BERENBERG
Markets

MONITOR

14 February 2022

Current market commentary

Globally central banks are becoming more restrictive - the market is pricing in six 25bps rate hikes by the Fed and nearly two by the ECB for 2022 after higher US inflation data and a more hawkish ECB - while the Russia-Ukraine conflict continues to weigh on markets. The back-and-forth at investment style level continues, with value stocks still ahead. Regionally, equities from Europe and especially the UK have outperformed their US counterparts. Interest rate hikes should now be largely priced in, which is why we see recovery potential for equities in the medium term. This is also supported by the fact that inflation rates are likely to fall from the second quarter at the latest, investor positioning has declined significantly, market pessimism is very high, the Q4 reporting season is solid and equities remain attractive relative to bonds. However, despite solid earnings growth, return potential is likely to remain limited in times of more restrictive central banks and falling valuation levels.

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

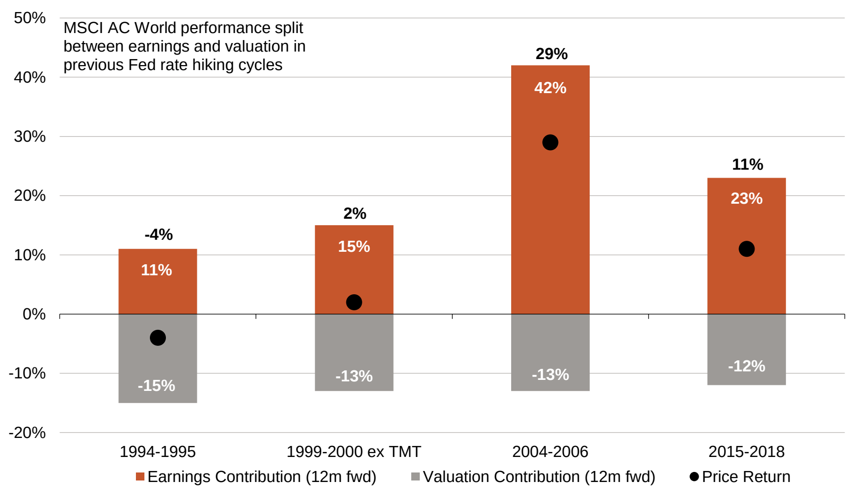
Q4 reporting season in its final throes.

The Q4 reporting season is coming to an end in the next few weeks. More than 350 companies in the S&P 500 have already published their figures and were able to exceed earnings expectations by more than 5% on average. Politically, the Russia-Ukraine conflict and the increasing economic opening steps are likely to occupy markets. On 17-18 February, the G20 finance ministers and central bank governors will meet in Jakarta.

February purchasing managers' indices are due.

Tomorrow, preliminary Q4 GDP figures for Japan and the Eurozone will be released, as well as the Empire State Index (Feb.). This will be followed on Wednesday by Eurozone and US industrial production data, US retail sales and the Fed's January minutes. US housing data and the Philadelphia Fed Index will be released on Thursday. In the following week, the preliminary purchasing managers' indices (Feb.) for Europe and the US, US and German consumer confidence (Feb.) and the German Ifo index (Feb.) are due.

Interest rate hiking cycles put the brakes on equity returns



- In past interest rate hiking cycles, equities have always experienced a valuation contraction. This is because the discount rates for future corporate profits typically rise with rising key interest rates. Nevertheless, global equities managed to generate a positive return in 3 out of 4 cases thanks to solid earnings growth.
- Earnings should continue to grow in the coming cycle if the economy remains robust. However, the return potential remains limited with valuations likely to fall.

Source: Goldman Sachs, Time period: 01/01/1994-31/12/2018

Multi Asset

	4W (14/01/22 - 11/02/22)	YTD (31/12/21 - 11/02/22)	11/02/21 11/02/22	11/02/20 11/02/21	11/02/19 11/02/20	11/02/18 11/02/19	10/02/17 11/02/18
Brent	9.6	20.9	81.1	-13.6	3.2	10.9	-4.4
Industrial Metals	3.7	6.2	39.0	18.8	-3.5	-2.2	-2.5
Gold	2.8	1.8	8.8	4.8	23.8	8.0	-7.3
USDEUR	0.6	0.2	6.9	-10.0	3.3	8.7	-13.2
Eonia	0.0	0.0	-0.4	-0.5	-0.4	-0.4	-0.4
MSCI Emerging Markets	-1.3	0.7	-5.6	19.5	12.4	0.6	9.3
MSCI Frontier Markets	-1.4	-2.1	22.3	-5.2	12.9	-4.1	7.3
EUR Sovereign Debt	-2.2	-2.5	-3.9	0.9	3.8	1.3	0.6
Global Convertibles	-2.8	-7.3	-9.0	43.6	23.3	17.4	-5.2
EUR Coporates	-2.9	-3.5	-4.5	1.6	5.8	0.8	1.9
MSCI World	-4.1	-6.0	16.8	6.1	26.0	8.9	0.3
REITs	-5.2	-11.3	22.2	-18.0	19.2	21.1	-15.5

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 and industrial metals remained at the top over the last four weeks, driven by concerns about inflation and supply shortages. Gold was also in demand as a safe haven due to geopolitical uncertainties and made gains.
- Bonds and interest rate-sensitive REITs brought up the rear, burdened by more restrictive global interest rate policy.

Total return for selected asset classes, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 10/02/2017 – 11/02/2022

Equities

	4W (14/01/22 - 11/02/22)	YTD (31/12/21 - 11/02/22)	11/02/21 11/02/22	11/02/20 11/02/21	11/02/19 11/02/20	11/02/18 11/02/19	10/02/17 11/02/18
MSCI UK	1.5	4.7	29.7	-15.2	13.3	5.9	-2.7
Stoxx Europe Defensives	0.3	-0.6	18.4	-8.7	21.2	13.0	-2.8
Stoxx Europe 50	-0.9	-1.3	21.2	-6.8	23.4	2.1	1.0
MSCI EM Eastern Europe	-1.5	-4.6	16.3	-15.8	23.6	10.1	1.5
MSCI EM Asia	-2.6	-1.0	-11.2	30.6	14.6	0.2	12.3
Euro Stoxx 50	-2.6	-3.2	15.3	-2.1	24.1	-2.2	4.2
MSCI Japan	-2.7	-2.8	-0.2	9.6	19.8	-2.4	2.3
DAX	-2.9	-2.9	9.9	3.0	23.7	-9.0	3.8
Stoxx Europe Cyclicals	-3.1	-3.0	17.3	1.1	22.1	-7.0	7.6
Stoxx Europe Small 200	-3.8	-7.2	9.2	7.1	22.3	-1.9	9.3
MSCI USA Small Caps	-5.0	-7.6	3.2	20.0	16.4	14.7	-5.7
S&P 500	-5.1	-7.2	21.7	7.0	30.4	14.3	0.4

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.

