BERENBERG Markets

MONITOR

28 February 2022

Current market commentary

The Russian invasion of Ukraine last Thursday was accompanied by a sharp sell-off in risk assets (especially Russian equities) and strong demand for safe havens such as gold as well as other commodities. Uncertainty due to the war and its implications for the economy and inflation is likely to remain elevated in the short term and thus should not lead to a sharp drop in volatility. However, even a slight fall in volatility should ensure that hedges are covered and systematic strategies are likely to demand equities. In light of positive economic signals from China, positive earnings revisions, upcoming clarity on Fed policy, pessimistic investor sentiment and low positioning, we have used the sell-off to slightly increase our equity exposure as a first step – also against the backdrop of geopolitical tensions in the recent past, the opening breakout has often marked a turning point in markets.

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

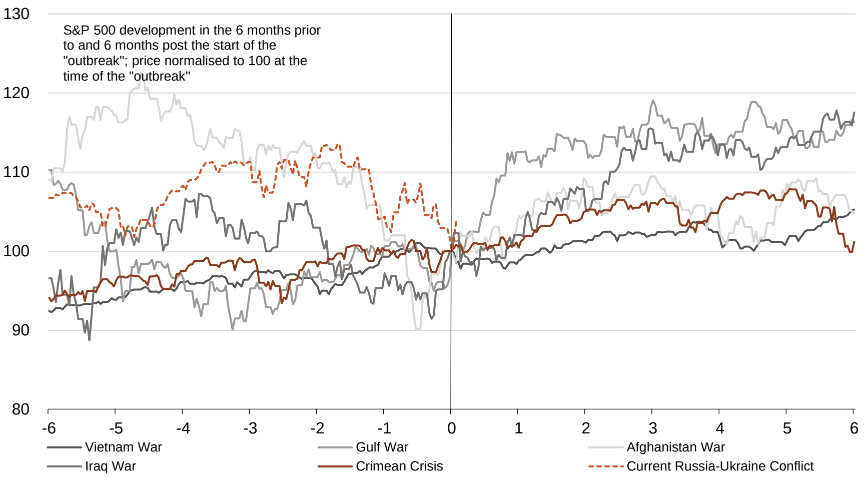
War in Europe and central banks may keep markets busy.

On 1 March, US President Joe Biden will hold the annual State of the Union speech. The Russia-Ukraine war is likely to play a role. Fed President Powell addresses the US House of Representatives and the US Senate on 2-3 March and the ECB meets on 10 March. Both dates should provide more clarity on future monetary policy, especially against the backdrop of a war in Europe. On 5 March, the National People's Congress will take place in China.

Purchasing managers' indices provide insight into the state of the economy.

The industrial purchasing managers' indices (PMI, Feb.) for the USA, the Eurozone and China as well as German retail sales (Jan.) and preliminary inflation data (Feb.) will be released on Tuesday. Preliminary inflation data (Feb.) for the Eurozone will follow on Wednesday. The service PMIs (Feb.) for the US, the Eurozone and China as well as US new orders (Jan.) and Eurozone labour market data (Jan.) will be released on Thursday. US labour market data (Feb.) and French industrial production (Jan.) are due on Friday.

Stock markets usually fall before war breaks out, not afterwards



- If you look at past geopolitical conflicts, stock markets usually fell before war broke out. Immediately after the escalation, markets usually rose again.
- This is because while markets have already priced in potential damage to society and the economy beforehand, there is increasingly more clarity about the effects after the outbreak of war.
- In the following 2 to 6 months, the S&P 500 even recorded a positive return in every case of the conflicts shown here.

Source: Bloomberg, Time period: 02/02/1964 - 25/02/2022

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (28/01/22 - 25/02/22)	YTD (31/12/21 - 25/02/22)	25/02/21 25/02/22	25/02/20 25/02/21	25/02/19 25/02/20	25/02/18 25/02/19	24/02/17 25/02/18
Brent	7.1	24.6	72.6	-7.0	-1.1	9.1	2.5
Industrial Metals	4.9	10.9	35.6	29.9	-8.4	-2.5	1.7
Gold	4.4	4.2	15.3	-3.2	28.6	8.2	-9.2
Global Convertibles	1.0	-7.0	-4.0	34.1	14.1	9.0	-6.5
Euro overnight deposit	0.0	-0.1	-0.6	-0.5	-0.4	-0.4	-0.4
USDEUR	-1.1	0.9	8.0	-10.6	4.4	8.3	-14.1
MSCI World	-1.5	-6.4	19.0	10.1	15.3	8.0	1.8
EUR Sovereign Debt	-1.6	-2.1	-2.5	-0.4	3.8	1.5	0.4
MSCI Emerging Markets	-2.3	-3.5	-6.0	19.2	5.8	-2.5	13.2
REITs	-2.5	-9.7	25.5	-17.7	18.4	19.0	-16.7
EUR Coporates	-3.2	-4.2	-4.3	0.4	5.8	0.9	1.4
MSCI Frontier Markets	-3.6	-5.6	18.2	-3.1	9.5	-6.2	10.2

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; Euro overnight deposit: ICE BofA Euro Overnight Deposit Rate Index; USDEUR: Price of 1 USD in EUR.

- Commodities proved to be the strongest asset class over the last four weeks as well as year to date. The main reason for this remains the Russia-Ukraine conflict, which fueled supply concerns for oil and industrial metals and caused investors to flee to safe havens such as gold.
- Bonds were recently back in demand as a safe haven due to the increasing uncertainty, but were unable to make gains over a four-week period. REITs suffered due to high interest rate sensitivity.

Total return for selected asset classes, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 24/02/2017 – 25/02/2022

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (28/01/22 - 25/02/22)	YTD (31/12/21 - 25/02/22)	25/02/21 25/02/22	25/02/20 25/02/21	25/02/19 25/02/20	25/02/18 25/02/19	24/02/17 25/02/18
MSCI USA Small Caps	2.6	-6.2	8.4	23.1	6.0	14.1	-3.2
MSCI UK	0.3	3.2	22.7	-7.0	5.1	4.6	-0.4
Stoxx Europe Defensives	-0.7	-1.6	19.3	-6.0	13.5	11.2	-0.9
MSCI Japan	-1.6	-5.7	-1.2	13.0	9.1	-1.1	3.5
Stoxx Europe 50	-1.6	-3.8	18.4	-1.3	12.7	2.1	2.7
S&P 500	-1.7	-6.6	26.2	11.0	19.0	12.6	1.6
MSCI EM Asia	-2.2	-4.9	-11.3	29.6	8.1	-2.0	15.4
Stoxx Europe Cyclicals	-3.5	-8.3	9.2	10.0	9.8	-7.1	11.9
Stoxx Europe Small 200	-3.8	-11.9	3.8	12.5	12.5	-2.5	13.0
Euro Stoxx 50	-3.9	-7.5	9.8	5.2	11.9	-2.1	6.7
DAX	-4.9	-8.3	5.0	8.5	11.2	-7.8	5.8
MSCI EM Eastern Europe	-28.2	-32.9	-16.8	-12.0	16.2	3.2	10.1

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 global sell-off on the stock markets continued over the last four weeks. Apart from US small caps, the exception was British stocks, which benefited from rising energy prices and interest rates due to the high weightings in commodity and bank stocks.
- Eastern European equities have lagged since the beginning of the year and over the last month. Uncertainty surrounding the Russia-Ukraine conflict drove investors out of Eastern European stocks.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 24/02/2017 – 25/02/2022

