BERENBERG
Markets

MONITOR

16 January 2023

Current market commentary

Since the start of the year, almost all asset classes have risen, driven by falling bond yields, fewer inflation concerns, China optimism, the absence of a gas shortage in Europe and new risk budgets for investors. The moves were further amplified by systematic strategies that demanded equities due to better momentum and falling volatility. Markets could overshoot further in the short term as many strategies remain underinvested and could be pushed into the market accordingly. The big loser was the US dollar, which weakened across the board. However, positioning against the euro in particular is already very pessimistic, so the depreciation momentum is likely to diminish, at least in the short term. In the medium term, we think that market participants will look less at inflation figures and more at growth figures again. In view of the threat of a US recession, volatility is likely to rise again in the course of the year.

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

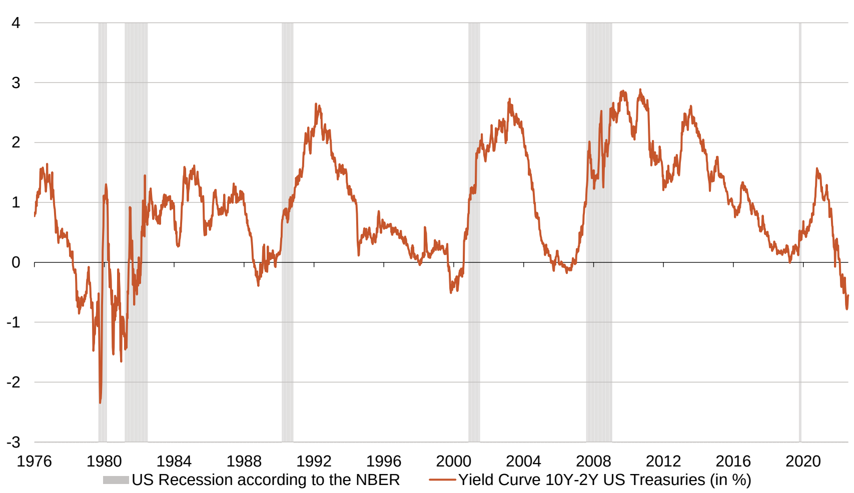
Market likely to focus on Q4 reporting season.

The Q4 reporting season will occupy the markets for the next few weeks. By mid-February, around 80% of S&P 500 companies will report by market cap. The S&P 500 is expected to see its first year-on-year earnings decline in the fourth quarter since 2020 and profit margins are likely to fall. Corporate earnings for the STOXX 600, on the other hand, are expected to rise year-on-year. The Bank of Japan meeting will also take place on 18 January.

Economic data offer insight into recession risk.

On Tuesday, industrial production data (Dec.) and Q4 economic growth for China will be released, as well as the German ZEW Economic Sentiment Index (Jan.) and the US Empire State Manufacturing Index (Jan.). UK inflation data (Dec.) as well as retail sales (Dec.), producer prices (Dec.) and industrial production (Dec.) will follow on Wednesday. On Thursday, the ECB meeting minutes (Dec.), US housing data and the Philadelphia Fed Index (Jan.) will be published.

Strongly inverted US yield curve suggests steepening soon



- Following the Fed's big rate hikes in the fight against inflation, the interest rate differential between 10-year and 2-year US Treasuries has inverted to -66bp, which is the 3rd percentile since the 1970s.
- In the past, an inverted yield curve was always followed by a recession. Interest rate cuts by central banks to stimulate the economy have then led to a normalisation of the yield curve. We expect the yield curve to steepen again this time.

Source: Bloomberg, Time period: 01/01/1976 - 13/01/2023

Multi Asset

	4W (16/12/22 - 13/01/23)	YTD (30/12/22 - 13/01/23)	13/01/22 13/01/23	13/01/21 13/01/22	13/01/20 13/01/21	13/01/19 13/01/20	12/01/18 13/01/19
MSCI Emerging Markets	5.6	6.5	-11.2	0.4	11.5	20.9	-10.3
Brent	5.4	-1.7	37.5	75.7	-30.1	20.9	-3.2
Industrial Metals	4.9	4.0	4.9	39.5	7.7	10.0	-12.1
Gold	4.7	4.1	11.4	4.8	9.2	23.8	2.4
REITs	3.8	5.6	-13.9	38.0	-18.5	23.1	5.5
MSCI World	2.9	4.0	-7.5	25.0	6.8	28.3	-3.5
Global Convertibles	1.2	3.1	-8.8	-1.2	43.5	24.4	4.8
EUR Coporates	0.8	2.1	-12.0	-1.5	2.8	6.4	-1.2
EUR Sovereign Debt	0.6	2.0	-9.9	-1.7	1.9	3.1	0.6
Euro overnight deposit	0.1	0.1	0.1	-0.6	-0.5	-0.4	-0.4
MSCI Frontier Markets	-0.4	2.9	-18.4	22.4	-4.6	18.6	-13.2
USDEUR	-2.3	-1.2	5.8	6.1	-8.4	3.0	6.4

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.

- After a difficult close to 2022, the first trading days of the new year saw renewed momentum. The upward movement was driven by hopes of a soft landing thanks to disinflation and continued robust economic data. Emerging market equities and industrial metals also benefited from the end of the zero-COVID policy and the opening of markets in China. The pleasing performance of gold was driven by increased demand from central banks as well as positive momentum.

Total return for selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/01/2018 – 13/01/2023

Equities

	4W (16/12/22 - 13/01/23)	YTD (30/12/22 - 13/01/23)	13/01/22 13/01/23	13/01/21 13/01/22	13/01/20 13/01/21	13/01/19 13/01/20	12/01/18 13/01/19
Euro Stoxx 50	9.2	9.5	-1.4	21.6	-2.4	26.5	-12.7
MSCI EM Eastern Europe	9.1	7.2	-79.4	16.7	-17.7	35.6	-0.2
DAX	8.6	8.4	-5.9	15.0	3.6	23.6	-17.8
Stoxx Europe Cyclicals	8.5	8.5	-8.5	24.4	2.8	22.7	-16.6
Stoxx Europe Small 200	7.4	7.0	-17.0	18.2	6.5	23.5	-10.6
Stoxx Europe 50	6.1	6.3	4.1	23.5	-4.7	25.0	-9.7
MSCI UK	5.4	5.2	3.1	25.8	-13.6	19.2	-8.1
MSCI EM Asia	5.4	7.2	-11.5	-3.1	20.8	24.3	-12.5
MSCI USA Small Caps	5.0	6.0	-4.1	15.8	14.7	22.7	-1.9
Stoxx Europe Defensives	4.0	3.7	4.9	16.6	-4.7	20.4	0.6
MSCI Japan	2.5	3.0	-9.3	6.7	7.9	18.4	-8.5
S&P 500	1.8	3.1	-7.6	31.7	8.0	33.2	0.4

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.

