BERENBERG
Markets

MONITOR

29 November 2021

Current market commentary

Option expiries often mark turning points. Options market maker tend to influence stock markets less afterwards because the number option contracts to be hedged lessen. The market can breathe more freely. As a result, volatility often increases, especially if there is an external trigger. After the option expiry a week ago, the new, more transmissible Covid-19 virus variant from South Africa is one such trigger. It has significantly increased uncertainty and weighed on oil and cyclical equity market segments in particular, while safe havens such as gold and US government bonds were among the relative winners. Recently, we have increasingly warned that equity markets have become more vulnerable from a positioning and sentiment perspective. Looking ahead, the crucial question is how dangerous the new variant really is. Little is known at the moment. However, if Covid-19 vaccinations also work with this variant, markets should rise again towards the end of the year. Otherwise, things are likely to get more uncomfortable.

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

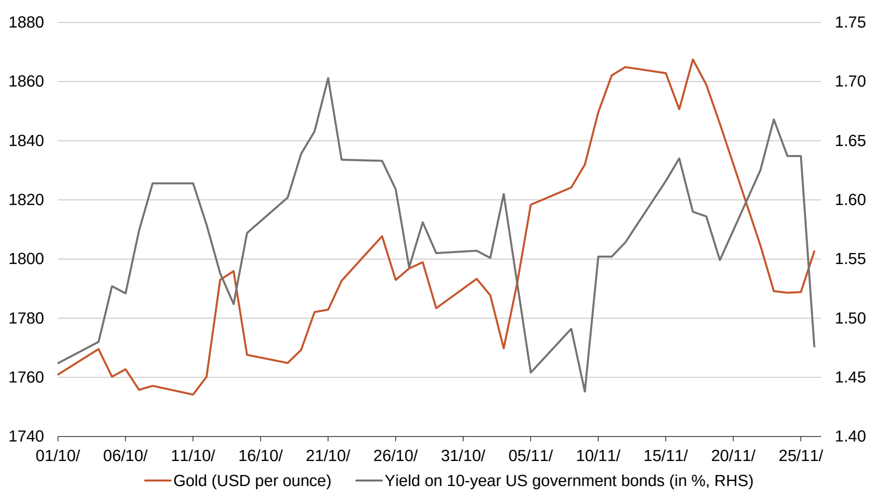
Central banks under inflation and Covid-19 pressure.

With high inflation, an increased number Covid-19 infections and new Covid-19 variant, markets will be eagerly watching the monthly meeting of central banks. The Fed meets on 15 December and the ECB and Bank of England meet on 16 December. Recently, the tone of the central banks has become increasingly hawkish as inflation readings remain high.

Purchasing managers' indices for November provide economic insight against the backdrop of the current Covid-19 wave.

Today the preliminary inflation data (Nov.) for Germany and the Eurozone economic confidence (Nov.) will be published. On Tuesday, Chinese Purchasing Managers' Indices (PMIs) for November, preliminary inflation readings (Nov.) for the Eurozone and US Consumer Confidence (Nov.) will follow. On Wednesday, in addition to German retail sales (Oct.), the industrial PMIs (Nov.) for Europe and the US (ISM) will be published. The corresponding service PMI (Nov.) and US new orders (Oct.) as well as French industrial production data (Oct.) will then follow on Friday.

Back and forth in bond and gold markets



- In recent weeks, both the bond and gold market were distinguished by high volatility. Stagflation worries (high inflation, low growth) and temporarily rising interest rates favoured the back and forth.
- The new Covid-19 virus variant and the current Covid-19 wave caused yields to fall significantly again last Friday. The prospect of more restrictive central banks has diminished and investors headed for safety, which also supported gold.

See explanations on pages 10 and 12.
Source: Bloomberg, Time period: 01/10/2021 - 26/11/2021

Multi Asset

	4W (29/10/21 - 26/11/21)	YTD (31/12/20 - 26/11/21)	26/11/20 - 26/11/21	26/11/19 - 26/11/20	26/11/18 - 26/11/19	26/11/17 - 26/11/18	25/11/16 - 26/11/17
	4-week & YTD		12-month periods over that last 5 years				
Gold	3.0	2.2	4.5	14.6	22.9	-0.1	-3.3
Global Treasuries	2.3	1.5	0.4	0.0	11.3	2.0	-5.5
USDEUR	2.1	7.9	5.2	-7.5	2.8	5.3	-11.2
REITs	1.9	34.0	31.8	-15.4	19.9	1.8	-0.9
Global Coporates	1.5	4.4	3.3	0.9	14.4	1.3	-3.3
MSCI World	0.8	27.6	29.2	6.1	20.5	4.1	8.3
Eonia	0.0	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4
Industrial Metals	-0.3	32.5	32.8	6.0	4.4	-7.9	2.0
Global Convertibles	-0.4	12.0	16.4	23.2	15.1	2.8	5.2
MSCI Frontier Markets	-1.1	29.6	32.1	-5.8	13.2	-7.2	15.5
MSCI Emerging Markets	-1.2	4.4	7.0	11.0	13.3	-8.8	22.5
Brent	-10.9	63.9	70.5	-37.3	17.2	6.8	11.0

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, gold has been the strongest performer. Since the start of the year, gold has turned positive now.
- Concerns about a more dangerous Covid-19 mutation on the other hand, have recently weighed on crude oil in particular.
- Meanwhile, the US dollar continued to strengthen against the euro, supported by increasing expectations of US interest rate hikes next year. The euro was also burdened by the new lockdowns in individual European countries.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/11/2016 – 26/11/2021

Equities

	4W (29/10/21 - 26/11/21)	YTD (31/12/20 - 26/11/21)	26/11/20 - 26/11/21	26/11/19 - 26/11/20	26/11/18 - 26/11/19	26/11/17 - 26/11/18	25/11/16 - 26/11/17
	4-week & YTD		12-month periods over that last 5 years				
Topix	2.2	11.3	10.8	3.4	14.8	-3.2	11.8
S&P 500	2.0	34.0	35.4	8.9	23.3	10.2	6.5
MSCI USA Small Caps	-0.1	27.6	32.5	5.3	15.0	6.1	2.7
MSCI EM Asia	-0.4	2.4	4.7	19.9	14.2	-10.3	26.9
Stoxx Europe 50	-2.1	19.0	20.1	-5.5	18.3	-4.6	15.4
Stoxx Europe Defensives	-2.2	16.2	16.5	-5.4	15.7	3.9	11.0
MSCI UK	-2.7	20.0	21.4	-16.2	12.5	0.2	7.0
DAX	-2.8	11.2	14.8	0.4	16.6	-13.1	22.1
Stoxx Europe Small 200	-3.1	18.6	24.3	2.6	18.7	-5.1	20.6
Stoxx Europe Cyclicals	-3.6	19.7	23.1	-1.0	16.4	-9.5	19.4
Euro Stoxx 50	-3.7	17.3	18.8	-3.3	20.1	-9.1	20.4
MSCI EM Eastern Europe	-12.1	23.6	29.7	-19.2	30.5	0.0	16.0

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.

