BERENBERG
Markets

MONITOR

31 July 2023

Current market commentary

Both the US Federal Reserve and the ECB raised key interest rates by 25bp last week and emphasised the data dependency of upcoming central bank decisions. In contrast, the Bank of Japan surprised the financial markets: although it left interest rates unchanged, it announced that it would handle its interest rate policy more flexibly in future. Accordingly, the Japanese yen strengthened, and interest rates rose worldwide – long-term rates by even more than short-term rates. The better-than-expected economic data in the US also contributed to rising rates. Bonds fell accordingly. Commodities, on the other hand, were among the big winners and thus continued their recovery of the last few weeks, spurred also by China's willingness to support the domestic economy more in the future. Equities also gained. Here, emerging markets were able to catch up somewhat with developed markets. Since the beginning of July, the asset classes that disappointed in H1 have thus tended to perform better than the H1 outperformers.

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

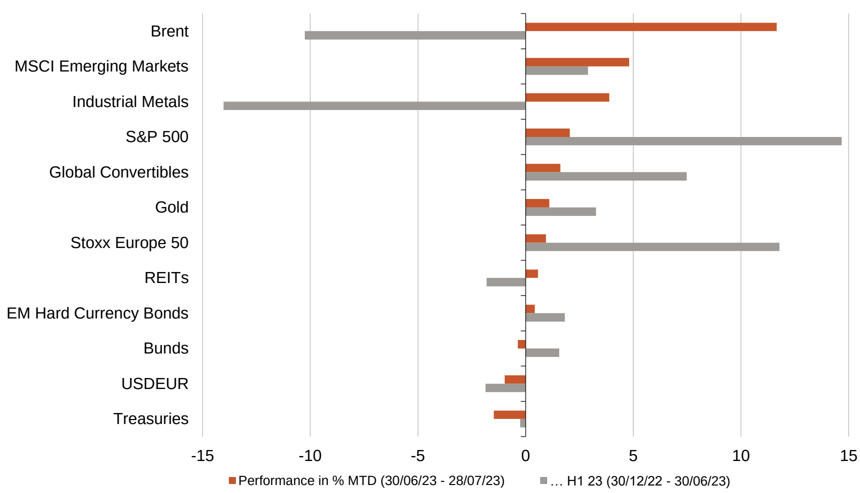
Q2 reporting season in full swing.

The coming weeks continue to be dominated by the Q2 reporting season. Already 243 companies (49% of the S&P 500) have reported. Of these, 79% have beaten earnings estimates so far, with a median increase of 6%. On the central bank side, after last week's Fed and ECB rate decisions, the Bank of England will announce its next rate decision on Thursday (3 August).

Investors focus on economic and labour market data.

On Monday, German retail sales (Jun.) as well as preliminary GDP data (Q2) and the harmonised consumer price index (Jul.) for the Eurozone will be released. This will be followed on Tuesday by the manufacturing purchasing managers' indices (Jul.) for China, Spain, Italy, the Eurozone and the US. In terms of US labour market data, the US releases the change in non-farm employment (Jul.) on Wednesday, before announcing initial jobless claims (Jul.) on Thursday and the unemployment rate (Jul.) and hourly wages (Jul.) on Friday.

The second half of the year starts with a change of favourites



- Since the beginning of the second half of the year, there has been a change of favourites on the markets. The (relative) losers from the first six months have so far been among the big winners.
- Especially cyclical commodities such as oil and industrial metals, but also emerging market equities are benefiting from the improved economic outlook in the US and stimulus expectations in China.
- Government bonds and gold have had a harder time in this environment.

5-year periods see page 2
Source: Bloomberg, own calculations

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (30/06/23 - 28/07/23)	YTD (30/12/22 - 28/07/23)	28/07/22 28/07/23	28/07/21 28/07/22	28/07/20 28/07/21	28/07/19 28/07/20	27/07/18 28/07/19
Brent	11.7	0.2	-11.9	97.7	66.9	-36.1	-6.9
MSCI Frontier Markets	5.2	8.7	-5.4	-1.6	35.8	-17.6	7.8
MSCI Emerging Markets	4.8	7.8	-0.9	-6.0	18.6	0.2	3.2
Industrial Metals	3.9	-10.7	-6.5	10.7	42.6	-6.0	-0.1
MSCI World	2.1	15.3	5.7	4.2	34.5	0.1	9.9
Global Convertibles	1.5	8.2	-2.3	-8.7	33.9	11.8	6.1
Gold	1.0	4.4	3.3	12.9	-8.7	31.1	21.5
EUR Coporates	0.9	3.1	-3.5	-9.8	3.1	-0.2	5.8
REITs	0.6	-1.2	-20.5	7.8	27.3	-13.0	17.2
EUR Sovereign Debt	0.3	1.9	-5.5	-6.3	0.7	0.6	4.3
Euro overnight deposit	0.3	1.6	1.9	-0.6	-0.6	-0.5	-0.4
USDEUR	-1.0	-2.8	-7.4	16.1	-1.1	-5.0	4.8

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.

- After a bumpy year so far, the last four weeks were again dominated by commodities. Brent oil has continued its recovery since the end of June over the last few weeks, most recently encouraged by China's announcement of new stimulus measures in the real estate and labour markets. Emerging market equities and industrial metals also benefited from the positive news.
- The USD recovered some of its losses in recent weeks on strong US economic data.

Total return for selected asset classes, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 27/07/2018 – 28/07/2023

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (30/06/23 - 28/07/23)	YTD (30/12/22 - 28/07/23)	28/07/22 28/07/23	28/07/21 28/07/22	28/07/20 28/07/21	28/07/19 28/07/20	27/07/18 28/07/19
MSCI EM Eastern Europe	6.1	29.7	36.3	-81.2	28.5	-16.2	21.7
Stoxx Europe Small 200	4.7	10.7	3.7	-17.0	40.2	-2.8	0.0
MSCI EM Asia	4.7	6.8	-2.8	-5.9	16.5	9.0	0.8
Stoxx Europe Cyclicals	3.4	15.6	17.0	-10.6	36.4	-4.9	-2.7
MSCI USA Small Caps	3.2	10.5	0.5	3.0	51.5	-10.8	5.3
MSCI UK	2.2	8.4	5.3	13.8	25.9	-17.9	1.1
S&P 500	2.0	17.0	5.5	9.2	37.9	2.8	14.8
DAX	2.0	18.3	24.0	-14.7	21.3	3.3	-3.4
MSCI Japan	1.7	12.4	6.1	-1.3	18.8	1.0	-1.6
Euro Stoxx 50	1.6	20.3	25.4	-8.7	26.5	-4.3	2.7
Stoxx Europe Defensives	1.2	7.8	6.2	9.8	13.0	0.6	4.8
Stoxx Europe 50	0.9	12.8	14.0	5.0	20.8	-3.4	5.0

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

- The stock markets have performed well over the last four weeks, with fewer inflation and economic concerns. The main driver of the positive development was an increase in valuations. For example, the P/E ratio of the S&P 500 is above 21, the highest since the beginning of 2022. Systematic strategies and a "fear-of-missing-out"-mentality have supported this.
- The Q2 reporting season is in full swing. Low expectations and robust economic data hold positive surprise potential.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 27/07/2018 – 28/07/2023

