BERENBERG Markets

MONITOR

28 August 2023

Current market commentary

The rapid and sharp rise in US interest rates has now left its mark on the equity markets. Long duration investments, such as tech stocks, suffered disproportionately in August. The strong valuation expansion we have seen this year in the equity indices cannot be continued in this way – especially against the background that long-term interest rates have risen and thus bonds have gained in relative attractiveness. Since the sell-off in equities has so far been orderly and volatility has hardly increased, systematic strategies have so far only slightly reduced equities. However, they have continued to increase their short positioning in bonds, which has exacerbated the rise in yields. This positioning now seems vulnerable. So if interest rates fall, e.g. due to recession concerns or disinflation, systematics are likely to reinforce this trend significantly – similar to what happened in March this year when the US regional banking crisis boiled over.

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

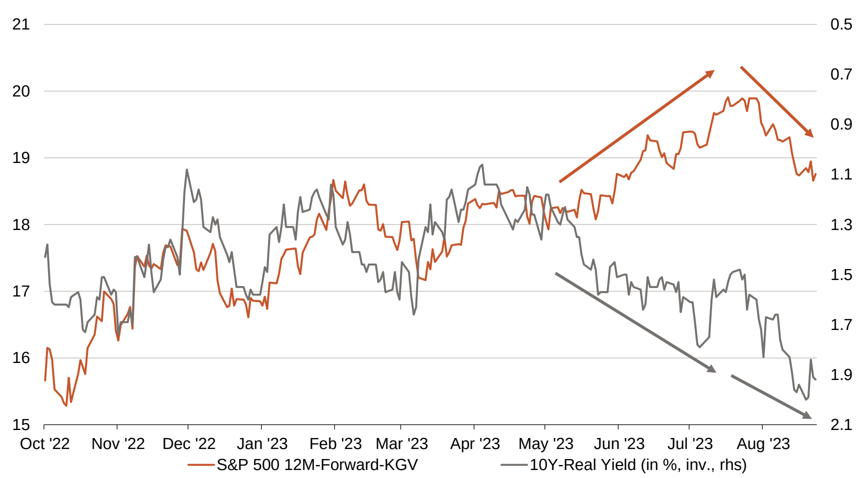
Monetary policy in the markets' sights in September.

After the Jackson Hole meeting last Friday, the markets are eagerly awaiting the central bank meetings in September. The ECB already meets in the middle of the month on 14 September, the US Fed and Bank of England follow on 20 and 21 September. On 4 September, the US stock markets are closed (Labour Day).

Inflation data, purchasing managers' indices and US labour market data in investor focus.

In the coming weeks, all eyes will be on the August inflation data, the US labour market data and the purchasing managers' indices (PMIs). On Tuesday, US consumer confidence (Aug.) will be published. Preliminary inflation data for Germany (Aug.) as well as economic confidence for the Eurozone (Aug.), the change in nonfarm employment (ADP) and Q2 GDP figures for the US will be published on Wednesday. Eurozone inflation data and PMIs (Aug.) will follow, along with China PMIs (Aug) and US personal income and spending (Jul.) on Thursday. The US labour market data (Aug.) will be published on Friday.

Equity valuations are getting a reality check



- Normally, equities exhibit a negative correlation to real yields. The higher the interest rate, the more future profits are discounted.
- From May of this year, this correlation broke down and valuations and thus equities rose despite ever higher real interest rates.
- Since August, the equity markets have returned to reality and have begun to price out this exaggerated valuation premium.

Source: Bloomberg, Time period: 01/10/2022 – 25/08/2023

Multi Asset

	4W (28/07/23 - 25/08/23)	YTD (30/12/22 - 25/08/23)	25/08/22 25/08/23	25/08/21 25/08/22	25/08/20 25/08/21	25/08/19 25/08/20	24/08/18 25/08/19
Brent	2.6	2.8	-10.6	104.1	56.5	-28.5	-14.7
USDEUR	2.0	-0.8	-7.6	18.0	0.5	-5.8	4.3
Euro overnight deposit	0.3	1.9	2.2	-0.5	-0.6	-0.5	-0.4
MSCI Frontier Markets	0.2	8.9	-9.9	-0.3	34.3	-13.1	11.7
EUR Sovereign Debt	0.0	1.9	-3.4	-8.2	0.8	-0.4	5.5
EUR Coporates	-0.2	2.9	-1.0	-12.1	2.7	-0.7	6.4
Gold	-0.3	4.1	0.6	15.9	-6.6	18.9	32.1
Industrial Metals	-2.0	-12.5	-13.9	18.3	37.3	-0.7	-0.6
Global Convertibles	-2.3	5.7	-9.6	-4.8	26.9	24.1	1.1
REITs	-2.5	-3.7	-23.3	9.0	27.1	-15.4	17.4
MSCI World	-2.6	12.3	-1.3	6.2	31.4	11.0	3.1
MSCI Emerging Markets	-4.7	2.7	-8.3	-4.4	17.2	10.5	-0.7

4-week & YTD; 12-month periods over that last 5 years

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

- Crude oil was the clear relative winner over the last four weeks, thanks to falling US inventories and a strong US dollar.
- Most other asset classes declined, especially REITs and equities. However, rising US real interest rates also weighed on gold and bonds.

Total return for selected asset classes, in euros and in per-cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 24/08/2018 – 25/08/2023

Equities

	4W (28/07/23 - 25/08/23)	YTD (30/12/22 - 25/08/23)	25/08/22 25/08/23	25/08/21 25/08/22	25/08/20 25/08/21	25/08/19 25/08/20	24/08/18 25/08/19
Stoxx Europe Defensives	-0.5	7.3	4.1	7.4	18.6	1.1	4.8
S&P 500	-1.7	15.1	-1.5	11.9	33.1	16.3	5.5
Stoxx Europe 50	-2.6	9.9	10.0	3.9	23.9	0.3	3.4
MSCI Japan	-3.5	8.5	0.9	-1.2	19.1	3.9	0.1
MSCI USA Small Caps	-3.8	6.2	-9.2	7.6	46.9	1.0	-6.1
MSCI UK	-3.9	4.2	-0.4	13.3	29.2	-13.3	-2.3
MSCI EM Asia	-5.0	1.5	-9.2	-5.5	13.6	20.7	-3.2
DAX	-5.1	12.3	17.8	-16.3	21.4	12.5	-6.3
Euro Stoxx 50	-5.1	14.2	18.3	-9.8	27.9	2.0	0.0
MSCI EM Eastern Europe	-5.1	23.1	31.9	-82.2	33.8	-11.2	19.7
Stoxx Europe Cyclicals	-5.7	9.0	9.9	-12.9	38.1	5.3	-8.1
Stoxx Europe Small 200	-6.0	4.0	-0.2	-21.1	39.0	6.1	-3.6

4-week & YTD; 12-month periods over that last 5 years

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

- Equities fell across the board over the last four weeks, with defensive stocks in Europe and the S&P 500 index (thanks to the appreciation of the USD) recording the smallest losses.
- Cyclical stocks and small caps in Europe were hit hardest, and the German DAX index suffered from negative revisions of earnings estimates for the next 12 months.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 24/08/2018 – 25/08/2023

