Current market commentary

Equities have recently shown a volatile sideways trend. However, under the surface, two segments have declined more significantly. Cyclical stocks were weighed down by concerns about the economy due to the Omicron variant, while unprofitable tech companies came under pressure due to interest rate hike fears. Against this backdrop, the US yield curve also flattened considerably. Short-term yields rose as markets are now pricing in more Fed rate hikes, and long-term yields fell due to the risk-off environment. The flattening was exacerbated by hedge funds that had bet heavily on a steeper curve and now had to reduce this position. The latest environment could be a precursor to 2022. The investment consensus is divided. On one side are the optimists who believe in double-digit equity returns without much disruptive fire. On the other side are the pessimists who expect a sharper correction due to tighter Fed policy. In our opinion, the truth lies in the middle.

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

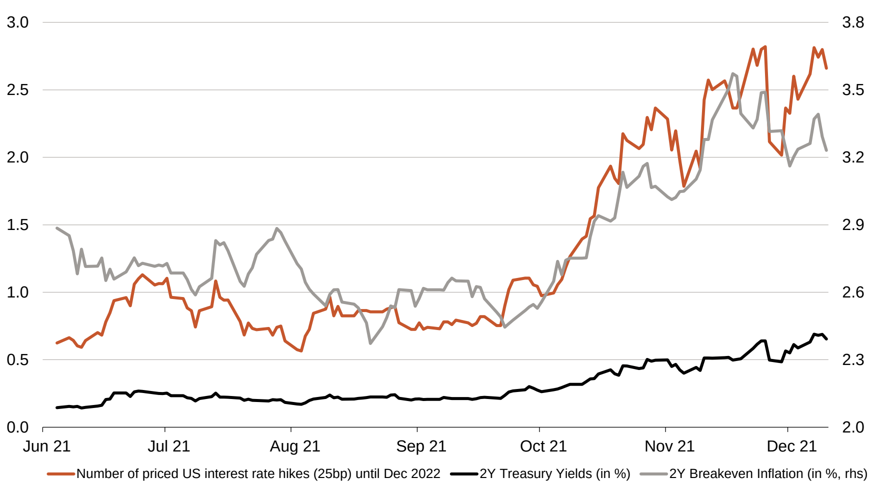
Central banks set the tone.

Central banks are likely to be in focus this week. The Fed will hold its monthly meeting on 15 December, the ECB and the Bank of England on 16 December and the Bank of Japan on 17 December. An interest rate hike by one of the central banks is unlikely - only the BoE has a certain chance. However, the tone of central banks is likely to become more restrictive as inflation remains high. An EU summit will also take place on 16 December. On the agenda are COVID-19, crisis management, energy prices, security and migration.

Macro data-intensive week ahead.

This Tuesday, EUR industrial production data (Oct.) and US producer prices (Nov.) will be released. Chinese industrial production data (Nov.), UK consumer prices (Nov.) and US retail sales (Nov.) will be released on Wednesday. Preliminary purchasing managers' indices for Europe and the US (Dec.) and US industrial production data (Nov.) will follow on Thursday. The Ifo index will be published on Friday.

Market increasingly pricing in Fed rate hikes next year



- Until October, markets had only priced in one Fed rate hike for 2022.
- Positive economic surprises and high inflation in the US, higher inflation expectations and the Fed's understanding that inflation is probably not so temporary after all have led to a rethink.
- In the meantime, the market assumes that there will be almost three interest rate hikes next year. Accordingly, short-dated US bond yields have recently risen significantly. The US dollar has appreciated.

Source: Bloomberg, Time period: 04/06/2021 - 10/12/2021

Multi Asset

	4W (12/11/21 - 10/12/21)	YTD (31/12/20 - 10/12/21)	10/12/20 - 10/12/21	10/12/19 - 10/12/20	10/12/18 - 10/12/19	10/12/17 - 10/12/18	09/12/16 - 10/12/17
REITs	2.8	36.8	38.9	-16.9	16.8	2.6	-3.7
Global Treasuries	1.4	1.8	1.7	-0.4	9.7	2.1	-4.6
USDEUR	1.1	7.9	7.3	-8.6	2.4	3.7	-10.3
Global Coporates	0.9	4.6	4.6	0.3	13.8	0.2	-2.6
MSCI World	0.1	29.7	31.7	6.7	22.5	-0.7	7.6
Eonia	0.0	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4
Industrial Metals	-1.0	33.0	27.7	12.6	3.4	-3.7	-2.2
MSCI Frontier Markets	-2.1	28.1	31.5	-7.6	14.1	-9.5	17.7
MSCI Emerging Markets	-2.4	5.6	7.9	11.8	14.6	-8.1	16.0
Gold	-3.3	1.4	4.1	14.6	20.5	3.3	-3.4
Global Convertibles	-3.8	10.4	13.2	25.7	15.4	2.4	3.4
Brent	-5.5	72.2	76.5	-36.9	19.6	4.3	-0.4

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 uncertainty surrounding the omicron variant has led to a significant decline in long-dated yields for government bonds. As a result, REITs were able to gain as well as government bonds.
- Risk assets, on the other hand, underperformed in the last four weeks, especially oil. However, Brent oil is still up more than 70% since the beginning of the year.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 10/12/2016 – 10/12/2021

Equities

	4W (12/11/21 - 10/12/21)	YTD (31/12/20 - 10/12/21)	10/12/20 - 10/12/21	10/12/19 - 10/12/20	10/12/18 - 10/12/19	10/12/17 - 10/12/18	09/12/16 - 10/12/17
S&P 500	1.9	37.3	39.5	9.1	24.2	5.0	7.4
MSCI UK	-0.3	23.6	23.3	-14.4	20.0	-8.2	5.1
Stoxx Europe 50	-1.1	22.8	23.2	-4.3	23.5	-9.5	11.1
Stoxx Europe Defensives	-1.3	18.4	18.1	-4.1	18.8	-0.5	9.0
Topix	-1.6	10.4	11.9	0.9	18.3	-6.5	10.0
MSCI EM Asia	-2.0	3.3	6.0	20.6	15.1	-9.6	20.4
DAX	-2.9	13.9	17.5	1.7	23.1	-19.2	17.4
Stoxx Europe Cyclicals	-3.4	22.8	25.4	0.4	24.5	-16.4	14.0
Euro Stoxx 50	-3.8	20.5	21.5	-2.1	25.1	-13.8	15.1
Stoxx Europe Small 200	-4.7	19.3	24.8	2.9	25.5	-11.6	19.0
MSCI USA Small Caps	-5.6	26.1	28.2	8.4	18.7	-0.1	1.3
MSCI EM Eastern Europe	-7.4	26.4	24.8	-13.6	25.2	6.5	5.1

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.

