Market Commentary on the Q2'2022 Results Season:

From Widespread Fatigue to Contingency Planning?

Following the **unprecedented equity market correction over the first six month of 2022**,[i] when professional fund managers were **adjusting their valuations under conditions of higher inflation**, the focus has now turned to **meticulous earnings' scrutiny** to try and detect first data sets of contracting economic activity under inflationary pressure.[ii] Against the backdrop of renewed Corona-related lockdowns in China that keep **global supply chains in disarray**,[iii] central banks across the globe intervening with **rate rises and monetary policy at different scope and speed** as well as the Russian military aggression in Ukraine pushing up **prices for energy and food to new record levels**, the second quarter results season quickly moved **from widespread fatigue to contingency planning** on the back of a weaker macroeconomic environment.[iv]

Perhaps somewhat surprisingly – given the **massive sell-off in global stock markets in June** and the hightened geopolitical risk, notably **China's aggressive stance towards Taiwan** – the main discussion points during the Q2'2022 results season have so far been of **predominantly operational nature**, including the implications of the two-months' lockdown in Shanghai.[v] Other key operational themes include: i) how to **further de-risk global supply chains** through a more flexible manufacturing footprint and inventory build-up;[vi] ii) **companies' pricing power and ability to adjust prices in time** to inflationary pressure;[vii] iii) in turn, **companies' ability to combat higher costs through innovative solutions** and productivity gains;[viii] iv) **contingency plans for an economic downturn** and, particularly in Europe, **disrupted energy supplies**;[ix] and v) the **impact of the strong US-dollar** and its implication for globally operating companies.[x]

In the current uncertain times – driven by recessionary fears, deteriorating geopolitical risk, central bank intervention and potential administrative rationing of gas in Europe – it is perhaps no surprise that **politics and regulatory encroachment regained the upper hand**, which we will illustrate in various sections on Russia sanctions, the semiconductor industry as well as the insurance. We will start, however, with a more detailed analysis of **first signs of recession**, given institutional investors' current **preoccupation with extrapolating earnings forecasts**. We will finish our market commentary by looking at the investment community with respect to recent claims of **greenwashing and the ESG backlash** in the fund management industry as well as recent developments in stock market regulation in the US and in Europe, including cryptocurrency trading following the most recent crash.

The Appendix includes some relevant slides from various company results presentations that illustrate and underpin some of the broader discussion points.

RECESSIONARY FEARS

One of the distinctive features of the Q2'2022 earnings calls so far has been the extent to what falling business confidence and declining consumer demand was closely tracked, with a more gloomy economic outlook in analyst Q&A, notably in Europe, as higher energy prices and the threat of gas shortage are weighing on the economy.[xi] As the euro hit parity with the US-dollar in mid-July and the European Central Bank decided on a higher than expected rate increase only a few days later, the challenge of fighting inflation without causing a hard landing for the economy became vividly clear.[xii] Even in China the inverted yield curve in savings rates sent a strong signal of a more sustained economic slowdown,[xiii] with some senior executives preferring to wait for the 20th National Congress of the Chinese Communist Party to get more clarity about future economic policy.[xiv]

While this is not the place to judge about central banks' recent rate decisions and/or to what extent a recession can be prevented through monetary and fiscal policy,[xv] from an investor's perspective the risk of slowing growth and stagflation is real, with the market moving from an inflationary shock to pricing in recession in recent weeks.[xvi] In historical comparison with the 1970s, there is also an extensive discussion about various policy-related roots of stagflation but one of the key differentiating factor is that of a tight labour market and spiraling wages.[xvii] Hence repeated questions from analysts during the Q2'2022 reporting season about companies' pricing strategy vs wage inflation (SGS Group, Holcim), personnel costs as a percentage of the overall cost base and to what extent it is exposed to inflation (Lonza, KPN) and, notably for wealth managers and investment banks, how much variable compensation has been reduced given the market downturn (Julius Baer, UBS, Credit Suisse).

CASE STUDY: SEMICONDUCTOR INDUSTRY

The global semiconductor industry was not only widely seen as one of the culprits of the recent supply chain disruption but was also exposed to political intervention in the wake of US-China trade disputes, with the US Congress preparing a special bill for the US chipmaking industry to confront China's growing technological power.[xviii] With greater regulatory involvement – see for example western semiconductors being top of the list for Russia sanctions – it is perhaps no surprise that there was not only evidence of regional divergence but also a growing consolidation in the industry.[xix] Following the Russian military invasion in Ukraine, there has been an increasing demand by corporate executives for briefings on the possibility of war over Taiwan,[xx] with the US administration walking a fine line of making security commitments in the region.[xxi]

