BERENBERG
Markets

MONITOR

27 March 2023

Current market commentary

Although the US Federal Reserve recently raised the key interest rate and held out the prospect of further interest rate increases, the market is assuming a "policy error" and is pricing in four US interest rate cuts by the end of the year. The even more restrictive monetary policy increases the probability of further turmoil, as recently seen in the banking sector, and thus also the risk of recession - not least because banks are likely to be increasingly cautious in granting loans. Consequently, gold rose strongly, while cyclical commodities and equity segments fell and the dollar depreciated against other currency pairs due to the narrowing interest rate differential. For example, the market expects ECB interest rates to be between 25 and 50bp higher by the end of the year. The Q1 reporting season, which will start soon, will show how companies are doing. It will be interesting to see how much growth stimulus China actually delivers and how companies see the outlook for the rest 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

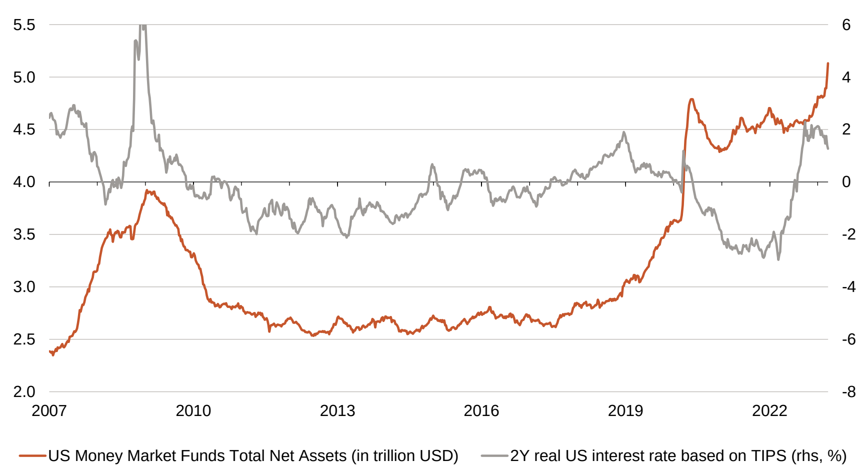
Bank of Japan gets new central bank governor

After the big central bank meetings in the West, it will be pretty quiet in terms of monetary policy in this country for the next two weeks. In Japan, Kazuo Ueda officially takes over as central bank governor on 8 April from Haruhiko Kuroda, who has held the post since 2013. However, only a creeping, rather than abrupt, change of the ultra-expansive monetary policy is expected.

Consumer and industrial confidence in investors' focus after turmoil in the banking sector

Today, the ifo Business Climate Index (Mar) will be published. Tomorrow, the Conference Board's Consumer Confidence (Mar) in the US and Italy's Industrial Confidence (Mar) will follow. On Thursday, initial jobless claims in the US and preliminary inflation data (Mar) for Germany and Spain will be released. In France, the Netherlands and Italy they will be released on Friday. The ISM manufacturing purchasing managers' index will be released on 3 April and the services index on 5 April. Industrial production (Feb) for Germany will be published on 6 April.

Managed assets of US money market funds rise to a new record



- The assets under management of US money market funds have exceeded USD5trn for the first time as some banks face financial troubles. Investors distrust the safety of bank deposits and their interest rates are often well below those of money market funds, which offer positive returns again even after deducting the expected 2y-inflation.
- Currently, investors are cautiously positioned. However, if concerns about the economy and the banking system subside, there would be plenty of dry powder to support the markets.

Source: Bloomberg, Time period: 01/01/2007 - 24/03/2023

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (24/02/23 - 24/03/23)	YTD (30/12/22 - 24/03/23)	24/03/22 24/03/23	24/03/21 24/03/22	24/03/20 24/03/21	24/03/19 24/03/20	23/03/18 24/03/19
Gold	7.1	7.9	3.3	21.2	-3.1	30.3	6.6
EUR Sovereign Debt	2.3	2.7	-6.6	-4.2	2.5	0.9	1.5
EUR Coporates	1.0	2.1	-7.2	-6.0	10.1	-4.2	2.2
Euro overnight deposit	0.2	0.5	0.6	-0.6	-0.5	-0.4	-0.4
Industrial Metals	-1.7	-4.0	-24.5	64.2	43.7	-18.4	4.4
MSCI Emerging Markets	-1.8	1.5	-10.1	-3.8	50.5	-18.5	1.4
USDEUR	-2.0	-0.5	2.2	7.4	-8.7	4.8	9.3
MSCI World	-2.3	3.3	-8.0	19.9	46.7	-10.9	14.8
MSCI Frontier Markets	-3.1	0.6	-16.7	16.9	27.4	-15.8	-5.8
Global Convertibles	-4.3	1.5	-10.9	3.2	75.0	-9.4	17.0
REITs	-8.3	-4.2	-21.6	24.6	27.1	-22.6	25.9
Brent	-10.5	-11.9	-17.7	119.9	66.9	-45.8	8.7

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.

- In the face of increasing recession concerns, the market has been pricing in more and more rate cuts by the Fed, although the Fed even raised the key interest rate by 25bp last week.
- As a result, industrial and energy commodities fell sharply, while gold was one of the biggest winners.
- The euro appreciated against the US dollar and is now trading near its highs for the year.

Total return for selected asset classes, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 23/03/2018 – 24/03/2023

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (24/02/23 - 24/03/23)	YTD (30/12/22 - 24/03/23)	24/03/22 24/03/23	24/03/21 24/03/22	24/03/20 24/03/21	24/03/19 24/03/20	23/03/18 24/03/19
MSCI Japan	0.5	3.6	-4.9	1.4	38.9	-12.4	4.8
Euro Stoxx 50	-1.0	9.3	9.7	2.8	44.0	-15.7	3.0
MSCI EM Asia	-1.1	2.7	-8.7	-8.0	53.1	-13.3	2.5
Stoxx Europe 50	-1.6	4.9	5.9	15.6	29.7	-13.2	9.4
DAX	-1.7	7.4	4.8	-2.3	50.6	-14.6	-4.4
S&P 500	-1.8	3.4	-8.7	26.8	47.0	-6.4	20.8
Stoxx Europe Defensives	-3.5	0.9	0.3	18.1	21.7	-11.9	16.5
MSCI UK	-5.4	1.0	-2.0	22.2	32.8	-27.0	11.2
Stoxx Europe Small 200	-5.9	1.9	-12.5	2.0	60.9	-20.2	0.9
Stoxx Europe Cyclicals	-6.0	3.6	-3.8	7.3	58.1	-21.8	-2.4
MSCI EM Eastern Europe	-7.3	-2.4	-14.7	-73.7	32.2	-22.1	9.2
MSCI USA Small Caps	-10.0	-1.1	-11.1	10.9	80.8	-24.0	13.7

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.

