UniCredit Wealth Management

Monthly Outlook

May 2021

Summer is coming

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CIOs Letter

Summer is coming

In the previous quarter, Europe has likely passed the last low point of the crisis. At the beginning of the year, EMU economy contracted significantly by -0.6% compared with the past quarter. By contrast, economic output in the US increased noticeably (1.6%). There were also significant regional differences in Continental Europe. For example, in Germany, real GDP contracted by -1.7%, a much sharper drop than in Italy (-0.5%). Meanwhile in Austria, the economy expanded by 0.2%.

However, the mood is brightening noticeably across Europe today. The business climate is improving both in manufacturing – where the relevant indicators have already returned to their pre-pandemic cyclical highs – and in services. This sector was hit hardest by the pandemic, but now the indicators have at least moved back into expansionary territory. This promises growth again in services.

The improving sentiment follows a noticeable acceleration of the vaccination campaign. With the expansion of vaccine availability, the vaccination rate has now also increased significantly. Around 5% of the population is currently being vaccinated per week. This means that the euro area has now caught up with the US and the UK in terms of the pace of vaccinations. In the US, the vaccination rate is even declining somewhat, as fewer and fewer people are willing to be vaccinated. But we are still a long way from that point in Europe, where vaccination campaigns are still running at full speed. And the fruits of this strategy are already becoming apparent. Infection rates are clearly on the decline. The experience of the Anglo-Saxon countries shows that, despite the increasing re-opening of the economy, vaccinations are leading to a further decline in the incidence of infection. The EU's plan to vaccinate a sufficient proportion of the European population by the third quarter – about two-thirds are needed for so-called herd immunity – seems quite realistic and gives justified hope for a normalisation.

The recovery is also making itself felt in corporate earnings, which rose strongly across the board in the first quarter – both in Europe and in the US. However, this was not a big surprise given the (expected) economic development. What was surprising, on the other hand, was the number of companies that were able to significantly exceed the high expectations.

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However, it is also noteworthy that despite this, the prices of European shares were unable to make any further appreciable gains. In April, European stock markets tended to move sideways, while US markets caught up. While at the end of the first quarter European indices were in some cases well ahead of their US counterparts, the latter have now caught up. The progress made in terms of fiscal and monetary impulses and the resulting economic recovery have therefore already been priced into current share prices to a large extent. A certain phase of consolidation after the strong rally is not surprising and not problematic. Valuations (price/earnings ratios) are quite high. If the markets now trend sideways a bit while earnings expectations continue to rise, which is currently the case, valuation overhangs will gradually be reduced – quite a healthy development.

Investors can then expect new impetus from the fall onwards. What will be important is how government investment programmes are designed, how sustainable the growth trend can prove to be next year as well, and how central banks will calibrate their monetary policy accordingly. As the pace of growth increases, inflation rates will certainly also rise. However, we do not expect inflation to rise sharply in the long term. Yields, although rising moderately, should therefore remain low next year – at least in a historical context. This should continue to support equities.

But even if shares tend to move sideways in the near future, the economic upswing will continue as the vaccination campaign progresses. The economy in the euro zone is expected to grow by around 1.75% in the current quarter – and by a good 2% in the third quarter. Summer is coming.

In Focus

Value or growth – or value and growth?

The recovery rally in equities over the past few months has brought into focus a topic that many investors argue about passionately – namely, which investment style is more attractive, value or growth? The background to this debate is that in recent months, so-called value stocks have risen more than growth stocks. For example, on a global level (measured by the corresponding MSCI indices), value stocks have increased by about 12% since the turn of the year, while growth stocks have increased by only 6%. This is particularly interesting in light of the fact that over the past few years, the trend has tended to be the other way around, with growth stocks outperforming value stocks, in some cases significantly. What is behind this development?

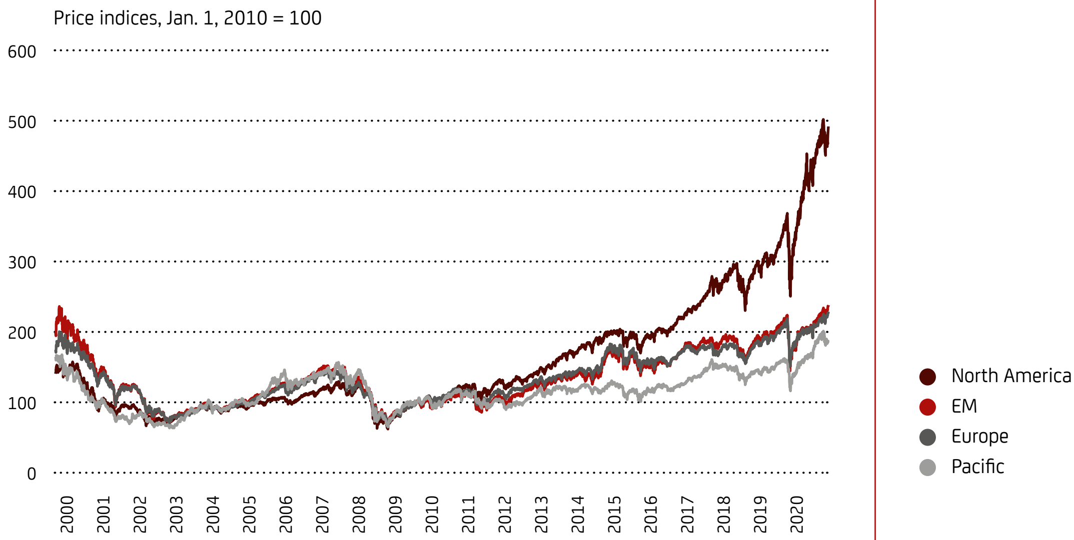
To begin the discussion, let's first shed some light on the considerations behind these terms. The universe of investable stocks is very large. That is why investors try to classify the individual stocks into different categories in order to simplify analysis and identify common trends. In doing so, they try to form groups that are as homogeneous as possible, in which the specific characteristics of a group come to bear as succinctly as possible. A very significant classification logic is that by sector. On closer analysis, for example, one finds that the performance of sectors changes in different phases of the economic cycle. Investors refer to this as sector rotation, since, for example, different sectors are preferred in the early phase of an economic recovery than in the mature phase of the cycle.

The classification into the investment styles value and growth is also a categorisation, and here, too, such a rotation has recently occurred. Growth stocks, which strongly outperformed for a long time, but particularly during the peak of the crisis, have – at least temporarily – fallen behind value stocks.

Both charts 1 and 2 show the price performance of the respective variants since the turn of the millennium for the four major regions North America, Europe, Pacific (developed countries) and Emerging Markets. All indices are indexed to 100 as of January 1, 2010, and the y-axes are adjusted so that both charts cover the same value range, which facilitates the graphical comparison.

Growth stocks are stocks that show high earnings or sales growth and/or a high price/earnings ratio. Growth stocks are those where the business model of the underlying company or the sector in which it operates allows for high growth. This means that business performance is usually less dependent on changes in economic growth. Conversely, value or substance stocks are stocks of companies that benefit more than average from economic growth and therefore usually have a stronger cyclical component. They are typically mature companies, have steady growth rates, and exhibit relatively stable sales and earnings. In addition, value stocks tend to offer more favourable valuations (e.g., price/earnings or price/book ratios) than their growth counterparts.

1. MSCI GROWTH INDICES BY REGION

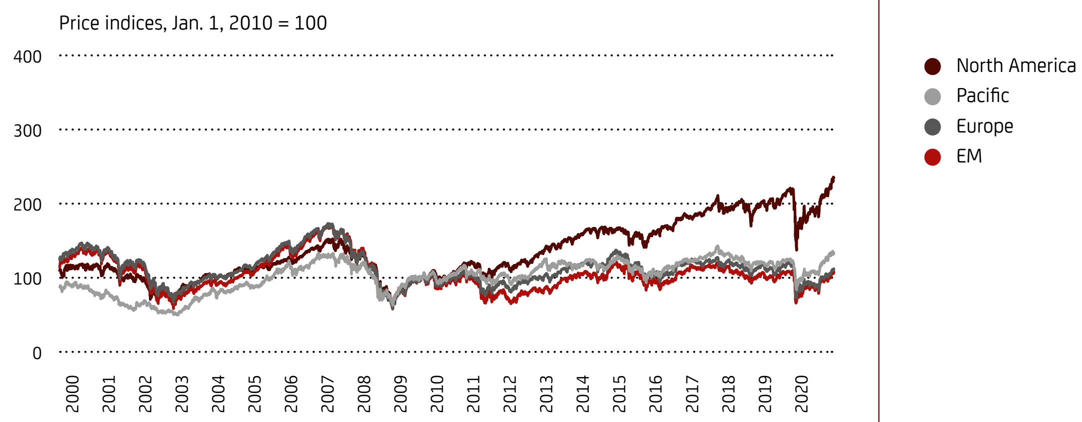


Source: Refinitiv Datastream, UniCredit Wealth Management. Please note: Past performance and forecasts are not reliable indicators of future performance. The indices may not be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance.

