

# Monthly Outlook

May 2022

# The price of freedom



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## The price of freedom

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# Summary

## The price of freedom



### Market Update

The terrible war in Ukraine, the supply of heavy weapons and the possible consequences of a comprehensive energy embargo – these are the ongoing topics that are dominating headlines and driving markets today, especially in Europe. But the expectation of more aggressive central bank tightening against the backdrop of excessive global inflation, coupled with Covid-driven lockdowns in China, continue to put pressure on investors and the economy.

We will most likely have to prepare ourselves for more rapidly rising (key) interest rates and, at least for the time being, even higher inflation rates and slower growth. In fact, in an extreme case – such as if imports of all Russian energy supplies were stopped, coupled with limited substitution potential for natural gas – the euro area could even slide into recession. For instance, model simulations suggest up to -3% decline in Germany's GDP in such a scenario. However, this slump is still likely to be less severe than that of the Covid shock in 2020 – and it could be limited even further if companies and households are flexible enough to adapt, and economic policy is acting well targeted.

But even without a rigid energy embargo, we will likely have to downgrade our GDP forecasts once again – especially as further losses of purchasing power and more pronounced supply chain problems are taking their toll.

For more details, read our Macro & Markets section.





### Inflation

In the US and parts of Europe, consumer price inflation recently shot up to their highest level in four decades. At a good 1% month-on-month change (or almost 15% annualised), the global increase is about double its previous high. The US may currently have the highest inflation rate among the major industrialised nations, but the strongest momentum is in Europe – especially Central Eastern Europe.

Many observers believe that the cyclical highs have been reached and expect a swift decline. However, scepticism seems appropriate, given the ongoing pressures from food prices (the huge drop in wheat, edible oil and fertiliser exports from Ukraine and Russia will have a noticeable impact), and ongoing supply chain problems – as well as given the risk of a potential comprehensive energy embargo. It is therefore quite possible that inflation on both sides of the Atlantic Ocean will continue to rise and/or remain at the high levels for longer than expected.



### Monetary Policy

Due to excessive inflation, the central banks of major industrial nations will likely raise their key interest rates more strongly and more quickly than previously estimated. The US Federal Reserve (Fed) is likely to raise its target rate by 50 basis points (bps) each in early May and possibly also in mid-June, before returning to the usual 25 bps hikes, resulting in the US policy rate of 2.2%-2.5% being reached as early as the beginning of next year. Ultimately, markets expect a target rate of over 3%. At the same time, the Fed will push ahead with the sale of its securities holdings (also known as quantitative tightening).

The European Central Bank (ECB) is also adopting a more stringent tone, even if its task is more difficult than that of the Fed in view of the deteriorating growth-inflation mix. It is quite possible that the ECB will end its securities purchase programme in July and start its rate hike cycle in September 2022. By the end of next year, markets expect interest rates to rise by a total of 200 bps.



### Investment Strategy

To sum up, over the next months investors will have to deal with a tricky combination of higher inflation/ more restrictive monetary policies/ lower global growth, to which must be added the uncertainties linked to developments in the conflict between Russia and Ukraine.

We continue to believe that rising inflation supports our structural underweight with a short duration bias on global bonds, where we prefer corporate bonds and, selectively, Emerging Market bonds. However, long term investment opportunities may develop and we are closely monitoring first entry points on the US Treasuries market, such as the 3% area of the 10y US government bond yield.

While vulnerable to geopolitical tensions and negative earnings revision, equities remain attractive on a long-term basis in terms of relative valuation. We are increasingly defensive and quality oriented, focusing on companies with higher pricing power and with high cash flow generation/high dividend yield.

We have reduced our overweight European equities and we believe that US equities are currently supported by a better earning momentum while more resilient to geopolitical tensions due to the US energy independence. We are increasingly more defensive on EM equities, as global growth is set to slow.

Gold continues to offer interesting portfolio hedging opportunities, while the USD benefits from the flight to quality due to the Russia/Ukraine conflict and the Fed's restrictive monetary policy, but longer term it appears overvalued according to the main purchasing power parity metrics.

# CIOs Letter

## The price of freedom

The terrible war in Ukraine is keeping the world on tenterhooks, while its economic impact is being felt across markets. Although European stock indices have recovered noticeably from the sharp price losses in March, price fluctuations remain high. In addition to the effects of the war and the sanctions – in particular, the sharp price fluctuations for oil, gas and other raw materials – other developments are also dampening sentiment across stock markets. For example, the Federal Reserve's (Fed) intention to tighten its monetary policy more significantly is depressing prices in the US. And in Europe, China's zero-covid policy is spoiling the mood, as the rigid lockdowns are likely to lead to further disruptions in global supply chains. Europe's industrial structure, which is heavily geared towards foreign trade, will suffer particularly as a result.

Looking at the MSCI equity indices, the Europe index (traded in EUR) has suffered price losses of around 6% since the beginning of the year\*, while the US market has lost 11%. The Pacific barometer (which tracks stock markets of the industrialized countries) shows a loss of 14%, as the Emerging Markets that show a loss of 15%. German stocks have lost almost 12% and Chinese 21% (all non-European indices are denominated in USD, and the Chinese one in Yuan). Bond markets did not look much better. The government bond index for the euro area has fallen almost 9% against the backdrop of increased inflation expectations and arguably more aggressive central bank action, and yields have risen noticeably in mirror image. This means that the performance of so-called multi-asset portfolios with both equities and bonds has suffered accordingly, and both asset classes were hit by rising yields.

However, in our view, this is no reason for investors to bury their heads in the sand. While the aforementioned risk drivers (such as energy price pressure, inflation, and supply chain bottlenecks) are dampening economic activity and market sentiment, the outlook for European and US companies nevertheless does not appear to be bad. For example, although the International Monetary

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Fund (IMF) has noticeably lowered its growth forecast for the euro area as a result of the Ukraine war and further pressures, it still expects GDP growth rates of 2.8% and 2.3%, respectively, for 2022 and 2023. Both figures are above the average growth of the five years before the pandemic. For the US, the IMF projects 3.7% and 2.3%, respectively. The 5-year average growth of 2015-2019 is 2.4%.

In addition, according to consensus estimates, corporate earnings are still expected to show robust growth. Taking into account these earnings expectations and the current share price declines, the valuation levels of global equities have eased significantly. The price-to-earnings (P/E) ratio of the MSCI Europe, for example, is just under 13, whereas at the peak of the post-pandemic it was over 18. The P/E ratio of the MSCI North America has also declined noticeably (currently: just under 18, interim high: 23), but it is still at the upper end of the valuation range of the 15 years before the pandemic. However, the higher US growth compared with Europe and the fact that the Ukraine war and its economic consequences are affecting the US much less than Europe speak in favour of US equities.

The planned stronger tightening of US monetary policy – the Fed has announced significant interest rate increases and a noticeable reduction in its bond holdings – is weighing on US equities, especially highly valued technology stocks, but the economic environment still appears quite robust. It is not for nothing that the Fed thinks that the significant tightening of monetary conditions is advisable, but economically bearable.

Nevertheless, we expect volatility in financial markets to remain high, at least for the current quarter. Further (manageable) setbacks cannot be ruled out. However, the economic picture could brighten in the second half of the year. Phases of rising Fed interest rates are usually not bad for equities. Historically, a significant burden has typically only arisen when the central bank has had to cut interest rates again in view of a deteriorating economic outlook. Such recession risks in the US, triggered by excessive tightening of monetary policy, are currently being debated. However, we are probably still a long way from such a situation.

In Europe, citizens are also suffering from high inflation, but unlike in the US, price pressure is essentially coming from the energy side and supply chain bottlenecks. Both are factors that cannot really be influenced by a central bank with its instruments. In this country, the risks of a wage-price spiral are manageable. Moreover, the European economy should benefit from the inevitable investments in a more broadly based and sustainable energy infrastructure and in a European security architecture.

So, there is no reason for investors to hide. The medium-term outlook appears favourable. However, tangible potential returns are also needed to avoid real losses in purchasing power. In the short term, however, European equities no longer appear overpriced after the recent price reductions, despite continuing price fluctuations. Moreover, experience teaches that volatile times are not a bad time to look for medium-term return opportunities. Despite the simultaneous pressures on bonds and equities in recent months, investors with well-diversified portfolios – even taking currency positions into account – were able to achieve total returns that were significantly less negative than the separate performance of European equities and bonds. This shows that well-diversified and broadly positioned portfolios bring a certain stability even in difficult times. Building on this stability, it could then also be possible to realise return potential for the future.

\*For detailed longer-term developments in the indices, see the table at the end of the publication.



# In Focus

## Investment strategy: The sector mix is becoming increasingly important

After the pandemic, the Ukraine war is yet another shock to the global economy – and it reinforces the factor that has the strongest grip on markets in the post-pandemic phase: inflationary pressure. But the war's mechanism of action on the economy and markets is fundamentally different from the Covid crisis. In our view, investors should take this into account in their investment strategy. In the following, we compare these mechanisms and derive the consequences for investment strategy.

