Current market commentary

Investor sentiment has recently risen significantly thanks to new all-time highs in the S&P 500 and an encouraging Q3 reporting season. In the weekly AAII survey, bulls dominate bears by more than 10 percentage points for the second week in a row. At the same time, investors also appear to have unwound put options on the S&P 500, while systematic strategies have increased their equity exposure due to the fall in volatility and positive momentum. Consequently, equity markets have recently become a bit more vulnerable again. However, we still do not expect a major correction this year, as equity markets remains well supported by inflows, share buyback programmes and the lack of alternatives. Next year, on the other hand, is likely to be more challenging for investors. Potential stumbling blocks include tighter central bank monetary policy, China's political and economic development, lower corporate earnings growth, and the U.S. midterm elections.

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 is coming to an end.

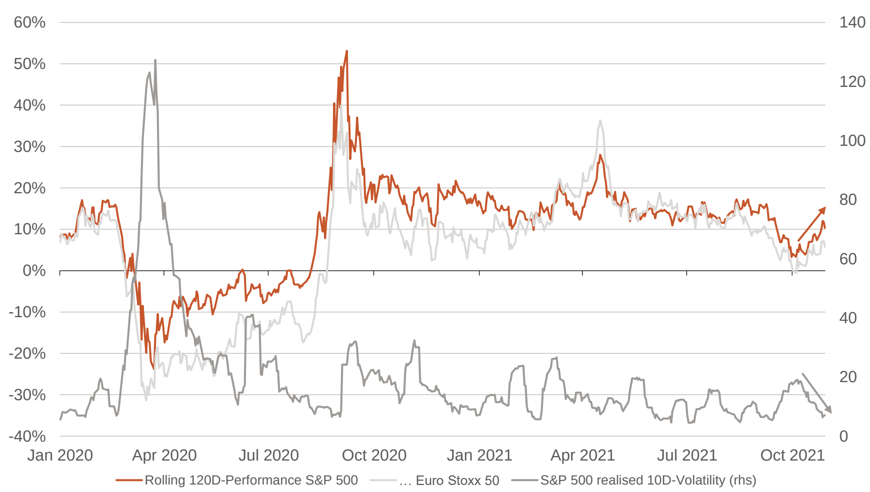
The bulk of the S&P 500 companies will have completed the Q3 reporting season within the next two weeks. As such, US corporate share buybacks should pick up steam. From November 1 to 12, the UN Climate Change Conference will take place. On November 3, the Fed meets for its monthly meeting. The tapering discussion and interest rate outlook due to persistently high inflation readings are likely to be the focus. On November 4, the Bank of England will meet and OPEC+ will announce production quotas for December.

Fed policy crucial for markets.

Labour market data for the U.S. is due out.

October manufacturing Purchasing Managers' Indices (PMIs) for some eurozone countries and the US (ISM) are due today. The service PMI (Oct.) of China, some eurozone countries and the US as well as the US new orders (Sep.) will follow on Wednesday. Industrial production data (Sep.) for Germany and France and US labour market data (Oct.) will be released on Friday. The ZEW index (Nov.) and US consumer confidence (Nov.) will follow next week.

Systematic strategies have recently pushed equities higher



- Thanks to falling volatility and improved price momentum, rule-based strategies such as CTAs, target volatility funds, and risk parity approaches have recently seen more demand for equities again, after reducing risks at the end of September.
- Overall, positioning has thus become somewhat more vulnerable again, but is still well away from the extremes seen in early 2018 or early 2020.

Source: Bloomberg, Time period: 01/01/2020 - 29/10/2021

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (01/10/21 - 29/10/21)	YTD (31/12/20 - 29/10/21)	29/10/20 29/10/21	29/10/19 29/10/20	29/10/18 29/10/19	29/10/17 29/10/18	28/10/16 29/10/17
Brent	7.1	84.0	134.2	-45.8	-13.0	39.9	3.6
REITs	6.5	31.5	37.9	-21.2	24.3	-0.1	-1.4
MSCI World	5.6	26.5	40.3	0.6	18.2	0.7	15.8
MSCI Frontier Markets	4.5	31.0	38.1	-7.5	14.3	-11.9	20.5
Industrial Metals	4.2	32.9	40.5	-3.4	6.7	-7.7	22.1
Global Convertibles	2.3	12.5	25.5	18.1	13.7	-0.1	10.0
MSCI Emerging Markets	2.0	5.7	16.4	4.5	17.5	-12.2	18.6
Gold	1.6	-0.8	-3.6	19.5	23.8	-1.5	-5.5
USDEUR	0.3	5.7	1.0	-4.8	2.3	2.1	-5.4
Eonia	0.0	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4
Global Coporates	-0.1	2.9	1.9	2.1	12.7	-0.3	-1.5
Global Treasuries	-0.6	-0.7	-2.6	1.5	10.7	1.0	-6.5

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.

- Over the last four weeks, risk assets recovered from the September weakness: Brent oil, REITs and developed market equities were the best performers.
- Gold also made some gains, while the US dollar appreciated slightly.
- Brent oil has been the best performer year to date, gaining more than 80 per cent.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 29/10/2016 – 29/10/2021

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (01/10/21 - 29/10/21)	YTD (31/12/20 - 29/10/21)	29/10/20 29/10/21	29/10/19 29/10/20	29/10/18 29/10/19	29/10/17 29/10/18	28/10/16 29/10/17
S&P 500	6.3	31.4	42.7	5.8	20.3	6.2	16.9
Stoxx Europe 50	6.0	21.5	40.1	-15.4	17.0	-6.7	16.9
Euro Stoxx 50	5.5	21.8	46.3	-16.5	18.0	-11.3	21.6
Stoxx Europe Cyclicals	5.2	24.3	51.9	-14.1	13.3	-11.6	26.3
Stoxx Europe Defensives	4.8	18.8	32.7	-13.1	16.1	-0.3	10.7
MSCI UK	4.7	23.4	45.1	-26.4	11.5	-3.1	13.4
MSCI EM Eastern Europe	4.5	40.6	78.4	-33.4	31.3	1.9	18.3
Stoxx Europe Small 200	3.7	22.5	48.2	-7.8	14.9	-6.7	23.6
MSCI USA Small Caps	3.6	27.7	51.2	-4.0	13.7	1.6	19.7
DAX	3.5	14.4	35.3	-10.4	14.2	-14.2	23.6
MSCI EM Asia	2.6	2.8	10.9	16.6	18.4	-14.2	23.2
Topix	-1.5	9.0	17.6	-1.6	13.6	-5.4	13.3

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.