- At the beginning of the year, the equity markets experienced the empirically known January effect. Accordingly, last year's losers were in the lead, while the winners brought up the rear.
- Regionally, European and Eastern European shares led the way. The opening of China is not only positive for Asian shares, but also for European exporters with China as an important sales market, such as the luxury goods industry.
- At sector and style level, cyclical stocks and small cap stocks held up better.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/01/2018 – 13/01/2023

Fixed Income

	4W (16/12/22 - 13/01/23)	YTD (30/12/22 - 13/01/23)	13/01/22 13/01/23	13/01/21 13/01/22	13/01/20 13/01/21	13/01/19 13/01/20	12/01/18 13/01/19
EM Local Currency Bonds	3.4	2.9	-2.8	-2.0	-6.6	14.0	-0.8
USD High Yield	2.4	3.9	-7.2	4.6	5.7	11.5	0.1
EUR High Yield	2.2	2.5	-9.3	2.9	2.9	10.7	-3.2
BTPs	1.8	3.9	-13.7	-3.0	7.6	11.4	-2.3
EUR Non-Financials	1.0	2.5	-12.3	-1.8	3.1	6.5	-0.9
USD Corporates	1.0	3.2	-11.3	-1.5	8.2	14.3	-1.4
EUR Financials	0.7	1.7	-11.5	-1.0	2.3	6.4	-1.7
Chinese Gov Bond	0.5	0.0	3.2	5.7	2.7	4.3	8.8
Bunds	-0.1	2.9	-15.2	-2.7	2.8	2.7	3.3
EM Hard Currency Bonds	-0.6	1.2	-8.7	3.5	-5.5	17.2	2.9
Gilts	-1.5	2.5	-26.4	1.3	2.0	12.7	0.9
Treasuries	-1.7	0.8	-4.1	3.4	-2.5	10.6	7.4

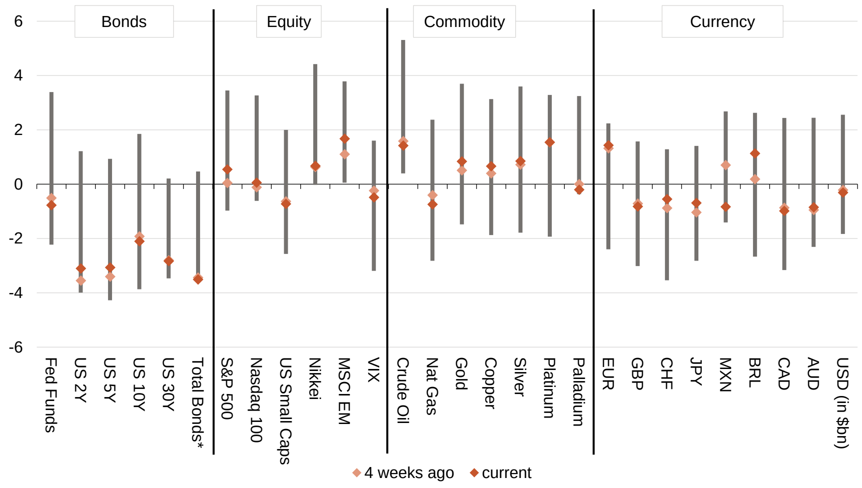
4-week & YTD; 12-month periods over that last 5 years

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

- While at the end of 2022, central banks that were much more restrictive than expected by the market, led to new highs in European bond yields, the start of 2023 brought a recovery of bonds analogous to equities.
- After the US inflation data came in cooler, as expected, the Fed also expressed itself far less restrictively. Fed member Harker appeared noticeably more dovish with a statement of a 25 basis point increase..

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/01/2018 – 13/01/2023

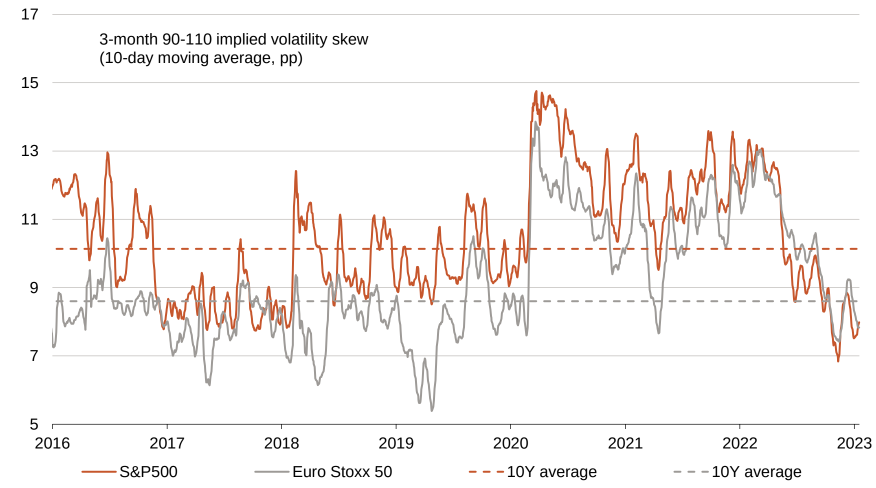
Non-Commercial Positioning



- Speculative investors have built up long positions in US large caps over the past month.
- The biggest movements were in the Mexican peso and the Brazilian real. The former is likely to have suffered from the fall in oil prices, while the latter benefited from high real interest rates.

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: 10/01/2013 - 10/01/2023

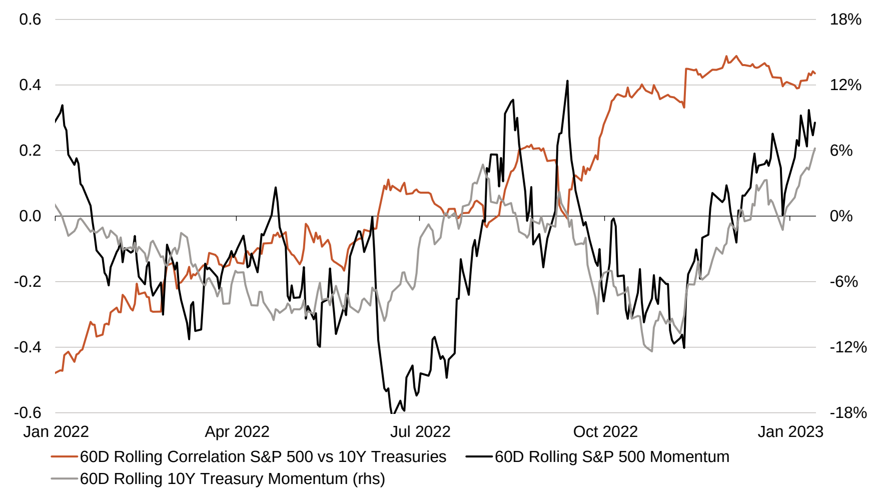
Put-Call-Skew



- The skew remains flat. This is despite the fact that markets, especially in Europe, have had a phenomenal start to the year. Typically, the skew steepens following a rally as investors seek to protect their gains.
- If the rally continues and the skew remains flat the market will be more prone to setbacks again.

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: 13/01/2013 – 13/01/2023

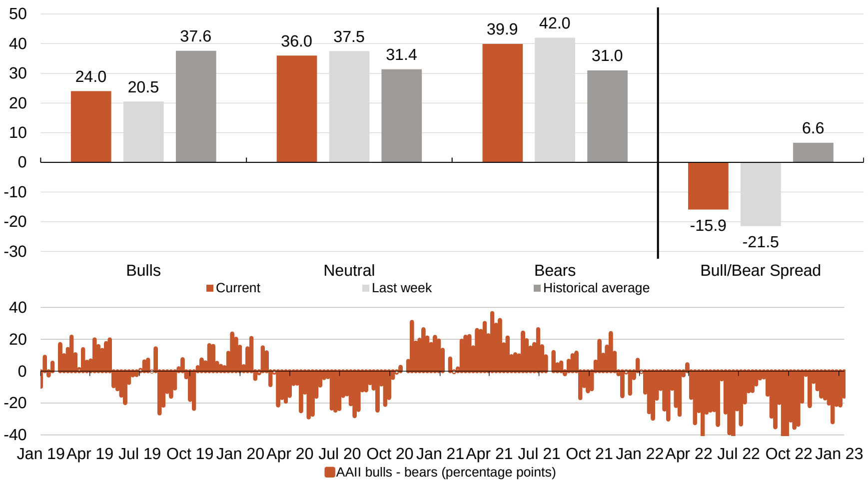
60-Day Momentum and Correlation



- Momentum in equities is now clearly positive over the last 60 days. This means that CTAs should increasingly build up equity exposure - especially if realised volatility falls.
- Momentum is also positive for bonds. The two asset classes thus remain unusually highly correlated.

