EY Market essentials

Market overview as of 30 June 2022

Reliance Restricted

22 July 2022

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01 Indices

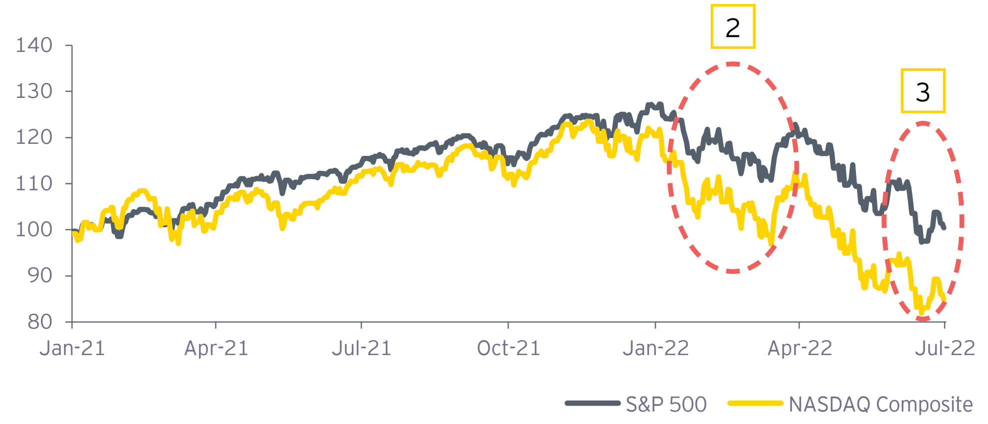
A | Madrid Ibex 35

Source: Capital IQ

B | Euro STOXX 50

Source: Capital IQ

C | S&P 500 and NASDAQ composite – Base 100



Source: Capital IQ

1 **Post-pandemic:** During Q1-Q2 2021, improvement in Covid-19 related restrictions increased expectations of returning to pre-pandemic conditions, leading to a rise in equity markets.

2 **Russia-Ukraine conflict:** The negative shock of the start of the conflict in Ukraine, including geopolitical tensions or shortage of supply, increase in commodities prices, etc. derived in sharp a decline in financial markets.

3 **Bond yields increase and a change in monetary policy worldwide** as inflation soars, led to a deterioration of expectations and a decline in Equity markets.

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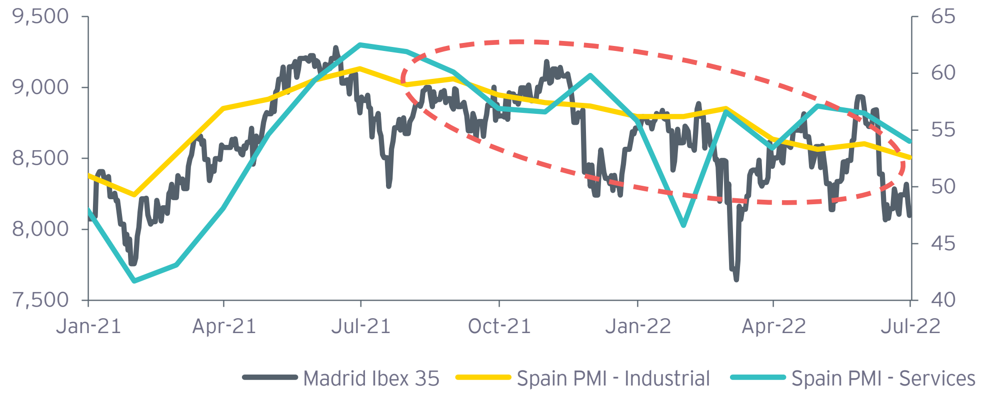
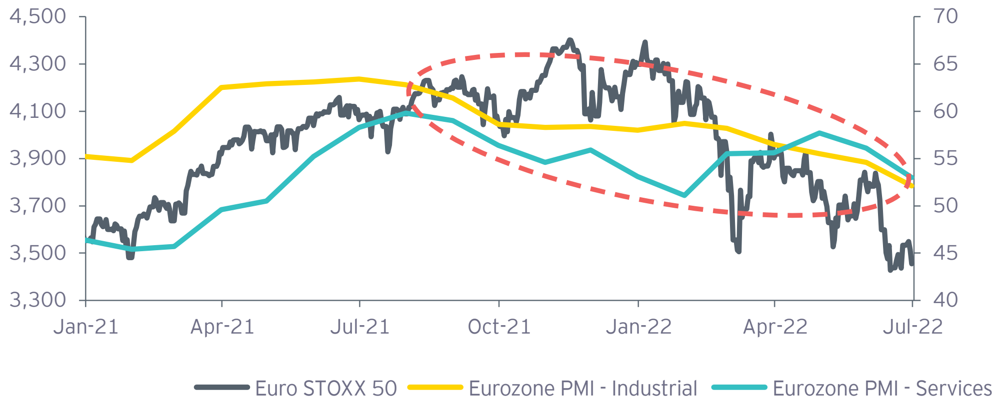
02 Fundamentals

A | Spain PMI[1] vs Madrid Ibex 35



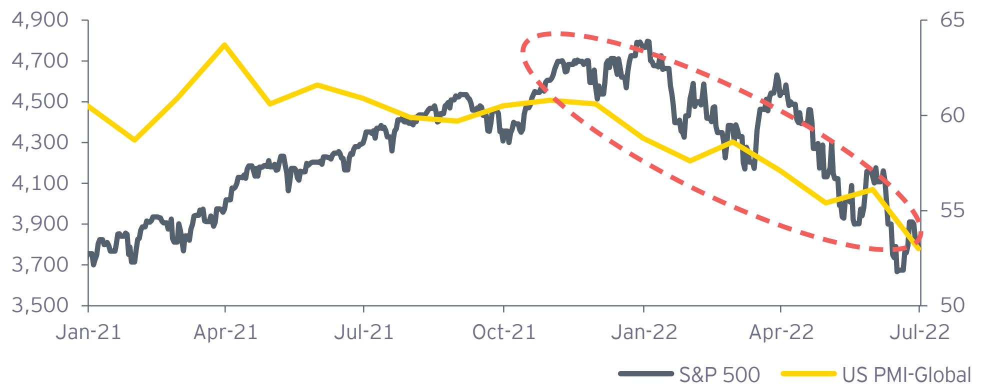
Source: Bloomberg

B | Eurozone PMI vs Euro STOXX 50



Source: Bloomberg

C | US PMI vs S&P 500



Source: Capital IQ

- Expectations of future growth based on leading indicators have deteriorated, based on both industrial and services PMIs, driven by macroeconomic factors that led to a fall in the indices.
- Manufacturing expectations have deteriorated more than Services, due to Ukraine conflict effects more significant for manufacturers.
- As of June 2022, the Spanish PMIs are supportive of a GDP growth for Q2 2022 in Spain. Also, European PMIs are consistent with positive GDP growth.