- Within the equity regions, Japan was one of the best performers, supported by favourable valuations and China's reopening.
- The worst performers were the more cyclical small caps, especially US small caps. The small cap index includes many US regional banks, some of which are struggling with bank runs and a liquidity crisis.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 23/03/2018 – 24/03/2023

Fixed Income

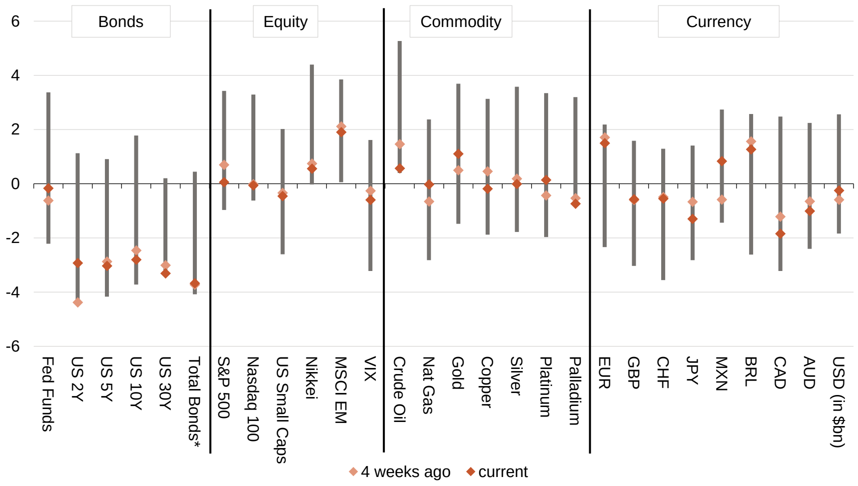
	4-week & YTD		12-month periods over that last 5 years				
	4W (24/02/23 - 24/03/23)	YTD (30/12/22 - 24/03/23)	24/03/22 24/03/23	24/03/21 24/03/22	24/03/20 24/03/21	24/03/19 24/03/20	23/03/18 24/03/19
Gilts	4.5	4.6	-19.7	-3.7	1.4	2.7	7.4
Bunds	3.2	3.4	-10.8	-5.3	-0.6	2.7	4.2
BTPs	2.9	4.6	-9.4	-6.8	8.5	7.7	-1.5
USD Corporates	2.6	3.3	-4.8	-5.2	15.7	-0.6	5.1
EUR Non-Financials	1.8	2.8	-6.9	-6.4	9.5	-3.6	2.3
Treasuries	1.6	2.7	-1.7	2.8	-11.8	18.1	14.3
Chinese Gov Bond	0.5	0.7	3.6	5.4	0.2	6.9	7.5
EM Local Currency Bonds	0.5	2.7	1.2	-3.1	7.3	-6.5	2.6
EUR Financials	-0.1	1.3	-7.6	-5.4	11.0	-5.1	2.1
USD High Yield	-0.2	1.8	-4.5	-0.8	33.0	-14.1	5.6
EUR High Yield	-1.3	1.9	-4.9	-3.3	28.0	-13.6	1.7
EM Hard Currency Bonds	-1.6	0.6	-4.2	-2.1	11.9	-7.0	14.8

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

- The demand for safe havens recently boosted government bonds. German government bonds, for example, have gained almost 3% since the beginning of the year.
- Riskier bond segments, on the other hand, have been left behind: Emerging market and high-yield bonds recently fell, even despite falling interest rates.
- Financial bonds were also among the underperformers due to the turbulence in the banking sector.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 23/03/2018 – 24/03/2023

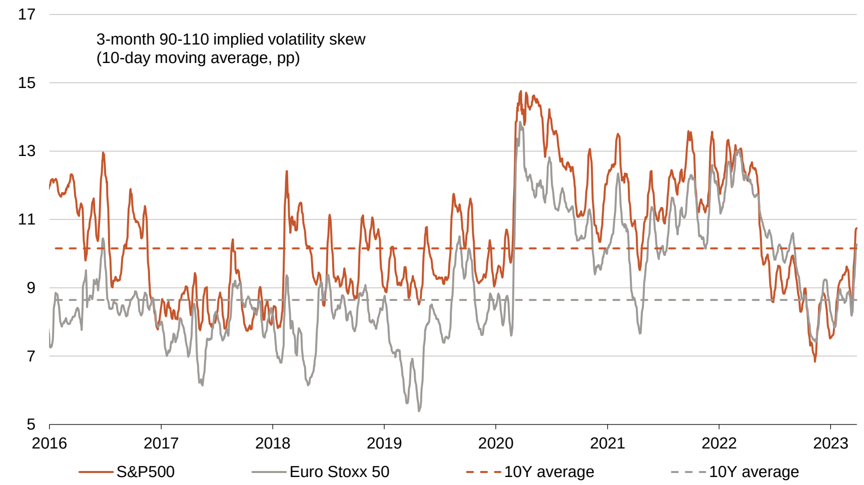
Non-Commercial Positioning



- After positioning in 2Y Treasuries was at record lows a month ago, investors have covered some of the shorts in the wake of the banking crisis and the accompanying less restrictive central bank policy.
- Investors have become more pessimistic about cyclically sensitive segments such as US small caps, emerging market equities and crude oil.

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: 21/03/2013 - 21/03/2023

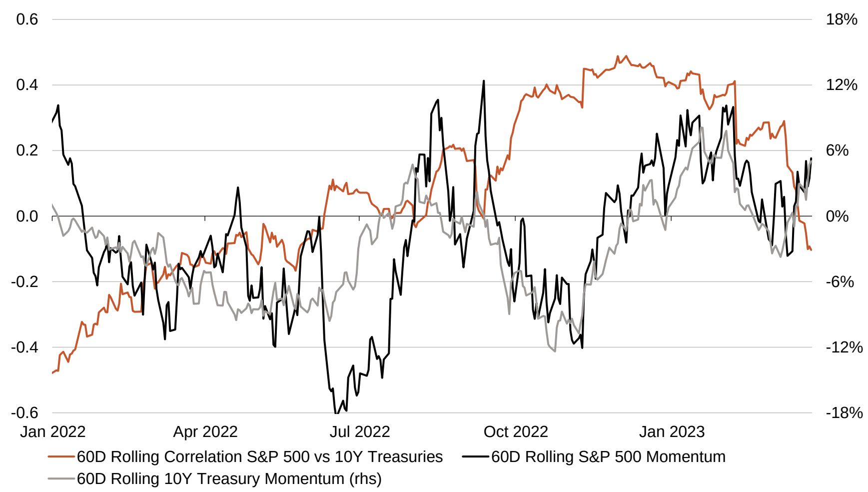
Put-Call-Skew



- The skew has widened considerably over the last two weeks and is now above the 10Y average not only in Europe but also in the US.
- The turmoil in the banking sector has made investors much more cautious. Both the put skew (90-100) and the call skew (100-110) have steepened.

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, Time period: 24/03/2013 - 24/03/2023

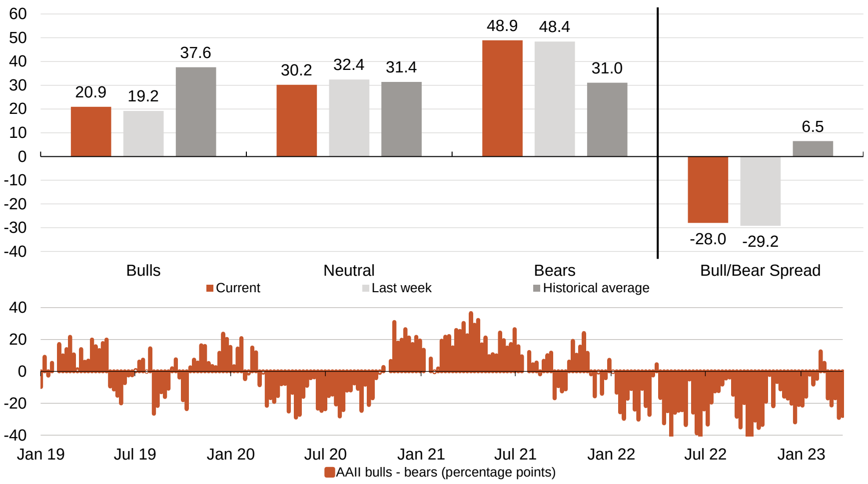
60-Day Momentum and Correlation



- The 60-day correlation between equities and bonds has recently turned negative again.
- While the fight against inflation dominated the market in previous months and weighed on both equities and bonds, the market has now turned its focus to growth and the correlation has reversed.

