BERENBERG
Markets

MONITOR

24 October 2022

Current market commentary

Equity markets have recently recovered from their lows of the year despite rising interest rates. On the one hand, the Q3 reporting season has so far turned out better than many bears expected. For another, there is a lack of incremental sellers, given the extremely negative investor sentiment and investors' low risk positioning. Moreover, corporate share buyback programmes are about to start again. So, without another negative trigger (e.g. inflation data, Fed), the "pain trade" for the markets should be up for now, even though there is a lot of fundamental evidence to suggest that it will be another bear market rally that will eventually be sold off again. As long as economic and inflation data do not weaken significantly and stress in the markets, especially the bond markets, does not get out of hand, the Fed will continue to raise interest rates for the time being and keep expected real rates high. Only when the Fed signals a pause is a more sustained recovery in equities to be expected.

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

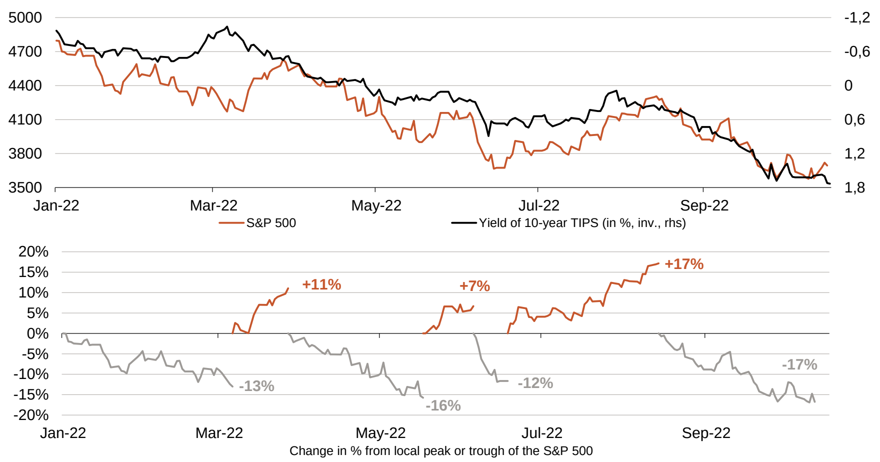
Central banks and corporate figures in focus.

Apart from the Q3 reporting season, central banks are likely to keep markets busy over the next two weeks. The ECB meets on 27 October, the Fed on 1 November and the BoE on 3 November. The market expects a rate hike of at least 75 basis points from all three central banks.

Purchasing managers' indices, inflation figures and US labour market data are due.

Today's preliminary Eurozone Purchasing Managers' Indices (PMIs) for October will be followed on Tuesday by the Ifo Business Climate Index (Oct.) for Germany and US Consumer Confidence (Oct.). Preliminary Q3 economic growth and new orders for durable goods (Sep.) for the US will be released on Thursday. On Friday, preliminary Q3 GDP and inflation figures (Oct) for Germany and France are due, as well as US housing data. Next week, the US labour market data (Oct) and the preliminary US purchasing managers' indices (Oct) are likely to be decisive for the market.

Short-term, bear market rally more likely than sustained recovery



- Persistently high inflation and the associated restrictive central banks with rising real interest rates have weighed on equity markets since the beginning of the year.
- Given the current pessimistic mood and low investor positioning, we consider a renewed bear market rally to be quite possible. We expect a sustained market recovery only with a Fed pivot. However, this is only likely to happen with significantly weakening economic and inflation data or with significant stress in (bond) markets.

Source: Bloomberg, Time period: 30/09/2020 - 21/10/2022

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (23/09/22 - 21/10/22)	YTD (31/12/21 - 21/10/22)	21/10/21 21/10/22	21/10/20 21/10/21	21/10/19 21/10/20	21/10/18 21/10/19	20/10/17 21/10/18
Brent	8.1	67.8	63.0	115.7	-38.7	-17.9	50.4
Euro overnight deposit	0.1	-0.3	-0.4	-0.6	-0.5	-0.4	-0.4
MSCI World	-0.2	-10.6	-6.2	34.9	4.5	12.9	5.6
Global Convertibles	-0.8	-9.6	-12.5	29.9	30.5	13.8	4.5
Gold	-0.9	4.5	9.6	-5.5	21.8	25.0	-2.0
EUR Sovereign Debt	-1.2	-11.4	-11.5	-1.3	1.1	5.7	-1.3
Industrial Metals	-1.3	-1.2	0.6	43.6	0.6	2.9	-5.8
USDEUR	-1.8	15.3	17.9	2.0	-6.0	3.3	2.3
EUR Coporates	-2.4	-16.4	-16.4	0.0	1.7	5.6	-0.5
MSCI Emerging Markets	-5.7	-16.7	-18.6	18.3	6.2	12.2	-9.1
REITs	-9.4	-23.1	-15.2	32.9	-20.4	27.6	-1.2
MSCI Frontier Markets	-9.6	-18.2	-17.6	33.6	-6.1	13.8	-10.0

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.

- The markets remained turbulent over the last four weeks. Oil, the strongest asset since the beginning of the year, continued to perform well over the last four weeks.
- However, other asset classes suffered from the globally restrictive central banks, rising interest rates and the gloomy economic outlook. In particular, the interest rate-sensitive REITs, emerging market equities and the cyclical industrial metals were burdened.

Total return for selected asset classes, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 20/10/2017 – 21/10/2022

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (23/09/21 - 21/10/22)	YTD (31/12/21 - 21/10/22)	21/10/21 21/10/22	21/10/20 21/10/21	21/10/19 21/10/20	21/10/18 21/10/19	20/10/17 21/10/18
Euro Stoxx 50	3.8	-17.2	-14.2	33.2	-9.8	15.2	-8.6
DAX	3.6	-19.9	-17.7	23.2	-1.5	10.3	-11.1
Stoxx Europe Cyclicals	2.9	-21.2	-18.7	40.6	-7.5	10.5	-9.4
Stoxx Europe 50	2.4	-8.4	-3.0	30.1	-9.4	13.6	-4.6
MSCI USA Small Caps	1.8	-7.7	-6.9	49.3	-1.7	7.9	6.9
Stoxx Europe Defensives	0.9	-6.4	-3.6	26.4	-8.0	11.6	2.0
MSCI UK	0.8	-4.5	-0.9	39.3	-22.6	8.5	-0.9
S&P 500	0.4	-7.7	-0.9	37.1	9.4	14.5	12.1
Stoxx Europe Small 200	0.0	-31.0	-30.4	38.4	-1.0	11.5	-3.9
MSCI EM Eastern Europe	-2.3	-84.4	-86.1	70.6	-27.0	24.1	3.8
MSCI Japan	-6.4	-15.3	-13.8	18.1	0.1	6.5	3.5
MSCI EM Asia	-8.3	-20.5	-22.3	14.0	17.0	13.0	-10.3

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.

