BERENBERG
Markets

MONITOR

04 November 2024

Current market commentary

The typical de-risking before an event risk, this time the US elections, took a particularly long time. But last week the time had come. Equities, bonds and also gold fell at the end of October. Possible triggers include good, but not outstanding Q3 reporting, renewed geopolitical risks in the Middle East and rising interest rates worldwide. In addition to positive macro surprises, higher inflation figures in some cases and increasing concerns about rising government debt triggered the rise in bond yields. Now the market is looking ahead to Tuesday's US election, with the next Fed meeting scheduled for immediately after. In addition, the Chinese parliament is holding a highly anticipated meeting from 4 to 8 November, at which further details of the economic stimulus packages are likely to be announced. Consequently, volatility is likely, especially below the surface. We remain constructive and believe the recent consolidation is healthy.

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

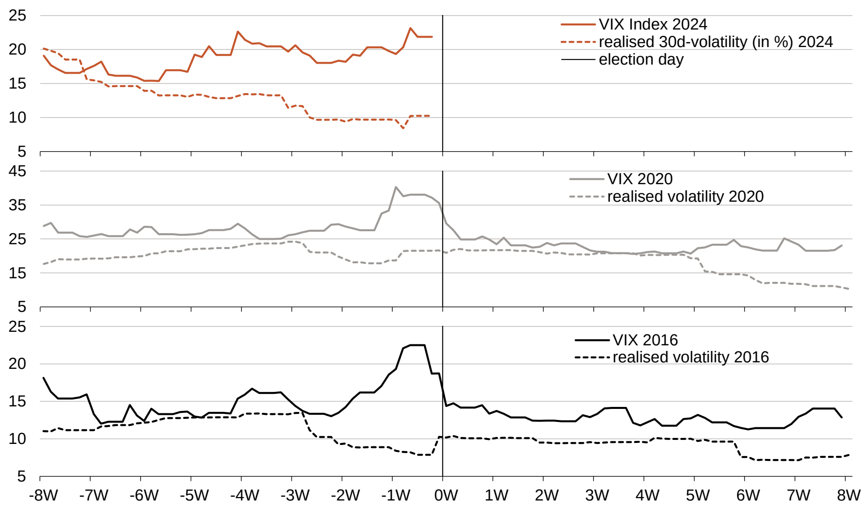
The focus is on the US elections and the Q3 reporting season.

The next two weeks promise to be politically tense: On 5 November, the US will elect its new president, while the Q3 reporting season is also in full swing. 144 companies in the S&P 500 will report in the next two weeks.

Investors are watching interest rate decision, GDP and retail sales.

However, there is also a lot of important economic data and central bank meetings coming up. The US starts on Monday with the ISM Services Index (Oct.). On Wednesday, the retail sales (Sep.) for Europe and on Thursday the interest rate decisions of the Fed and the Bank of England will be announced. At the end of the week, the Michigan Consumer Sentiment Index (Nov.) will be published. Next week, the consumer prices (Oct.) for Germany and the USA, the GDP (Q3) for Europe, Japan and the UK, and the retail sales (Oct.) and the producer price index (Oct.) for the USA are on the agenda.

Rising VIX ahead of the US election is consistent with historical patterns



- The VIX, a measure of the expected volatility of US equities, recently climbed to its highest level since early August. This development corresponds to the typical pattern of past US presidential elections and is no cause for concern.
- Regardless of the outcome of the election, the VIX has fallen with the certainty of an outcome. If the election is not contested, investors are likely to unwind hedges, the premium to the realised volatility is likely to fall and the market could mechanically rise.

Source: Bloomberg, Time period: 13/09/2016 - 01/11/2024

Multi Asset

	4W (04/10/24 - 01/11/24)	YTD (29/12/23 - 01/11/24)	01/11/23 01/11/24	01/11/22 01/11/23	01/11/21 01/11/22	01/11/20 01/11/21	01/11/19 01/11/20
Gold	4.4	35.1	34.5	12.6	7.9	-4.2	18.9
MSCI Frontier Markets	1.9	12.4	17.2	-1.3	-18.3	35.6	-7.2
USDEUR	1.3	1.9	-2.4	-6.6	17.5	0.3	-4.1
Global Convertibles	1.2	8.6	14.9	-6.9	-13.6	29.5	23.5
Euro overnight deposit	0.3	3.3	3.9	2.9	-0.4	-0.6	-0.5
MSCI World	0.1	19.4	29.1	4.8	-4.9	41.8	-0.8
EUR Coporates	-0.1	3.4	8.5	3.9	-14.8	0.0	1.2
EUR Sovereign Debt	-0.5	1.5	5.6	0.0	-9.8	-1.9	1.2
REITs	-1.7	7.2	22.7	-14.9	-11.1	38.3	-21.3
Industrial Metals	-3.4	11.0	10.0	-7.3	4.8	40.1	-2.5
MSCI Emerging Markets	-3.8	14.3	22.0	1.7	-17.2	17.5	3.0
Brent	-4.2	7.9	-5.1	-5.2	66.2	137.6	-46.4

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

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

- Supported by strong demand from Western investors, gold was once again among the best-performing asset classes in the last four weeks. Since the beginning of the year, the precious metal has increased in value by around 35%, making it the best-performing asset class.
- After a strong increase in the previous month, industrial metals recorded more significant losses in October. This is mainly due to the lack of details of the Chinese stimulus so far.
- Crude oil also lost ground after Israel initially refrained from attacking Iran's oil infrastructure.

Total return for selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/11/2019 – 01/11/2024

Equities

	4W (04/10/24 - 01/11/24)	YTD (29/12/23 - 01/11/24)	01/11/23 01/11/24	01/11/22 01/11/23	01/11/21 01/11/22	01/11/20 01/11/21	01/11/19 01/11/20
MSCI USA Small Caps	1.2	12.5	29.4	-10.7	-4.2	55.7	-5.3
S&P 500	0.8	24.0	33.3	4.8	-0.4	43.8	4.1
DAX	0.7	14.9	29.0	11.9	-15.6	36.8	-10.8
Stoxx Europe Cyclicals	-0.9	13.5	31.5	9.8	-16.5	52.2	-13.6
MSCI UK	-1.3	12.9	19.8	5.1	3.2	45.1	-26.0
Euro Stoxx 50	-1.4	10.4	22.2	14.9	-12.6	47.5	-16.7
Stoxx Europe 50	-1.6	9.2	16.6	10.6	-1.2	40.9	-15.6
Stoxx Europe Defensives	-1.8	9.7	13.2	7.2	1.0	33.6	-13.6
Stoxx Europe Small 200	-2.4	4.9	20.7	1.2	-26.8	47.8	-7.3
MSCI Japan	-3.4	7.3	12.5	11.8	-12.6	23.0	-3.8
MSCI EM Asia	-4.3	18.9	26.0	4.1	-21.0	12.1	14.5
MSCI EM Latin America	-5.9	-16.5	-3.7	-3.6	39.3	23.2	-36.9

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

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

- The upward trend on the stock markets came to a halt last month in view of the US elections, the risk event of the year. Although US equities posted a positive return, this was entirely due to the appreciation of the US dollar.
- Due to the generally negative impact of a re-election of Trump for Europe, as well as the cyclical weakness, European equities performed slightly negative overall.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/11/2019 – 01/11/2024

