BERENBERG
Markets

MONITOR

29 January 2024

Current market commentary

Last week's ECB meeting provided little new impetus. The ECB Governing Council maintained its assessment that a discussion about interest rate cuts was premature. As a result, 10-year German government bonds are still trading around 30 basis points higher than at the start of the year. While the consensus on most markets continues to price in a "soft landing" scenario, the probability of a "higher for longer" scenario has at least increased due to the robust US labor market. In addition, the oil price increased by more than 6 % since the beginning of the year, which is partly due to the geopolitical conflicts and the cold January. The priced-in US inflation expectations have recently risen again more significantly. Accordingly, the market is eagerly awaiting the Fed's reaction to the latest, largely better-than-expected economic data and the US Treasury's calendar of new issues this week. The Fed meeting is likely to have a stronger impact on the markets than the ECB.

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

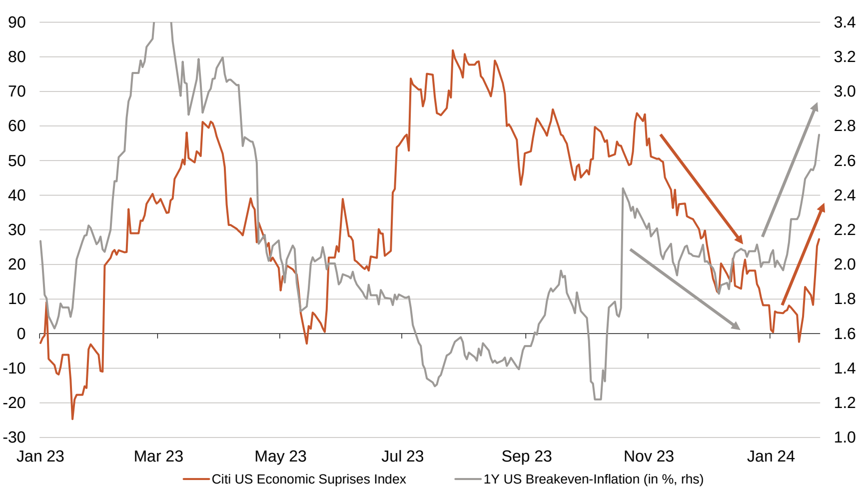
Q4 reporting season and central bank meetings in the focus of the markets.

The Q4 reporting season is in full swing – of the S&P 500 companies that have reported so far (approx. 25%), almost 80% have exceeded earnings expectations. Following last week's ECB meeting, things will get exciting at the (monetary) policy level on January 31 with the US Federal Reserve's interest rate decision and on February 1 with the Bank of England's interest rate decision. The Chinese New Year also takes place on February 10.

GDP figures, purchasing managers' indices and US labor market data on investors' radar.

The preliminary GDP figures (Q4) for Germany and the eurozone are due tomorrow. European and US (Conference Board) economic confidence (Jan.) will also be published. On Wednesday, the Chinese and US Chicago PMIs (Jan.), the German unemployment rate (Jan.) and preliminary consumer price inflation (Jan.) will follow. Next Thursday the Eurozone PMIs (Jan.) and the US ISM index (Jan.) are due, and on Friday the US unemployment rate (Jan.) and US non-farm employment data (Jan.).

US economy surprises positively. Inflation more persistent after all?



- After hopes of a "soft landing" continued to grow in the previous months with cooler economic and inflation data, recently there have been increasing signs that price pressure could remain more persistent after all.
- Lately, the economy has been surprisingly robust, wage pressure among companies remains high and energy and freight costs are rising again.
- Accordingly, the market has revised its inflation expectations for the next 12 months significantly upwards from below 2% to currently above 2,7%.

Source: Bloomberg, Time period: 01/07/2023 - 26/01/2024

Multi Asset

	4W (29/12/23 - 26/01/24)	YTD (29/12/23 - 26/01/24)	26/01/23 26/01/24	26/01/22 26/01/23	26/01/21 26/01/22	26/01/20 26/01/21	25/01/19 26/01/20
	4-week & YTD		12-month periods over that last 5 years				
Brent	10.3	10.3	5.6	30.6	90.0	-27.2	12.6
MSCI World	3.4	3.4	17.7	-1.5	18.1	6.0	26.2
MSCI Frontier Markets	3.2	3.2	8.2	-17.0	21.1	-7.4	19.1
USDEUR	1.7	1.7	0.4	3.2	8.2	-9.3	3.5
Global Convertibles	0.6	0.6	5.0	-5.5	-7.3	36.4	20.1
Euro overnight deposit	0.3	0.3	3.4	0.2	-0.6	-0.5	-0.4
Industrial Metals	0.2	0.2	-17.6	4.3	44.9	11.0	1.3
Gold	-0.5	-0.5	5.0	9.4	6.4	6.8	24.7
EUR Coporates	-0.5	-0.5	5.0	-11.4	-1.8	2.0	6.5
EUR Sovereign Debt	-0.8	-0.8	3.2	-9.8	-1.8	1.4	3.1
MSCI Emerging Markets	-2.0	-2.0	-4.0	-7.1	-4.0	14.9	15.1
REITs	-2.6	-2.6	-5.4	-9.5	26.8	-17.6	22.4

MSCI World: MSCI World Net Return; MSCI Emerging Markets: MSCI EM Net Return; MSCI Frontier Markets: MSCI Frontier Markets Net Return;
REITs: MSCI World REITs Index; EUR Sovereign Debt: IBOXX Eurozone Sovereign 1-10Y TR; EUR Corporates: IBOXX Euro Corporates Overall TR;
Global Convertibles: SPDR Convertible Securities ETF; Gold: Gold US Dollar Spot; Brent Crude: Bloomberg Brent Crude Subindex TR;
Industrial Metals: Bloomberg Industrial Metals Subindex TR; Euro overnight deposit: ICE BofA Euro Overnight Deposit Rate Index; USDEUR: Price of 1 USD in EUR.

- The ongoing geopolitical tensions in the Red Sea and the lowest US crude oil inventories since October last year catapulted Brent crude oil to the top of the performance rankings since the beginning of the year. Renewed optimism regarding AI and technology stocks, which was triggered by a positive outlook from the world's largest chip manufacturer TSMC, boosted shares in industrialised countries.
- Rising real interest rates weighed on interest rate-sensitive REITs, which brought up the rear in the last four weeks.

Total return for selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 25/01/2019 – 26/01/2024

Equities

	4W (29/12/23 - 26/01/24)	YTD (29/12/23 - 26/01/24)	26/01/23 26/01/24	26/01/22 26/01/23	26/01/21 26/01/22	26/01/20 26/01/21	25/01/19 26/01/20
	4-week & YTD		12-month periods over that last 5 years				
S&P 500	4.5	4.5	22.4	-1.4	23.4	7.9	30.5
MSCI Japan	2.7	2.7	14.3	-3.6	2.4	5.9	17.9
Euro Stoxx 50	2.6	2.6	13.9	2.8	18.1	-3.0	22.8
Stoxx Europe 50	2.5	2.5	11.6	6.2	20.0	-5.5	24.7
DAX	1.3	1.3	12.1	-2.1	11.5	2.2	20.3
Stoxx Europe Defensives	0.8	0.8	8.2	4.6	14.9	-6.4	22.8
Stoxx Europe Cyclicals	0.7	0.7	11.8	-1.8	19.4	0.7	18.5
MSCI UK	0.2	0.2	5.2	3.7	25.4	-15.2	18.7
MSCI USA Small Caps	-0.2	-0.2	6.5	3.8	6.9	15.2	19.0
Stoxx Europe Small 200	-1.5	-1.5	2.6	-11.0	11.2	5.5	20.7
MSCI EM Latin America	-2.3	-2.3	14.9	18.9	7.2	-23.3	7.5
MSCI EM Asia	-2.6	-2.6	-7.1	-6.5	-8.9	26.3	17.6

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.

