Monthly Newsletter
Savings and Investments

After a setback in September global equity markets are again at all time highs

2021 November

Market overview

After increased nervousness in September, the situation in financial markets calmed down in October, so global equity markets stormed new all-time highs again. While financial markets outlook for the next few months is not easy to assess, it was evident that market participants have rather quickly forgotten the recent scary risks and flooded into the equity markets again. This lifted equity index MSCI World by almost 6% over a month. The deterioration in economic growth forecasts for 2022 has somewhat eased, and now it is likely that global growth should stabilize next year at a relatively high level. Anxiety about the pandemic has also eased somewhat, with scientists predicting that next year the COVID pandemic should turn into an endemic, and society will simply learn to live with the virus without major economic and social disruption. In addition, the US pharmaceutical company Merck achieved a breakthrough in the mass production of COVID-19 drugs in October. The United Kingdom became the first country to approve the medicine, and the European Union and US authorities have launched a process to evaluate and approve the drug. If the medicine proves to be as effective as clinical trials show, it will further reduce the importance of the virus as a factor for financial markets and the global economy as a whole.

The third-quarter corporate earnings released in October showed that supply chain disruptions and rising production costs did not have a major impact on corporate profitability, and the results in both the US and Europe mostly exceeded analysts' forecasts. However, raising the prices of goods and services was the tool that helped companies to achieve such results. This naturally translated into higher inflation, which is likely to remain high for much longer than projected in the spring, when the US FED called the first spike in inflation transitory. With inflation reaching figures not seen for decades (annual inflation in the euro area was 3.4% in September and as high as 5.4% in the United States), there is a growing risk that central banks are already behind the curve and may lose control over inflation. However, the global supply chain is continuing to recover, and strong growth in demand this year, especially for durable goods, is expected to moderate somewhat, so inflation is expected to ease next year. In addition, the world's major central banks are already approaching a stage where monetary policy will start to change and gradually become tighter. FED has already announced that in November it will start tapering current 120 billion USD dollar monthly purchases by 15 billion USD per month so in the middle of next year will conclude the program altogether.

In the financial markets solid economic growth, strong consumer demand and negative real bond yields (adjusted for inflation) will continue to encourage investors to take on higher investment risks and allocate more into equities which remain much more attractive than government and corporate bonds. However, impressive returns in recent years (the MSCI World stock index rose 64 percent in three years and 94 percent in five years) are likely to mean significantly lower returns in the coming years as central banks will gradually start monetary policy normalization process.

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

Region	Index	Curr	September	2021 YTD	3 month	1 year	3 years	5 years
World	MSCI World	EUR	5,8%	26,3%	6,36%	41,35%	64,19%	93,71%
World	MSCI Emerging Markets	EUR	1,1%	5,4%	1,97%	17,73%	41,98%	48,22%
US	S&P 500	USD	6,9%	22,6%	4,78%	40,84%	71,67%	116,58%
Europe	MSCI EURO	EUR	4,5%	20,1%	3,57%	43,40%	34,06%	39,11%
Central Europe	MSCI EM Eastern Europe	USD	3,7%	28,1%	11,97%	71,80%	38,30%	59,47%
Asia	MSCI EM Asia	USD	1,2%	-4,3%	-0,73%	9,89%	46,22%	54,57%
Latin America	MSCI EM Latin America	USD	-5,4%	-14,0%	-15,97%	16,72%	-20,44%	-18,85%

Expectations

Economic recovery and GDP projections. Despite rising commodity prices, labor shortages, and supply disruptions, companies were able to achieve solid financial results in the third quarter. Consumer activity remains high, so global economic growth will continue to be strong, with global economic growth projected to be close to 6% this year, 4,4% next year, and will slow to 3,5% in 2023. The growth of the Latvian and Lithuanian economies this year will lag slightly behind the growth rate of the world economy, while in Estonia the GDP growth this year should reach as high as 8,8 percent. Estonia's already high GDP growth expectations have been exacerbated by the pension system reform, which has topped people's accounts by around 1 billion euros in September.

This year's risks. The biggest risks to financial markets and global growth in the coming months will remain the risk of uncontrolled inflation, fueled by shortages and rising prices of energy commodities, rising operating costs for comanies, and supply disruptions. The global pandemic has stabilized and while the overall number of infections remains high, it no longer poses a major threat to the global economy and financial markets. The US Federal Reserve (FED) is already starting to reduce its stimulus measures, and the actions of the largest world's central banks will be a much more important factor next year.