- Another better-than-expected US reporting season and continued inflows have supported US equities over the past four weeks. The S&P 500 even reached a new all-time high last week.
- Asian equities, on the other hand, were left behind, especially Japanese equities, which even lost value over the last four weeks.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 29/10/2016 – 29/10/2021

Fixed Income

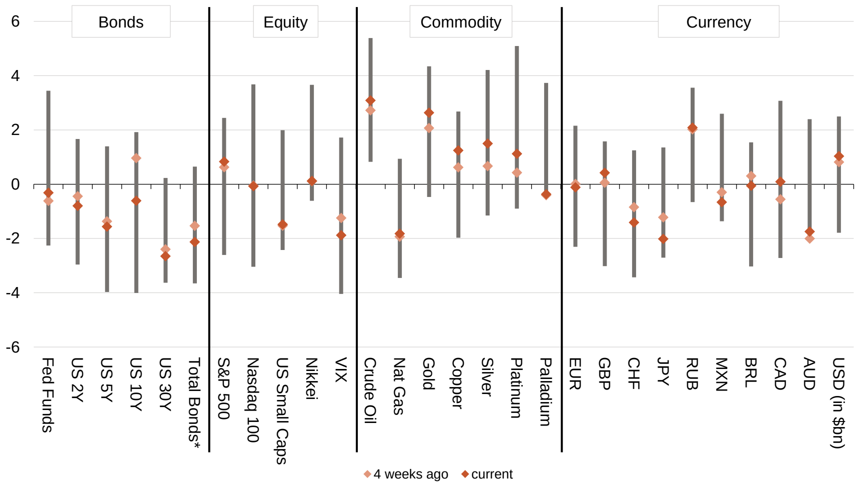
	4-week & YTD		12-month periods over that last 5 years				
	4W (01/10/21 - 29/10/21)	YTD (31/12/20 - 29/10/21)	29/10/20 29/10/21	29/10/19 29/10/20	29/10/18 29/10/19	29/10/17 29/10/18	28/10/16 29/10/17
Gilts	3.6	0.3	1.6	2.7	12.3	1.2	2.4
USD Corporates	0.3	5.0	3.0	2.8	16.4	-0.4	-2.7
USD High Yield	0.2	9.5	10.1	-3.5	12.3	2.7	1.6
Treasuries	-0.1	3.0	-1.8	3.0	12.3	0.4	-6.5
Bunds	-0.2	-2.9	-3.5	2.3	5.4	1.0	-1.4
EM Hard Currency Bonds	-0.2	-2.9	1.7	0.2	8.0	-6.0	3.1
EM Local Currency Bonds	-0.2	3.3	4.1	-3.1	13.3	-0.7	-2.2
EUR High Yield	-0.4	2.8	7.5	-1.0	5.0	-1.4	6.2
EUR Inflation Linkers	-0.4	4.6	6.6	0.4	7.2	-0.6	1.4
EUR Non-Financials	-0.8	-1.3	-0.4	1.9	6.0	-0.9	1.4
EUR Financials	-0.9	-0.8	0.5	0.9	5.6	-1.0	3.2
BTPs	-1.8	-3.1	-1.7	4.3	17.6	-5.7	0.5

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.

- The GBP appreciation helped UK government bonds to outperform recently.
- Most other bond segments declined over the last four weeks as yields continued to rise slightly. USD high yield bonds remain the best performing bond segment since the beginning of the year, they have recently further increased due to the USD appreciation.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 29/10/2016 – 29/10/2021

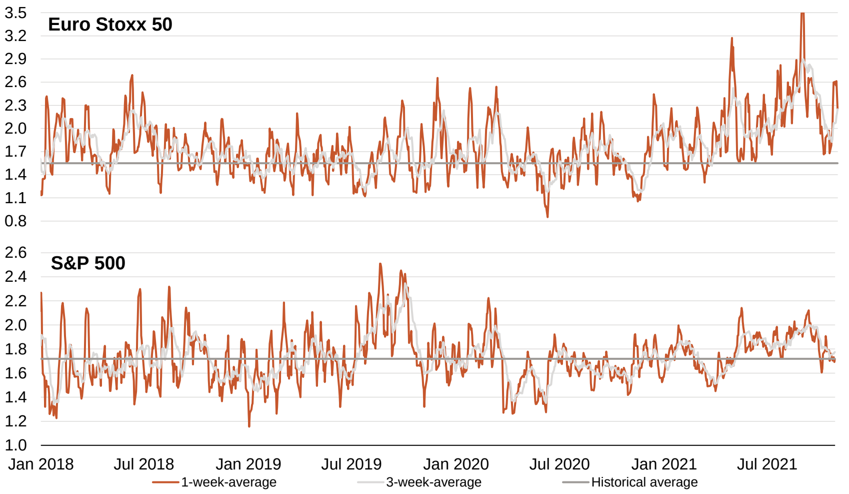
Non-Commercial Positioning



- The pronounced USD net long position among hedge funds is likely to limit the dollar's short-term upside potential. Speculative investors are only more optimistic about the RUB. AUD and JPY remain popular shorts. For commodities, on the other hand, positioning has become more optimistic across the board.

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: 26/10/2011 - 26/10/2021

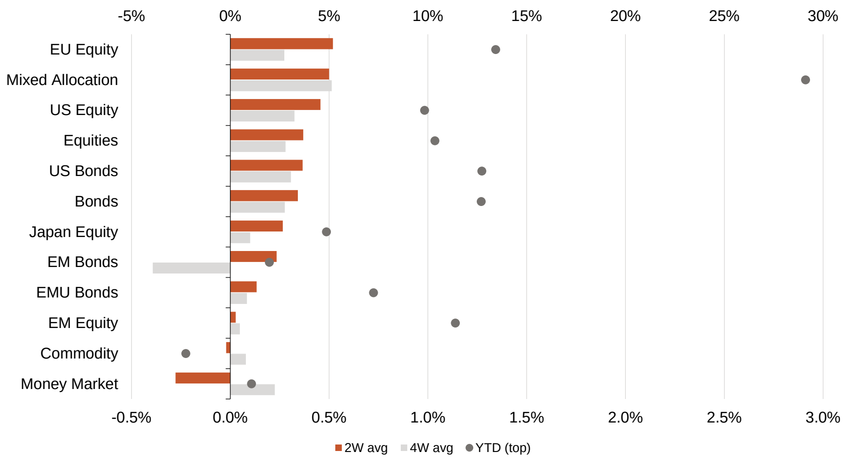
Put-Call Ratio



- The S&P 500 has risen almost continuously over the last two weeks, and now many investors seem to have reduced their put options.
- For European equities, on the other hand, the put-call ratio is at a historically high level - an indication of increased scepticism regarding the Euro Stoxx 50.

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 - 29/10/2021

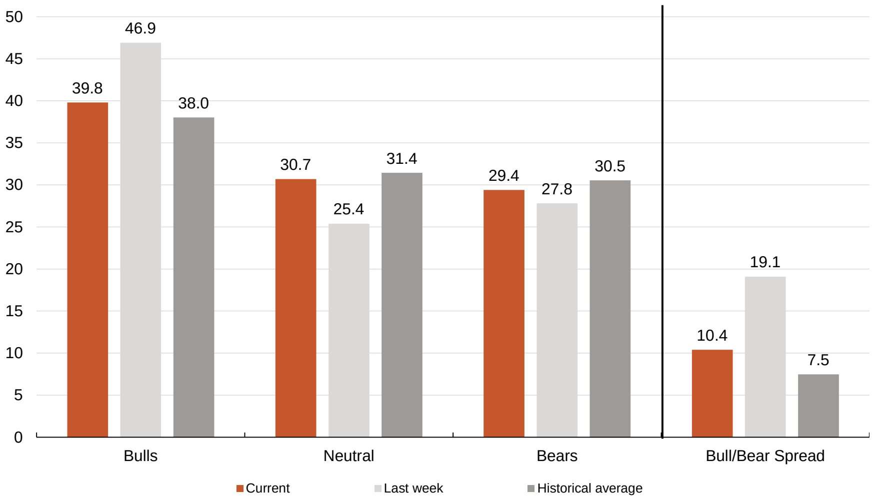
ETF Flows



- Over the last two weeks, ETF investors have mainly demanded US and European equities.
- Commodities, especially precious metals, on the other hand, have faced outflows. This is also a result of more and more investors substituting gold positions with bitcoin or other cryptocurrencies. Most recently, there was the launch of the long-awaited Bitcoin ETF in the US, which was able to collect 1 billion US dollars within just two days - a record for a newly launched ETF.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 - 29/10/2021

