

# UBS ETF *Market Matters*

## Boosting the Eurozone economy

- On June 5th the ECB announced monetary policy action to provide further stimulus for the Eurozone economy and to mitigate the risk of deflation in the Euro area
- The key measures include a negative deposit rate and new LTRO targeted at business loans (TLTRO), aiming to stimulate credit flow totalling approx. €400bn
- Given the current inflation forecasts, it is likely that the ECB main interest rate will be anchored at low levels until 2016, with a gradual increase of the EU real GDP moving towards 1.7% in 2016

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The flash estimate of inflation for the Euro area at an annualized level of 0.5% in May 2014, provided by Eurostat on June 3rd (Figure 1), indicates the material risk of deflation. Moreover, the latest available survey highlights even lower inflation forecast levels below the ECB inflation target of 2% until 2016. The deflation risk is the key driver of the ECB stimulus measures.

Survey	Inflation forecast			Real GDP growth forecast		
	2014	2015	2016	2014	2015	2016
2014 Q1	1.1	1.4	1.7	1.0	1.5	1.7
2014 Q2	0.9	1.3	1.5	1.1	1.5	1.7

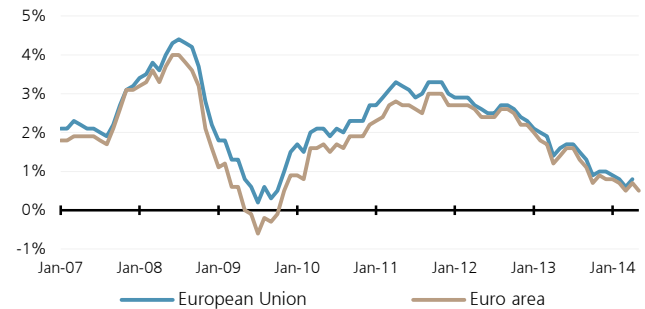
Source: The ECB Survey of Professional Forecasters

Effective June 11th, the main ECB refinancing rate is cut to 15bps (previously 25bps), marginal lending facility rates to 35bps (40bps) and the deposit facility rate is negative -10bps (0bps). As a result, the ECB start charging a fee on its deposits including average reserve holdings in excess of the minimum reserve requirements. Additionally, the ECB unveiled a package of up to €400bn of cheap funding for Eurozone banks in an attempt to boost lending on the condition it will be lent to companies in the non-financial sector, and not for mortgages (targeted longer-term refinancing operations, TLTROs). Another liquidity injection could come from purchases of asset-backed securities (ABS). All these measures are set to facilitate credit flow into real economy aiming to boost the EU economy.

### Eurozone stocks

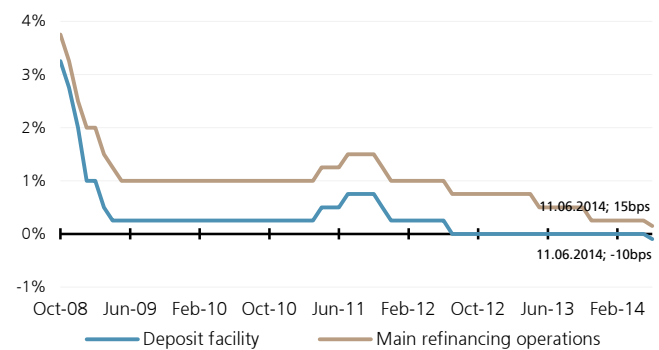
The Eurozone stocks underperformed the MSCI World benchmark, particularly in years 2002-2003 and more recently in 2011-2012 during the Euro sovereign crisis (top panel of Figure 3). However, the last months indicate a strong upward tendency of these equities (bottom panel of Figure 3). In particular, the year-to-date performance (YTD May) of the benchmark MSCI World is 5.2%, while the MSCI EMU is 6.5% and the EUROSTOXX 50 is 6.4%, confirming the increasing confidence of investors in the Eurozone recovery. Given the current levels of the European stocks, valuations need to additionally grow approx. 35% to reach the level of previous valuation peak from July 2007. In contrast, valuation of the benchmark MSCI World in EUR is approx. 4% above the previous peak from June 2007.

**Figure 1: Harmonised Indices of Consumer Prices (2005 = 100) monthly data (annual rate of change)**



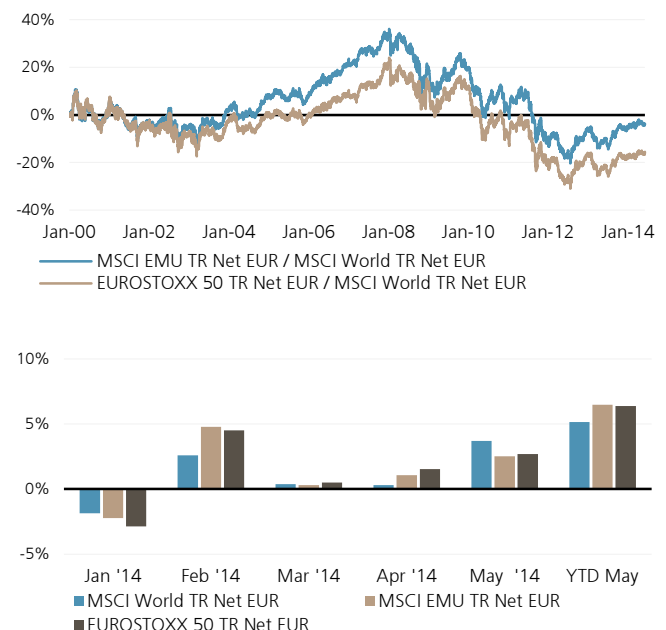
Source: Eurostat, UBS Global Asset Management, 3 June 2014

