Current market commentary

The rapid and strong increase in real interest rates has led to a clear dispersion in capital markets. Long-dated bonds as well as highly valued (growth) shares and defensive shares with earnings development priced far into the future lost massively in value, while commodities (especially energy) and value shares were able to gain. The US dollar has also lost value since the beginning of the year - not surprising given the one-sided positioning of hedge funds and a strong investment consensus for a further appreciation of the US dollar this year. Our economists now expect four US interest rate hikes this year, as does the market. So that is already priced in. Is the rotation out of growth and into value accordingly over? Relative performance at least suggests that the pendulum could soon swing back in the other direction. In addition, the market is likely to focus more on fundamentals again in view of the upcoming Q4 reporting season.

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

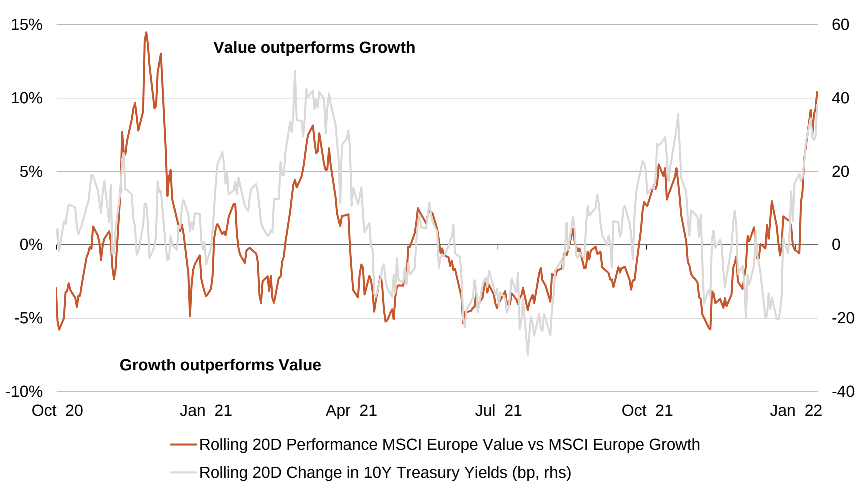
Q4 reporting season and central banks should move the market.

The Q4 reporting season has picked up speed with the release of figures of the first US banks. Over the next two weeks, more than 40% of companies by market capitalisation report from the S&P 500 and more than 10% from the STOXX Europe 600. However, given the market's interest rate fears, the ECB meeting on 20 Jan and the Fed meeting on 26 Jan are likely to be even more exciting.

Purchasing managers' indices provide insight into the economic impact of the Covid measures.

The ZEW index (Jan.) for Germany and the Empire State index (Jan.) for the USA will be published on Tuesday. The German and British consumer price indexes (Dec.) will follow on Wednesday and the French Insee business climate index (Jan.) and the US Philadelphia Fed index (Jan.) on Thursday. Retail sales (Dec.) for the UK will be released on Friday. In the following week, the preliminary Markit Purchasing Managers' Indices (Jan.) for Europe and the USA as well as the Ifo Index (Jan.) and Q4 economic growth for Germany will be published.

The back and forth of styles continues



- The new year began with a sharp rotation in equity markets. Driven by the rapid and strong rise in interest rates due to the more restrictive rhetoric of the US Federal Reserve, highly valued growth stocks experienced a noticeable correction, while value stocks gained in this environment.
- In the short term, a countermovement becomes more likely. Style volatility is therefore likely to continue.
- A balanced portfolio should therefore continue to pay off in 2022.

Source: Bloomberg, Time period: 30/09/2020 - 14/01/2022

Multi Asset

	4W (17/12/21 - 14/01/22)	YTD (31/12/21 - 14/01/22)	14/01/21 14/01/22	14/01/20 14/01/21	14/01/19 14/01/20	14/01/18 14/01/19	13/01/17 14/01/18
Brent	15.6	10.4	78.8	-30.0	24.3	-5.4	7.4
Industrial Metals	5.5	2.4	37.8	8.5	10.9	-12.6	4.4
MSCI Emerging Markets	2.3	1.9	0.0	12.0	21.9	-11.0	20.8
Eonia	0.0	0.0	-0.5	-0.5	-0.4	-0.4	-0.4
MSCI World	-0.1	-1.9	25.4	6.6	28.9	-3.9	9.2
MSCI Frontier Markets	-0.1	-0.7	22.6	-5.0	19.9	-13.4	16.7
Gold	-0.4	-1.0	4.9	9.3	23.4	2.8	-2.6
EUR Sovereign Debt	-1.2	-0.4	-1.8	1.9	3.0	0.8	0.4
EUR Coporates	-1.3	-0.6	-1.8	2.9	6.4	-1.2	2.5
USDEUR	-1.6	-0.4	6.5	-8.5	3.1	6.4	-12.8
Global Convertibles	-3.7	-4.6	-3.2	39.4	21.9	-1.8	-1.5
REITs	-3.8	-6.4	36.2	-17.7	23.0	5.4	-10.0

4-week & YTD; 12-month periods over that last 5 years

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; EUR Sovereign Debt: IBOXX Eurozone Sovereign 1-10Y TR; EUR Corporates: IBOXX Euro Corporates Overall TR; Global Convertibles: SPDR Convertible Securities ETF; 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.

- Crude oil has been supported by falling inventories, Kazakhstan and diminishing Omicron concerns since the beginning of the year and has recovered by around 10% over the last four weeks.
- Persistently high inflation levels and tighter Fed stance have led to a sharp rise in long-dated government bond yields. As a result, in addition to government bonds, REITs also posted a weak performance over the last four weeks.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 13/01/2017 – 14/01/2022

Equities

	4W (17/12/21 - 14/01/22)	YTD (31/12/21 - 14/01/22)	14/01/21 14/01/22	14/01/20 14/01/21	14/01/19 14/01/20	14/01/18 14/01/19	13/01/17 14/01/18
MSCI UK	6.2	3.2	23.6	-12.7	19.9	-8.3	8.3
Stoxx Europe Cyclicals	4.0	0.1	21.7	3.3	23.3	-16.8	16.6
Euro Stoxx 50	2.7	-0.5	19.6	-1.6	27.0	-13.1	11.4
DAX	2.3	0.0	13.5	4.0	24.0	-18.0	13.9
MSCI EM Asia	2.2	1.6	-3.4	21.2	25.8	-13.5	25.4
Stoxx Europe 50	1.9	-0.5	21.5	-4.0	25.8	-10.2	9.9
Stoxx Europe Defensives	0.9	-1.0	16.5	-4.6	21.6	-0.2	6.0
Stoxx Europe Small 200	0.3	-3.5	15.2	7.0	24.9	-11.1	19.5
MSCI USA Small Caps	-0.1	-2.7	14.4	16.1	24.1	-2.6	4.0
S&P 500	-0.2	-2.3	32.9	7.7	33.7	-0.1	9.5
MSCI Japan	-1.8	-0.1	4.8	8.3	18.8	-8.4	10.2
MSCI EM Eastern Europe	-1.9	-3.1	14.1	-16.3	34.7	-0.5	9.3

4-week & YTD; 12-month periods over that last 5 years

S&P 500: S&P 500 TR (US-Equity); Stoxx Europe 50: Stoxx Europe 50 TR; Euro Stoxx 50: Euro Stoxx 50 TR; MSCI Japan: MSCI Japan TR; 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.

