BERENBERG
Markets

MONITOR

09 October 2023

Current market commentary

The month of September was driven by broad-based losses in almost all asset classes: triggered by once again higher government bond yields - especially in the US - global equity markets as well as corporate bonds and emerging market bonds closed strongly in the red. US 10-year government bond yields jumped 46bps in September and 78bps in the third quarter. A number of US economic data releases were again better than expected in September. The sharp rise in oil prices, hawkish comments from the Fed at the September meeting, market concerns about soaring US debt and strong government bond issuance did the rest. Most recently, however, the oil price gave back some of its gains. Diversification has hardly paid off so far this year. Only when interest rates stop rising (so strongly and quickly) should there be a recovery for many capital market segments.

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

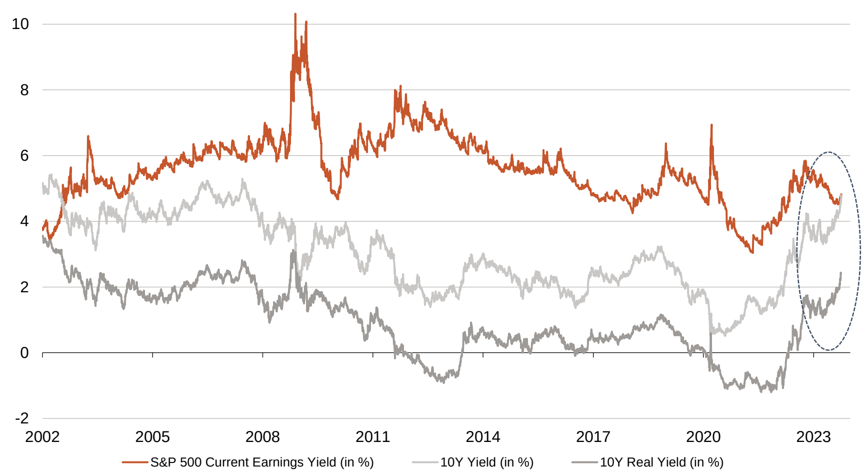
Start of Q3 reporting season in the eye of investors.

The Q3 reporting season begins this week with the first business figures from US companies on Friday. Over the next two weeks, about 18% of the companies in the S&P 500, measured by market capitalisation, report. At the index level, Q3 earnings growth is expected to be 1.1% year-on-year - the first positive year-on-year result since Q3 2022. On the political front, the annual meeting of the IMF and World Bank (9-15 Oct) and the Swiss parliamentary elections (22 Oct) will take place.

Inflation and economic data in the focus of the markets.

On Wednesday, US producer prices (Sep.) and German inflation data (Sep.) will be released. Thursday will see US inflation data (Sep.) and the weekly release of US jobless claims (12 Oct.). Friday will see the release of the University of Michigan Sentiment Indicator (Oct.) and Chinese inflation data (Sep.). The following week, US housing market data and Chinese GDP (Q3) are due.

Attractiveness of US equities has declined compared to bonds



- With the recent rise, the yield on 10-year US government bonds is about to exceed the earnings yield on US equities for the first time since 2002.
- If both values equalise, equity investors are left only with the hope of rising profits to compensate for the risk assumed. The equity risk premium appears very low.
- Bonds have gained significantly in relative attractiveness, especially as the rise in yields has been driven by higher real interest rates rather than rising inflation expectations.

Source: Bloomberg, Time period: 30/09/2020 - 06/10/2023

Multi Asset

	4W (08/09/23 - 06/10/23)	YTD (30/12/22 - 06/10/23)	06/10/22 06/10/23	06/10/21 06/10/22	06/10/20 06/10/21	06/10/19 06/10/20	05/10/18 06/10/19
USDEUR	1.1	1.1	-7.5	18.0	1.5	-6.4	5.0
Industrial Metals	0.3	-11.5	-10.3	11.4	43.5	-6.6	2.2
Euro overnight deposit	0.3	2.3	2.6	-0.4	-0.6	-0.5	-0.4
EUR Coporates	-0.9	2.0	2.8	-15.3	1.1	0.5	6.5
EUR Sovereign Debt	-1.0	0.8	-0.8	-10.9	-0.6	0.1	6.6
Global Convertibles	-1.8	5.4	-5.5	-9.5	25.0	24.1	5.0
MSCI World	-2.2	12.2	8.2	-1.7	31.0	4.9	7.0
MSCI Emerging Markets	-2.4	1.4	-2.1	-10.1	15.9	5.5	7.1
MSCI Frontier Markets	-3.1	7.6	-1.8	-12.7	32.3	-6.5	11.5
Gold	-3.5	1.6	-1.0	14.7	-4.7	16.8	31.3
Brent	-5.3	6.2	-6.1	71.6	101.6	-36.6	-22.5
REITs	-6.7	-9.3	-12.4	-8.6	24.1	-17.6	27.2

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.

- Over the last four weeks, almost all asset classes experienced headwinds. Brent crude, one of the relative winners in recent months, posted losses as weak demand returned to investors' focus.
- The sharp rise in real interest rates and the strong US dollar weighed on gold and emerging market equities. Interest rate sensitive REITs brought up the rear.

Total return for selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 05/10/2018 – 06/10/2023

Equities

	4W (08/09/23 - 06/10/23)	YTD (30/12/22 - 06/10/23)	06/10/22 06/10/23	06/10/21 06/10/22	06/10/20 06/10/21	06/10/19 06/10/20	05/10/18 06/10/19
MSCI UK	-0.1	6.4	12.7	3.2	30.9	-17.3	0.4
Stoxx Europe Cyclicals	-1.0	8.6	18.8	-15.7	33.6	-0.5	-2.7
Stoxx Europe 50	-1.7	9.1	17.4	0.3	22.3	-4.5	7.3
S&P 500	-2.1	15.1	8.4	2.6	34.5	8.2	9.4
Euro Stoxx 50	-2.1	11.8	23.8	-12.3	26.4	-4.2	5.9
MSCI EM Asia	-2.2	1.2	-0.8	-11.8	11.0	16.2	6.0
Stoxx Europe Defensives	-2.7	6.7	12.9	1.2	18.3	-3.7	8.0
MSCI Japan	-2.8	9.6	9.1	-9.1	17.9	0.6	1.4
DAX	-3.3	9.4	22.1	-16.7	16.0	7.4	-0.8
Stoxx Europe Small 200	-4.1	0.4	10.0	-26.9	30.2	5.2	1.6
MSCI EM Eastern Europe	-4.2	12.8	37.6	-85.8	60.7	-21.2	16.7
MSCI USA Small Caps	-4.4	2.7	-4.0	-2.4	46.1	-1.8	1.4

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.

- Over the last month, there were losses across all equity segments shown here. A strong performance by the energy sector supported the MSCI UK Index, which recorded the smallest relative loss over the period.
- The worst performers were the more cyclical small caps, led by US small caps. The DAX was also one of the biggest losers over the last four weeks due to economic concerns.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 05/10/2018 – 06/10/2023

Fixed Income

	4W (08/09/23 - 06/10/23)	YTD (30/12/22 - 06/10/23)	06/10/22 06/10/23	06/10/21 06/10/22	06/10/20 06/10/21	06/10/19 06/10/20	05/10/18 06/10/19
Chinese Gov Bond	0,0	3,5	3,5	4,7	5,7	2,8	6,8
EUR High Yield	-0,7	5,3	9,1	-14,4	7,9	0,7	4,7
EUR Financials	-0,8	2,4	3,4	-14,7	1,5	0,5	6,0
Treasuries	-0,9	-1,3	-8,3	2,0	-0,7	-0,9	18,1
EUR Non-Financials	-0,9	1,7	2,4	-15,8	0,9	0,5	6,8
Bunds	-1,9	-1,2	-4,4	-14,9	-2,5	-0,8	8,8
USD High Yield	-2,2	4,5	6,6	-12,0	10,0	3,7	6,3
EM Local Currency Bonds	-2,2	3,1	2,1	-5,6	3,3	-8,6	19,1
EM Hard Currency Bonds	-2,6	0,8	-0,7	-9,5	5,4	-5,6	18,9
Gilts	-2,7	-3,7	0,9	-29,0	-0,2	-0,2	15,0
BTPs	-2,9	0,9	0,1	-17,6	0,4	2,6	19,6
USD Corporates	-3,1	-1,0	1,8	-17,6	1,8	7,0	15,0

