BERENBERG
Markets

MONITOR

21 May 2024

Current market commentary

There were more negative economic surprises in the US last week, such as retail sales. It remains to be seen whether this is just a blip or the start of something more serious. In any case, the weaker US data and the fact that inflation figures are no longer so hot have taken some of the pressure off the Fed to be hawkish. The market is increasingly pricing in a "Goldilocks" regime of solid nominal growth, declining inflation and moderate rate cuts. As a result, many equity indices in the US and Europe have reached new all-time highs. Commodities such as gold and copper also hit new highs. Market breadth has recently increased significantly, allowing even previously unpopular small caps to post decent gains. Investor sentiment is correspondingly positive. Positioning analyses are already pointing to a risk-averse, if not yet extreme, allocation for many investor groups.

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

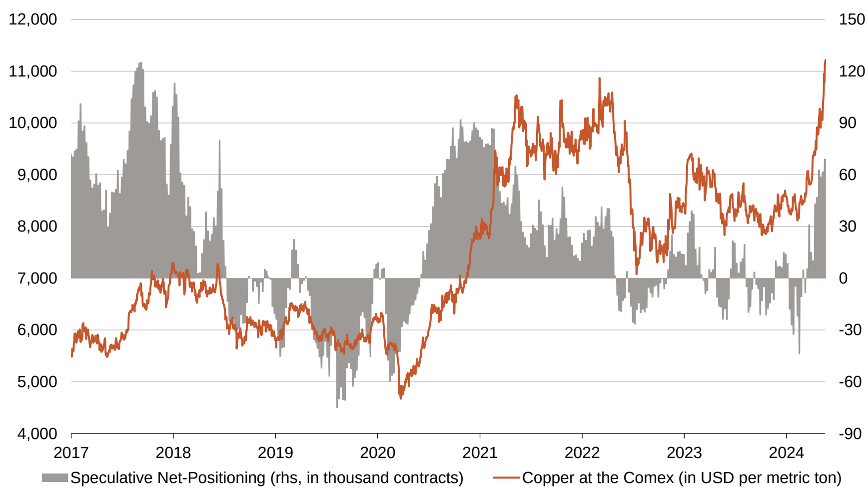
The end of the reporting season, the elections and OPEC in the eyes of investors.

The Q1 reporting season is drawing to a close. Around 93% of S&P 500 companies have already reported. Over the next two weeks, the focus will be on technology and consumer companies. The inauguration of Taiwanese President Lai Ching-te takes place today. However, the inauguration is not expected to lead to a significant escalation of tensions between China and Taiwan. This is followed by the South African elections on 29 May and the OPEC+ meeting on 1 June.

Markets focus on Fed minutes, PMIs and inflation data.

On Wednesday, investors will focus on the minutes of the latest Fed meeting. On Thursday, the focus will be on the preliminary European PMIs for May. This is followed on Friday by German GDP figures (Q1), as well as US preliminary durable goods orders (April) and the University of Michigan's final consumer confidence figures (May). The following week will see the release of US GDP (Q1) and European inflation figures (May).

Copper at all-time high with fundamental and speculative tailwinds



- The copper price on the US metal exchange has risen by more than 25% this year and reached a new all-time high.
- Fundamentally, there are a lot of positives: activity in the manufacturing sector in the West appears to have bottomed out, demand growth in China remains robust, inventories have fallen significantly and supply continues to grow only slowly.
- However, the recent rally was not only driven by fundamentals, but also by speculation. A consolidation therefore seems likely in the short term.

Source: Bloomberg, Time period: 01/01/2017 - 17/05/2024

Multi Asset

	4-week & YTD: 4W (19/04/24 - 17/05/24)	4-week & YTD: YTD (29/12/23 - 17/05/24)	12-month periods over that last 5 years: 17/05/23 17/05/24	17/05/22 17/05/23	17/05/21 17/05/22	17/05/20 17/05/21	17/05/19 17/05/20
MSCI Emerging Markets	7.6	10.3	15.5	-5.2	-7.3	32.1	-4.1
REITs	5.9	-1.6	4.6	-17.5	15.3	20.8	-17.0
MSCI World	4.8	12.3	24.7	1.6	9.5	31.8	-0.2
Industrial Metals	4.3	22.5	21.0	-18.4	29.8	52.4	-13.2
MSCI Frontier Markets	3.2	7.7	14.4	-12.5	6.1	27.9	-12.1
Global Convertibles	2.0	2.2	8.8	-4.7	-3.7	34.2	6.9
EUR Coporates	0.5	0.1	6.1	-4.0	-8.7	5.5	-1.4
EUR Sovereign Debt	0.4	-0.9	2.9	-4.6	-5.6	0.8	1.1
Euro overnight deposit	0.3	1.5	3.9	1.1	-0.6	-0.5	-0.4
Gold	-0.8	19.0	21.7	6.3	12.0	-4.6	40.7
USDEUR	-2.0	1.6	-0.3	-2.7	15.2	-11.0	3.1
Brent	-4.2	15.9	22.0	-17.9	115.8	80.1	-51.8

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 capital markets have largely performed well over the past four weeks. In addition to emerging market equities, REITs were among the biggest winners, benefiting in particular from the growing expectation of a first interest rate cut by the Fed in September.
- Following the strong price performance of gold in recent weeks, there has recently been a slight consolidation. The US dollar depreciated somewhat against the euro following the inflation data, which was in line with expectations.

Total return for selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 17/05/2019 – 17/05/2024

Equities

	4-week & YTD: 4W (19/04/24 - 17/05/24)	4-week & YTD: YTD (29/12/23 - 17/05/24)	12-month periods over that last 5 years: 17/05/23 17/05/24	17/05/22 17/05/23	17/05/21 17/05/22	17/05/20 17/05/21	17/05/19 17/05/20
MSCI EM Asia	9.0	12.5	16.1	-5.4	-9.4	30.4	3.9
MSCI UK	7.3	12.2	15.2	3.5	15.9	29.2	-20.5
Stoxx Europe Small 200	6.9	8.2	13.6	-3.1	-8.0	47.2	-10.1
Stoxx Europe Cyclicals	6.6	13.4	26.8	7.3	-3.2	57.0	-20.1
DAX	5.5	11.7	17.3	12.4	-7.9	47.1	-14.5
Stoxx Europe Defensives	5.4	9.9	10.7	5.6	16.4	14.5	-1.3
Stoxx Europe 50	5.2	12.4	15.3	13.7	8.6	27.8	-9.3
MSCI USA Small Caps	4.8	6.2	20.1	-3.9	1.2	60.4	-14.4
S&P 500	4.8	13.8	29.2	0.6	14.9	31.4	5.5
Euro Stoxx 50	4.2	13.9	20.0	18.5	-4.4	47.9	-17.4
MSCI EM Latin America	3.3	-2.3	14.4	4.8	14.7	48.9	-35.1
MSCI Japan	2.5	8.9	16.9	6.2	-0.6	16.6	1.4

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.