- Over the last two weeks there have been positive developments in global equity markets. With the momentum of the better-than-expected reporting season, European, UK and US equities rallied and recouped the losses of the previous days.
- Asian equities suffered most over the last two weeks. Here, Chinese equities in particular were burdened by the adherence to the zero-covid policy confirmed at the Chinese party congress.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 20/10/2017 – 21/10/2022

Fixed Income

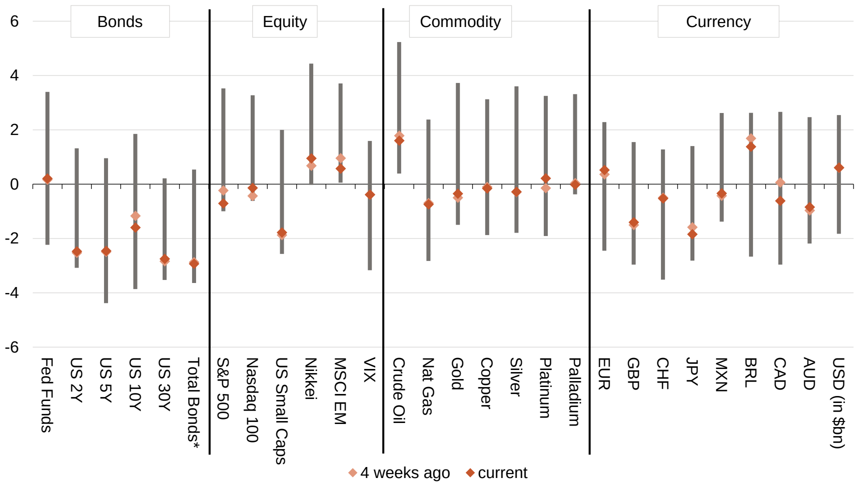
	4-week & YTD		12-month periods over that last 5 years				
	4W (23/09/22 - 21/10/22)	YTD (31/12/21 - 21/10/22)	21/10/21 21/10/22	21/10/20 21/10/21	21/10/19 21/10/20	21/10/18 21/10/19	20/10/17 21/10/18
Gilts	1.6	-29.8	-27.1	-1.3	1.9	13.3	1.4
Chinese Gov Bond	0.0	3.7	5.7	5.2	2.9	6.1	5.1
USD High Yield	-0.7	-14.0	-13.3	9.7	3.5	7.7	1.5
EUR Non-Financials	-2.2	-16.8	-16.8	-0.3	2.0	5.7	-0.4
BTPs	-2.3	-17.7	-18.6	-0.2	3.9	19.4	-6.7
EUR Financials	-2.6	-15.8	-15.9	0.5	1.3	5.4	-0.6
EUR High Yield	-2.7	-16.0	-15.7	7.3	0.5	6.2	-0.9
Bunds	-3.2	-17.4	-16.8	-3.6	2.0	5.7	1.1
Treasuries	-3.9	-1.4	2.0	-1.4	1.1	14.1	0.4
EM Local Currency Bonds	-4.1	-7.1	-6.9	2.2	-7.7	16.4	-4.4
USD Corporates	-4.5	-20.5	-19.8	1.0	8.2	13.9	-2.3
EM Hard Currency Bonds	-6.6	-14.1	-11.9	4.9	-4.1	16.9	-1.3

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

- Global bond markets also posted losses, with the exception of British government bonds. These were able to recover after the resignation of ex-Prime Minister Truss. While Chinese government bonds were able to keep the setbacks comparatively low, German government bonds and USD corporate bonds in particular suffered alongside emerging market 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: 20/10/2017 – 21/10/2022

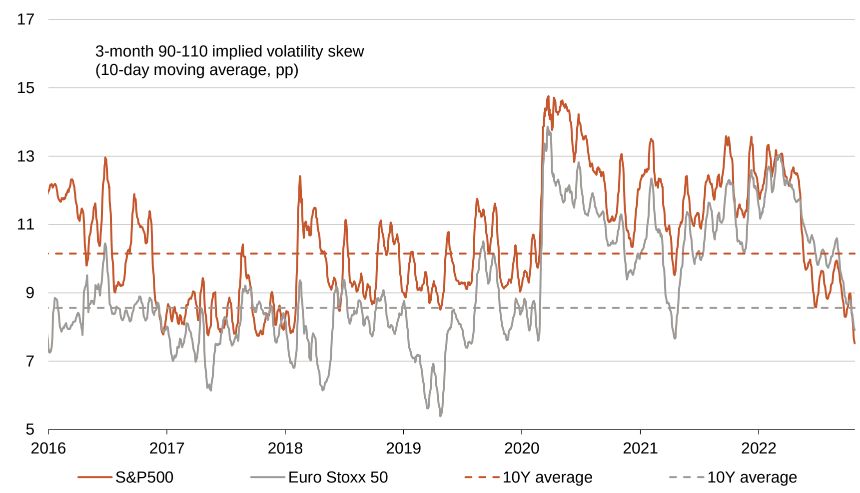
Non-Commercial Positioning



- In EM equities, longs were recently reduced further, while S&P 500 shorts were increased.
- Platinum saw short covering. Positioning is now slightly long.
- On the currency side, CAD positioning has turned short, while longs in BRL 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: 18/10/2012 - 18/10/2022

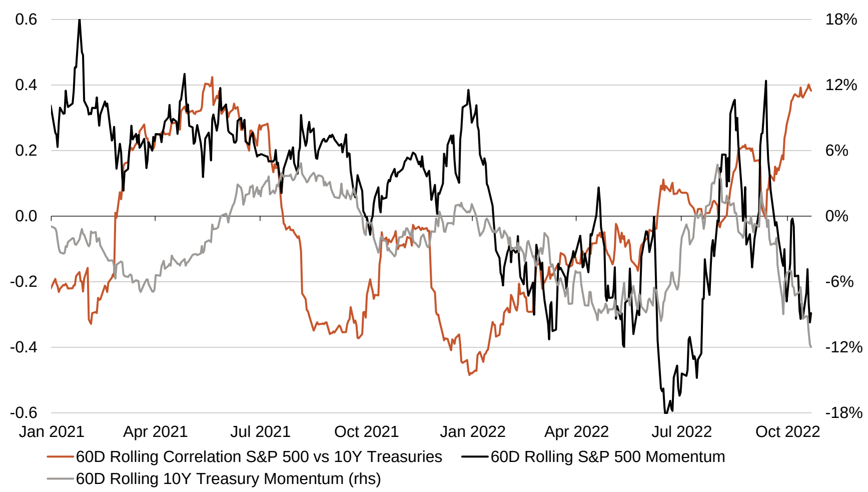
Put-Call-Skew



- The skew has fallen in both US and European equities over the last two weeks. Upside participation has become more expensive again compared to downside protection in the last two weeks, which may also be related to speculation of many market participants on a Fed pivot.

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: 11/01/2012 - 11/01/2022

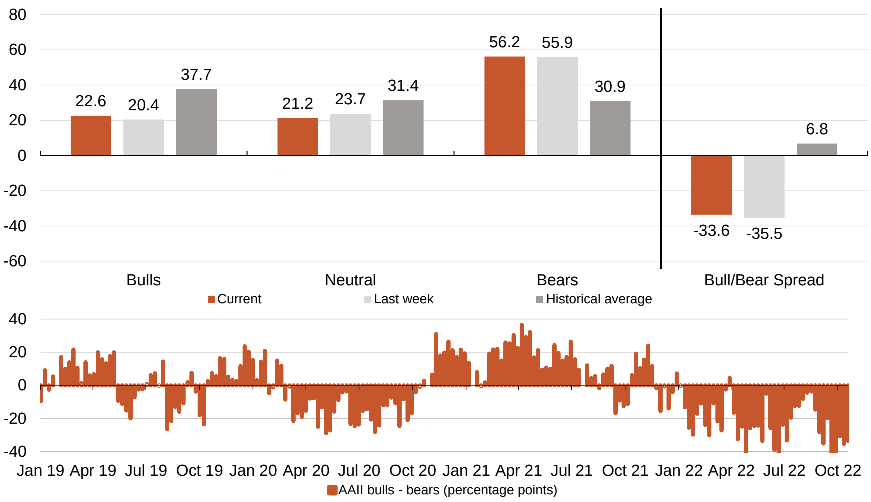
60-Day Momentum and Correlation



- The correlation between US equities and US bonds recently reached 0.4. The sell-off was thus felt in both asset classes, which can also be seen in the negative momentum in US Treasuries and US 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 - 21/10/2022

