BERENBERG Markets

MONITOR

20 January 2025

Current market commentary

Hardly anyone thought it possible, but European shares have outperformed, at least temporarily. The Euro Stoxx 50 has risen by a good 7% since the beginning of December, while the S&P 500 has fallen by just under 1%. The one-sided positioning in US equities following the US elections is likely to have been the main reason for this. The consensus was very optimistic for the USA (deregulation, tax cuts) and very sceptical for the rest of the world (tariffs). However, the election promises must first be implemented. For Europe, on the other hand, there are numerous opportunities for positive surprises (Chinese stimulus, peace in Ukraine, fewer tariffs than expected, reforms). Finally, interest rates in the US have recently risen more sharply than in Europe and the US dollar has appreciated. This has improved Europe's relative competitiveness. How long the outperformance lasts is likely to depend on Donald Trump's next steps. On a P/E basis, however, there is still a lot of negativity priced in for Europe.

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

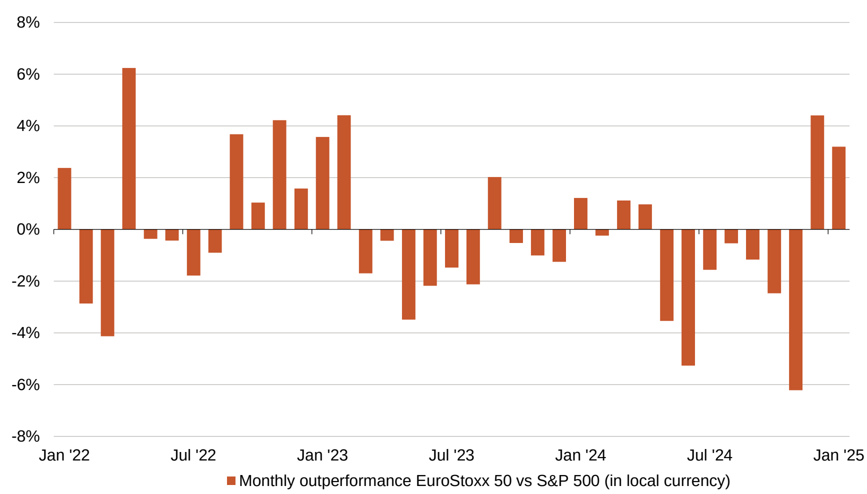
Donald Trump's inauguration and central bank meetings in the investor's eye.

The next two weeks will be politically exciting. Donald Trump's inauguration is scheduled for today in the US. The World Economic Forum will also take place in Davos from 20-24 January. On the (monetary) policy front, the Fed will hold its first meeting of the year on 29 January and the ECB on 30 January. In addition to political events, the Q4 reporting season is also upon us. Around 32% of the S&P 500 companies will report in the next two weeks.

Purchasing managers' indices and GDP figures in the market focus.

On the economic front, the German ZEW index (Jan.) is due out on Tuesday. This will be followed on Friday by the preliminary manufacturing and services PMIs (Jan.) for Germany, the US, the UK and the Eurozone. Next week's agenda includes Preliminary GDP (Q4) for the US, the Euro-Zone and Germany, Retail Sales (Dec.) and CPI (Jan.) for Germany, as well as Core Consumer Spending (Dec.) for the US.

European equities are back – at least temporarily



- Europe is back. After seven consecutive months of underperformance, the longest period since 2020, the Euro Stoxx 50 outperformed the S&P 500 by 4.4% in December. The start to the year also appears to have been more than successful, with an excess return of 3.2%.
- The strong US economy, together with higher interest rates and a stronger dollar, ultimately weighed on highly valued US equities. Cheaper European equities, on the other hand, benefited from more favourable financing conditions and the weak euro.

Source: Bloomberg, Time period: 01/01/2022 - 17/01/2025

Multi Asset

	4W (20/12/24 - 17/01/25)	YTD (31/12/24 - 17/01/25)	17/01/24 - 17/01/25	17/01/23 - 17/01/24	17/01/22 - 17/01/23	17/01/21 - 17/01/22	17/01/20 - 17/01/21
Brent	12.4	8.3	22.9	-0.6	35.8	81.6	-31.6
Industrial Metals	6.2	5.8	21.9	-19.1	5.8	39.0	7.0
Gold	4.6	3.8	42.7	4.2	10.9	5.4	7.8
MSCI Frontier Markets	3.4	2.1	16.1	7.5	-17.4	20.4	-5.1
MSCI World	3.0	2.6	29.8	15.0	-7.3	25.7	4.7
REITs	2.9	1.6	10.3	-4.8	-12.6	33.9	-18.1
Global Convertibles	2.6	3.3	19.5	4.2	-10.2	-2.4	37.0
USDEUR	1.5	0.8	5.9	-0.9	5.7	5.9	-8.2
MSCI Emerging Markets	1.4	0.3	20.9	-5.0	-10.8	0.0	10.9
Euro overnight deposit	0.2	0.1	3.7	3.4	0.1	-0.6	-0.5
EUR Coporates	-0.5	-0.3	5.5	4.1	-11.2	-1.9	2.6
EUR Sovereign Debt	-0.7	-0.4	3.1	2.2	-9.2	-2.0	1.9

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.

