BERENBERG
Markets

MONITOR

21 November 2022

Current market commentary

Lower than expected US inflation has led to an equity rally. Besides falling interest rates and a weaker dollar, the drivers were the low equity positioning of many investors. Tech stocks benefited from short covering, gaining more than 20% in some cases. The price increase was temporarily reinforced by hopes about China reopening its economy as well as better momentum and falling volatility, which led to a build-up of equities in trend-following strategies. Whether the year-end rally continues depends mainly on the next inflation print and the Fed's reaction to it in mid-December. If volatility continues to fall until then, more systematic strategies are likely to be pushed into the market. On the other hand, the strong outperformance of equities versus bonds since the beginning of the quarter is creating rebalancing pressure towards the end of the year. Consequently, the short-term upside potential is likely to be limited. In the medium term, corporate earnings should be the decisive factor for the direction of markets.

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

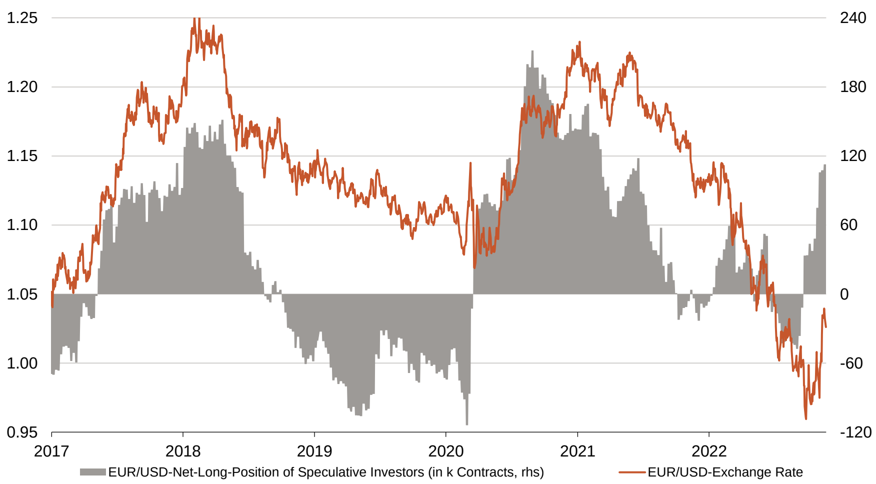
The next two weeks should be quieter. The major central banks do not meet again until mid-December and politically it will become exciting again on 15/16 December at the EU summit. On 24 November, the US stock markets are partly closed for Thanksgiving.

Stimulus from central banks not expected until mid-December.

There are many sentiment indicators due this week. On Wednesday, the preliminary S&P Purchasing Managers' Indices (Nov.) for the eurozone, the UK and the US will be published, as well as US New Orders (Oct.) for Durable Goods and the US Consumer Confidence Index (University of Michigan, Nov.). The German (ifo) and French (Insee) business climate will follow on Thursday. The following week will see preliminary inflation figures (Nov.) for the eurozone, retail sales (Oct.) for Germany and ISM Purchasing Managers' Indices (Nov.) and Consumer Confidence Index (Conference Board, Nov.) for the US.

The economic climate will be of central importance for the future.

EUR/USD rate back above parity, but not yet a turning point



- As a result of the surprisingly "low" US inflation data, the euro has appreciated strongly. Investors now expect fewer rate hikes by the Fed. Accordingly, the dollar would lose relative attractiveness.
- Even if the euro seems undervalued in the long term in terms of purchasing power parity, the potential is likely to remain limited in the short term. For one thing, speculative investors are already holding significant long positions, and for another, the monetary union is struggling with its very own problems, such as the energy crisis.

Source: Bloomberg, Time period: 01/01/2017 - 18/11/2022

Multi Asset

	4W (21/10/22 - 18/11/22)	YTD (31/12/21 - 18/11/22)	18/11/21 18/11/22	18/11/20 18/11/21	18/11/19 18/11/20	18/11/18 18/11/19	17/11/17 18/11/18
REITs	5.6	-18.8	-13.9	31.6	-14.2	19.2	1.3
MSCI Emerging Markets	3.9	-13.5	-16.2	12.4	9.5	12.7	-8.1
EUR Coporates	3.6	-13.4	-13.8	-0.3	2.3	6.3	-1.5
Industrial Metals	3.4	2.1	8.8	32.9	6.1	2.1	-5.4
MSCI World	2.9	-8.0	-7.9	34.3	5.6	18.2	5.3
EUR Sovereign Debt	2.1	-9.6	-10.2	-0.9	1.7	4.9	-1.3
Gold	0.9	5.4	3.7	3.5	18.9	24.2	-2.4
Euro overnight deposit	0.1	-0.2	-0.3	-0.6	-0.5	-0.4	-0.4
Global Convertibles	-1.9	-11.2	-15.3	26.1	31.9	15.4	5.4
MSCI Frontier Markets	-2.6	-20.3	-21.4	34.9	-6.9	13.4	-7.5
USDEUR	-4.5	10.1	10.1	4.2	-6.6	3.1	3.3
Brent	-6.6	56.6	52.9	105.0	-40.1	3.1	17.8

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.

- Recently, there has been a greater spread in performance within the various asset classes.
- Among commodities, precious and industrial metals performed positively, while crude oil posted losses.
- The dollar, however, was the weakest, causing dollar-denominated investments to lag behind noticeably.

Total return for selected asset classes, in euros and in per-cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 18/11/2017 – 18/11/2022

Equities

	4W (21/10/22 - 18/11/22)	YTD (31/12/21 - 18/11/22)	18/11/21 18/11/22	18/11/20 18/11/21	18/11/19 18/11/20	18/11/18 18/11/19	17/11/17 18/11/18
MSCI EM Eastern Europe	18.6	-81.5	-82.7	44.5	-21.1	27.9	4.7
DAX	13.4	-9.1	-11.0	22.9	0.0	16.5	-12.7
Euro Stoxx 50	13.0	-6.5	-8.2	28.3	-4.1	19.8	-8.0
Stoxx Europe Cyclicals	11.9	-11.8	-12.3	32.3	-1.2	15.4	-8.9
Stoxx Europe Small 200	11.9	-22.8	-23.9	30.5	3.9	17.2	-4.2
Stoxx Europe 50	8.7	-0.4	0.7	26.1	-5.4	18.4	-4.0
Stoxx Europe Defensives	7.8	0.9	2.9	20.0	-5.3	16.2	3.9
MSCI UK	7.2	2.3	4.9	25.4	-15.1	12.3	-0.3
MSCI EM Asia	6.5	-15.3	-18.3	9.6	19.0	13.9	-10.2
MSCI Japan	6.5	-9.8	-12.4	15.9	2.0	15.1	-2.6
MSCI USA Small Caps	2.1	-5.7	-9.0	42.7	3.7	11.9	7.3
S&P 500	0.8	-7.0	-5.8	39.7	8.7	19.9	11.9

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.