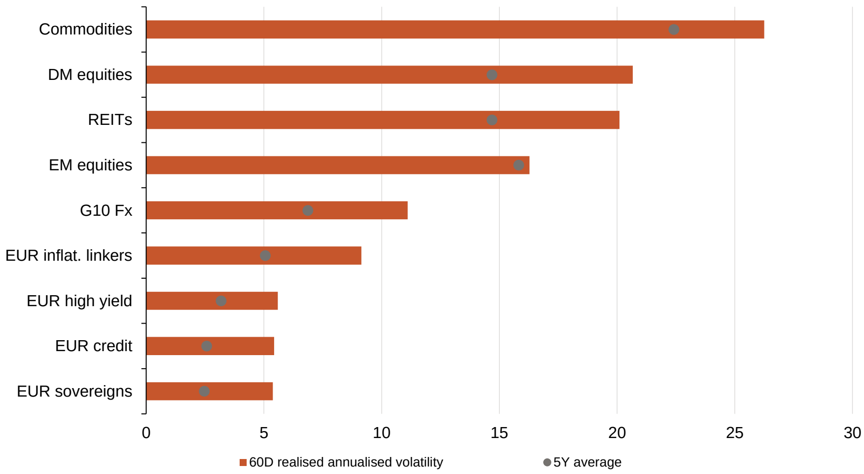
AAII Sentiment Survey (Bulls vs Bears)



- Sentiment among US private investors has brightened further compared to the previous week. Nevertheless, the current bull-bear spread of -33.5 remains very pessimistic and well below the historical average. Accordingly, the bears remained the largest group with 56%.

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 – 21/10/2022

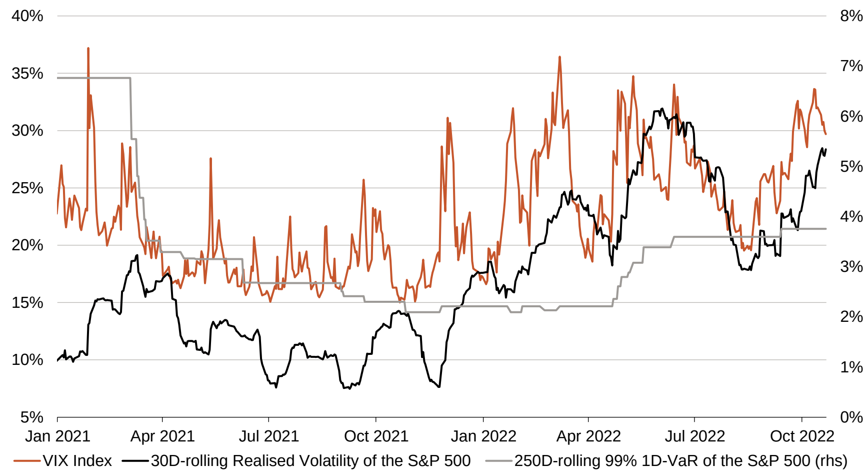
Realised Volatilities



- Realised volatilities remained above the 5-year average across all segments. Realised volatilities were particularly strong for REITs and developed market equities, which suffered from central banks' hawkish interest rate policies.
- Realised volatility also remained high for commodities over the last 60 days. News of production cuts by OPEC and extensions of SPR releases by the Biden administration led to volatility.

The realised volatility (in per cent) measures the fluctuation range of a time series and is defined here as the standard deviation of the daily return over the last 60 trading days. Volatility is often used as a measure of risk.
Source: Bloomberg, period: 31/12/2017 - 21/10/2022

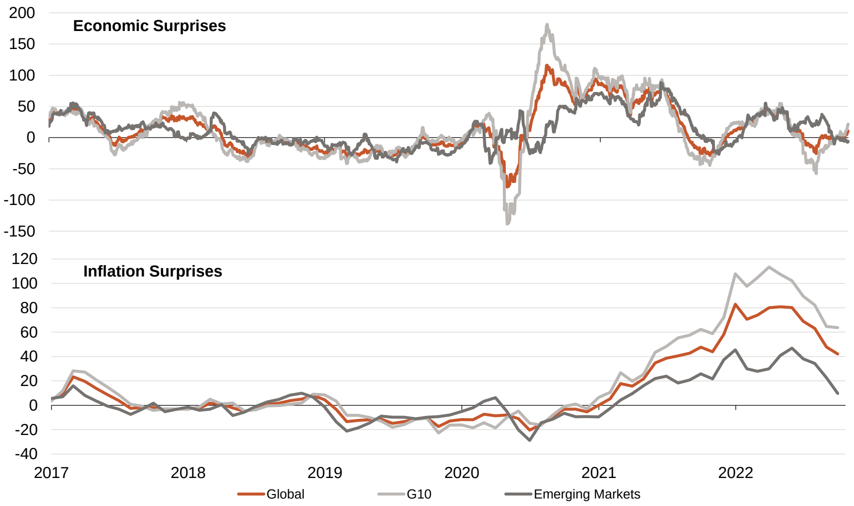
Volatility and Value-at-Risk of the S&P 500



- The implied volatility of the S&P 500 recently fell back towards the 30 mark, while the realised volatility of the equity index increased significantly. Levels are nevertheless still high and equities are thus likely to be demanded less by risk-based strategies.

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 – 21/10/2022

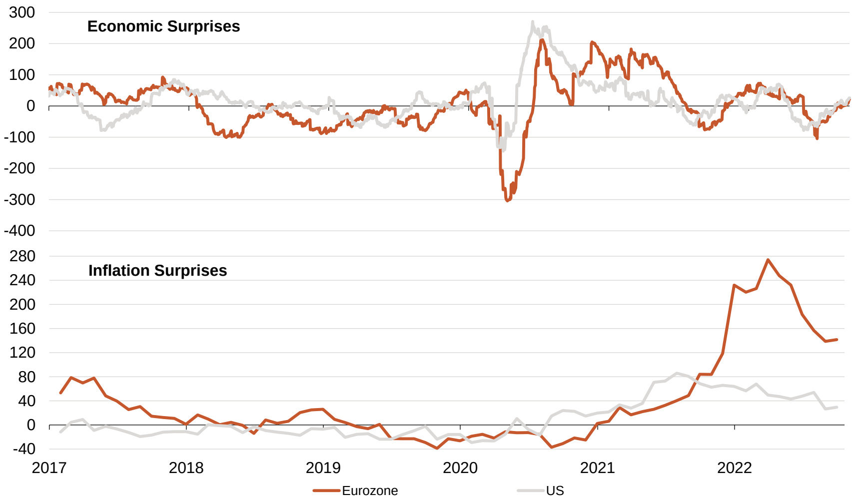
Global



- The economic surprise data were able to counter the globally restrictive central banks and the economic pessimism over the last few weeks and moved sideways around the zero threshold. Positive and negative economic surprises thus balanced each other out over the last few weeks.
- The inflation data also surprised less positively.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 21/10/2022

