BERENBERG
Markets

MONITOR

23 May 2022

Current market commentary

Recently, stock markets have fallen further, especially in the US. In contrast to the year so far, however, safe government bonds have risen at the same time and were thus able to cushion the sell-off in multi-asset portfolios. The reason for the changed correlation pattern is the increase in recession concerns, while inflation expectations have fallen slightly. Weak economic data, the first signs of a cooling US labour market and disappointing quarterly results from US retailers citing concerns of lower demand for non-basic consumer goods and lower profit margins make a stronger economic slowdown more likely. What happens next depends mainly on China and Russia. A reopening of China's economy or an end to Putin's war would lead to fewer economic concerns and, via easing supply bottlenecks or energy/food prices, probably also fewer inflation concerns.

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

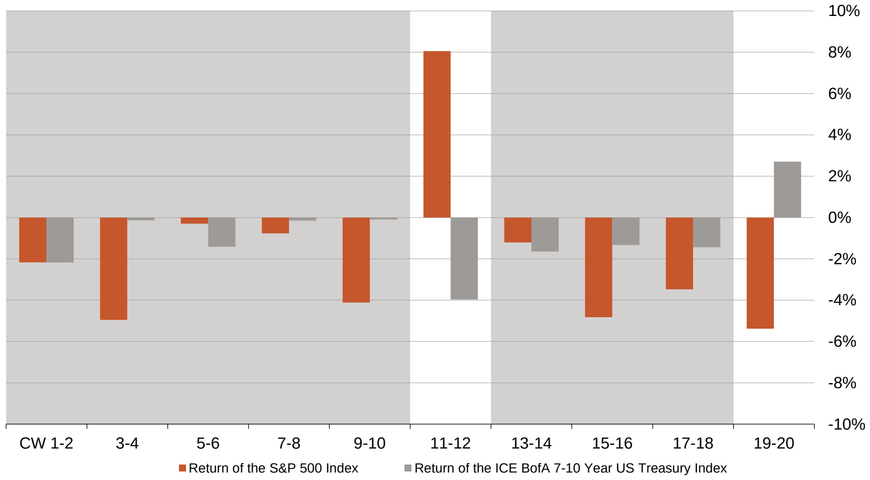
Energy shock and the war dominates politics.

This week, the World Economic Forum (22-26 May) is taking place in Davos. The war in Ukraine, the energy shock and its economic consequences, the global pandemic and climate change are likely to be major topics of discussion. On 30/31 May there will also be a special EU summit on the energy crisis and the war in Ukraine. The US stock markets are closed on 30 May (Memorial Day).

Corporate sentiment should provide information on the risk of recession.

On Tuesday, the preliminary industrial purchasing managers' indices (May) for Europe and the US are expected to provide information on business sentiment as well as the risk of recession. On Wednesday, new orders for durable goods (Apr.) and the Fed minutes (May) will be released. This will be followed on Friday by US household income and spending (Apr.). Next week, the preliminary May inflation figures as well as the service PMIs (May) for the Eurozone and the labour market data (May), consumer confidence (May) and ISM indices (May) for the US will be released.

Government bonds recently again with better diversification effect



- Since the beginning of the year and until recently, a stronger correlation between equities and safe government bonds was observed. Periods with the same direction are shaded grey in the chart.
- With rising inflation expectations, market participants expected a more restrictive US central bank, which weighed on both asset classes.
- Recently, however, more and more economic risks have come into focus, so government bonds viewed as safe havens were in greater demand again.

Source: Bloomberg, ICE BofA, Time period: 31/12/2021 - 20/05/2022

PERFORMANCE

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (22/04/22 - 20/05/22)	YTD (31/12/21 - 20/05/22)	20/05/21 20/05/22	20/05/20 20/05/21	20/05/19 20/05/20	20/05/18 20/05/19	19/05/17 20/05/18
Brent	6.4	66.9	129.5	56.5	-48.0	-0.2	43.6
USDEUR	2.3	7.7	15.8	-10.2	1.7	5.4	-4.8
Euro overnight deposit	0.0	-0.2	-0.6	-0.5	-0.4	-0.4	-0.4
EUR Sovereign Debt	-0.3	-5.6	-5.6	0.6	1.4	2.1	0.3
EUR Coporates	-1.3	-8.7	-8.6	5.2	-1.3	3.2	0.9
MSCI Emerging Markets	-1.5	-8.7	-7.7	30.9	-2.1	-5.5	10.9
Gold	-2.4	8.7	13.9	-3.6	39.1	4.2	-2.0
MSCI World	-5.6	-10.7	6.1	28.2	2.9	6.8	8.3
Global Convertibles	-5.7	-12.6	-3.9	36.9	13.2	8.4	7.3
MSCI Frontier Markets	-6.5	-10.0	4.7	25.2	-9.9	-2.5	7.0
Industrial Metals	-9.6	16.0	38.0	41.8	-9.5	-10.3	16.6
REITs	-11.2	-10.9	12.8	18.4	-13.7	20.5	-8.2

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.

- Last month was fraught with losses for almost all assets. Only oil and the USD recorded gains. The former benefitted from the EU's plans for an oil embargo, the latter was in demand as a safe haven.
- Although government bonds suffered losses, they also benefitted from the "risk-off" sentiment relative to equities.
- Industrial metals were among the hardest hit due to the lockdowns in China.

Total return for selected asset classes, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 20/05/2017 – 20/05/2022

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (22/04/22 - 20/05/22)	YTD (31/12/21 - 20/05/22)	20/05/21 20/05/22	20/05/20 20/05/21	20/05/19 20/05/20	20/05/18 20/05/19	19/05/17 20/05/18
MSCI Japan	0.7	-8.3	0.0	16.2	2.3	-5.5	12.7
Stoxx Europe Defensives	-0.1	3.4	17.0	10.6	2.3	3.2	1.6
MSCI EM Asia	-0.7	-9.9	-10.0	30.9	5.1	-7.8	14.1
DAX	-1.1	-12.0	-9.0	36.9	-6.8	-7.9	3.5
MSCI UK	-1.9	3.3	14.4	23.6	-16.8	-2.1	6.0
Stoxx Europe 50	-3.5	-5.0	6.9	22.4	-4.9	1.8	0.7
Euro Stoxx 50	-3.5	-13.4	-6.3	39.0	-10.9	-2.9	2.1
Stoxx Europe Cyclicals	-5.1	-14.0	-4.6	47.3	-13.8	-7.7	6.8
MSCI USA Small Caps	-6.2	-11.6	-1.1	49.9	-9.1	3.6	13.0
Stoxx Europe Small 200	-6.5	-16.9	-9.2	41.4	-5.0	-5.2	8.6
S&P 500	-6.5	-11.1	10.2	27.8	8.6	12.7	10.3
MSCI EM Eastern Europe	-6.8	-80.6	-78.0	16.9	-6.0	13.0	7.1

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.