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: 31/12/2021 – 13/01/2023

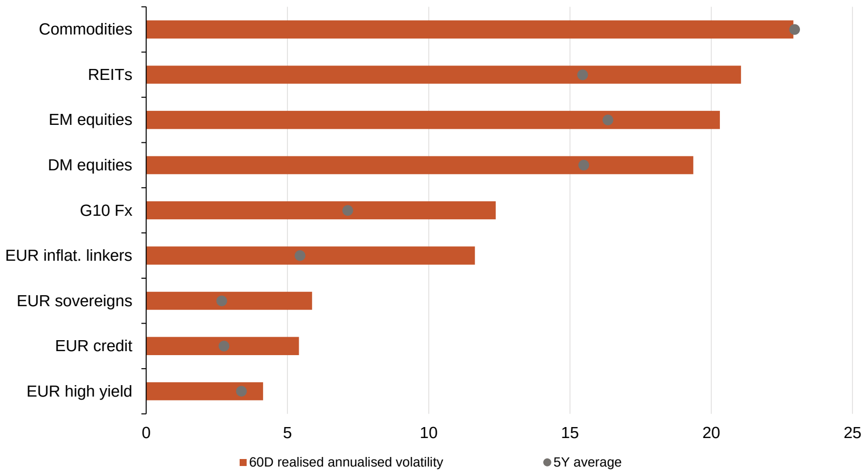
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment of US private investors remains pessimistic overall, but has brightened somewhat in the last week.
- The bull/bear spread is now negative for the 41st week in a row. This is the longest dry spell in history.

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 – 12/01/2023

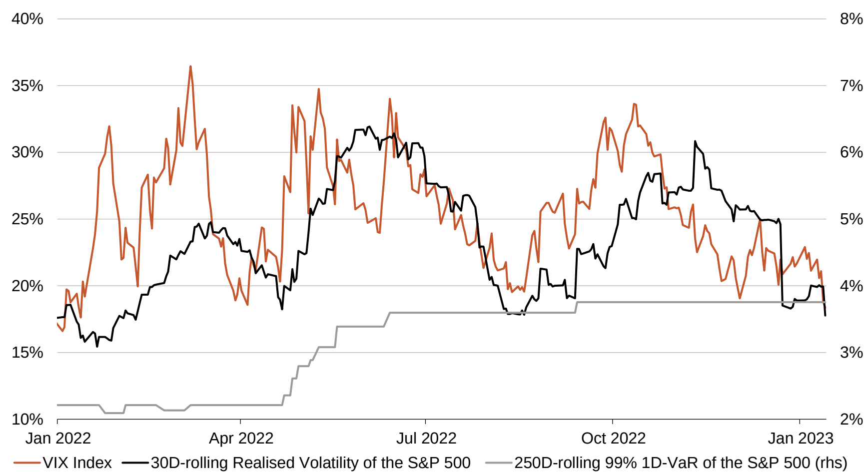
Realised Volatilities



- The realised volatility of developed market equities has recently fallen below the 20% mark, but remains above the average of the last 5 years.
- In commodities, volatility has again increased somewhat with the strong movements in the oil market.
- Within bonds, only high-yield bonds, normally the most volatile segment, show a realised volatility of below 5% thanks to spreads tightening.

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: 13/01/2018 - 13/01/2023

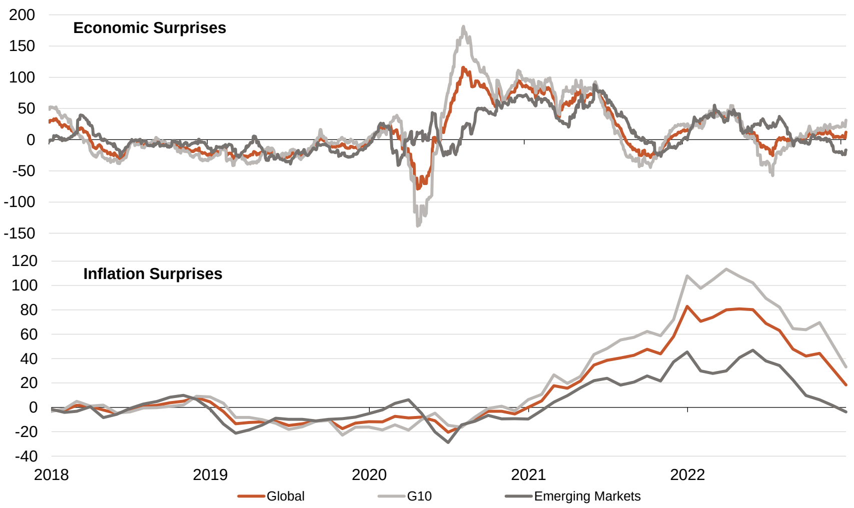
Volatility and Value-at-Risk of the S&P 500



- The VIX fell below the 20 mark with the inflation data last Thursday and is thus very close to the realised volatility.
- The value-at-risk over the last 250 trading days should fall somewhat soon as the very volatile days of January last year fall out of the calculation window.

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: 31/12/2021 – 13/01/2023

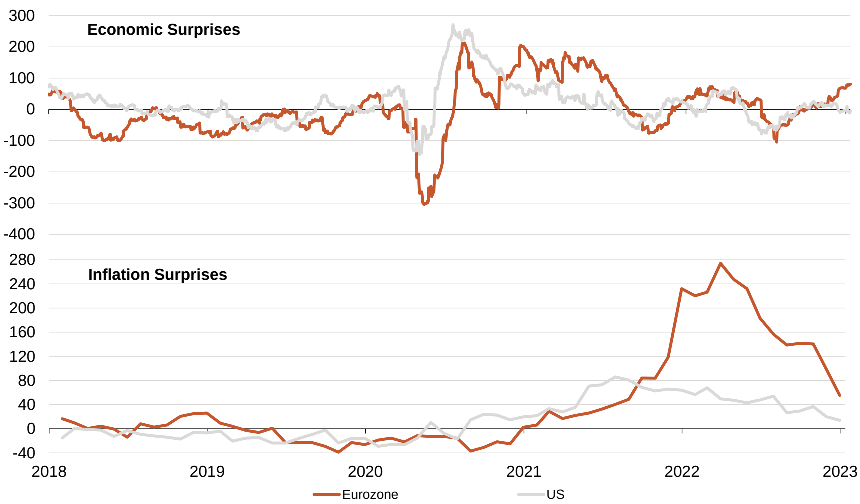
Global



- The economic surprises also show that the economic data continue to be robust. A regional distinction must be made here. While the economic data in the industrialised nations (G10) continue to be robust, the economic data in emerging markets are significantly below expectations.
- Here, the eurozone in particular held up strongly, while in China the PMI purchasing managers' data disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 13/01/2023

