February 2022

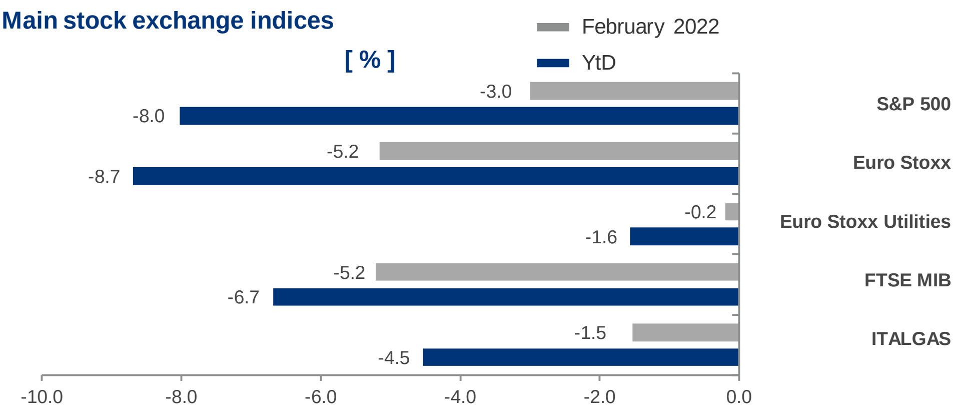
Financial Markets Review

Global equities declined significantly with growing geopolitical tensions culminated with the start of Russian military operations in Ukraine. The German real yield retreated, but expected inflation rose to its highest in over 10 years with commodities rally

Financial Markets

Significant decline for global equities, entirely materialized in the second half of the month, as a result of growing geopolitical tensions in Eastern Europe, culminated with the start of Russian military operations in Ukraine. Despite a very volatile context, reflecting the prospects of monetary policies normalization by the central banks, prior to this event equity indices were overall stable. The Euro Stoxx and the FTSE Mib fell by 5%, while the S&P 500 limited the decline to 3 percentage points, probably as a result of lower US exposure to the Russian economy. Moderate rise for core sovereign yields (Bund +12 bps at 0.13%, UST +5 bps at 1.83%), entirely induced by inflationary expectations (German breakeven inflation at the highest since 2011) due to the rally in energy and mining commodities following the geopolitical tensions, while the real component recorded a decline (-14 bps in the case of the Bund, close to the historic lows of mid-November), reflecting the overall downward revision of expectations of monetary tightening and a slowdown in the exit of monetary stimuli, due to the ongoing conflict. Consequent extension of the upwards movement for peripheral spreads induced by growing risk aversion. Adjusted for the extension of the 10-year BTP benchmark maturity, the BTP-Bund spread advanced by 23 bps to 157 bps, and the Greek one by 51 bps (to 239 bps), the highest since May 2020. Overall stability for the euro against the dollar and the sterling (at 1.12 and 0.84 respectively), with the initial bullish movement triggered by the ECB's strengthened focus on containing the inflation offset by the larger eurozone exposure to the Russian economy, and in the case of the sterling also by the BoE decision to proceed with a 2nd consecutive hike of the reference rate, after that one of December.

Main stock exchange indices



Source: Italgas' elaborations on Bloomberg data

The oil market

Consistent increase in oil prices (+11% to 101 USD/b), which returned to their highest levels since September 2014 as a result of extended supply risks due to the start of the conflict. Additionally, Bloomberg reported that, compared to an expected increase of 400 kbd in OPEC+ production in January, the actual increase was only 50 kbd due to the unrest in Libya and technical difficulties encountered by Russia. The bullish pressure has been mitigated (i) by the restart of the Iranian nuclear talks, which could lead to the removal of the country's oil export restrictions, (ii) by expectations of a further increase in OPEC+ output from April (+400 kbd) and (iii) the decision of IEA member countries to release 60 mboe of strategic reserves.