- US equities recently continued to outperform, supported by massive equity redemptions, ETF inflows and a stronger US dollar.
- Eastern Europe has recently been the worst performer. Oil price consolidation and profit-taking have exerted pressure.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/11/2016 – 26/11/2021

Fixed Income

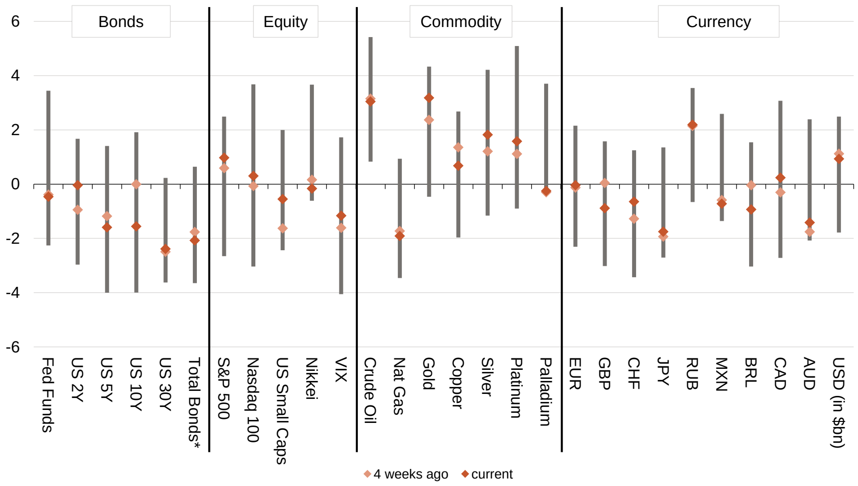
	4W (29/10/21 - 26/11/21)	YTD (31/12/20 - 26/11/21)	26/11/20 - 26/11/21	26/11/19 - 26/11/20	26/11/18 - 26/11/19	26/11/17 - 26/11/18	25/11/16 - 26/11/17
	4-week & YTD		12-month periods over that last 5 years				
Treasuries	2.8	5.9	3.1	-0.8	13.5	3.6	-9.1
Gilts	2.3	2.6	3.5	1.6	14.5	0.4	-1.5
USD Corporates	1.9	7.0	5.2	0.6	18.5	2.2	-5.6
Bunds	1.8	-1.2	-1.3	1.6	5.5	0.9	-0.8
EM Local Currency Bonds	1.7	5.1	4.5	-1.8	11.7	1.2	1.4
BTPs	1.5	-1.6	-1.2	6.6	15.4	-5.9	4.2
EUR Inflation Linkers	0.9	5.5	6.2	2.3	7.4	-2.3	4.2
USD High Yield	0.7	10.3	9.3	-2.9	13.6	5.7	-3.8
EUR Financials	0.1	-0.7	-0.5	2.1	6.1	-1.8	4.0
EUR Non-Financials	0.1	-1.3	-1.3	2.8	6.8	-1.7	2.7
EUR High Yield	-0.3	2.5	3.2	2.1	7.3	-2.7	6.8
EM Hard Currency Bonds	-1.6	-4.5	-3.0	3.5	9.4	-7.4	7.8

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.

- US Treasuries have recently been in demand again as a safe haven. Yields on 10-year bonds fell by 16bps last Friday alone after concerns about the new virus variant from South Africa increased significantly.
- Hard EM government bonds on the other hand, lost value and remain the worst-performing 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: 26/11/2016 – 26/11/2021

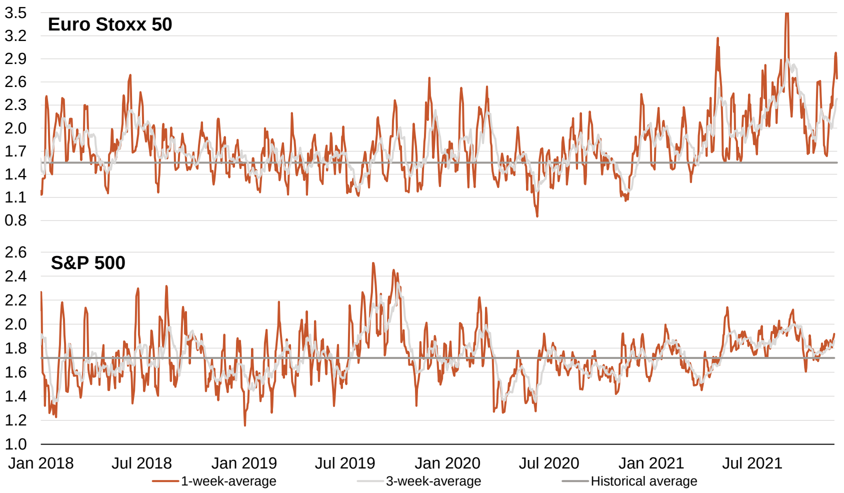
Non-Commercial Positioning



- The distinct short positioning of hedge funds in US government bonds limits upside potential of US yields, while adverse news led to a sharp decline in bond yields.
- Speculative investors have recently become somewhat more risk-averse again, especially on the equity side.

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: 16/11/2011 - 16/11/2021

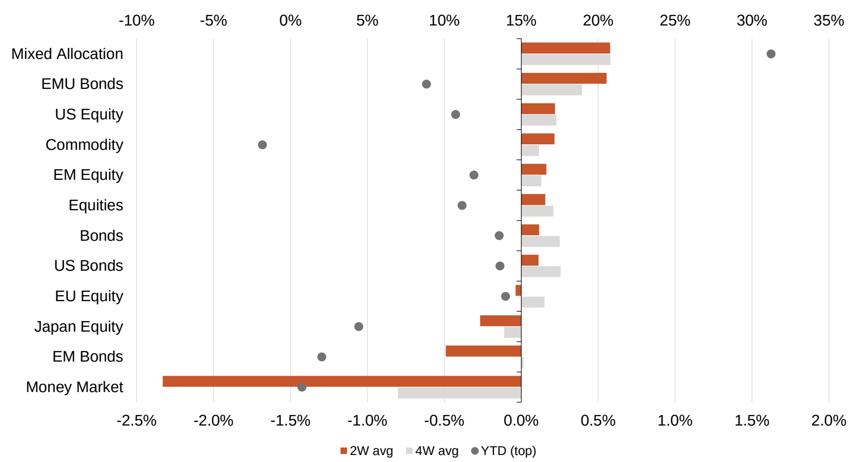
Put-Call Ratio



- The put-call ratio for European equities has recently jumped significantly. Investors are likely to have demanded more hedging. For US equities, however, the picture looks different, with the put-call ratio remaining close to its historical average.

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 - 26/11/2021

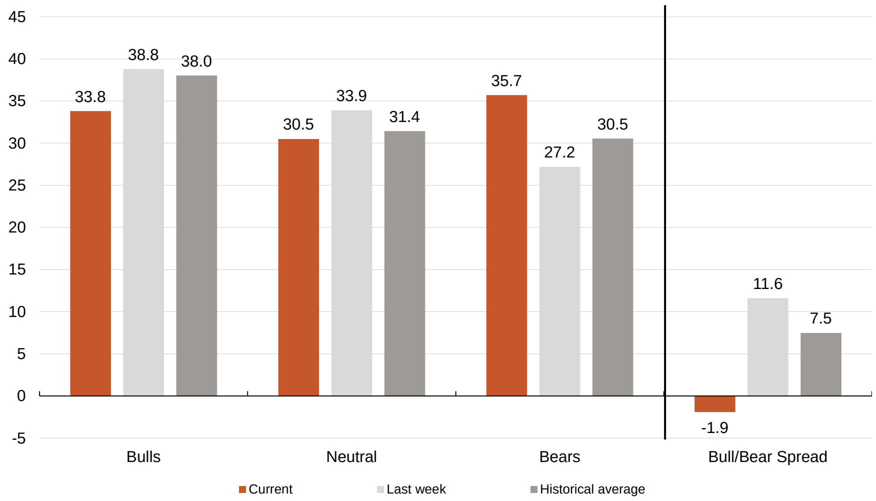
ETF Flows



- ETF investors have recently been demanding multi-asset vehicles, European bonds and commodities in particular.
- Money market ETFs, on the other hand, have been heavily reduced.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 - 26/11/2021

