BERENBERG
Markets

MONITOR

06 November 2023

Current market commentary

After equity markets fell in October due to geopolitical concerns and rising interest rates, there was a technical countermovement of the oversold markets last week. In addition to solid Q3 company results, the fact that interest rates have recently fallen significantly in some cases has helped. For example, 10-year US yields have fallen more than 50p from their October peak, supported by a slightly dovish Fed and the US Treasury, which is now increasingly looking to refinance at the short end. After the Fed meeting last Wednesday, volatility also came down as it often does as uncertainty eased. The VIX fell from 21 to 15, forcing systematic investors back into the market. We leveraged the sell-off at the end of October to reduce our equity underweight and added to US equities. These are usually particularly supported by increased share buyback programmes at the end of the year. Fundamentally, however, we remain sceptical.

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

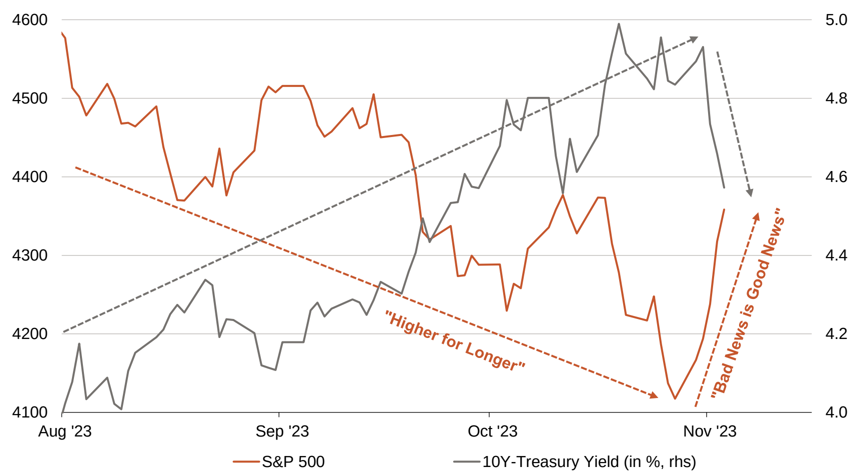
Calm on the central bank front and conclusion of Q3 reporting season in market focus.

The next two weeks are likely to be quieter on the (monetary) policy front. The major central banks will not meet again until mid-December, and the political scene will only get exciting on 13/14 November at the Asia-Pacific Economic Cooperation (APEC) 2023 summit. In the markets, the bulk of the S&P 500 companies should have completed the Q3 reporting season in the next two weeks. After that, US corporate file buyback programmes are likely to pick up steam.

PMIs and labour market data in investors' sights.

The October Purchasing Managers' Indices (PMIs) for the eurozone countries are due today. Data on German industrial production (Sep.) and the US trade balance (Sep.) will follow on Tuesday. On Thursday, US initial jobless claims (4 Nov) provide insights into the US labour market. Friday will see GDP figures (Q3) for the UK and preliminary US consumer confidence from the University of Michigan (Nov.).

So no „higher for longer"?



- Following recent weaker economic data and subsequently less hawkish central banks, interest rates have fallen significantly and the stock markets have risen sharply. So instead of "higher for longer", "bad news is good news" has once again been the order of the day. However, the rally is likely to have been driven not least by short covering.
- Even if less interest rate pressure is good for equities in the short term, the poorer macro data should not be cause for euphoria. Bad news remains bad in the medium term.

Source: Bloomberg, Time period: 30/09/2020 - 03/11/2023

Multi Asset

	4-week & YTD: 4W (06/10/23 - 03/11/23)	4-week & YTD: YTD (30/12/22 - 03/11/23)	12-month periods over that last 5 years: 03/11/22 03/11/23	03/11/21 03/11/22	03/11/20 03/11/21	03/11/19 03/11/20	02/11/18 03/11/19
Gold	7.2	9.0	11.1	9.7	-6.5	20.2	25.3
REITs	3.2	-6.4	-10.7	-13.3	35.1	-18.4	24.3
EUR Coporates	1.6	3.7	5.0	-15.6	0.4	1.3	6.1
EUR Sovereign Debt	1.5	2.3	1.0	-10.9	-1.4	1.3	5.1
Brent	1.0	7.3	-8.0	74.0	121.1	-44.2	-7.4
Euro overnight deposit	0.3	2.7	2.9	-0.4	-0.6	-0.5	-0.4
MSCI World	-0.1	12.1	7.8	-7.2	39.0	1.9	15.0
MSCI Emerging Markets	-0.3	1.2	2.7	-16.6	16.2	4.1	10.2
Industrial Metals	-0.6	-12.1	-8.3	7.0	35.7	-1.2	5.0
USDEUR	-1.3	-0.2	-9.2	19.1	0.9	-4.7	2.0
Global Convertibles	-2.2	3.1	-5.6	-14.1	28.1	24.5	7.0
MSCI Frontier Markets	-3.7	3.7	-1.2	-18.7	36.3	-7.4	11.4

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.

- Due to the ongoing military conflict in the Middle East and the associated deterioration in global risk sentiment, the price of gold recorded its strongest rise over the course of the month. The decline in real interest rates also gave the precious metal a tailwind. However, the conflict weighed on shares in the frontier markets.
- The fall in real interest rates boosted bonds in Europe and interest rate-sensitive REITs.

Total return for selected asset classes, in euros and in per-cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/11/2018 - 03/11/2023

Equities

	4-week & YTD: 4W (06/10/22 - 03/11/23)	4-week & YTD: YTD (30/12/22 - 03/11/23)	12-month periods over that last 5 years: 03/11/22 03/11/23	03/11/21 03/11/22	03/11/20 03/11/21	03/11/19 03/11/20	02/11/18 03/11/19
MSCI EM Eastern Europe	15.6	30.4	44.1	-84.5	70.2	-31.5	28.8
Stoxx Europe Small 200	1.1	1.5	7.2	-28.3	43.3	-4.3	11.1
MSCI Japan	0.9	10.7	10.2	-11.1	21.1	-2.7	10.6
Euro Stoxx 50	0.8	12.7	19.1	-14.5	41.7	-12.7	15.9
Stoxx Europe Defensives	-0.1	6.7	7.3	0.8	29.2	-10.5	15.2
Stoxx Europe Cyclicals	-0.1	8.5	14.7	-18.3	46.0	-9.6	9.4
S&P 500	-0.3	14.8	8.2	-3.6	41.9	6.7	17.2
DAX	-0.3	9.1	15.7	-17.7	32.0	-6.7	12.5
Stoxx Europe 50	-0.4	8.7	12.4	-2.7	35.9	-11.8	15.3
MSCI USA Small Caps	-0.5	2.1	-6.1	-7.7	52.3	-1.7	9.0
MSCI UK	-1.3	5.0	7.6	2.5	38.5	-22.9	8.9
MSCI EM Asia	-1.4	-0.2	4.9	-20.3	11.1	15.3	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.

