

Market Commentary on the FY'2022 Results Season:

From Choppy Markets to a New Turning Point?

After a bear market rally in the fourth quarter of 2022,ⁱ the first few weeks of equity trading in 2023 continued with **renewed euphoria among professional fund managers** given better than expected economic and labour statistics, notably in the US, lower energy prices in Europe and the sudden re-opening of China.ⁱⁱ Together with investor hope for a slowdown in rate hikes by major central banks and **growing optimism that a deep and long recession might be avoided**, this was somewhat in contrast with companies' presentations, as the full-year 2022 reporting season started in mid-January. Interestingly, while CEOs talked variously about "temporal speed bumps on our path" (Northrop Grumman), projecting their expectations ranging from a "mild recession" (JPMorgan, Citigroup, UBS) to a "difficult recession" (Tesla), the **IMF upgraded its growth forecasts for major economies** (except the UK) on 31 January - with China and India accounting for half of global growth this year alone - and **expecting a "turning point" for 2023**.ⁱⁱⁱ

Among corporate executives reporting their results across different industries in recent days, there was a broad consensus that **markets will be "choppy" and "bumpy" in 2023**,^{iv} particularly during the first half, and that **top-line growth will be flat while margins are increasingly getting squeezed**.^v They also agree on supply chains having eased, as well as on "reduction of supply chain lead times in 2023" (Signify, Intel) and a "further inventory clean-up in 2023" (Lonza, ASML), which should help to **rebalance the post-pandemic mismatch between supply and demand**. However, some industrial companies reported that "long-term ordering is missing" (Trelleborg), reducing not only visibility but also heightening "end market volatility" (Signify, AT&S), while also pointing to "customer pricing tactics" (Trelleborg, ABB), which was a major topic of analyst enquiries in recent days. In turn, **technology companies maintain the need for investments for future growth** even during a recession, although conceding that there is "still double-digit excess demand" (ASML) while not expecting a "U-shape for recovery in the second half of 2023" (TSMC).

To reflect on the current investor debate, we first look at the **new realities of high inflation and economic slowdown**,^{vi} followed by a discussion about the **future of cryptocurrencies in the wake of the FTX collapse** in late 2022. Since Russia's military invasion of the Ukraine started almost a year ago, we feature a **special case study on the Aerospace & Defence industry**, having followed almost two dozen companies in the US and Europe since Q3'2022, and **focus on the Russian war ripple effects** into 2023. Finally, with the US administration continuing to enforce its trade assault on China, notably the technology transfer for military purpose, we scrutinise the **ascendancy of India**, which is not only going to outgrow China in terms of population, but is also widely expected to outperform the rest of the global economy.^{vii} Given the broader debate about "technology sovereignty" and implied cost increases due to the fragmentation and doubling of global supply chains, **India is now perceived as a potential counter-weight to China to reduce geopolitical risk** while, at the same time, offering new opportunities for investments in renewables, electric cars, infrastructure and even the defence industry.^{viii}

INFLATION CHANGING DIRECTION

With Central Bank rate-setting policy dominating the recent institutional debate, we start with some key discussion points and subsequently reflect on the economic slowdown, with the latter being largely caused by high inflation. Following a long period of low inflation distorting credit, asset prices and liquidity,^{ix} the main investor focus is now on a) whether we have already reached “peak inflation” after first data points (factory gate prices, shipping rates, commodity prices) suggest a change in direction;^x b) to what extent diverging rate-setting regimes between the US, Europe and other major markets such as Japan and the UK might produce different economic outcomes;^{xi} and c) whether the previous 2% inflation target is still appropriate and/or whether the investment community should get used to higher inflation for longer.^{xii}

While this is not the place to discuss the pros and cons of various statistical inflation measures and/or a “soft landing” being still feasible,^{xiii} the more interesting debate is whether investors should continue to expect the Fed reversing its course in writing another “put option” (easy money protection),^{xiv} as the market seems to be already pricing in a rate reduction by the end of 2023, or whether we enter a new phase of monetary tightening and decelerating corporate profits. There are plenty of arguments to maintain a restrictive monetary policy – witness the resilience of the US labour market and service sector data,^{xv} which is something we have frequently heard from US companies in recent weeks by outlining their “recession playbook”.^{xvi}

ECONOMIC SLOWDOWN AND MARGIN SQUEEZE

With economic growth having slowed down in Europe, China and the US in Q4'2022, as tighter monetary policy and higher energy costs impacted consumer spending and business activity,^{xvii} the key focus areas of investor and analyst interest during the FY2022 reporting season have so far been on top-line growth, pricing pressure and margin squeeze.^{xviii} While the current recession debate and its technical definition goes beyond the scope of this market commentary, suffice to say that this issue is very much in corporate executives' mind when providing the outlook for 2023,^{xix} with some just expressing their priority in “returning to previous margins” and “rebuilding the cash position” (Signify). In this context, companies' pricing strategy has been a main focal area, with some corporates elaborating not only on internal processes, performance measurement, customer information and data analysis (ABB, KPN), but also on “customer pricing tactics” (Trelleborg).

Much has been published about the significant job cuts by major US technology companies in recent weeks;^{xx} however, senior executives have elaborated in analyst Q&A more on the shortage of trained labour and the need to move from “hiring into production assets” (Delta Air Lines). Whereas some of the US companies have clearly benefited from the cut of software engineers by the likes of Microsoft, Spotify and Meta,^{xxi} the biggest inflationary impact comes reportedly not only from compensation (Raytheon Technologies), but also from training (Boeing).^{xxii} In the wake of the inflationary impact of material, supply chains and transport & logistics having subsided in recent weeks (as well as energy in Europe), the investor discussion has now shifted to the scope of margin resilience (and improvement) going forward, both in terms of the likelihood for further price increases but also cost efficiencies.^{xxiii}

CRYPTO MELTDOWN

In our previous market commentaries, we have frequently written about the potential of cryptocurrencies changing the modern financial system - notably blockchain technology - and, following the latest collapse of crypto exchange FTX, ultimately need to reflect on the latest developments.^{xxiv} In this context, our key interest here is less on the multiplier effects on other crypto trading venues like Coinbase, Crypto.com, OKX and Deribit in the wake of customer panic and the erosion of confidence in the digital asset market but more on the implications for change going forward. Interestingly, with all the US and European banks we had followed during the current FY2022 reporting season, there was not even one question asked by analysts about banks' (and/or their client) exposure to digital assets and whether potential write-downs are needed.^{xxv}

