Current market commentary

Investor sentiment has deteriorated further. Only 28% of US private investors in the weekly AAII survey expect the US stock market to rise in the next six months. China, high energy prices and tapering concerns weigh. The S&P 500 has seen its first correction beyond 5% in 227 trading days. We see this as a healthy counter-movement after the strong rally over the last few months, but still believe a correction in excess of 10% is unlikely. There is still a lot of money parked on the sidelines, and equities remain the only alternative. The positioning of hedge funds and the options markets also suggest that many investors are cautiously positioned. However, we think that the easy gains in equities are over and the coming months are likely to be characterised by increased volatility and offer only limited upside potential. There should hardly be any more valuation expansions at the index level.

The bi-weekly ***Monitor*** gives you a structured overview of the current capital market environment and highlights important developments:

- Performance
- Positioning
- Sentiment
- Surprise Indicators
- Economics
- Foreign Exchange
- Equities
- Sovereign Bonds & Central Banks
- Corporate Bonds
- Commodities

Short-term outlook

Holidays in China.

In China, the National Holiday Week (Golden Week) takes place this week. The mainland stock exchanges are closed accordingly. Today OPEC+ meets and on 7 October the ECB meeting minutes are published. On 15 October, the IMF and World Bank hold their annual meeting and the G20 finance ministers meet. The latter are expected to discuss the global minimum tax again.

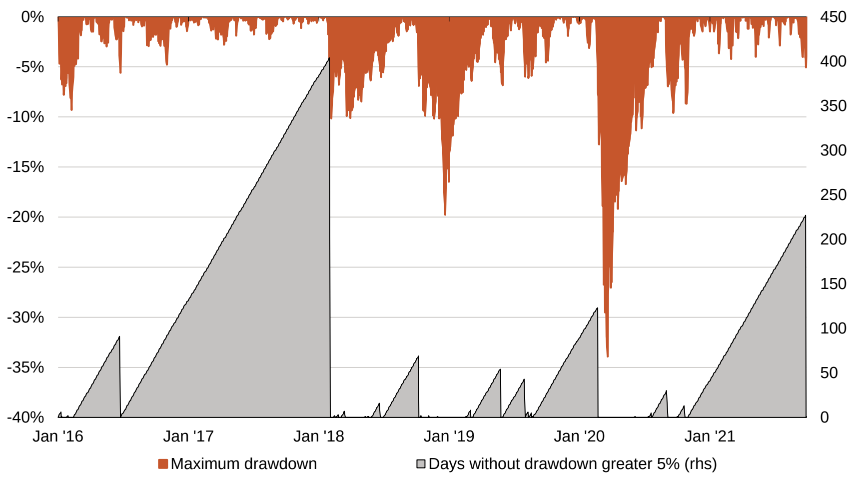
Global coordination at the G20 Finance Ministers and IMF/World Bank meeting.

This Tuesday, the (final) purchasing managers' indices (PMIs, Sep.) of the service sector for Europe and the US (ISM) will be published. In addition, France's industrial production data (Aug.) and Germany's new orders (Aug.) will be published one day later. Industrial production data (Aug.) for Germany will follow on Thursday. On Friday, the focus will be on US labour market data and China's services PMI (Sep.). In the following week, the German ZEW index, US consumer confidence, US retail sales and US inflation data will be published.

The recovery of the service sector, which has been battered by Covid-19, is something to watch.

US labour market data on Friday important for further Fed policy.

The S&P 500 fell finally by more than 5%



- After a stretch of more than 200 days without a 5% setback, the S&P 500 has also been hit. Prior to this, every mini-correction was bought by investors, so that the stock markets always recovered quickly. The Fed's more hawkish tone, along with a number of other concerns, has now led to the sharper sell-off.
- The environment in the coming months is likely to remain more challenging - also because corporate profits will no longer grow as strongly. However, we still consider a correction of more than 10% unlikely.

Source: Bloomberg, Period: 01/01/2016 - 01/10/2021

Multi Asset

	4-week & YTD: 4W (03/09/21 - 01/10/21)	4-week & YTD: YTD (31/12/20 - 01/10/21)	01/10/20 01/10/21	01/10/19 01/10/20	01/10/18 01/10/19	01/10/17 01/10/18	30/09/16 01/10/17
			12-month periods over that last 5 years				
Brent	12.9	71.8	103.3	-39.6	-21.9	62.7	-2.0
MSCI Frontier Markets	2.9	25.3	33.6	-9.1	11.9	-5.9	19.4
USDEUR	2.5	5.4	1.3	-6.9	5.9	2.0	-4.9
Industrial Metals	1.2	27.5	45.0	-8.4	3.0	-0.2	18.0
Global Coporates	0.9	2.9	2.6	0.0	15.3	0.6	-2.3
Global Treasuries	0.3	-0.1	-1.1	-1.4	14.9	0.3	-8.5
Eonia	0.0	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4
Global Convertibles	-0.4	9.9	23.5	17.7	7.6	7.9	8.3
Gold	-1.3	-2.3	-6.4	19.9	31.7	-5.2	-7.4
MSCI World	-1.9	19.8	30.5	4.4	6.4	13.7	12.4
MSCI Emerging Markets	-2.6	3.6	18.8	3.5	3.5	1.0	16.5
REITs	-5.7	23.5	24.5	-18.0	24.0	1.5	-7.7

MSCI World: MSCI World Net Return; MSCI Emerging Markets: MSCI EM Net Return; MSCI Frontier Markets: MSCI Frontier Markets Net Return;
REITs: MSCI World REITs Index; Global Treasuries: Bloomberg Barclays Global Agg Treasuries TR; Global Corporates: Bloomberg Barclays Global Aggregate Credit TR
Global Convertibles: Bloomberg Barclays Global Convertibles Composite TR; Gold: Gold US Dollar Spot; Brent Crude: Bloomberg Brent Crude Subindex TR;
Industrial Metals: Bloomberg Industrial Metals Subindex TR; Eonia: Eonia Capitalizaiton Index; USDEUR: Price of 1 USD in EUR.

- There has been a lot of movement within asset classes over the last four weeks. Brent oil, for example, gained strongly due to supply constraints.
- REITs were the weakest performers. Rising interest rates weighed on the high-dividend asset class.
- Gold and emerging market equities also fell. While the precious metal was burdened by rising US government bond yields, China concerns weighed on the performance of emerging market equities.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/10/2016 - 01/10/2021

Equities

	4-week & YTD: 4W (03/09/21 - 01/10/21)	4-week & YTD: YTD (31/12/20 - 01/10/21)	01/10/20 01/10/21	01/10/19 01/10/20	01/10/18 01/10/19	01/10/17 01/10/18	30/09/16 01/10/17
			12-month periods over that last 5 years				
MSCI EM Eastern Europe	3.9	34.5	57.8	-22.8	15.6	9.6	21.4
Topix	0.6	10.6	20.2	-1.3	1.3	11.8	10.8
MSCI USA Small Caps	0.3	23.3	50.2	-4.0	-0.5	16.8	13.3
MSCI UK	-1.3	17.8	32.4	-20.7	1.7	4.8	9.0
S&P 500	-1.4	23.6	32.5	9.1	8.5	20.7	12.8
Stoxx Europe Defensives	-2.6	13.3	19.3	-6.3	8.4	5.4	7.9
MSCI EM Asia	-3.3	0.2	14.1	13.6	1.7	2.9	17.8
Stoxx Europe 50	-3.6	14.6	23.0	-7.0	8.0	0.0	15.3
Euro Stoxx 50	-3.9	15.5	28.6	-7.3	5.9	-2.5	22.8
DAX	-4.0	10.5	19.1	3.8	-0.6	-3.8	22.1
Stoxx Europe Cyclicals	-4.7	18.1	36.3	-4.5	-2.4	-1.0	27.0
Stoxx Europe Small 200	-5.2	18.1	34.6	1.2	0.7	3.7	20.5

S&P 500: S&P 500 TR (US-Equity); Stoxx Europe 50: Stoxx Europe 50 TR; Euro Stoxx 50: Euro Stoxx 50 TR; Topix: Topix TR (japanese Equity);
Stoxx Europe Small 200: Stoxx Europe Small 200 TR; MSCI USA Small Caps: MSCI USA Small Caps TR; Stoxx Europe Cyclicals: Stoxx Europe Cyclicals TR;
Stoxx Europe Defensives: Stoxx Europe Defensives TR; DAX: DAX TR; MSCI United Kindom: MSCI UK TR; MSCI EM Asia: MSCI EM Asia TR;
MSCI EM Eastern Europe: MSCI EM Eastern Europe TR.

