BERENBERG
Markets

MONITOR

12 September 2022

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

Current market commentary

Central banks continue to be restrictive. Last week, for example, the ECB raised its key interest rates by 75 basis points – the largest rate hike in the ECB's history. Equity markets digested the move well. After all, the ECB made it clear that fighting inflation is important. Short-dated bond yields in the Eurozone, on the other hand, have reached new highs for the year. Coupled with the lower and thus more favourable equity prices this year, this has significantly improved the return prospects for multi-asset strategies over the next few years. Not least because commodities are also likely to experience a super cycle due to the energy transition and tight supply. In the short term, the market is likely to remain macro- and inflation-driven and thus volatile. In the medium term, the outlook for investors is currently improving every week.

Short-term outlook

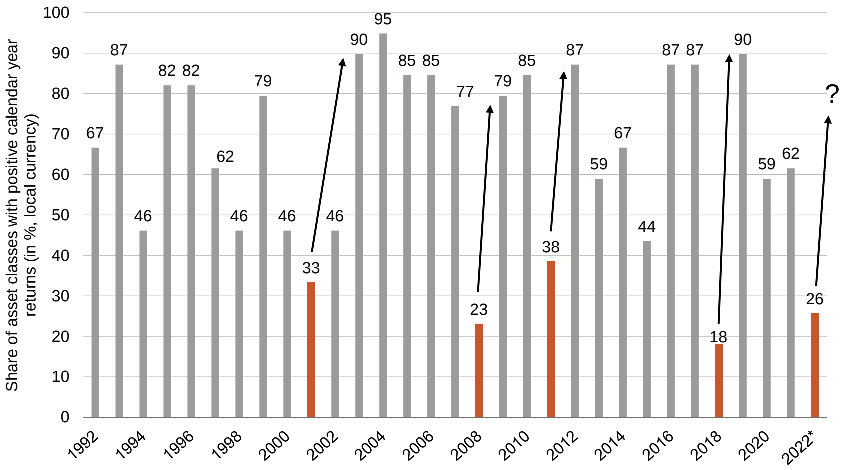
Central banks set the tone

The next two weeks will be dominated by the central banks. After the ECB meeting last week, the Bank of England will meet on 22 September and the Fed on 21 September. The market expects both central banks to raise interest rates by 50 and 75 basis points respectively. The Italian parliamentary elections on 25 September will be a political event.

Investors focus on inflation data and economic expectations

On the economic front, the ZEW economic expectations (Sep.) for Germany and the inflation data (Aug.) for the US are likely to be decisive on Tuesday. On Wednesday, inflation figures (Aug.) for the UK, industrial production data (Jul.) for the Eurozone and producer prices (Aug.) for the US will be published. The Empire State Index (Sep.), Philadelphia Fed Index (Sep.), retail sales (Aug.) and industrial production data for the US will follow on Thursday. The preliminary purchasing managers' indices (Sep., S&P Global) for Europe and the US will then be announced the following week.

Better prospects for multi-asset portfolios after a weak 2022



- 2022 has been a challenging year for multi-asset investors so far. Only a few asset classes have been able to generate positive returns so far.
- For 2023, however, the signs are pointing to a much better position for multi-asset investors. Bond yields are clearly in positive territory for the first time in several years and equity valuations have fallen significantly. Historically, too, there is much to be said for this. Bad years for investors have often been followed by very good years.

Source: Bloomberg, Time period: 31/12/1991 – 09/09/2022
39 asset classes consisting of equities, government & corporate bonds, currencies, commodities and REITs; *YTD

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (12/08/22 - 09/09/22)	YTD (31/12/21 - 09/09/22)	09/09/21 09/09/22	09/09/20 09/09/21	09/09/19 09/09/20	09/09/18 09/09/19	08/09/17 09/09/18
USDEUR	2.2	13.3	17.7	-0.2	-6.4	4.6	4.2
MSCI Frontier Markets	0.0	-7.9	-3.7	33.7	-10.7	12.1	-3.5
Euro overnight deposit	0.0	-0.3	-0.5	-0.6	-0.5	-0.4	-0.4
Global Convertibles	-0.7	-5.2	-5.7	33.5	22.7	9.6	13.5
Brent	-2.1	62.0	91.4	77.0	-41.3	-9.9	57.8
MSCI Emerging Markets	-2.5	-8.7	-9.6	21.8	3.0	5.9	-0.2
Gold	-2.7	6.2	12.6	-8.0	21.5	31.0	-7.5
Industrial Metals	-2.9	0.6	9.4	40.4	-5.7	9.4	-4.8
MSCI World	-3.3	-4.9	2.2	32.6	4.7	8.7	15.3
EUR Sovereign Debt	-3.5	-8.7	-9.8	0.5	-0.3	5.5	-0.7
EUR Coporates	-4.1	-12.4	-13.5	2.2	0.0	6.4	-0.4
REITs	-4.1	-7.0	3.9	28.8	-17.1	20.3	2.8

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 summer recovery rally, the more restrictive interest rate policy of the central banks and growth concerns weighed on the markets over the last four weeks. Only the US dollar gained.
- Industrial metals, European government bonds, shares of industrial nations, interest-sensitive REITs and European corporate bonds lost the most.

Total return for selected asset classes, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 08/09/2017 – 09/09/2022

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (12/08/22 - 09/09/22)	YTD (31/12/21 - 09/09/22)	09/09/21 09/09/22	09/09/20 09/09/21	09/09/19 09/09/20	09/09/18 09/09/19	08/09/17 09/09/18
Stoxx Europe Defensives	-2.2	-0.7	5.4	17.2	-1.5	9.5	4.7
MSCI EM Asia	-2.4	-10.0	-10.9	19.2	12.1	2.8	3.2
S&P 500	-2.9	-2.3	8.2	33.9	9.0	10.6	23.7
Stoxx Europe 50	-3.3	-5.1	1.9	22.2	-3.1	10.5	0.4
MSCI USA Small Caps	-3.4	-1.8	3.6	50.3	-6.3	-1.5	27.6
MSCI UK	-3.9	1.6	10.0	28.7	-16.8	3.7	4.2
MSCI Japan	-4.8	-9.4	-11.9	28.0	0.0	3.9	9.0
DAX	-5.1	-17.6	-16.2	18.0	8.3	2.2	-2.8
Euro Stoxx 50	-5.4	-15.1	-12.3	27.9	-2.8	9.1	-1.9
Stoxx Europe Cyclicals	-5.5	-16.8	-14.2	37.5	-0.9	-0.3	1.0
Stoxx Europe Small 200	-7.9	-23.3	-23.4	38.6	2.9	1.6	6.1
MSCI EM Eastern Europe	-11.6	-83.2	-83.5	46.6	-20.0	27.1	1.8

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.