- The latest US sanctions against two of the largest Russian oil companies and against freighters in the Russian shadow fleet have recently supported Brent crude oil.
- The recent increase in central bank purchases, particularly by China, supported the precious metal gold and thus continued last year's upward trend.
- The continued robust US labour market and inflation concerns in the run-up to Donald Trump's inauguration and his pro-inflationary policies have recently given the US dollar a tailwind.

Total return for selected asset classes, in euros and in per-cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 17/01/2020 - 17/01/2025

Equities

	4W (20/12/24 - 17/01/25)	YTD (31/12/24 - 17/01/25)	17/01/24 - 17/01/25	17/01/23 - 17/01/24	17/01/22 - 17/01/23	17/01/21 - 17/01/22	17/01/20 - 17/01/21
Euro Stoxx 50	6.0	5.2	19.9	8.2	-0.5	21.8	-3.6
Stoxx Europe 50	5.2	3.8	13.9	5.9	4.9	23.4	-6.0
Stoxx Europe Defensives	5.2	2.9	9.1	5.2	4.9	17.0	-6.2
Stoxx Europe Cyclicals	5.2	4.3	24.5	8.0	-7.0	24.3	1.0
DAX	5.1	5.0	27.2	8.2	-4.7	15.6	1.9
MSCI USA Small Caps	4.0	3.7	27.6	4.1	-4.2	15.2	13.5
MSCI UK	3.4	1.9	19.8	1.3	3.4	26.5	-14.9
Stoxx Europe Small 200	2.7	1.7	11.1	-0.8	-15.3	17.0	4.9
S&P 500	2.7	2.7	35.6	19.8	-8.0	33.1	5.7
MSCI EM Latin America	2.5	4.5	-14.2	15.2	19.3	0.0	-20.2
MSCI EM Asia	1.0	-0.5	25.9	-8.2	-10.9	-3.6	20.3
MSCI Japan	0.6	-2.7	9.5	16.1	-8.7	5.5	7.9

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 performance of the global equity markets has been consistently positive over the past four weeks.
- European equities in particular made the strongest gains and were able to hold their own against US equities and the stronger US dollar.
- Historically high wage and salary inflation data for November in Japan and confident statements by BoJ President Ueda about an interest rate hike after the regular meeting in January have recently weighed on Japanese equities.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 17/01/2020 - 17/01/2025

Fixed Income

	4W (20/12/24 - 17/01/25)	YTD (31/12/24 - 17/01/25)	17/01/24 - 17/01/25	17/01/23 - 17/01/24	17/01/22 - 17/01/23	17/01/21 - 17/01/22	17/01/20 - 17/01/21
USD High Yield	2.5	1.6	16.4	6.3	-0.7	9.4	-4.2
EM Hard Currency Bonds	1.2	0.9	14.7	5.7	-8.1	2.5	-5.7
USD Corporates	1.2	0.5	8.3	2.5	-6.8	2.9	-0.2
Treasuries	0.9	0.5	7.2	0.2	-3.6	2.6	-2.4
Chinese Sovereign Bonds	0.5	0.3	9.1	5.4	3.1	5.7	2.7
EM Local Currency Bonds	0.3	0.5	5.4	5.5	-3.4	-2.1	-6.4
EUR High Yield	0.0	-0.1	8.6	8.9	-8.9	2.8	2.6
EUR Financials	-0.3	-0.2	6.4	5.0	-10.8	-1.4	2.2
EUR Non-Financials	-0.6	-0.4	4.9	3.4	-11.5	-2.3	2.8
BTPs	-0.9	-0.5	5.9	3.5	-12.9	-3.3	7.4
Bunds	-1.4	-1.0	1.2	0.3	-14.3	-3.3	2.5
Gilts	-2.6	-2.4	1.1	-0.8	-24.9	-0.1	0.6

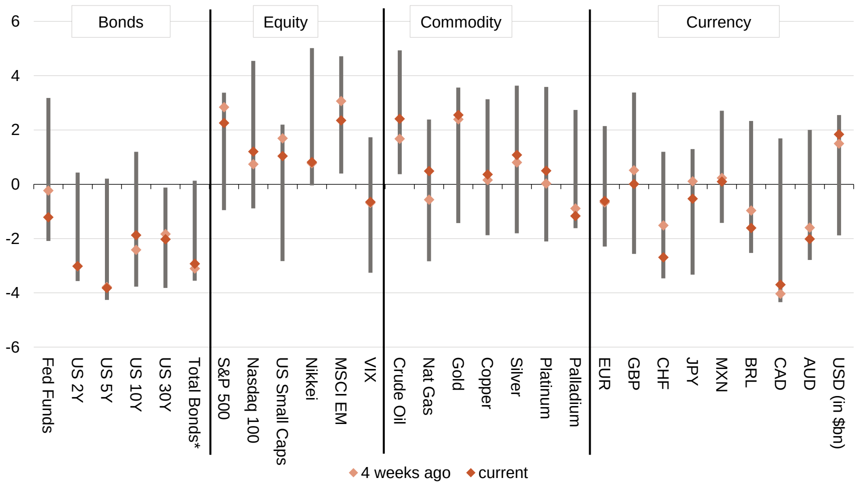
4-week & YTD; 12-month periods over that last 5 years