The following insights can be drawn from these charts. Over the past decade, growth stocks have on average outperformed their value counterparts in every region. Moreover, in each case, North American stocks have significantly outperformed the other regions. Compared to the difference between North America and the other regions, the performance differences between the remaining regions are rather small. Furthermore, it can be seen that at the current margin, the price indices for growth stocks have already left the pre-pandemic levels (recognisable by the sharp drop) behind. The growth stocks in North America even exceed this level very significantly. Value stocks, on the other hand, have just reached the pre-crisis level or are only just slightly above it. North American growth stocks have increased fivefold since January 1, 2010. By contrast, the corresponding value stocks have "only" risen by a factor of 2.5.

However, a direct performance comparison between value and growth stocks can be misleading, as the two categories sometimes have different risk levels. Growth stocks often fluctuate more strongly. For a comparison, one should therefore also consider a risk adjustment.

2. MSCI VALUE INDICES BY REGION



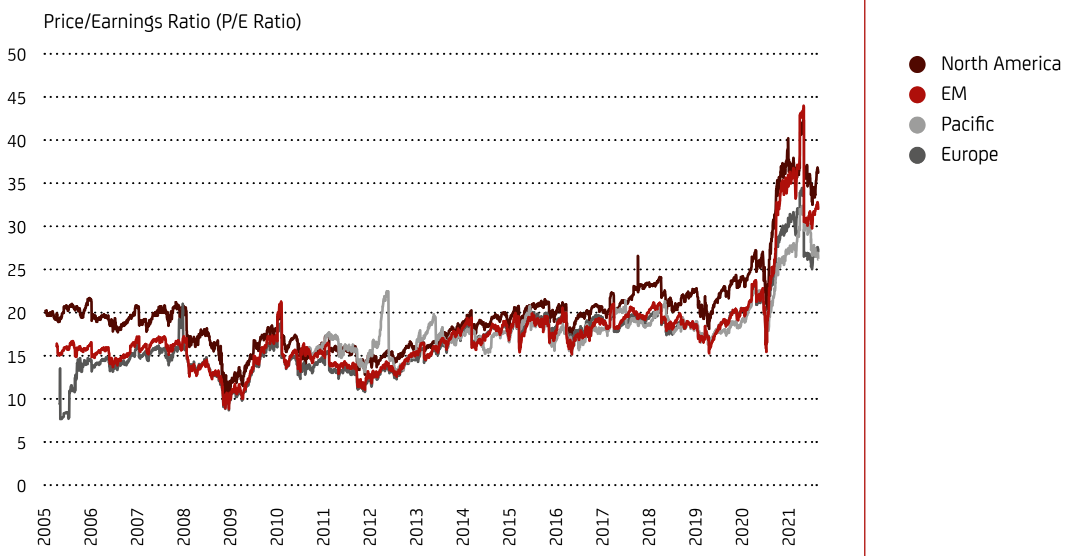
Source: Refinitiv Datastream, UniCredit Wealth Management. Please note: Past performance and forecasts are not reliable indicators of future performance. The indices may not be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance.

What are the differences between value and growth categories? The criteria are not standardised. We refer here to methodology from MSCI . Valuation criteria such as price-to-book ratio, price-to-earnings ratio (P/E ratio) and dividend yield on the one hand, and fundamental parameters indicating growth potential on the other hand (such as short- and long-term earnings and sales growth), are used to classify companies. The value category includes companies with favourable valuations, while companies with strong earnings and sales growth are included in the growth category. The classification is made in such a way that the two resulting categories comprise roughly the same market capitalization. Sometimes, however, it is not possible to make a clear allocation, so that a pro rata allocation is then made.

MSCI Inc. (formerly Morgan Stanley Capital International and MSCI Barra) is a New York City-based US financial services company that provides financial services. These include, in particular, international equity indices, but also portfolio and risk analysis and research.

Due to the half-by-half allocation and the strong performance of some tech stock market heavyweights in the US, the top 10 companies in the US Growth Index comprise about 50% of the market capitalization of the index – a remarkable concentration. Given the classification based on criteria such as low price-to-book ratios for value stocks, it is not surprising that the average P/E ratio of value stocks (see chart 4) is lower than that of growth stocks (see chart 3). Recently, however, the average valuations of value stocks have also reached new 15-year highs. In the wake of the pandemic, this can be explained by negative real yields, among other factors (see also our March 2021 Monthly Outlook). However, the development of P/E ratios in the growth segment was particularly remarkable.

3. VALUATION FOR MSCI GROWTH INDICES BY REGION

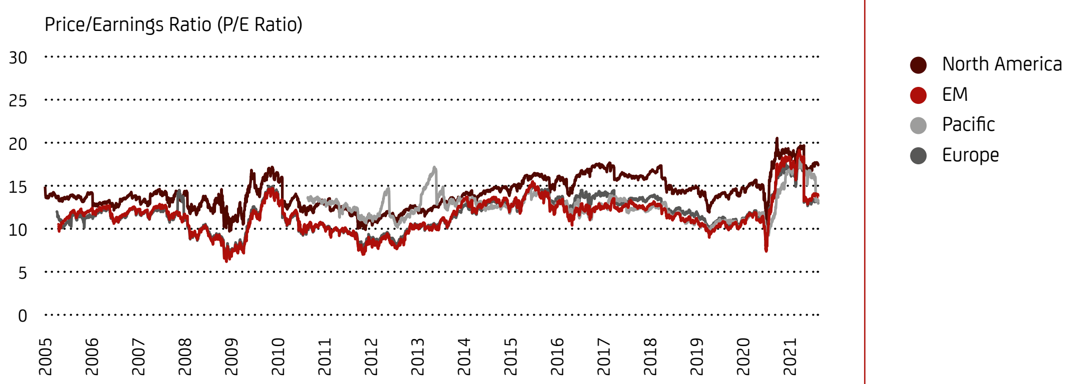


Source: Refinitiv Datastream, UniCredit Wealth Management. Please note: Past performance and forecasts are not reliable indicators of future performance. The indices may not be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance.

An investment strategy based purely on the classification according to the above methodology definitely entails risks. In addition to the aforementioned classification, investors should also get an idea of the quality and plausibility of the relevant business models. For example, the P/E ratio of a company may have fallen sharply because it has fundamental problems. In such a case, it is certainly worth considering whether this company should be assessed as particularly favourable, as a categorisation as a "value stock" would suggest. Conversely, the question arises as to whether a company can also fulfill the growth expectations that lead to it being included in the growth category.

These examples should underline that a rule-based allocation to the categories mentioned must be supplemented with further qualitative considerations regarding the entrepreneurial perspectives when making a concrete investment decision.

4. VALUATION FOR MSCI VALUE INDICES BY REGION



Source: Refinitiv Datastream, UniCredit Wealth Management. Please note: Past performance and forecasts are not reliable indicators 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.

In summary, the recent "outperformance" of the value category is remarkable and raises questions as to whether a new trend is establishing itself here. This is not a surprising or unexpected development in the wake of the recovery from the pandemic. During the crisis, many business models belonging to the growth category benefited greatly, whereas companies in the value category were sometimes heavily burdened. The post-Covid recovery is now partially reversing this trend. And developments such as infrastructure investment programmes, which often have a positive impact on companies in the value category, may continue to have an impact.

However, investors should also not neglect the fact that many companies in the growth category are not small start-ups with uncertain prospects, but sometimes giants with very promising business models. As is so often the case, the truth likely lies in the middle, so a sensible mix of companies from both categories should be purposeful. In any case, however, attention should be paid to the quality and plausibility of expectations.

Macro & Markets

Global economy set for a spring awakening

Hope is spreading, hope that the global economy is picking up strongly right at the eve of spring – and this time, unlike last summer, be truly sustainable. Economic growth, led by the US, should accelerate noticeably in the current quarter. At the same time, inflation rates are also heading north towards or even above central banks' targets. Stock markets had begun to price in a global reflation scenario months ago, and had started to chase record highs without being put off by Covid-induced setbacks at the turn of the year – and rightly so, as it now seems to be turning out. But, first things first.

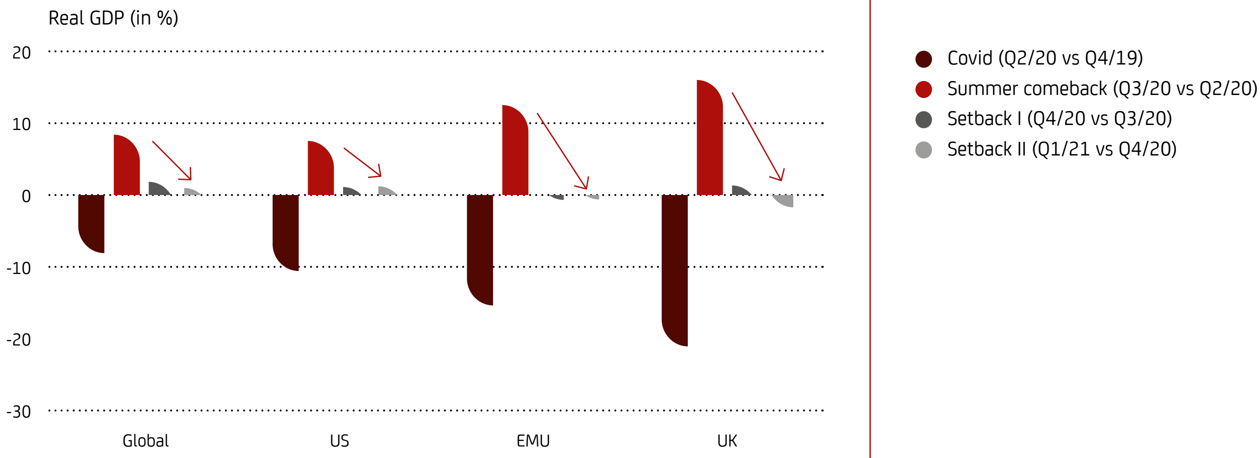
Europe: A bumpy start to the year

What had already been hinted at through timely economic figures is now official: global economic growth almost halved in the first quarter. Besides Asia, Europe was the main reason for the slowdown. The euro area, which was already in reverse gear towards the end of 2020, slid fully into recession at the beginning of the year. The third Covid wave, with its restrictions on mobility and activity, had a severe impact on services and private consumption as well. This was enough to cause EMU-wide economic output to shrink by 0.6% compared to the previous quarter (-0.7% q-o-q in Q4 2020). Manufacturing, which held up well, was able to prevent an economic downturn like last spring, but not the setback (see chart 5).

