MONITOR

30 January 2023

Current market commentary

The rally in the financial markets has continued over the last two weeks. The DAX could have had its best start to the year since the 1970s. Better-than-feared corporate results, positive macro surprises in Europe and hopes for China were helpfull. The latter also supported commodities, with the price of crude oil approaching the USD 90 mark again. We now view the short-term upside potential for European equities as limited, mainly because systematic strategies are now much more exposed. However, the fact that there have been equity inflows again in Europe over the last two weeks after 48 consecutive weeks of outflows should be supportive in the medium term – an indication that fundamental investors now view Europe more positively again. Further development of the markets is likely to be shaped by the major central bank meetings. The still-robust labour market and rising commodity prices could put a damper on the emerged rate cut hopes.

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

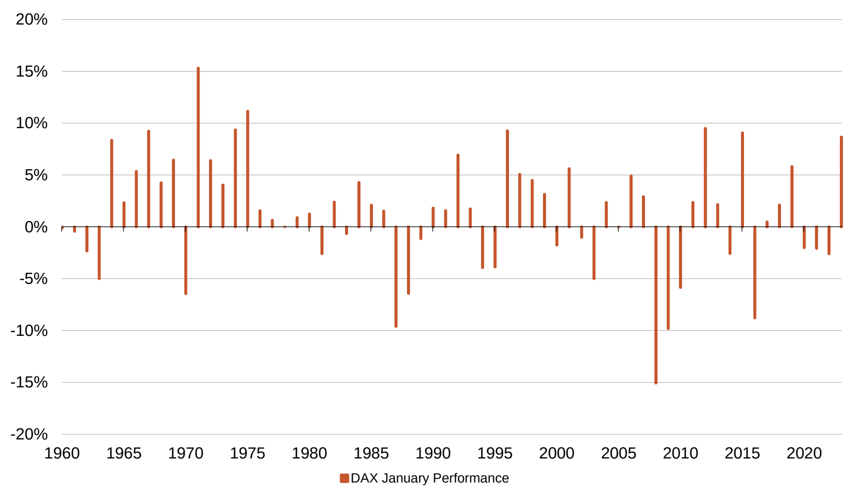
Investors focus on central bank meetings and the direction of monetary policy as inflation falls.

In addition to the Q4 reporting season, which is mostly over by the end of February, investors are likely to look forward to the US Federal Reserve's (Fed) central bank meeting on 1 February and the European Central bank (ECB) and Bank of England meetings on 2 February. The EU-Ukraine summit will also take place on 3 February.

Economic data intensive week ahead, incl. the important American labour market data.

On Tuesday, Q4 growth figures for Europe, inflation figures (Jan.) for Germany and France, Purchasing Managers' Indices (PMI, Jan) for China and US Consumer Confidence (Jan) are due. Manufacturing PMIs (Jan) for Europe and the US and German retail sales (Dec) will be released on Wednesday. The service PMIs (Jan.) for Europe and the US as well as the US labour market data (Jan.) will follow on Friday. In the following week, German industrial production data (Dec.) and factory orders (Dec.) will be published.

The DAX showed itself from its best side in January



- Strong pessimism, the absence of a gas shortage and China's opening up gave the DAX wings in January.
- Should the DAX rise by another 0,6% by the end of the month, it would be the best January since 1975. Is that a good omen? If the DAX gained more than 8% in January, which has been the case nine times since 1960, it gained a median of 8.7% from February to the end of the year. However, the range was from -7.5% (1971) to 38.2% (1967). When start to the year was this good, the DAX has never lost on a calendar year basis.

Source: Bloomberg, Time period: 31/12/1959 - 27/01/2023

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (30/12/22 - 27/01/23)	YTD (30/12/22 - 27/01/23)	27/01/22 27/01/23	27/01/21 27/01/22	27/01/20 27/01/21	27/01/19 27/01/20	26/01/18 27/01/19
MSCI Emerging Markets	8.4	8.4	-6.9	-3.4	15.4	13.5	-9.4
REITs	7.7	7.7	-8.2	27.3	-17.8	21.9	9.3
Industrial Metals	5.7	5.7	2.4	47.7	12.5	-1.4	-7.1
MSCI World	5.6	5.6	-1.8	21.0	5.6	24.3	-1.0
Global Convertibles	4.7	4.7	-3.4	-3.1	38.7	22.8	6.9
Gold	4.1	4.1	10.0	5.9	6.1	25.7	5.2
MSCI Frontier Markets	3.3	3.3	-17.3	23.1	-7.4	18.1	-10.7
EUR Coporates	2.4	2.4	-11.4	-2.0	1.8	6.6	-0.6
EUR Sovereign Debt	1.7	1.7	-9.9	-1.9	1.1	3.5	1.3
Euro overnight deposit	0.1	0.1	0.2	-0.6	-0.5	-0.4	-0.4
Brent	-1.0	-1.0	28.3	90.8	-25.7	10.5	0.1
USDEUR	-1.5	-1.5	2.6	8.7	-9.0	3.5	9.0

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

- After a challenging past year, most asset classes made a strong start to the new year.
- Emerging market equities led the way, benefiting from the boost in demand with the opening of China, as did industrial metals. Interest-rate-sensitive REITs and the precious metal gold also shone.
- The dollar depreciated last on hopes that the Fed would soon pause interest rate hikes.

Total return for selected asset classes, in euros and in per-cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/01/2018 – 27/01/2023

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (30/12/22 - 27/01/23)	YTD (30/12/22 - 27/01/23)	27/01/22 27/01/23	27/01/21 27/01/22	27/01/20 27/01/21	27/01/19 27/01/20	26/01/18 27/01/19
Stoxx Europe Cyclicals	10.7	10.7	-1.7	21.8	1.7	15.4	-13.5
Euro Stoxx 50	10.3	10.3	2.4	20.6	-1.9	19.5	-10.9
MSCI EM Asia	9.5	9.5	-5.6	-9.0	26.1	16.8	-10.9
DAX	8.8	8.8	-2.4	14.0	3.1	17.0	-15.4
Stoxx Europe Small 200	8.6	8.6	-10.8	12.8	6.7	18.1	-8.7
MSCI EM Eastern Europe	8.2	8.2	-78.2	18.6	-19.0	24.5	2.5
MSCI USA Small Caps	7.5	7.5	4.9	8.2	14.4	17.7	2.8
Stoxx Europe 50	5.8	5.8	5.1	22.6	-4.3	22.0	-8.9
MSCI Japan	5.3	5.3	-0.5	-0.9	7.9	16.7	-7.2
MSCI UK	5.1	5.1	2.4	28.4	-14.0	16.0	-6.3
S&P 500	4.6	4.6	-2.0	27.3	7.0	28.6	3.2
Stoxx Europe Defensives	2.5	2.5	2.9	18.3	-5.9	20.8	0.6

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

- Over the last four weeks, there have been gains across all equity segments listed here. European equities led the way. This is because companies reported better-than-expected in the current reporting season and the re-opening in China – an important sales market for many European companies, especially in the luxury segment – provided a tailwind.
- The DAX could even experience its best start to the year since the 1970s (see chart on front page), the S&P 500 its best January since 2019.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/01/2018 – 27/01/2023