- Cyclical equity segments such as Eastern Europe or small caps in the US and Europe, have recently been among the underperformers, as investors price in the negative consequences for the global economy of the more restrictive measures due to the omicron variant.
- US large caps, on the other hand, have held up over the past four weeks.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 10/12/2016 – 10/12/2021

Fixed Income

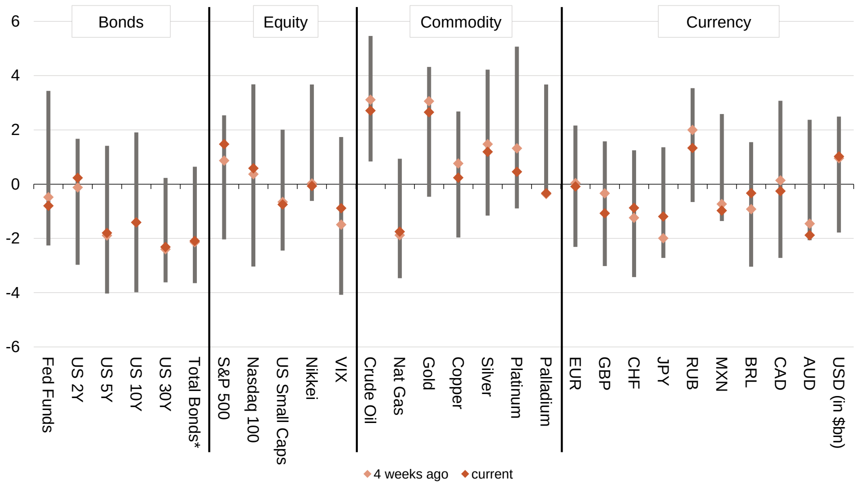
	4W (12/11/21 - 10/12/21)	YTD (31/12/20 - 10/12/21)	10/12/20 - 10/12/21	10/12/19 - 10/12/20	10/12/18 - 10/12/19	10/12/17 - 10/12/18	09/12/16 - 10/12/17
Gilts	3.0	3.1	4.9	0.0	13.7	0.5	-1.4
Treasuries	1.5	5.7	4.8	-1.6	11.2	3.1	-8.0
EM Local Currency Bonds	1.2	6.3	6.2	-2.2	11.5	0.0	0.4
USD Corporates	1.0	6.8	6.6	-0.2	17.4	0.9	-4.5
USD High Yield	1.0	11.8	11.7	-3.7	13.8	4.0	-4.4
Bunds	0.6	-1.1	-1.3	2.3	3.8	1.4	0.7
BTPs	0.1	-1.5	-1.4	7.5	13.3	-5.7	4.7
EUR Inflation Linkers	0.1	6.8	6.8	3.0	6.3	-2.4	4.6
EUR Financials	0.0	-0.2	-0.2	2.3	6.6	-2.5	4.6
EUR Non-Financials	-0.1	-0.6	-0.8	3.0	7.0	-2.2	3.3
EUR High Yield	-0.1	3.0	3.0	2.4	9.2	-3.6	5.6
EM Hard Currency Bonds	-0.3	-3.1	-2.1	3.7	8.4	-6.4	7.4

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

- A rare picture this year - many bond segments are considerably up! Safe government bonds in particular gained in the wake of the risk-off environment. USD bonds also benefited from the appreciation of the USD.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 10/12/2016 – 10/12/2021

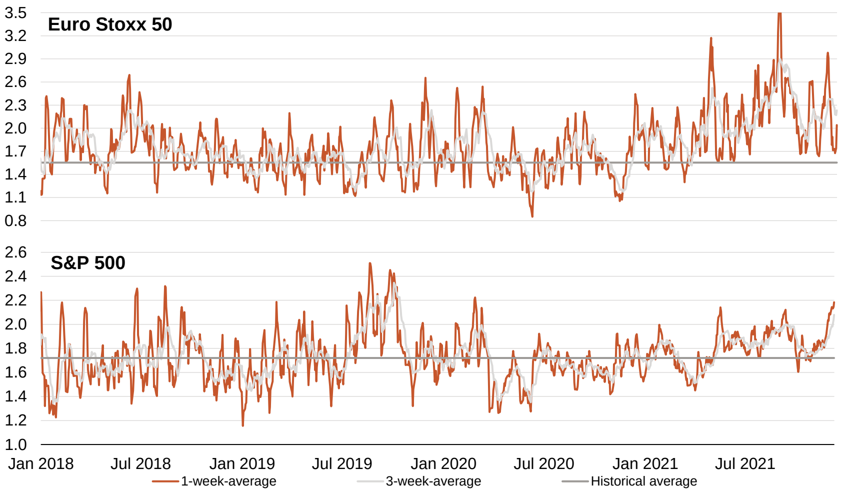
Non-Commercial Positioning



- Many hedge funds have speculated on a steepening of US interest rates by taking long positions in 2-year and short positions in 10-year Treasury futures. However, since the curve has flattened considerably recently due to interest rate hike fantasies and omicron worries, they now have to realise losses.

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: 07/12/2011 - 07/12/2021

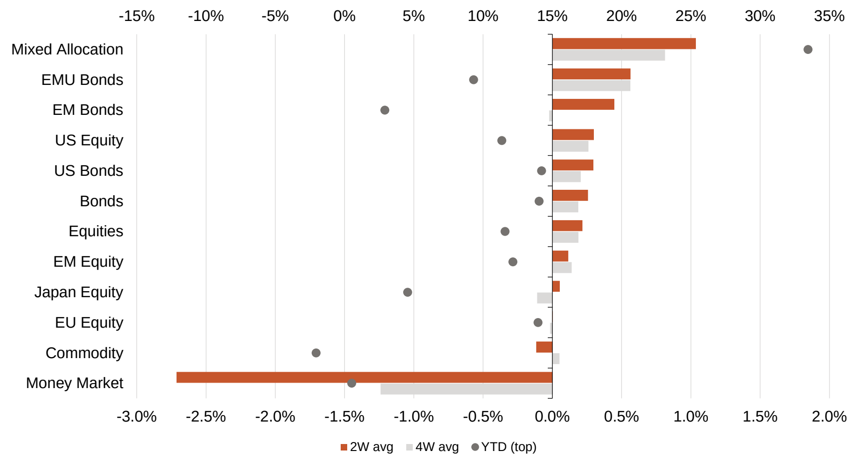
Put-Call Ratio



- While hedges were unwound in Europe after the stabilisation at the beginning of December, the picture looks different for the USA. There has been further demand for puts recently, so that the put-call ratio has risen significantly.

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 - 10/12/2021

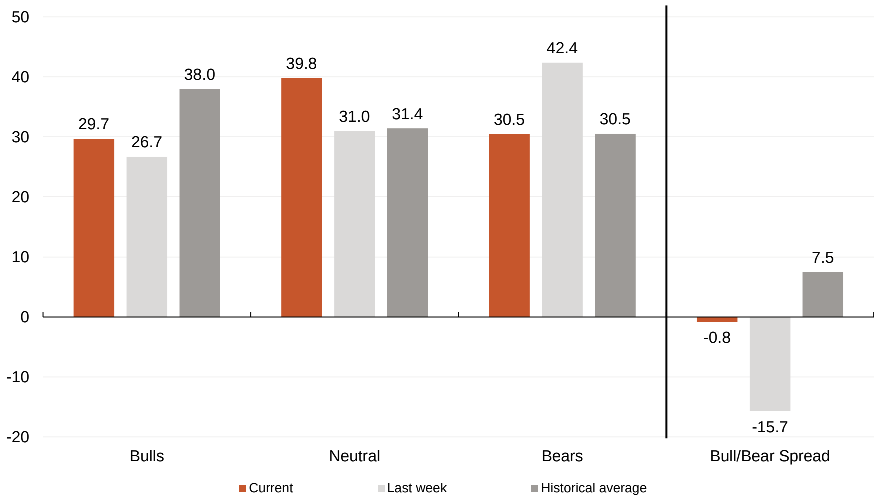
ETF Flows



- Consensus is divided on the capital market outlook for 2022, with some brokers expecting equity returns of 6-10%, but others seeing falling equity prices in the wake of tighter Fed monetary policy. Multi-asset products seem to be benefiting from this uncertainty and have recently been collecting a lot of money from ETF investors.

