCI EURO	EUR	1,7%	11,6%	13,42%	44,03%	10,59%	32,96%
Eastern Europe	MSCI EM Eastern Europe	USD	1,6%	4,2%	6,40%	38,79%	3,53%	29,35%
Asia	MSCI EM Asia	USD	2,3%	4,3%	0,10%	60,87%	25,97%	83,65%
Latin America	MSCI EM Latin America	USD	3,2%	-3,1%	3,97%	50,68%	-20,48%	3,65%

Expectations

Economic recovery. The reopening up of the world economy to unprecedented stimulus by governments and central banks will lead to a continued rapid economic recovery. As one of the world leaders in vaccination process, the U.S. economy this year and the next will grow at the fastest pace since the 1980s. Economic development in the rest of the world will lag slightly and is likely to gain momentum at the end of the year.

Our GDP forecasts. Due to the faster "exit" from the pandemic situation, the US economic growth prospects for 2021 are better than we predicted at the beginning of the year. As a result, the US economic growth forecast for this year has risen to 6.5%. Next year, the world's largest economy is expected to grow by about 4%. The euro area region's economy is expected to grow by around 3.8% this year and a little more (about 4.2%) next year. Baltic economies, which have shown impressive resilience last year, are expected to continue to outpace the euro area, with the Baltic economies expected to grow by around 4.1% this year and 4.4% next year.

This year's risks. Perhaps the most important risk in the near future will be accelerating inflation. Although the recent rise in inflation is explained by last year's low price base and the incomplete recovery of the global supply chain, there is still a possibility that significant increases in household savings and opening economies could lead to longer term higher inflation. This could change the highly market- and economy-friendly central banks' policies. The COVID-19 virus pandemic will continue to be a high risk and unknown to the global economy and financial markets. Although the vaccination process has accelerated and allows countries to take measures to reopne their economies, the likelihood of negative surprises remains.