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

- The bond markets have performed unevenly over the last four weeks.
- In the last four weeks, the stronger US dollar has helped the performance of USD corporate and high-yield bonds, US government bonds and emerging market bonds denominated in hard currency when calculated in EUR.
- British government bonds have come under pressure in the last four weeks due to renewed concerns about rising inflation expectations.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 17/01/2020 - 17/01/2025

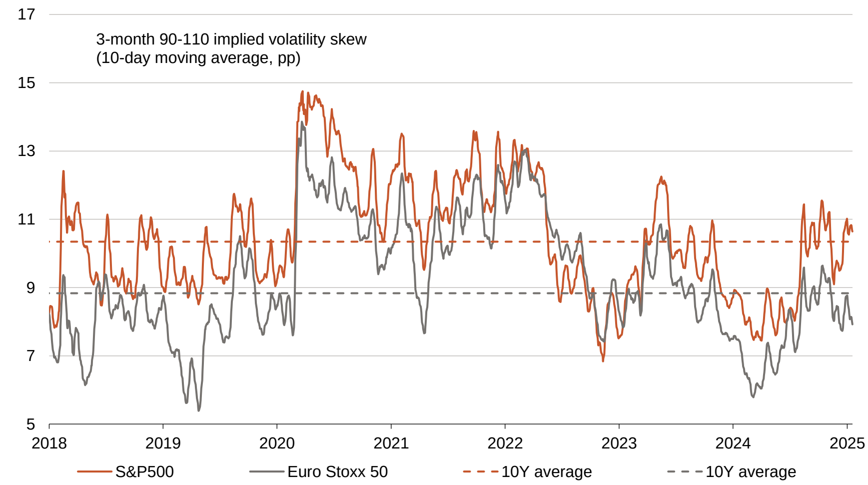
Non-Commercial Positioning



- Speculative investors reduced their holdings in US equities last month – both the broad market and technology stocks, as well as small caps.
- With regard to crude oil and gas, hedge funds have recently increased their long positions significantly due to the new US sanctions and the colder weather.

The Commodity Futures Trading Commission (CFTC) publishes the Commitments of Traders report every Friday. The chart shows the historical, normalised distribution in standard deviations and focuses on the net futures position (long positions minus short positions) of "non-commercial traders" (bonds, currencies), "asset managers/institutional" & "leveraged funds" (equities) and "managed money" (commodities) and shows how speculative investors are positioned. *Weighted with the respective duration
Source: Bloomberg, CFTC, Time period: 14/01/2015 - 14/01/2025

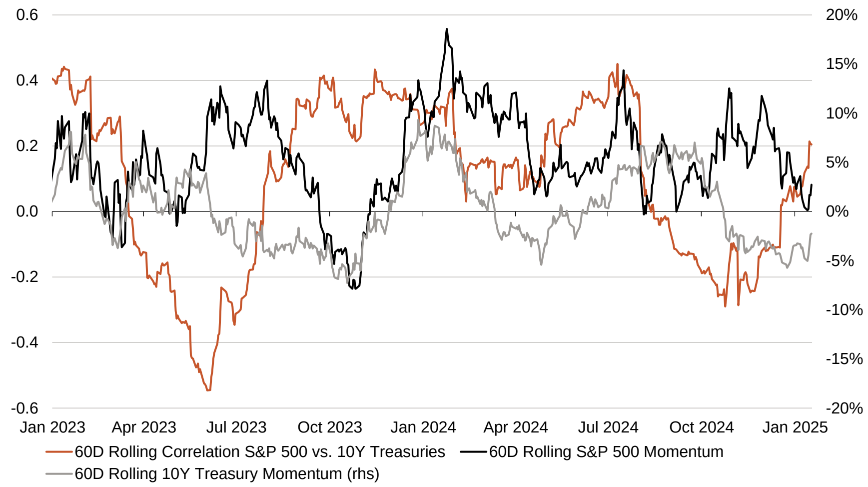
Put-Call-Skew



- While the put-call skew in the US is at a slightly above-average level, it has stabilised at a slightly below-average level in Europe in recent weeks.
- The flat skew of the Euro Stoxx 50 suggests that investors were increasingly keen to participate in the upward movement of European markets.

The put-call skew (90-110) indicates the difference in implied volatility of puts versus calls whose strike is 10% away from the current underlying in each case. It is a measure of how much more investors are willing to pay for hedging (puts) versus upside participation (calls). The higher (lower) the skew, the more cautious (optimistic) market participants are. Moreover, the skew typically increases with the level of implied volatility.
Source: Bloomberg, period: 17/01/2015 – 17/01/2025