Fixed Income

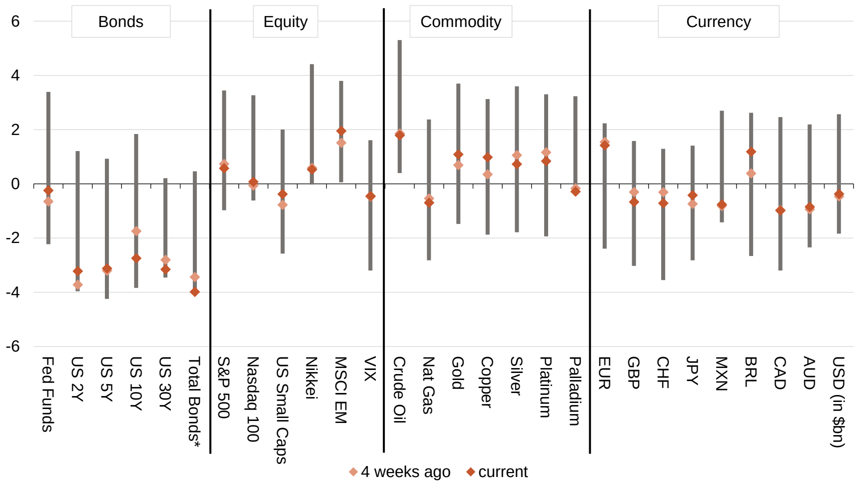
	4-week & YTD		12-month periods over that last 5 years				
	4W (30/12/22 - 27/01/23)	YTD (30/12/22 - 27/01/23)	27/01/22 27/01/23	27/01/21 27/01/22	27/01/20 27/01/21	27/01/19 27/01/20	26/01/18 27/01/19
USD High Yield	4.0	4.0	-5.4	2.5	6.8	9.8	0.6
Gilts	3.8	3.8	-24.5	-1.5	-1.3	14.2	4.0
USD Corporates	3.7	3.7	-9.6	-3.2	6.8	15.3	-0.4
EUR High Yield	3.3	3.3	-7.7	2.0	3.0	9.6	-2.7
BTPs	3.2	3.2	-13.9	-3.1	4.8	12.2	-1.0
EM Local Currency Bonds	3.1	3.1	-4.5	0.2	-7.1	12.6	1.0
EUR Non-Financials	2.4	2.4	-11.9	-2.3	1.9	7.0	-0.4
Bunds	2.4	2.4	-15.4	-3.0	1.2	4.1	3.7
EUR Financials	2.3	2.3	-10.6	-1.5	1.6	6.1	-0.8
EM Hard Currency Bonds	2.2	2.2	-9.7	4.7	-5.8	15.6	8.0
Treasuries	0.7	0.7	-6.1	4.6	-4.2	13.0	11.1
Chinese Gov Bond	0.1	0.1	2.6	6.3	2.1	4.7	8.9

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

- Cooler inflation data, optimism about an end to the recession and hopes of a fading need for further rate hikes boosted bond markets recently.
- Another driver was the shift from equities into bonds as investors seek to hedge against a slowdown in growth that would hit equities particularly hard.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/01/2018 – 27/01/2023

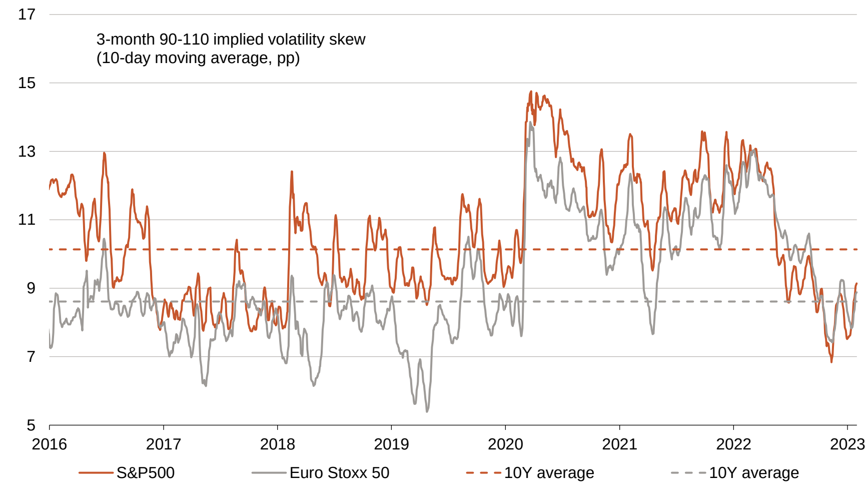
Non-Commercial Positioning



- Hedge funds have increased their long positions in gold, copper and MSCI EM as China has started to re-open.
- They have increased their shorts in 10Y Treasuries again after interest rates in the US fell significantly.

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: 24/01/2013 - 24/01/2023

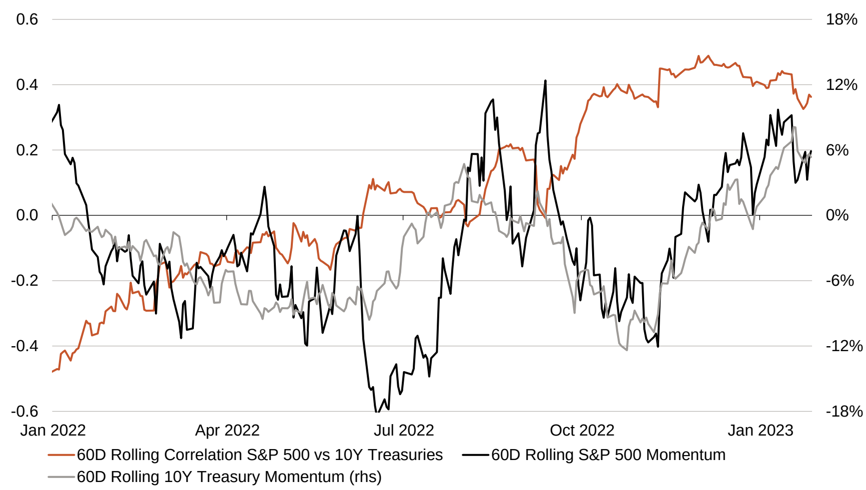
Put-Call-Skew



- The skew has steepened somewhat in the last two weeks. In Europe it is now around the 10-year average. In the USA it is still below that.
- Investors remain optimistic but have recently been willing to pay a little more money for protection, as the rise in the put-call skew can be explained primarily by the steeper put skew (90-100).

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: 27/01/2013 - 27/01/2023

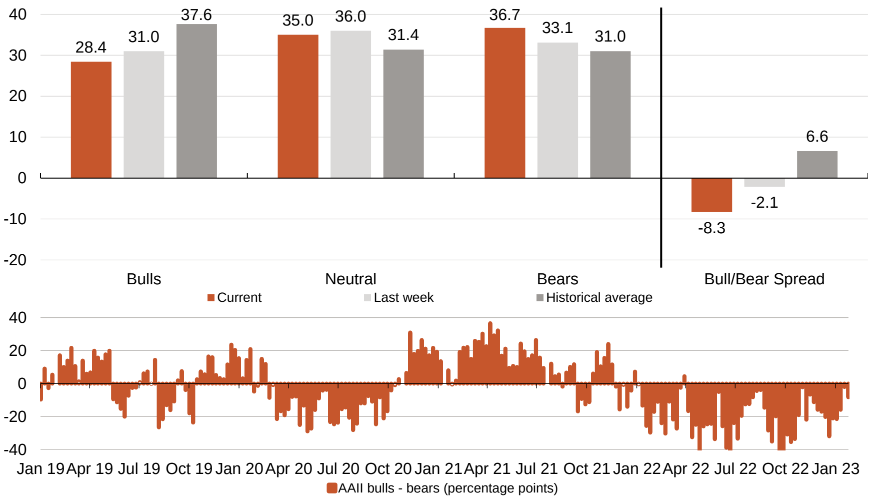
60-Day Momentum and Correlation



- The rally in equity and bond markets has stalled somewhat in recent weeks. This has weakened the momentum, although it remains positive.
- CTAs should therefore continue to demand equities, not least thanks to the decline in realised volatility.