- Japanese equities continued their upward trend of recent weeks, supported by better-than-expected purchasing managers' indices and positive corporate results. The US S&P 500 Index reached an all-time high last week, while the European Euro Stoxx 50 reached its highest level since 2001.
- Asian emerging market equities, which had come under pressure since the beginning of the year, recently recovered following the announcement of new economic measures in China.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 25/01/2019 – 26/01/2024

Fixed Income

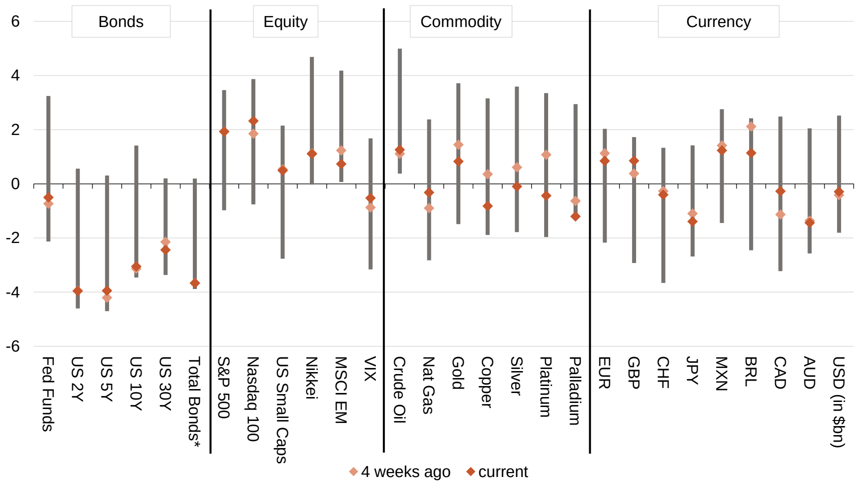
	4W (29/12/23 - 26/01/24)	YTD (29/12/23 - 26/01/24)	26/01/23 26/01/24	26/01/22 26/01/23	26/01/21 26/01/22	26/01/20 26/01/21	25/01/19 26/01/20
	4-week & YTD		12-month periods over that last 5 years				
EUR High Yield	0.8	0.8	9.4	-8.0	2.0	2.8	10.0
Chinese Sovereign Bonds	0.8	0.8	5.8	2.5	6.4	2.2	4.6
Treasuries	0.3	0.3	0.1	-4.6	3.7	-4.3	12.3
USD High Yield	0.0	0.0	9.1	-6.1	3.1	6.4	10.5
EM Hard Currency Bonds	-0.1	-0.1	5.0	-8.6	3.8	-6.5	15.8
EUR Financials	-0.3	-0.3	5.6	-10.7	-1.4	1.8	6.0
EM Local Currency Bonds	-0.3	-0.3	5.3	-3.6	-0.6	-7.9	13.4
BTPs	-0.5	-0.5	4.9	-13.2	-3.4	6.2	10.8
EUR Non-Financials	-0.7	-0.7	4.6	-12.0	-2.1	2.1	6.8
USD Corporates	-0.8	-0.8	3.6	-9.5	-3.2	7.0	15.0
Bunds	-1.8	-1.8	1.1	-15.3	-2.9	1.6	3.6
Gilts	-2.3	-2.3	-0.7	-24.5	-1.1	-0.9	13.4

Bunds: IBOXX Euro Germany Sov TR ; BTPs: IBOXX Euro Italy Sov TR ; Treasuries: ICE BofA US Treasury TR;
Gilts: IBOXX Sterling Gilts Overall TR; Chinese Gov Bonds: ICE BofA China Govt; EUR Financials.: IBOXX Euro Fin. Overall TR;
EUR Non-Financials: IBOXX Euro Non-Fin. Overall TR; EUR High Yield: ICE BofA EUR Liquid HY TR; USD Corporates: ICE BofA USD Corp TR;
USD High Yield: ICE BofA USD Liquid HY TR; EM Hard Currency: JPM EMBI Glo Div Unh. EUR TR; EM Local Currency: JPM GBI-EM Glo Div Comp Unh. EUR TR

- The short supply of corporate bonds, the high carry and the short duration brought EUR high-yield bonds to the top of the performance rankings. The strong US dollar and the Chinese renminbi supported the performance of US and Chinese government bonds in EUR.
- The rise in real interest rates since the beginning of the year has weighed on the government bonds of EUR countries and the UK.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 25/01/2019 – 26/01/2024

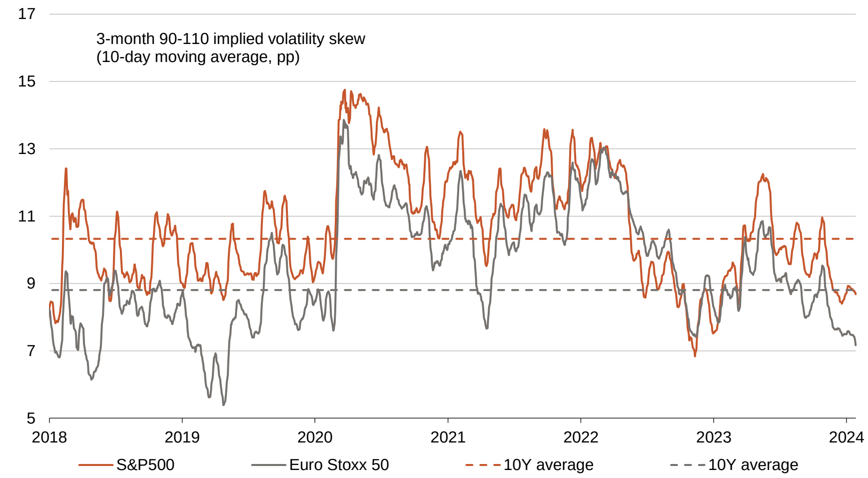
Non-Commercial Positioning



- Speculative investors have reduced cyclicality in commodities. They have reduced longs and increased shorts in copper, silver and platinum. They have, however, reduced shorts in natural gas as a result of the US cold snap.
- US tech stocks have seen a further increase in longs, with the result that futures positioning in the Nasdaq-100 is now in the 90th percentile.

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: 23/01/2014 - 23/01/2024

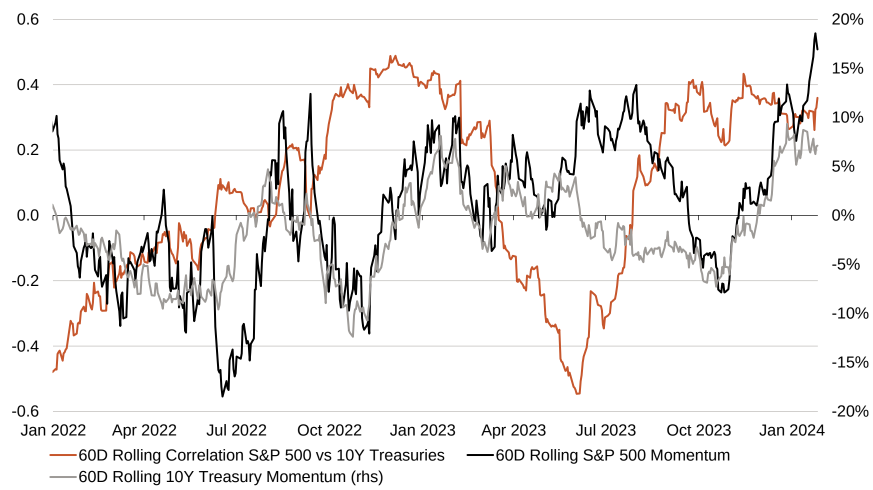
Put-Call-Skew



- The difference between the implied volatility of 10% out-of-the-money puts and calls remains at historically low levels.
- The absolute level of implied volatility is also very low, making hedging extremely cheap. For example, a 5% out-of-the-money put option on the S&P 500 with 3 months to expiry currently costs just 0.85%.