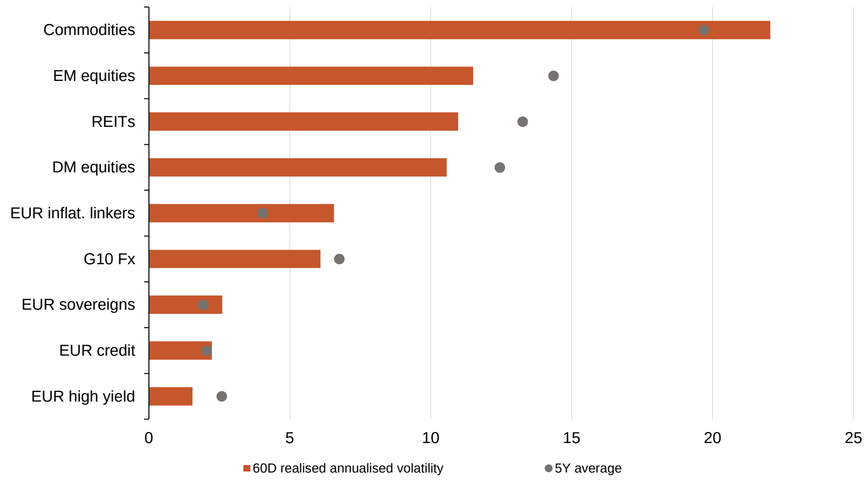
AAII Sentiment Survey (Bulls vs Bears)



- The mood among US private investors has turned noticeably in the last two weeks. Recently, there were more pessimists than optimists again. The recent setback on the stock markets was therefore not unexpected.

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 - 25/11/21

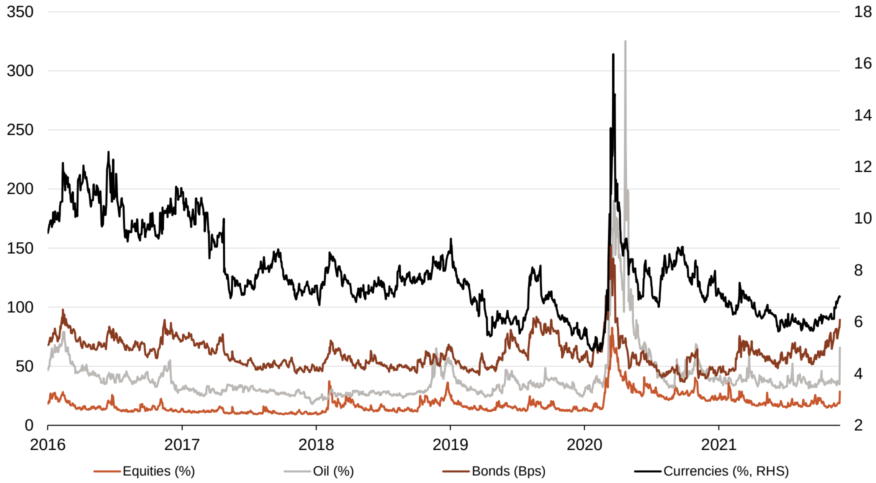
Realised Volatilities



- Almost all of the investment segments shown currently have below-average realised volatility.
- EUR inflation-linked bonds are an exception. Here, it is primarily the recent strong fluctuations in inflation expectations that have caused volatility.
- The yields of government and corporate bonds have also fluctuated strongly under this influence recently, which led to increased volatility in the segments.

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: 26/11/2016 - 26/11/2021

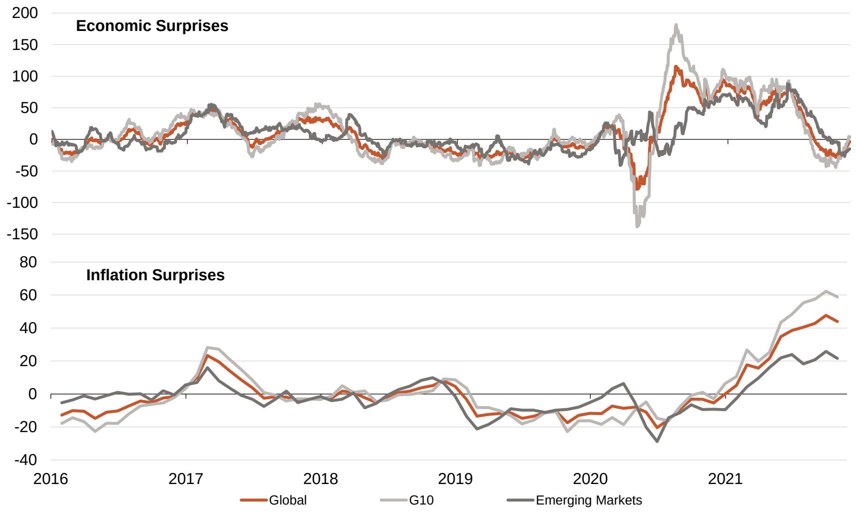
Implied Volatilities



- Implied volatility in equities and oil has increased significantly in recent days due to Covid-19 concerns.
- The implied volatility of currencies, and to a lesser extent government bonds, has also increased markedly.

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 - 26/11/2021

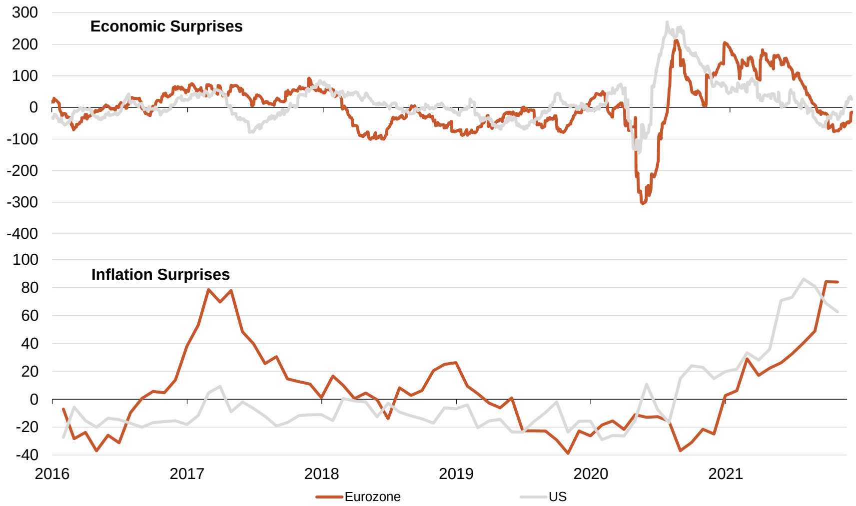
Global



- Despite the 4th Covid-19 wave, the G10 economic surprise index has risen notably in the past four weeks. While economic surprises in the Eurozone were subdued, US economic data were able to surprise noticeably upwards.
- The economic surprise index for emerging markets, on the other hand, rose only marginally. In China, retail sales and industrial production surprised to the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 26/11/2021

