BERENBERG
Markets

MONITOR

17 July 2023

Current market commentary

After the growth outlook has dominated the markets in the past months, inflation is now once again investors' main focus. Initially, inflation concerns still prevailed as a result of the strong ADP labour market figures, but with the recent lower-than-expected US inflation data, hopes emerged that after another 25bp interest rate hike from the Fed has taken place next week, the cycle of interest rate hikes will finally come to an end. Stocks as well as bonds rose strongly, volatility and the US dollar fell. In the coming weeks, we expect the reporting season to take investors' attention. Although analysts have significantly lowered their Q2 earnings estimates, their expectations for the second half of the year and 2024 still seem ambitious. The outlook of the companies is therefore likely to be crucial. With high valuations, pronounced investor positioning and after strong YTD performance (e.g. the Nasdaq-100 is up by +43%), we therefore consider a more defensive portfolio orientation to be sensible.

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

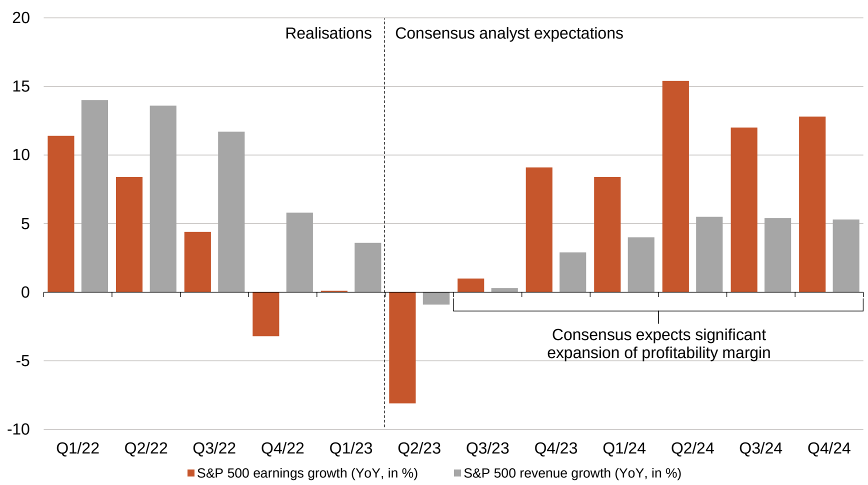
Q2 reporting season and central banks set the tone.

Over the next two weeks, more than 50% of the companies in the S&P 500 and the STOXX Europe 600 by market capitalisation will report their earnings. On the central bank side, the situation looks set to become more interesting on 26 July at the Fed meeting and on 27 July at the ECB meeting. In addition, the Spanish elections will take place on 23 July.

Focus on inflation and purchasing managers' indices

Today, besides the Empire State Index (Jun.), Q2 economic growth, industrial production (Jun.) and retail sales (Jun.) figures for China are due. Retail sales (Jun.) and industrial production (Jun.) figures for the US follow on Tuesday, and inflation data (Jun.) for the UK and US housing data (Jun.) are expected on Wednesday. On Thursday, Chinese interest rates, French business confidence (Jul.) and the Philadelphia Fed Index (Jul.) data will be released, and on Friday, we expect Japanese inflation data (Jun.). Next week, the Ifo index (July), European inflation data (July) and purchasing managers' indices (July) for Europe and the US will be published.

Earnings expectations pick up from Q4. That seems optimistic.



- With the Q2 reporting season, fundamentals are coming into focus. Earnings for the S&P 500 are expected to fall by more than 5%. Low expectations, the more robust economy in Q2 and the weaker US dollar create opportunities for positive surprises.
- However, analysts are very optimistic for Q4 and beyond, which we consider challenging amid slowing growth, declining inflation and rising labour costs. The outlook given by companies should therefore be interesting.

Source: Refinitiv I/B/E/S Global Aggregates, Time period: 01/01/2022 – 31/12/2024

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (16/06/23 - 14/07/23)	YTD (30/12/22 - 14/07/23)	14/07/22 14/07/23	14/07/21 14/07/22	14/07/20 14/07/21	14/07/19 14/07/20	13/07/18 14/07/19
MSCI Frontier Markets	2.3	4.5	-8.8	-0.9	30.3	-14.0	9.3
Brent	2.0	-7.4	-14.1	87.4	64.7	-37.3	-3.9
EUR Coporates	0.6	2.6	-1.2	-11.8	3.7	-0.3	4.6
Euro overnight deposit	0.3	1.5	1.8	-0.6	-0.6	-0.4	-0.4
REITs	0.1	-1.4	-15.1	1.5	26.8	-13.4	15.8
EUR Sovereign Debt	-0.2	1.5	-4.2	-7.4	0.6	0.9	3.4
Global Convertibles	-0.5	6.0	-0.4	-7.9	33.2	19.3	9.3
MSCI World	-0.8	11.6	8.2	-0.9	31.7	3.2	9.5
MSCI Emerging Markets	-2.2	4.2	-2.6	-12.2	24.0	2.1	3.8
USDEUR	-2.6	-4.6	-10.8	18.1	-3.7	-1.1	3.7
Gold	-2.7	2.2	2.0	10.6	-2.7	26.3	18.1
Industrial Metals	-3.4	-12.7	-2.0	6.6	35.1	-2.3	-0.7

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

- Over the last four weeks, the return trend for most asset classes remained modest.
- However, Brent crude oil, one of the relative winners of the last four weeks, recorded its strongest weekly increase in almost three months.
- The additional production cuts by Saudi Arabia and Russia, as well as the weaker US labour market data, which led to fewer rate hike expectations, gave the energy commodity a tailwind.

Total return for selected asset classes, in euros and in per-cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 13/07/2018 – 14/07/2023

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (16/06/23 - 14/07/23)	YTD (30/12/22 - 14/07/23)	14/07/22 14/07/23	14/07/21 14/07/22	14/07/20 14/07/21	14/07/19 14/07/20	13/07/18 14/07/19
MSCI EM Eastern Europe	0.8	25.4	38.6	-82.2	31.2	-17.4	21.6
MSCI USA Small Caps	0.5	6.3	4.4	-3.4	50.3	-9.1	1.8
Euro Stoxx 50	0.2	18.5	32.9	-15.0	25.7	-3.0	4.1
Stoxx Europe Cyclicals	-0.4	12.8	23.8	-16.9	35.6	-4.7	-0.7
S&P 500	-0.5	12.8	7.5	4.1	33.9	6.9	13.7
Stoxx Europe Small 200	-0.6	7.3	8.4	-21.9	40.3	-3.2	0.5
DAX	-1.5	15.7	28.6	-20.7	24.3	3.0	-1.7
Stoxx Europe 50	-1.6	10.7	18.9	-1.4	20.4	-1.8	6.5
MSCI EM Asia	-2.4	3.7	-5.3	-12.0	22.5	12.4	0.2
Stoxx Europe Defensives	-2.6	4.8	6.8	6.0	12.5	2.7	5.2
MSCI UK	-3.3	4.7	7.4	6.7	26.4	-17.2	0.9
MSCI Japan	-3.5	9.5	8.3	-8.0	20.9	1.9	1.6

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

- Equity markets remained mixed over the last four weeks. US small caps and Eastern European equities led the way. At sector and style level, cyclical stocks outperformed their defensive counterparts in Europe over the last four weeks.
- Regionally, UK equities, Asian emerging markets and Japanese equities declined the most. After reaching a 33-year high in early July, Japanese equities started to consolidate slightly.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 13/07/2018 – 14/07/2023

