BERENBERG Markets

MONITOR

15 January 2024

Current market commentary

After a strong December, most equity markets got off to a moderate start in 2024. This was also due to the recent countermovement in bond yields following the rapid downward trend since the end of October. In their latest speeches, Fed members expressed concerns that the interest rate cuts priced in by the market for 2024 are likely to be too optimistic. The enormous easing of financial conditions (interest rates, oil, USD, credit spreads down, equities up) in the last two calendar months is likely to have increased the probability of a "no landing" for the economy - with the result that inflation may not come down as much as hoped this year. In this scenario, the Fed would have to be significantly more restrictive than the market is currently pricing in. Against this backdrop, the upcoming Fed meeting at the end of January and the announcement by the US Treasury Department regarding US government bond sales in Q2 (volume and maturity structure) are likely to influence investors' risk appetite.

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

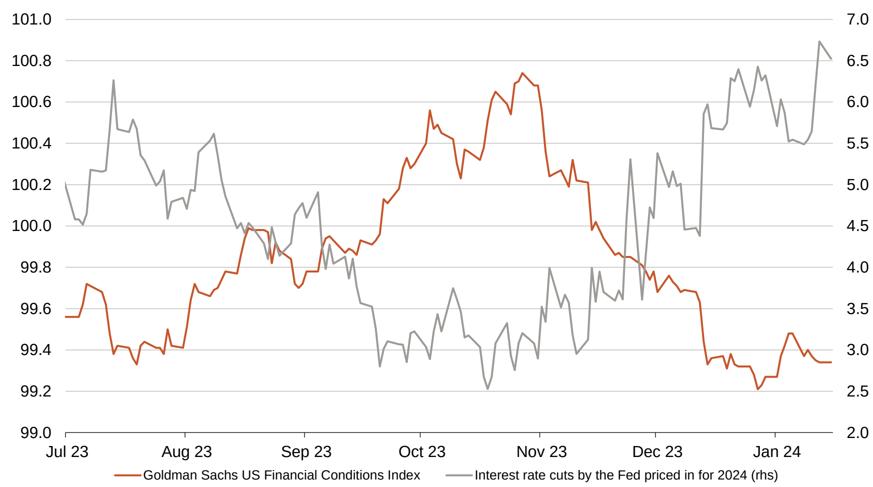
With the start of the Q4 reporting season, the market focus is likely to shift back to corporate fundamentals. Starting with financial stocks, around 60% of the S&P 500 will report in the next three weeks. At the (monetary) policy level, the ECB meeting on 25 January should provide insights into the further development of interest rates in Europe. In addition, the World Economic Forum in Davos will take place from 15-19 January and the presidential elections in Finland on 28 January.

Market focus on the Q4 reporting season.

Today the GDP figures (2023) and tomorrow the ZEW economic expectations (Jan.) for Germany and the Empire State Index (Jan.) for the US will be published. On Wednesday, the Q4 GDP figures and the December data on industrial production and retail sales (Dec.) for China and the US will provide information on the robustness of the global economy. The Philadelphia Fed Index (Jan.) and the sentiment indicator from the University of Michigan (prel., Jan.) are due on Friday. This will be followed next week by the US Q4 GDP figures and durable goods orders.

Economic data provides insight into the global economic landscape.

Are the looser financial conditions preventing quick interest rate cuts?



- Financing conditions in the US have eased considerably in recent months with falling interest rates, lower credit spreads, stronger equity markets and a weaker US dollar.
- It is unclear whether the US economy will really "land" with so much tailwind. Nevertheless, the consensus expects the Fed to cut interest rates almost six times this year. However, the latest US inflation data shows that the normalisation of monetary policy could take longer than expected.

Source: Bloomberg, Time period: 01/07/2023 - 12/01/2024

Multi Asset

	4W (15/12/23 - 12/01/24)	YTD (29/12/23 - 12/01/24)	12/01/23 12/01/24	12/01/22 12/01/23	12/01/21 12/01/22	12/01/20 12/01/21	11/01/19 12/01/20
MSCI Frontier Markets	2.4	2.1	8.1	-19.3	22.4	-4.2	18.6
Brent	2.0	2.9	2.2	34.5	75.3	-30.6	22.5
MSCI World	1.1	1.0	17.3	-9.3	26.8	6.8	27.9
Gold	0.9	0.1	7.0	9.5	5.0	8.1	25.2
Euro overnight deposit	0.3	0.2	3.4	0.1	-0.6	-0.5	-0.4
EUR Sovereign Debt	-0.1	-0.5	3.4	-9.8	-1.6	1.6	3.3
EUR Coporates	-0.2	-0.6	5.5	-12.1	-1.4	2.5	6.6
USDEUR	-0.5	0.8	-0.9	5.4	6.7	-8.9	3.1
REITs	-0.5	-0.2	-2.4	-14.0	39.9	-18.6	22.1
Global Convertibles	-0.7	-0.2	5.8	-12.8	-1.1	39.8	20.0
MSCI Emerging Markets	-0.7	-1.6	-0.5	-12.7	1.7	11.4	20.0
Industrial Metals	-2.6	-3.5	-17.3	3.0	40.3	7.9	9.7

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 US and UK airstrikes against the Houthi rebels in Yemen to secure commercial shipping in the Red Sea recently boosted Brent crude oil.
- However, the rise in real interest rates since the beginning of the year has weighed on bonds and REITs. Industrial metals suffered from economic concerns in China.
- After the massive year-end rally, the major share indices tended to tread water in the new year.

Total return for selected asset classes, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/01/2019 – 12/01/2024

Equities

	4W (15/12/23 - 12/01/24)	YTD (29/12/23 - 12/01/24)	12/01/23 12/01/24	12/01/22 12/01/23	12/01/21 12/01/22	12/01/20 12/01/21	11/01/19 12/01/20
MSCI Japan	4.8	4.0	18.8	-10.7	7.7	6.8	19.0
Stoxx Europe Defensives	2.9	2.0	9.2	3.7	17.5	-5.6	20.7
S&P 500	1.1	1.4	21.0	-9.6	34.2	8.3	32.5
MSCI UK	1.1	-0.3	5.4	2.4	25.5	-14.0	19.7
Stoxx Europe 50	0.7	0.1	9.3	3.2	23.7	-5.1	25.3
DAX	-0.3	-0.3	10.9	-5.9	15.0	3.3	23.8
Stoxx Europe Small 200	-0.5	-1.6	3.8	-17.8	19.0	6.1	23.7
MSCI EM Eastern Europe	-0.6	-1.5	31.4	-80.3	21.8	-17.3	35.0
Stoxx Europe Cyclicals	-0.9	-1.4	11.7	-8.5	23.8	2.7	22.9
MSCI EM Asia	-1.3	-2.1	-3.3	-13.2	-1.8	21.0	22.9
Euro Stoxx 50	-1.5	-0.8	11.3	-1.9	21.8	-2.7	26.9
MSCI USA Small Caps	-1.5	-2.0	6.3	-5.5	16.0	16.1	22.0

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.