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

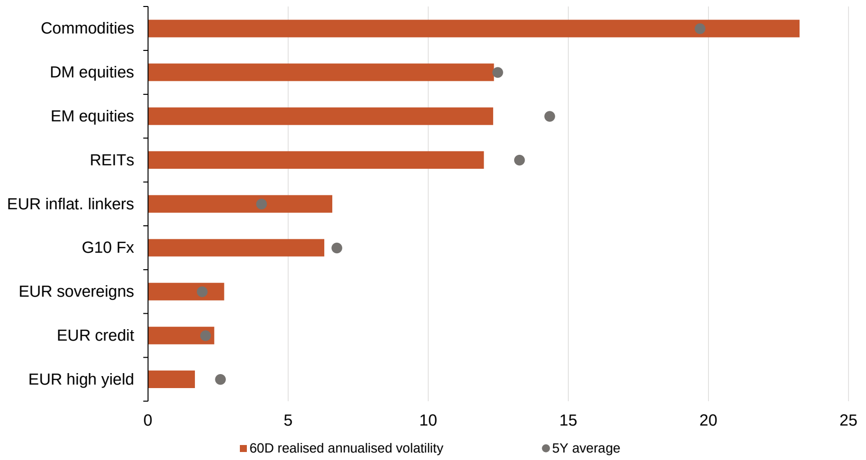
AAII Sentiment Survey (Bulls vs Bears)



- After US private investors were still very pessimistic in the previous week, most are now neutral about the next 6 months. The quick price gains after the short correction have calmed investors' nerves again.

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 – 09/12/21

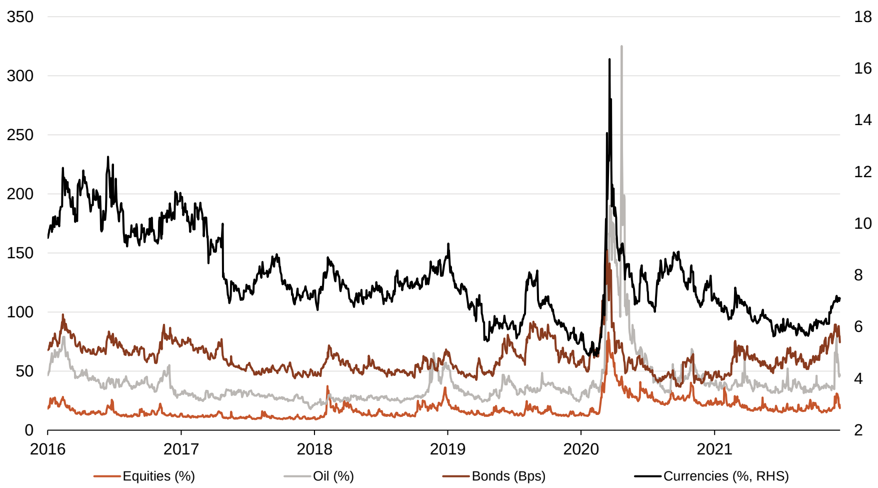
Realised Volatilities



- The realised volatility of equities in developed markets has recently jumped significantly and is now atypically higher than the volatility of emerging market equities.
- Within bonds, only high-yield bonds exhibit below-average volatility.
- Commodities remain by far the most volatile asset class due to their high cyclicality and the uncertainty of the economic outlook due to Covid-19.

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: 10/12/2016 – 10/12/2021

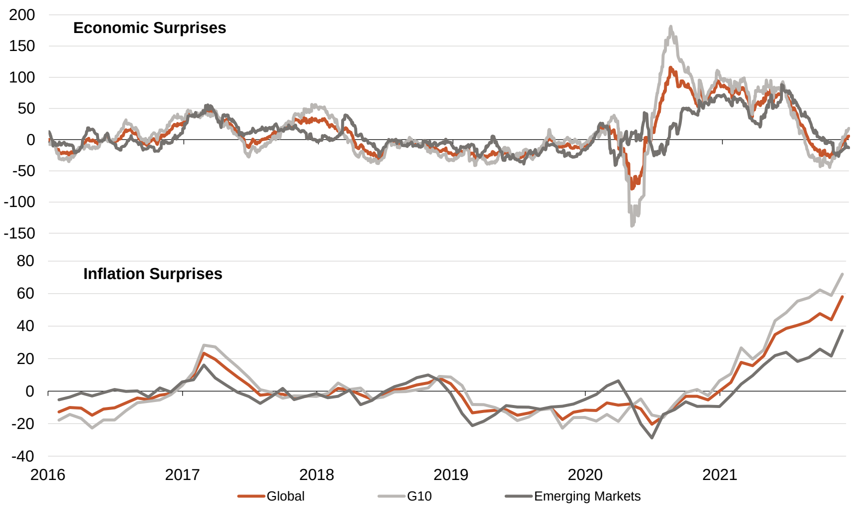
Implied Volatilities



- The VIX reached over 30% at the beginning of December, its highest level since January this year, but then quickly fell back below 20%. Equity markets remain very fragile. Increased vulnerability can also be observed in the other asset classes.

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 – 10/12/2021

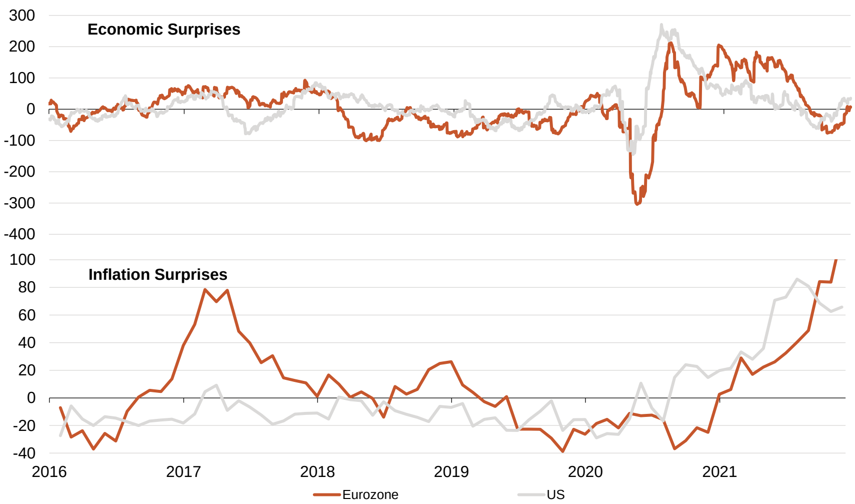
Global



- Covid-19 worries and the new virus variant could not stop the global economy from surprising to the upside recently. The economic surprise index for the industrialised nations (G10) is already in positive territory, while the index for the emerging markets is on its way there. In China, for example, part of the Purchasing Managers' Index (PMI) as well as exports and imports have surprised to the upside.
- Global inflation has also recently been underestimated again and has surprised significantly to the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 10/12/2021

