



Below the surface



Monthly Outlook

June 2022

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Summary

Below the surface



MARKET UPDATE

The headwinds for the global economy are not really abating yet. Fears of stagflation or even an outright recession have spread. The established major industrialised economies are still proving to be quite resilient but hopes of above-average global growth in the second half of the year (catch-up effects) seem to be fading. Moreover, the danger of a bumpy or even hard landing of the global economy is growing. We still expect a solid second half of 2022 – followed by a soft landing, i.e. a gradual shift to trend (post-Covid normalisation) with temporary undershooting next year – also because we consider investors' aggressive central bank expectations to be overdone.



INFLATION

Persistent inflationary pressures leads to central banks raising interest rates to cool down price dynamics. In particular, inflation in the euro zone is rushing from record to record. It made another strong move in May, cracking the 8% mark. However, the exact characteristics of the inflation dynamics are a crucial factor in assessing the situation, because in Europe in particular, price pressures are essentially coming from increased energy costs and food prices. And if we exclude these two volatile components, the surprising thing about core inflation is not the absolute value of almost 4%, but the speed with which we have moved from an average inflation rate of around 1.5%, which lasted for almost 10 years, to the point where we are now.



MONETARY POLICIES

Central banks around the world have embarked on a monetary tightening path due to persistently high inflation. For the US, in particular, this gives rise to the risk that the Federal Reserve's (Fed) measures could cool economic growth significantly – even to the point of a mild recession.

Given the speed with which central banks are adjusting their monetary policies to the new inflationary environment, it is reasonable to expect that global economic activity will soon show more modest growth rates than could have been imagined at the beginning of the year.



FINANCIAL MARKETS

We currently have a neutral equity exposure. However, we think that the chances of an improvement in the coming months are good and that we may be able to invest in equities. Accordingly, we advise investors to prepare for such a scenario to be able to invest quickly and increase the equity ratio. As far as our bond investment strategy is concerned, in Europe, we are still less positive, as we do not yet assume that the trend of rising yields has ended.

To conclude, we are currently neutral in our equity investment strategy and remain cautious in the face of an emerging slowdown in growth. As soon as the macroeconomic environment normalises and uncertainties disappear from the market, we are prepared to increase our equity exposure

CIO's Letter

Below the surface

The first half of this year has been characterised by a number of stress factors for the economy and financial markets:

1. Central banks around the world have embarked on a monetary tightening path due to persistently high inflation. For the US, in particular, this gives rise to the risk that the Federal Reserve's (Fed) measures could cool economic growth significantly – even to the point of a mild recession.
2. The war in Ukraine continues and with it the risk of energy supply disruption for Europe – a risk scenario that is becoming more apparent to investors in light of Russia's recent cutbacks in gas supplies to Germany and Italy.
3. The recent Covid wave in China, to which the Chinese government has reacted with very strict lockdown measures, is on the one hand slowing the Chinese economy (affecting demand for European export goods) – while on the other hand, however, further straining the already tight supply chains (this also has a negative impact on Europe, especially on the manufacturing sector).

As a result, it appears there is only bad news from all sides. However, these burdens are partly external factors that may only have a temporary effect. Regarding the effects of Covid-related measures, for example, we know that they only have a temporary impact on the economy if the crisis is managed adequately, and that one can expect catch-up effects when the measures are relaxed again. Although the approach of the Chinese government with its strict zero-Covid strategy and the comparatively low level of vaccination protection, especially among vulnerable groups, cannot be directly compared with the situation in Europe and the US (the burdens could last longer than in the western industrialised nations), experience teaches us that Covid infections come in waves, which therefore should also subside again.

At the beginning of the year, expectations for economic growth in Europe and the US were still focused on a noticeable post-Covid recovery. There were strong signs that the economy was taking hold and could benefit from noticeable catch-up effects. This recovery has been interrupted by the war in Ukraine. The key channel through which this conflict is affecting the economy is further increases in energy and commodity costs and, in particular, concerns about energy supply disruptions for those countries heavily dependent on Russian oil and gas imports – a risk that has moved a little closer with the **recent developments**¹. However, these risks are external. If the situation regarding energy and raw material supplies eases, one could certainly expect a link to the expectation of a post-Covid recovery.

Looking below the surface, there are certainly signs that can give confidence. In particular, the latest ifo report on the mood of the German economy, which is also an important stock market barometer for the entire Eurozone, sends positive signals. In particular, the ifo range on the order situation of companies should be mentioned here: the order reach of German industry has not been as high as it is at present since the beginning of the 1990s.

Finally, persistent inflationary pressures play a central role – and it leads to central banks raising interest rates to cool down price dynamics. In particular, inflation in the euro zone is rushing from record to record. It made another strong move in May, cracking the 8% mark. However, the exact characteristics of the inflation dynamics are a crucial factor in assessing the situation, because in Europe in particular, price pressures are essentially coming from increased energy costs and food prices. And if we exclude these two volatile components, the surprising thing about core inflation

Manuela d'Onofrio



Head of Group Investment Strategy

Philip Gisdakis



CIO UniCredit Bank AG
(HypoVereinsbank) (Germany)

¹After Gazprom had already stopped gas deliveries to five EU countries in May, the Russian state-owned company recently also reduced its exports to other countries, including Germany, France and Italy. Nevertheless, the energy supply in the affected countries is still guaranteed.

is not the absolute value of almost 4%, but the speed with which we have moved from an average inflation rate of around 1.5%, which lasted for almost 10 years, to the point where we are now.

In fact, a closer look shows that this price race started in the summer of 2021, when Covid-related lockdowns were lifted in most developed countries and consumers were finally able to resume spending. We believe it is important to understand the fundamental causes of this sudden transition from persistently low inflation, as we experienced in the decade before the pandemic, to a situation characterised by a much higher average level of inflation. This allows us to better assess what the European Central Bank's (ECB) monetary policy will be in the coming quarters and, consequently, to deduce what adjustments we need to make in our investment strategy.

As we all know by now, the closure of many businesses during the pandemic, including ports and airports, led to severe bottlenecks in supply chains. When economies started to reopen, this resulted in a gap between companies' production capacity and pent-up consumer demand. This mismatch led to a price spike that should at least partially unwind when the lockdowns, particularly in China, are finally lifted. In the meantime, to stabilise supply chains, many companies have begun diversifying their supplier networks and taking steps to reduce supply distances. This process, which is still ongoing, has of course involved and will continue to involve costs, some of which companies have passed on or will pass on to consumers.

The summer of 2021 also saw the start of the bull market in oil prices, which was exacerbated, more recently, by the sanctions imposed on Russia, resulting in the price of crude oil nearly doubling to date. As it becomes apparent that the main factor that led to the resurgence of inflation, supply chain bottlenecks, will become less important as supply chains stabilise, it is important to understand under what conditions commodity prices, which for us Europeans are the main drivers of inflation, can fall. The most obvious answer is that an end to Western sanctions against Russia would lead to a significant drop in the price of many commodities, especially oil, gas and cereals. At this point, however, no one can predict when the sanctions will be lifted. So, we must ask ourselves whether there are other factors that could lead to a decline in energy and commodity prices.

We expect that a general increase in cost of money by central banks, including the ECB, would lead to a slowdown in economic activity and thus to a decline in demand for raw materials. Given the speed with which central banks are adjusting their monetary policies to the new inflationary environment, it is reasonable to expect that global economic activity will soon show more modest growth rates than could have been imagined at the beginning of the year. Whether the landing is soft or hard will largely depend on how quickly or not inflation surrenders in the face of the army of central banks committed to removing monetary stimulus and cooling prices.

Importantly, the drivers of inflation mentioned above are on the supply side of the economy – while a large demand overhang, at least in Europe, is not. However, supply-driven inflation (also called “cost-push inflation”) is usually less persistent than demand-driven dynamics (so-called “demand-pull inflation”). For this reason, among others, excessive inflationary pressure should develop in a limited period of time and likely peak in the coming months.

Markets are already expecting inflation to fall again in the coming years. However, this does not mean that a return to the ultra-low interest rates of recent years is to be expected. Presumably, the phase of ultra-low inflation rates and consequently ultra-loose monetary policy will be a thing of the past. Inflation rates between 2-3%, as expected for the coming years, are not a problem for the economy. On the contrary, inflation rates around 2% are actually healthy.

Moreover, many companies are proving to be very capable of passing on rising costs to a large extent to their customers and thus keeping margins constant. This is also a factor that explains why the market's expectations of earnings increases for companies are still surprisingly robust. If these expected profit increases are considered together with the price markdowns of the past months, equities are now quite cheap, as measured by the price-earnings ratio (P/E ratio). This is another reason why we believe that equities remain an interesting investment in the medium term.

In Focus

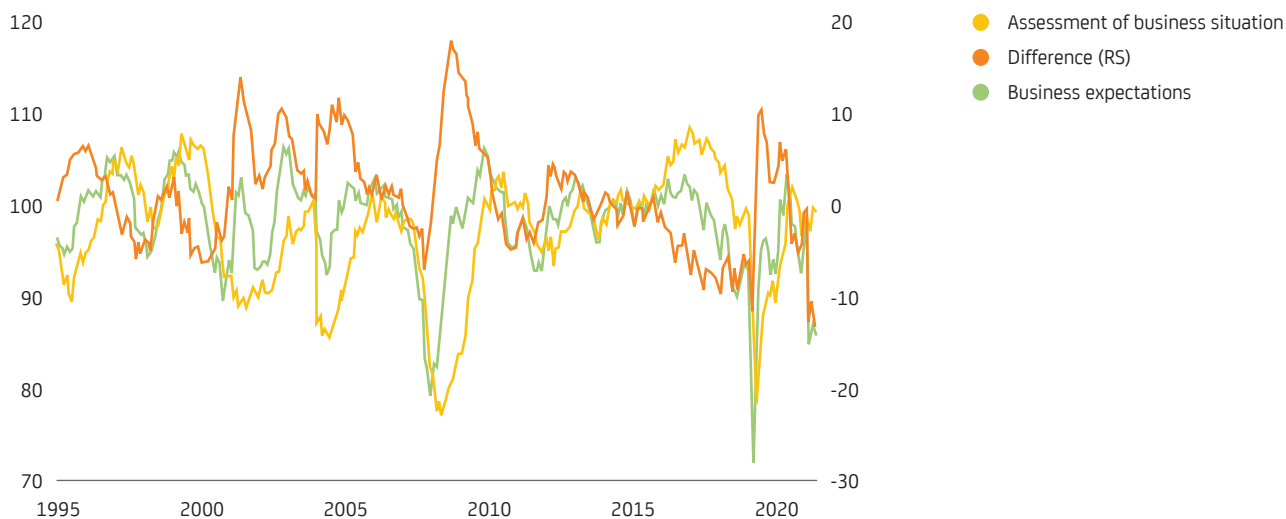
Investment strategy: When will we see the light at the end of the tunnel?

