BERENBERG
Markets

MONITOR

03 January 2024

Current market commentary

In 2023, many things went differently than expected. At the beginning of January, the majority of economists were forecasting a hard landing for the US, i.e. a recession, and in view of this the motto was "cash is king". In the end, US GDP is likely to have risen by around 2.5% in 2023 amid declining inflation, a soft landing seems to be in sight and almost all asset classes outperformed cash. Nevertheless, the year was not easy. In addition to the regional banking crisis, the conflict in the Middle East and the low market breadth, the markets were dominated by the constant change in expectations on key interest rates. The fact that the yield on 10-year US Treasuries closed at exactly the same level as the previous year despite extreme fluctuations is a coincidence. 2024 is likely to be no less difficult: after the year-end rally, many investors are optimistic, expectations for both rate cuts and earnings are high and the US presidential election campaign is likely to cause volatility. The further potential for the markets is likely to be limited for the time being.

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

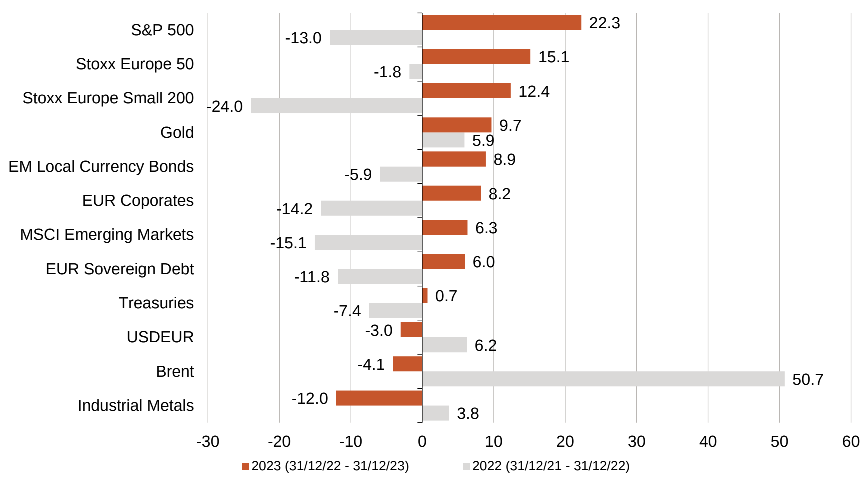
Investors focus on interest rate cuts

After two years characterised by inflation and rising key interest rates, investors are likely to focus on interest rate cuts on both sides of the Atlantic in 2024. However, the first two weeks of the new year are likely to be quieter at the (monetary) policy level before the major central banks meet towards the end of the month. In addition, the Davos Economic Forum will take place from 15 to 19 January. New Year in China does not fall until 10 February this year.

Eventful days ahead for the economy

On Thursday, the Chinese and eurozone service purchasing managers' indices (PMI, Dec.) and initial jobless claims in the US (Dec.) as well as inflation data (Dec.) for France and Germany will be published. Retail sales (Nov.) in Germany, inflation data (Dec.) for the eurozone, US labour market data (Dec.), US new orders (Nov.) and the ISM service PMI (Dec.) will follow on Friday.

2023 vs. 2022: mean-reversion dominates the picture, except for gold



- In 2023, almost everything was different. The winners from 2022 became losers and the losers became winners. The only anomaly here was gold. The precious metal has posted gains in euros without exception since 2018.
- The rotation was sharpest among the biggest losers of '22, with the Nasdaq-100 posting its best year since 1999 thanks to AI hype after falling 33%. Bitcoin gained almost 160% after -64% in the previous year. Brent oil, previously up 51%, suffered from China, weak manufacturing and high supply.

Source: Bloomberg, Time period: 31/12/2021 - 31/12/2023

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (01/12/23 - 29/12/23)	YTD (30/12/22 - 29/12/23)	29/12/22 29/12/23	29/12/21 29/12/22	29/12/20 29/12/21	29/12/19 29/12/20	28/12/18 29/12/19
REITs	4.3	3.5	2.4	-22.4	44.8	-16.2	25.1
Global Convertibles	2.8	8.6	8.3	-17.5	9.5	34.1	21.9
MSCI Emerging Markets	2.7	6.3	5.9	-14.1	6.0	5.7	22.0
MSCI World	2.6	19.8	19.1	-13.1	32.4	5.3	31.9
EUR Coporates	2.3	8.2	7.9	-14.0	-1.0	2.5	6.6
EUR Sovereign Debt	1.8	6.0	5.6	-11.6	-1.6	1.9	3.4
MSCI Frontier Markets	1.2	8.1	7.8	-21.5	29.3	-7.0	20.2
Industrial Metals	0.8	-12.0	-12.8	5.0	38.4	6.0	10.0
Euro overnight deposit	0.3	3.3	3.3	0.0	-0.6	-0.5	-0.4
USDEUR	-1.4	-3.0	-3.4	6.4	8.0	-8.8	2.4
Gold	-1.8	9.7	9.8	7.0	3.7	13.4	20.9
Brent	-3.4	-4.1	-1.5	43.5	84.1	-38.9	42.1

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.

- Last year was characterised by the global fight against inflation and the interest rate decisions of central banks on both sides of the Atlantic. The AI euphoria and hopes of interest rate cuts drove up shares in industrialised countries, which achieved the best annual performance among asset classes in 2023.
- Economic concerns in Europe and above all in China weighed on Brent crude oil and industrial metals, which brought up the rear last year.

Total return for selected asset classes, in euros and in per-cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 28/12/2018 – 29/12/2023

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (01/12/22 - 29/12/23)	YTD (30/12/22 - 29/12/23)	29/12/22 29/12/23	29/12/21 29/12/22	29/12/20 29/12/21	29/12/19 29/12/20	28/12/18 29/12/19
MSCI USA Small Caps	6.4	14.1	13.5	-12.3	29.8	7.1	30.9
Stoxx Europe Small 200	5.4	12.3	10.9	-23.1	22.5	4.4	31.0
Stoxx Europe Cyclicals	4.3	22.4	20.8	-13.1	25.7	-0.4	29.0
MSCI EM Eastern Europe	3.1	42.5	41.2	-80.9	26.1	-19.3	38.0
MSCI EM Asia	2.4	4.3	4.1	-15.3	3.7	14.0	23.0
Euro Stoxx 50	2.4	22.2	20.4	-7.9	22.0	-3.4	30.1
S&P 500	2.2	22.3	21.6	-13.3	40.8	7.0	36.0
DAX	2.2	20.3	19.0	-11.2	15.2	3.2	26.3
MSCI Japan	1.9	16.2	17.0	-12.4	9.8	5.0	23.1
Stoxx Europe 50	1.9	15.1	13.6	-0.4	25.3	-6.7	28.8
MSCI UK	1.7	10.2	9.0	2.2	26.8	-17.7	24.5
Stoxx Europe Defensives	0.9	9.8	8.3	1.1	21.7	-6.9	23.5

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.