Fixed Income

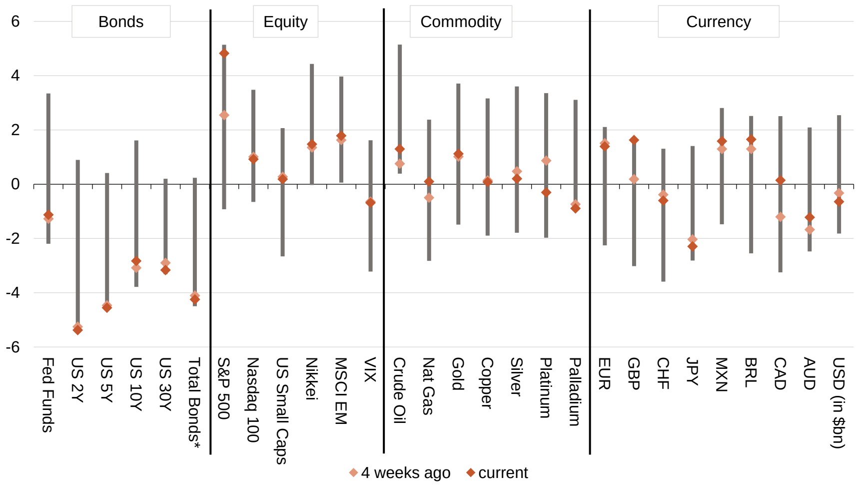
	4-week & YTD		12-month periods over that last 5 years				
	4W (16/06/23 - 14/07/23)	YTD (30/12/22 - 14/07/23)	14/07/22 14/07/23	14/07/21 14/07/22	14/07/20 14/07/21	14/07/19 14/07/20	13/07/18 14/07/19
USD High Yield	1.1	6.6	8.7	-11.9	14.4	0.1	7.2
EUR Financials	0.8	2.6	-1.1	-11.0	3.6	-0.3	4.5
USD Corporates	0.6	3.6	1.5	-14.0	2.5	11.4	9.2
EUR Non-Financials	0.4	2.7	-1.4	-12.3	3.7	-0.3	4.6
Chinese Gov Bond	0.3	3.0	4.5	4.5	4.3	4.0	5.8
Bunds	0.0	1.1	-8.2	-10.2	-1.3	1.8	4.2
EUR High Yield	0.0	4.9	7.9	-13.8	11.0	-1.8	4.9
BTPs	-0.5	4.3	-2.5	-13.4	5.0	4.9	8.8
Gilts	-0.6	-1.2	-17.3	-14.4	0.8	10.1	4.1
EM Local Currency Bonds	-0.7	4.8	5.7	-7.5	0.8	-3.8	12.5
EM Hard Currency Bonds	-1.0	0.0	-0.7	-9.5	2.9	-0.1	14.3
Treasuries	-2.9	-3.4	-12.9	7.1	-6.5	10.2	10.3

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

- Safe government bond yields rose slightly over the last four weeks. The robust US labour market and persistently high core inflation in Europe led to firmer expectations of further interest rate hikes.
- Most recently, the strong decline in inflation in the US caused yields to fall, especially those with short maturities. As a result, the US yield curve flattened slightly.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 13/07/2018 – 14/07/2023

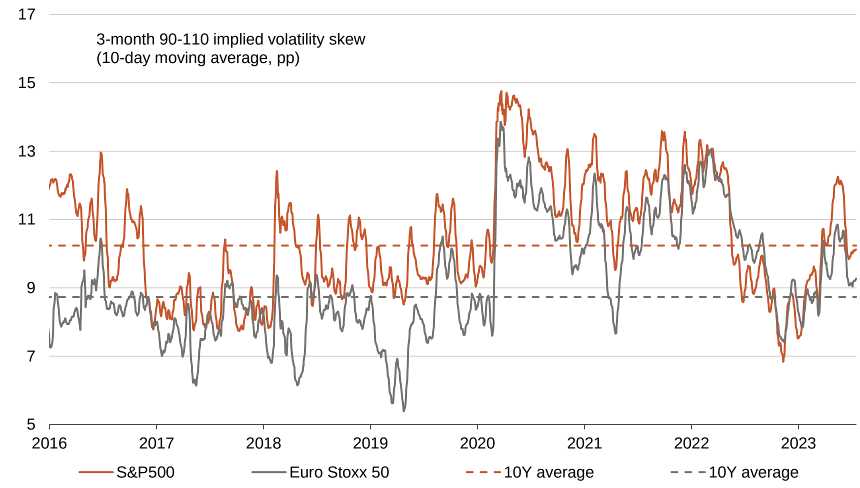
Non-Commercial Positioning



- Compared to the previous month, investors have significantly increased their positions in US equities. This has increased the downside risks in the event of bad news.
- The pronounced long positioning in the GBP also looks vulnerable if the Bank of England (BoE) does not raise interest rates as strongly as many investors now

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: 11/07/2013 - 11/07/2023

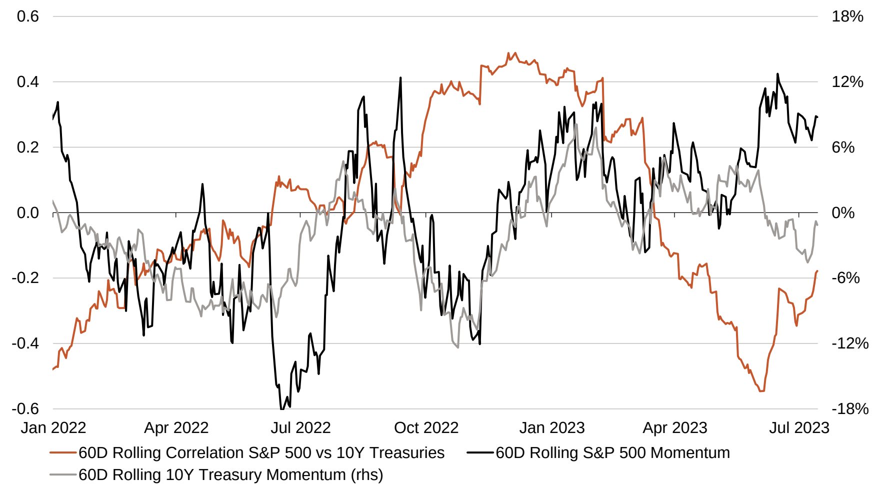
Put-Call-Skew



- The put-call skew has stabilised in recent weeks for both European and US equities, trading near its historical average.
- Although the S&P 500 is at its highest level since the beginning of 2022, the skew is significantly flatter today. However, this is mainly due to the lower volatility level currently.

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: 14/07/2013 - 14/07/2023

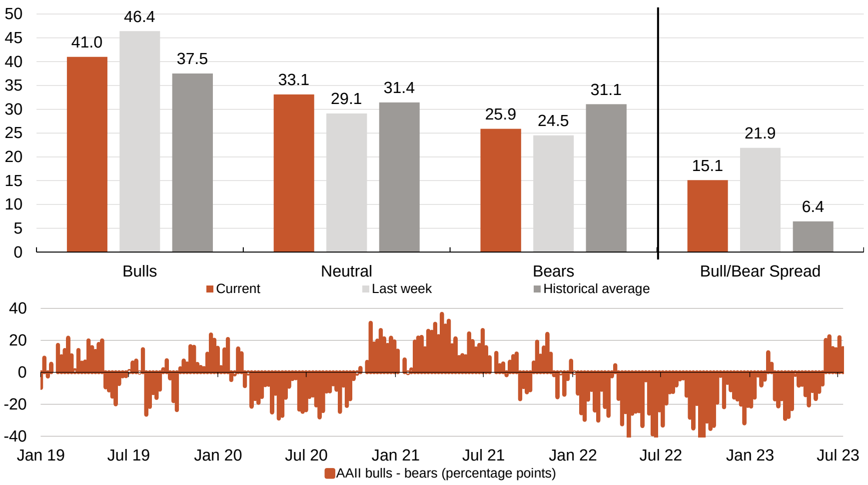
60-Day Momentum and Correlation



- The correlation between equities and bonds over the last 60 days is approaching zero. Over shorter periods it is even positive.
- The momentum of US equities remains positive. Accordingly, CTAs should be clearly long by now (see also CFTC positioning).