Fixed Income

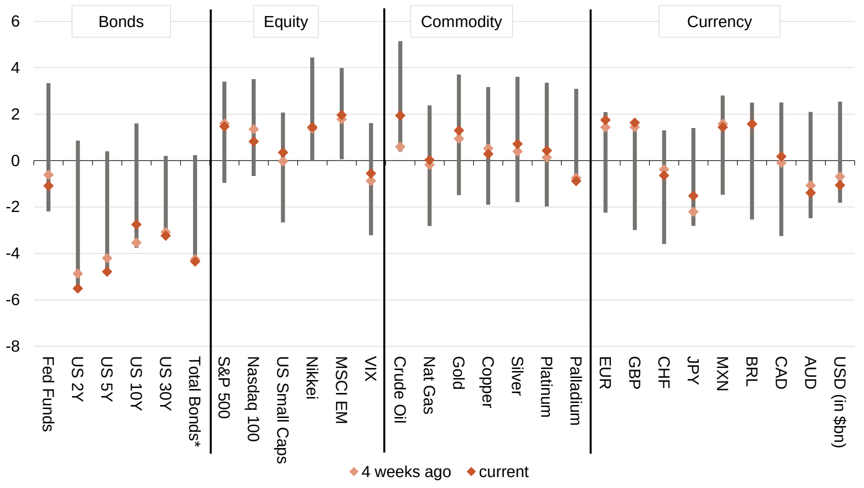
	4-week & YTD		12-month periods over that last 5 years				
	4W (30/06/23 - 28/07/23)	YTD (30/12/22 - 28/07/23)	28/07/22 28/07/23	28/07/21 28/07/22	28/07/20 28/07/21	28/07/19 28/07/20	27/07/18 28/07/19
EM Local Currency Bonds	1.6	7.1	5.8	-5.6	1.4	-5.6	12.9
EUR Financials	1.3	3.2	-2.9	-9.2	3.1	-0.2	5.4
USD High Yield	1.2	6.7	4.8	-8.4	11.4	2.4	7.1
EUR High Yield	1.0	5.4	5.1	-11.2	9.6	-0.9	5.0
EUR Non-Financials	0.7	3.0	-4.0	-10.3	3.1	-0.2	6.0
Gilts	0.6	-0.2	-19.1	-13.1	2.1	9.4	6.0
Chinese Gov Bond	0.6	3.2	4.3	4.4	3.9	4.7	5.8
EM Hard Currency Bonds	0.4	2.3	-1.7	-6.7	3.8	-2.9	16.0
BTPs	0.3	4.9	-2.9	-13.1	4.2	5.3	10.5
USD Corporates	0.2	3.5	-0.7	-12.6	1.7	12.1	10.2
Bunds	-0.4	1.2	-10.5	-8.7	-0.7	1.2	5.9
Treasuries	-1.6	-2.2	-11.8	6.1	-3.4	6.1	12.4

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 haven government bond yields have traded in an elevated range over the past four weeks.
- UK gilts showed at least a slight decline in yields.
- The best performance was seen in segments with credit risk such as USD high yield and financial bonds in EUR.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 27/07/2018 – 28/07/2023

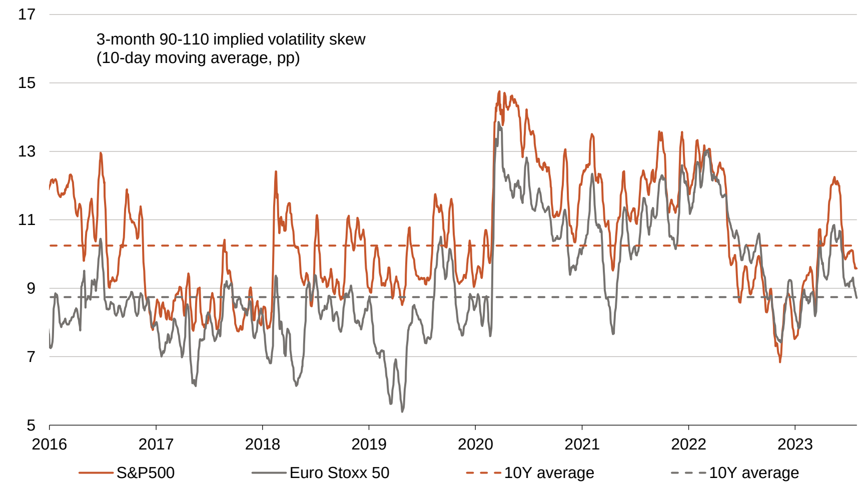
Non-Commercial Positioning



- Investors have taken profits over the last month after the strong tech rally and reduced their long positions in the Nasdaq-100.
- In crude oil, which has risen strongly since the beginning of July, investors have again built up longs. In a 10-year comparison, however, positioning remains cautious.

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: 25/07/2013 - 25/07/2023

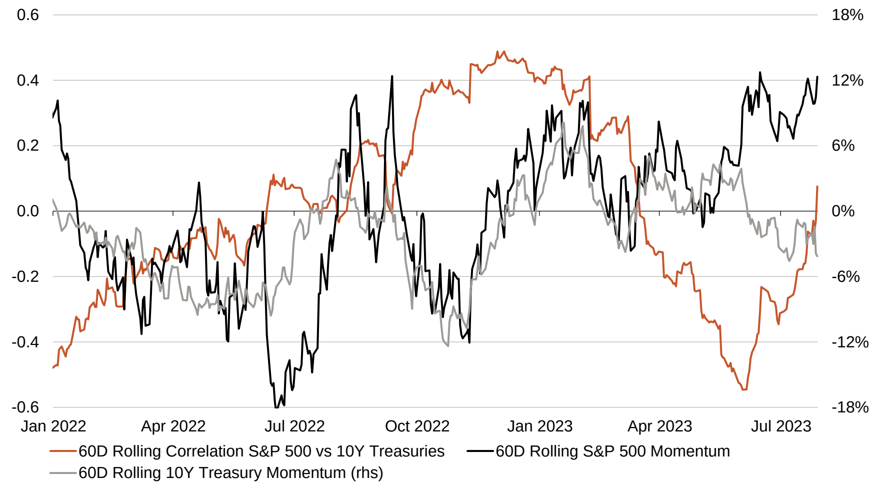
Put-Call-Skew



- The put-call skew in the US is now below average. In Europe it is right at the average.
- Measured against the level of implied volatility, however, the skew is steeper than average. This, in turn, is typical for such low volatility. Overall, the level and skewness of volatility point to optimistic investors.

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: 28/07/2013 - 28/07/2023

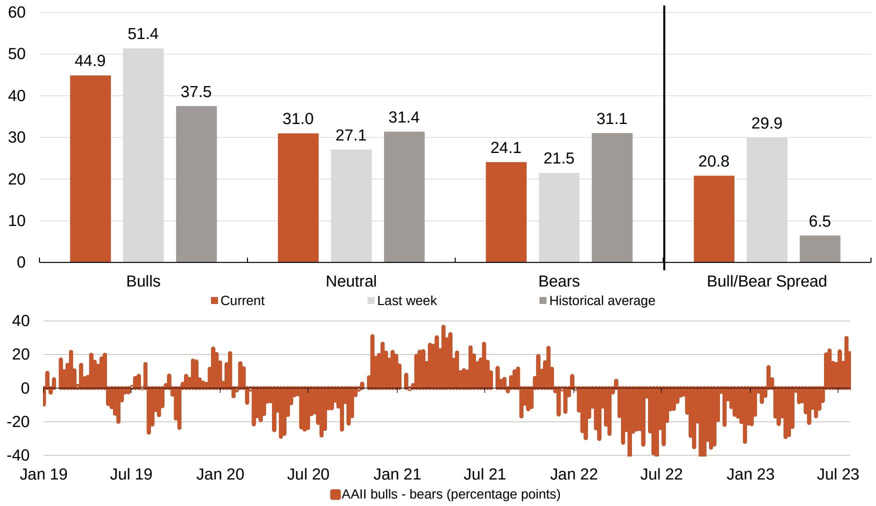
60-Day Momentum and Correlation



- The correlation between equities and bonds has just turned positive again as inflation and central banks have dominated the markets in recent weeks. As a consequence, equities and bonds have often moved in the same direction.