- Equity indices rose across the board in 2023. Eastern European equities recovered from the heavy losses of 2022 and recorded the largest gains last year, which was mainly due to the election results and the change of government in Poland.
- The S&P 500 rose by 26% in USD terms in 2023, while the tech-heavy Nasdaq Composite appreciated by 54% over the course of the year thanks to AI euphoria, recording its best year since 1999.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 28/12/2018 – 29/12/2023

Fixed Income

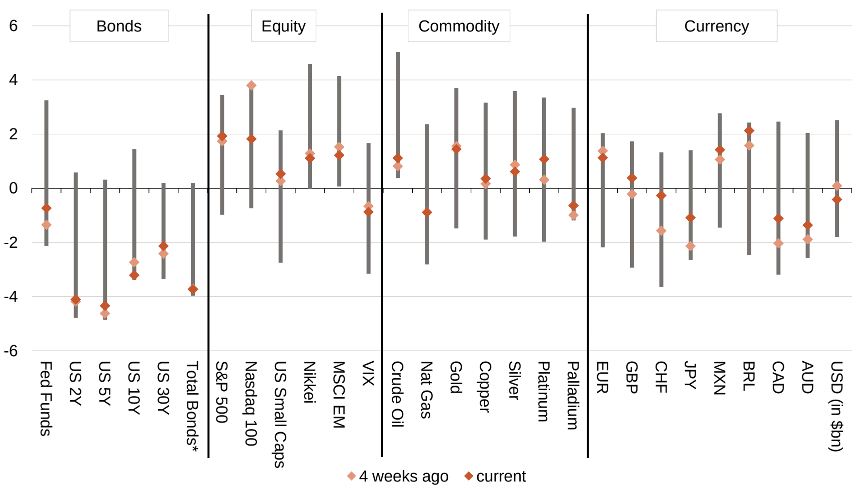
	4-week & YTD		12-month periods over that last 5 years				
	4W (01/12/23 - 29/12/23)	YTD (30/12/22 - 29/12/23)	29/12/22 29/12/23	29/12/21 29/12/22	29/12/20 29/12/21	29/12/19 29/12/20	28/12/18 29/12/19
Gilts	4.4	5.8	6.0	-28.4	1.9	1.3	13.8
USD High Yield	3.3	13.4	13.5	-11.3	5.5	6.1	14.6
USD Corporates	3.2	8.4	8.3	-15.0	-1.1	9.2	14.8
Bunds	2.8	5.6	4.9	-17.4	-2.6	2.5	3.6
EUR High Yield	2.7	12.0	12.1	-11.5	3.4	2.8	11.3
BTPs	2.5	9.3	8.6	-16.8	-2.9	7.7	10.8
EUR Non-Financials	2.4	8.0	7.7	-14.6	-1.3	2.7	6.7
EM Hard Currency Bonds	2.4	7.3	7.1	-12.2	5.9	-4.3	17.8
EUR Financials	2.1	8.4	8.2	-13.2	-0.6	2.1	6.3
Chinese Gov Bond	1.1	5.1	5.1	3.4	5.9	2.6	5.1
EM Local Currency Bonds	0.8	8.9	8.8	-5.8	-1.7	-6.1	15.8
Treasuries	0.6	0.5	0.4	-6.4	5.1	-1.9	10.0

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

- Similar to equities, the bond segments shone across the board in 2023. The absence of the expected recession in the US and the expectation of falling key interest rates in 2024 supported high-yield bonds in both EUR and USD, which achieved the best annual performance.
- The weak US dollar, on the other hand, weighed on US government bonds, which brought up the rear in the performance ranking in EUR over the past year.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 28/12/2018 – 29/12/2023

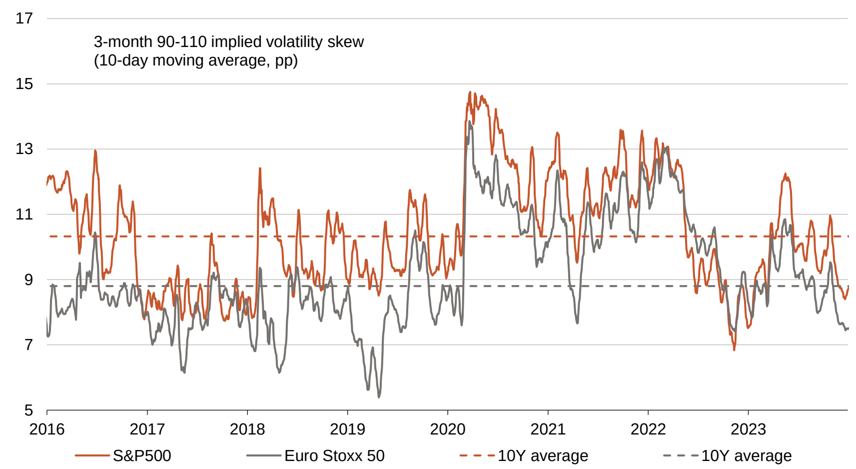
Non-Commercial Positioning



- Speculative investors have reduced long positions over the past month, particularly in the Nasdaq-100. However, this did not change the fact that the Nasdaq had its best year since 1999 with +54% in 2023.
- Shorts have recently been covered, particularly in currencies with low key interest rates such as the CHF or JPY.

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: 26/12/2013 - 26/12/2023

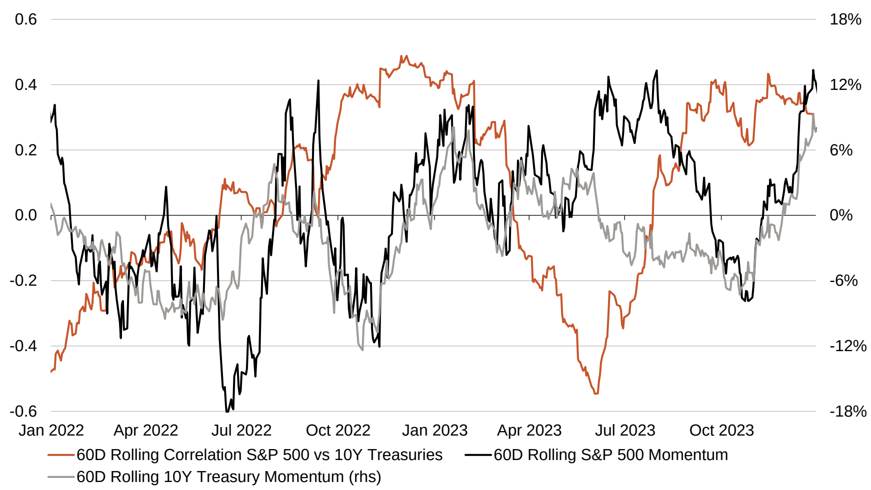
Put-Call-Skew



- The put-call skew has stabilised at a (very) low level over the last few weeks. However, normalised by the low level of implied volatility, the skew is rather average.
- In absolute terms, however, hedges remain very cheap, which points to optimistic investors.

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: 29/12/2013 - 29/12/2023

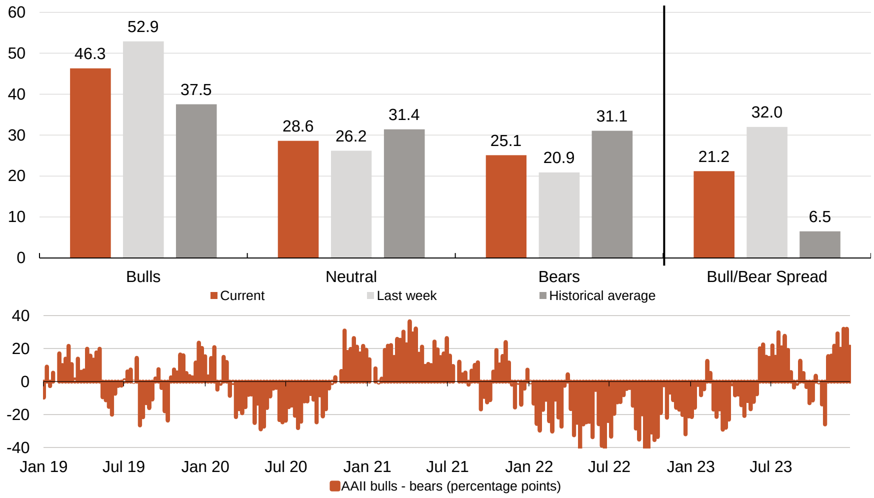
60-Day Momentum and Correlation



- The momentum in equity and bond markets is bullish.
- Trend-following strategies should therefore now be holding significant longs, particularly in equities.
- The markets' vulnerability to bad news has thus clearly increased in recent weeks.