Looking back at the crypto meltdown in late 2022, one wonders whether the investor risk appetite has really changed as the price of bitcoin has gone up by more than 40% since early January (as is the case for rival tokens ether and Solana) while total assets under management for digital asset investment products have reportedly increased by almost 37% in January 2023 alone.^{xxvi} Despite all the soul searching and demands for more regulatory protection, what has for many first appeared as a financial bubble burst along the lines of Lehman Brothers in 2008, may only have temporarily caused a run away from mainstream investors and institutions.^{xxvii} There will clearly be more regulatory scrutiny and anti-money laundering enforcement,^{xxviii} with perhaps a stronger focus on bad players from North Korea and elsewhere,^{xxix} but there is also some recognition that there are limits to supervise crypto groups (even to pin down where they are based) as the preparation of the latest EU Markets in Crypto-Assets legislation has revealed.^{xxx}

CASE STUDY: AEROSPACE & DEFENCE

As we approach the first anniversary of the Russian war in the Ukraine on 24 February, we have looked at the US and European defence industry since Q3'2022 in detail and followed some of the Investor Days (Airbus, Boeing, Rolls-Royce, MTU, Hensoldt) and ESG Updates (BAE Systems). Given the strong influence of ESG investors, there is no doubt that the Russian war has caused a "shift in global security perception" (CEO of Hensoldt, Thomas Müller), with calls by some corporate executives not only to "recalibrate the investor views on defence" but also to start considering the defence industry as a "force for good" (Chairman of BAE Systems, Sir Roger Carr).^{xxxi}

As the Russian military aggression evolved in 2022, and the threat of a Taiwan military conflict emerged over the summer, there are some key themes of specific investor interest worth highlighting, notably a) by when would higher defence budgets turn into higher sales;^{xxxii} b) to what extent the very different Russian and Ukrainian battlefield tactics have changed modern military strategy – towards a "multi-domain warfare" with fully networked sensors (Hensoldt) – but also more demand for additional air surveillance, space and even underwater deterrence within NATO (SAAB) as well as a "nuclear revitalisation" (Lockheed Martin);^{xxxiii} and c) while there was much talk about a new "supercycle" in the defence market (Hensoldt) these companies equally faced operational issues of semiconductor shortages, inflationary pressure, supply chain constraints as well as wage inflation and qualified labour shortages (Airbus, Rolls-Royce, MTU, Thales), as other industrial companies did in recent months.^{xxxiv}

RUSSIAN WAR RIPPLE EFFECTS

Much has been written about the limited (and often counterproductive) impact of Russia sanctions over the last year,^{xxxv} but – as the EU currently prepares its 10th sanction package before the first anniversary of the Russian full-scale invasion of the Ukraine and NATO member countries still struggle to find agreement on the delivery of heavy weaponry including battlefield tanks and fighter jets – it is time to take a pause and look at some of the key investor enquiries on the current and future ripple effects. From an immediate perspective, the cap on Russian oil prices introduced in early December 2022 has not led to massive instability in the global oil market so far,^{xxxvi} while it is too early to judge on the impact of the global price cap on Russia’s refined fuel sales from 5 February, notably in Europe which has heavily used Russian diesel for decades.^{xxxvii}

Within the broader investor debate on economic decoupling, however, there is clearly specific institutional interest in a) new economic alignments among emerging markets and the growing importance of Middle Powers for the energy transition (see India buying Russian crude oil insured by Western companies);^{xxxviii} and b) to what extent growing geopolitical rivalry could lead to an alternative multipolar currency and international payment regime,^{xxxix} with all the ramifications for established international capital markets. As the threat of a “financial nuclear bomb” by switching off Russia from the international Swift regime has not worked, it is worth touching briefly on the financial sector, namely the impact on global reinsurance as well as on Western bank’s painful retreat from Russia.

While major reinsurance companies had kept tight-lipped about the impact of the Russian war on their business for most of 2022, crucial January renewals have reportedly resulted in higher costs of reinsurance by as much as 200% (a combination of the war in Ukraine and extreme weather events). This was driven mainly by the cost of aerospace reinsurance as well as by other ripple effects impacting Western shipping insurers.^{xl} In turn, Western banks got largely stuck in Russia, due to the current requirement of having a personal approval from President Putin, with only Societe Generale managing to exit by selling its Rosbank business to a close Kremlin ally, oligarch Vladimir Potanin, reportedly for a heavy loss of EUR 3.3bn.^{xli} While this is not the place to discuss the moral pros and cons of writing off the business or selling at a discount, the longevity of the Russian war and the recent Ukrainian sanctions for Western banks operating in both countries (UniCredit, Raiffeisen),^{xlii} has added not only a new tweak, but also more urgency to find a solution in order not to be accused of funding the Russian war and hence being out of sync with their own governments’ geopolitical goals.^{xliii}

THE ASCENDANCY OF INDIA

Given the long Corona-related lockdowns in China over the last three years and the deterioration of China’s economic and foreign trade relations with the US, notably after the Chips Act was signed by the US President in August 2022 to prevent the Chinese military using the latest US semiconductor technology (and also foreign allies such as the Netherlands and South Korea), it is perhaps no surprise that India came suddenly onto investors’ radar screen, which was partly initiated by Indian authorities and business leaders as well.^{xliv}

There may be good reasons to question the potential replacement of China as the leading global supply chain and manufacturing platform, as the example of Apple shows which uses India merely for labour-intensive FATP (final assembly, test and pack),^{xlv} there is no denial that India is widely perceived to become the new global growth engine based not only on its fast-growing workforce, but also due to concerted efforts by the authorities to offer attractive tax schemes and other investment incentives to boost manufacturing exports.^{xlvi} As we have heard from various Western companies in recent days (Ericsson, AMD, SGS Group), India has made massive efforts to build a public digital infrastructure and to open the network for e-commerce.

