

# Europe's Energy Crisis

## and the Global Economy

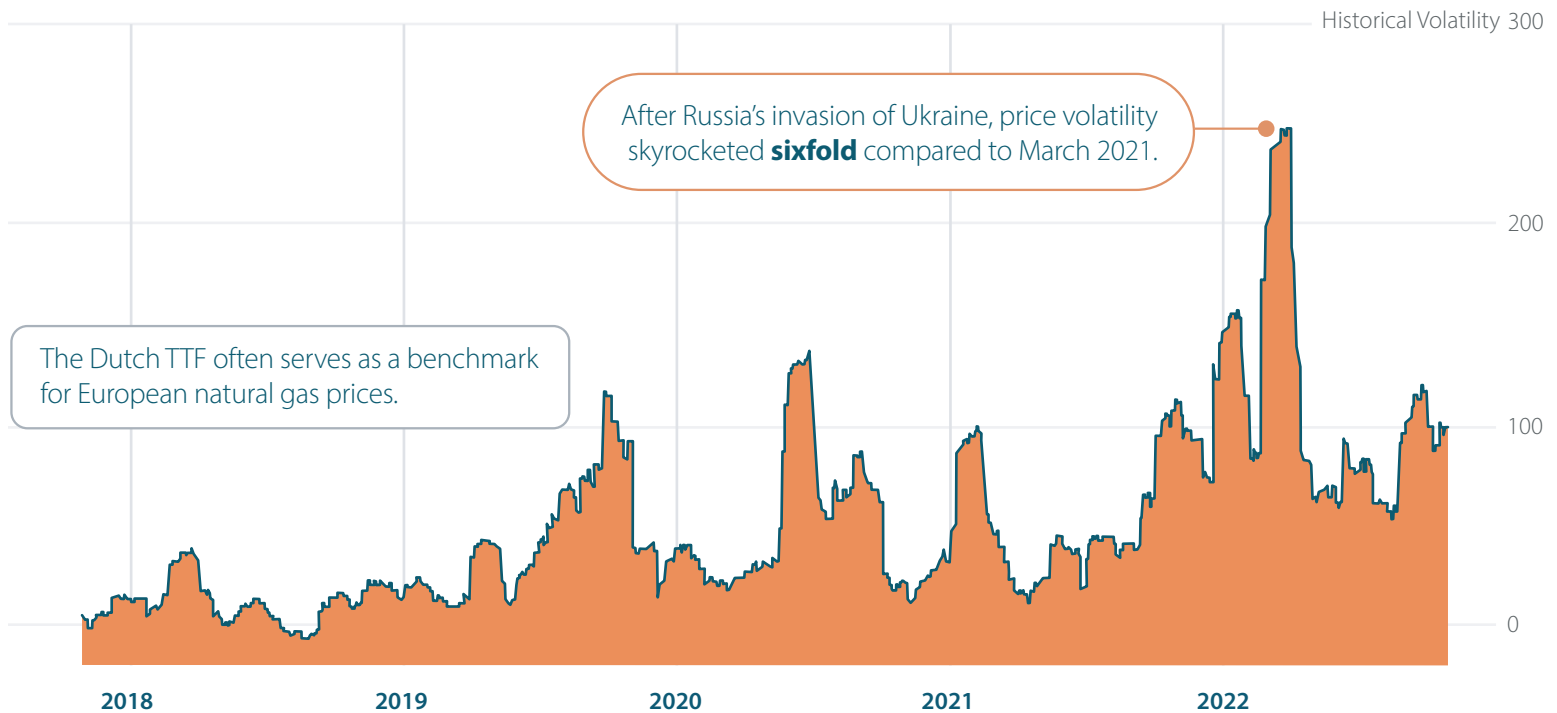


INVESTMENTS

# Volatile energy prices are squeezing household costs and business productivity in Europe.

## European Gas Market Shock

Front-Month Dutch Title Transfer Facility (TTF) 30-Day Volatility



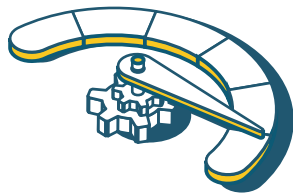
Source: Bloomberg (Nov 2022).

