BERENBERG
Markets

MONITOR

18 October 2021

Current market commentary

It didn't take long for investors to once again succumb to "FOMO" – the fear of missing out. Last week Thursday, the S&P 500 had its best day since March, with 479 of 500 stocks up. Issues such as high energy costs and tapering concerns are not yet off the table, but investment pressure prevails. Beyond that there are also good reasons to remain (cautiously) optimistic. The Q3 reporting season continues the picture of the last few quarters: so far 83% of the companies in the S&P 500 have beaten earnings expectations - despite supply bottlenecks, rising input costs and skilled labour shortages. However, for equity markets to continue to rise, decent earnings growth is crucial because valuations are more likely to fall than rise in the coming months. Meanwhile, government bonds are likely to post losses this year for the first time since 2013. If inflation remains high and monetary policy becomes more restrictive, they are likely to have a difficult time in the coming year as well.

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

Q3 reporting season in full swing.

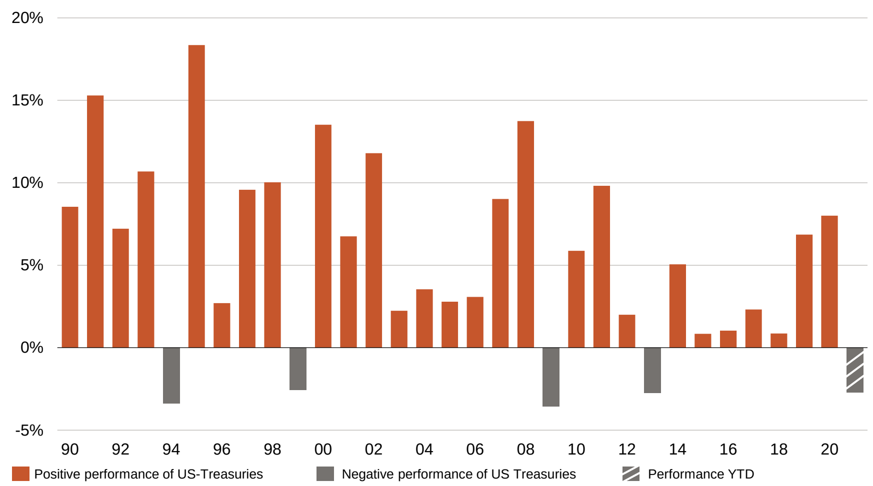
The Q3 reporting season is in full swing. In the next two weeks, more than 30% of the companies in the STOXX Europe 600 and more than 60% of the S&P 500 report, measured by market capitalisation. On the political stage, the EU summit (21/22 Oct), the G20 summit (30/31 Oct) and the Japanese elections (31 Oct) take place. The ECB also holds its monthly meeting on 28 Oct.

Global politics in focus.

Today, industrial production data (Sep.) for the US and China will be released. On Wednesday, consumer prices (Sep.) for the UK will follow. French business confidence (Oct.) and the US Philadelphia Fed Index (Oct.) will be published on Thursday. On Friday, the preliminary Purchasing Managers' Indices (Oct.) for the Eurozone, the UK and the US will be published. The following week will see US and Eurozone economic growth (Q3), US consumer confidence and the German IFO index.

Preliminary purchasing managers' indices should provide information on growth dynamics.

Beware of government bonds: losses ahead in 2021 and 2022



- Government bond yields have been falling for years, which ensured positive performance for a long time. However, 2021 is likely to be the first year since 2013 in which US government bonds fall due to rising yields.
- However, losses from government bonds are likely to continue for the time being. With inflation still elevated and central banks less expansionary, we also expect yields to rise in 2022 and 10-year US government bonds to perform negatively by up to 4%.

Index: Bloomberg US Treasury Index
Source: Bloomberg, Time period: 01/01/1990 - 15/10/2021

Multi Asset

	4-week & YTD: 4W (17/09/21 - 15/10/21)	4-week & YTD: YTD (31/12/20 - 15/10/21)	12-month periods over that last 5 years: 15/10/20 15/10/21	15/10/19 15/10/20	15/10/18 15/10/19	15/10/17 15/10/18	14/10/16 15/10/17
Brent	15.4	84.1	106.7	-36.2	-17.9	54.0	-7.0
Industrial Metals	13.0	46.4	55.2	-2.4	4.6	-5.6	24.7
MSCI Frontier Markets	3.2	28.3	31.9	-5.1	15.2	-10.9	19.4
Gold	1.8	-2.0	-6.5	21.5	26.7	-3.9	-3.3
MSCI World	1.7	23.3	30.6	6.2	14.6	5.4	13.5
MSCI Emerging Markets	1.7	6.7	17.9	5.9	13.1	-9.8	19.3
USDEUR	1.1	5.3	0.9	-5.8	5.0	2.1	-7.2
Global Convertibles	0.8	11.2	22.0	20.1	12.3	3.0	8.9
REITs	0.0	27.3	26.6	-17.1	30.3	-4.6	-3.8
Eonia	0.0	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4
Global Coporates	-0.1	2.6	1.5	1.9	14.5	-0.2	-2.5
Global Treasuries	-0.8	-0.9	-2.5	0.4	13.4	0.2	-7.4

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.

- The last few weeks were once again dominated by crude oil. Brent oil remains the strongest asset class due to the supply deficit both over the last month and year-to-date.
- Government bonds performed worst as tapering by the Fed is expected to start soon.
- Gold recently made gains thanks to falling real interest rates, partly recovering its losses year to date.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 14/10/2016 – 15/10/2021

Equities

	4-week & YTD: 4W (17/09/21 - 15/10/21)	4-week & YTD: YTD (31/12/20 - 15/10/21)	12-month periods over that last 5 years: 15/10/20 15/10/21	15/10/19 15/10/20	15/10/18 15/10/19	15/10/17 15/10/18	14/10/16 15/10/17
MSCI EM Eastern Europe	9.5	43.6	73.1	-25.8	21.9	2.5	21.8
MSCI UK	5.7	23.4	39.4	-22.2	9.0	-2.1	13.3
MSCI USA Small Caps	3.1	25.4	42.5	2.0	7.9	7.8	15.2
Stoxx Europe 50	3.1	19.5	29.3	-8.7	14.9	-5.9	16.8
Stoxx Europe Defensives	3.0	16.8	22.8	-6.8	14.1	-0.1	10.1
S&P 500	2.1	26.9	31.4	11.7	16.8	12.1	13.6
Stoxx Europe Cyclicals	1.7	23.4	41.1	-6.4	8.6	-8.5	27.8
Euro Stoxx 50	1.4	19.8	33.5	-9.4	15.2	-8.6	22.2
MSCI EM Asia	0.8	3.1	12.8	16.4	14.1	-10.6	21.8
DAX	0.6	13.6	22.7	0.6	8.7	-10.6	22.8
Stoxx Europe Small 200	-0.2	21.3	36.4	0.4	11.9	-5.5	23.0
Topix	-5.5	9.5	17.8	0.4	7.1	2.3	11.9

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 recovered slightly following earlier losses and are trading near their all-time highs.
- After the initial lift due to the Suga resignation, Japan suffered a sell-off following the announcement of a possible capital gains tax hike by the new Prime Minister Kishida.
- Eastern Europe and the UK continue to benefit 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: 14/10/2016 – 15/10/2021

