BERENBERG *Markets*

MONITOR

20 June 2022

Current market commentary

The recovery rally at the beginning of June was short lived. There were several reasons for this. Firstly, May inflation figures in the US surprised significantly to the upside, showing that we are still away from an inflation peak. In addition, the major central banks emphasised during their June meetings that the focus is on fighting inflation and thus a tighter monetary policy is needed for a longer period of time in order to contain inflation via the demand side. A significant economic slowdown is thus becoming increasingly likely. Since at the same time more and more liquidity is being withdrawn from capital markets, almost all asset classes have fallen recently. The effect has even been exacerbated by the sharp rise in volatility, which is forcing many investors to reduce their investment positions as a result of risk management. As central banks remain restrictive for the time being and volatility is not expected to fall so quickly, we do not expect a fast V-shaped recovery, as was often the case in past crises.

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

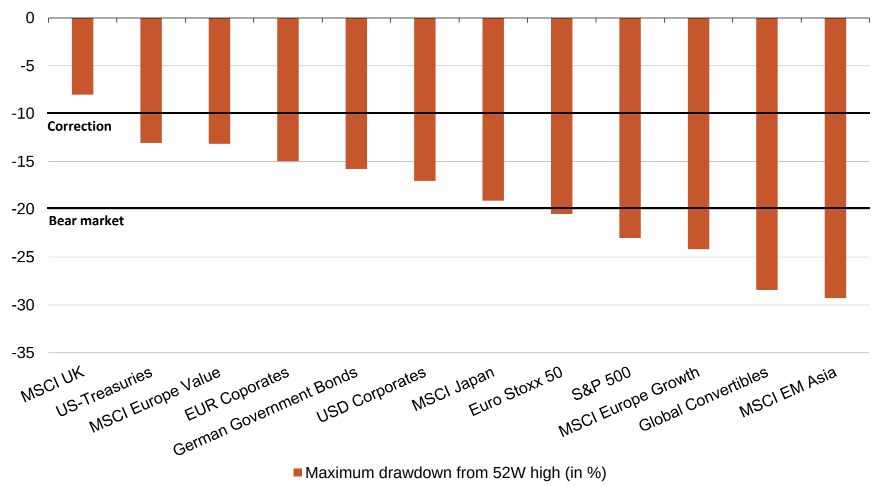
Geopolitics takes the stage from monetary policy

After several central bank meetings in recent days, the next few weeks will be a little quieter in terms of monetary policy. Instead, geopolitical discussions will be more in focus again. On Thursday, EU leaders will meet to negotiate Ukraine's accession and on Sunday, the G7 summit will begin in Elmau (Bavaria).

Purchasing managers' indices and inflation data provide information on the state of the economy

Existing home sales (May) are released on Tuesday and new home sales (May) in the US on Friday. This will be followed on Thursday by the Insee Business Climate Index (Jun.) for France, the preliminary PMIs for industry and services (Jun.) for the Eurozone, the UK and the US as well as initial jobless claims in the US. On Friday, the Ifo Business Climate Index (Jun.) and next Wednesday the preliminary inflation data (Jun.) for Germany will be published. This will be followed in the next few days by inflation data (June) for France, Italy and the Eurozone.

Bear markets take hold - bonds also with massive losses



- Since the beginning of the year, things have only gone downhill. First inflation and interest rate worries and now recession fears. Equities have recently even entered a bear market. However, it was not only shares that suffered in this environment. Bonds and convertible bonds fell similarly.
- The good news is that some of the bad news is now priced in. The downward path could continue if the news remains bad, but the drop should now be more limited

Explanation see page 2 and 8
Source: Bloomberg, Period: 18/06/2021 - 17/06/2022

Multi Asset

	4-week & YTD: 4W (20/05/22 - 17/06/22)	4-week & YTD: YTD (31/12/21 - 17/06/22)	12-month periods over that last 5 years: 17/06/21 17/06/22	17/06/20 17/06/21	17/06/19 17/06/20	17/06/18 17/06/19	16/06/17 17/06/18
Brent	3.8	73.2	107.7	64.2	-33.1	-10.8	54.4
USDEUR	0.6	8.4	13.4	-5.6	-0.2	3.5	-3.5
Gold	0.2	8.9	17.6	-3.0	28.6	8.4	-1.6
Euro overnight deposit	0.0	-0.3	-0.6	-0.5	-0.4	-0.4	-0.4
MSCI Emerging Markets	-1.9	-10.4	-14.2	32.0	0.8	-3.7	9.5
EUR Sovereign Debt	-3.3	-8.6	-9.2	0.6	1.1	3.0	-0.1
MSCI Frontier Markets	-3.7	-13.3	-4.2	28.8	-10.1	2.6	2.6
Global Convertibles	-4.5	-16.5	-13.8	37.2	19.1	3.8	10.9
EUR Coporates	-4.9	-13.2	-13.7	3.2	0.7	3.7	0.6
MSCI World	-5.6	-15.6	-4.3	29.5	5.8	5.3	9.0
REITs	-7.4	-17.4	-3.2	16.6	-9.0	19.7	-6.6
Industrial Metals	-8.1	6.6	28.1	38.8	-5.5	-15.1	22.6

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.

- Brent has remained the strongest asset class over the last four weeks and since the beginning of the year. The US dollar, which benefited from the more restrictive US interest rate policy, also gained slightly. Gold – in the midst between recession concerns and interest rate policy – was able to post slight gains.
- Interest rate sensitive REITs were among the worst performers over the last four weeks with a loss of more than 8.5%.

Total return for selected asset classes, in euros and in per-cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 16/06/2017 – 17/06/2022

Equities

	4-week & YTD: 4W (20/05/22 - 17/06/22)	4-week & YTD: YTD (31/12/21 - 17/06/22)	12-month periods over that last 5 years: 17/06/21 17/06/22	17/06/20 17/06/21	17/06/19 17/06/20	17/06/18 17/06/19	16/06/17 17/06/18
MSCI EM Asia	-0.6	-10.4	-15.1	32.8	9.0	-8.9	13.5
S&P 500	-4.9	-15.5	0.4	30.1	9.8	9.7	12.3
Stoxx Europe 50	-5.6	-10.3	-3.5	20.9	-0.2	4.7	-0.1
MSCI USA Small Caps	-5.7	-16.7	-11.3	49.6	-4.4	-1.0	15.7
Euro Stoxx 50	-5.8	-18.4	-15.2	30.1	-1.7	-0.8	1.5
MSCI UK	-6.0	-2.9	4.7	23.0	-13.2	-1.4	5.8
DAX	-6.1	-17.4	-16.5	27.0	2.5	-7.1	2.0
MSCI Japan	-6.8	-14.5	-11.2	16.5	7.5	-5.9	9.7
Stoxx Europe Cyclicals	-6.9	-19.9	-14.1	38.1	-4.3	-6.5	5.1
MSCI EM Eastern Europe	-7.2	-82.0	-81.3	26.5	-11.5	25.2	9.7
Stoxx Europe Defensives	-7.4	-4.2	3.0	12.0	4.6	5.7	1.1
Stoxx Europe Small 200	-8.1	-23.6	-19.5	37.6	0.7	-4.8	8.7

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.