For the Western economy, the Ukraine war manifests itself essentially as a supply shock for energy and raw materials. Trade sanctions and a possible disruption of energy supplies from Russia, triggered either by a boycott by the West or by countermeasures by Russia, could have far-reaching consequences for companies and citizens. The nature of this shock, however, is fundamentally different from the Covid shock. The latter primarily affected consumer-related service industries such as travel, restaurants, hotels and retail. To be sure, there were also concerns at the beginning of the pandemic about how contact restrictions might affect industrial production processes. And indeed, the lockdown measures affected supply chains worldwide. But the implications for manufacturing quickly turned out to be less dramatic than the consequences for the services sector, particularly consumer-related services. Structurally, this meant that the shock was felt most strongly at the end of production chains. Consumption of certain services was massively impacted, but other sectors, such as online retailing, benefited significantly.

The energy shock as a result of the war differs fundamentally from this because it affects the very beginning of production processes, e.g. in the energy-intensive production of basic materials such as steel and basic chemicals. Much of the uncertainty in the markets stems from the fact that, due to the complexity and strong interconnectedness of production and supply chains, it is unclear



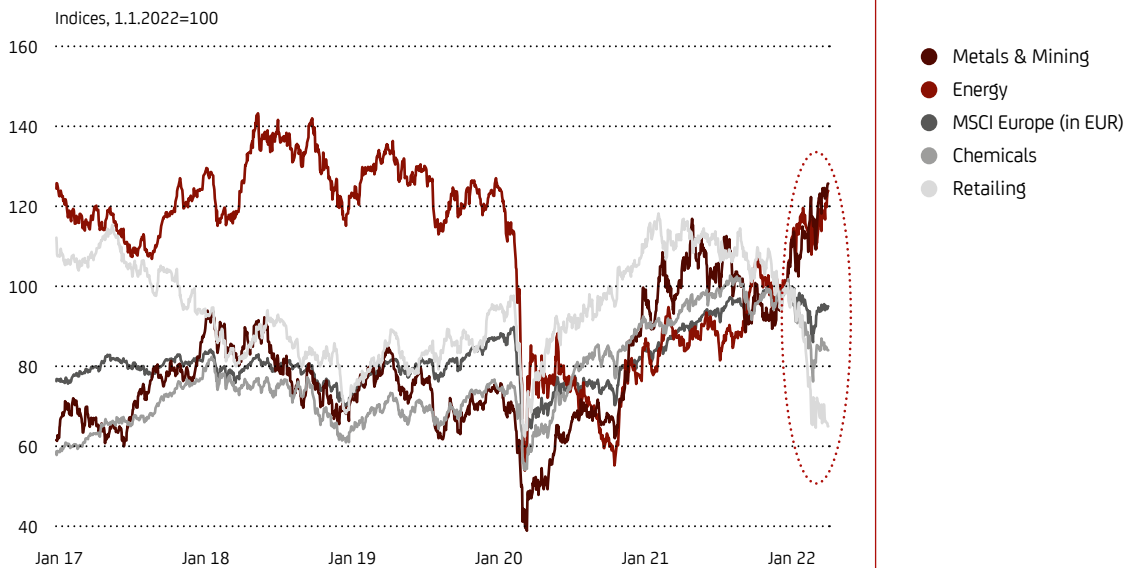
how a potential disruption at the very beginning of a production process can affect the overall economy. If certain starting products are missing or become unaffordable for companies, industrial processes dependent on them could come to a standstill. There have even been isolated warnings of the threat of deindustrialisation of the European economy in the event of a boycott of gas supplies. No wonder investors are unsettled by such risks.

Such warnings once again highlight the vulnerability of a globally networked and integrated economy to shock events. This was already the case in the pandemic. In the current case, however, globally networked and integrated supply chains mean not only risks but also opportunities, because necessary precursors can be procured from different suppliers. If, for example, these are unaffordable on the local market due to a gas boycott, the essential precursors could possibly be procured from another source on the international market. Such developments may pose existential risks for the local producer of these precursors, but would keep downstream production processes intact.

The basic economic questions can be traced back to topics such as price elasticity and substitution. Price elasticity is measured as the change in supply or demand as a result of price changes. If price elasticity is high, an increase in the price of a product would cause the corresponding demand to fall sharply. Two examples will illustrate the consequences that can be expected from this for production processes. In both examples, we assume that a company produces a product which is a necessary input product for further processes, and that the price of this product increases sharply. In the first example, we additionally assume that the producing company faces intense competition on the international market, i.e. there are competitors who can offer the product at a competitive price. In this case, the original company's customers will go elsewhere to buy. Existential risks may arise for the company concerned, but downstream production can in principle be maintained. In the second example, we assume that the producing company has a monopoly. Its customers need the upstream product and are also willing to pay higher prices. In this case, downstream production becomes more expensive, but the process also remains intact.

This representation is highly simplified and the relationships will be much more complex in reality. But they do show which principles are at work. For investors, this means that production costs and margin stability are key factors in their investment decisions. These are not trivial issues. A look at the year-to-date performance of individual sectors in the European stock market makes this clear. Unsurprisingly, the energy and raw materials sectors are at the top of the performance table this year, while the retail sector is at the bottom (see chart 1).

## 1. SECTOR PERFORMANCE 2022: ENERGY, METALS &amp; MINING AHEAD



Please note: Past performance, simulations and forecasts are not reliable indicators of future performance. The indices cannot be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance. In the case of an investment in foreign currency, the return may also rise or fall as a result of currency fluctuations. Status: 25.4.2022.

Source: Refinitiv Datastream, UniCredit Group Investment Strategy

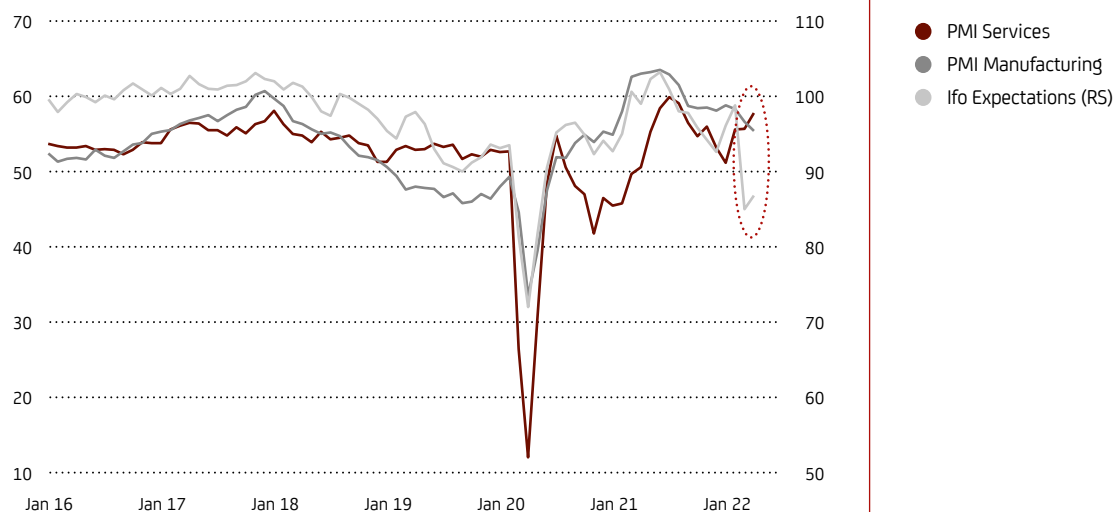
The latter is finding it difficult to pass on the full price pressure to consumers. This means that margins are being eroded. It is also interesting to note that the chemicals sector, which should actually be one of the sufferers of high energy costs, is in the middle of the pack. It has developed more or less in line with the overall market. A look at the share price performance of the sub-sectors shows why. After all, the chemical sector is multi-layered. European fertiliser manufacturers, for example, have been among the big winners this year. Their products are still in demand and trade restrictions on Russian suppliers are reducing competition. Chemical companies, on the other hand, which manufacture substitutable products, are showing substantial share price losses.

What conclusions can be drawn from this for investors? First of all, disruptions such as the pandemic, but also an energy price shock, result in winners and losers. And as the examples from the chemical sector show, the corresponding economic consequences for individual companies are not necessarily trivial. Companies in sectors with strong global competition come under greater pressure in an environment characterised by rising production costs than those whose business are less competitive. Such companies are able to keep their margins stable even in an inflationary environment because they can pass on price increases for intermediate products to their customers.

However, the latter also means that with the right selection of sectors and companies, investors can succeed in positioning themselves stably even in times of high inflation and rising yields – especially since fixed income investments are less attractive overall in view of negative real yields and substantial price losses (due to rising yields). However, investors' return expectations should take into account the current complicated macroeconomic environment and risks. Despite all the uncertainties in times characterised by war, inflation and countermeasures by central banks, however, business sentiment in Europe is proving surprisingly

robust overall. In April, for example, both the EMU-wide Composite Purchasing Managers' Index (albeit solely because of the services component) and the highly regarded German Ifo business climate surprisingly rose (see chart 2). This gives hope for a stabilisation of the markets in the current quarter – followed by a moderate upwards trend in the second half of the year.