- Japan has recently been the best performing equity region. The MSCI Japan surpassed its September 2023 high and reached its highest level in 34 years last week after data on labour income and real wages in November dampened the prospects of the BoJ exiting its ultra-loose monetary policy.
- European equities, on the other hand, were among the relative losers.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/01/2019 – 12/01/2024

Fixed Income

	4W (15/12/23 - 12/01/24)	YTD (29/12/23 - 12/01/24)	12/01/23 12/01/24	12/01/22 12/01/23	12/01/21 12/01/22	12/01/20 12/01/21	11/01/19 12/01/20
EUR High Yield	1.0	0.5	10.1	-9.6	2.9	3.0	10.7
Chinese Sovereign Bonds	1.0	0.3	5.3	3.3	5.7	2.6	4.3
USD High Yield	0.9	-0.1	9.1	-7.3	4.8	5.7	11.4
EM Local Currency Bonds	0.6	0.3	6.4	-3.4	-1.3	-7.6	14.6
USD Corporates	0.2	-0.1	4.6	-11.0	-1.0	7.5	14.4
BTPs	0.1	-0.1	5.2	-13.5	-2.7	6.6	11.8
EUR Financials	0.0	-0.4	6.3	-11.7	-1.0	2.1	6.5
Treasuries	-0.3	0.4	-0.5	-3.6	3.8	-3.1	10.9
EUR Non-Financials	-0.4	-0.7	4.9	-12.4	-1.7	2.7	6.6
EM Hard Currency Bonds	-0.6	-0.1	6.0	-9.3	4.4	-5.9	17.4
Bunds	-0.8	-1.0	1.6	-15.0	-2.6	2.0	3.0
Gilts	-1.1	-1.4	1.6	-26.1	1.9	0.7	13.3

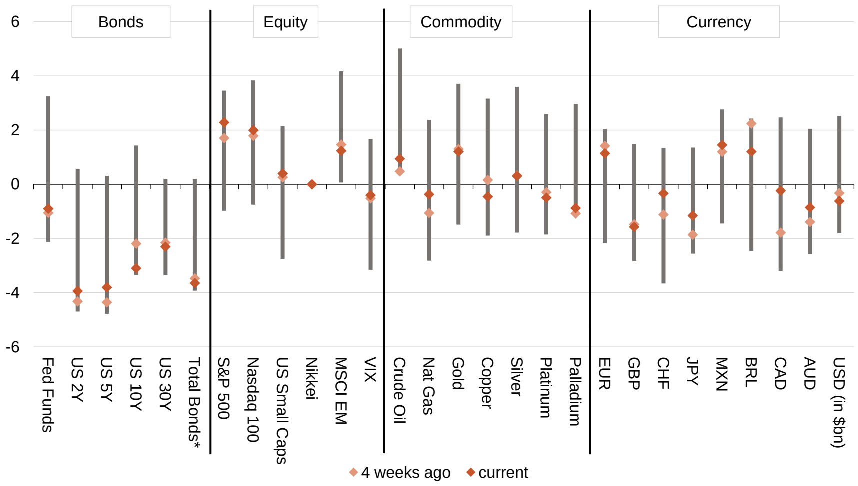
4-week & YTD; 12-month periods over that last 5 years

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

- Yields on 10-year Chinese government bonds were at times at their lowest level since April 2020 last week due to expectations of further monetary easing by the People's Bank of China (PBOC).
- The rise in real interest rates since the beginning of the year has weighed on German government bonds. Stronger-than-expected economic data in the UK also called into question the BoE's prospects for cutting interest rates.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/01/2019 – 12/01/2024

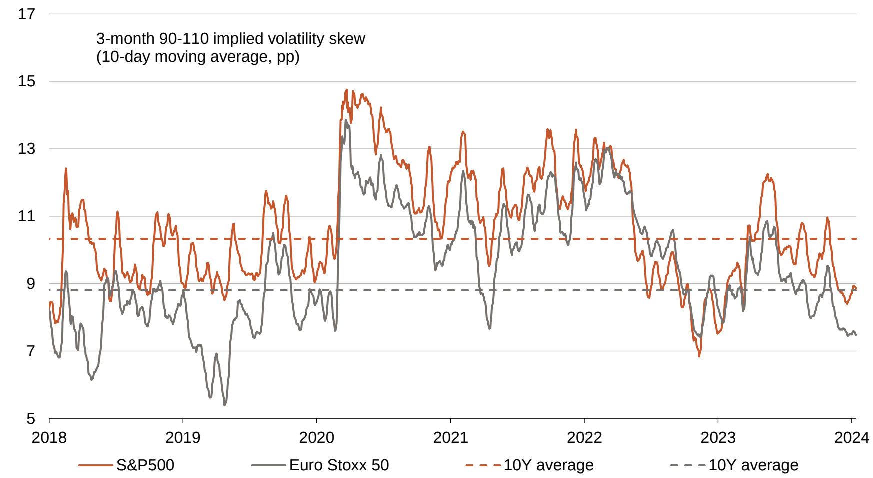
Non-Commercial Positioning



- Speculative investors are currently holding substantial long positions in US equities.
- In the case of US government bonds, they have built up shorts in the 10Y segment again after the strong interest rate movement and covered shorts in the shorter segment. Overall, this speaks in favour of the expectation of a steeper yield curve.

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: 09/01/2014 - 09/01/2024

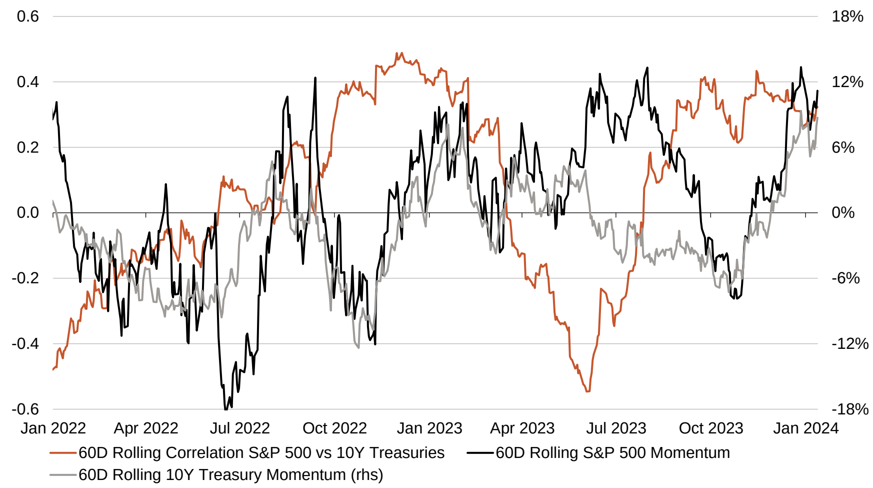
Put-Call-Skew



- The skew has stabilised at a low level in both the US and Europe.
- After the year-end rally, investors do not currently appear to have a particularly high urge to hedge.

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: 12/01/2014 - 12/01/2024

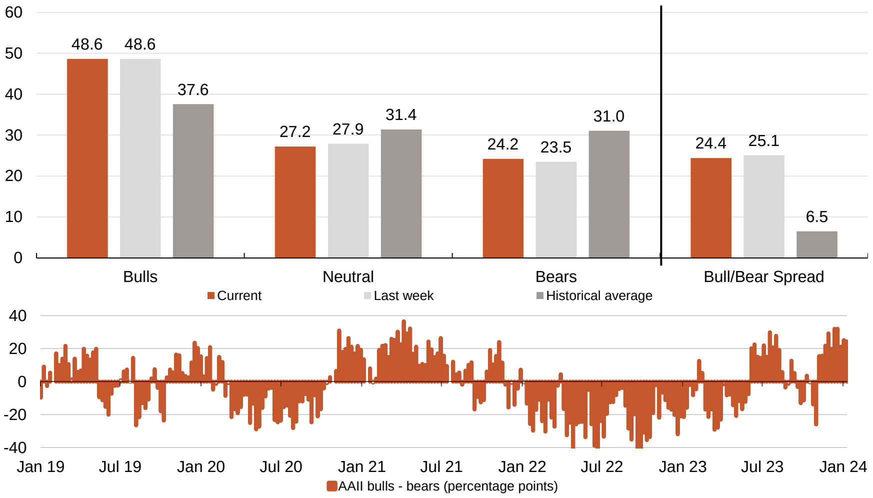
60-Day Momentum and Correlation



- The momentum in equities and bonds has recently eased somewhat.
- However, as it is still at a high level, trend-following strategies are likely to maintain very high equity allocations.
- The downside potential of the markets in the event of negative news remains therefore high.