- At the beginning of the year, stock markets were influenced by interest rate concerns and a clear style rotation. The surprisingly strong and rapid rise in real interest rates weighed particularly on highly-valued US stocks in the growth sector.
- British stocks and cyclical European stocks, on the other hand, rose over the last four weeks, in some cases significantly. The British share index benefited from its high weightings in commodity and bank shares.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 13/01/2017 – 14/01/2022

Fixed Income

	4W (17/12/21 - 14/01/22)	YTD (31/12/21 - 14/01/22)	14/01/21 14/01/22	14/01/20 14/01/21	14/01/19 14/01/20	14/01/18 14/01/19	13/01/17 14/01/18
Chinese Gov Bond	0.7	0.2	5.7	2.8	4.3	8.8	-1.6
EUR High Yield	0.0	0.0	2.8	2.9	10.8	-3.2	6.6
USD High Yield	-0.1	-0.8	4.2	5.8	11.7	0.0	7.1
EM Local Currency Bonds	-0.8	-0.3	4.5	-3.6	11.3	2.3	0.2
EUR Financials	-1.2	-0.5	-1.3	2.4	6.3	-1.6	3.3
EUR Non-Financials	-1.4	-0.6	-2.2	3.2	6.5	-0.9	1.9
Gilts	-2.2	-0.9	0.5	1.9	13.0	1.3	0.8
Bunds	-2.2	-0.6	-3.3	2.9	2.7	3.4	-1.3
BTPs	-2.2	-0.5	-2.9	7.1	11.2	-2.1	1.7
USD Corporates	-2.3	-2.1	-1.8	7.8	14.6	-1.5	5.4
EM Hard Currency Bonds	-2.5	-2.6	-4.5	1.6	8.4	-5.0	5.8
Treasuries	-3.5	-2.3	3.1	-2.8	10.9	7.5	-11.5

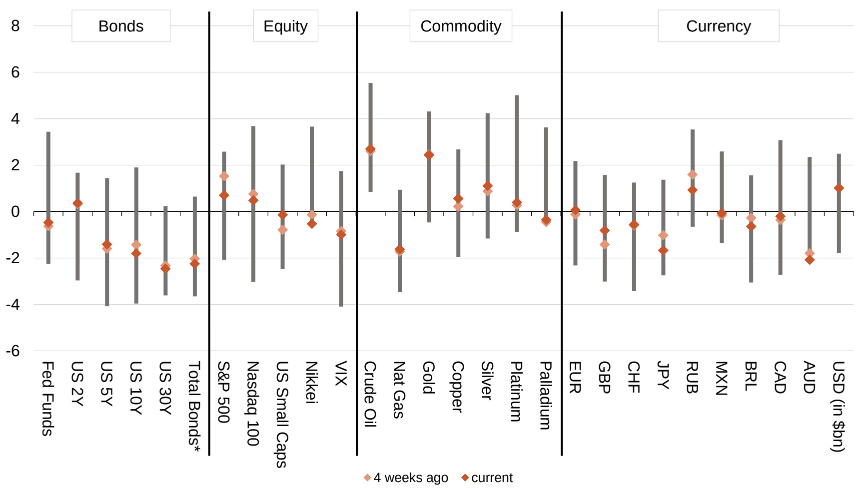
4-week & YTD; 12-month periods over that last 5 years

Bunds: IBOXX Euro Germany Sov TR ; BTPs: IBOXX Euro Italy Sov TR ; Treasuries: ICE BofA US Treasury TR; Gilts: IBOXX Sterling Gilts Overall TR; Chinese Gov Bonds: ICE BofA China Govt; EUR Financials.: IBOXX Euro Fin. Overall TR; EUR Non-Financials: IBOXX Euro Non-Fin. Overall TR; EUR High Yield: ICE BofA EUR Liquid HY TR; USD Corporates: ICE BofA USD Corp TR; USD High Yield: ICE BofA USD Liquid HY TR; EM Hard Currency: JPM EMBI Glo Div Unh. EUR TR; EM Local Currency: JPM GBI-EM Glo Div Comp Unh. EUR TR

- The more restrictive tone of the US Federal Reserve led to a significant sell-off in bond markets. The market now expects four rate hikes and the start of balance sheet reduction in 2022.
- The sell-off was also a global phenomenon. With the exception of European high-yield bonds and Chinese government bonds, all bond segments posted losses.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 13/01/2017 – 14/01/2022

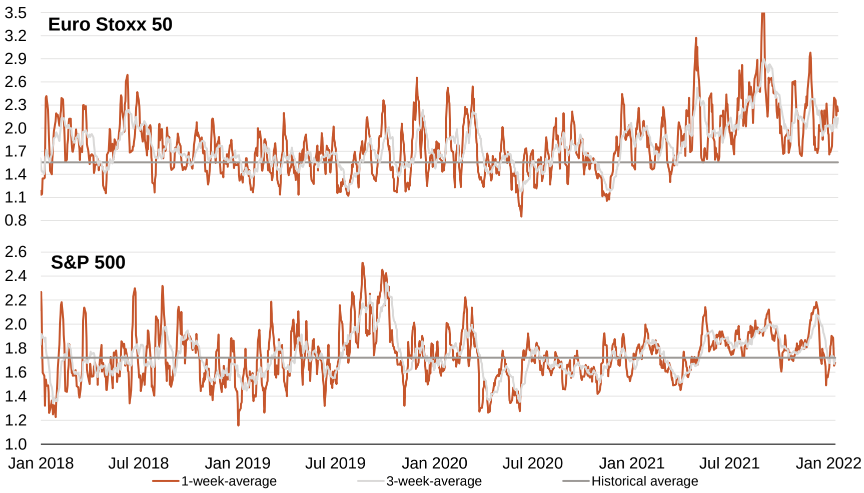
Non-Commercial Positioning



- Speculative investors are still only moderately invested in equities; in Japanese equities they are now at the bottom of the positioning over the last 10 years.
- The optimistic USD positioning, on the other hand, poses a risk, as seen in recent weeks.

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: 11/01/2012 - 11/01/2022

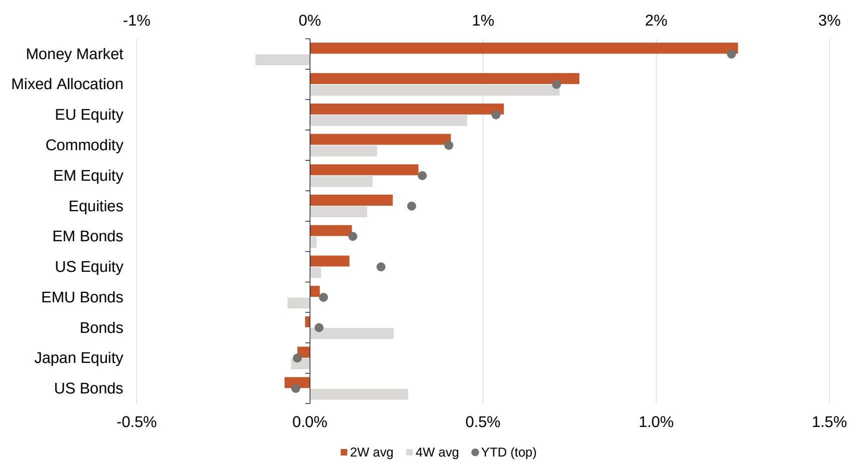
Put-Call Ratio



- With the turbulent start to the year, hedges (puts) were also much more in demand than at the end of last year, so that the ratio relative to calls shot up.
- Although the US equity market seems very expensive compared to its own history as well as to other markets, the put-call ratio is "only" at the 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 - 14/01/2022