- Global equities have continued to gain across the board in the last four weeks. Cyclical equities and European small cap stocks in particular benefited from the expectation of a further economic recovery.
- The high proportion of financial and commodity stocks in the UK and the growing expectation of a first interest rate cut by the BOE in June led to a continued strong performance of the MSCI UK Index.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 17/05/2019 – 17/05/2024

Fixed Income

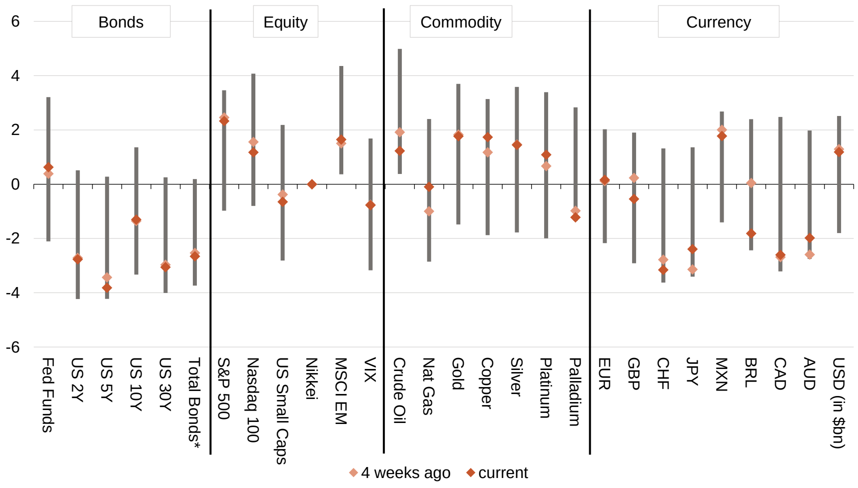
	4-week & YTD: 4W (19/04/24 - 17/05/24)	4-week & YTD: YTD (29/12/23 - 17/05/24)	12-month periods over that last 5 years: 17/05/23 17/05/24	17/05/22 17/05/23	17/05/21 17/05/22	17/05/20 17/05/21	20/05/19 17/05/20
USD High Yield	2.1	1.9	11.2	2.7	-7.3	20.2	-4.7
USD Corporates	2.0	-0.4	5.0	0.6	-11.5	5.7	8.4
Gilts	1.9	-1.6	2.8	-19.2	-6.4	-4.9	12.4
EM Local Currency Bonds	1.8	0.5	4.8	5.2	-5.9	0.4	1.3
EUR High Yield	1.1	2.5	10.9	0.3	-7.5	17.3	-5.9
BTPs	0.9	0.6	6.4	-5.4	-8.9	6.9	6.2
EUR Financials	0.7	0.8	7.4	-4.1	-8.0	5.7	-1.7
EM Hard Currency Bonds	0.4	4.0	11.3	-2.1	-4.0	1.3	0.4
EUR Non-Financials	0.4	-0.4	5.2	-3.9	-9.3	5.3	-1.2
Bunds	0.1	-2.7	1.0	-8.5	-7.5	-3.5	3.5
Chinese Sovereign Bonds	0.0	2.9	6.0	3.9	5.3	0.3	8.2
Treasuries	-0.5	-0.1	-0.9	-3.6	6.3	-14.9	17.2

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

- The expectation of early interest rate cuts in the UK has also led to support for British government bonds over the past four weeks. US government bonds, on the other hand, showed little change. Italian government bonds outperformed German government bonds.
- In the last four weeks, both USD corporate bonds and USD high-yield bonds performed best despite a falling dollar.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 17/05/2019 – 17/05/2024

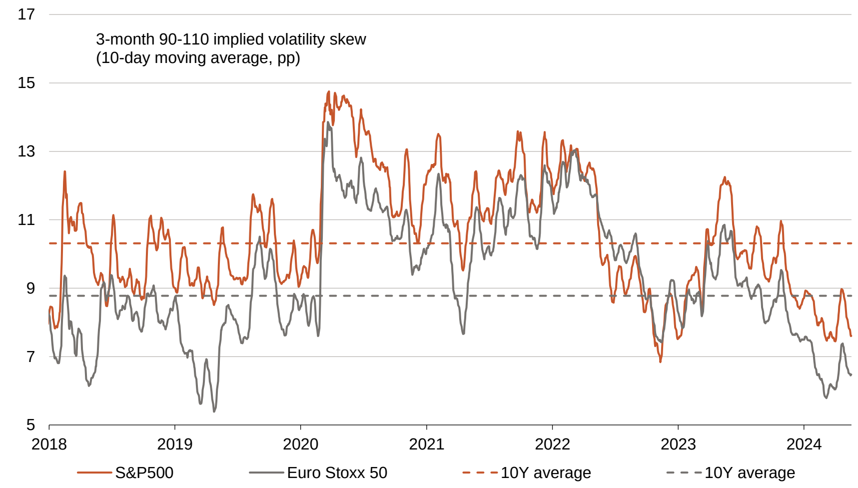
Non-Commercial Positioning



- Speculative investors are currently still short US Treasuries across all maturities. They are only holding long positions in Fed funds futures and appear to be betting on falling key interest rates this way.
- Within cyclical commodities, hedge funds have reduced oil and increased copper.

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: 14/05/2014 - 14/05/2024

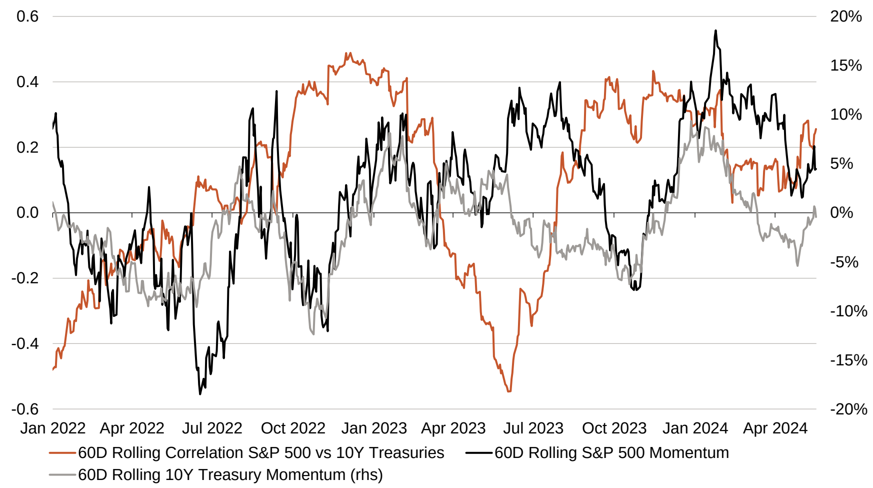
Put-Call-Skew



- The put-call skew has recently flattened further in both Europe and the USA and is now trading at very low levels.
- At the same time, the stock markets are climbing to new all-time highs. The combination of a low need for hedging and sharply rising markets calls for caution, at least in the short term.

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: 17/05/2014 - 17/05/2024

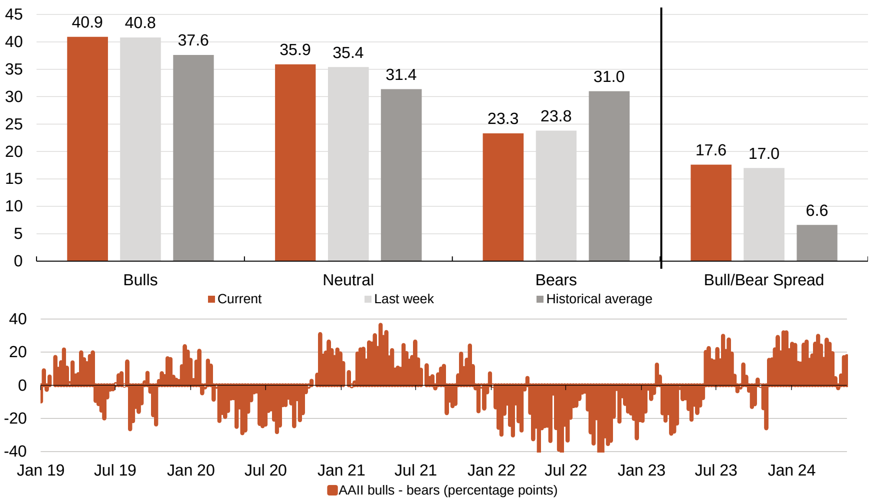
60-Day Momentum and Correlation



- Equities and bonds recently moved more in sync again. Hopes of a possibly more dovish Fed in the wake of somewhat weaker economic and inflation data led to falling interest rates and thus a tailwind for both asset classes.