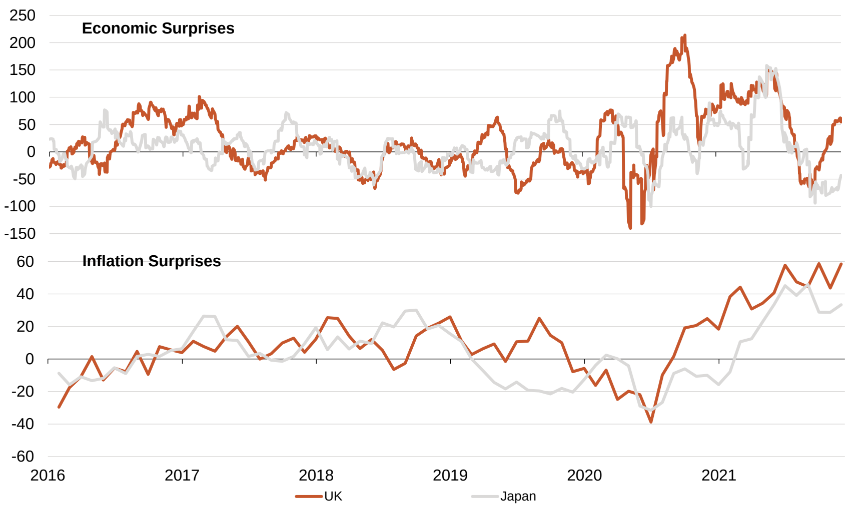
Eurozone and US



- In the Eurozone, economic surprises also surprised to the upside, although the index lingers just above the zero line and the Covid-19 wave may still deliver a negative surprise. In Germany, ZEW expectations, industrial production and labour market data beat expectations, while PMIs and new orders disappointed.
- In the US, the economic surprise picture looks even better.
- Inflation has recently been unexpectedly high, especially in the eurozone.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 10/12/2021

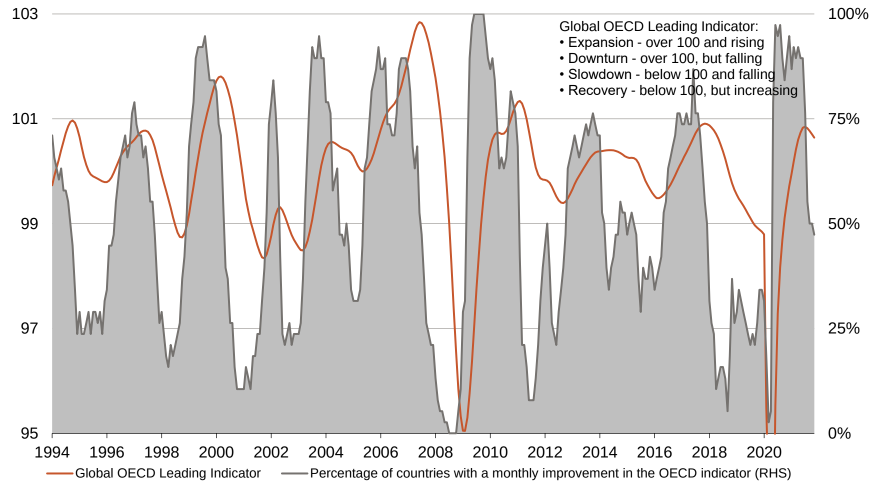
UK and Japan



- Most of the economic data in Japan has not been able to surprise to the upside. Industrial production and economic growth have disappointed.
- In the UK, housing market data surprised to the upside and industrial production data to the downside.

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 - 10/12/2021

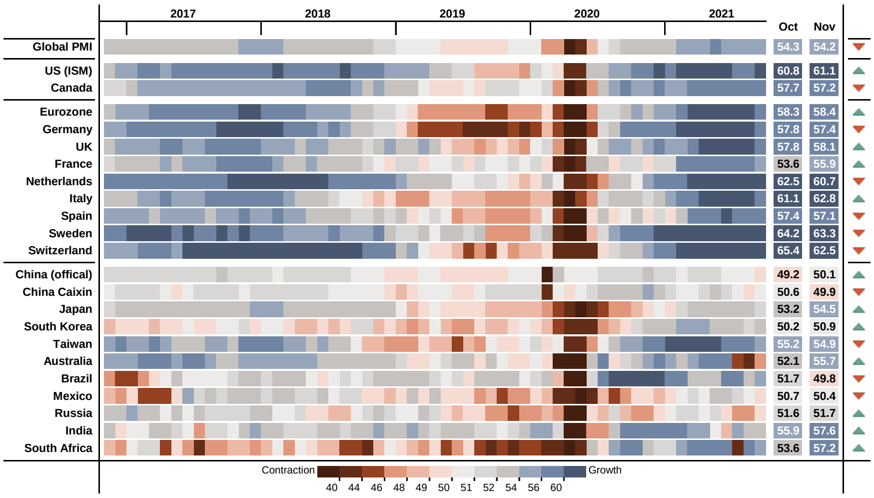
OECD Leading Indicator



- The OECD Leading Indicator fell slightly again in December. This was the fourth consecutive decline, which continues to point to a slowdown in the global economy. However, we expect that as Covid worries subside and supply bottlenecks ease, the indicator could turn to expansion again in 2022.

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 - 30/11/2021

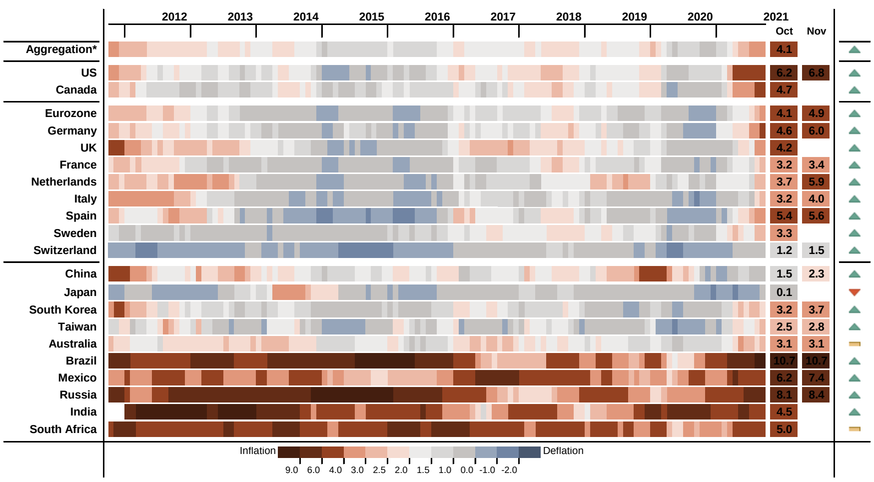
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- In November, the global PMI fell slightly. However, at 54.1, the PMI still clearly indicates growth.
- In the US, the ISM index has recently risen, while mixed signals are coming from China. The PMI for Japan, Australia, India and South Africa, on the other hand, moved up.

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: 30/11/2016 - 30/11/2021

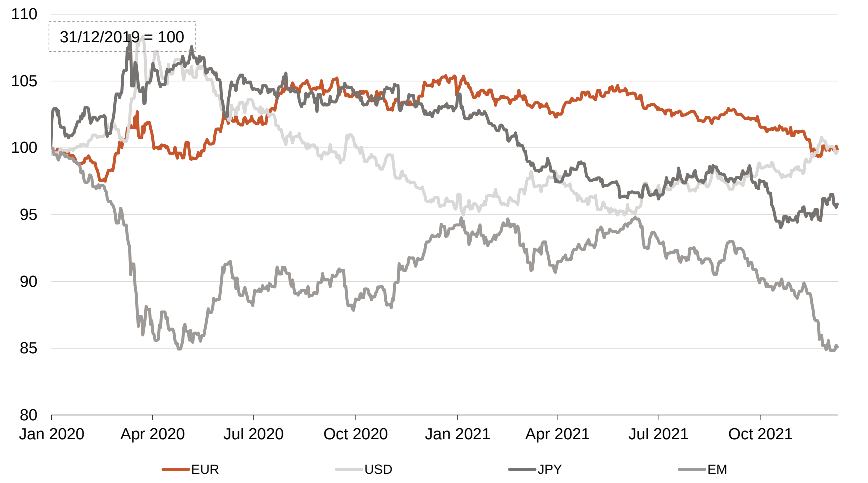
Headline Inflation



- Inflation in Germany reached 6% in November, the highest level since 1992. This value is also well above the ECB's target rate of 2%, which increases concerns about growing inflationary pressure in Europe.
- US inflation reached a 39Y high.
- Inflation also continues to pick up in the emerging markets. In China recently to 2.3% and South Korea to just under 4%.

