BERENBERG
Markets

MONITOR

04 July 2022

Current market commentary

The S&P 500 posted in Q2 its worst quarterly performance since the peak of pandemic concerns in Q1 2020 and its most negative H1 result since 1970. The support of rebalancing flows towards the end of the quarter from pension funds lasted only briefly. The recent spate of central bank comments at the ECB's Sintra conference made it clear once again that policymakers are prioritising the fight against inflation, even if this carries the risk of recession. The bulk of recent economic data has already disappointed. In addition, more market participants are taking a critical view of analysts' very optimistic earnings estimates after more companies recently lowered their earnings forecasts for this year. This is likely to put further pressure on risk assets. Against this background, we have tactically increased our equity underweight again in the recent rally, even though we see a good chance that the equity markets will find a bottom in H2.

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

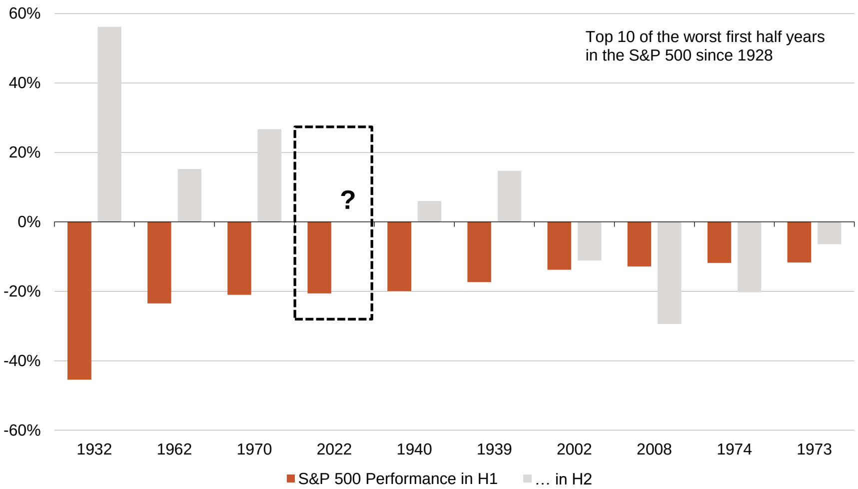
In the coming weeks, corporate earnings are likely to be the focus of investors as the Q2 reporting season picks up significantly with the major US banks starting next week. Against the backdrop of elevated inflation and an already slowing economy, disappointments are bound to happen. Today, US markets are closed for Independence Day.

Q2 reporting season should provide insight on cost and profit pressures.

Tomorrow, the Caixin Service Purchasing Managers' Index (PMI, Jun.) for China, French Industrial Production (May), the Service PMI (Jun.) for the Eurozone and US new orders (May) will be released. On Wednesday, German new orders (May) and the ISM service PMI (Jun.) will follow. German industrial production data (May) will be released on Thursday and US labour market data (Jun.) on Friday. Next week, the German ZEW index (Jul.) is due, as well as consumer confidence (Jul.), retail sales (Jun.) and inflation data (Jun.) for the US.

US labour market and inflation data at the centre of attention.

One of the historically worst first half years is behind us



- In the last 100 years, there have only been 3 years in which the S&P 500 posted a worse performance in the first half of the year than in 2022.
- In all three cases, US equities posted a significantly positive performance in the second half of the year. However, there are also contrary examples, such as 2008 or 1974, where the S&P fell even more in H2 than in H1.
- The rest of the year is therefore fraught with uncertainty. However, we see a good chance that the markets will end the year higher than they are today.

Source: Bloomberg, Time period: 31/12/1927 - 30/06/2022
Explanations see page 2

Multi Asset

	4-week & YTD: 4W (03/06/22 - 01/07/22)	4-week & YTD: YTD (31/12/21 - 01/07/22)	12-month periods over that last 5 years: 01/07/21 - 01/07/22	01/07/20 - 01/07/21	01/07/19 - 01/07/20	01/07/18 - 01/07/19	30/06/17 - 01/07/18
USDEUR	2.8	9.1	13.6	-5.0	0.3	3.5	-2.2
EUR Sovereign Debt	0.8	-6.2	-6.8	0.5	0.4	3.8	0.6
Gold	0.6	7.9	15.8	-4.7	28.3	14.4	-1.3
Euro overnight deposit	0.0	-0.3	-0.6	-0.5	-0.4	-0.4	-0.4
Brent	-1.5	76.3	100.8	68.3	-36.3	-10.8	65.8
EUR Coporates	-2.1	-11.7	-12.2	3.7	-0.9	5.0	1.1
MSCI Frontier Markets	-2.5	-13.3	-6.4	31.7	-10.8	8.6	-0.6
Global Convertibles	-2.7	-13.9	-13.2	38.7	18.5	9.9	8.8
MSCI Emerging Markets	-3.0	-10.5	-15.2	32.5	-3.4	5.6	5.8
REITs	-3.0	-12.2	3.6	18.0	-8.0	14.1	-1.0
MSCI World	-4.9	-12.5	-2.3	32.1	2.9	10.6	8.6
Industrial Metals	-15.8	-3.6	12.3	40.5	-4.9	-9.1	12.6

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.

- Markets were less and less able to escape the increasing recession worries. Only the US dollar and European government bonds were able to take slight profits over the last four weeks. Interest rate sensitive REITs, developed market equities and industrial metals lagged. Metals were under additional pressure by the no-Covid policy in China and the corresponding consequences for supply and demand.

Total return for selected asset classes, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 30/06/2017 – 01/07/2022

Equities

	4-week & YTD: 4W (03/06/22 - 01/07/22)	4-week & YTD: YTD (31/12/21 - 01/07/22)	12-month periods over that last 5 years: 01/07/21 - 01/07/22	01/07/20 - 01/07/21	01/07/19 - 01/07/20	01/07/18 - 01/07/19	30/06/17 - 01/07/18
MSCI EM Asia	-1.2	-10.1	-15.8	32.9	4.7	1.9	7.6
S&P 500	-3.9	-11.5	2.4	33.9	7.5	15.0	11.8
Stoxx Europe Defensives	-4.4	-0.9	7.3	12.6	0.9	9.0	4.2
MSCI Japan	-5.2	-13.5	-8.7	18.6	1.3	0.3	8.0
MSCI UK	-5.4	-1.4	7.3	25.0	-17.0	1.3	7.5
Stoxx Europe 50	-5.6	-8.1	0.2	20.8	-3.9	8.8	0.7
MSCI USA Small Caps	-5.7	-13.1	-10.0	55.3	-7.4	3.7	14.5
Euro Stoxx 50	-8.8	-18.1	-13.3	28.9	-5.9	5.8	1.3
MSCI EM Eastern Europe	-9.1	-82.2	-81.6	30.5	-17.1	27.3	12.8
Stoxx Europe Small 200	-10.8	-24.4	-20.2	39.7	-4.4	1.1	8.4
Stoxx Europe Cyclicals	-11.2	-21.3	-15.0	38.4	-8.4	-0.2	3.0
DAX	-11.4	-19.3	-17.9	27.3	-2.1	1.8	-0.2

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.