Fixed Income

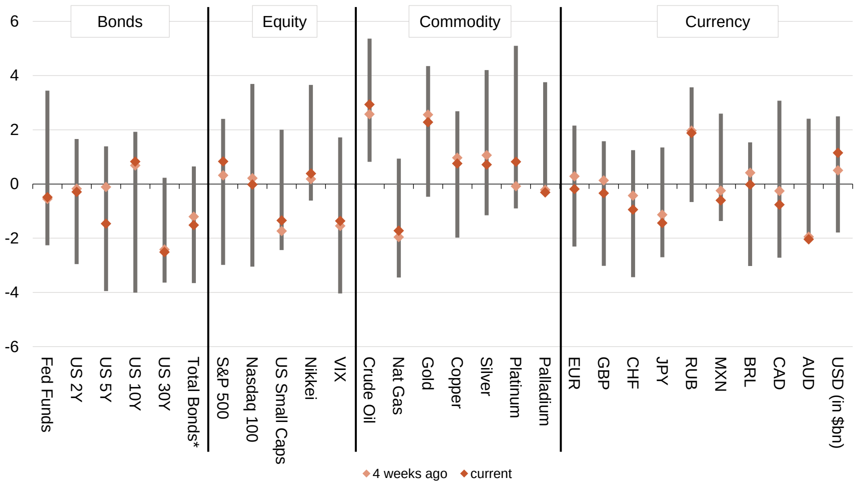
	4-week & YTD: 4W (17/09/21 - 15/10/21)	4-week & YTD: YTD (31/12/20 - 15/10/21)	12-month periods over that last 5 years: 15/10/20 15/10/21	15/10/19 15/10/20	15/10/18 15/10/19	15/10/17 15/10/18	14/10/16 15/10/17
EUR Inflation Linkers	0.8	5.8	7.9	0.2	8.0	-0.9	0.3
USD High Yield	0.5	9.1	9.1	-3.2	13.4	4.1	-0.2
USD Corporates	0.3	4.6	2.4	2.3	19.0	-0.5	-4.0
EM Local Currency Bonds	0.2	3.5	4.9	-3.5	14.8	-2.3	-2.1
Treasuries	0.0	2.6	-2.4	2.1	16.0	-0.3	-7.4
Bunds	-0.5	-2.9	-3.3	1.6	6.7	0.3	-2.2
EUR Non-Financials	-0.6	-0.9	0.2	1.9	5.9	-0.5	0.6
EUR Financials	-0.6	-0.3	0.9	1.1	5.6	-0.7	2.6
BTPs	-0.7	-1.5	-0.1	4.0	20.0	-6.7	-1.5
EUR High Yield	-1.0	2.8	6.9	-0.4	4.1	-0.3	6.3
Gilts	-1.5	-1.8	-0.8	2.2	14.5	0.6	0.5
EM Hard Currency Bonds	-2.3	-3.0	0.4	1.0	8.1	-6.2	3.2

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.

- Investors have been selling bonds across the board in the wake of central bank signals that rate hikes are imminent. The September Fed minutes support the notion that the tapering announcement for November will be maintained.
- USD high-yield bonds have recently been among the best performers and remain the strongest segment since the beginning of the year thanks to spread tightening, which has compensated for rising interest rates.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 14/10/2016 – 15/10/2021

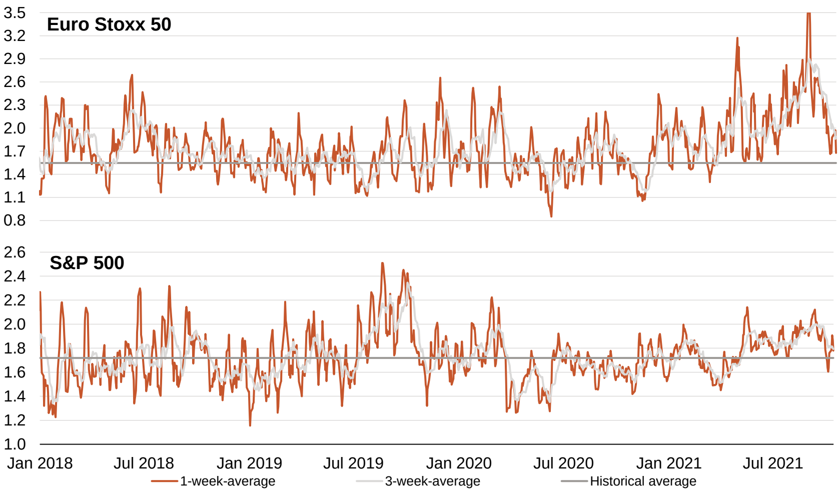
Non-Commercial Positioning



- Hedge funds remain net-short in bonds across almost all maturity segments. Only in the case of 10Y Treasuries they are net-long.
- In equities, speculative investors remain moderately positioned. Long positions in the Nasdaq have been reduced, while positions in the S&P have been increased.

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: 12/10/2011 - 12/10/2021

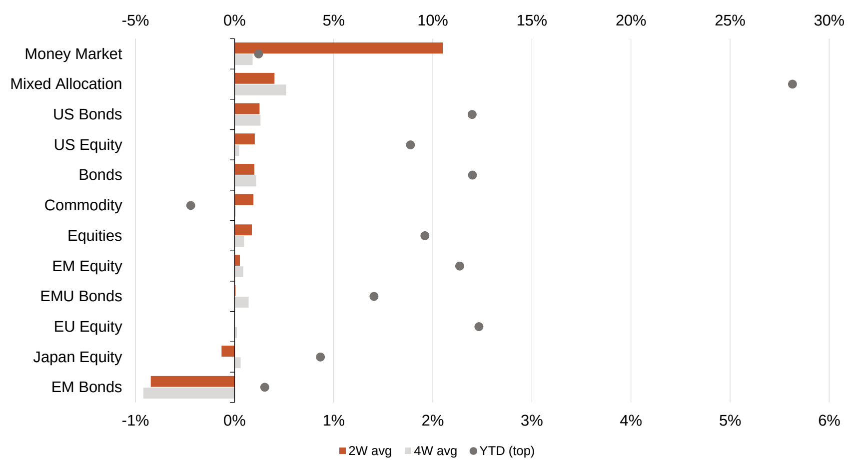
Put-Call Ratio



- The put-call ratio has come down significantly in recent weeks, especially in Europe. Investors seem to be more optimistic again after the setback and are therefore demanding fewer hedges.

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 - 15/10/2021

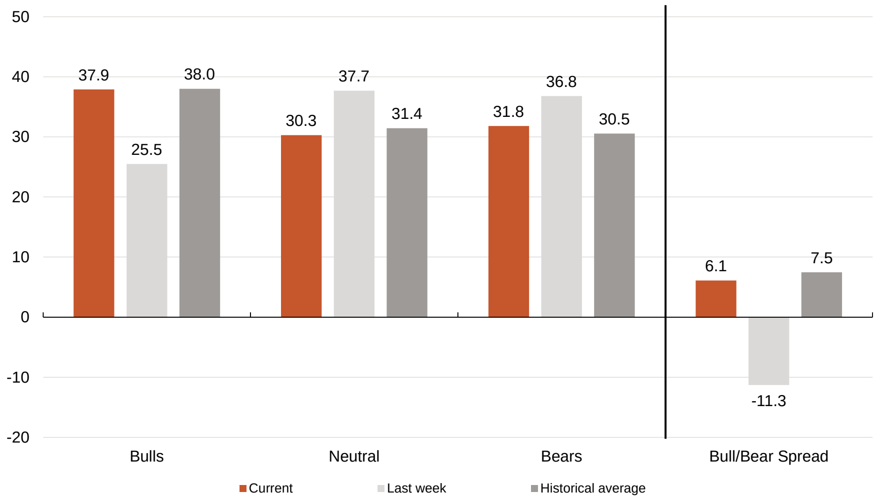
ETF Flows



- All asset classes - equities, bonds, commodities and cash - have seen inflows over the past few weeks.
- With the prospect of a slightly tighter Fed, demand for emerging market bond ETFs has continued to fall. They have seen the largest outflows in the last two weeks and the last four weeks.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 - 15/10/2021

