BERENBERG
Markets

MONITOR

05 June 2023

Current market commentary

In May, most asset classes declined. Within equities, money was gained almost exclusively from Japan and tech stocks, which benefited from the AI hype. Weak economic data and related rising recession concerns were weighing. The USD benefited as a safe haven, boosted by lopsided dollar-negative positioning. The big question is how much the massive net supply of T-bills (and T-bonds, eventually) will impact markets over the next few months. Following the debt deal, more U.S. government bonds can now be issued again. What is exciting is who will buy them. If it is mainly money market funds that replace money parked with the Fed with T-bills, the consequences are likely to be limited. However, the larger the share of other investors, the more liquidity will be withdrawn from the market - in addition to the QT programs. On a positive note, many brokers are now writing about the possible burdens, so the surprise should be limited.

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

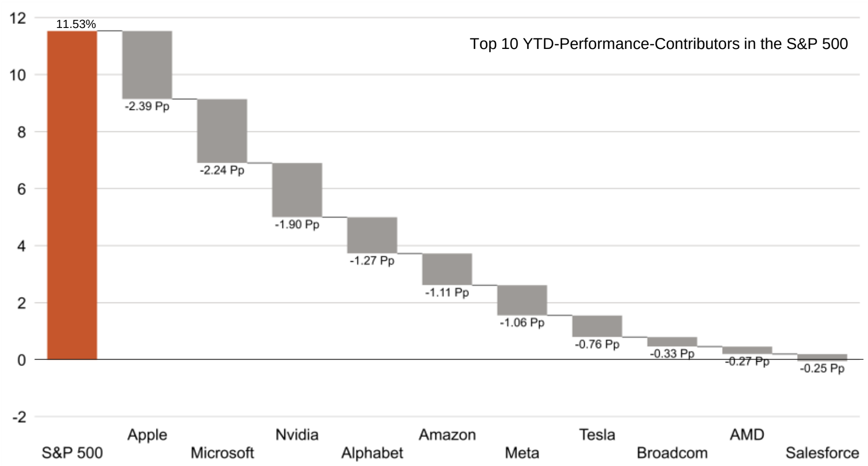
Divergence at the Central Banks?
Is the Fed taking a break?

The next two weeks will be exciting in terms of monetary policy. According to the market, the Fed is unlikely to raise interest rates further at its meeting on June 14th for the first time since March 2022. For the ECB meeting on June 15, however, the market is pricing in an interest rate hike of 25 basis points (bp).

Focus on inflation and economic activity.

Today, in addition to German export figures (Apr.), services purchasing managers' indices (PMI, May) for China, Europe and the US are due. On Tuesday, German new orders (Apr.) and on Wednesday, German industrial production (Apr.) and Chinese imports (May) will be published. Chinese inflation figures (May) and Italian industrial production data (Apr.) will follow on Friday. The following week will see German ZEW index (Jun.), U.S. consumer price inflation, U.S. producer price inflation, U.S. industrial production, U.S. retail sales (May) and Chinese industrial production and retail sales (May).

Positive S&P 500 annual performance only due to a few tech stocks



- With more than +11% YTD, the S&P 500 suggests a positive sentiment. However, the picture is deceptive, because the performance can be fully explained by mega-caps largely from the technology sector. Without the top 10 contributions, the index would be at 0% YTD.
- The rally therefore stands on thin legs with little market breadth and appears vulnerable. The threat of liquidity withdrawal following the deal on an increase of the U.S. debt ceiling could weigh particularly heavily on the highly valued tech stocks.

Source: Bloomberg, Time period: 31/12/2022 - 02/06/2023

Multi Asset

	4-week & YTD: 4W (05/05/23 - 02/06/23)	4-week & YTD: YTD (30/12/22 - 02/06/23)	12-month periods over that last 5 years: 02/06/22 02/06/23	02/06/21 02/06/22	02/06/20 02/06/21	02/06/19 02/06/20	01/06/18 02/06/19
Global Convertibles	5.6	5.9	-0.1	-4.5	36.5	18.3	3.8
MSCI World	5.1	11.4	4.2	8.7	26.8	8.6	3.4
Brent	5.0	-8.2	-21.3	120.5	60.6	-36.1	-12.3
MSCI Frontier Markets	3.8	3.4	-8.9	1.0	25.6	-10.0	3.2
MSCI Emerging Markets	3.5	3.8	-4.3	-11.0	34.0	-0.6	-5.4
USDEUR	2.9	0.0	0.4	13.6	-8.5	0.0	4.4
REITs	0.5	-1.1	-16.9	10.7	14.6	-7.5	16.6
Euro overnight deposit	0.2	1.1	1.3	-0.6	-0.5	-0.4	-0.4
EUR Sovereign Debt	0.1	2.4	-3.2	-7.2	0.9	1.3	2.9
EUR Coporates	-0.1	2.5	-2.7	-9.8	4.4	-0.1	3.2
Gold	-0.8	6.6	4.5	11.3	1.0	32.3	5.4
Industrial Metals	-3.7	-11.7	-20.4	33.6	46.5	-8.9	-14.0

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

- Over the last four weeks, industrial metals and gold in particular experienced headwinds. The slow recovery in China and general economic pessimism led to downward movements in industrial metals. Higher real interest rates and a strong USD weighed on gold.
- If you exclude the USD evaluation, most asset classes have moved in the last four weeks.

Total return for selected asset classes, in euros and in per-cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 02/06/2018 – 02/06/2023

Equities

	4-week & YTD: 4W (05/05/23 - 02/06/23)	4-week & YTD: YTD (30/12/22 - 02/06/23)	12-month periods over that last 5 years: 02/06/22 02/06/23	02/06/21 02/06/22	02/06/20 02/06/21	02/06/19 02/06/20	01/06/18 02/06/19
S&P 500	6.8	12.4	4.6	14.5	27.0	14.1	7.3
MSCI USA Small Caps	6.4	4.8	-1.2	0.6	47.7	-1.2	-2.1
MSCI Japan	5.2	10.8	7.5	-2.4	14.7	7.4	-5.0
MSCI EM Eastern Europe	4.5	19.1	14.5	-79.0	19.4	-5.6	17.6
MSCI EM Asia	3.8	3.8	-4.1	-13.2	35.4	6.6	-9.2
Stoxx Europe Cyclicals	2.3	11.6	7.3	-4.1	41.1	-4.5	-8.3
DAX	0.6	15.3	10.8	-7.2	29.8	2.5	-7.8
Euro Stoxx 50	0.3	16.3	16.8	-4.8	32.4	-2.0	-2.4
Stoxx Europe 50	-0.4	11.6	12.4	8.0	20.6	-0.1	2.0
MSCI UK	-0.6	7.0	3.8	14.3	21.4	-11.8	-3.7
Stoxx Europe Small 200	-0.9	6.8	-4.6	-9.9	37.0	2.9	-6.0
Stoxx Europe Defensives	-1.6	7.7	4.3	16.7	8.0	6.4	3.2

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

- Over the last four weeks, many equity segments enjoyed positive performance. American and Japanese shares in particular gained.
- However, a look beneath the surface shows a less rosy picture. The performance of the S&P 500 was driven by only a few individual stocks (see chart on front page). These mega-caps benefited above all from the recent hype surrounding artificial intelligence. The low breadth is a sign of the low level of conviction among investors at the moment.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 02/06/2018 – 02/06/2023