- The continuing rise in real interest rates put pressure on equity markets and led to further sell-offs - especially in small caps. Only defensive stocks and British equities were able to post slight gains. The British stock index carries a high proportion of commodity and bank stocks and was consequently boosted by high energy prices and rising interest rates.
- Japanese equities came under pressure from the Fed's more restrictive interest rate outlook and increased Covid-19 infections.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 10/02/2017 – 11/02/2022

Fixed Income

	4W (14/01/22 - 11/02/22)	YTD (31/12/21 - 11/02/22)	11/02/21 11/02/22	11/02/20 11/02/21	11/02/19 11/02/20	11/02/18 11/02/19	10/02/17 11/02/18
Chinese Gov Bond	0.4	0.7	6.5	0.5	5.9	8.8	-0.2
EM Local Currency Bonds	0.2	-0.1	4.7	-5.2	10.5	7.0	-4.4
Treasuries	-1.1	-3.3	2.1	-6.2	12.2	12.2	-13.3
EM Hard Currency Bonds	-1.8	-4.4	-6.6	0.8	7.7	-0.6	2.0
Bunds	-2.5	-3.1	-4.7	0.4	3.6	4.9	-2.1
USD Corporates	-2.7	-4.7	-4.4	5.9	14.2	2.3	3.4
EUR Financials	-2.8	-3.3	-4.1	1.4	5.6	0.5	2.6
EUR Non-Financials	-3.0	-3.6	-4.8	1.7	5.9	1.1	1.4
USD High Yield	-3.2	-4.0	-0.2	6.6	10.0	3.9	4.2
EUR High Yield	-3.2	-3.2	-1.3	3.3	9.6	-0.9	5.2
BTPs	-3.7	-4.2	-7.6	5.4	14.8	-2.6	4.1
Gilts	-4.9	-5.8	-3.4	-2.6	13.3	6.2	-3.9

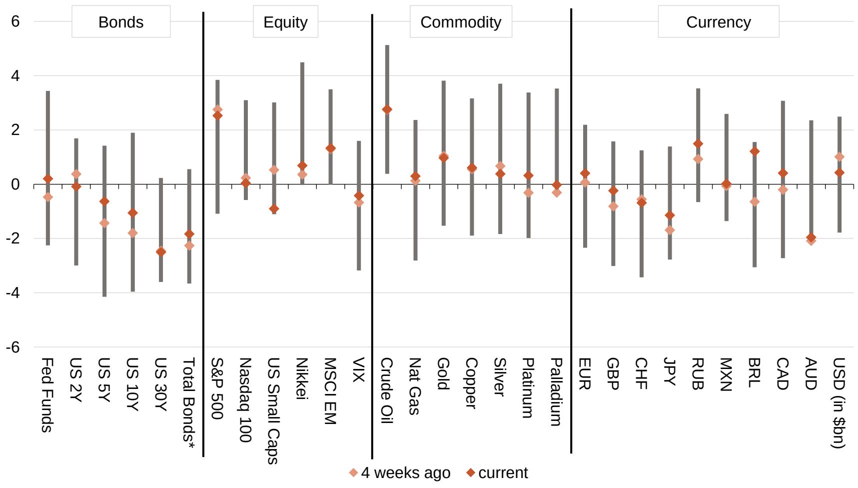
4-week & YTD; 12-month periods over that last 5 years

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

- Global bond markets are suffering from the central banks' more restrictive statements. Italian government bonds were particularly affected. With rising interest rates, Italy, as a country with a debt of 155% of GDP, faces higher borrowing costs and therefore reacted particularly sensitively to the more restrictive ECB statements.
- Chinese government bonds benefited from loosening monetary policy.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 10/02/2017 – 11/02/2022

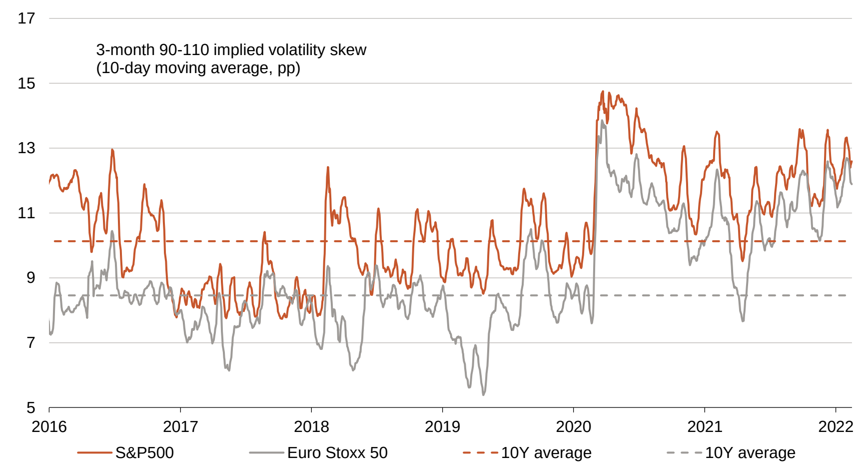
Non-Commercial Positioning



- The largest underperformers since the beginning of the year, tech stocks and small caps, experienced additional headwinds from speculative investors last month.
- Now that the ECB has also adopted a more restrictive tone, long dollar positions have been reduced.

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: 08/02/2012 - 08/02/2022

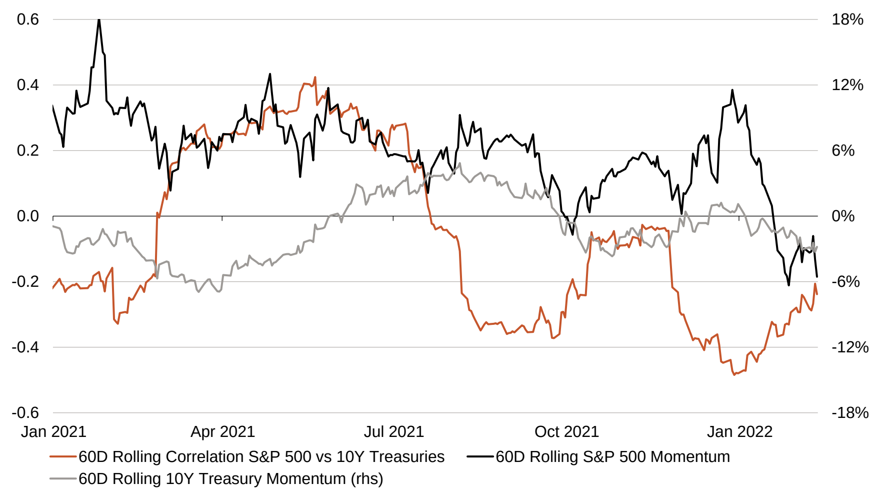
Put-Call-Skew



- The put-call skew has fallen slightly as implied volatility has declined. Relative to its own history, however, the skew is still very steep in both the US and Europe. This is because in an environment of high inflation and restrictive central banks, investors are more likely to be looking for hedging than for upside opportunities.

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: 11/02/2012 - 11/02/2022

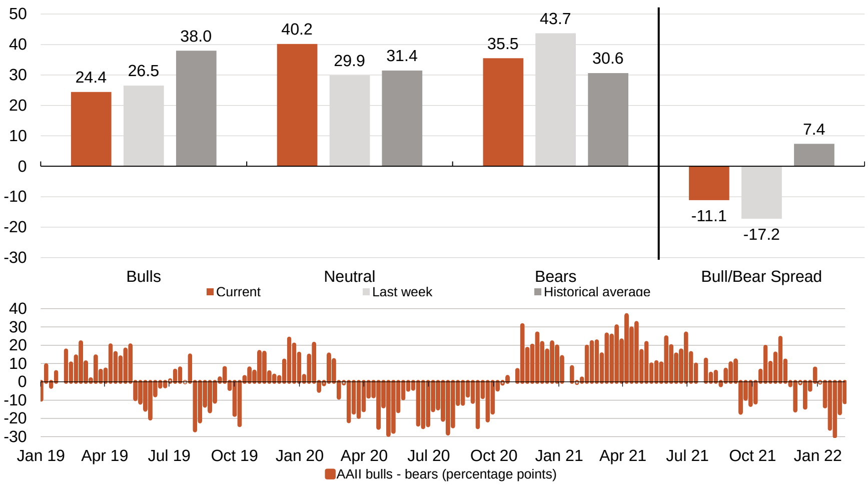
60-Day Momentum and Correlation



- The 60-day momentum of the S&P 500 remains negative. If the momentum turns positive, trend-following strategies, which currently have a significantly reduced equity exposure, should buy more equities again.