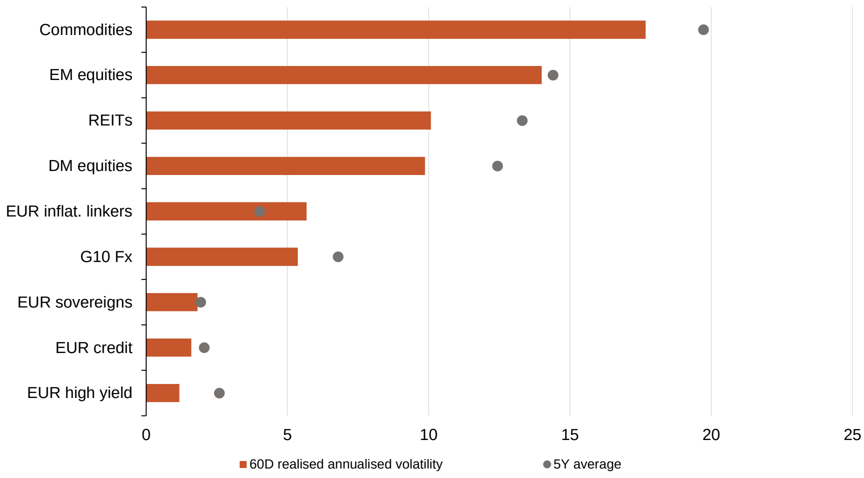
AAII Sentiment Survey (Bulls vs Bears)



- Euphoria is back. Among US private investors, the bulls dominate the bears by over 10 ppts now for the second week in a row. The reason for the new-found optimism is likely to be another very solid reporting season so far.
- Equity markets at all-time highs coupled with this optimism call for a little more caution.

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 – 28/10/21

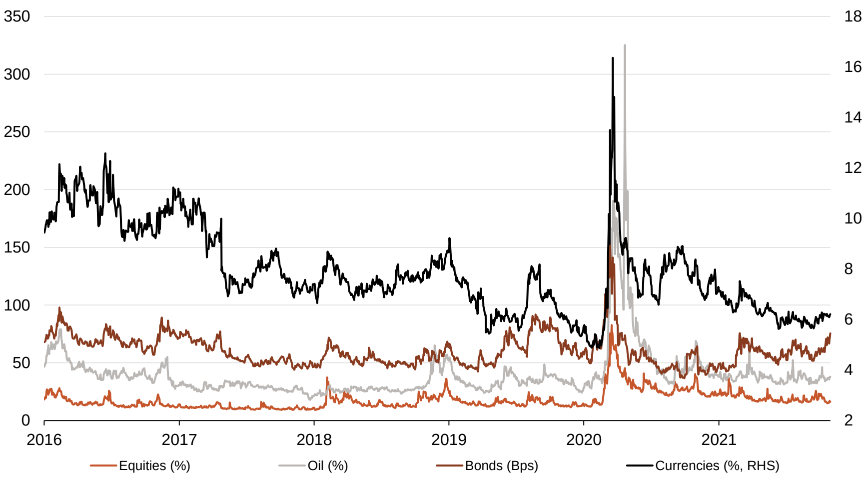
Realised Volatilities



- Realised volatility over the past 60 days is now below its 5-year average across almost all asset classes. Only inflation linkers exhibit heightened volatility after the recent rise in inflation expectations.
- Typically, emerging market equities are about 2 percentage points more volatile than their developed market counterparts. Currently, however, this difference is more than 4 percentage points, with volatility in developed markets in particular being very low recently.

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: 29/10/2016 – 29/10/2021

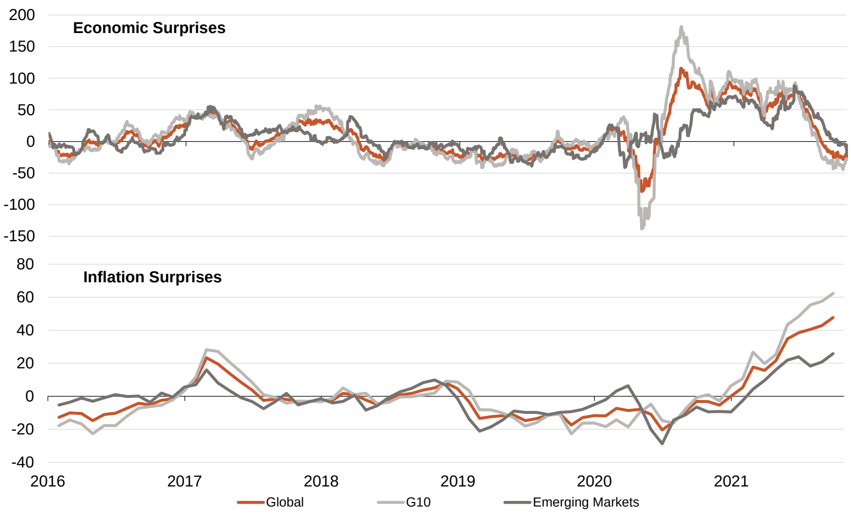
Implied Volatilities



- The VIX marked a new post-covid low of 15% in the past two weeks. However, the VVIX, which measures the volatility of the VIX, is still above 100%. Investors therefore continue to react very sensitively to bad news.

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 – 29/10/2021

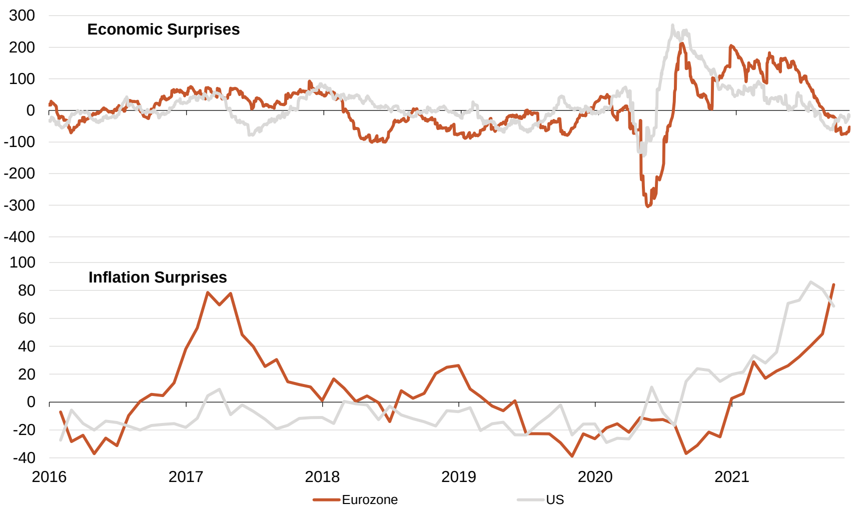
Global



- Global economic surprises have continued to stabilise in recent weeks. The index for the industrialised countries (G10) has recently risen slightly, driven primarily by better readings in the US, while the emerging markets index has slipped further into negative territory.
- In China, Q3 GDP growth and industrial production disappointed, while retail sales were better than expected.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 29/10/2021

