When will the stock markets recover?

Yesterday, the Nasdaq index lost almost 5%, which is being justified with growing recession fears in the U.S. Disappointing earnings reports from major retail chains fueled the selling sentiment. There has been a high degree of uncertainty in the financial markets for some time, fed by various events and developments.

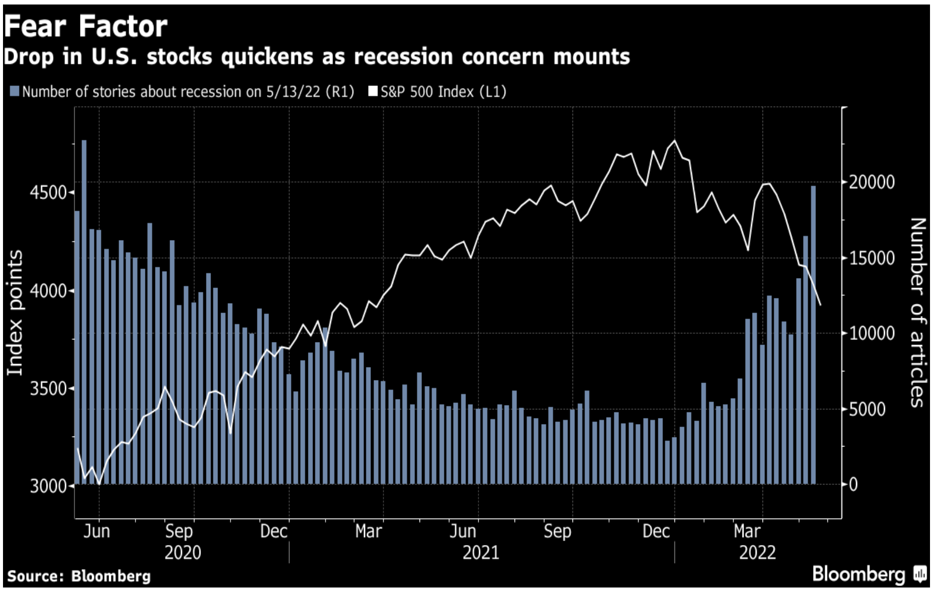

Chart: U.S. stock market falls as articles on "recession" increase

Inflation dynamics in the U.S. and Europe have alarmed central banks; key interest rates in the U.S. will rise much faster and more sharply than expected at the beginning of the year. Capital market rates and stock prices have reacted accordingly. And fears that the USA is being driven into a recession through an aggressive monetary policy have increased. Should it be confirmed in the next few months that inflation has passed its peak and is showing a clear downward trend, this would noticeably change market expectations and significantly increase risk appetite.

The war in Ukraine has so far had more of a negative impact on European inflation rates than on economic growth. The EU recently reduced its forecasts for growth in 2022 from 4% to 2.7% and raised the outlook for inflation from 3.5% to 6.1%. A key driver of inflation are soaring energy costs, which are caused by the consequences of war. A de-escalation of the conflict involving some kind of ceasefire and less tit-for-tat-sanctioning would free commodity prices from the war premium and help eliminate certain supply bottlenecks. This would primarily benefit the European economies and, moreover, somewhat ameliorate geopolitical instability.

China's COVID policy is increasingly proving to be a stranglehold on its own economy and a source of social discontent. With the re-election of the President due in the fall, it is expected that the current rigid restrictions will be eased (also justified by the falling figures) and further measures will be taken

Wyss & Partner
Asset Management and
Investment Counseling AG

Bahnhofstrasse 17
7323 Wangs, Switzerland
P +41 81 720 06 88
F +41 81 720 06 89
info@wysspartner.ch
www.wysspartner.ch

to stimulate the economy. The Chinese head of government has called on the member states to do everything in their power to enable the economy to grow at a satisfactory rate this year. A de-blocking of economic activity would ease global supply chain problems and thereby help eliminate inflationary pressures stemming from insufficient supply.

A technical recovery on the stock markets is conceivable at any time. For any upturn to be sustainable, however, one or more of the above points will have to turn positive. And while we are convinced that this will succeed, the timing of it is all but certain and volatility will continue to rattle markets until confidence is restored.

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