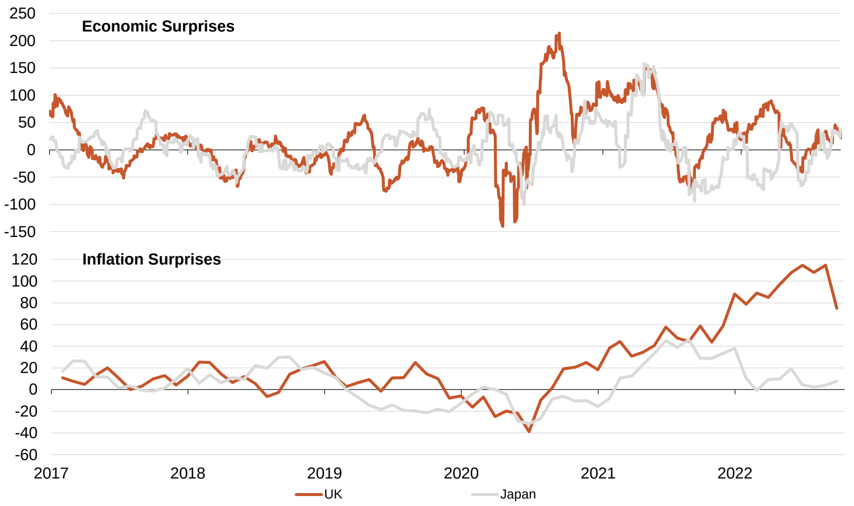
Eurozone and US



- In both the US and the Eurozone, the positive and negative economic surprises seem to cancel each other out.
- In the US, the labour market remained robust and industrial production data for September also exceeded expectations.
- In the eurozone, aggregate year-on-year inflation was lower than expected and PMI purchasing managers data came in below expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 21/10/2022

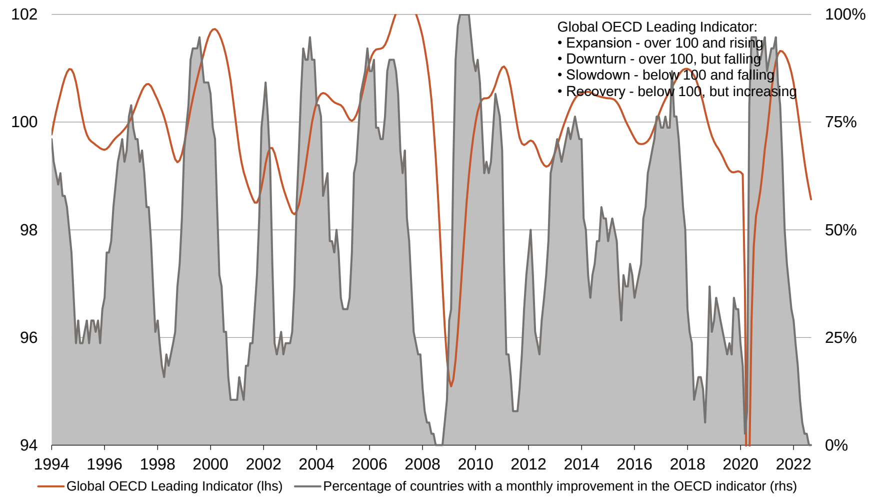
UK and Japan



- In both the UK and Japan, positive economic surprises decreased. A contrasting picture emerges, however, in the case of inflation surprises. Here, positive surprises fell rapidly in the UK, but rose slightly in Japan.

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 - 21/10/2022

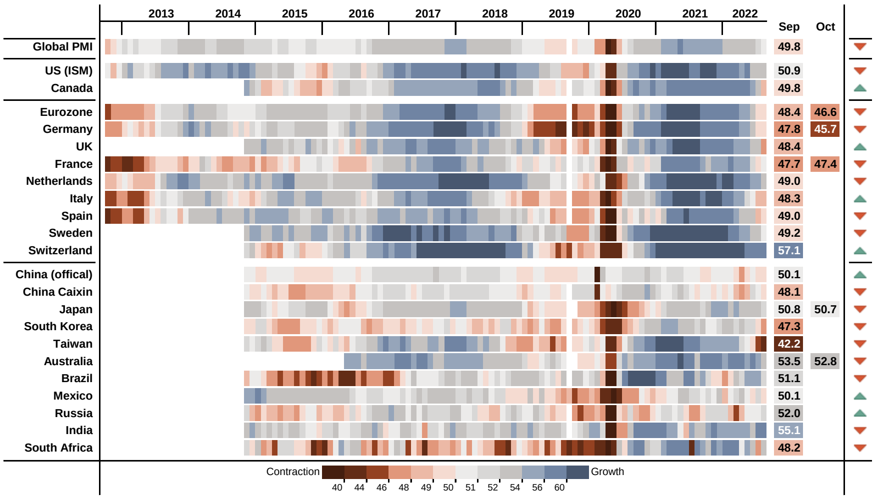
OECD Leading Indicator



- The OECD leading indicator, which signals a turning point in the business cycle, continues to fall and is heading towards 98. By falling below the 100 mark, it points to an economic slowdown. At the country level, not a single country improved on the previous month. The last time this happened was in 2008.

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 - 21/10/2022

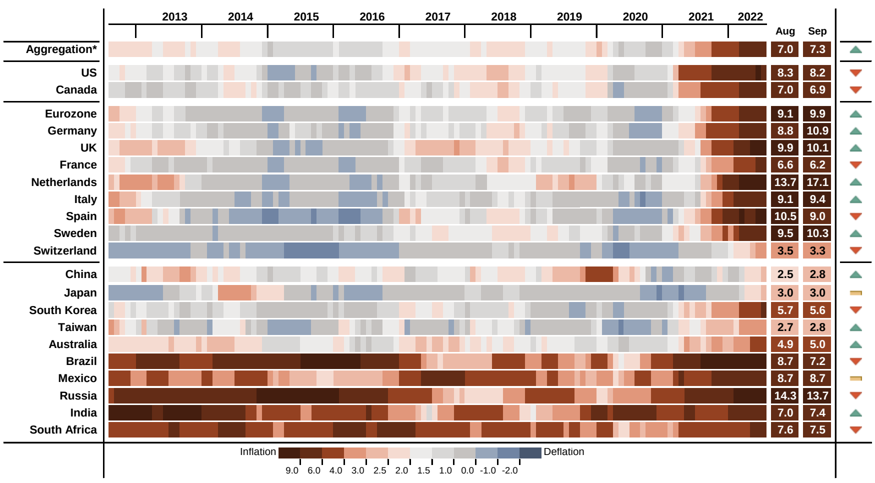
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The September PMI data has deteriorated in aggregate with a reading below 50, the data now indicate declining industrial activity for the Eurozone, China, South Korea, Taiwan, South Africa and at the global level. The PMI also fell in the US, but is still marginally in the growth zone.

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: 21/10/2012 - 21/10/2022

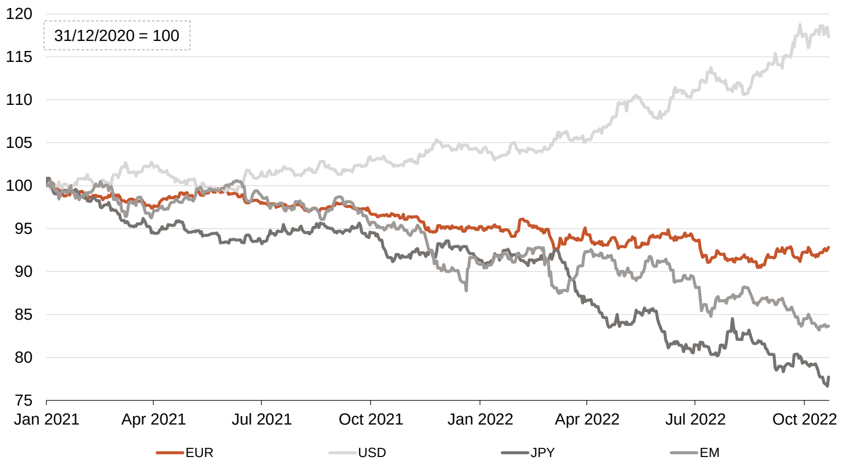
Headline Inflation



- Cost pressures from higher energy and food prices, led to an increase in prices passed on to consumers in the Eurozone. In Germany, the inflation rate even rose to 10.9% - the highest value since 1951.
- In contrast, it fell in the US, Switzerland, Brazil, Russia, Canada and South Africa.