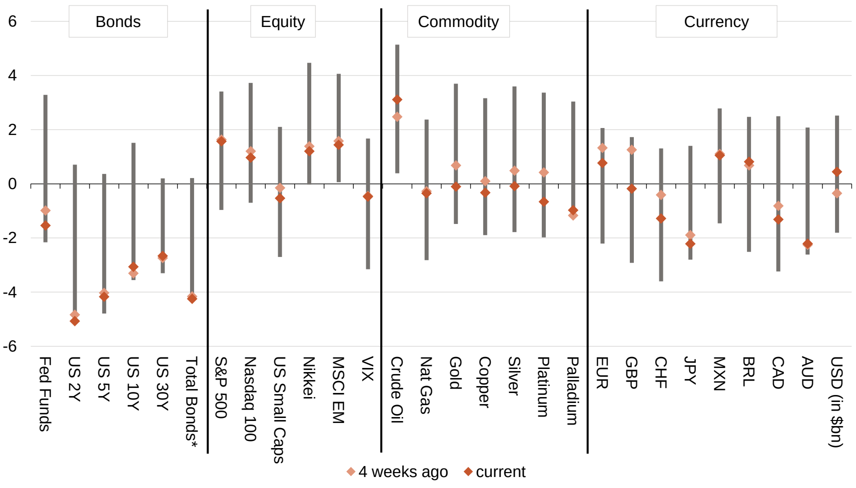
4-week & YTD; 12-month periods over that last 5 years

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

- Higher real yields on both sides of the Atlantic weighed on safe government bonds. Bund yields rose to 3% at times, for the first time since 2011.
- Italian government bonds also saw losses after the government's budget deficit projections for this year were higher than expected. The BTP-Bund spread widened to its highest level since the beginning of the year.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 05/10/2018 – 06/10/2023

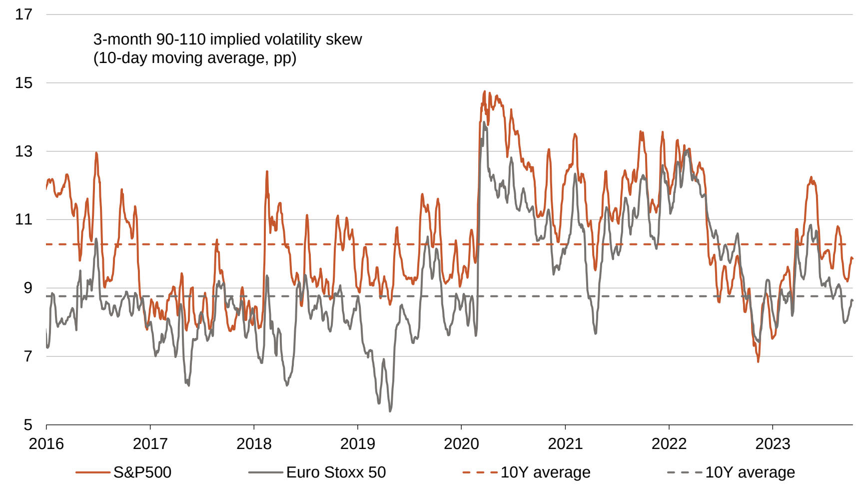
Non-Commercial Positioning



- Following the hawkish Fed meeting, asset managers reduced their long positions in the Nasdaq-100 in September, while long positions in the US dollar were moderately expanded.
- Speculative investors' short positions in US government bonds remain the most extreme, driven by the strong momentum for US interest rates and the "basis trade".

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: 03/10/2013 - 03/10/2023

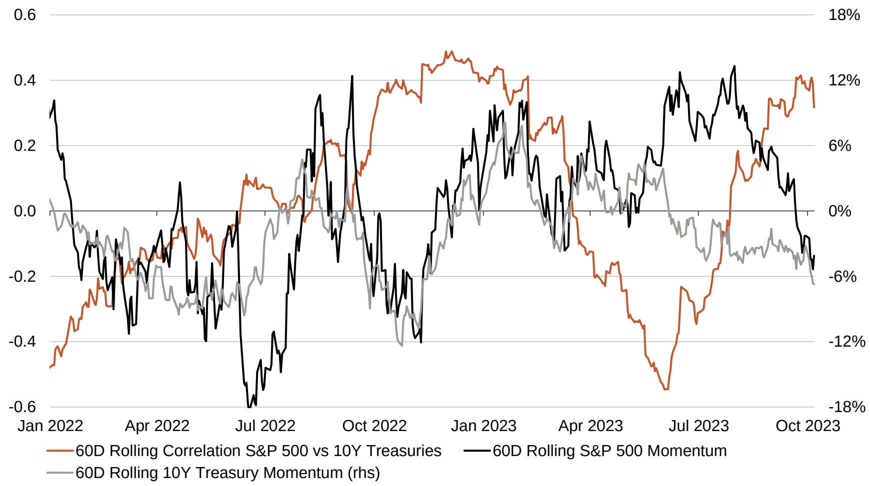
Put-Call-Skew



- On both sides of the Atlantic, demand for hedging has increased over the past two weeks. Concerns about higher interest rates in the US and the economic slowdown in Europe caused higher market volatility.
- The implied volatility of the S&P 500 Index reached its highest level since May of this year in September.

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: 06/10/2013 - 06/10/2023

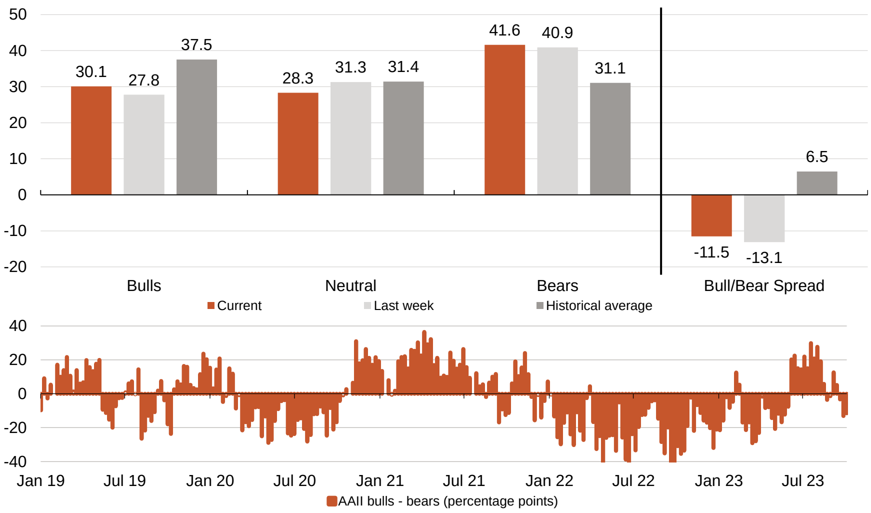
60-Day Momentum and Correlation



- The positive correlation between equities and bonds remains close to this year's highs.
- The momentum of US equities turned negative, so trend-following strategies are likely to have further reduced their equity positions.

