WEEKLY COMMENTARY
28.03.2022

Santander Fundusze Inwestycyjne

Last week (21-27.03.2022) was already the fifth since Russia's invasion of Ukraine began. Military action continues, with media reports suggesting no clear success for either side - while the Ukrainian army has been able to push the enemy further away from Kiev, Russia has intensified rocket attacks on key Ukrainian cities and is also said to be preparing to send more troops to the frontline. Last week also saw a lack of reports on the progress of ceasefire negotiations and reports of in-person meetings between delegations from both countries, while Russia continues to demand that Ukraine declare neutrality, significantly reduce its army and give up selected territories. At the same time, NATO has so far made no decision to establish a no-fly zone or to send peacekeepers to Ukraine.

Last week, as over recent months, **high inflation and possible scenarios for interest rate changes were an important element in building expectations for capital markets.** During a conference organised by the National Association for Business Economics, Fed Chairman Jerome Powell announced that **the necessary steps would be taken to ensure a return to price stability**, and in particular flagged the possibility of faster rate hikes than anticipated. Analogous rhetoric was communicated by Federal Reserve Bank of St. Louis President James Bullard, who said that **high inflation may require more aggressive action by the central bank**. Hawkish statements by Fed representatives did not frighten investors in equity markets, as both the **S&P 500 and Nasdaq Composite gained** last week (1.8% and 2.0% respectively). **The components of Japan's Nikkei 225 index did even better**, gaining 4.9%. On the opposite side were investors from the German market, where the DAX index fell by 0.7%.

The domestic market was dominated by positive news - there were reports of the imminent unblocking of funds for Poland from the EU Reconstruction Fund, and the government announced a tax reform that will **lower the PIT rate in the first tax bracket**, which should support private consumption. **Macroeconomic data for February** were also published, **indicating a good situation on the labour market**, as the registered unemployment rate reached 5.5% and was 1.1 percentage points lower than in the previous year, while **the average monthly salary in the enterprise sector was 11.7% higher than in February last year**. Finally, the broad market index WIG rose by 1.2%, large companies grouped in the WIG20 index gained 0.8%, and small and medium-sized enterprises strengthened by 2.1% (mWIG40) and by 2.3% (sWIG80).

Among the largest companies listed on the Warsaw Stock Exchange, **shareholders of Jastrzębska Spółka Węglowa had the most reasons to be enthusiastic, with its shares rising by 7.8%**, supported by high coal prices and the published financial results. At the other extreme was the **banking sector, which last week lost 2.8% as a result of the growing risk of stagflation, i.e. high inflation combined with economic stagnation**, which may translate into a deterioration of the situation of bank clients and their ability to repay their loans.

Bond markets are pricing in rising expected interest rates and bonds are experiencing increasing yields (which means their prices are falling). The 10-year Polish government bond yield was 5.37%, moving up 69 basis points over the past week. On the other hand, yields on 10-year US Treasury bonds increased by 34 basis points to reach the level of 2.49%.

On commodity markets, and especially among energy resources, volatility remains high due to the Russian attack on Ukraine and the sanctions imposed on Russia (Russia is one of the world's largest producers and exporters of energy resources). Coal futures rose by 7.2%, Brent oil futures rose by 11.8% and natural gas futures gained 14.6%.

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