- No segment of the equity markets was able to shine over the last four weeks.
- However, losses for emerging markets and US equities were limited, also thanks to the stronger US dollar.
- Energy and related recession concerns led to a sell-off in European equities by international investors.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 08/09/2017 – 09/09/2022

Fixed Income

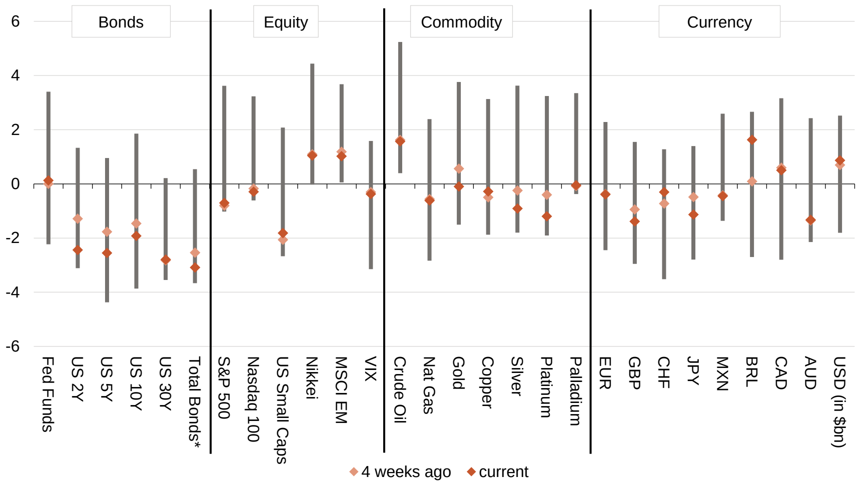
	4-week & YTD		12-month periods over that last 5 years				
	4W (12/08/22 - 09/09/22)	YTD (31/12/21 - 09/09/22)	09/09/21 09/09/22	09/09/20 09/09/21	09/09/19 09/09/20	09/09/18 09/09/19	08/09/17 09/09/18
Chinese Gov Bond	1.1	3.8	5.4	5.5	2.3	7.4	4.4
Treasuries	-0.4	1.1	3.9	-2.0	0.8	15.5	1.3
EM Local Currency Bonds	-1.0	-2.9	-4.4	3.3	-6.2	20.2	-9.2
EM Hard Currency Bonds	-1.2	-7.9	-6.8	4.1	-3.9	20.3	-0.8
USD High Yield	-2.6	-10.0	-9.6	10.9	3.0	7.1	3.0
EUR High Yield	-2.8	-11.9	-12.4	8.5	0.1	6.0	0.7
USD Corporates	-3.1	-14.7	-15.6	2.9	8.1	13.0	-1.8
EUR Financials	-3.9	-11.6	-12.6	2.3	-0.1	5.9	-0.4
EUR Non-Financials	-4.2	-13.0	-14.1	2.1	0.0	6.6	-0.4
Bunds	-4.9	-12.9	-13.8	-0.9	-0.9	7.4	0.3
BTPs	-5.3	-14.4	-16.6	3.9	1.3	15.9	-3.6
Gilts	-11.8	-24.6	-24.5	3.0	3.9	10.6	0.5

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

- Chinese government bonds were the relative winners in euro terms over the last four weeks.
- The clearly restrictive tones of ECB council members and the 75bp key interest rate hike by the ECB put European bonds under significant pressure.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 08/09/2017 – 09/09/2022

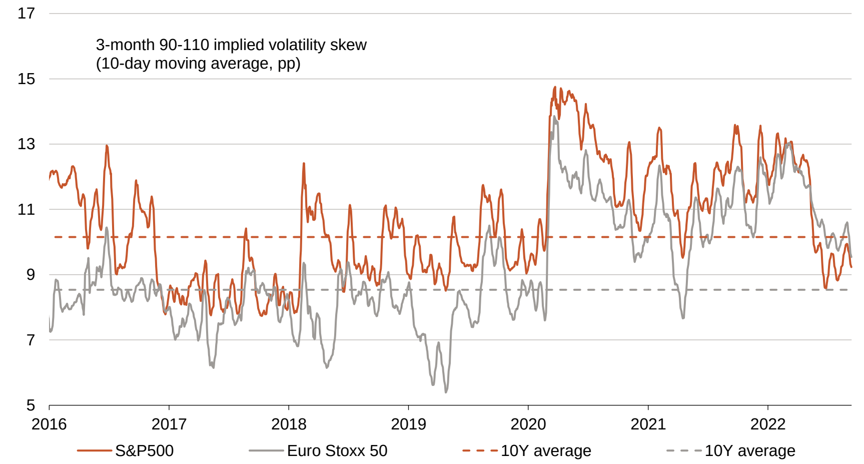
Non-Commercial Positioning



- Speculative investors have extended their bond shorts in line with tighter central banks.
- US equity positioning also remains short, although shorts in small caps have been reduced.

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: 06/09/2012 - 06/09/2022

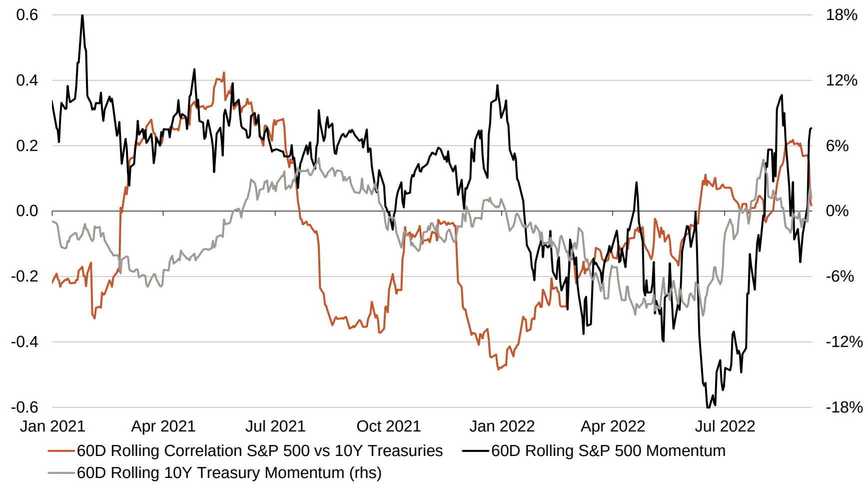
Put-Call-Skew



- The skew has fallen again over the last two weeks. Hedging has thus become cheaper again relative to upside potential, even if it remains historically expensive, at least for Europe.

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: 09/06/2016 - 09/09/2022

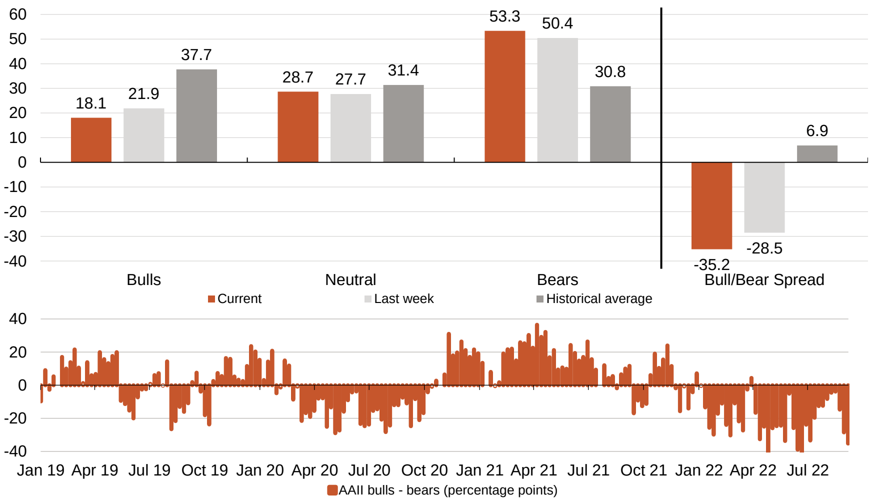
60-Day Momentum and Correlation



- The S&P 500 has made gains in the last 60 days. The momentum since the June low thus remains positive.
- The correlation between US equities and bonds also remains positive at just above 0. This highlights the currently low diversification properties of government bonds.

