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Investment update: Some stabilization despite ongoing bombardment

Erste AM Investment Division / Erste AM Communications



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Although volatility and uncertainty remain particularly high in the capital markets, there has been some stabilization and, most recently, a slight recovery in the equity markets since last week. The primary driver for the current investor sentiment is and remains the Ukraine war, where despite the ongoing Russian bombardment of Ukrainian cities, at least on the diplomatic side initial progress is visible. Both Russia and Ukraine have recently shown a willingness to compromise, and especially Putin's statement that occupation of Ukraine is not his goal gives rise to justified hopes for successful peace negotiations. It seems that the tough economic sanctions imposed by the West are having an effect – with inflation estimated at 12.5% according to the Ministry of Economy, it is therefore hardly surprising that Putin is already preparing the Russians for high unemployment and difficult times ahead.

Commodity markets calmed down

In line with the latest progress, the commodity markets have also calmed down noticeably recently – for example, the price of North Sea Brent crude oil was recently quoted at around USD 100 again after almost USD 140 in the meantime. However, even at these levels, the pressure on inflation will remain high, and for this reason the U.S. Federal Reserve yesterday initiated the interest rate turnaround, as expected. Jerome Powell raised the U.S. key rate by 0.25% and presented himself as a brash fighter against inflation, which shot up in the U.S. to 7.9% recently. After all, 7 interest rate steps are now expected in the coming year. Contrary to the textbook, the stock markets were nevertheless friendly, which is probably mainly due to the fact that the U.S. economy is ultimately also trusted a tighter monetary policy.

Fed Funds (target rate; 2012-2022)

Source: Refinitiv Datastream

China back into the focus

In addition to the influencing factors already mentioned, China has also recently come increasingly back into the focus of investors. On the one hand, the omicron variant is also spreading in the Middle Kingdom, as a result of which numerous regions recently had to go into lockdown due to the zero-covid strategy of the government in Beijing. The Shenzhen region, which is home to the world's third-largest container port and important technology centers, is also at a standstill, for example, thus putting further strain on the already tense supply chain problems. Nevertheless, the local stock markets have been experiencing a real price fireworks in the last few days, after official statements said that the financial markets are to be stabilized, the real estate and technology sectors are to be supported and the economy is to be further stimulated.

Numerous uncertainty factors

Even though the general news situation has gradually improved over the past few days, it is probably still a bit too early for us to increase our risk ratios at the moment. On the one hand, we are quite active and broadly diversified and, on the other hand, numerous uncertainty factors are likely to remain in the short term with regard to the war in Ukraine but also with regard to the economic situation. Volatility is therefore likely to continue.

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