- Global equity markets remained heavily burdened over the last four weeks. All regions shown here posted losses.
- In addition to cyclicals, the more highly valued defensive stocks were also hit recently.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 16/06/2017 – 17/06/2022

Fixed Income

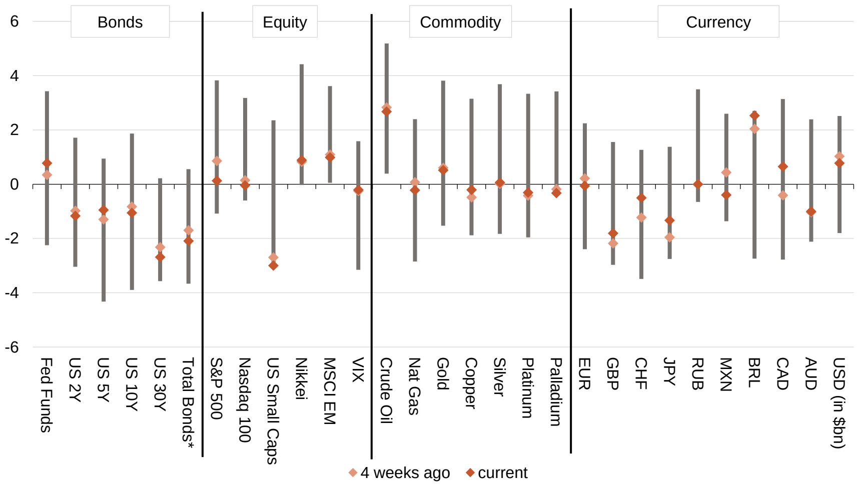
	4-week & YTD: 4W (20/05/22 - 17/06/22)	4-week & YTD: YTD (31/12/21 - 17/06/22)	12-month periods over that last 5 years: 17/06/21 17/06/22	17/06/20 17/06/21	17/06/19 17/06/20	17/06/18 17/06/19	16/06/17 17/06/18
Chinese Gov Bond	0.2	1.7	5.7	1.8	5.9	5.9	3.7
Treasuries	-1.5	-2.5	2.9	-8.7	10.4	10.9	-5.2
EM Local Currency Bonds	-1.9	-7.1	-8.1	-0.2	1.0	9.2	-6.3
EM Hard Currency Bonds	-1.9	-12.2	-8.8	1.4	1.8	14.4	-5.7
USD Corporates	-2.1	-14.7	-14.3	3.5	10.6	8.8	-1.0
USD High Yield	-2.4	-12.9	-11.0	12.6	2.0	5.8	3.1
BTPs	-3.5	-13.0	-14.2	5.5	7.2	5.1	-1.8
EUR High Yield	-4.0	-12.9	-12.6	10.7	0.2	3.0	1.9
EUR Financials	-4.6	-12.3	-12.8	3.4	0.6	3.5	0.7
EUR Non-Financials	-5.1	-13.8	-14.3	3.1	0.8	3.8	0.6
Bunds	-5.6	-13.2	-13.0	-1.6	1.2	5.3	0.0
Gilts	-7.5	-17.6	-15.3	-3.3	12.2	3.4	0.0

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 also posted losses over the last month, with the exception of China.
- European segments have been hit particularly hard. EM government bonds have held up surprisingly well so far in the face of recession concerns.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 16/06/2017 – 17/06/2022

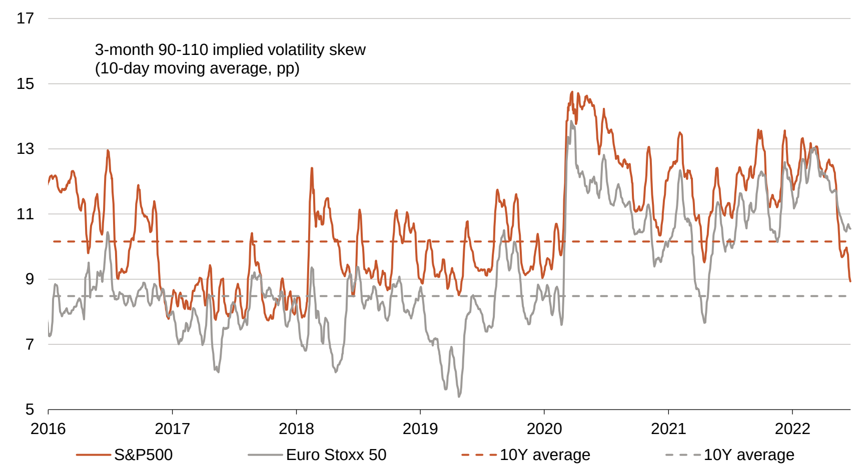
Non-Commercial Positioning



- Speculative investors remain very cautiously positioned, with only a few exceptions. In addition to US small caps, they are now also short US technology stocks.
- They are only optimistic about oil and 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: 14/06/2012 - 14/06/2022

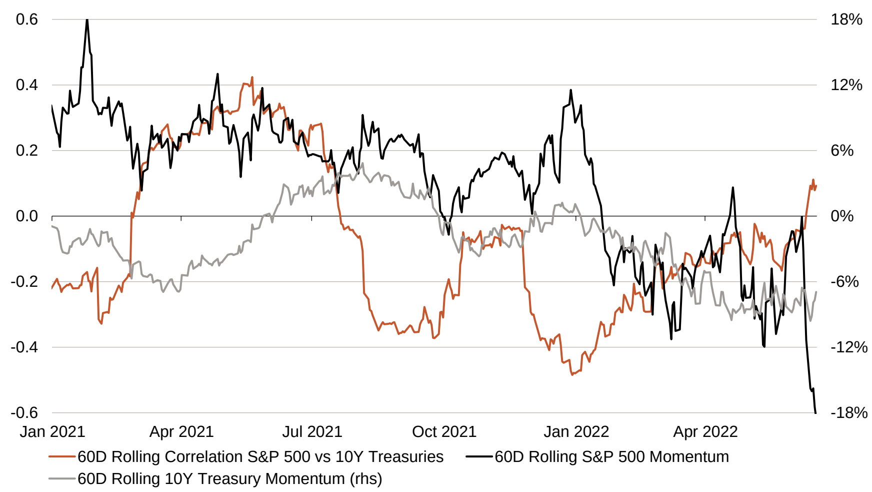
Put-Call-Skew



- The put-call skew has fallen further in recent days.
- In the US, it is now slightly below the average. After the strong price decline, investors seem to be less inclined to hedge further.
- In Europe, investors are far less optimistic. Here, the skew is still well above the long-term average.

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: 17/06/2012 - 17/06/2022

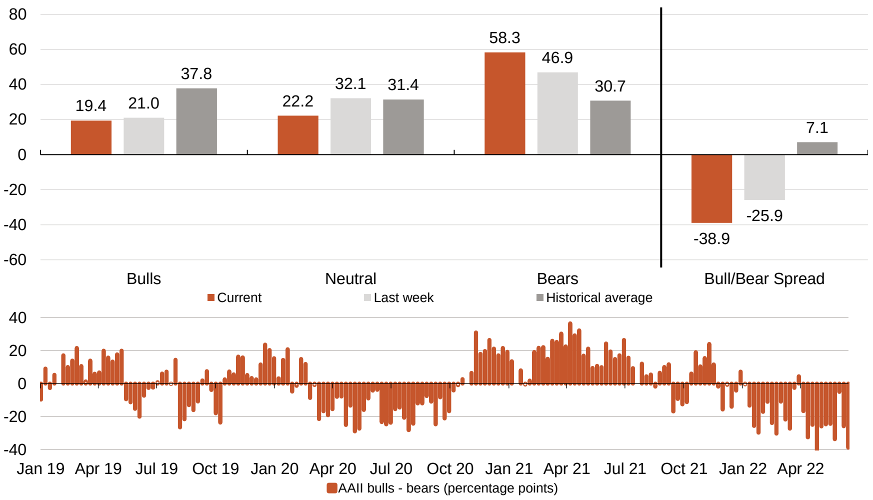
60-Day Momentum and Correlation



- The momentum of the S&P 500 has recently deteriorated significantly again. Trend-following strategies are thus likely to have low equity quotas. The same should also apply to risk-based strategies, because in addition to the high volatility in equities, the correlation to bonds is now also positive.