Note: [1]PMI - Manufacturing Purchasing Managers Index

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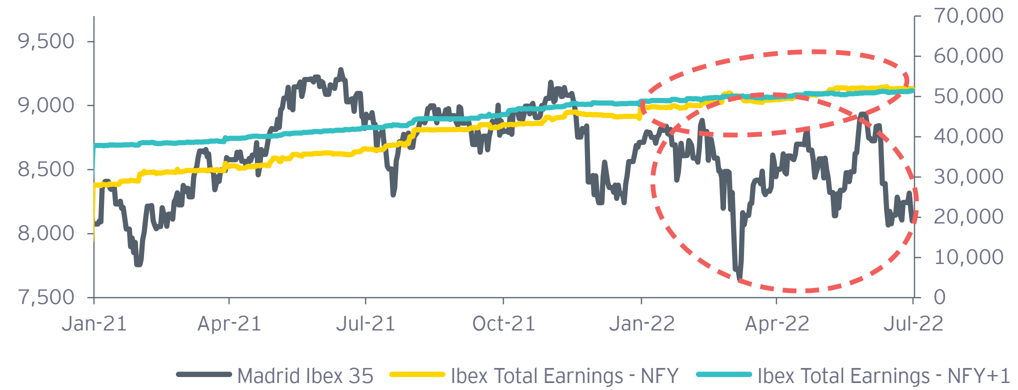
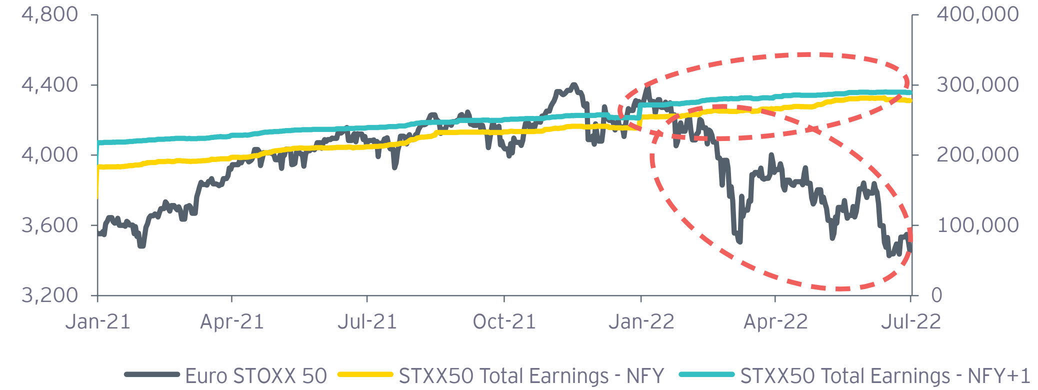
03 Indices vs Total Earnings and EPS (NFY and NFY+1)

A | Madrid Ibex 35 vs Total Earnings NFY/NFY+1



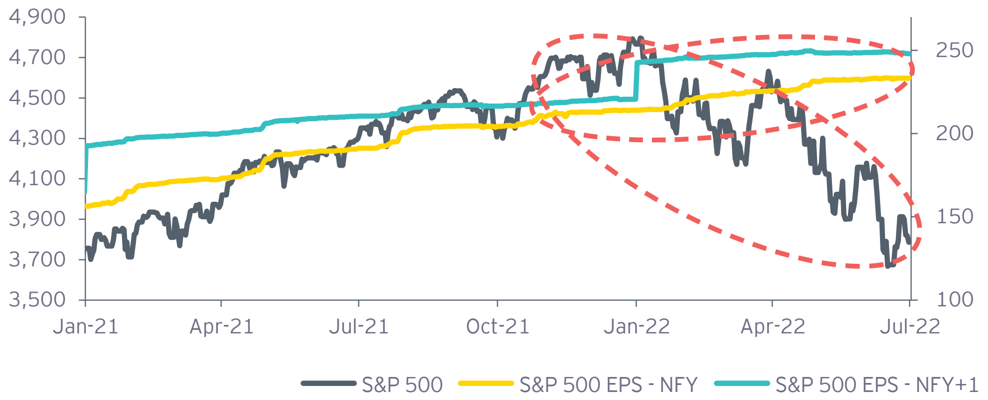
Source: Capital IQ

B | Euro STOXX 50 vs Total Earnings NFY/NFY+1



Source: Capital IQ

C | S&P 500 vs EPS NFY/NFY+1



Source: Capital IQ

- In 2021, the **Indices' performance** was **aligned** with the evolution of **total earnings and EPS indicators.**
- From January 2022 onwards, the **returns of the Indices fell** while the **total earnings and EPS increased**, mostly given by an increase in expected **total market risk.**
- The weakening of the macroeconomic outlook has not been reflected in analysts' forecasts. However, there will be downward adjustments related to expected earnings in the coming future.

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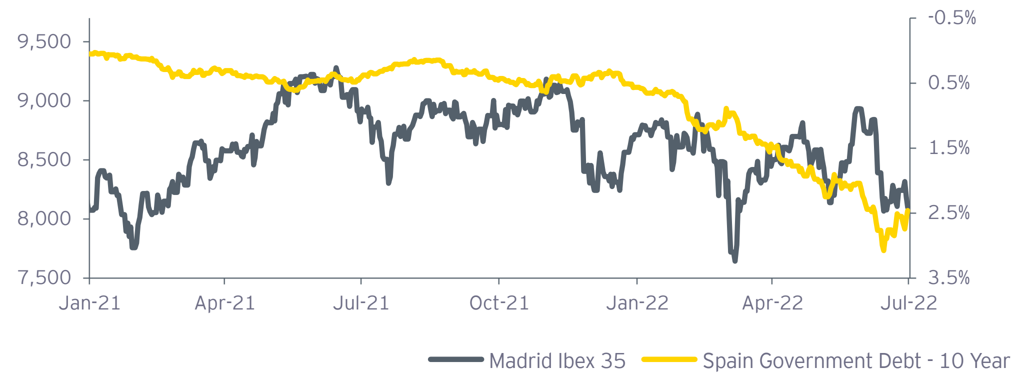
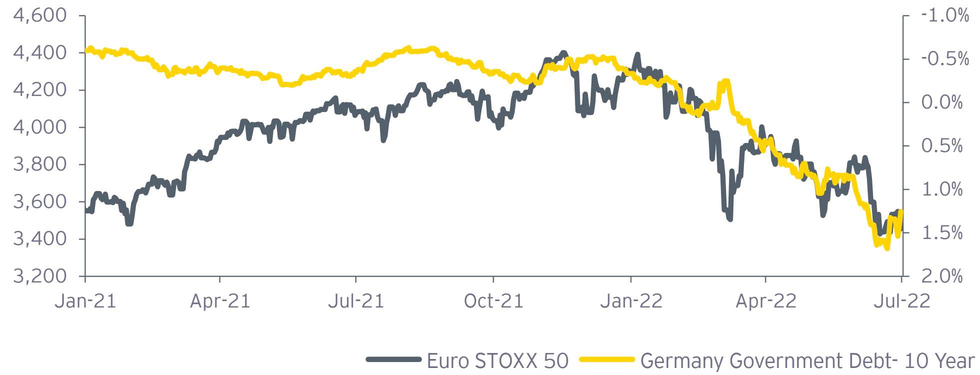
04 Indices vs Bonds

