BERENBERG
*Markets*

# MONITOR

23 October 2023

## Current market commentary

The stock markets have been treading water for weeks now. The higher real interest rates in combination with economic concerns are capping the upside potential, especially since the expected corporate profits are also tending to be reduced and not increased despite a more robust than expected US economy. The multiple geopolitical tensions are also not helpful and have recently rather boosted gold and oil. At the same time, the US economy remains robust and support from non-fundamental ETF savings plans continues – and should continue until US unemployment rises and less money flows into retirement savings. Otherwise, positioning among discretionary as well as systematic investors in equities is likely to trend neutral. Among trend-following strategies, the large short positioning in bonds seems vulnerable should interest rates start to fall. At the moment, it is mainly long-term interest rates that are rising, which is at least beneficial for the steepener position in our multi-asset strategies.

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

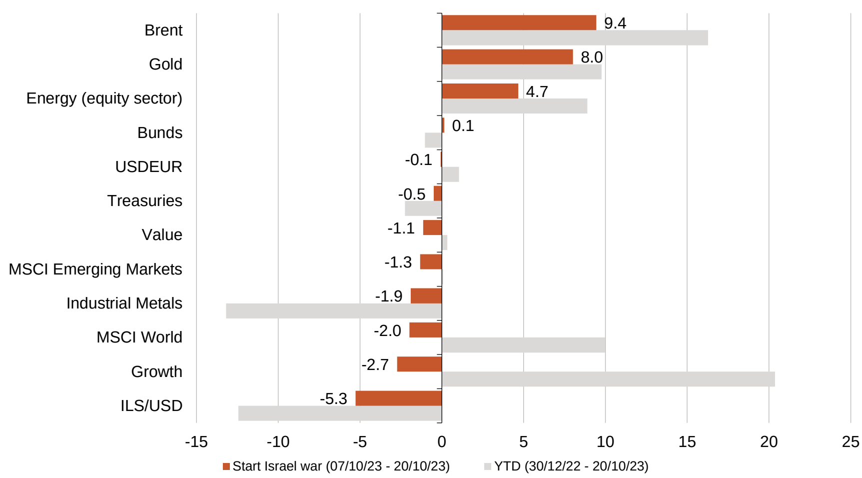
*Q3 reporting season and ECB meeting in market focus.*

This week, the Q3 reporting season enters its most intense week with 162 companies in the S&P 500 (over 30% of the index), particularly financial and healthcare companies, providing insights into the robustness of the US economy. Of the 86 companies reported so far, 74% beat analysts' earnings expectations. On the (monetary) policy front, things should get exciting with the ECB meeting on 26 October and the G7 trade meeting on 28-29 October.

*Investors' view of economic and labour market data.*

On Tuesday, the preliminary purchasing managers' indices (PMIs) for the eurozone will be published (October). This will be followed on Wednesday by the ifo Business Climate for Germany (October) and US New Home Sales data (October). On Thursday, the markets will focus on the publication of GDP figures for the US (Q3), new orders for durable goods (September) and initial jobless claims (21 October). This will be followed on Friday by data on US household income and spending (September).

## Only commodities price geopolitical tensions




- While the Israeli war is keeping the world politically on tenterhooks, the financial markets are still taking a wait-and-see approach.
- At the moment, they tend to treat the war as a local conflict. Accordingly, risk assets have only lost slightly since the conflict intensified in early October. Under the surface, however, the flight into safe havens such as gold and the increased oil price show the higher uncertainty. Without international escalation, however, the global economic consequences are likely to remain limited.

Source: Bloomberg, Time period: 30/12/2022 - 20/10/2023, 5 year performance on the following pages

## Multi Asset

| | 4-week & YTD | | 12-month periods over that last 5 years | | | | |
|---|---|---|---|---|---|---|---|
| | 4W (22/09/23 - 20/10/23) | YTD (30/12/22 - 20/10/23) | 20/10/22 20/10/23 | 20/10/21 20/10/22 | 20/10/20 20/10/21 | 20/10/19 20/10/20 | 19/10/18 20/10/19 |
| Gold | 3.5 | 9.8 | 12.4 | 8.8 | -5.2 | 20.9 | 25.2 |
| Brent | 1.4 | 16.3 | 5.1 | 59.9 | 110.3 | -36.7 | -17.4 |
| USDEUR | 0.6 | 1.0 | -7.6 | 19.0 | 1.5 | -5.5 | 3.1 |
| Euro overnight deposit | 0.3 | 2.5 | 2.8 | -0.4 | -0.6 | -0.5 | -0.4 |
| EUR Sovereign Debt | -0.3 | 1.0 | 0.5 | -11.6 | -1.2 | 1.0 | 5.9 |
| EUR Coporates | -0.7 | 2.0 | 4.5 | -16.4 | 0.2 | 1.6 | 5.7 |
| MSCI World | -2.4 | 10.0 | 8.1 | -6.8 | 33.7 | 5.8 | 12.1 |
| Global Convertibles | -2.5 | 3.3 | -4.4 | -14.1 | 25.1 | 28.1 | 7.3 |
| MSCI Frontier Markets | -2.9 | 5.9 | -1.1 | -15.6 | 33.7 | -6.2 | 14.0 |
| Industrial Metals | -3.0 | -13.2 | -9.1 | -3.4 | 50.7 | 0.1 | 2.9 |
| MSCI Emerging Markets | -3.3 | 0.1 | 1.7 | -18.7 | 18.8 | 6.8 | 11.7 |
| REITs | -5.0 | -11.4 | -11.8 | -14.5 | 31.5 | -19.4 | 26.6 |

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.

- The military conflict in the Middle East boosted demand for safe havens such as gold and the US dollar, which were among the relative winners over the past four weeks. Brent crude rose on concerns about Iran's role in the conflict and the related implications for crude supply.
- Global risks from the Middle East conflict and higher real interest rates weighed on equity and bond segments over the past month. Interest rate-sensitive REITs brought up the rear.

Total return for selected asset classes, in euros and in per-cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 19/10/2018 – 20/10/2023

## Equities

| | 4-week & YTD | | 12-month periods over that last 5 years | | | | |
|---|---|---|---|---|---|---|---|
| | 4W (22/09/22 - 20/10/23) | YTD (30/12/22 - 20/10/23) | 20/10/22 20/10/23 | 20/10/21 20/10/22 | 20/10/20 20/10/21 | 20/10/19 20/10/20 | 19/10/18 20/10/19 |
| MSCI EM Eastern Europe | 5.6 | 23.2 | 47.2 | -86.1 | 73.0 | -26.3 | 23.1 |
| S&P 500 | -1.5 | 12.7 | 8.5 | -2.4 | 35.7 | 10.9 | 13.7 |
| Stoxx Europe Defensives | -2.8 | 6.9 | 12.8 | -2.2 | 24.1 | -6.3 | 11.4 |
| MSCI EM Asia | -3.1 | -0.4 | 4.5 | -22.0 | 14.1 | 17.6 | 12.4 |
| Stoxx Europe 50 | -3.1 | 7.3 | 14.6 | -3.0 | 28.6 | -7.7 | 13.0 |
| MSCI UK | -3.4 | 4.5 | 10.5 | -0.8 | 38.8 | -21.4 | 7.7 |
| Euro Stoxx 50 | -4.3 | 8.6 | 18.1 | -14.2 | 31.7 | -7.9 | 14.5 |
| MSCI USA Small Caps | -4.3 | -0.7 | -4.1 | -8.0 | 46.6 | 0.4 | 7.1 |
| MSCI Japan | -4.8 | 8.6 | 13.3 | -14.2 | 20.9 | -0.9 | 6.2 |
| DAX | -4.9 | 6.3 | 15.9 | -17.8 | 21.9 | 0.8 | 9.3 |
| Stoxx Europe Cyclicals | -4.9 | 4.3 | 12.9 | -18.7 | 39.5 | -5.2 | 9.1 |
| Stoxx Europe Small 200 | -6.9 | -3.6 | 4.8 | -29.5 | 36.6 | 1.3 | 10.5 |

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.