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 - 09/09/2022

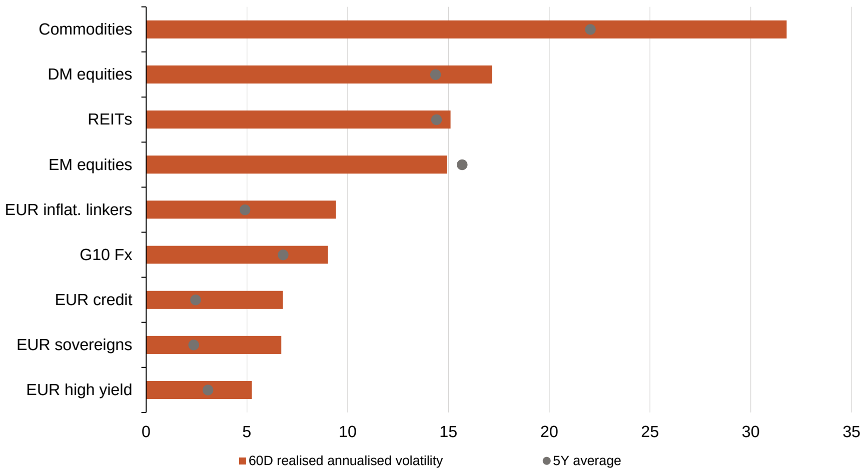
AAII Sentiment Survey (Bulls vs Bears)



- The pessimists have clearly gained the upper hand again. The bull-bear spread is close to the summer low at -35.2 pp.
- Historically, a very pessimistic mood has often been positive for future stock market development.

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 – 09/09/2022

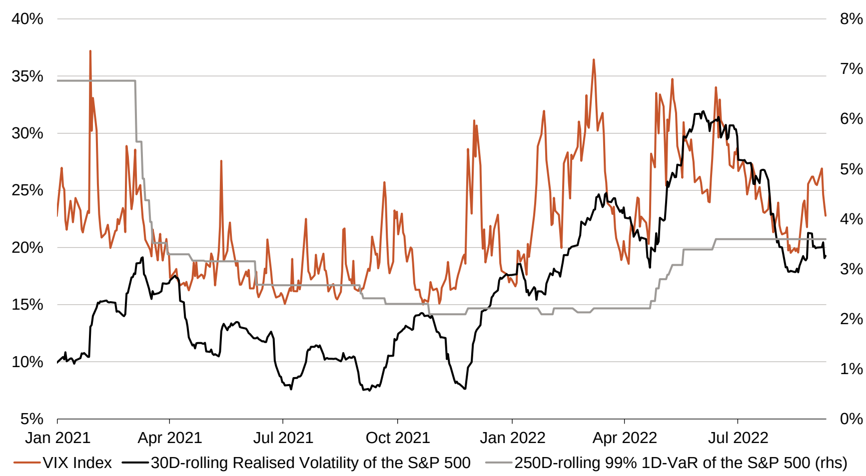
Realised Volatilities



- Recession fears and China concerns led to a significant increase in volatility for commodities in the last 60 days.
- But the majority of other asset classes also fluctuated above the 5-year average. Only emerging market equities fluctuated less compared to their own history.

The realised volatility (in per cent) measures the fluctuation range of a time series and is defined here as the standard deviation of the daily return over the last 60 trading days. Volatility is often used as a measure of risk.
Source: Bloomberg, period: 31/12/2017 – 09/09/2022

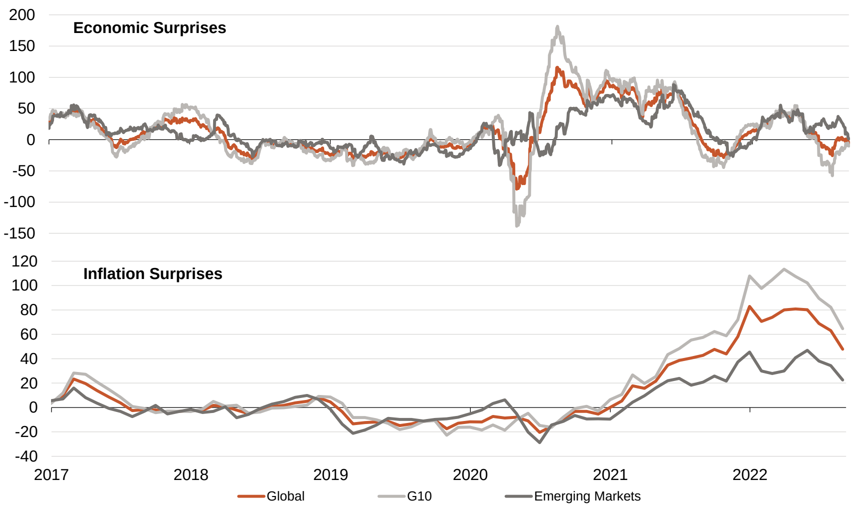
Volatility and Value-at-Risk of the S&P 500



- The "fear index" VIX has risen significantly again with the end of the bear market rally in the last two weeks and is now trading below 25 again. Investors are thus expecting less strong fluctuations for the future.
- Realised volatility, on the other hand, has only moved slightly downwards.

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 – 09/09/2022

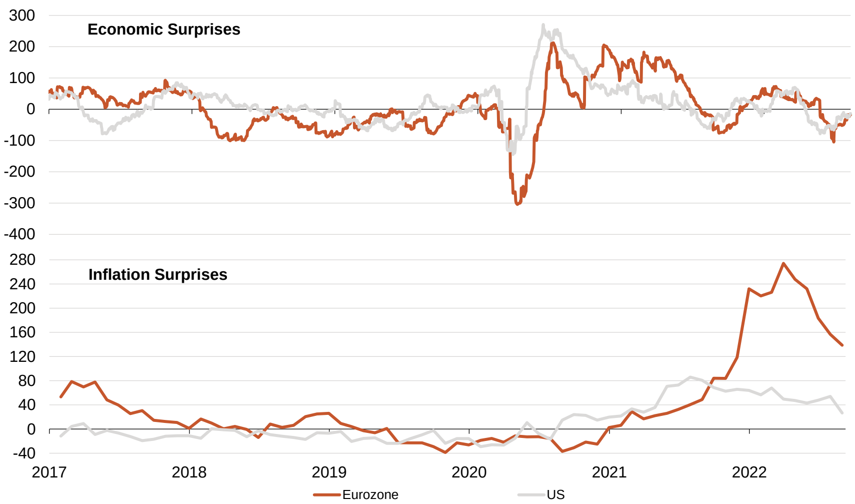
Global



- The surprise indicators have recently developed in very opposite directions. While in the industrialised countries the economic data surprised somewhat upwards again and thus came closer and closer to the zero limit, the positive economic surprises in the emerging markets decreased significantly. In the aggregate, we are therefore globally almost unchanged over the last few weeks.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 – 09/09/2022

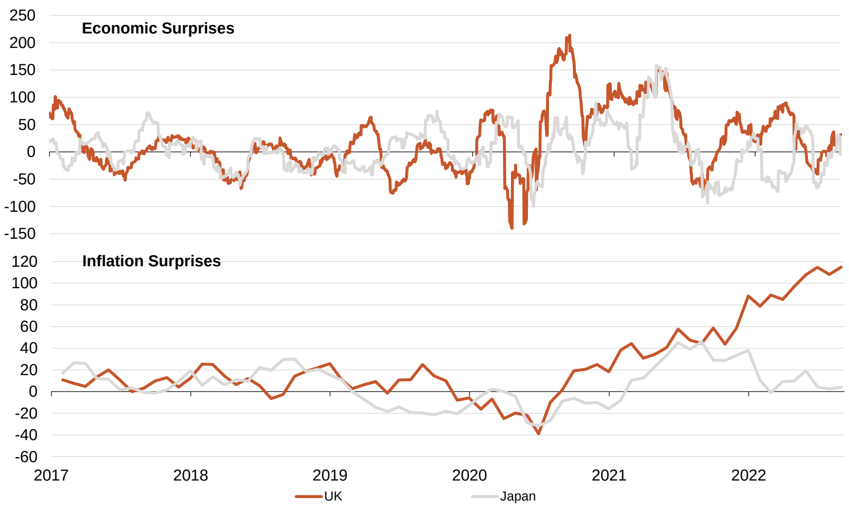
Eurozone and US



- Both in the Eurozone and in the US, the economic data recently surprised to a lesser degree.
- In the US, labour market and purchasing managers' data exceeded expectations.
- In the eurozone, quarterly GDP surprised positively, while retail sales, purchasing managers' data and industrial and consumer confidence disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 – 09/09/2022

