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

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.

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