BERENBERG Markets

MONITOR

31 January 2022

Current market commentary

The rapid turnaround initiated by the Fed towards a significantly more restrictive monetary policy and the increased geopolitical risks surrounding Russia have left their mark on the capital market. Highly valued growth stocks in particular came under pressure, while commodities, especially oil, were beneficiaries. The VIX climbed to over 30 and a weekly survey of American private investors showed the strongest pessimism since 2013. The adjusted positioning of market participants and especially systematics, the extremely pessimistic investor sentiment and technical indicators such as the RSI suggest that the correction should largely be behind us and the chances for a recovery in February are good. This is all the more true if there is no war in Ukraine and if the next inflation figures are not too hot. We remain overweight in equities and see the current phase of weakness as a correction in a bull market triggered by a valuation adjustment.

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 in full swing.

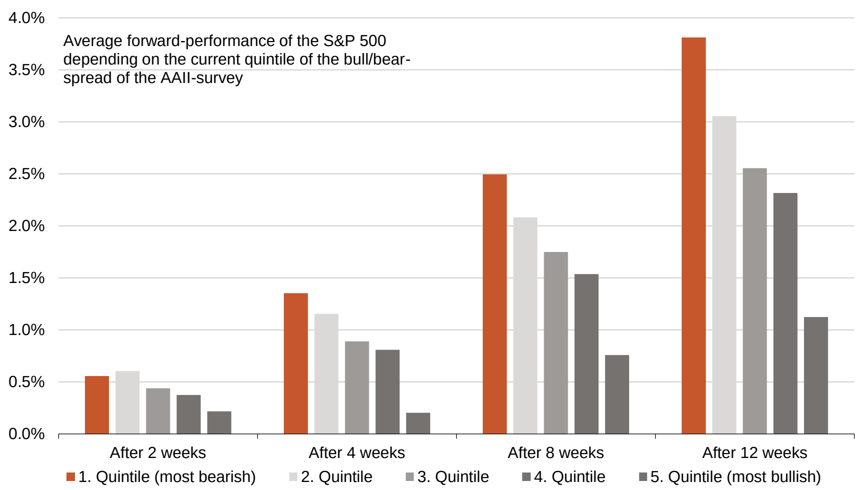
Over the next two weeks, more than 30% of the S&P 500 and STOXX Europe 600 companies report by market capitalisation. The so far solid Q4 reporting season is coming to an end, at least for the S&P 500, leading to increasing share buybacks again. The Year of the Tiger begins in China on 01 February and the Winter Olympics on 04 February. The Chinese stock markets are closed up to and including 4 February. The ECB and the BoE meet on 03 February. However, the ECB is likely to adopt a less restrictive tone than the Fed.

ECB and BoE meetings are coming up.

Preliminary inflation figures (Jan.) and retail sales (Dec.) for Germany will be released today, followed on Tuesday by labour market data (Jan.) for the Eurozone and industrial PMIs (Jan.) for Europe and the US. The service PMIs will follow on Thursday. Eurozone inflation (Jan.) will be published on Wednesday and German new orders (Dec.) and French industrial production (Dec.) on Friday. US labour market figures are also due then.

PMIs provide insights on growth trend.

The worse the sentiment, the better the subsequent performance



- The Russia-Ukraine conflict and the Fed's hawkish tones have weighed heavily on sentiment.
- In less than 2% of cases since 1987, sentiment has been worse, according to the AAII. Historically, however, investor pessimism offers hope. Typically, stock market performance over the following weeks is much better than when sentiment is good. On the one hand, bad news is already largely priced in and on the other hand, there is potential for positive surprises.

Source: Bloomberg, Time period: 23/07/1987 – 27/01/2022

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (31/12/21 - 28/01/22)	YTD (31/12/21 - 28/01/22)	28/01/21 28/01/22	28/01/20 28/01/21	28/01/19 28/01/20	28/01/18 28/01/19	27/01/17 28/01/18
Brent	16.3	16.3	92.6	-26.7	14.6	-3.0	7.2
Industrial Metals	5.7	5.7	45.9	13.1	-0.2	-8.8	5.9
USDEUR	2.0	2.0	8.7	-9.1	3.7	8.8	-13.9
Eonia	0.0	0.0	-0.5	-0.5	-0.4	-0.4	-0.4
Gold	-0.1	-0.1	5.7	6.9	24.7	5.0	-2.5
EUR Sovereign Debt	-0.5	-0.5	-2.0	1.2	3.5	1.2	1.0
EUR Coporates	-1.1	-1.1	-2.1	1.8	6.5	-0.6	3.0
MSCI Emerging Markets	-1.2	-1.2	-2.0	13.7	14.2	-10.0	22.0
MSCI Frontier Markets	-2.1	-2.1	25.8	-9.3	18.6	-11.2	12.8
MSCI World	-5.0	-5.0	22.3	5.4	26.3	-1.9	9.1
REITs	-7.4	-7.4	30.6	-17.8	21.2	10.0	-8.8
Global Convertibles	-7.9	-7.9	-5.1	35.2	21.0	0.1	-2.3

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 remains the strongest asset class both during the last four weeks and since the beginning of the year. Supply concerns from the Russia-Ukraine conflict boosted oil prices.
- Consistently high inflation readings and tighter Fed statements in preparation for and after the January meeting led to a sharp sell-off in equity and bond markets. Equities and bonds, along with REITs, were thus the weakest performers over the past month.

Total return for selected asset classes, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 27/01/2017 – 28/01/2022

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (31/12/21 - 28/01/22)	YTD (31/12/21 - 28/01/22)	28/01/21 28/01/22	28/01/20 28/01/21	28/01/19 28/01/20	28/01/18 28/01/19	27/01/17 28/01/18
MSCI UK	2.9	2.9	27.9	-15.2	18.1	-7.6	7.8
Stoxx Europe Defensives	-0.8	-0.8	18.0	-7.0	23.1	-0.4	8.1
Stoxx Europe 50	-2.2	-2.2	21.5	-5.4	24.3	-9.8	11.0
MSCI EM Asia	-2.8	-2.8	-7.2	24.0	16.7	-11.2	26.1
DAX	-3.6	-3.6	12.1	2.6	18.9	-16.0	12.9
Euro Stoxx 50	-3.7	-3.7	18.5	-2.4	21.8	-11.6	13.2
MSCI Japan	-4.2	-4.2	2.9	6.7	16.5	-7.7	11.0
Stoxx Europe Cyclicals	-5.0	-5.0	19.3	1.4	17.6	-14.5	15.9
S&P 500	-5.0	-5.0	29.0	6.9	31.3	2.1	9.7
MSCI EM Eastern Europe	-6.6	-6.6	18.0	-20.1	27.7	1.4	7.5
Stoxx Europe Small 200	-8.4	-8.4	10.8	7.0	19.9	-9.6	19.3
MSCI USA Small Caps	-8.6	-8.6	9.9	13.7	19.6	2.1	3.0

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.

- The rapid and strong rise in real interest rates led to a significant sell-off on the stock markets. Highly-valued and defensive stocks lost massively in value. US stocks suffered at higher valuation levels and small-cap stocks also came under pressure.
- UK stocks were ahead. The UK share index benefitted from its high weightings in commodity and bank shares.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 27/01/2017 – 28/01/2022