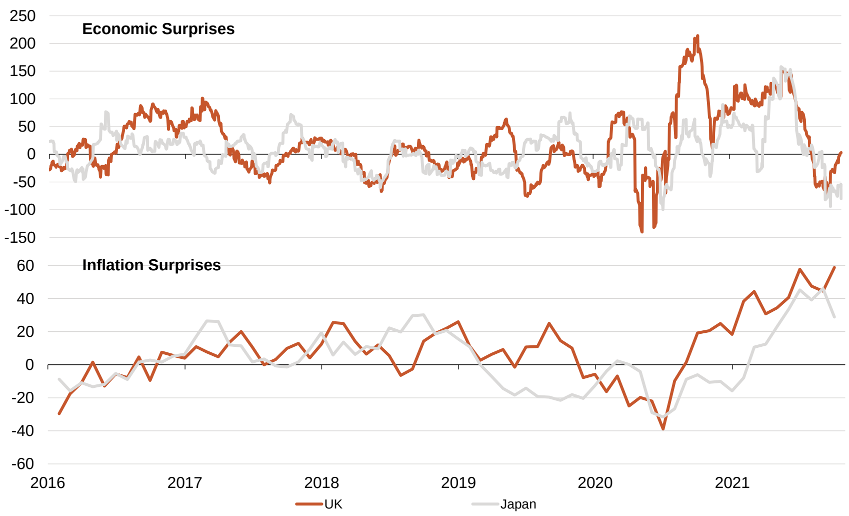
Eurozone and US



- In the US, the economic surprise index is about to turn positive. Most recently, consumer confidence, new orders, housing market data and the service purchasing managers' index (PMI) have surprised to the upside. On the other hand, the industrial PMI, industrial production and Q3 economic growth surprised negatively.
- In the Eurozone, the German Ifo index and German Q3 GDP growth surprised negatively, while the industrial PMI and Eurozone growth were better than expected.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 29/10/2021

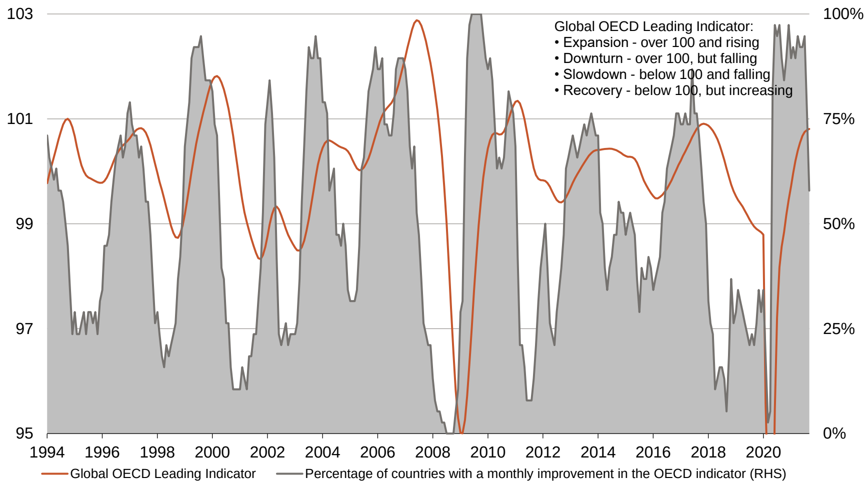
UK and Japan



- The economic surprise index for the UK has recently turned positive. Both the industrial and service PMIs surprised to the upside. Retail sales, on the other hand, have disappointed.
- The index for Japan, on the other hand, barely moved.

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 - 29/10/2021

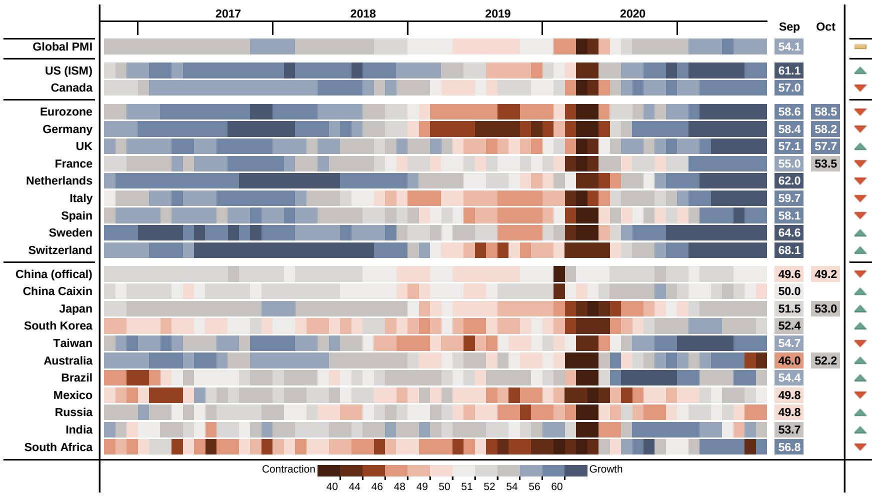
OECD Leading Indicator



- Although the global economic expansion is continuing, growth is weakening slightly, as can be seen from the OECD index, which is rising at a slower pace.
- This can be clearly seen at the country level. There, the index improved in September compared with the previous month in only 58% of the countries covered.

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 – 30/09/2021

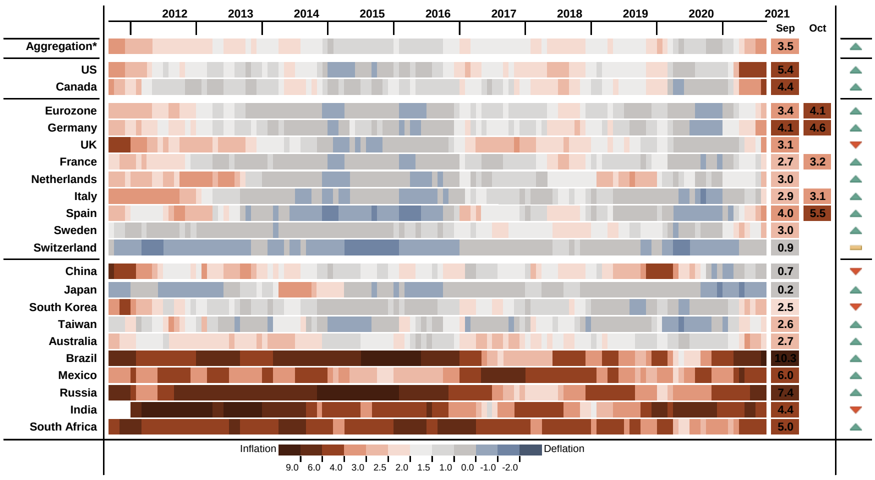
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- In Europe, PMI readings remain above the 50-growth threshold in October, but are falling for the most countries.
- In Japan and Australia, however, the PMI rose from a lower level.

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: 31/10/2016 – 29/10/2021

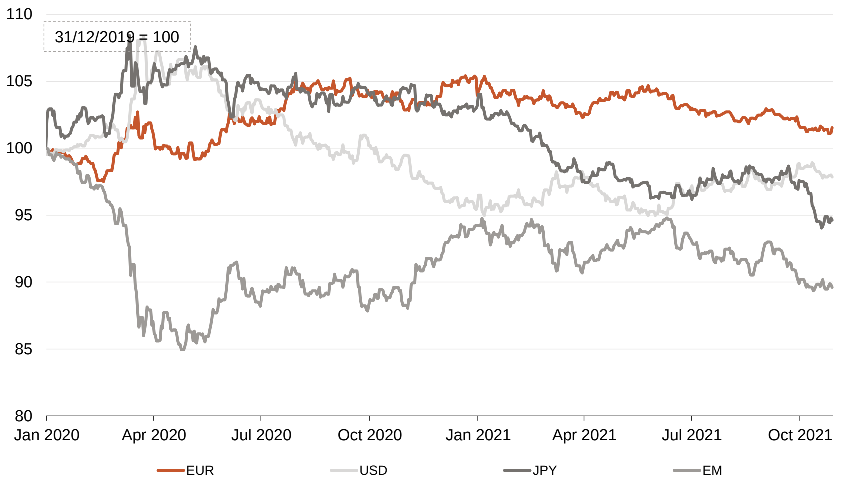
Headline Inflation



- Inflation is still on the rise, a fact that many central bankers now acknowledge. In Germany, for example, inflation rose to 4.6% in October, the highest level since the 1990s. The main reason for the increase was the sharp rise in energy prices.