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 - 17/06/2022

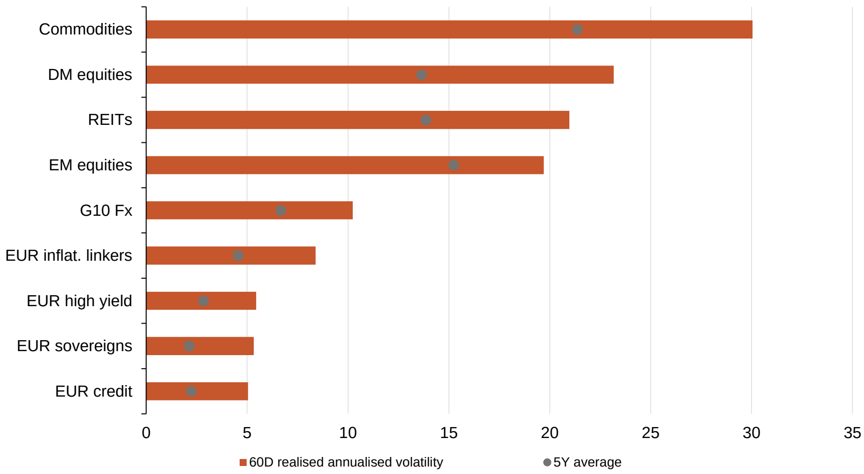
AAII Sentiment Survey (Bulls vs Bears)



- Pessimism has now turned into extreme pessimism among US private investors. There has only been one week this year when sentiment has been worse.
- Currently, there are three times as many bears as bulls.

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 – 16/06/2022

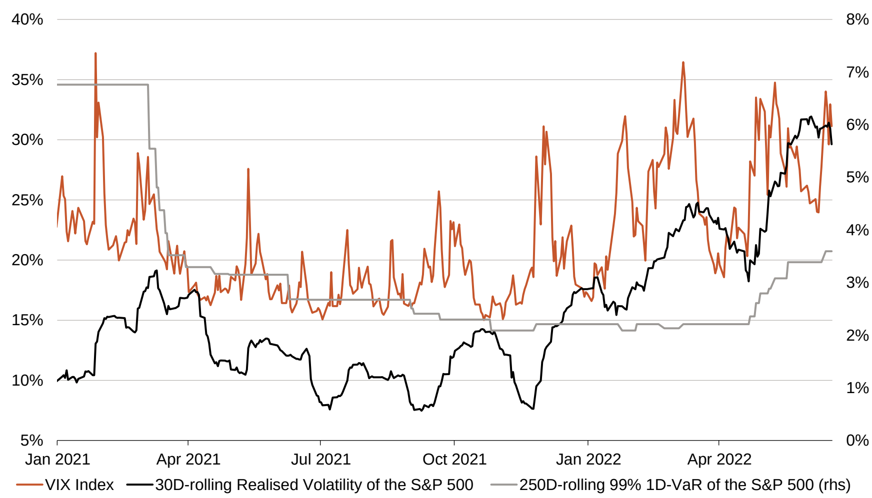
Realised Volatilities



- Currently, equity volatility is higher in developed markets than in emerging markets. This is historically atypical.
- Corporate bonds are also less volatile than government bonds. In the case of high-yield bonds, on the other hand, the spreads have already reacted more strongly, so that high-yield exhibits a slightly higher volatility.

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: 17/06/2017 - 17/06/2022

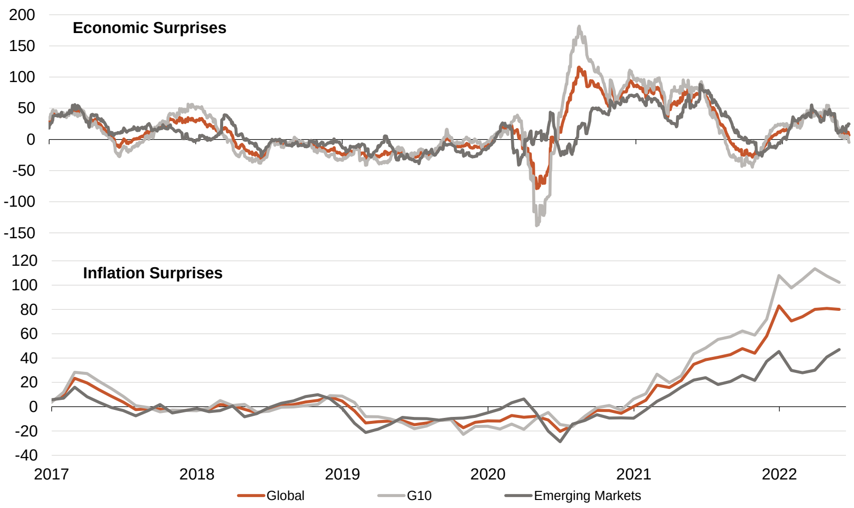
Volatility and Value-at-Risk of the S&P 500



- After trading well below realised volatility until recently, the VIX is now slightly above it again at around 32. Investors therefore expect similarly strong moves for the coming month as in the last 30 days.

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 – 17/06/2022

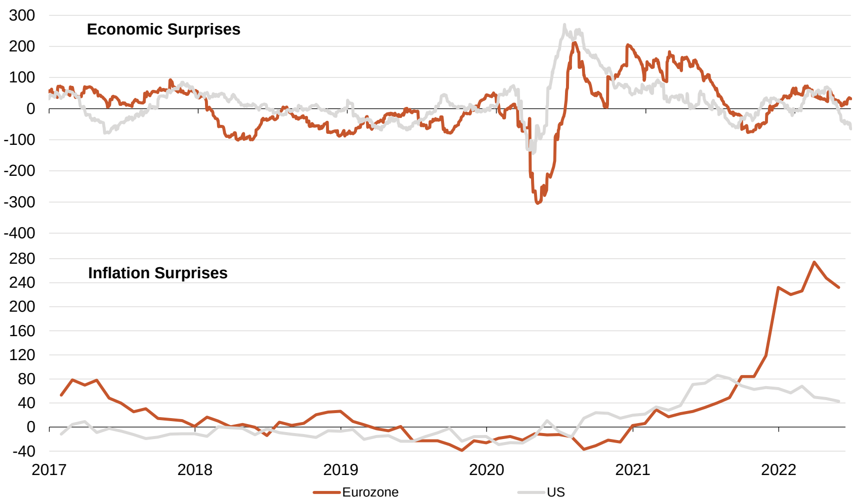
Global



- While economic data in the industrialised countries tend to miss expectations, they have recently increasingly beaten expectations in the emerging markets.
- Inflation surprises developed differently from region to region. In the industrialised countries, inflation data were overestimated and surprised to the downside, but in the emerging markets they exceeded expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 17/06/2022

