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BANK

ECONOMIC SITUATION AND STRATEGY 17. December 2021

Outlook 2022 (III): God Rest Ye Merry Stock Investors

The year 2021 was near universally gratifying across the world's stock markets. European stock indices generally grew by double digits with only very few exceptions including the German DAX. The US stock market continued its bull run with the added benefit of a strong greenback for European investors. Since the interim low in March 2020, some stock markets have doubled in value even reaching all-time highs in some cases. In light of this development, we wonder where the stock markets will go from here. For more information, please visit our YouTube channel with regular up-to-date content on this topic. Like, subscribe, comment.

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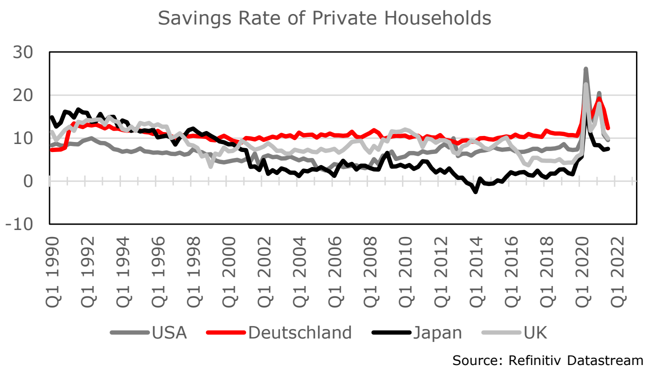
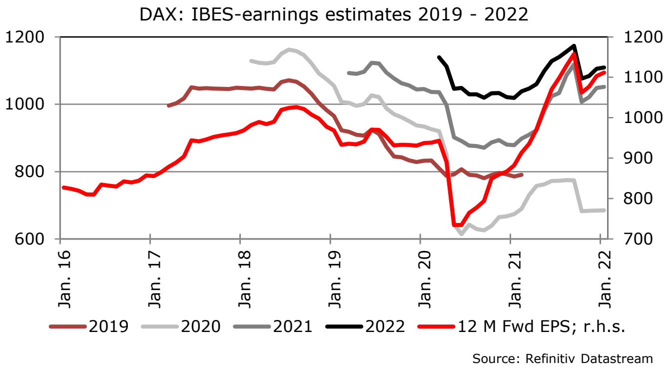
Stock markets are going through a rough patch on the road with current potholes being the pandemic including the Omicron variant gloomily looming or already wreaking socio-economic and political havoc. What the Omicron effect on inflation, supply chain recovery, and manufacturing component availability will be is not clear yet. Despite this monkey wrench, we are confidently looking forward to 2022 and expect stock prices to continue advancing. The reason for our optimistic mindset is the sound condition of the global economy. After this year's strong recovery, we expect economic growth to remain above average in 2022. The US and Europe should be the main growth leaders of the global economy next year. Order books in the industrial sector have been filling up faster than they could be worked off due to supply chain bottlenecks. This problem should resolve over the course of next year, though, and production should be running at full steam then. Moreover, low interest rates and expansive monetary policies of many major central banks should further grease economic gears, although the US Fed is set to start raising interest rates from the second quarter of next year. The already passed infrastructure and economic stimulus bills should provide growth impetus just as the disposable income private households saved up over the course of the pandemic thus far. Sooner or later, this money will flow back into the economy and fuel demand for goods and services.



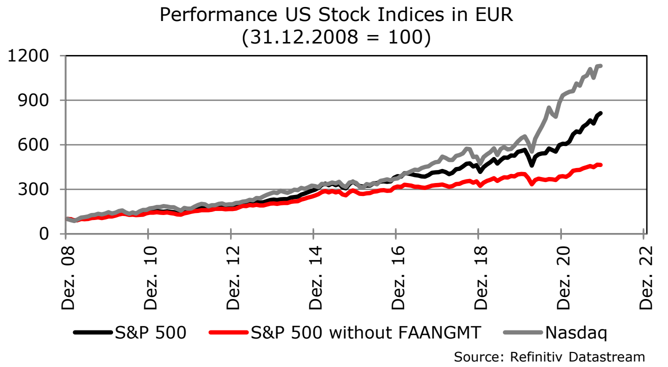
We expect companies to grow their sales and earnings thanks to these excellent economic prospects. Extremely high price volatility for many input components, rising wages, and higher commodities prices pose a serious risk to corporate profit margins. However, many companies are able to compensate for these cost increases by improving efficiency and raising prices. Companies with high pricing power even managed to improve their margins.

The currently high inflation pressure should ease in the next few months as prices increases for oil as well as used and leased cars are losing steam. As such, the solid growth in corporate earnings will continue in 2022. Depending on stock index and region, we expect corporate earnings growth near the double-digit percentage point range with room for pleasant surprises. Analysts expect DAX companies to show about four percent earnings growth next year, which we consider a low estimate in light of the expected economic upswing. Further earnings growth in 2023 is highly likely, albeit somewhat lower than in 2022. We think that current valuation levels for most stock indices are appropriate particularly since the largest alternative investment asset category is bonds, of which most segments remain unattractive to many investors.