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 - 17/05/2024

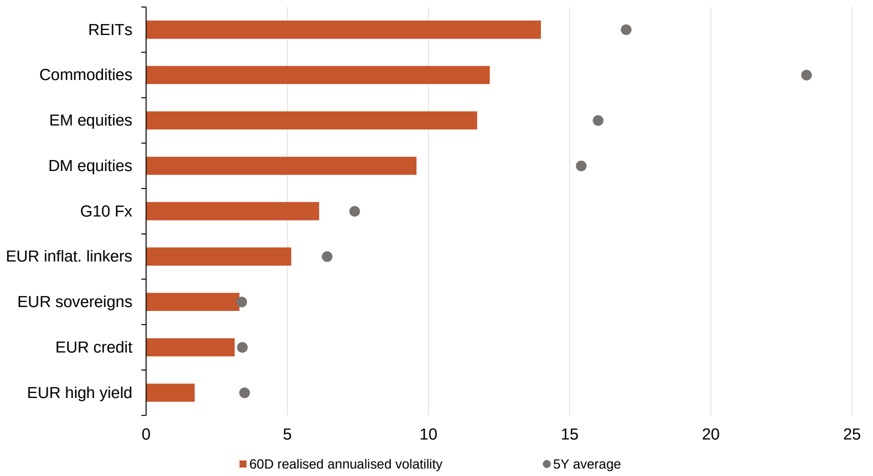
AAII Sentiment Survey (Bulls vs Bears)



- The pronounced optimism among US private investors is back. The phase of somewhat more moderate sentiment lasted just three weeks.
- At just under 18 ppts, the bull/bear spread is well above the historical average but is still far below the highs of this year.

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 – 16/05/2024

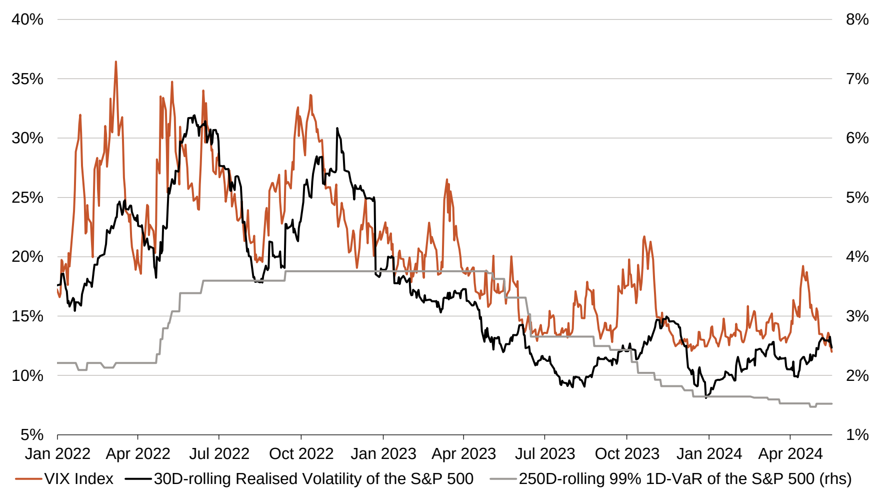
Realised Volatilities



- The markets for all asset classes presented here remain very calm.
- Relative to the average of the last 5 years, volatility is currently very low, especially for commodities and European high-yield bonds.
- REITs exhibit the highest volatility due to their high 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: 17/05/2019 - 17/05/2024

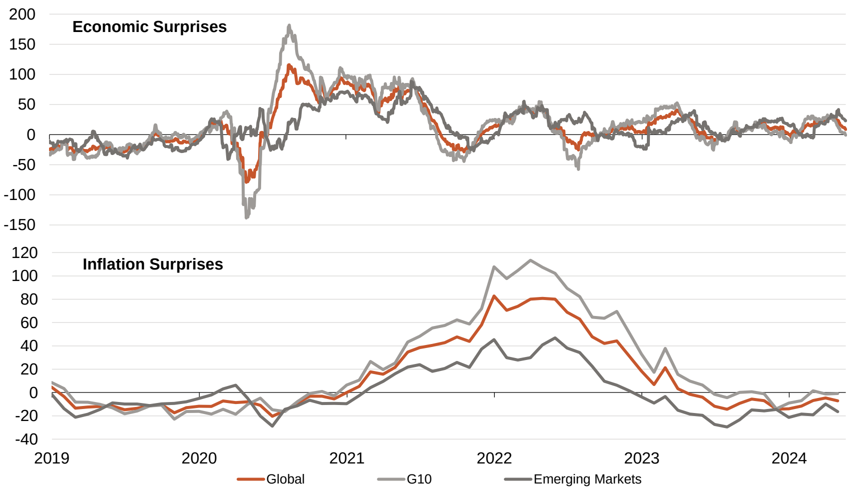
Volatility and Value-at-Risk of the S&P 500



- For the first time since December last year, the VIX is trading below the realised volatility of the last 30 days. The exceptionally high volatility premium four weeks ago has thus completely disappeared. As realised volatility has risen only slightly at the same time, this indicates increased fragility for equity markets.

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 - 17/05/2024

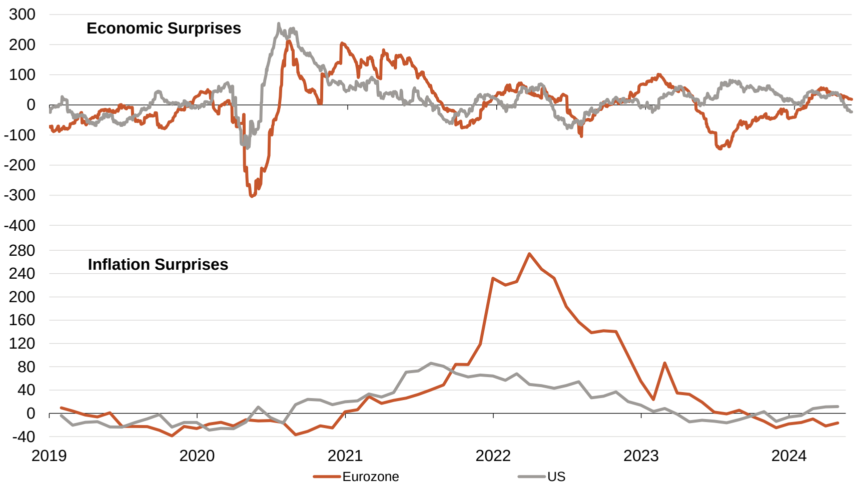
Global



- Over the past two weeks, the positive economic surprises in the industrialised countries have continued to diminish. The recent increase in positive economic surprises in the emerging markets is now also slightly shrinking.
- In China, the services PMI for April exceeded expectations. Exports and imports as well as data on industrial production also surprised on the upside. In contrast, the latest retail sales figures were below estimates.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 – 17/05/2024