We have been following quarterly results updates and investor days of some of the major players in the industry for more than a year and some key observations from an investor's perspective are worth reiterating: i) most companies remain undeterred by short-term geopolitical risk and recessionary fears, pointing to "long-term megatrends overlaying the short-term downside" (ASML),[xxii] and structural demand for energy-efficient and high-performance computing (TSMC, Qualcomm) as well as artificial intelligence (NVIDIA) remaining strong;[xxiii] ii) companies have deployed new diversification strategies to move away from commodity-driven to more premium/high-tier segments (Qualcomm), with Broadcom's recent acquisition of VMware even pointing to a combination of semiconductor and software know-how;[xxiv] and iii) supply chains remain a problem but are improving (NVIDIA) and – when challenged by analysts whether this is a cyclical or more secular phenomenon – "supply chains are now a competitive advantage" (CEO of AMD).[xxv]

RUSSIA SANCTIONS

While there is still much debate about the effectiveness of economic sanctions against Russia following its military invasion of Ukraine, this is clearly another example of politics having gained the upper hand and - so far - largely backfiring in terms of higher prices for energy and food.[xxvi] What had dominated the previous reporting season has now stayed at the sidelines at best – another sign of a widespread fatigue – although the sword of Damocles remains hanging over European companies in terms of if and when Russia eventually decides to stop gas supply altogether.[xxvii] While much has been written about the idiosyncracies of Western sanctions against Russia,[xxviii] notably whether trade tariffs would not have produced a better result, this is not the place to go into all the intricacies but rather reflect on the broader investor debate.

One key issue is the future competitiveness of European industries given their exposure to Russian energy – in addition to higher costs related to labour and the green energy transition – and whether this will lead to a structural shift with businesses relocating outside Europe.[xxix] There is also an element of a divided Europe, with countries frequently opting for exemptions, whether this relates to the partial Russian oil ban,[xxx] the exclusion of precious metals (Belgium) and luxury goods (Italy) in the sanction package and even the proposed 15% reduction in gas usage across the EU, resulting in analysts asking specifically on a country-by-country basis.[xxxi] Another issue is to what extent the Russia sanctions have "already run its course"[xxxii] and/or whether there is scope for further escalation as the US attempt to cap prices for Russian crude shows.[xxxiii]

CASE STUDY: INSURANCE INDUSTRY

The insurance industry has largely kept tight-lipped about the implications of the Russian war in Ukraine and what loss assumptions one should make for their business in 2022 and beyond.[xxxiv] Since the outbreak of the Russian war in Ukraine we have closely followed some of the major players in the European insurance industry to better understand the contractual arrangements – including retro-protection through new reinsurance contracts - and reserve provisions in recent months. When being pressed on the issue, the starting point for most companies was that "as long as the war is ongoing, we are not able to form a view on losses" (CEO of Hannover Re, Jean-Jacques Henchoz).

However, when going further into detail, it became clear that the most significant exposure will be to aviation,[xxxv] political risk and trade credit – with losses also having occurred in marine – while political violence and war on land are contractually excluded as long as the war goes on.[xxxvi] Clearly, given the number of stranded Western airplanes in Russia and the scope of destruction in Ukraine, "the aviation challenge of this war for insurance is extraordinary" (CFO of Swiss Re, John Dacey). By early May, Munich Re has put aside only EUR 100mn compared with its EUR 3.3bn loss reserves as it felt that "the ultimate claims burden remains manageable" (CFO of Munich Re, Christoph Jurecka). While provisions have so far been made largely on the basis of "incurred but not reported" (IBNR) – with a "reasonably high probability" (Munich Re) – the broader discussion in the market is to what extent prices for commercial insurance cover will surge even further and/or whether the "hardening market" might come to an end.[xxxvii]

ESG BACKLASH ON INSTITUTIONAL GREENWASHING

The credibility of ESG investments faced huge criticism in recent weeks that not only its rules appear to "lack rigour, accountability and measurability",[xxxviii] but also that companies overclaim their ESG credentials and "many investments are classed as ESG without sufficient evidence". [xxxviii] One example of the latter is the most recent greenwashing scandal at DWS,[xxxviii] alleging that they overstated ESG credentials of its investment funds and ultimately forcing the CEO to resign.[xxxix] In another instance, the SEC has recently fined BNY Mellon's investment advisor division $1.5mn for "allegedly misstating and omitting information about ESG investment considerations for mutual funds it managed."[xl]

In response, various financial regulatory bodies in the UK, EU and US have been revising their reporting standards for ESG disclosures, but the rules governing ESG products haven't been finalised yet. The SEC considers greenwashing as a significant problem, as investors are "increasingly focused on ESG considerations when making investment decisions,"[xli] and views the "lack of standardised and precise ESG definitions" as a risk.[xlii] The SEC is currently preparing rules that would specify required disclosures for investment funds that have "ESG," "sustainable," or "low-carbon" in their names. The awaited rules will also demand information about how ESG funds are marketed, how ESG is incorporated into investing and how these funds vote at companies' annual meetings.[xliii]

In April, the EU Commission adopted technical standards to be used by financial market participants when disclosing sustainability-related information under its Sustainable Finance Disclosure Regulation (SFDR),[xliv] which will affect "how the fund is classified and sold to investors".[xlv] These requirements are now to be evaluated by the European Parliament and are scheduled to apply from 1 January 2023, with the aim of strengthening investor protection and reducing greenwashing.

