Current market commentary

Equities have celebrated hopes of a timely settlement in the US debt dispute. The S&P 500 is now trading well above its long-term average valuation level, with a P/E of 19x. The DAX marked a new all-time high last Friday, while Japanese equity indices reached their highest level since 1990. The bond and commodity markets, on the other hand, are much more sceptical. Many yield curves are inverted and 200bp of US rate cuts are priced in by the end of next year, while energy commodities and industrial metals have fallen sharply. The US dollar, as a safe haven, has recently even come close to recovering its YTD losses. On the surface, therefore, the equity markets are clearly more optimistic than other asset classes. Under the surface, however, cracks are appearing - cyclicals, small caps and value stocks have hardly participated in the rally, which was primarily driven by tech stocks and mega-caps. The exciting question remains: which market is right?

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

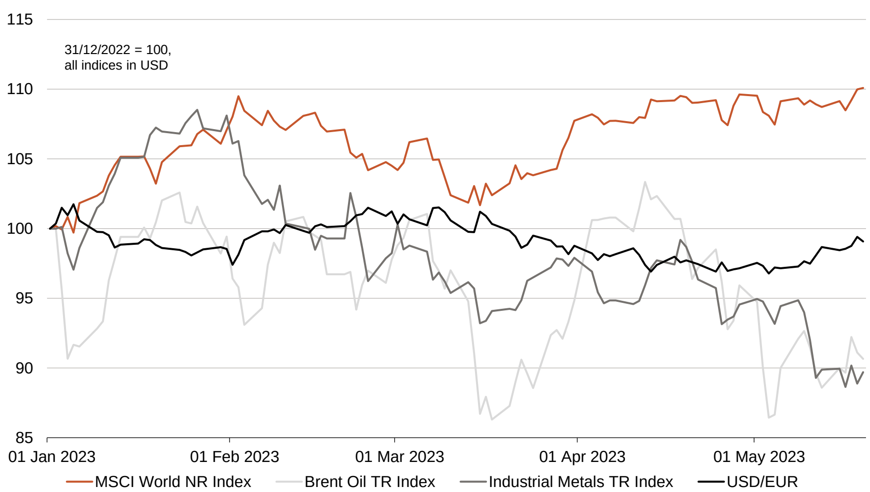
US debt ceiling in the focus of the markets.

The markets are likely to focus on the negotiations on the US debt ceiling between Democrats and Republicans in the next two weeks. Central banks do not meet again until mid-June and the Q2 reporting season does not really start until mid-July.

Purchasing managers' indices with insight into the economic outlook.

This Tuesday, the preliminary manufacturing and services purchasing managers' indices (S&P, May) are due for Europe and the US. On Wednesday, inflation data (April) for the UK and the ifo Business Climate Index (May) for Germany will follow. French business climate (May) follows on Thursday and on Friday US household income and spending (April) and US new orders (April) are released. The following week will see the ISM index (May) for the US, US consumer confidence (May), US labour market data (May), European inflation data (May) and German retail sales (April).

Who is right? Equity markets more optimistic than commodity markets



- The pain trade for cautious investors continued, with equities rising, driven by systematic strategies, short covering and hopes of a mild US recession.
- Industrial metals and oil, on the other hand, have fallen significantly. The Chinese recovery has been disappointing so far. Recession fears are also a burden. If the recession does not materialise, commodity markets should have significant catch-up potential. However, if there is a deeper recession, equity markets are unlikely to be immune and would have correction potential.

Source: Bloomberg, Time period: 31/12/2022 - 19/05/2023

Multi Asset

	4-week & YTD: 4W (21/04/23 - 19/05/23)	YTD (30/12/22 - 19/05/23)	12-month periods over that last 5 years: 19/05/22 19/05/23	19/05/21 19/05/22	19/05/20 19/05/21	19/05/19 19/05/20	18/05/18 19/05/19
MSCI World	2.4	9.0	6.8	6.6	28.3	1.3	7.4
USDEUR	1.7	-0.9	-2.0	15.0	-10.3	2.2	5.5
MSCI Frontier Markets	1.6	1.7	-11.4	5.1	24.9	-10.2	-2.3
Gold	1.4	7.4	5.2	13.3	-3.9	39.5	4.2
Global Convertibles	1.4	2.9	-0.1	-3.4	36.2	10.8	9.8
MSCI Emerging Markets	1.3	1.9	-2.9	-9.9	31.1	-2.6	-5.3
EUR Sovereign Debt	0.6	1.6	-5.2	-5.4	0.6	1.2	2.2
Euro overnight deposit	0.2	1.0	1.2	-0.6	-0.5	-0.4	-0.4
EUR Coporates	0.1	1.8	-4.2	-8.7	5.5	-1.5	3.3
REITs	-1.4	-3.3	-15.5	12.5	17.1	-14.8	21.8
Brent	-5.3	-10.3	-18.6	123.6	64.0	-49.3	-0.1
Industrial Metals	-5.5	-11.2	-20.2	36.9	43.7	-11.2	-9.4

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.

- Developed market equities have been the best performers recently, driven by hopes of a timely resolution to the US debt ceiling debate.
- Bonds, on the other hand, have been moving sideways, while commodity markets seem to be pricing in the recession exclusively.
- The US dollar recently strengthened against the euro and is now almost unchanged since the beginning of the year.

Total return for selected asset classes, in euros and in per-cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 19/05/2018 – 19/05/2023

Equities

	4-week & YTD: 4W (21/04/23 - 19/05/23)	YTD (30/12/22 - 19/05/23)	12-month periods over that last 5 years: 19/05/22 19/05/23	19/05/21 19/05/22	19/05/20 19/05/21	19/05/19 19/05/20	18/05/18 19/05/19
MSCI Japan	5.4	9.5	6.9	-1.1	17.2	1.8	-5.5
MSCI EM Eastern Europe	3.8	15.2	13.5	-78.1	20.0	-8.8	12.9
S&P 500	3.1	8.8	7.0	10.8	28.1	6.5	13.5
DAX	2.5	16.9	17.2	-8.1	36.5	-9.5	-6.4
Stoxx Europe Cyclicals	1.5	11.4	11.6	-3.9	47.0	-15.9	-6.5
MSCI EM Asia	1.2	1.6	-2.8	-12.4	30.8	4.9	-7.4
Euro Stoxx 50	0.9	17.9	23.8	-5.2	38.7	-13.4	-1.5
Stoxx Europe Small 200	0.9	8.0	-0.2	-9.0	41.2	-7.0	-4.1
Stoxx Europe 50	0.7	13.5	18.2	7.6	21.9	-6.7	2.8
MSCI USA Small Caps	0.4	1.0	0.4	-0.9	52.4	-11.8	4.5
MSCI UK	0.3	8.1	7.4	14.3	23.1	-18.0	-1.6
Stoxx Europe Defensives	-0.3	9.5	7.4	16.6	10.6	0.9	3.5

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.