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 - 24/03/2023

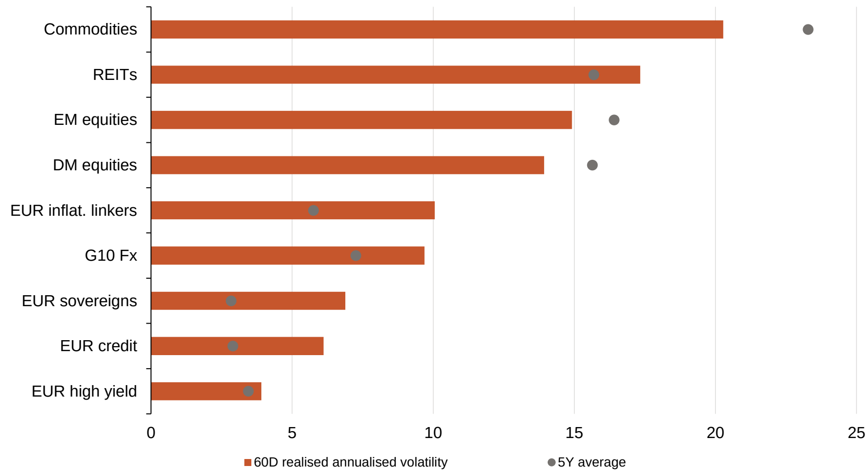
AAII Sentiment Survey (Bulls vs Bears)



- Sentiment among US private investors remains very poor. At -29 pp, the bull/bear spread reached its lowest level so far this year in the previous week.
- The pessimism also coincides with significant inflows into money market funds.

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 – 23/03/2023

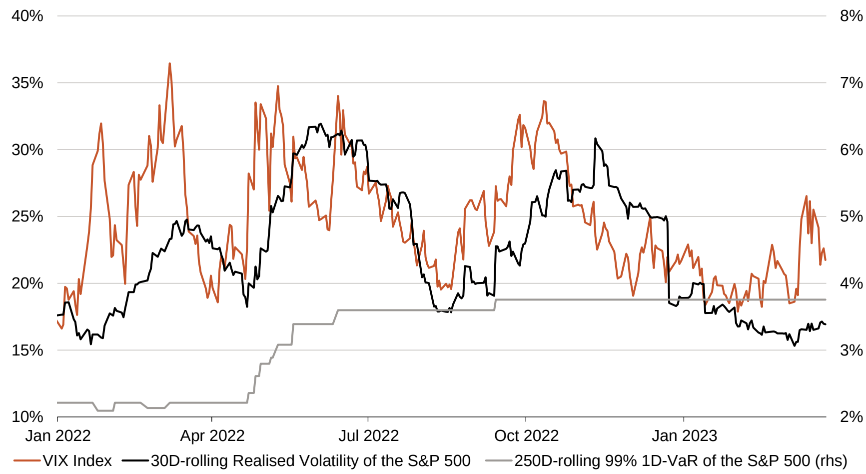
Realised Volatilities



- Despite the turmoil in the banking sector, volatility in equities has increased only slightly over the last two weeks. This is because other sectors such as technology and consumer staples developed more robustly during this period.
- Within bonds, there was a significant increase in volatility with the large interest rate movements. Now, high-yield bonds also show a higher volatility than in the last five years.

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: 31/12/2018 - 24/03/2023

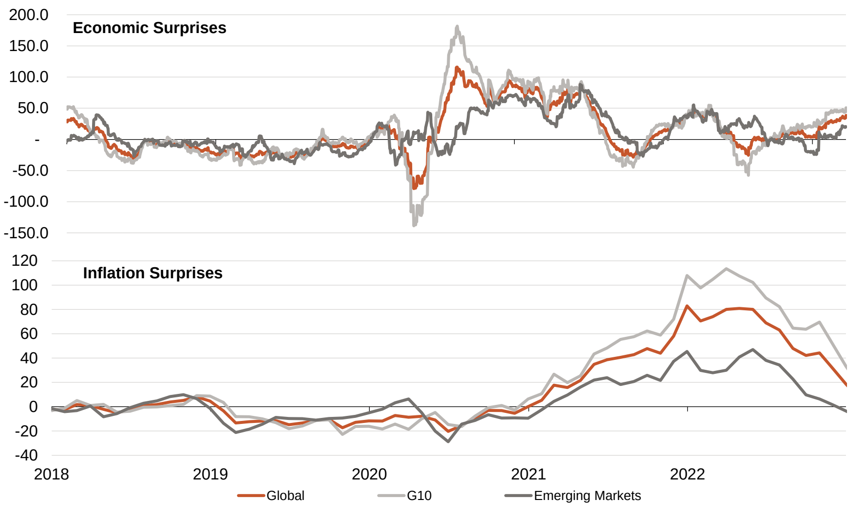
Volatility and Value-at-Risk of the S&P 500



- The VIX shot above the 25 mark with the banking crisis, but fell significantly below it shortly afterwards. The decline in volatility is also likely to be driven by the fact that investors have again increasingly positioned themselves for falling markets, thus reducing the vulnerability of the markets.

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, Time period: 31/12/2021 – 24/03/2023

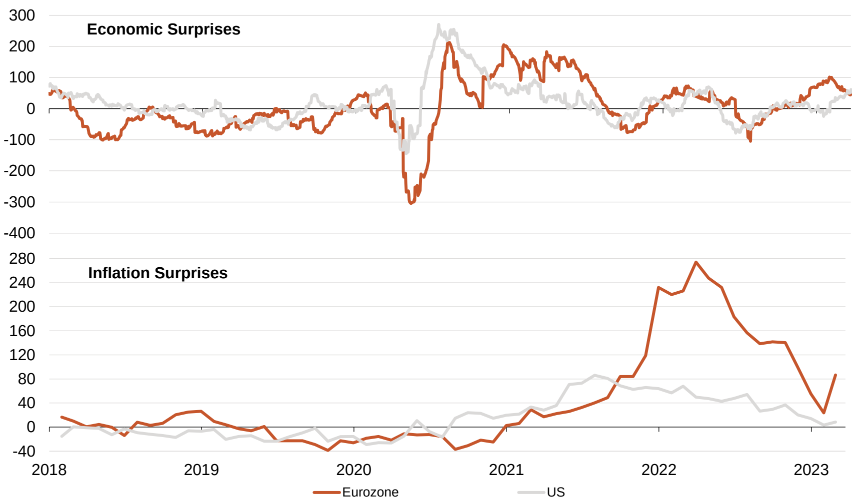
Global



- The positive economic surprises continue globally, particularly in emerging markets.
- The inflation data also continue to surprise positively on average. However, the trend here is in the opposite direction. In the case of emerging countries, many of which are further along in their interest rate cycles, the inflation data are surprising on average to the negative.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 24/03/2023