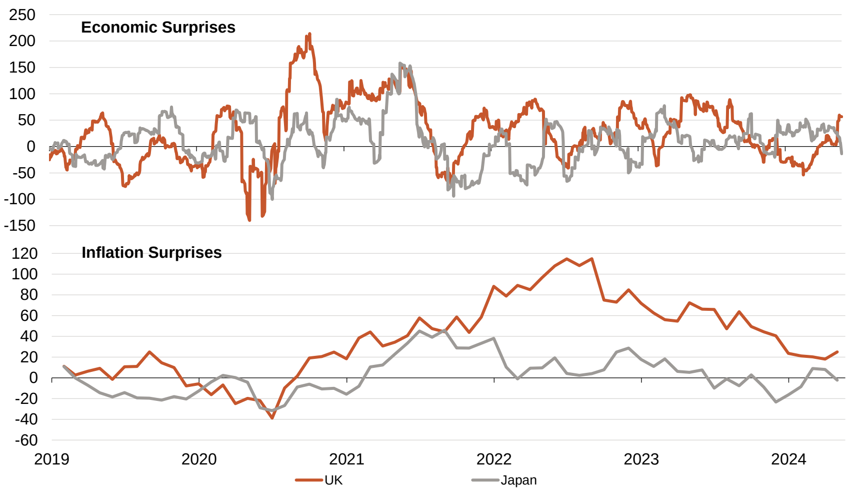
Eurozone and US



- In the USA, producer prices surprised to the upside in both the core and overall rate. However, consumer prices for April and average hourly wages were in line with expectations. Retail sales, on the other hand, were below estimates.
- In the eurozone, both the services PMI and the composite PMI were above expectations. Industrial production data for the month of March also came in as a positive surprise.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 – 17/05/2024

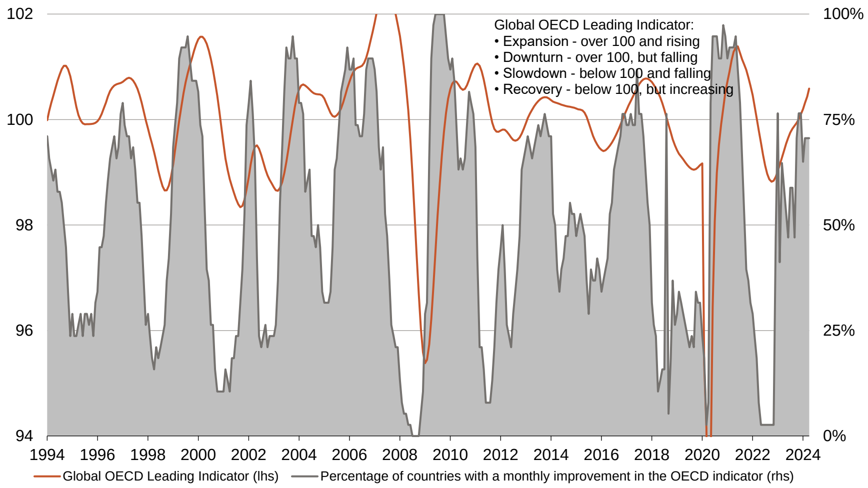
UK and Japan



- In the UK, the preliminary GDP growth rate for the first quarter was better than expected.
- In Japan, both the services PMI for April and GDP growth for the first quarter were 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 – 17/05/2024

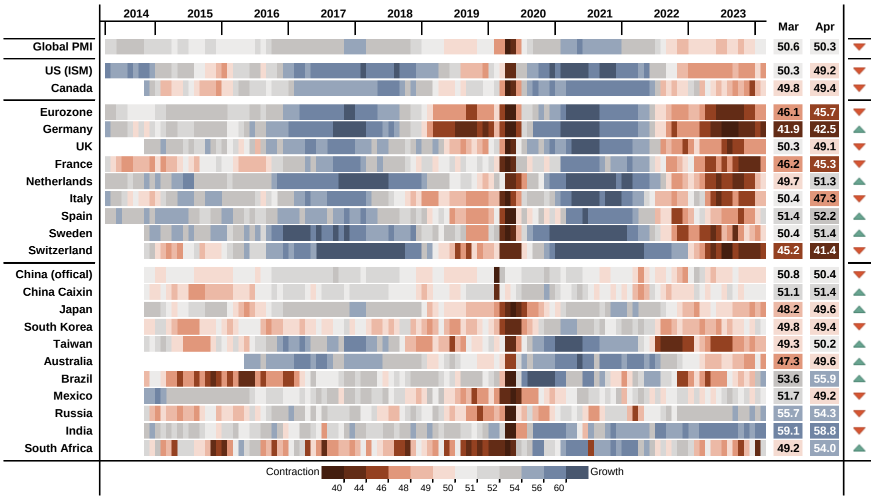
OECD Leading Indicator



- Global economic output continued its positive trend in April and, based on the revised OECD leading indicator, reached a new high of 100.5, the highest level since January 2022.
- According to the leading indicator, 71% of the countries surveyed recorded an improvement in their economic situation in April compared to the previous month.

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 – 30/04/2024

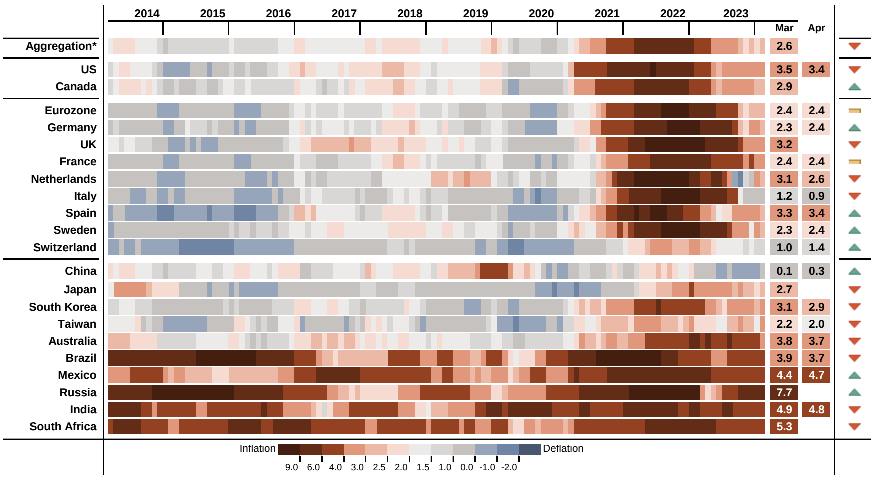
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- While industrial purchasing managers' indices in China, Australia and Brazil, among others, improved in April, industrialised nations such as the USA, China and the UK in particular recorded slightly weaker data than in 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: 01/01/2014 – 30/04/2024

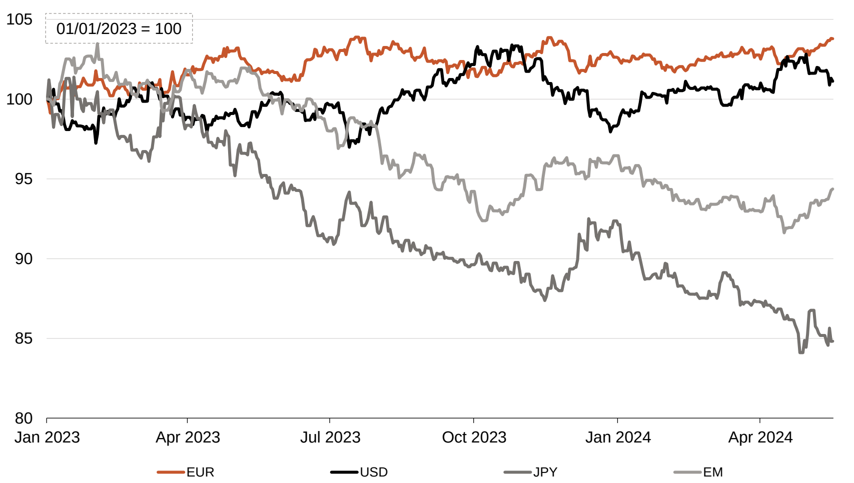
Headline Inflation



- The inflation rate in the USA fell slightly in April compared to the previous month, but still remains at a high level.
- The consumer price indices in Australia and Brazil also fell slightly month-on-month, while they rose slightly in Mexico.

