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The UniCredit Macro & Markets 2022-23 Outlook

Presentation accompanying the report

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Banking that matters. |  **UniCredit**

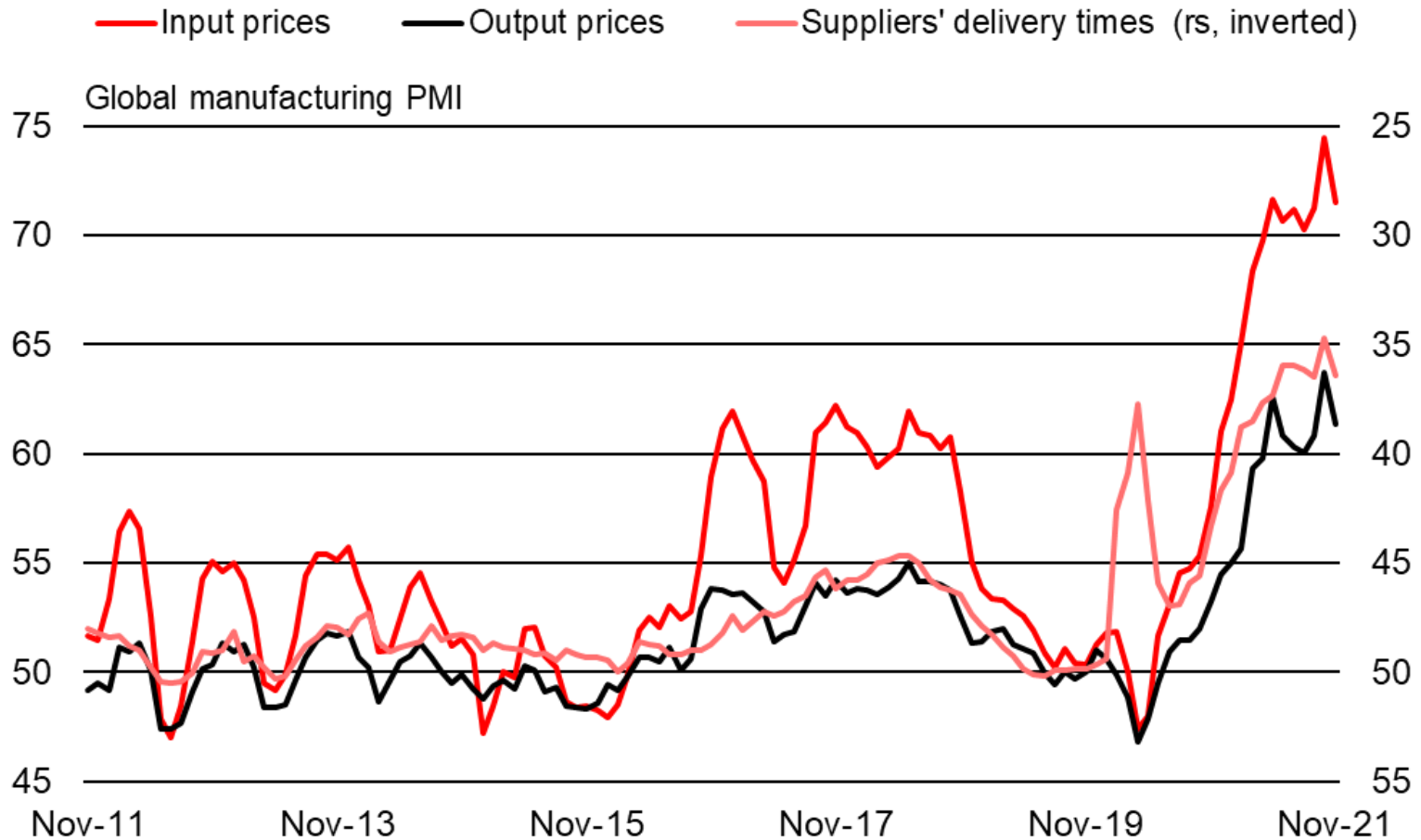
Summary of macro views

- Supply bottlenecks more intense and persistent than previously expected.
This will raise inflation and weaken growth in 2022 (we expect the opposite in 2023)
- 2022 CPI forecasts revised strongly upwards, but our medium-term outlook for inflation remains benign.
Upside risks come mainly from the supply side of the economy
- The implications of Omicron remain unclear.
However, COVID-19 is now less of a factor for the growth outlook
- Central banks seek optionality amid heightened uncertainty.
Fed to end net asset purchases in March, hike rates twice in 2022 and three times in 2023.
ECB asset purchases to last into 2023. No rate hikes before 2024
- CEE: Slower, but still robust, recovery and above-target inflation. Central banks in EU-CEE to tighten further



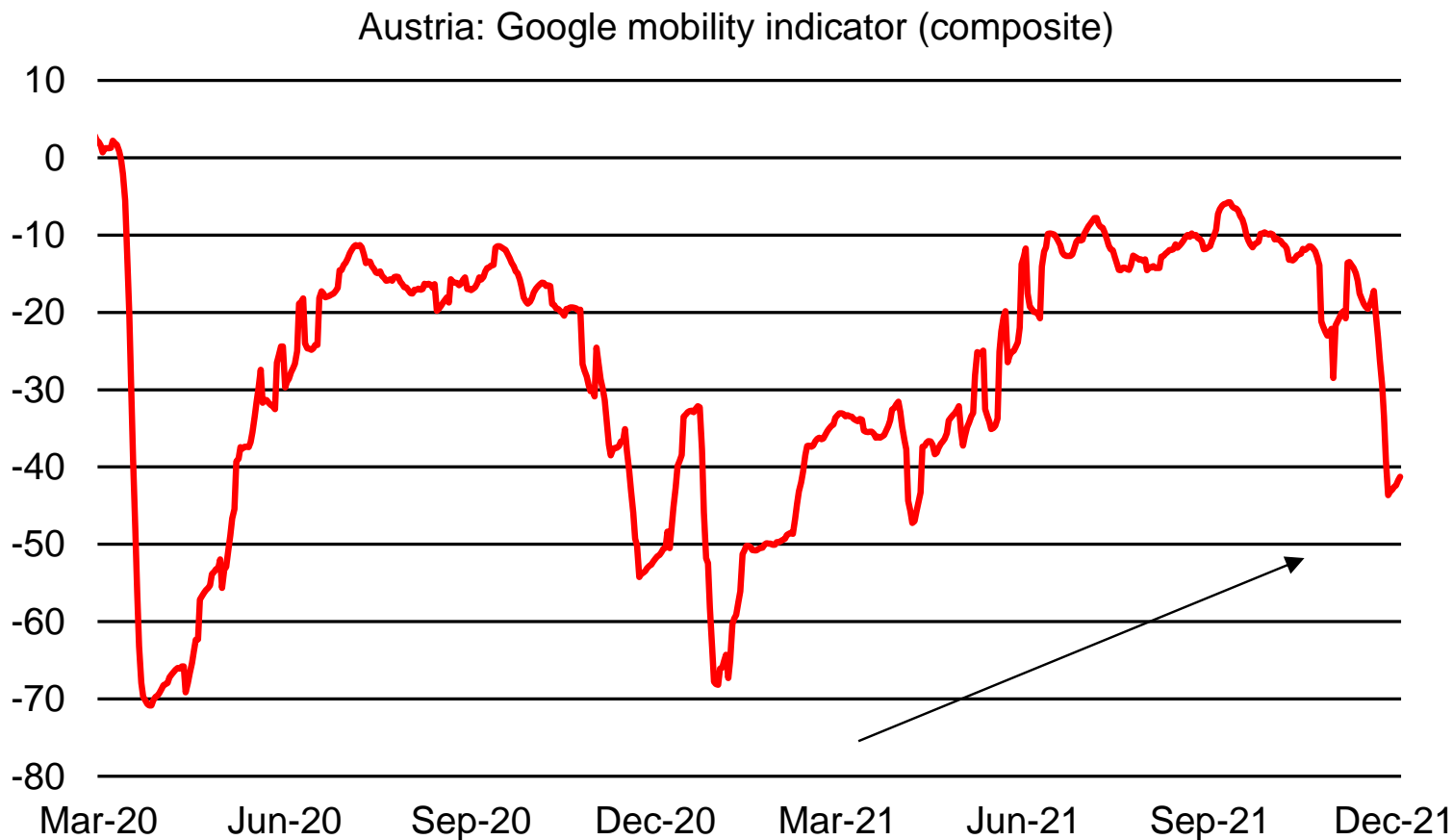
Our storyline for 2022: more bottlenecks, higher inflation and slower growth