- Equity markets have suffered broad-based losses over the past four weeks. Inflation and the looming prospect of higher interest rates unsettled markets as investors braced for more hawkish central bank policies.
- Exceptions were Japan, buoyed by emerging economic optimism following the resignation of Prime Minister Yoshishide Suga, and Eastern Europe, which benefited from the ongoing commodity rally.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/10/2016 - 01/10/2021

Fixed Income

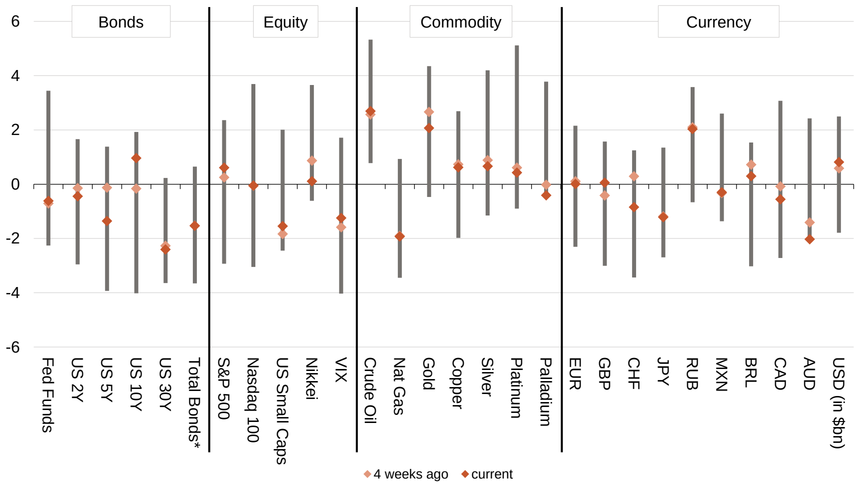
	4-week & YTD: 4W (03/09/21 - 01/10/21)	4-week & YTD: YTD (31/12/20 - 01/10/21)	01/10/20 01/10/21	01/10/19 01/10/20	01/10/18 01/10/19	01/10/17 01/10/18	30/09/16 01/10/17
			12-month periods over that last 5 years				
USD High Yield	2.2	9.3	11.0	-5.1	12.6	5.3	2.4
USD Corporates	1.9	4.7	3.4	0.3	19.4	0.7	-2.9
Treasuries	1.7	3.2	-1.9	0.3	17.6	0.3	-6.5
EUR Inflation Linkers	0.4	5.0	8.3	-1.2	7.6	0.6	-1.3
EM Local Currency Bonds	0.4	3.5	6.1	-4.4	14.3	-1.9	-1.7
EUR High Yield	-0.3	3.2	8.1	-1.3	4.0	0.5	6.3
EUR Financials	-0.4	0.1	1.8	0.3	5.7	-0.1	1.9
BTPs	-0.6	-1.3	1.1	2.3	18.7	-4.5	-3.4
EUR Non-Financials	-0.6	-0.6	1.4	0.3	6.5	0.1	-0.5
Bunds	-1.0	-2.7	-2.5	-0.4	8.1	0.7	-3.8
EM Hard Currency Bonds	-2.3	-2.7	1.5	0.2	6.6	-4.6	1.7
Gilts	-3.6	-3.2	-0.6	0.4	14.6	-0.2	-5.4

Bunds: Barclays Germany Govt All Bonds TR; BTPs: Barclays Italy Govt All Bonds TR; Treasuries: Barclays US Treasury TR;
Gilts: Barcl. UK Govt All Bonds TR; EUR Inflation Linkers: Barcl. Euro Govt Inflation-Linked Bond All Maturities TR; EUR Financials: IBOXX Euro Fin. Overall TR;
EUR Non-Financials: IBOXX Euro Non-Fin. Overall TR; EUR High Yield: Markit iBoxx EUR Liquid HY TR; USD Corporates: iBoxx USD Corporates TR;
USD High Yield: IBOXX USD Liquid HY TR; EM Hard Currency: Barcl. EM Hard Currency Agg Govt Related TR; EM Local Currency: Barcl. EM Local Currency Govt TR.

- Following the latest signals from central banks that interest rate hikes are approaching, investors have sold off their government bonds which led to stronger price losses.
- USD high-yield bonds, buoyed by the stronger US dollar, have also been the best performers recently, maintaining their position as the strongest bond segment since the beginning of the year.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/10/2016 - 01/10/2021

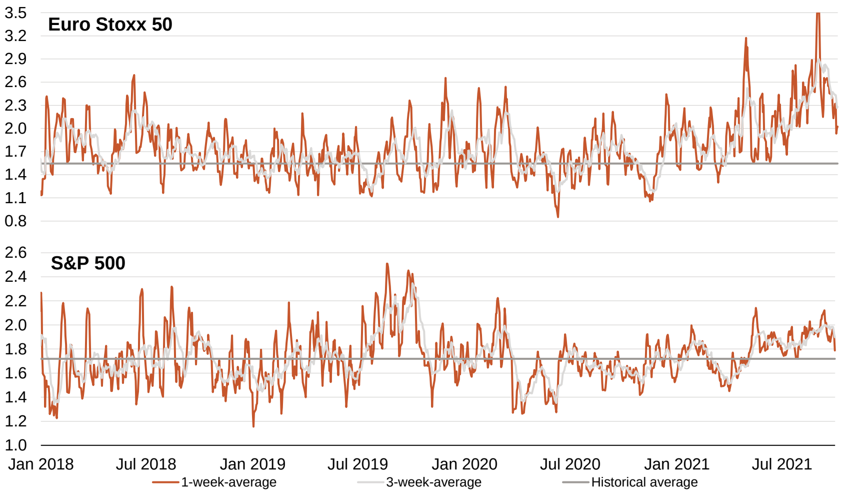
Non-Commercial Positioning



- Hedge funds continue to position themselves with a view to rising interest rates. Bond futures across almost all maturities have shown position reductions.
- In equity markets, the picture is more ambiguous. While long positions in S&P 500 futures have been expanded again, positions in the Nikkei have been significantly reduced.

The Commodity Futures Trading Commission (CFTC) publishes the Commitments of Traders Reports every Friday. A distinction is made between "non-commercial" and "commercial traders" positions. Non-commercial traders enter into purely speculative positions. Commercial traders hedge underlying transactions with futures or options. The chart shows the historical, normalized distribution in standard deviations and focuses on the net future position (long positions minus short positions) of non-commercial traders, thus indicating how speculative investors have positioned themselves.
*Duration weighted average bond position.
Source: Bloomberg, CFTC, Time period: 23/12/2011 - 18/12/2021

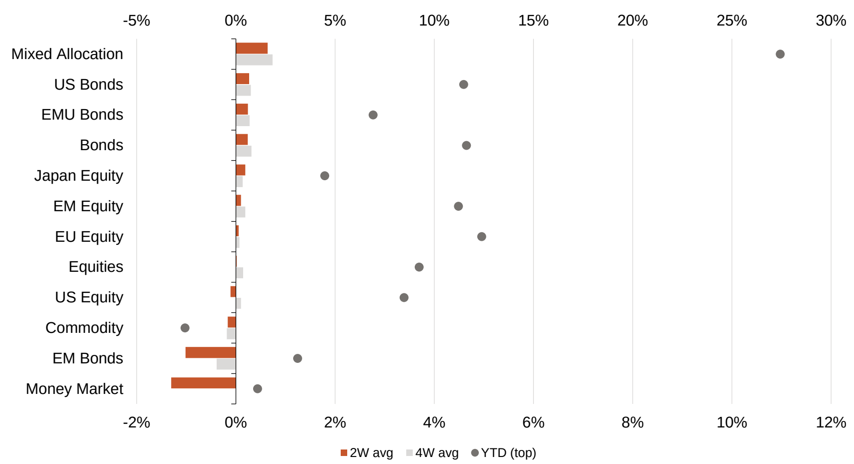
Put-Call Ratio



- The put-call ratio remains elevated, but is approaching the historical average, especially in Europe. Here, the put-call ratio recently decreased significantly. On average last week, only 1.9 times as many puts were traded as calls, and the ratio is thus as low as it was last in July this year.

