BERENBERG Markets

MONITOR

18 December 2023

Current market commentary

Last week, the central banks failed to make any major backpedalling, especially on the part of the Fed. Although the US central bank reaffirmed the current interest rate level, it held out the prospect of three interest rate cuts in the coming year and further rate cuts thereafter. Fed Chairman Jerome Powell was dovish and emphasised that inflation had already eased without a major rise in unemployment. As a result, the US dollar fell significantly and the yield on ten-year US government bonds fell below the important four per cent mark. Equities continued their rally and even commodities recovered somewhat recently. Almost all asset classes rose accordingly, driven by hopes of a less restrictive monetary policy and more liquidity in the near future. The "everything rally" is therefore likely to have anticipated much of the expected return potential for next year. We expect a (temporary) countermovement next year. The market appears to be clearly overbought at the moment.

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

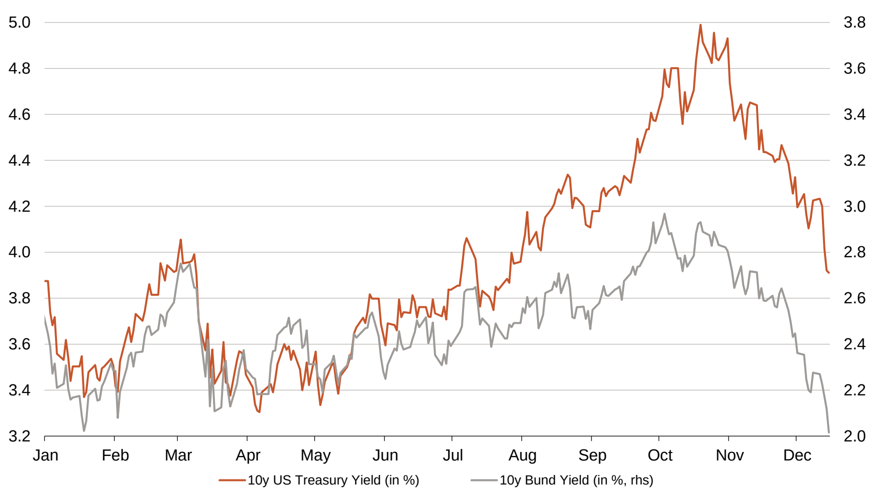
Quiet until the end of the year. We wish you a happy festive season and a good start to the new year!

After the big central bank week (the Bank of Japan will announce its interest rate decision on 19 December), things are likely to be quieter until the end of the year due to Christmas. From the start of 2024, however, things are likely to get more exciting. The minutes of the last Fed meeting will be published on 3 January 2024. The Economic Forum in Davos will also take place from 15 to 19 January.

Investors focus on economic data.

On Tuesday, the final consumer prices (Nov.) for the eurozone and the housing data (Nov.) for the US will be published. Wednesday will see consumer prices for the UK (Nov) and consumer confidence (Dec, Conference Board) for the US. This will be followed on Thursday by US GDP (Q3) and US initial jobless claims (16 Dec). On Friday, US household income and spending (Nov.) and preliminary US durable goods orders are due. Between the years, the US Chicago PMI (Dec.) and the PMI data for China (Dec.) will be published.

Latest rate move pulverises rise in yields since the beginning of the year



- With lower than expected US inflation data and a dovish Fed, yields on safe government bonds have fallen rapidly since November.
- As a result, yields on US Treasuries are back to the start of the year, while those on German government bonds are even significantly lower. The rate differential has widened from 1.4p to 1.9p in 2023.
- As the Fed is likely to be the first to cut interest rates, this spread should narrow. Following the extreme movement, the potential for falling yields, especially for Bunds, therefore appears limited.

Source: Bloomberg, Time period: 01/01/2023 - 15/12/2023

Multi Asset

	4W (17/11/23 - 15/12/23)	YTD (30/12/22 - 15/12/23)	15/12/22 15/12/23	15/12/21 15/12/22	15/12/20 15/12/21	15/12/19 15/12/20	14/12/18 15/12/19
REITs	10.1	3.9	-0.5	-17.5	39.9	-14.0	14.3
Global Convertibles	5.9	9.1	6.1	-15.9	9.4	35.9	11.4
MSCI World	4.6	19.8	17.1	-10.3	31.5	5.9	23.8
EUR Coporates	3.2	7.8	5.9	-13.2	-0.6	2.7	6.6
EUR Sovereign Debt	2.7	5.6	3.6	-10.9	-1.0	2.0	3.8
MSCI Frontier Markets	2.6	7.8	3.4	-18.0	30.5	-7.3	14.1
MSCI Emerging Markets	2.5	5.3	3.9	-13.5	7.2	7.5	16.7
Gold	2.1	8.8	10.9	6.2	3.2	14.9	21.2
Industrial Metals	0.9	-12.8	-12.9	10.8	27.6	9.7	3.6
Euro overnight deposit	0.3	3.1	3.2	-0.1	-0.6	-0.5	-0.4
USDEUR	0.2	-1.7	-2.5	6.3	7.6	-8.5	1.7
Brent	-4.2	-3.3	1.3	50.0	73.3	-37.0	19.6

Column groups: 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.

- The further cooling of global inflation and thus the increased expectation of interest rate cuts by the Fed boosted risky asset classes. Interest rate-sensitive REITs and global convertible bonds in particular performed best. Falling real interest rates also supported the precious metal gold.
- Brent crude oil suffered from increased concerns about oversupply due to the rise in US oil production and the increase in Russian crude oil deliveries and thus 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: 14/12/2018 – 15/12/2023

Equities

	4W (17/11/23 - 15/12/23)	YTD (30/12/22 - 15/12/23)	15/12/22 15/12/23	15/12/21 15/12/22	15/12/20 15/12/21	15/12/19 15/12/20	14/12/18 15/12/19
MSCI USA Small Caps	10.1	13.4	11.4	-9.4	26.6	9.3	20.9
Stoxx Europe Cyclicals	7.0	21.8	20.4	-9.5	23.0	-1.2	23.8
Stoxx Europe Small 200	6.0	11.1	9.6	-19.3	21.5	2.0	25.5
MSCI EM Eastern Europe	5.3	41.3	42.6	-80.6	22.1	-17.4	29.1
DAX	5.2	20.3	19.8	-9.6	15.8	0.6	22.2
Euro Stoxx 50	4.9	23.0	21.6	-5.4	20.4	-3.7	24.1
S&P 500	4.5	22.6	19.7	-10.7	39.7	8.5	26.4
Stoxx Europe 50	3.3	14.5	13.2	2.6	23.5	-6.3	22.2
MSCI UK	2.9	8.7	7.3	7.3	22.6	-17.4	20.2
MSCI Japan	2.4	15.4	14.5	-11.9	13.0	2.1	18.6
MSCI EM Asia	2.1	3.4	1.3	-14.1	5.2	15.6	17.5
Stoxx Europe Defensives	1.3	8.9	7.1	4.9	19.8	-6.6	16.9

Column groups: 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.