Macro



Omicron effect unclear, but lockdown damage has decreased over time

Macro



Our GDP forecasts

Macro

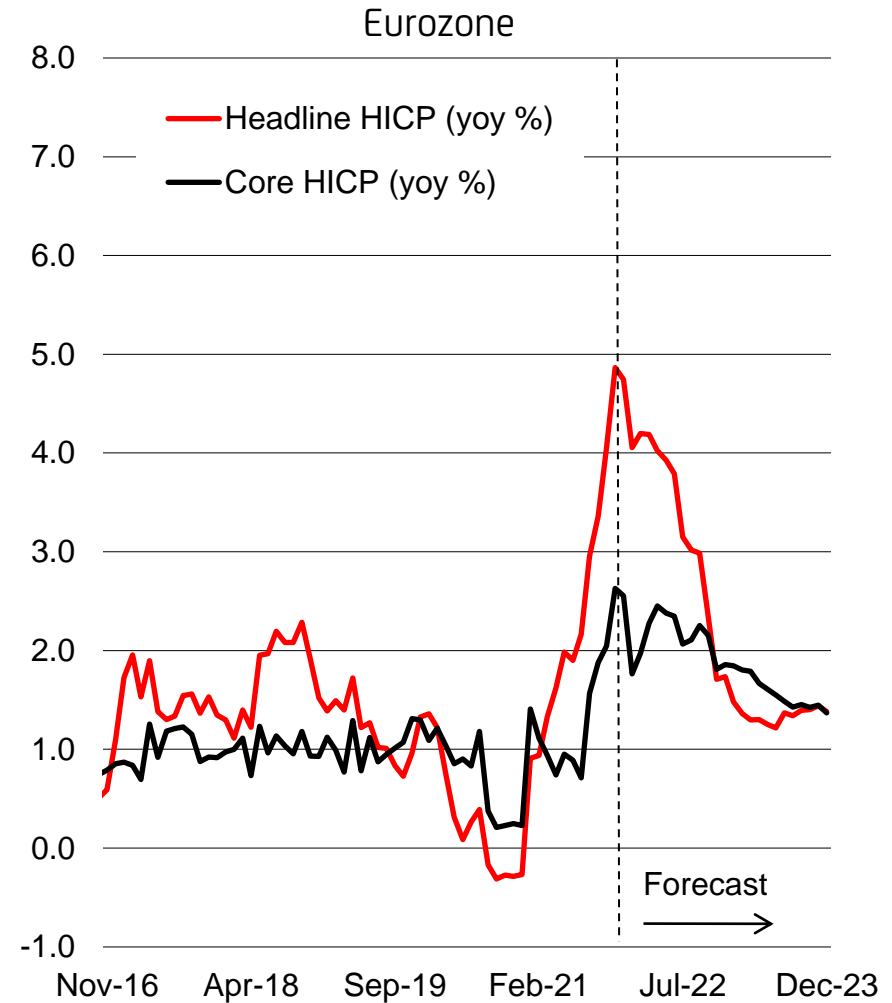
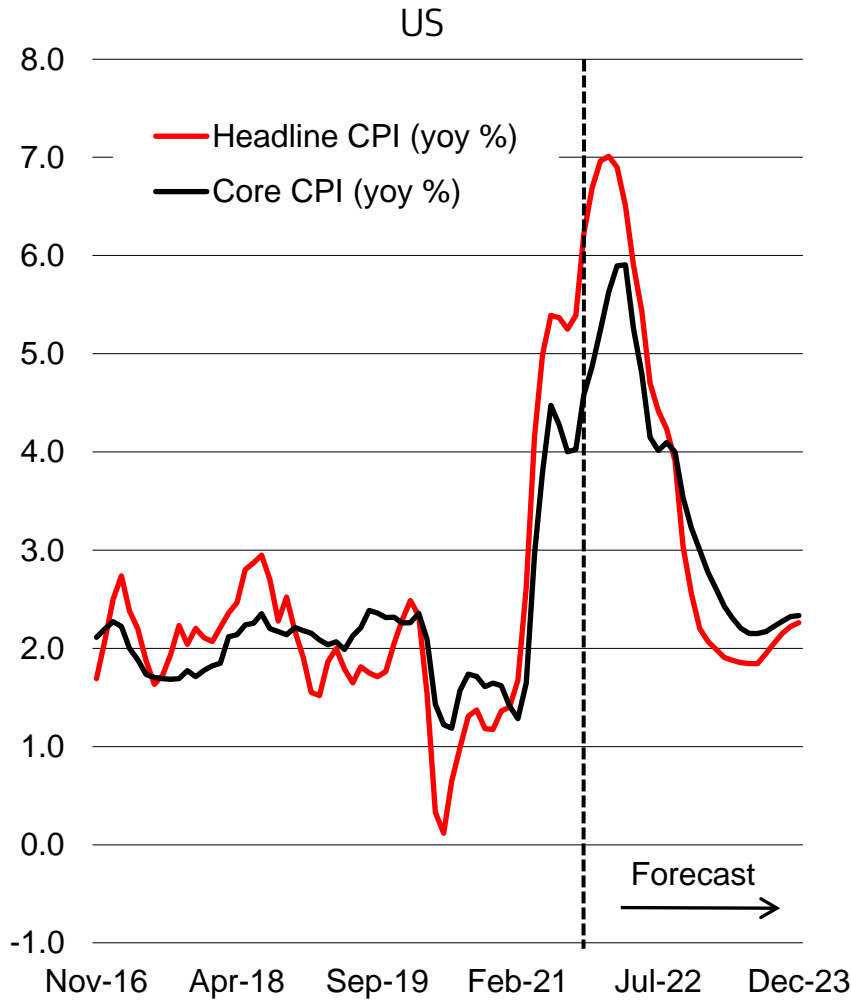
	2021	2022	2023
Global	5.8	4.2	3.7
US	5.5	3.5	2.7
Eurozone	5.2	3.9	2.9
Germany*	2.7	3.5	3.7
France	6.7	4.0	2.6
Italy	6.3	4.1	2.4
Spain	4.5	4.7	3.7
EU-CEE	5.1	4.0	4.4
UK	6.8	4.5	2.6
China	7.9	4.8	4.7
Japan	2.3	2.6	1.7

*Non-wda figures. Adjusted for working days: 2.7% (2021), 3.6% (2022) and 3.8% (2023)



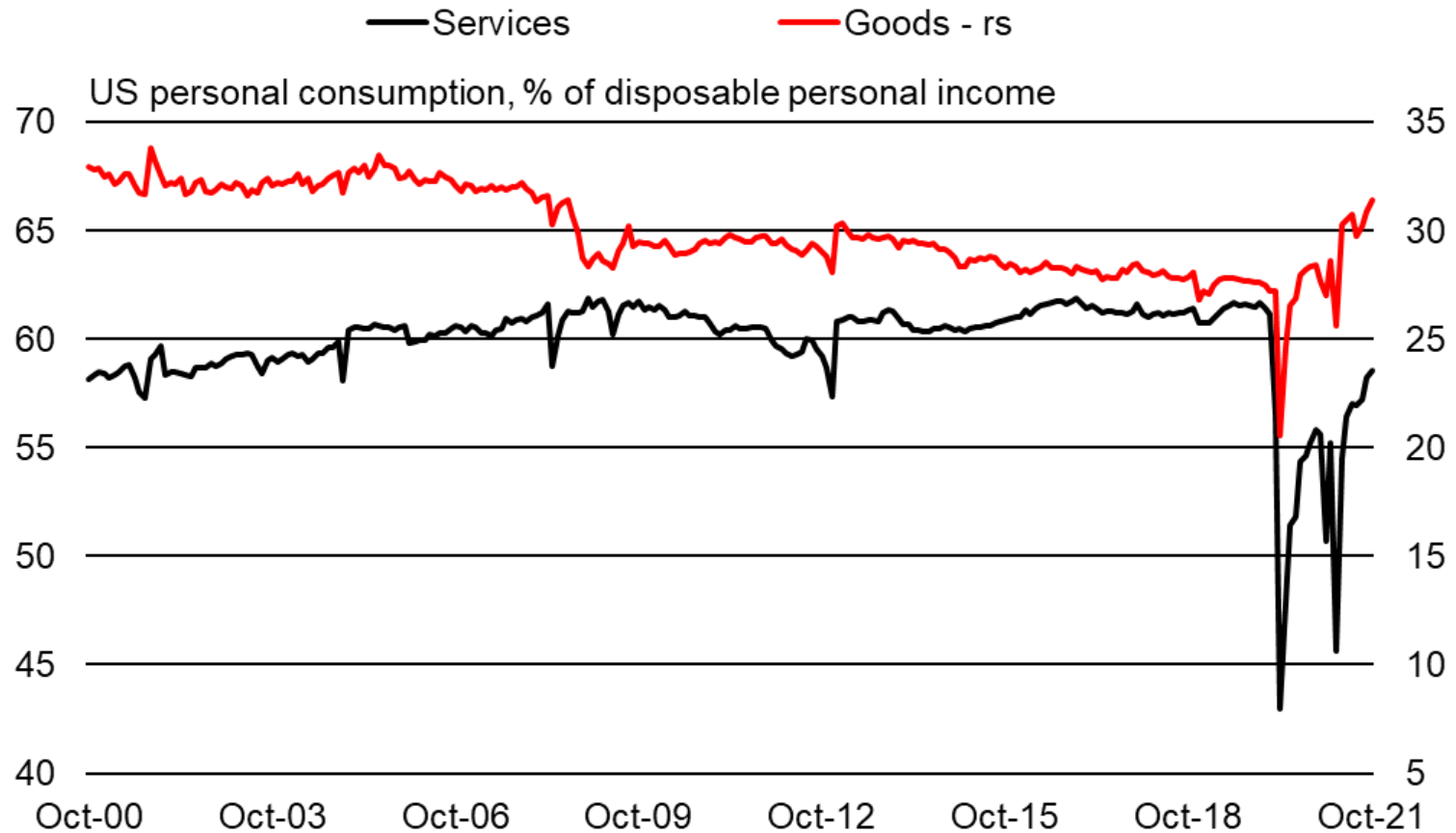
Strong upward revisions to our 2022 inflation forecasts. However, the medium-term outlook remains benign

