BERENBERG
Markets

MONITOR

26 August 2024

Current market commentary

The recent rebound in equity markets has been almost as swift and pronounced as the sell-off in early August. Reassuring words from central banks, positive economic surprises, increased support from share buyback programmes and a return to low volatility were the drivers of the recovery rally. This trend could continue in the short term – not least because, ceteris paribus, systematic strategies will have to buy more equities again in the coming days. By mid-September at the latest, the risk of a setback in the equity markets is likely to increase again. Many companies will then be back in the blackout period and will not be allowed to carry out share buyback programmes as the Q3 reporting season approaches. In addition, the US presidential election is likely to become more of a focus for investors, with the first televised debate between Kamala Harris and Donald Trump taking place on 10 September. In addition, the last two weeks of September are seasonally the slowest of the calendar year.

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

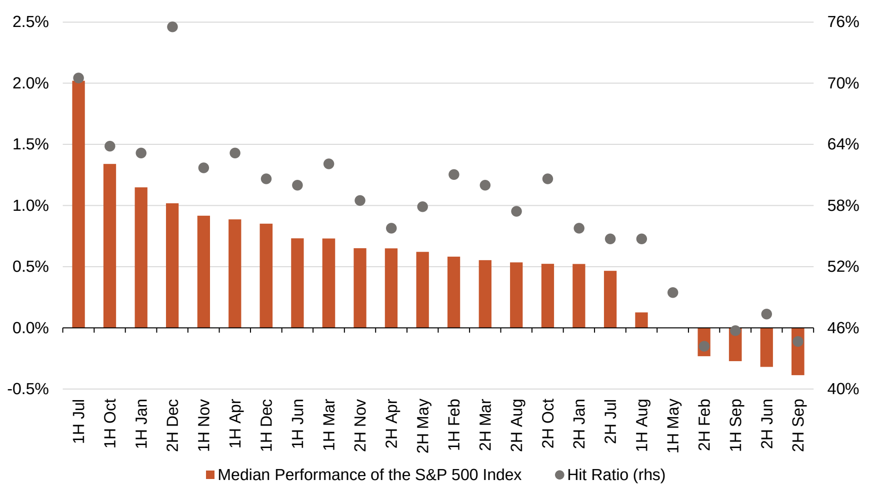
Central bank policy in the focus of the markets.

After last Friday's Jackson Hole meeting, markets are now looking towards central bank meetings in September. The ECB meets mid-month on the 12th, followed by the US Fed and the Bank of England on the 18th and 19th. US markets will be closed on 2 September (Labour Day).

Inflation data, US labour market data and PMIs on investors' minds.

In the coming weeks, investors will be watching out for August inflation data, US employment data and the final August purchasing managers' indices. Today sees the release of the German Ifo Business Climate (Aug.) and the US Preliminary Durable Goods Orders (Jul.). Tomorrow will bring the German GDP figures (Q2) and the US Conference Board's Consumer Confidence (Aug.). Thursday will see the release of US GDP (Q2) and initial jobless claims (Aug. 24). On Friday, the focus will be on preliminary eurozone inflation data (Aug.) and the US PCE deflator (Jul.). The following week will see the release of the US and Eurozone PMIs and US employment data.

September is often a bumpy month for equity markets



- September is historically a difficult month for equity markets. On average, the second half of September is the worst period of the year - and the first half is not much better. The proportion of positive observations since 1930 is also particularly low at just 45%.
- In addition to the statistics, the rising tensions in the US election campaign also argue for bumpier markets. The contrasting positions of Harris and Trump (e.g. on taxes or foreign policy) could lead to more volatility.

Source: Bloomberg, Time period: 01/01/2021 - 23/08/2024

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (26/07/24 - 23/08/24)	YTD (29/12/23 - 23/08/24)	23/08/23 23/08/24	23/08/22 23/08/23	23/08/21 23/08/22	23/08/20 23/08/21	23/08/19 23/08/20
REITs	3.5	5.7	14.1	-22.0	5.7	28.6	-15.5
Industrial Metals	3.4	5.6	5.9	-13.1	19.0	36.3	-1.3
Gold	2.0	20.0	27.2	0.6	14.1	-6.6	20.0
EUR Sovereign Debt	1.1	1.4	5.2	-3.1	-8.5	0.7	-0.1
EUR Coporates	0.8	2.6	7.7	-0.8	-12.4	2.6	-0.4
MSCI World	0.8	15.2	22.6	0.5	4.8	32.4	9.9
Euro overnight deposit	0.3	2.6	4.0	2.2	-0.5	-0.6	-0.5
MSCI Frontier Markets	0.1	9.5	9.3	-9.8	-0.4	34.7	-13.8
MSCI Emerging Markets	0.0	8.5	13.1	-7.5	-3.2	15.9	8.6
Global Convertibles	-1.3	1.7	4.6	-8.2	-5.1	25.6	23.8
USDEUR	-3.0	-1.4	-2.9	-8.2	17.8	0.4	-5.5
Brent	-4.1	9.6	4.3	-12.8	113.5	54.5	-30.4

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.

- With the prospect of (further) interest rate cuts – whether by the Fed, the ECB or the BoE – almost all asset classes rose over the last month.
- Since most interest rate cuts have been priced in for the Fed, the US dollar was one of the few losers over the last four weeks.
- Brent oil performed even worse. While equities and bonds benefited from falling discount rates, energy commodities suffered from the generally disappointing economic data.

Total return for selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 23/08/2019 – 23/08/2024

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (26/07/24 - 23/08/24)	YTD (29/12/23 - 23/08/24)	23/08/23 23/08/24	23/08/22 23/08/23	23/08/21 23/08/22	23/08/20 23/08/21	23/08/19 23/08/20
Stoxx Europe Defensives	2.5	14.2	16.7	4.9	5.6	21.0	0.1
MSCI Japan	2.4	10.9	17.4	2.0	-0.5	18.8	3.5
MSCI EM Latin America	2.2	-11.5	-2.6	6.1	21.1	27.0	-25.1
Stoxx Europe 50	1.3	12.4	17.1	11.3	2.8	25.9	-0.9
DAX	1.2	11.2	18.5	19.2	-16.8	24.2	9.9
Stoxx Europe Small 200	1.0	6.9	14.7	1.0	-21.2	40.1	5.0
Euro Stoxx 50	1.0	11.0	17.9	19.8	-10.3	30.5	-0.2
MSCI UK	0.9	13.3	19.9	-0.7	14.2	29.3	-13.8
S&P 500	0.5	18.0	25.3	0.4	10.1	34.3	15.1
Stoxx Europe Cyclicals	0.4	11.7	24.7	11.2	-12.7	39.5	3.6
MSCI EM Asia	-0.1	11.2	15.4	-8.5	-4.2	12.4	18.3
MSCI USA Small Caps	-2.9	8.2	16.1	-6.9	6.5	46.2	0.0

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.