- Japanese equities have recently reached their highest level since 1990, thanks to foreign inflows and an attractive valuation.
- US equities, on the other hand, benefited from AI hype and the unwinding of hedges following positive signals in the US debt dispute.
- This year's underperformers, on the other hand, have not been able to recover significantly of late. Asian emerging-market equities and European small caps hardly made any gains.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 19/05/2018 – 19/05/2023

Fixed Income

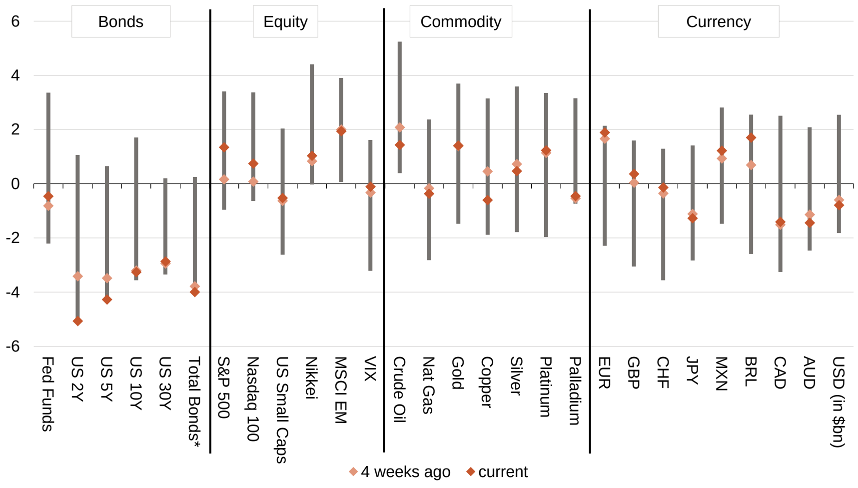
	4-week & YTD: 4W (21/04/23 - 19/05/23)	YTD (30/12/22 - 19/05/23)	12-month periods over that last 5 years: 19/05/22 19/05/23	19/05/21 19/05/22	19/05/20 19/05/21	19/05/19 19/05/20	18/05/18 19/05/19
EM Hard Currency Bonds	1.7	0.3	-1.2	-4.1	0.1	0.8	13.8
EM Local Currency Bonds	1.4	4.0	4.6	-5.3	-0.6	1.7	5.2
Treasuries	1.1	0.9	-4.3	7.3	-14.1	15.0	11.9
Chinese Gov Bond	0.8	2.0	3.8	5.3	0.7	7.9	5.5
EUR High Yield	0.7	3.7	1.3	-8.1	16.2	-5.1	2.1
BTPs	0.5	2.9	-6.0	-8.7	5.6	7.3	0.3
Bunds	0.4	1.1	-9.7	-6.9	-3.0	2.8	5.2
EUR Financials	0.3	1.6	-4.1	-8.0	5.6	-1.7	3.0
EUR Non-Financials	-0.1	2.0	-4.2	-9.1	5.4	-1.4	3.5
USD High Yield	-0.4	3.8	3.5	-7.9	18.2	-3.3	6.1
Gilts	-0.5	-0.1	-20.1	-6.5	-4.6	11.6	5.2
USD Corporates	-1.2	2.2	-0.4	-10.8	4.9	8.8	7.6

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 strong US dollar helped many bond indices to gain in euro terms.
- However, bond yields rose in many regions around the world, so in local currency terms many indices fell or barely moved over the last four weeks. Inflation is still stubbornly high and the US labour market robust, so Fed rate cuts are being priced out again.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 19/05/2018 – 19/05/2023

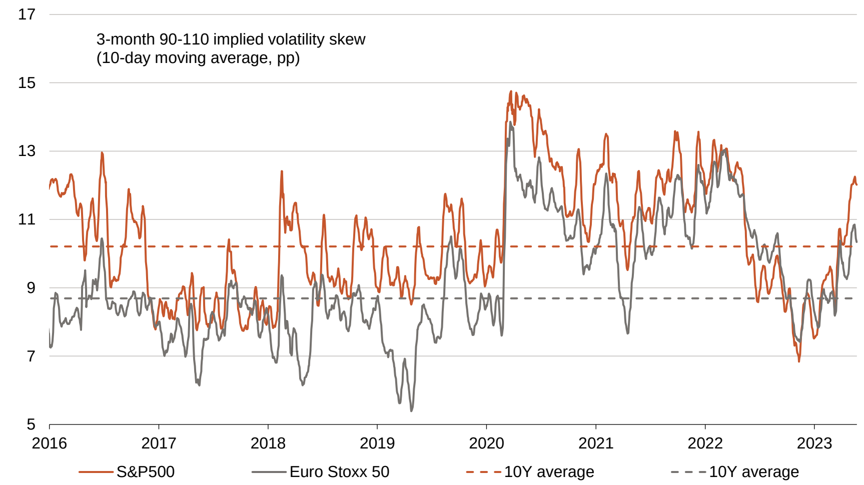
Non-Commercial Positioning



- The changes in the positioning of speculative investors are currently not clear. They have tended to reduce risks within commodities (see copper, crude oil), but have built up long positions in US equities and the Brazilian real, for example.

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: 16/05/2013 - 16/05/2023

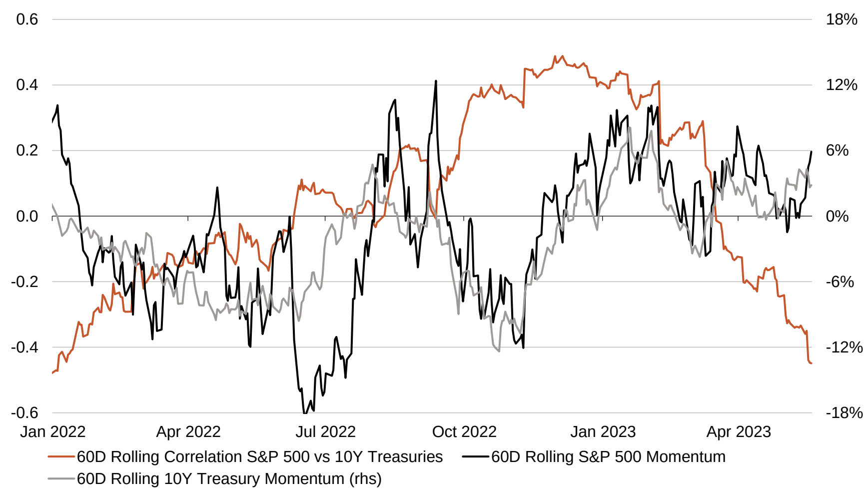
Put-Call-Skew



- The put-call skew has recently steepened further and is now at its highest level in the US since about a year ago. Puts have thus become even more expensive relative to calls in recent weeks.
- Investors seem to be increasingly sceptical about positive stock market developments going forward.

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: 19/05/2013 - 19/05/2023

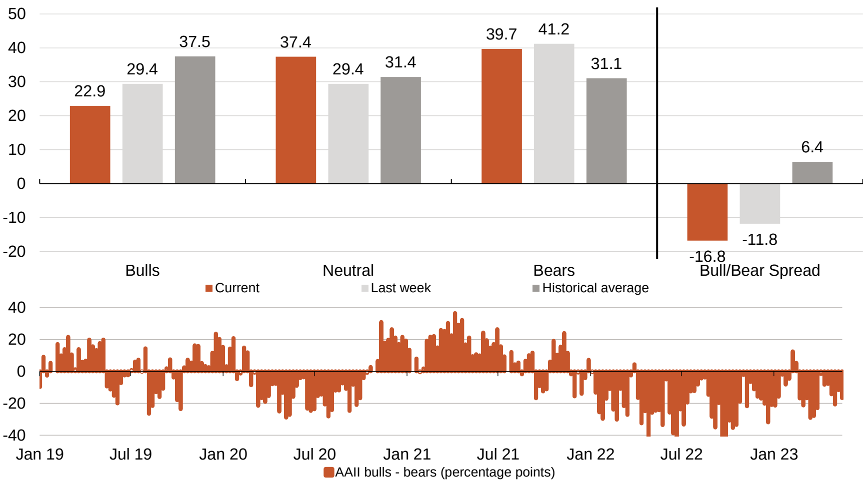
60-Day Momentum and Correlation



- Momentum over the last 60 days is currently positive for both equities and bonds.
- The correlation between the two asset classes on the basis of daily returns is nevertheless negative, which is likely to have prompted risk-based strategies in particular to further increase their equity quotas.