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 - 29/12/2023

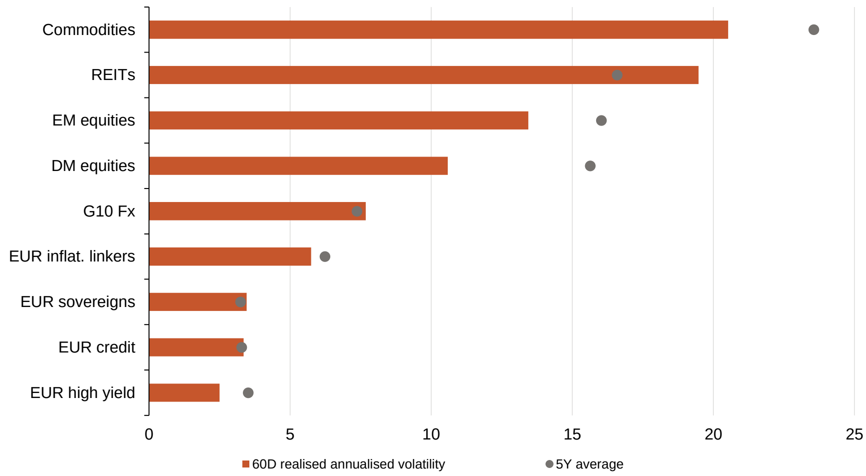
AAII Sentiment Survey (Bulls vs Bears)



- The bulls among US private investors are no longer in the absolute majority. Nevertheless, sentiment remains highly optimistic with a bull/bear spread of 21 ppts.
- Consequently, expectations of the markets are high. This holds the potential for disappointment.

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 – 28/12/2023

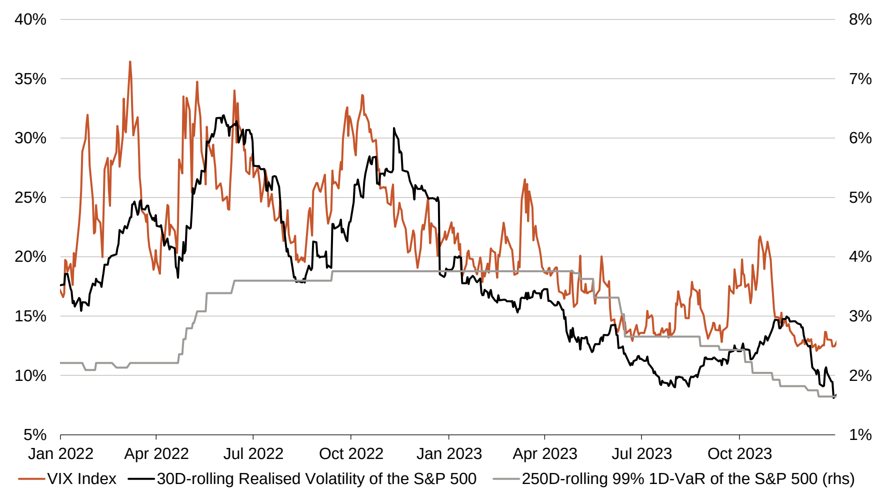
Realised Volatilities



- The realised volatilities of the last 60 days have changed little over the last few weeks.
- Compared to the start of the year, the order of the asset classes is exactly the same. However, the volatility of most asset classes has fallen over the year. For example, it was over 20% for developed and emerging market equities at that time. For the former, it has almost halved.

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: 29/12/2018 - 29/12/2023

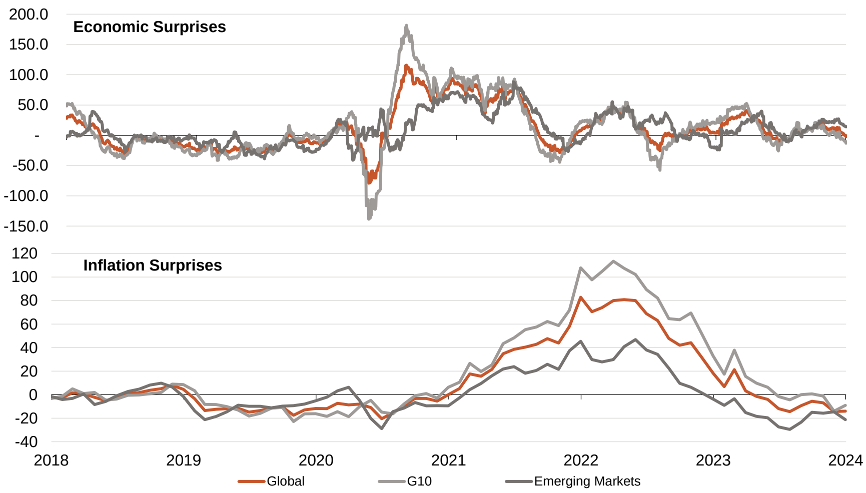
Volatility and Value-at-Risk of the S&P 500



- The VIX closed 2023 near its low for the year of 12 points. Realised volatility over the last 30 days also ended the year at its lowest point of 8%, meaning that the volatility premium is surprisingly high despite the low VIX level.

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 – 29/12/2023

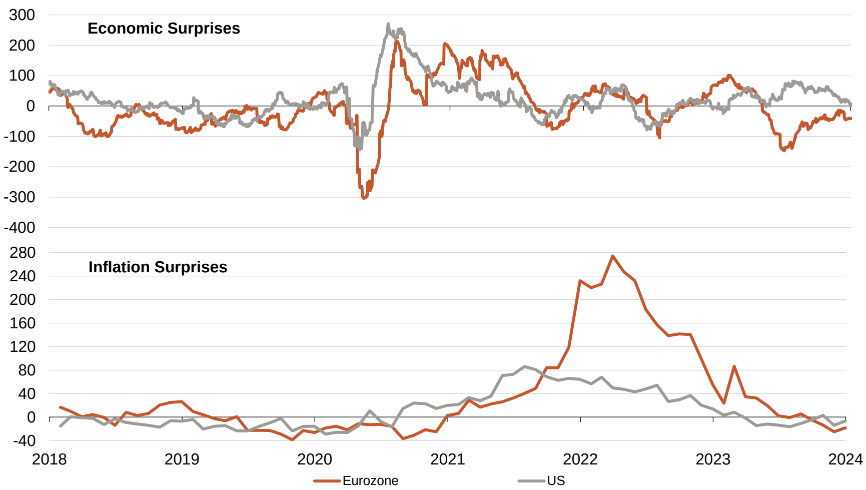
Global



- Positive economic surprises have diminished over the last two weeks, both globally and in the emerging markets. In Spain, the GDP growth figures for the third quarter came in as expected, while in the USA they surprised to the downside. In Canada, the GDP growth rate in October also came in below expectations.
- Inflation surprises were increasingly negative in December. In Canada, however, the November inflation rate surprised to the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 02/01/2024

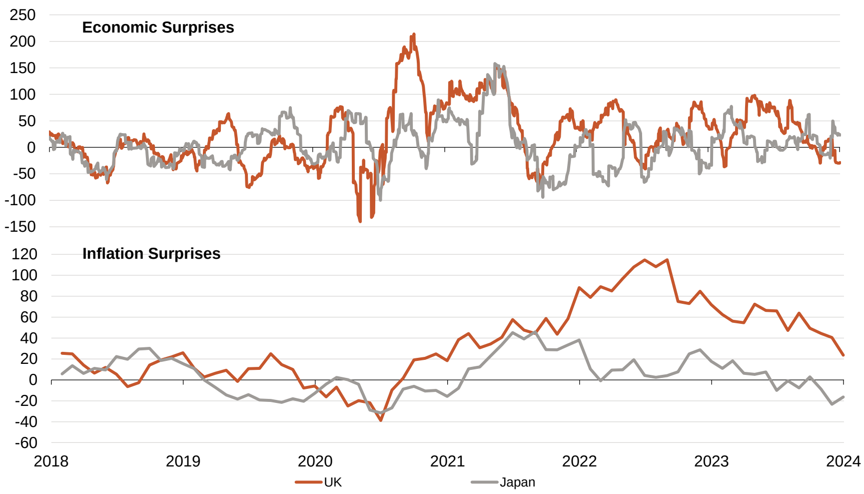
Eurozone and US



- In the US, the number of building permits fell more sharply than expected in November, although the number of housing starts came as a positive surprise. Consumer confidence in December and new orders for durable goods in November came in above expectations. In Germany, the Ifo business climate index was below expectations and consumer confidence in the eurozone surprised to the downside in December.
- Core inflation in the eurozone was as expected in November.

