WEEKLY COMMENTARY
25.07.2022

Santander Fundusze Inwestycyjne

Last week (18-24.07.2022) brought the first major **rebound of declines in the stock markets**. Volatility as measured by the VIX index gradually declined. **The dollar continued to fall**, supporting peripheral markets. To fight inflation in Europe, **the ECB raised interest rates** by 50 basis points for the first time in more than a decade, which was 0.25 bps above market expectations. Markets reacted fairly calmly to the decision, anticipating that the ECB's assumptions would be modified in the face of higher inflationary pressures and stronger earlier Fed moves. **The ECB highlights that the risk of higher inflation remains significant all the time, the economic environment is uncertain.** Of the positive news the ECB pointed out, the labor market remains quite strong throughout, and the effect of opening the economies should reduce pressure on supply chains.

The rebound in the markets was supported by fairly decent relative to expectations US financial results for the 2nd quarter of this year. According to FactSet, of the S&P 500 index companies reported, about 70% beat market expectations. **Forward indicators suggest continued macroeconomic deterioration**. PMI readings for July in the Eurozone and in the USA fall for another month in a row. Of particular note is the **US services PMI reading for July**, which **fell as much as 5.7 points**, strongly disappointing market consensus. **Bond yields**, in the face of a weakening market environment and less pressure to raise interest rates, **continued their declines** (the probability of a 100 bps US rate hike at the upcoming Fed meeting fell from over 20% to around 8%).

Over the week, **10-year bond yields fell** nearly 20 bps in the USA and about 10 bps in Germany. **Equity markets ended the week with strong gains**. The scale of the increases overseas was comparable to those in Europe in local currencies. The S&P 500 increased by 2.5%, the Nasdaq by 3.3%, and in Europe the German DAX by 3%. The Nikkei 225 rose by 4.2%.

In Poland, the scale of the rebound was much larger than in developed markets. The stronger zloty helped, reducing the pressure of imported inflation. The broad market index rose by 4.8%. The blue chip index performed relatively better, rising by 5% (up by 7.3% in dollar terms!). The worst performer was the sWIG80 small-cap index, which rose by 2% with decently performing mWIG40 index, which rose by 4.1%. In the past week, data from the economy for June indicated clearly that **the pace of economic growth is slowing down fairly rapidly**. The scale of deceleration in construction and assembly production, industry, as well as retail sales turned out to be bigger than analysts' expectations.

With the faster cooling of the economy in Poland, **pressure for interest rate hikes has dropped sharply**. Yields on Poland's 10-year notes fell nearly 100 bps and now stand at 5.8%.

In the commodities exchange, copper rebounded by 3.6% after recent declines. Oil (WTI) fell further, by more than 3%. Gold increased by 1.1%.

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the sub-fund and take into account the possible taxation of the investment return. The participant must also take into account the possibility of losing at least part of the invested funds.
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