UBS

UBS ETF Capital Markets
Weekly Flow Update
(12th of August – 16th of August)

Market Commentary

The MSCI World ended up 4.01% driven by Information Technology (7.51%), Financials (4.08%) and Consumer Discretionary (5.34%).

The main event this week was the release of the US CPI print for July. The data for July was in line with consensus forecasts. CPI and core CPI (which excludes food and energy) both rose 0.2% m/m. After some stronger monthly increases at the start of the year, the more recent inflation prints have been much softer. In y/y terms, both headline (2.9%) and core inflation (3.2%) slowed to the lowest level since inflation started to take off in early 2021. On a three-month moving average basis, the annualized rate of core inflation fell to 1.6%, down from 2.3% in June and 4.5% as recently as March. One important detail from the report is that shelter prices reaccelerated to 0.4% m/m after rising only 0.2% in June. Shelter is the biggest component of the CPI basket and the main driver of inflation now. Excluding shelter, inflation was only 1.7% y/y. The larger increase in July shelter prices may imply somewhat higher overall inflation in the months ahead than markets previously expected.

Combining CPI data with Tuesday's PPI data (the data showed wholesale prices rose by a monthly 0.1% in July, lower than the consensus estimate of 0.2%) suggests that core PCE inflation, the Fed's preferred inflation measure, should rise between 0.1% and 0.2% m/m when the data is released on the 30th of August. The inflation data should be good enough to allow the Fed to start cutting rates in September but does not necessarily give them a reason to cut aggressively.

US retail sales for July rose 1% m/m, well above consensus forecasts, although there were downward revisions to prior months. Initial jobless claims were lower than expected in the week ending the 10th of August, falling to 227,000 from 234,000 and 250,000 in the prior two weeks. On the downside, industrial production was weaker than expected in July, falling 0.6% m/m on top of downward revisions to the prior two months. This pushed the y/y growth rate into negative territory at -0.2%.

Thursday's data provides reassurance that, at least so far, spending is holding up. From the Fed's perspective, even if inflation goes back to the 2% target, there is little need to cut rates aggressively if economic growth continues at a decent pace. At this point, it appears that the August labour report due on the 6th of September would have to show further weakness to justify an initial rate cut of more than a 25bps.

Carrying on with the inflation theme, UK CPI increased to 2.2% in the 12 months to July from 2% in June, but below consensus forecasts for 2.3%. The print is the first rise in inflation since January and is slightly above the BoE 2% target rate. Services inflation, however, fell by more than expected to 5.2% from 5.7%, and core inflation, which excludes volatile food and energy, decreased to 3.3% from

3.5%. The print follows the BoE's 25bps rate cut at the start of the month. The latest UK inflation print shows the rate is still near the BoE's 2% target. Following the BoE's 25bp cut at the start of the month, markets expect another 25bp cut in November with more to come in 2025, which should help boost equity valuations and earnings.

Finally, we had July activity data for China which signifies a weak start to 3Q. July retail sales growth edged up to 2.7% y/y (consensus: 2.6%) from an 18-month low of 2% in June, partly helped by a very low base (2.5% y/y last Jul). The largest-weighted item, auto sales (c.10% of total sales), remained in contraction at -4.9% y/y, but the decline narrowed from -6.2% y/y in June. Sales of other discretionary items like garments, cosmetics, and gold and jewellery and housing-related goods like furniture and construction materials remained relatively muted. On the other hand, consumer staples like food and beverage sales held relatively steady at high-single-digit growth. Looking ahead, retail sales may pick up slightly as the CNY150bn consumer goods trade-in subsidy program gradually kicks in.

FAI growth decelerated to 3.6% y/y YTD from 3.9% y/y in 1H. The property FAI decline widened to -10.2% y/y YTD from -10.1% in 1H. Infrastructure FAI also slowed to 4.9% y/y YTD from 5.4% in 1H, reflecting slow fiscal deployment and adverse weather in multiple parts of China. Manufacturing FAI stayed relatively solid at 9.3% y/y YTD thanks to support for domestic industrial upgrades and the tech upcycle. Industrial production growth was largely in line at 5.1% y/y, holding firm in the mid- to high-single digits year-to-date. Across major sectors, manufacturing remained the main driver, up 5.3% y/y. High-end manufacturing still outperformed, led by transport equipment (12.7% y/y) and computer equipment (14.3% y/y).

Analysts expect another 50-100bps RRR cut(s) and 10-20bps MLF/LPR cut(s) for monetary support, but with limited expectations over additional fiscal support in the current scenario. Full-year GDP growth may reach slightly below 5%.

Next week we have Eurozone PMIs on Thursday, July CPI for Japan on Friday and various economic speeches from central bank officials at the Jackson Hole symposium.