Fixed Income

	4W (04/10/24 - 01/11/24)	YTD (29/12/23 - 01/11/24)	01/11/23 01/11/24	01/11/22 01/11/23	01/11/21 01/11/22	01/11/20 01/11/21	01/11/19 01/11/20
USD High Yield	0.8	9.5	12.8	-1.1	4.7	9.5	-2.8
EUR High Yield	0.5	7.4	13.5	8.7	-13.5	8.4	-0.4
Chinese Sovereign Bonds	0.4	6.0	7.6	2.7	5.6	5.4	3.2
EUR Financials	0.0	4.4	9.3	4.9	-14.3	0.6	0.8
EUR Non-Financials	-0.2	2.7	8.0	2.9	-14.9	-0.3	1.5
EM Hard Currency Bonds	-0.5	8.4	13.9	1.5	-10.3	4.7	-3.4
Treasuries	-0.7	2.7	4.0	-6.2	1.1	-2.1	2.8
BTPs	-0.7	3.7	10.3	0.6	-15.1	-2.0	4.3
Bunds	-0.9	-0.4	5.4	-2.9	-15.4	-3.5	2.0
USD Corporates	-1.6	3.6	10.0	-3.6	-7.8	2.5	3.6
EM Local Currency Bonds	-2.1	1.7	5.2	6.0	-5.5	0.9	-8.2
Gilts	-2.5	-0.2	8.9	-7.9	-23.9	1.0	1.3

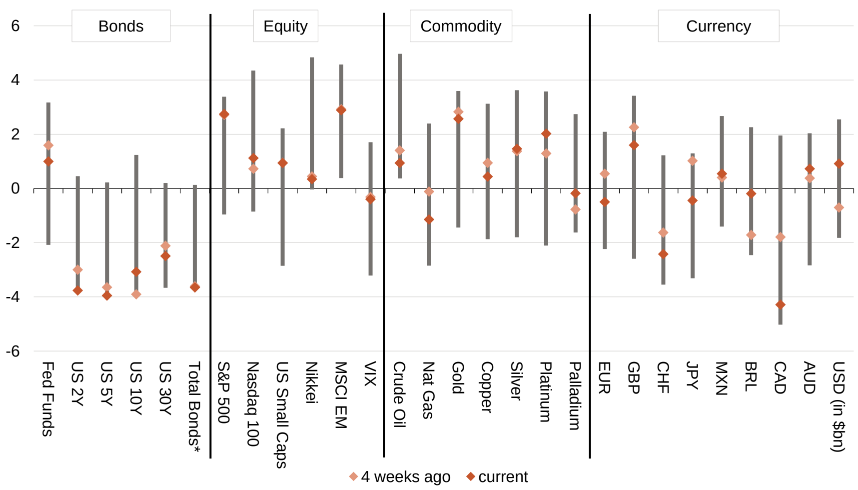
4-week & YTD; 12-month periods over that last 5 years

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

- In the last four weeks, almost all bond segments lost value. In particular, British government bonds saw a significant rise in yields after the latest budget plans.
- US government bonds lost value due to robust economic data and expectations of only moderate interest rate cuts.
- USD high-yield bonds benefited mainly from a stronger dollar during the period under review.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/11/2019 – 01/11/2024

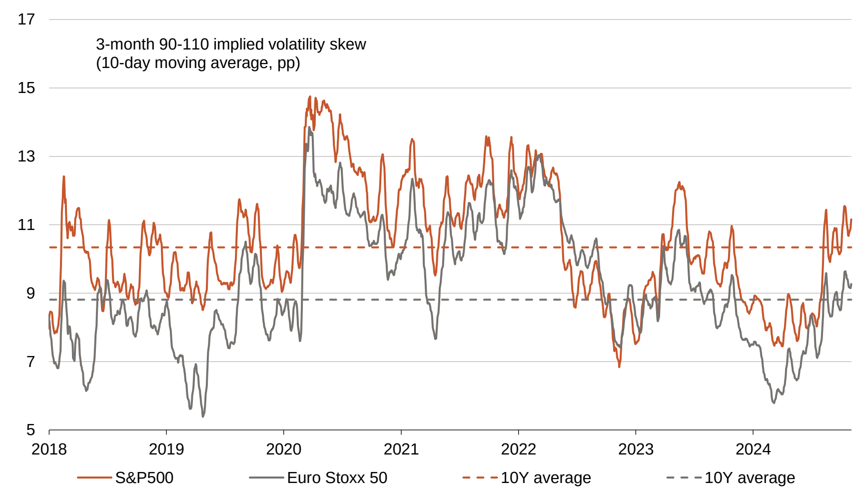
Non-Commercial Positioning



- In the last four weeks, speculative investors have mainly been shifting their FX positions. For example, net positioning in the US dollar has turned from short to long and in the euro from long to short. In addition to the strong momentum of the US economy, the main reason for this is likely to be the increasing probability of a second term in office for Donald Trump.

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: 30/10/2014 - 30/10/2024

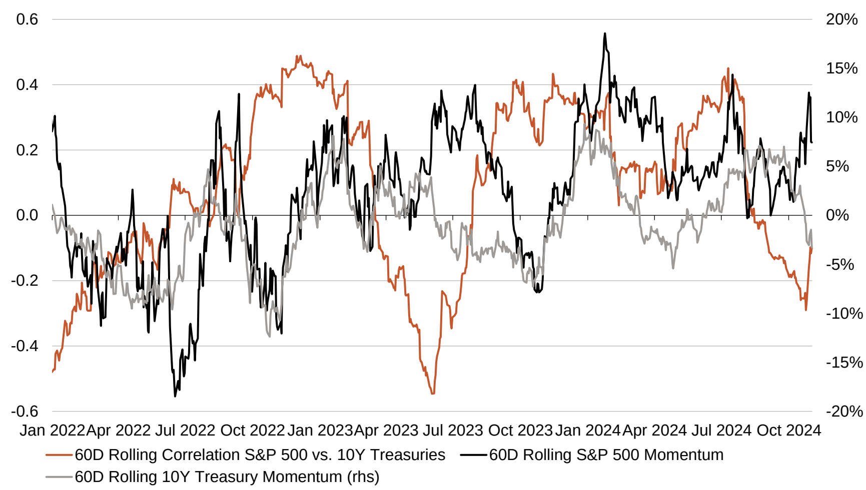
Put-Call-Skew



- The put-call skew remains slightly elevated in both the US and Europe. This applies not only in absolute terms, but also when normalised by the current level of volatility, which is also elevated.
- If the election result is not contested, the uncertainty and thus the skew should fall again.

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: 01/11/2014 - 01/11/2024

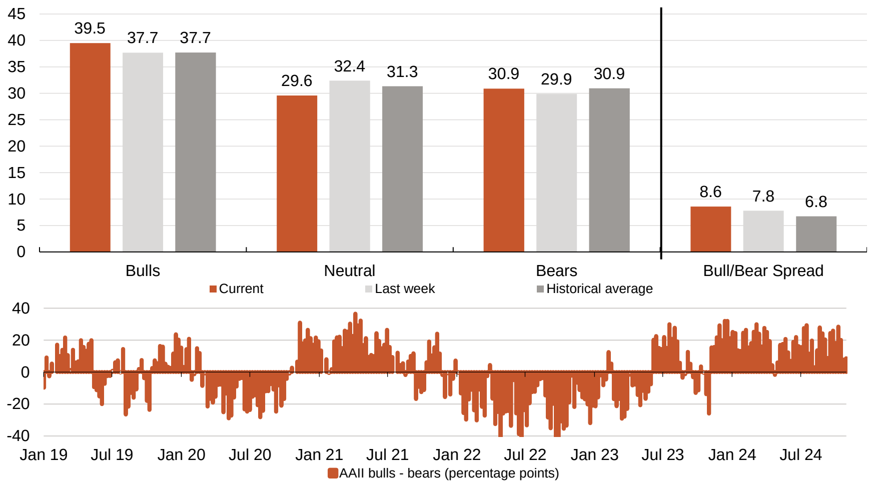
60-Day Momentum and Correlation



- The 60-day momentum of the S&P 500 remains positive. By contrast, the most recent reading for US Treasuries was negative.
- Nevertheless, the correlation between the two has increased again recently. This is, however, because the market distortions of early August have now dropped out of the calculation window.