Reflation in the narrower sense refers to monetary and fiscal policy measures aimed at boosting overall economic output or stimulating consumption and investment, respectively. This is intended to minimise the risk of impending deflation as a result of huge economic uncertainty or a recession. However, the term also describes just the economic recovery after a (growth) recession.

Two quarterly GDP contractions in a row mark a recession. And because the previous one happened less than a year ago, 2020/21 is being referred to as a double dip recession.

5. GLOBAL ECONOMY: SETBACKS AT THE TURN OF THE YEAR



Source: Refinitiv Datastream, UniCredit Wealth Management

What is remarkable with the European figures is the unusual regional spread, as this time it was Germany (-1.7% q-o-q) that brought the euro area down. This has rarely happened over the last few decades. It seems that the relatively late and half-hearted lockdown took its revenge here.

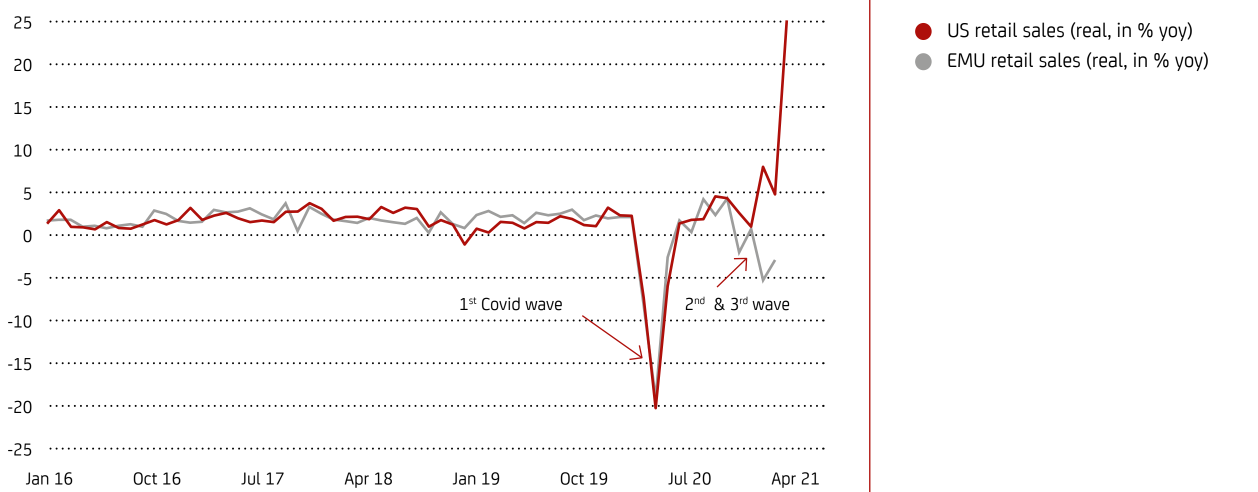
In contrast, the contraction in Italy (real GDP Q1/21: -0.4% q-o-q) and Spain (-0.5%) were comparatively limited. In France, real GDP even posted a small gain (+0.4%).

Incidentally, the UK also had to put up with even greater GDP losses than Germany (-2.2% q-o-q, forecast). At the start of the year, the UK economy was not only squeezed by Covid, but also on account of the Brexit-induced slump in exports. However, it was fortunate that vaccinations in the UK had progressed very quickly, which prevented the worst from happening, in our view.

The US, on the other hand, was able to avert another setback and, with Q1 GDP growth of 1.6% q-o-q (6.4% annualised), at least managed to maintain its solid growth rate from the end of last year. The decisive factor for the relative outperformance in the US was dynamic private consumption. Real retail sales shot up in the past few months, while they shrank again in the EMU (see chart 6).

However, the official growth figure understates the underlying dynamic in Q1. The destocking alone shaved 2.5pp from GDP. Final domestic demand (excluding inventories & exports), to the contrast, more than doubled to roughly 10%.

6. PRIVATE CONSUMPTION PUSHING THE US ECONOMY

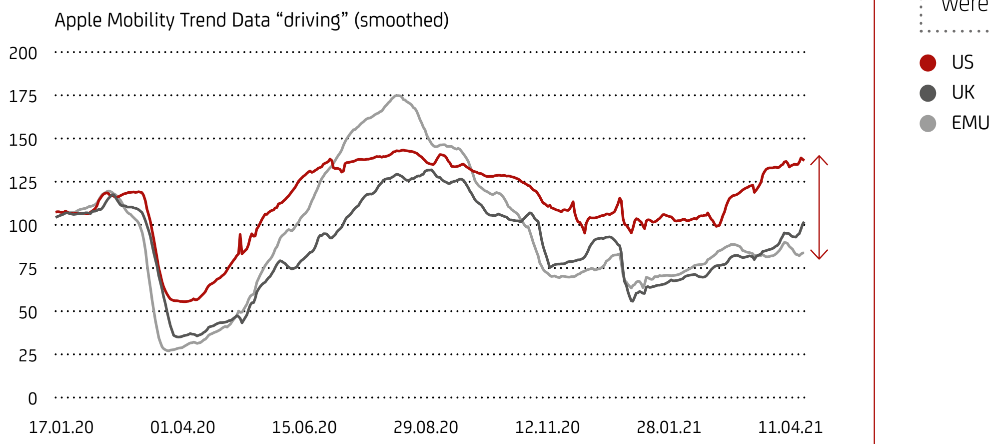


Source: Refinitiv Datastream, UniCredit Wealth Management

US consumers particularly benefited from the rapid disbursement of generous stimulus payments (Covid cheques). The brisk vaccination progress and the ongoing increase in mobility (see chart 7) are also likely to have boosted consumers' mood in particular, as the US was spared a third pandemic wave.

At the beginning of January, Covid cheques of USD 600 per head (including children) were paid out up to an annual income of USD 75,000 (single) or USD 150,000 (family). From mid-March, another USD 1,400 were added.

7. MOBILITY: US AHEAD



Source: www. covid19.apple.com/mobility, Refinitiv Datastream, UniCredit Wealth Management

Accelerating growth cum growth rotation: the US will replace China as the global growth engine

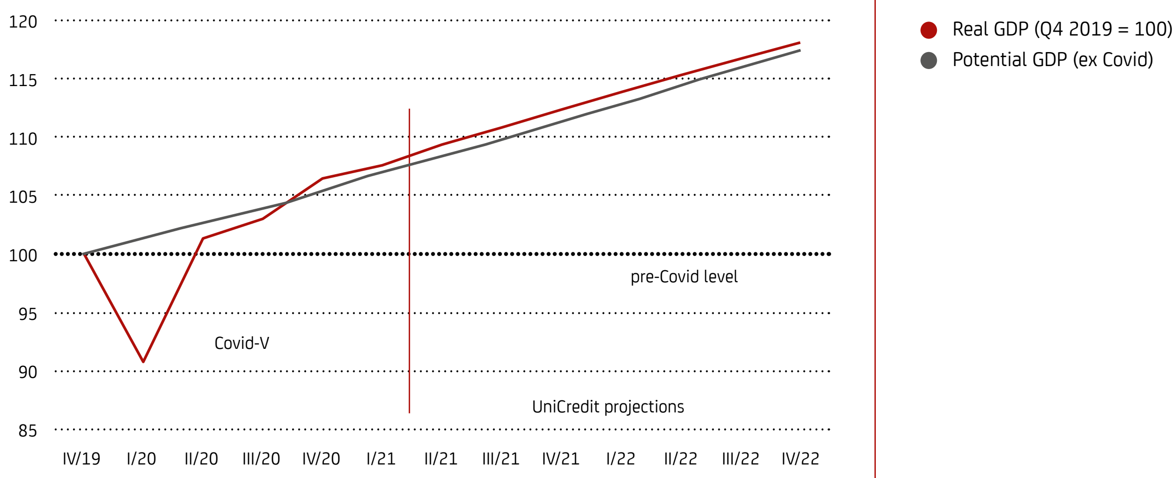
In our opinion, what is more important than looking in the rear-view mirror, is the view ahead. And we believe it looks promising – because the global economy is substantially picking up speed again. At the same time, growth is rotating. What had already been hinted at in recent months is likely to come to life this quarter: the well-established industrial economies are overtaking the Emerging Markets (EM) as the main source of global growth – with the US entirely replacing China as the prime global growth engine.