MORE STRICT MARKET REGULATION

Another aspect of a broader regulatory reform push in the US aims to reassess whether the "current national market system is as fair and competitive as possible for (retail) investors".[xlvi] Significant changes, including a possible auction process to increase competition between services for retail investors, will be initiated in the US market in response not only to growing retail investors' participation over the past two years but also gradual fracturing of the stock market, where an increasing share of trading takes place outside traditional exchanges at wholesale trading groups.[xlvii] The latter pay retail brokers for batches of retail order in an arrangement called "payment for order flow,"[xlviii] and the SEC is concerned with the system creating a conflict of interest as the broker "may be incentivised to sell their customers' orders to the highest bidding wholesaler."[xlix]

After the most recent severe market crash of crypto tokens, with the size of the market reduced by 70% since November 2021,[l] it is perhaps no surprise that the crypto industry is receiving high regulatory attention. On 30 June 2022, EU member states and the European parliament provisionally agreed the terms of the EU-wide Regulation on Markets in Crypto-assets.[li] The standards will require a crypto-asset provider to obtain authorisation from one of the EU national market regulators, which will subsequently allow to "passport its services through the bloc".[liv] The European Banking Authority will oversee stablecoin issuers, who will be obliged to "protect consumers" and will be "liable in the event they lose investor funds".[liv] The ECB, however, expressed its concern about a "messy patchwork of national regulations governing the overlap between banks and crypto companies" before the package is fully implemented and when it becomes a law next year.[lii]

There is also a renewed effort on the part of European policymakers to create "real-time databases of stock and bond trading information", with an aim of "deepening and unifying the EU's fragmented financial markets" in order to make them "more attractive and safer for international and retail investors".[liii] This is envisioned to be achieved by establishing a so-called "consolidated tape," or live databases that would "bundle together basic trading information from the bloc's competing venues".[lix] Although positively viewed by investors due to potential benefits of increased transparency, investor protection and improved competitiveness of European markets, the implementation of the consolidated tape project is a significant challenge due to the currently disputed costs to build and run a consolidated tape.[lix]

EPILOGUE

Over the last three weeks of reporting Q2'2022 results, there has been a significant number of changes at the helm of listed companies in Europe, some in more spectacular fashion (Volkswagen, Credit Suisse) while others with less noise (Roche, Rolls Royce, BAE Systems). This symbolises the shift change we had discussed throughout this market commentary – from widespread fatigue to contingency planning. In times like this one cannot help to have the feeling that Supervisory Boards are now looking for a younger generation of senior managers who can think outside the box and are prepared to take on a multitude of changes simultaneously.[liv]

One other topic we will see more prominently in Q3'2022 is that of changing customer behaviour, downtrading and demand destruction as economic contraction starts to become more tangible, something companies have tried to downplay so far (Holcim, Nestle) and/or preferred to reference to their premium customers (KPN, Volkswagen). As supply chain issues continue and not only energy prices but also wages keep rising, the market outlook gets now firmly focused on 2023 and to what extent companies are prepared to face recessionary scenarios. Some companies have cut on their dividend commitments while others started strengthening their balance sheet and/or putting aside previous M&A ambitions. As the CEO of TotalEnergies, Patrick Poyanne, said only a few days ago at their Q2'2022 results call: "The best way to face recession is a strong balance sheet". Watch the space as we will follow this very closely!

Peter and Irina Kirkow
1 August 2022

Tel: +43 664 5426098
https://kirkow-consulting.com

ENDNOTES

[i] The MSCI World Index was down by 21% over the period and the Euro Stoxx 50 by 20%. The S&P 500 was equally down by a fifth and had only slightly recovered during the first three weeks of July, falling by 17% year-to-date on 22 July. This followed an unprecedented inflationary shock of 9.1% in the US and in Europe of 8.6% in June 2022, resulting in first signs of declining consumer spending and a housing market slowdown in the US and, given the threat of Russia cutting gas supplies, the Eurozone purchasing managers' index falling to 49.4, signaling contracting business activity (Martin Arnold, *"Eurozone business activity falls to 17-month low, raising recessionary fears"*, Financial Times, 22 July 2022). By the end of June, US wages were reportedly up by 5.3% year-on-year compared with the core personal consumption expenditures (PCE) price index up by 6.8%. While this is not the place to get into all the intricacies of US inflation statistics, suffice it to say that this latest inflation report surprised many observers, together with the the US economy being in technical recession for the second consecutive quarter, see: Colby Smith, *"Jumps in US wage and inflation figures keep pressure on Fed"*, Financial Times, 29 July 2022.