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 - 27/01/2023

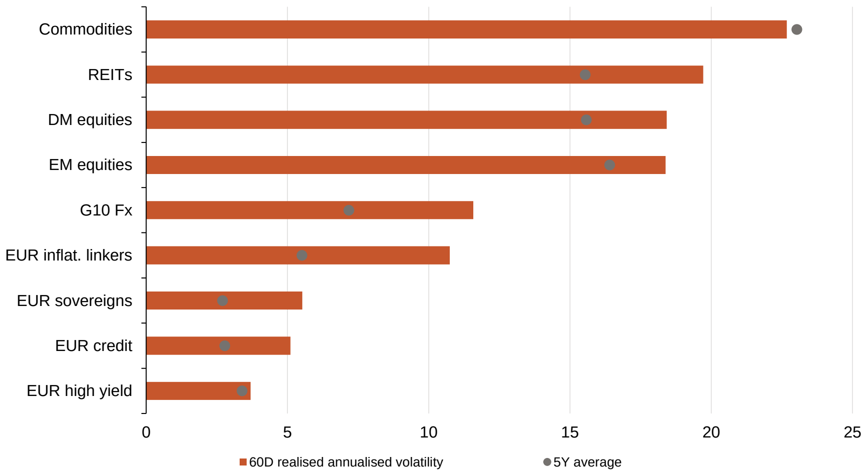
AAII Sentiment Survey (Bulls vs Bears)



- The bull/bear spread reached -2.1 ppts in the previous week, its highest level since March 2022.
- Recently, US private investors have become somewhat more pessimistic again. However, the proportion of investors with a neutral outlook for the next 6 months is also strikingly high.

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 – 26/01/2023

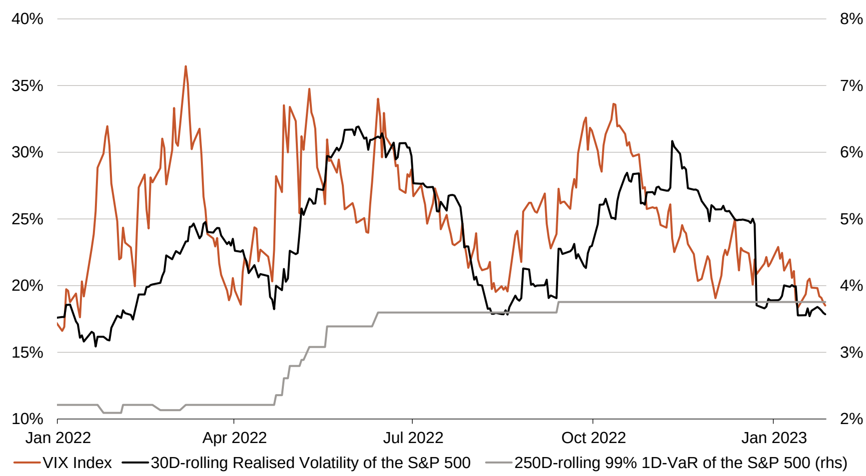
Realised Volatilities



- Realised volatility over the last 60 days is below average only for commodities.
- Emerging market equities have recently been less volatile than their developed market counterparts.
- Within bonds, government bonds exhibit the highest volatility. This is probably mainly due to the higher duration relative to corporate and high-yield bonds.

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: 27/01/2018 - 27/01/2023

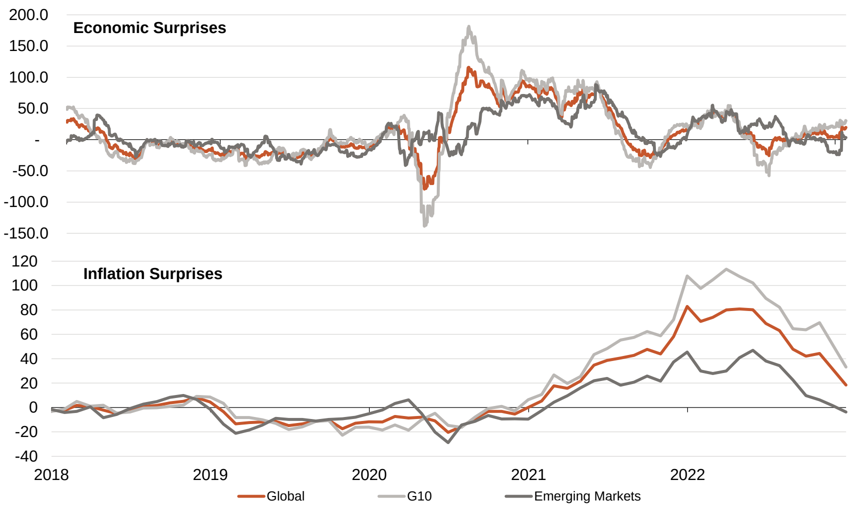
Volatility and Value-at-Risk of the S&P 500



- The VIX is currently below the 20 mark and realised volatility is also trading below this level.
- The small difference between realised and implied volatility suggests that investors expect similar volatility over the next 30 days as over the 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: 31/12/2021 – 27/01/2023

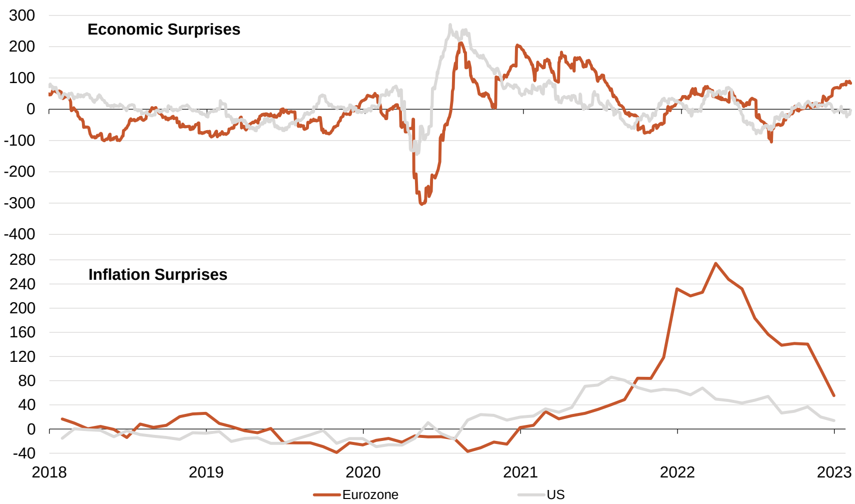
Global



- The solid economic surprise indices illustrate the robustness of the global economy. Both the global and G10 indices have risen over the last four weeks.
- It is also worth noting how clearly the economic data for the emerging markets are developing contrary to market expectations. The index even turned positive again recently. Year-on-year GDP expectations in China were almost twice as high as expected, while retail sales were almost 7% better than expected.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 27/01/2023

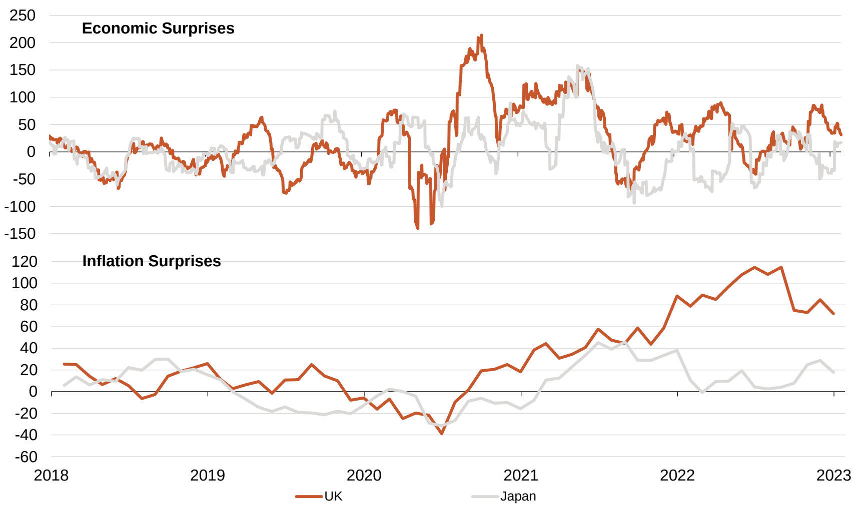
Eurozone and US



- In the US, negative economic surprises have continued to dominate in recent weeks. Here, the labour market data and the quarterly GDP surprised positively. Nevertheless, there are still fewer housing starts than expected and industrial production also surprised negatively.
- In the eurozone, on the other hand, the economic data are as positively above market expectations as they were last in the summer of 2021. Here, the purchasing managers' data for the eurozone and also the ZEW survey for German expected economic growth were well above expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 27/01/2023

