BERENBERG Markets

MONITOR

03 January 2022

Current market commentary

In 2021, global government bonds posted a loss, if one disregards currency effects, while global equities made significant gains. 2021 is thus only the fourth year (1999, 2005, 2013, 2021) in the last half century with losses in bonds and gains in equities. This rare combination could repeat itself this year. In any case, we expect rising bond yields and thus falling bond prices in the sovereign segment due to tighter monetary policy on the part of central banks and falling but persistent inflation. We are cautiously optimistic about equities. The lack of alternatives and rising corporate profits should provide support, but valuations are likely to decline, especially in the US, so we see moderate upside potential. In any case, 2022 is likely to be more challenging than 2021.

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

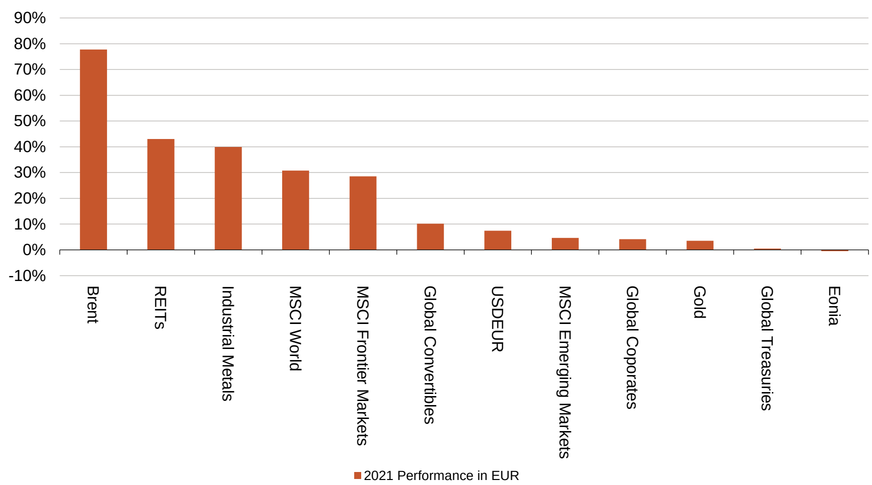
2022 has some exciting political events in store. In France, a new president will be elected in April and in the US, Joe Biden's accomplishments since he took office will be put to the test in the mid-term elections in November. The first Fed rate hike could come as early as Q1. The next two weeks will be comparatively quiet.

2022 will be exciting due to both political events and monetary policy.

However, various economic data will be released, which should provide first insights into the economic impact of the omicron variant. Today, the manufacturing PMIs (Dec.) for the Eurozone as well as Spain and Italy will be released. On Wednesday, the respective data for the services sector will follow. On Thursday, the inflation figures (Dec.) as well as the new factory orders (Nov.) for Germany and the ISM Services (Dec.) for the US will be published. This will be followed on Friday by industrial production (Nov.) for Germany and France and labour market data (Dec.) for the US.

Economic data will provide insights into the economic impact of omicron.

2021 positive for most asset classes (in EUR terms)



- On the surface, 2021 was a very positive year for investors in the euro area. The US dollar appreciated by about 7% against the euro, thus even global government bonds did not post losses in EUR terms.
- Energy and industrial metals were the big winners in 2021, along with developed market equities and REITs.
- Relative losers included gold and EM equities, which were mainly weighed down by the weak performance of Chinese equities.

Explanations see page 2.
Source: Bloomberg, As of 31/12/2021

Multi Asset

	4-week & 2021		12-month periods over that last 5 years				
	4W (03/12/21 - 31/12/21)	2021 (31/12/20 - 31/12/21)	31/12/20 31/12/21	31/12/19 31/12/20	31/12/18 31/12/19	31/12/17 31/12/18	30/12/16 31/12/17
Brent	11.2	77.8	77.8	-37.1	38.3	-10.7	0.2
REITs	7.3	43.0	43.0	-15.2	25.2	-3.1	-5.9
Industrial Metals	6.0	39.9	39.9	6.9	9.1	-15.5	13.5
MSCI World	4.1	30.8	30.8	6.5	30.2	-4.2	7.4
Gold	2.1	3.5	3.5	14.9	21.0	3.1	-0.7
Global Convertibles	1.0	10.1	10.1	27.3	19.4	0.9	2.4
MSCI Frontier Markets	0.8	28.6	28.6	-6.8	20.3	-12.2	15.7
MSCI Emerging Markets	0.1	4.6	4.6	8.7	20.8	-10.3	20.4
Eonia	0.0	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4
USDEUR	-0.5	7.4	7.4	-8.2	2.3	4.7	-12.4
Global Coporates	-1.0	4.1	4.1	0.9	12.8	1.7	-4.3
Global Treasuries	-1.6	0.5	0.5	0.5	7.5	4.6	-5.8

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.

- Even though December was relatively volatile, risk assets tended to gain in the end. Brent oil recovered by 11% and ended 2021 with a plus of c. 80% in euro terms.
- Global government bonds, on the other hand, recently lost value and were almost unchanged in 2021 thanks to the strong USD appreciation.
- Developed market equities also benefited from positive currency effects and strong US equities, gaining more than 30% in 2021.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2016 – 31/12/2021

Equities

	4-week & 2021		12-month periods over that last 5 years				
	4W (03/12/21 - 31/12/21)	2021 (31/12/20 - 31/12/21)	31/12/20 31/12/21	31/12/19 31/12/20	31/12/18 31/12/19	31/12/17 31/12/18	30/12/16 31/12/17
Stoxx Europe 50	5.7	26.1	26.1	-6.3	27.4	-10.2	9.0
Stoxx Europe Defensives	5.7	21.7	21.7	-6.3	22.2	-1.0	5.0
Stoxx Europe Cyclicals	5.6	26.6	26.6	-0.3	27.3	-16.6	14.4
MSCI UK	5.4	27.5	27.5	-17.9	23.3	-9.8	7.4
Euro Stoxx 50	5.3	23.3	23.3	-3.2	28.2	-12.0	9.2
Stoxx Europe Small 200	4.9	22.9	22.9	4.8	29.1	-12.9	18.1
DAX	4.7	15.8	15.8	3.5	25.5	-18.3	12.5
S&P 500	4.4	38.2	38.2	8.8	34.1	0.4	6.9
MSCI USA Small Caps	3.9	27.9	27.9	8.7	29.3	-5.9	2.4
MSCI EM Asia	-0.1	1.9	1.9	17.9	21.6	-11.2	25.3
Topix	-0.2	9.8	9.8	3.3	22.2	-10.0	11.1
MSCI EM Eastern Europe	-2.5	26.4	26.4	-19.1	36.9	0.6	2.8

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 outperformed in 2021, in particular large caps. Although corporate earnings in other regions have risen significantly more in some cases, US equities benefited from strong fund inflows (especially in the form of ETFs) as well as record-high share buyback programmes.
- Asian equities, on the other hand, underperformed in both December and 2021, while European equities gained significantly.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2016 – 31/12/2021