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: 31/10/2011 – 29/10/2021

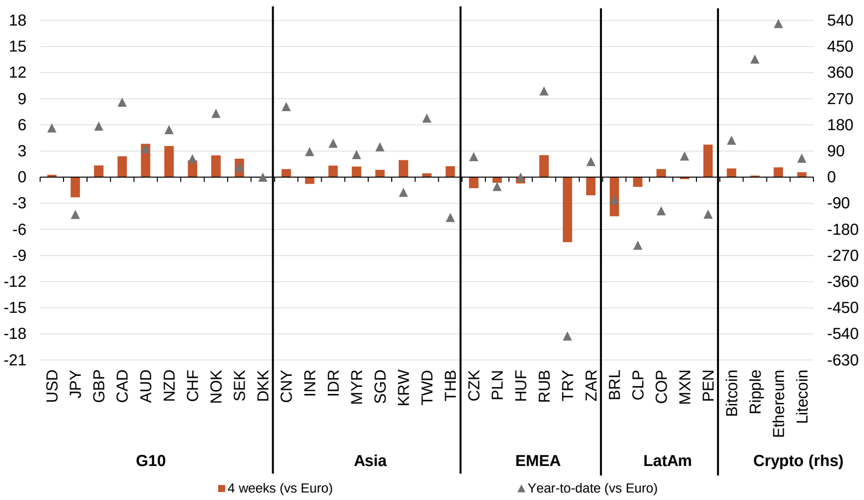
Trade-Weighted Currency Development



- In recent weeks, the trends of the previous months in currency markets came to a halt, and instead currencies stabilised on a trade-weighted basis.
- Since the beginning of the year, however, the US dollar has clearly been in the lead. The reason for this is probably the Fed's slightly more restrictive course compared to other countries.

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 - 29/10/2021

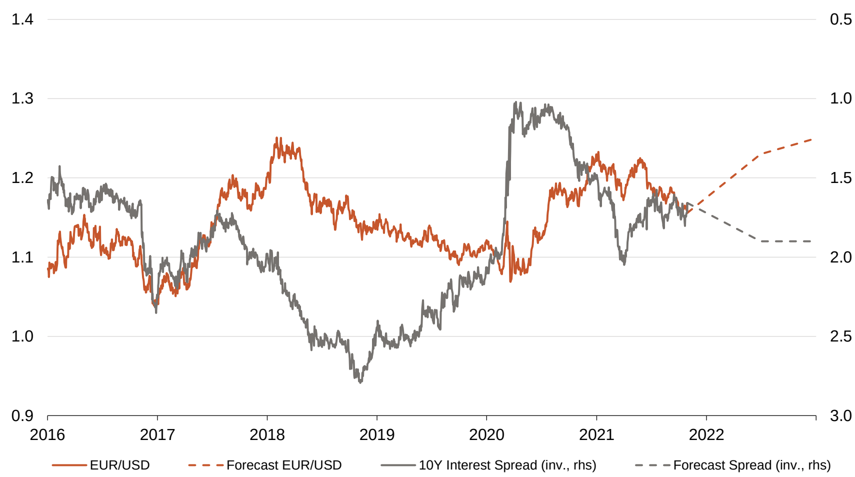
Currency Moves vs Euro



- Most of the G10 currencies gained against the euro over the last four weeks.
- The biggest winners were commodity currencies such as the Australian and New Zealand dollars, the Norwegian krone and the Russian rouble.
- The Turkish lira remains the biggest loser on a monthly and annual basis. Recently, the dismissal of several central bankers by President Erdogan once again shook investor confidence.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2020 - 29/10/2021

EUR/USD Exchange Rate and Interest Rate Differential



- After the ECB meeting last Thursday, the EUR/USD exchange rate jumped to 1.17. Only one day later, however, the euro lost all its gains again.
- Since the beginning of the year, the US dollar is clearly ahead with 5.4%.

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

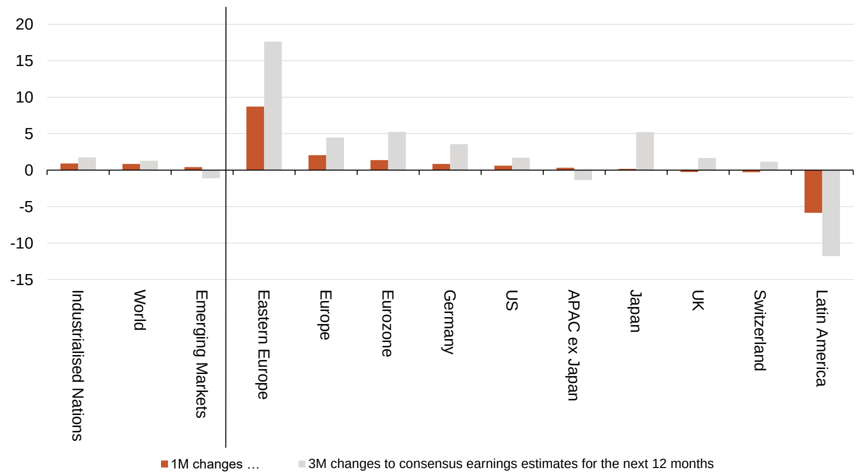
	4-week & YTD		12-month periods over that last 5 years				
	4W (01/10/21 - 29/10/21)	YTD (31/12/20 - 29/10/21)	29/10/20 29/10/21	29/10/19 29/10/20	29/10/18 29/10/19	29/10/17 29/10/18	28/10/16 29/10/17
Information Technology	7.6	35.8	62.8	1.8	22.6	-4.9	30.0
Utilities	7.0	3.7	18.4	2.6	28.5	-5.3	12.4
Finance	6.9	29.1	65.5	-31.4	9.9	-15.0	26.0
Growth	6.1	23.9	38.3	-0.1	20.6	-6.9	18.2
Consumer Discretionary	5.9	21.5	48.8	-9.4	19.1	-9.6	19.3
Health Care	5.9	20.9	27.2	-0.6	21.2	-0.2	10.4
Consumer Staples	5.2	14.1	22.0	-6.3	14.9	-4.8	9.4
Value	4.1	19.1	45.7	-26.5	9.6	-7.1	18.4
Industrials	3.7	22.7	43.9	-6.8	21.1	-10.5	26.1
Materials	3.6	17.3	40.6	-3.8	12.8	-6.8	26.4
Energy	3.6	37.3	92.0	-52.8	0.6	11.2	15.0
Telecommunications	-3.0	8.7	22.2	-24.2	11.3	-13.0	1.9

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.

- In Europe, utilities recently recovered significantly and have now turned positive again YTD. Thanks to rising IT companies, growth stocks were able to outperform value companies over the last four weeks.
- Telecom companies, on the other hand, suffered from disappointing Q3 quarterly results.