Fixed Income

	4W (28/07/23 - 25/08/23)	YTD (30/12/22 - 25/08/23)	25/08/22 25/08/23	25/08/21 25/08/22	25/08/20 25/08/21	25/08/19 25/08/20	24/08/18 25/08/19
Treasuries	1.2	-1.0	-10.5	5.9	-1.9	0.9	15.2
Chinese Gov Bond	0.9	4.1	4.0	5.0	5.1	3.0	7.0
EM Hard Currency Bonds	0.5	2.8	-4.3	-4.8	4.4	-2.7	17.8
EUR High Yield	0.0	5.4	4.7	-11.2	8.8	0.0	5.1
EUR Non-Financials	-0.2	2.8	-1.2	-12.7	2.7	-0.8	6.7
EUR Financials	-0.2	3.0	-0.8	-11.2	2.7	-0.5	6.0
Bunds	-0.3	0.9	-7.4	-11.9	-0.1	-2.0	7.9
EM Local Currency Bonds	-0.4	6.7	2.3	-3.0	4.1	-6.2	16.2
BTPs	-0.5	4.4	-1.8	-14.1	3.9	3.6	15.0
USD High Yield	-0.5	6.1	3.9	-8.2	10.0	4.0	6.1
Gilts	-0.9	-1.2	-14.2	-18.1	3.3	5.2	10.0
USD Corporates	-1.5	2.0	-1.0	-13.3	2.0	7.9	12.7

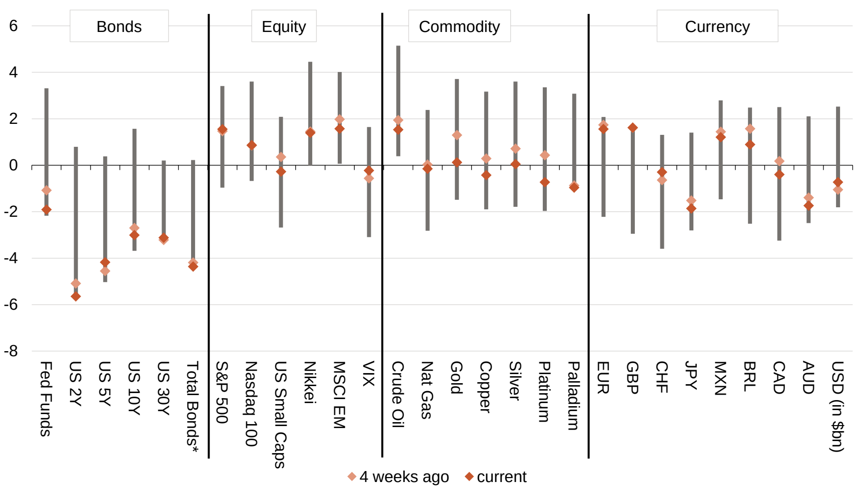
4-week & YTD; 12-month periods over that last 5 years

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

- The bond market showed a mixed picture over the last month, with US and Chinese government bonds the best performers in euro terms.
- EM government bonds in local currency suffered from the strong US dollar, while the positive surprise in wage growth in the UK led to higher yields on British government bonds.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 24/08/2018 – 25/08/2023

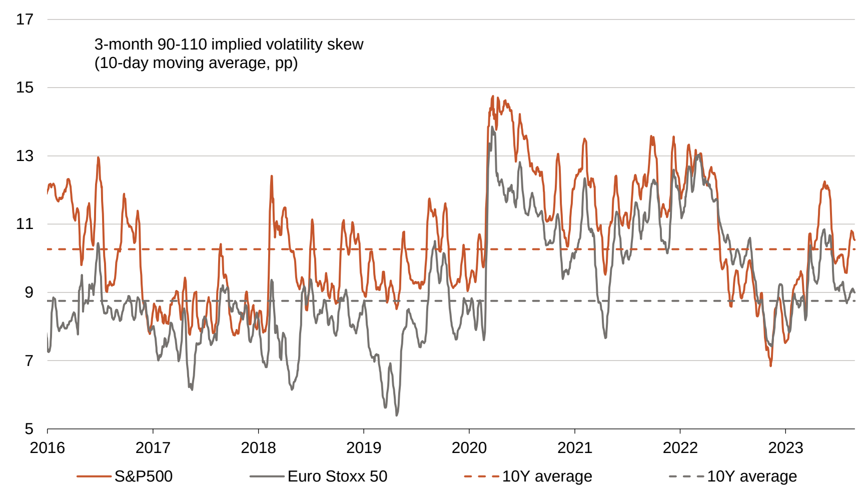
Non-Commercial Positioning



- Speculative investors have recently reduced their exposure, especially in commodities, as a result of the poorer economic data. With the exception of silver and gold, they are now short metals. In the case of the latter, however, the positioning also fell due to the strong rise in real yields in recent weeks.

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: 22/08/2013 - 22/08/2023

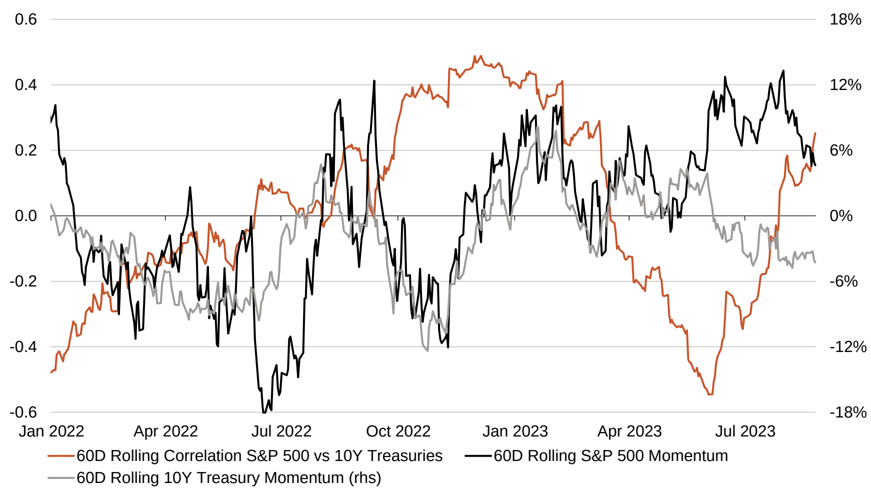
Put-Call-Skew



- The put-call-skew has stabilised in the last two weeks. In both the US and Europe, it is slightly above the average of the last 10 years.
- Under the surface, however, there is less demand for hedging, as the put skew (90-100) has flattened recently.

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: 25/08/2013 - 25/08/2023

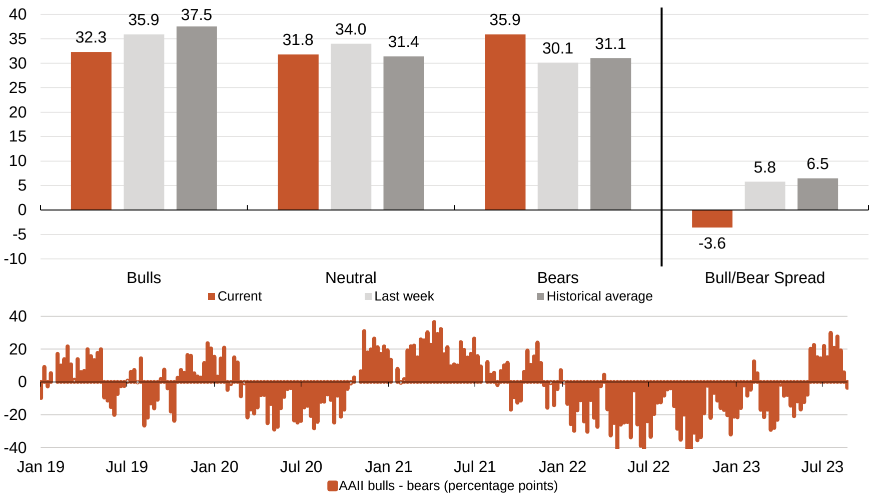
60-Day Momentum and Correlation



- The momentum of the US equities has weakened recently. On a monthly basis, the momentum is even negative, so that the first trend-following strategies have probably started to sell equities.
- The correlation between equities and bonds remains positive due to the ongoing debate about key interest rates and inflation.