Fixed Income

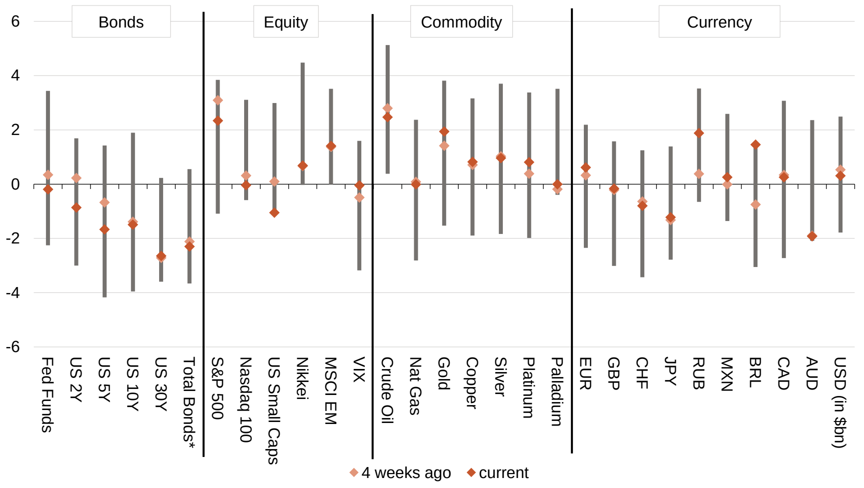
	4-week & YTD		12-month periods over that last 5 years				
	4W (28/01/22 - 25/02/22)	YTD (31/12/21 - 25/02/22)	25/02/21 25/02/22	25/02/20 25/02/21	25/02/19 25/02/20	25/02/18 25/02/19	24/02/17 25/02/18
EM Local Currency Bonds	-0.4	0.6	1.6	-9.3	10.8	1.9	-1.3
Chinese Gov Bond	-0.4	0.5	6.3	0.5	5.8	8.7	-0.5
USD High Yield	-1.0	-3.9	0.4	6.9	8.1	4.3	4.1
Bunds	-2.1	-2.8	-2.7	-2.3	4.7	4.3	-2.7
Treasuries	-2.3	-2.3	6.5	-11.0	15.4	12.2	-14.8
BTPs	-2.8	-3.4	-4.7	2.9	13.9	-1.5	3.5
EUR Financials	-2.9	-4.0	-4.0	0.6	5.4	0.8	2.1
USD Corporates	-3.1	-6.1	-3.5	2.1	15.4	2.8	2.2
EUR High Yield	-3.2	-4.4	-2.5	3.7	7.8	0.4	4.5
EUR Non-Financials	-3.3	-4.3	-4.6	0.3	6.0	1.0	0.9
Gilts	-3.5	-5.5	-0.3	-7.4	14.8	5.8	-4.7
EM Hard Currency Bonds	-5.3	-6.3	2.2	-11.5	16.8	11.7	-10.4

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

- Bond markets remain under pressure globally. Even if bonds continue to be burdened in the medium term by more restrictive global interest rate stance of central banks, significant interest rate steps have already been priced in.
- The escalation of the Russia-Ukraine conflict has recently driven investors into safe havens like government bonds. US government bonds were able to gain as a result and thus limit the losses.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 24/02/2017 – 25/02/2022

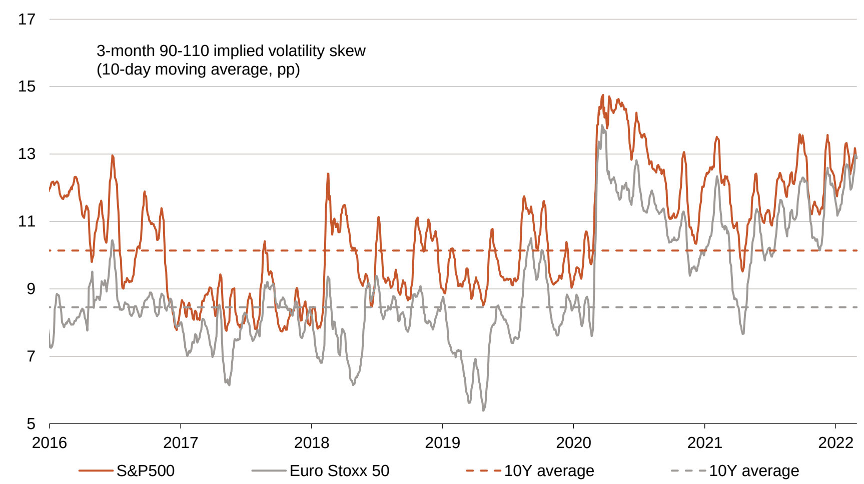
Non-Commercial Positioning



- Hedge funds have recently reduced their equity exposure significantly. For example, short positions in US small caps are at a 10-year high.
- The largest movements occurred within currencies. Positions in the rouble were drastically reduced and massively increased in the Brazilian real.

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: 22/02/2012 - 22/02/2022

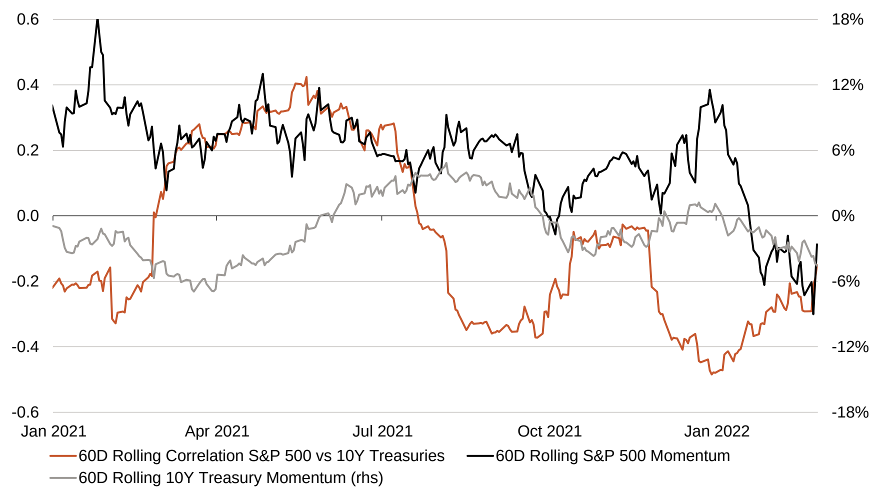
Put-Call-Skew



- The put-call skew remains at historically high levels. Fear of missing the next market rally has given way to fear of the next crash.
- However, the overall level of implied volatility has also risen. It is not atypical for the skew to rise in tandem with this.

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: 22/02/2012 - 22/02/2022

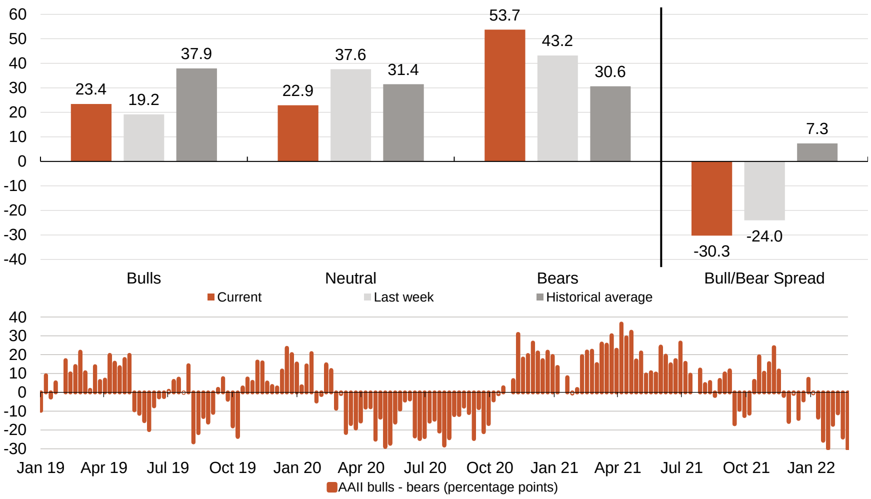
60-Day Momentum and Correlation



- The momentum in stock markets is still negative. This means that most trend-following systematic investment strategies are likely to be only slightly invested in equities. By the end of the month, however, large institutional investors are likely to demand more equities again when they rebalance.