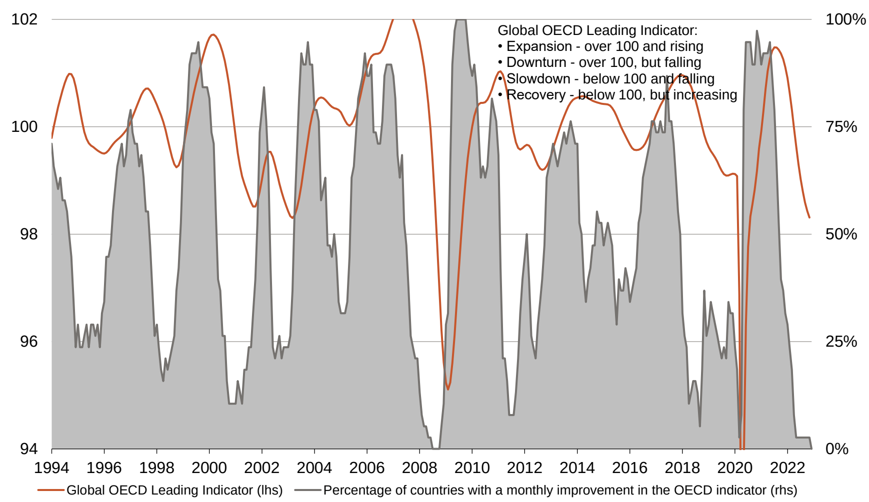
UK and Japan



- In Japan, core machinery orders were below expectations, but the trade balance surprised positively.
- In the UK, purchasing managers' data exceeded expectations, while retail sales and the services PMI came in below expectations.

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 - 27/01/2023

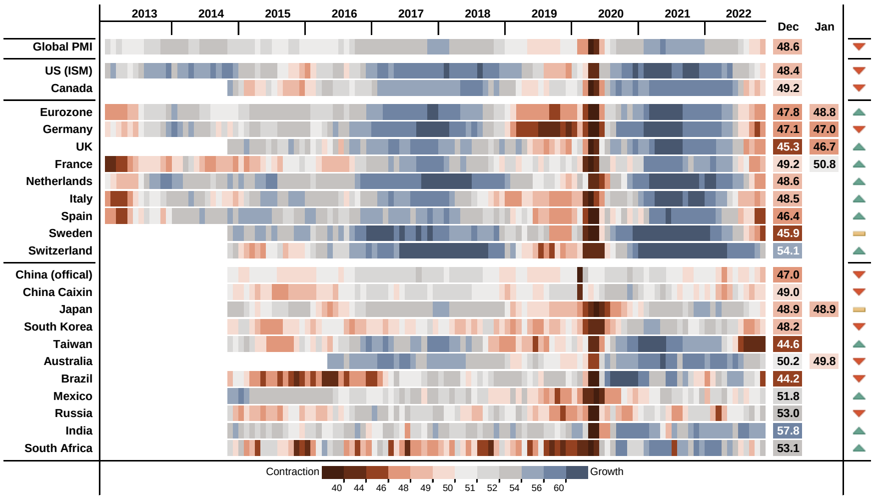
OECD Leading Indicator



- The OECD Leading Indicator for December continued its downward trend since summer 2021. With a value of 98.3, it is as low as it was last in August 2020.
- At the country level, the gloomy economic picture is confirmed. Not a single country was able to improve on the previous month. The last time this happened was during the financial crisis 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 - 30/12/2022

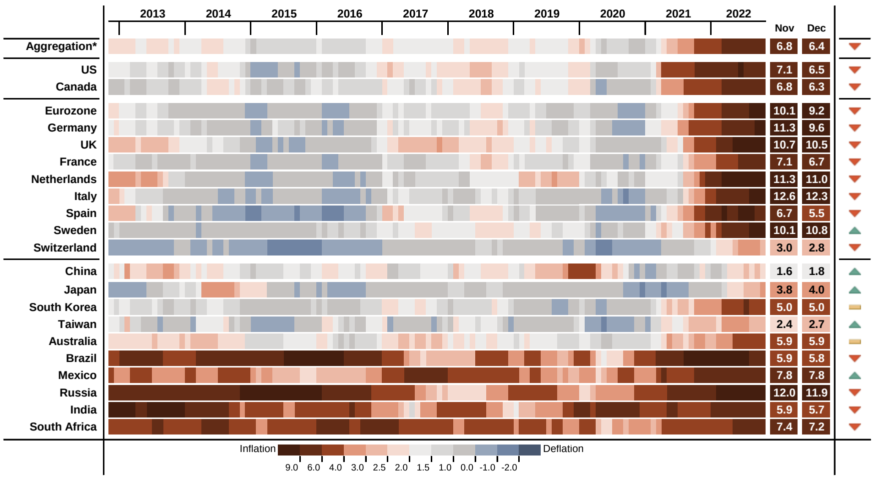
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The preliminary January PMIs do not show a clear picture so far. While industrial activity rose in the Eurozone, the UK and France, it fell in Germany and Australia. Australia is below the core 50 mark for the first time since summer 2020, while France is now back above it.

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: 27/01/2012 - 27/01/2023

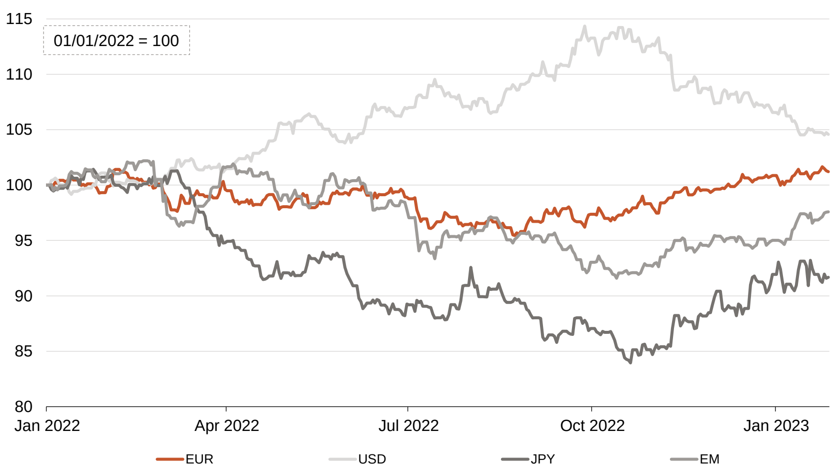
Headline Inflation



- Inflation data for December came in much cooler than the previous month for the US and the Eurozone. In Germany, inflation dropped almost a full percentage point.
- In China, Taiwan, Sweden and Mexico, on the other hand, the inflation rate increased compared to the previous month.

