Monthly Newsletter
Savings and Investments

Financial market's rollercoaster

2022 September

Although in absolute numbers, the third quarter of the year was not exceptional (prices of global equities remained almost unchanged, while bonds fell slightly), however we observed a real roller coaster in the financial markets. The US Federal Reserve Bank (FED) started raising interest rates in the spring and this, of course, had a negative impact on the US and global economy. That is evident by seeing continuously deteriorating indicators of business and consumer expectations surveys. As the economic situation worsened over the summer, investors began to expect that the Fed would soon be forced to change the course of its aggressive monetary policy. Although the FED itself did not comment on this topic, market participants believed in this scenario so much that the stock and bond markets were flooded with optimism in July and the first half of August. Good moods in the markets were also fueled by the decent second quarter financial data, which showed that the business is so far able to successfully fight against the growing costs, transferring a large part of them to the consumers. The world stock market index MSCI World (in euros) rose by as much as 18% from the bottom on June 20 to the peak on August 16, while the prices of euro zone government bonds jumped by 4–5% during the same period. For equity markets, July was the overall best month since November 2020.

However, after that, completely opposite sentiment began to dominate the markets, all summer returns were quickly written off. At the much-anticipated Jackson Hole economic symposium, the head of the Fed, J. Powell, washed the investors' optimism with a cold shower in a very short and strict speech, emphasizing that the Fed will continue to raise interest rates, remain extremely determined and use all available tools to control inflation. And it seems that this time the markets realized that the Fed is not going to soften the monetary policy after all, and both the worsening economic situation and recessions in the financial markets will not divert the US central bank's attention from the main goal - controlling inflation. True, the FED has another duty – to ensure maximum employment. However, this is not yet a positive factor for the markets as the US job market is very hot. Unemployment remains at record lows, and businesses are struggling to fill job vacancies, which massively outnumbers the unemployed people. So right now, good news for the US labor market means bad news for investors because the Fed still has room to operate. The market predicts that the Fed will end the year with its interest rates at around 4.5%.

Other central banks are not far behind. The European Central Bank (ECB) also raised interest rates in the summer, even though the region is facing an extremely painful energy crisis. To control 10% near inflation, the ECB has already raised interest rates and is likely to continue raising them. As a result, businesses and households will have to deal not only with high geopolitical tensions, rising commodity and electricity prices, but also with rising loan interest costs. Companies that, as mentioned, are currently able to pass on most of the rising costs to the end user, will likely no longer be able to do so, as consumers become more frugal and more selective about what they consume. Thus, the direction of the markets at the end of the year will be dependent on the third quarter results announced by the companies.

Equity market returns (as of September 30th 2022)

Region	Index	Curr	2022 Sept	2022 YTD	3 month	1 year	3 years	5 years
World	MSCI World	EUR	-6,9%	-13,4%	0,1%	-4,9%	27,2%	56,2%
World	MSCI Emerging Markets	EUR	-9,4%	-15,4%	-5,6%	-15,0%	4,5%	10,2%
US	S&P 500	USD	-9,3%	-24,8%	-5,3%	-16,8%	20,5%	42,3%
Europe	MSCI EURO	EUR	-6,0%	-23,6%	-4,1%	-19,2%	-6,7%	-7,8%
Asia	MSCI EM Asia	USD	-13,4%	-30,2%	-14,7%	-31,0%	-7,8%	-14,3%
Latin America	MSCI EM Latin America	USD	-3,4%	-3,5%	0,7%	-7,8%	-23,0%	-29,6%