Fixed Income

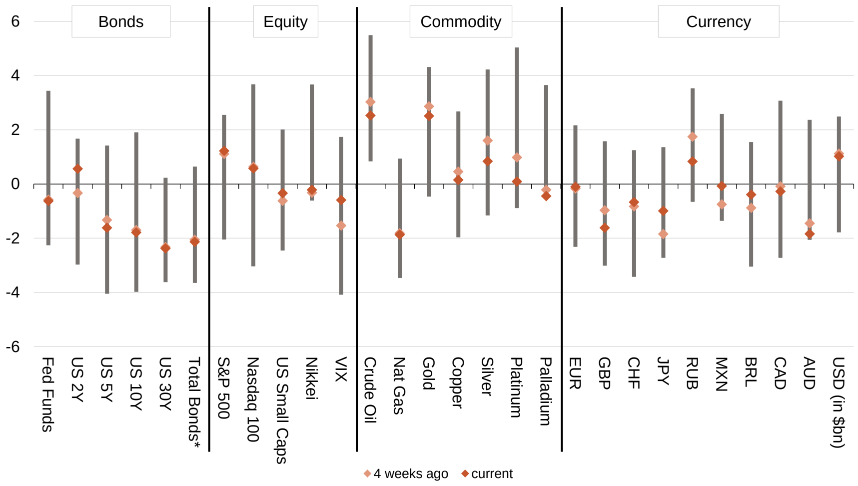
	4-week & 2021		12-month periods over that last 5 years				
	4W (03/12/21 - 31/12/21)	2021 (31/12/20 - 31/12/21)	31/12/20 31/12/21	31/12/19 31/12/20	31/12/18 31/12/19	31/12/17 31/12/18	30/12/16 31/12/17
USD High Yield	0.9	12.2	12.2	-3.9	16.9	3.4	-6.7
EUR High Yield	0.6	3.2	3.2	1.7	9.5	-3.4	4.8
EM Hard Currency Bonds	0.2	-3.2	-3.2	3.2	9.5	-6.3	7.1
EM Local Currency Bonds	-0.1	5.9	5.9	-3.4	11.5	1.5	0.4
EUR Inflation Linkers	-0.3	6.4	6.4	3.1	6.6	-1.5	1.4
EUR Financials	-0.4	-0.7	-0.7	2.4	6.1	-1.5	3.2
EUR Non-Financials	-0.6	-1.3	-1.3	3.0	6.4	-1.1	1.8
USD Corporates	-1.3	6.3	6.3	0.7	16.2	2.7	-6.8
BTPs	-1.5	-3.0	-3.0	7.9	10.6	-1.3	0.8
Gilts	-1.6	0.9	0.9	2.9	13.7	-0.6	-2.0
Treasuries	-1.7	5.1	5.1	-0.9	8.8	5.9	-10.1
Bunds	-1.9	-2.7	-2.7	3.0	3.0	2.4	-1.4

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.

- The US dollar gained more than 7% against the euro in 2021. Excluding this currency effect, almost all bond segments posted losses in 2021 - a notable exception were USD high-yield bonds.
- Strongly rising inflation rates around the world and the prospect of tighter monetary policy on the part of central banks caused bond yields to rise and thus bond prices to fall.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2016 – 31/12/2021

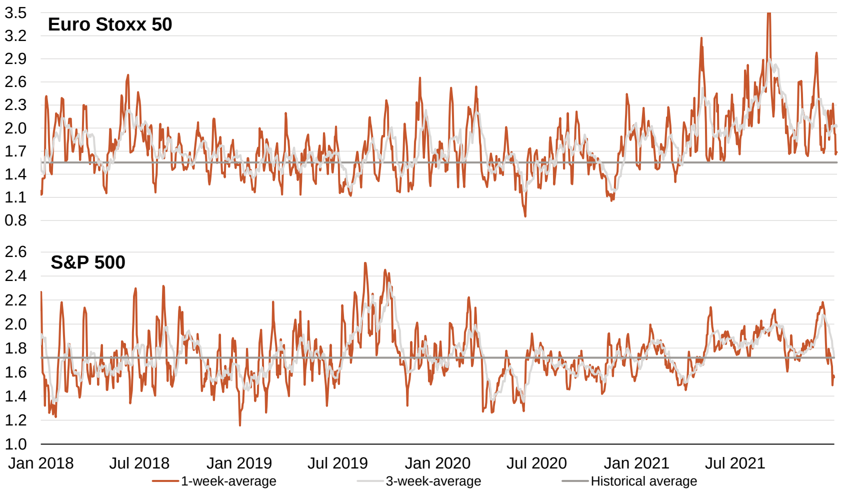
Non-Commercial Positioning



- Speculative investors have recently greatly reduced their bullish commodity bets. In the currency area, they have also become more pessimistic about the RUB and AUD. The USD, on the other hand, remains a popular long, which makes it somewhat vulnerable.

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: 21/12/2011 - 21/12/2021

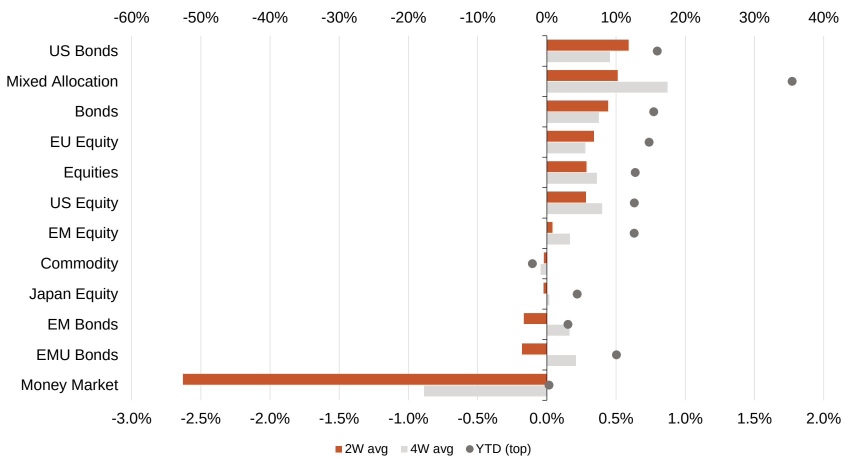
Put-Call Ratio



- Investors were relatively heavily hedged into December via put options to protect their annual gains and to be prepared for any central bank disappointments. In the wake of the large option expiry shortly before Christmas, many hedges were monetised, which pushed the stock market upwards.

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 - 31/12/2021

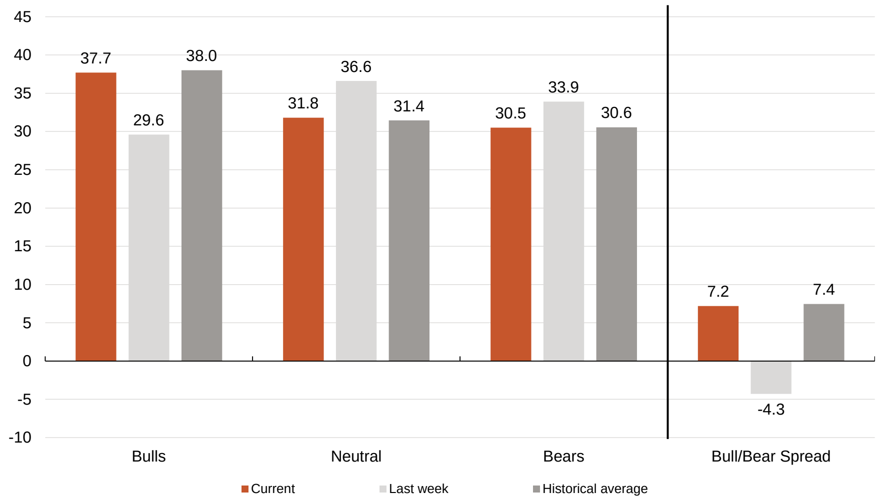
ETF Flows



- In recent weeks, there seems to have been a shift from money market funds into bond and multi-asset ETFs.
- Multi-asset products were also the most popular among ETF investors over the entire year.
- Only commodity ETFs saw outflows in 2021, even though commodities were one of the best-performing asset classes. This is probably due to the weakness of gold.