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: 26/01/2019 - 26/01/2024

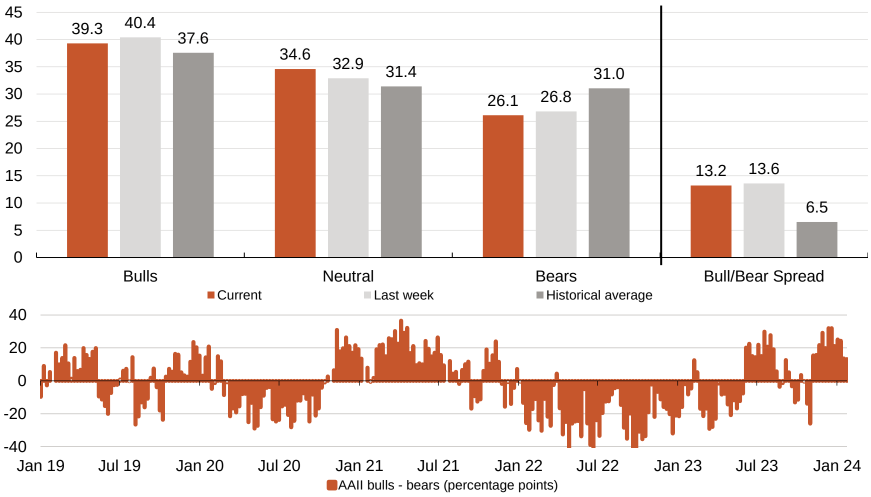
60-Day Momentum and Correlation



- The momentum of the S&P 500 remains bullish. Many trend-following strategies are therefore likely to be close to their maximum equity allocations.
- Other systematic strategies such as risk parity, are likely to have only moderate equity allocations despite low volatility due to the continued high correlation between equities and bonds.

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 - 26/01/2024

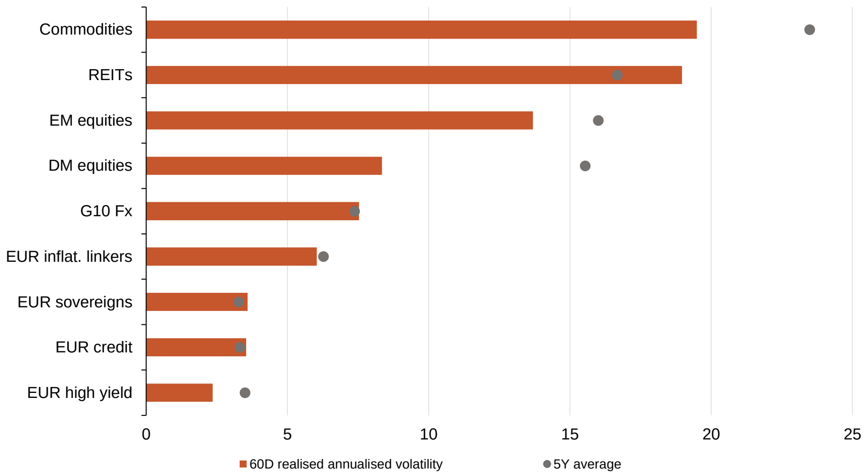
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment among US private investors remains optimistic, although the euphoria of previous weeks has somewhat faded. The bulls currently outweigh the bears by "only" 13 ppts.
- The bull/bear spread has now been positive for twelve consecutive weeks.

The Sentiment Survey, conducted by the American Association of Individual Investors, determines the percentage of individual investors who are optimistic, pessimistic or neutral about the US stock market over a six-month period. It has been conducted since 1987. The survey is conducted from Thursday to Wednesday and the results are published every Thursday. For the stock market, it tends to be supportive when there is a high proportion of bears and a low proportion of bulls. On the other hand, it tends to be negative when there are significantly more optimists than pessimists.
Source: Bloomberg, AAII, Time period: 23/07/87 – 26/01/2024

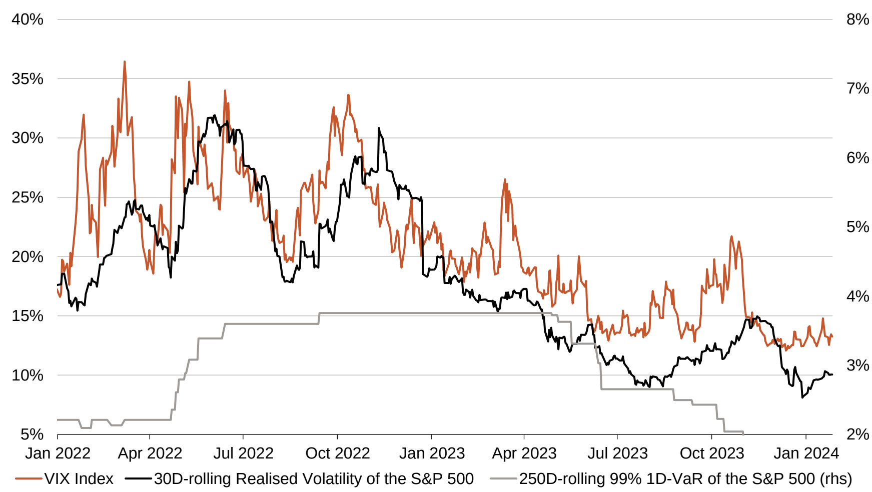
Realised Volatilities



- The realized volatilities have changed only slightly over the last few weeks. Currently, the large difference of over 5 ppts between the volatility of emerging market equities and industrialized country equities is particularly striking. The two regions are actually very close to each other historically. One reason for the unusual low volatility of developed market equities is probably the increasing popularity of systematic short vol strategies.

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: 26/01/2019 – 26/01/2024

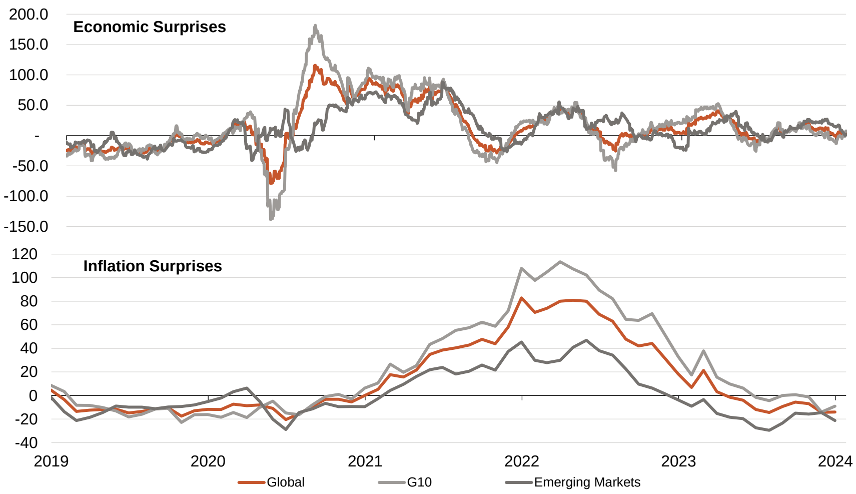
Volatility and Value-at-Risk of the S&P 500



- Since the beginning of the year, the VIX has fluctuated at a low level of between 12 and 15 points. Nevertheless, the volatility premium is currently relatively high, as the realized 30d volatility is even below 10%.
- Hedging has therefore not paid off in recent weeks.

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 – 26/01/2024

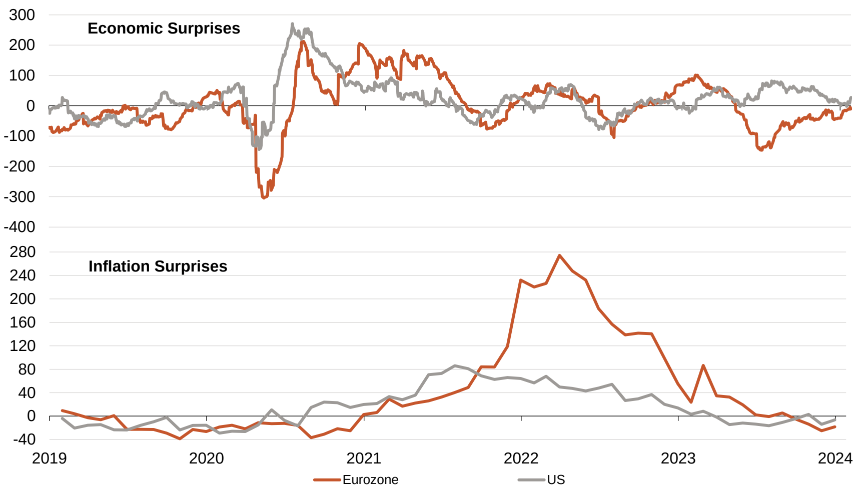
Global



- In the last two weeks, there has been a reverse trend compared to the first two weeks of January - the positive economic surprises in the emerging markets have diminished, while those in the industrialised countries have increased. In Mexico, retail sales in November surprised to the downside, while in China the GDP growth rate for the fourth quarter and retail sales in December came in worse than expected. In France, the purchasing managers' index for the manufacturing sector surprised to the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 – 26/01/2024