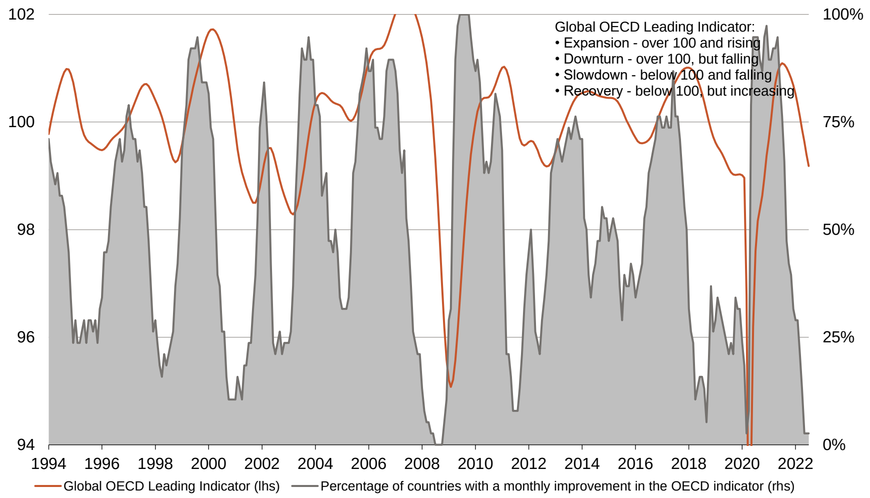
UK and Japan



- In the UK, positive economic surprises continued to predominate. In Japan, the positive economic surprises first jumped upwards and then abruptly fell below 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: 31/12/2020 – 09/09/2022

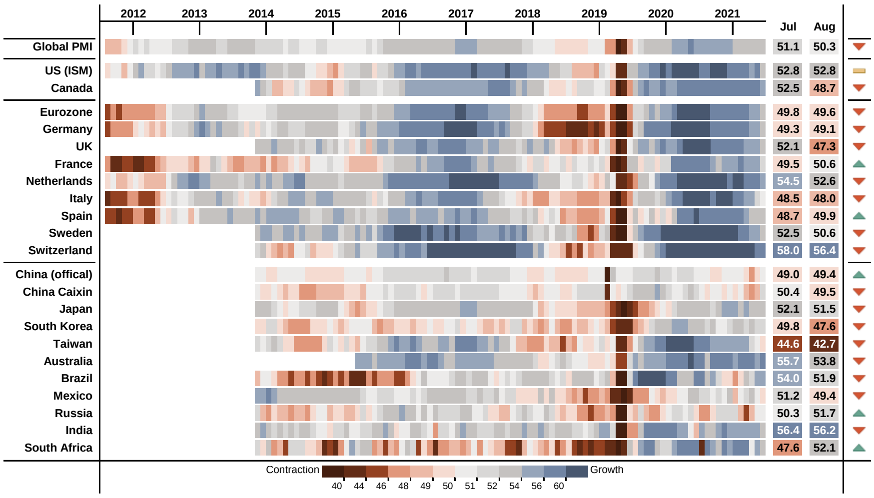
OECD Leading Indicator



- The OECD leading indicator has been pointing to an economic slowdown for several weeks now – it is below the important 100 mark with a falling trend.
- At country level, the gloomy picture is confirmed – only 3% of countries improved 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 – 09/09/2022

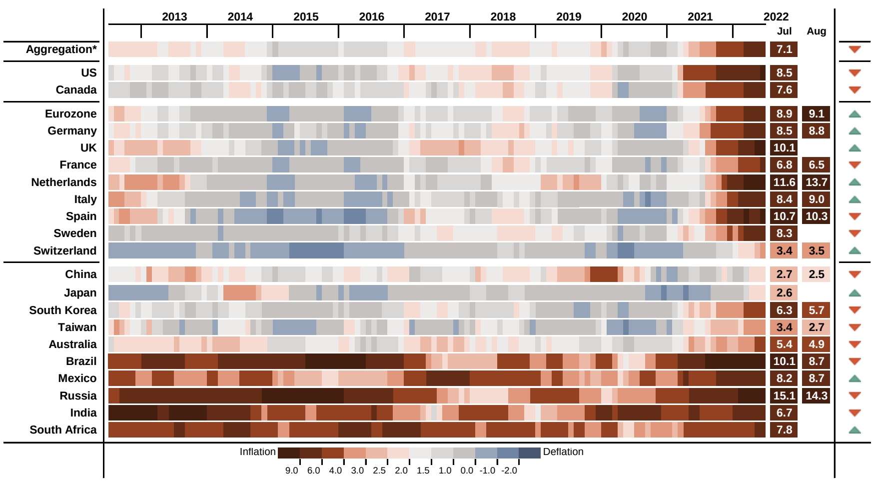
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The final purchasing managers' data for August fell in the aggregate. It is also worth noting that in the Eurozone, more and more countries have fallen below the important 50 mark – which is an indicator of declining activity in industry. The PMI in the USA has maintained the level, China, France and Russia have risen.

The PMI is an overall index that provides a general overview of the economic situation in industry. The PMI is derived from a total of eleven sub-indices, which reflect the respective change from the previous month. A value of 50 is regarded as neutral, a value of over 50 points as an indicator of rising and a value of under 50 points as an indicator of declining activity in industry compared to the previous month. On average, the index has a lead time before actual industrial production of three to six months. The PMI is based on a survey of a relevant selection of purchasing managers on the development of key indicators such as new orders.
Source: Bloomberg, Time period: 01/01/2012 – 09/09/2022

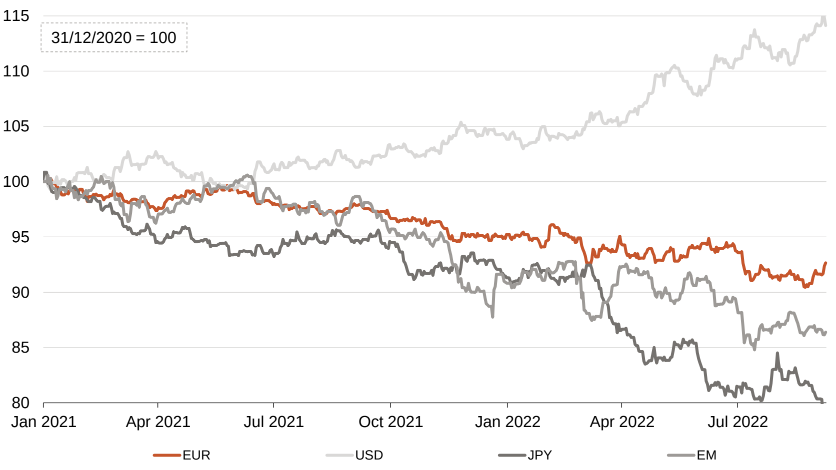
Headline Inflation



- Inflation shows a mixed picture. In China, South Korea, Taiwan, Australia, Brazil and Russia, the inflation rate has fallen. In the Eurozone in particular, however, it increased significantly due to the energy crisis.

