Current market commentary

The last two weeks have been all about "Bad News is Good News". Eurozone PMIs signalled contraction and US economic growth was now negative for the second consecutive quarter – the US is in a technical recession. Meanwhile, central banks continued to raise interest rates, the ECB by 50Bp, the Fed by 75Bp. However, Powell said from now on data-driven to decide on further interest rate steps. Hopes of a short recession, coupled with looser financing conditions in the near future, led to a rally across all asset classes. Investors should focus more on earnings stability and growth and less on valuations in this environment, and our quality-growth style should work better again. However, we believe it is too early to sound the all-clear on equities. Profit expectations are still ambitious, cost pressures are high, inflation is not yet on the decline, the Fed has not yet turned around and the energy crisis is smouldering.

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

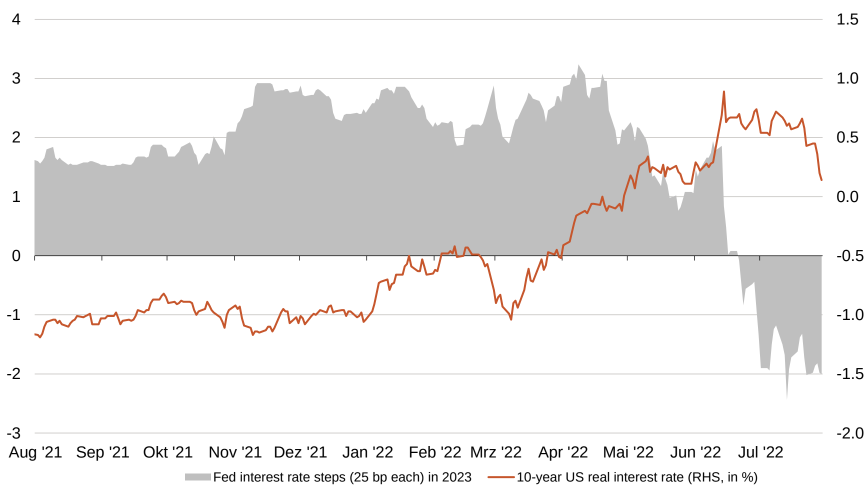
Q2 reporting season, Bank of England and OPEC+ in market focus.

After the last two weeks were dominated by the interest rate decisions of the Fed and ECB, more calm returns to the central bank front for the next two weeks. Only the Bank of England will publish the July inflation report and the new interest rate decision on 4 August. The Q2 reporting season remains in full swing. With 50% of the companies in the S&P 500 and Stoxx 600 having already reported, the second half will follow until mid-August. Geopolitically, things are also getting exciting. In times of energy shortages, OPEC+ will decide on further production levels on 3 August.

Final purchasing managers' indices and inflation data for July should provide economic insight.

After the final purchasing managers' data (Jul.) for the US, Europe and China are published today, US industrial orders are due on Wednesday, the US trade balance on Thursday (Jun.) and US labour market data on Friday (Jul.). In the following weeks, inflation data (Jul.) and preliminary US consumer confidence (Aug.) will be released for the US and Europe.

Switch of favourites due to expected "Fed pivot" with rate cuts in 2023



- The Fed raised rates faster and more sharply than expected at the beginning of the year. A sharp rise in real rates and the burden on all but especially highly valued assets followed.
- With the recession looming and after the big rate hikes, the market now expects a Fed turnaround and rate cuts rather than hikes in 2023. This led to falling real rates and a change of favourites in the market: from winners since the beginning of the year to losers and thus also from value to growth and quality stocks.

Source: Bloomberg, Time period: 30/09/2020 – 29/07/2022

Multi Asset

	4-week & YTD: 4W (01/07/22 - 29/07/22)	4-week & YTD: YTD (31/12/21 - 29/07/22)	12-month periods over that last 5 years: 29/07/21 29/07/22	29/07/20 29/07/21	29/07/19 29/07/20	29/07/18 29/07/19	28/07/17 29/07/18
MSCI World	9.5	-4.2	5.2	33.9	0.9	9.5	12.9
REITs	8.7	-4.5	8.9	24.5	-11.9	17.3	-0.4
Global Convertibles	7.0	-7.8	-6.0	34.8	17.2	11.7	9.6
Industrial Metals	6.4	2.6	13.7	43.2	-6.7	1.0	5.8
EUR Coporates	3.8	-8.3	-9.8	3.2	-0.4	5.9	0.7
MSCI Frontier Markets	3.6	-10.2	-2.0	37.9	-18.9	8.1	3.4
MSCI Emerging Markets	2.6	-8.2	-8.1	20.3	0.7	2.8	5.9
USDEUR	2.0	11.3	16.3	-0.8	-5.5	4.6	0.8
EUR Sovereign Debt	1.5	-4.9	-6.2	0.7	0.6	4.4	0.3
Euro overnight deposit	0.0	-0.3	-0.6	-0.6	-0.4	-0.4	-0.4
Gold	-0.5	7.4	12.4	-8.0	30.6	22.0	-2.9
Brent	-1.3	74.1	98.6	67.7	-35.9	-6.7	53.0

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.

- After the Federal Reserve decided last week to raise interest rates again by 75 basis points, markets priced in the beginning of a slowdown in the restrictive interest rate policy. Accordingly, markets recovered and both equities and interest rate-sensitive REITs gained significantly.
- In contrast, commodities suffered moderate losses. Brent in particular remained depressed.

Total return for selected asset classes, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 28/07/2017 – 29/07/2022

Equities

	4-week & YTD: 4W (01/07/22 - 29/07/22)	4-week & YTD: YTD (31/12/21 - 29/07/22)	12-month periods over that last 5 years: 29/07/21 29/07/22	29/07/20 29/07/21	29/07/19 29/07/20	29/07/18 29/07/19	28/07/17 29/07/18
MSCI USA Small Caps	11.4	-3.2	3.4	48.9	-8.4	4.5	17.9
S&P 500	10.3	-2.4	10.6	36.5	4.1	14.4	17.1
Stoxx Europe Cyclicals	9.7	-13.7	-9.5	37.8	-5.0	-3.0	4.3
Stoxx Europe Small 200	9.5	-17.2	-15.4	40.2	-2.3	-0.4	10.1
MSCI Japan	8.7	-6.0	-1.6	21.1	-0.4	-2.0	12.3
Euro Stoxx 50	7.6	-11.8	-7.6	27.1	-4.4	2.7	4.4
MSCI UK	7.0	5.5	13.7	27.5	-18.5	1.6	9.1
Stoxx Europe 50	6.5	-2.2	5.4	21.5	-3.7	5.2	5.9
DAX	5.2	-15.1	-13.8	22.0	3.3	-3.4	5.7
MSCI EM Eastern Europe	3.8	-81.5	-80.8	29.3	-15.9	21.6	15.0
Stoxx Europe Defensives	3.1	2.1	10.2	13.4	0.3	5.2	9.8
MSCI EM Asia	1.6	-8.7	-8.3	18.4	9.8	0.1	7.0

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 saw a slight recovery over the last four weeks. American shares in particular – especially small caps – gained. Japanese, British and European stock indices also rose.
- Cyclical stocks held up better than defensive stocks.
- Asian equities brought up the rear.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 28/07/2017 – 29/07/2022