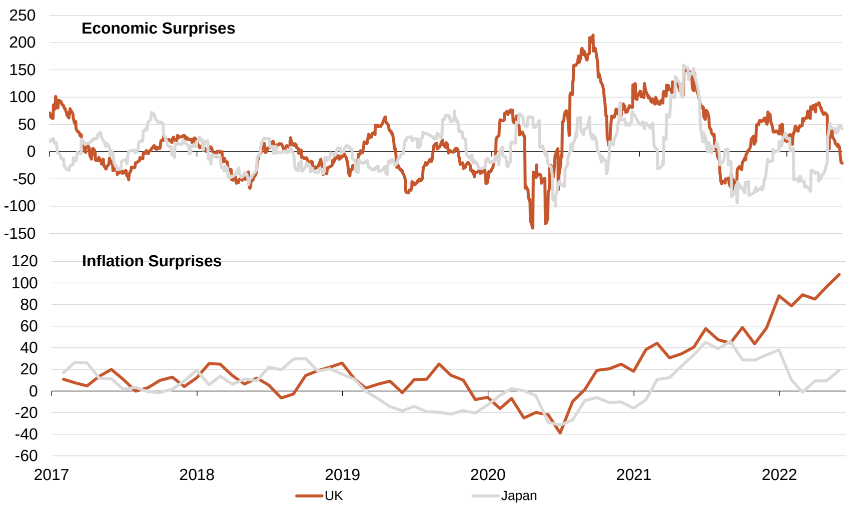
Eurozone and US



- The economic surprise data for the US continued to be clearly negative and reached the lowest level since mid-September 2021. In the US, inflation and unemployment data were above expectations and retail sales and purchasing managers' data disappointed.
- In the eurozone, on the other hand, the picture looks much more positive. Here, positive economic surprises have increased significantly since the end of May.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 17/06/2022

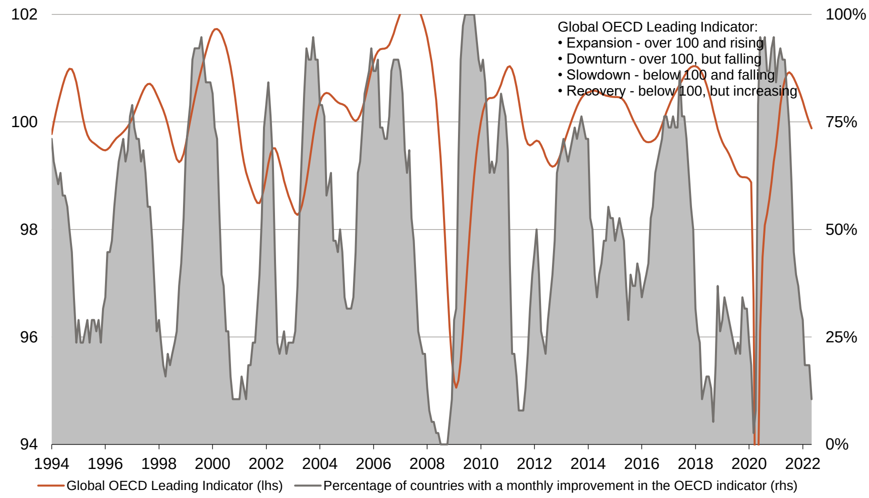
UK and Japan



- British and Japanese economic surprises continued to move in opposite directions. The UK tipped into the negative territory for the first time since October last year. In Japan, on the other hand, positive economic surprises were able to catch up again.

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 - 17/06/2022

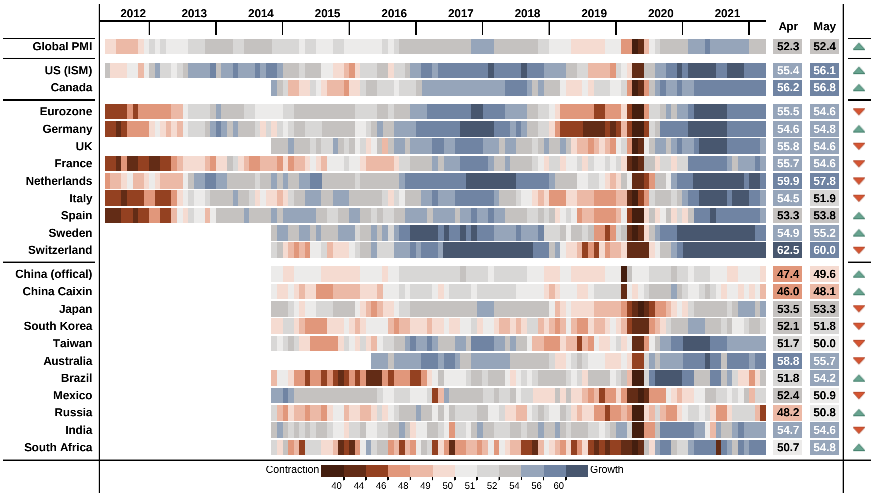
OECD Leading Indicator



- The OECD Leading Indicator fell below the key 100 mark for the first time since November 2018. This movement is significant as a reading below 100 with a falling trend signifies an economic downturn. At country level, the picture is also as bleak as it last was during the Covid-19 crisis in March 2020 - only 11% of countries were able to show an improvement from 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 - 31/05/2022

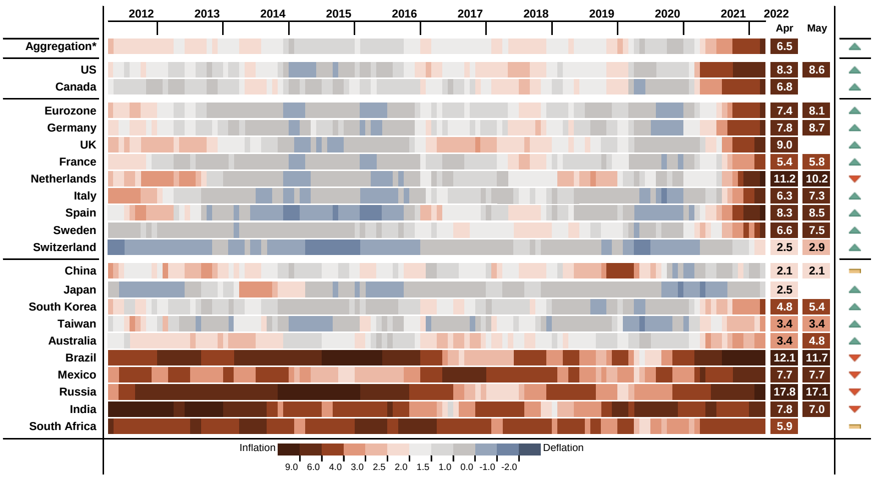
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The preliminary PMIs for May do not give a clear picture. While they have risen globally and in the US, Germany, China, Brazil, Russia and South Africa, they have fallen in the Eurozone, the UK, France, Italy, Japan and India.

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 points 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 - 31/05/2022

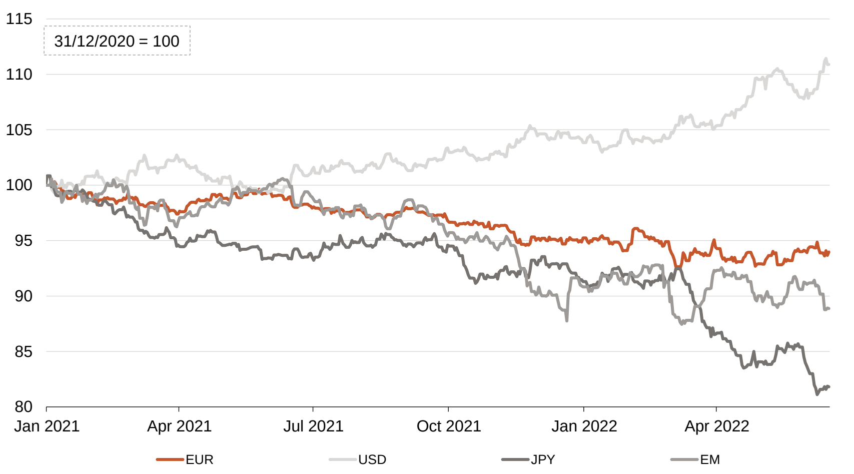
Headline Inflation



- Inflation rose significantly in aggregate in May. Only the Netherlands was able to recover a little from the very high inflation level while inflation also cooled off a little in Brazil, Mexico, Russia and India. In the Eurozone and Germany the inflation rate for May is now 8.1% and 8.7% respectively.

