On the brink of recession?
Summary

Economic and monetary policy environment

Macro: Global economic downside risks continue to increase
- Economic data in the US and the euro area continue to deteriorate and signs of monetary tightening are increasingly visible in the US
- Recession indicators suggest no US recession this year, but increased risk for 2023
- In view of high inflation rates and monetary tightening, consumer sentiment in Germany sinks to a record low; the ifo business climate index also plummets

Central banks: Still in tightening mode
- Inflationary pressures persist in both the euro area and the US, forcing major central banks to act further
- While the Fed has recently tightened considerably with two 75bp hikes, the ECB also initiated an epochal interest rate turnaround in July - with a surprisingly strong 50bp step
- Weaker economic data are unlikely to halt monetary tightening until inflation figures show a trend reversal

Markets

Bonds: Recession worries prevail
- Recession fears have led to market rate hike expectations being scaled back recently and government bond yields falling
- US yield curve inverts in July - in the past an indicator of an impending recession

Equities: bottoming out?
- Equities can recoup some of 1H22 losses in July; they benefit from falling yields
- The 2Q22 reporting season so far paints a constructive picture and the technical market environment suggests a bottoming out
- However, as economic momentum slows, prospects for corporate profits are likely to dim

Currencies, gold and commodities: focus on gas price development
- Gold continues to lose ground, commodities also drop significantly; the gas price, however, has increased about fivefold year-on-year by the end of July
- The EUR-USD exchange rate briefly slips below parity
1. Macro: Global economic downside risks increase
2. Central banks: Still in tightening mode
3. Bonds: Recession worries prevail
4. Equities: bottoming out?
5. Currencies, gold and commodities: focus on gas price development
Economic data in the USA and the euro area continue to deteriorate

Macro: Global economic downside risks continue to increase

Note: Past values, simulations and forecasts are not a reliable indicator of future development.

Source: Citigroup, Bloomberg, UniCredit Group Investment Strategy (as at 26 July 2022)

### Citigroup Economic Surprise Index reflects worse economic development than expected by analysts

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Positive area: better than expected

Negative area: worse than expected

Note: Past values, simulations and forecasts are not a reliable indicator of future development.

Source: Citigroup, Bloomberg, UniCredit Group Investment Strategy (as at 26 July 2022)
Macro: Global economic downside risks continue to increase

Signs of a slowdown in the US economy increasingly visible

Momentum on the US labour market is weakening

- Employment (monthly change in thousands)
- Unemployment rate (in %, RS)

Consumer confidence and savings rates remain weak

- Savings rate USA (in %)
- Consumer confidence (Uni Michigan, RS)

Note: Past values, simulations and forecasts are not a reliable indicator of future development.
Source: Refinitiv Datastream, UniCredit Group Investment Strategy (as at: 28 July 2022)
Macro: Global economic downside risks continue to increase

No US recession this year, but increased risk for 2023

Macro indicators do not point to an increased risk of recession in the next 12 months...

...but alternative indicators see increased risk in 2023

Note: Past values, simulations and forecasts are not a reliable indicator of future development.
Source: NBER, ISM, BLS, Conference Board, Bloomberg, UniCredit Group Investment Strategy (as at 28 July 2022)
Macro: Global economic downside risks continue to increase

Euro area: Sentiment indicators reflect growth fears

**Consumer sentiment in Germany at record low**

**Ifo business climate index plummets**

Note: Past values, simulations and forecasts are not a reliable indicator of future development.

Source: Refinitiv Datastream, UniCredit Group Investment Strategy (as at: 28 July 2022)
Inflationary pressure does not subside

Central banks: Still in tightening mode

Neither in the euro area, with an all-time high in July, ...