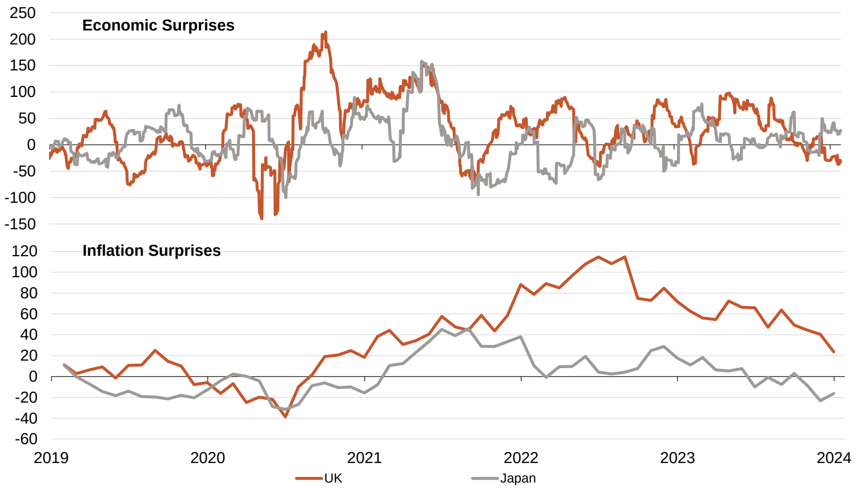
Eurozone and US



- In the USA, retail sales and industrial production surprised to the upside in December. The GDP growth rate for the fourth quarter clearly exceeded expectations. The number of building permits in December exceeded expectations, with the number of housing starts coming in less negatively than expected. In Germany, the ZEW Economic Sentiment Index surprised to the upside in January, while the Ifo Business Climate Index was disappointing.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 – 26/01/2024

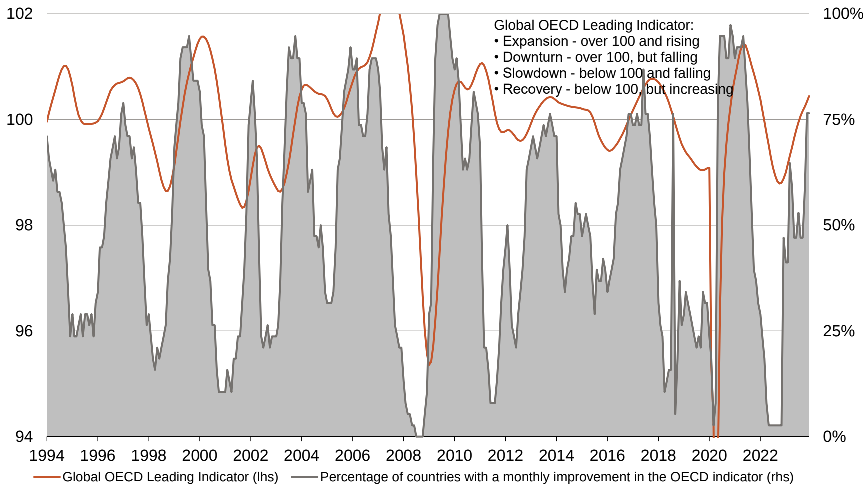
UK and Japan



- In the UK, the inflation rate surprised to the upside in December, with retail sales disappointing.
- In Japan, the inflation rate in January and core machinery orders in November came in 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: 01/01/2019 – 26/01/2024

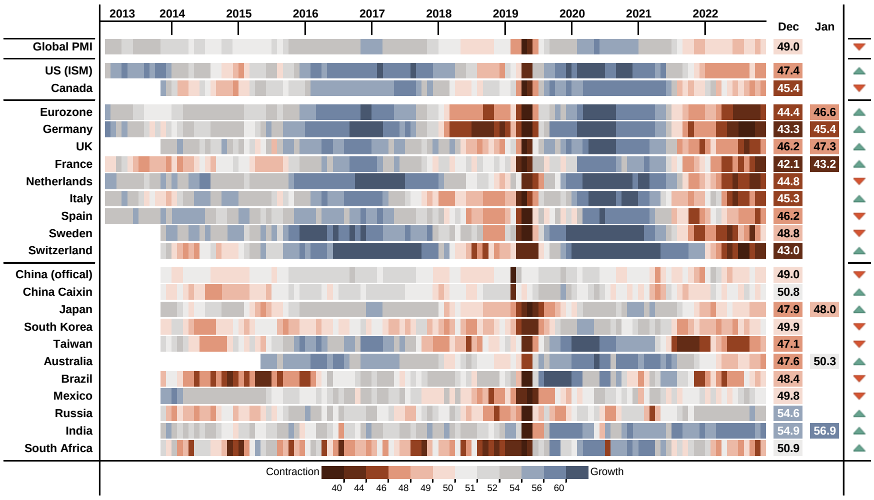
OECD Leading Indicator



- The global economic expansion continues – in December, 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 December compared to the previous month. China and the UK recorded the strongest increase and Turkey the strongest 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 - 26/01/2024

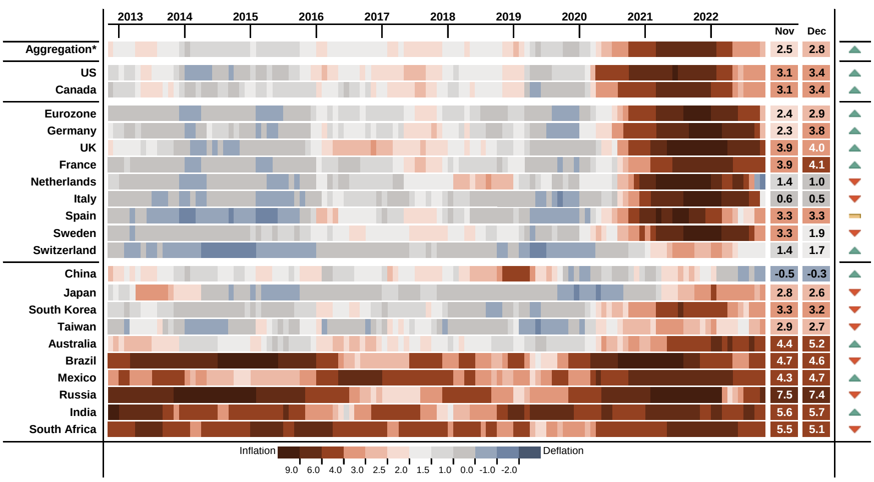
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The first PMI data indicated a broad-based increase in industrial activity in January. In addition to the UK and the European core countries, the PMI in Japan, Australia and India rose 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 points 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: 27/12/2013 - 26/01/2024

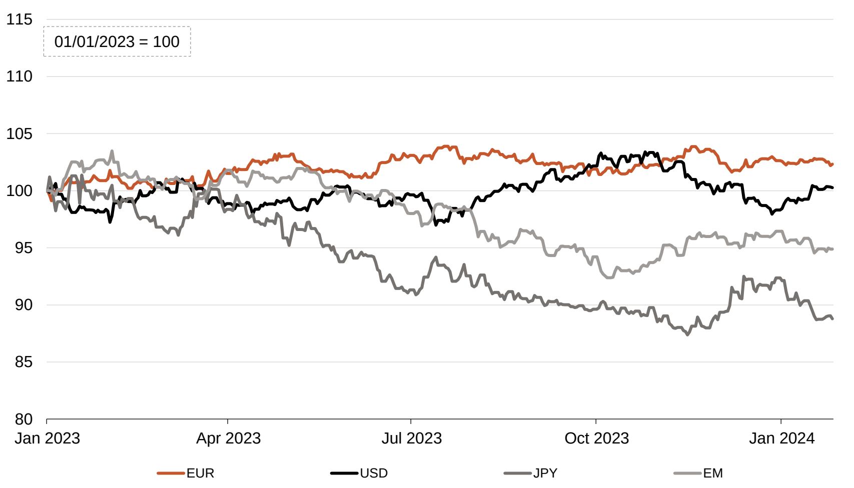
Headline Inflation



- Inflation data showed regional differences in December. While the downward trend in the European core countries, the UK and the USA reversed, the inflation rate in the Netherlands, Italy, Japan, Brazil and South Korea continued to fall compared to the previous month.