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 - 28/07/2023

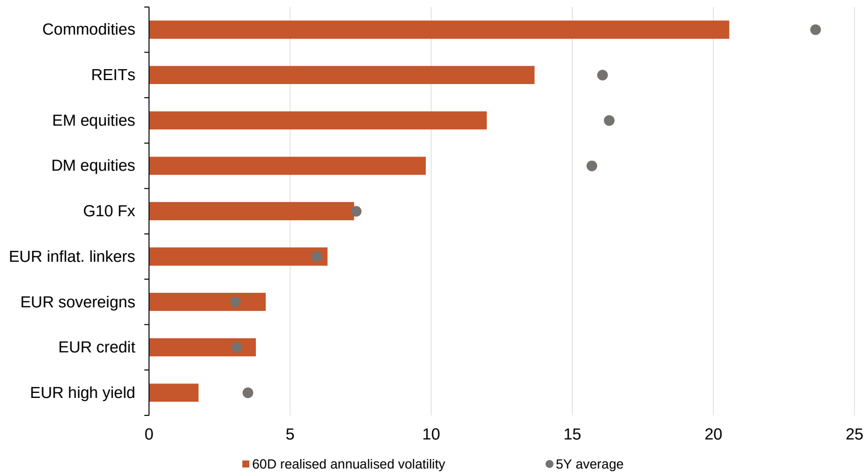
AAII Sentiment Survey (Bulls vs Bears)



- For the eighth week in a row, the optimists outweigh the bulls among US private investors.
- Investors are increasingly expecting a "no-landing" scenario. This means that the US will get a grip on its inflation problem while at the same time the economy will develop positively.

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 – 28/07/2023

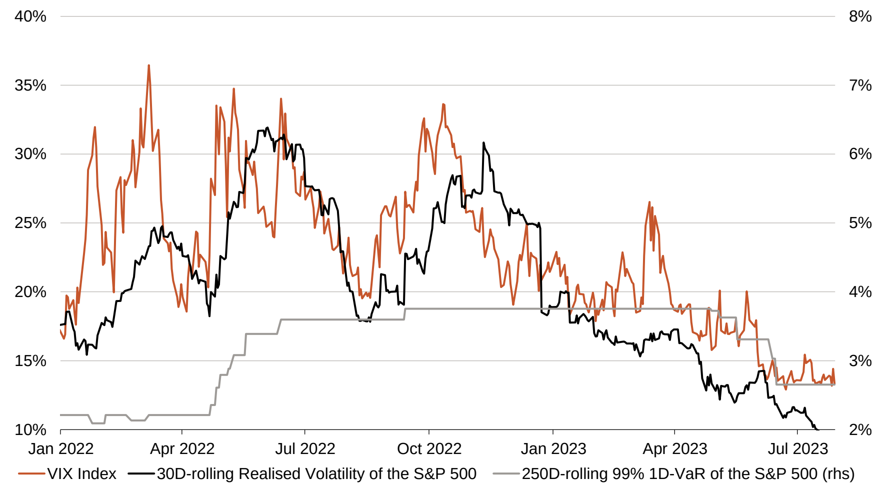
Realised Volatilities



- The realised volatility of developed market equities has recently fallen below the 10% mark. Last week's major central bank meetings were, in retrospect, so-called "non-events" and hardly caused any fluctuations.
- High-yield bonds have by far the lowest realised volatility. In the meantime, however, the risk premiums here are historically low, so the the volatility-dampening effect is likely to wane.

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: 28/07/2018 - 28/07/2023

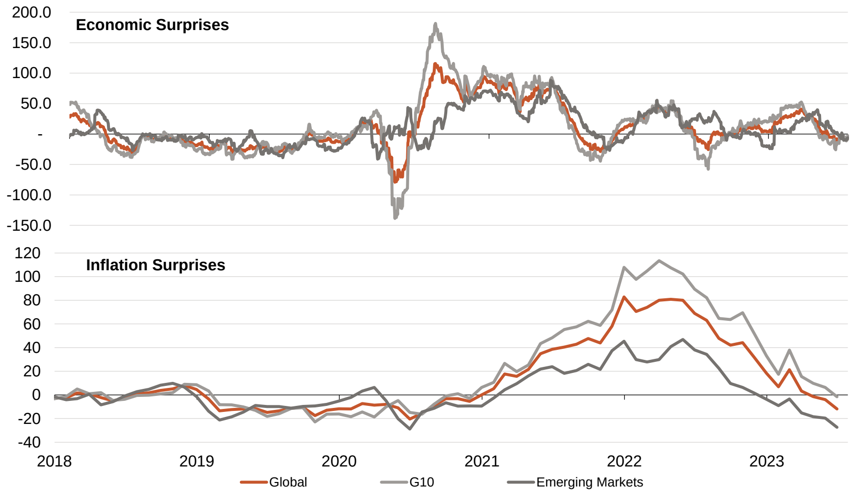
Volatility and Value-at-Risk of the S&P 500



- While the realised volatility of the last 30 days fell below the 10% mark, the VIX stagnated around 13. Vol-control strategies may therefore have demanded more equities. Risk parity strategies, on the other hand, have recently suffered from the increased correlation between equities and bonds.

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 – 28/07/2023

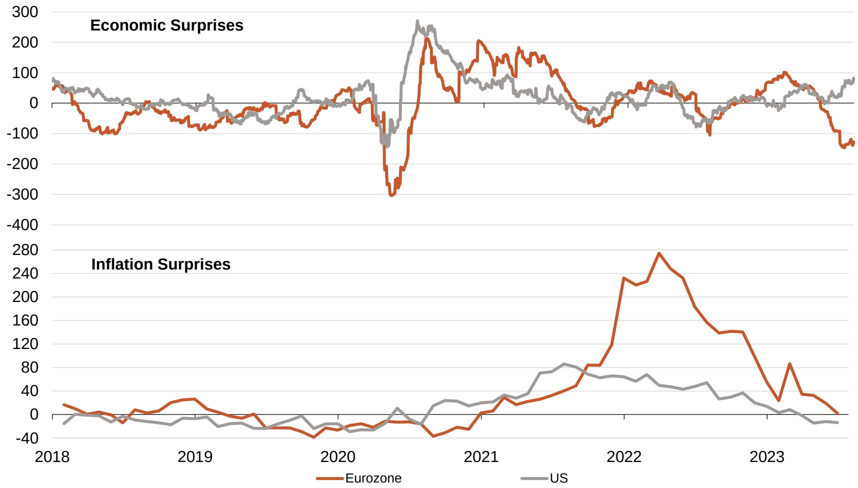
Global



- Even though the economic data of the industrialised countries were less disappointing than four weeks ago, the negative surprises increasingly dominated in the emerging markets. All in all, therefore the economic surprise index shows no major changes at the global level over the last four weeks.
- In China, second-quarter GDP figures and retail sales disappointed, while year-on-year industrial production was well above expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 – 28/07/2023

