BERENBERG
Markets

MONITOR

07 November 2022

Current market commentary

As we feared, market hopes for a quick Fed turnaround once again proved premature. Powell made it clear at last week's Fed meeting that although the pace of rate hikes is likely to slow, this does not equate to a pause and thus a "Fed pivot" (reversal of monetary policy). Accordingly, interest rates are likely to remain elevated for longer. This weighed on interest-sensitive asset classes, such as the Nasdaq, while commodity-related investments held up well – also because there have recently been increasing rumours that China could reverse its zero-covid policy in the spring of next year. The reversal from the strict zero-covid policy could accordingly come before the Fed pivot. We remain constructive on commodities not only tactically but also structurally. In our view, a sustained recovery of equity markets requires continued weaker economic and inflation data. Only then do we consider a real Fed pivot as likely.

The bi-weekly ***Monitor*** gives you a structured overview of the current capital market environment and highlights important developments:

- Performance
- Positioning
- Sentiment
- Surprise Indicators
- Economics
- Foreign Exchange
- Equities
- Sovereign Bonds & Central Banks
- Corporate Bonds
- Commodities

Short-term outlook

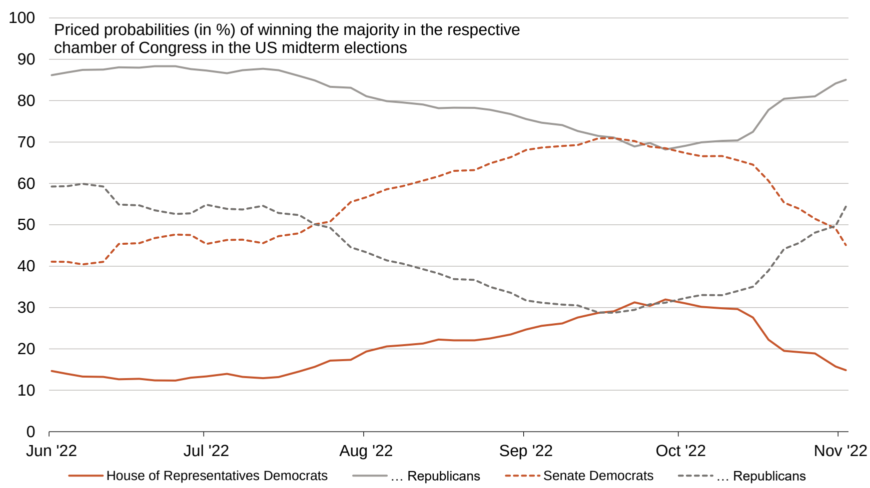
The next two weeks will be political. On 8 November, the mid-term elections will be held in the US. Currently, the Republicans are leading in the polls in both the House and the Senate. If this were to happen, US President Biden's ability to govern would be more limited. From 15 to 16 November, the heads of government will meet for the G20 summit in Bali. Putin's war as well as the relationship with China are likely to be central topics.

Investor focus is likely to be on international politics over the next two weeks.

This week, inflation data (Oct.) for China will be released on Wednesday and for the US on Thursday. This will be followed on Friday by preliminary Q3 GDP data for the UK and US consumer confidence (Uni Michigan, Nov.). In the following week, the ZEW economic expectations (Nov.) for Germany as well as retail sales (Oct.), industrial production data (Oct.), the Empire State and Leading Index (Nov.) as well as the producer price index (Oct.) for the US will be announced.

Inflation and economic data should continue to move markets.

"Gridlock" in US policy ahead – often positive for equity markets



- The US mid-term elections are due tomorrow. Betting markets are currently predicting that the Republicans will win a majority in both the House of Representatives and the Senate. This means that Biden will hardly be able to push through domestic policy decisions. Such a "gridlock" is often positive for markets.
- However, some Republicans are already threatening to only raise the debt ceiling early next year if Biden agrees to spending cuts. In 2011, this had temporarily led to distortions on markets.

Source: Bloomberg, Time period: 30/09/2020 - 04/11/2022

Multi Asset

	4W (07/10/22 - 04/11/22)	YTD (31/12/21 - 04/11/22)	04/11/21 04/11/22	04/11/20 04/11/21	04/11/19 04/11/20	04/11/18 04/11/19	03/11/17 04/11/18
Industrial Metals	2.7	3.2	12.5	33.4	-1.3	5.5	-8.7
REITs	2.6	-20.0	-13.3	33.9	-17.5	23.4	-1.6
MSCI World	2.1	-9.7	-8.1	37.3	3.3	15.7	3.4
Brent	1.4	79.8	80.6	110.0	-42.6	-6.5	27.8
Euro overnight deposit	0.1	-0.3	-0.3	-0.6	-0.5	-0.4	-0.4
EUR Sovereign Debt	0.0	-10.9	-11.4	-1.1	1.4	5.1	-1.2
EUR Coporates	-0.1	-15.3	-15.8	0.5	1.5	6.1	-1.4
USDEUR	-2.1	14.2	16.1	1.5	-5.1	2.3	1.9
Global Convertibles	-2.5	-10.0	-13.9	28.6	30.7	13.7	4.5
Gold	-2.9	5.0	8.9	-4.4	19.6	25.3	-1.0
MSCI Emerging Markets	-3.0	-15.5	-16.5	15.7	3.7	12.0	-7.6
MSCI Frontier Markets	-5.6	-19.5	-20.6	36.9	-7.4	11.4	-8.3

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

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

- Over the last month, industrial metals have performed best. This was mainly due to speculation about an easing of the 0-covid policy in China. Energy commodities also benefited.
- REITs benefited from a stabilisation of interest rates after the latter had risen continuously over the past three months.

Total return for selected asset classes, in euros and in per-cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/11/2017 – 04/11/2022

Equities

	4W (07/10/22 - 04/11/22)	YTD (31/12/21 - 04/11/22)	04/11/21 04/11/22	04/11/20 04/11/21	04/11/19 04/11/20	04/11/18 04/11/19	03/11/17 04/11/18
MSCI EM Eastern Europe	14.4	-82.4	-84.3	70.7	-31.3	30.2	5.4
DAX	9.7	-15.3	-16.0	30.1	-6.2	14.0	-14.5
Euro Stoxx 50	9.3	-12.1	-12.8	39.7	-11.9	17.2	-10.6
Stoxx Europe Cyclicals	8.1	-17.0	-16.4	44.4	-9.8	11.1	-9.1
Stoxx Europe Small 200	7.7	-26.8	-27.9	42.2	-3.4	12.3	-4.3
Stoxx Europe 50	6.5	-3.5	-1.6	33.3	-10.6	16.4	-5.9
Stoxx Europe Defensives	5.5	-0.5	0.3	26.2	-8.5	16.1	0.3
MSCI UK	5.0	0.5	4.5	36.3	-22.7	9.8	-1.0
MSCI USA Small Caps	3.4	-5.3	-8.3	51.8	-2.1	9.8	6.7
S&P 500	2.0	-8.0	-4.8	39.9	8.4	17.9	9.3
MSCI Japan	-1.7	-12.7	-14.6	21.6	-1.0	10.4	-2.2
MSCI EM Asia	-4.6	-19.3	-20.1	10.7	14.5	12.6	-9.9

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

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

- The much stronger than expected reporting season boosted equity markets over the last few weeks and led to a small recovery rally. Of the 428 corporate reports (86% of the S&P 500), more than 70% exceeded expectations. However, after the Fed meeting and another 75 basis points hike, hopes of an imminent Fed pause were extinguished and markets gave back parts of the gains.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/11/2017 – 04/11/2022