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 - 11/02/2022

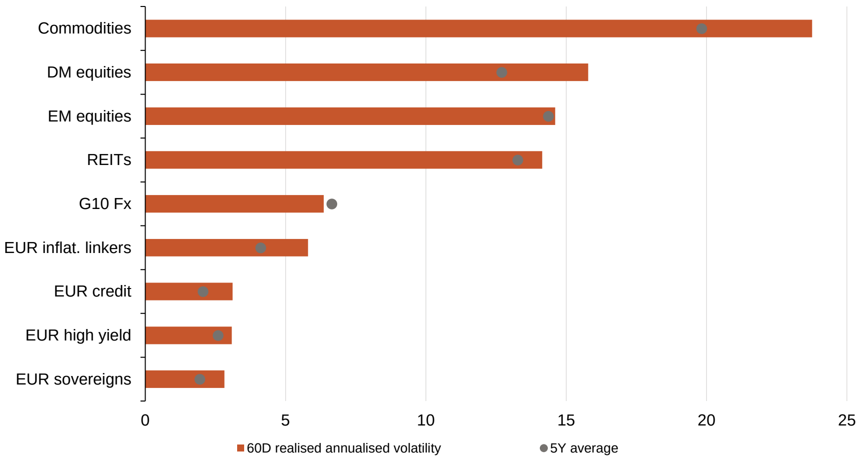
AAII Sentiment Survey (Bulls vs Bears)



- US private investor sentiment has improved somewhat again, although the bull/bear spread is still markedly negative at -11Pp.
- This is because many investors have not yet become bullish. Instead, the simple majority is currently neutral on the next 6 months.

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 – 10/02/2022

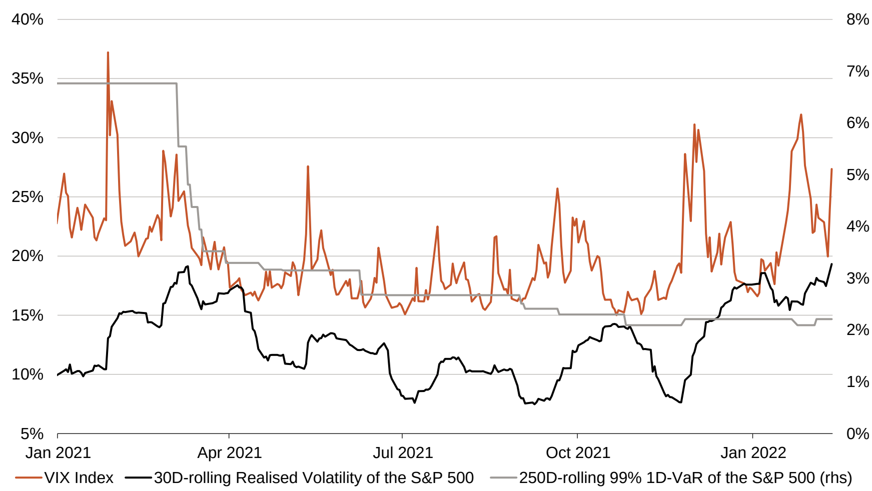
Realised Volatilities



- With the end of the "central bank put", volatility across all asset classes has recently increased noticeably.
- The increase in volatility within the bond sector is particularly striking. While government bonds have been significantly more volatile than corporate and high-yield bonds in recent months, this has now reversed in line with the historical average.

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: 31/12/2017 - 11/02/2022

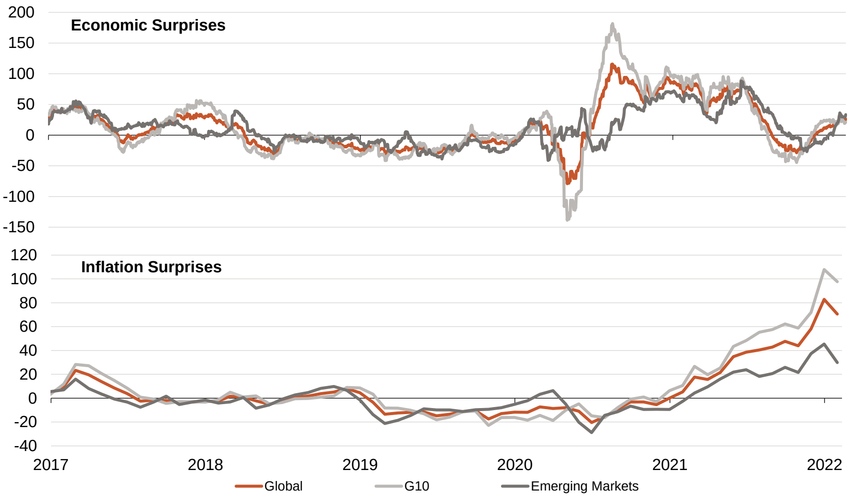
Volatility and Value-at-Risk of the S&P 500



- The VIX initially came down significantly in recent weeks, but then jumped again with the higher-than-expected US inflation data.
- The equity quotas of risk-based strategies should thus still be relatively low on average. If volatility decreases, demand should rise 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 - 11/02/2022

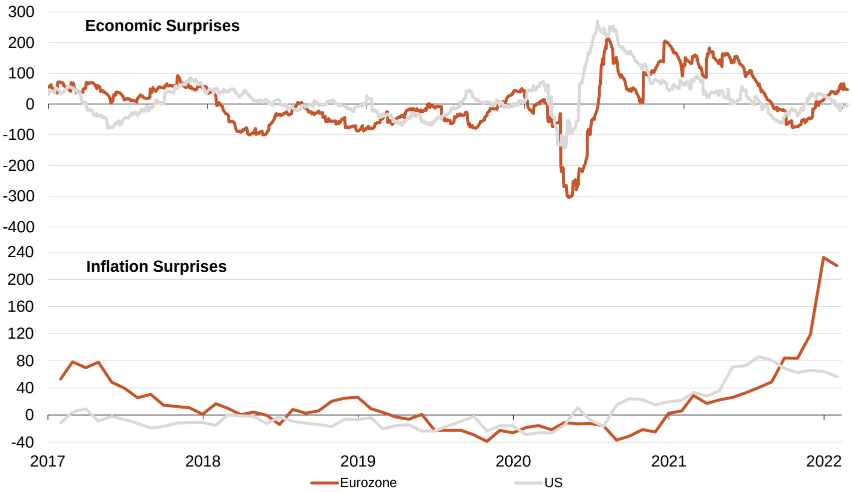
Global



- The economic surprise indices recently fell slightly and indicate a decreasing momentum of global economic growth. Particularly in the USA and Canada as well as in many emerging markets, including China, the PMI data disappointed.
- Inflation surprises also fell again recently after reaching record highs. Inflation momentum thus seems to be waning.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 – 11/02/2022