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: 27/12/2013 - 26/01/2024

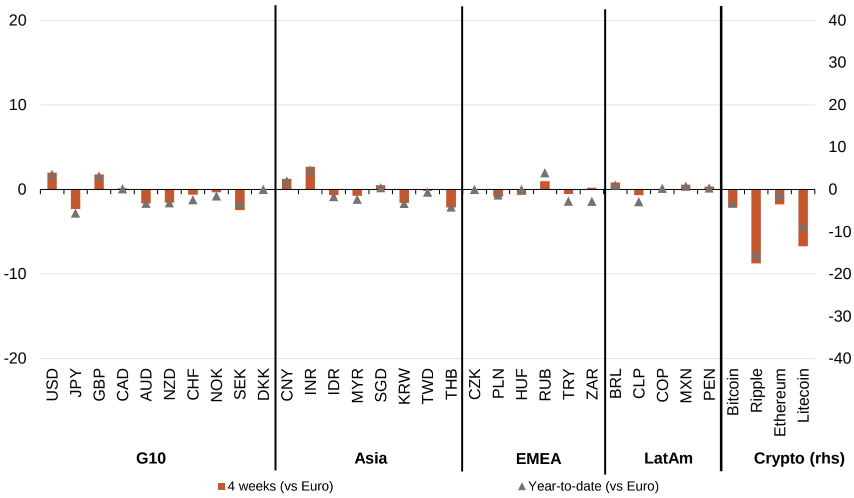
Trade-Weighted Currency Development



- Robust economic growth and the recent rise in inflation expectations in the US have once again given the US dollar a tailwind over the past two weeks. The trade-weighted dollar index rose back to the level seen at the beginning of December last year. In contrast, the currencies of the emerging markets depreciated.
- The Japanese yen recently halted its downward trend after the BoJ signalled that the door was open for an interest rate hike in April.

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 - 26/01/2024

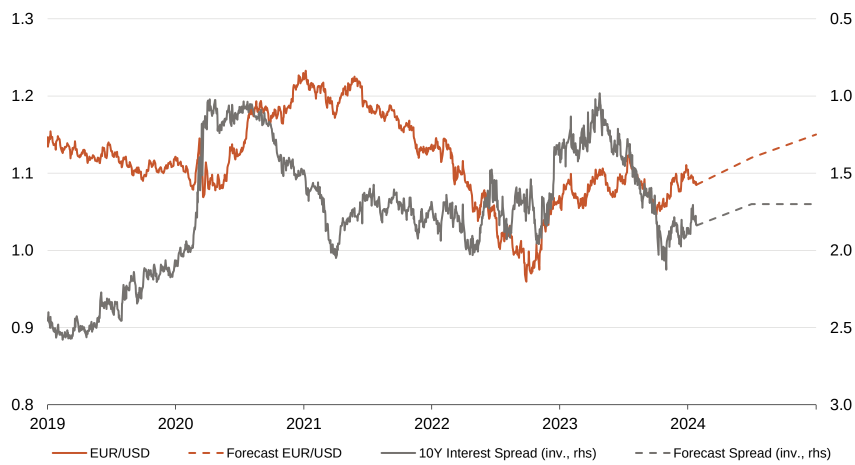
Currency Moves vs Euro



- As expected, the Norwegian and Canadian central banks left their key interest rates unchanged after their meetings. The Chinese central bank also left the interest rate for the medium-term credit facility unchanged, surprising the markets, which had expected a rate cut of 10bp.
- The Turkish central bank, on the other hand, raised its key interest rate as expected, signalling that monetary policy is sufficiently tight.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 27/12/2023 - 26/01/2024

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



- The ECB meeting brought no surprises: Council members left the key interest rate unchanged, as expected by the markets, and Christine Lagarde maintained her cautious stance on rapid rate cuts, leaving the timing of the first rate cut largely open.
- The EUR/USD exchange rate was back below the 1.09 mark last week.

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 - 31/12/2024

European Sector & Style Performance

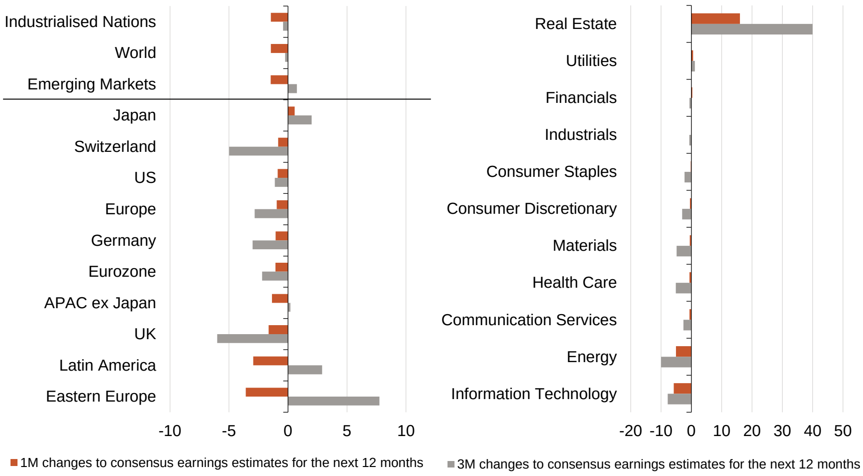
	4W (29/12/23 - 26/01/24)	YTD (30/12/23 - 26/01/24)	26/01/23 26/01/24	26/01/22 26/01/23	26/01/21 26/01/22	26/01/20 26/01/21	30/01/19 26/01/20
	4-week & YTD		12-month periods over that last 5 years				
Information Technology	9.9	9.9	29.1	-6.5	13.1	13.2	35.7
Telecommunications	4.7	4.7	11.5	-4.8	10.5	-12.6	6.2
Health Care	3.0	3.0	11.3	4.2	10.0	-0.8	33.7
Growth	2.4	2.4	10.8	-2.0	12.7	4.4	29.7
Consumer Discretionary	1.7	1.7	2.9	0.0	16.7	7.2	21.7
Industrials	0.8	0.8	17.6	-1.3	15.3	3.1	29.5
Consumer Staples	0.7	0.7	1.1	-3.3	15.7	-6.6	23.2
Finance	0.6	0.6	10.6	3.3	32.4	-14.5	13.2
Value	-0.1	-0.1	8.3	2.4	22.7	-11.0	12.7
Energy	-2.5	-2.5	5.4	19.9	46.9	-29.5	3.9
Materials	-3.7	-3.7	-0.6	-0.6	19.5	15.5	14.1
Utilities	-4.2	-4.2	4.6	-1.6	3.0	4.3	32.1

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.

- After a bumpy start to the year, the equity markets recently picked up speed again.
- However, market breadth was not particularly high: the picture remains mixed at sector and style level. While technology and telecoms stocks rose sharply, utilities and basic materials stocks were weaker.