Fixed Income

	4W (07/10/22 - 04/11/22)	YTD (31/12/21 - 04/11/22)	04/11/21 04/11/22	04/11/20 04/11/21	04/11/19 04/11/20	04/11/18 04/11/19	03/11/17 04/11/18
Gilts	7.8	-27.2	-25.9	0.1	2.6	12.1	1.4
BTPs	1.1	-16.4	-17.6	-0.5	4.8	17.3	-6.3
EUR High Yield	1.1	-14.0	-13.9	7.9	0.2	6.4	-1.6
Chinese Gov Bond	0.6	4.0	5.2	5.5	3.4	5.3	6.1
USD High Yield	0.4	-13.0	-12.5	9.3	3.8	8.5	1.0
EUR Non-Financials	0.2	-15.5	-16.1	0.3	1.7	6.4	-1.5
EUR Financials	-0.4	-14.8	-15.3	1.0	1.1	5.7	-1.3
Bunds	-0.9	-16.5	-16.8	-2.9	2.4	5.7	0.5
EM Hard Currency Bonds	-1.1	-12.1	-11.2	4.3	-2.5	16.5	-1.9
EM Local Currency Bonds	-1.4	-6.1	-5.7	0.9	-7.9	16.9	-2.6
USD Corporates	-1.6	-19.5	-19.8	1.4	8.6	14.9	-3.3
Treasuries	-2.6	-2.1	-0.6	-1.4	3.0	13.0	-0.4

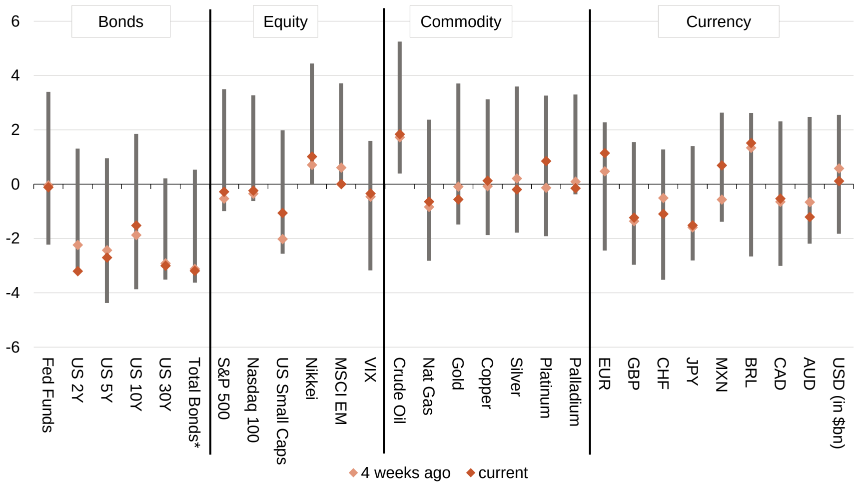
Columns: 4-week & YTD; 12-month periods over that last 5 years

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

- After bonds often moved in the same direction in the past months, the current picture is mixed, which is partly due to the strong currency moves.
- British government bonds have performed by far the best. With the election of Sunak as prime minister, Liz Truss' expansionary fiscal plans are already history.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/11/2017 – 04/11/2022

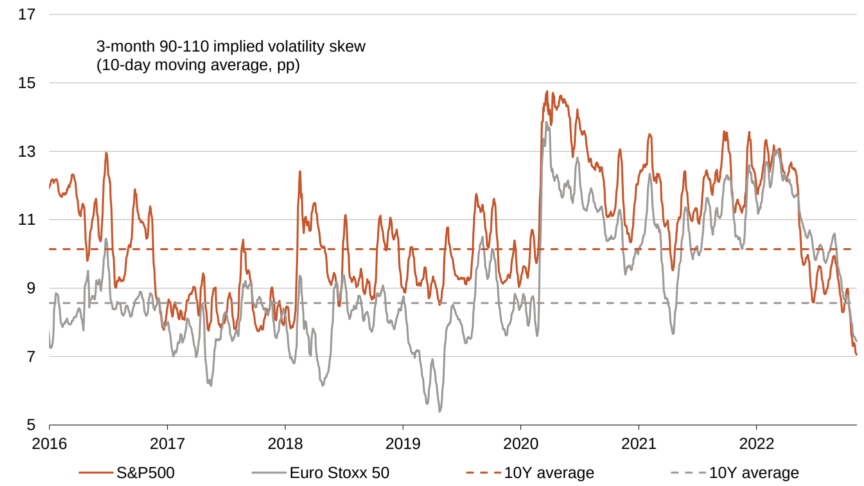
Non-Commercial Positioning



- Speculative investors have covered short positions in both US large caps and especially US small caps over the past month. Longs in emerging market equities were reduced.
- Hedge funds are now long platinum, while they remain short the other precious metals.

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

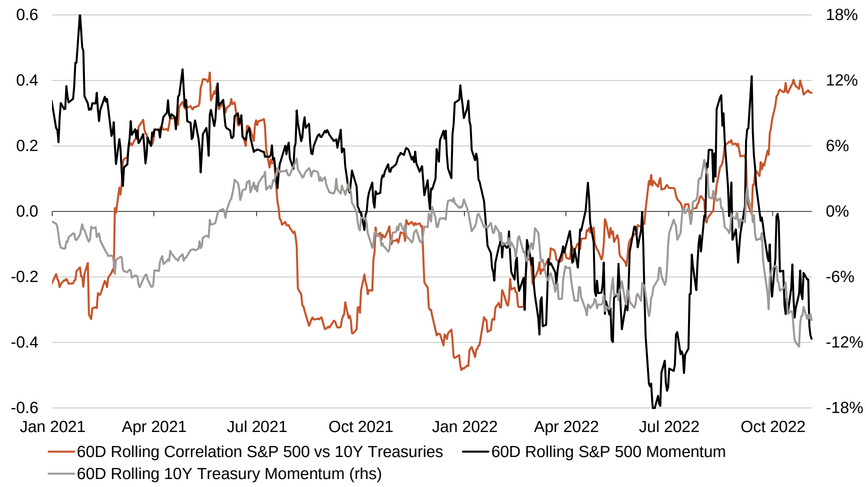
Put-Call-Skew



- The skew has continued to fall in recent weeks. In the US, it is now flatter than it has been since the beginning of 2014. Back then, however, the VIX was below the 15 mark, whereas today it is above the 25 mark. The skew normalised by the level of implied volatility is thus currently even lower. Upward participation is therefore very much in demand at the moment.

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: 04/11/2012 - 04/11/2022

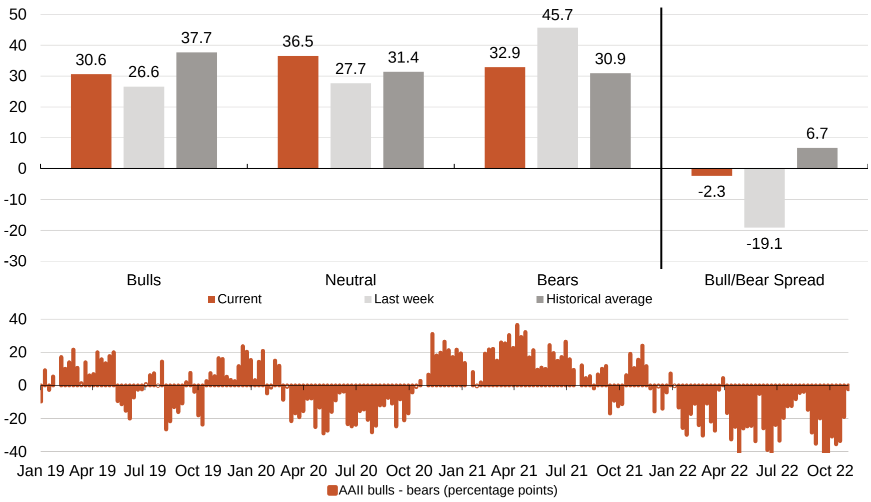
60-Day Momentum and Correlation



- Equities and bonds continue to move in the same direction and momentum also remains negative in both asset classes.
- Accordingly, risk-based strategies are likely to have only low equity quotas. Trend-following strategies are even most likely to be short 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 - 04/11/2022