The never-ending number of stress factors – from the Ukraine war, to the recent Covid wave in China, to inflation concerns and the associated tightening of monetary conditions by the US Federal Reserve (Fed) and the European Central Bank (ECB) – have fuelled growth fears and put pressure on financial markets. We have therefore already reduced our equity position. Despite all the adversity, however, the mood in the European economy is surprisingly robust. There are currently no signs of a recession in sight. Although growth expectations for 2022 have been revised noticeably downwards in the course of this year (currently the Bloomberg consensus estimate for the eurozone is 2.6% for 2022 (with the tendency to fall further), compared to 4.2% at the end of 2021), the level of growth itself would still remain well above the average expansion rate of the five years prior to the pandemic (2015-2019). Growth of 2.6% was only achieved once during this period, in 2017. These figures illustrate how high expectations of an economic recovery were in the post-pandemic phase in Europe before the war in Ukraine and the COVID-related lockdowns in China significantly dampened sentiment.

The characteristic of a noticeable cooling of expectations (high at the beginning of the year), at the same time that the situation remains robust in a historical context, is also reflected in one of the most important barometers of sentiment for the German economy, the **ifo Business Climate Index**²: after slumping in March due to Russia's invasion of Ukraine, the ifo index rose from 91.9 points in April to 93.0 points in May but fell again slightly in June to 92.3 points (see chart 1). It was primarily the assessment of the current situation that improved noticeably in May and remained largely stable in June, while expectations for future business from the companies surveyed remain comparatively pessimistic. Nevertheless, the overall mood gives cause for hope – at least for our assessment that recession fears are overdone.

²The ifo Business Climate Index is a monthly soft leading indicator of economic development in Germany compiled by the ifo Institute. It is based on the monthly reports of approximately 9,000 German companies and is considered the best-known and most widely observed business climate index in Germany.

1. IFO INDEX: SENTIMENT BRIGHTENS UP

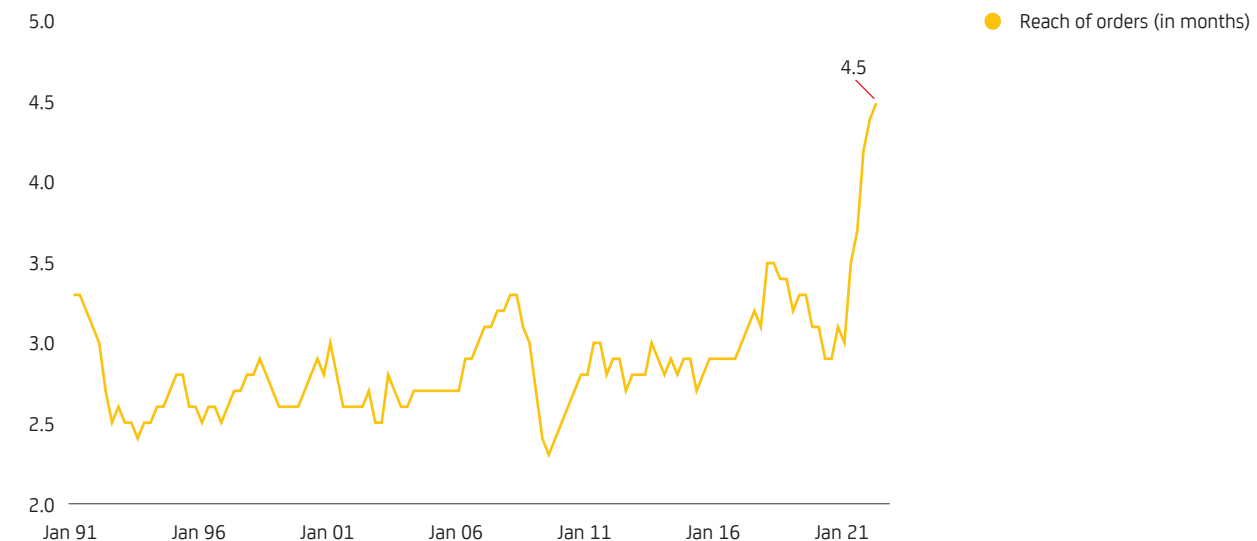


Source: ifo Institute, UniCredit Group Investment Strategy

And there is another factor that gives cause for optimism: the order books of German industrial companies are full. According to the ifo Institute, orders worth around EUR100 billion are now waiting to be processed. As shown by the so-called reach of orders, companies in the manufacturing sector **can produce for an average of 4.5 months**³ without needing a single further order. Over the past 30 years, this range has fluctuated between 2.5 and 3.5 months.

³Companies from the automotive industry, mechanical engineering and the electrical and IT equipment industries, which are so important for the German economy, currently even have order backlogs of up to 7.5 months.

2. ORDER BOOKS OF GERMAN INDUSTRY FULL AS NEVER BEFORE



Source: ifo Institute, UniCredit Group Investment Strategy

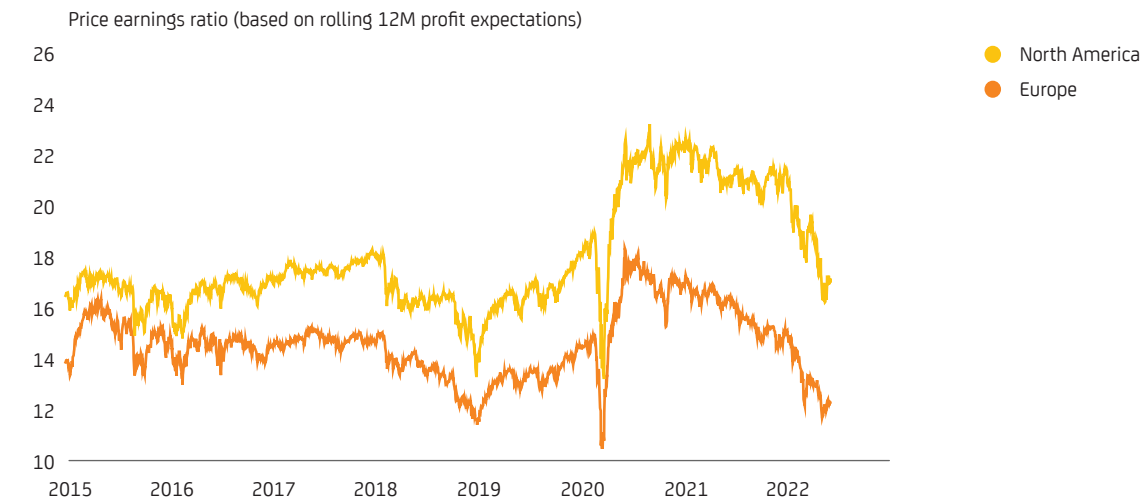
However, However, the stabilisation of the Ifo business climate and the bulging order books should not obscure the fact that industry is likely to suffer for a while yet from the COVID-related lockdowns in dozens of Chinese cities, the global shipping jams, and the war-related supply problems. Although Chinese authorities are beginning to ease the situation, the German economy is still threatened by persistent supply bottlenecks in the short term. Moreover, the truth is that new orders are coming in more and more sparsely. Industrial orders in Germany recently declined for the third time in a row. According to the Federal Statistical Office, companies in the manufacturing sector collected 2.7% fewer orders in April than in the previous month; in March it was 4.2% fewer, and in February it was 1.3% less. On balance, however, the enormous “order buffer” appears quite comfortable.

Provided that the interruptions in trade flows and supply bottlenecks at German companies resolve themselves in the next few months and a complete supply freeze for Russian natural gas remains a hypothetical scenario, the conditions are good for production in German industry to take off. This should allow the German and also the European economy to pick up where the post-pandemic recovery, which was interrupted by the Ukraine war, left off. This in turn would also benefit European stock markets. A US economy that continues to recover and settle into an environment of significantly lower inflation would provide an additional boost, taking weight off the Fed’s shoulders to deliver a perfect “**soft landing**”⁴ (for more on the US economy, see our “Economy and Markets” section).

In addition, the valuation of shares (measured by the P/E ratio) is currently significantly cheaper than a year ago. The lower P/E ratio can be explained on the one hand by the noticeable price declines over the course of the year (see chart 3).

⁴A “soft landing” describes an ideal scenario in which inflation cools and unemployment remains low. This occurs as a result of monetary policy measures taken by central banks in the course of fighting inflation.

3. PRICE-EARNINGS RATIOS HAVE DECLINED SIGNIFICANTLY



Source: Bloomberg, UniCredit Group Investment Strategy

At the same time, earnings expectations have continued to rise despite the difficult situation. Of course, the latter may also turn out to be too optimistic, especially if central banks fail to achieve a “soft landing” of economic activity. Nevertheless, the fundamental economic situation is not bad for many companies. Even the high inflation rates do not change this, because many companies have been able to pass on the price increases to their customers to a large extent.

So, we are not fundamentally pessimistic but remain cautious at present because the uncertainties remain high, and we consider the risks – especially those of a further escalation of the Ukraine war and potentially associated interruptions in energy supply – to be difficult to calculate at the moment. Even if the occurrence of these risks is not our base scenario, setbacks on the financial markets seem possible at any time. Therefore, we currently have a neutral equity exposure. However, we think that the chances of an improvement in the coming months are good and that we may be able to invest in equities. Accordingly, we advise investors to prepare for such a scenario to be able to invest quickly and increase the equity ratio.

As far as our bond investment strategy is concerned, in Europe, we are still less positive, as we do not yet assume that the trend of rising yields has ended. However, we are extending the duration in Europe. This should then allow for a higher **term premium**⁵ and better hedging of equity in case of an economic slowdown.

To conclude, we are currently neutral in our equity investment strategy and remain cautious in the face of an emerging slowdown in growth. As soon as the macroeconomic environment normalises and uncertainties disappear from the market, we are prepared to increase our equity exposure.

⁵This means the purchase of bonds with longer maturities in order to sell them at a profit after a certain holding period. This profit arises from the decline in yields along the yield curve for bonds with shorter maturities.