- Dovish comments from Jerome Powell after last week's Fed meeting gave global equities an additional tailwind - they have recorded gains across the board over the last four weeks. Interest rate-sensitive small caps and cyclicals performed best.
- The Asian emerging market equity index came under pressure after disappointing data on retail sales and industrial production in China for November.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 14/12/2018 – 15/12/2023

Fixed Income

	4W (17/11/23 - 15/12/23)	YTD (30/12/22 - 15/12/23)	15/12/22 15/12/23	15/12/21 15/12/22	15/12/20 15/12/21	15/12/19 15/12/20	14/12/18 15/12/19
EM Hard Currency Bonds	5.9	7.8	5.7	-11.5	6.7	-3.5	15.7
Gilts	5.6	5.5	0.7	-26.6	4.8	-1.1	15.4
USD Corporates	5.4	8.1	5.4	-13.1	-0.4	8.9	14.9
Bunds	4.2	5.4	1.7	-16.2	-1.5	2.5	4.0
USD High Yield	4.1	12.3	10.2	-8.8	5.3	6.2	11.0
BTPs	3.9	9.0	6.0	-16.3	-1.4	7.3	12.7
EUR High Yield	3.5	11.4	10.3	-10.5	3.4	3.0	10.5
Treasuries	3.4	1.2	-1.1	-5.5	5.7	-1.6	10.1
EUR Non-Financials	3.4	7.6	5.5	-13.7	-0.8	3.0	6.7
EUR Financials	3.0	7.9	6.3	-12.5	-0.2	2.2	6.4
EM Local Currency Bonds	1.8	8.5	9.2	-6.2	-2.1	-4.8	15.2
Chinese Gov Bond	0.4	4.4	4.9	3.4	6.2	2.4	4.7

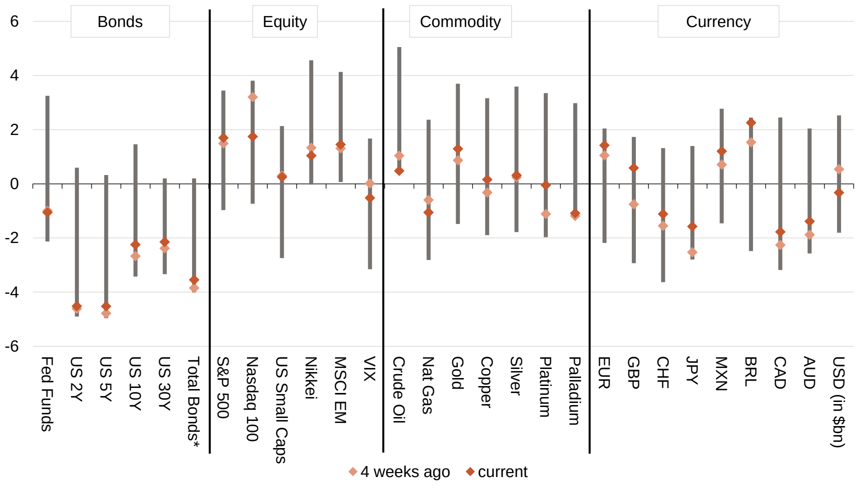
Column groups: 4-week & YTD; 12-month periods over that last 5 years

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

- Expectations of stronger interest rate cuts have helped bond indices in all regions around the world into positive territory in the last four weeks. Emerging market bonds in hard currency performed best, followed by UK government bonds and USD corporate bonds.
- Chinese government bonds, on the other hand, treaded water due to increasing economic concerns.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 14/12/2018 – 15/12/2023

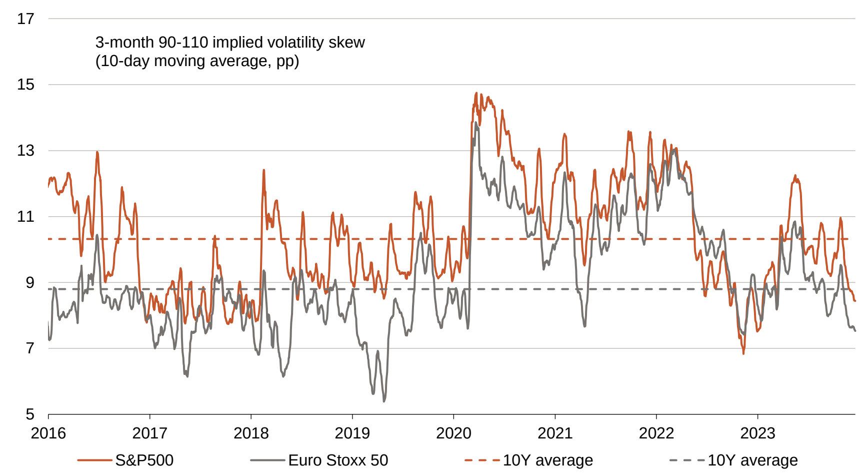
Non-Commercial Positioning



- In the Nasdaq, speculative investors reduced longs considerably in the course of the rotation.
- In the Japanese yen, a large proportion of shorts were covered in the wake of the dovish Fed meeting.
- In the commodities sector, cyclicals were recently avoided (energy commodities) and interest rate sensitive assets (precious metals) were favoured.

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: 12/12/2013 - 12/12/2023

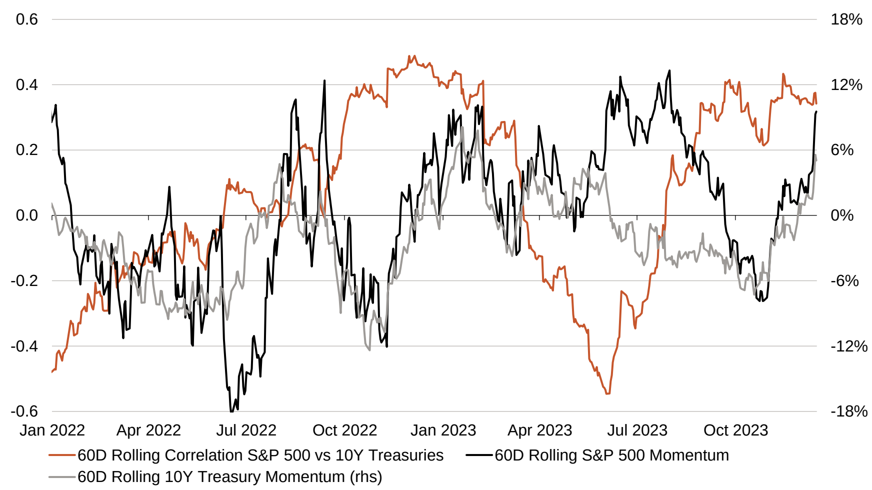
Put-Call-Skew



- The put-call skew is at its lowest level since March and is now well below the historical average.
- The flat skew in combination with the low level of volatility allows investors to hedge at very low cost.

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: 15/12/2013 – 15/12/2023

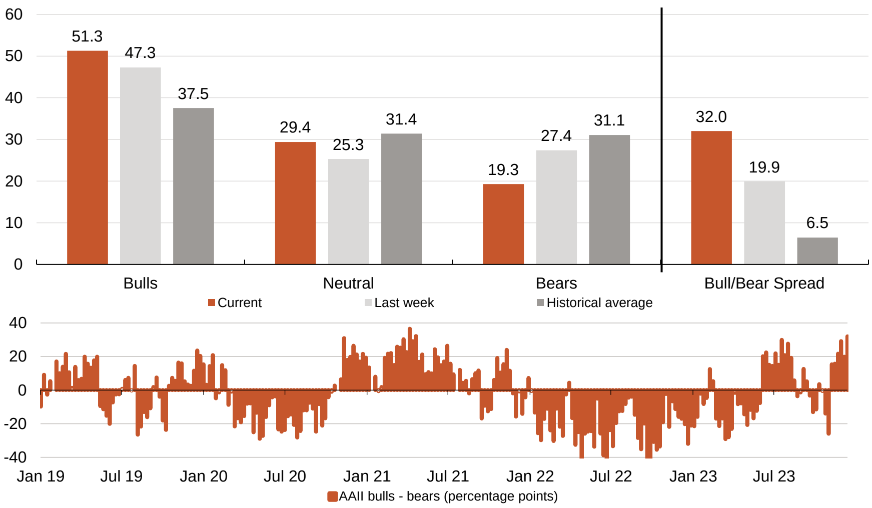
60-Day Momentum and Correlation



- The equity and bond markets have recently been celebrating the expectation that key interest rates will fall soon. Accordingly, the correlation between the two asset classes remains high.
- Momentum strategies are now likely to hold significant long positions in equities - not least because of the low realised volatility.