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 - 22/02/2022

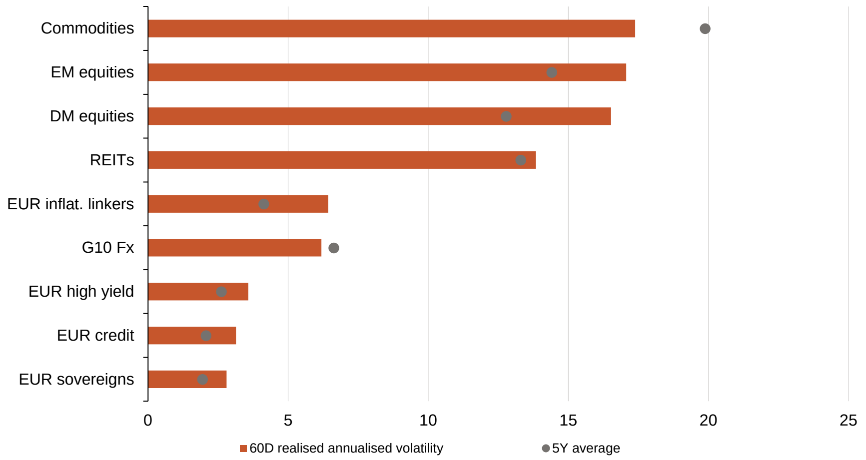
AAII Sentiment Survey (Bulls vs Bears)



- US retail investor sentiment is at rock bottom. At almost 54%, the number of bears is the highest it has been since 2013. The same applies to the bull/bear spread, currently at -30 pp.
- Typically, equity markets perform well in the following 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 – 25/02/2022

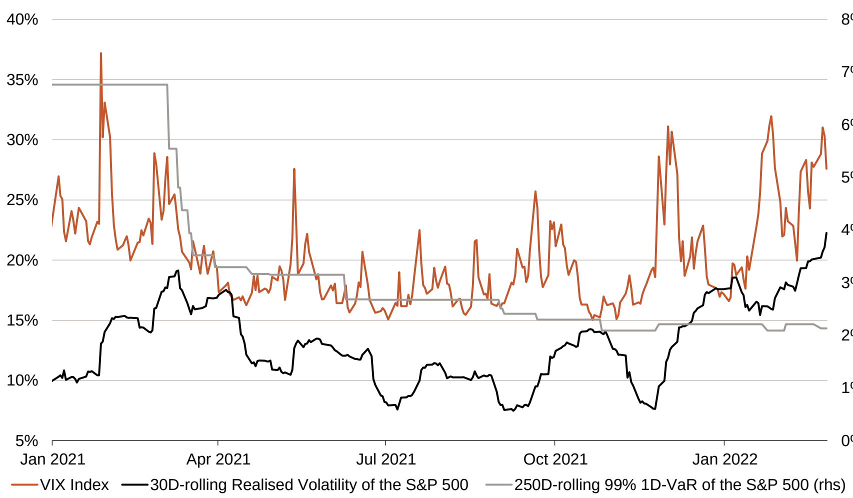
Realised Volatilities



- The volatility of stock markets has jumped significantly in both developed and emerging markets, with the escalation in the Russia-Ukraine conflict.
- For commodities, on the other hand, it has recently even fallen below its 5-year average, as many commodities are benefiting from the conflict.

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 - 25/02/2022

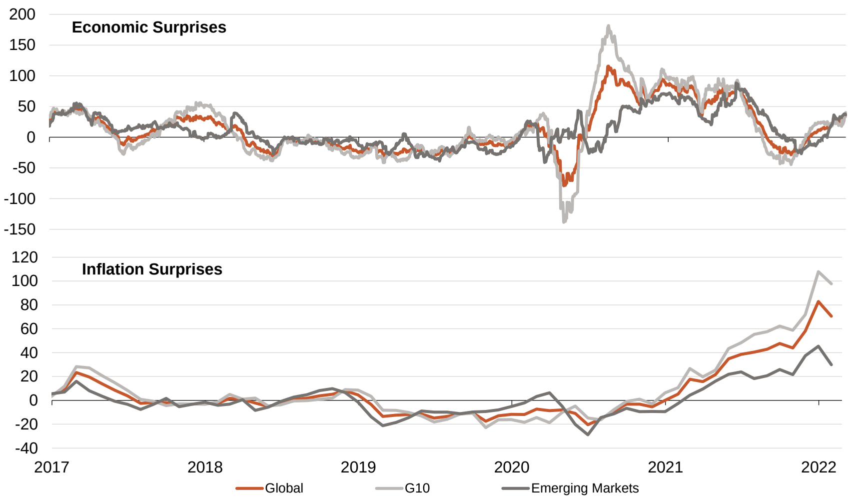
Volatility and Value-at-Risk of the S&P 500



- The volatility priced over the next 30 days is also significantly higher at almost 30%.
- Investors therefore expect further major moves in the coming weeks.

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 – 25/02/2022

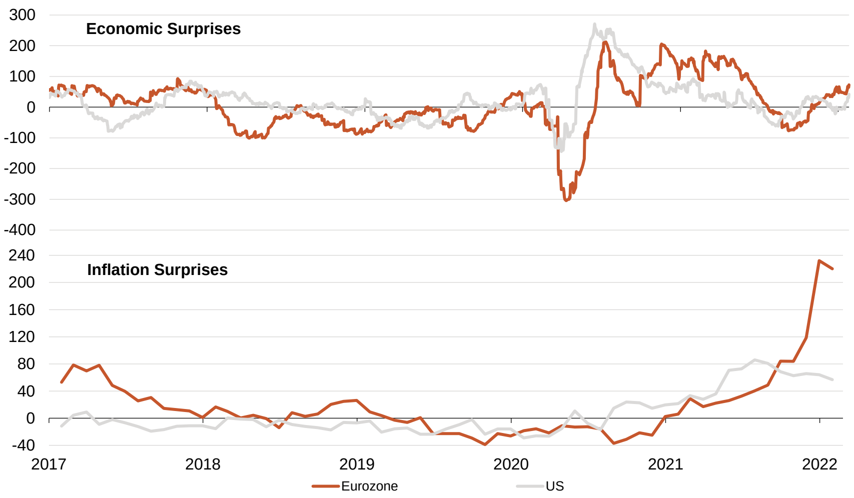
Global



- After the global economic surprise data continued to move sideways over the last few weeks, they recently surprised to the upside. The global economic surprise index, the index of the industrialised nations and emerging markets all remained in positive territory.
- Inflation surprises continue their downward trend after reaching their highest values in December 2021.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 25/02/2022