The put-call ratio is the ratio of traded put options (speculation on falling prices) to call options (speculation on rising prices) across all maturities. The higher (lower) the ratio, the more cautious (optimistic) are the market participants. The data have been available for the S&P 500 since 20 December 1993 and for the Euro Stoxx 50 since 24 February 2006.
Source: Bloomberg, Time period: 20/12/1993 - 01/10/2021

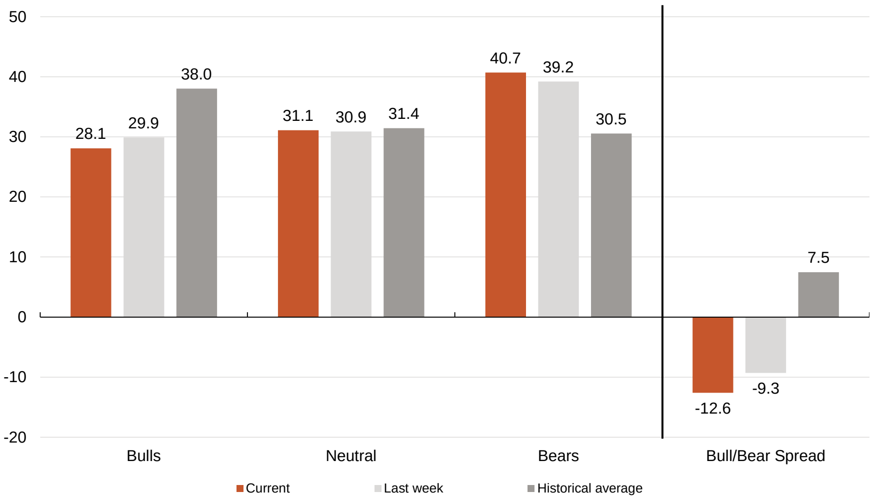
ETF Flows



- Multi-asset ETFs have remained the most popular among investors in recent weeks as well as since the beginning of the year.
- In the last two weeks, demand for money market and emerging market bond ETFs has fallen significantly. They suffered the strongest outflows of the last two weeks.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 - 01/10/2021

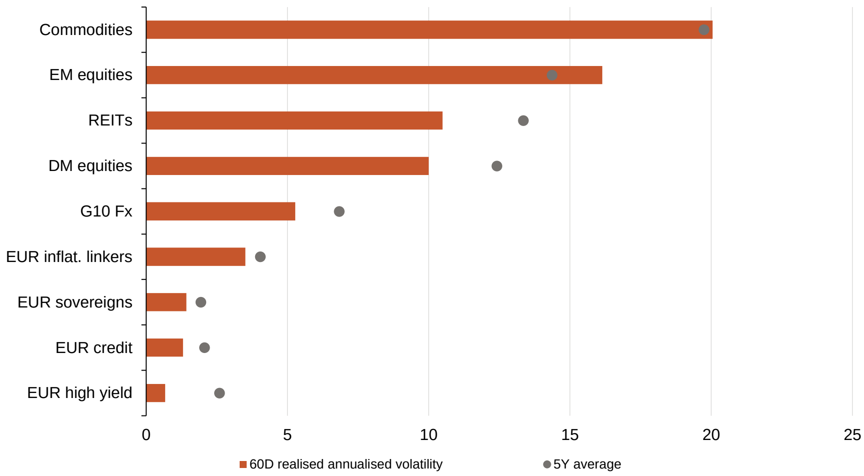
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment of US private investors remains distinctly pessimistic.
- The bull/bear spread is currently at -13 pp and thus in the negative territory for the third week in a row. There are no signs yet of a change in sentiment.

The sentiment survey conducted by the American Association of Individual Investors determines the percentage of private investors who are optimistic, pessimistic or neutral regarding the US equity market outlook for the upcoming six months. It has been carried out since 1987. The survey is conducted from Thursday to Wednesday and the results are published every Thursday. For the stock market, it tends to be supportive when there is a high proportion of bears and a low proportion of bulls. However, it is a negative indicator when there are significantly more optimists than pessimists.
Source: Bloomberg, AAII, Time period: 23/07/87 - 30/09/21

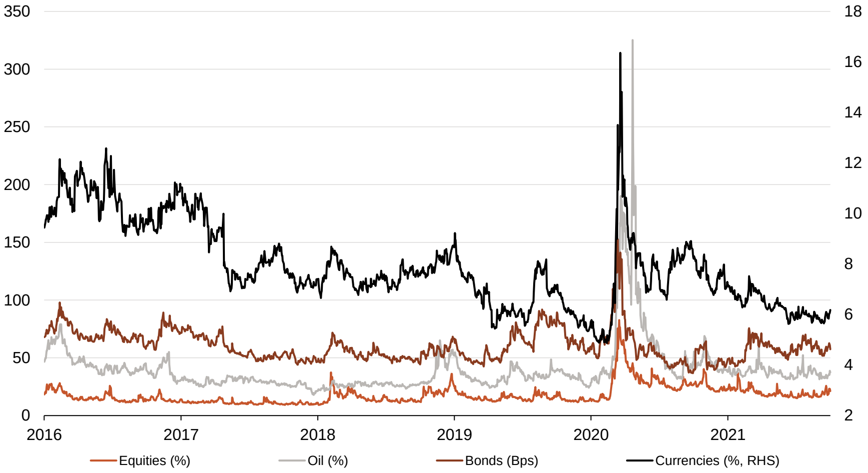
Realised Volatilities



- Realised volatilities show few changes compared to a fortnight ago. Volatility is currently still below the 5-year average for almost all asset classes and the order is also unchanged.
- The volatility of developed market equities has increased somewhat and temporarily traded above the 10% mark. Commodities also exceeded the average of the last five years.

Realised volatility (in percent) measures the historical range of variation of a time series and is defined here as the standard deviation of the daily returns over the last 60 trading days. Volatility is often used as a measure of risk.
Source: Bloomberg, Time period: 01/10/2016 - 01/10/2021

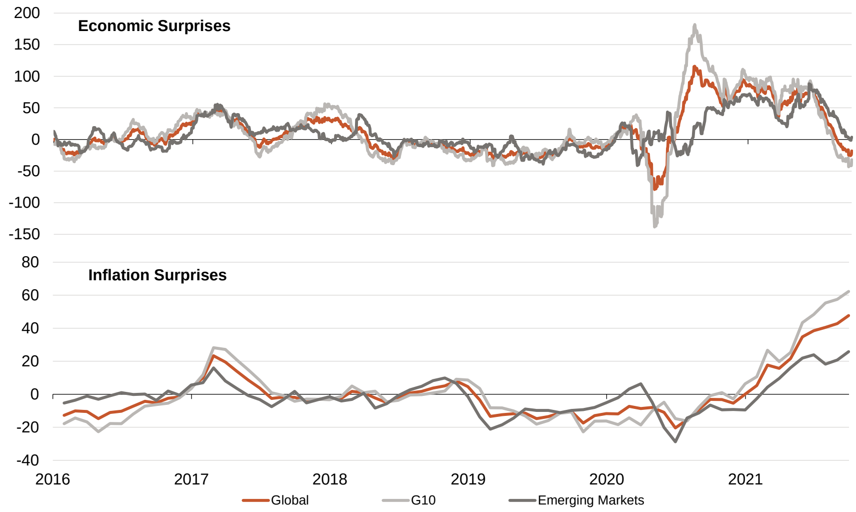
Implied Volatilities



- The VIX recently rose above the 20% mark again and reached its highest level since mid-May in the following days.
- The implied volatilities of government bonds, oil and currencies also rose slightly compared to a fortnight ago.

The price of options depends on the volatility of the underlying instrument. Implied volatility can therefore be interpreted as a measure of the currently expected fluctuation range of the underlying compared to the market over the remaining term of the option. It is a measure of prevailing uncertainty in the financial markets.
Stocks = VIX Index, Oil = OVX Index, Government Bonds = MOVE Index, Currencies = CVIX Index
Source: Bloomberg, Time period: 01/10/2016 - 01/10/2021

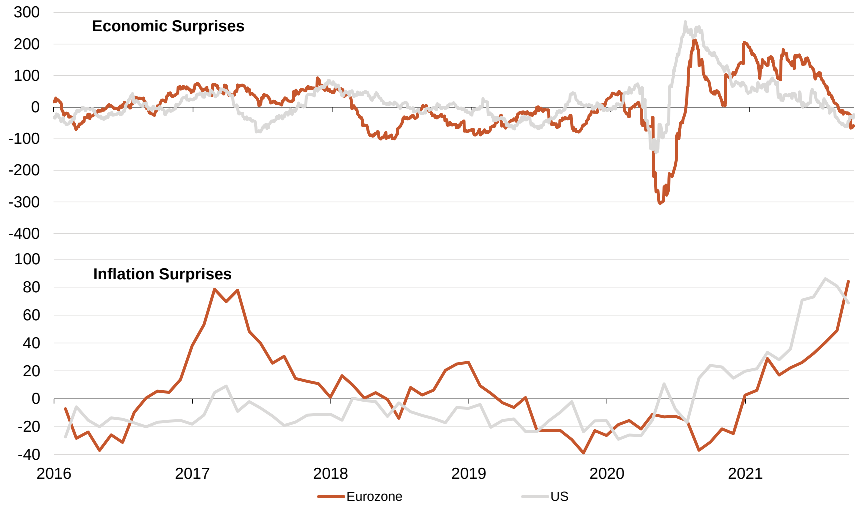
Global



- The G10 and global economic surprise indices recently remained in the negative territory. In emerging markets, the surprise index slipped into negative territory for the first time since 2020. Thus, negative surprises also outweighed in emerging markets. In China, for example, the official industrial PMI for the manufacturing sector disappointed, while the service PMI surprised positively.
- Inflation data in the industrialised countries continued the series of positive surprises.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 01/10/2021