Fixed Income

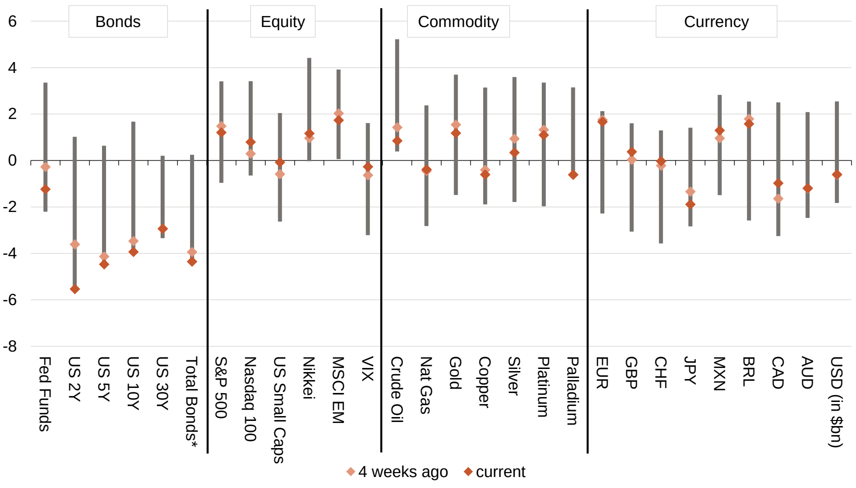
	4-week & YTD: 4W (05/05/23 - 02/06/23)	4-week & YTD: YTD (30/12/22 - 02/06/23)	12-month periods over that last 5 years: 02/06/22 02/06/23	02/06/21 02/06/22	02/06/20 02/06/21	02/06/19 02/06/20	01/06/18 02/06/19
EM Hard Currency Bonds	2.1	1.3	-1.3	-4.1	0.5	1.0	12.8
EM Local Currency Bonds	1.4	5.1	4.0	-5.1	-2.5	4.0	5.0
BTPs	1.2	4.7	-2.1	-12.3	6.1	8.4	3.8
Treasuries	1.0	1.5	-2.4	5.2	-11.6	10.6	11.7
EUR High Yield	0.8	4.0	1.0	-8.2	12.3	-0.5	2.3
Chinese Gov Bond	0.5	2.2	4.0	5.2	1.4	7.2	5.4
USD High Yield	0.3	4.6	0.7	-5.2	14.2	1.4	5.3
EUR Financials	0.2	2.1	-3.0	-9.0	4.5	0.0	3.0
Bunds	-0.2	2.0	-6.6	-9.8	-1.8	1.5	4.4
EUR Non-Financials	-0.3	2.7	-2.5	-10.4	4.4	-0.1	3.4
USD Corporates	-1.0	2.8	-1.2	-10.5	3.9	9.7	7.9
Gilts	-1.6	-0.3	-17.1	-10.8	-4.2	11.1	3.9

Bunds: IBOXX Euro Germany Sov TR ; BTPs: IBOXX Euro Italy Sov TR ; Treasuries: ICE BofA US Treasury TR;
Gilts: IBOXX Sterling Gilts Overall TR; Chinese Gov Bonds: ICE BofA China Govt; EUR Financials.: IBOXX Euro Fin. Overall TR;
EUR Non-Financials: IBOXX Euro Non-Fin. Overall TR; EUR High Yield: ICE BofA EUR Liquid HY TR; USD Corporates: ICE BofA USD Corp TR;
USD High Yield: ICE BofA USD Liquid HY TR; EM Hard Currency: JPM EMBI Glo Div Unh. EUR TR; EM Local Currency: JPM GBI-EM Glo Div Comp Unh. EUR TR

- In addition to emerging market government bonds (in both the hard and local currency segments), US and Italian government bonds in particular have also gained.
- The strong US dollar (helps bond indices calculated in euros) and the partly high carry helped.
- German government bonds, on the other hand, fell, as did British gilts.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 02/06/2018 – 02/06/2023

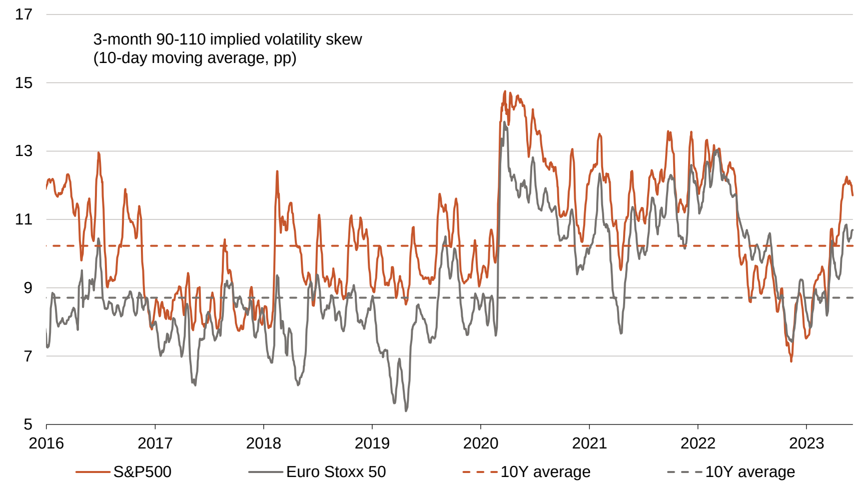
Non-Commercial Positioning



- Speculative investors have significantly increased their short positions, especially in 2Y Treasuries, over the past month. With the U.S. economy proving to be surprisingly robust, most of the expected interest rate cuts have been priced out again.

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: 30/05/2013 - 30/05/2023

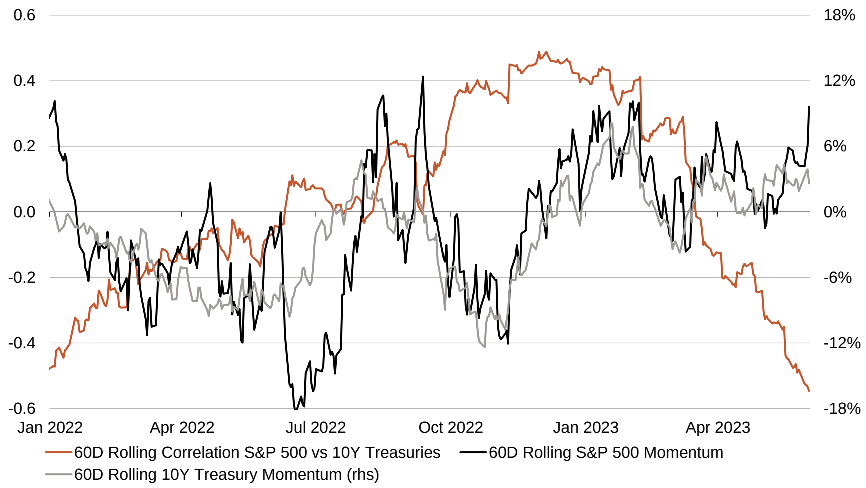
Put-Call-Skew



- The put-call-skew has stabilized at a high level in recent weeks. Hedges remain expensively priced relative to upside participation in a historical context, at least based on implied volatility.
- The higher level of interest rates and the overall low level of volatility counteract these developments, so that the actual prices for put options remain attractive.

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: 02/06/2013 - 02/06/2023

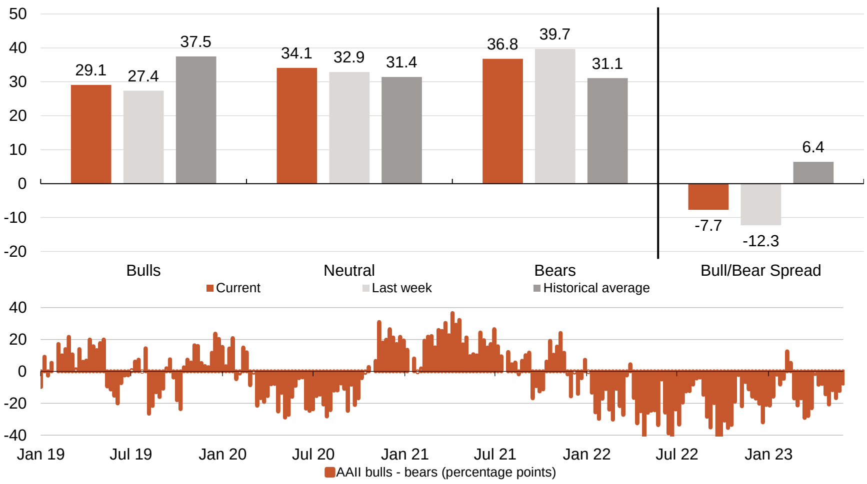
60-Day Momentum and Correlation



- The correlation between equities and bonds has become even more negative.
- As a result, minimum variance and risk parity strategies in particular are likely to have increased their equity quotas significantly. Accordingly, selling pressure is now likely to be greater if the correlation increases again as liquidity declines in the coming months.