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

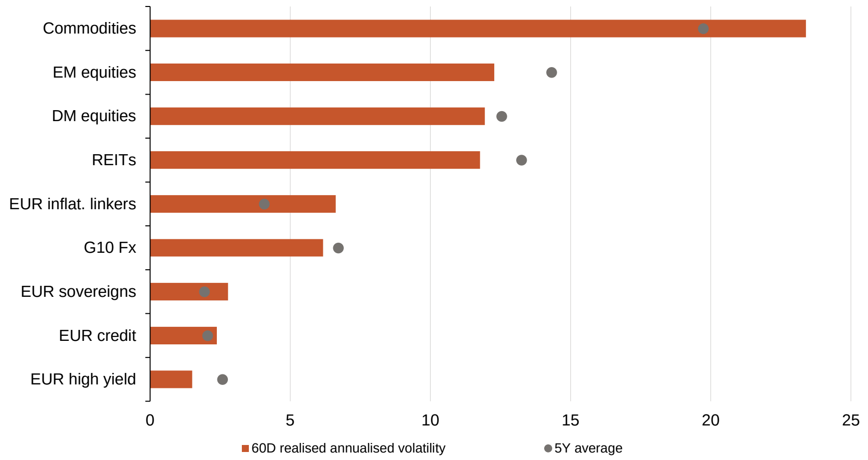
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment of US private investors turned around sharply again with the year-end rally in the last week of December. After the bears dominated the previous week, the bulls now outweigh them by 7 ppts.

The sentiment survey conducted by the American Association of Individual Investors determines the percentage of private investors who are optimistic, pessimistic or neutral regarding the US equity market outlook for the upcoming six months. It has been carried out since 1987. The survey is conducted from Thursday to Wednesday and the results are published every Thursday. For the stock market, it tends to be supportive when there is a high proportion of bears and a low proportion of bulls. However, it is a negative indicator when there are significantly more optimists than pessimists.
Source: Bloomberg, AAII, Time period: 23/07/87 – 30/12/21

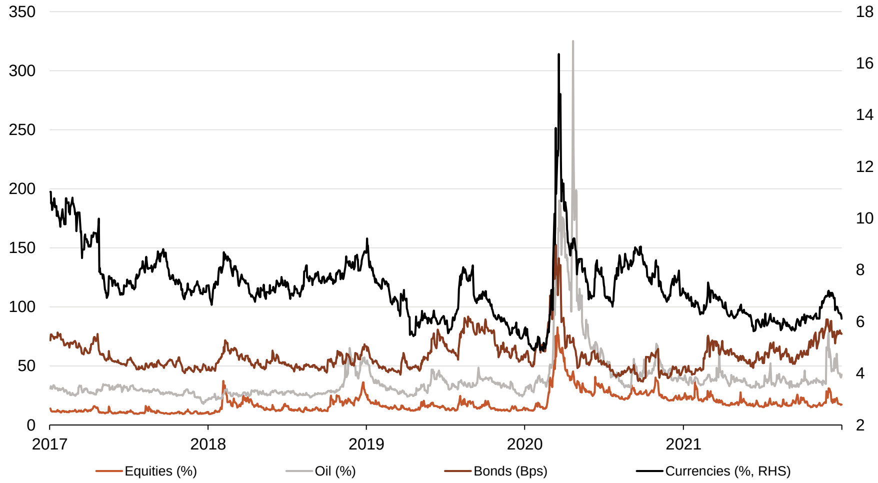
Realised Volatilities



- For equities, both in developed and emerging markets, realised volatility is currently slightly below the average of the last five years.
- The situation is quite different for bonds. Only the volatility of high-yield bonds is below average. The other segments with higher credit ratings are significantly more volatile.
- Commodities remain the asset class with by far the greatest volatility.

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: 31/12/2016 – 31/12/2021

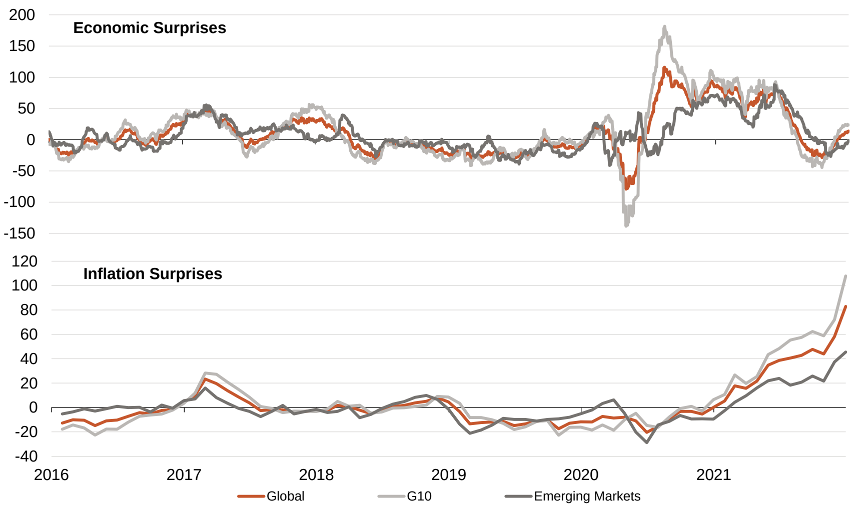
Implied Volatilities



- At the turn of the year, implied volatilities came down slightly in almost all asset classes. Only government bonds are pricing in higher implied volatility.
- At just under 17, the VIX is at its lowest level since mid-November.

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 – 31/12/2021

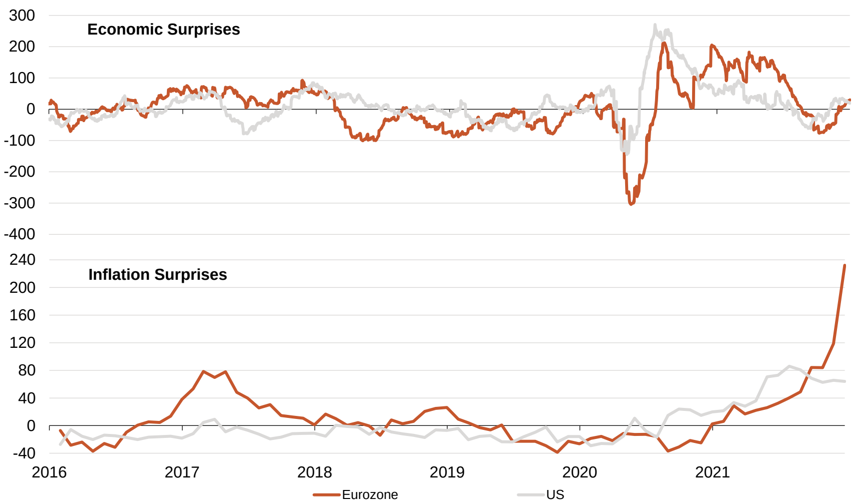
Global



- Despite the increasing spread of the omicron variant, global economic data have surprised positively in recent weeks.
- Only economic data from emerging markets still come with slightly negative surprises, although here too there are more and more bright spots. In China, for example, industrial production and retail sales for the month of November recently surprised to the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 31/12/2021

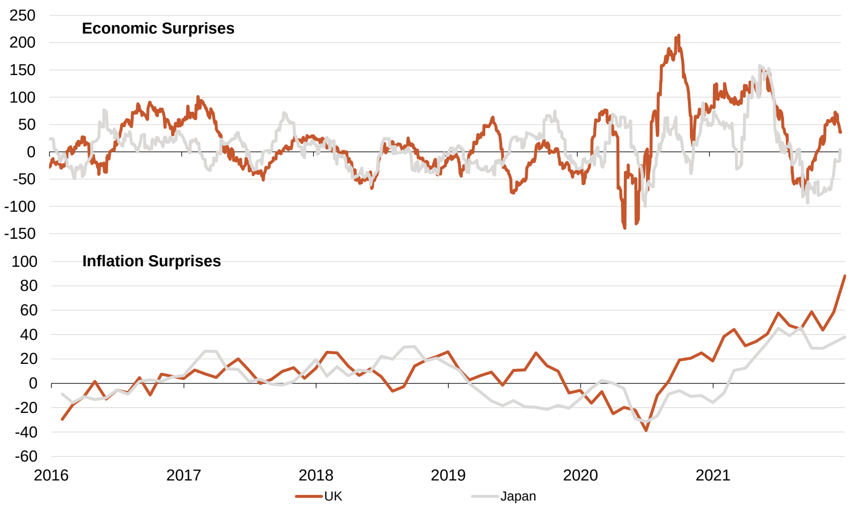
Eurozone and US



- While the number of positive economic surprises in the Eurozone continues to rise, the curve in the US has flattened over the last few weeks. For example, industrial production and new home sales have disappointed. Nevertheless, the positive data in the US have so far outweighed the negative ones, such as new orders for durable goods for November, which came in at 2.5%, much stronger than the expected 1.8%.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 31/12/2021

