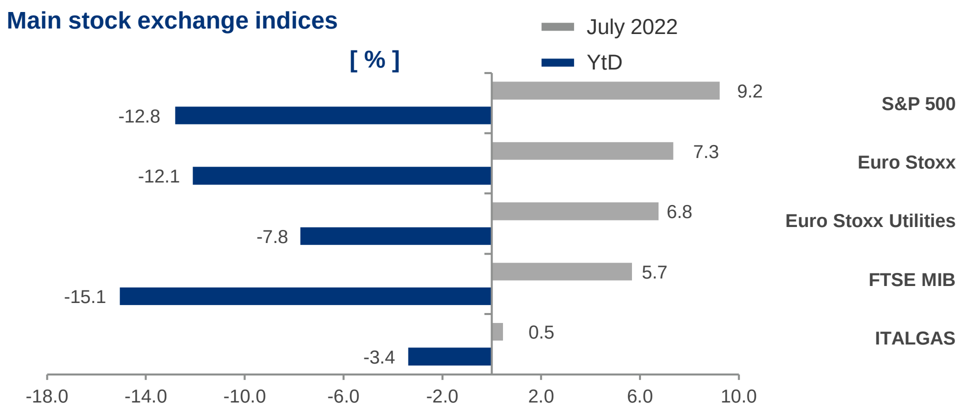
July 2022

Financial Markets Review

Large recovery in global equities, supported by signs of moderation in the approach by central banks and quarterly results generally above expectations. Consequent decline in core sovereign yields. The EUR/USD updated its lows since 12/2002 with increased eurozone risks due to the contraction of gas supplies from Russia

Financial Markets

Large recovery in global equities, supported by signs of moderation in the approach by central banks that resulted in a decline of sovereign yields despite US inflation having updated its highs since 12/1981. Quarterly results generally above the expectations also supported the improved risk appetite. Currency adjusted, however, eurozone equities continued to materially underperform the US indices due to stronger expectations of a slowdown or recession induced by the shortage of gas as a result of the contraction of imports from Russia. The Euro Stoxx advanced by 7% vs S&P 500 +9% despite a further depreciation of the EUR/USD. The FTSE Mib (+6%) moderately underperformed due to the political instability, with government crisis and early elections. Large contraction for core sovereign yields (UST -36 bps and Bund -57 bps (adjusted for the extension of the German benchmark maturity)) due to the mitigated approach by the central banks. As expected, the FED proceeded with a rate hike of 75 bps, however providing more accommodative indications about rates



Source: Italgas' elaborations on Bloomberg data

evolution. Similarly, the ECB's 50 bps hike was only marginally higher than expected. After the meeting, the Slovak central bank governor stated that the September hike could be 25 or not higher than 50 bps, instead of expectations of 70 bps. The BTP-Bund spread rose by 23 bps (to 220 bps) as a result of the government crisis. Ample decline of the euro against both the dollar and the pound (both -2.5%) due to the increased risk for the eurozone induced by the contraction in gas supplies from Russia. The EUR/GBP was also affected by BoE representatives' statements in favor of more rapid rise in reference rates if required by inflation dynamics.

The oil market

The oil price dropped by 6% (108 USD/b), essentially reflecting the inverse correlation with the US dollar and mitigation of the remarkable resilience showed so far by the commodity (as a result of supply-side bottlenecks, including the embargo on imports from Russia and the considerable difficulties by OPEC+ in reaching its production targets) despite a scenario of economic deceleration, as well as prospects of recovery at 1.2 mbd of the Libyan output (vs 0.6 mbd in June) thanks to mitigated internal unrests. The TTF, instead, extended its rally (+35% to 195 EUR/MWh), close to its all-time high reached at the beginning of March, supported by further cut in Russian gas supplies on Nord Stream 1 (from 40% to 20% of the capacity of the pipeline) at the end of the annual maintenance.

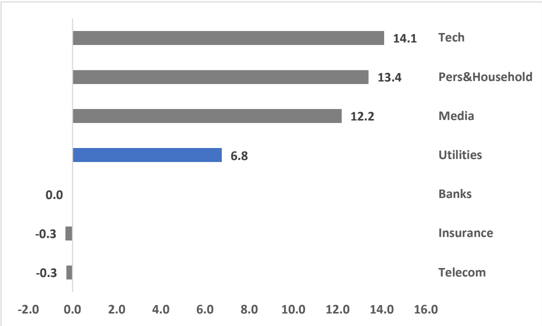
Performance by sector

The sector performance reflected lower bond yields after multi-year highs in mid-June; tech stocks are best performers vs financials on the opposite side

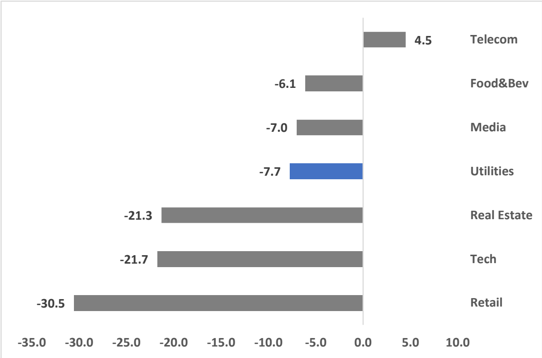
Coherently with the significant decline in bond yields (after the multi-year highs of mid-June) induced by the central banks' more dovish approach, the bond-proxy sectors reported an overall outperformance. With an increase of 14%, tech stocks were the best performers. As a results of more back-end loaded cash flow they are particularly sensitive to discounting factors, hence explaining the outperformance. Personal goods and media followed, with the main driver being represented instead by better-than-expected quarterly results and upward revision of the FY guidance by some operators. Conversely, banking and insurance were among the worst performers as they are positively correlated to the evolution of bond yields, together with telecoms, which instead mitigated their YTD outperformance.

