BERENBERG Markets

MONITOR

18 July 2022

Current market commentary

In the US, the June inflation rate of 9.1% was again higher and stronger than expected. The market is now even pricing in a 20% chance that the Fed will raise rates by 100 basis points at its July meeting. A Fed Funds Rate of just above 3.5% at the peak is implied until early 2023. For 2023, however, 2-3 rate cuts by the Fed are then priced in. The market expects a "Fed pivot", i.e. that the Fed will quickly reverse its monetary policy in view of weaker growth and easing inflation concerns (high inventories, falling commodity prices, less demand). Equity analysts, on the other hand, are still far from factoring a significant economic slowdown into their earnings estimates. For example, they forecast earnings growth of a good 10% for Europe in 2022. There have been slight reductions in earnings estimates recently, but with the Q2 reporting season now underway, there are likely to be more significant downward adjustments.

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

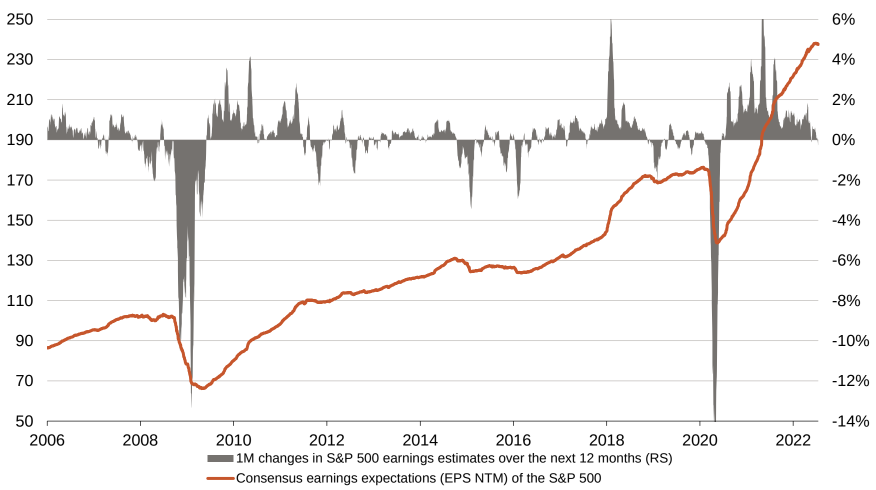
The Q2 reporting season has picked up steam. In the next two weeks, more than 50% of the companies by market capitalisation in the S&P 500 and the Stoxx 600 will report. But it is not only fundamentals that will be exciting, as the ECB is expected to announce its first interest rate hike since 2011, according to market expectations, at its monthly meeting on 21 July. For the Fed meeting on 27 July, the market expects a rate hike of between 75 and 100 basis points. Geopolitically, it is important to observe whether operations will resume after the planned end of Nord Stream 1 maintenance on 21 July.

Q2 reporting season, central banks and energy crisis preoccupy markets.

US housing market data (Jun.) are due on Tuesday and Wednesday. The French Business Climate Index (Jul.) and the Philadelphia Fed Index (Jul.) will follow on Thursday. On Friday, the preliminary Purchasing Managers' Indices (Jul.) for Europe and the US will be released. The ifo Business Climate (Jul.) and US Consumer Confidence (Jul.) are due the following week.

Preliminary purchasing managers' indices for July are likely to provide economic insight.

Earnings expectations likely to come under pressure



- The Q2 reporting season has started with the first negative surprises. This is hardly surprising as analysts' earnings expectations have continued to rise since the beginning of the year despite signs of recession, input cost inflation and supply chain problems.
- Despite this, negative profit revisions have hardly been observed so far. However, these are likely to pick up considerably, as historical comparisons show. After the valuation correction in H1, investors are likely to focus more on fundamentals again.

Source: Factseet, Time period: 01/01/2006 - 15/07/2022

Multi Asset

	4W (17/06/22 - 15/07/22)	YTD (31/12/21 - 15/07/22)	15/07/21 - 15/07/22	15/07/20 - 15/07/21	15/07/19 - 15/07/20	15/07/18 - 15/07/19	14/07/17 - 15/07/18
REITs	8.6	-10.3	1.9	26.3	-13.0	15.9	0.3
MSCI World	7.4	-9.4	0.3	29.8	4.3	9.7	9.6
Global Convertibles	7.1	-10.6	-8.0	31.3	20.7	9.5	8.7
USDEUR	4.0	12.7	17.1	-3.4	-1.4	3.8	-1.8
EUR Coporates	3.0	-10.5	-11.6	3.5	-0.3	4.7	1.3
MSCI Frontier Markets	2.7	-11.0	-2.4	31.2	-13.5	8.7	0.6
EUR Sovereign Debt	2.7	-6.2	-7.1	0.6	0.7	3.6	1.0
MSCI Emerging Markets	0.1	-10.3	-14.2	24.5	2.0	4.5	3.2
Euro overnight deposit	0.0	-0.3	-0.6	-0.5	-0.4	-0.4	-0.4
Gold	-3.3	5.3	9.4	-2.4	26.3	18.1	-0.7
Brent	-5.3	64.0	91.7	59.9	-35.9	-4.5	58.2
Industrial Metals	-13.6	-8.0	5.1	37.6	-4.0	0.2	5.6

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

MSCI World: MSCI World Net Return; MSCI Emerging Markets: MSCI EM Net Return; MSCI Frontier Markets: MSCI Frontier Markets Net Return;
REITs: MSCI World REITs Index; EUR Sovereign Debt: IBOXX Eurozone Sovereign 1-10Y TR; EUR Corporates: IBOXX Euro Corporates Overall TR;
Global Convertibles: SPDR Convertible Securities ETF; Gold: Gold US Dollar Spot; Brent Crude: Bloomberg Brent Crude Subindex TR;
Industrial Metals: Bloomberg Industrial Metals Subindex TR; Euro overnight deposit: ICE BofA Euro Overnight Deposit Rate Index; USDEUR: Price of 1 USD in EUR.

- Over the last month, there has been a large divergence in the performance of different asset classes. While equity and bond markets gained on average, recession worries dominated the commodity sector.
- Since the start of the year, however, Brent remains by far the best performing asset.
- In second place is the US dollar, which reached parity against the euro last week.

Total return for selected asset classes, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 15/07/2017 – 15/07/2022

Equities

	4W (17/06/22 - 15/07/22)	YTD (31/12/21 - 15/07/22)	15/07/21 - 15/07/22	15/07/20 - 15/07/21	15/07/19 - 15/07/20	15/07/18 - 15/07/19	14/07/17 - 15/07/18
S&P 500	9.3	-7.7	5.3	32.6	7.8	13.8	14.0
MSCI USA Small Caps	8.3	-9.7	-2.0	45.2	-5.8	1.4	16.8
MSCI Japan	4.6	-10.6	-7.3	17.5	3.7	1.6	6.8
Stoxx Europe Defensives	4.3	-0.1	8.9	9.3	4.4	5.5	5.7
Stoxx Europe 50	4.1	-6.6	1.6	17.3	-0.2	6.6	0.8
MSCI UK	3.2	0.3	9.3	22.1	-15.1	0.8	6.4
Euro Stoxx 50	1.2	-17.4	-12.1	22.3	-1.5	4.2	0.6
MSCI EM Asia	0.8	-9.7	-14.6	23.7	11.9	1.0	5.0
Stoxx Europe Small 200	0.4	-23.4	-19.6	36.2	-1.8	0.9	7.2
Stoxx Europe Cyclicals	-0.7	-20.5	-14.7	32.4	-3.5	-0.4	0.0
DAX	-2.0	-19.0	-17.7	20.9	4.4	-1.2	-0.7
MSCI EM Eastern Europe	-3.8	-82.6	-81.8	29.0	-16.6	21.7	12.3

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

S&P 500: S&P 500 TR (US-Equity); Stoxx Europe 50: Stoxx Europe 50 TR; Euro Stoxx 50: Euro Stoxx 50 TR; MSCI Japan: MSCI Japan TR;
Stoxx Europe Small 200: Stoxx Europe Small 200 TR; MSCI USA Small Caps: MSCI USA Small Caps TR; Stoxx Europe Cyclicals: Stoxx Europe Cyclicals TR;
Stoxx Europe Defensives: Stoxx Europe Defensives TR; DAX: DAX TR; MSCI United Kindom: MSCI UK TR; MSCI EM Asia: MSCI EM Asia TR;
MSCI EM Eastern Europe: MSCI EM Eastern Europe TR.