- As the only exception with a positive performance over the last month, eastern European equities led the way. The election results and thus the upcoming change of government in Poland drove domestic equities higher.
- Other equity segments suffered losses across the board. The cyclically sensitive small caps also underperformed their large-cap counterparts.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 19/10/2018 – 20/10/2023

## Fixed Income

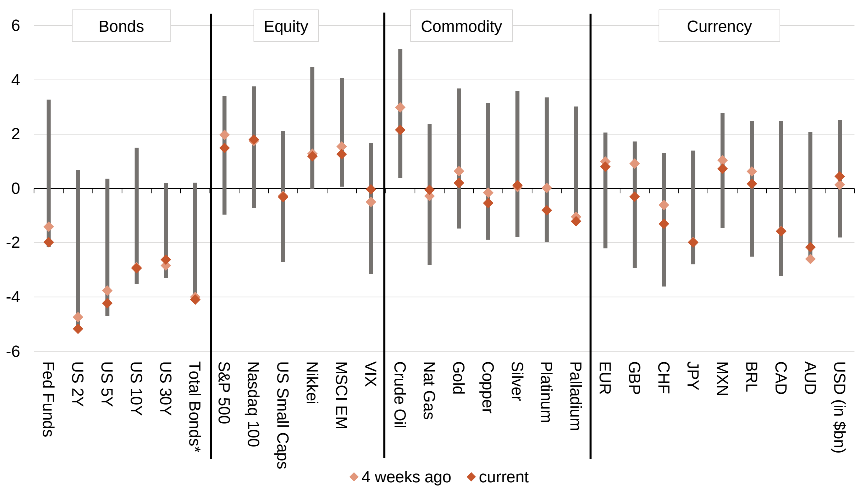
| | 4-week & YTD | | 12-month periods over that last 5 years | | | | |
|---|---|---|---|---|---|---|---|
| | 4W (22/09/23 - 20/10/23) | YTD (30/12/22 - 20/10/23) | 20/10/22 20/10/23 | 20/10/21 20/10/22 | 20/10/20 20/10/21 | 20/10/19 20/10/20 | 19/10/18 20/10/19 |
| Chinese Gov Bond | 0.0 | 3.4 | 3.0 | 5.8 | 5.2 | 2.6 | 6.2 |
| EUR Financials | -0.6 | 2.5 | 5.4 | -15.8 | 0.6 | 1.2 | 5.5 |
| Bunds | -0.7 | -1.0 | -1.9 | -16.7 | -3.5 | 1.8 | 6.0 |
| EUR Non-Financials | -0.7 | 1.7 | 3.9 | -16.8 | -0.1 | 1.9 | 5.8 |
| BTPs | -1.4 | 1.2 | 1.7 | -18.5 | -0.3 | 3.8 | 19.9 |
| Treasuries | -1.4 | -2.2 | -7.0 | 1.4 | -1.7 | 1.3 | 14.4 |
| EUR High Yield | -1.4 | 4.9 | 10.2 | -15.5 | 7.5 | 0.5 | 6.2 |
| EM Local Currency Bonds | -2.2 | 3.5 | 4.9 | -7.5 | 2.8 | -7.9 | 16.6 |
| USD High Yield | -2.3 | 4.0 | 7.3 | -13.3 | 9.7 | 3.6 | 7.6 |
| EM Hard Currency Bonds | -3.1 | 0.0 | 2.0 | -12.0 | 4.3 | -3.7 | 17.2 |
| USD Corporates | -3.2 | -1.7 | 4.3 | -19.8 | 1.2 | 8.1 | 14.0 |
| Gilts | -3.2 | -4.7 | -5.0 | -26.3 | 0.0 | 1.1 | 13.6 |

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

- Rising real interest rates weighed on all bond segments last month. The yield on 10-year US government bonds was briefly around 1bp below the 5% mark, its highest level since 2007.
- Higher-than-expected inflation data in the UK steered UK government bond yields upwards again. Accordingly, British government bonds brought up the rear over the last four weeks.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 19/10/2018 – 20/10/2023

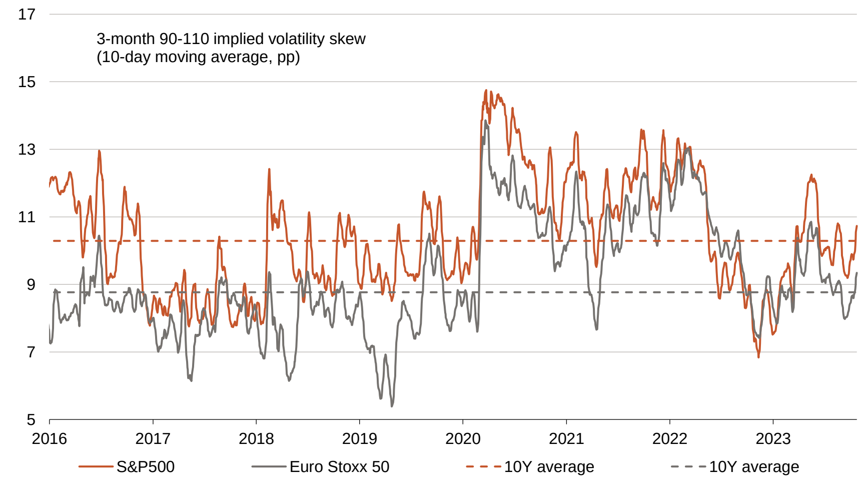
## Non-Commercial Positioning




- Speculative investors reduced their long positions in the S&P 500 over the last four weeks.
- In view of the sharp rise in interest rates, it is all the more surprising that investors did not touch their long positions in the Nasdaq 100 at the same time.

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: 17/10/2013 - 17/10/2023

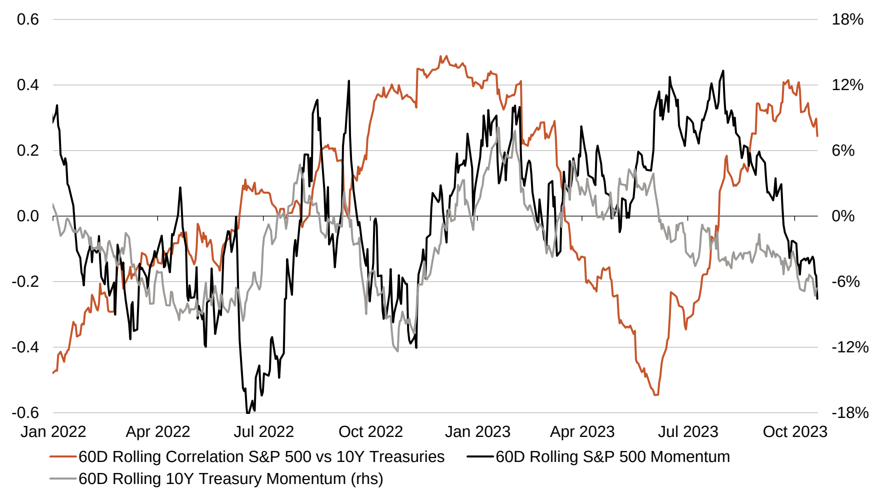
## Put-Call-Skew




- The skew has recently steepened slightly and is slightly above its average of the last 10 years in both Europe and the US.
- However, the increase was mainly driven by the higher level of implied volatility.
- Overall, the skew does not point to any extreme positioning, neither in the optimistic nor in the pessimistic direction.