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: 30/11/2011 - 30/11/2021

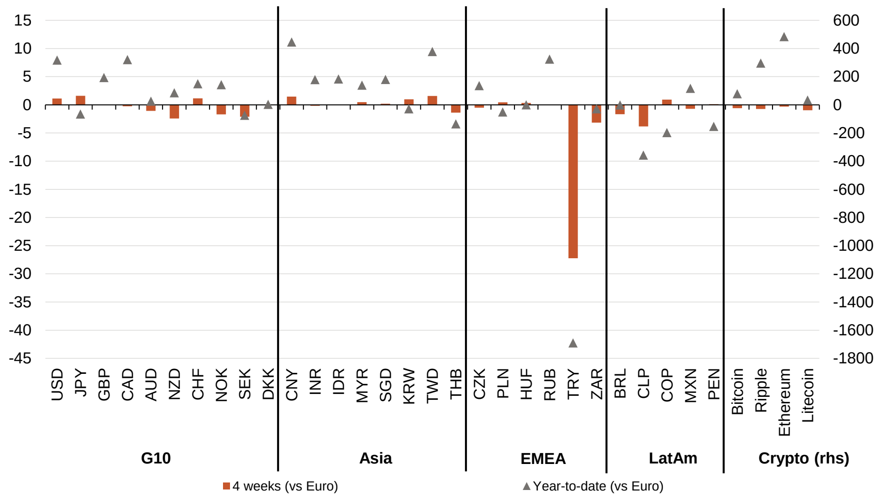
Trade-Weighted Currency Development



- Emerging market currencies are currently trading at the lows of the Covid-19 crisis in April 2020. Over the last month, concerns about the Omicron variant coupled with low vaccination rates in many emerging markets have put currencies under pressure.
- The euro has lost considerably since the beginning of the year.

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 - 10/12/2021

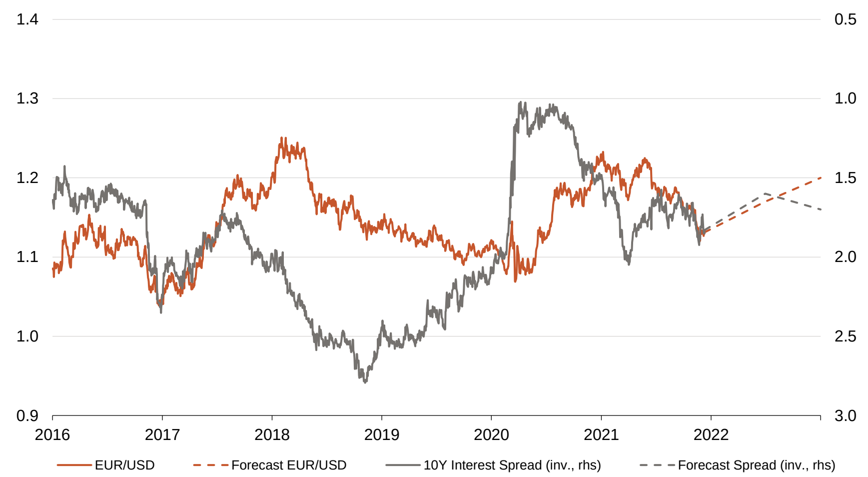
Currency Moves vs Euro



- The developments of the currency moves against the euro were mixed over the last month.
- Commodity-related currencies such as the Australian dollar or the Norwegian krone suffered from the oil price crash at the end of November.
- Asian currencies benefited from low daily infections relative to Europe.
- Cryptos lost in the course of the risk-off.

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

EUR/USD Exchange Rate and Interest Rate Differential



- In the last two weeks, the euro has recovered slightly from its low for the year at the end of November and is currently trading at 1.13 USD/EUR. However, a trend reversal is not yet in sight.
- The interest rate differential between 10-year Bunds and US Treasuries is currently at 1.83%.

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

European Sector & Style Performance

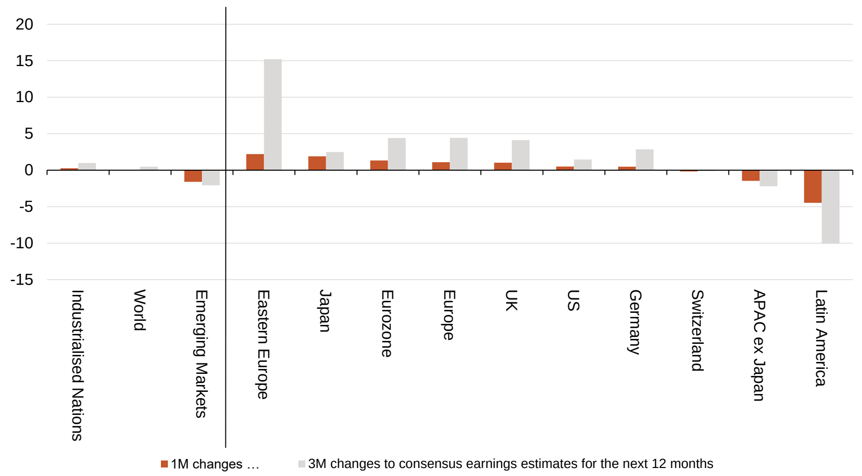
	4-week & YTD: 4W (12/11/21 - 10/12/21)	4-week & YTD: YTD (31/12/20 - 10/12/21)	12-month periods over that last 5 years: 10/12/20 10/12/21	10/12/19 10/12/20	10/12/18 10/12/19	10/12/17 10/12/18	09/12/16 10/12/17
Utilities	0.8	4.7	7.9	13.4	27.1	-4.1	18.1
Materials	0.6	21.5	23.7	11.2	25.5	-13.2	13.5
Consumer Staples	0.4	17.9	19.4	-3.2	20.3	-7.2	12.1
Energy	0.1	35.5	27.4	-28.1	5.2	2.6	8.6
Health Care	-1.5	21.5	21.1	0.7	27.2	1.3	5.5
Value	-1.9	18.5	18.7	-10.5	16.3	-11.8	10.0
Industrials	-2.0	24.5	27.0	3.5	33.5	-14.0	17.7
Growth	-2.1	25.3	28.3	5.8	28.3	-8.6	14.5
Consumer Discretionary	-2.6	22.3	26.5	6.6	27.9	-14.3	11.9
Telecommunications	-2.8	11.1	9.9	-11.7	3.2	-10.7	6.6
Finance	-4.3	24.6	25.3	-13.0	18.0	-19.5	11.5
Information Technology	-5.4	32.7	39.0	11.3	33.8	-6.4	25.0

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.

- In the last four weeks, no style could deliver a clear outperformance in Europe. Both styles lost. Value was weighed down by Covid-19 fears and growth by concerns about tighter monetary policy in the US.
- The defensive Utilities sector was one of the relative winners in this environment.