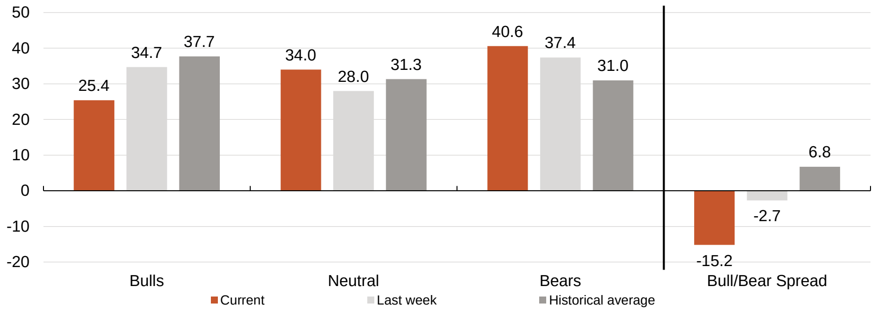
60-Day Momentum and Correlation

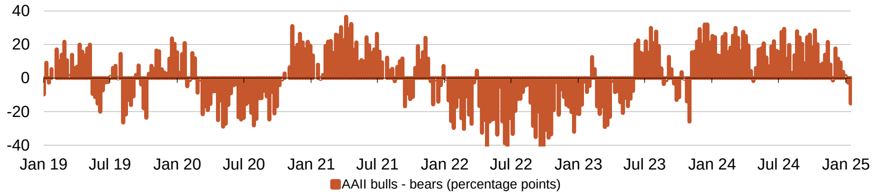


- The correlation between equities and bonds has been in positive territory since the end of last year and has recently risen further.
- The momentum of the S&P 500 has slowed in recent weeks, but remained in positive territory, so CTAs US equities should remain long.

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: 31/12/2022 – 17/01/2025

AAII Sentiment Survey (Bulls vs Bears)

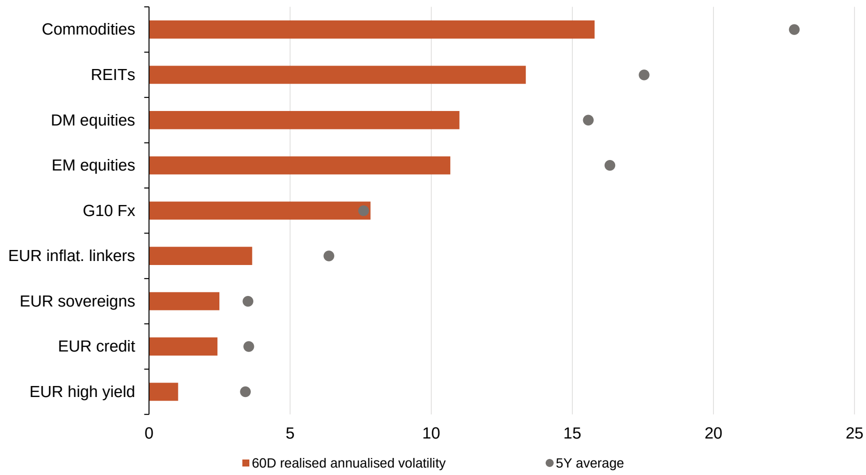




- The longstanding optimism of US private investors seems to have suddenly evaporated in the new year.
- The bull/bear spread recently fell to -15 pp, its lowest level since November 2023. Apart from the recent stagnation in US equity markets, there is no good fundamental explanation for this change in sentiment.

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 – 17/01/2025

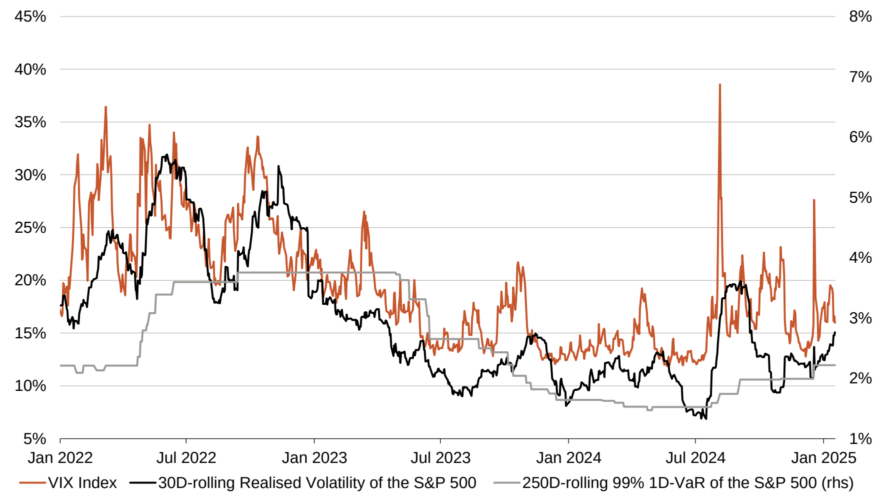
Realised Volatilities



- Realised volatilities are broadly unchanged from two weeks ago.
- Within bonds, government bonds, which are often perceived as "safe", remain the most volatile asset class due to their longer duration and thus higher interest rate sensitivity.
- Contrary to the medium-term average, the 60T volatility of emerging market equities is currently lower than that of developed market equities.

The realised volatility (in per cent) measures the fluctuation range of a time series and is defined here as the standard deviation of the daily return over the last 60 trading days. Volatility is often used as a measure of risk.
Source: Bloomberg, period: 17/01/2020 - 17/01/2025