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: 20/10/2013 - 20/10/2023

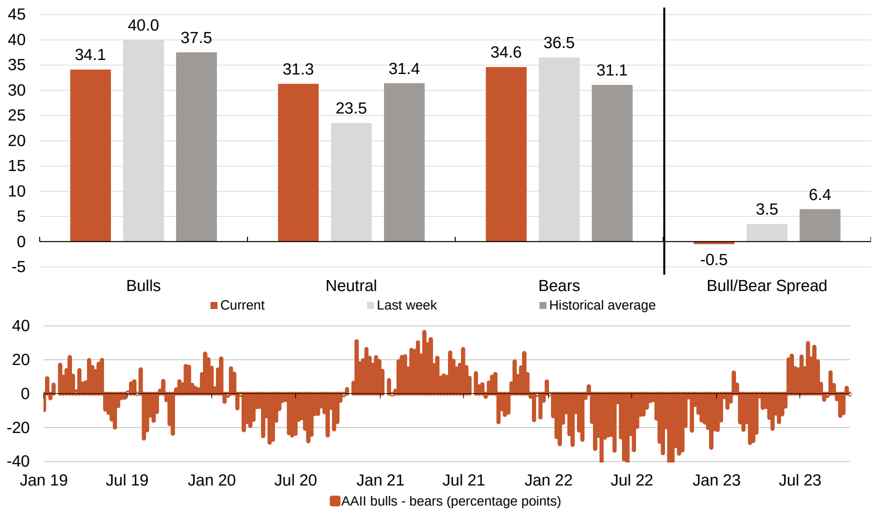
## 60-Day Momentum and Correlation




- The three-month momentum for US equities and bonds is now clearly negative.
- However, the pronounced short positioning of trend-following strategies in US Treasuries in particular suggests the potential for a rapid sharp fall in interest rates if the trend reverses.

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 - 20/10/2023

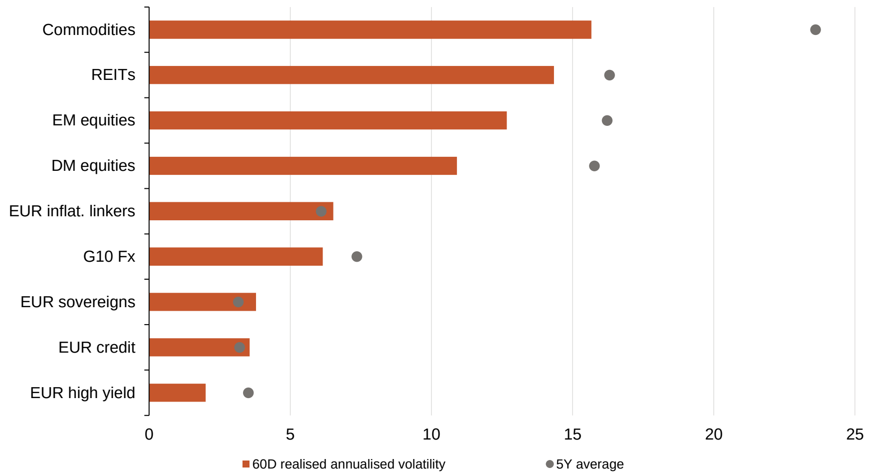
## AAII Sentiment Survey (Bulls vs Bears)




- US private investors are currently extremely divided about the future course of the stock markets. Around one third of respondents are optimistic, one third neutral and one third pessimistic.
- As a result, the bull/bear spread is currently at around 0, after having fluctuated between bullish and bearish several times in the previous weeks.

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 – 19/10/2023

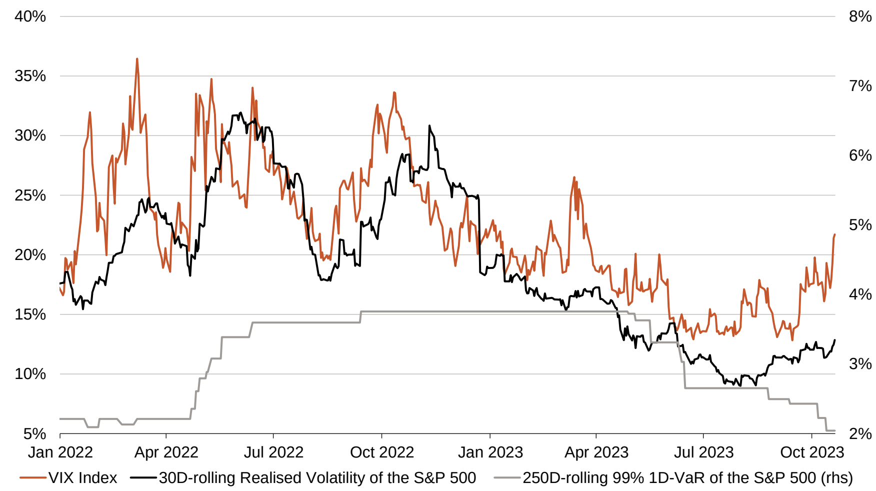
## Realised Volatilities




- Realised volatilities have risen slightly recently in most risk assets, but are still well below their medium-term averages.
- EUR inflation linkers show some of the largest fluctuations relative to their own history due to the high real interest rate volatility.

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 - 20/10/2023

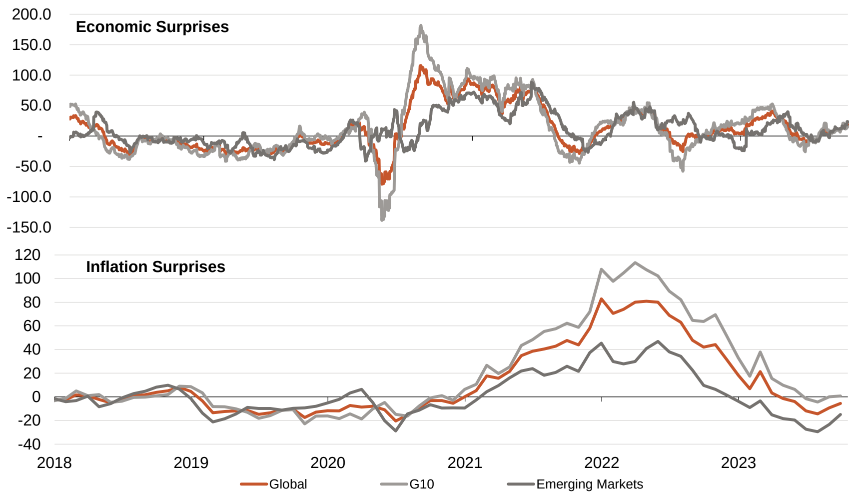
## Volatility and Value-at-Risk of the S&P 500




- Realised volatility has risen gradually since the end of July and thus follows the higher implied volatility.
- The value-at-risk, on the other hand, has actually fallen in the same period, because even though there have been more fluctuations in equity markets recently, extreme daily movements have so far not occurred.

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 - 20/10/2023

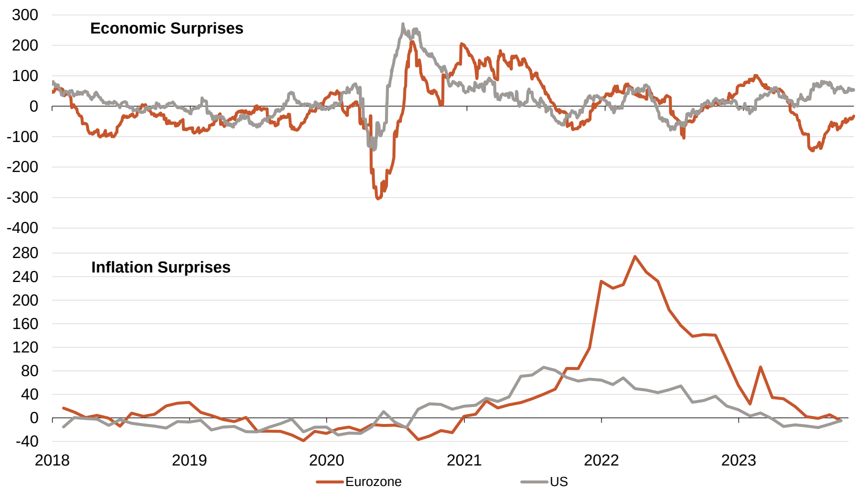
## Global




- The global economic surprises continue to be positive. Figures in China (GDP growth, industrial production, retail sales) and India (industrial production) drove the positive surprises in the emerging markets. The developed economies' economic surprise index received tailwinds from the US (retail sales, industrial production) and Italy (industrial production).
- Inflation surprises continue to show a mixed picture, with negative surprises in Italy, Brazil and Canada and positive ones in the US and the UK.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 20/10/2023