A | Madrid Ibex 35 vs Spain Gov. Bond 10y



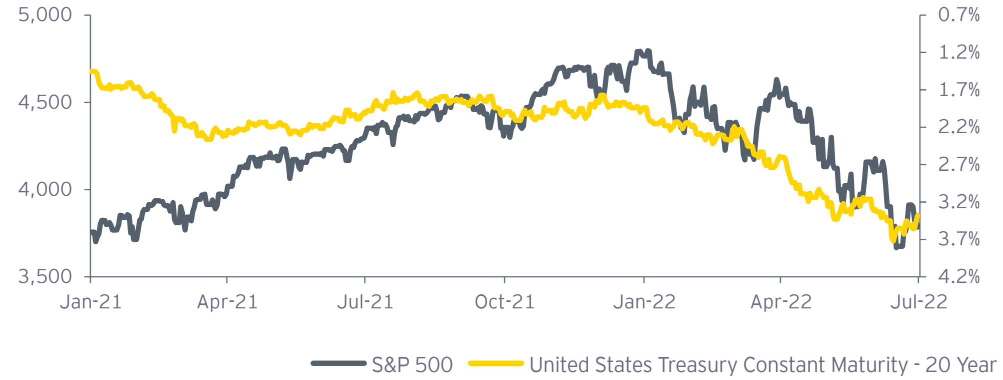
Source: Capital IQ

B | Euro STOXX 50 vs Germany Gov. Bond 10y



Source: Capital IQ

C | S&P 500 vs US Gov. Bond 20y

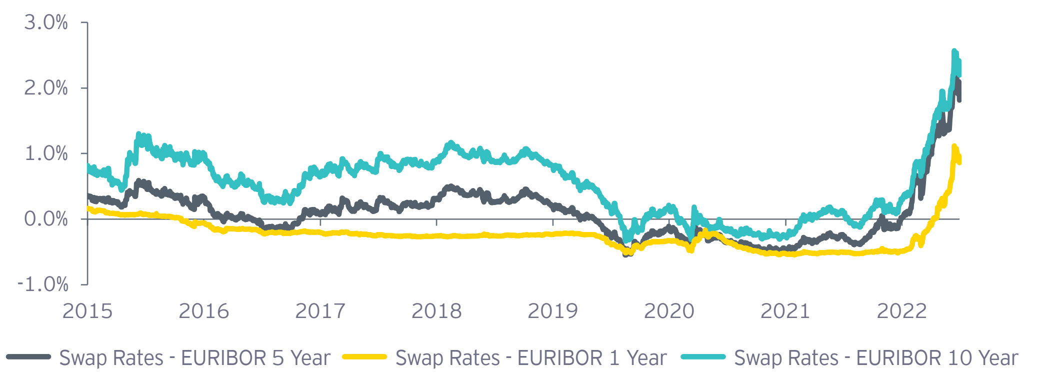


Source: Capital IQ

- In 2021, the **Indices' performances** were also driven by **an accommodative monetary policy.** As a result, government bond yields remained stable at historic low levels.
- From Q4 2021 onwards, as **inflation increased**, the monetary policy changed becoming more restrictive and government **bond yields soared**, pushing **Equity indices down.**

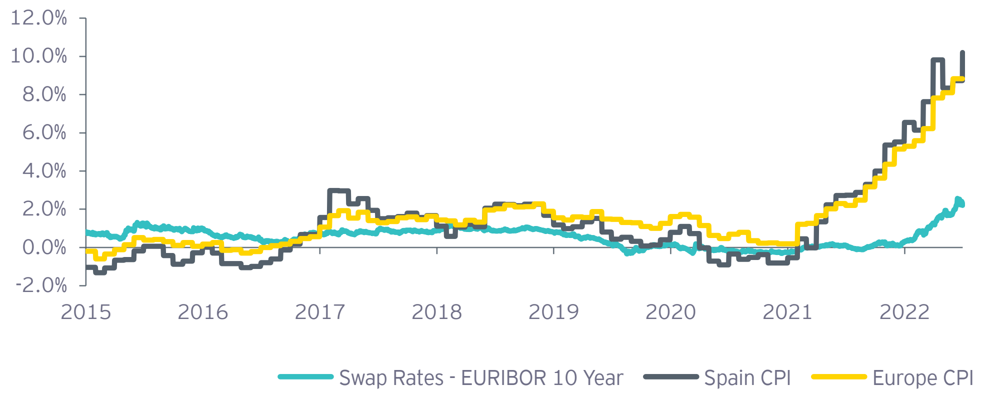
05 Euribor vs CPI[1]

A | Euribor



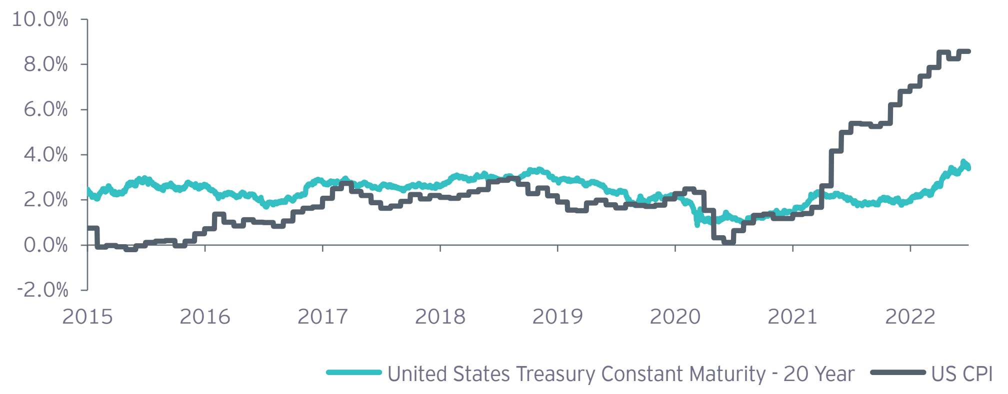
Source: Capital IQ

B | Euribor 10y vs Spain CPI (YoY%) and Europe CPI (YoY%)



Source: Capital IQ

C | US Gov. Bond 20y vs US CPI (YoY%)