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 - 14/07/2023

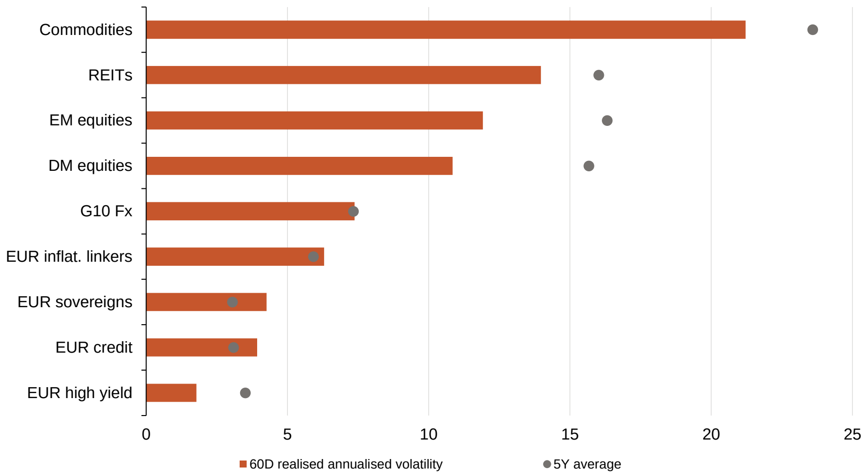
AAII Sentiment Survey (Bulls vs Bears)



- US retail investor sentiment is slightly worse than last week, but is still well above the historical average of 6ppt with a bull/bear spread of 15ppt.
- Sentiment is positive for the sixth week in a row. The last time we saw this was in November 2021.

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 – 13/07/2023

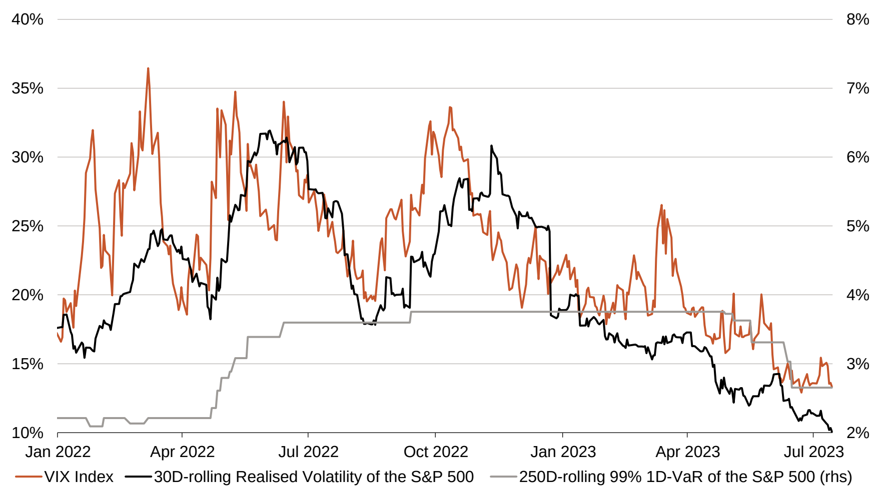
Realised Volatilities



- As market participants are currently focusing on inflation and central banks, interest rate volatility remains above average, as shown by government and corporate bonds.
- Equity markets, on the other hand, remain comparatively calm.

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: 14/07/2018 - 14/07/2023

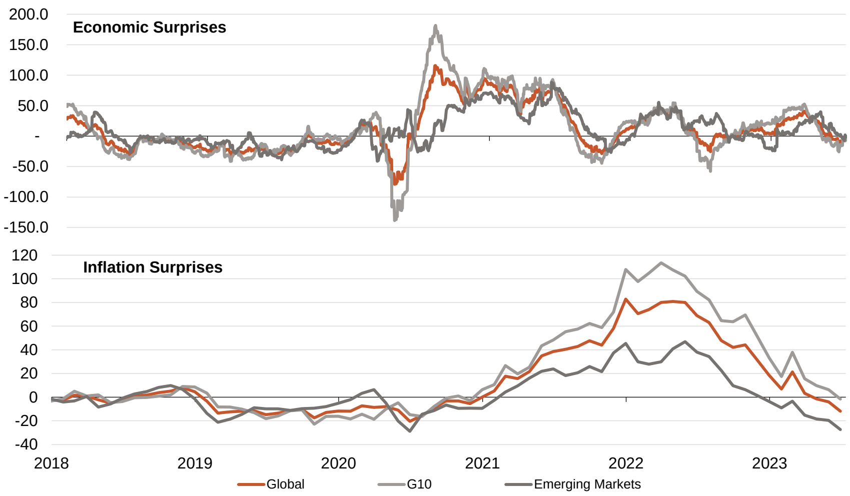
Volatility and Value-at-Risk of the S&P 500



- When ADP released surprisingly strong US labour market data, the VIX briefly breached 15 in early July as investors feared tighter central banks. However, with the subsequent weaker-than-expected official labour market and inflation data, implied volatility fell back towards yearly lows.

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 – 14/07/2023

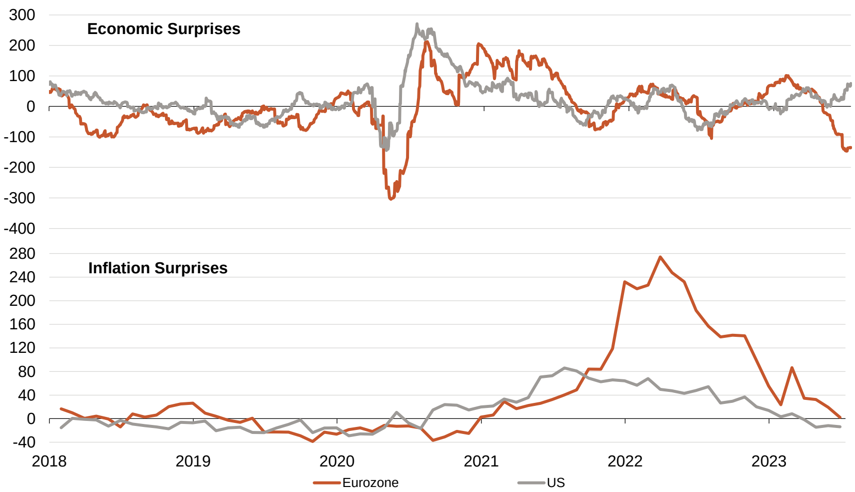
Global



- The trend of predominantly negative economic surprises seems to be abating at the global level.
- Economic data in the emerging markets even turned positive again. In China, the Caixin purchasing managers' data for the manufacturing sector exceeded expectations and, with a value of over 50, now point to progressive industrial activity again. Consumer and producer inflation data, on the other hand, surprised to the downside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 30/06/2023