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 - 06/10/2023

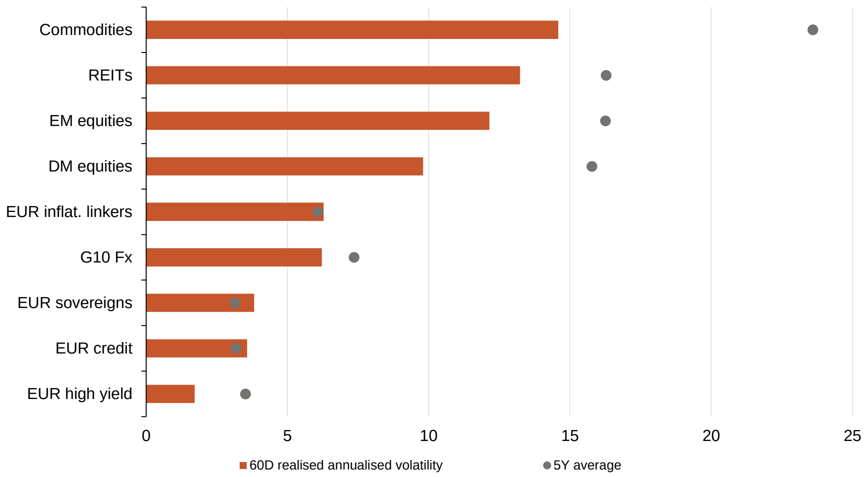
AAII Sentiment Survey (Bulls vs Bears)



- The pessimistic mood of US private investors continued over the last two weeks. Only just under one-third of respondents expect equity markets to rise in the next six months.
- The pessimists currently outweigh the bulls by almost 11 bp.

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 – 06/10/2023

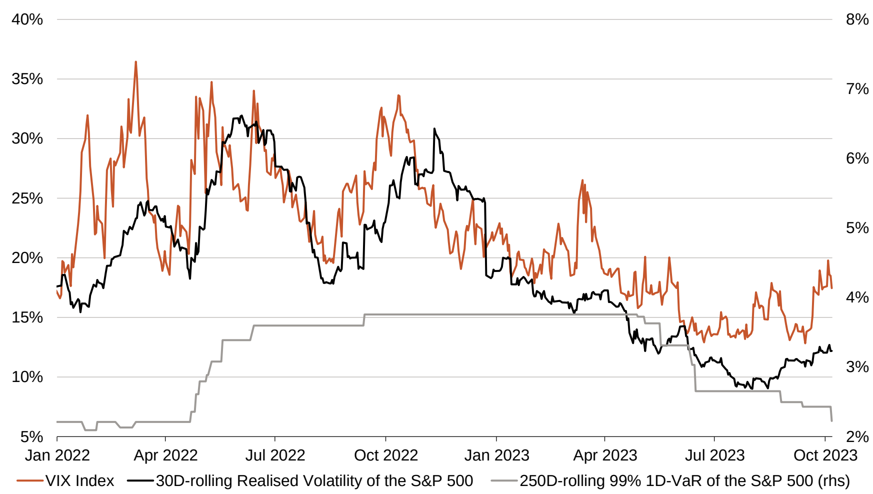
Realised Volatilities



- Although realised volatilities over the last 60 trading days were highest in absolute terms for REITs, commodities and emerging market equities, historically they were below average for these segments.
- Only for the bond segments is volatility comparable to their own history, with the exception of high yield bonds, 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: 31/12/2018 - 06/10/2023

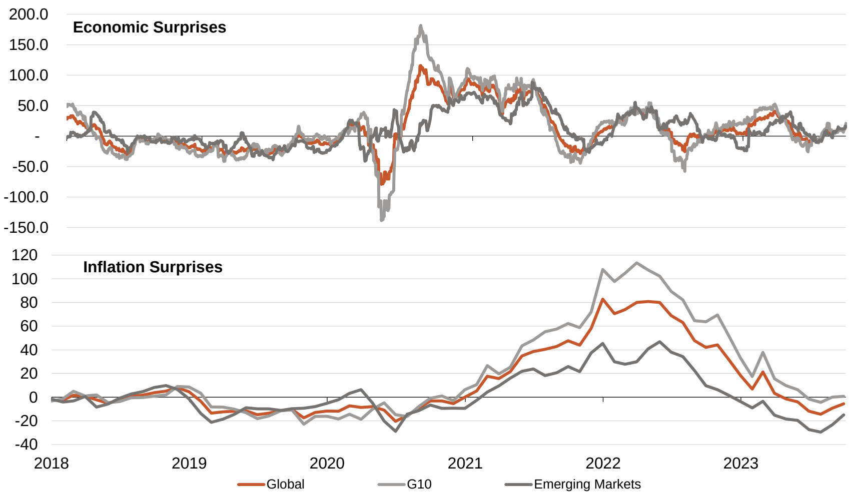
Volatility and Value-at-Risk of the S&P 500



- The VIX exceeded the 20 mark at the end of September and the realised volatility rose above 13% - both for the first time since the end of May this year..
- Overall, risk-based investment strategies may therefore have demanded fewer equities.

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 – 06/10/2023

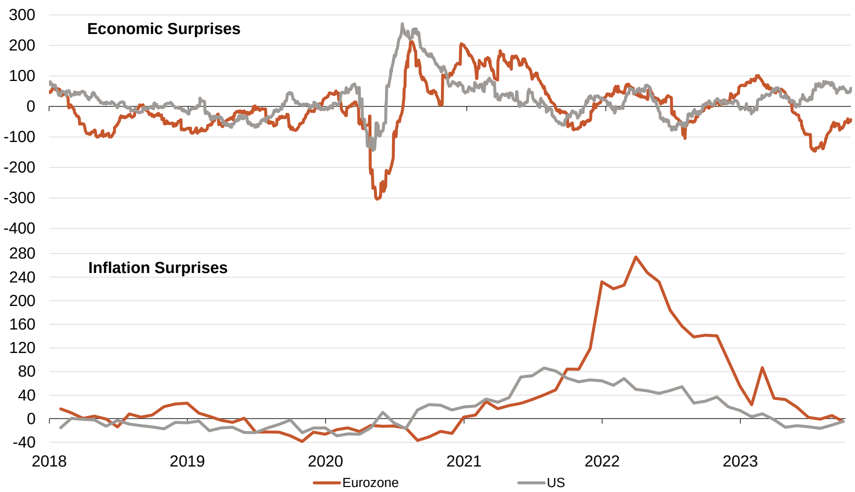
Global



- Economic data for both developed and emerging markets came in better than expected over the past two weeks. The UK surprised with higher GDP growth for the second quarter. In China, official PMI data beat expectations, with Caixin PMI numbers disappointing.
- Global inflation data surprised less negatively in September than in previous months.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 06/10/2023

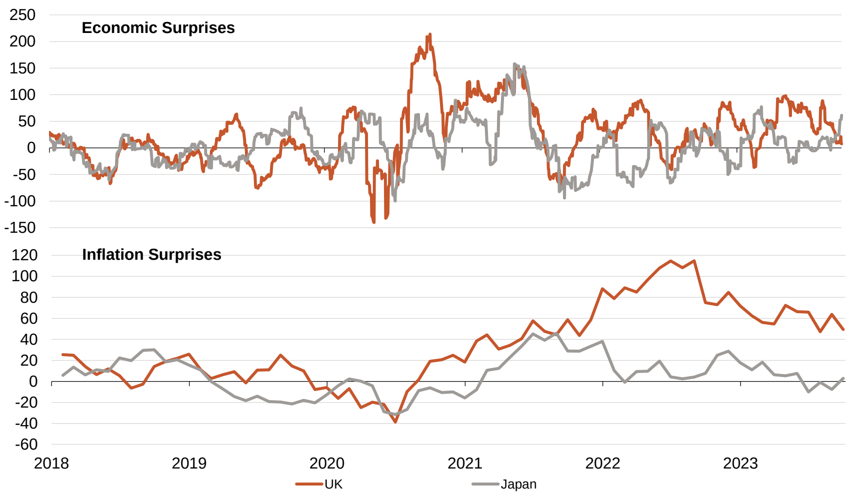
Eurozone and US



- In the US, new orders for durable goods and manufacturing, the ISM manufacturing index and consumer confidence surprised positively, with initial jobless claims in September coming in below expectations. The IFO business climate index for Germany came in slightly above expectations, while industrial production in France surprised on the upside.
- Both European consumer prices in September and the core PCE rate in the US surprised slightly negatively month-on-month.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 06/10/2023

