UBS ETF Capital Markets
Weekly Flow Update
(13th of March – 17th of March)

Market Commentary

MSCI World in USD was flat over the week but that performance masked some strong sector divergences. Energy and Financials ended down 7.95% and 6.46% respectively versus Communication Services and Information Technology up 5.25% and 4.89% respectively.

It was only over one week ago when a hawkish speech by Powell led many investors to believe a 50bps hike at the FOMC March meeting was a near certainty. Alongside that expectations of a terminal rate for Fed Funds were over 5.6% according to swap pricing. So, the subsequent plunge in rates amid fears of global financial crisis is quite incredible. Short-duration US Treasury yields have collapsed with the 2-year falling 100bps in the three days to Friday, its fastest three-day decline since Black Monday in 1987, according to CNBC. Terminal rate expectations are now only 4.8%, with no rate hike predicted this week and 100bps of cuts priced in by year end. In the midst of the volatility, we also had US CPI and a ECB rate decision.

US CPI for February rose 0.4% mom. In yoy terms, the inflation rate slowed to 6%, the lowest since July 2021 and down from the peak of 9.1% last June. Core CPI, which excludes food and energy prices, increased 0.5%, a bit above consensus forecasts. Consumer spending is continuing to shift away from goods, and many supply-side bottlenecks have eased, reducing inflationary pressure. Core goods inflation has slowed sharply over the past 12 months. By contrast, core service prices are still rising, driven by shelter prices, which increased by 0.8% in February. However, it is important to keep in mind that shelter prices are a lagging indicator. Timely data on new leases shows rent growth slowing or even turning negative in some cities. Strong inflation prints over the past two months and revisions to the seasonally adjusted CPI have made the short-term trend look less favourable. Over the same period, nonfarm payrolls have also jumped by 815,000. This data suggests that the Fed needs to raise rates further to bring inflation down toward its 2% target. However, the recent bank failures could be a reason for them to pause at next week's FOMC meeting.

The ECB lifted the key interest rate by 50bps at its March meeting, sticking to the commitment made in February. Lagarde indicated that the policymakers are now in data-watching mode, implying that any future moves will depend on how the economy fares. Sticky core inflation likely means further hikes in the coming months, assuming economic growth is close to the ECB's forecasts. Assuming the recent volatility in the banking sector does not have a large and lasting economic drag, markets look for the ECB to hike by a further 25bps at both the May and June meetings. The lack of obvious surprises from the meeting left markets mostly unmoved. The euro was broadly flat against the US dollar; peripheral spreads were largely unchanged.

The banking sector has certainly dominated news this week. The prevailing narrative of higher for longer rates helping bank earnings was put in doubt as it appears they can also bring stress to the banking system. Competition for deposits can be steep and banks will no longer be looked at as the pure and simple beneficiaries of rising yields (and one of the only potential winners from sticky inflation). One corollary of the volatility in Banks is that lenders may tighten lending standards even further to protect themselves. This would act as a de facto tightening of policy, helping slow the economy and raising the likelihood of a recession. Many believe fears of a global financial crisis overblown, as banking system is in a much better place now than pre GFC. TED / FRA-OIS spreads remain generally well behaved and are indicative of a functioning interbank market. After the decisive action by the Fed over the weekend to prevent deposit outflows, both the SNB and the ECB made it clear that they can provide ample liquidity if needed. So perhaps given inflation remains high it is optimistic to assume central banks will pivot quickly and impact their credibility for price stability. However, they face a tricky balancing act between high inflation and imposing financial stability.

Next week sees some key monetary policy decisions from the Fed (Wednesday), BoE (Thursday) and the SNB (Thursday).