- Within equities, US equities performed best, although this was in part due to the strong dollar.
- The worst performers were the DAX and Eastern European equities, weighed down by the ongoing energy crisis and concerns about a gas supply cut-off by Russia.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 15/07/2017 – 15/07/2022

Fixed Income

	4W (17/06/22 - 15/07/22)	YTD (31/12/21 - 15/07/22)	15/07/21 - 15/07/22	15/07/20 - 15/07/21	15/07/19 - 15/07/20	15/07/18 - 15/07/19	14/07/17 - 15/07/18
Treasuries	5.4	2.8	6.1	-6.0	9.8	10.3	-2.2
Bunds	4.6	-9.2	-9.9	-1.1	1.4	4.6	2.6
EUR Non-Financials	3.3	-11.0	-12.1	3.6	-0.3	4.8	1.5
Gilts	2.7	-15.4	-14.5	0.8	9.5	4.2	1.8
EUR Financials	2.7	-9.9	-10.8	3.5	-0.3	4.6	1.1
BTPs	2.3	-11.0	-12.9	4.8	4.3	9.4	-0.2
USD Corporates	1.5	-13.4	-14.0	2.8	11.3	9.4	-0.1
EM Local Currency Bonds	0.6	-6.5	-7.5	0.5	-3.7	13.0	-4.2
USD High Yield	0.6	-12.4	-11.3	13.6	0.7	7.3	2.7
Chinese Gov Bond	0.2	1.9	4.6	4.0	4.2	5.9	3.9
EM Hard Currency Bonds	-0.1	-12.3	-10.3	3.0	0.0	14.4	-1.4
EUR High Yield	-1.2	-13.9	-13.8	10.7	-1.5	4.9	1.9

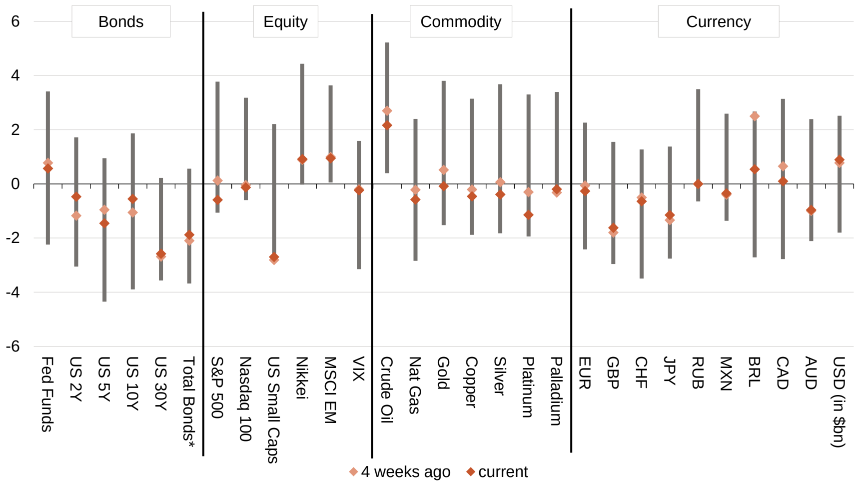
4-week & YTD; 12-month periods over that last 5 years

Bunds: IBOXX Euro Germany Sov TR ; BTPs: IBOXX Euro Italy Sov TR ; Treasuries: ICE BofA US Treasury TR;
Gilts: IBOXX Sterling Gilts Overall TR; Chinese Gov Bonds: ICE BofA China Govt; EUR Financials.: IBOXX Euro Fin. Overall TR;
EUR Non-Financials: IBOXX Euro Non-Fin. Overall TR; EUR High Yield: ICE BofA EUR Liquid HY TR; USD Corporates: ICE BofA USD Corp TR;
USD High Yield: ICE BofA USD Liquid HY TR; EM Hard Currency: JPM EMBI Glo Div Unh. EUR TR; EM Local Currency: JPM GBI-EM Glo Div Comp Unh. EUR TR

- Bonds posted positive performance with the exception of riskier emerging market government bonds and EUR high-yield bonds.
- Safe havens such as German or US government bonds performed best.
- Since the beginning of the year, the latter have even posted a positive return in EUR terms alongside Chinese government bonds.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 15/07/2017 – 15/07/2022

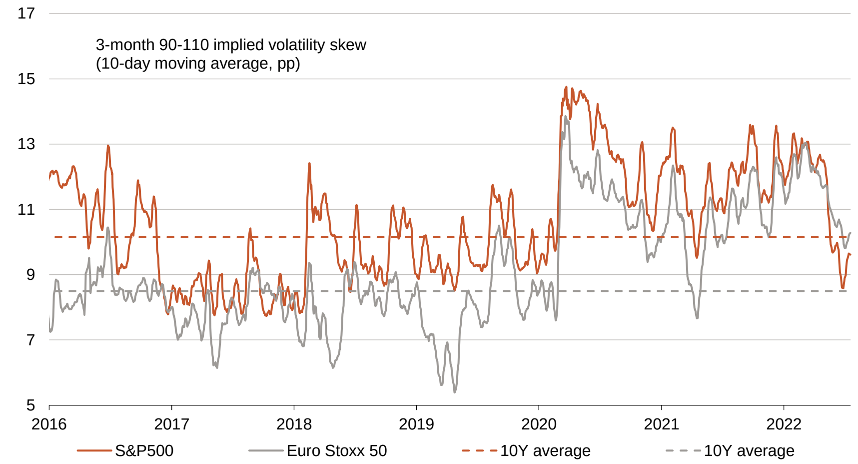
Non-Commercial Positioning



- Speculative investors are increasingly positioning themselves for a recession. They are now (historically very unusual) net short in the S&P 500.
- They have also significantly reduced their exposure to commodities and commodity-related currencies such as 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: 12/07/2012 - 12/07/2022

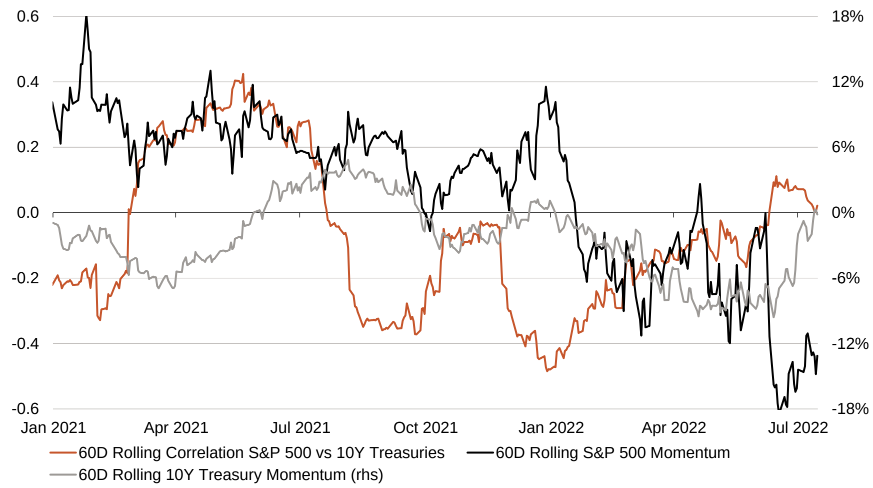
Put-Call-Skew



- After falling for weeks, the put-call skew has recently steepened significantly again, especially in the US.
- However, this is not because puts have become much more expensive, but rather because the call skew (100-110) has flattened. Investors are therefore betting less on rising prices for the next three months.