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: 01/01/2014 – 30/04/2024

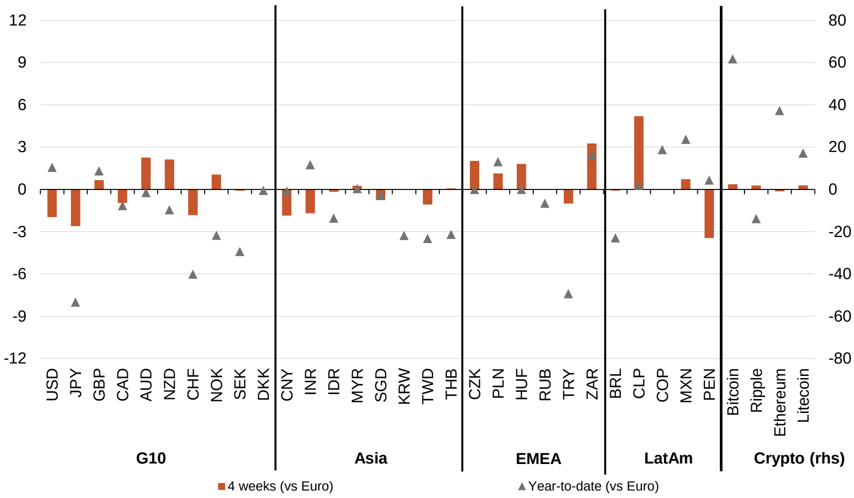
Trade-Weighted Currency Development



- Higher than expected initial claims for unemployment benefits, stagnating retail sales and a consumer price index that was in line with expectations have recently been slight negative factors for the US dollar. The euro was able to appreciate somewhat in the risk-on environment.
- Declining GDP growth and a declining intention on the part of the BoJ to raise interest rates recently weighed on the Japanese yen once again.

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 - 17/05/2024

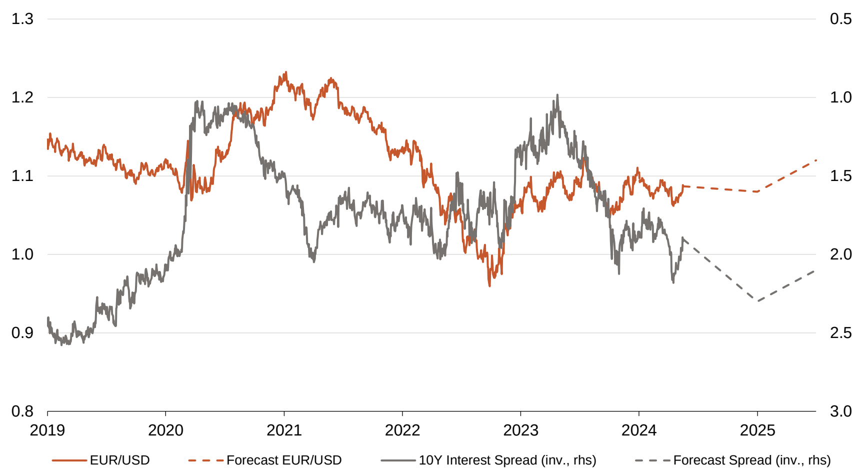
Currency Moves vs Euro



- A mixed labour market report with a higher than expected unemployment rate and at the same time more jobs created could not stop the current strength of the Australian dollar against the euro.
- Continued low inflation in China, slower money supply growth and weak private sector investment continue to weigh on the Chinese yuan, which depreciated against the euro.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2023 - 17/05/2024

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



- Initial jobless claims, which were higher than expected, coupled with stagnating retail sales and a slight fall in the consumer price index recently led to higher interest rate cut expectations on the part of the Fed. Unchanged expectations regarding interest rate cuts by the ECB resulted in a slight decline in the interest rate differential between the two currency areas.

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 - 31/12/2025

European Sector & Style Performance

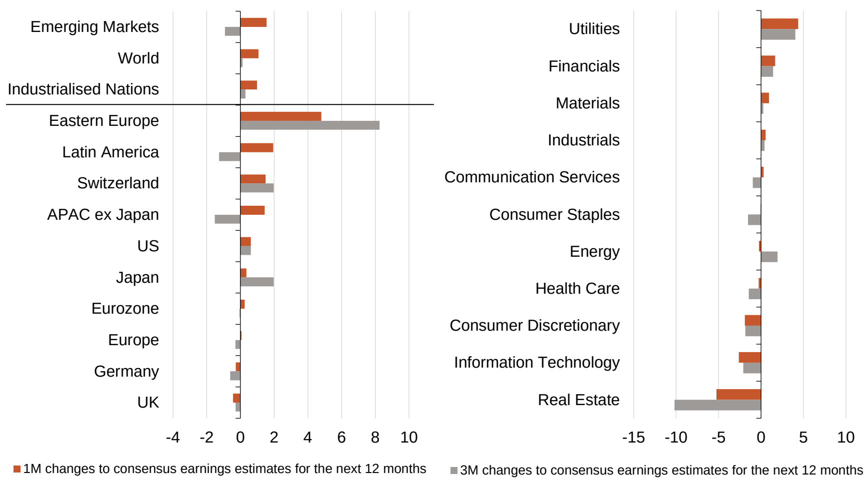
	4-week & YTD: 4W (19/04/24 - 17/05/24)	4-week & YTD: YTD (30/12/23 - 17/05/24)	12-month periods over that last 5 years: 17/05/23 17/05/24	17/05/22 17/05/23	17/05/21 17/05/22	17/05/20 17/05/21	17/05/19 17/05/20
Utilities	9.3	2.8	4.2	4.2	5.6	30.8	1.0
Finance	7.3	16.5	31.1	11.8	1.5	56.8	-30.8
Health Care	6.6	12.1	9.5	8.1	15.9	1.1	22.7
Information Technology	6.4	16.1	31.6	10.6	-6.2	44.9	-2.0
Telecommunications	6.0	8.1	8.2	-1.6	1.9	26.9	-19.2
Value	6.0	10.2	18.1	5.3	7.0	43.4	-24.6
Consumer Staples	5.9	2.9	-4.1	4.2	6.4	15.5	-5.0
Industrials	5.5	12.4	23.8	15.1	-5.5	59.5	-15.8
Growth	5.2	11.6	13.1	13.1	-2.2	30.5	-1.0
Materials	5.0	8.7	19.1	-4.4	3.1	62.8	-13.3
Consumer Discretionary	2.2	10.4	4.3	29.3	-15.3	66.8	-17.3
Energy	-1.3	8.3	18.8	4.0	49.2	29.9	-42.2

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.

- Equity markets reached new all-time highs, continuing their upward trend since the beginning of the year after the correction in April.
- Utilities and financial stocks were the relative winners in Europe over the last four weeks. Only energy stocks have suffered losses. Falling oil prices and negative earnings revisions weighed on price performance.