Fixed Income

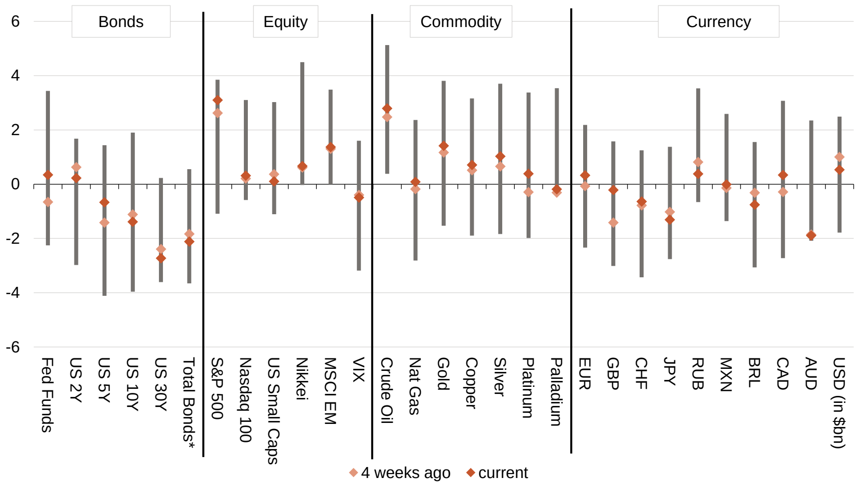
	4-week & YTD		12-month periods over that last 5 years				
	4W (31/12/21 - 28/01/22)	YTD (31/12/21 - 28/01/22)	28/01/21 28/01/22	28/01/20 28/01/21	28/01/19 28/01/20	28/01/18 28/01/19	27/01/17 28/01/18
EM Local Currency Bonds	1.5	1.5	7.3	-5.1	11.5	3.7	-0.8
Chinese Gov Bond	0.9	0.9	6.6	1.9	4.6	9.0	-0.9
Treasuries	0.0	0.0	5.0	-4.5	13.2	10.8	-13.0
Bunds	-0.6	-0.6	-3.1	1.4	3.9	3.6	-0.6
BTPs	-0.7	-0.7	-3.1	4.6	12.5	-1.1	3.7
EUR Financials	-1.0	-1.0	-1.6	1.6	6.0	-0.8	3.6
EUR Non-Financials	-1.1	-1.1	-2.3	1.9	6.8	-0.4	2.6
EUR High Yield	-1.3	-1.3	1.8	2.8	9.7	-2.6	6.6
Gilts	-2.1	-2.1	-1.5	-0.4	12.9	4.1	-0.2
USD High Yield	-2.9	-2.9	1.9	6.5	10.4	0.4	7.0
EM Hard Currency Bonds	-3.0	-3.0	-5.0	1.3	7.5	-3.7	5.9
USD Corporates	-3.1	-3.1	-3.1	6.8	14.9	-0.3	5.3

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 Fed statements put global bond markets under pressure. The market now expects nearly five rate hikes and the start of balance sheet reduction in 2022.
- Emerging market bonds were positively dominated by the recovery due to the progress of imports and rising commodity exports on the one hand, and negatively dominated by rising US interest rates on the other.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 27/01/2017 – 28/01/2022

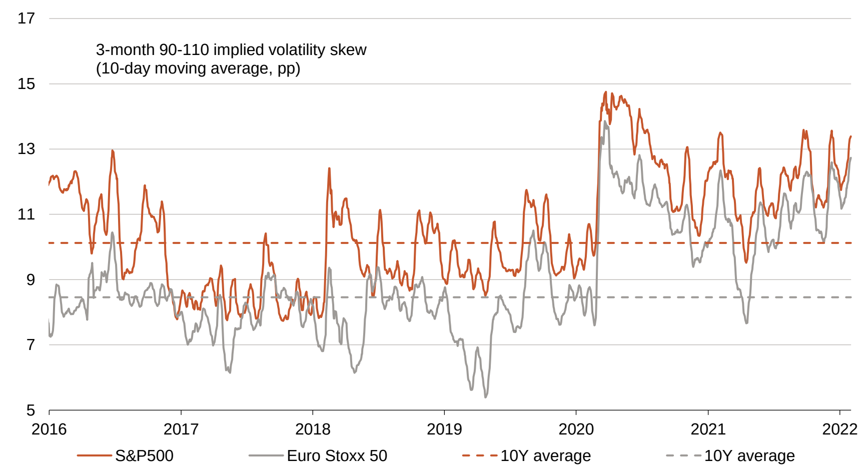
Non-Commercial Positioning



- With the heightened geopolitical uncertainty, long positions in many commodities have been increased, typically due to rising supply concerns.
- With 5 Fed rate hikes now priced in, hedge funds overall have further increased their short positions in bonds.

The Commodity Futures Trading Commission (CFTC) publishes the Commitments of Traders report every Friday. The chart shows the historical, normalised distribution in standard deviations and focuses on the net futures position (long positions minus short positions) of "non-commercial traders" (bonds, currencies), "asset managers/institutional" & "leveraged funds" (equities) and "managed money" (commodities) and shows how speculative investors are positioned. *Weighted with the respective duration
Source: Bloomberg, CFTC, Time period: 25/01/2012 - 25/01/2022

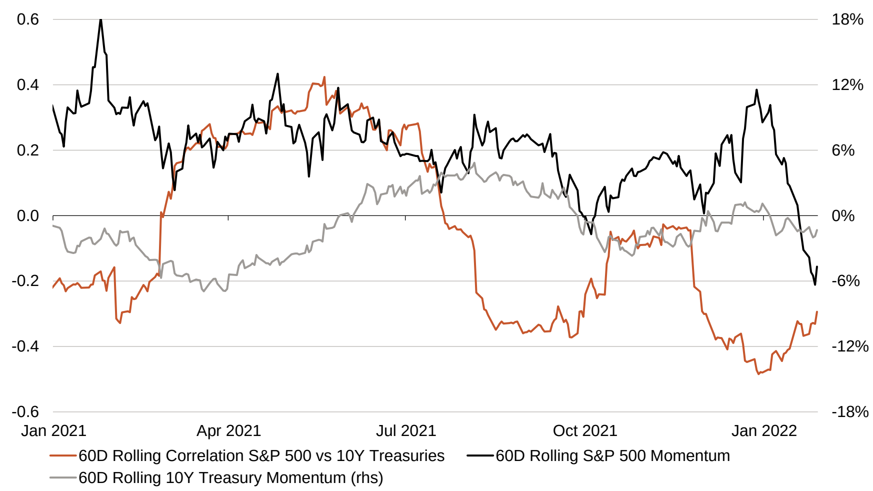
Put-Call-Skew



- The put-call skew has risen sharply again in the last two weeks both in Europe and the US. Not only the outcome of the FOMC meeting, but also the Russia-Ukraine conflict unsettled investors, so they demanded more hedges.

The put-call skew (90-110) indicates the difference in implied volatility of puts versus calls whose strike is 10% away from the current underlying in each case. It is a measure of how much more investors are willing to pay for hedging (puts) versus upside participation (calls). The higher (lower) the skew, the more cautious (optimistic) market participants are. Moreover, the skew typically increases with the level of implied volatility.
Source: Bloomberg, period: 28/01/2012 - 28/01/2022

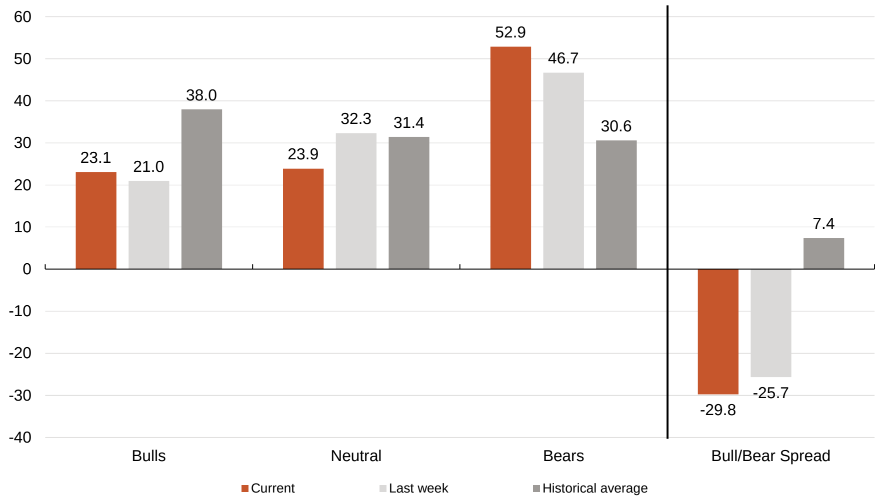
60-Day Momentum and Correlation



- The momentum on the stock market is now clearly negative. This means that most of the selling by trend-following systematic investors is probably behind us, and thus the technical downside risks have decreased.
- Momentum for US-Treasuries is also negative.