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 - 25/08/2023

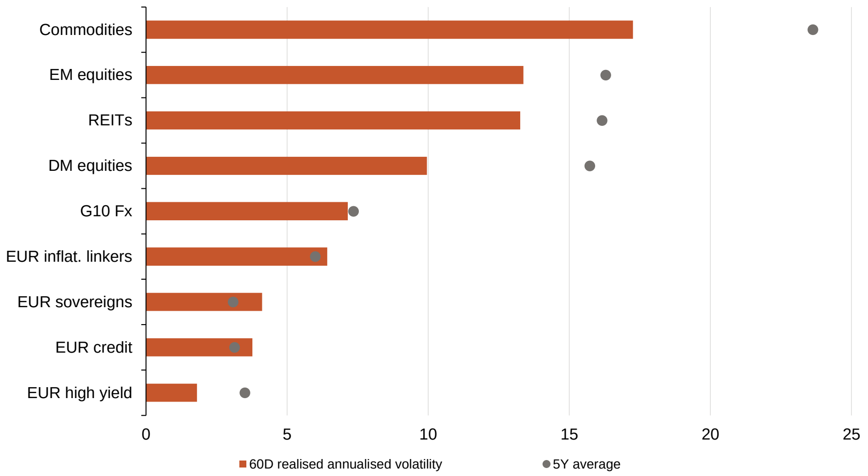
AAII Sentiment Survey (Bulls vs Bears)



- Investor sentiment deteriorated significantly again last week. The bull/bear spread is negative again for the first time in 12 weeks at -4 pp.
- However, this value still does not serve as an anti-cyclical buy signal. For that, sentiment would have to be significantly worse.

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 – 24/08/2023

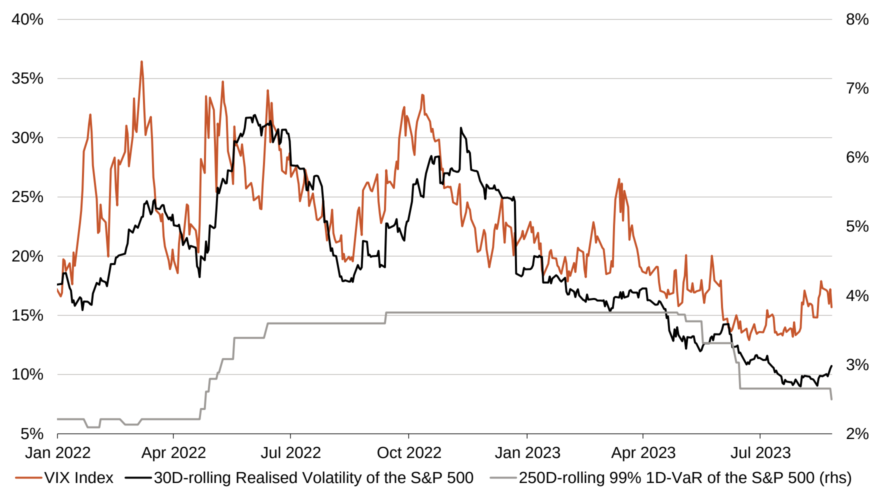
Realised Volatilities



- The difference of currently almost 4 vol-points between the realised volatility of emerging market and developed market equities is remarkable.
- Although EM equities have historically fluctuated more than DM equities on average, this difference has been only marginal over the last 5 years.

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: 25/08/2018 - 25/08/2023

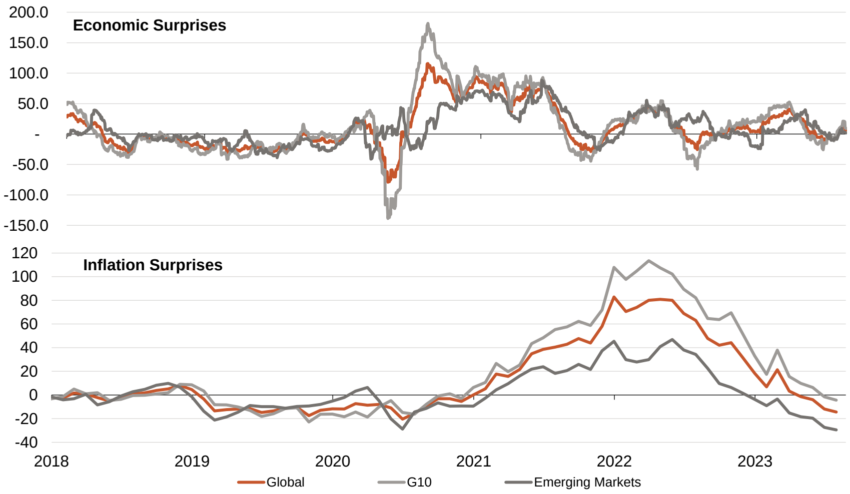
Volatility and Value-at-Risk of the S&P 500



- The realised volatility of the last 30 days continues to trade around the 10% mark. The VIX, on the other hand, has tended to rise over the last few weeks.
- This means that a gap has opened up between actual and expected volatility. Typically, this indicates somewhat more cautious investors.

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 – 25/08/2023

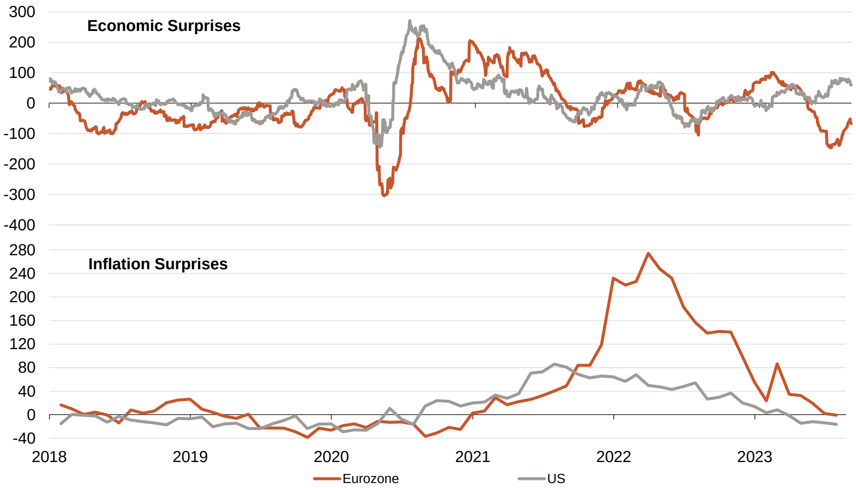
Global



- In the last three months, the economic data for both the industrial nations and the emerging markets in the aggregate were in line with expectations.
- Inflation surprises in the developed and emerging markets, on the other hand, continued the cooling trend at the aggregate level in the last 2 weeks.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 – 25/08/2023

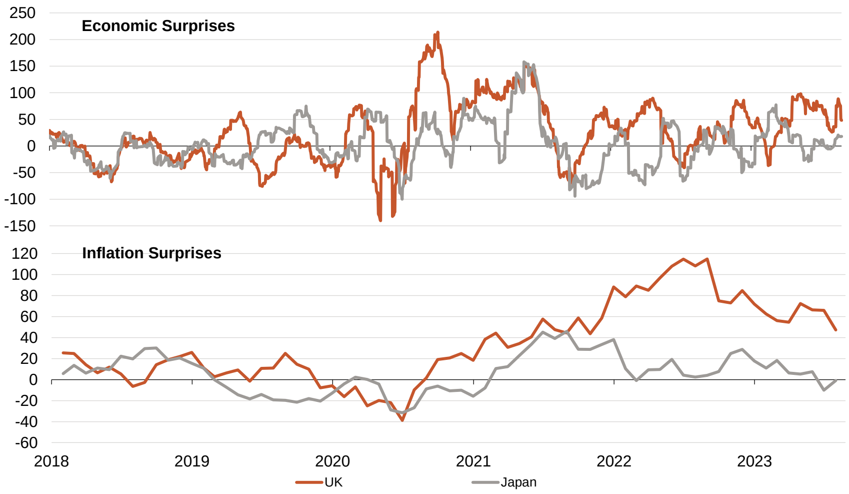
Eurozone and US



- Preliminary PMI readings for Germany and the euro area exceeded expectations, while data from France slightly disappointed. The German Ifo index also came out below expectations.
- In contrast to the eurozone, preliminary PMI data on the other side of the Atlantic came in below expectations. In addition, new orders for durable goods and the Empire State Manufacturing Index came in cooler than expected.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 – 25/08/2023