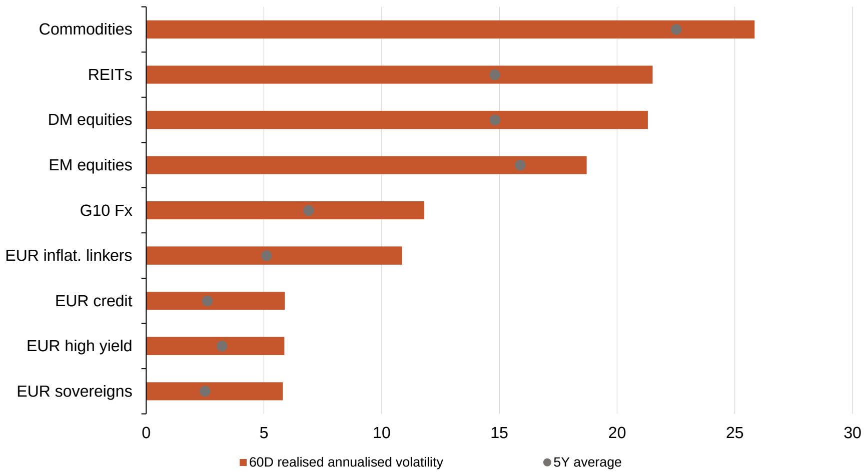
AAII Sentiment Survey (Bulls vs Bears)



- Sentiment among US private investors has brightened considerably recently. At the moment, bulls and bears are more or less in balance.
- The high number of investors who are neutral is striking.

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 – 03/11/2022

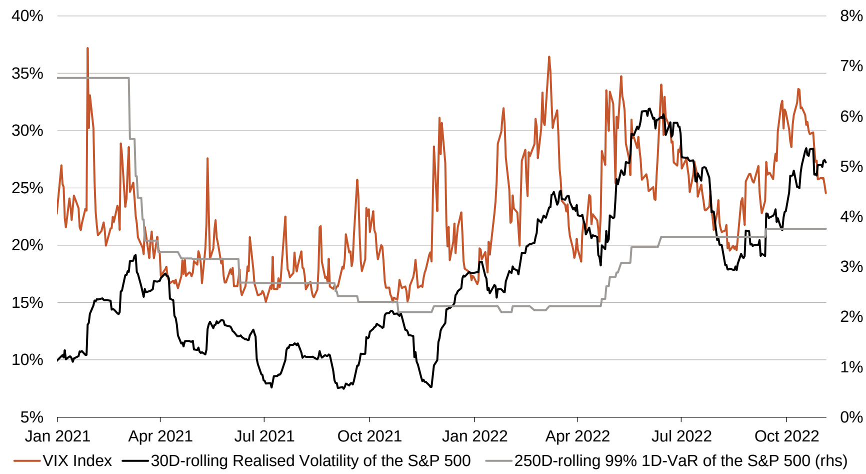
Realised Volatilities



- Realised volatilities are mostly unchanged from a fortnight ago. Only emerging market equities have seen an increase in volatility. This is mainly due to the strong price reactions of Chinese equities to the national congress.
- Relative to the 5-year average, EUR government bonds are the most volatile asset class. The moves here were 2.3 times as strong in the last 60 days.

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: 04/11/2017 - 04/11/2022

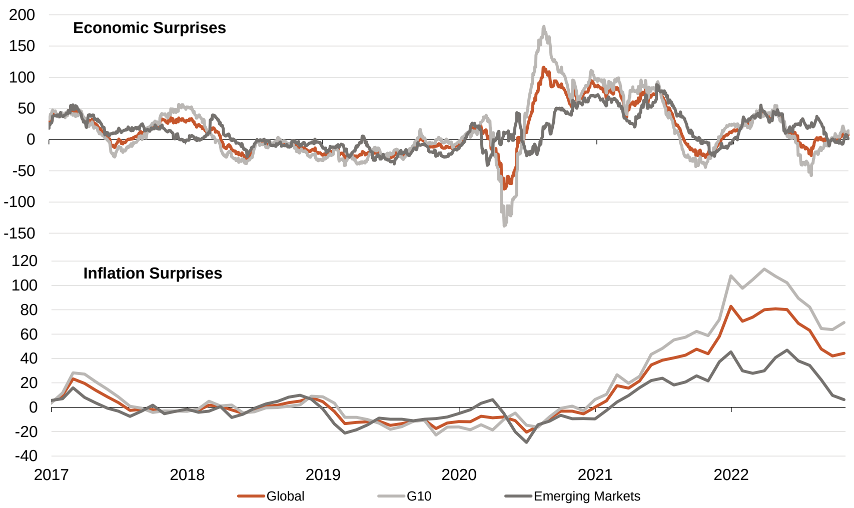
Volatility and Value-at-Risk of the S&P 500



- The VIX has recently fallen by around 10 points, despite the fact that the Fed meeting once again provided a hawkish surprise. This means that realised volatility is currently even higher than implied volatility. Investors are therefore expecting somewhat calmer days next month than last month.

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 – 04/11/2022

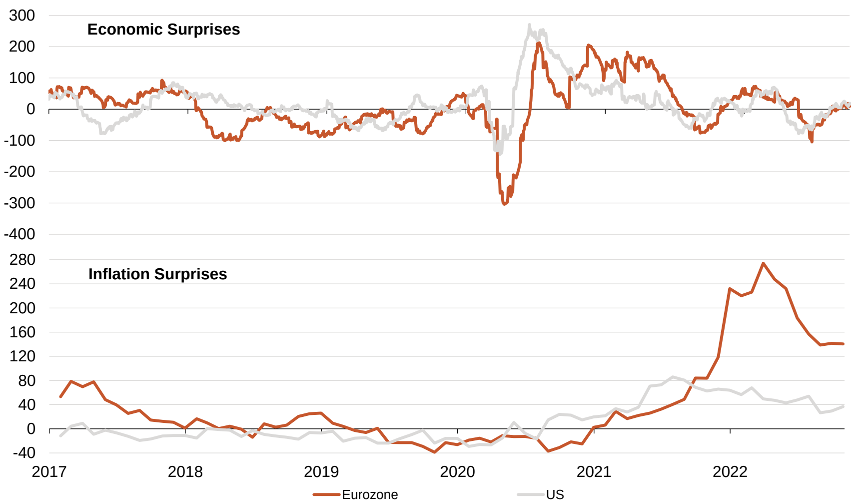
Global



- Economic data are holding up well in the face of the gloomier economic outlook expected by many bears and the restrictive central banks. Both the surprise indicators of the industrialised nations and those of emerging markets continued to move volatilely sideways above the zero threshold, and positive and negative economic surprises thus also balanced each other out at the global level.
- Inflation data, however, again surprised slightly upwards globally and in the industrialised nations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 04/11/2022