Inflation (in %, compared to the previous year) is measured using a consumer price index, also called a basket of goods. This basket contains all goods and services that a household purchases on average per year. * = Weighting according to gross domestic product.
Source: Bloomberg, Time period: 31/12/2011 – 09/09/2022

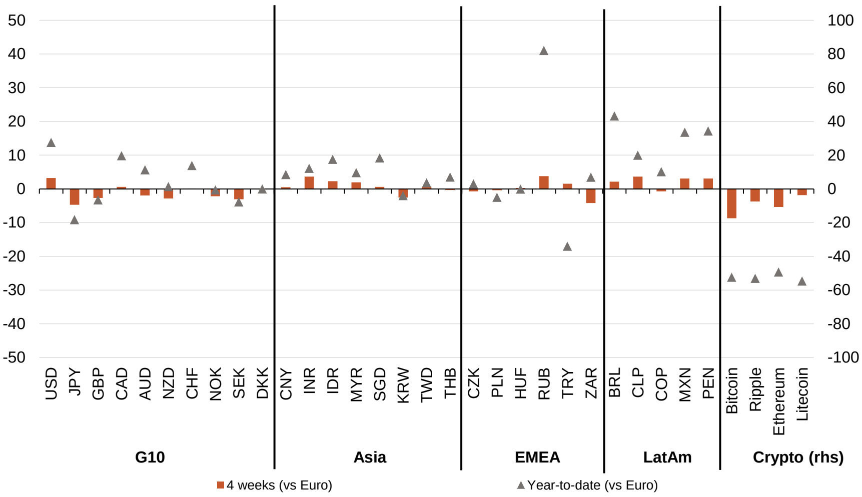
Trade-Weighted Currency Development



- In trade-weighted terms, the US dollar remains the currency of 2022. In the last two weeks, it has continued to gain, which at least benefited investors who invest in USD assets.
- The euro, the Japanese yen and many EM currencies, on the other hand, have consistently lost value. The recovery of EM currencies in July lasted only briefly.

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 - 09/09/2022

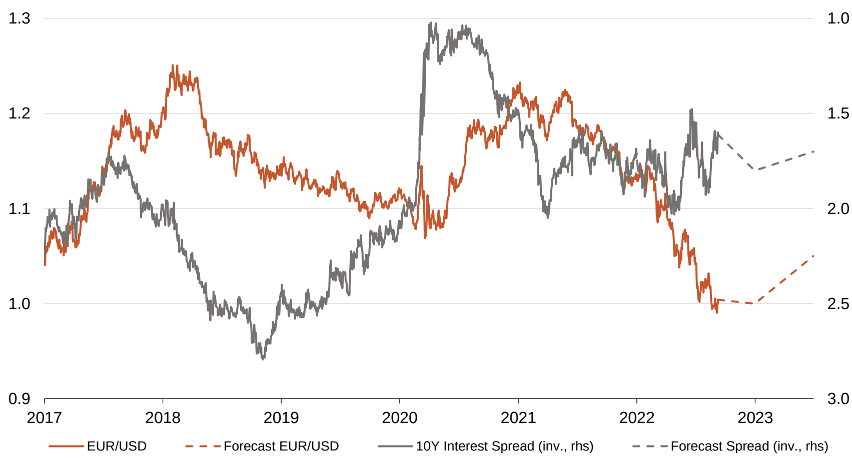
Currency Moves vs Euro



- Since the beginning of the year, the USD has gained more than 13% against the euro. Only Latin American currencies such as the Brazilian real have performed better. In contrast, the euro gained against the Turkish lira and the Japanese yen.
- In the last four weeks, the euro also lost value against the USD and some EM currencies.
- Cryptocurrencies also lost value in recent weeks.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2021 - 09/09/2022

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



- The interest rate differential between the euro and the US dollar continues to range between 1.5% and 2.0%. The euro has nevertheless continued to depreciate. The market and our economists expect the interest rate differential to narrow at least somewhat at the short end, so that there is slight upward potential for the euro in the direction of 2023 – if the energy crisis in Europe does not escalate further.

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 - 31/12/2022

European Sector & Style Performance

	4-week & YTD: 4W (12/08/22 - 09/09/22)	4-week & YTD: YTD (31/12/21 - 09/09/22)	09/09/21 09/09/22	09/09/20 09/09/21	09/09/19 09/09/20	09/09/18 09/09/19	08/09/17 09/09/18
Energy	-0.1	28.9	49.4	33.3	-39.4	-4.3	23.8
Communication Services	-1.7	-4.8	1.7	14.4	10.7	14.6	2.0
Consumer Staples	-2.7	-5.1	3.1	11.6	-5.0	18.2	-1.1
Finance	-3.2	-8.1	-1.9	37.0	-17.0	-3.1	-4.4
Value	-3.5	-4.9	0.3	27.2	-13.5	1.4	-0.2
Utilities	-4.2	-6.6	-2.6	14.3	10.9	20.9	-3.7
Materials	-4.3	-12.3	-9.6	34.2	9.0	2.8	4.6
Telecommunications	-4.9	-4.6	-7.7	24.0	-17.2	8.1	-12.0
Growth	-5.1	-16.7	-12.7	29.8	5.9	11.7	4.4
Industrials	-6.6	-20.1	-16.7	36.6	3.1	6.6	5.1
Information Technology	-7.5	-26.4	-26.8	48.0	15.9	8.2	13.7
Consumer Discretionary	-7.7	-19.8	-16.6	41.6	-4.4	8.9	2.1

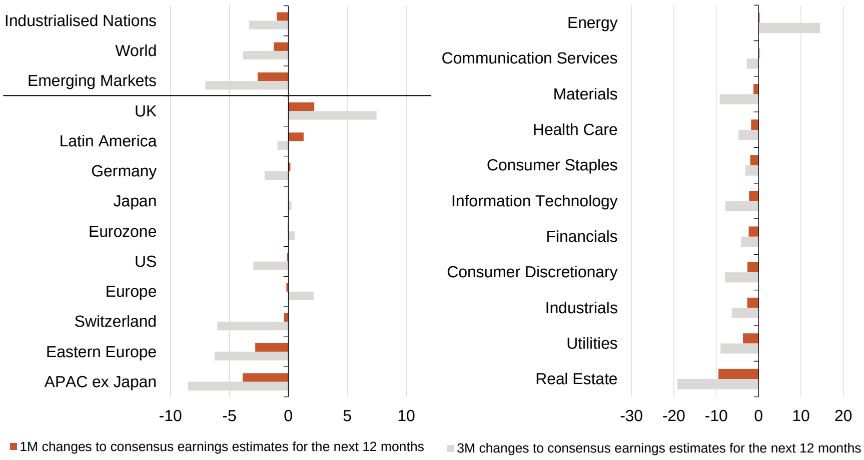
12-month periods over that last 5 years

Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Stables: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR;
Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. NR;
Materials: MSCI Europe Materials NR; Communication Services: MSCI Europe Communication Services NR; Utilities: MSCI Europe Utilities NR;
Value: MSCI Europe Value NR; Growth: MSCI Europe Growth NR.