- Over the last month, almost all of the equity segments shown here posted gains. Only US small caps suffered significant losses. On a year-to-date basis, US small caps are also among the relative losers, while US large caps continue to lead the field by a wide margin.
- In Europe, defensive stocks clearly outperformed cyclical stocks. Similarly, large caps performed better than small caps.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 23/08/2019 – 23/08/2024

Fixed Income

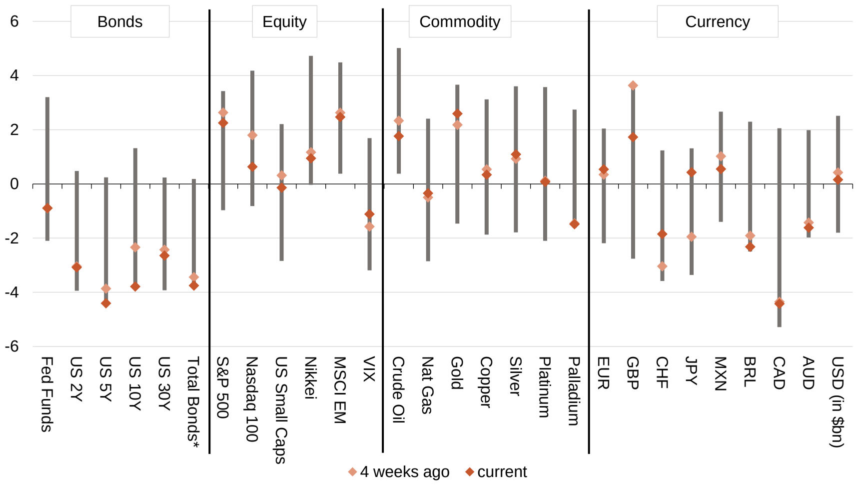
	4-week & YTD		12-month periods over that last 5 years				
	4W (26/07/24 - 23/08/24)	YTD (29/12/23 - 23/08/24)	23/08/23 23/08/24	23/08/22 23/08/23	23/08/21 23/08/22	23/08/20 23/08/21	23/08/19 23/08/20
Gilts	1.7	2.4	9.6	-14.5	-18.4	3.4	6.0
BTPs	1.5	3.2	7.7	-0.9	-15.1	3.8	4.2
Bunds	1.4	0.1	4.5	-7.2	-12.3	-0.3	-1.3
EM Local Currency Bonds	1.3	1.1	3.8	2.3	-2.9	3.3	-6.0
EUR High Yield	1.0	5.2	11.9	4.9	-11.4	9.0	-0.2
EUR Non-Financials	0.9	2.0	7.0	-0.9	-13.1	2.6	-0.5
EUR Financials	0.8	3.3	8.6	-0.6	-11.4	2.7	-0.3
USD Corporates	0.7	3.1	8.5	-9.3	-1.2	2.4	3.4
Chinese Sovereign Bonds	0.5	5.3	6.3	4.0	5.2	4.8	3.3
EM Hard Currency Bonds	-0.3	5.4	11.0	-4.4	-5.4	3.9	-2.4
Treasuries	-0.3	1.9	4.0	-10.7	5.1	-1.9	1.5
USD High Yield	-1.1	4.9	10.0	-4.3	7.9	9.1	-2.7

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 imminent interest rate cuts on both sides of the Atlantic have given almost all bond segments a boost over the last four weeks. As a result, all bonds are now in positive territory since the beginning of the year.
- Only bonds issued in US dollars (including EM hard currency bonds) have recorded a negative performance due to the weak 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: 23/08/2019 – 23/08/2024

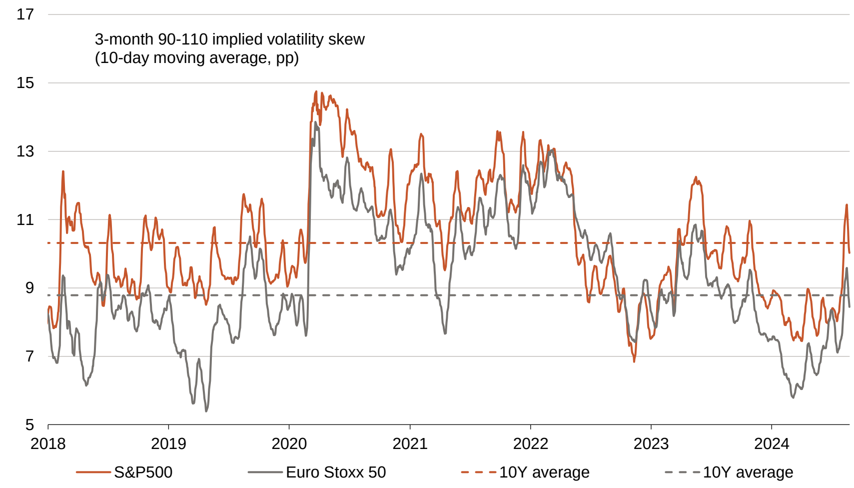
Non-Commercial Positioning



- Speculative investors are net long the Japanese yen for the first time since March 2021. They not only reduced short positions as a result of the unwinding of so-called 'carry trades', but also significantly increased long positions. The latter are even at their highest level since 2016.

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: 20/08/2014 - 20/08/2024

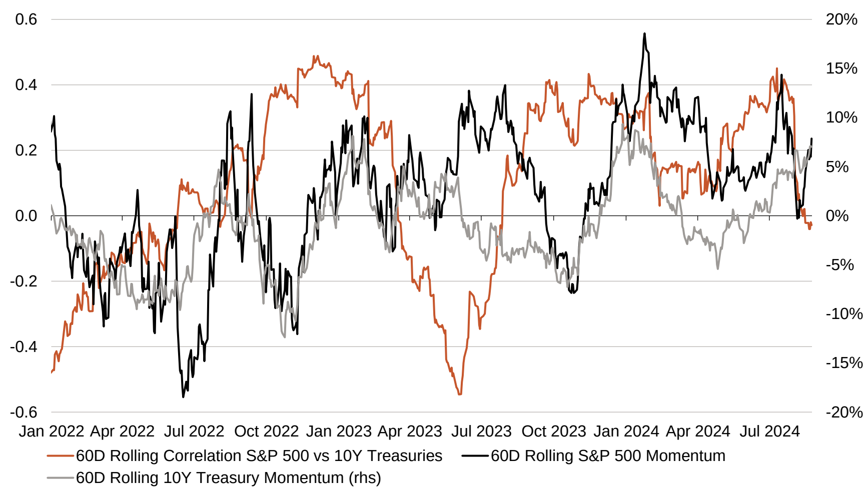
Put-Call-Skew



- The put-call skew has flattened slightly in recent weeks as equity markets have risen, and is currently close to the average for the last 10 years in both the US and Europe.
- The fact that the S&P 500 is trading close to its all-time high of July, but that the skew is significantly steeper this time than it was then, shows that investors are more cautious today.

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: 23/08/2014 - 23/08/2024

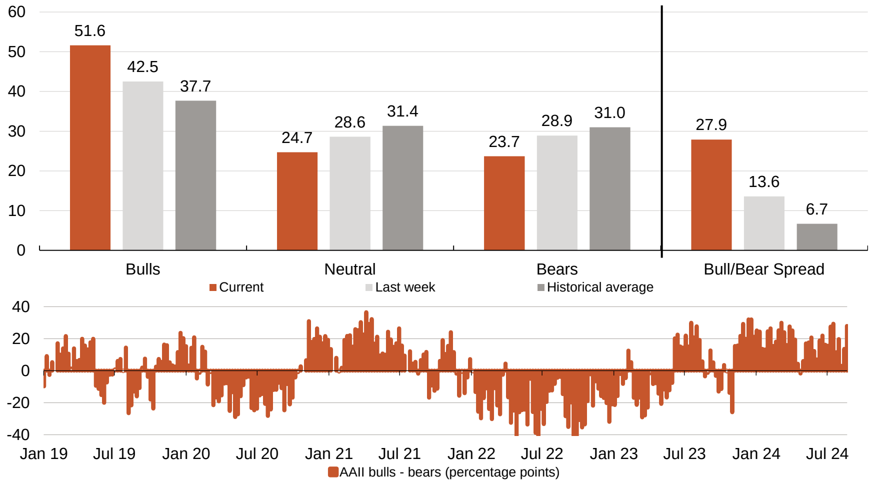
60-Day Momentum and Correlation



- The correlation between equities and bonds is negative again for the first time in about a year, as growth concerns have recently dominated the market.
- If inflation concerns move back into the focus of investors, the correlation between the two asset classes is likely to increase again.

