BERENBERG Markets

MONITOR

11 April 2023

Current market commentary

Economic risks have increased and recent macro data have tended to disappoint. As a result, yields on safe haven government bonds have fallen and yield curves have steepened. Gold is close to its record high in USD terms. The market is increasingly pricing in a recession. Only in equities does it not seem to be the case at first glance. The major indices are near their YTD highs, driven by positive seasonality, an increase in liquidity and buying by systematic strategies, thanks to falling volatility and a negative equity-bond correlation. Under the surface, however, defensive and quality companies are clearly outperforming cyclicals - a sign that equity investors are also becoming more cautious. Moreover, liquidity is likely to decline again from summer onwards, should an agreement be reached on the US debt ceiling. We are therefore not chasing the rally, but remain balanced.

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

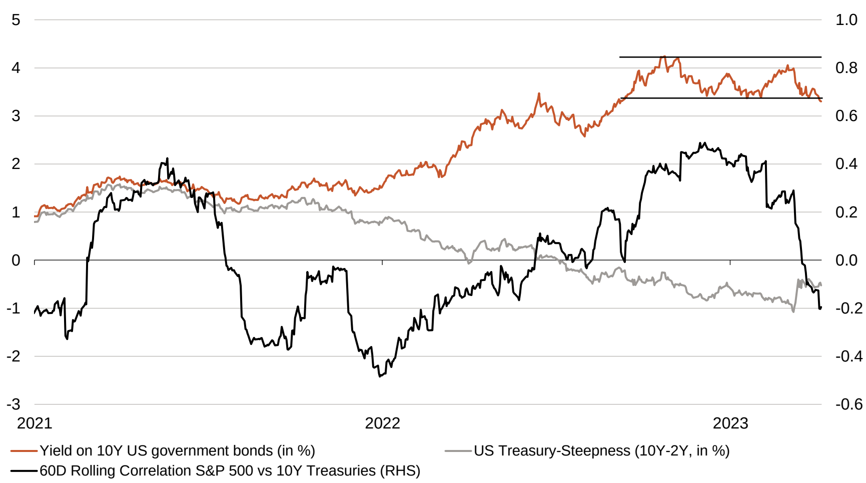
Q1 reporting season picks up speed.

The Q1 reporting season in Europe and the US will pick up significantly in the coming days. 87% of the companies in the S&P 500 by market capitalisation will publish their Q1 results by 5 May. On the other hand, all remains quiet on the central bank side in April.

Inflation data and purchasing managers' indices are coming up.

On the economic front, things are getting exciting. On Wednesday, the inflation data (Mar.) for the US and the Fed minutes (Mar.) will be published. Eurozone industrial production data (Feb.), US producer prices (Mar.) and Chinese import data (Mar.) will be released on Thursday. Retail sales (Mar.), consumer confidence (Uni Michigan, Mar.) and US industrial production data (Mar.) will follow on Friday. In the following week, the ZEW index (Apr.), the preliminary purchasing managers' indices (Apr.) for the US and Europe and the US housing market data (Mar.) will be published.

Increased recession worries, falling yields & steeper yield curves



- With the downward breakout of the 10-year Treasury yield, the "higher for longer" narrative seems to have been forgotten. The market has moved from inflation to growth concerns. As a result, the correlation between equities and bonds has turned negative (at least temporarily) again.
- As we expected, the US yield curve has recently recorded a significant decline in inversion. The market is increasingly pricing in a recession and thus prompt interest rate cuts by the Fed.

Source: Bloomberg, Time period: 01/01/2021 – 06/04/2023

Multi Asset

	4W (09/03/23 - 06/04/23)	YTD (30/12/22 - 06/04/23)	06/04/22 06/04/23	06/04/21 06/04/22	06/04/20 06/04/21	06/04/19 06/04/20	06/04/18 06/04/19
Gold	6.3	7.9	4.0	20.4	-4.5	33.5	6.1
EUR Sovereign Debt	2.7	2.5	-5.6	-5.1	1.8	1.4	1.2
EUR Coporates	2.1	2.6	-6.5	-6.4	9.0	-3.4	2.3
Brent	1.9	-1.3	1.7	104.2	49.7	-44.4	18.9
MSCI World	0.5	5.5	-6.0	15.4	41.4	-7.4	16.9
Euro overnight deposit	0.2	0.6	0.7	-0.6	-0.5	-0.4	-0.4
MSCI Emerging Markets	-1.4	1.3	-11.5	-5.8	46.7	-16.1	4.7
MSCI Frontier Markets	-2.1	1.2	-18.6	17.2	29.5	-16.3	-5.7
USDEUR	-3.1	-2.0	-0.2	9.0	-9.1	3.9	9.5
REITs	-3.2	-1.8	-24.8	28.7	19.8	-16.5	24.8
Global Convertibles	-3.5	1.4	-10.9	-1.7	70.9	-5.3	21.1
Industrial Metals	-4.6	-7.1	-25.4	59.2	45.3	-20.3	4.6

(Column groups: 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.

- The turmoil in the banking sector and concerns about a recession boosted demand for safe havens. Accordingly, gold and safe government bonds were among the winners over the last four weeks. The correlation of both assets to equities has also turned negative again.
- Cyclical investment segments, on the other hand, were left behind. Industrial metals, interest-rate-sensitive REITs and global convertible bonds lost value.

Total return for selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 05/04/2018 – 06/04/2023

Equities

	4W (09/03/23 - 06/04/23)	YTD (30/12/22 - 06/04/23)	06/04/22 06/04/23	06/04/21 06/04/22	06/04/20 06/04/21	06/04/19 06/04/20	06/04/18 06/04/19
Stoxx Europe Defensives	4.4	8.2	3.1	21.4	14.6	-6.1	13.0
Stoxx Europe 50	2.5	9.9	9.4	14.1	25.2	-10.5	9.0
S&P 500	1.5	5.2	-7.0	21.2	41.7	-2.5	24.0
Euro Stoxx 50	0.8	14.2	15.7	-1.9	45.0	-16.8	3.9
DAX	-0.2	12.0	10.2	-7.0	51.0	-16.1	-1.9
MSCI UK	-0.2	6.1	0.8	21.5	28.2	-24.1	9.1
MSCI EM Asia	-0.9	1.9	-10.6	-9.9	49.4	-10.6	5.3
MSCI EM Eastern Europe	-1.1	4.4	-8.4	-73.7	19.5	-15.3	11.2
Stoxx Europe Small 200	-3.1	5.0	-10.1	-0.8	55.3	-18.0	4.0
Stoxx Europe Cyclicals	-3.9	7.5	2.0	1.5	58.8	-23.4	1.7
MSCI Japan	-4.1	2.6	-3.2	-2.7	31.7	-6.5	2.7
MSCI USA Small Caps	-6.5	-0.9	-9.4	3.2	82.1	-24.6	18.7

(Column groups: 4-week & YTD; 12-month periods over that last 5 years)

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

- The global equity markets seem to be ignoring the increased economic risks for the time being. Markets are betting on an end to the rate-hike cycle soon and thus an end to monetary tightening and a return to liquidity expansion.
- Nevertheless, a risk-off approach to cyclical segments in favour of defensive and quality stocks could already be felt under the surface. The cyclically sensitive small caps also underperformed their large-cap counterparts.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 05/04/2018 – 06/04/2023