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 - 01/11/2024

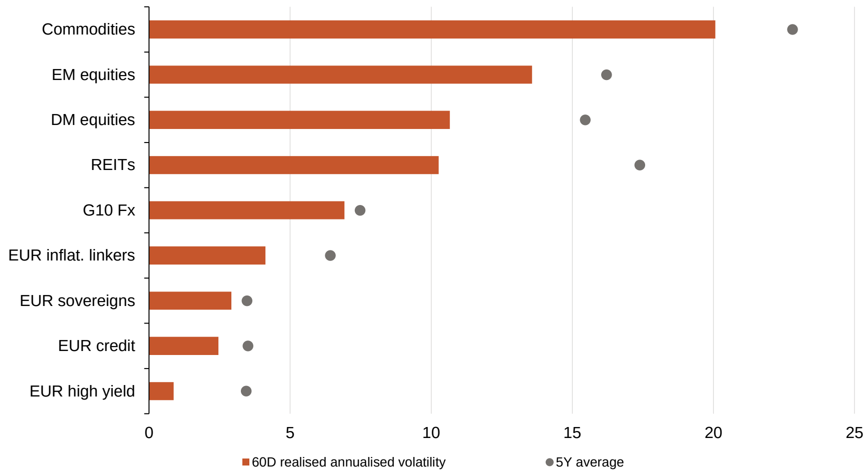
AAII Sentiment Survey (Bulls vs Bears)



- After the euphoria of the last few months, US private investors have been much more neutral in their sentiment for the past two weeks, although US markets are close to all-time highs and both corporate reports and macro data are surprising to the upside. Investors are presumably being a little more cautious until it becomes clear which path US economic policy will take.

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 – 31/10/2024

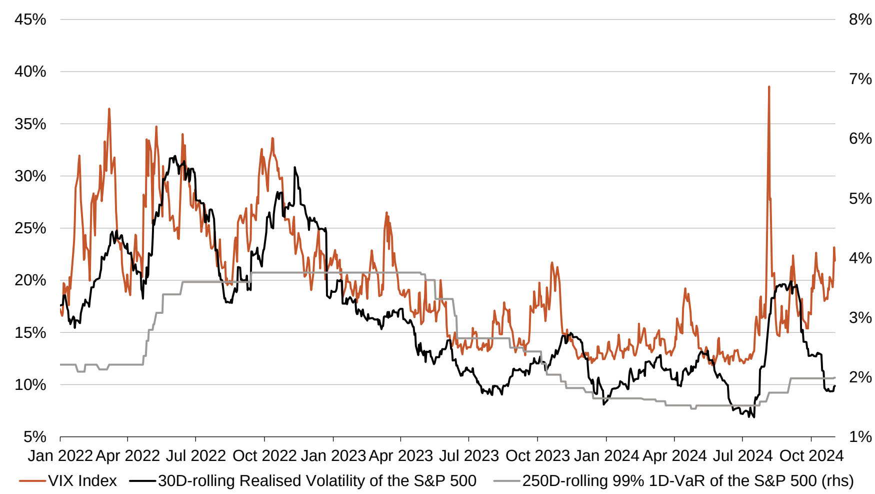
Realised Volatilities



- The realised volatility for all the asset classes shown here is currently below the medium-term average. Although the options markets are expecting larger fluctuations, there is little sign of this in the actual price movements so far.
- The realised volatility for REITs is surprisingly low in view of the recent steep rise in interest rates.

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: 01/11/2019 – 01/11/2024

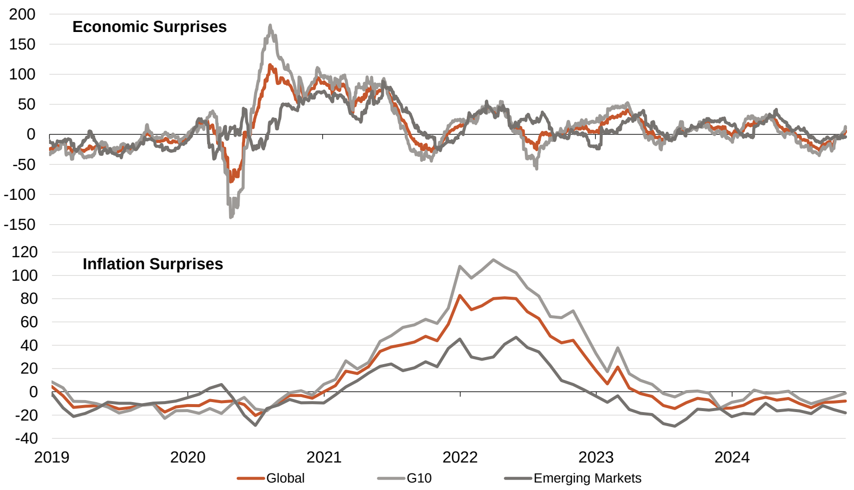
Volatility and Value-at-Risk of the S&P 500



- The volatility premium is extremely high at more than 10% and is at the 96th percentile when compared to the last ten years.
- If market uncertainty declines after the US election, investors are likely to unwind hedges. The premium would narrow accordingly and the market would ultimately be mechanically driven higher.

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 – 01/11/2024

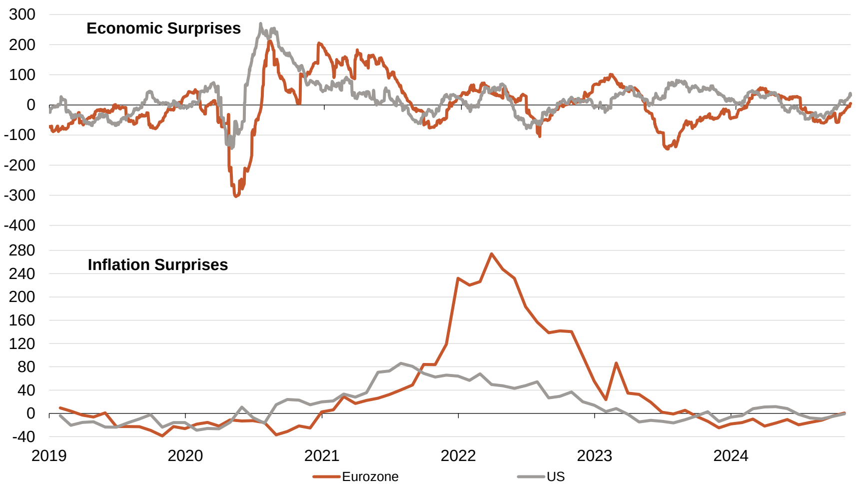
Global



- For the first time since July this year, economic surprises have turned positive again, both at the global level and in the major industrialised nations. By contrast, economic surprises in emerging markets have remained unchanged in the last four weeks.
- In Australia, inflation data surprised slightly to the downside, while industrial production in China exceeded expectations for the month of September.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 – 01/11/2024

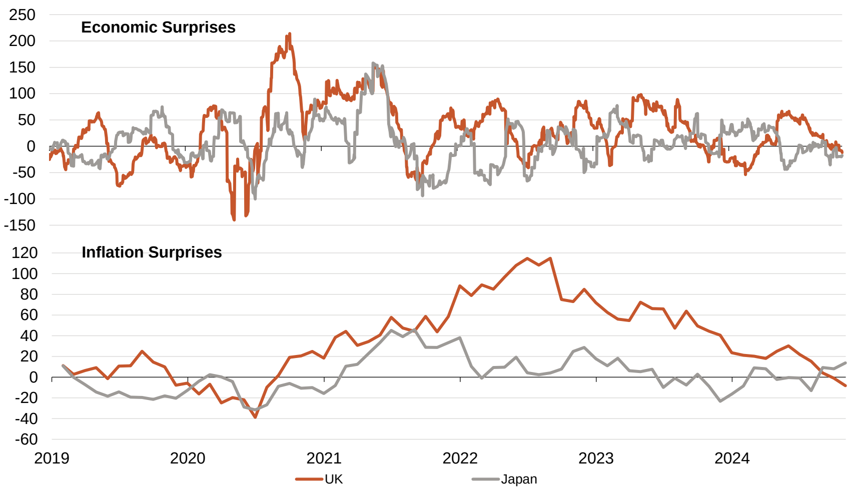
Eurozone and US



- The positive economic surprises in the US are becoming increasingly common. In addition to consumer spending for October, consumer confidence also surprised on the upside. Furthermore, applications for unemployment benefits were again below expectations.
- In the eurozone, the gross domestic product data for the third quarter surprised on the upside. In addition, the preliminary inflation data for October were slightly above expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 – 01/11/2024