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 - 19/05/2023

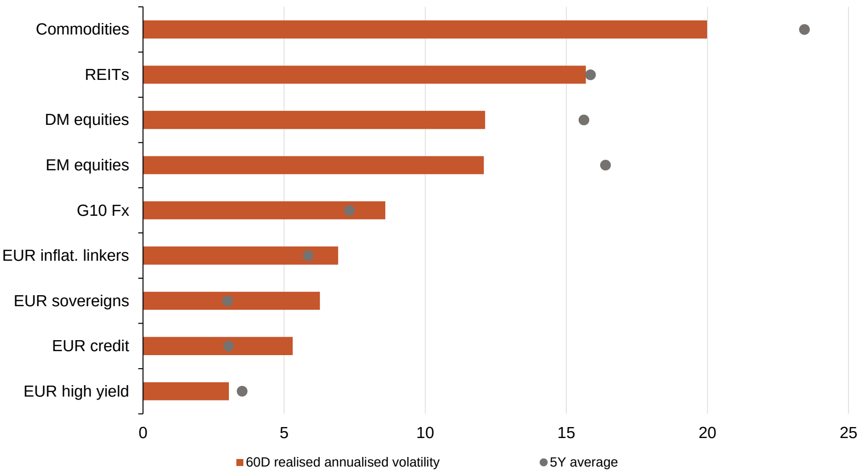
AAII Sentiment Survey (Bulls vs Bears)



- Despite the strong stock market performance in recent days, pessimism among US private investors has increased again. The bull/bear spread now stands at -17 pp.
- Accordingly, systemic strategies in particular are likely to have supported equity markets.

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 – 19/05/2023

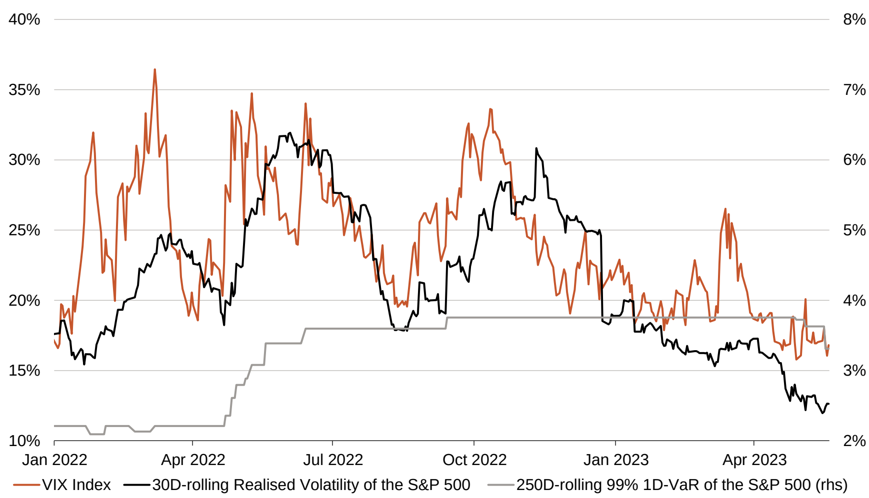
Realised Volatilities



- Realised volatility in equity markets remains conspicuously low, while bond markets fluctuate significantly more than in a comparison of recent years.
- There seems to be more uncertainty in bond markets than in equity markets with regard to the economy and central banks.

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 - 19/05/2023

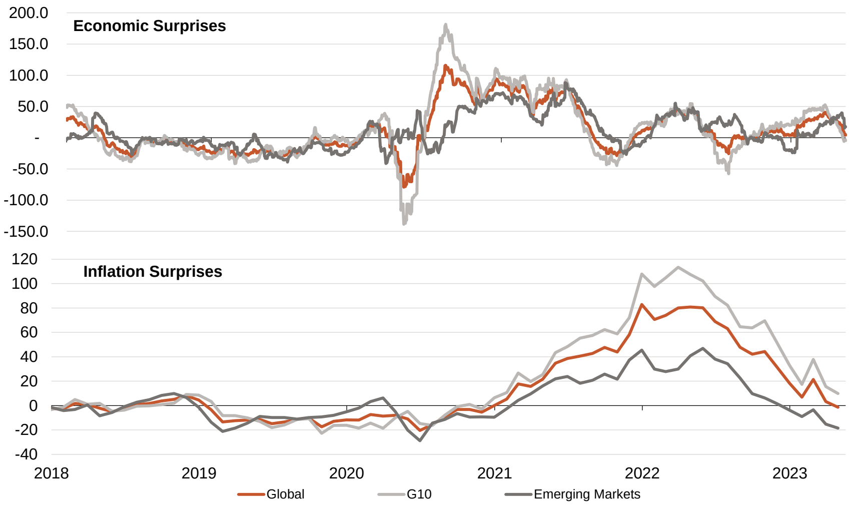
Volatility and Value-at-Risk of the S&P 500



- Realised volatility has fallen further and is currently only at 12%. The VIX, in turn, moved sideways and is currently at 17%.
- Investors therefore expect noticeably greater fluctuations over the next month than over the last, even though the absolute VIX-level "only" corresponds to the average of the last 10 years.

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 – 19/05/2023

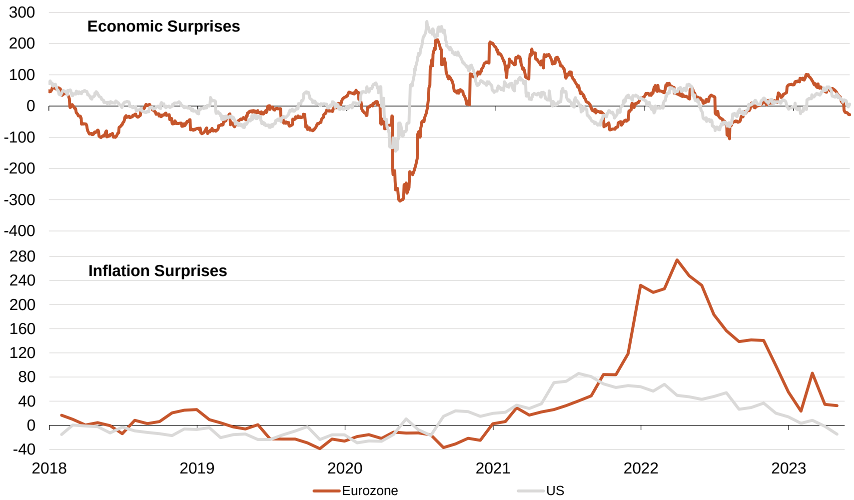
Global



- Positive economic surprises have recently declined significantly. The global economic surprise index is now approaching the zero threshold.
- The decline in positive surprises in the emerging markets was most pronounced, also because the starting point was much more positive than in the industrialised countries. Data in China were particularly disappointing.
- However, the index for the industrialised countries (G10) is already in negative territory.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 – 19/05/2023

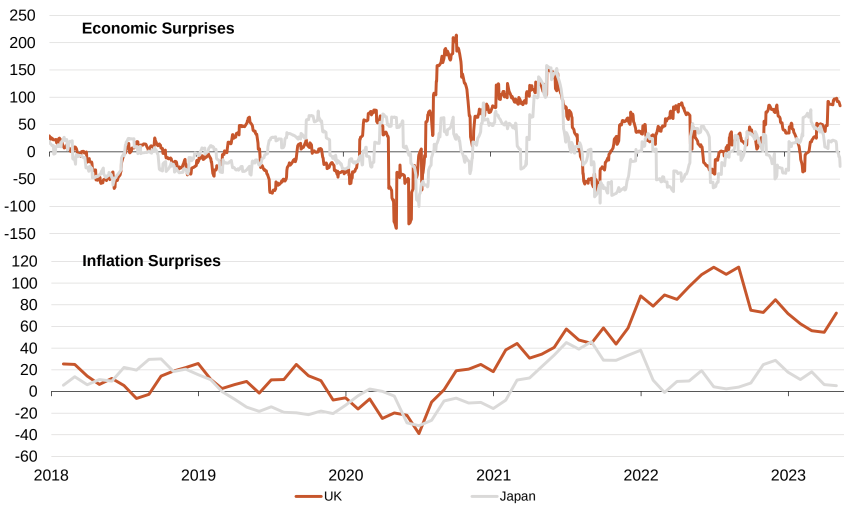
Eurozone and US



- After the Eurozone index, the economic surprise index for the US has now also turned negative.
- In the Eurozone, the German ZEW index and industrial production disappointed.
- In the US, retail sales, consumer confidence and the Empire Manufacturing Index were below expectations. In contrast, industrial production and housing market data provided positive surprises.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 – 19/05/2023

