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For professional investors in Italy

Plenisfer Flash Outlook

Plenisfer Investments SGR S.p.A.

While it is difficult to predict what will happen in the short term, one thing is certain: the invasion of Russia will have long-term consequences. The evolution of the Russia-Ukraine war in the coming months will have an impact on Putin's presidency and Russia's geopolitical position globally.

If there is a quick resolution to the war - which we believe is unlikely - investors' attention will shift back to previous inflation concerns and future central bank decisions. In the opposite case, a long-term stagflation scenario is becoming increasingly likely, driven by spikes in energy prices and their impact on income in Western countries, especially in Europe.

We expect the US Federal Reserve to continue its restrictive monetary policy plan, as confirmed by Powell in early March, as the US remains economically less affected by the Ukrainian war, although it is still suffering from the current energy shock. On the other hand, on the part of the ECB, the European Central Bank, a wait-and-see approach is likely to be what we get in the coming months.

In the current context of market and economic tensions, we have witnessed a "fly to quality" move with the appreciation of safe-haven assets such as gold and US dollar. The latter, in adverse geo-political and economic scenarios, still represents a safe harbour. On currencies it should also be noted that in crisis situations American institutional operators tend to repatriate their investments, and we have in fact seen the sale of European assets, contributing to further weakening the Euro. Looking at the US, however, some inflationary trends remain to be monitored carefully - such as the rise in wages already in place - also considering the current re-rating of economic growth expectations and corporate profits.

This month's outflows in equities and high yield have turned the focus on the fixed income sector, which we believe will continue to be penalised by rising inflation.

In our view, the Russian bond market deserves special consideration: while traditionally this market has offered attractive investment opportunities, after the exclusion of Russian bonds from the benchmark indices, valuations have become comparable distressed assets. In fact, an area of the bond market that is usually pretty popular has disappeared. The question today would not be whether the coupons on these bonds can be repaid, but whether there will be a willingness - primarily by the Russian authorities - to repay them and in what currency: dollars or rouble?

This applies to corporate debt, but also to Russian government bonds: the next coupon payment in dollars is scheduled for 16 March, a date to be monitored carefully.

The uncertainty on this front is part of an already alarming economic picture in Russia: the sanctions imposed so far by Europe and the US have already affected the Russian Central Bank and the domestic growth expectations. If the estimates of a 15/20% drop in Russia's gross domestic product (GDP) are confirmed, the country would return to the situation of 1998, which led to its default.

Looking at the most interesting investment areas, at Plenisfer we believe that energy will remain a key element in the market scenario, both in terms of traditional and "new generation" energy sources. We are currently facing a *de facto* energy shock, which has entered an already fragile market due to the imbalance between supply and demand caused by reduced investment in research and development (R&D) in recent years. This imbalance, coupled with the cyclical phase, supports the spike in energy commodity prices. Current prices are discounting plenty of potential negative repercussions from tensions and sanctions between Russia and the Western part, putting gas and oil at higher medium-term equilibrium levels than many operators had imagined. From now on, the consequences of sanctions will have to be carefully examined, leading to a global reassessment of opportunities for new rounds of R&D investments and whether and how much to postpone energy transition plans.

In Europe, the focus so far seems to be on Carbon Neutrality plans, aimed at bringing CO2 emissions to zero, together with the necessary energy independence. At Plenisfer, we believe that the related sectors (from new generation systems to storage and energy distribution) will be affected by huge investments and can therefore offer selected stock-picking opportunities.

We believe that in such a complex and constantly evolving scenario, a defensive portfolio stance remains a priority, including using derivative portfolio protection instruments that can benefit from volatility moving higher in equity markets or positioning ourselves in credit-default swaps to protect against rising spreads and default risk.

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