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 - 23/08/2024

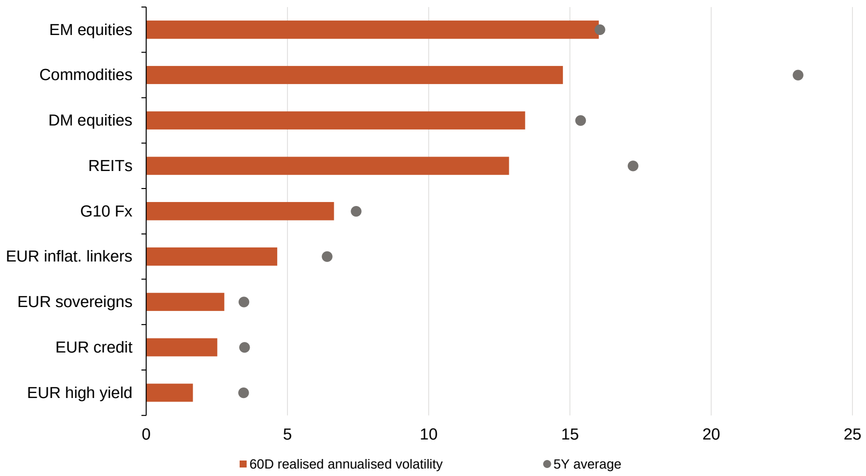
AAII Sentiment Survey (Bulls vs Bears)



- Not only has the US market recovered rapidly, but the sentiment of US private investors is also close to the highs of this year.
- In just two weeks this year, the bull/bear spread was higher than the current 28 percentage points.

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 – 22/08/2024

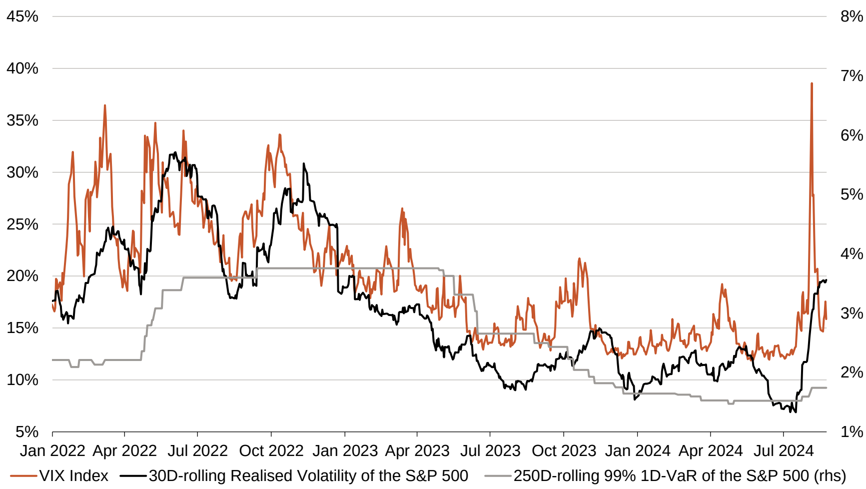
Realised Volatilities



- The realised volatility of the last 60 days for all asset classes except emerging market equities is currently well below the average of the last 5 years.
- The realised 60-day volatility of developed market equities is likely to struggle to return to the old lows of below 10% as the days of very low volatility in June and July drop out of the calculation.

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: 23/08/2019 - 23/08/2024

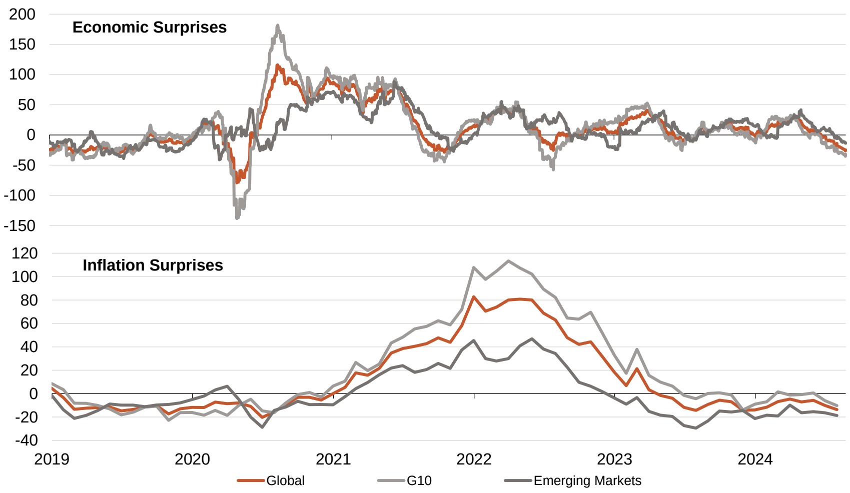
Volatility and Value-at-Risk of the S&P 500



- After the sharp rise on Monday three weeks ago, the VIX fell at a record-breaking speed.
- Typically, the VIX falls much more slowly after a shock of this magnitude, as the increase in volatility is still in investors' minds.

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 – 23/08/2024

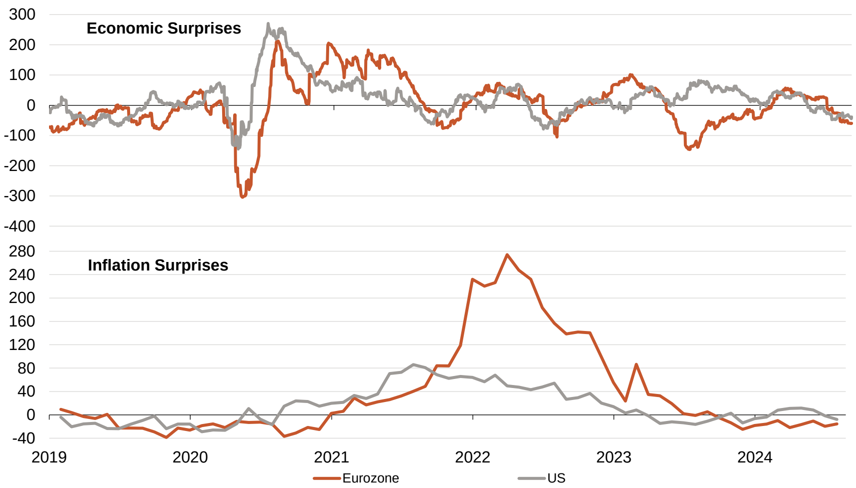
Global



- At the end of July, economic surprises in emerging markets turned negative for the first time since February of this year. Since then, they have remained in negative territory.
- In the industrialised countries (G10), negative economic surprises have been the norm since June of this year. This means that at a global level, economic data are now coming in more below expectations than at any time since July 2022.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 – 23/08/2024

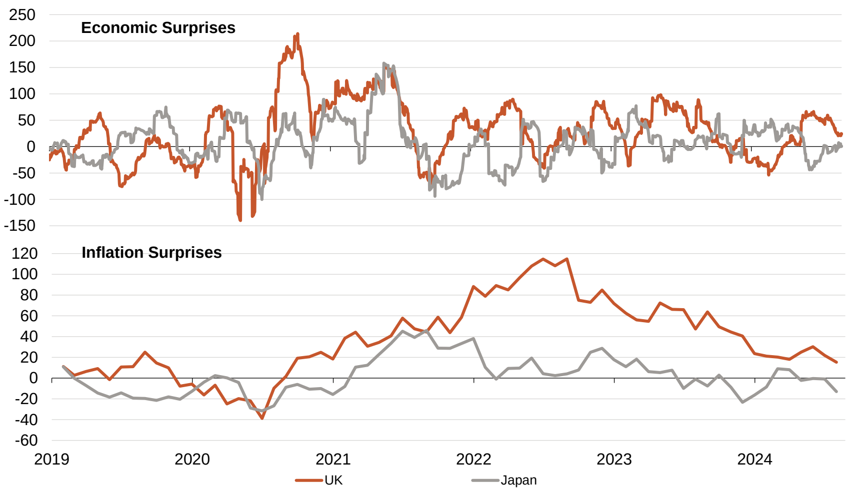
Eurozone and US



- In both the US and the eurozone, negative economic surprises are more widespread than four weeks ago.
- In the US, the manufacturing PMI and industrial production disappointed, while retail sales, the services PMI and the University of Michigan sentiment indicator beat expectations.
- In the eurozone, the manufacturing and industrial PMIs were also disappointing.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 – 23/08/2024