With the government's new annual budget for 2023-24 just being adopted,^{xlvii} including significant investments in physical infrastructure to raise productive capacity of the economy – and hopes for higher multiplier and crowds in private investment – foreign investors (including Chinese) have responded to take advantage not only from incentives for semiconductors (TSMC) and renewable energy (Shell) but also from electric vehicles,^{xlviii} railway networks,^{xlix} and the aviation sector.^l The latest research published by short seller Hindenburg on the Adani Group conglomerate, however, serves as a reminder of all the difficulties operating in high-risk emerging markets like India, questioning the debt-fuelled growth and implicitly “sky-high valuations”, which resulted in a massive sell-off.^{li}

FINAL COMMENTARY & RESEARCH OUTLOOK

Based on the first three weeks of the FY2022 reporting season it was noteworthy that corporate executives generally started with the preamble to thank their employees for all the efforts over the last year – perhaps not surprising given the shortage of qualified labour but also the wage pressure in forthcoming union negotiations – which was often complemented by analysts during the Q&A when asking what management has learned from the experience over the last three years. As the CEO of United Airlines, Scott Kirby, answered to one of those enquiries: “The world has changed, and we need flexibility to adjust”.^{lii} There remains a great puzzle about recent employment trends – a combination of demographic developments, more preference for short-term work, higher mobility among the young generation but also ongoing discrimination of elderly employees – and we will look at that in greater detail in our future research.^{liii}

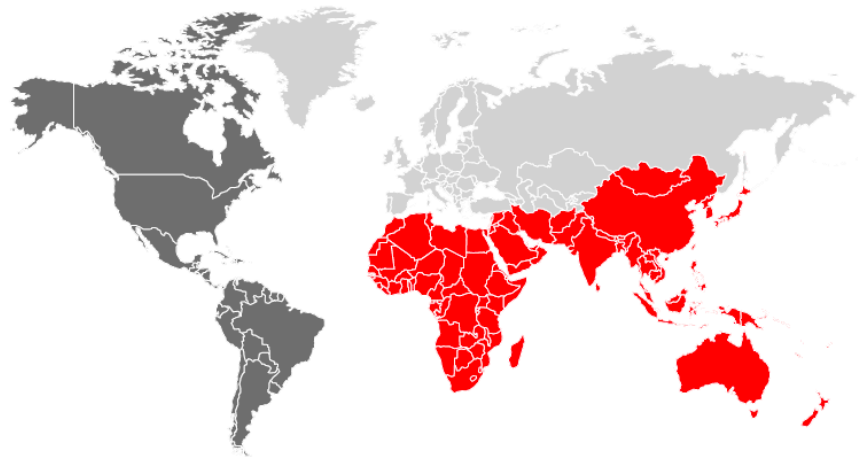
While it may be premature to come to final conclusions at this stage – given the short-term pre-occupation with high inflation, economic slowdown, continuing supply constraints and labour shortages in 2023 – the airline industry provides the first indication of where structural changes and secular trends might be heading to, including the change in travel patterns due to increased workplace flexibility (Delta Air Lines, United Airlines).^{liv} Whereas we had looked at changing consumer behaviour by analysing the Retail & Apparels sector before the festive season, we will now switch to international airlines to see whether there appears to be the first recessionary impact on the summer 2023 booking patterns and/or whether there are other secular trends at play.^{lv} Watch the space as we will also keep a close eye on what bp recently coined the “energy trilemma” (security, affordability and sustainability of energy, see: bp Energy Outlook 2023)!^{lvi}

Peter and Irina Kirkow
7 February 2023

APPENDIX

Continued strong demand in the Americas Q4 2022 regional, country orders

| | |
|---|-------------|
| Americas | +15% |
| USA | |
| Steep growth in EL; strong growth in PA; growth in MO; steep decline in RA | +13% |
| Canada | +13% |
| Mexico | -1% |
| Europe | -5% |
| Germany | |
| Steep growth in MO; decline in EL; steep decline in PA and RA | -15% |
| Italy | +12% |
| Sweden | +7% |
| AMEA | -2% |
| China | |
| Growth in MO; decline in EL; steep decline in PA and RA; some Covid-related slowdown towards end of Q | -12% |
| India | +22% |
| Australia | +23% |



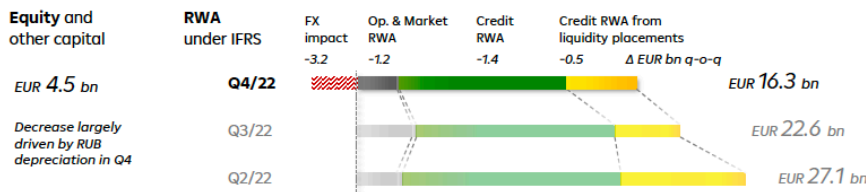
Slide 5 All data presented on a YOY comparable basis; all growth comments refer to comparable growth trends. Performance highlighted for largest 3 countries in \$ mn terms in each region. EL = Electrification. MO = Motion. PA = Process Automation. RA = Robotics & Discrete Automation.

Russia Update



as of 31/12/2022 if not stated otherwise

RWAs further decreased EUR 6.3 bn in Q4/2022, driven mainly by RUB depreciation, reduced corporate business and reduced liquidity placements



Loans to customers in Russia -30% in LCY y-o-y

Net cross border exposure EUR 217 mn ... to Russia risk EUR 600 mn 20 January 2023 1 March 2022

EURRUB hedge EUR 303 mn as of 31/12/2022 EUR 125 mn booked in head office; EUR 178 mn booked in Russia

Solvency strengthened:

CET 1 ratio 27.14%
Actual, local standard 31/12/2022 pro-forma incl. FY/2022 profit

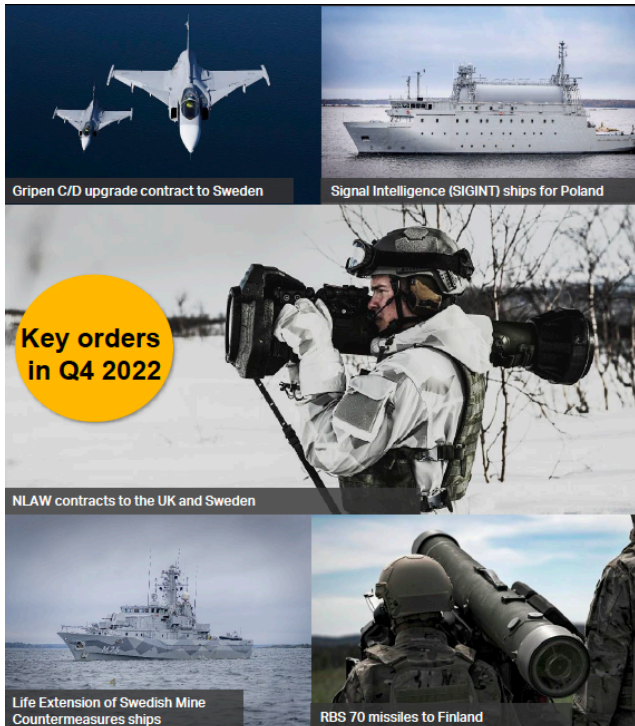
Buffer above local requirement 19.14% = EUR 2,820 mn