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: 27/01/2012 - 27/01/2023

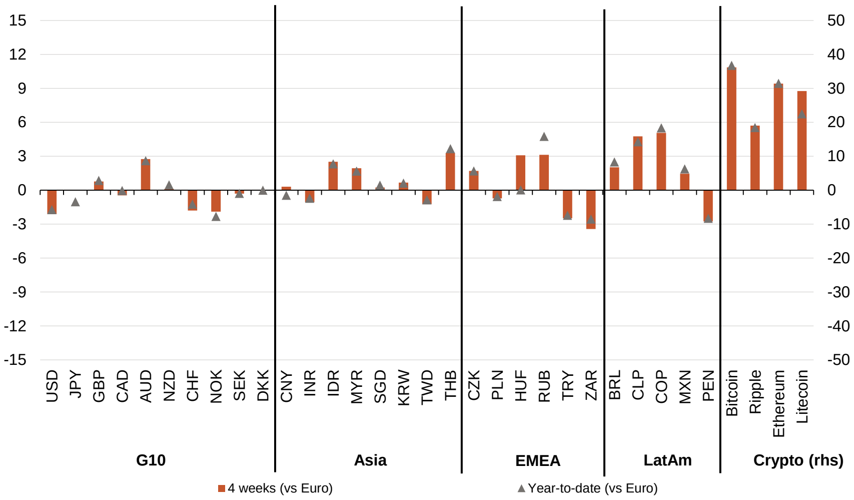
Trade-Weighted Currency Development



- Trends in the currency markets remained largely intact.
- The US dollar continued to depreciate, albeit at a reduced pace.
- The euro and emerging market currencies, on the other hand, continued to appreciate.
- The Japanese yen traded volatile sideways after the Bank of Japan dispelled rumours of a further widening of the yield curve control.

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 - 27/01/2023

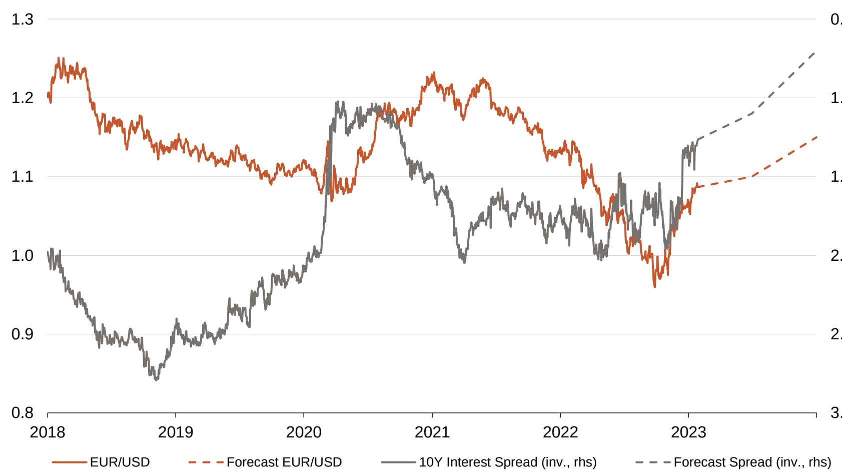
Currency Moves vs Euro



- Developments against the euro have been mixed since the beginning of the year. Among the G10 currencies, safe havens such as the dollar, the Japanese yen and the Swiss franc were the main losers.
- Latin American currencies performed very well for the most part. Only the Peruvian sol posted significant losses due to the outbreak of violence following the arrest of President Castillo.
- Cryptocurrencies gained more than 30% in some cases.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2022 - 27/01/2023

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



- Last week, the EUR/USD exchange rate broke through the 1.09 mark for the first time since April 2022.
- While investors are already expecting the first interest rate cuts from the Fed starting in summer this year, they are much less optimistic about the ECB. This is providing a tailwind for 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: 01/01/2018 - 31/12/2023

European Sector & Style Performance

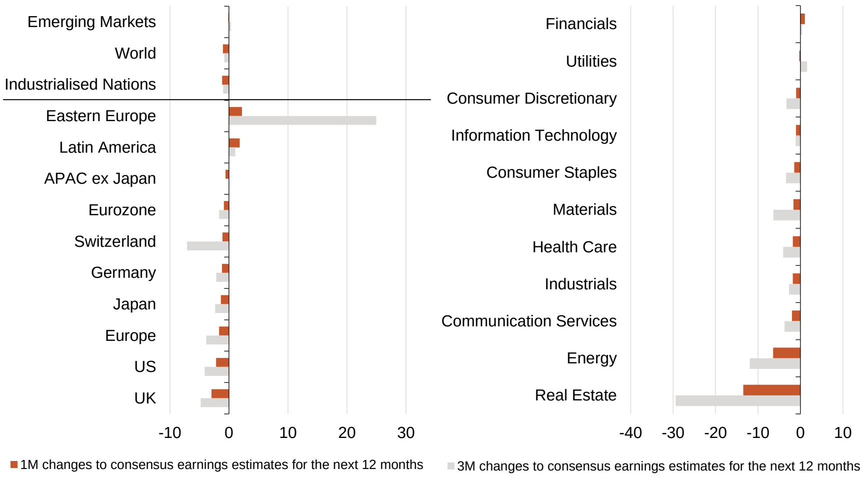
	4-week & YTD		12-month periods over that last 5 years				
	4W (30/12/22 - 27/01/23)	YTD (30/12/22 - 27/01/23)	27/01/22 27/01/23	27/01/21 27/01/22	27/01/20 27/01/21	27/01/19 27/01/20	26/01/18 27/01/19
Consumer Discretionary	15.2	15.2	0.7	18.1	9.1	18.6	-10.8
Communication Services	14.9	14.9	-4.7	13.2	15.5	27.9	-0.1
Finance	10.9	10.9	2.6	35.8	-13.8	9.7	-17.8
Industrials	9.0	9.0	-1.1	17.2	4.0	26.7	-9.8
Materials	8.7	8.7	-1.6	23.1	16.8	12.1	-10.9
Telecommunications	8.6	8.6	-5.4	11.2	-10.8	4.3	-10.3
Growth	7.4	7.4	-2.1	14.4	5.6	27.4	-6.1
Value	7.0	7.0	1.7	25.4	-9.9	10.3	-10.0
Utilities	3.5	3.5	-3.8	6.8	3.7	32.1	10.1
Energy	2.0	2.0	20.4	48.1	-27.9	1.4	0.3
Consumer Staples	0.7	0.7	-4.6	16.8	-5.2	23.6	-5.0
Health Care	0.5	0.5	2.1	13.4	-0.1	31.4	-0.3

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 decline in economic pessimism has given cyclical sectors such as consumer cyclicals, IT, financials, industrials and basic materials significant tailwinds since the beginning of the year.
- The strong sectors from 2022 such as energy or health, on the other hand, performed less well.
- Growth and Value performed similarly.

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: 26/01/2017 – 27/01/2023

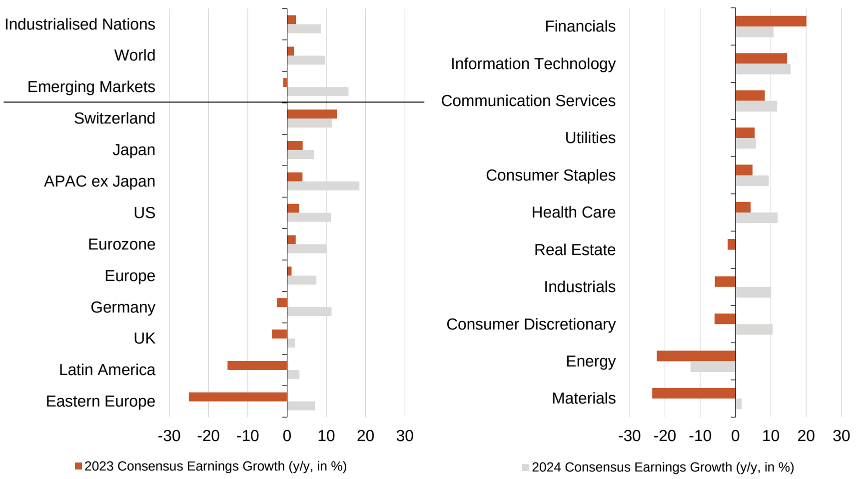
Changes in Consensus Earnings Estimates



- In line with the prospect of a mild global recession, analysts have only slightly reduced global earnings expectations.
- Negative profit revisions mainly affected industrialised nations. The profit outlook for companies in US and UK was reduced the most.
- Positive profit revisions, on the other hand, were observed in emerging market regions such as Eastern Europe and Latin America.