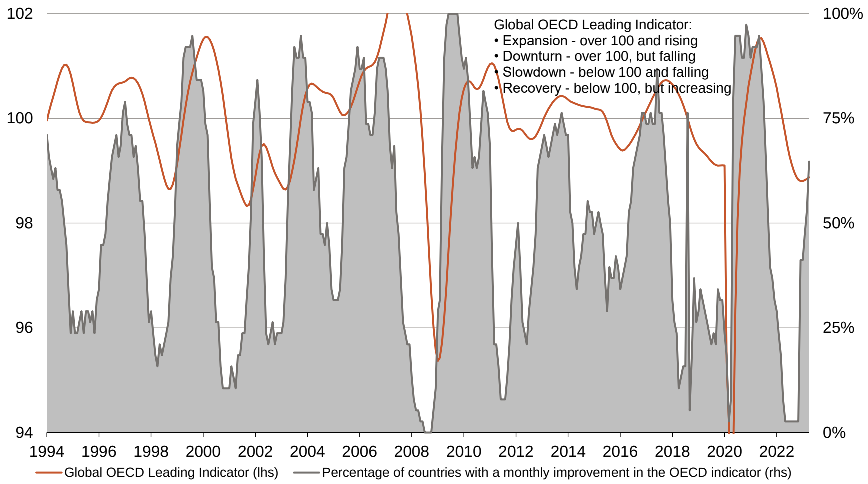
UK and Japan



- The economic surprises in the UK have also been positive on average recently. Industrial production for example surprised on the upside.
- In Japan, on the other hand, the index turned negative.

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 – 19/05/2023

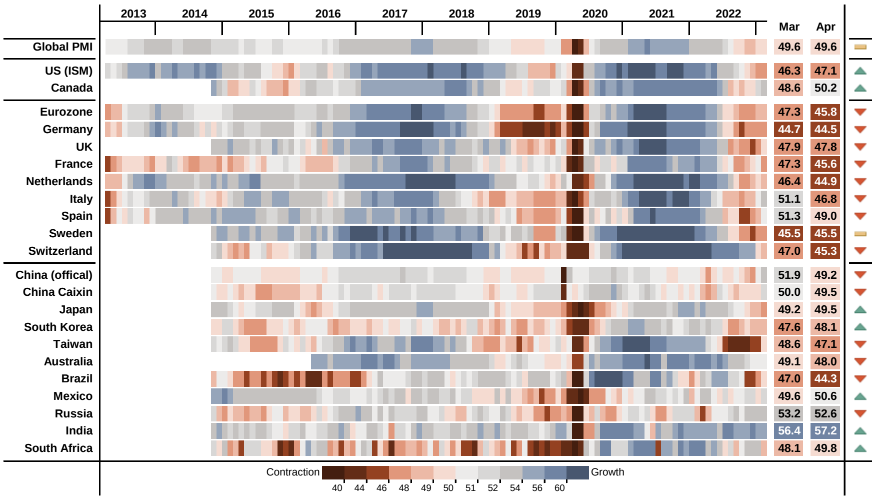
OECD Leading Indicator



- While the bulk of investors speculate about recession, the global OCED leading indicator is already showing economic recovery again.
- At the country level, the OECD Leading Indicator rose in around 65% of the countries covered. The recovery is thus broad-based.

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 – 19/05/2023

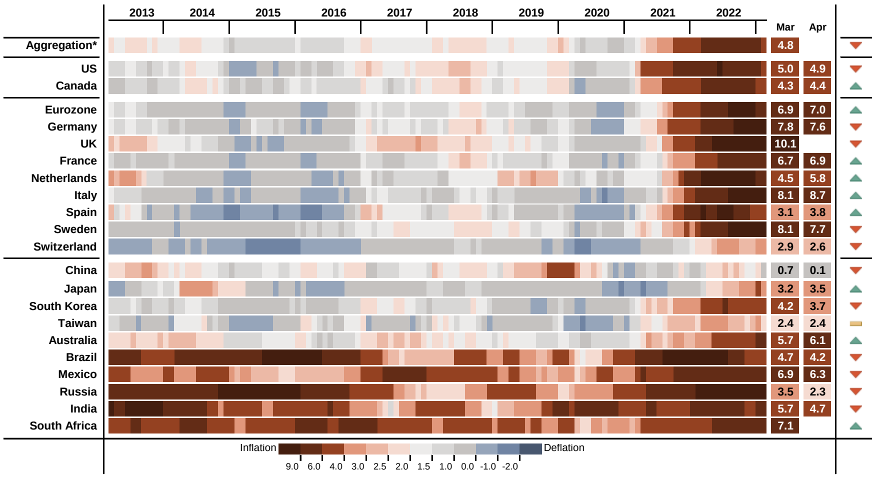
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The purchasing managers' data for April show a mixed picture. While data in the US and Canada increased from the previous month, the eurozone aggregate deteriorated. In addition, every eurozone country shown here is now below the core 50 mark, indicating declining 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: 30/04/2013 – 30/04/2023

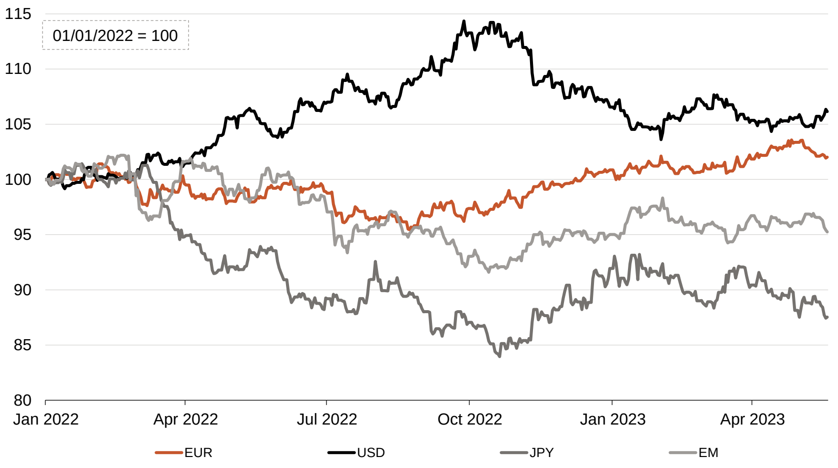
Headline Inflation



- Year-on-year inflation in the US continued to fall in April, to its lowest level since April 2021. Food prices and shelter costs rose more slowly, while energy costs continued to fall.
- China's inflation rate fell to 0.1%. This was the lowest rate since February 2021, underpinning fears of a slow economic recovery since the end of the lockdowns.

