May 2022

Financial Markets Review

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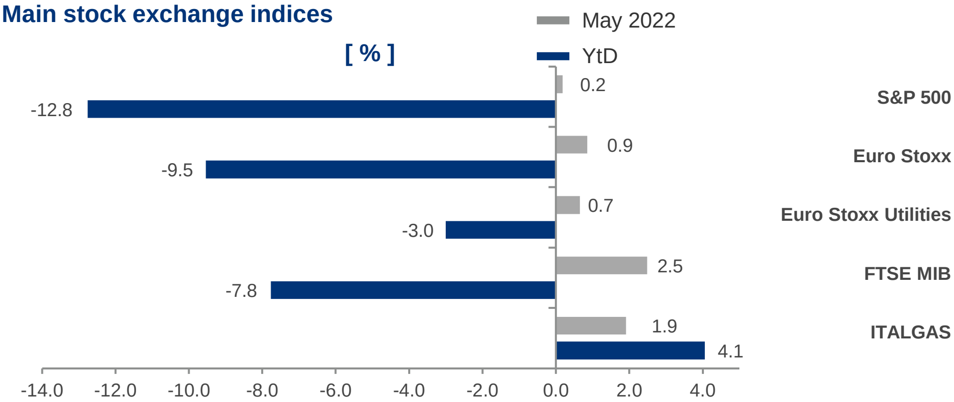
Global equities overall stable in a markedly volatile context due to expectations related to monetary tightening aimed at mitigating the inflationary rally. ECB sees end of QE in June and rate hike in July

Financial Markets

Main stock exchange indices



Source: Italgas' elaborations on Bloomberg data

Global equities were overall stable in a markedly volatile context, again due to changing expectations in terms of speed and depth of monetary tightening aimed at calming the ongoing inflationary rally (Eurozone CPI at historic highs, and US CPI at 40-year highs), with consequent different implications in terms of expected economic deceleration. Similarly to what was recorded in April, in May also the eurozone equities showed, at the same currency, an overall advantage over the US, mitigating the opposite dynamics shown since the beginning of the year, and especially since the beginning of the conflict. Despite the significant recovery of the EUR/USD, the Euro Stoxx advanced by approximately 1% vs unchanged S&P 500. Significant outperformance for the FTSE Mib (+2.5%) due to its exposure to oil and banking stocks, best performers in the month. On the fixed income side, the US and German sovereign yields reported moderate divergence (+18 bps the Bund at 1.12% and -9 bps the US Treasury at 2.84%), reflecting the outcome of the FED meeting in line with the expectations (double increase in the reference rate and announcement of Quantitative Tightening start from June) vs Lagarde's statements in favor of ordinary QE termination at the end of June, with a rate hike in July. The BTP-Bund spread is up 16 bps (200 bps) with enhanced expectations of monetary tightening and fears of government crisis following the decision to ask the confidence vote on the Competition Bill mitigated by the EU agreement to suspend the the stability pact also in 2023. After falling to lows since 12/2016, the EUR/USD has advanced by 1.8% (1.07) to reflect the factors underlying the different dynamics of the German sovereign yield vs the US one. Similar dynamics for the EUR/GBP (+1.6% at 0.85) based on the same elements, with Lagarde's statements which, barring very significant events, should lead the way for the ECB over the next few months.

The oil market

Oil prices (+12% to 120 USD / b) extend the increase to the maximum immediately following the start of the conflict. The EU has agreed on a partial embargo on Russian crude oil, which provides for a stop to imports by sea to be adopted after 6 months, while in order to meet the demands of countries without sea access, imports via pipeline will remain active. This would imply a block of about 70% of Russian crude oil imports into the EU, potentially increasing to 90% if Germany and Poland, mainly supplied by the "Druzhba" pipeline, also join the embargo. On the other hand, OPEC + approved a further increase in production by 0.4 mbd from June, but the April data show they are not able to achieve it (OPEC members alone increased production in April by only 10 kbd vs a planned increase of 274 kbd).