- All the equity regions shown here posted gains over the last month. Cyclical segments such as Eastern Europe or the DAX performed the best. After the US inflation figures surprised on the downside, investors consider a "soft landing" scenario possible again.
- US stocks were by far the weakest, but this is also due to the negative development of the dollar.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 18/11/2017 – 18/11/2022

Fixed Income

	4W (21/10/22 - 18/11/22)	YTD (31/12/21 - 18/11/22)	18/11/21 18/11/22	18/11/20 18/11/21	18/11/19 18/11/20	18/11/18 18/11/19	17/11/17 18/11/18
Gilts	8.3	-24.0	-24.2	3.3	1.0	14.4	0.5
BTPs	5.2	-13.4	-14.8	-0.9	6.6	17.0	-7.1
USD Corporates	5.0	-16.5	-16.3	0.1	9.3	14.7	-2.6
EUR High Yield	4.9	-11.9	-12.0	5.3	2.7	8.1	-2.3
EUR Non-Financials	3.7	-13.6	-14.1	-0.6	2.6	6.5	-1.4
EUR Financials	3.3	-13.0	-13.3	0.1	1.9	5.9	-1.6
Bunds	3.1	-14.9	-15.8	-1.6	1.7	5.3	1.0
USD High Yield	3.0	-11.4	-10.7	7.3	5.8	9.5	0.6
EM Hard Currency Bonds	2.3	-12.1	-12.4	5.2	-1.9	17.0	-1.0
EM Local Currency Bonds	0.3	-6.8	-7.0	-1.1	-4.3	14.7	-1.2
Chinese Gov Bond	-0.8	3.0	3.9	6.2	2.6	5.1	7.0
Treasuries	-3.2	-4.5	-4.4	1.9	0.5	12.8	1.8

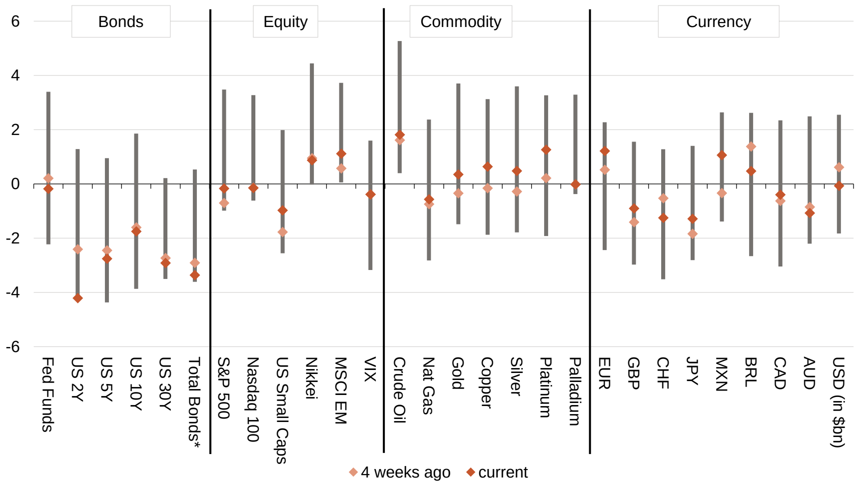
4-week & YTD; 12-month periods over that last 5 years

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

- Bonds also rose strongly over the last four weeks. Not only have interest rates fallen, but spreads have also narrowed. Accordingly, riskier segments such as euro high-yield bonds, Italian government bonds and US corporate bonds led the way.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 18/11/2017 – 18/11/2022

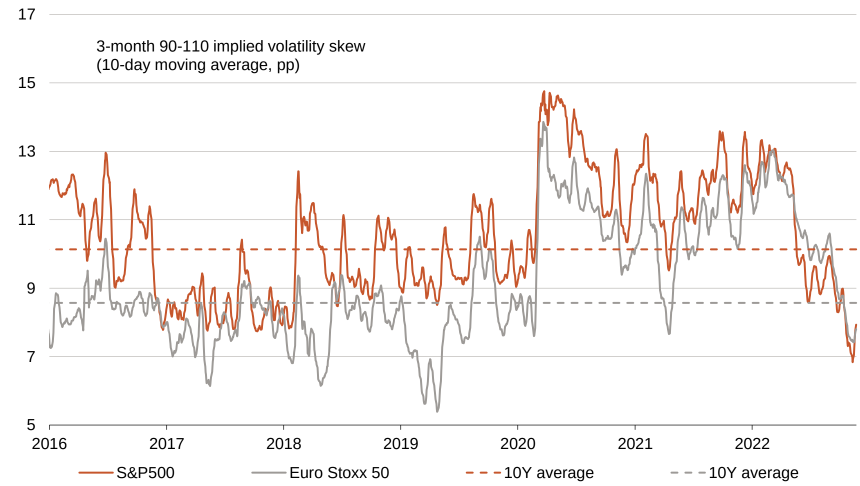
Non-Commercial Positioning



- Hedge funds have substantially increased their positions in risk assets in recent weeks.
- They have covered a large part of their shorts in US small caps and are now significantly long the euro.

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: 15/11/2012 - 15/11/2022

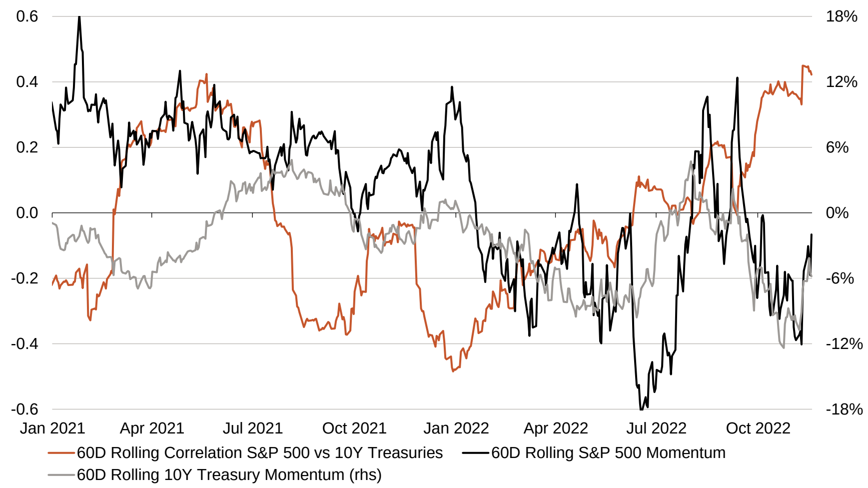
Put-Call-Skew



- The skew seems to be bottoming out with the recent rally and the drop in volatility.
- However, it remains very flat by historical standards. This means that hedging remains cheap, while upside participation remains expensive.
- Their relative attractiveness is additionally reinforced by the rise in interest rates, which has made puts cheaper and, ceteris paribus, calls more expensive.

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: 18/11/2012 - 18/11/2022

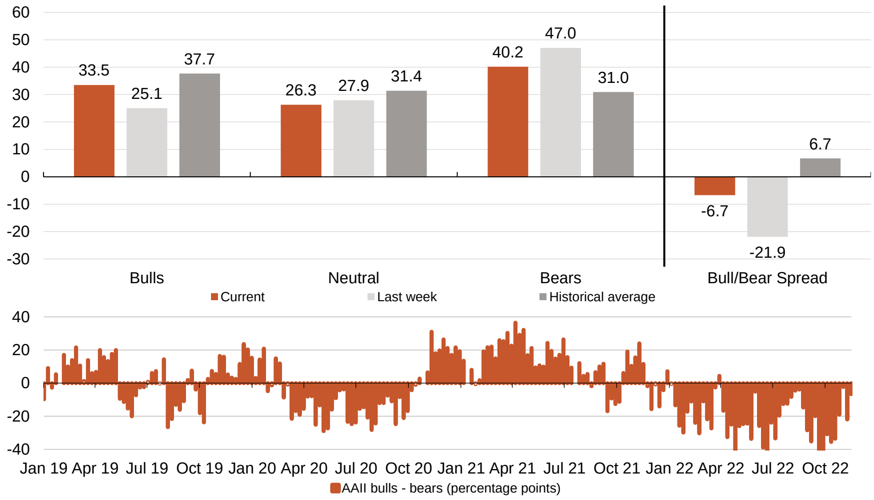
60-Day Momentum and Correlation



- Equities and bonds have benefited equally from the surprisingly "low" inflation print. The correlation of the two thus remains clearly positive.
- The 60-day momentum is still negative. Short-term momentum strategies, on the other hand, are probably already long equities again.