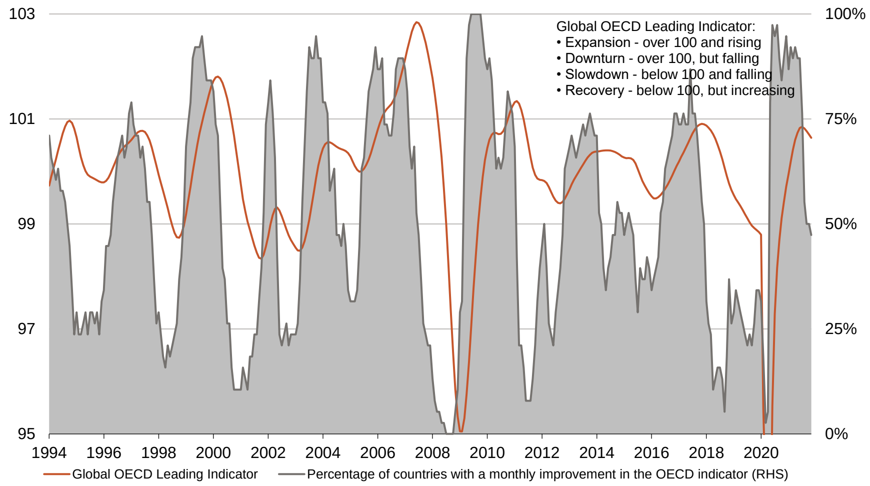
UK and Japan



- In the UK and Japan, the economic data recently showed a contrasting picture. While the number of positive surprises increased in the latter, it fell again in the former.

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 - 31/12/2021

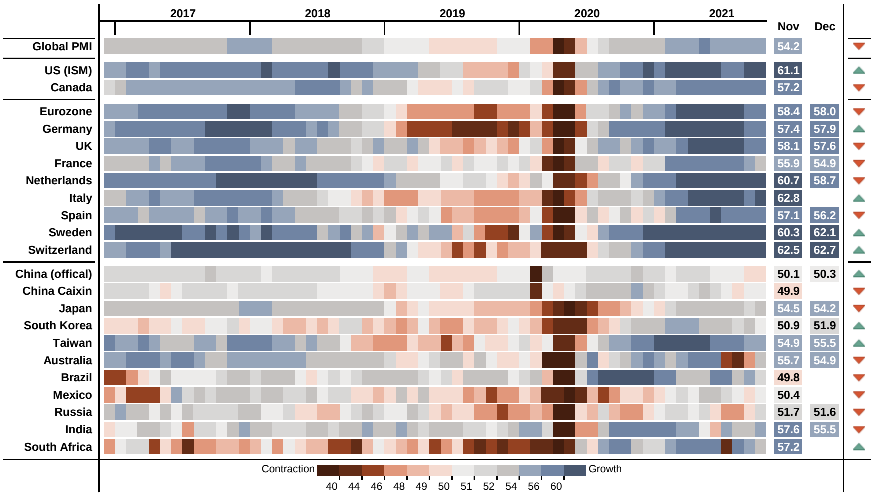
OECD Leading Indicator



- Contrary to the positive global economic surprises, the OECD leading indicator is currently pointing to a slowdown, because despite positive surprises, the latest economic data are in many cases below their previous month's values.
- The share of countries with a monthly improvement is currently slightly below 50%. The development of the global economy is therefore not very synchronous at the moment.

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

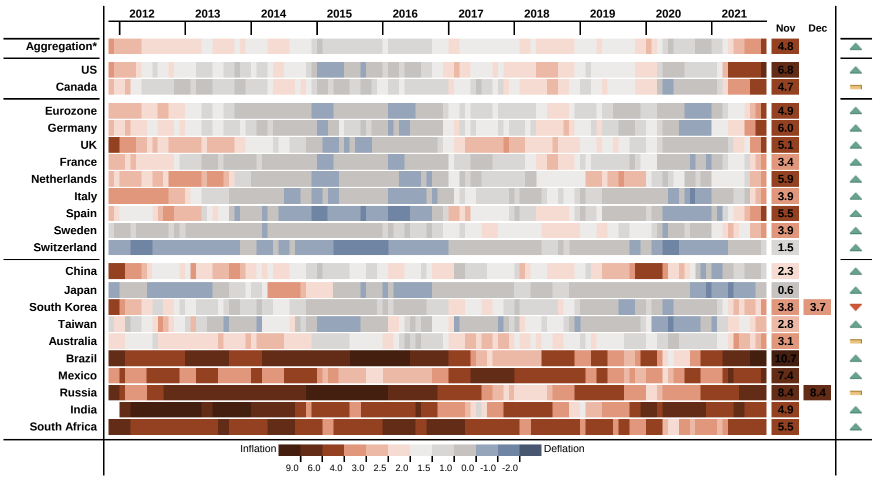
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The preliminary PMIs for December are lower than the previous month in 7 out of 11 cases. However, all continue to point to rising activity in manufacturing.
- Moreover, in the eurozone countries, for example, the PMIs came in weaker than the previous month but better than expected.

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: 31/12/2016 - 31/12/2021

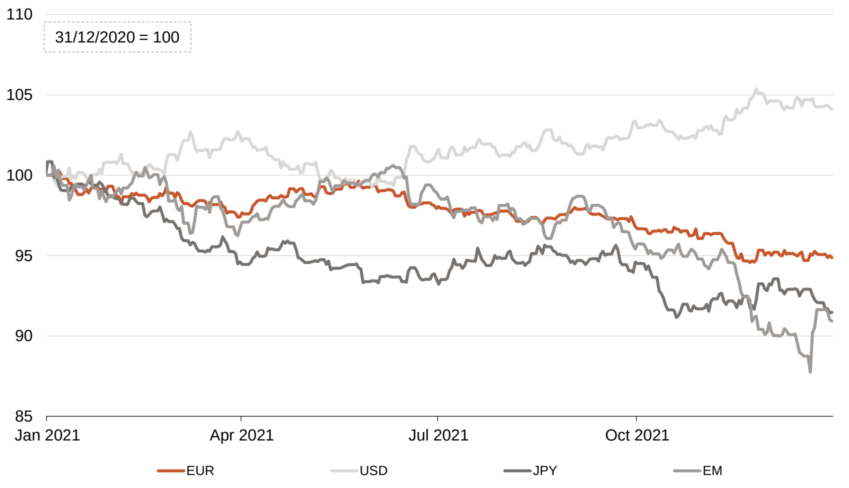
Headline Inflation



- With the exception of Switzerland, inflation in Europe was above the 3% mark in November in all countries shown here.
- In the US, inflation came in at 6.8%, the highest reading since 1982.