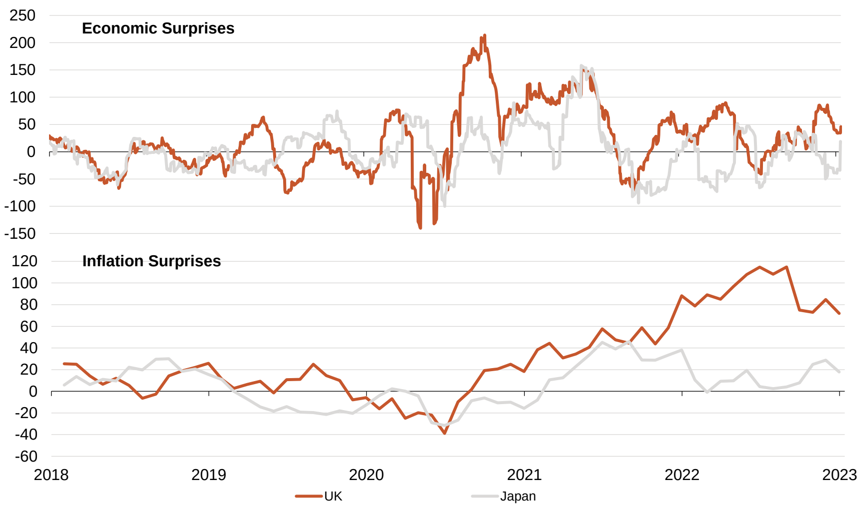
Eurozone and US



- The gap between the US and the eurozone is also widening. While the US has been hovering volatilely around the zero bound for several weeks, the eurozone continues to exceed expectations.
- In the eurozone, purchasing managers' data and industrial production for France were above expectations, while industrial orders in Germany were well below.
- In the US, the labour market remained robust and the University of Michigan's economic climate indicator exceeded expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 13/01/2023

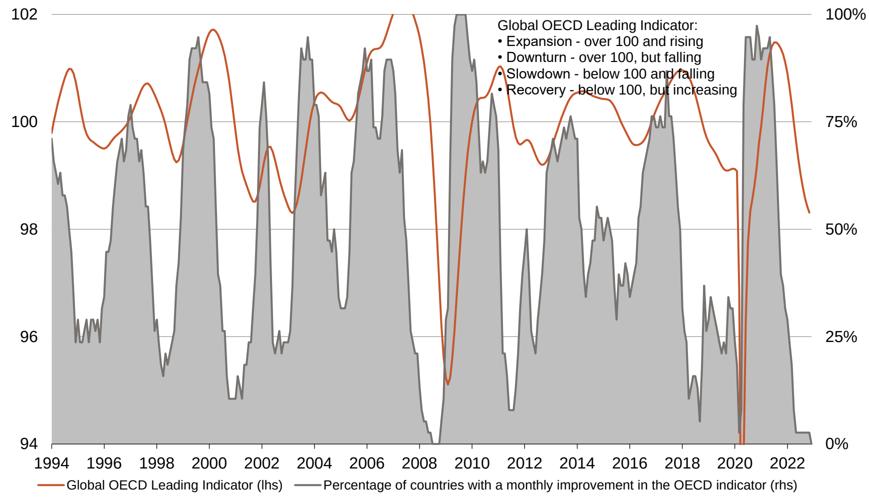
UK and Japan



- In the UK, the picture is becoming increasingly bleak. Industrial and commercial production data were significantly more negative than expected.
- In Japan, the trade balance for November was much less negative than expected.

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: 01/01/2018 - 13/01/2023

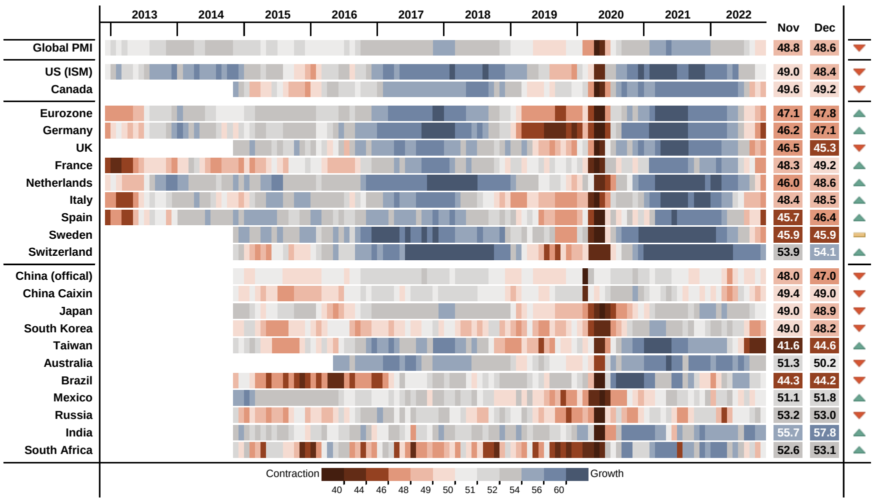
OECD Leading Indicator



- The OECD Leading Indicator has continued its downward trend over the last four weeks. The global economy thus remains clearly in the slowdown phase.
- The picture is confirmed by the high proportion of countries that saw a deterioration in the indicator compared to the previous month. With a share of 100%, the slowdown is broadly supported.

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 – 30/12/2022

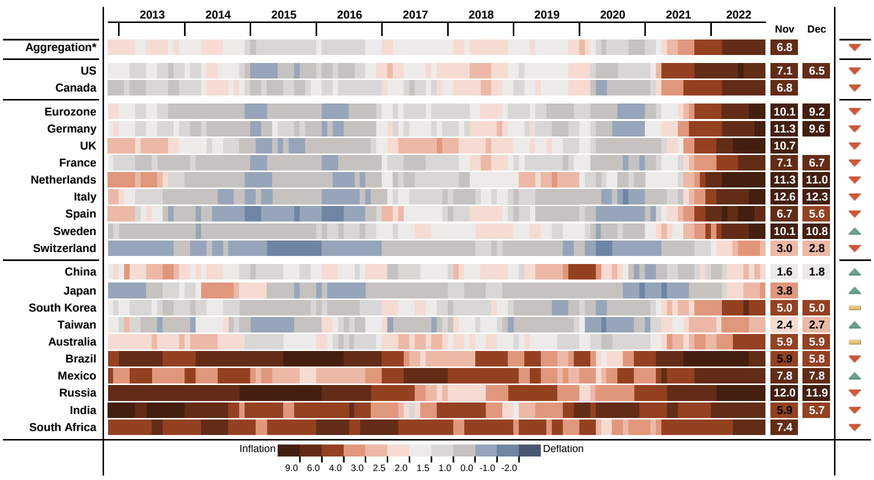
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global PMI fell to 48.6 in December, as low as it was during the early days of the pandemic in the first half of 2020. In the eurozone, the picture looks more positive again. Industrial activity has risen again in Germany, France, the Netherlands, Italy and Spain.

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 11 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: 13/01/2013 – 13/01/2023

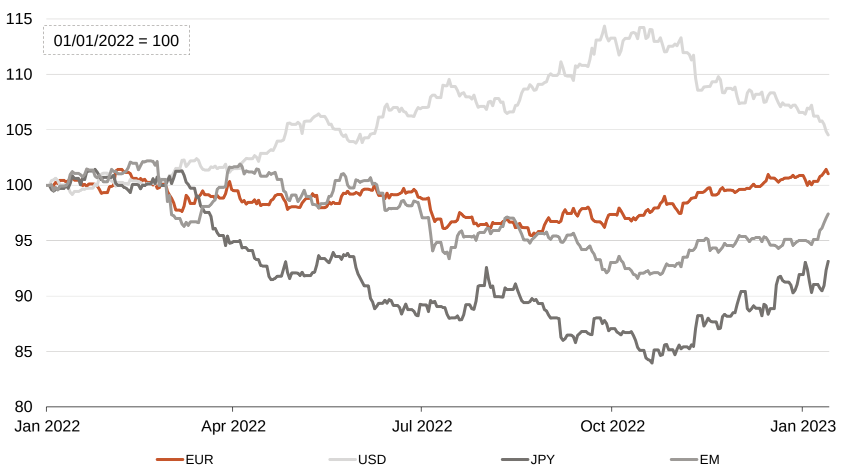
Headline Inflation



- Inflation cooled in most Western regions in December. In the US, headline inflation fell to 6.5%. It is worth noting that inflationary pressures from transport and commodities seem to be abating. The consumer price index for commodities is now much lower than that for services.
- In the eurozone and Germany, inflation fell back below the 10% mark.