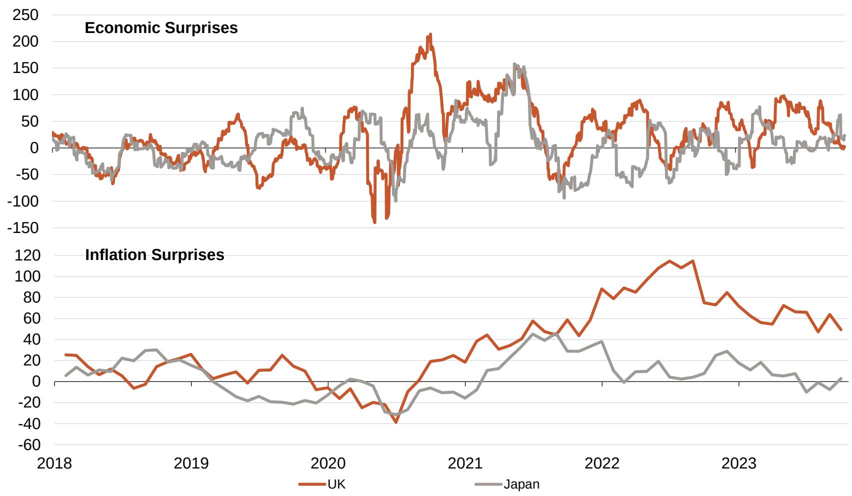
## Eurozone and US




- In the eurozone, industrial production surprised on the upside, while in Germany the ZEW Economic Sentiment Index came in better than expected at its highest level since May of this year. In the US, initial jobless claims and housing starts came in below expectations, while the Empire State manufacturing index and inventories came in above expectations.
- In the US, the September inflation rate came in slightly above expectations, while in Europe the inflation rate came in without surprise.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 20/10/2023

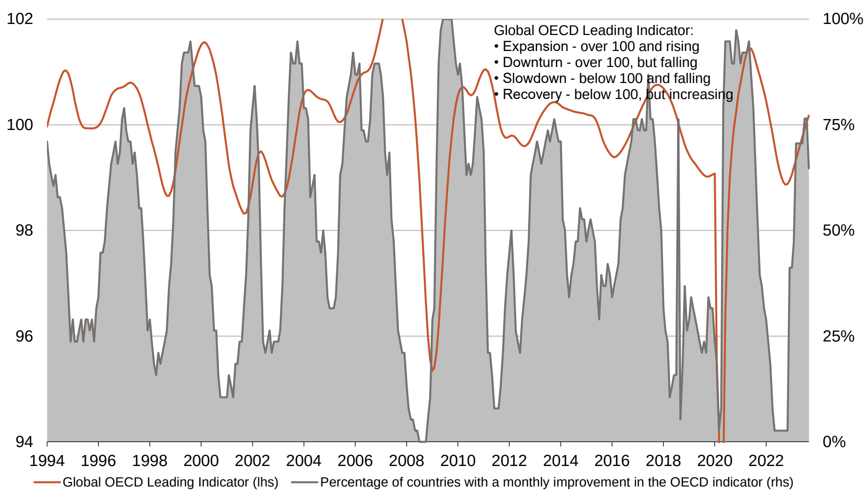
## UK and Japan




- In the UK, industrial production surprised negatively, and retail sales also came in below expectations.
- The consumer price index was above expectations in September, and in Japan the September core inflation rate was higher than expected.

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 - 20/10/2023

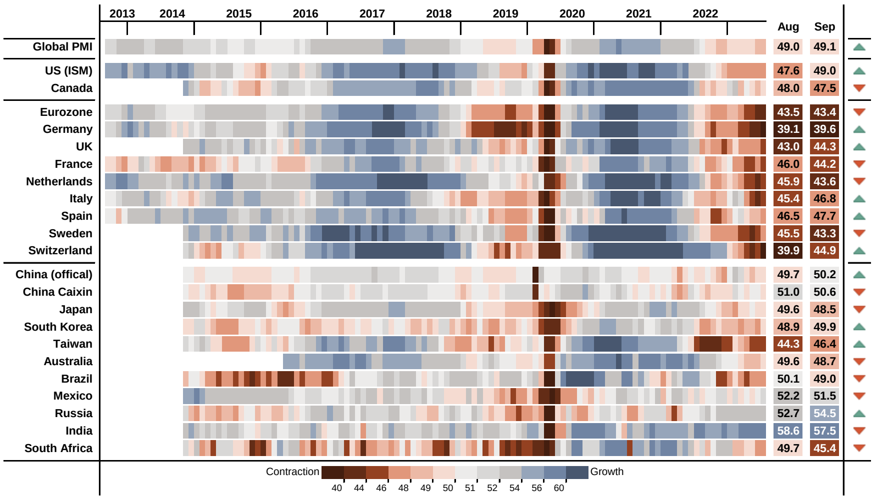
## OECD Leading Indicator




- The OECD leading indicator is now showing an upward trend for the 12th month in a row and has remained above the 100 mark for two months. This means that the global economy is expanding.
- According to the leading indicator, 65% of the countries covered saw an improvement in economic activity in September compared to the previous month, with Australia and Germany showing a decline in economic activity.

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 - 20/10/2023

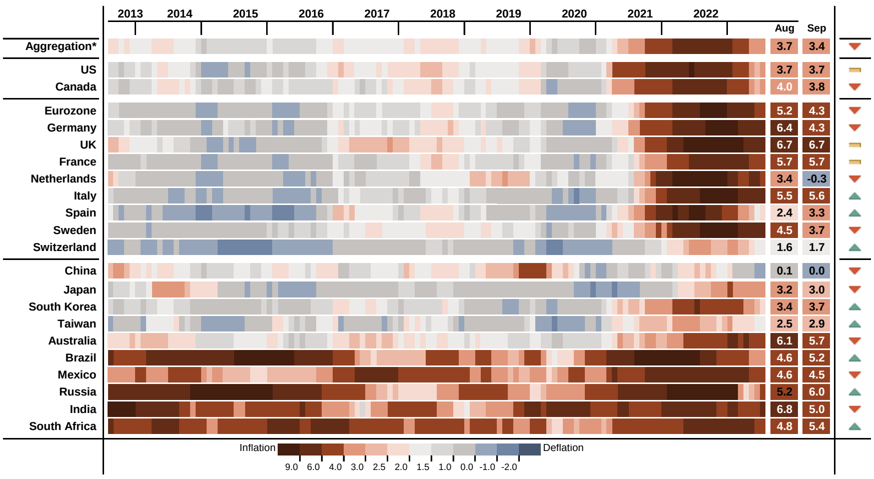
## Manufacturing Purchasing Managers Index (Manufacturing PMI)




- Global PMI figures showed a mixed picture in September. While the Purchasing Managers Index in the Eurozone fell slightly, the PMI in the US rose compared to the previous month. In the UK, the PMI came in above the previous month's reading, whereas the PMIs in Canada and Japan fell.

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: 20/10/2013 - 20/10/2023

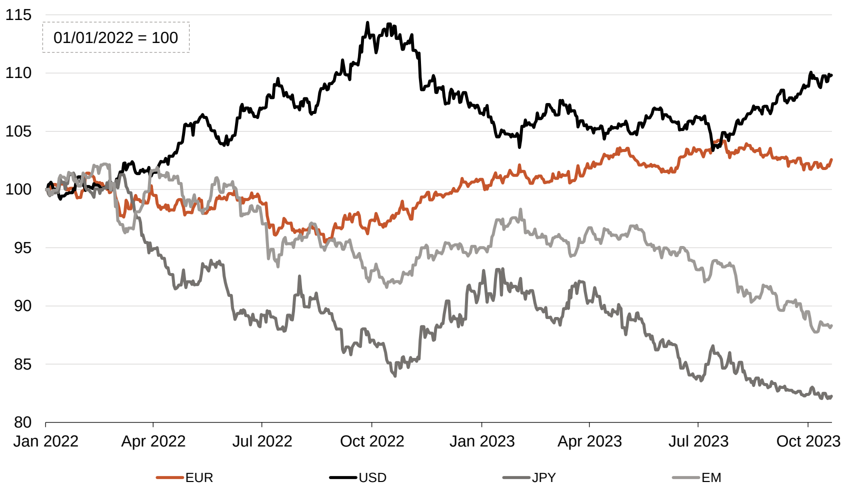
## Headline Inflation




- The final inflation figures for September show a heterogeneous picture of the global inflation struggle. In Germany, prices for energy products contributed significantly to the decline in the inflation rate, whereas in Italy they were the dominant drivers of the increase in the inflation rate. In France, higher energy prices were offset by lower food prices.