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 - 12/01/2024

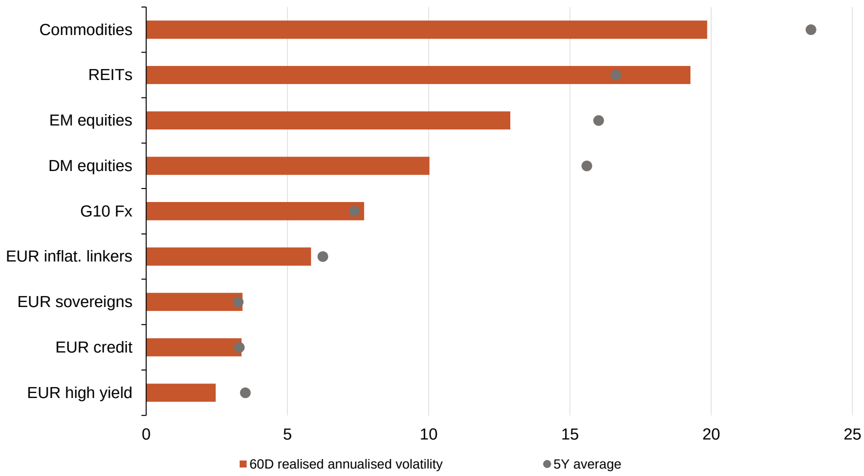
AAII Sentiment Survey (Bulls vs Bears)



- The optimism of US private investors remains unbroken. For 10 weeks now, the bulls have outweighed the bears, and for the past 5 weeks by more than 20 ppts.
- Even if the pronounced optimism calls for caution, longer phases of positive sentiment are not unusual historically.

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 – 11/01/2024

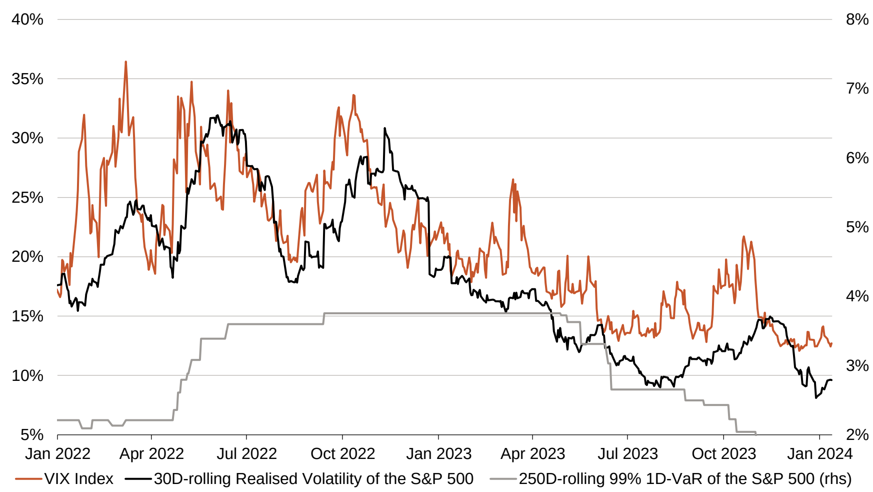
Realised Volatilities



- Realised volatilities have hardly changed since the beginning of the year.
- Only REITs show a significantly higher volatility than in the last 5 years.
- Corporate and government bonds have recently swapped places. The order of the two is thus back in line with the historical average. By contrast, high-yield bonds, normally the most volatile of the three segments, continue to fluctuate very little due to their lower interest rate sensitivity.

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: 12/01/2019 - 12/01/2024

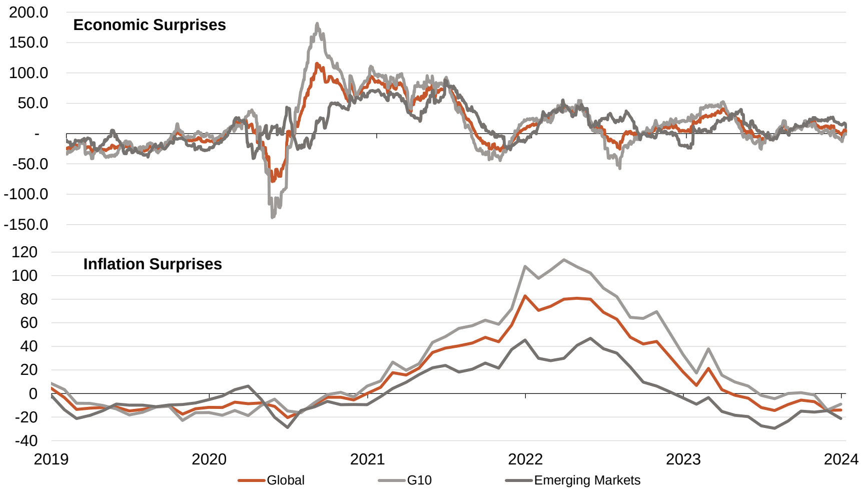
Volatility and Value-at-Risk of the S&P 500



- Both realised and implied volatility remain at historically low levels.
- The VIX has not even exceeded the 15 mark since the beginning of the year. It currently stands at around 13, meaning that investors are expecting fluctuations of less than 1% for the S&P 500 over the next month.

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 – 12/01/2024

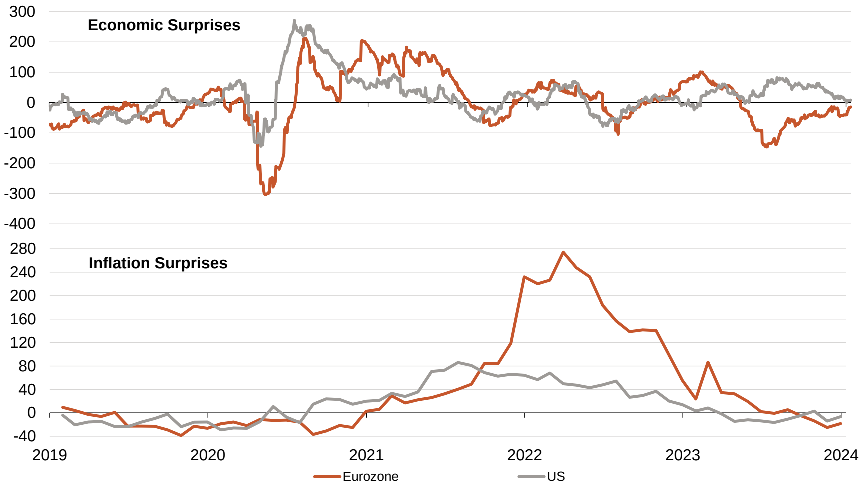
Global



- The economic surprises in the last two weeks showed regional differences, with positive economic surprises increasing in the emerging markets and decreasing in the industrialised countries. In Canada, the number of building permits fell more than expected in November, while in India the GDP growth forecast for 2024 came in better than expected.
- Global inflation surprises were increasingly negative in December. Inflation data in Mexico and Australia came as a negative surprise, while in Brazil it was positive.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 – 12/01/2024