- Monday: Chile GDP, China loan prime rates and Taiwan export orders.
- Tuesday: Argentina trade, Canada CPI, Eurozone new car registrations, Germany ZEW survey expectations, Hong Kong BoP, Israel industrial production, New Zealand trade, Nigeria rate decision, South Korea PPI, trade 20 days, US existing home sales.
- Wednesday: Argentina unemployment, GDP, Australia leading index, Brazil rate decision, Israel trade, Japan machine tool orders, Malaysia foreign reserves, Mexico international reserves, New Zealand consumer confidence, South Africa CPI, UK CPI.
- Thursday: China Swift global payments, Eurozone consumer confidence, Hong Kong CPI Japan department store sales, New Zealand heavy traffic index, Philippines rate decision, Singapore CPI, Taiwan industrial production, rate decision, Thailand trade, Turkey rate decision, US new home sales, initial jobless claims.
- Friday: Australia Judo Bank PMI, Canada retail sales, Eurozone S&P Global Eurozone Manufacturing PMI, S&P Global Eurozone Services PMI, France S&P Global France Manufacturing PMI, Germany S&P Global / BME Germany Manufacturing PMI, Japan CPI, Jibun Bank PMI, Malaysia CPI, Singapore industrial production, Spain GDP, Taiwan jobless rate, money supply, Thailand foreign reserves, forward contracts, UK S&P Global / CIPS UK Manufacturing PMI, US durable goods.

UBS ETF - Top 5 Net Inflows	USD
EMEA Equity	34,200,520
EM Equity	26,524,783
Global Govies	24,190,515
Global Corporate Bonds	4,606,757
US Govies	4,086,124
UBS ETF - Top 5 Net Outflows	**USD**
North-American Equity	-129,321,185
APAC Equity	-51,251,632
Commodity	-22,689,978
US Inflation-Linked	-19,950,566
Swiss Real Estate	-19,021,214
UBS ETF - Top 5 Primary Market Creations	**USD**
UBS (Irl) ETF plc – S&P 500 ESG UCITS ETF (USD) A-acc	39,915,936
UBS (Irl) ETF plc – Factor MSCI USA Quality UCITS ETF (USD) A-dis	26,882,143
UBS ETF (CH) – SMI® (CHF) A-dis	23,843,867
UBS ETF (CH) – SMI® (CHF) A-dis	23,737,934
UBS (Irl) ETF plc – MSCI World Socially Responsible UCITS ETF (USD) A-acc	23,202,300
UBS ETF - Top 5 Primary Market Redemptions	**USD**
UBS (Irl) ETF plc – S&P 500 ESG UCITS ETF (hedged to EUR) A-acc	-72,328,696
UBS (Irl) Fund Solutions plc – CMCI Composite SF UCITS ETF (USD) A-acc	-48,126,750
UBS (Irl) ETF plc – Global Gender Equality UCITS ETF (USD) A-acc	-48,116,400
UBS (Irl) Fund Solutions plc – MSCI China A SF UCITS ETF (USD) A-acc	-40,993,783
UBS (Lux) Fund Solutions – MSCI World Socially Responsible UCITS ETF (USD) A-acc	-26,155,440

UBS ETF - Top 10 Secondary Market Trades	USD
UBS (Irl) Fund Solutions plc – MSCI ACWI SF UCITS ETF (hedged to USD) A-acc *NAV – Systematic Internaliser*	-53,010,000
UBS (Irl) ETF plc – Global Gender Equality UCITS ETF (USD) A-acc *Risk – Tradeweb*	-47,510,000
UBS (Irl) ETF plc – S&P 500 ESG UCITS ETF (USD) A-acc *Risk – Tradeweb*	40,300,000
UBS (Irl) Fund Solutions plc – MSCI China A SF UCITS ETF (USD) A-acc *Risk – Bloomberg RFQE*	-36,890,000
UBS (Lux) Fund Solutions – Bloomberg US Liquid Corporates UCITS ETF (hedged to EUR) A-acc *Risk – Tradeweb*	-31,270,000
UBS (Irl) ETF plc – MSCI World Socially Responsible UCITS ETF (USD) A-acc *NAV – Systematic Internaliser*	24,600,000
UBS (Irl) ETF plc – Factor MSCI USA Quality UCITS ETF (USD) A-dis *Risk – Tradeweb*	23,190,000
UBS (Irl) Fund Solutions plc – MSCI ACWI SF UCITS ETF (hedged to USD) A-acc *NAV – Systematic Internaliser*	-21,390,000
UBS (Irl) Fund Solutions plc – MSCI ACWI SF UCITS ETF (hedged to USD) A-acc *Risk – Tradeweb*	-20,780,000
UBS (Irl) Fund Solutions plc – MSCI ACWI SF UCITS ETF (USD) A-acc *NAV – Systematic Internaliser*	-17,790,000

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