

<https://blog.en.erste-am.com/investment-update-increased-volatility-on-the-stock-markets/>

## Investment update: Increased volatility on the stock markets

Erste AM Investment Division / Erste AM Communications



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The financial markets started this week with high volatility. The US leading index S&P 500 suffered a loss of more than 2% since Monday, while the European index EuroStoxx 600 is almost 3% lower. Three developments were decisive for the losses:

1. Market participants' concerns due to disappointing corporate outlooks in the U.S.
2. The war between Russia and Ukraine
3. The impact of the lockdown measures in China.

The corporate reporting season for the first quarter of 2022 is going well, in line with our expectations. Nevertheless, some companies are scaling back their forecasts for the rest of the year, such as General Electric or Netflix.

The technology exchange NASDAQ was particularly hard hit by these developments, suffering a daily loss of almost 4% yesterday. The reason was the nervousness of investors ahead of the corporate results of Alphabet (Google) and Microsoft.

The Google parent company Alphabet actually missed analysts' expectations after the close of trading due to weaker advertising revenues in Europe and setbacks at the video service YouTube. After the stock exchange closed, the share then fell by about 6%. Microsoft, on the other hand, was able to exceed expectations.

The concerns about the company's results are also accompanied by an escalation of the confrontation between Russia and Western countries. At a meeting on Tuesday, the U.S. and its allies promised new deliveries of heavy weapons to Ukraine. This was accompanied by Russian Foreign Minister Sergei Lavrov's statement that the threat of "nuclear war should not be underestimated." In addition, the Polish gas supplier and the Bulgarian Energy Ministry announced that Russia would cut off its gas supplies today, Wednesday.

This caused a significant increase in gas prices on European energy exchanges. North Sea Brent crude oil also traded higher by 3.3% on the day on Tuesday and currently costs USD 105.7 per barrel.

Chinese equity markets gained in today's Asian trading session (CSI 300 +2.9%), ending a two-day losing streak after the Chinese government announced further support measures in the form of infrastructure investment. Nevertheless, the CSI 300 is down 3.6% since the beginning of the week as China maintains its zero-tolerance policy on Covid-19.

These developments have strengthened safe haven demand in recent days. The yield on U.S. 10-year government bonds fell about 10 basis points to 2.76% since Monday. Similar declines were also observable in Germany.

### What will we observe in the coming days?

We expect increased volatility in the coming days as well due to the developments described above. The VIX volatility index, which reflects the expected fluctuations of the S&P 500, rose to a level of 33 in the last trading sessions. The high since the beginning of the year was 36. This corresponds to daily movements in the S&P 500 of approximately 2%.

Source: Bloomberg

The halt of gas supplies to Poland and also Bulgaria yesterday was a reminder for many market participants that a possible escalation of the war in Ukraine could drive up energy prices, especially in Europe. We will therefore continue to maintain our allocation to gold and commodities in general in our portfolios.

In terms of corporate earnings in the U.S., we continue to see the possibility of disappointment in individual companies. Companies such as Netflix, which benefited from developments during the pandemic, could be particularly affected. Nevertheless, the first quarter reporting season is going well. So far, about 25% of the companies in the S&P 500 have published their results, with 80% exceeding expectations.

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