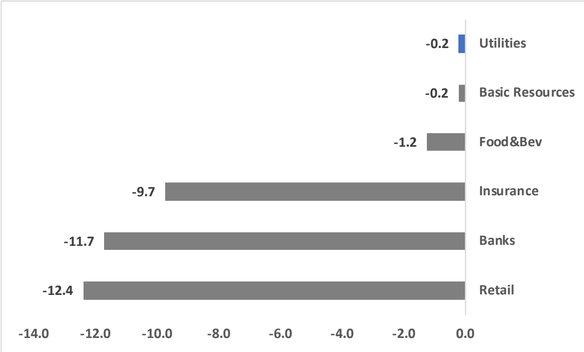
Performance by sector

The sector dynamics reflected the extension of risk aversion induced by geopolitical tensions: defensive best performers vs financials on the opposite side

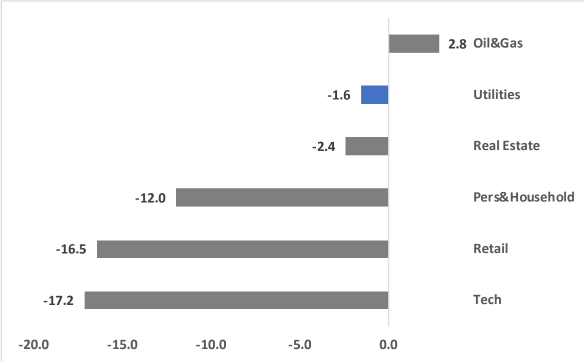
The sector dynamics reflected the extension of risk aversion resulting from geopolitical tensions, with bond-proxies and defensive players returning best performers also as a consequence of the expected delay in the withdrawal of monetary stimuli to mitigate the impact of the conflict vs financials on the opposite side. This is an opposite movement compared to the previous month, when fears of accelerated monetary tightening by the central banks prevailed. The exception to this general trend is represented by the retail sector, which despite the substantially defensive profile was the worst performer due to the decline of Zalando (-15%), the main operator in the sector, reflecting the expected growth deceleration in 2022 as a result of difficulties in pass onto the customers the price increase generated by the overall rally in commodities.

Sector performance; utilities e 3 main ups/downs

Febr. 2022 [%]



YTD 2022 [%]



Source: Italgas' elaborations on Bloomberg data

Utilities were the best performers with risk-off and expected delay in monetary stimuli withdrawal

Utilities sector performance

Overall unchanged, utilities returned as the best performers due to growing risk aversion and the expected delay in the withdrawal of monetary stimuli by central banks to mitigate the impact of the conflict. Substantial alignment between integrated and regulated operators. Within the sector, RWE (+11%) reported the largest increase due to the upgrade of the 2022 guidance, supported by the outlook on electricity prices. Naturgy (-15%) was on the opposite side; despite the announcement of the separation of regulated activities from merchant ones, the stock was penalized by profit-taking as a result of the high valuation, that was pricing-in expectations of a takeover by the Australian fund IFM.

Utilities sector and subsectors

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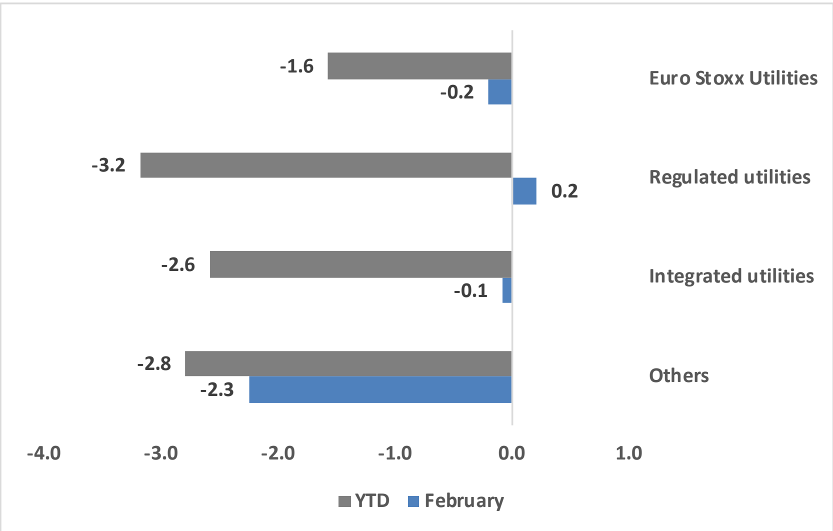