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: 31/12/2011 - 31/12/2021

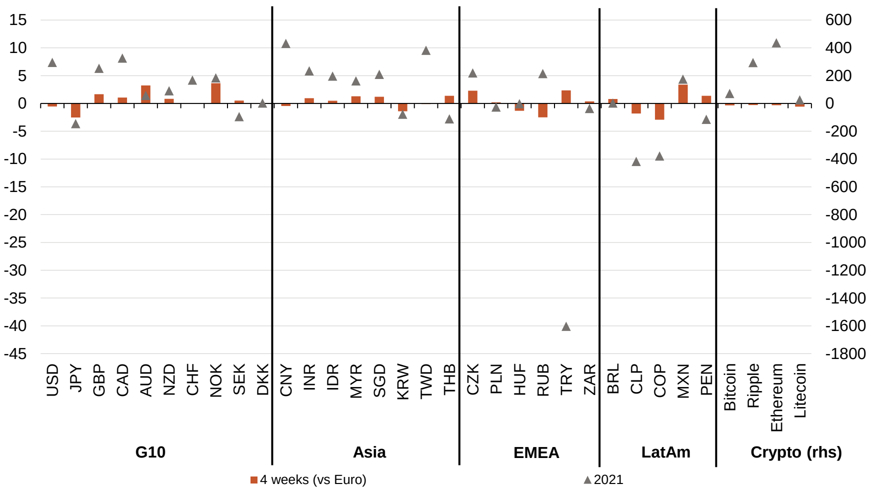
Trade-Weighted Currency Development



- Thanks to the risk-on, emerging market currencies experienced a short but strong year-end rally after a very weak year.
- The Japanese yen has weakened in recent weeks. While Western central banks, above all the Fed, are becoming increasingly restrictive, the BoJ is continuing its expansionary course and thus putting its own currency under pressure.
- The euro and the US dollar have moved sideways in recent weeks.

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: 01/01/2021 - 31/12/2021

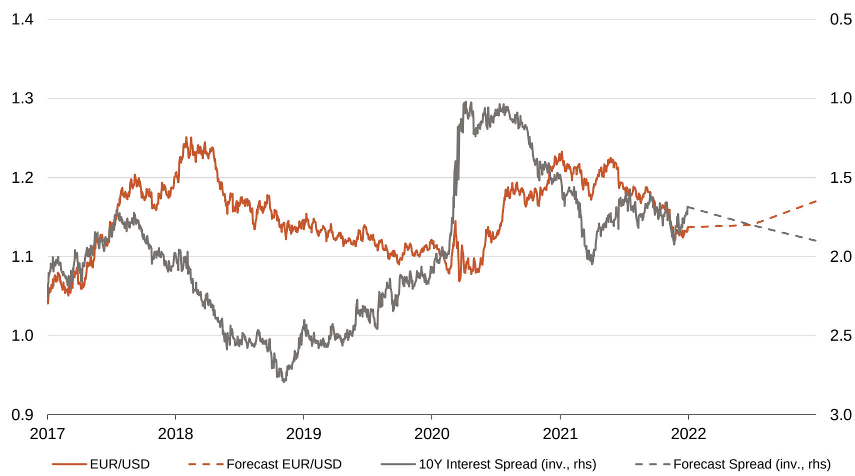
Currency Moves vs Euro



- In 2021 the Canadian dollar performed best against the euro among the G10 currencies, gaining more than 8%.
- Among the Asian currencies, the renminbi performed best. This was probably due not least to the strength of the US dollar.
- Among the remaining emerging markets, oil-sensitive currencies such as the Russian rouble and the Mexican peso benefited most.

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

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD exchange rate has stabilised in recent weeks at around 1.13. The euro is thus ending a year with an almost continuous downward trend near its low of 1.12.
- Meanwhile, the interest rate advantage of US Treasuries over Bunds has widened over the year and now stands at 1.7%.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US Treasuries and 10-year Bunds.
Source: Bloomberg, Time period: 01/01/2017 - 31/12/2022

European Sector & Style Performance

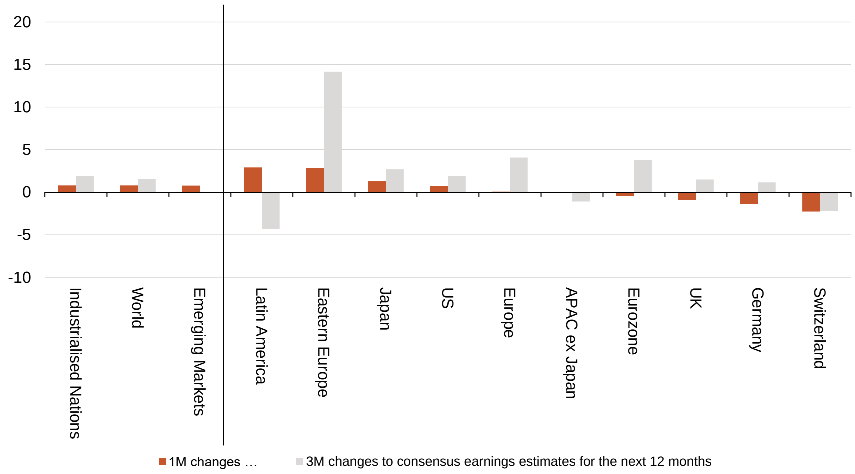
	4-week & 2021: 4W (03/12/21 - 31/12/21)	4-week & 2021: 2021 (31/12/20 - 31/12/21)	31/12/20 31/12/21	31/12/19 31/12/20	31/12/18 31/12/19	31/12/17 31/12/18	30/12/16 31/12/17
Industrials	7.1	28.9	28.9	3.7	35.1	-13.2	15.3
Materials	6.6	24.7	24.7	9.4	26.4	-13.9	18.7
Health Care	6.5	25.4	25.4	-1.9	31.8	-0.6	2.9
Utilities	6.2	8.4	8.4	11.7	29.8	2.9	8.5
Consumer Staples	5.7	20.5	20.5	-3.5	25.3	-8.9	8.8
Growth	5.6	28.0	28.0	5.9	32.4	-9.5	12.3
Information Technology	5.3	36.6	36.6	14.5	37.6	-6.8	19.6
Value	5.3	21.8	21.8	-12.9	19.6	-11.6	8.3
Finance	4.7	28.6	28.6	-15.6	22.3	-19.3	12.0
Consumer Discretionary	4.0	22.9	22.9	6.5	33.0	-14.4	9.7
Telecommunications	3.9	13.1	13.1	-13.5	4.7	-9.6	1.7
Energy	1.7	35.3	35.3	-33.9	8.7	-0.6	5.2

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.

- The top sectors in Europe in 2021 were energy and technology companies - a rare combination. Overall, however, growth stocks once again outperformed value stocks.
- The relative losers in 2021 were defensive sectors such as utilities and telecoms.

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: 31/12/2016 – 31/12/2021

Changes in Consensus Earnings Estimates



- With the recovery in oil prices last month, earnings estimates for Eastern Europe also rose.
- Japan also saw positive earnings revisions for the next 12 months.
- In contrast, analysts' earnings estimates for Switzerland and Germany were adjusted downwards in the aggregate over the past month.