## 2. RELATIVELY ROBUST BUSINESS SENTIMENT INDICATORS



Source: Refinitiv Datastream, UniCredit Group Investment Strategy



# Macro & Markets

## Worrying inflation, rising interest rates and slower growth

The terrible Ukraine war, the supply of heavy weapons and the possible consequences of a comprehensive energy embargo – these are still the topics dominating current headlines, especially in Europe. But the expectation of more aggressive central bank tightening against the backdrop of excessive inflation worldwide, as well as the Covid-driven lockdowns in China, continue to put pressure on investors and the economy. We will most likely have to prepare ourselves for more rapidly rising (key) interest rates and – at least for the time being – even higher inflation rates and slower growth. In an extreme case, i.e. if imports of all Russian energy supplies were stopped, coupled with limited substitution potential for natural gas, the euro area could even slide into recession. However, the slump is likely to be less severe than that of the Covid shock in 2020 and could be limited even further if companies and households are flexible enough to adapt, and economic policy is acting well targeted. But even without a rigid energy embargo, we will likely have to downgrade our GDP forecasts once again. Further losses of purchasing power and more pronounced supply chain problems are taking their toll.

### A comprehensive energy embargo – What if?

Every week of war not only increases the human tragedy, but also the economic costs – and not only for Ukraine and Russia, but also for Western and Central Eastern Europe. Since the Russian war crimes became known, the political pressure for a rigid energy embargo has increased. The EU has already imposed a ban on coal imports, and one on crude oil imports could follow soon. Both of these make sense. The dependencies here are manageable, substitution opportunities are sufficient, and time is ticking if Putin is to be hit financially. Sales alternatives are likely to open up here for Russia in the medium term as well.

According to estimates by the International Monetary Fund, Ukraine's economic output is likely to slump by at least 35% in 2022. At the same time, Russia's GDP is expected to fall by 12% in the current year – four times more than in the pandemic year 2020 (-3%).

In the case of natural gas, however, minds are divided. In particular, resistance is coming from Germany, Italy, Austria and Hungary because of their high dependency on imports from Russia. However, since Mario Draghi is making the first moves to leave (and the re-elected Viktor Orban supports the EU sanctions only half-heartedly at best), the final decision will probably be made in Germany. Concerns about the consequences for the country's industrial base, which is heavily dependent on natural gas (especially the chemical industry), will probably make Berlin dither for a while longer. Sanctions, according to the government, must hurt Russia, but at the same time be bearable for Germany. This is said not to be the case with a natural gas ban on Russia.

The protagonists of a comprehensive import ban, on the other hand, cite both ethical commitments (no war financing) and economic reasons. Studies conclude that the effects of a radical energy embargo on the German economy as a whole would be "considerable, but manageable" (which does not necessarily apply to all sectors and companies). The much-noted model simulations by Bachmann et al. put the short-term GDP decline – depending on the assumptions – at 0.3%-2.3%. Thus, an embargo aimed at cutting off Russia's financial resources for further warfare would lead to a recession. However, it would not be as deep as the Covid-induced recession (real GDP 2020: -4.5%) – and thus, an "affordable" price for freedom and independence. Moreover, such a step would accelerate the politically desired phase-out of fossil energy.

The simulation results depend strongly on the substitution elasticities and possible second-round effects. On the basis of a pure multi-sector input-output model, the GDP contraction would even remain well below 1% (see table). In a more pessimistic scenario, in which it proves very difficult to substitute Russian gas outside the electricity sector in the short-term, economic costs would rise to around 2%-2.3% of GDP or by up to 1,000 euros per inhabitant (over and above previous cost burdens). If we then add demand and sentiment effects, we arrive at the -3% GDP figure quoted in the press.

What if? The Economic Effects for Germany of a Stop of Energy Imports from Russia, Bachmann et al., econPOL Policy Report 36/2022, March 2022 ([link](#)).

Studies by the German Institute for Economic Research (DIW) and the National Academy of Sciences Leopoldina come to similar results. The German Bundesbank recently spoke of a GDP decline of 2%.

### 3. ECONOMIC COSTS OF A COMPREHENSIVE ENERGY EMBARGO FOR GERMANY

BACHMANN ET AL. SIMULATION RESULTS (IN%)	GDP	GNE <sup>1</sup>	COST PER CITIZEN (EUR) <sup>2</sup>
Full input-output model	0.2-0.3	0.2-0.4	80-120
Simplified model, 10% oil, gas, coal shock	1.2	1.3	500-700
Simplified model, 30% gas shock	2.2	2.3	800-1000

Source: Bachmann et al., econPOL Policy Report 36/2022, March 2022

<sup>1</sup> Gross National Expenditure. GNE is the sum of household and general government final consumption expenditure

<sup>2</sup> Over and above already existing costs

According to the authors, economic policy should thereby aim to strategically increase the incentives for substituting and saving fossil energies as quickly as possible. A targeted policy for low-income households, without reducing the price-induced incentives for households to save energy, would be a cost-effective way to ensure an equitable distribution of the burden.

However, these model simulations met with fierce criticism in Germany. Employers' associations and trade unions, in rare unanimity, expect the slump of GDP to be up to twice as high because the Bachmann model massively underestimates the subsequent energy price shocks. Whether a (prolonged) ninefold increase in the current gas price to EUR900 per megawatt hour is a more reliable assumption, however, is open to doubt – especially since gas and oil prices have fallen noticeably since their highs in early March (see chart 4).

However, the price of gas in Europe is currently still 19% above its pre-war level. For crude oil, it is roughly 11%.

#### 4. GAS AND OIL PRICES HAVE FALLEN SIGNIFICANTLY SINCE EARLY MARCH



Source: Refinitiv Datastream, UniCredit Group Investment Strategy

The academic community has been more critical of the high elasticities of substitution used (between energy sources and between energy and other production factors). In addition, the simulations may have underestimated spillover effects, amplification mechanisms, as well as sentiment and demand reactions.

Which side ends up being right can at best be determined in retrospect. In any case, the government took up the criticism and added practical and technical issues that models cannot clarify. Therefore, in our eyes, it is very likely that it will not give up its opposition to a radical energy embargo any time soon (the baseline scenario). Berlin seems to want to buy time to quickly fill the stockpiles, then reduce dependence on Russian energy as soon as possible and prepare for all eventualities (such as with the "gas emergency plan") – and otherwise hope that Russia does not take any unilateral measures in the meantime.

German refineries, for example, are geared to the chemical composition of Russian crude oil and would have to be converted accordingly in the event of an embargo.

However, it is more than questionable whether Germany can (and should) take its time until 2024 to turn away from Russian gas which – according to the government – would be possible with minimal friction, especially if the war escalates and new war crimes by the Russian army will become public. In any case, political pressure continues to build up. Nevertheless, a rapid and complete EU energy embargo will not become our baseline scenario anytime soon.



## Inflation jumps to 40-year highs...

But even without another energy (price) shock, we will have to lower our growth forecasts again. The main reason for this is overshooting inflation. Month after month, figures are exceeding expectations. In the US and parts of Europe, consumer price inflation recently shot up to their highest level in four decades. At a good 1% month-on-month change (or almost 15% annualised), the global increase is about double its previous high. The US may currently have the highest inflation rate among the major industrialised nations, but the strongest momentum is in Europe, especially Central Eastern Europe (see chart 5). The drivers are energy prices (EMU March: 45% year-on-year, food: 5%).

### 5. INFLATION JUMPS TO RECORD HIGHS



Source: Refinitiv Datastream, UniCredit Group Investment Strategy

In the US, consumer price inflation shot up to a 40-year high of 8.5% (year-on-year). This applies to Germany as well. In the euro area, inflation rose to the highest level ever measured at 7.4% (but the time series only goes back to 1990).

- Consumer price inflation CE4\* (% y-o-y)
- Consumer price inflation US (% y-o-y)
- Consumer price inflation EMU (% y-o-y)

\*Poland, Czech Republic, Hungary, Slovakia

Quite a few observers believe that the cyclical highs have been reached and expect a swift decline – also because crude oil and natural gas prices have dropped significantly in the meantime. However, scepticism seems appropriate, especially if there were another energy price shock as a result of a comprehensive embargo (the risk scenario). But even without this, upside risks dominate. The pressure is coming from food prices: the huge drop in wheat, edible oil and fertiliser exports from Ukraine and Russia will have a noticeable impact. Price-driving supply chain problems with industrial products, especially in the automotive sector (e.g. cable harnesses), will add to this. At the same time, second-round effects are looming.

It is therefore quite possible that consumer price inflation on both sides of the Atlantic Ocean will continue to rise and/or remain at the high levels for longer than widely expected. In economic terms, this implies additional loss in purchasing power and thus growth.