- Over the last four weeks, , no sector was able to increase in value. Only energy stocks in Europe barely lost any value. All other sectors lost 1.7% or more in value.
- IT companies and consumer discretionary fell the most after government bond yields made a U-turn and already reaching its highs for 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: 08/09/2017 – 09/09/2022

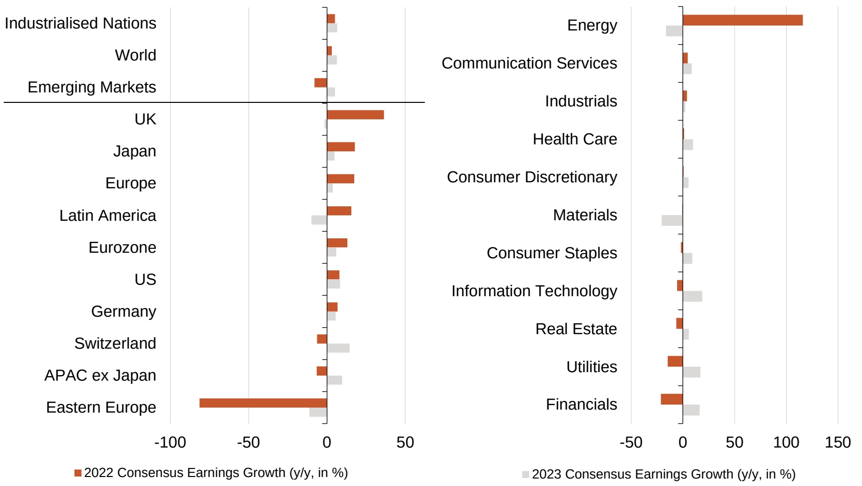
Changes in Consensus Earnings Estimates



- The negative earnings revisions continued over the past four weeks. Earnings estimates were reduced most significantly for emerging markets. Within emerging markets, Asian countries were particularly affected, while earnings expectations for Latin America were increased.
- With falling crude oil prices, earnings expectations for energy stocks have not risen any further. Expectations fell the most for utilities and real estate.

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 09/09/2022

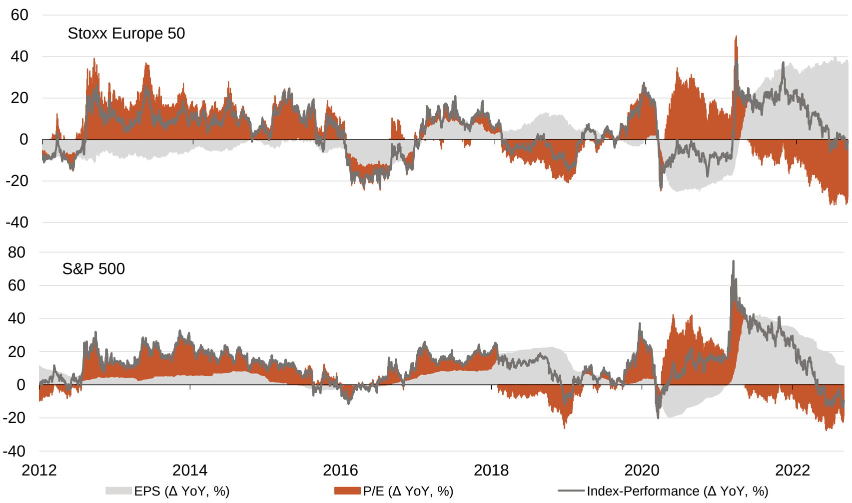
Earnings Growth



- Earnings growth expectations in 2022 for the industrialised nations are now only around 5%.
- In emerging markets, growth is even negative at around -8%. Asia and Eastern Europe are the biggest negative factors here.
- Among the sectors, only the energy sector can show significant earnings growth in 2022.

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 09/09/2022

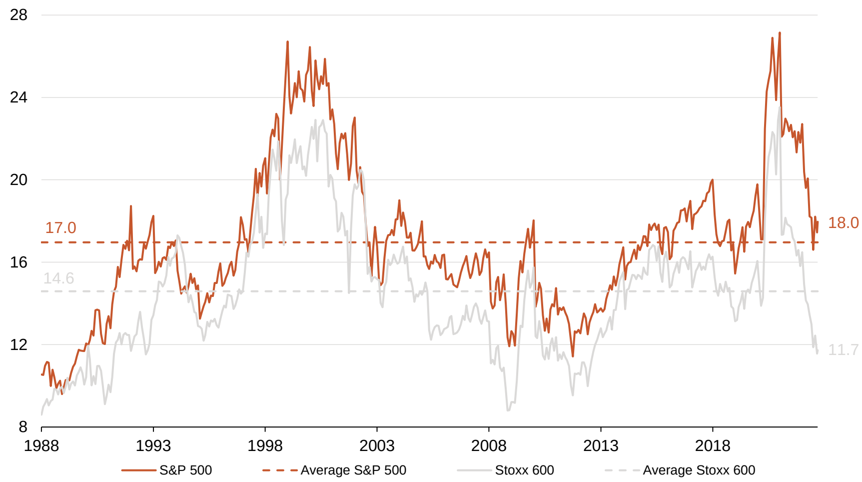
Contribution Analysis



- Fewer year-on-year earnings tailwinds and a renewed valuation correction have weighed on the S&P 500 recently. YoY, it is now back at the -20% mark.
- The Stoxx Europe 50, on the other hand, is holding up surprisingly well. Stable earnings growth has so far almost offset the pressure on valuations

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 – 09/09/2022

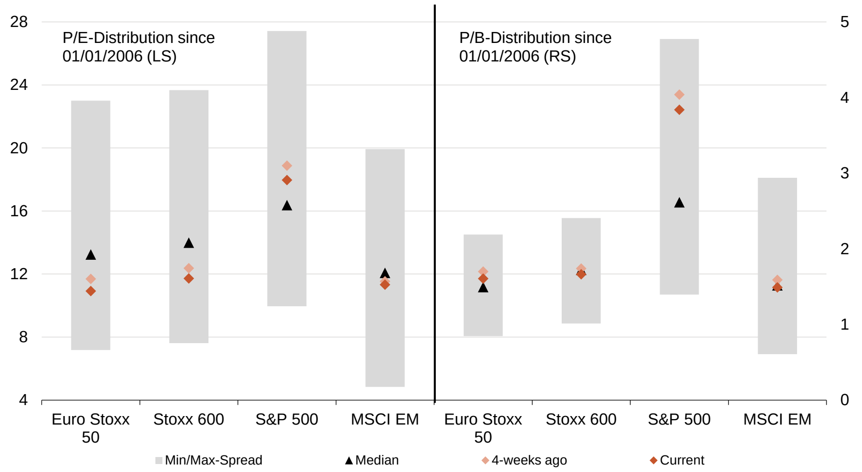
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Valuation pressure does not seem to be over yet. After the recovery in July, the last few weeks saw falling valuation ratios again as interest rates rose.
- The S&P 500 is approaching its historical average of 17 with a P/E ratio of 18x.
- The Stoxx 600, on the other hand, is historically favourably valued with a P/E ratio of only 11.7x.

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 – 09/09/2022

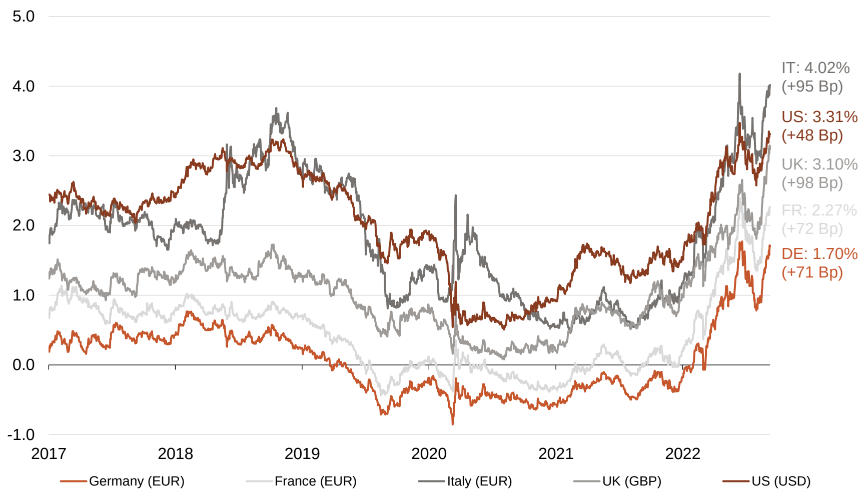
Historical Distribution: Price/Earnings and Price/Book Ratio



- The P/E ratios of European equity indices such as the Euro Stoxx 50 have fallen again in the last four weeks and are well below the median since 2006. However, the low P/E is still some way off. The P/B ratio, on the other hand, is not significantly away from the median since 2006.
- US equities have also become cheaper, even though they remain historically expensive.

