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UBS Asset Management Switzerland AG | May 2023

UBS ETF Capital Markets
Weekly Flow Update
(May 15th - 19th)

Market Commentary

MSCI World ended up 1.25% over the week with Information Technology (3.92%) and Communication Services (2.25%) outperforming whilst Utilities (-3.64%) and Real Estate (-2.40%) underperformed.

Markets continue to be buffeted by news concerning the debt ceiling and its hoped for timely resolution. Most recent news flow has turned more constructive, which has quickly been reflected in higher equities. House Speaker Kevin McCarthy has said "an agreement in principle" between the parties on the debt ceiling is possible this weekend.

Yet the apparent calm in equity market contrasts with more obvious signs of fear in bond markets. The US 1-year CDS spread is trading the widest on record as investors buy protection in anticipation of an imminent default. The yields on T-Bills set to mature after X-date keep on rising while those set to expire before X-date fall therefore indicating bond investors are discriminating between before and after pricing. This would suggest that a failure of President Biden and Congressional Republicans would come as a negative surprise to equity investors. With a looming but well telegraphed economic slowdown a negative resolution could be a catalyst for a market correction. There are negative precedents in both August 2011 and December 2018 when similar episodes generated negative equity returns, however, you could argue both were complicated by challenges with the EUR crisis and a FED policy mistake respectively. Nevertheless, assuming there is a positive resolution, continued resilient economic data may delay a FED pivot. The yield on the 3-month US Treasury climbed to the highest level in over 20 years on Thursday. The rise partly reflects more hawkish rhetoric from top Federal Reserve officials, as well as the prospect of increased near-term issuance if the debt ceiling issue is resolved. Last Thursday, Fed President Logan said that the latest economic data did not yet justify a pause in rate hikes at the central bank's June meeting.

Aside from politics investors remain concerned about the lack of breadth to this rally. A lot of the recent strength in equities is due to the Tech sector, which is back in the lead. Currently the market cap of Apple is larger than the whole of the Russell 2000. Equities making a fresh YTD high after the challenges of the US regional banking crisis in March is surprising to say the least. It seems the potential applications of AI are very persuasive to Tech equity valuations. In contrast to the US, in Europe more stocks have contributed to the upside therefore adding to the global diversification argument to equity portfolios. With respect to European Banks, the better-balanced business models, more stable deposits, and the tougher regulation have supported the sector during the recent turmoil.

Gold fell on the week as progress on the debt ceiling, better US economic data and hawkish commentary by various FED officials contributed to the weakness. Yet central bank demand remains robust. Last year marked the 13th consecutive year of net gold purchases by global central banks and the highest level of annual demand on record dating back to 1950. At 1,078 metric tons in 2022, central banks' buying of gold more than doubled from 450 metric tons in 2021. Based on the 1Q23 data from the World Gold Council, central banks are on track to buy around 700 metric tons of gold this year, much higher than the average since 2010 of below 500 metric tons. With the FED likely to reach peak rates soon, it is possible that USD weakness will follow which historically been very good for Gold. Finally, rising US recession risks may prompt safe-haven flows. Despite stronger than expected US retail sales and a rise in new US home starts; falling building permits, weaker-than-expected 1Q GDP, 6 consecutive months of contracting manufacturing activity, and the weakest consumer sentiment since November contribute to the negative viewpoint. Tighter credit conditions, evidenced by the FED's latest Senior Loan Officer Opinion Survey, are also likely to weigh on growth and corporate profits.

This week will see the release of both FED minutes and US PCE inflation numbers. The UK reports CPI on Wednesday. There are also several central bank meetings where market expectations are for hikes from Israel, New Zealand, Nigeria and South Africa, while China, Indonesia, South Korea and Turkey are expected to hold. Finally, we have May flash PMIs from Japan, the US, and across Europe.

- Monday: China loan prime rates, Eurozone consumer confidence, Hong Kong CPI, Japan machinery orders, Singapore GDP and Taiwan export orders, jobless rate.
- Tuesday: Eurozone S&P Global Eurozone Manufacturing & Services PMI, France S&P Global France Manufacturing PMI, Germany S&P Global / BME Germany Manufacturing PMI, Israel unemployment, industrial production, Mexico international reserves, Peru GDP, Singapore CPI, Taiwan industrial production, UK S&P Global / CIPS UK Manufacturing PMI and US new home sales.
- Wednesday: Germany IFO business climate, Nigeria GDP, South Africa CPI and UK CPI.
- Thursday: Germany GDP, Macau GDP, Mexico trade, South Africa rate decision, US initial jobless claims, GDP and Vietnam industrial production, CPI, trade.
- Friday: Australia retail sales, Japan Tokyo CPI, Malaysia CPI, Mexico GDP, Singapore industrial production and US consumer income, wholesale inventories, durable goods, University of Michigan consumer sentiment.