The 60-day momentum indicates the rolling return of the last 60 days. The more the momentum rises (falls), the more systematic momentum strategies build up (reduce) their positions in the corresponding asset class. Changes in the sign of the return mark important turning points. The 60-day correlation indicates how equitably stocks and bonds move. The higher (lower) the correlation, the fewer (more) equities demand risk-based investment strategies.
Source: Bloomberg, Time period: 31/12/2020 - 28/01/2022

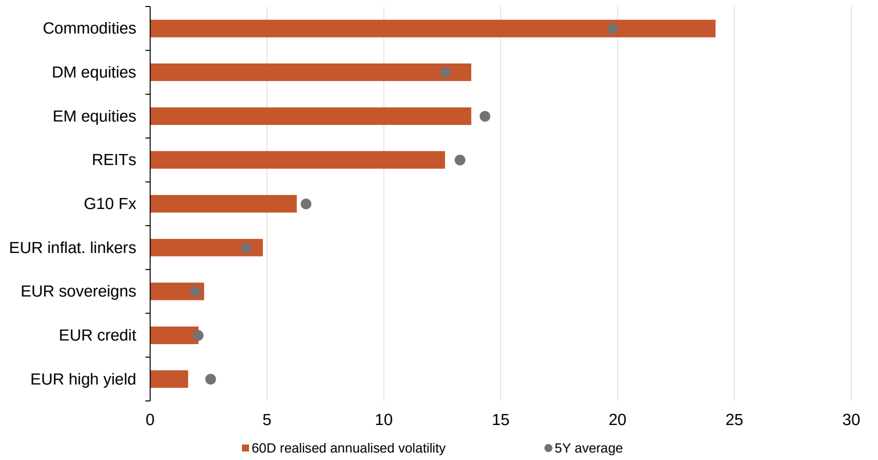
AAII Sentiment Survey (Bulls vs Bears)



- Sentiment among US private investors is at rock bottom. The bears are in the absolute majority with 53%. This was last seen in May 2020, shortly after the outbreak of the pandemic.
- The bull-bear spread reached its lowest level since 2013 at -30ppts.

The Sentiment Survey, conducted by the American Association of Individual Investors, determines the percentage of individual investors who are optimistic, pessimistic or neutral about the US stock market over a six-month period. It has been conducted 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. On the other hand, it tends to be negative when there are significantly more optimists than pessimists.
Source: Bloomberg, AAII, Time period: 23/07/87 - 27/01/2022

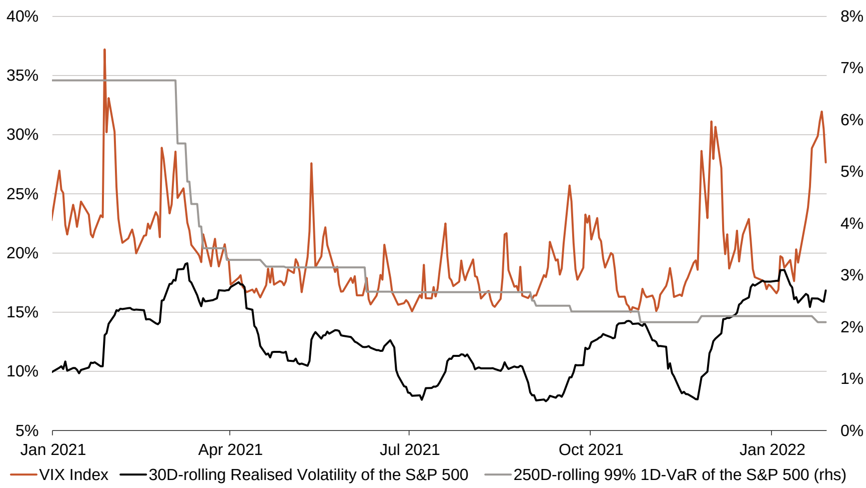
Realised Volatilities



- Realised volatility of developed markets equities has continued to increase and is now back above its 5-year average.
- Commodities are not only the best performing asset class since the beginning of the year, but also the most volatile over the last 60 days.
- Within bonds, government securities are the most volatile, followed by investment grade and finally high yield corporate bonds. Historically, the order is the other way around.

The realised volatility (in per cent) measures the fluctuation range of a time series and is defined here as the standard deviation of the daily return over the last 60 trading days. Volatility is often used as a measure of risk.
Source: Bloomberg, period: 28/01/2017 - 28/01/2022

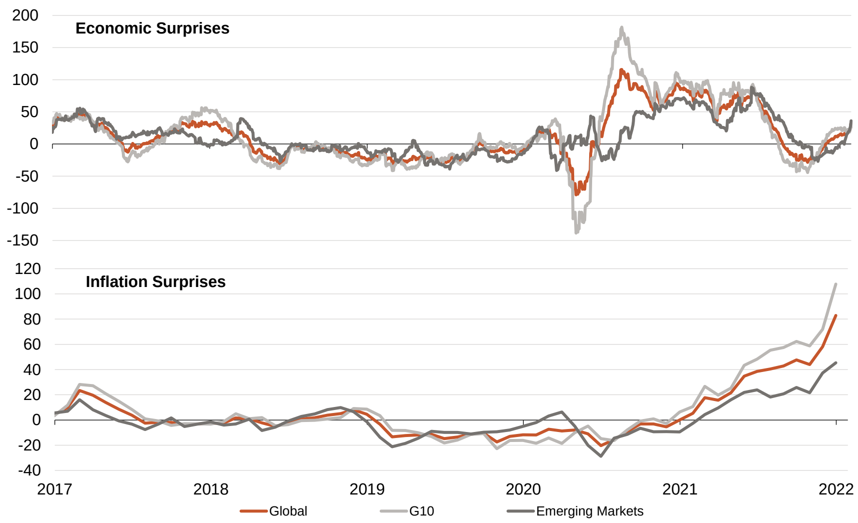
Volatility and Value-at-Risk of the S&P 500



- At 32, the VIX marked its highest closing price in almost exactly one year. The difference to realised volatility is also strikingly high.
- If the tensions between Russia and Ukraine ease again and the FOMC meeting is digested, the VIX should lose noticeably again.

The VIX index is a measure of the implied volatility of the S&P 500 priced in options over approximately the next 30 days. Realised volatility indicates the range of variation in daily returns. The historical 99% value-at-risk indicates the minimum loss of the days that belong to the worst 1% of the observation period. The higher (lower) the VIX, realised volatility and value-at-risk, the fewer (more) stocks demand risk-based investment strategies.
Source: Bloomberg, period: 31/12/2020 - 28/01/2022

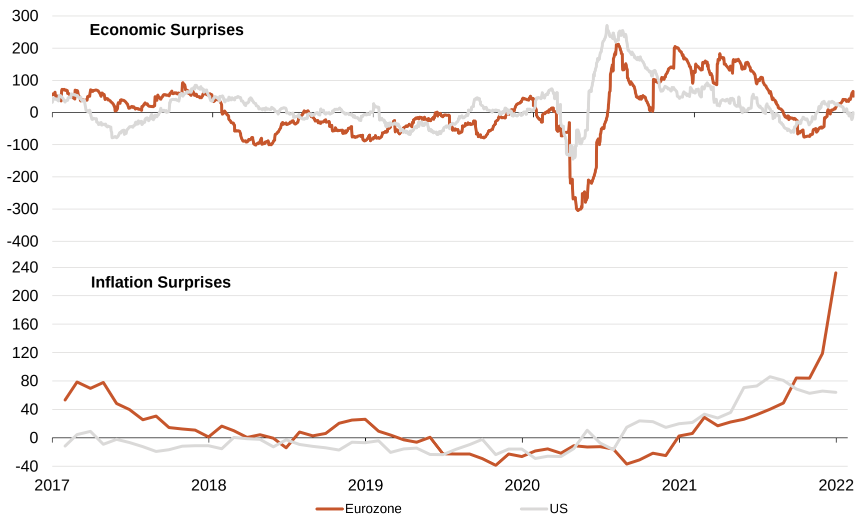
Global



- The economic data continued to surprise positively on a global scale. While the global economic surprise index and the economic surprise index for the industrialised nations (G10) have recently declined somewhat, the data in the emerging markets developed much more positively.
- Global inflation was also recently underestimated again and has surprised significantly on the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 28/01/2022