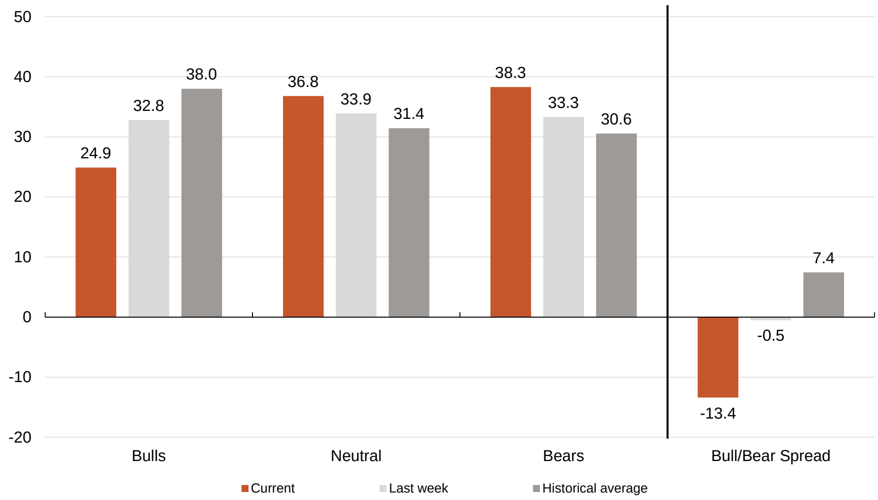
ETF Flows



- The recent uncertainty in markets has driven investors increasingly into money market ETFs since the beginning of the year.
- But multi-asset products also remain in demand thanks to their typically better diversification characteristics.
- Bond ETFs had the most difficult time due to the rapid rise in interest rates and recorded outflows with the exception of EM-Bonds.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 14/12/2021 - 14/01/2022

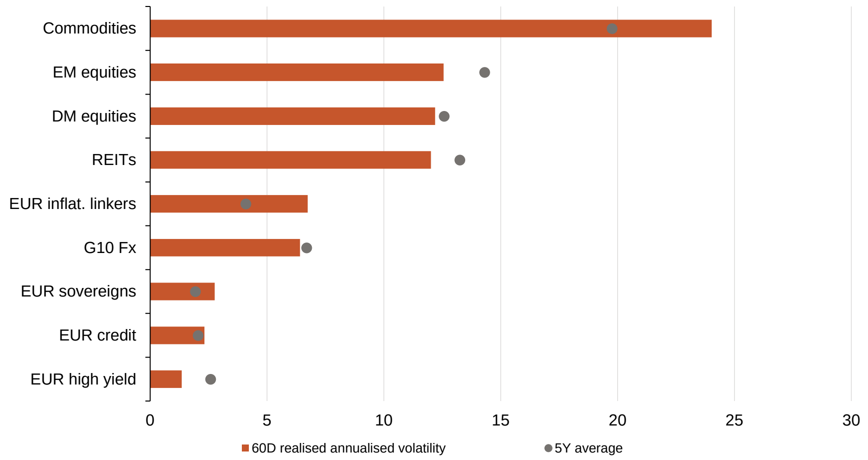
AAII Sentiment Survey (Bulls vs Bears)



- A mix of inflation and tapering concerns has weighed heavily on US private investor sentiment.
- At just under 25%, the share of bulls is the lowest it has been since September last year.

The sentiment survey conducted by the American Association of Individual Investors determines the percentage of private investors who are optimistic, pessimistic or neutral regarding the US equity market outlook for the upcoming six months. It has been carried out since 1987. The survey is conducted from Thursday to Wednesday and the results are published every Thursday. For the stock market, it tends to be supportive when there is a high proportion of bears and a low proportion of bulls. However, it is a negative indicator when there are significantly more optimists than pessimists.
Source: Bloomberg, AAII, Time period: 23/07/87 – 14/01/2022

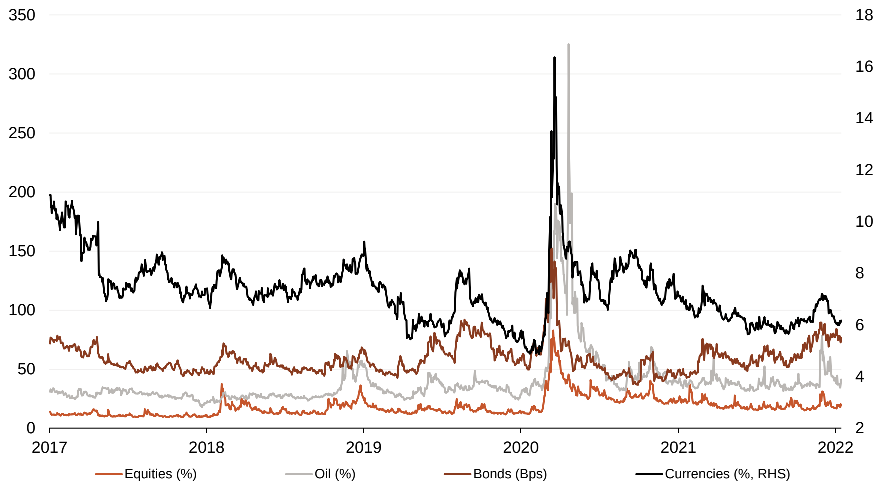
Realised Volatilities



- Realised volatilities have hardly changed relative to two weeks ago. Equities are currently showing below-average volatility.
- Most bond segments, on the other hand - with the exception of high-yield bonds - are showing above-average volatility.
- In the case of commodities, the realised volatility in mid-November was still just over 15%; currently it is almost 25%.

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 – 14/01/2022

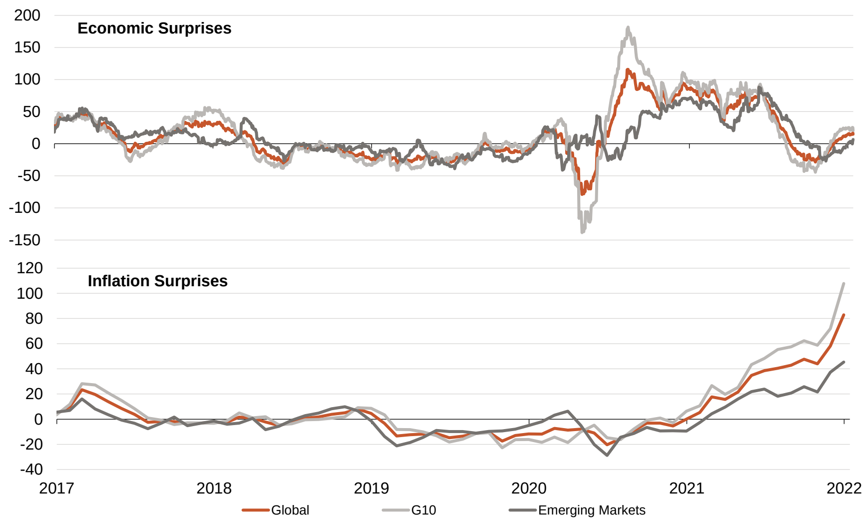
Implied Volatilities



- Despite the violent style rotations under the surface, implied volatility at the index level remained relatively subdued. The VIX managed to stay around the 20 mark.
- The implied volatility of oil has fallen rapidly from almost 80 to around 40 since the beginning of December.