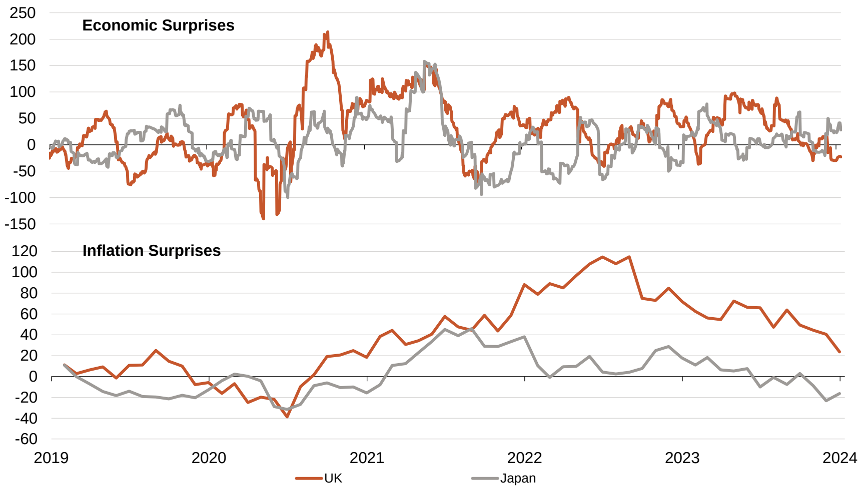
Eurozone and US



- In the US, the unemployment rate surprised to the downside in December, while the number of new jobs created exceeded expectations. New orders for durable goods came in as expected in November, while wholesale sales were disappointing. In Germany, retail sales and new orders for industry surprised to the downside in November.
- In Germany, the inflation rate in December was below expectations, although the inflation data in the USA came as a positive surprise.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 – 12/01/2024

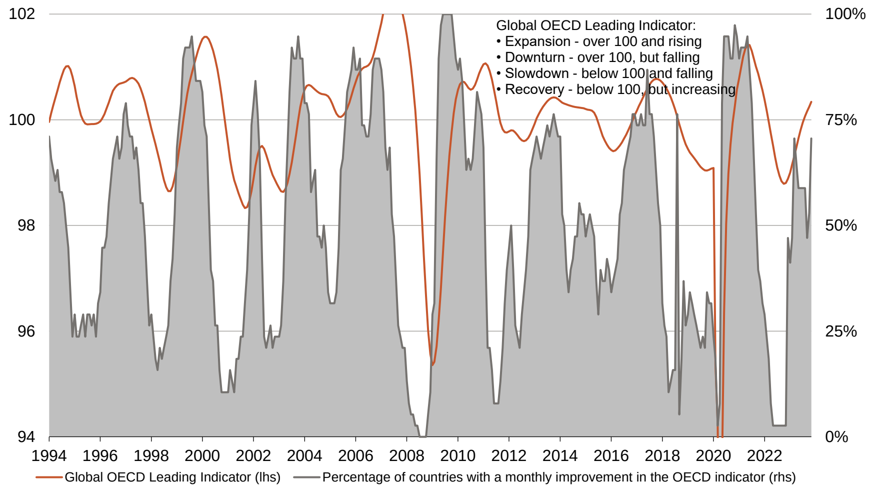
UK and Japan



- In the UK, the PMI for the manufacturing sector was below expectations in December, while the PMI for the services sector surprised to the upside. In Japan, the December inflation rate came in as expected.

The Citigroup Economic Surprise Indices are defined as weighted historical normalised data surprises (actual releases vs. Bloomberg survey median) over the past three months. A positive value of the index indicates that, on balance, economic data have outperformed consensus. The indices are calculated daily in a rolling three-month window. The indices use a time decay function to replicate the markets' limited memory, i.e. the weight of a data surprise decreases over time.
Source: Bloomberg, Time period: 01/01/2019 – 12/01/2024

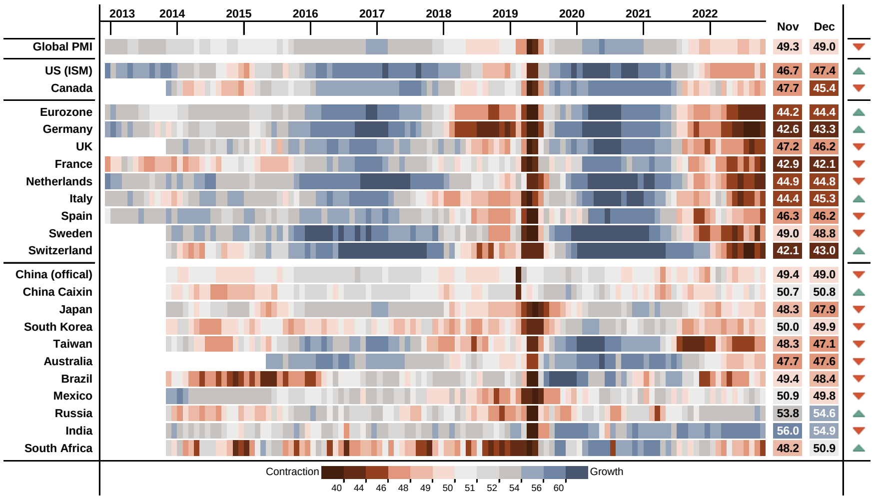
OECD Leading Indicator



- The global OECD leading indicator remained above the 100 expansion mark for the fifth consecutive month in November 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 Turkey showing the sharpest decline.

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 – 12/01/2024

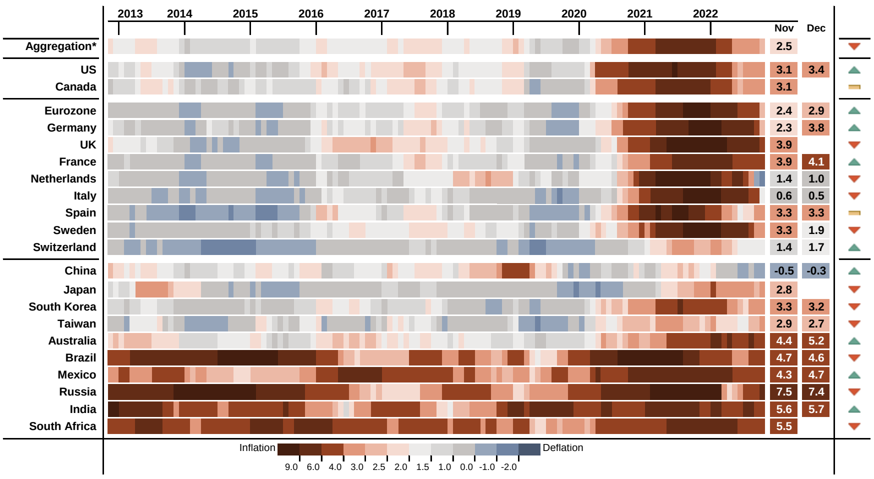
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- In December, there was a decline in industrial activity at a global level compared to the previous month. However, Germany and the USA were able to counteract this trend. In China, the official PMI data showed an improvement and the Caixin index a deterioration compared to the previous month.

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: 12/12/2013 – 12/01/2024

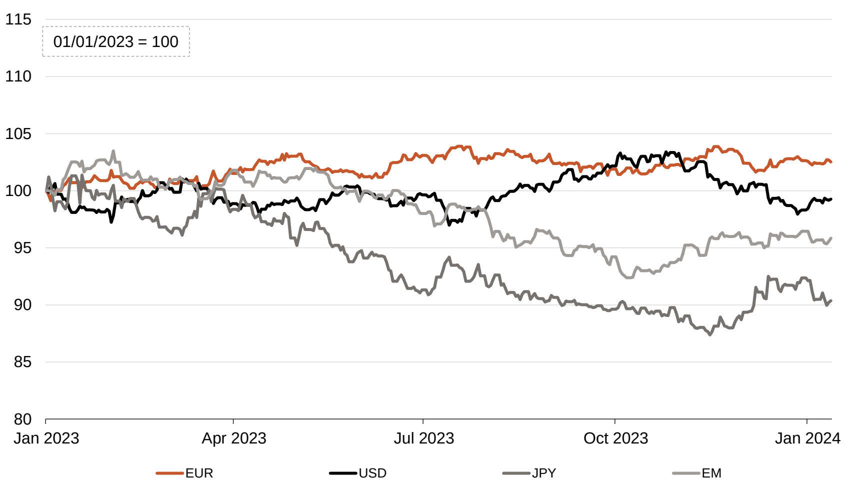
Headline Inflation



- The first inflation data show clear divergences in December. While the inflation rate in the USA, Germany and France rose compared to the previous month, it fell in Italy and Brazil. In Germany, a base effect from the federal government's energy lump sum in December 2022 was primarily responsible for the increase in the inflation rate compared to November.