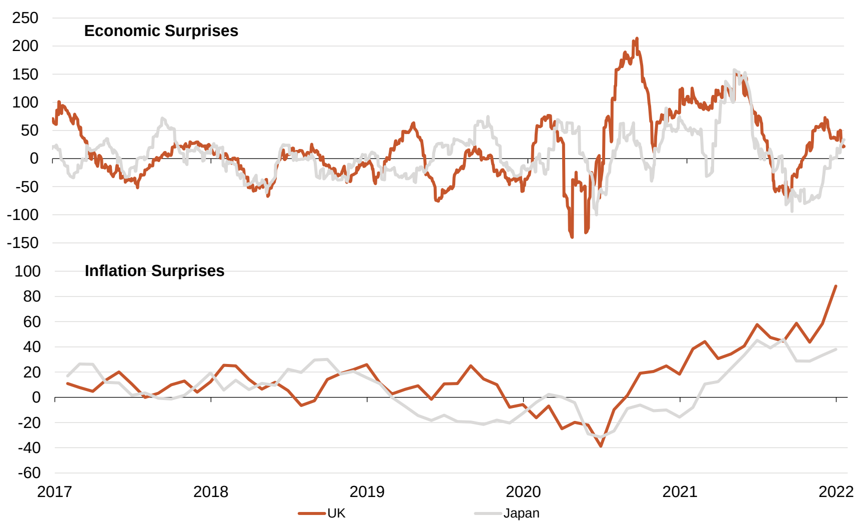
Eurozone and US



- While the number of positive economic surprises in the Eurozone continues to rise, the curve in the US has flattened over the past weeks and is now in negative territory. In the US, housing sales data surprised positively, while durable goods orders declined.
- In Europe, the Markit Manufacturing PMI and Consumer Confidence surprised positively.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 28/01/2022

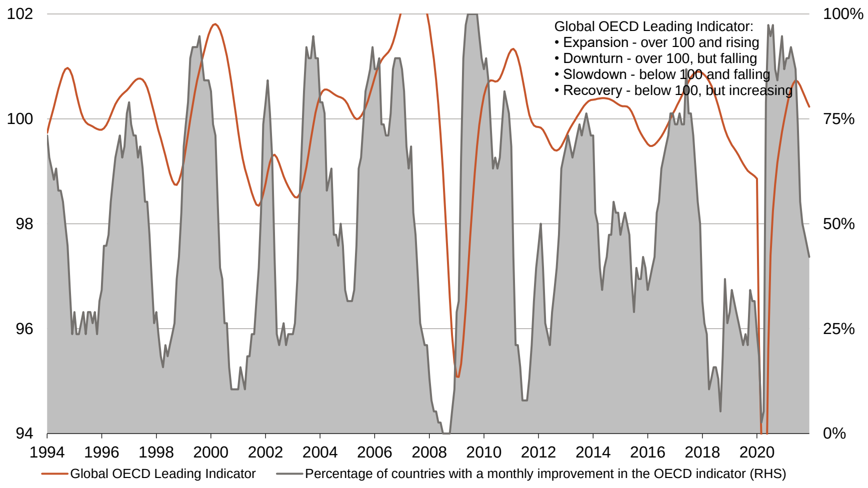
UK and Japan



- In the UK and Japan, the economic data recently showed a contrasting picture. While the number of positive surprises increased in Japan, the downward trend continued in the UK.

The Citigroup Economic Surprise Indices are defined as weighted historical normalised data surprises (actual releases vs. Bloomberg survey median) over the past three months. A positive value of the index indicates that, on balance, economic data have outperformed consensus. The indices are calculated daily in a rolling three-month window. 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, period: 31/12/2020 - 28/01/2022

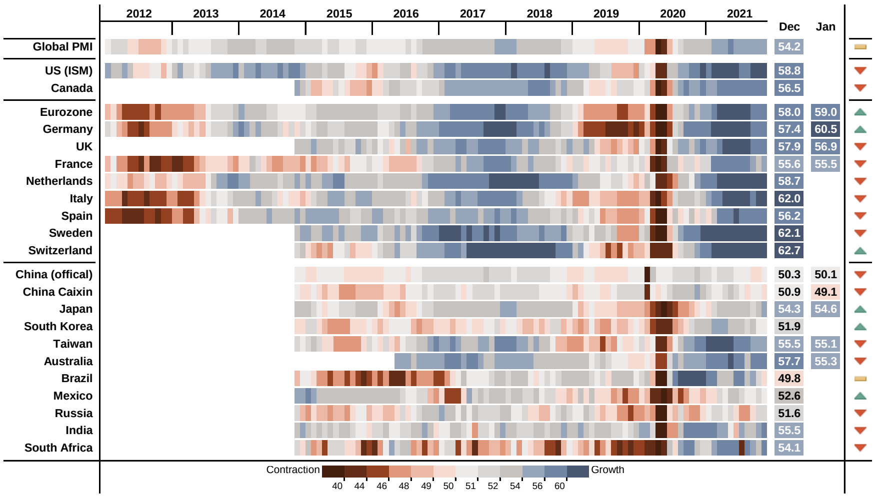
OECD Leading Indicator



- The OECD Leading Indicator continues its downward trend and is approaching the 100 mark.
- The share of countries with a monthly improvement currently stands at just under 42%, the lowest level since May 2020.

The OECD Leading Indicator is composed of a set of selected economic indicators whose composition provides a robust signal of future turning points. A turning point usually signals a turning point in the business cycle in 6-9 months. However, lead times are sometimes outside this range and turning points are not always correctly identified.
Source: Bloomberg, Time period: 31/01/1994 - 31/12/2022

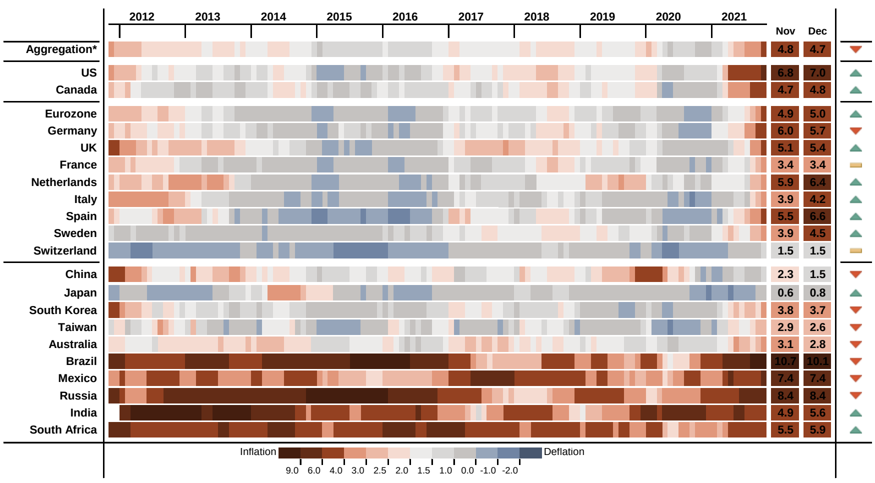
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The preliminary PMIs for January do not show a clear picture.
- While they rose for the euro area, Germany and Japan compared to the previous month, they fell in the UK, France, China, Taiwan and Australia.

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 respective change from the previous month. A value of 50 is regarded as neutral, a value of over 50 points as an indicator of rising and a value of under 50 points as an indicator of declining activity in industry compared to the previous month. On average, the index has a 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 on the development of key indicators such as new orders.
Source: Bloomberg, Time period: 01/01/2012 - 28/01/2022

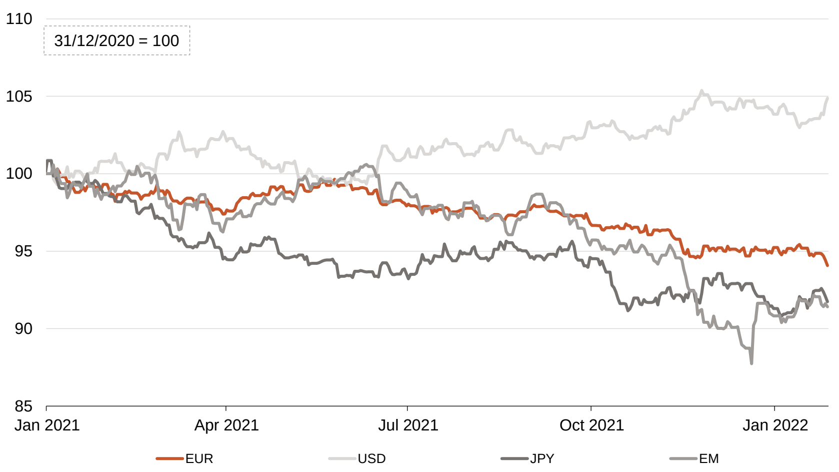
Headline Inflation



- Headline inflation in December shows a mixed picture. While the rate of inflation rose slightly in the US 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, but in the aggregate inflation declined slightly.