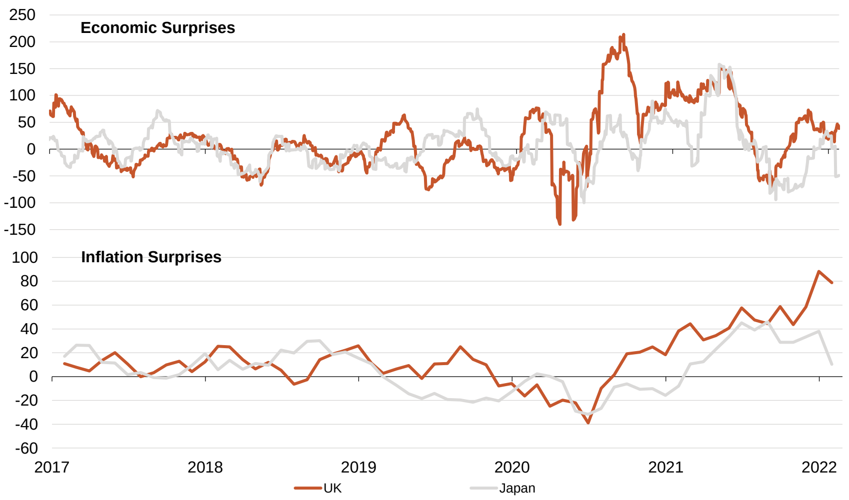
Eurozone and US



- The economic surprises in the US, which had been in negative territory for the last few weeks, surprised to the upside again and exceeded the zero threshold. In the US, retail sales, labour market data and purchasing managers' data exceeded market expectations.
- Positive economic surprises also increased recently in the Eurozone. Industrial production data exceeded expectations, while PMI purchasing managers' data disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 25/02/2022

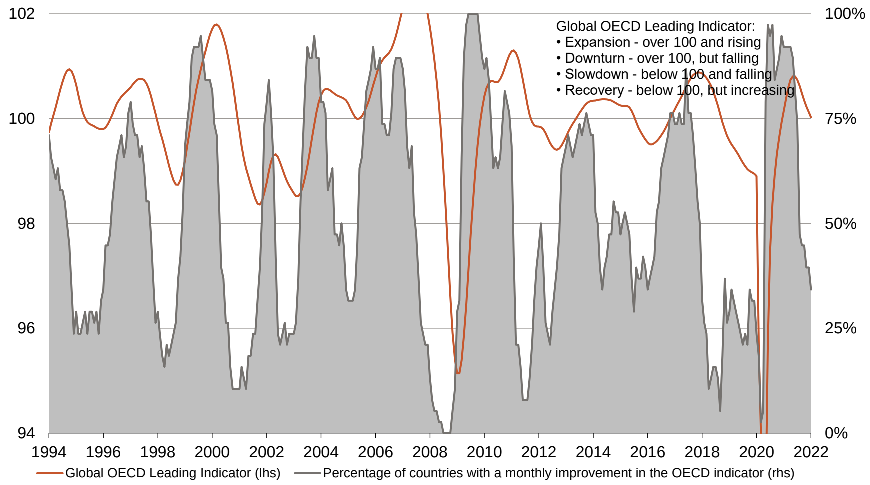
UK and Japan



- While positive economic surprises prevailed in the UK, Japan's were negative for the first time since December 2021. In Japan, GDP data disappointed, while in the UK, labour market data and PMI purchasing managers' data surprised to the upside.

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 - 25/02/2022

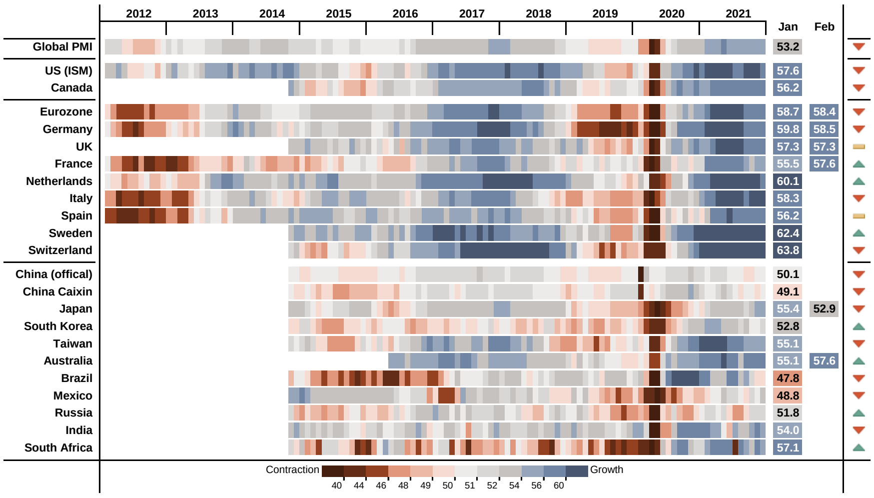
OECD Leading Indicator



- The OECD Leading Indicator continued to approach the 100 mark. The falling trend towards the core mark points to an economic downturn.
- A look at the country level confirms the gloomier picture. Only 34% of the countries were able to improve compared 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 - 31/01/2022

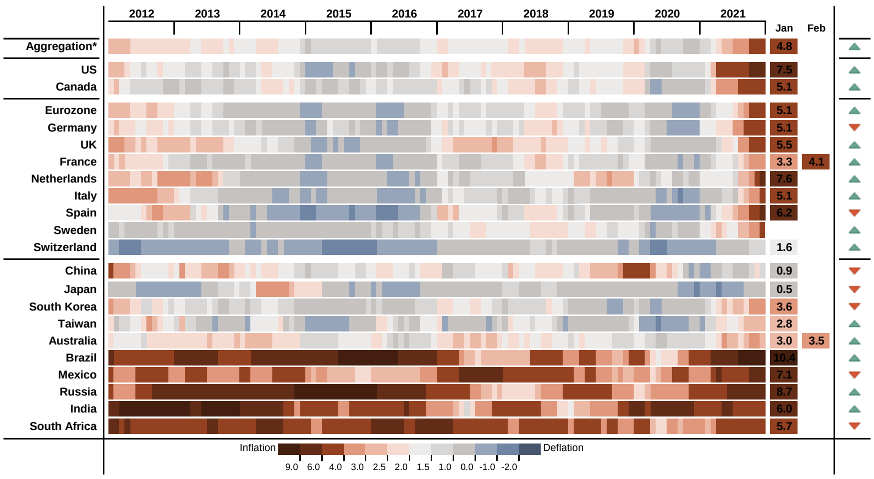
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The February Purchasing Managers' Index data show a mixed picture. While the PMI declined in the eurozone, Germany and Japan, it gained in France and Australia. The UK was able to maintain the previous month's level.

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 - 25/02/2022

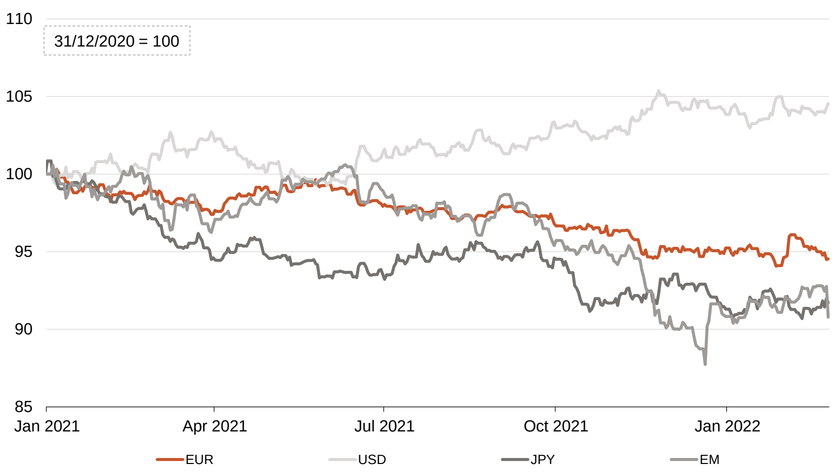
Headline Inflation



- The inflation rate in the US rose to 7.5% in January, reaching the highest level since 1982. Regionally, the picture was mixed. In the Eurozone, the inflation rate rose in the aggregate, even if the individual member states developed unevenly. In China, Japan, South Korea, Mexico and South Africa, the inflation rate decreased, while it increased in Taiwan, Australia, Brazil, Russia and India.