- Equities recorded losses across all segments in the last four weeks. The tendency was: the more cyclical, the more negative the return.
- The eurozone's relative outperformance compared to the US is remarkable, although the eurozone is being hit harder by Putin's war and the associated energy shortage. Since the beginning of the year, the S&P 500 is still ahead of the Euro Stoxx 50 in euro terms, but this is only due to the strength of the US dollar.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 20/05/2017 – 20/05/2022

Fixed Income

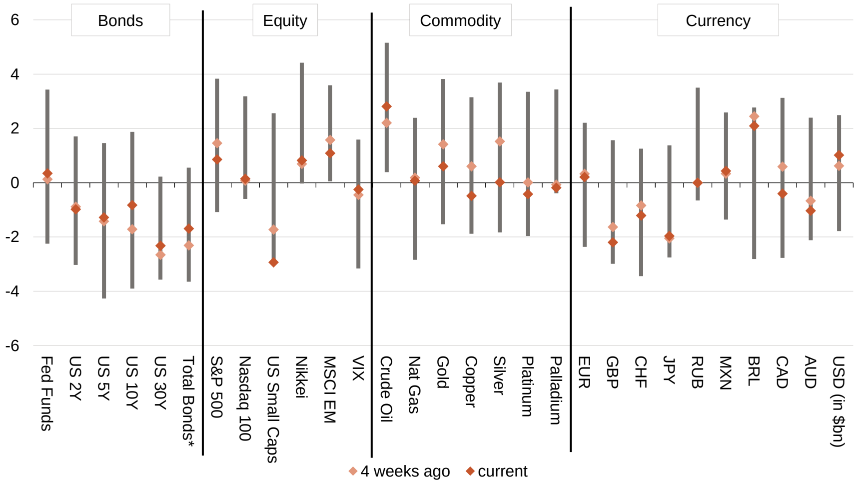
	4-week & YTD		12-month periods over that last 5 years				
	4W (22/04/22 - 20/05/22)	YTD (31/12/21 - 20/05/22)	20/05/21 20/05/22	20/05/20 20/05/21	20/05/19 20/05/20	20/05/18 20/05/19	19/05/17 20/05/18
Treasuries	2.5	-1.0	7.7	-13.7	14.9	11.8	-6.7
Chinese Gov Bond	0.5	1.5	5.3	0.6	8.0	5.5	4.4
EM Local Currency Bonds	0.0	-5.3	-4.1	-1.2	2.5	5.1	-3.3
Bunds	0.0	-8.1	-7.0	-3.0	3.0	5.1	-0.5
Gilts	-0.8	-10.9	-6.7	-4.2	11.6	4.9	-3.4
USD Corporates	-0.9	-12.9	-10.8	4.6	9.7	7.5	-0.7
EUR Non-Financials	-1.3	-9.2	-9.1	5.1	-1.2	3.4	0.8
EUR Financials	-1.3	-8.0	-7.9	5.4	-1.5	3.0	1.1
EM Hard Currency Bonds	-1.5	-10.5	-3.7	-0.4	1.5	13.8	-5.6
BTPs	-2.0	-9.9	-9.7	6.0	7.5	0.2	1.4
EUR High Yield	-3.2	-9.2	-8.0	15.6	-4.6	2.2	3.2
USD High Yield	-3.9	-10.8	-7.7	17.3	-2.6	6.0	2.8

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

- Within bonds, only Chinese and US government bonds achieved a positive return over the past four weeks.
- Here, too, the cyclical segments such as emerging markets and high-yield bonds suffered the highest losses.
- While US government bonds benefitted from falling interest rates, US high yield saw a significant widening of spreads due to increased concerns about recession. All in all, this resulted in a massive difference in performance.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 20/05/2017 – 20/05/2022

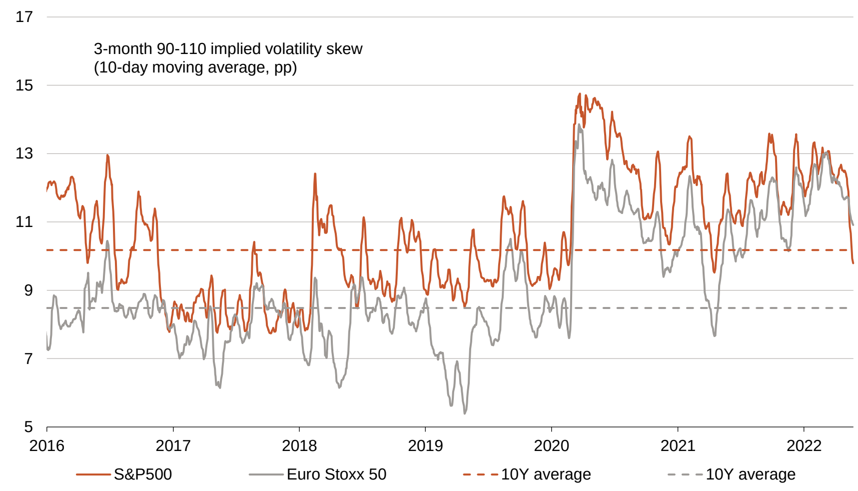
Non-Commercial Positioning



- Speculative investors have further reduced risks within equities. Only in the Nasdaq and in the Nikkei were the first longs built up again.
- Amongst currencies, shorts were increased, especially in the pound, after the BoE announced that it expects a recession this year and next.

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: 17/05/2012 - 17/05/2022

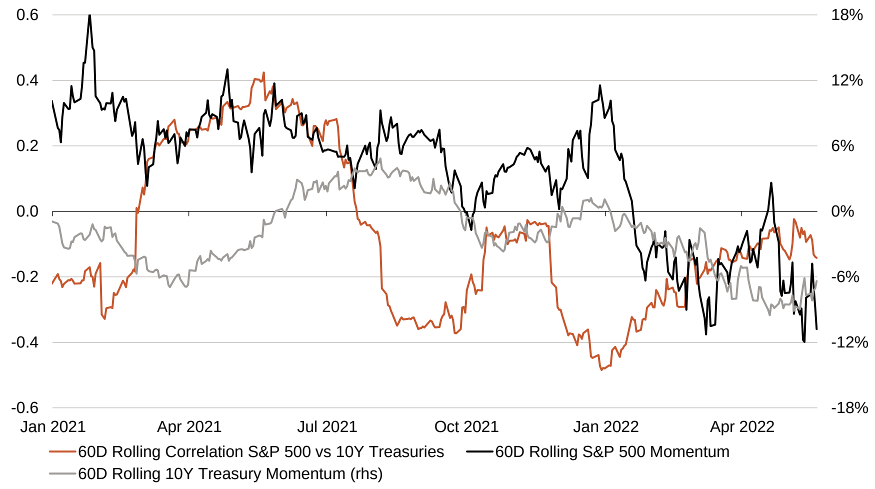
Put-Call-Skew



- The put-call skew has come down significantly in recent days, especially in the US. Investors increasingly asked for upside participation after the recent price losses.
- In addition, due to still high macroeconomic uncertainty, some investors may prefer calls to outright equities in order to limit their downside risks.

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: 20/05/2012 - 20/05/2022

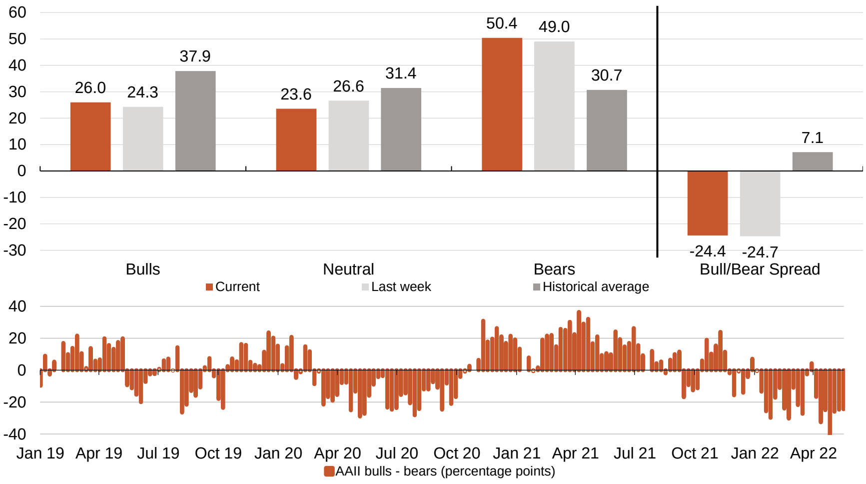
60-Day Momentum and Correlation



- Momentum in both equity and bond markets remain negative.
- The correlation over the last 60 days, however, remains close to 0%. Although equities and bonds do not move completely in the same direction, the diversification effects remain limited by historical standards.