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 - 02/06/2023

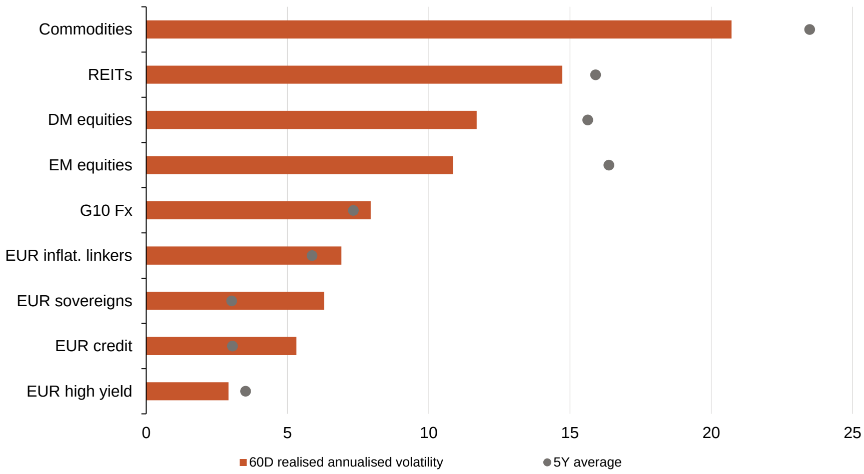
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment of U.S. private investors has brightened somewhat over the past few weeks. At -8 ppts, however, the bears still clearly outweigh the bulls, although a few risks – such as the problems in the U.S. banking sector and the U.S. debt debate – now appear to have subsided.

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 – 01/06/2023

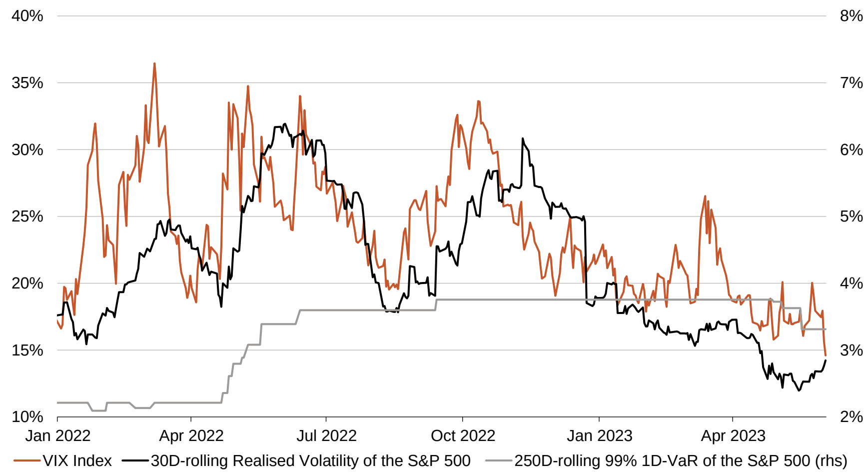
Realised Volatilities



- Realised volatility in risk assets, especially equities and high-yield bonds, remains remarkably low by historical standards.
- Another reason for the low volatility of developed markets equities is the low correlation between the individual equities. The correlation within the S&P 500 over the last three months is currently 23%. At the beginning of the year, it was still around 50%.

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: 02/06/2018 - 02/06/2023

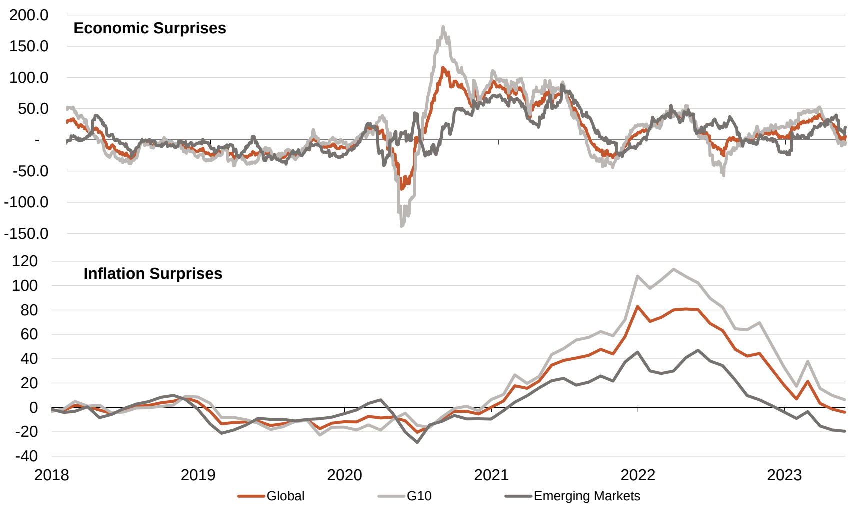
Volatility and Value-at-Risk of the S&P 500



- The VIX recently fell below the 15 mark for the first time in over 3 years.
- Recently, the value-at-risk over the last 250 trading days has also fallen successively. Accordingly, the risk budgets of institutional investors and, therefore, also the demand for equities are likely to have increased.

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 – 02/06/2023

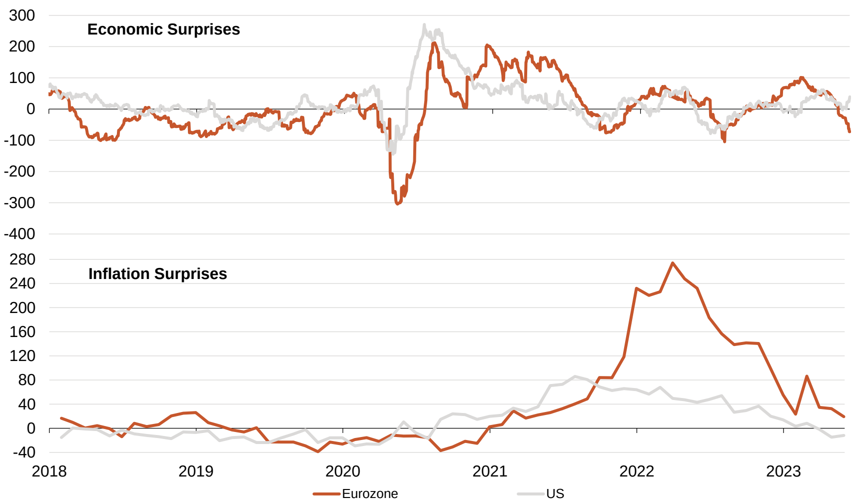
Global



- The economic surprises have recently developed unevenly from region to region. In the industrialised nations, negative economic surprises have predominated since mid-May. In particular, countries in the Eurozone and Japan were behind the negative development. This is the first time since September last year that the G10 index has been in negative territory.
- Among emerging markets, the positive economic surprises clearly outweighed the negative ones. In China, the official PMI data disappointed, while the Caixin data surprised on the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 02/06/2023