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: 29/10/2016 – 29/10/2021

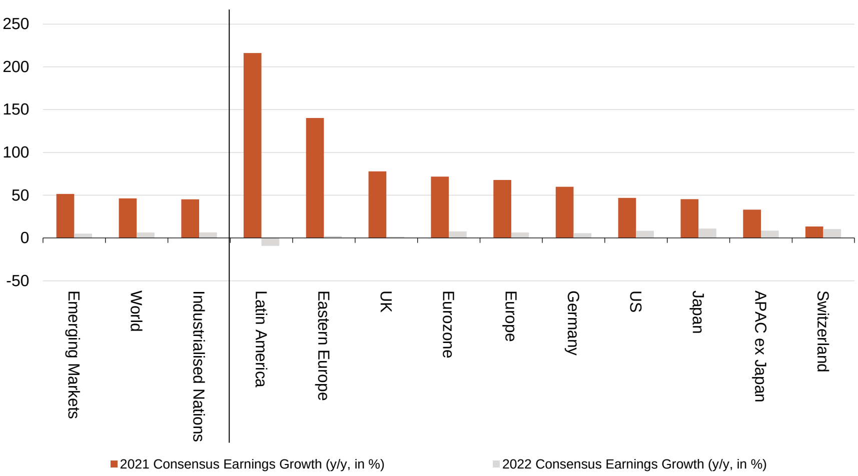
Changes in Consensus Earnings Estimates



- In aggregate, earnings estimates for the next 12 months have hardly changed for developed nations and emerging markets.
- Within emerging markets, however, there were serious differences: analysts reduced earnings estimates for Latin America by 6%, but increased them by 9% for Eastern Europe.

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 29/10/2021

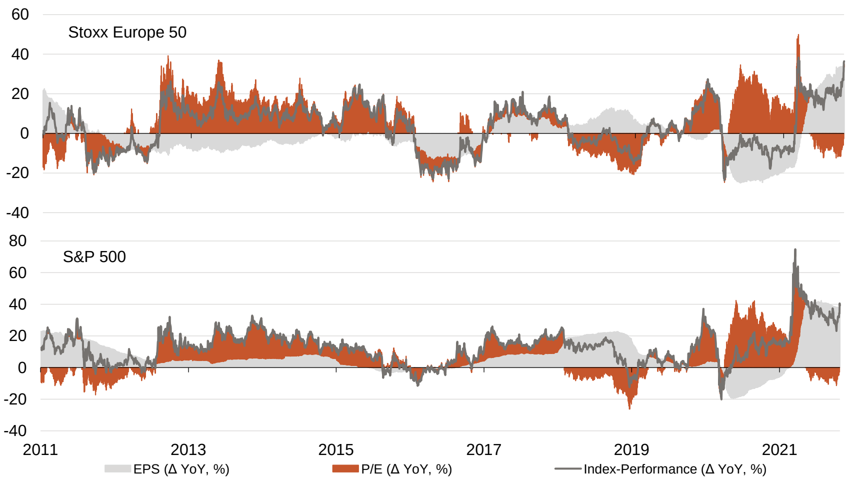
Earnings Growth



- Equity markets are increasingly looking ahead to next year, now that some companies have already reported their Q3 results. And for 2022, consensus continues to expect earnings growth rates to normalise. Corporate earnings in aggregate for the US, Europe and Asia are all expected to rise by around 10 per cent year-on-year, according to analyst consensus.

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 29/10/2021

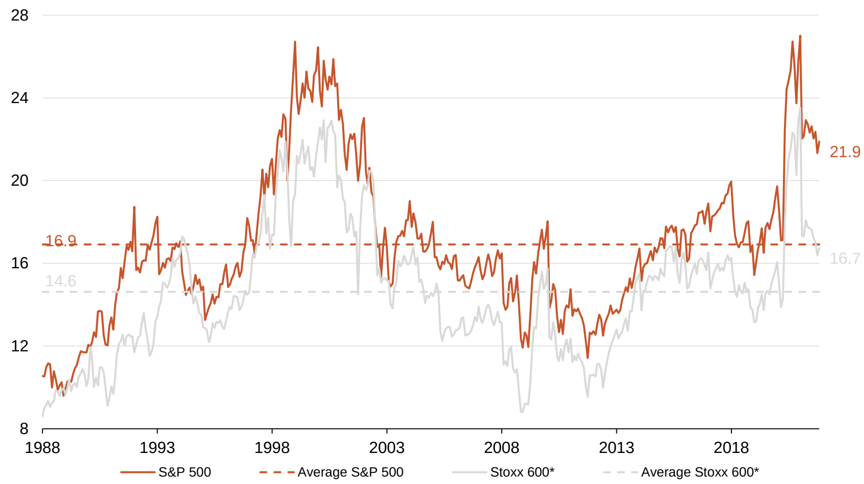
Contribution Analysis



- Thanks to the October rally, equity markets have now risen even more significantly relative to the previous year.
- Prices have been driven by strong corporate earnings growth 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 – 29/10/2021

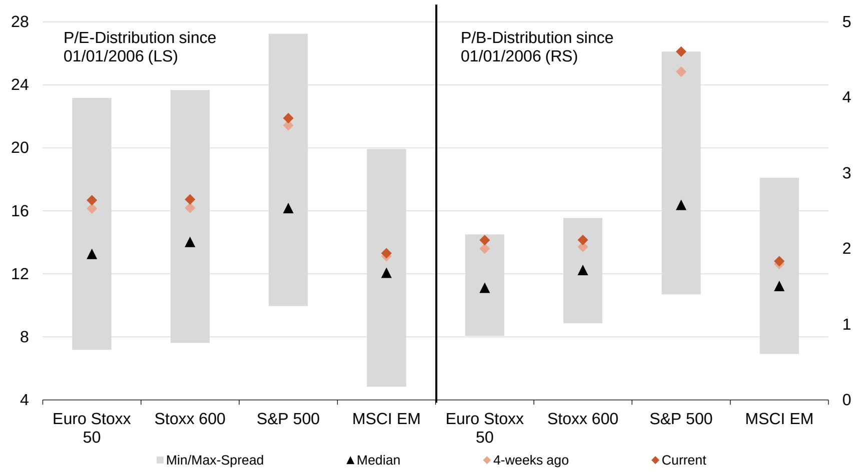
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- P/E levels for US equities have come down in recent months - but relative to European equities and also to their own history, US equities remain expensively valued.
- Over the next few months, we believe valuation levels should continue to normalise, but struggle to reach historical averages given the increased proportion of valuation-insensitive investors.

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 – 29/10/2021

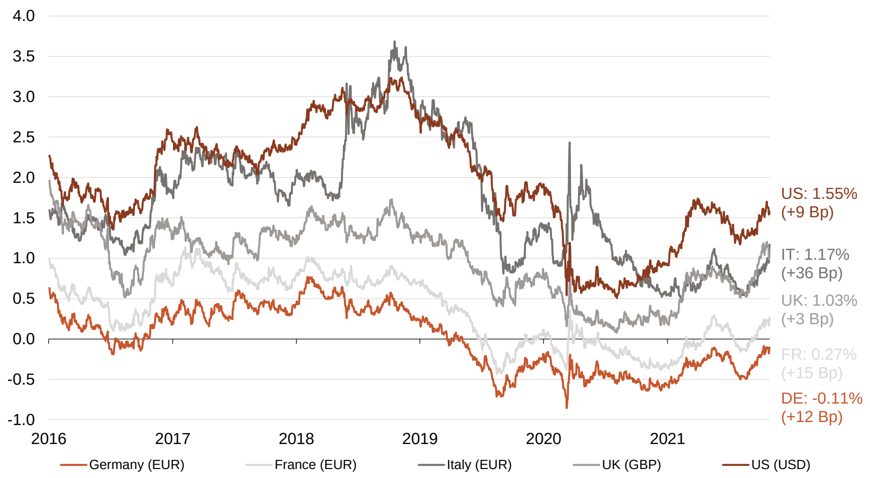
Historical Distribution: Price/Earnings and Price/Book Ratio



- Thanks to the strong increase in corporate earnings this year, equity regions are no longer as extremely ambitiously priced as they were at the beginning of the year.
- Relative to their own history, emerging markets are the most attractively valued, although the uncertainty surrounding China has also increased recently.