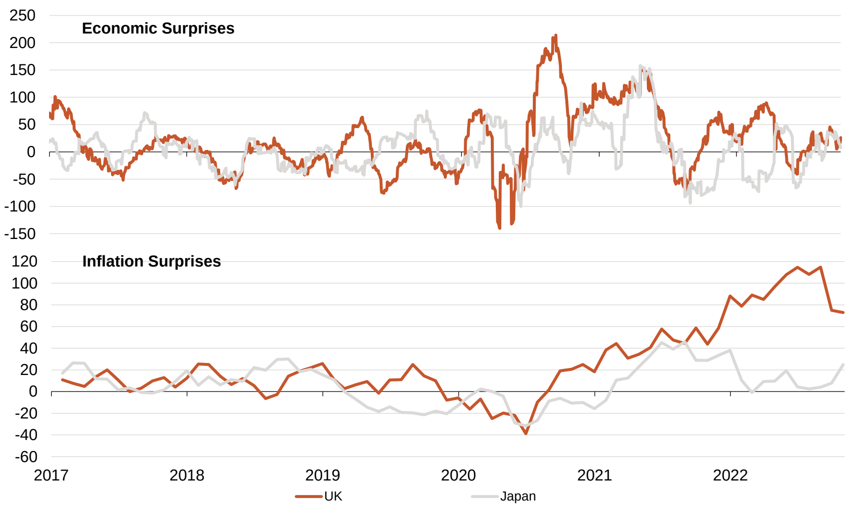
Eurozone and US



- The picture in the US and the Eurozone is quite similar. In both countries, economic surprises are holding above the zero threshold, albeit fluctuating in some cases.
- In the US, economic growth, purchasing managers' indices (PMI) and consumer confidence have surprised to the upside. The unemployment rate surprised negatively.
- In the Eurozone, the German Ifo index and the PMI surprised to the upside. Retail sales and consumer confidence disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 04/11/2022

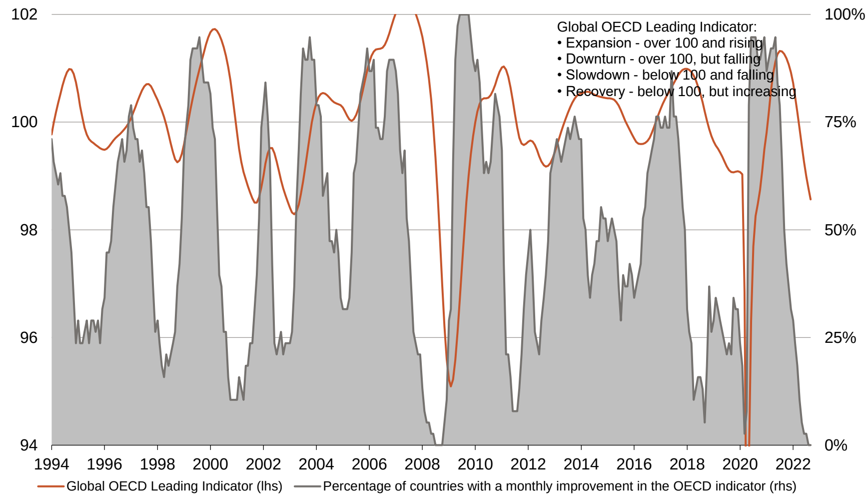
UK and Japan



- In the UK and Japan, the economic surprises were recently in the opposite direction. In the UK, for example, PMIs exceeded expectations, while in Japan industrial production data disappointed.

The Citigroup Economic Surprise Indices are defined as weighted historical normalised data surprises (actual releases vs. Bloomberg survey median) over the past three months. A positive value of the index indicates that, on balance, economic data have outperformed consensus. The indices are calculated daily in a rolling three-month window. The indices use a time decay function to replicate the markets' limited memory, i.e. the weight of a data surprise decreases over time.
Source: Bloomberg, period: 01/01/2017 - 04/11/2022

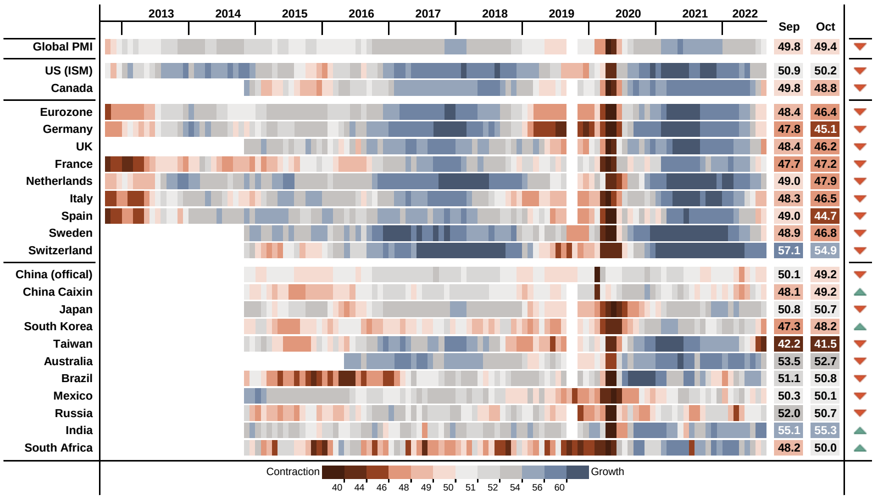
OECD Leading Indicator



- 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 - 30/09/2022

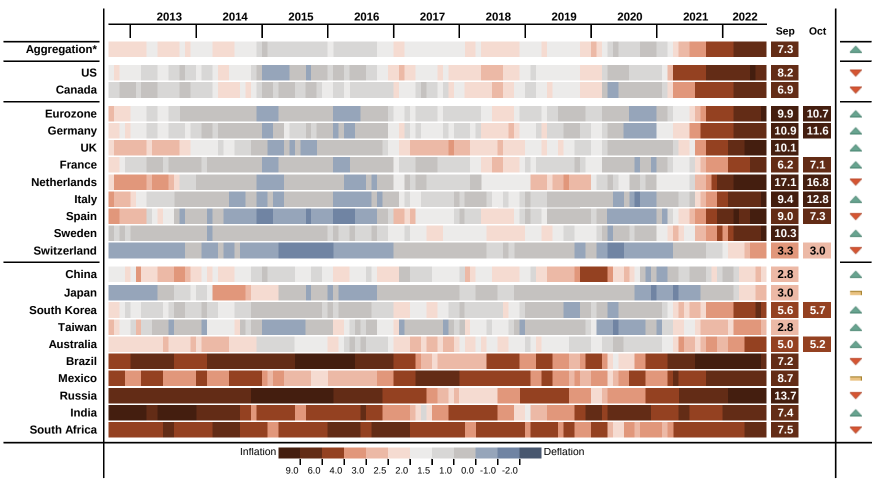
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global October PMI data show an unappealing picture: industrial activity is clearly down compared to the previous month. This is especially true for the Eurozone and Asia ex. Japan. Countries such as the US, Switzerland or India, on the other hand, are holding up much better.

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: 04/11/2012 - 04/11/2022

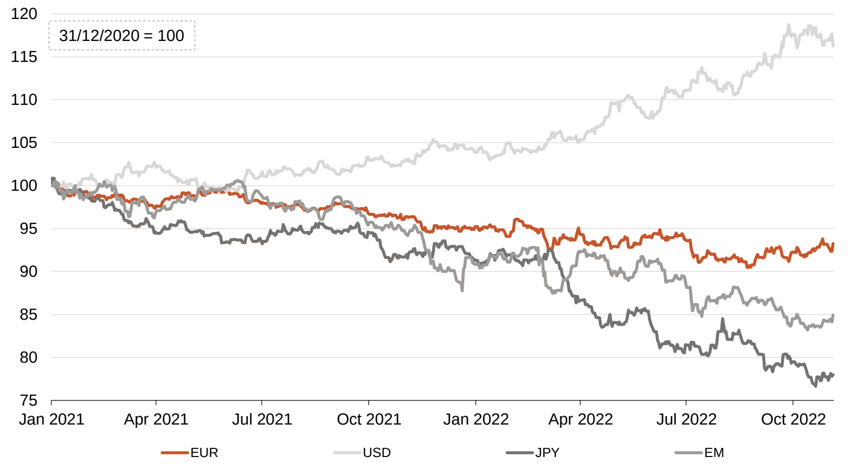
Headline Inflation



- The preliminary inflation data for October show an upward trend in the aggregate. The inflation rate rose in the Eurozone, Germany, France, Italy, South Korea and Australia. Only in Switzerland, Spain and the Netherlands did inflation cool – albeit in part from very high levels – compared to the previous year.