Fixed Income

	4W (09/03/23 - 06/04/23)	YTD (30/12/22 - 06/04/23)	06/04/22 06/04/23	06/04/21 06/04/22	06/04/20 06/04/21	06/04/19 06/04/20	06/04/18 06/04/19
Gilts	5.0	4.2	-19.8	-4.0	-3.4	10.5	4.7
USD Corporates	3.7	4.6	-2.7	-6.5	10.2	4.7	4.7
Bunds	3.6	3.0	-10.1	-6.3	-1.4	3.4	3.8
BTPs	2.8	4.4	-7.8	-8.0	7.4	8.0	-2.1
EUR Non-Financials	2.7	3.1	-6.2	-6.9	9.1	-3.4	2.4
USD High Yield	1.4	3.7	-2.6	-1.9	26.6	-9.8	6.2
EUR Financials	1.3	1.9	-6.8	-5.7	8.9	-3.5	2.1
Treasuries	0.7	1.8	-2.1	2.5	-12.8	18.7	13.5
Chinese Gov Bond	0.3	0.8	3.3	5.9	-0.3	7.3	7.0
EM Local Currency Bonds	0.2	2.8	0.2	-2.6	6.2	-5.9	2.8
EUR High Yield	-0.4	2.8	-4.3	-3.7	22.1	-9.9	2.5
EM Hard Currency Bonds	-1.3	0.1	-5.2	-1.6	6.9	-3.8	13.7

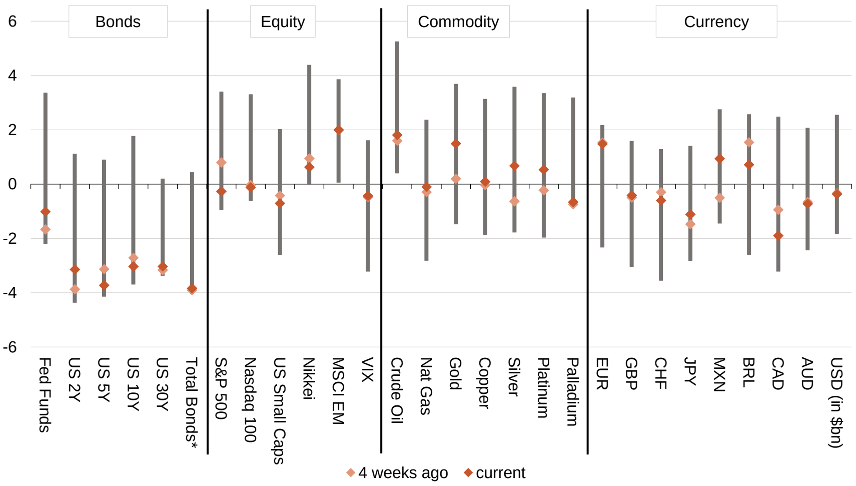
(Column groups: 4-week & YTD; 12-month periods over that last 5 years)

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

- The bond market was also unable to escape the banking turbulence. As a result of the increased risk of recession, the market is now pricing in the first interest rate cuts for this year.
- With expectations of a quicker end to the restrictive Fed interest rate policy, yields on safe government bonds fell. Government bonds were thus able to make strong gains.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 05/04/2018 – 06/04/2023

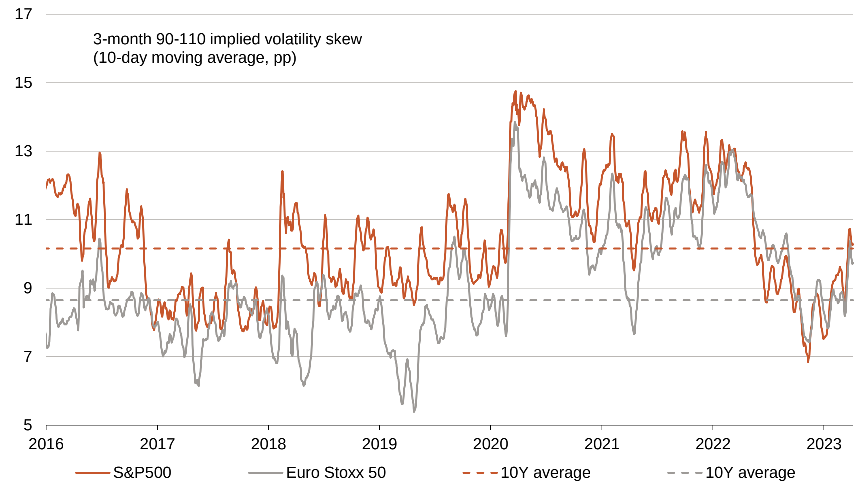
Non-Commercial Positioning



- Speculative investors have recently increased their positions in precious metals, especially silver and gold, in the wake of increasing recession concerns.
- In US large caps, they have in turn completely liquidated their long positions.

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: 04/04/2013 - 04/04/2023

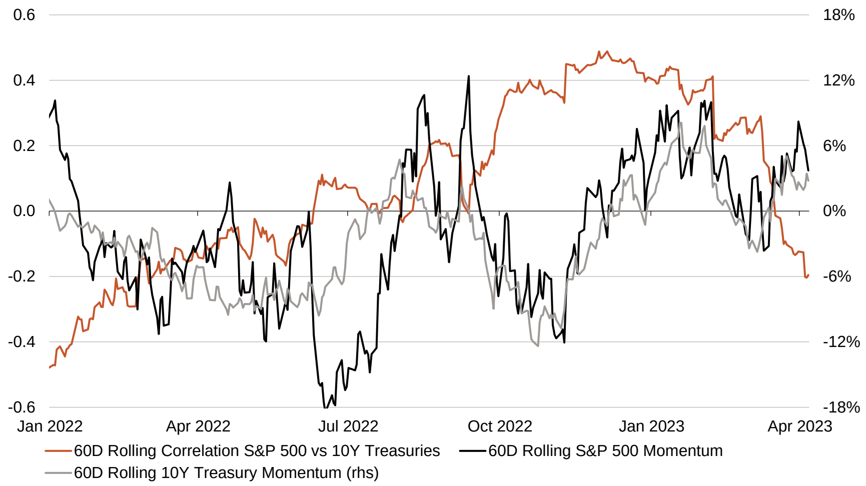
Put-Call-Skew



- The put-call skew has stabilised in the last two weeks. In the US, it is currently in line with the 10-year average.
- Investors have therefore not further increased their preference for hedging over upside participation.

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: 06/04/2013 - 06/04/2023

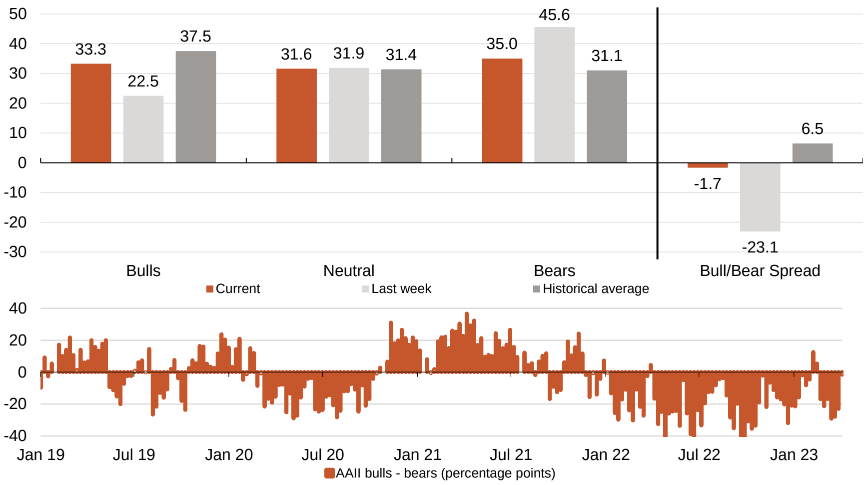
60-Day Momentum and Correlation



- The negative correlation between US equities and US government bonds has increased. Accordingly, the diversification effect of the latter has increased again, allowing systematic investors to take more risk in equities.