Inflation (in %, compared to the previous year) is measured using a consumer price index, also called a basket of goods. This basket contains all goods and services that a household purchases on average per year. * = Weighting according to gross domestic product.
Source: Bloomberg, Time period: 31/12/2011 - 31/12/2022

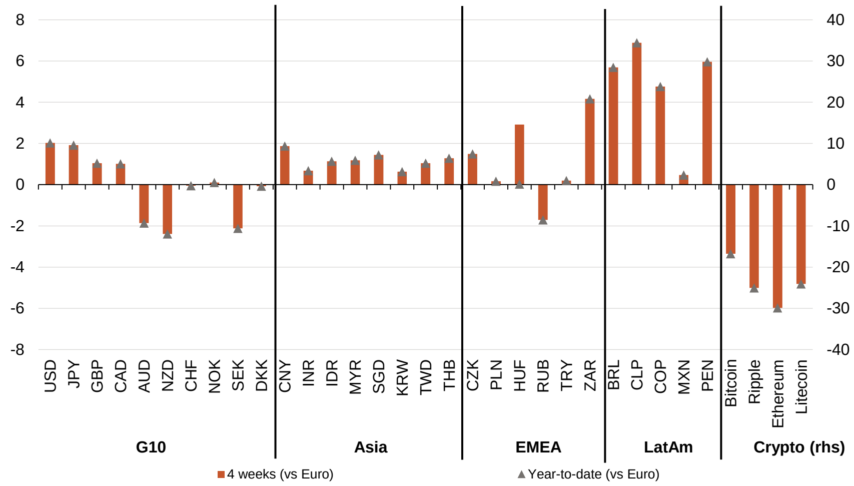
Trade-Weighted Currency Development



- The dollar benefitted twice in recent weeks. On the one hand, it was in demand as a safe haven in the wake of the Russia-Ukraine conflict. On the other hand, the hawkish Fed strengthened the dollar.
- The Japanese yen also benefitted temporarily from the increased uncertainty.

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 - 28/01/2022

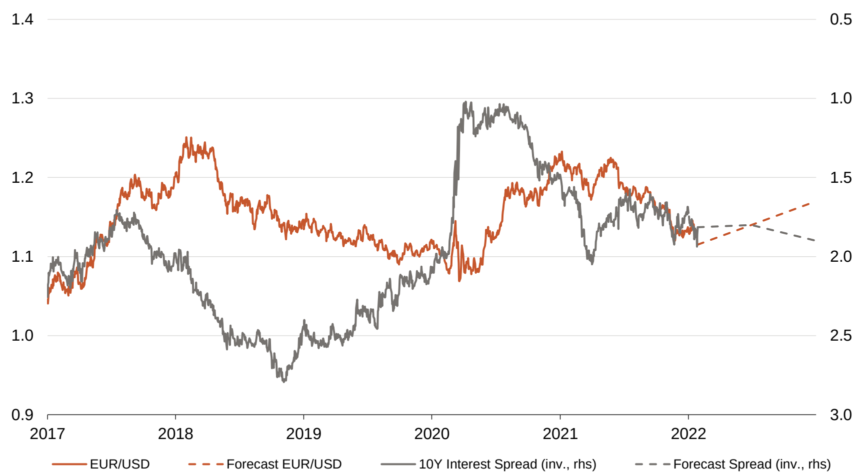
Currency Moves vs Euro



- The clear winners against the euro over the last four weeks were the Latin American currencies.
- Among the G10 currencies, more cyclical currencies such as the Australian or New Zealand dollar were left behind.
- Cryptocurrencies have had by far the most difficult time in the current environment. Bitcoin had lost roughly 45% of its value since its all-time high in November last year.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2021 - 28/01/2022

EUR/USD Exchange Rate and Interest Rate Differential of 10Y Bonds



- The euro fell to its lowest level in about a year and a half last week following the Fed's hawkish tones. The currency pair is currently trading below 1.12 euros per US dollar.
- The interest rate advantage of US Treasuries over German Bunds is now almost 2%. USD-denominated investments are thus clearly more attractive for foreign investors again.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US government bonds and 10-year Bunds. The forecasts were prepared by Berenberg Economics.
Source: Bloomberg, Time period: 01/01/2017 - 31/12/2022

European Sector & Style Performance

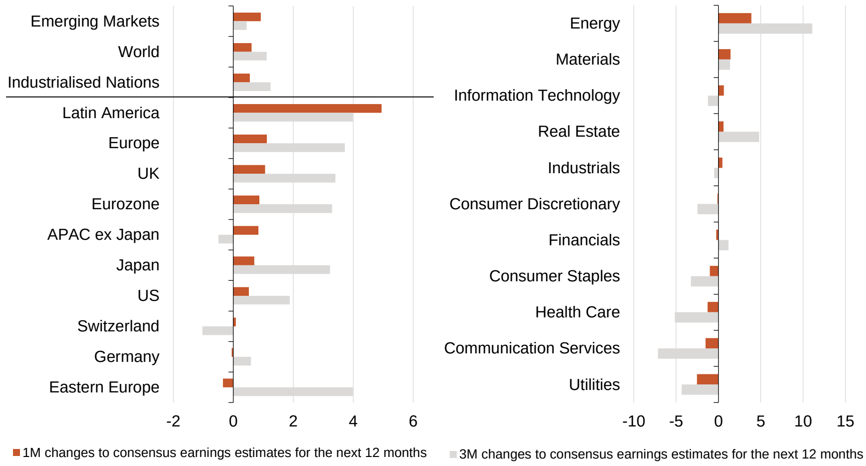
	4-week & YTD		12-month periods over that last 5 years				
	4W (31/12/21 - 28/01/22)	YTD (31/12/21 - 28/01/22)	28/01/21 28/01/22	28/01/20 28/01/21	28/01/19 28/01/20	28/01/18 28/01/19	27/01/17 28/01/18
Energy	14.6	14.6	48.2	-29.1	3.9	-1.8	11.6
Finance	3.4	3.4	33.7	-14.6	12.6	-18.8	15.2
Value	2.8	2.8	23.9	-10.8	12.6	-11.0	11.4
Telecommunications	0.9	0.9	12.4	-12.8	6.1	-10.6	4.9
Materials	-1.5	-1.5	20.0	16.5	13.7	-11.4	16.2
Utilities	-2.1	-2.1	5.0	3.4	34.0	9.6	10.4
Consumer Staples	-4.3	-4.3	16.1	-5.9	24.9	-5.6	6.4
Consumer Discretionary	-4.9	-4.9	17.4	8.1	21.4	-11.6	12.3
Health Care	-6.1	-6.1	14.1	-1.8	34.1	-1.4	5.1
Industrials	-9.9	-9.9	14.6	4.0	28.3	-10.4	16.2
Growth	-10.3	-10.3	13.4	4.9	29.3	-6.9	12.5
Information Technology	-15.6	-15.6	11.2	15.3	29.9	-1.4	21.5

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.

- Value has been the clear winner since the beginning of the year. While growth stocks lost about 10% at the index level, value stocks gained almost 3%.
- This can also be observed at sector level. The energy sector outperformed the information technology sector by more than 30% in the last four weeks.

Total return of European equity sectors and European style indies, 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 usually have less growth potential and are valued lower.
Source: Factset, Time period: 28/01/2017 – 28/01/2022

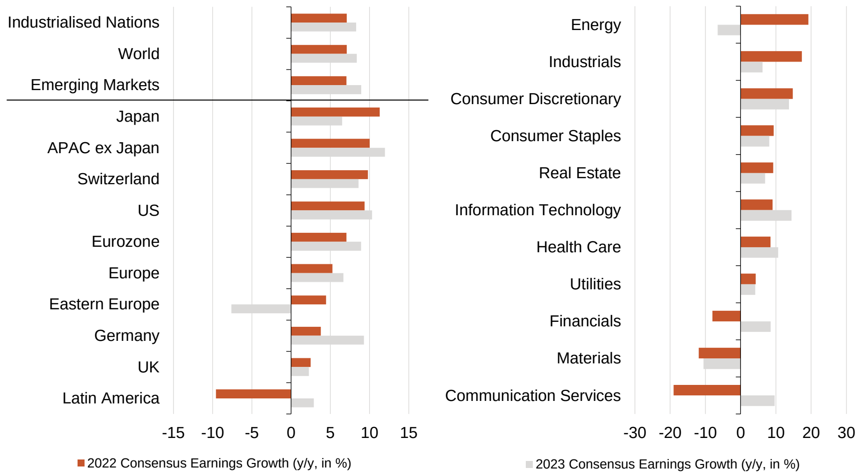
Changes in Consensus Earnings Estimates



- Latin America benefitted from the sharp rise in commodity prices, which led to the strongest positive earnings revisions in the last four weeks.
- In the European sectors, analysts raised earnings estimates especially for energy and materials.