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 - 25/02/2022

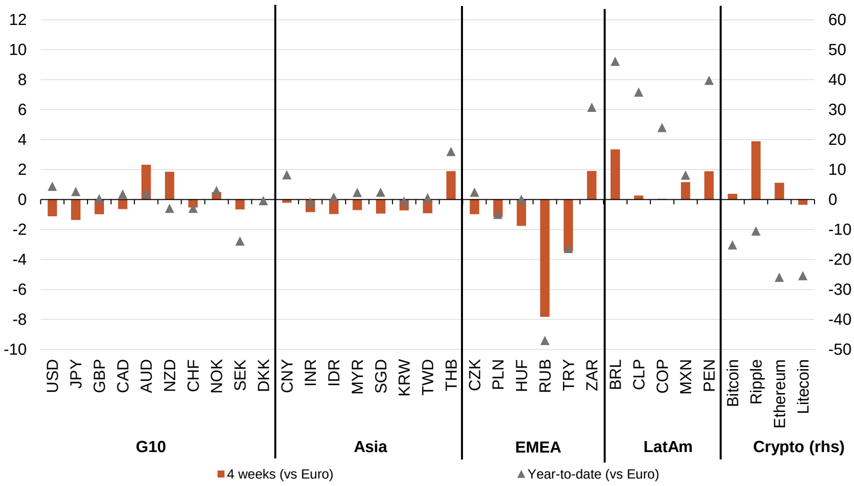
Trade-Weighted Currency Development



- The US dollar and the Japanese yen were back in high demand as safe havens among international investors in the wake of Russia's invasion of Ukraine.
- Emerging market currencies on the other hand depreciated on average. However, some emerging markets benefitted from higher commodity prices.

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 - 25/02/2022

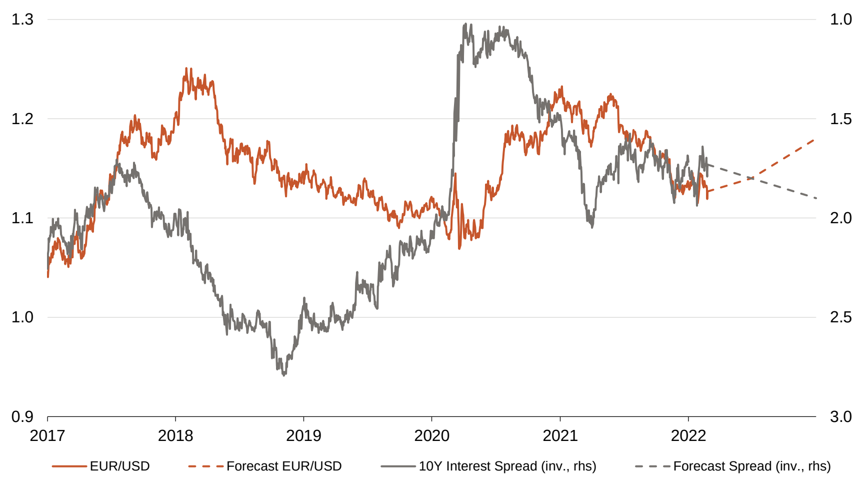
Currency Moves vs Euro



- Currencies of Eastern European countries were unsurprisingly the clear laggards over the last four weeks - above all, the Russian rouble.
- On the other hand, most Latin American currencies have performed well, especially the Brazilian real. The latter benefits on the one hand from further rising commodity prices and on the other hand, from inflows of foreign investors who take refuge in the high-yield currency when interest rates in the developed world rise.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2021 - 25/02/2022

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



- Last week, the euro fell to its lowest level since May 2020 and is currently trading at around 1.12 EUR/USD.
- Russia's attack on Ukraine and the sanctions imposed as a result have also clouded the economic outlook for Europe. This could prompt the ECB to take a less restrictive approach than expected a few weeks ago.

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

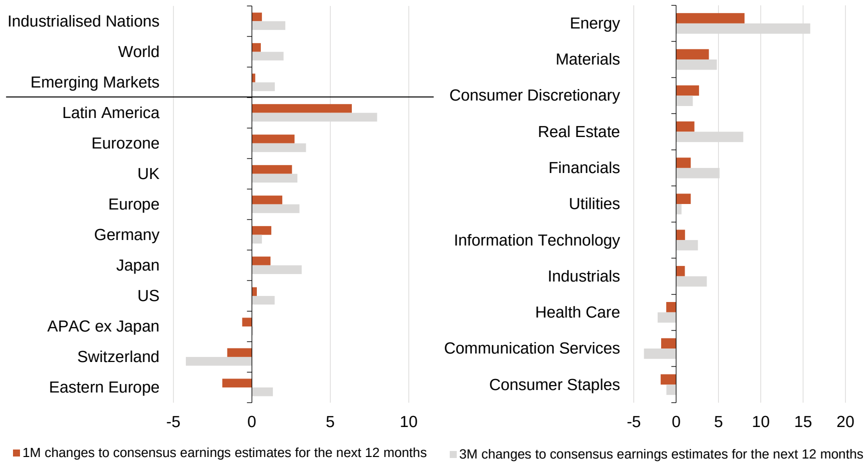
	4-week & YTD		12-month periods over that last 5 years				
	4W (28/01/22 - 25/02/22)	YTD (31/12/21 - 25/02/22)	25/02/21 25/02/22	25/02/20 25/02/21	25/02/19 25/02/20	25/02/18 25/02/19	24/02/17 25/02/18
Energy	0.2	14.8	32.8	-10.5	-14.7	13.5	7.3
Communication Services	0.2	-6.0	19.8	-5.1	23.1	13.4	-6.8
Utilities	-0.3	-2.5	12.1	-5.1	32.6	17.8	2.4
Consumer Staples	-0.6	-4.9	20.2	-7.2	12.6	7.4	-3.8
Materials	-0.8	-2.3	11.7	28.6	3.0	-1.9	13.7
Telecommunications	-1.1	-0.2	9.9	-9.6	2.5	-4.2	-4.7
Information Technology	-1.6	-16.9	6.6	20.6	21.0	6.3	13.4
Value	-2.1	0.7	16.0	-2.7	3.6	-2.2	6.3
Growth	-2.4	-12.5	10.7	7.6	18.2	3.7	4.6
Industrials	-2.6	-12.2	8.8	11.6	15.1	-0.7	10.2
Finance	-5.2	-2.0	14.4	-3.1	7.8	-13.4	13.0
Consumer Discretionary	-5.9	-10.6	5.5	20.3	7.9	-2.3	7.9

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; Communication Services: MSCI Europe Communication Services NR; Utilities: MSCI Europe Utilities NR; Value: MSCI Europe Value NR; Growth: MSCI Europe Growth NR.

- In the last four weeks, most sectors have fallen, as have growth and value styles. Due to the Russia-Ukraine war, cyclical sectors such as industrials, financials and consumer cyclicals are the most negative. The financial sector is noticeably affected by the war due to its regional exposure and the sanctions imposed.