We expect the DAX to reach about 18.000 index points by the end of 2022. Owing to the strong cyclicity of German companies they stand to benefit from strong global economic growth. Moreover, the DAX is currently valued lower than many other stock indices at a price-earnings-ratio of about 14 based on next year's earnings expectations. Twelve months ago, investors were still willing to pay some 16 times the expected earnings for the DAX. Although now almost all stock indices are trading lower than a year ago, the decline is more pronounced for the DAX. And one should not even think based on the absolute PER value that stocks – and not just German ones – may be overvalued as the very low real interest rate levels add significant value back.

We expect the EURO STOXX 50 to develop along similarly favorable lines as the DAX and reach up to 4,750 index points in the next twelve months. US stocks did disproportionately well in the past few years mostly driven by the outstanding performance and high index weight of a few companies. Excluding Apple, Meta Platforms (the Company Formerly Known as Facebook), Amazon, Alphabet (formerly Google), Microsoft, Nvidia, and Tesla, the S&P 500 would have lost more than 10 percent in value this year! Last year, these seven companies propped up the S&P 500 by 15 percentage points. While we think that this US dominance on the stock markets will lessen somewhat, we still expect a buoyant stock market and see the S&P 500 closing 2022 at a level of 5,150 index points. We assume that corporate earnings will continue to improve substantially next year thanks to many companies' robust business models and extensive stock-buy-back programs. Just in the third quarter of 2021, US enterprises bought back almost USD 235 billion worth of their own stock toppling the previous record from 2018. These buybacks will even accelerate in the coming quarters.



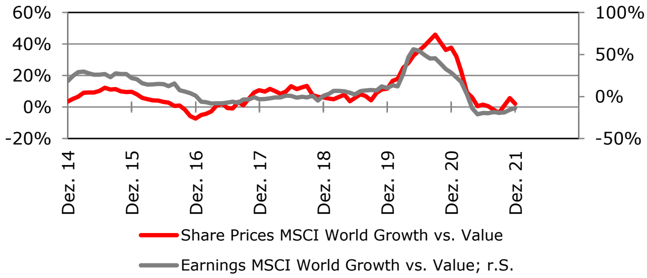
Investors should expect more price volatility next year as high price levels may be used for short-term profit taking. Inflation is still the largest risk factor in our positive stock market outlook. If inflation should not ease over the course of 2022 as we expect, particularly the US Fed may be forced to raise interest rates sooner and more strongly than anticipated. That would be bad news indeed for the stock markets and put a serious damper on our cheerful scenario. Market players are currently anticipating the rate hike steps for next year followed by three more in 2023. The pandemic development is another wild card in our calculations. We could get a new variant that may partially or entirely evade vaccine-induced and natural immunity. Moreover, Evergrande's default may majorly disrupt China's economic growth with serious spillover effects for the global economy.

We are still taking a particular interest in certain stock market sectors and topics in 2022. Buoyed by lively global economic growth, a high savings rate of private households, and stable incomes, private consumption should develop well and become a significant driver for certain market segments. Car demand, for instance, should remain stable as supply chain problems resolve over the course of next year and balance with demand increases for electric cars thanks to government incentive programs. Unless pandemic restrictions tighten again, travel and entertainment demand may also rebound with a vengeance. Moreover, the food industry should benefit from stable to rising income levels in addition to a growing global population. As disposable incomes grow, so does the desire for higher quality food with demand for more luxury as well as organic and healthy foods. That means focusing not just on food producers but considering the entire value-added chain.

Another important and well-known investment trend for next year is sustainable investing. Climate change investing has become a megatrend in the financial markets. Investors are now paying close attention to climate issues, biodiversity loss, and marine responsibility. Other megatrends for next year include data processing including cyber and internet security. The Covid pandemic is fertile ground for growing digitizing business models, home office applications, and online interaction sites. Digitizing and automating business and productivity processes are making large strides forward as are smart living and smart mobility. As such, demand for investment in data security systems and better online transaction products is on the rise. This also requires more and better infrastructure. In light of potentially persistent inflation but also an expected economic recovery and new climate protection plans, a well-composed portfolio should include select commodity investments.

At the beginning of next year, a stronger weighting of cyclical value stocks at the expense of growth stocks may be interesting if the US Fed does indeed tighten its purse strings as expected. This is an environment where cyclical companies tend to benefit from strong economic growth and low valuation while some more ambitiously valued growth stocks could lose value due to slightly rising interest rates. However, this should primarily affect tech stocks that are not yet generating sustainable profits and thus have very high price-earnings ratios. Growth stocks with solid business models that have proven to be highly profitable will remain popular with investors.

Corporate Earnings and Share Prices vs. previous year: Growth vs. value



Source: Refinitiv Datastream

The investment value of the asset classes showcased here may be subject to fluctuations and investors may not get their investment amount back. Investment risks from price and foreign exchange losses as well as higher volatility and market concentration may not be ruled out. The value of stocks and equity-based securities is subject to daily price movements at the stock exchanges.