Inflation (in %, compared with 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: 30/04/2013 – 30/04/2023

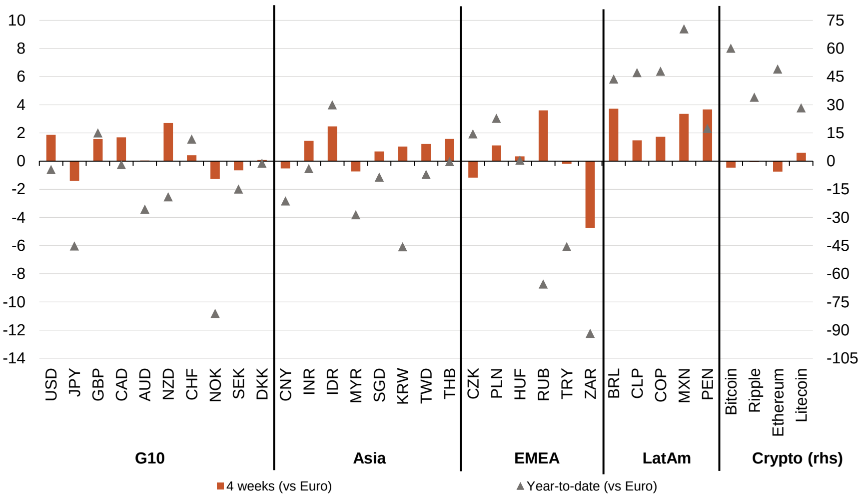
Trade-Weighted Currency Development



- The euro has recently lost some of its strength, as much of the fundamentally positive outlook for the common currency is now priced in and most investors have positioned themselves accordingly. In the short term, therefore, the euro rally has lost its steam.
- In turn, the US dollar has stabilised on a trade-weighted basis in recent weeks.

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 – 19/05/2023

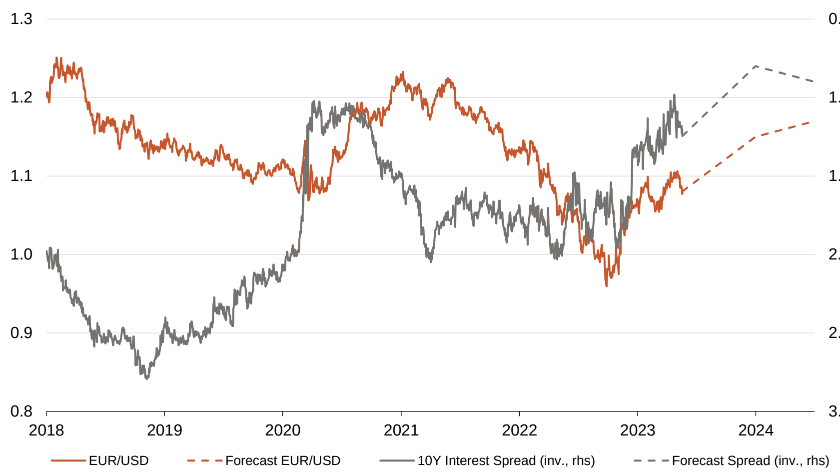
Currency Moves vs Euro



- The strongest currencies, both over the last four weeks and since the beginning of the year, can be found in Latin America. Especially the clearly positive real yields and the very proactive central banks supports the currency.
- Cryptocurrencies have recently weakened again slightly across the board after investor concerns about the banking sector eased somewhat.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2022 – 19/05/2023

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



- The euro has weakened against the USD recently and is currently trading well below the 1.10 mark again.
- While investors are already expecting the first interest rate cuts from the Fed, they anticipate further hikes from the ECB. Expectations for the euro are correspondingly high, hence the potential for disappointment in the short term.

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

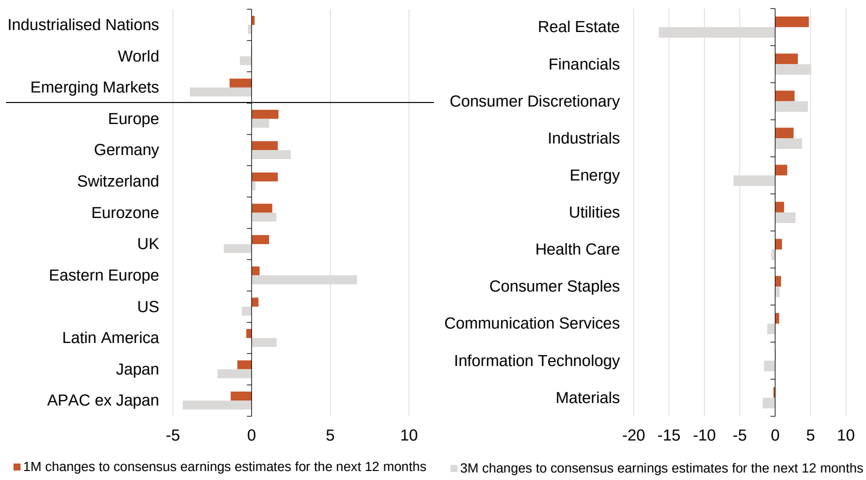
	4-week & YTD		12-month periods over that last 5 years				
	4W (21/04/23 - 19/05/23)	YTD (30/12/22 - 19/05/23)	19/05/22 19/05/23	19/05/21 19/05/22	19/05/20 19/05/21	19/05/19 19/05/20	18/05/18 19/05/19
Information Technology	6.0	22.9	18.6	-8.3	36.0	3.3	5.7
Communication Services	3.1	17.4	20.0	-6.0	48.8	-11.4	-0.6
Growth	1.3	16.1	18.1	-4.2	25.7	1.9	4.2
Consumer Discretionary	1.1	23.2	33.9	-16.9	56.3	-12.7	-6.7
Health Care	0.8	11.8	10.6	15.4	-0.8	23.7	8.8
Finance	0.8	9.8	16.2	0.5	48.0	-27.5	-9.2
Value	0.3	8.9	8.6	6.8	35.3	-21.5	-5.1
Utilities	-0.6	11.0	3.1	6.1	27.2	3.4	8.6
Materials	-0.6	3.5	-1.2	3.4	50.5	-8.6	-6.3
Consumer Staples	-1.3	9.5	10.3	1.7	13.4	-4.1	13.4
Energy	-2.1	0.5	6.3	52.1	19.0	-38.8	-3.8
Telecommunications	-2.6	15.0	0.3	2.6	23.0	-18.7	-1.9

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.

- Investors in Europe are focusing on growth stocks, above all IT. The IT sector has gained more than 20% since the beginning of the year - growth has outperformed value by around 7ppt in the same period.
- Relative losers include commodity stocks, which suffer from fears of recession and correspondingly falling commodity prices.

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: 19/05/2018 – 19/05/2023

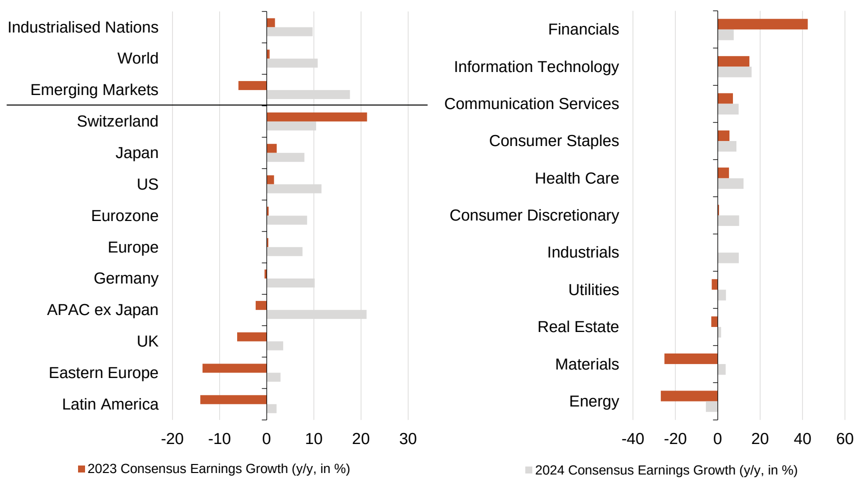
Changes in Consensus Earnings Estimates



- In the last four weeks, analysts have lowered the earnings outlook, especially for emerging markets.
- In contrast, there were hardly any changes for the industrialised countries on an aggregated level. At the regional level, however, the profit outlook was noticeably increased for Europe and Switzerland.
- Among European sectors, real estate, financials and consumer cyclicals experienced 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 19/05/2023