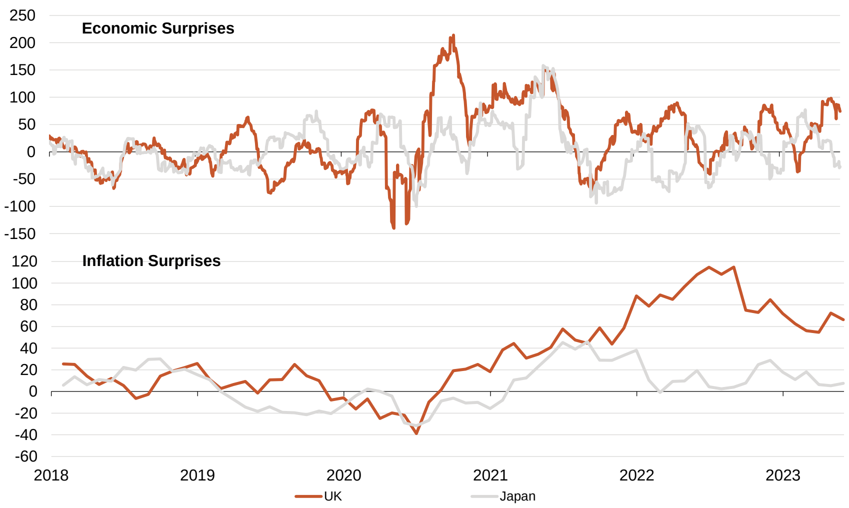
Eurozone and US



- In the US, aggregate economic surprises have now turned positive again after briefly dipping into negative territory. Here, the employment figures, the initial claims for unemployment benefits, as well as the GDP figures for the first quarter surprised positively in a year-on-year comparison.
- In the Eurozone, the data show a much more pessimistic picture. The ifo index and manufacturing confidence data disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 02/06/2023

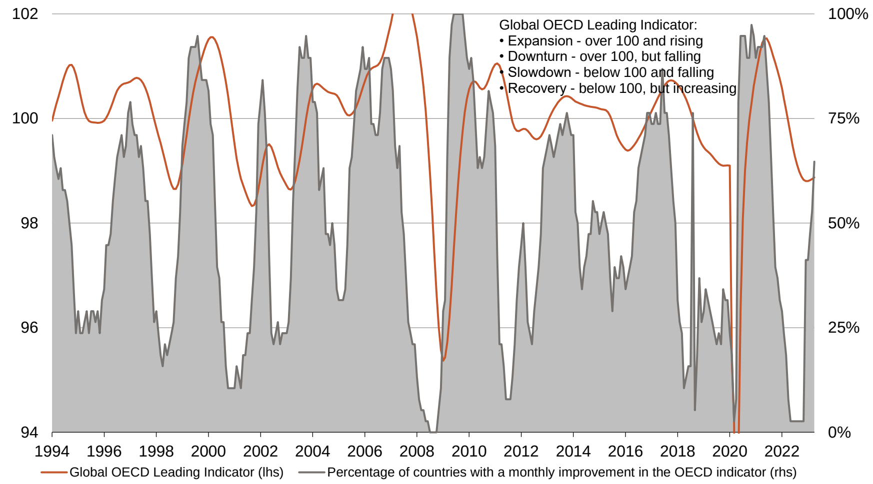
UK and Japan



- In the UK, inflation data and retail sales were above expectations.
- In Japan, however, industrial production and core machinery orders disappointed. Retail sales were also below expectations.

The Citigroup Economic Surprise Indices are defined as weighted historical normalised data surprises (actual releases vs. Bloomberg survey median) over the past three months. A positive value of the index indicates that, on balance, economic data have outperformed consensus. The indices are calculated daily in a rolling three-month window. The indices use a time decay function to replicate the markets' limited memory, i.e. the weight of a data surprise decreases over time.
Source: Bloomberg, Time period: 01/01/2018 - 02/06/2023

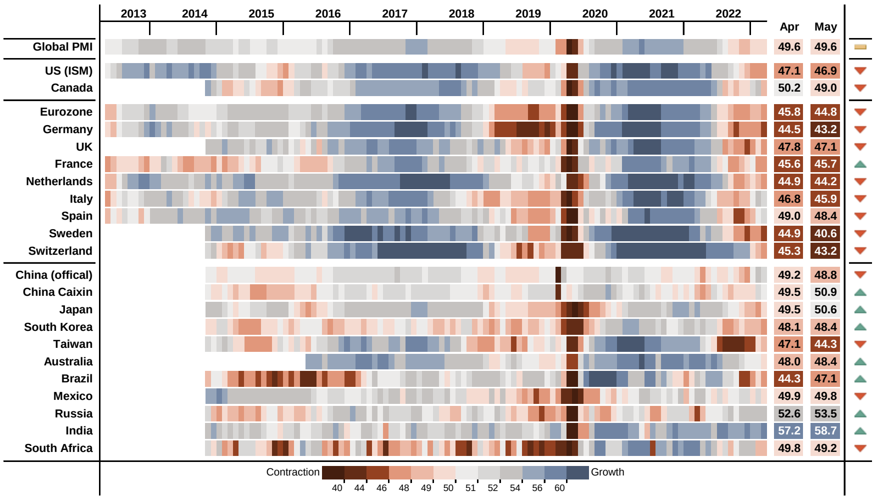
OECD Leading Indicator



- While the market is facing the likelihood of a recession, the data of the global OECD leading indicator already show the first signals of an economic recovery – the indicator is quoting below 100 with a rising trend.
- At the country level, the picture is mirrored across the board. 65% of the countries covered improved 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 – 30/05/2023

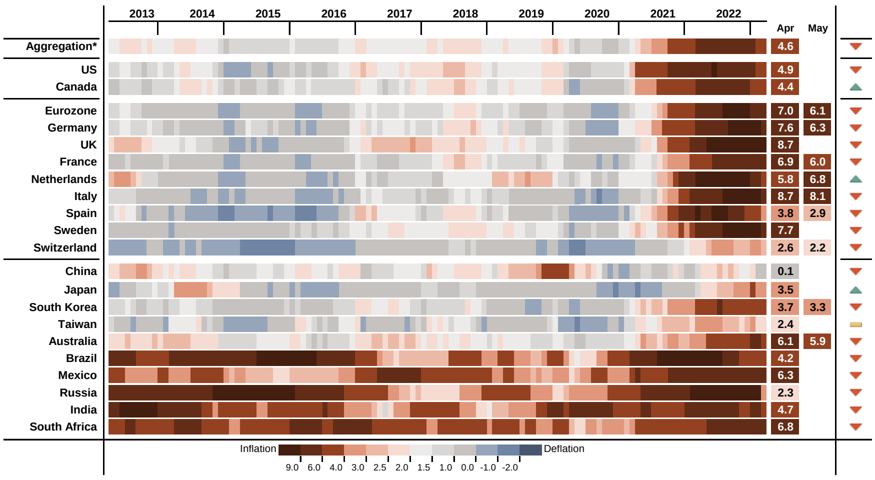
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- Purchasing managers' data for May show a deterioration compared to the previous month for the US, Canada and the Eurozone. For Germany, the value is the lowest since 2020. In the emerging markets, the aggregate shows an improvement compared to the previous month.