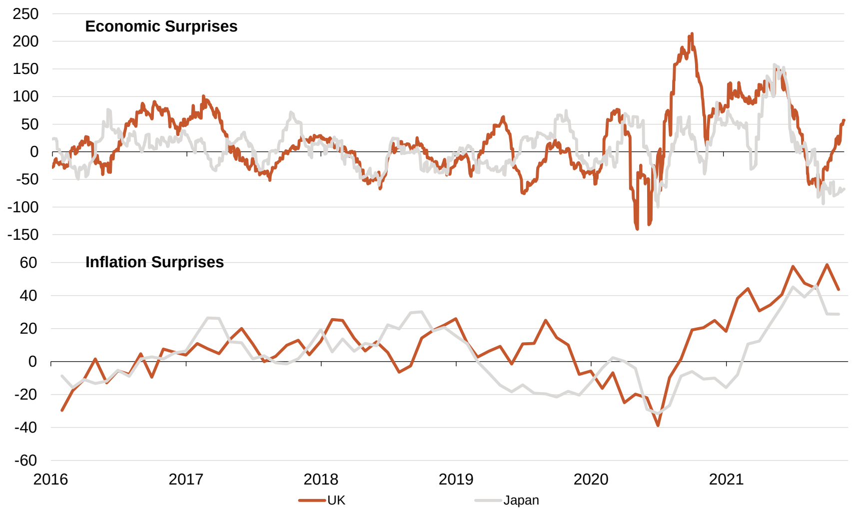
Eurozone and US



- Economic data in the US continues to surprise on the upside. Most recently, retail sales, industrial production data, various sentiment indicators and labour market data have beaten expectations.
- The economic surprise index for the Eurozone is still on its way to positive territory. However, this trend could break due to the current Covid-19 wave. Most recently, the purchasing managers' indices have surprised positively, while the German Ifo index has disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 26/11/2021

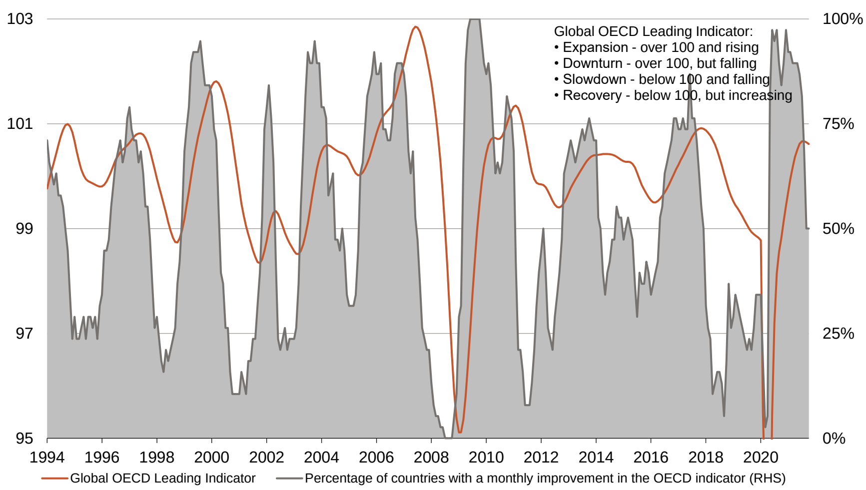
UK and Japan



- The UK continues to record positive surprises. Most recently, the purchasing managers' indices, retail sales and labour market data have surprised positively.
- Japan, on the other hand, continues to struggle with a sideways trend in negative territory.

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 - 26/11/2021

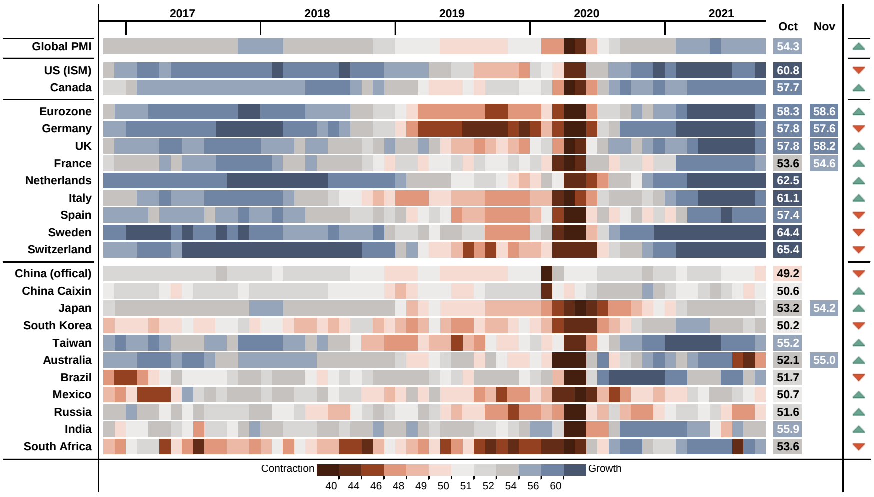
OECD Leading Indicator



- The economic recovery in the OECD area has probably now peaked, as implied by the OECD index, which is now falling.
- This picture has also sharpened at a country level in the last two weeks. Only half of countries improved 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 – 31/10/2021

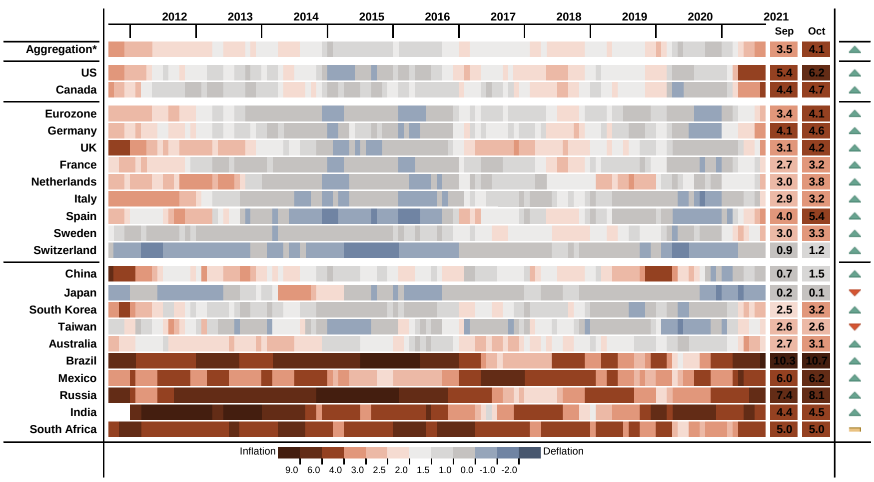
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- Despite the recent rise in Covid-19 concerns, the Eurozone PMI surprisingly posted a slight gain.
- Moreover, the improved sentiment of managers in Australia and Japan continues.

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 – 31/10/2021

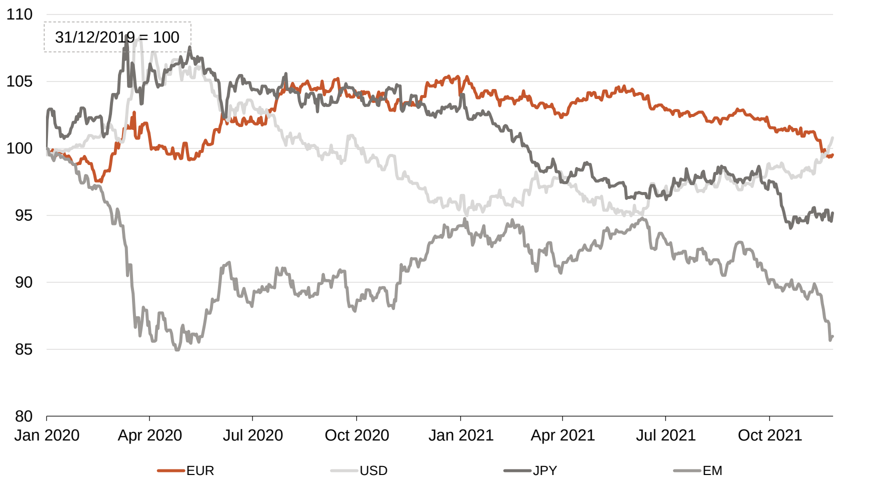
Headline Inflation



- After the publication of high US inflation figures, the remaining industrialised countries, except Japan, also followed with significant inflationary spurts.
- Globally, inflation rose to 4.1% year-on-year.
- The UK recorded its highest price increase in a decade with 4.2%. Here, too, higher energy and food prices led the field.