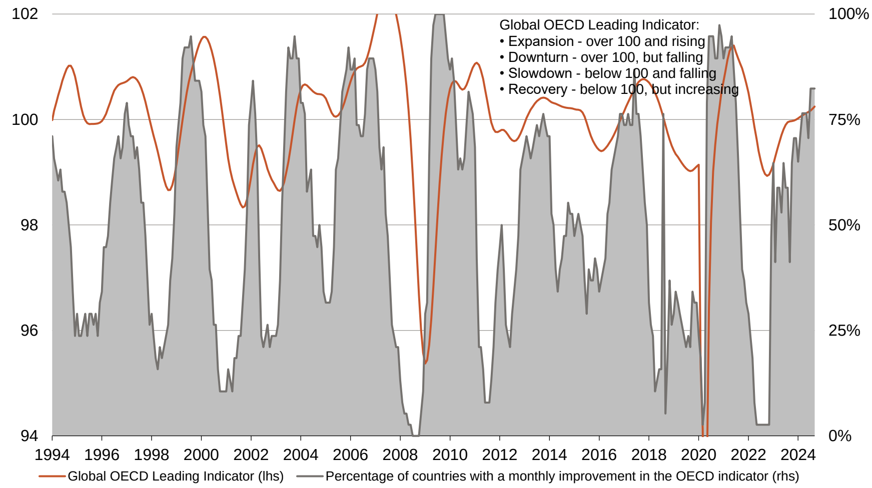
UK and Japan



- In the UK, the preliminary purchasing managers' indices and consumer confidence for October were slightly negative.
- In Japan, the inflation data for October were in line with estimates, while industrial production data surprised on the positive side.

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 – 01/11/2024

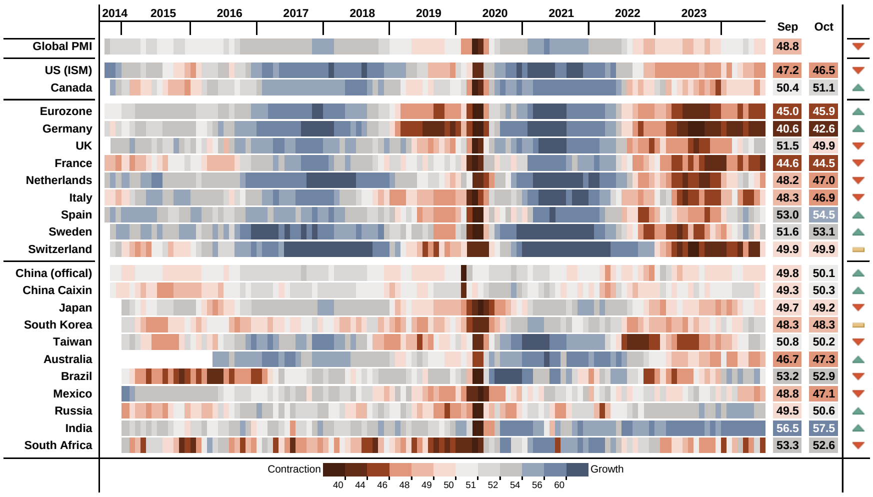
OECD Leading Indicator



- Global economic growth continues. In September, the OECD's updated leading indicator was above the 100 mark for the ninth consecutive month, at 100.3.
- In September, the economic situation improved in 82% of the countries surveyed compared to the previous month. Canada recorded the strongest increase, while Mexico and China showed the largest declines.

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 - 01/11/2024

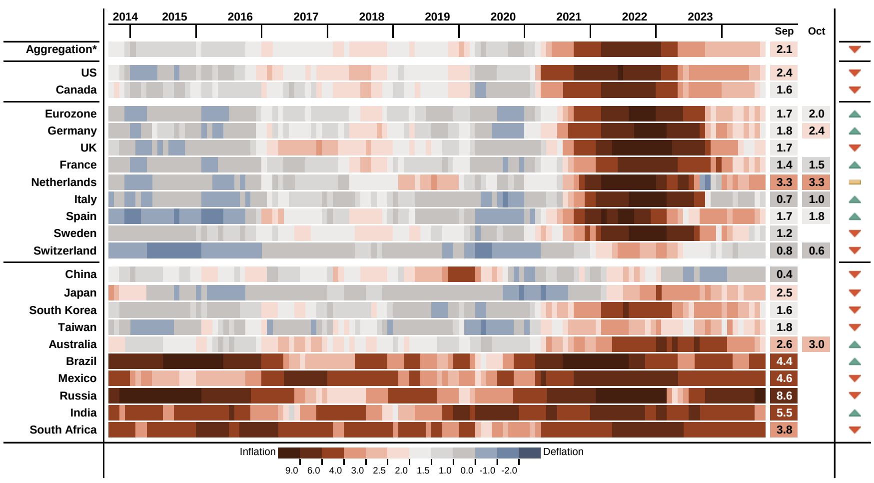
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- While the PMI data in the eurozone improved overall in October, the UK, France and the Netherlands saw more significant declines in some cases. In Germany, the Purchasing Managers' Index recovered, but at 42.6 is still well below the growth threshold of 50.

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 - 01/11/2024

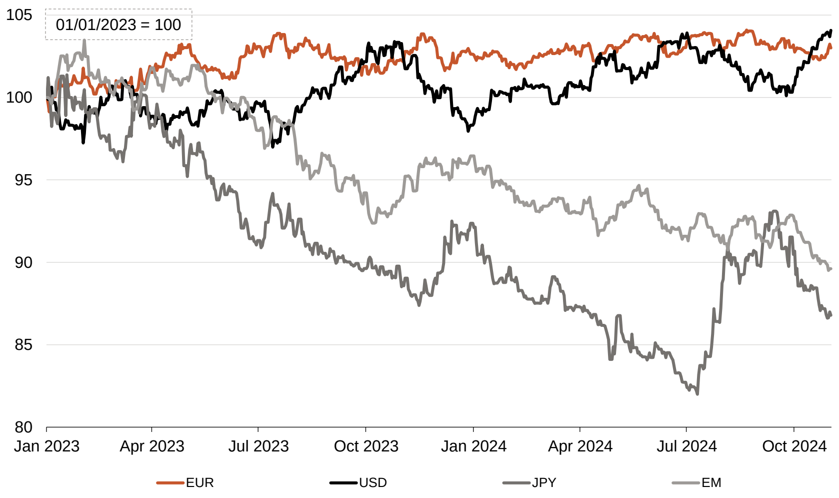
Headline Inflation



- While the disinflation trend continued in September, initial data from October show a slight upturn in the rate of price increases. Consumer price inflation in the eurozone rose to 2.0%, while in Germany it surprised on the upside to 2.4%.