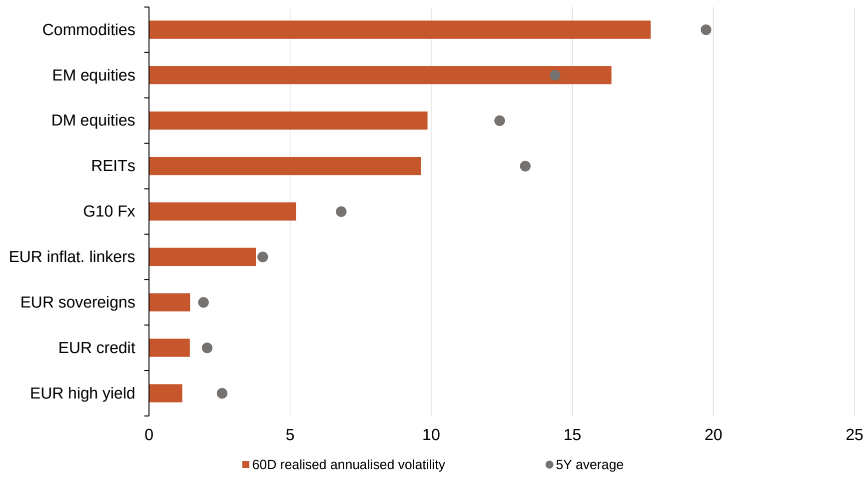
AAII Sentiment Survey (Bulls vs Bears)



- The mood of US private investors has recently brightened somewhat. For the first time since the beginning of September, the bulls outweigh the bears. However, with a bull/bear spread of 6.1 pp, we cannot speak of euphoria. Instead sentiment is more in line with the historical average.

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 – 14/10/21

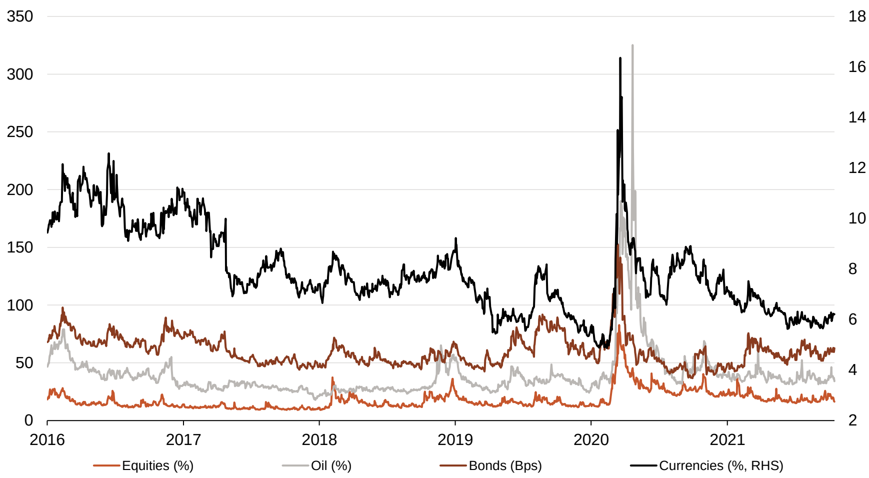
Realised Volatilities



- Except for emerging market equities, the realised volatility of the last 60 trading days is historically low for all asset classes. Only for the former and commodities is it above the 10% mark.
- For European high-yield bonds, realised volatility is just over one per cent.

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: 15/10/2016 – 15/10/2021

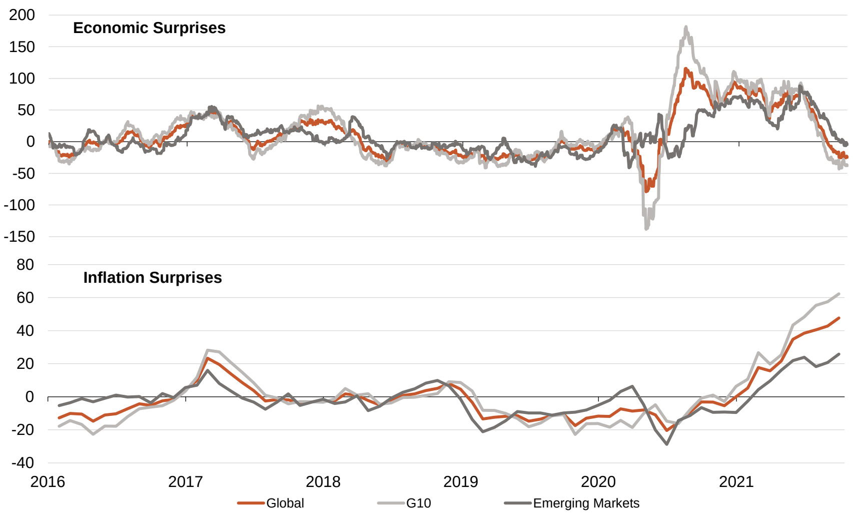
Implied Volatilities



- Implied volatilities are hardly changed relative to two weeks ago and are close to the average of the last 5 years. Compared to realised volatility, however, implied volatility continues to appear unusually high. Investors seem to expect higher fluctuations than in the past few months.

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: 01/01/2016 – 15/10/2021

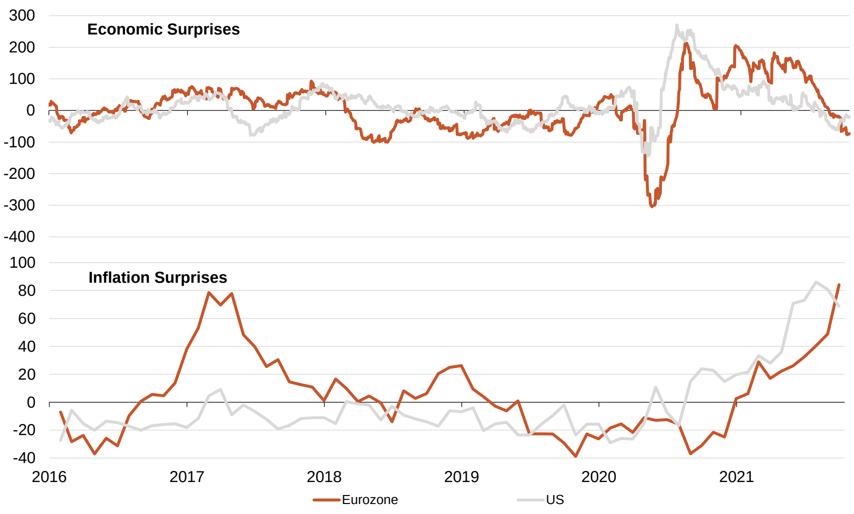
Global



- Economic surprise indices seem to have stabilised recently. In emerging markets, positive and negative surprises balanced each other out after the surprise index slipped into negative territory two weeks ago for the first time since 2020. Exports and the service purchasing managers' index (PMI) in China beat expectations, while imports disappointed.
- Inflation data in developed and emerging markets continue the positive surprise streak.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 15/10/2021