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: 04/11/2012 - 04/11/2022

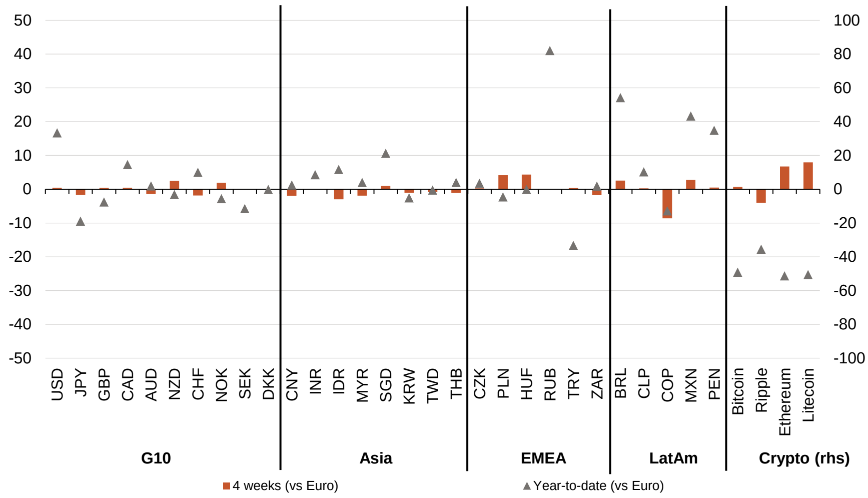
Trade-Weighted Currency Development



- The US dollar consolidated at a high level in recent weeks.
- The main beneficiaries were emerging market currencies and the Japanese yen. However, it would be premature to speak of a trend reversal for both.

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 - 04/11/2022

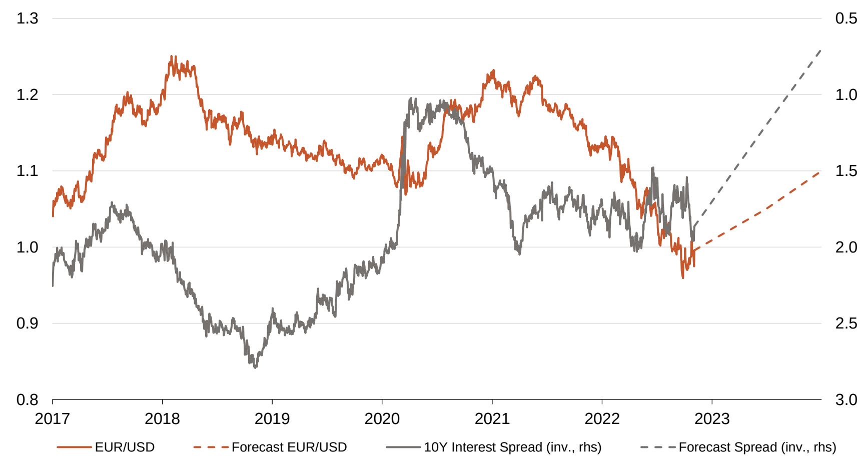
Currency Moves vs Euro



- Currency developments against the euro were mixed over the last month.
- By far the weakest currency in the last 4 weeks was the Colombian peso. After the leftist Petro won the presidential elections and recently proposed to ban new oil exploration and restrict capital flows, international investors withdrew money.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2021 - 04/11/2022

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



- The euro briefly reached the 1.01 mark against the dollar in recent weeks, but is now back below parity at USD 0.99 per EUR.
- While the ECB adopted a slightly dovish tone, Fed Chair Powell once again made hawkish comments. Neither was conducive to the euro.

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 - 31/12/2023

European Sector & Style Performance

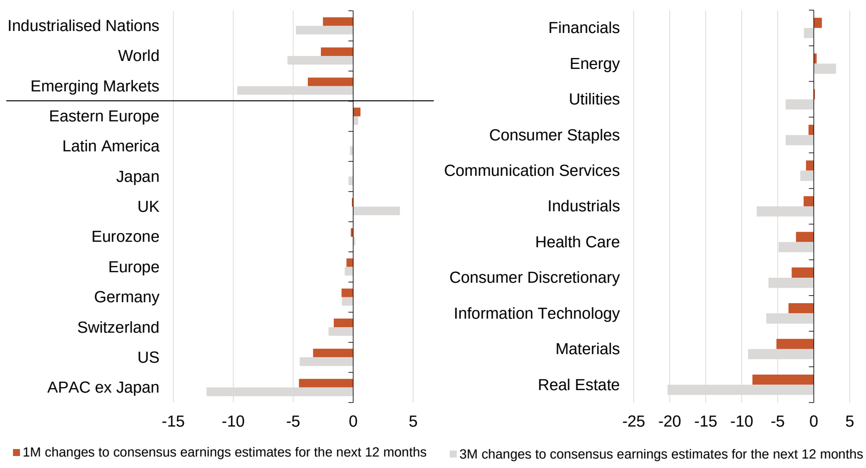
	4-week & YTD: 4W (07/10/22 - 04/11/22)	YTD (31/12/21 - 04/11/22)	12-month periods over that last 5 years: 04/11/21 04/11/22	04/11/20 04/11/21	04/11/19 04/11/20	04/11/18 04/11/19	03/11/17 04/11/18
Industrials	9.6	-18.9	-16.5	37.5	-2.4	20.8	-9.3
Communication Services	9.0	-7.2	-7.9	54.3	-26.4	6.9	-11.6
Energy	8.7	43.1	43.1	72.1	-48.5	1.4	7.8
Value	8.3	-3.1	-1.4	37.3	-22.2	8.4	-6.1
Consumer Discretionary	7.3	-20.4	-20.8	43.1	-5.9	16.3	-6.7
Materials	7.1	-11.1	-5.5	33.8	-1.1	10.1	-4.2
Utilities	7.1	-12.3	-9.0	12.8	7.6	28.6	-5.5
Telecommunications	5.9	-9.5	-7.2	20.1	-21.9	8.0	-10.4
Growth	4.5	-19.1	-18.4	34.0	3.9	19.3	-4.7
Health Care	4.1	-5.4	-5.4	22.2	5.4	21.1	1.2
Information Technology	2.7	-30.5	-32.2	60.9	4.3	19.5	-1.9
Consumer Staples	1.9	-8.9	-5.4	18.4	-2.6	15.3	-4.6

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

- Energy stocks were beaten by industrial stocks in sector performance over the last four weeks. But financial stocks also performed very well. Thus, the value factor was again clearly ahead of the growth factor.
- Technology stocks and consumer staples brought up the rear in the sector table.