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: 02/06/2013 – 02/06/2023

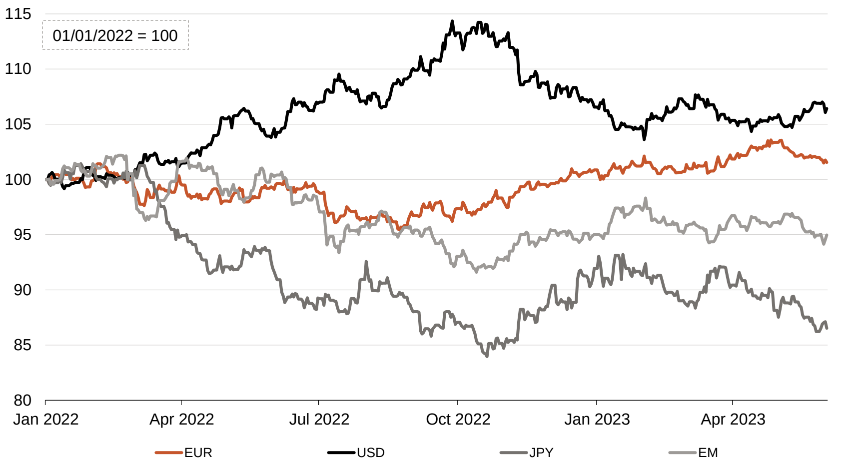
Headline Inflation



- Inflation data for May to date have fallen year-on-year for the Eurozone. A look at the individual components shows that energy prices fell, while food, alcohol and tobacco prices rose much less. The inflation rate for services also rose more slowly.

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: 02/06/2013 – 02/06/2023

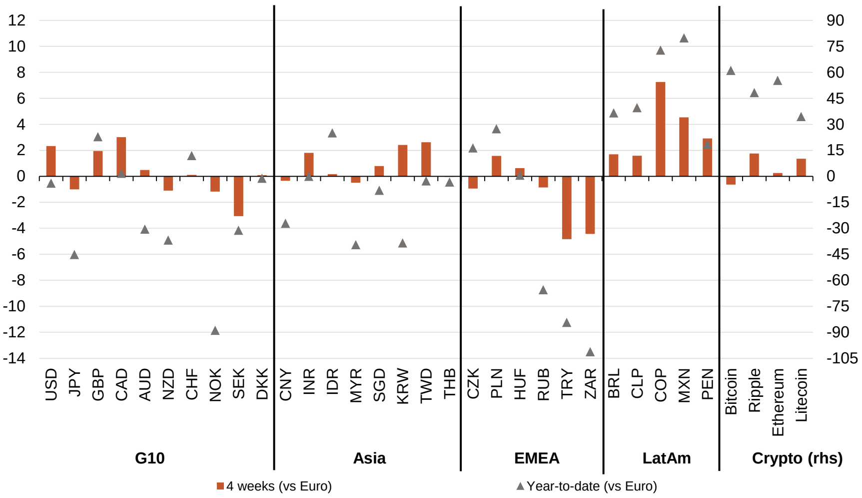
Trade-Weighted Currency Development



- The U.S. dollar has appreciated in recent weeks at the expense of all other currencies and temporarily traded at its highest level in two months on a trade-weighted basis.
- In particular, the pricing out of interest rate cuts by the Fed due to better economic data and the abatement of banking worries provided the dollar with a tailwind.

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 - 02/06/2023

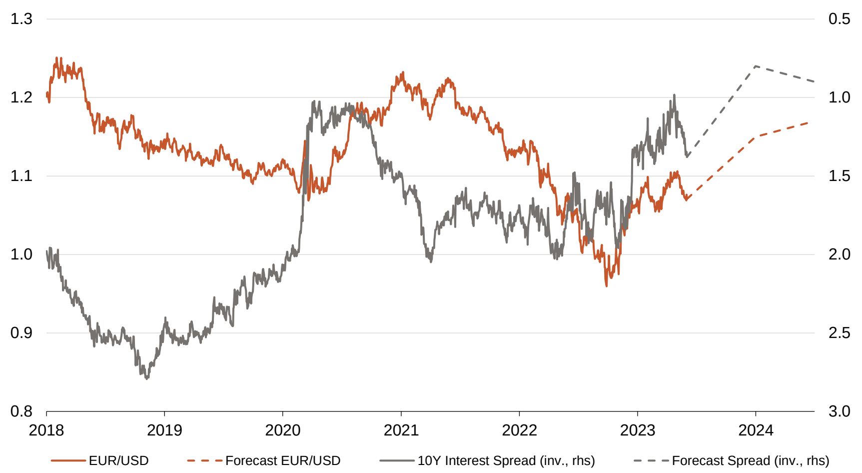
Currency Moves vs Euro



- Over the last month, the currency developments against the euro were mixed.
- Not only the U.S. dollar but also the Canadian dollar appreciated significantly in the last 4 weeks. In addition to the higher than expected inflation for April, Canadian economic growth for Q1 now also surprised positively, so that the market expects further interest rate hikes by the Bank of Canada.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2022 - 02/06/2023

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



- The euro has fallen further against the US dollar in recent weeks and is now trading below the 1.08 mark.
- While inflation figures in Europe have recently surprised on the downside, the US core PCE continues to prove sticky. Accordingly, investors now expect somewhat fewer interest rate hikes from the ECB and fewer rate cuts from the Fed by the end of the year. Both of these factors gave the US dollar a tailwind.

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 - 30/06/2024

European Sector & Style Performance

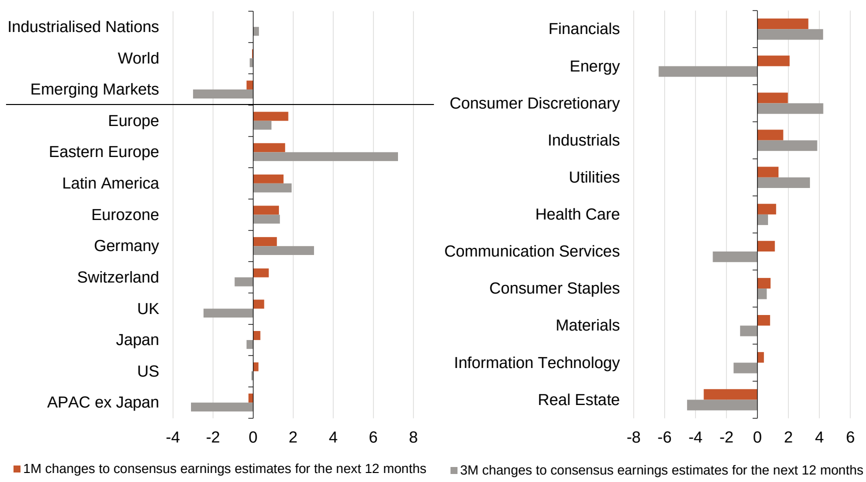
	4-week & YTD		12-month periods over that last 5 years				
	4W (05/05/23 - 02/06/23)	YTD (30/12/22 - 02/06/23)	02/06/22 02/06/23	02/06/21 02/06/22	02/06/20 02/06/21	02/06/19 02/06/20	01/06/18 02/06/19
Information Technology	8.9	26.4	17.0	-9.9	35.4	14.8	0.3
Communication Services	2.6	16.9	14.7	-6.3	42.6	0.4	-3.4
Finance	1.8	9.8	11.9	1.0	40.1	-17.7	-8.5
Growth	0.5	14.7	12.2	-4.7	26.1	8.6	2.3
Materials	-0.9	2.5	-6.9	5.0	46.0	2.0	-9.5
Value	-1.0	7.4	4.0	7.1	29.2	-12.4	-5.6
Consumer Discretionary	-1.3	20.3	22.6	-17.6	54.1	-0.8	-8.7
Health Care	-1.3	9.2	6.3	16.3	0.6	24.5	7.9
Energy	-1.7	-1.7	0.7	51.8	17.6	-32.8	-5.1
Utilities	-2.6	9.9	4.0	4.9	15.0	14.2	12.7
Consumer Staples	-5.1	5.5	4.0	2.3	13.0	-0.4	11.8
Telecommunications	-6.9	9.0	-8.3	4.2	16.3	-11.8	-1.7

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.

- Thanks to the AI euphoria, information technology stocks have been the best performers over the past four weeks. They have now gained over 26% since the beginning of the year.
- Telecommunications and consumer staples stocks lost considerable value.
- Growth stocks held up better than value stocks.