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 - 20/05/2022

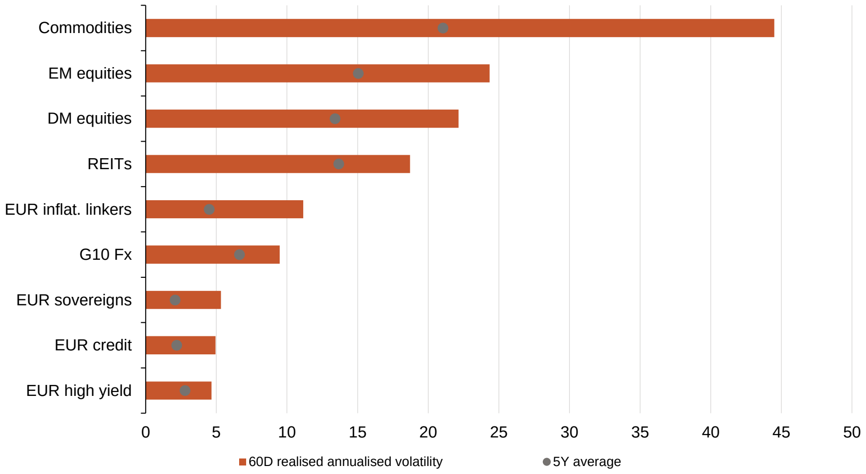
AAII Sentiment Survey (Bulls vs Bears)



- Sentiment among US retail investors remains very negative. Since the beginning of the year, the average bull-bear spread is around -20 ppts. Sentiment has never been this bad from January to May since the survey was launched in 1987.

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 – 20/05/2022

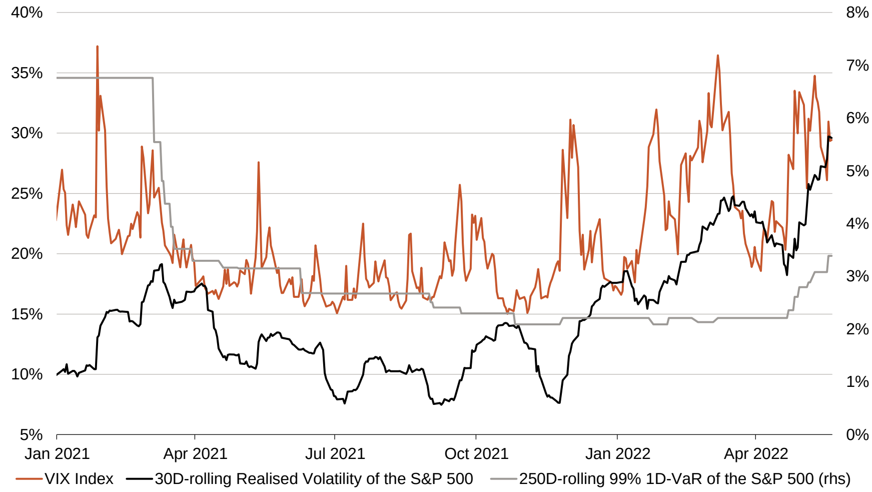
Realised Volatilities



- The realised volatilities of all asset classes presented here remain above average.
- Within commodities in particular, the swings continue to be extreme. On the one hand, the supply shortages of energy commodities are causing prices to rise sharply. On the other hand, industrial metals have recently suffered from the fears of recession in the West and the lockdowns in China.

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 - 20/05/2022

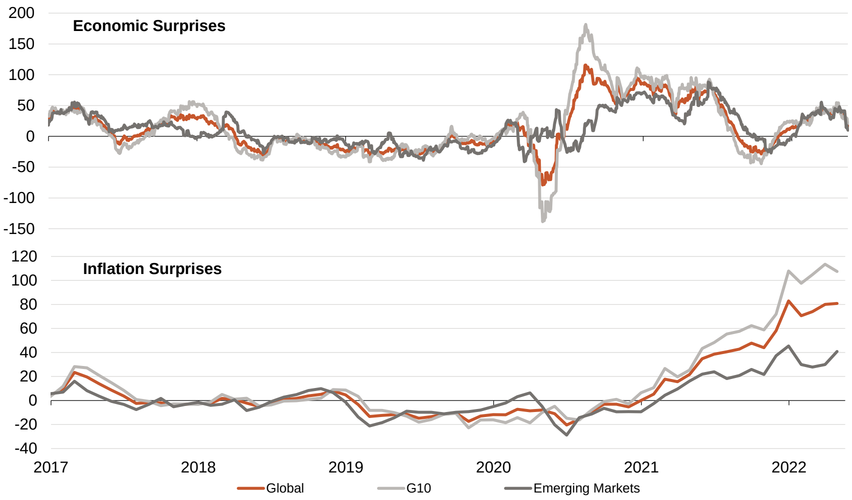
Volatility and Value-at-Risk of the S&P 500



- Although the VIX is very high at 30, there has not yet been a real VIX shock despite the sharp price swings.
- The VaR has risen further recently. The risk budget and consequently the potential equity exposure of some investors may have fallen further.

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 – 20/05/2022

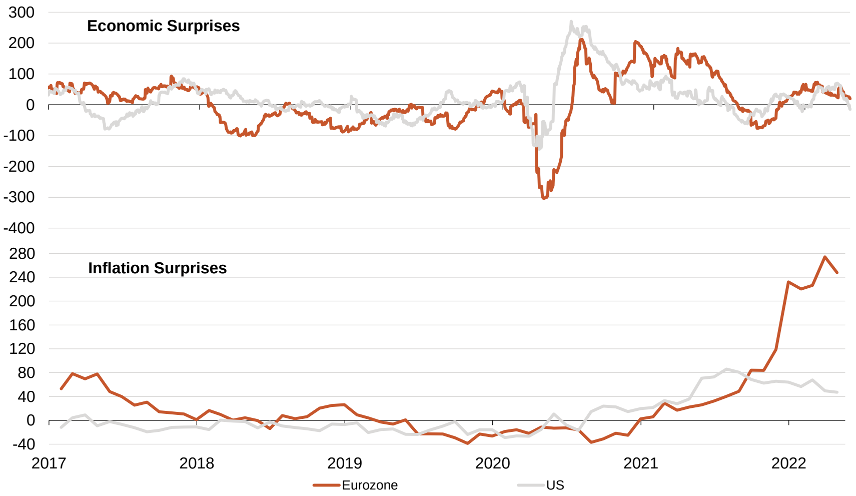
Global



- Global economic surprises still remain in positive territory, but have recently experienced stronger headwinds.
- Emerging markets in particular saw more negative economic surprises. In China, industrial production data and retail sales surprised negatively.
- The G10 inflation data have also recently surprised on the upside, albeit no longer as strongly. In emerging markets, on the other hand, inflationary pressure seems to be surging.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 20/05/2022