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: 04/11/2017 – 04/11/2022

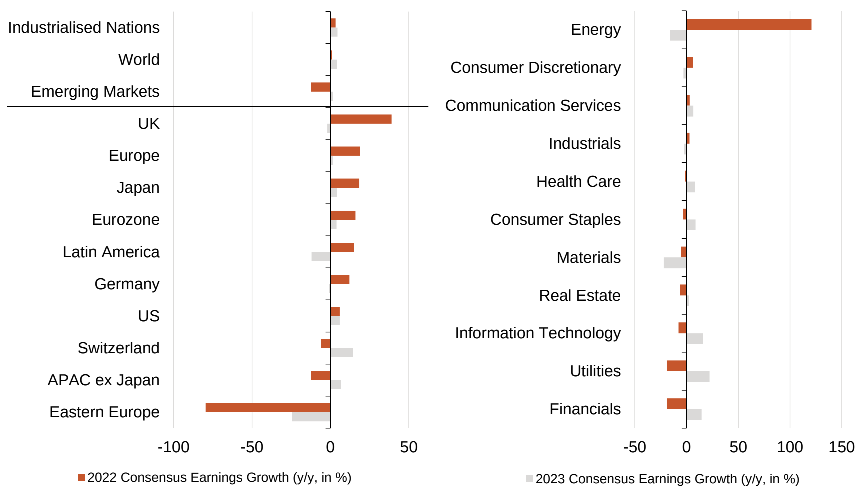
Changes in Consensus Earnings Estimates



- Earnings revisions are negative despite the solid Q3 reporting season, as companies' outlooks have deteriorated due to the slowing economy and high input costs.
- The regions with the most negative monthly earnings revisions were the US and Asia ex-Japan. Eastern Europe, on the other hand, saw the most positive earnings revisions.
- Among European sectors, financials and energy stocks led the way.

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 04/11/2022

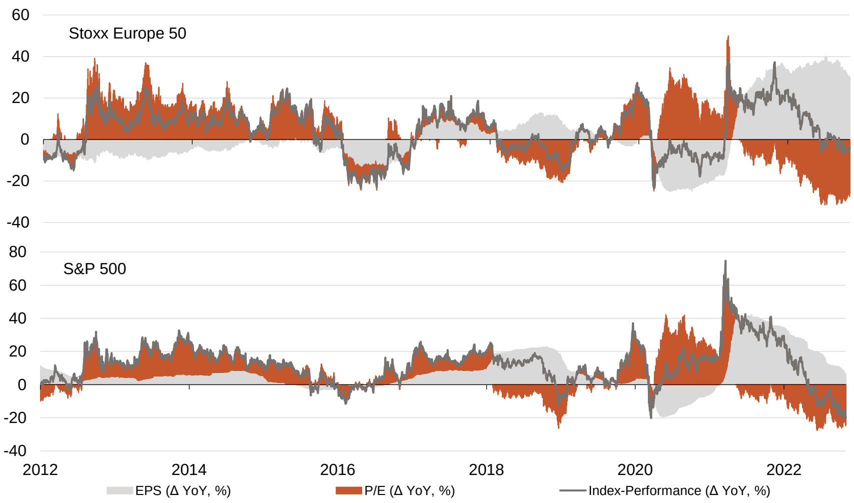
Earnings Growth



- Global profit growth in 2022 has fallen to almost 0%. While the industrialised nations should still see a slight increase in profits, emerging markets saw a significant drop in profits. Regionally, the UK is expected to see the largest profit growth in 2022.
- At sector level, the energy sector remains with the highest profit growth rates.

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 04/11/2022

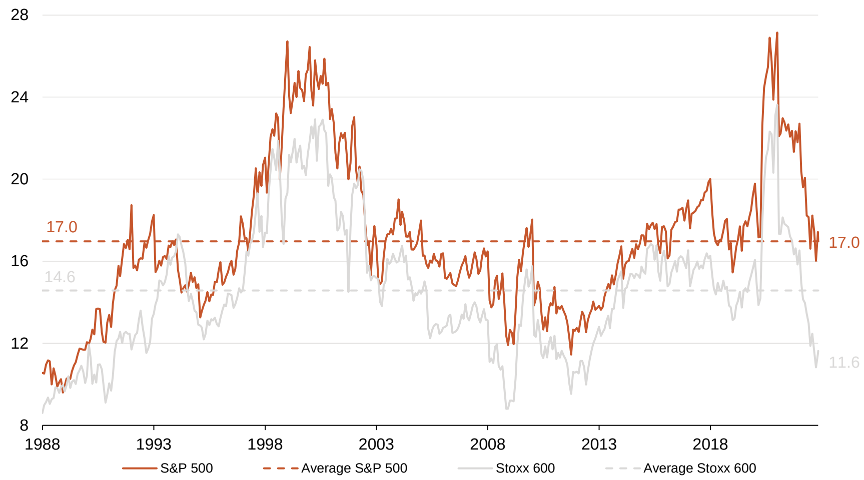
Contribution Analysis



- Year-on-year earnings growth is on the decline for both the S&P 500 and the Stoxx Europe 50. At the same time, however, valuation pressures have eased, resulting in a stable but negative year-on-year performance for both 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 - 04/11/2022

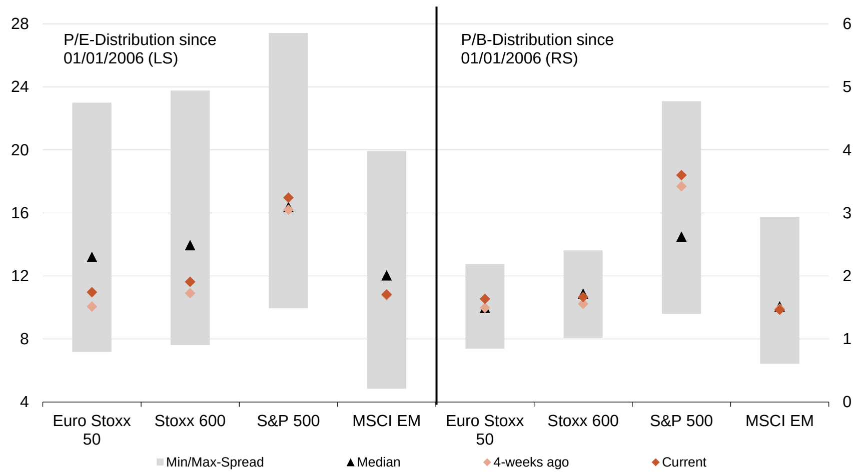
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The P/E ratio of the S&P 500 has stabilised in the last two weeks and is at the historical average at 17.0.
- Compared to a fortnight ago, the P/E ratio of the Stoxx 600 has recovered from 11.1 points to 11.6 points. The pressure on valuations has thus eased, at least recently.

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 - 04/11/2022

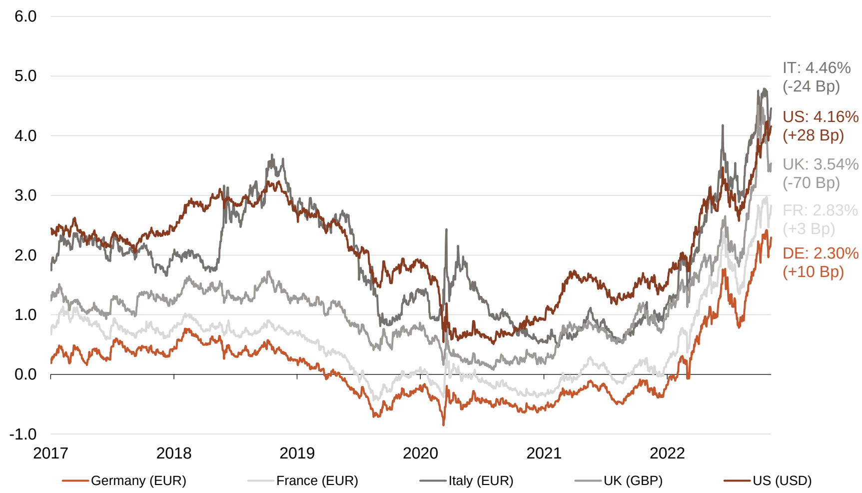
Historical Distribution: Price/Earnings and Price/Book Ratio



- Both the P/E ratio and the P/B ratio of the Euro Stoxx 50, Stoxx 600, S&P 500 and MSCI EM have recovered in the last four weeks. All indices have thus become slightly more expensive, even if European shares in particular continue to appear cheap.