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: 25/02/2017 – 25/02/2022

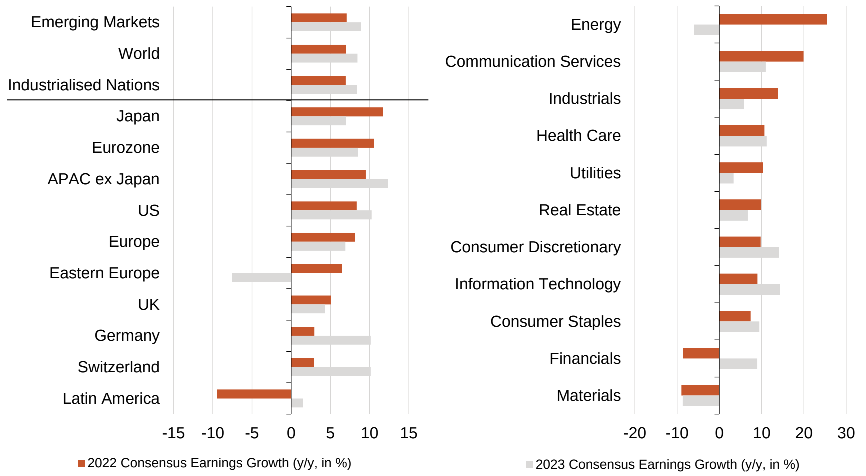
Changes in Consensus Earnings Estimates



- Regionally, Latin America and the Eurozone saw significantly positive earnings revisions, while the war-affected Eastern Europe saw slightly lower earnings forecasts. Latin America is expected to benefit, in particular, from strongly rising commodity prices.
- The energy and basic materials sectors saw the largest positive earnings revisions in the last four weeks. Consumer staples companies lagged.

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 25/02/2022

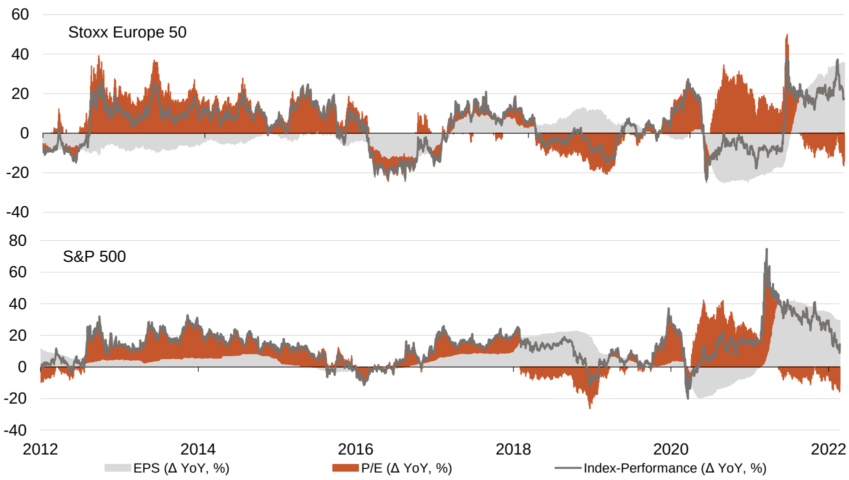
Earnings Growth



- Japan and the Eurozone see the highest earnings growth in 2022, at around 10% each, according to the consensus. Asia and the US however are also likely to see significantly rising profits.
- Among European sectors, energy and telecommunication should see the highest profit growth.

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 25/02/2022

Contribution Analysis

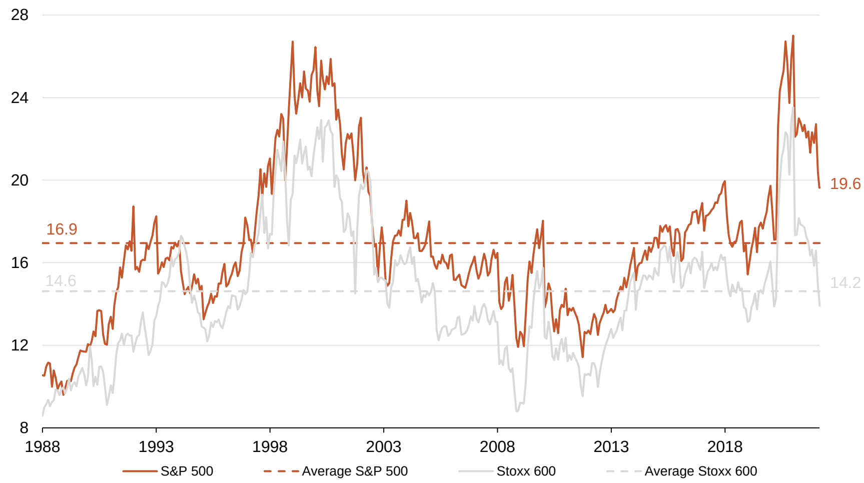


TBD

- With earnings rising year-on-year, a massive valuation decline was the reason for the year-on-year decline in positive earnings development in Europe.
- In the US, on the other hand, it was both the less strongly rising profits and the falling valuation that weighed on share prices.

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 - 25/02/2022

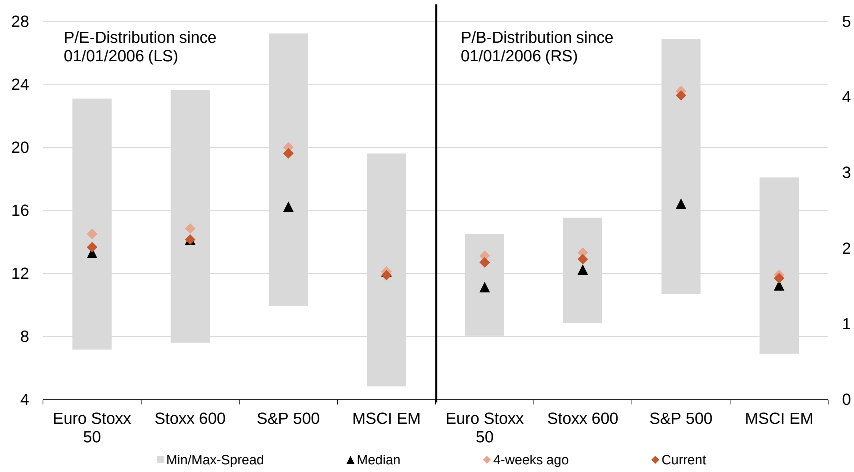
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Valuations of European equities have continued to fall amid rising average earnings in the Q4 reporting season and falling markets. Current valuation levels are now historically attractive for long-term investors. Short term, increased input costs could weigh on earnings.
- US equities have become cheaper. By historical standards, however, they are slightly expensive. US companies are likely to be less affected by the war in Europe.

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 - 25/02/2022

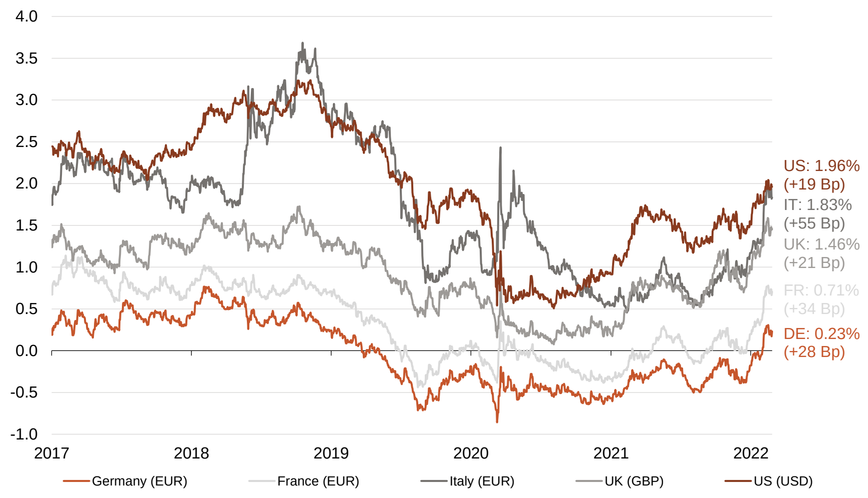
Historical Distribution: Price/Earnings and Price/Book Ratio