Market Data

Stock marktes	As of 17.12.2021 13:55	Change versus 09.12.2021 -1 week	15.11.2021 -1 month	15.09.2021 -3 months	15.12.2020 -1 year	31.12.2020 YTD
Dow Jones	35898	0,4%	-0,5%	3,1%	18,9%	17,3%
S&P 500	4669	0,0%	-0,3%	4,2%	26,4%	24,3%
Nasdaq	15180	-2,2%	-4,2%	0,1%	20,5%	17,8%
DAX	15469	-1,1%	-4,2%	-0,9%	15,8%	12,8%
MDAX	34290	-0,9%	-5,0%	-3,3%	15,3%	11,3%
TecDAX	3772	-2,4%	-3,2%	-3,1%	21,2%	17,4%
EuroStoxx 50	4155	-1,3%	-5,3%	0,2%	18,0%	17,0%
Stoxx 50	3722	0,0%	-1,7%	5,0%	21,1%	19,7%
SMI (Swiss Market Index)	12701	0,7%	1,5%	6,0%	22,8%	18,7%
Nikkei 225	28546	-0,6%	-4,1%	-6,4%	7,0%	4,0%
Brasilien BOVESPA	108326	1,9%	1,9%	-5,9%	-6,7%	-9,0%
Russland RTS	1587	-2,8%	-11,4%	-10,1%	14,2%	14,4%
Indien BSE 30	57012	-3,1%	-6,1%	-2,9%	23,2%	19,4%
China CSI 300	4955	-2,4%	1,5%	1,8%	0,2%	-4,9%
MSCI Welt (in €)	3167	-0,3%	-0,9%	5,7%	28,4%	27,5%
MSCI Emerging Markets (in €)	1224	-2,1%	-3,9%	-0,9%	4,9%	2,6%
Bond markets						
Bund-Future	174,05	-14	330	248	-422	-359
Bobl-Future	134,19	9	-79	-122	-131	-99
Schatz-Future	112,18	1	-15	-6	-21	-9
3 Monats Euribor	-0,59	-1	-2	-2	-4	-1
3M Euribor Future, Dec 2017	-0,60	-2	-4	-6	-2	0
3 Monats $ Libor	0,22	1	6	10	-1	-2
Fed Funds Future, Dec 2017	0,08	0	0	0	0	0
10 year US Treasuries	1,39	-9	-22	8	46	47
10 year Bunds	-0,38	-3	-14	-7	23	19
10 year JGB	0,04	-1	-2	1	4	2
10 year Swiss Government	-0,30	1	-20	-4	21	19
US Treas 10Y Performance	698,31	0,2%	1,4%	-1,2%	-2,3%	-2,5%
Bund 10Y Performance	674,01	0,0%	1,1%	0,4%	-1,9%	-1,6%
REX Performance Index	494,96	0,0%	0,3%	0,1%	-1,1%	-0,9%
US mortgage rate	0,00	0	0	0	0	0
IBOXX AA, €	0,35	0	2	11	37	33
IBOXX BBB, €	0,75	0	0	16	22	20
ML US High Yield	5,00	3	19	47	-10	2
Convertible Bonds, Exane 25	8084	0,0%	-3,4%	-1,7%	-1,4%	-2,9%
Commodities						
MG Base Metal Index	436,65	-2,3%	-3,4%	-2,7%	20,9%	23,1%
Crude oil Brent	73,52	-1,3%	-10,5%	-2,6%	44,7%	41,7%
Gold	1811,61	1,8%	-2,6%	1,0%	-1,9%	-4,5%
Silver	21,62	-1,8%	-13,8%	-9,1%	-11,8%	-18,0%
Aluminium	2583,75	-1,6%	-2,8%	-10,0%	28,4%	30,9%
Copper	9214,50	-3,4%	-5,1%	-4,1%	18,7%	18,9%
Iron ore	111,19	4,4%	20,4%	-10,4%	-26,0%	-28,7%
Freight rates Baltic Dry Index	2498	-25,3%	-9,5%	-41,0%	96,2%	82,9%
Currencies						
EUR/ USD	1,1331	0,2%	-1,0%	-4,2%	-6,7%	-7,7%
EUR/ GBP	0,8522	-0,3%	0,2%	-0,3%	-6,0%	-4,8%
EUR/ JPY	128,27	0,0%	-1,6%	-0,7%	1,7%	1,4%
EUR/ CHF	1,0404	-0,4%	-1,2%	-4,1%	-3,4%	-3,7%
USD/ CNY	6,3751	0,0%	-0,1%	-0,9%	-2,5%	-2,4%
USD/ JPY	114,04	0,5%	-0,1%	4,3%	10,0%	10,4%
USD/ GBP	0,75	-0,7%	1,0%	4,0%	0,8%	2,8%

Source: Refinitiv Datastream

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