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: 15/07/2012 - 15/07/2022

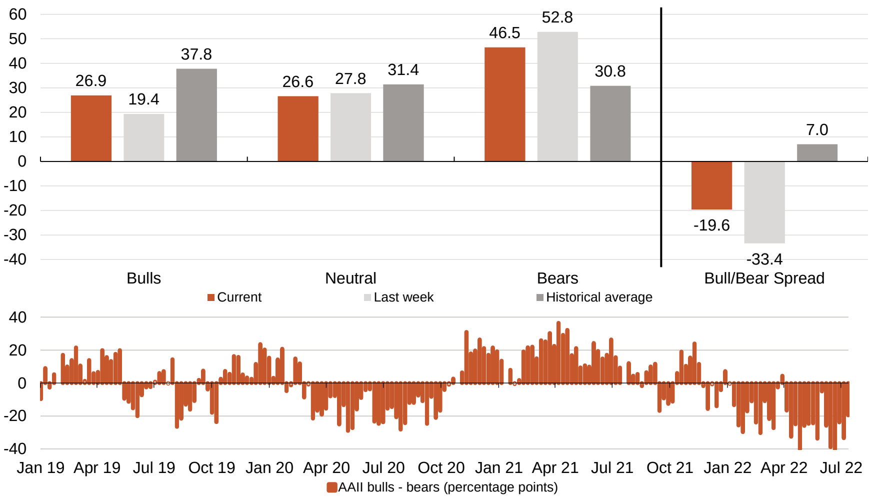
60-Day Momentum and Correlation



- The momentum of US Treasuries recently reached positive territory for the first time since the beginning of the year. The momentum of US equities remains poor. Accordingly, the correlation between the two asset classes has recently fallen again somewhat.
- Systematic investors are likely to have only little exposure to equities.

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 - 15/07/2022

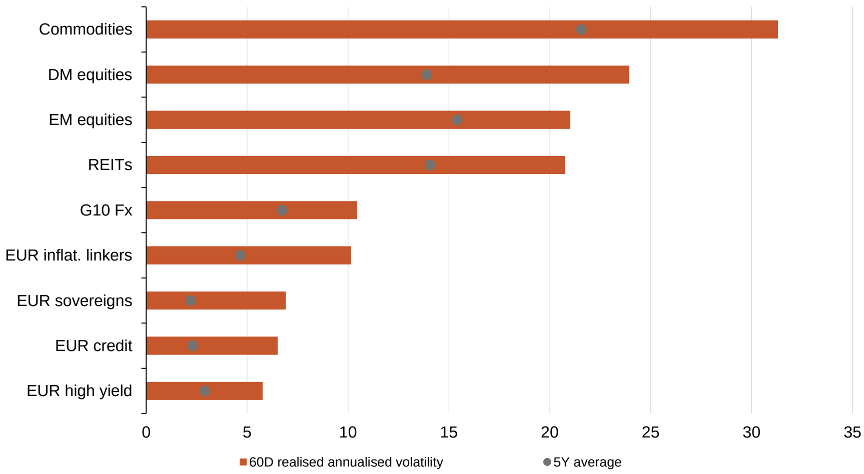
AAII Sentiment Survey (Bulls vs Bears)



- US private investors continue to be pessimistic about the future. In fact, there has only been one week so far this year in which the bulls have outweighed the bears. In this respect, the latest bull/bear spread of -20 ppts is in line with the average sentiment this year.

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 – 15/07/2022

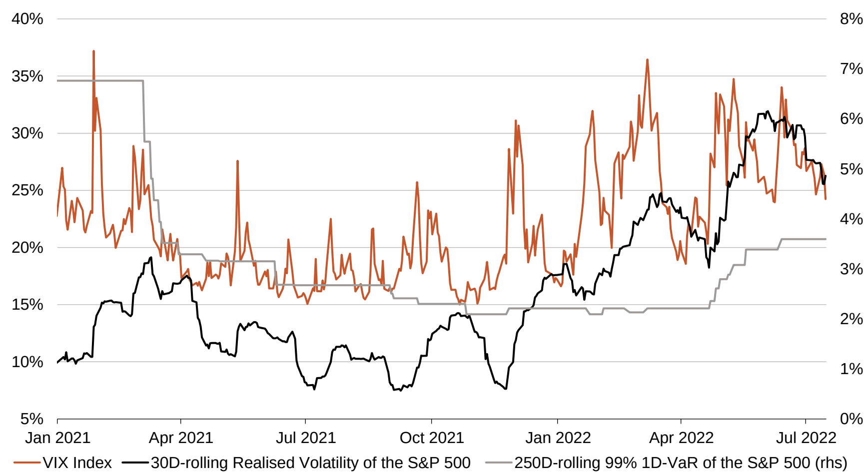
Realised Volatilities



- Not surprisingly, given the prevailing macroeconomic, monetary and geopolitical uncertainty, volatility remains above average in all markets.
- The volatility of European high-yield bonds is surprisingly low relative to other asset classes, although both interest rates and spreads have risen. The reason for this is probably the shorter duration of high-yield bonds.

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: 15/07/2017 - 15/07/2022

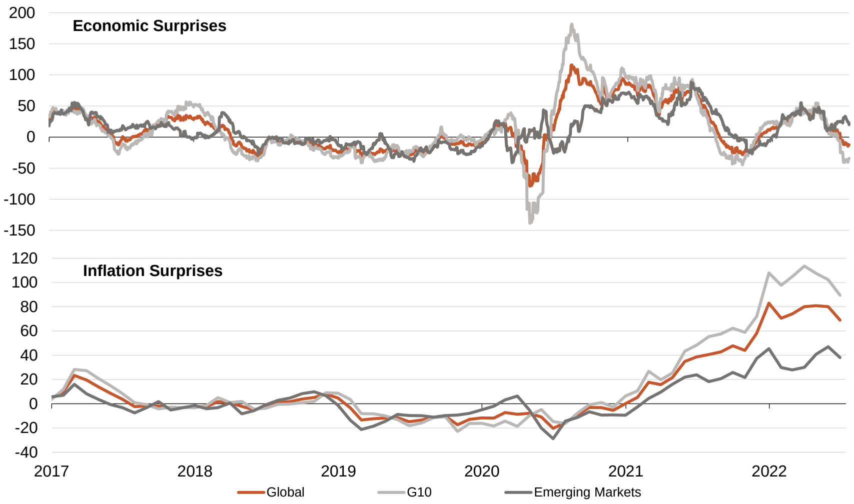
Volatility and Value-at-Risk of the S&P 500



- The VIX has traded around the 25 mark since the start of the year, well above the average of 17.5 over the past 10 years. Risk-based investment strategies are likely to have low exposure to equities.