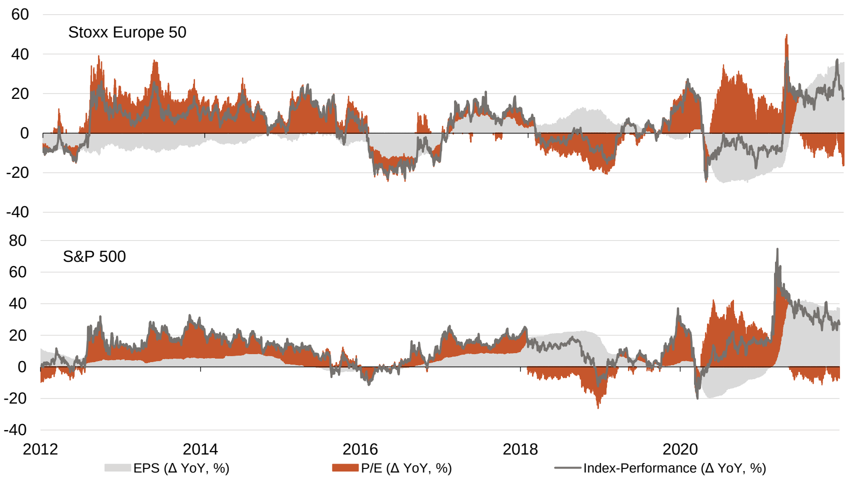
1-month and 3-month changes in consensus earnings estimates for the next 12 months, in percent.
APAC ex Japan = Asia Pacific ex Japan
Source: FactSet, as of 31/12/2021

Earnings Growth

- For 2022, analysts are most optimistic about Japan, followed by Switzerland and the US. For these three regions, earnings growth is expected to be above 8%. The consensus expects slightly lower profit growth for Asia and Europe and is most pessimistic about Latin America. After the profit increase of more than 200% in 2021, earnings are expected to decline by around 10% this 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 31/12/2021

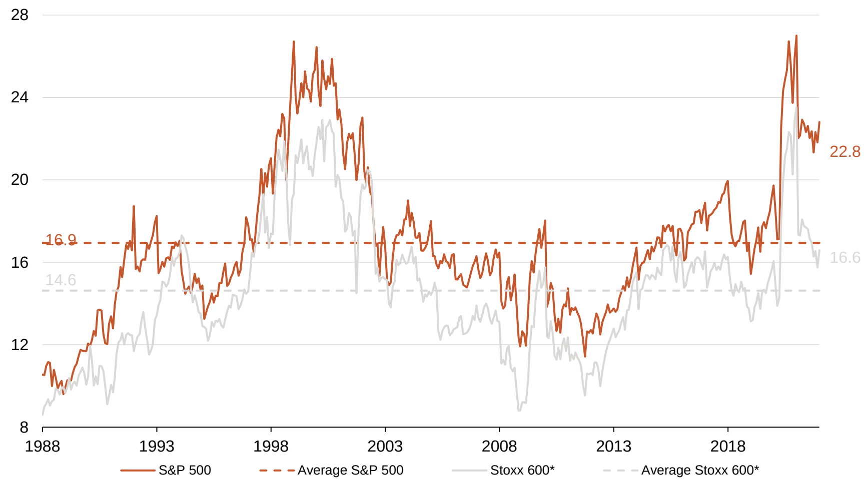
Contribution Analysis



- Corporate earnings rose more significantly than stock prices for European and US equities compared to the previous year, so that valuations came down somewhat from the very high levels at the end of 2020. However, this valuation adjustment was significantly greater for European equities than for US equities.

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 – 31/12/2021

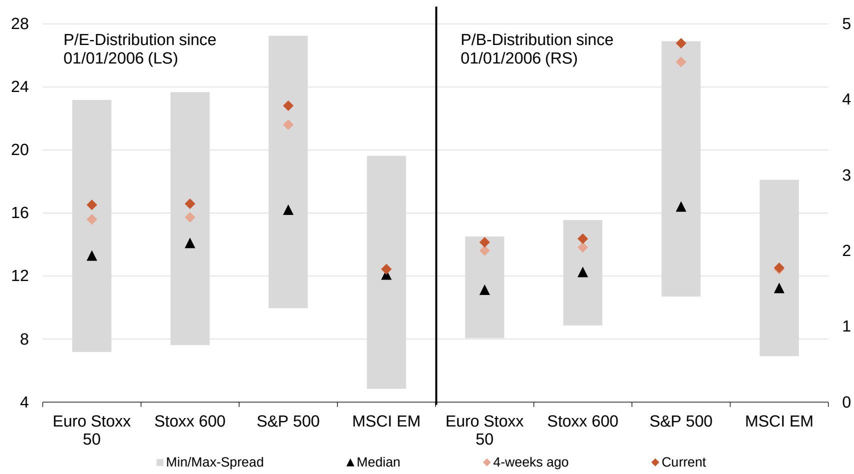
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Although corporate earnings have risen more strongly in other regions, US equities were still able to outperform again in recent months, so that the relative valuation to European equities has increased further. One reason for this is the rise of non-fundamental investors, who invest funds via options and ETFs without paying attention to valuation levels. The share of these investors is particularly high for US equities.

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 – 31/12/2021

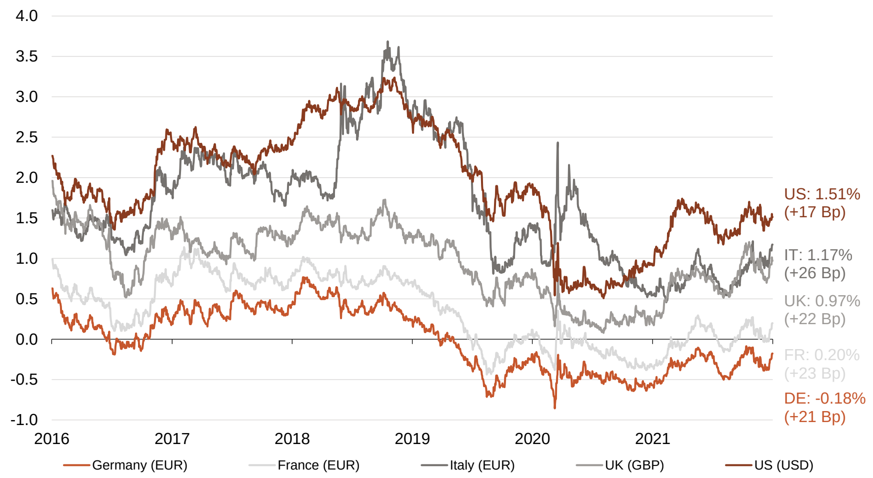
Historical Distribution: Price/Earnings and Price/Book Ratio



- Globally, emerging market equities remain the most attractively valued relative to their own history, followed by European equities. US equities are very expensive, especially on a P/E basis.

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 – 31/12/2021

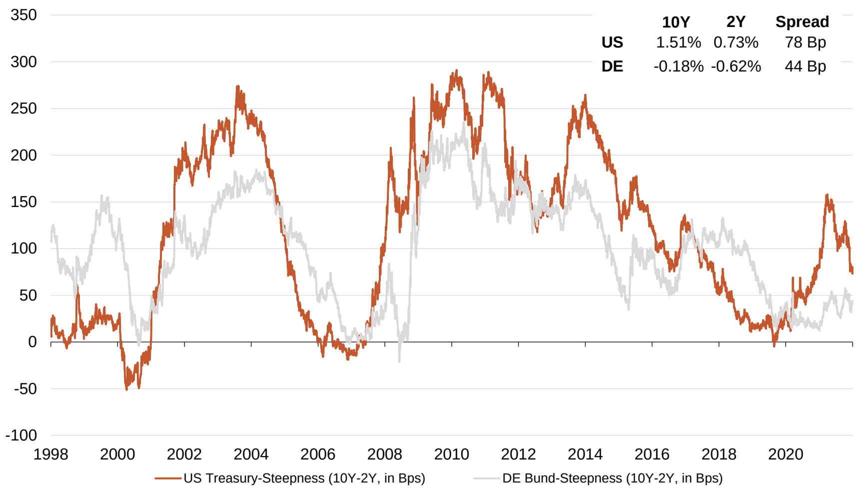
10-Year Government Bond Yields



- Safe government bond yields have normalised to some degree in 2021, but they are still trading below their pre-Covid levels. Although 10-year US government bond yields have risen by 17bps in December to 1.51% in anticipation of tighter monetary policy from the Fed and due to the easing of omicron concerns, they were around 30bps higher at the end of 2020 - and at significantly lower inflation rates.