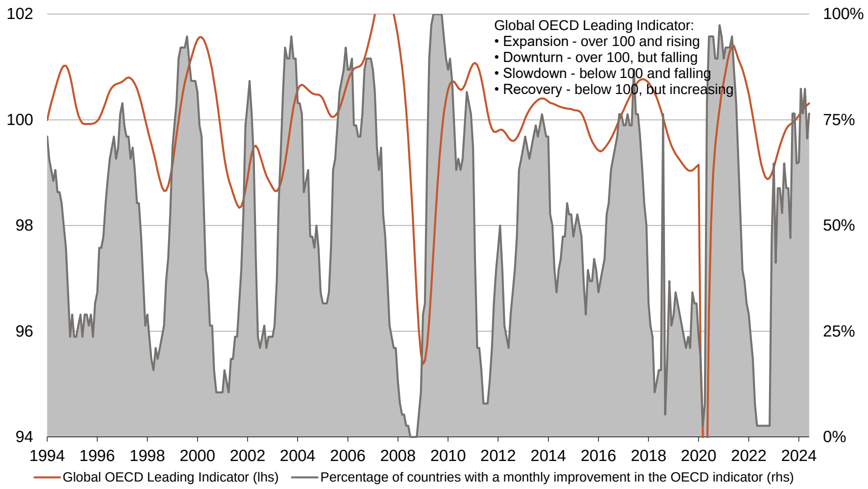
UK and Japan



- In the UK, industrial production surprised on the upside and the trade balance on the downside.
- In Japan, Q2 GDP and machinery orders beat expectations on a monthly basis.

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 – 23/08/2024

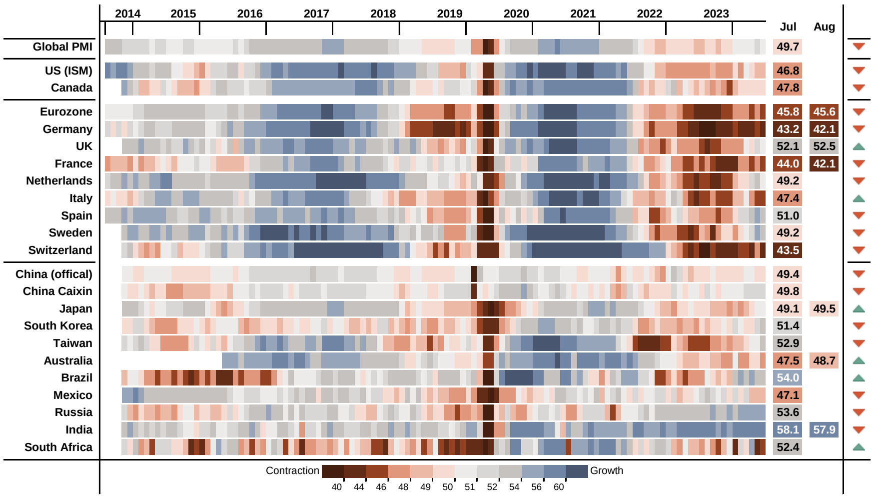
OECD Leading Indicator



- The global economy continues to expand. The revised OECD Leading Economic Indicator rose to 100.3 in June, above the 100 mark for the seventh month in a row.
- The leading indicator shows that economic conditions improved in 76% of the countries included in the survey in June compared with the previous month, with Canada recording the strongest improvement and China and Spain 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 - 23/08/2024

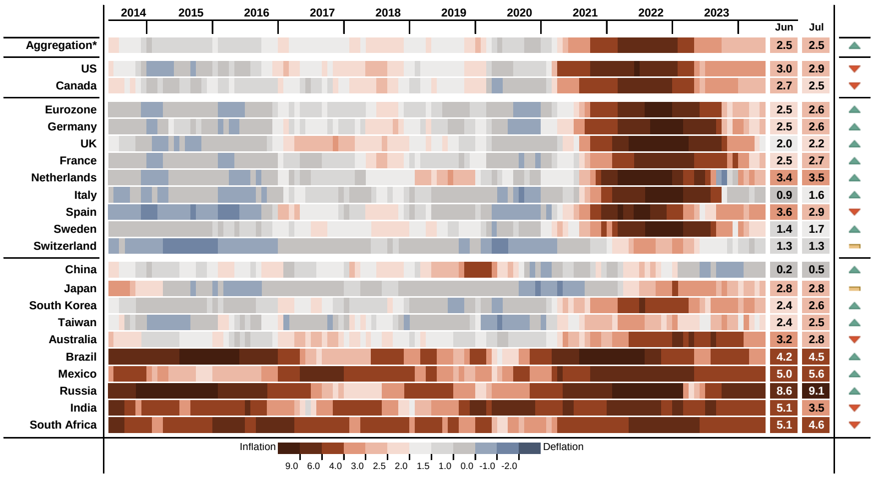
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- PMI data for August point to a decline in manufacturing activity in the euro zone. The euro area manufacturing PMI is at its lowest level since December 2023, while the German PMI has also fallen again on a month-on-month basis.

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 - 23/08/2024

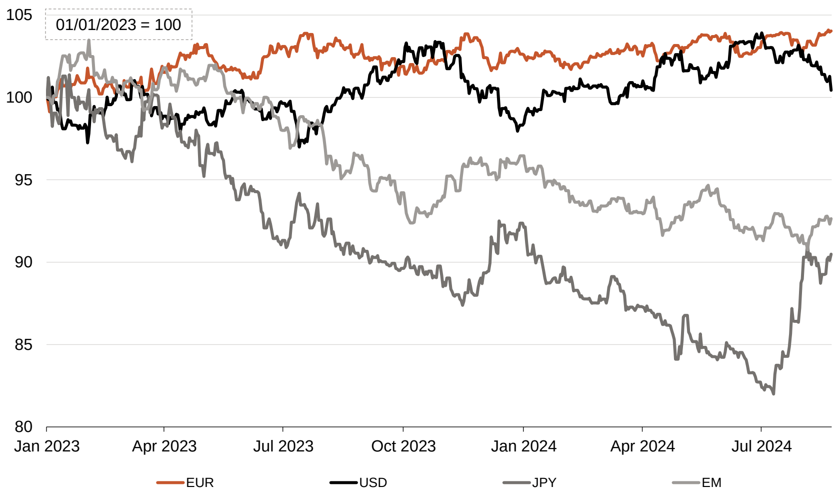
Headline Inflation



- While the rate of inflation in the USA weakened again in July compared with the previous month, inflation in the euro area and in Germany rose.
- Although the fall in energy prices had a dampening effect on the inflation rate, prices for services and food rose at an above-average rate in Germany in July.