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: 26/12/2023 – 26/01/2024

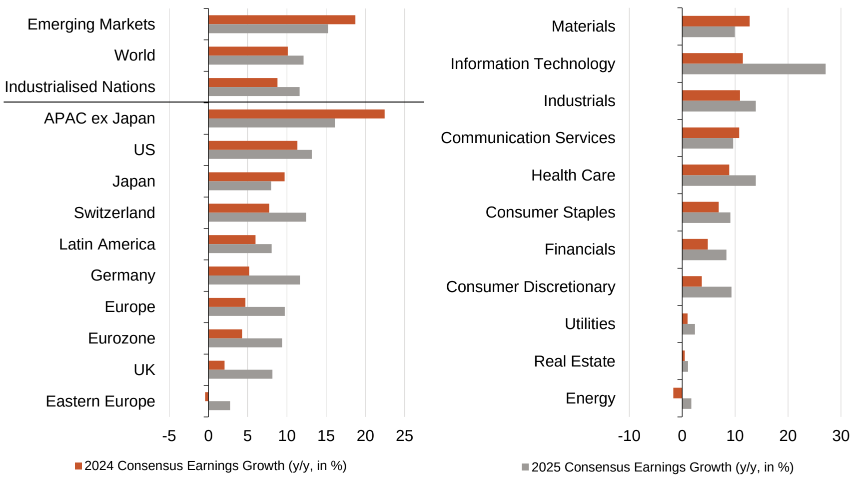
Changes in Consensus Earnings Estimates



- With regard to the European sectors, analysts have raised their earnings estimates especially for the interest rate-sensitive real estate sector. For the energy and information technology sectors, however, analysts revised their earnings estimates downwards last month.
- At regional level, analysts have become more optimistic 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 26/01/2024

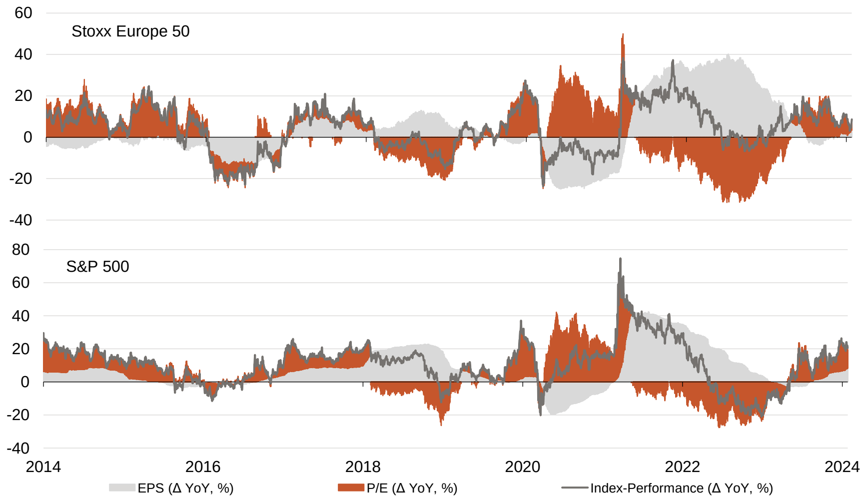
Earnings Growth



- For the years 2024 and 2025, the analysts expect fulminant earnings growth, particularly in the emerging markets.
- The analysts expect earnings growth of over 15% for these countries this year. This growth will be driven primarily by Asia, with expected earnings growth of over 20% this 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 26/01/2024

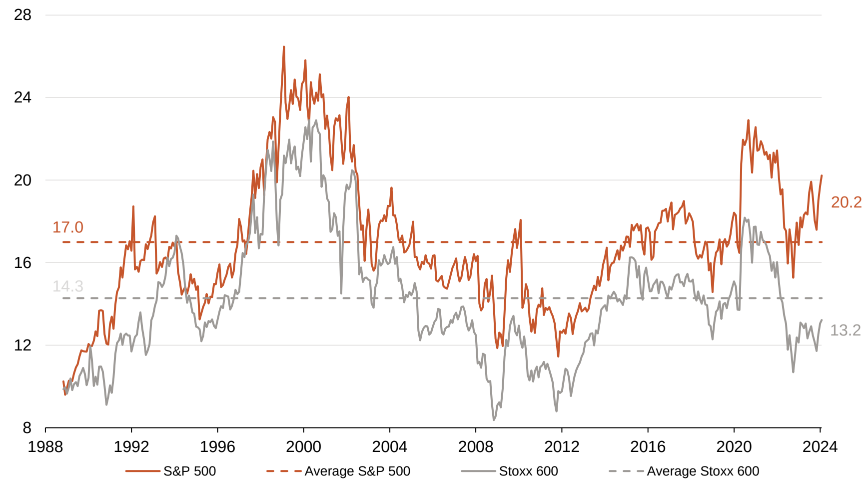
Contribution Analysis



- The positive index performance of both the S&P 500 and the Stoxx Europe 50 over the last 12 months is largely attributable to an expansion in valuations.
- Earnings growth was also positive, but contributed only marginally to the index performance of the Stoxx Europe 50 and around a third to that of the S&P 500.

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 - 26/01/2024

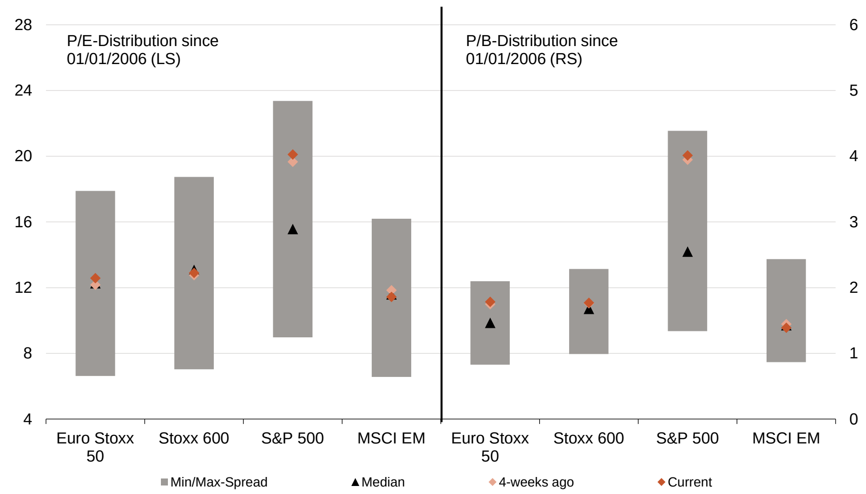
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Despite the rise in real interest rates in recent weeks, valuations have also risen.
- The forward P/E ratio of the S&P 500 is now back at 20.2, which is above the historical average of 17, while European equities are still valued at historically favourable levels.

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 - 26/01/2024

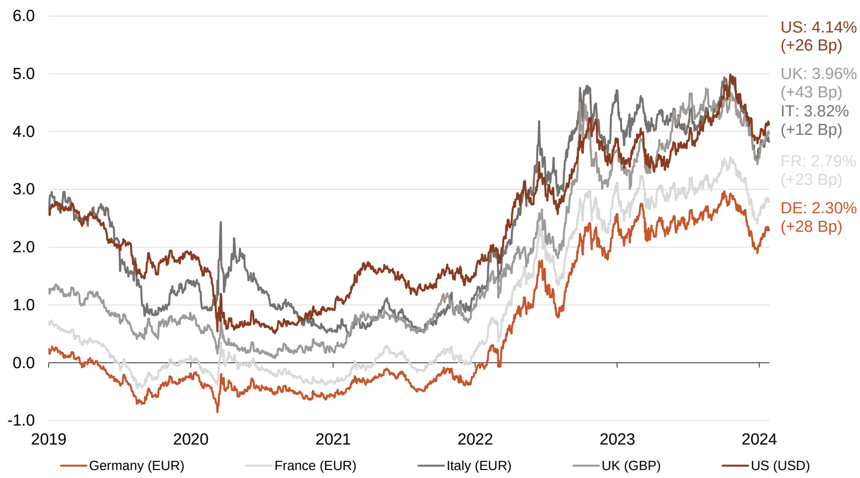
Historical Distribution: Price/Earnings and Price/Book Ratio



- In the last four weeks, valuation ratios have risen, especially for the S&P 500 and the Euro Stoxx 50.
- Emerging market equities, on the other hand, have become more favourable on a P/B ratio and P/B ratio basis over the last four weeks. Weaker economic prospects in China have weighed on valuations.