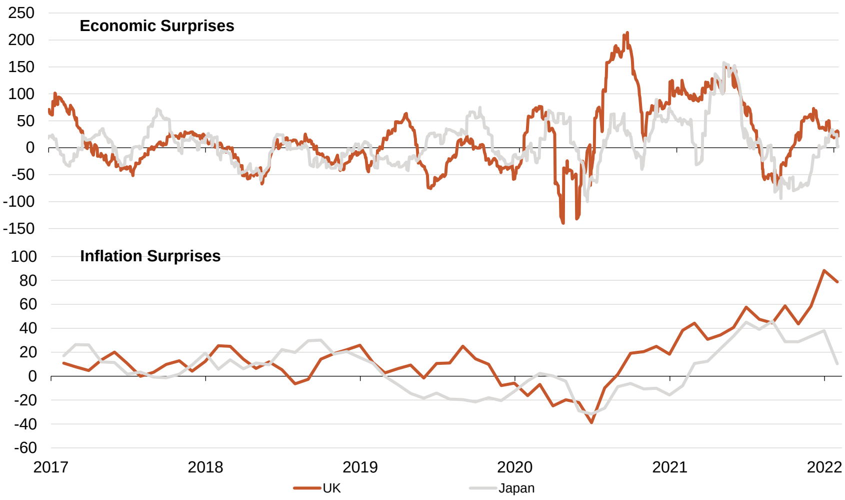
Eurozone and US



- The economic surprises in the US are in the negative territory for the first time since November last year. Here, PMI data and durable goods orders disappointed, while labour market data were better than expected.
- In contrast to the US, positive economic surprises continue to dominate in the Eurozone. Both the PMI data and the labour market data brought positive surprises.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 – 11/02/2022

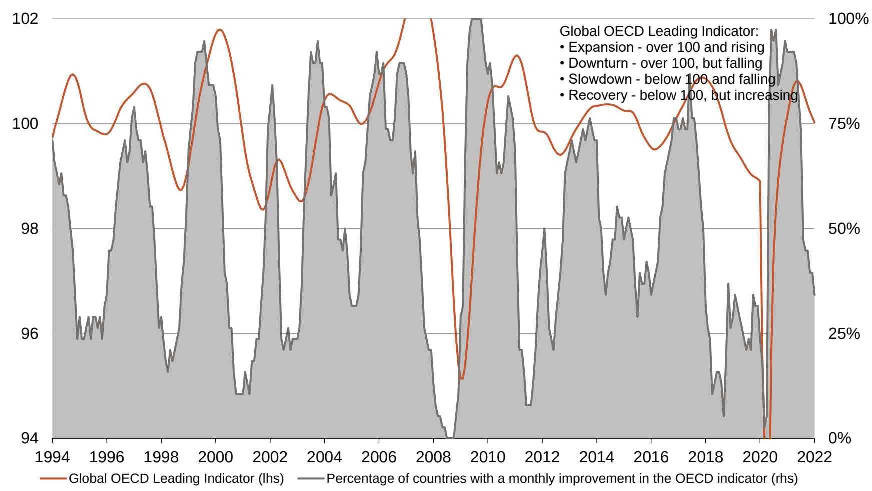
UK and Japan



- In the UK, positive economic surprises recently increased again, while in Japan they decreased further and moved towards negative terrain. In the UK, PMI data were above expectations and in Japan, industrial production disappointed.

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: 01/01/2017 – 11/02/2022

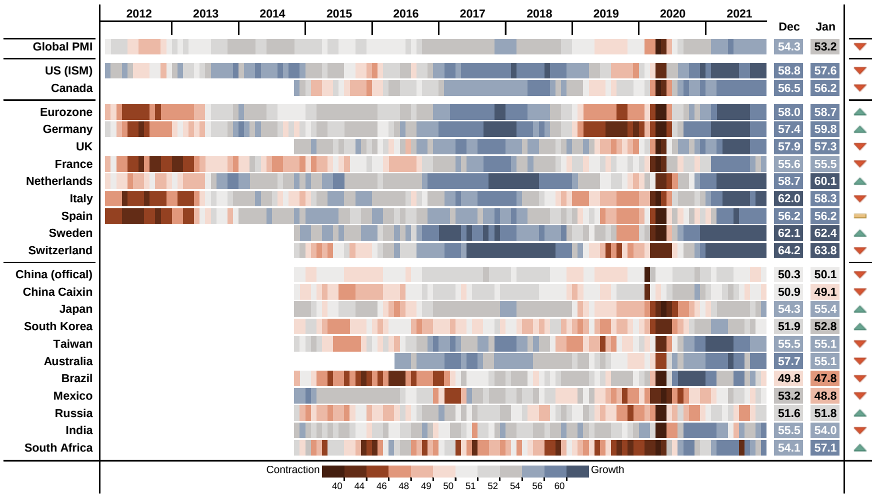
OECD Leading Indicator



- The OECD leading indicator continued its downward trend. The economic indicator continued to approach the 100 mark, hinting at an economic downturn.
- The picture does not look any better at the country level. There, only 34% of the countries were able to improve relative to the previous month.

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 – 11/02/2022

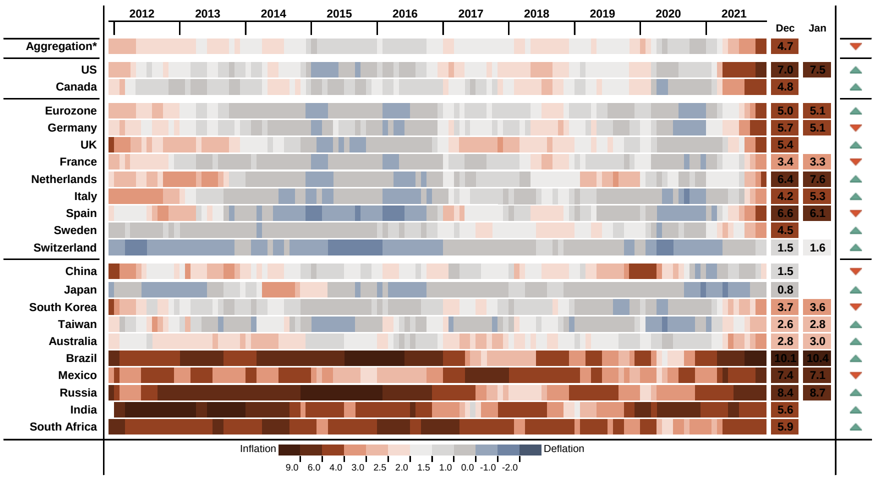
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global purchasing managers' index declined compared to the previous month.
- From a regional perspective, the picture is mixed. While the PMI decreased in the USA, Great Britain, France and China, it increased in the Eurozone, Germany, Japan and Russia.

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 – 11/02/2022

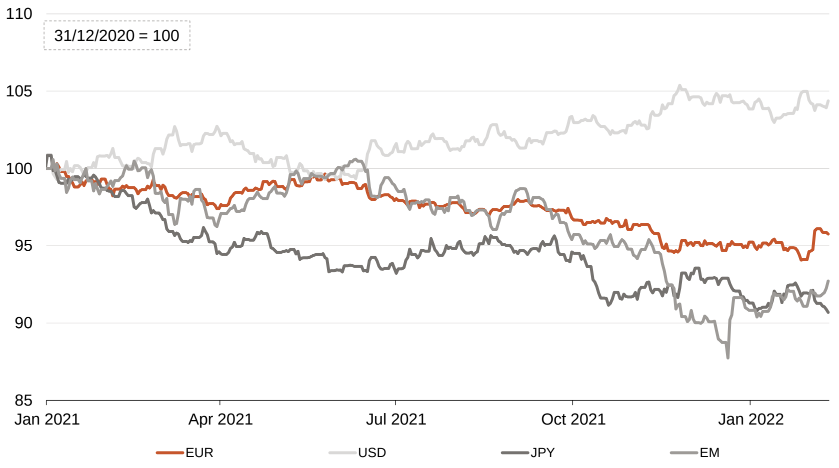
Headline Inflation



- The CPI inflation rate in the USA rose to 7.5% relative to the previous year, reaching the highest level in 40 years.
- In the Eurozone, the picture is mixed. While the inflation rate decreased in Germany, France and Spain, it increased in the Netherlands and Italy.