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 27/01/2023

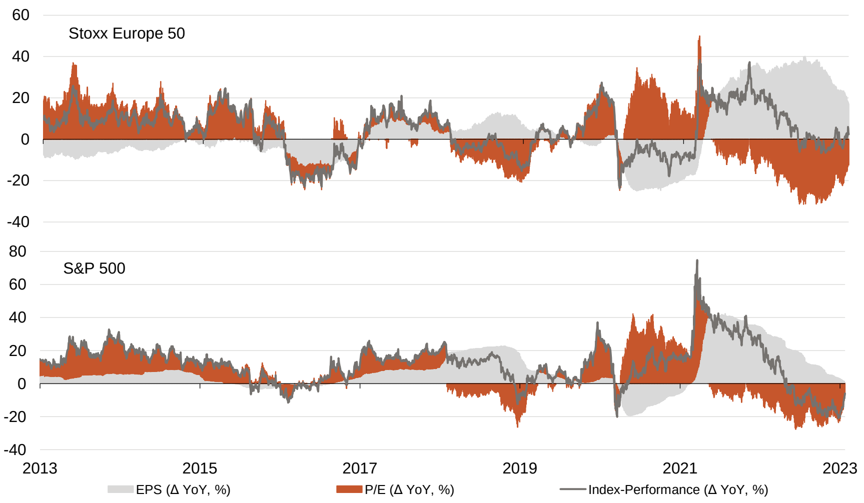
Earnings Growth



- Earnings growth in 2023 is expected to be below 3% following recent negative earnings revisions in developed markets, according to the consensus. Emerging markets should even see negative growth despite China reopening.
- However, the Q4 reporting season is going better than expected so far. The bulk of the S&P 500 and STOXX 600 companies have yet to report.

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 27/01/2023

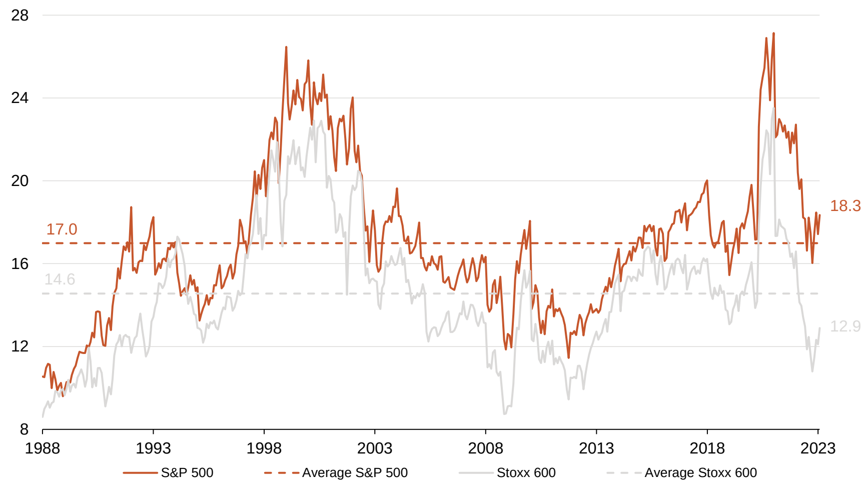
Contribution Analysis



- The valuation expansion that has been ongoing since the beginning of the year has helped the year-on-year performance of the Stoxx Europe 50 back into positive territory.
- The S&P 500 also experienced a valuation expansion. However, due to the pronounced weakness in earnings growth, this was not sufficient for positive year-on-year developments.

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 - 27/01/2023

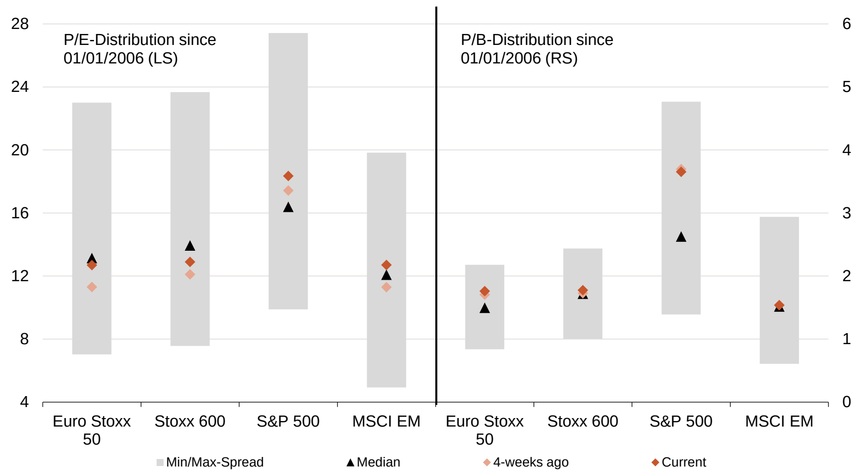
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The rally since the beginning of the year has pushed up the valuation of US and European equities. Hopes of only a mild recession with simultaneously falling inflation and thus less restrictive monetary policy were the main drivers.
- This was accompanied by short covering, also due to the absence of an energy crisis, which gave European equities in particular a tailwind. The valuation premium for US equities has thus recently narrowed somewhat.

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 - 27/01/2023

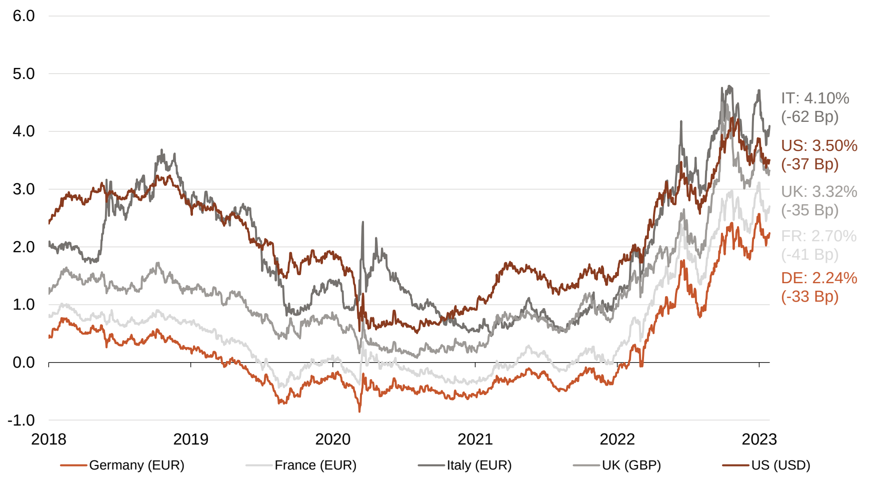
Historical Distribution: Price/Earnings and Price/Book Ratio



- After the good performance of the Euro Stoxx 50 in the last four weeks, the P/E ratio is no longer historically low, and the P/B ratio is even slightly elevated.
- For the Stoxx 600, which also includes Swiss and UK companies, and the MSCI EM, the valuation ratios are close to the historical median.
- The S&P 500, on the other hand, remains expensively valued.