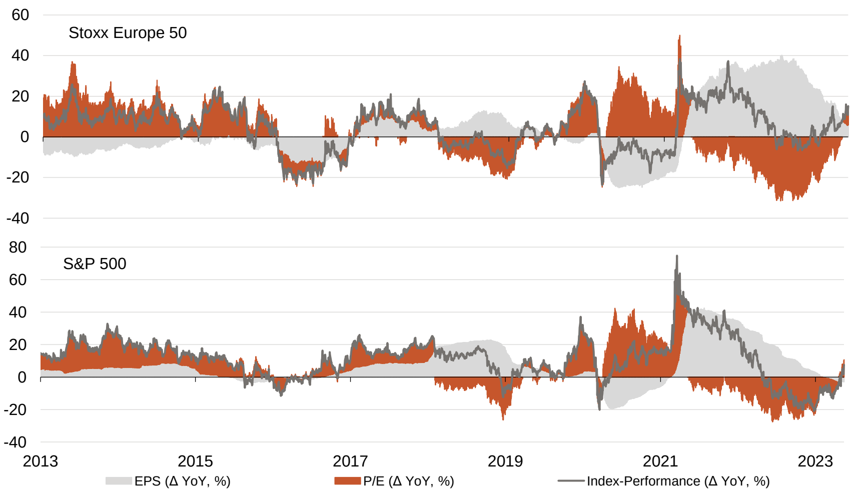
Earnings Growth



- According to analysts, earnings growth should be positive in the industrialised nations in 2023 and 2024 despite the cautious outlook of companies and increasing recession concerns. The analysts expect a significant increase in profits of just under 10% in 2024.
- Emerging markets such as Eastern Europe and Latin America, on the other hand, are expected to record a decline in profits in 2023.

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 19/05/2023

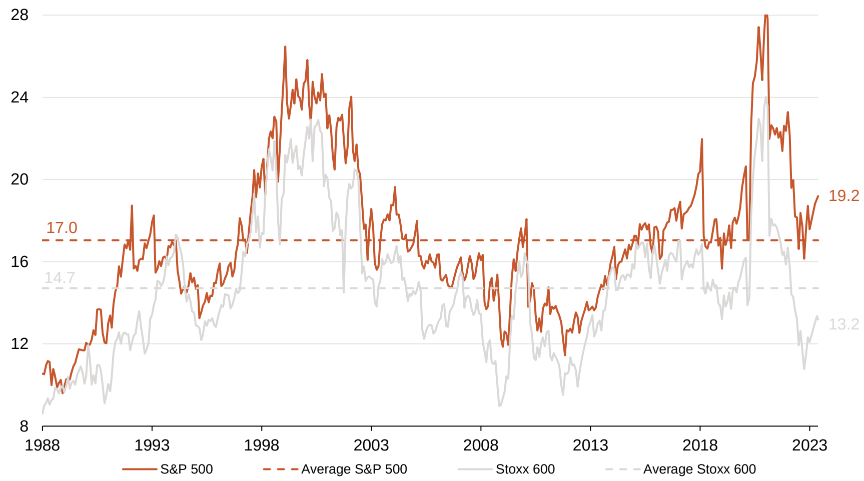
Contribution Analysis



- With the Stoxx Europe 50 having shown a positive 1-year development for several months, the S&P 500 has now also joined in. The development was most recently driven by a valuation expansion and less pressure from the earnings development side.

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 - 19/05/2023

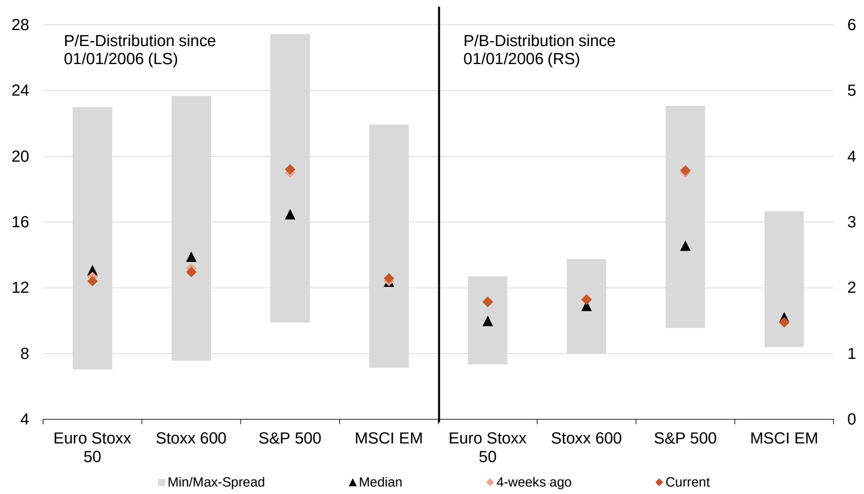
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The P/E ratio of the S&P 500 has recently exceeded the 19 mark due to the positive development resulting from the hope of an amicable end to the US debt issue.
- The Stoxx 600 also developed positively recently. The P/E ratio thus rose to 13.2.

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 - 19/05/2023

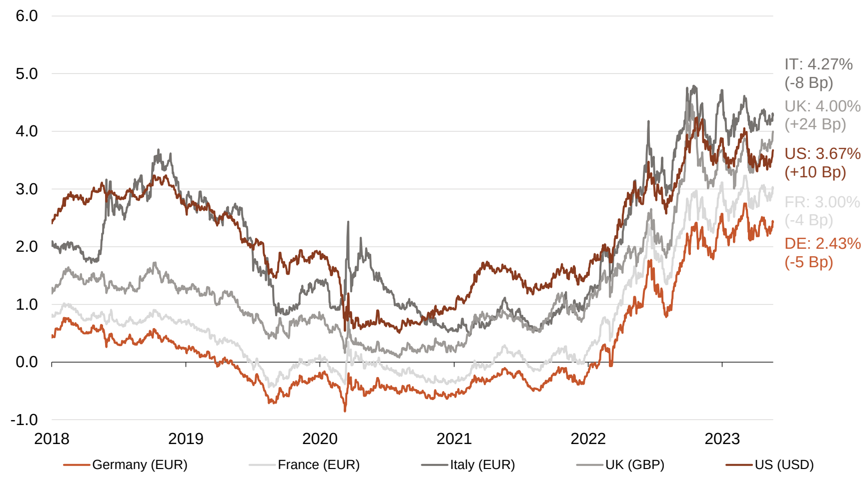
Historical Distribution: Price/Earnings and Price/Book Ratio



- In the last four weeks, US equities in particular have performed positively. US equity valuations have thus risen.
- Emerging market equities performed less well due to the still modest recovery of China and the weakness of commodities. There was hardly any change in valuation levels there.