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 – 31/10/2021

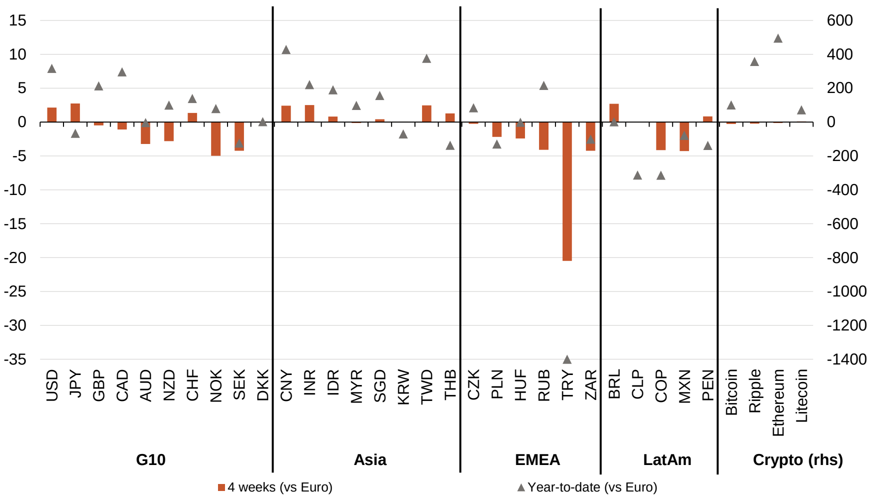
Trade-Weighted Currency Development



- In trade-weighted terms, the euro has lost considerable value in recent weeks. Asian currencies and the US dollar have gained in value against the euro. One reason was the Covid-19 crisis, which is particularly affecting Europe.
- EM currencies, however, lost even more value. The reasons were the oil price setback and the currency crisis in Turkey.

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 - 26/11/2021

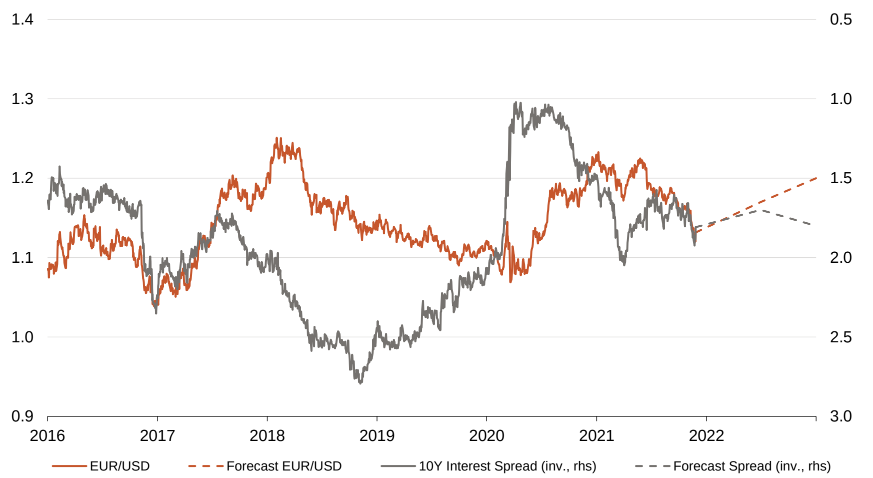
Currency Moves vs Euro



- The euro has also shown its weak side in recent weeks, after several countries in Europe again took lockdown measures. The bulk of Asian currencies as well as the US dollar, for example, have gained significantly against the euro.
- The Turkish lira, on the other hand, has depreciated significantly against the euro. The currency crisis due to unchecked very high inflation rates thus continues unabated.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2020 - 26/11/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The rising interest rate differential between the US and the eurozone recently weighed heavily on the euro. The EUR/USD exchange rate recently fell below the 1.13 mark. A recovery has not been in sight so far.
- In the medium term, however, our economists expect a significantly stronger euro with an almost unchanged interest rate differential.

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

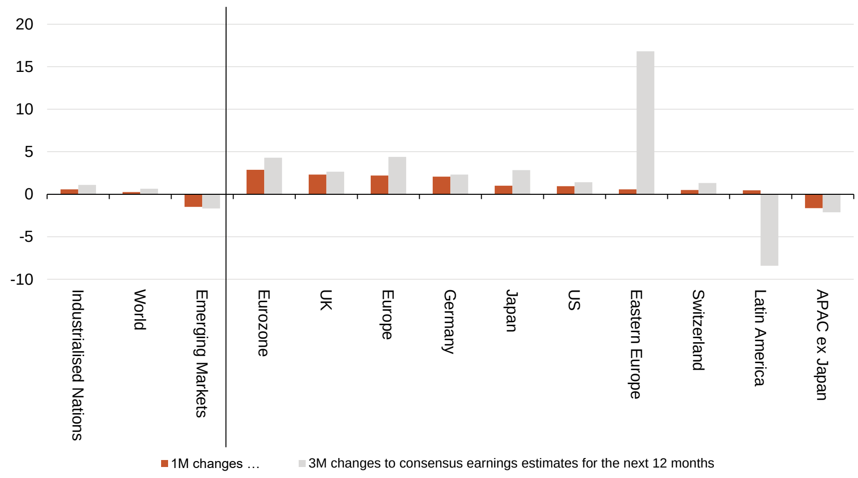
	4-week & YTD		12-month periods over that last 5 years				
	4W (29/10/21 - 26/11/21)	YTD (31/12/20 - 26/11/21)	26/11/20 26/11/21	26/11/19 26/11/20	26/11/18 26/11/19	26/11/17 26/11/18	25/11/16 26/11/17
Telecommunications	2.3	11.1	11.0	-14.4	1.3	-3.8	6.0
Consumer Staples	1.2	15.4	16.1	-2.7	16.9	-3.5	12.6
Materials	-0.4	16.8	23.4	5.9	18.7	-8.3	19.5
Utilities	-0.7	3.0	5.0	14.2	23.9	1.7	17.7
Growth	-1.1	22.5	26.5	4.1	23.6	-4.0	16.6
Health Care	-1.3	19.4	19.5	0.0	22.8	4.3	8.1
Industrials	-2.1	20.1	22.0	2.7	26.2	-7.1	20.0
Consumer Discretionary	-2.4	18.6	23.2	4.4	21.1	-6.1	15.0
Information Technology	-3.5	31.0	39.7	9.3	29.4	-6.1	29.7
Value	-3.5	14.9	15.2	-11.3	9.8	-4.8	14.7
Finance	-6.1	21.2	21.2	-12.8	8.7	-11.1	18.0
Energy	-7.5	27.0	23.6	-32.1	3.1	7.9	14.2

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.

- Defensive sectors were the clear winners of the last four weeks in Europe. Telecommunications companies also benefited from takeover bids.
- Energy stocks, on the other hand, brought up the rear, weighed down by consolidation in the oil price.