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 - 04/11/2022

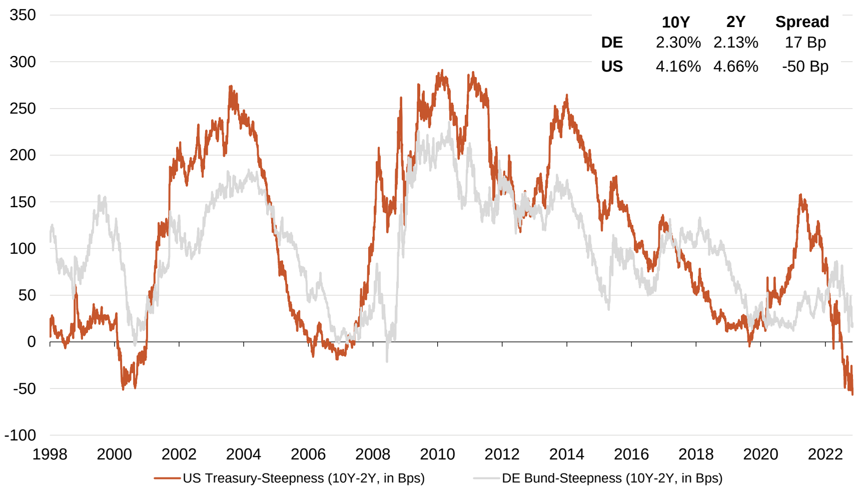
10-Year Government Bond Yields



- Continued central bank tightening, coupled with emerging hopes of more dovish tones, created high yield volatility in government bonds.
- US government bonds saw yields rise significantly in the last four weeks. They are currently yielding noticeably above 4%.
- British government bonds, on the other hand, saw a significant drop in yields after the political drama, as the controversial tax plans were withdrawn.

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 - 04/11/2022

Yield Curve Steepness (10Y - 2Y)

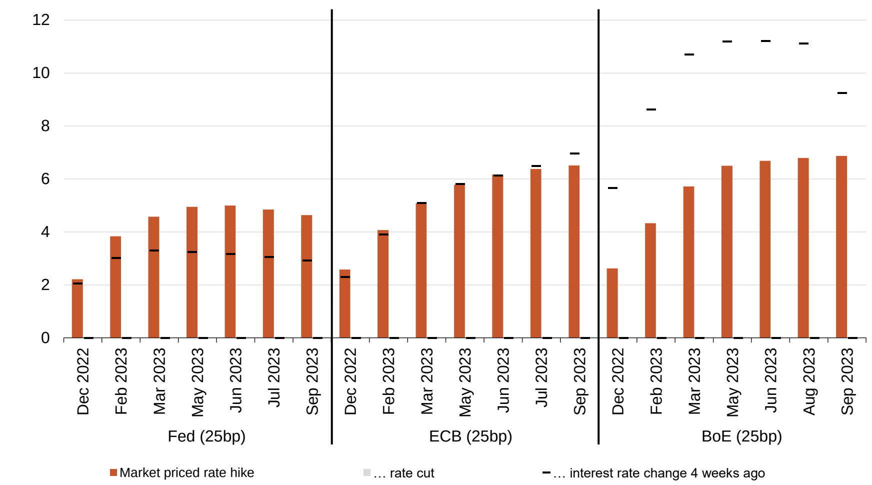


	10Y	2Y	Spread
DE	2.30%	2.13%	17 Bp
US	4.16%	4.66%	-50 Bp

- The US yield curve has inverted further in the last two weeks after the Fed again made it clear that it is sticking to the rate hike course and believes in successfully fighting inflation.
- The steepness of the German yield curve has also decreased significantly.

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 - 04/11/2022

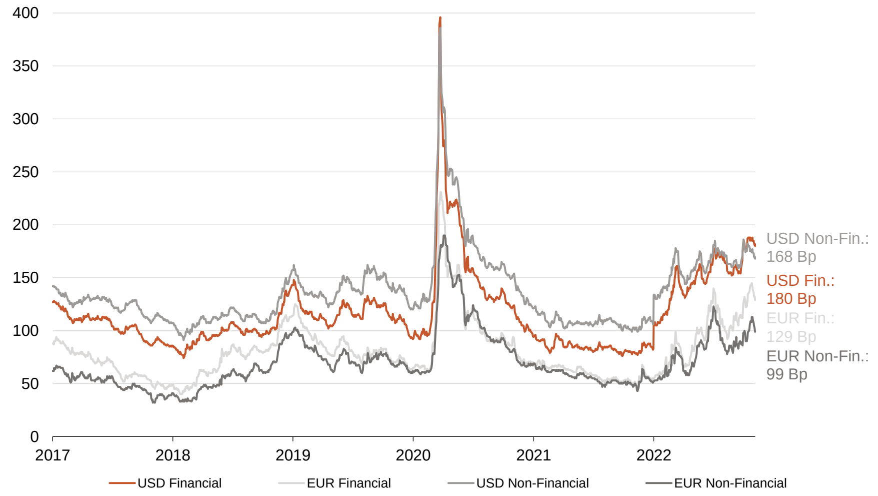
Implicit Changes in Key Interest Rates



- The Fed is sticking to its restrictive monetary policy despite hopes for more dovish tones. Markets have thus revised their expectations of future interest rate hikes significantly upwards. Four more interest rate hikes are expected by mid-2023.
- The pressure on the BoE to act has clearly decreased due to the change in policy and the resulting rethinking of fiscal policy. The market is thus pricing in significantly fewer interest rate hikes than four weeks ago.

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: 07/10/2021 - 04/11/2022

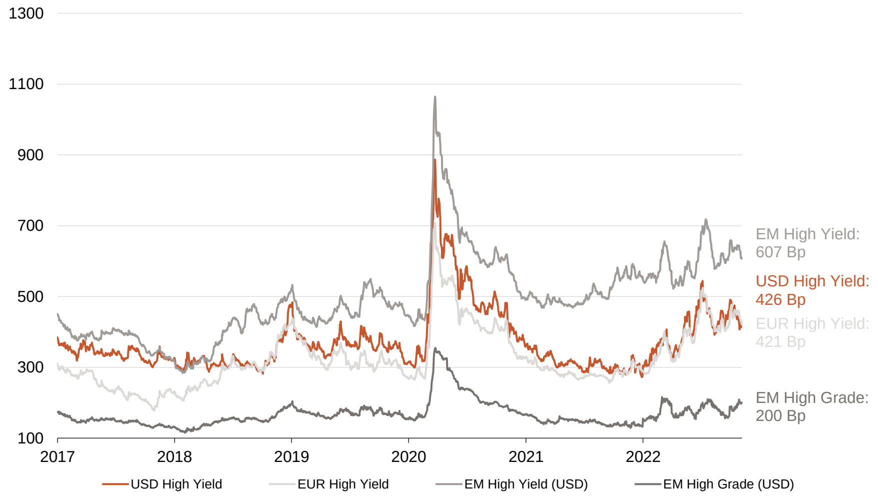
Credit Spreads Financial and Non-Financial Bonds



- Investment grade corporate bond risk premia have narrowed over the past two weeks. USD-IG corporate bonds and EUR-IG financial bonds saw spreads narrow by almost 10 basis points.
- EUR non-financial bonds, on the other hand, saw only a slight narrowing of spreads, partly because they are already trading at significantly lower spread levels than financial bonds.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2017 - 04/11/2022

Credit Spreads High Yield and Emerging Markets Bonds



- Despite the volatile markets, spreads for high-yield bonds have fallen significantly in the last two weeks. This is because high-yield bonds are now perceived by many investors as a good alternative to equities again.
- EM high-yield bonds saw a spread decline of around 30 basis points, while EUR and USD high-yield bonds saw around 20 basis points.

