



ECONOMIC SITUATION AND STRATEGY

23. December 2021

Outlook 2022 (IV): Technical View of Stock Market Dynamics

After the 2021 bull run that carried many stock markets to new all-time highs, let us now take an analytical look ahead to next year. The year 2021 was a rollercoaster ride of investor sentiment between euphoric hope of future profits and inflation coming back with a vengeance sprinkled with various variants of concern on the pandemic front. These ups and downs in investor sentiment are the emotional drivers of future risks and opportunities. Since sentiment turned decidedly negative lately it is probable that the bull market will continue - as it is well known that bull runs do not die of old age but by exaggeration of euphoria. For a more in-depth discussion of this subject, please visit our YouTube channel where you will also find more videos on our outlook for 2022.

<https://www.youtube.com/c/MMWarburgCO>

Let us start with statistics and take a look at the S&P 500 representing over 65 percent of the MSCI World market capitalization and how it fared in the **decade cycle**. The decade cycle measures index value performance over decades - in this case for years ending in two like next year. In the years ending in two since the end of the 19th century (i.e. beginning in 1902), the S&P 500 averaged a performance of about 3.58 percent per year. The index closed nine of these years with gains and only three with losses. Our next look is at the **US presidency cycle**. Next year will be mid-term elections in the US that, as the name indicates, fall into the middle of a legislative period. In the past 30 mid-term election years since 1900, the S&P 500 gained on average about 4.06 percent with 18 of those years closing in the black and 12 years closing in the red. On a positive note, the S&P 500 closed mid-term election years with an average gain of 5.40 percent

per year if the president in office was a Democrat, however, the ratio of positive to negative closing values in mid-term election years is only slightly favorable at 8:6. **Interim conclusion:** The bull run should continue but lose a considerable amount of steam.

Now let us look at the charts. We will first contemplate the above featured and most important index: the S&P 500.



Source: Reuters 8 December 2021

The S&P 500 has been in a consistent uptrend since its 2009 low in the wake of the global financial crisis. While it briefly broke out of the trend range it also consolidated back. Assuming that the index will continue its primary trend over time this would indicate a target level around 5,200 index points by the end of 2022. A Fibonacci projection can help finding target index levels particularly in uncharted territory where the target range has not yet ventured. In this case it yields mathematically possible target values even slightly in excess of 5,360 index points. This

presupposes, though, that the index does not fall below its core support between 4,000 and 4,200 index points for any extended period of time.

Now let us look at Germany's own **DAX**.



Source: Reuters on 8 December 2021

Looking at the DAX chart reveals that some time ago the index had problems getting above 13,500 index points. The DAX has meanwhile overcome this resistance and established a new, steeply upward trend range. Given the ascent angle steepness of the trend range it does not seem sustainable. However, and that is the second conspicuous feature, the DAX has oscillated in a range of 14,800 to 16,000 index points between April 2021 and the time of writing this article. And, presupposing a positive resolution, this range suggests a medium-term continuation potential of 1,200 index points which translates into a target of 17,200 index points. The Fibonacci projection for the March 2020 plunge yielded the same target figure. The DAX has key support for positive performance over the course of the year at 14,800 index points and at the even more important level of 13,500 index points mentioned above.

The broader-based European index **EURO STOXX 50** is also worth a closer look.

The EURO STOXX 50 hovered in the past seven and a half years or – more specifically - from September 2013 to March 2021 in a range between 2,700 and 3,800 index points. Last March, it broke through this resistance and set a new trend. In this process, the EURO STOXX 50 also surpassed its all-time high of 5,500 index points from the year 2000 and reversed the downtrend since that time. Its potential may now be immediately derived from mirroring the lateral movement of the preceding few years. The target should be around 4,900 index points which (like the DAX) is in line with the Fibonacci pro-

jection for the March 2020 plunge that yields a price target of 4,850 index points. Here too, the key support is worth noting: The key support is the break-out level from the lateral movement at 3,800 index points above which the index is likely to sustain its positive trend.