It is quite unusual for an established industrial economy to grow faster than an Emerging Market economy like China. After all, the growth potential, i.e. the growth rate given full utilisation of labour as well as capital, is much higher there. For China, potential growth is estimated at 5.50%-5.75%, whereas for the US it is only 1.25%-1.50%.

However, China's slowdown in growth is not a disappointment, but merely the expected normalisation after last year's rapid recovery. China benefited from its first in, first out status. The Chinese economy had already made up for its pandemic-induced slump last spring, when the rest of the world sank into recession. Towards the end of 2020, Chinese real GDP even reached the level that would have prevailed if there had been no Covid crisis (trend extrapolation, see chart 8).

The rapid recovery was partly due to Beijing's massive fiscal and monetary stimulus, but also to the surge in foreign demand. After all, in the spring of 2020, China was effectively the only major economy that could meet the swelling global demand for medical and technological goods.

8. CHINA'S CRISIS MANAGEMENT: A PERFECT V



Source: Refinitiv Datastream, UniCredit Wealth Management

As a result, we believe that economic growth will likely begin to return to its potential path in the near term – especially since Chinese authorities have begun to reduce their fiscal and monetary stimuli this year.

However, it is not only due to China that the Emerging Markets as a group are now losing their global growth leadership to the well-established industrialised countries. Covid is out of control in the other two EM heavyweights, India and Brazil, causing the economies to plunge into recession. And a quick recovery is not on the cards, as the vaccination campaign is making very little headway.

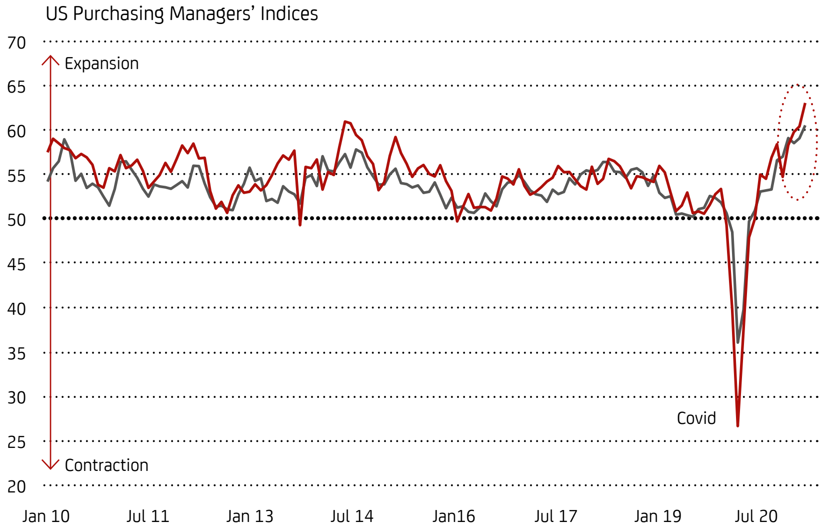
In the short term, especially after a strong previous quarter, growth can even undershoot. This is likely to have been the case in China in Q1, when growth slipped below potential to around 4.50% annualised. One reason for this may have been the massive travel restrictions during the Chinese New Year holiday. Normally, millions of Chinese people leave the cities to return to the counties they grew up.

US spring boom

Quite the opposite is true of the US. The rapid progress in vaccinations – originally, President Biden wanted to vaccinate a total of 100 million Americans in his first 100 days in office, but it has now become 200 million – is only one reason why the US has taken over as the world's growth powerhouse. Rising mobility indices and the progressive re-opening of the economy, respectively, but above all the gigantic fiscal impulse of almost USD 3 trillion this year, have also contributed to the fact that an increasing number of timely US economic indicators are really booming. For example, the closely watched purchasing managers' sentiment indices have risen to new cyclical highs more recently (see chart 9). Even more and unlike in Europe, there is no noteworthy divergence between the manufacturing and services sectors.

For the details on the size and growth effects of the US fiscal stimuli so far, please see our April Monthly Outlook. More recently, President Biden proposed an additional USD 2.3 trillion American Jobs Plan as well as USD 1.8 trillion American Family Plan.

9. UPBEAT SENTIMENT IN THE US – ACROSS SECTORS

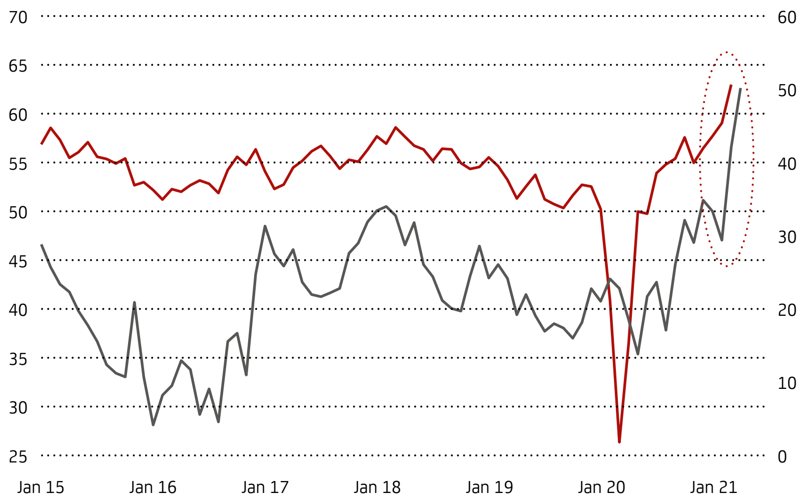


Source: Refinitiv Datastream, Markit, UniCredit Wealth Management

This also applies to the so-called hard economic data, such as the already mentioned consumption indicators, industrial production, the construction and real estate sector as well as labour market figures. And since government consumption should also pick up further and inventories need to be restocked, annualised US GDP growth could reach double digits this spring. A far above-average gain can also be expected for the summer, if leading indicators do not suddenly lose their predictive power. They also marked new cyclical highs more recently (see chart 10).

Both the unemployment rate and initial claims for unemployment benefits have recently fallen to their lowest levels since the outbreak of the pandemic. However, (as lagging indicators) they are still above their pre-crisis levels.

10. LEADING INDICATORS SIGNALING CONTINUED US ECONOMIC UPSWING



Source: Refinitiv Datastream, Markit, UniCredit Wealth Management

The flip side of the booming US economy is rising inflation rates, which have now reached not only the upstream stages but also the consumer. However, they are unlikely to reach regions that should cause concern among investors and the US Federal Reserve (Fed), respectively. Moreover, the rise in inflation will probably only be temporary (normalisation). It is of no wonder, then, that the Fed again demonstrated a relaxed attitude at its most recent meeting. Its monetary policy stance should remain unchanged for some more time to come. It will probably be autumn before the Monetary Policy Committee even begins to discuss tapering.

For details on the Fed policy outlook, please see the Economic Flash by our US Chief Economist, Daniel Vernazza: Fed: What would constitute "substantial further progress"?, as of April 27, 2021.

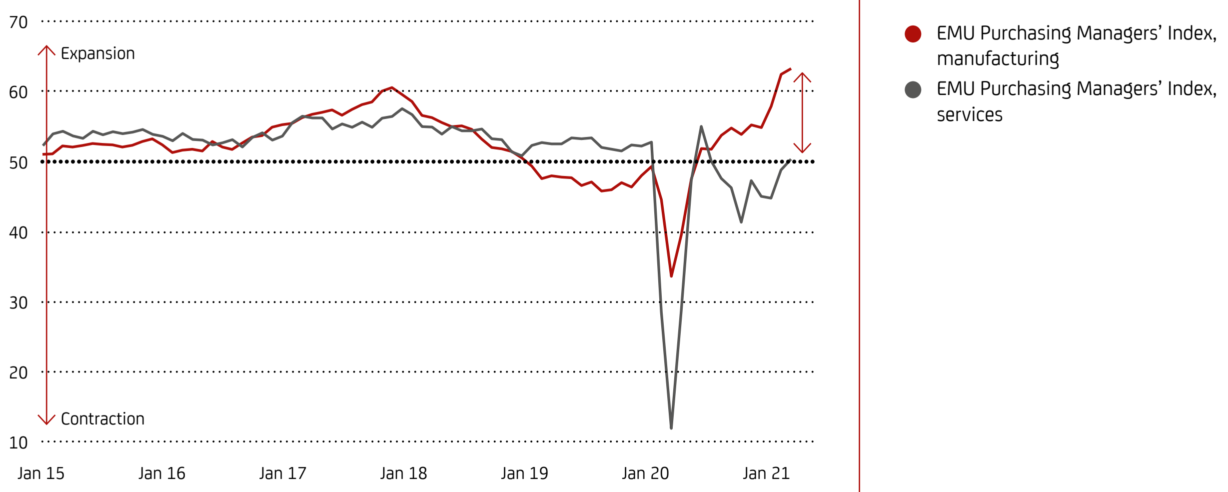
EMU still lagging behind, but could take off in the summer

Currently, the euro area cannot keep up with the US growth dynamic – not yet. But here, too, the signs are already pointing to a substantial improvement in Q2. The impulse is primarily coming from the noticeable revival of the global economy (benefiting export industries), monetary policy (much more European Central Bank purchases under the PEPP pandemic programme) and, with some reservations, from new, fiscal measures (including supplementary budgets).