**Figure 2: Key ECB interest rates (5 June 2014 announcement)**



Source: ECB, UBS Global Asset Management, 5 June 2014

**Figure 3: Eurozone stocks –performance**



Source: Bloomberg, UBS Global Asset Management, as of 30 May 2014

### Eurozone sovereign bonds

EMU sovereign yields have compressed since 2000 and now trade at or below 100bps for short-dated bonds (Figure 4), shortly after investors were asking for higher risk premium for EMU peripheral sovereign debt between the years 2010-2012. Now, however, the premium demanded by investors to compensate them for the credit risk of investing in Spanish or Italian debt (or more generally the EMU periphery) instead of German Bunds fell to the levels last seen in 2009 (Figure 4). Further convergence of the EMU peripheral issues appears likely, given the ECB recovery stimulus and announced policy action, possibly with a focus on longer-term debt.

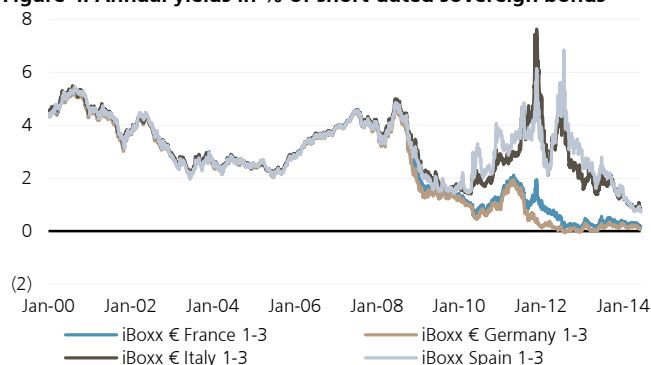
### Eurozone corporate debt

EMU corporate debt currently trades at the tightest yield levels since 2000, which is particularly pronounced in the case of high-yield issues (Figure 5). The investment grade EUR corporates basket (iBoxx Liquid Corporates) trades at roughly 80bps spread, compared to the *default free* benchmarks. Given these issues have fixed coupon, yields might further compress, following the cut in the ECB rate and planned action to ease credit flow into economy.

### The weakening of EUR currency

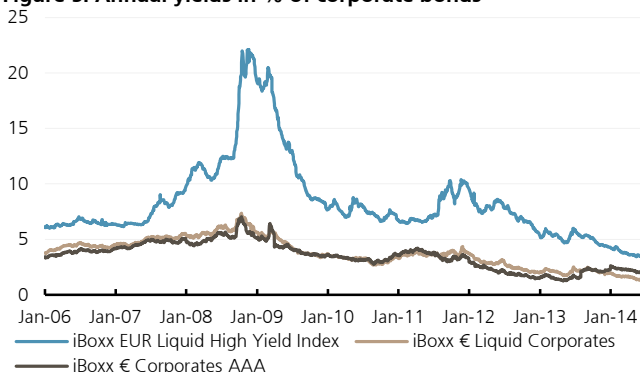
The ECB policy also aims to depreciate the EUR currency. The UBS WM Chief Investment Office expects a weaker EUR after a prolonged period of strength (UBS WM CIO *Currency markets*, 2 June 2014). Non-EUR funding investors should therefore consider hedge to mitigate the currency risk.

Figure 4: Annual yields in % of short-dated sovereign bonds



Source: Markit, UBS Global Asset Management, as of 30 May 2014

Figure 5: Annual yields in % of corporate bonds



Source: Markit, UBS Global Asset Management, as of 30 May 2014

Table 1: Performance of the UBS ETFs for the exposure with a focus on the Eurozone (as of 30 May 2014)