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 - 31/12/2021

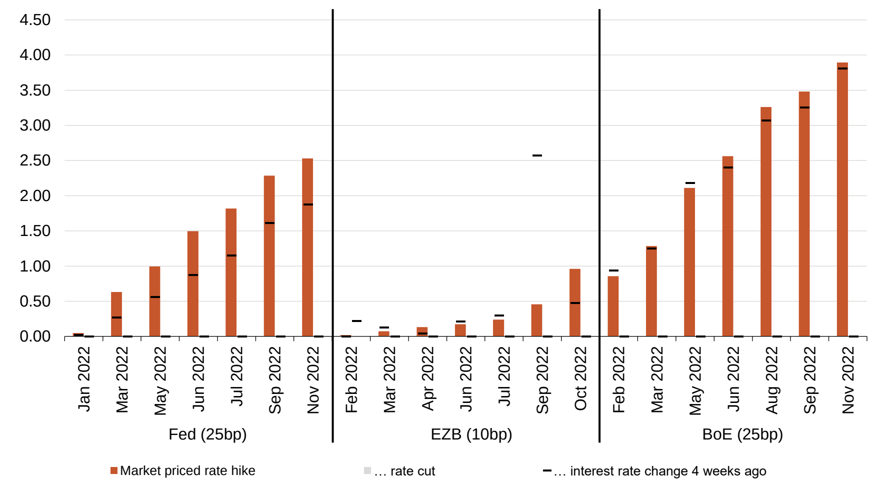
Yield Curve Steepness (10Y - 2Y)



- The pricing in of three Fed rate hikes in 2021 has led to a sharp rise in short-dated rates and a flattening of the yield curve as the market remains sceptical about long-dated rates. Two-year US government bond yields have more than tripled since September.

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 - 31/12/2021

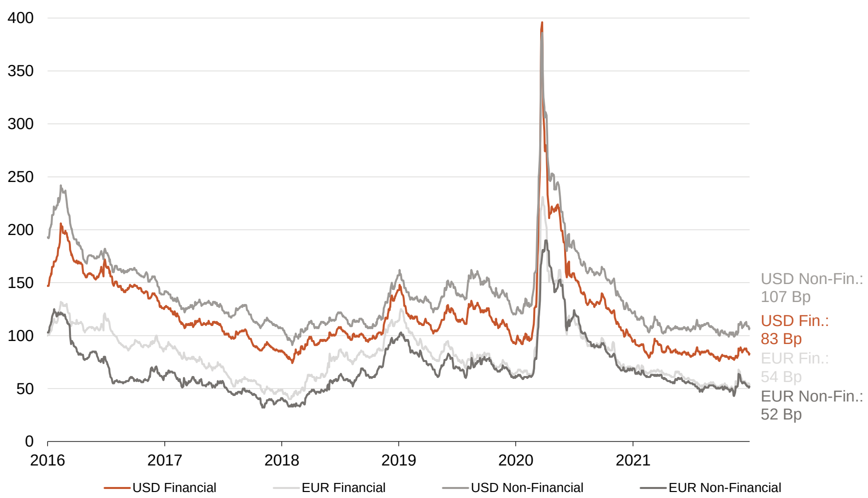
Implicit Changes in Key Interest Rates



- The market is now pricing in the first Fed rate hike as early as May, followed by a second step in the summer and a third in the winter.
- For the BoE, futures are even pricing in four rate hikes by the end of 2021.

Derivatives on money market rates - such as the Fed funds futures - can be used to determine changes (number of steps) in the key interest rate priced by the market
Source: Bloomberg, Time period: 03/12/2021 - 31/12/2021

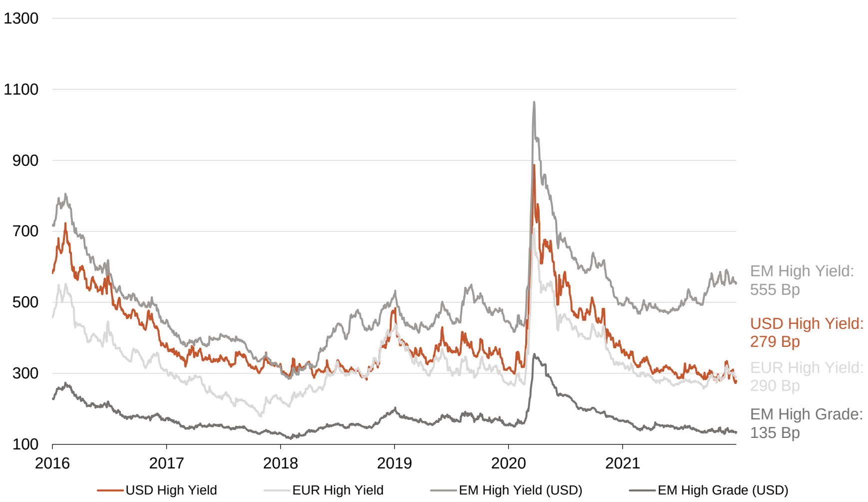
Credit Spreads Financial and Non-Financial Bonds



- The strong economic recovery in 2021 coupled with significant increases in corporate profits and low default rates have led to a reduction in risk premiums for corporate bonds in the USD and EUR segments. The loose monetary policy of the central banks has also had a supporting effect.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 – 31/12/2021

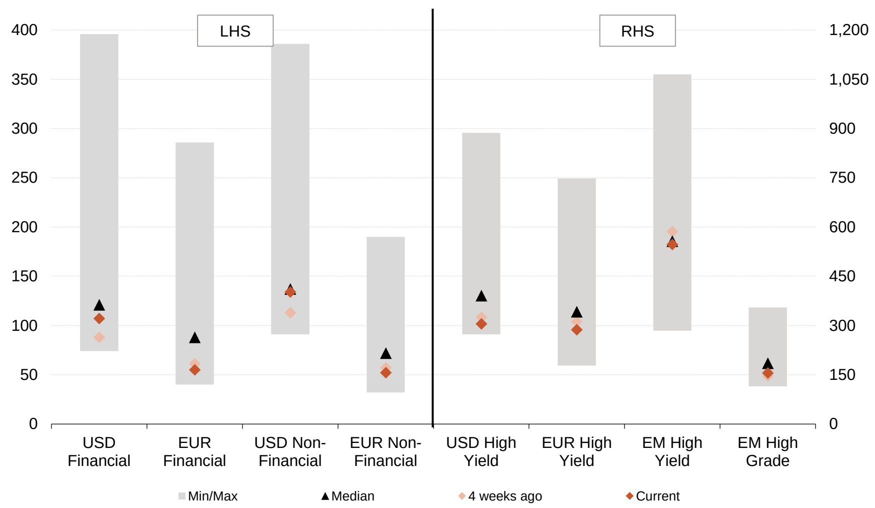
Credit Spreads High Yield and Emerging Markets Bonds



- There was a mixed picture for high yield bonds in 2021. The liquidity glut and hunt for yield has led to a significant narrowing of credit spreads in Europe and the US. In contrast, defaults by Chinese real estate companies and contagion concerns have led to a widening of risk premiums for EM high-yield bonds.