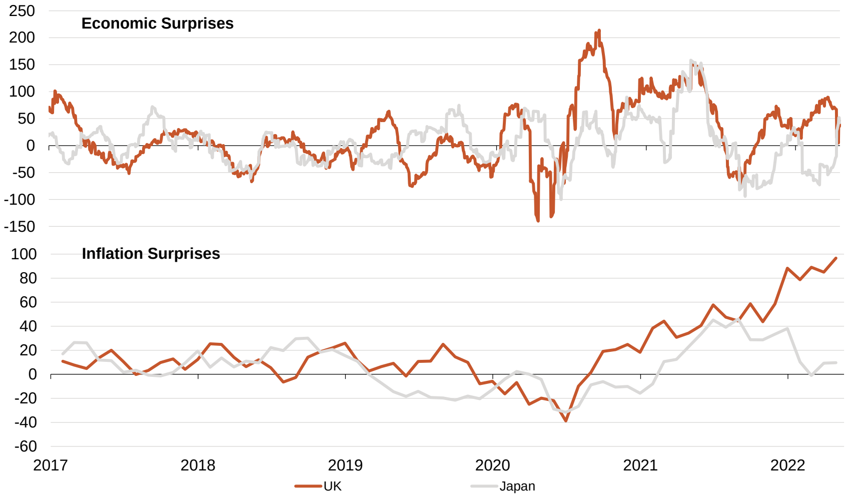
Eurozone and US



- The US economic surprise index turned negative despite positive surprises in industrial production data and retail sales. Consumer sentiment, business sentiment and housing market data disappointed.
- In the Eurozone, the German ZEW index, Eurozone Q1 economic growth and the consumer sentiment surprised on the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 20/05/2022

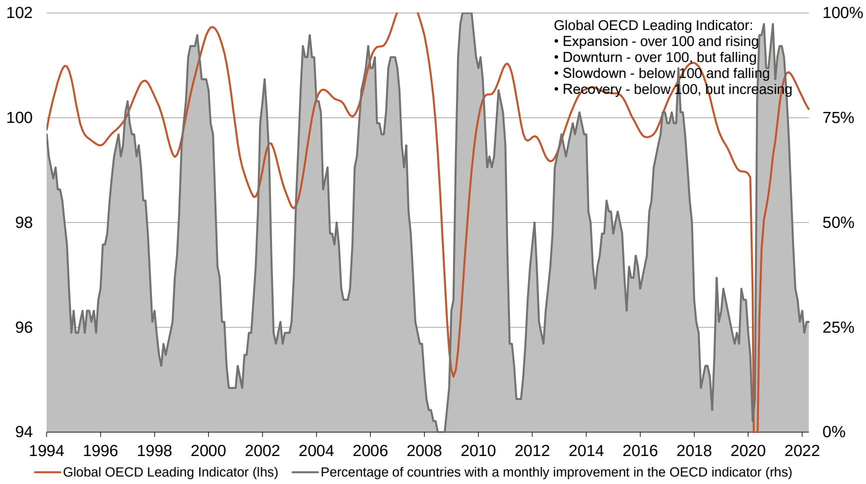
UK and Japan



- In the UK, the inflation surprise index reached a new local high after April CPI surprised to the upside at 9.1%. Industrial production disappointed, while retail sales surprised on the upside.
- In Japan, Q1 GDP growth was better than expected.

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 - 20/05/2022

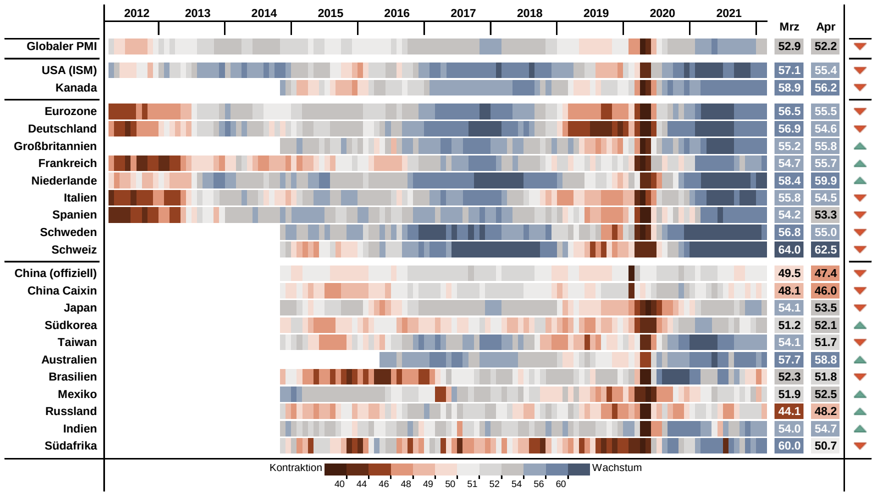
OECD Leading Indicator



- At 100.16, the OECD Global Leading Indicator for April is only marginally above the important 100 mark. Below 100 and falling indicates an economic slowdown.
- At a country level, only around 25% of countries saw a higher OECD indicator in April than in 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 - 30/04/2022

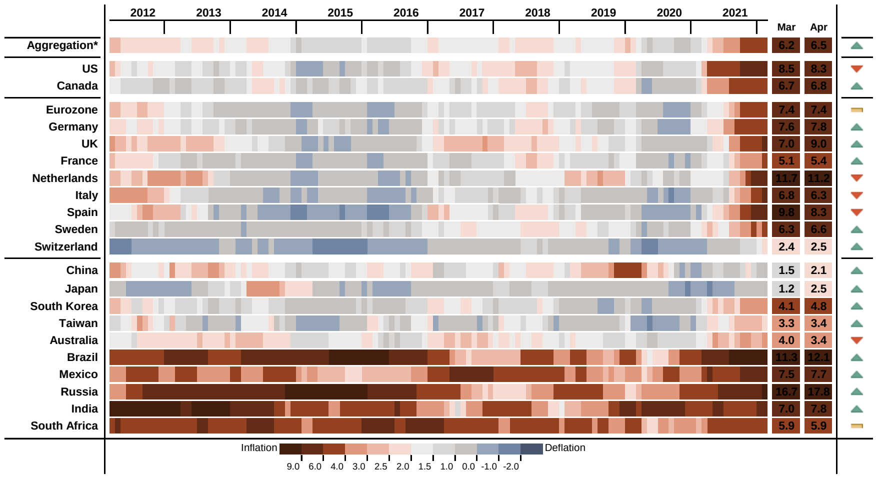
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- Preliminary purchasing managers' data for April fell globally, in the US and the Eurozone.
- PMIs also declined in China, Germany and Japan. By contrast, they rose in the UK, France, South Korea, Russia, Mexico 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 - 30/04/2022

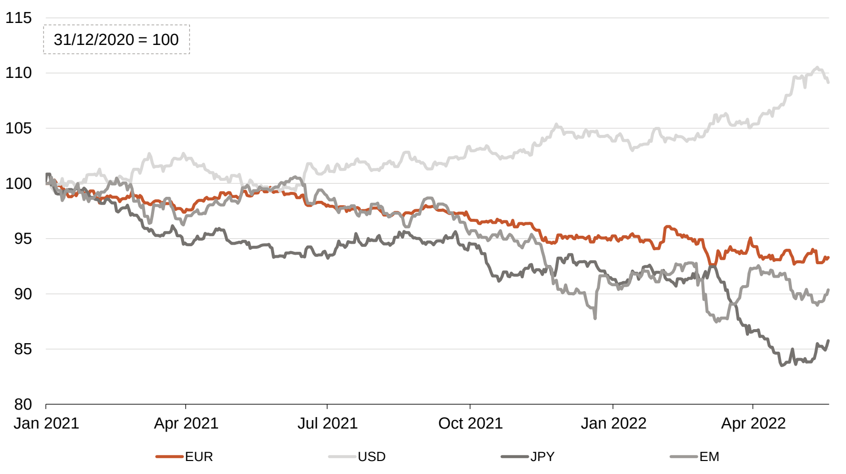
Headline Inflation



- US inflation fell in April, for the first time in almost a year, to 8.3%, after hitting a 41-year high of 8.5% in March. Inflation thus remains elevated, although the peak may be behind us.
- In China, on the other hand, inflation continues to rise amid a weak economy and has now reached 2.1% in April.

