BERENBERG
Markets

MONITOR

15 July 2024

Current market commentary

The first two weeks of July are seasonally the two best weeks of the calendar year for US equities - at least that's what the statistics show since 1950. And the seasonality has been confirmed again this year. Despite disappointing US economic data, the S&P 500 has risen every day so far in July except one. Equity funds saw their twelfth consecutive week of inflows, the longest streak since December 2021. Higher earners are benefiting from higher wages and interest income, and some of these savings are being ploughed back into equity markets. When might this income-led support end? Probably if unemployment rises rapidly and sharply, because then investor and consumer sentiment is likely to deteriorate. At that point, the support for US equities from pension funds is also likely to fade. But we are not there yet. The next test for investors will be the Q2 reporting season. The bar for positive surprises is set quite high.

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

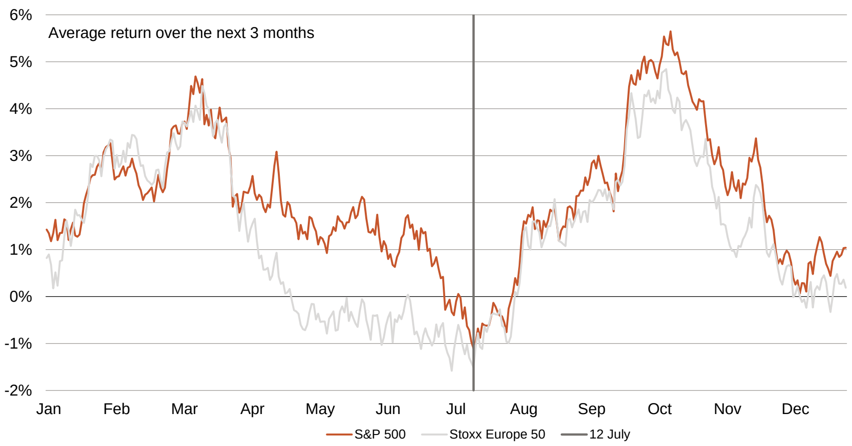
Q2 reporting season, central bank meeting and US politics in the focus of the markets.

The Q2 reporting season is heating up. Nearly 40% of the S&P 500 by market capitalisation will report in the next two weeks. But it's not just the corporate world that will be in focus. The ECB and the Fed are expected to announce their future interest rate policies at their meetings on 18 and 31 July. On the political front, the Eurogroup meeting is on the agenda for today and the Republican National Convention in the US will run until the 18th of July. The Olympic Games in Paris begin on 26 July.

Economic and inflationdata in investors' eyes.

Today's agenda includes Q2 GDP, June Industrial Production and June Retail Sales from China, and the July Empire State Index from the US. Tomorrow will see the release of the US Retail Sales (June) and the German ZEW Economic Sentiment (July). On Wednesday we have Euro-Zone June CPI and US July Housing Starts, while on Thursday we have Philadelphia Fed July PMI. The following week, we will see the US Purchasing Managers' Index (July) and US PCE Price Index (June).

The next three months are seasonally the most difficult for equities



- After a spectacular first half of the year, markets may now be facing a more difficult period. At least that is what seasonality suggests. Before the year-end rally begins in the autumn, equity markets are typically at their weakest in the summer.
- But there are also good fundamental reasons to take a breather. Valuations have risen and earnings expectations are ambitious. At the same time, economic data has been disappointing, and the political disruption caused by the US elections is likely to have an increasingly negative impact.

Source: Bloomberg, Time period: 31/08/1998 - 12/07/2024

Multi Asset

	4W (14/06/24 - 12/07/24)	YTD (29/12/23 - 12/07/24)	12/07/23 - 12/07/24	12/07/22 - 12/07/23	12/07/21 - 12/07/22	12/07/20 - 12/07/21	12/07/19 - 12/07/20
	4-week & YTD		12-month periods over that last 5 years				
MSCI Emerging Markets	2.9	13.2	17.0	-3.3	-11.7	20.5	3.9
REITs	2.5	1.2	6.3	-15.7	1.9	25.6	-12.3
MSCI World	2.0	17.1	25.9	7.5	-0.4	31.3	3.6
Brent	2.0	19.0	21.8	-13.2	86.9	62.5	-36.3
Gold	1.5	18.3	25.7	2.3	12.9	-4.4	26.7
Global Convertibles	0.9	3.4	6.0	-1.4	-11.3	28.6	18.5
MSCI Frontier Markets	0.6	10.3	14.0	-8.7	-0.6	28.2	-12.9
EUR Coporates	0.5	1.1	7.1	-2.2	-11.2	3.5	-0.3
EUR Sovereign Debt	0.4	-0.3	4.4	-5.3	-6.6	0.5	0.9
Euro overnight deposit	0.3	2.1	4.0	1.7	-0.6	-0.6	-0.4
Industrial Metals	-0.8	11.3	12.7	-5.6	10.2	34.7	-2.0
USDEUR	-1.9	1.2	2.0	-9.8	18.2	-4.7	-0.3

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.

- Over the past four weeks, the more cyclical emerging market equities have gained the most, outperforming their developed market counterparts by almost 1%. This is surprising given that the global economic outlook has recently weakened.
- Gold and oil have also performed very well. In fact, both commodities have outperformed global equity indices since the beginning of the year. Industrial metals, on the other hand, have fallen.

Total return for selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/07/2019 – 12/07/2024

Equities

	4W (14/06/24 - 12/07/24)	YTD (29/12/23 - 12/07/24)	12/07/23 - 12/07/24	12/07/22 - 12/07/23	12/07/21 - 12/07/22	12/07/20 - 12/07/21	12/07/19 - 12/07/20
	4-week & YTD		12-month periods over that last 5 years				
MSCI EM Latin America	5.6	-8.7	1.6	23.3	-2.5	27.7	-31.3
Euro Stoxx 50	4.3	13.9	18.5	28.3	-12.6	26.5	-3.8
DAX	4.1	11.9	17.0	24.2	-18.3	25.0	2.5
Stoxx Europe Cyclicals	3.9	14.2	24.5	19.4	-14.3	36.2	-5.2
MSCI Japan	3.6	13.3	20.2	7.6	-6.3	20.4	1.3
MSCI USA Small Caps	3.5	7.2	13.6	5.1	-5.5	53.4	-8.4
Stoxx Europe Small 200	3.0	7.4	12.3	5.4	-19.9	40.8	-3.2
MSCI EM Asia	2.5	16.9	19.7	-5.8	-12.1	19.0	14.5
Stoxx Europe 50	2.4	14.1	19.5	15.1	1.2	20.4	-1.9
Stoxx Europe Defensives	2.2	11.1	16.7	4.1	7.8	13.4	2.5
MSCI UK	1.9	12.4	18.5	4.4	9.3	26.3	-16.9
S&P 500	1.5	20.3	30.1	7.7	4.2	33.2	7.5

S&P 500: S&P 500 TR (US-Equity); Stoxx Europe 50: Stoxx Europe 50 TR; Euro Stoxx 50: Euro Stoxx 50 TR; MSCI Japan: MSCI Japan TR;
Stoxx Europe Small 200: Stoxx Europe Small 200 TR; MSCI USA Small Caps: MSCI USA Small Caps TR; Stoxx Europe Cyclicals: Stoxx Europe Cyclicals TR;
Stoxx Europe Defensives: Stoxx Europe Defensives TR; DAX: DAX TR; MSCI United Kindom: MSCI UK TR; MSCI EM Asia: MSCI EM Asia TR;
MSCI EM Eastern Europe: MSCI EM Eastern Europe TR.