Macro



In the US, expenditure-switching towards goods has probably run its course

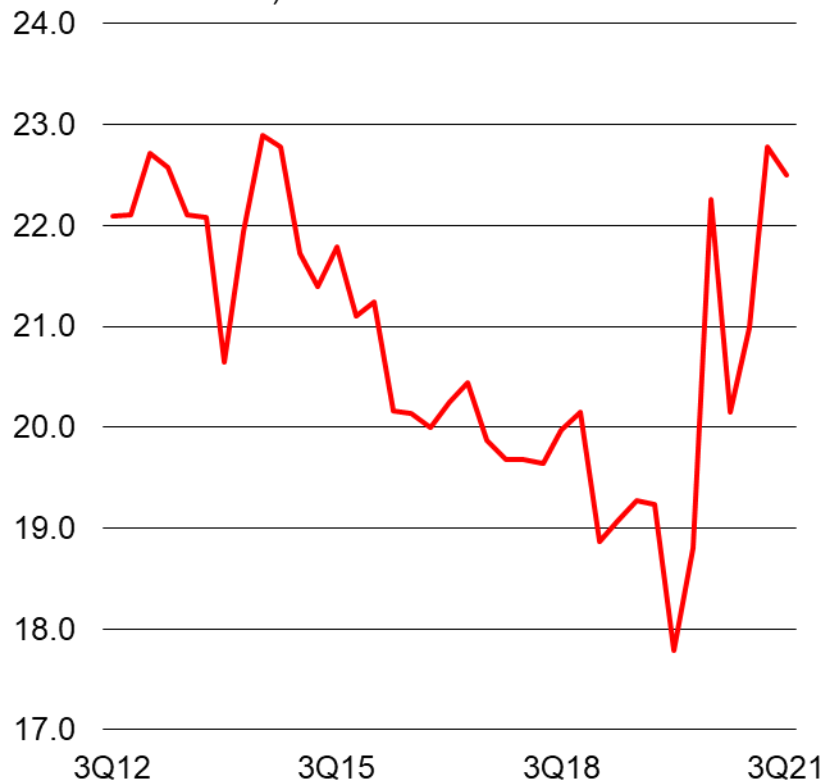
Macro



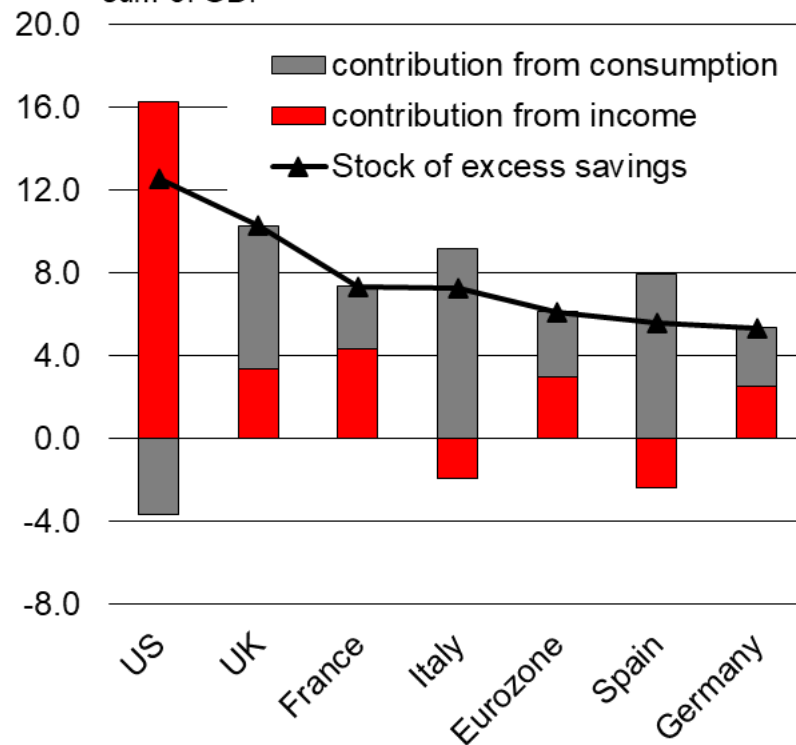
Household savings buffer makes it easier for firms to pass on higher costs

Macro

Profit margins of US non-financial corporations
(net operating surplus as a percentage of net value added)



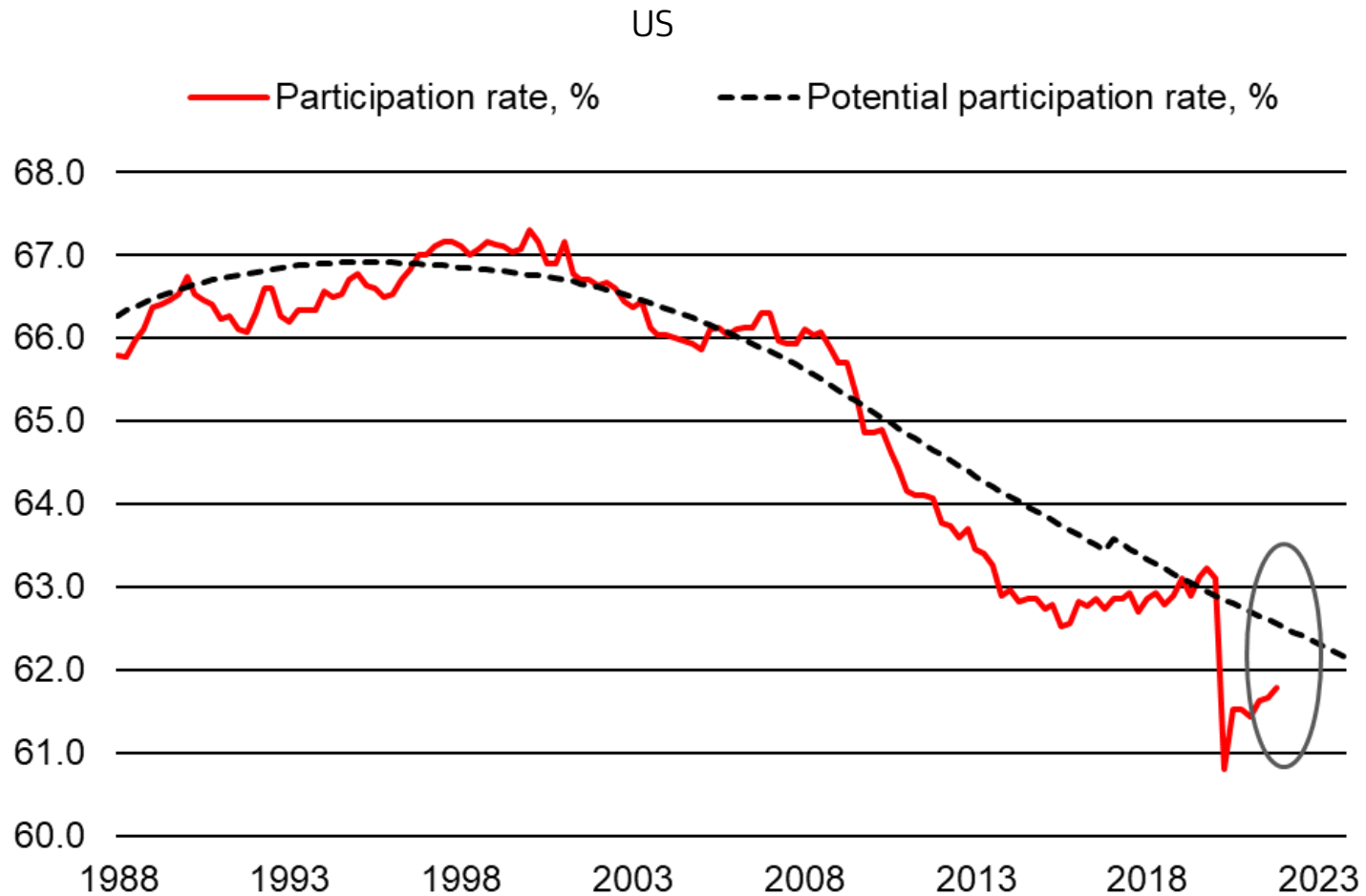
Stock of household "excess savings" in 3Q21
(cumulative 1Q20-3Q21 sum of quarterly savings above the 2018-19 average level*), in % of 4-quarter sum of GDP



Note: * household saving in 3Q21 for the eurozone, Italy, Spain and the UK are UniCredit Research estimates.