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: 10/12/2016 – 10/12/2021

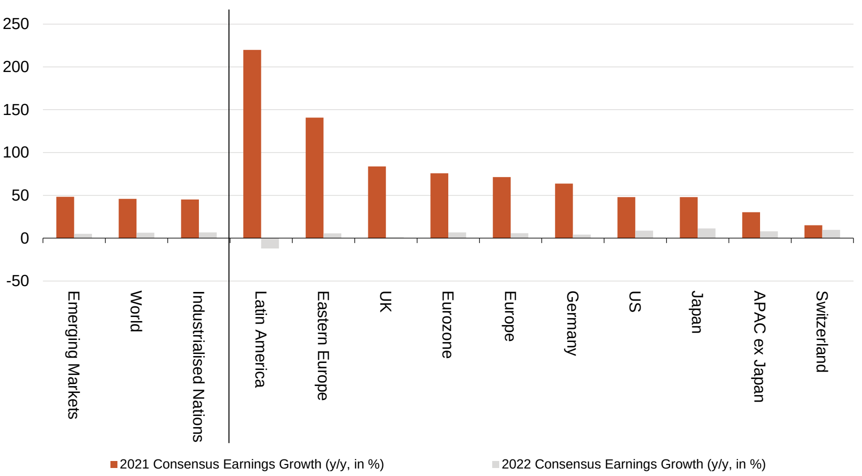
Changes in Consensus Earnings Estimates



- Over the past month, analysts have raised earnings estimates for almost all developed countries.
- For the majority of emerging markets, however, earnings expectations for the next 12 months were again revised downwards. One reason for this is the sustained increase in inflation expectations, which is likely to weigh on corporate margins in the emerging markets in 2022.

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 10/12/2021

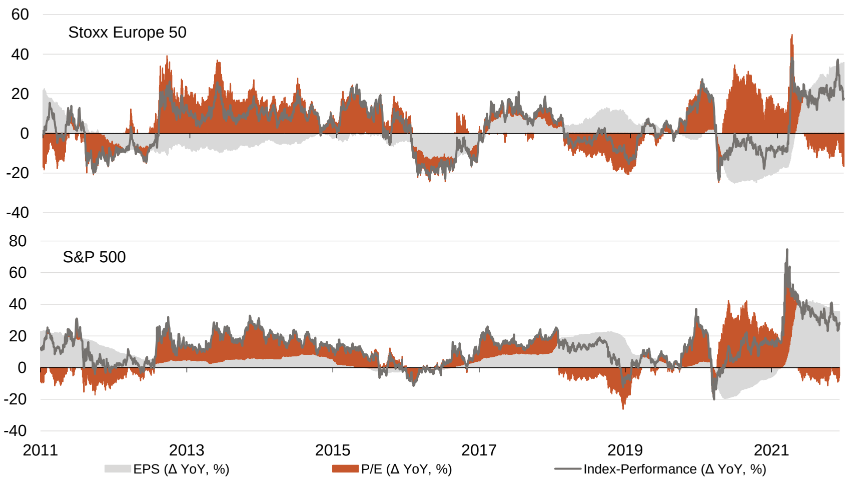
Earnings Growth



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

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 10/12/2020

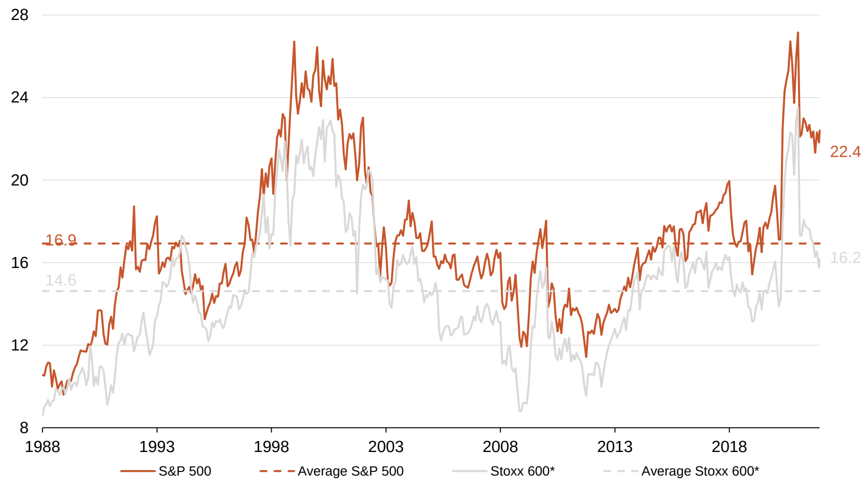
Contribution Analysis



- After the losses at the end of November, equity prices consolidated and gained at the beginning of December. Compared to the previous year, equities have become significantly cheaper as a result of the enormous increase in profits.

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

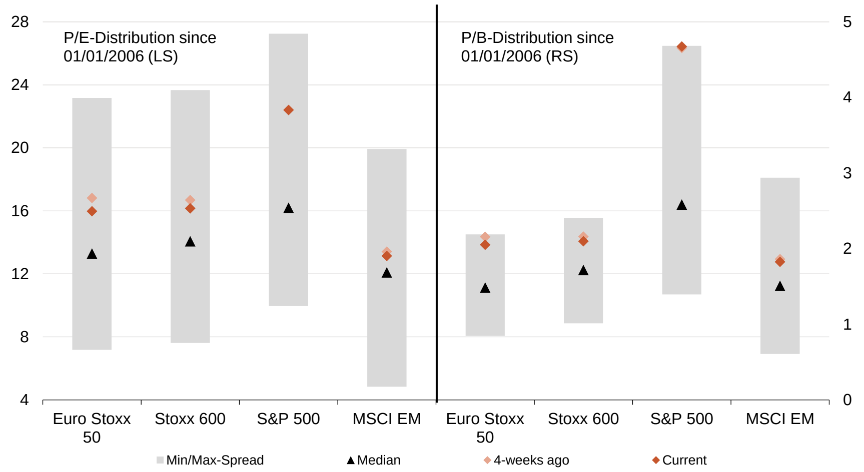
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- US equities have become relatively more expensive in recent months compared to European equities, which are trading near their long-term P/E levels. Although European equities have seen larger earnings revisions than US equities for 2022, the latter have recently outperformed. From a purely fundamental perspective, European equities have catch-up potential. However, US equities are strongly supported by share buyback programmes and structural ETF inflows from US pension plans.

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 - 10/12/2021

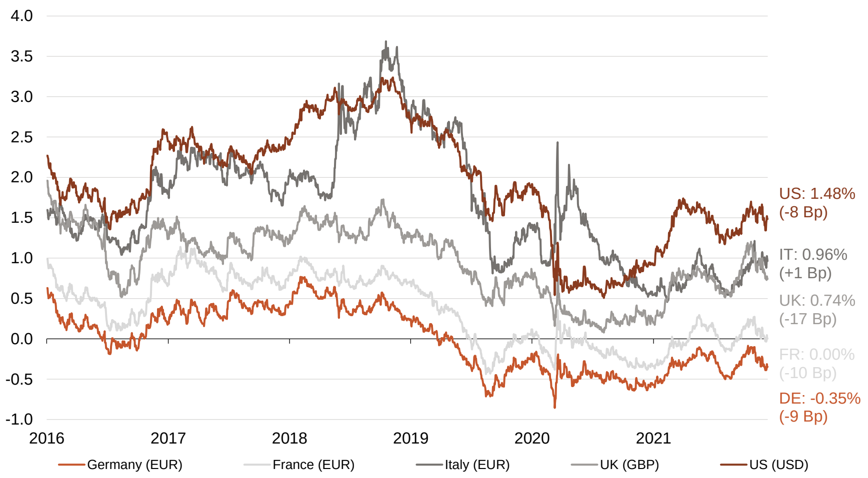
Historical Distribution: Price/Earnings and Price/Book Ratio



- All equity regions shown here are still valued at above-average levels, both on a P/E and on a P/B basis. In the course of the sell-off at the end of November, however, European equities have become somewhat cheaper compared to 4 weeks ago.
- However, relative to bonds, which have negative real interest rates, equities remain attractive.