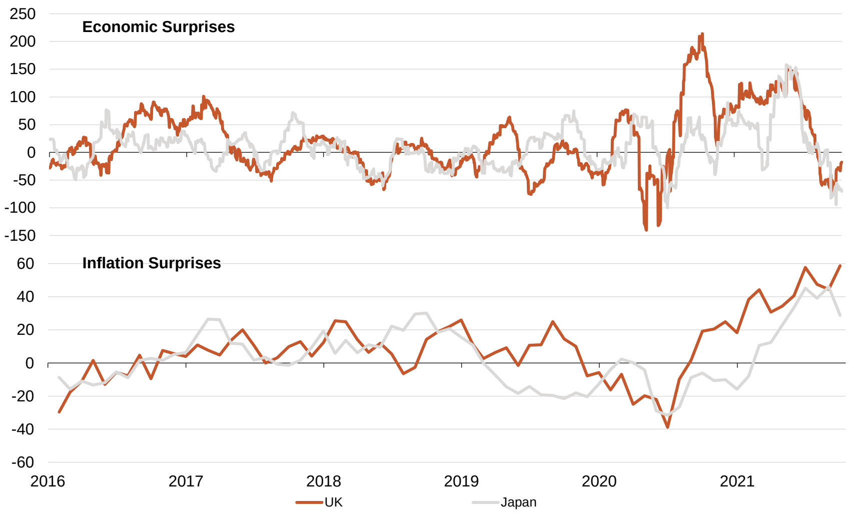
Eurozone and US



- In the Eurozone, on the other hand, negative surprises dominated in recent weeks. Retail sales and ZEW economic expectations in Germany disappointed, while EUR industrial production data surprised positively.
- In the USA, economic surprises moved towards positive territory. The ISM index, machinery orders and labour market data surprised to the upside. In addition, retail sales as well as motor vehicle sales rose after the latter had fallen for four months in a row.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 15/10/2021

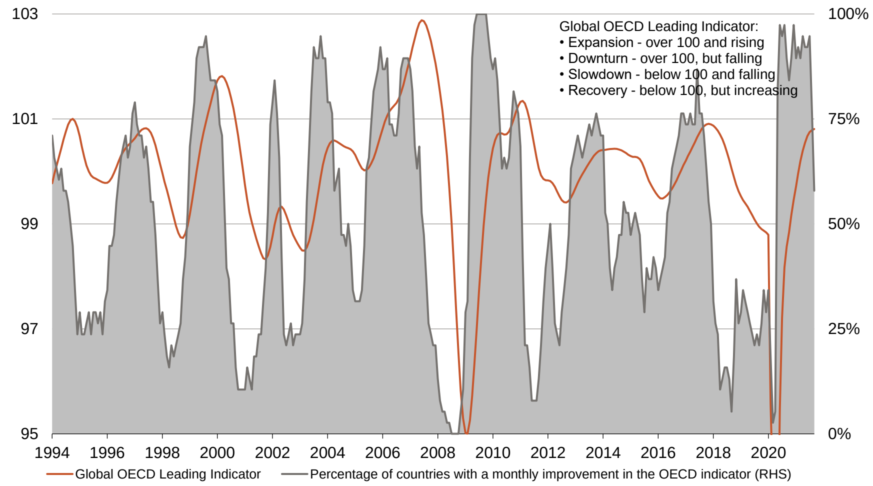
UK and Japan



- The picture in the UK was mixed. There, monthly GDP has disappointed recently, while the service PMI and industrial production surprised significantly to the upside.
- In Japan, core machinery orders and industrial activity disappointed.

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 - 15/10/2021

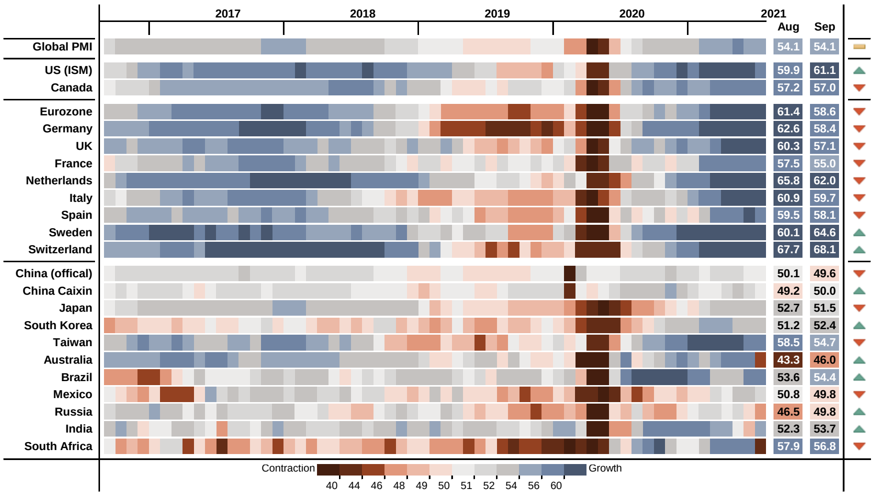
OECD Leading Indicator



- Although the global economic expansion continues, growth is weakening slightly, as can be seen in the OECD index, which is rising less strongly.
- This is clearly visible at country level. There, only 58% of the countries surveyed improved their index in September compared to the previous month.

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 - 31/09/2021

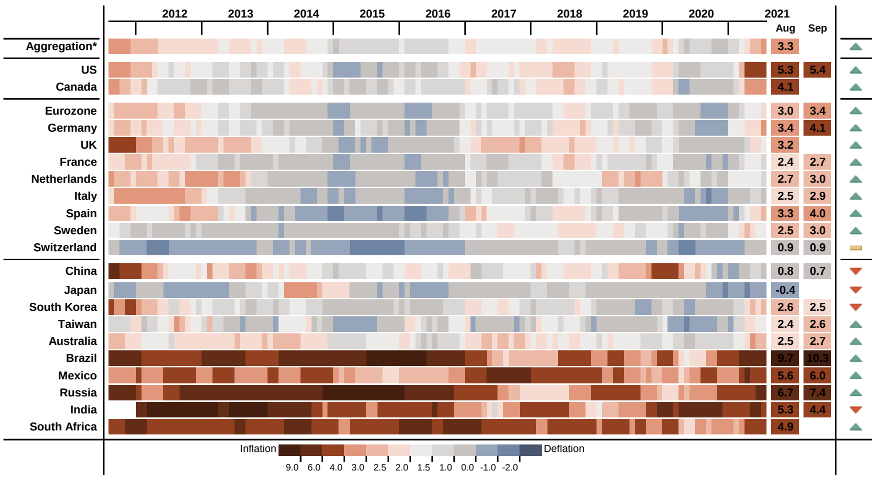
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global PMI remained at the 54.1 level in September and is thus still above the 50-growth-mark. In the Eurozone, the PMI fell below 60, while in the US it exceeded the 60 mark.
- In China, the official PMI has slipped into contraction.

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

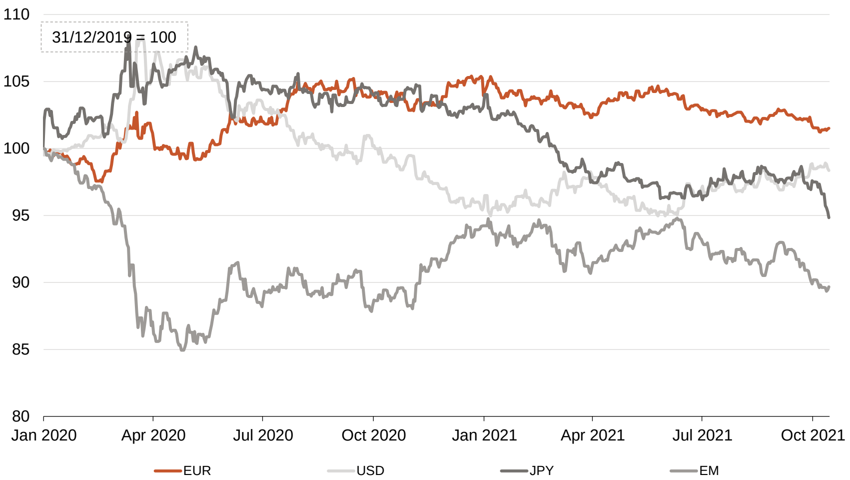
Headline Inflation



- The US reached its highest inflation rate in 13 years at 5.4% in September, driven by the huge increase in material costs. Inflation appears to be more sustainable than many market participants had previously assumed and even the first member of the US Federal Reserve no longer described US inflation as transitory but episodic.