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 - 30/04/2022

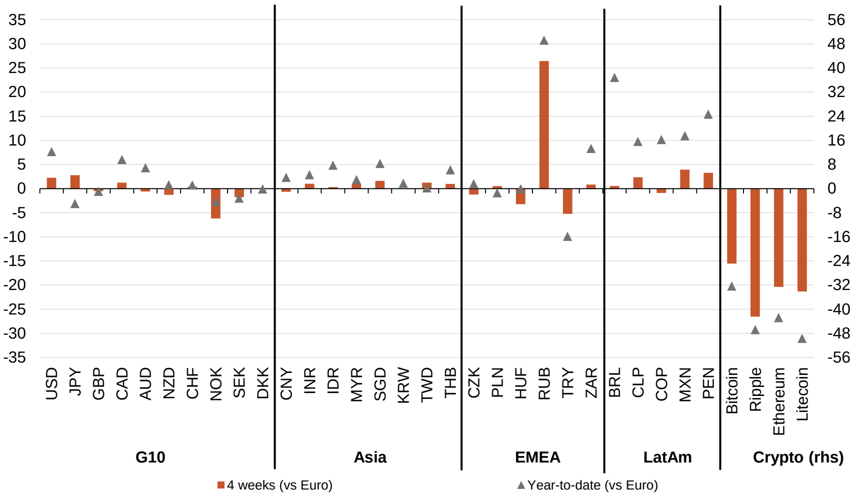
Trade-Weighted Currency Development



- The US dollar consolidated in the past weeks at a high level.
- After experiencing two disastrous months in March and April, the Japanese yen recently posted its first gains again, thanks to increasing recession concerns.
- Emerging market currencies and the euro, on the other hand, trended sideways.

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 - 20/05/2022

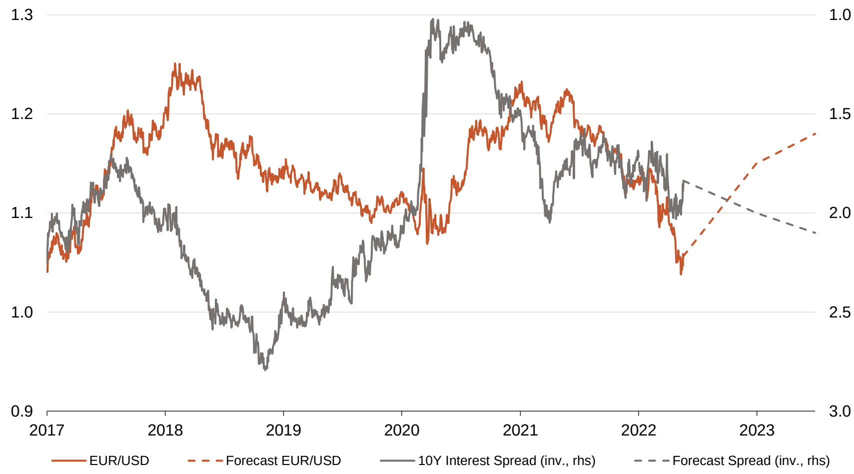
Currency Moves vs Euro



- In the last four weeks, safe havens such as the US dollar or the Japanese yen were ahead of the euro among the G10 currencies. More cyclical currencies such as the Norwegian krone suffered losses.
- With the collapse of so-called "stable coins", which, contrary to their promise, decoupled from the US dollar, other major crptocurrencies also suffered heavy losses.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2021 - 20/05/2022

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



- The EUR/USD exchange rate is currently trading above the 1.06 mark again, but in the past two weeks it fell to its lowest level since 2003.
- The interest rate differential narrowed again from over 2% to 1.84% and is thus unlikely to have been responsible for the dollar's strength. Rather, the flight to safety has driven investors into the dollar.

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 - 30/06/2023

European Sector & Style Performance

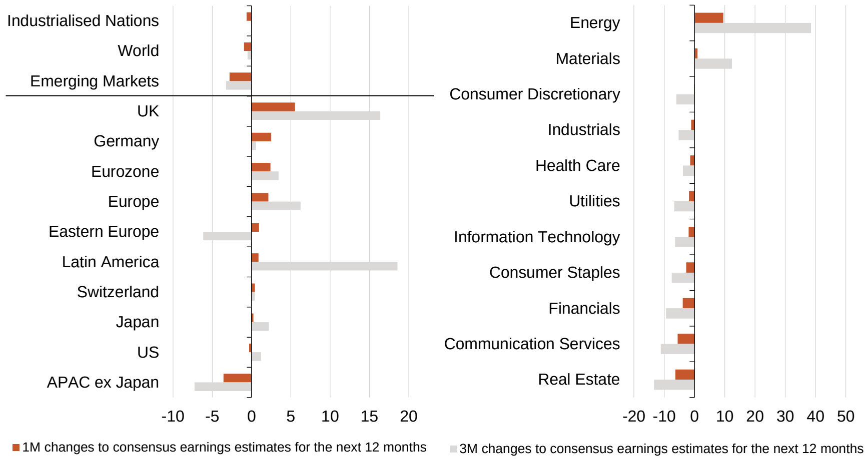
	4-week & YTD		12-month periods over that last 5 years				
	🟥 4W (22/04/22 - 20/05/22)	▨ YTD (31/12/21 - 20/05/22)	20/05/21 20/05/22	20/05/20 20/05/21	20/05/19 20/05/20	20/05/18 20/05/19	19/05/17 20/05/18
Energy	6.5	30.2	52.5	17.4	-37.7	-3.8	26.2
Communication Services	2.9	0.4	6.3	27.1	4.9	8.6	3.5
Value	-1.2	0.1	6.8	35.5	-20.3	-5.8	3.8
Telecommunications	-1.8	2.1	3.0	23.8	-18.4	-1.8	-11.3
Materials	-3.4	-4.1	3.5	49.8	-6.4	-7.5	18.9
Health Care	-3.8	-1.5	16.0	-0.6	25.9	8.1	-7.5
Finance	-4.6	-8.0	0.1	48.5	-26.3	-10.2	2.4
Consumer Staples	-5.4	-8.6	0.9	14.6	-3.4	12.8	-7.2
Industrials	-6.1	-18.1	-6.8	49.0	-9.2	-1.7	5.5
Consumer Discretionary	-7.2	-24.1	-19.0	57.9	-10.4	-8.5	8.2
Growth	-7.3	-18.5	-5.4	26.4	4.2	3.1	3.4
Information Technology	-7.4	-25.7	-10.3	36.3	8.7	2.9	13.3

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.

- Over the past four weeks, all sectors except energy and utilities have posted losses.
- The poor sentiment combined with market expectations of further monetary tightening caused defensives and value to outperform cyclicals and growth.