Inflation (in %, compared to the previous year) is measured using a consumer price index, also called a basket of goods. This basket contains all goods and services that a household purchases on average per year. * = Weighting according to gross domestic product.
Source: Bloomberg, Time period: 31/12/2011 - 31/05/2022

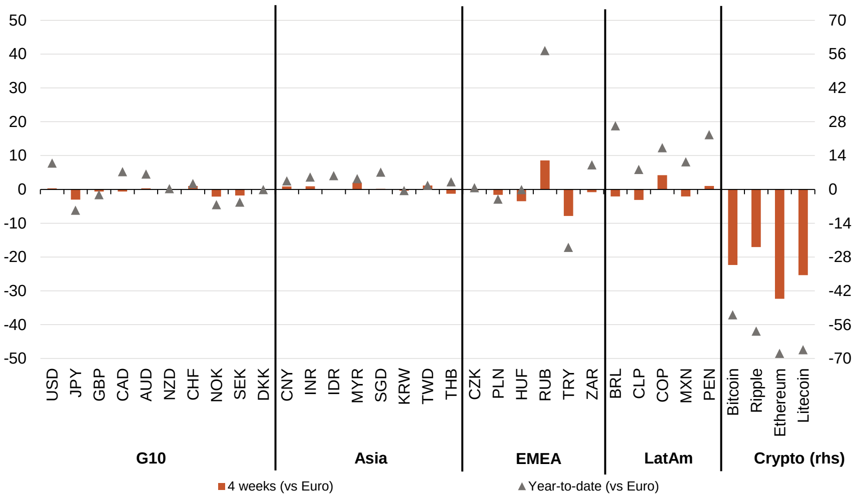
Trade-Weighted Currency Development



- With the (fulfilled) expectations of an even more restrictive Fed policy, the US dollar has regained its former strength.
- Emerging market currencies were the main losers of that as a result.

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 – 17/06/2022

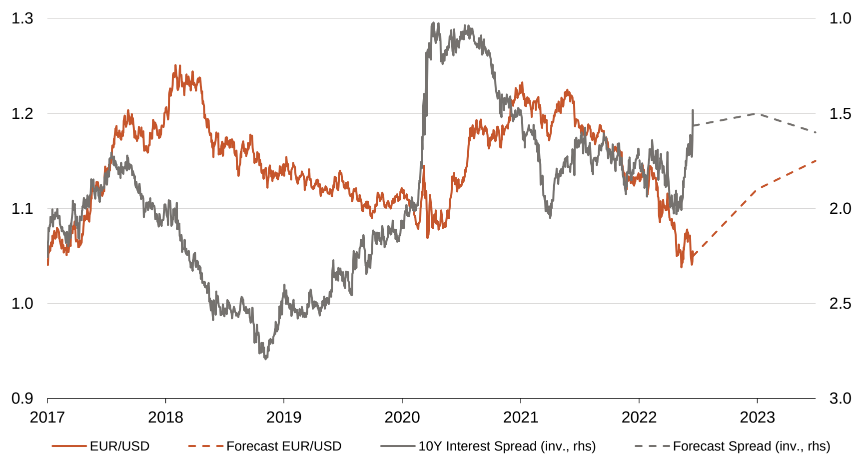
Currency Moves vs Euro



- Currency developments against the euro have been mixed over the last four weeks.
- Only cryptocurrencies experienced further heavy losses. In addition to high inflation figures and poor economic data, crypto-specific news such as the bank run on the crypto lender Celsius also weighed.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2021 – 17/06/2022

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



- The EUR/USD exchange rate fell by about 3% from over 1.07 to 1.04 with the US inflation data, almost reaching the May low.
- Meanwhile, the interest rate differential even declined. The US dollar's strength is therefore likely to be mainly due to the increased probability of recession.

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: 4W (20/05/22 - 17/06/22)	4-week & YTD: YTD (31/12/21 - 17/06/22)	17/06/21 17/06/22	17/06/20 17/06/21	17/06/19 17/06/20	17/06/18 17/06/19	16/06/17 17/06/18
Consumer Discretionary	-2.5	-26.0	-25.9	57.0	-5.1	-6.3	8.5
Communication Services	-2.9	-11.3	-5.5	13.6	0.4	12.9	-6.7
Telecommunications	-3.7	-1.7	-4.7	19.1	-12.8	-0.9	-10.4
Finance	-4.4	-12.0	-6.3	36.1	-16.4	-6.8	-2.4
Growth	-5.8	-23.3	-15.8	27.5	7.4	4.0	3.9
Value	-6.2	-6.1	-2.4	28.1	-12.5	-3.5	1.4
Health Care	-6.3	-7.7	2.0	5.5	22.2	11.9	-7.1
Industrials	-7.3	-24.1	-17.1	41.5	-1.8	-0.2	3.8
Materials	-8.5	-12.3	-5.8	39.6	-0.1	-6.1	20.1
Energy	-8.7	18.8	31.7	20.9	-33.3	-3.1	25.1
Information Technology	-9.1	-32.5	-24.3	35.0	18.2	-3.6	19.9
Utilities	-10.4	-10.1	-4.2	14.9	11.2	14.5	-1.0

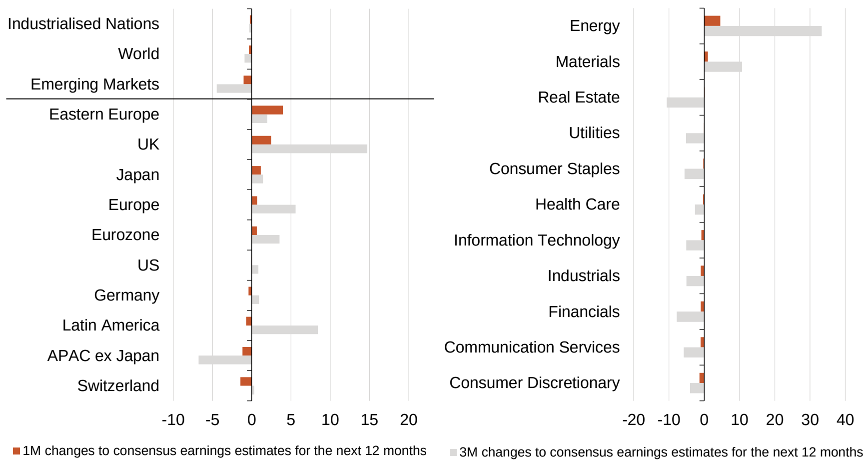
12-month periods over that last 5 years

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

- There were hardly any winners in the last four weeks. Only the energy sector has made marginal gains. All other sectors have lost between 2 and 10%.
- At a style level, value stocks once again outperformed growth stocks.