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

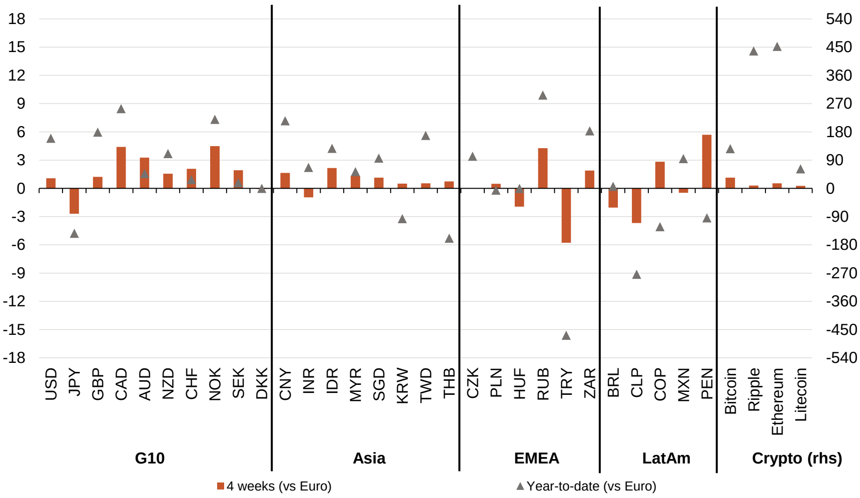
Trade-Weighted Currency Development



- In currency markets, the euro depreciated slightly, while demand for the US dollar (USD) continued to rise.
- The Japanese yen and emerging market currencies, on the other hand, depreciated sharply. The yen in particular, influenced by the BoJ's low interest rate policy, is suffering from the Fed's more restrictive tones.

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 - 15/10/2021

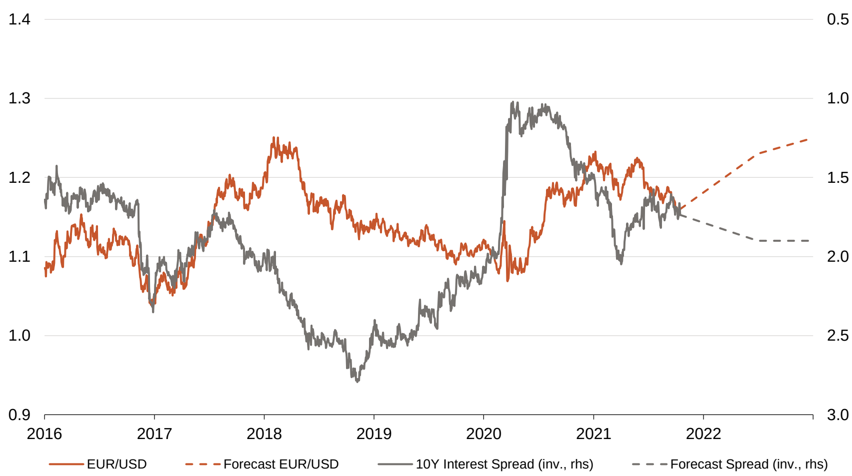
Currency Moves vs Euro



- Most of the currencies shown here gained against the euro over the last month.
- However, a few emerging markets also depreciated significantly. The Turkish lira was particularly affected, hitting a record low against the euro after the Turkish president fired three members of the central bank who opposed his efforts to cut interest rates.
- Among the G10 currencies, the Japanese yen was the worst performer.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2020 - 15/10/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD exchange rate traded temporarily just above the 1.15 mark - a level last reached in July 2020.
- The falling exchange rate was driven by more hawkish signals from the Fed's September meeting, where a tapering of bond purchases from November was announced.

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

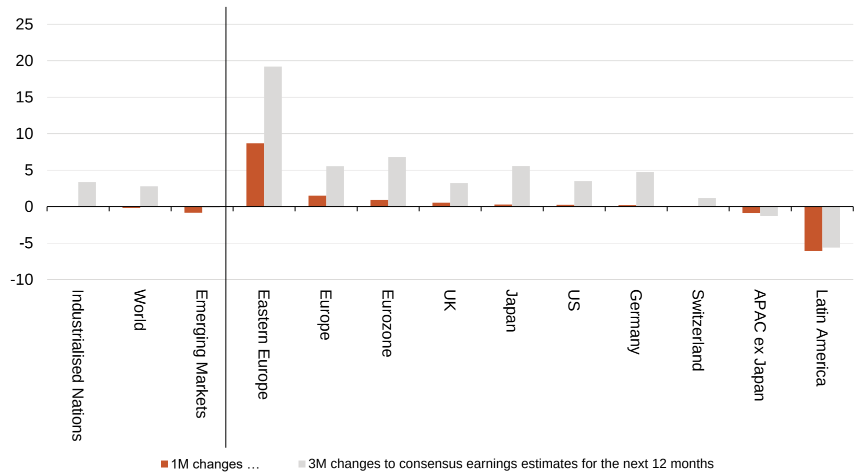
	4-week & YTD		12-month periods over that last 5 years				
	4W (17/09/21 - 15/10/21)	YTD (31/12/20 - 15/10/21)	15/10/20 15/10/21	15/10/19 15/10/20	15/10/18 15/10/19	15/10/17 15/10/18	14/10/16 15/10/17
Energy	18.9	42.8	85.9	-47.9	-6.1	18.7	12.5
Finance	6.1	27.0	56.6	-27.4	5.6	-12.0	31.4
Value	4.1	18.8	36.8	-20.6	6.3	-5.4	20.6
Consumer Discretionary	3.3	19.7	40.6	-3.9	15.8	-7.7	18.7
Materials	2.2	18.6	33.1	5.6	6.8	-2.7	26.6
Health Care	2.0	17.7	17.1	7.5	18.3	-2.7	9.1
Consumer Staples	1.0	10.8	12.8	-3.7	20.3	-7.6	7.9
Growth	0.3	21.2	27.9	6.3	19.0	-5.5	15.6
Utilities	-0.4	-0.3	6.8	8.5	31.9	-7.1	13.8
Industrials	-1.6	21.3	34.4	2.3	15.9	-7.6	22.4
Telecommunications	-2.9	11.1	19.4	-22.0	12.3	-13.2	5.6
Information Technology	-2.9	33.5	41.2	14.0	19.8	0.8	26.0

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.

- After the weak September, the European stock market recently showed a more pleasing picture on a sector basis. Energy companies benefitted from the further increase in gas and oil prices. Financial companies, which are favoured by rising interest rates, were also able to make gains.
- Information technology companies suffered the largest losses.
- From a style perspective, value recently outperformed growth.