Macro & Markets

Growth risks continue to rise, but at the moment recession fears seem overdone

The headwinds for the global economy are not really abating yet. Fears of stagflation or even an outright recession have spread. Risky assets dropped noticeably. Still growing inflationary pressures, the threat of a wage-price spiral, the war in Ukraine, the tightening monetary and financial environment, supply chain problems and, most recently, the growth slump in China are putting the post-Covid recovery to an ongoing stress test. However, the established major industrialised economies are still proving to be quite resilient. But hopes of above-average global growth in the second half of the year (catch-up effects) seem to be fading. Moreover, the danger of a bumpy or even **hard landing**⁶ of the global economy is growing. Central banks may have to raise their key interest rates well above neutral levels in order to anchor inflation expectations at lower levels again. And Russia may turn off the gas tap to Europe ultimately. But these are still risk scenarios, not our baseline scenarios. We still expect a solid second half of 2022 – followed by a soft landing, i.e. a gradual shift to trend (post-Covid normalisation) with temporary undershooting next year – also because we consider investors' aggressive central bank expectations to be overdone. However, global economic downside risks continue to rise and growth expectations are being successively **lowered**⁷.

CHINA'S ECONOMY PROBABLY CONTRACTED IN THE SPRING

We were already quite sceptical about China last month, had lowered our growth expectations considerably and estimated little more than stagnation for the current quarter. However, recent economic data point to a pronounced decline. With the **rigorous lockdowns**⁸ (zero-covid strategy), sentiment like purchasing managers' indices have plummeted. Hard economic indicators also collapsed (see chart 4). In April, retail sales fell by more than 11% year-on-year. The decline in construction investments was similarly high. In addition, industrial production (down by as much as 7% month-on-month), exports and credit contracted. No wonder that corporate profits came under heavy pressure, too. It is therefore quite possible that China's real GDP shrank by an annualised 4% this spring compared to the previous quarter. This would be the first contraction since the outbreak of the Covid pandemic in early 2020.

⁶A hard landing indicates an abrupt deceleration of the economy, that experiences a strong decline.

⁷The Organisation for Economic Co-operation and Development (OECD) recently lowered its growth forecast for the global economy significantly from 4.4% to only 3% (EMU: -1.7 points to 2.6%). At the same time, the International Monetary Fund (IMF) announced its intention to lower its already reduced forecasts once again.

⁸At the end of March/the beginning of April, the Chinese government had imposed a total lockdown on areas that generate about 10% of GDP. A partial lockdown affected 25% of economic output.

4. CHINESE ECONOMIC SLUMP – BUT ONLY TEMPORARY



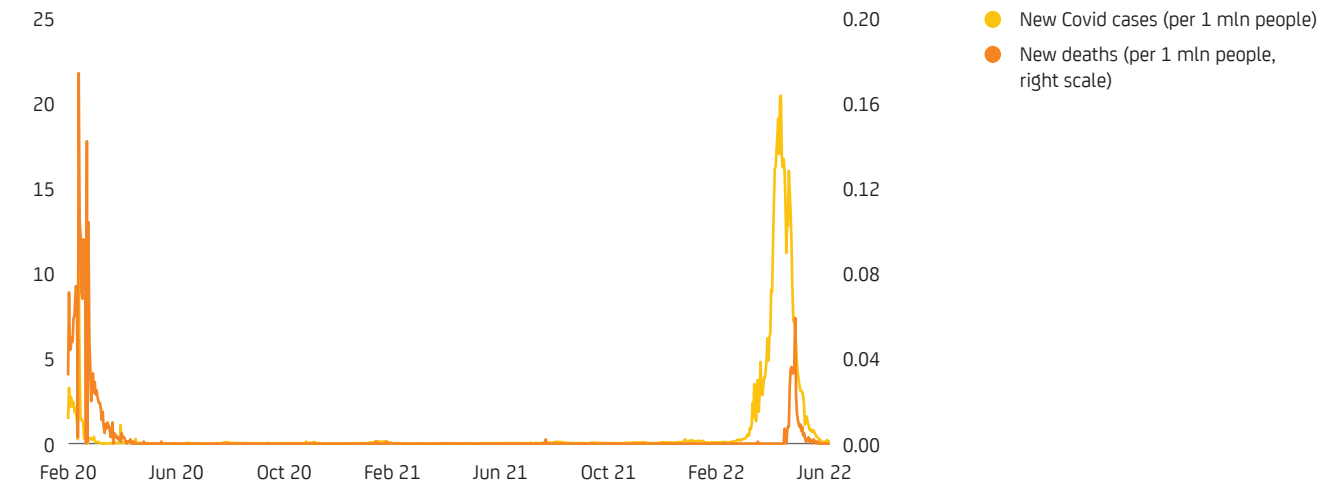
Source: Refinitiv Datastream, UniCredit Group Investment Strategy

The good news is that the worst in terms of Covid is behind China. Omicron case numbers have decreased massively (see chart 5 next page). The same is true for **contagion**⁹ risks, so that infection numbers should continue to come down. China was therefore able to loosen the rigorous lockdowns at the turn of the month. People were allowed to leave their homes, and private and public transport resumed (with some restrictions).

Economic activity should thus gradually begin to normalise. Sentiment indicators have already improved (see chart above) and should soon return into expansionary territory. We expect the same for the hard economic data. A strong (technical) rebound after the Covid shock subsided is therefore on the cards. We expect annualised GDP growth of 6% for the summer quarter, perhaps even more.

⁹The reproduction value, i.e. the average number of people infected by an infected person, has now fallen to only 0.5. At the beginning of March, the value was well above 2.

5. CHINA: COVID WAVE ALREADY BROKEN



Source: www.ourworldindata.com/Covidvirus, UniCredit Group Investment Strategy

However, the strong summer momentum should not be maintained. On the one hand, the relaxation of strict measures could lead to **new Omicron waves and new lockdowns**¹⁰, on the other hand, Beijing is still quite hesitant in its economic policy. While the government did set its monetary and fiscal policy to expansionary at the beginning of spring, so far, however, it has fallen well short of (self-nurtured) expectations. For example, the central bank reduced reserve requirement ratios and mortgage rates, but not the official key interest rate (currently at 2.85%). Moreover, the reduction of taxes and levies was planned anyway, so it was only brought forward. And the expected transfer payments to private households (consumption cheque) are still a long time coming.

But even if China were to step up its game here, the economy will probably fall well short of its growth target of 5.5% for the year as a whole. Real GDP is unlikely to grow by much more than 4%-4.3% in the current year. And over the medium-term horizon as well, we expect only a below-average performance – even if there is another five before the decimal point next year (catch-up effects). On the one hand, the structural problems (over-indebtedness of state-owned companies and regional governments, house price bubble) and the **restructuring of the economic system**¹¹ will have a negative impact. On the other hand, China is likely to be one of the losers in the ongoing de-globalisation. More and more Western companies are shifting their strategic productions home. Recent supply chain problems in the wake of the Ukraine war and Beijing's de facto closing of ranks with Moscow have also impressively demonstrated their dependence on China triggering a rethinking process.

China's slump in growth is also slowing down the global economy – directly, because the country as the second largest economy alone contributes 19% to global GDP, and indirectly, because China is strongly intertwined with other economies. This applies in particular to its Asian neighbours, but also to Europe and the US with their high export and import shares. According to estimates, China's bout of weakness could reduce global growth by up to half a percentage point this year.

US ECONOMY PROVES RESILIENT, RECESSION FEARS AND FED EXPECTATIONS EXAGGERATED FOR THE TIME BEING

But the established industrialised world still seems to be able to defy much of the adversities. This is especially true for the US. There are even signs of strong growth revival for the current quarter of **an annualised 3%**¹² or even slightly more. Of course, this is partly a technical payback to the poor start to the year (-1.5%). But final domestic demand, i.e. the development excluding the recently extremely volatile components of inventories and exports, should also have increased strongly. This applies in particular to the all-important private consumption.

This underscores our long-held expectation that as Covid subsides – the US was spared the winter wave – catch-up effects will be triggered, especially in the consumption of services, which will be financed primarily from the excess savings accumulated during the pandemic as well as the increase in employment and income. Despite the **noticeable decline in real income**¹³ in the wake of rampant inflation (loss of purchasing power), consumption could have grown by 2.5-3% in the current quarter.

¹⁰China officially has a high basic immunisation (over 90% are double vaccinated), but only a good 50% of the population is boosted. Moreover, Chinese vaccines are considered less efficient than their Western counterparts.

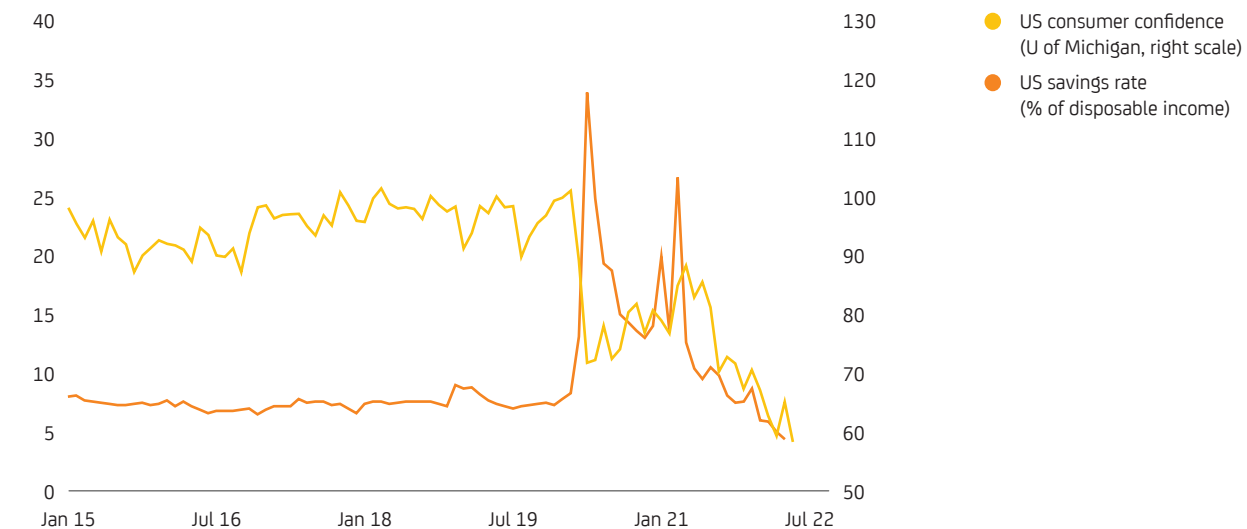
¹¹Beijing's declared goal is to transform the economic system away from manufacturing and investment or exports towards consumption and services. This will weigh on growth.