- The election results and improved economic prospects in Poland drove the Eastern European share index higher last month.
- The recent sharp fall in interest rates helped eurozone equities. The weaker pound, on the other hand, weighed on the performance of British equities in euros.
- Weaker-than-expected economic data in China led to downward pressure on Asian emerging market equities, which brought up the rear last month.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/11/2018 - 03/11/2023

Fixed Income

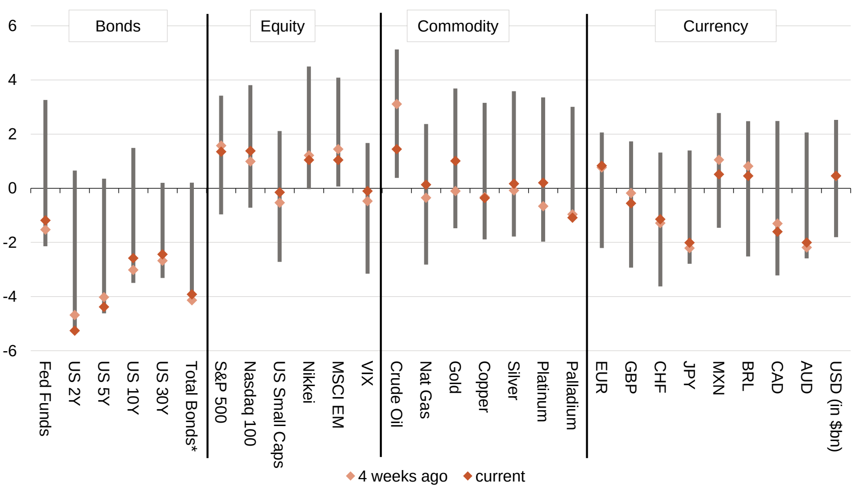
	4-week & YTD: 4W (06/10/23 - 03/11/23)	4-week & YTD: YTD (30/12/22 - 03/11/23)	12-month periods over that last 5 years: 03/11/22 03/11/23	03/11/21 03/11/22	03/11/20 03/11/21	03/11/19 03/11/20	02/11/18 03/11/19
EM Local Currency Bonds	3.1	6.3	6.4	-4.9	0.8	-8.1	16.5
BTPs	2.9	3.8	2.4	-16.9	-0.9	4.5	17.4
Gilts	2.6	-1.2	-4.3	-25.0	0.6	1.3	12.9
USD High Yield	2.5	7.2	9.6	-12.5	10.0	3.1	8.3
USD Corporates	2.0	0.9	5.9	-19.4	2.0	7.2	15.3
Bunds	1.7	0.5	-1.5	-16.4	-3.0	1.9	6.0
EUR Non-Financials	1.6	3.4	4.3	-15.9	0.1	1.6	6.5
EM Hard Currency Bonds	1.6	2.5	1.2	-9.9	4.9	-3.5	16.4
EUR Financials	1.6	4.0	5.9	-15.1	0.8	1.0	5.7
EUR High Yield	1.3	6.7	10.0	-14.0	7.9	0.1	6.2
Chinese Gov Bond	0.2	3.7	3.0	5.4	5.4	3.3	5.4
Treasuries	-0.2	-1.5	-7.6	1.8	-1.3	2.0	13.2

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 ECB's interest rate pause and thus the possible end of the cycle of interest rate hikes in the eurozone triggered a rally in European bonds. The BoE's decision to leave the prime rate unchanged also gave British government bonds a tailwind.
- Falling long-term refinancing costs for companies led to an upward trend in high-yield bonds. The somewhat weaker dollar weighed on the performance of USD government bonds in euros.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/11/2018 - 03/11/2023

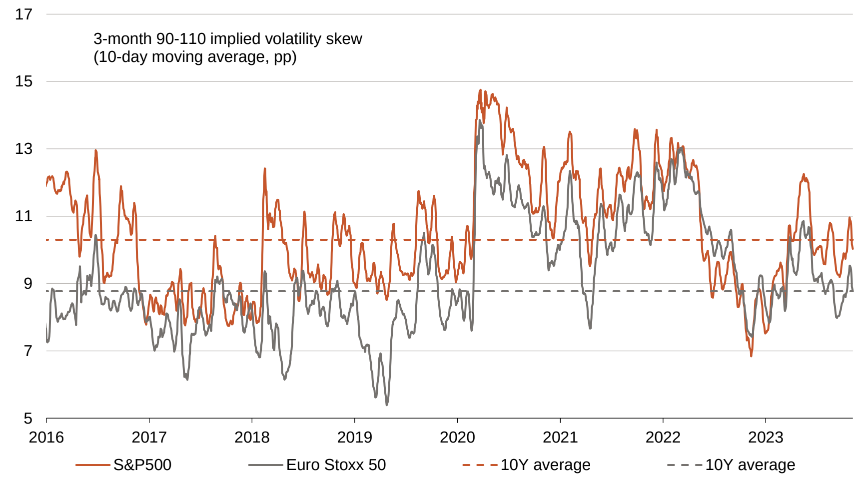
Non-Commercial Positioning



- Speculative investors have recently reduced typical value trades such as crude oil or MSCI EM and, in return, built up long positions in the growth-heavy Nasdaq 100 index.
- The significant build-up of long positions in gold indicates an increased need for security.

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: 31/10/2013 - 31/10/2023

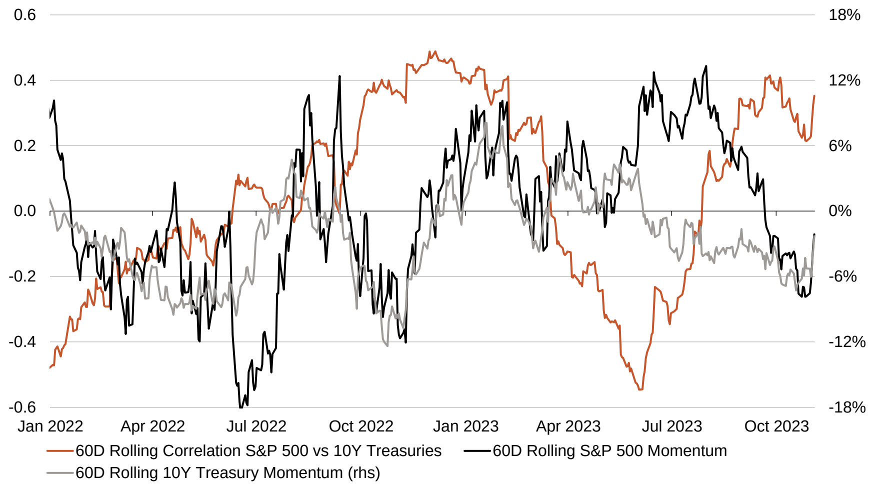
Put-Call-Skew



- The skew has recently flattened again slightly. The put skew (90-100) in particular has fallen. Investors therefore have less of a need to hedge after the correction until the end of October.
- However, there is also no sign yet of large-scale betting on a year-end rally, as the call skew (100-110) has even steepened.

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, Time period: 03/11/2013 - 03/11/2023

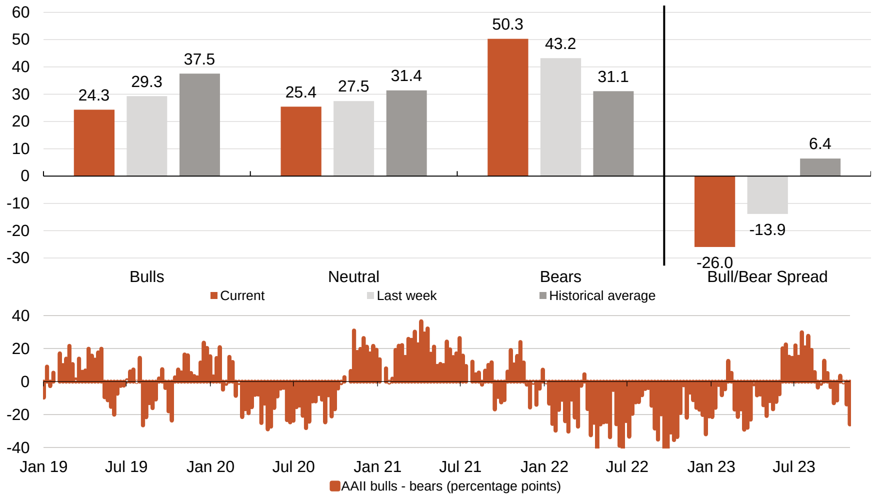
60-Day Momentum and Correlation



- Both equities and bonds have rallied in recent days. As momentum strategies are likely to be short in both asset classes, the rally could be driven further technically by short covering.
- The correlation between US equities and US Treasuries remains positive in this environment.

