WEEKLY COMMENTARY
7.03.2022

Santander Fundusze Inwestycyjne

The last week (28.02-6.03.2022) **was very nervous on the financial markets. Volatility** as measured by the **VIX index** reached its **highest level in over a year**. In the face of the military conflict in Ukraine, which is gaining momentum, the **dollar strengthened against major currencies**. Markets, on the other hand, were quite calm about the Fed chairman's announcement that he would support a **25 bps interest rate hike in the U.S.** in March. It seems that the **quiet market reaction** was due to the fact that markets were anticipating the decision, and more importance will be given to the pace of interest rate hikes, which may be tempered by **high energy commodity prices and fears of stagflation**.

The effect of the sanctions (special financial operations) being imposed on Russia is spilling over into the markets and will have a global impact. **Oil prices have** significantly **exceeded $100 per barrel** ($125 per barrel for Brent oil). A potential U.S. embargo on Russian oil is pushing up inflationary pressures even further. Hence, **alternative ways of oil supply** are being considered. Some light at the end of the tunnel may be the potential **return of Iranian oil to global markets** after **Iran eases its nuclear policy** by signing an agreement with the International Atomic Energy Agency. The expected volume of supply from this direction and its timing remain however an open question. One of the solutions could also be a greater supply of the commodity from OPEC+ countries, however at the moment the status quo of production volume declarations is preserved.

Equity markets ended the week on a **negative territory**. The scale of declines across the ocean was smaller than in Europe. S&P 500 fell by 1.3%, Nasdaq by almost 3%, and in Europe, the German Dax fell by 10%. **The best performing sectors** were those of the **old economy** and **energy**, **while at the other end of the spectrum** were the **financial** and **IT** sectors.

In Poland, the scale of **declines** from the previous week **intensified**. The broad market index fell by 3.4%. The blue chips index was relatively stronger, falling by 2.6%. **The best performing** index was the **sWIG80** grouping small companies, which rose by 0.6%, and **the weakest** were medium-sized companies whose index (**mWIG40**) fell by 7.3%. **By sector, as on other markets**, the old economy and energy companies fared better, following the rising prices of energy commodities, while the worst performers were the financial sector and technology companies.

Despite the intervention of the National Bank of Poland on the foreign exchange market, the **zloty weakened** against the major currencies (EUR, USD), which further increases the inflationary pressure (import of inflation) and may lead to a **higher than expected by the markets increase in interest rates** at the upcoming meeting of the MPC. This action will affect the Polish economic activity, which may be strongly reduced, leading to a dangerous phenomenon of **stagflation**. It seems that the financial sector movements have already started to discount this scenario (WIG-banks index fell by as much as 15%!). **On the debt market**, **the yields of bonds** on the major markets **in the USA and Germany were falling** (prices were rising). **In Poland, the picture is different** due to the weak Polish zloty and the risk of significant interest rate hikes. In Poland yields on 10-year bonds rose nearly 6% on Friday alone and their yield is now 4.34%. In the commodities market, **gold** is proving to be an excellent performer and **has grown** by 3.1%. **Copper** approached the $500 level (high grade copper) **rising** by almost 11%.

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