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: 01/01/2017 – 14/01/2022

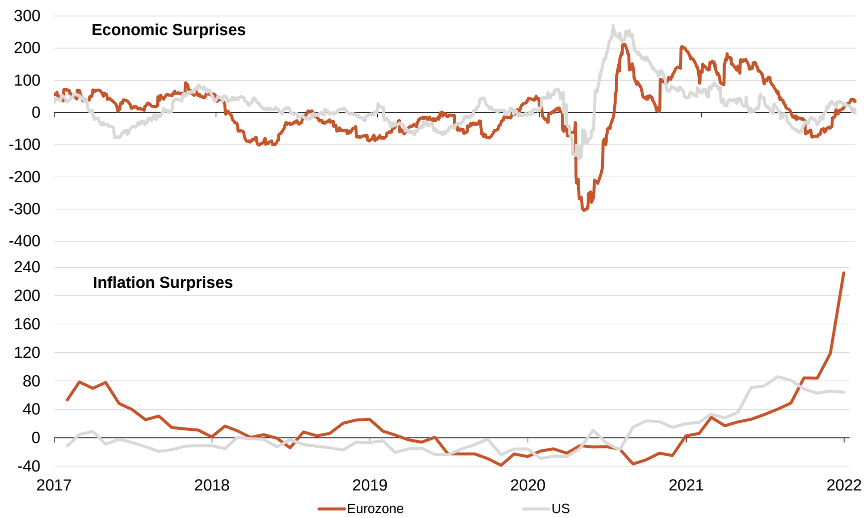
Global



- Economic data continues to surprise positively on a global scale. While the positive surprises in the G10 have recently diminished somewhat, the data in the emerging markets developed more positively. In China, for example, both the services and manufacturing PMI for December surprised on the upside. Both point to rising activity relative to the previous month.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 14/01/2022

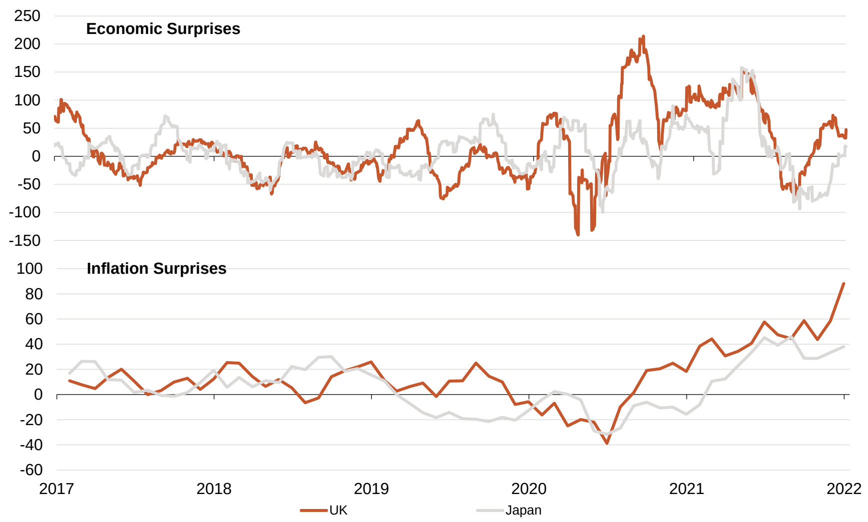
Eurozone and US



- While the inflation surprise index in the eurozone keeps reaching new highs, the economy has not been able to provide any significant positive surprises lately. In Germany, industrial production data and the industrial PMI were disappointing. On the other hand, new orders, labour market data and retail sales surprised on the upside.
- In the USA, retail sales, the ISM index and industrial production disappointed, while labour market data and new orders exceeded expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 14/01/2022

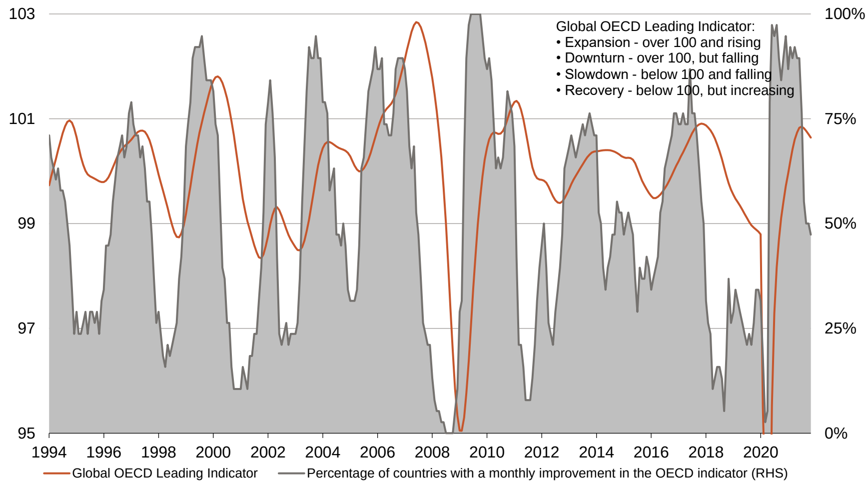
UK and Japan



- Economic data in the UK and Japan have been positive recently. In both regions, the number of positive economic surprises has risen sharply, with Japan now in positive territory for the first time since September 2021.

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: 01/01/2017 - 14/01/2022

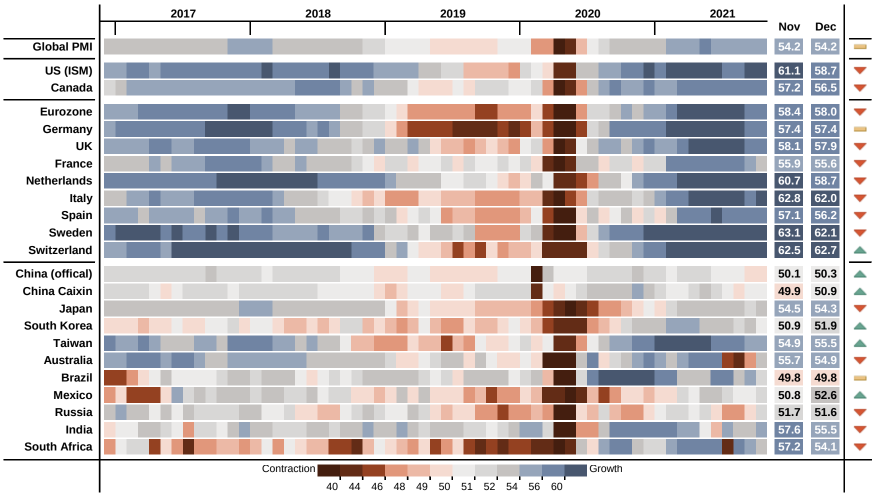
OECD Leading Indicator



- The latest economic data are below their previous month's values. Thus, the OECD leading indicator currently points to a slowdown.
- The share of countries with a monthly improvement is currently just under 50%. The development of the global economy is thus no longer as synchronous and is only supported by half of the countries.

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 - 14/01/2022

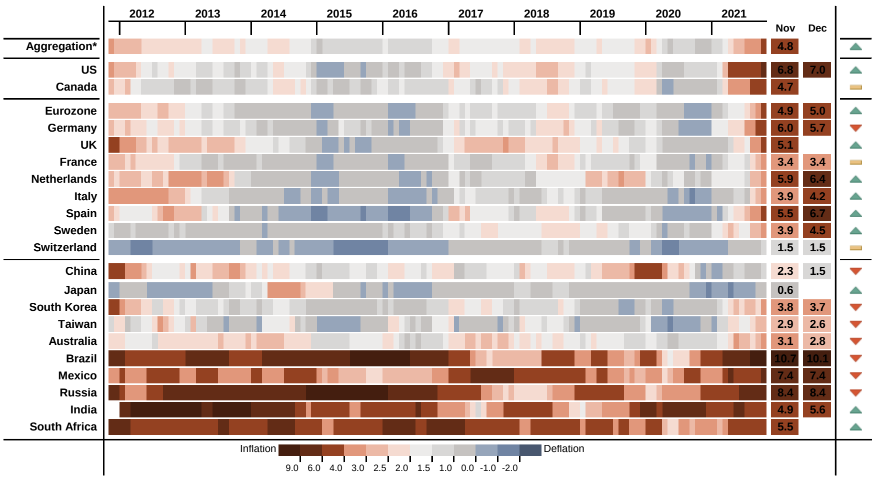
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- For December, the broad purchasing managers' indices show a decrease compared to the previous month.
- Outside Europe and the USA, the picture is mixed. While Japan, Australia, Russia, India and South Africa show declines, China, South Korea, Taiwan and Mexico show increases.