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 - 23/08/2024

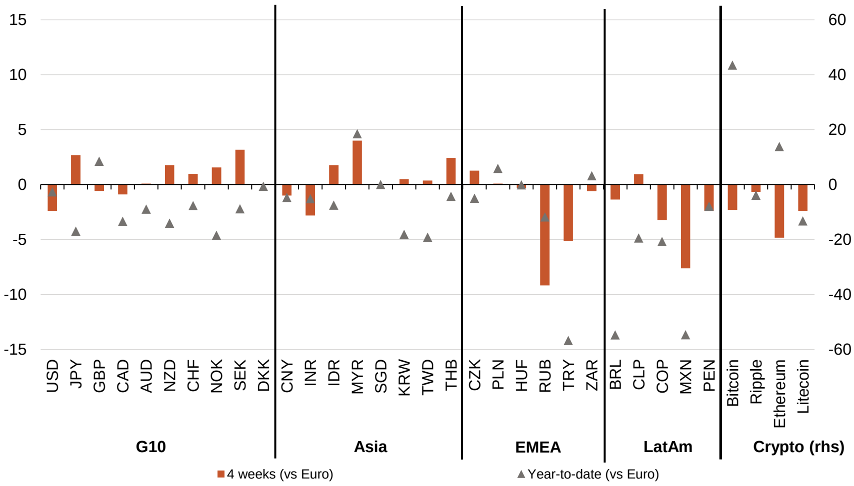
Trade-Weighted Currency Development



- After the rapid appreciation of the Japanese yen, it has consolidated over the last two weeks. Initially, the BoJ made dovish comments to curb the rise of the yen. However, the recent higher than expected inflation data fuelled hopes of further interest rate hikes, although inflation in the crucial services sector remains moderate.
- Emerging market currencies continued their recovery thanks to the weakness of the dollar.

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 - 23/08/2024

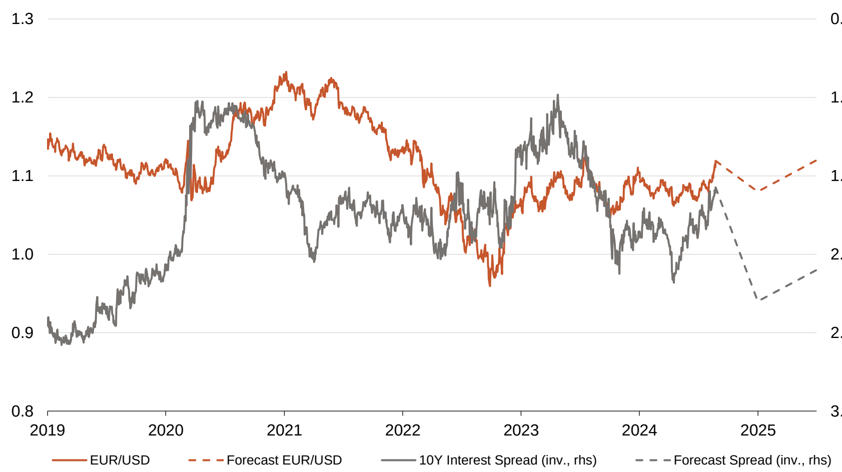
Currency Moves vs Euro



- Currency developments against the euro were mixed over the last month. In each region, currencies have recently appreciated and depreciated against the euro.
- Although the Riksbank cut its key interest rate by 25 basis points last week and explicitly announced two to three further rate cuts, the Swedish krona was still able to defend most of its gains from previous weeks – the market had apparently been expecting even more.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2023 - 23/08/2024

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



- The EUR/USD exchange rate recently reached its highest level since July 2023 at almost 1.12. Following the speech by Fed Chairman Powell in Jackson Hole, a US interest rate cut in September is considered certain.
- If the 4 interest rate cuts expected by investors come by the end of the year, the difference in short-term interest rates would fall and the US dollar would lose relative attractiveness.

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

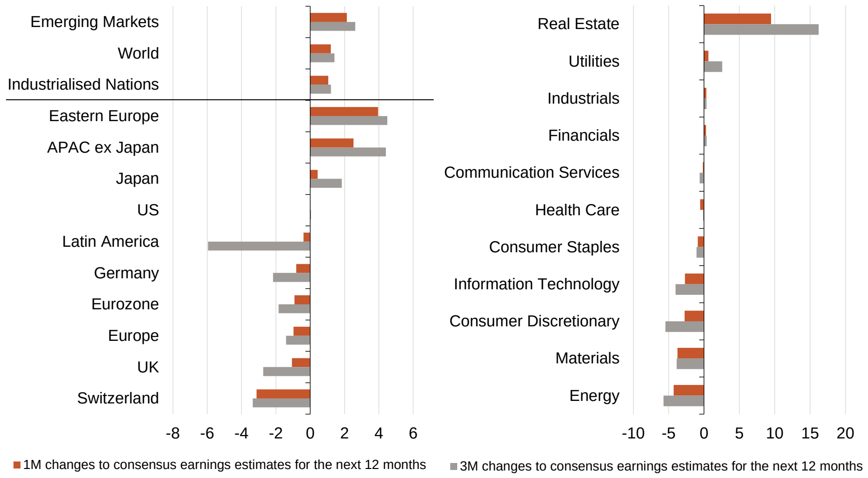
	4-week & YTD		12-month periods over that last 5 years				
	4W (26/07/24 - 23/08/24)	YTD (30/12/23 - 23/08/24)	23/08/23 23/08/24	23/08/22 23/08/23	23/08/21 23/08/22	23/08/20 23/08/21	23/08/19 23/08/20
Health Care	3.8	20.5	18.1	9.5	-1.3	19.9	10.5
Growth	2.1	10.6	15.6	6.8	-10.6	31.8	8.4
Consumer Discretionary	2.1	4.0	4.0	15.8	-12.2	44.8	-1.8
Telecommunications	2.0	11.4	20.3	-5.3	-6.4	26.6	-14.6
Utilities	1.4	3.4	10.5	-0.3	-0.9	17.4	12.6
Consumer Staples	0.9	1.7	-0.1	-3.5	4.8	15.3	-4.3
Finance	0.9	17.3	29.5	17.0	-3.5	39.4	-12.6
Industrials	0.8	11.2	25.5	13.9	-14.2	39.9	6.1
Value	0.4	10.5	18.5	9.5	1.1	31.2	-10.7
Information Technology	-0.1	14.1	26.7	14.7	-23.7	45.5	22.0
Materials	-0.9	1.9	14.2	0.6	-7.4	39.8	13.2
Energy	-1.3	3.2	9.8	2.4	60.2	29.7	-35.7

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 the sharp sell-off at the beginning of August, equity markets rebounded strongly, resulting in only minor changes over a four-week period.
- At the sector level in Europe, the picture was mixed. Both defensive sectors (healthcare, utilities) and consumer discretionary were the best performers over the last four weeks.

Total return of European equity sectors and European style indies, in euros and in percent, sorted by 4-week performance. The difference between Value and Growth lies in the valuation. A growth stock is highly valued because the company is expected to grow strongly. Value stocks usually have less growth potential and are valued lower.
Source: Factset, Time period: 23/08/2019 – 23/08/2024

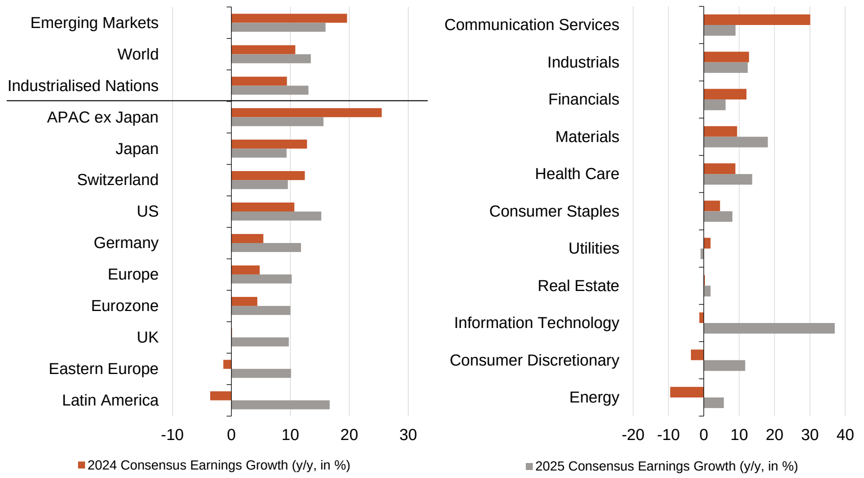
Changes in Consensus Earnings Estimates



- Regionally, earnings revisions have been positive in the last four weeks, particularly for Asia and Eastern Europe.
- Analysts in Japan have also raised their earnings revisions slightly. After the historic sell-off of around 20% in early August, Japanese equities have rebounded strongly. The strong earnings season (sales exceeded expectations by 11%) and recent solid economic data provide fundamental support.