Big uncertainty on the labor-supply side



Amid high uncertainty, central banks seek optionality

Macro

Fed

- Appears set on accelerating the pace of tapering, probably ending net asset purchases in March
- The Fed has set a high bar for the first rate hike, including “maximum employment”. However, this is unlikely to require employment to return to pre-pandemic levels in the short term
- We expect two hikes in 2H22 and three in 2023. We see the fed funds rate peaking at 2.00-2.25%

ECB

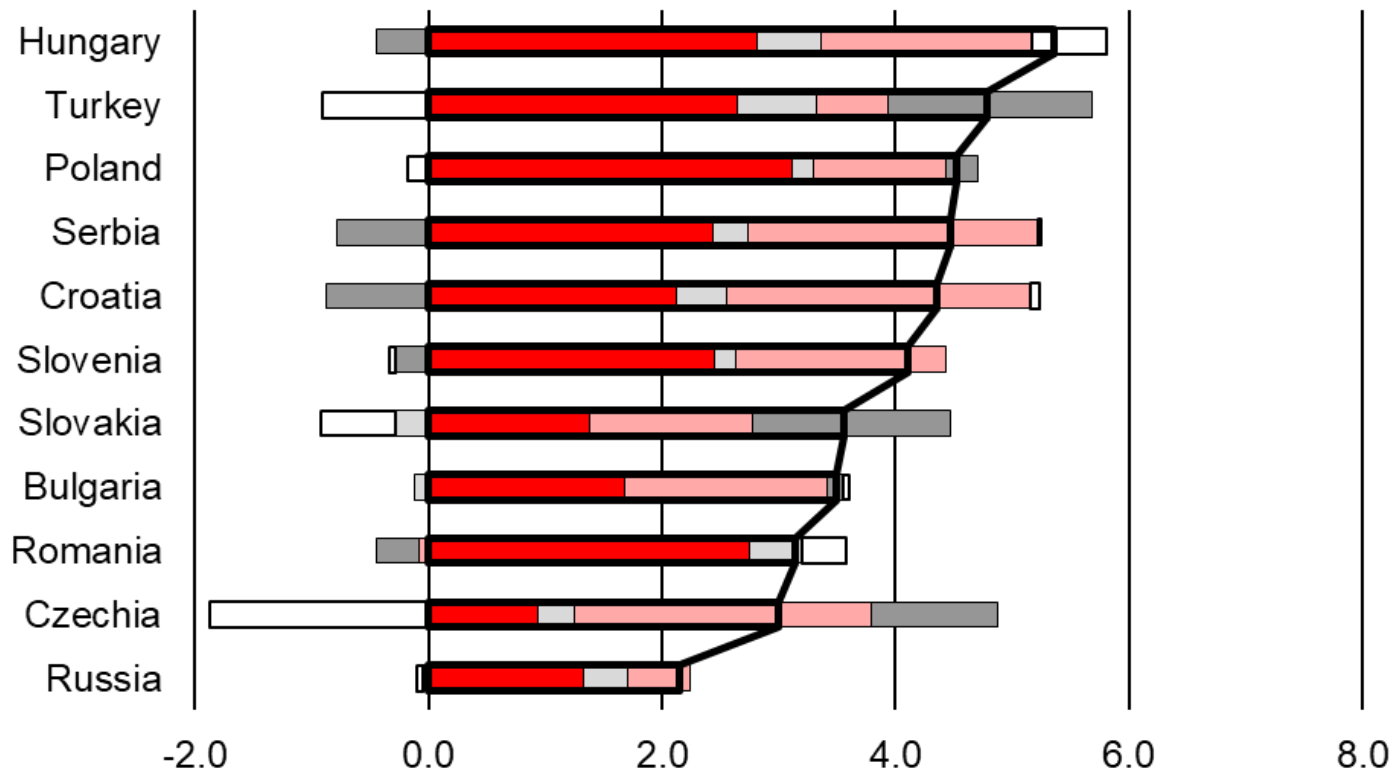
- On track to stop PEPP net purchases. After March, APP might run at an average monthly pace of EUR 40bn
- Any APP envelope for 2022 might leave plenty of scope for a (possibly quarterly) recalibration of purchases
- “Silent” PEPP would allow some flexibility to be retained
- Asset purchases to last into 2023. No rate hikes before 2024



CEE: GDP growth likely to remain above potential in 2022-23

2022 yoy (%),
pp

■ Private consumption □ Public consumption ■ Fixed investment
■ Net exports □ Inventories, error ■ GDP

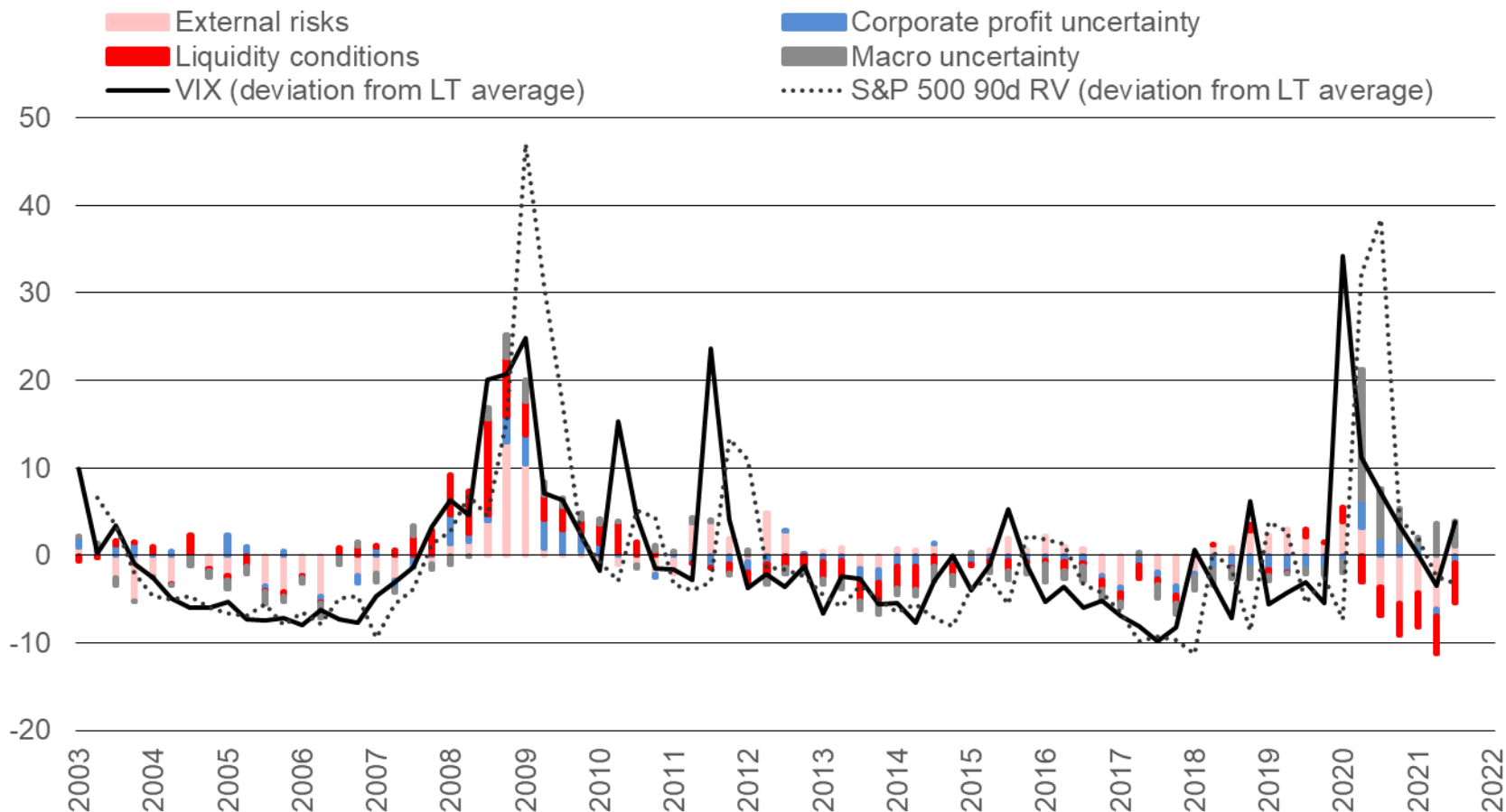


Summary of strategy views

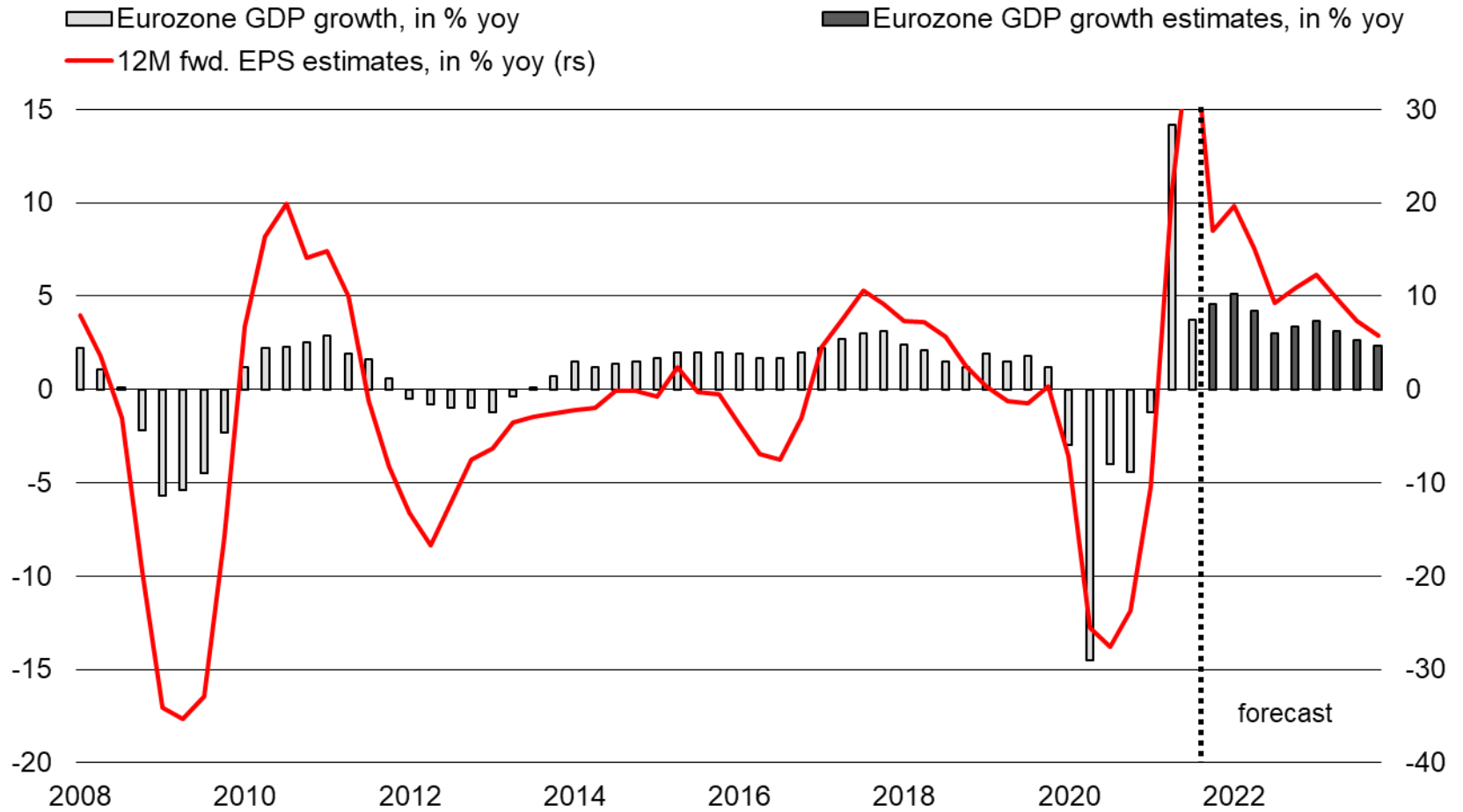
- Increased volatility in global markets and less stable risk appetite picture but room for positive performance across selected risky assets
- Equities: performance driven by EPS growth. We prefer DM over EM and Europe over US
- Rates: negative total returns across USTs and EGBs. We forecast 10Y UST yield at 2%, 10Y Bund at 0% and 10Y BTP-Bund spread at 140bp by the end of 2022
- European corporate credit: we see IG NFI Senior at 40bp and HY NFI at 280bp by the end of 2022
- FX: rate differentials to be the key driver. We forecast EUR-USD at 1.10 by the end of 2022