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 - 01/11/2024

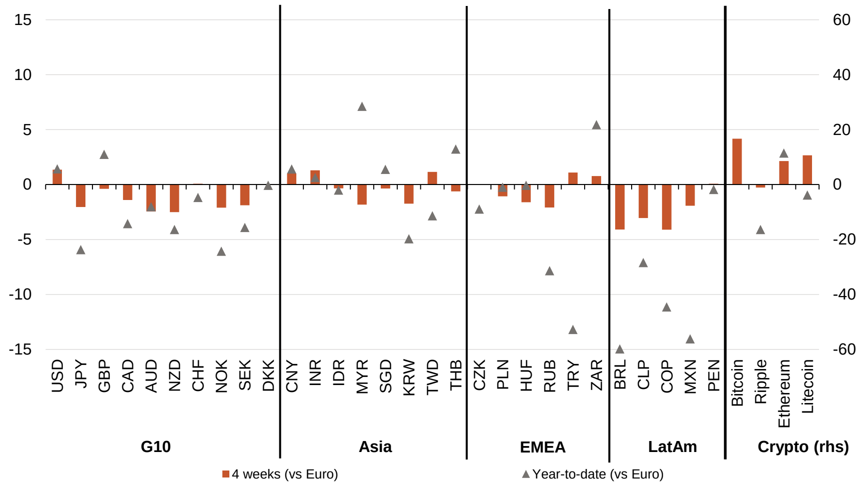
Trade-Weighted Currency Development



- The Japanese yen depreciated sharply in October as the dollar strengthened. More recently, the yen has been weighed down by domestic political unrest. The prime minister, who was recently appointed by the LDP, called new elections to strengthen his position. Surprisingly, the LDP and its coalition party lost their majority in the election, leaving Japan's political path uncertain.
- As a result, the BoJ was forced to hold off further interest rate hikes for the time being.

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 - 01/11/2024

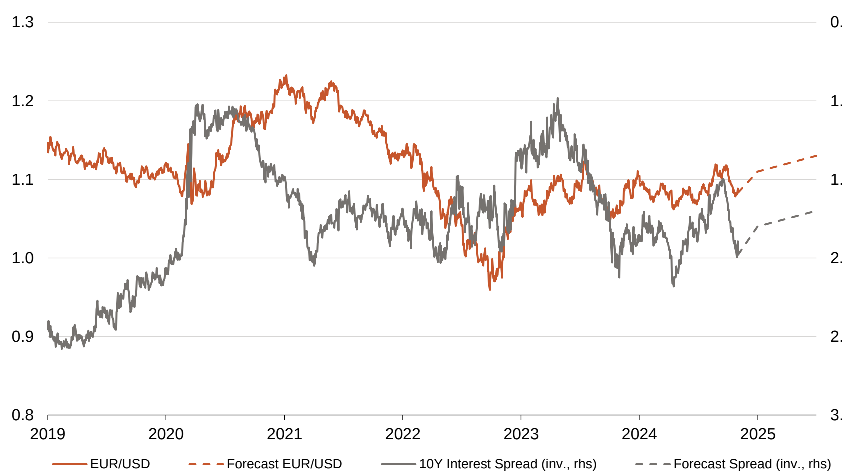
Currency Moves vs Euro



- The euro appreciated against most of the currencies shown here.
- The performance of Latin American currencies was particularly disappointing, not least due to the increased likelihood of Donald Trump being re-elected.
- Cryptocurrencies, on the other hand, benefited from the 'Trump trade'. Bitcoin even broke through the USD 70,000 mark. Trump promises to leave the crypto market largely unregulated and plans to build up a currency reserve in Bitcoin.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2023 - 01/11/2024

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



- The euro appreciated against the US dollar in October, with a rise in the probability of Trump's victory by more than 3%. More recently, investors seem to have been taking some profits ahead of the election.
- The interest rate differential between Treasuries and Bunds widened to almost 2%.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US government bonds and 10-year Bunds. The forecasts were prepared by Berenberg Economics.
Source: Bloomberg, Time period: 01/01/2019 - 30/06/2025

European Sector & Style Performance

	4-week & YTD: 4W (04/10/24 - 01/11/24)	4-week & YTD: YTD (30/12/23 - 01/11/24)	01/11/23 01/11/24	01/11/22 01/11/23	01/11/21 01/11/22	01/11/20 01/11/21	01/11/19 01/11/20
Finance	1.5	21.8	35.8	16.0	-10.2	65.8	-30.0
Telecommunications	1.5	16.5	24.5	4.2	-6.5	23.1	-24.1
Industrials	0.0	14.3	35.7	9.9	-15.5	44.3	-7.2
Value	-0.4	11.6	20.9	9.9	-2.6	46.2	-25.7
Utilities	-0.7	5.1	14.8	8.5	-9.1	19.3	2.0
Health Care	-1.4	11.6	16.3	5.6	-3.4	29.5	-2.3
Consumer Discretionary	-2.2	1.2	11.9	11.2	-21.4	50.1	-9.8
Growth	-2.5	6.7	18.4	6.9	-17.1	39.5	-1.3
Consumer Staples	-2.6	-0.3	1.7	0.1	-4.0	22.6	-7.4
Materials	-4.5	2.8	16.1	3.5	-7.8	41.0	-3.8
Energy	-4.7	-3.3	-5.8	9.1	37.7	88.4	-51.0
Information Technology	-5.8	4.7	23.8	14.2	-28.5	64.1	0.4

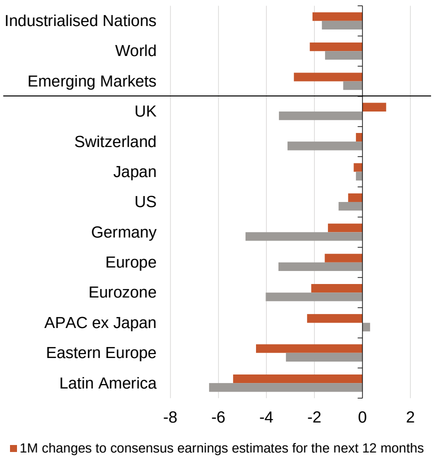
Columns 3–7: 12-month periods over that last 5 years

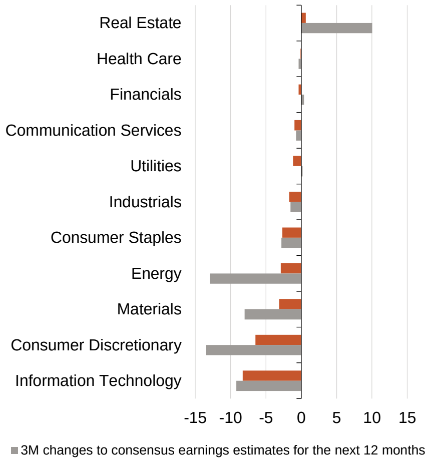
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Stables: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR; Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. 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.

- Over the last four weeks, European financial stocks have been among the relative winners. Many banks have exceeded analysts' expectations in their Q3 reporting. In addition, the renewed rise in interest rates has raised hopes that profits will remain elevated in the near term.
- By contrast, large IT companies such as ASML have disappointed with their Q3 results. Consequently, there has been a recent consolidation in the sector.

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: 01/11/2019 – 01/11/2024

Changes in Consensus Earnings Estimates

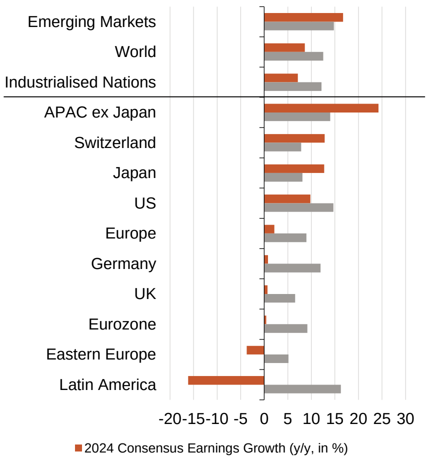


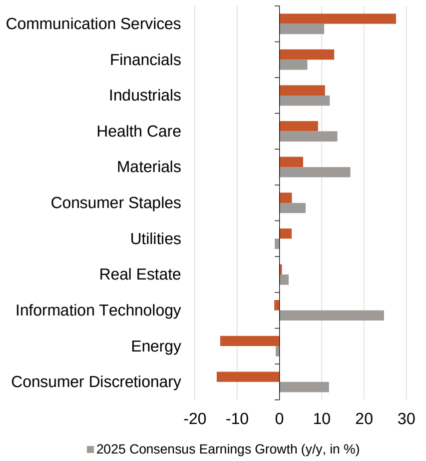


- Analysts' high earnings expectations have recently been revised sharply downwards, especially in emerging markets. The UK is the only region to have seen slightly positive earnings revisions over the last month.
- Within European sectors, analysts have cut their estimates for IT companies and consumer discretionary stocks in particular, following a disappointing reporting season.

