

Monthly Newsletter

Savings and Investments

Inspired by vaccination rollout equity markets hit new records

2021 April

Market overview

Although Ever Given, which blocked the Suez Canal, one of the world's largest container vessels, caused a brief mess in the markets at the end of March, this event did not cause any lasting consequences for the global economy or the financial markets. In March, global stock markets continued to rise and major stock indices hit new all-time highs. While bond yields rose over the month (for example, U.S. 10-year bond yields rose from 1.4 percent to 1.74 percent in March), central banks intervened, and this has delivered visible results as yields stabilized. The European Central Bank has announced that it will increase its bond repurchases again, and the US Federal Reserve has reduced its issuance of Treasury bonds, thus reducing their supply in the market. All of this has helped stabilize interest rates, so rising interest rates should not be a major concern for investors during the next few months. Overall better moods in the financial markets have been fueled by optimism about the outlook of the accelerating global economy in the coming months. With vaccination rollout and governments continuing with large-scale economic stimulus programs, the manufacturing sector representatives project an impressive year ahead, with the Global Manufacturing PMI index reaching its highest level in ten years and the US ISM Manufacturing index reaching climbing to 64,7 (its highest level since R. Reagan presidency in 1983). Another example of a recovering global economy is rapidly rising commodity prices. The price of one of the main industrial metals, copper, has risen by 80 percent since March last year, steel prices increased by about 40 percent, and the price of oil, which has reached the long-seen 60 USD price, has risen by more than 50 percent since November alone. The rapid rise in U.S. interest rates and the rising value of the dollar has pushed up the cost of servicing the debt of many dollar-borrowing developing countries, and this resulted in emerging market equities and bonds underperforming developed markets in recent weeks.

Although the MSCI World equity index has risen more than 40 percent since March last year and reached record levels, investors continue to increase their allocation to equities. On the one hand, extremely low yields on various bonds are forcing investors to take on more risk, but on the other hand, key market factors such as vaccination rollout and extremely favorable central banks' monetary and governments' fiscal policies suggest a good scenario for equities in the second quarter. The value of the VIX index, which is called investors' fear indicator, fell to its lowest level in recent years in March, indicating that investors feel safe and expect little volatility in the markets in the near future. Of course, both developments in the financial markets and the trajectory of global economic recovery will remain heavily dependent on the overall pandemic situation in the world.

Stock market indexes' performance (until 31 March, 2021)

Regionas	Indeksas	Valiuta	2021 March	2021	3 months	1 year	3 year	5 year
World	MSCI World	EUR	6,7%	9,2%	9,2%	43,8%	50,2%	81,5%
World	MSCI Emerging Markets	EUR	1,7%	6,5%	6,5%	47,9%	26,3%	71,4%
US	S&P 500	USD	4,2%	5,8%	50,4%	53,7%	84,9%	92,9%
Europe	MSCI EURO	EUR	7,2%	9,7%	9,7%	41,6%	13,7%	31,6%
Eastern Europe	MSCI EM Eastern Europe	USD	3,2%	2,5%	2,5%	36,6%	-3,1%	31,6%
Asia	MSCI EM Asia	USD	-3,1%	1,9%	1,9%	57,2%	23,1%	77,1%
Latin America	MSCI EM Latin America	USD	4,0%	-6,1%	-6,1%	46,0%	-24,1%	6,2%

Expectations

Economic recovery. Accelerating vaccination and the extremely favorable fiscal policies pursued by central banks and governments provide a solid basis for expecting strong economic growth in 2021. Business and consumer optimism has reached long-standing levels, and household savings have risen, which should lead to a sharp increase in consumption once economies open up. All this will have a strong positive impact on economic growth and falling unemployment.

Our GDP forecasts. The global economy contracted by 3.7 percent in 2020 but is expected to grow by about 5 percent this year, and recover to 2019 levels. After approving 900 billion USD economic support program in the USA it was expected that the biggest global economy will expand by about 4%. However, after passing the 1.9 trillion USD program it is possible that the year-on-year growth in Q2 and Q3 could reach a double-digit growth. Still, global economic developments will remain dependent on the pandemic situation which is hardly predictable.

This year's risks. The COVID-19 pandemic will continue to pose the greatest risk to both the global economy and financial markets. Although the vaccination process is gaining momentum, the course of the pandemic is difficult to predict and may present negative surprises. Other important risks in recent months - rising interest rates and rising inflation expectations - have eased somewhat over the past few weeks, following action by central banks. In addition, inflation rate even if it spikes in the coming months is expected to decline

in the second half of the year, as current prices are currently being compared to the extremely low base of the spring last year, at the peak of the pandemic

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Before making investment decisions, we would recommend thoroughly analyzing the financial, legal, regulative, accounting and taxation issues related to investing in the fund and assessing all of the risks associated with the investment and the relevance and suitability of the investment. If necessary, more detailed explanations should be sought from an SEB adviser, and in taxation issues from a specialist of the relevant area. General information about investing as well as securities is available at SEB's website <https://www.seb.lt>.