Fixed Income

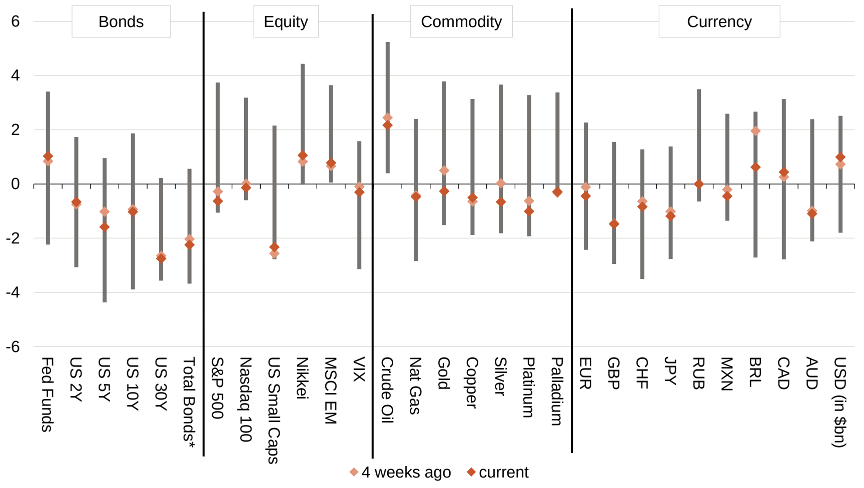
	4-week & YTD: 4W (01/07/22 - 29/07/22)	4-week & YTD: YTD (31/12/21 - 29/07/22)	12-month periods over that last 5 years: 29/07/21 29/07/22	29/07/20 29/07/21	29/07/19 29/07/20	29/07/18 29/07/19	28/07/17 29/07/18
USD High Yield	5.8	-8.9	-7.7	11.2	2.7	7.1	2.3
EUR High Yield	4.9	-10.8	-10.9	9.7	-0.9	5.1	1.4
Gilts	4.1	-12.0	-13.0	2.4	10.5	4.5	2.3
EUR Non-Financials	4.1	-8.6	-10.3	3.2	-0.4	6.2	0.9
EM Hard Currency Bonds	3.9	-8.6	-5.8	3.5	-3.1	16.1	1.1
EUR Financials	3.6	-7.8	-9.2	3.2	-0.3	5.4	0.4
Bunds	3.5	-7.2	-8.7	-0.6	0.9	6.0	1.8
Treasuries	3.0	3.0	6.6	-3.8	5.6	12.5	-0.5
USD Corporates	2.7	-11.4	-12.2	1.8	11.8	10.4	-0.8
EM Local Currency Bonds	2.5	-4.4	-5.4	1.9	-5.7	12.7	-1.7
Chinese Gov Bond	0.8	2.4	4.4	4.0	4.6	5.9	4.3
BTPs	0.3	-10.0	-12.5	4.0	5.4	10.5	-1.8

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

- The yield levels of safe government bonds have come back significantly since the beginning of July. US, British and German government bonds gained significantly.
- Also worthy of note is the increasingly clear divergence between core and peripheral European countries such as Italy, despite the ECB's new programme to combat defragmentation.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 28/07/2017 – 29/07/2022

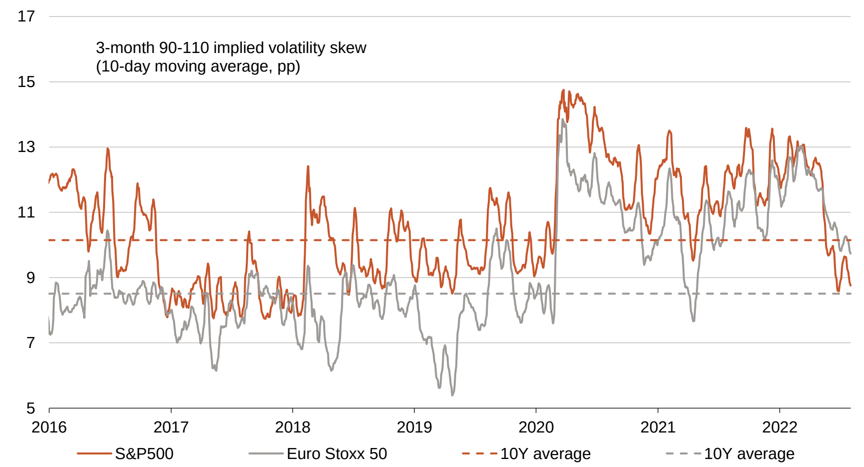
Non-Commercial Positioning



- Speculative investors have recently become even more pessimistic.
- Within equities they have increased their shorts in the S&P 500 and within commodities they are now net short in all commodities shown here with the exception of crude oil.

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: 26/07/2012 - 26/07/2022

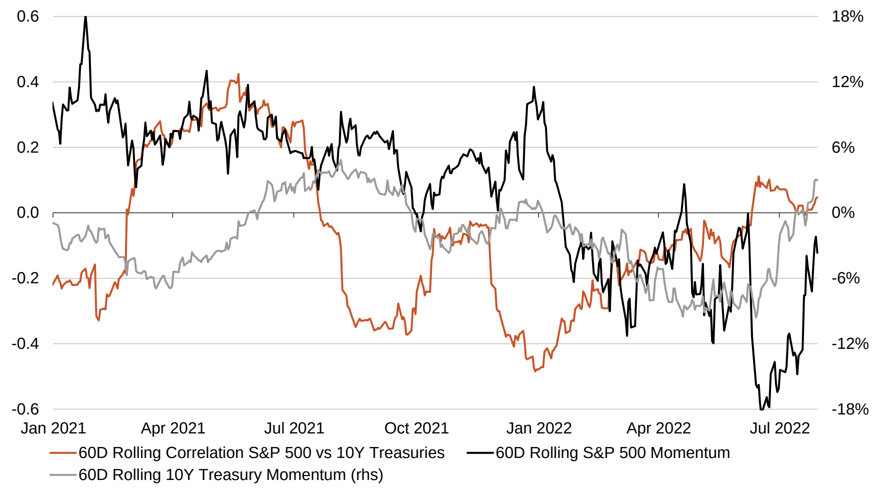
Put-Call-Skew



- The skew has recently flattened out somewhat in the course of the market rally. In the US it is below the long-term average, in Europe still above it.
- The flattening was mainly driven by the call skew (100-110). Investors have therefore again increasingly bet on rising prices with out-of-the-money call options.

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: 29/07/2012 - 29/07/2022

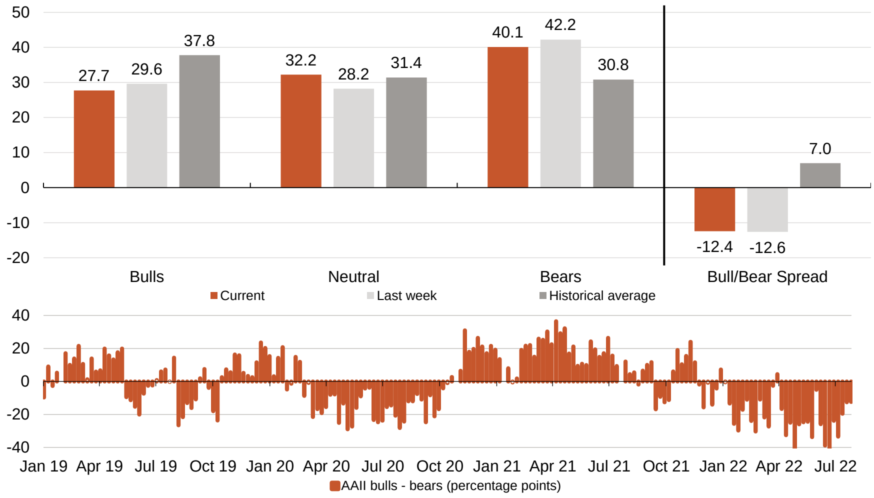
60-Day Momentum and Correlation



- Momentum in both equities and bonds began to turn sharply in mid-June. Accordingly, CTAs and other momentum strategies should again demand more equities and bonds and thus provide a tailwind for markets in the short term.

