



UBS ETF Capital Markets
Weekly Flow Update
(18th of March – 22nd of March)

Market Commentary

MSCI World in USD ended the week up 1.97% with the index being driven upwards by Information Technology (2.92%), Communication Services (4.07%) and Consumer Discretionary (2.34%) offset by relative weakness in Real Estate (-0.14%).

This week has been dominated by central bank announcements. On Tuesday the BoJ took a historic step, implementing its first hike in 17 years, and ending an eight-year stretch of negative interest rates. Other aspects of Japan's ultra-easy monetary policy were also abandoned, including a yield-curve control policy aimed at keeping the 10-year government bond yield near zero. The central bank also said it would stop buying ETFs.

The move followed further evidence that Japan's decades-long struggle with deflation is coming to an end. Core CPI has now been above the central bank's 2% target for 22 consecutive months. Meanwhile, the 2024 Shunto wage round, the annual negotiation between Japanese employers and unions, delivered an increase of 5.28% among large companies, the biggest pay rise in 33 years.

Nevertheless Japan's equity rally has the potential to broaden as international investors gain confidence in Japan's inflation dynamics and corporate reform progress. More corporate governance catalysts could emerge during the full-year results season in April–June as companies disclose their plans to improve corporate value, deliver share buybacks, and unwind cross-shareholdings. The latter started to emerge in recent months, triggered by announced sales of some JPY7tn in strategically held shares by major non-life insurers expected to broaden across sectors and drive EPS growth for Japanese equities over the medium term. In addition, markets don't expect a major drag from the ending of the BoJ's purchases of ETFs, which was being used only sparingly. The central bank bought only JPY210bn in 2023 and none in 2024.

Earnings growth looks likely to remain solid, and valuations are not overly demanding. Markets expect solid corporate earnings growth of 12% and 5% for the 2023 fiscal year (year-end March 2024) and the 2024 fiscal year, respectively. Although, valuations are no longer cheap, at 15.5x P/E, which is above the historical average of 13.7x, this is still fair value compared to the MSCI ACWI (17.7x) and S&P 500 (21x), with Japan's P/E discount compared to both markets still greater than the long-term average.

On Wednesday the FOMC made a unanimous decision not to change the target range for the federal funds rate following the FOMC's March policy meeting and left the target range at 5.25%-5.5% in line with the market's pre-meeting expectation. The median "dot" of policymaker's assumptions for the federal funds rate was unchanged from December's SEP (Summary of Economic Projections) forecast of three cuts in 2024.

The FOMC still wants greater confidence inflation is moving sustainably down toward 2%. During the press conference, Powell commented that despite “considerable progress” to ease inflation, inflation remains too high and “the path forward is uncertain”. He also noted that the higher inflation data within the recent CPI and PCE released may be due to seasonal effects but he did “not want to be dismissive of it”. Nonetheless, the SEP report showed little change in the committee members’ median PCF inflation assumptions. The Committee decided to wait for further evidence and for confidence that inflation is falling sustainably.

Members’ SEP assumptions for economic growth were raised. The biggest change within the SEP was the increase in projections for US economic growth in 2024, 2025 and 2026. Powell highlighted the stronger labour supply which can allow inflation to slow even under robust growth. For 2024, the media projection is now 2.1% (up from 1.4%). With labour supply and demand in better balance, the Committee expects see evidence of easing inflationary pressures from the labour market. The latest labour report showed strong payroll growth but a moderation in average hourly earnings growth and a higher unemployment rate. Multiple other indicators, the Atlanta Fed wage trackers, the employment cost index, quit rates, National Federation of Independent Business hiring and compensation plans, job openings to unemployed ratio, are also back to either mid-2020 or mid 2021 levels and trending lower.

On Thursday, the SNB became the first major developed central bank to cut interest rates since the pandemic abated, in a surprise move that pushed the CHF lower against the EUR and the USD. Most economists had expected the SNB to wait for clearer indications that the ECB and Fed were poised to ease policy.

The 25bps cut, which took the main policy rate to 1.5%, initially pulled the CHF 1.2% down against the USD to a four-month low. The yield on the 1-year Swiss government bond fell more than 20bps, from 1.22% to 0.99%.

The Swiss central bank has a history of catching markets off guard, notably by abandoning a cap on the CHF in 2015 and implementing an unexpected 50bps hike in borrowing costs in 2022. Now, once again, the SNB has surprised investors, with markets implying only a 30% chance of a cut.

But weaker-than-expected inflation has given the SNB scope to cut rates before its peers. Inflation has been below 2% since last July, compared to a central bank target of 0–2%. While inflation has been higher than expected in the US in the first two months of the year, Swiss inflation has come in below estimates. Annual consumer price inflation for February of 1.2% was below the SNB’s forecast for 1.8% in the first quarter overall. The SNB also lowered its conditional projection for inflation, which it now expects to average 1.4% this year, 1.2% next, and 1.1% in 2026.

Finally the BoE kept interest rates on hold at its March policy meeting which was in line with expectations. However, there was a surprise dovish turn in preference with 2 members who were calling for a hike shifting their vote to a hold. This makes sense given the inflation print for February fell to 3.4% y/y and it is likely to fall below their 2% target in the coming months. Nevertheless we must be cautious as service inflation is still rising at over 6% y/y.