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 – 15/07/2022

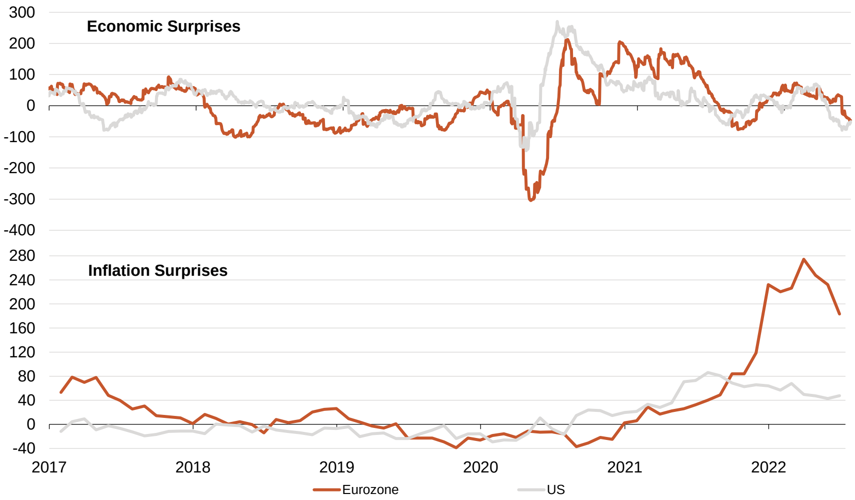
Global



- Positive economic surprises continue to dominate in emerging markets although they are fading. In China, Q2 economic growth and June industrial production have recently disappointed.
- In the industrialised nations, however, negative economic surprises continue to dominate.
- The upside-surprising inflation data was seen to have peaked, although upside surprises continue.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 15/07/2022

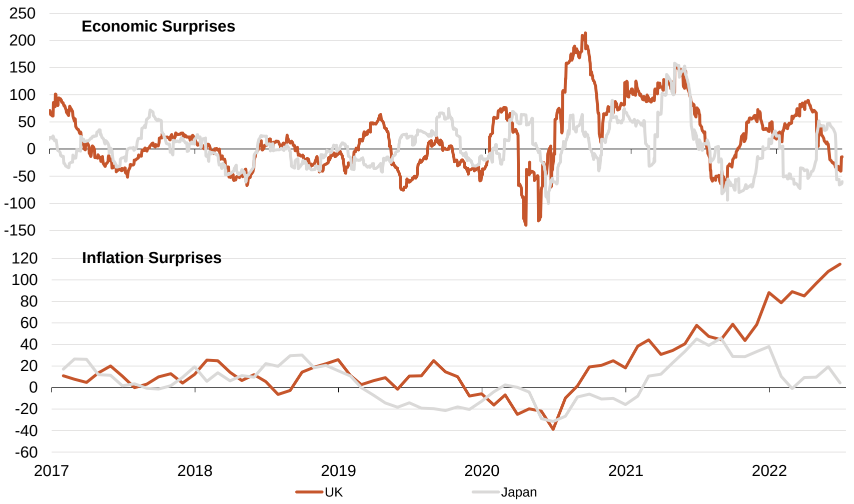
Eurozone and US



- In the US, some economic data such as new orders, the service PMI and consumer confidence recently surprised to the upside. Industrial production data, on the other hand, disappointed.
- In the Eurozone, however, negative surprises dominated. The German ZEW index, German industrial production and the French service PMI were below expectations.
- Inflation surprises in the Eurozone recently decreased due to government measures.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 15/07/2022

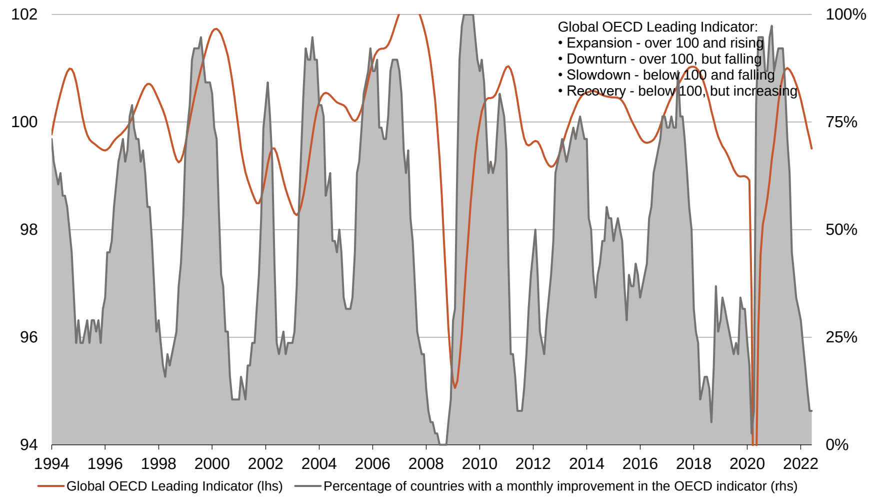
UK and Japan



- In the UK, industrial production data recently surprised to the upside, while the service PMI disappointed. The inflation surprise, on the other hand, continues to point upwards.
- In Japan, machinery orders and industrial production data disappointed.

The Citigroup Economic Surprise Indices are defined as weighted historical normalised data surprises (actual releases vs. Bloomberg survey median) over the past three months. A positive value of the index indicates that, on balance, economic data have outperformed consensus. The indices are calculated daily in a rolling three-month window. The indices use a time decay function to replicate the markets' limited memory, i.e. the weight of a data surprise decreases over time.
Source: Bloomberg, period: 01/01/2017 - 15/07/2022

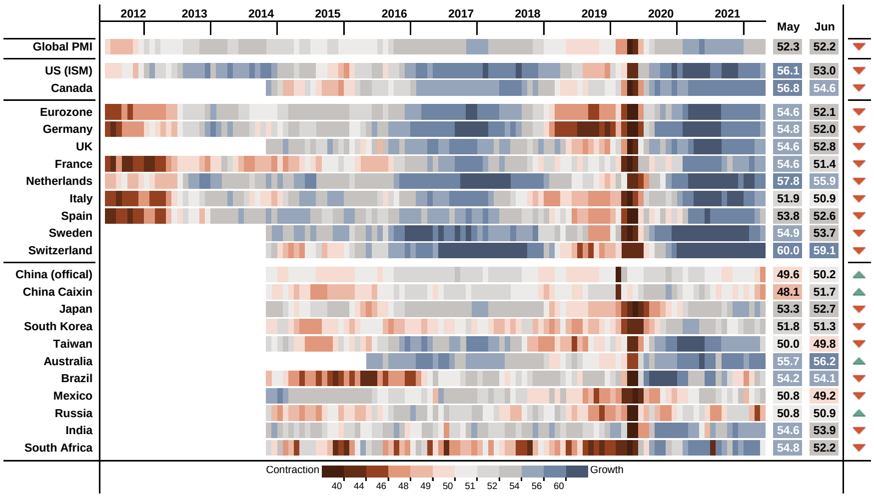
OECD Leading Indicator



- The OECD Leading Indicator, at well below 100 and falling, has been pointing to a significant slowdown in the global economy for some time.
- This picture is confirmed by the local indicators, where only 8% of the countries saw an improvement in the leading indicator compared to the previous month.

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

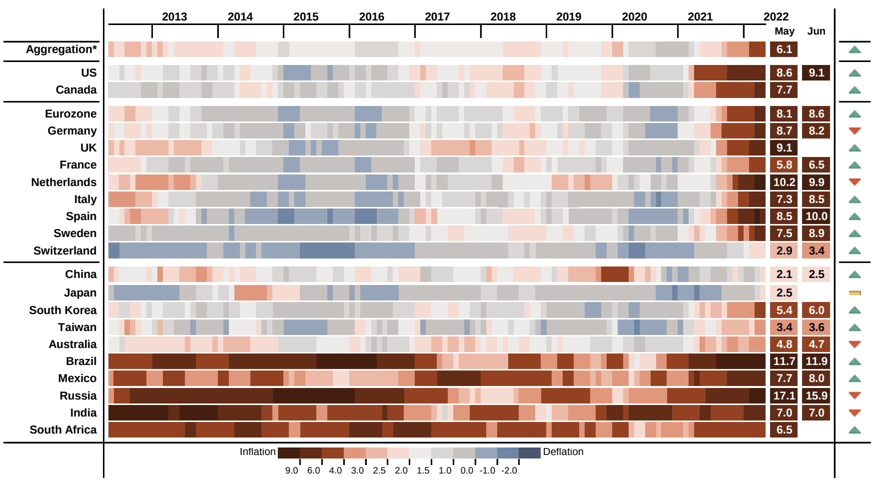
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- June PMIs deteriorated in all Western countries, but still managed to stay above the 50 growth mark.
- Taiwan and Australia, on the other hand, already have PMIs below 50, while China has seen a recovery.