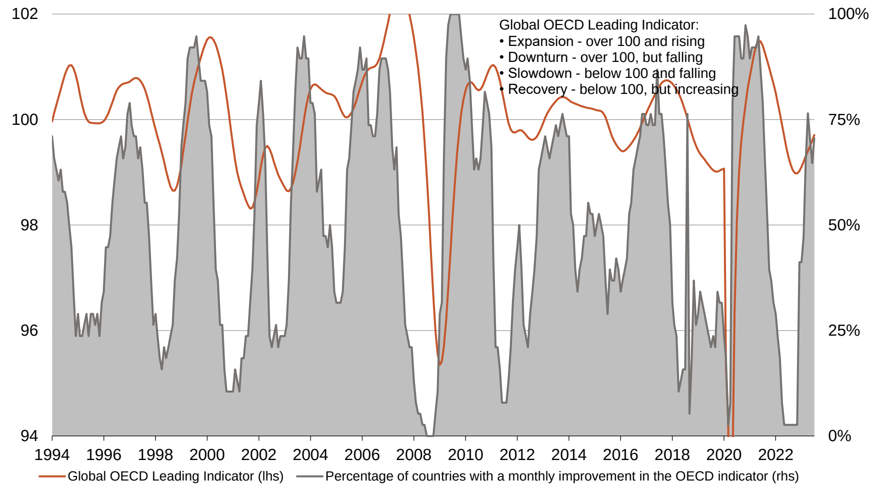
UK and Japan



- Preliminary GDP figures for the second quarter surprised positively in Japan, with factory activity showing a slight increase in August compared to the previous month.
- In the UK, the disappointing PMI figures weighed on the economic picture.

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 – 25/08/2023

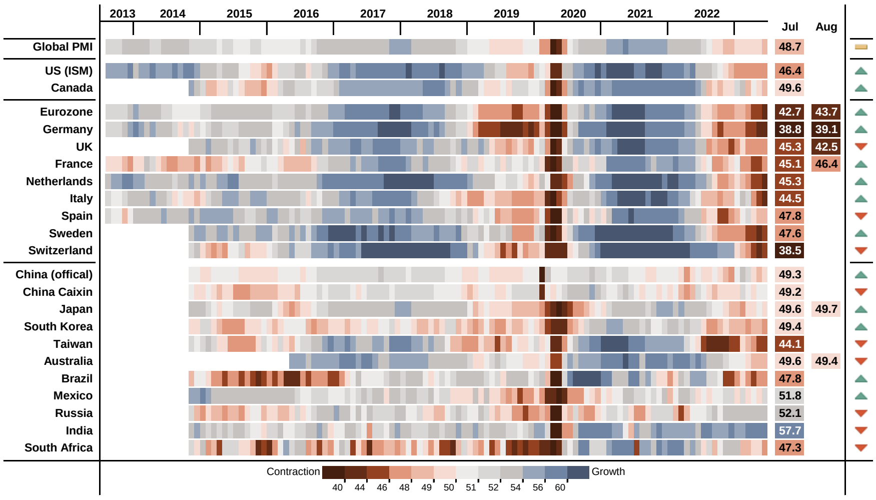
OECD Leading Indicator



- The improvement in the OECD leading indicator continued in July with a 14-month high of 99.7.
- More than 70% of the countries achieved a better value in July compared to the previous month, indicating the breadth of the recovery.

The OECD Leading Indicator is composed of a set of selected economic indicators whose composition provides a robust signal of future turning points. A turning point usually signals a turning point in the business cycle in 6-9 months. However, lead times are sometimes outside this range and turning points are not always correctly identified.
Source: Bloomberg, Time period: 31/01/1994 - 31/07/2023

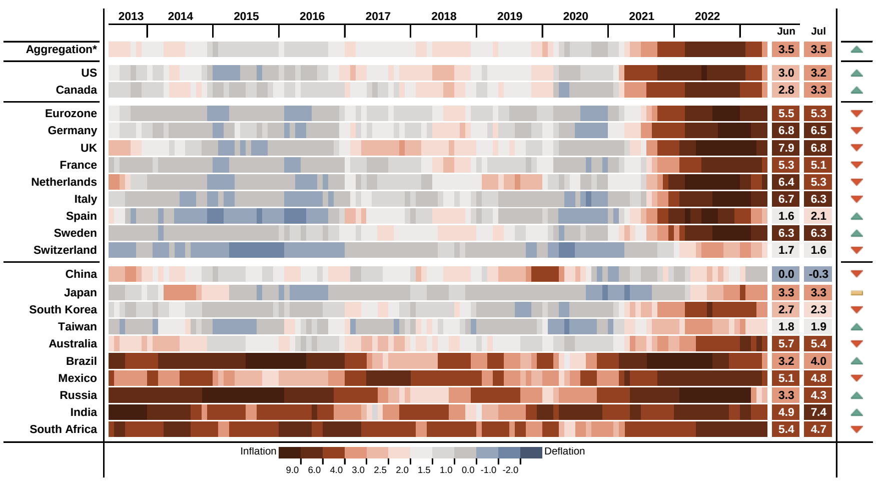
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- Purchasing managers' data for the euro area showed a slight increase in industrial activity in August, with a consistent picture in Germany and France. In contrast, the UK recorded its lowest PMI reading since spring 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: 25/08/2013 - 25/08/2023

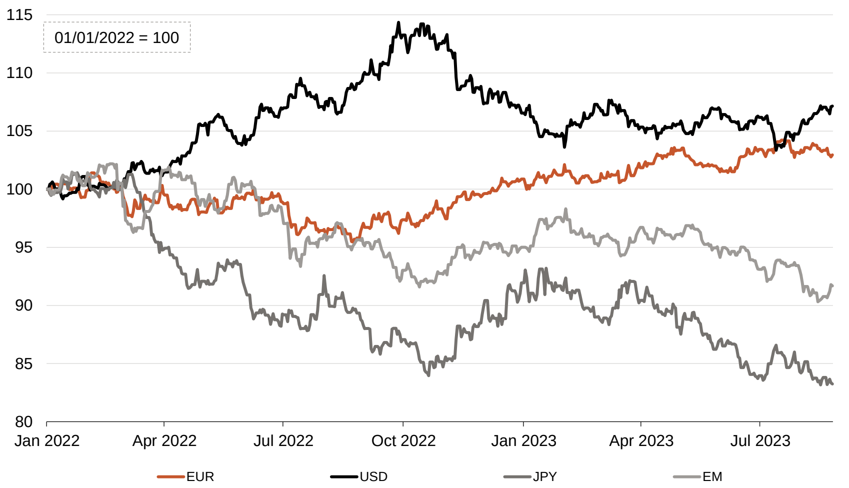
Headline Inflation



- Inflation data in the UK showed year-on-year inflation falling to a 17-month low in July, driven largely by food and housing and household services.
- In emerging markets, China slipped into disinflation with a July reading of -0.3% yoy.