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: 19/05/2017 – 20/05/2022

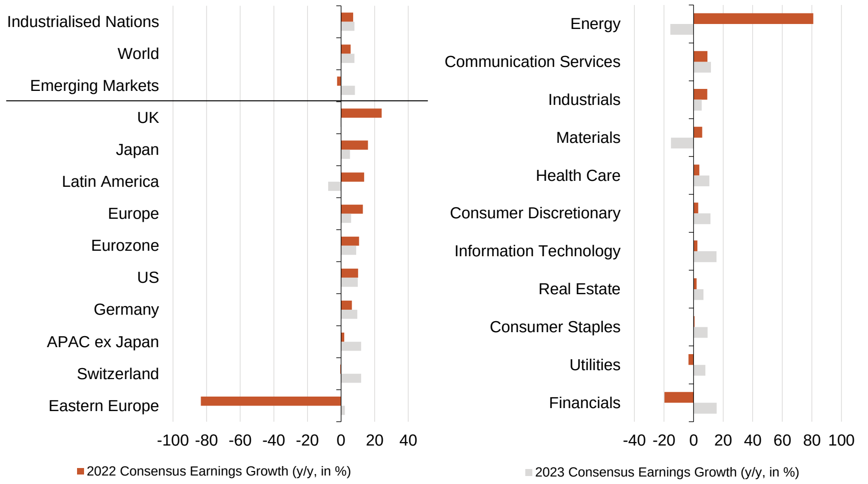
Changes in Consensus Earnings Estimates



- Consensus earnings estimates have also fallen over the past four weeks amid rising recession fears. As a result, both the 1M earnings revisions and the 3M earnings revisions for emerging and developed markets are now in negative territory. For the UK and Germany, the earnings revisions are still positive.
- At a sector level, only the energy, consumer cyclicals and basic materials sectors recorded positive 1M earnings revisions.

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 20/05/2022

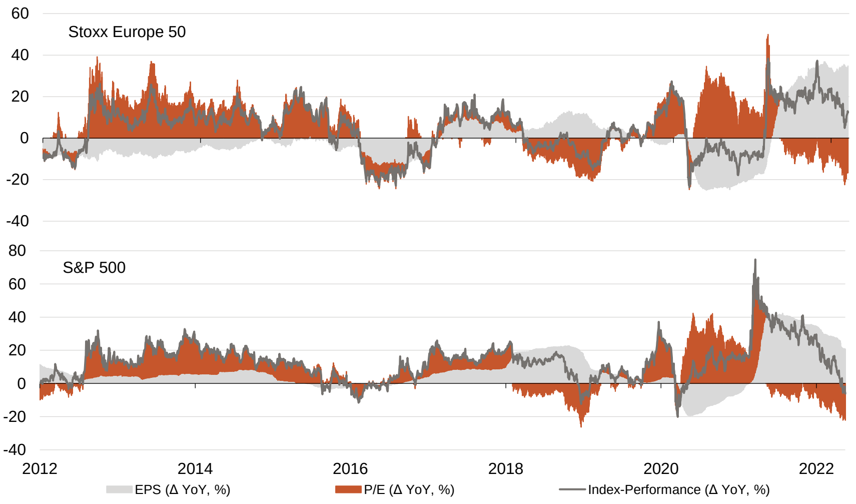
Earnings Growth



- Despite recent negative earnings revisions, analysts see positive earnings growth at the global level for 2022 and 2023. However, this also shows that with the backdrop of a possible recession, there is still significant potential for negative revisions.
- The energy sector is likely to see the biggest profit increase in 2022 of all sectors.

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 20/05/2022

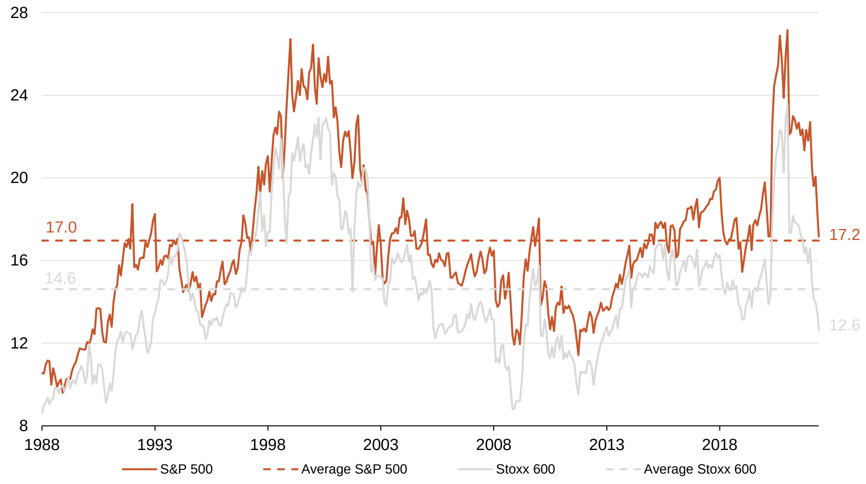
Contribution Analysis



- The S&P 500 has continued to be weighed down by falling year-on-year (YoY) valuations and lower earnings growth over the past two weeks. The YoY trend has now turned noticeably negative.
- The Stoxx Europe 50 also held up better thanks to more stable earnings development.

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 - 20/05/2022

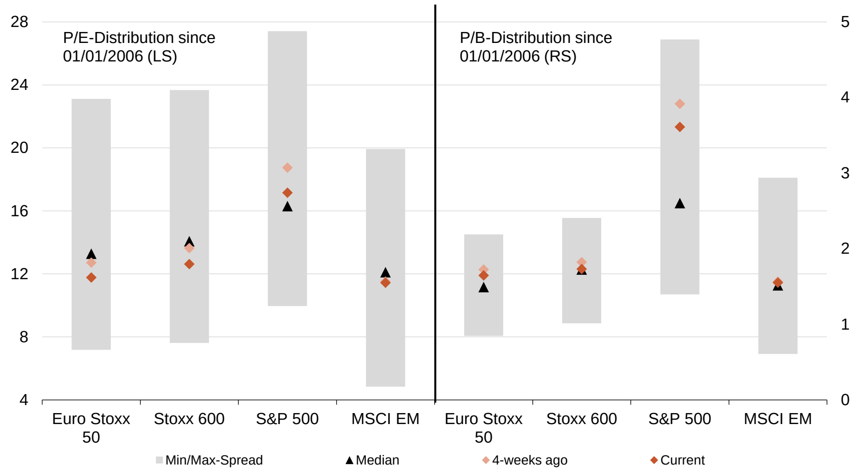
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- After the recent correction, the S&P 500 is now historically fair but not cheaply valued. If corporate earnings do not develop as well as analysts expect, share prices are likely to come under further pressure, as only falling prices could keep the current valuation level stable.
- The Stoxx 600 continues to be favourably valued. However, the historical valuation lows are still noticeably away.

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, Factset, Time period: 31/12/1987 - 20/05/2022

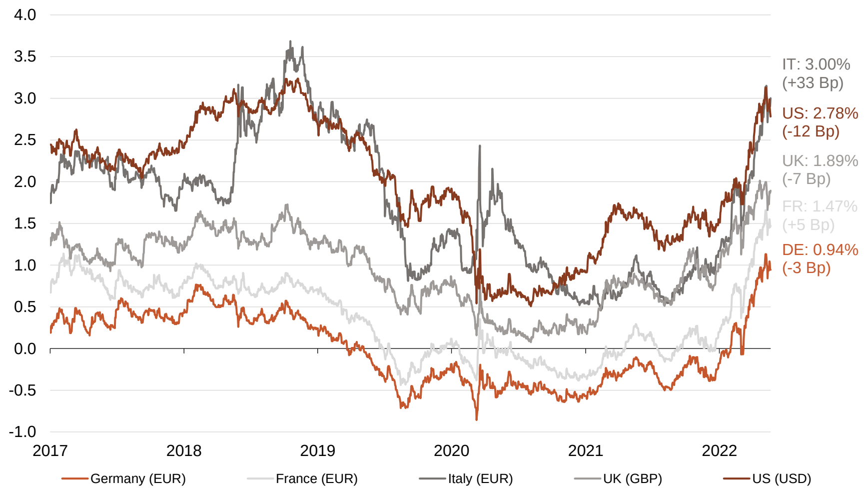
Historical Distribution: Price/Earnings and Price/Book Ratio



- With the increasing likelihood of a recession, the price-to-book ratio is playing an increasing role with investors, as book values are much less volatile than earnings. Looking at the P/B ratio, the S&P 500 remains expensively valued.
- The Stoxx 600 and MSCI EM, on the other hand, are historically fairly valued.

