WEEKLY COMMENTARY
20.12.2021

Santander
Fundusze Inwestycyjne

Last week (13-19.12.2021), once again the **market's attention was focused on high inflation prints**, and, more specifically, on the actions of central banks aimed at fighting rising prices. **The Fed**, the central bank of the United States, **held its meeting** on Wednesday, whereas the **Governing Council of the European Central Bank (ECB) met** on Thursday.

The US Central Bank decided to **keep interest rates unchanged** (the range for the federal funds rate is currently 0%-0.25%) and communicated the **acceleration of the pace of asset purchases reduction**, which should be understood as a **tightening of monetary policy**. At the same time, the Fed presented the preferred paths of interest rate changes by members of the Committee (Federal Open Market Committee - FOMC for short - the body responsible for shaping monetary policy in the USA), which implies the expectation of three interest rate hikes in 2022 and further actions in subsequent years.

The ECB meeting ended without major surprises - **interest rates remained unchanged** (the main refinancing operations rate and the ECB lending and deposit rates are 0.00%, 0.25% and -0.50%, respectively) and the ECB President Christine Lagarde described raising interest rates in 2022 as "unlikely". She also outlined an expectation that inflation would remain below the 2% target over the medium term. Similar to the US, the ECB **announced a reduction in its asset purchase program from the current €100 billion per month to €40 billion**.

Equity markets in the U.S. and Europe rose on days of central bank decisions, discounting the diminishing factor of uncertainty about further Fed and ECB actions, **but ended the week with declines**, with the S&P 500 index down 1.9%, the Nasdaq down 2.9%, and the German DAX down 0.6%. Japan's Nikkei 225 ended the week up 0.4%.

The reaction of the debt markets to the central bank meetings was small, and the whole week was characterized by an **increase in the prices of treasury bonds** (i.e. decrease in their yields). Yields of 10-year Polish treasury bonds decreased from 3.178% to the level of 3.124% noted the week before. Similarly in the USA, where 10-year treasury bonds yields decreased from 1.487% to 1.406%.

The Polish assets were not favoured by the still unfinished discussion with the European Union on the allocation of funds for the National Reconstruction Plan (funds from the so-called EU Reconstruction Fund - Next Generation EU) and the geopolitical situation related to the presence of Russian troops near the border with Ukraine. **Ultimately, the WIG index fell last week by 1.8%, and the index of the largest companies WIG20 decreased in value by 0.9%.**

At the same time, the **COVID-19 pandemic and a new variant of the virus called "Omicron",** which has a high number of mutations on the pathogen's surface and a high infectious potential, remain risk factors for the world's economies. Last week, the first official fatal case caused by the new type of virus was reported in the UK, and China reported the first official infection with this strain. Also in Poland, the first case of Omicron virus infection has been detected.

In commodity markets, what is worth noting is the **rising coal prices** (up 7.7% in the past week) and the continued **decline in gas prices** (down 6.0% last week and down 37.1% since the beginning of this quarter).

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