Front-Month Dutch Title Transfer Facility 30-Day Volatility measures the change in price movements of gas futures contracts. It is a primary measure for European natural gas price volatility.

While energy prices have fallen in recent months, several factors could influence price volatility looking ahead:



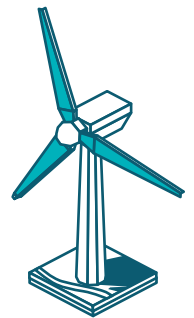
Russia slashing energy supplies



Rising winter heating demand



Shrinking European storage facilities



Growing renewable power sources

Below, we show the potential impacts of Europe's energy crisis on consumers, businesses, and the wider global economy.

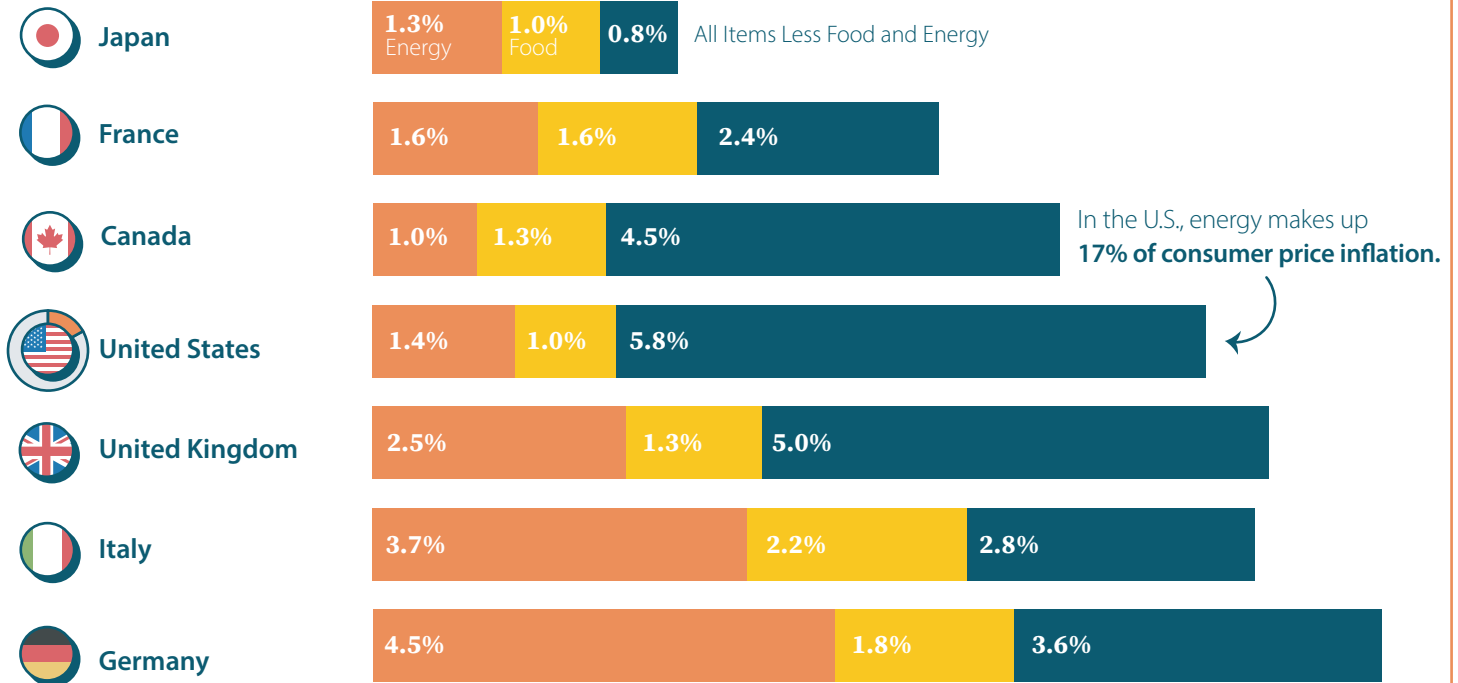
# 1 Impact on Consumers

Energy plays a central role in overall inflation. Here's how it factors into the consumption baskets of various countries.