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 - 29/07/2022

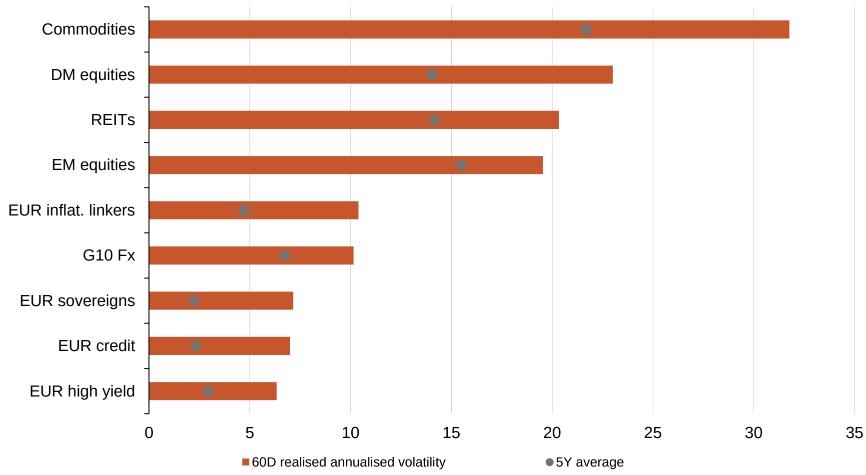
AAII Sentiment Survey (Bulls vs Bears)



- US private investors have been somewhat less pessimistic about the future for a fortnight. The current bull/bear spread of -12 pp is a good 10 pp above the average since the beginning of the year.
- However, sentiment is still very poor by historical standards.

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 – 28/07/2022

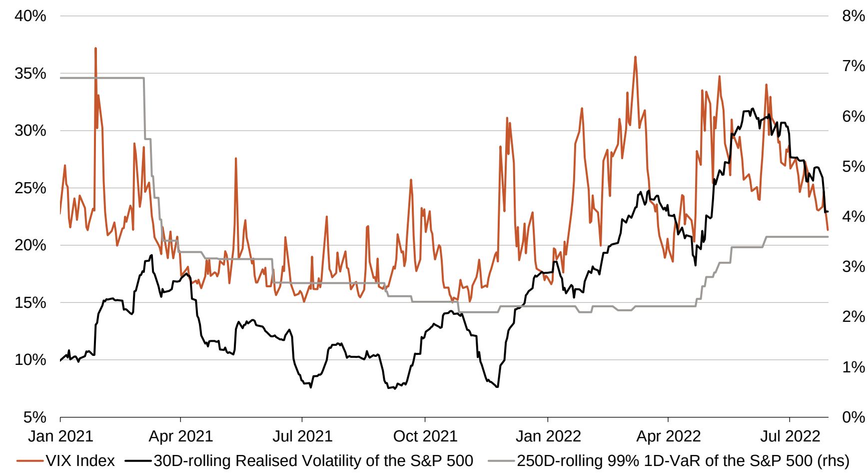
Realised Volatilities



- Realised volatilities remain above average across all asset classes.
- The volatility of government bonds is currently three times higher than the average in recent history.
- The higher volatility of developed market equities compared to emerging market equities is also striking. The opposite was the case in the last five years.

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: 29/07/2017 – 29/07/2022

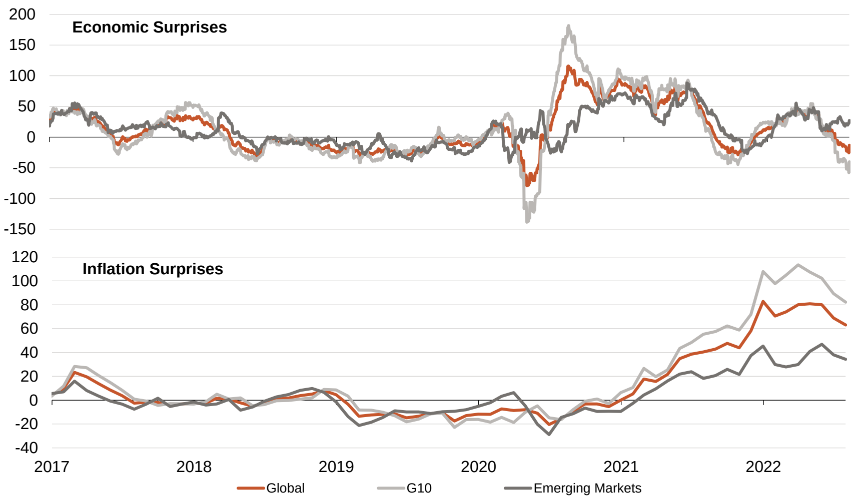
Volatility and Value-at-Risk of the S&P 500



- Realised and implied volatility of the S&P 500 have come down in unison over the past weeks.
- Volatility is still relatively high, but should it come down further, risk-based strategies are likely to build up equity exposure again.

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 – 29/07/2022

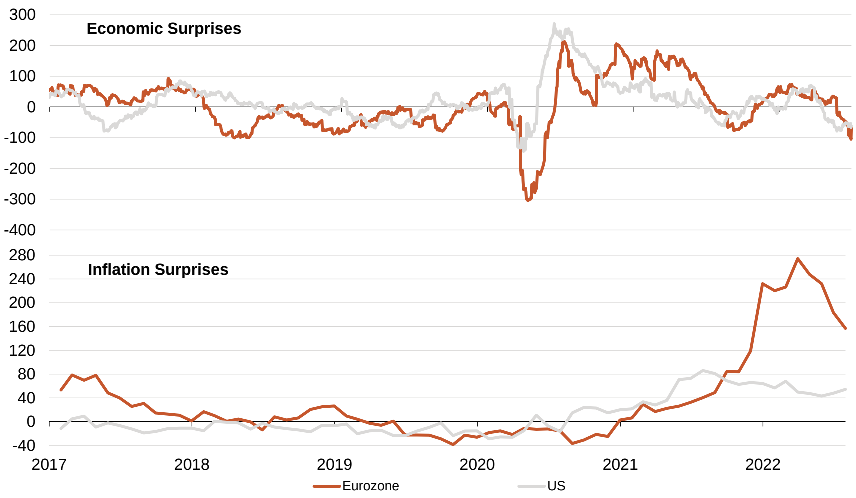
Global



- The economic surprise indicators increasingly point to the consolidation of an economic slowdown. In the industrialised nations and at the global level, the economic surprises have clearly expanded the movement into negative territory.
- In emerging markets, on the other hand, positive economic surprises continue to dominate and recovered after a slight decline in mid-July.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 – 29/07/2022