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: 14/10/2016 – 15/10/2021

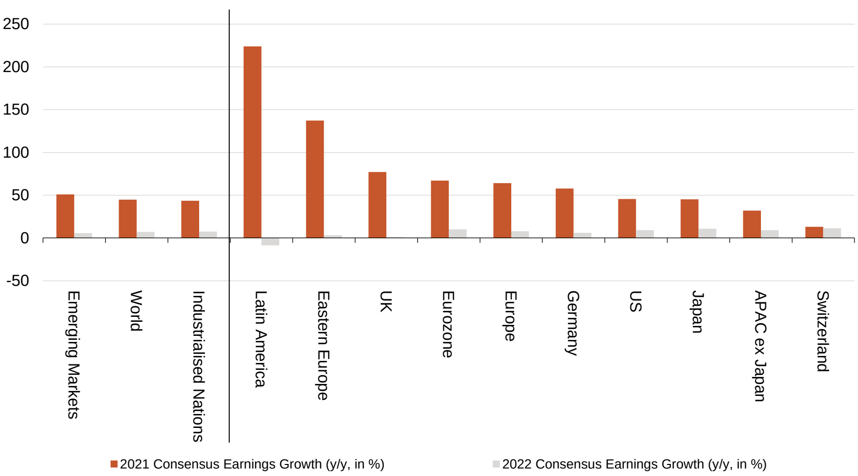
Changes in Consensus Earnings Estimates



- The momentum of positive earnings revisions has decreased for most regions and is slightly negative at a global level, both for developed and emerging markets. For Latin America in particular, analysts have significantly lowered earnings estimates, while for Europe, Japan and the US they are only slightly positive.
- For Eastern Europe, however, earnings estimates were revised sharply upwards.

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 15/10/2021

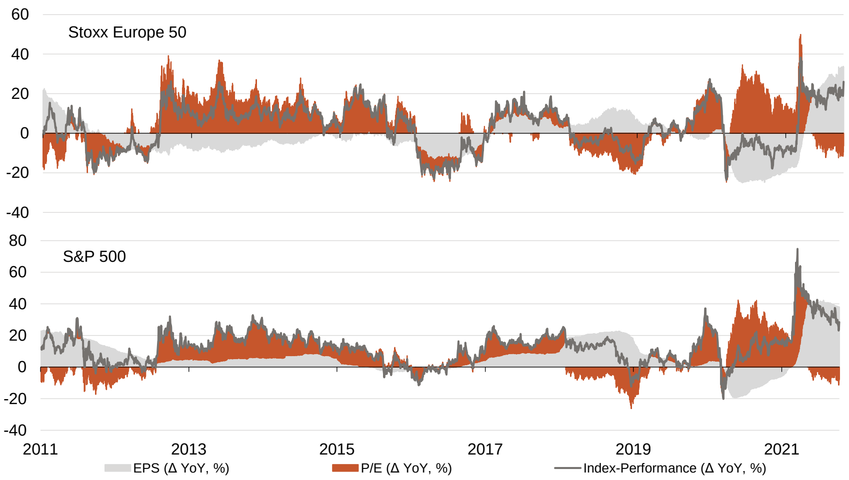
Earnings Growth



- Nevertheless, analysts remain optimistic, especially for Latin America, and expect 2021 earnings growth of around 220%.
- For Eastern Europe, analysts expect 2021 earnings growth of almost 150%, partly due to the sharp rise in energy prices.
- For 2022, analysts expect a profit increase of just under 10% for Europe, the US and Japan.

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 15/10/2021

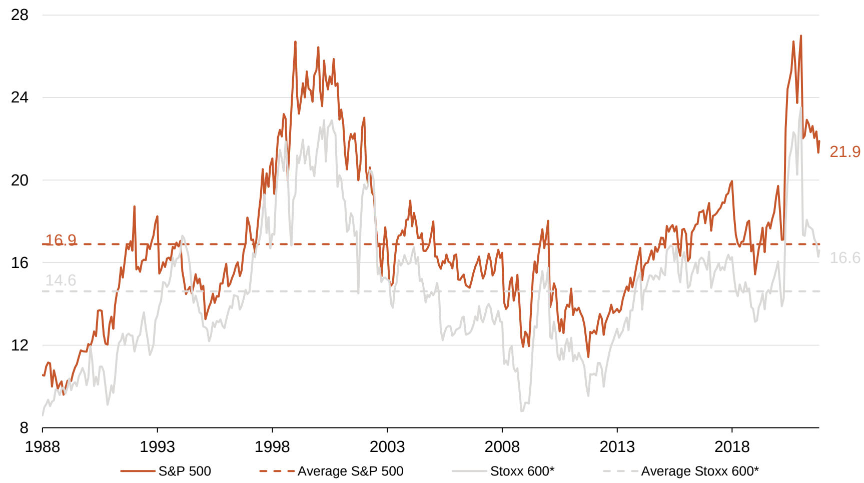
Contribution Analysis



- Stock markets have risen significantly compared to the previous year despite recent turbulence. Significantly growing corporate profits in the US and Europe drove share prices upwards.
- In turn, valuations have fallen noticeably 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 - 15/10/2021

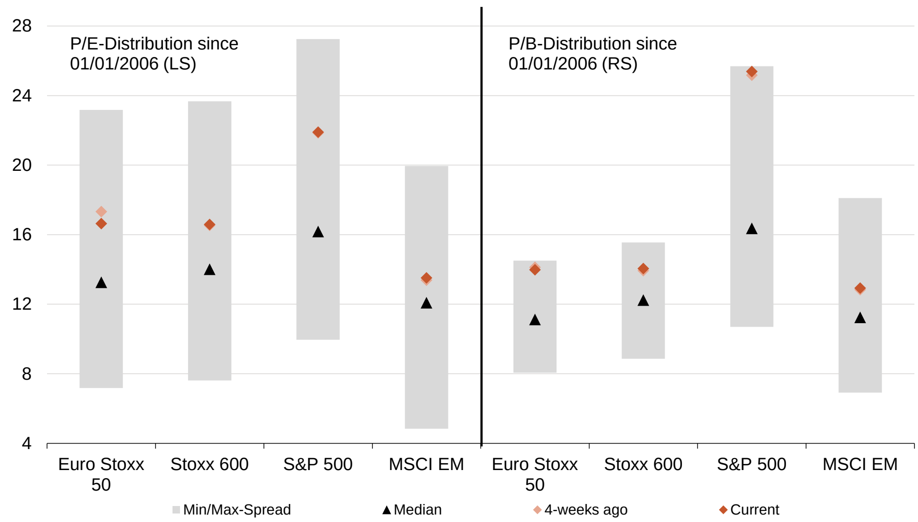
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Analysts' earnings estimates have recently risen faster than stock markets in both Europe and the US.
- Thus, the price-earnings ratios of European and US equities are increasingly approaching their historical averages.
- Accordingly, the estimated P/E ratio in Europe for the next 12 months has fallen to 16.6. For the S&P 500, the P/E ratio stands at 21.9.

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 - 15/10/2021

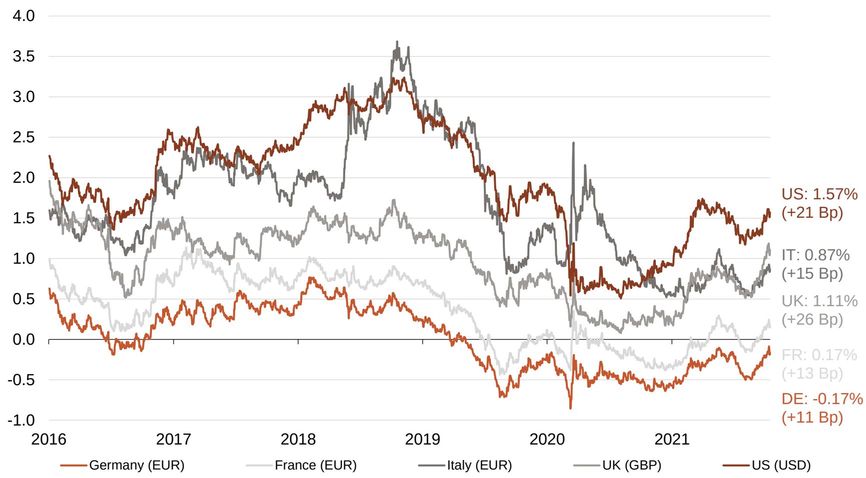
Historical Distribution: Price/Earnings and Price/Book Ratio



- On an earnings basis as well as on a book value basis, only the Eurozone has slightly cheapened in the last four weeks. All other regions saw only temporary cheapening.
- On a historical basis, however, all regions remain expensive.