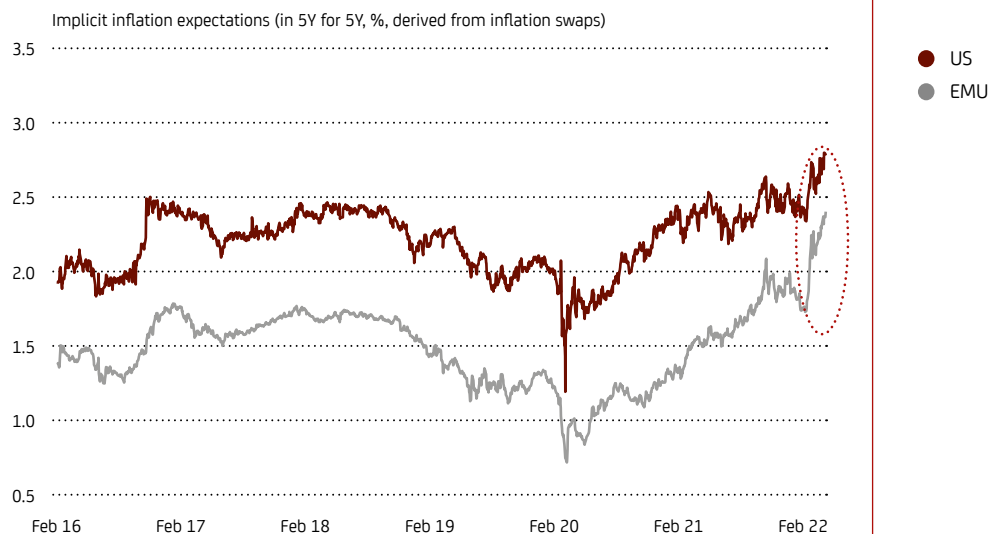
## ...and central banks need to react

At the same time, every month of excessive inflation puts central banks under pressure to act – especially as wage cost pressures continue to increase, therefore raising the risks of a wage-price spiral. No wonder that inflation expectations, which were previously quite well anchored, have recently risen sharply. In particular, the rise in the euro area is even more than in the US (see chart 6).

The rapid rise in grain and bread prices affects the poorer countries of Africa and Latin America most severely. The potential for social tensions and unrest is growing.

Unemployment rates in both the US (3.6%) and the euro area (6.8%) have fallen back to or below their pre-Covid levels. At the same time, US hourly wages rose to almost 7% year-on-year. In Germany, effective wages in the first quarter were 4% above the previous year.

## 6. INFLATION EXPECTATIONS - CENTRAL BANKS MUST REACT

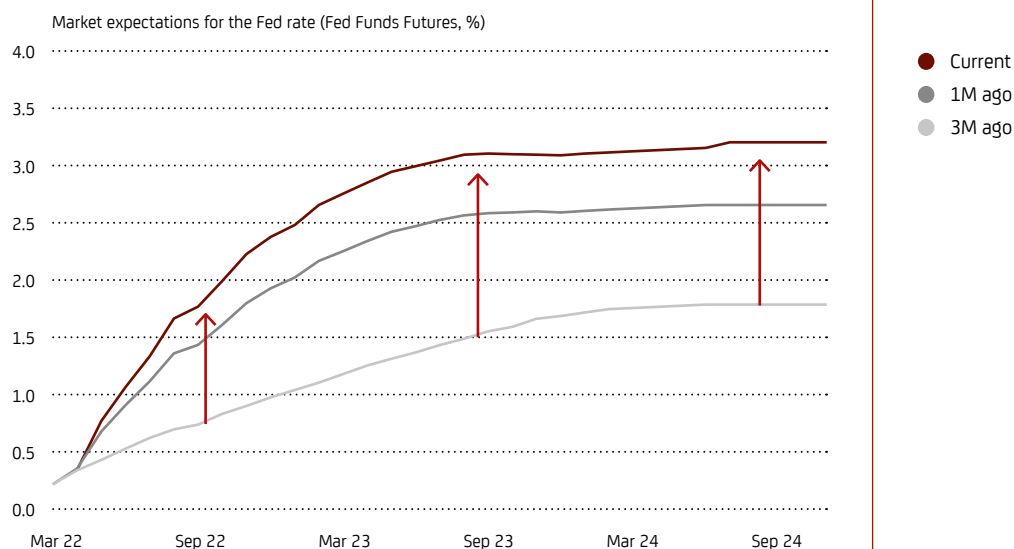


Source: Refinitiv Datastream, UniCredit Group Investment Strategy

The central banks of the major industrial nations will therefore raise their key interest rates more strongly and more quickly than previously estimated, with the US Federal Reserve (Fed) leading the way. We are not alone in expecting the US central bank to raise its target rate by 50 basis points (bps), or 0.5 percentage points, each in early May and possibly also in mid-June before returning to the usual 25 bps hikes. The neutral US policy rate of 2.2%-2.5%, which neither boosts nor slows US growth, is likely to be reached as early as the beginning of next year – without the cycle being over yet. Markets ultimately expect a target rate of over 3% (see chart 7). At the same time, the Fed will push ahead with the sale of its securities holdings (also known as quantitative tightening).

The Bank of Canada and the Reserve Bank of New Zealand have already come forward and raised their key interest rates by 50 bps recently.

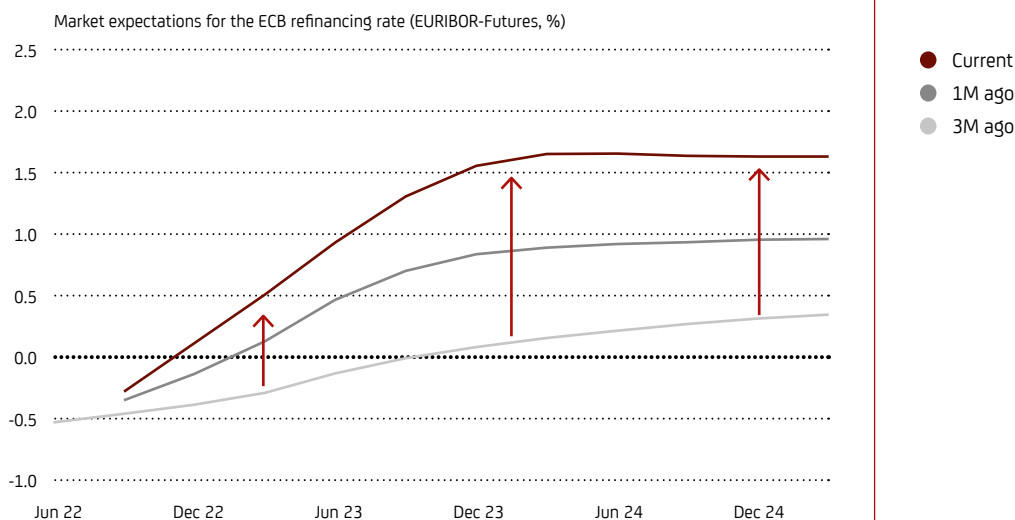
## 7. INVESTORS EXPECT FED FUNDS RATE TO BE RAISED ABOVE 3%



Source: Refinitiv Datastream, UniCredit Group Investment Strategy

The European Central Bank (ECB) is also adopting a more stringent tone, even if its task is more difficult than that of the Fed in view of the deteriorating growth-inflation mix. It is, therefore, quite possible that the ECB will end its securities purchase programme in July and start its rate hike cycle in September 2022. By the end of next year, markets expect interest rates to rise by a total of 200 bps (see chart 8).

### 8. THE ECB IS ALSO COMING UNDER PRESSURE



Source: Refinitiv Datastream, UniCredit Group Investment Strategy

For the details of the latest Governing Council meeting, see the ECB Review by our UniCredit Global Head of Research, Marco Valli, as of April 14, 2022 ([link](#)).

### The economy can cope with interest rate hikes

The question is whether the more aggressive tightening cycle of the Fed & Co, together with the Ukraine war, will finally stifle the post-Covid recovery. For the US, the question can be answered with a no. The economy seems to be resilient enough. Aggregate corporate and household balance sheets are healthier than at any time in over a decade. At the same time, industrial production is still growing surprisingly well, while companies are investing heavily and hiring plenty of workers (and looking for even more). Against the background of high and rising business sentiment and purchasing managers' indices, this is hardly surprising. The services sector has already made up for its Omicron slump at the beginning of the year.

On the demand side, the sharp rise in (petrol) prices is depressing consumer spending and curbing consumption. However, the still unfinished removal of the savings overhang from the Covid era, combined with a strong rise in employment and wages, forms a considerable counterbalance that supports private consumption beyond short-lived setbacks.

If past quarter's real GDP, with an unexpected annualised minus of 1.4%, then visually suggests a severe bout of weakness, this is due solely to net exports (subtracting 3 pp from growth), but above all to the counter-reaction of inventories. Towards the end of 2021, inventories were one of the main drivers of the exuberant growth of almost 7% annualised. The same applies to exports. Excluding both factors and looking only at domestic final demand, however, the

Historically, the inevitable deleveraging of over-indebted households and/or companies has all too often resulted in an economic slowdown or even a recession.