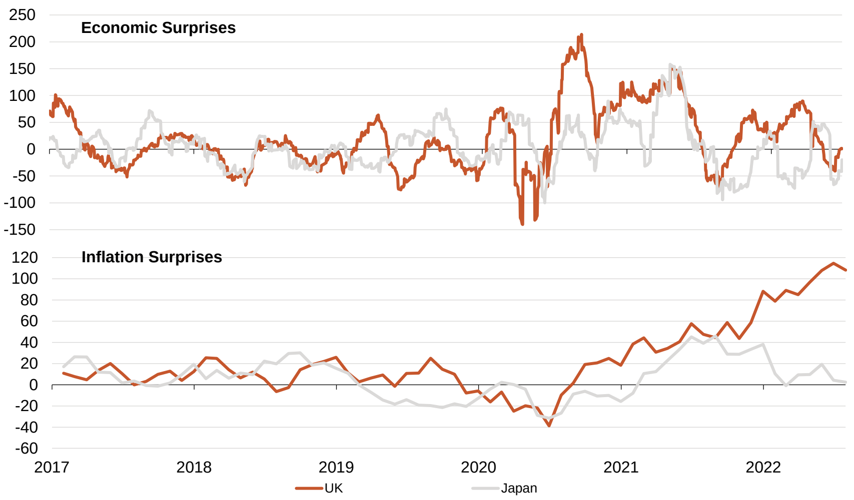
Eurozone and US



- In the Eurozone, negative economic surprises increased significantly over the last two weeks. Here, the preliminary purchasing managers' data for July and consumer, economic and industrial confidence were below expectations.
- In the US, on the other hand, economic surprises seem to have remained at the level of the last two weeks, albeit still in negative territory. Here, labour market data and quarterly GDP disappointed, while the preliminary PMI for July exceeded expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 – 29/07/2022

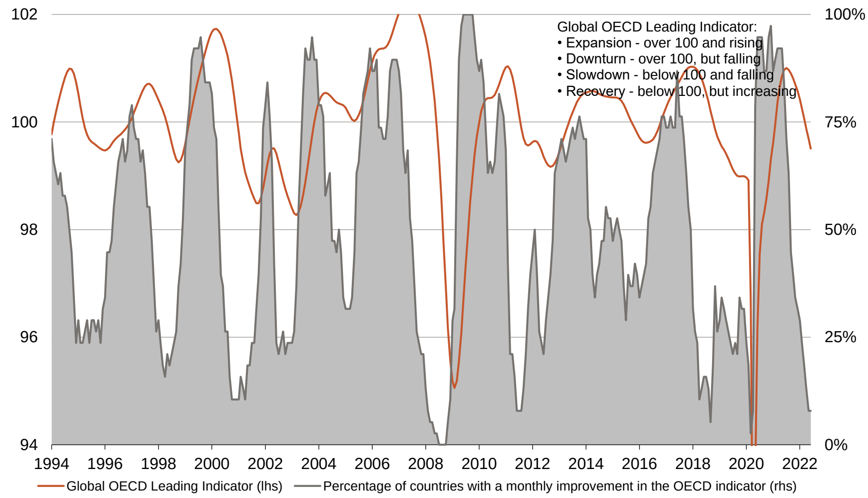
UK and Japan



- In the UK, the picture turned around over the last few days and the economic surprises moved into positive territory for the first time since the beginning of June. In Japan, too, the situation seems to be turning around. Here, too, the negative surprises decreased.

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 – 29/07/2022

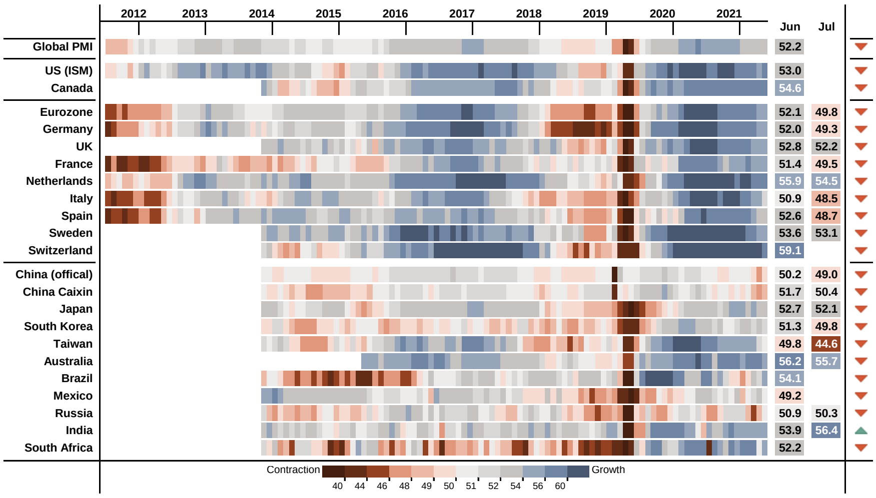
OECD Leading Indicator



- The OECD leading indicator has already been below 100 for several weeks with a continuing downward trend – this movement below the core mark of 100 indicates an economic slowdown.
- The slowdown is also confirmed at the country level. Only 8% of the countries improved compared to the previous month. At the beginning of the year it was still just under 30%.

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

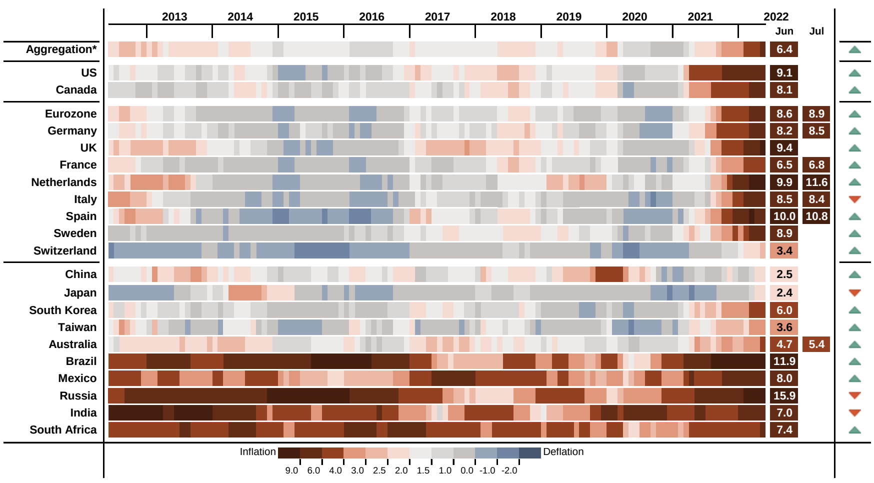
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The preliminary Purchasing Managers' Index (PMI) data for July so far show a clear picture. The PMI declined in the eurozone as a whole, Germany, France, Japan, China, Australia and the UK. The Eurozone, Germany and France even point to declining activity with a reading below 50.

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: 29/07/2012 - 29/07/2022

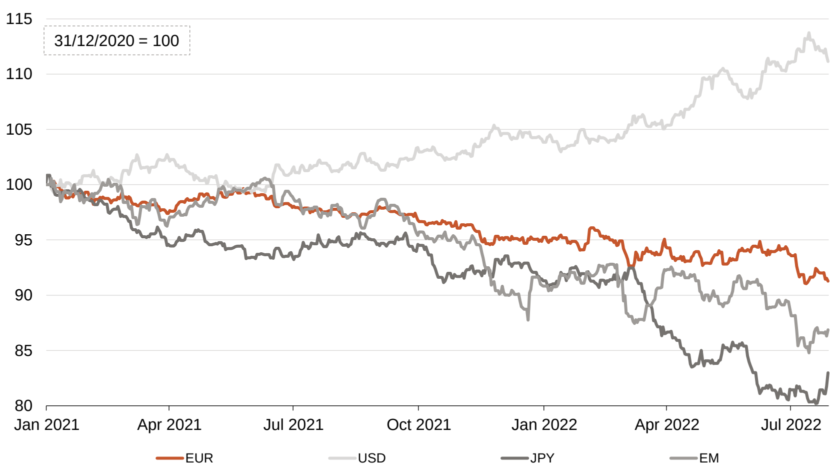
Headline Inflation



- For the month of July, the inflation rate in Germany increased noticeably and stood at 8.5%. Inflation also rose in France, the Netherlands, Australia and Spain in July compared to the previous year. Only in Italy did inflation cool slightly.