Liquidity:

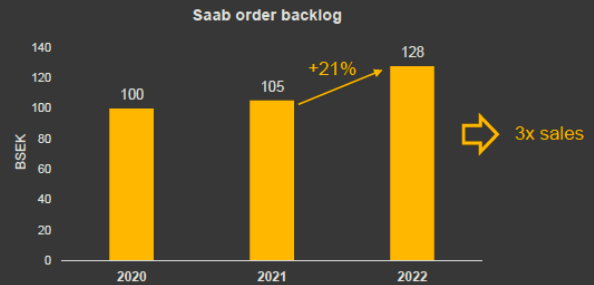
LCR 309% Cushion to 100% LCR: EUR 9.9 bn
20/01/2023

Loan/deposit ratio 45% 51%
31/12/2022 vs. 30/09/2022

- RBI is assessing all strategic options for the future of Raiffeisenbank Russia, up to and including a carefully managed exit
- RBI has no obligation to recapitalize; Russia loan portfolio expected to remain around current levels going forwards



Continued all-time high backlog

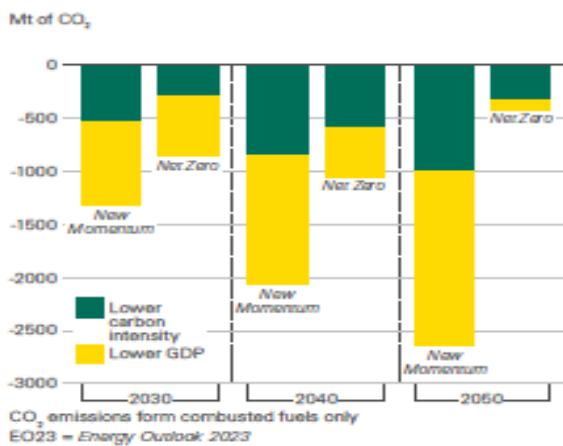


- In Q4 we saw an impact on orders related to Ukraine war
- Substantial growth in large and medium orders
- Growth in international markets and Sweden
- Record-high order backlog supports increased organic sales growth in 2023

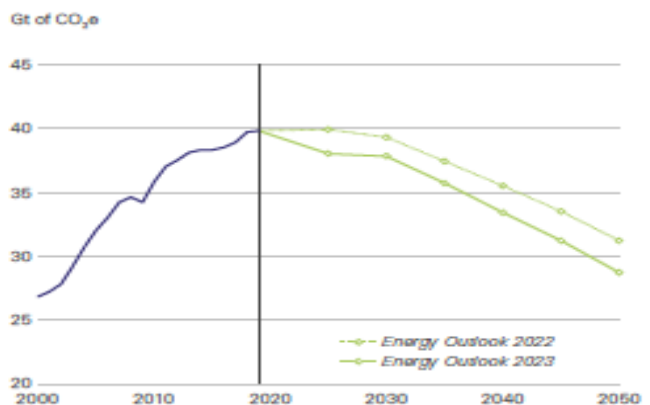


The Russia-Ukraine war and the Inflation Reduction Act lower the outlook for carbon emissions

Change in carbon emissions:
EO23 versus EO22



Carbon emissions:
EO23 versus EO22 in *New Momentum*



ENDNOTES

ⁱ For an early discussion after the bear market rally started in October 2022, see: Katie Martin, *“The illusory appeal of bear market rallies”*, *Financial Times*, 5 November 2022. While there is perhaps more predictability about further rate rises in the US and Europe, there is still much speculation among investors about a) how much further inflation will go in 2023; and b) to what extent higher rates will impact both economic activity and unemployment. With the Federal Reserve having reverted to a more orthodox pace of interest rate increases on 1 February – in contrast to the continuing half a percentage point rise both by the ECB and the Bank of England on 2 February – the latest US job report has potentially undermined market expectations of “peak inflation”, see: Colby Smith, *“US unexpectedly adds 517,000 jobs in January”*, *Financial Times*, 3 February 2023. For an interesting discussion about the implications of the US Fed starting to highlight disinflation and the divergence of rate-setting policies by major central banks, see: Mohamed El-Erian, *“The paradox of financial conditions”*, *Financial Times*, 6 February 2023. In this context, some analysts asked during the Q4’2022 results season about various bank managements’ interest rate assumptions for 2023 used for net interest income (NII) guidance, see: UBS Q4’2022 results call, 31 January 2023 (JPMorgan analyst) and Raiffeisen Bank International Q4’2022 results call, 1 February 2023 (UBS analyst).

ⁱⁱ The sudden and unexpected reopening of China in early December 2022 resulted in a major shift not only in equity trading but also in commodity prices (copper, oil) and currencies such as the Australian dollar (Leo Lewis, *“China’s reopening to reverberate around global markets”*, *Financial Times*, 7 December 2022). On the downside, there are fears that this might lead to renewed supply constraints and intensified inflationary pressure, with some companies reporting “still high sickness rates” among their employees in China (SGS Group FY2022 results call, 26 January 2023). In this context, it is perhaps no surprise that airline companies were particularly bullish about China reconnecting with the rest of the world, with the CEO of Boeing, David Calhoun, saying that “the opening of China is a major event in the aviation industry” (Boeing Q4’2022 results call, 25 January 2023). International banks and wealth managers, however, reported a more subdued client sentiment in China, having “improved but still wait and see”, as the CEO of UBS, Ralph Hamers, described the current situation (UBS Q4’2022 results call, 31 January 2023). Similarly, the CFO of US-based electrical equipment specialist Parker Hannifin, Todd Leombruno, referred to China still being “a bit troublesome”, notably due to supply chains (Parker Hannifin Q2’FY2023 results call, 2 February 2023).

ⁱⁱⁱ The IMF projects global growth to increase by 3.2% in 2023 (compared with 2.7% back in October and an estimated 1.9% growth in 2022), with India up by 7% and China by 5.9%. In comparison, the MSCI World Index of equities was up by 7% in January 2023 (Colby Smith, Chris Giles and Mercedes Ruehl, *“IMF raises growth forecasts as China reopens and gas prices fall”*, *Financial Times*, 31 January 2023).