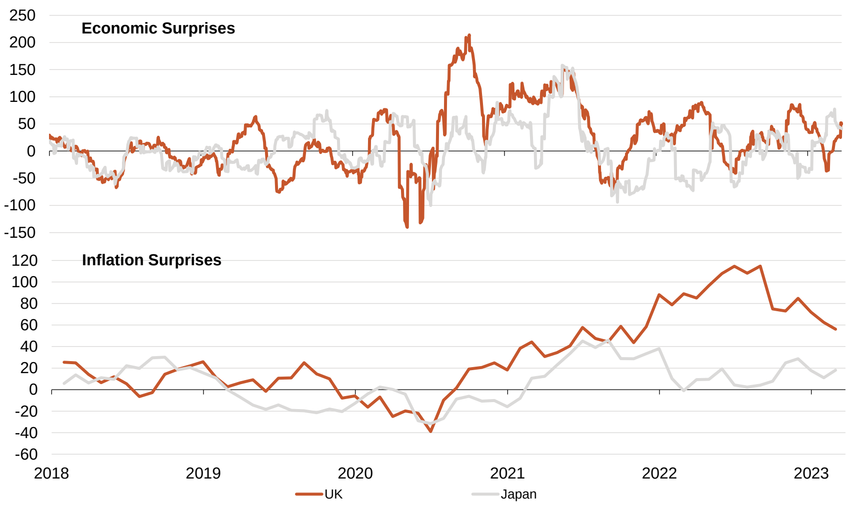
Eurozone and US



- The economic data in the eurozone and in the US are currently providing more or less equally positive surprises. However, the positive surprises have tended to decrease here in Europe, while they have increased in the US.
- The inflation data in the US no longer surprise noticeably to the upside. The February inflation print came in as expected at 6% year-on-year and confirms this picture.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 24/03/2023

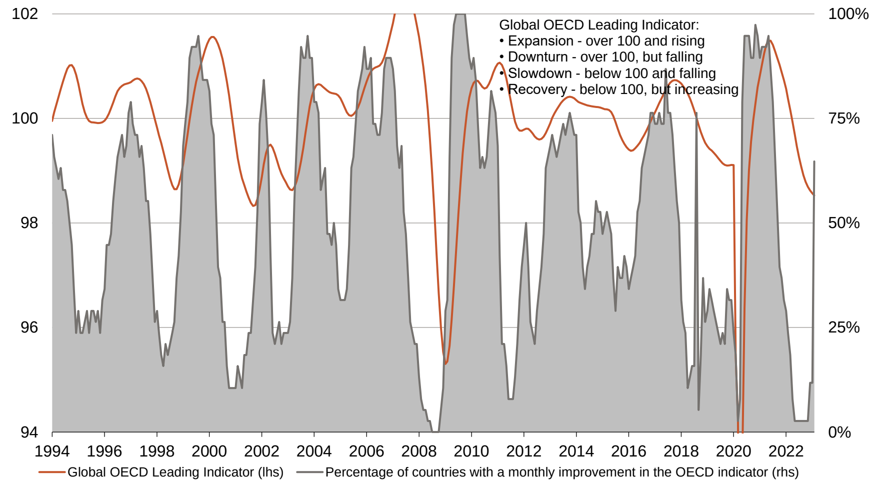
UK and Japan



- Economic data in the UK and Japan also continue to surprise positively.
- Inflation surprises in Japan are comparatively moderate, but Japan is the only region where no falling trend can be observed.

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, Time period: 01/01/2018 - 24/03/2023

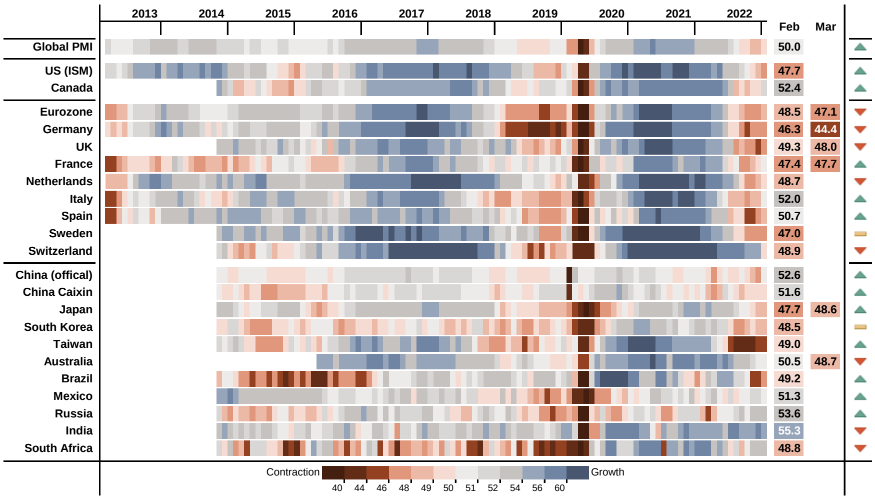
OECD Leading Indicator



- The global OECD leading indicator continues to point to an economic slowdown.
- However, more than half of the countries now show a positive development compared to the previous month.

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 – 24/03/2023

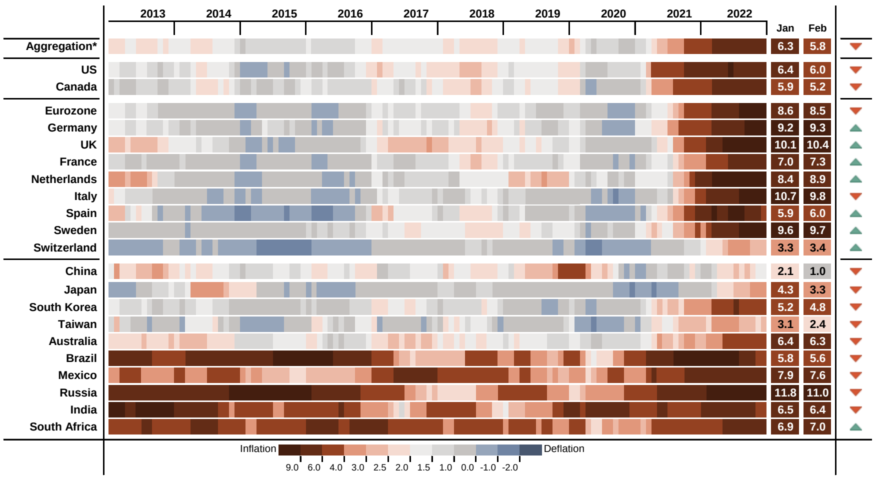
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global February PMI is exactly at the 50 mark, and the picture below the surface also remains mixed for the March PMI data so far.
- In the eurozone, Germany and the UK, purchasing managers still report declining activity. In France and Japan, on the other hand, they observe rising activity.

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: 24/03/2013 – 24/03/2023

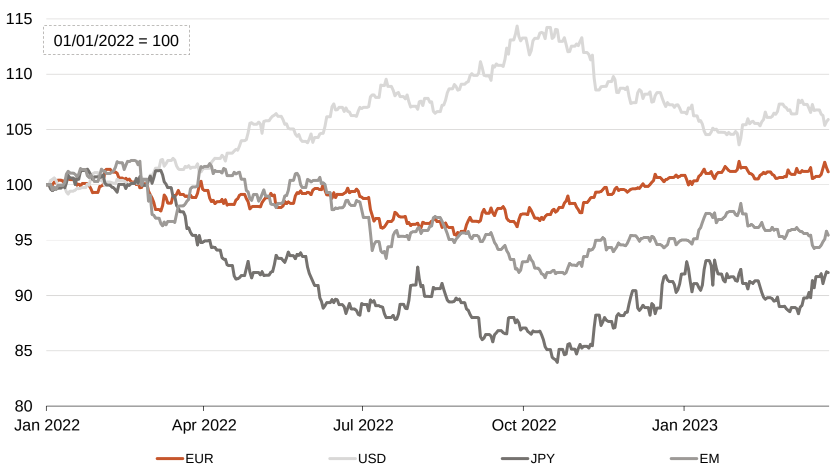
Headline Inflation



- In eurozone countries, the annual inflation rate rose in February compared to the previous month.
- Meanwhile, most other regions have seen declining inflation prints.