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 - 19/05/2023

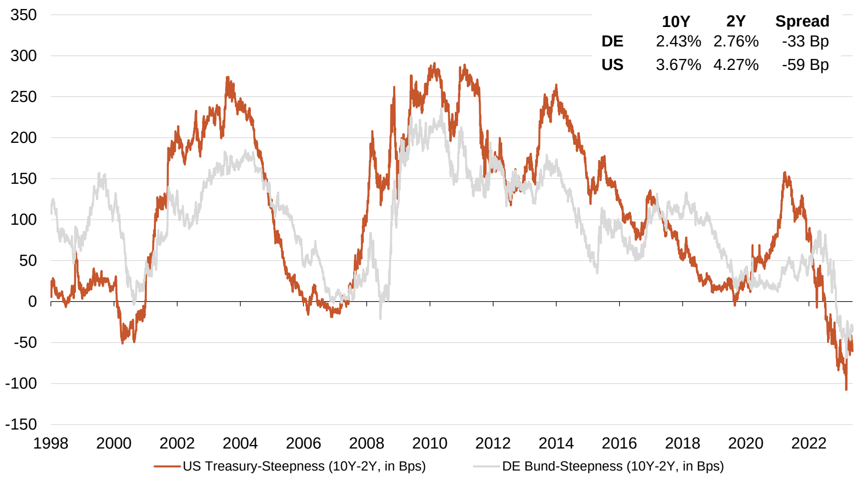
10-Year Government Bond Yields



- Yields on safe government bonds continue to move sideways. Recently, rising inflation expectations and the possible agreement in the US debt ceiling discussion caused yields on 10-year government bonds to rise.
- UK government bonds again experienced the most significant increase in yields. In the last four weeks, they went up by 24bp.

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 – 19/05/2023

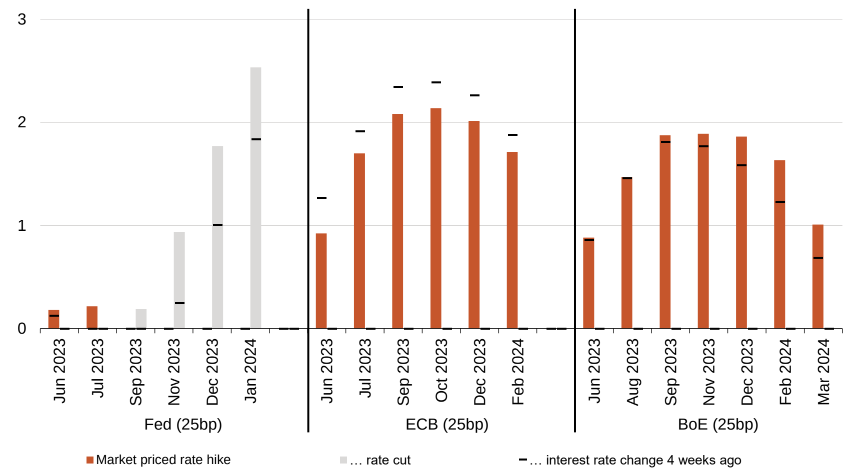
Yield Curve Steepness (10Y - 2Y)



- The steepness of the US yield curve inverted again more strongly in the last two weeks and is now quoted at -59Bp. The market is thus less confident of an interest rate turnaround in the near future.
- The steepness of the German yield curve, on the other hand, has hardly changed.

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 – 19/05/2023

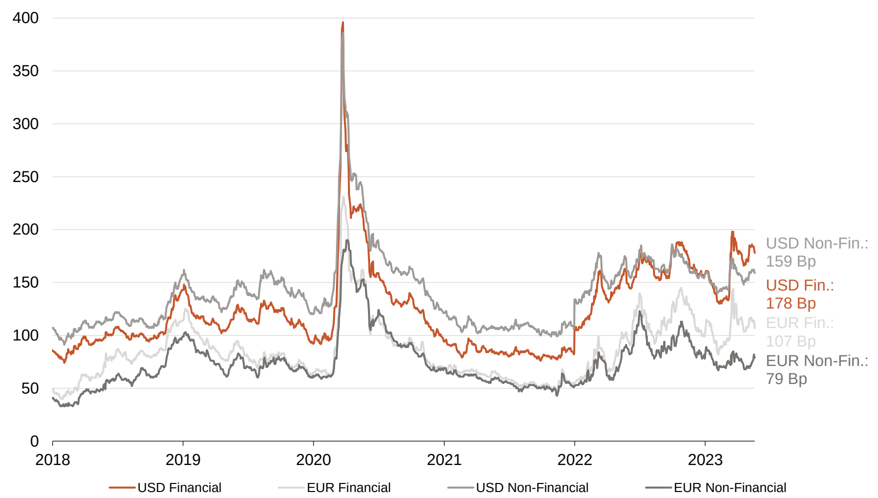
Implicit Changes in Key Interest Rates



- The market does not consider it impossible that the Fed will raise interest rates again at the June meeting. The market currently puts the probability at around 15%. Later in the year, however, the market expects at least one rate cut.
- The market expects the ECB and the BoE to raise interest rates with a probability of almost 100% in June, with another hike in the second half of the year.

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: 21/04/2023 – 19/05/2023

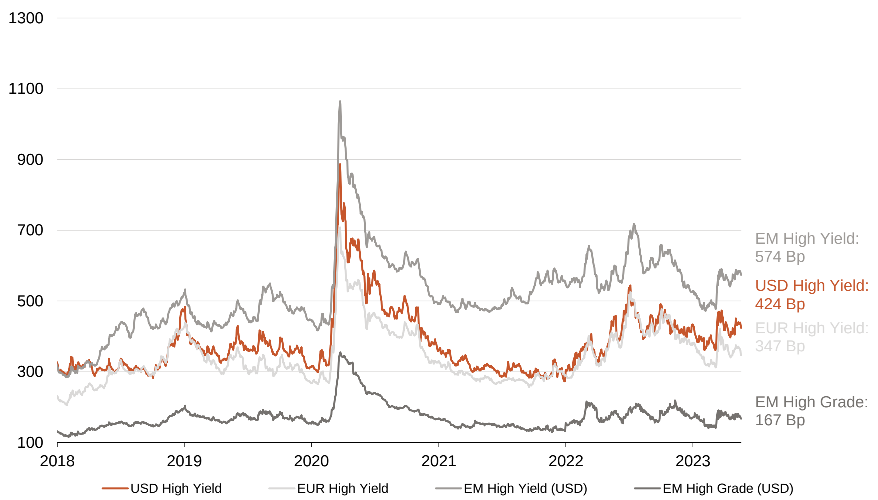
Credit Spreads Financial and Non-Financial Bonds



- Spreads on IG corporate bonds have recently moved inconsistently. While spreads on EUR non-financial bonds have risen by around 10bp in the last two weeks, spreads on EUR financial bonds have fallen by around 10bp.
- For USD-IG corporate bonds, on the other hand, there has been hardly any change in spreads.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 - 19/05/2023

Credit Spreads High Yield and Emerging Markets Bonds



- In high-yield bonds, EUR high-yield bonds experienced significantly falling spreads of 20bp in the last two weeks.
- USD high-yield bonds, on the other hand, recorded a spread decline of around 10bp.
- Spreads of emerging market high-yield bonds have risen by almost 10 bp.