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 01/11/2024

Earnings Growth

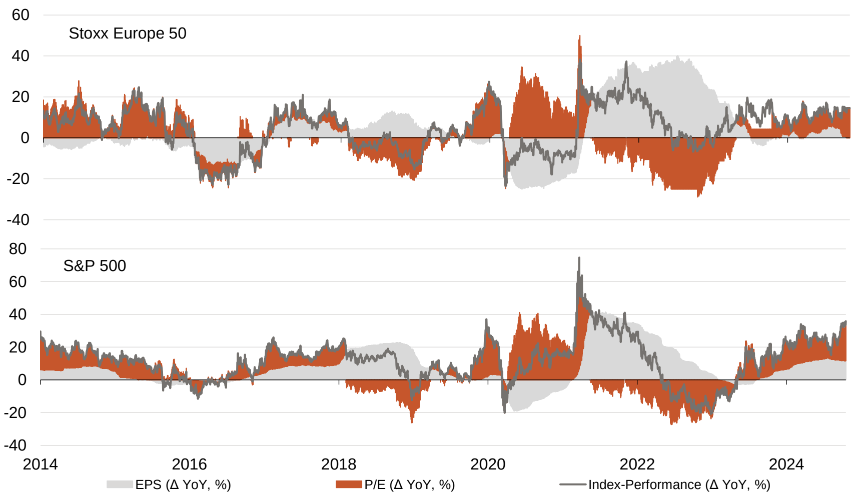




- Despite the recent negative earnings revisions for emerging markets, the consensus still expects higher earnings growth in emerging regions than in developed markets in 2024 and 2025. Hopes for Chinese economic stimulus certainly play a role here.
- Earnings expectations for 2025 are highest for Asia, Latin America and the US.

Consensus expected calendar year earnings growth for selected equity regions, year-on-year and in percent. The earnings estimates of the individual companies are aggregated upwards using the index weights ("bottom-up"). Regional and Europe Sector MSCI Indices. APAC ex Japan = Asia Pacific excluding Japan
Source: FactSet, as of 01/11/2024

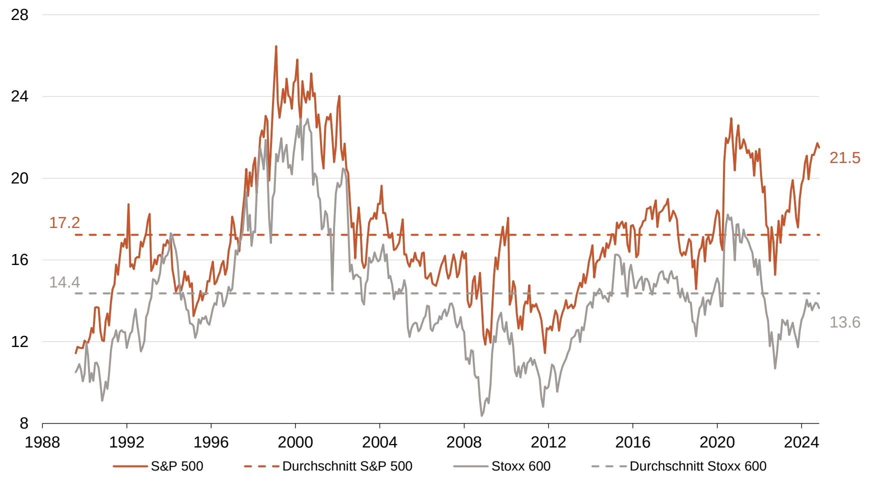
Contribution Analysis



- Last year, corporate earnings stagnated in Europe, while they rose in the US thanks to the 'Magnificent Seven'. However, valuations in both regions widened, partly thanks to hopes of lower interest rates.

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 - 01/11/2024

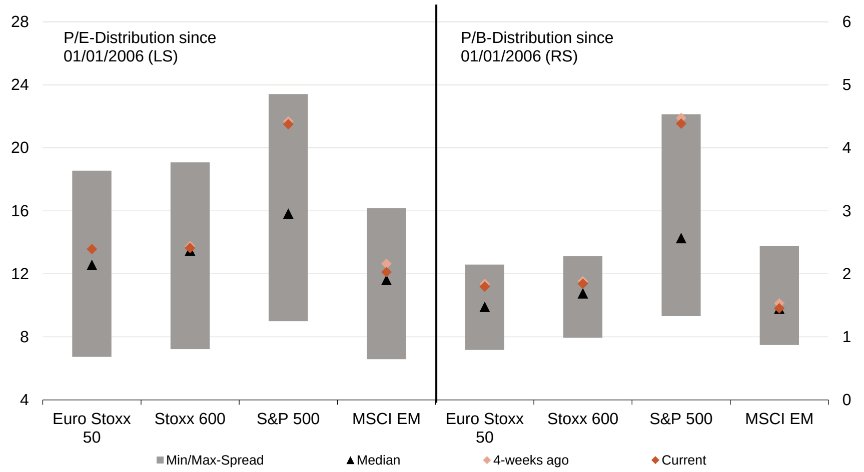
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- US equities may have fallen slightly recently, but so have earnings expectations, meaning that valuation levels have not changed significantly. The market continues to price strong earnings growth with high margins, particularly for the US.
- For Europe, on the other hand, weaker growth and an increased risk of a trade war under a potential US presidency of Donald Trump are increasingly being priced in.

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 - 01/11/2024

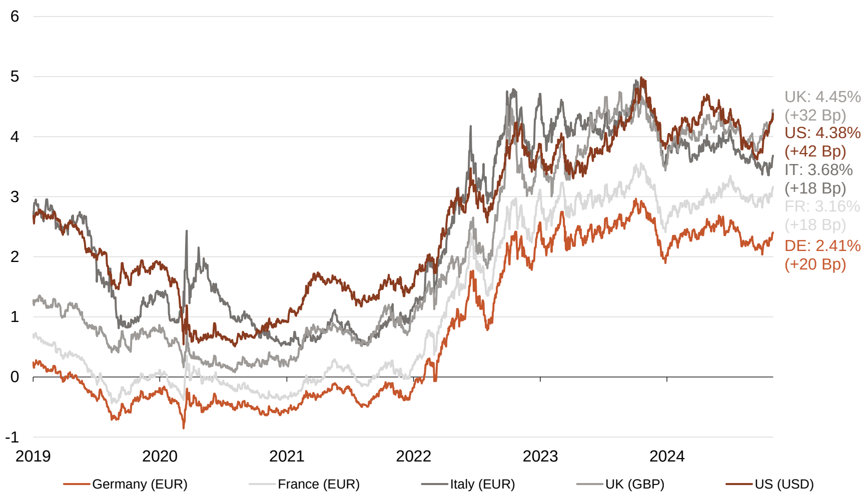
Historical Distribution: Price/Earnings and Price/Book Ratio



- Despite the numerous macroeconomic and (geo)political risks, none of the major equity regions are particularly cheap. Compared to their own history, Europe and emerging markets are fairly valued and the US is expensive. However, the US valuation premium can be partly explained by the more innovative companies and the more equity-friendly institutional environment.