Risk appetite: positive momentum but with higher volatility

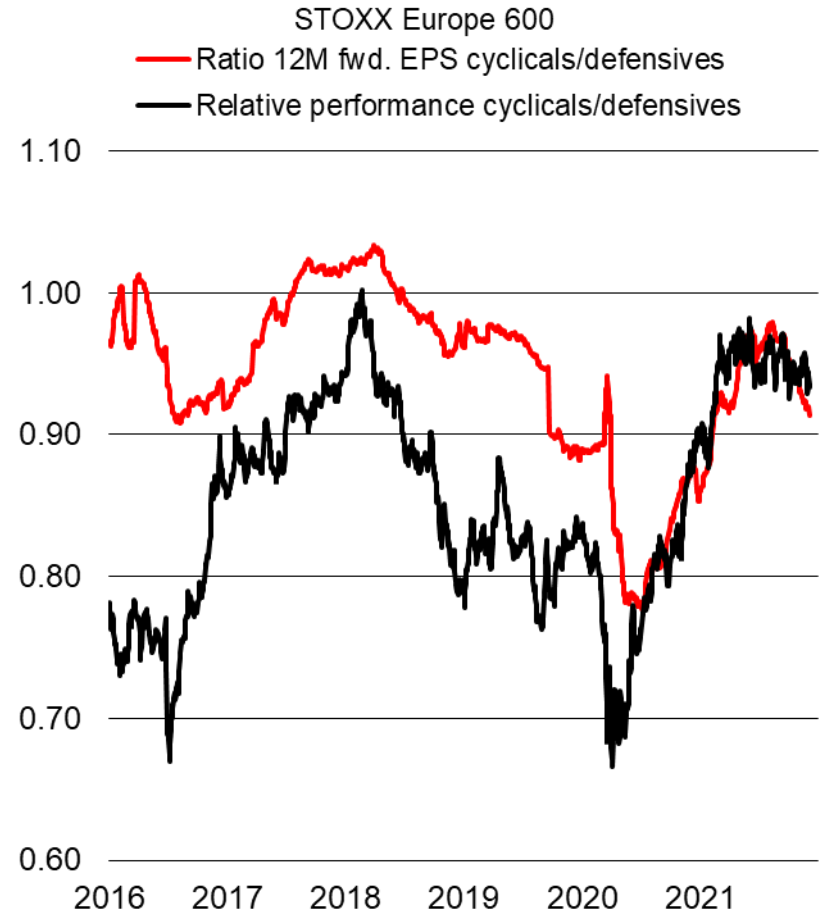
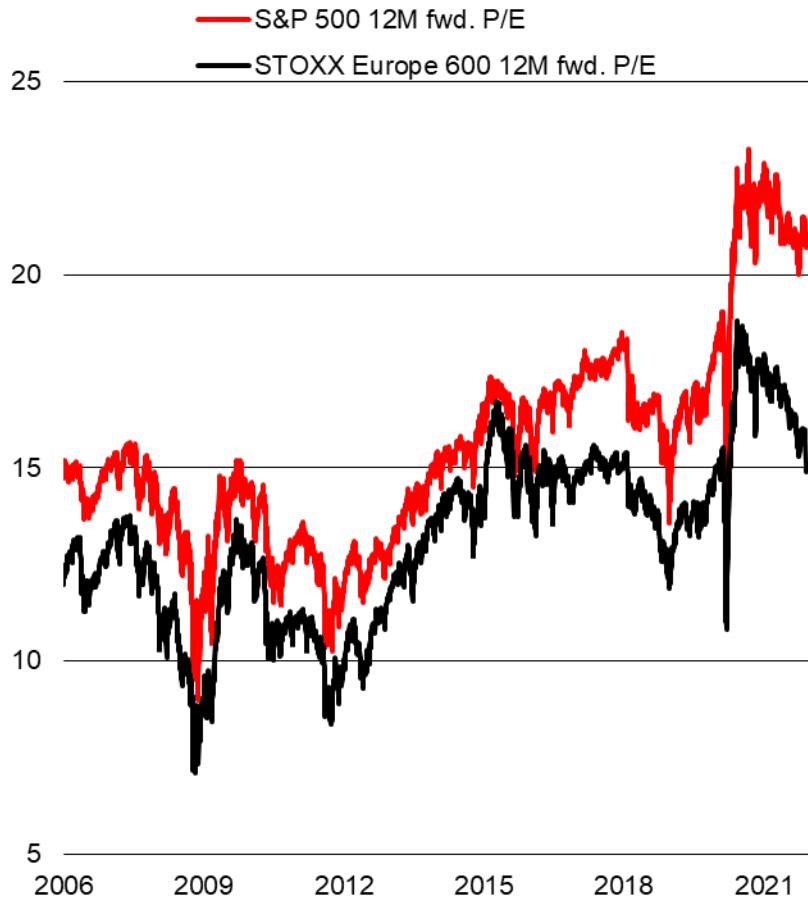


Earnings growth driving 2022 performance



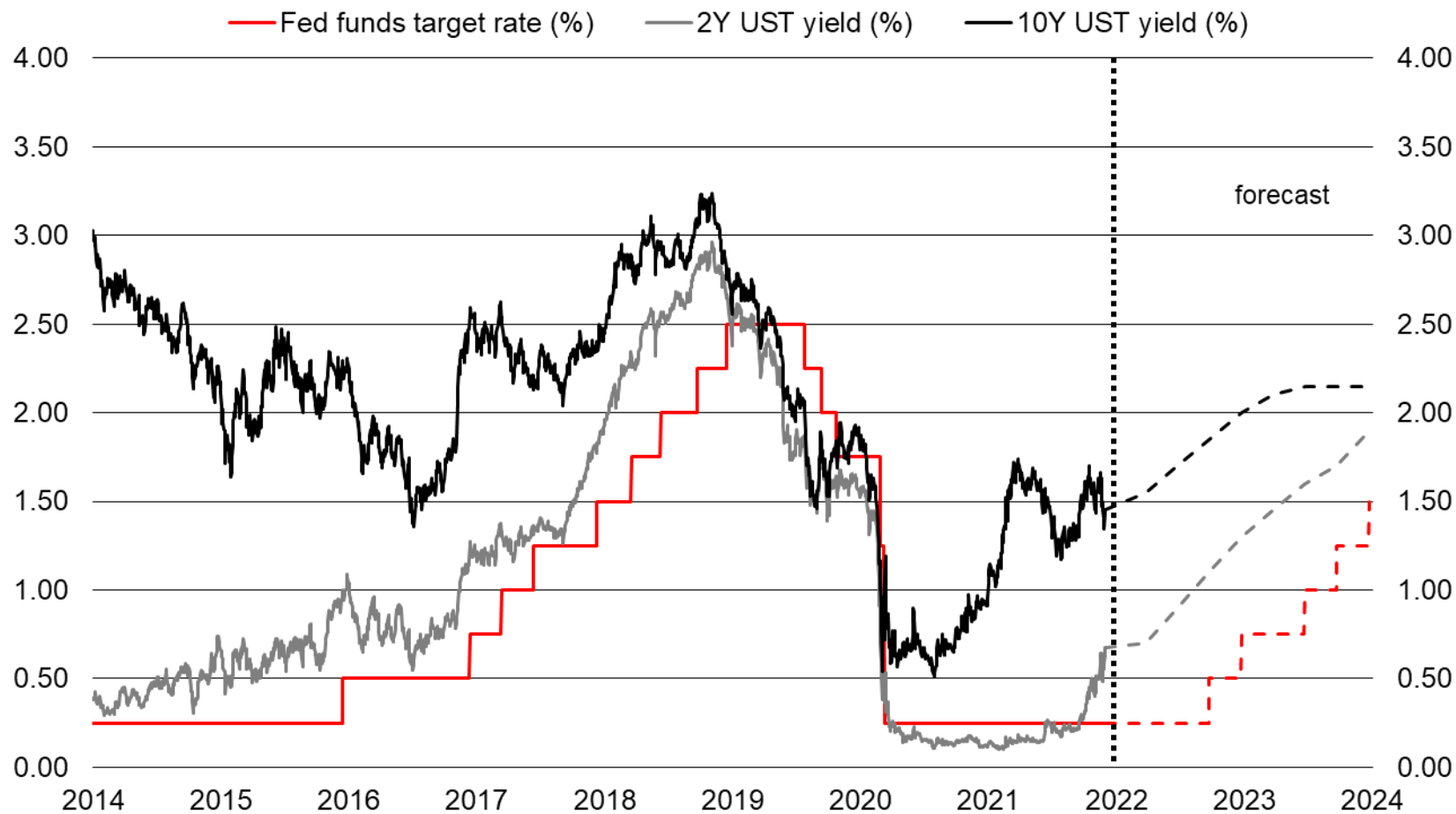
Increased headwinds for segments with high valuations