Inflation (in per cent, 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: 13/01/2013 – 13/01/2023

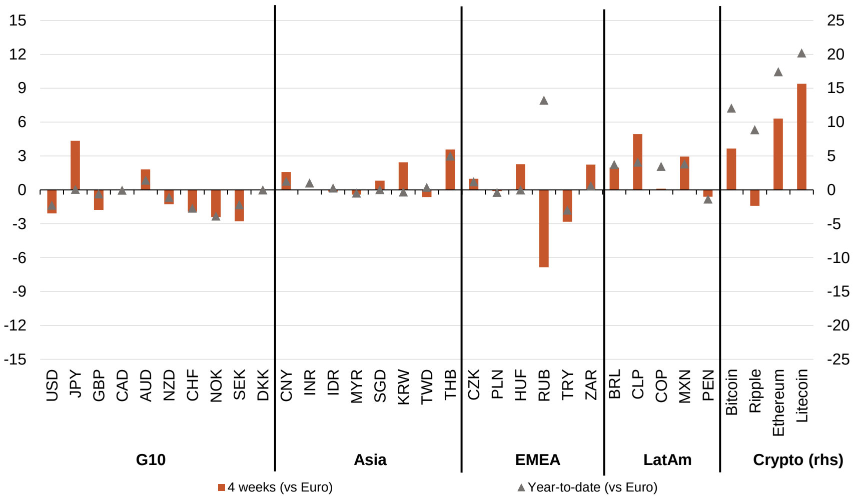
Trade-Weighted Currency Development



- The US dollar recently continued its downward trend unchanged. Emerging market currencies and the euro were the main beneficiaries.
- The Japanese yen continues to move volatilely upwards. Now that the Bank of Japan has started to increase the yield curve control bandwidth, the market expects further steps and a gradual departure from its ultra-expansive monetary policy.

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: 01/01/2022 - 13/01/2023

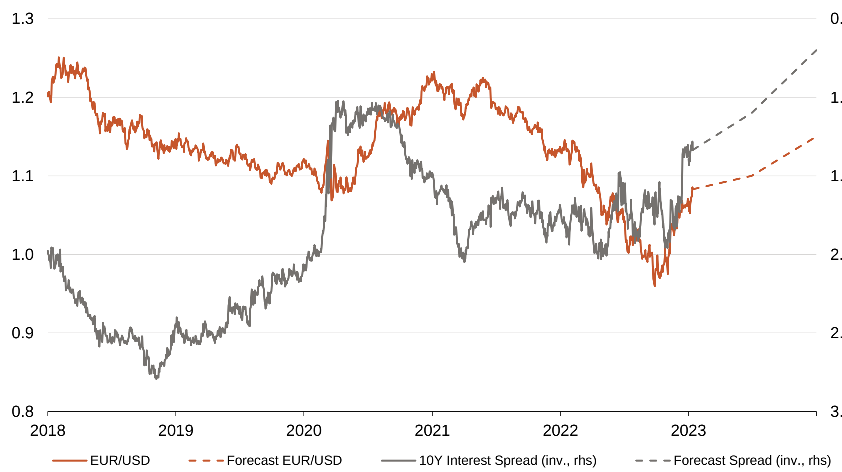
Currency Moves vs Euro



- Among the G10, only the Japanese yen beat the euro over the last four weeks. Commodity currencies such as the Norwegian krone were the weakest performers due to the drop in oil prices.
- Latin American currencies have performed well since the beginning of the year.
- Cryptocurrencies experienced the best start to the year with gains of over 15% in some cases.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 14/12/2022 - 13/01/2023

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



- In the wake of the US inflation data, the euro/dollar exchange rate rose to over 1.08, its highest level since April last year.
- At the same time, the interest rate differential between 10-year German and US government bonds narrowed to below 1.3%. This has further reduced the relative attractiveness of the US dollar.

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: 01/01/2018 - 31/12/2023

European Sector & Style Performance

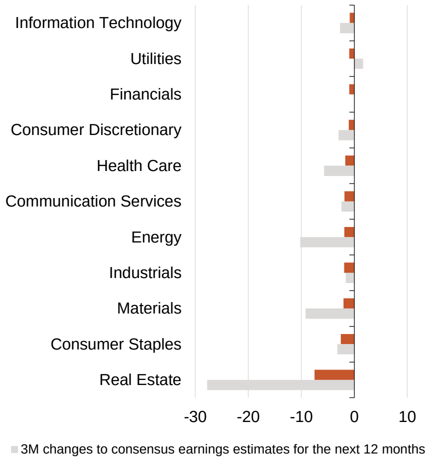
	4-week & YTD		12-month periods over that last 5 years				
	4W (16/12/22 - 13/01/23)	YTD (30/12/22 - 13/01/23)	13/01/22 13/01/23	13/01/21 13/01/22	13/01/20 13/01/21	13/01/19 13/01/20	12/01/18 13/01/19
Consumer Discretionary	11.9	12.6	-5.9	22.3	4.9	29.1	-12.9
Communication Services	9.8	7.9	-2.3	32.9	-12.5	17.2	-19.8
Information Technology	8.3	13.2	-14.8	27.3	12.9	37.9	-6.3
Materials	7.5	6.9	-6.0	21.6	17.5	20.1	-14.4
Value	7.4	6.2	0.2	23.0	-9.8	15.9	-11.7
Telecommunications	7.0	6.9	-6.5	10.5	-11.3	3.4	-8.1
Industrials	7.0	7.1	-9.2	21.6	7.3	31.6	-13.3
Growth	5.9	7.1	-7.5	20.4	6.2	29.6	-7.8
Energy	5.8	2.8	26.5	35.2	-27.8	6.7	-1.2
Utilities	4.1	4.3	-2.8	2.2	15.7	27.1	5.7
Consumer Staples	3.3	3.4	-3.5	19.3	-4.6	22.7	-5.6
Health Care	2.0	2.3	3.2	16.9	-1.7	30.0	1.6

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.

- With the decreasing probability of a deeper recession, cyclical equity sectors such as consumer discretionary, financials and basic materials have been the main beneficiaries over the past four weeks. Defensive sectors such as utilities or health care, on the other hand, have performed less well.
- Since the beginning of the year, IT shares have also risen significantly thanks to falling interest rates.