- Equity markets have had a hard time over the last four weeks. Not a single segment was able to achieve a positive result over this period – instead there were significant losses. Nevertheless, defensive stocks held up better than cyclical stocks and large caps performed better than small caps. From a regional perspective, Asian shares were in the lead, while the Dax lagged.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 30/06/2017 – 01/07/2022

Fixed Income

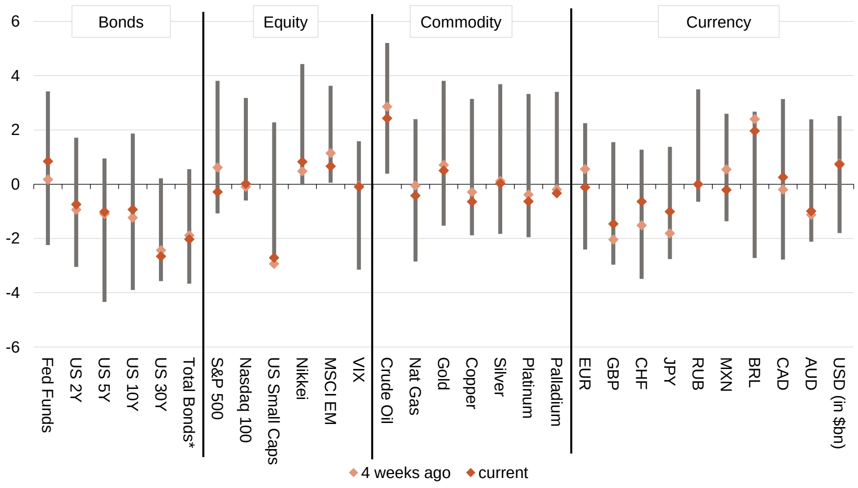
	4-week & YTD: 4W (03/06/22 - 01/07/22)	4-week & YTD: YTD (31/12/21 - 01/07/22)	12-month periods over that last 5 years: 01/07/21 - 01/07/22	01/07/20 - 01/07/21	01/07/19 - 01/07/20	01/07/18 - 01/07/19	30/06/17 - 01/07/18
Treasuries	3.2	0.0	4.6	-8.1	11.1	10.3	-2.9
BTPs	1.9	-10.3	-11.7	4.8	5.5	8.0	-1.1
Bunds	0.3	-10.3	-10.1	-1.5	0.3	5.3	2.1
Chinese Gov Bond	0.0	1.6	5.2	2.1	5.6	5.8	3.7
Gilts	-1.4	-15.5	-13.0	-1.4	9.6	4.8	1.1
USD Corporates	-1.6	-13.7	-13.5	3.3	9.5	10.5	-0.7
EM Local Currency Bonds	-1.9	-6.7	-7.8	0.2	-2.0	12.7	-4.6
EM Hard Currency Bonds	-2.0	-12.0	-9.1	1.6	1.0	16.5	-3.9
EUR Non-Financials	-2.0	-12.1	-12.7	3.8	-1.0	5.1	1.3
EUR Financials	-2.3	-11.0	-11.5	3.6	-0.7	4.9	0.8
USD High Yield	-6.2	-13.9	-12.6	15.4	-1.0	7.8	2.5
EUR High Yield	-6.8	-15.0	-14.7	11.4	-2.1	5.9	0.8

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

- Rising growth concerns also became noticeable in bonds. American and European high-yield bonds in particular were under pressure over the last four weeks.
- American and German government bonds were able to benefit from the intensifying recession concerns and gained as a safe haven.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 30/06/2017 – 01/07/2022

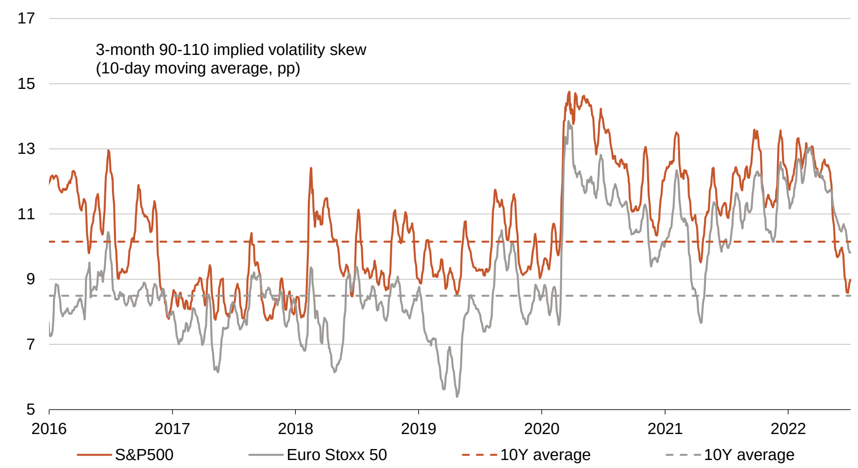
Non-Commercial Positioning



- Speculative investors continue to be very defensively positioned. In the S&P 500 they are net-short the first time since 2016.
- Within currencies, they have partially covered their shorts in the Japanese yen and Swiss franc, both safe havens.

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: 28/06/2012 - 28/06/2022

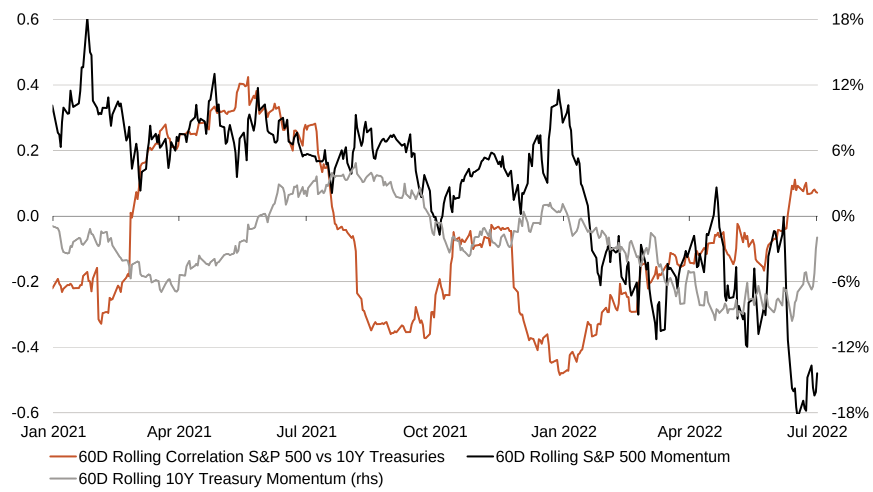
Put-Call-Skew



- The put-call skew has continued to fall sharply in both Europe and the US over the last two weeks.
- In the US, the skew is now much flatter than the historical average. Taken on its own, this points to less cautious investors, but as the level of volatility remains significantly elevated, there is no acute cause for concern yet.

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: 01/07/2012 - 01/07/2022

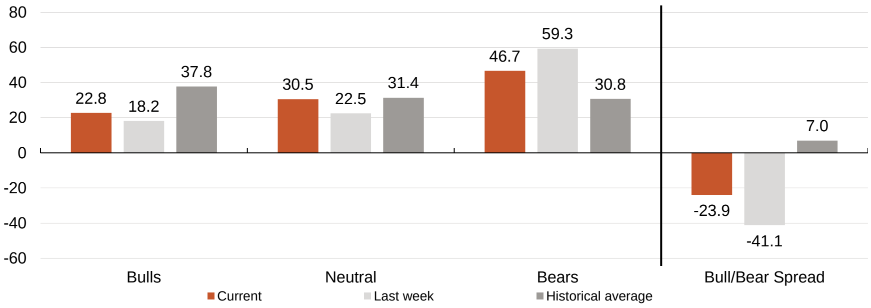
60-Day Momentum and Correlation

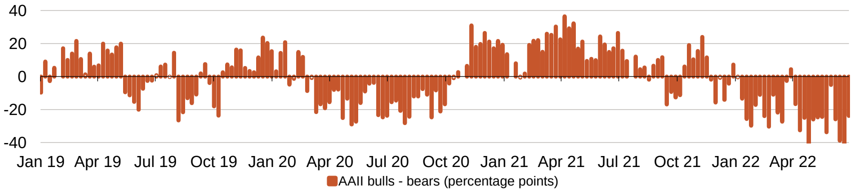


- The momentum of equities and bonds is negative and the correlation of both asset classes is now positive. Trend-following as well as risk-based systematic investment strategies are thus likely to be little invested in equities. From this point of view, the potential for markets to fall rapidly is therefore limited.