In March, the ECB increased its net purchases under the PEPP by a good 22% to 73.5 billion EUR. The volume is likely to have risen sharply again in April.

In contrast, the third Covid wave and the necessary lockdowns are still having a considerable dampening impact, especially on service sectors. This is also reflected in the corresponding purchasing managers' indices. Recently, the latter has been trending upwards again. However, it just rose to the critical threshold of 50, which separates expansion from contraction. Moreover, the extraordinarily wide spread to its manufacturing counterpart has not really narrowed (see chart 11).

11. EMU SERVICE SECTOR SENTIMENT STILL SUBDUED

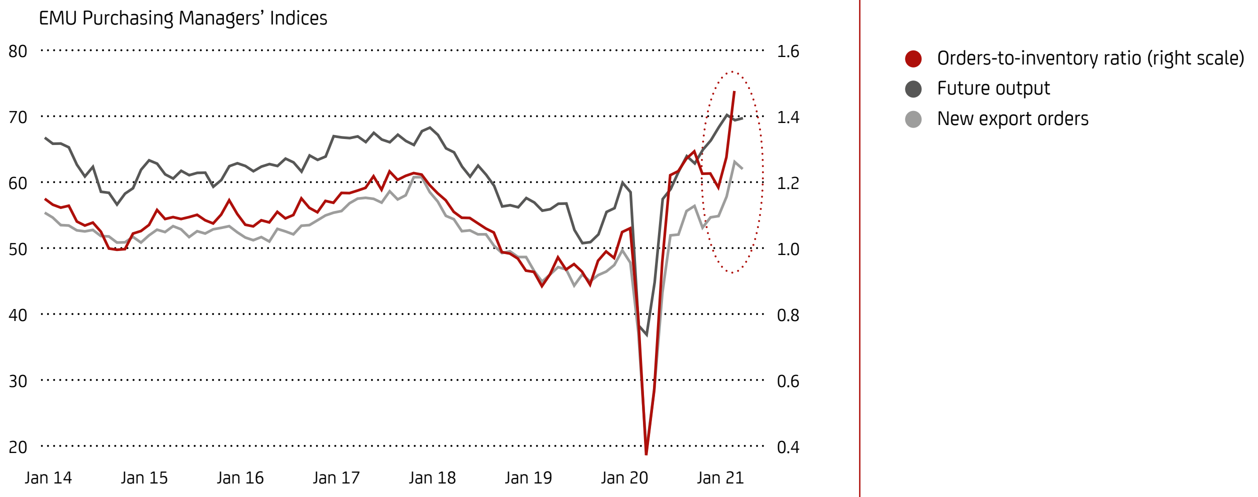


Source: Refinitiv Datastream, Markit, UniCredit Wealth Management

All in all, EMU-wide GDP should therefore grow noticeably again in the current quarter and make up for the losses at the beginning of the year. In the summer, however, we believe the euro area should really kick off. This is implied by leading indicators, which have recently soared to new cyclical highs (see chart 12).

However, Q2 GDP growth of an estimated 1.25% q-o-q, or 5% annualised, is likely to be only half that of the US.

12. THREE GRAPHS, ONE MESSAGE: SUMMER HOPES AHEAD



Source: Refinitiv Datastream, Markit, UniCredit Wealth Management

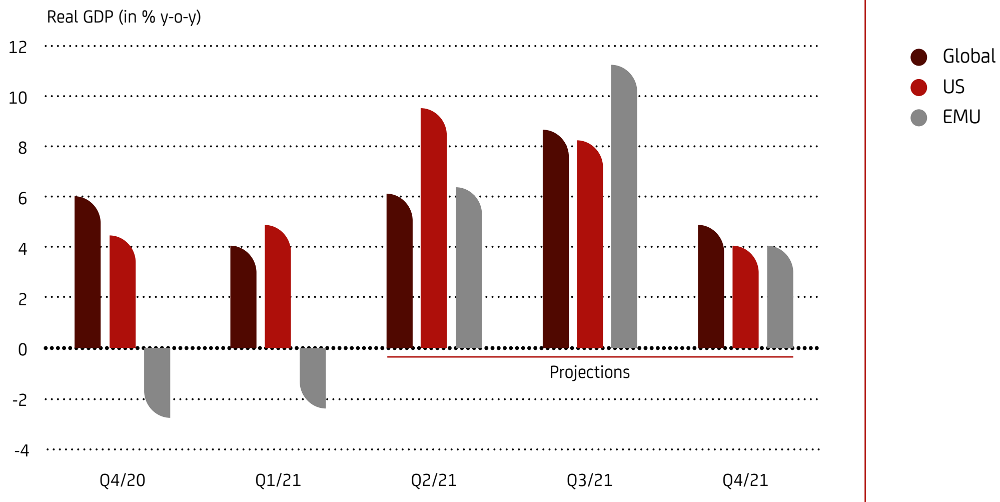
But also analytically, there is much to suggest that GDP growth this summer could well be into the double digits in annualised terms. For example, the vaccination campaign, which indeed got off to a slow start, is finally gaining momentum. Recently, rates have risen exponentially across the EMU. The hope that all adults will be offered vaccinations by the summer seems to be coming true.

Together with warmer temperatures, this should allow for a reduction in lockdown measures towards the end of the quarter. This would in turn also be the starting signal for the final easing of the consumption brakes. Pent-up demand (especially for services such as those offered by hotels/restaurants and entertainment sectors) combined with a rapidly rising buying mood, and a decline in savings rates, should cause personal spending to swell notably in the summer quarter.

In addition, the disbursement of the previously blocked funds from the €750 billion European Reconstruction Fund (Next Generation EU) can begin after the German Constitutional Court has given the green light. This provides a (fiscal) tailwind. Therefore, it is quite possible that the euro area will catch up with the US in the second half of the year and even surpass it in the short term (see chart 13). All this augurs well for a very nice summer – even if some downside risks still remain.

For details of the German Constitutional Court ruling and possible implications, see the Sunday Wrap by our Group Chief Economist and Global Head of CIB Research, Erik. F. Nielsen, as of April 25, 2021.

13. EUROPE TO CATCH UP IN H2 2021



Source: Refinitiv Datastream, UniCredit Wealth Management

Asset Allocation

Equities remain supported by global growth acceleration

ASSET		INVESTMENT UNIVERSE	INVESTMENT VIEW: NEGATIVE	NEUTRAL	POSITIVE
MAIN ASSET CLASSES		Global Equities	○	○	●
		Global Bonds	○	●	○
		Cash	●	○	○
		Alternatives	○	●	○
MAIN ASSET CLASSES IN DETAIL	EQUITIES	US	○	●	○
		Europe	○	○	●
		Pacific (DM[1])	○	●	○
		EM[2]	○	○	●
	BONDS	EMU Governments	●	○	○
		Non-EMU Government Bonds	○	●	○
		EUR IG Corporate Bonds	○	○	●
		HY Corporate Bonds	●	○	○
		EM Bonds	○	○	●
	COMMODITIES	Oil	○	●	○
		Gold	○	○	●

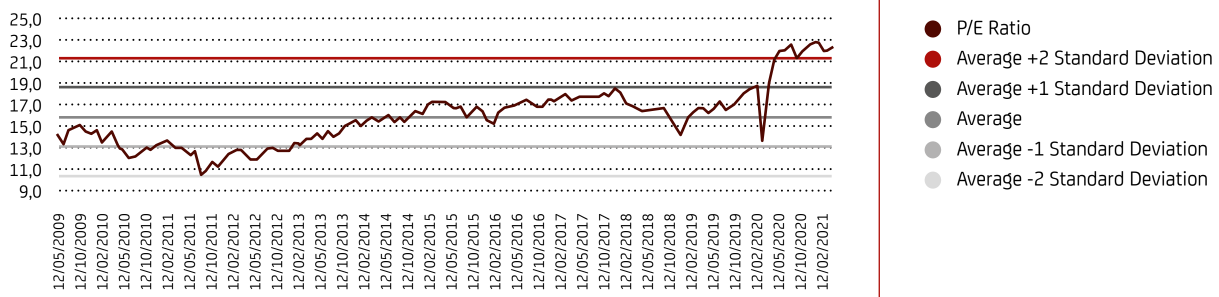
[1]DM = Developed Markets (Australia, Japan, Hong Kong, New Zealand, Singapore)
[2]EM = Emerging Markets

We maintain our positive stance on risky assets, given that the global recovery is strengthening with 5.8% GDP growth predicted by Bloomberg Consensus for 2021 – boosted in part by the fiscal stimulus-driven growth in the US (6.2%) and the robust growth in China (8.5%). In the Eurozone, the improving health situation fuels hope of a gradual normalisation of the economy, which should likely close the year after the double dip in the first quarter, with growth of around 4% (4.1% according to Bloomberg Consensus). The April composite PMI (53.7 versus 53.2 in March) testifies to the improving macro momentum in the Eurozone, with services for the first time in eight months back above 50 (50.3 versus 49.6 in March) and manufacturing in good health – especially in Germany, at 63.3 versus 62.5, driven by new orders and production. And there is still room to strengthen the fiscal stimulus, as hoped for by the OECD and IMF, as the recovery to pre-COVID levels is only expected at the end of 2022.