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 - 15/10/2021

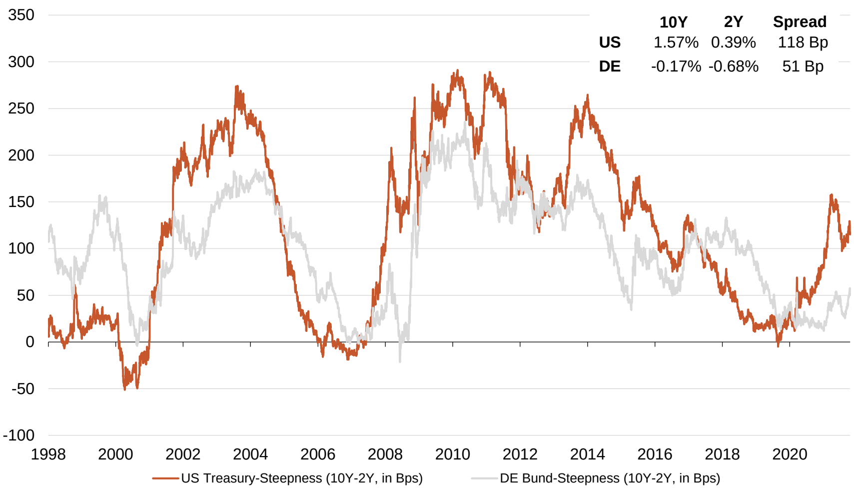
10-Year Government Bond Yields



- The more hawkish signals from the US Federal Reserve at the September meeting, with the prospect of tapering from November, caused interest rates to rise globally. Rising inflation expectations amid persistently high energy prices and ongoing supply bottlenecks led to additional upward pressure. As a result, bond yields on European government bonds also rose noticeably over the last four weeks. Yields on 10-year German government bonds have risen 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 - 15/10/2021

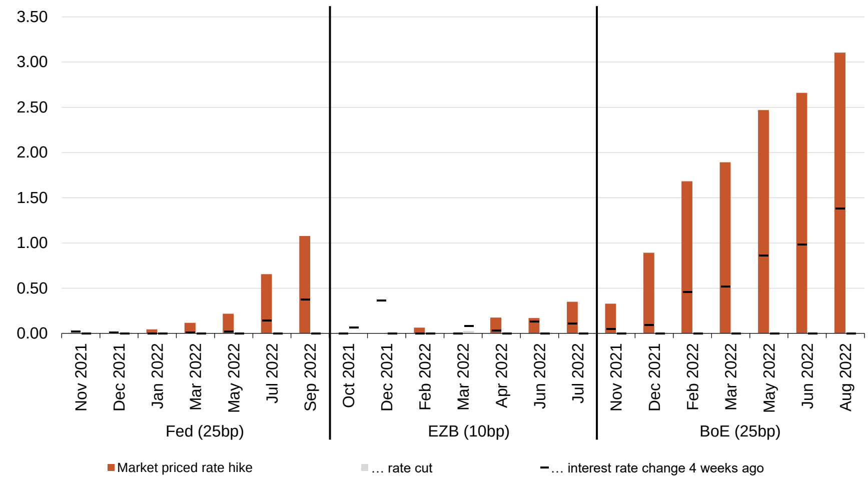
Yield Curve Steepness (10Y - 2Y)



- Rising inflation expectations are also reflected in the steepness of yield curves.
- The steepness of the German yield curve has risen in the last two weeks to its highest level since the beginning of 2019.
- In the US, the steepness has also recently increased significantly.

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 - 15/10/2021

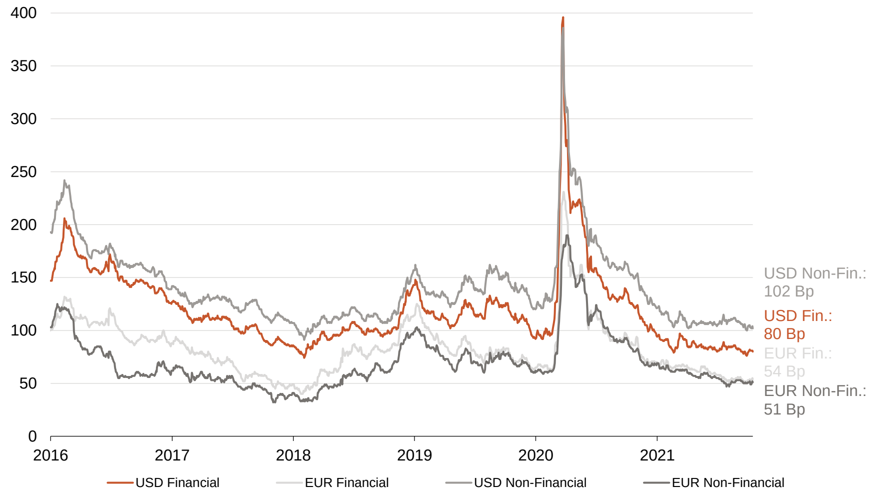
Implicit Changes in Key Interest Rates



- The inflationary pressure on central banks can also be seen in the interest rate steps priced by the market. The market already sees a rate hike by the Fed in September 2022 with 100% probability.
- This looks much more pronounced for the Bank of England. The market expects the first interest rate hike there in December 2021 and two further interest rate increases in 2022.

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: 17/09/2021 - 15/10/2021

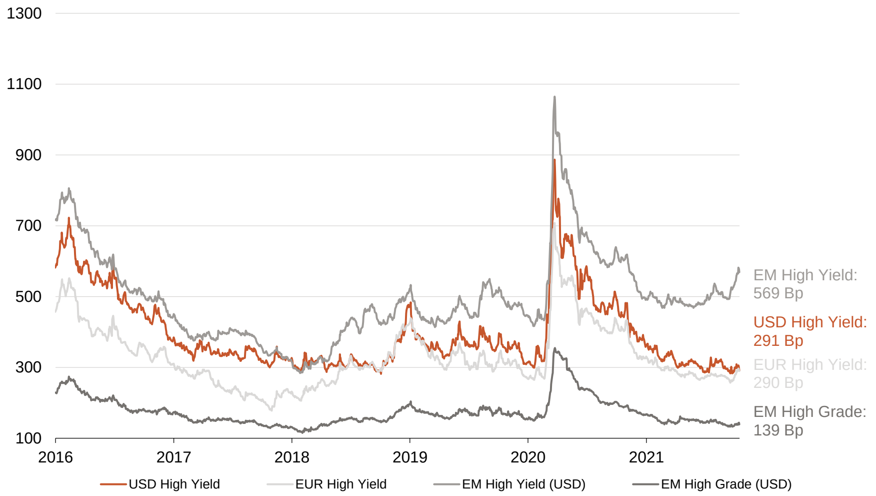
Credit Spreads Financial and Non-Financial Bonds



- Speads on investment-grade corporate bonds have barely moved in the last two weeks and remain at historically low levels.
- However, the limited spread narrowing potentially makes them very vulnerable to further interest rate rises. High-yield bonds, on the other hand, offer better interest rate protection, although they are more vulnerable to market risks.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 – 15/10/2021