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 - 01/07/2022

AAII Sentiment Survey (Bulls vs Bears)

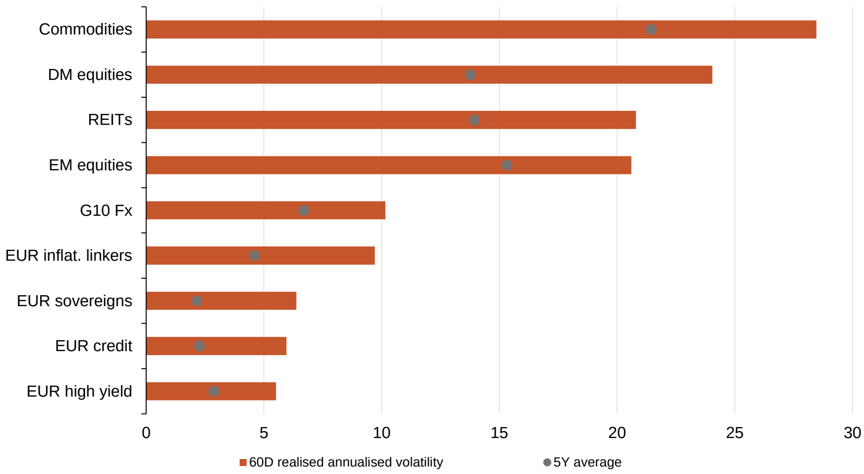




- Although the sentiment of US private investors has recently been better than in previous weeks, it is still far from optimistic.
- The bears dominate the bulls by just under 24 ppts.

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 – 30/06/2022

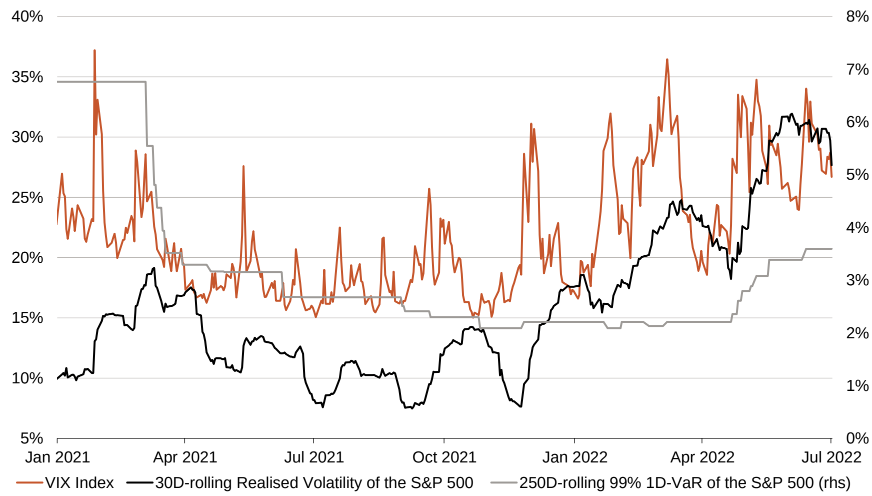
Realised Volatilities



- Heightened volatility prevails across all asset classes. Relative to their own history, EUR government bonds show by far the highest volatility. The reason for this was initially a sharp rise in risk premiums on the periphery in the wake of the ECB's more restrictive tones. Shortly thereafter, however, the ECB changed its rhetoric again in order to counteract fragmentation.

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: 01/07/2017 - 01/07/2022

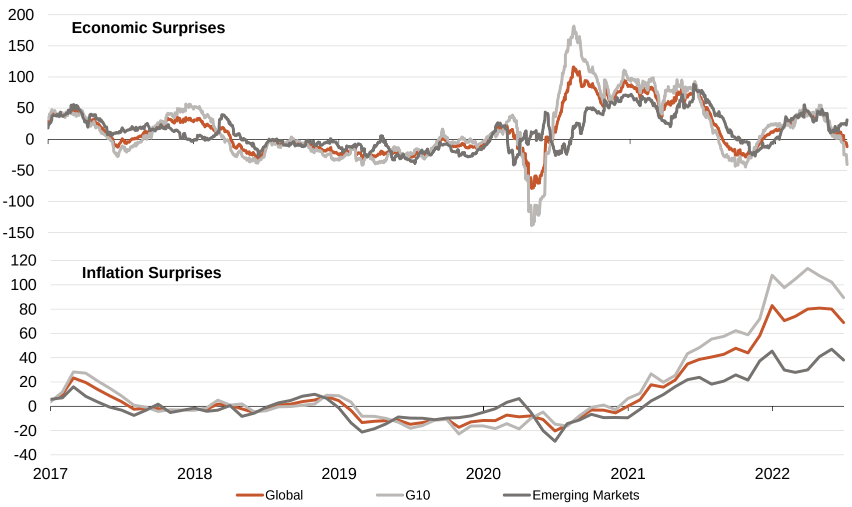
Volatility and Value-at-Risk of the S&P 500



- Realised and implied volatility remain at high and relatively equal levels.
- According to market expectations, the fluctuations of the past month are likely to continue 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 - 01/07/2022

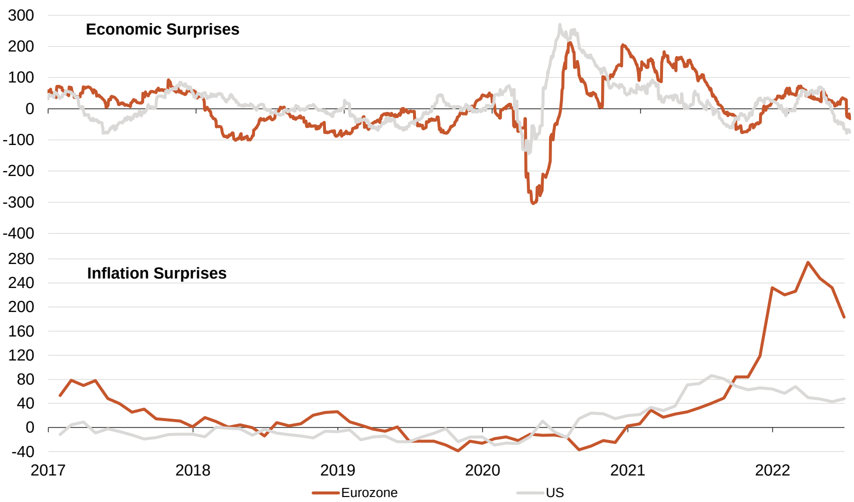
Global



- While the economic surprises for emerging markets continued to be positive, negative surprises predominated for the global and the surprise indicators of the industrialised nations.
- Inflation surprises have recently developed uniformly from a regional perspective. Inflation data surprised less on the upside in the industrialised nations, in the emerging markets and globally.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 01/07/2022