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: 21/10/2012 - 21/10/2022

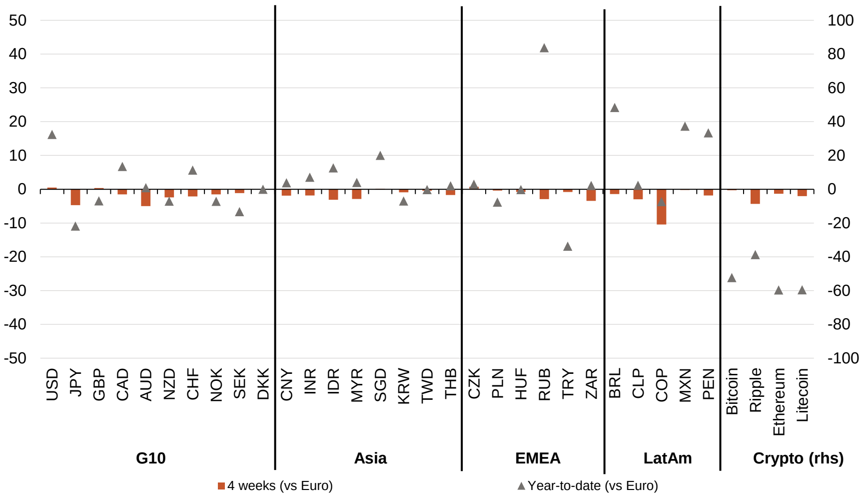
Trade-Weighted Currency Development



- The US dollar continues to hold at historically high levels. The Japanese yen, on the other hand, continued to depreciate. The currency briefly traded at over 150 yen per US dollar, surpassing the level that triggered Japan's first intervention to buy the yen in 1998. The yen has thus fallen to a 24-year low this year as the Bank of Japan's loose monetary policy continues to weigh on the currency.

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 - 21/10/2022

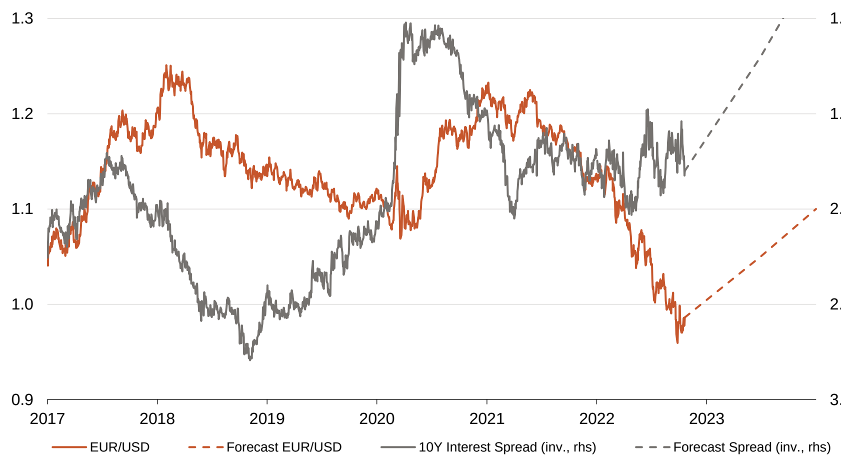
Currency Moves vs Euro



- Over the last four weeks, the euro gained against most of the currencies shown here. The currency experienced upward pressure from the restrictive interest rate policy of the European Central Bank and decreasing energy pressure from the well-filled gas storage facilities. The US dollar was the only G10 currency to gain against the euro - albeit only marginally. The British pound also lost again as the resignation of Liz Truss is likely to throw the British government into turmoil with new elections this week.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2021 - 21/10/2022

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



- The euro-US dollar has fluctuated below parity around 0.97 US dollars per euro over the last few weeks.
- Nevertheless, the interest rate differential has remained similarly stable. It continued to fluctuate around 1.7%, which means that currency hedging for investments in US dollars remains expensive for euro investors.

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

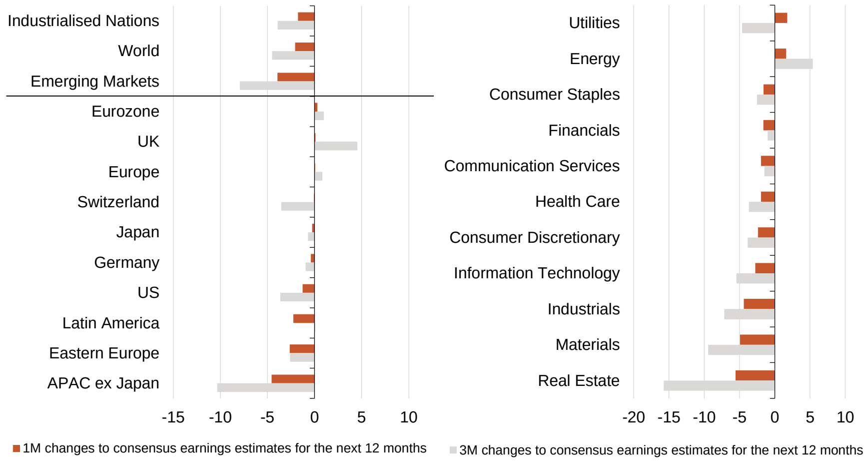
	4-week & YTD: 4W (23/09/22 - 21/10/22)	4-week & YTD: YTD (31/12/21 - 21/10/22)	21/10/21 21/10/22	21/10/20 21/10/21	21/10/19 21/10/20	21/10/18 21/10/19	20/10/17 21/10/18
Energy	9.8	31.7	25.6	87.6	-48.6	-6.1	18.3
Communication Services	5.4	-23.5	-18.4	34.2	1.0	17.5	-8.1
Materials	5.3	-15.2	-9.0	31.4	4.5	8.8	-3.9
Information Technology	4.5	-31.4	-29.1	41.1	13.5	17.7	1.4
Health Care	2.0	-9.7	-5.1	20.9	6.1	14.3	0.6
Consumer Discretionary	2.0	-24.5	-22.4	38.5	-2.4	16.9	-7.6
Value	1.8	-8.6	-5.8	36.6	-21.6	6.8	-5.3
Growth	1.5	-22.4	-18.5	29.6	6.2	17.4	-4.1
Finance	-0.1	-12.2	-11.4	55.3	-27.9	8.4	-13.6
Consumer Staples	-2.8	-11.6	-4.4	14.7	-3.2	15.4	-3.7
Telecommunications	-4.0	-14.9	-13.2	21.3	-23.6	10.9	-10.9
Utilities	-7.7	-18.5	-13.5	10.6	7.9	27.6	-4.0

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.

- Energy stocks gained around 10% over the last four weeks. The industrial sector also showed a strong positive performance.
- On the losing side are utilities and telecommunications companies.
- Growth and value stocks, on the other hand, have gained a similar amount.