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 - 26/01/2024

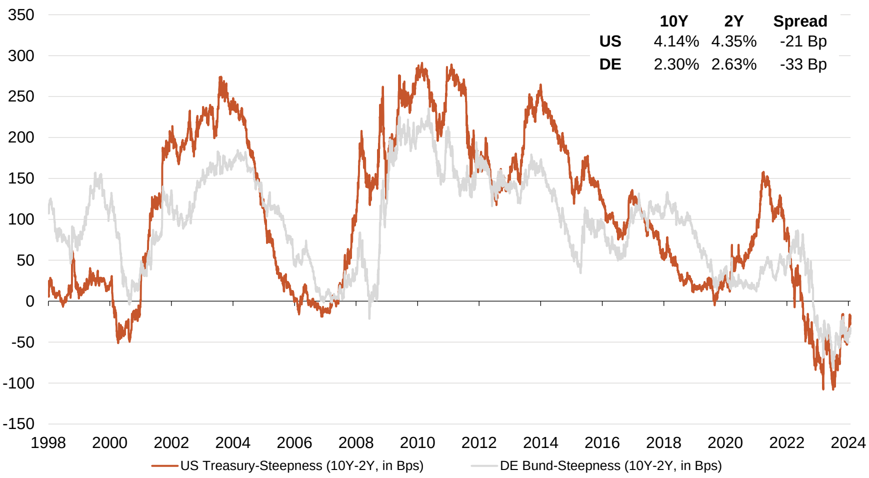
10-Year Government Bond Yields



- The trend in bond yields also changed at the turn of the year: the increased probability of a "higher for longer" interest rate scenario abruptly ended the fall in yields at the end of 2023, even if the broad consensus is still hoping for a "soft landing".
- US government bonds are therefore currently yielding above the 4% level again.

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 – 26/01/2024

Yield Curve Steepness (10Y - 2Y)

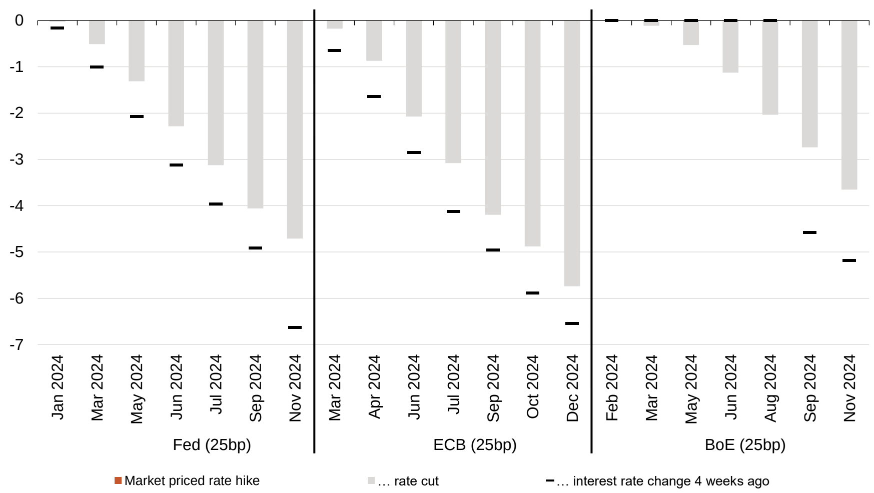


	10Y	2Y	Spread
US	4.14%	4.35%	-21 Bp
DE	2.30%	2.63%	-33 Bp

- Over the last two weeks, yields on US government bonds have risen more sharply at the long end than at the short end.
- However, the interest rate differential between 2-year and 10-year US government bonds remained unchanged at -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 – 26/01/2024

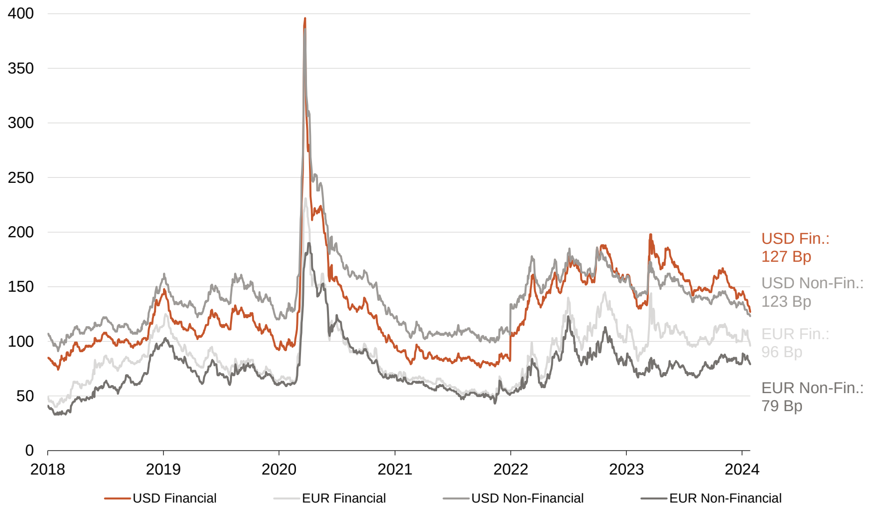
Implicit Changes in Key Interest Rates



- Following the hopes of interest rate cuts at the end of last year, the possibility of higher interest rates in the longer term is now coming to the fore again – also reinforced by the robust US labour market data.
- Accordingly, the market has significantly reduced its strong expectations of interest rate cuts compared to four weeks ago.

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: 26/12/2023 – 26/01/2024

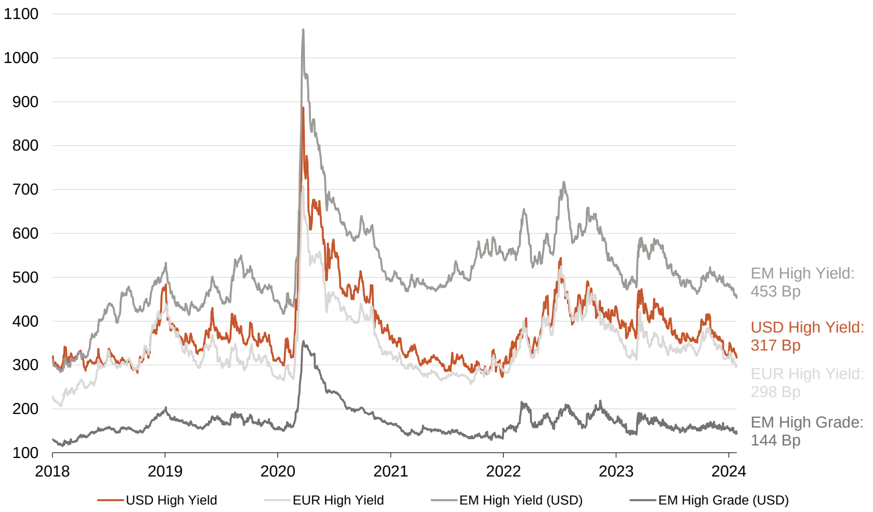
Credit Spreads Financial and Non-Financial Bonds



- The risk premiums on financial and non-financial bonds have fallen significantly in the last four weeks. Risk premiums have fallen by 14 basis points for USD financial bonds and 11 basis points for USD non-financial bonds over this time period.
- The risk premiums for financial bonds are now trading at the level of early 2023 – before the outbreak of the US regional banking crisis in the spring.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2018 – 26/01/2024

Credit Spreads High Yield and Emerging Markets Bonds



- The risk premiums for high-yield bonds and emerging market bonds have also fallen recently.
- Spreads on high-yield bonds from emerging markets have fallen by 22 basis points over the last month, the lowest level since 2020.