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 - 01/11/2024

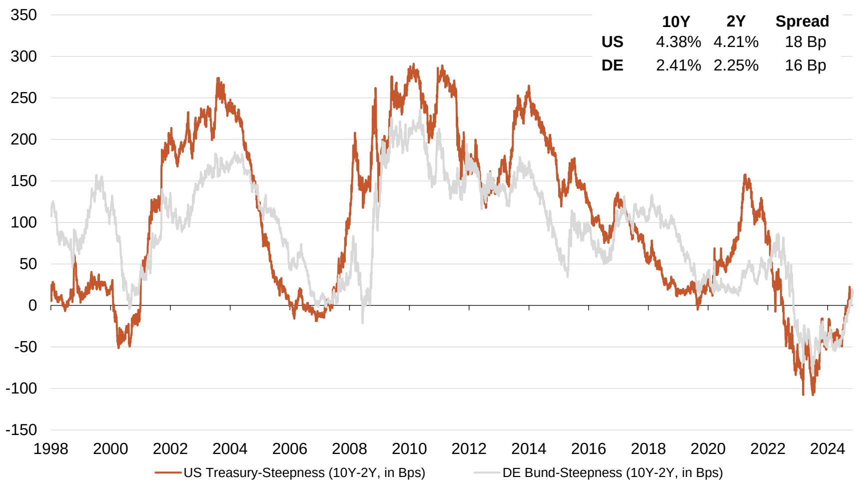
10-Year Government Bond Yields



- October was characterised by further increases in government bond yields. Yields on 10-year British government bonds rose significantly to 4.45% after the announcement of a higher deficit by Finance Minister Reeves.
- In the USA, yields on 10-year government bonds also continued their upward trend after an increase in better economic data raised concerns about more persistent inflation and fewer interest rate cuts.

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 - 01/11/2024

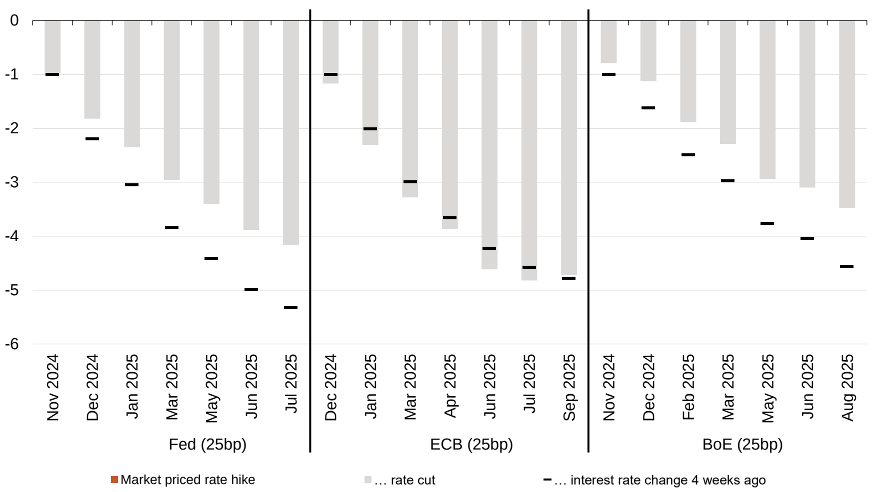
Yield Curve Steepness (10Y - 2Y)



- Robust economic data from the US, coupled with rising inflation expectations and expectations of a presidency under Trump, led to a slight steepening of the yield curve. Although the curve has only steepened slightly, the absolute level of yields is significantly higher.

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 - 01/11/2024

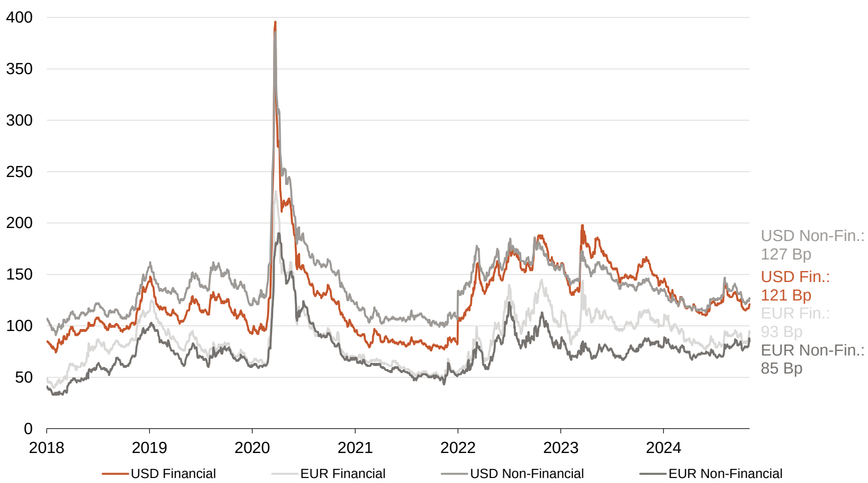
Implicit Changes in Key Interest Rates



- The expectation of moderate interest rate cuts in response to positive economic surprises is also reflected in the implied changes in key rates. While a month ago the market was still expecting the Fed to cut rates 5-6 times by the middle of next year, it now expects only about 4 rate cuts.
- The generous budget in the UK has also led to expectations of only moderate interest rate cuts by the BoE.

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 - 01/11/2024

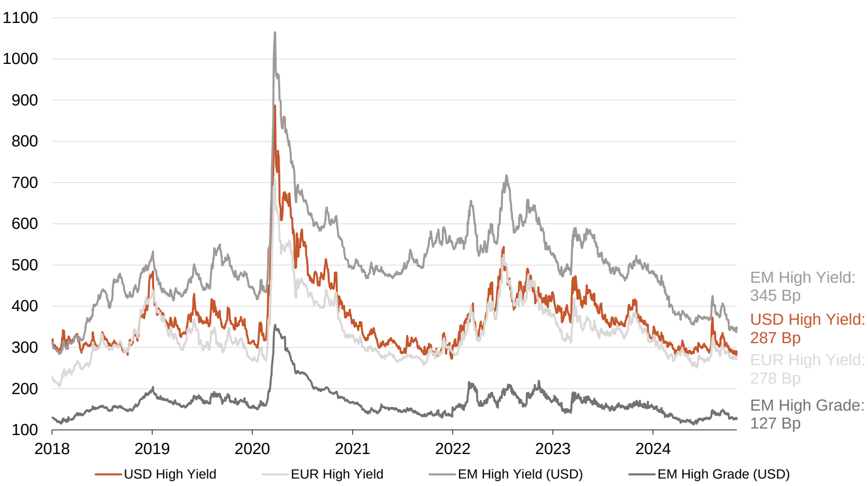
Credit Spreads Financial and Non-Financial Bonds



- Even though risk premiums for European companies have recently risen slightly, they remain at historically low levels. Spreads are also very narrow for USD corporate bonds. In addition to the low default rates, this can probably be explained by the fact that pension funds and insurance companies in particular are aiming for a minimum target return in order to service their liabilities. And since the overall interest rate (risk-free interest rate plus credit spread) is significantly higher than before Corona, they continue to demand corporate bonds despite lower spreads.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2019 – 01/11/2024

Credit Spreads High Yield and Emerging Markets Bonds



- High-yield bonds are among the strongest asset classes this year, having already performed strongly last year. This is boosting demand and leading to falling risk premiums – also due to the fact that the market has increasingly priced out a recession scenario over the last two years.