- All the indices shown here posted positive returns last month. However, the range is fairly wide at around 4%.
- Latin American equities performed best, followed by European equities. Both regions had previously been affected by political developments and are now showing signs of recovery.
- The S&P 500 is, unusually, at the bottom of the table over the last month, but it is still well ahead in first place since the beginning of the year.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/07/2019 – 12/07/2024

Fixed Income

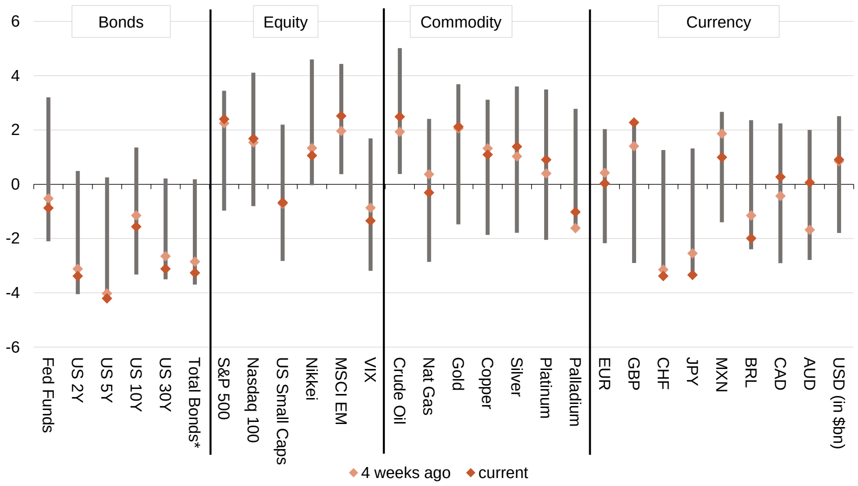
	4W (14/06/24 - 12/07/24)	YTD (29/12/23 - 12/07/24)	12/07/23 - 12/07/24	12/07/22 - 12/07/23	12/07/21 - 12/07/22	12/07/20 - 12/07/21	12/07/19 - 12/07/20
	4-week & YTD		12-month periods over that last 5 years				
USD High Yield	1.4	3.8	10.8	7.8	-11.4	14.8	-0.2
EM Local Currency Bonds	1.3	0.3	3.9	5.6	-6.9	-0.6	-2.8
BTPs	1.1	1.4	6.9	-4.4	-12.0	4.9	4.8
EUR High Yield	1.0	3.9	11.3	7.3	-13.5	11.0	-1.8
USD Corporates	0.8	1.8	6.8	1.1	-13.8	2.7	11.1
EUR Financials	0.6	1.9	8.1	-2.1	-10.4	3.5	-0.3
Chinese Sovereign Bonds	0.5	4.0	6.2	4.6	4.4	4.2	4.1
EUR Non-Financials	0.3	0.6	6.3	-2.3	-11.8	3.6	-0.2
Gilts	0.3	1.0	8.8	-18.1	-13.7	-1.2	11.8
Bunds	-0.7	-2.0	3.0	-9.1	-9.7	-1.6	2.0
EM Hard Currency Bonds	-0.9	5.3	12.9	-1.7	-8.0	1.8	0.6
Treasuries	-1.5	1.7	5.0	-11.8	7.2	-7.5	10.8

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

- Within bonds, the riskier segments tended to outperform.
- EM local-currency bonds benefited mainly from currency appreciation.
- US Treasuries were the worst performers. However, the negative yield was due to the depreciation of the dollar as the weaker than expected CPI print pushed interest rates there to their lowest level since March.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/07/2019 – 12/07/2024

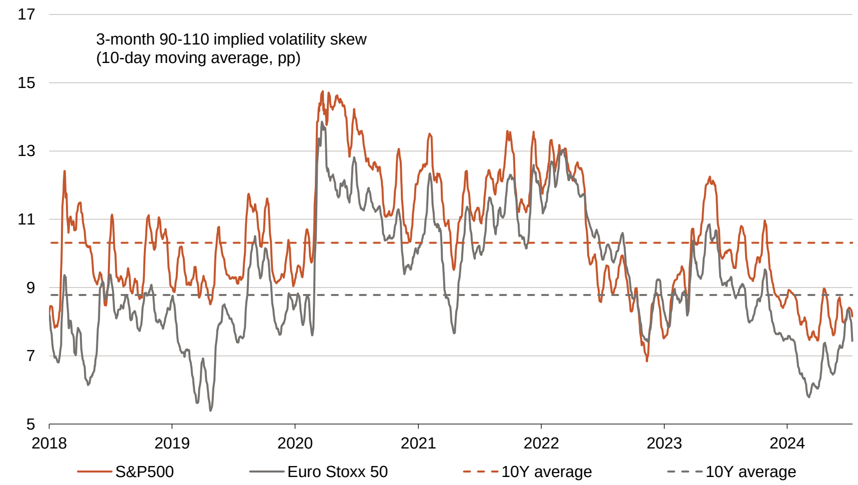
Non-Commercial Positioning



- Although speculative investors have built up long positions in crude oil over the past month, they have become more bearish on emerging market currencies. There has been a reduction in long positions in the Mexican peso and an increase in short positions in the Brazilian real.

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: 09/07/2014 - 09/07/2024

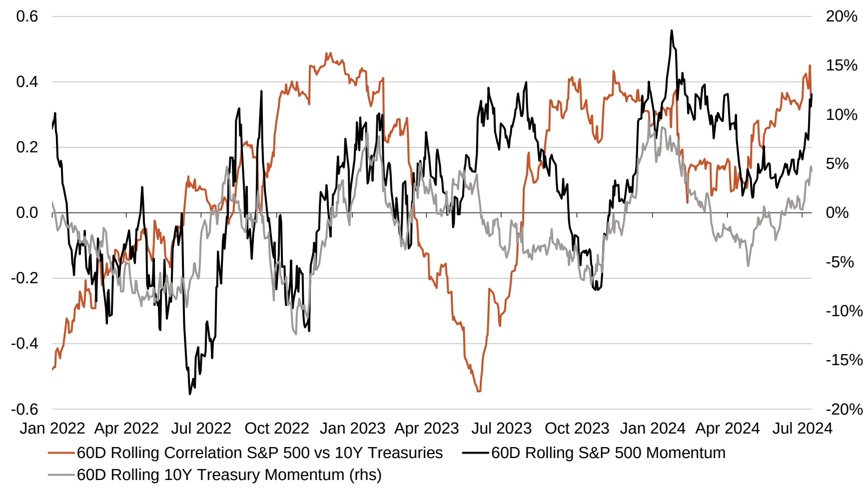
Put-Call-Skew



- The skew has increased in recent weeks, especially in the EuroStoxx 50. However, this has not been driven by the put side, but rather by the call side.
- At least in option markets, investors have not really been rattled by the French elections and their impact on the future economic development of the EU.

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: 12/07/2014 - 12/07/2024

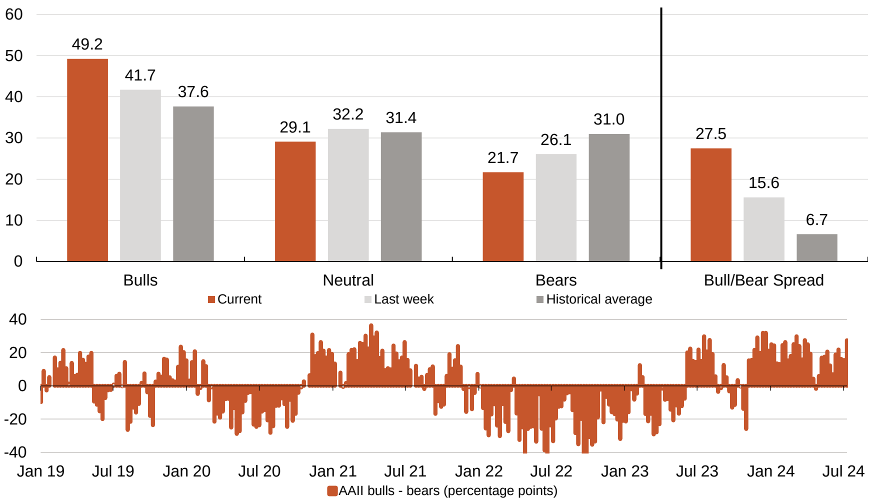
60-Day Momentum and Correlation



- Momentum has recently picked up in both the S&P 500 and US Treasuries. Both asset classes are celebrating possibly imminent interest rate cuts by the Fed.
- The correlation between stocks and bonds is at its highest level since the beginning of the year. Investors need to look elsewhere for diversification.