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 – 15/12/2023

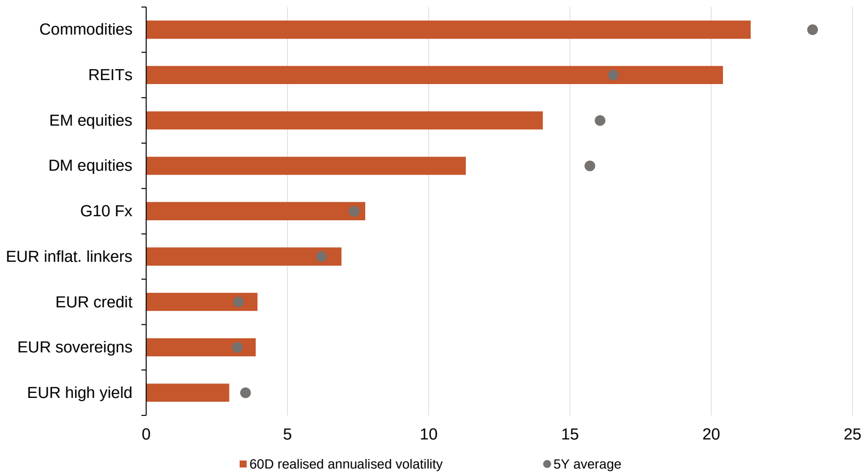
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment among US private investors remains exuberant. At 32 pp, the bull/bear spread is at its highest level for over 2.5 years.
- Other sentiment surveys, such as that of the University of Michigan, also show improvements in consumer confidence, although at significantly lower levels.

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 – 14/12/2023

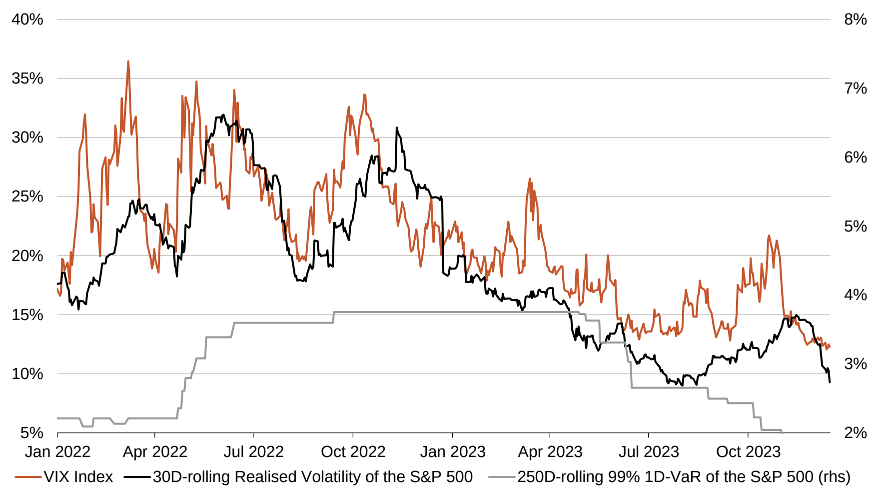
Realised Volatilities



- The realised volatilities over the last 60 days are largely unchanged in a two-week comparison.
- Relative to their average over the last 5 years, risk assets continue to show a tendency towards lower volatility. By contrast, safer assets, such as government and corporate bonds, have fluctuated comparatively more.
- The volatility on the markets is therefore primarily caused by interest rate risks and not by credit or economic risks.

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: 15/12/2018 - 15/12/2023

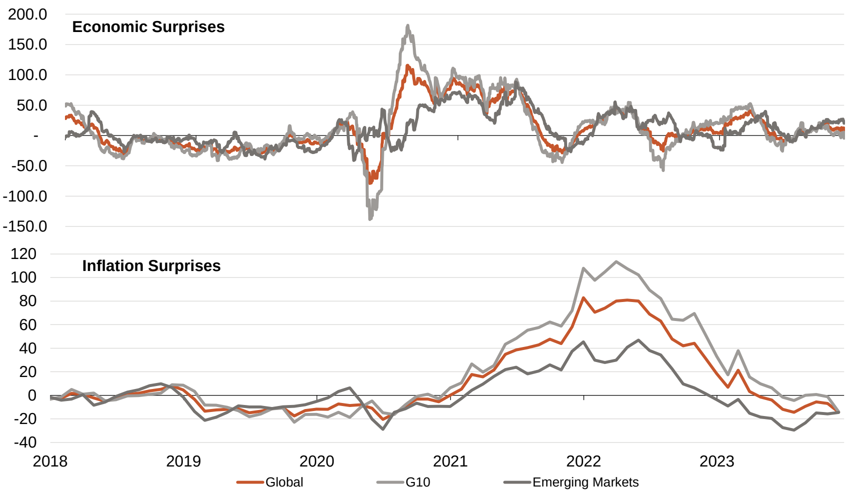
Volatility and Value-at-Risk of the S&P 500



- Implied and realised volatility have fallen further in the last two weeks. The VIX recently even reached its lowest level since 2019 at 12 points.
- Therefore, volatility-based strategies should now have high equity allocations.

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 – 15/12/2023

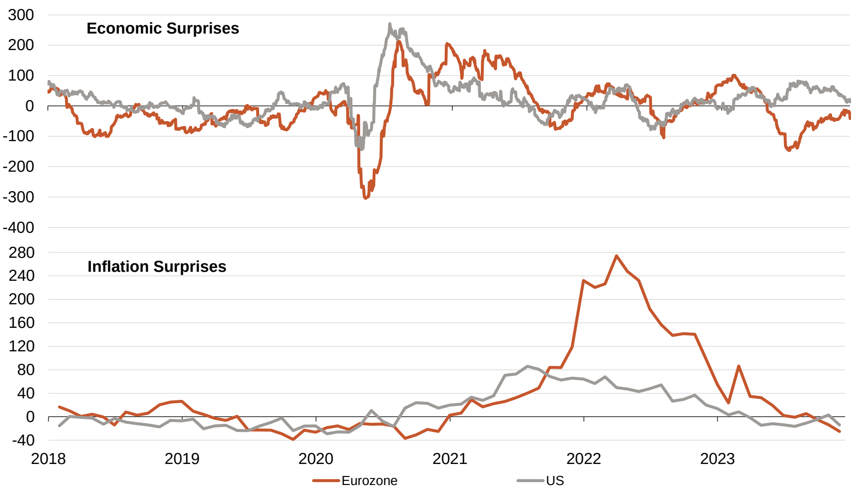
Global



- In the last two weeks, the economic surprises in the industrialised nations and emerging markets have been increasingly positive. In Brazil, GDP growth for the third quarter was higher than expected, while in Australia the GDP growth rate came in below expectations. In India, industrial production surprised to the upside in October. In Canada, on the other hand, the PMI data for November was disappointing.
- Inflation data in November came as an increasingly negative surprise worldwide. In Germany, the November inflation rate came in as expected.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 – 15/12/2023

