HIGHLIGHTS

Monthly market analysis **January 2022**

Despite the emergence of the new variant of the coronavirus, Omicron, global economic growth remained robust at the year-end. The United States was the main economic driver, fuelled by ongoing strong domestic consumption and vigorous business investment. In the eurozone, growth momentum weakened slightly, with the services Purchasing Managers' Index recording a slight decline in December. In China, the slowdown in real estate activity and a zero-tolerance policy towards new coronavirus infections are hampering growth, which is mainly underpinned by the strength of exports and the resilience of business investment. In Japan, exports are holding up thanks to early signs of the normalisation of automobile production and robust demand for capital goods. The likely increase in the number of coronavirus infections and tighter lockdown measures due to the spread of the Omicron variant are expected to slow – but not derail – global economic growth in the first quarter of the new year.

Although already high levels, inflation rates are continuing to accelerate. In the United States, headline inflation rose from 6.2% in October to 6.8% in November. Excluding energy and food, inflation rose from 4.6% to 4.9%. The Federal Reserve's preferred inflation indicator, the PCE (personal consumption expenditures) deflator excluding energy and food, increased from 4.1% to 4.7%, its highest level since February 1989. In the eurozone, inflationary pressures are also persistent. With December inflation rates yet to be published, headline inflation and inflation excluding energy and food are expected to remain virtually unchanged from November's high levels (4.9% and 2.6% respectively).

At its December meeting, the FOMC, the Federal Reserve's monetary policy committee, changed its strategy in the context of rising inflation. The notion of transitory inflation was abandoned, the pace of asset purchase tapering was doubled, and the interest rate forecasts expressed by the members of the FOMC point to a gradual rise in interest rates from the spring onwards, with three rate hikes signalled in 2022 and three more in 2023. On this side of the Atlantic, the European Central Bank has announced the gradual reduction of its pandemic emergency purchase programme. However, to avert a brutal transition when the PEPP ends in March, the ECB will start increasing the conventional asset-purchase programme that was already in place before the pandemic. In contrast to its US counterpart, the ECB considers an interest rate hike in 2022 highly unlikely.

The less virulent nature of the new Omicron variant compared to its predecessor Delta erased November's general decline in government bond yields. The yield on the 10-year US Treasury note rose from 1.44% to 1.51% in December. In the eurozone, the benchmark 10-year government bond yield climbed from -0.35% to -0.18% in Germany, from 0.01% to 0.20% in France, from 0.97% to 1.17% in Italy, and from 0.40% to 0.56% in Spain.

In December, global equity markets resumed their year-long upward trend after the short-lived scare prompted by Omicron the previous month. This was reflected in the MSCI All Country World Index Net Total Return expressed in euros gaining 2.9%. Regionally, the S&P 500 in the United States, the Stoxx Europe 600, the Topix in Japan and the MSCI Emerging Markets gained 4.4% (in USD), 5.4% (in EUR), 3.3% (in JPY) and 1.6% (in USD) respectively. Over 2021 as a whole, the MSCI All Country World Index Net Total Return expressed in euros rallied strongly, up 27.5%. The US was once again the best performing region, followed by Europe and Japan. The Chinese authorities' regulatory tightening weighed heavily on share prices in Shanghai and Hong Kong, even generating a slight decline in the MSCI Emerging Markets index. In terms of sectors, energy, technology and financials posted the strongest gains in 2021.

The dollar did not benefit from the Federal Reserve's change in strategy in December, with the euro-dollar exchange rate rising from 1.13 to 1.14. The dollar appears to have consolidated the gains accrued in previous months. Overall in 2021, the dollar appreciated by 7.4% against the euro. In precious metals, the gold price rose by 3.1%, from $1,775 per ounce in November to $1,829 in December. Silver appreciated by 2.1%, up from $22.8 to $23.3 per ounce. Following their strong rise in 2020, precious metals had a less favourable run in 2021, with the full-year price per ounce of gold falling by 3.6% and per ounce of silver by 11.7%.