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 - 12/07/2024

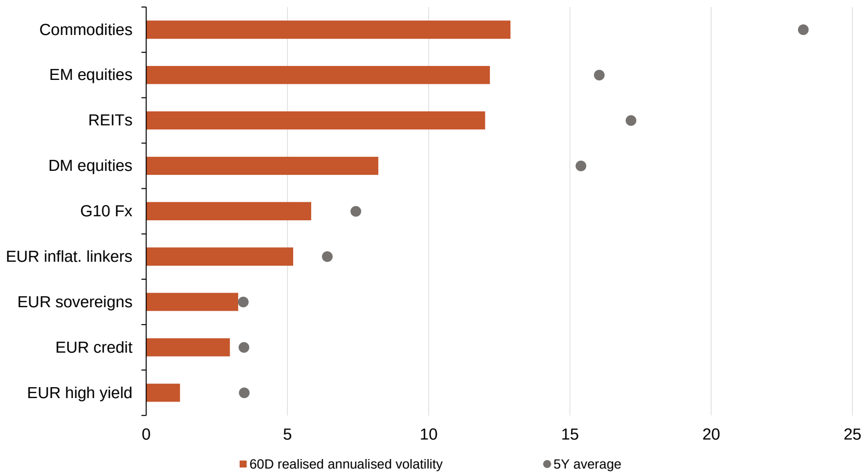
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment among US retail investors could hardly be any better. The bull/bear spread is close to this year's highs at around 28 ppts.
- However, this result should not be misinterpreted as a reflection of the sentiment of the US population as a whole. Various consumer surveys show much more pessimism.

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 – 11/07/2024

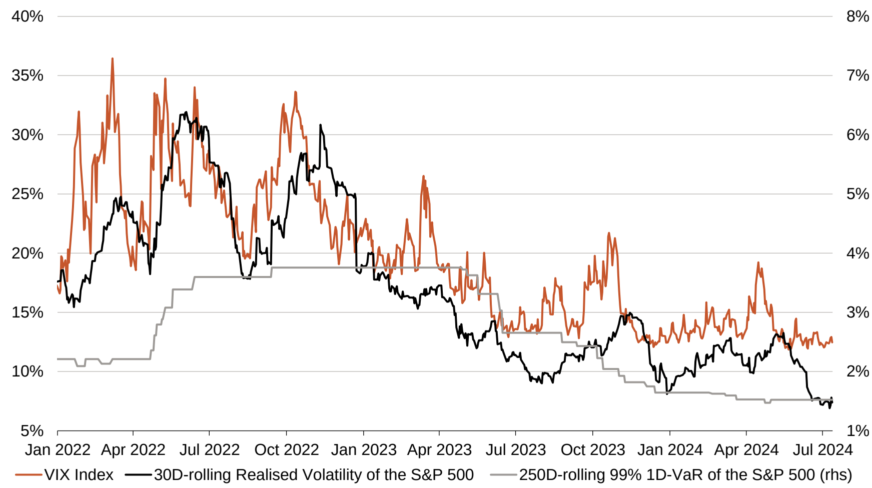
Realised Volatilities



- Realised volatility across all asset classes presented here is currently below the medium-term average.
- The 60-day volatility of developed market equities is particularly striking at just 8%. The 5-year average is almost twice as high.

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: 12/07/2019 - 12/07/2024

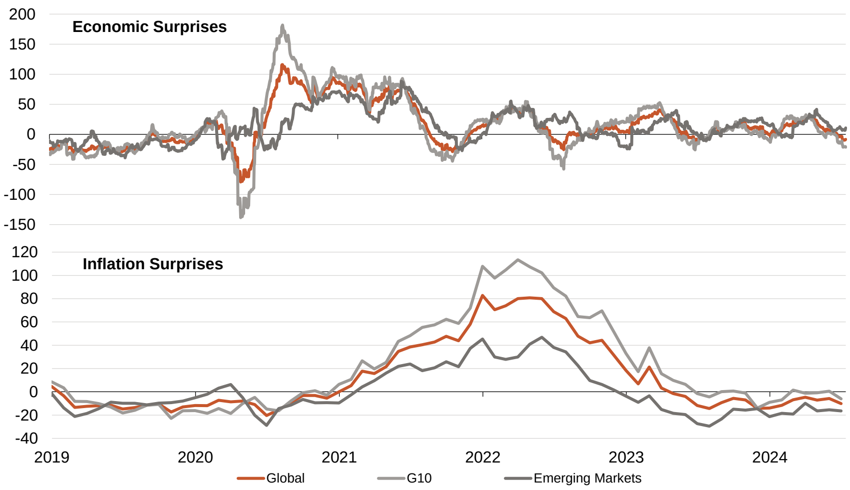
Volatility and Value-at-Risk of the S&P 500



- The VIX has been hovering around 12 in recent weeks, while realised 30-day volatility on the S&P 500 has fallen to a low of less than 7%. The volatility premium is therefore huge.
- Investors seem to agree that fluctuations as small as those seen recently are not sustainable; there should be at least a little more volatility again.

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 – 12/07/2024

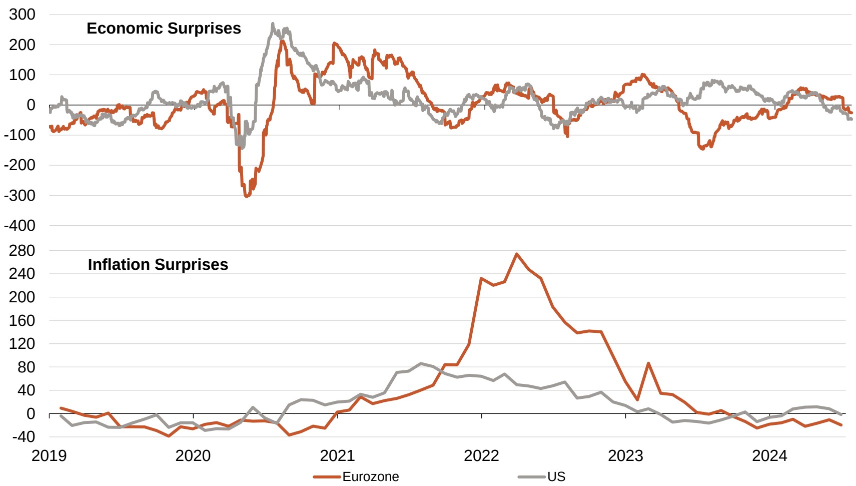
Global



- Over the past two weeks, the number of positive economic surprises has declined both in the G10 industrial countries and in the emerging markets. Negative economic surprises have thus prevailed for almost a month at the global level and in the industrial countries.
- While China's manufacturing PMI was slightly better than expected, the services PMI data was disappointing.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 – 12/07/2024