How high the risk associated with the corporate bond 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 - 19/05/2023

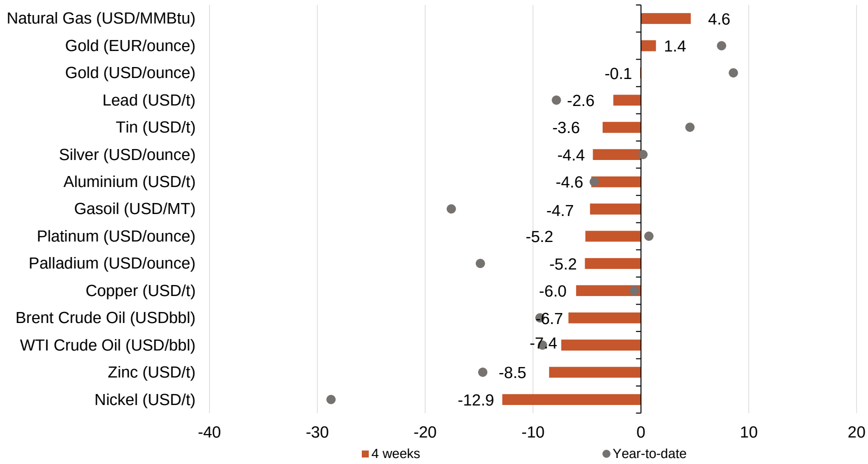
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	19/05/22 19/05/23	19/05/21 19/05/22	19/05/20 19/05/21	19/05/19 19/05/20	19/05/18 19/05/19
EUR Government	3.16	-0.07	7.1	-	-	-	0.4	1.2	-9.0	-8.2	0.1	4.1	4.0
Germany	2.53	-0.12	7.1	-	-	-	0.5	0.8	-9.7	-6.9	-3.0	2.8	5.2
EUR Corporate	4.28	0.00	4.5	90	8	70	0.2	1.7	-4.2	-8.5	5.4	-1.4	3.3
Financial	4.52	-0.04	3.8	107	4	78	0.4	1.6	-3.4	-7.1	5.0	-1.2	2.9
Non-Financial	4.13	0.03	4.9	79	10	66	0.1	1.8	-4.6	-9.3	5.6	-1.6	3.5
EUR High Yield	7.39	-0.03	3.1	347	7	55	0.5	3.7	1.3	-8.1	16.2	-5.1	2.1
US Treasury	4.05	0.06	6.3	-	-	-	-0.5	2.0	-2.7	-7.0	-4.5	13.2	6.2
USD Corporate	5.49	0.18	6.8	165	10	82	-1.1	2.2	-0.4	-10.8	4.9	8.8	7.6
Financial	5.78	0.16	5.0	178	12	94	-0.6	2.0	-0.3	-9.2	5.3	7.9	7.3
Non-Financial	5.36	0.18	7.6	159	9	74	-1.3	2.3	-0.5	-11.6	4.7	9.2	7.8
USD High Yield	8.75	0.26	4.1	424	24	68	-0.4	3.8	3.5	-7.9	18.2	-3.3	6.1
EM High Grade	5.57	0.01	5.2	167	0	36	0.2	2.7	0.7	-11.0	6.0	4.1	7.5
EM High Yield	10.93	0.38	3.8	574	27	59	-1.5	0.3	0.6	-19.3	18.2	-1.0	6.8

- Bonds, especially Euro government bonds, delivered a negative performance on average over the last four weeks.
- High-yield bonds performed significantly better. Falling spreads helped.
- The majority of credit segments are again showing attractive spreads in a 10-year comparison.

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 : 19/05/2017 - 19/05/2023

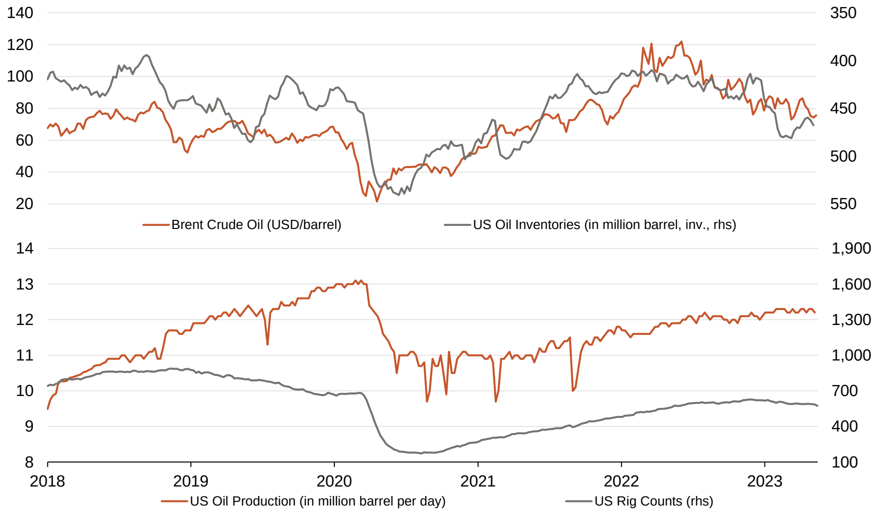
Commodities Performance



- Commodities depreciated across the board over the last month. The only exceptions were gold and US natural gas.
- However, the latter has lost almost 50% since the beginning of the year and is now trading at the levels of early 2021.
- Oil fell the most. However, looking at the movement since the beginning of the year, it is clear that this is a very volatile sideways movement rather than a sustainable downward trend.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2022 - 19/05/2023

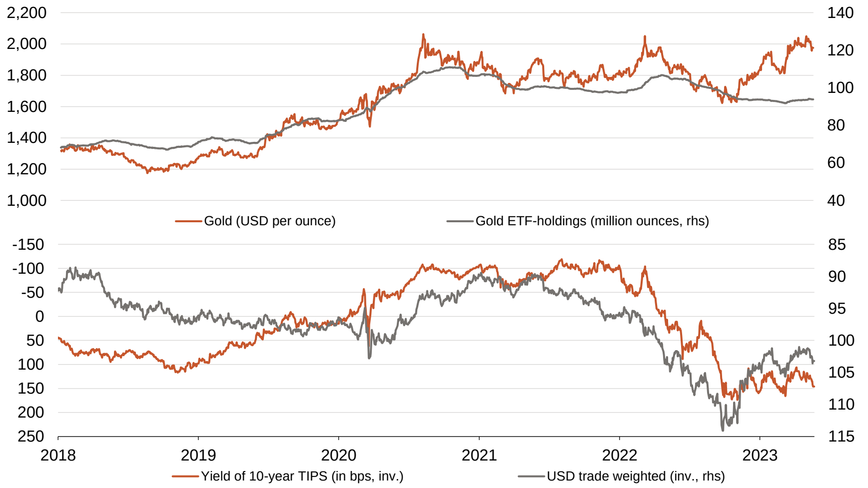
Crude Oil



- Brent oil has fluctuated sideways around the USD 75 per barrel mark over the past two weeks.
- In China, significantly higher demand can already be observed in the course of the re-opening. The fact that the oil price is still not rising could indicate less demand in the West. However, momentum strategies may also have exerted selling pressure in recent weeks.

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 - 19/05/2023

Gold



- Gold was unable to hold the USD 2,000 per ounce mark for the time being and is currently trading slightly below it again.
- Most recently, the stronger US dollar, but also higher real interest rates, have weighed on the gold price.
- Meanwhile, positioning does not seem vulnerable. ETF flows are very subdued so far despite the positive development.

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 - 19/05/2023

PUBLISHING INFORMATION

PUBLISHER

Prof Dr Bernd Meyer, CFA | Chief Strategist Wealth and Asset Management

EDITORS

Ulrich Urbahn, CFA | Head Multi Asset Strategy & Research
focuses on the multi-asset investment process, the development of investment ideas and capital market communications
+49 69 91 30 90-501 | ulrich.urbahn@berenberg.de

Karsten Schneider, CFA | Analyst Multi Asset Strategy & Research
analyses financial markets, supports the multi-asset investment process and participates in capital market publications
+49 69 91 30 90-502 | karsten.schneider@berenberg.de

Ludwig Kemper, CFA | Analyst Multi Asset Strategy & Research
analyses financial markets, supports the multi-asset investment process and participates in capital market publications
+49 69 91 30 90-224 | ludwig.kemper@berenberg.de

Philina Kuhzarani | Analyst Multi Asset Strategy & Research
analyses financial markets, supports the multi-asset investment process and participates in capital market publications
+49 69 91 30 90-533 | philina.kuhzarani@berenberg.com

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Joh. Berenberg, Gossler & Co. KG
Neuer Jungfernstieg 20
20354 Hamburg (Germany)
Phone +49 40 350 60-0
Fax +49 40 350 60-900
www.berenberg.com
MultiAssetStrategyResearch@berenberg.de