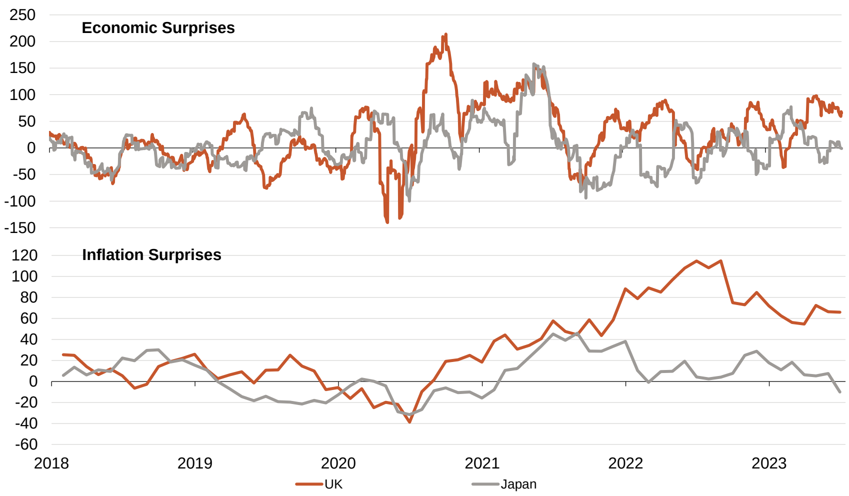
Eurozone and US



- Economic data in the US continues to be surprisingly robust. Non-farm payrolls data remained weaker than expected, while initial jobless claims for mid-July came in slightly below expectations. Month-on-month inflation remained cooler than expected. The University of Michigan's sentiment indicator was also well above expectations at its highest level since September.
- The picture is different in the eurozone, where the data recently deteriorated further. Most recently, the PMI purchasing managers' data disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 14/07/2023

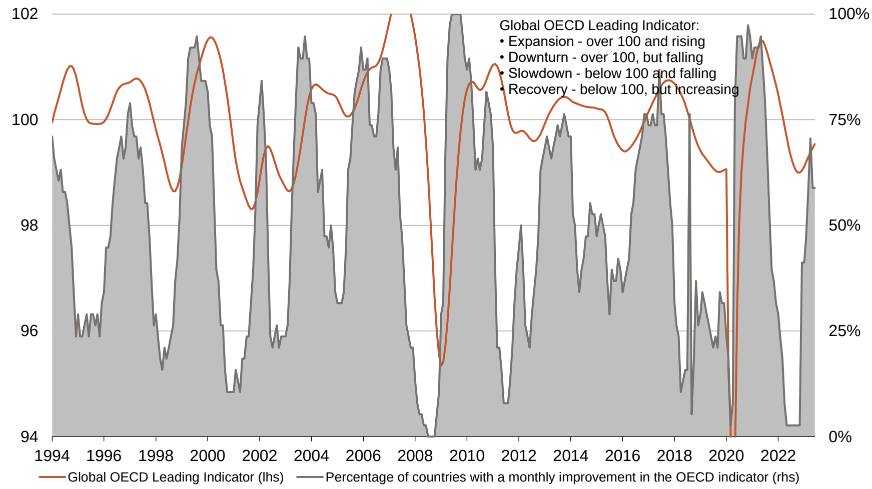
UK and Japan



- In the UK, industrial production was below expectations, while purchasing managers' data surprised on the upside.
- In Japan, core machinery orders were well 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 - 14/07/2023

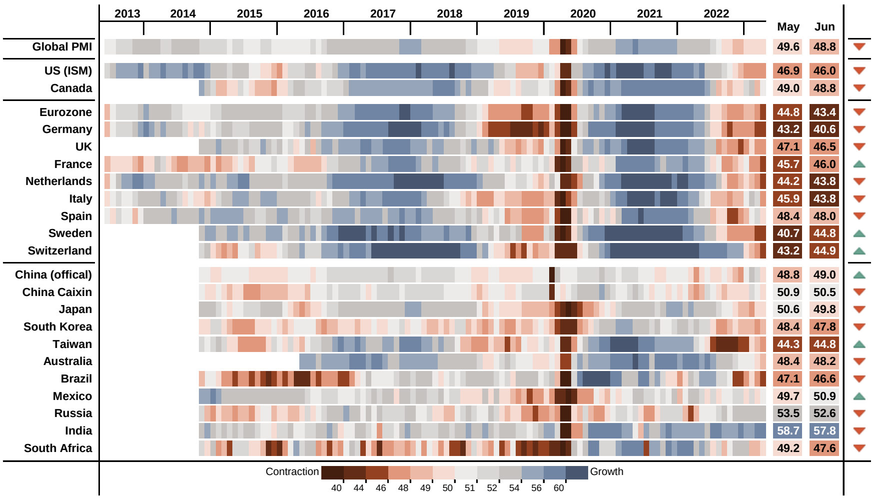
OECD Leading Indicator



- The OECD Leading Indicator showed an upward trend for the seventh month in a row – but still stayed below 100. This means that the global economy continues to recover.
- The number of countries that saw a monthly improvement in the indicator remained unchanged at 59%.

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 - 30/06/2023

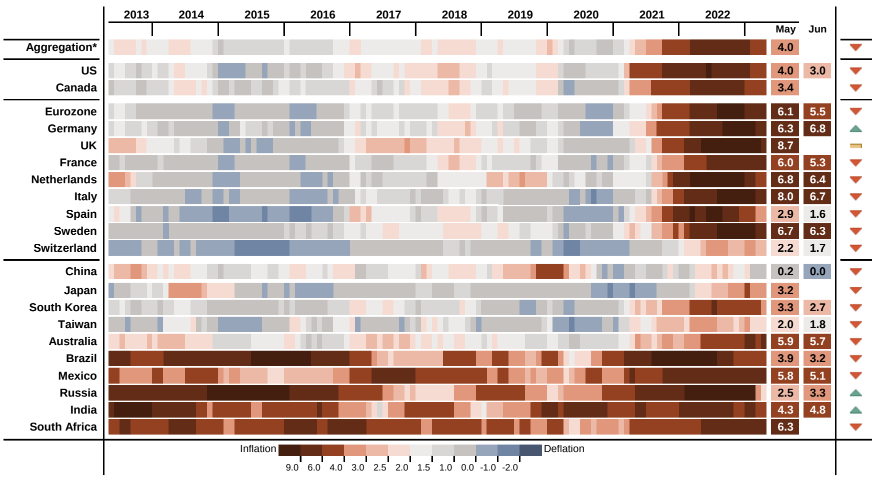
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The PMIs fall again in June. At 46 points, the purchasing managers' index for the US is as negative as it was last during the COVID-19 pandemic. The picture is also mirrored at the global level and in the eurozone. Emerging market indices, on the other hand, are mixed. Official China and Taiwan data actually improved from the previous

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: 14/07/2013 - 14/07/2023

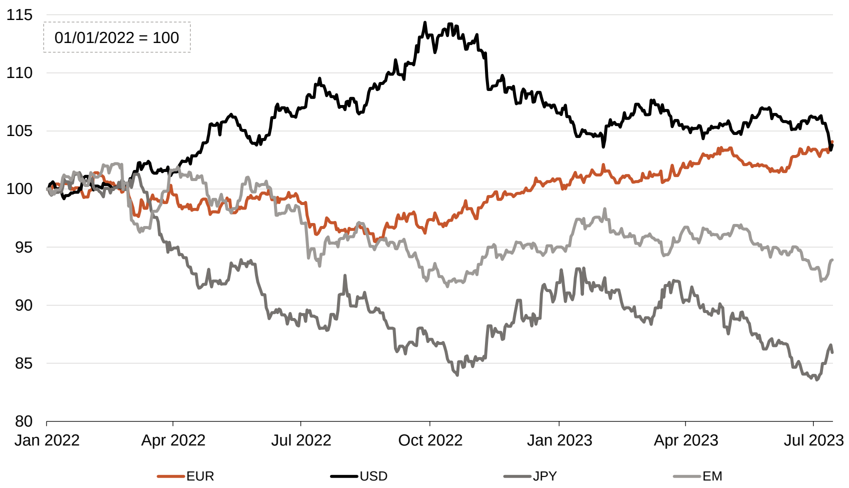
Headline Inflation



- Inflation in the US fell to 3% in June, the same level as at the beginning of 2021. A decline in used car prices and the cost of health insurance, as well as lower increases in housing costs, were the dominant drivers behind the drop in core inflation on a month-on-month comparison. In the eurozone, the month-on-month inflation rate also fell.