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: 12/12/2013 – 12/01/2024

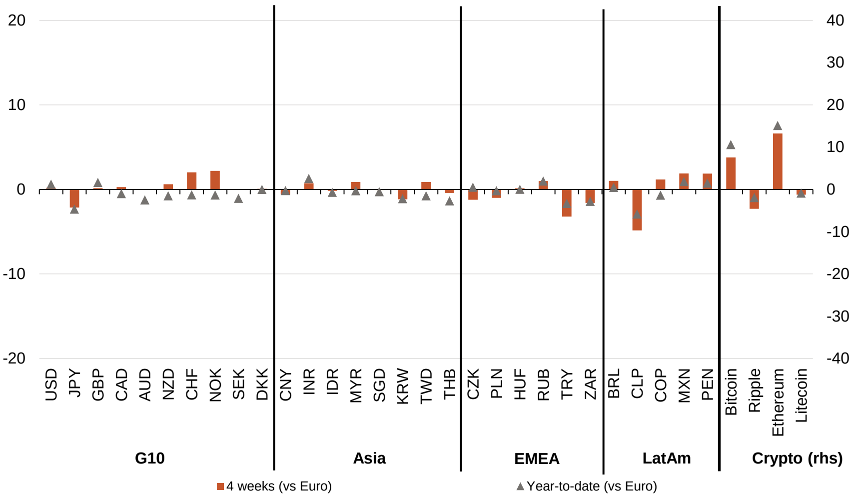
Trade-Weighted Currency Development



- Following robust US labour market data and a positive surprise in December's inflation figures, investor scepticism in regard to imminent Fed rate cuts increased, which has supported the US dollar over the past two weeks.
- The Japanese yen depreciated after weaker-than-expected wage growth data in November once again called into question the prospects of an end to the BoJ's ultra-loose monetary policy.

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: 01/01/2023 - 12/01/2024

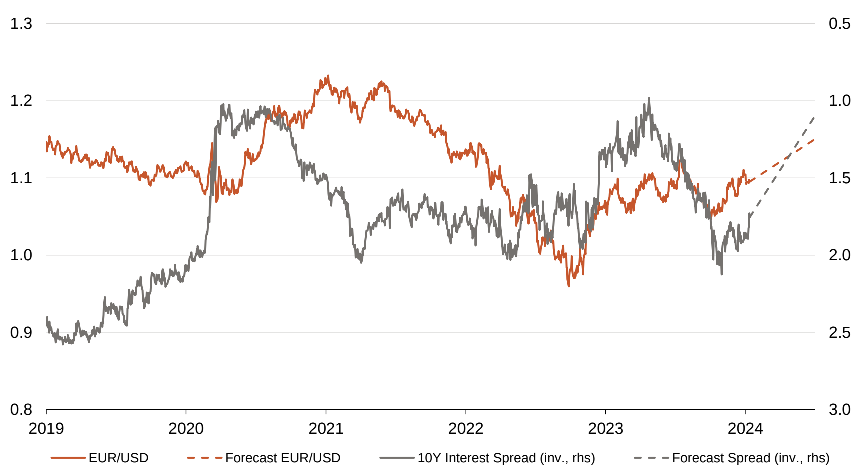
Currency Moves vs Euro



- Stubborn inflation data in Norway in December supported the Norwegian krone. A negative inflation surprise in the Czech Republic in December, on the other hand, weighed on the Czech koruna. The better-than-expected Australian trade balance for November gave the Australian dollar a tailwind.
- Bitcoin is still up since the beginning of the year, even though there was significant profit-taking last week following SEC support for the very first US-listed Bitcoin spot ETF.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 12/12/2023 - 12/01/2024

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



- Statements by ECB President Christine Lagarde and ECB Governing Council member Boris Vujčić last week called into question the prospects of a key interest rate cut by the ECB in March and led to a fall in the interest rate differential between US and German government bonds to the level seen at the end of September 2023. The EUR/USD exchange rate has fluctuated around the 1.10 mark since the start of the year.

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: 01/01/2019 - 30/06/2024

European Sector & Style Performance

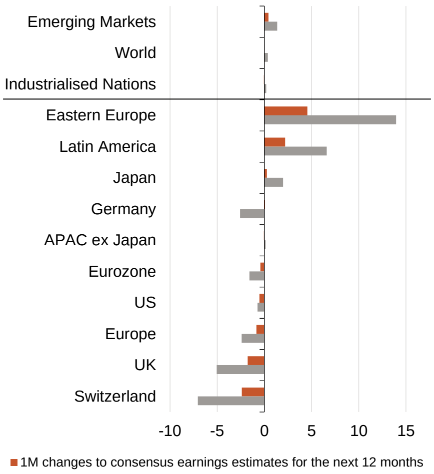
	4-week & YTD		12-month periods over that last 5 years				
	4W (15/12/23 - 12/01/24)	YTD (30/12/22 - 12/01/24)	12/01/23 12/01/24	12/01/22 12/01/23	12/01/21 12/01/22	12/01/20 12/01/21	11/01/19 12/01/20
Health Care	5.7	12.0	10.9	1.0	18.8	-2.7	30.4
Telecommunications	1.5	16.2	8.7	-5.9	10.9	-12.7	4.0
Consumer Staples	0.5	1.3	-1.3	-4.2	20.2	-5.1	22.7
Value	0.0	14.7	8.2	0.6	22.2	-10.1	16.4
Finance	-0.4	19.8	11.4	-1.7	30.7	-12.4	18.0
Industrials	-0.8	24.8	16.9	-9.9	22.2	7.2	31.5
Utilities	-1.1	13.4	8.3	-1.7	2.2	15.2	26.8
Growth	-1.3	14.2	7.6	-8.9	21.4	6.0	29.6
Energy	-2.0	5.7	3.1	26.0	34.8	-27.9	7.1
Materials	-3.3	7.0	0.0	-5.8	21.1	18.0	19.9
Information Technology	-4.9	29.9	15.9	-15.3	27.3	12.9	37.3
Consumer Discretionary	-5.8	11.7	-0.5	-6.5	22.0	5.4	29.5

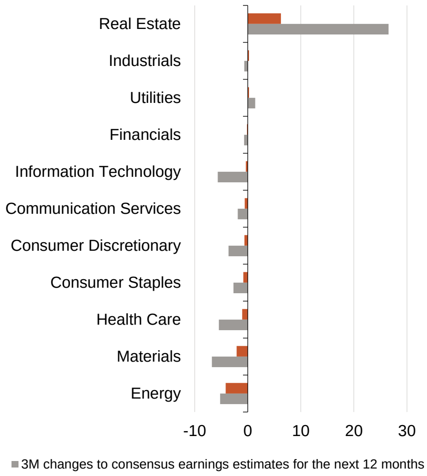
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Stables: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR;
Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. 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 European equity markets got off to a moderate start in 2024, with concerns that the interest rate cuts priced in by the market were too optimistic weighing on prices.
- Healthcare stocks, which tended to be in the midfield in 2023, rose the most over the last four weeks.
- Tech stocks, winners since the start of 2024, and cyclical consumer goods, on the other hand, have lagged behind 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: 12/01/2019 – 12/01/2024

Changes in Consensus Earnings Estimates

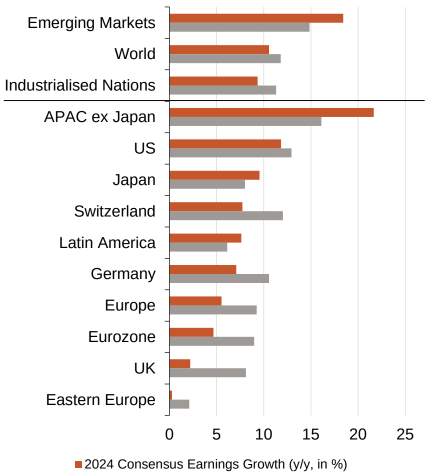


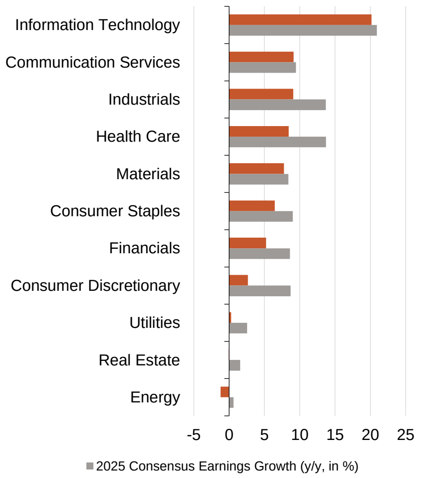


- There were only a few adjustments to the consensus earnings estimates before the start of the Q4 reporting season.
- In regional terms, analysts have become more optimistic, particularly for Eastern Europe and Latin America. Instead, they are more pessimistic about earnings development in the UK and Switzerland.