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 - 20/05/2022

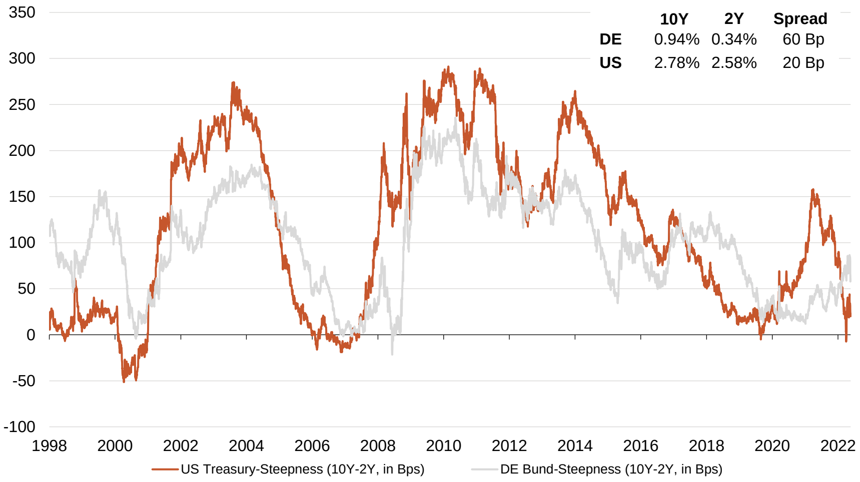
10-Year Government Bond Yields



- Despite continued elevated inflation figures, yields on safe heaven government bonds have fallen over the past two weeks. A possible global recession and thus less room for central banks to raise interest rates are increasingly being priced in.
- Compared to four weeks ago, yields are noticeably higher, especially in Italy, as the market increasingly discusses debt sustainability. The UK saw yields fall markedly after the BoE also warned of a recession.

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 - 20/05/2022

Yield Curve Steepness (10Y - 2Y)

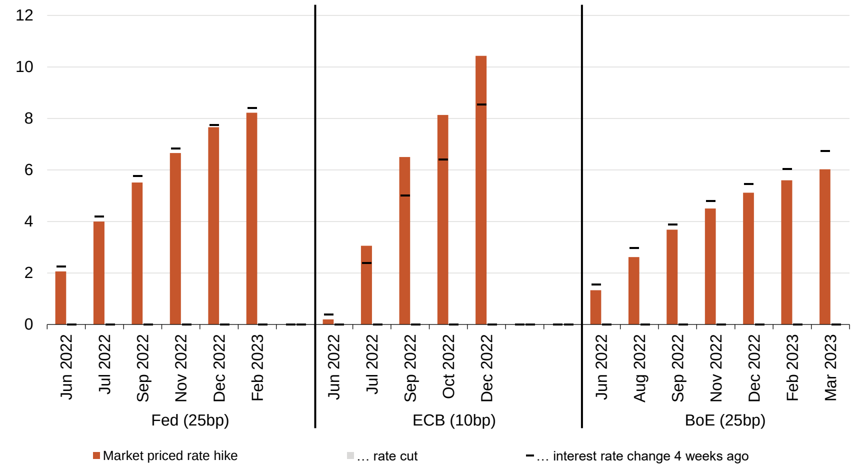


	10Y	2Y	Spread
DE	0.94%	0.34%	60 Bp
US	2.78%	2.58%	20 Bp

- With the increasing fears of recession, the steepness of the German and US yield curves has also fallen noticeably. The US yield curve, for example, is only 20 basis points (bps) away from an inversion.

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 - 20/05/2022

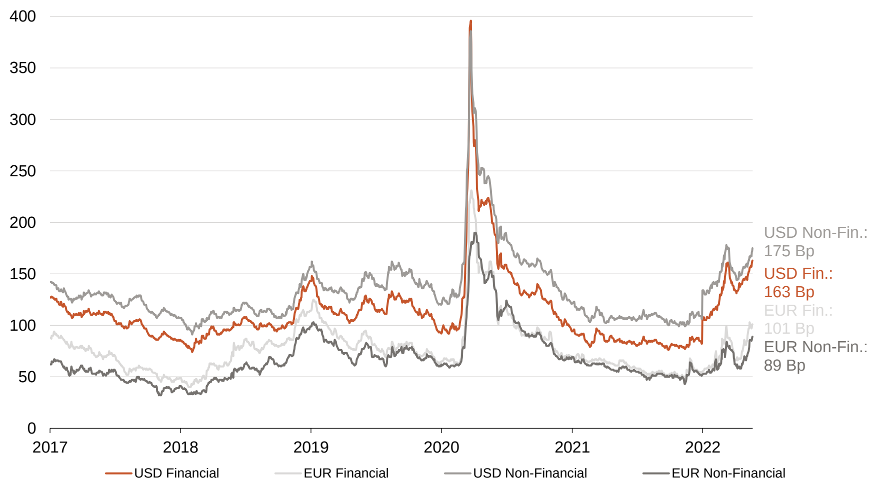
Implicit Changes in Key Interest Rates



- The number of priced rate hikes by the ECB has almost doubled in the last four weeks after inflationary pressures have not diminished significantly. The market is already pricing a 30bps hike in July and another 70bps until the end of the year.
- For the Fed and BoE, on the other hand, the market expects a similar interest rate path as four weeks ago.

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: 29/04/2022 - 20/05/2022

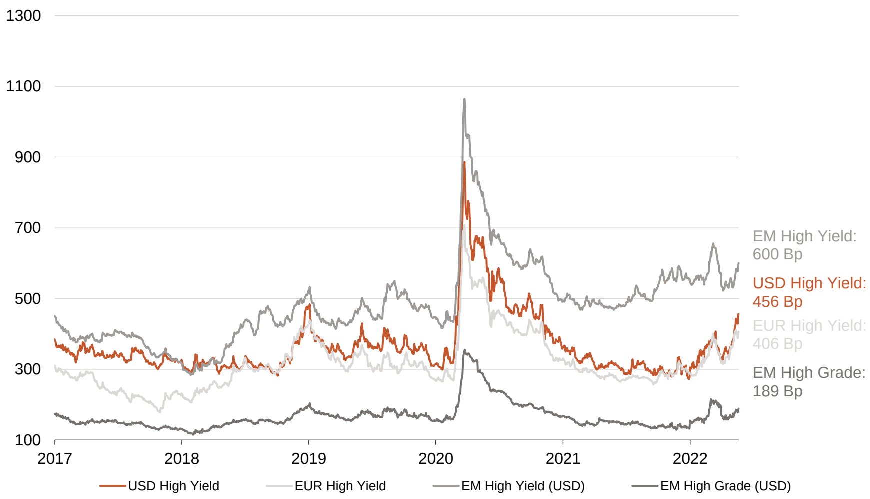
Credit Spreads Financial and Non-Financial Bonds



- In the last two weeks, corporate bonds have also suffered from the risk-off environment. The spreads on investment-grade corporate bonds have increased by more than 10 bps in some cases.
- Spreads on EUR Investment-Grade corporate bonds recently reached an annual high.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2017 – 20/05/2022

Credit Spreads High Yield and Emerging Markets Bonds



- The high-yield bond market is coming under increasing pressure. The spreads on USD high yield have risen by more than 60bps in the last two weeks, compared to around 30bps on EUR high yield. The spread between EUR and USD HY has thus widened significantly.
- EM high-yield bonds, which have been comparatively stable in recent weeks, also suffered noticeably from recession concerns.

