Recession fears shake markets

Chartbook

Investment Management & Strategy
June 2022

UniCredit Bank AG - public use
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Market environment and strategy

Summary

Economic and monetary policy environment

Macro: Growth concerns increase
- Ukraine war, ongoing supply chain issues, China growth slump and tightening monetary/financial environment further increase global economic downside risks
- Inflation rates reach levels not measured in Western industrialised countries for decades and pose the risk of a wage-price spiral (stronger in the USA than in Europe)
- Large established economies are proving quite resilient, but risk of a bumpy or even "hard landing" (sharper recession) of the global economy is increasing

Central banks: Under pressure
- Central banks around the world remain under pressure to act in view of persistently high inflation rates and worsening consumer sentiment (purchasing power effect)
- Fed and ECB have recently accelerated monetary tightening and started to gradually phase out bond-buying programmes
- Weaker economic data unlikely to halt monetary tightening until inflation figures show trend reversal

Markets

Bonds: Hardly any relief on the bond market
- Sustained high inflation and revised market expectations of (upcoming) interest rate steps by central banks have been the dominant factors so far
- However, weaker economic figures have recently brought growth and recession concerns into focus
- Risk premiums of peripheral government bonds initially widened, but stabilised recently

Shares: Headwinds do not abate
- Stock prices continue to head south amid unfavourable combination of inflation, interest rate and growth concerns
- Significant economic slowdown already appears priced in; volatility likely to persist for the time being
- As the economy slows, the outlook for corporate profits is also likely to dim

Currencies, gold and commodities: US dollar strength continues
- Fed's tighter monetary policy supports US currency
- Crude oil price takes rollercoaster ride, but remains at high level
- Gold gives back most of March's gains
Macro: Global economic downside risks increase
China's economy probably contracted in spring

Economic slump due to Corona lockdowns ...

... but economy back on expansion course in June

Please note: Past values, simulations and forecasts are not a reliable indicator of future development.
Source: Refinitiv Datastream, UniCredit Wealth Management.
Macro: Global economic downside risks increase

US economy shows resilience but weakens

US labour market continues to grow solidly, unemployment at very low level

However, falling consumer confidence and low savings rates weigh on consumer prospects

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Macro: Global economic downside risks increase

Euro area: Growth concerns are likely to be exaggerated

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Source: Refinitiv Datastream, UniCredit Wealth Management.
Central banks: Still under pressure

Market expectations for the Fed significantly revised upwards

Markets have recently revised expectations sharply upwards

Recession fears, however, depress market expectations for 2023 below Fed interest rate path

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Source: Refinitiv Datastream, UniCredit Wealth Management.
Central banks: Still under pressure

ECB market expectations also revised significantly upwards

The markets have also revised their interest rate expectations upwards for the ECB ...

... and are betting on further interest rate hikes next year

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Source: Refinitiv Datastream, UniCredit Wealth Management.
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Source: Refinitiv Datastream, UniCredit Wealth Management.
Bonds: Inflation and monetary tightening weigh on bonds

US yield advantage remains

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Bonds: Inflation and monetary tightening weigh on bonds

Yield spreads in the periphery increased significantly

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Bonds: Inflation and monetary tightening weigh on bonds

Still no sign of real value retention in Germany

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Source: Refinitiv Datastream, UniCredit Wealth Management.
Uncertainty causes corporate bond spreads to rise further

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Source: Refinitiv Datastream, UniCredit Wealth Management.
Shares: Prices continue to head south

Weakest first half-year performance in decades

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Source: Refinitiv Datastream, UniCredit Wealth Management.

Global stock markets (1.1.2013 = 100)
- DAX 40 (in EUR)
- Stoxx Europe 600 (in EUR)
- MSCI World (in USD)
- S&P 500 (in USD)

Corona outbreak
Ukraine war
Volatility likely to remain high for the time being

Shares: Prices continue to head south

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Source: Refinitiv Datastream, UniCredit Wealth Management.
But lower P/E ratios in Europe signal upside potential

Equities: Prices continue to head south

Price-earnings ratio (earnings on a 12-month view)

- S&P 500
- DAX 30
- Euro Stoxx 50

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Shares: Prices continue to head south
Profit expectations possibly too optimistic

Earnings expectations (on 12 months, 12-month change in %)
- DAX 40
- Stoxx Europe 600
- S&P 500
- TOPIX

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Shares: Prices continue to head south

Nevertheless, shares should remain interesting in the long term

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Source: Refinitiv Datastream, UniCredit Wealth Management.
Commodities, gold and currencies: US dollar strength continues

Gold gives back most of March's gains

Please note Past values, simulations and forecasts are not a reliable indicator of future performance. Commodity price performance does not take into account acquisition and custody costs incurred. Source: Refinitiv Datastream, UniCredit Wealth Management.
"Quantitative Tightening" of the Fed supports the US dollar strength continues. Commodities, gold and currencies: US dollar strength continues.
Commodities, gold and currencies: US dollar strength continues

EUR-USD recently stabilises at a low level

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