ECONOMIC OVERVIEW MONTHLY

April 2022


MONTHLY MARKET RECAP

OVERVIEW

MARKETS IN APRIL

Recent data on the U.S. labor market and inflation data have encouraged the Federal Reserve to accelerate its monetary policy normalisation. The Federal Reserve in March 2022 started the process of raising rates and will subsequently reduce the size of its balance sheet. This will most likely cause a further increase in rates, probably also in the long term in the US. We express a neutral view, as the levels reached on the short side ensure a positive carry.

Regarding the corporate IG segment we keep a neutral view. Valuations returned more attractive and fundamentals still positive balance the fragile technical picture for demand and positioning. Fixed income investment alternatives, although back positive in several market segments, are still a supportive factor for IG, even if renewed uncertainty and rising interest rate curves make total return prospects less positive.

Neutral perspectives are also considered for the HY corporate segment. We believe that from a strategic perspective the positive macro view, solid micro fundamentals and recent drawdown making valuations less rich, support the neutral but constructive view. At the allocation level, preference in high yield sectors for financials vs corporate and on cyclicals vs non-cyclicals, with a necessary selectivity at the issuer level given the concrete evidence of the re-emergence of idiosyncratic risk.

The view on the equity sector continues to be constructive. Among the main risks are the normalization of monetary policy (which could be affected by a higher inflation rate for a longer period of time) and fears about the Chinese real estate market. the ongoing war in Ukraine and the long-term effects of the economic sanctions imposed by the West on Russia obviously remain to be monitored.

EQUITY MARKETS	LEVEL		Δ April
MSCI World AC	2 795,62	▼	-9,1%
S&P 500	4 131,93	▼	-9,8%
NASDAQ Composite	12 334,64	▼	-15,1%
SX5E	3 802,86	▼	-3,2%
DAX	14 097,88	▼	-2,9%
CAC 40	6 533,77	▼	-2,3%
FTSEMIB	24 252,16	▼	-2,7%
IBEX 35	8 584,20	▲	1,7%
FTSE 100	7 544,55	▲	0,1%
MSCI Emerging	1 076,19	▼	-7,2%
CSI 300	3 976,42	▼	-6,0%

COMMODITIES	LEVEL		Δ April
Gold	1 897	▼	-1,9%
Silver	22,78	▼	-7,2%
WTI	104,69	▲	2,8%
Brent	107,14	▲	1,1%

BOND MARKETS	LEVEL		Δ April
US 10-year Yield	2,93%	▲	53,8 bp
FRA 10-year Yield	1,46%	▲	45,6 bp
ITA 10-year Yield	2,77%	▲	70,5 bp
USD Invest. Grade	4,31%	▼	-5,50%
EUR Invest. Grade	2,12%	▼	-2,86%
USD High Yield	6,98%	▼	-3,61%
EUR High Yield	6,30%	▼	-2,98%
Emerging Local ccy	4,24%	▼	-4,43%
Emerging Hard ccy	5,97%	▼	-4,85%

EXCHANGE RATES	LEVEL		Δ April
Dollar Index	102,96	▲	4,0%
EUR/USD	1,0545	▼	-3,9%
GBP/USD	1,2574	▼	-4,1%
EUR/GBP	0,8388	▲	0,3%
EUR/CHF	1,0262	▲	1,0%
USD/JPY	129,70	▲	5,6%

Source : Bloomberg, as of 12.05.2022


ECONOMIC WRAP

MACRO OVERVIEW

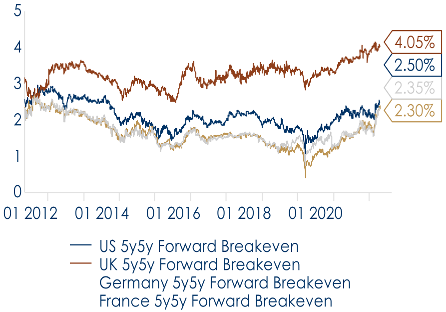
The global recovery continues, albeit at a slower pace. The Ukraine war impact will depend both on the conflict duration and the extent and duration of sanctions imposed on Russia by Western economies. In April, the risk of an interruption in gas supplies from Russia to Europe was amplified and upward inflation risks in the Eurozone began to materialize, price dynamics gradually strengthened with repercussions on all phases of the supply chain; companies and households are also revising their inflation expectations upwards, towards historic highs, and have slowed the restocking process.

In the United States, GDP fell at an annualized rate of 1.4%, driven by both increased imports and a slowdown in restocking, which more than offset consumer and business demand. **The figure does not signal a U.S. economy in recession, only that some of the dynamics of the post-covid recovery have stalled** (loosening of supply chain bottlenecks, restocking of inventories) **as the geopolitical situation worsens.** The process of stock accumulation slowed down, penalized by rising import prices and bottlenecks in supply chains.