Total return of European equity sectors and European style indies, in euros and in percent, sorted by 4-week performance. The difference between Value and Growth lies in the valuation. A growth stock is highly valued because the company is expected to grow strongly. Value stocks usually have less growth potential and are valued lower.
Source: Factset, Time period: 13/01/2018 – 14/01/2022

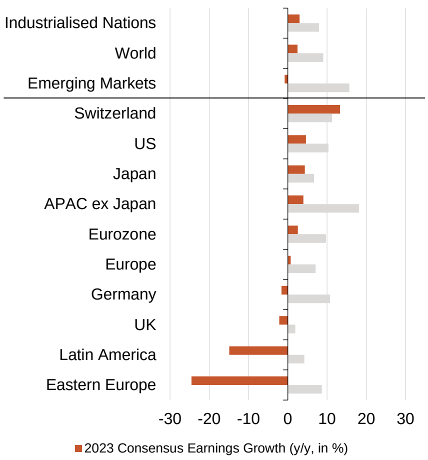
Changes in Consensus Earnings Estimates

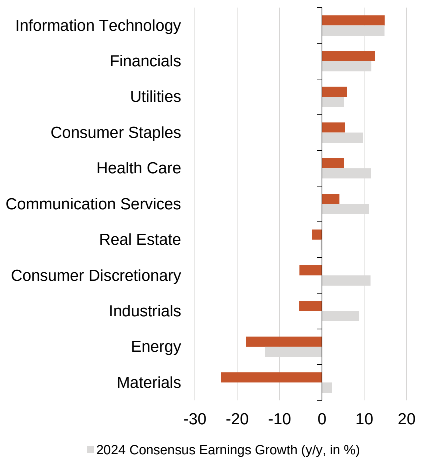


- In the run-up to the Q4 reporting season, analysts further reduced earnings estimates for the industrialised nations. This affected European and US equities in particular.
- The situation is different for emerging markets. There, earnings estimates have been benched upwards in the last four weeks with the opening of China. Commodity-heavy regions such as Latin America were able to benefit from this. In addition, eastern European equities saw clearly positive 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 13/01/2022

Earnings Growth

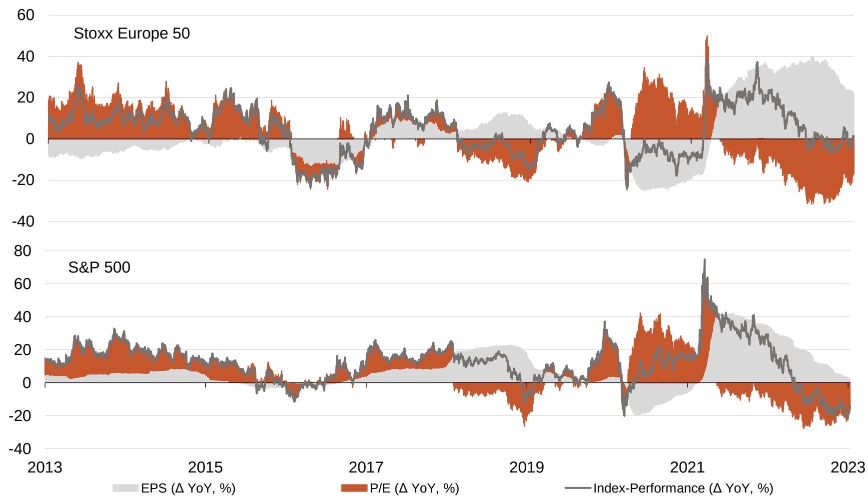




- Despite the recent positive earnings revisions, 2023 expected earnings growth for emerging markets remains negative.
- Industrialised nations, on the other hand, are likely to see a positive earnings trend, according to analysts. This development is led by equities from Switzerland and the US.
- In terms of sectors, analysts are most negative on basic materials 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 13/01/2022

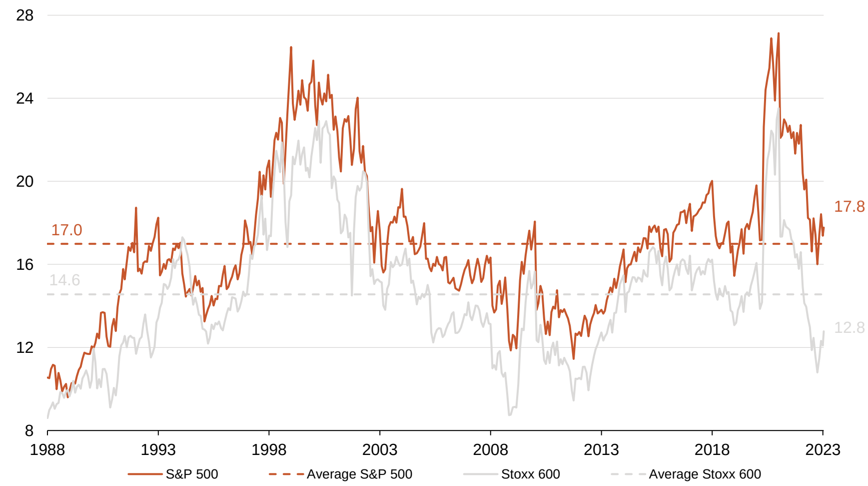
Contribution Analysis



- After the rally at the beginning of the year, European equities are again showing a positive year-on-year development. The movement was driven by a valuation expansion.
- US equities also recovered slightly. They also benefited from rising valuation ratios. The year-on-year development, on the other hand, continued to fall and was thus a burden.

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 - 13/01/2022

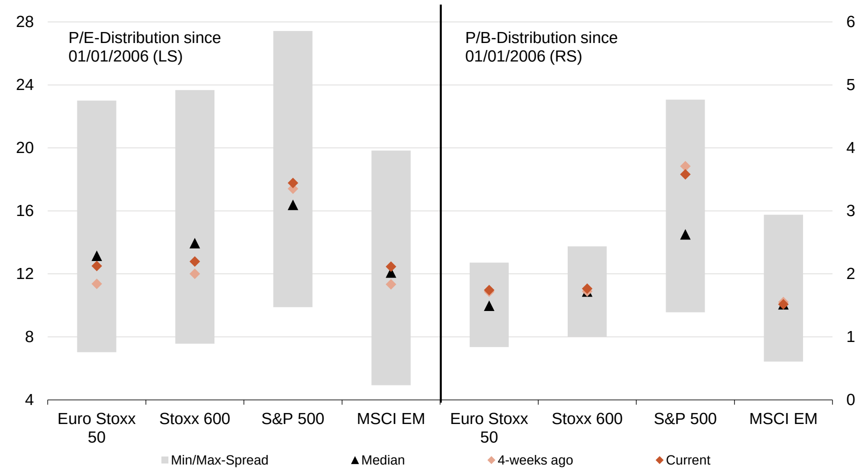
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- With the new year, valuations of European and US equities have risen. Hopes of a soft landing, thanks to falling inflation and thanks to China reopening, drove share prices up.
- European equities gained disproportionately thanks to the absence of the energy crisis and thus saw the strongest valuation expansion.

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 - 13/01/2022

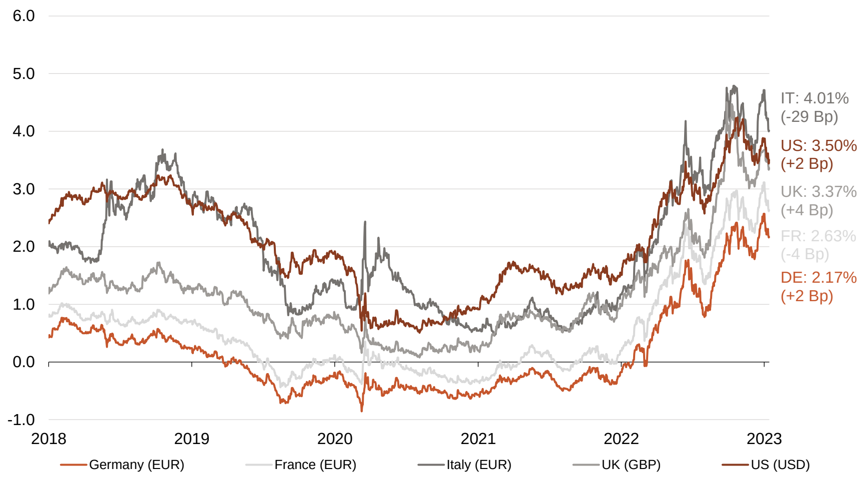
Historical Distribution: Price/Earnings and Price/Book Ratio



- Due to the negative earnings revisions and the positive price development, the Euro Stoxx 50 has become more expensive on a P/E basis in the last four weeks. On a P/B basis, however, the movement was less pronounced.
- The S&P 500, on the other hand, only became cheaper on P/E.
- Emerging-market equities are historically at a fair valuation level.