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 23/08/2024

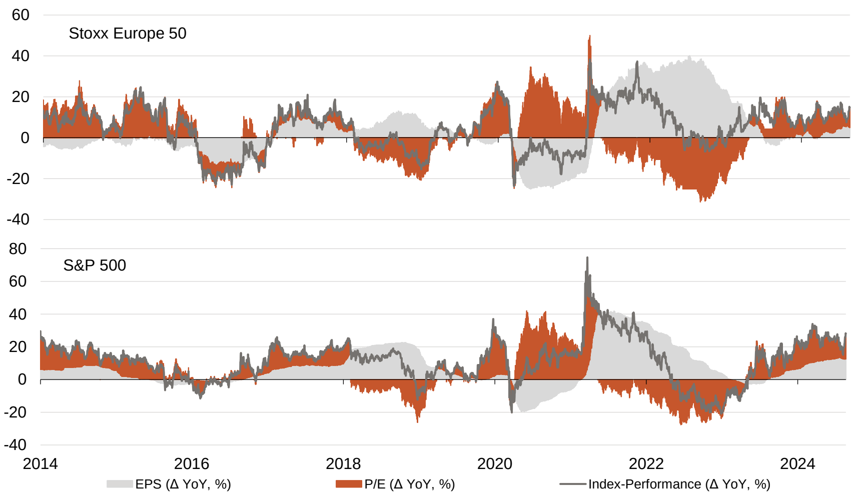
Earnings Growth



- The consensus now expects global earnings growth of over 10% year-on-year in 2024. Asia ex-Japan is expected to see the strongest earnings growth this year at over 25%.
- At a sector level, analysts have become more positive on the interest-sensitive real estate sector following the first interest rate cuts, and no longer expect earnings to decline in 2024.

Consensus expected calendar year earnings growth for selected equity regions, year-on-year and in percent. The earnings estimates of the individual companies are aggregated upwards using the index weights ("bottom-up"). Regional and Europe Sector MSCI Indices. APAC ex Japan = Asia Pacific excluding Japan
Source: FactSet, as of 23/08/2024

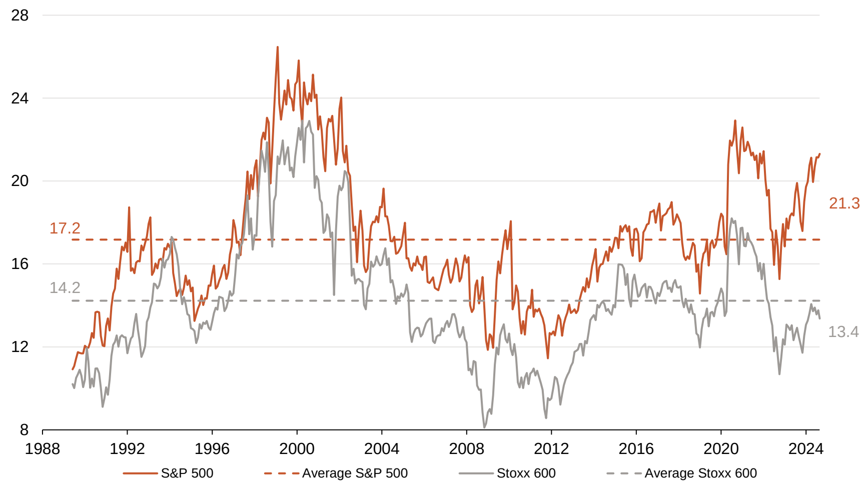
Contribution Analysis



- In Europe, valuation expansion remains the dominant driver of equity market performance over the past 12 months, accounting for just under 60%.
- In the US, valuations have risen again following the correction in early August. This means that US equity market performance over the past 12 months has been driven by a balance between valuation expansion and expected earnings growth.

Analysis of the drivers of stock market development over the last 12 months. The change in earnings estimates and the change in valuation (price-earnings ratio) are taken into account. EPS = earnings per share
Source: Bloomberg, Time period: 01/01/2014 - 23/08/2024

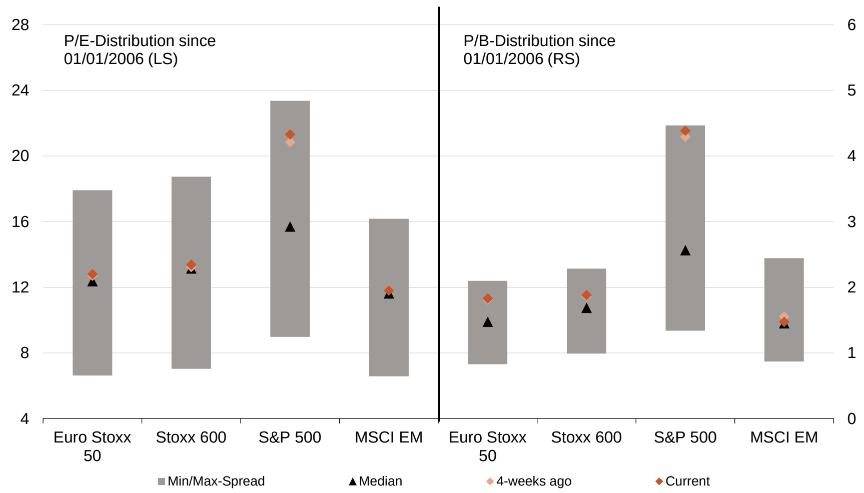
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The P/E valuation based on earnings estimates for the next 12 months has continued to diverge for European and US equities in the last two weeks.
- The P/E valuation for the S&P 500 has risen again after the correction at the beginning of August and, at 21.3, is as high as it was last in October 2021. European equities, on the other hand, have become even more favourable by historical standards.

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 - 23/08/2024

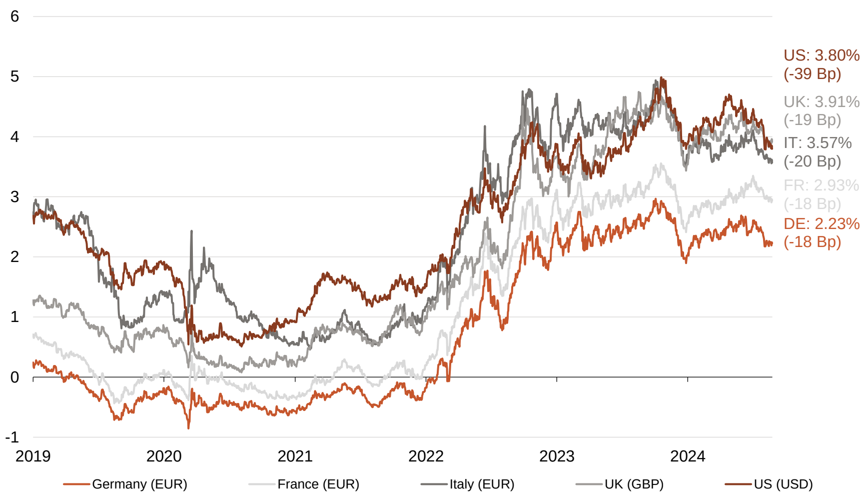
Historical Distribution: Price/Earnings and Price/Book Ratio



- Valuations have risen over the last four weeks on both a price/earnings and price/book ratio basis, particularly for the US equity market. European equities have not seen any significant valuation adjustments over the past four weeks.
- Emerging market equities have become cheaper especially on a price/book basis over the last four weeks.