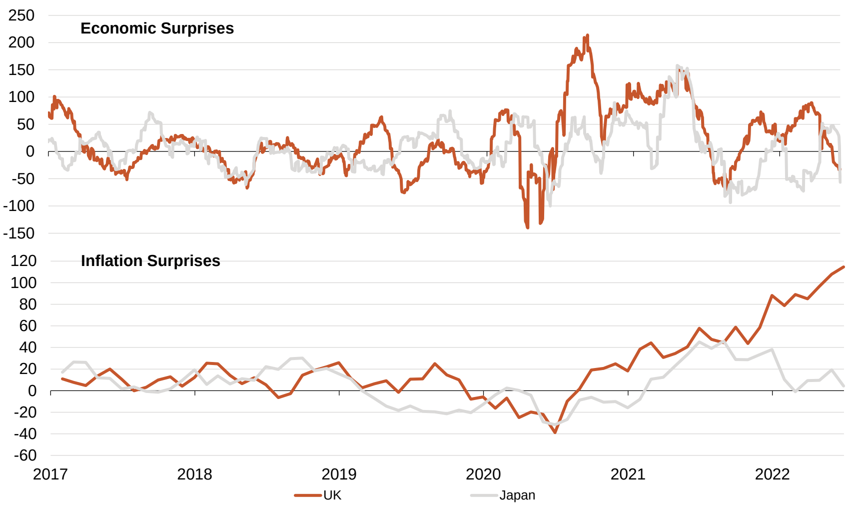
Eurozone and US



- Economic surprises for the US extended the overhang of negative economic surprises, reaching the lowest level since mid-May 2020. In the US, the purchasing managers' index, quarterly GDP and personal spending disappointed.
- The picture has now also changed in the eurozone. Here, too, the negative surprise data outweighed the negative data and are running in negative territory for the first time since the end of 2020. In the US, preliminary purchasing managers' data and consumer confidence were below expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 01/07/2022

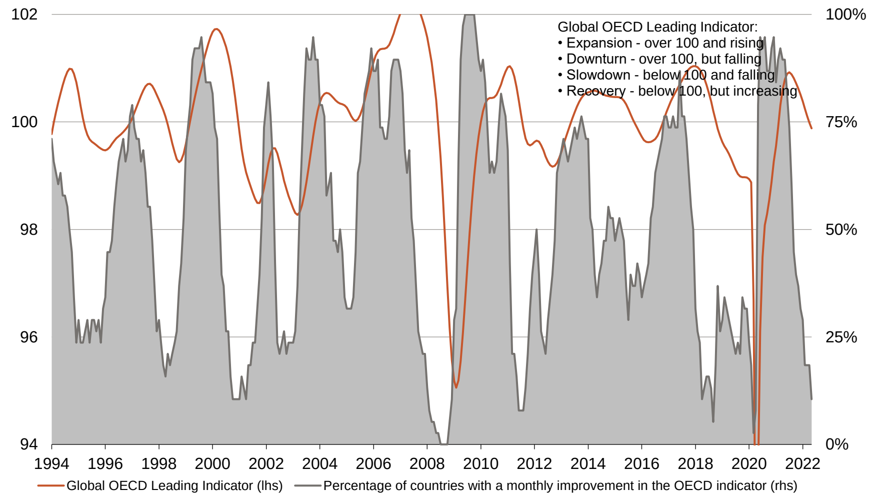
UK and Japan



- In Japan and the UK, the economic surprise data show an increasingly gloomy picture. In Japan, negative economic surprises clearly prevailed and in the UK, too, the data noticeably surpassed the zero threshold.

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 - 01/07/2022

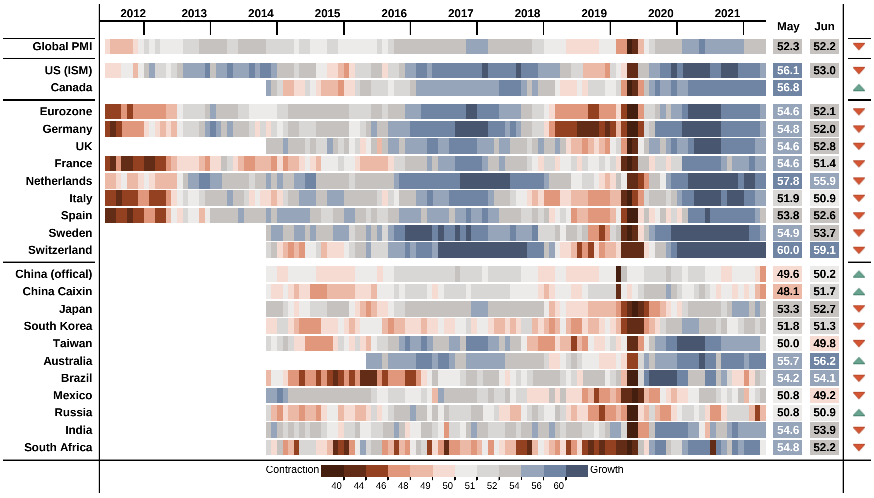
OECD Leading Indicator



- For the first time since November 2018, the OECD Leading Indicator fell below the core level of 100. This movement is significant, as a value below 100 with a falling trend indicates an economic downturn. The picture is also increasingly negative at the country level. Only 11% of the countries were able to show an improvement on the previous month – as little as last during the pandemic in March 2020.

The OECD Leading Indicator is composed of a set of selected economic indicators whose composition provides a robust signal of future turning points. A turning point usually signals a turning point in the business cycle in 6-9 months. However, lead times are sometimes outside this range and turning points are not always correctly identified.
Source: Bloomberg, Time period: 31/01/1994 - 30/06/2022

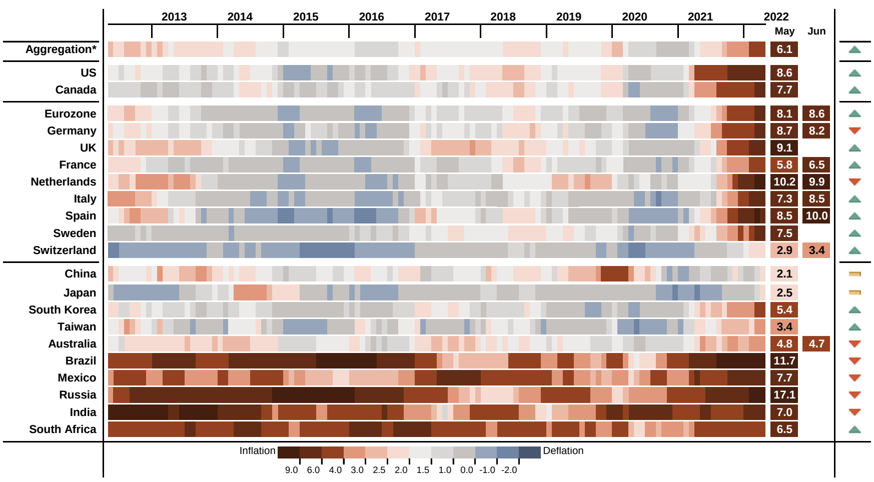
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The preliminary PMIs for June show an increasingly mixed picture in the aggregate. While they rose in China, Australia and Russia, PMI data fell in all other regions.

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: 30/06/2012 - 01/07/2022

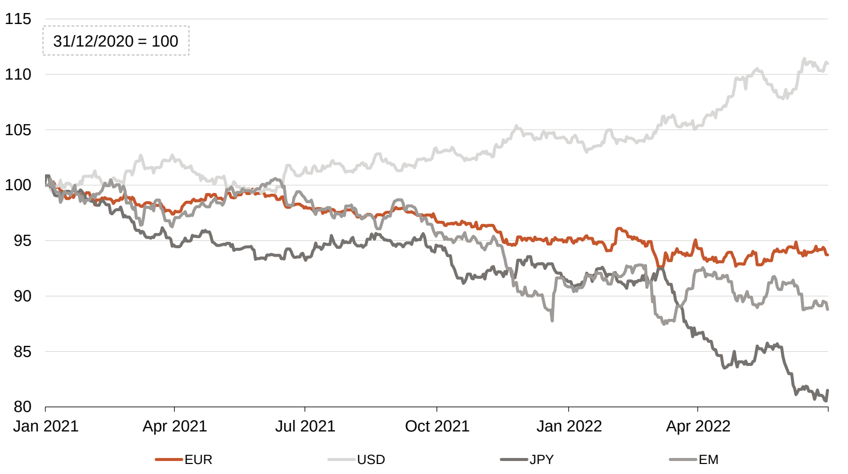
Headline Inflation



- Inflation rose in June in the Eurozone, France, Italy and Spain. The inflation rate in Spain recently reached 10%. In Germany, the Netherlands and Australia, however, the inflation rate fell compared to the previous month.