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: 14/07/2013 - 14/07/2023

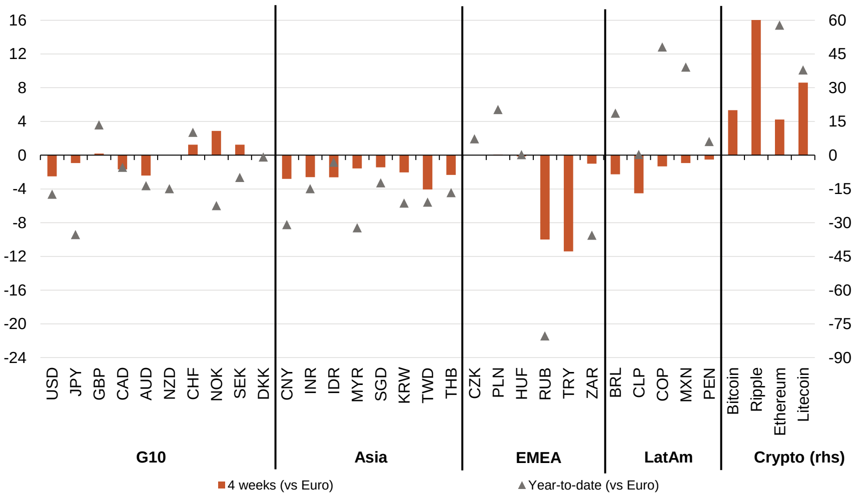
Trade-Weighted Currency Development



- The US dollar recently fell noticeably and is currently trading at the low of early February in trade-weighted terms. With recent slightly weaker labour market and inflation data, investors fully priced out interest rate hikes after the July FOMC meeting.
- As a result, emerging market currencies appreciated and especially the Japanese yen, which was vulnerable to a positive breakout, not least because of the high short positioning.

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 - 14/07/2023

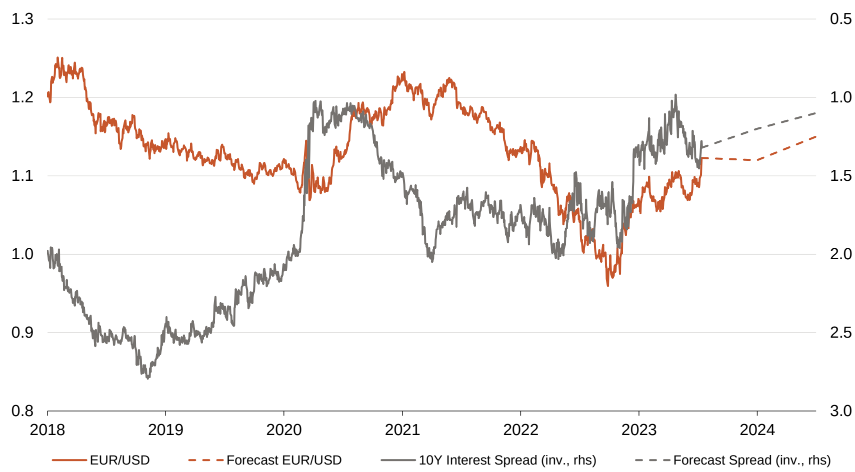
Currency Moves vs Euro



- Most of the currencies shown here have weakened against the euro due to the hawkish ECB last month.
- One of the few currencies that held its own against the euro was the Norwegian krone. The Norges Bank showed surprising decisiveness in June. It raised the key interest rate by 50 bp and announced the possibility of two more interest rate hikes.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2022 - 14/07/2023

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



- The EUR/USD exchange rate has risen sharply in the last two weeks. It broke through the 1.12 mark for the first time since February 2022.
- First the slightly weaker-than-expected US labour market report and then the lower-than-expected US consumer prices gave investors hope for a less restrictive Fed.

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

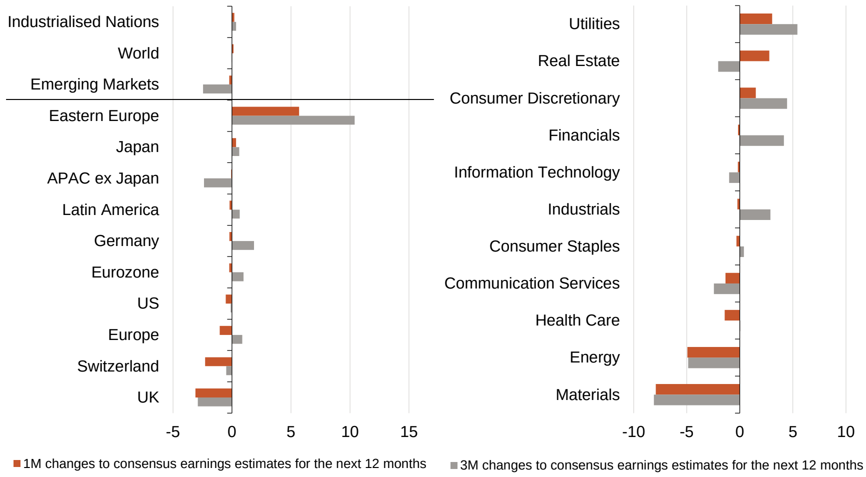
	4-week & YTD		12-month periods over that last 5 years				
	4W (16/06/23 - 14/07/23)	YTD (30/12/22 - 14/07/23)	14/07/22 14/07/23	14/07/21 14/07/22	14/07/20 14/07/21	14/07/19 14/07/20	13/07/18 14/07/19
Information Technology	1.3	28.7	37.1	-27.8	36.0	16.2	4.9
Communication Services	0.4	24.8	35.2	-21.9	51.8	-8.3	2.6
Telecommunications	0.3	9.6	-4.7	-1.3	18.7	-13.5	0.8
Finance	0.3	10.8	26.6	-6.7	28.6	-17.9	-0.9
Materials	-0.8	3.9	15.4	-15.4	39.7	2.6	-0.3
Consumer Staples	-1.0	4.5	1.5	0.6	15.4	-2.6	11.7
Value	-1.1	7.6	16.6	-3.7	26.0	-14.6	-0.1
Growth	-1.2	14.1	16.3	-13.0	28.8	6.3	7.1
Industrials	-1.9	16.5	25.3	-17.0	41.4	-1.3	3.4
Utilities	-2.0	9.8	12.1	-4.1	10.9	13.4	13.6
Energy	-2.1	-3.0	18.3	30.0	20.7	-38.3	-1.7
Health Care	-4.6	4.3	1.0	7.0	10.4	19.4	8.7

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.

- Over the last four weeks, only a few European sectors gained value. However, information technology and consumer cyclical stocks were among them.
- Health care stocks, however, lost considerable value.
- Value and growth stocks performed quite similarly.