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: 26/11/2016 – 26/11/2021

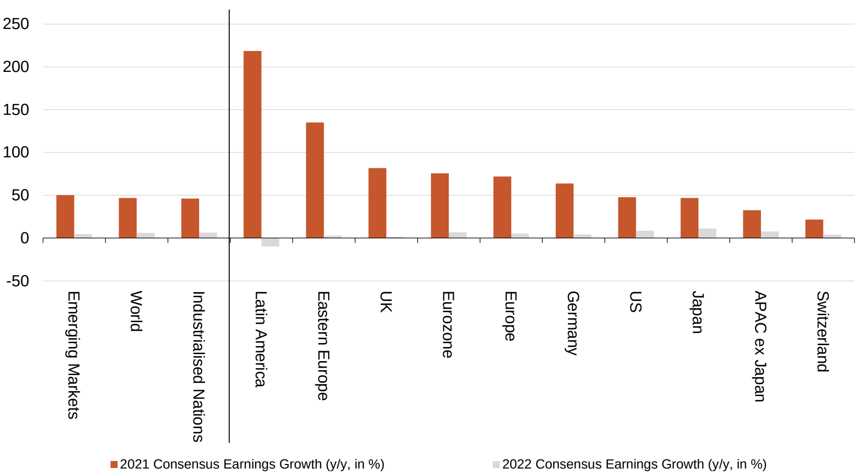
Changes in Consensus Earnings Estimates



- Over the past month, analysts have raised earnings estimates the most for Europe. But the US and Japan also saw positive earnings revisions.
- For Asia Pacific ex Japan, on the other hand, earnings expectations for the next 12 months were lowered.

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 26/11/2021

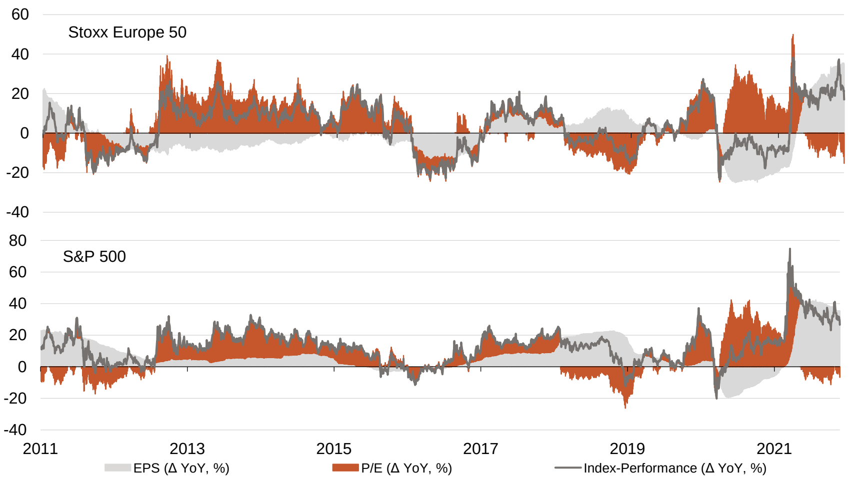
Earnings Growth



- The easy comparisons in profit growth will soon be over. Next year, companies will no longer have to compare themselves with the weak year of 2020, but with the strong year of 2021. Accordingly, profit growth rates for all regions are lower.

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 26/11/2020

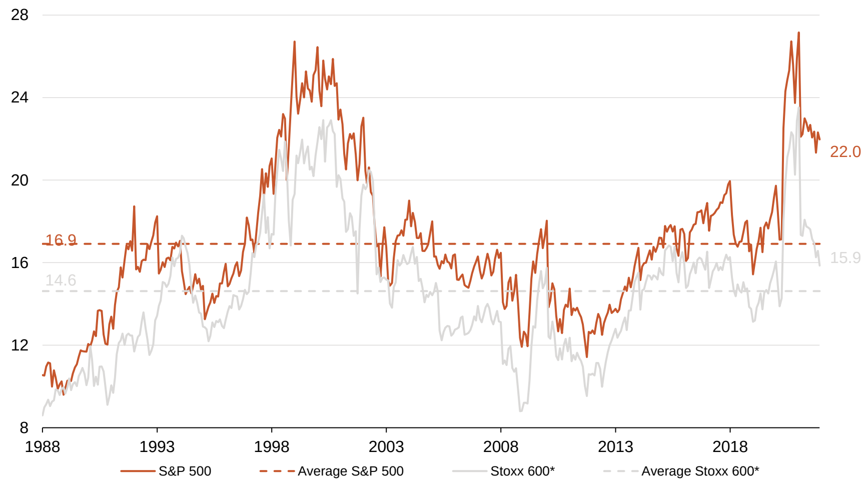
Contribution Analysis



- Despite the massive rally in 2021, stock markets have fallen relative to the previous year. This is due to the enormous increase in profits of stock market companies. In the USA, for example, profits have risen by about 40% 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 - 26/11/2021

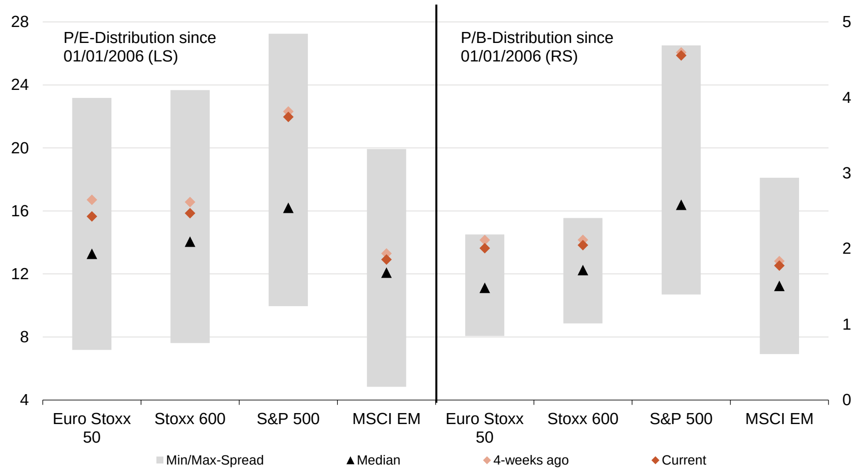
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- A rise in the S&P 500 over the past month has pushed the P/E level up to 22. The US market has thus risen more than earnings estimates for US companies.
- In Europe it was the other way around. The market has risen less than earnings estimates, and the P/E level has fallen accordingly.

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 - 26/11/2021

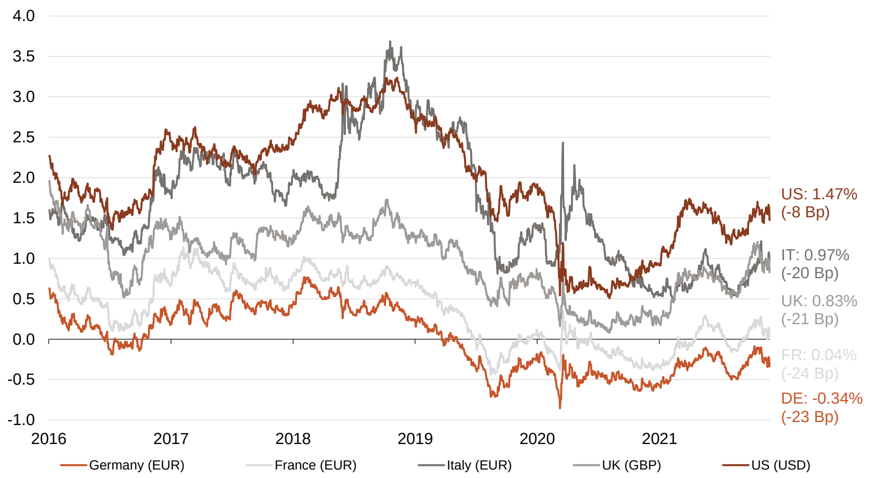
Historical Distribution: Price/Earnings and Price/Book Ratio



- All the equity regions shown here are currently valued at above-average levels on both a P/E and a P/B basis. Emerging market equities are still the cheapest relatively according to these valuation ratios.
- However, relative to bonds, which have negative real interest rates, stocks remain attractively valued.