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 – 09/09/2022

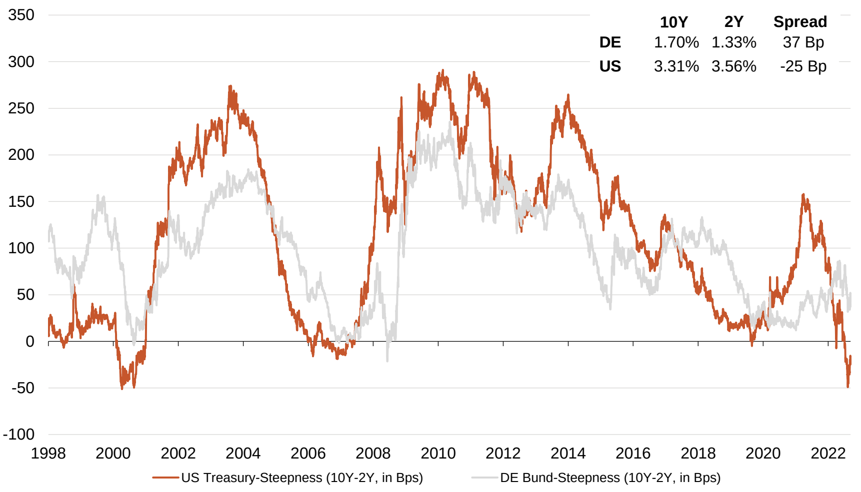
10-Year Government Bond Yields



- The global bond market saw a significant turnaround in bond yields. 10-year US government bonds recently yielded above 3.3% again. In Europe, yields also rose strongly, but the widening gap between core and peripheral countries should be emphasised here.
- While German government bond yields rose to just under 1.7%, Italian government bond yields even climbed to above 4%.

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 - 09/09/2022

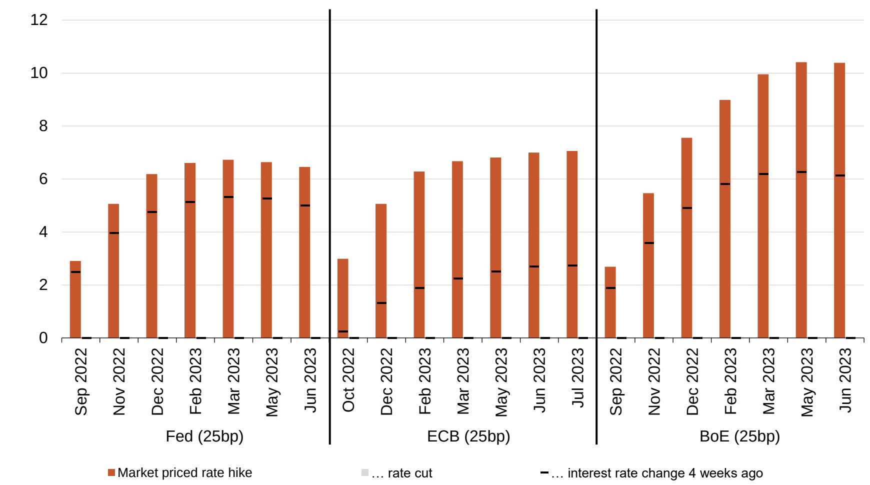
Yield Curve Steepness (10Y – 2Y)



- The US yield curve has recently moved back towards zero with better-than-expected economic data.
- The German yield curve, on the other hand, has not moved much and is trading at around 50 basis points (bps).

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 - 09/09/2022

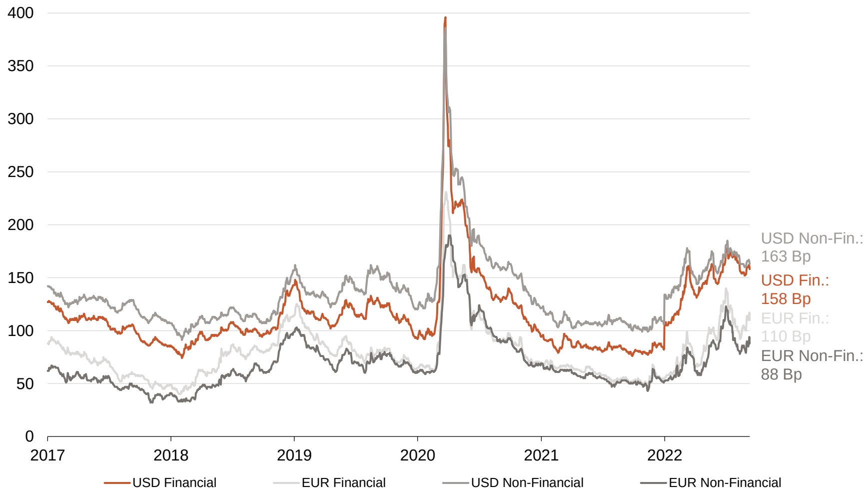
Implicit Changes in Key Interest Rates



- More restrictive central bank comments have led to a readjustment of interest rate expectations. After the ECB's 75bps rate hike, the market now expects a 75Bp rate hike in October as well. Four weeks ago, this expectation was still at 25Bp.
- The market expects the Fed and BoE to raise interest rates by at least 50bps.

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: 12/08/2021 - 09/09/2022

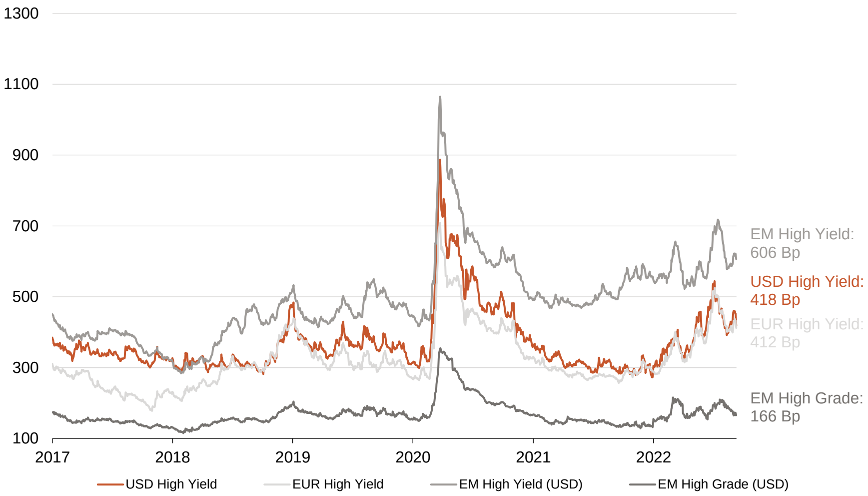
Credit Spreads Financial and Non-Financial Bonds



- The risk-off sentiment due to the more restrictive central banks did not pass the corporate bond market by noticeably. Spreads on USD and EUR corporate bonds have risen by up to 7 bps in the last two weeks.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2017 – 09/09/2022

Credit Spreads High Yield and Emerging Markets Bonds



- High yield bonds also suffered from the reduced risk appetite. USD and EUR high yield bonds saw an upward jump in spreads of around 10bps.
- Emerging high-yield bonds also gave up some of their rally and now offer a risk premium of more than 600bps again.

