WEEKLY COMMENTARY
6.12.2021

Santander Fundusze Inwestycyjne

Volatility has returned to the financial markets again. Investors were frightened, among other things, by the development of another mutation of the coronavirus, called "Omicron". According to research from South Africa, this variant is even more infectious than previous versions. The first cases of this variant have already been reported in Europe. We do not yet know how resistant it is to vaccines. **According to the European Centre for Disease Prevention and Control (ECDC), the new mutation of the virus could account for more than half of the infections in Europe in a few months and become the dominant version**. On a positive note, the ECDC also reported that Omicron infections detected in Europe are mild or asymptomatic. It is not yet known if this is the rule, but if it were, some epidemiologists believe that this **milder virus** (which does not cause increased hospitalization), displacing previous more dangerous variants, could even **solve the pandemic problem to a large extent**.

The other major event of the previous week was **a speech by the Chairman of the Federal Reserve** (Fed). **In it, Jerome Powell stated for the first time that the current situation does not allow to continue to maintain the position that inflation is temporary**. As a result, it may be reasonable to **reduce the pace of asset purchases** more quickly. **This had the effect of pushing up yields on short-maturity Treasury bonds**. In turn, the risk-off stance caused yields on long-term bonds to fall (price increases). **The 10-year bonds ended the week at 1.35%** (yields fell by 14 bps during the week).

In Poland we saw the inflation reading for November. CPI inflation amounted to 7.7% y/y (6.8% in October), again slightly above the highest forecasts. The rhetoric of the President of the National Bank of Poland has also changed and he no longer considers inflation to be a temporary problem, which **increases the likelihood of further interest rate increases** at the next MPC meeting. **This also caused yields on both two- and ten-year Treasury bonds to rise**. The weekly increase was 25 bps and 12 bps, respectively (yield levels of 3% for the two-year and 3.22% for the ten-year).

In most developed countries' equity markets, we saw declines in the previous week with increased volatility. The technology sector in the US also performed poorly, despite declines in yields on 10-year US Treasury bonds. **In the end, the S&P index lost 1.2%, and the NASDAQ technology index lost 2%. European markets ended the week on smaller downsides, with Germany's DAX falling 0.6%** (although volatility was also high during the week). After weaker behavior in previous weeks, this time **the Polish market stood out positively**. **The WIG20 rose 1.7%, mWIG40 2.2% and sWIG80 2.7%**. Among large sectors, the banking sector reacted positively to the high inflation reading, which increases the chances of further rate hikes. **The banks index rose 4% on the week**.

In a scenario like the current one, where uncertainty persists and could lead to new episodes of volatility, **it is important to remain calm and remember that the best tools at our disposal are diversification, an appropriate risk profile for the individual and a time horizon**.