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 - 18/11/2022

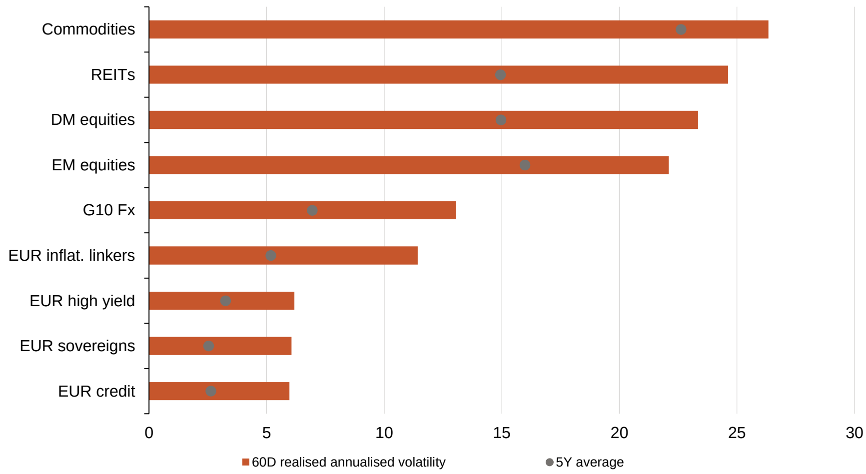
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment of US private investors has brightened again somewhat. For several weeks now, investors have fluctuated between pronounced pessimism and neutral sentiment.

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 – 18/11/2022

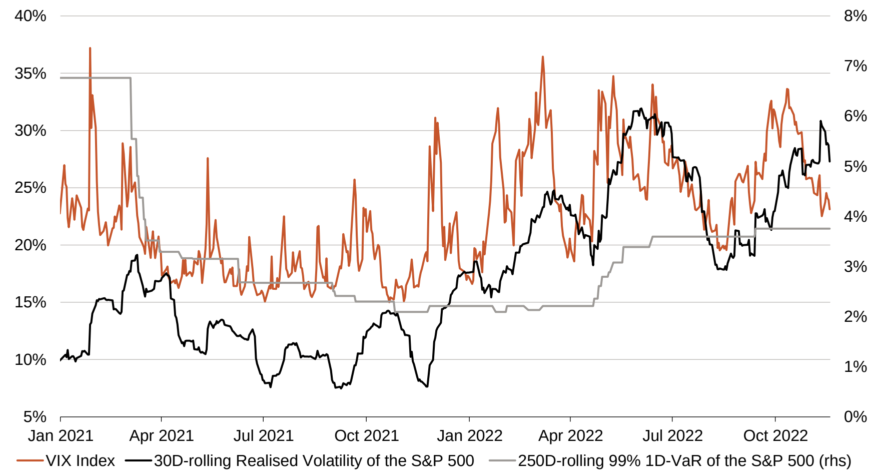
Realised Volatilities



- The realised volatility of the last 60 days remains above the average of the last five years across all asset classes.
- Within the bond segments, there has recently been a change in the order. Contrary to the historical average, the segment with the lowest volatility is no longer government bonds, but corporate bonds. After the stronger spread movements, high-yield bonds are once again the most volatile segment.

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 - 18/11/2022

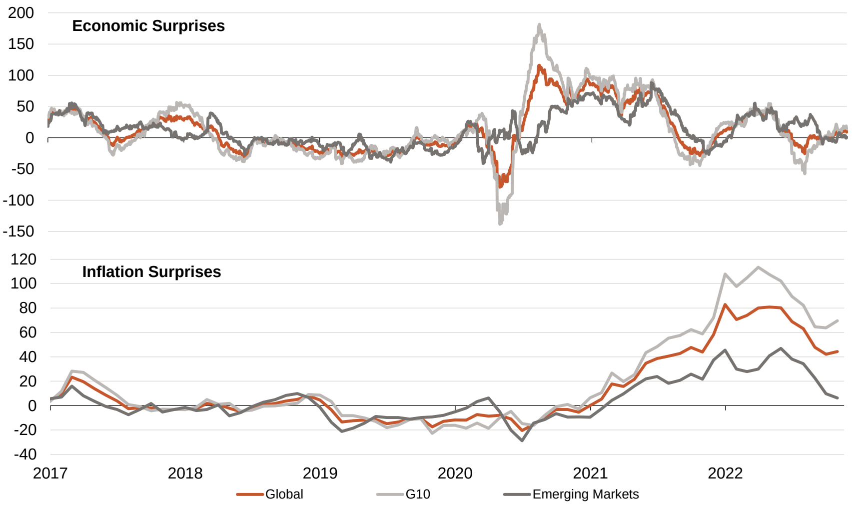
Volatility and Value-at-Risk of the S&P 500



- While the VIX has fallen steadily since mid-October, realised volatility climbed to a recent peak of over 30%. Implied volatility is now well below realised volatility. This is not least due to the sharp upward movements following the US inflation print.

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 – 18/11/2022

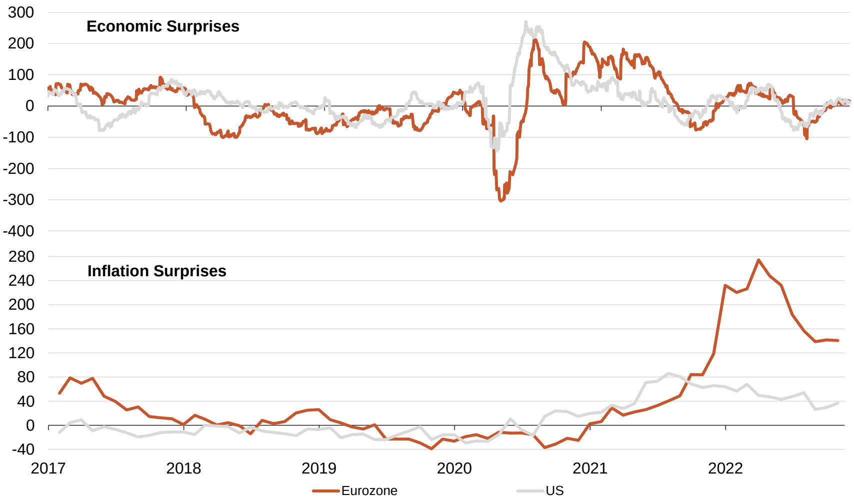
Global



- Emerging markets (EM), especially China, continue to struggle to beat economic expectations. In China, industrial production, purchasing managers' indices and retail sales have disappointed.
- The industrialised nations (G10), on the other hand, continued to surprise on the upside thanks to the US, Japan and UK.
- Inflation surprises in the emerging markets are already approaching zero, while they are still clearly positive in the industrialised nations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 18/11/2022