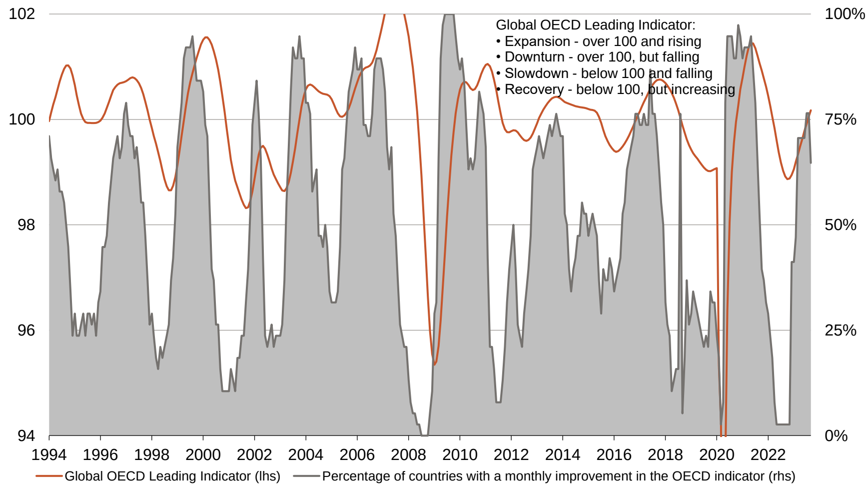
UK and Japan



- In Japan, the unemployment rate, industrial production and retail sales surprised slightly positively. In the UK, the construction purchasing managers' index disappointed.
- The consumer price index in Japan came in above expectations in September.

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 - 06/10/2023

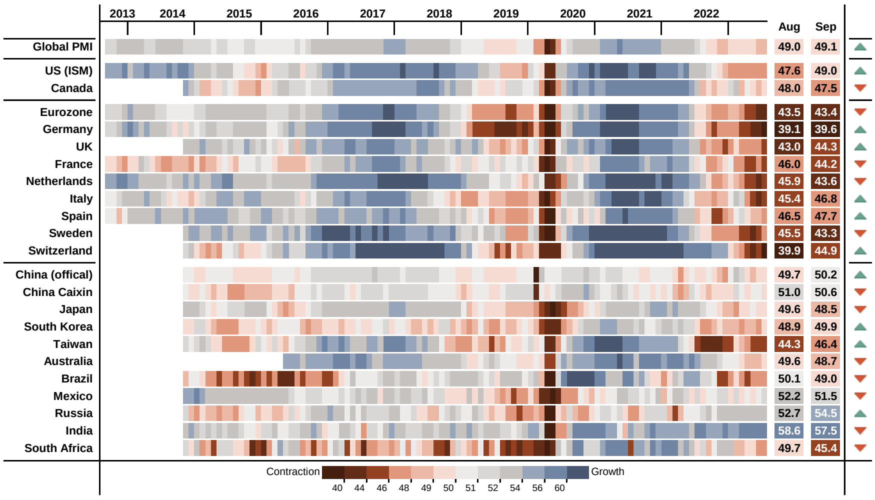
OECD Leading Indicator



- In September, the OECD Global Leading Indicator remained above the 100 mark with a value of 100.2. The global economic recovery continues.
- According to the leading indicator, 65% of the countries covered recorded an improvement in economic conditions last month compared with the previous month, with China and the UK showing the strongest increases.

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 - 06/10/2023

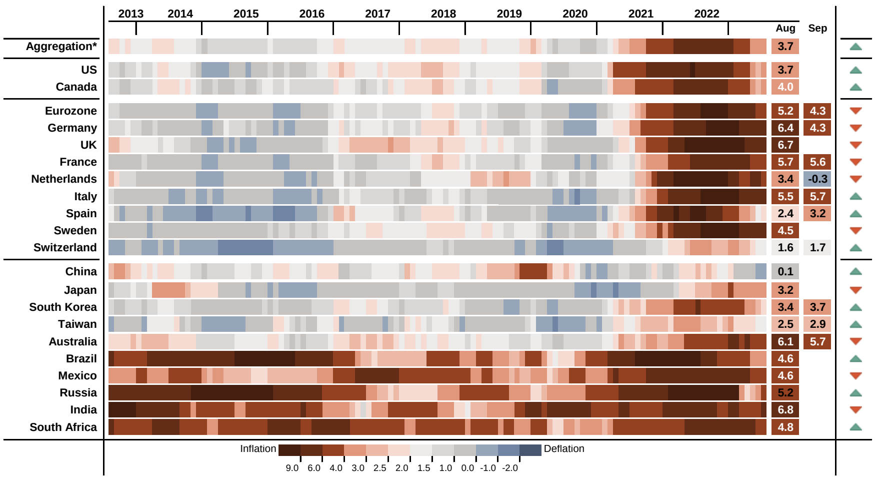
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- Global PMI figures continued to show a mixed picture in September. While the data in the USA, Germany, Italy and South Korea exceeded expectations, the figures in France, Canada and Brazil disappointed. This means that the global PMI index has been below 50 points for a year now.

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: 06/10/2013 - 06/10/2023

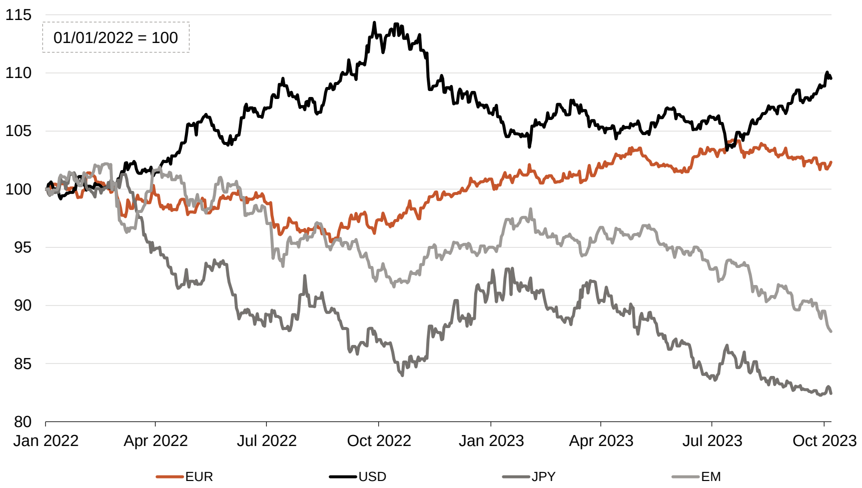
Headline Inflation



- The first inflation data for September show that the global fight against inflation is not over yet. While inflation rates in Germany, France and Australia fell compared with the previous month, inflation in Italy, Spain and South Korea is still on an upward trend. In Spain and Italy, higher fuel and electricity prices were the main drivers of inflation.

Inflation (in %, compared with the previous year) is measured using a consumer price index, also called a basket of goods. This basket contains all goods and services that a household purchases on average per year. * = Weighting according to gross domestic product.
Source: Bloomberg, Time period: 06/10/2013 - 06/10/2023

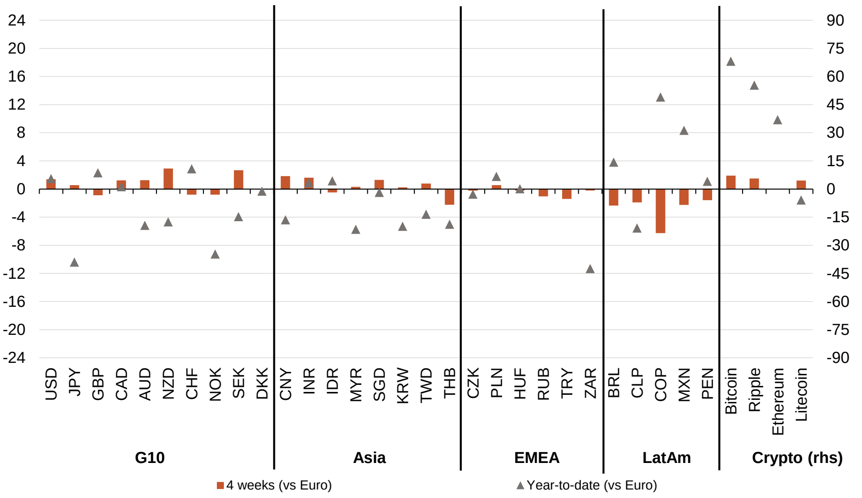
Trade-Weighted Currency Development



- The US dollar continued its upward trend on higher interest rate expectations for next year and reached a new high this year on a trade-weighted basis.
- In Japan, the USDJPY exchange rate briefly surpassed the important 150 level last week. The Bank of Japan did not comment on possible intervention to support the yen.