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 - 27/01/2023

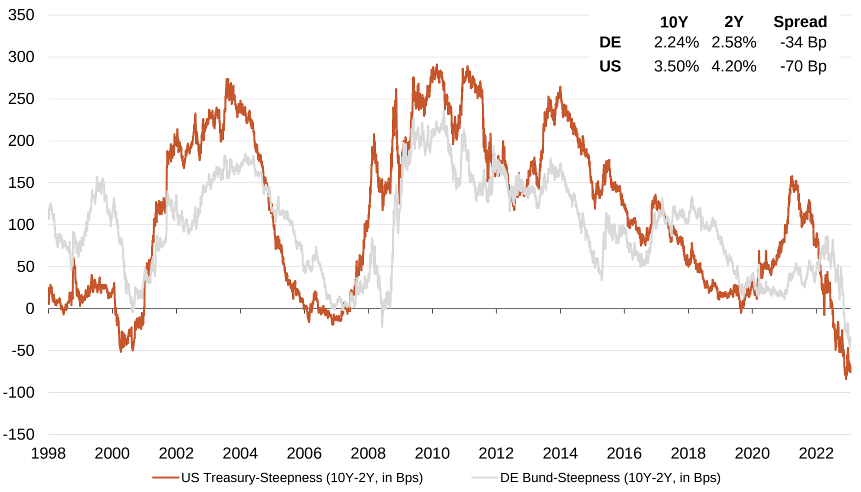
10-Year Government Bond Yields



- Volatility in the bond market will continue in 2023. Recently, yields on safe government bonds have declined noticeably due to the significant fall in inflation.
- Italian government bonds experienced the sharpest yield decline in the last four weeks. After just under 5% at the end of 2022, the current yield now stands at around 4%.

Effective yield on 10-year government bonds and change over the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2018 - 27/01/2023

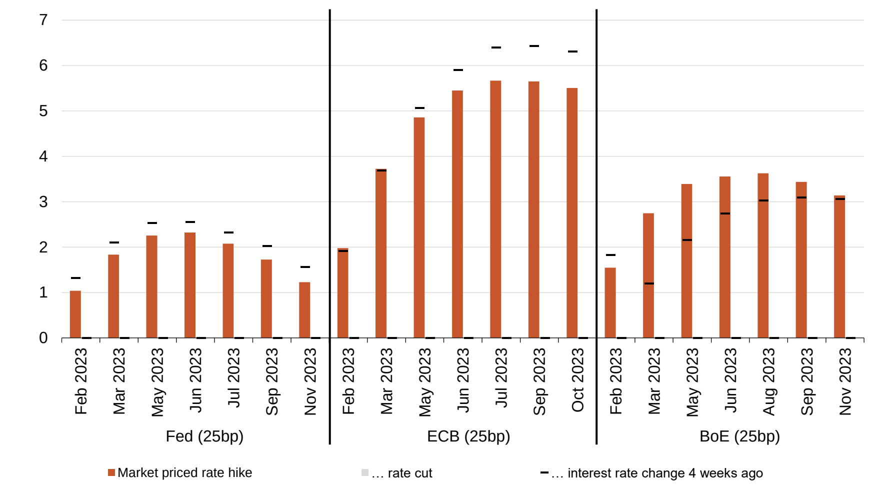
Yield Curve Steepness (10Y - 2Y)



- The German and the US yield curves have moved only slightly in the last two weeks. Both are now slightly less inverted.
- We assume a steepening of the curve in the medium term in the event of a recession with falling inflation

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 - 27/01/2023

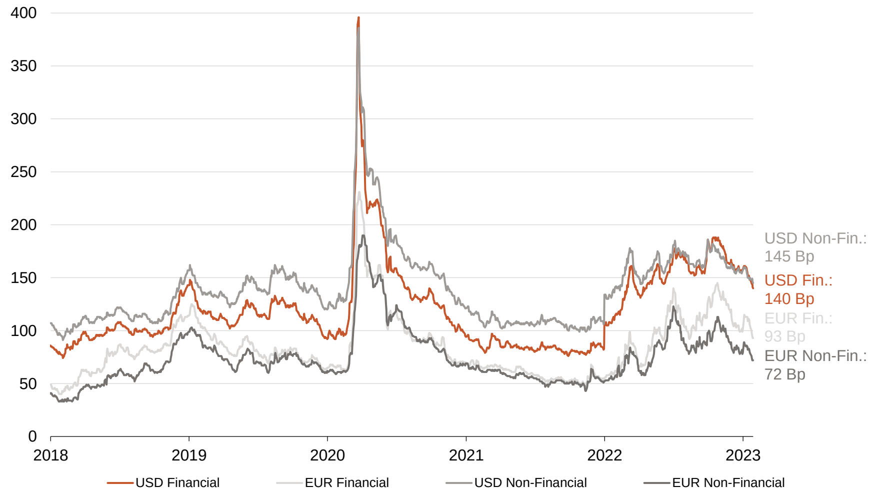
Implicit Changes in Key Interest Rates



- All three major central banks are meeting this week. On Wednesday the market expects the Fed and on Thursday the Bank of England to raise interest rates by roughly 25 basis points (bp).
- On the other hand, the market expects the ECB to raise rates by 50bp on Thursday, partly because it has so far raised rates much more slowly than the Fed or BoE and thus lags in the interest rate cycle.

Derivatives on money market interest rates - such as the fed funds futures - can be used to determine the change (number of steps) in the key interest rate priced by the market.
Source: Bloomberg, Time period: 30/12/2022 - 27/01/2023

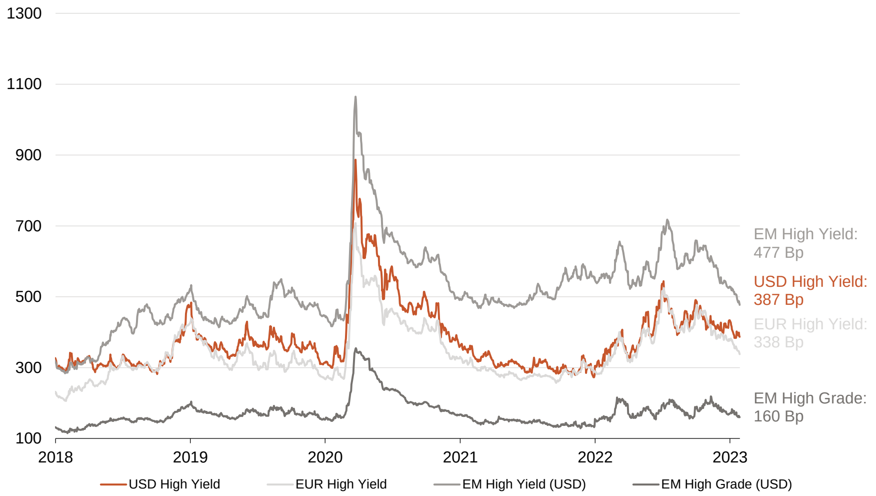
Credit Spreads Financial and Non-Financial Bonds



- As the likelihood of a hard recession has diminished, spreads in the global bond universe have fallen significantly.
- In USD investment grade corporate bonds, especially the cyclically sensitive financial bonds experienced a spread narrowing in the last two weeks.
- In EUR-IG, both segments experienced noticeably falling spreads.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 – 27/01/2023

Credit Spreads High Yield and Emerging Markets Bonds



- With the risk-on sentiment since the beginning of the year, spreads on risk-sensitive high-yield bonds have also fallen significantly. Spreads have fallen more strongly for EUR than for USD high-yield bonds.
- Spreads on emerging market high yield bonds are now trading below 500bp and are the lowest they have been since 2021.