[ii] For a good summary of analysts still not having adjusted their earnings forecasts and hence investors having seen only the first phase of the bear market, see: Ian Harnett, *"The big risk to equities now is earnings, not valuations"*, Financial Times, 22 June 2022.

[iii] With respect to supply chain disruptions, we received mixed messages from the semiconductor industry so far. The CEO of ASML, Peter Wennink, referred to "short-term shocks in our ecosystem", while his CFO, Roger Dassen, spoke even about an "increase in supply chain delays" (ASML Q2'2022 results call, 20 July 2022). In turn, TSMC maintained their previous position about a "supply chain adjustment in the second half of 2022" and an "inventory clean-up in 2023" while reiterating their base case of strong structural demand supported by continuing megatrends (TSMC Q2'2022 results call, 14 July 2022). In contrast, Intel even came with a profit warning at their Q2'2022 results on 28 July 2022, blaming a "larger than expected OEM inventory correction" during Q&A (David Zinsner, CFO) but also the threat of a recessionary scenario, Covid and supply chain constraints.

[iv] The CFO of AkzoNobel, Maarten de Vries, described the company's contingency planning in terms of a "cost reset" being driven by "greater uncertainty" and "lower consumer demand", implying the need for strict cost management and working capital reduction (AkzoNobel Q2'2022 results call, 20 July 2022). When being asked how much SGS Group is exposed to German industrials and what the contingency plans are like if Russia were to stop gas supply to Europe, the CEO, Frankie Ng, responded that they are prepared and would be moving to neighbouring countries (SGS Group H1'2022 results call, 19 July 2022). Interestingly, BASF went through the German government's Phase 2 on emergency gas supply as well as its own mitigation efforts in great detail but left the impression to some analysts that they are "not in crisis mode yet" (JPMorgan analyst). When challenging the CEO, Martin Brudermüller, responded that they are able to cover – assuming the current reduced Russian gas supply and all the additional sources – the 2022-23 season "if there is not a cold winter" (BASF Q2'2022 results call, 27 July 2022). Even banks conceded that they currently prepare for the "worst-case scenario" and see "subdued loan growth in retail banking", with "customers being cautious" (CEO of BAWAG Group, Anas Abuzaakouk, at the Q2'2022 results call on 21 July 2022).

[v] Due to its zero-Covid policy, China's GDP recorded merely a 0.4% expansion year-on-year following the 4.8% growth in the first quarter. This aggregates to a first-half year growth of 2.5%, well below the annual 5.5% target for 2022 (Edward White and Sun Yu, *"China narrowly misses second-quarter contraction as zero-Covid batters economy"*, Financial Times, 15 July 2022). Some companies even quantified the impact of the China lockdown at Group level in Q2'2022, amounting to 2% of revenue growth for ABB (Q2'2022 results call, 21 July 2022) while others specifically outlined the impact for relevant business units, e.g. Sealing Solutions at Trelleborg being down by 7-8% in Q2'2022 (Trelleborg Q2'2022 results call, 21 July 2022). When being asked about a potential "catch-up demand" after the removal of lockdown conditions in China, the CEO of AkzoNobel, Thierry Vanlancker, maintained that "the projections for China growth are not as exuberant" (AkzoNobel Q2'2022 results call, 20 July 2022).

[vi] There is still a strong confidence that "inventory levels will gradually reduce during the year" (CFO of Ericsson, Carl Mellander, at the Q2'2022 results call on 14 July 2022) and that companies will be able to "release the order book in the next quarters" (CEO of ABB, Björn Rosengren at the Q2'2022 results call on 21 July 2022). Trelleborg spoke about the "strongest ever order book" but, at the same time, a "flattening demand" (CEO of Trelleborg, Peter Nilsson, at the Q2'2022 results call on 21 July 2022). However, there is also a clear perception that "resetting global supply chains implies higher costs" (CEO of Ericsson, Börje Ekholm, at the Q2'2022 results call on 14 July 2022).

[vii] This was a highly popular question at analyst Q&A but also very sensitive from a senior management's perspective, given the confidential nature of customer contracts and the reluctance to discuss details in a public call. There were

lengthy enquiries from analysts about specific contract clauses on inflationary adjustment and/or annual renewals (Lonza H1'2022 results call, 22 July 2022), with some admitting that this is in "customer discussion" but not more (CEO of ASML, Peter Wennink, at the Q2'2022 results call on 20 July 2022). Ericsson elaborated on its approach of "adjusting prices through product substitution" (CEO of Ericsson, Börje Ekholm, at the Q2'2022 results call on 14 July 2022). In turn, AkzoNobel noted that it takes 5-6 months for higher raw materials' prices to hit the P&L (CEO of AkzoNobel, Thierry Vanlancker, at the Q2'2022 results call on 20 July 2022). In terms of labour inflation, the CEO of Lonza, Pierre-Alain Ruffieux, maintained that "salary adjustments are slow to happen" (Lonza H1'2022 results call, 22 July 2022). There were a number of interesting debates about higher prices versus giving up on market share and/or whether companies are prepared to trade down at lower end markets (AkzoNobel Q2'2022 results call, 20 July 2022).