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: 16/06/2017 – 17/06/2022

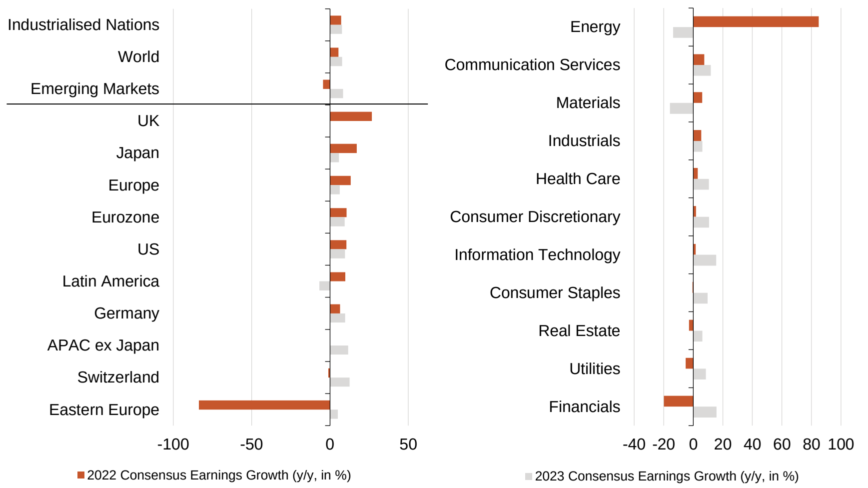
Changes in Consensus Earnings Estimates



- At the global level, earnings revisions have now turned negative. Looking ahead, negative earnings revisions are likely to dominate as the risk of recession increases.
- Eastern Europe saw the largest positive 1M earnings revision. The analysts there are thus more positive again. Switzerland saw the most negative earnings revisions.
- At a sector level, energy and basic materials saw positive 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 17/06/2022

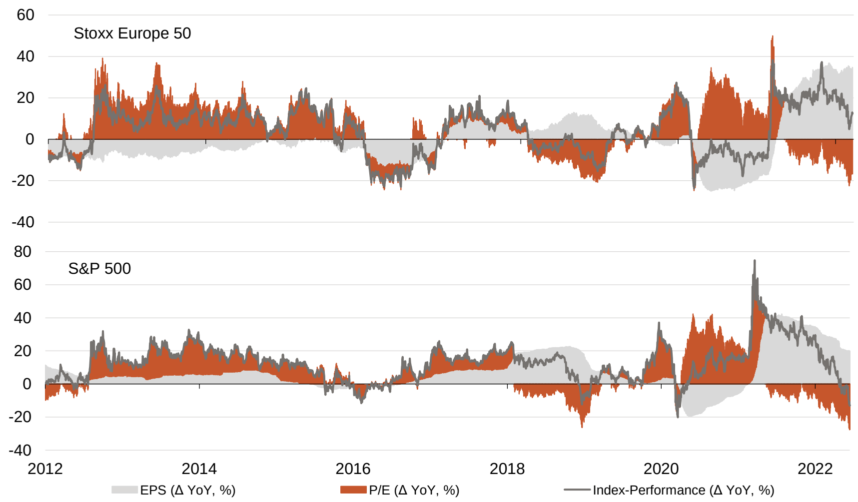
Earnings Growth



- Despite recession concerns, analysts see slightly higher profit growth worldwide in 2023 than in 2022.
- Analysts see the greatest growth in 2022 in the UK and Japan. In 2023, profits in Switzerland and Asia are expected to grow strongly.
- The energy sector remains the profit winner in 2022, while a possibly too pessimistic growth rate is expected in 2023.

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 17/06/2022

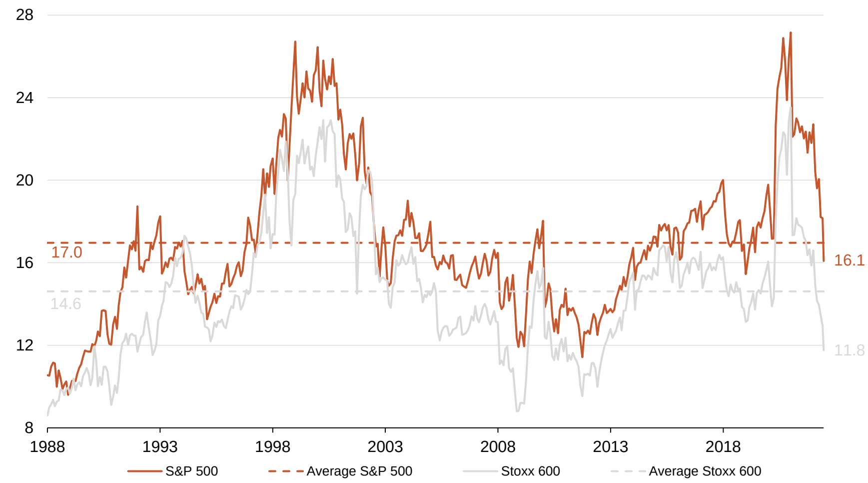
Contribution Analysis



- The year-on-year performance of the S&P 500 is now clearly in negative territory at just under -20%. Recently, the falling valuation level was again the biggest burdening factor.
- The on PE basis cheaper Stoxx Europe 50, on the other hand, is holding up noticeably better.

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 – 17/06/2022

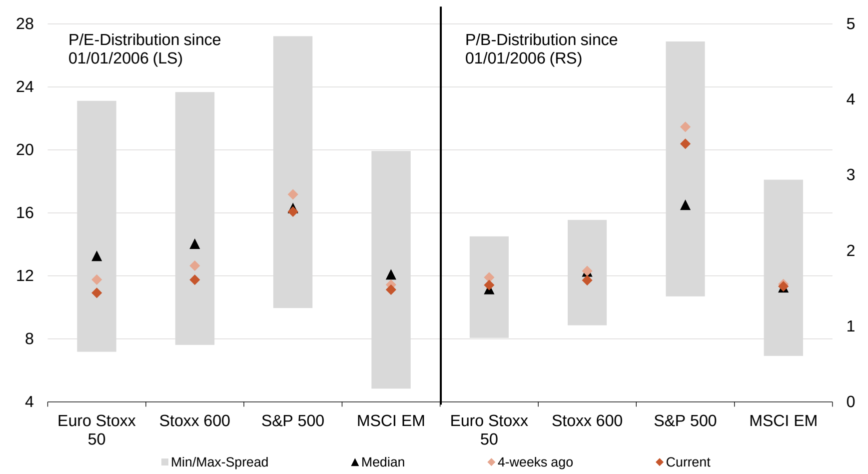
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The bull market of the COVID era is officially over. Some indices have already fallen more than 20% from their highs. This is also true for the S&P 500. The valuation reflects this. The S&P 500 is now historically may no longer be considered expensive.
- The P/E ratio of the Stoxx 600, on the other hand, is already well below the historical average and has recently fallen below the 12 mark.

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 – 17/06/2022

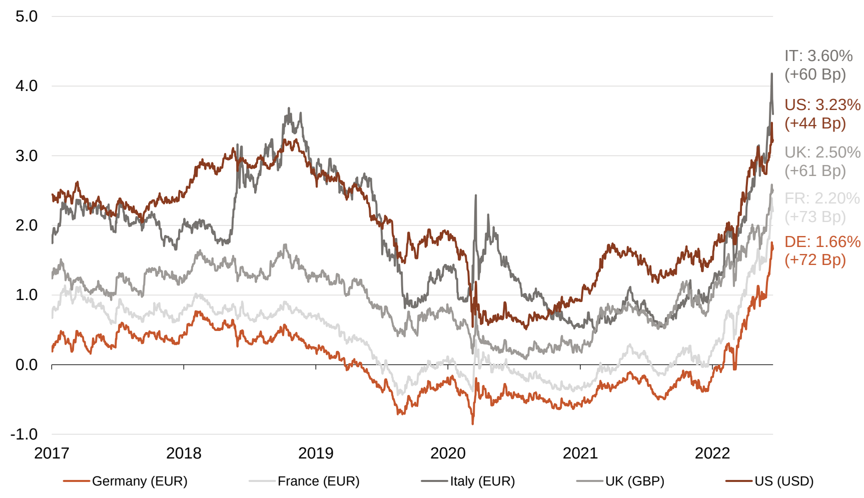
Historical Distribution: Price/Earnings and Price/Book Ratio



- Based on the P/E ratio, the Euro Stoxx 50, the Stoxx 600 and the MSCI EM are favourably valued. However, falling earnings could quickly change this picture. The P/E ratio may therefore be more relevant as a valuation measure, indicating only a fair valuation. The S&P 500, on the other hand, still appears expensive by this measure.