Equity



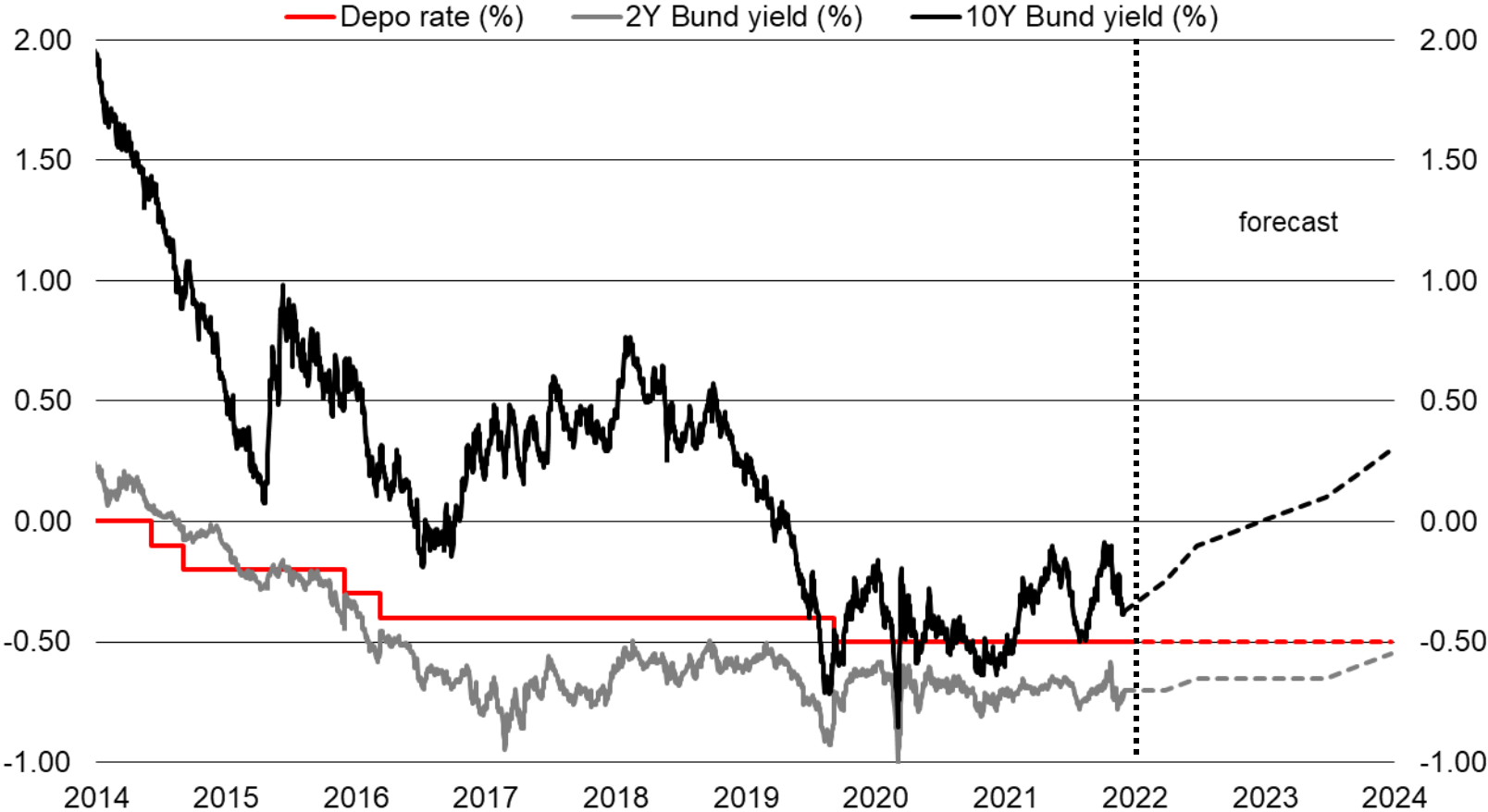
Higher UST yields and a flatter curve as rate hikes kick in

Rates



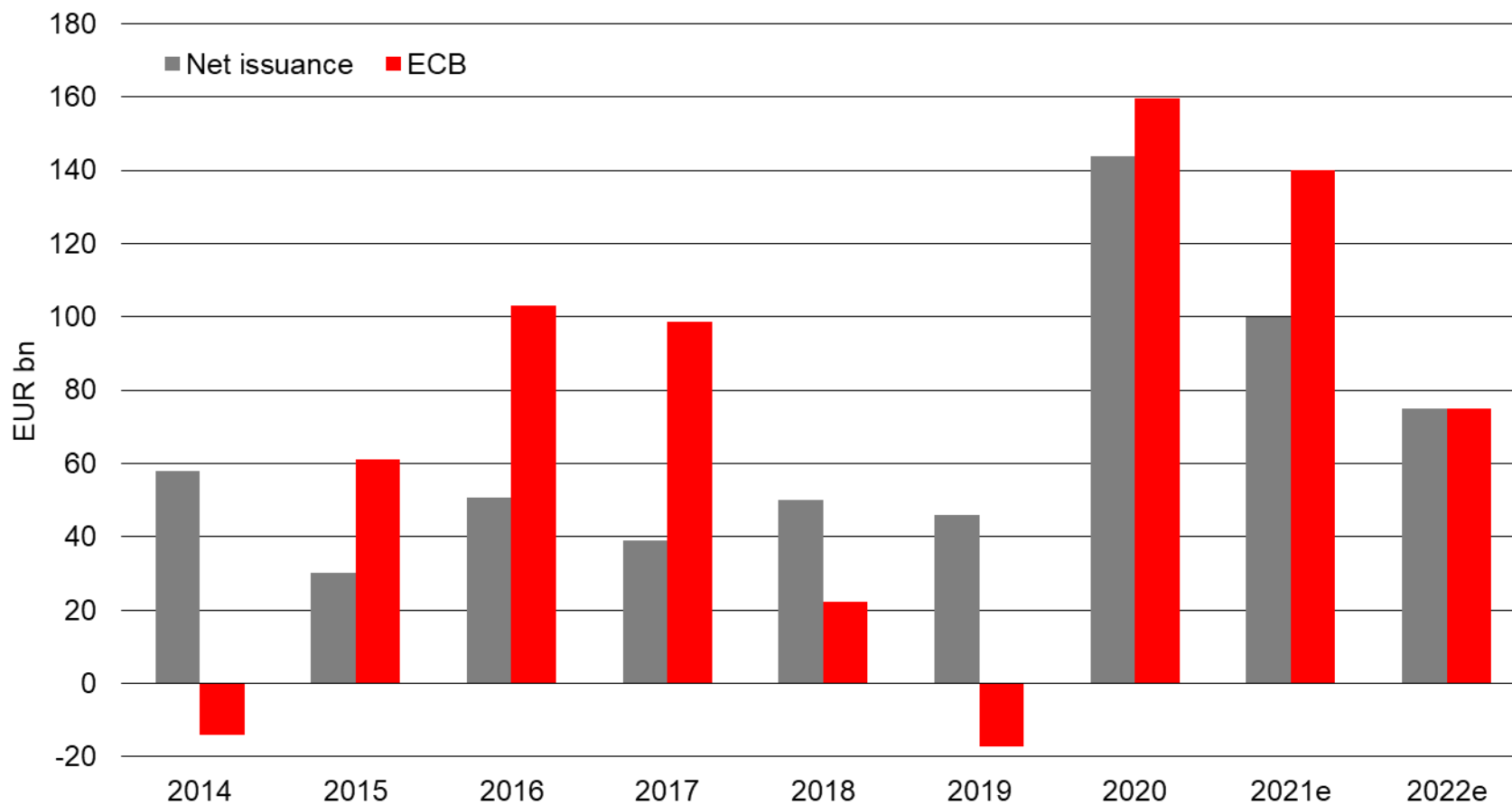
A moderate upward drift in 10Y Bund yields as ECB reduces purchases