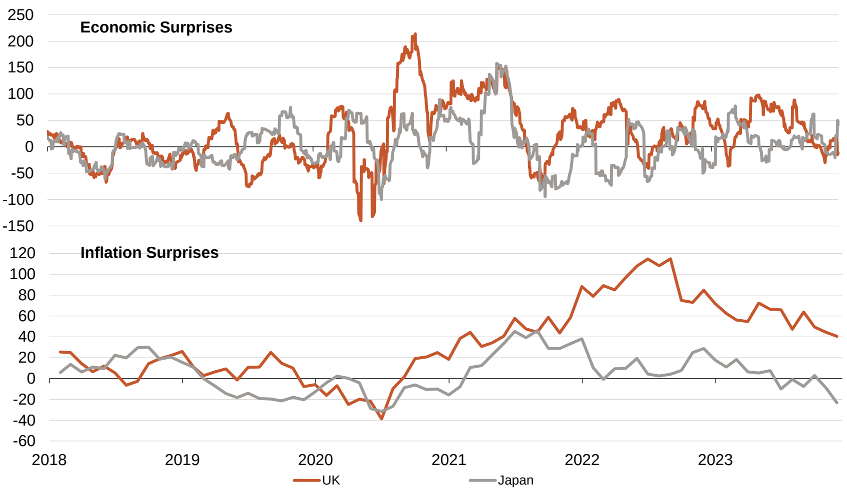
Eurozone and US



- In the US, the positive economic surprises have diminished in the last two weeks. Industrial orders and wholesale sales in October were below expectations, while retail sales in November were a positive surprise. In Europe, the PMI data for November came in better than expected, although retail sales in November were below expectations.
- In Germany, industrial production in October was disappointing, although the ZEW Economic Sentiment Index for December was a positive surprise.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 – 15/12/2023

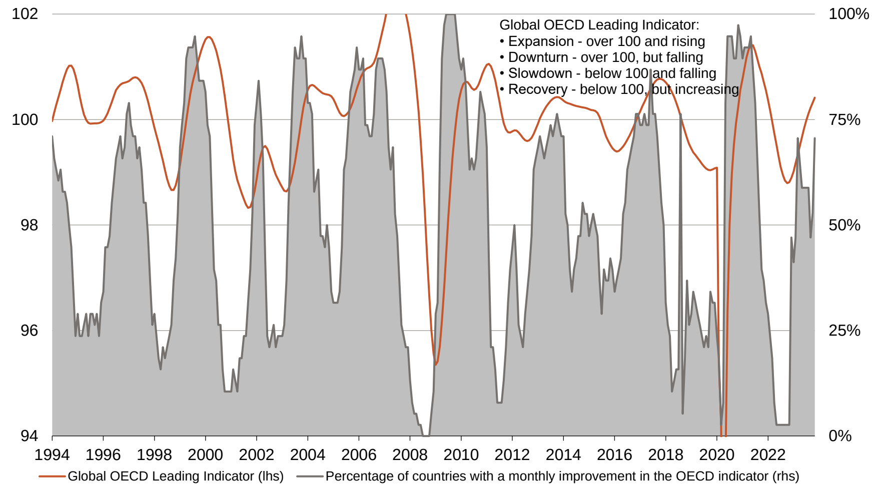
UK and Japan



- In the UK, PMI data for November came in better than expected, with industrial production disappointing in October. In Japan, the GDP growth rate for the third quarter was disappointing, with the inflation rate in November coming in slightly below expectations.

The Citigroup Economic Surprise Indices are defined as weighted historical normalised data surprises (actual releases vs. Bloomberg survey median) over the past three months. A positive value of the index indicates that, on balance, economic data have outperformed consensus. The indices are calculated daily in a rolling three-month window. The indices use a time decay function to replicate the markets' limited memory, i.e. the weight of a data surprise decreases over time.
Source: Bloomberg, Time period: 01/01/2018 – 15/12/2023

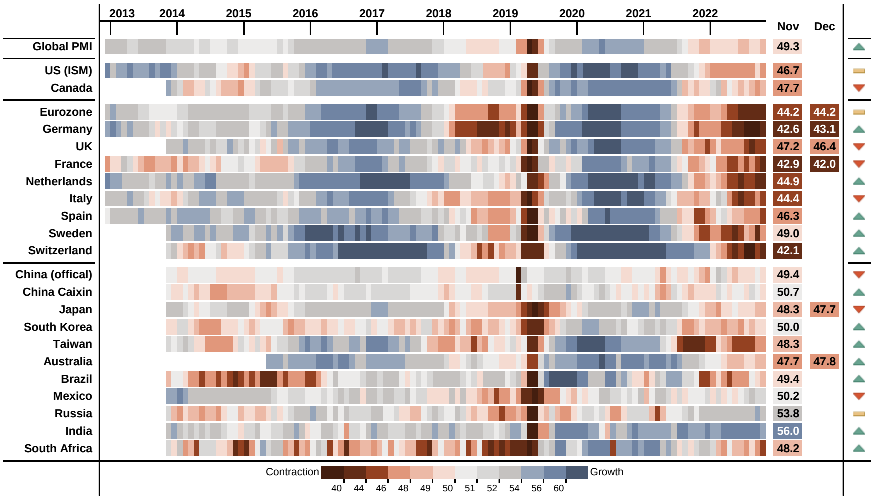
OECD Leading Indicator



- The global economic expansion continued in November - the OECD leading indicator remained above the 100 mark for the fifth month in a row with a value of 100.4.
- According to the leading indicator, 71% of the countries surveyed saw an improvement in the economic situation in November 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 - 15/12/2023

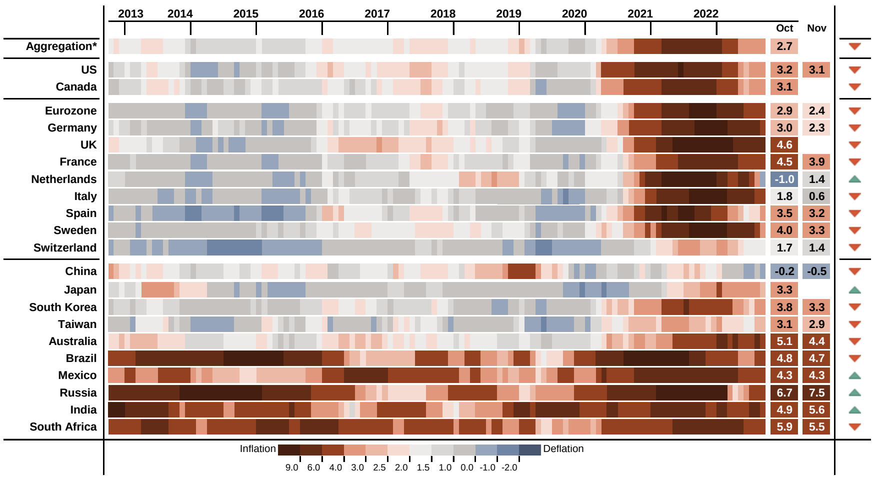
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The first PMI figures for December once again show clear regional divergences. While the Purchasing Managers' Index in Germany recorded an increase, the PMI in Japan fell compared to the previous month. France also recorded a decline in industrial activity in December.

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: 17/11/2013 - 15/12/2023

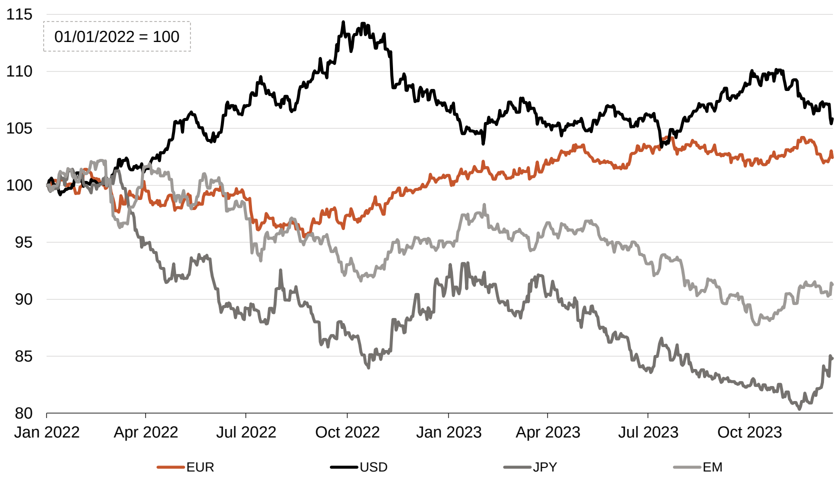
Headline Inflation



- Die Folgen der restriktiven Geldpolitik der Zentralbanken zeigen sich weiterhin vermehrt in den Inflationsdaten für November. Niedrigere Energiekosten sorgten maßgeblich für den Rückgang der Teuerungsrate in den USA und Europa. In Indien führten höhere Lebensmittelpreise für den Anstieg der Inflationsrate im Vergleich zum Oktober.