1-month and 3-month changes in consensus earnings estimates for the next 12 months of the regional and Europe sector MSCI indices, in per cent.
Source: FactSet, as of 28/01/2022

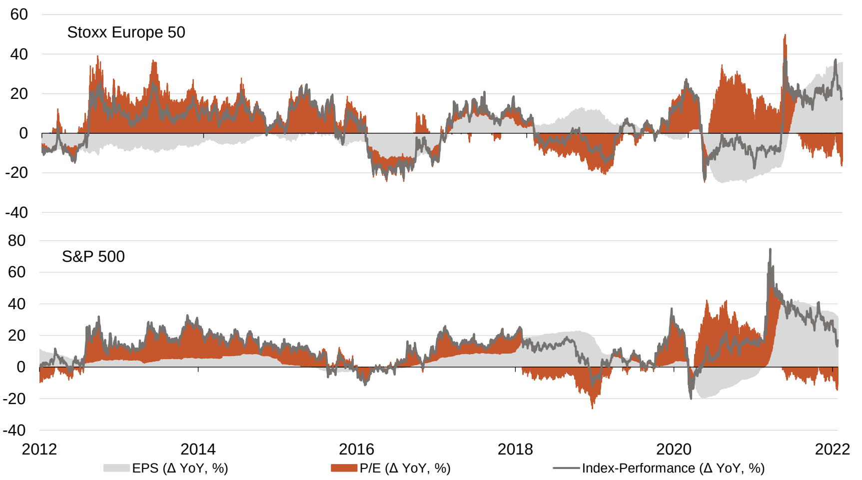
Earnings Growth



- This year and next year's earnings are growing more in line with history. This suggests limited upside potential at an index level.
- Consensus earnings growth in 2022 is slightly higher in developed markets than in emerging markets. Japan sees the highest earnings growth.
- At the sector level, energy and industrial companies are at the top.

Consensus expected calendar year earnings growth for selected equity regions, year-on-year and in percent. The earnings estimates of the individual companies are aggregated upwards using the index weights ("bottom-up"). Regional and Europe Sector MSCI Indices. APAC ex Japan = Asia Pacific excluding Japan
Source: FactSet, as of 28/01/2022

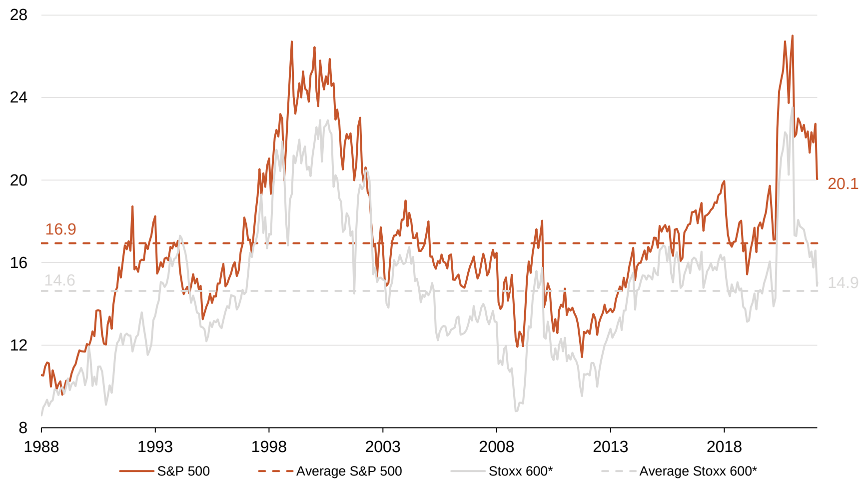
Contribution Analysis



- The index development year-on-year came down for both the S&P 500 and the STOXX 600. While falling valuation ratios were primarily responsible for the STOXX 600, the decline in the S&P 500 was also caused by earnings that are no longer rising as strongly.

Analysis of the drivers of stock market development over the last 12 months. The change in earnings estimates and the change in valuation (price-earnings ratio) are taken into account. EPS = earnings per share
Source: Bloomberg, Time period: 01/01/2012 – 28/01/2022

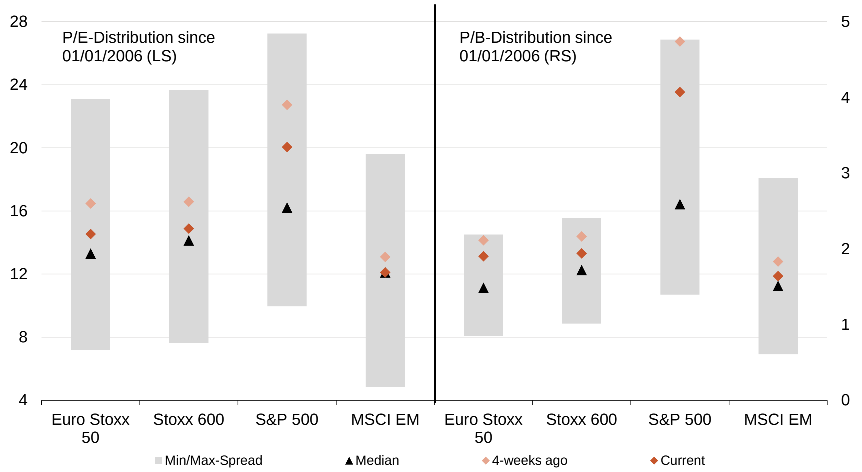
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Despite a solid Q4 reporting season so far, share prices have fallen since the beginning of the year. This has led to further declines in valuation levels. European equities are trading slightly above their historical average and are thus no longer expensively valued.
- US equities have also become cheaper. However, they continue to trade well above the historical average. A continued valuation adjustment can therefore not be ruled out, although we do not think that it will continue to the recent extent.

P/E valuation based on earnings estimates for the next twelve months of European and US equities as well as the respective P/E average since 1988. *For the Stoxx 600, the history before 2000 was taken from MSCI Europe. Source: Bloomberg, IBES Time period: 31/12/1987 – 28/01/2022

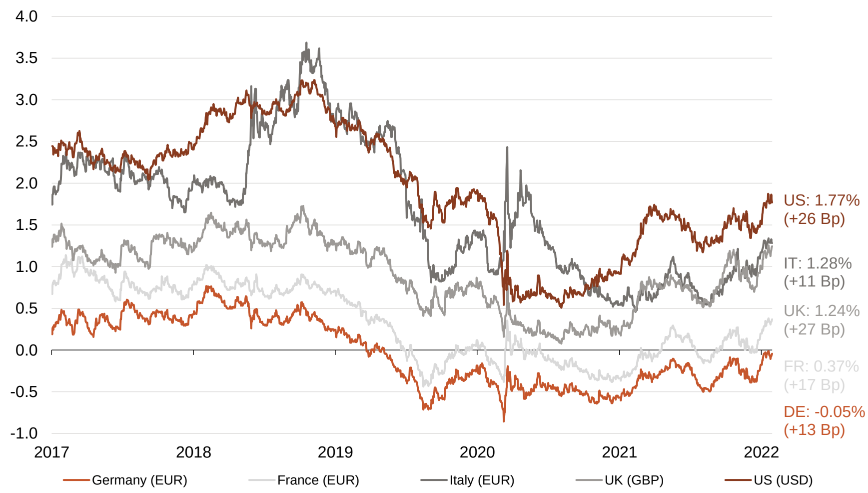
Historical Distribution: Price/Earnings and Price/Book Ratio



- In all indices shown, valuation levels at both P/E and P/B levels have fallen significantly over the last four weeks. The S&P 500 saw the sharpest decline, but it also fell from the highest level.
- Despite the valuation squeeze, only the MSCI EM and the STOXX 600 are near their historical medians.