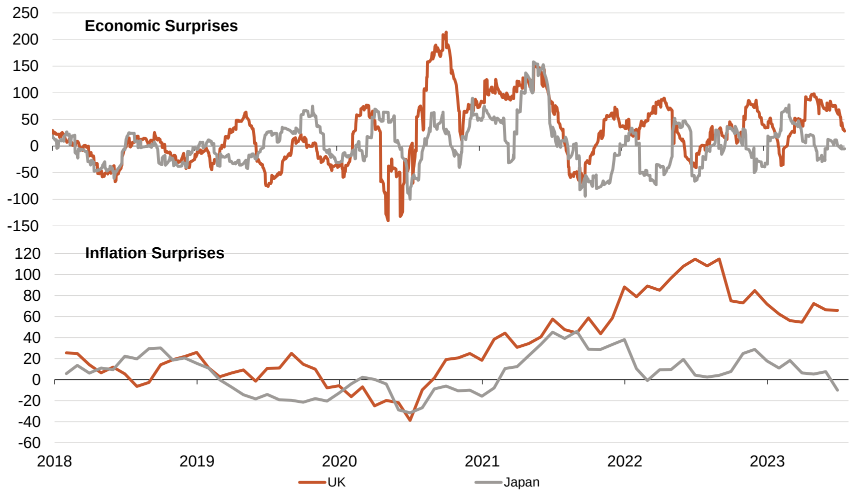
Eurozone and US



- The economic surprise developments in the US and the Eurozone have taken a step towards each other again after the strong decoupling of the last weeks.
- In the US, initial jobless claims, second quarter GDP, durable goods orders and personal spending were above expectations.
- In the eurozone and Germany, the purchasing managers' index for the manufacturing sector disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 – 28/07/2023

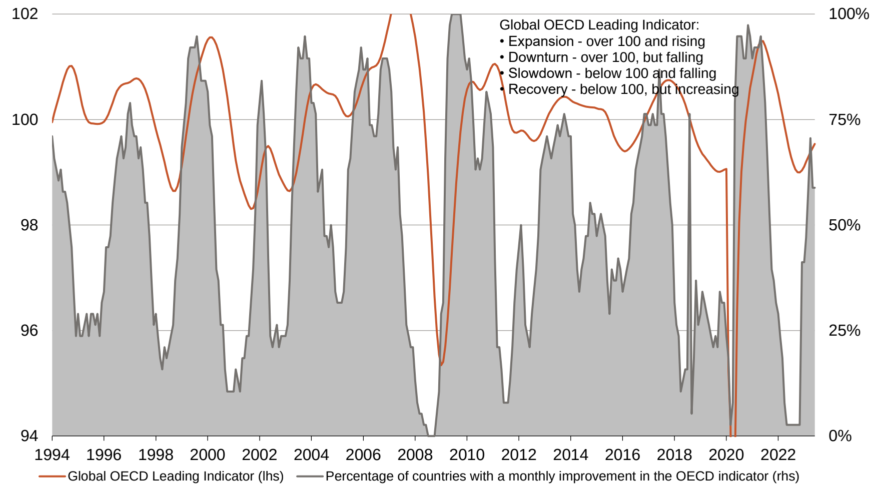
UK and Japan



- In the UK, retail sales surprised on the upside, while the services PMI was negative.
- In Japan, year-on-year inflation and the trade balance were above 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 – 28/07/2023

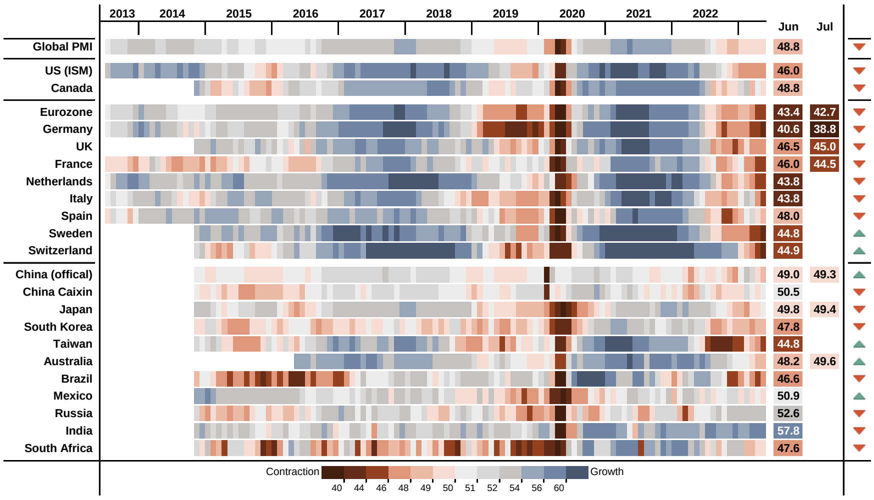
OECD Leading Indicator



- The global OECD Leading Indicator, an important indicator of future economic turning points in 6-9 months, has been pointing to an economic recovery for 7 months already, with an upward trend but still below 100.
- At the country level, 59% of the countries 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 - 30/06/2023

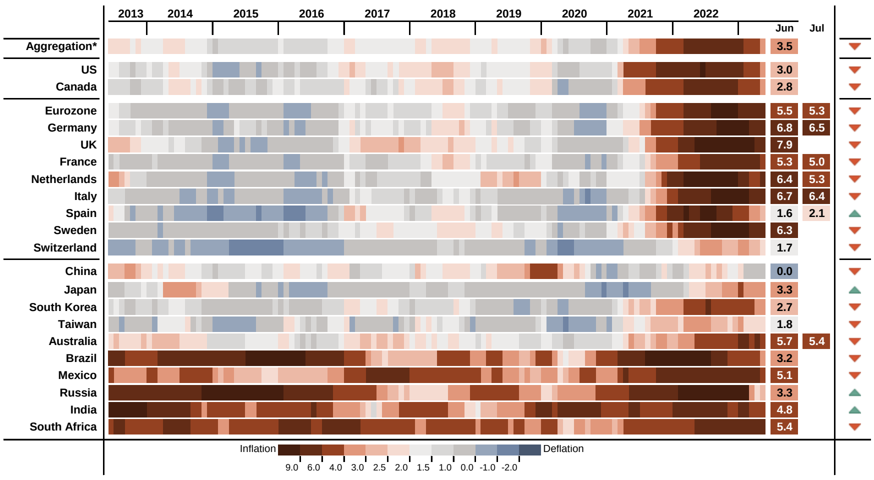
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The Purchasing Managers' data for July so far give a clear signal for Europe: the data for the Eurozone, Germany, France and the UK point to a decline in manufacturing activity compared to the previous month. In Germany, the reading has now fallen below 40, the lowest since May 2020.

The PMI is an overall index that provides a general overview of the economic situation in industry. The PMI is derived from a total of eleven sub-indices, which reflect the respective change from the previous month. A value of 50 is regarded as neutral, a value of over 50 points as an indicator of rising and a value of under 50 points as 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: 28/07/2013 - 28/07/2023

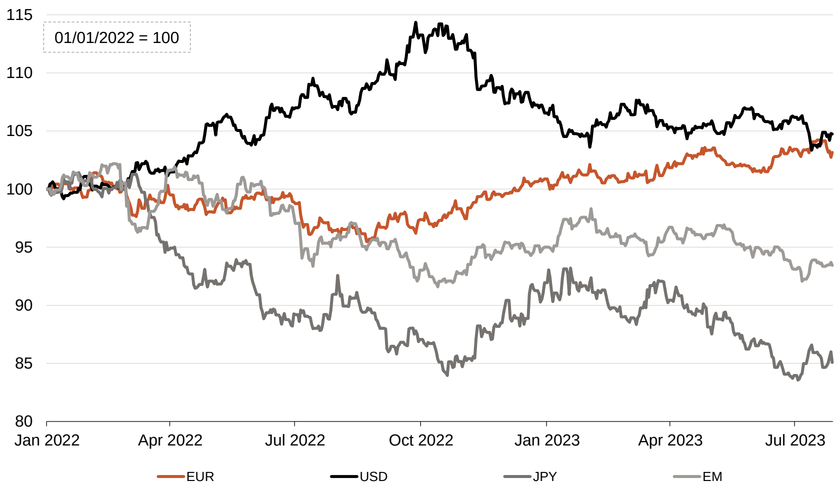
Headline Inflation



- Inflation in the US fell to 3% in June and in the Eurozone to 5.3% year-on-year in July.
- In Germany, however, inflation continued to rise in comparison. The biggest price drivers were two special effects in addition to more expensive food (+11%). In a year-on-year comparison, the petrol discount and the nine-euro ticket had depressed prices a year ago.