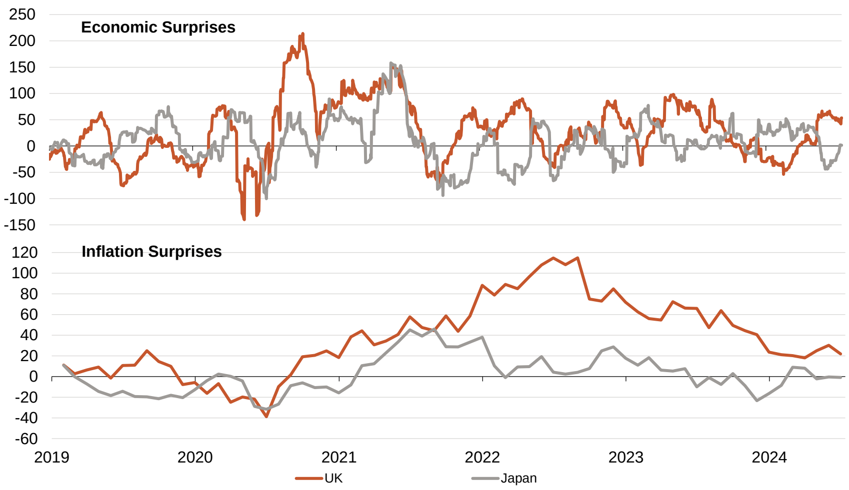
Eurozone and US



- Negative economic surprises have increased recently in both the US and the eurozone. In the US, initial jobless claims, non-farm payrolls and the unemployment rate all beat expectations. In contrast, the ISM manufacturing index and the US trade balance came in below expectations.
- The US inflation surprise index also turned negative for the first time since January.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 – 12/07/2024

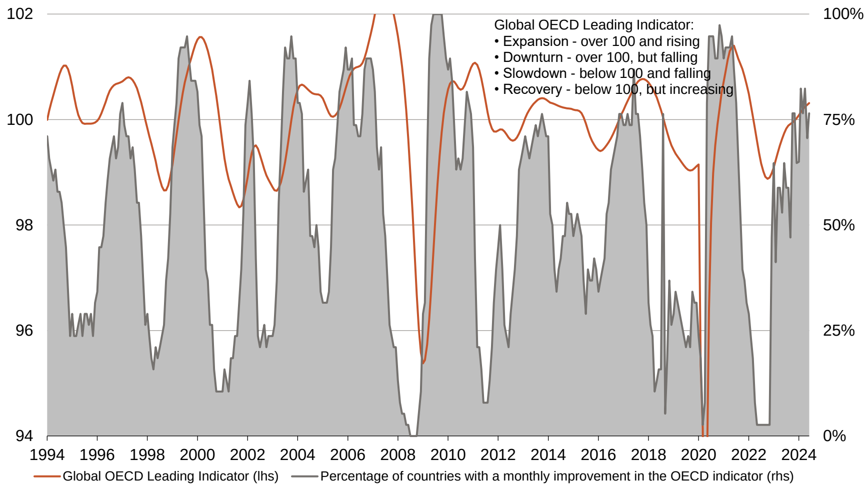
UK and Japan



- In the UK, both industrial production and the manufacturing PMI have disappointed recently.
- In Japan, both monthly machinery orders and year-on-year household spending were well 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 – 12/07/2024

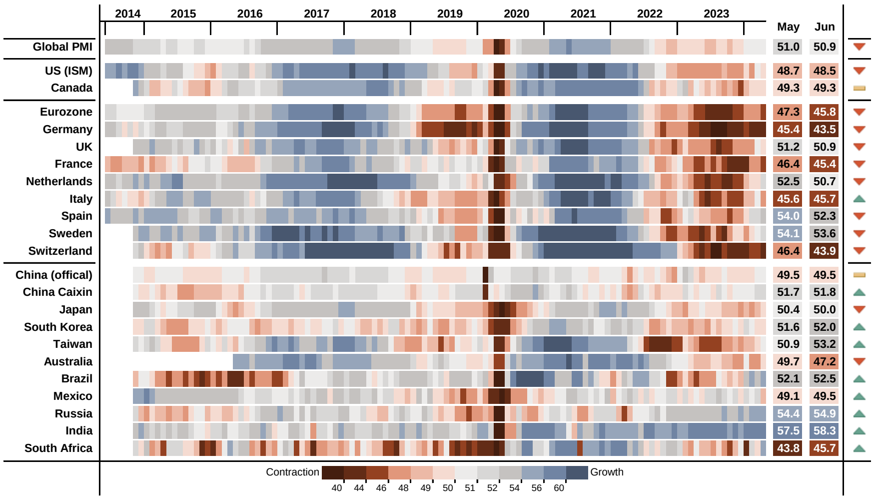
OECD Leading Indicator



- The global economy continues to expand. In June, the revised OECD leading indicator stood at 100.3, above the 100 mark for the seventh consecutive month.
- According to the leading indicator, 76% of the countries surveyed saw an improvement in the economic situation in June, with Canada showing the largest increase and China and Spain the largest decreases.

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 – 30/06/2024

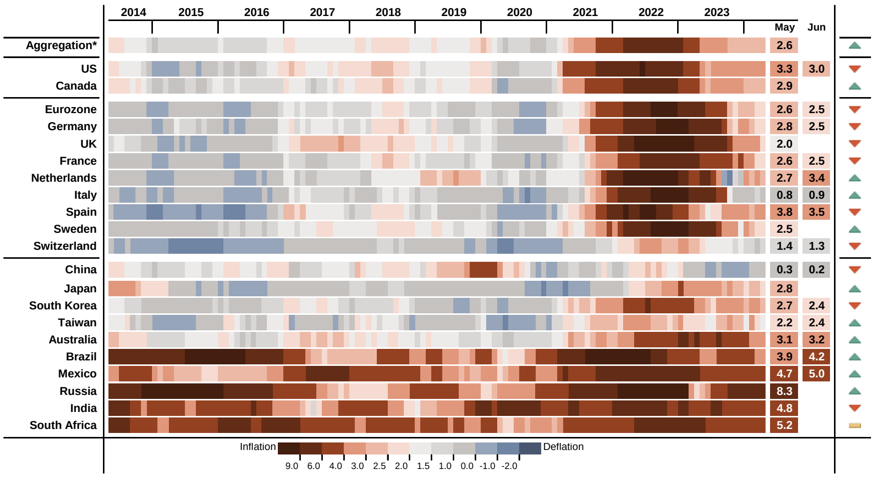
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global PMI fell slightly in June, with regional differences once again evident. While the majority of PMIs in the euro area were in decline, the picture in Asia was one of expansion.
- The US ISM contracted for the third month in a row in June.