The 60-day momentum indicates the rolling return of the last 60 days. The more the momentum rises (falls), the more systematic momentum strategies build up (reduce) their positions in the corresponding asset class. Changes in the sign of the return mark important turning points. The 60-day correlation indicates how equitably stocks and bonds move. The higher (lower) the correlation, the fewer (more) equities demand risk-based investment strategies.
Source: Bloomberg, Time period: 31/12/2021 - 06/04/2023

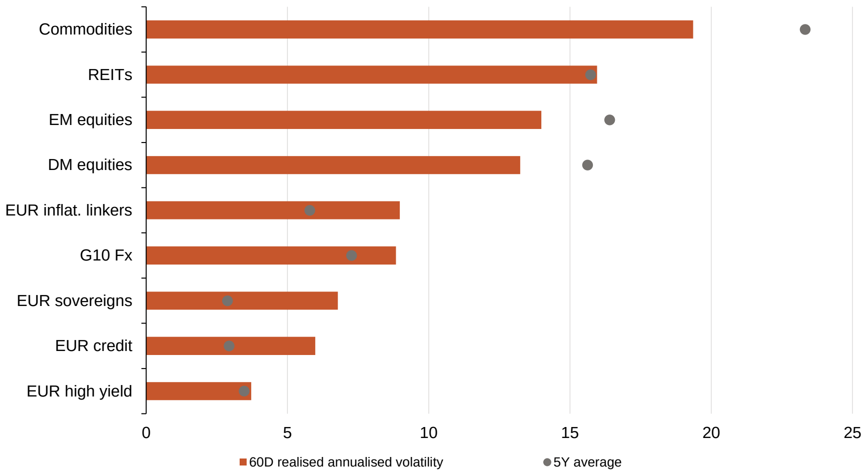
AAII Sentiment Survey (Bulls vs Bears)



- The mood of US private investors has improved abruptly of late. While the bears outweighed the bulls by 23ppt in the previous week, the two are now more or less in balance – and economic uncertainty remains 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 – 06/04/2023

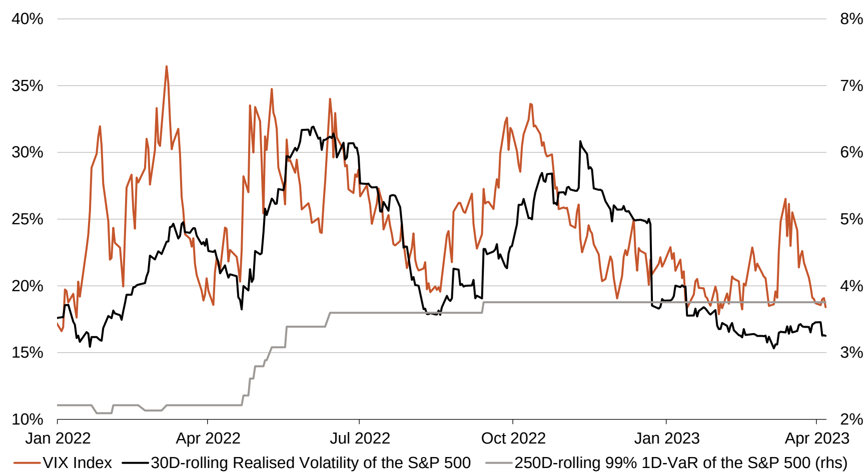
Realised Volatilities



- Realised volatility over the last 60 days of equities remains below the 15% mark and thus also below the average of the last five years.
- For commodities, volatility has recently fallen below the 20 mark. Commodity markets do not appear to be fundamentally oversupplied despite recent poor manufacturing data.

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: 06/04/2018 - 06/04/2023

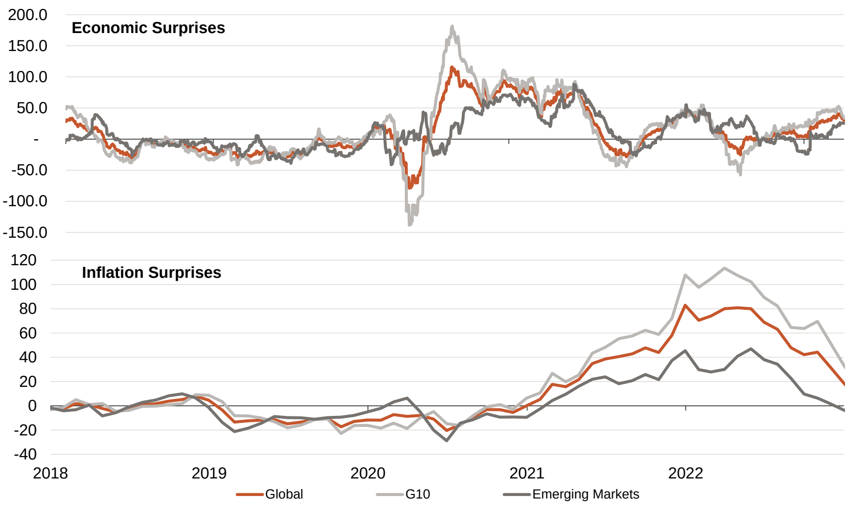
Volatility and Value-at-Risk of the S&P 500



- The premium of the volatility priced for the next 30 days over the volatility of the last month has recently fallen significantly. Investors therefore expect similar fluctuations as in recent weeks.

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 – 06/04/2023

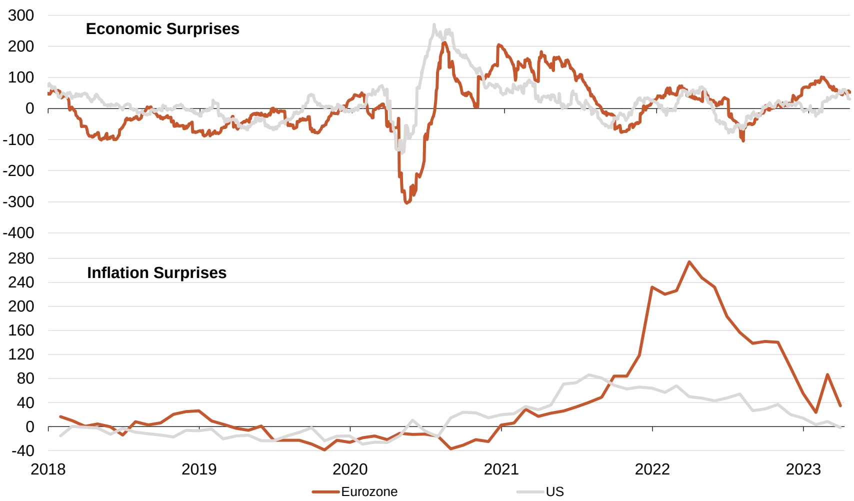
Global



- The economic surprise indices remain in positive territory. The positive economic surprises increased noticeably in the course of the last four weeks, especially in emerging markets.
- Inflation data in the industrialised countries continued the positive surprise series. However, the data are clearly less positively surprising than they were a few months ago.
- In emerging markets, negative inflation surprises have even predominated since winter last year.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 06/04/2023