See explanations below.
Source: Bloomberg, Time period: 01/01/2018 - 02/01/2024

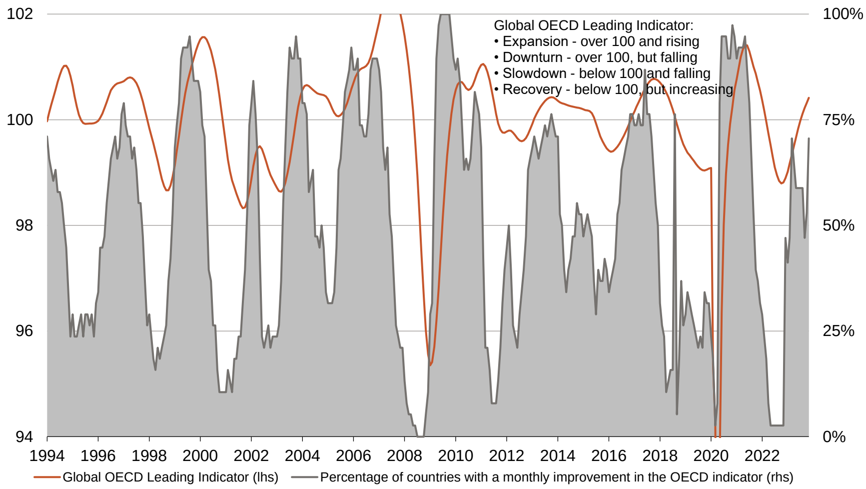
UK and Japan



- In the UK, the November core inflation rate surprised to the downside, with retail sales exceeding expectations.
- In Japan, industrial production and retail sales surprised to the upside in November.

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 - 02/01/2024

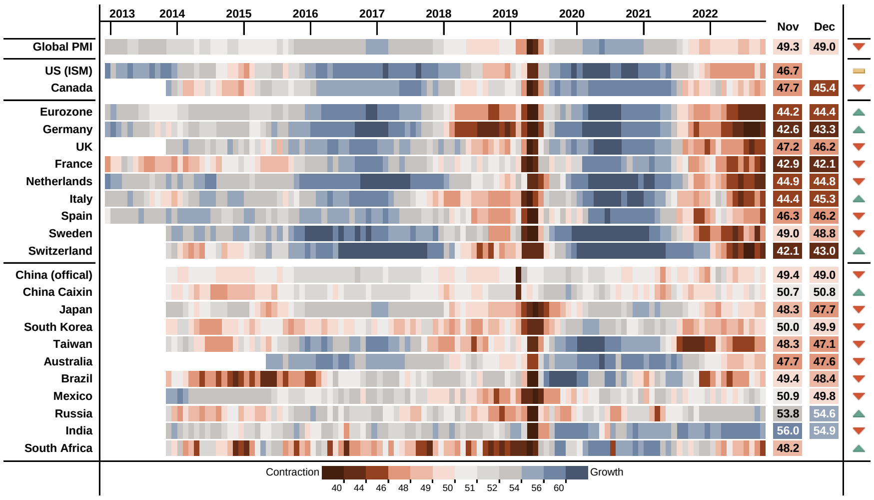
OECD Leading Indicator



- In November, the global OECD leading indicator remained above the 100 mark for the fifth month in a row with a value of 100.4. This is the fourteenth month in a row that the indicator has shown an upward trend.
- According to the leading indicator, over 70% 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 - 29/12/2023

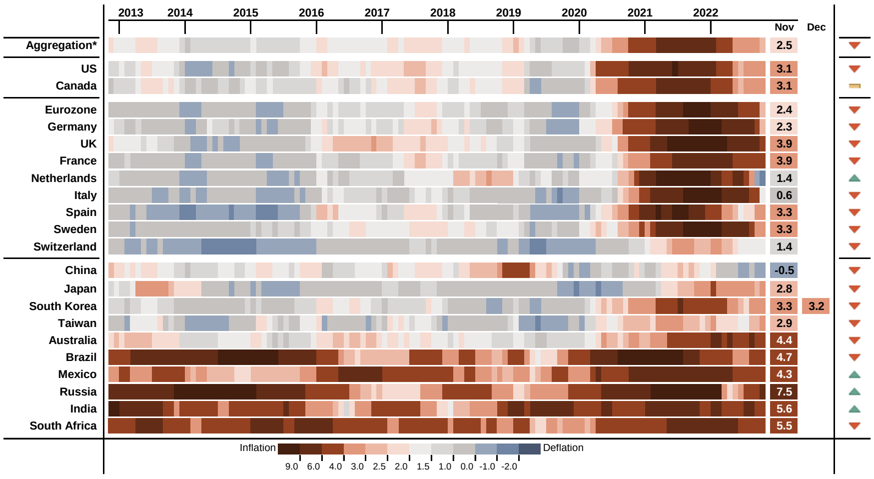
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The PMI figures continue to show clear regional divergences in December. While the purchasing managers' index rose in Germany and Italy, the PMI in the UK fell compared to the previous month. South Korea and Australia also recorded a sharper decline in industrial activity.

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 - 02/01/2024

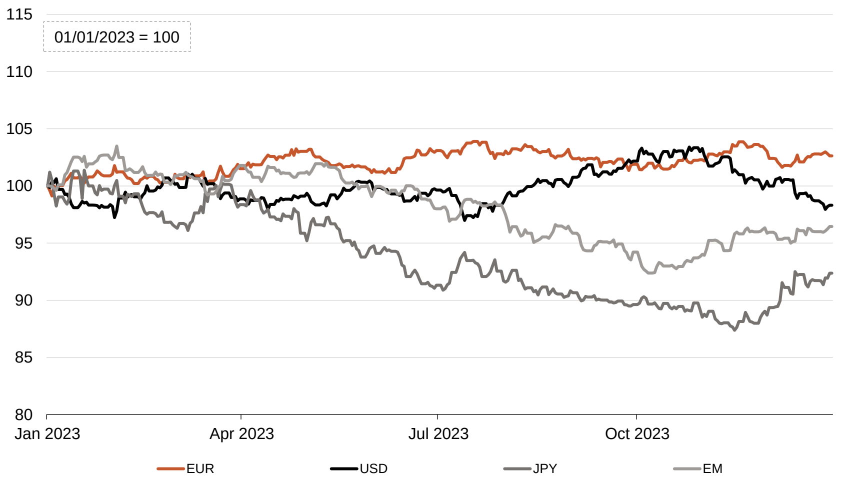
Headline Inflation



- The consequences of the central banks' restrictive monetary policy were increasingly reflected in the inflation data for November. Lower energy costs in particular were responsible for the decline in inflation rates in the USA and Europe. The first inflation data for December showed a continuation of the trend in South Korea.