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 – 27/01/2023

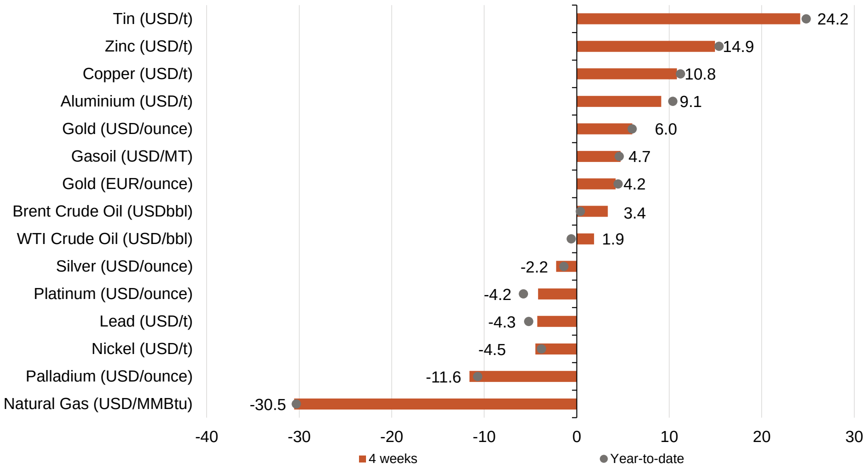
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	27/01/22 27/01/23	27/01/21 27/01/22	27/01/20 27/01/21	27/01/19 27/01/20	27/01/18 27/01/19
EUR Government	2.88	-0.25	7.2	-	-	-	2.3	2.4	-15.7	-3.7	2.7	7.9	2.0
Germany	2.30	-0.20	7.2	-	-	-	2.0	2.0	-15.4	-3.1	1.2	4.1	3.7
EUR Corporate	3.89	-0.34	4.6	80	-7	56	2.3	2.2	-11.3	-1.9	1.8	6.6	-0.4
Financial	4.07	-0.30	3.8	93	-7	60	2.0	1.9	-9.5	-1.3	1.6	5.7	-0.5
Non-Financial	3.78	-0.37	5.0	72	-8	52	2.4	2.4	-12.3	-2.2	1.9	7.1	-0.4
EUR High Yield	6.98	-0.67	3.2	338	-37	49	3.3	3.3	-7.7	2.0	3.0	9.6	-2.7
US Treasury	3.90	-0.27	6.4	-	-	-	2.5	2.4	-8.9	-3.7	5.3	9.4	1.8
USD Corporate	5.09	-0.42	7.0	143	-13	63	3.7	3.7	-9.6	-3.2	6.8	15.3	-0.4
Financial	5.23	-0.44	5.2	140	-17	67	3.2	3.2	-7.6	-2.8	6.9	12.9	0.6
Non-Financial	5.02	-0.40	7.9	145	-10	62	3.9	3.9	-10.5	-3.3	6.7	16.3	-0.8
USD High Yield	8.17	-0.59	4.3	387	-25	52	3.1	4.0	-5.4	2.5	6.8	9.8	0.6
EM High Grade	5.40	-0.33	5.3	160	-7	30	2.2	2.4	-10.3	-2.0	4.3	11.8	0.7
EM High Yield	9.45	-0.99	3.9	477	-48	28	4.5	4.3	-9.1	-5.9	6.9	11.6	0.0

- The good development in the bond market since the beginning of the year has continued in the last two weeks. The bond price increase was driven by falling safe yields and spreads.
- However, spreads are now close to the 50th percentile in the majority of segments and thus no longer historically exceptionally attractive.

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: 27/01/2018 – 27/01/2023

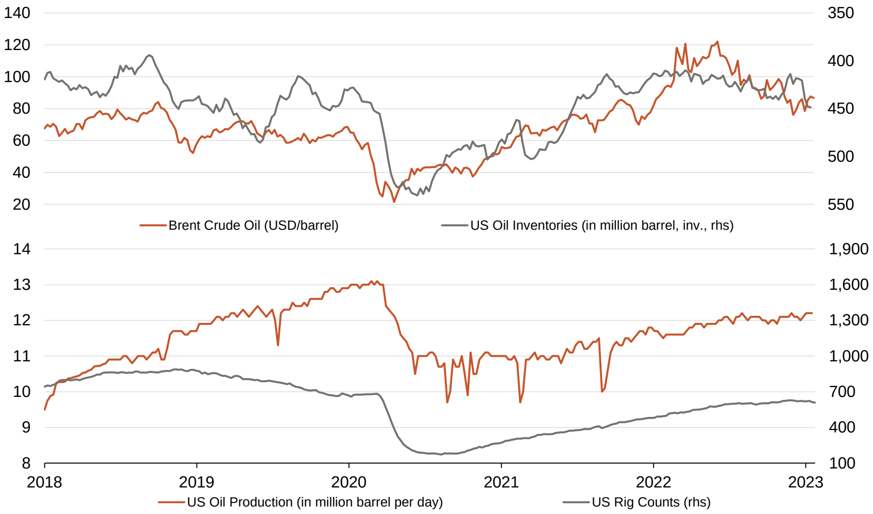
Commodities Performance



- On the commodity markets, the industrial metals in particular have led the way over the last four weeks. Zinc, copper and aluminium each gained around 10%. Tin even managed just under 25%. The lead is mainly due to the opening and hope for demand and production recovery in China, especially in the construction sector.
- Lead, palladium, nickel and in particular the energy commodity natural gas have taken heavy losses over the last four weeks.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period:31/12/2022 - 27/01/2023

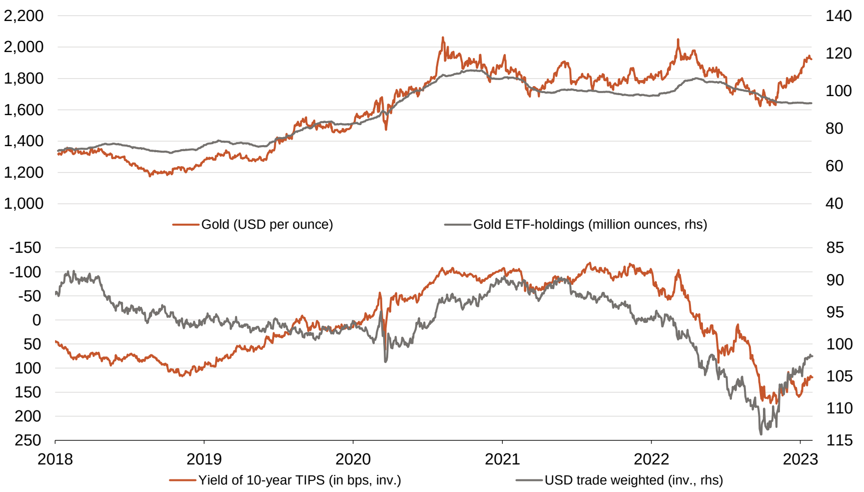
Crude Oil



- The start of the year for crude oil was characterised by high volatility. The loss of 10% in the first few days of the year was made up for in the following days of January. Hopes of increasing mobility with the abolition of the strict Covid rules in China provided a boost.
- Although the oil market is slightly oversupplied in the short term, rising demand due to the opening of China is increasingly being offset by declining Russian production and OPEC's quota deficit.

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 - 27/01/2023

Gold



- Gold's upward trend since the beginning of the year is mainly technical in nature. Positive momentum and the breaking of important trend lines, such as the 50-day line, provided strong technical signals such as the "golden cross".
- Fundamentally, without movement in real interest rates, the rally is likely to remain limited.

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 - 27/01/2023

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IMPORTANT NOTICES

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