Total return of European equity sectors and European style indies, in euros and in percent, sorted by 4-week performance. The difference between Value and Growth lies in the valuation. A growth stock is highly valued because the company is expected to grow strongly. Value stocks usually have less growth potential and are valued lower.
Source: Factset, Time period: 13/07/2018 – 14/07/2023

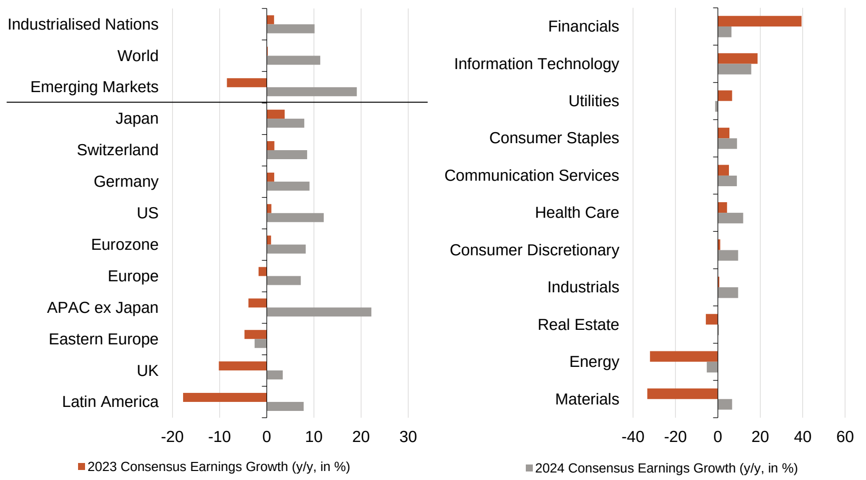
Changes in Consensus Earnings Estimates



- The earnings outlook for the next 12 months has therefore not changed significantly globally.
- In the emerging markets, however, analysts again reduced their earnings outlook. APAC ex Japan and Latin America were responsible for the more negative outlook. Eastern Europe and Latin America contributed positively.

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 14/07/2023

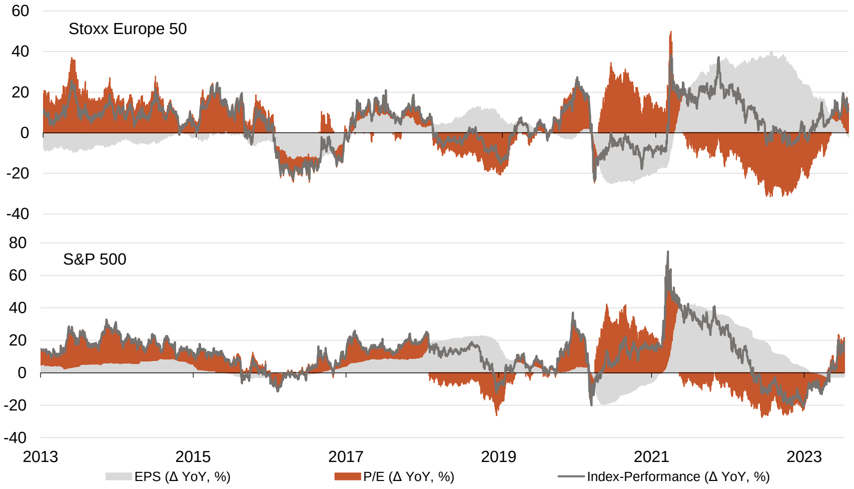
Earnings Growth



- According to analysts, earnings growth is likely to be meagre globally in 2023. Growth of around zero percent is expected for the industrialised nations. In the emerging markets, however, profits are likely to fall by just under 10%.
- Regionally, analysts expect the most positive profit growth in 2023 to be in for Japan and the most negative in Latin America.

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 14/07/2023

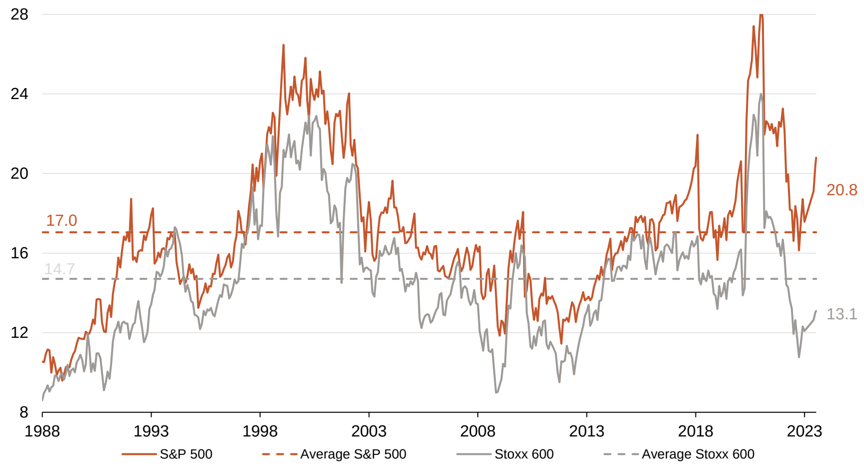
Contribution Analysis



- The year-on-year earnings development of the Stoxx Europe 50 has recently turned negative, as has already happened with the S&P 500.
- Thus, the positive development of the Stoxx Europee 50 and the S&P 500 is exclusively driven by the valuation expansion.

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 – 14/07/2023

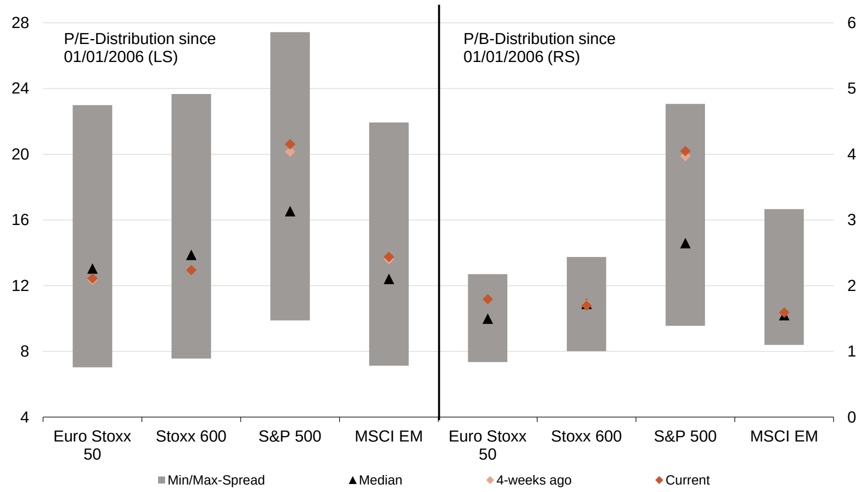
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The cooling of US inflation and thus falling interest rates drove the equity markets further upwards. The valuations of the Stoxx 600 and S&P 500 have thus risen further.

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 – 14/07/2023

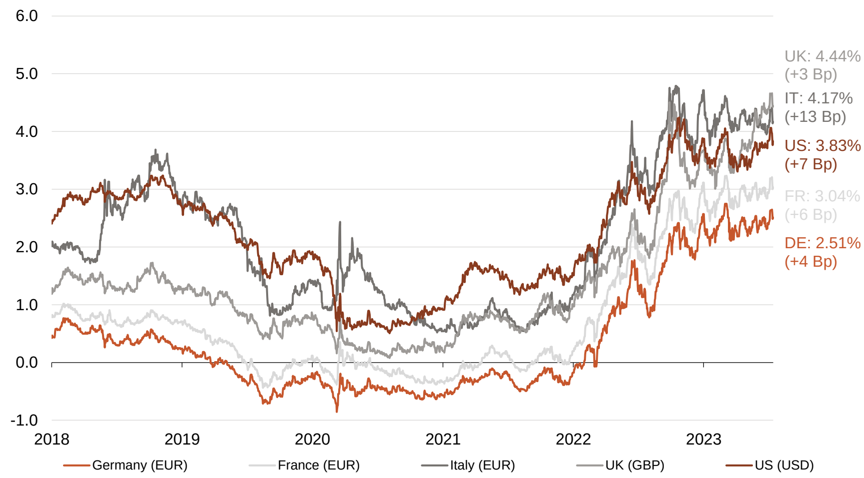
Historical Distribution: Price/Earnings and Price/Book Ratio



- The P/E and P/B ratios of the S&P 500 have risen again in the last two weeks. US equities have thus once again become more expensive at the index level.
- Emerging market and European equities, however, have hardly increased in price and are trading close to their historically average valuation.