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 - 02/01/2024

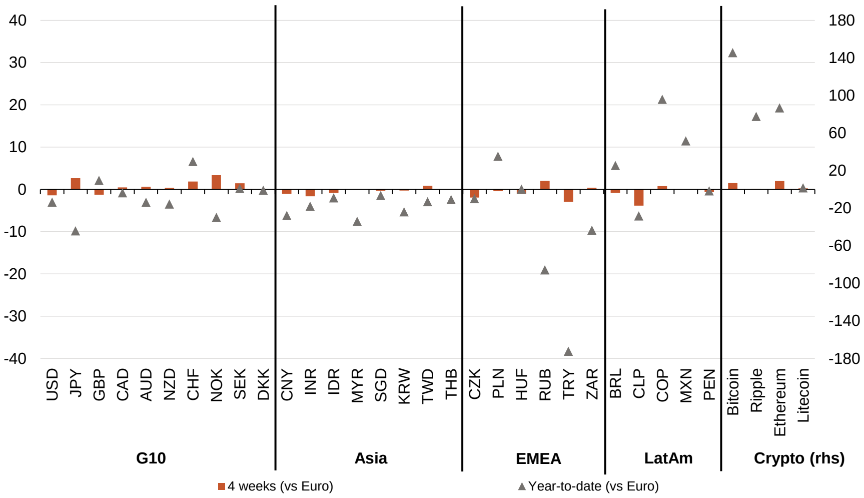
Trade-Weighted Currency Development



- Hopes of the Fed cutting interest rates for the first time in the first half of 2024 increasingly weighed on the US dollar towards the end of last year. The trade-weighted dollar index fell to its lowest level since July last year.
- The BoJ's decision to leave the key interest rate in negative territory dampened investors' hopes of interest rate hikes in the near future and weighed on the Japanese yen.

A trade-weighted index is used to measure the effective value of an exchange rate against a basket of currencies. The importance of other currencies depends on the share of trade with the country or currency zone.
Source: Bloomberg, Time period: 01/01/2022 - 29/12/2023

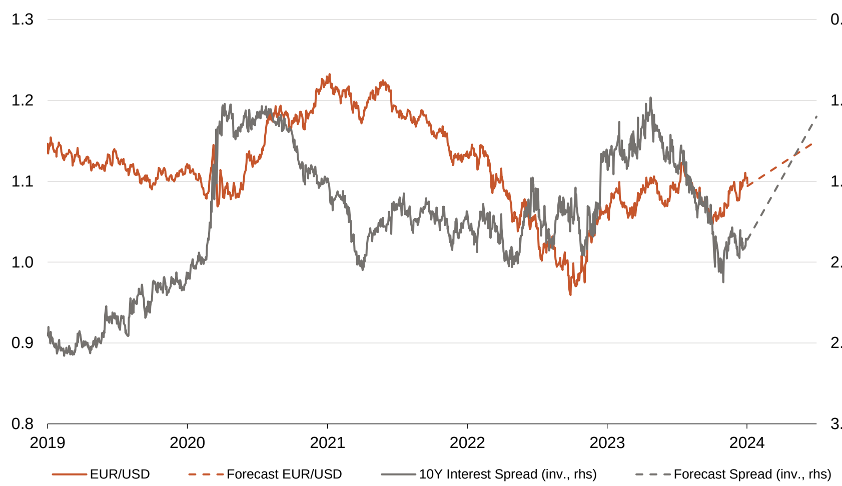
Currency Moves vs Euro



- Over the past four weeks, the euro has performed differently against the currencies presented here. While the euro appreciated against the US dollar and the pound sterling, the single currency weakened against the Japanese yen and the Norwegian krone.
- The interest rate cuts by the Czech and Hungarian central banks weighed on their domestic currencies in the last two weeks of last year.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2022 - 29/12/2023

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



- The weaker-than-expected economic data in the US fuelled investors' hopes of interest rate cuts by the Fed in the first half of 2024, which supported the EUR/USD exchange rate and pushed it above the 1.10 mark at the end of the year. The interest rate differential between US and German government bonds remained above the 1.8p mark.

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

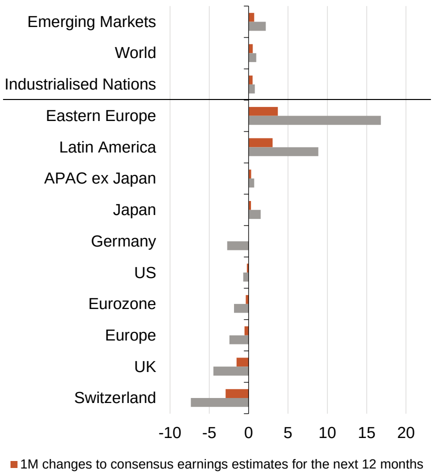
	4-week & YTD		12-month periods over that last 5 years				
	4W (01/12/23 - 29/12/23)	YTD (30/12/22 - 29/12/23)	29/12/22 29/12/23	29/12/21 29/12/22	29/12/20 29/12/21	29/12/19 29/12/20	02/01/19 29/12/19
Industrials	5.8	27.1	25.4	-15.9	27.5	3.6	37.3
Materials	4.3	12.4	11.0	-8.2	23.9	9.6	28.4
Information Technology	3.3	34.4	32.0	-27.1	35.7	13.6	39.0
Finance	3.1	21.5	20.2	-2.2	28.2	-15.7	23.5
Growth	3.1	16.1	14.5	-16.5	27.3	5.3	34.0
Consumer Discretionary	2.9	15.9	14.0	-15.1	22.2	5.7	35.3
Value	2.4	15.6	14.3	-0.1	21.1	-13.0	20.7
Health Care	2.2	8.4	7.1	-3.1	25.2	-2.9	32.8
Utilities	1.6	13.5	12.2	-7.3	7.6	11.4	30.7
Consumer Staples	0.4	1.5	0.5	-7.8	19.9	-3.6	27.0
Telecommunications	-0.2	15.1	13.2	-10.7	11.9	-13.8	6.0
Energy	-1.8	9.0	7.5	38.0	34.9	-34.0	8.4

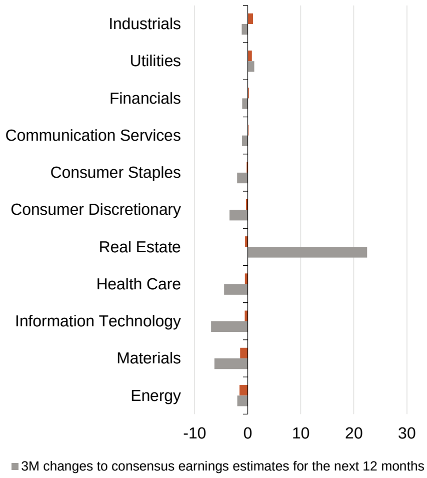
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Stables: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR; Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. 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 stock markets did not run out of steam in the final metres to the end of the year: With the exception of two segments, European shares recorded gains in the last four weeks.
- The outperformers since the beginning of the year have remained information technology stocks, which have benefited greatly from the AI euphoria throughout 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: 29/12/2018 – 29/12/2023

Changes in Consensus Earnings Estimates

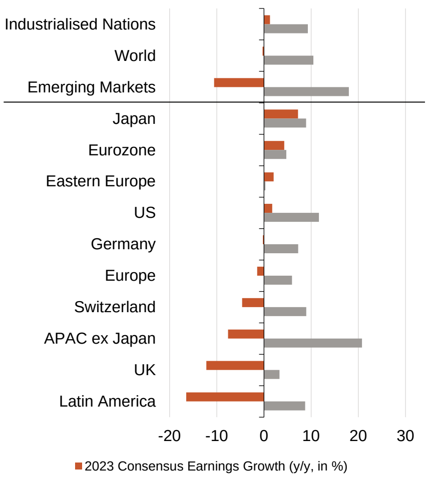


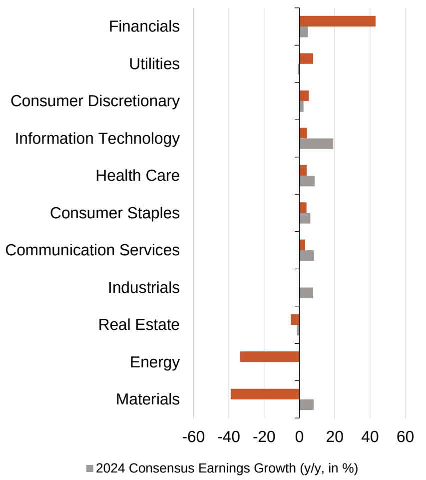


- There were only a few changes to analysts' earnings estimates at the end of the year. Regionally, analysts have become more optimistic over the last four weeks for Eastern Europe and Latin America.
- At sector level, there have been hardly any adjustments to consensus earnings estimates over the last four weeks. On a three-month horizon, the strongest positive earnings revisions were made for the interest rate-sensitive property sector.