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: 21/10/2017 – 21/10/2022

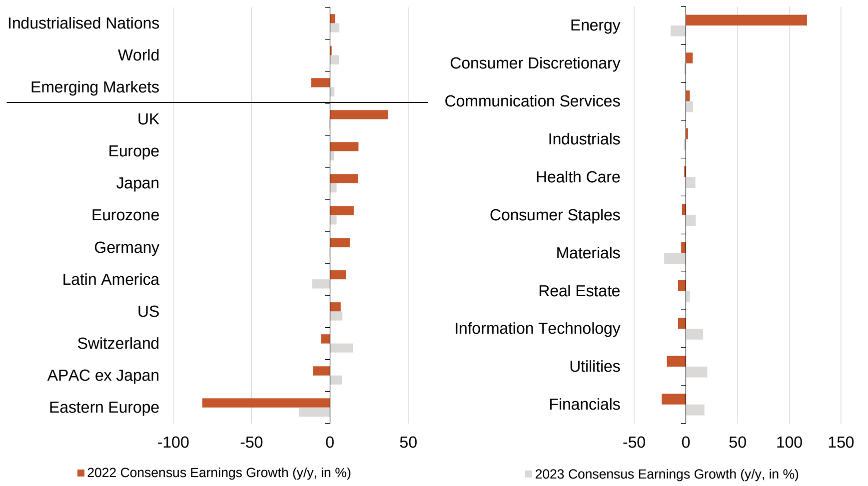
Changes in Consensus Earnings Estimates



- Earnings revisions over the past month remained negative at a global level. Emerging market earnings estimates over the next 12 months declined the most.
- Regionally, only Eurozone equities saw positive earnings revisions, while US equities experienced negative earnings revisions.
- At a sector level, utilities have overtaken energy companies with the most 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 19/10/2022

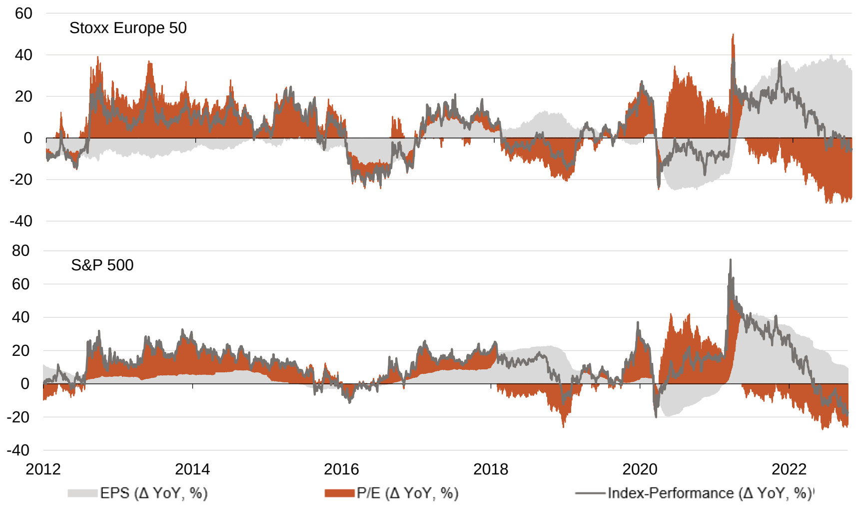
Earnings Growth



- For 2023, the analyst consensus continues to see positive earnings growth in both developed and emerging markets.
- Regionally, Switzerland and Asia ex Japan are likely to see the largest profit gains in 2023, while Latin America and Eastern Europe are on the losing side.

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 19/10/2022

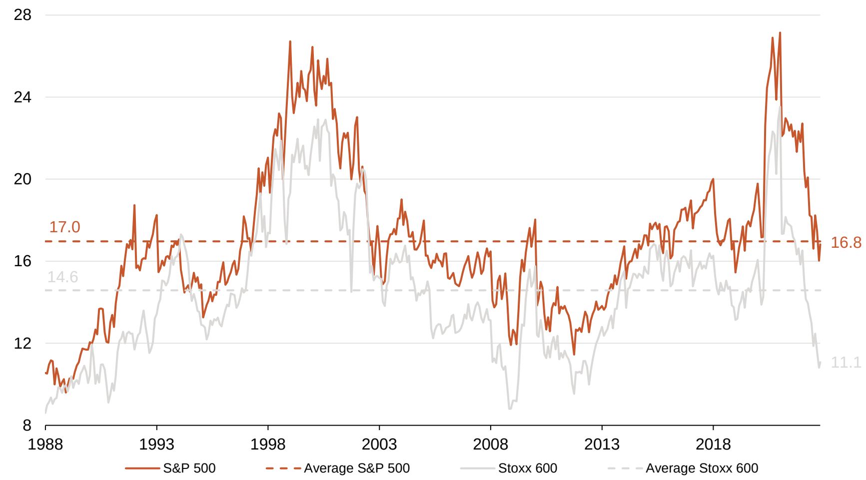
Contribution Analysis



- With the start of the Q3 reporting season, markets are likely to focus more on earnings again. So far, however, this has not increased significantly at an index level, with many companies still reporting in the coming weeks. YoY earnings growth has thus continued to decline in recent weeks, weighing on equity indices.

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 - 19/10/2022

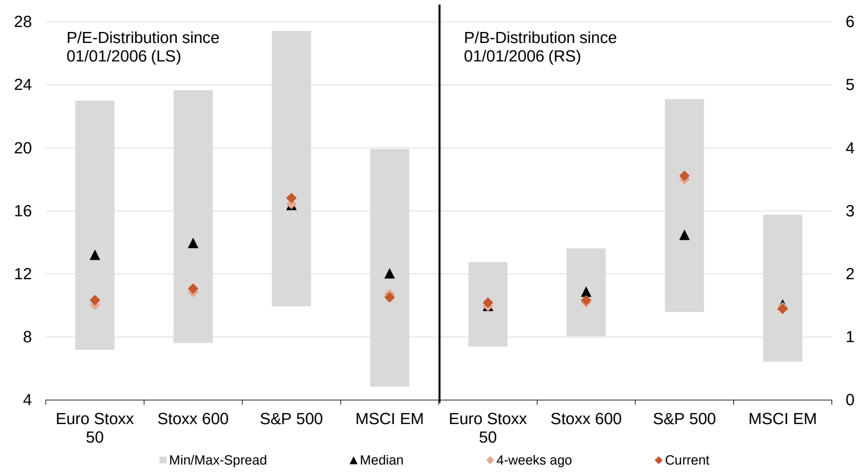
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Both the S&P 500 and the Stoxx 600 are no longer expensive on a P/E basis. However, this does not mean that valuation pressure cannot continue. The S&P 500 in particular still has considerable room to move towards the crisis lows. The Stoxx 600, on the other hand, is clearly more favourably valued.

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 - 21/10/2022

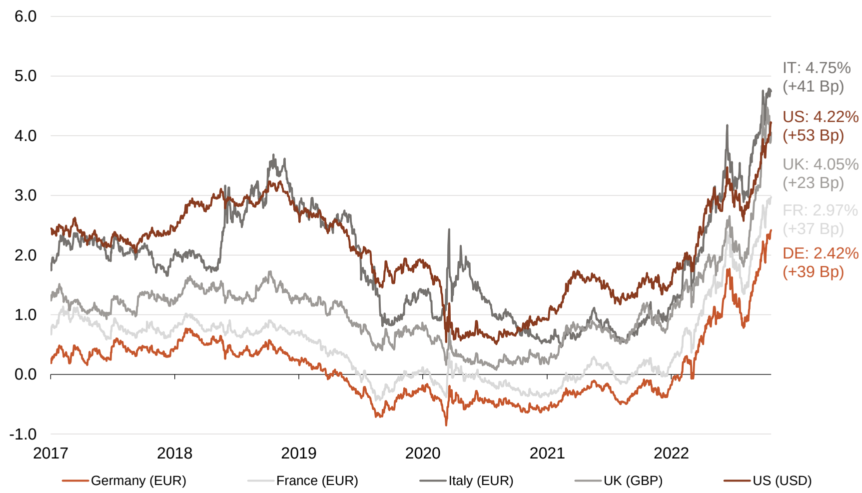
Historical Distribution: Price/Earnings and Price/Book Ratio



- In the last four weeks, the European indices, the S&P 500 and the MSCI EM have become slightly cheaper on a P/E and on a P/B basis.
- However, the S&P 500 is still not cheap compared to the historical median.