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 – 11/02/2022

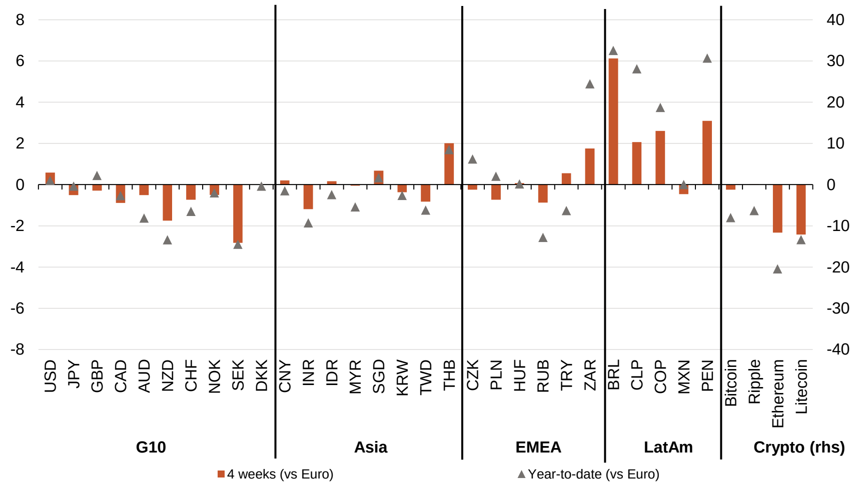
Trade-Weighted Currency Development



- The euro experienced its biggest upward movement in almost a year as a result of the restrictive ECB meeting.
- The Japanese yen, on the other hand, weakened. This was because the Bank of Japan reaffirmed its expansionary course in order to put a stop to the rise in yields on Japanese government bonds.

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 - 11/02/2022

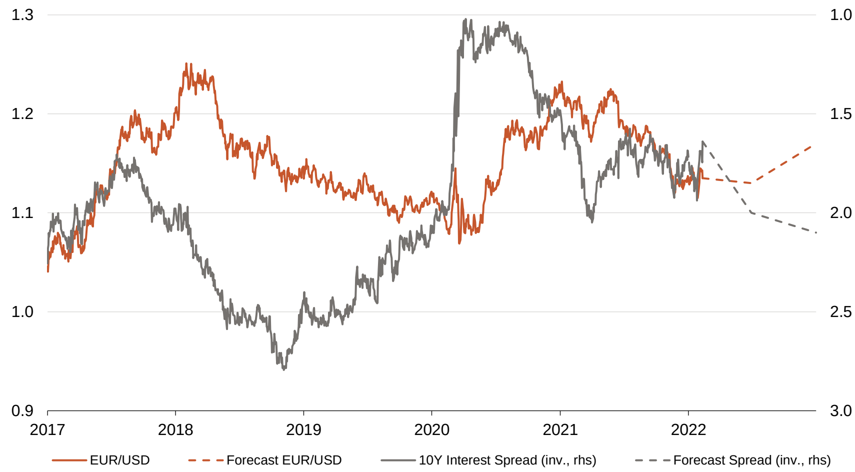
Currency Moves vs Euro



- The euro appreciated strongly against the G10 currencies in the last four weeks, as Christine Lagarde no longer categorically rules out interest rate hikes this year.
- Against emerging market currencies, however, the picture was less clear. The Brazilian real benefited from strong inflows from foreign investors seeking protection in the high-yield currency and the cheap local stock market.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2021 - 11/02/2022

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



- The euro experienced a temporary reversal in the last two weeks. From 1.11 at the end of January, the EUR/USD exchange rate rose to almost 1.15, only to fall back to 1.13.
- The euro strength was boosted by the hawkish tones of the ECB. The dollar in turn benefited from higher-than-expected US inflation data, which could force the Fed to adopt an even tighter monetary policy.

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

	4W (14/01/22 - 11/02/22)	YTD (31/12/21 - 11/02/22)	11/02/21 11/02/22	11/02/20 11/02/21	11/02/19 11/02/20	11/02/18 11/02/19	10/02/17 11/02/18
Energy	6.8	20.1	58.7	-27.6	-6.5	16.5	1.9
Telecommunications	4.7	4.5	15.5	-11.5	6.9	-2.2	-5.4
Finance	0.9	7.4	32.3	-14.7	19.3	-13.2	8.9
Value	0.7	5.3	24.9	-11.1	13.2	-1.7	2.8
Consumer Staples	-2.1	-4.2	17.9	-8.5	20.0	6.9	-2.3
Utilities	-2.3	-4.4	5.2	-2.2	35.3	22.6	-1.2
Health Care	-2.3	-7.6	12.5	-5.2	32.4	14.5	-8.1
Materials	-2.5	-0.7	17.1	16.8	15.6	-1.5	6.7
Consumer Discretionary	-3.8	-5.6	11.4	12.7	21.1	-4.9	5.9
Industrials	-4.9	-8.5	13.9	3.5	29.8	-1.0	5.6
Growth	-5.0	-10.9	10.2	4.2	29.4	3.9	2.5
Information Technology	-8.4	-15.2	5.5	15.6	36.6	6.1	11.1

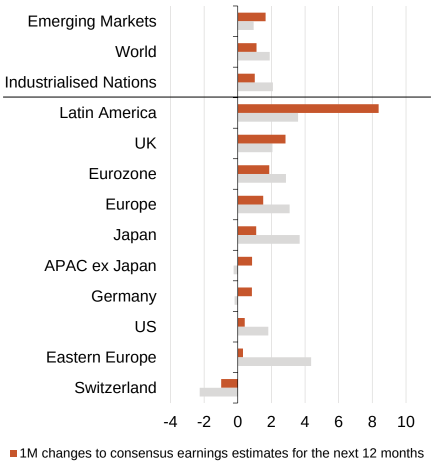
4-week & YTD; 12-month periods over that last 5 years

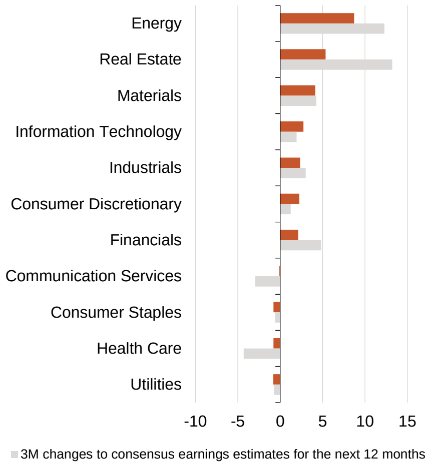
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Stables: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR;
Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. 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 stocks have also held their ground in the last four weeks. Rising inflation data and now more restrictive tones from the ECB have weighed on growth stocks and driven investors into cheaper value stocks.
- At sector level, energy stocks remain the winners, while IT stocks are on the losing side.