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 – 31/12/2021

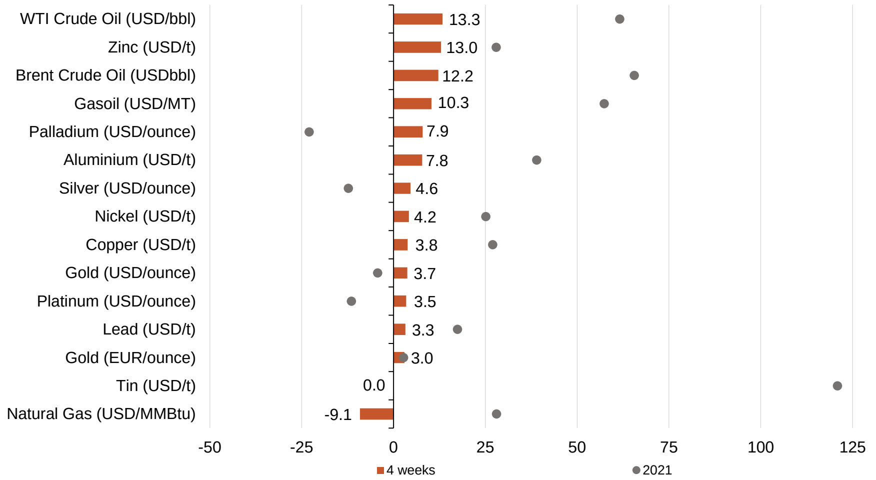
Historical Distribution of Credit Spreads (in bp)



- All bond segments, with the exception of EM high-yield bonds, are expensively valued relative to their own history. Low interest rates coupled with low credit spreads thus limit the return potential for 2022.

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: 04/01/2011 – 31/12/2021

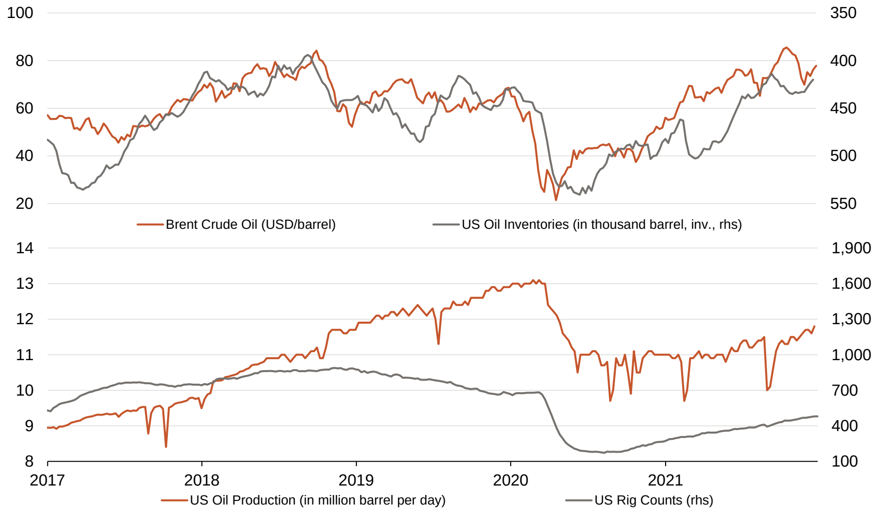
Commodities Performance



- The best performing commodity in 2021 was tin with almost 125%. The industrial metal is in a noticeable deficit with very low inventories.
- The worst commodity in 2021 was palladium. Although the precious metal was able to recoup some of its losses in recent weeks, it remains in last place with almost -25%. The reason for the poor performance is the low demand from the automotive industry due to the ongoing chip shortage.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2020 - 31/12/2021

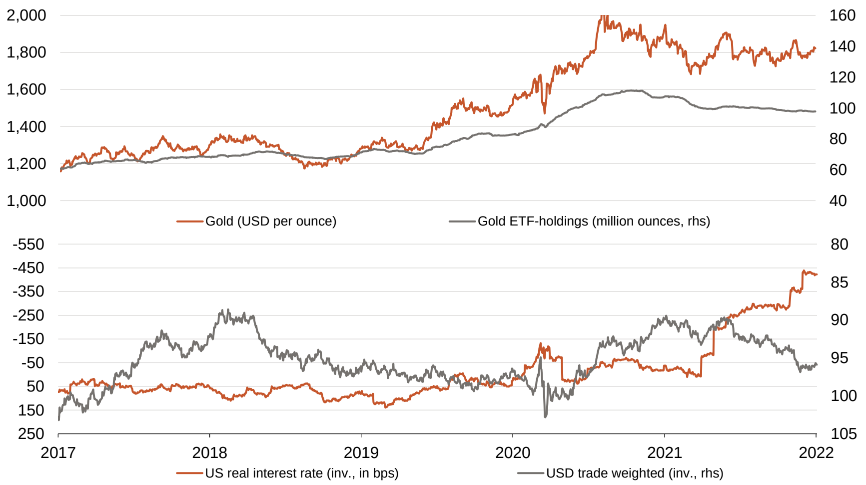
Crude Oil



- Crude oil (Brent) has recovered strongly in recent weeks and is currently trading near the USD 80 per barrel mark again. The initial concerns of a massive Omicron-related collapse in demand do not seem to have materialised, at least not yet.

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: 01/01/2017 - 31/12/2021

Gold



- Gold was able to end the year above the USD 1,800 per ounce mark. Thanks to the strong appreciation of the US dollar, euro investors were able to record gains of 3.5% despite gold's negative performance in USD.
- ETF investors sold around 9 million ounces in 2021.

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: 01/01/2017 - 31/12/2021

PUBLISHING INFORMATION

PUBLISHER

Prof Dr Bernd Meyer, CFA | Chief Strategist Wealth and Asset Management

EDITORS

Ulrich Urbahn, CFA | Head Multi Asset Strategy & Research
focuses on the multi-asset investment process, the development of investment ideas and capital market communications
+49 69 91 30 90-501 | ulrich.urbahn@berenberg.de

Karsten Schneider, CFA | Analyst Multi Asset Strategy & Research
analyses financial markets, supports the multi-asset investment process and participates in capital market publications
+49 69 91 30 90-502 | karsten.schneider@berenberg.de

Ludwig Kemper | Analyst Multi Asset Strategy & Research
analyses financial markets, supports the multi-asset investment process and participates in capital market publications
+49 69 91 30 90-224 | ludwig.kemper@berenberg.de

Richard Garland|UK Wealth Management
manages UK multi-asset discretionary strategies and portfolios
+44 20 3753 -3126 | richard.garland@berenberg.com

IMPORTANT NOTICES

This document is a marketing communication. This information and references to issuers, financial instruments or financial products do not constitute an investment strategy recommendation pursuant to Article 3 (1) No. 34 Regulation (EU) No 596/2014 on market abuse (market abuse regulation) nor an investment recommendations pursuant to Article 3 (1) No. 35 Regulation (EU) No 596/2014, both provisions in connection with section 85 (1) of the German Securities Trading Act (WpHG). As a marketing communication this document does not meet all legal requirements to warrant the objectivity of investment recommendations and investment strategy recommendations and is not subject to the ban on trading prior to the publication of investment recommendations and investment strategy recommendations.

This document is intended to give you an opportunity to form your own view of an investment However, it does not replace a legal, tax or individual financial advice. Your investment objectives and your personal and financial circumstances were not taken into account. We therefore expressly point out that this information does not constitute individual investment advice. Any products or securities described may not be available for purchase in all countries or only in certain investor categories. This information may only be distributed within the framework of applicable law and in particular not to citizens of the USA or persons resident in the USA. The statements made herein have not been audited by any external party, particularly not by an independent auditing firm.

The statements contained in this document are based either on the company's own sources or on publicly accessible third-party sources, and reflect the status of information as of the date of preparation of the presentation stated below.

Subsequent changes cannot be taken into account in this document. The information given can become incorrect due to the passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. Past performance, simulations and forecasts are not a reliable indicator of future performance and custody fees may occur which can reduce overall performance.

Please refer to the online glossary at www.berenberg.de/glossar for definitions of the technical terms used in this document.

Date: 03 January 2022

The Berenberg Markets series includes the following publications:

- ► Monitor
- Focus
- Investment Committee Minutes

www.berenberg.de/en/publications

Joh. Berenberg, Gossler & Co. KG
Neuer Jungfernstieg 20
20354 Hamburg (Germany)
Phone +49 40 350 60-0
Fax +49 40 350 60-900
www.berenberg.com
MultiAssetStrategyResearch@berenberg.de