Rates

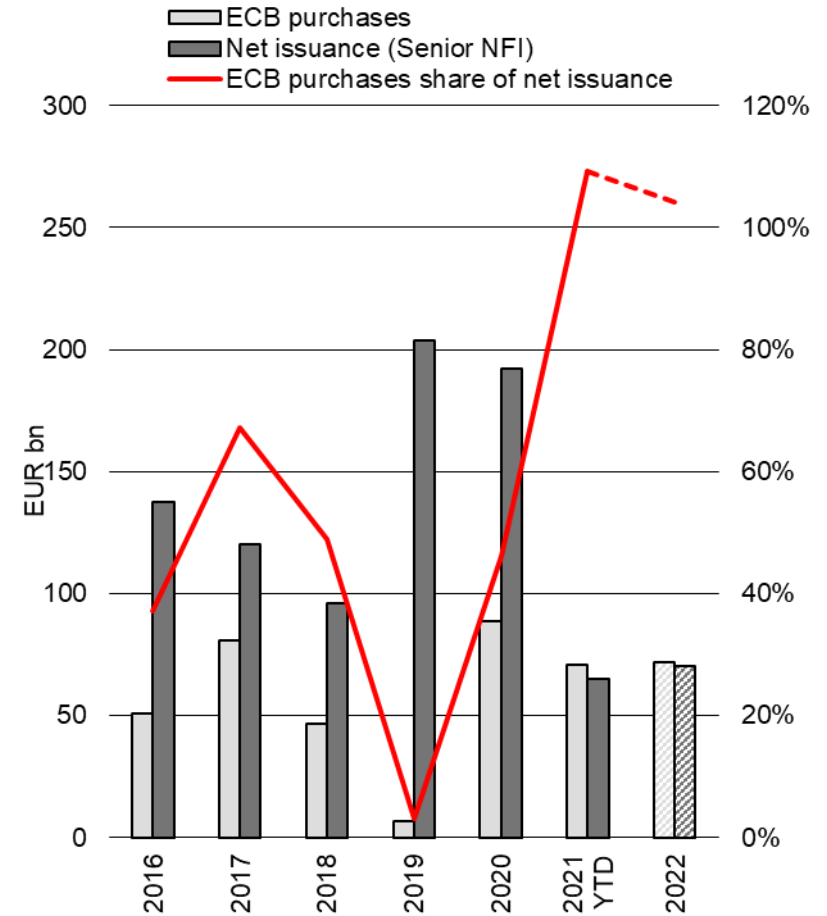
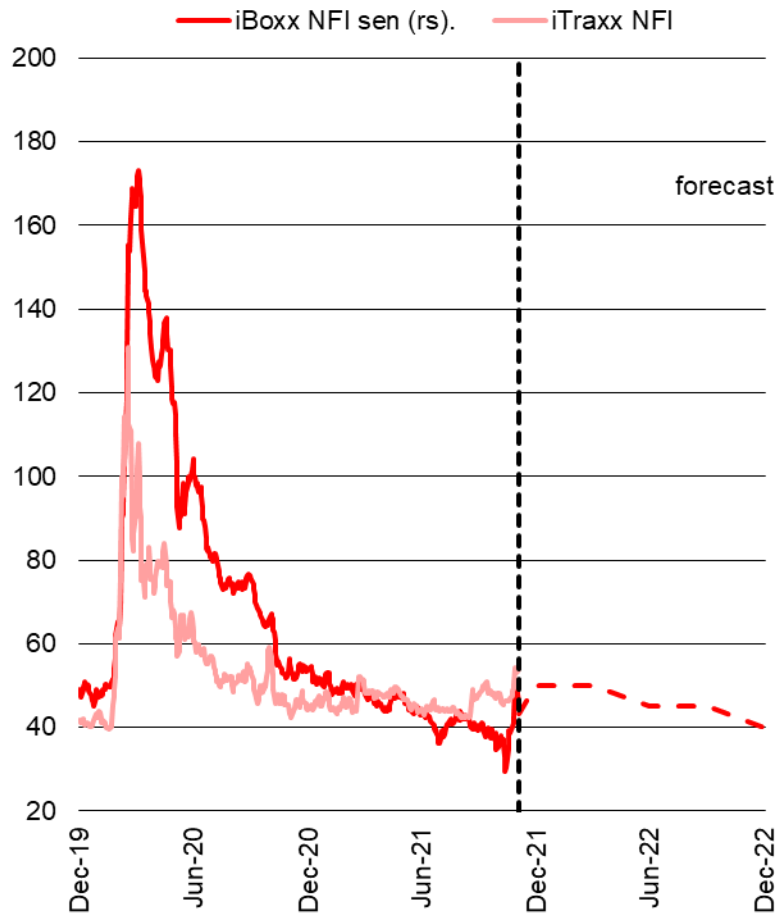


ECB purchases expected to cover net issuance from Italy

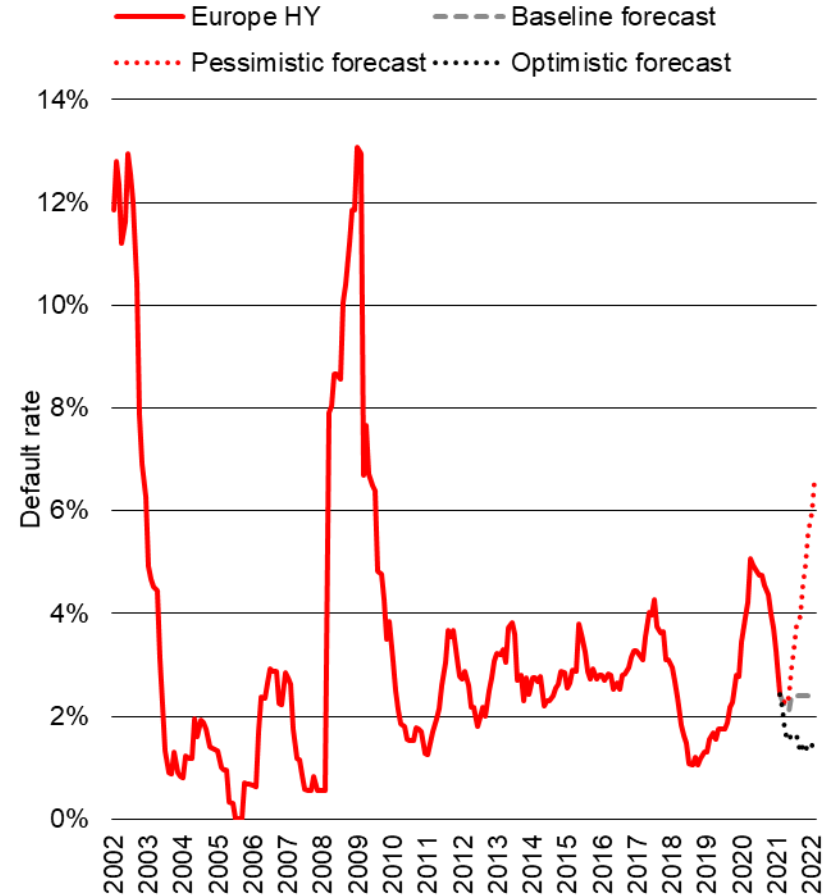
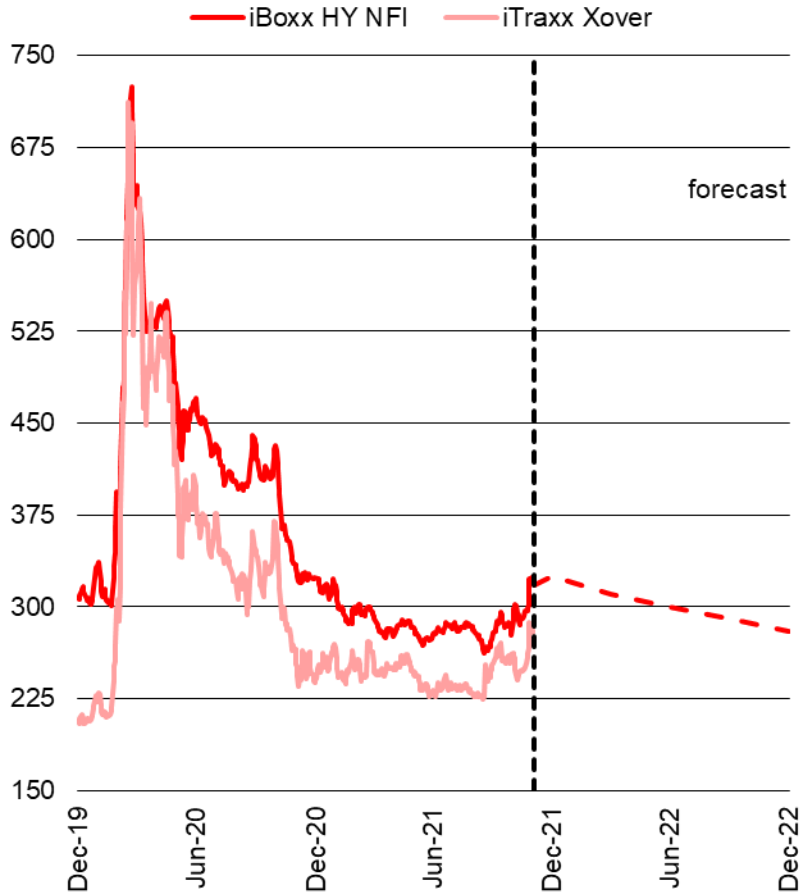
Rates