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 - 30/06/2022

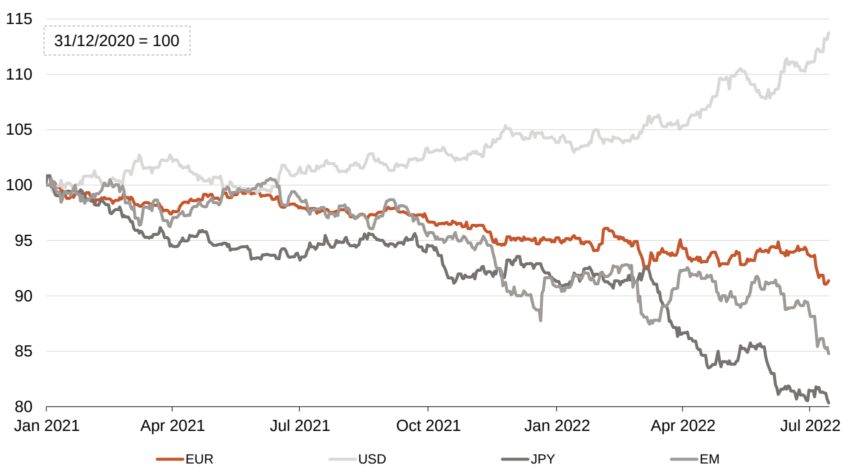
Headline Inflation



- Inflationary pressures did not abate in June. In the USA, inflation surprised significantly upwards in June with 9.1%. Noticeably rising fuel prices were partly responsible.
- But inflation continues to rise in many emerging markets as well. In China, inflation rose to 2.5% in June, but is still well below the global level.

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 - 30/06/2022

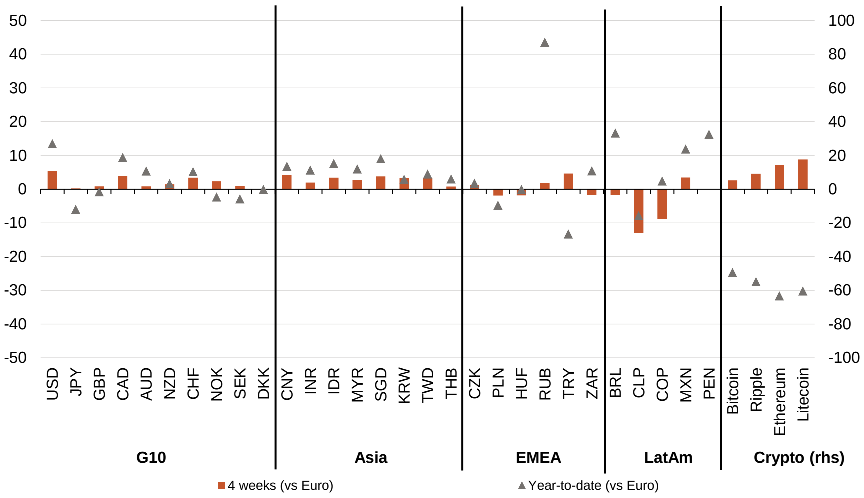
Trade-Weighted Currency Development



- The US dollar is relentlessly appreciating, fuelled by the restrictive Fed and ever-increasing recession worries.
- The euro and emerging market currencies are suffering.
- The Japanese yen continues to suffer from the Bank of Japan's ultra-expansive monetary policy, despite being a safe haven.

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 - 15/07/2022

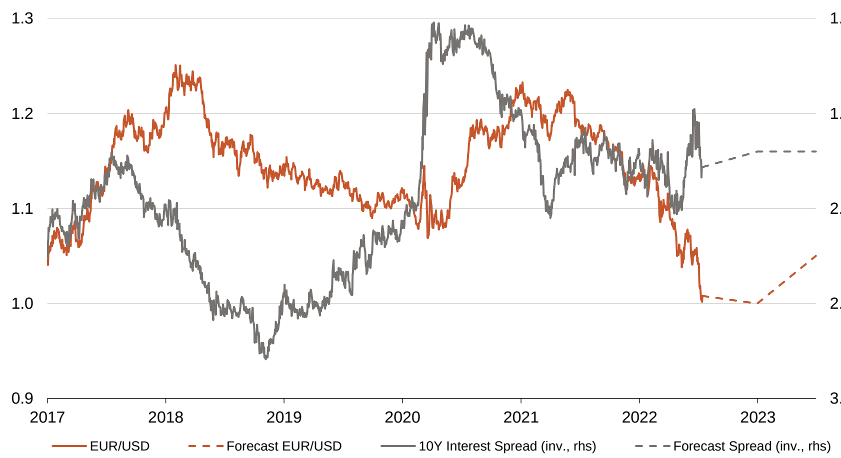
Currency Moves vs Euro



- The currencies of the G10 and Asia appreciated broadly against the euro over the last month. Above all, the gloomy economic outlook should Russia not turn on the gas tap after the scheduled maintenance of Nordstream 1 weighed heavily on the euro.
- Commodity-sensitive currencies from Latin America performed the worst.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2021 - 15/07/2022

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



- The EUR/USD exchange rate reached parity again last week for the first time in almost 20 years. This means that the dollar has now appreciated by almost 14% against the euro since the beginning of the year.
- Meanwhile, the interest rate differential between Bunds and US Treasuries has widened by about 30 basis points.

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

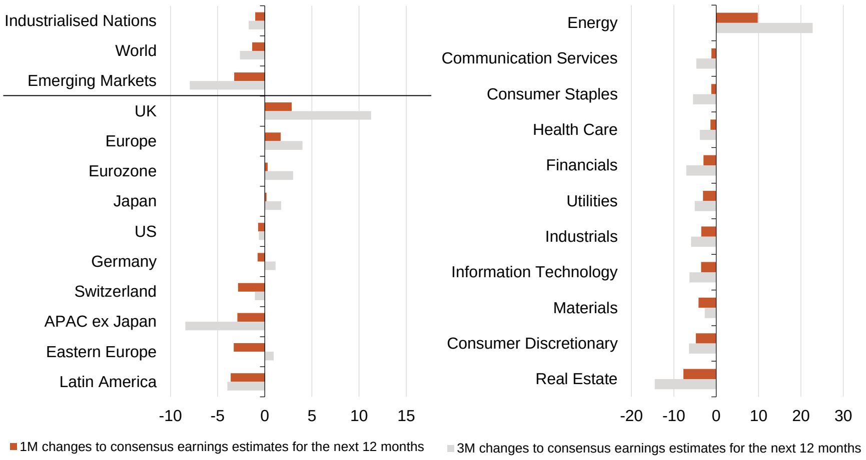
	4-week & YTD: 4W (17/06/22 - 15/07/22)	YTD (31/12/21 - 15/07/22)	12-month periods over that last 5 years: 15/07/21 15/07/22	15/07/20 15/07/21	15/07/19 15/07/20	15/07/18 15/07/19	14/07/17 15/07/18
Health Care	9.5	1.1	10.7	6.4	22.0	9.1	-1.3
Communication Services	7.7	-4.5	2.5	13.2	-1.4	11.9	-2.6
Growth	7.3	-17.7	-10.5	25.2	8.0	7.5	4.2
Consumer Discretionary	5.2	-22.2	-19.5	45.7	-6.0	2.5	5.7
Industrials	4.1	-21.0	-14.3	35.9	1.0	4.0	2.6
Information Technology	2.8	-30.6	-24.1	33.3	16.2	5.4	16.3
Telecommunications	2.8	1.1	-0.3	17.0	-12.6	0.2	-9.9
Utilities	1.2	-9.0	-1.9	8.3	14.6	13.9	4.7
Value	-1.2	-7.2	-1.2	22.8	-13.3	-0.1	0.2
Finance	-2.8	-14.4	-5.5	26.7	-17.0	-0.8	-7.9
Energy	-3.1	15.1	36.1	16.7	-37.3	-2.1	32.3
Materials	-5.3	-16.9	-14.0	38.0	3.2	0.4	10.6

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.

