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| | Level |
|---------------|-----------|
| Euro Stoxx 50 | 3,741.78 |
| S&P 500 | 4,363.49 |
| Nikkei 225 * | 26,577.27 |
| WTI Crude | 107.67 |
| Natural Gas | 384.05 |
| Wheat | 1,289.00 |
| Spot Gold | 1,935.95 |

Data as of 03.03.2022

Inflation again and again

Written by Mohamed Affi, CFA

February marked another month of negative return for the markets, where both S&P500 and MSCI Europe were down -3.14% and -3.15%, respectively. Markets started the month trading flat to positive; then this was reversed as volatility climbed up and markets traded down in anticipation, then following the Russian invasion of Ukraine.

The conversation has abruptly shifted from trying to anticipate the impact of a tighter monetary policy on the economy towards the more imminent threat of the situation in Ukraine and its effect on both inflation and economic recovery, especially in Europe.

Inflation globally continues to rise by the day. In February, consumer prices in Europe jumped 5.8% from a year ago, and in the U.S., it reached 7.5% YOY in January. Rising raw material prices, wages, and supply chain issues coupled with strong demand resulted in very high and persistent inflation figures last year.

At the moment, the war has sent commodity prices soaring, from oil and gas to agriculture products, especially wheat. Ukraine and Russia together account for a quarter of the global trade of wheat. The war has closed major ports in Ukraine and severed logistics and transport links, while sanctions and soaring insurance and freight costs have also impacted trading with Russia. Despite Europe and the U.S. giving general licenses on their sanctions to allow energy payments, market participants are self-sanctioning by refusing to deal in Russian oil.

Inflation will continue to remain elevated, driven by all of these factors.

We continue to expect higher interest rates, only at a slower pace than anticipated just one month ago, as the Fed finds itself in an even tougher spot at the moment, trying to be hawkish but not "very hawkish" in an effort to control the rising inflation without negatively impacting the job market and the economy.