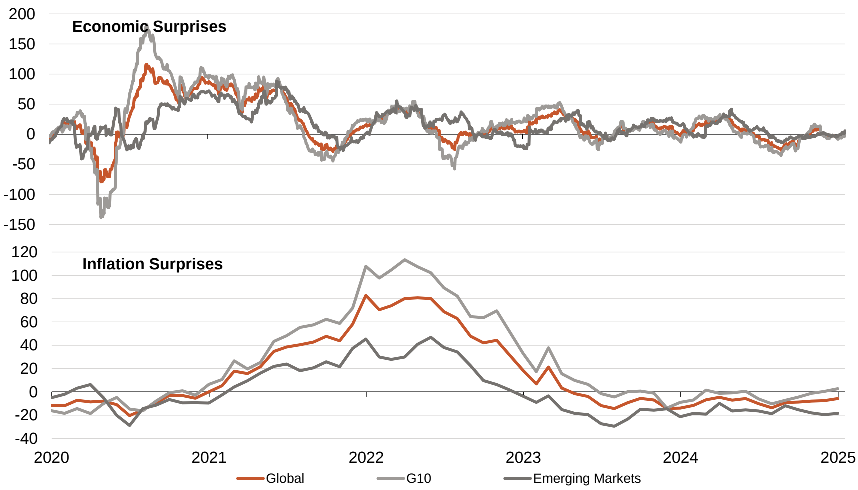
Volatility and Value-at-Risk of the S&P 500



- The VIX has recently fallen back towards 15, while realised 30T volatility has risen towards 15.
- Accordingly, the volatility premium is currently very low, even though Trump's inauguration is imminent and the US reporting season is entering the hot phase.

The VIX index is a measure of the implied volatility of the S&P 500 priced in options over approximately the next 30 days. Realised volatility indicates the range of variation in daily returns. The historical 99% value-at-risk indicates the minimum loss of the days that belong to the worst 1% of the observation period. The higher (lower) the VIX, realised volatility and value-at-risk, the fewer (more) stocks demand risk-based investment strategies.
Source: Bloomberg, period: 31/12/2021 – 17/01/2025

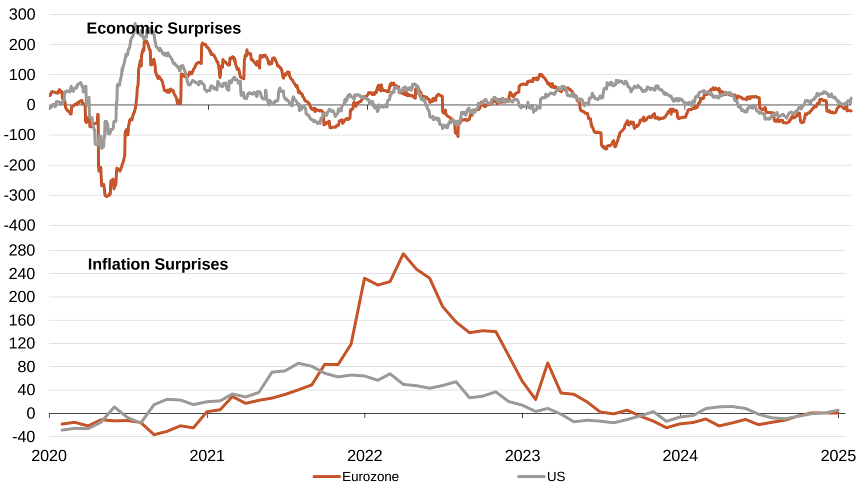
Global



- In the last two weeks, economic surprises have improved in both industrialised and emerging markets.
- In Canada, the unemployment rate in December was below expectations, while retail sales in Australia surprised slightly to the downside in November.
- In Brazil and India, inflation rates surprised slightly downwards in December, while industrial production in India exceeded expectations in November.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 - 17/01/2025

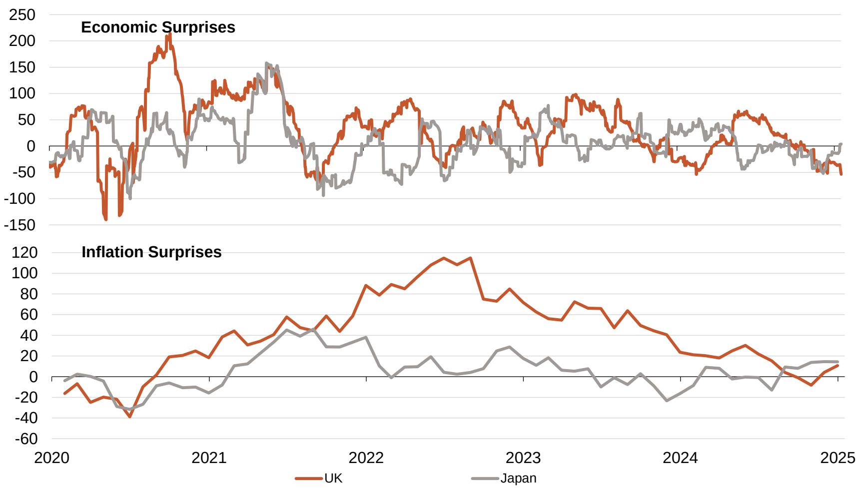
Eurozone and US



- While the economic surprises in the US turned clearly positive in the last two weeks, they were increasingly negative in the eurozone.
- In the eurozone, the unemployment rate and industrial production in November were in line with expectations, while industrial confidence in December surprised to the downside.
- In the USA, employment figures in December and wholesale sales in November surprised to the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 - 17/01/2025