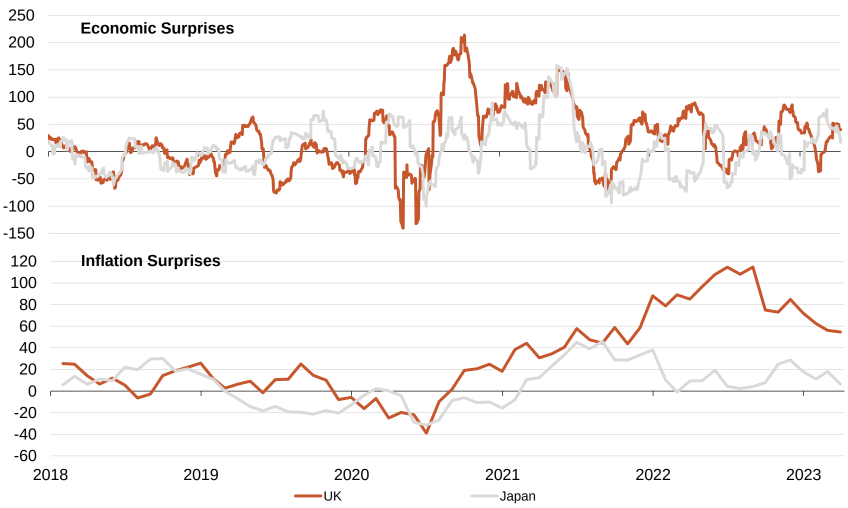
Eurozone and US



- After the downward trend since February, the positive economic surprises in the eurozone stabilised over the last four weeks. The ifo index and the industrial production data for Germany, for example, have recently surprised on the upside.
- In the US, the series of positive economic surprises seems to be weakening. The ISM index and new orders have disappointed, while the unemployment rate has fallen.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 06/04/2023

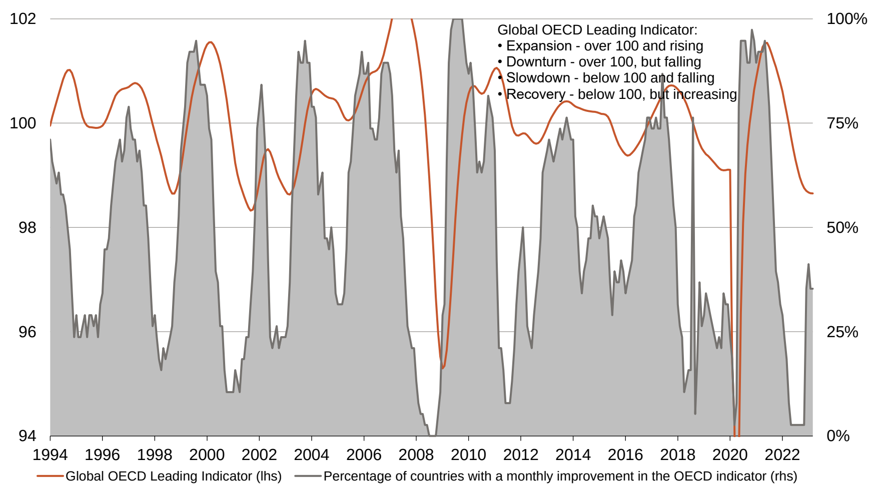
UK and Japan



- In the UK, PMIs have surprised positively, while housing market data has been partly disappointed.
- In Japan, industrial production data and retail sales have recently been better 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, Time period: 01/01/2018 - 06/04/2023

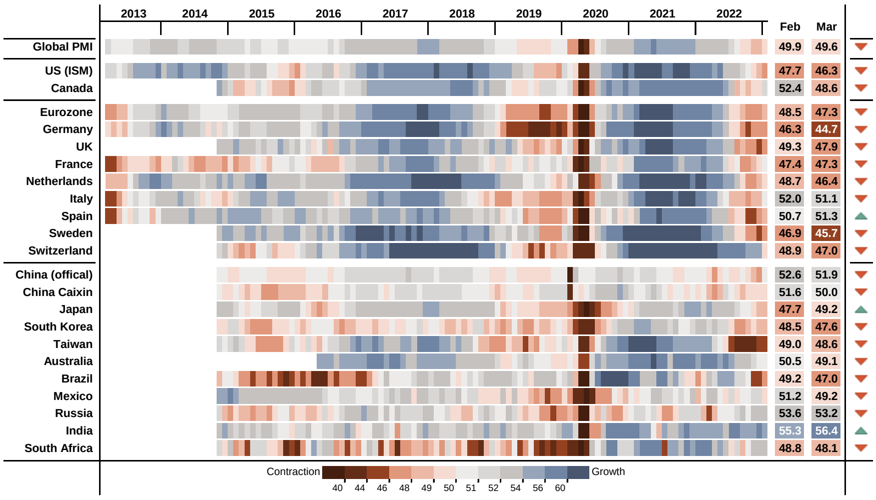
OECD Leading Indicator



- In March, the OECD Leading Indicator, a robust signal of economic turning points, continued to fall, at 98.65 points, indicating a progressive slowdown in the global economy.
- Looking at the individual countries, 35% of the countries achieved a better value of the leading indicator in March than in February.

The OECD Leading Indicator is composed of a set of selected economic indicators whose composition provides a robust signal of future turning points. A turning point usually signals a turning point in the business cycle in 6-9 months. However, lead times are sometimes outside this range and turning points are not always correctly identified.
Source: Bloomberg, Time period: 31/01/1994 – 31/03/2023

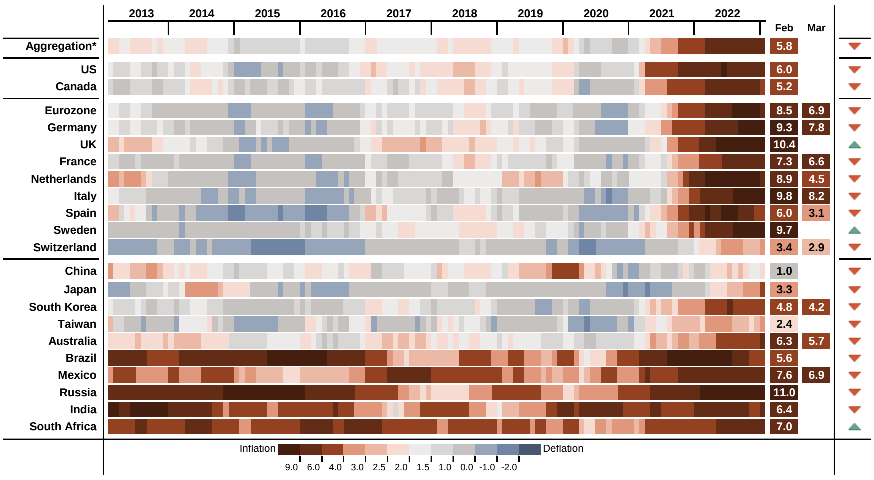
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The purchasing managers' data for industrial activity in March show a clear picture: with the exception of Spain and India, the data globally show a decline in industrial activity compared to the previous month.
- In Germany, the value of just under 44.7 is even as low as it was in the summer of 2020.

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 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: 06/04/2013- 06/04/2023

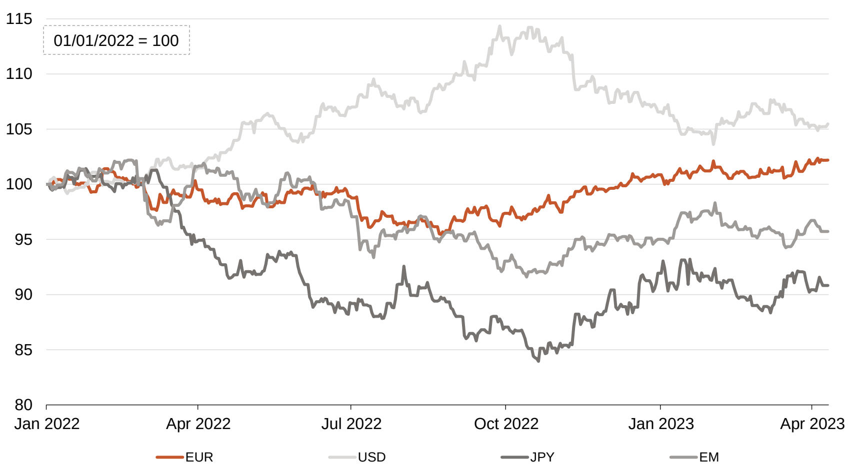
Headline Inflation



- Inflation in the eurozone fell to 6.9% in March and to 7.8% in Germany.
- The significant decline in energy costs contributed significantly to this. While energy costs had already been rising less and less year-on-year for months, compared to the previous they fell for the first-time year in March.