^{iv} The broad assumption among many corporate executives is that the first half of 2023 will be weaker, followed by a stronger second half, see for example, Intel CEO, Pat Gelsinger: “Macro uncertainty will persist in H1’2023.” (Intel Q4’2022 results call, 26 January 2023) and AMD CEO, Lisa Su: “We expect a softer first half and a stronger second half in 2023.” (AMD Q4’2022 results call, 31 January 2023). In terms of recessionary fears, the CEO of ASML, Peter Wennink, maintained that in their assumption “the duration of a potential recession is significantly shorter” (ASML Q4’2022 results call, 25 January 2023). Similarly, the CEO of UniCredit, Andrea Orcel, outlined his “strong belief in a shallow recession in 2023” (UniCredit Q4’2022 results call, 31 January 2023). How controversial these assumptions can be in the technology sector was evidenced by Infineon, with the CEO, Jochen Hanebeck, maintaining “market and cyclical headwinds are intensifying” and that they expect “a prolonged period of inventory digestion, underutilisation costs and wage increases” (Infineon Q1’FY2023 results call, 2 February 2023). In turn, SAP reported the need for “targeted restructuring in selected areas”, including a reduction of 2.5% of the global workforce and further “simplification and consolidation of the portfolio” (CEO Christian Klein at the SAP FY2022 results call on 26 January 2023). Similarly, Austrian semiconductor specialist AT&S had to release a profit warning on 1 February – following months of clinging on to its short-term guidance even after major players such as Intel and NVIDIA had come with profit warnings in summer 2022 – suddenly claiming “visibility in the current environment (being) difficult” and “market uncertainty (to) continue for the next two quarters” (CEO Andreas Gerstenmayer at the AT&S Q3’2022/23 results call, 2 February 2023).

^v In this context, an interesting observation came from the President of Delta Airlines, Glen Hauenstein, suggesting at their Financial Outlook & Strategic Update on 14 December 2022 that “this is a recession you have to grow the top line as all the costs are already out (since the pandemic)”. However, notably European airlines were much more

cautious in this respect, with the CFO of Wizz Air, Ian Malin, emphasising that “this year and next, cost is the name of the game” (Wizz Air Q3’FY2023 results call, 26 January 2023). In the current economic environment, the CFO of Tesla, Zachary Kirkhorn, anticipates an “impact on operating margins in the near term”, pointing to the need of further cost reduction through overhead efficiency, logistics, inventory and productivity (Tesla Q4’2022 results call, 25 January 2023). In the European telecoms industry, KPN expects a “slight growth” at the top line in 2023 while EBITDA is “skewed towards the second half” (CFO Chris Figee, KPN Q4’2022 results call, 31 January 2023) while various banks assume profitability to be “broadly in line” (UniCredit Q4’2022 results call, 31 January 2023), which is often a code phrase for underperforming margins.

^{vi} For a collection of different views and a broad outline of this discussion by various fund managers, see: Jean Boivin, “Investors need a different playbook for 2023”, [Financial Times](#), 1 December 2022, Johanna Kyrklund, “Investment regime shift brings turbulence but also offers returns”, [Financial Times](#), 27 January 2023 and Sonja Laud, “Investors need to adapt to a new multipolar world”, [Financial Times](#), 6 December 2022.

^{vii} Chetan Ahya, “India’s coming decade of outperformance”, [Financial Times](#), 8 November 2022.

^{viii} John Reed and Chloe Cornish, “Can India build a military strong enough to deter China?”, [Financial Times](#), 12 December 2022. Over the last few weeks, various companies have reported about their efforts to increase market share in India, with Ericsson pointing to “large rollout contracts” in 2022 (Ericsson Q4’2022 results call, 20 January 2023), AMD on wireless installations in India (AMD Q4’2022 results call, 31 January 2022), Shell moving into renewables in India to “access customers with green products” (Shell Q4’2022 results call, 2 February 2023), SGS Group outlining alternative supply chains to China (SGS Group FY2022 results call, 26 January 2023) and Trelleborg announcing its intention to expand capacity in Asia (Trelleborg Q4’2022 results call, 27 January 2023). At an earlier event, the CEO of Nestle, Mark Schneider, highlighted that “post-pandemic digital got traction in India” and that he “would like to do twice as much” over there (Nestle 2022 Investor Seminar, 29 November 2022).

^{ix} Raghuram Rajan, “Central banks can’t win when it comes to credibility on inflation”, [Financial Times](#), 10 January 2023, and Claire Jones, “Central banks should sacrifice ambitions of a perfect economic landing”, [Financial Times](#), 7 January 2023.

^x Martin Arnold and Tommy Stubbington, “Investors bet on peak inflation after price growth slows in Germany and Spain”, [Financial Times](#), 30 November 2022, Valentina Romei, “Global inflation likely to have peaked, key data indicators suggest”, [Financial Times](#), 28 November 2022, and Martin Arnold, “Eurozone inflation falls more than expected to 10%”, [Financial Times](#), 30 November 2022.

^{xix} See for example, Delphine Strauss and Colby Smith, “Fed and ECB diverge as Lagarde tackles ‘alive and kicking’ inflation”, [Financial Times](#), 3 February 2023, the special case of Japan: Kana Inagaki and Eri Sugiura, “Japanese bonds sustain fresh blow in test of central bank’s low-rate resolve”, [Financial Times](#), 21 December 2022, and the UK: Valentina Romei, “UK inflation falls for second consecutive month as fuel prices ease”, [Financial Times](#), 18 January 2023, with China largely remaining the odd one out so far, see: Thomas Hale, “While the world fights inflation, China’s problem is deflation”, [Financial Times](#), 16 November 2022.

^{xii} For suggestions that 3-4% inflation would be more appropriate for the US, see: Olivier Blanchard, “It is time to revisit the 2% inflation target”, [Financial Times](#), 29 November 2022, and, the argument for 3%, on the assumption of higher commodity prices for longer, the implications of the energy transition and higher costs of global supply chains, see: Karen Ward, “What a new normal of higher inflation means for investors”, [Financial Times](#), 20 December 2022. For a suggestion that the Fed might, in fact, stick officially to a 2% target but, in practice, pursues a higher one, see: Mohamed El-Erian, “Next year’s unpleasant choices confronting the Fed”, [Financial Times](#), 12 December 2022.

^{xiii} For an interesting discussion of various indices and the attempt to exclude volatile items such as energy and food costs in comparison with the underlying inflation gauge (UIG) having already signaled an “inflection point on inflation”, see: Megan Greene, “There’s one inflation gauge that bucks the trend”, [Financial Times](#), 1 November 2022. Among some of the strong views that the US Fed has gone too far in their most recent rate-setting policy, see: Bill Gross, “The Fed needs to stop raising rates”, [Financial Times](#), 19 December 2022, and Peter Orzag, “Central banks should beware of the dangers of over-tightening”, [Financial Times](#), 16 December 2022.