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 – 29/10/2021

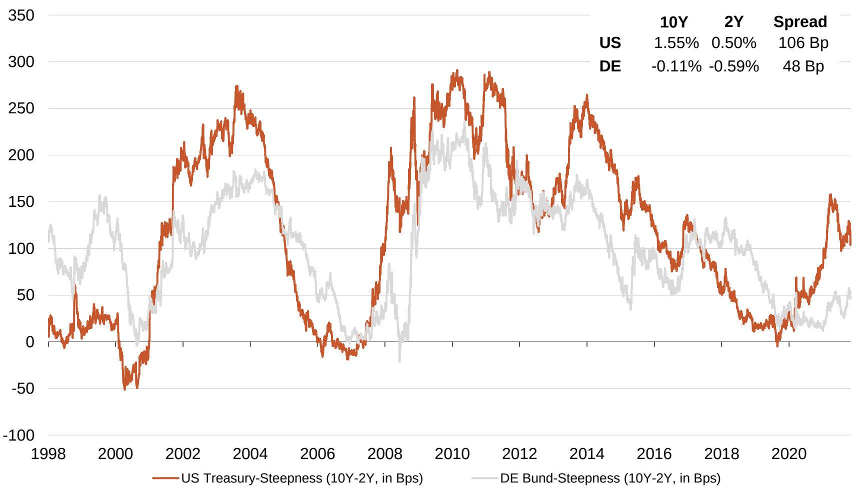
10-Year Government Bond Yields



- The rise in yields in the last two weeks could not continue in the same speed as in the last few months, despite rising inflation expectations. The market seems to be waiting for the Fed meeting in November.
- In the last four weeks, however, yields have risen significantly. German government bonds rose by 12 basis points (bp) and Italian government bonds by 36 bp. US government bonds rose by only 9 bp.

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 - 29/10/2021

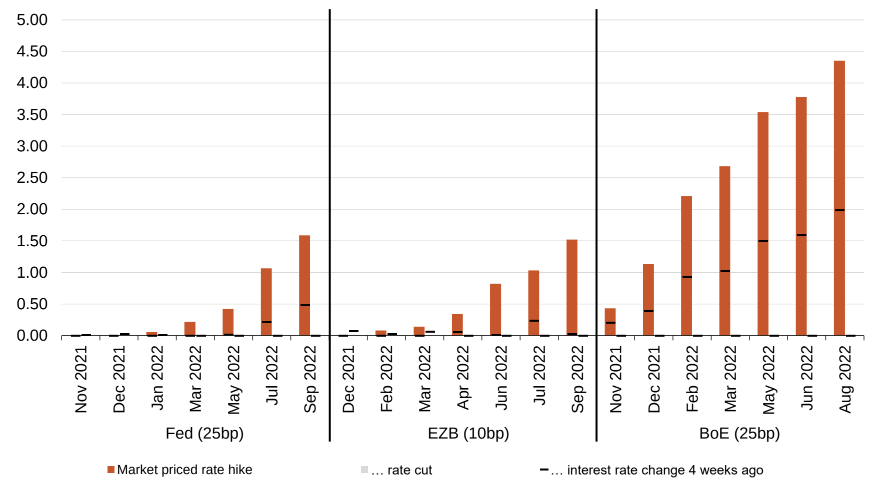
Yield Curve Steepness (10Y - 2Y)



- The steepness of the yield curve in the US has recently eased again. The flattening suggests that the market is expecting a slowdown in economic growth with a more restrictive central bank policy.
- The situation is similar for the German yield curve, although not as pronounced.

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 - 29/10/2021

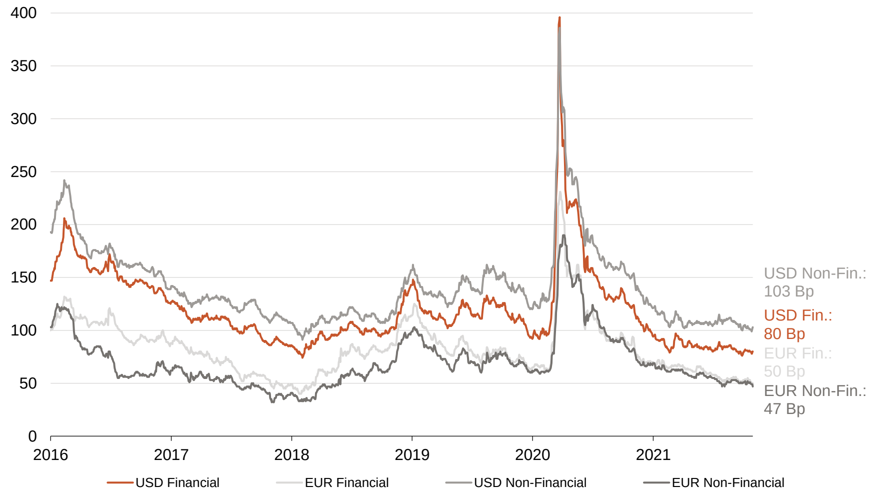
Implicit Changes in Key Interest Rates



- In addition to the rising inflation expectations of market participants, the number of central bank members who do not see a quick end to elevated inflation levels for the time being is also rising. This has led to a significant increase in expectations of a rate hike in recent weeks. For the US and the Eurozone, the market already expects one rate hike by July 2022, while for the UK it is four rate hikes by August 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: 01/01/2021 - 29/10/2021

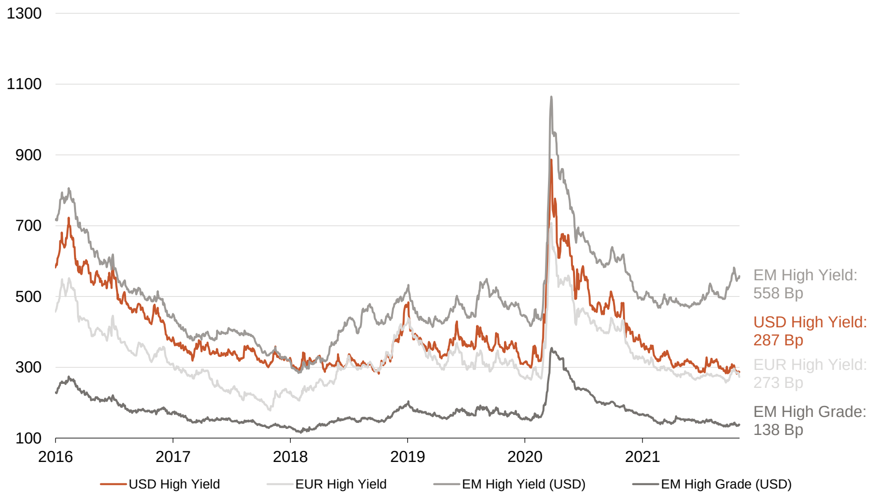
Credit Spreads Financial and Non-Financial Bonds



- Spreads on EUR investment-grade corporate bonds (IG) narrowed slightly further in the last two weeks. However, the further tightening potential is very limited, as spreads are already at historically low levels.
- There was a spread narrowing of 4 bp for both EUR financial bonds and EUR non-financial bonds.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 – 29/10/2021