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 - 04/11/2022

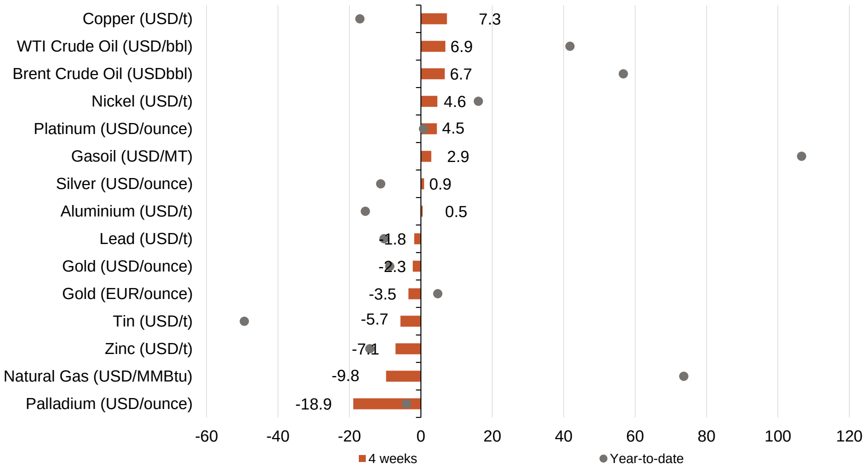
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Per-centile	1M	YTD	04/11/21 04/11/22	04/11/20 04/11/21	04/11/19 04/11/20	04/11/18 04/11/19	04/11/17 04/11/18
EUR Government	2.86	0.39	7.2	-	-	-	-2.3	-17.3	-18.0	-2.5	3.6	10.0	-1.1
Germany	2.19	0.47	7.3	-	-	-	-2.9	-16.5	-16.9	-2.9	2.4	5.7	0.5
EUR Corporate	4.30	0.42	4.6	110	0	88	-1.4	-15.1	-15.7	0.6	1.5	6.1	-1.3
Financial	4.44	0.42	3.9	129	-1	92	-1.1	-13.1	-13.6	0.8	1.2	5.4	-1.1
Non-Financial	4.21	0.41	5.0	99	0	86	-1.6	-16.2	-16.8	0.5	1.6	6.5	-1.4
EUR High Yield	8.00	0.05	3.3	421	-36	83	0.5	-14.0	-13.9	7.9	0.2	6.4	-1.6
US Treasury	4.52	0.52	6.1	-	-	-	-2.9	-15.3	-15.2	-2.9	8.4	11.1	-2.5
USD Corporate	6.07	0.53	6.7	172	-7	88	-2.9	-19.5	-19.8	1.4	8.6	14.9	-3.3
Financial	6.24	0.59	5.0	180	0	95	-2.4	-16.3	-16.5	1.0	8.3	12.9	-2.3
Non-Financial	5.99	0.50	7.5	168	-10	83	-3.1	-21.0	-21.2	1.6	8.7	15.8	-3.7
USD High Yield	9.29	0.13	4.4	426	-37	66	-0.1	-13.0	-12.5	9.3	3.8	8.5	1.0
EM High Grade	6.49	0.78	5.1	200	16	68	-3.2	-18.7	-18.6	1.4	4.7	12.5	-2.0
EM High Yield	12.26	0.04	3.9	607	-41	72	-2.7	-22.7	-22.9	2.1	4.9	11.0	-2.1

- Despite the interest rate volatility, EUR high-yield bonds were able to gain in value in the last four weeks. But USD high-yield bonds were also able to stay close to zero.
- Since the beginning of the year, however, all bond segments have suffered significantly. However, current yields are promising for the future, especially since many spreads are historically high.

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 : 04/11/2017 - 04/11/2022

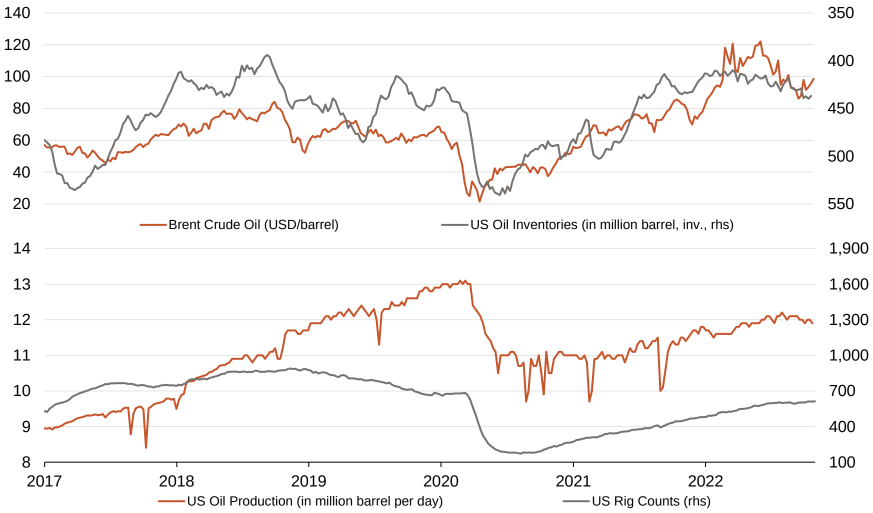
Commodities Performance



- Global commodity markets showed clear divergences over the last four weeks. It should be emphasised that there was not even a uniform performance within the individual commodity classes. In energy commodities, crude oil and gas oil gained, but natural gas was among the losers. In precious metals, silver and platinum posted slight gains, but gold and especially palladium fell significantly. Among the industrial metals copper was up top, while zinc and tin suffered losses.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period:31/12/2021 - 04/11/2022

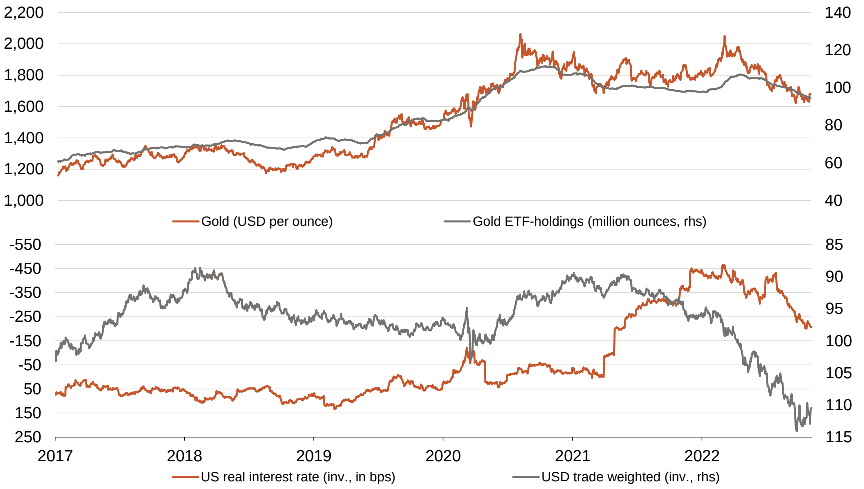
Crude Oil



- Oil recorded gains in October for the first time since May. Price support came mainly from OPEC+, which decided to reduce production quotas by 2 million barrels per day from November. Actual production is expected to fall by just under 1 million barrels per day, as some member states are already well below their quotas.
- Recent hopes of an end to the 0-covid policy in China provided additional 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 - 04/11/2022

Gold



- Over the last month, gold was particularly burdened by the rising real interest rate, which caused the precious metal to fall towards the 1600 mark. Most recently, there was also a headwind from the continuing restrictive monetary policy of the US Federal Reserve, which raised the interest rate by another 75 basis points.

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 - 04/11/2022

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