¹²US trend or potential growth (assuming full utilisation of production factors) is estimated at 1.7%-2%.

¹³According to estimates, real incomes have fallen by 2%-3% in real terms since the beginning of the year. At the same time, the strong increase in inflation has already been significantly mitigated nominal income gains (higher wages and more employment). The labour market is booming. In May alone, 390,000 new jobs were created and the April figure was noticeably revised upwards to 436,000.

But this is precisely the liability for future consumption. Excess savings are likely to be depleted up soon. Above all, the US savings rate of 4.4% has recently fallen so far below the pre-pandemic level (7.5%) that a contraction in consumption seems inevitable. The labour market boom is also expected to fade. All this is putting brakes on consumption dynamics. Added to this is the poor consumer sentiment (see chart 6).

6. THE DECREASE IN THE SAVINGS RATE IS IMPACTING US CONSUMPTION PROSPECTS



Source: Refinitiv Datastream, UniCredit Group Investment Strategy

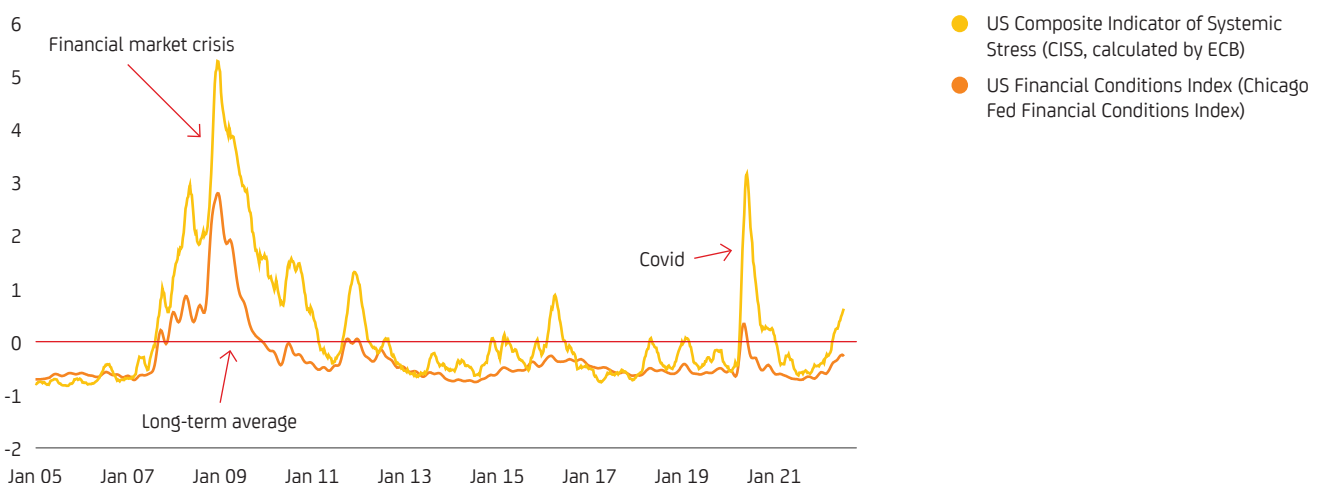
In addition, the hoped-for relief from a rapid decline in inflation is likely to be a longer time coming. Crude oil prices have risen **again**¹⁴, not least due to the EU oil embargo (light) against Russia. This is having an impact on energy prices. Food prices are also likely to rise. It will probably take some time before inflation declines sustainably. Moreover, the danger of a wage-price spiral has not been averted in the US.

These are not the only developments clouding the US economic outlook. The monetary and financial environment has deteriorated further (see chart 7) – even if the indicators are still far from previous recession highs. Nevertheless, interest rates and yields have risen sharply. This makes credit more expensive and corporate financing (bonds) more difficult, which in turn slows down consumption and investment. Declining share and bond prices are having the same effect. The **sharp rise in mortgage rates**¹⁵ is particularly hurting the construction and real estate sector. It is likely to shrink in the coming quarters and thus become a burden on GDP. All this is compounded by the strong US dollar. In trade-weighted terms, the greenback has gained 4.5% since the beginning of the year; at times it was even over 5%. This is slowing down export momentum.

¹⁴Currently, the price of crude oil is at USD 130 per barrel (Brent) and has been heading towards the previous highs of USD 134 since the reopening in China. The relief with the OPEC announcement of a production increase was only short-lived.

¹⁵Since the turn of the year, interest rates for 30-year mortgages have risen by 200 basis points (or a full 2 percentage points).

7. US: FINANCIAL ENVIRONMENT HAS TIGHTENED



Source: Refinitiv Datastream, UniCredit Group Investment Strategy

All these pressures suggest that the post-Covid GDP recovery will gradually weaken from late summer onwards with growth falling back to potential at the beginning of next year – and temporarily even slipping below it in the second half of next year. For 2023 as a whole, we then expect below-average GDP growth of 1.3%. Thus, we do not expect a hard landing in our baseline scenario. The strongest argument against a US recession is the still very healthy balance sheets of households and companies. There are no real signs of over-indebtedness, distortions and rigidities – in the past all too often harbingers of a recession. The bulk of the recession indicators also speak against it. For example, the recession probability of the **St. Louis Fed recession barometer**¹⁶ is still low in the single digits on the basis of current data. With projected data, the probabilities are likely to rise noticeably (to perhaps one third), but ultimately not exceed the critical threshold. This contrasts with surveys among market participants. The majority of them expect a recession as early as next year.

¹⁶The probability of the New York Fed's recession model, which is based solely on the yield curve, is also clearly in single-digit territory (currently 5%).

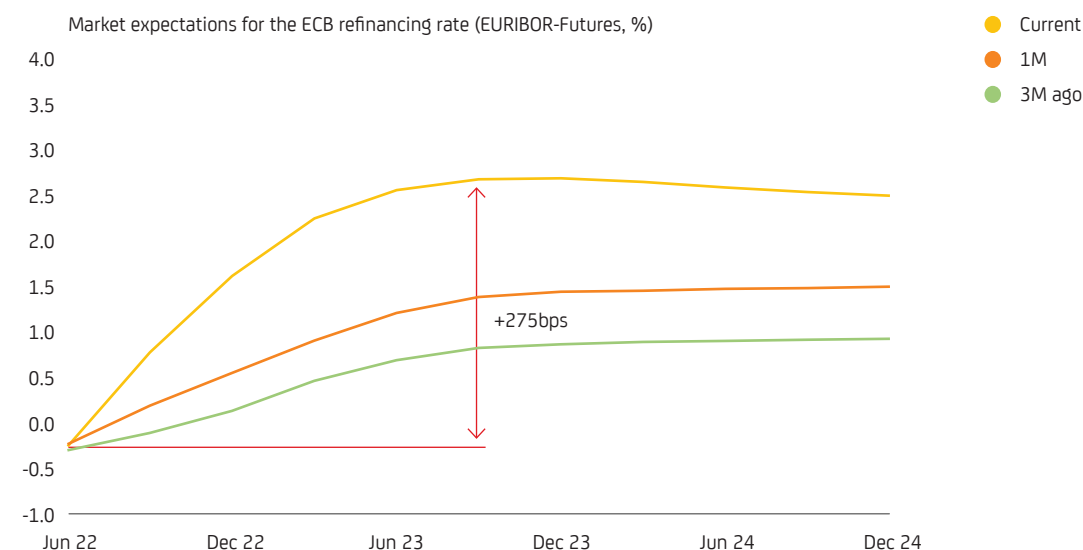
Our confidence in a soft landing is also driven by our Fed expectations. We consider the call of investors with a key interest rate of 4% and more to be exaggerated. Yes, the latest rate hike was more aggressive than expected at 75 basis points (bps) or 0.75%-points. Three more 50 bps steps are likely. From autumn onwards, however, the Fed is likely to slow down and let the cycle end at around 3.2-3.5% **at the turn of the year 2022/23**¹⁷. This should flatten the yield curve, i.e. the difference in yield between 10-year US Treasuries and the money market rate, but not cause it to invert sustainably, i.e. become negative. So far, every recession in the US has been preceded by a decidedly inverted yield curve. The Fed is fully aware of this. Its goal is to cool the economy in order to anchor inflation (expectations) firmly at lower levels, but not to stifle it. And history shows that it has the knowledge and the tools to orchestrate a soft landing – all the more so in times of healthy household and corporate balance sheets. And it also shows that speculating against the Fed has rarely paid off: Please don't fight the Fed!

¹⁷For the Fed and ECB expectations of our colleagues at UniCredit Research, please see our UniCredit Macro & Markets Weekly as of 17.6. 2022 ([link](#))

EURO AREA: ECB AND GROWTH WORRIES ALSO EXAGGERATED

We have a similar assessment for the euro area as for the US. This applies equally to the economy and monetary policy – even though the ECB adopted a much hawkish, i.e. more aggressive tone at its meeting earlier this month. The constant chasing of inflation forecasts seems to have left its mark. The Governing Council is now pushing the pace, wants to make up for lost time and quickly return the key interest rate to the neutral level of an estimated 1½%-1¾%. ECB chief Christine Lagarde has already announced a first rate hike of 25 basis points (bps) for immediately after the end of the securities purchases, i.e. already for the July meeting. For September she even hinted at a 50 bps step, which should be followed by one, most probably even two 25 bps steps by the end of this year. We expect two further rate hikes of 25 bps each by spring 2023. This would leave the ECB well behind market expectations, even after its latest hawkish turn. Investors are currently betting on interest rate hikes totalling 275 bps (see chart 8).