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 - 23/08/2024

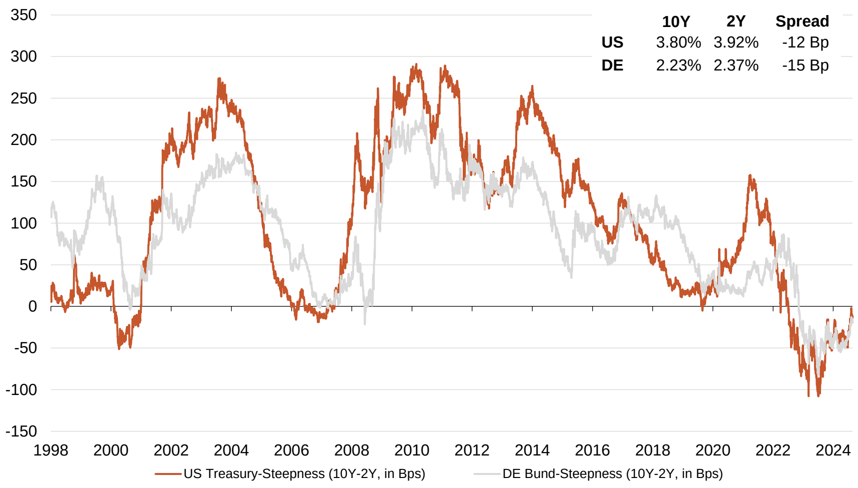
10-Year Government Bond Yields



- As growth concerns have returned to the market's focus, the correlation between bonds and equities has recently turned negative for the first time in around a year.
- Bonds have posted significant gains over the past four weeks. US government bonds have risen by almost 3.1% over the past four weeks – the yield on 10-year US government bonds has fallen by 39 basis points.

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 - 23/08/2024

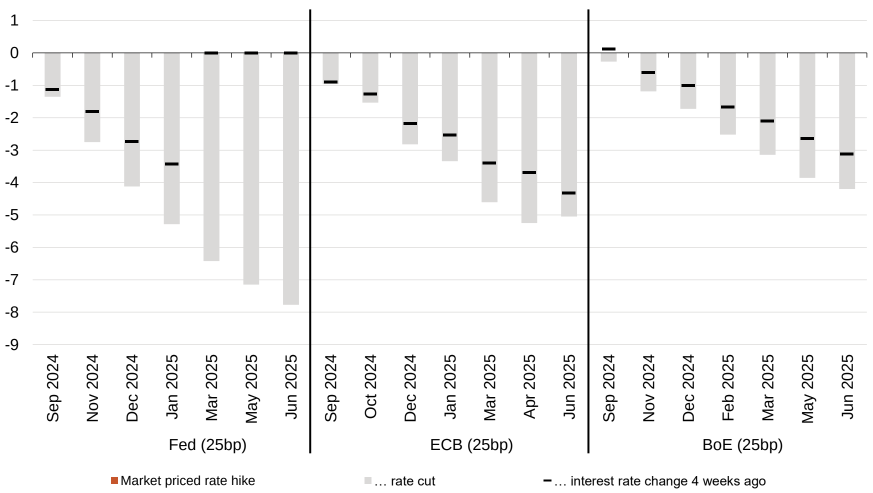
Yield Curve Steepness (10Y - 2Y)



- Over the past two weeks, the US yield curve has declined more at the long end than at the short end (so-called "bull flattening").
- The spread between ten-year and two-year US government bond yields fell to just -1.9 basis points at the beginning of August, the lowest level since July 2022.

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 - 23/08/2024

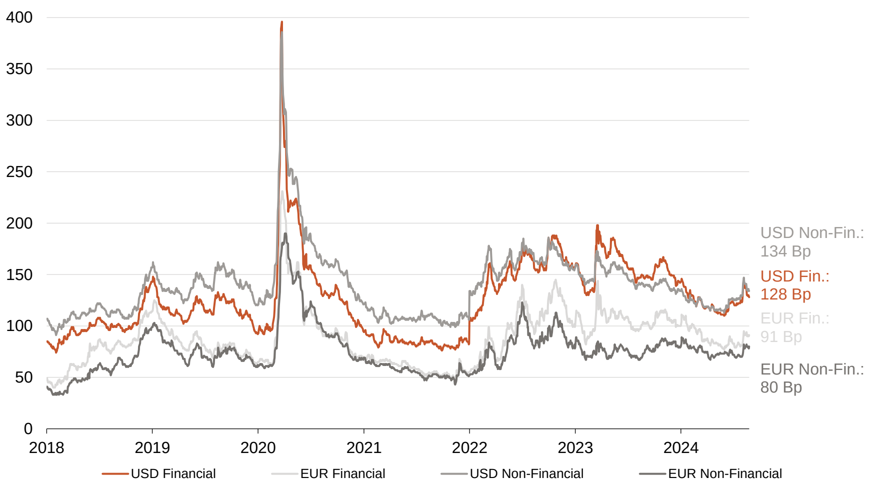
Implicit Changes in Key Interest Rates



- Fears that the Fed may already be behind the curve have reinforced expectations of early and rapid rate cuts from September. The market is currently pricing in about four rate cuts by the end of the year.
- At the Jackson Hole conference, Powell's comments were seen as dovish by the market, as he reiterated that the Fed would not welcome further weakness in the labour market and that "the time has come for policy to adjust".

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 - 23/08/2024

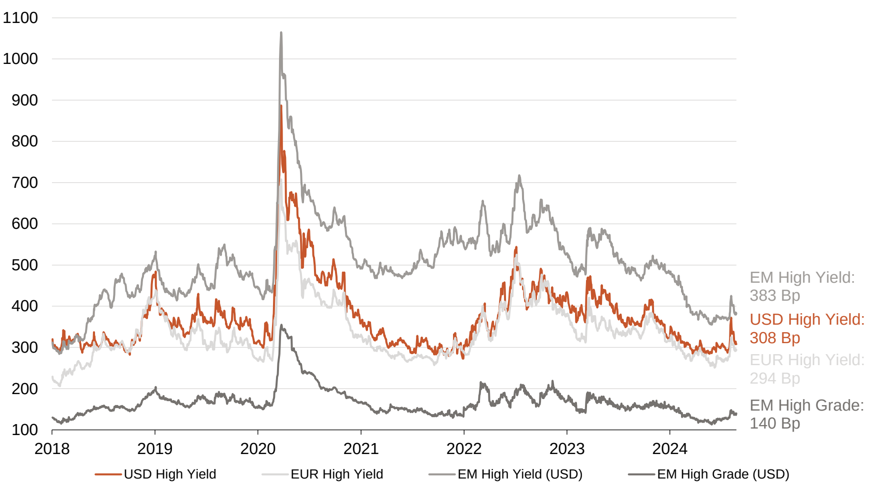
Credit Spreads Financial and Non-Financial Bonds



- Risk premiums on investment-grade corporate bonds have fallen sharply again over the past two weeks. The bond market has thus largely priced out the strong growth concerns at the beginning of the month.
- Spreads on USD IG corporate bonds have fallen by 8 basis point over the past two weeks. Spreads on USD financial bonds have narrowed by 9 basis points.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2019 – 23/08/2024

Credit Spreads High Yield and Emerging Markets Bonds



- The new risk-on environment of recent days has also had an impact on the high yield market. USD and EUR high yield spreads have narrowed significantly over the last two weeks.
- USD high yield spreads have narrowed by 25 basis points over the last two weeks, while EUR and EM high yield spreads have narrowed by 13 and 21 basis points respectively.