Historical distribution of valuation ratios for selected equity regions since 2006. In addition to the current value, the observation four weeks ago and the historical median, the maximum (upper limit of the grey bar) and minimum (lower limit of the grey bar) are shown.
Source: Bloomberg, Time period: 01/01/2006 – 28/01/2022

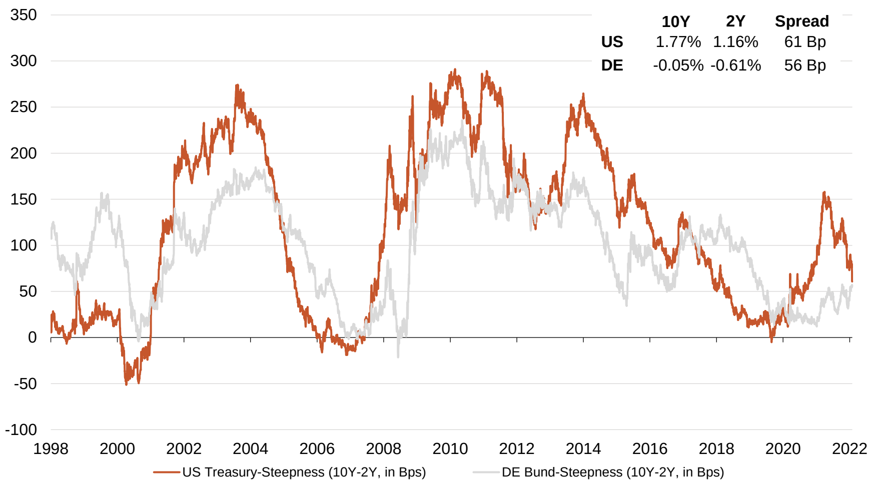
10-Year Government Bond Yields



- The rise in yields has been much slower recently. The yield on US government bonds, for example, is close to the level of a fortnight ago.
- Reasons for the slower rise in US yields are increased short positions, the already priced-in interest rate steps and a high demand for US government bonds by foreign investors and pension funds.

Effective yield on 10-year government bonds and change over the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2017 – 28/01/2022

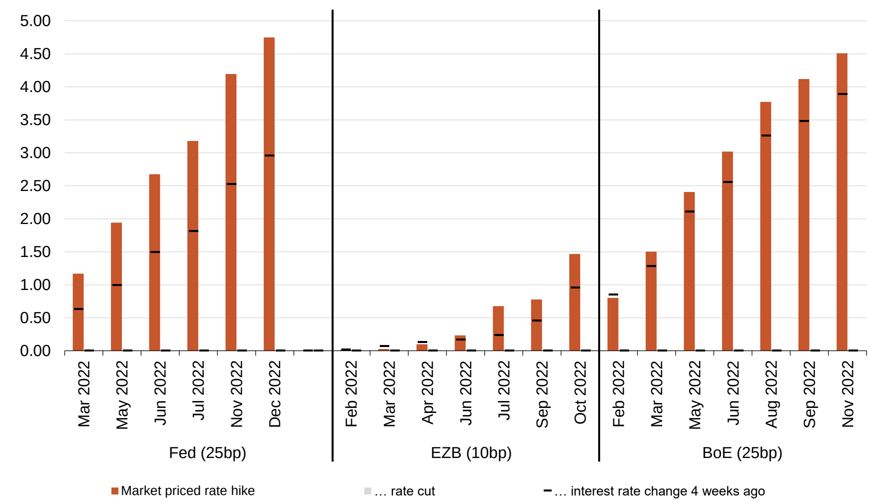
Yield Curve Steepness (10Y - 2Y)



- The more hawkish Fed statements led to a bond sell-off globally. However, the steepness of the US yield curve has fallen slightly as the market continues to see increased inflation as temporary, which is also shown by falling inflation expectations. For Germany, the picture looks somewhat different.

The yield curve distinguishes between the so-called short end and the long end. The reason for this is the way in which factors influence yields. Central banks control the short end of the curve through their monetary policy and key interest rates. In contrast, the long end is influenced less by central banks and more by inflation expectations, supply, demand and risk premiums.
Source: Bloomberg, Time period: 01/01/1998 – 28/01/2022

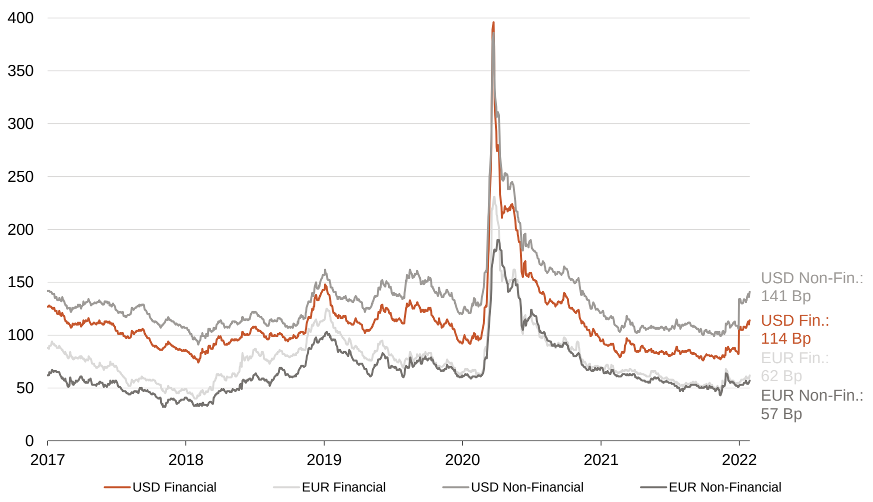
Implicit Changes in Key Interest Rates



- Markets now expect at least 4 rate hikes by the Fed this year. The Fed's first rate hike will probably come as early as March and the pace and timing of the balance sheet reduction could be faster than in 2017-2019.
- Meanwhile, the market is also pricing in the ECB's first rate move of 10bps in 2022.

Derivatives on money market interest rates - such as the fed funds futures - can be used to determine the change (number of steps) in the key interest rate priced by the market.
Source: Bloomberg, Time period: 30/12/2021 – 28/01/2022

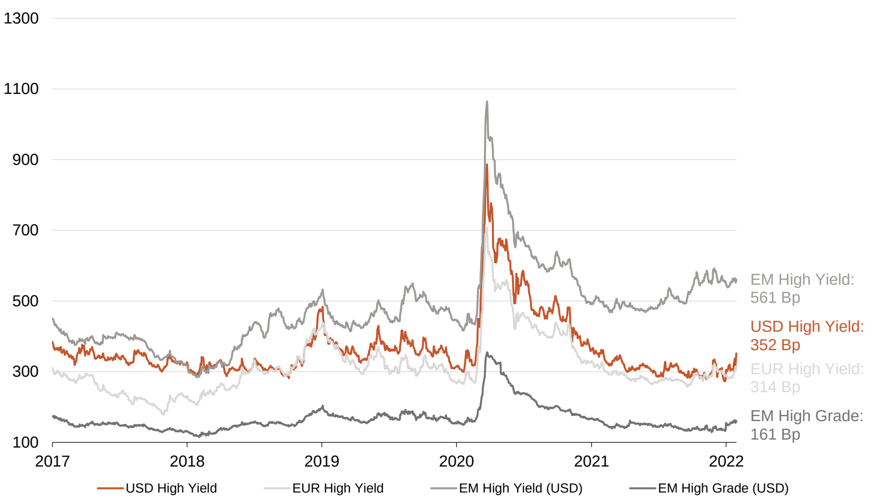
Credit Spreads Financial and Non-Financial Bonds



- The corporate bond market could not completely escape the risk-off environment on the markets. However, investment-grade corporate bonds, which are considered safe, have hardly reacted. Spreads have risen only slightly in the last two weeks.
- USD non-financial bonds saw a spread widening of 8 bps and USD financial bonds of 6 bps. The spreads on EUR-IG increased only slightly.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2017 – 28/01/2022

Credit Spreads High Yield and Emerging Markets Bonds



- The risk-off environment was clearly felt in USD and EUR high-yield bonds. Spreads have risen more noticeably. The spread widening was around 40 bps for USD high-yield bonds and around 30 bps for EUR high-yield bonds.
- EM high-yield bonds, on the other hand, saw relative stable spreads - also due to the monetary policy in China, which became more expansionary again.