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: 29/07/2011 - 29/07/2022

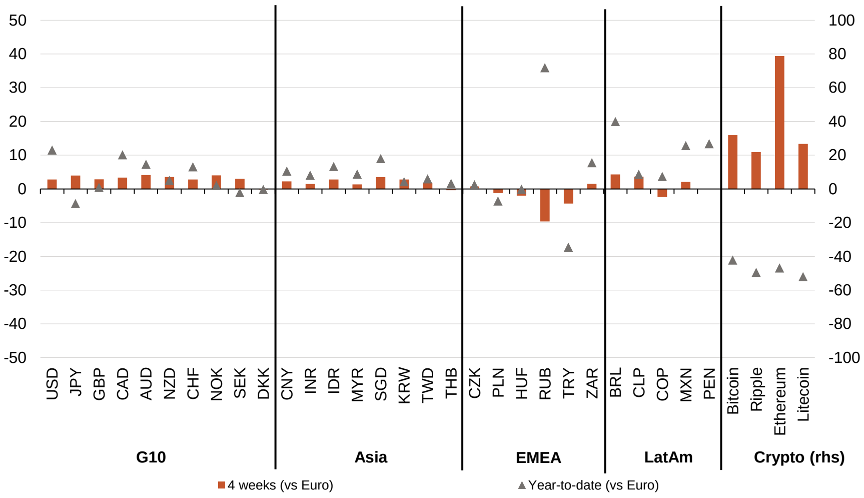
Trade-Weighted Currency Development



- Recently, the US dollar has weakened somewhat on a trade-weighted basis. The beneficiaries were emerging market currencies and the Japanese yen. However, one should not speak of a trend reversal yet.
- The euro has recently fluctuated sideways after the significant devaluation at the beginning of July.

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 - 29/07/2022

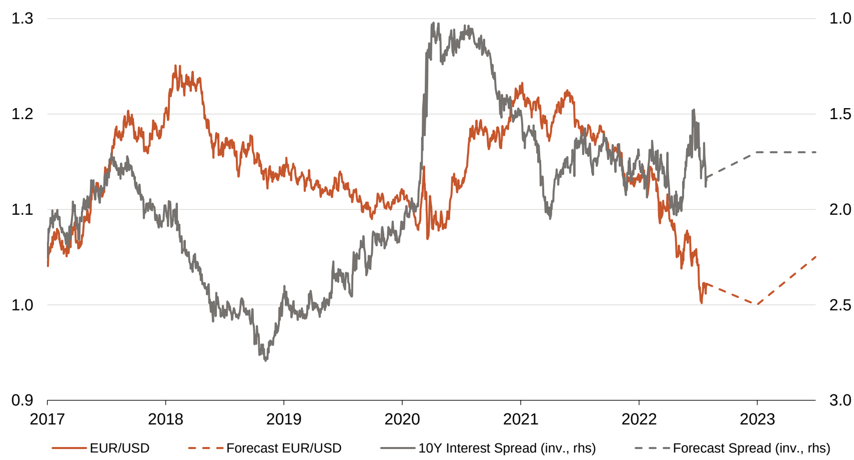
Currency Moves vs Euro



- Against the G10 currencies, the euro was the clear loser over the last month - even though the ECB raised interest rates even more than expected. This is because the energy crisis and the political impasse in Italy are weighing heavily on the EU's economic outlook.
- Cryptocurrencies now seem to be bottoming out after heavy losses in the previous month.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2021 - 29/07/2022

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



- The EUR/USD exchange rate has fluctuated above parity in recent weeks. A clear direction cannot yet be discerned.
- In view of the energy crisis in Europe and the interest rate advantage in the US, the market continues to believe that the extreme strength of the US dollar is justified.

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

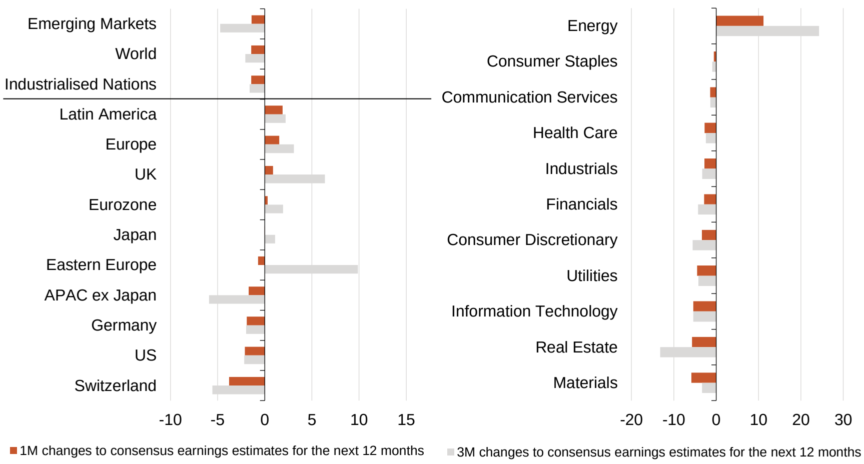
	4-week & YTD: 4W (01/07/22 - 29/07/22)	4-week & YTD: YTD (31/12/21 - 29/07/22)	12-month periods over that last 5 years: 29/07/21 29/07/22	29/07/20 29/07/21	29/07/19 29/07/20	29/07/18 29/07/19	28/07/17 29/07/18
Information Technology	18.2	-21.5	-16.9	39.4	13.0	5.8	19.1
Communication Services	13.6	-14.5	-9.2	41.5	-2.4	3.5	8.7
Consumer Discretionary	11.3	-15.6	-14.3	52.9	-10.0	4.3	7.7
Growth	11.2	-12.1	-6.1	28.4	5.4	7.5	8.6
Materials	7.9	-9.8	-9.0	42.1	2.6	-1.8	15.6
Consumer Staples	6.3	-1.6	6.0	11.2	-2.0	12.0	2.1
Energy	5.0	25.5	45.7	25.9	-39.4	-3.8	31.5
Utilities	4.6	-4.1	1.4	9.0	15.1	15.4	6.8
Value	4.1	-2.9	2.0	28.4	-15.9	-1.9	4.1
Finance	3.9	-8.9	-1.5	34.5	-18.7	-5.3	-4.2
Health Care	3.9	1.0	9.5	11.2	13.6	9.4	6.9
Telecommunications	0.0	0.6	-0.3	19.8	-16.9	0.6	-8.8

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.

- At sector and style level, winners were broadly spread over the last four weeks. Led by the information technology sector, the industrials, consumer staples, healthcare and utilities sectors also gained. Consumer cyclicals and growth stocks also rebounded strongly after the drag since the beginning of the year.