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: 02/06/2018 – 02/06/2023

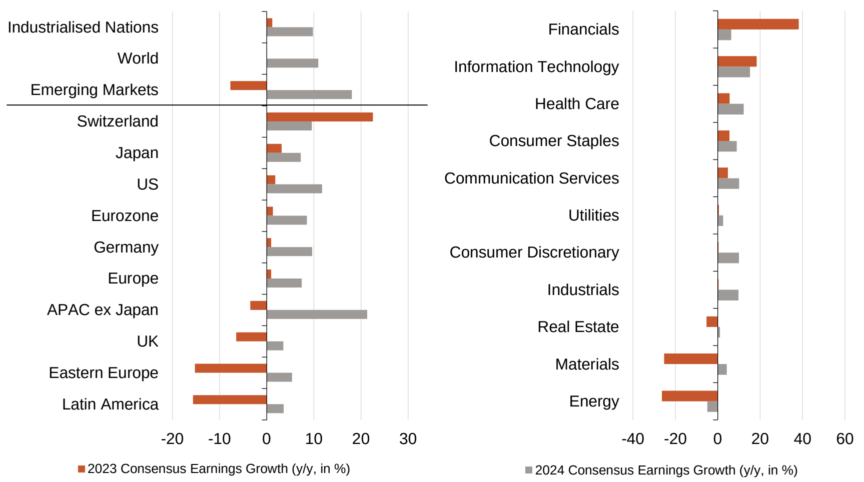
Changes in Consensus Earnings Estimates



- In the last four weeks, global earnings for the next 12 months were revised slightly down by analysts.
- Emerging markets were the most affected by the negative earnings revisions. The rather disappointing economic recovery in China so far may have played a role.
- In contrast to the previous months, energy stocks recently experienced 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 02/06/2023

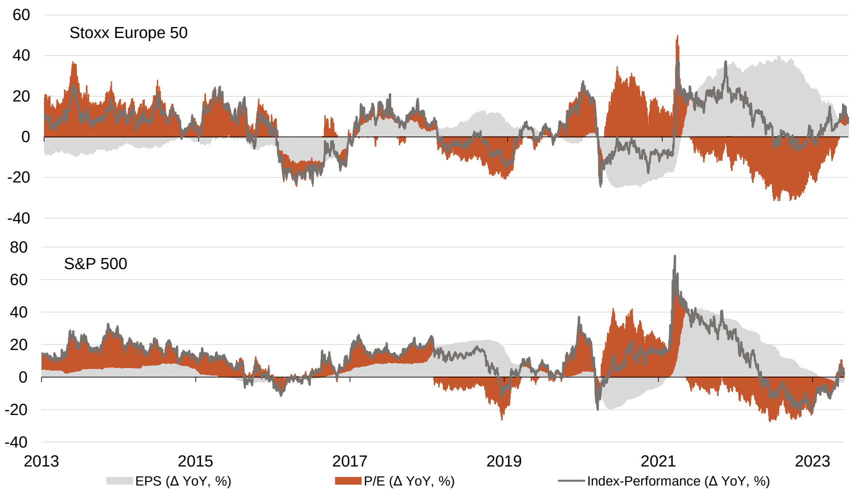
Earnings Growth



- According to analysts, earnings growth in Switzerland is likely to exceed 20% in 2023. Other regions are likely to experience only slightly positive or, as for example in some emerging markets, even negative earnings growth.
- In terms of sectors, 2023 earnings growth is likely to be most positive for financial and IT companies.

Consensus expected calendar year earnings growth for selected equity regions, year-on-year and in percent. The earnings estimates of the individual companies are aggregated upwards using the index weights ("bottom-up"). Regional and Europe Sector MSCI Indices. APAC ex Japan = Asia Pacific excluding Japan
Source: FactSet, as of 02/06/2023

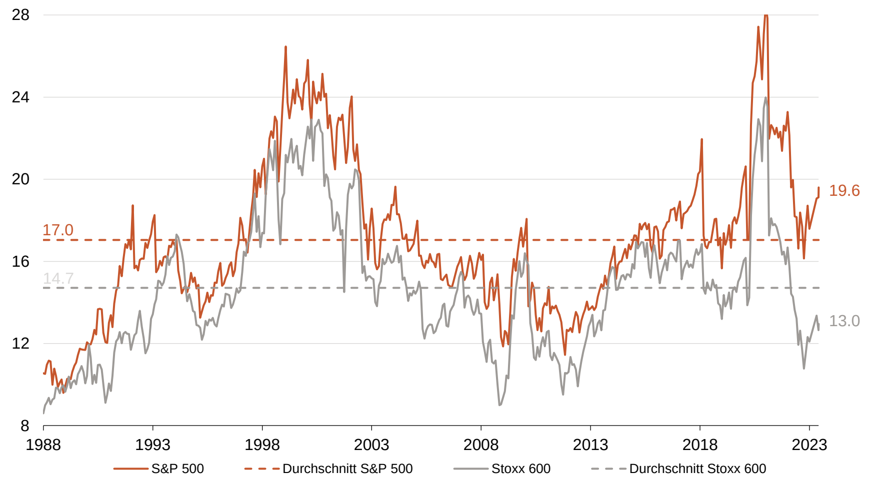
Contribution Analysis



- The rolling 1-year development is positive for both the Stoxx Europe 50 and the S&P 500. The development was primarily driven by a valuation expansion - especially in the case of the S&P 500. Year-on-year earnings development is a positive driver only in the case of the Stoxx Europe 50.

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 - 02/06/2023

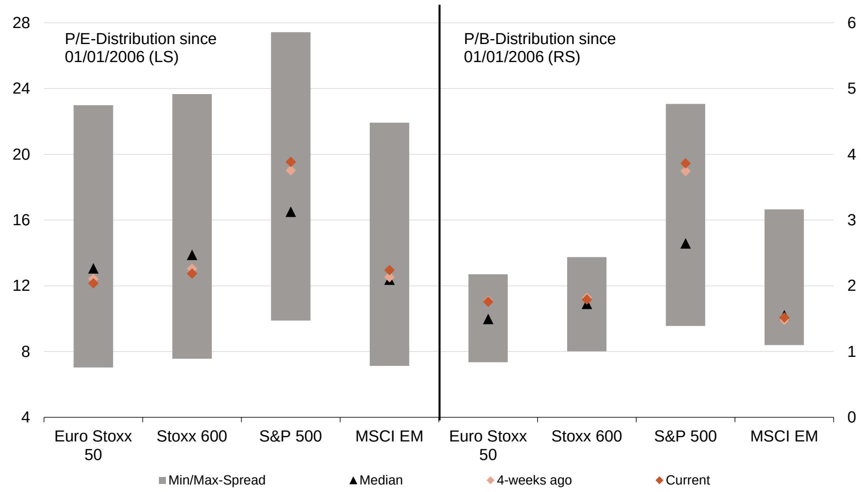
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- In the last four weeks, US stocks held up significantly better than European stocks. The P/E ratio of US stocks thus held noticeably above 19x, while the P/E ratio of European stocks fell to 13x.

