# Weekly Flash

## Monetary stimulus peaking

**MARKET PERFORMANCES** (as of August 27, 2021 – 14:30 CET)

| | CURRENT | CHANGE 1 WEEK | CHANGE YTD | | CURRENT | CHANGE 1 WEEK | CHANGE YTD |
|---|---|---|---|---|---|---|---|
| S&P 500 Index | 4'470.00 | 1.46% | 19.01% | Gold | 1'795.01 | 0.80% | -5.41% |
| S&P/Toronto Stock | 20'504.15 | 0.81% | 17.61% | Silver | 23.60 | 2.57% | -10.53% |
| EuroStoxx 50 | 4'166.57 | 0.46% | 17.28% | Oil WTI | 68.92 | 10.59% | 42.04% |
| SMI Index | 12'422.09 | 0.05% | 16.06% | EUR/USD | 1.1758 | 0.56% | -3.72% |
| DAX Index | 15'779.11 | -0.18% | 15.02% | EUR/CHF | 1.0796 | -0.66% | 0.07% |
| Nikkei Index | 27'641.14 | 2.32% | 0.72% | USD/CHF | 0.9182 | -0.17% | 3.67% |
| Emerging Market Index | 71'470.90 | 3.19% | -0.31% | USD/JPY | 110.17 | -0.42% | 6.37% |
| Yield 10Y US Treasuries | 1.342 | 0.0875 | 0.4276 | CAD/USD | 0.7883 | -1.12% | -0.39% |
| Yield 10Y German Bund | -0.414 | 0.0832 | 0.1607 | USD/CNY | 6.4786 | 0.35% | -0.73% |

[Source: Bloomberg]

**Summary**
- Several Emerging Market countries as well as South Korea started to reduce monetary stimulus by raising interest rates.
- History shows that Fed tapering may create short-term volatility but will not necessarily lead to a stock market correction.

**South Korea hikes interest rates**
South Korea is the first major country hiking interest rates in the Covid era. On Thursday this week, the Bank of Korea (BOK) raised its policy rate by 0.25% to 0.75%, with more hikes in the pipeline. According to BOK officials, monetary policy still remains accommodative and supportive for the economy. However, the BOK currently considers financial risks a bigger threat to the economy than the latest virus outbreak. The growth forecast for the Korean economy was kept at 4% as consumption is expected to improve along with rising vaccinations, while exports and investment should remain strong. The inflation outlook was raised to 2.1%, highlighting strongly accelerating household loan growth. Korea was also the first Asian country to tighten monetary policy in 2017, following a series of interest rate hikes by the Fed. South Korea follows other countries, such as Brazil, Mexico and Russia, which already raised rates to counter inflationary tendencies.

**German business confidence falls**
According to the Ifo institute, German business confidence fell for the second month in August on worries about rising Covid numbers and supply bottlenecks for intermediate products. The Ifo institute's business climate index declined to 99.4 from a downwardly revised reading of 100.7 in July, signalling that Germany's economy is losing momentum after a rapid rebound of activity, especially in the services sector. This trend is also evident across the Eurozone. The purchasing manager's composite index for the Euro-area eased in August, primarily driven by a lower reading for the manufacturing sector. However, a reading of 59.5 is still consistent with a strong rate of expansion as economies across the region continue to recover. This trend should continue in the coming months, although rising cases of the delta variant adds downside risks to the outlook.

**Guidance from Jackson Hole?**
Market participants are impatiently waiting for Jerome Powell's speech at the virtual Jackson Hole symposium, where the Fed Chair is expected to provide insight into how and when officials will start pulling back asset purchases. Prior to the meeting, three of the Fed's leading hawks – Kaplan, Bullard and George - urged that policy makers should slow bond market support despite the risk from the spreading delta variant. In our view, it is not so important when the Fed will start to taper. It is more relevant how fast asset purchases will be reduced and when tapering ends, as this will set the timetable for how soon the Fed will raise rates. When the Fed unwound its purchasing program in the aftermath of the last recession, it took 10 months. The reductions were announced in December 2013, they started the following month, and ended in October 2014. The Fed's hiking cycle started in December 2015 and ended in December 2018. The stock market did quite well during this time. Between December 2013 and December 2018, the S&P 500 Index gained more than 50%, which translates into around 8.5% per year. The uptrend was interrupted by minor corrections between 5% and 15%, but it remained in place until recession fears emerged, driven by an inversion of the yield curve.

**Conclusion**
**It is reasonable to expect Fed tapering to be announced soon and to be started by the beginning of 2022. The reduction of asset purchases will be gradual and well communicated by Fed officials. This may lead to some short-term volatility but will most likely not change the general stock market trend.**