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: 06/04/2013 – 06/04/2023

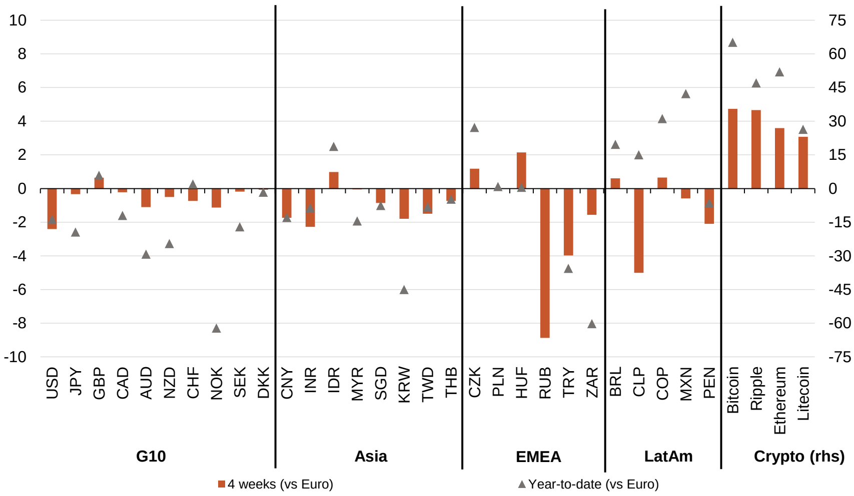
Trade-Weighted Currency Development



- The USD has continued to lose value in recent weeks. The market expects the Fed to pursue an increasingly less restrictive interest rate policy, which should reduce the interest rate advantage of the USD.
- The euro, on the other hand, was able to gain steadily. The ECB is likely to remain restrictive for longer, as inflation in Europe is currently more stubborn than in the US.

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 - 06/04/2023

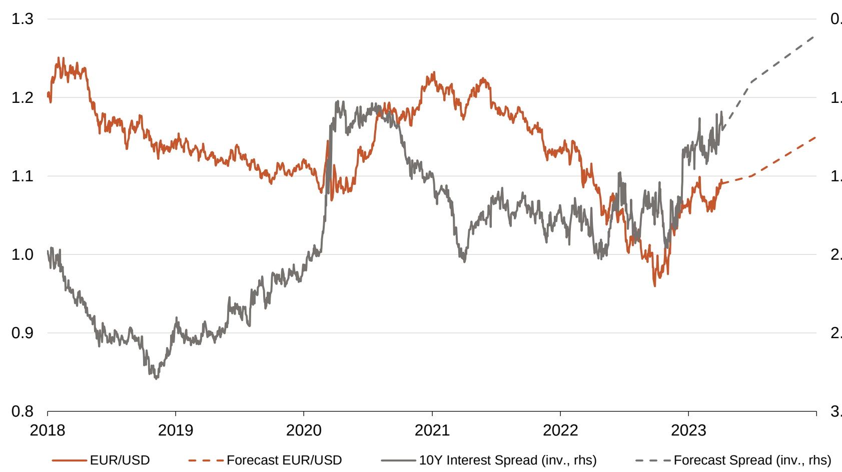
Currency Moves vs Euro



- The euro appreciated against most of the currencies shown here over the last four weeks. While rate-cut expectations for the Fed are increasing, the ECB seems to be sticking to its restrictive interest rate plans.
- Cryptocurrencies have risen significantly over the last four weeks. Hopes of a "Fed pivot" and thus rising liquidity as well as concerns about the banking system provided support.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2022 - 06/04/2023

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



- USD weakness caused the EUR/USD exchange rate to temporarily rise above the 1.09 mark. The exchange rate thus reached its highest level since the beginning of February.
- -The lower interest rate differential between Bunds and Treasuries was decisive for this development. At 1.09ppt, the differential reached its lowest level since July 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

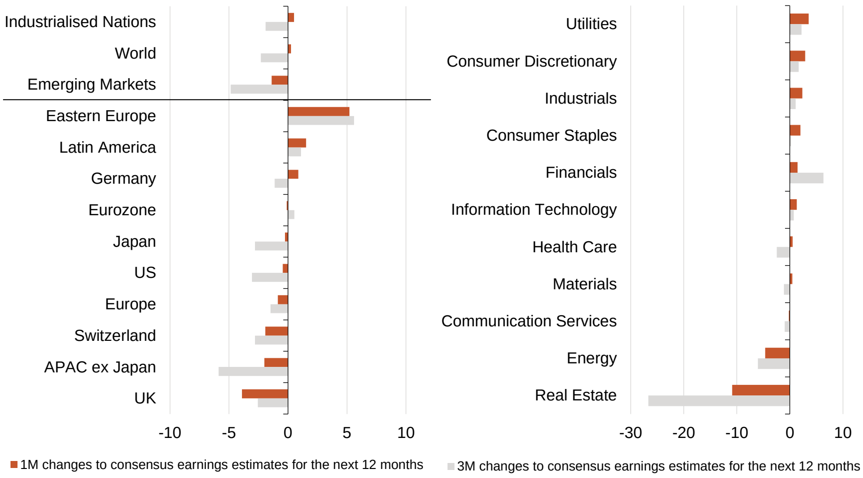
	4-week & YTD		12-month periods over that last 5 years				
	4W (09/03/23 - 06/04/23)	YTD (30/12/22 - 06/04/23)	06/04/22 06/04/23	06/04/21 06/04/22	06/04/20 06/04/21	06/04/19 06/04/20	06/04/18 06/04/19
Utilities	8.0	11.0	2.3	7.0	32.6	-1.6	16.2
Communication Services	7.9	7.5	-2.3	28.9	4.8	11.5	17.5
Consumer Staples	5.7	8.2	3.4	12.2	11.6	-4.5	12.1
Growth	2.7	11.3	2.6	6.9	34.2	-4.7	9.9
Information Technology	2.2	18.1	3.0	-1.8	57.6	-5.5	14.1
Telecommunications	2.1	17.2	-0.4	5.4	24.9	-22.8	-0.4
Consumer Discretionary	-0.1	17.2	18.2	-11.0	72.0	-20.9	1.3
Value	-1.9	6.9	5.3	8.8	38.5	-25.9	3.6
Materials	-2.8	1.3	-8.9	11.6	61.7	-20.6	9.9
Energy	-3.1	2.9	17.2	41.3	13.0	-36.3	13.3
Industrials	-3.4	9.7	6.6	-1.7	62.9	-18.6	7.0
Finance	-6.1	6.5	7.8	6.6	49.9	-30.2	-4.9

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.

- Unlike at the index level, a risk-off was observed below the surface. Cyclical segments lost while defensive and growth stocks gained.
- At the sector level, utilities, healthcare and consumer staples stocks performed well over the last four weeks.
- Not surprisingly, given the prevailing banking worries, financials were the worst performing sector with a loss of about 6% over the last four weeks.