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: 31/12/2017 - 14/01/2022

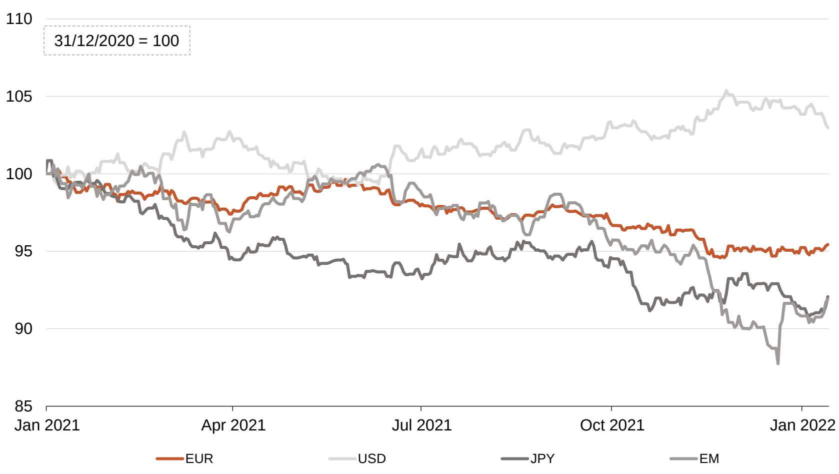
Headline Inflation



- Headline inflation in December shows a mixed picture. While the inflation rate rose slightly in the USA and the Eurozone, it tended to weaken in the emerging markets.
- Regionally, inflation in the US reached 7% year-on-year, the highest level since 1982. In Germany, however, inflation declined slightly.

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 - 14/01/2022

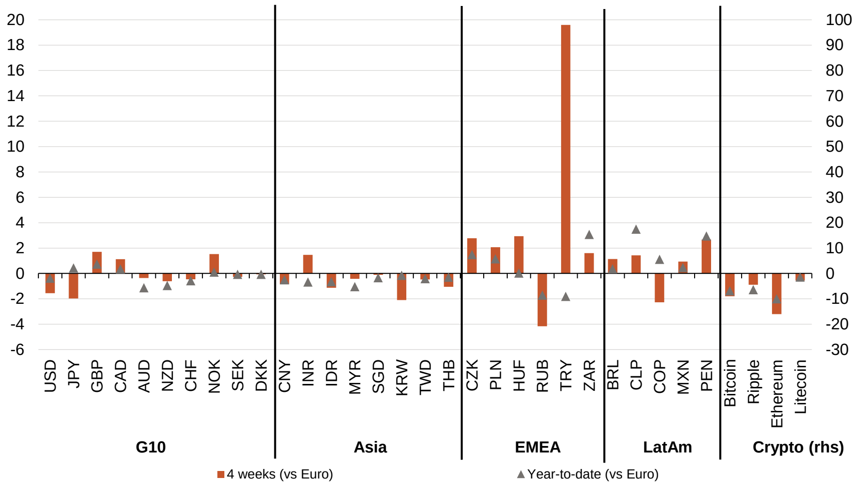
Trade-Weighted Currency Development



- In 2021, the US dollar appreciated strongly on a trade-weighted basis, while all other currencies shown here recorded losses.
- Although we are only two weeks into the new year, so far a trend reversal is emerging.
- The trade-weighted euro seems to have been nailed down since the end of November.

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 - 14/01/2022

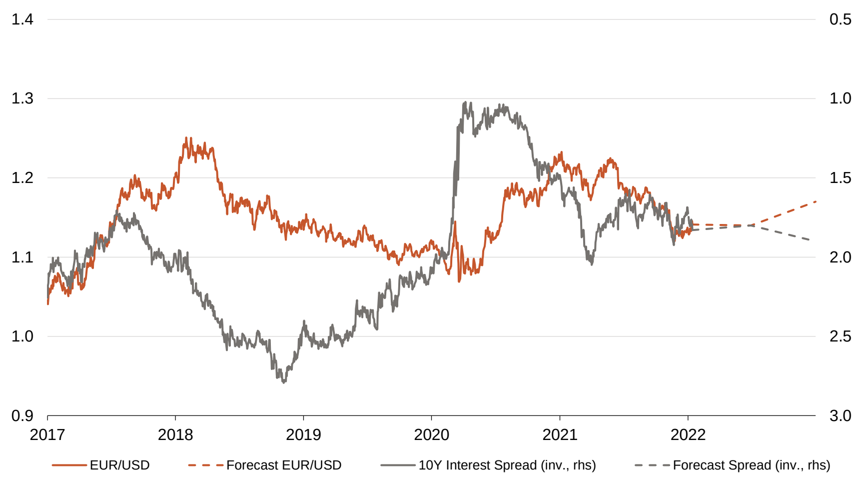
Currency Moves vs Euro



- The developments of the G10 currencies were without clear trends since the beginning of the year. For example, the Australian and New Zealand dollars were sold, while the Norwegian krone and the Canadian dollar were bought, although they are all typical commodity currencies.
- Asian currencies except the Indian rupee have depreciated across the board since the beginning of the year.
- Cryptocurrencies have had a particularly bad start to the new year.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2021 - 14/01/2022

EUR/USD Exchange Rate and Interest Rate Differential



- The latest inflation data from the US surprised only slightly on the upside, but were nevertheless not well received by investors. As a result, the EUR/USD exchange rate shot up to almost 1.15 - the highest level in two months.

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

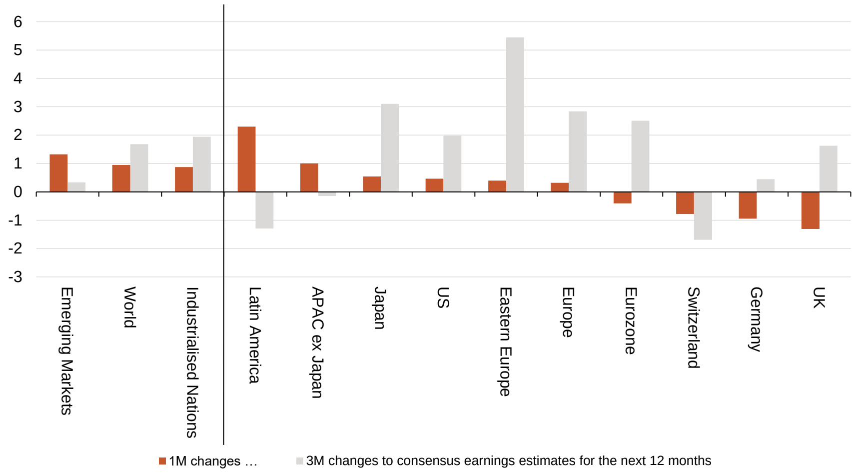
	4-week & YTD		12-month periods over that last 5 years				
	4W (17/12/21 - 14/01/22)	YTD (31/12/21 - 14/01/22)	14/01/21 14/01/22	14/01/20 14/01/21	14/01/19 14/01/20	14/01/18 14/01/19	13/01/17 14/01/18
Energy	14.4	12.5	34.4	-26.4	6.2	-1.0	9.9
Finance	9.9	6.5	31.3	-11.9	17.2	-19.7	15.2
Value	7.2	4.6	21.6	-9.1	16.2	-11.9	10.5
Materials	4.1	1.8	18.8	18.6	20.4	-14.7	20.1
Telecommunications	1.8	-0.2	9.8	-11.4	4.7	-9.0	-1.5
Consumer Discretionary	1.5	-1.8	19.6	5.2	30.5	-13.2	10.5
Industrials	0.7	-3.8	18.6	7.1	33.1	-13.6	17.2
Utilities	0.6	-2.1	1.8	14.8	28.2	5.3	10.3
Consumer Staples	-0.9	-2.1	18.7	-4.7	23.7	-6.1	7.3
Information Technology	-3.1	-7.4	22.4	14.5	40.1	-7.6	20.9
Growth	-3.2	-6.2	17.8	6.3	31.3	-8.5	12.6
Health Care	-4.0	-5.4	15.6	-1.1	32.3	0.2	3.0

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.