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: 13/01/2017 – 29/07/2022

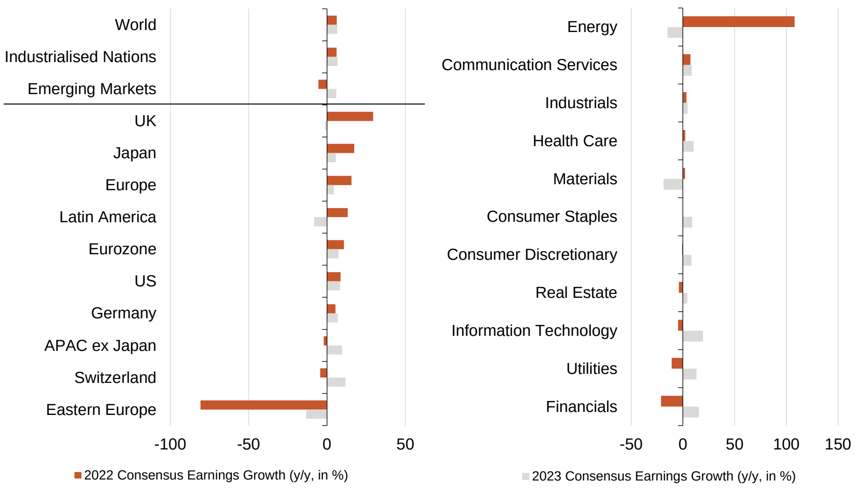
Changes in Consensus Earnings Estimates



- Analysts significantly reduced earnings estimates for the next twelve months as the Q2 reporting season progressed. The US and Switzerland experienced the most negative earnings revisions. However, Latin America but also the UK and Europe saw positive earnings revisions.
- At the sector level, only the energy sector is bucking the trend of 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 29/07/2022

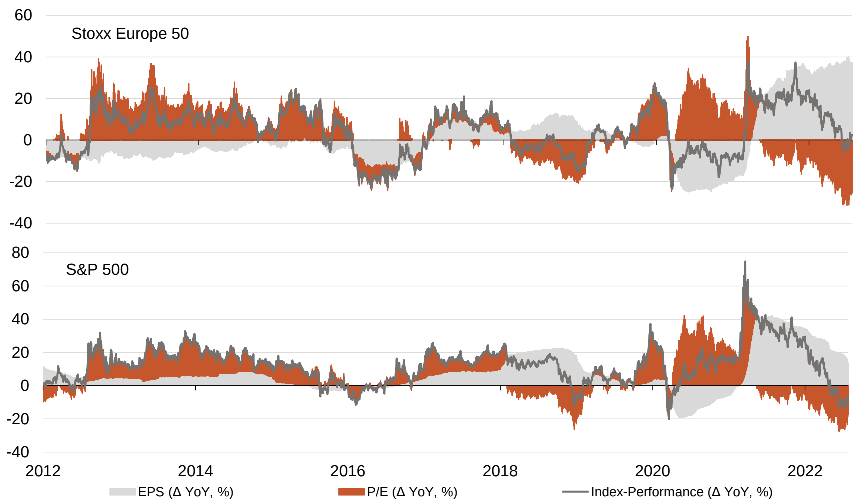
Earnings Growth



- Regionally, the analysts expect the highest profit growth this year for the UK, Japan, Europe and Latin America. For 2023, the analysts expect negative earnings growth for Latin America.
- At the sector level, the energy sector – earnings growth winner in 2022 – is expected to lose momentum next year.

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 29/07/2022

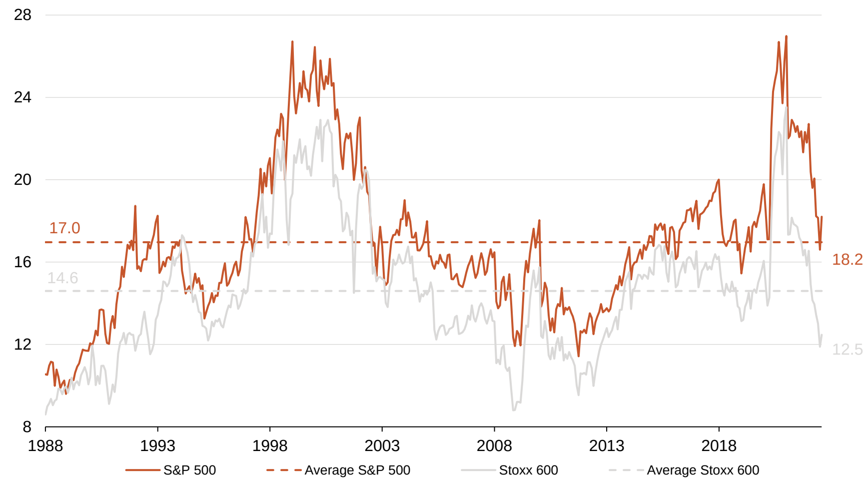
Contribution Analysis



- The main driver for the negative year-on-year development of the Stoxx Europe 50 was the ongoing valuation squeeze. However, the earnings trend had a supportive effect on the stock market development in Europe. Recently, however, the pressure on valuations has decreased significantly.
- In the US, on the other hand, the S&P 500 suffered above all from less strongly rising profits. Year-on-year, they have now fallen well below 20% 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 – 29/07/2022

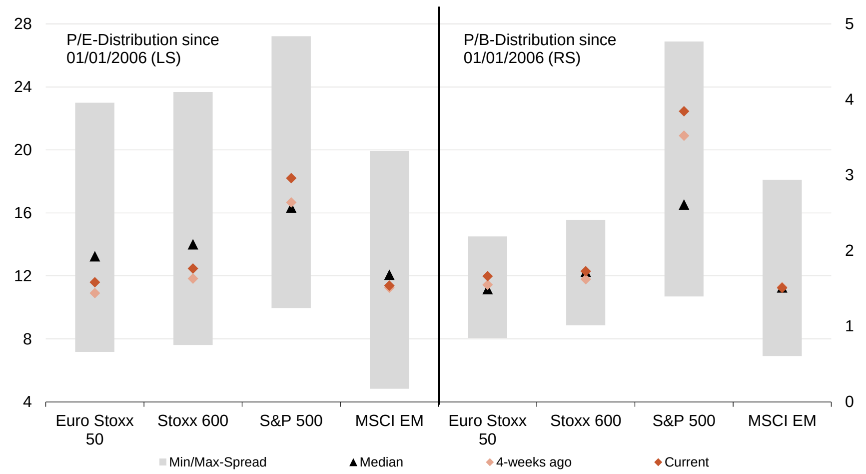
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- With bond yields falling recently as recession concerns continue to mount, pressure on valuation metrics has eased. The S&P500 is trading above its historical average valuation again. But the Stoxx 600 also saw a recovery in valuation.

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 – 29/07/2022

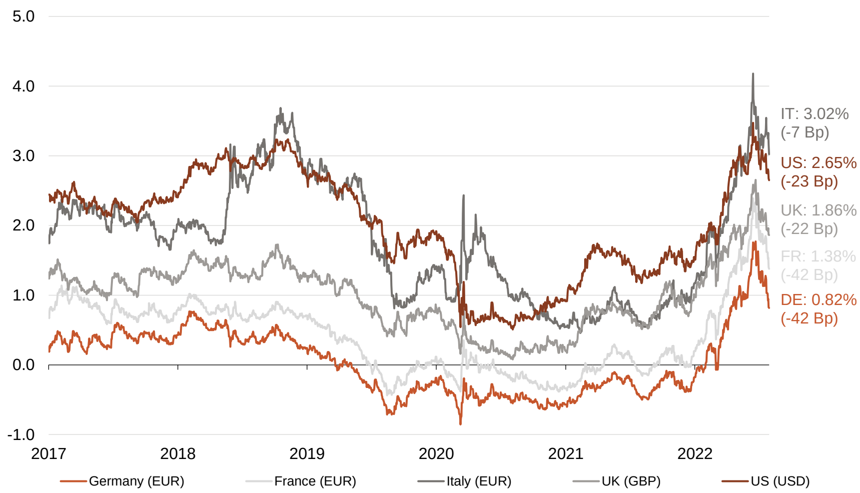
Historical Distribution: Price/Earnings and Price/Book Ratio



- The valuation adjustment we have seen since the beginning of the year has not continued in recent weeks.
- In the aggregate, both the P/E and P/B ratios of the majority of indices have recovered noticeably compared to four weeks ago. Only EM equities saw little recovery in valuation metrics..