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 - 03/11/2023

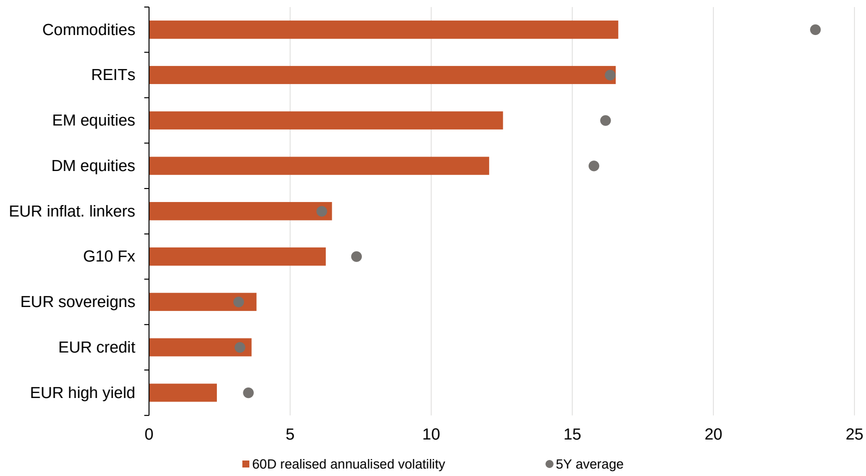
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment of US private investors has recently deteriorated considerably again. At 50.3%, the bears are in the absolute majority.
- If the positive performance in equity markets continues, then negative sentiment appears to have been a good contrarian indicator in this instance.

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 – 02/11/2023

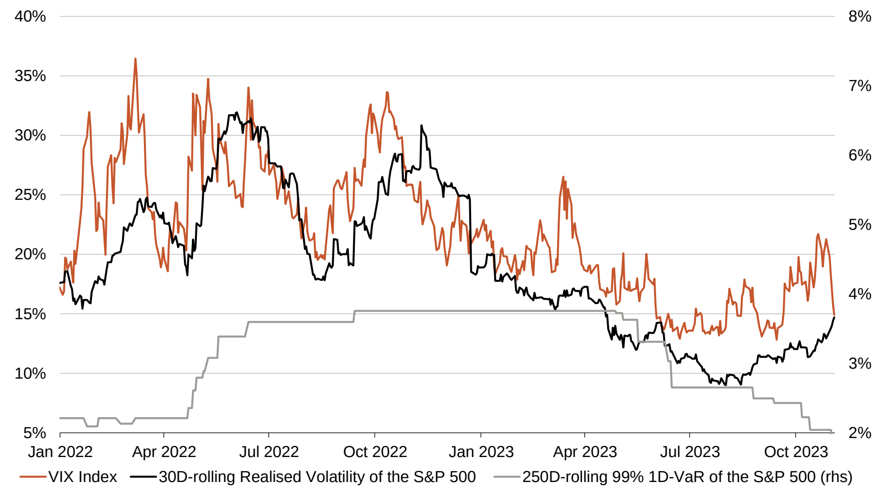
Realised Volatilities



- Realised volatilities in risk assets have risen slightly in the last two weeks.
- Nevertheless, they remain below their five-year average for most assets.
- The volatility of REITs, which typically have a high level of debt, is surprisingly low given the rise and volatility of interest rates over the past months.

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, Time period: 03/11/2018 - 03/11/2023

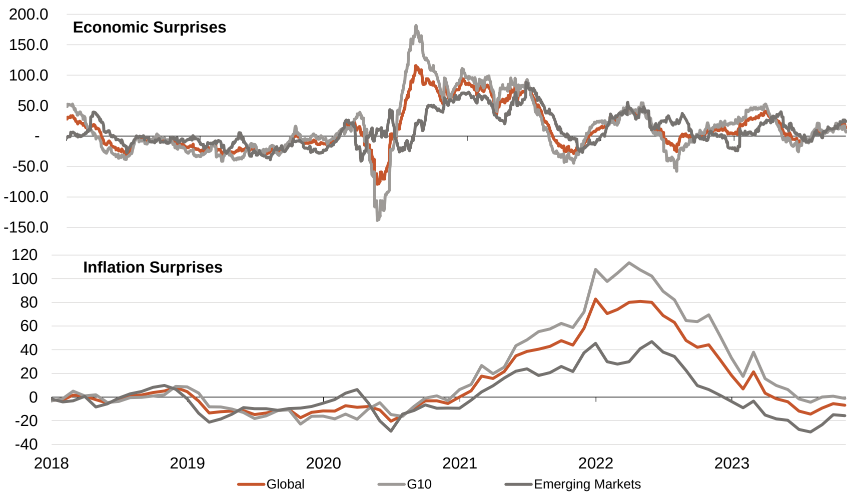
Volatility and Value-at-Risk of the S&P 500



- While realised volatility is gradually increasing, the VIX has fallen from over 20 to below 15 with the prospect of an end to the Fed's rate hike cycle.
- The movement is also in line with typical seasonality. In the last 20 years, the VIX has fallen in November 70% of the time.

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, Time period: 31/12/2021 – 03/11/2023

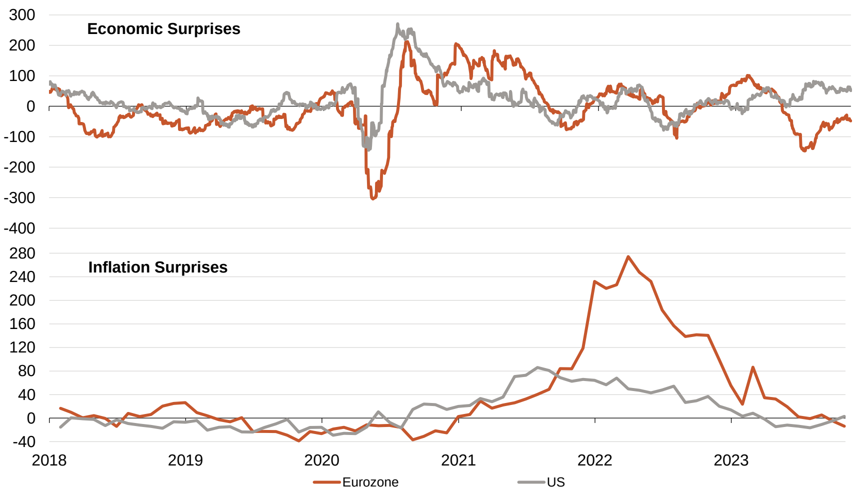
Global



- Both at a global level and in the G10 countries, the positive economic surprises diminished. PMI figures in China and Brazil were disappointing, while retail sales in Germany came in below expectations, although the IFO index surprised to the upside. In France, PMI data for the manufacturing sector disappointed, while the services index surprised to the upside.
- Inflation data in October came as an increasingly negative surprise worldwide. In South Korea, energy and food prices were the main drivers of a positive inflation surprise.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 03/11/2023