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: 30/06/2012 - 01/07/2022

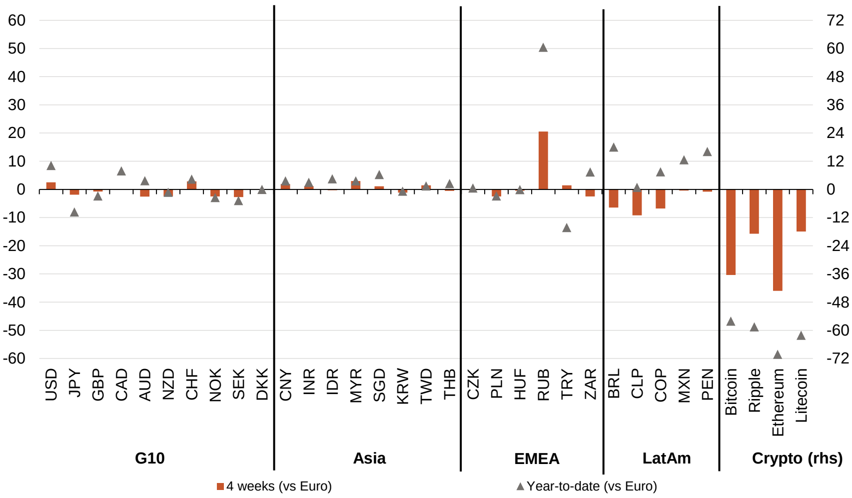
Trade-Weighted Currency Development



- The US dollar remains very strong against other developed countries' currencies thanks to the positive interest rate differential. The main laggard is the Japanese yen. The latter made a new 24-year low against the US dollar last week.
- Emerging market currencies and the euro have stabilised recently.

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 - 01/07/2022

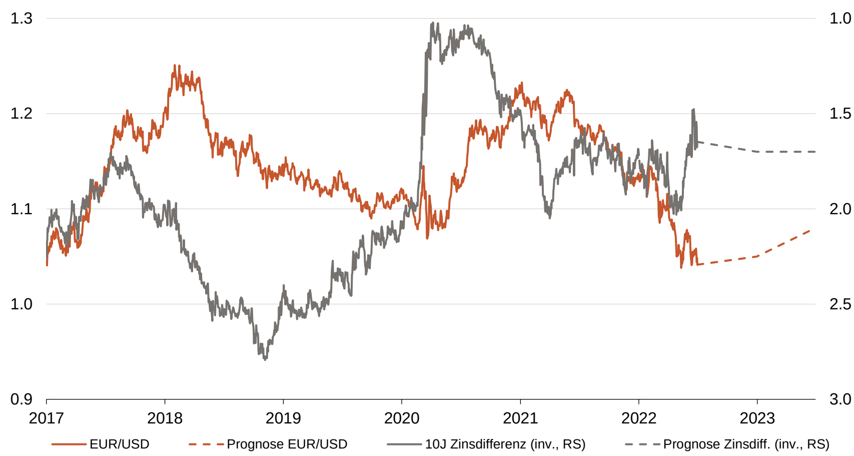
Currency Moves vs Euro



- Among the G10, commodity-related currencies such as the Australian and New Zealand dollar were particularly hard hit. Latin American currencies also suffered broadly from increased recession concerns.
- The Russian rouble remains by far the best performing currency over the last four weeks and since the beginning of the year. While Russia continues to export plenty of oil and gas, its imports have plummeted.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2021 - 01/07/2022

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



- The euro continues to struggle against the US dollar. The currency pair is currently trading at the 1.04 USD/EUR mark again.
- The ECB's announcement to initiate the interest rate turnaround in July has not helped so far, as the Fed is simply taking an even more decisive approach.

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

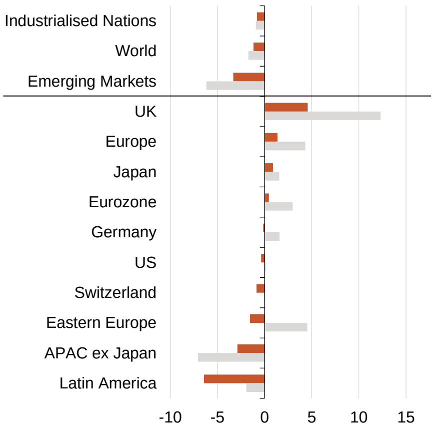
	4-week & YTD		12-month periods over that last 5 years				
	4W (03/06/22 - 01/07/22)	YTD (31/12/21 - 01/07/22)	01/07/21 01/07/22	01/07/20 01/07/21	01/07/19 01/07/20	01/07/18 01/07/19	30/06/17 01/07/18
Consumer Staples	-0.4	-7.5	-0.5	14.6	-1.4	12.2	-3.5
Communication Services	-0.9	-2.8	7.1	7.9	16.8	15.4	-4.8
Telecommunications	-3.3	0.6	-1.5	19.1	-13.8	2.0	-9.6
Growth	-5.6	-20.9	-13.0	28.4	3.9	9.7	4.0
Utilities	-5.8	-8.3	-0.4	11.3	12.7	15.6	3.3
Consumer Discretionary	-6.6	-24.2	-22.7	55.2	-9.6	3.8	5.3
Finance	-7.6	-12.3	-4.6	35.4	-20.0	-2.2	-4.6
Value	-8.5	-6.7	-1.5	28.3	-16.2	0.7	1.6
Industrials	-10.8	-24.7	-17.6	41.5	-4.8	6.7	2.8
Energy	-10.9	19.5	33.8	24.9	-38.6	-0.7	32.7
Information Technology	-12.8	-33.6	-24.7	34.4	10.0	9.1	16.7
Materials	-16.2	-16.4	-11.4	42.9	-4.7	1.6	16.8

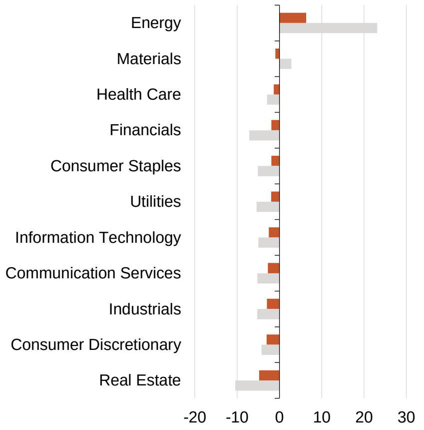
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Stables: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR;
Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. 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.

- As has been the case since the beginning of the year, defensive sectors such as consumer staples, healthcare or telecommunications were the relative winners in the last four weeks.
- However, the YTD gainer energy has lost some of it gains amid rising recession concerns.
- At a style level, Growth held up slightly better than Value.