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 – 30/06/2024

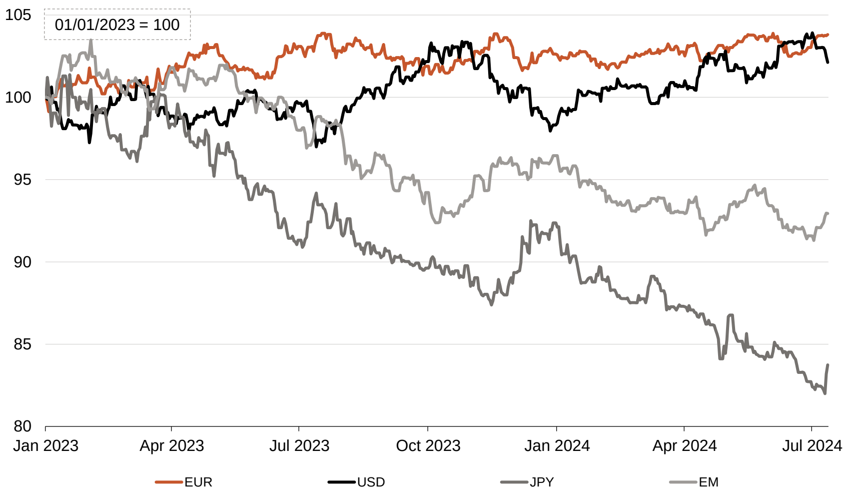
Headline Inflation



- Initial inflation data for June were mixed. In China, inflation was weaker than expected due to volatile food prices and demand-driven price cuts. US inflation also fell more than expected by 0.1%, slowing for the third consecutive 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: 01/01/2014 – 30/06/2024

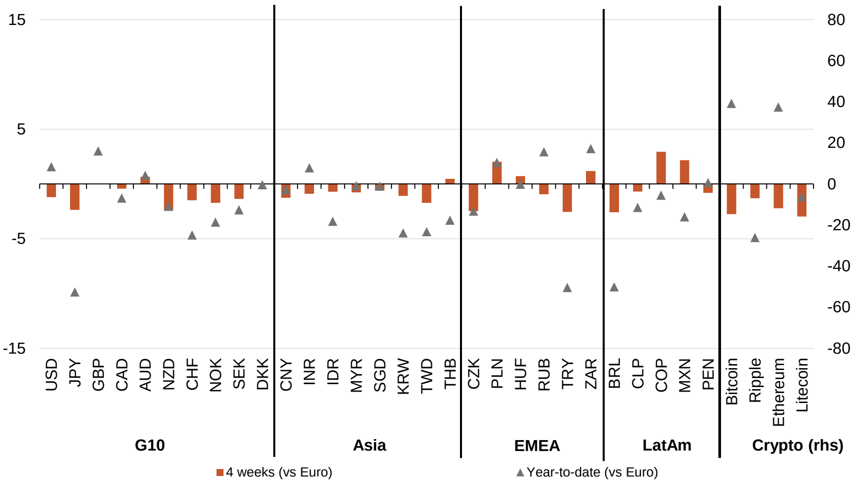
Trade-Weighted Currency Development



- The US dollar depreciated significantly against the G10 average in early July. The depreciation was driven by increasing economic weakness in the US and rising expectations of interest rate cuts.
- The Japanese yen has hit new 38-year lows in recent weeks. At the end of last week, however, the Yen strengthened by more than 2% against the US-Dollar, sparking speculation of renewed intervention by the Bank of Japan.

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 - 12/07/2024

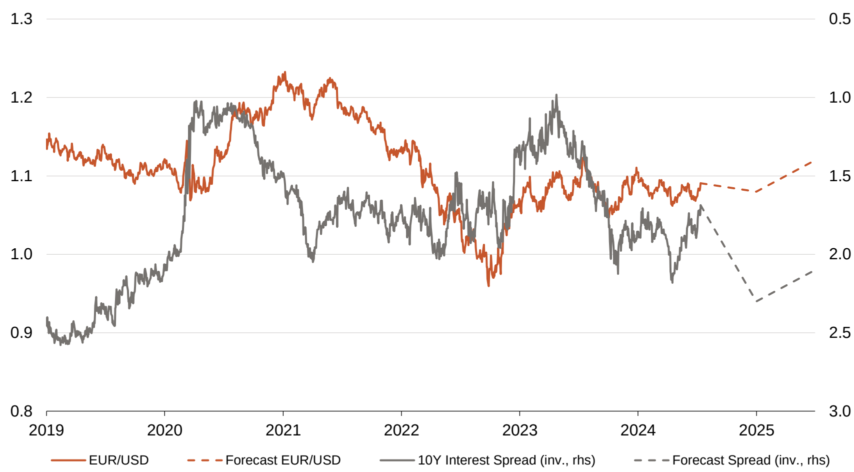
Currency Moves vs Euro



- Over the past four weeks, the Mexican peso in particular has appreciated against the euro. The appreciation of the Mexican peso is partly due to a rebound from the sharp devaluation in June on the back of political uncertainty, and partly to ongoing inflationary pressures in the Mexican economy.
- The Czech koruna has come under pressure from a surprisingly sharp fall in inflation.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2023 - 12/07/2024

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



- The EUR/USD reached its highest level since March 2024 at 1.09 as the US dollar came under selling pressure on expectations that the Federal Reserve will start cutting interest rates in September. Weaker than expected US inflation data reinforced expectations of an imminent rate cut.

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

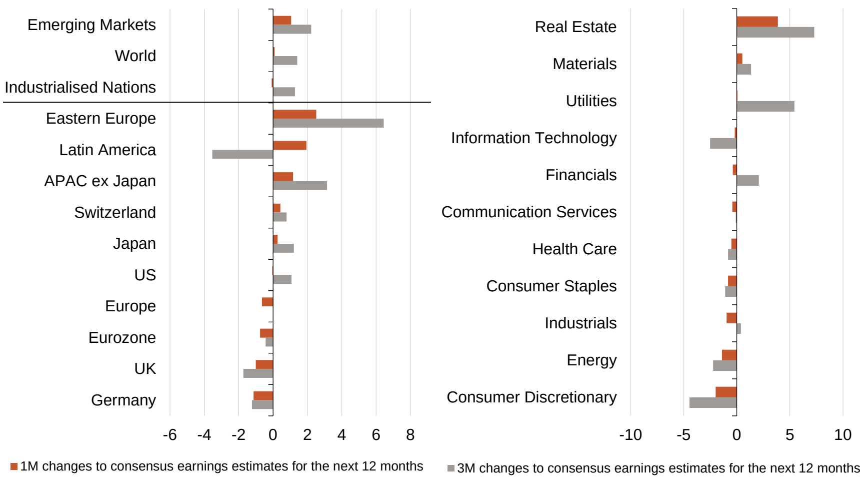
	4W (14/06/24 - 12/07/24)	YTD (30/12/23 - 12/07/24)	12/07/23 12/07/24	12/07/22 12/07/23	12/07/21 12/07/22	12/07/20 12/07/21	12/07/19 12/07/20
	4-week & YTD		12-month periods over that last 5 years				
Information Technology	5.0	27.7	36.8	31.8	-25.6	32.5	17.2
Utilities	4.6	1.5	5.7	8.3	-2.1	11.8	13.4
Finance	4.2	16.3	28.1	20.7	-3.1	30.8	-18.7
Value	3.6	10.0	18.0	12.9	-0.7	27.4	-15.3
Telecommunications	3.2	10.1	16.5	-7.4	0.6	20.2	-14.4
Industrials	3.0	13.4	23.8	23.0	-15.7	42.1	-1.6
Energy	2.8	6.1	16.7	16.2	34.2	25.1	-40.0
Materials	2.6	5.6	14.5	10.6	-11.8	41.3	1.2
Consumer Discretionary	2.1	7.0	0.5	30.9	-20.0	50.7	-7.9
Growth	1.4	13.3	16.8	12.9	-11.3	28.0	6.7
Health Care	0.6	16.6	22.3	-1.8	8.8	10.2	19.8
Consumer Staples	-1.3	0.7	-1.5	-0.7	2.4	14.7	-2.2

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.

