News Release

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S&P Global Investment Manager Index™ (IMI™)

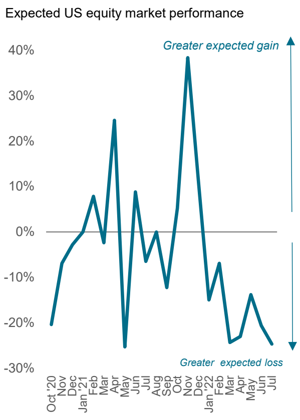
Recession worries drive increased risk aversion in July

- Investors have become more risk averse and more pessimistic about near-term returns
- Macro economy, monetary policy and geopolitics weigh on sentiment
- Consumer discretionary and real estate more out of favor, sentiment towards energy also fades
- Previous end-2022 bullishness for commodities and equities has fallen negative, with only the Chinese equity market expected to gain value

Data collected 5-10 July 2022

Risk appetite

Expected returns



Source: S&P Global.

US equity investors have become more risk averse in July and increasingly gloomy regarding near-term market performance, according to the latest survey data. The worsening of sentiment reflects growing concerns over the macroeconomic outlook, with rising recession risks aggravated by higher interest rates and headwinds from the political environment and fiscal policy. Some 80% of survey respondents see a mild recession as already being priced into the US equity market, but one-in-six see recession not yet priced in. Consumer discretionary and real estate are the most out-of-favor stocks, but energy saw the largest drop in sentiment.

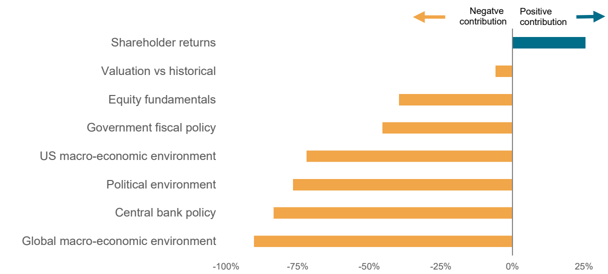
Looking towards the year end, sentiment has now turned negative for all major asset classes, now including commodities and equites, with only the Chinese stock market expected to gain value.

The Risk Appetite Index from S&P Global's Investment Manager Index™ (IMI™) monthly survey, which is based on data from around 100 institutional investors operating funds with assets under management of around $845bn, fell from -8% in June to -16% in July, representing a worsening of risk appetite.

Although the degree of risk aversion remains less severe than seen between March and May, expectations of near-term US equity market returns have fallen further, hinting that the market could lose some of the gains seen since the June survey.

What's driving the market in the near term?

(% survey net balance*)



Source: S&P Global.

The only factor providing any support to the market is shareholder returns. All other factors are seen as increasing drags on equities, with the exception of valuations, where the perceived negative drag has eased to the lowest yet recorded by the survey.

The biggest drag is considered to be the global macroeconomic environment, where the adverse impact is seen as the highest in the survey history. Similarly, the US macroeconomic environment is now seen as the most adverse for US equities since the survey began in late-2020.

Downward pressure on equities from central bank policy has meanwhile risen to the second highest yet recorded, and a new survey high is seen for the drag from equity fundamentals. With the war in Ukraine ongoing, the drag from the political environment remains among the highest in the history of the survey, with an accompanying survey-record pull on equities from fiscal policy adding to the gloom.

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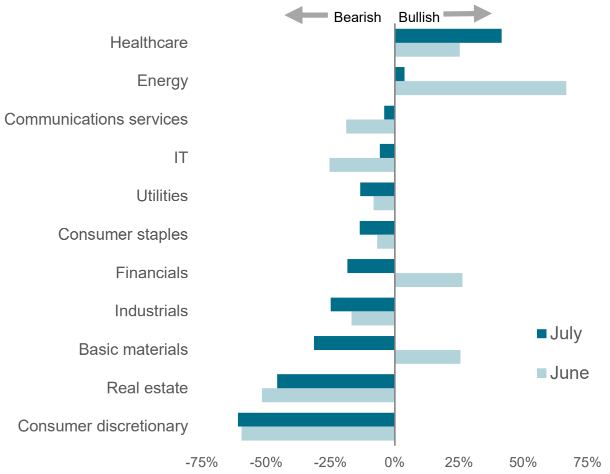
Sector outlook for the next 30 days

(% survey net balance*)

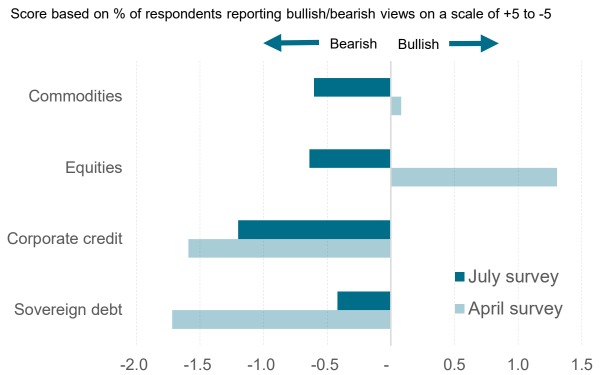


Source: S&P Global.

