Monthly Newsletter
Savings and Investments

Global equity markets ended the year with impressive annual growth, but the road ahead is much more challenging

2021 December

December has been an impressive year for investors. The MSCI World equity index rose 4% in December which resulted in a total of 32% growth during 2021, and as much as 81% over the last three years. However, the last month of the year in the financial markets started not so joyfully with the biggest two-day fall of the S&P 500 index since October 2020. Investors stepping back and rising tensions were largely driven by news from the US Federal Reserve (FED) about changing monetary policy and the new omicron variant around rapidly spreading around the world.

The Fed seems to be finally acknowledging that the assumption made in the spring that a sharp rise in inflation is transitory has been wrong, and over the last few months has been gradually tightening the tone for future U.S. monetary policy. In mid-December, the Fed announced that it would double the pace of the asset buyback program from initially planned 15 billion USD per month to 30 billion USD. It will mean that the program will be completed as early as March 2022. There is no doubt that the next step for the Fed after the end of the bond-buying program will be to raise interest rates, forcing investors to reevaluate market opportunities for next year. Changing investor expectations continue to drive short-term market interest rates up. Yields of two-year U.S. treasuries have risen from 0,20% up to 0,75% in just four months. With interest rates rising sharply in the US, they have risen in other markets as well, which has had a negative impact on the prices of many safe heaven bonds.

A new wave of pandemics at the end of the year has significantly increased volatility in stock markets, and it is likely that investors will also be tense in the coming weeks. Still, looking at 2022, we expect a positive year for equity markets. Although the pandemic situation is currently quite tense, it is likely that, as in previous years, the number of infections will start to fall sharply again in the spring. Economic data in many parts of the world is still very solid, unemployment has fallen sharply so consumption will remain high. Thus, while the growth rate of the world economy will slow down, it will still be relatively high. Analysts expect that corporate earnings will grow about 7% in 2022. Representatives of the world's companies are also optimistic about 2022 - although the indicators of business sentiment have decreased somewhat since the record highs reached in the summer, they remain very good. In the euro area, the sentiment indicator of manufacturing companies stood at 58 points in December, for services at 53.3 points and in the US at 58.7 and 62 points respectively (all values above 50 points symbolize positive expectations for the future).

Emerging market equities lagged far behind developed countries in 2021, largely due to China's extremely unfavorable policies against major domestic IT companies. China has also faced significant challenges in the domestic real estate market. Still, the local government has been declaring that serious stimulus measures are planned for 2022, so after a bad year, China could become a positive factor for equity markets this year.

Equity market returns (as of December 31st 2021)

Region	Index	Curr	September	2021 YTD	3 month	1 year	3 years	5 years
World	MSCI World	EUR	3,2%	31,1%	9,83%	31,07%	81,20%	86,81%
World	MSCI Emerging Markets	EUR	0,8%	4,9%	0,58%	4,86%	37,27%	48,53%
US	S&P 500	USD	4,4%	26,9%	10,65%	26,89%	90,13%	112,89%
Europe	MSCI EURO	EUR	5,2%	21,5%	5,68%	21,53%	42,42%	32,76%
Central Europe	MSCI EM Eastern Europe	USD	-1,4%	12,9%	-8,61%	12,91%	20,84%	25,29%
Asia	MSCI EM Asia	USD	1,3%	-6,6%	-1,20%	-6,61%	37,23%	58,99%
Latin America	MSCI EM Latin America	USD	4,6%	-13,1%	-4,42%	-13,13%	-16,99%	-9,01%

The highest risks for the markets in 2022

The main risk factors for the coming months and 2022 will continue to be the pandemic and rising inflation, which is already forcing some central banks to take monetary policy tightening actions. After the Fed's latest moves and statements futures market shows about 80% likelihood that the Fed will raise interest rates for the first time already in March. It will be a challenging environment for investors to adjust as very often the start of interest rate high cycles has led to negative returns in both equity and bond markets. However, this time the situation is different, as raising interest rates in the US has been expected for quite some time already and it should not be a big surprise. Geopolitical tensions have also increased significantly in recent weeks and could continue to create tensions in the energy market or disrupt the same global supply chain, which is still not fully restored.