- After recent setbacks on the stock markets, European shares, at least, are no longer expensive. They are currently trading close to the historical median.
- US equities have also seen significant movements in valuation metrics over the past four weeks. Both the P/E ratio and the P/B ratio are now noticeably below the historical peak.
-

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 - 25/02/2022

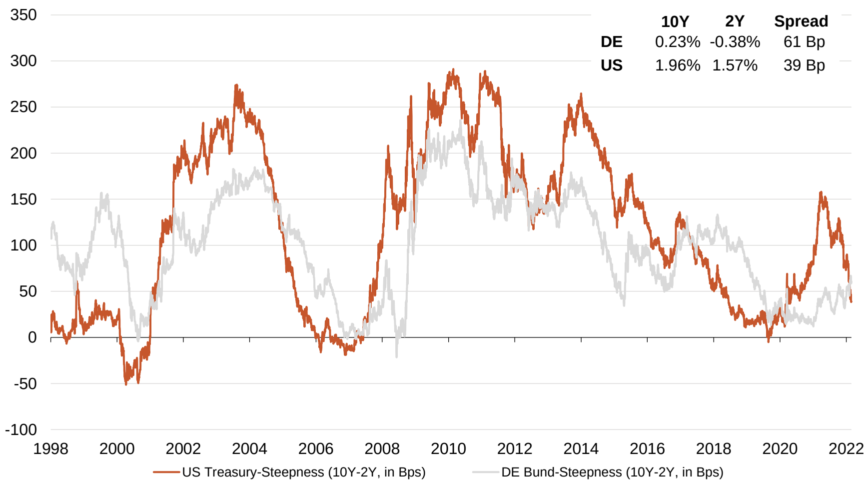
10-Year Government Bond Yields



- The search for safe havens caused yields on safe government bonds to fall. Over the past two weeks, yields have fallen more than 5 basis points (bps) in most countries.
- The possibility of less restrictive central banks, as the global economy is likely to suffer from the state of war, also supported government bonds.

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 - 25/02/2022

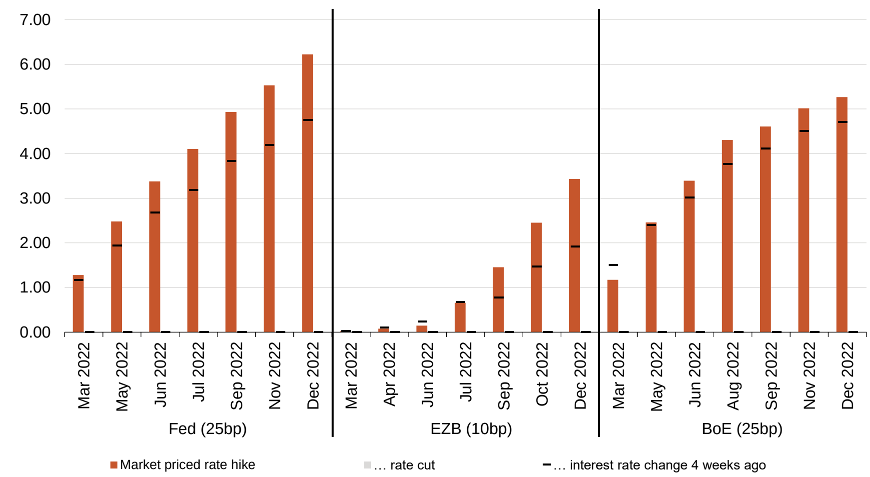
Yield Curve Steepness (10Y - 2Y)



- The market is increasingly pricing in the possibility of a US recession, which can be seen in the continuing flattening of the US yield curve.
- The steepness of the German yield curve, on the other hand, has increased. In the Eurozone, the market does not seem to be pricing in an overly aggressive central bank policy at present.

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 - 25/02/2022

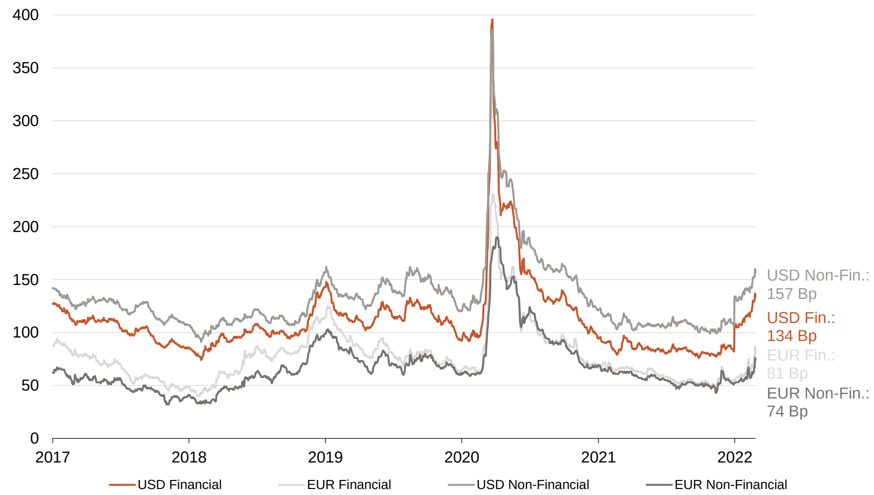
Implicit Changes in Key Interest Rates



- The Russia-Ukraine war is leading to a reassessment of central bank policy, as the war is likely to have a negative impact on economic growth. For the US, the market is now pricing in only one rate hike in March and a total of 6 rate hikes by the end of the year.
- In the Eurozone, the market sees around three rate hikes at 10bps until December 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: 04/02/2021 - 25/02/2022

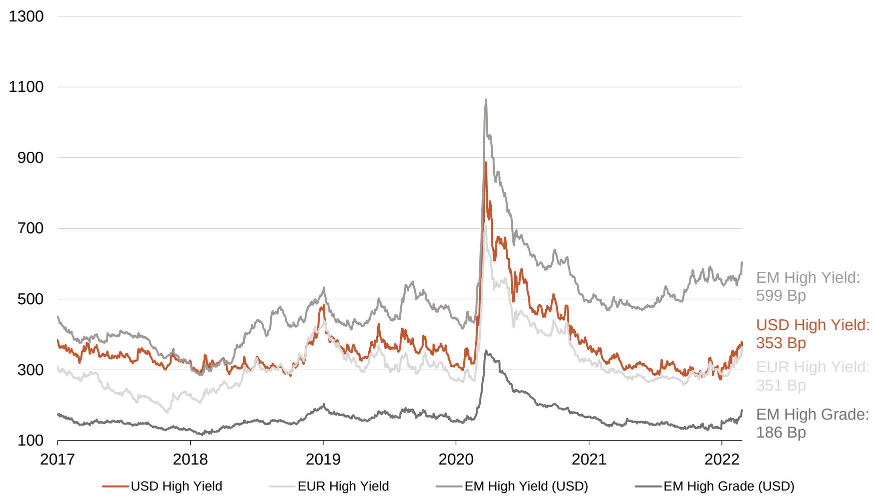
Credit Spreads Financial and Non-Financial Bonds



- The risk-off environment is also being felt in the credit bond market. In the last two weeks, spreads have risen in all investment grade segments.
- The largest increase was seen in USD corporate bonds and especially in financial bonds, as the financial sector is likely to be notably burdened by the Russia sanctions.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2017 – 25/02/2022

Credit Spreads High Yield and Emerging Markets Bonds



- The more risk-sensitive high-yield bonds also saw significantly rising spreads. For EUR high-yield bonds, spreads have risen more than 30bps in the last two weeks.
- Emerging high-yield bonds also saw rising spreads of 49bps. Bonds from Russia and Eastern Europe are likely to have weighed on EM bonds significantly.