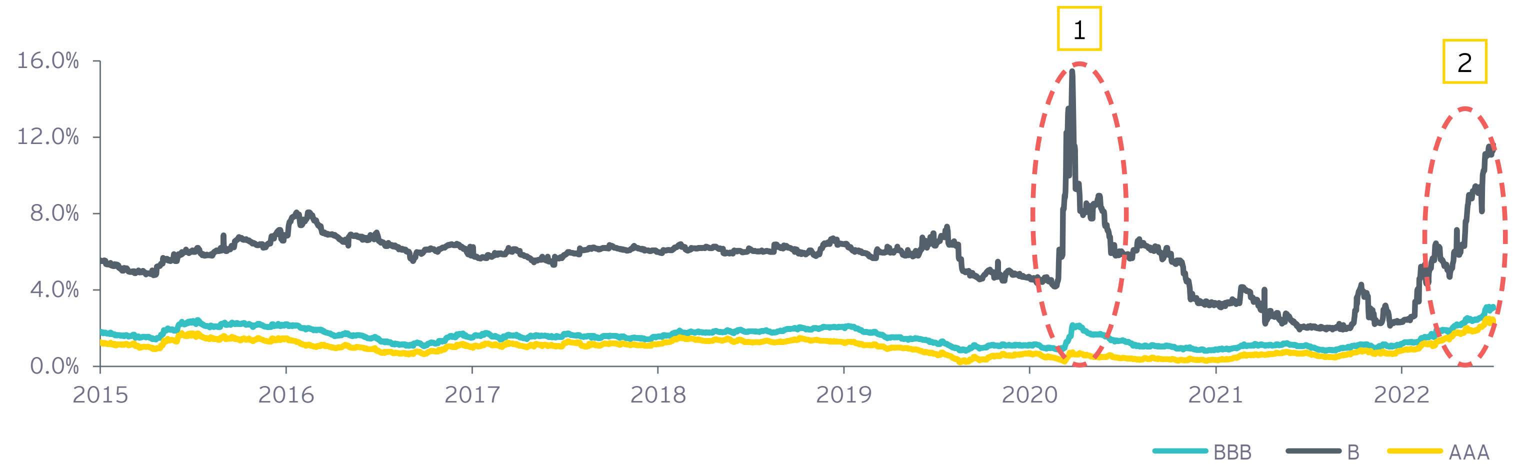
Source: Capital IQ

- From 2015 until 2021, **Euribor yield curves** remained **low** mainly due to an **accommodative monetary policy**.
- From 2022 onwards, **CPI** (YoY%) has sharply **increased** both in Europe and US as a result of different factors such as shortage of supply, increase in commodities prices, high levels of liquidity in the market, etc.
- The increase in CPI involves an outstanding increase in Euribor and long-term swap yield curves, among other effects.

Note: [1]CPI - Consumer Price Index

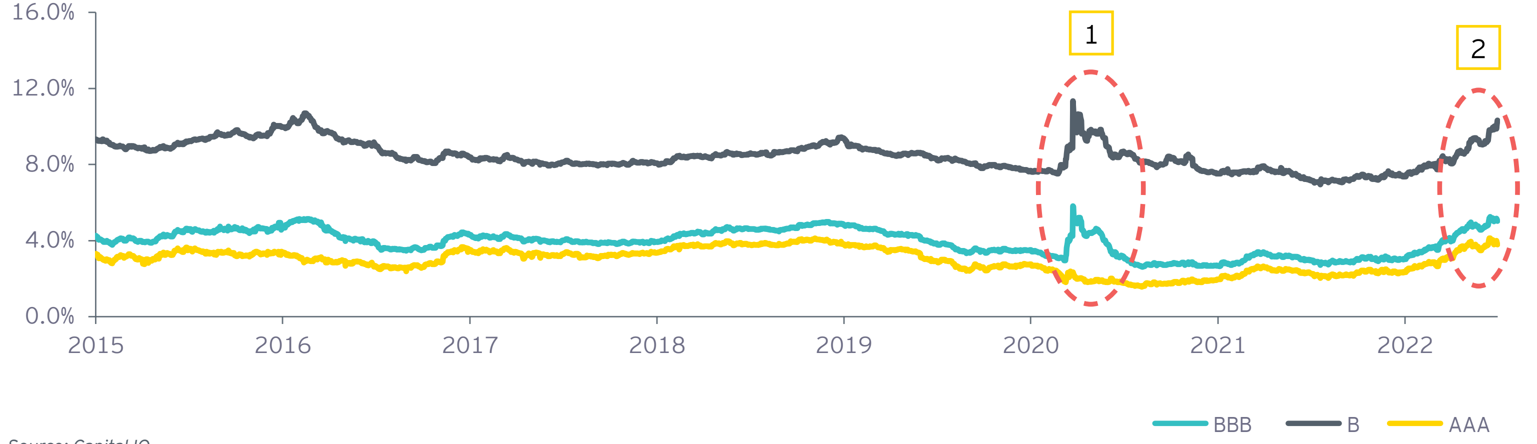
06 Spread corporate bonds

A | Spread corporate bonds Europe – 10y



Source: Capital IQ

B | Spread corporate bonds US – 10y



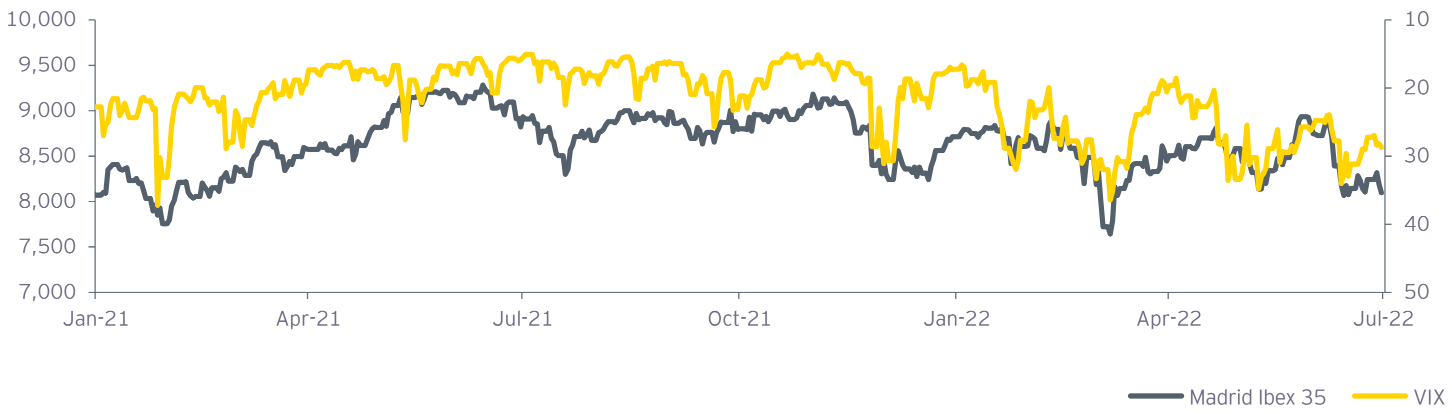
Source: Capital IQ

1. Events such as the Covid pandemic or the Russia-Ukraine conflict bring **uncertainty** to the financial markets, triggering a **widening spread effect** between **investment-grade and high-yield bonds**.