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 – 23/08/2024

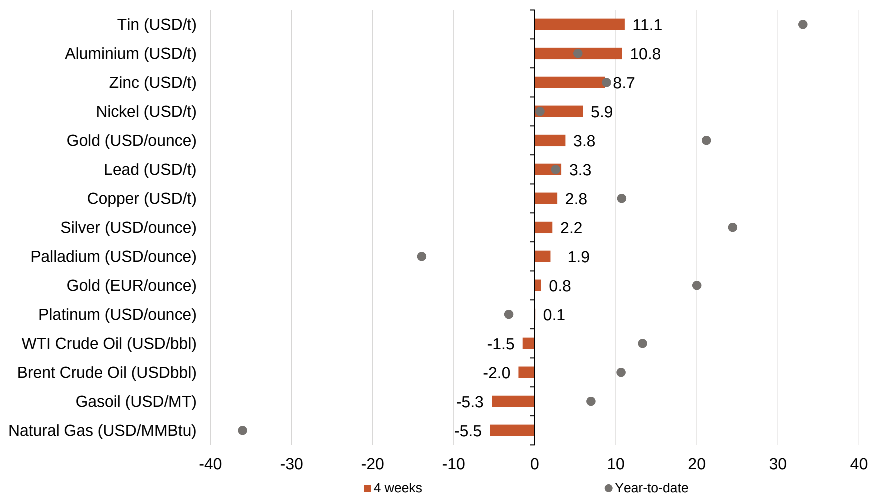
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	23/08/23 23/08/24	23/08/22 23/08/23	23/08/21 23/08/22	23/08/20 23/08/21	23/08/19 23/08/20
EUR Government	2.78	-0.26	7.2	-	-	-	1.8	1.1	5.9	-5.3	-14.2	0.8	0.6
Germany	2.26	-0.26	7.2	-	-	-	1.8	0.2	4.5	-7.2	-12.2	-0.3	-1.3
EUR Corporate	3.50	-0.22	4.5	84	10	64	1.1	2.7	7.8	-0.8	-12.3	2.7	-0.4
Financial	3.68	-0.22	3.7	91	11	58	1.0	3.1	8.1	-0.3	-10.2	2.3	-0.1
Non-Financial	3.39	-0.21	4.9	80	10	70	1.2	2.4	7.5	-1.1	-13.4	2.9	-0.6
EUR High Yield	6.40	-0.08	3.1	294	25	28	1.0	5.2	11.9	4.9	-11.4	9.0	-0.2
US Treasury	3.89	-0.51	6.3	-	-	-	3.1	3.3	7.2	-3.3	-10.8	-2.4	7.8
USD Corporate	4.94	-0.42	6.8	132	7	46	3.2	4.5	11.0	-0.5	-14.0	2.2	8.2
Financial	5.02	-0.43	5.1	128	6	56	2.7	5.3	11.0	0.4	-11.7	2.1	7.9
Non-Financial	4.91	-0.42	7.6	134	7	41	3.4	4.2	11.0	-0.9	-15.1	2.3	8.2
USD High Yield	7.49	-0.27	3.8	308	21	13	1.7	6.1	13.3	4.3	-8.3	10.3	3.4
EM High Grade	4.95	-0.37	5.4	140	14	13	2.4	5.0	10.3	0.6	-13.7	2.7	5.3
EM High Yield	8.05	-0.23	4.0	383	17	11	1.8	9.7	16.9	5.5	-21.2	7.4	7.0

- Over the last four weeks, all of the bond segments shown here have seen noticeable declines in yields.
- In particular, yields on ten-year US government bonds and USD corporate bonds fell. Accordingly, these bond segments were the strongest over the four-week time period.

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: 23/08/2014 – 23/08/2024

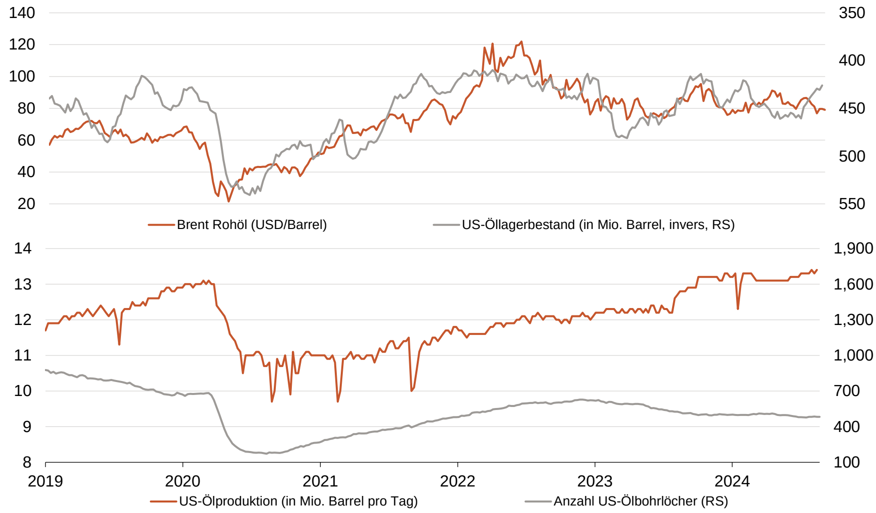
Commodities Performance



- Commodity markets have developed heterogeneously over the last month.
- Base metals recorded broad-based gains, although economic data, particularly in China, continued to disappoint. However, base metals had already suffered significant losses in June and July.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2022 - 23/08/2024

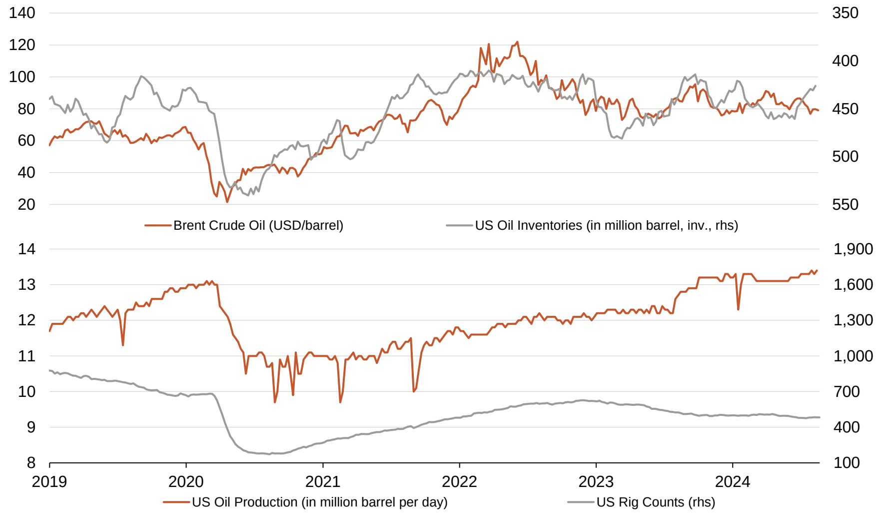
Crude Oil



- The recovery in the oil price up to mid-August was short-lived. In addition to weak economic data, the prospects of a ceasefire in the Middle East also weighed on the oil market. However, the latest escalation between Israel and Hezbollah has dashed these hopes.
- In June, OPEC+ decided to increase production by around 180kbpd every month from October. In view of the current sideways movement, the cartel might reconsider this plan.

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 - 23/08/2024

Gold



- Gold recently broke through the USD 2,500 per ounce mark for the first time in history. After demand from central banks in the Far East dominated the first half of the year, demand from Western investors has recently picked up again, as both the CFTC positioning and ETF holdings show.

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 - 23/08/2024

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