[viii] This is a somewhat contentious issue and not many companies make the effort to substantiate the claim for "innovative solutions" (Ericsson) and "productivity gains" (Lonza) through hard data. Others were more open to concede an "underabsorption of fixed costs" (CFO of ABB, Timo Ihamuotila, at the Q2'2022 results call on 21 July 2022) or simply that "cost discipline is key in uncertain times" (CEO of Julius Baer, Philipp Rickenbacher, at the H1'2022 results call on 25 July 2022). In terms of labour costs, TSMC outlined that "US labour costs were higher than expected" (TSMC Q2'2022 results call, 14 July 2022) and ASML even mentioned that labour cost inflation in some Asian markets (Taiwan, Korea) was 20% (ASML Q2'2022 results call, 20 July 2022).

[ix] One interesting comment came from the CEO of ASML, Peter Wennink, that "every supplier is working on energy issues", i.e. this is in everybody's mind right now (ASML Q2'2022 results call, 20 July 2022). To what extent a full Russian gas stop could become a reality became clear from Gazprom announcing that it would reduce gas flows to 20% of capacity from 27 July 2022, see: David Sheppard, Polina Ivanova and Harry Dempsey, *"Russia cuts gas deliveries to Europe via Nord Stream 1"*, Financial Times, 26 July 2022.

[x] In this respect, for a good summary of US companies' earnings, see: Kate Duguid and Eric Platt, "*The strong dollar wipes billions off US corporate earnings"*, Financial Times, 25 July 2022. Other non-US companies faced a different situation, with TSMC highlighting the "favourable FX rate" to explain much of the higher gross margin in Q2'2022 (TSMC Q2'2022 results call, 14 July 2022).

[xi] This is particularly the case for Europe's largest economy, Germany, which is at the brink of recession and where not only manufacturers confidence has plummeted, but also the situation among service providers, retail traders and construction is reported to have deteriorated significantly, see: Martin Arnold, *"German recession looms as business confidence slumps to two-year low"*, Financial Times, 26 July 2022.

[xii] This applies to both the US and Europe although interest rate differentials continue to grow, with Europe arguably running out of options, both given its late interest rate decision and its heavy dependence on Russian gas. On euro parity, see: Nikou Asgari, *"Analysts bet on deepening euro sell-off as recession fears escalate"*, Financial Times, 15 July 2022, and on the implications of record European power prices, see: Harry Dempsey, David Shephard and Neil Hume, *"Europe power prices hit new high in wake of Russian gas supply cuts"*, Financial Times, 5 July 2022.

[xiii] Sun Yu, *"Inverted yield curve in China savings rates signals sustained economic slowdown"*, Financial Times, 25 July 2022. For other Asian economies faring much better due to higher exports and tourism recovery, see: Andy Lin and John Reed, *"South-east Asia bucks global stagflation trend as tourism and exports climb"*, Financial Times, 21 June 2022. This has been confirmed during the Q2'2022 analyst calls of some of the world's largest wealth managers (Julius Baer on 25 July 2022 and UBS on 26 July 2022).

[xiv] Ralph Hamers, CEO of UBS, at the Q2'2022 results call on 26 July 2022.

[xv] For some of the relevant discussion, see among others: Jean Boivin, *"The inflation blame-game will lead to bad outcomes"*, Financial Times, 4 July 2022; Richard Bernstein, *"You are what your real fed funds rate says you are"*, Financial Times, 10 May 2022, and Mohamed El-Erian, *"The risk of a flip-flopping Fed"*, Financial Times, 29 June 2022.

[xvi] Naomi Rovnick; *"Stocks turn higher as traders assess path of interest rate rises"*, Financial Times, 24 June 2022.

[xvii] For the broader discussion on stagflation see, among others, Valentina Romei and Alan Smith, "*The global stagflation shock of 2022: How bad could it get?"*, Financial Times, 2 May 2022 and Martin Wolf, *"The Fed must act now to ward off the threat of stagflation"*, Financial Times, 30 May 2022.

[xviii] The Creating Helpful Incentives to Produce Semiconductors (Chips) Act has reportedly been slimmed down to $52bn worth of semiconductor subsidies and $1.5bn in 5G funding, see: Kiran Stacey and Demetri Sevastopulo, *"Chuck Schumer aims for Tuesday vote on scaled-back chipmakers' bill"*, Financial Times, 19 July 2022. One of the complicating factors of this bill is the limit set for manufacturers on what they can make in China if they receive federal funding, with the current proposal set at smaller than 28nm produced in China. The CEO of Intel, Pat Gelsinger, called this the "most powerful industrial policy since WWII" (Intel Q2'2022 results call, 28 July 2022), which

is perhaps not surprising given his personal involvement in lobbying in Washington. At the Q&A, he said that he is glad to be back at Intel's headquarter as the "culture of execution needs to be revamped" at Intel and the brain drain be reversed.