^{xiv} Richard Bernstein, “End the Fed ,put”, [Financial Times](#), 1 February 2023.

^{xv} Colby Smith, “US inflation has not ‘turned the corner’ yet, top IMF official warns”, [Financial Times](#), 5 January 2023. The CEO of Morgan Stanley, James Gorman, said that the “inflection point” would come when the Fed stops raising interest rates, which he expects for “later this year”. He also maintained that “when Fed rate hikes pause M&A activity will come back” (Morgan Stanley Q4’2022 results call, 17 January 2023).

^{xvi} This was extensively described by the new CEO of Parker Hannifin, Jenny Parmentier, referring to dual sourcing and

their “local-for-local” supply chain policy while focusing on “constantly optimising lead times” (Parker Hannifin, Q2’FY2023 results call, 2 February 2023). Others maintained that they keep “laser focus(ed) on performance”, notably operational excellence and digitalisation (CEO of Northrop Grumman, Kathy Warden, at the Q4’2022 results call, 26 January 2023), and “right-sizing the organisation” with a capital strategy of “bringing risk down in business” (CEO of Morgan Stanley, James Gorman, at the Q4’2022 results call, 17 January 2023).

^{xvii} For a broader outline of the current recession debate, see: Colby Smith, “US economy set to have slowed in fourth quarter of 2022”, *Financial Times*, 26 January 2023, Valentina Romei, “Eurozone avoids recession as economy expands in fourth quarter”, *Financial Times*, 31 January 2023, and George Steer, “US stocks slip as China’s weak export data spark economic growth fears”, *Financial Times*, 7 December 2022. One interesting observation is in challenging the current consensus view about a “short and shallow” recession and warning about potential complacency - similar to the “transitory inflation” debate in 2021, see: Mohamed El-Erian, “The consensus forecast on recession risks complacency”, *Financial Times*, 28 November 2022.

^{xviii} Even some of the exceptional growth companies in the past have reported inflationary pressure, shutdowns and delivery problems (Tesla Q4’2022 results call, 25 January 2023), with Apple reporting lower iPhone sales on the back of supply chain disruptions in China while Amazon and Alphabet pointed to further weakening in some of their core markets, see: Patrick McGee, “Apple reports first decline in revenue in three-and-a-half years”, *Financial Times*, 3 February 2023.

^{xix} The CFO of KPN, Chris Figee, summarised his key focus points for 2023 being a) top line, b) increase pricing, c) wage indexation (by Dutch law and implicitly salary inflation) and d) higher energy costs (KPN Q4’2022 results call, 31 January 2023). In turn, the new CEO of Shell, Wael Sawan, provided an early indication of a potential strategic pivot towards performance, discipline, operational excellence and “lean & fit”, maintaining that the energy crisis will be a “multi-year” process and conceding that European decision makers are “too relaxed about the gas market” (Shell Q4’2022 results call, 2 February 2023).

^{xx} Among others, see: Steff Chavez and Richard Waters, “Microsoft to cut 10,000 jobs in push to bring down costs”, *Financial Times*, 18 January 2023, Sarah Provan and Anna Nicolaou, “Spotify to axe 600 workers and shake up management”, *Financial Times*, 23 January 2023, and Hannah Murphy, Ian Johnston and Cristina Criddle, “Meta job cuts provide a post-pandemic reality check: ‘The bubble has burst’”, *Financial Times*, 10 November 2022.

^{xxi} Raytheon Technologies reported an „easing of labour constraints”, being able to train their new employees for the MRO business (Q4’2022 results call, 24 January 2023), while Lockheed Martin emphasised the importance of their new FTEs for the “emerging technologies in autonomy and artificial intelligence” (Q4’2022 results call, 24 January 2023). Northrop Grumman reported to have hired more than 6,000 FTEs in 2022 from technology companies (Q4’2022 results call, 26 January 2023). Back at the Q3’2022 results season, Boeing explained that they benefit from the current layoffs in the software industry and, by then, had brought on board about 10,000 new employees (Boeing Q3’2022 results call, 26 October 2022). Raytheon Technologies mentioned a similar ambition of 10,000 people, though not being able to fill all the vacancies, with a particular focus on smart factories, automation, product innovation and digitalisation (Raytheon Technologies Q3’2022 results call, 25 October 2022).

^{xxii} This was reported by Raytheon Technologies at their Q3’2022 results call on 25 October 2022 when they still faced massive labour shortages, notably for structural casting, and estimated wage inflation in the range of 3.5% to 5% per year. However, constraints with labour availability and wage pressure continued to be a serious issue during the current FY2022 reporting season, with the CEO of Boeing, David Calhoun, emphasising that “trained labour availability is the key constraint” (Boeing Q4’2022 results call, 25 January 2022). Southwest Airlines had already outlined before the great storm in late December that the main constraint is not in hiring but training pilots (Southwest Airlines 2022 Investor Day, 7 December 2022). In Europe, the CFO of Nestle, Francois-Xavier Roger, outlined that wage inflation will be the main unknown in 2023, with “the bulk of higher salary costs” coming this year (Nestle 2022 Investor Seminar, 29 November 2022).

^{xxiii} This has been not only one of the most frequently asked question in analyst Q&A, but corporate executives are keenly aware about investor interest as they point proactively to some of the measures they have taken, including streamlining back offices and production processes as well as selling real estate (Northrop Grumman Q4’2022 results call, 26 January 2023). The CEO of Intel, Pat Gelsinger, said that they will engage in “more aggressively addressing cost issues” while also focusing more on the “internal foundry model to identify additional efficiencies and scope for process optimisation” (Intel Q4’2022 results call, 26 January 2023). Given the elevated level of working capital due to supply chain disruptions and inventory build-up over the last two years, the CFO of KPN, Chris Figee, noted that “there are smarter ways of working around the working capital” (KPN Q4’2022 results call, 31 January 2023).

^{xxiv} Nikou Asgari and Scott Chipolina, “Crypto exchanges race to sooth clients’ nerves after FTX collapse”, Financial Times, 13 November 2022.