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: 28/07/2013 - 28/07/2023

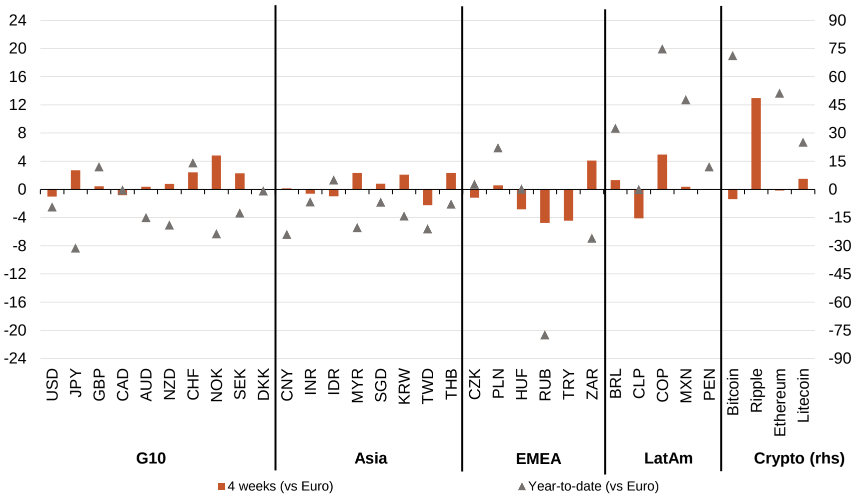
Trade-Weighted Currency Development



- No clear trends could be observed on the currency markets recently, so that the currencies shown here fluctuated sideways overall.
- The Bank of Japan announced a somewhat more flexible "yield curve control". This could only give the yen some tailwind temporarily, because the central banker Ueda is otherwise still very dovish in his statements.

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 - 28/07/2023

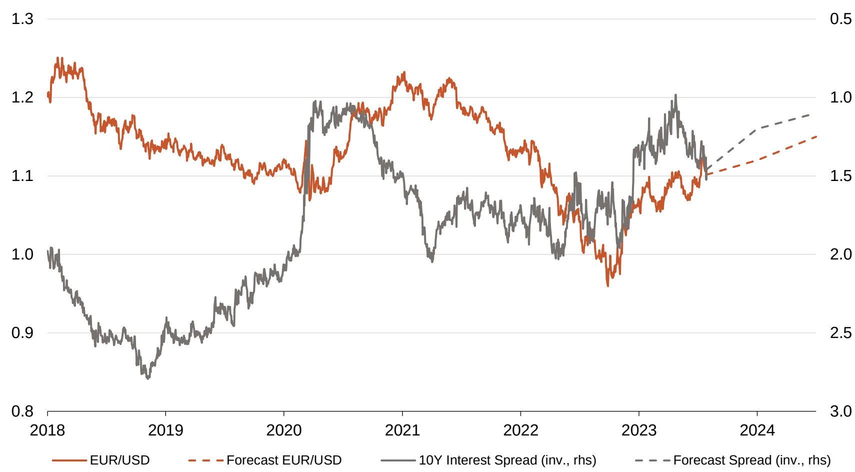
Currency Moves vs Euro



- Among the G10, most currencies gained against the euro over the past month, as the currency suffered from weak economic data and a correspondingly dovish ECB.
- In emerging markets, currency performance was very mixed.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2022 - 28/07/2023

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



- After the EUR/USD exchange rate moved significantly upwards since the beginning of July and broke through the 1.12 mark, it recently fell to 1.10 again.
- The headwind for the euro came from both sides of the Atlantic. In the US, the latest economic data were surprisingly strong, in Europe they tended to be weak.
- The meetings of the ECB and the Fed were again largely as expected.

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 - 30/06/2023

European Sector & Style Performance

	4-week & YTD: 4W (30/06/23 - 28/07/23)	4-week & YTD: YTD (30/12/22 - 28/07/23)	28/07/22 - 28/07/23	28/07/21 - 28/07/22	28/07/20 - 28/07/21	28/07/19 - 28/07/20	27/07/18 - 28/07/19
Materials	5.1	6.8	10.1	-10.2	39.9	3.4	-1.9
Communication Services	4.6	15.6	25.4	-2.3	32.3	-18.4	-5.2
Value	3.2	11.4	14.8	1.5	27.1	-15.6	-1.9
Telecommunications	2.4	11.8	-1.7	-1.6	20.8	-16.6	-0.2
Energy	2.4	0.2	12.6	44.4	22.8	-39.1	-3.8
Consumer Staples	1.8	7.3	0.3	6.1	11.5	-2.0	11.3
Industrials	1.4	18.8	17.7	-10.7	41.2	-2.8	3.8
Growth	0.6	15.1	9.1	-6.9	28.2	5.3	7.4
Consumer Discretionary	0.6	24.4	24.1	-14.8	52.4	-10.6	4.8
Health Care	0.3	7.7	1.3	10.1	10.8	14.5	9.0
Utilities	-0.9	10.6	7.2	0.1	9.5	15.4	14.8
Information Technology	-1.0	25.0	15.8	-17.8	37.7	12.9	6.3

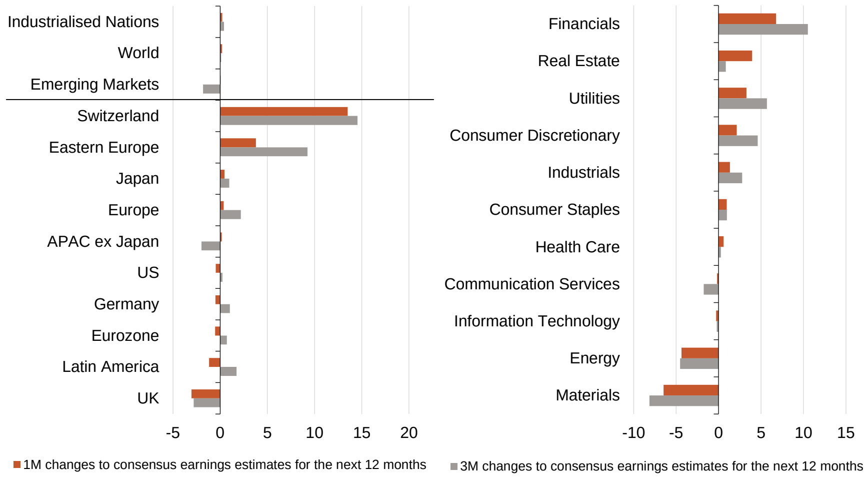
Columns 4–8: 12-month periods over that last 5 years.

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.