- Monday: Chile GDP; Japan core machine orders; Malaysia trade; Philippines balance of payments; Spain trade; Thailand GDP and US Conference Board leading index.
- Tuesday: Argentina trade; Canada CPI; China loan prime rates; Eurozone CPI; Hong Kong CPI; Israel unemployment; Mexico retail sales, international reserves; New Zealand home sales, trade; Sweden rate decision; Taiwan export orders and Turkey rate decision.
- Wednesday: Indonesia rate decision; Israel industrial production; Japan trade; South Africa CPI; South Korea producer prices; Thailand rate decision and US FOMC minutes, BLS preliminary annual payrolls revision.
- Thursday: Eurozone HCOB PMI, consumer confidence; France HCOB PMI; Germany HCOB PMI; India HSBC PMI; Malaysia CPI; Mexico GDP; Norway GDP; South Korea rate decision; Taiwan jobless rate; UK S&P Global / CIPS PMI and US initial jobless claims, existing home sales, S&P Global PMI.
- Friday: Canada retail sales; Japan CPI; Macau GDP; Peru GDP; Singapore CPI; Taiwan industrial production and US new home sales.

UBS ETF - Top 5 Net Inflows	USD
European Equities	317,017,964
European Equities (hedged)	113,200,130
Global Equities Sustainable	39,091,579
US Equities Sustainable	31,357,049
US Equities Sustainable (hedged)	23,530,642
UBS ETF - Top 5 Net Outflows	**USD**
US Equities Sustainable (hedged)	23,530,642
US Equities Sustainable	31,357,049
Global Equities Sustainable	39,091,579
European Equities (hedged)	113,200,130
European Equities	317,017,964
UBS ETF - Top 5 Primary Market Creations	**USD**
UBS (Lux) Fund Solutions – MSCI EMU UCITS ETF (EUR) A-acc	233,235,602
UBS (Lux) Fund Solutions – MSCI EMU UCITS ETF (EUR) A-acc	55,532,286
UBS (Lux) Fund Solutions – MSCI EMU UCITS ETF (hedged to USD) A-acc	34,390,200
UBS (Lux) Fund Solutions – MSCI EMU UCITS ETF (hedged to USD) A-acc	25,798,950
UBS (Irl) ETF plc – S&P 500 ESG UCITS ETF (hedged to EUR) A-acc	24,005,001
UBS ETF - Top 5 Primary Market Redemptions	**USD**
UBS (Lux) Fund Solutions – MSCI United Kingdom UCITS ETF (GBP) A-acc	-104,474,356
UBS (Lux) Fund Solutions – MSCI United Kingdom UCITS ETF (hedged to EUR) A-acc	-63,331,369
UBS (Lux) Fund Solutions – MSCI Japan UCITS ETF (hedged to USD) A-acc	-57,611,268
UBS (Lux) Fund Solutions – Bloomberg TIPS 10+ UCITS ETF (USD) A-dis	-41,879,770
UBS (Irl) ETF plc – MSCI USA hedged to EUR UCITS ETF (EUR) A-acc	-16,201,229

UBS ETF - Top 10 Secondary Market Trades	USD
UBS (Lux) Fund Solutions – MSCI EMU UCITS ETF (EUR) A-acc NAV – Tradeweb	138,680,000
UBS (Lux) Fund Solutions – MSCI EMU UCITS ETF (hedged to USD) A-acc NAV – Tradeweb	122,290,000
UBS (Lux) Fund Solutions – MSCI United Kingdom UCITS ETF (hedged to USD) A-acc NAV – Systematic Internaliser	-115,180,000
UBS (Lux) Fund Solutions – MSCI United Kingdom UCITS ETF (GBP) A-acc NAV – Systematic Internaliser	-110,850,000
UBS (Lux) Fund Solutions – MSCI United Kingdom UCITS ETF (GBP) A-acc NAV – Systematic Internaliser	-110,540,000
UBS (Lux) Fund Solutions – MSCI United Kingdom UCITS ETF (hedged to USD) A-acc NAV – Systematic Internaliser	-91,880,000
UBS (Lux) Fund Solutions – MSCI EMU UCITS ETF (hedged to USD) A-acc NAV – Tradeweb	80,780,000
UBS (Lux) Fund Solutions – MSCI EMU UCITS ETF (hedged to USD) A-acc NAV – Tradeweb	78,170,000
UBS (Lux) Fund Solutions – MSCI United Kingdom UCITS ETF (hedged to EUR) A-acc NAV – Systematic Internaliser	-64,520,000
UBS (Lux) Fund Solutions – MSCI United Kingdom UCITS ETF (hedged to EUR) A-acc NAV – Systematic Internaliser	-64,080,000

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