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 - 21/10/2022

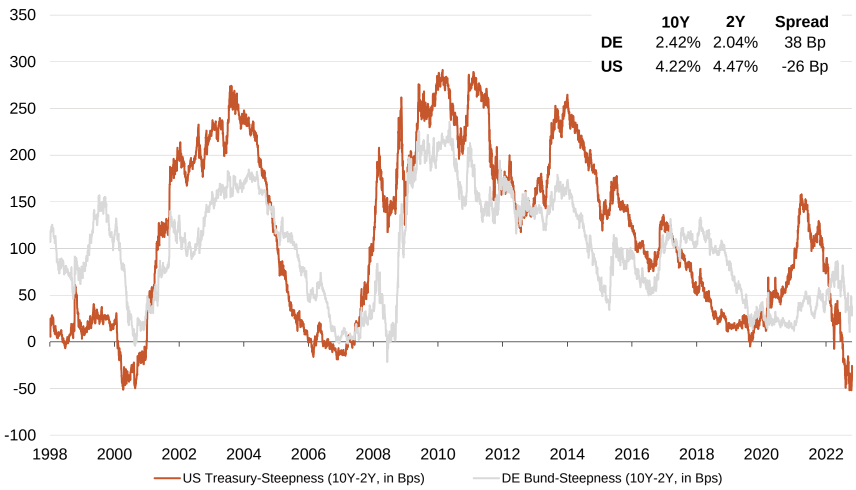
10-Year Government Bond Yields



- Yields on safe government bonds recently made new highs for the year and are well above 2018 yields. The widening of yields over the last four weeks was on averaged around 40 basis points.
- 10Y US government bonds, for example, are currently yielding more than 4.2%. However, Italian government bonds offer an even higher yield of just under 4.8%.

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 - 21/10/2022

Yield Curve Steepness (10Y - 2Y)

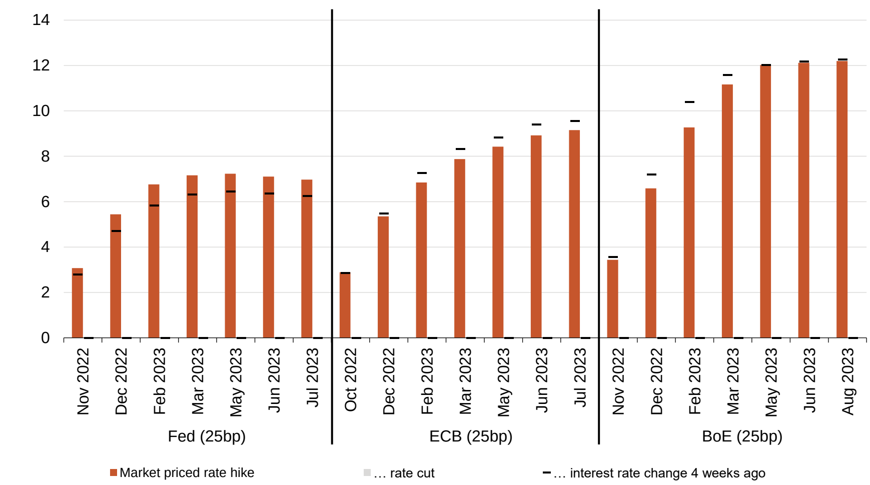


	10Y	2Y	Spread
DE	2.42%	2.04%	38 Bp
US	4.22%	4.47%	-26 Bp

- The steepness of the US yield curve remains negative. Hence, a US recession is very likely, at least according to this indicator.
- The German yield curve, on the other hand, has not yet inverted. However, at 38bps, it is not fare away from the zero line.

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 - 21/10/2022

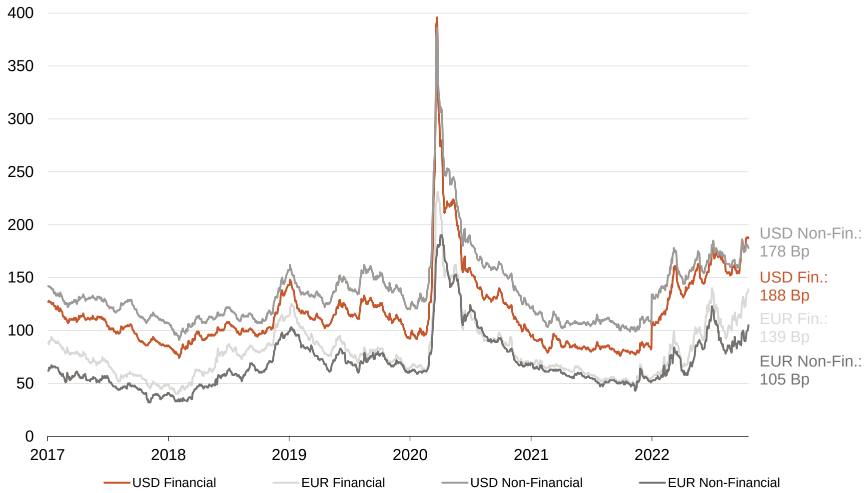
Implicit Changes in Key Interest Rates



- The Fed meeting on 2 November is eagerly awaited by markets. Currently, a rate hike of around 75bps is expected, which roughly corresponds to the value of four weeks ago.
- The market also expects a rate hike of around 75bps from the ECB meeting on 27 October.
- According to market, the BoE might raise interest rates by as much as 100bps on 03 November.

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: 30/09/2022 - 21/10/2022

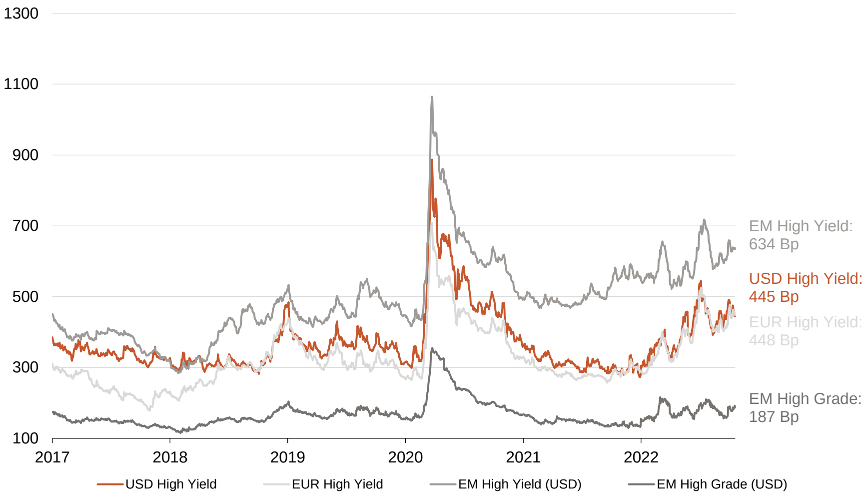
Credit Spreads Financial and Non-Financial Bonds



- In the last two weeks, spreads on investment grade bonds have risen again. For EUR-IG corporate bonds, spreads have increased by around 15bps and for USD corporate bonds by around 5bps.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2017 – 19/10/2022

Credit Spreads High Yield and Emerging Markets Bonds



- In contrast to USD-IG, spreads on USD high yield have fallen slightly in the last two weeks, which is probably demand-driven, among other things. The low duration and the higher yield protect high yield better than IG against interest rate increases.
- EUR high-yield bonds, on the other hand, saw a slight spread widening of around 10bps.