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: 20/10/2013 - 20/10/2023

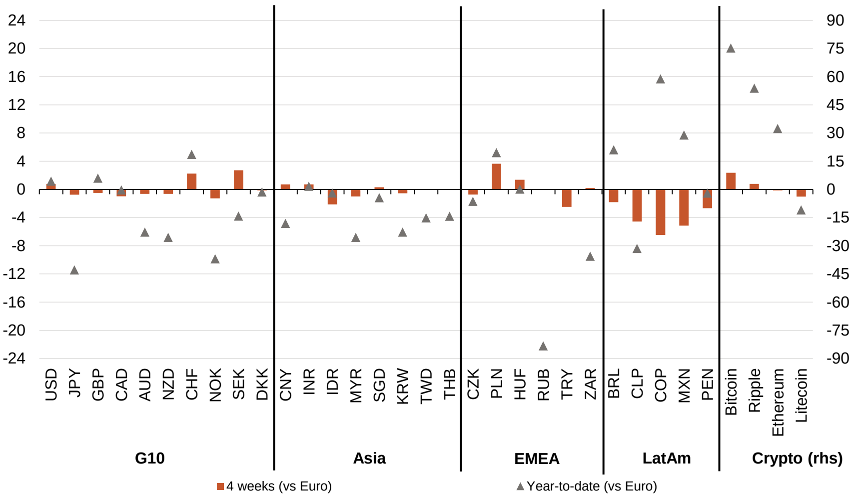
## Trade-Weighted Currency Development




- The conflict in the Middle East provided additional tailwind for the US dollar over the past two weeks, which serves as a safe-haven currency for investors in times of war and crisis. The euro moved sideways on a trade-weighted basis.
- On the other hand, emerging markets and the Japanese yen recorded further losses. Economic concerns in China weighed on the renminbi, and in Japan the USDJPY exchange rate continues to hover around the important 150 mark.

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 - 20/10/2023

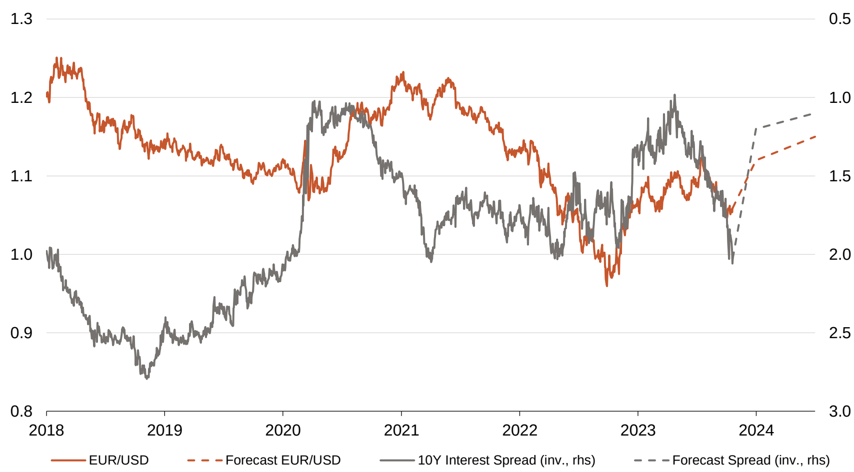
## Currency Moves vs Euro




- Latin American currencies were the weakest over the last month. Falling inflation rates and weaker economic data weighed on Latin American currencies.
- The Australian dollar posted losses after a stronger-than-expected fall in inflation. The Polish złoty gained strongly following the results of the parliamentary election and thus ahead of the upcoming change of government in Poland. Lower inflation data in Canada weighed on the Canadian dollar.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2022 - 20/10/2023

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




- The interest rate differential between US and German government bonds reached a new high of over 2.0 pp in the last two weeks. Higher than expected inflation data and a robust labour market increase the likelihood of a "higher for longer" scenario in the US.
- The EURUSD exchange rate remained volatile and fluctuated around the 1.055 level.

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

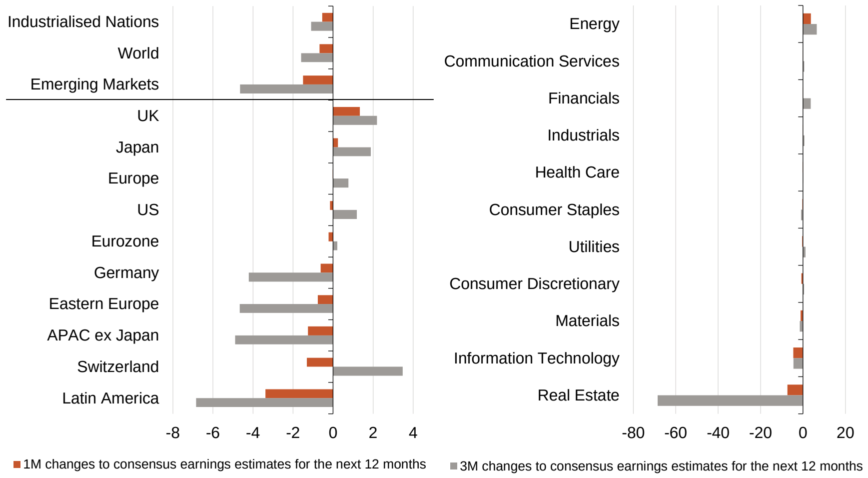
| | 4W (22/09/23 - 20/10/23) | YTD (30/12/22 - 20/10/23) | 20/10/22 20/10/23 | 20/10/21 20/10/22 | 20/10/20 20/10/21 | 20/10/19 20/10/20 | 19/10/18 20/10/19 |
|---|---|---|---|---|---|---|---|
| | 4-week & YTD | | 12-month periods over that last 5 years | | | | |
| Energy | 2.2 | 14.6 | 19.2 | 23.6 | 87.2 | -47.3 | -6.7 |
| Communication Services | -3.0 | 9.8 | 14.4 | -29.0 | 39.7 | 16.2 | 15.8 |
| Health Care | -3.2 | 5.5 | 11.3 | -4.0 | 18.1 | 7.7 | 14.5 |
| Value | -4.0 | 6.7 | 15.3 | -6.3 | 35.9 | -19.8 | 5.8 |
| Finance | -4.1 | 9.0 | 19.9 | -11.2 | 53.5 | -25.9 | 6.8 |
| Growth | -4.3 | 3.4 | 8.7 | -17.3 | 27.2 | 8.0 | 17.1 |
| Consumer Staples | -4.3 | -1.4 | 1.3 | -3.0 | 12.8 | -2.4 | 16.0 |
| Telecommunications | -4.7 | 7.2 | 8.6 | -11.9 | 20.5 | -22.7 | 10.7 |
| Industrials | -4.8 | 5.8 | 14.4 | -18.5 | 32.5 | 4.1 | 16.1 |
| Materials | -5.0 | -4.0 | 2.7 | -10.2 | 32.6 | 6.1 | 7.7 |
| Utilities | -5.8 | 0.6 | 12.2 | -13.0 | 9.7 | 9.1 | 27.6 |
| Consumer Discretionary | -7.1 | 4.4 | 13.3 | -21.0 | 36.1 | -0.4 | 16.3 |

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.

- Within European equities, only energy stocks shone over the last four weeks. The escalating conflict in the Middle East fuelled supply concerns and caused the oil price to rise.
- Cyclicals, on the other hand, were left behind – the uncertainty surrounding the geopolitical tensions and the accompanying concerns about economic consequences exerted pressure.