- With the shift in investor focus from inflation to recession concerns, growth stocks have significantly outperformed value stocks over the past four weeks.
- Recession concerns also boosted defensive sectors such as healthcare and consumer staples.
- The more cyclical energy stocks, on the other hand, were the losers.

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: 14/07/2017 – 15/07/2022

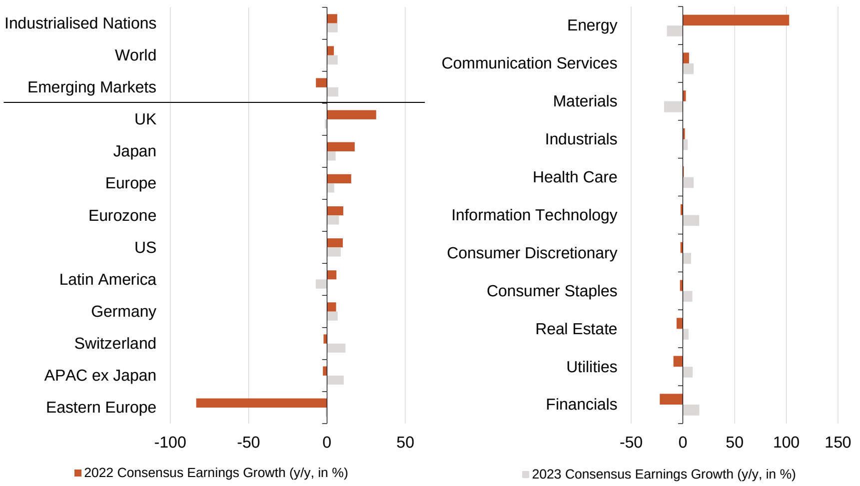
Changes in Consensus Earnings Estimates



- Analysts have been scrambling to get ahead of the Q2 results over the last four weeks. The bulk of the negative earnings revisions in the last three months took place over the last four weeks.
- Emerging markets saw the most significant negative earnings revisions. Recession concerns and falling commodity prices weigh on the corporate outlook.
- At the sector level, only the energy sector 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 15/07/2022

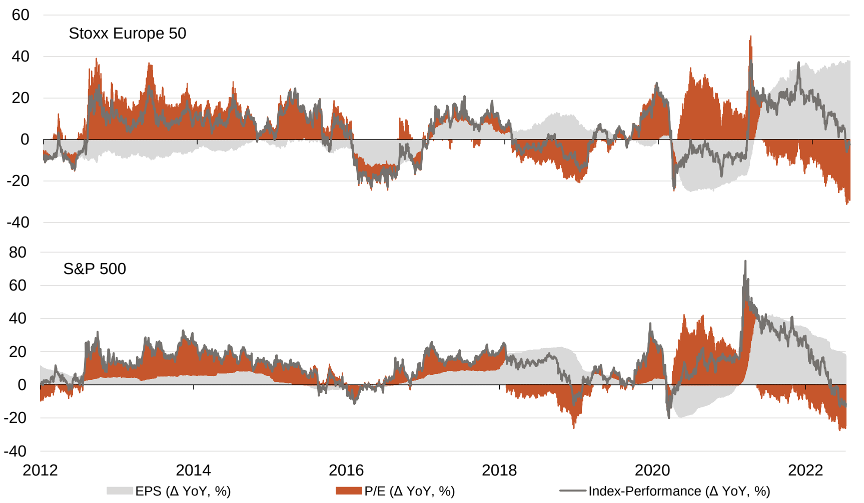
Earnings Growth



- For the developed world, consensus continues to see positive earnings growth in both 2022 and 2023. The Q2 reporting season will show whether this can be sustained, at least for 2022.
- Positive earnings revisions in the energy sector have increased expected earnings growth to 100% in 2022. However, according to analysts, earnings are likely to fall slightly 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 15/07/2022

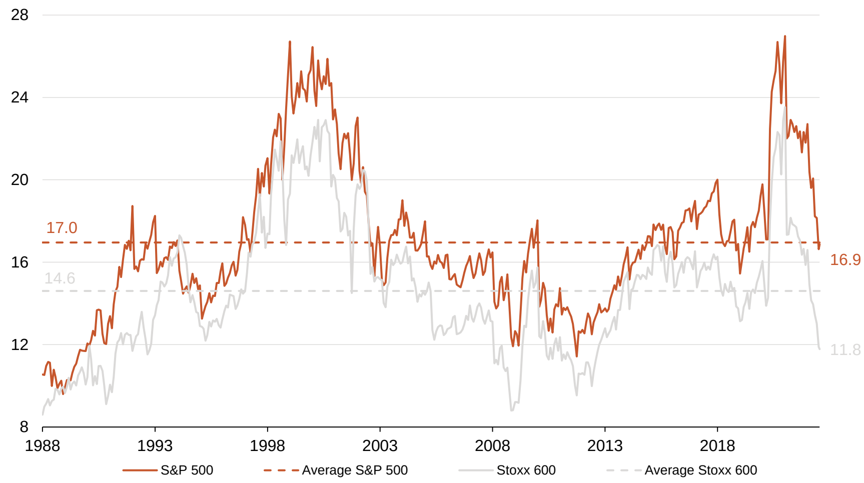
Contribution Analysis



- The earnings trend was recently able to support the Stoxx Europe 50, while the valuation adjustment continued to be a burden.
- The S&P 500, on the other hand, suffered from both the valuation adjustment and lower year-on-year earnings growth.

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 – 15/07/2022

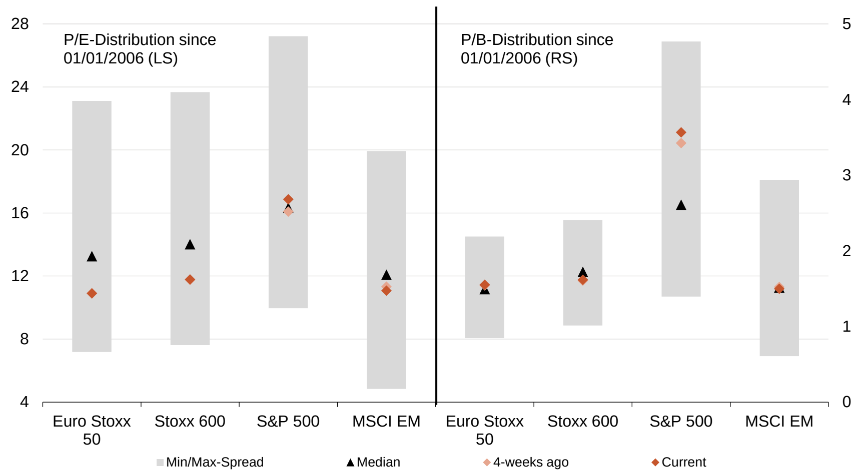
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Both the S&P 500 and the Stoxx Europe 600 are now trading below their historical average valuation. However, in the event of a more severe recession, valuation levels are likely to fall further. This is especially true for the S&P 500, which is trading only slightly below its historical average.