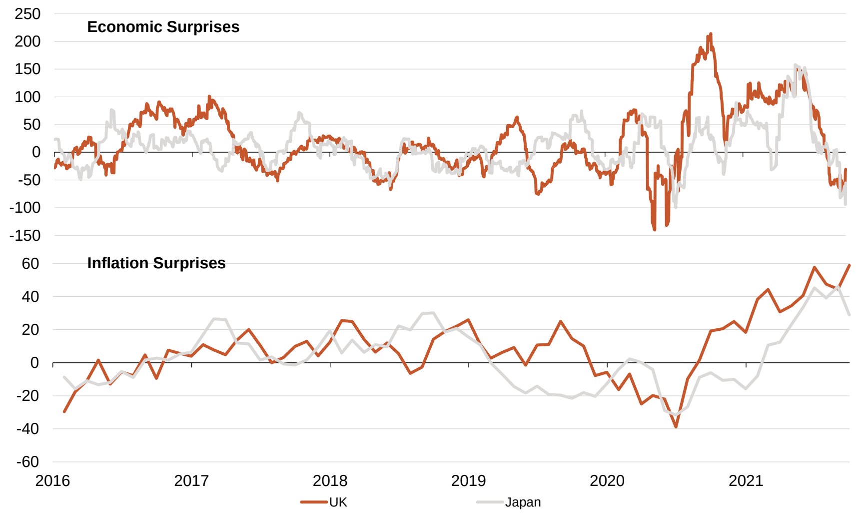
Eurozone and US



- In the Eurozone, negative surprises predominated in recent weeks. For example, the industrial PMI (Eurozone) and the Ifo economic index for Germany disappointed, while German consumer confidence surprised positively.
- In the US, labour market data disappointed, while new orders and the ISM-Index surprised to the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 01/10/2021

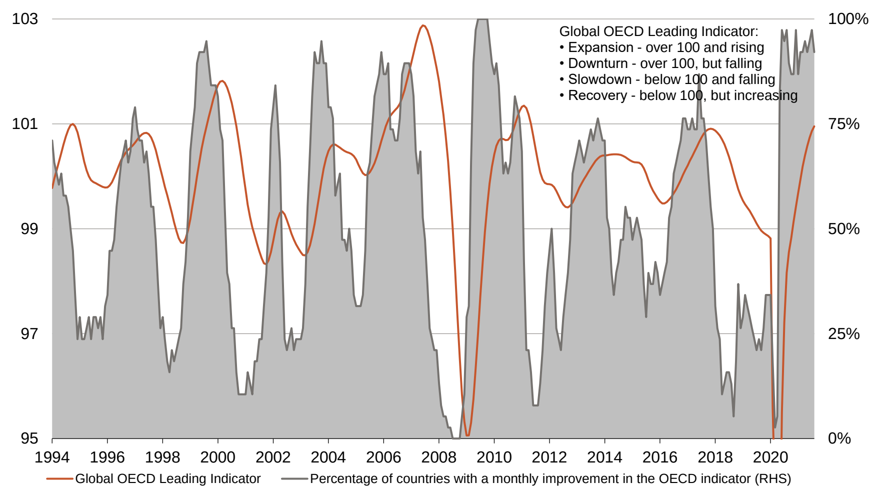
UK and Japan



- In the UK, the manufacturing PMI and consumer confidence disappointed, while monthly GDP and business investment exceeded expectations.
- In Japan, industrial production and retail sales were well below expectations.

Citigroup Economic Surprise Indices are defined as weighted historical, normalized data surprises (actual releases vs. Bloomberg survey median) over the last three months. A positive value of the index indicates that the economic data have exceeded the consensus on balance. The indices are calculated daily based on a rolling three-month period. The indices use a time decay function to replicate the markets limited memory, i.e. the weight of a data surprise decreases over time.
Source: Bloomberg, Time period: 01/01/2016 - 01/10/2021

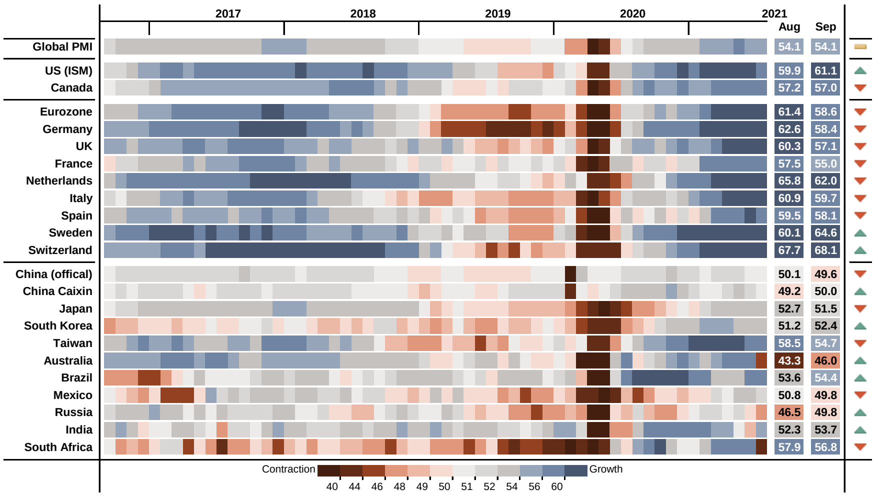
OECD Leading Indicator



- The economic expansion continues after the OECD Leading Indicator already exceeded the 2011 peak in July.
- Of the countries surveyed, 92% saw an improvement in the indicator compared to the previous month. The expansion is thus broadly supported.

The OECD Leading Indicator is composed of a series of selected economic indicators whose composition provides a robust signal for future turning points. A turning point in the indicator usually signals a turning point in the economic cycle in 6-9 months. However, lead times are sometimes outside this range and turning points are not always correctly detected.
Source: Bloomberg, Time period: 31/01/1994 - 31/08/2021

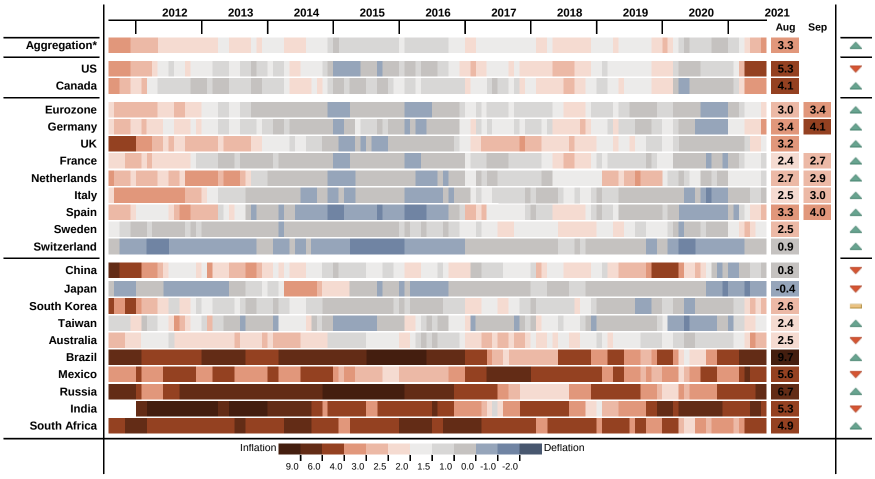
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global PMI stays at 54.1 in September and hence remains above the 50-growth mark.
- In the eurozone the PMI fell below 60, while it rose above 60 in the US.
- In China, the official PMI slipped into contraction in September for the first time since February 2020.