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: 10/02/2017 – 11/02/2022

Changes in Consensus Earnings Estimates

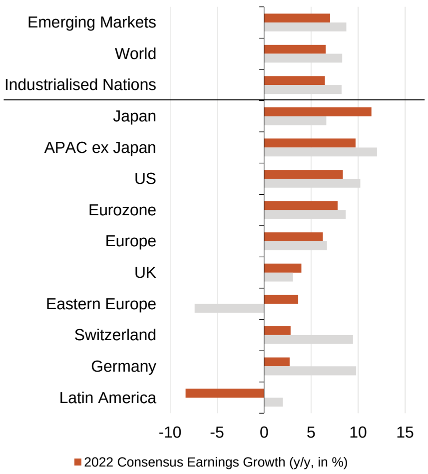


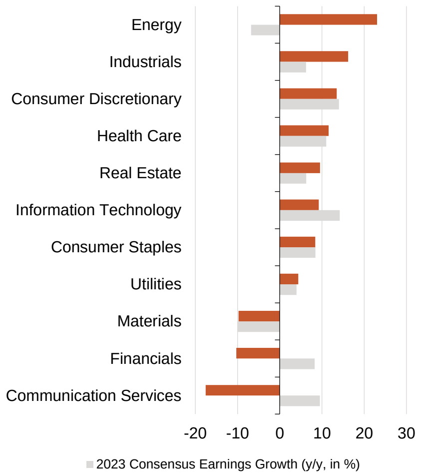


- The energy, real estate and material sectors saw the largest positive earnings revisions in the last four weeks. Only energy reflected this in the form of strong performance. Utilities brought up the rear.
- Regionally, Latin America and Europe saw significantly positive earnings revisions, while crisis-ridden Eastern Europe saw slightly lower earnings forecasts.

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 11/02/2022

Earnings Growth

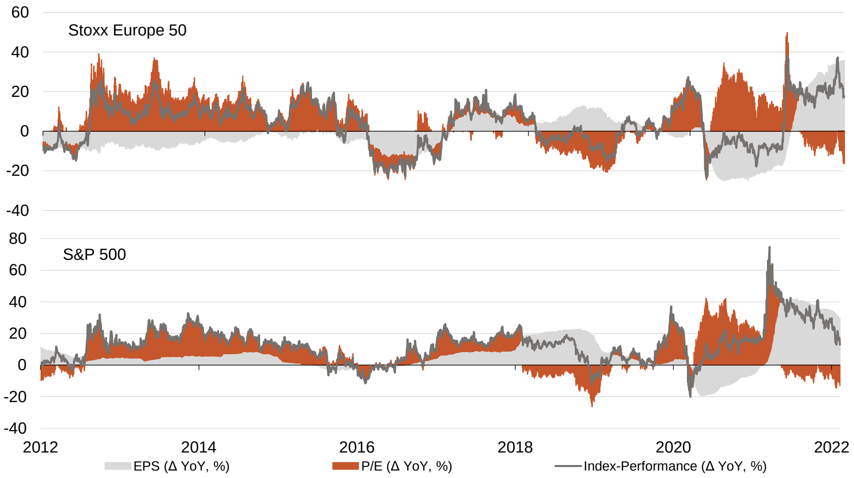




- Japan and Asia ex Japan see the highest profit growth in 2022 with over 10% according to analysts. But the USA and Europe are also likely to see noticeable rising profits.
- Among European sectors, the energy and industrial goods sectors should see the highest profit growth. The telecom sector is likely to struggle with earnings headwinds.

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 11/02/2022

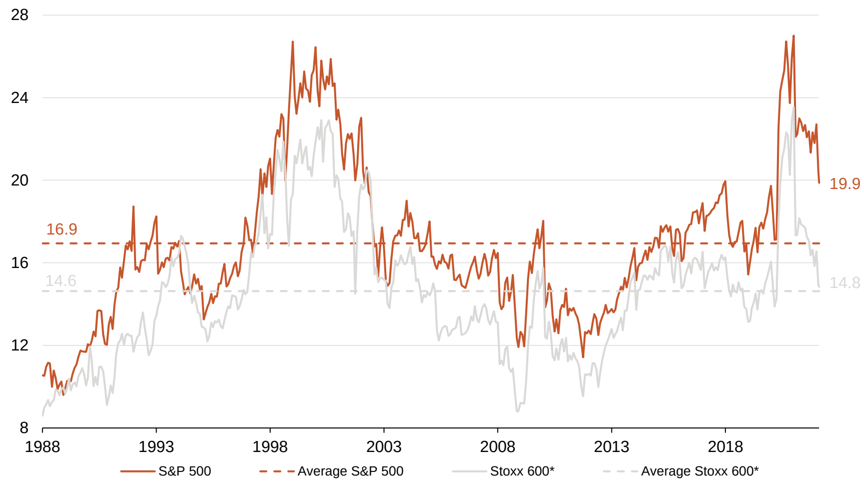
Contribution Analysis



- Year-on-year index performance continues to decline for both the S&P 500 and the STOXX 600. While falling valuation ratios were mainly responsible for the STOXX 600, the decline in the S&P 500 is also caused by earnings no longer rising as strongly, even though the Q4 reporting season has been solid so far.

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 - 11/02/2022

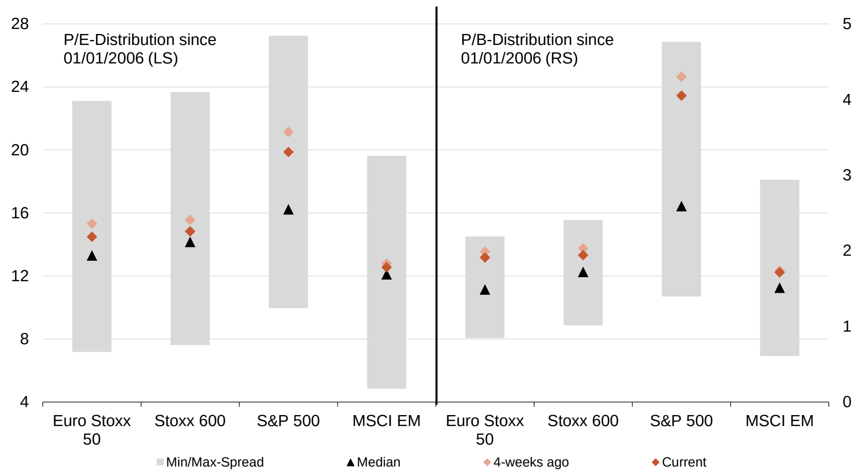
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The valuation adjustment has continued over the past two weeks. European equities are trading close to their historical average with a P/E ratio of around 14,8, while US equities are trading well above their historical average with a P/E ratio of around 20.

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 - 11/02/2022

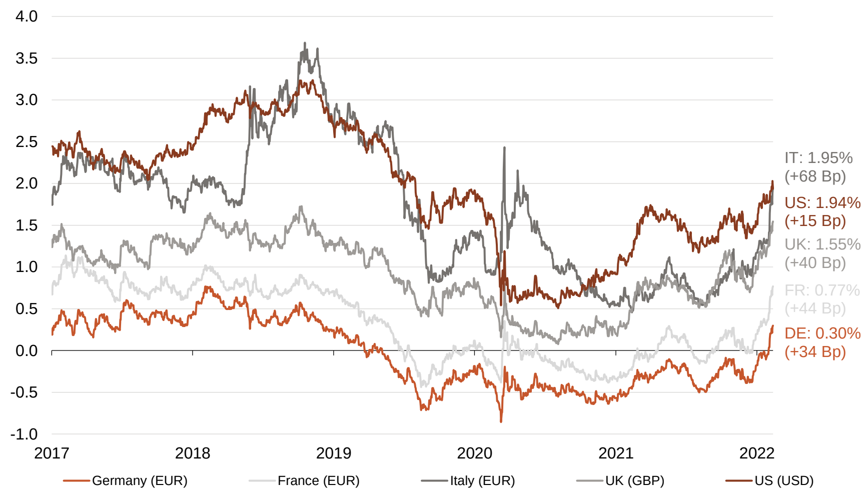
Historical Distribution: Price/Earnings and Price/Book Ratio



- All the equity indices shown are not cheap on a historical basis, even though they have become cheaper over the last four weeks. The risk of a further valuation adjustment thus remains.
- However, the risk is less pronounced for emerging markets, as the MSCI EM trades close to historical valuation levels.