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: 06/04/2018 – 06/04/2023

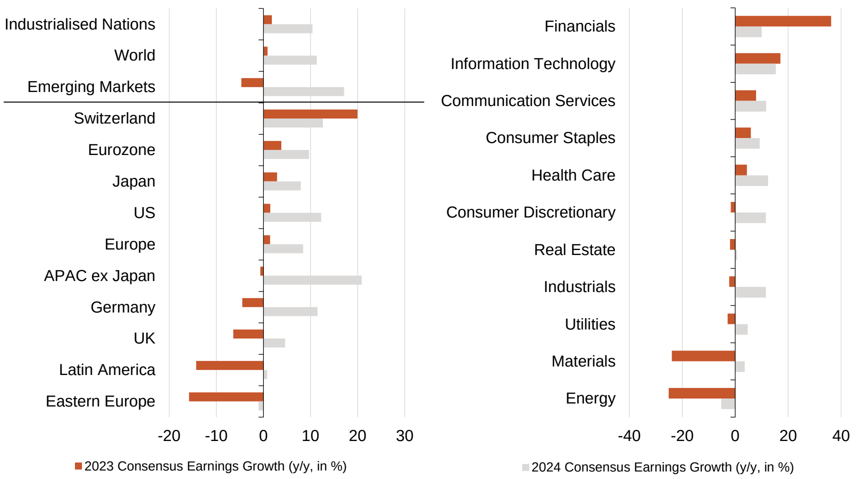
Changes in Consensus Earnings Estimates



- After several weeks of negative earnings revisions, analysts have not lowered global earnings estimates further in the last four weeks. Earnings growth in the industrialised nations is viewed marginally more positively. For emerging markets, analysts remain pessimistic.
- Within the European sectors, negative earnings revisions were strongest for the real estate sector. Utilities saw the most positive earnings 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 06/04/2023

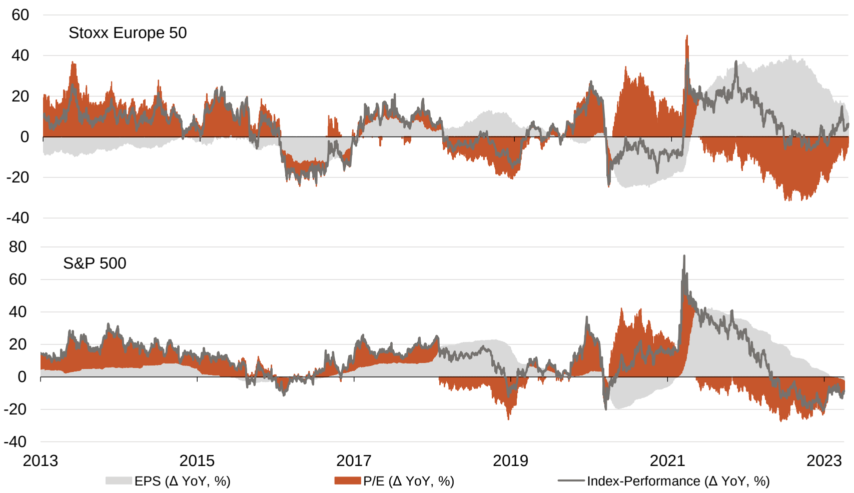
Earnings Growth



- Earnings growth for 2023 for the developed world has risen to 1.8%. In emerging markets, however, analysts expect falling profits.
- Profits are expected to grow most significantly in Switzerland, while Latin America and Eastern Europe are expected to see the largest drop in profits.
- Sectorally, despite recent turbulence, the largest earnings growth is still expected in financials.

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 06/04/2023

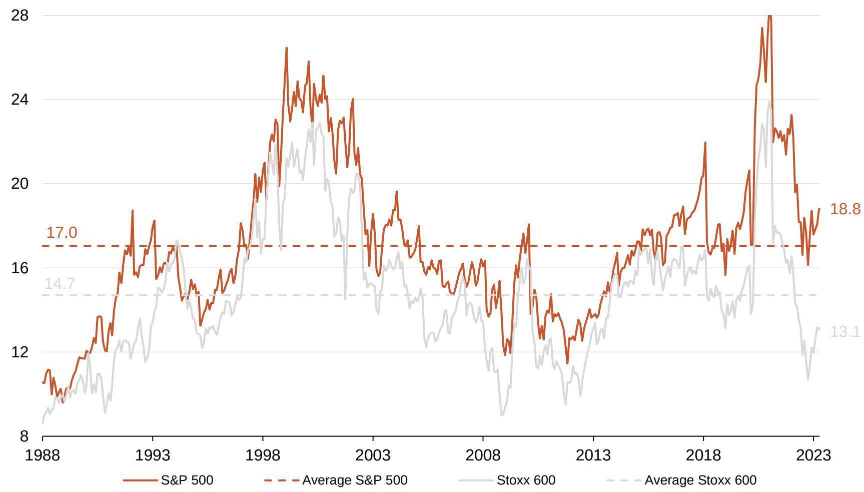
Contribution Analysis



- The positive year-on-year performance of the STOXX Europe 50 is based on the positive earnings trend of the companies. The decline in valuations, on the other hand, was a burden.
- The S&P 500, meanwhile, posted a negative year-on-year performance. Both valuation and earnings developement dragged the index down.

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 - 06/04/2023

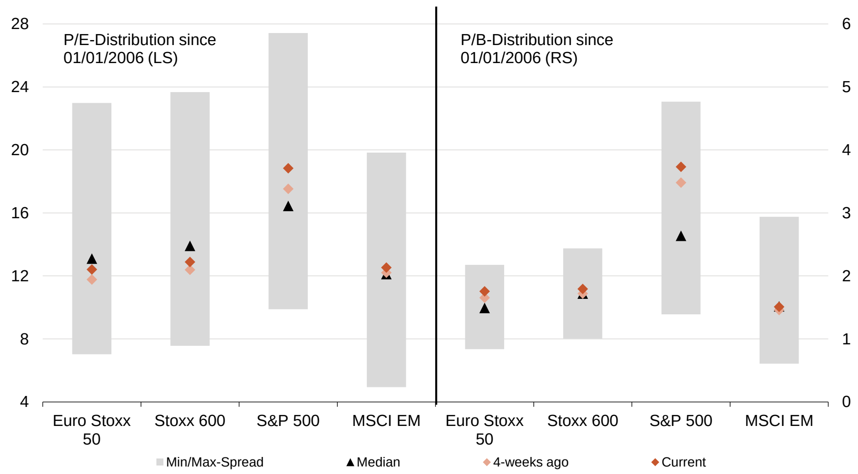
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Despite the banking turmoil and rising recession risks, valuation metrics on the S&P 500 and the STOXX 600 have risen recently. Hopes for a looser monetary policy again as well as systematic buyers are supporting the markets.

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 - 06/04/2023

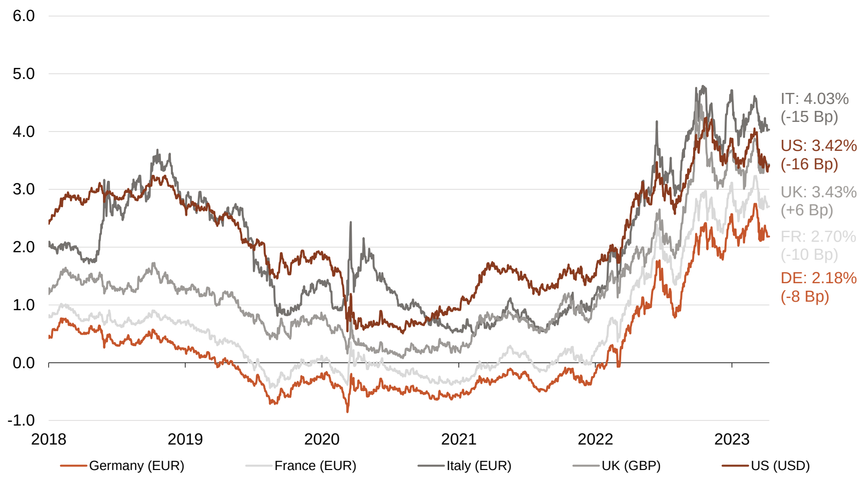
Historical Distribution: Price/Earnings and Price/Book Ratio



- In the last four weeks, only the valuation of the S&P 500 has moved noticeably. While European and emerging-market equities have only increased in price to a limited extent, the S&P 500 has become significantly more expensive in terms of both P/E and P/B ratio.