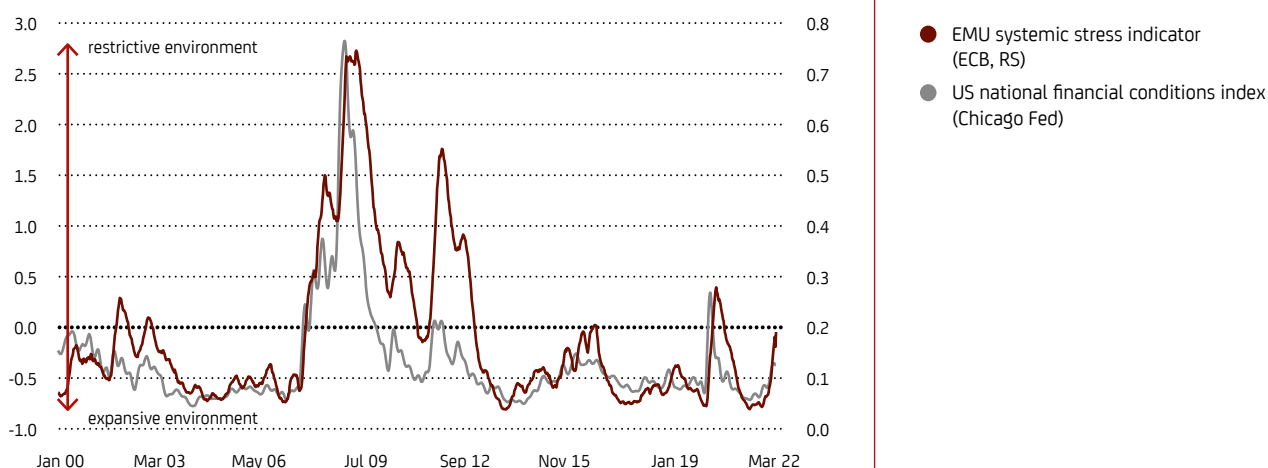
In the fourth quarter of 2021, the change in inventories alone contributed 5.3 percentage points to annualised GDP growth of 6.9%. In contrast to that, inventories shaved growth by 0.8 pp in Q1 2022. At the same time, exports fell by 6%. At the end of 2021, they grew by a very high 22%.



underlying expansion rate of just under 2.6% was even stronger than at the end of last year (+2%). We therefore continue to expect noticeably higher GDP growth rates this spring and summer. However, they should weaken thereafter (in other words, normalisation).

What also speaks against an abrupt end to the US recovery is the still supportive financial environment. Despite a noticeable increase in volatility and interest rates, it is still in expansionary territory (see chart 9). This also applies to Europe.

### 9. NO SIGNS OF FINANCIAL (MARKET) STRESS



Source: Refinitiv Datastream, UniCredit Group Investment Strategy

Nevertheless, the economic outlook for the EMU has become cloudier and, above all, more uncertain. This is primarily due to the war and sanctions, together with the Omicron wave, which have caused economic output to hardly grow in the first quarter (+0,2% quarter-over-quarter), and private consumption may have even shrunk.

And we will likely have to make further downward adjustments for the current quarter as well, although economic growth should pick up again with the pandemic subsiding – incidence figures are finally falling noticeably in Western Europe as well – and the energy price and inflation shock subsides successively (provided the risk scenario of an energy embargo does not materialise). Support will also come from the above-mentioned buoyant forces such as healthy balance sheets, savings surpluses, rising employment and wages, as well as a resilient industry.

However, annualised growth is unlikely to be much more than 2.5% annualised across the EMU this spring. This is somewhat lower than estimated a month ago and only a third of what we projected last autumn. And whether the usual, albeit temporary, rebound will come as soon as an exogenous shock subsides this summer, is difficult to predict from today's perspective. Currently, we have to make forecasts at sight. The environment is too uncertain at present. This also means that EMU-wide growth around 2.5% in 2022 as a whole is more of an indicative figure than a sound numerical forecast. By the way, six months ago we were forecasting a plus of 4.3%.

This is benefiting the services sector, which has been hard hit by Covid so far. The corresponding purchasing managers' indices are performing at least relatively better than their manufacturing counterparts. For example, German tourism agencies expect bookings for the summer of 2022 to be as high as before the pandemic.

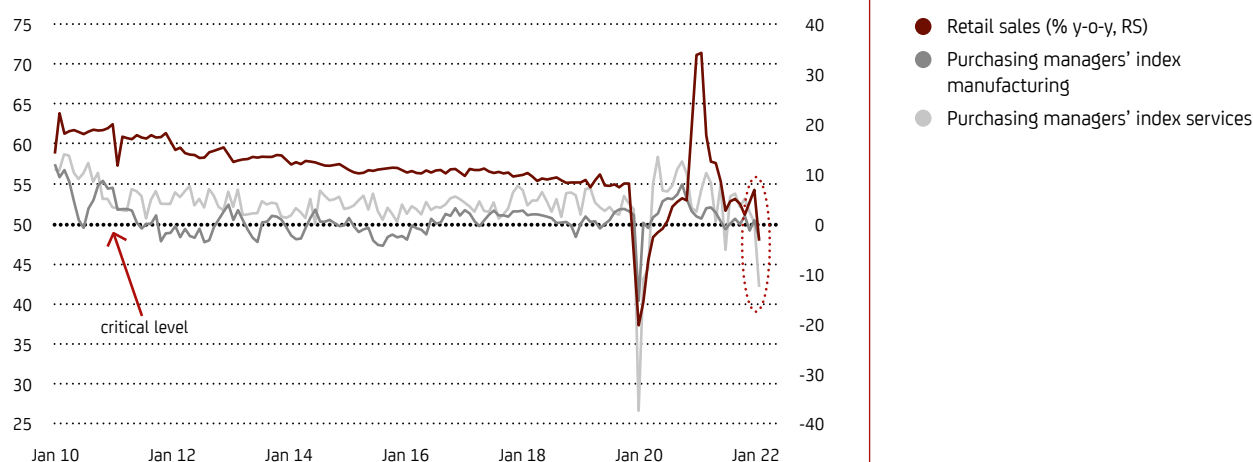
### China: Lockdowns to noticeably slow down growth

Europe is actually also the economic area that the International Monetary Fund recently revised downwards the most. But its economists also significantly lowered its China forecast to only 4.4% this year. The blame lies not so much with the Ukraine war, but with Beijing's rigid zero-Covid policy. The highly infectious Omicron wave has now spilled over into China and is hitting an insufficiently vaccinated population. The government has imposed a full-blown lockdown on areas that generate about 10% of GDP. A partial lockdown affects 25% of economic output. This is putting a powerful brake on the spring quarter and accentuating supply chain problems internationally.

Yes, it is true that Q1 GDP growth was surprisingly strong, with an annualised increase of almost 7% (or 4.8% year-on-year). However, the more recent high frequency data clearly points south. Domestic final demand is particularly affected. Not only did retail sales fall sharply in March (-3.5%), but the all-important housing market suffered even more. At the same time, the widely followed purchasing managers' indices slid back below the critical threshold of 50 (see chart 10), and the Covid-sensitive services index even far below.

In view of the Ukraine war, the IMF has lowered its forecast for the global economy in 2022 from 4.4% to 3.6%. Apart from Ukraine and Russia, the euro area's downwards revision was the largest (-1.1 pp to 2.8%; Germany: -1.7 pp to 2.1%). China's growth was taken down by half a percentage point, that of the US by a quarter ([link](#)).

#### 10. CHINA'S ECONOMY UNDER PRESSURE



Source: Refinitiv Datastream, Markit, UniCredit Group Investment Strategy

All this points to meagre growth this spring quarter, of 2% annualised at best, especially since Beijing is unlikely to abandon its zero-Covid strategy, if only to save face. The government will try to fuel growth with accommodating monetary and fiscal policy initiatives (infrastructure programmes), which, together with the likely fading of the Covid wave, should lead to a growth rebound in the second half of the year. However, the official growth target of 5.5% for 2022 will likely be missed by a wide margin. And we also see downside risks over the medium term. Structural problems (excessive indebtedness of state-owned companies and regional governments, house price bubble) are likely to be compounded by the efforts of Western countries to gradually reduce their dependence on China following Beijing's closing of ranks with Russia.

More recently, China's central bank lowered its minimum reserve requirement rate by 25 bps. A further step is likely to follow. In addition, we expect a cut of the official interest rate (currently: 2.85%) and the expansion of favourable credit facilities.

# Asset Allocation – How we manage our portfolio mandate

Rising risks of stagflation deserve a more defensive approach

ASSET		INVESTMENT UNIVERSE	INVESTMENT VIEW		
			NEGATIVE	NEUTRAL	POSITIVE
MAIN ASSET CLASSES		Global Equities	○	○	●
		Global Bonds	●	○	○
		Liquidity/Money Markets	○	○	●
		Alternatives	○	●	○
		US	○	●	○
MAIN ASSET CLASSES IN DETAIL	EQUITIES	Europe	○	○	●
		Pacific (DM <sup>1</sup> )	○	●	○
		Emerging Markets	○	○	●
		EMU Governments Bonds	●	○	○
	BONDS	Non-EMU Government Bonds	○	●	○
		EUR IG Corporate Bonds	○	○	●
		HY Corporate Bonds	○	●	○
		Emerging Market Bonds	○	○	●
	COMMODITIES	Oil	○	●	○
		Gold	○	○	●

<sup>1</sup>DM = Developed Markets (Australia, Japan, Hong Kong, New Zealand, Singapore)

In April, fears of higher inflation and more restrictive monetary policies hit bond markets hard.