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 – 29/07/2022

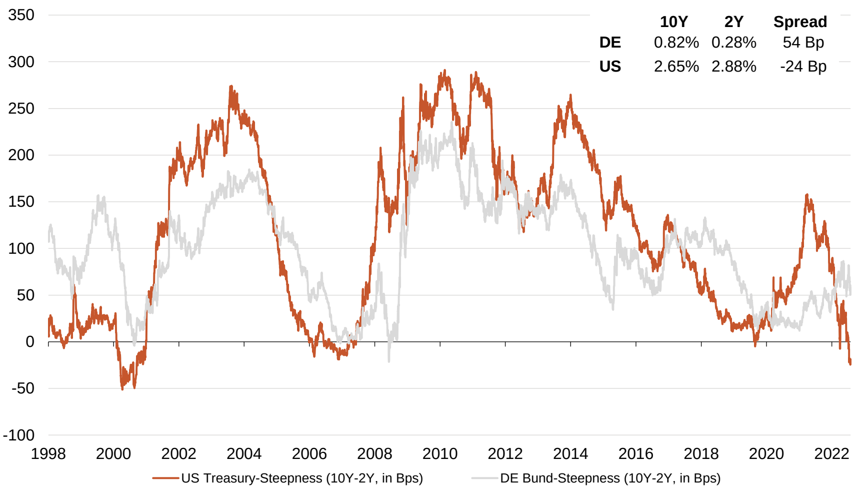
10-Year Government Bond Yields



- Yields on government bonds have fallen in the last four weeks, in some cases considerably.
- In the case of safe bonds in the Eurozone, interest rates fell by more than 50 basis points. The rally is rooted in the gloomy economic outlook and the thus probably less restrictive central banks. Nevertheless, the magnitude of the move is extreme and may also be driven by technical factors such as short covering and thin liquidity.

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 - 29/07/2022

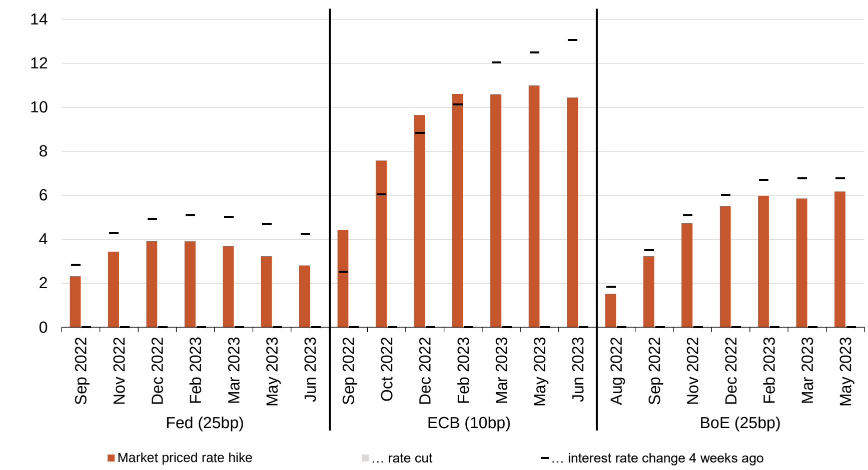
Yield Curve Steepness (10Y – 2Y)



- The yield spread between 10Y and 2Y Treasuries has fallen to as low as -30bp in the last two weeks. The Fed's recent statements that it will now act more data-driven again caused the interest rate advantage of short-term bonds to fall again by about 6 bp.
- In contrast, the yield curve of German Bunds remains surprisingly steep. This is because the market has recently priced out some of the ECB's interest rate steps.

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 - 29/07/2022

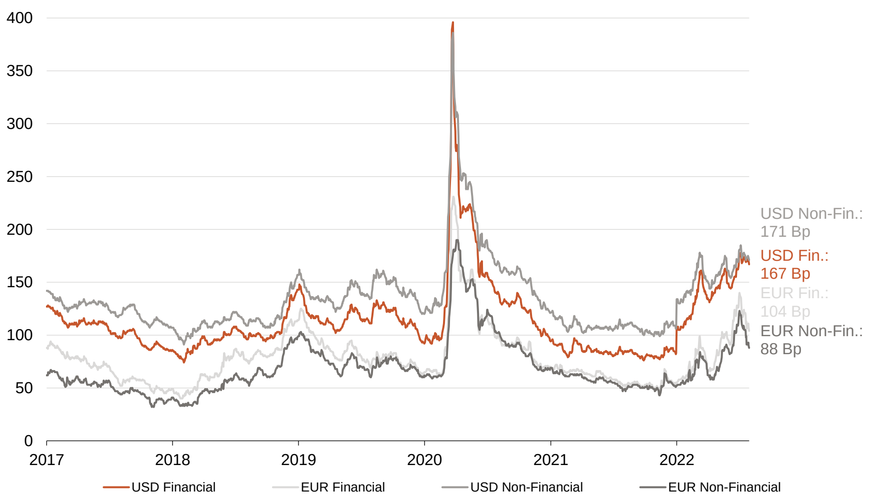
Implicit Changes in Key Interest Rates



- In the last month, investors have priced out further interest rate moves for next year at all three central banks. This is because recession concerns, falling inflation expectations and already restrictive central banks are reducing the urgency for further rate hikes in the coming meetings.
- The Fed announced with the latest 75bp hike that it had now reached the neutral rate and would now act data-driven.

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: 01/07/2022 - 29/07/2022

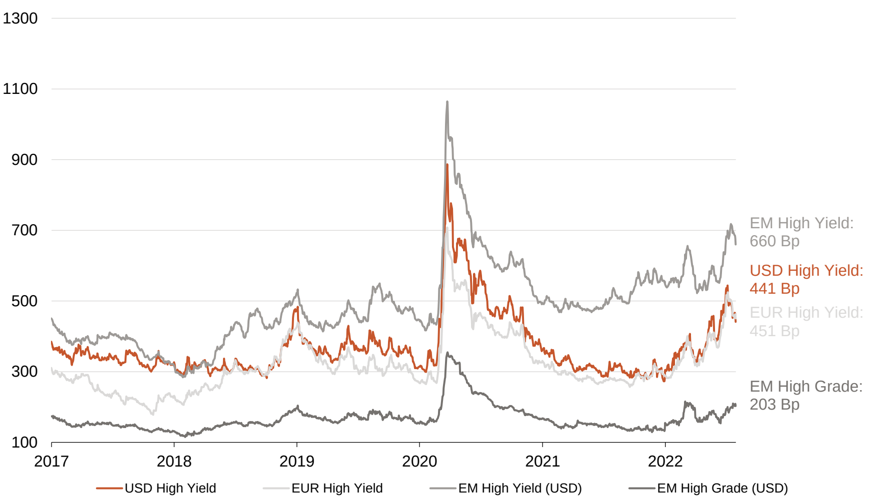
Credit Spreads Financial and Non-Financial Bonds



- Not only interest rates but also risk premiums have fallen noticeably in recent weeks. This is unusual in that, according to the textbook, the two indicators should be negatively correlated: if interest rates fall due to concerns about recession, risk premiums rise for the same reason.
- Here, too, the explanations for the movement are likely to be of a technical nature. Positive momentum, very thin liquidity and low investor positioning may have given corporate bonds a tail-

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2017 – 29/07/2022

Credit Spreads High Yield and Emerging Markets Bonds



- For the same reasons as for investment-grade corporate bonds, risk premiums on higher-risk euro and US dollar bonds have also fallen significantly recently.
- In the area of emerging market bonds, the first narrowing of spreads has so far only been observed in high yield.