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 – 01/11/2024

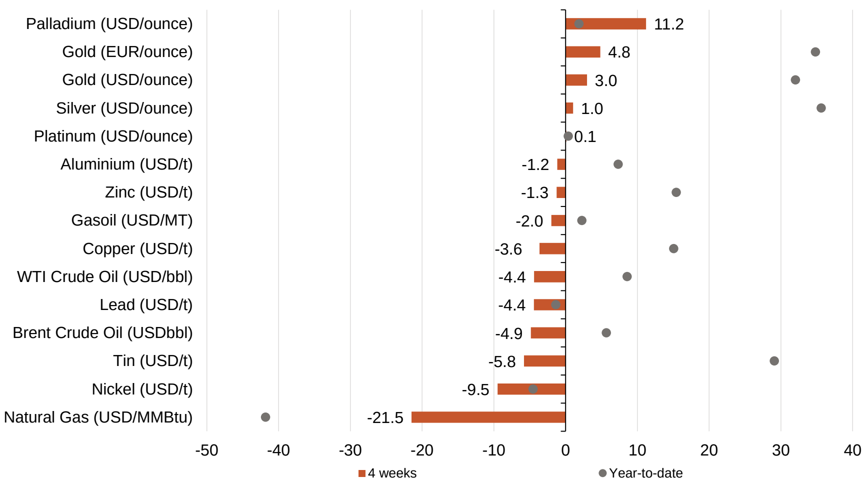
Bond Segments Overview

	Kennzahlen			Asset Swap Spread			Total Return (%, lokal)						
	Rendite (in %)	Δ-1M	Modified Duration	Spread (in Bp)	Δ-1M	10J-Perzentil	1M	YTD	01.11.23 01.11.24	01.11.22 01.11.23	01.11.21 01.11.22	01.11.20 01.11.21	01.11.19 01.11.20
EUR Government	2.84	0.29	7.1	-	-	-	-1.9	0.7	7.2	-1.9	-16.3	-3.4	3.1
Germany	2.33	0.31	7.3	-	-	-	-2.2	-0.5	5.3	-2.8	-15.5	-3.4	2.0
EUR Corporate	3.41	0.17	4.5	88	1	70	-0.5	3.7	8.7	3.9	-14.7	0.1	1.2
Financial	3.53	0.15	3.7	93	1	61	-0.3	4.3	8.8	4.3	-12.6	0.6	0.8
Non-Financial	3.33	0.19	4.9	85	1	78	-0.6	3.3	8.7	3.6	-15.8	-0.1	1.4
EUR High Yield	6.04	0.05	3.2	278	-12	18	0.5	7.4	13.5	8.7	-13.5	8.4	-0.4
US Treasury	4.35	0.61	6.1	-	-	-	-3.7	0.4	6.7	-0.1	-14.3	-2.7	7.4
USD Corporate	5.29	0.52	6.7	125	-6	34	-3.6	2.3	11.5	3.8	-18.9	2.1	7.2
Financial	5.30	0.51	5.0	121	-5	46	-2.7	3.9	11.4	4.7	-15.8	1.4	7.3
Non-Financial	5.29	0.53	7.4	127	-6	31	-3.9	1.6	11.5	3.4	-20.3	2.4	7.1
USD High Yield	7.53	0.33	3.9	287	-17	1	-0.5	7.5	16.2	6.1	-11.4	10.7	2.4
EM High Grade	5.17	0.42	5.4	127	-13	4	-2.1	4.3	11.4	5.3	-18.1	1.7	4.2
EM High Yield	7.92	0.27	4.0	345	-22	5	-0.3	11.8	19.8	12.4	-23.2	3.4	4.0

- EUR high-yield bonds have so far achieved a year-to-date return of more than 7% – i.e. a similar amount to the Euro Stoxx 50, but with significantly lower volatility. Credit spreads have narrowed accordingly and are now in the 18th percentile of the 10-year distribution.
- By contrast, no money has been earned with German government bonds this year.

ICE BofA indices in the following sequence: Euro Government; German Government; Euro Corporate; Euro Financial; Euro Non-Financial; Euro High Yield; US Treasury; US Corporate; US Financial; US Non-Financial; US High Yield; High Grade Emerging Markets Corporate Plus; High Yield Emerging Markets Corporate Plus. EM indices are hard currency bonds.
Source: FactSet, Time period: 01/11/2014 – 01/11/2024

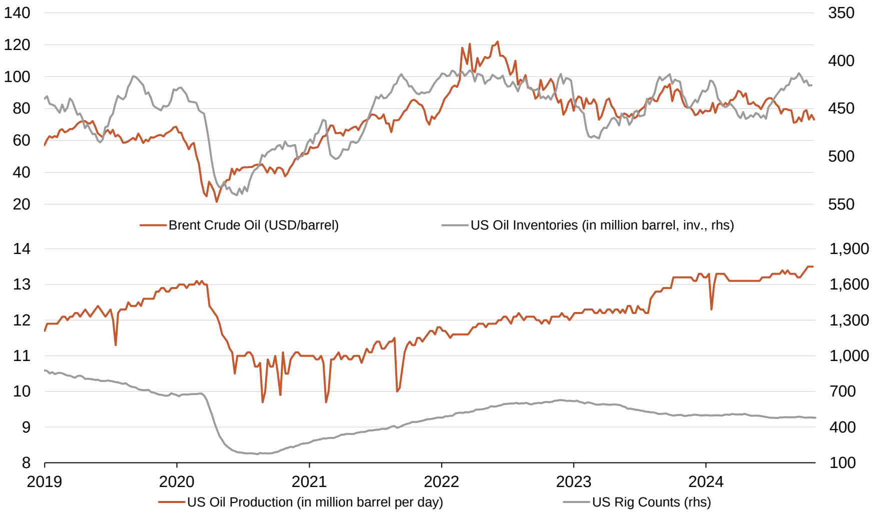
Commodities Performance



- Developments on the commodities markets over the last month have been very mixed. Precious metals were the clear winners, while industrial metals and energy commodities were on the losing side.
- Palladium performed best. The precious metal, which is mainly used in the automotive industry, benefited from the US request to other countries to impose sanctions on Russian palladium producers. Speculative investors covered short positions accordingly.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2023 - 01/11/2024

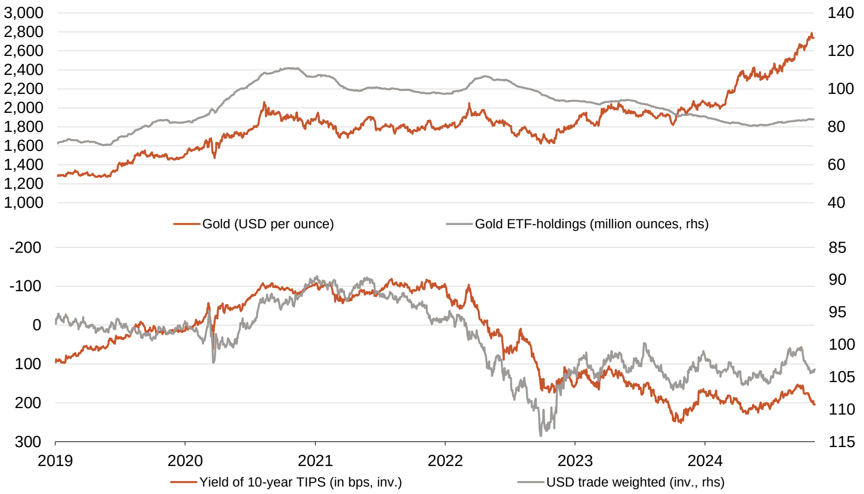
Crude Oil



- In recent weeks, the oil market has been driven by the conflict in the Middle East. After Israel limited its retaliation to military targets in response to the Iranian missile attacks, thus sparing Iran's oil infrastructure, the oil price fell towards USD 70. However, the conflict continues to simmer.
- OPEC+ recently announced that it would postpone the expansion of production, which was actually planned for December, for a second time in order to stabilise the oil price.

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 - 01/11/2024

Gold



- In recent weeks, gold has climbed from all-time high to all-time high – despite rising interest rates and a stronger US dollar.
- Recently, it has been primarily the inflows into gold ETFs that have given the precious metal a tailwind. However, the high price is now slowing demand from the Far East, as Chinese gold imports currently 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 - 01/11/2024

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