- In Europe, value sectors have outperformed growth sectors in the last four weeks. Commodity companies recently benefited from the significant recovery in commodity prices. Banks also reported much better Q2 results than the consensus expected.
- Since the beginning of the year, however, growth companies are still clearly ahead of 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: 27/07/2018 – 28/07/2023

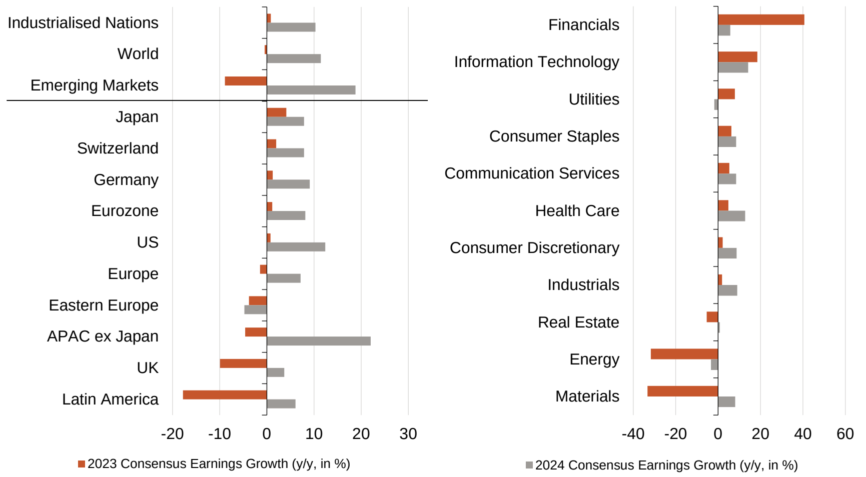
Changes in Consensus Earnings Estimates



- The Q2 reporting season is leading to stronger earnings revisions. In Europe, earnings estimates were raised the most for financials, followed by real estate and utilities.
- Basic materials, energy and IT companies, on the other hand, suffered negative 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 27/07/2023

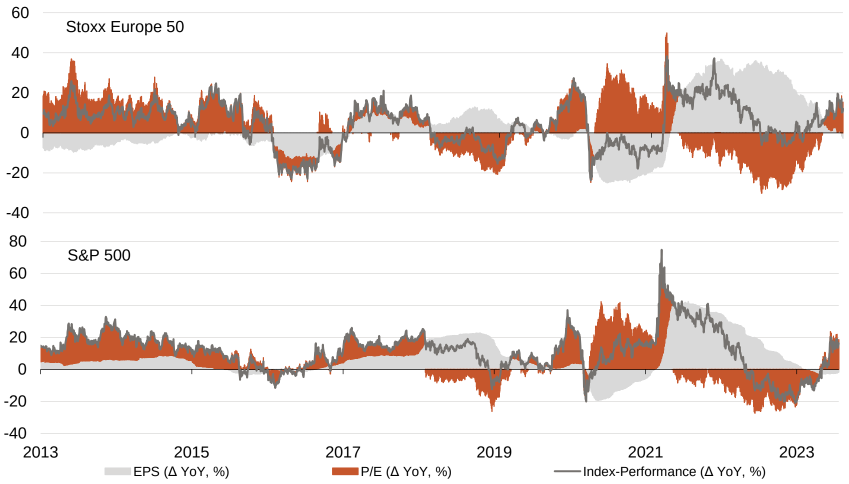
Earnings Growth



- The consensus does not expect noticeably positive earnings growth for the industrialised nations this year but a significant earnings recession for the emerging markets. Next year, however, emerging market earnings are expected to catch up.

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 27/07/2023

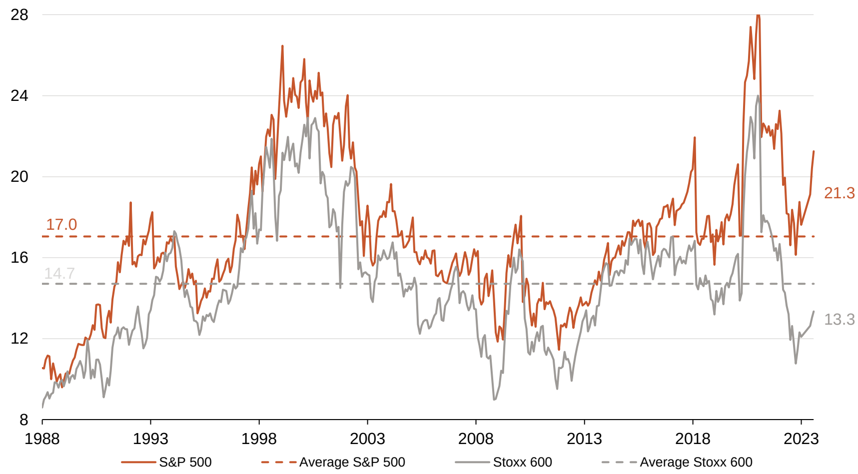
Contribution Analysis



- In both Europe and the US, prices were not driven by rising profits, but by rising valuations.
- Systematic strategies that are sensitive to valuations have significantly increased equity exposure this year due to positive momentum and falling volatility.

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 - 27/07/2023

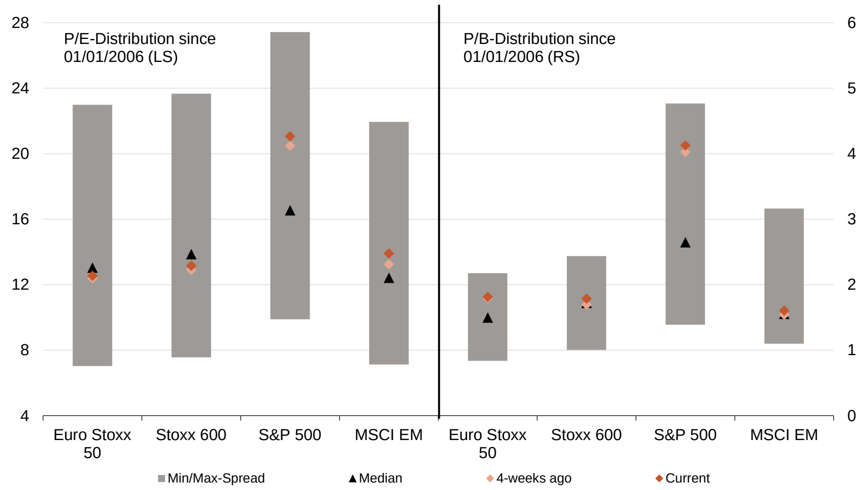
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The US has recently seen the rare phenomenon of prices rising despite stagnant earnings and higher interest rates. The strong YTD rally has driven many investors into the market. The "fear of missing out" has increased significantly, which has also led to the liquidation of many short positions in the equity market.

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 - 28/07/2023

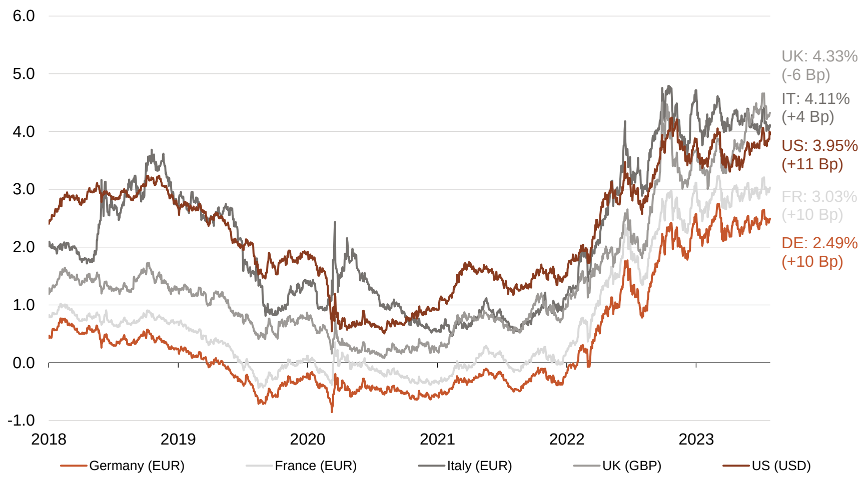
Historical Distribution: Price/Earnings and Price/Book Ratio



- European equities remain favourably valued compared to their own history and compared to the other regions.
- The US, however, is by far the least attractively valued equity region.

