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## Second Pandemic Year Ends With Strong Gains for Stock Markets

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For the world's stock markets, the second year of the coronavirus pandemic ended with partly spectacular gains. The US stock markets, for example, closed near their most recent record highs. The Dow Jones gained almost 19 per cent over the course of the year, while the S&P-500 recovered around 27 per cent in 2021. European stock markets also saw a significant upward trend, with the Euro Stoxx 50 closing out the year on a strong 21 per cent gain. The German DAX (up 16 per cent) and the British FTSE (up 15 per cent) also posted significant gains. Vienna saw even stronger gains, with the ATX one of the best-performing indices in Europe, up 38 per cent.

Gains in China were somewhat weaker, with the Shanghai Composite gaining just under 5 per cent in the past year. China was held back by, among other things, temporary power shortages, production stoppages and a real estate crisis resulting from the the highly indebted Immo Group Evergrande's payment difficulties.

### Performance of selected stock indices from 2017 to 2021 in %

Index	2021	2020	2019	2018	2017
Dow Jones	18,9	9,7	25,3	-3,5	28,1
Eurostoxx	21,2	-2,6	29,3	-11,3	10,1
DAX	15,8	3,6	25,5	-18,3	12,5
FTSE-100	14,6	-11,6	17,3	-8,7	11,9
Shanghai Composite	4,8	13,9	22,3	-24,6	6,6
ATX	38,3	-10,8	20,5	-17,4	34

on a local currency basis

Source: Refinitiv Eikon Datastream

### Economy Showed Significant Recovery in 2021

Global stock market prices were driven by the economic recovery following the year-long crisis of 2020, with the US gross domestic product growing by 2.3 per cent in Q3 on an annualized basis – in Q2, the GDP showed even stronger growth of 6.7 per cent. While the US economy slumped by 3.4 per cent in the first pandemic year of 2020, economists now expect the GDP to increase by well over 5 per cent for the entire year, which would be the fastest growth since 1984. The economy in the euro zone has also recovered significantly: euro zone GDP climbed 2.2 per cent quarter-on-quarter from July to September, with 2.2 per cent growth in the euro zone in Q2.

However, many sectors continue to be held back by high energy prices and supply chain problems. Demand for many products, which rose sharply with the recovery, was offset by raw material and intermediate product bottlenecks, as the lockdowns resulted in production cutbacks and even plant shutdowns. Notably, shortages of computer chips have been particularly severe. Strong demand for technology in times of lockdowns and home office work have caused demand for chips to spike unexpectedly. In particular, the recent upturn in car manufacture has led to a shortage of direly needed chips. Despite full order books, assembly lines ground to a halt at times.

### Rapid Energy Price Rises Fuel Inflation and Interest Rate Fears

In line with the economic upturn and the resulting stronger demand for energy, energy prices soared in 2021. At the turn of the year, the price of Brent crude oil was quoted at just under 80 dollars, an increase of around 58 per cent since the beginning of the year.

The increase in natural gas prices proved to be even stronger, where a sharp rise in demand – above all from China – met with production shortfalls and thus a supply shortage. The gas price increases and a growing electricity demand as the economy recovered subsequently led to the demand shifting to coal, again resulting in rising prices. According to the International Energy Agency (IEA), global electricity generation from coal is expected to reach a record level this year.

The energy price increases and supply chain problems are markedly reflected in inflation statistics. Inflation in the euro zone rose to 4.9 per cent in November, the highest level since the start of the survey in 1997, more than double the European Central Bank's target of 2 per cent annual inflation. In the US, the most recent increase was even stronger, with goods and services costing 6.8 per cent more in November than in the previous year. This is the highest value since 1982.

With the high inflation rates, fears of counteracting interest rate increases by the central banks and thus an imminent end to the loose monetary policy supporting the economy are also increasing on the stock exchanges. The Bank of England already initiated the turnaround in interest rates in December, surprisingly raising its key rate from 0.1 to 0.25 per cent.

### Central Banks are Exiting Crisis Mode

The US Federal Reserve has also recently begun to end its crisis mode. Starting in January, the reduction of stimulus purchases is to be accelerated, and in March, the economic boosts are to be discontinued completely. The Fed recently signaled several interest rate hikes for 2022. Fed Chairman Jerome Powell made it clear that the economy no longer needs the aid and that the days of cheap money will soon be numbered: given high inflation and rapid progress in the labour market, he said that the Fed is "very, very well positioned for rate hikes." A number of indicators of consumer sentiment and consumer confidence in the US also recently corroborate this with surprisingly sharp upward trends.

### Euro Weakened Against the Dollar in 2021

The European Central Bank also plans to end bond purchases under its emergency coronavirus pandemic PEPP program in late March, but the ECB is unlikely to raise its record-low key interest rate of 0.0 per cent for the time being. According to the central bank's assessment, inflation is likely to remain high for the time being, but overall it is likely to remain a temporary phenomenon.

The expectation of an accelerated monetary tightening policy in the US was also reflected on the foreign exchange market in the past year. The prospect of higher US interest rates supported the US dollar, resulting in the euro returning from around USD 1.20 at the outset of the year to USD 1.13 at the year's conclusion.

### Economic Recovery Expected to Continue in 2022

The bottom line, however, is that the economic recovery is likely to continue in 2022, albeit at a slower pace. For example, the ECB recently lowered its forecast for GDP growth in the euro zone from 4.6 to 4.2 per cent, with the coronavirus omicron variant's rapid spread causing uncertainty at the end of the year. Although the latest reports indicate a milder progression compared with the delta variant, this is offset by high infection figures, which could once more lead to stronger containment measures. Finally, the tensions between Russia and the Ukraine are also being closely followed in Europe and the United States, while advancing digitalization and the fight against climate change are likely to remain a defining issue as well.

**CONCLUSION:** The stock market returns of 2021 were largely brilliant. The Vienna Stock Exchange shone with a top performance in Europe. The economic recovery is expected to continue in 2022, possibly not at the pace of the previous year. The pandemic and political tensions remain risk factors.

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