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 - 10/12/2021

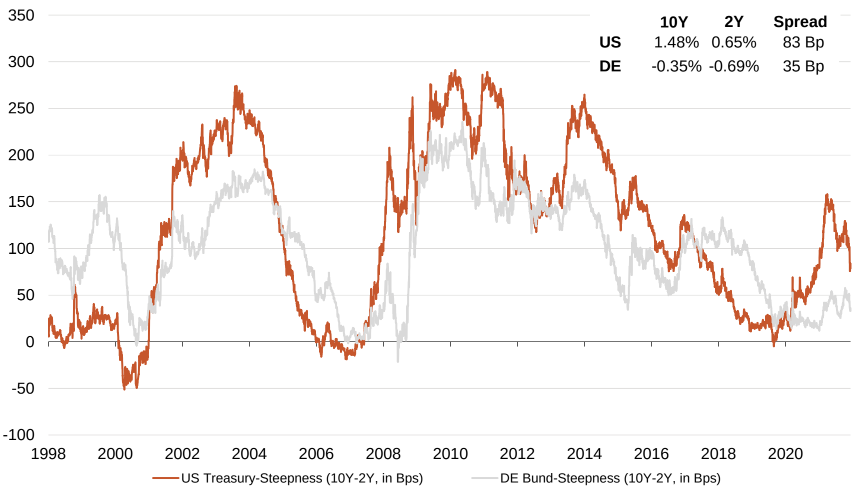
10-Year Government Bond Yields



- Yields on 10-year European government bonds have fallen in recent weeks despite record-breaking inflation figures. Uncertainty about monetary tightening as well as Covid-19 risks and the associated growth concerns pushed yields down at the long end of the curve. Yield volatility increased significantly. Yields on 10-year German government bonds, for example, have fallen about 10 basis points (bps) in the last four weeks.

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 - 10/12/2021

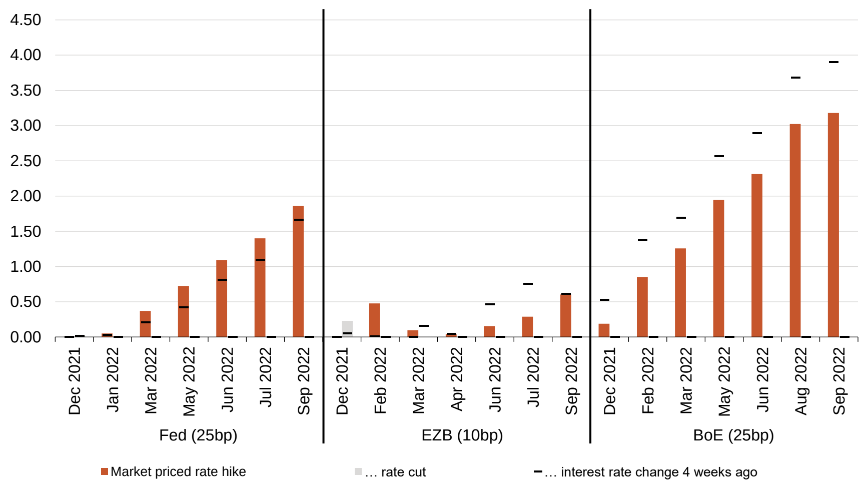
Yield Curve Steepness (10Y - 2Y)



- The yield curve has flattened noticeably in the US due to the hawkish Fed despite high inflation expectations.
- In Germany, too, the yield curve has flattened further by 7 bp in the last four weeks. Growth concerns continue to persist.

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 - 10/12/2021

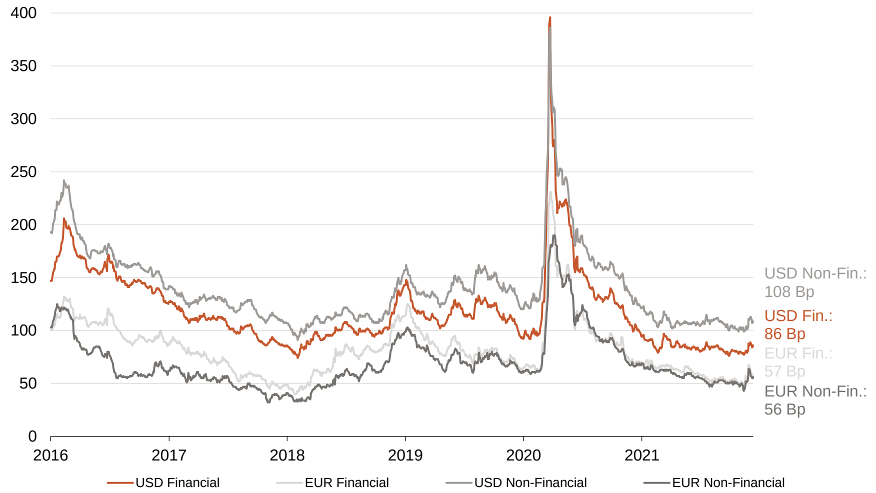
Implicit Changes in Key Interest Rates



- The market has almost completely priced out an interest rate hike by the BoE in December after the unexpected absence of a rate hike in November. Four weeks ago, the probability was over 50%.
- In the US, the first rate hike since 2018 is expected in February 2022.
- The ECB has indicated that there will be no rate hike in 2022.. Nevertheless, the market expects a rate hike with more than a 50% probability.

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: 12/11/2021 - 10/12/2021

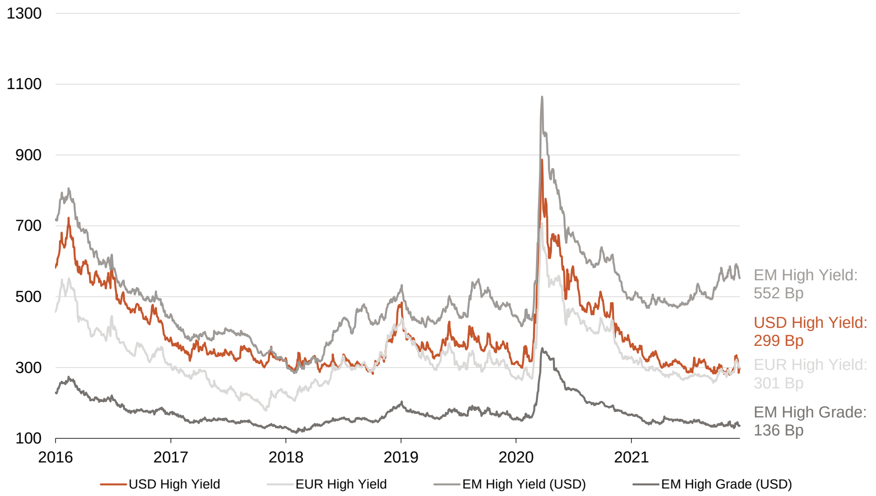
Credit Spreads Financial and Non-Financial Bonds



- The corporate bond market was also affected by high inflation figures, central bank rhetoric and Covid-19 fears. Risk premiums have risen across the board in recent weeks.
- Despite now more attractive yields on EUR corporate bonds again, there is likely to be further upward pressure on risk premiums in the usually supply-intensive start to the year.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 - 10/12/2021