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: 17/11/2013 - 15/12/2023

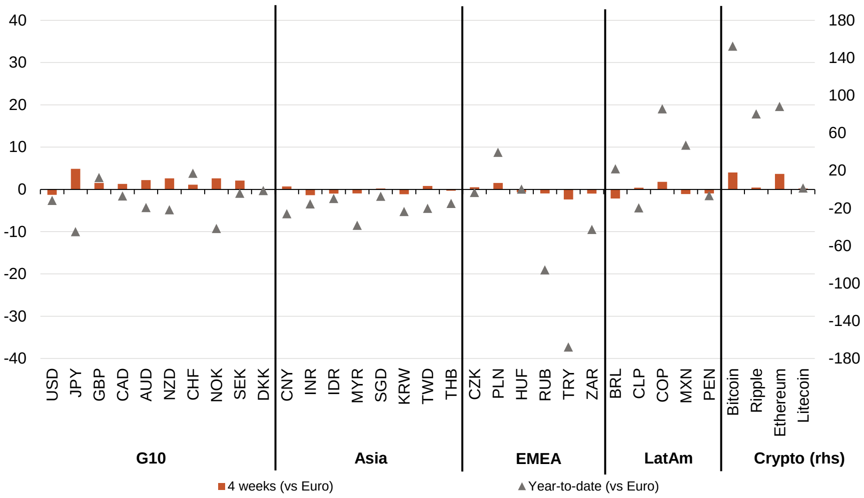
Trade-Weighted Currency Development



- The surprisingly dovish signals for 2024 at last week's Fed meeting weighed on the US dollar. The trade-weighted dollar index fell to its lowest level since August of this year.
- By contrast, the prospect of interest rate cuts in the US in the near future supported emerging market currencies. The Japanese yen also benefited thanks to a narrowing interest rate differential against the US.

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 - 15/12/2023

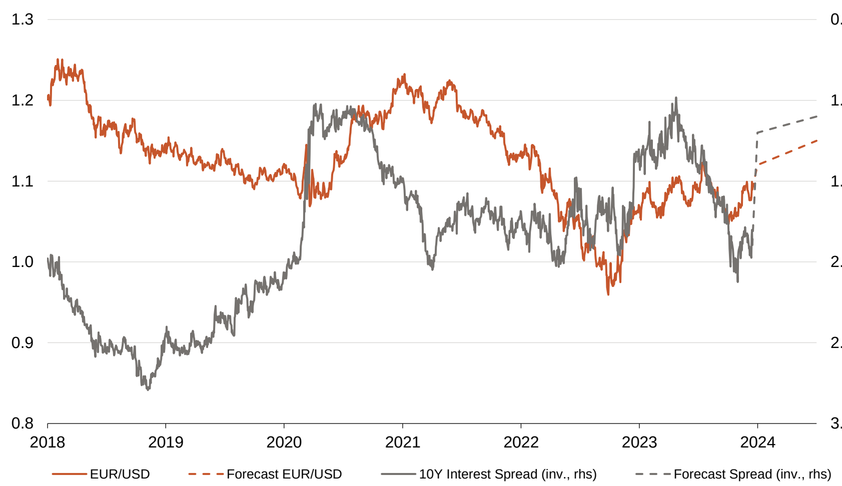
Currency Moves vs Euro



- The euro recorded broad-based losses over the past month due to economic concerns in the eurozone and falling inflation rates and thus the prospect of interest rate cuts by the ECB in the near future.
- The unexpected key interest rate hike of 25 basis points by the Norwegian central bank gave the Norwegian krone a tailwind.
- The British pound received additional support after the BoE once again emphasised that monetary policy is likely to remain restrictive for some time.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2022 - 15/12/2023

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



- Firmer expectations of the Fed's first rate cuts after dovish signals from Jerome Powell weighed on the US dollar last week. The ECB, on the other hand, signalled that the topic of imminent interest rate cuts was not discussed at last week's meeting, which supported the euro. As a result, the interest rate differential between US and German government bonds fell by 1.8p.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US government bonds and 10-year Bunds. The forecasts were prepared by Berenberg Economics.
Source: Bloomberg, Time period: 01/01/2018 - 30/06/2024

European Sector & Style Performance

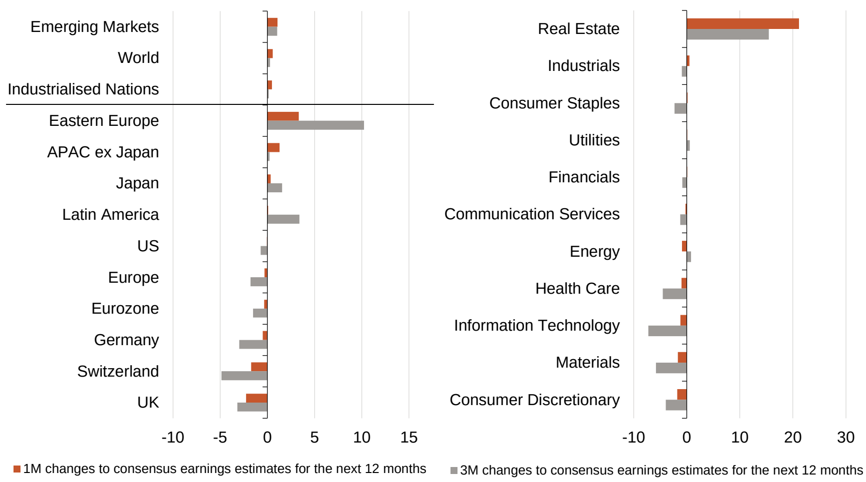
	4-week & YTD		12-month periods over that last 5 years				
	4W (17/11/23 - 15/12/23)	YTD (30/12/22 - 15/12/23)	15/12/22 15/12/23	15/12/21 15/12/22	15/12/20 15/12/21	15/12/19 15/12/20	14/12/18 15/12/19
Information Technology	9.2	36.6	28.2	-21.2	36.8	9.7	33.1
Industrials	8.5	25.8	24.0	-11.3	24.1	2.7	31.8
Consumer Discretionary	6.4	18.6	16.6	-13.3	21.8	5.2	29.1
Utilities	5.8	14.6	12.5	-3.6	9.2	9.5	23.7
Materials	5.7	10.7	10.1	-5.5	21.9	9.5	24.2
Growth	5.0	15.7	13.0	-12.8	26.7	4.9	26.8
Finance	4.8	20.3	21.9	-0.3	23.4	-15.1	18.6
Value	4.1	14.8	14.9	2.5	18.1	-12.9	15.7
Telecommunications	2.8	14.4	12.5	-8.1	10.3	-14.3	2.4
Consumer Staples	1.6	0.9	0.2	-5.3	20.0	-4.3	19.1
Health Care	0.9	6.0	4.2	0.5	23.6	-1.5	24.6
Energy	-1.8	7.8	8.8	39.3	28.0	-30.4	2.9

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

- The equity markets have only known one direction over the last four weeks: Another upward push came last week from a much more dovish Fed and the expected US inflation data, which reinforced hopes of interest rate cuts in the near future.
- Industrial and information technology stocks in particular rose and defended their positions as relative winners for the year.