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: 17/05/2019 – 17/05/2024

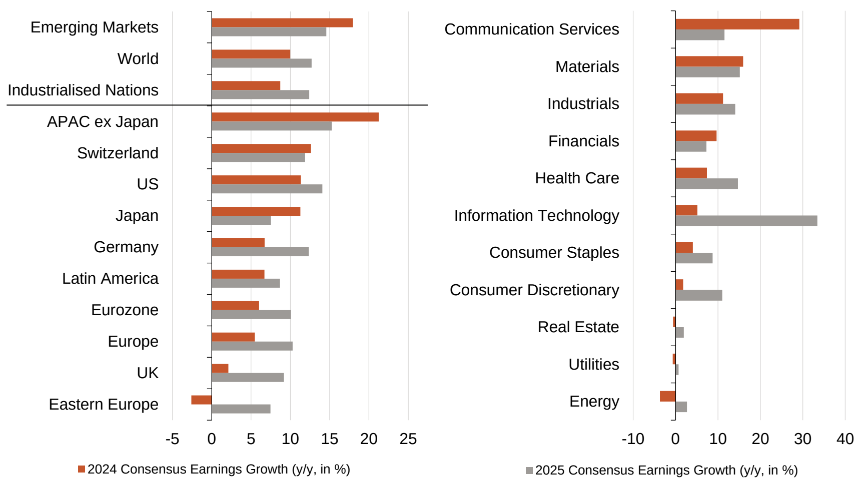
Changes in Consensus Earnings Estimates



- Over the past four weeks, analysts have raised their earnings forecasts for emerging markets in particular, reversing the trend of earnings revisions.
- In particular, analysts are now more positive on Latin America and Asia. The outlook for China in particular has improved after the Chinese government announced a series of measures to boost growth and reduce the property glut.

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 17/05/2024

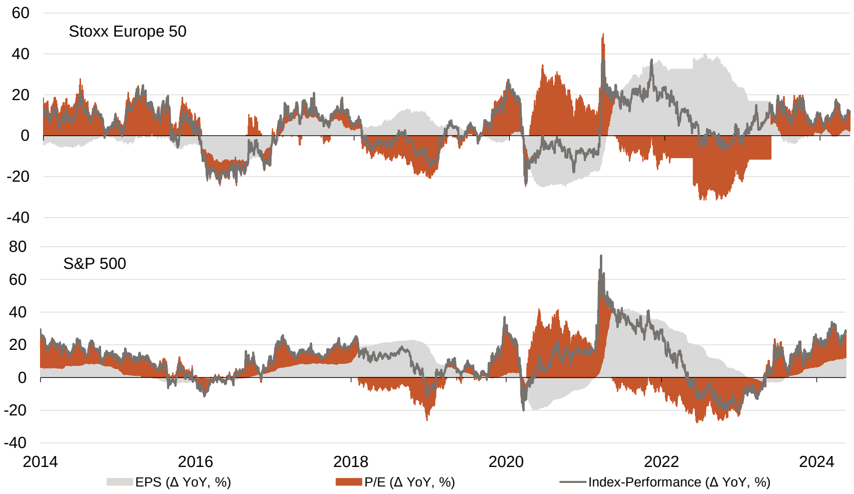
Earnings Growth



- For 2024, analysts are slightly more constructive. Compared to two weeks ago, analysts now expect earnings growth of just under 10% for developed markets.
- The energy sector is expected to see the sharpest drop in earnings, at just under 5%, but should recover from 2025 onwards.

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 17/05/2024

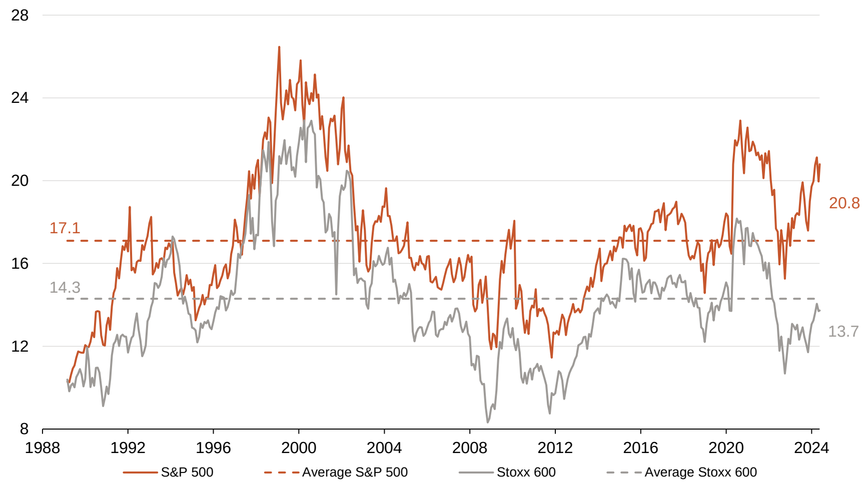
Contribution Analysis



- Over the past four weeks, the S&P 500 has once again been largely driven by earnings. At the end of April, changes in earnings expectations were still largely responsible for the index's performance.
- For the Stoxx Europe 50, the dominant driver over the past twelve months can be narrowed down more clearly. Since the second half of the year, the performance of the index has mainly been driven by a widening of valuations.

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 - 17/05/2024

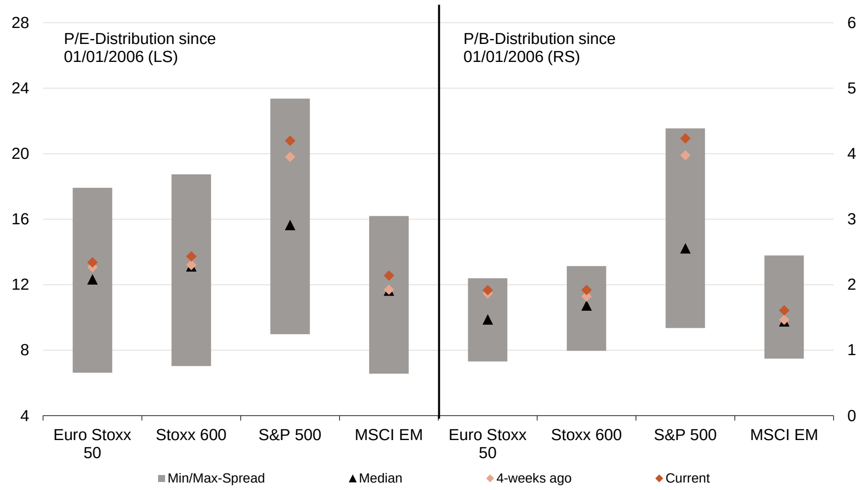
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Following the valuation correction at the end of April, the S&P 500 P/E ratio has risen again during the recent market rally.
- Weaker economic and inflation data have raised hopes of a rapid easing of US interest rate policy. Interest rates have fallen accordingly and valuation levels have widened.

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 - 17/05/2024

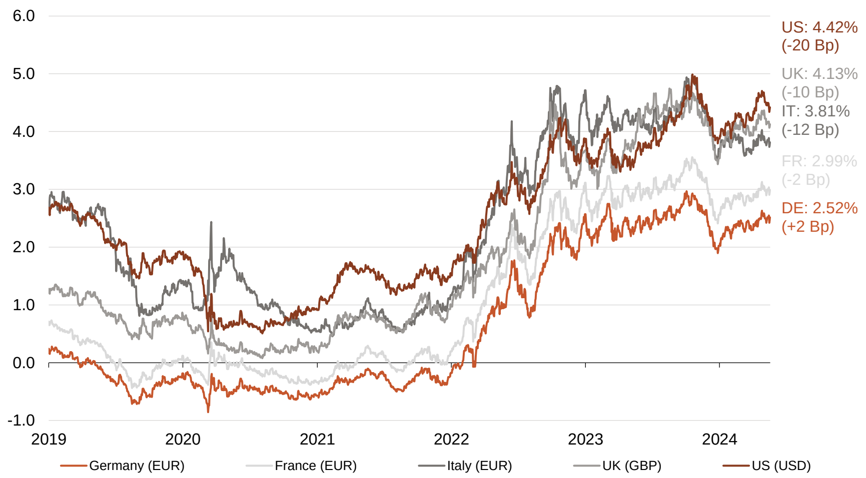
Historical Distribution: Price/Earnings and Price/Book Ratio



- On a P/E and P/B basis, all the equity indices shown here have risen over the last four weeks.
- In particular, on a P/B basis, the Euro Stoxx 50 and the S&P 500 are now trading close to their historical highs since 2006.