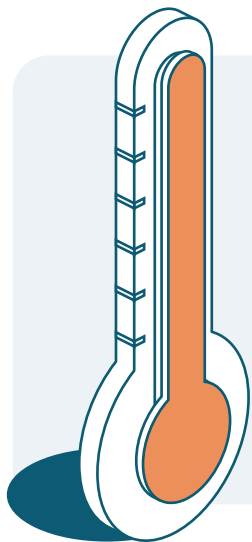
## Higher Energy Costs

Contributions to Annual Inflation Rate, September 2022

Source: OECD (Oct 2022). Annual inflation is measured by the Consumer Price Index.



Energy-price inflation has soared over 40% in Europe since September 2021.



Amid energy supply disruptions, U.S. winter heating costs are projected to rise to the highest level in a decade.

Source: National Energy Assistance Directors' Association (Sep 2022).



As heating costs rise, it could impact consumer spending on discretionary items across the economy

## 2 Impact on Business

Natural gas and petroleum are key components in many industries' energy consumption, adding cost pressures to operations.

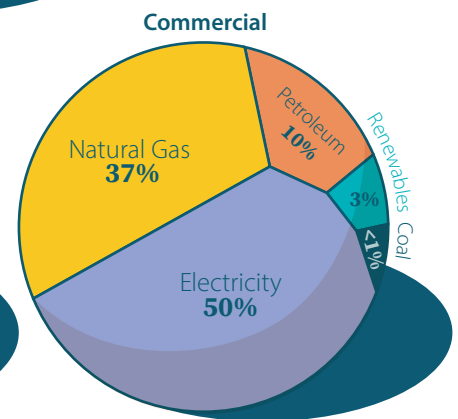
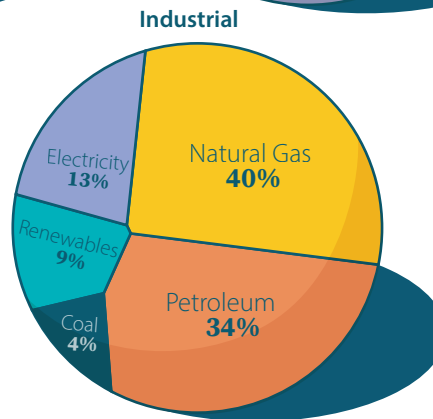
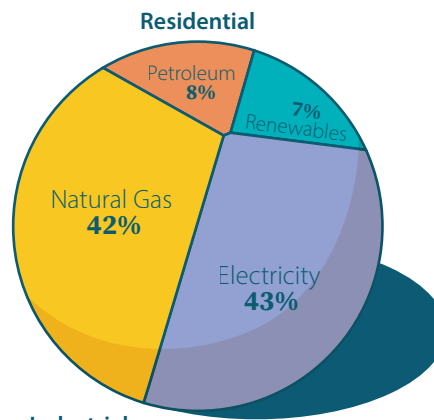
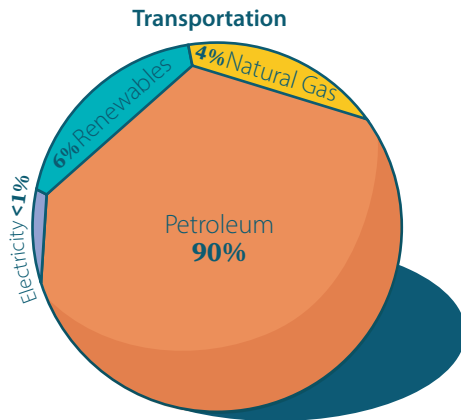
Source: EIA (Apr 2022)

### Percent of U.S. Energy Consumption in 2021



### Transportation and Industrial Sectors Are the Largest Energy Consumers

Percent of Energy Source, by Sector

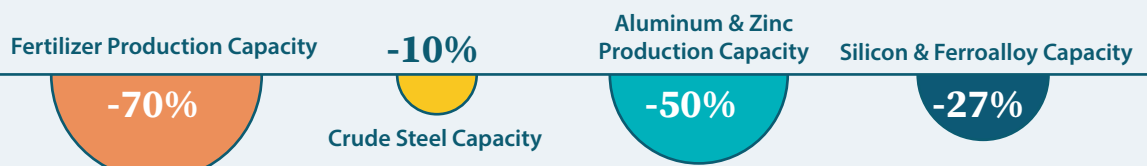


Energy is required for heat in industrial processes, heating buildings, and operating machinery.