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: 14/12/2018 – 15/12/2023

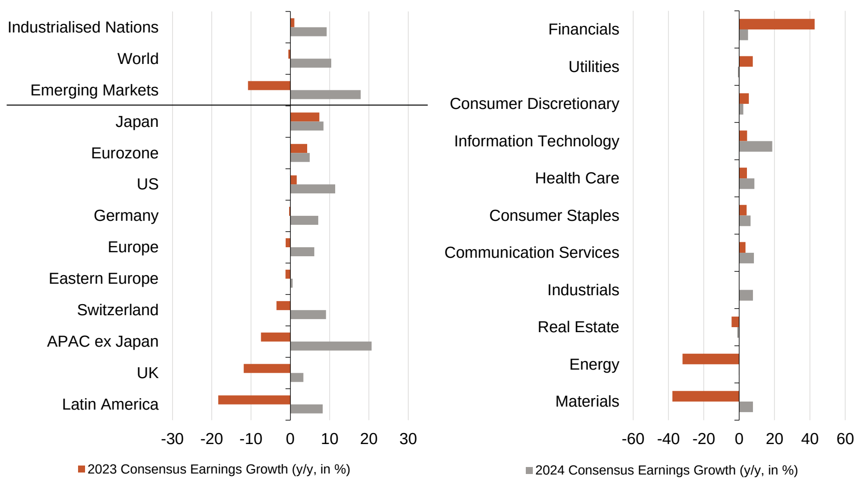
Changes in Consensus Earnings Estimates



- In the last four weeks, analysts have raised their earnings outlook for the emerging markets in particular. For Eastern Europe and Asia in particular, analysts have tended to become more optimistic over the last four weeks.
- There were also positive earnings revisions for the industrialised nations over the last month. There were positive adjustments for Japan in particular.

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 15/12/2023

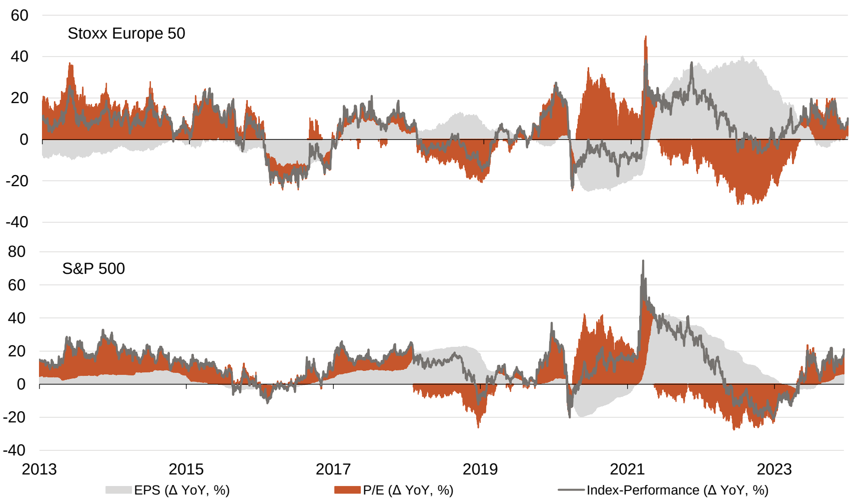
Earnings Growth



- Looking towards the end of the year, analysts expect profit growth in the industrialised nations to increase only slightly this year compared to the previous year.
- In the emerging markets, on the other hand, analysts expect profits to fall by more than 10% in 2023 compared to the previous year.

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 15/12/2023

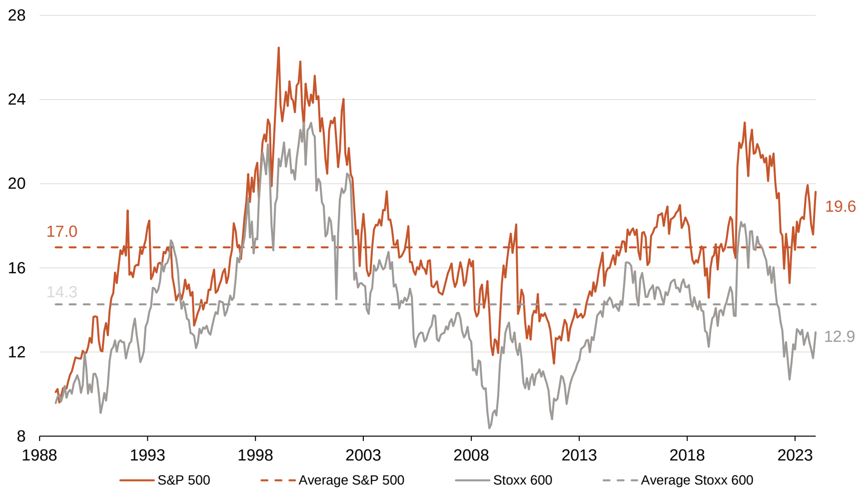
Contribution Analysis



- Thanks to the rally in recent weeks, the equity markets have now risen even more significantly compared to the previous year.
- The index performance of both the Stoxx Europe 50 and the S&P 500 was primarily driven by an increase in valuations. The S&P 500 was also supported by an increase in corporate earnings estimates compared to the previous year.

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 - 15/12/2023

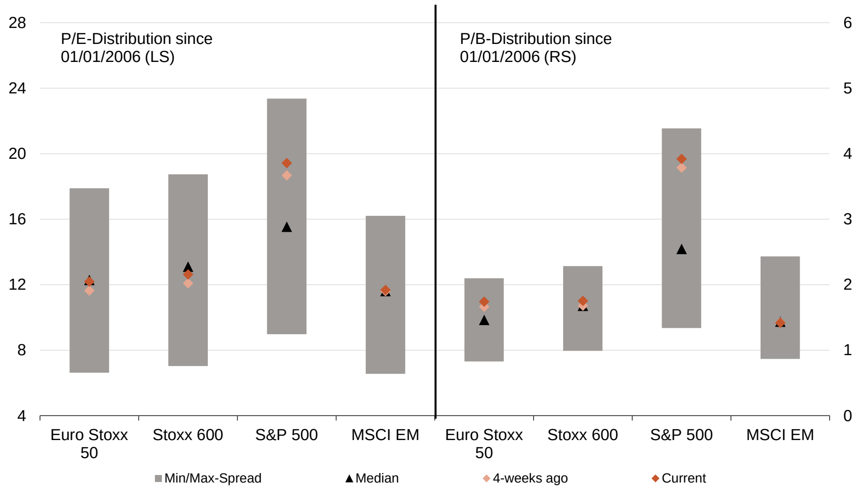
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The P/E ratio level for US and European equities has risen in recent weeks.
- Relative to their own history, US equities thus remain expensively valued (historical average of 17.0x vs. 19.6x currently for the S&P 500), while European equities remain favourably valued relative to their own history since 1988.

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 - 15/12/2023

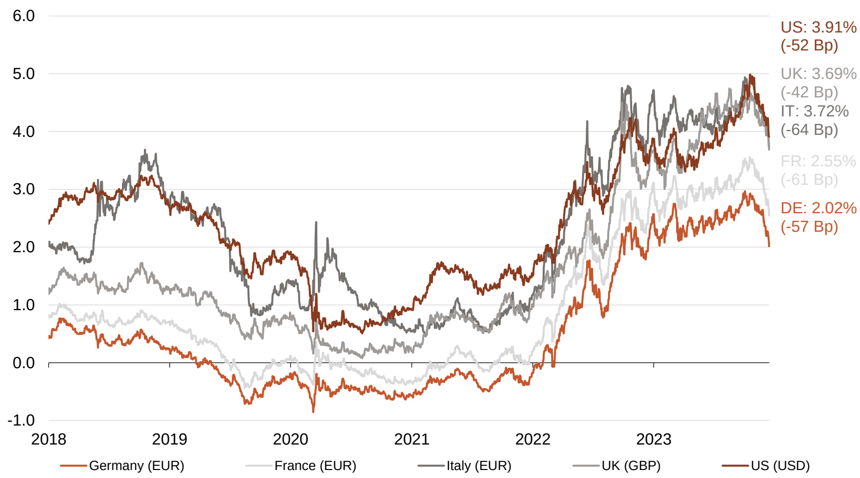
Historical Distribution: Price/Earnings and Price/Book Ratio



- On a P/E basis, all equity regions presented here have seen their valuations increase over the last four weeks.
- The Euro Stoxx 50 and the MSCI Emerging Markets are currently fairly valued relative to their own history on a P/B ratio basis, and only the MSCI Emerging Markets on a P/B ratio basis.