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 - 06/10/2023

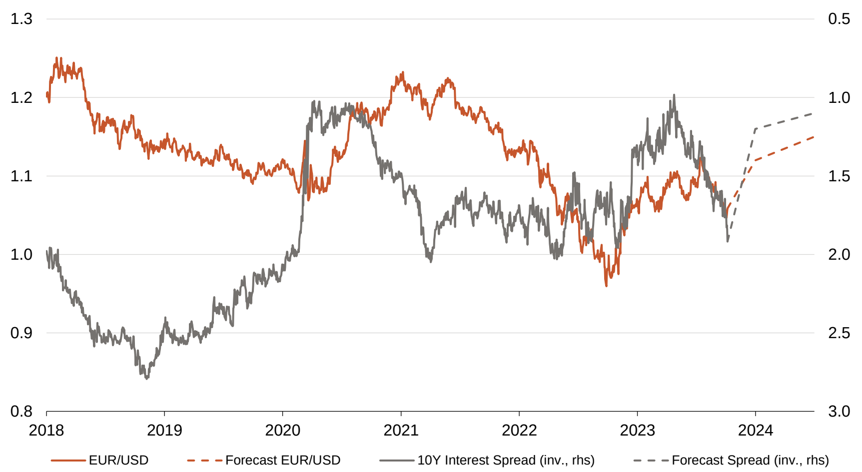
Currency Moves vs Euro



- Economic concerns in Europe have continued to weigh on the euro in the last two weeks. While Latin American currencies depreciated without exception, Asian currencies gained across the board.
- The Polish central bank lowered its key interest rate for the second time in a row. The cut of 25bp thus reduced the key interest rate to 5.75%. The Polish zloty thus reached its lowest level against the euro since April this year.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2022 - 06/10/2023

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



- The EURUSD exchange rate traded temporarily below the 1.05 mark last week, reaching its lowest level since the beginning of the year.
- The main reason for the weak euro is the increased interest rate differential between Treasuries and Bunds, which reached 184 bp for 10-year bonds, the highest level since November 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 - 31/12/2023

European Sector & Style Performance

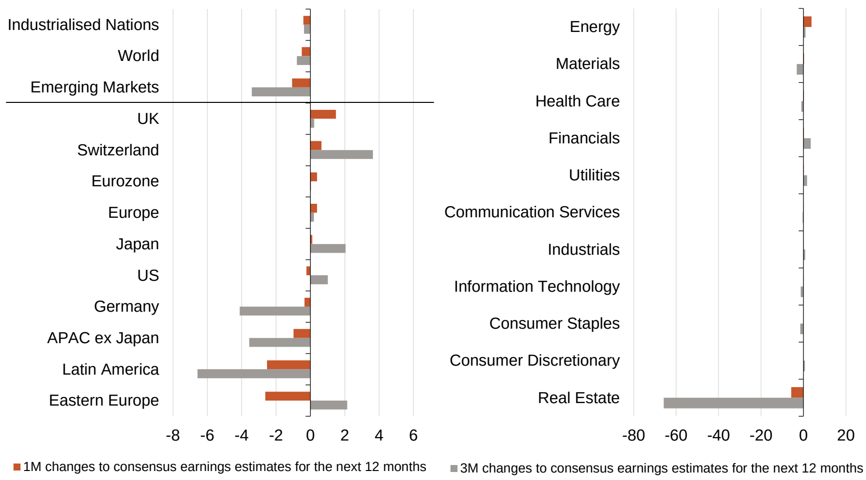
	4-week & YTD: 4W (08/09/23 - 06/10/23)	4-week & YTD: YTD (30/12/22 - 06/10/23)	12-month periods over that last 5 years: 06/10/22 06/10/23	06/10/21 06/10/22	06/10/20 06/10/21	06/10/19 06/10/20	05/10/18 06/10/19
Finance	2.1	12.6	27.2	-9.9	45.0	-19.2	-5.7
Communication Services	-0.3	9.1	15.3	30.4	69.0	-44.9	-11.5
Value	-0.3	8.7	19.8	-4.6	29.5	-15.2	-2.0
Telecommunications	-0.6	8.7	10.4	-11.6	17.9	-18.5	8.5
Materials	-1.2	-0.3	7.7	-6.5	26.1	10.3	-3.2
Health Care	-2.3	8.3	13.7	-0.4	13.0	9.8	12.8
Industrials	-2.5	10.8	21.7	-16.5	29.3	5.9	5.1
Consumer Discretionary	-3.0	9.7	20.3	-17.1	31.3	2.9	3.2
Growth	-3.7	6.6	11.2	-12.9	22.8	8.7	9.9
Information Technology	-3.9	14.0	15.3	-23.2	34.7	19.3	5.4
Consumer Staples	-4.4	-1.2	1.1	-0.6	9.9	-3.5	17.2
Utilities	-7.8	-1.4	9.5	-8.2	6.2	8.3	26.0

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, none of the equity segments shown here developed positively, apart from financial stocks. In addition to the renewed rise in (US) government bond yields, the Fed's hawkish comments after the September meeting weighed heavily.
- Technology stocks in particular suffered from high interest rates, while the rise in oil prices in Q3 limited losses in energy 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: 05/10/2018 – 06/10/2023

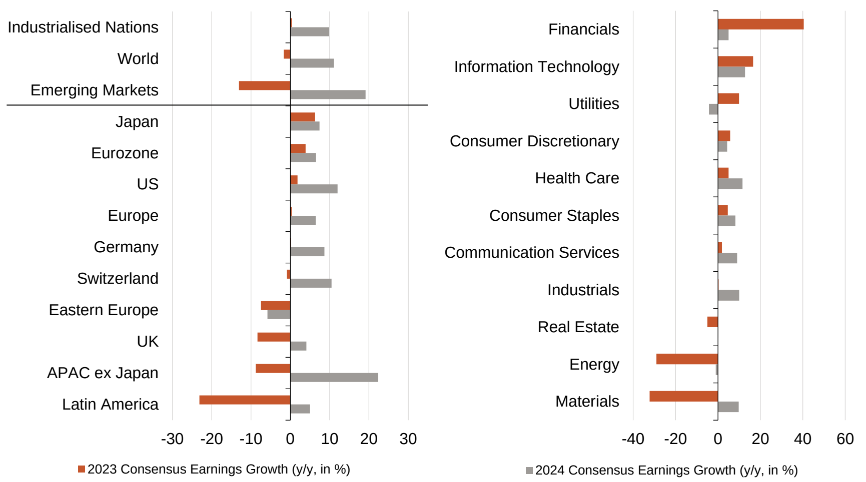
Changes in Consensus Earnings Estimates



- In the upcoming Q3 reporting season, investors are increasingly focusing on the fundamental situation of companies.
- Over the past month, analysts have revised earnings estimates downwards for both developed and emerging markets. It is worth noting that analysts lowered earnings estimates for the US for the first time since July this year.