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 – 15/07/2022

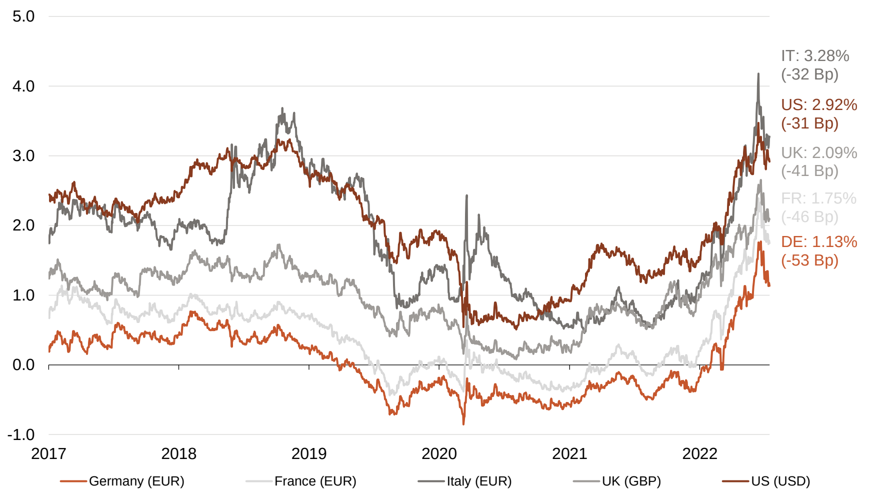
Historical Distribution: Price/Earnings and Price/Book Ratio



- Valuation adjustments have slowed down considerably in the last four weeks. Both the P/E ratio and the P/B ratio for the majority of the indices have hardly changed compared to four weeks ago or have even increased in some cases.

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 – 15/07/2022

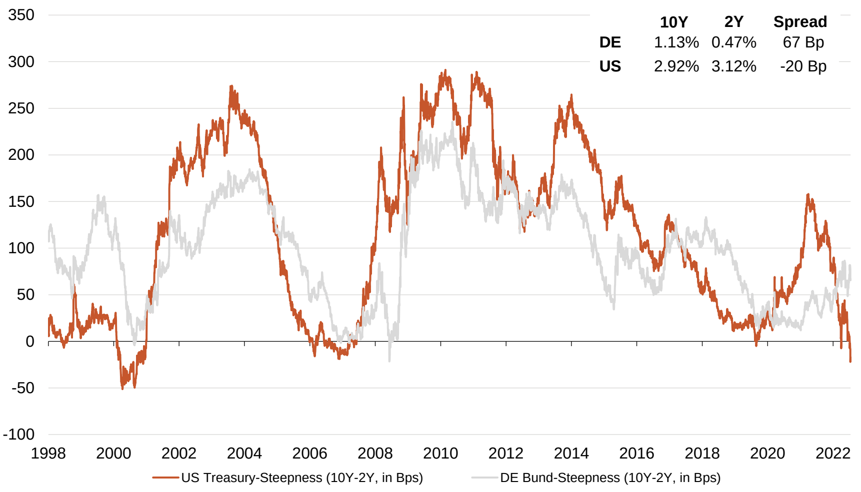
10-Year Government Bond Yields



- In the last two weeks, government bond yields have risen, even though they are below the levels of four weeks ago. The surprisingly high US inflation data for June has put upward pressure on yields once more.
- The riskier Italian bonds saw the biggest movement and are now yielding close to 3.3%.

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 – 15/07/2022

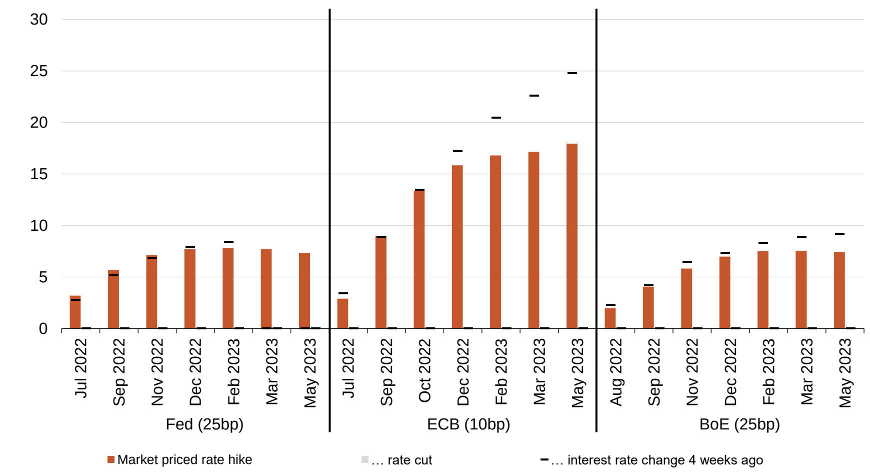
Yield Curve Steepness (10Y - 2Y)



- The US yield curve has continued to invert sharply in recent weeks due to recession fears and is now below levels seen in 2006.
- For German bonds, the steepness of the yield curve is still clearly in the positive territory.

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 – 15/07/2022

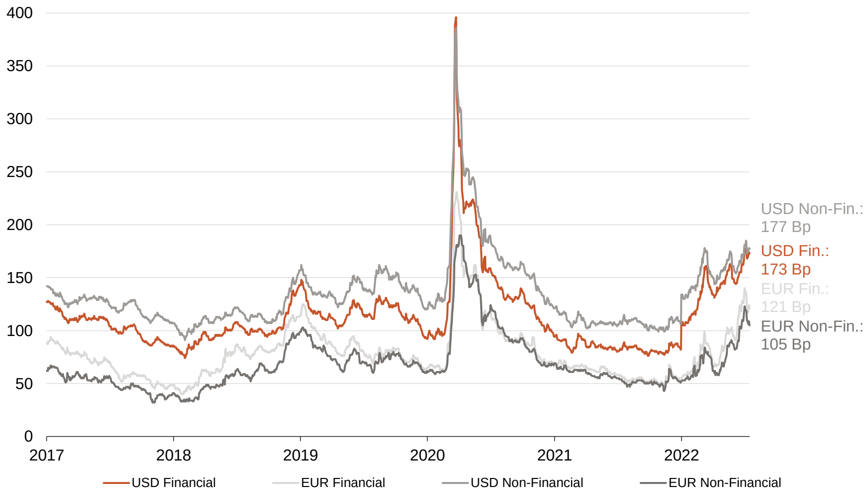
Implicit Changes in Key Interest Rates



- The US June inflation figures again surprised to the upside at 9.1%. However, many market participants see this as a high point, as commodity and especially energy prices have fallen noticeably recently with the recessionary backdrop. The market expects a rate hike between 75 and 100 bp in July. From March 2023, on the other hand, the market sees central bank interest rates falling again.
- In the Eurozone and the UK, interest rate expectations have recently fallen somewhat.

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: 17/06/2021 – 15/07/2022

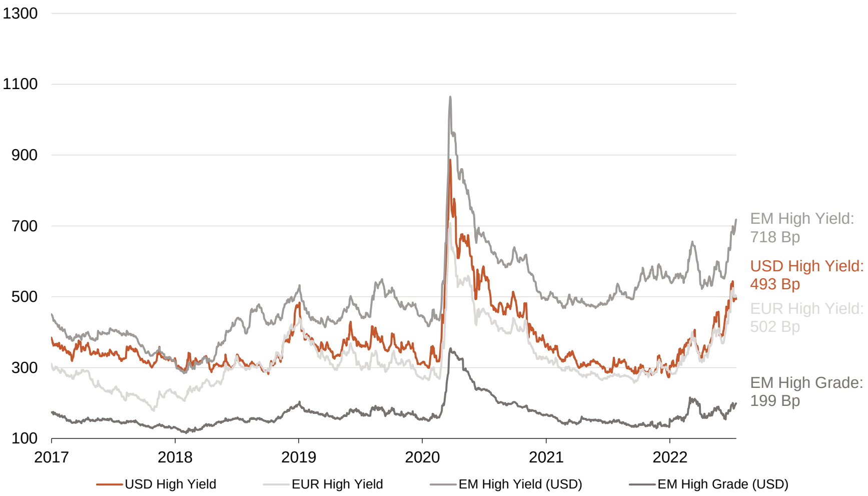
Credit Spreads Financial and Non-Financial Bonds



- Investment grade corporate bonds tended to see falling spreads over the last two weeks. This was particularly the case for EUR corporate bonds.
- EUR financial bonds saw a spread tightening of around 15 basis points, while non-financial bonds saw a spread tightening of just under 10 basis points.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2017 – 15/07/2022

Credit Spreads High Yield and Emerging Markets Bonds



- Spreads on EUR and USD high-yield bonds have also come back slightly, even though they are trading at a significantly higher level.
- The pressure on EM high-yield bonds, on the other hand, has not diminished. Recession worries and high default rates on Chinese high-yield bonds are weighing on the asset class.