Consequently, we expect the cyclical rotation to continue in Q2 2021 and value sectors to remain well supported. We are maintaining our overweight stance on European equities where these sectors have important weightings.

At the same time, the Q1 2021 earnings season is delivering positive surprises both in the US and in Europe. This is key, as equity valuations in absolute terms are not cheap, with the MSCI North America forward 12-month P/E ratio at 22.4x versus the 10-year average of 15.8x.

14. MSCI NORTH AMERICA FORWARD 12-MONTH P/E



Source: MSCI, UniCredit Wealth Management

In detail, as of April 26, 18% of US companies and 16% of European companies reported their quarterly results, the first evidence showing significant growth in profits, supported by accelerating economic growth and a favourable comparative basis. Although expectations were high, the results are positively surprising both in the US and Europe, favouring an upward revision of estimates. For the S&P 500 at the aggregate level the earnings estimate for Q1 is now at $42, up 27% year-on-year, compared to expectations of a 13% increase at the beginning of the year.

In the US, 73% of companies beat expectations with earnings growth of 64% and a positive surprise of 37%. Financials and materials were the main contributors, while energy and airlines were the main detractors. What was also significant was the growth in revenues which, for those companies that have already reported, stood at 6% with a positive surprise of 5%, and with eight out of 11 sectors showing growth in revenues.

15. S&P 500 Q1 2021 EARNINGS PER SHARE (EPS) SUMMARY

	No. companies reported / Total	% reported	% of companies Beating EPS estimates	% of companies Missing EPS estimates	EPS surprise	%yoy EPS growth	% of companies Beating Sales estimates	% of companies Missing Sales estimates	Sales surprise	%yoy Sales growth
S&P500	**92 / 498**	**18%**	**73%**	**24%**	**37%**	**64%**	**77%**	**16%**	**5%**	**6%**
Energy	4 / 22	18%	75%	25%	-	-11%	75%	0%	15%	-4%
Materials	2 / 28	7%	100%	0%	82%	104%	100%	0%	16%	20%
Industrials	17 / 73	23%	53%	41%	-	-335%	47%	35%	-5%	-24%
Discretionary	9 / 61	15%	67%	33%	6%	70%	67%	33%	4%	22%
Staples	7 / 32	22%	71%	29%	10%	11%	100%	0%	2%	5%
Healthcare	11 / 63	17%	73%	18%	18%	25%	73%	27%	3%	10%
Financials	30 / 65	46%	83%	17%	79%	190%	93%	3%	15%	14%
IT	4 / 74	5%	75%	25%	12%	20%	75%	0%	5%	9%
Com. Services	4 / 22	18%	100%	0%	13%	11%	100%	0%	2%	5%
Utilities	2 / 28	7%	50%	0%	14%	13%	50%	50%	-12%	-19%
Real Estate	2 / 29	7%	50%	50%	-8%	10%	50%	50%	3%	10%
Ex-Financials & Real Estate	**60 / 403**	**15%**	**68%**	**27%**	**8%**	**6%**	**70%**	**22%**	**3%**	**3%**
Ex-Energy	**88 / 476**	**18%**	**73%**	**24%**	**37%**	**65%**	**77%**	**17%**	**6%**	**7%**

Source: JP Morgan, UniCredit Wealth Management

In Europe, 68% of Stoxx600 companies that have already reported beat expectations with EPS growth of 47% and a positive surprise of 24%, with eight out of 11 sectors showing double-digit growth. At the revenue level, 67% of companies beat expectations with 3% growth and a positive surprise of 5%.

16. STOXX 600 Q1 2021 EARNINGS PER SHARE (EPS) SUMMARY

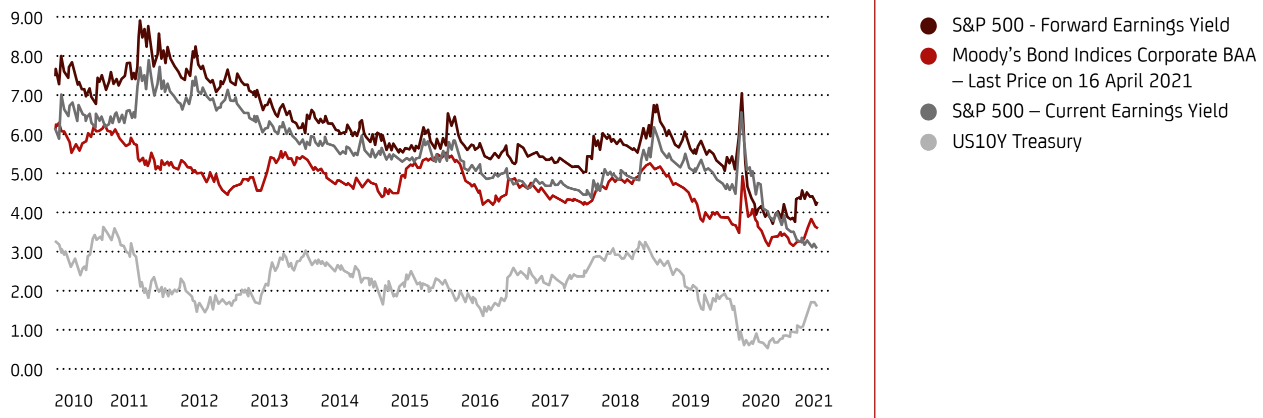
	No. companies reported / Total	% reported	% of companies Beating EPS estimates	% of companies Missing EPS estimates	EPS surprise	%yoy EPS growth	% of companies Beating Sales estimates	% of companies Missing Sales estimates	Sales surprise	%yoy Sales growth
Stoxx600	**72 / 438**	**16%**	**68%**	**32%**	**24%**	**47%**	**67%**	**32%**	**5%**	**3%**
Energy	1 / 15	7%	0%	100%	-19%	-10%	0%	100%	-4%	1%
Materials	7 / 36	19%	33%	67%	18%	33%	67%	33%	2%	3%
Industrials	10 / 83	12%	33%	67%	21%	56%	60%	40%	3%	6%
Discretionary	11 / 47	23%	100%	0%	33%	79%	80%	20%	15%	9%
Staples	8 / 35	23%	-	-	-	79%	50%	33%	2%	-3%
Healthcare	7 / 43	16%	100%	0%	2%	70%	83%	17%	2%	-2%
Financials	11 / 66	17%	86%	14%	14%	44%	86%	14%	5%	-
IT	9 / 29	31%	83%	17%	40%	55%	67%	33%	-1%	4%
Com. Services	5 / 32	16%	100%	0%	6%	10%	60%	40%	0%	-1%
Utilities	1 / 26	4%	100%	0%	4%	-22%	0%	100%	-3%	-15%
Real Estate	2 / 26	8%	0%	100%	-9%	8%	50%	50%	-1%	0%
Ex-Financials & Real Estate	**59 / 346**	**17%**	**65%**	**35%**	**27%**	**49%**	**65%**	**33%**	**4%**	**2%**
Ex-Energy	**71 / 423**	**17%**	**70%**	**30%**	**24%**	**48%**	**68%**	**31%**	**5%**	**3%**

Source: JP Morgan, UniCredit Wealth Management

Looking forward, we expect equity returns to be driven more by earnings growth than by interest rates reduction, as it happened in 2020. In fact, while developed markets central banks are set to remain accommodative this year, in the Emerging Markets the rates hiking cycle is already playing out, with central banks of Russia and Brazil increasing their official rates. Moreover, China, while not fully pursuing a restrictive monetary policy, is carefully managing a credit tightening.

However, on a historical basis, the equity risk premium i.e. the difference between the earning equity yield and the corporate and government bonds yields, is still compelling enough to justify our strategic positive stance on equities versus credit and govies .