The PMI is an overall index that provides a general overview of the economic situation in industry. The PMI is derived from a total of eleven sub-indices, which reflect the change from the previous month. A value of 50 is regarded as neutral, a value of over 50 points as an indicator of rising activity in industry and a value of less than 50 points for falling activity in industry compared with the previous month. The index has an average lead time before actual industrial production of three to six months. The PMI is based on a survey of a relevant selection of purchasing managers regarding the development of parameters such as incoming orders.
Source: Bloomberg, Time period: 30/09/2016 - 30/09/2021

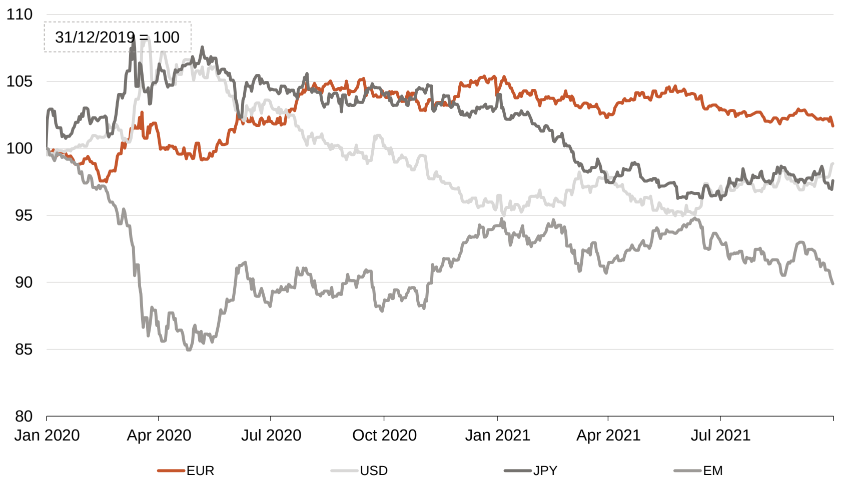
Headline Inflation



- In September, consumer prices rose markedly in the Eurozone.
- Germany's inflation rate of 4.1% was the highest since 1993. The inflation rate was lower than what consensus had feared, but the rising cost of materials is likely to continue to push up consumer prices in the coming months.

Inflation is measured (in percent, year-on-year comparison) using a consumer price index, also known as a shopping basket of goods. This shopping basket contains all goods and services that a household purchases on average per year. * = weighting by gross domestic product.
Source: Bloomberg, Time period: 30/09/2011 - 30/09/2021

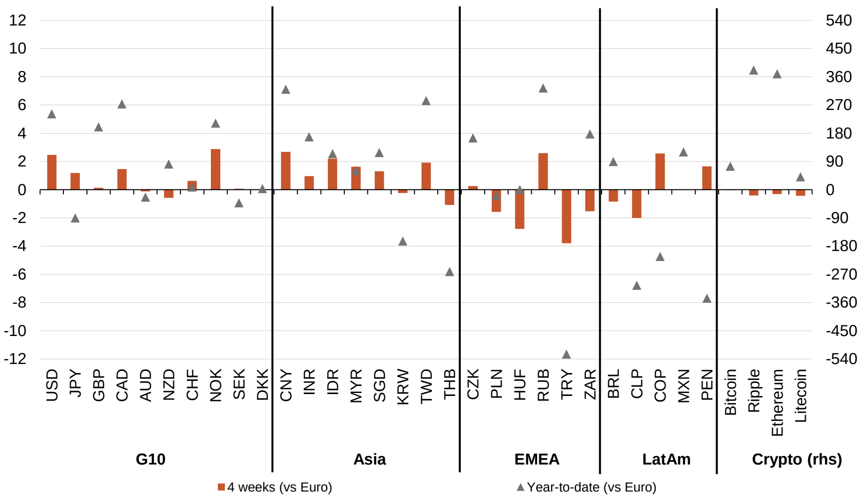
Trade-Weighted Currency Development



- In currency markets, the euro moved sideways, while demand for the dollar rose sharply.
- The Japanese yen and emerging market currencies, on the other hand, depreciated. The yen is particularly burdened by the Fed's more restrictive tones due to the Bank of Japan's zero interest rate policy. EM-currencies suffer from the falling yield differential.

A trade-weighted index is used to measure the effective value of an exchange rate against a basket of currencies. The importance of other currencies depends on the share of trade with the country or currency zone.
Source: Bloomberg, Time period: 01/01/2020 - 01/10/2021

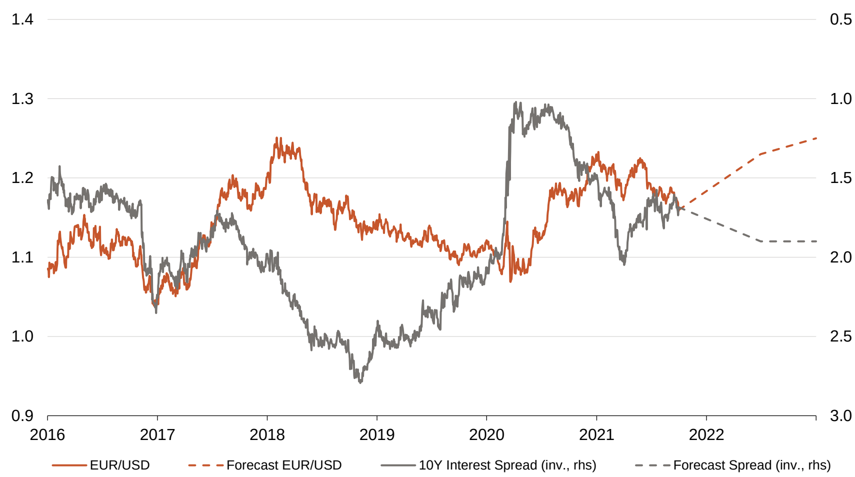
Currency Moves vs Euro



- The currency development against the euro shows a mixed picture over the last month.
- While the USD rally continued, some emerging market currencies depreciated significantly. The Turkish lira suffered most, burdened by the interest rate cuts announced by the Turkish central bank and viewed with scepticism by the market.
- Among the Asian currencies, the Thai baht recently performed worst.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2020 - 01/10/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD exchange rate continues its downward trend. Meanwhile, the euro is even trading below the 1.16 mark again - a level last reached in November 2020.
- Falling exchange rate was primarily driven by the Fed's hawkish September meeting.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US Treasuries and 10-year Bunds.
Source: Bloomberg, Time period: 01/01/2016 - 31/12/2022

European Sector & Style Performance

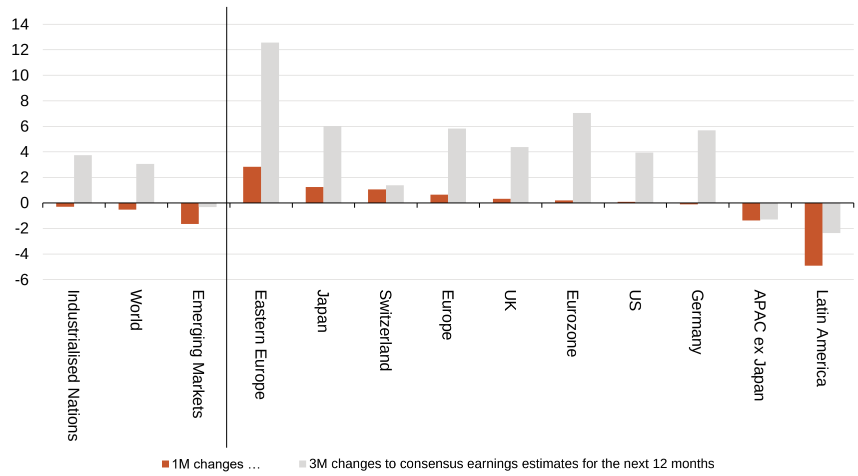
	4-week & YTD: 4W (03/09/21 - 01/10/21)	YTD (31/12/20 - 01/10/21)	12-month periods over that last 5 years: 01/10/20 01/10/21	01/10/19 01/10/20	01/10/18 01/10/19	01/10/17 01/10/18	30/09/16 01/10/17
Energy	12.9	32.5	73.2	-49.0	-9.2	26.0	16.5
Finance	-0.4	20.8	48.7	-24.7	-3.5	-7.9	34.5
Value	-2.3	14.4	32.5	-19.5	-0.2	-1.0	20.7
Consumer Discretionary	-2.7	14.8	35.4	-0.8	2.8	1.6	17.8
Consumer Staples	-2.8	8.4	9.5	-4.2	15.9	0.1	2.1
Telecommunications	-4.3	12.0	24.5	-22.8	10.1	-13.6	2.4
Growth	-4.9	16.8	23.5	7.3	8.4	4.3	11.9
Industrials	-5.0	18.3	32.9	2.4	3.9	2.0	20.9
Health Care	-5.2	14.2	12.4	8.7	12.4	3.0	6.8
Materials	-7.8	13.3	27.9	6.8	-2.9	7.6	23.3
Utilities	-8.1	-3.0	6.2	6.3	27.2	-2.1	8.0
Information Technology	-8.4	26.3	34.2	18.8	3.7	13.2	17.5

Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Stables: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR;
Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. NR;
Materials: MSCI Europe Materials NR; Telecommunications: MSCI Europe Telecommunication Services NR; Utilities: MSCI Europe Utilities NR;
Value: MSCI Europe Value NR; Growth: MSCI Europe Growth NR.

- The European stock market showed losses in aggregate compared to four weeks ago.
- At style level, value outperformed growth. Growth stocks, whose earnings are often projected far into the future, are burdened by rising bond yields.
- Energy companies, on the other hand, continue to benefit from rising gas and oil prices.