Historical distribution of valuation ratios for selected equity regions since 2006. In addition to the current value, the observation four weeks ago and the historical median, the maximum (upper limit of the grey bar) and minimum (lower limit of the grey bar) are shown.
Source: Bloomberg, Time period: 01/01/2006 - 17/05/2024

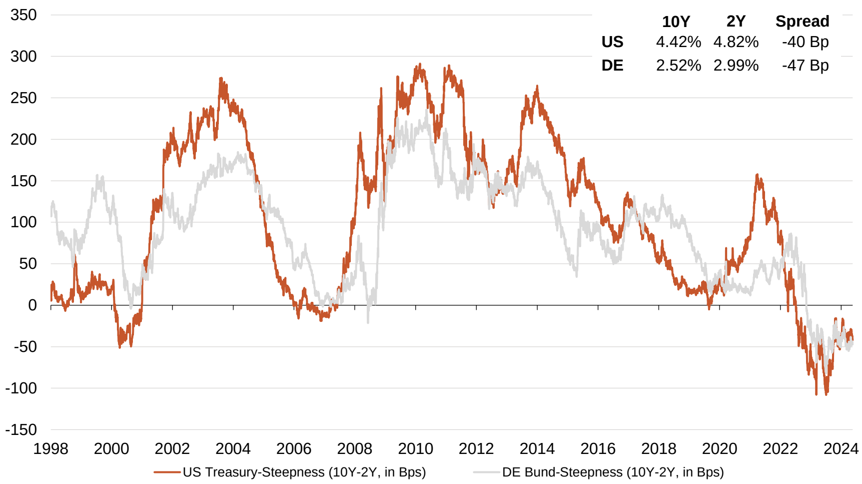
10-Year Government Bond Yields



- A number of data points, from industrial production to initial jobless claims and some sentiment indicators to inflation, have been added to the long list of data points over the past two weeks that point to a gradual slowdown in the US economy and inflation.
- Dovish comments from Fed Chairman Jerome Powell put further pressure on yields. At just under 4.4%, the yield on the 10-year US Treasury note is as low as it was at the beginning of April.

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 - 17/05/2024

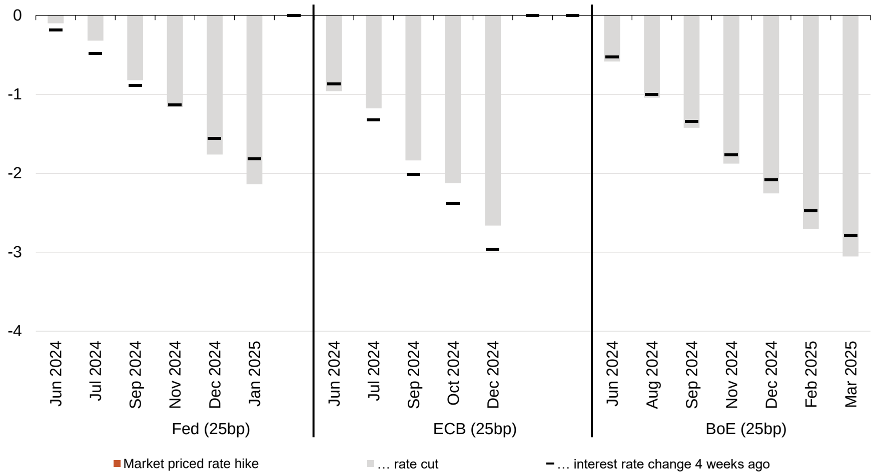
Yield Curve Steepness (10Y - 2Y)



- In the last two weeks, yields have fallen at the long end and risen slightly at the short end, which has led to a slight flattening of the US yield curve.
- The interest rate differential between 2-year and 10-year US government bonds widened from 33 to 40 basis points.

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 - 17/05/2024

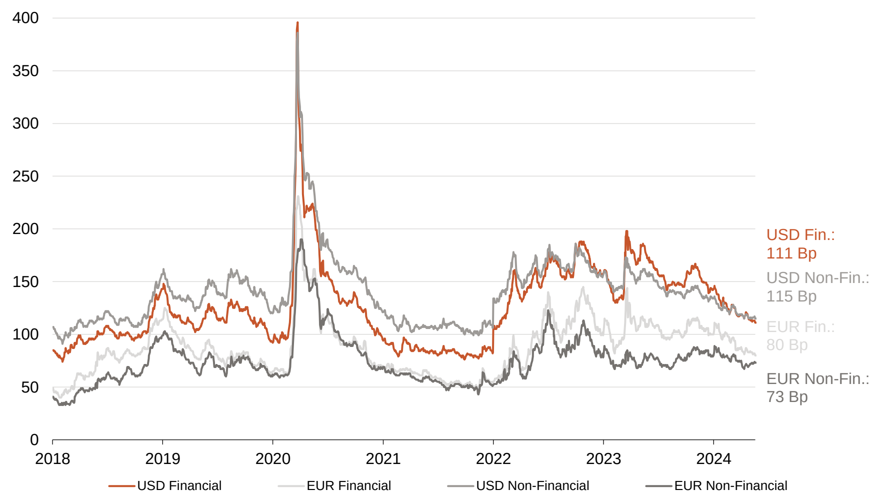
Implicit Changes in Key Interest Rates



- Weaker economic data and cooler inflation figures are rekindling speculation about near-term rate cuts. Compared with four weeks ago, the market is now pricing in almost two 25bp rate cuts by the Fed by the end of the year.
- The market currently expects the first full interest rate cut in November.

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: 22/02/2024 - 17/05/2024

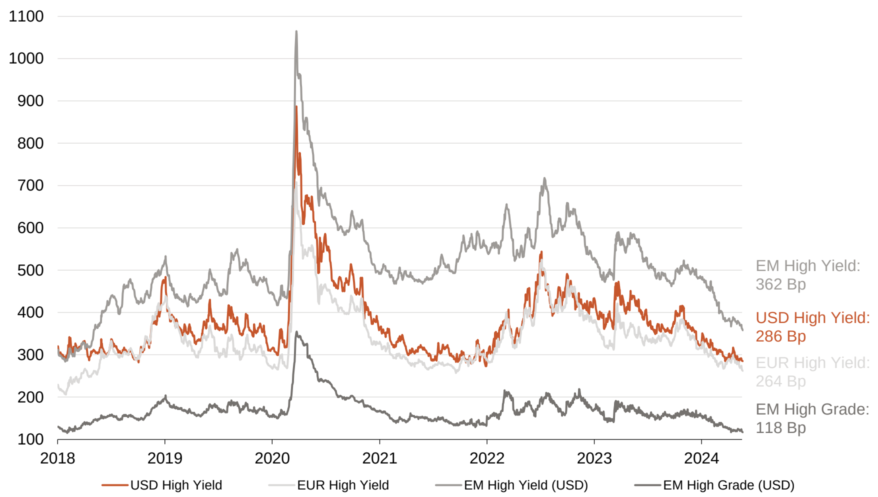
Credit Spreads Financial and Non-Financial Bonds



- Corporate bond spreads have been largely unchanged over the past two weeks. Spreads on USD financial bonds narrowed slightly, while those on USD non-financial bonds remained unchanged.
- The picture was similar for EUR corporate bonds. Here, too, spreads moved only slightly.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2019 – 17/05/2024