17. RISK PREMIUMS FAVOUR EQUITIES



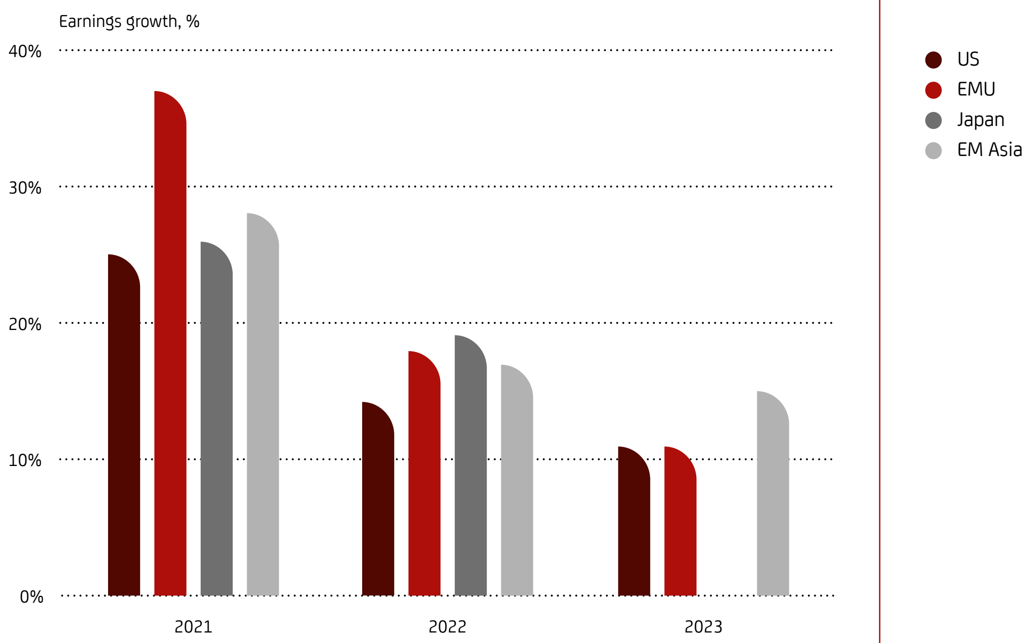
Source: Refinitiv Datastream, UniCredit Wealth Management

We reaffirm our prudent stance on global bonds, as we estimate that bond portfolios returns, net of fees, will merely cover inflation, with real returns at zero or a negative level. As a result, we suggest to shift from bonds into equities. Overall, bondholders appear stuck in a somewhat lose-lose situation, with poor or negative global bond portfolio returns either in the case of a long lasting low nominal yield environment or in the case of rising long-term bond yields due to higher inflation expectations on the acceleration of global growth.

In detail, we remain underweight core EMU governments bonds, reducing the duration and preferring peripheral government bonds such as Italian BTPs, which are supported by the ECB and the Next Generation EU. The Italian Parliament has just approved the spending plan delivered by PM Mario Draghi, comprising EUR191.5 billion of loans and grants from Next Generation EU programme, which is finally addressing the structural reforms to solve the low productivity and low growth issues of the Italian economy. We also focus on inflation-linked bonds as we expect inflation to pick up over the next few months. As for credits, we remain overweight EUR investment grade corporate bonds, given the ECB's support, but we are more aware of their low spread buffer. As for EM bonds, while they have benefitted in recent weeks from weakening US Treasury yields and a weaker USD, we are increasingly selective on countries with fiscal imbalances and high political risk – given our expectations for 10-year US Treasury yield to reach around 2% at the end of the year. We are also more focused on EM corporates versus EM sovereign bonds.

On the hand, equities appear clearly supported by governments' commitment to use fiscal policy to boost GDP growth, benefitting from the multiplier effect especially in the context of the infrastructure spending. The step up of the fiscal policy in the US, with the proposal of a new multi-year fiscal package amounting to USD 2.25 trillion and centered on infrastructures and clean energy (American Jobs Plan), as well as the starting of the first disbursements from the Next Generation EU programme in July, have the potential to structurally boost the GDP trend growth rate. Therefore, we expect the US and Europe growth scenario, and consequently their earnings growth picture, to not remain limited to a cyclical short-term catch-up favoured by base effects, but to rather substantially be enhanced and lengthened by the aggressive fiscal action which is going to be implemented.

18. A LIKELY 2021-2023 DOUBLE DIGIT EARNINGS GROWTH SCENARIO



Source: Amundi, IBES consensus, EPS in USD for country group (World AC, EMU, Emerging). MSCI Indices as at 31 March 2021. Japan data for 2023 is not available.

UniCredit GWM Asset Allocation Stances Summary

Overweight Global equities

The combination of massive fiscal and monetary action and a strengthening global recovery supports equity, despite ongoing uncertainties due to the pandemic.

Overweight European equities

Monetary and fiscal policies are highly expansive. Macro momentum is building up, as also suggested by April's preliminary PMIs. Higher weighting of value and cyclical sectors versus the US equity market and attractive dividend yields, which are well above government and corporate bond yields.

Neutral US equities
Improving growth outlook due to Biden's very expansionary fiscal policy and better health conditions, but less attractive valuation versus non-US areas.

Overweight Emerging Market equities
Growth play, we prefer China and more generally Asian countries where the growth rate is higher. Countries and sectors selectivity among EMs is strongly recommended. Covid resurgence in Brazil and India is a source of concern.

Neutral Pacific equities
Japan is supported by the global recovery, the high weighting of value/cyclical sectors and the overall good management of the pandemic crisis.

Neutral Global bonds
Global bonds are supported by central banks' expansive monetary action, but their valuation, especially for DM government bonds, is not attractive.

Overweight on Euro Investment Grade corporate bonds
Still supported by the ECB's purchases but their tighter spread buffer makes them more vulnerable to rising rates. We prefer financial subordinated debt, given the increased capital buffer of European banks.

Underweight High Yield corporate bonds
Among the risk assets class we currently prefer equities as the lack of market liquidity remains an issue for high yield bonds.

Underweight EMU government bonds
The ECB's monetary policy is highly expansive, but valuations of core government bonds are currently not attractive. We prefer peripheral government bonds such as the Italian BTPs, which are supported by the ECB and the Recovery Fund. Preferring a short duration and selectively increasing the positioning on inflation-linked bonds may prove helpful to deal with the base-scenario of a temporary and moderate increase of inflation.

Neutral on non-EMU government bonds
A tactical move given the high level previously reached by US Treasury yields.

Overweight Emerging Market bonds
The search for yield supports selective buying opportunities but we are now more defensive and selective, given the expectations of still rising long-term US Treasury yields.

Underweight Money Markets
They are not attractive, and should be used mostly as hedging for uncertainty.

Neutral Alternatives
They offer portfolios decorrelation opportunities.

Commodities

Positive Gold

The price of gold is sustained by accommodative central banks' monetary policies and, looking forward, by gold's role of inflation hedging.

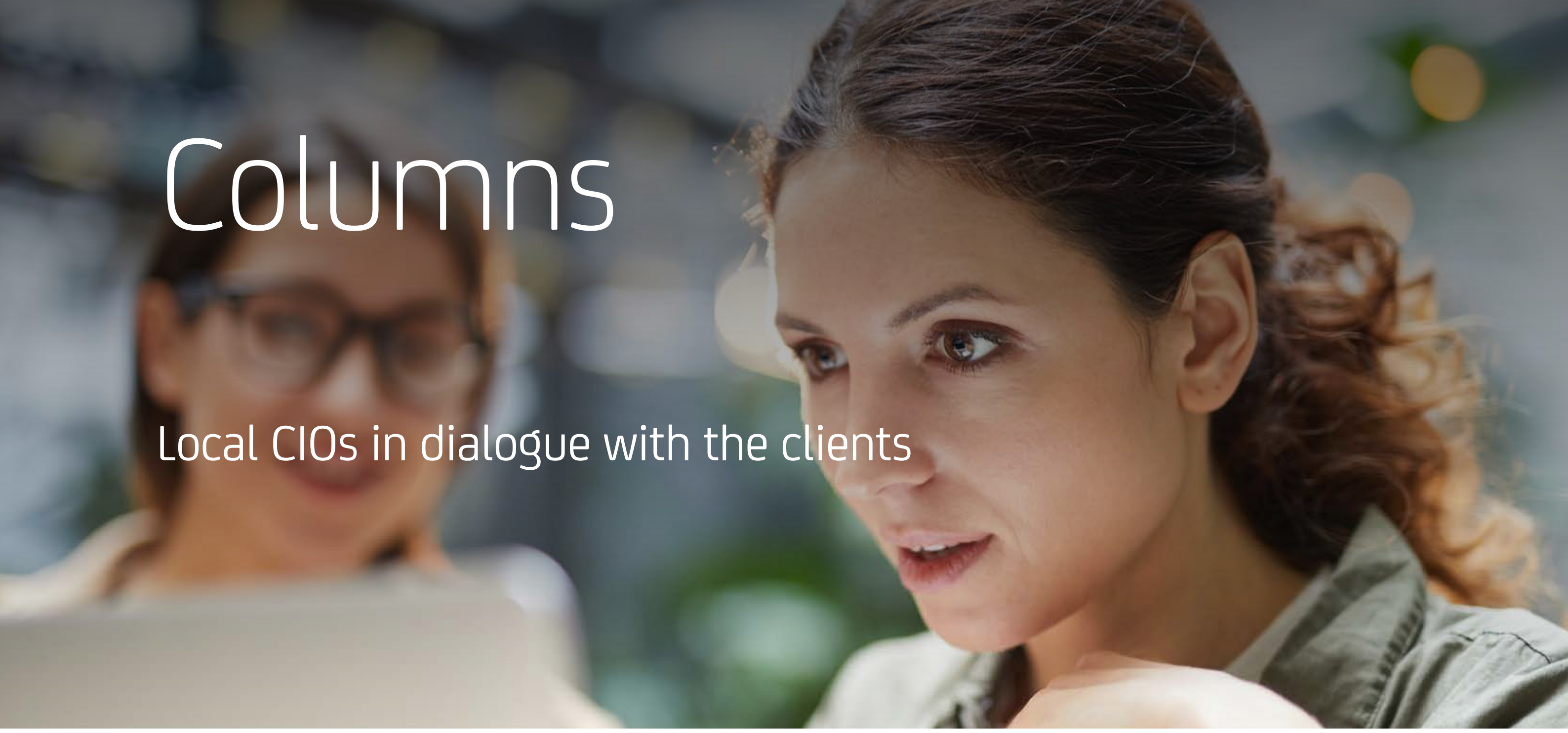
Currencies

EUR/USD

The US dollar has recently weakened against the euro due to the prospects of an economic recovery in the Eurozone following the speeding up of vaccination campaigns, with a relative impact on the interest rate differential. In the longer term, the USD is expected to remain weak due to the so-called twin deficits, trade and above all fiscal, of the US.