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: 01/07/2017 – 01/07/2022

Changes in Consensus Earnings Estimates



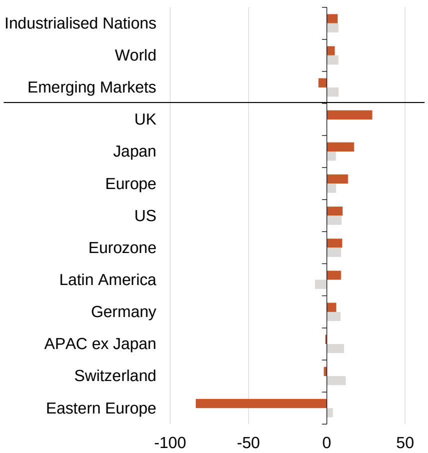


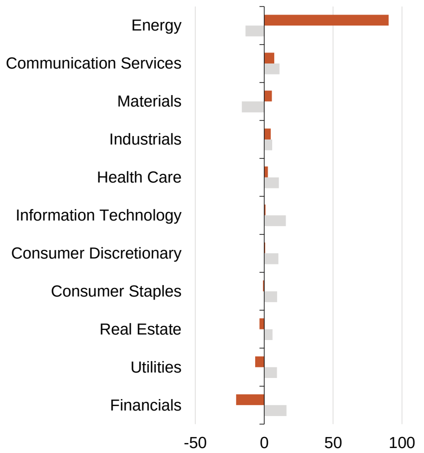
1M changes to consensus earnings estimates for the next 12 months
3M changes to consensus earnings estimates for the next 12 months

- Analysts are now starting to factor the worsening economic environment into earnings estimates. In the last four weeks, negative earnings revisions have noticeably predominated. This trend is likely to continue for the time being.
- Regionally, commodity-heavy Latin America saw the most negative earnings revisions. On a sector basis, the interest rate sensitive real estate sector suffered the most negative 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 01/07/2022

Earnings Growth



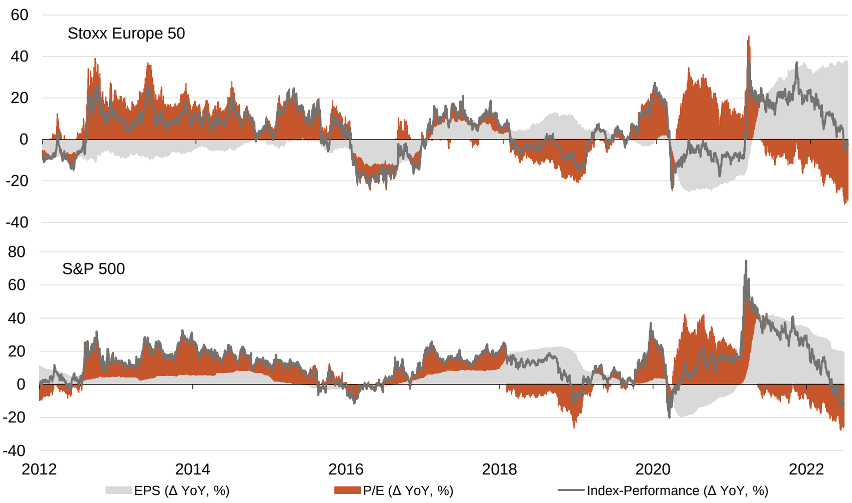


2022 Consensus Earnings Growth (y/y, in %)
2023 Consensus Earnings Growth (y/y, in %)

- Currently, the market is assuming 2022 earnings growth of just under 13% for Europe and 10% for the US compared to the previous year. Realistic estimates are likely to be at least 5% lower.
- The Q2 reporting season, which is soon to pick up, should bring more clarity.

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 01/07/2022

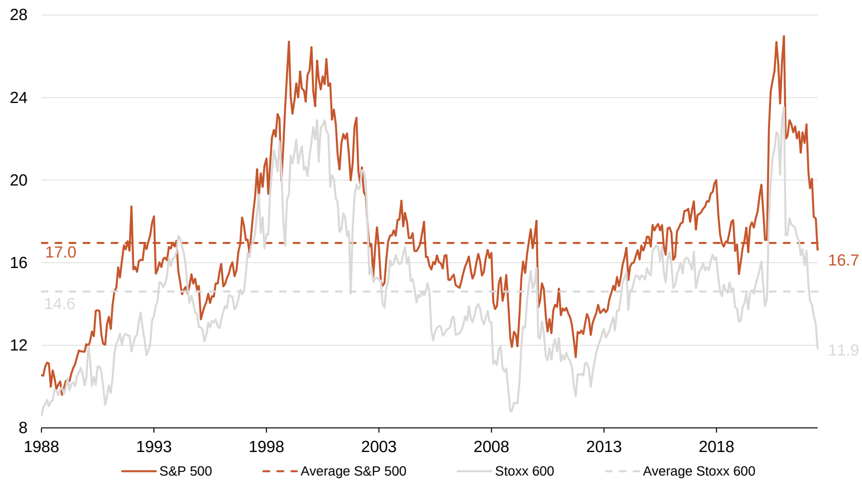
Contribution Analysis



- Both the S&P 500 and the Stoxx Europe 50 have negative year-on-year returns.
- In the Stoxx Europe, higher earnings growth expectations were supportive, while valuation was a drag.
- The S&P500 suffered from both falling valuations and lower year-on-year earnings growth expectations.

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 - 01/07/2022

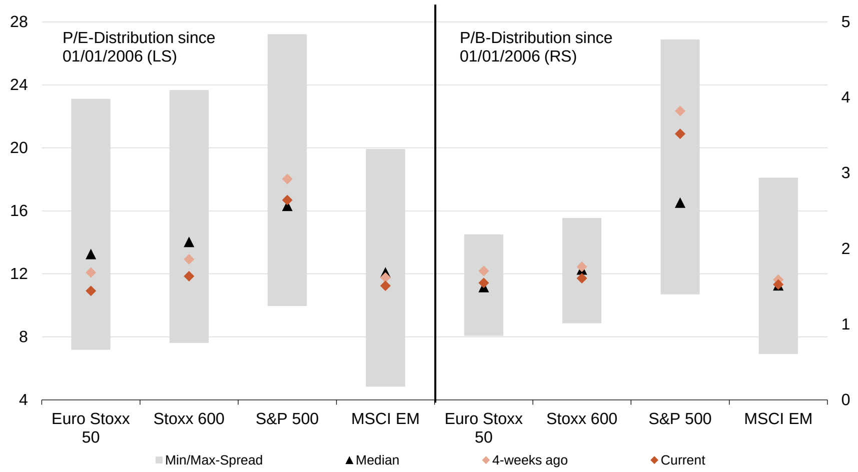
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The sharp and rapid rise in real interest rates coupled with quantitative easing has led to a significant valuation adjustment. The P/E ratio for the S&P 500 has fallen from 22.7 to 16.7 since the beginning of the year.
- This means that US equities are no longer expensive. European shares are even favourably valued in this context. They are already pricing in a significant economic slowdown, but not yet a full-blown recession.

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 - 01/07/2022

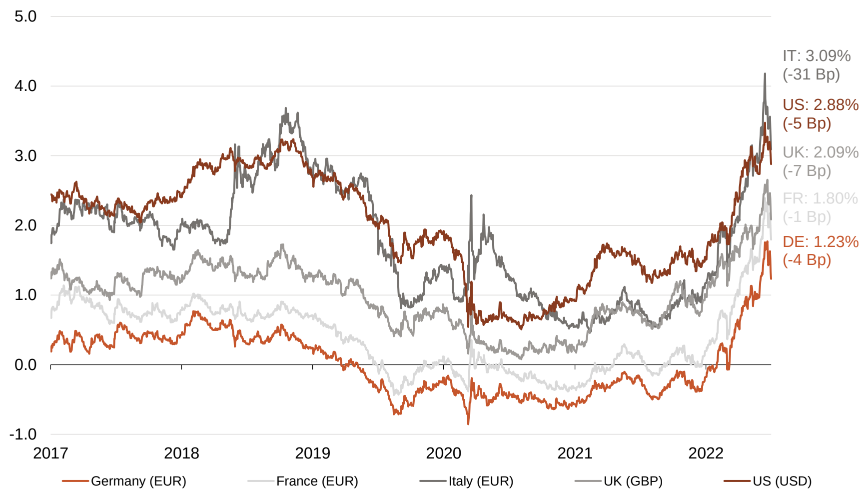
Historical Distribution: Price/Earnings and Price/Book Ratio



- The recession worries and thus also the worries about imminent profit slumps at companies are causing valuations to fall in all regions.
- However, European and US equities saw the most significant valuation adjustment. Emerging market equities fared better thanks to China's strength.