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 - 13/01/2022

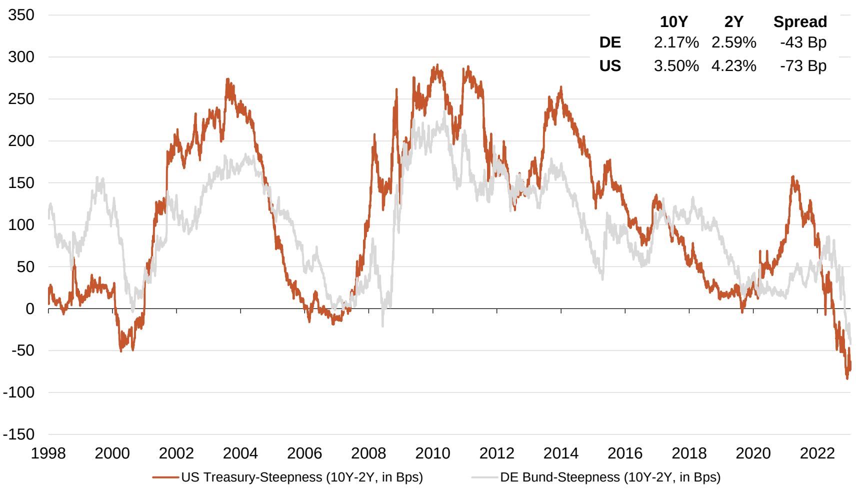
10-Year Government Bond Yields



- With the continued significant decline in US inflation, yields on safe government bonds have fallen significantly again.
- The sharpest decline in the last four weeks was in German government bonds, at around 30bp. The yields on US government bonds, on the other hand, have only fallen by just under 10bp.

Effective yield on 10-year government bonds and change over the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2018 – 13/01/2022

Yield Curve Steepness (10Y - 2Y)

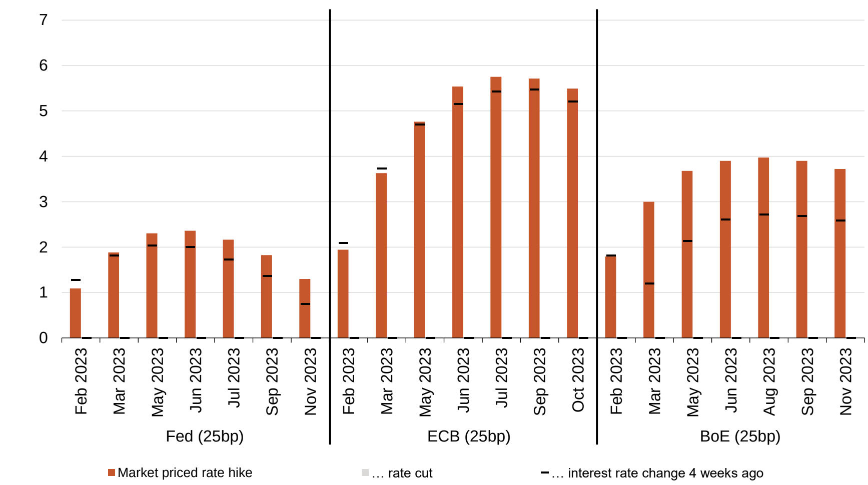


	10Y	2Y	Spread
DE	2.17%	2.59%	-43 Bp
US	3.50%	4.23%	-73 Bp

- The German and US yield curves remain inverted, which historically has often preceded a recession.
- In the event of a recession, however, there has historically often been a significant steepening of the yield curves as central banks have moved away from restrictive monetary policies.

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 – 13/01/2022

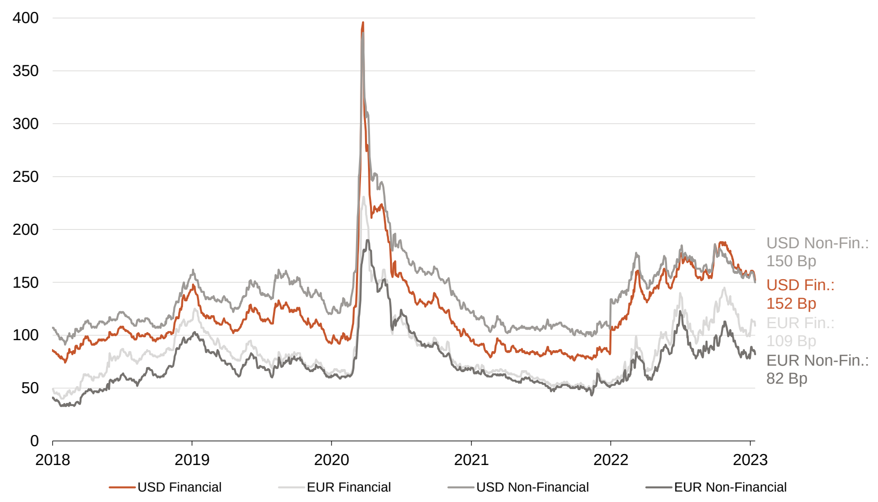
Implicit Changes in Key Interest Rates



- With US inflation falling significantly, the market is only pricing a rate hike of around 25bp by the Fed in February.
- For the ECB, the market is pricing in an interest rate hike of 50bp in February. The ECB has been much slower than the Fed in reacting to rising inflation and is thus still struggling with significantly higher inflation.

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: 16/12/2022 – 13/01/2022

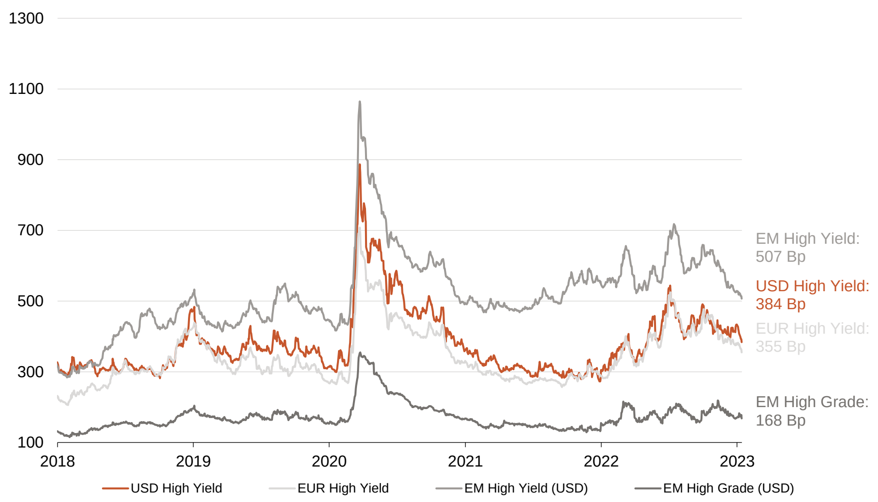
Credit Spreads Financial and Non-Financial Bonds



- Spreads on dollar and euro corporate bonds have moved in opposite directions in the last two weeks. They have fallen slightly for dollar corporate bonds, while they have risen for euro corporate bonds. The main driver of the rising spreads for euro bonds is probably the massive volume of new issues since the beginning of the year, which has never been so high in the first two weeks since data are available.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 – 13/01/2022

Credit Spreads High Yield and Emerging Markets Bonds



- The risk premiums for high-yield bonds, on the other hand, have fallen across the board with the risk-on environment. The strongest decline was seen in USD high-yield bonds with a spread narrowing of more than 40 basis points in the last two weeks.
- Emerging-market high-yield bonds benefited from the better sentiment towards China, in addition to the risk-on environment.