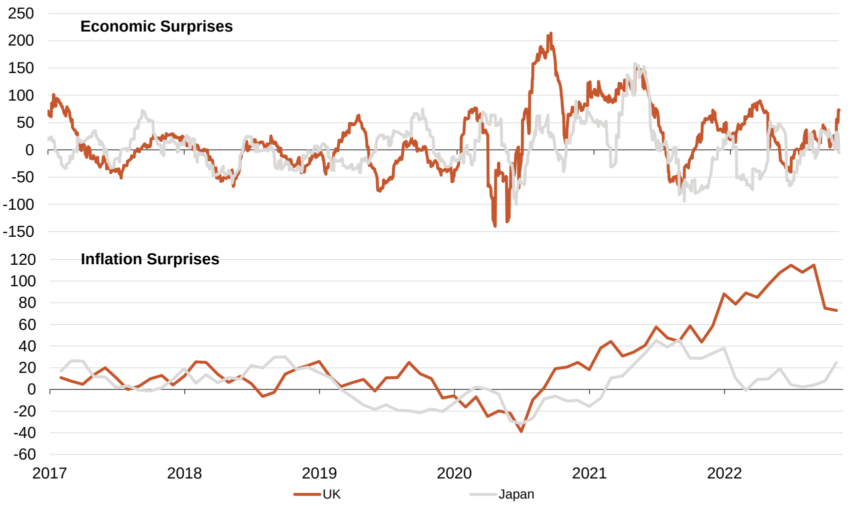
Eurozone and US



- The US economy continues to be robust. Most of the economic data have surprised on the upside in recent weeks. For example, retail sales and the industrial purchasing managers' index were positive surprises.
- The economic surprise index for the eurozone can only remain marginally above zero. The ZEW index and industrial production data surprised on the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2017 - 18/11/2022

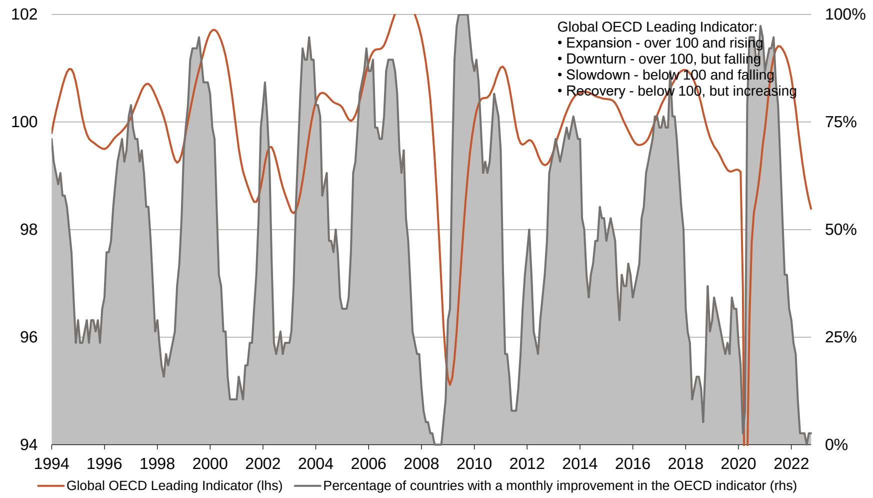
UK and Japan



- In the UK, industrial production data, Q3 economic growth and purchasing managers' indices surprised to the upside.
- In Japan, both industrial production data and Q3 economic growth have recently 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 - 18/11/2022

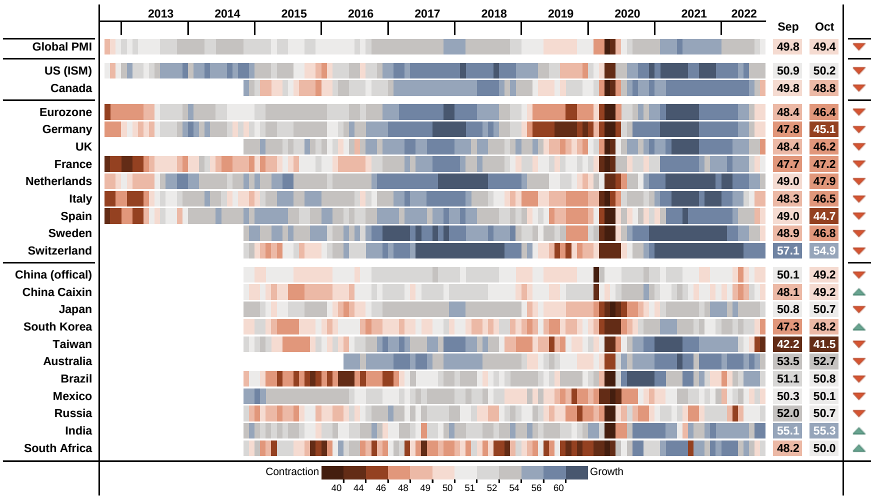
OECD Leading Indicator



- In October, the OECD Global Leading Indicator continued its downward path. According to this indicator, the probability of a global recession remains high.
- At the country level, the OECD saw 97% of countries deteriorate compared to the previous month. Only Australia was able to hold steady.

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 - 31/10/2022

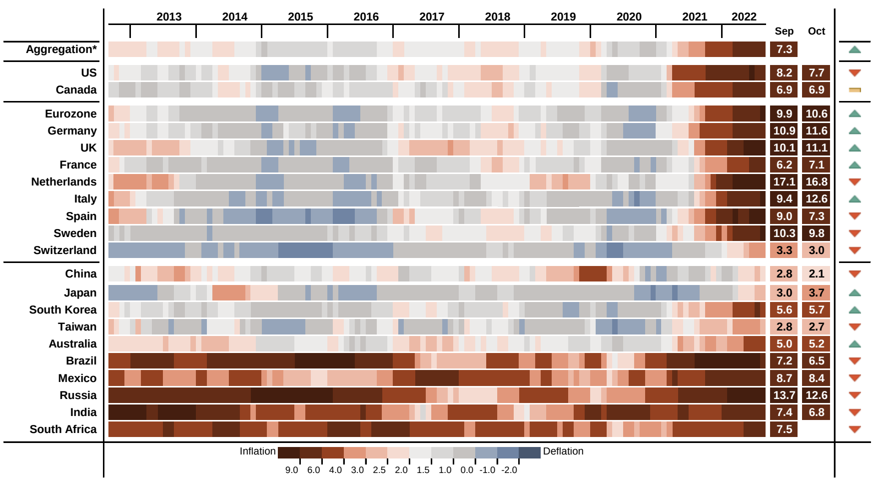
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global October PMI data show an unpleasant picture: industrial activity is clearly down compared to the previous month. This is especially true for the eurozone and Asia excluding 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: 31/10/2012 - 31/10/2022

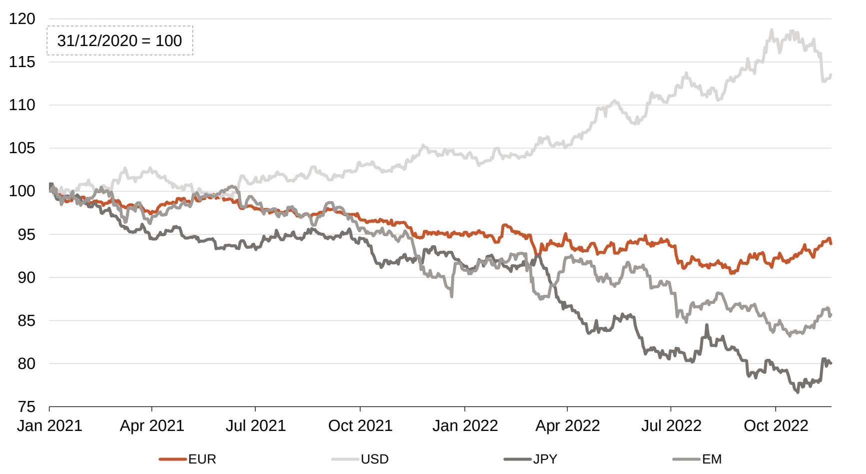
Headline Inflation



- Disinflation in the US continued in October. Inflation fell by 0.5ppt points compared to the previous month thanks to less steep increases in energy, food and used car costs.
- Inflation has also fallen in some emerging markets, including China.