Total return of European equity sectors and European style indices, in euros and in percent, sorted by 4-week performance. The difference between Value and Growth lies in the valuation. A growth stock is highly valued because the company is expected to grow strongly. Value stocks generally have less growth potential and are valued lower.
Source: Factset, Time period: 01/10/2016 – 01/10/2021

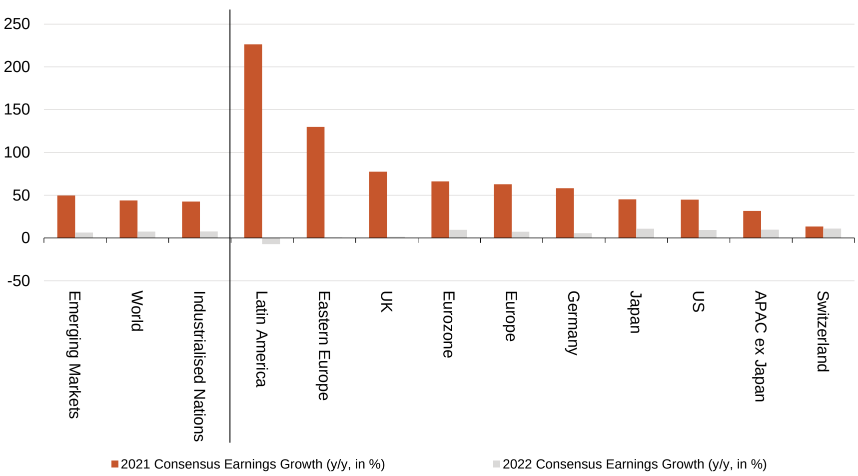
Changes in Consensus Earnings Estimates



- The momentum of earnings revisions has recently decreased further for most regions and is also slightly negative at the global level, both for industrialised nations and emerging markets. Especially for Latin America, the earnings revisions were strongly negative, while they were only slightly positive for the Eurozone, Switzerland and Japan.
- For Eastern Europe, on the other hand, analysts have raised their earnings estimates significantly over the past month.

1-month and 3-month changes in consensus earnings estimates for the next 12 months, in percent.
APAC ex Japan = Asia Pacific ex Japan
Source: FactSet, as of 01/10/2021

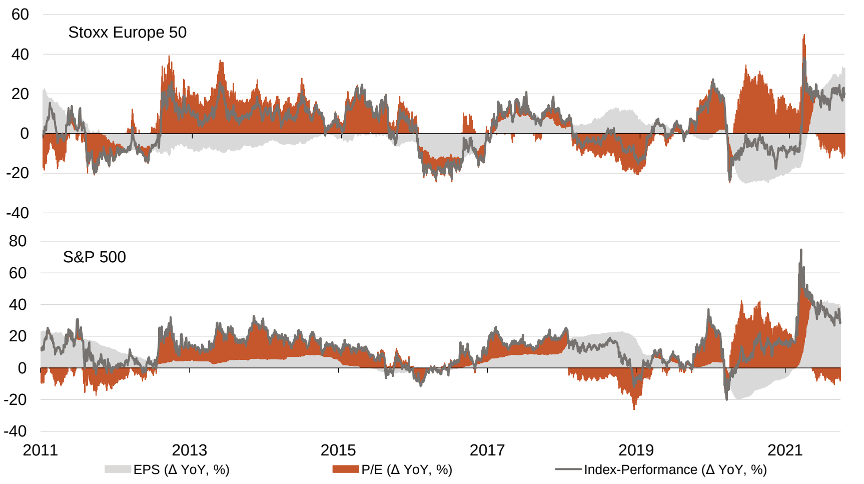
Earnings Growth



- Analysts remain optimistic for Latin America and expect 2021 earnings growth of around 230%. The high growth rate is due to the positive base effects after the Covid-19 crisis. Eastern Europe and Latin America also benefit from many companies active in the booming commodities sector. For next year, however, analysts expect negative earnings growth.

Calendar year earnings growth consensus expectations for selected equity regions, compared to the previous year and in percent. The earnings estimates of the individual companies are aggregated using the index weights (bottom-up).
APAC ex Japan = Asia Pacific ex Japan
Source: FactSet, as of 01/10/2021

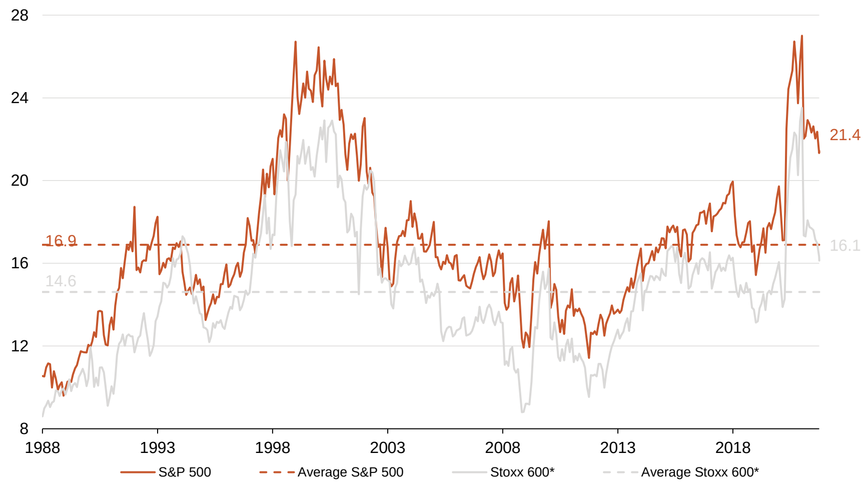
Contribution Analysis



- Despite the recent turbulence, equity markets have risen significantly compared to the previous year.
- Prices have been driven by strong growth in corporate earnings in the US and Europe, while valuations have fallen sharply compared to the previous year.

Analysis of the stock market drivers over the last 12 months. This takes into account the change in earnings estimates and the change in valuation (price/earnings ratio). EPS = earnings per share
Source: Bloomberg, Time period: 01/01/2011 - 01/10/2021

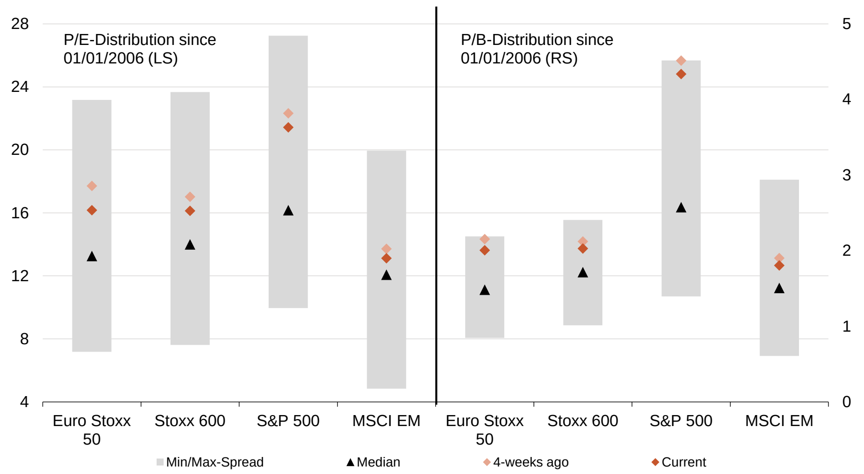
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Analysts' earnings estimates have recently risen faster than the stock market, especially in Europe.
- Accordingly, the estimated P/E ratio in Europe for the next 12 months has fallen to 16.1 and is now closer to the historical average of 14.6 again. For the S&P 500, the P/E ratio stands at 21.4.

P/E valuation based on earnings estimates for the next twelve months for European and US equities and the respective P/E average since 1988 * For the Stoxx 600, the history prior to 2000 is of MSCI Europe.
Source: Bloomberg, IBES Time period: 31/12/1987 - 01/10/2021

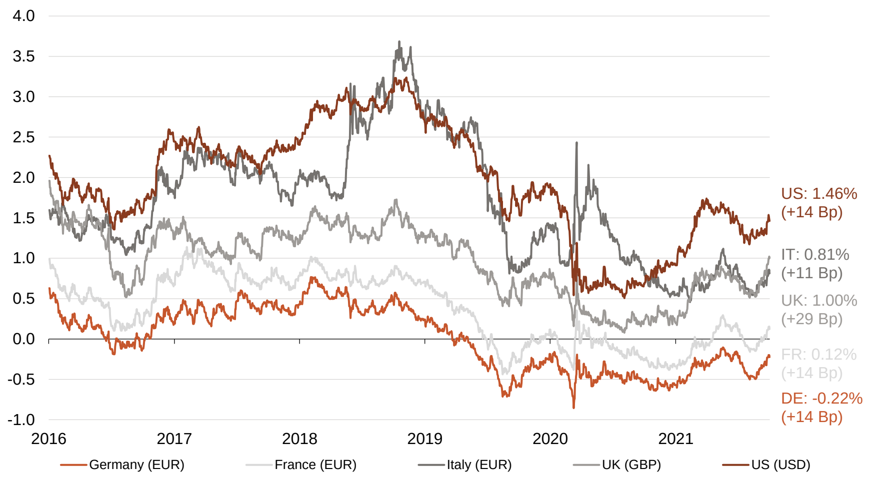
Historical Distribution: Price/Earnings and Price/Book Ratio



- Compared to the previous month, there were gains in all regions, both on an earnings and book value basis. This was mainly due to the more hawkish statements by the central banks and the prospect of interest rate hikes in the near future, which weighed on growth stocks in particular, which account for a large weighting in the respective indices.