8. ECB MARKET EXPECTATIONS SEEM TO BE TOO AGGRESSIVE



Source: Refinitiv Datastream, UniCredit Group Investment Strategy

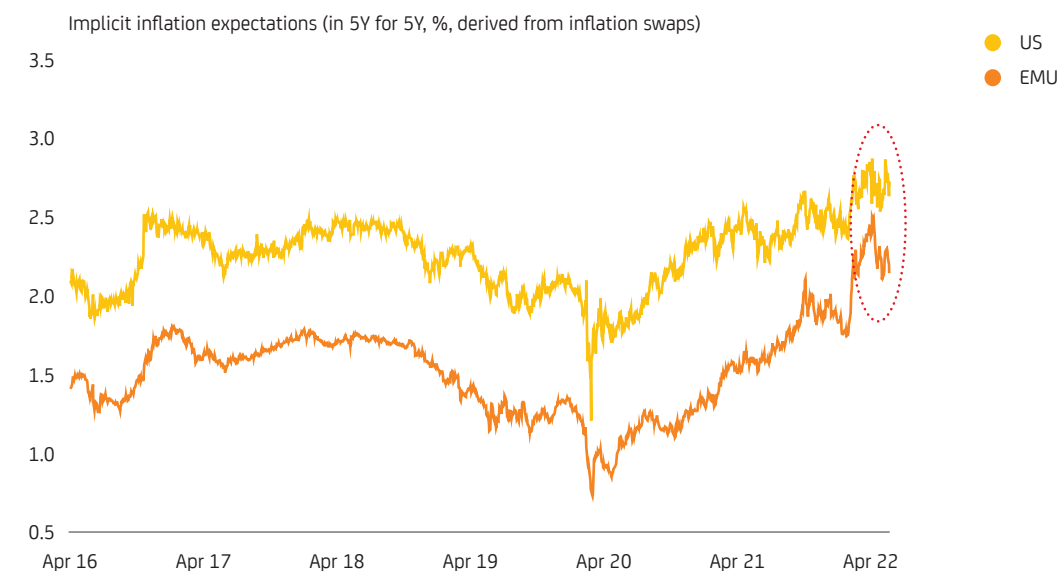
European central bankers would not raise the repo rate to more than the neutral interest rate. Otherwise, they would risk a hard landing. But there are other reasons why the ECB will not overstretch the bows.

1. Inflationary pressure primarily emanating from exogenous shocks cannot really be combated by a restrictive monetary policy.
2. Even if **inflation continues to rise¹⁸** in the short term and proves more stubborn, over in the medium-term horizon and especially from spring 2023 onwards, inflation is likely to fall sharply and ultimately towards the ECB target (2%). Base effects – the rapid rise in energy prices in recent months falls out of the year-on-year measure – and easing supply bottlenecks provide ample relief.
3. The risk of a wage-price spiral is significantly lower than in the US. The recent wage increases are manageable and overstated by one-off and special payments. The unemployment rate is no longer falling, and labour markets are nowhere near as drained as in the US.
4. The economic slack, i.e. the **gap to the pre-Covid trend path¹⁹**, is more pronounced in the euro area than on the other side of the Atlantic. At the same time, the economic risks are higher (Ukraine war).
5. Inflation expectations, which are so important for the ECB, have even declined again recently despite the further increase in inflation (see chart 9ngu).

¹⁸In May, EMU-wide inflation rose to 8.1%. In the summer months it could even rise a little further.

¹⁹The (static) pre-Covid GDP level was only reached again at the turn of the year (in the US this already happened a year ago), while the dynamic gap is not yet closed.

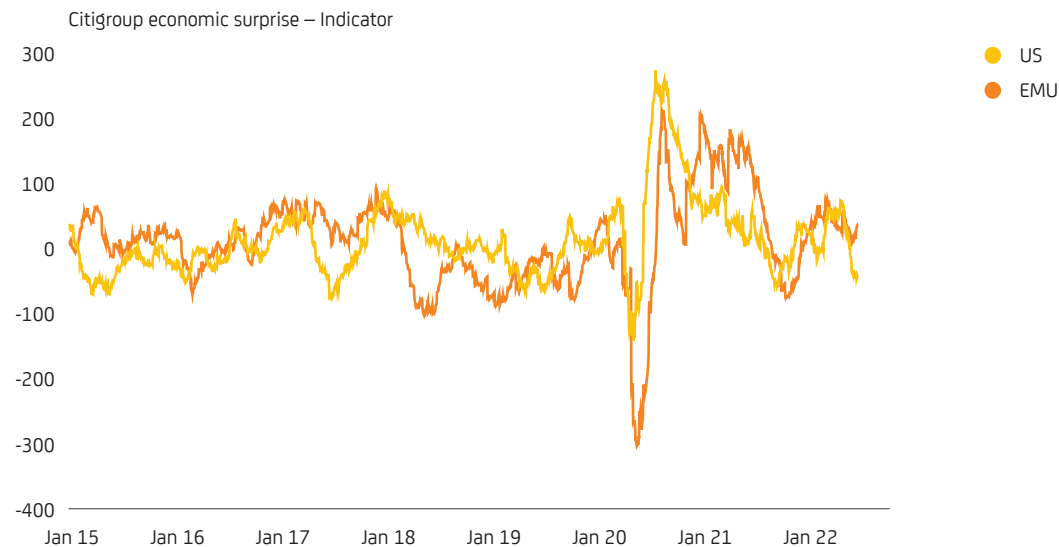
9. EMU INFLATION EXPECTATIONS BACK AGAIN



But not only expectations for ECB's tightening seem overdone, but also fears about the EMU economy. The euro area is proving to be as resilient as the US – despite the additional strains caused by the Ukraine war. The bulk of EMU economic data continues to surprise on the upside, even if it is no longer as pronounced as in March and April (see chart 10). The heavy losses in purchasing power in the wake of the inflation surge, **the deterioration in sentiment²⁰** and the supply chain problems (Ukraine war/China) are having a negative impact, while the easing of Covid restrictions, excess savings and the gains in employment and income are having a positive impact.

²⁰The aggregate purchasing managers' index for the euro area recently fell by a full point. At 54.8 points, however, it is still clearly in expansion territory.

10. EMU ECONOMY PROVES RESILIENT



Recent data still imply annualised GDP growth of up to 2% for the current quarter. This is less than the last reported **2.5% for the beginning of the year²¹** (and far less than the 4.5% expected last autumn), but still more than trend growth. The latter is around 1.5%.

And solid growth should continue for the time being. As in the US, we believe that fears of recession in the EMU are exaggerated. This is supported by healthy household and corporate balance sheets, the considerable catch-up potential (excess savings, the removal of the Corona restrictions), a prudent ECB, well-filled order books, a strong labour market, the fiscal policy flanking (energy subsidies) and, in the medium term, dwindling supply chain problems and improving purchasing power. These are then also the reasons why – unlike in the US – we do not expect a rapid slowdown to trend. In addition, the economic risk potential for the economy diminishes with every month that the embargo or stop of Russian energy deliveries does not materialise, as dependence on Russian energy is gradually decreasing. However, the danger has not yet been averted (risk scenario).

In our baseline scenario, we expect EMU GDP to grow at an annualised rate of 2%-2.3% in the coming quarters – before normalisation will begin next year (including a temporarily undershooting). For 2023 as a whole, we then expect a slightly below-average GDP growth of 1.3%. We can only hope that we will be spared further exogenous shocks until then.

²¹However, the GDP growth figures for the EMU are currently heavily distorted by Ireland (enormous gains from intellectual property rights/software solutions). Excluding Ireland, EMU GDP in the first quarter grew by only 1.1% annualised due to the Omicron drag. It is quite possible that the countermovement in Ireland is artificially pushing down the EMU headline figure in the current quarter.

Asset Allocation – How we manage our portfolio mandate

The worsening growth-inflation mix requires a more defensive position

		Investment View			
Asset	Investment Universe	Negative	Neutral	Positive	
Main Asset Classes	Global Equities	○	●	○	
	Global Bonds	●	○	○	
	Money Markets	○	○	●	
	Alternatives	○	●	○	
Main Asset Classes in Detail	Equities	US	○	●	○
		Europe	○	●	○
		Pacific (DM ¹)	○	●	○
		Emerging Markets	○	●	○
	Bonds	EMU Government Bonds	●	○	○
		Non-EMU Government Bonds	○	●	○
		EUR IG Corporate Bonds	○	○	●
		HY Corporate Bonds	○	●	○
	Commodities	Emerging Market Bonds	○	○	●
		Oil	○	●	○
		Gold	○	○	●

¹DM= Developed Markets (Australia, Japan, Hong Kong, New Zealand, Singapore)

In May, concerns about slowing global growth, with risks of stagflation in Europe, a marked deceleration in China and a moderation in the US, were coupled with concerns about rising inflation. With inflation at 40-year highs in the US and Germany, the Fed and the ECB are forced to raise interest rates, while economies are already showing signs of slowing down and financial conditions worsen.

The weakening picture for global growth doesn't bode well for corporate earnings. We believe that the current estimates for earnings growth are not yet discounting a hard landing / recession scenario.

11. EARNINGS AT RISK: TYPICAL RECESSION SEES EARNING DECLINES OF >30%

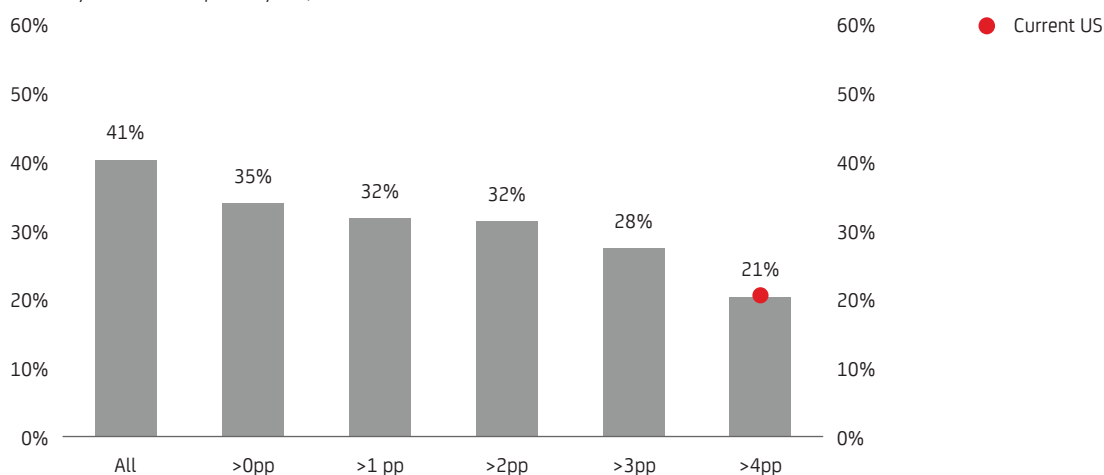
Full-Cycle Period	Recession Period	Reported Earnings Declines	Reported Earnings Recoveries
1Q'28 – 1Q'33	3Q'29 – 1Q'33	-74.5%	-
2Q'33 – 2Q'38	3Q'37 – 2Q'38	-49.2%	197.6%
3Q'38 – 4Q'45	1Q'45 – 4Q'45	-29.4%	91.9%
1Q'46 – 4Q'49	4Q'48 – 4Q'49	-3.3%	185.7%
1Q'50 – 2Q'54	2Q'53 – 2Q'54	-17.6%	22.4%
3Q'54 – 2Q'58	3Q'57 – 2Q'58	-22.0%	57.7%
3Q'58 – 1Q'61	2Q'60 – 1Q'61	-11.7%	19.1%
2Q'61 – 4Q'70	4Q'69 – 4Q'70	-12.9%	94.4%
1Q'71 – 1Q'75	4Q'73 – 1Q'75	-14.8%	77.6%
2Q'75 – 3Q'80	1Q'80 – 3Q'80	-4.6%	97.0%
4Q'80 – 4Q'82	3Q'81 – 4Q'82	-19.1%	5.3%
1Q'83 – 1Q'91	3Q'90 – 1Q'91	-36.7%	103.1%
2Q'91 – 4Q'01	1Q'01 – 4Q'01	-54.0%	236.3%
1Q'02 – 2Q'09	4Q'07 – 2Q'09	-91.9%	243.9%
3Q'09 – 2Q'20	1Q'20 – 2Q'20	-32.5%	1933.1%
Average		-31.6%	240.4%

Source: Strategas

While the recession scenario is not our base case scenario, the related probabilities have increased as a stickier inflation forces central banks to react aggressively, making the soft landing more difficult to achieve.