Credit Spreads High Yield and Emerging Markets Bonds



- The market for high-yield bonds also recovered slightly in the wake of the latest risk appetite. Spreads on USD and EUR high-yield bonds came under slight pressure and fell by just 6 and 15 basis points, respectively.
- Emerging market bonds, especially in the high yield segment, saw a significant tightening of spreads by almost 18 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: 01/01/2019 – 17/05/2024

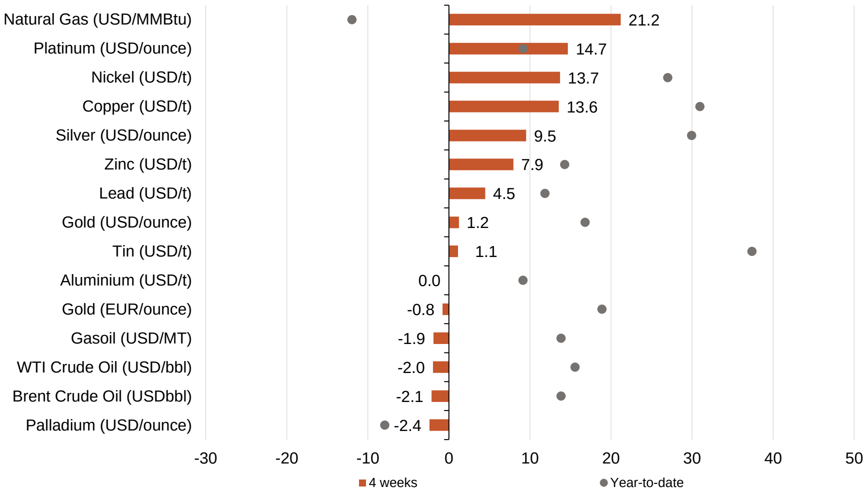
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	20/05/23 20/05/24	20/05/22 20/05/23	20/05/21 20/05/22	20/05/20 20/05/21	20/05/19 20/05/20
EUR Government	3.12	-0.02	7.1	-	-	-	0.4	-1.4	3.8	-8.6	-8.7	0.2	4.3
Germany	2.67	0.01	7.3	-	-	-	0.1	-2.6	1.4	-9.6	-7.1	-3.0	3.0
EUR Corporate	3.91	-0.04	4.5	76	-1	48	0.5	0.1	6.2	-4.2	-8.4	5.1	-1.2
Financial	4.09	-0.09	3.8	80	-6	38	0.7	0.7	6.8	-3.5	-6.9	4.7	-1.0
Non-Financial	3.80	-0.01	4.9	73	2	57	0.4	-0.3	5.9	-4.6	-9.2	5.4	-1.3
EUR High Yield	6.57	-0.31	3.1	264	-27	10	1.1	2.4	10.7	1.2	-8.0	15.6	-4.6
US Treasury	4.62	-0.20	6.1	-	-	-	1.5	-1.6	0.1	-3.1	-6.9	-4.4	13.6
USD Corporate	5.54	-0.23	6.7	114	-5	24	2.0	-0.5	5.5	-0.8	-10.8	4.6	9.7
Financial	5.67	-0.26	5.0	111	-9	34	1.9	0.7	6.7	-0.6	-9.2	5.1	8.4
Non-Financial	5.48	-0.22	7.4	115	-4	21	2.1	-1.0	5.0	-0.9	-11.5	4.3	10.1
USD High Yield	8.00	-0.39	3.8	286	-25	0	2.1	1.9	11.4	3.3	-7.7	17.3	-2.6
EM High Grade	5.56	-0.20	5.2	118	-3	0	1.6	0.7	5.0	0.5	-10.9	5.7	4.4
EM High Yield	8.64	-0.49	3.9	362	-24	5	2.7	5.5	15.0	0.5	-19.3	17.4	-0.3

- Most bond segments have kept pace with equities recently, posting modest gains. Emerging market high yield has been the absolute winner on both a monthly and annual basis.
- Risk premiums are currently only above the 50th percentile for EUR non-financial bonds.

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: 17/05/2014 – 20/05/2024

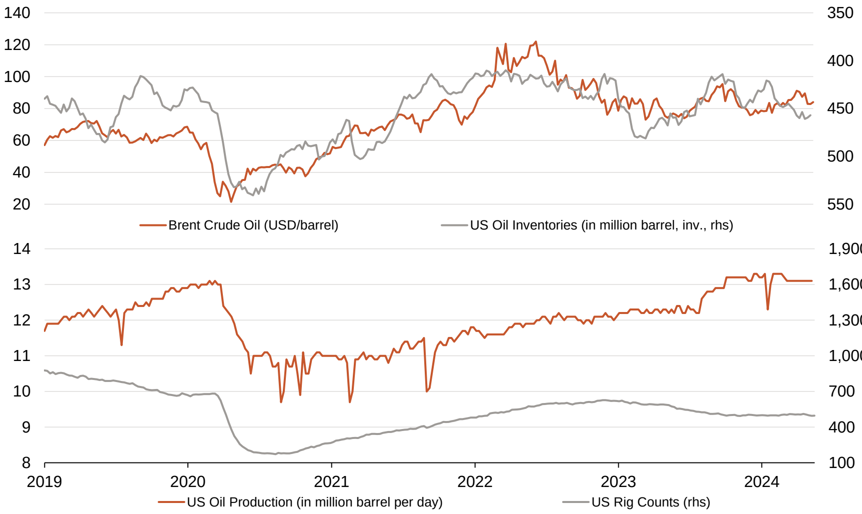
Commodities Performance



- Natural gas has been one of the big winners over the past month. One reason for this is that the maintenance work at the Freeport LNG terminal has finally been completed, which means that excess US natural gas can be exported again.
- Industrial metals have also been very strong, especially copper and nickel.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2023 – 17/05/2024

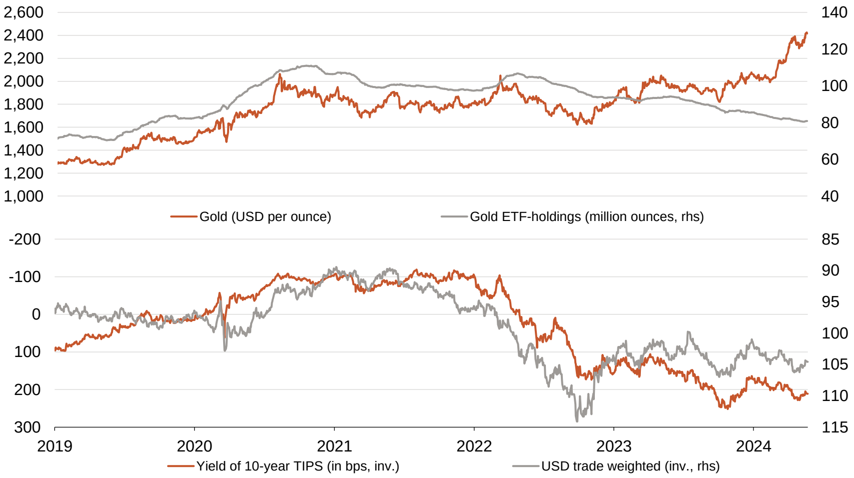
Crude Oil



- Brent crude oil has stagnated at around USD 84 per barrel since the beginning of May, with no major supply or demand drivers in recent weeks. News coverage of the conflict in the Middle East has also died down recently, reducing the demand for oil as a geopolitical hedge. As a result, futures positioning by speculative investors has fallen sharply in recent weeks, particularly on WTI.

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 – 17/05/2024

Gold



- After weakness in the second half of April, gold rebounded in May and is now trading at new all-time highs.
- Tailwinds came from all sides: the US dollar weakened, interest rates fell and ETFs finally saw some inflows.

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 – 17/05/2024

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