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 – 19/10/2022

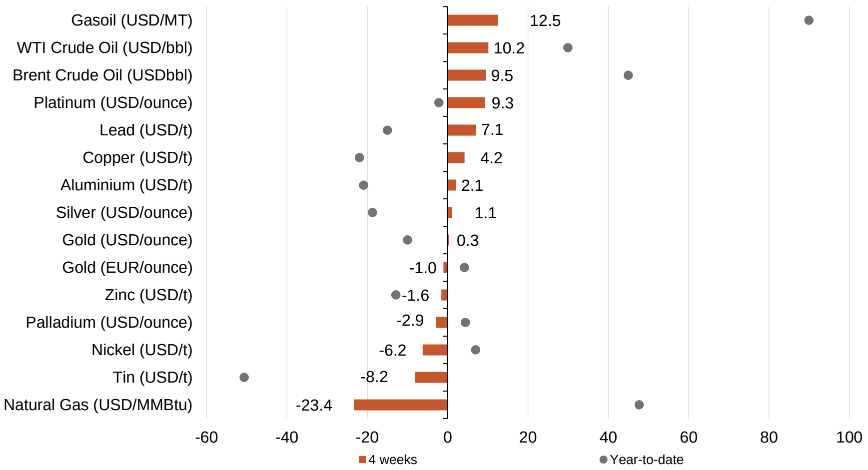
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	21/10/21 21/10/22	21/10/20 21/10/21	21/10/19 21/10/20	21/10/18 21/10/19	21/10/17 21/10/18
EUR Government	2.91	0.54	7.0	-	-	-	-4.2	-18.2	-18.2	-3.0	2.8	11.2	-1.2
Germany	2.15	0.52	7.1	-	-	-	-4.1	-17.0	-16.4	-3.7	1.9	6.1	0.7
EUR Corporate	4.37	0.75	4.6	113	15	93	-3.4	-15.9	-16.0	0.1	1.6	5.7	-0.6
Financial	4.51	0.78	3.9	135	21	95	-3.0	-14.0	-14.1	0.4	1.3	5.3	-0.6
Non-Financial	4.28	0.74	5.0	99	9	91	-3.6	-16.9	-17.0	-0.1	1.8	5.8	-0.5
EUR High Yield	8.44	1.18	3.3	457	43	90	-3.7	-15.8	-15.3	7.5	0.5	6.2	-0.9
US Treasury	4.37	0.56	6.2	-	-	-	-3.1	-14.6	-14.4	-3.5	8.1	11.1	-2.5
USD Corporate	6.00	0.79	6.7	184	25	94	-4.7	-19.5	-19.4	1.0	8.4	14.0	-2.7
Financial	6.15	0.89	5.0	188	32	96	-4.1	-16.4	-16.4	0.9	8.1	12.4	-2.1
Non-Financial	5.93	0.74	7.5	181	20	89	-4.9	-20.9	-20.8	1.0	8.6	14.7	-2.9
USD High Yield	9.57	0.83	4.4	462	24	71	-2.9	-14.3	-13.1	9.6	3.6	7.6	1.5
EM High Grade	6.11	0.77	5.1	182	22	56	-3.6	-17.6	-17.8	1.1	5.1	11.6	-1.5
EM High Yield	12.55	1.16	3.9	635	31	80	-5.3	-22.5	-24.0	4.0	5.3	9.9	-2.3

- The yield and duration advantage enabled USD high-yield bonds to outperform USD IG corporate bonds.
- With the exception of EM IG bonds, all bond segments are also recording a historically attractive spreads which also due to the widening of spreads over 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 : 19/10/2017 – 19/10/2022

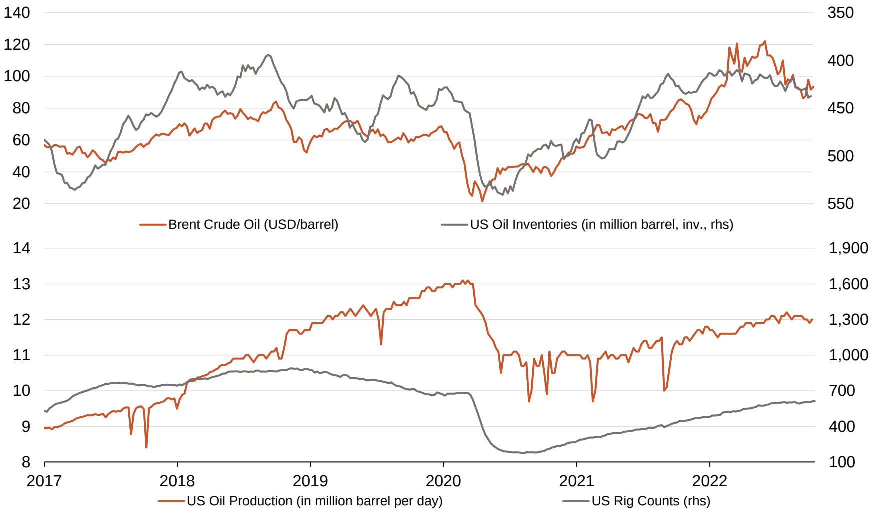
Commodities Performance



- Besides crude oil, the winners were gas oil and lead, copper, platinum, aluminium and silver.
- The other industrial metals were hit particularly hard. Due to their high cyclical exposure, they suffered particularly from the gloomier economic sentiment.
- Natural gas, nickel and tin lagged 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 - 21/10/2022

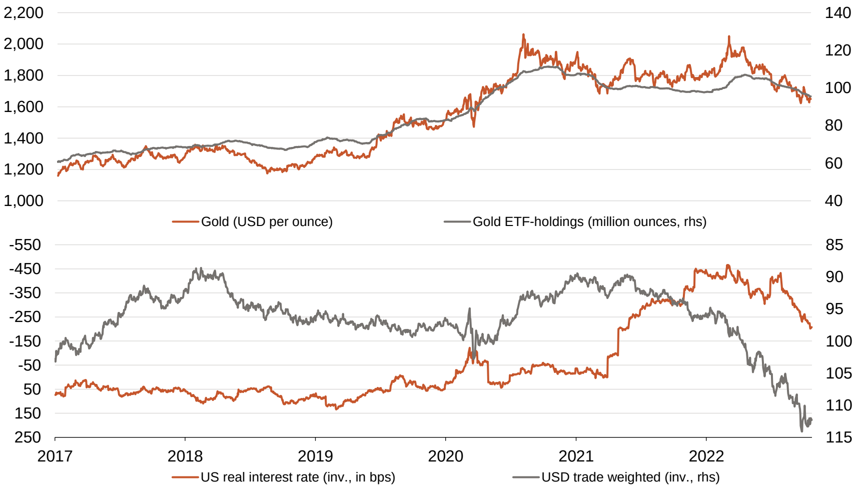
Crude Oil



- Among energy commodities, crude oil has seen a lot of movement over the last few weeks. After OPEC+ decided to cut production by 2 million barrels per day, which pushed the oil price up, countermovement came from the crude oil policy of the Biden administration in the US. Here, the extension of the release of strategic oil reserves was extended. The prospect of additional supply caused the oil price to fall.

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 - 21/10/2022

Gold



- Gold could not escape the burden of restrictive central bank policies with the stronger US dollar and rise in real interest rates. However, a turnaround in the Fed's interest rate policy is needed for a significant appreciation.

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 - 21/10/2022

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IMPORTANT NOTICES

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