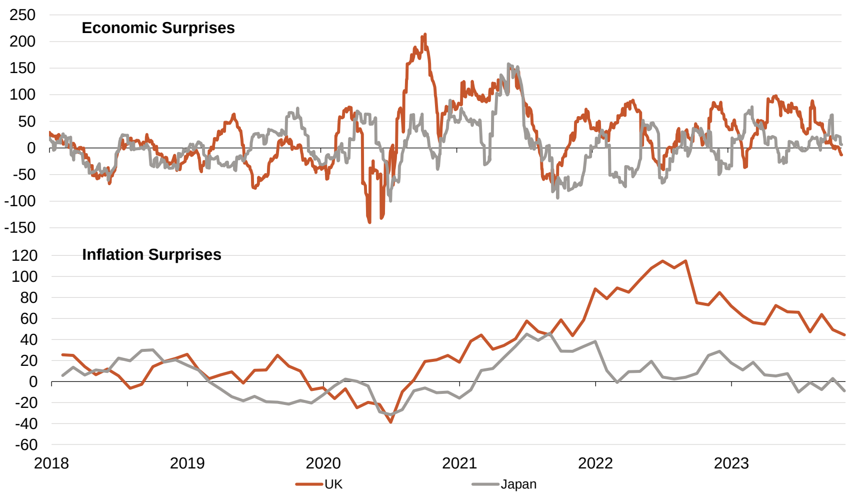
Eurozone and US



- The robustness of the US economy continues. In September, industrial orders recorded the strongest increase since the beginning of 2021, while the consumer confidence index, consumer spending, GDP growth rate and new home sales came in above expectations. In Europe, however, GDP figures for the eurozone were disappointing, with preliminary GDP growth in Germany surprising to the upside.
- Consumer prices in the eurozone came in below expectations in October, while the September core rate in the US surprised slightly on the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 03/11/2023

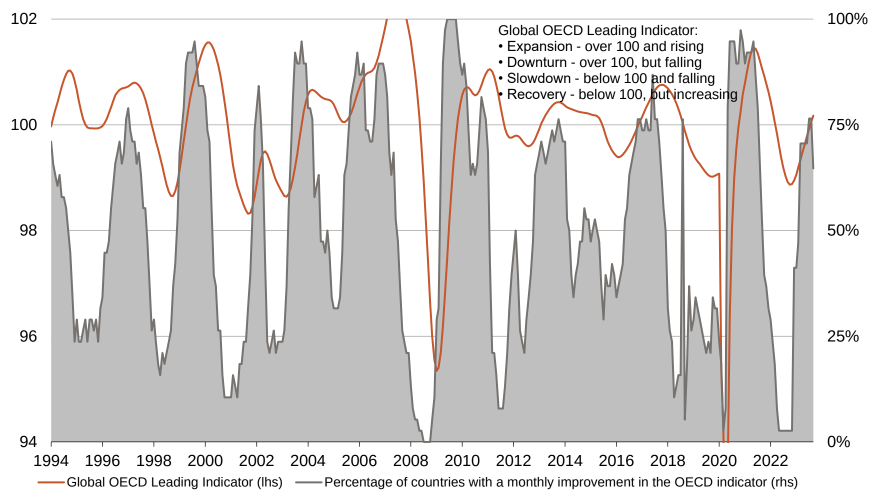
UK and Japan



- In the UK, the PMI index for the manufacturing sector exceeded expectations, although the services PMI was disappointing. In Japan, retail sales and industrial production rose more weakly than expected. The September core inflation rate in Japan surprised to the upside.

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 - 03/11/2023

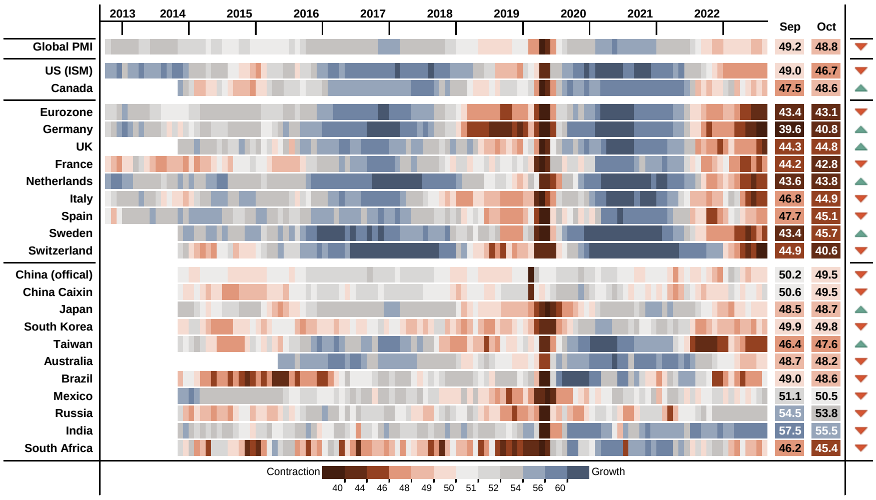
OECD Leading Indicator



- In September, the global OECD leading indicator remained above the 100 mark with a value of 100.2. This is the 12th month in a row that the indicator has shown an upward trend.
- According to the leading indicator, 65% of the countries surveyed saw an improvement in the economic situation in September compared to the previous month, with China and the UK showing the strongest increase.

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 - 03/11/2023

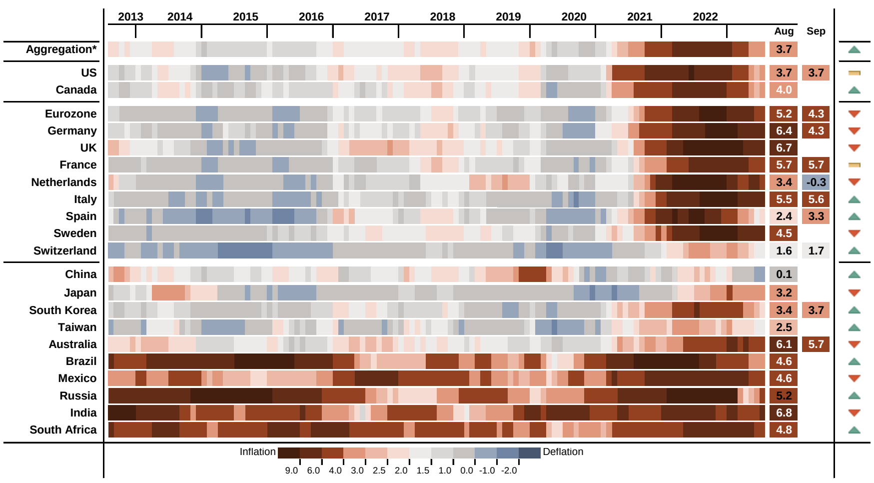
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- In October, the global PMI recorded a decline in economic activity compared to the previous month. At the country level, only Canada, Germany, Sweden, the Netherlands, the UK, Japan and Taiwan bucked the global trend.

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: 03/11/2013 - 03/11/2023

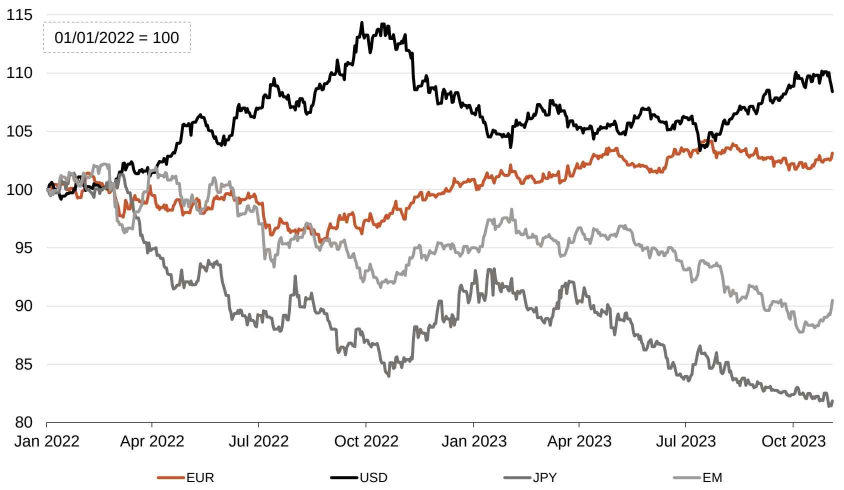
Headline Inflation



- The first inflation data for October show the success of the central banks' restrictive monetary policy. With the exception of Spain, the October inflation rate in the eurozone surprised to the downside. The Netherlands recorded deflation for the second month in a row compared to the same month last year. Lower energy prices led to a negative inflation surprise in Germany.