^{xxv} This was in sharp contrast to previous years when some of the leading global wealth managers received frequent analyst questions not only about their client cryptocurrency activities but also about their own exposure and investment in blockchain technology (UBS, Julius Baer, Morgan Stanley, Goldman Sachs). This time around all they were prepared to talk about was the need to invest in technology and artificial intelligence to lower the cost-income ratio in the investment bank (UBS Q4’2022 results call, 31 January 2023) while maintaining that their clients are “focused on financial stability pushing out transactions” (CFO of Goldman Sachs, Denis Coleman, at the Q4’2022 results call, 17 January 2023). The key focus points for Citigroup’s senior management are simplification, investments in transformation and cost efficiencies (Citigroup Q4’2022 results call, 13 January 2023), with the CFO of JPMorgan Chase, Jeremy Barnum, adding to the debate that “things changed very quickly in 2022 in terms of rates and valuations” (JPMorgan Q4’2022 results call, 13 January 2023).

^{xxvi} Scott Chipolina, “Crypto is back with \$300bn frenzy”, Financial Times, 3 February 2023.

^{xxvii} Gillian Tett, “Crypto’s future may be divided, not dead”, Financial Times, 11 November 2022.

^{xxviii} Scott Chipolina, “New year, new crypto ‘shake out’”, Financial Times, 7 January 2023.

^{xxix} Christian Davies and Scott Chipolina, “How North Korea became a mastermind of crypto cyber crime”, Financial Times, 14 November 2022, Scott Chipolina, “Two Estonians accused of \$575mn crypto fraud”, Financial Times, 22 November 2022, and Song Jung-a, “South Korea’s hunt for crypto fugitive Do Kwon leads to Serbia”, Financial Times, 12 December 2022.

^{xxx} Martin Arnold, “European regulators will struggle to supervise crypto groups, warns ECB”, Financial Times, 14 November 2022, Scott Chipolina and Akila Quinio, “EU crypto framework under scrutiny by policymakers after FTX collapse”, Financial Times, 1 December 2022, and Hilary Allen, “Beware the proposed US crypto regulation – it may be a Trojan horse”, Financial Times, 17 November 2022.

^{xxxi} Hensoldt AG 2022 Capital Markets Day, 14 December 2022, and BAE Systems 2022 ESG Update, 18 October 2022. The reference to “force for good” by linking the defence industry with sustainability was also made by the CEO of Airbus Defence & Space, Michael Schöllhorn, at the Airbus 2022 Capital Markets Day on 23 September 2022. Similarly, the CEO of BAE Systems, Charles Woodburn, emphasised that “defence and security underpins broader ESG objectives” (BAE Systems 2022 ESG Update, 18 October 2022). In reference to the visit of the German Chancellor, Olaf Scholz, at Hensoldt AG, for a change of the defence industry’s business model towards producing arms and equipment without pre-orders due to booming demand, see: Patricia Nilsson, “Defence industry’s business model transformed by war, says German contractor”, Financial Times, 18 January 2023. However, major OEMs still caution that they could make “a meaningful defence contribution (only) in 1-2 years” (CEO of Airbus Defence & Space, Michael Schöllhorn, at the Airbus 2022 CMD). For an extensive discussion of the current production and procurement issues the European defence industry currently faces, see: Sylvia Pfeifer and Patricia Nilsson, “Ammo supply chain crisis: Ukraine war tests Europe in race to re-arm”, Financial Times, 7 February 2023.

^{xxxii} There is a broad consensus that the current geopolitical situation has resulted in a “multiple-year growth opportunity until at least 2030” (CEO of SAAB, Micael Johansson, at the Q3’2022 results call on 28 October 2022), although there is still caution about the immediate growth impact despite phenomenal share price increases of some of the major defence companies in the US and Europe, see for instance the CFO of Lockheed Martin: “Higher defence budgets turning into sales takes a bit longer.” (Lockheed Martin Q3’2022 results call, 18 October 2022). At its 2022 CMD in December 2022, Hensoldt presented a slide showing the timeline between government statements, defence budgetary allocation and the placement of orders (1-2 years) compared with project implementation (3-5 years). This was one of the most frequently asked questions during analyst Q&A. On the poor economic and moral state of the German arms forces, see: “Triumph der Lethargie”, DER SPIEGEL, no.52, 23 December 2022, p.8.

^{xxxiii} Hensoldt elaborated about first lessons from the Russian war in the Ukraine at their 2022 CMD in London, describing the complexity of electronic and multi-domain warfare despite the predominant usage of conventional (and often outdated Soviet style) weapons by linking networking sensors through surveillance and space (Hensoldt AG 2022 Capital Markets Day, 14 December 2022). For an interesting discussion about the Ukrainian army making usage of modern technology and innovative communications strategies, see: Gillian Tett, “New military tech is the surprise twist in Ukraine’s gutsy defence”, Financial Times, 18 November 2022. Similarly, for an outline of the importance of Ukraine’s space orbit during the war, see former NATO secretary general, Anders Fogh Rasmussen, “Ukraine shows how space is now central to warfare”, Financial Times, 21 November 2022.

^{xxxiv} At the Airbus Q3’2022 results call on 28 October 2022, the CEO, Guillaume Faury, conceded to not only that it is

“difficult to get suppliers’ prices down,” but also that “it will take time” to get more white-collar workers (blue-collar workers appears to be easier). Similarly, Boeing outlined at their Q3’2022 results call that engine deliveries remain the major constraint due to supply chains, with the key challenges being in castings and labour instability. Back then, the CEO of Boeing, David Calhoun, maintained that “supply chain issues will not get easier in the near term”, which forced them, among others, to review the defence portfolio to achieve “more stable performance” (Boeing Q3’2022 results call, 26 October 2023). For a good overview of some of the operational issues aircraft manufacturers currently face, see: Claire Bushey and Sylvia Pfeifer, *“A ride on the struggle bus’: engines shortage thwarts aviation’s recovery”*, Financial Times, 2 November 2022, and Claire Bushey, *“They need the parts’: Aircraft shortage fuels boom for repair shops”*, Financial Times, 27 January 2023.

^{xxxv} For a selection of relevant themes and industries, see: Sylvia Pfeifer, *“Russia’s aviation industry defies sanctions to remain airborne”*, Financial Times, 7 November 2022, Shotaro Tani, *“Europe’s imports of Russian seaborne gas jump to record highs”*, Financial Times, 29 November 2022, Emiko Terazono, *“Russian fertiliser export revenue surged 70% in 2022 as prices jumped”*, Financial Times, 15 January 2023, and Max Seddon and Polina Ivanova, *“How Putin’s technocrats saved the economy to fight a war they opposed”*, Financial Times, 16 December 2022.