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 - 26/11/2021

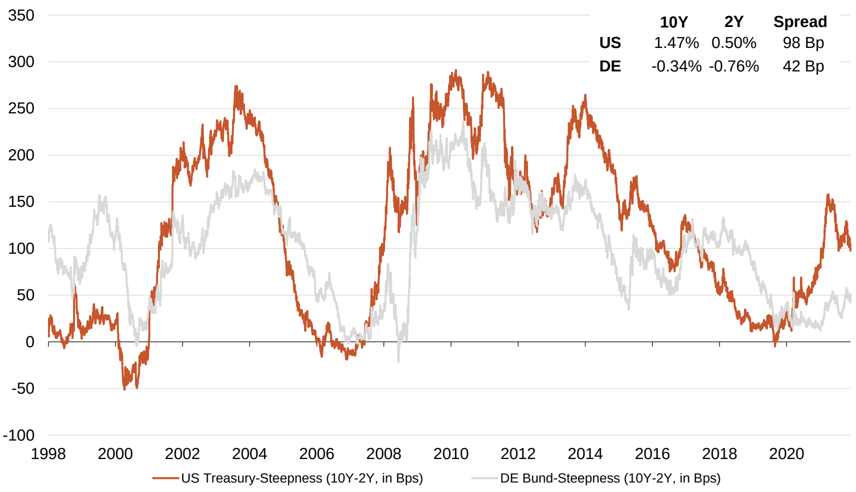
10-Year Government Bond Yields



- The increasingly hawkish statements by Fed members, in addition to high inflation, is keeping the 10-year US bond yield at a level of around 1.5% despite Covid-19 concerns.
- The yield on 10-year German government bonds fell below -0.3% in recent weeks. Europe is much more affected by the current Covid wave than other regions.

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 - 26/11/2021

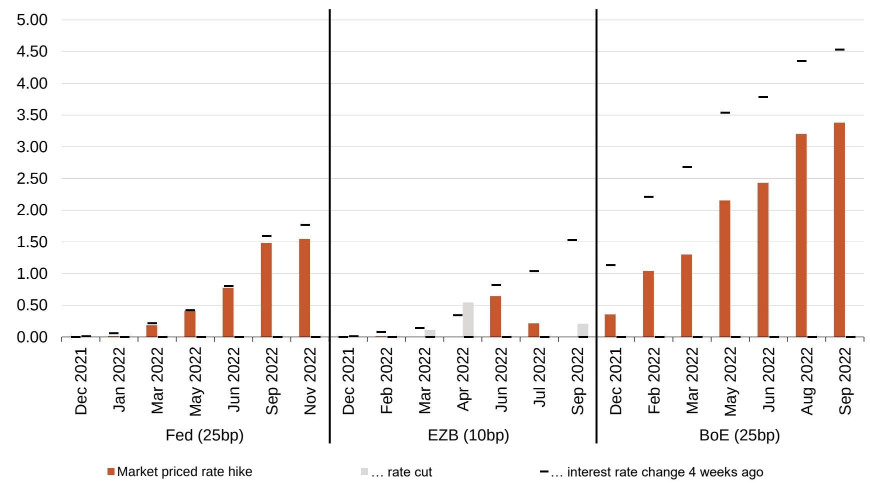
Yield Curve Steepness (10Y - 2Y)



- Stagflation concerns (high inflation, low growth) continue to dominate the bond market. This is reflected in the steepness of the US yield curve, which has flattened again in the last two weeks. Yields at the short end of the curve have thus risen more strongly than at the long end.

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 - 26/11/2021

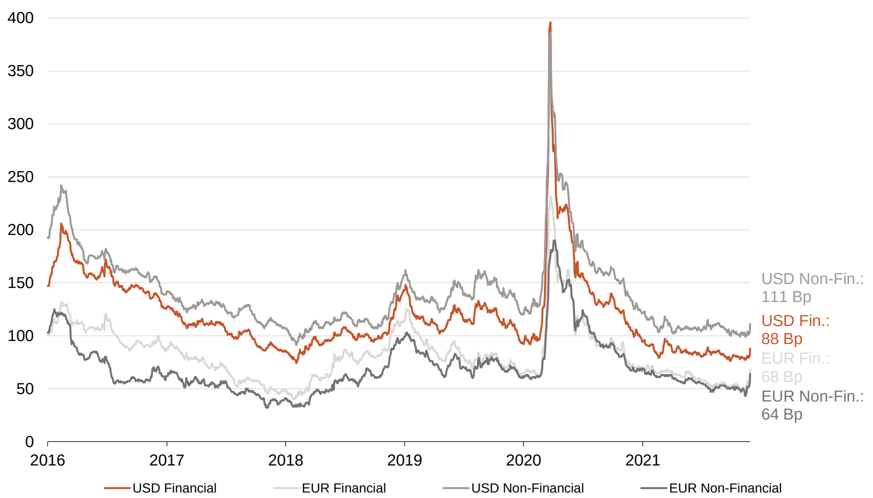
Implicit Changes in Key Interest Rates



- The market continues to price a significant rate hike in 2022 for the US and the UK. By November 2022, at least one interest rate hikes for the US and at least three interest rate hikes for the UK are being priced.
- For the ECB, the market expects only a 50% probability of a rate hike in 2022. The renewed Covid-19 outbreak has thus reduced the prospect of a more punitive interest rate policy.

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 - 26/11/2021

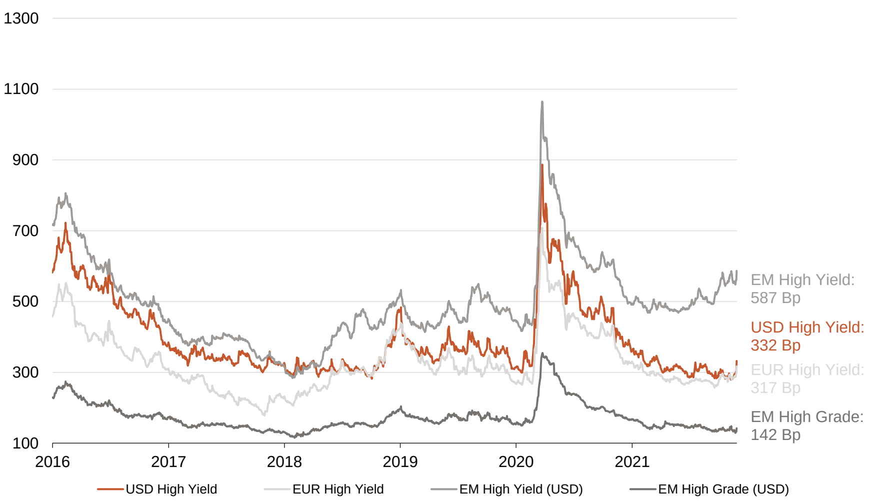
Credit Spreads Financial and Non-Financial Bonds



- The increased volatility in stock markets has also spread to bond markets. Risk premiums on investment-grade corporate bonds have risen markedly in the last two weeks.
- This has hit EUR corporate bonds in particular, as the market sees the renewed lockdown measures in Europe as a risk to corporate solvency.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 – 26/11/2021