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 - 06/04/2023

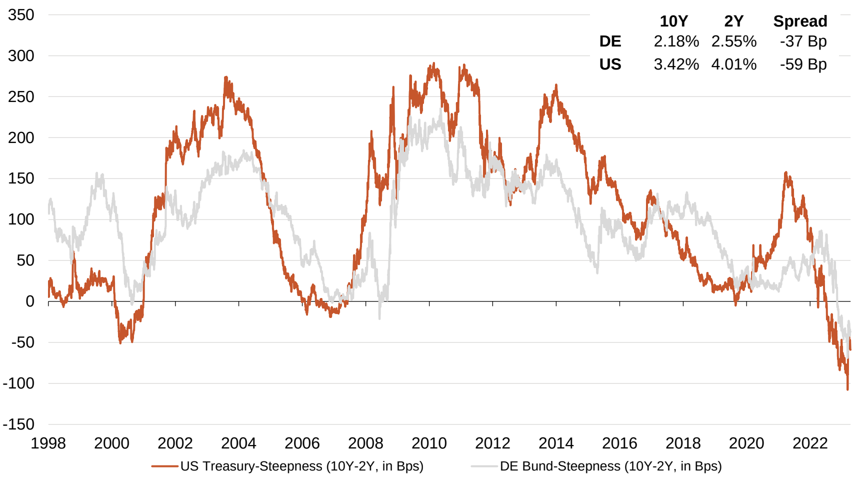
10-Year Government Bond Yields



- The bond market has clearly felt the effects of the recent bank turmoil.
- With market expectations of an imminent end to the Fed's restrictive interest rate policy path due to the growing risk of recession, yields on shorter government bonds fell. In the US, the yield on 10-year government bonds is now below 3.5% again.

Effective yield on 10-year government bonds and change over the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2017 - 06/04/2023

Yield Curve Steepness (10Y - 2Y)

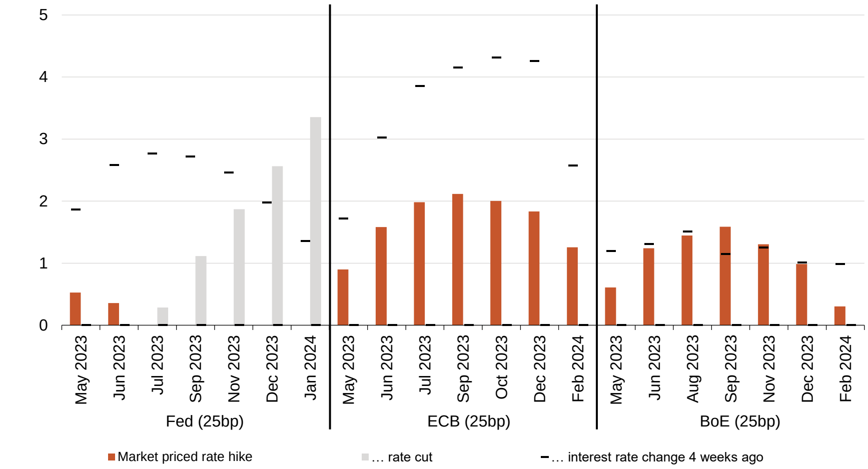


	10Y	2Y	Spread
DE	2.18%	2.55%	-37 Bp
US	3.42%	4.01%	-59 Bp

- The yield curves on both sides of the Atlantic are much less strongly inverted than they were a few weeks ago. The market is thus increasingly assuming a departure from the restrictive monetary policy by the central banks.

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 - 06/04/2023

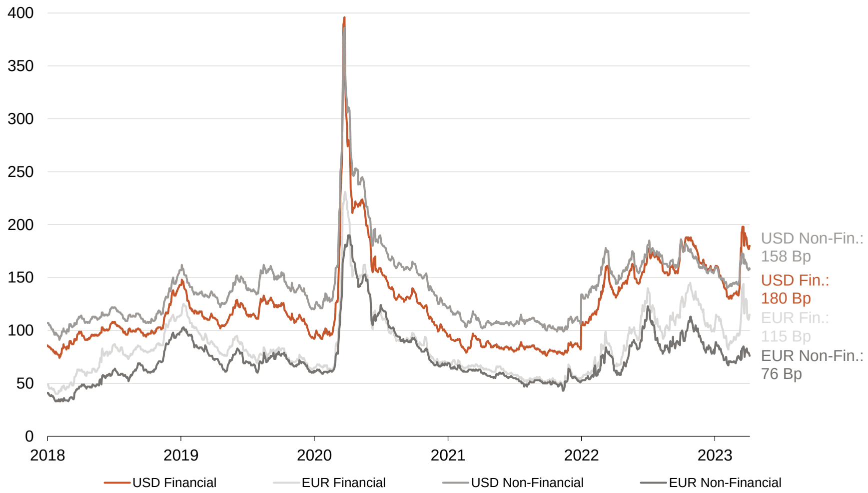
Implicit Changes in Key Interest Rates



- The market is now pricing in another Fed rate hike in May with a probability of just under 70%. The first interest rate cut by the US central bank is then being priced in for November.
- For the ECB, the market is still expecting several rate hikes, also because inflation and wage increases in Europe are now more stubborn than in the US.

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: 09/03/2023 - 06/04/2023

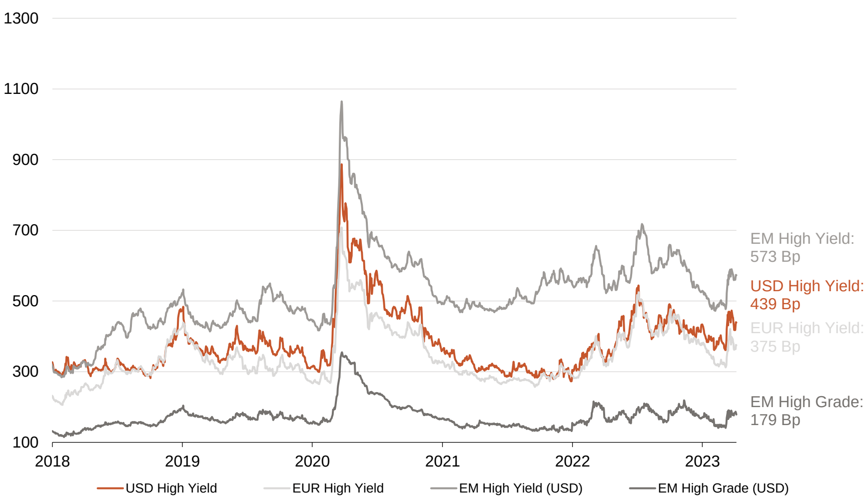
Credit Spreads Financial and Non-Financial Bonds



- With the calming of the banking turmoil, spreads on investment-grade bonds have recently fallen.
- The spread decline was most pronounced for EUR financial bonds. But USD corporate bonds also saw significantly falling spreads after spreads on USD financial bonds reached their highest level since 2020.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 – 06/04/2023

Credit Spreads High Yield and Emerging Markets Bonds



- Spreads on USD and EUR high-yield bonds have also come back significantly in the last two weeks, even though they are still trading noticeably above the levels seen before the banking turmoil.
- Spreads on emerging market investment grade and high-yield bonds, on the other hand, have declined less sharply, which is probably also due to the still low demand from private investors.