Columns

Local CIOs in dialogue with the clients



Answers from Italy

"The USD/EUR underweight is not paying out so far this year. Are you considering a change in stance?"

Following a strong start to the year, in which the USD gained 4% against the euro in the first quarter, the greenback has resumed its weakening in recent weeks – a trend which has been in place since May 2020. The appreciation in the currency pair has been driven by the substantial increase in long-term US Treasury yields, which has resulted in a steepening of the US curve and a widening of the US-Euro yields spread.

However, since the upwards movement in yields has stopped (at least temporarily!), other long-term forces have emerged, namely the trade and the federal budget deficits. The combination of these two indicators is known as the "Twin Deficits" and is rapidly surging, especially due to the US fiscal expansion now approaching 20% of GDP. We are convinced that Biden's approach in this moment is the right answer to the huge challenges that the US economy is facing, internally and externally. In fact, on the one hand there is the absolute need to reabsorb as soon as possible the jobs lost due to the pandemic. We estimate that to get back to pre-Covid growth projections, 11 million jobs are still missing and even if a million jobs were added per month, 11 months are still needed.

On the other hand, competition with China is still the main threat for the US global leadership. That said, the USD could become part of the macroeconomic adjustments needed to maintain the equilibrium. For example, the trade deficit per se generates selling pressures on currency markets as foreign goods bought by the US are paid in USD to foreign exporters, who

Our experts:

Alessandro Caviglia

CIO
Cordusio Sim (Italy)

in turn can decide to buy Treasuries or US stocks. At the same time, foreign exporters also have the need to consume – and for this purpose they can sell USD against their own currency.

Moving to the other "twin", it is true that the additional fiscal stimulus will be internally absorbed, but only partially. In fact, in a global economy, part of USD 4 trillion that will be spent for the American Jobs and Family plans will reach commodity exporter countries for example and again, foreign consumers will have to decide what to do with the USD they will earn. It is true that an increase in taxes could counterbalance USD outflows. But the planned increase is only half of the spending – and moreover, across double the timeframe (15 years versus 8 years). But most importantly, spending has already started, while an increase in taxes is still only on paper.

These are the reasons why we are maintaining our underweight stance on the USD, even during the first quarter when we knew it would be a source of negative relative contribution. We believe that the currency will likely experience long-term progressive weakening.

We also want to highlight some historical patterns that have accompanied previous periods of USD weakness. Obviously, those US sectors with the highest foreign revenue exposures would benefit the most. Specifically, technology and materials share this feature today. Additionally, European and Emerging Markets equities have tended to perform better during phases of USD depreciation. This can be explained with the fact that USD depreciation is usually a sign of increased investor risk appetite, which facilitates capital flows towards riskier markets. Conversely, the USD strengthens during market turmoil, since at the end, it is still the currency of the (current) defending champion.

Answers from Austria

"Given the rise in US inflation and firmer US economic activity, will tapering take place in the near future?"

At the latest Federal Open Market Committee (FOMC) meeting, where members decide on US monetary policy, the FOMC left interest rates, the pace and volume of asset purchases and its guidance unchanged, as expected. The committee improved the economic assessment section from its last statement, saying that indicators of economic activity and employment had "firmed".

Powell made an effort at the press conference to classify the recent rise in inflation as a temporary phenomenon,

Oliver Prinz

Co-CIO Bank Austria and Schoellerbank (Austria) pointing to temporary production bottlenecks as the cause. Importantly for investors, there was no hint in either the statement or Fed Chair Jerome Powell's press conference that the Fed may be approaching tapering conditions. The statement went on to say that the Fed would need to see "substantial further progress" towards its goals to reduce the pace of securities purchases, which Powell said would likely take "some time".

Why is this examination of Fed communications so important? The huge stimulus packages from many countries, as well as the massive monetary support measures from central banks, boosted global stock prices after the pandemic shock in 2020, and further fiscal packages in the US are expected to give the economy a strong boost. In addition to a planned USD 2.25 trillion infrastructure investment package, another USD 1.8 trillion package for education and healthcare was unveiled at the end of April. All these measures are very likely to strengthen employment in the US and raise inflation. A look at the development of US yields suggests that the vehement continuation of expansionary monetary policy is not set in stone. In August 2020, 10-year US government bonds hit a historic low of 0.50%. Since then, yields have climbed to over 1.5% on the tailwind of rising inflation expectations – and the trend is rising.

It is not only bond investors who are worried, but increasingly also shareholders, because a significant contributory factor to the impressive comeback of the stock markets after the pandemic-related slump was undoubtedly the zero interest rate environment. Given the historically uniquely low level of interest rates, many investors are economically forced to buy shares in order to have a chance of a positive real return. These capital shifts from bonds to equities have been increasingly observed for years and form the foundation for further price gains.

But what happens when this relative valuation buffer of equities versus bonds melts away? This concern still seems unfounded with markets trusting the Fed's "forward guidance". Nevertheless, a reduction in bond purchases is like a ride on a razor blade. At the moment, it cannot be assumed that the bond-buying programmes in the US will come to an end any time soon. But history has shown that the mere prospect of less expansionary measures can move interest rate markets sharply.

Fortunately, the Fed has so far managed to steer market expectations with a clever communication strategy. Equity investors should pay particular attention to quality and diversification in the portfolio in a scenario of rising yields. Opportunities could arise on the bond markets when interest rates have already risen somewhat. Until then, special caution applies with a focus on shorter maturities and the addition of inflation-protected bonds.

Answers from Germany

"April 30th marked the end of Joe Biden's first 100 days in office as US President. How should his record be assessed from a capital market perspective?"

Philip Gisdakis

Co-CIO of Group Wealth Management and CIO UniCredit Bank AG
(HypoVereinsbank) (Germany)

Joe Biden, at least measured against the yardstick of stock market performance which his predecessor Donald Trump used, certainly has a remarkable record in his first 100 days in office. Between January 20th and April 30th, the S&P 500 index rose 8.6%. Only two US presidents in the postwar era have had a better record: John F. Kennedy (8.7%) and Lyndon B. Johnson (12.0%). George Bush (8.0%) and Barack Obama (8.4%) are close behind. During Donald Trump's first 100 days, by contrast, markets rose by "only" 5.2%.

In economic terms, too, the development under Biden does not look bad. In the first quarter of 2021, the US economy grew by 1.6% q-o-q after adjusting for inflation, which is much stronger than in the euro zone, for example, where the economy actually contracted by 0.6%. The labour market balance is also impressive. In the first four months of 2021, 1.8 million new jobs were created. By comparison, more than 9 million jobs were lost in the Covid-19 year of 2020.

The Biden administration has put ambitious plans on the table for this and has even implemented some of them. The USD 1.9 trillion stimulus programme ("American Rescue Act") has undoubtedly played a significant role in the positive economic development. Other programmes are to follow, such as a USD 2.3 trillion infrastructure package ("American Jobs Plan") and another USD 1.8 trillion education and health package ("American Families Plan"). However, the last two plans have not yet been passed by Congress. Modifications are therefore still to be expected. In addition, the US has administered an impressive vaccination programme under President Biden. 43% of Americans have been vaccinated at least once, and almost a third have been completely vaccinated (versus the euro area: a good 25% and just under 10%, respectively). At the same time, infection rates are declining noticeably despite reopening measures.

As euphoric as the mood in the stock markets has been, there are also developments that are not really to the markets' liking, such as the planned tax increases as a counter-financing measure to the investments still planned in infrastructure, education and healthcare. In addition, some observers are becoming increasingly concerned about the risk of inflation due to the gigantic, debt-financed stimulus programmes. The markets could therefore still be threatened with burdens. However, a massive and sustained rise in inflation is unlikely, and the tax reform should not necessarily be viewed negatively in economic terms. It will depend on how the funds are used. Nevertheless, there is no getting around the fact that the US economy has benefited from Trump's tax cuts, at least in the short term.

No wonder, then, that Joe Biden's political approval ratings are quite good. However, the deep divisions in society are far from over and remain a burden. Soon, the focus will turn to the mid-term elections. It would not be unusual for the party of the incumbent president to lose seats in Parliament. The Democrats' majority in both chambers of Congress is not ample. A loss of the majority would significantly limit the president's room for maneuver. For this reason, too, time is running short for the Democrats to pass their agenda into law and getting it through the House – as long as they still have a majority in both chambers.

Internationally, the Biden administration's turn to its historic allies and its return to the Paris Climate Agreement is an important and positive signal. World trade is growing and benefiting from the foreseeable end of the pandemic, but the conflict with China remains unresolved and is likely to be a defining element of the coming years. Nationalist and populist impulses therefore remain a factor that should not be underestimated, even under the new government. The restrictive strategy for vaccine exports from the US and also from the UK compared to the EU are remarkable – especially in light of the fact that even for the richest countries in the world, the pandemic can only be brought under control with a globally successful vaccination record.

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