[xix] For the argument of Chinese semiconductor producers staying behind as they lack necessary infrastructure being brought forward by the CEO of Japan-based JSR, Eric Johnson see: Antoni Slodkowski, *"Chip supplier says China will struggle to develop advanced technology"*, Financial Times, 23 May 2022 and for US chip manufacturers getting more active outside Asia given the Chinese threat of Taiwan, see: Gillian Tett, *"The semiconductor chip pendulum is slowly swinging west"*, Financial Times, 22 July 2022.

[xx] Demetri Sevastopulo and Andrew Edgecliffe-Johnson, *"Executives seek briefings on Taiwan war risk"*, Financial Times, 12 July 2022.

[xxi] Demetri Sevastopulo and Kana Inagaki, *"Joe Biden pledges to defend Taiwan militarily if China invades"*, Financial Times, 23 May 2022 and about the complications of the planned visit to Taiwan by Nancy Pelosi, the Speaker of the US House of Representatives, see: Demetri Sevastopulo, *"Nancy Pelosi to visit Taiwan next month amid China tensions"*, Financial Times, 19 July 2022.

[xxii] When being asked about recessionary fears, the CEO of ASML, Peter Wennink, responded that they have a strong order backlog into 2023 and expect "another growth year". He elaborated on the fact that they are still able to maximise output with demand exceeding supply. Peter Wennink also differentiated between a "moderate" and "deep" recession, expecting the former but not the latter (ASML Q2'2022 results call, 20 July 2022).

[xxiii] Not only the unlimited optimism but also the scope of industrial change is mind-boggling, see NVIDIA's discussion about the "next wave of artificial intelligence" with references to major applications such as data analysis/machine learning, natural language understanding and self-driving cars. NVIDIA's CEO, Jensen Huang, said that they are currently working with over 10,000 artificial intelligence start-ups and see not only a new type of data centres emerging (AI factories), but also the scope of hyperscale/cloud computing doubling year-on-year (NVIDIA Q1'2023 results call, 25 May 2022).

[xxiv] For the outline of its new strategy, see: Qualcomm 2021 Investor Day on 16 November 2021 while announcing the ambition to become an "intelligent processor company at the edge" at its Q2'2022 results call on 27 May 2022. At this call, the CEO of Qualcomm, Cristiano Renno Amon, explained that China accounts for 20% of the global handset market and that Qualcomm is "less interested in commodity units in handsets". In turn, the CEO of Broadcom, Hock. E. Tan, declared in conjunction with the announced acquisition of VMware that "we don't want to walk away from the channel but we want to embrace the channel" (Broadcom Q2'2022 results call, 26 May 2022).

[xxv] Lisa T. Su, CEO of AMD at the AMD Financial Analyst Day 2022 on 9 June 2022.

[xxvi] Russia itself managed a spectacular economic turnaround from originally lifting rates to 20% after the war started in late February to cutting down to 8% on 22 July 2022, while inflation has fallen from 17.1% in May to 15.9% in June. Similarly in terms of currency appreciation, with the rouble reaching 150 to the US-dollar after the invasion and now slipping back to below 58 after the latest rate cut was announced, see: Polina Ivanova and Chris Giles, *"Russia cuts rates sharply as inflation outlook improves"*, Financial Times, 23 July 2022. The CEO of Shell, Ben van Beurden, spelled it out directly: "The impact on sanctioning Russia has been minimal" and preferred the term "self-sanctioning" when speaking on behalf of Western countries (Shell Q2'2022 results call, 28 July 2022).

[xxvii] At the time of writing, Gazprom had already reduced supply to Europe to 20% of capacity citing technical issues, which has largely been seen as another attempt to "weaponise" gas supplies, see: David Sheppard, Polina Ivanova and Harry Dempsey, *"Russia cuts gas deliveries to Europe via Nord Steam 1"*, Financial Times, 26 July 2022. For an excellent analysis of corruption, nepotism and embezzlement of public funds by Gazprom's CEO, Alexey Miller, and his close entourage, see: Navalny Live: *Putin. Miller, Gazprom*, 16 June 2022 (with English-language subtext): https://www.youtube.com/watch?v=YSbHR1Z_mZ8.

[xxviii] For some of the better analyses, see: Martin Wolf, *"Russia's war tests Europe's moral mettle as much as its economy"*, Financial Times, 4 May 2022 and David Sheppard, *"EU fears of being held to ransom by Russia over gas become reality"*, Financial Times, 18 June 2022.