2. As shown in the charts, this is **more marked** in Europe than in the US, due to its lower liquidity.

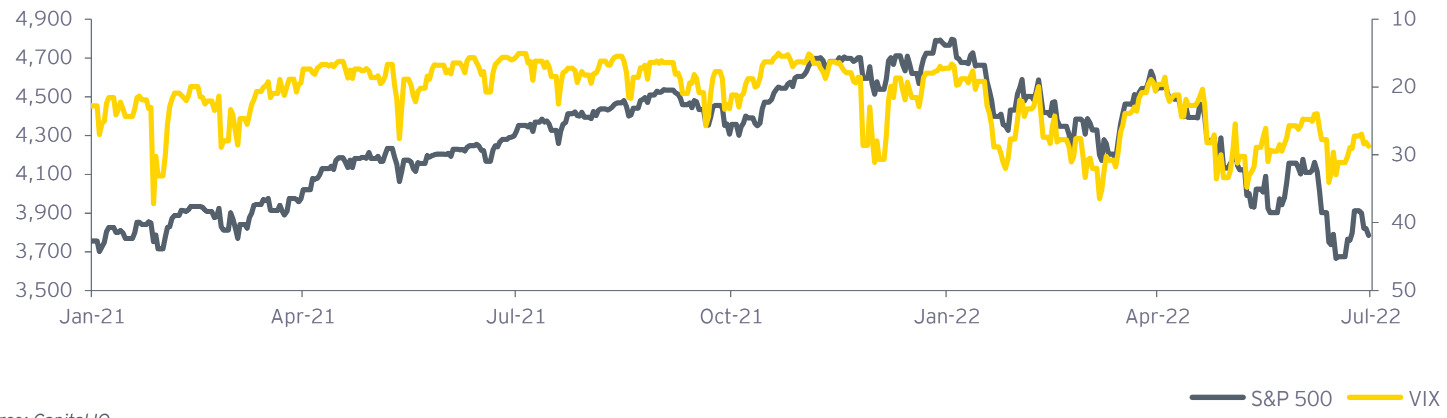
07 VIX[1] vs Indices

A | VIX vs Madrid Ibex 35



Source: Capital IQ

B | VIX vs S&P 500



Source: Capital IQ

- From 2015 until 2021, **Euribor yield curves** remained **low** mainly due to an **accommodative monetary policy**.
- From 2022 onwards, **CPI** (YoY%) has sharply **increased** both in Europe and US as a result of different factors such as shortage of supply, increase in commodities prices, high levels of liquidity in the market, etc.
- The increase in CPI involves an outstanding increase in Euribor and long-term swap yield curves, among other effects.

Note: [1]VIX - Chicago Board Options Exchange Volatility Index

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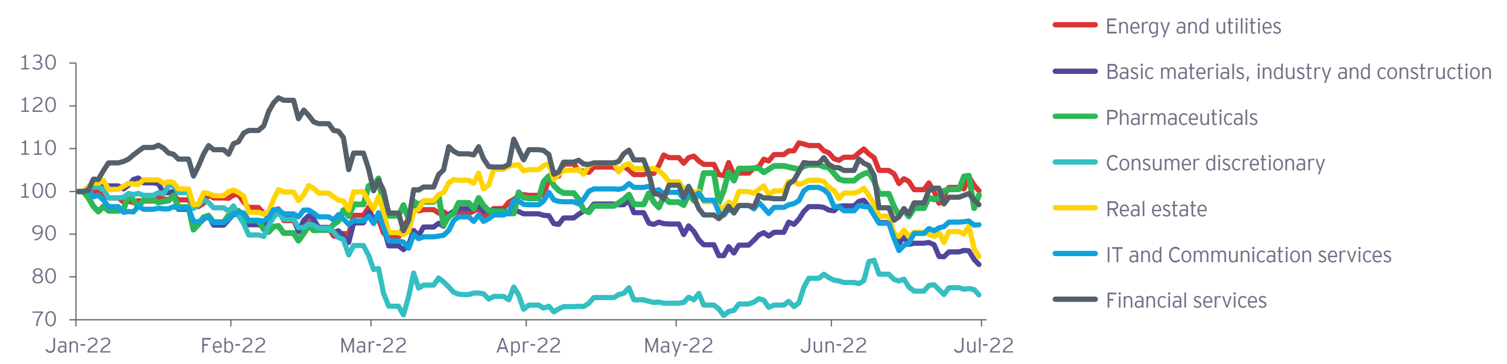
08 Breakdown by industries - Market Capitalization

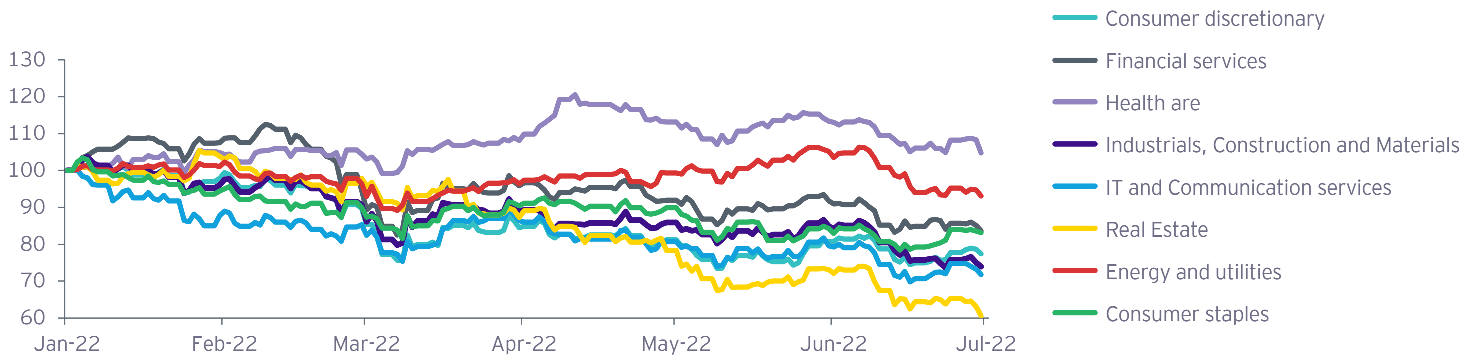
A | Madrid Ibex 35 by industries



Source: Capital IQ

- The **market capitalization** of all sectors has **declined** since the beginning of the year, excluding the **Energy and utilities industry**. The Energy sector is considered as a defensive one in the current environment.
- The sector most **negatively** affected was **Consumer discretionary** due to the volatility of the industry and the correlation with market trends.