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: 31/10/2012 - 31/10/2022

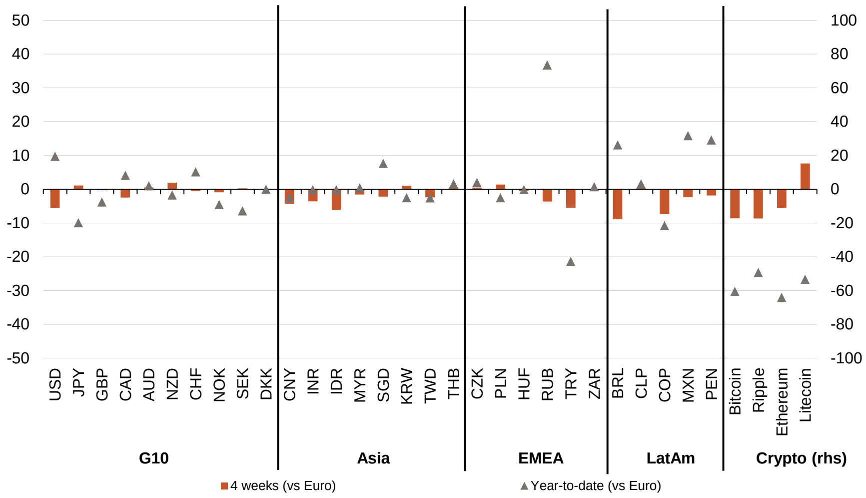
Trade-Weighted Currency Development



- The dollar has seen its third largest weekly decline in 40 years on a trade-weighted basis as a result of lower-than-expected US inflation.
- Investors now expect fewer interest rate hikes in the coming months, which has reduced the relative attractiveness of the US dollar.
- All other currencies shown here benefited from the Dollar's weakness.

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 - 18/11/2022

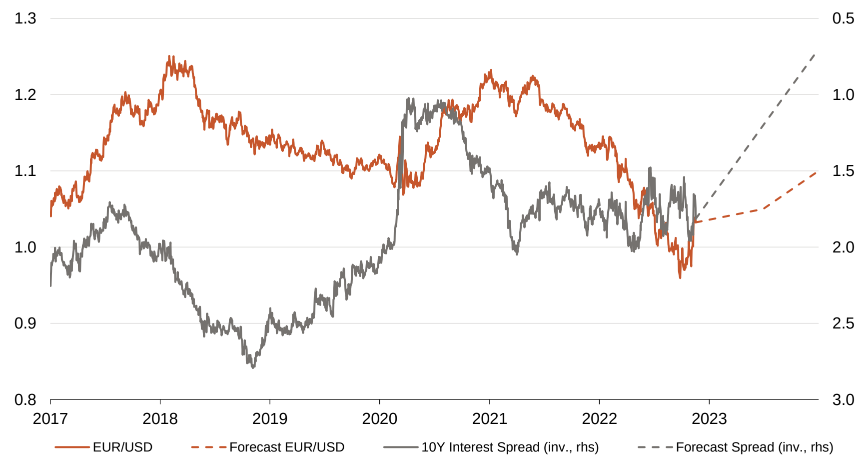
Currency Moves vs Euro



- Asian currencies depreciated due to rising COVID-cases in China.
- Within the G10, developments were mixed.
- Cryptocurrencies again saw heavy losses after the crypto exchange FTX went bust.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2021 - 18/11/2022

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



- At 1.03, the euro/dollar exchange rate is the highest it has been since the beginning of July.
- With hopes for fewer interest rate hikes by the Fed, the interest rate differential between US Treasuries and Bunds has narrowed again by more than 20bp.

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

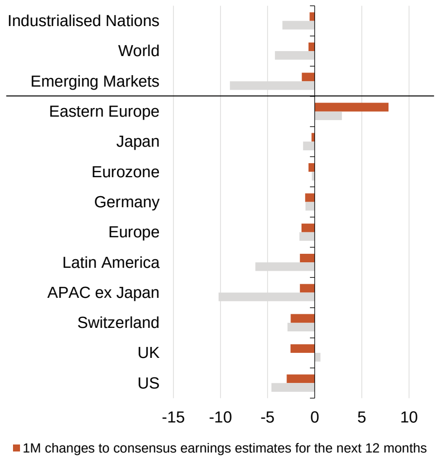
	4W (21/10/22 - 18/11/22)	YTD (31/12/21 - 18/11/22)	18/11/21 18/11/22	18/11/20 18/11/21	18/11/19 18/11/20	18/11/18 18/11/19	17/11/17 18/11/18
Information Technology	15.7	-20.7	-24.1	53.5	9.4	26.4	-3.6
Communication Services	14.3	-6.8	-3.1	7.3	12.8	25.2	1.0
Consumer Discretionary	12.1	-15.3	-18.9	34.3	4.8	21.3	-6.8
Industrials	11.7	-14.6	-13.4	29.2	4.0	25.6	-7.3
Finance	10.3	-3.1	-4.0	31.6	-13.5	9.3	-11.8
Growth	9.6	-15.0	-15.4	31.9	5.8	22.4	-3.2
Materials	9.4	-7.2	-3.7	28.5	5.8	13.4	-3.6
Value	8.9	-0.5	0.4	22.8	-12.4	10.0	-4.5
Telecommunications	7.3	-8.7	-8.8	13.3	-14.1	4.7	-7.1
Consumer Staples	5.5	-6.8	-4.4	15.9	-0.8	16.9	-2.4
Health Care	5.1	-5.1	-2.9	21.7	2.3	21.8	4.8
Energy	4.7	37.8	37.1	40.5	-37.1	2.8	11.3

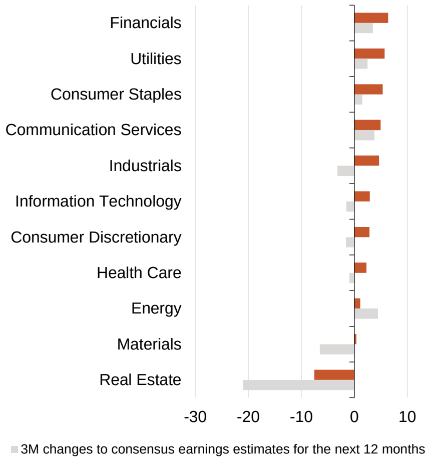
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Stables: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR; Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. 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.

- The recovery on the stock markets was felt above all in the sectors that have suffered disproportionately since the beginning of the year. These include information technology, cyclical consumer goods and industry.
- More defensive sectors such as consumer staples or health care, on the other hand, did not make as much headway.
- Energy stocks lost the most.