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: 19/10/2018 – 20/10/2023

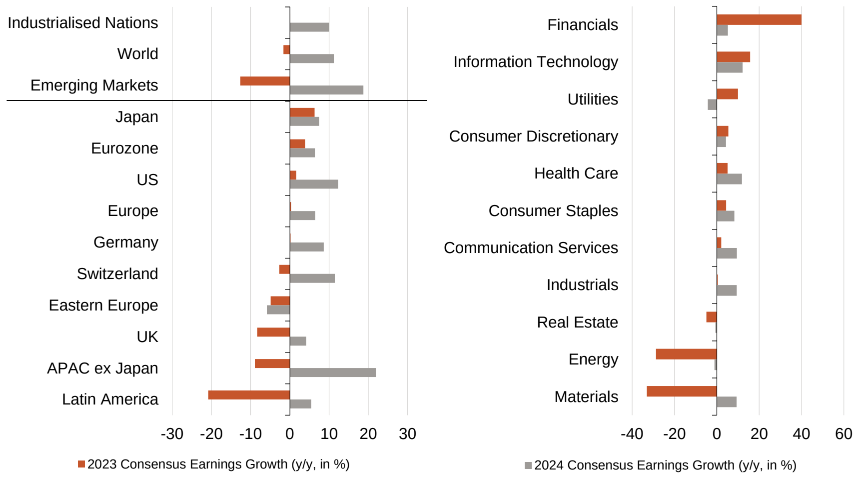
## Changes in Consensus Earnings Estimates




- Regionally, the UK in particular saw significant earnings revisions, while Germany, Asia and Latin America saw falling earnings forecasts. Due to its index sector structure, the UK benefits disproportionately from rising interest rates and commodity prices.
- It is therefore not surprising that at the sector level only energy stocks experienced positive earnings revisions.

1-month and 3-month changes in consensus earnings estimates for the next 12 months of the regional and Europe sector MSCI indices, in per cent.
Source: FactSet, as of 19/10/2023

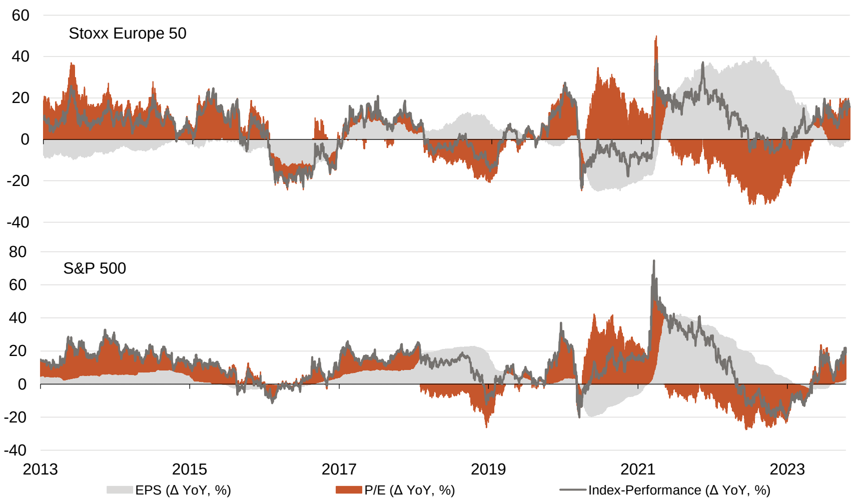
## Earnings Growth




- Higher real yields coupled with economic worries are putting a cap on earnings growth in industrialised countries this year. For the emerging markets, analysts expect a significant drop in profits, mostly driven by Asia and Latin America.
- For next year, analysts remain extremely optimistic - more than 10 % expected profit growth on a global level.

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 19/10/2023

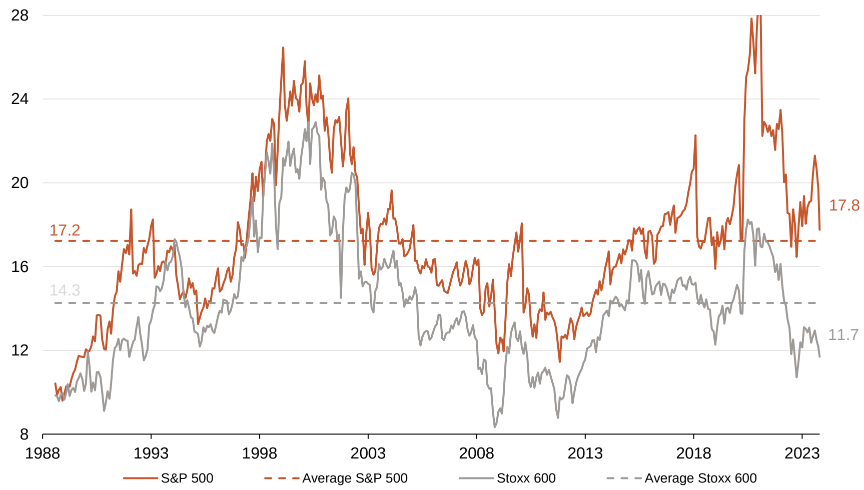
## Contribution Analysis




- Over the past twelve months, the equity markets have been driven primarily by valuation expansion.
- Recently, however, earnings estimates in the US have also provided some support. In Europe, at least, they have recently ceased to be a notable burden.

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 – 19/10/2023

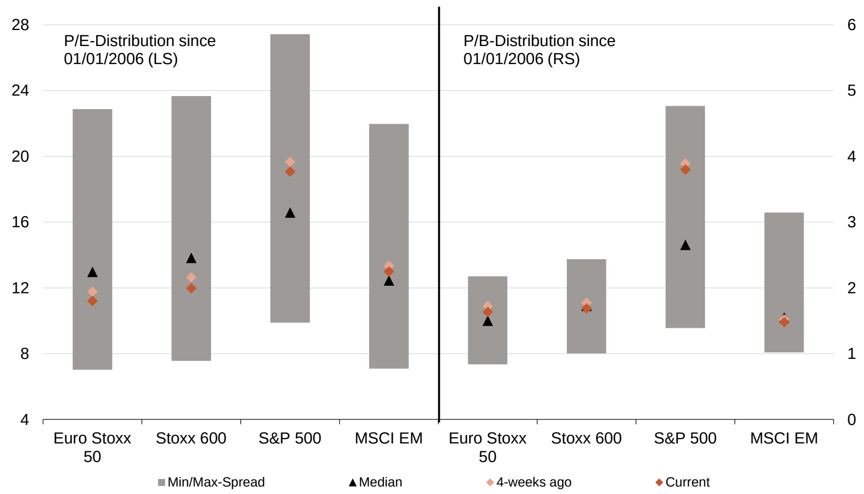
## Price-Earnings Ratio (P/E Ratio) of European and US Equities




- The strong rise in real interest rates has now left its mark on equity valuations. As a result, there has been a strong deflation in valuations – European equities are now as cheaply valued as they were at the end of last year or the beginning of 2013.
- US valuations have also fallen sharply, but remain slightly above their 35-year historical average.

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 – 20/10/2023

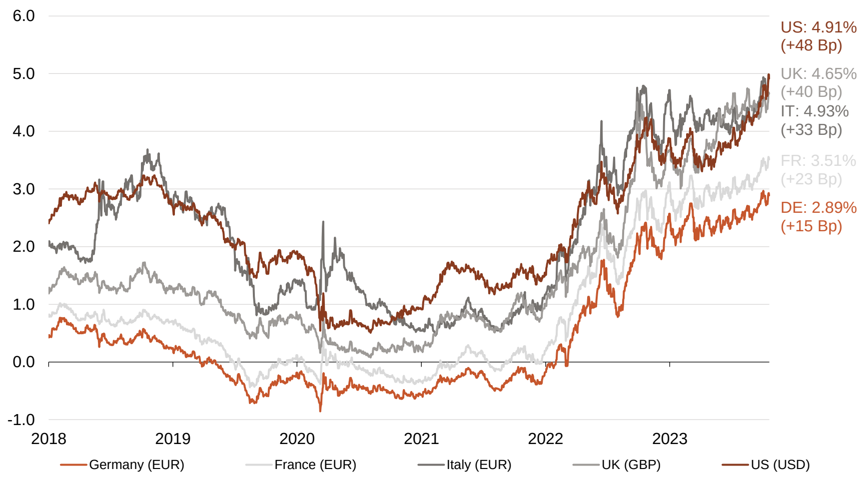
## Historical Distribution: Price/Earnings and Price/Book Ratio




- Higher interest rates have led to a narrowing of valuations for all equity regions listed here. Compared to their own history, European and emerging market equities are fairly valued on both a P/E and P/B ratio basis.
- US equities continue to be the exception and remain expensive by historical standards.