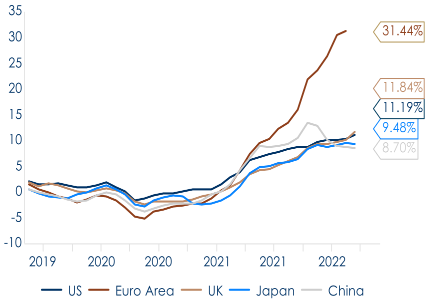
Until the invasion of Ukraine, the Eurozone economy was regaining momentum after the wave of the Omicron variant and was handling energy prices more easily than expected. **At the same time, first quarter GDP partially contradicted the positive message of the business surveys.** Eurozone "flash" GDP growth slowed to 0.2% quarter-on-quarter in Q1, down from 0.3% in Q4 The Eurozone is the most exposed to the inflation shock generated by the war in Ukraine and inflation in April reached 7.5% y/y Against this backdrop, it will be unlikely that Eurozone inflation will fall rapidly. **The contribution of energy should gradually be replaced by rising food price pressure and pass trough of producer prices.** moreover, in the coming months, China-related supply bottlenecks could cause Chinese supply bottlenecks to interrupt goods production again. We continue to see no sign of a significant acceleration in wages.

Chinese policymakers continue to face a trilema. Their key objectives of achieving zero-COVID cases, attaining the 5.5% growth target and avoiding “irrigation-style” stimulus are contradictory in nature. The PBoC continues to maintain an accommodating policy to trigger a restart and cushion the growth slowdown. Policymakers recently vowed to accelerate the implementation of existing pro-growth measures and hinted that they may scale up stimulus due to domestic challenges and external uncertainties. Producer prices remain high due to rising commodity prices. The ongoing reform process remains a key element for future growth. The outline of the 14th Five-Year Plan (2021-25) indicates less rapid but higher quality growth. Long-term key points are innovation, domestic market development, and "green ecology" and decarbonization. In the meantime, Xi Jinping's goal, which he refers to as "common prosperity," is likely to be pursued primarily by reshaping directives.

Inflation Expectations



Production Inflation



Source : Mediobanca

DISCUSSION POINTS

ECONOMIC OUTLOOK

1. International trade

World trade continued to edge higher at the onset of the war in Ukraine and before lockdowns were introduced in the major port cities of Shenzhen and Shanghai. **According to the latest data, real world goods trade rose by 0.3% m/m in February, which lifted the level of world trade to 10% above its pre-virus level.** Two unknowns now weigh on its evolution: the continuation of the war and the selective lockdowns in the main port cities of Shenzhen and Shanghai. The container transport index shows a slowdown.

2. Global Inflation

Consumer prices rose significantly in the major economies in April.

The inflation peak is not near yet: the war in Ukraine and the sanctions imposed by the West have accentuated the increase in energy and food commodity prices.

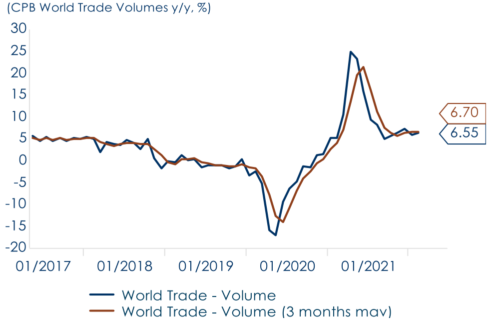
Significant increases were recorded also in the core component, which was impacted by new supply-side bottlenecks

3. Global Business: Investment Clock

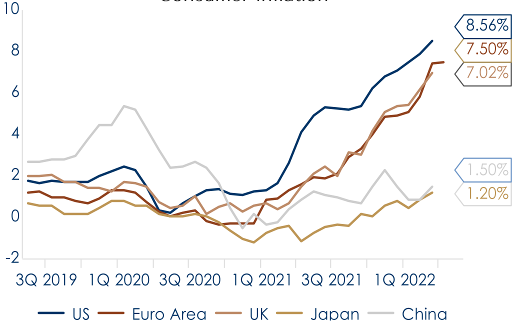
The economic growth momentum remains negative.

Our proprietary business cycle indicator, which maps economic growth's momentum and inflation, has slipped into a slowdown phase (negative growth momentum, positive inflation momentum).

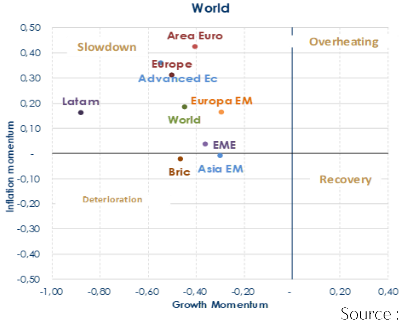
The recovery in global trade is ongoing



Consumer Inflation



Growth and Inflation Momentum



Source : Mediobanca


ECONOMIC WRAP

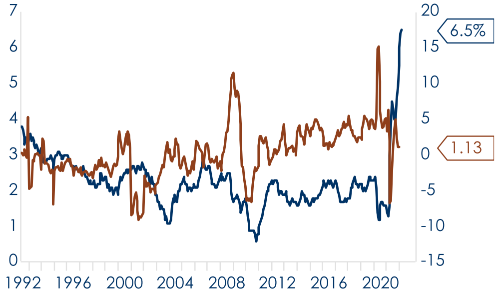
GEOGRAPHICAL OVERVIEW

UNITED STATES

U.S. headline inflation accelerated in March, to 8.6% y/y from 7.9% y/y, reaching a maximum since 1982, pushed up by the energy component, at its highest level since September 2005.