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: 24/03/2013 – 24/03/2023

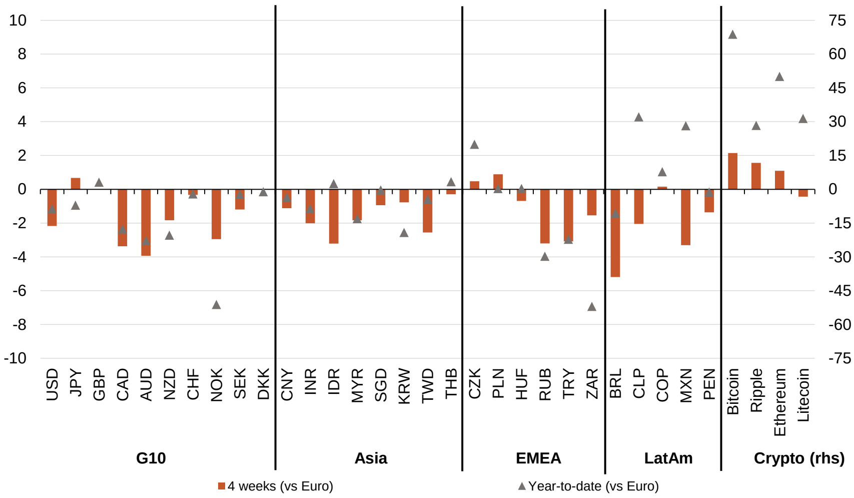
Trade-Weighted Currency Development



- The US dollar has declined considerably in value over the last few weeks. In return, the other currencies have appreciated.
- The reason for the weakness is the expected interest rate differential, which has fallen with the Fed's now less restrictive monetary policy, so that other currencies have gained in relative attractiveness.
- As a safe haven, the yen additionally benefitted from the risk-off.

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 - 24/03/2023

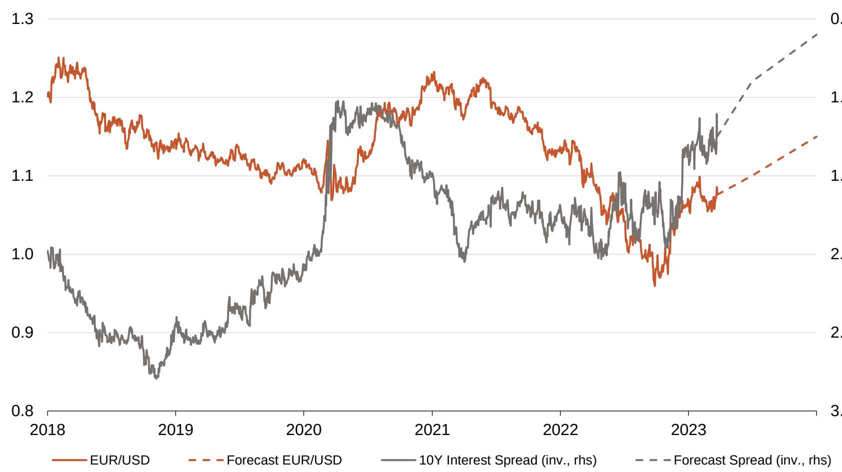
Currency Moves vs Euro



- The euro appreciated against most of the currencies shown here over the last month. Last week, Christine Lagarde confirmed the ECB's restrictive course and thus created some tailwind for the euro.
- Cryptocurrencies have made strong gains recently, as the banking crisis seems to have made some investors more sceptical about the monetary system.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2022 - 24/03/2023

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



- The EUR/USD exchange rate traded temporarily at 1.09 last week, its highest level since the beginning of February.
- The main reason for the strong euro is the lower interest rate differential between German government bonds and Treasuries, which temporarily reached 1.11 pp, its lowest level since mid-2020.

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

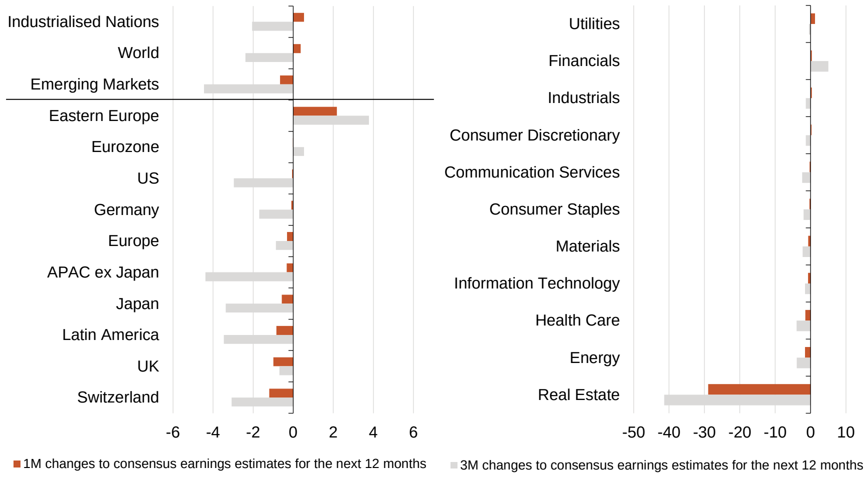
	4W (24/02/23 - 24/03/23)	YTD (30/12/22 - 24/03/23)	24/03/22 24/03/23	24/03/21 24/03/22	24/03/20 24/03/21	24/03/19 24/03/20	23/03/18 24/03/19
	4-week & YTD		12-month periods over that last 5 years				
Information Technology	2.2	15.0	-3.5	7.9	53.3	-3.4	8.4
Communication Services	1.0	4.6	3.0	11.2	18.9	-11.4	16.5
Consumer Discretionary	0.4	14.3	15.0	-6.8	67.7	-17.7	-1.2
Growth	0.0	7.8	0.2	9.6	38.5	-7.6	8.8
Utilities	-0.6	3.2	2.2	2.2	31.0	-3.4	22.0
Health Care	-0.7	1.0	-2.7	23.8	15.3	1.0	20.0
Telecommunications	-1.5	12.1	-2.2	4.1	26.6	-24.6	3.2
Industrials	-3.1	7.7	-0.2	7.5	65.8	-19.0	2.9
Materials	-3.8	-0.6	-10.4	15.5	65.9	-20.7	4.1
Value	-6.5	1.0	0.2	10.7	40.9	-26.5	3.4
Energy	-10.8	-6.1	8.4	38.0	29.1	-42.7	17.9
Finance	-10.9	-0.1	0.5	9.1	45.0	-25.7	-8.0

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

- Concerns about the economy and the resulting fall in interest rates led to an outperformance of technology and defensive equities in Europe.
- Value sectors such as financials, real estate and energy have fallen the most recently.