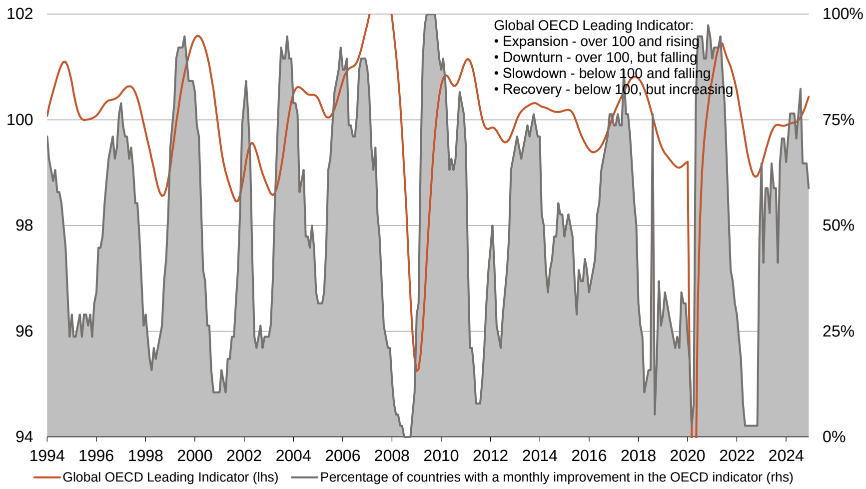
UK and Japan



- In the UK, the inflation rate in December and industrial production in November surprised to the downside.
- In Japan, producer price inflation in December was in line with expectations.

The Citigroup Economic Surprise Indices are defined as weighted historical normalised data surprises (actual releases vs. Bloomberg survey median) over the past three months. A positive value of the index indicates that, on balance, economic data have outperformed consensus. The indices are calculated daily in a rolling three-month window. The indices use a time decay function to replicate the markets' limited memory, i.e. the weight of a data surprise decreases over time.
Source: Bloomberg, Time period: 01/01/2019 - 17/01/2025

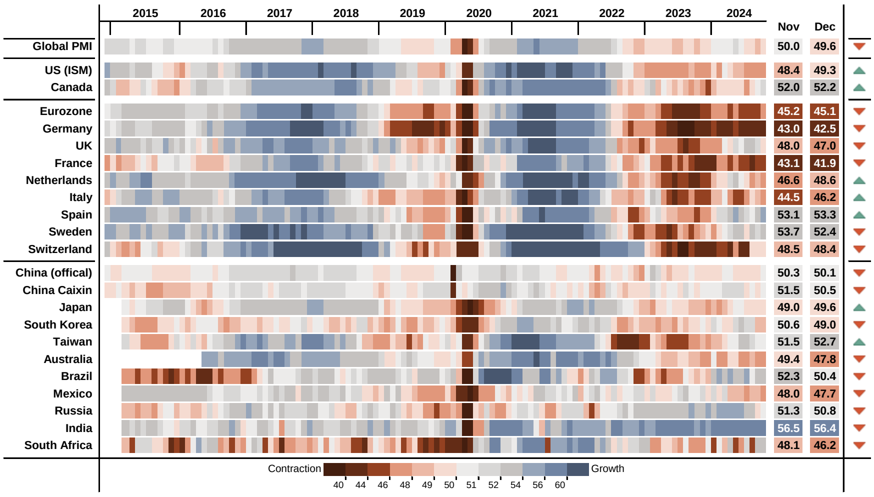
OECD Leading Indicator



- The global economy continues to expand. At 100.4, the revised OECD leading indicator was above the 100 mark for the fifth time in a row in December.
- According to the revised leading indicator, the economic situation in October improved in 59% of the countries included compared to the previous month, with Turkey and Canada recording the strongest increase and Brazil 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 – 17/01/2025

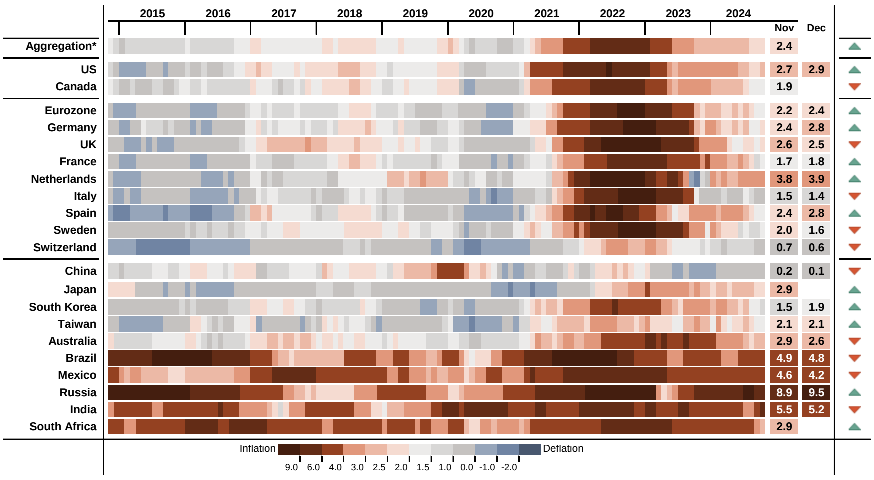
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global Purchasing Managers' Index showed a slight decline in industrial activity in December compared to the previous month. In the eurozone, the PMI value remained well below the 50 mark last month, while the PMI indices for Canada and China pointed to a slight increase in industrial activity.