- European stock markets have been higher recently. At a sector level, the IT and telecom sectors have risen in Europe over the past four weeks. The consumer staples sector has brought up the rear - a trend already evident in the last six months of the year.
- Value stocks have outperformed growth stocks over the past 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: 12/07/2019 – 12/07/2024

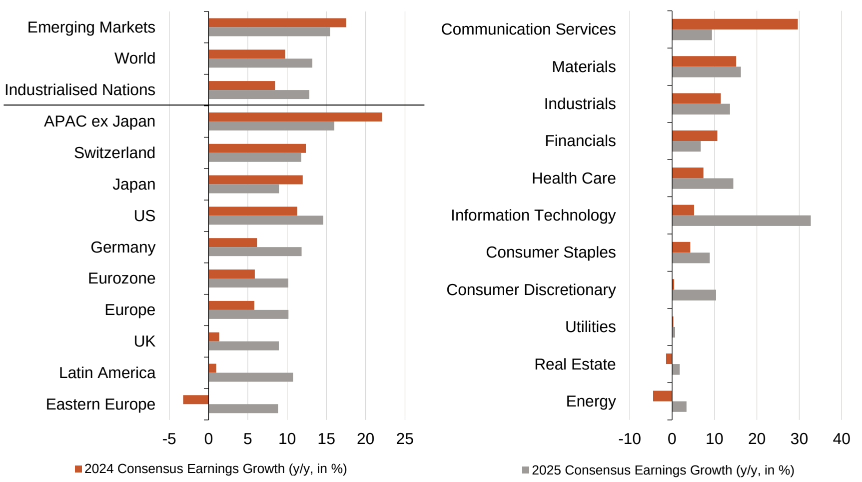
Changes in Consensus Earnings Estimates



- Analysts revised their earnings estimates only slightly ahead of the Q2 results.
- At a regional level, the only major positive earnings revisions were for the emerging markets, particularly Latin America. Hopes of a reduction in political uncertainty and the recent rise in commodity prices supported the companies' outlook.

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 12/07/2024

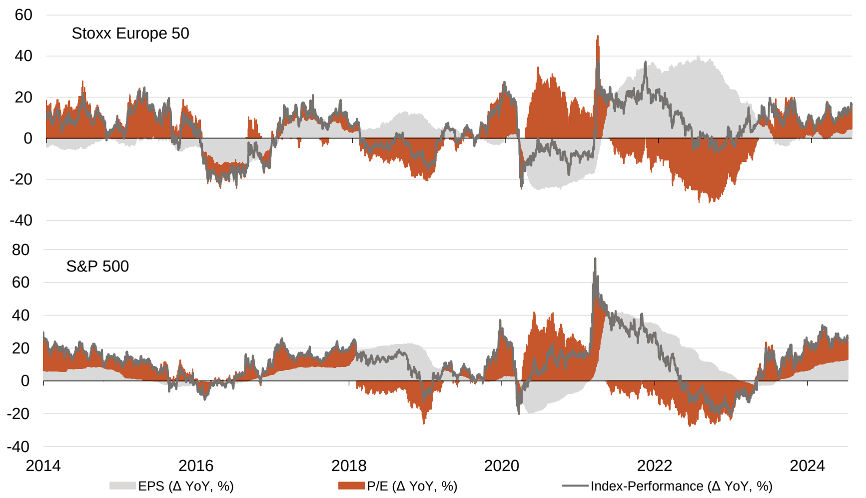
Earnings Growth



- For developed markets, the consensus continues to see positive earnings growth in both 2024 and 2025. The Q2 reporting season will show whether these estimates are realistic.
- Recent positive earnings revisions in the real estate sector have reduced the expected earnings decline in 2024 to just 1.4%. Analysts even expect earnings to rise slightly again in 2025..

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 12/07/2024

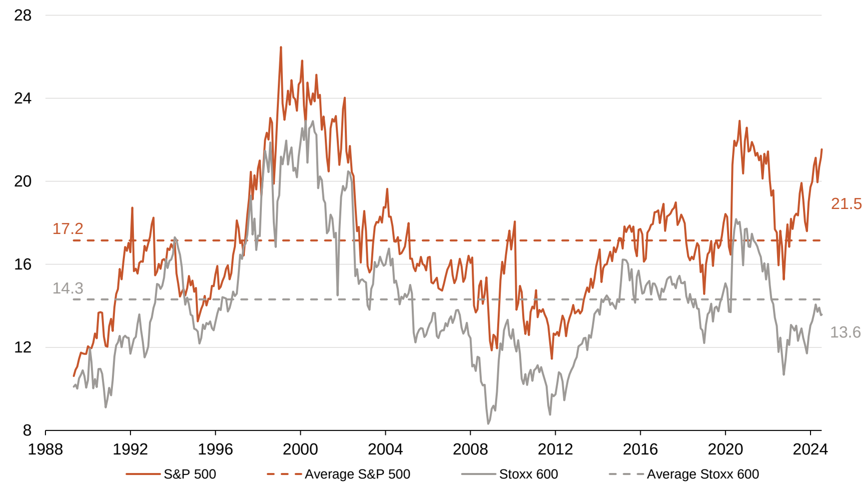
Contribution Analysis



- The uptrend in earnings estimates and the sustained expansion in valuations over the past 12 months have been equally supportive of the S&P 500 recently.
- In contrast, the Stoxx Europe 50 mainly benefited from valuation expansion and only marginally from slightly higher year-on-year earnings estimates.

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 - 12/07/2024

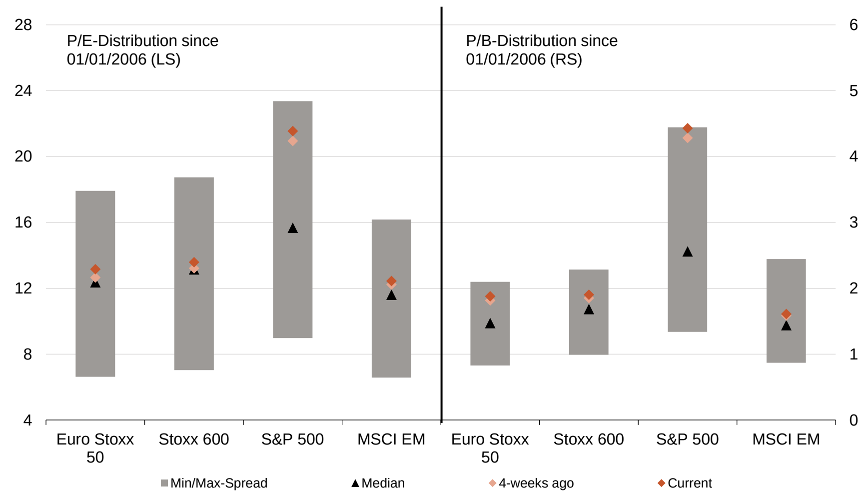
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Valuation levels for European equities were unchanged from two weeks ago.
- US equities, on the other hand, saw a widening of valuations. The S&P 500 hit a new record high, its longest winning streak since November 2023, led by a rally in technology stocks.

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 - 12/07/2024

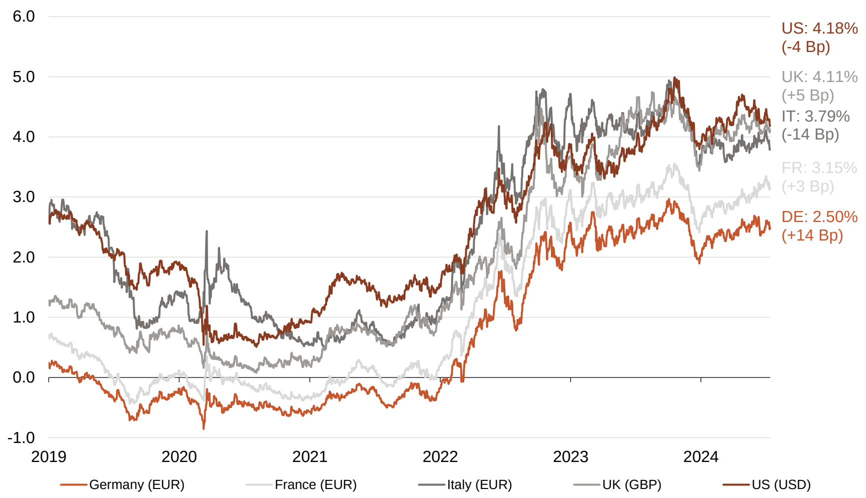
Historical Distribution: Price/Earnings and Price/Book Ratio