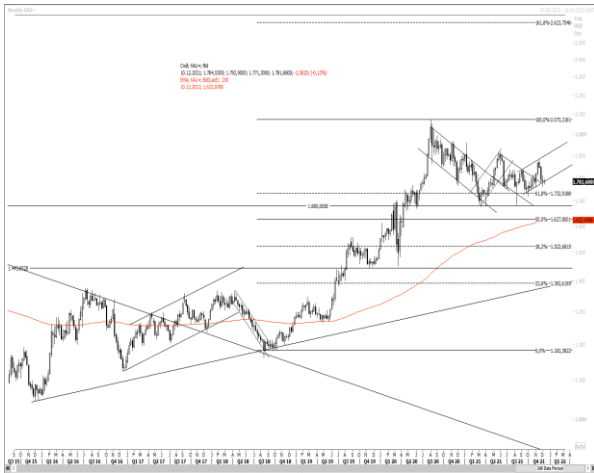
Source: Reuters on 8 December 2021

A possible bellwether for European stock markets outperforming their US counterparts could be the **US dollar exchange rate**. A strong greenback is a welcome boost for Europe's export business. The **EUR/USD** rate has been consistently trending down since 2008, i.e., the euro has been constantly losing value relative to the US dollar. In fall 2020, the euro tried to break out of this trend, but this was short lived and encountered resistance at 1.225 EUR/USD. The curve developed a double top and then dropped back to the established trend range by falling below the 1.16 EUR/USD mark. This chart constellation yields a mathematical target of 1.10 EUR/USD, and the exchange rate could even fall back to its March 2020 level of around 1.06 EUR/USD should it break through that resistance. This remains a valid hypothesis as long as the exchange rate does not sustainably break out of its trend range.



Source: Reuters on 8 December 2021

Finally, let us look at the **gold** price as this is often used to hedge inflation risks. And a fascinating picture this is, indeed.



Source: Reuters on 8 December 2021

The gold price was no source of investor joy in 2021. Since its interim all-time high in August 2020, gold has been on balance trending down. One reason for this was certainly its meteoric rise since late 2018, when it almost doubled in value. Then came a phase of consolidation that should be considered healthy for its development going forward. Actually, the chart pattern from this consolidation phase is remarkable and conspicuous. Its double bottom or 'W formation' harbors the potential of bringing the yellow metal quickly up to new peak levels around 2,100 US dollars per troy ounce as soon as it breaks the resistance at 1,850 US dollars per troy ounce. Above that level, a long-term price target around 2,600 US dollars per troy ounce is mathematically conceivable. To make this positive scenario a reality, all the gold price has to do is stay persistently above the chart resistance at 1,680 US dollars per troy ounce.

The investment value of the asset classes mentioned here is subject to fluctuations and investors may not recover their investment amounts. Investment risks from price and foreign exchange losses as well as from increased volatility and market concentration may not be ruled out. The value of stocks and equity-based securities may drop during daily trading activity at stock exchanges.

