MONDAY MARKETS MAIL

Key topics at a glance.

Rates are rising in the US - what does that mean for global markets?

Kathrein statement

The stock market year 2022 got off to a volatile start. This is a term that we will probably use even more frequently in the course of the year. We provide a brief outlook on what we expect for 2022 and which scenarios may influence market developments.

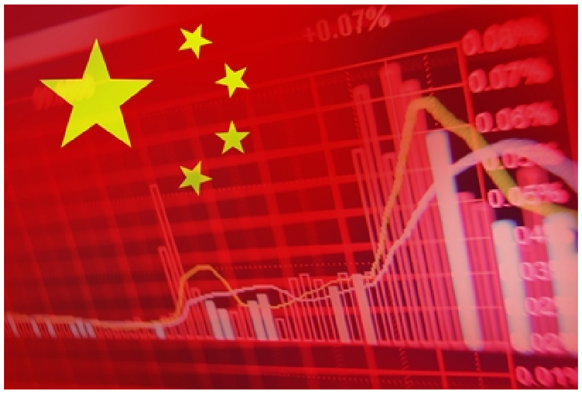
We remain positive on the performance of global equity markets as corporate earnings continue to grow. Profit expectations for 2022 have been scaled back somewhat compared with forecasts before the omicron outbreak, but are still higher than in 2021. Strong corporate profit growth is expected again in 2023 in particular. The bull market, which started in March 2019, is still comparatively young and still has potential, although a ten percent correction cannot be ruled out in the meantime. Of course, there are many points that could cause a price setback. The activities of the US FED are particularly in the spotlight here. Can the FED raise interest rates, stop bond purchases and reduce the balance sheet total to such an extent that inflation rates or inflation expectations fall without triggering a recession?

Why is this so important? Historically, inflation above 4% has tended to be bad for investment returns (savings, money market, bonds, stocks).

Stock markets have come under particular pressure when there has been a rapid increase in interest rates, i.e. when the Fed has raised rates at almost every meeting (this year, four hikes are expected in ten meetings). Currently, however, the starting position is different than in the past, because key rates have rarely been so far below the inflation rate.
In phases of rising key interest rates, market P/E ratios usually fall, which gives an advantage to companies with already low P/E ratios (so-called "value" stocks). Growth stocks such as technology could experience a revaluation and fall to much lower levels.

Also important is the question of whether fiscal policy will follow monetary policy and a more restrictive course will be adopted by governments? If this were to be the case, the question arises as to how strongly the economy can then grow without these additional stimuli.
Will the well-known geopolitical trouble spots of Taiwan and Ukraine escalate and impact the financial markets? Will COVID eventually go from a pandemic to an endemic disease or disappear altogether?

Many unanswered questions to be answered. But for now, the signs point to growth with very little risk of recession. The yield curve is steep, meaning that 10-year government bond yields are higher than 2-year yields. If the Fed's rate hikes reverse this relationship, a recession may follow - as has happened in the past after four to eight quarters. Conclusion: No recession, no bear market.



China´s economy grew 8,1 % in 2021

German GDP rose 2.7 percent last year

- **Growth weakens overall**
- **Strong increase explained by low comparative figures from the previous year**

Beijing (APA/dpa) - China's economy grew by 8.1 percent last year, according to official figures. However, according to the Beijing statistics office, growth weakened further in the fourth quarter. According to the report, the second-largest economy grew by four percent year-on-year between October and December. The growth of the gross domestic product was thus slightly better than analysts had expected on average.

In the third quarter, growth had been 4.9 percent - after record growth of 18.3 percent in the first and 7.9 percent in the second quarter.
7.9 percent in the second quarter.

The strong year-on-year increase is mainly explained by the low basis for comparison due to the pandemic in the previous year. With a zero-covid strategy, mass testing, quarantines and entry restrictions, the most populous country had gotten the virus under control faster than most other countries. Nevertheless, economists are now predicting a year with significantly less momentum.

Most recently, it was mainly strong exports that supported China's growth. But foreign trade alone cannot compensate for other problems in the long run: The real estate market has cooled - driven by uncertainties such as the crisis surrounding the Evergrande real estate group, which is heavily indebted to the tune of more than $300 billion. The government continues to work on reducing the high level of corporate debt.

- **Germany has not yet recoverd from the economic slump caused by the pandemic**
- **Projections of up to 4.5% growth for 2022**

Wiesbaden/Berlin (APA/Reuters) - Despite global supply problems, the German economy grew noticeably again in 2021. Gross domestic product (GDP) rose by 2.7 percent, according to the Federal Statistical Office. However, the economy was thus only able to make up for part of the recession from the first corona year of 2020, when the economy slumped by 4.6 percent.

Last year, supply bottlenecks, higher prices for raw materials and energy, and generally high inflation weighed on companies and consumers. The third and fourth waves of corona with rising incidence rates dampened trade, tourism and the hospitality industry and prevented a faster recovery. Although industry recovered noticeably and landed more orders, it is still struggling with material shortages and consequently with higher prices. In the construction sector, things were largely running smoothly.

Experts believe that the economic knot will be broken and the economy will pick up more speed when the omicron wave
subsides. Policymakers are then likely to ease restrictions in the fight against the pandemic. Many economists believe the economy will grow significantly more in 2022. While the Federation of German Industries (BDI) expects the economy to grow by 3.5 percent, researchers at the IMK Institute, which has close ties to the trade unions, are even predicting an increase of 4.5 percent.

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