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 – 20/05/2022

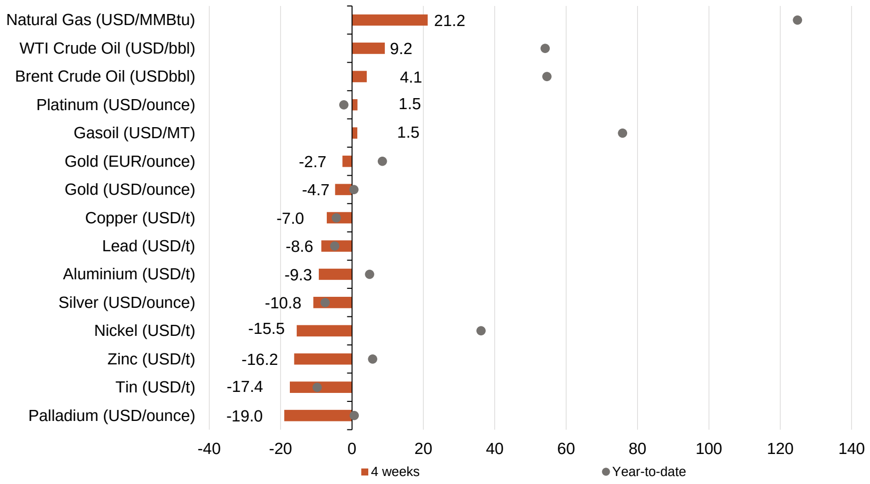
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	20/05/21 20/05/22	20/05/20 20/05/21	20/05/19 20/05/20	20/05/18 20/05/19	20/05/17 20/05/18
EUR Government	1.36	0.24	7.8	-	-	-	-1.7	-9.4	-8.7	0.2	4.3	3.8	1.0
Germany	0.68	0.13	7.8	-	-	-	-0.8	-8.1	-7.1	-3.0	3.0	5.1	-0.5
EUR Corporate	2.27	0.41	4.9	93	27	70	-2.0	-8.6	-8.4	5.1	-1.2	3.2	1.0
Financial	2.25	0.40	4.1	101	28	67	-1.6	-7.2	-6.9	4.7	-1.0	2.8	1.2
Non-Financial	2.28	0.42	5.4	89	28	75	-2.2	-9.4	-9.2	5.4	-1.3	3.4	0.8
EUR High Yield	5.73	0.85	3.6	406	66	76	-3.3	-9.2	-8.0	15.6	-4.6	2.2	3.2
US Treasury	2.76	-0.01	6.6	-	-	-	-0.1	-8.3	-6.9	-4.4	13.6	6.1	-1.9
USD Corporate	4.37	0.26	7.3	171	24	86	-1.9	-12.9	-10.8	4.6	9.7	7.5	-0.7
Financial	4.24	0.25	5.5	163	23	87	-1.2	-10.3	-9.2	5.1	8.4	7.2	-0.6
Non-Financial	4.43	0.27	8.2	175	25	86	-2.2	-14.0	-11.5	4.3	10.1	7.6	-0.8
USD High Yield	7.80	1.18	4.6	456	116	73	-4.6	-10.8	-7.7	17.3	-2.6	6.0	2.8
EM High Grade	4.55	0.30	5.6	189	25	55	-1.6	-12.3	-10.9	5.7	4.4	7.4	-0.4
EM High Yield	9.94	0.73	4.2	600	65	67	-4.2	-14.9	-19.3	17.4	-0.3	6.8	1.1

- The difference between the development of government bonds and corporate bonds has significantly widened again. Both suffered from slightly rising yields. However, corporate bonds also felt significantly rising spreads, which are now above the 70th percentile in almost all segments.

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 : 20/05/2017 – 20/05/2022

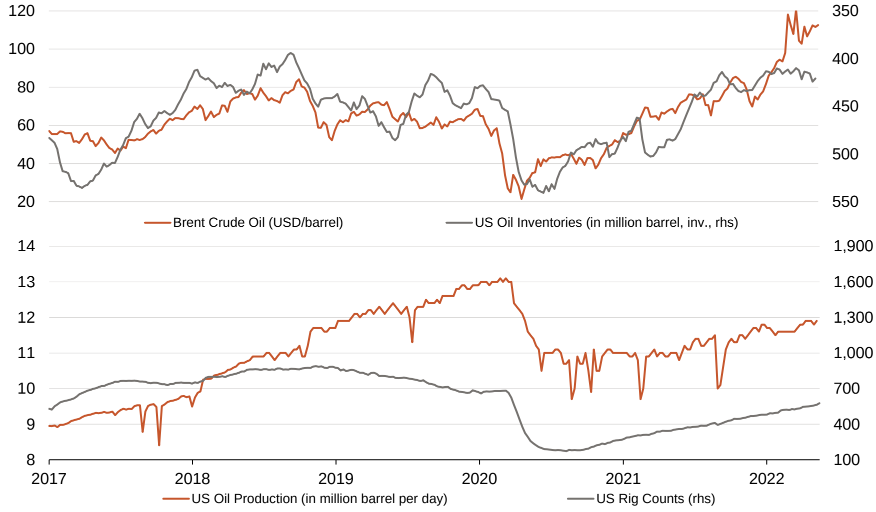
Commodities Performance



- While all commodities recorded a positive return since the beginning of the year a month ago, there are now a red numbers in in this asset class as well.
- Industrial metals and cyclical precious metals (e.g. silver) have been particularly hard hit. Above all, the lockdowns in China, which have led to a direct collapse in demand, are putting pressure on prices.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period:31/12/2021 - 20/05/2022

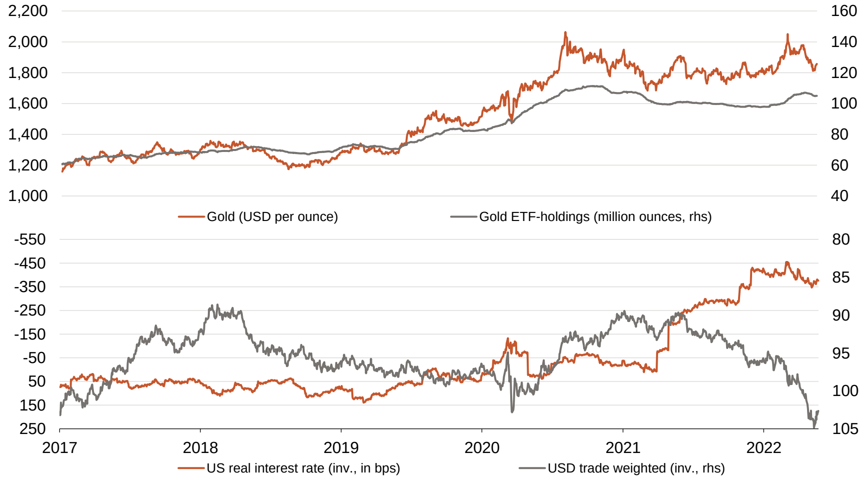
Crude Oil



- Crude oil has fluctuated between USD 100 and 116 per barrel in the last two weeks.
- There have been times whereby supply concerns due to a possible EU oil embargo dominate, other times concerns about a global recession dominate.
- Even beyond an embargo, supply is likely to remain tight and prices thus elevated because many of the remaining OPEC+ members have difficulties achieving their quotas.

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 - 20/05/2022

Gold



- Gold has fluctuated below the USD 1,850 per ounce mark in the last two weeks. Although the current environment, marked by a number of macroeconomic risks, should be positive for gold, the strength of the dollar and the higher interest rates on safe government bonds are currently weighing on gold.

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 - 20/05/2022

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