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 – 26/01/2024

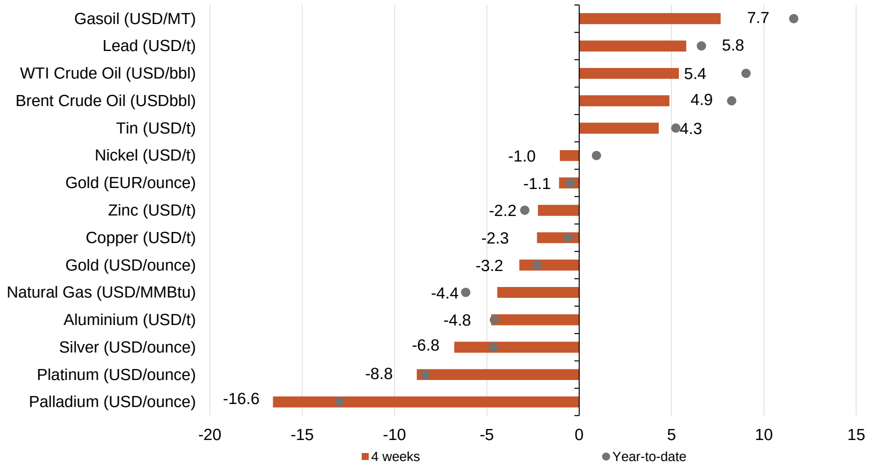
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Per-centile	1M	YTD	26/01/23 26/01/24	26/01/22 26/01/23	26/01/21 26/01/22	26/01/20 26/01/21	26/01/19 26/01/20
EUR Government	2.90	0.27	7.1	-	-	-	-1.9	-1.4	2.5	-15.4	-3.8	3.3	7.2
Germany	2.38	0.27	7.2	-	-	-	-2.0	-1.7	1.1	-15.3	-2.9	1.6	3.6
EUR Corporate	3.77	0.17	4.4	86	-1	66	-0.6	-0.5	5.0	-11.4	-1.7	1.9	6.4
Financial	4.00	0.14	3.6	96	-4	65	-0.3	-0.3	5.4	-9.6	-1.2	1.7	5.5
Non-Financial	3.63	0.19	4.8	79	0	68	-0.8	-0.7	4.8	-12.4	-2.0	2.0	7.0
EUR High Yield	6.51	-0.02	3.0	298	-18	29	0.9	0.8	9.4	-8.0	2.0	2.8	10.0
US Treasury	4.30	0.15	6.2	-	-	-	-1.2	-1.3	0.0	-8.6	-3.8	5.7	8.9
USD Corporate	5.32	0.08	6.7	124	-13	36	-0.5	-0.8	3.6	-9.5	-3.2	7.0	15.0
Financial	5.46	0.01	4.9	127	-16	56	0.1	-0.2	4.5	-7.6	-2.7	7.1	12.7
Non-Financial	5.25	0.11	7.5	123	-12	30	-0.8	-1.1	3.2	-10.3	-3.4	6.9	16.0
USD High Yield	7.91	0.07	3.9	317	-4	15	0.2	0.0	9.1	-6.1	3.1	6.4	10.5
EM High Grade	5.48	0.06	5.1	144	-12	10	-0.5	-0.7	3.8	-10.3	-1.8	4.4	11.6
EM High Yield	9.23	-0.28	3.8	453	-28	23	1.1	0.8	5.7	-9.5	-5.7	7.0	11.7

- Within the bond segments shown, only USD financial bonds and, in particular, high-yield bonds performed positively.
- High-yield bonds from emerging markets in particular rose. Together with EUR high-yield bonds, they also represent the strongest of the bond segments shown here since the start of the year.

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 – 26/01/2024

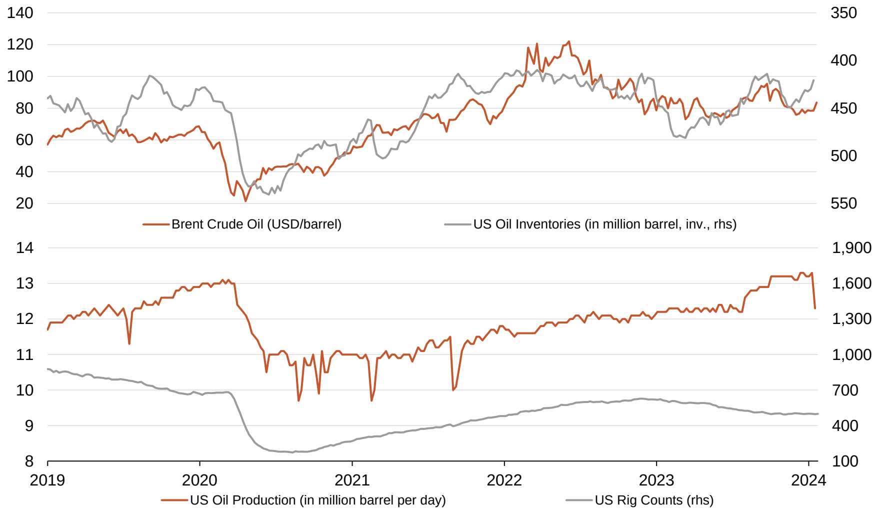
Commodities Performance



- Platinum and palladium have been by far the biggest losers since the beginning of the year. Both are used in catalytic converters for combustion engines and are therefore suffering from the trend towards electric cars. However, the most recent performance can probably also be explained by speculative investors, who significantly reduced their net long positions in January.
- Lately, the performance of industrial metals has been extremely mixed. While aluminum has lost over 5% since the start of the year, tin and lead are far ahead.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/12/2023 - 26/01/2024

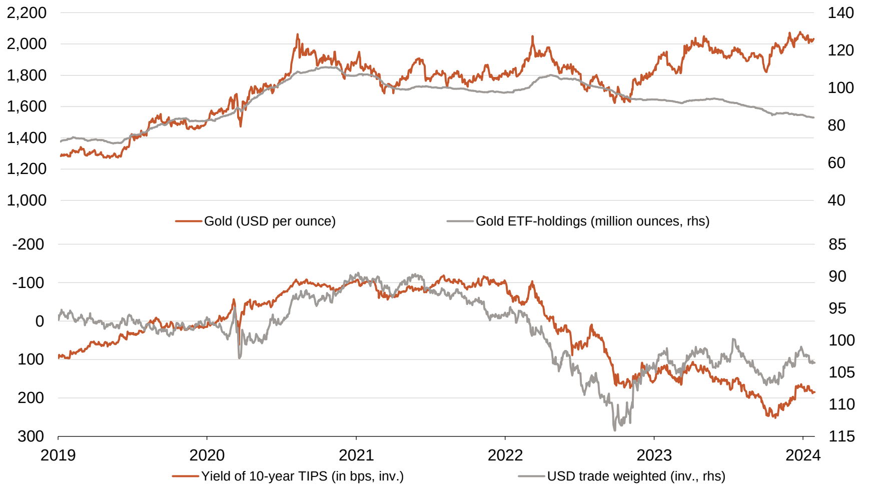
Crude Oil



- Oil seems to have bottomed out at the turn of the year. For the first time this year, Brent recently surpassed the USD 80 per barrel mark.
- On the one hand, the cold wave in the US and, on the other, the attacks by the Houthi rebels on ships in the Red Sea provided a tailwind. The retaliatory strikes by the US and the UK are further fueling the situation. As many ships have to avoid the Bab-el-Mandeb Strait and take long detours, more oil is being tied up on the world's oceans.

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 - 26/01/2024

Gold



- Outflows from gold ETFs continue unchanged. Almost 1.4 million ounces have been sold since the beginning of the year alone, which corresponds to around 1.6% of global AuM.
- As the gold price is still quite stable, there seem to be other physical buyers such as central banks.

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 - 26/01/2024

PUBLISHING INFORMATION

PUBLISHER

Prof Dr Bernd Meyer, CFA | Chief Strategist Wealth and Asset Management

EDITORS

Ulrich Urbahn, CFA | Head Multi Asset Strategy & Research
focuses on the multi-asset investment process, the development of investment ideas and capital market communications
+49 69 91 30 90-501 | ulrich.urbahn@berenberg.de

Ludwig Kemper, CFA | Analyst Multi Asset Strategy & Research
analyses financial markets, supports the multi-asset investment process and participates in capital market publications
+49 69 91 30 90-224 | ludwig.kemper@berenberg.de

Philina Louisa Kuhzarani | Analyst Multi Asset Strategy & Research
analyses financial markets, supports the multi-asset investment process and participates in capital market publications
+49 69 91 30 90-533 | philina.kuhzarani@berenberg.com

Dr Konstantin Ignatov | Analyst Multi Asset Strategy & Research
analyses financial markets, supports the multi-asset investment process and participates in capital market publications
+49 69 91 30 90-502 | konstantin.ignatov@berenberg.de

The Berenberg Markets series includes the following publications:

- ► Monitor
- Focus
- Investment Committee
- Minutes

www.berenberg.de/en/publications

IMPORTANT NOTICES

Date: 29. January 2024

Joh. Berenberg, Gossler & Co. KG
Neuer Jungfernstieg 20
20354 Hamburg (Germany)
Phone +49 40 350 60-0
Fax +49 40 350 60-900
www.berenberg.com
MultiAssetStrategyResearch@berenberg.de