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 - 02/06/2023

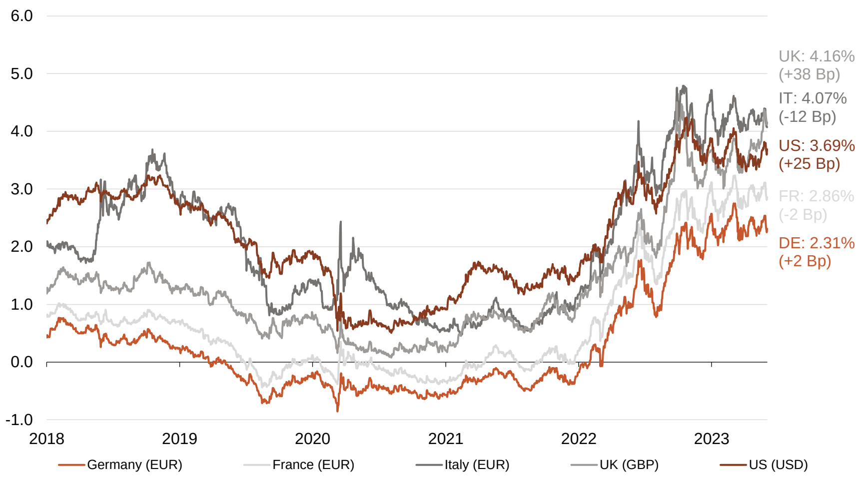
Historical Distribution: Price/Earnings and Price/Book Ratio



- Over the past four weeks, U.S. stocks have become more expensive, based on P/E ratios and also P/B ratios. European equities, on the other hand, became cheaper. The weak economic development and the smaller than expected tailwind from China weighed on share prices.

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 - 02/06/2023

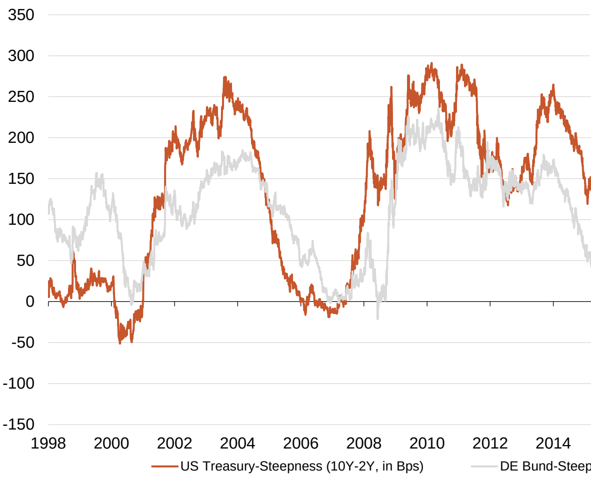
10-Year Government Bond Yields



- The back-and-forth in government bond yields continues. Although yields have tended to rise over the past four weeks, there has recently been a countermovement.
- After the lower-than-expected May inflation data, the yield on German government bonds, for instance, fell on the 2.3% mark.

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 - 02/06/2023

Yield Curve Steepness (10Y - 2Y)

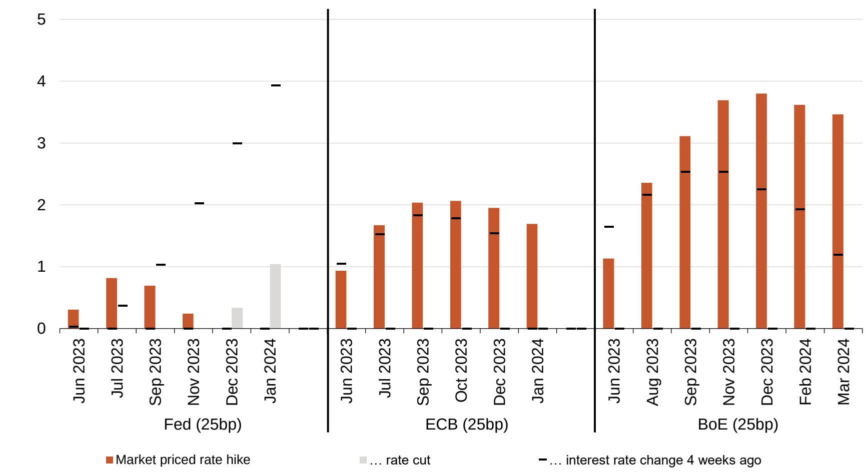


	10Y	2Y	Spread
DE	2.31%	2.80%	-49 Bp
US	3.69%	4.50%	-81 Bp

- The German and US yield curves have now been inverted for several months and, therefore, do not offer an optimistic outlook for the economy.
- Most recently, the U.S. yield curve has again inverted more sharply, scraping the -80bp mark.

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 - 02/06/2023

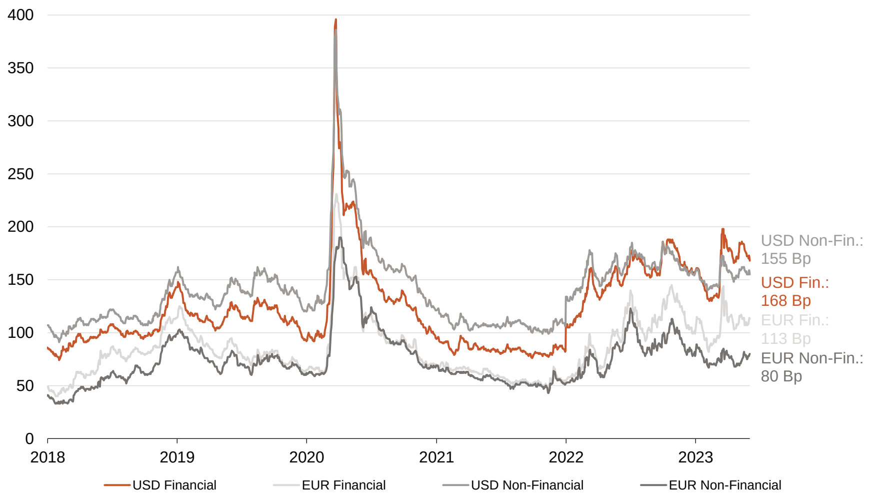
Implicit Changes in Key Interest Rates



- Interest rate pause? The market is pricing the probability of an interest rate hike by the Fed in June with 30%. An interest rate hike in July, on the other hand, is priced around 80%. In contrast, the market now considers interest rate cuts in 2023 to be rather unlikely.
- The BoE and the ECB are expected to raise rates by 25bp each in June.

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: 05/05/2023 - 02/06/2023

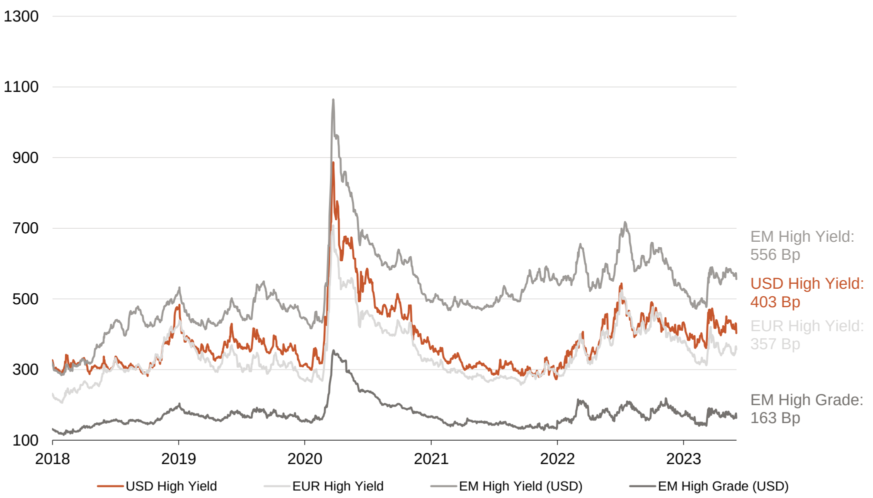
Credit Spreads Financial and Non-Financial Bonds



- In the last two weeks, risk premiums on USD-IG corporate bonds have fallen slightly. This was driven by falling risk premiums on USD financial bonds, following dwindling concerns about US regional banks.
- EUR-IG corporate bonds, on the other hand, saw hardly any change in risk premiums. Only EUR financial bonds saw a slight increase in risk premiums.

Explanations see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 – 02/06/2023

Credit Spreads High Yield and Emerging Markets Bonds



- Spreads on USD high-yield bonds have fallen in the last two weeks. The decline amounted to around 20bps.
- EUR high-yield bonds, on the other hand, recorded rising spreads of 10 bps.
- EM high-yield bonds recorded stable risk premiums despite the weakness in China.