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 12/01/2024

Earnings Growth

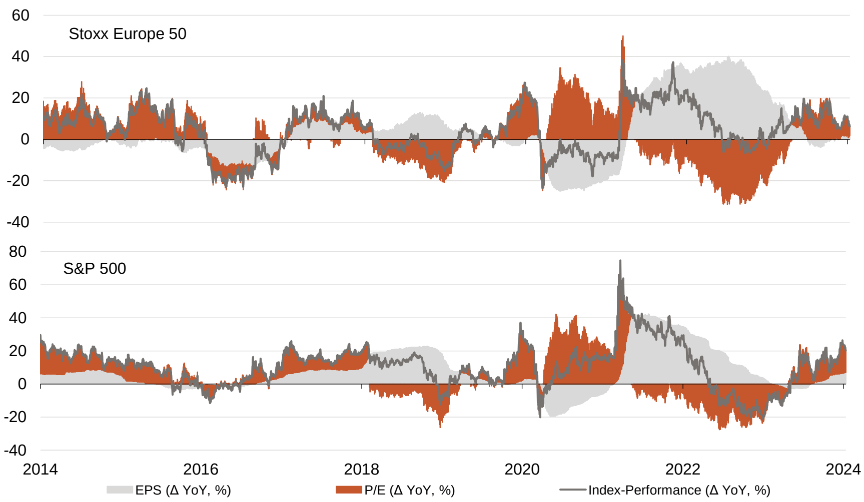




- According to the analysts, global earnings growth in 2024 should see a strong recovery after the difficult previous year.
- The analysts are currently forecasting earnings growth of over 15% for the emerging markets and just under 10% for the industrialised nations. In regional terms, the analysts see the greatest earnings growth potential in Asia and the US.

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 12/01/2024

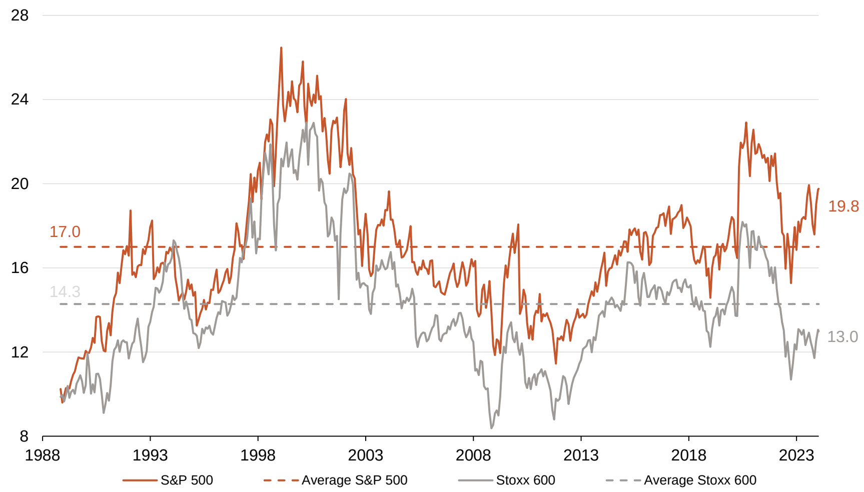
Contribution Analysis



- Earnings growth over the last twelve months has continued to rise for the S&P 500 in recent weeks.
- At the same time, valuations have recently narrowed again slightly as a result of the recent rise in yields.
- On a 12-month basis, the positive index performance of the S&P 500 is therefore currently driven almost two thirds by an increase in valuations and around one third by earnings growth.

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: 01/01/2014 - 12/01/2024

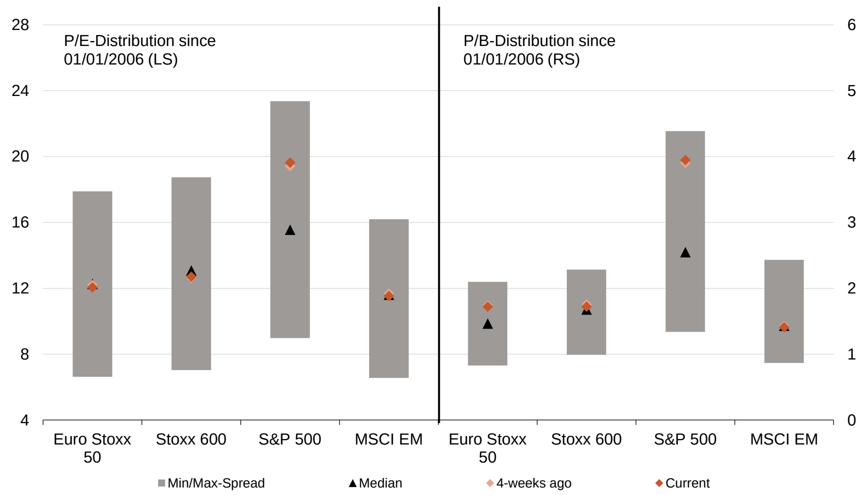
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The recent countermovement in bond yields following the sharp decline in yields since autumn 2023 has recently led to a slight decline in the valuation of US equities, although this quickly recovered.
- While European equities started 2024 on a favourable note, US equities remain expensively valued compared to their own history: The S&P 500 is currently trading at a P/E ratio of 19.8x, well above the historical average of 17x.

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 - 12/01/2024

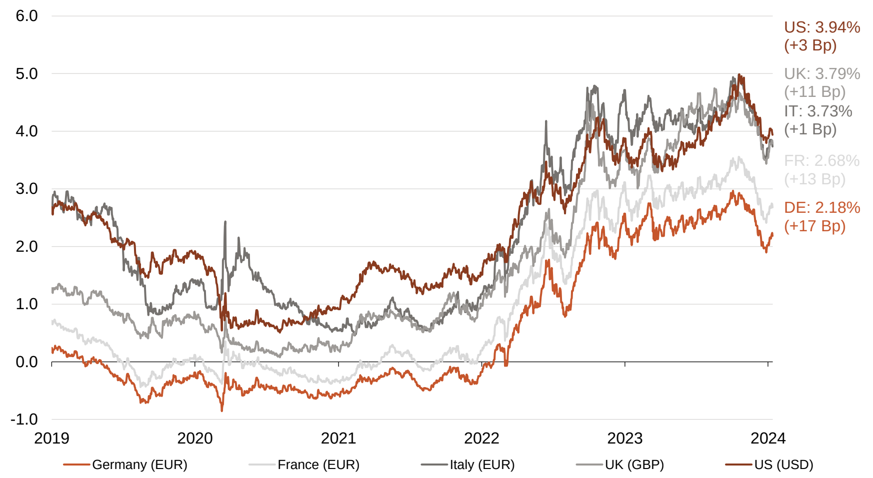
Historical Distribution: Price/Earnings and Price/Book Ratio



- Regionally, only the S&P 500 on a P/B ratio basis and the S&P 500 and Euro Stoxx 50 on a P/B ratio basis are trading significantly above the historical median since 2006.
- Emerging market equities and the Stoxx 600, on the other hand, are currently fairly valued on a P/B ratio and P/B ratio basis compared to their own history.

