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WEEKLY COMMENTARY
1.08.2022

Santander Fundusze Inwestycyjne

Last week (25 - 31.07.2022), **the key events** for the markets took place in the **United States**. At its subsequent meeting, **Fed** raised the federal funds rate range by **75 basis points** to 2.25-2.50%, which was a move in line with market expectations. This was **already the fourth rate hike this year**, and their current level is equal to the peak from the previous cycle. Nevertheless, **the market expects further monetary tightening**, although the pace of the process may slow down. According to Fed Chairman J. Powell, Fed has reached a neutral interest rate level for the US economy, which may be a rationale for **decelerating the pace of further hikes**.

Last week, the **flash estimate of US GDP for the second quarter of 2022** was released. As calculated by the government's Bureau of Economic Analysis, US GDP (seasonally adjusted) **declined by 0.9%** on an annualised basis. Market expectations were for an increase of 0.5%. An analogous situation occurred a quarter ago, when the market expected an increase and eventually a fall in the index was reported. Thus, the **US economy has entered a so-called technical recession** (i.e. a decline in GDP for at least two quarters). Despite the negative readings on gross domestic production, there are voices that **other macroeconomic data**, led by a strong labour market, good household balance sheets and high credit quality, **do not point to the typical risks associated with a recession**. The supportive message convinced investors to continue buying, and **equity markets rose for the second week in a row**. The S&P 500 Index gained 4.3% and the Nasdaq Composite strengthened by 4.7%. The German DAX followed a similar pattern, rising by 1.7%, with the exception being Japan's Nikkei 225 with a decline of 0.4%. **Bonds also experienced price increases**, where the yield on the US 10-year government bonds fell by 9 basis points to 2.66% (a fall in yields is equivalent to a rise in bond prices). Changes were even higher for **10-year German bonds**, where **yields fell by 23 basis points** to 0.81%. In the corporate debt market, demand also dominated supply, with the EUR-denominated high-yield bond index rising by 1.2%. The corresponding but USD-denominated index did even better, strengthening by 1.5% last week.

On the domestic market, the **flash inflation reading for July** was released, coming in at 15.5%, which was in line with market expectations. The dynamics of the change in prices at the same level as the previous month's reading is **a positive signal for the markets**, as it raises hopes that the pace of price changes in Poland has finally stopped increasing (over the past year, the slowdown in the inflation dynamics compared to the previous month took place only in the reading for February after the introduction of the government's anti-inflationary shield). **Slowing inflation dynamics** means **less pressure for further interest rate rises. Markets reacted positively.** The broad equity market index WIG rose by 1.7% and the blue chips index WIG20 by 1.1%. In the debt market, the price of the 10-year government bonds was rising and thus their yield fell by 34 basis points to 5.54%.

On the commodities market, the price of Brent oil futures finally rebounded after seven weeks of declines and rose by 5.7%. Copper and coal contracts also rose strongly, by 6.7% and 8.4% respectively.

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