Technical factors still supportive of IG credit

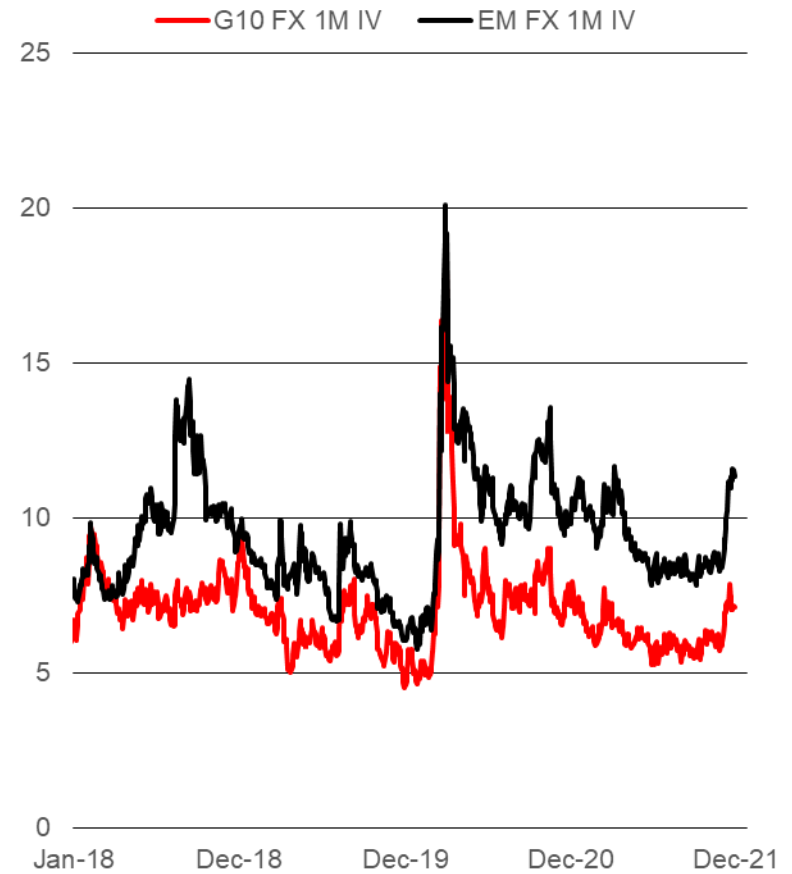
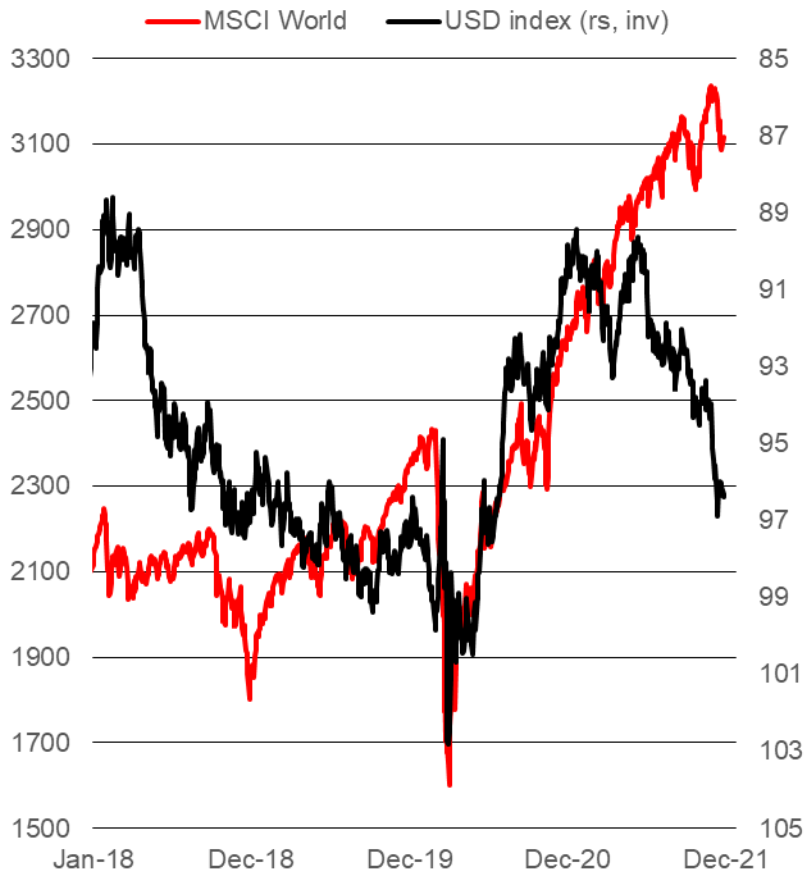


Moderate tightening for HY credit spreads in 2022



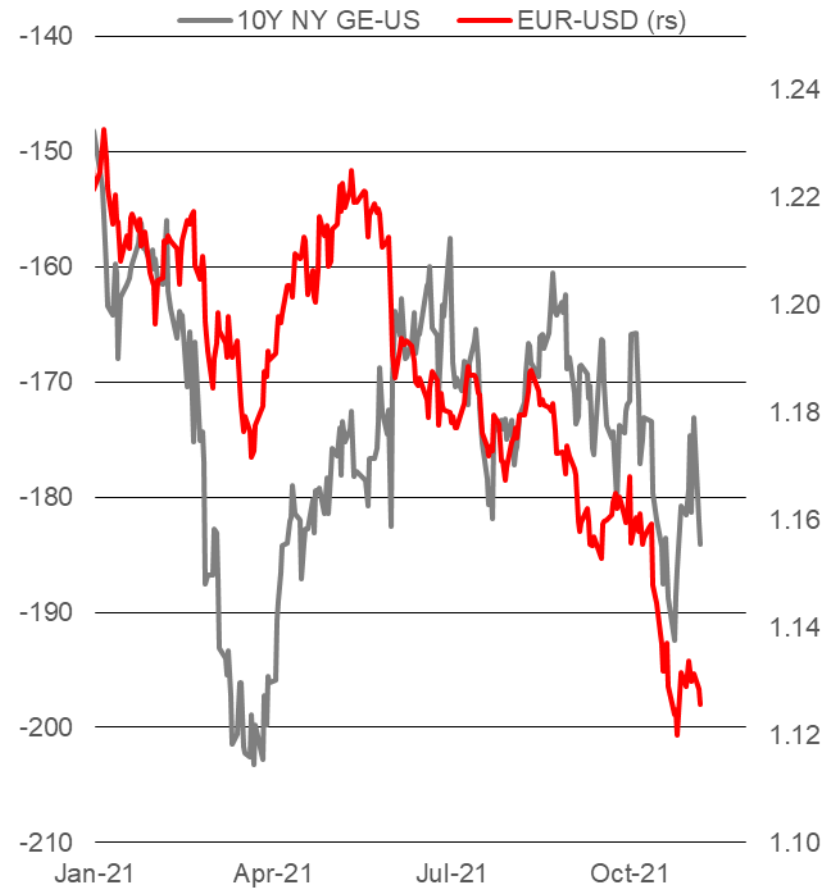
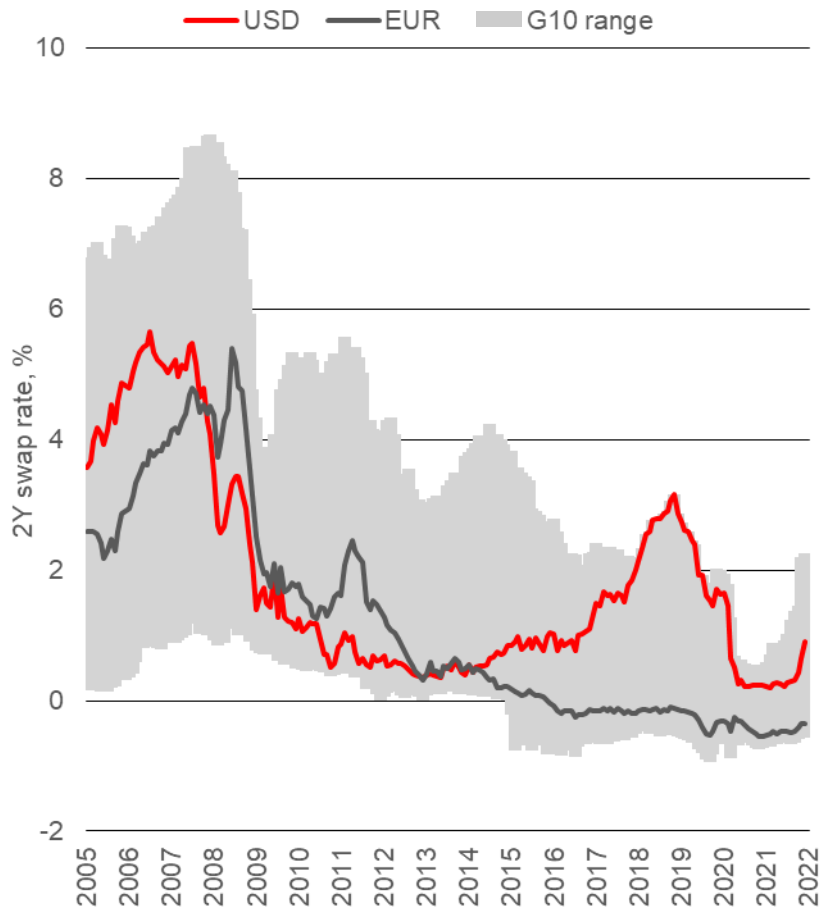
Monetary policy divergence argues in favor of higher FX volatility

FX



Rate differentials in the driver's seat

FX



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