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 - 12/01/2024

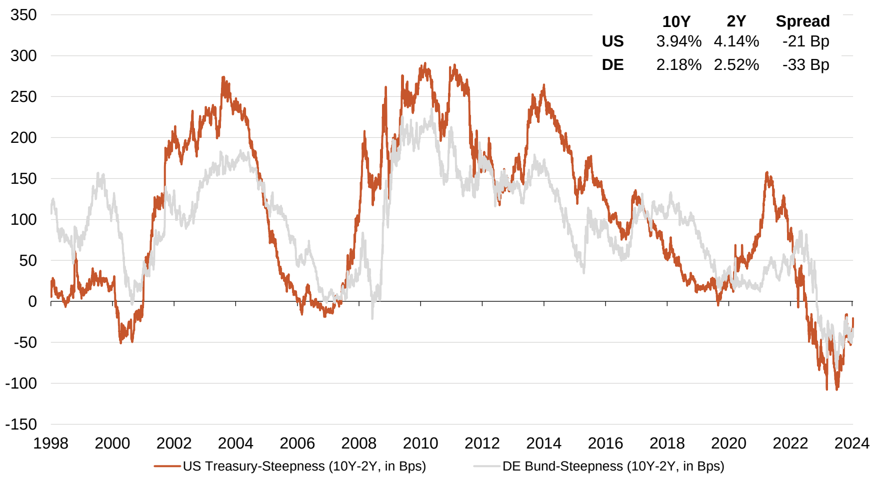
10-Year Government Bond Yields



- Parallel to the turn of the year, the tide also turned for bond yields.
- Bond yields, which had fallen sharply since autumn 2023 amid hopes of an interest rate cut, have risen again since the start of the year amid concerns that these hopes may prove to be too early and too optimistic.
- The movement was reinforced by last week's inflation data, which turned out to be higher than expected and thus strengthened the arguments in favour of a " higher for longer" interest rate scenario.

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 – 12/01/2024

Yield Curve Steepness (10Y - 2Y)

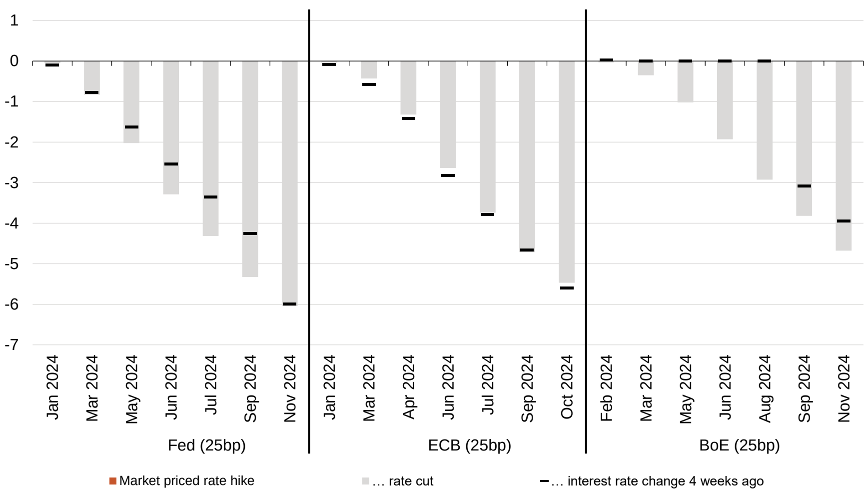


	10Y	2Y	Spread
US	3.94%	4.14%	-21 Bp
DE	2.18%	2.52%	-33 Bp

- Over the last two weeks, US yields have fallen more sharply at the short end and risen slightly at the long end.
- The interest rate differential between 2-year and 10-year US government bonds changed from -37 to -21 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 – 12/01/2024

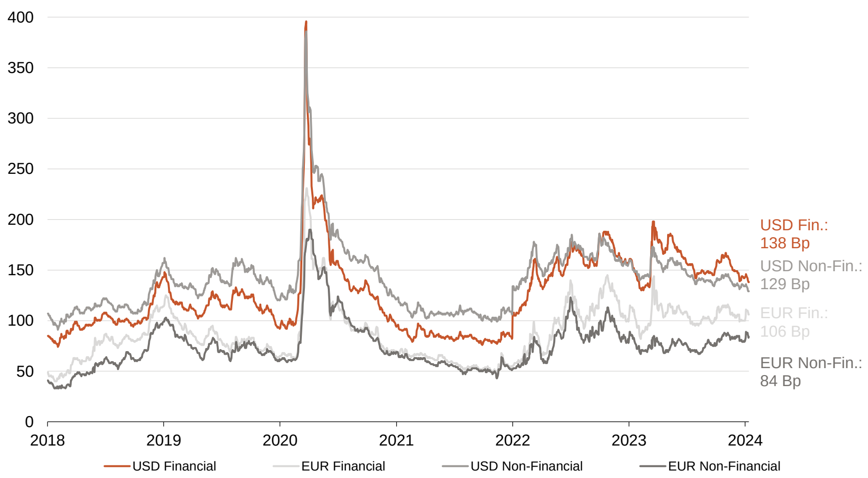
Implicit Changes in Key Interest Rates



- The latest inflation data, which contrary to market expectations turned out to be hotter, appears to be shaking the strong, previously very uniform market conviction of many quick interest rate cuts in recent weeks.
- Compared to four weeks ago, the market now sees a first rate cut by the Fed in March as less likely.

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 – 12/01/2024

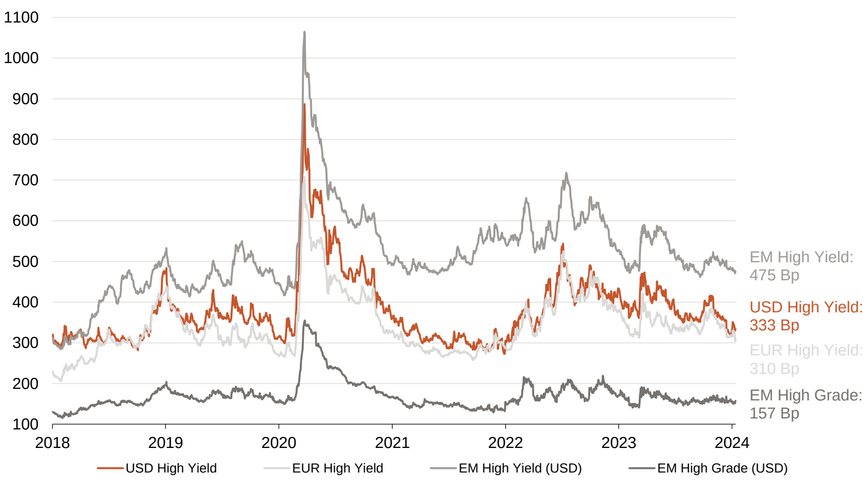
Credit Spreads Financial and Non-Financial Bonds



- Since the start of the year, risk premiums on investment-grade bonds have changed only marginally for the most part. The risk premiums on USD financial and non-financial bonds each fell by 6 basis points.
- In contrast to their USD counterparts, EUR financial and non-financial bonds saw risk premiums widen by 2 and 1 basis points respectively.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2019 – 12/01/2024

Credit Spreads High Yield and Emerging Markets Bonds



- In contrast to IG bonds, there have been stronger movements in high-yield bonds since the start of the year. Spreads on EUR high-yield bonds fell by 5 basis points, while spreads on USD high-yield bonds also tightened by 5 basis points.
- In the emerging markets, high-yield bond spreads narrowed by 3 basis points, while high-grade bonds saw no material change in risk premiums.