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 – 20/10/2023

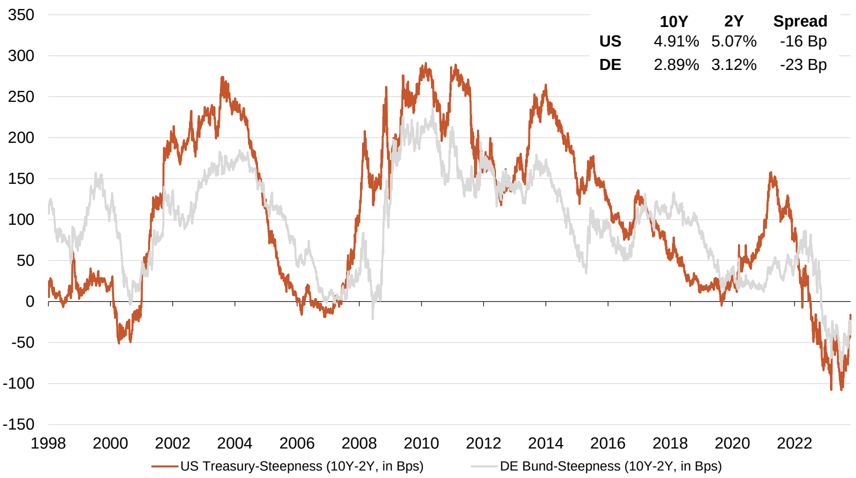
## 10-Year Government Bond Yields




- The trend of rising yields was only briefly interrupted. After safe government bonds briefly experienced a tailwind due to increased demand for security as a result of the Israel war, the rise in yields recently continued.
- The "cautiously restrictive" US interest rate policy and the stronger focus on household deficits caused yields to rise. At just under 5%, US yields are as high as they were last in 2007.

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 – 20/10/2023

## Yield Curve Steepness (10Y - 2Y)

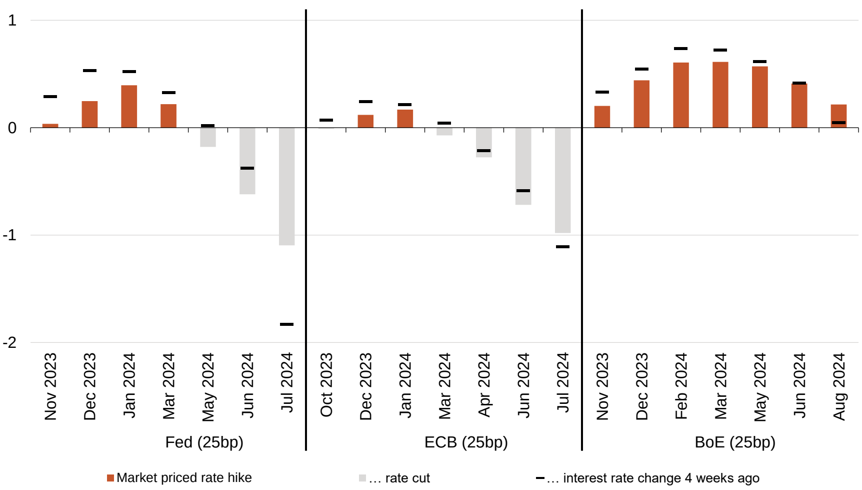



| | 10Y | 2Y | Spread |
|---|---|---|---|
| US | 4.91% | 5.07% | -16 Bp |
| DE | 2.89% | 3.12% | -23 Bp |

- The US yield curve steepened over the last two weeks as interest rates rose more at the long end than at the short end. The interest rate differential between two-year and 10-year US government bonds fell from 28bp to 16bp over the same time period.

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 – 20/10/2023

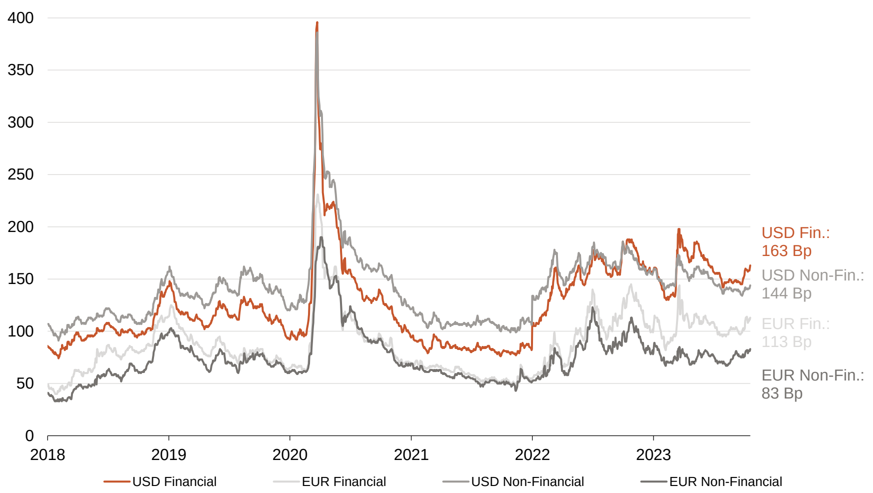
## Implicit Changes in Key Interest Rates




- The market is currently not expecting another rate hike at the Fed's upcoming November meeting.
- In the run-up to the meeting, Fed chair Jerome Powell signalled last week that the 2% inflation target remains the top priority, but also that no rate hike is likely in November for the time being. Further rate hikes would not be ruled out, however, as there is little to suggest that current monetary policy is too tight.

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 – 20/10/2023

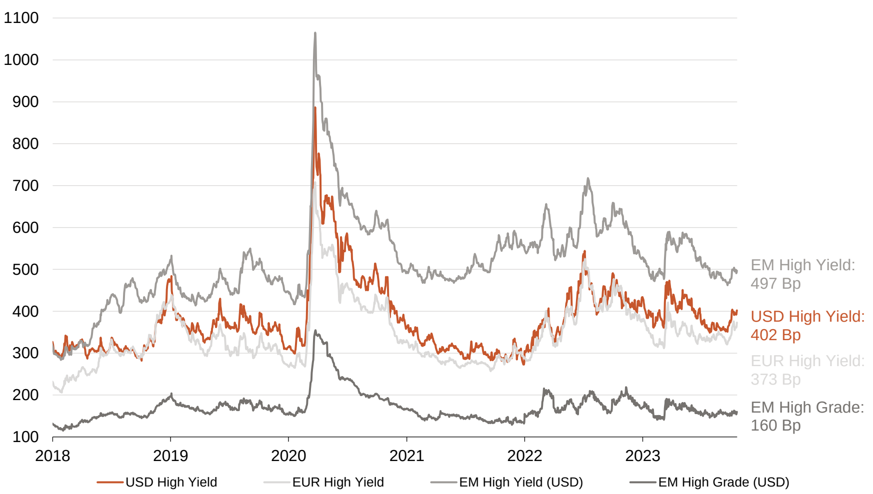
## Credit Spreads Financial and Non-Financial Bonds




- The risk premiums on IG corporate bonds have recently lost most of their momentum after the sharp rise at the beginning of the month. The risk premiums have only risen marginally.
- For example, spreads on USD financial bonds rose by 4bp over the last two weeks, while spreads on EUR financial bonds rose by only 1bp.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 – 19/10/2023

## Credit Spreads High Yield and Emerging Markets Bonds




- Spread widening in high-yield bonds also lost momentum.
- USD high-yield bonds saw a slight spread widening with an increase of 3bp, EUR high-yield bonds even experienced a slight spread narrowing over the last two weeks.