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 – 25/02/2022

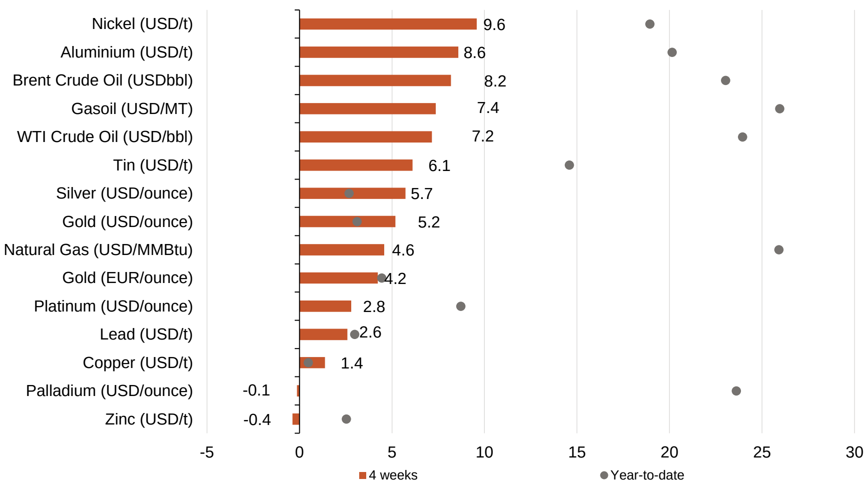
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Rendite (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	25/02/21 25/02/22	25/02/20 25/02/21	25/02/19 25/02/20	25/02/18 25/02/19	25/02/17 25/02/18
EUR Government	0.55	0.36	8.2	-	-	-	-3.0	-3.5	-4.1	-1.0	8.9	2.4	0.9
Germany	-0.02	0.30	8.1	-	-	-	-2.5	-2.9	-2.8	-2.3	4.7	4.3	-2.7
EUR Corporate	1.35	0.65	5.1	77	20	50	-3.5	-4.1	-4.2	0.4	5.8	1.0	1.4
Financial	1.34	0.62	4.2	81	21	39	-3.0	-3.6	-3.6	0.6	5.0	0.9	2.2
Non-Financial	1.36	0.66	5.6	74	19	54	-3.8	-4.4	-4.6	0.3	6.2	1.0	1.0
EUR High Yield	4.32	0.87	3.8	351	42	56	-3.6	-4.4	-2.5	3.7	7.8	0.4	4.5
US Treasury	1.88	0.37	6.9	-	-	-	-1.7	-3.5	-2.1	0.1	10.8	3.5	-0.8
USD Corporate	3.25	0.52	7.8	150	20	71	-3.4	-6.1	-3.5	2.1	15.4	2.8	2.2
Financial	3.02	0.57	5.8	134	22	64	-2.8	-4.8	-3.4	3.6	12.8	3.2	2.1
Non-Financial	3.36	0.50	8.6	157	19	74	-3.7	-6.7	-3.5	1.5	16.4	2.6	2.3
USD High Yield	5.79	0.51	4.9	353	21	36	-2.0	-3.9	0.4	6.9	8.1	4.3	4.1
EM High Grade	3.60	0.70	5.9	186	27	52	-3.1	-4.9	-3.9	1.7	12.2	3.1	2.4
EM High Yield	9.00	1.14	4.3	599	37	65	-4.1	-6.2	-10.1	6.6	10.5	2.9	4.7

- Since the beginning of the year, rising interest rates and spreads have led to falling prices in the bond market.
- On a monthly view, spreads increased especially for EUR high-yield bonds, which noticeably suffered from the risk-off environment.
- EM high-yield bonds now offer a yield of around 9% after the recent yield expansion.

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 : 25/02/2017 – 25/02/2022

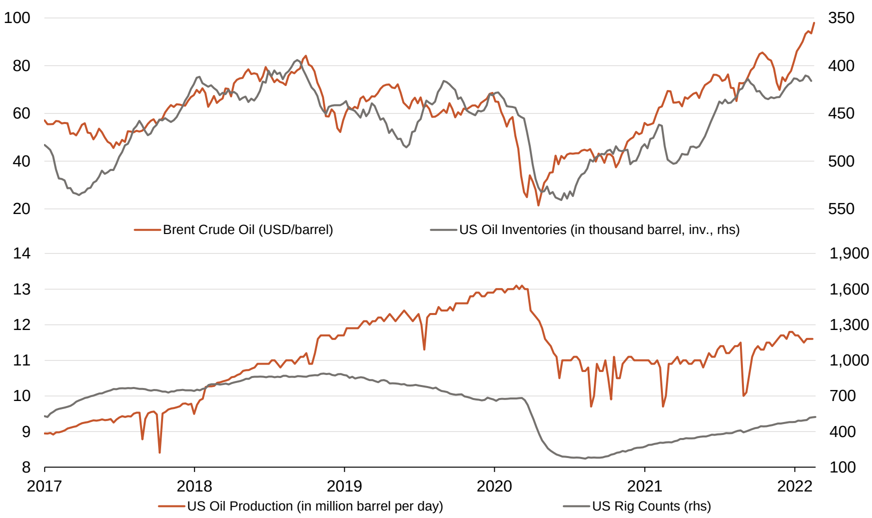
Commodities Performance



- Supported by the Russia-Ukraine conflict, commodities also gained over the last four weeks, continuing the rally since the beginning of the year. With Russia the world's third largest exporter of the industrial metals nickel and aluminium, the escalation of the conflict and additional sanctions by the US, EU and UK fueled supply concerns.
- Energy commodities were also boosted by the conflict. Further sanctions and possible delivery stops by Russia could exacerbate the situation.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period:31/12/2021 – 25/02/2022

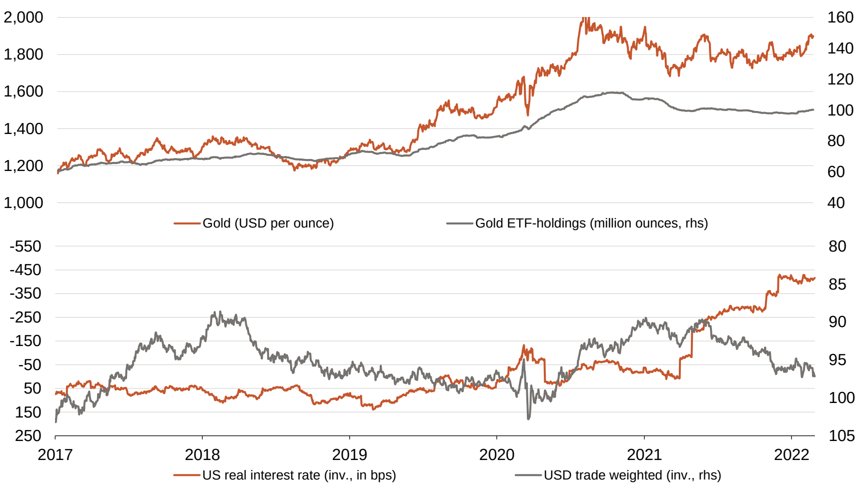
Crude Oil



- Crude oil benefited from the supply concerns surrounding the Russia-Ukraine conflict. In the process, the oil price most recently exceeded the USD 100 mark and thus recorded its highest level since 2014.
- The situation could be eased by supply inflows from Iran. The re-entry into the nuclear agreement with the US and Europe would weaken the supply concerns.

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 – 25/02/2022

Gold



- The gold price was in demand again as a safe haven over the last few weeks and was able to make gains. In addition to high inflation data, geopolitical uncertainty in particular caused investors to seek refuge in the precious metal. As a result, the gold price reached new all-time highs above the USD 1,900 per ounce mark.

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 – 25/02/2022

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IMPORTANT NOTICES

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