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: 01/01/2019 – 12/01/2024

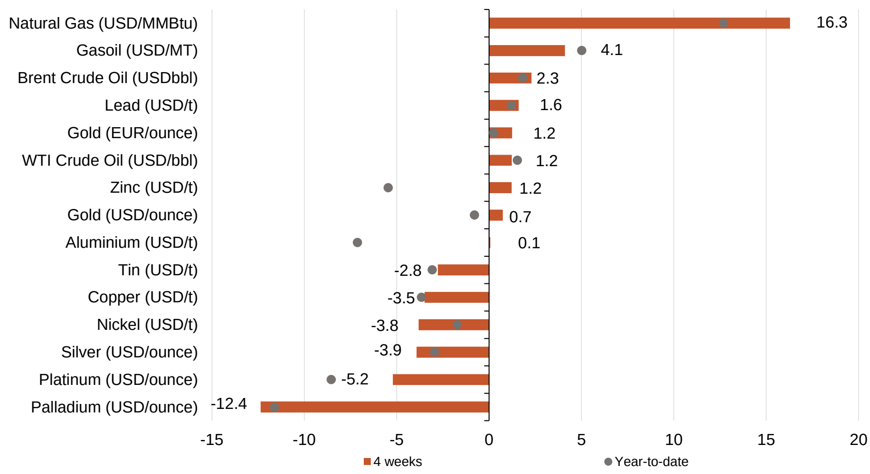
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	12/01/23 12/01/24	12/01/22 12/01/23	12/01/21 12/01/22	12/01/20 12/01/21	12/01/19 12/01/20
EUR Government	2.81	-0.15	7.2	-	-	-	1.0	-0.8	2.9	-15.4	-3.2	3.9	7.2
Germany	2.26	-0.12	7.3	-	-	-	0.6	-1.0	1.6	-15.0	-2.6	2.1	3.0
EUR Corporate	3.76	-0.18	4.4	92	-1	77	1.1	-0.6	5.5	-12.0	-1.3	2.4	6.5
Financial	4.01	-0.16	3.7	106	0	79	1.0	-0.5	5.9	-10.4	-0.8	2.0	6.1
Non-Financial	3.60	-0.19	4.9	84	-1	77	1.1	-0.6	5.3	-13.0	-1.6	2.7	6.7
EUR High Yield	6.52	-0.44	3.1	310	-22	35	2.2	0.4	10.1	-9.6	2.9	3.0	10.7
US Treasury	4.09	-0.39	6.3	-	-	-	2.0	-0.3	0.8	-9.1	-2.4	6.1	7.6
USD Corporate	5.18	-0.40	6.8	132	-5	46	2.5	-0.1	4.6	-11.0	-1.0	7.5	14.4
Financial	5.38	-0.44	5.0	138	-7	64	2.3	0.1	5.5	-9.2	-1.2	7.5	12.7
Non-Financial	5.09	-0.38	7.6	129	-5	36	2.6	-0.2	4.2	-11.8	-0.9	7.5	15.2
USD High Yield	7.91	-0.51	3.9	333	-21	24	2.8	-0.1	9.1	-7.3	4.8	5.7	11.4
EM High Grade	5.41	-0.35	5.2	157	3	31	1.8	-0.4	5.0	-11.9	-0.3	4.3	11.8
EM High Yield	9.31	-0.69	3.8	475	-14	28	3.3	0.6	6.8	-10.8	-5.2	7.1	12.8

- Over the last four weeks, emerging market high-yield bonds and USD high-yield bonds have been strongest within the bond segment.
- The picture has changed since the start of the year. The majority of the bond segments shown here performed negatively. EUR government and corporate bonds suffered the heaviest losses..

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 – 12/01/2024

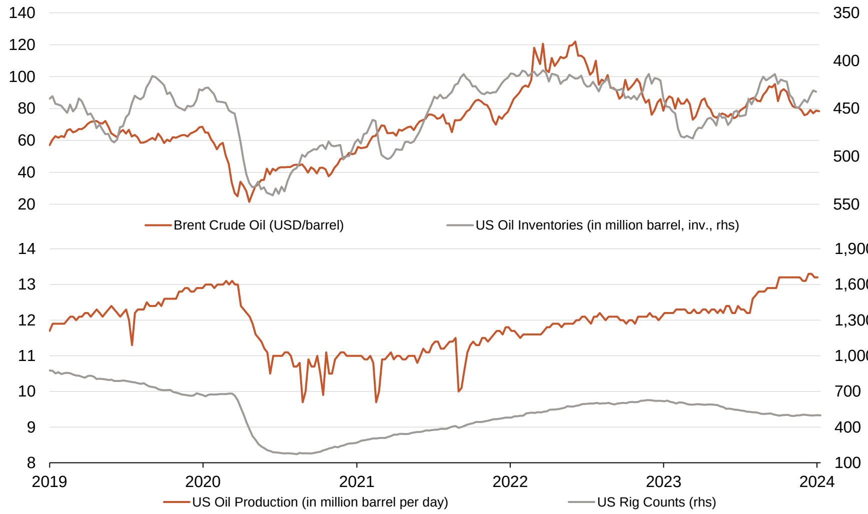
Commodities Performance



- Commodity markets had a volatile start to the new year. While natural gas rose sharply thanks to colder temperatures and after a disastrous 2023, platinum and palladium in particular have suffered significant losses since the beginning of the year.
- The latter is primarily used in combustion engines and is therefore suffering from the increasing penetration of electric cars.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2022 – 12/01/2024

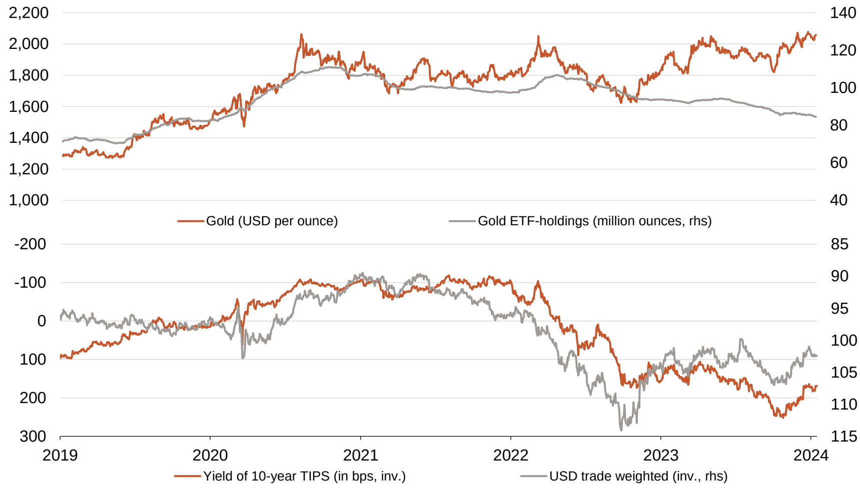
Crude Oil



- Crude oil currently appears to be stabilising between USD 75 and 80 per barrel. The demand outlook is rather subdued and supply is plentiful.
- However, attacks by Houthi rebels on oil tankers in the Red Sea and the latest retaliatory strikes by the US and the UK are fuelling concerns about an escalation of the Israel-Hamas conflict. In addition, more and more shipping companies are rerouting their ships via South Africa. This is associated with higher costs and ties up more oil at sea.

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: 01/01/2019 – 12/01/2024

Gold



- Gold has not been able to escape the rise in interest rates since the end of December and has fallen slightly from its all-time high, but is still trading above the USD 2,000 per ounce mark.
- At the same time, ETF outflows continued, even though gold was the only investment to generate positive returns in 2022 and 23.

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: 01/01/2019 – 12/01/2024

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