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: 17/11/2017 – 18/11/2022

Changes in Consensus Earnings Estimates

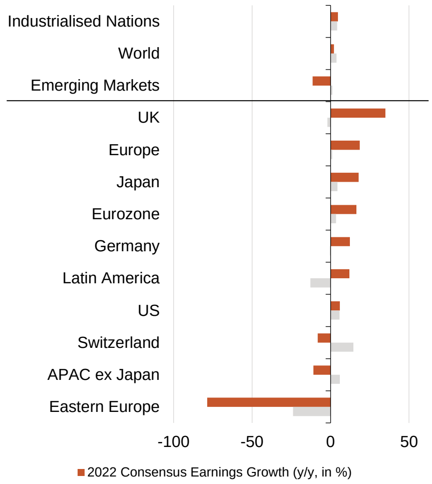


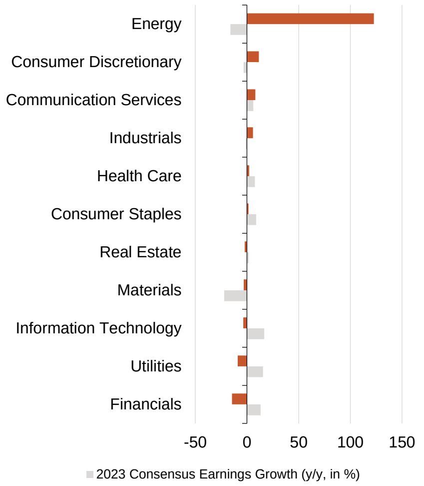


- Earnings revisions remain negative. Analysts are thus increasingly factoring the gloomy economic outlook into their corporate earnings forecasts.
- Negative earnings revisions were strongest on stocks from the USA and Switzerland in the last four weeks. Analysts are more positive on companies from Eastern Europe, thanks to falling currencies and increasing hopes for a timely end to the war.
- Analysts have also become more positive on financial and utilities companies.

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 18/11/2022

Earnings Growth

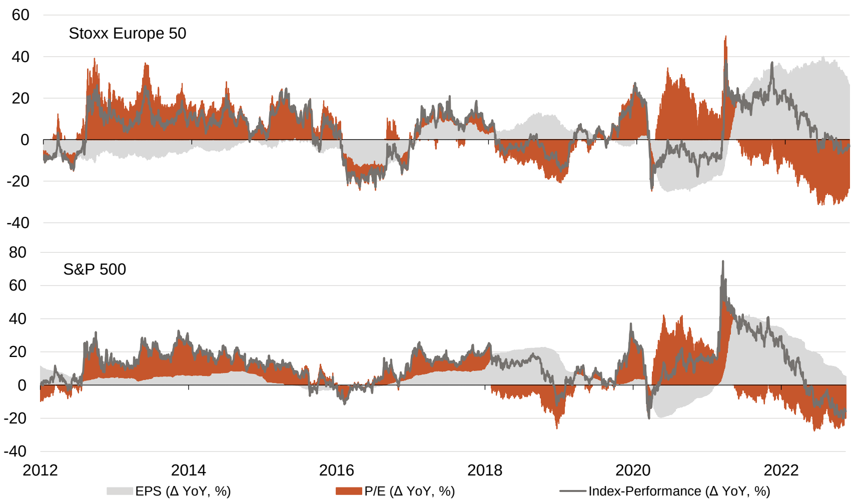




- Earnings growth for global equities is expected to be slightly positive in 2022. For 2023, the consensus also expects rising earnings, most notably for US and Asian equities. Significantly positive earnings growth is also expected for Switzerland.
- Sectorwise in Europe, earnings in 2023 are likely to rise especially in IT, financial and utility companies.

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 18/11/2022

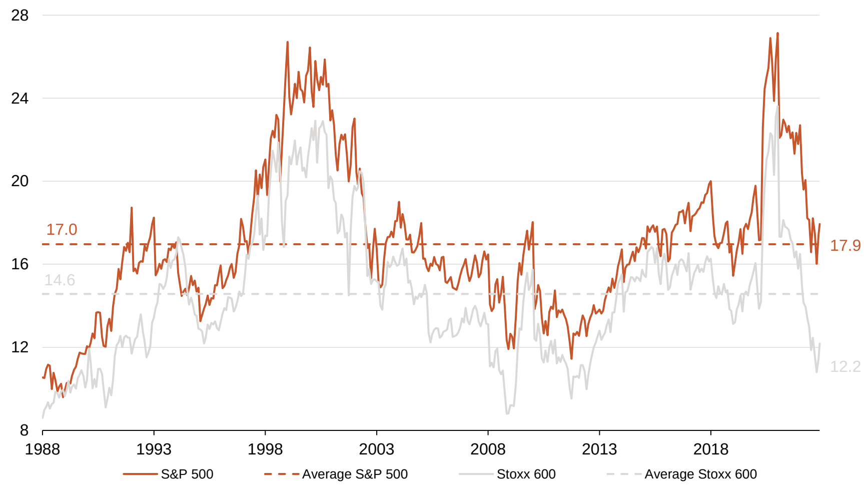
Contribution Analysis



- In recent weeks, the stock markets have been able to recover significantly. The year-on-year performance of the STOXX Europe 50 is now moving towards zero. The driver of the movement was not earnings, but a noticeable valuation expansion.

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 – 18/11/2022

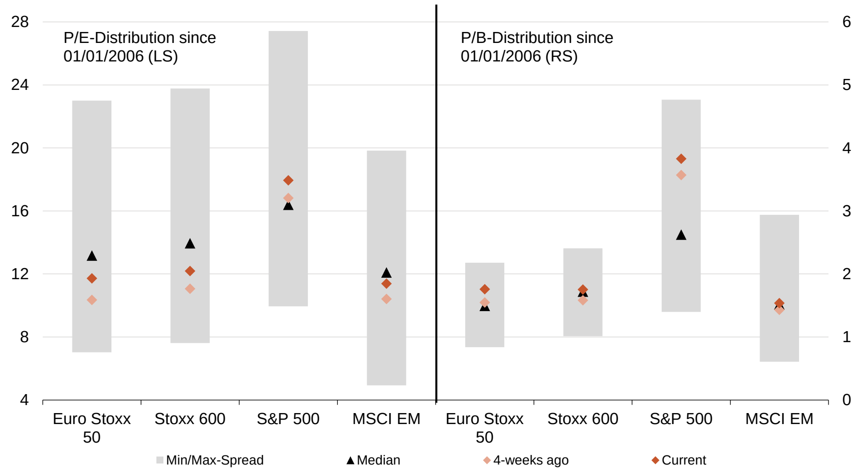
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Valuation ratios have recovered in recent weeks. At 17.9, the P/E ratio of the S&P 500 is again noticeably above the historical average of 17.
- The STOXX 600 has also recovered from its low for the year and is trading at a P/E ratio of 12.2. However, this is still well below the historical average of 14.6.

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 – 18/11/2022

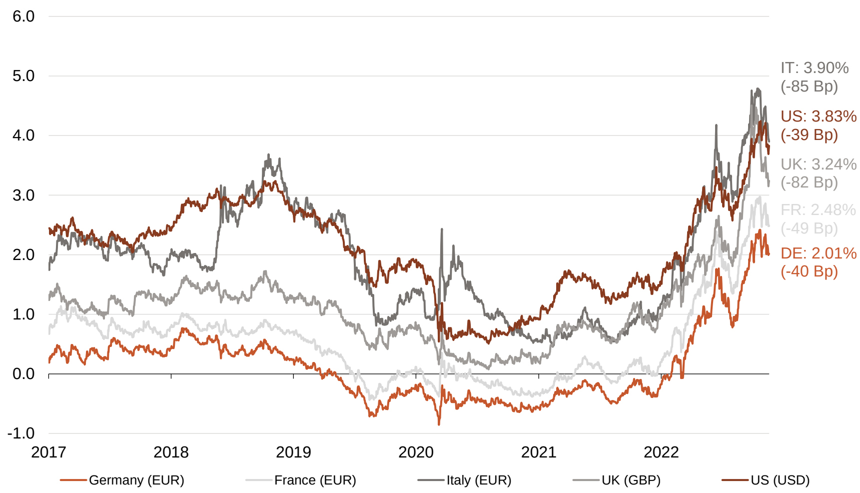
Historical Distribution: Price/Earnings and Price/Book Ratio



- In the last four weeks, both the P/E ratio and the P/B ratio of all equity regions shown have risen. The valuation expansion was most pronounced in European and US equities. They benefited from hopes of a Fed pivot and an easing of COVID-19 restrictions in China.