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: 25/08/2013 - 25/08/2023

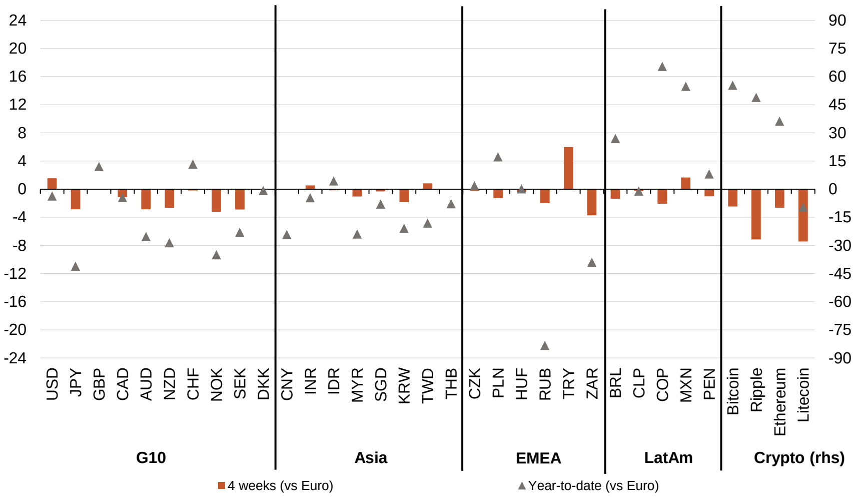
Trade-Weighted Currency Development



- The US dollar continued its upward trend on a trade-weighted basis in recent weeks, thanks to rising US interest rates.
- Emerging currencies broke the trend of the last 6 weeks and posted gains.
- The Japanese yen, on the other hand, continued its downward trend.

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 - 25/08/2023

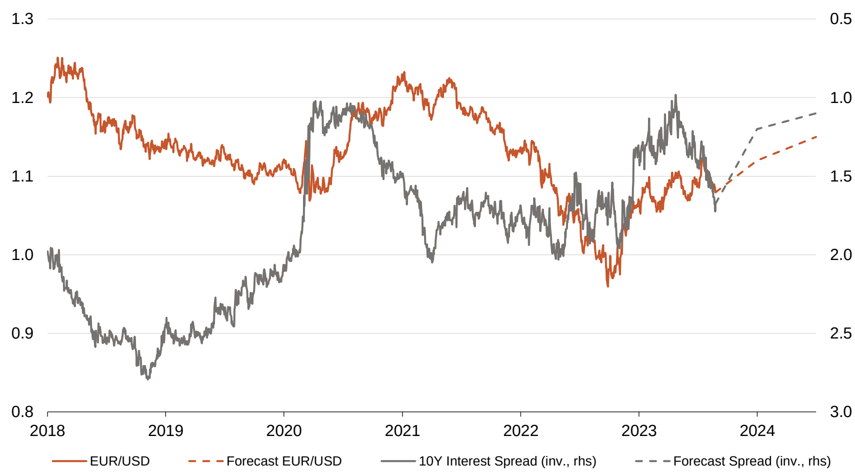
Currency Moves vs Euro



- The euro appreciated against most of the currencies shown here in the last four weeks. The dollar and the Mexican peso were the few exceptions that appreciated against the eurozone currency.
- The Turkish lira also made gains against the euro last month, thanks to a sharp interest rate hike by the Turkish central bank.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2022 - 25/08/2023

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



- The EUR/USD exchange rate fell below the 1.08 mark in recent weeks and is thus trading at the level of early summer.
- The main reason for the strong US dollar is the increased interest rate differential between US Treasuries and Bunds, which recently reached its highest level since the end of 2022.

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

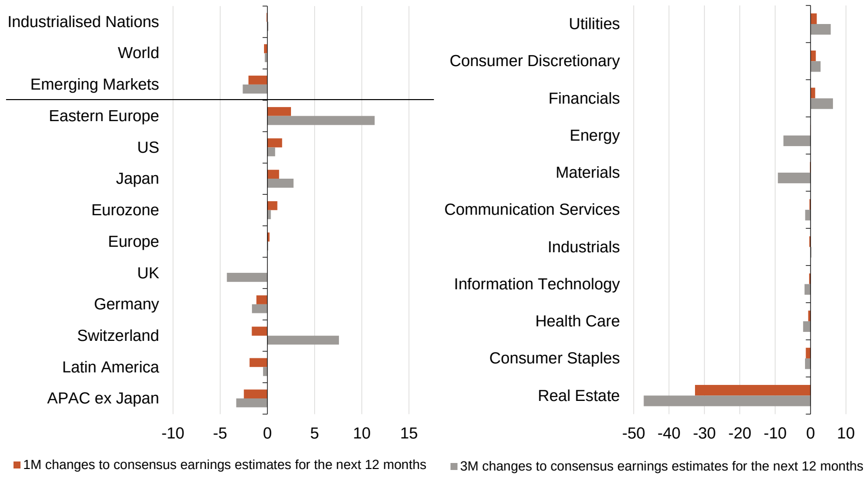
	4-week & YTD		12-month periods over that last 5 years				
	4W (28/07/23 - 25/08/23)	YTD (30/12/22 - 25/08/23)	25/08/22 25/08/23	25/08/21 25/08/22	25/08/20 25/08/21	25/08/19 25/08/20	24/08/18 25/08/19
Energy	3.0	3.2	3.3	58.5	28.7	-34.6	-11.8
Communication Services	1.7	9.5	7.0	1.6	17.4	11.1	12.0
Consumer Staples	-2.8	4.3	-3.0	6.3	13.4	-3.6	12.5
Utilities	-3.0	7.3	0.7	0.3	14.7	13.9	17.8
Value	-3.3	7.7	9.6	0.6	29.7	-9.4	-5.9
Growth	-4.2	10.3	4.8	-9.2	29.9	9.6	5.3
Finance	-4.8	10.0	17.0	-4.5	38.2	-11.0	-10.2
Telecommunications	-5.2	5.9	-5.7	-6.6	25.0	-13.5	0.5
Industrials	-5.6	12.1	12.7	-13.8	37.8	7.8	-0.7
Information Technology	-6.4	17.0	9.4	-22.9	42.6	24.9	-1.9
Materials	-6.6	-0.2	0.2	-8.3	40.2	14.0	-7.2
Consumer Discretionary	-7.6	14.9	13.9	-12.0	43.3	-0.1	-0.8

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.

- The rapid and sharp rise in US interest rates did not leave the equity markets untouched. The energy and rather defensive healthcare sector still performed best over the last four weeks.
- Technology stocks, which discount the majority of their cash flows now at a higher interest rate later in the future, suffered particularly from the high interest rates and had to give back some of their gains from the previous weeks.