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: 03/11/2013 - 03/11/2023

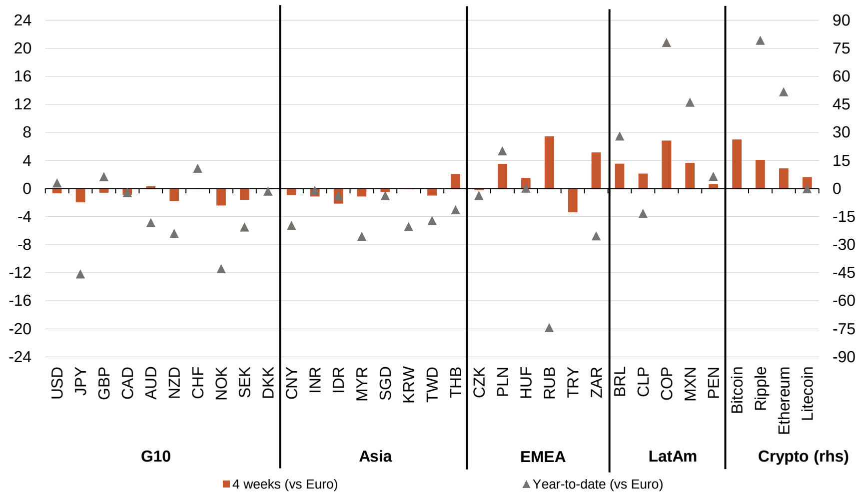
Trade-Weighted Currency Development



- The Fed's interest rate pause, the lower-than-expected volume of new issues of US government bonds and the weak PMI figures in the US have halted the upward trend of the US dollar over the past two weeks. Emerging market currencies, on the other hand, received a tailwind after the Fed's interest rate meeting.
- In Japan, the USDJPY exchange rate exceeded the important 150 mark again last week and the BoJ chief expressed his willingness to intervene if necessary.

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 - 03/11/2023

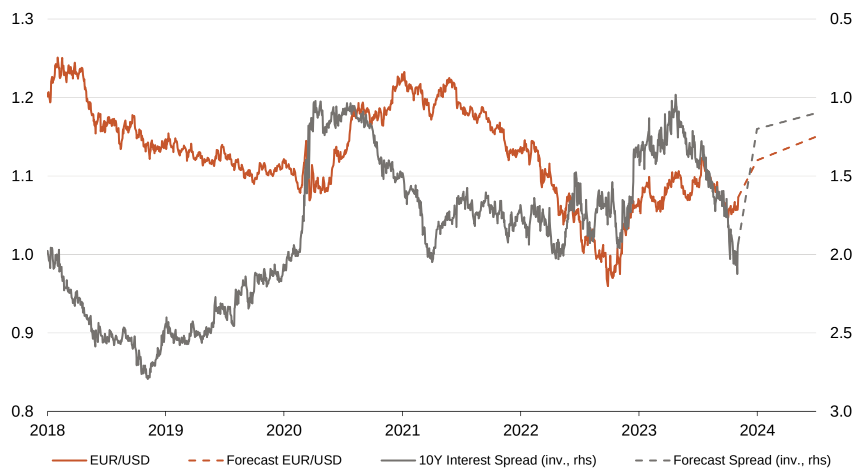
Currency Moves vs Euro



- Despite weak economic data in the eurozone and the ECB's interest rate pause, the euro held its ground against most G10 currencies last month. The Australian dollar gained following the hawkish comments by RBA chief Bullock and the better-than-expected economic data.
- The Czech central bank unexpectedly left its key interest rate unchanged, thus halting the depreciation trend of the Czech koruna. As expected, the Canadian central bank left its key interest rate unchanged.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2022 - 03/11/2023

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



- As expected, both the US Fed and the European ECB left their key interest rates unchanged after their meetings. The improved economic situation and robust labour market in the US kept the interest rate differential between US and German government bonds around the 2.00p mark.
- The EURUSD exchange rate has fluctuated around the 1.06 mark over the last two weeks.

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 (06/10/23 - 03/11/23)	YTD (30/12/22 - 03/11/23)	03/11/22 03/11/23	03/11/21 03/11/22	03/11/20 03/11/21	03/11/19 03/11/20	02/11/18 03/11/19
Utilities	6.9	5.4	11.2	-9.2	14.2	5.6	28.8
Information Technology	3.1	17.6	22.8	-32.4	62.5	3.1	17.9
Materials	2.0	1.7	8.2	-9.7	35.5	-0.1	8.1
Energy	1.9	11.2	7.8	42.5	71.0	-47.6	-0.6
Telecommunications	1.6	10.4	8.1	-7.2	20.2	-22.6	7.7
Consumer Staples	1.5	0.2	2.3	-6.5	20.6	-4.7	15.4
Growth	0.1	6.8	10.7	-19.3	36.8	1.7	18.4
Value	-0.5	8.1	12.3	-3.4	39.1	-22.0	6.9
Industrials	-1.0	9.7	14.7	-17.6	38.4	-2.6	19.4
Consumer Discretionary	-1.0	8.6	18.7	-23.7	45.3	-6.9	14.8
Finance	-1.7	10.7	18.0	-10.8	56.7	-25.6	5.4
Health Care	-4.0	4.0	4.9	-4.6	27.5	1.0	20.3

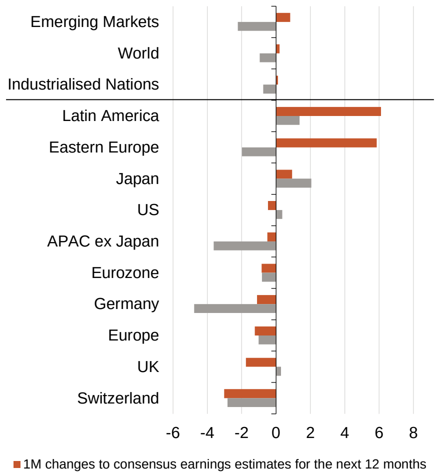
(12-month periods over that last 5 years)

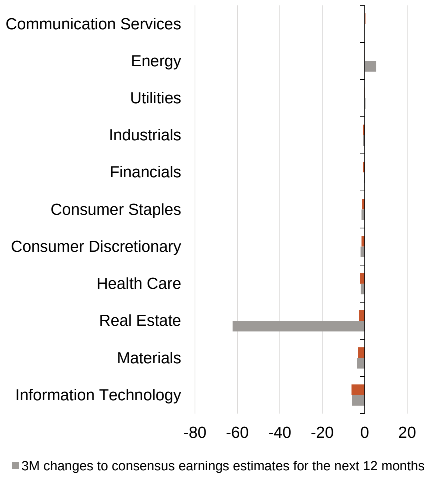
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Stables: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR; Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. NR; Materials: MSCI Europe Materials NR; Communication Services: MSCI Europe Communication Services NR; Utilities: MSCI Europe Utilities NR; Value: MSCI Europe Value NR; Growth: MSCI Europe Growth NR.