In Europe, soaring energy prices have led to production declines in energy-sensitive industries over recent months.

Source: Fertilizers Europe (Aug 2022), Jeffries (Sep 2022), Eurometaux (Sep 2022).



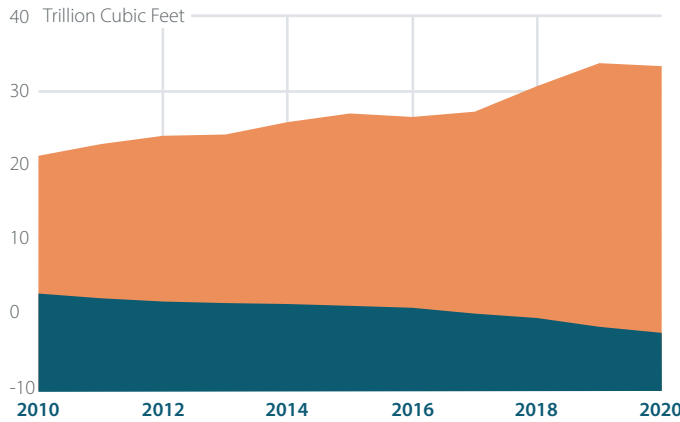
As a result, some companies may move production out of Europe to regions with lower energy prices such as the U.S., Middle East and North Africa—which occurred in 2010-2014 amid high European energy prices.

Source: Financial Times (Oct 2022)

### 3 Impact on the Economy

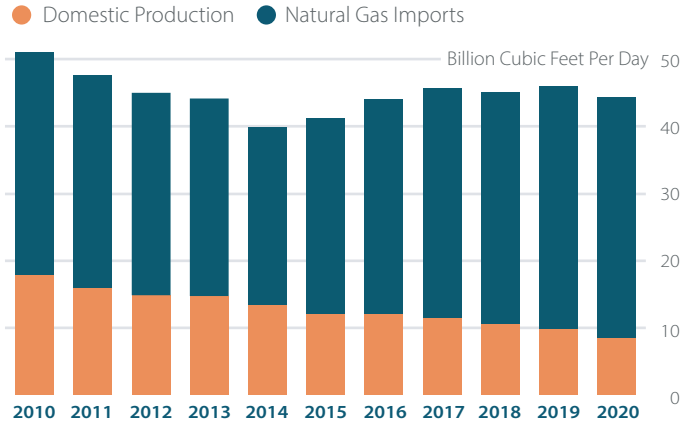
While the energy crisis is having devastating effects on many countries, some markets like the U.S. are more sheltered from the impact.

#### U.S. Natural Gas



Source: EIA (Sep 2022).

#### European & UK Natural Gas



Source: EIA (Feb 2022).



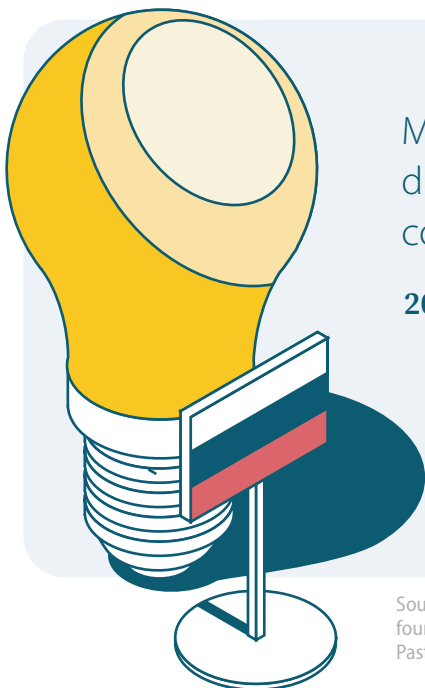
The U.S. produces **nearly all** of its natural gas, contributing to lower prices.



Exports of U.S. natural gas are sent to **41 countries** worldwide.