How high the risk associated with the corporate bond is is shown by its asset swap spread (in bp). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term as compensation for its credit risk. See further explanation below.
Source: FactSet, Time period: 01/01/2017 – 28/01/2022

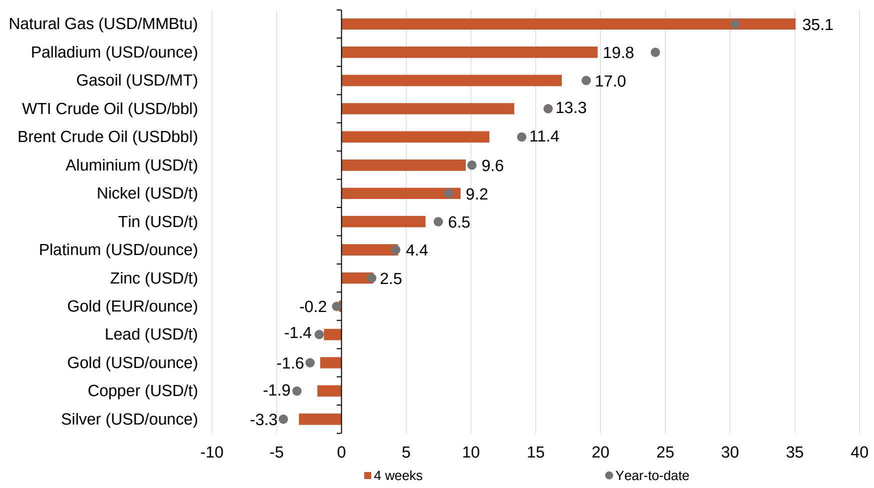
Bond Segments Overview

	Key figures		Asset Swap Spread (Bps)			Total Return (%, local)						
	Rendite (in %)	Modified Duration	Spread	Δ-1M	Z-Score (10Y)	1M	YTD	01/2021 01/2022	01/2020 01/2021	01/2019 01/2020	01/2018 01/2019	01/2017 01/2018
EUR Government	0.23	8.4	-	-	-	-1.3	-0.8	-3.8	2.8	7.8	1.9	2.1
Germany	-0.27	8.3	-	-	-	-1.2	-0.7	-3.1	1.5	3.9	3.6	-0.6
EUR Corporate	0.78	5.2	59	6	-0.8	-1.2	-1.0	-2.0	1.8	6.4	-0.4	3.0
Financial	0.79	4.3	62	7	-0.9	-1.1	-0.9	-1.4	1.6	5.5	-0.5	3.6
Non-Financial	0.77	5.7	57	6	-0.8	-1.3	-1.1	-2.3	1.9	6.9	-0.4	2.7
EUR High Yield	3.54	3.9	314	22	-0.5	-1.2	-1.3	1.8	2.8	9.7	-2.6	6.6
US Treasury	1.57	7.1	-	-	-	-1.8	-1.8	-3.3	5.3	9.1	1.9	1.2
USD Corporate	2.81	8.0	133	33	-0.2	-3.0	-3.1	-3.1	6.8	14.9	-0.3	5.3
Financial	2.54	5.9	114	31	-0.4	-2.4	-2.4	-2.7	6.9	12.6	0.7	4.6
Non-Financial	2.92	8.9	141	33	0.0	-3.2	-3.4	-3.2	6.7	15.9	-0.7	5.6
USD High Yield	5.50	5.0	352	79	-0.6	-2.9	-2.9	1.9	6.5	10.4	0.4	7.0
EM High Grade	2.98	6.0	161	26	-0.7	-2.1	-2.1	-2.0	4.2	11.8	0.7	5.1
EM High Yield	7.97	4.3	561	4	0.1	-2.6	-2.5	-6.1	6.8	11.5	0.2	7.4

- All bond segments suffered from the rising interest rates since the beginning of the year, which can be seen in its consistently negative return development.
- In the case of corporate bonds, this was amplified by rising spreads in the last two weeks.
- USD non-financial bonds have a comparatively high duration and are thus more vulnerable to interest increases.

ICE BofA indices in the following sequence: Euro Government; German Government; Euro Corporate; Euro Financial; Euro Non-Financial; Euro High Yield; US Treasury; US Corporate; US Financial; US Non-Financial; US High Yield; High Grade Emerging Markets Corporate Plus; High Yield Emerging Markets Corporate Plus. EM indices are hard currency bonds.
Source: FactSet, Time Period : 28/01/2017 – 28/01/2022

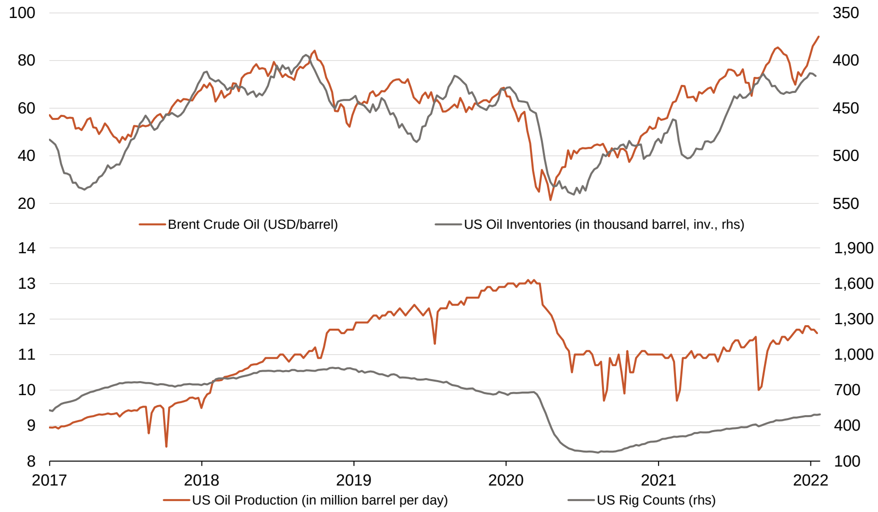
Commodities Performance



- Gas, palladium and crude oil dominated the performance over the last four weeks with about 35%, 20% and 13% each. Commodities were boosted by the Russia-Ukraine conflict, as Russia is the largest exporter of gas, second-largest producer of crude oil and one of the main exporters of palladium for the automotive industry with 37%. Gas, nickel and aluminium also experienced upward pressure due to concerns about supply shortages caused by the conflict.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period:31/12/2021 - 28/01/2022

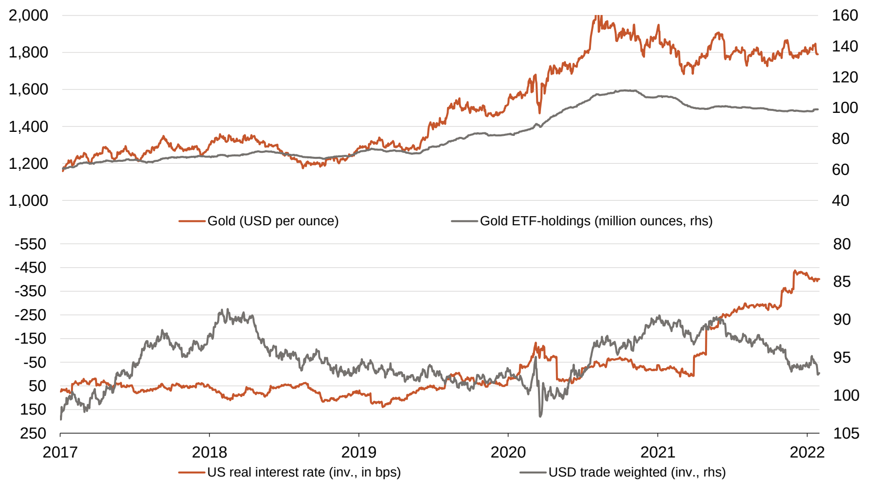
Crude Oil



- The oil price gained almost 13% in January. The omicron-related worries that emerged at the end of last year have subsided and instead geopolitical conflicts dominate the oil market. The Russia-Ukraine conflict created supply concerns and boosted the oil price.
- On the supply side, OPEC+ increased production quotas as planned, but actual production increases are likely to be lower due to production complications.

Higher oil production and higher inventories tend to weigh on oil prices and vice versa. An increase in active oil wells indicates higher oil production in the future.
Source: Bloomberg, Time period: 01/01/2017 - 28/01/2022

Gold



- After the positive start to the new year, gold came under pressure due to more restrictive Fed statements from the January meeting and the rise in real interest rates. Due to geopolitical tensions, the precious metal regained popularity as a safe haven at the beginning of the year, but was then punished by the Fed's more restrictive interest rate outlook.

The US dollar and the real, i.e. inflation-adjusted, interest rate are among the fundamental price factors of the gold price. Rising real interest rates tend to weigh on the gold price, while falling real interest rates have a supportive effect. The same applies to the US dollar. The development of gold ETF holdings reflects financial investors' demand for gold.
Source: Bloomberg, Time period: 01/01/2017 - 28/01/2022

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IMPORTANT NOTICES

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