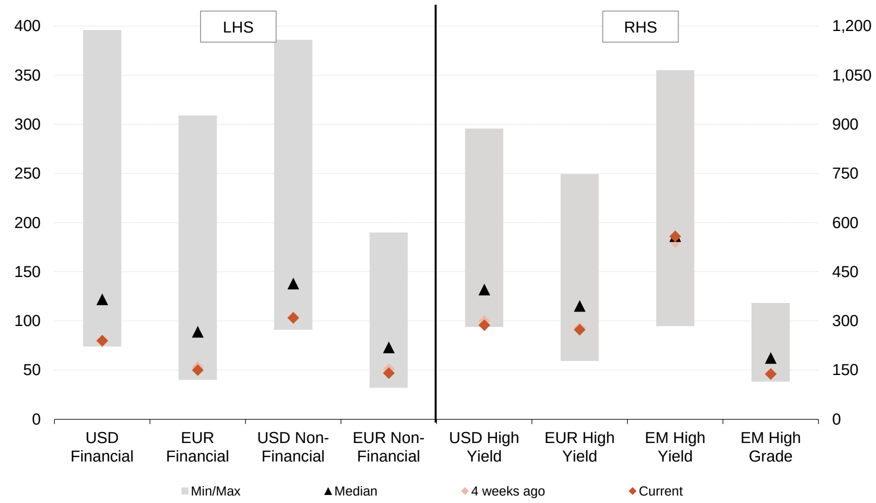
Credit Spreads High Yield and Emerging Markets Bonds



- After the significant widening of spreads on emerging market high-yield bonds due to the real estate crisis in China, there has recently been a marked recovery. In the last two weeks, spreads have fallen by more than 10bps.
- EUR high yield bonds also saw a spread tightening of around 15bps in the last two weeks.

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 – 29/10/2021

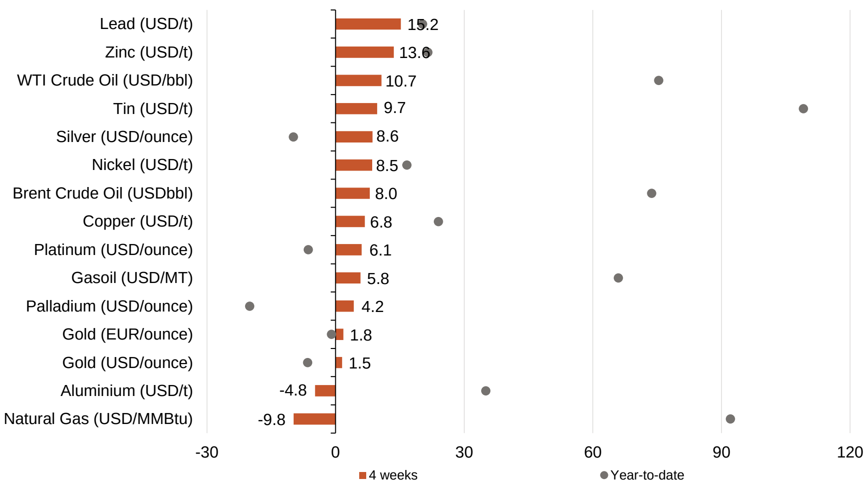
Historical Distribution of Credit Spreads (in bp)



- Spreads on USD high-yield bonds and the bulk of the IG segments are close to the 10-year lows. This makes these segments look relatively unattractive. The situation is different for EM high-yield bonds. After the problems in the real estate sector, there is now potential for a more pronounced narrowing of spreads.

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: 29/10/2011 – 29/10/2021

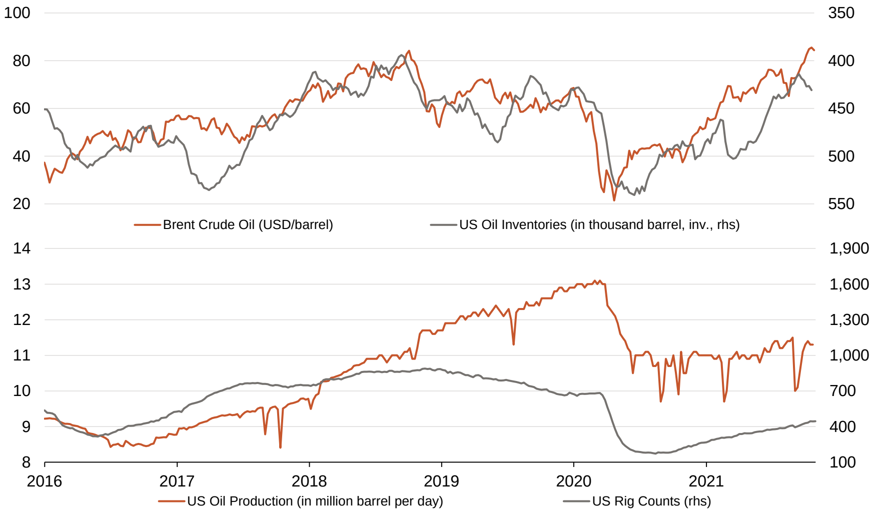
Commodities Performance



- Over the past four weeks, almost all commodities shown here have gained.
- Cyclical commodities such as industrial metals and energy commodities led the way. Gold also made slight gains and almost completely recovered its losses in EUR since the beginning of the year.
- Aluminium was among the weakest performers as China, the world's largest producer of aluminium, announced a cap on coal prices. This should bring down the production costs of aluminium noticeably.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2021 - 29/10/2021

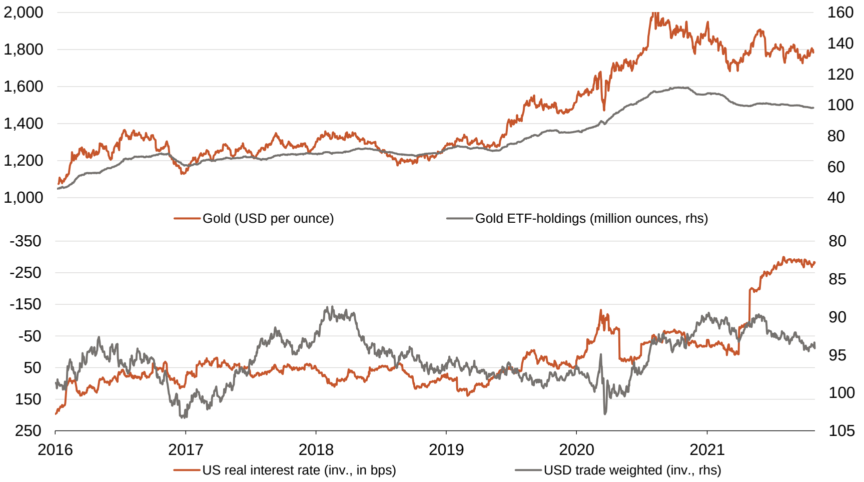
Crude Oil



- The oil price has remained above USD 80 per barrel for the past two weeks.
- The black gold remains in short supply, even though slightly rising inventories were recently observed in the US. Globally, the market is still considerably undersupplied.
- OPEC+ will decide on production increases for December on 4 November. An unscheduled larger increase in production quotas is considered unlikely.

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 - 29/10/2021

Gold



- Gold temporarily cracked the USD 1,800 per ounce mark again in recent days. From the perspective of the last few months, however, this movement is negligible. Gold continues to trend sideways.
- Investors continue to show little interest in gold. In October alone, gold ETFs recorded outflows of 900 thousand ounces.

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 - 29/10/2021

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