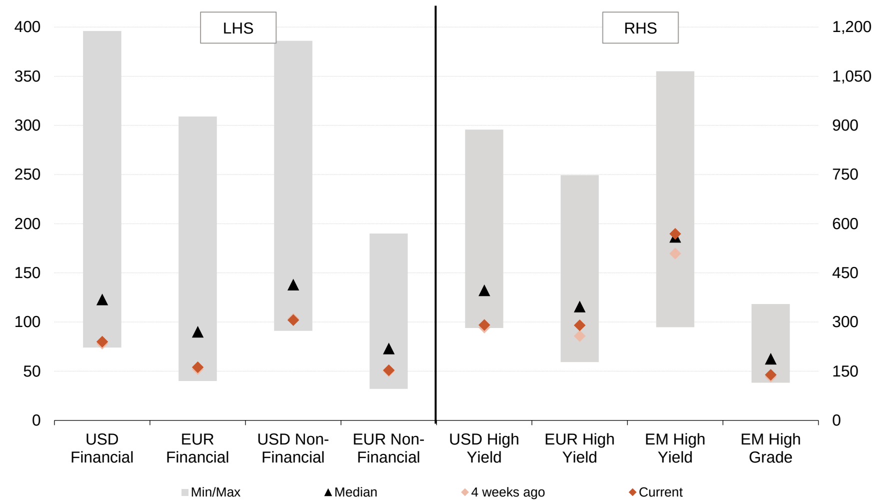
Credit Spreads High Yield and Emerging Markets Bonds



- In the last two weeks, EUR and EM high-yield bonds saw significantly rising risk premiums. In both regions, the real estate sector was the main driver of the spread widening. In both Europe and Asia, there are doubts about the solvency of individual real estate companies due to high debt levels, which has dragged the entire sector and segment down.

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 – 15/10/2021

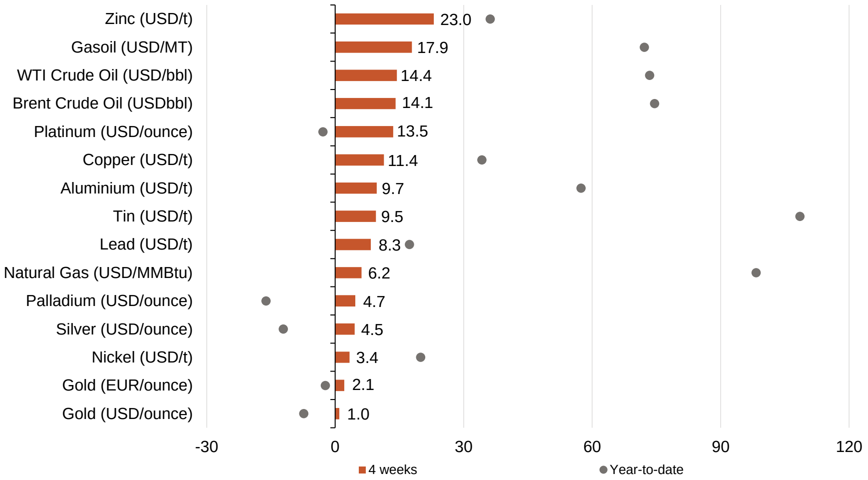
Historical Distribution of Credit Spreads (in bp)



- The crisis of the real estate sector in Asia caused spreads on EM high-yield bonds to rise significantly. Risk premiums now remain above the 10Y median. EM high-yield bonds are thus no longer historically expensive.
- Srpeads on EUR high-yield bonds is also approaching the 10Y median.

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: 15/10/2011 – 15/10/2021

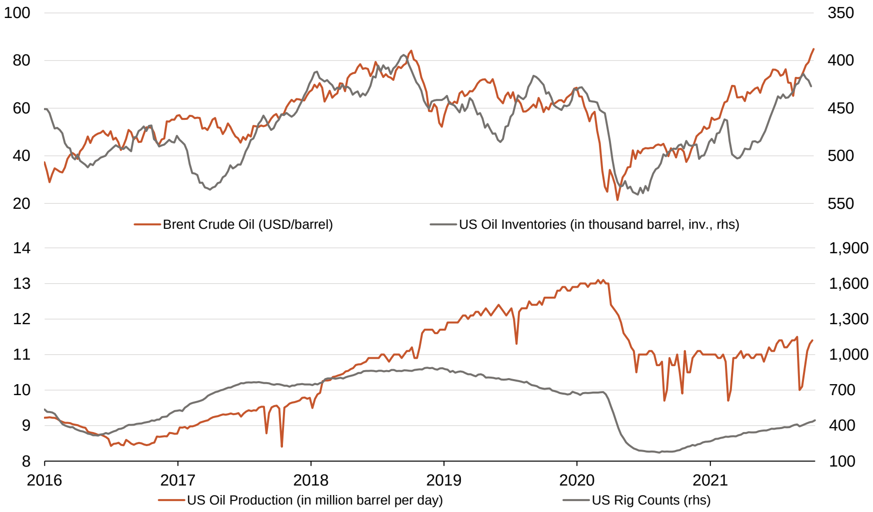
Commodities Performance



- Almost all commodities were able to make gains over the last few weeks. As usual, however, energy commodities remain the biggest winners.
- Due to the high energy costs, smelters of industrial metals increasingly cut production. As a result, the zinc price exploded.
- Among the precious metals, platinum recently performed best. It had come under pressure in the previous months due to low automobile production, but now seems to have found a trough.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2021 - 15/10/2021

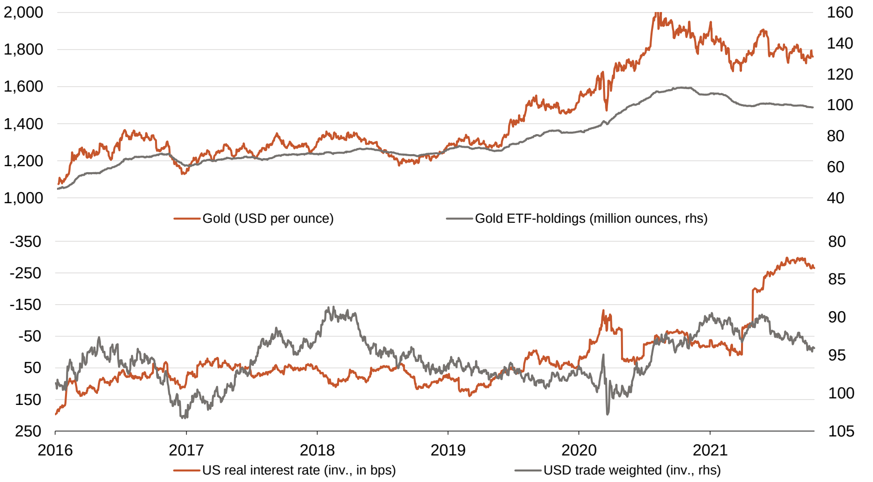
Crude Oil



- Crude oil (Brent) closed above the USD 80 per barrel mark for the first time in three years.
- At its last meeting, OPEC+ confirmed the course of the last few months. Although it expanded production for November by 400 thousand barrels per day, it was unable to fulfil hopes for even more oil.
- The existing supply deficit is further exacerbated by the sharp rise in gas prices and the resulting substitution effects.

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 - 15/10/2021

Gold



- Gold made a short strong move upwards last Thursday in the wake of the US inflation figures but came down again just as quickly.
- ETF-investors recently reduced their positions further.

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 - 15/10/2021

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