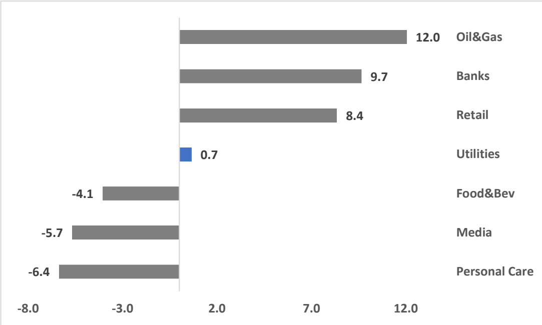
Performance by sector

The sector trend reflects the extension of the rally in oil prices vs profit warnings from US large retailers, with an increase in costs not adequately transferred into revenues

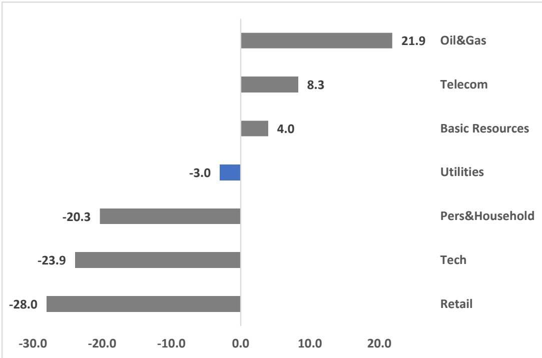
Consistently with the strengthening of oil prices, with a rise of 12%, oil&gas was the best performer of the month. Banks (+10%) followed, supported by the extension of the bullish phase of the German sovereign yield, which paves the way for the widening of the differential between the yield on loans and the cost of funding, together with mitigation of the underperformance developed by the launch of the conflict. On the other hand, with contractions of 6% and 4%, personal care and food are the worst performers as a result of the profit warnings reported by US retailers (Walmart and Target Corp. above all) due to the cost pressure induced by the inflation not adequately transferred into revenues due to the more cautious attitude by the consumers following the generalized increase in prices.

Sector performance; utilities e 3 main ups/downs

May 2022 [%]



YTD 2022 [%]



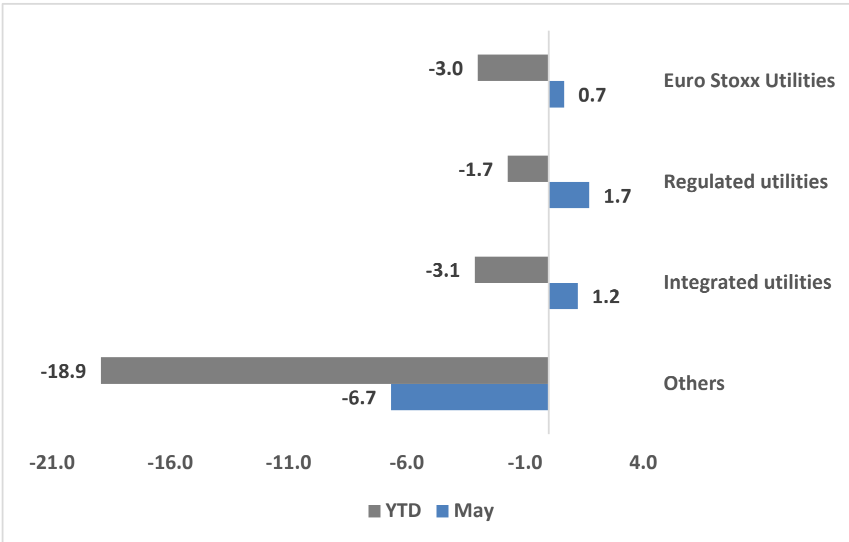
Source: Italgas' elaborations on Bloomberg data

Utilities aligned with the Eurozone benchmark; support from REPowerEU still absorbed by fears of tariff interventions