- Tech stocks have been outperformed by utilities stocks in the last four weeks. However, basic materials and energy stocks also performed positively. Growth stocks performed only marginally better than value stocks.
- Financial and healthcare stocks brought up the rear over the last four 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: 02/11/2018 – 03/11/2023

Changes in Consensus Earnings Estimates

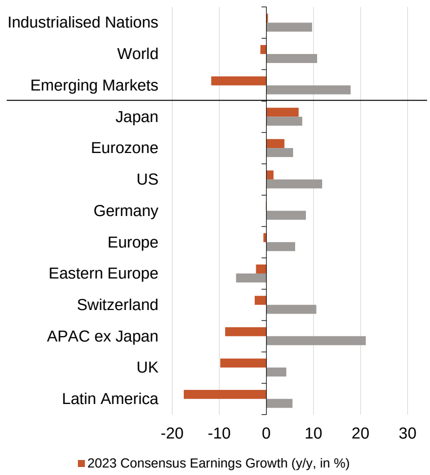


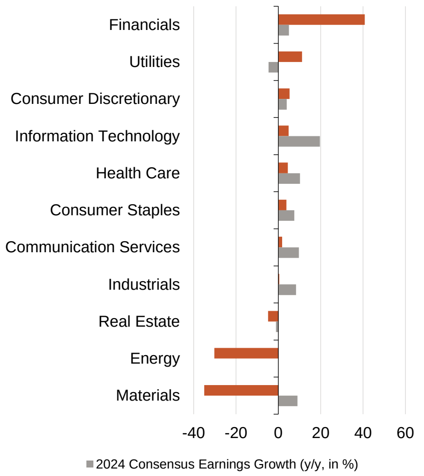


- In parallel with the fairly solid Q3 reporting season (82% of the S&P 500 companies already reported are currently beating earnings expectations), earnings revisions are positive at a global level.
- Analysts are particularly pessimistic about the earnings outlook for Switzerland and the UK. This is where the most negative earnings adjustments were made on a one-month basis.

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 03/11/2023

Earnings Growth

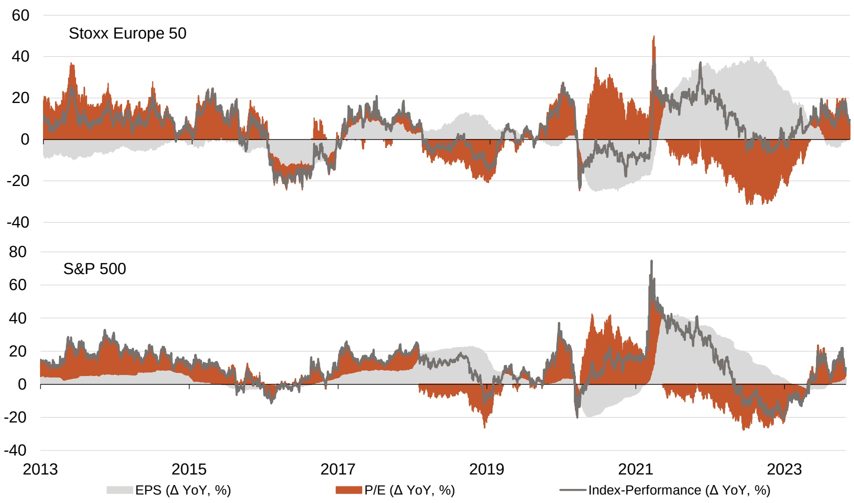




- Global earnings growth in 2023 has fallen to roughly 0% for industrialised countries. At a global level, analysts currently expect a decline in earnings of 1.3%, mainly driven by the decline in earnings in emerging markets of over 10%.
- At the sector level, the financial sector will remain the sector with the highest earnings growth rates in 2023.

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 03/11/2023

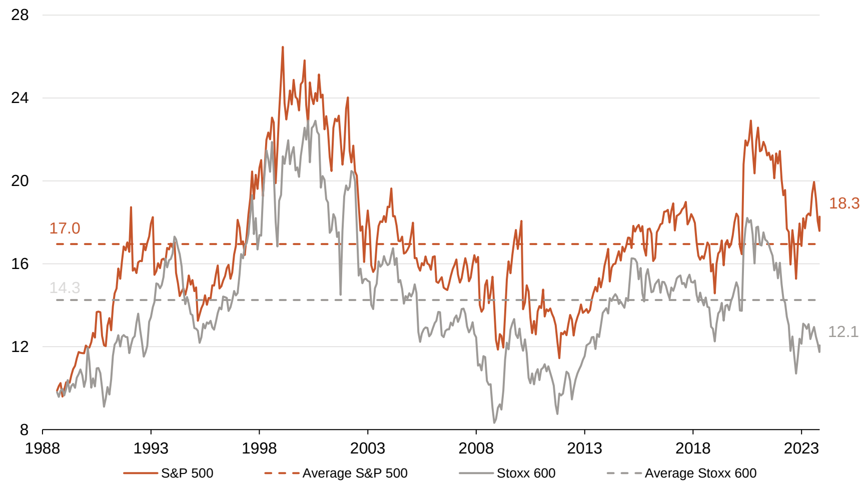
Contribution Analysis



- Earnings growth over the last 12 months has risen slightly for the S&P 500.
- At the same time, valuations have recently risen again significantly as a result of the recent decline in (real) interest rates. From a 12-month perspective, the index performance of the S&P 500 therefore remains positive.

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: 01/01/2013 - 03/11/2023

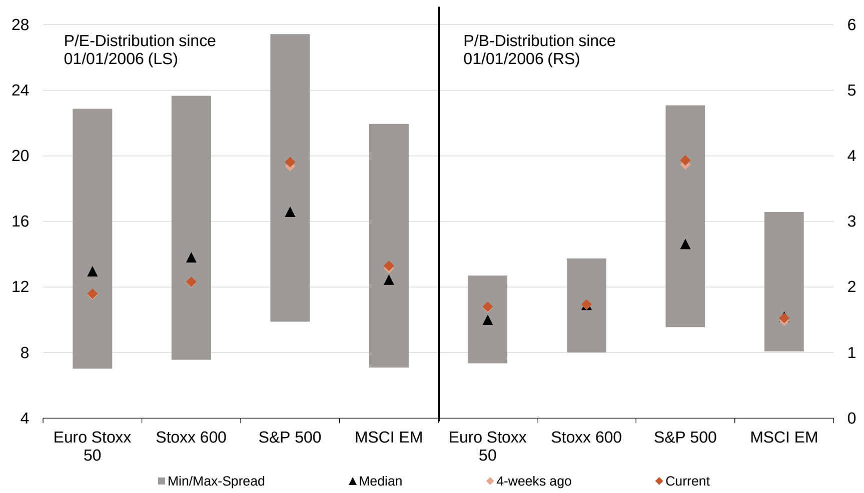
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- As a result of the fall in real interest rates – the yield on 10Y inflation-indexed Treasuries is now back at 2.18% – the P/E ratio of the S&P 500 has widened over the last week.
- The Stoxx 600 experienced a similar, albeit less pronounced movement. Here, the P/E ratio has been below the historical average for months.

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 - 03/11/2023

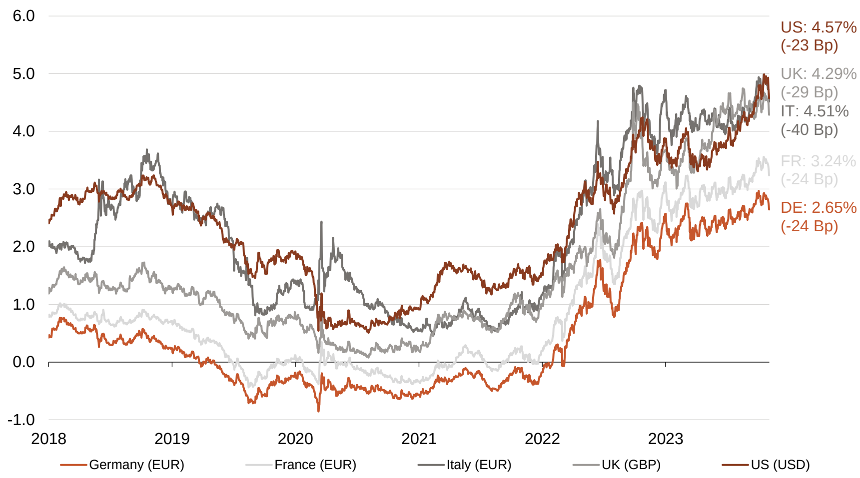
Historical Distribution: Price/Earnings and Price/Book Ratio