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 06/10/2023

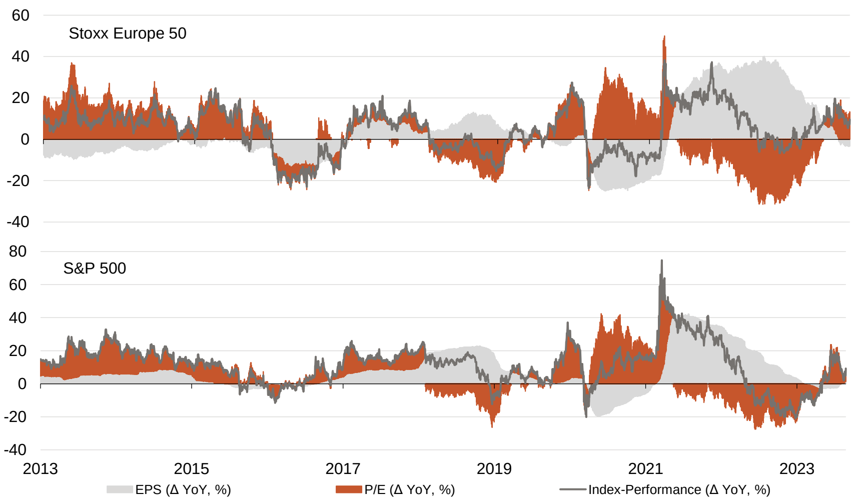
Earnings Growth



- The consensus does not expect any noticeable earnings growth for the industrialised nations this year and a significant earnings recession for the emerging markets. For the coming year 2024, the analysts then expect a recovery in profits for the emerging markets, mostly driven by Asia.

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 06/10/2023

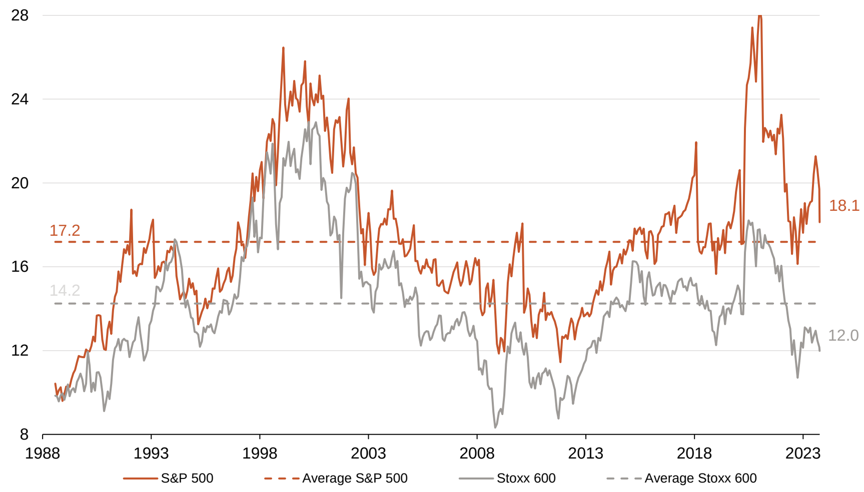
Contribution Analysis



- The tailwind from the valuation expansion since the beginning of the year has been dampened by the renewed sharp rise in (real) interest rates. The US real interest rate currently stands at just under 2.5%, the highest level since 2008.
- The Stoxx Europe 50 was also slightly weighed down by the earnings trend.

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 - 06/10/2023

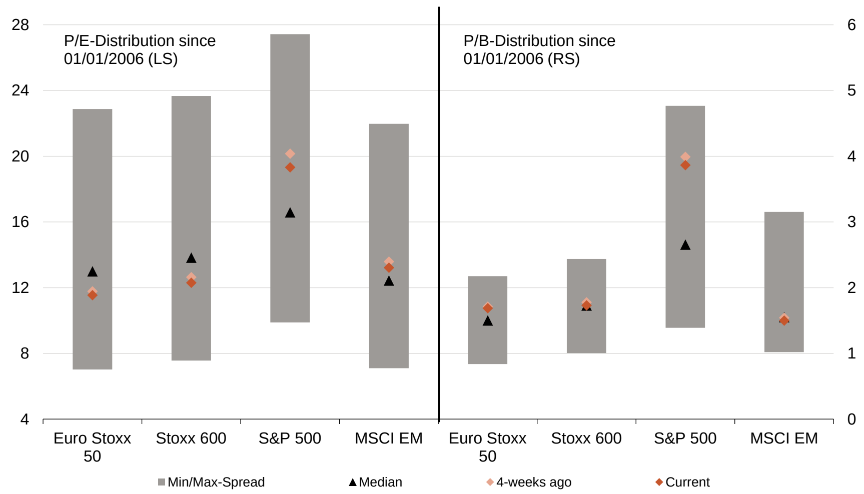
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The high US interest rates - the yield on 10-year US government bonds even scratched the 4.8% mark for a short time at the beginning of October – increased the valuation pressure on European and US equities.
- The P/E ratio based on earnings estimates for the next 12 months for the S&P 50 has slipped towards the 18x mark. The S&P 500 has thus almost completely given back the increase in value since the beginning of the year.

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 - 06/10/2023

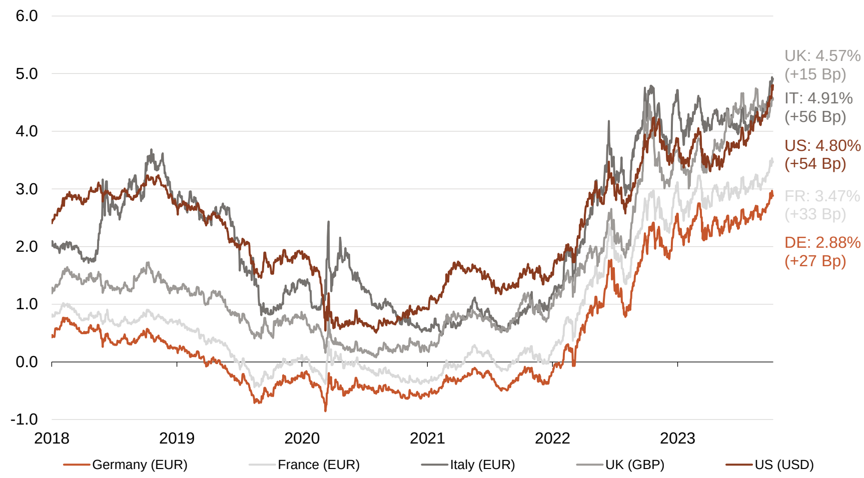
Historical Distribution: Price/Earnings and Price/Book Ratio



- The high interest rates have led to more favourable valuations for all valuation ratios presented here for the selected equity regions.
- Based on the P/E and P/B ratios, US equities in particular have become cheaper. However, they are still historically expensive compared to the median since 2006.

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 - 06/10/2023

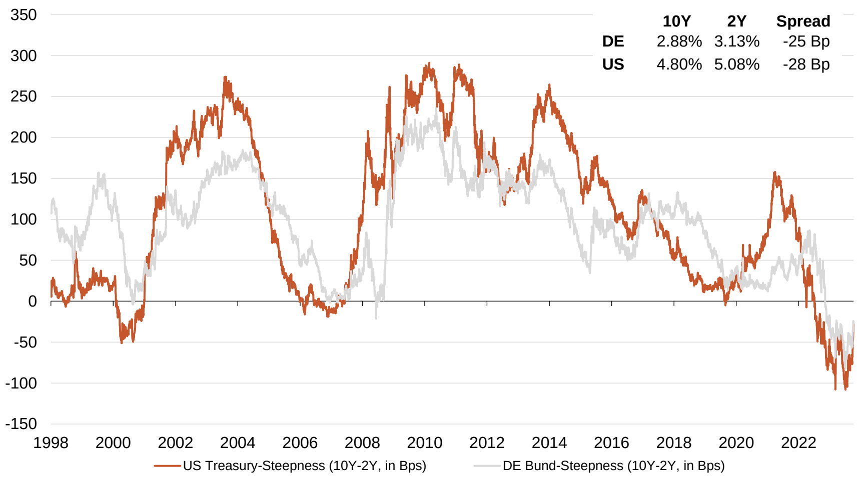
10-Year Government Bond Yields



- Safe government bonds experienced further yield increases over the last four weeks. For example, yields on 10-year US government bonds rose by almost 80bp in the third quarter to currently just under 4.8%.
- The rise in interest rates is mainly due to rising real interest rates and not driven by rising inflation expectations, which remained almost unchanged over the last four weeks.

