GLOBAL CONTEXT

Fundamental factors of the situation on stock markets is the general economic situation. Under the pressure of global financial crises of previous years, central banks of major economies were cutting key rates in order to accelerate their economic growth. The positive impact of previous years' actions is confirmed by statistics. The growth rate of the global economy reached 2.4% in 2016, 3.137%[1]– in 2017.

According to forecasts of the International Monetary fund, the global growth rates in 2018 and 2019 will remain sustainable at 3.7%[2]. Low interest rates were favorably influencing the situation on the stock market, however upon the recovery of the global economy, the risk was increasing that the quantitative easing programs will be cut and the quantitative hardening will be preferred. The difference of opinions of the market participants with regard to the speed of the switch of the monetary authorities to the austere monetary policy has increased the volatility on stock markets.

Since the beginning of the year global stock markets have shown a differently directed dynamics. January was characterized by a general optimism on stock markets against the background of decreasing tax rates and growing interest rates in the US, as well as optimistic growth forecasts for the global economy by leading analytical agencies. Market multiplicators of the majority of stock market indexes have reached their historical maximums. Thus, the value of the "price/net income" (P/E) multiplicator of the broad market index S&P500 made up 20x.

However, a period of increased volatility began in the middle of the first quarter of 2018, brought about predominantly by worries of investors with regard to the acceleration of the process of tightening of the monetary policy in developed countries. First of all this is related to the US and Europe due to the increasing inflation and the slowing global trade affected by trade wars.

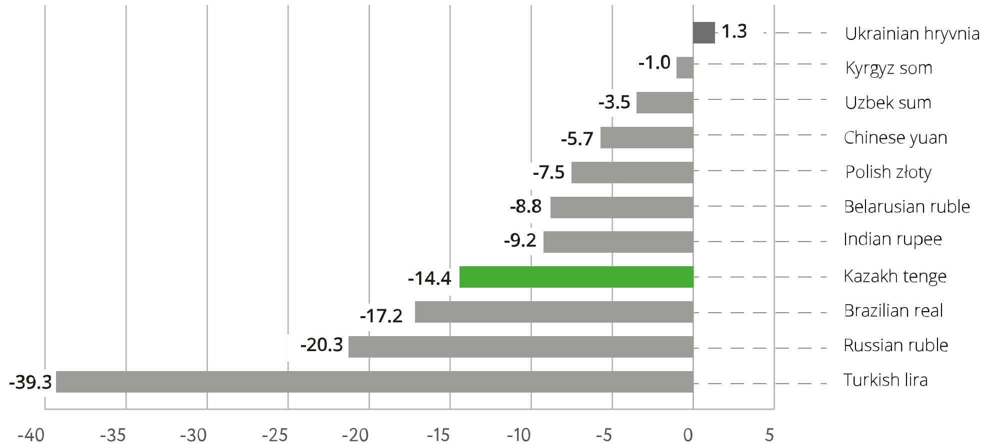
In the third quarter the markets were exposed to more anxiety provoked by sell-outs on emerging markets after foreign capitals fled due to structural problems of economies and significant strengthening of the US dollar. Against the general background of sell-outs only US stock markets operated in the black being supported by favorable macroeconomic conditions.

Markets were mainly driven by stock of companies from the technology sector, healthcare and non-FMCG. By the end of 2018 virtually all main stock markets indexes lost against the beginning of the year, however, if losses of European and Asian markets were measured with two-digit figures, US broad market indexes fit in the range of 5–6%.

1. IMF Data Mapper, Real GDP Growth, Annual percent change.
2. World Economic Outlook Update, January 2019.

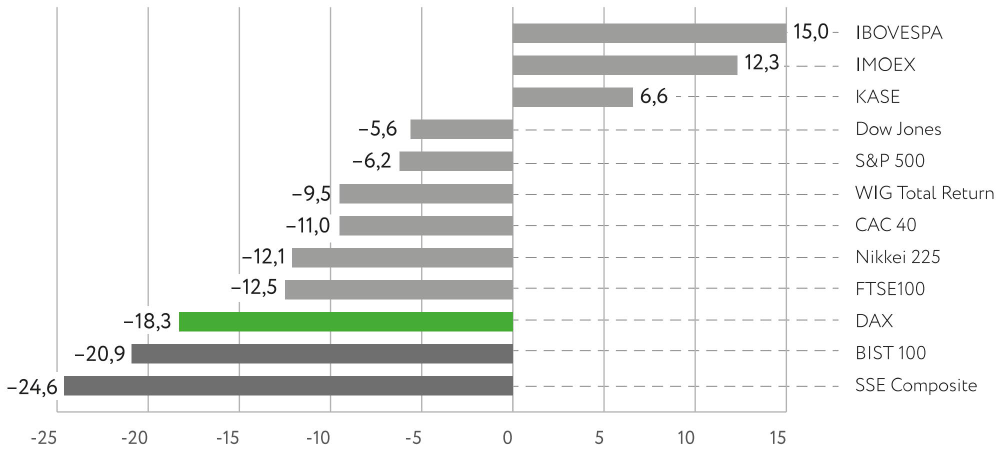
Despite the currency fluctuations and introduction of the new package of anti-Russia sanctions the annual yield of Moscow Exchange Index reached 12% in 2018. Main factors that propped IMOEX index were high dividends of major Russian companies and increasing prices of the "black gold". Over the year MSCI Russia went down by 7.1% against minus 17.9% of MSCI Emerging Markets. It is worth noting that in January 2018 this indicator reached a record high for the past 10 years (above 1255 points), however soon afterwards the index started to slump, declining by 25% to 965 points within less than 12 months. Nonetheless, the Russian market felt better than many other emerging markets. The majority of stock markets in emerging and developed countries "shrank" in 2018 after investors' capitals fled from shares to less risky assets.

Strengthening/ weakening of some emerging market currencies against US dollar in 2018



Source: Bloomberg

Major global stock indexes and KASE Index in 2018



Source: Bloomberg