- On a four-week view, there was hardly any movement in the valuation ratios.
- European equities remain historically cheap on a P/E basis, while the S&P 500 and the MSCI EM remain expensive compared to the historical median P/E ratio 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 - 03/11/2023

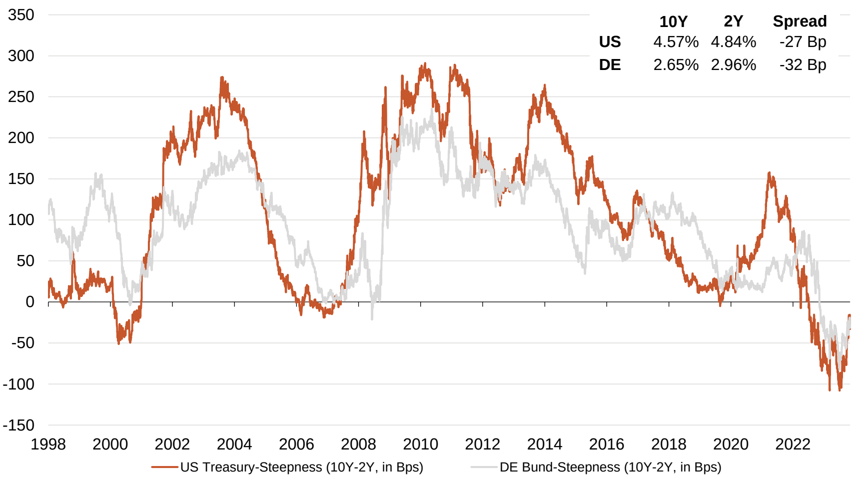
10-Year Government Bond Yields



- Recently, yields on safe government bonds have fallen significantly. The yield on 10Y US government bonds, for example, has fallen by more than 20 basis points over the last four weeks.
- Poorer US economic data, dovish Fed comments and the US Treasury department's announcement of fewer bond issues at the long end and more at the short end than previously expected were the dominant drivers.

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 - 03/11/2023

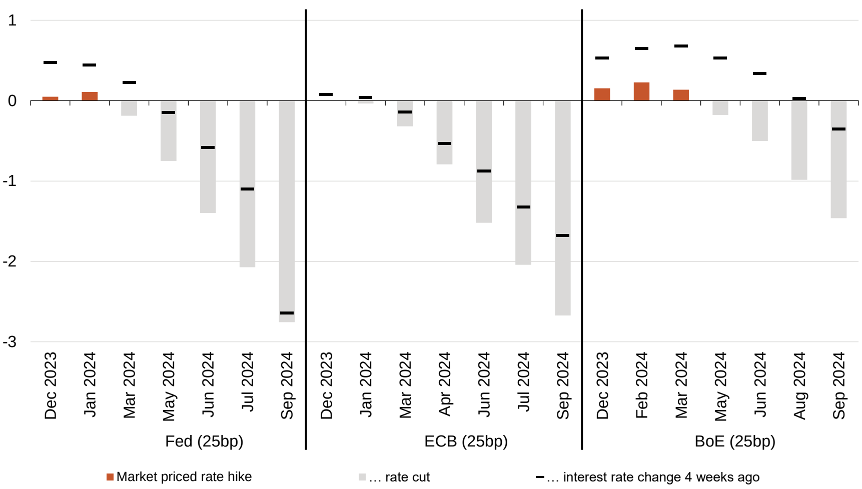
Yield Curve Steepness (10Y - 2Y)



- Over the last two weeks, yields at the long end have fallen more sharply than at the short end.
- The interest rate differential between 2-year and 10-year US government bonds fell from -16 to -27 basis points 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 - 03/11/2023

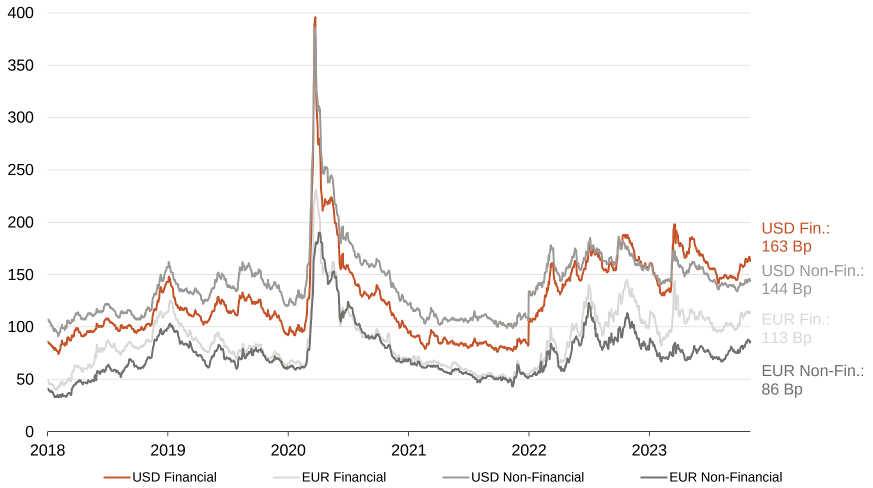
Implicit Changes in Key Interest Rates



- The US Fed left key interest rates unchanged at its meeting last week, in line with market expectations. Fed Chairman Powell was more dovish, confirming a tightening of financial conditions but also signaling that signs of strong growth could justify further rate tightening.
- The market now expects the Fed to cut interest rates more significantly next year.

Derivatives on money market interest rates - such as the fed funds futures - can be used to determine the change (number of steps) in the key interest rate priced by the market.
Source: Bloomberg, Time period: 17/12/2021 - 03/11/2023

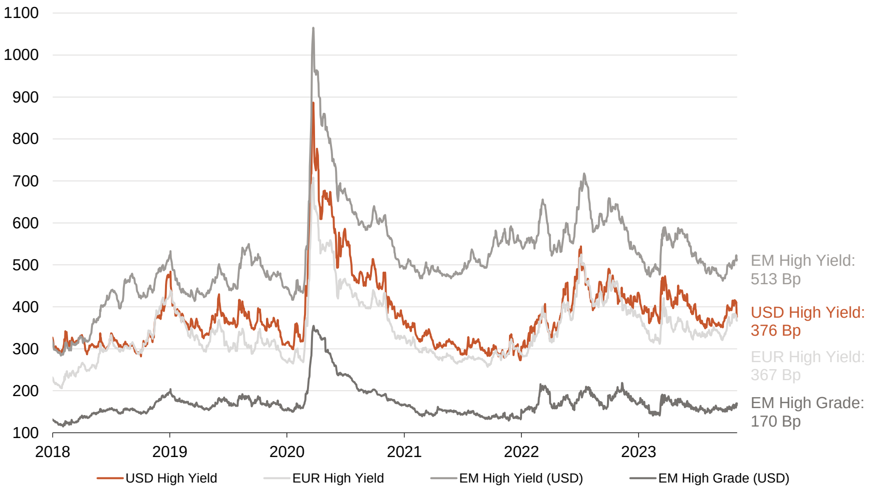
Credit Spreads Financial and Non-Financial Bonds



- In the last two weeks, risk premiums on investment-grade bonds have changed only marginally for the most part. Spreads on USD and EUR non-financial bonds fell by just 1 basis point each.
- The picture is mirrored for financial bonds. There was no change in the risk premiums for USD and EUR financial bonds in a two-week comparison.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 - 03/11/2023

Credit Spreads High Yield and Emerging Markets Bonds



- In contrast to IG bonds, there has been more movement in high-yield bonds over the last two weeks. Spreads on EUR high-yield bonds fell by 9 basis points, while those on USD high-yield bonds fell by as much as 30 basis points.
- The risk premiums on emerging market high-yield bonds, on the other hand, saw a slight narrowing of spreads.