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: 24/03/2018 – 24/03/2023

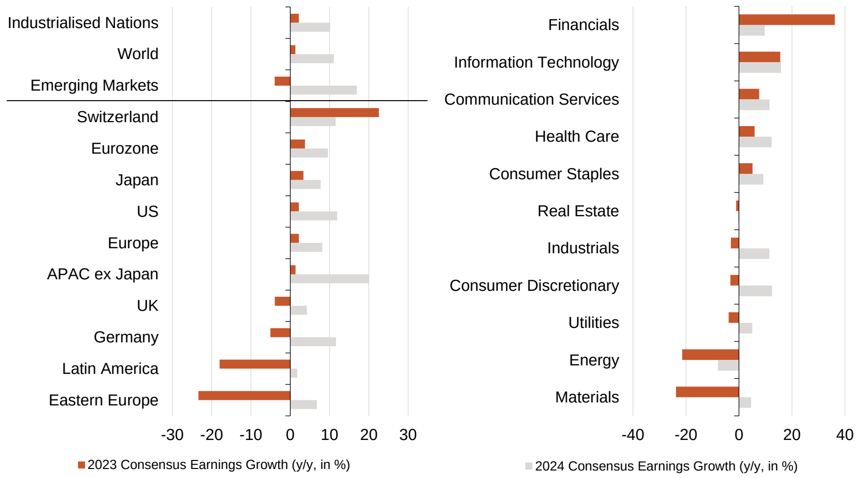
Changes in Consensus Earnings Estimates



- Analysts have increased earnings estimates in recent weeks – but only moderately.
- Within the European sectors, the negative earnings revisions were strongest for the real estate sector.
- The Q1 reporting season, which is about to start, should provide more clarity on how companies themselves assess the economic outlook.

1-month and 3-month changes in consensus earnings estimates for the next 12 months of the regional and Europe sector MSCI indices, in percent.
Source: FactSet, as of 24/03/2023

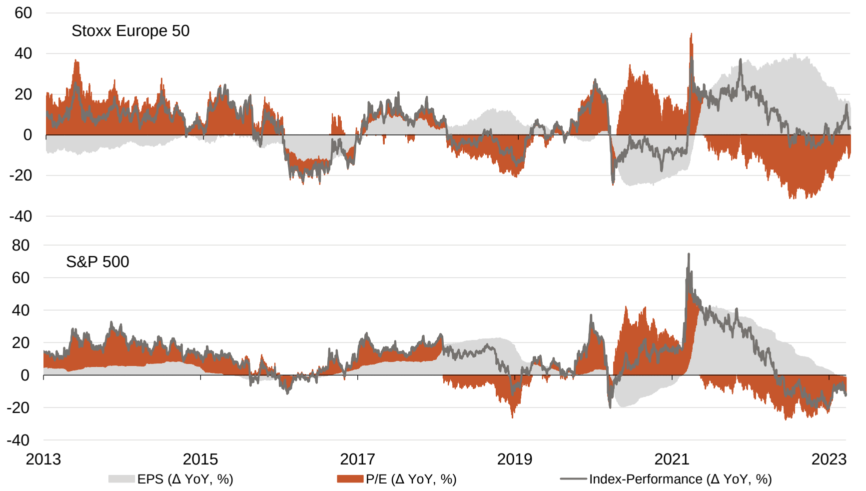
Earnings Growth



- For 2023, as we have been expecting for some time, analysts now hardly see any positive earnings growth.
- For 2024, however, the consensus remains optimistic and expects double-digit earnings growth in some cases – especially for the emerging markets.

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 24/03/2023

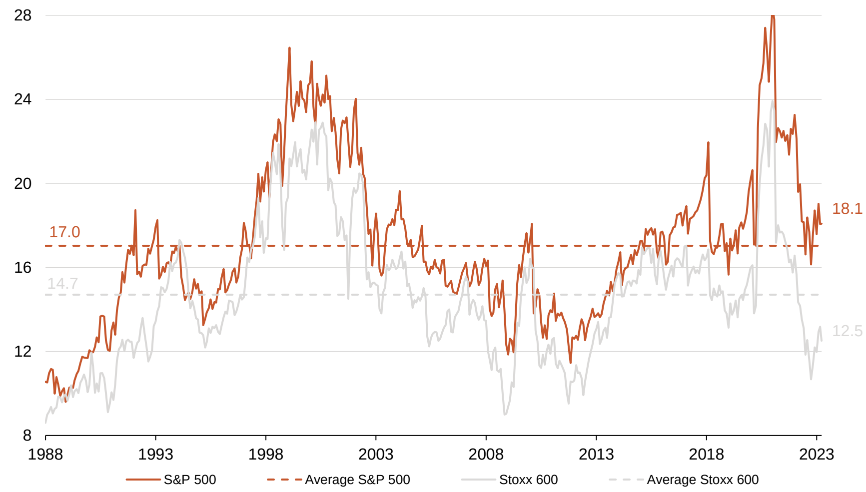
Contribution Analysis



- While European equities are still up compared to the previous year, US equities are trading below their previous year's level.
- The main reason for this is that US equities had reached bubble-like valuation ratios in the post-COVID-19 period. Future upside potential was thus already pre-empted.

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: 01/01/2013 - 24/03/2023

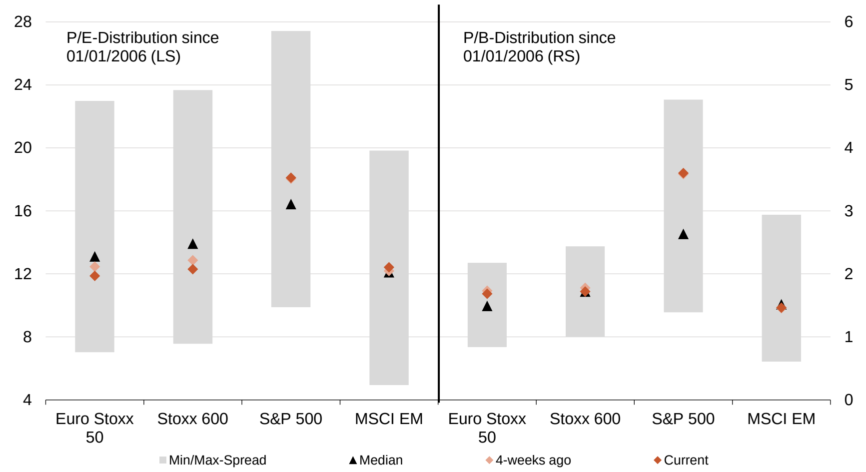
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The discrepancy in valuations between European and US equities persists. The US market continues to price in less recession risk than the European market.
- One reason for this, besides the different sector structure, is that the share of non-fundamental investors (eg ETF savings plans) is significantly higher in the US.

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 - 24/03/2023

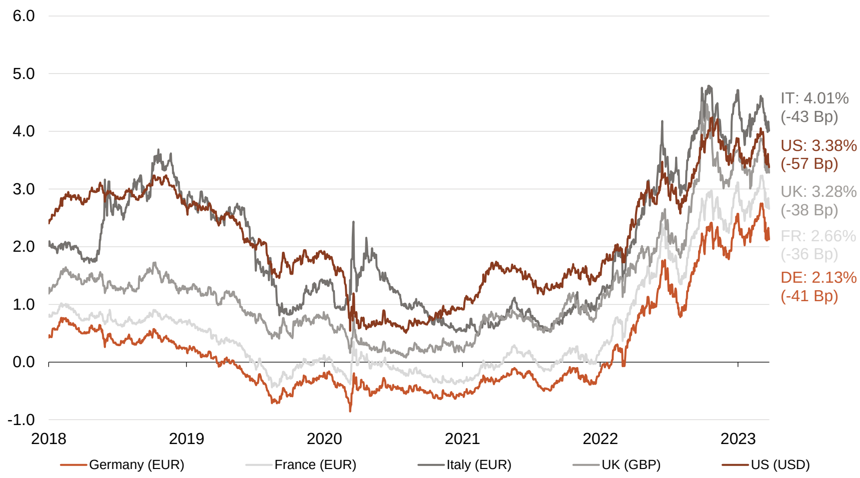
Historical Distribution: Price/Earnings and Price/Book Ratio



- Compared to their own history, but also to other regions, US equities are clearly the most expensive in terms of various valuation metrics.
- In contrast, emerging market equities are relatively the most attractively priced.