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 – 02/06/2023

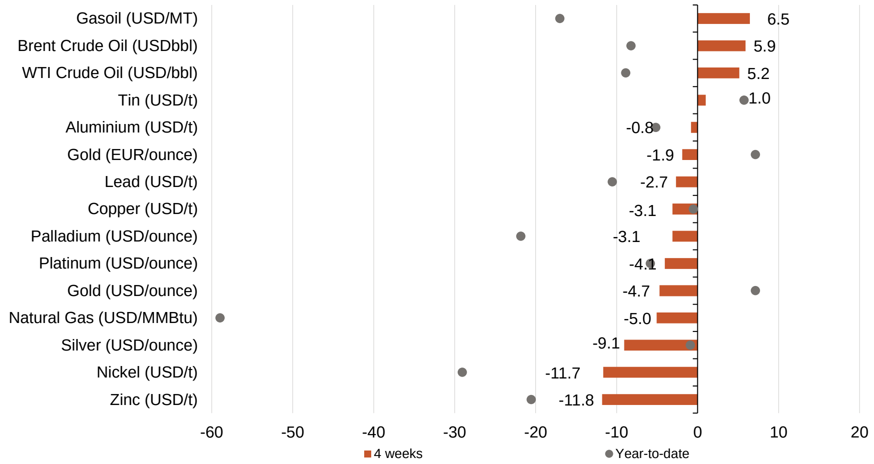
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	02/06/22 02/06/23	02/06/21 02/06/22	02/06/20 02/06/21	02/06/19 02/06/20	02/06/18 02/06/19
EUR Government	3.04	0.02	7.2	-	-	-	0.2	2.4	-5.5	-11.5	0.8	3.8	4.8
Germany	2.46	0.09	7.3	-	-	-	-0.4	1.6	-6.7	-9.8	-1.8	1.5	4.4
EUR Corporate	4.22	0.13	4.6	92	7	73	-0.2	2.3	-2.7	-9.7	4.5	-0.1	3.2
Financial	4.50	0.10	3.8	113	4	86	0.1	2.0	-2.5	-8.0	4.0	0.3	2.9
Non-Financial	4.05	0.16	5.0	80	10	68	-0.3	2.5	-2.9	-10.7	4.7	-0.3	3.4
EUR High Yield	7.45	-0.02	3.2	357	-9	61	0.8	4.0	1.0	-8.2	12.2	-0.5	2.3
US Treasury	4.15	0.38	6.5	-	-	-	-1.6	2.0	-2.5	-7.8	-3.8	11.3	6.8
USD Corporate	5.50	0.30	6.9	159	-3	78	-1.2	2.8	-1.2	-10.5	3.9	9.7	7.9
Financial	5.78	0.29	5.1	168	-7	90	-0.7	2.5	-0.7	-9.1	4.5	8.6	7.7
Non-Financial	5.37	0.30	7.7	155	-1	69	-1.5	2.9	-1.4	-11.2	3.7	10.2	8.0
USD High Yield	8.66	0.08	4.1	403	-26	58	0.3	4.6	0.7	-5.2	14.2	1.4	5.3
EM High Grade	5.62	0.16	5.3	163	-17	33	-0.3	2.9	0.3	-10.9	4.9	4.9	7.5
EM High Yield	10.80	0.15	3.8	556	-19	53	-0.5	0.9	-0.4	-18.6	15.6	1.9	7.3

- Thanks to high current yields, only European high-yield bonds performed noticeable positively in the past four weeks. USD-IG corporate bonds suffered disproportionately from rising yields due to their high duration.
- Corporate bonds remain attractive with historically high spreads. The risk premiums on USD financial bonds, for example, have been higher in only 8% of cases over the past 10 years.

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 : 02/06/2018 – 02/06/2023

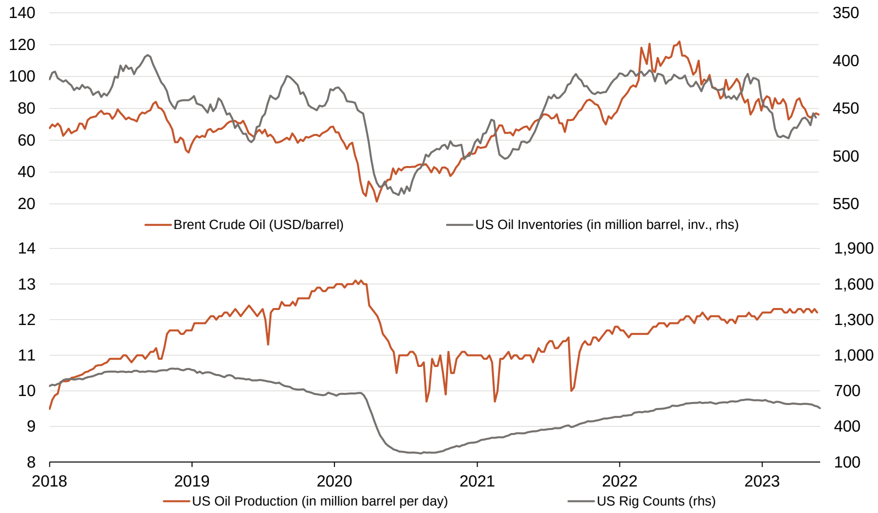
Commodities Performance



- With the exception of gold against the euro, commodities have not been in a good light over the last four weeks.
- In particular, industrial metals such as nickel and zinc were left behind after the disappointing official PMI data for the manufacturing sector in China – the country with the highest global demand for industrial metals. Even the better Caixin data could not provide a sustainable tailwind.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2022 - 02/06/2023

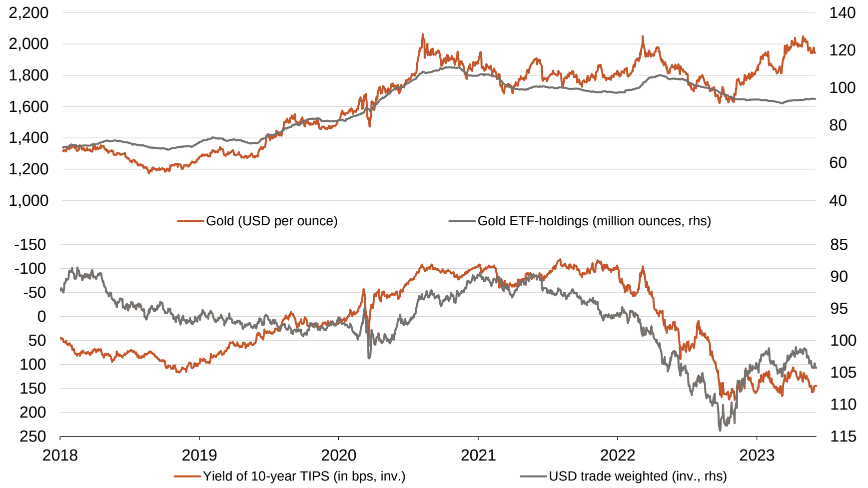
Crude Oil



- Over the last four weeks, crude oil has fluctuated volatile sideways, detached from the fundamentals. Economic pessimism and systematic investors triggered the movements.
- Fundamentally, however, the picture remains intact – demand remains supported by China's reopening and positive summer seasonality from the US driving season. On the production side, OPEC and declining US shale oil production are keeping supply tight.

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 - 02/06/2023

Gold



- After the upward movement towards an all-time high at the beginning of May, gold fell as concerns about the banking sector and the US debt debate subsided. The stronger USD was also a burden.
- With the agreement on the debt dispute, the focus of the markets is now turning back to macro data and the Fed's interest rate policy.

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 - 02/06/2023

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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