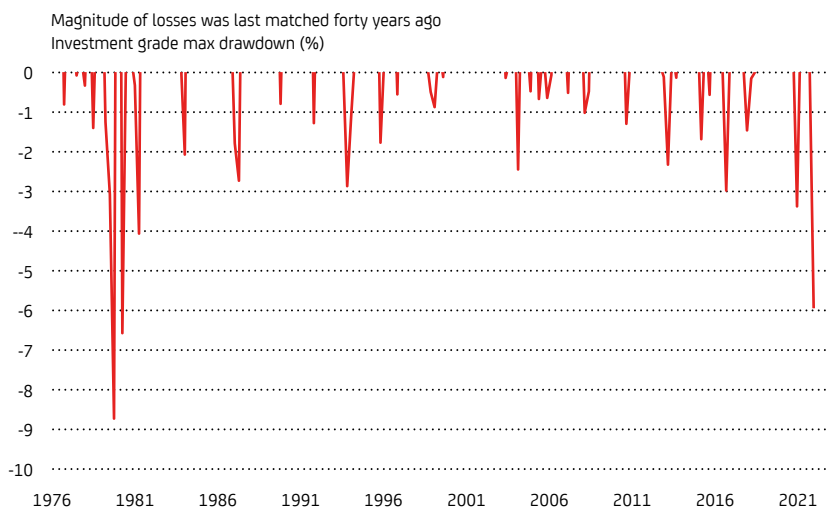
### 11. 10-YEAR US GOVERNMENT BOND YIELDS APPROACHES 3%



Source: Refinitiv Datastream, UniCredit Group Investment Strategy

If, for instance, we analyse the historical drawdown of the US Aggregate Bond Index, the current drawdown is comparable to that of 1994. Only during the oil shock of the 1970s was it higher than that.

### 12. BIG DRAWDOWN



Source: Northern Trust Asset Management, Bloomberg  
Investment grade proxied by Bloomberg U.S. Aggregate Index. It is not possible to invest directly in any index. Data from 4/30/1976 through 4/5/2022.

Year-to-date, investors are continuing to disinvest from bonds, and favouring equities and commodities instead.

### 13. GLOBAL FLOWS BY ASSET CLASS, \$ MN

	WK %AUM	YTD	YTD %AUM
Equities	-0.1%	175,734	1.0%
ETFs	-0.1%	225,225	2.9%
Long-only funds	-0.1%	-49,685	-0.5%
Bonds	-0.1%	-102,492	-1.4%
Commodities	0.3%	29,075	7.0%
Money-market	-0.8%	-316,692	-4.7%

\*week of 4/20/2022  
Source: EPFR Global

However, investors are wondering whether or not, given its more restrictive policy now with both interest rate hikes and a tightening of its balance sheet, the Fed will succeed in steering the US economy towards a soft landing. Under this perspective, it worth having a look at the flattening of the US 2-year-10-year government yield curve, with a momentary inversion at the end of March.

### 14. US 2-10Y GOVERNMENT YIELD CURVE



Source: Refinitiv Datastream, UniCredit Group Investment Strategy

The inversion of the yield curve on average has anticipated a US recession 12 months in advance, although its predictive ability has been distorted by the Fed's quantitative easing.

## 15. 2S/10S INVERSION &amp; RECESSION DATES

YIELD CURVE INVERTS	RECESSION BEGINS	MONTHS BETWEEN
Aug 78	Jan 80	17
Sep 80	Jul 81	10
Jan 89	Jul 90	6
Feb 00	Mar 01	13
Feb 06	Dec 07	22
Aug 19	Feb 20	6
	Average	12.3

Source: UniCredit Group Investment Strategy, data Bloomberg

As a result, equity investors are now concerned about a US hard landing/recession in 2023. Eurozone growth is materially affected by the consequences of the conflict between Russia and Ukraine, with the possibility of a technical recession that would increase in the event of a total embargo on Russian gas imports, while China PMI leading indicators are already in contraction zone, mainly as a consequence of the zero Covid policy.

Not surprisingly, in April, the 1-month Global Earnings Revision Ratio fell to 0.74 from 0.82. A reading below 1 signals that there are more companies with negative earnings revisions than companies with positive revisions. In fact, the ratio fell and is below 1 in all geographic areas: in the US it fell to 0.81 from 0.87, in Europe it was 0.64 from 0.75, in Asia Pac ex Japan to 0.67 from 0.69, in Japan to 0.75 from 0.98, and in Emerging Markets to 0.72 from 0.76. On a sectorial basis, the highest reading is observed in energy (2.12), banks (1.48), semiconductors (1.11), utilities (1.06) and materials (1.91), while the lowest is for media (0.50), consumer discretionary (0.51) and insurance (0.54). The sectors that have shown the most significant improvements are consumer staples (to 0.62 from 0.47) and tech hardware (to 0.81 from 0.65), while the most significant deteriorations have been recorded by semiconductors (to 1.11 from 1.89) and telecom (to 0.56 from 0.90).

Equity investors are becoming more defensive, both in terms of regional equity allocation, where they are preferring developed markets versus emerging markets, and in terms of sector allocation, where energy and defensives are overperforming in relative terms.

16. NET FUND FLOWS TO DM OUTPACING EM, \$ MN

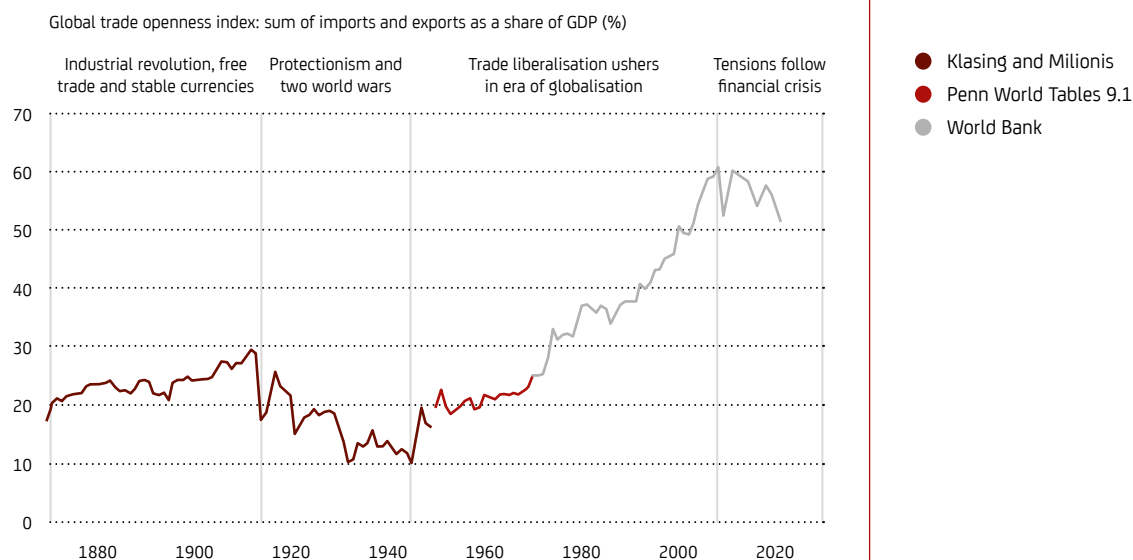
	WK %AUM	YTD
<b>Total Equities</b>	<b>-0.1%</b>	<b>175,734</b>
Long-only funds	-0.1%	-49,685
ETFs	-0.1%	225,225
<b>Total EM</b>	<b>0.2%</b>	<b>54,836</b>
Brazil	-0.7%	-408
Russia	0.0%	221
India	-0.1%	-1,102
China	1.0%	31,151
<b>Total DM</b>	<b>-0.1%</b>	<b>120,898</b>
US	-0.2%	81,287
Europe	-0.2%	-25,923
Japan	0.0%	-2,930
International	0.0%	61,891

Source: EPFR, BofA Global Research

At the same time, institutional investors are starting to question the weighting of Chinese assets in their global portfolios, given China's low ESG scoring. In particular, investor concerns have increased after Russia's brutal invasion of Ukraine, given the close relationship between China and Russia and the risk that Biden's administration will impose sanctions on Chinese companies.

More generally, Emerging Markets assets are under pressure in the short term from the Fed's more aggressive monetary policy, and in the longer term, from the risk of deglobalization/lower global growth. As a result, we believe these assets require a more prudent and selective approach.

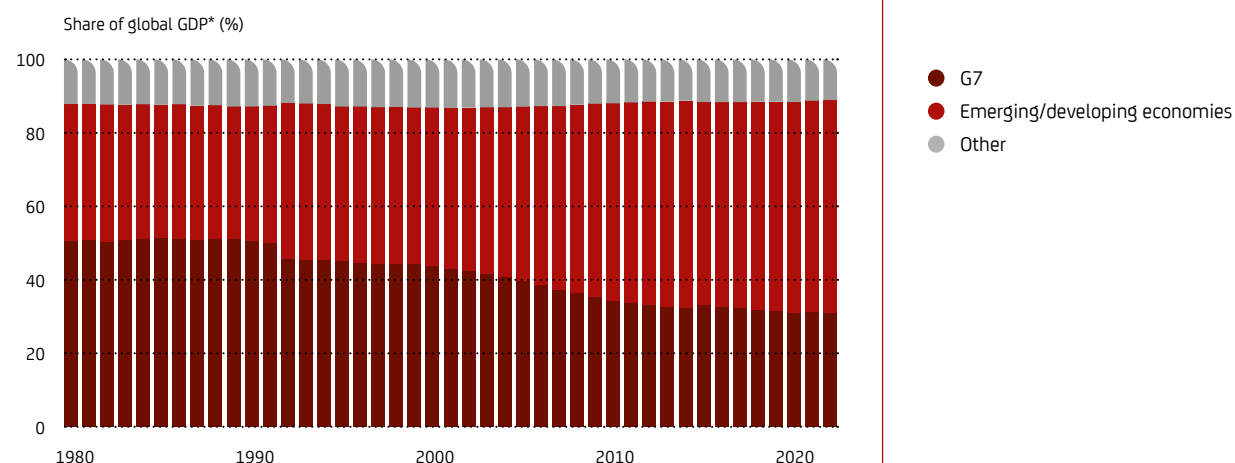
17. TOWARDS A PHASE OF DEGLOBALIZATION?