Historical distribution of valuation indicators for selected stock regions since 2006, showing the current value, the observation four weeks ago and the historical median, the maximum (upper limit of the grey bar) and the minimum (lower limit of the grey bar).
Source: Bloomberg, Time period: 01/01/2006 - 01/10/2021

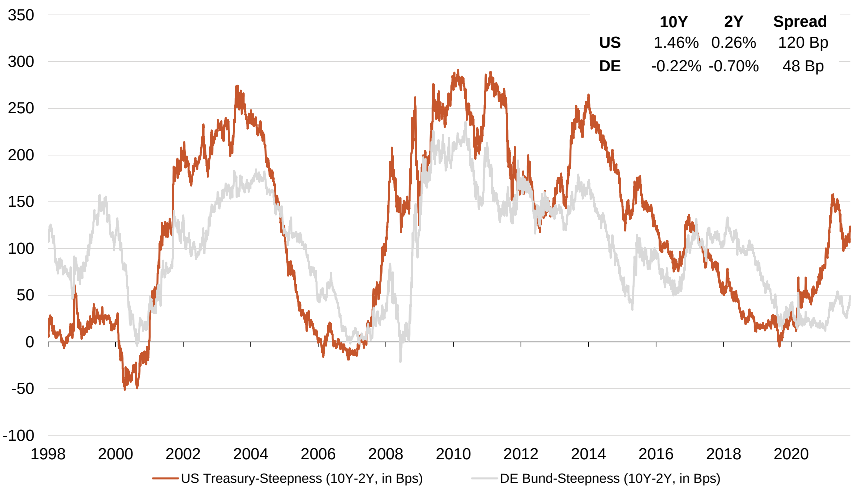
10-Year Government Bond Yields



- Significantly more hawkish tones from the US central bank at the September meeting, with the prospect of taperig from November, led to noticeably rising interest rates globally. In addition, inflation is likely to remain elevated for longer due to further increases in energy prices and supply chain problems.
- As a result, yields on US government bonds rose by more than 10 basis points (bps).

Effective yield of 10-year government bonds and change in the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2016 - 01/10/2021

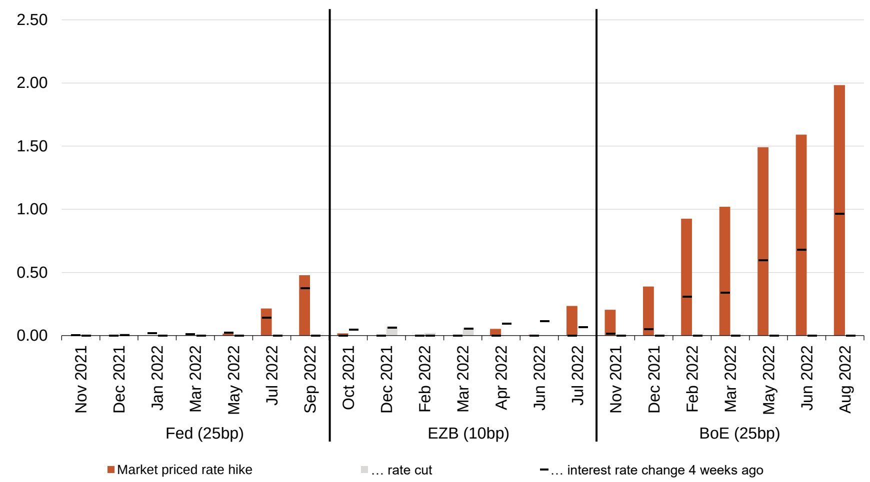
Yield Curve Steepness (10Y - 2Y)



- The recent increase in inflation indicators also weighed on the steepness of the German and US yield curves. Both curves rose noticeably. Investors are now demanding higher compensation for the maturity risk. Concerns about inflation are thus back.

The yield curve distinguishes between the so-called short and the long end. The reason for this lies in the way in which factors influence returns. Central banks control the short end of the curve through their monetary policy and key rates. By contrast, the long end is influenced less by central banks than by inflation expectations, supply, demand and risk premia.
Source: Bloomberg, Time period: 01/01/1998 - 01/10/2021

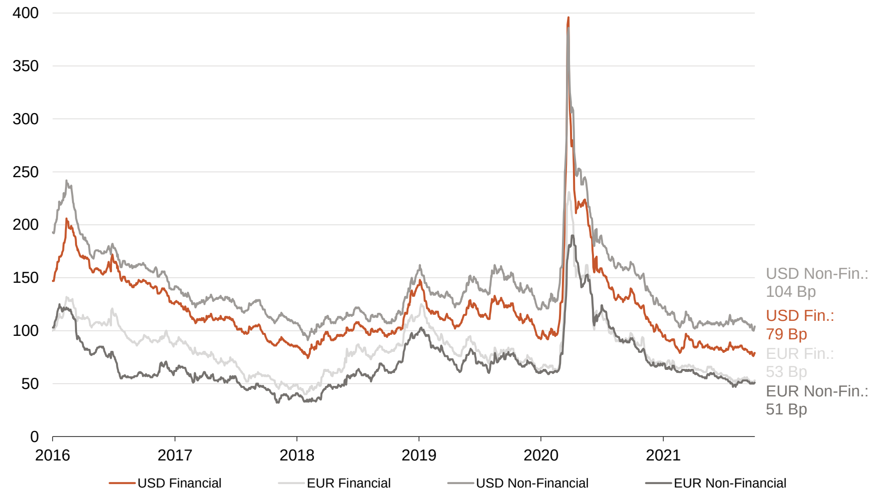
Implicit Changes in Key Interest Rates



- Central banks are also increasingly concerned about higher inflation, which most central bank members continue to view as temporary.
- However, the market is pricing in a Fed rate hike in September 2022 with a probability of almost 50%.
- For the UK, the market already sees two rate hikes in 2022. The first rate hike in February and the second in August.

Derivatives on money market rates - such as the Fed funds futures - can be used to determine changes (number of steps) in the key interest rate priced by the market
Source: Bloomberg, Time period: 03/09/2021 - 01/10/2021

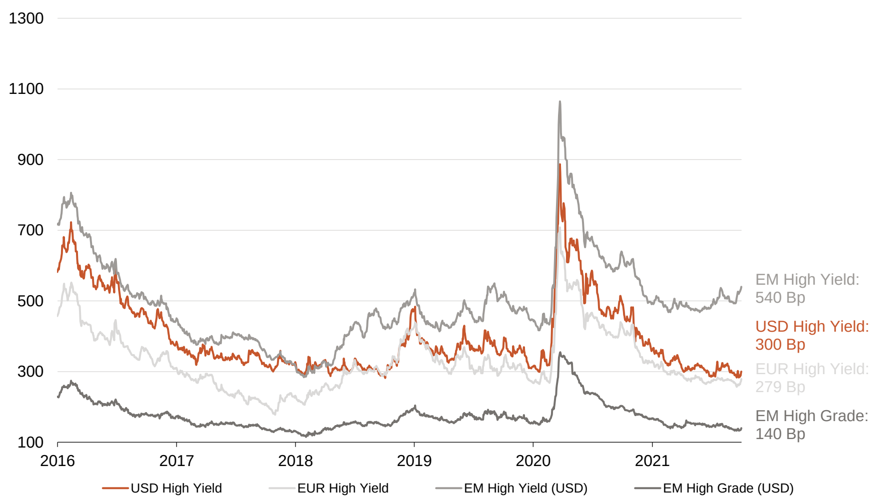
Credit Spreads Financial and Non-Financial Bonds



- The recent sell-off in equity markets was hardly felt in higher quality investment grade corporate bonds. Risk premiums rose only marginally in a two-week comparison. The demand for IG paper thus appears to be unabated despite rising interest rates and the associated duration risks.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 - 01/10/2021