Fund name	Inception date	Performance				Excess Return (to index)			
		YTD May	2013	2012	2011	YTD May	2013	2012	2011
<b>Equities</b>									
UBS ETF – EURO STOXX 50 UCITS ETF (EUR) A-dis	29.10.2001	6.90%	22.14%	18.52%	-13.79%	0.53%	0.63%	0.47%	0.31%
UBS ETF – MSCI EMU UCITS ETF (EUR) A-dis	20.09.2002	6.79%	23.78%	19.68%	-14.70%	0.31%	0.41%	0.37%	0.19%
UBS ETF – MSCI EMU 100% hedged to CHF UCITS ETF (CHF) A-acc	31.07.2013	6.57%	-	-	-	-	-	-	-
UBS ETF – MSCI EMU 100% hedged to GBP UCITS ETF (GBP) A-dis	18.10.2013	6.87%	-	-	-	-	-	-	-
UBS ETF – MSCI EMU 100% hedged to GBP UCITS ETF (GBP) A-acc	30.09.2013	6.82%	-	-	-	-	-	-	-
UBS ETFs plc - MSCI EMU SF UCITS ETF (EUR) A-acc	23.03.2011	6.70%	22.90%	19.09%	-	0.22%	-0.46%	-0.21%	-
UBS ETF – MSCI EMU Value UCITS ETF (EUR) A-dis	05.10.2009	8.56%	26.38%	15.70%	-18.59%	0.57%	0.54%	0.20%	0.12%
UBS ETF – MSCI EMU Small Cap UCITS ETF (EUR) A-dis	17.10.2011	9.96%	33.80%	23.58%	-	-0.09%	-0.08%	-0.29%	-
UBS ETFs plc - MSCI EMU Growth SF UCITS ETF (EUR) A-acc	06.10.2011	4.73%	19.16%	23.34%	-	-0.17%	0.52%	0.51%	-
<b>Fixed Income</b>									
UBS ETF – Markit iBoxx € Sovereigns 1-5 UCITS ETF (EUR) A-dis	29.11.2013	1.90%	-	-	-	-0.06%	-	-	-
UBS ETF – Markit iBoxx € Liquid Corporates UCITS ETF (EUR) A-dis	24.01.2012	3.34%	1.18%	-	-	-0.07%	-0.13%	-	-
UBS ETF – Barclays Euro Area Liquid Corporates 1-5 Year UCITS ETF (EUR) A-dis	30.05.2014	-	-	-	-	-	-	-	-

Table 2: UBS ETFs (as of 30 May 2014)

Fund name	TER	AuM in USD m	NAV Ccy	Repl- cation	Distri- bution	Listings / Key exchanges					
						SIX	XETRA	LSE	Borsa	WKN	ISIN
<b>Equities</b>											
UBS ETF – EURO STOXX 50 UCITS ETF (EUR) A-dis	0.15%	870	EUR	Physical	Yes	CHF/EUR/GBP	EUR	Gbp/EUR	EUR	794 357	LU0136234068
UBS ETF – MSCI EMU UCITS ETF (EUR) A-dis	0.23%	1'817	EUR	Physical	Yes	CHF/EUR	EUR	Gbp	EUR	633 611	LU0147308422
UBS ETF – MSCI EMU 100% hedged to CHF UCITS ETF (CHF) A-acc	0.33%	129	CHF	Physical	No	CHF	-	-	-	A1W3AZ	LU0950669175
UBS ETF – MSCI EMU 100% hedged to GBP UCITS ETF (GBP) A-dis	0.33%	196	GBP	Physical	Yes	GBP	-	Gbp	-	A1W2HA	LU0937835733
UBS ETF – MSCI EMU 100% hedged to GBP UCITS ETF (GBP) A-acc	0.33%	-	GBP	Physical	No	GBP	-	Gbp	-	A1W292	LU0950669688
UBS ETF – MSCI EMU 100% hedged to USD UCITS ETF (USD) A-acc	0.33%	409	USD	Physical	No	USD	-	-	-	A1W290	LU0950669415
UBS ETFs plc - MSCI EMU SF UCITS ETF (EUR) A-acc	0.02%	232	EUR	Synthetic	No	EUR	EUR	Gbp	EUR	A1JJCE	IE008581M258
UBS ETF – MSCI EMU Value UCITS ETF (EUR) A-dis	0.25%	49	EUR	Physical	Yes	EUR	EUR	Gbp	EUR	A0X97R	LU0446734369
UBS ETF – MSCI EMU Small Cap UCITS ETF (EUR) A-dis	0.33%	21	EUR	Physical	Yes	CHF/EUR	EUR	Gbp	EUR	A1JHNE	LU0671493277
UBS ETFs plc - MSCI EMU Growth SF UCITS ETF (EUR) A-acc	0.23%	7	EUR	Synthetic	No	-	EUR	EUR	EUR	A1JKRC	IE00B4MFIH03
<b>Fixed Income</b>											
UBS ETF – Markit iBoxx € Sovereigns 1-5 UCITS ETF (EUR) A-dis	0.17%	4	CHF	Physical	Yes	CHF/EUR	-	-	EUR	A1W40U	LU0969639128
UBS ETF – Markit iBoxx € Liquid Corporates UCITS ETF (EUR) A-dis	0.23%	46	EUR	Physical	Yes	CHF/EUR	EUR	Gbp	EUR	A1JRDL	LU0721553864
UBS ETF – Barclays Euro Area Liquid Corporates 1-5 Year UCITS ETF (EUR) A-dis	0.18%	-	EUR	Physical	Yes	19.08.2014	18.06.2014	-	20.06.2014	-	LU1048314196

## How to contact us

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