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 - 24/03/2023

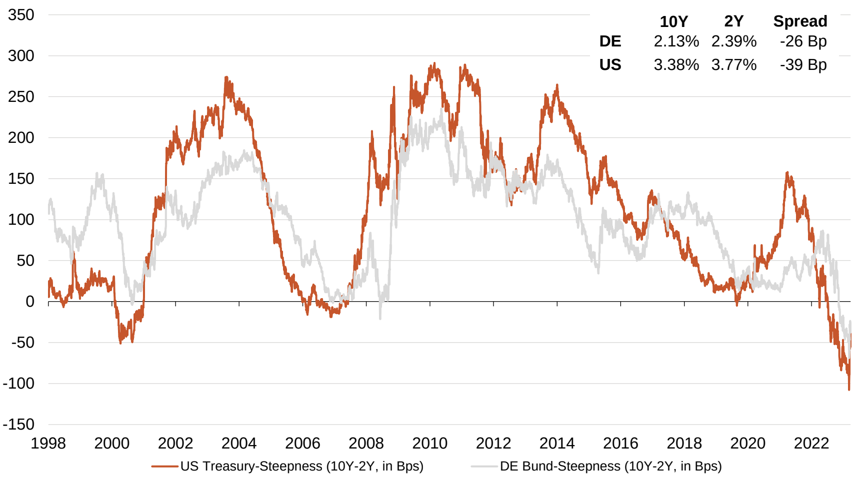
10-Year Government Bond Yields



- The market is ignoring the restrictive actions and words of Western central bankers and is blithely pricing in interest rate cuts this year. As a result, interest rates on government bonds have fallen broadly recently, with US government bonds falling the most.
- As the downstream consequences of the tightening policy are becoming increasingly apparent in the US, the market is pricing in interest rate cuts here most aggressively.

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 - 24/03/2023

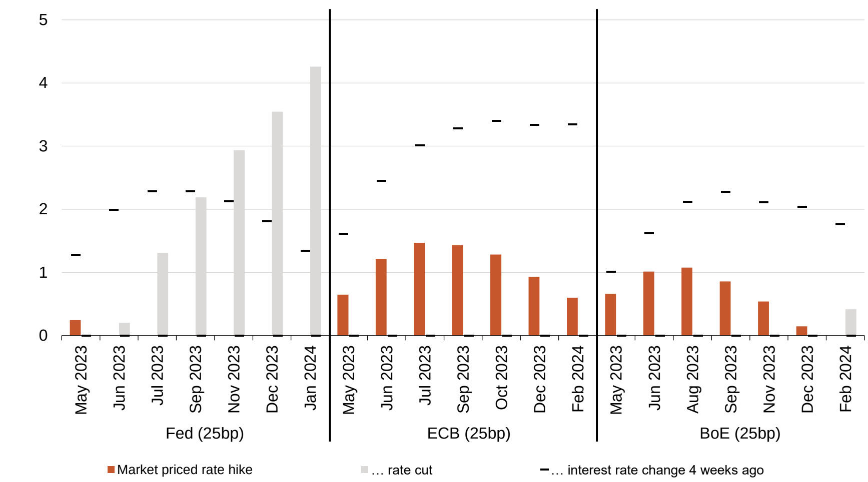
Yield Curve Steepness (10Y - 2Y)



- Short-term interest rates have recently fallen more than long-term interest rates, which has led to a steepening of the yield curves. Investors expect a quick turnaround of the Fed's policy towards a looser monetary policy.

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 - 24/03/2023

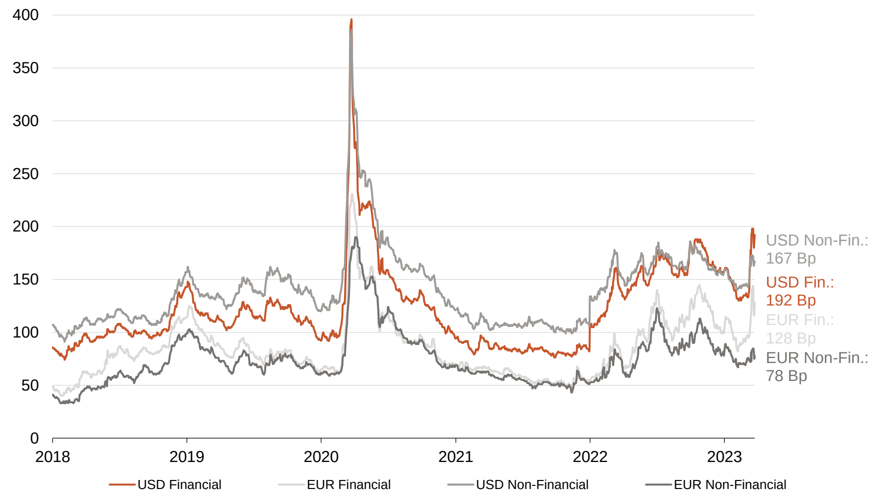
Implicit Changes in Key Interest Rates



- After the rate hikes by the ECB (50bp) and the Fed (25bp) at their meetings in March, the market is now expecting a divergence regarding future interest rate policy.
- Almost four rate cuts are expected for the US until the end of the year, 1-2 rate hikes for the ECB. This is also one reason why the euro has appreciated recently.

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: 24/02/2023 - 24/03/2023

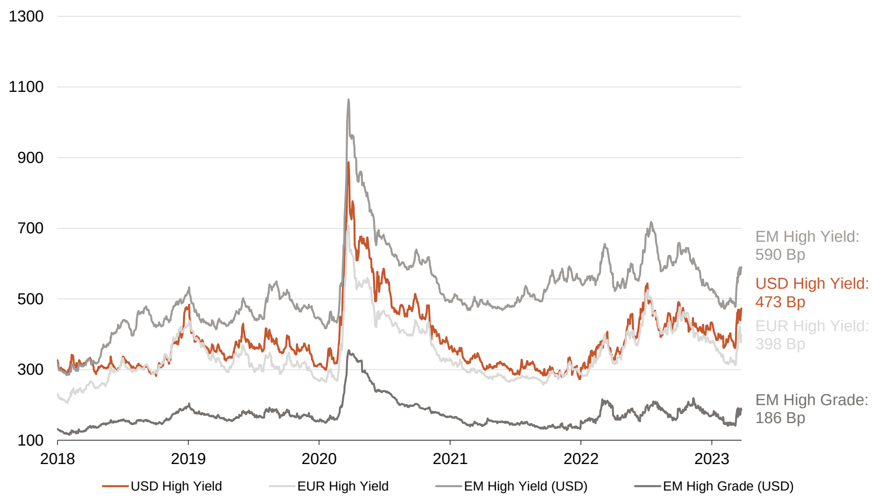
Credit Spreads Financial and Non-Financial Bonds



- Not surprisingly, credit spreads have risen recently – especially for financial bonds given the turmoil in the banking sector.
- Spreads are now trading at levels for financial bonds not seen since the COVID-19 crisis.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 – 24/03/2023

Credit Spreads High Yield and Emerging Markets Bonds



- Risk premiums for high-yield and emerging market (EM) bonds have also climbed recently. However, we are still far from any extreme levels.
- The credit spread for EM high-yield bonds was almost twice as high at its peak during the COVID-19 crisis as it is now.