- Valuation levels for US equities and emerging markets have risen over the past four weeks on both a P/E and P/B basis. European valuations have widened in the last two weeks, but are still below their 4-week levels.
- The P/B ratio of the S&P 500 reached at one point its highest level 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 - 12/07/2024

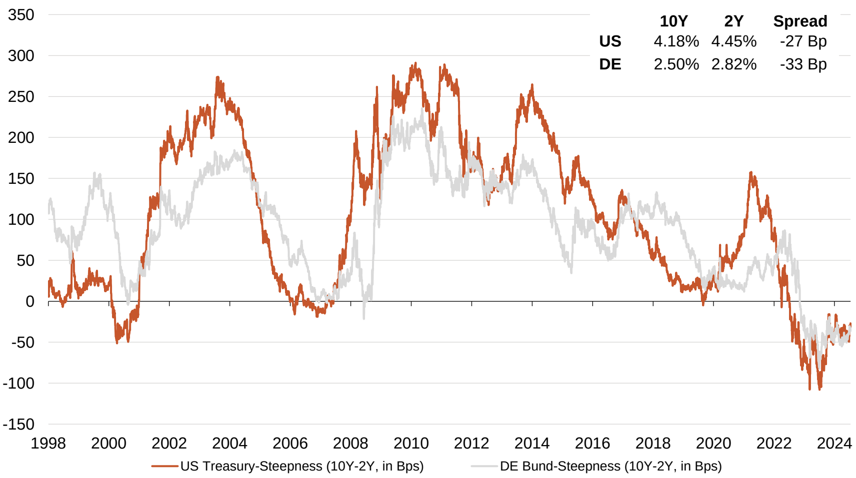
10-Year Government Bond Yields



- Yields on safe government bonds have fallen recently.
- In the US, inflationary pressures are easing faster than consensus expectations. Consumer prices fell by 0.1% month-on-month in June. The core rate (excluding food and energy) even fell to its lowest level since January 2021. Rising rents in particular saw a weakening of price inflation. The market then increasingly priced in the expectation of interest rate cuts in the near future.

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 – 12/07/2024

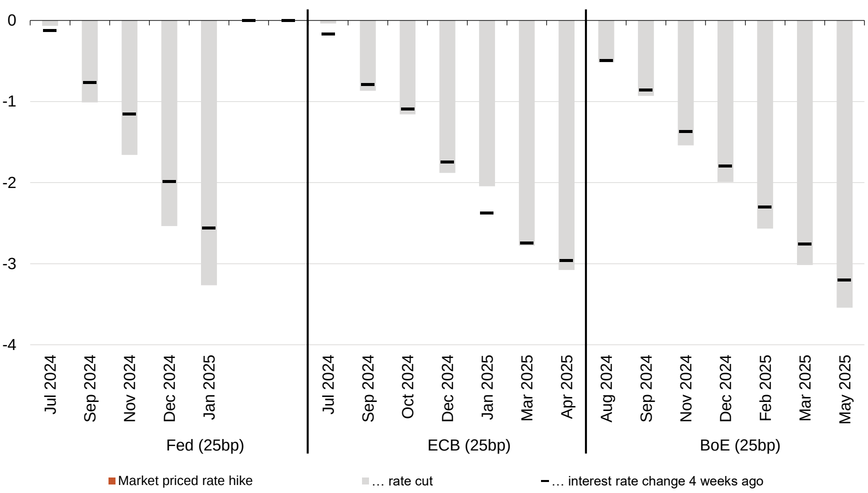
Yield Curve Steepness (10Y - 2Y)



- Over the past two weeks, the US yield curve has declined more at the short end than at the long end. The US curve has steepened ("bull steepening").
- The picture was similar in Germany. Here, too, the short end of the yield curve declined more than the long end.

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 – 12/07/2024

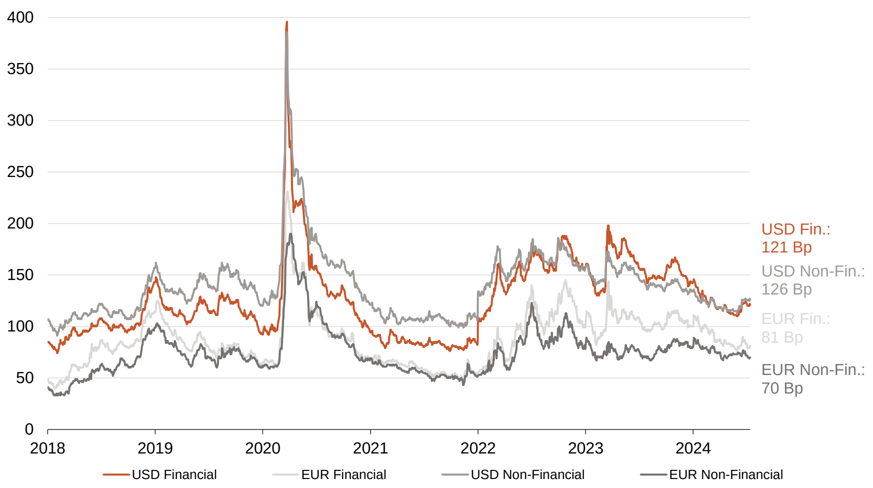
Implicit Changes in Key Interest Rates



- The cooler inflation data and Powell's comments during his congressional testimony last week made doves' hearts beat faster. He signalled progress on inflation and the labour market.
- Accordingly, the market is pricing in more rate cuts this year. The market is currently pricing in the first rate cut in September, whereas four weeks ago it was still pricing in a first 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: 12/06/2024 – 12/07/2024

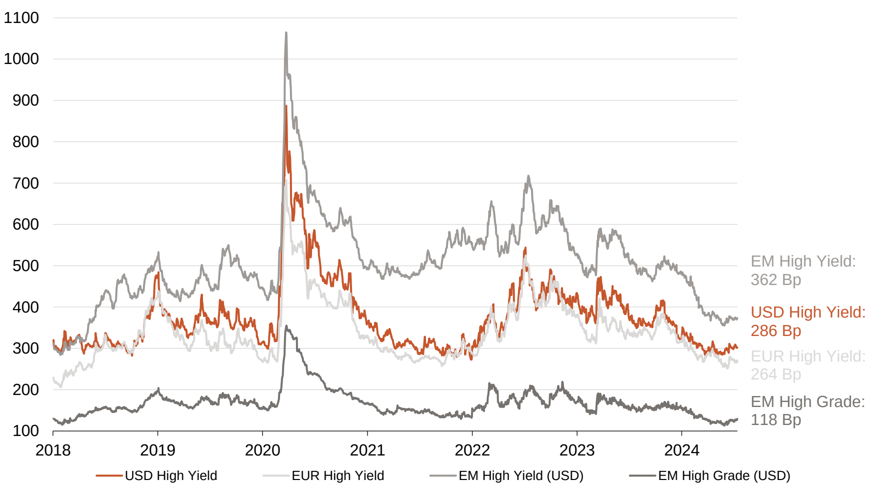
Credit Spreads Financial and Non-Financial Bonds



- Risk premiums on investment grade corporate bonds have tended to fall over the past two weeks. This was particularly the case for EUR-denominated corporate bonds.
- EUR financial bonds and non-financial bonds recorded a spread tightening of around 2 basis points each.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2019 – 12/07/2024

Credit Spreads High Yield and Emerging Markets Bonds



- The risk premiums on European high yield bonds have also declined, while USD high yield bonds saw no change in spreads.
- Emerging market bonds saw only marginal spread widening in both the high yield and high grade segments.