Sector performance; utilities e 3 main ups/downs

July 2022 [%]



YTD 2022 [%]



Source: Italgas' elaborations on Bloomberg data

Utilities sector underperformed the Eurozone benchmark, penalized by the exposure to Italian operators

Utilities sector performance

Despite its defensive profile, the utilities sector (+1.7%) largely underperformed the eurozone benchmark due to the high exposure to Italian operators, penalized by the government crisis. With a drop of 54%, Uniper was still the worst performer due to the public bailout following the heavy losses generated by the contraction of gas supplies from Russia. On the other hand, EdF (+52%) was the best performer in the sector after the French government announced its intention to proceed with an offer at 12 euro/share for delisting the minorities. The operators most exposed to renewables also outperformed (Verbund +15%, EDP Renovaveis +12%), supported by the extension of the power price rally.

Utilities sector and subsectors

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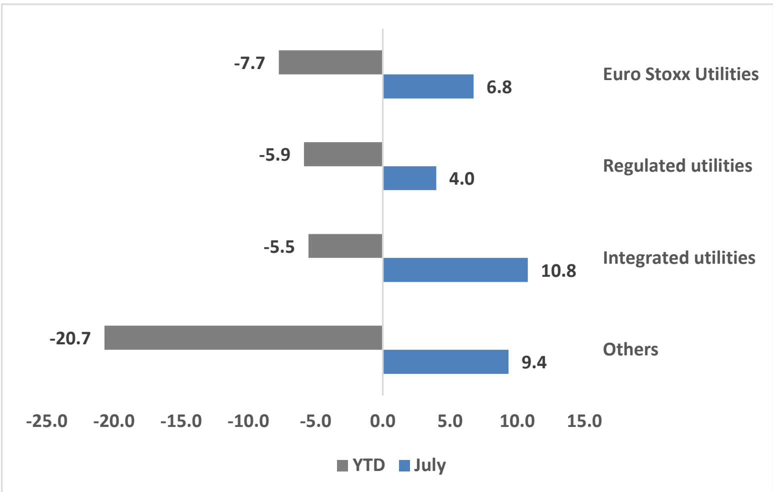
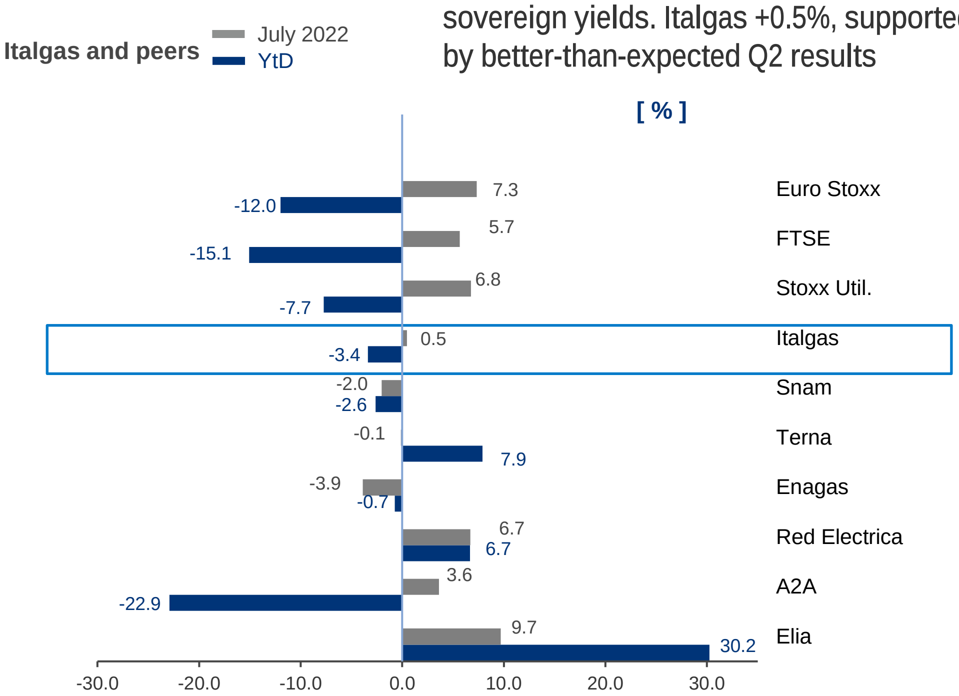


Source: Italgas' elaborations on Bloomberg data

Italgas and its peers

Italian regulated operators penalized by the higher sovereign spread despite regulatory protection and a decline in sovereign yields. Italgas +0.5%, supported by better-than-expected Q2 results

Italgas (5.58 euro) advanced by half percentage point in a context of generalized weakness for Italian regulated operators due to higher sovereign spread, despite the full protection offered by the Italian regulatory framework vs the increase of this parameter and the decline in core bond yields. However, the stock was supported by better than expected Q2 results. With a decline of 4%, Enagas was the worst performer of the panel after a new industrial plan with an Ebitda growth target which, although very low, was considered by some analysts too aggressive when compared to the amount of planned investments. On the other hand, Red Electrica and Elia benefited from the fixed income evolution described above.



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

26 October BoD on Q3/9M consolidated results

27 October Press release & conference call

Links to Corporate News

Italgas improves the rating assigned by Moody's ESG Solution 04 july 2022

Italgas: consolidated results as at 30 june 2022 approved 25 july 2022

Medea (Italgas Group) becomes a 49% shareholder of Energie Rete Gas 26 july 2022

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