... still in the USA

Note: Past values, simulations and forecasts are not a reliable indicator of future development.
Source: Bloomberg, UniCredit Group Investment Strategy (as of 28 July 2022)
Central banks: Still in tightening mode

Fed rate hike cycle the steepest since the early 1980s

Fed tightens the interest rate reins

But US key interest rate expectations come back slightly

Note: Past values, simulations and forecasts are not a reliable indicator of future development.
Source: Bloomberg, Refinitiv Datastream, UniCredit Group Investment Strategy (as at: 28 July 2022)
Central banks: Still in tightening mode

ECB initiates epochal interest rate turnaround

Interest rate hike surprisingly strong at 50 basis points

Interest rate expectations for the euro area quite stable

Note: Past values, simulations and forecasts are not a reliable indicator of future development.
Source: Bloomberg, Refinitiv Datastream, UniCredit Group Investment Strategy (as at: 28 July 2022)
Bonds: Recession worries prevail

Yield on 10-year US Treasuries falls below 3% again

Yield on 10-year government bonds

Note: Past values, simulations and forecasts are not a reliable indicator of future development. In order to map the development of government bonds in a fixed maturity range, so-called synthetic bonds are calculated. In each case, the most "suitable" real (real) federal bond at the relevant time is used and taken 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. When investing in securities, costs are incurred which reduce the performance.

Source: Bloomberg, UniCredit Group Investment Strategy (as at 26 July 2022)
Bonds: Recession worries prevail

Yield spreads in the periphery recently increased further

Yield spread to 10-year German government bonds

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Source: Bloomberg, UniCredit Group Investment Strategy (as at 26 July 2022)
US yield curve inverted

Yield spread between two- and ten-year US government bonds

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Source: Bloomberg, UniCredit Group Investment Strategy (as at 26 July 2022)
Real yields and consumer prices

*Nominal yield minus consumer price increase

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Source: Refinitiv Datastream, UniCredit Group Investment Strategy (as at 26 July 2022)
Bonds: Recession worries prevail

Uncertainty causes corporate bond spreads to rise further

Credit spreads investment grade (in bp)

Credit spreads high yield (in bp)

Note: Past values and forecasts are not a reliable indicator of future performance. The indices may not be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance.

Source: Refinitiv Datastream, UniCredit Group Investment Strategy (as at 26 July 2022)
Equities: bottoming out?

Equities benefit most recently from falling yields

MSCI Price Indices (1.1.2017 = 100)

Europe  North America  Pacific (Ind. countries)  Emerging markets  Germany

Note: The indices cannot be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance. Past performance, simulations and forecasts are not a reliable indicator of future performance. Returns may also rise or fall as a result of currency fluctuations.

Source: Bloomberg, UniCredit Group Investment Strategy (as at 29 July 2022)
And P/E ratios generally signal further upside potential

P/E ratios (based on rolling 12M earnings expectations)

Note: The indices cannot be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance. Past performance, simulations and forecasts are not a reliable indicator of future performance. Returns may also rise or fall as a result of currency fluctuations.

Source: Bloomberg, UniCredit Group Investment Strategy (as at 29 July 2022)
Equities: bottoming out?
Equities should remain interesting in the medium to long term

Yields on corporate bonds (in Europe) have risen significantly recently

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Source: Refinitiv Datastream, UniCredit Group Investment Strategy (as at 26 July 2022)
Currencies, gold and commodities: focus on gas price development

Gold continues to lose ground, commodities also drop significantly

*The Bloomberg Index formerly known as the Dow Jones-UBS Industrial Metals Subindex is composed of futures contracts on aluminium, copper, nickel and zinc. It reflects the return on the underlying price movements of commodity futures. It is quoted in USD.

Note: Past values, simulations and forecasts are not a reliable indicator of future performance. Currency and commodity price performance do not take into account acquisition and custody costs incurred.

Source: Bloomberg, UniCredit Group Investment Strategy (as at 26 July 2022).
Currencies, gold and commodities: focus on gas price development

Gas price, however, increased about fivefold yoy

Futures contracts tied to the TTF for next month’s delivery have recently risen significantly again

Note: Past values, simulations and forecasts are not a reliable indicator of future performance. Currency and commodity price performance do not take into account acquisition and custody costs incurred.

Source: Bloomberg, UniCredit Group Investment Strategy (as at 29 July 2022)
Currencies, gold and commodities: focus on gas price development

EUR-USD exchange rate briefly slips below parity

**Euro exchange rates against leading currencies**

**Trade-weighted currency indices (BBG indices)**

Note: Past values, simulations and forecasts are not a reliable indicator of future performance. Currency and commodity price performance do not take into account acquisition and custody costs incurred. Bloomberg indices track the performance of the respective currency against a basket of leading global currencies.

Source: Bloomberg, UniCredit Group Investment Strategy (as at 26 July 2022).
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