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 – 15/07/2022

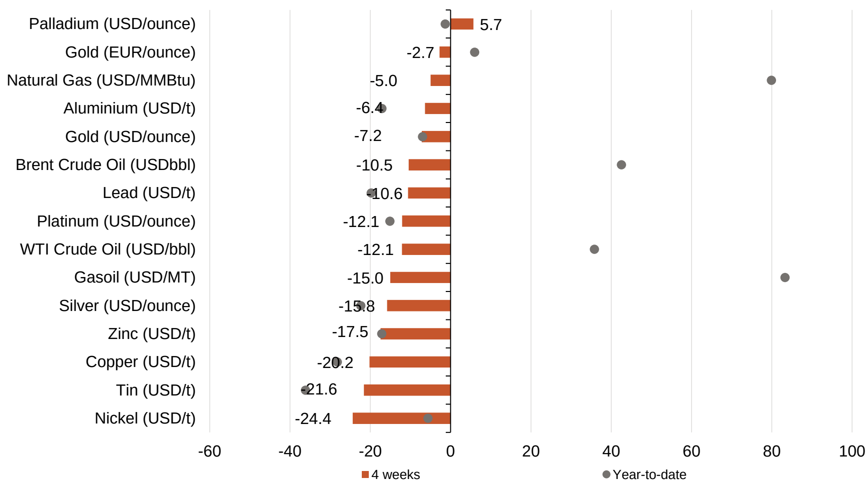
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	15/07/21 15/07/22	15/07/20 15/07/21	15/07/19 15/07/20	15/07/18 15/07/19	15/07/17 15/07/18
EUR Government	1.60	-0.53	7.7	-	-	-	4.0	-10.8	-12.1	0.6	2.7	6.5	2.5
Germany	0.83	-0.57	7.8	-	-	-	4.2	-9.3	-10.0	-1.1	1.4	4.6	2.5
EUR Corporate	2.76	-0.43	4.8	111	8	86	2.5	-10.4	-11.4	3.5	-0.2	4.7	1.4
Financial	2.75	-0.44	4.0	121	6	86	2.3	-8.7	-9.5	3.0	0.0	4.5	1.1
Non-Financial	2.76	-0.43	5.3	105	10	88	2.6	-11.3	-12.4	3.8	-0.4	4.8	1.5
EUR High Yield	7.23	0.51	3.5	502	90	93	-2.0	-13.9	-13.8	10.7	-1.5	4.9	1.9
US Treasury	3.14	-0.29	6.6	-	-	-	2.6	-9.1	-9.7	-2.9	11.8	6.6	-0.3
USD Corporate	4.70	-0.19	7.3	176	16	90	2.2	-13.4	-14.0	2.8	11.3	9.4	-0.1
Financial	4.69	-0.11	5.4	173	20	92	1.5	-11.2	-11.8	2.9	10.0	9.1	-0.3
Non-Financial	4.70	-0.23	8.2	177	14	88	2.5	-14.4	-15.0	2.9	11.8	9.5	0.0
USD High Yield	8.56	0.19	4.6	493	50	82	-0.3	-12.4	-11.3	13.6	0.7	7.3	2.7
EM High Grade	5.01	-0.05	5.5	199	30	64	0.1	-13.9	-14.0	4.0	5.5	8.6	0.3
EM High Yield	11.99	1.56	4.0	718	139	92	-6.2	-21.7	-26.2	11.9	2.1	11.2	-0.4

- Spreads on EUR and USD high-yield bonds have also come back slightly, even though they are trading at a significantly higher level.
- The pressure on EM high-yield bonds, on the other hand, has not diminished. Recession worries and high default rates on Chinese high-yield bonds are weighing on the asset class.

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 – 15/07/2022

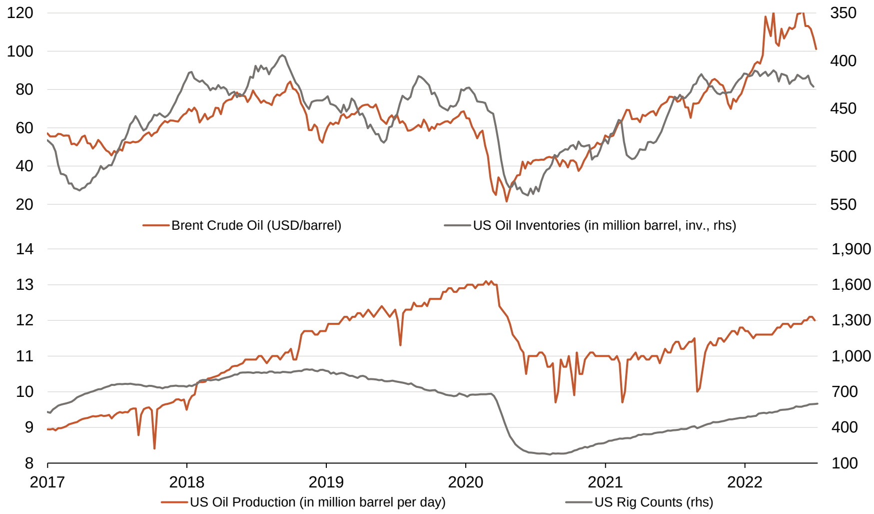
Commodities Performance



- Recession fears have hit commodities market hard over the last four weeks.
- Industrial metals and energy commodities in particular have corrected strongly in anticipation of falling demand.
- Industrial metals are now even showing (significant) losses since the beginning of the year.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2021 – 15/07/2022

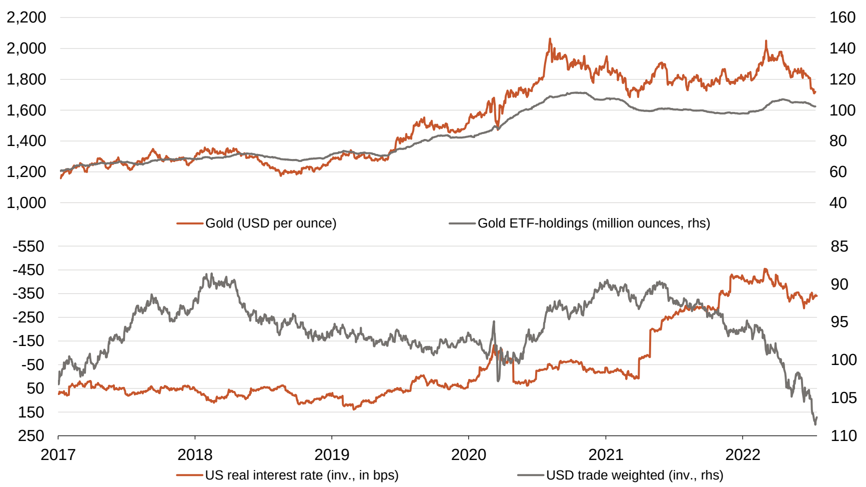
Crude Oil



- Crude oil (Brent) fell below the USD 100 per barrel mark last week for the first time since April.
- However, according to OPEC's outlook and the latest statements by the IEA, the physical market is likely to remain very tight, as producers continue to have difficulties expanding their output due to a lack of investment in recent years.

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 – 15/07/2022

Gold



- Gold continued its downward trend in recent weeks and is now trading at only USD 1,710 per ounce. However, much of the recent performance is driven by the strong dollar. Measured in euros, gold is still about 5% ahead since the beginning of the year.

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 – 15/07/2022

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