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: 01/01/2018 – 13/01/2022

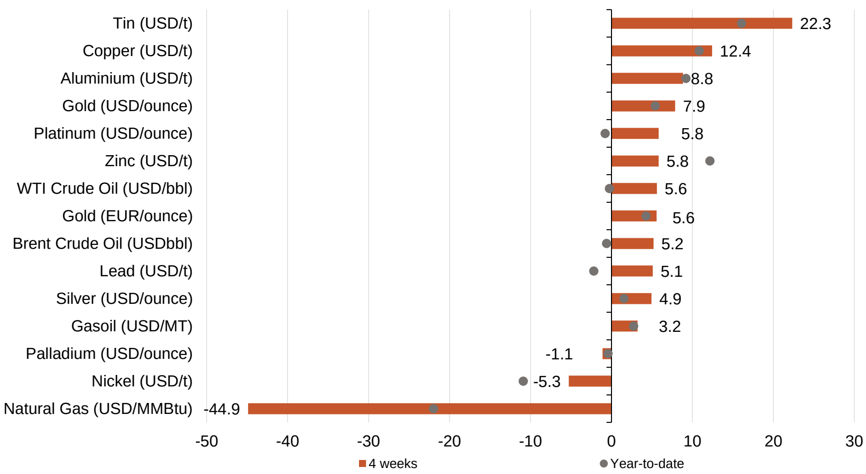
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	13/01/22 13/01/23	13/01/21 13/01/22	13/01/20 13/01/21	13/01/19 13/01/20	13/01/18 13/01/19
EUR Government	2.81	0.31	7.2	-	-	-	-2.0	2.8	-15.7	-3.5	4.8	6.8	1.2
Germany	2.23	0.32	7.2	-	-	-	-2.1	2.4	-15.2	-2.7	2.8	2.7	3.3
EUR Corporate	3.92	0.22	4.6	93	3	72	-0.5	2.0	-12.0	-1.4	2.7	6.4	-1.1
Financial	4.13	0.26	3.9	109	6	79	-0.5	1.5	-10.3	-0.8	2.2	6.0	-1.4
Non-Financial	3.79	0.19	5.0	82	0	67	-0.5	2.3	-12.9	-1.7	3.0	6.6	-0.9
EUR High Yield	7.07	-0.16	3.2	355	-33	58	1.4	2.5	-9.3	2.9	2.9	10.7	-3.2
US Treasury	3.87	-0.03	6.5	-	-	-	0.4	2.4	-9.6	-2.7	6.6	7.5	1.5
USD Corporate	5.14	-0.06	7.1	151	-4	72	0.8	3.2	-11.3	-1.5	8.2	14.3	-1.4
Financial	5.34	-0.05	5.2	152	-4	81	0.8	2.4	-9.4	-1.5	8.0	12.6	-0.6
Non-Financial	5.04	-0.07	7.9	150	-4	66	0.8	3.6	-12.2	-1.5	8.2	15.0	-1.8
USD High Yield	8.16	-0.19	4.3	384	-11	50	1.5	3.9	-7.2	4.6	5.7	11.5	0.1
EM High Grade	5.46	-0.15	5.3	168	-14	36	1.0	1.8	-11.6	-0.5	4.4	11.8	-0.1
EM High Yield	9.81	-0.52	3.9	507	-32	38	2.9	2.9	-10.4	-5.7	7.1	12.9	-1.2

- Analogous to equities and in contrast to 2022, bonds have been able to make significant gains since the beginning of the year. The main driver was falling yield levels. Spreads, on the other hand, did not move much.
- European government bonds and USD corporate bonds developed very positively.

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 : 13/01/2018 – 13/01/2022

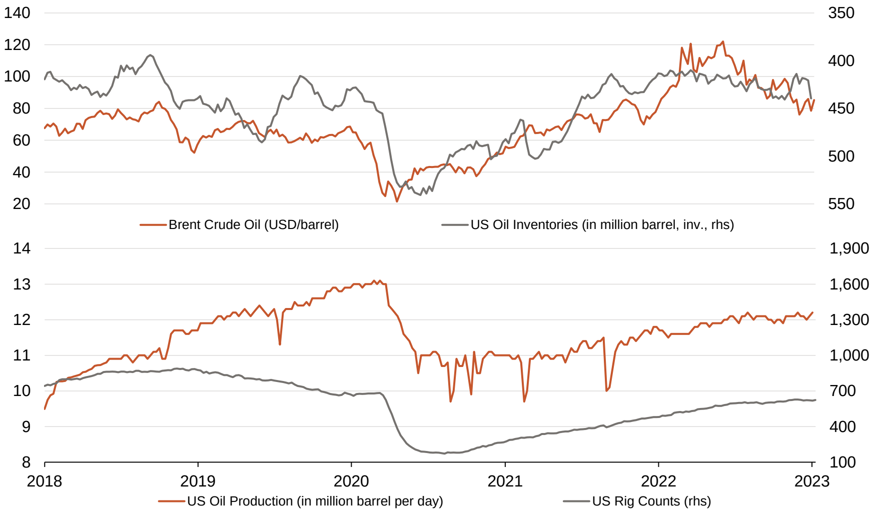
Commodities Performance



- The commodity markets showed a mixed picture over the last four weeks: Natural gas, one of last year's winners, started the new year with heavy losses – the energy commodity lost almost 45% over the last four weeks.
- Conversely, tin, a clear loser in 2022, took first place with a gain of almost 22%.
- The precious metals gold, platinum and silver also started the new year positively.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period:31/12/2022 - 14/01/2023

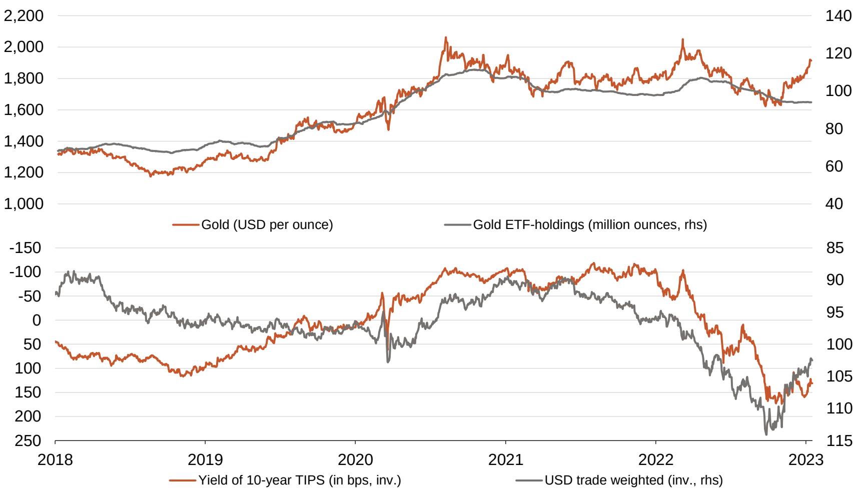
Crude Oil



- Crude oil broke the downward trend of the last few months, which had picked up speed again at the turn of the year, from the second week of January onwards, gaining almost 6% since the recent low on hopes of economic recovery and China reopening. In the medium term, the possible increase in the strategic US reserve and, in the long term, the problem of years of underinvestment remain drivers for new momentum. Oil thus holds recovery potential.

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: 01/01/2018 - 14/01/2023

Gold



- Gold gained nearly 8% in US dollar since the beginning of the year. The upward movement was driven not only by increased demand from central banks due to the de-dollarisation, but also by positive momentum. Looking ahead, technical factors such as a golden cross are likely to provide further support in the short term. Nevertheless, the diversification effect and the upside potential remain limited without a Fed pivot.

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: 01/01/2018 - 13/01/2023

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IMPORTANT NOTICES

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