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 – 18/11/2022

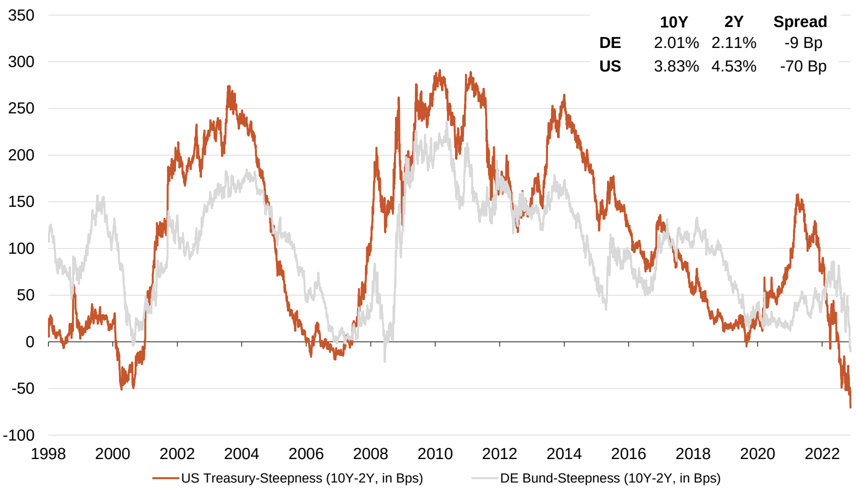
10-Year Government Bond Yields



- Government bonds with a maturity of 10 years saw yields fall significantly thanks to lower-than-expected US inflation for October. Investors are thus once again convinced that inflation will fall significantly in the medium term and thus demand a lower term premium.
- Yields have fallen most significantly, by over 80bp, on Italian government bonds and UK government bonds.

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 – 18/11/2022

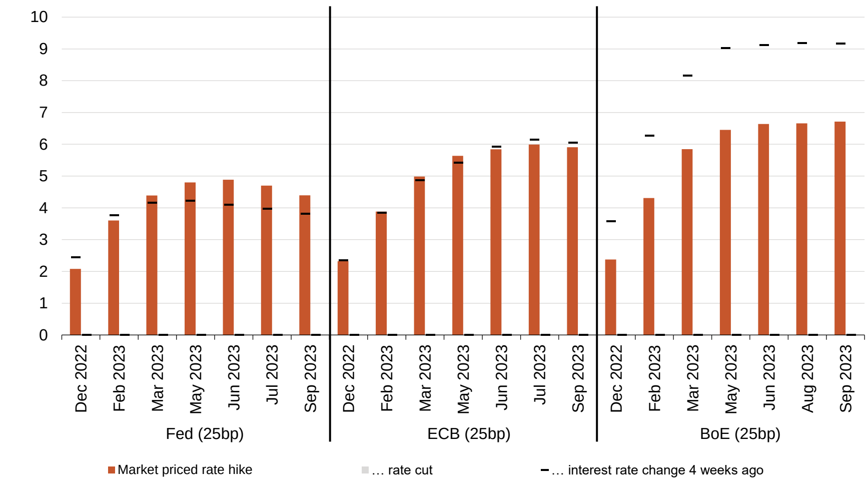
Yield Curve Steepness (10Y - 2Y)



- The US yield curve has been inverted for several months and has recently reached new lows for the year.
- Finally, also the German yield curve has inverted. Both curves thus clearly indicate an economic recession.

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 – 18/11/2022

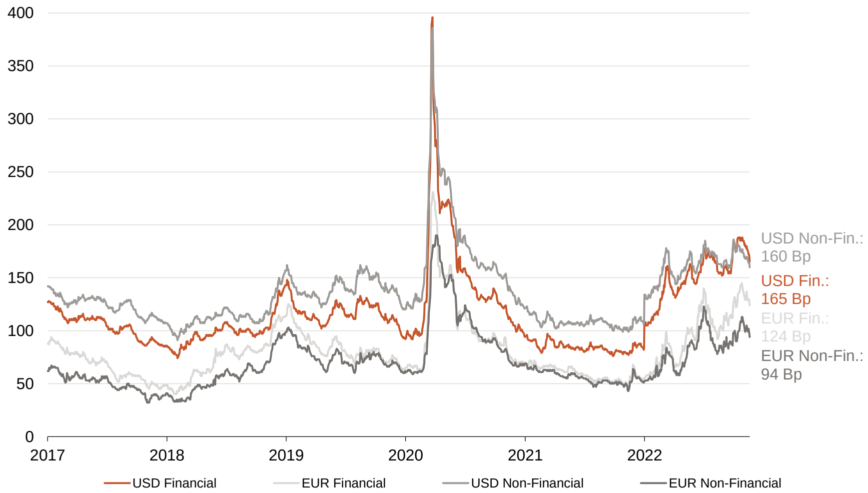
Implicit Changes in Key Interest Rates



- The downwardly surprising US inflation figures lowered market expectations for rising interest rates slightly. For December, the market expects the Fed and the ECB to raise interest rates by around 50bp.
- The market also expects the BoE to raise interest rates by around 50bp. Four weeks ago it was 100bp, which is no longer expected thanks to a policy turnaround.

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: 28/10/2022 – 18/11/2022

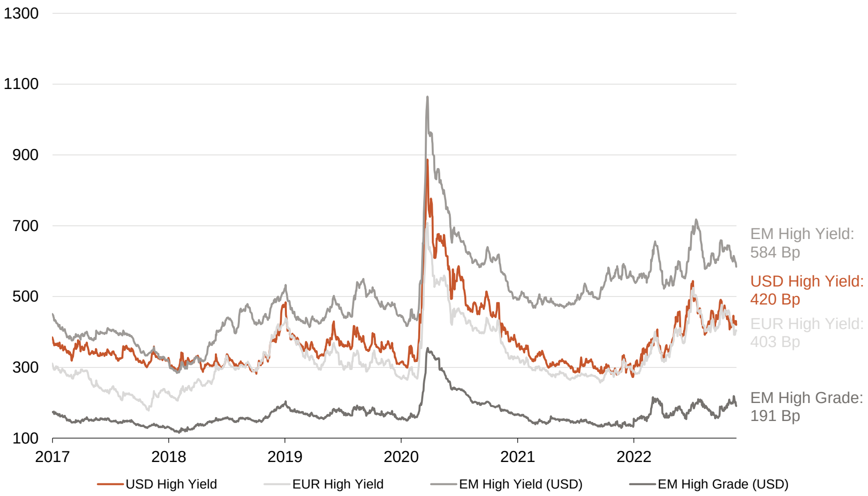
Credit Spreads Financial and Non-Financial Bonds



- US dollar investment-grade corporate bonds have also seen falling spreads in the last two weeks. Many investors are increasingly looking at the segment, also as an alternative to equities. US dollar financial bonds, for example, recorded a spread narrowing of 15bp.
- Spreads on euro investment-grade corporate bonds, on the other hand, have hardly moved.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2017 – 18/11/2022

Credit Spreads High Yield and Emerging Markets Bonds



- High-yield bonds also saw a slight narrowing of spreads. The most significant movement was seen in euro high-yield bonds. There, spreads have fallen by around 20bp in the last two weeks. With the backdrop of a recession, especially in Europe, a possible further spread decline is likely to be more challenging.