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 - 06/10/2023

Yield Curve Steepness (10Y - 2Y)

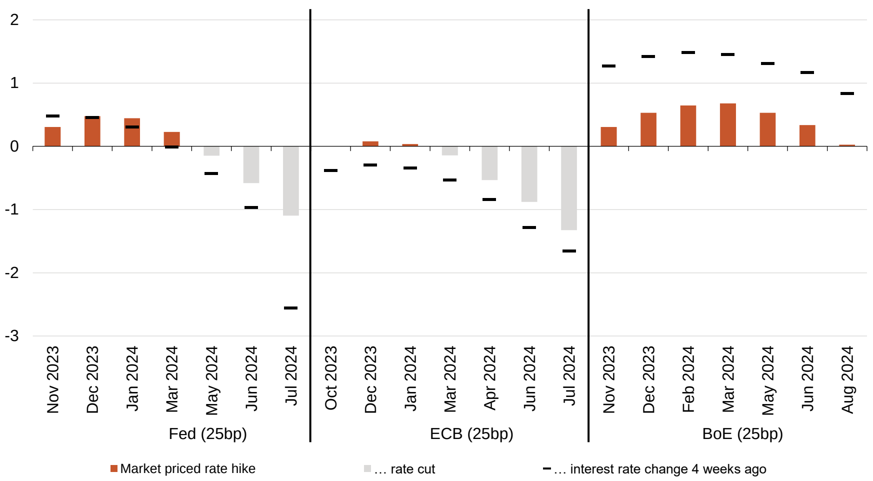


	10Y	2Y	Spread
DE	2.88%	3.13%	-25 Bp
US	4.80%	5.08%	-28 Bp

- The US yield curve steepened over the last two weeks as interest rates rose more at the long end and fell at the short end. The interest rate differential between 2-year and 10-year US government bonds fell from 68 to 28 basis points.
- Concerns about rising US government debt and strong US government bond issuance supported the development.

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 - 06/10/2023

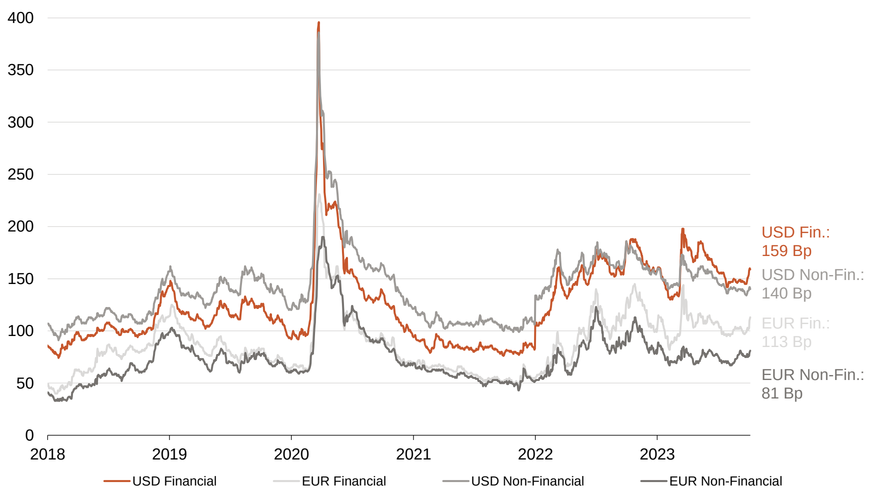
Implicit Changes in Key Interest Rates



- The markets are currently not expecting any further full interest rate hikes this year for the Fed, ECB and BoE.
- While a few months ago the markets had expected a longer restrictive interest rate policy of the ECB compared to the Fed, the markets now expect the first rate cut for the ECB already in March, while for the Fed the first cut is expected only in May.

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: 17/12/2021 - 06/10/2023

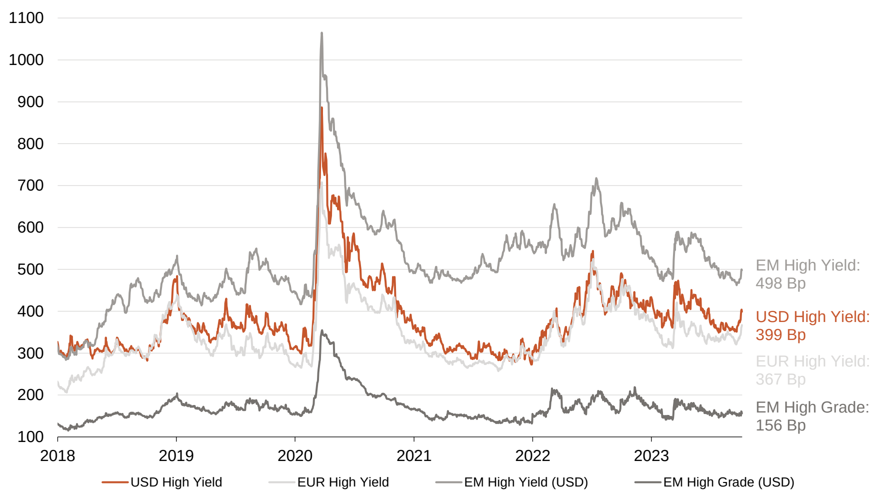
Credit Spreads Financial and Non-Financial Bonds



- IG financial bonds in EUR and USD saw a sharp increase in risk premiums of 15 bp and 14 bp respectively over the past two weeks.
- Non-financial bonds also saw spreads widen, albeit less than their financial counterparts.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 - 06/10/2023

Credit Spreads High Yield and Emerging Markets Bonds



- USD high-yield bonds experienced a spread widening of 35 bp at the index level over the past two weeks. EUR high-yield bonds also saw a noticeable spread widening of 38 bp.
- The risk premiums of EM high-grade bonds, on the other hand, saw no major change.

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 - 06/10/2023

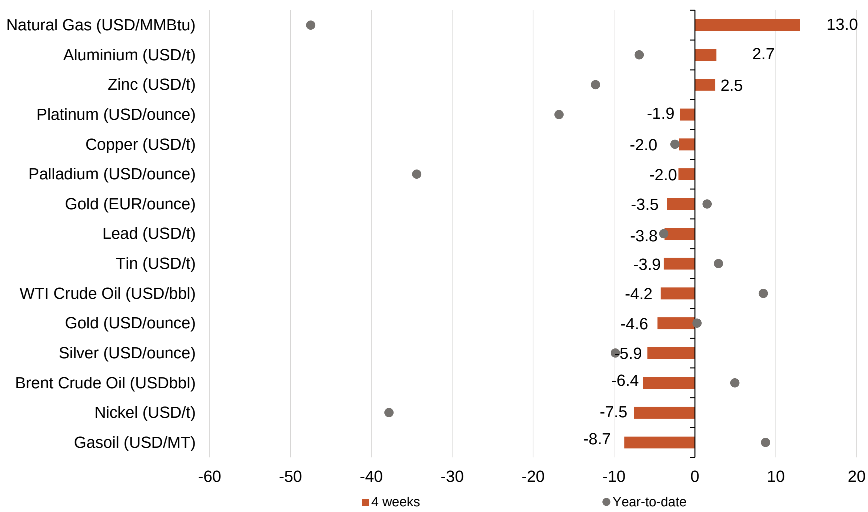
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	06/10/22 06/10/23	06/10/21 06/10/22	06/10/20 06/10/21	06/10/19 06/10/20	06/10/18 06/10/19
EUR Government	3.62	0.25	6.8	-	-	-	-2.0	-1.1	-3.1	-16.8	-2.0	0.8	12.5
Germany	2.94	0.16	7.0	-	-	-	-1.5	-1.6	-4.4	-14.9	-2.6	-0.7	8.8
EUR Corporate	4.60	0.17	4.4	93	3	78	-0.6	1.9	2.8	-15.2	1.2	0.5	6.5
Financial	4.87	0.22	3.7	113	9	88	-0.6	2.1	3.4	-13.4	1.2	0.6	5.8
Non-Financial	4.44	0.14	4.8	81	0	72	-0.6	1.8	2.5	-16.2	1.1	0.4	6.8
EUR High Yield	7.89	0.45	3.0	367	29	69	-0.6	5.3	9.1	-14.4	7.9	0.7	4.7
US Treasury	4.99	0.30	6.0	-	-	-	-2.5	-2.9	-2.1	-13.3	-3.1	6.6	13.0
USD Corporate	6.30	0.41	6.4	146	3	64	-2.7	-1.0	1.8	-17.6	1.8	7.0	15.0
Financial	6.51	0.39	4.8	159	10	85	-2.0	0.2	2.8	-15.0	1.7	7.1	13.2
Non-Financial	6.19	0.42	7.2	140	0	52	-3.1	-1.6	1.3	-18.8	1.8	7.0	15.8
USD High Yield	9.35	0.66	3.9	399	39	60	-2.0	4.5	6.6	-12.0	10.0	3.7	6.3
EM High Grade	6.39	0.32	5.0	156	2	28	-1.8	0.3	2.9	-16.3	1.9	4.1	12.1
EM High Yield	10.68	0.54	3.7	498	24	39	-1.6	1.6	9.3	-22.7	4.8	5.9	9.4