12. US CORE INFLATION OVERSHOOTING MAKES THE SOFT LANDING HARDER TO ACHIEVE

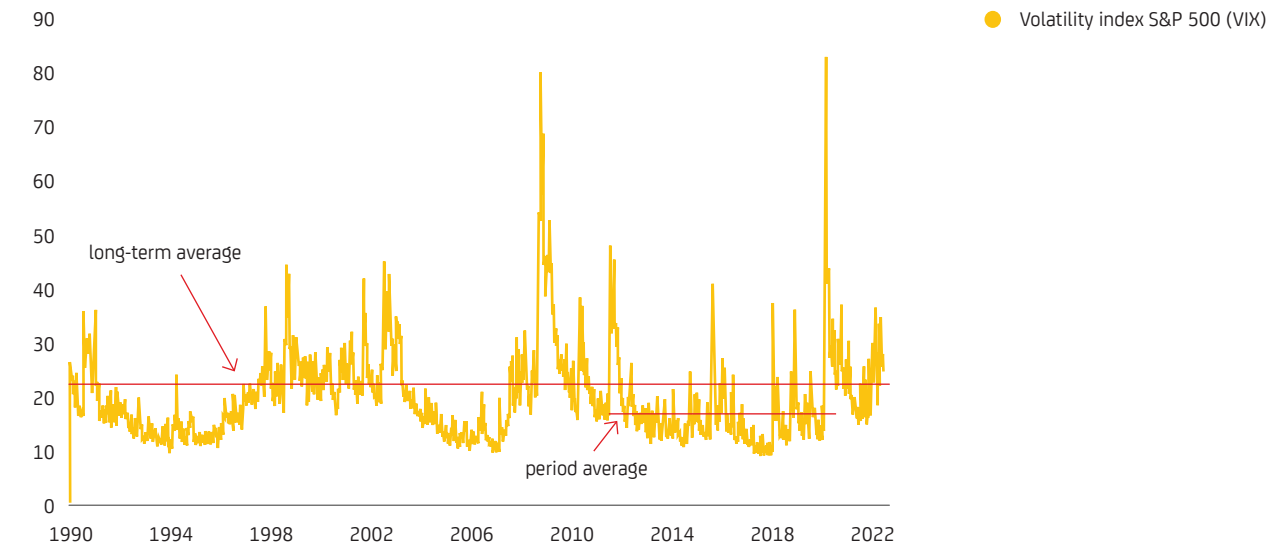
Chances of avoiding a recession for 2 years after last hike, by size of core inflation overshoot (change in inflation defined as max in year-on-year core inflation during hiking cycle relative to prior 2 years)



Source: Department of Commerce, Haver Analytics, Goldman Sachs Global Investment Research

In other words, equity markets are set to remain vulnerable and volatile over the coming months, as the Fed's put is no more in place.

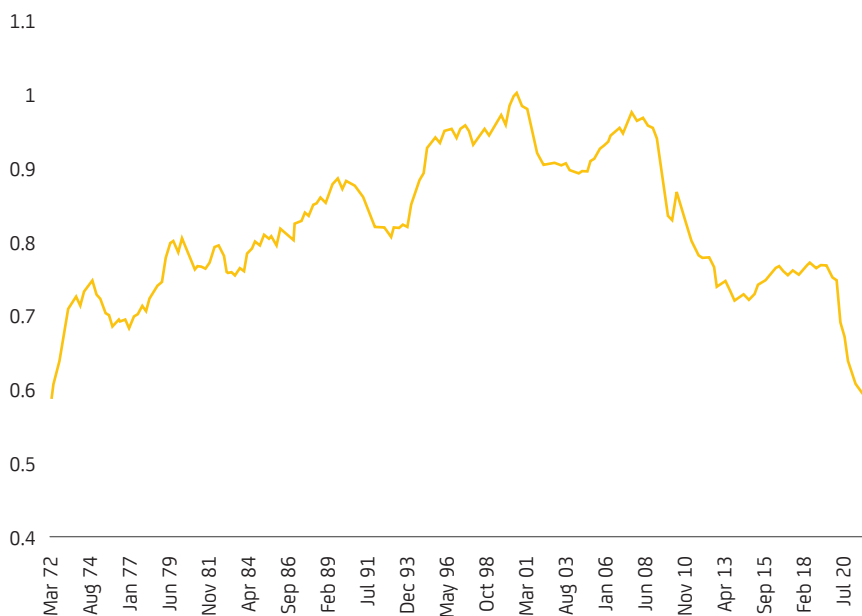
13. S&P 500 VOLATILITY HIGHER THAN ITS HISTORICAL AVERAGE



Source: Bloomberg, UniCredit Group Investment Strategy

More encouragingly this time, unlike during the Great Financial Crisis (GFC), there are no major structural imbalances in terms of household and corporate debt. This also means that the economic contraction may be of lesser intensity and duration versus the GFC and other previous recessions.

14A. US COMMERCIAL BANK LOANS AND LEASES / US COMMERCIAL BANK DEPOSIT NSA



Source: BlackRock Investment Institute, US Federal Reserve, Bloomberg, US Commercial Bank data as of 31 March 2022. US Household debt and related metrics as of 31 December 2021

14B. US HOUSEHOLDS DEBT SERVICE RATIO AND DEBT TO DISPOSABLE INCOME

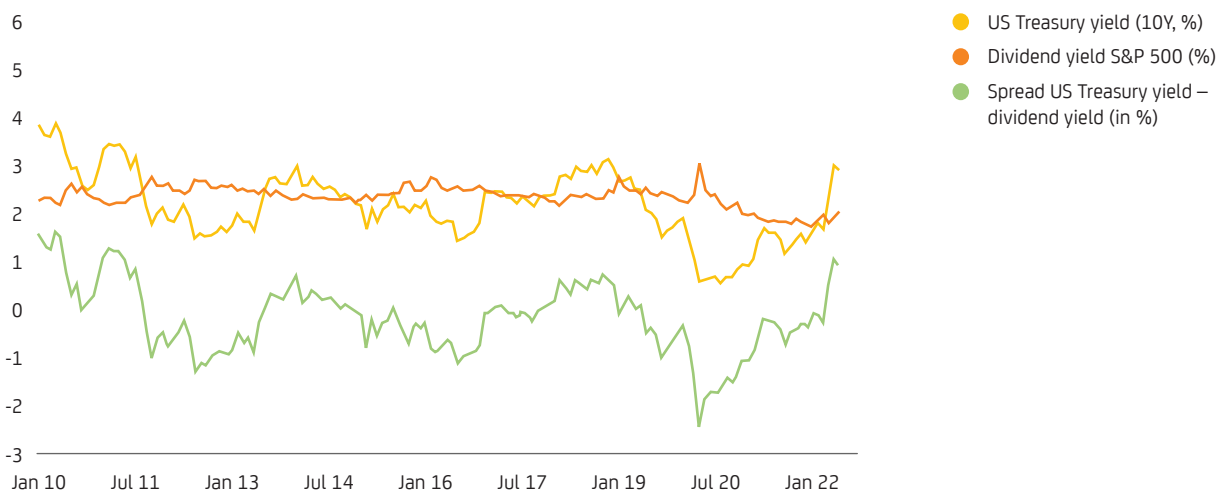


Source: BlackRock Investment Institute, US Federal Reserve, Bloomberg, US Commercial Bank data as of 31 March 2022. US Household debt and related metrics as of 31 December 2021

The combination of lower global growth, rising interest rates, and falling liquidity led us to downgrade equity to neutral from the previous overweight stance.

In relative terms, rising government bonds yields, particularly in the US, reduce the appeal of equity dividends, despite the recent equity price correction.

15. TREASURY YIELDS CONTINUE TO EARN MORE THAN EQUITY DIVIDENDS



Source: Bloomberg, UniCredit Group Investment Strategy

In terms of our regional equity allocation, we downgraded to neutral from an overweight position on both European and Emerging Markets (EM) equities.

The European equities downgrade is justified by the economic slowdown due to the consequences of the conflict in Ukraine (higher commodity prices, higher inflation), the deterioration of the earnings revision ratio, and the more restrictive ECB. The ECB appears at risk of overtightening, as the inflation dynamics in the Eurozone are pretty much supply side / energy price driven, while in the US they are also demand driven, considering the healthy US job market. On the positive side, we expect more fiscal action to finance investments in energy and defence, likely following the example of Sure, set up to cover social safety nets in countries affected by the pandemic. The scheme could be the European Commission going to the market to raise funds (at very low rates thanks to its AAA rating) against guarantees offered by member states in proportion to their GDP.

EM equities are affected by lower global growth and falling liquidity due to the Fed's restrictive policy and the strengthening of the US dollar. Also, increasing investors' focus on ESG criteria makes the EM companies less appealing than their US and European counterparts. We believe that, apart from a short-term relief due to the easing of lockdowns in China, the attractive valuations of EM relative to the other geographic areas may be fully appreciated only once the Fed becomes less restrictive and the global economy starts picking up.

We remain neutral US equities, which are supported by relatively higher growth prospects and earning resilience.