- Style volatility continues in 2022. In the last few days, there has again been a strong and rapid value rotation. European value stocks, for example, have gained more than 4% since the beginning of the year, while European growth stocks have lost a good 6%.
- At a sector level, energy is clearly ahead of the lagging healthcare sector with a gain of more than 14% over the last four weeks.

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: 13/01/2017 – 14/01/2022

Changes in Consensus Earnings Estimates



- After months of negative earnings revisions, Latin America again leads the list of positive 1M revisions. Higher commodity prices are likely to have been a supportive factor for the commodity-rich region. The bottom performers on a monthly basis are the United Kingdom, Switzerland and Germany.
- Eastern Europe, which is dominated by energy companies, saw the strongest positive earnings revisions on a 3-month basis, which was also a reason for the region's strong index performance.

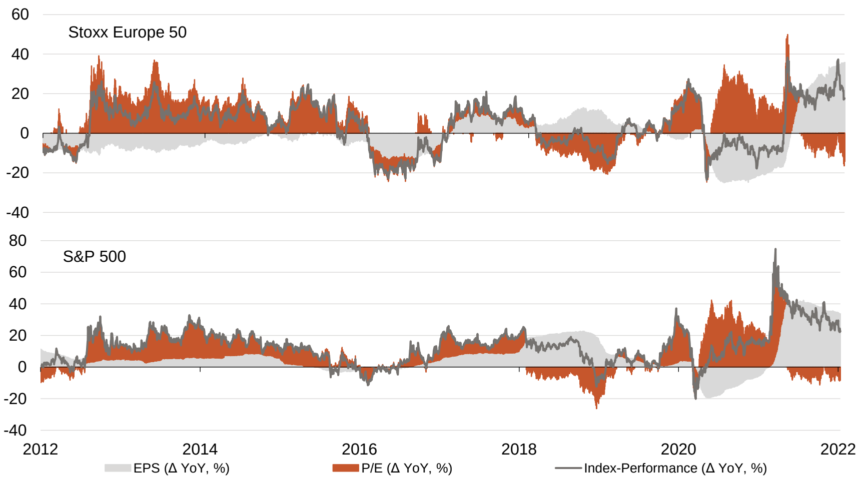
1-month and 3-month changes in consensus earnings estimates for the next 12 months, in percent.
APAC ex Japan = Asia Pacific ex Japan
Source: FactSet, as of 14/01/2022

Earnings Growth

- For 2022, the market sees the greatest profit growth in the industrialised nations. However, according to current estimates, emerging markets will be ahead again in 2023.
- After the massive earnings growth in 2021, Latin America is at the bottom in terms of estimated earnings growth for 2022, despite recent positive earnings revisions.

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 14/01/2022

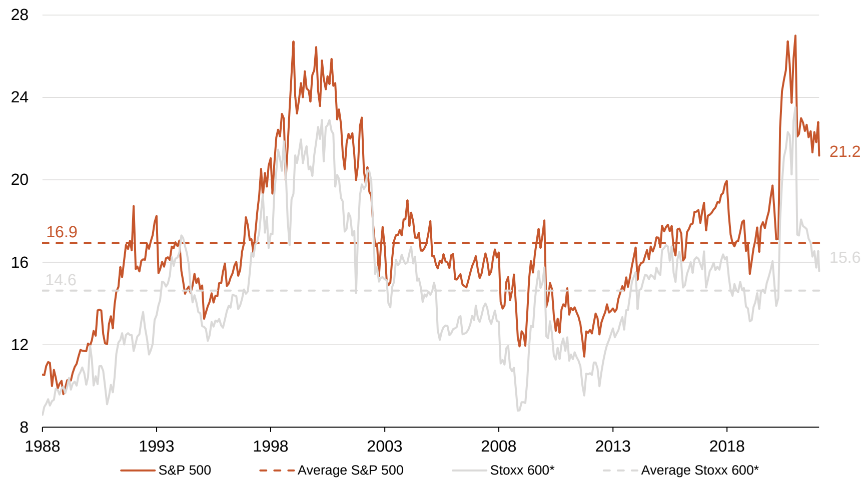
Contribution Analysis



- Both the Stoxx Europe 50 and the S&P 500 have seen a valuation correction in recent weeks, which has weighed on both indices.

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: 01/01/2012 – 14/01/2022

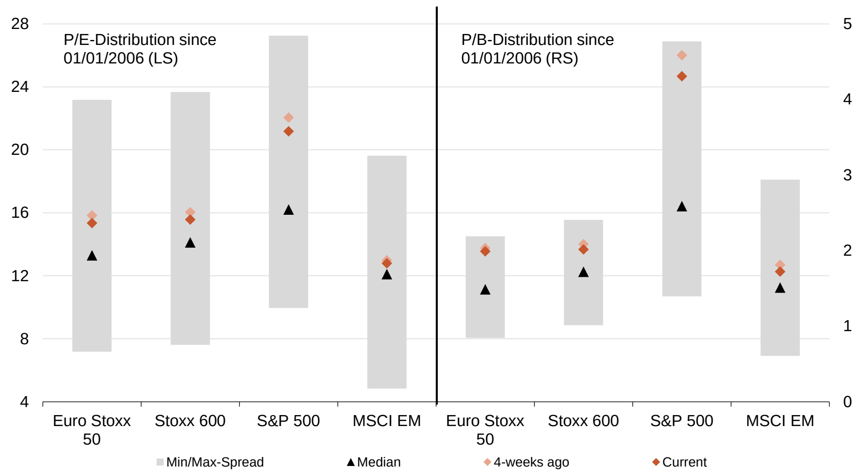
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The recent correction in stock markets with simultaneously rising profit expectations has caused P/E ratios for the S&P 500 and the Stoxx 600 to fall.
- At 21.2, the S&P 500 is around 4 P/E points above the historical average and thus still expensive. The danger of further valuation compression is thus still present.
- The Stoxx 600, on the other hand, is historically fairly valued at 15.6, albeit slightly higher.

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 – 14/01/2022

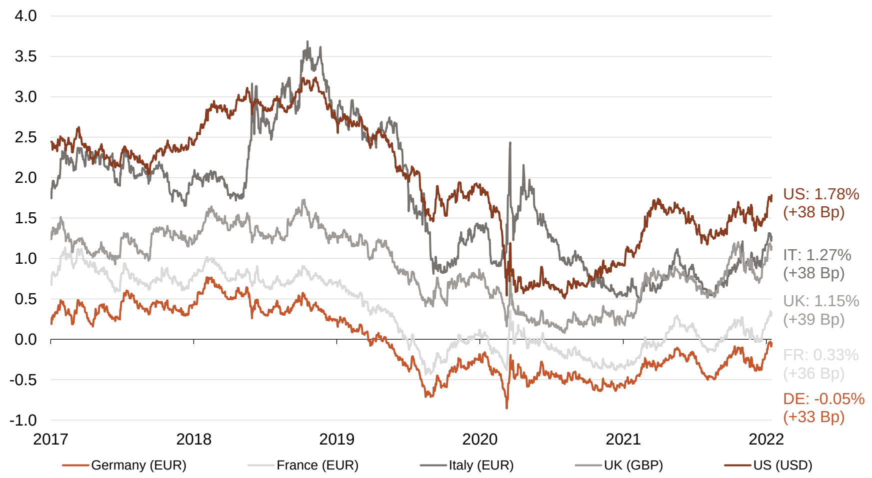
Historical Distribution: Price/Earnings and Price/Book Ratio



- The S&P 500 has seen a noticeable valuation correction in the last four weeks. Both the P/E ratio and the P/B ratio have fallen significantly. However, both remain significantly above the historical median.
- In Europe and emerging markets, which historically appear less expensive, there has been little upside.