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 – 06/04/2023

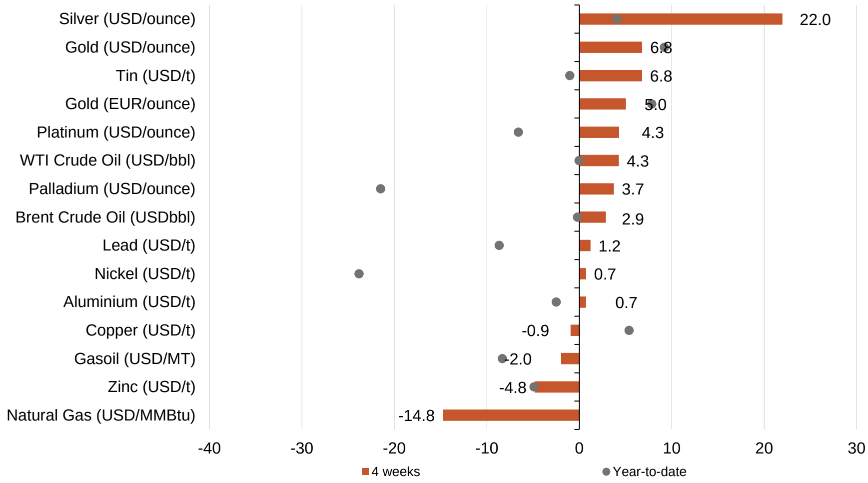
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	06/04/22 06/04/23	06/04/21 06/04/22	06/04/20 06/04/21	06/04/19 06/04/20	06/04/18 06/04/19
EUR Government	2.89	-0.35	7.3	-	-	-	2.2	2.9	-9.5	-7.9	2.7	3.6	2.5
Germany	2.28	-0.38	7.3	-	-	-	2.3	2.5	-9.8	-6.5	-0.9	2.6	4.3
EUR Corporate	4.03	-0.27	4.6	91	9	72	1.4	2.4	-6.1	-6.6	7.5	-2.4	2.6
Financial	4.33	-0.19	3.8	115	17	89	1.0	1.8	-5.5	-5.4	6.0	-1.3	2.3
Non-Financial	3.84	-0.32	5.0	76	3	61	1.7	2.8	-6.5	-7.2	8.4	-3.0	2.7
EUR High Yield	7.44	0.00	3.2	375	35	68	0.0	2.8	-4.0	-4.0	18.3	-7.1	2.5
US Treasury	3.64	-0.52	6.6	-	-	-	2.6	4.3	-2.3	-6.0	-4.5	14.2	4.1
USD Corporate	5.10	-0.38	7.0	165	8	82	2.7	4.6	-2.5	-7.4	7.3	7.2	5.0
Financial	5.42	-0.24	5.2	180	27	94	1.6	3.4	-2.1	-6.7	6.9	6.9	5.2
Non-Financial	4.95	-0.45	7.9	158	-1	72	3.2	5.2	-2.7	-7.7	7.5	7.3	4.9
USD High Yield	8.59	-0.28	4.2	439	18	69	1.7	3.7	-2.0	-2.6	20.9	-5.6	5.9
EM High Grade	5.34	-0.44	5.3	179	10	44	2.1	3.3	-1.8	-8.5	9.1	1.8	5.2
EM High Yield	10.47	0.06	3.9	573	51	56	0.3	1.9	-3.5	-13.7	25.0	-7.2	4.3

- With the decline in yields in March due to recession concerns, all bond segments have now developed positively again since the beginning of the year. Government bonds often outperformed corporate bonds, as the recently rather rising spreads weighed on the latter.
- In a 10-year comparison, financial spreads in particular are now at an attractive level.

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 : 06/04/2018 – 06/04/2023

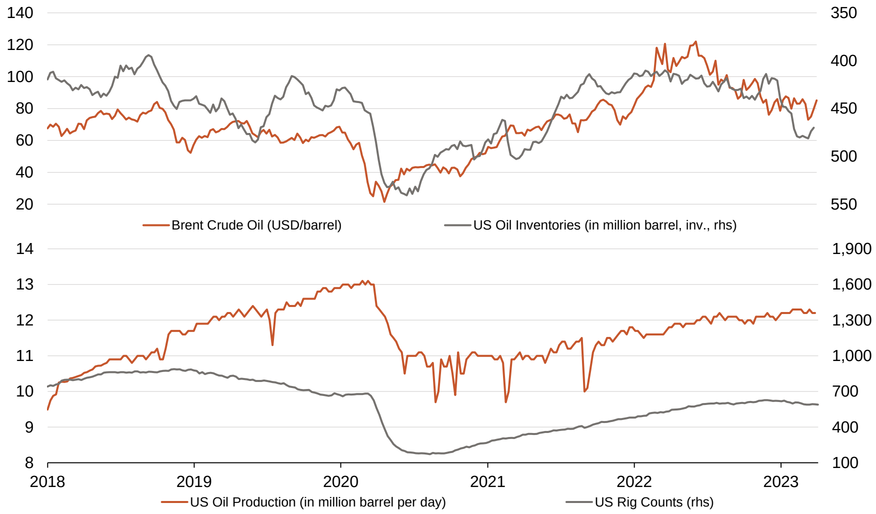
Commodities Performance



- While gold benefited as a safe haven in the face of recession and banking worries, silver made even bigger gains.
- On the losing side are energy commodities such as natural gas, which were less in demand due to recession concerns and mild weather. Crude oil, on the other hand, recovered after OPEC announced a production cut.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period:31/12/2021 - 06/04/2023

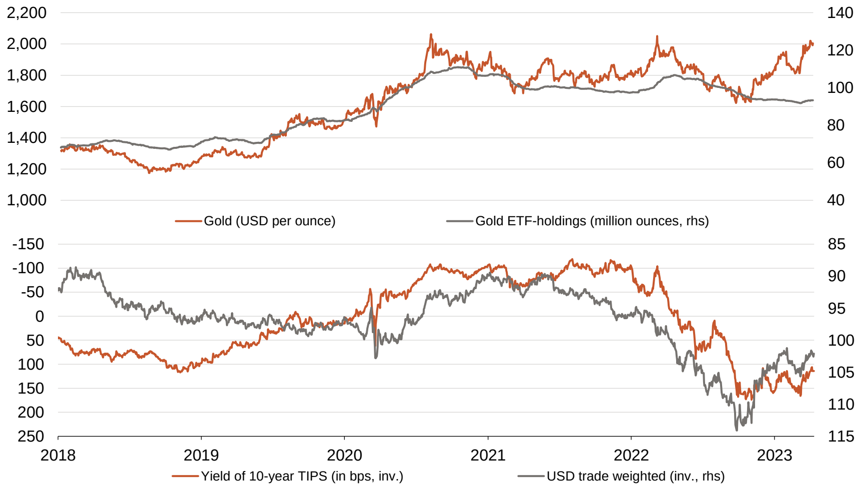
Crude Oil



- Crude oil has continued its sideways movement since the beginning of the year over the last few weeks. Much movement has recently come from OPEC's latest cuts (totalling 1.6m barrels per day). The cuts support a price bottoming and widen the imbalance of tight production versus high demand in the medium term. In the short term, the classic seasonal pattern of the US driving season should boost demand and boost crude oil.

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 - 06/04/2023

Gold



- Gold made it to new all-time highs as a safe haven in the face of economic worries in many currencies. The recent return to a negative correlation with risky assets highlights the value of gold in a portfolio context.
- After the strong performance, the next noticeable upward movement should occur with sustainable signals of a Fed turnaround.

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 - 06/04/2023

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IMPORTANT NOTICES

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