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 – 29/07/2022

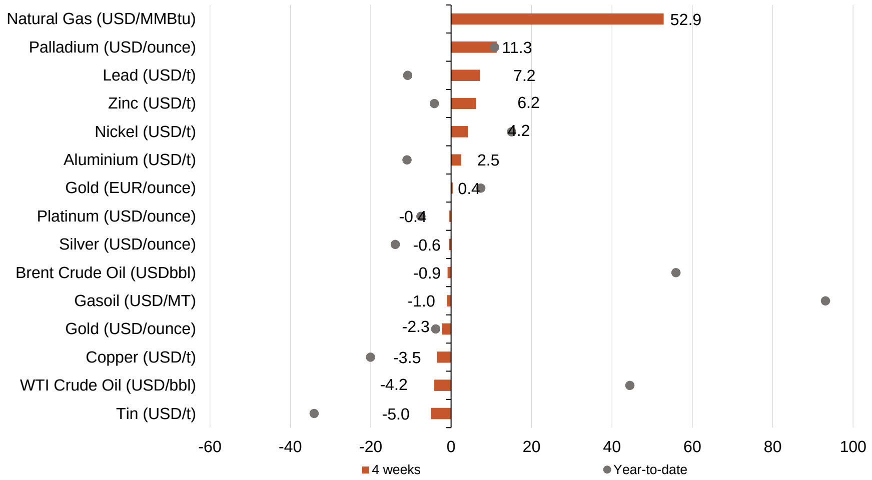
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	29/07/21 29/07/22	29/07/20 29/07/21	29/07/19 29/07/20	29/07/18 29/07/19	29/07/17 29/07/18
EUR Government	1.32	-0.57	7.8	-	-	-	4.9	-8.7	-10.7	0.7	2.4	8.1	1.4
Germany	0.58	-0.66	7.9	-	-	-	5.6	-7.2	-8.8	-0.6	0.9	6.0	1.8
EUR Corporate	2.34	-0.82	4.9	94	-26	72	5.0	-8.1	-9.7	3.2	-0.3	5.8	0.8
Financial	2.37	-0.73	4.1	104	-24	71	4.1	-6.7	-7.9	2.7	0.0	5.1	0.5
Non-Financial	2.32	-0.88	5.4	88	-27	75	5.6	-8.9	-10.6	3.5	-0.5	6.1	1.0
EUR High Yield	6.31	-0.92	3.5	451	-24	88	4.1	-10.8	-10.9	9.7	-0.9	5.1	1.4
US Treasury	2.88	-0.30	6.6	-	-	-	2.4	-7.7	-8.5	-3.2	12.1	7.6	-1.3
USD Corporate	4.38	-0.39	7.4	170	-1	86	3.4	-11.4	-12.2	1.8	11.8	10.4	-0.8
Financial	4.36	-0.35	5.5	167	1	89	2.6	-9.5	-10.3	2.1	10.4	9.8	-0.9
Non-Financial	4.38	-0.42	8.3	171	-2	85	3.8	-12.2	-13.1	1.8	12.4	10.6	-0.8
USD High Yield	7.72	-1.10	4.6	441	-68	69	5.6	-8.9	-7.7	11.2	2.7	7.1	2.3
EM High Grade	4.80	-0.19	5.5	203	18	68	1.4	-12.5	-12.7	2.8	6.3	9.0	-0.1
EM High Yield	10.85	-0.32	4.1	660	4	83	1.1	-18.1	-21.7	8.4	3.7	9.8	0.8

- Over the last month, all bond segments shown here, with the exception of EM High Yield, posted a positive return.
- Due to the significant fall in yields, segments with higher durations performed significantly better. For example, German bonds government with a duration of 7.9 were among the best performers.

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: 29/07/2017 – 29/07/2022

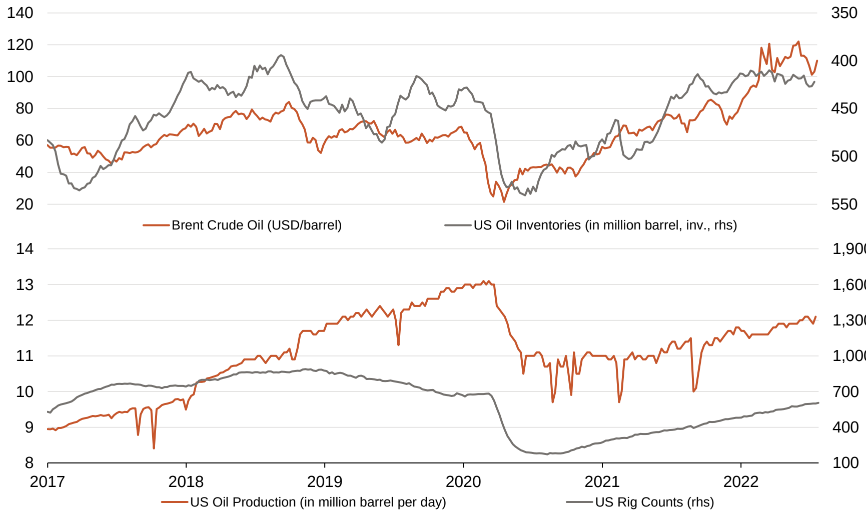
Commodities Performance



- Recession and ongoing China worries have weighed heavily on the commodity market over the last four weeks.
- Nevertheless, natural gas, palladium, tin, nickel, aluminium and lead recently gained again.
- Tin, copper, crude oil and gas oil – by far the winner since the beginning of the year – were the losers over the last four weeks.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2021 – 29/07/2022

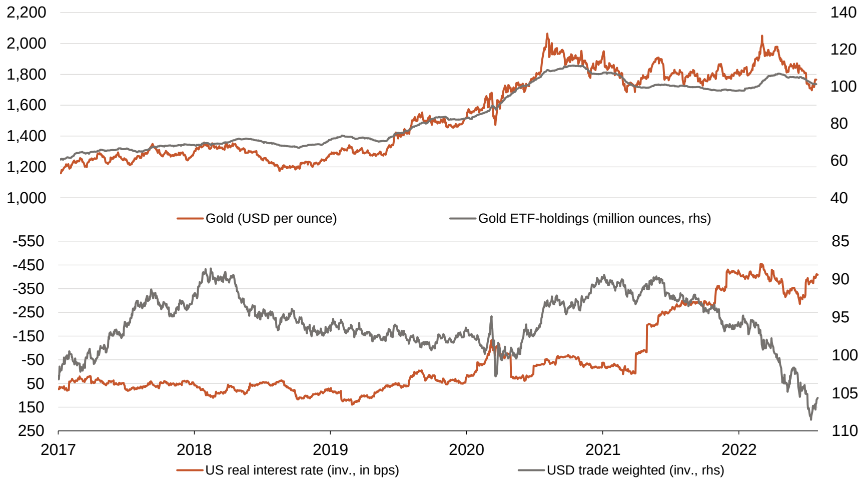
Crude Oil



- Crude oil, which has benefited from the tight supply situation since the beginning of the year, has recently been dominated by recession concerns. Fear of a collapse in demand has caused the energy commodity to be sold off sharply over the last four weeks, even if the oil price has recently been able to recover slightly. Nevertheless, historically a collapse in demand has only occurred in very strong global recessions. According to the IEA and OPEC+, the supply side is also likely to remain tight.

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 – 29/07/2022

Gold



- Despite stagnating real interest rates in July, gold has lost ground over the last four weeks. The main driver was the massive strengthening of the US dollar. Gold recently traded just above the 1,750 mark again. Gold last traded at this level in September 2021.

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 – 29/07/2022

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IMPORTANT NOTICES

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