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 – 18/11/2022

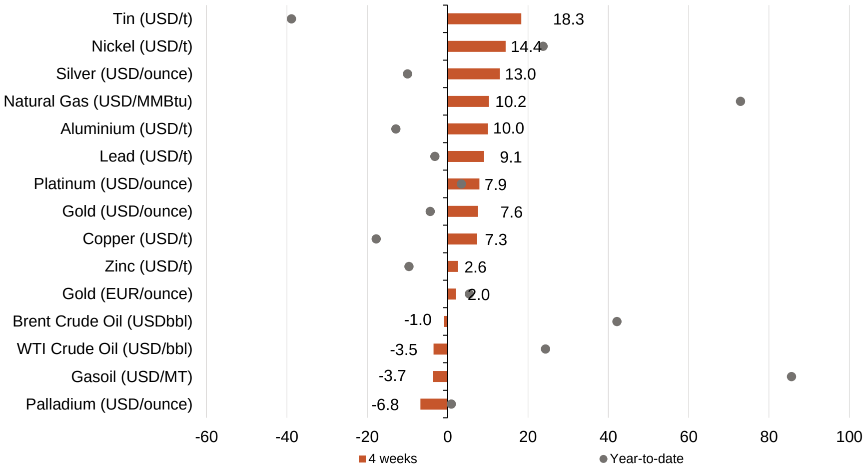
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	18/11/21 18/11/22	18/11/20 18/11/21	18/11/19 18/11/20	18/11/18 18/11/19	18/11/17 18/11/18
EUR Government	2.58	-0.27	7.4	-	-	-	3.1	-15.2	-16.2	-2.0	3.8	9.7	-1.3
Germany	2.01	-0.10	7.4	-	-	-	1.9	-14.9	-15.8	-1.5	1.7	5.3	0.9
EUR Corporate	3.93	-0.38	4.6	105	-10	85	2.7	-13.3	-13.7	-0.2	2.3	6.2	-1.4
Financial	4.11	-0.36	3.9	124	-13	89	2.4	-11.6	-11.9	0.1	1.9	5.6	-1.3
Non-Financial	3.83	-0.39	5.1	94	-8	82	2.9	-14.1	-14.6	-0.4	2.4	6.6	-1.4
EUR High Yield	7.45	-0.85	3.3	403	-48	75	4.1	-11.9	-12.0	5.3	2.7	8.1	-2.3
US Treasury	4.22	-0.10	6.2	-	-	-	1.1	-13.4	-13.1	-2.7	7.9	10.0	-1.6
USD Corporate	5.60	-0.35	6.9	161	-21	81	3.3	-16.5	-16.3	0.1	9.3	14.7	-2.6
Financial	5.79	-0.31	5.1	165	-22	90	2.8	-13.7	-13.5	-0.1	8.7	12.7	-1.7
Non-Financial	5.51	-0.36	7.7	160	-19	77	3.5	-17.8	-17.5	0.2	9.5	15.5	-3.0
USD High Yield	8.88	-0.44	4.3	420	-25	64	2.2	-11.4	-10.7	7.3	5.8	9.5	0.6
EM High Grade	6.04	-0.15	5.2	191	-1	59	1.9	-16.2	-16.0	0.7	5.7	12.4	-1.8
EM High Yield	11.52	-1.02	3.9	584	-54	62	4.2	-19.0	-19.8	0.7	6.9	11.4	-2.1

- In the last four weeks, the bond market saw a clear recovery. Euro high-yield bonds were able to gain more than 4% thanks to the significant narrowing of spreads and simultaneously falling interest rates. But also safe government bonds such as euro government bonds were able to develop positively. Only EM investment-grade bonds lost slightly in value.

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 : 18/11/2017 – 18/11/2022

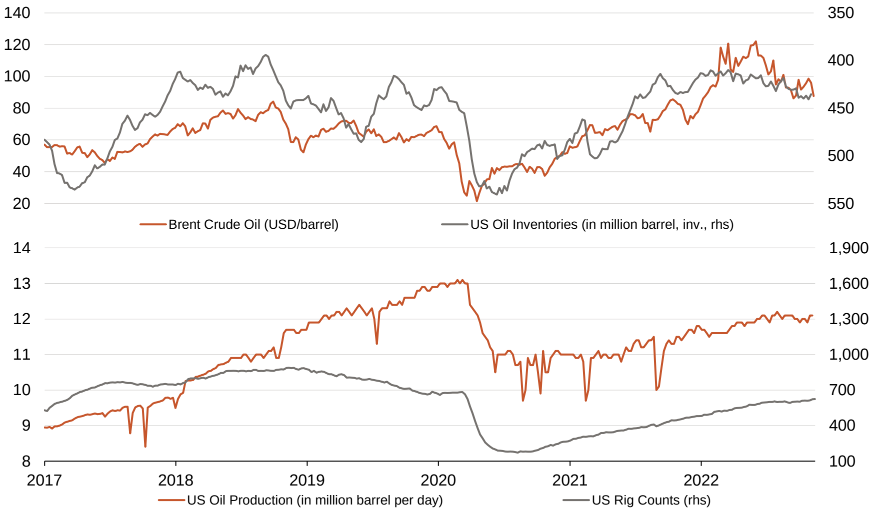
Commodities Performance



- Almost all commodities recorded gains last month.
- Industrial metals and precious metals such as silver and platinum, which are used in industrial applications, led the field. However, the strong movements cannot only be explained by fundamentals, but also by thin liquidity. Nickel, for example, experienced its second strong squeeze this year.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period:31/12/2021 - 18/11/2022

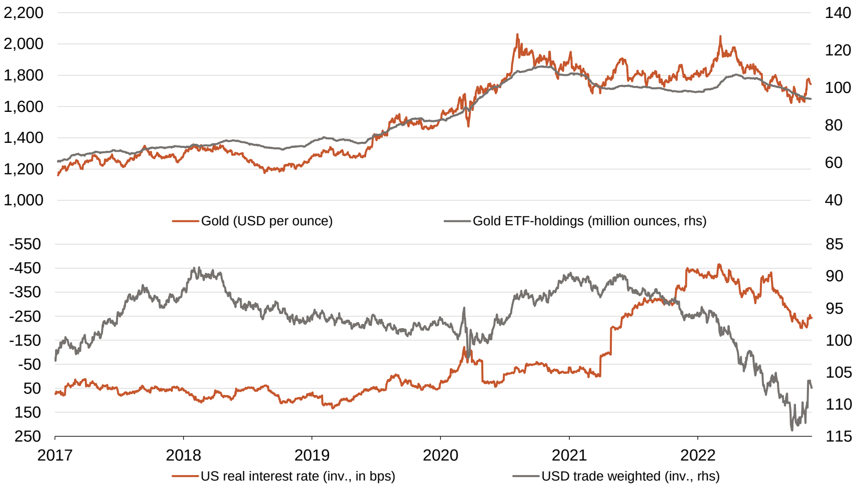
Crude Oil



- Oil has fallen significantly in the past few days. At the beginning of the month, hopes of a reopening in China still dominated. However, since the infection figures there have risen recently, the focus has returned to the weakness in demand in the West. So far, however, the weakness has been limited. US oil inventories fell by more than 5m barrels last week. Including strategic reserves, inventories are at their lowest level since 2001.

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 - 18/11/2022

Gold



- In recent weeks, gold has benefited from the fall in (real) interest rates, as well as from the weaker US dollar. The precious metal is currently trading at over USD 1,750 per ounce.
- Silver has performed even better, gaining up to 20% from its October low.

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 - 18/11/2022

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IMPORTANT NOTICES

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