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 - 28/07/2023

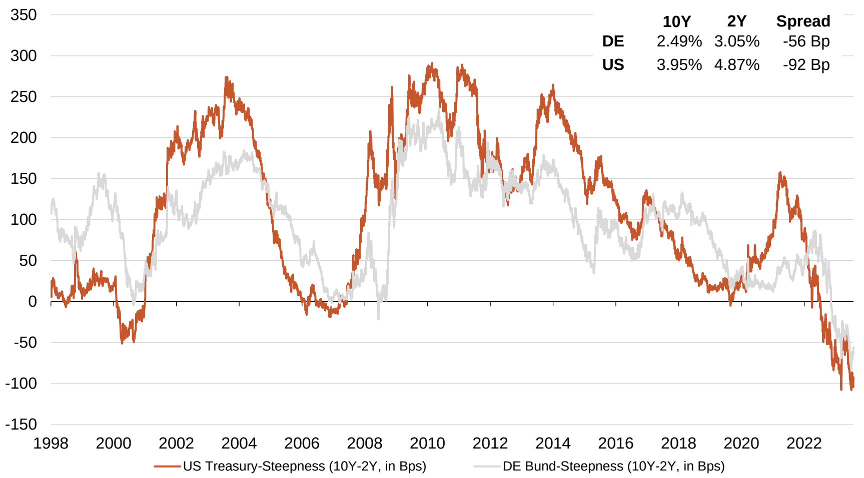
10-Year Government Bond Yields



- Yields on safe government bonds were almost unchanged in the past four weeks. Only UK gilts saw a slight decline in yields. Italian BTPs recorded a decline in spreads against Bunds.
- After what is expected to be the Fed's last interest rate hike, the US economy is in a delicate balance of declining inflation with a still strong labour market and stable economic growth.

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 - 28/07/2023

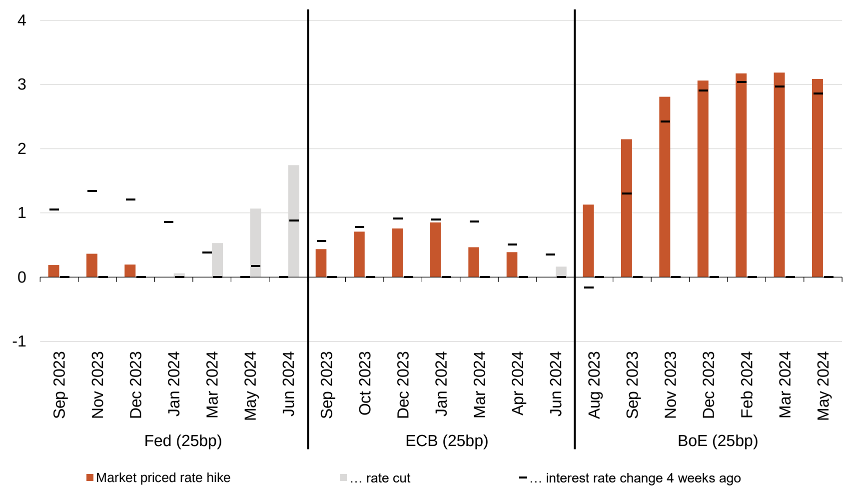
Yield Curve Steepness (10Y - 2Y)



- The US yield curve steepened by about 25bp in the middle of the month before it recorded an inversion of close to 90bp at month end.
- The inversion of Bunds declined by 25bp. The decisive factors were falling Bund yields at the short end and simultaneously rising yields at the long end of the yield curve.

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 - 28/07/2023

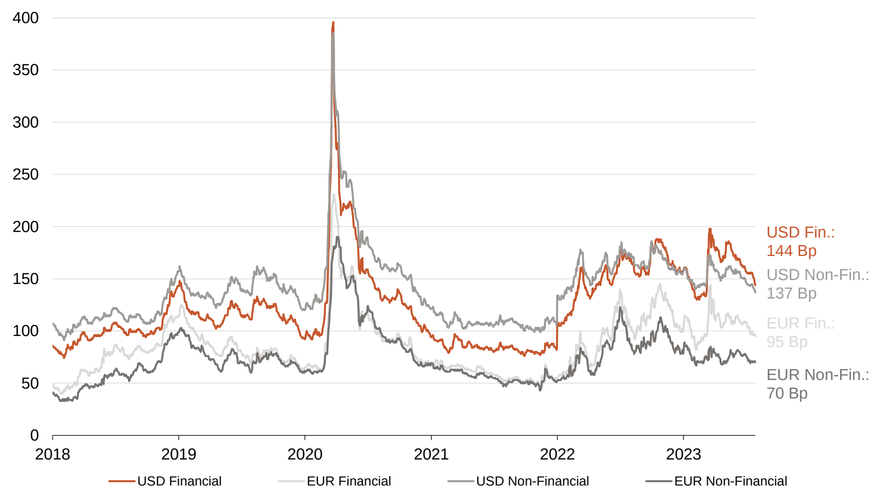
Implicit Changes in Key Interest Rates



- The ECB raised the key interest rate by 25bp and will probably take one last interest rate step. Interest rate cuts are still not priced in until the second quarter of 2024.
- The market is pricing in three more rate hikes from the BoE, and thus a top rate of now just below 6%.
- In the US, the key interest rate of 5.5% is likely to be maintained for the time being before the Fed could cut 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: 28/06/2023 - 28/07/2023

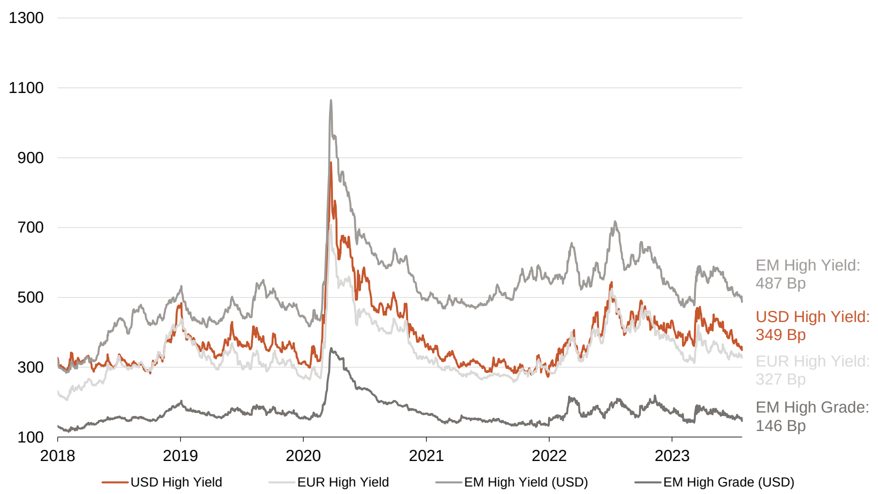
Credit Spreads Financial and Non-Financial Bonds



- IG financial bonds in EUR and USD were again able to record a strong tightening in risk premiums of 13 bp and 19 bp respectively in the past four weeks.
- IG non-financial bonds in EUR and USD narrowed by as much as 8bp and 13bp.
- Overall, the current trend of a stronger narrowing of spreads for USD corporate bonds compared to those in EUR continued this month.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 – 27/07/2023

Credit Spreads High Yield and Emerging Markets Bonds



- Due to the improved economic situation and the accompanying risk affinity of the market, high-yield bonds in USD were able to record a spread narrowing of 53 bp at the index level and thus significantly more than the 15 bp of EUR high-yield bonds.
- High-yield bonds from emerging markets recorded declining risk premiums of almost 52 bp on a monthly basis.