Total return of European equity sectors and European style indies, in euros and in percent, sorted by 4-week performance. The difference between Value and Growth lies in the valuation. A growth stock is highly valued because the company is expected to grow strongly. Value stocks usually have less growth potential and are valued lower.
Source: Factset, Time period: 24/08/2018 – 25/08/2023

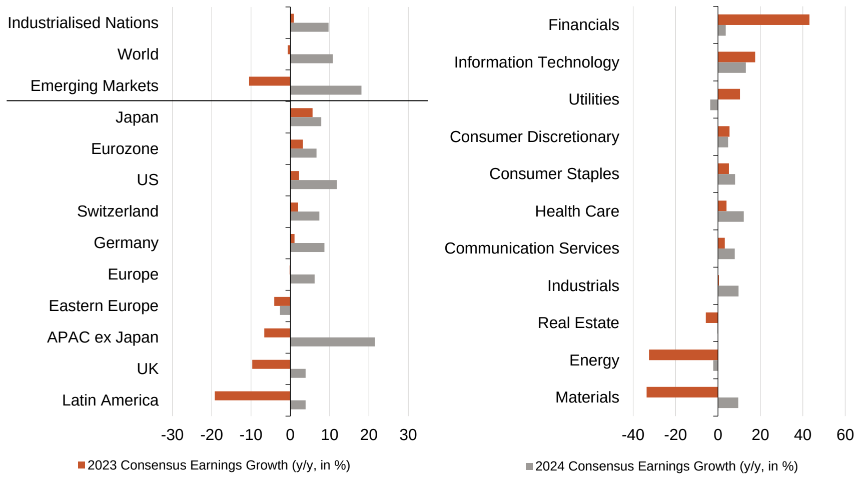
Changes in Consensus Earnings Estimates



- The analysts revised their earnings estimates for shares from the industrialised countries only marginally downwards.
- On the other hand, equities from the emerging markets were subject to significant negative revisions. The continuing economic depressions from China continued to be a burden.
- In Europe, the interest rate sensitive real estate sector experienced the most negative earnings revisions at the sector level.

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 25/08/2023

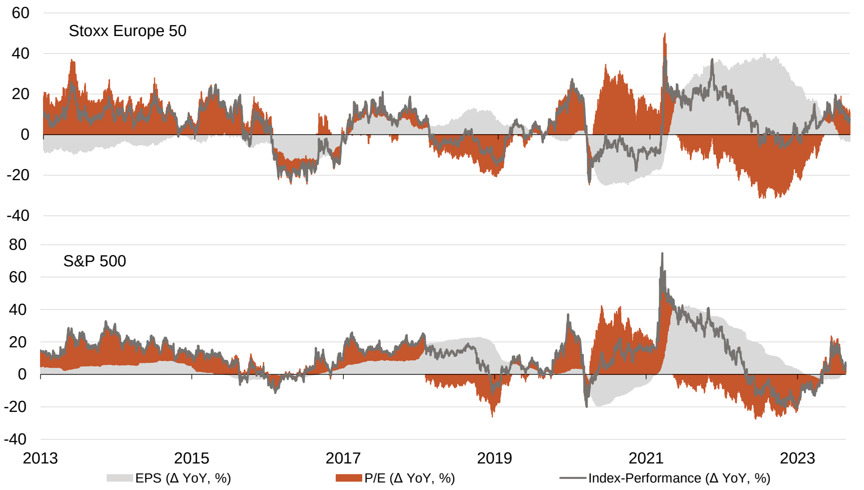
Earnings Growth



- In 2023, analysts expect low positive earnings growth for the industrialised nations. A negative exception is the UK. High inflation and tight interest rate policies are weighing on the UK economy.
- For the emerging markets, on the other hand, the analysts expect a significant decline in profits in 2023. Besides China, the commodity-intensive countries in Latin America are affected.

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 25/08/2023

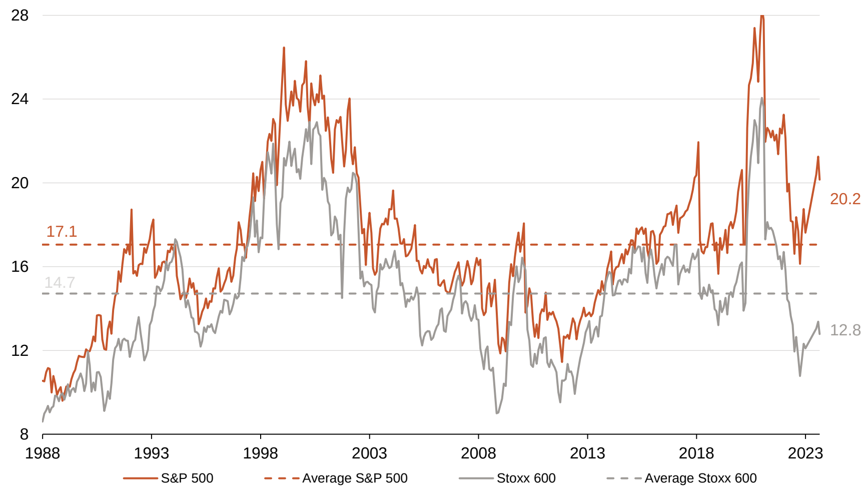
Contribution Analysis



- The rapid rise in (real) interest rates has put a damper on the strong equity performance of recent weeks, which was largely the result of an increase in valuations. As a result, both the S&P 500 and the Stoxx Europe 50 are performing similarly to their levels at the beginning of July.
- The earnings trend changed only marginally over August.

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 - 25/08/2023

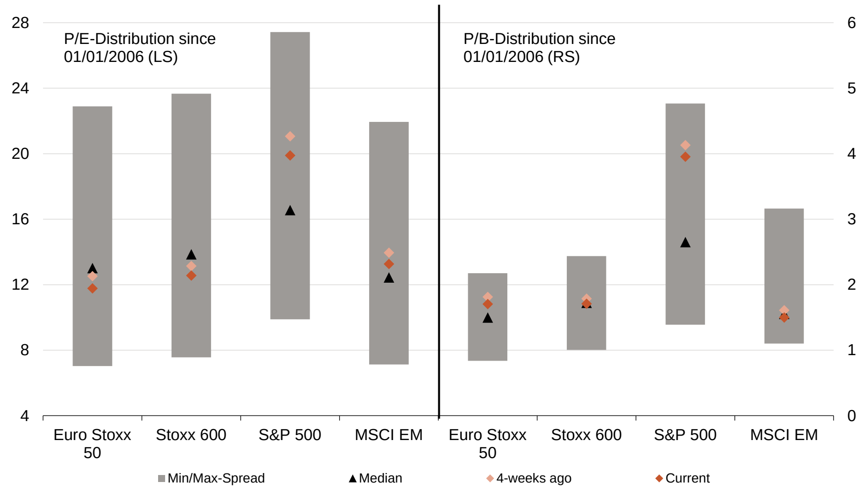
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The high US interest rates – the yield on 10-year US government bonds temporarily exceeded the 4.3% mark and thus reached its highest level in 16 years – put an abrupt end to the valuation expansion since the beginning of the year.
- The P/E ratio based on earnings estimates for the next 12 months has now slipped back to 20.2x for the S&P 500. The S&P 500 is thus still historically expensive.

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 - 25/08/2023

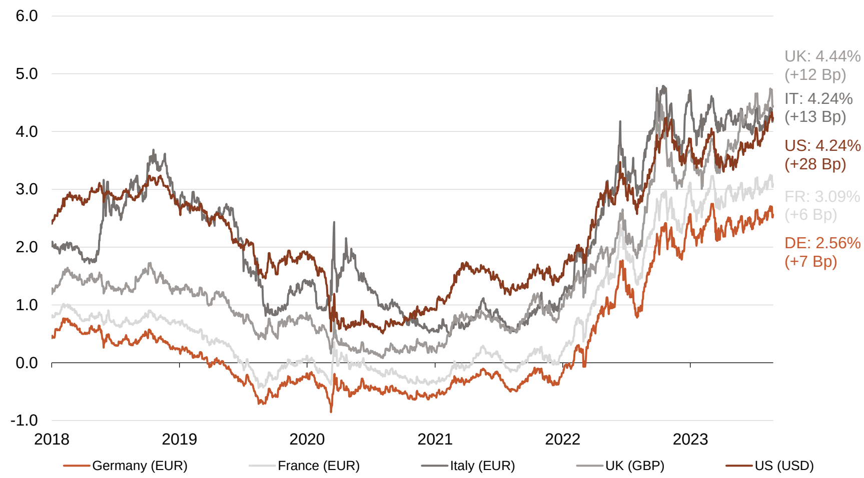
Historical Distribution: Price/Earnings and Price/Book Ratio



- The sharp rise in US interest rates has left its mark. Based on the P/E ratio, both the S&P 500, the Euro Stoxx 50, Stoxx 600, as well as the MSCI for emerging markets have become cheaper in the last four weeks.
- The same applies to the P/B ratio. Here, too, valuations have become more favourable in a four-week comparison.

