2022 - will everything be different?

This year‘s Christmas program includes not only the classic „Three Hazelnuts for Cinderella“ by Božena Němcová, but also „Three Interest Rate Increases for Investors“ by Jerome Powell, head of the U.S. Federal Reserve. Not surprisingly, given the record inflation rates in the U.S., he announced three interest rate hikes in the U.S. for 2022. At the end of 2022, we can therefore expect key interest rates of 0.75% in the USA. On the other hand, the Bank of England‘s 0.15% increase in key interest rates came as a little more of a surprise. And what is the ECB doing?So far, it has reacted cautiously. This raises the question, are there completely different assessments of the inflation trend on the part of economists? Should we assume a permanently high price increase or is it really just a temporary phenomenon? Which scenarios should investors prepare for?

At first glance, the Fed and the ECB give different answers to the question of whether inflation will become a permanent problem. However, this is also due to the fact that the eurozone comprises 19 countries that are not managing the crisis at a uniform pace. So the ECB still has good reason to be a bit more cautious. However, the development is also being discussed controversially within the ECB bodies. There are voices that expect the European central bank to raise interest rates for the first time before the end of 2022. What does this mixed picture mean for the stock markets?

Historically, three interest rate hikes have usually been a development that has negatively impacted equities. Numerous tech stocks that benefited from speculation of future gains have already suffered significant losses in the wake of the interest rate discussion. So is the trend now finally moving from growth to value stocks? Not necessarily. It is true that stocks benefiting from rising inflation, including the financial and energy sectors, have been among the winners in the recent past. However, even after hikes, interest rates will still be far below inflation, which means stocks will remain attractive. Looking back, it is clear that only a rise in yields on 10-year US government bonds above 3% dampened the positive stock market trend. We are still a long way from that in the current environment.

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This is our last issue of MondayMarketsMails for 2021. We wish all our readers a Merry Christmas and a successful 2022. We will be back on Jan. 10, 2022.