The labor market is already tight, with unemployment levels at their lowest and wages on the rise. It is precisely wage dynamics that will be a key driver for inflation's developments.

Wage pressures continues to intensity

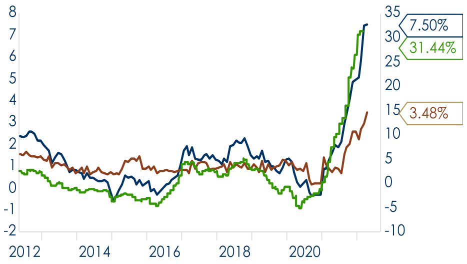


EURO AREA

The Euro Area is the most exposed to the inflationary shock generated by the war in Ukraine.

Any escalation of the conflict, with potential restrictions on energy raw materials' supply, would only exacerbate the increase in prices. This would make the inflationary dynamic much more worrying, thus requiring a more restrictive intervention by the ECB than expected.

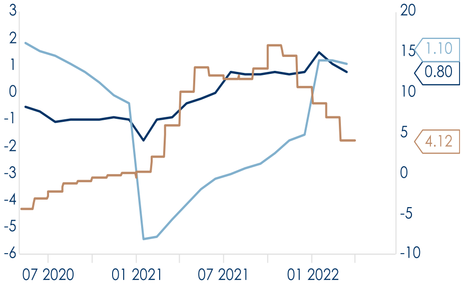
Euro Area Inflation



CHINA

China's slowdown is clear. **Last year, the Chinese government embarked on a regulatory reset that caused a marked downshift in the economy.** Then successive waves of Covid buffeted the country. The Covid-zero policy has throttled household spending and has not left the productive side of the economy unscathed. Critically large cities like Shanghai and Shenzhen have been locked down, and cases in other major cities have been rising.

PPI is decreasing



Source : Mediobanca

FOCUS ON

INFLATION STILL SET TO FALL OVER THE COMING MONTHS

The falls in headline and core inflation in April could mark the beginning of a sustained decline, as base effects improve and supply shortages ease, although the 0.6% monthly jump in core prices indicates that underlying inflation pressures could be stronger than we had expected.

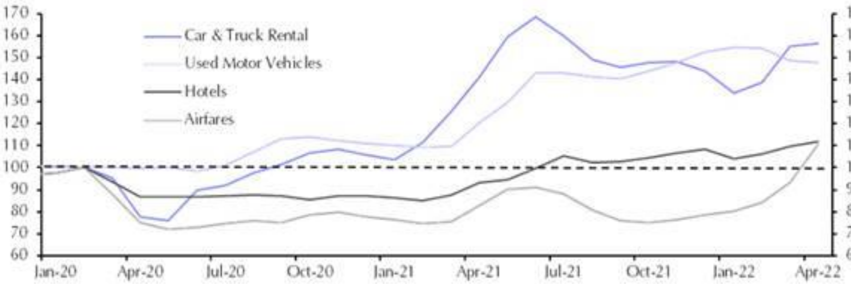
The falls in headline inflation, to 8.3% from 8.5%, and core inflation, to 6.2% from 6.5%, were mainly due to more favourable base effects, as the first of the big rises in prices early last year dropped out of the calculation. Base effects should push the annual inflation rates even lower over the coming months.

While a drop back in energy prices limited the monthly rise in headline CPI to 0.3% m/m, the 0.6% gain in the core index was stronger than anticipated. Admittedly, that partly reflected a record 18.6% surge in airfares as travel demand recovers, with hotel room rates also rising again.

Air fares have increased by close to 40% over the past three months and are now around 10% above the pre-pandemic level. This is a reopening rebound in prices compounded by the higher cost of jet fuel. The strong 1.1% rise in new vehicle prices could partly reflect the switch to a new data source last month and is at odds with evidence that supply problems in the sector are easing. Indeed, used vehicle prices fell again in April, albeit by only 0.4%. The 0.8% falls in prices for both clothing and major appliances are signs that goods supply problems, which have lingered since the Delta wave hit Southeast Asia last year and West Coast port congestion built up, are finally fading..

> "Air fares have increased by close to 40% over the past three months."

Selected Core CPI (Feb 2020=100)



There were also signs that domestically-generated inflation remains strong, with CPI rents rising by 0.6% and owners' equivalent rents up by 0.5%. Food away from home prices rose by 0.6%, the strongest gain in three months, despite a slower rise in prices at grocery stores.

Overall, the data will strengthen the Fed's resolve to continue hiking rates by 50bp at the next couple of meetings - and may lead to renewed speculation about a 75bp hike or an inter-meeting move. But with goods shortages easing and signs that wage growth is set to cool, a more pronounced drop back in inflation could allow officials to slow the pace of tightening later this year.

Source : CMB / Capital Economics

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