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 - 01/07/2022

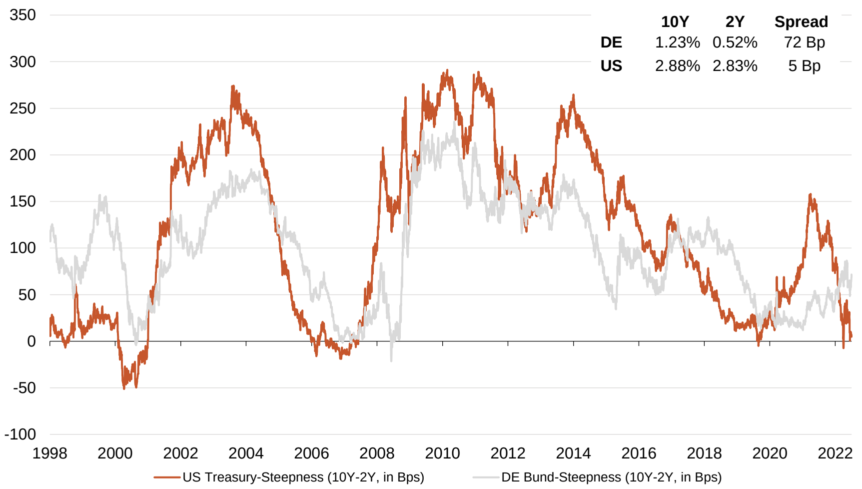
10-Year Government Bond Yields



- After jumping higher, yields on safe-haven government bonds have fallen sharply on recession concerns. 10-year US Treasuries, for example, are yielding below 3% again and Italian government bonds saw yield compression from the YTD high (4.17%) of more than 100bps.
- The decisive factor for the outlook on interest rates will be whether fears of recession or inflation dominate.

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 - 01/07/2022

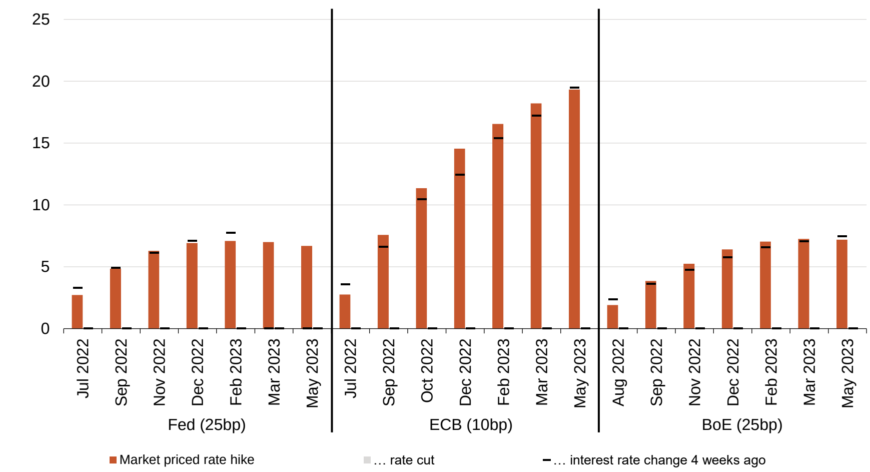
Yield Curve Steepness (10Y - 2Y)



- The US yield curve (10Y-2Y) experienced headwinds with clearly negative economic surprises. As a result, the steepness of the curve has recently decreased notably due to increasing fears of recession in the risk-off environment and moved towards the zero limit again. The US curve was recently quoted at a value of only 5bps.

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 - 01/07/2022

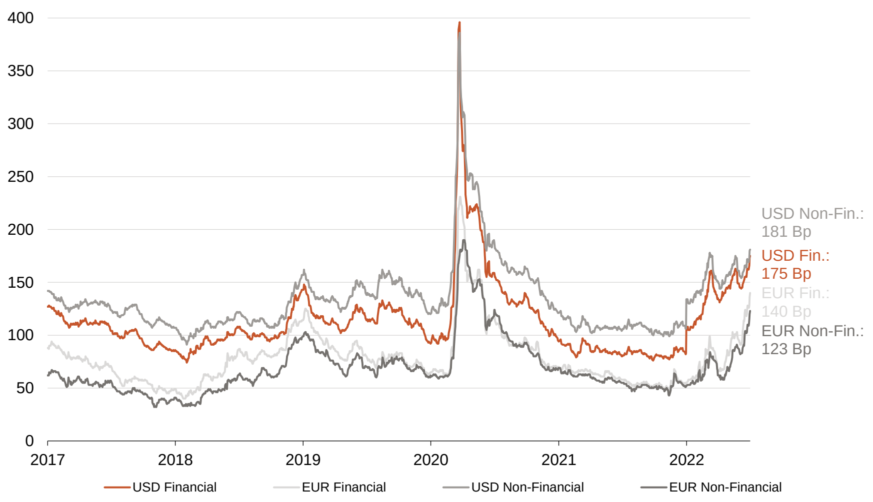
Implicit Changes in Key Interest Rates



- The market is pricing in 7 interest rate hikes of 25 bps each by the Fed until the end of the year. But according to the market, that should be it, because no further interest rate hikes are planned until May 2023. The market thus believes in a successful inflation fight by the Fed.
- For the ECB, on the other hand, the market is pricing in steadily rising interest rates until May 2023. A 25bps rate hike is priced in for July, which would be the first rate hike since 2011.

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: 03/06/2022 - 01/07/2022

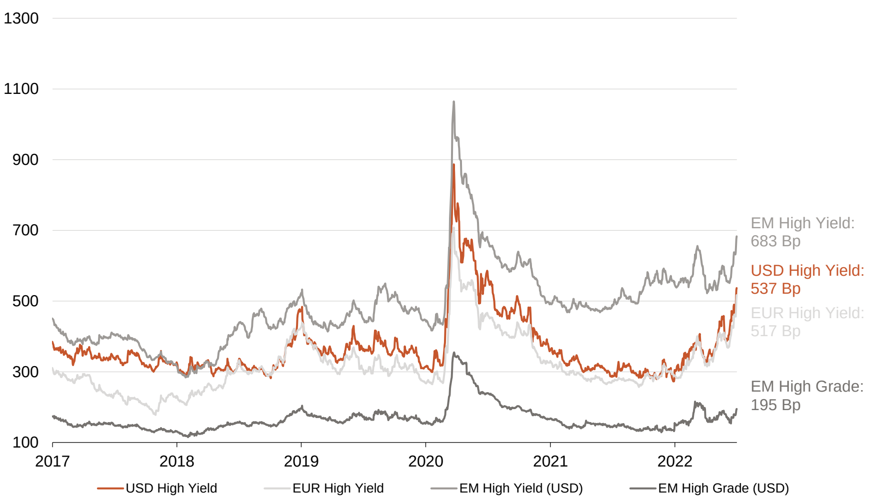
Credit Spreads Financial and Non-Financial Bonds



- Investment grade bonds are increasingly pricing in the risk of a recession. This has been felt in particular by the more cyclical financial sector.
- Spreads on USD financial bonds have risen by 20bps and on EUR corporate bonds by 23bps in the last two weeks.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2017 - 01/07/2022

Credit Spreads High Yield and Emerging Markets Bonds



- In the much more risk-sensitive high-yield market, the risk-off environment is even more noticeable. The risk premiums on USD, EUR and EM high-yield bonds have risen by more than 80 bps in the last two weeks.