- Over the past month, none of the bond segments shown here showed a positive performance. Higher interest rates weighed on prices and depressed performance.
- EUR high-yield bonds have now also overtaken USD high-yield bonds as the strongest bond segment in local currency terms since the start of the year.

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 : 06/10/2017 - 06/10/2023

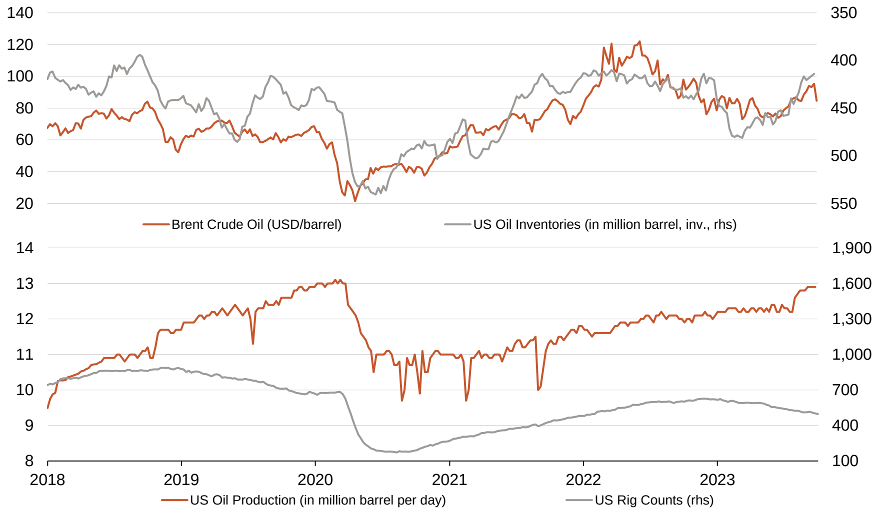
Commodities Performance



- After the strong, crude oil-driven commodity rally of recent weeks, a trend reversal has now set in.
- Weaker economic data weighed on cyclical commodities in particular, while higher interest rates weighed on the relative attractiveness of precious metals such as gold and silver. Silver, gold's more volatile little brother, lost almost 6 % over the last four weeks as a result.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2022 - 06/10/2023

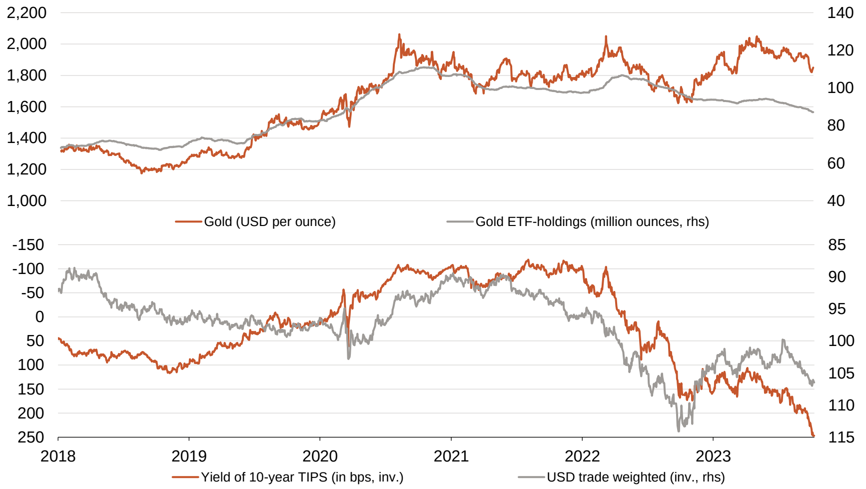
Crude Oil



- The crude oil rally through September came to an abrupt end at the beginning of October.
- Despite assurances by OPEC+ at its meeting on 4 October that production cuts would be maintained until the end of the year, concerns about the economy and thus demand, together with a renewed rise in inventories, prevailed and caused sentiment to topple.

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 - 06/10/2023

Gold



- While gold held up surprisingly well in September in the face of the strengthening US dollar and real interest rates, the sharp rise in interest rates at the beginning of October now seems to have left its mark on gold. Gold lost almost 5 % in US dollar terms over the last four weeks, also driven by technical selling.

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 - 06/10/2023

PUBLISHING INFORMATION

PUBLISHER

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

EDITORS

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

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

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

Dr Konstantin Ignatov | Analyst Multi Asset Strategy & Research
analyses financial markets, supports the multi-asset investment process and participates in capital market publications
+49 69 91 30 90-502 | konstantin.ignatov@berenberg.de

The Berenberg Markets series includes the following publications:

- ► Monitor
- Focus
- Investment Committee Minutes

www.berenberg.de/en/publications

IMPORTANT NOTICES

This information is a marketing communication. This information and references to issuers, financial instruments or financial products do not constitute an investment strategy recommendation pursuant to Article 3 (1) No. 34 Regulation (EU) No 596/2014 on market abuse (market abuse regulation) nor an investment recommendations pursuant to Article 3 (1) No. 35 Regulation (EU) No 596/2014, both provisions in connection with section 85 (1) of the German Securities Trading Act (WpHG). As a marketing communication this document does not meet all legal requirements to warrant the objectivity of investment recommendations and investment strategy recommendations and is not subject to the ban on trading prior to the publication of investment recommendations and investment strategy recommendations. This document is intended to give you an opportunity to form your own view of an investment. However, it does not replace a legal, tax or individual financial advice. Your investment objectives and your personal and financial circumstances were not taken into account. We therefore expressly point out that this information does not constitute individual investment advice. Any products or securities described may not be available for purchase in all countries or only in certain investor categories. This information may only be distributed within the framework of applicable law and in particular not to citizens of the USA or persons resident in the USA. The statements made herein have not been audited by any external party, particularly not by an independent auditing firm. Any future returns on fund investments may be subject to taxation, which depends on the personal situation of the investor and may change in the future. Returns on investments in foreign currencies may increase or decrease due to currency fluctuations. A fund investment involves the purchase of shares in an investment fund, but not a specific underlying asset (e.g. shares in a company) held by that fund. The statements contained in this document are based either on own company sources or on publicly accessible third-party sources, and reflect the status of information as of the date of preparation of the presentation stated below. Subsequent changes cannot be taken into account in this document. The information given can become incorrect due to the passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. Past performance, simulations and forecasts are not a reliable indicator of future performance. Please refer to the online glossary at www.berenberg.de/glossar for definitions of the technical terms used in this document. For important disclosures and information on index- and market data, see https://www.berenberg.de/en/legal-notice/license-notice/.

Date: 09 October 2023

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