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 - 15/12/2023

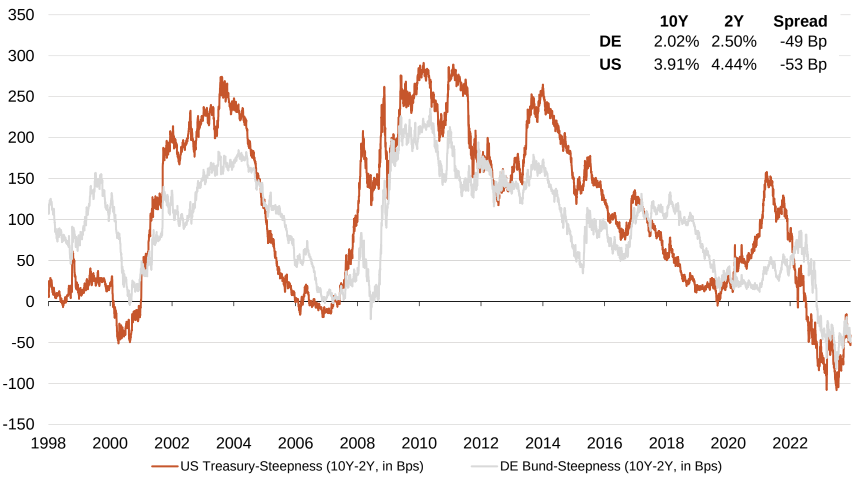
10-Year Government Bond Yields



- The decline in yields – fuelled by Fed Chairman Powell's dovish interest rate outlook last week – has continued over the last four weeks.
- US government bonds recorded a significant drop in yields of over 50 basis points over the last four weeks. This means that 10-year US government bonds are currently yielding below the 4 % mark.

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 – 15/12/2023

Yield Curve Steepness (10Y - 2Y)

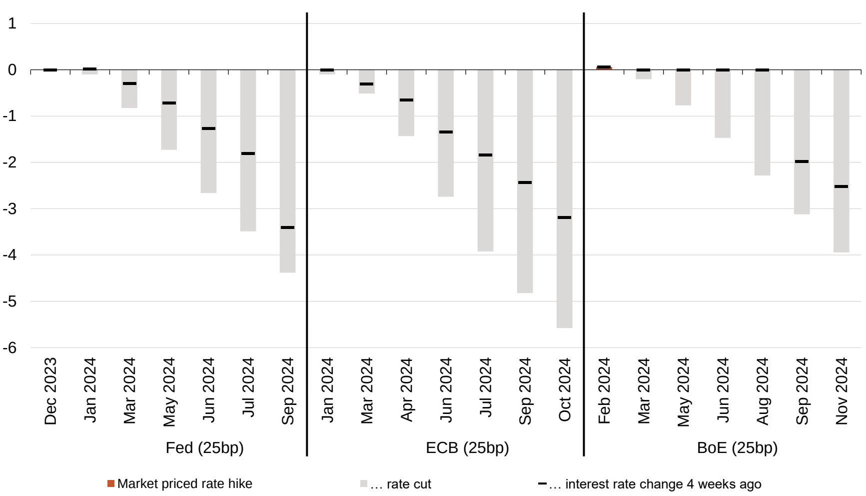


	10Y	2Y	Spread
DE	2.02%	2.50%	-49 Bp
US	3.91%	4.44%	-53 Bp

- Over the last four weeks, yields on US government bonds have fallen more sharply at the long end than at the short end.
- The interest rate differential between 2-year and 10-year US government bonds widened from -34 to -53 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 – 15/12/2023

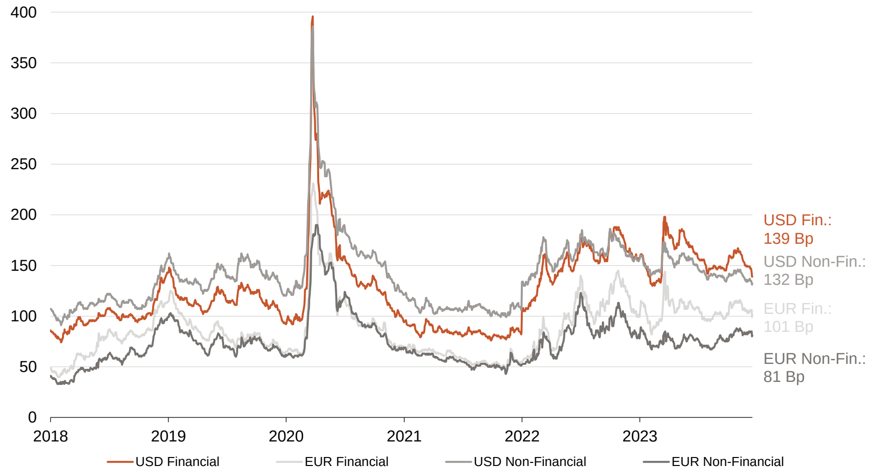
Implicit Changes in Key Interest Rates



- The latest Fed meeting left no room for doubt: for the time being, the days of interest rate hikes are over. Instead, the US central bank held out the prospect of three interest rate cuts next year.
- The Bank of England and the ECB did not raise interest rates any further either. Nevertheless, they were more restrictive than their US counterparts and commented that interest rate cuts are not yet on the cards.

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: 17/10/2023 – 15/12/2023

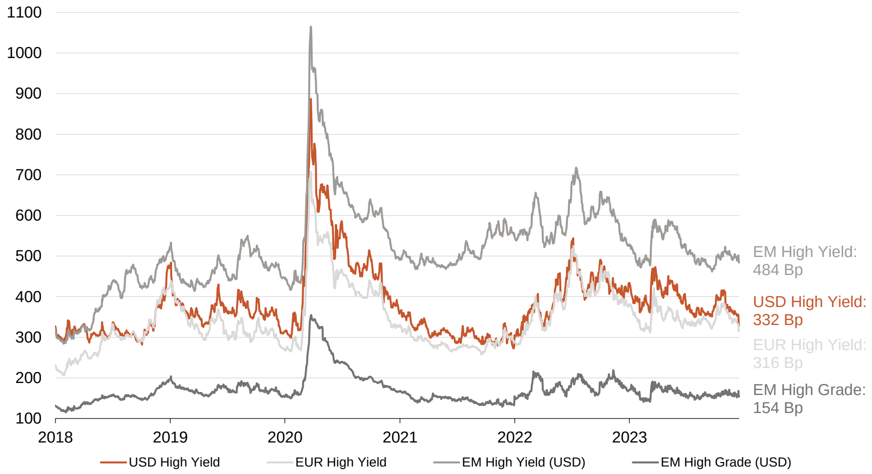
Credit Spreads Financial and Non-Financial Bonds



- There have been major movements in the risk premiums of IG corporate bonds over the last four weeks. USD financial and non-financial bonds saw a spread tightening of 18 and 9 basis points respectively.
- By contrast, the movement in EUR-IG corporate bonds was less pronounced.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 – 15/12/2023

Credit Spreads High Yield and Emerging Markets Bonds



- Over the last two weeks, risk premiums on USD and EUR high-yield bonds have fallen by 33 and 39 basis points respectively.
- EM high-yield bonds also saw falling risk premiums with a spread tightening of 17 basis points.

