# Monthly Newsletter
# Savings and Investments

## Equity markets at new highs but investors are becoming more nervous

2021 September

## Market overview

Global equity markets continued to trend upwards at the end of the summer, with indexes once again reaching new all-time highs. In recent weeks, however, there have been more tensions among investors because of deteriorating pandemic situation. The lifting of economic constraints has allowed the global economy to show very solid results in the second quarter of the year. However, the end of the year is likely to be more difficult due to the resurgence of global infection numbers. Some countries, despite the worsening pandemic situation, plan to lift most of the restrictions, while those that do will take new ones are likely to be more moderate compared to quarantines last year. Some Asian countries still pursue a zero-tolerance policy and take the most stringent measures (one seaport has been completely suspended in China due to a single infection case), which has a significant impact on the global transportation system and recovering still fragile supply chain. However, business and consumer sentiments remain very high, with Markit Eurozone Manufacturing declining for the second month in a row in July but still staying at the highest level in history. The unemployment rate in the region continued to fall to 7,7% and is already close to pre-pandemic levels. The U.S. unemployment rate has also declined and now stands at 5,4%.

European and US stock markets again outperformed emerging markets in August, further dragged by China, where local government has significantly increased its focus on various business sectors, particularly IT. China will have stricter antitrust requirements, companies will be forced to treat consumer data more responsibly and borrowing will be more difficult. All of this should contribute to greater overall social welfare, but will mean significant investments and lower profits for the companies themselves. In euro terms, the Hang Seng China Enterprises stock index has remained virtually unchanged this year and lags global equity indexes by around 20%.

Falling unemployment and relatively modest economic constraints are driving economic activity growth, which combined with the still-disrupted global transportation system and limited supply continues to put pressure on inflation. However, despite the multi-year high inflation numbers announced during the recent months, the increased risk of the COVID-19 virus has prevented bond yields from rising which remain extremely low. Although it rose slightly in August, German 10-year bond yields were still at minus 0,40% at the end of August. In the US, where interest rates are expected to rise sooner than in Europe, bond yields of the same duration rose by 0,10% up to 1,30%. In the near future bond markets will be most affected by the expected decision of the US Federal Reserve (FED) to reduce its asset purchase program. Currently, the Fed conducts asset purchasing program resulting in 120 billion USD liquidity injection every month, which has become a crucial factor for the markets.

## Stock market indexes' performance (until 31st August 2021)

| Region | Index | Curr | August | 2021 YTD | 3 month | 1 year | 3 year | 5 year |
|---|---|---|---|---|---|---|---|---|
| World | MSCI World | EUR | 3,0% | 22,2% | 9,66% | 31,47% | 49,76% | 88,39% |
| World | MSCI Emerging Markets | EUR | 3,1% | 6,6% | -0,70% | 22,71% | 30,71% | 54,76% |
| US | S&P 500 | USD | 2,9% | 20,4% | 7,58% | 29,21% | 55,87% | 108,33% |
| Europe | MSCI EURO | EUR | 2,4% | 18,8% | 4,36% | 30,60% | 22,43% | 40,34% |
| Eastern Europe | MSCI EM Eastern Europe | USD | 4,3% | 19,4% | 4,83% | 31,73% | 25,11% | 53,81% |
| Asia | MSCI EM Asia | USD | 2,5% | -1,2% | -6,34% | 15,66% | 28,77% | 59,26% |
| LATAM | MSCI EM Latin America | USD | 0,2% | 2,6% | -1,76% | 29,93% | 2,07% | 4,71% |

## Expectations

**Economic recovery and GDP projections.** Despite the new wave of COVID-19, we believe that global economic growth will remain relatively high and less dependent on the pandemic situation in the coming years. After a particularly strong second quarter, we have slightly improved our forecast for global economic growth this year, and we expect global economic growth to reach 5,9% this year, 4,4% next year and will slow to 3,4% in 2023. The Baltic economies, which fell much less last year, will lag slightly behind this year (growth of 4.8%), but will grow at a similar pace later.

**This year's risks.** The biggest risk to the markets and the sustainability of global economic growth in the coming months will remain the global pandemic. Although a large part of the world's population is already vaccinated, it remains likely that we will have a pandemic scenario as bad as at the end of last year, with a significant increase in global infections and governments forced to enforce economic restraints to manage the pandemic.

The US Federal Reserve (FED) is likely to announce the start of a bond-buying program in the fall, and this could also put tensions in financial markets, at least for a short time.

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