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 - 25/08/2023

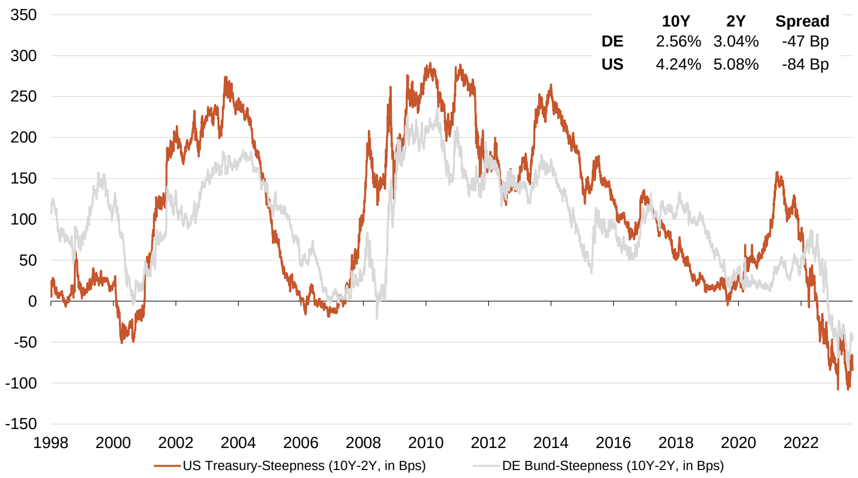
10-Year Government Bond Yields



- Safe government bonds experienced further yield increases over the last four weeks. The significant rise in interest rates on 10-year US government bonds of 28 basis points is worthy of note.
- The driver behind the strong rise in yields was on the one hand the strong new issues at the long end of the yield curve, and on the other hand the increased long-term inflation expectations.

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 - 25/08/2023

Yield Curve Steepness (10Y - 2Y)

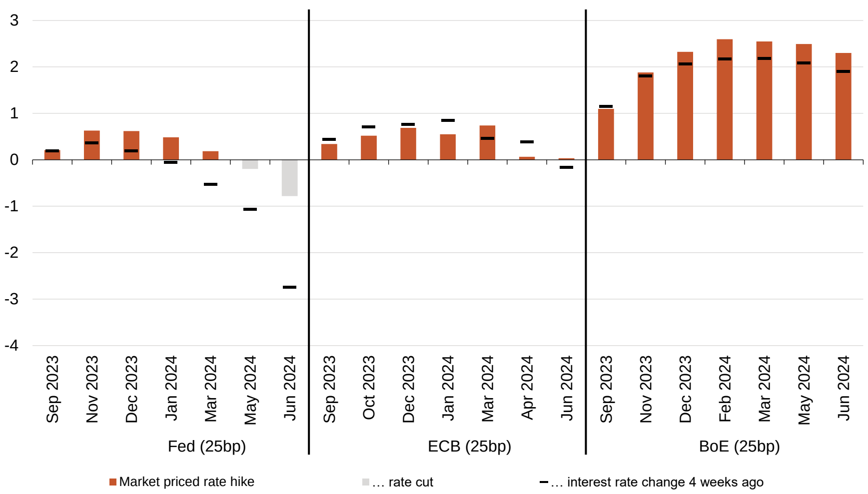


	10Y	2Y	Spread
DE	2.56%	3.04%	-47 Bp
US	4.24%	5.08%	-84 Bp

- The US yield curve showed a steepening at the long end of the yield curve due to a stronger rise in interest rates. The inversion is now at 84 basis points.
- The German yield curve has also recently steepened slightly and is now quoted with an inversion of 47 basis points.

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 - 25/08/2023

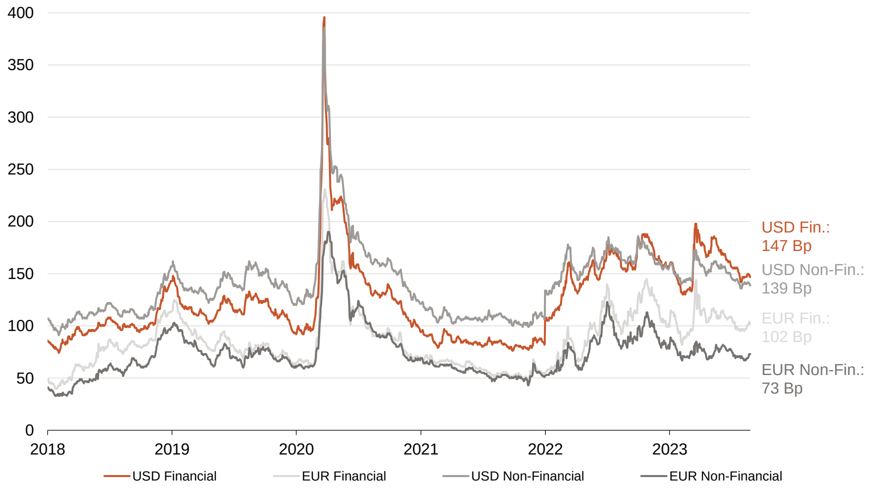
Implicit Changes in Key Interest Rates



- With regard to the future of US interest rate policy, the eagerly awaited Federal Reserve conference in Jackson Hole last Friday provided deeper insights.
- Fed Chairman Jerome Powell signalled that interest rates will remain high and could even rise further if the economy and inflation do not cool down. Markets expect a pause at the next meeting in September.

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: 25/07/2023 - 25/08/2023

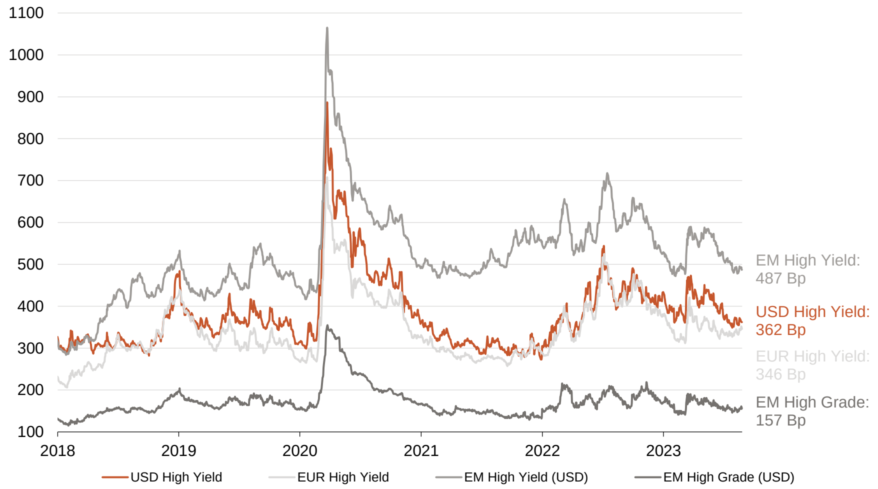
Credit Spreads Financial and Non-Financial Bonds



- The risk premiums of EUR financial bonds widened slightly over the last four weeks and weighed on prices. Non-financial bonds in EUR saw only a slight widening of spreads. The risk premiums of investment-grade corporate bonds (IG) in EUR have thus widened further compared to their own 10-year history.
- USD financial and non-financial bonds, on the other hand, saw a slight spread narrowing over the last four weeks.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 – 25/08/2023

Credit Spreads High Yield and Emerging Markets Bonds



- Compared to IG bonds, there was a more significant movement in high yield bonds in the current risk-off environment.
- European high-yield bonds experienced the largest spread widening with around 11 basis points, followed by US high-yield bonds with 7 basis points.