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 - 01/07/2022

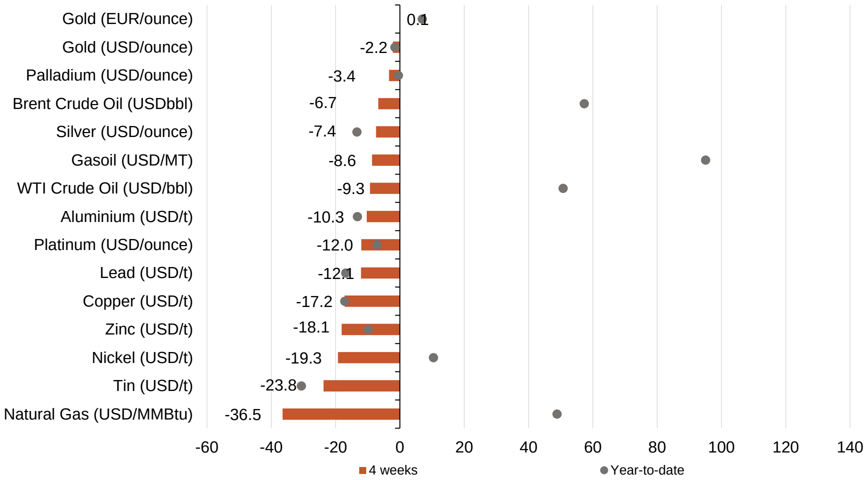
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	01/07/21 01/07/22	01/07/20 01/07/21	01/07/19 01/07/20	01/07/18 01/07/19	01/07/17 01/07/18
EUR Government	1.62	0.04	7.6	-	-	-	-0.3	-11.3	-11.7	0.4	1.8	7.0	1.7
Germany	0.97	0.05	7.7	-	-	-	-0.5	-10.4	-10.2	-1.6	0.3	5.3	2.0
EUR Corporate	2.96	0.53	4.8	129	42	94	-2.5	-11.5	-12.0	3.7	-0.8	5.0	1.2
Financial	2.93	0.54	4.1	140	47	93	-2.2	-9.6	-10.0	3.2	-0.3	4.7	0.9
Non-Financial	2.98	0.52	5.3	123	39	96	-2.7	-12.6	-13.2	4.0	-1.1	5.1	1.3
EUR High Yield	7.43	1.76	3.5	517	138	94	-6.9	-15.0	-14.7	11.4	-2.1	5.9	0.8
US Treasury	2.99	0.09	6.6	-	-	-	0.0	-8.9	-8.5	-3.4	10.8	7.1	-0.6
USD Corporate	4.66	0.33	7.3	179	26	91	-1.9	-13.7	-13.5	3.3	9.5	10.5	-0.7
Financial	4.59	0.38	5.4	175	29	92	-1.5	-11.2	-11.2	3.1	8.8	9.9	-0.7
Non-Financial	4.70	0.31	8.1	181	24	90	-2.0	-14.9	-14.5	3.4	9.8	10.7	-0.7
USD High Yield	8.91	1.69	4.6	537	151	89	-6.6	-13.9	-12.6	15.4	-1.0	7.8	2.5
EM High Grade	4.85	0.33	5.5	195	24	61	-1.5	-13.3	-12.9	4.2	4.9	9.0	-0.1
EM High Yield	11.25	1.71	4.1	683	127	87	-6.0	-18.9	-23.5	12.8	1.6	11.1	-0.3

- In the last four weeks, all bond segments have lost value. However, high-yield bonds lost the most, as in addition to the slight rise in interest rates, the massive increase in spreads weighed on them.
- After the recent spread movement, USD high-yield bonds are historically attractive again. In the last 10 years, spreads were higher only 11% of the time.

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 : 01/07/2017 - 01/07/2022

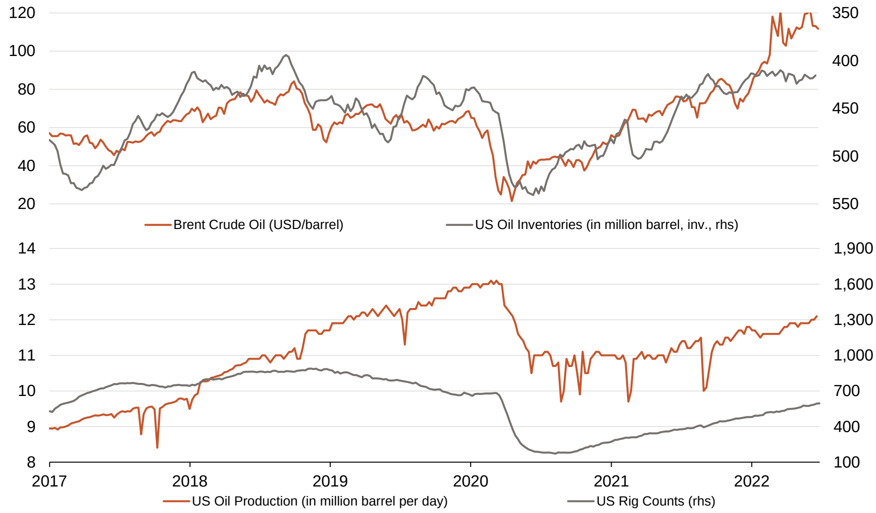
Commodities Performance



- Commodity markets have not had an easy time over the last four weeks. Only gold was able to gain slightly against the euro. Energy commodities such as oil, gas oil and natural gas, on the other hand, recorded losses.
- Industrial metals were also clearly strained. Zinc, nickel and tin in particular suffered significant losses.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period:31/12/2021 - 01/07/2022

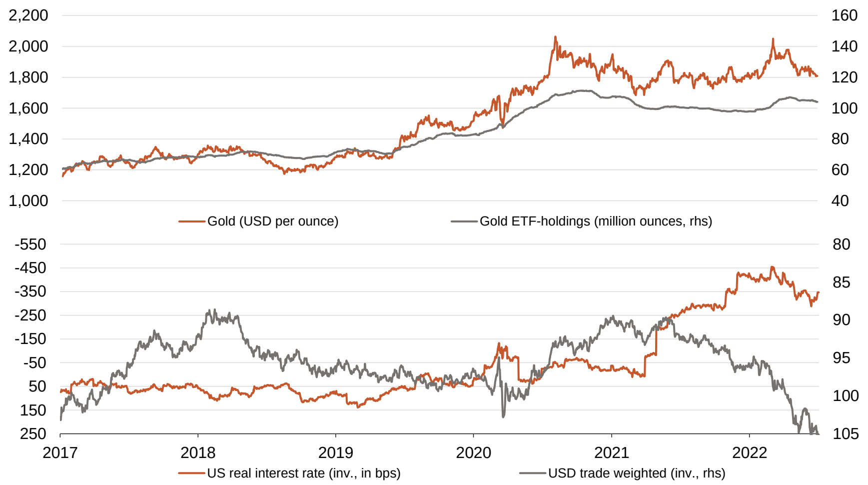
Crude Oil



- Crude oil could not escape the increasingly evident recession concerns and recorded significant losses. Even though a materialising recession would be a headwind for crude oil prices, the supply and demand situation remains very tight.
- Production remains under-invested and below production quotas with respect to OPEC+, nor has a collapse in demand been observed yet with the driving season in the US during the summer.

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 - 01/07/2022

Gold



- Over the past four weeks, gold has remained caught between demand as a safe haven, amid increasing recession concerns, and the restrictive interest rate policy of the central banks to combat persistently high inflation. Overall, the gold price moved sideways in a volatile manner.

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 - 01/07/2022

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IMPORTANT NOTICES

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