How high the risk associated with the corporate bond is shown by its asset swap spread (in bp). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term as compensation for its credit risk. See further explanation below.
Source: FactSet, Time period: 01/01/2018 – 15/12/2023

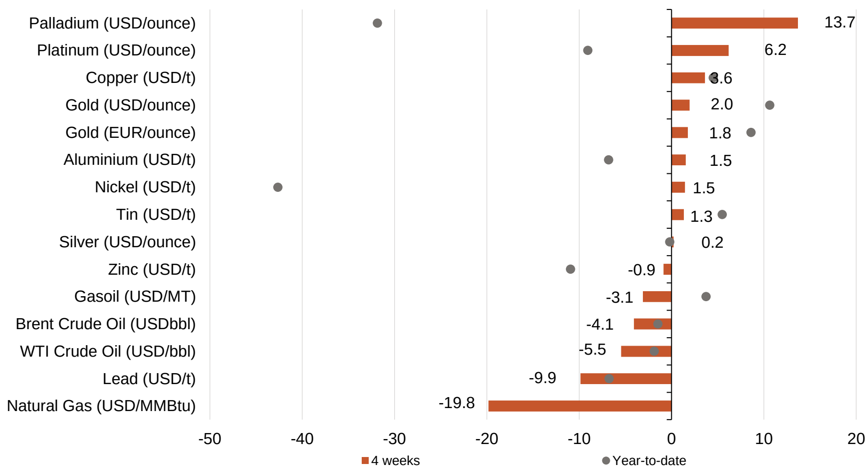
Bond Segments Overview

	Kennzahlen			Asset Swap Spread			Total Return (%, lokal)						
	Rendite (in %)	Δ-1M	Modified Duration	Spread (in Bp)	Δ-1M	10J-Perzentil	1M	YTD	15/12/22 15/12/23	15/12/21 15/12/22	15/12/20 15/12/21	15/12/19 15/12/20	15/12/18 15/12/19
EUR Government	2.73	-0.59	7.3	-	-	-	4.8	6.5	3.3	-17.2	-2.0	4.5	8.0
Germany	2.18	-0.56	7.4	-	-	-	4.6	5.0	1.7	-16.2	-1.4	2.5	4.0
EUR Corporate	3.68	-0.61	4.5	89	-2	71	3.4	7.6	5.9	-13.2	-0.5	2.6	6.6
Financial	3.92	-0.62	3.7	101	-5	71	3.0	7.4	6.0	-11.1	-0.2	2.1	6.0
Non-Financial	3.53	-0.61	4.9	81	0	72	3.6	7.7	5.9	-14.3	-0.6	2.8	6.9
EUR High Yield	6.61	-0.81	3.1	316	-30	39	3.5	11.4	10.3	-10.5	3.4	3.0	10.5
US Treasury	4.18	-0.58	6.4	-	-	-	4.5	3.5	1.2	-10.9	-2.2	7.6	8.8
USD Corporate	5.25	-0.75	6.9	135	-10	50	6.2	8.1	5.4	-13.1	-0.4	8.9	14.9
Financial	5.48	-0.74	5.1	139	-17	66	4.8	7.6	5.8	-10.9	-0.5	8.4	13.1
Non-Financial	5.14	-0.75	7.7	132	-8	40	6.9	8.3	5.1	-14.0	-0.3	9.1	15.6
USD High Yield	7.98	-0.79	3.9	332	-31	23	4.1	12.3	10.2	-8.8	5.3	6.2	11.0
EM High Grade	5.47	-0.66	5.3	154	-4	25	4.1	6.4	5.3	-13.4	0.3	5.8	12.0
EM High Yield	9.62	-0.78	3.8	484	-19	32	4.3	8.1	8.1	-15.0	-3.1	9.2	12.2

- Over the last four weeks, all of the bond segments shown here performed positively. Relative winners over the last four weeks were US non-financial bonds, while EUR financial bonds brought up the rear.
- Since the beginning of the year, US high-yield bonds have remained the strongest bond segment with a performance of over 12%.

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 : 16/11/2018 – 15/12/2023

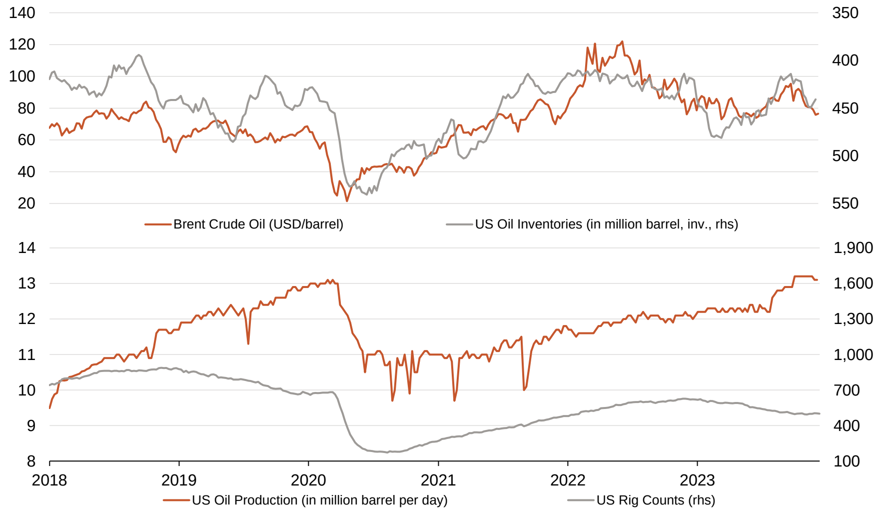
Commodities Performance



- Cyclical precious metals in particular, such as palladium and platinum, have risen sharply over the past month, but are still trading in negative territory since the beginning of the year.
- Energy commodities have been the clear losers over the last four weeks. Concerns about a possible gas shortage due to the Russia-Ukraine war have proved unfounded. Natural gas prices in Europe have fallen by almost 60% this year and by almost 70% in the USA.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2022 - 15/12/2023

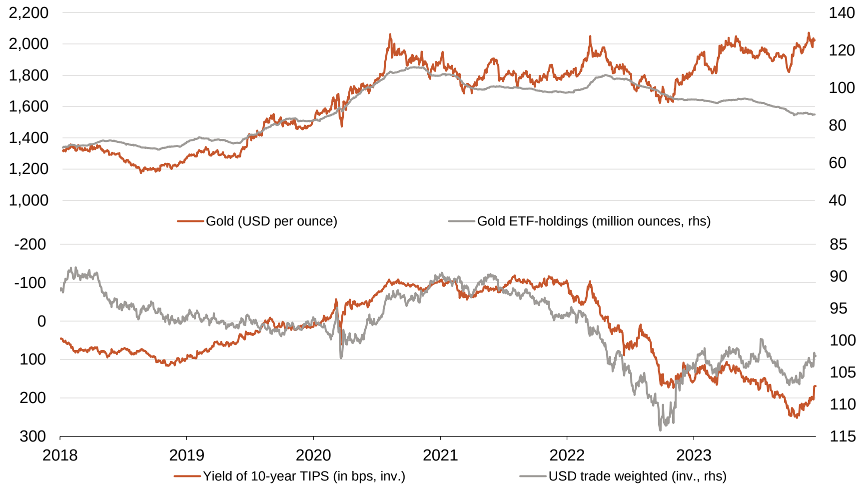
Crude Oil



- Crude oil appears to have recently stabilised around the USD 75 per barrel mark. Although OPEC+ has announced further voluntary cuts, the market has not rewarded this.
- The futures curve is now back in contango, signalling that there is plenty of supply in the short term. The non-OPEC countries in particular, led by the USA, surprised with higher production this year.

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 - 15/12/2023

Gold



- With the dovish Fed meeting, the 10-year real interest rate in the US plummeted from over 2% to 1.7%.
- For gold, this meant a strong tailwind and the precious metal climbed back above the USD 2,000 per ounce mark.

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 - 15/12/2023

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IMPORTANT NOTICES

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