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 – 09/09/2022

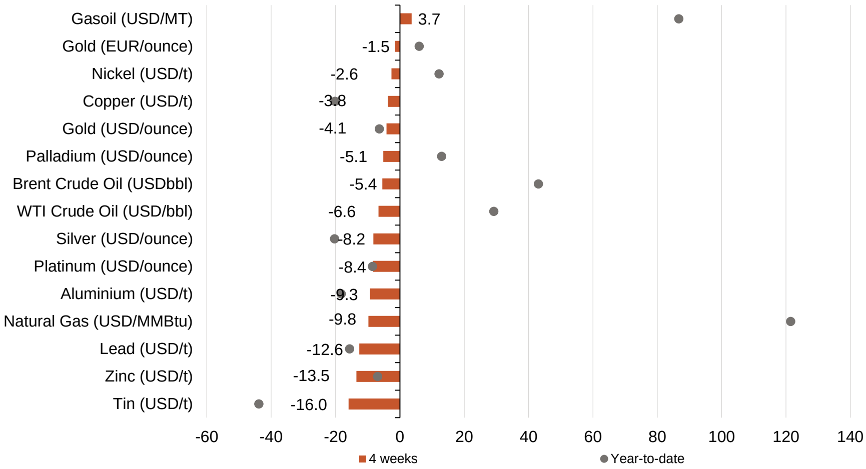
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	09/09/21 09/09/22	09/09/20 09/09/21	09/09/19 09/09/20	09/09/18 09/09/19	09/09/17 09/09/18
EUR Government	2.24	0.81	7.4	-	-	-	-5.6	-14.3	-15.8	0.4	0.3	10.5	-0.1
Germany	1.49	0.76	7.5	-	-	-	-5.4	-13.0	-13.8	-0.9	-1.0	7.5	0.3
EUR Corporate	3.39	0.91	4.7	96	9	75	-4.1	-12.3	-13.4	2.2	0.0	6.3	-0.3
Financial	3.47	0.94	4.0	110	12	79	-3.7	-10.6	-11.4	2.0	0.1	5.7	-0.2
Non-Financial	3.34	0.89	5.1	88	7	76	-4.4	-13.2	-14.4	2.4	-0.1	6.6	-0.3
EUR High Yield	6.99	0.86	3.4	412	-3	79	-2.3	-11.9	-12.4	8.5	0.1	6.0	0.7
US Treasury	3.56	0.43	6.5	-	-	-	-2.8	-11.1	-12.0	-2.1	7.8	10.4	-2.4
USD Corporate	5.01	0.43	7.1	161	-8	82	-2.9	-14.7	-15.6	2.9	8.1	13.0	-1.8
Financial	5.02	0.42	5.3	158	-6	86	-2.1	-12.0	-13.0	2.6	8.0	11.5	-1.5
Non-Financial	5.00	0.44	8.0	163	-8	81	-3.3	-15.9	-16.8	3.1	8.2	13.6	-1.9
USD High Yield	8.22	0.52	4.5	418	4	63	-1.8	-10.0	-9.6	10.9	3.0	7.1	3.0
EM High Grade	5.13	0.19	5.4	166	-25	34	-1.4	-13.8	-14.7	2.9	4.9	11.2	-1.4
EM High Yield	11.10	0.72	4.0	606	8	71	-0.1	-17.5	-21.7	6.8	7.9	10.5	-3.3

- Yield levels continued to rise. EUR-IG corporate bonds now offer a yield above 3%, while EUR high-yield bonds even yield around 7%.
- However, rising yield levels are accompanied by price losses. All bond segments lost value in the last four weeks.

ICE BofA indices in the following sequence: Euro Government; German Government; Euro Corporate; Euro Financial; Euro Non-Financial; Euro High Yield; US Treasury; US Corporate; US Financial; US Non-Financial; US High Yield; High Grade Emerging Markets Corporate Plus; High Yield Emerging Markets Corporate Plus. EM indices are hard currency bonds.
Source: FactSet, Time Period : 09/09/2017 – 09/09/2022

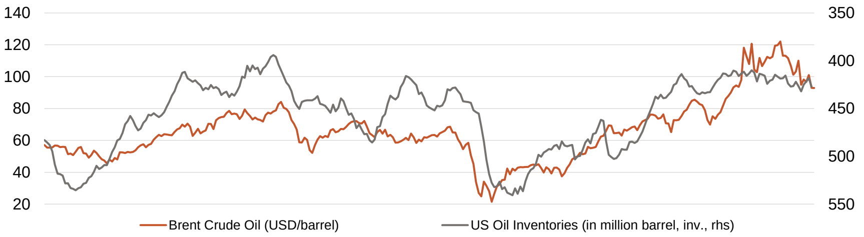
Commodities Performance

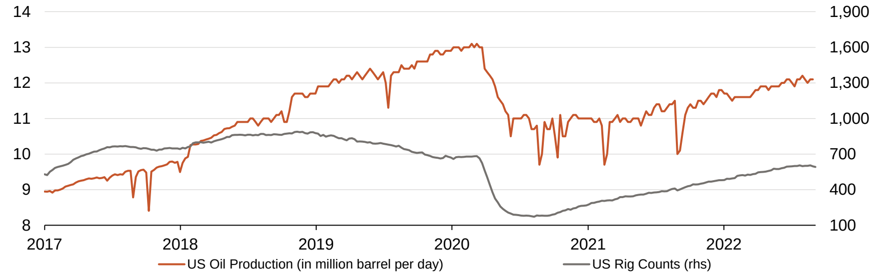


- Commodities have not had an easy time over the last four weeks.
- Only gas oil was able to make gains. Crude oil recorded small losses.
- Among the big losers were the precious metals platinum and silver as well as the industrial metals tin, lead and zinc.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period:31/12/2021 – 09/09/2022

Crude Oil

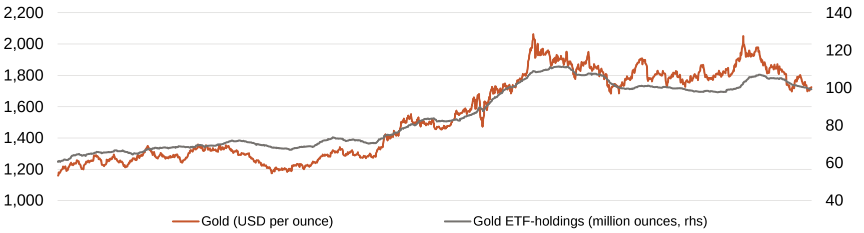


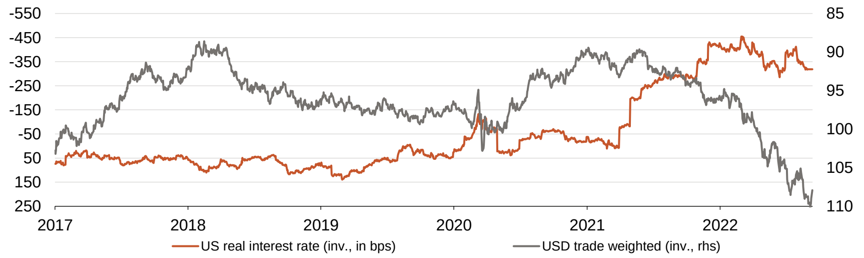


- The oil price has traded almost unchanged over the last four weeks. While news of an Iran agreement or a price cap depressed the oil price, news of production cuts by OPEC provided tailwind.

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 – 09/09/2022

Gold





- Gold lost its gains since mid-July over the last two weeks. The stronger US dollar in particular weighed on the precious metal, but the rise in real interest rates also put pressure on the gold price.

The US dollar and the real, i.e. inflation-adjusted, interest rate are among the fundamental 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 – 09/09/2022

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Date: 12 September 2022

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