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 – 27/07/2023

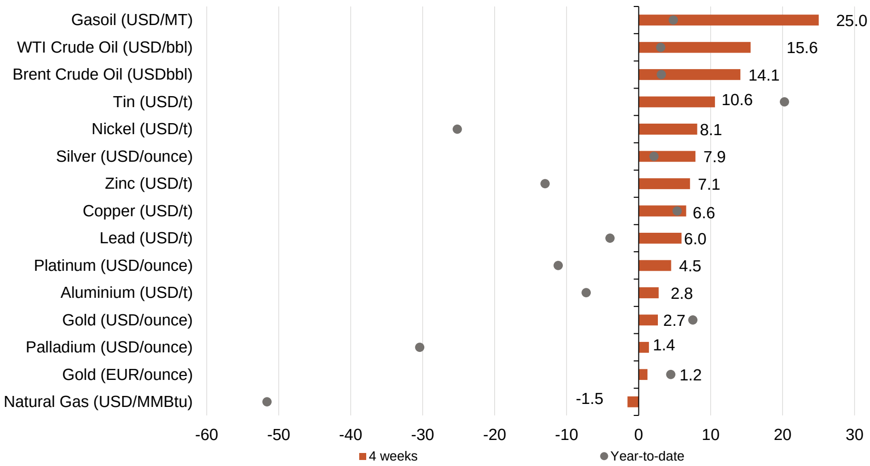
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	28/07/22 28/07/23	28/07/21 28/07/22	28/07/20 28/07/21	28/07/19 28/07/20	28/07/18 28/07/19
EUR Government	3.21	0.04	7.2	-	-	-	-0.3	2.1	-7.4	-11.9	0.7	2.5	7.9
Germany	2.64	0.02	7.3	-	-	-	-0.3	1.0	-9.5	-9.6	-0.6	1.0	5.9
EUR Corporate	4.30	-0.09	4.5	80	-9	56	0.7	2.8	-2.9	-10.3	3.2	-0.3	5.6
Financial	4.56	-0.12	3.8	96	-12	63	0.9	2.7	-2.1	-8.6	2.7	0.0	5.1
Non-Financial	4.14	-0.07	5.0	70	-7	48	0.5	2.9	-3.3	-11.3	3.4	-0.5	5.9
EUR High Yield	7.44	-0.07	3.1	332	-7	44	0.6	5.0	5.3	-11.4	9.5	-0.8	5.0
US Treasury	4.36	0.05	6.4	-	-	-	-0.2	1.7	-4.4	-9.0	-2.8	12.1	7.4
USD Corporate	5.54	-0.02	6.9	145	-9	57	0.5	3.7	-0.8	-13.0	2.0	12.0	10.2
Financial	5.83	-0.04	5.1	152	-9	72	0.5	3.2	0.1	-11.0	2.3	10.4	9.6
Non-Financial	5.40	-0.01	7.7	142	-8	47	0.5	3.9	-1.2	-13.9	1.9	12.6	10.4
USD High Yield	8.41	-0.32	4.0	359	-35	33	1.7	6.6	5.4	-9.0	11.4	2.3	7.1
EM High Grade	5.76	0.02	5.3	155	-2	12	0.3	3.4	2.0	-13.3	3.1	6.2	8.8
EM High Yield	10.30	-0.25	3.8	503	-21	32	0.2	2.9	9.4	-23.3	9.0	3.5	9.7

- Rising interest rates weighed on bond prices last month. Safe government bonds, which could not benefit from tighter spreads, were hit the hardest.
- IG financial bonds and high-yield bonds in EUR posted particularly strong performances of 0.9% and 0.6%, respectively. Only USD high-yield bonds were able to perform better, with 1.7%.

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 : 28/07/2017 – 28/07/2023

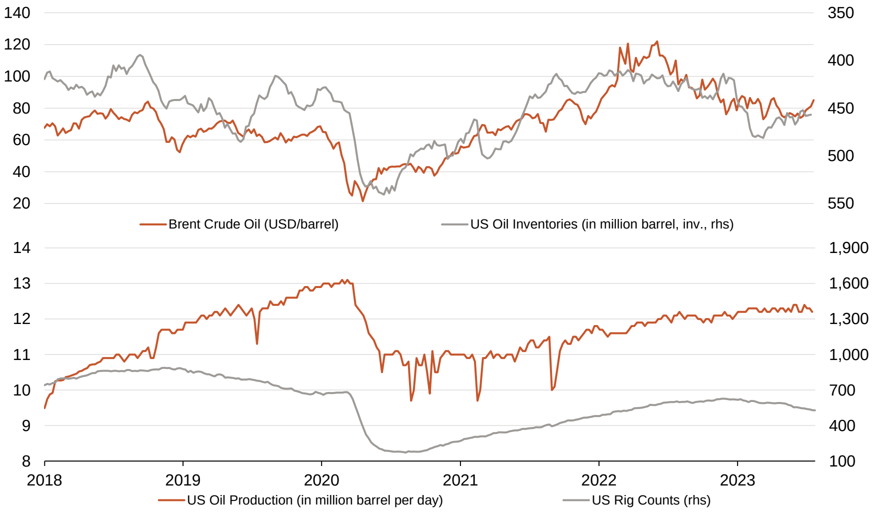
Commodities Performance



- In the past four weeks, most commodities have gained significantly. Oil and tin in particular have gained in the double-digit percentage range.
- After Indonesian production caused the nickel price to plummet by 30% at the beginning of the year, the oversupply does not seem to be as significant as previously assumed. The LME inventory data, with its still low inventory, also do not point to such a clear oversupply, which is why prices have recently recovered.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2022 - 28/07/2023

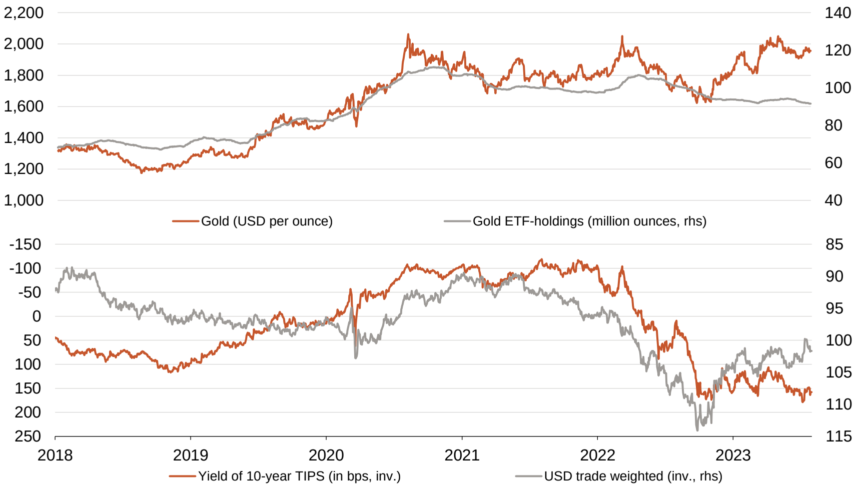
Crude Oil



- Crude oil continued its positive development throughout July.
- Since the announcement of further cuts by Saudi Arabia at the beginning of July, Brent crude oil has gained more than 10%.
- According to the UAE energy minister, the current production cut measures should be enough to support the oil market for now. Nevertheless, he warned the markets that OPEC was "just a phone call away" in case any further steps are needed.

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 - 28/07/2023

Gold



- The gold price fell last week by the most in seven weeks.
- This was triggered by stronger than expected US economic growth figures, a sign that the US can still handle higher interest rates.

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 - 28/07/2023

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IMPORTANT NOTICES

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