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 – 17/06/2022

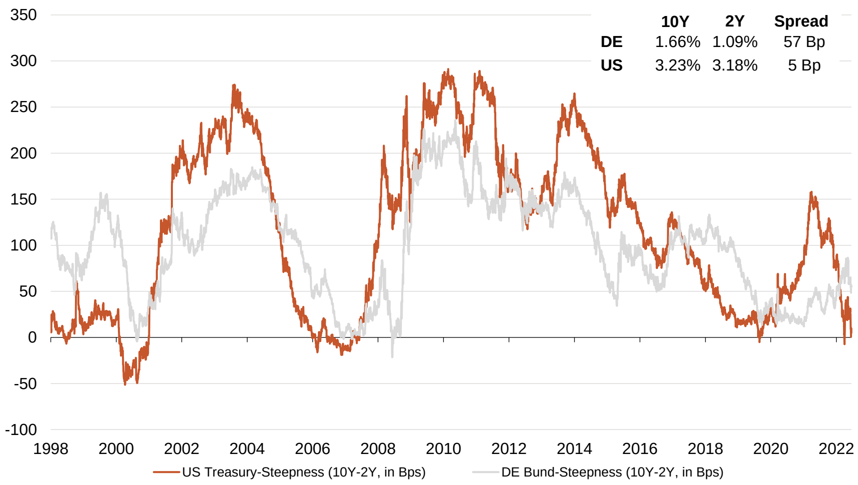
10-Year Government Bond Yields



- Over the past four weeks, government bond yields have jumped sharply after inflation data continued to surprise on the upside. Market participants increasingly feel that inflation is out of control.
- The yield on Italian government bonds has temporarily risen above the 4% mark. The spread between German and Italian paper has temporarily jumped to over 230bp. This prompted the ECB to take countermeasures to ensure stability.

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 – 17/06/2022

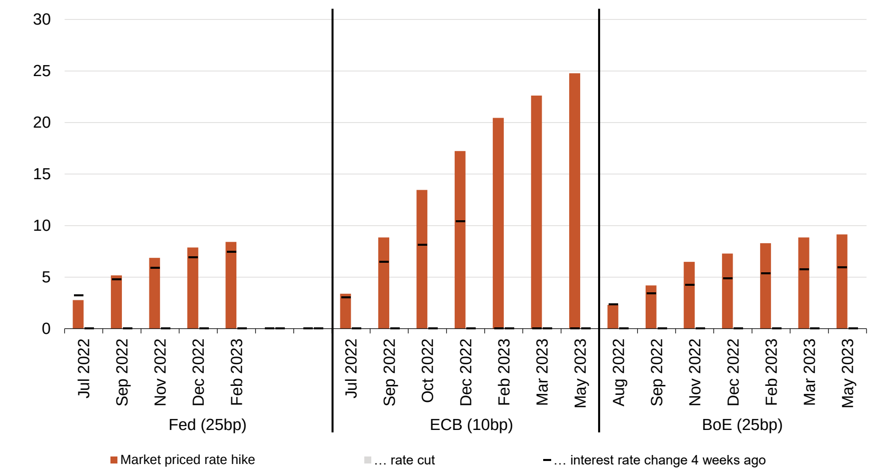
Yield Curve Steepness (10Y - 2Y)



- The US yield curve has now inverted for the second time this year. The bond market is thus signalling an impending recession.
- The steepness of the German yield curve has also flattened considerably and is now close to the 50 bps mark.

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 – 17/06/2022

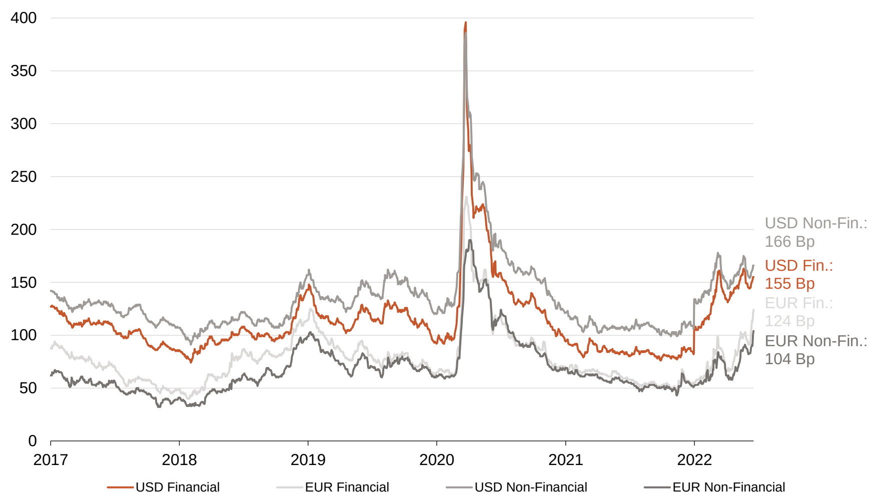
Implicit Changes in Key Interest Rates



- With fears that inflation expectations are no longer anchored, the market has repriced central bank policies over the past four weeks and now expects significantly more rate hikes. The Fed has already reacted and raised interest rates by another 75 basis points in June. As a result, the ECB is increasingly under pressure to act, despite the conflict between fighting inflation and protecting the periphery causing hesitation so far.

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: 20/05/2022 – 17/06/2022

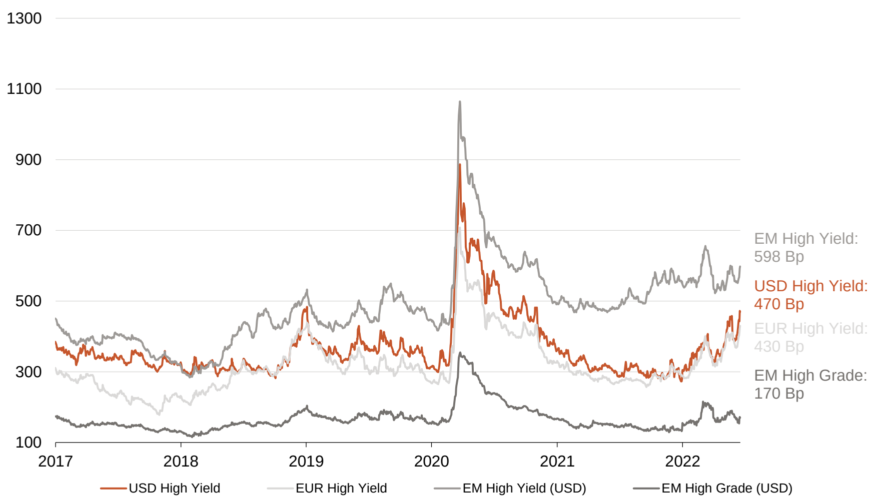
Credit Spreads Financial and Non-Financial Bonds



- Concerns about recession and the stability of the periphery are causing the risk premiums on EUR financial bonds to rise noticeably. In the last two weeks, spreads have risen by more than 30bps.
- USD corporate bonds, on the other hand, saw spreads widen by only around 10bp.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2017 – 17/06/2022

Credit Spreads High Yield and Emerging Markets Bonds



- High-yield bonds are living up to their name again. After the recent and significant widening of spreads due to increasing recession concerns, spreads on USD high-yield bonds at 470bps and on EUR high-yield bonds above 400bps.