How high the risk associated with the corporate bond is shown by its asset swap spread (in bp). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term as compensation for its credit risk. See further explanation below.
Source: FactSet, Time period: 01/01/2018 - 03/11/2023

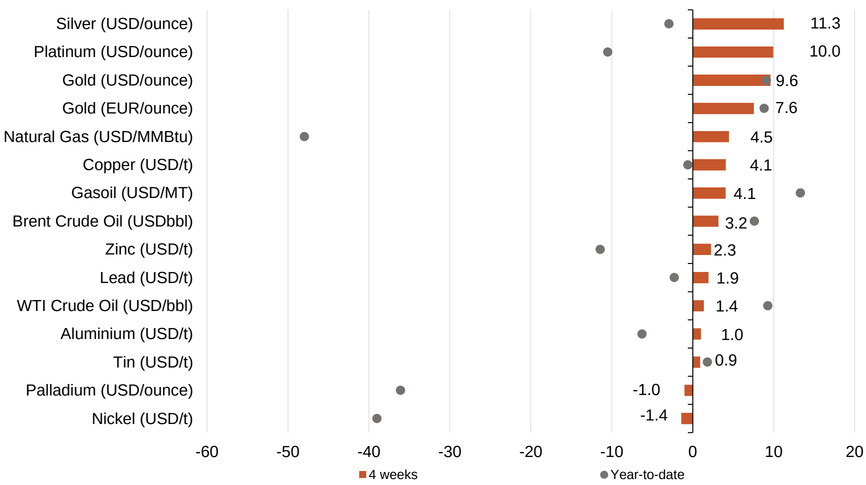
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Per-centile	1M	YTD	03/11/22 03/11/23	03/11/21 03/11/22	03/11/20 03/11/21	03/11/19 03/11/20	03/11/18 03/11/19
EUR Government	3.35	-0.30	6.9	-	-	-	2.5	1.1	-0.3	-17.5	-2.7	3.2	10.2
Germany	2.74	-0.27	7.1	-	-	-	2.2	0.1	-1.5	-16.4	-3.0	2.0	6.0
EUR Corporate	4.36	-0.24	4.4	96	9	82	1.6	3.5	5.0	-15.4	0.4	1.3	6.1
Financial	4.61	-0.23	3.7	113	10	88	1.4	3.7	5.3	-13.4	0.7	1.1	5.4
Non-Financial	4.20	-0.25	4.9	86	10	80	1.7	3.4	4.7	-16.5	0.3	1.4	6.5
EUR High Yield	7.64	-0.09	3.0	367	18	68	0.7	6.7	10.0	-14.0	7.9	0.1	6.2
US Treasury	4.75	-0.28	6.1	-	-	-	1.9	-1.2	1.5	-14.8	-2.6	7.2	11.4
USD Corporate	6.07	-0.25	6.5	150	3	68	2.1	0.9	5.9	-19.4	2.0	7.2	15.3
Financial	6.30	-0.25	4.8	163	5	88	1.8	1.9	6.4	-16.2	1.3	7.4	13.1
Non-Financial	5.96	-0.25	7.3	144	3	57	2.2	0.5	5.7	-20.8	2.3	7.2	16.2
USD High Yield	8.90	-0.43	3.9	376	-17	50	2.5	7.2	9.6	-12.5	10.0	3.1	8.3
EM High Grade	6.27	-0.09	5.0	170	19	45	0.7	1.2	6.9	-18.6	1.8	4.2	12.6
EM High Yield	10.51	-0.03	3.8	513	29	44	1.1	3.2	14.2	-23.3	2.7	4.4	10.9

- Over the last four weeks, European bonds, particularly German government bonds, and USD high-yield bonds have been the strongest bond segments.
- Since the beginning of the year, USD high-yield bonds are now also back in the lead.

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 : 02/11/2018 - 03/11/2023

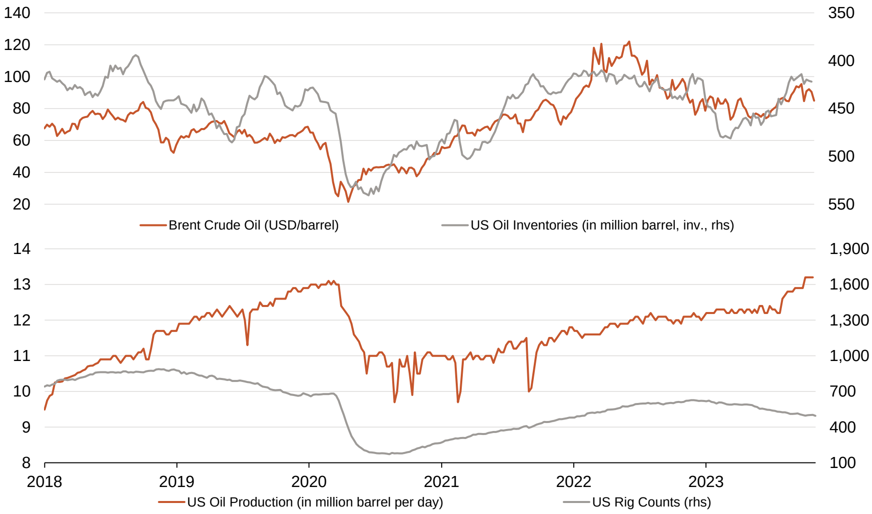
Commodities Performance



- Precious metals in particular have performed very well over the last four weeks. The only exception is palladium, of which over 80% of demand comes from catalytic converters for combustion engines. With the increasing penetration of electric vehicles, the demand prospects here are particularly poor.
- Natural gas, the big loser since the beginning of the year, has also been one of the big winners over the last four weeks.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2022 - 03/11/2023

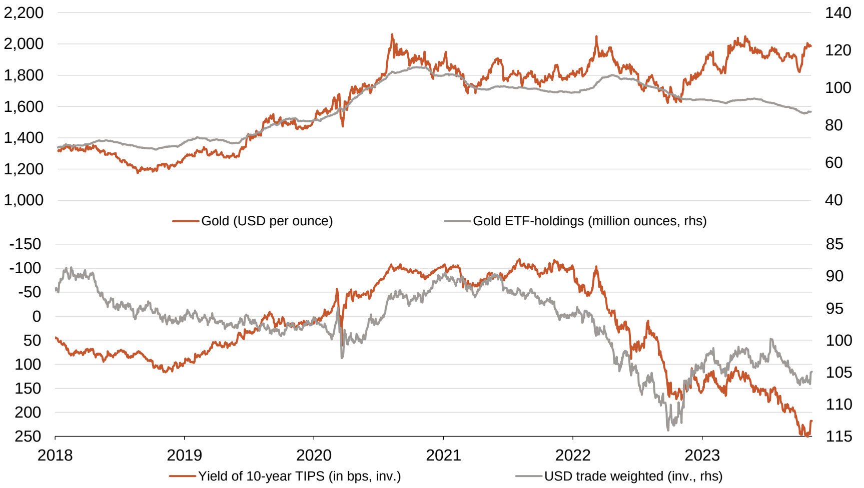
Crude Oil



- Crude oil has fluctuated sideways over the past month.
- Most recently, demand concerns as a result of weaker economic data outweighed supply concerns due to the escalation in the Middle East.
- In the medium term, however, there are many indications that the supply shortage will continue, as investments into new capacities remain scarce and producers' drilling activity is subdued.

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 - 03/11/2023

Gold



- Gold has traded very firmly near the USD 2,000 per ounce mark in recent weeks.
- In addition to the geopolitical risk premium, there has also been a tailwind from the interest rate side recently, as an end to the hawkish central bank policy finally seems to be in sight following the last Fed meeting.

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 - 03/11/2023

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