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 – 14/01/2022

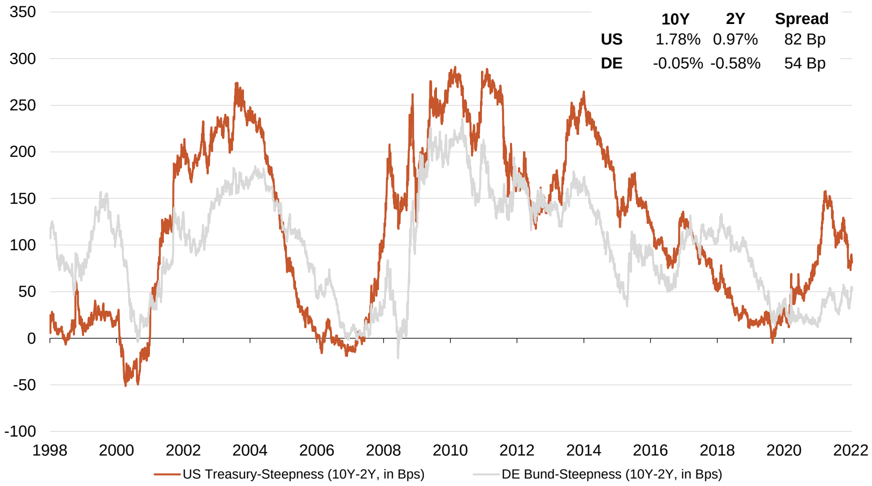
10-Year Government Bond Yields



- The tighter tone of the US Federal Reserve, including in the December Fed minutes, and persistently high inflation levels have led to a sell-off in bonds globally. Markets now expect four rate hikes this year and the start of balance sheet tightening in 2022.
- Yields on 10-year German government bonds hit their highest level since May 2019 at just under 0%.
- In the US, yields briefly rose above 1.8%, reaching a high since the start of the pandemic.

Effective yield of 10-year government bonds and change in the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2017 - 14/01/2022

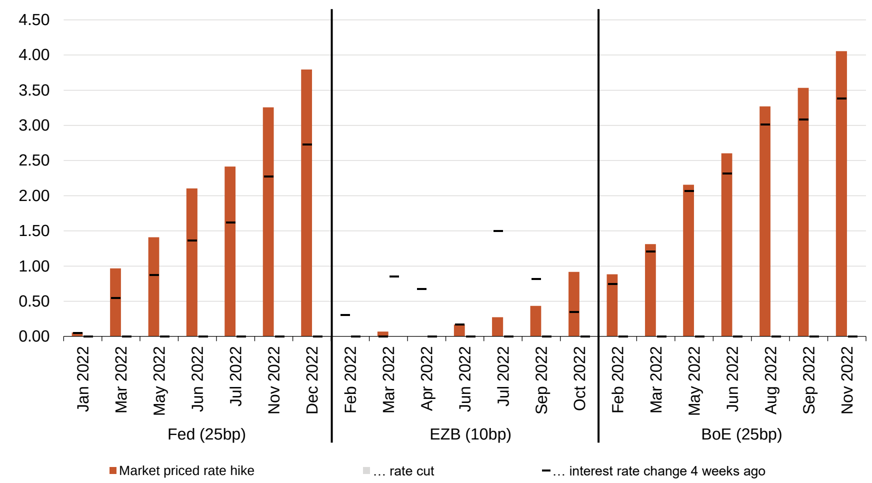
Yield Curve Steepness (10Y - 2Y)



- The steepness of the yield curve in the US and Germany has not increased significantly despite a clear rise in yields. In addition to the yields on 10-year government bonds, the 2-year yields have also risen significantly. The interest rate movement was driven by a rise in real interest rates and not by rising inflation expectations.

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 - 14/01/2022

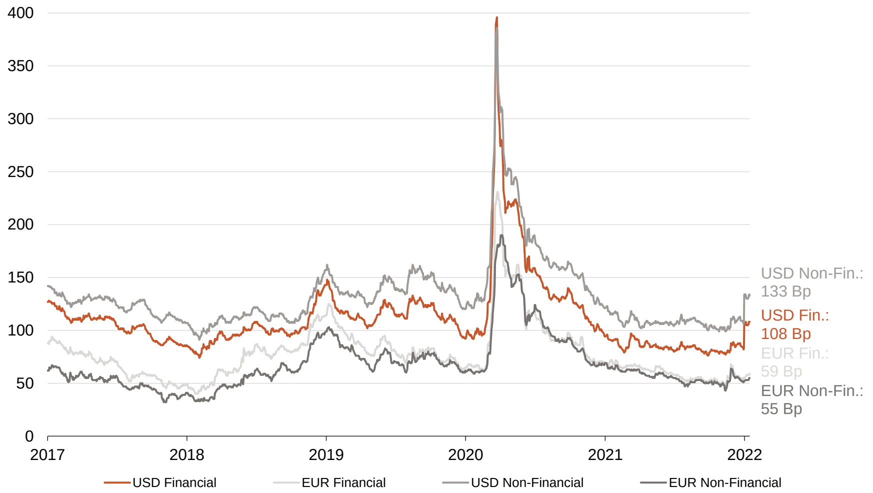
Implicit Changes in Key Interest Rates



- 2022 will be the year of interest rate hikes. For the Fed and the Bank of England, the market is already expecting four rate hikes by the end of the year. The Fed's first rate hike could come as early as March.
- The market also expects the ECB to raise interest rates in 2022 with almost 100% probability, whereas our economists are somewhat more sceptical and do not expect this to happen until 2023.

Derivatives on money market rates - such as the Fed funds futures - can be used to determine changes (number of steps) in the key interest rate priced by the market
Source: Bloomberg, Time period: 17/012/2021 - 14/01/2022

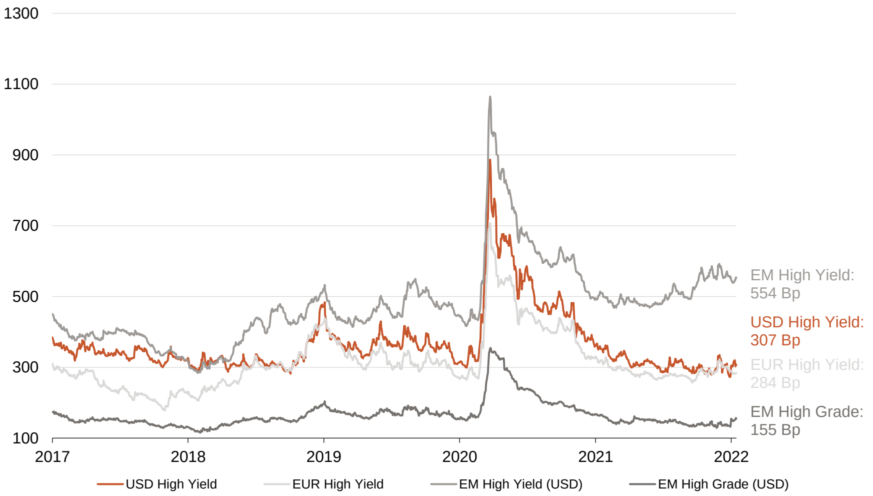
Credit Spreads Financial and Non-Financial Bonds



- The correction in markets was hardly observable in the relatively safe investment grade segment. In recent weeks, risk premiums have risen insignificantly.
- Although there was a larger increase in risk premiums for USD-IG corporate bonds, this movement was due to a methodological calculation adjustment.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2017 – 14/01/2022