UBS ETF - Top 5 Net Inflows	**USD**
Sustainable Development Bank Bonds	142,883,525
Fixed Income Japan	27,807,465
UK Equities Sustainable	18,071,575
US Equities SmartBeta	17,281,039
US Equities SmartBeta (hedged)	12,958,686
UBS ETF - Top 5 Net Outflows	**USD**
US Inflation-linked	-71,640,833
US Equities Sustainable	-40,490,811
Swiss Equities	-15,538,679
European Equities	-11,852,124
US Equities	-10,377,285
UBS ETF - Top 5 Primary Market Creations	**USD**
UBS (Lux) Fund Solutions – Sustainable Development Bank Bonds UCITS ETF (USD) A-acc	81,174,625
UBS (Lux) Fund Solutions – Sustainable Development Bank Bonds UCITS ETF (USD) A-acc	61,708,900
UBS (Irl) ETF plc – Factor MSCI USA Quality UCITS ETF (USD) A-dis	19,244,372
UBS (Lux) Fund Solutions – Bloomberg Japan Treasury 1-3 Year Bond UCITS ETF (JPY) A-acc	12,809,395
UBS (Irl) ETF plc – MSCI United Kingdom IMI Socially Responsible UCITS ETF (GBP) A-dis	12,414,614
UBS ETF - Top 5 Primary Market Redemptions	**USD**
UBS (Lux) Fund Solutions – Bloomberg TIPS 1-10 UCITS ETF (USD) A-acc	-44,466,352
UBS (Irl) ETF plc – S&P 500 ESG UCITS ETF (USD) A-acc	-42,475,104
UBS (Lux) Fund Solutions – Bloomberg TIPS 1-10 UCITS ETF (USD) A-acc	-18,623,150
UBS (Lux) Fund Solutions – MSCI Switzerland 20/35 UCITS ETF (CHF) A-acc	-10,279,684
UBS (Lux) Fund Solutions – EURO STOXX 50 UCITS ETF (EUR) A-dis	-9,581,636

UBS ETF - Top 10 Secondary Market Trades	**USD**
UBS (Lux) Fund Solutions – Bloomberg TIPS 1-10 UCITS ETF (USD) A-acc *Tradeweb – Risk*	-18,630,000
UBS (Irl) ETF plc – Factor MSCI USA Quality UCITS ETF (USD) A-dis *Tradeweb – Risk*	17,020,000
UBS (Lux) Fund Solutions – Bloomberg TIPS 1-10 UCITS ETF (hedged to EUR) A-acc *Tradeweb – Risk*	-15,520,000
UBS (Lux) Fund Solutions – MSCI Japan UCITS ETF (JPY) A-acc *Systematic Internaliser – Risk*	14,210,000
UBS (Irl) ETF plc – MSCI United Kingdom IMI Socially Responsible UCITS ETF (GBP) A-dis *Bloomberg RFQE – Risk*	12,080,000
UBS (Lux) Fund Solutions – EURO STOXX 50 UCITS ETF (EUR) A-dis *Bloomberg RFQE – NAV*	-11,040,000
UBS (Lux) Fund Solutions – Bloomberg MSCI Euro Area Liquid Corporates Sustainable UCITS ETF (EUR) A-dis *Tradeweb – Risk*	-9,820,000
UBS (Lux) Fund Solutions – Bloomberg TIPS 1-10 UCITS ETF (hedged to CHF) A-acc *Tradeweb – Risk*	-9,800,000
UBS (Lux) Fund Solutions – MSCI EMU Socially Responsible UCITS ETF (EUR) A-dis *Bloomberg RFQE – Risk*	8,200,000
UBS (Lux) Fund Solutions – Bloomberg Japan Treasury 1-3 Year Bond UCITS ETF (JPY) A-acc *Tradeweb – Risk*	7,910,000

UBS ETF Capital Markets
Group e-mail: ol-etf-cm@ubs.com

Pravin Bagree CFA
Head of UBS ETF Capital Markets I pravin.bagree@ubs.com I +41 44 235 19 08
Giorgio Cescato
UBS ETF Capital Markets Specialist I giorgio.cescato@ubs.com I +41 44 234 54 85
Gianandrea Grassi
UBS ETF Capital Markets Specialist I gianandrea.grassi@ubs.com I +41 44 234 53 45

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