



UBS ETF Capital Markets
Weekly Flow Update
(20th of March – 24th of March)

Market Commentary

MSCI World in USD ended up over the week by 73bps but again that performance masked some strong sector divergences. Real Estate and Utilities ended down 5.19% and 2.57% respectively versus Communication Services and Information Technology up 2.54% and 1.89% respectively.

Given the significant market turmoil and stress in the financial system, it is no surprise that FOMC decision on Wednesday was a key highlight of the week. The Fed hiked rates by 25bps, taking the federal funds rate to a 4.75–5% range, but signalled that it is close to pausing the hiking cycle. In the Fed's statement, the reference to "ongoing increases" in rates likely being appropriate—which has been in the statement since the Fed started raising rates a year ago—was removed in favour of "some additional policy firming may be appropriate."

Updated economic projections showed that a majority of Fed policymakers (10 out of 18) still expect a further 25bps hike by the end of the year, leaving estimates of the terminal rate at similar levels to the December estimate. With the potential that the Fed's rate-hiking cycle could be finished, or at least paused, by the May FOMC meeting, yields declined. Two-year US Treasury yields fell 11bps and 10-year yields dropped 16bps.

Yet there seems to be a big discrepancy between the Fed's economic projections that do not show rates falling until 2024 and futures markets pricing in three rate cuts for later this year and a 4% Fed Fund rate by year end. At the post-meeting press conference, Powell said, "Rate cuts this year are not our baseline expectation." Economic data YTD has been strong with over 815,000 in payrolls and an unemployment rate of only 3.6%.

Although the Fed's policy statement said the US banking system is "sound and resilient," it also noted that recent stress in the banking sector is "likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation". In his press conference, Powell also noted that credit conditions could help tighten policy sufficiently to bring down inflation. Lending standards have been tightening since the second half of 2021. The Fed's latest Senior Loan Officer Opinion Survey showed that a net 43.7% of banks are tightening standards for small firms and 44.8% for large firms. Based on the Fed's view, this survey, which is correlated with earnings growth, looks set to deteriorate further.

In market this past week we have seen a flight to quality with multiple expansion for defensive sectors and Tech. The historic multi-sigma pullback in front-end yields saw a commensurate rotation into longer-duration equities. Tech is now trading at an even greater premium to both pre-COVID and long-term median valuations. Given the Fed's continuing focus on inflation this could be a perilous position. Nevertheless, the peak rates narrative and a falling USD are supportive for EM Equities. The MSCI EM index valuation, at 11.4x 12-month forward P/E, stands below the 10-year

average and is at a 35% discount to the S&P 500. China's recovery appears to be beating modest expectations due to the reopening impulse and policy stimulus. Emerging economies are proving resilient, with manufacturing PMIs sitting comfortably in expansion territory.

With respect to next week markets expect the central banks of Mexico, South Africa, Colombia, Thailand and Kenya to follow the Fed with interest rate increases next week. We will also get a raft of European inflation data and the US PCE reading.

- Monday: China industrial profits; Germany IFO survey; Israel unemployment.
- Tuesday: US wholesale inventories, US consumer confidence; Brazil minutes.
- Wednesday: Australia CPI; South Korea consumer confidence; Thailand rate decision.
- Thursday: US initial jobless claims, CPI Spain, Germany inflation; Italy unemployment; Mexico, Colombia, South Africa rate decision; Brazil inflation report; Australia job openings.
- Friday: US consumer income, PCE deflator, University of Michigan consumer sentiment; Euro-area CPI estimate, unemployment; France, Italy inflation; Germany unemployment; UK GDP; China PMI; Poland CPI; Brazil unemployment.

UBS ETF - Top 5 Net Inflows	USD
Global Equities Sustainable	202,652,678
Swiss Equities	56,888,390
Euro Treasury Bonds	20,791,581
Euro Corporate Bonds	19,091,952
Fixed Income Japan	18,952,043
UBS ETF - Top 5 Net Outflows	USD
Global Equities Sustainable (hedged)	-338,575,218
Japanese Equities (hedged)	-107,400,442
Global Equities (hedged)	-95,380,622
European Equities (hedged)	-77,080,501
US Equities (hedged)	-59,614,722
UBS ETF - Top 5 Primary Market Creations	USD
UBS (Irl) ETF plc – MSCI ACWI Socially Responsible UCITS ETF (USD) A-acc	122,828,860
UBS (Irl) ETF plc – MSCI ACWI Socially Responsible UCITS ETF (USD) A-dis	78,202,800
UBS ETF (CH) – MSCI Switzerland (CHF) A-dis	58,486,387
UBS (Irl) ETF plc – MSCI ACWI Socially Responsible UCITS ETF (USD) A-dis	28,102,992
UBS (Irl) ETF plc – MSCI ACWI Socially Responsible UCITS ETF (USD) A-dis	19,345,850
UBS ETF - Top 5 Primary Market Redemptions	USD
UBS (Irl) ETF plc – MSCI ACWI Socially Responsible UCITS ETF (hedged to EUR) A-acc	-120,605,905
UBS (Irl) ETF plc – MSCI ACWI Socially Responsible UCITS ETF (hedged to EUR) A-acc	-79,156,835
UBS (Irl) ETF plc – Global Gender Equality UCITS ETF (USD) A-acc	-70,425,520
UBS (Lux) Fund Solutions – MSCI EMU UCITS ETF (hedged to CHF) A-acc	-67,934,133
UBS (Lux) Fund Solutions – MSCI Japan UCITS ETF (hedged to USD) A-acc	-60,458,346

UBS ETF - Top 10 Secondary Market Trades	USD
UBS (Lux) Fund Solutions – MSCI EMU UCITS ETF (hedged to USD) A-acc <i>NAV – Tradeweb</i>	-100,000,000
UBS (Lux) Fund Solutions – MSCI EMU UCITS ETF (hedged to CHF) A-acc <i>NAV – Tradeweb</i>	-70,850,000
UBS (Lux) Fund Solutions – MSCI Japan UCITS ETF (hedged to USD) A-acc <i>NAV – Tradeweb</i>	-60,260,000
UBS (Lux) Fund Solutions – MSCI EMU UCITS ETF (EUR) A-acc <i>NAV – Tradeweb</i>	-46,150,000
UBS (Lux) Fund Solutions – MSCI Japan UCITS ETF (hedged to CHF) A-acc <i>NAV – Tradeweb</i>	-42,550,000
UBS (Irl) ETF plc – MSCI ACWI Socially Responsible UCITS ETF (hedged to EUR) A-acc <i>NAV – Tradeweb</i>	-28,970,000
UBS (Irl) ETF plc – MSCI ACWI Socially Responsible UCITS ETF (USD) A-dis <i>NAV – Tradeweb</i>	28,610,000
UBS (Lux) Fund Solutions – MSCI Japan UCITS ETF (hedged to EUR) A-acc <i>NAV – Tradeweb</i>	-28,010,000
UBS (Irl) ETF plc – MSCI USA hedged to EUR UCITS ETF (EUR) A-acc <i>NAV – Tradeweb</i>	-27,960,000
UBS (Irl) Fund Solutions plc – Bloomberg Commodity CMCI SF UCITS ETF (USD) A-acc <i>NAV – Systematic Internaliser</i>	-26,330,000

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