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 – 24/03/2023

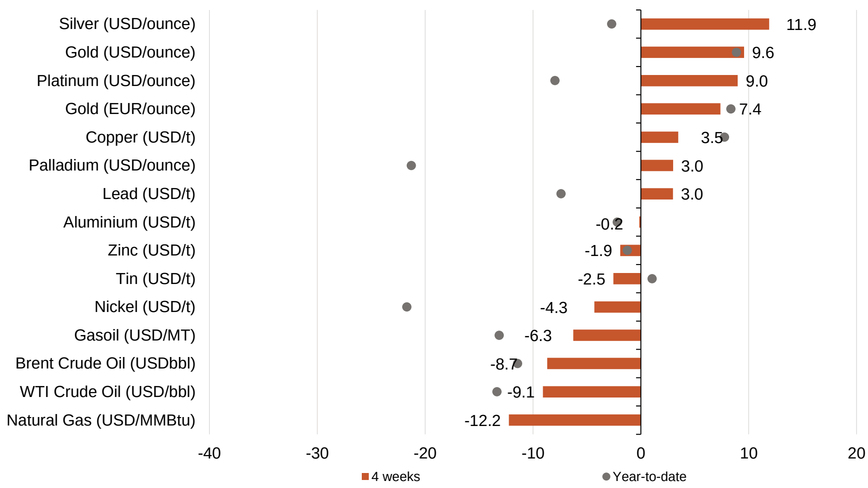
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	24/03/22 24/03/23	24/03/21 24/03/22	24/03/20 24/03/21	24/03/19 24/03/20	24/03/18 24/03/19
EUR Government	2.81	-0.44	7.2	-	-	-	2.9	3.2	-11.0	-6.6	3.6	3.6	2.4
Germany	2.18	-0.49	7.3	-	-	-	3.2	3.0	-10.8	-5.4	-0.6	2.6	4.2
EUR Corporate	4.06	-0.17	4.5	97	19	80	1.0	2.0	-7.3	-5.8	9.8	-4.0	2.2
Financial	4.43	0.01	3.8	128	36	94	0.2	1.1	-6.7	-4.9	10.8	-5.1	2.1
Non-Financial	3.83	-0.29	5.0	78	8	63	1.5	2.6	-7.6	-6.3	9.3	-3.4	2.3
EUR High Yield	7.68	0.51	3.1	398	74	76	-1.3	1.9	-4.9	-3.3	28.0	-13.6	1.7
US Treasury	3.68	-0.73	6.5	-	-	-	3.8	3.7	-4.3	-4.1	-3.8	13.6	4.4
USD Corporate	5.23	-0.38	6.9	175	34	89	2.6	3.3	-4.8	-5.2	15.7	-0.6	5.1
Financial	5.56	-0.19	5.1	192	57	96	1.3	2.3	-3.8	-5.1	15.1	-0.6	5.3
Non-Financial	5.08	-0.46	7.8	167	23	83	3.2	3.7	-5.2	-5.2	16.0	-0.7	5.1
USD High Yield	8.94	0.22	4.1	473	87	83	-0.2	1.8	-4.5	-0.8	33.0	-14.1	5.6
EM High Grade	5.42	-0.36	5.2	186	43	58	1.6	2.5	-3.9	-7.1	11.8	0.0	4.9
EM High Yield	10.69	0.41	3.8	590	100	65	-1.0	0.7	-3.8	-14.2	33.4	-13.2	4.5

- The increase in credit spreads has made corporate and high-yield bonds more attractive. The carry for EUR corporate bonds is now over 4%.

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: 24/03/2018 – 24/03/2023

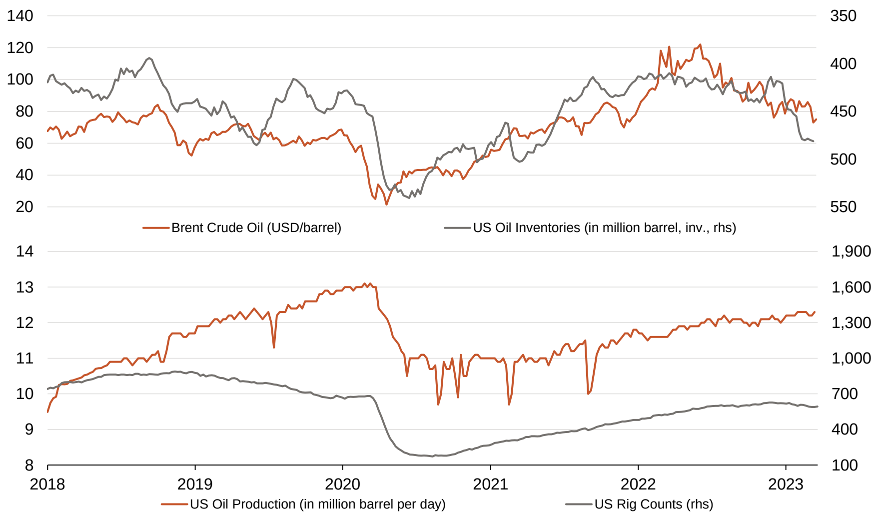
Commodities Performance



- Cyclical commodities in particular recorded losses over the last month.
- Only precious metals showed notable positive returns – gold and silver above all, profiting particularly from investors' distrust of the banks.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period:31/12/2022 - 24/03/2023

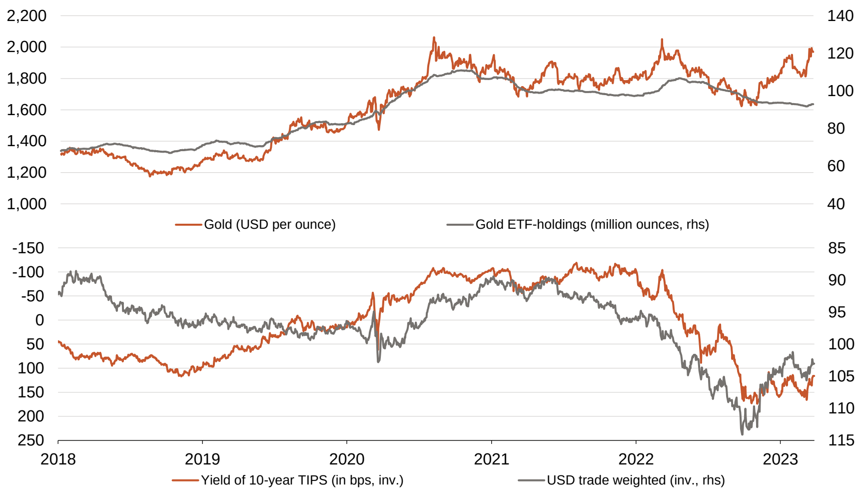
Crude Oil



- Crude oil (Brent) fell below USD75 per barrel in mid-March. This corresponds to the lowest level since the end of 2021.
- Increased economic uncertainty in the West dominated the oil market, although demand in China is starting to pick up.
- WTI is trading at USD70 per barrel, a level at which the US Department of Energy plans to replenish its strategic reserve. However, these plans have shifted towards Q4.

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 - 24/03/2023

Gold



- In the last two weeks, gold broke the USD2,000 per ounce mark intraday for the first time since the outbreak of the war in Ukraine.
- Accordingly, ETFs have also seen inflows again. In view of the clear upward movements, however, these are very subdued. Since the beginning of the year, ETFs have still recorded net outflows.

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 - 24/03/2023

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