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 - 11/02/2022

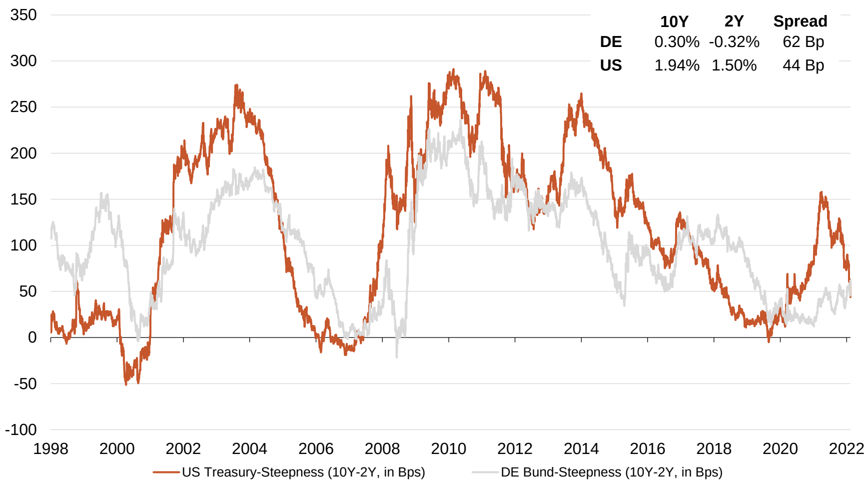
10-Year Government Bond Yields



- More restrictive statements from the US Federal Reserve and surprisingly rising inflation data continued to drive the ongoing sell-off in global bond markets. The yield on the 10-year US government bond rose temporarily over 2%, its highest level since July 2019.
- Markets are now also pricing in a more restrictive interest rate policy at the ECB. At 0.30%, yields on 10-year German government bonds reached their highest level since December 2018.

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 - 11/02/2022

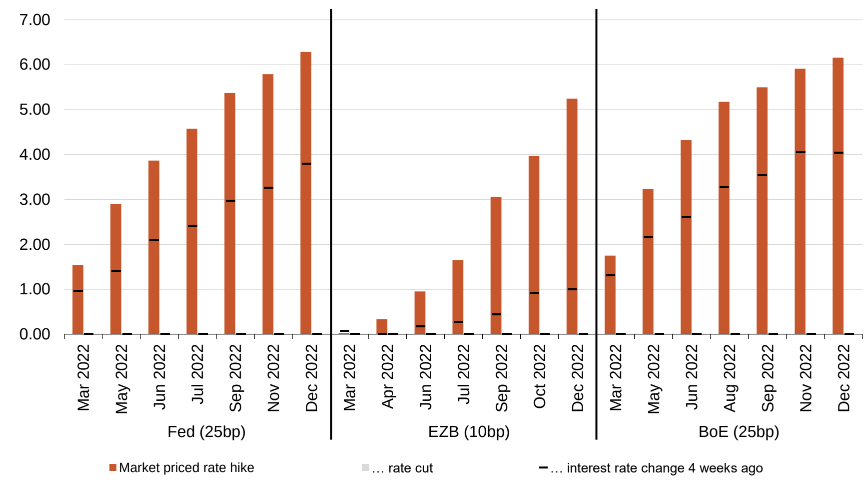
Yield Curve Steepness (10Y - 2Y)



- Globally tighter central banks due to high inflation are fuelling fears of recession as financing conditions are likely to deteriorate. This can be seen in the steepness of the US yield curve, which has flattened further in the last two weeks. Short-term interest rates have thus risen more than long-term rates.

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 - 11/02/2022

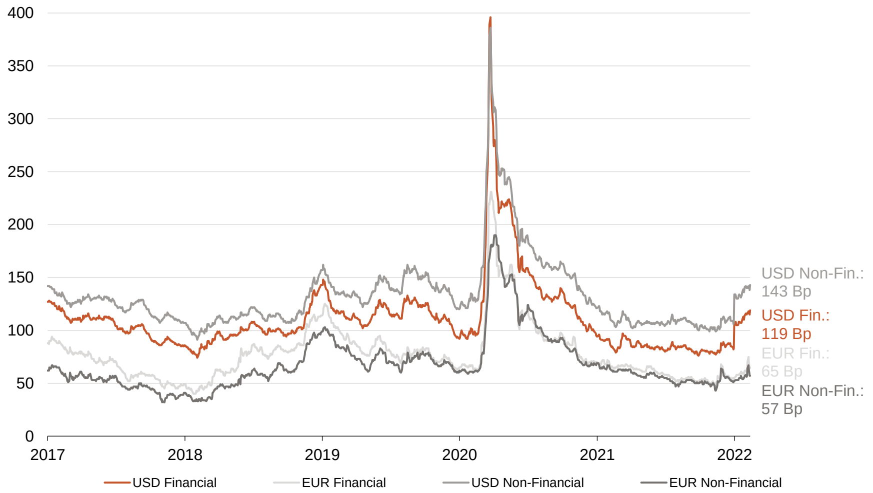
Implicit Changes in Key Interest Rates



- Markets now expect six rate hikes in the US at 25 basis points (bps) each.
- However, the biggest move in the last four weeks has been at the ECB. The market now expects five 10bps rate hikes by December 2022 after ECB President Lagarde took a tougher tone on inflation risks and no longer categorically ruled out rate hikes 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: 14/01/2021 - 11/02/2022

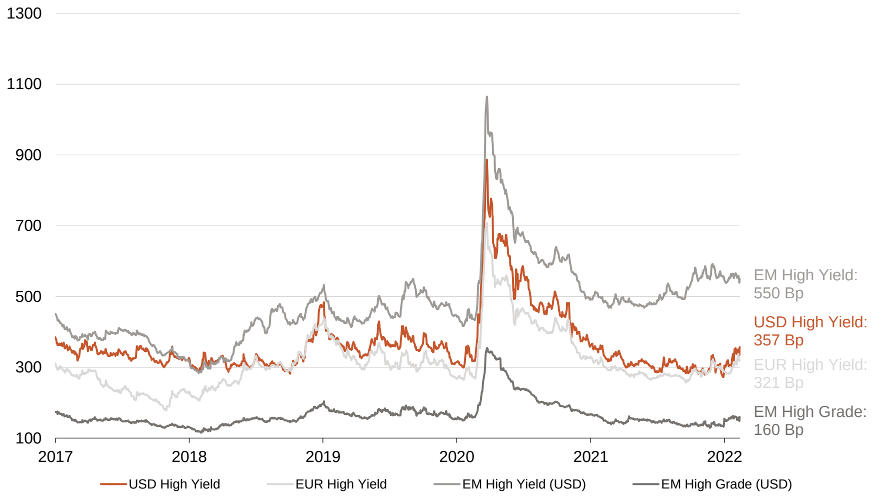
Credit Spreads Financial and Non-Financial Bonds



- Spreads on corporate bonds experienced an upward spike, as a significant tightening of interest rate policy by central banks poses risks to the economy. A slowdown in growth would damage the solvency of companies. Credit risks are thus now rewarded more attractively again.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2017 – 11/02/2022

Credit Spreads High Yield and Emerging Markets Bonds



- The picture for high-yield bonds is mixed. While the spreads on EUR bonds have risen by almost 10bp in the last two weeks, the spreads on USD bonds have only increased slightly.
- Spreads on EM high-yield bonds, on the other hand, fell slightly thanks to higher commodity prices and economic stabilisation measures in China.