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: 01/01/2015 – 17/01/2025

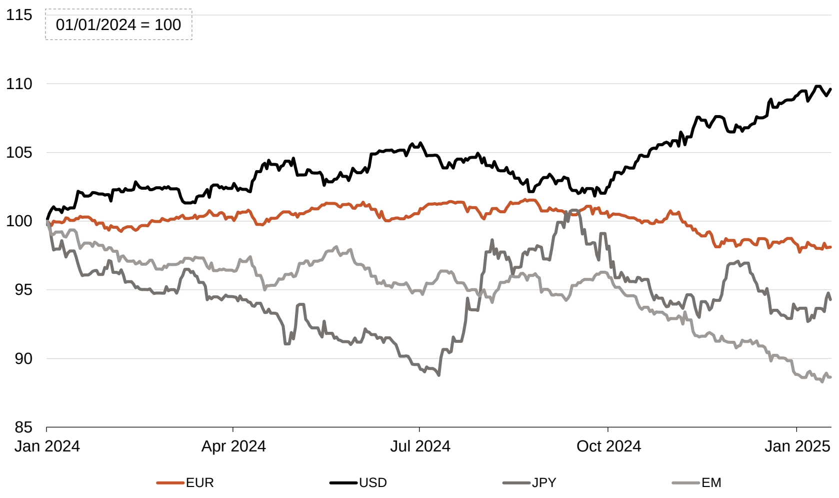
Headline Inflation



- The inflation data for December showed regional differences. While the annual inflation rate in China continued to fall in December compared to the previous month, fuelling fears of deflation, it rose month-on-month in the USA. In Germany, the service sector in particular drove up the inflation rate in December in a month-on-month comparison.

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: 01/01/2015 – 17/01/2025

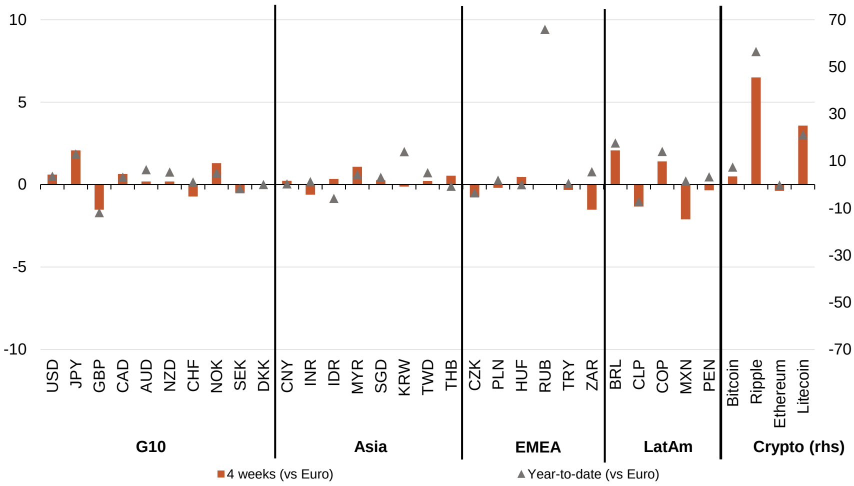
Trade-Weighted Currency Development



- The surprisingly good US labour market data for December supported the US dollar in the first few weeks of the new year. The trade-weighted currency index remained close to its two-year high.
- Higher-than-expected wage and salary data for December and hawkish comments from BoJ President Ueda boosted investors' hopes of a rate hike in January and gave the Japanese yen a tailwind.

A trade-weighted index is used to measure the effective value of an exchange rate against a basket of currencies. The importance of other currencies depends on the share of trade with the country or currency zone.
Source: Bloomberg, Time period: 01/01/2023 - 17/01/2025

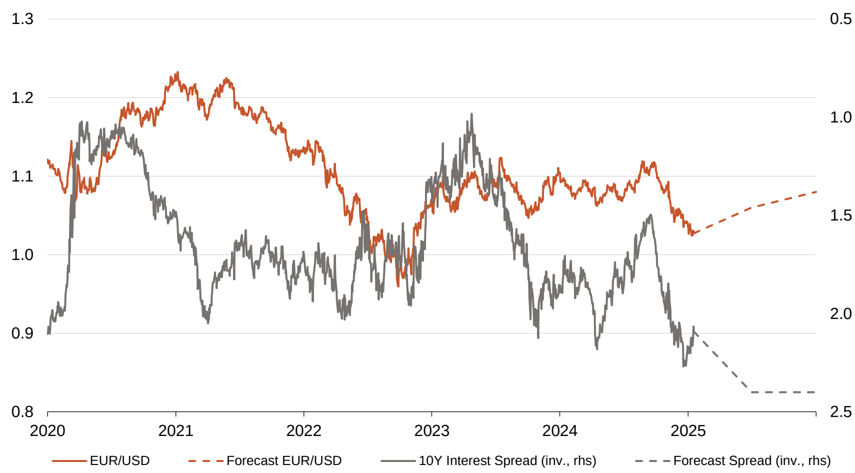
Currency Moves vs Euro



- Lower than expected consumer price inflation in December and negative surprises in industrial production and GDP growth in November increased investors' hopes of interest rate cuts by the BoE, which recently weighed on the pound sterling.
- The surprisingly low inflation rate in the Czech Republic in December and subsequent comments by the deputy central bank governor about the increased likelihood of an interest rate cut recently weighed on the Czech koruna.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2023 - 17/01/2025