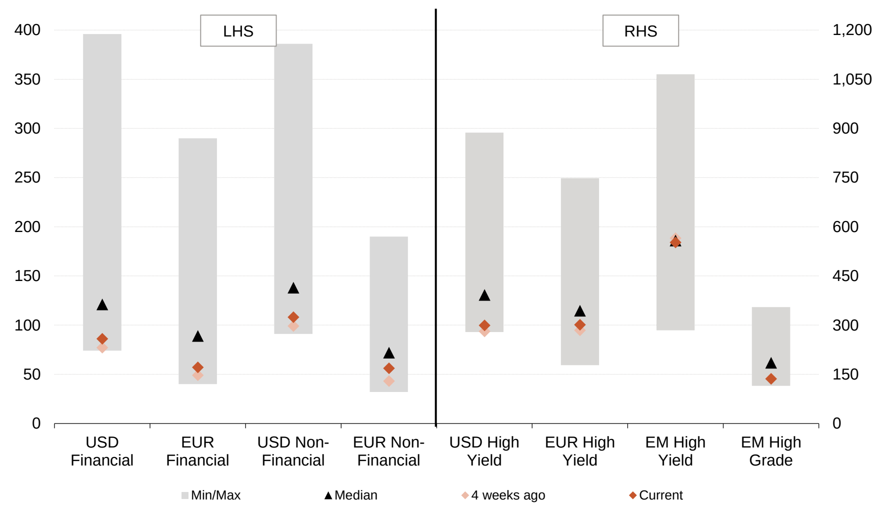
Credit Spreads High Yield and Emerging Markets Bonds



- Spread volatility for high-yield bonds has also been elevated recently. After a brief upward move, yields on USD high-yield bonds recently dropped again. Spreads are now more than 30 bp lower than a fortnight ago.
- EM high-yield bonds also saw falling risk premiums after the real estate crisis in China continued to ease.

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 - 10/12/2021

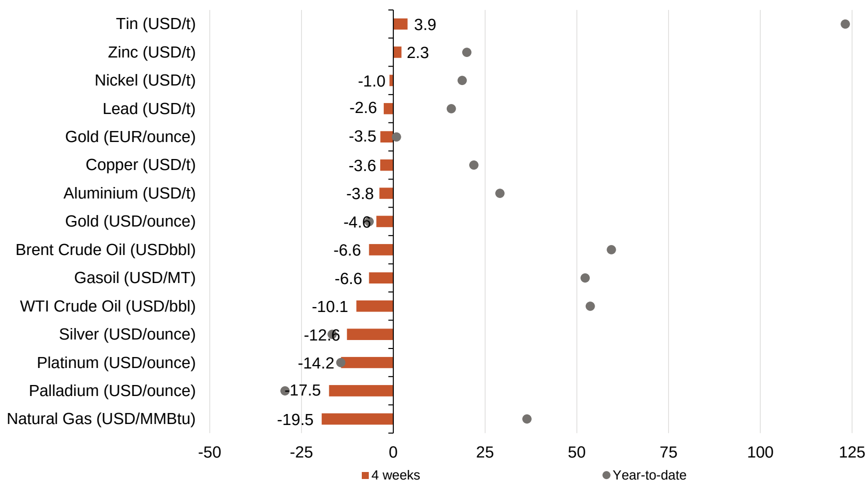
Historical Distribution of Credit Spreads (in bp)



- Risk premiums rose in almost all segments compared to four weeks ago, which slightly increased their attractiveness again.
- EM high-yield bonds, on the other hand, saw slightly falling risk premiums. We find Asian corporate bonds in particular attractive following the recent stabilisation in China.

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

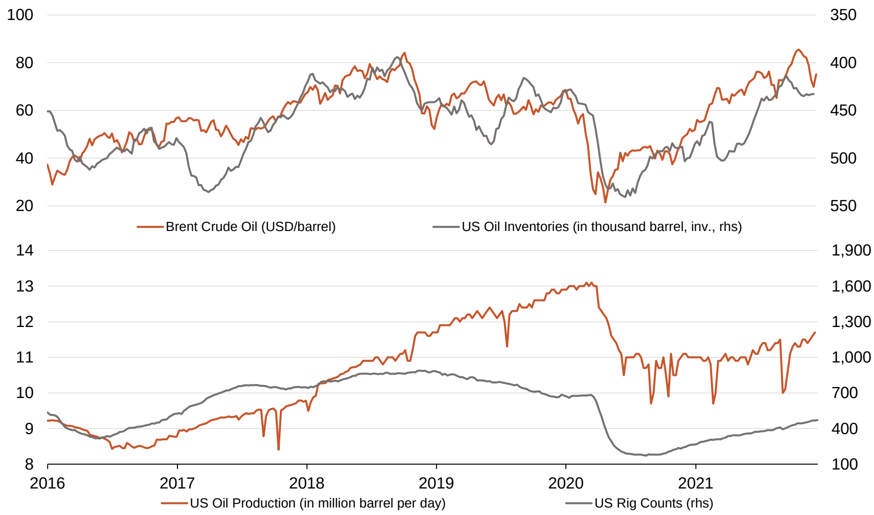
Commodities Performance



- Most of the commodities shown here have weakened over the last four weeks.
- Industrial metals have held up best in this environment.
- Natural gas was hit the hardest. In addition to the omicron variant, the warm winter so far also dampened the demand outlook.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2021 - 10/12/2021

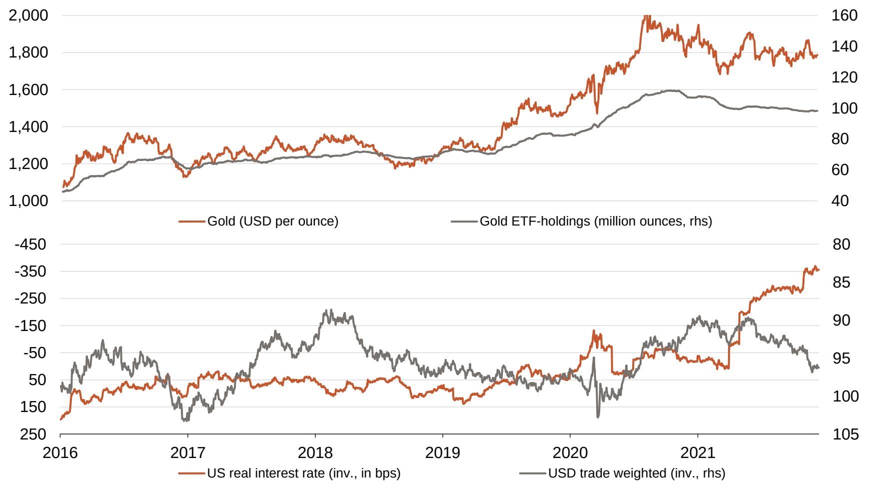
Crude Oil



- After its low at the beginning of December of around USD 68 per barrel, crude oil (Brent) has already risen by almost 10% and is currently quoted at USD 75 per barrel. The fact that OPEC+ will, contrary to expectations, continue to expand production in January despite Covid-19 concerns and that the oil price was nevertheless able to rise so strongly shows how exaggerated the sell-off caused by the Omicron news was.

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 - 10/12/2021

Gold



- Gold fell sharply at the end of November with Biden's renomination of Powell as Fed chairman. Since then, the precious metal has been moving sideways below the USD 1,800 per ounce mark.

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 - 10/12/2021

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IMPORTANT NOTICES

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