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 28/12/2023

Earnings Growth

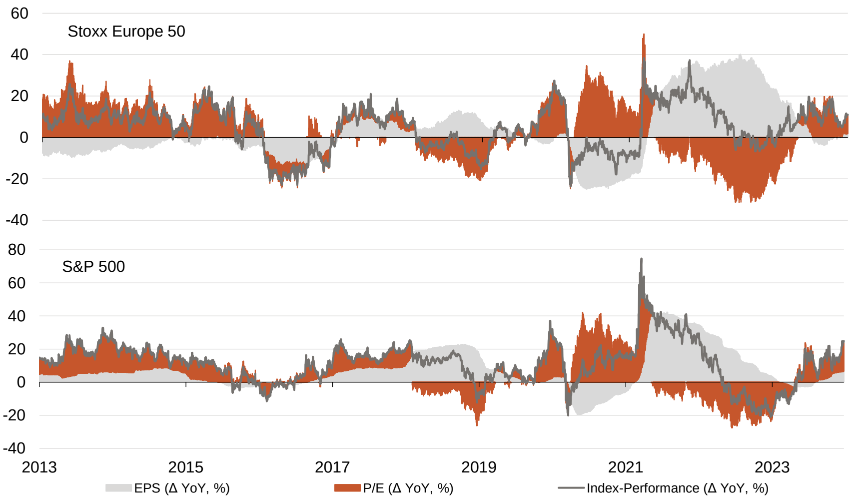




- According to the analysts, global earnings growth is likely to be flat in 2023. While earnings growth in the industrialised nations is likely to be in single digits, the decline in earnings of over 10% in the emerging markets is a burden.
- Looking ahead to 2024, the earnings growth outlook is much more optimistic. Analysts are forecasting global profit growth of around 10% for 2024.

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 28/12/2023

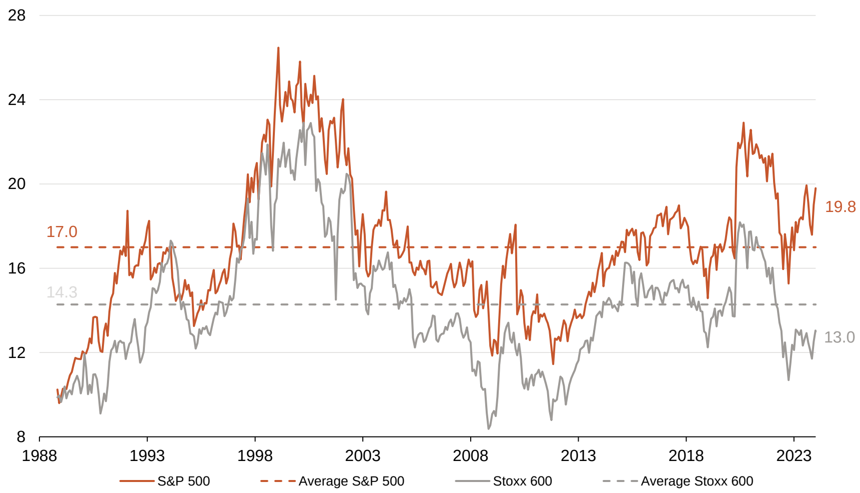
Contribution Analysis



- The dominant driver of the US and European equity markets in 2023 – especially from the second quarter onwards – was a significant year-on-year increase in valuations.
- From the second half of the year, the S&P 500 also benefited from a better earnings performance over the last 12 months. In contrast, the Stoxx Europe 50 was recntly only marginally supported by the slight year-on-year growth in earnings.

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 - 28/12/2023

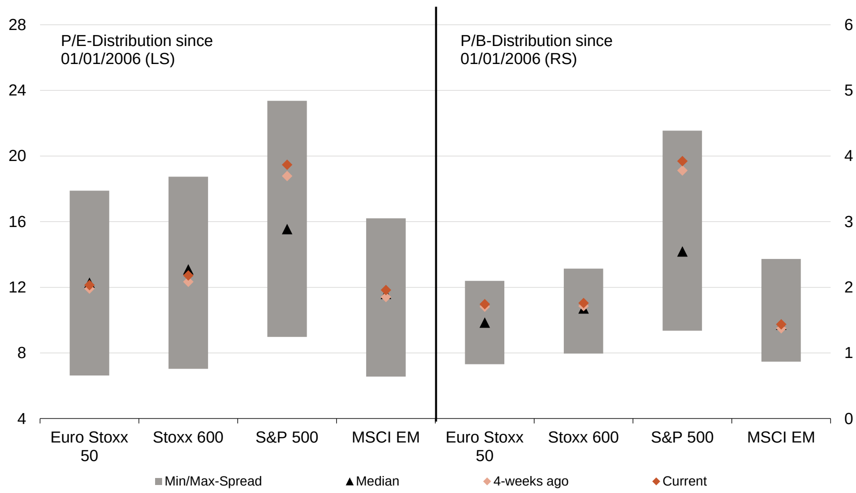
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- US and European equities started 2023 cheaply, with the S&P 500 trading at a P/E ratio of 16.9x at the end of 2022 and the Stoxx 600 at a P/E ratio of 12.1x. Both indices were therefore trading below their historical P/E averages at the start of the year.
- However, this changed over the course of 2023. US equities in particular experienced an increase in valuation. At the end of the year, the S&P 500 is expensively valued with a P/E ratio of 19.6x relative to its own history.

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 - 29/12/2023

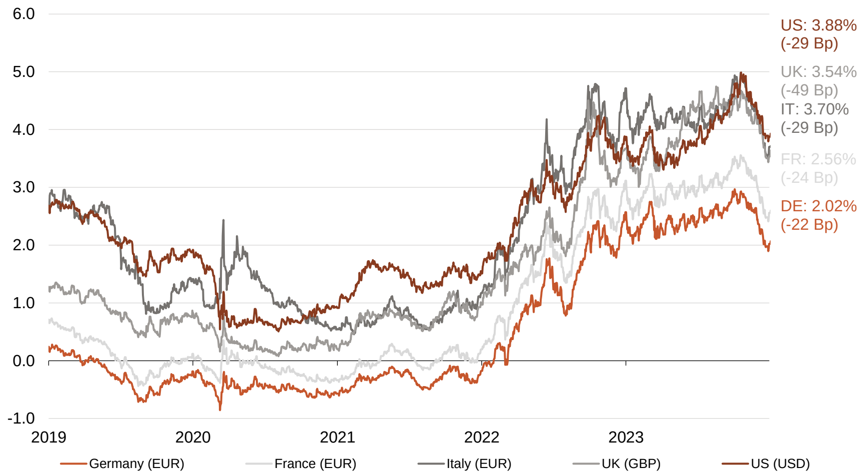
Historical Distribution: Price/Earnings and Price/Book Ratio



- Since the start of 2023, almost all of the equity regions shown here have seen their valuations increase – both on a P/B ratio and P/B ratio basis.
- Emerging market equities were the only ones to remain on the sidelines. The lack of a recovery in China following the strict coronavirus lockdowns weighed on Asian emerging markets in particular.