Source: Klasing and Milionis (2014), Penn World Tables 9.1, World Bank



## 18. GLOBALIZATION HAS DRIVEN GROWTH IN EMERGING MARKETS



To sum up, over the next few months investors will have to deal with a tricky combination of higher inflation, more restrictive monetary policies and lower global growth, against an already uncertain backdrop driven by developments from the conflict between Russia and Ukraine.

We continue to believe that rising inflation supports our structural underweight with a short duration bias on global bonds, where we prefer corporate bonds and, selectively, Emerging Market bonds.

However, long-term investment opportunities may develop and we are closely monitoring first entry points on the US Treasuries market, such as the 3% area of the 10-year US government bond yield.

While vulnerable to geopolitical tensions and negative earnings revision, equities remain attractive on a long-term basis in terms of relative valuation. We are increasingly defensive and quality oriented, focusing on companies with higher pricing power and with high cash flow generation/high dividend yield.

We have reduced our overweight European equities and we believe that US equities are currently supported by a better earnings momentum, while at the same time they are more resilient to geopolitical tensions due to the energy independence of the US. We are increasingly more defensive on EM equities, as global growth is set to slow.

Gold continues to offer interesting portfolio hedging opportunities, while the USD benefits from the flight-to-quality due to the Russia/Ukraine conflict and the Fed's restrictive monetary policy, but longer term it appears overvalued according to the main purchasing power parity metrics.

## UniCredit Group Investment Strategy

### Asset Allocation stances

#### Overweight Global equities

Decelerating but above trend global growth supports equities, despite headwinds and higher volatility from geopolitical tensions, rising rates in the US, and the pandemic. Appealing relative valuation as real rates remains negative.

#### Overweight European equities

Short term is the most affected area from the Russia/ Ukraine war; the asset class will benefit in the longer term from higher investments in the energy and defense industries.

#### Neutral US equities

High growth but the Fed is now opting for a hawkish tilt. Selective buying opportunities arising from the equities markets drop and the earnings season.

#### Overweight Emerging Market equities

Attractive valuations, higher commodities prices and an advanced rates hiking cycle offer long-term buying opportunities. In China, a moderate monetary easing is already under way. Countries and sectors selectivity among EMs is strongly recommended.

#### Neutral Pacific equities

Japanese equities are supported by the global recovery, domestic fiscal stimulus and the weakening yen.

#### Underweight Global bonds

Vulnerable to increasing inflation and rising interest rates.

#### Overweight Euro Investment Grade corporate bonds

Still supported by the ECB's purchases but their tighter spread buffer makes them more vulnerable to rising interest rates. We prefer financial subordinated debt, given the increased capital buffer of European banks and shorter duration.

#### Neutral High Yield corporate bonds

Attractive carry play. Shorter duration versus Euro Government bonds and Euro Investment Grade corporate bonds is a plus, considering the expectation of a gradual normalisation of interest rates. Their lower liquidity should be taken into consideration in case of further market turmoil.

#### Underweight EMU government bonds

We are underweight core Euro governments bonds given their high benchmark duration. We prefer peripheral government bonds, such as Italian and Spanish govies, supported by the ECB's actions and the Recovery Fund. We prefer short duration and we are selectively increasing the positioning on inflation-linked bonds, which may prove helpful to deal with the base-scenario of increasing inflation.

#### Neutral non-EMU government bonds

We expect US Treasury yields to increase this year.

#### Overweight Emerging Market bonds

The search for yield supports our positive stance, but we are defensive and selective considering the Fed's tightening and inflation across EMs.

### **Positive Liquidity/Money Markets**

To be used mostly as parking and hedging for uncertainty.

### **Neutral Alternatives**

They offer portfolios de-correlation opportunities, while real assets benefit from their inflation hedging role.

### **Commodities**

Late cycle asset class, supported by the global recovery and, as for fossil energy and metals, by geopolitical tensions.

### **Positive Gold**

Hedging for uncertainty

### **Currencies**

Flight-to-quality and a more restrictive Fed support the US dollar.

# Columns

Local CIOs in dialogue with the clients

## Answers from Italy

### What is happening to Chinese stock exchanges?



Chinese equity markets have shown significant weakness in recent weeks, even higher than the European and US markets.

The Chinese economy is not directly impacted by the dramatic conflict in Ukraine, unlike European countries. Nor has the People's Bank of China embarked on an accelerated path of normalisation of monetary policy as the Fed has. So the reasons have to be sought elsewhere.

Surely the zero-Covid strategy imposed by China's government authorities implies a considerable economic sacrifice. Although some quarantine rules have been made less stringent, the effects of partial or targeted lockdowns on cities of tens of millions of inhabitants still have important effects. This is the case of Shanghai and its port, the most important in the world for international maritime trade via container ships. And the alarm is also growing in Beijing, where a test and tracking campaign has been launched. The restrictions in place could exacerbate the problem of bottlenecks in global supply chains. But certainly, the effects on the domestic economy are immediate, in terms of current production gaps and deteriorating consumer and business confidence indices. Certainly

## Our experts:

Alessandro Caviglia



CIO Italy  
UniCredit Spa (Italy)



the monetary and fiscal policy responses will be important and supportive, especially in the traditional economic sectors, such as real estate and construction. However, we can consider this to be a non-permanent element, given that just as in the Western world we have passed from the phase of health emergency to that of vigilant coexistence with the virus, so we can imagine that it will also likely happen in China over the next few months.

However, other elements are negatively impacting investment flows from international capital markets to Chinese stock exchanges. It is evident that in geopolitical terms, the new structures see the Chinese economic and political role grow and acquire ever greater importance. This data is true for Asia as a continent as a whole. However, China, like India, is adopting an ambiguous and opportunistic attitude towards Russia's aggression on Ukraine. This increases the risk of a possible new US-China confrontation that could have effects on trade relations, as already happened during the Trump administration, but in the current context there could also be consequences in terms of sanctions on financial flows. Therefore, international investors are assigning a probability to this scenario as well, which is not central but still represents an element of risk.

Further, the growing deglobalisation and segmentation of the financial system increases the incentives to retain financial investments in the same geographical perimeter on which fiscal policy insists. In this historical phase, US and European capitals are absolutely crucial in the US and Europe for financing the investment programmes needed to reduce dependence on Russia and fossil fuels in general.

In conclusion, the political and economic weight of China today is significant and is destined to grow. However, this does not correspond to the same amount of financial independence or internal capacity to generate sufficient resources to channel on the capital markets. This divergence, in the context of the current geopolitical situation, contributes to the current weakness of China's stock exchanges.

## Answers from Austria

### Gamechanging Inflation: Rising Real Yields Require Active Management



Over the past decade, real returns on safe investments have fallen steadily in developed countries. The reasons for the decline are manifold; this trend was most recently exacerbated by the pandemic and the war in Ukraine. However, the main driver for the decline was the monetary measures of central banks, which relied on an unprecedented expansionary monetary policy to combat deflationary tendencies.

Central banks bought bonds and thus dampened yields. Key interest rates were lowered to 0% in the Eurozone. Financing conditions for states, companies and private borrowers were thus very favourable, and this supported the economy. Bond and share prices benefited from this development. Bond prices rose due to central bank bond purchases and equity prices rose due to low interest rates and the increase in money supply, which indirectly increased demand for equities.

The recent sharp rise in inflation – initially triggered by the pandemic and further exacerbated by the war in Ukraine – seems to have triggered a paradigm shift. After numerous lockdowns, demand for goods and services has surged, allowing the rapidly catching-up economy to raise prices. Shortages of key electronic parts, such as semiconductors, have occurred, impacting entire sectors like the auto industry.

But energy prices have also risen due to the resurgence, and have increased massively due to the war in Ukraine. High inflation is now forcing central banks to hit the brakes. Interest rate hikes and a scaling back of the expansionary monetary policy are on the agenda and will eventually lead to a rise in real yields again. This will be associated with valuation changes across various asset classes.

#### Impact on asset classes

The recent increases in bond yields are mainly due to the rise in inflation expectations, as investors want to be compensated for higher inflation risk. In this scenario, nominal bonds have already suffered price losses, while inflation-linked bonds have largely avoided them. Central banks are now called upon to end their purchasing programmes and raise key interest rates in order to mitigate rising inflation.

Until these measures take effect, it makes sense from an investment perspective to have a higher allocation to inflation-linked bonds to hedge one's portfolio. But beware: inflation-linked bonds also suffer from rising

Oliver Prinz



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real yields, especially if inflation expectations fall. A timely reduction of the asset class is therefore essential. In general, bonds with short maturities or floating rate bonds should be used in this phase. Corporate bonds have also reacted to rising yields by widening risk premiums as the probability of an economic slowdown increases. If one does not assume a recession, such a widening of risk premiums are often interesting buying opportunities.