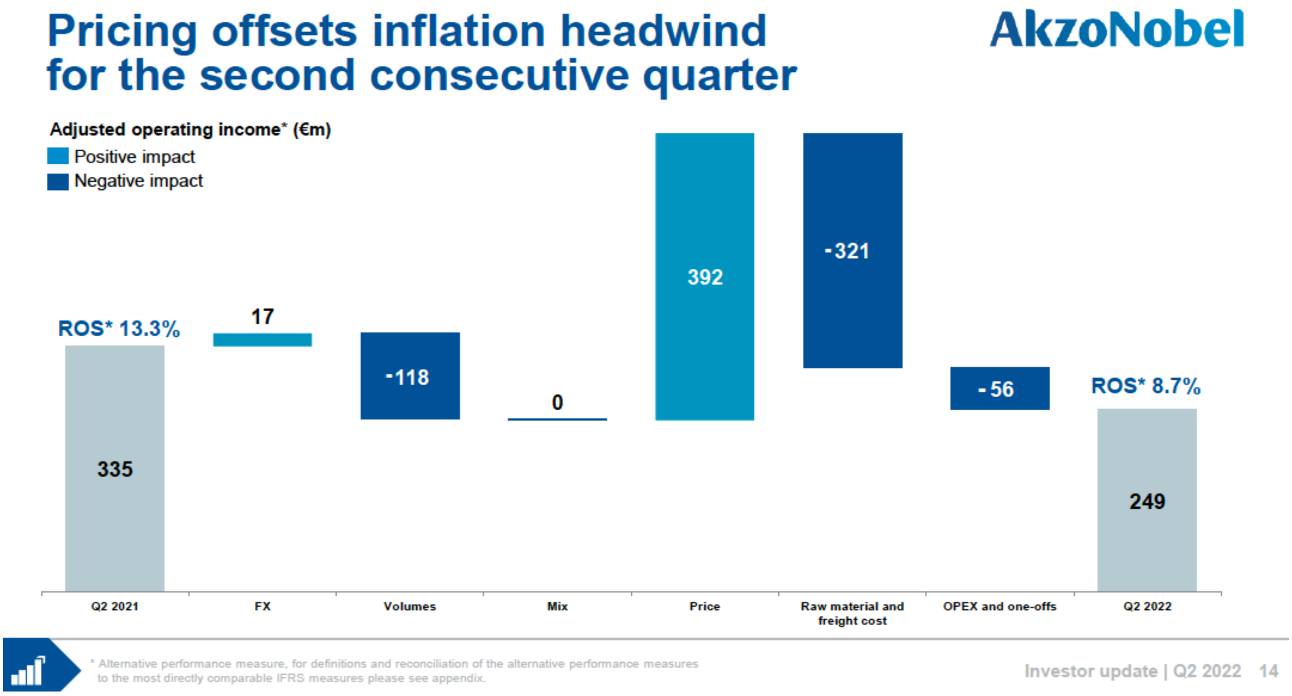
[xxix] This was well phrased by the Goldman Sachs analyst at the BASF Q2'2022 results call on 27 July 2022.

[xxx] For the very tedious EU negotiations with Hungary and other East European countries affected, see: Sam Fleming, Valentina Pop, Andy Bounds and David Sheppard, *"EU seeks to close ranks around plan for partial Russia oil ban"*, Financial Times, 30 May 2022.

[xxxi] One country-specific question at the BASF Q2'2022 results call was at what point would the German government trigger Phase 3 of the gas emergency plan, i.e. introducing administrative gas rationing (Goldman Sachs analyst).