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 - 29/12/2023

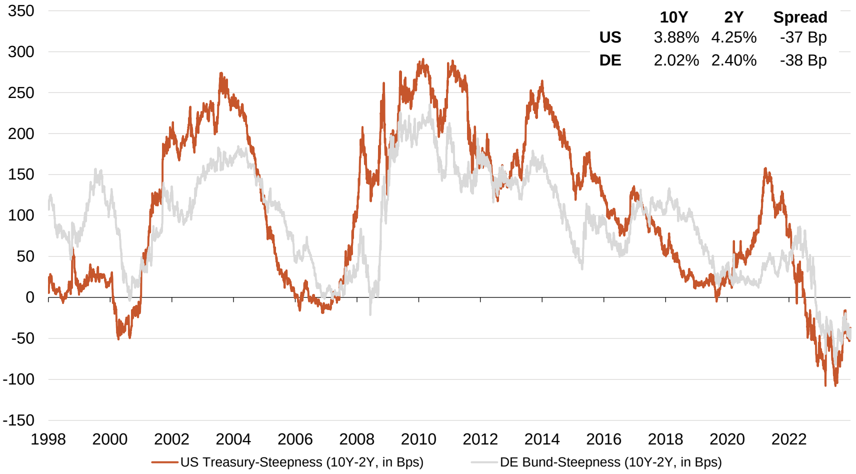
10-Year Government Bond Yields



- The decline in yields in recent weeks continued until the end of the year. US government bonds are currently yielding 3.88%, roughly the same level as at the start of 2023. German and British government bonds, on the other hand, are yielding significantly less than at the start of the year.
- Italian government bonds recorded the sharpest decline in yields over the course of the year, with yields falling by over 100 basis points since the start of the year.

Effective yield on 10-year government bonds and change over the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2019 - 29/12/2023

Yield Curve Steepness (10Y - 2Y)

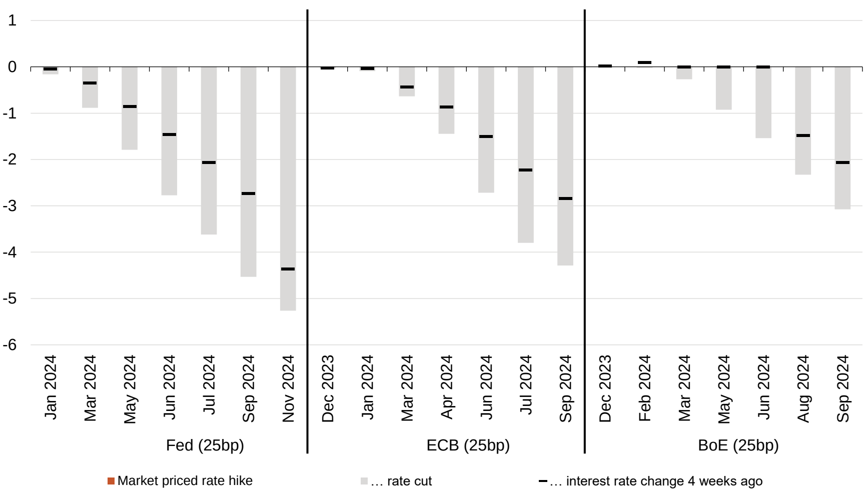


	10Y	2Y	Spread
US	3.88%	4.25%	-37 Bp
DE	2.02%	2.40%	-38 Bp

- The year 2023 brought a lot of movement for the US and European yield curves. The curves had already turned negative in the previous year, but this did not change over the course of 2023.
- The yield curves have moved sideways over the last four weeks.

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 - 29/12/2023

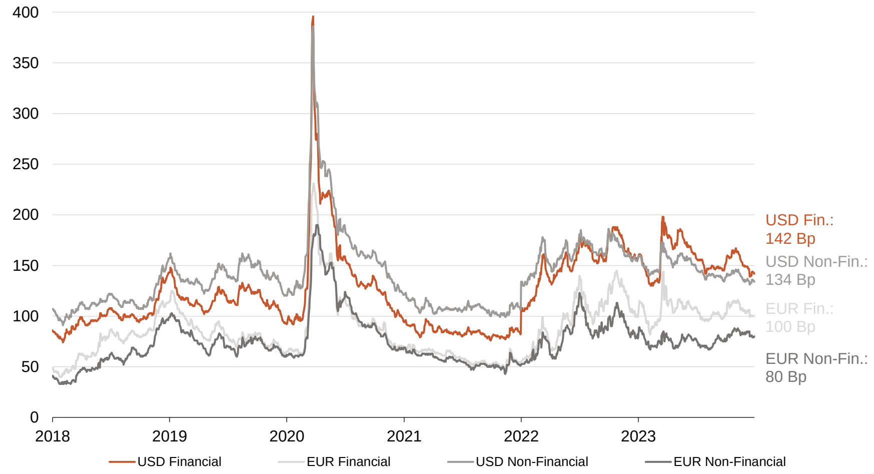
Implicit Changes in Key Interest Rates



- 2023 was the year of the central banks. At the start of 2023, the market expected the US to see two interest rate hikes of 25bp each in the first half of the year. Instead, the Fed raised interest rates four times by July, totalling 100 bp.
- As quickly as it went up, it will go down again, is what markets expect: At the end of 2023, the market is only pricing in cuts – for the Fed and ECB more than 4 cuts of 25bp each by autumn 2024.

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 - 29/12/2023

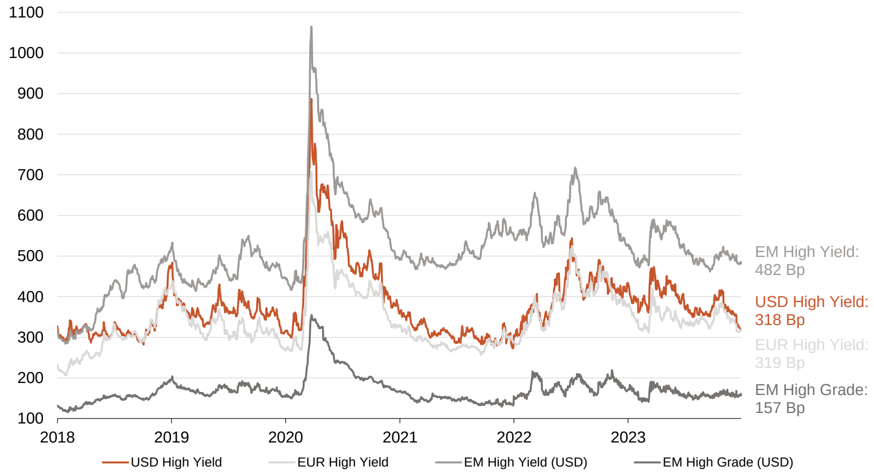
Credit Spreads Financial and Non-Financial Bonds



- The risk premiums on investment-grade corporate bonds have changed little since the beginning of the year despite strong movements over the course of the year.
- USD financial and non-financial bonds have each seen a slight narrowing of spreads by 14 and 21 basis points respectively since the start of the year. The risk premiums of EUR financial and non-financial bonds remained virtually unchanged with an imperceptible spread widening of 1 basis point each.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 – 28/12/2023

Credit Spreads High Yield and Emerging Markets Bonds



- The changes in risk premiums for high-yield bonds have been significantly greater since the start of the year. The risk premiums on EUR high-yield bonds fell by 60 basis points, while the risk premiums on USD high-yield bonds even fell by more than 110 basis points.
- Emerging market high-yield bonds saw a spread tightening of 45 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 – 28/12/2023