By contrast, Europe imports **80%** of its natural gas, primarily from Russia, North Africa, and Norway.



Meanwhile, in 2022 the energy sector is seeing strong returns due to higher energy prices and key fuel shortages as Russia constricts supplies to Europe:

#### 2022 Year-to-Date Returns\*

S&P Energy Index  
**65%**

S&P 500 Index  
**-17%**

Source: S&P Global (Nov 2022). \*As of November 18, 2022. Index definitions can be found at the bottom of this piece. An investment cannot be made directly in an index. Past performance is not indicative of future results.

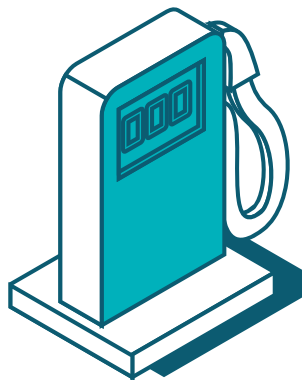
# Looking Ahead

Europe's energy crisis could last well into 2023, driven by many factors:

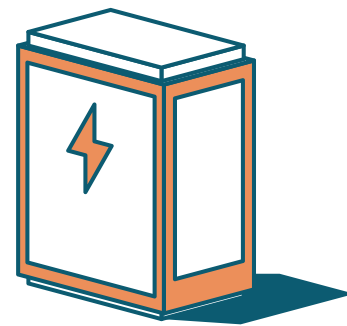


Rising demand from China post-COVID-19 lockdowns

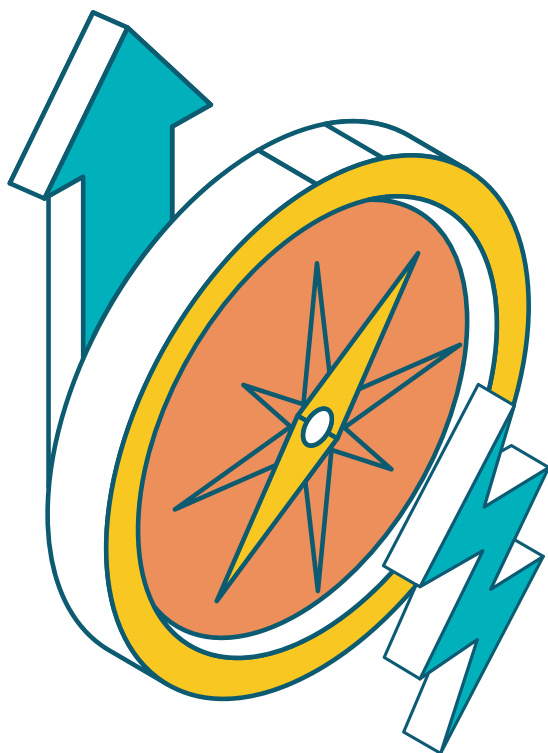
Source: IEA (Sep 2022), IEA (Nov 2022), Washington Post (Jun 2022).



Lower European fuel reserves



Inadequate energy infrastructure in medium-term



The good news is that European government relief has reached €674B (\$690B) to cushion the effect on households and businesses.

However, this has additional challenges as increasing money supply may be an inflationary force.

Source: Bruegel (Oct 2022), CNN (Oct 2022).

**Amid market volatility, investors can avoid getting caught up in short-term movements and stay focused on their long-term strategic allocation.**

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**Front-Month TTF 30-Day Volatility** measures the change in price movements of the Dutch Title Transfer Facility gas futures contracts based on their nearest expiration date for their contract over the previous 30-days of daily price changes. **The Consumer Price Index** measures the average level of prices across OECD countries based on a basket of goods and services over a given time period. **U.S. Average Fuel Costs** measures the projected average price of U.S. household heating during the winter heating season. It is measured as the average projected price increase of natural gas, electricity, heating oil, and propane. UK Average Fuel Costs represent the projected average costs of energy bills for UK households as estimated by Ofgem, the utilities regulator.

**The S&P 500 Energy Index** measures the performance of energy sector stocks included in the S&P 500 Index. **The S&P 500 Index** is widely regarded as the standard for measuring U.S. large-cap stock-market performance.

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