Similarly, OMV was asked about extra costs of gas access and who is going to pay for it (SocGen analyst), referring to the Austrian Diversification Law for pipeline access providing EUR 100mn (OMV Q2'2022 results call, 28 July 2022).
[xxxii] Citi analyst at the Credit Suisse Q2'2022 results call on 27 July 2022.
[xxxiii] The latter is a delicate issue as countries such as China and India have bought Russian oil at discounted prices after the invasion of Ukraine while, at the same time, the US and Europe are trying to prevent oil prices spiraling out of control in their attempt to restrict Russian oil exports, see: David Sheppard and Derek Brower, *"US warns of surge in fuel costs in fresh push for Russian oil price cap"*, Financial Times, 27 July 2022.
[xxxiv] Swiss Re was consistently asked in their Q1'2022 results call on 5 May 2022 what needs to happen to get an update on losses from the Russian war (Morgan Stanley analyst) and at what stage they would change their guidance (Credit Suisse analyst) after the company appeared to play down the impact being "at the lower end of a mid-sized natcat loss" and that this can be better assessed when claims come in (CFO of Swiss Re, John Dacey).
[xxxv] The scope of damage to aviation leasing companies has been well covered, see: Sylvia Pfeifer, *"Leasing group AerCap loses bid to recover Aeroflot jet"*, Financial Times, 9 June 2022 and Sylvia Pfeifer, *"Aircraft leasing group SMBC Capital takes $1.6bn hit from Russia"*, Financial Times, 8 July 2022.
[xxxvi] Hannover Re Q1'2022 results call on 4 May 2022. This was largely confirmed by Swiss Re at their Q1'2022 analyst call, having put aside $283mn of reserves for the war in Ukraine at that point in time and outlining that the "credit & surety line will be more impacted the longer the war goes on" (John Dacey, CFO of Swiss Re). At half-year results, the war in Ukraine had impacted Swiss Re's reserves by 1.5%points and the combined ratio by 4.5%pts (Swiss Re H1'2022 results presentation, 29 July 2022, slide 5).
[xxxvii] Ian Smith, *"Ukraine fallout will extend long rally in commercial insurance prices"*, Financial Times, 8 June 2022. In turn, the CEO of Swiss Re, Christian Mumenthaler, maintained at their Q2'2022 results call on 29 July 2022 that the market is hardening and "decoupling from the primary side".
[xxxviii] Sarah Gordon, *"How to make sustainable investing work"*, Financial Times, 13 July 2022.
[xxxix] John Gapper, *„Greenwashing is tempting for CEOs who tell stories*", Financial Times, 3 June 2022.
[xl] Patrick Temple-West, Stefania Palma, *"SEC fines BNY Mellon over ESG in first case of its kind*", Financial Times, 23 May 2022.
[xli] *"SEC Charges BNY Mellon Investment Adviser for Misstatements and Omissions Concerning ESG Considerations",* Press Release May 23, 2022, https://www.sec.gov/news/press-release/2022-86
[xlii] *"The Division of Examinations 'Review of ESG Investing",* SEC Risk Alert, 9 April 2021
[xliii] Patrick Temple-West, Stefania Palma, "*SEC prepares to crack down on misleading ESG investment claims"*, Financial Times, 24 May 2022.
[xliv] *"Commission adopts disclosure rules on sustainable investments",* https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/sustainability-related-disclosure-financial-services-sector_en
[xlv] Chris Flood, *"Asset Managers told to clean up greenwashing and net zero claims"*, Financial Times, 20 June 2022.
[xlvi] Nicholas Megaw, Madison Darbyshire, *"SEC chief launches review of 'uneven' US equities market"*, Financial Times, 8 June 2022.
[xlvii] Nicholas Megaw, *"SEC chair Gary Gensler to set out overhaul of US equity market"*, Financial Times, 7 June 2022.
[xlviii] Nicholas Megaw, Madison Darbyshire, *"SEC chief launches review of 'uneven' US equities market"*, Financial Times, 8 June 2022.
[xlix] Philip Stafford, *"SEC aims to stem trading practice of ‚payment for order flow'"*, Financial Times, 8 June 2022.
[l] Gillian Tett, *"Crypto enthusiasts are betting the house on creative destruction"*, Financial Times, 24 June 2022.
[li] Scott Chipolina, *"EU finalises sweeping rules for 'wild west' crypto industry"*, Financial Times, 1 July 2022.
[lii] Laura Noonan, *"ECB to warn eurozone countries over crypto regulation"*, Financial Times, 4 July 2022.
[liii] Philip Stafford, *"EU aims to unify capital markets with live trading databases"*, Financial Times, 27 May 2022.
[liv] The CEO of Nestle, Mark Schneider, was asked at the H1'2022 results call on 28 July 2022 what keeps him up at night right now and he responded that "large companies' set ups are simply not prepared for all the changes" as one needs to intervene in previously automated processes almost on a daily basis.

APPENDIX


Pricing offsets inflation headwind for the second consecutive quarter
AkzoNobel
Adjusted operating income* (€m)
Positive impact
Negative impact
ROS* 13.3%
335
17
-118
0
392
-321
- 56
ROS* 8.7%
249
Q2 2021
FX
Volumes
Mix
Price
Raw material and freight cost
OPEX and one-offs
Q2 2022
* Alternative performance measure, for definitions and reconciliation of the alternative performance measures to the most directly comparable IFRS measures please see appendix.
Investor update | Q2 2022 14


Adjusted EBITDA AL growth
Adjusted EBITDA AL (€ m)
+1.1%
589
+18
-25
+12
+4
-5
+2
595
1
2
3
Q2 2021
Adjusted revenues
Direct costs
Personnel expenses
IT/TI expenses
Other opex
Lease related exp.
Q2 2022
1 Higher direct costs y-on-y
Higher non-service revenues
Glasspoort access costs
B2B service revenue mix
2 Personnel expenses lower y-on-y
-213
20
-9
-201
Q2 2021
FTE & related costs
CLA
Q2 2022
3 Other opex higher y-on-y
-68
-4
-1
-73
Q2 2021
Energy
Other
Q2 2022
17 Q2 2022 Results
kpn

CORE EBITDA Margin

Robust profitability in challenging macro environment

Lonza

- Growth projects less dilutive vs H1 2021
- Inflation and higher spending levels post-COVID partially offset by productivity
- Dilutive impact of third-party sales to former Lonza Specialty Ingredients

CORE EBITDA Margin Evolution H1 2022 vs H1 2021

in %

[1]Includes inflationary impact

CORE definition: See appendix 12