Looking at sector allocations, Healthcare moved into the most-favored sector spot in July for the first time since August of last year, with a dramatic slide in sentiment having pushed Energy into second place.

All other sectors have fallen out of favor, notably Basic Materials and Financials. However, the lowest appetite is again recorded for Consumer Discretionary, followed by Real Estate, encapsulating the survey participants' growing concerns of the rising cost-of-living and increased borrowing costs.

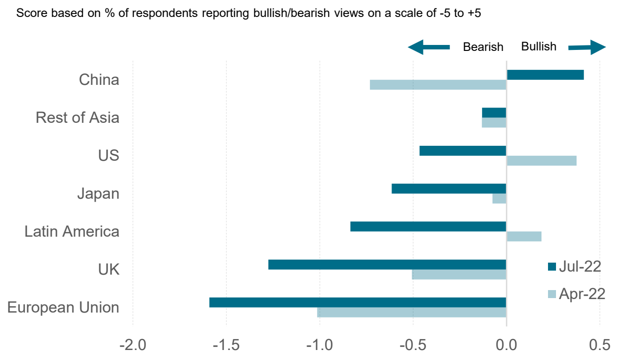
Broad asset class year-end 2022 outlook



Source: S&P Global IMI survey.

Looking at broader asset classes, corporate credit is expected to see the biggest losses by the year end, but investors also see equities, commodities and sovereign debt as losing value. By comparison, the prior (April) survey of broad assets classes found investors to be bullish in relation to equities and, to a lesser extent, commodities, for year-end.

What is your outlook for the following equity markets for year-end 2022?

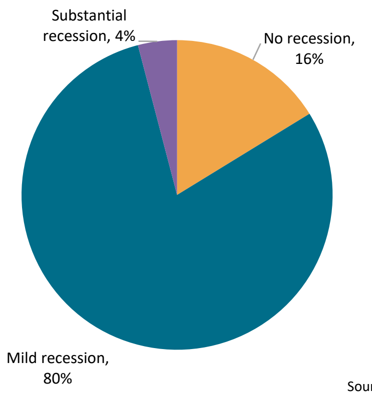


Source: S&P Global.

For equity markets, only mainland China is expected to gain value by the end of 2022. The remaining markets were more bearish, with bearish sentiment most overt across the European Union and the UK.

In comparison to the April results, market conditions have retreated across all markets bar one (China). The largest deterioration was seen across Latin America, followed by the US, reversing the bullish view reported three-months back.

What, in your view, is already priced into US equities?



Source: S&P Global

A special question of IMI survey respondents in early July asked the extent to which investors considered a recession to be already priced into US equities. A mild recession is considered to be priced in by some 80% of investors, with a more substantial recession priced in by just 4% of respondents. One-in-six respondents believe that the market has not priced in a recession.

* The net balance figures show the percentage of reporting an improvement/increase/positive response minus those reporting a deterioration/decrease/negative response. Those reporting a high increase/decrease count with a double weight.

Continued…

Commentary

Commenting on the survey, **Chris Williamson, Executive Director at S&P Global Market Intelligence** and report author, said:

"Recession worries are haunting US equity investors, driving renewed risk aversion and expectations of further market losses in the near term. Macroeconomic worries are seen as the biggest drag on the market, accompanied by concerns over the impact of higher interest rates and the uncertain geopolitical environment caused by the war in Ukraine.

"By sector, the surveys points to consumer discretionary stocks and real estate being the most out of favor, reflecting the combination of the cost-of-living crisis and tightening financial conditions. However, sentiment has now also soured towards financials, basic materials and even energy amid slowdown worries, leaving the traditionally defensive healthcare sector as the only sector seeing any significant interest from the survey panel.

"The bearish mood has also extended beyond equities to now encompass commodities, reflecting the increased risk of recession that markets are pricing in. However, the gloomiest outlook for the rest of the year hangs on corporate debt, as even a mild recession combined with rising borrowing costs bodes ill for corporate earnings and debt repayment."

For a copy of the full report and data, please contact economics@spglobal.com.

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Note to Editors

This 21st edition of the Investment Manager Index™ (IMI™) survey includes data collected between 5-10 July 2022 from a panel comprising approximately 100 participants employed by firms that collectively represent approximately $845 bn assets under management.

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