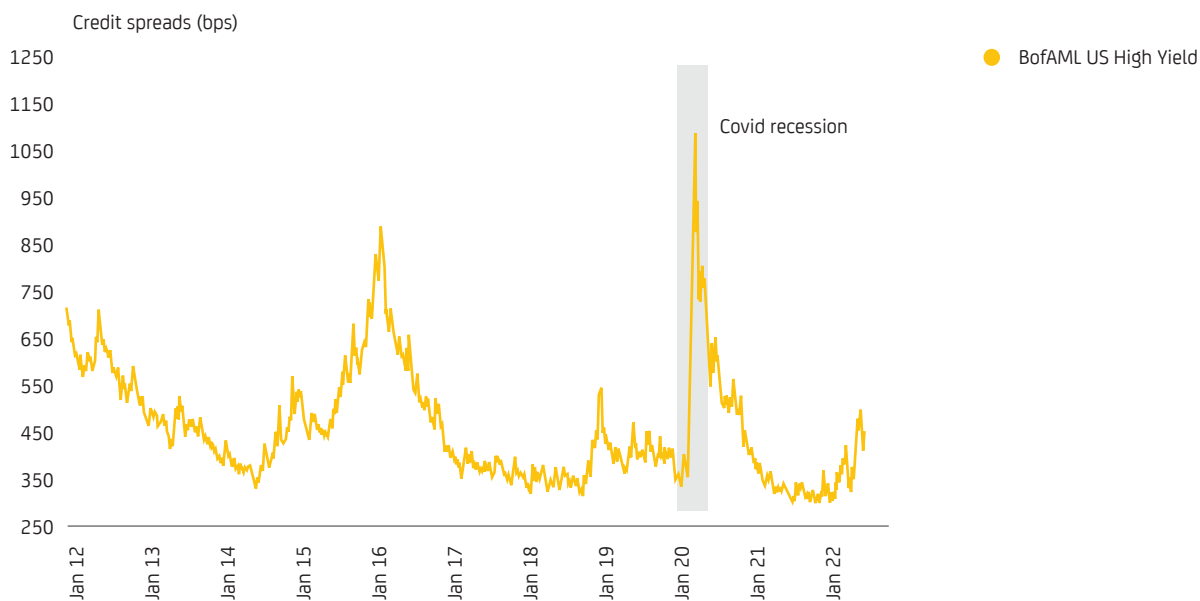
In terms of sector and investment style allocation, we remain defensive and quality oriented, focusing on pharma, consumer staples and energy industries and on companies with higher pricing power and with high cash flow generation/high dividend yield.

A sticky inflation supports our underweight global bonds allocation, where we prefer corporate bonds and, selectively, Emerging Markets bonds.

We see long-term investment opportunities in US governments bonds, with a first entry point around the 3% area of the 10-year US Treasuries yield. On Euro govies, we maintain the underweight stance but we are closely monitoring entry points as inflation dynamics are less structural than in US, and economic growth is more fragile. In addition, we are gradually increasing the duration of the government bonds portfolio.

The high yield corporate bonds spread widening is already discounting a soft landing but not the US recession scenario, which should likely see default rates rising up to 10%. Also, high yield corporate bonds are vulnerable to a lower liquidity contest.

16. HIGH YIELD SPREADS DO NOT YET DISCOUNT A HARD LANDING



Source: Bloomberg, UniCredit Group Investment Strategy

As for Emerging Markets bonds, the Fed's tightening and the contraction of global liquidity requires us to be selective, preferring high quality carry trades in both the hard and local currencies bonds.

Gold continues to offer portfolio hedging opportunities, while the US dollar is supported by the Fed's restrictive monetary policy, but it appears overvalued on fundamentals (PPP).

UniCredit Group Investment Strategy – Asset Allocation Stances

NEUTRAL FROM OVERWEIGHT ON GLOBAL EQUITIES

We downgrade global equities to neutral due to lower global growth and negative earnings revision.

NEUTRAL FROM OVERWEIGHT ON EUROPEAN EQUITIES

We downgrade European equities to neutral due to rising risk of stagflation and a restrictive ECB. Also, the Eurozone is the most affected area from the Russia/Ukraine war. In the longer term, the Eurozone should benefit from higher investments in the energy and defence industries.

NEUTRAL US EQUITIES

Positive growth picture and earnings resilience, hawkish Fed.

NEUTRAL FROM OVERWEIGHT ON EMERGING MARKETS EQUITIES

We downgrade Emerging Markets equities to neutral due to lower global growth and falling liquidity due to the Fed's restrictive policy and the strengthening of the US dollar. Countries and sectors selectivity among EMs is strongly recommended.

NEUTRAL PACIFIC EQUITIES

Exports supported by the weak Yen but affected by lower global growth.

UNDERWEIGHT GLOBAL BONDS

Vulnerable to increasing inflation and rising interest rates.

OVERWEIGHT EURO INVESTMENT GRADE CORPORATE BONDS

We are increasing our selective and defensive tilt.

NEUTRAL HIGH YIELD CORPORATE BONDS

Carry play but vulnerable to the hard landing and lower liquidity scenarios. We are increasing our selective and defensive tilt.

UNDERWEIGHT EMU GOVERNMENT BONDS

Vulnerable to the ECB tightening but we are reducing the underweight and gradually increasing the duration of the government bonds portfolio.

NEUTRAL NON-EMU GOVERNMENT BONDS

Long-term investment opportunities in US governments bonds but the sticky US inflation suggests a gradual path.

OVERWEIGHT EMERGING MARKETS BONDS

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

POSITIVE 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 prices, 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

ITALIAN GOVERNMENT BONDS: WHAT'S DRIVING THE PRICES?

The financial environment of the past six months has been the perfect storm for government bond investments, on both sides of the Atlantic. On the one hand, sharply rising inflation, a consequence of the damage to global production and distribution chains, erodes the real value of future coupons and capital payments. On the other hand, the increasingly aggressive plans of central banks to reduce monetary stimuli (quantitative tightening) have made the main source of demand lack on the secondary market. The result has been a correction that is unprecedented in recent history in terms of magnitude and speed – and there does not seem to be a quick end to it.

In Europe, we have also seen a widening of yield spreads on peripheral government bonds versus AAA-rated bonds such as German government bonds. In particular, the spread between 10-year Italian government bonds and the corresponding Bund of the same maturity rose to around 230 bps in the second week of June. This increase took place in a context of a generalised increase in risk aversion, which led to penalising the assets deemed less safe and, therefore, in the bond world, those issuers with lower credit ratings.

To have a historical comparison with respect to the levels of the BTP-Bund spread in recent years during phases of high volatility and risk aversion, we remind you that in the last half of 2018, this spread had an average level of about 275 bps, and around 250 bps in the second quarter of 2020.

Although in the short term, the uncertainties about the dynamics of prices and the consequent actions of central banks on the monetary front can lead to a persistence of the current volatile environment, in the medium term, various endogenous and exogenous factors will continue to provide support to Italian bonds. We list some of them below.

- In terms of primary government deficit (net of interest expenses), Italy recorded 3.7% in 2021. The estimate for 2022 is 2% and for 2023 it is reduced to 1%. These numbers show that the flows of Italian public finance are in line with the euro area average.
- The National Recovery and Resilience Plan has substantially increased the political cost of Eurosceptic positions, effectively increasing the connection with Europe and the commitment to implement the plan. The Italian government has recently confirmed the achievement of the objectives set for the first half of 2022. The NRRP represents the crucial point for a permanent and sustainable increase in the country's growth potential and therefore for the stability of its debt-to-GDP ratio.
- The ECB has reiterated on several occasions how, for the purposes of an effective transmission of monetary policy, it is essential to avoid fragmentation in the European debt market. Indeed, diverging trends in government rates would have similar impacts on domestic credit markets (through the transmission channel of national government bonds that banks hold among their assets). The ECB has obviously not indicated how and at what levels of spread it deems it necessary to intervene, but today the toolkit at its disposal is wide and certainly effective.
- Finally, in terms of stocks today, foreign investors (who often lead significant outflows during stressful phases, which contributes to the widening of spreads), hold about EUR500 billion – which is equal to 20% of the total (at the lowest levels since the peripheral public debt crisis

Alessandro Caviglia



CIO Italy, UniCredit SpA (Italy)

in 2011-2012). About 80% of Italian public debt is held by private domestic investors and by the public sector. The former hold about EUR1,150 billion, the latter hold about EUR680 billion through acquisitions made by the Eurosystem in recent years (the system of national central banks chaired by the ECB). This represents an important element of stability for the dynamics of prices.

In conclusion, we believe that the current correction does not represent the beginning of a path of significant increase in the spreads for Italian public debt. In the context of the government bond asset class, we maintain our preference for BTPs, which, in line with a context normalisation of risk aversion in the second half of the year, we believe have the potential to recover their value.

Answers from Austria

ARE CRYPTOCURRENCIES A SUITABLE INVESTMENT?

Cryptocurrencies have been the talk of the town for many years. Who hasn't had countless discussions with neighbours, acquaintances, friends or family about this investment opportunity in recent years?

Opinions may differ on this topic, but for a long time the proponents of cryptocurrency had the upper hand. This is probably largely due to the fact that prices were on the rise for a long time – and investors were able to make tremendous profits. This, in turn, has increased media awareness and subsequently also led to financial service providers expanding their offerings. Thus, this upwards spiral has continued.

Whether cryptocurrencies are suitable as a form of investment or not is something that each investor must decide for themselves. At UniCredit Group, we currently have some reservations about cryptocurrencies and therefore do not consider it in our asset allocation. While the technologies behind cryptocurrencies (e.g. blockchain) could very well play an important role in coming years, we believe there are potential challenges in assessing the value of these assets.

What are the challenges of investing in and valuing cryptocurrencies?