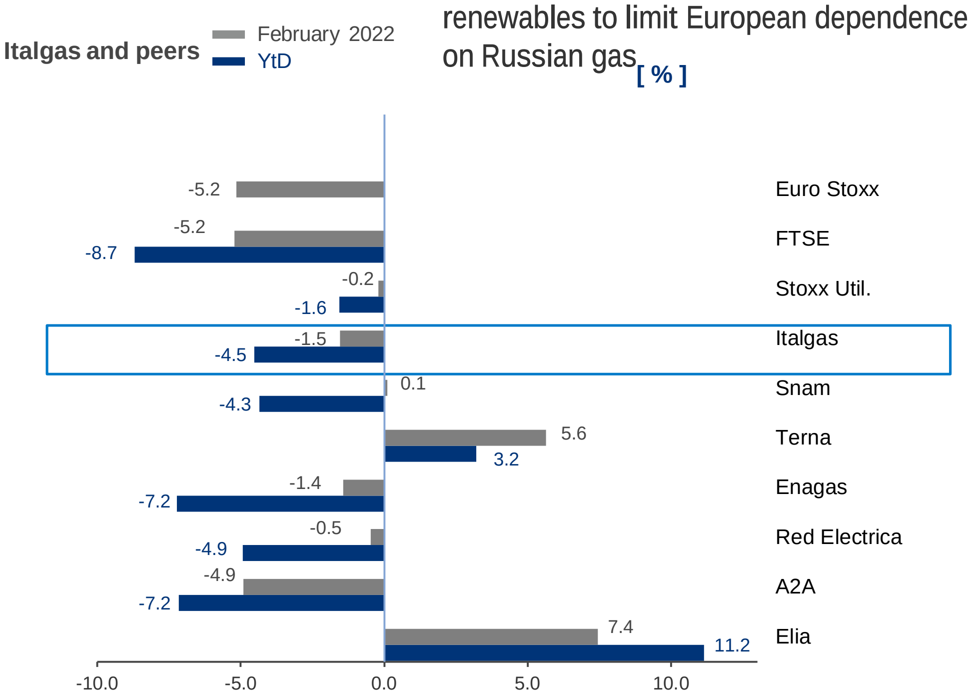
Source: Italgas' elaborations on Bloomberg data

Italgas and its peers

Italgas contracted by 1.5% (to 5.778 euro). Although, due to increased risk aversion, the decline was much smaller than that one reported by the FTSE Mib, the stock moderately underperformed the Eurozone sector index and regulated peers, namely power TSOs, as a result of expected acceleration of renewables development (and therefore of electricity grids) in order to limit the European dependence on Russian gas. Terna and Elia (+6% and +7%, respectively) were best performers in the panel, the latter also supported by overall better than expected FY results.

Italgas (-1.5%) limits the decline with increased risk aversion; power TSOs best performers with expected acceleration of renewables to limit European dependence on Russian gas

Italgas and peers [%]



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

9 March BoD on 2021FY results and dividend proposal

10 March Press release and conference call

Corporate News

Italgas confirmed in the Sustainability Yearbook and FTSE4Good Index Series

On February 1st Italgas has been included for the third consecutive year in the Sustainability Yearbook, the S&P Global annual publication that collects experiences, case histories and best practices from world's top sustainability leaders.
Italgas was included following the Corporate Sustainability Assessment (CSA) conducted in 2021. The Company was also awarded a "Gold Class Distinction" for its excellent sustainability performance. The result achieved is a further recognition of Italgas' commitment to all aspects of sustainability, a pillar of its growth strategy and on which its daily activity is based. The 2022 Sustainability Yearbook is only the latest of the awards received by the Company on ESG topics. Italgas was recently confirmed in the FTSE4Good Index Series, which includes the companies that excel in sustainable economic development.

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