^{xxxvi} For some of the fears expressed before (and immediately after) the Russian oil price cap started in early December, see: Derek Brower and David Sheppard, *“The week that could unravel the global oil market”*, Financial Times, 28 November 2022, David Sheppard, Chris Cook and Polina Ivanova, *“Russia assembles ‘shadow fleet’ of tankers to help blunt oil sanctions”*, Financial Times, 5 December 2022, and Tom Wilson, David Sheppard, Ian Smith and Ayla Jean, *“Oil tanker jam forms off Turkey after start of Russian oil cap”*, Financial Times, 6 December 2022.

^{xxxvii} David Sheppard, *“Oil market braces for fresh turmoil as EU prepares to cut off Russian diesel”*, Financial Times, 23 January 2023.

^{xxxviii} Chris Cook and David Sheppard, *“Russian crude being shipped to India under G7 price cap”*, Financial Times, 16 December 2022.

^{xxxix} Nouriel Roubini, *“A bipolar currency regime will replace the dollar’s exorbitant privilege”*, Financial Times, 6 February 2023.

^{xl} Ian Smith, *“Reinsurance costs rise up to 200% as Ukraine war and extreme weather bite”*, Financial Times, 3 January 2023. For most global reinsurers, Hurricane Ian had not only a major impact on natcat losses but also the “inflationary impact of rebuilding after Ian” together with motor loss insurance (Swiss Re Q3’2022 results call, 28 October 2022). For Hannover Re, large losses in 2022 were more due to “frequency rather than severity”, partly due to previously pulling out of US hurricane exposure (Hannover Re Q3’2022 results call, 3 November 2022) while Munich Re built up “bulk reserves” ahead of potential IBNR claims related to the war in the Ukraine (an “increased level of cautiousness” as the CFO of Munich Re, Christoph Jurecka, explained at their Q3’2022 results call on 8 November 2022). In its outlook for 2023 price renewals, Swiss Re claimed to be able to achieve “risk adjusted price improvements” (as the CFO of Swiss Re, John Dacey, elaborated at their Q3’2022 results call on 28 October 2022). See also, Ian Smith, *“Tougher reinsurance market leaves more risk for everyone else”*, Financial Times, 1 February 2023.

^{xli} Owen Walker, *“Western banks struggle to exit Russia after Putin intervention”*, Financial Times, 17 January 2023.

^{xlii} At their preliminary FY2022 results call on 1 February 2023, Raiffeisen Bank International was frequently asked about the Ukrainian sanction risk and Russian liabilities (Autonomous Research, JPMorgan and Societe Generale analysts) as well as about any involvement in the Russian budgetary funding of the war (PKO Securities analyst). In response, RBI’s management provided current valuations of its Russian leasing business at EUR 360mn as of 31 December 2022 but claimed that this is unlikely to be affected by the Ukrainian sanctions. Having increased their Russian workforce by about 5% in 2022 due to shortages of IT engineers, the only hint of further withdrawal was in their effort to “selectively replace corporate with retail exposure in Russia” (Hannes Mösenbacher, CRO of RBI, at the preliminary FY2022 results call, 1 February 2023). In turn, the CEO of UniCredit, Andrea Orcel, frequently emphasised that the Russian business is being “downsized and highly rationalised” and that they want to make sure to “leave on the table almost no money” (UniCredit Q4’2022 results call, 31 January 2023).

^{xliii} Anne-Sylvaine Chassain, *“Do not count on this generation of CEOs to pick a side”*, Financial Times, 3 February 2023.

^{xliiv} For recent efforts by the Maharashtra local authorities, India’s wealthiest state, to attract foreign semiconductor investments, see: Chloe Cornish, *“India chases dividend from China trade tensions”*, Financial Times, 20 December 2022.

^{xli v} Patrick McGee, *“What it would take for Apple to disentangle itself from China”*, Financial Times, 18 January 2023.

^{xli vi} On various investment incentive schemes in India, see: Chetan Ahya, *“India’s coming decade of outperformance”*, Financial Times, 8 November 2022, and Ruchir Sharma, *“The seven economic wonders of a worried world”*, Financial

Times, 26 September 2022.

^{xlvii} John Reed, Benjamin Parkin and Jyotsna Singh, “India to boost government capital spending by a third”, Financial Times, 1 February 2023.

^{xlviii} John Reed, “India’s electric vehicle market glides into gear from standing start”, Financial Times, 25 January 2023. For an interesting read on China’s top-selling EV car manufacturer BYD’s efforts in India, see: John Reed, “BYD aims to become India’s second-largest electric carmaker”, Financial Times, 12 January 2023.

^{xlix} John Reed, “India’s new railways project picks up speed”, Financial Times, 17 January 2023.

^l Chloe Cornish and Mercedes Ruehl, “India’s cut-throat aviation sector prepares for consolidation”, Financial Times, 2 December 2022.

^{li} Hudson Lockett, “Adani shares fall after Hindenburg Research bets against conglomerate”, Financial Times, 25 January 2023.

^{lii} United Airlines Q4’2022 results call, 18 January 2023. Scott Kirby elaborated further that “in this new world you can’t run the airlines as you did before”.

^{liii} For an interesting analysis of demographic developments and the attempt to employ older workers, see: Camilla Cavendish, “Tempting back older workers means ditching business as usual”, Financial Times, 7 February 2023, and Rebecca Patterson, “No early retirement for demographic-driven inflation risk”, Financial Times, 7 February 2023.

^{liv} For a fascinating discussion of some of these issues, see: Delta Air Lines Q3’2022 results, 13 October 2022 and United Airlines Q3’2022 results, 19 October 2022. Similarly, American Airlines talked about “blended business/leisure trips” which have changed booking patterns and peak times significantly (Q3’2022 results call, 20 October 2022).

^{lv} While the CEO of Ryanair, Michael O’Leary, maintained at the H1’FY2023 results call on 7 November 2022 that “people become more price sensitive during a recession”, others, notably US airlines, claimed that there is a “countercyclical recovery of the airline industry” (CEO of Delta Air Lines, Ed Bastian, at the Q3’2022 results call on 13 October 2022).

^{lvi} For the extensive booklet presented by bp’s chief economist, Spencer Dale, on 31 January 2023, see: <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/energy-outlook/bp-energy-outlook-2023.pdf>. The challenge of the “energy trilemma” was also highlighted at bp’s Q4’2022 results presentation and strategy update on 7 February 2023, with a controversial increase of investments in legacy oil & gas assets by up to \$8bn and, at the same time, a slowdown in 2025 and 2030 net zero production targets.