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 – 14/07/2023

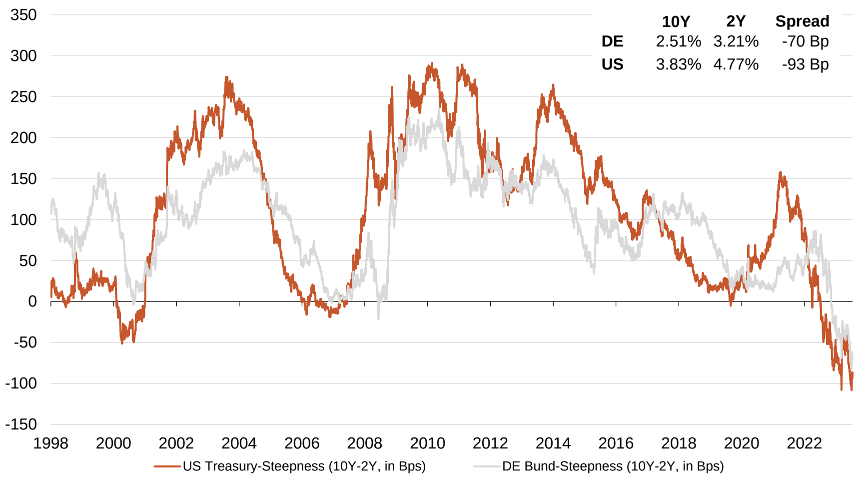
10-Year Government Bond Yields



- Yields on safe government bonds rose slightly over the past four weeks. Persistently high core inflation in Europe and the still strong US labour market moved bond markets to price in higher interest rates for the foreseeable future.
- Only German and French government bonds closed almost unchanged, with weak manufacturing data weighing on the economic outlook.

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 – 14/07/2023

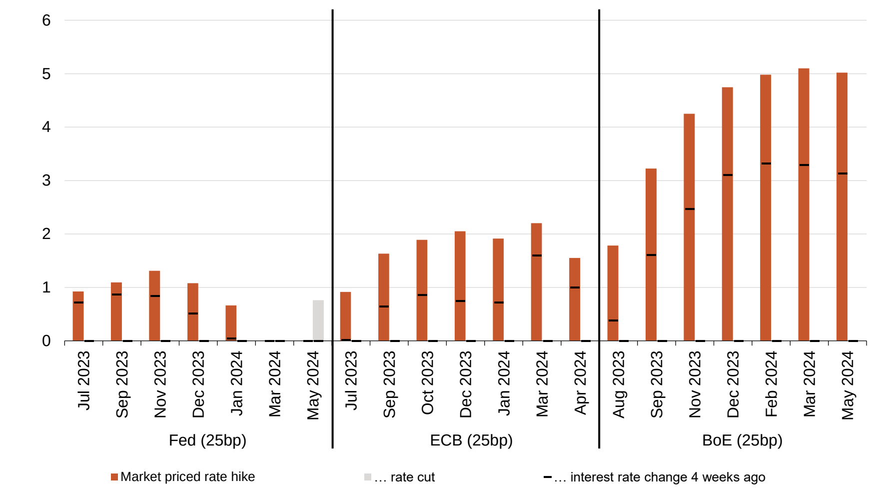
Yield Curve Steepness (10Y - 2Y)



- The US yield curve recorded an inversion of more than 100bp at the beginning of the month before it fell back to 84bp due to a rally at the end of the short end of the curve.
- At -82bp, German Bunds reached their strongest inversion since reunification before the yield curve flattened slightly again.

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 – 14/07/2023

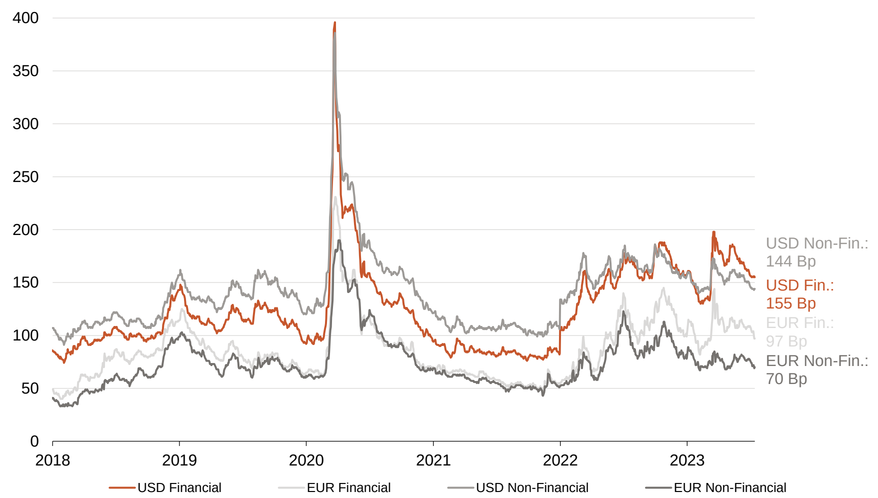
Implicit Changes in Key Interest Rates



- The ECB is still expected to make two further interest rate steps of 25bp each. The first interest rate cuts are not priced in until the second quarter of 2024.
- In the UK, a peak rate of slightly above 6% is priced in for March. In the US, a final rate hike will probably herald the peak of the rate hike cycle before the Fed could start cutting rates next 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: 16/06/2022 – 14/07/2023

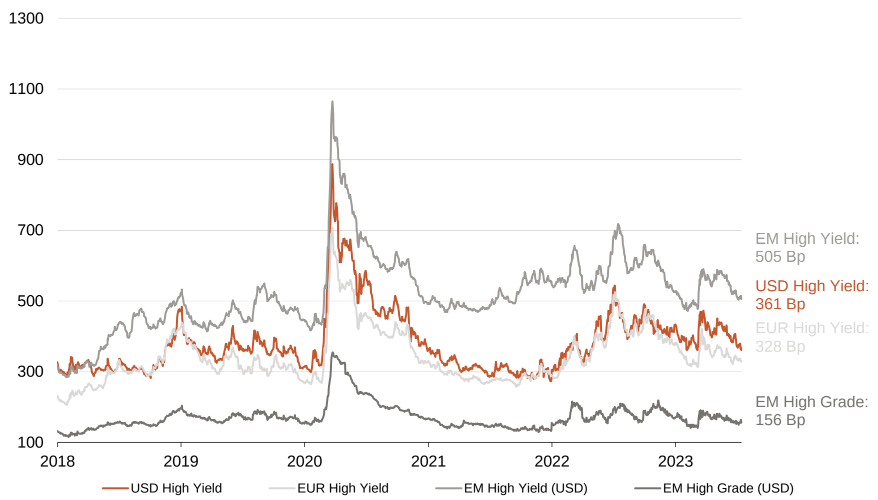
Credit Spreads Financial and Non-Financial Bonds



- The risk premiums of EUR IG corporate bonds have narrowed further over the past two weeks. Both financial and non-financial bonds benefited from the positive risk sentiment, with credit spreads falling by 10bp and 7bp respectively.
- IG corporate bonds in USD recorded a similar narrowing of spreads.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 - 14/07/2023

Credit Spreads High Yield and Emerging Markets Bonds



- High-yield bonds also benefited significantly from the market's risk appetite. At the index level, USD high-yield bonds recorded a spread narrowing of 25 bp, while EUR-denominated bonds saw spreads widen by 5 bp.
- High-yield bonds from emerging markets also recorded a narrowing of credit spreads.