B | Euro STOXX 50 by industries



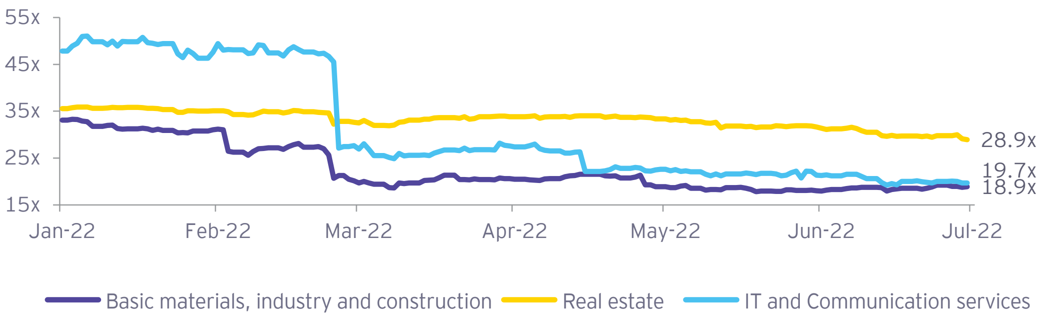
Source: Capital IQ

- The **market capitalization** of all sectors has **declined** since the beginning of the year, excluding the **Energy and utilities industry** (as commented above) and **Health Care**, not affected by the financial market trends;
- The sector most **negatively** affected was **Real estate**.

09 Breakdown by industries - Multiples EV/EBITDA LTM[1] (Weighted Avg. based on Market Cap.)

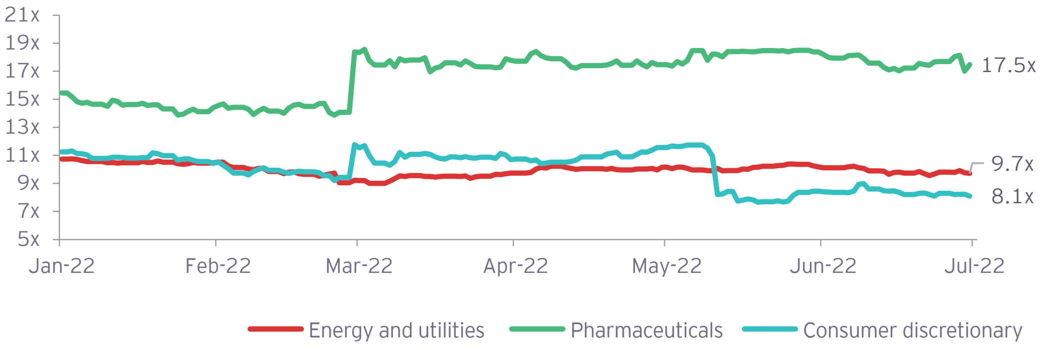
A | Madrid Ibex 35

High



Source: Capital IQ

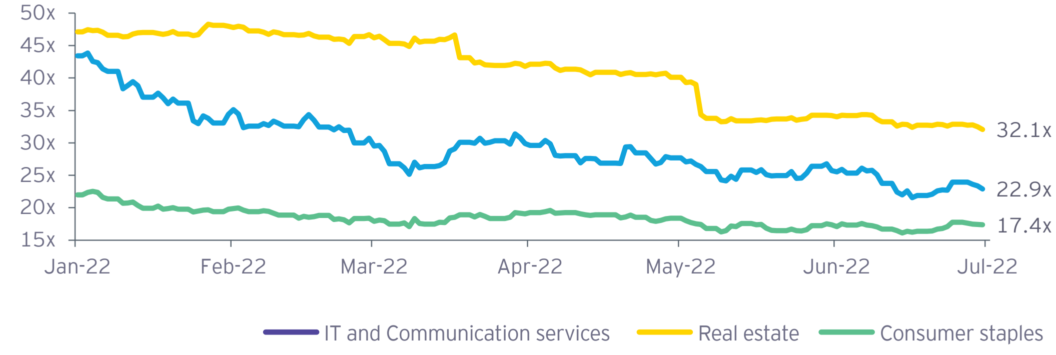
Low



Source: Capital IQ

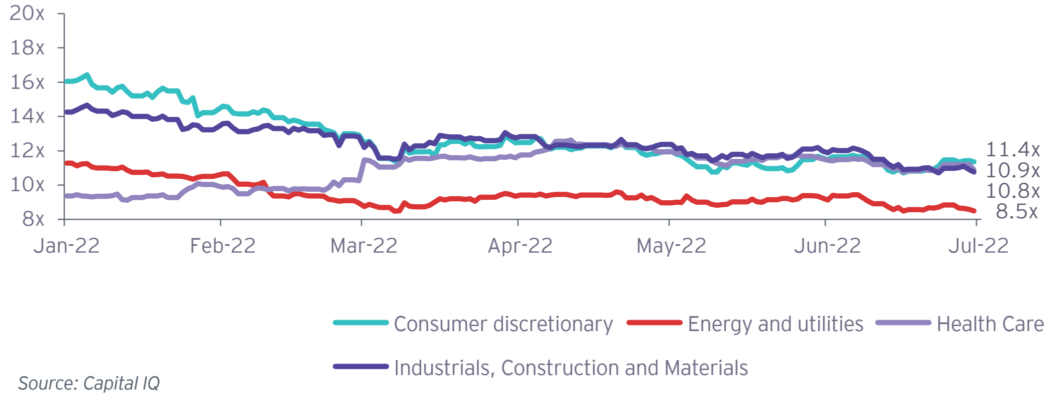
B | Euro STOXX 50

High



Source: Capital IQ

Low



Source: Capital IQ

Financial services not included.

Note: [1]LTM - Last twelve months

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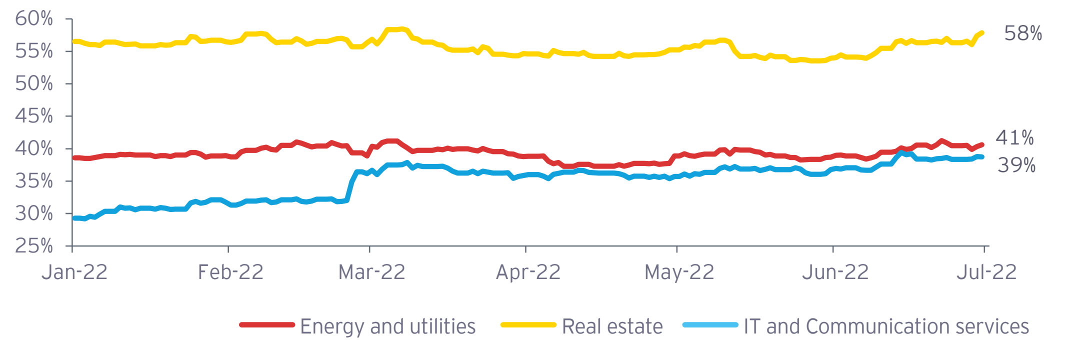
10 Breakdown by industries - Debt Capital Structure[1] (Weighted Avg. based on Market Cap.)