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 – 17/06/2022

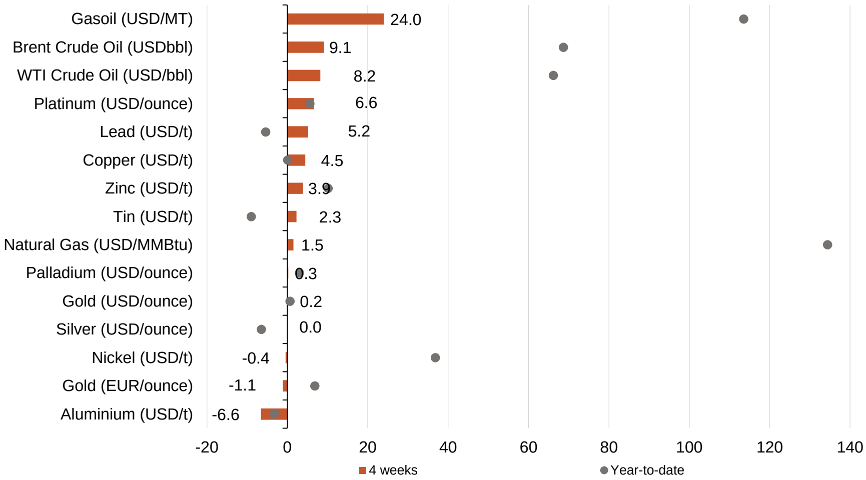
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	17/06/21 17/06/22	17/06/20 17/06/21	17/06/19 17/06/20	17/06/18 17/06/19	17/06/17 17/06/18
EUR Government	2.08	0.71	7.4	-	-	-	-4.9	-14.0	-14.3	0.5	3.1	5.8	0.2
Germany	1.44	0.70	7.4	-	-	-	-5.1	-13.2	-13.0	-1.6	1.2	5.3	0.0
EUR Corporate	3.28	1.01	4.8	111	22	86	-4.7	-13.0	-13.5	3.3	0.7	3.7	0.7
Financial	3.28	1.04	4.0	124	27	87	-4.2	-11.1	-11.5	3.0	0.8	3.3	0.8
Non-Financial	3.28	0.99	5.2	104	19	87	-5.0	-14.0	-14.5	3.4	0.6	3.8	0.6
EUR High Yield	6.92	1.35	3.5	430	42	84	-4.6	-12.9	-12.6	10.7	0.2	3.0	1.9
US Treasury	3.32	0.40	6.5	-	-	-	-1.5	-10.7	-10.2	-3.0	10.6	7.3	-1.6
USD Corporate	4.82	0.35	7.2	163	-1	82	-1.3	-14.7	-14.3	3.5	10.6	8.8	-1.0
Financial	4.73	0.40	5.4	155	-2	83	-1.4	-12.1	-11.9	3.3	9.6	8.6	-0.8
Non-Financial	4.86	0.33	8.1	166	-1	83	-1.3	-15.9	-15.3	3.6	11.1	8.9	-1.1
USD High Yield	8.55	0.91	4.6	470	41	77	-3.0	-12.9	-11.0	12.6	2.0	5.8	3.1
EM High Grade	4.98	0.39	5.5	170	-8	38	-1.3	-13.8	-13.1	4.3	5.5	8.3	-0.7
EM High Yield	10.59	0.77	4.1	598	21	67	-2.8	-17.0	-21.7	12.9	3.2	9.1	-0.1

- There is no sign of negative interest rates anymore. Most bond segments now offer more than 2% yield. EUR and USD high-yield bonds even offer more than 6%.
- However, last week's interest rate move has weighed heavily on the bond universe. EUR government bonds were hit hardest, losing almost 5% in the last four weeks.

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 : 14/01/2017 – 17/06/2022

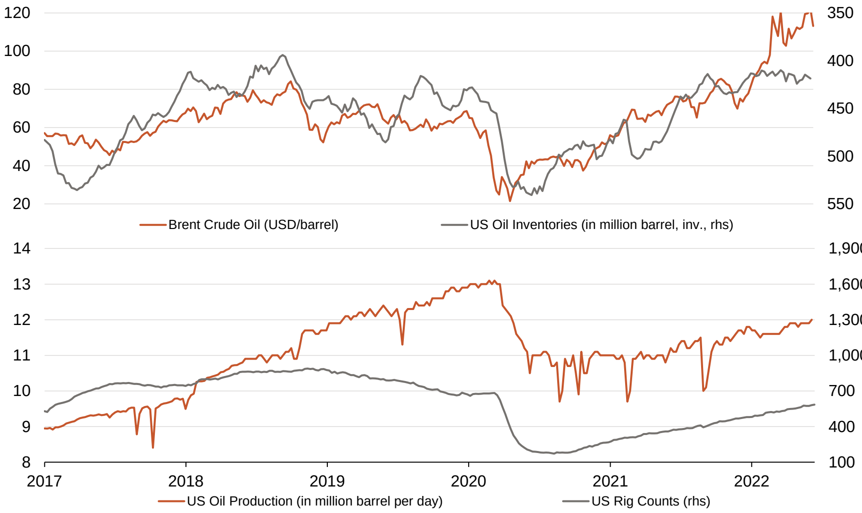
Commodities Performance



- The last four weeks were a strong time for commodities on aggregate. Only aluminium recorded losses.
- Energy commodities were the top performers both over the past month and since the start of the year.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period:31/12/2021 – 17/06/2022

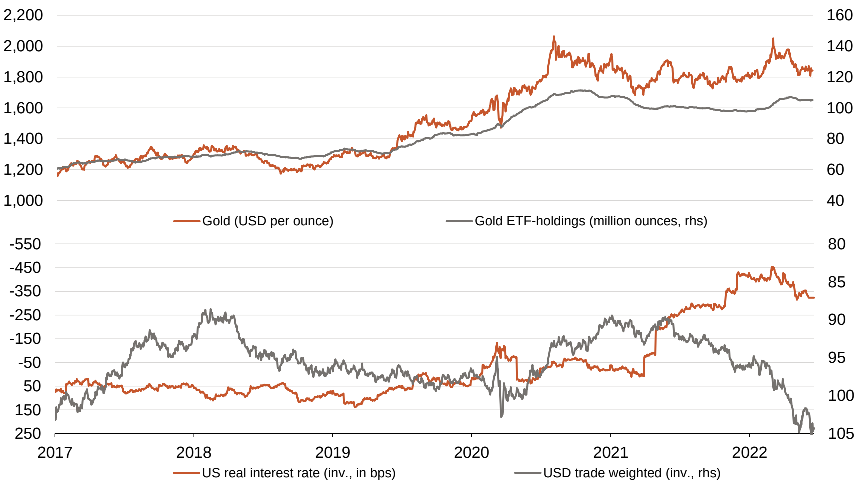
Crude Oil



- Crude oil recently experienced significant losses driven by increasingly strong recession concerns.
- However, the supply situation remains tight. OPEC+ remains behind its production quotas, inventories are low and the rig count of the US shale oil industry is still below pre-crisis levels.

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 – 17/06/2022

Gold



- Gold could not escape the volatility in markets. Gold initially rose notably after inflation data in the US for the month of May surprised again to the upside. Gold then suffered its biggest loss in three months after the US Fed hiked interest rates by 75 basis points, the biggest increase since 1994.

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 – 17/06/2022

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IMPORTANT NOTICES

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