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 - 14/07/2023

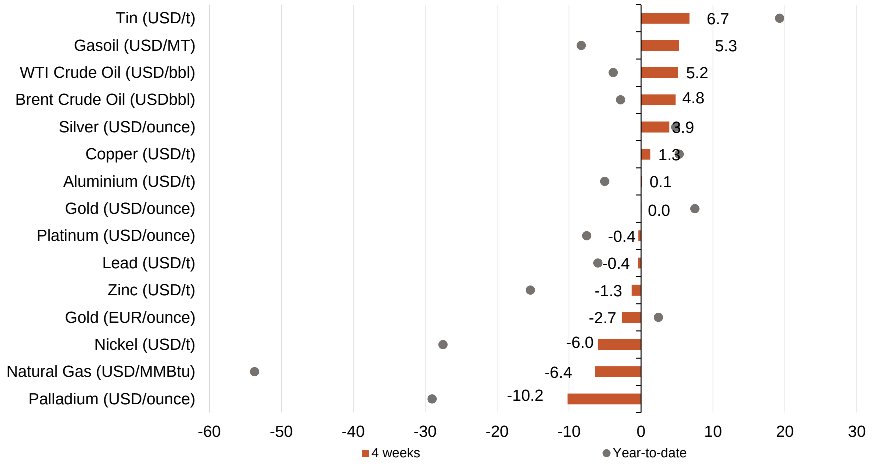
Bond Segments Overview

kay, kö	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	14/07/22 14/07/23	14/07/21 14/07/22	14/07/20 14/07/21	14/07/19 14/07/20	14/07/18 14/07/19
EUR Government	3.27	0.09	7.2	-	-	-	0.0	1.6	-6.4	-12.4	0.5	3.1	6.1
Germany	2.69	0.06	7.3	-	-	-	0.0	0.6	-8.2	-10.2	-1.2	1.8	4.2
EUR Corporate	4.35	0.02	4.5	81	-9	58	0.4	2.5	-1.3	-11.6	3.7	-0.2	4.5
Financial	4.61	0.02	3.8	97	-11	65	0.5	2.3	-0.9	-9.7	3.1	0.0	4.3
Non-Financial	4.18	0.02	5.0	70	-9	48	0.3	2.5	-1.5	-12.7	4.0	-0.4	4.6
EUR High Yield	7.41	0.11	3.1	328	-2	45	-0.1	4.9	7.9	-13.8	11.0	-1.8	4.9
US Treasury	4.31	0.02	6.4	-	-	-	0.2	1.8	-2.3	-9.5	-3.4	12.0	6.4
USD Corporate	5.52	-0.08	6.9	147	-11	66	1.0	3.6	1.5	-14.0	2.5	11.4	9.2
Financial	5.82	-0.07	5.1	155	-11	81	0.9	3.1	1.7	-11.8	2.7	10.0	9.0
Non-Financial	5.38	-0.08	7.7	144	-10	58	1.0	3.8	1.3	-14.9	2.4	12.0	9.4
USD High Yield	8.37	-0.22	4.0	361	-26	41	1.4	6.6	8.7	-11.9	14.4	0.1	7.2
EM High Grade	5.73	0.03	5.3	156	-2	27	0.5	3.3	3.1	-13.9	3.8	5.5	8.5
EM High Yield	10.26	-0.30	3.9	505	-21	39	1.1	3.4	12.3	-26.1	12.1	1.9	11.1

- Rising interest rates weighed on bond prices last month. Safe government bonds, which could not benefit from tighter spreads, were the most affected.
- Emerging market high-yield bonds saw a positive performance of 1.1% due to significant spread narrowing, beat only by USD high-yield bonds returning

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 : 14/07/2017 - 14/07/2023

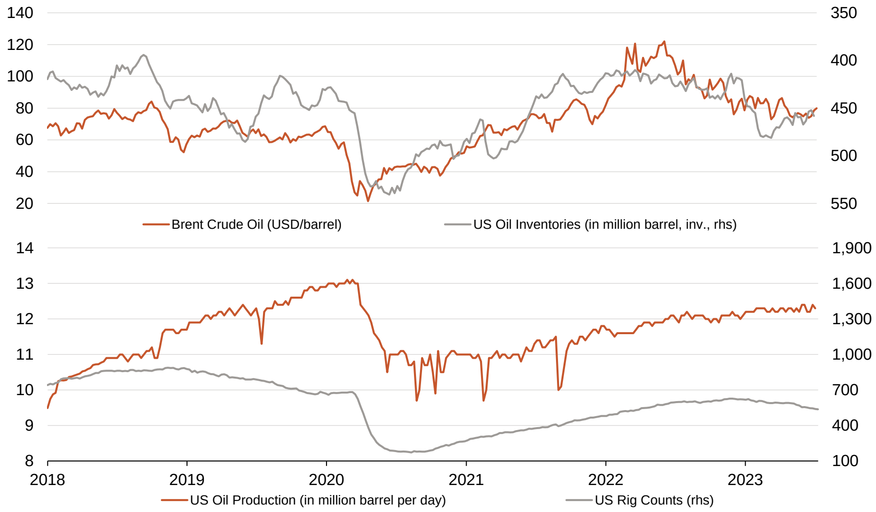
Commodities Performance



- Over the past four weeks, commodities, with the exception of some precious metals, recorded an increase. Besides oil and gas, tin and copper maintained their upward trend.
- The supply of copper remains tight, not only because of the continuing difficult situation in Chile. Peru, the second largest producer, continues to struggle with the risk of political unrest and riots, which affect copper production. Most recently, the government was forced to militarily guard an important seaport.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2022 - 14/07/2023

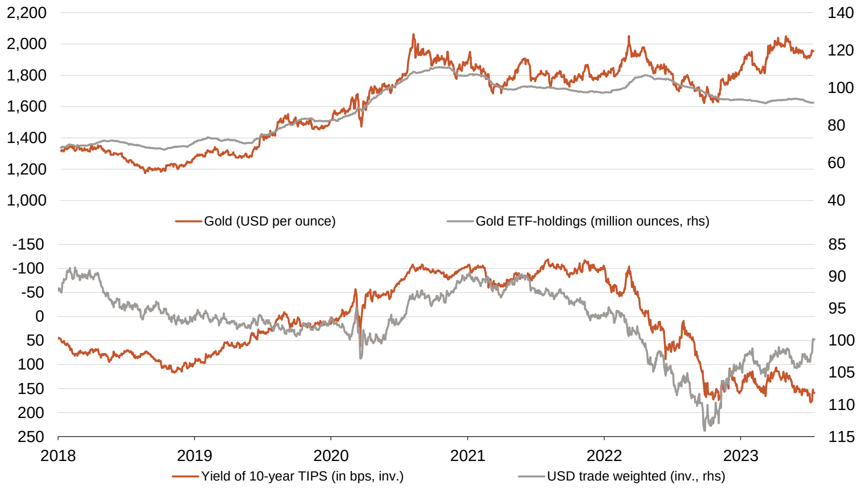
Crude Oil



- After the volatile downward movement of the last few months, the trend reversed with the new OPEC production cuts. Russia will cut production by 500,000 barrels per day from August. Saudi Arabia will extend its cut by 1.4 million barrels into August.
- Brent is thus trading at its highest level since the beginning of May. After the net long positions in Brent had fallen to a 10-year low at the beginning of July, there was now also a slight build-up here again.

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 - 14/07/2023

Gold



- Gold initially fell back below the USD 1,900 per ounce mark at the end of June with expectations of further interest rate hikes. With cooler-than-expected US inflation spurring optimism of an imminent end to the rate hike cycle, the precious metal then climbed back to the 1,950 mark.

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 - 14/07/2023

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