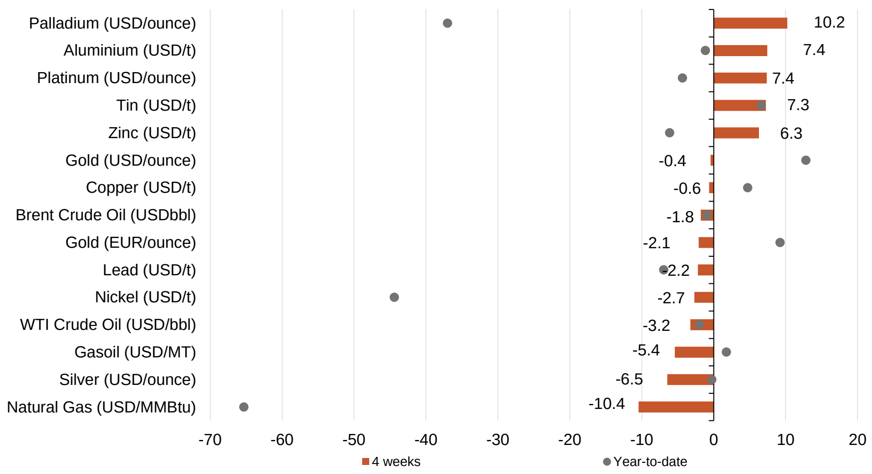
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Per-centile	1M	YTD	28/12/22 28/12/23	28/12/21 28/12/22	28/12/20 28/12/21	28/12/19 28/12/20	28/12/18 28/12/19
EUR Government	2.62	-0.58	7.3	-	-	-	4.5	7.3	7.4	-18.6	-2.7	4.3	7.3
Germany	2.11	-0.51	7.4	-	-	-	4.0	5.4	5.7	-17.9	-2.0	2.3	3.6
EUR Corporate	3.59	-0.61	4.5	87	-5	70	3.2	8.1	8.4	-14.2	-0.7	2.3	6.5
Financial	3.85	-0.59	3.7	100	-6	69	2.8	7.8	8.1	-12.0	-0.3	1.9	5.9
Non-Financial	3.44	-0.61	4.9	79	-5	71	3.5	8.3	8.5	-15.4	-0.8	2.5	6.8
EUR High Yield	6.51	-0.78	3.1	315	-29	41	3.4	11.9	12.0	-11.5	3.4	2.7	11.3
US Treasury	4.14	-0.44	6.4	-	-	-	3.2	3.6	4.3	-13.0	-2.3	7.8	7.5
USD Corporate	5.24	-0.50	6.8	139	-1	51	4.0	7.9	8.9	-15.5	-0.7	9.1	14.8
Financial	5.45	-0.51	5.0	144	-6	68	3.2	7.7	8.4	-12.7	-0.6	8.6	12.9
Non-Financial	5.14	-0.49	7.7	136	0	42	4.4	8.1	9.1	-16.8	-0.7	9.3	15.6
USD High Yield	7.84	-0.77	3.9	324	-40	15	3.9	13.0	13.3	-11.2	5.6	6.0	14.6
EM High Grade	5.42	-0.57	5.3	157	-6	30	3.4	6.8	7.2	-14.2	0.0	5.7	12.0
EM High Yield	9.50	-0.64	3.8	482	-16	32	3.5	8.8	9.2	-15.0	-3.9	8.9	13.4

- 2023 was a pleasing year for all bond segments shown here: none of the bond segments shown here experienced losses over the year.
- USD high-yield bonds remain the strongest bond segment with a performance of 13% since the start of the year, closely followed by EUR high-yield bonds with a performance of 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 – 28/12/2023

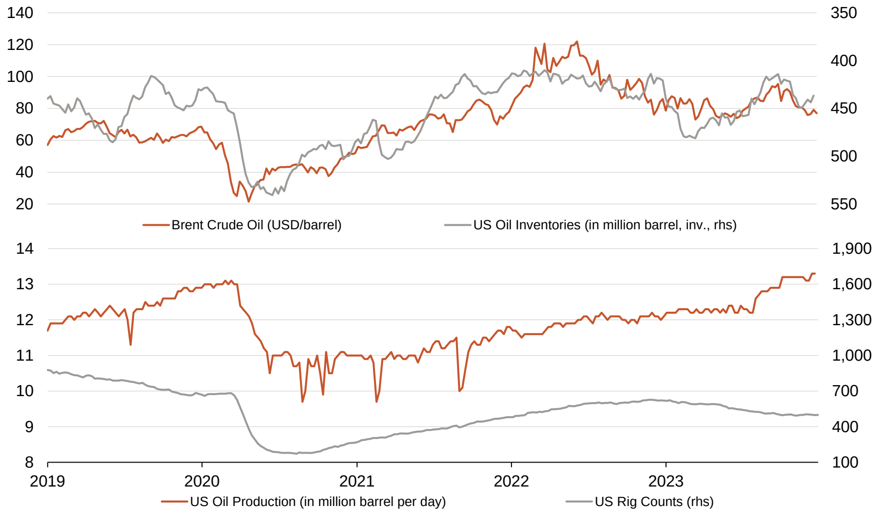
Commodities Performance



- Performance in commodity markets was very mixed in 2023.
- Gold was the best performer at over 10%, followed by individual industrial metals such as copper and tin. The latter recently benefited from a mine outage in Siberia.
- By contrast, other precious and industrial metals such as palladium and nickel suffered significant losses in 2023.
- Energy commodities also recorded losses across the board.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2022 – 29/12/2023

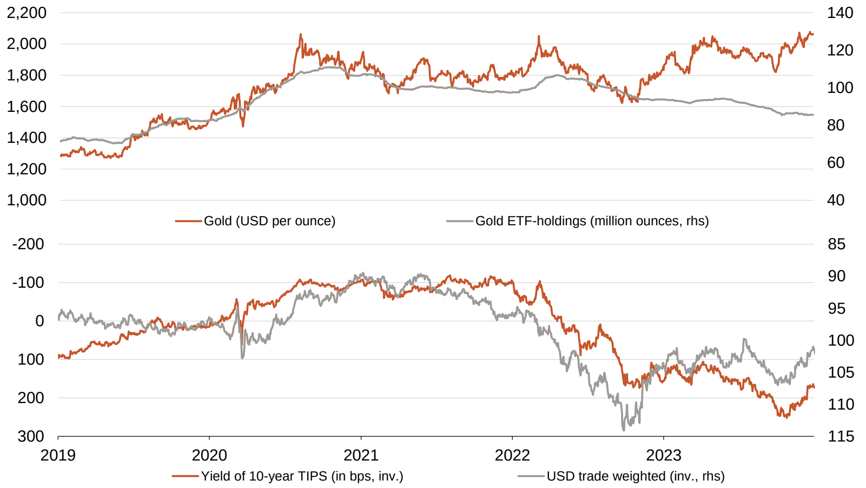
Crude Oil



- Crude oil was one of the few risk assets that performed poorly in 2023. This was due to China's disappointing development, recurring economic concerns and ultimately surprisingly strong increases in supply from non-OPEC producers.
- At least the positive carry of the futures curve was a small source of return for investors, meaning that the total return on Brent was around 5% better than the spot return.

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 – 30/12/2023

Gold



- Gold ended the year at a new all-time high of USD 2077 per ounce.
- A few months ago, this was unthinkable in an environment of ever-rising real interest rates. However, with the change in interest rate trends, a weaker US dollar and the geopolitical escalation in the Middle East, the precious metal found new momentum.

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 – 30/12/2023

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IMPORTANT NOTICES

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