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 – 19/10/2023

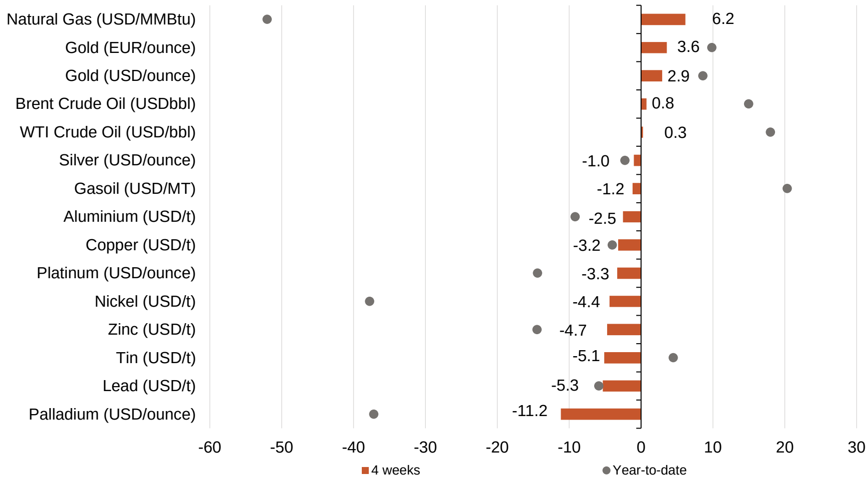
## Bond Segments Overview

| | Key figures | | | Asset Swap Spread | | | Total Return (%, local) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Yield (in %) | Δ-1M | Modified Duration | Spread (Bps) | Δ-1M | 10Y-Percentile | 1M | YTD | 19/10/22 19/10/23 | 19/10/21 19/10/22 | 19/10/20 19/10/21 | 19/10/19 19/10/20 | 19/10/18 19/10/19 |
| **EUR Government** | 3.52 | 0.03 | 6.9 | - | - | - | -0.3 | 0.0 | -1.3 | -18.2 | -3.0 | 2.8 | 11.2 |
| **Germany** | 2.85 | -0.06 | 7.1 | - | - | - | 0.2 | -0.6 | -2.6 | -16.4 | -3.7 | 1.9 | 6.1 |
| **EUR Corporate** | 4.52 | 0.04 | 4.4 | 91 | 7 | 82 | 0.0 | 2.5 | 4.1 | -16.0 | 0.1 | 1.6 | 5.7 |
| **Financial** | 4.78 | 0.09 | 3.7 | 109 | 12 | 88 | -0.1 | 2.7 | 4.6 | -14.1 | 0.4 | 1.3 | 5.3 |
| **Non-Financial** | 4.35 | 0.02 | 4.8 | 80 | 4 | 75 | 0.0 | 2.4 | 3.7 | -17.0 | -0.1 | 1.8 | 5.8 |
| **EUR High Yield** | 7.79 | 0.45 | 3.0 | 360 | 39 | 71 | -0.7 | 5.8 | 10.0 | -15.3 | 7.5 | 0.5 | 6.2 |
| **US Treasury** | 4.88 | 0.13 | 6.0 | - | - | - | -1.2 | -1.9 | -1.2 | -14.4 | -3.5 | 8.1 | 11.1 |
| **USD Corporate** | 6.16 | 0.24 | 6.5 | 147 | 7 | 68 | -1.5 | 0.2 | 3.4 | -19.4 | 1.0 | 8.4 | 14.0 |
| **Financial** | 6.39 | 0.23 | 4.8 | 158 | 12 | 88 | -1.0 | 1.2 | 4.4 | -16.4 | 0.9 | 8.1 | 12.4 |
| **Non-Financial** | 6.05 | 0.24 | 7.3 | 141 | 4 | 58 | -1.7 | -0.3 | 3.0 | -20.8 | 1.0 | 8.6 | 14.7 |
| **USD High Yield** | 9.22 | 0.54 | 3.9 | 396 | 41 | 62 | -1.5 | 5.2 | 7.3 | -13.1 | 9.6 | 3.6 | 7.6 |
| **EM High Grade** | 6.33 | 0.20 | 5.0 | 161 | 9 | 34 | -1.2 | 0.8 | 4.3 | -17.8 | 1.1 | 5.1 | 11.6 |
| **EM High Yield** | 10.59 | 0.48 | 3.7 | 499 | 34 | 39 | -1.4 | 2.2 | 11.8 | -24.0 | 4.0 | 5.3 | 9.9 |

- The one-month performance is negative across all bond segments shown here.
- Since the beginning of the year, EUR high-yield bonds are still the strongest bond segment at 5.8%, while US government bonds bring up the rear.

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 : 20/10/2017 – 19/10/2023

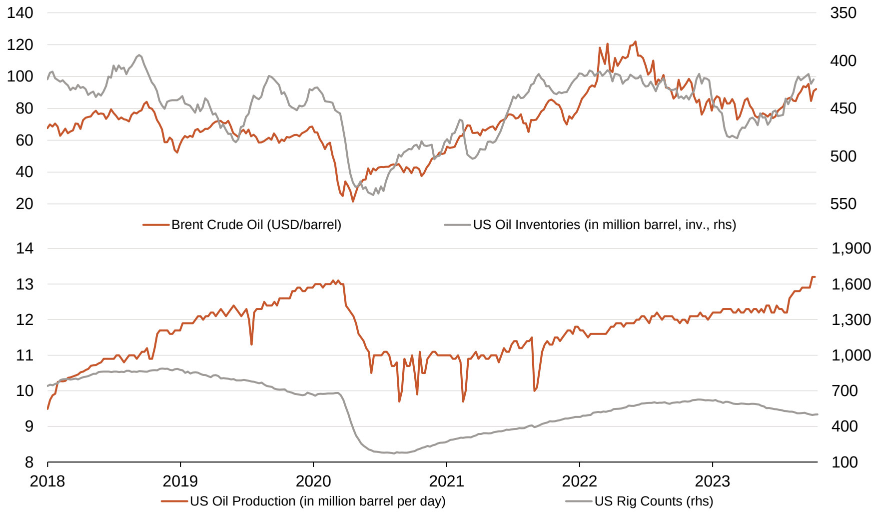
## Commodities Performance




- The flare-up of the conflict in the Middle East was particularly noticeable on the commodity markets.
- Gold, as a safe haven, benefited from the increased uncertainty and energy commodities from the concerns about possible consequences for global supply.
- Industrial metals, on the other hand, suffered from the drop in risk appetite and the potential consequences for the global economy.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2022 - 20/10/2023

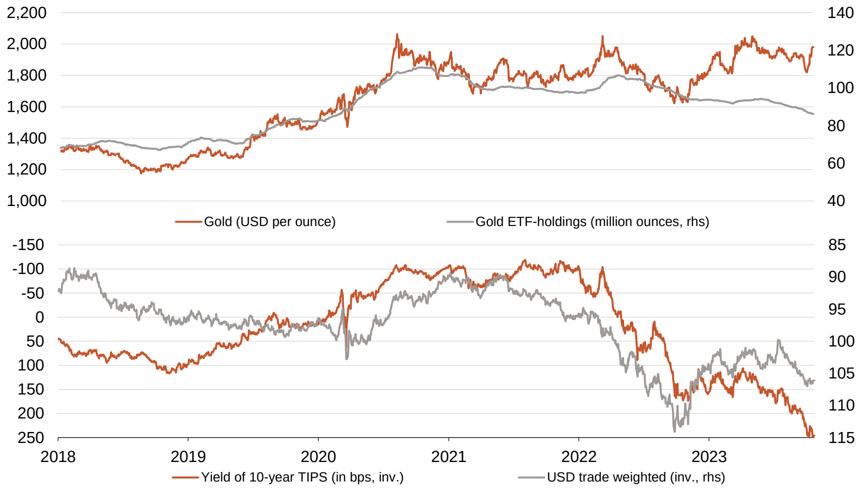
## Crude Oil




- After a few weeks of demand concerns, the conflict between Israel and Hamas has recently dominated the oil market.
- Due to the geographical but also political proximity to the hotspot of important OPEC members such as Saudi Arabia and Iran, investors fear consequences for the already scarce global oil supply.

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 - 20/10/2023

## Gold




- Gold has rallied considerably since the beginning of October to over USD 1,950 per ounce.
- Although there is a good reason for this with the escalation in the Middle East, the development is nevertheless astonishing in view of the coinciding rise in real interest rates and a firm dollar.

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 - 20/10/2023

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