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 – 12/07/2024

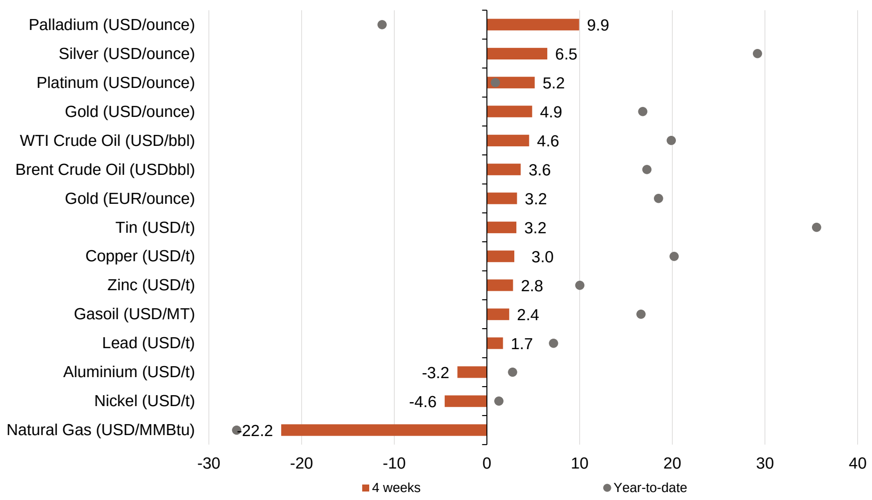
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Per-centile	1M	YTD	12/07/23 12/07/24	12/07/22 12/07/23	12/07/21 12/07/22	12/07/20 12/07/21	12/07/19 12/07/20
EUR Government	3.07	-0.11	7.1	-	-	-	0.8	-1.0	4.6	-7.6	-11.6	0.2	3.2
Germany	2.57	-0.11	7.2	-	-	-	0.7	-2.0	3.0	-9.0	-9.7	-1.6	2.0
EUR Corporate	3.77	-0.14	4.5	74	-2	45	0.9	1.2	7.1	-2.2	-11.1	3.5	-0.2
Financial	3.96	-0.15	3.8	81	-1	40	0.8	1.7	7.5	-1.9	-9.0	3.0	0.1
Non-Financial	3.65	-0.14	5.0	70	-2	49	0.9	0.9	6.8	-2.4	-12.2	3.8	-0.3
EUR High Yield	6.54	-0.03	3.1	268	7	12	0.7	3.8	11.3	7.3	-13.5	11.0	-1.8
US Treasury	4.34	-0.22	6.2	-	-	-	1.3	0.5	2.8	-2.6	-9.4	-3.2	11.8
USD Corporate	5.31	-0.17	6.7	125	8	36	1.3	1.8	6.8	1.1	-13.8	2.7	11.1
Financial	5.41	-0.19	5.0	121	6	48	1.3	2.8	8.0	1.2	-11.6	2.9	9.8
Non-Financial	5.26	-0.16	7.5	126	8	32	1.3	1.3	6.2	1.0	-14.8	2.7	11.6
USD High Yield	7.88	-0.08	3.9	302	13	8	1.1	3.7	10.8	7.8	-11.4	14.8	-0.2
EM High Grade	5.32	-0.16	5.3	129	10	5	1.0	2.6	6.8	2.2	-13.6	3.9	5.4
EM High Yield	8.35	-0.26	3.9	373	6	8	1.5	7.5	14.5	10.2	-25.2	12.0	2.0

- The change in yields over the last four weeks does not show much dispersion. Over the last four weeks, bond yields have trended lower in all the bond segments shown here.
- Emerging market high yield bonds were the best performers over the same period, while EUR high yield and German government bonds were the worst performers.

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: 12/07/2014 – 12/07/2024

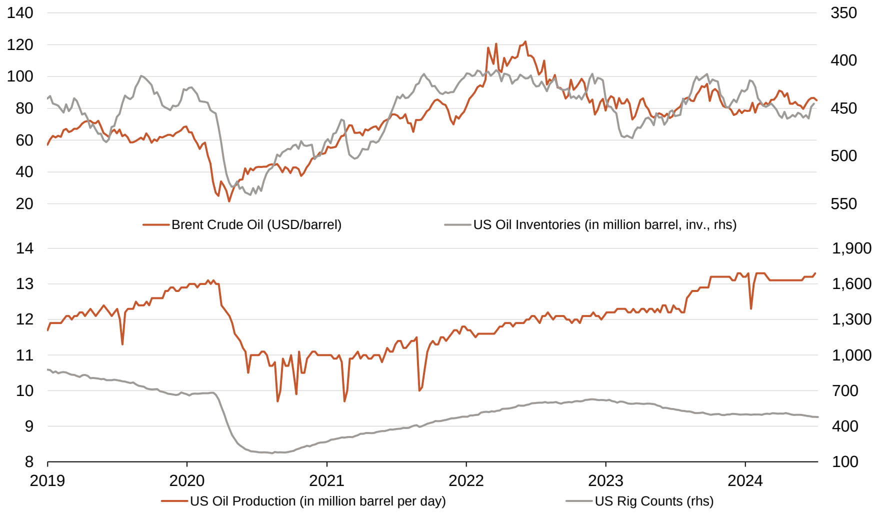
Commodities Performance



- Energy commodities posted their strongest gains in four weeks. Brent and WTI crude oil prices were boosted by a sharp 12.2 million barrel drop in US crude oil inventories and a recovery in US gasoline demand.
- Natural gas has been the laggard recently, due to an increase in production in July and an oversupply in storage.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2022 - 12/07/2024

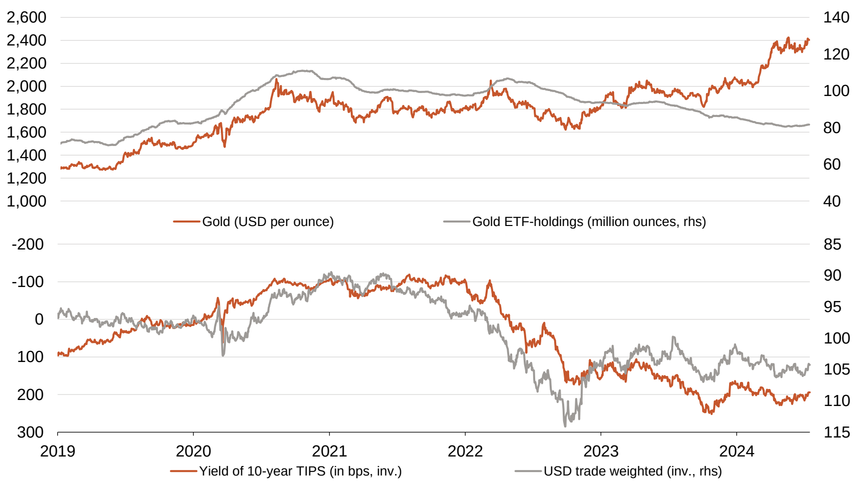
Crude Oil



- According to the Platts survey, OPEC+ oil production fell by 130,000 bpd to 40.87 million bpd in June, the lowest level in 11 months.
- Investors are currently focusing on the positive seasonal effects of the driving and the hurricane season. The first major hurricane of the year, Hurricane Beryl, is raising fears of supply shortages in the Gulf of Mexico and a more active hurricane season than in recent years.

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 - 12/07/2024

Gold



- The price of gold has risen to around USD 2,400 an ounce in recent weeks. The rally was supported by the Fed's September rate hike, which was underpinned by weaker US economic data, a slowdown in the labour market and weaker-than-expected inflation.

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 - 12/07/2024

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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

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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

IMPORTANT NOTICES