Next week the macro calendar is light. We have US new home sales for February on Monday, US Conference Board Consumer Confidence for March on Tuesday and US personal Income for February and ECB M3 money supply for February on Thursday.

- Monday: Malaysia CPI; Singapore CPI; Taiwan industrial production; Thailand customs exports; US new home sales; Ukraine GDP and Vietnam industrial production, CPI, GDP, trade.
- Tuesday: Australia consumer confidence; Hong Kong trade; Israel industrial production; Mexico international reserves; Nigeria rate decision; Singapore industrial production; Spain GDP; Sri Lanka rate decision and US durable goods, Conference Board consumer confidence.
- Wednesday: Australia monthly CPI; China industrial profits; Colombia unemployment; Eurozone economic confidence, consumer confidence; Mexico unemployment, trade; Russia industrial production; South Africa rate decision; South Korea business survey manufacturing; Spain CPI and Sweden rate decision.
- Thursday: Australia retail sales, private credit; Brazil unemployment; Chile unemployment, industrial production; Czech Republic GDP; Germany unemployment; New Zealand business confidence; Sri Lanka trade, CPI; UK GDP revision and US University of Michigan consumer sentiment, initial jobless claims, GDP.
- Friday: France CPI; Italy CPI; Japan unemployment, Tokyo CPI, industrial production, retail sales; Poland CPI; South Africa trade balance; South Korea industrial production; Thailand trade; US personal income and spending, wholesale inventories and Vietnam CPI, industrial production, retail sales, trade.

UBS ETF - Top 5 Net Inflows	USD
US Equities	188,819,656
Swiss Equities	70,629,129
Sustainable Development Bank Bonds	69,645,675
EMU Government Bonds Sustainable	62,249,627
Fixed Income Japan	42,391,098
UBS ETF - Top 5 Net Outflows	USD
European Equities Sustainable	-49,215,850
US Equities (hedged)	-31,486,060
US Corporate Bonds Sustainable	-26,863,849
Global Equities Sustainable (hedged)	-14,375,483
Euro Corporate Bonds	-12,377,827
UBS ETF - Top 5 Primary Market Creations	USD
UBS (Irl) ETF plc – MSCI USA UCITS ETF (USD) A-acc	101,588,260
UBS (Lux) Fund Solutions – Sustainable Development Bank Bonds UCITS ETF (USD) A-acc	69,645,675
UBS (Irl) ETF plc – EUR Ultra-Short Bond ESG UCITS ETF (EUR) A-acc	55,589,575
UBS (Lux) Fund Solutions – Bloomberg Japan Treasury 1-3 Year Bond UCITS ETF (JPY) A-acc	48,823,109
UBS (Irl) ETF plc – MSCI USA UCITS ETF (USD) A-acc	29,878,900
UBS ETF - Top 5 Primary Market Redemptions	USD
UBS (Lux) Fund Solutions – MSCI EMU Socially Responsible UCITS ETF (EUR) A-dis	-38,122,140
UBS (Irl) ETF plc – MSCI USA hedged to EUR UCITS ETF (EUR) A-dis	-32,486,065
UBS (Lux) Fund Solutions – Bloomberg MSCI US Liquid Corporates 1-5 Year Sustainable UCITS ETF (USD) A-acc	-13,024,583
UBS (Lux) Fund Solutions – Bloomberg MSCI US Liquid Corporates Sustainable UCITS ETF (USD) A-dis	-11,462,066
UBS (Lux) Fund Solutions – MSCI EMU Socially Responsible UCITS ETF (EUR) A-acc	-10,232,807

UBS ETF - Top 10 Secondary Market Trades	USD
UBS (Lux) Fund Solutions – Bloomberg Japan Treasury 1-3 Year Bond UCITS ETF (JPY) A-acc <i>Risk – Bloomberg RFQE</i>	46,550,000
UBS (Lux) Fund Solutions – J.P. Morgan USD EM IG ESG Diversified Bond UCITS ETF (hedged to EUR) A-acc <i>Risk – Tradeweb</i>	34,570,000
UBS (Irl) ETF plc – MSCI USA hedged to EUR UCITS ETF (EUR) A-dis <i>Risk – Bloomberg RFQE</i>	-33,170,000
UBS (Lux) Fund Solutions – Bloomberg MSCI Euro Area Liquid Corporates Sustainable UCITS ETF (EUR) A-acc <i>Risk – Tradeweb</i>	29,950,000
UBS (Irl) ETF plc – MSCI USA UCITS ETF (USD) A-acc <i>Risk – Tradeweb</i>	27,420,000
UBS (Irl) ETF plc – MSCI USA UCITS ETF (USD) A-acc <i>Risk – Tradeweb</i>	27,370,000
UBS (Irl) ETF plc – MSCI USA UCITS ETF (USD) A-acc <i>Risk – Tradeweb</i>	21,070,000
UBS (Irl) ETF plc – MSCI USA UCITS ETF (USD) A-acc <i>Risk – Tradeweb</i>	20,310,000
UBS (Irl) Fund Solutions plc – MSCI ACWI SF UCITS ETF (USD) A-acc <i>Risk – Tradeweb</i>	-16,680,000
UBS ETF (CH) – MSCI Switzerland IMI Socially Responsible (CHF) A-dis <i>Risk – Tradeweb</i>	-14,100,000

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