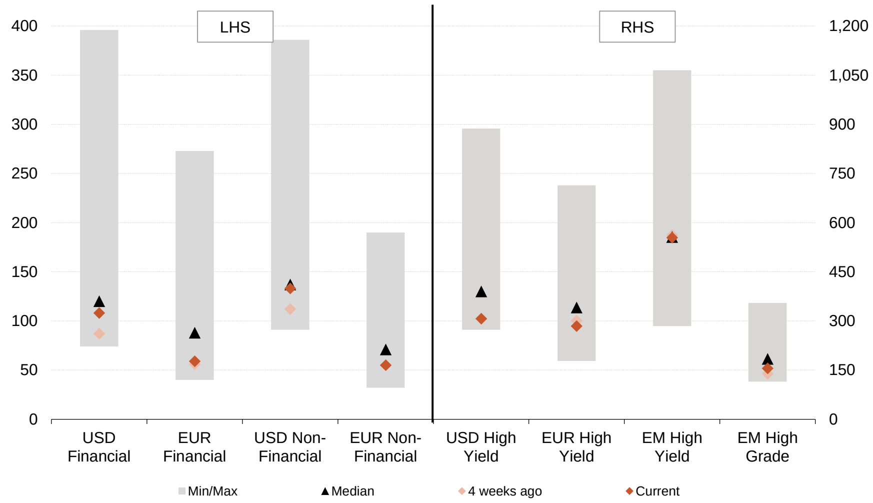
Credit Spreads High Yield and Emerging Markets Bonds



- High-yield bonds also saw relatively little spread change in the last two weeks. EUR and EM high-yield bonds even experienced slightly falling risk premiums.
- For EUR high-yield bonds, for example, risk premiums fell by around 10 basis points in the last two weeks.

The extent of the risk associated with a corporate bond is shown by its asset swap spread (in basis points). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term to offset its credit risk. See further explanations below.
Source: FactSet, Time period: 01/01/2017 – 14/01/2022

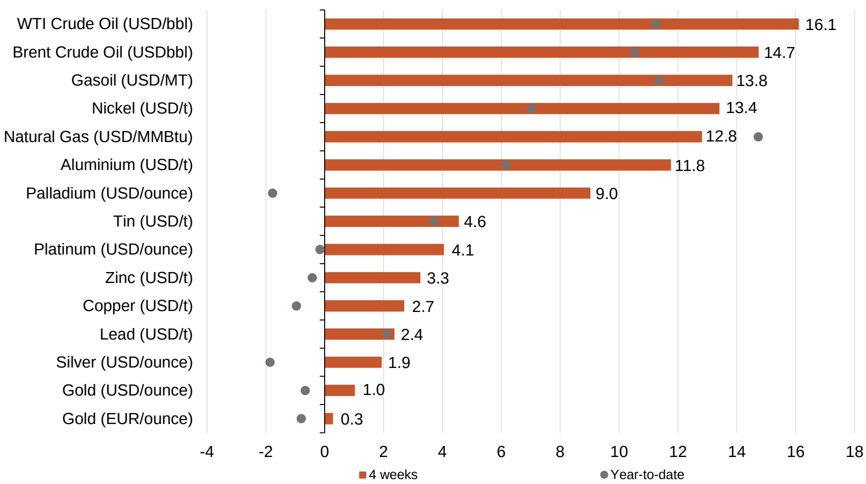
Historical Distribution of Credit Spreads (in bp)



- While the equity market suffered from the concerns about interest rate increases, the corporate bond market has hardly reacted so far. In most segments, the current risk premium is close to the value of four weeks ago and below the 10-year median.

USD Financial = ICE BofAML US Financial; EUR Financial = ICE BofAML Euro Financial; USD Non-Financial = ICE BofAML US Non-Financial; EUR Non-Financial = ICE BofAML Euro Non-Financial; USD High Yield = ICE BofAML US High Yield; EM High Yield = ICE BofAML High Yield Emerging Markets Corporate Plus; EM High Grade = ICE BofAML High Grade Emerging Markets Corporate Plus. The EM indices shown here are hard currency bonds.
Source: FactSet, Time period: 14/01/2012 – 14/01/2022

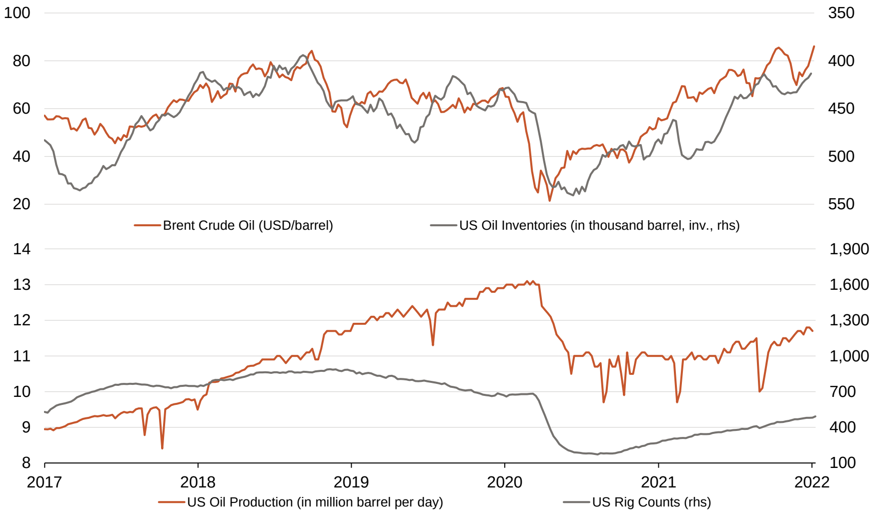
Commodities Performance



- Easing demand concerns in the oil market boosted crude oil, which reached its highest level since the end of November at just under USD 85 per barrel.
- Aluminium was also among the winners on a four-week basis. Anticipated production cuts in Europe due to high energy costs and the lowest level of aluminium inventories in over 16 years led to tensions on the European aluminium market.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period:31/12/2021 - 14/01/2022

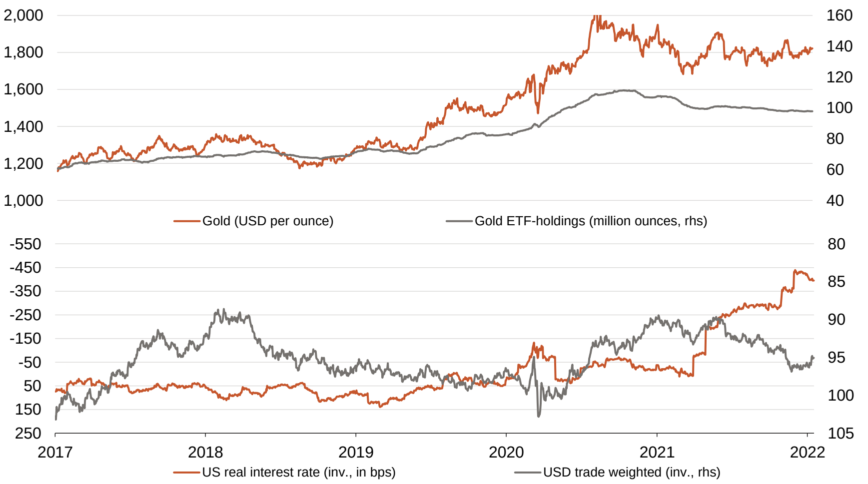
Crude Oil



- Crude oil (Brent) has shown a strong recovery in recent weeks on the back of tailwinds from easing omicron concerns. Low crude oil inventories contrast with declining US mobility data and rising gasoline inventories.

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 - 14/01/2022

Gold



- Despite the explosion in real interest rates, gold has continued to move sideways in recent weeks and is now trading above the USD 1,800 mark again. Most recently, the precious metal benefitted from the weaker US dollar as a result of higher US inflation data.

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 - 14/01/2022

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IMPORTANT NOTICES

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