Utilities sector performance

1% increase for the utilities sector, overall aligned with the Euro Stoxx. The support induced by the updated version of the REPowerEU, which revised from 40% to 45% the 2030 target in terms of share of energy covered by renewables and confirmed the acceleration of hydrogen development and diversification of gas supply sources, has been compensated by fears of government measures aimed at mitigating the bill increase on end users. To this regard, despite higher-than-expected Q1 results, with a decrease of 8%, Verbund was the worst performer after the Austrian government announced that it was studying the introduction of a tax on extra-profits generated by energy companies controlled by the State.

Utilities sector and subsectors

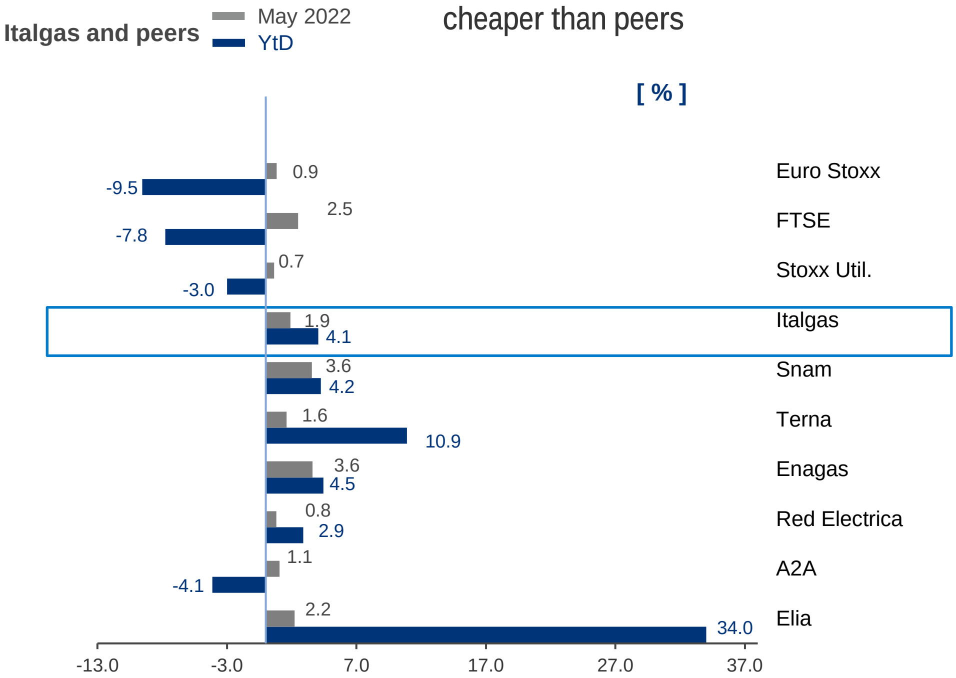


Source: Italgas' elaborations on Bloomberg data

Italgas and its peers

Italgas rose by approximately 2% (6.01 euro), supported by Q1 results moderately better than expected (5% discrepancy in terms of Ebitda) due to the higher operational efficiency and development of Escos, as well as the payment of the dividend, which represents a purchase catalyst for investors that want to keep the invested capital unchanged. On May 20, the stock updated its highs with prices unadjusted for dividends (6.39 euro), and on May 23 those adjusted for dividends (6.16 euro). Positive performance also for the other regulated peers, supported by the indications of the revised REPowerEU package.

Italgas (+6%) updates its historical highs also without adjusting for dividends; stock supported by multiples significantly cheaper than peers



Source: Italgas' elaborations on Bloomberg data

Agenda
Corporate events

25 July BoD on Q2 consolidated results; press release & c. call

Links to Corporate News

Italgas: consolidated Results as of 31 march 2022 approved 02 may 2022

Italgas' Board of Directors appoints the members and Chairmen of the Board Committees 02 may 2022

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