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 – 25/08/2023

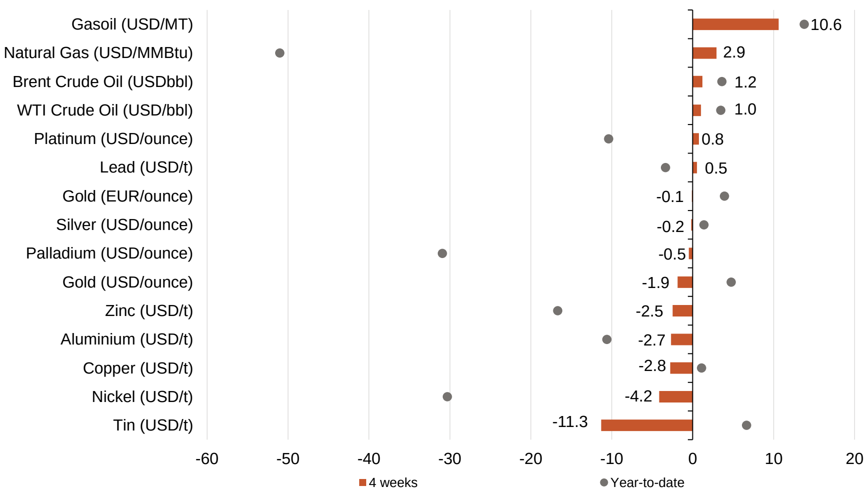
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	25/08/22 25/08/23	25/08/21 25/08/22	25/08/20 25/08/21	25/08/19 25/08/20	25/08/18 25/08/19
EUR Government	3.29	0.08	7.1	-	-	-	-0.6	1.5	-5.7	-13.7	0.9	0.0	10.7
Germany	2.70	0.08	7.1	-	-	-	-0.6	0.5	-7.4	-11.9	-0.1	-2.0	8.0
EUR Corporate	4.36	0.08	4.5	84	3	63	-0.2	2.7	-1.1	-11.9	2.7	-0.7	6.4
Financial	4.62	0.09	3.8	102	5	72	-0.1	2.7	-0.5	-10.1	2.3	-0.3	5.8
Non-Financial	4.19	0.07	4.9	73	2	57	-0.2	2.8	-1.4	-13.0	2.9	-0.9	6.7
EUR High Yield	7.54	0.11	3.1	346	11	57	0.4	5.4	4.7	-11.2	8.8	0.0	5.1
US Treasury	4.65	0.23	6.2	-	-	-	-1.6	-0.2	-3.7	-10.2	-2.7	7.6	10.3
USD Corporate	5.84	0.27	6.7	141	-2	59	-1.5	2.0	-1.0	-13.3	2.0	7.9	12.7
Financial	6.09	0.24	5.0	147	-1	74	-0.9	2.3	0.0	-11.2	1.9	7.8	11.3
Non-Financial	5.72	0.28	7.5	139	-1	50	-1.9	1.8	-1.4	-14.3	2.0	8.0	13.3
USD High Yield	8.67	0.23	3.9	362	7	42	-0.5	6.1	3.9	-8.2	10.0	4.0	6.1
EM High Grade	6.08	0.29	5.2	157	3	29	-1.3	1.9	0.4	-13.5	2.6	5.3	10.5
EM High Yield	10.34	-0.02	3.8	487	-14	33	-0.2	2.5	4.8	-20.9	7.6	7.1	10.0

- Over the past month, with the exception of European high-yield bonds, all bond segments showed a negative performance. The weakest segments were US government and corporate bonds, which suffered from the sharp rise in US interest rates.
- In emerging markets, high-yield bonds held up better than their IG counterparts with a spread narrowing of 14 bp.

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 : 25/08/2018 – 25/08/2023

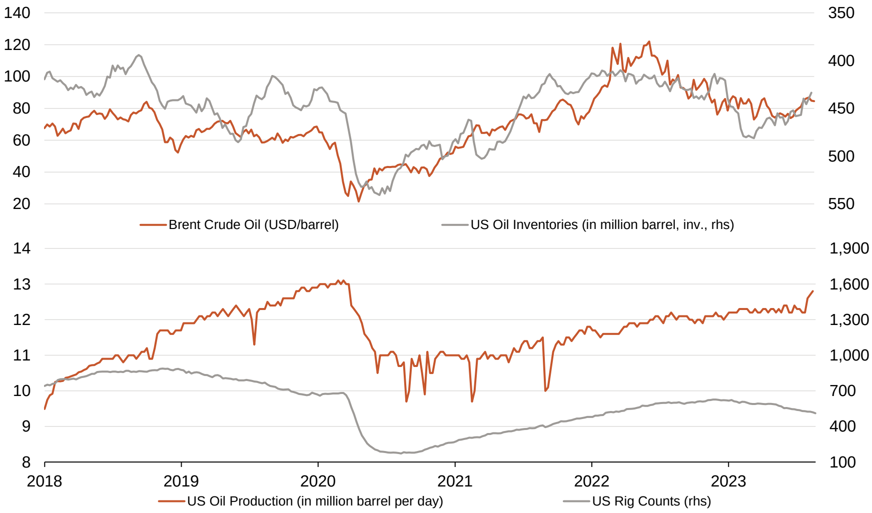
Commodities Performance



- In an environment of weakening economic data, many of the commodities shown here have struggled over the last month.
- In particular energy commodities still show positive returns over the last four weeks, although this sector has also weakened recently.
- Even gold has been negative over the past month due to the rise in real interest rates.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2022 - 25/08/2023

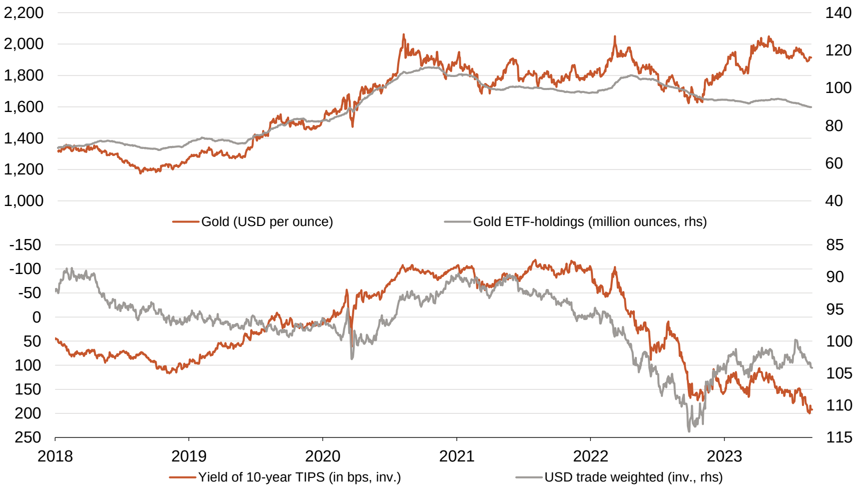
Crude Oil



- After the rally since the beginning of July, the price of crude oil has recently fluctuated sideways.
- The latest economic data from both the West and China point to weaker demand. In addition to that, a few oil states, such as Iran, are producing more oil than expected.

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 - 25/08/2023

Gold



- In recent weeks, gold has suffered not only from the resurgent dollar, but above all from the sharp rise in real interest rates. The real interest rate for 10Y TIPS reached the 2% mark for the first time since 2009.
- Recently, the safe haven benefited from the gloomier economic outlook as a result of the disappointing PMIs.

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 - 25/08/2023

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IMPORTANT NOTICES

Date: 28 August 2023

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