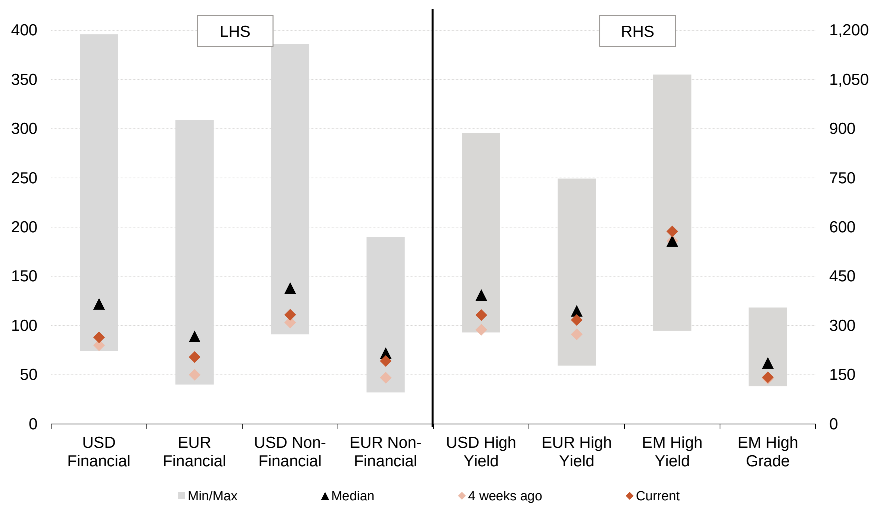
Credit Spreads High Yield and Emerging Markets Bonds



- In high-yield bonds, on the other hand, risk premiums increased significantly for both USD and EUR high-yield bonds.
- In the last two weeks, risk premiums on USD high-yield bonds have risen by around 50 basis points (bps) and on EUR high-yield bonds by around 30 bps.

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 – 26/11/2021

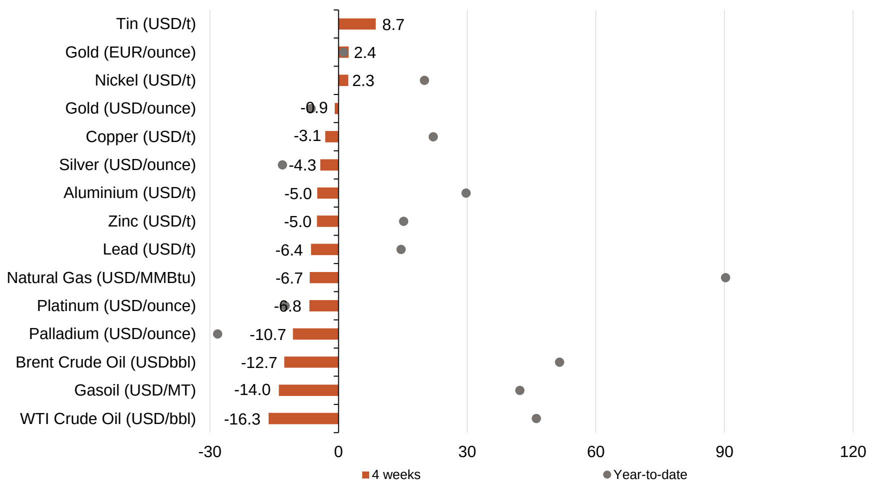
Historical Distribution of Credit Spreads (in bp)



- Although risk premiums on EUR corporate bonds have risen in the last two weeks, they are still below the 10-year median. Thus, in addition to USD corporate bonds, EUR corporate bonds remain historically expensive but more attractive than two weeks ago.

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: 26/11/2011 – 26/11/2021

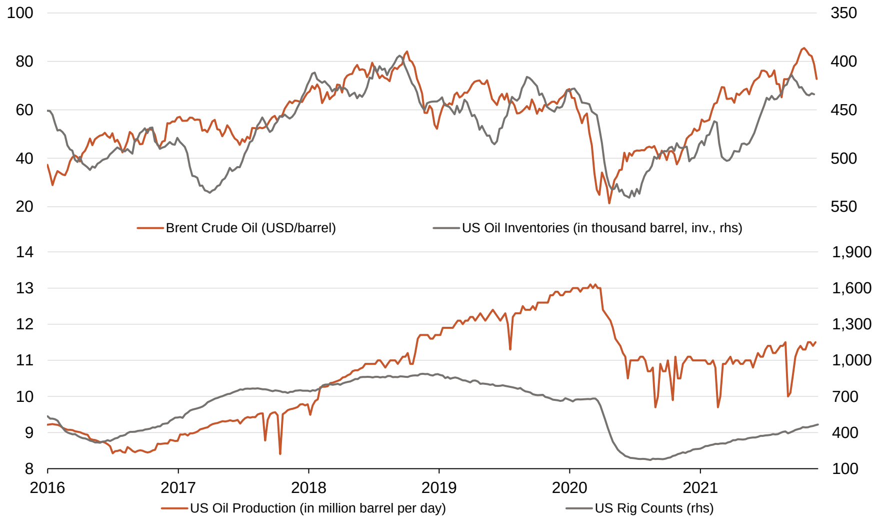
Commodities Performance



- With the Covid 19 worries, growth fears have also returned, leading to a massive price drop in energy commodities.
- Under the impression of an overall weak commodity performance in recent weeks, tin and nickel in particular were able to stand out again and thus continued their annual rally. Aluminium, on the other hand, remains under pressure in the wake of record production and a global oversupply.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2021 – 26/11/2021

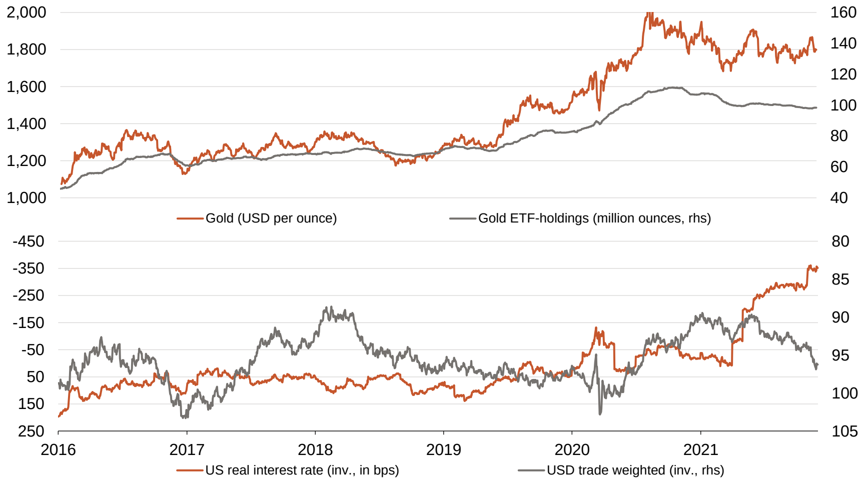
Crude Oil



- Growth concerns due to the new Covid 19 virus variant and the fourth Covid wave weighed heavily on the price of crude oil. In addition, the USA recently announced that it would release 50 million barrels of crude oil from strategic reserves. However, OPEC+ has already announced that it will suspend production increases if necessary.

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 – 26/11/2021

Gold



- After its recent strong performance under the influence of surprisingly high US inflation figures, gold was only in limited demand recently. Even the Covid-19 concerns could not sustainably support the precious metal.
- Gold recently fluctuated around the USD 1,800 per ounce mark as the US dollar tended to strengthen.

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 – 26/11/2021

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IMPORTANT NOTICES

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