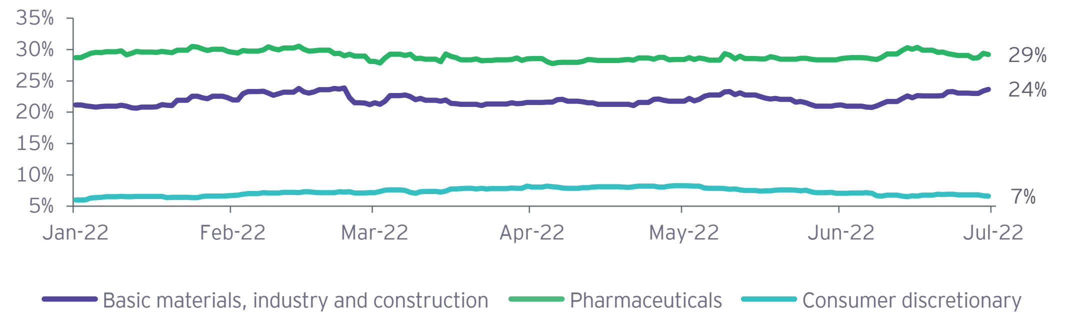
A | Madrid Ibex 35

High



Source: Capital IQ

Low



Source: Capital IQ

B | Euro STOXX 50

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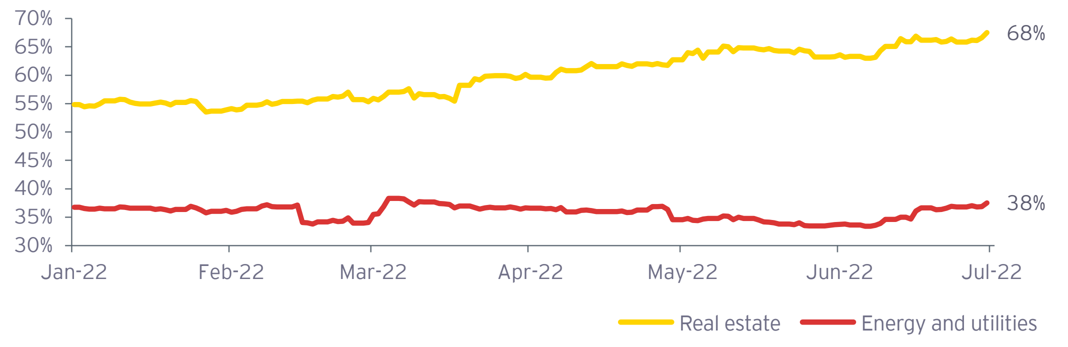
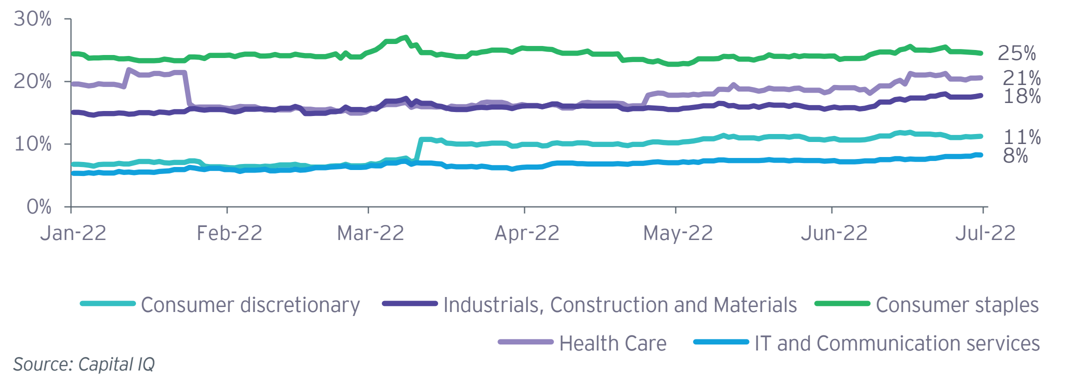


Source: Capital IQ

Low



Source: Capital IQ

Financial services not included.

Note: [1]Debt Capital Structure - Net debt to total EV (Market Cap. + Net Debt)

11 Breakdown by industries - Equity Beta[1] (Weighted Avg. based on Market Cap.)

A | Madrid Ibex 35

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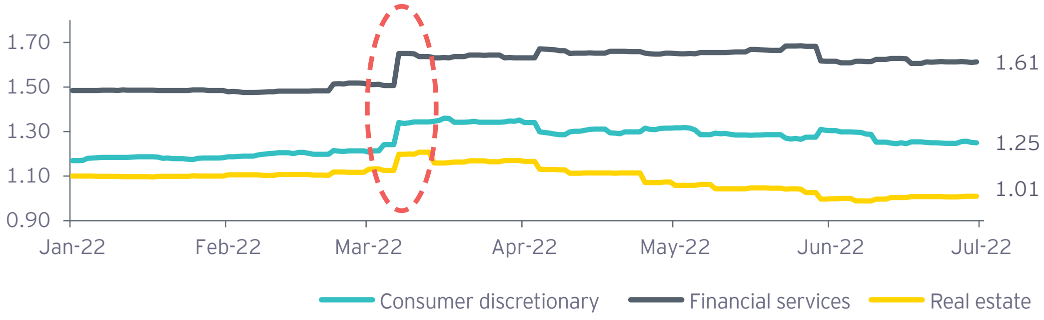
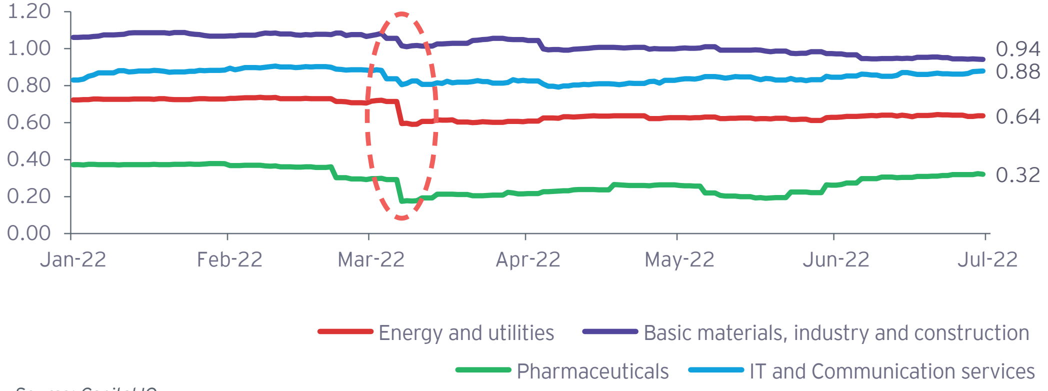