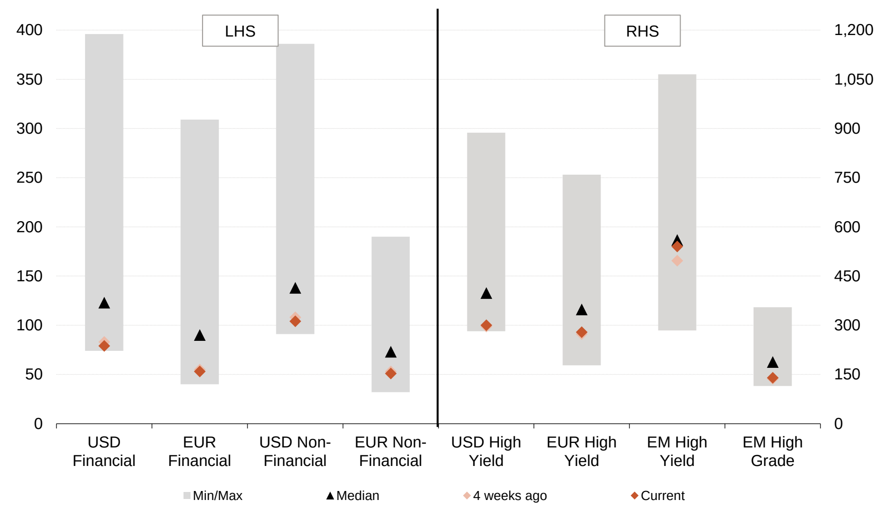
Credit Spreads High Yield and Emerging Markets Bonds



- In the riskier high-yield bonds, the risk-off environment seen in equity markets led to a widening of risk premiums due to rising interest rates. EM high-yield bonds saw a widening of more than 25 bp in the last two weeks, while USD high-yield bonds saw a widening of around 15 bp.

The extent of the risk associated with a corporate bond is shown by its asset swap spread (in basis points). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term to offset its credit risk. See further explanations below.
Source: FactSet, Time period: 01/01/2016 - 01/10/2021

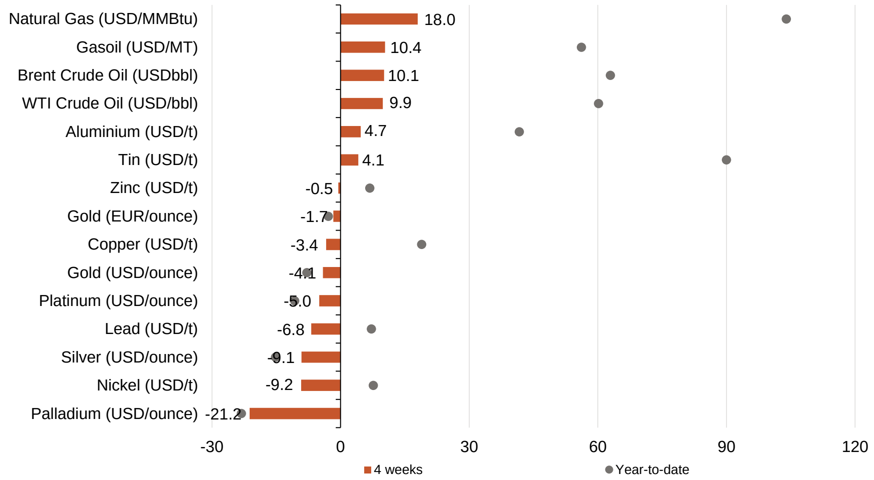
Historical Distribution of Credit Spreads (in bp)



- After the recent widening of spreads on EM high-yield bonds, the current risk premium is only slightly below the historical median. EM high-yield bonds thus offer a historically fair return. However, the risks due to the real estate problem in China should not be neglected.

USD Financial = ICE BofAML US Financial; EUR Financial = ICE BofAML Euro Financial; USD Non-Financial = ICE BofAML US Non-Financial; EUR Non-Financial = ICE BofAML Euro Non-Financial; USD High Yield = ICE BofAML US High Yield; EM High Yield = ICE BofAML High Yield Emerging Markets Corporate Plus; EM High Grade = ICE BofAML High Grade Emerging Markets Corporate Plus. The EM indices shown here are hard currency bonds.
Source: FactSet, Time period: 01/10/2011 - 01/10/2021

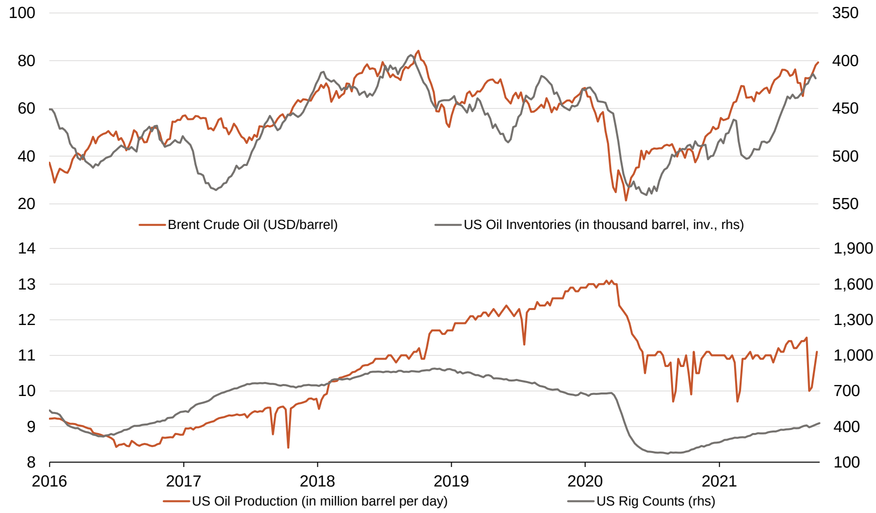
Commodities Performance



- A high divergence was recorded in commodity markets over the last four weeks.
- While natural gas was able to gain almost 20% thanks to high demand concerns, palladium had to give back more than 20% due to the still prevailing chip shortage in the automotive industry.
- Energy commodities tended to lead the way, whereas industrial and precious metals suffered losses across the board.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2021 - 01/10/2021

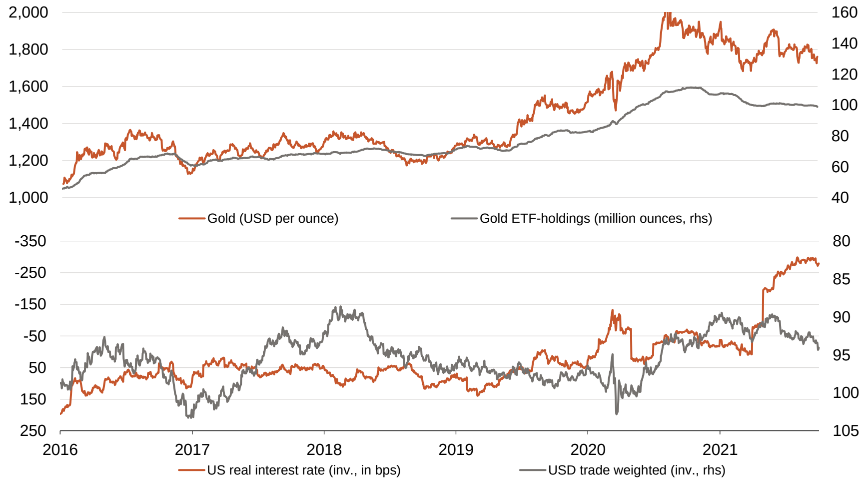
Crude Oil



- Last week, crude oil (Brent) reached the USD 80 per barrel mark for the first time since 2018.
- While the supply shortage of the energy commodity continues, the sharp rise in gas prices is also likely to have led to substitution effects, giving oil an additional tailwind.
- OPEC+ is meeting today. It remains to be seen whether it will turn on the oil tap more than planned in view of the higher prices.

Higher oil production and higher inventories tend to depress oil prices and vice versa. An increase in active oil rigs indicates a future increase in oil production.
Source: Bloomberg, Time period: 01/01/2016 - 01/10/2021

Gold



- Compared to a fortnight ago, gold is trading almost unchanged at around USD 1,750 per ounce.
- In view of the sharp rise in real interest rates and a stronger US dollar, the precious metal has held up surprisingly well.
- ETF investors have recently reduced their holdings slightly.

The US dollar and the real interest rate, i.e. adjusted for inflation, are among the fundamental price factors of the gold price. Rising real interest rates tend to depress the price of gold, while falling real interest rates have a supportive effect. The same applies to the US dollar. The development of gold ETF holdings reflects the demand for gold from financial investors.
Source: Bloomberg, Time period: 01/01/2016 - 01/10/2021

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IMPORTANT NOTICES

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