- The exchange rate to other classic currencies, for example the euro or the US dollar, is subject to strong fluctuations. This sometimes has to do with the fact that common valuation approaches for currencies cannot be projected onto cryptocurrencies. The interest rate differential between currency areas can be a factor influencing exchange rates. Money often flows to those regions where higher interest rates are offered, supporting the exchange rate. Economies with solid economic growth also benefit in part from stronger demand in their currencies. Purchasing power parity can also be a way to value currencies. The most striking indicator in this context is the Big Mac index, which was created by The Economist magazine in 1986. This compares the cost of a common burger in different currency areas and consequently calculates an implicit exchange rate of the currencies. Other economic or political factors can also have an impact on the exchange rate. However, all these benchmarks cannot be applied to cryptocurrencies.
- Cryptocurrencies do not offer a return. When investing in equities, an investor takes a stake in a company. Equity prices are also subject to fluctuations, but an ongoing return can be generated via dividend payments, for example. Shares are substance values (investments, trademark rights, real estate), however, a detailed analysis should also precede this form of investment. In most cases, bonds pay a coupon whereby current income is guaranteed. The low or negative interest rate environment has favoured an investment in cryptocurrencies, as in many cases the opportunity costs were low or even negative. The rising interest rate environment has now changed the picture.
- In the event that cryptocurrencies become worthless, the investor is left with nothing. In the case of corporate bonds, after deducting all liabilities, in many cases a partial repayment of the invested amount is still possible for creditors. In the case of commodities, which also do not yield a current return, there is at least a physical value. For example, many metals are used in industry or are used as jewellery. What remains of cryptocurrencies when investor confidence wanes?
- The acceptance of cryptocurrencies as a means of payment is very low, certainly also due to the high exchange rate fluctuations. Again and again, companies offer payment for their services and goods in cryptocurrencies, but then partly backpedal. The arguments for this vary, but the high exchange rate fluctuations and the resulting plannability are certainly a contributing reason for this circumstance. These high fluctuations also make it difficult to take them into account as part of an asset allocation, as even lower weightings would have a significant impact on the risk parameters.

Oliver Prinz



Co-CIO Bank Austria and
Schoellerbank (Austria)

These arguments refer to the challenges we see in terms of investing and valuing cryptocurrencies – and why these investment instruments are not considered in our asset allocation. Other aspects such as sustainability (energy consumption) or regulations were not considered. Every investor must assess the opportunities and risks associated with cryptocurrencies – of which there are more than 10,000 – for themselves, and weigh them up before making an investment. Price developments of many cryptocurrencies over the past year are more like a high-speed train ride than a solid investment. It remains exciting to see whether the big crypto party has come to an abrupt end or whether investors will just take a breath of fresh air to lift prices to new heights.

Answers from Germany

WILL FRANCE BECOME UNGOVERNABLE FOR PRESIDENT MACRON AFTER THE PARLIAMENTARY ELECTIONS?

June 19 changed France. Two months after Emmanuel Macron's re-election as president, in which it already became clear how much he polarises the country, he suffered a bitter defeat in the decisive second round of the French parliamentary elections. His centrist alliance **Ensemble (Together)**²², which includes several parties of the political centre, clearly lost its majority in the 577-member National Assembly on Sunday.

According to the provisional official results, the Macron camp won 245 seats, but fell short of an absolute majority, which would have required 289 seats. Five years ago, La République en Marche (LREM) won a solid majority of 308 seats. The **New Social and Ecological Popular Union (Nupes)**²³ of left-wing nationalist Jean-Luc Mélenchon, which was also joined by Socialists and Greens, arose as the strongest opposition force with 131 seats. Marine Le Pen's right-wing nationalist Rassemblement National scored more strongly than ever before in a parliamentary election and will henceforth be the third-strongest force in parliament with 89 deputies – about 11 times as many as before – as the group of bourgeois-conservative Republicans plummeted (along with their allies) to 74 seats. The turnout in the Fifth Republic in parliamentary elections has never been so low; only about 46% of eligible French voters cast ballots on Sunday.

For President Macron, this result represents a heavy defeat. For the first time in over 30 years, the French president is without an absolute parliamentary majority. Prime Minister Élisabeth Borne expressed her views accordingly; "We have a new situation today," she said, referring to the loss of the absolute majority. The situation is "a risk for our country in the face of national and international challenges." But the result must be respected, she added.

France's system is fundamentally designed for clear confrontations with clear majorities. Compromise-based governing in coalitions across one's own political camp is far less common than in the Federal Republic. The election results are likely to lead to weeks of negotiations, as Macron will have to seek partners for a governing majority with his centre camp in the National Assembly in view of the bitter losses of mandates. Leading conservative politicians have already called for an alliance with Macron that could secure a sufficient governing majority.

While governing is likely to become more controversial and complicated for majority leaders in the future, the French president constitutionally holds too prominent a position for France to now become ungovernable. However, it will certainly not be any easier for Macron to push through important legislative projects – such as retirement at 65 years old.

The prime minister, meanwhile, named priorities for the coming government period. Starting in the summer, she said, there should be strong and concrete measures to strengthen the purchasing power of the French. Full employment and ecological change were also high on the list of priorities, and education and health care had to be improved. Élisabeth Borne described France's sovereignty in the areas of energy and food as further priority tasks.

Whether the new French government will succeed in reviving the reform momentum remains to be seen. However, we are confident that France – despite the expected headwind of a strengthened extreme right – will remain a reliable partner for the European project.

Philip Gisdakis



CIO UniCredit Bank AG
(HypoVereinsbank) (Germany)

²²In the elections, Macron's La République en Marche (LREM) rejoined the center party MoDem and the centre-right Horizons party founded by former Prime Minister Édouard Philippe.

²³The Nupes alliance includes Mélenchon's France insoumise, the Socialists, the Communist Party and France's Green Europe Écologie Les Verts.

DEVELOPMENT OF SELECTED FINANCIAL MARKET INDICES

From	21.06.21	21.06.17	21.06.18	21.06.19	21.06.20	21.06.21	21.06.17	01.01.22
To	21.06.22	21.06.18	21.06.19	21.06.20	21.06.21	21.06.22	21.06.22	21.06.22
Stock market indices (total return, in %)								
MSCI World (in USD)	-14,7	12,4	6,1	3,5	37,6	-14,7	45,0	-21,9
MSCI Emerging Markets (in USD)	-23,9	10,2	0,5	-2,2	38,1	-23,9	13,5	-17,8
MSCI US (in USD)	-13,8	15,4	9,3	7,8	40,1	-13,8	64,3	-23,4
MSCI Europe (in EUR)	-6,5	1,2	4,9	-4,0	27,5	-6,5	21,7	-13,6
MSCI AC Asia Pacific (in USD)	-21,6	12,4	-3,0	2,3	31,2	-21,6	14,7	-18,1
STOXX Europe 600 (in EUR)	-7,7	1,4	4,7	-2,8	28,0	-7,7	22,0	-14,6
DAX 40 (Germany, in EUR)	-15,0	-2,1	-1,4	-0,2	26,5	-15,0	3,5	-16,5
MSCI Italy (in EUR)	-9,5	4,5	3,4	-9,1	30,8	-9,5	17,7	-16,2
ATX (Austria, in EUR)	-6,9	7,2	-5,4	-21,1	54,6	-6,9	15,7	-18,2
SMI (Switzerland, in CHF)	-10,1	-2,6	21,2	6,4	20,4	-10,1	36,0	-16,3
S&P 500 (USA, in USD)	-11,8	15,1	9,5	7,0	38,5	-11,8	64,9	-22,3
Nikkei (Japan, in JPY)	-6,2	14,9	-4,4	7,1	26,6	-6,2	40,4	-9,7
CSI 300 (China, in Yuan)	-13,3	2,2	9,2	9,4	26,5	-13,3	35,3	-11,7
Bond market indices (total return, in %)								
US Government Bonds 10Y (in USD)	-13,3	-4,3	10,6	16,2	-4,8	-13,3	2,1	-14,3
US Government Bonds (ICE BofA , in USD)	-10,1	-1,6	7,3	10,4	-3,3	-10,1	1,7	-10,7
US Corporate Bonds (ICE BofA A-BBB, in USD)	-14,2	-1,5	10,0	9,8	3,5	-14,2	5,9	-14,7
German Bunds 10Y (in EUR)	-16,3	1,0	7,5	1,5	-1,8	-16,3	-9,1	-16,1
EUR Government Bonds 1Y-10Y (iBOXX, in EUR)	-14,6	-0,2	6,5	2,4	0,0	-14,6	-6,7	-14,4
EUR Corporate Bonds 1Y-10Y (iBOXX, in EUR)	-13,7	0,7	4,3	-0,2	3,2	-13,7	-6,7	-13,3
Bond yields (change in basis points = 0.01 percentage points)								
US Government Bonds 10Y (in USD)	178	74	-83	-131	79	178	111	177
US Government Bonds (ICE BofA , in USD)	233	92	-76	-136	42	233	150	208
US Corporate Bonds (ICE BofA A-BBB, in USD)	271	91	-75	-103	-16	271	165	245
German Bunds 10Y (in EUR)	196	6	-62	-13	23	196	148	192
EUR Government Bonds 1Y-10Y (iBOXX, in EUR)	203	23	-58	-22	6	203	148	198
EUR Corporate Bonds 1Y-10Y (iBOXX, in EUR)	312	18	-48	19	-40	312	261	293
Spreads on government bonds (credit spreads, change in basis points)								
US Corporate Bonds (BofAML US Corporate Master)	63	10	-2	29	-70	63	33	52
US Corporate Bonds (BofAML US High Yield)	201	-46	56	199	-288	201	138	205
Euro Corporate bonds (BofAML Euro Corporate AAA-A)	90	3	-4	20	-40	90	71	76
Euro Corporate Bonds (BofAML Euro High Yield)	250	75	10	140	-214	250	259	211
Money market rates (change in basis points)								
Libor (USD, 3 months)	196	105	1	-204	-17	196	81	189
Euribor (Euribor (EUR, 3 months), 3 Monate)	0	1	-2	-7	-14	0	0	0
Euro exchange rates (change in %)								
US Dollar (EUR-USD)	-11,6	3,5	-1,9	-0,9	6,1	-11,6	-5,7	-7,1
British Pound (EUR-GBP)	0,1	-0,5	2,4	1,5	-5,3	0,1	-2,7	2,0
Swiss Franc (EUR-SFR)	-7,2	5,9	-3,4	-4,4	2,8	-7,2	-6,4	-1,6
Japanese Yen (EUR-JPY)	8,4	2,7	-4,7	-1,6	9,3	8,4	14,2	8,9
Commodities (change in %)								
Commodity Index (GSCI, in USD)	2,5	1,2	9,6	23,9	-0,7	2,5	39,7	0,2
Industrial metals (GSCI, in USD)	5,5	18,9	-16,0	-6,4	49,3	5,5	49,6	-6,2
Gold (in USD per fine ounce)	3,0	1,8	9,9	25,7	2,5	3,0	47,9	0,8
Crude oil (Brent, in USD per barrel)	52,5	60,7	-11,3	-34,2	77,2	52,5	150,3	45,8

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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UniCredit Spa
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Address
Piazza Gae Aulenti, 3
20124 Milano



Online
unicreditgroup.eu/clientsolutions