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 – 11/02/2022

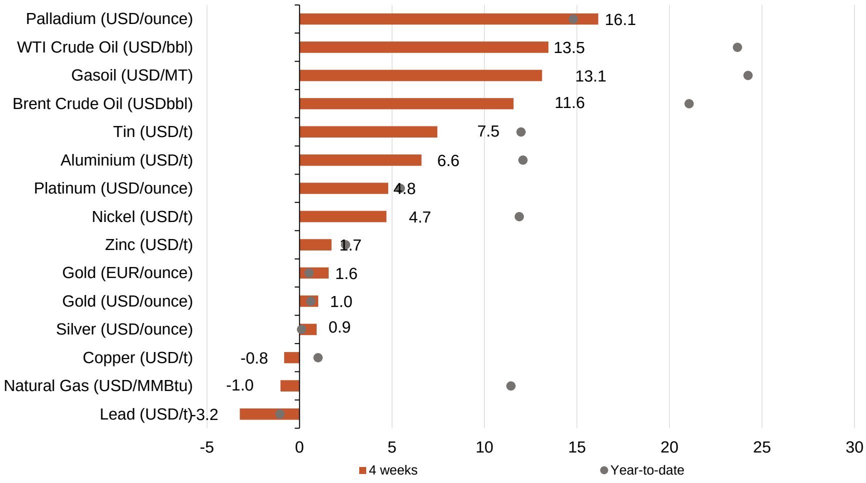
Bond Segments Overview

	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	0.62	8.2	-	-	-	-3.1	-3.9	-6.5	2.1	8.4	2.1	1.7
Germany	0.03	8.1	-	-	-	-2.3	-3.2	-4.7	0.4	3.6	4.8	-2.1
EUR Corporate	1.22	5.2	59	4	-0.8	-2.9	-3.4	-4.4	1.6	5.8	0.9	2.0
Financial	1.24	4.3	65	7	-0.8	-2.6	-3.1	-3.7	1.4	5.3	0.6	2.6
Non-Financial	1.21	5.6	57	4	-0.8	-3.1	-3.6	-4.7	1.7	6.0	1.1	1.6
EUR High Yield	4.06	3.9	321	39	-0.4	-3.2	-3.2	-1.3	3.3	9.6	-0.9	5.2
US Treasury	1.85	7.0	-	-	-	-1.8	-3.3	-4.1	4.3	8.9	3.3	-0.1
USD Corporate	3.06	7.9	135	11	-0.1	-3.1	-4.7	-4.4	5.9	14.2	2.3	3.4
Financial	2.84	6.0	119	13	-0.3	-2.5	-3.8	-4.1	6.3	12.1	2.7	3.1
Non-Financial	3.16	8.8	143	12	0.0	-3.4	-5.1	-4.6	5.7	15.1	2.2	3.6
USD High Yield	5.81	5.0	357	44	-0.6	-3.1	-4.0	-0.2	6.6	10.0	3.9	4.2
EM High Grade	3.24	6.0	160	8	-0.7	-2.4	-3.4	-3.5	3.8	11.5	2.7	3.1
EM High Yield	8.12	4.3	550	2	0.0	-1.5	-3.1	-7.5	7.2	11.2	2.5	4.9

- Bonds continue to struggle in the rising interest rate environment. In the last four weeks, every shown segment has lost over 1%.
- The largest loss in Europe was recorded by EUR high-yield bonds with -3.2%. The reasons were rising interest rates and spread level. EUR high-yield bonds now offer a yield of more than 4%.

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 : 11/02/2017 – 11/02/2022

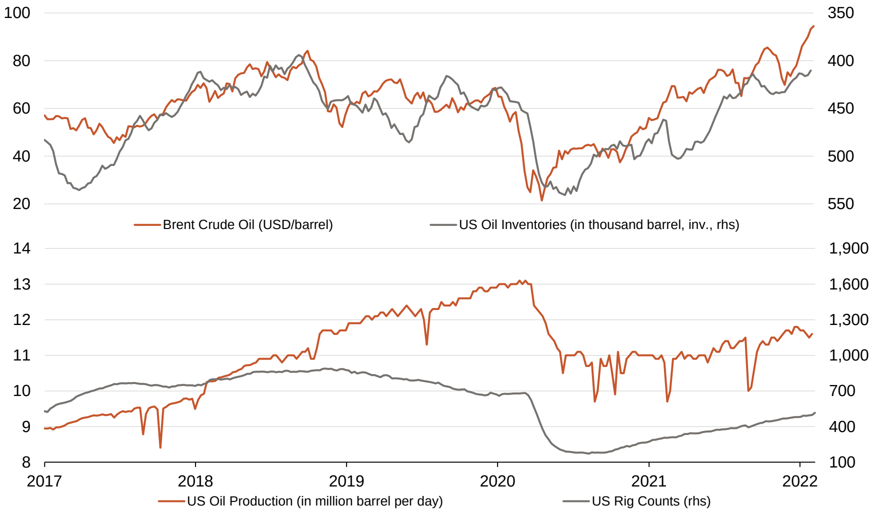
Commodities Performance



- Commodities made significant gains over the last few weeks in the face of supply concerns resulting from the Russia-Ukraine conflict. Palladium, for which Russia is one of the main exporters for the automotive industry, gained the most with 37%.
- In addition to gas oil and crude oil, industrial metals also experienced upward pressure from low inventories and hopes for further Chinese infrastructure stimulus.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period:31/12/2021 - 11/02/2022

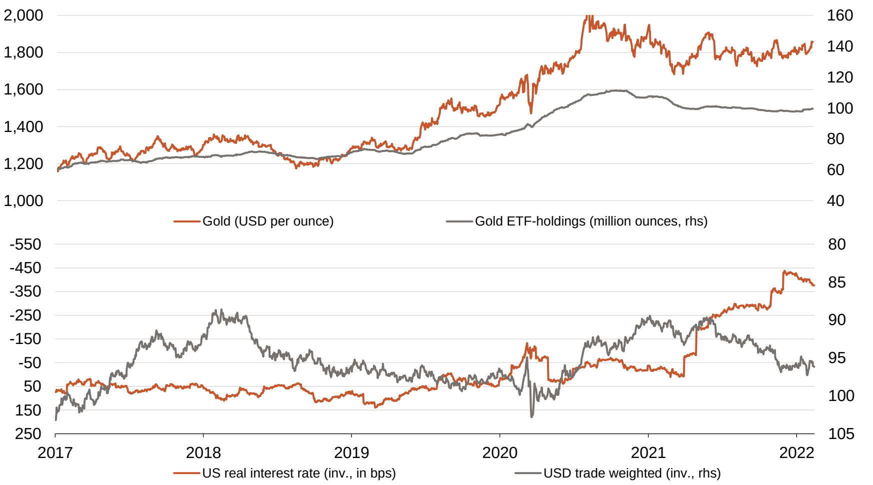
Crude Oil



- Crude oil gained almost 14% over the last four weeks. A significant collapse in demand due to new covid infections failed to materialise, but instead geopolitical concerns due to the Russia-Ukraine conflict led to supply worries. Russia is the world's second largest oil producer and Europe, which is energy-dependent on Russia, would be particularly affected by an escalation of the conflict. Supply bottlenecks were further exacerbated by low inventories.

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 - 11/02/2022

Gold



- Gold remained stable despite the rise in real interest rates and continued to fluctuate around the 1.800 mark. The precious metal was in demand again as a safe haven in the wake of geopolitical tensions. Given its interest rate sensitivity, gold came under pressure due to more restrictive Fed statements from the January meeting and experienced a sell-off, but was able to stabilise again

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 - 11/02/2022

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