Source: Capital IQ

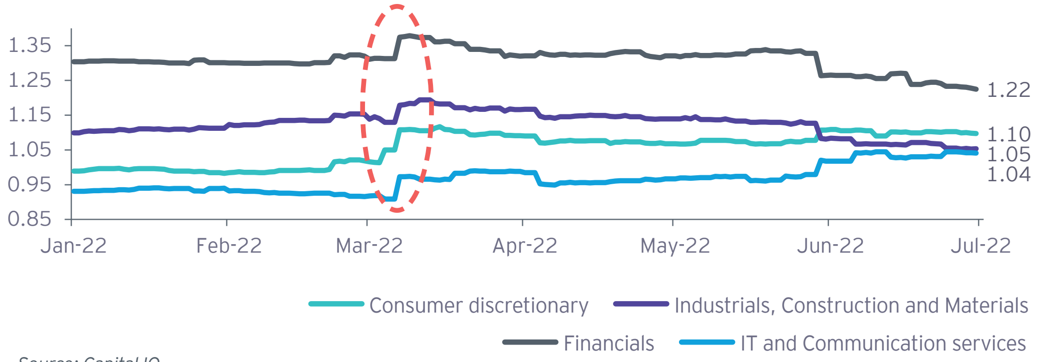
Low



Source: Capital IQ

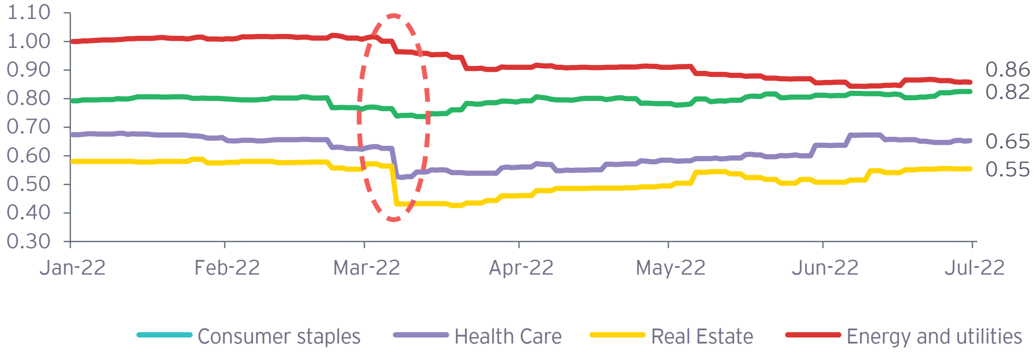
B | Euro STOXX 50

High



Source: Capital IQ

Low



Source: Capital IQ

Financial services not included.

Note: [1]Equity Beta - Levered Beta

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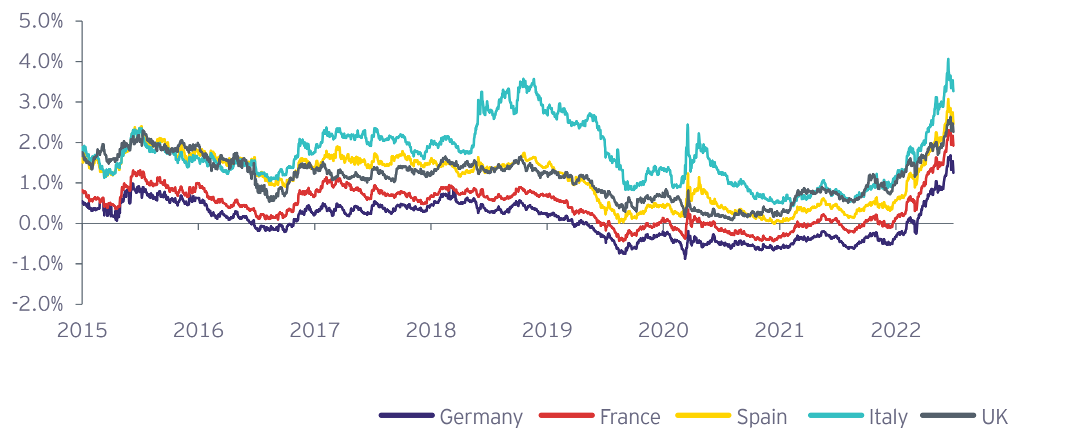
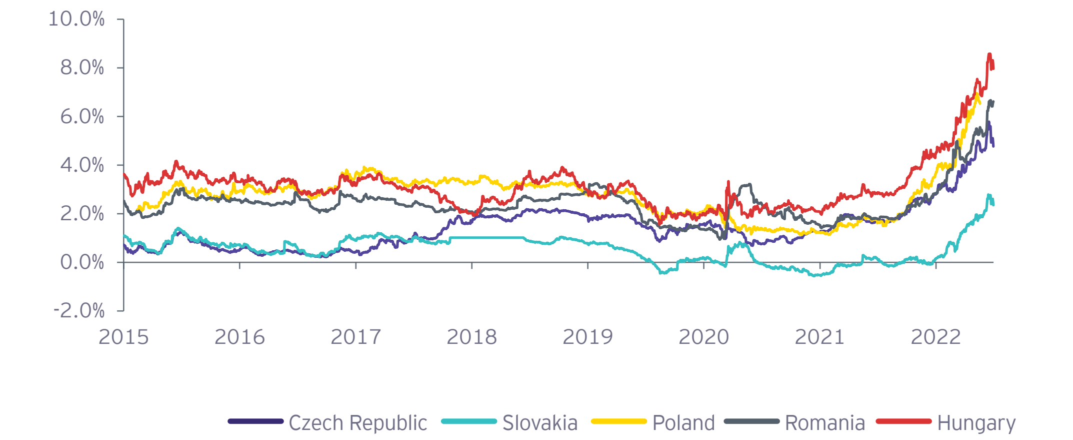
Other considerations - Western Europe, Eastern Europe and LATAM

A | Madrid Ibex 35 vs Spain Gov. Bond 10y



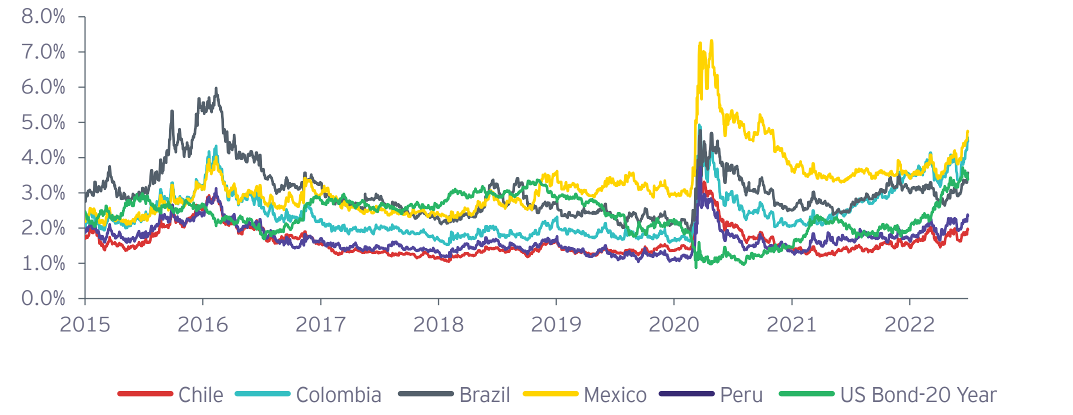
Source: Capital IQ

B | Euro STOXX 50 vs Germany Gov. Bond 10y



Source: Capital IQ

C | S&P 500 vs US Gov. Bond 20y



Source: Capital IQ

- Events such as the Covid pandemic or the Russia-Ukraine conflict bring **uncertainty** to the financial market, and consequently, as shown in the charts the bond **yields rise;**
- The countries **closest to Ukraine** are **more affected** than the others (Western Europe and Latin America countries).

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