However, the development of real yields not only affects bonds, but also influences asset classes such as equities. Growth and technology companies are particularly affected by a rise in real yields, which is why we believe that value companies should be favoured at the moment.

Therefore, one should keep a close eye on the possible risks – and not only in the bond sector. Central banks in particular are called upon to reduce the monetary policy measures of the past at a pace that is acceptable to markets so that no major distortions occur. Central banks have already taken the first steps in this direction and have also shown that they are taking care to implement these measures in a way that is gentle on stock markets.

### Conclusion

The rise in real yields and the current high inflation levels are challenges for investors that require an even more intensive study of the markets. With a buy-and-hold strategy, one could still achieve very good returns in the last decade, but the next few years will make more active action necessary. Every difficult market situation also offers opportunities that we believe must be exploited.

## Answers from Germany

**What does Macron's re-election mean for the economy and markets?**



The French presidential election caused quite a stir to financial markets in the run-up. For a long time, the incumbent, Emmanuel Macron, was considered the clear favourite. However, the polls before the first round of voting, in which citizens must choose one of the numerous candidates, showed a close race for the first two places. This outcome was determinative, because if no candidate achieves the necessary absolute majority in the first round, a runoff among the top two finishers will be required. As five years ago, Emmanuel Macron and Marine Le Pen competed against each other. She lost again this time – more clearly than had been projected in the meantime – but less clearly than in

Philip Gisdakis



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2017.

The uncertainties for financial markets arose from the question of who would make it into the runoff. If, for example, the left-wing populist Jean-Luc Melenchon had made it into the runoff instead of Marin Le Pen, the outcome might have been different. These uncertainties were reflected in particular in the bond markets. For example, the yield differential between French and German government bonds rose noticeably, reflecting investors' concerns that French politics could take a completely different direction. However, fears eased again shortly after the first round, when the polls signalled a relatively comfortable lead for Macron.

For Europe, Macron's re-election is an important sign in times of great uncertainty. Many decisions on pressing economic and security policy issues require consensus at the European level. This consensus-building appears much easier with Macron than with his opponent. However, a few unanswered questions remain, which are also likely to have some relevance for capital markets. This is because the parliamentary elections in France will take place in June, which will determine whether and what majority Emmanuel Macron will receive for his policies in parliament. The challenges are enormous. The country is divided, young people are frustrated, social tensions are growing, the right and right-wing ideas have become "socially acceptable" and the classic party system seems to be at an end.

In addition, a second question could come into focus: who will take over the role of prime minister, or rather, prime ministress? Some commentators speculate that Christine Lagarde could take over this post, which would then in turn lead to a leadership discussion at the top of the ECB. So, it remains exciting.



DEVELOPMENT OF SELECTED FINANCIAL MARKET INDICES

FROM	28.04.21	28.04.17	27.04.18	28.04.19	28.04.20	28.04.21	28.04.17	01.01.22
TO	24.04.22	28.04.18	28.04.19	28.04.20	28.04.21	28.04.22	28.04.22	28.04.22
<b>STOCK MARKET INDICES (TOTAL RETURN, IN %)</b>								
MSCI World (in USD)	-1,2	14,2	6,5	-4,7	48,8	-1,2	70,2	-10,9
MSCI Emerging Markets (in USD)	-20,8	21,1	-3,1	-14,1	54,9	-20,8	22,9	-13,9
MSCI US (in USD)	2,0	13,9	12,4	-0,6	51,3	2,0	96,4	-10,5
MSCI Europe (in EUR)	5,8	2,7	5,6	-10,6	31,0	5,8	34,0	-6,3
MSCI AC Asia Pacific (in USD)	-18,7	19,0	-3,0	-8,1	47,1	-18,7	26,2	-13,6
STOXX Europe 600 (in EUR)	4,6	2,6	5,5	-10,0	32,4	4,6	34,6	-7,2
DAX 40 (Germany, in EUR)	-8,6	1,1	-1,5	-12,4	41,7	-8,6	12,3	-12,0
MSCI Italy (in EUR)	1,7	19,3	-6,7	-19,0	40,6	1,7	29,9	-10,3
ATX (Austria, in EUR)	4,4	20,4	-3,9	-30,7	54,3	4,4	28,5	-14,6
SMI (Switzerland, in CHF)	11,7	3,4	13,4	5,3	15,9	11,7	60,1	-3,9
S&P 500 (USA, in USD)	3,9	14,0	12,5	-0,8	48,5	3,9	96,4	-9,7
Nikkei (Japan, in JPY)	-5,8	19,0	1,8	-9,2	49,3	-5,8	53,7	-5,9
CSI 300 (China, in Yuan)	-22,1	11,2	6,0	0,9	35,9	-22,1	26,1	-20,6
<b>BOND MARKET INDICES (TOTAL RETURN, IN %)</b>								
US Government Bonds 10Y (in USD)	-9,3	-3,3	6,7	23,1	-7,0	-9,3	6,7	-11,8
US Government Bonds (ICE BofA , in USD)	-7,1	-1,1	5,2	15,2	-4,9	-7,1	5,5	-8,4
US Corporate Bonds (ICE BofA A-BBB, in USD)	-9,9	0,9	6,8	9,0	5,7	-9,9	11,4	-12,1
German Bunds 10Y (in EUR)	-9,5	-0,9	7,5	4,9	-1,9	-9,5	-1,2	-9,2
EUR Government Bonds 1Y-10Y (iBOXX, in EUR)	-9,0	2,2	2,5	4,3	1,7	-9,0	1,0	-8,6
EUR Corporate Bonds 1Y-10Y (iBOXX, in EUR)	-8,2	1,2	3,1	-1,0	5,4	-8,2	-0,1	-7,8
<b>BOND YIELDS (CHANGE IN BASIS POINTS = 0.01 PERCENTAGE POINTS)</b>								
US Government Bonds 10Y (in USD)	124	66	-49	-193	101	124	57	137
US Government Bonds (ICE BofA , in USD)	184	90	-33	-193	45	184	96	157
US Corporate Bonds (ICE BofA A-BBB, in USD)	202	66	-31	-69	-80	202	92	185
German Bunds 10Y (in EUR)	113	26	-61	-46	19	113	55	104
EUR Government Bonds 1Y-10Y (iBOXX, in EUR)	119	-4	-14	-40	-15	119	47	110
EUR Corporate Bonds 1Y-10Y (iBOXX, in EUR)	181	10	-27	40	-83	181	122	160
<b>SPREADS ON GOVERNMENT BONDS (CREDIT SPREADS, CHANGE IN BASIS POINTS)</b>								
US Corporate Bonds (BofAML US Corporate Master)	44	-10	5	118	-140	44	16	40
US Corporate Bonds (BofAML US High Yield)	57	-34	33	429	-476	57	5	73
Euro corporate bonds (BofAML Euro Corporate AAA-A)	51	-18	8	65	-77	51	28	38
Euro Corporate Bonds (BofAML Euro High Yield)	153	-34	67	267	-332	153	117	119
<b>MONEY MARKET RATES (CHANGE IN BASIS POINTS)</b>								
Libor (USD, 3 months)	110	119	22	-182	-57	110	12	108
Euribor (Euribor (EUR, 3 months), 3 Monate)	10	0	2	8	-30	10	-11	13
<b>EURO EXCHANGE RATES (CHANGE IN %)</b>								
US Dollar (EUR-USD)	-13,1	10,9	-8,5	-2,4	11,0	-13,1	-3,6	-7,4
British Pound (EUR-GBP)	-3,0	3,9	-0,9	0,9	-0,1	-3,0	-0,1	0,4
Swiss Franc (EUR-SFR)	-7,5	10,5	-5,0	-7,0	4,3	-7,5	-5,6	-1,1
Japanese Yen (EUR-JPY)	4,3	8,8	-6,3	-6,9	13,3	4,3	13,1	5,2
<b>COMMODITIES (CHANGE IN %)</b>								
Commodity Index (GSCI, in USD)	6,0	3,8	-2,8	33,4	0,0	6,0	41,1	3,2
Industrial metals (GSCI, in USD)	17,9	19,0	-13,3	-18,5	68,1	17,9	69,9	8,5
Gold (in USD per fine ounce)	6,4	4,5	-2,3	33,0	4,2	6,4	49,2	3,6
Crude oil (Brent, in USD per barrel)	60,2	47,3	-3,5	-71,5	227,5	60,2	112,8	37,5

Please note: Past values and forecasts are not a reliable indicator of future performance. Indices cannot be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance. The return on investments in foreign currencies may also rise or fall as a result of currency fluctuations. So-called synthetic bonds are calculated to reflect the performance of government bonds in a fixed maturity range. In each case, the most "suitable" real federal bond at the relevant time is used as a reference for the yield opportunity of the synthetic bond. The development of the expected yield to maturity is shown under the following conditions: servicing of interest payments and redemption in accordance with the terms and conditions and holding until maturity. In this respect, it is a yield opportunity. The yield opportunities reflect the different risk assessments of the investors for the respective products or countries (higher yield opportunity=higher risk assessment). The synthetic bonds cannot be purchased and therefore do not include any costs. In the case of currencies and commodities, acquisition and/or custody costs incurred are not included. Source: Refinitiv Datastream.

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