Market Data

Stock marktes	As of	Change versus				
	23.12.2021 08:43	15.12.2021 -1 week	19.11.2021 -1 month	21.09.2021 -3 months	21.12.2020 -1 year	31.12.2020 YTD
Dow Jones	35754	-0,5%	0,4%	5,4%	18,3%	16,8%
S&P 500	4697	-0,3%	0,0%	7,9%	27,1%	25,0%
Nasdaq	15522	-0,3%	-3,3%	5,3%	21,8%	20,4%
DAX	15593	0,8%	-3,5%	1,6%	17,7%	13,7%
MDAX	34622	0,8%	-3,6%	-1,0%	15,9%	12,4%
TecDAX	3850	0,4%	-3,4%	-1,5%	22,8%	19,8%
EuroStoxx 50	4217	1,4%	-3,2%	2,9%	22,3%	18,7%
Stoxx 50	3754	1,5%	-0,5%	6,9%	24,4%	20,8%
SMI (Swiss Market Index)	12714	1,5%	1,3%	7,8%	23,4%	18,8%
Nikkei 225	28798	1,2%	-3,2%	-3,5%	7,8%	4,9%
Brasilien BOVESPA	105244	-2,0%	2,1%	-4,5%	-9,1%	-11,6%
Russland RTS	1603	4,0%	-7,0%	-6,3%	20,0%	15,6%
Indien BSE 30	57382	-0,7%	-3,8%	-2,8%	26,0%	20,2%
China CSI 300	4949	-1,1%	1,2%	1,9%	-1,9%	-5,0%
MSCI Welt (in €)	3184	-0,3%	-1,6%	8,2%	29,3%	28,2%
MSCI Emerging Markets (in €)	1210	-1,0%	-5,2%	-0,6%	3,4%	1,5%
Bond markets						
Bund-Future	173,14	-118	82	140	-472	-450
Bobl-Future	133,76	-31	-184	-172	-154	-142
Schatz-Future	112,15	2	-31	-13	-19	-13
3 Monats Euribor	-0,59	-1	-2	-2	-6	-1
3M Euribor Future, Dec 2017	-0,37	-1	0	17	19	0
3 Monats \$ Libor	0,22	0	5	9	-3	-2
Fed Funds Future, Dec 2017	0,08	-67	-55	0	0	0
10 year US Treasuries	1,46	2	-6	14	52	55
10 year Bunds	-0,28	7	5	4	30	29
10 year JGB	0,06	2	-1	2	5	4
10 year Swiss Government	-0,20	9	-1	5	28	29
US Treas 10Y Performance	696,73	-0,2%	0,4%	-1,2%	-2,4%	-2,7%
Bund 10Y Performance	670,46	-0,5%	-0,4%	-0,3%	-2,2%	-2,1%
REX Performance Index	493,44	-0,4%	-0,4%	-0,1%	-1,4%	-1,2%
US mortgage rate	0,00	0	0	0	0	0
IBOXX AA, €	0,38	3	7	14	37	36
IBOXX BBB, €	0,78	3	4	19	23	22
ML US High Yield	4,96	-4	9	37	-19	-2
Convertible Bonds, Exane 25	8062	0,0%	-3,6%	-2,4%	-1,6%	-3,2%
Commodities						
MG Base Metal Index	449,83	3,0%	1,3%	3,1%	24,6%	26,8%
Crude oil Brent	75,33	1,8%	-4,7%	0,8%	47,7%	45,2%
Gold	1806,71	2,2%	-2,8%	1,6%	-3,8%	-4,8%
Silver	22,53	4,2%	-9,5%	-0,6%	-14,0%	-14,6%
Aluminium	2735,00	5,9%	1,8%	-3,2%	36,2%	38,6%
Copper	9559,50	3,7%	-2,0%	6,4%	22,1%	23,4%
Iron ore	112,54	3,0%	21,3%	-5,4%	-27,4%	-27,8%
Freight rates Baltic Dry Index	2229	-16,4%	-12,7%	-49,5%	68,5%	63,2%
Currencies						
EUR/ USD	1,1329	0,6%	0,5%	-3,5%	-6,9%	-7,7%
EUR/ GBP	0,8476	-0,4%	0,8%	-1,4%	-7,6%	-5,3%
EUR/ JPY	129,43	0,9%	0,9%	0,8%	2,7%	2,3%
EUR/ CHF	1,0418	0,0%	-0,4%	-3,9%	-3,6%	-3,6%
USD/ CNY	6,3705	0,0%	-0,3%	-1,5%	-2,7%	-2,4%
USD/ JPY	114,10	0,1%	0,1%	4,5%	10,4%	10,5%
USD/ GBP	0,75	-1,1%	0,7%	2,1%	-0,3%	2,3%

Source: Refinitiv Datastream

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