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



- The still robust US labour market and stubborn inflation in the US almost completely rule out an interest rate cut by the Fed at the next meeting. The weak economic situation in the eurozone, on the other hand, gives the ECB leeway for the next rate cut after the regular meeting on 30 January. The EURUSD exchange rate recently traded below the 1.03 mark.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US government bonds and 10-year Bunds. The forecasts were prepared by Berenberg Economics.
Source: Bloomberg, Time period: 01/01/2019 - 31/12/2025

European Sector & Style Performance

	4-week & YTD: 4W (20/12/24 - 17/01/25)	4-week & YTD: YTD (30/12/23 - 17/01/25)	17/01/24 17/01/25	17/01/23 17/01/24	17/01/22 17/01/23	17/01/21 17/01/22	17/01/20 17/01/21
Energy	11.7	2.6	7.9	0.9	24.4	38.2	-27.8
Information Technology	7.5	21.2	24.7	15.2	-14.0	26.1	10.9
Finance	6.5	31.4	34.6	9.4	-1.6	33.2	-12.9
Value	4.8	14.8	17.1	6.1	0.4	23.6	-10.4
Industrials	4.1	19.3	22.0	14.4	-6.5	21.1	4.0
Growth	4.1	9.6	12.3	4.6	-5.6	19.9	3.3
Materials	4.1	0.6	7.7	-3.0	-4.3	22.5	15.2
Consumer Discretionary	3.7	6.9	14.2	-4.4	-4.7	22.8	2.6
Telecommunications	3.3	18.5	16.6	8.2	-5.3	11.1	-12.4
Health Care	3.2	5.1	2.5	7.4	3.2	16.2	-2.4
Utilities	2.7	2.0	4.2	6.4	-2.4	3.0	9.4
Consumer Staples	-0.4	-3.2	-2.5	-3.9	-2.0	19.1	-6.7

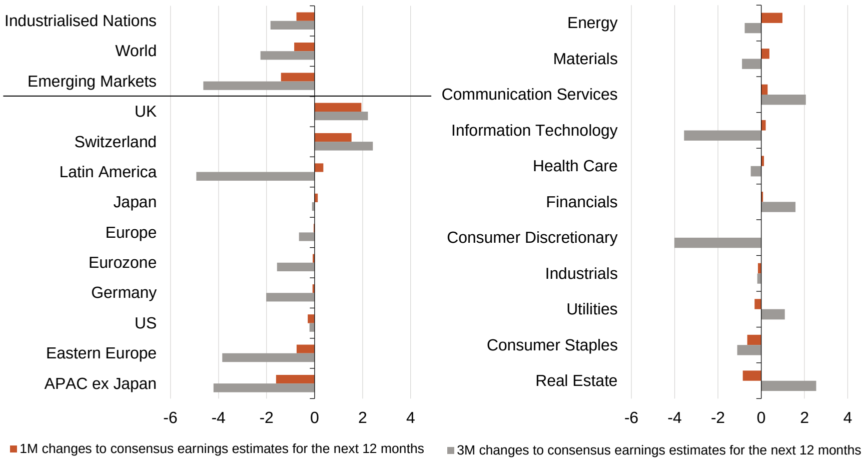
12-month periods over that last 5 years

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 past four weeks, European energy stocks have benefited from the recent rise in oil prices as a result of new US sanctions on Russian oil companies and cargo ships.
- In addition to technology companies, banks have also rallied on the back of solid Q4 results from overseas.
- Overall, equity markets have been broad-based recently. With the exception of consumer staples, all European sectors have been positive since the beginning of the year.

Total return of European equity sectors and European style indies, in euros and in percent, sorted by 4-week performance. The difference between Value and Growth lies in the valuation. A growth stock is highly valued because the company is expected to grow strongly. Value stocks usually have less growth potential and are valued lower.
Source: Factset, Time period: 17/01/2019 - 17/01/2025

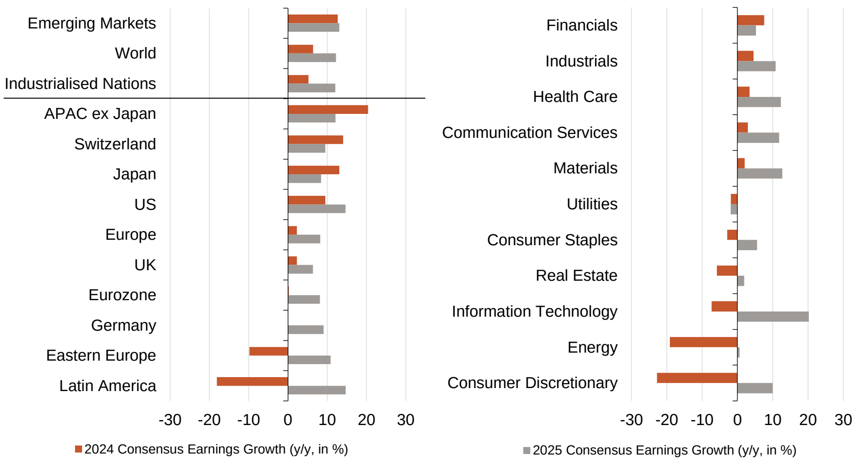
Changes in Consensus Earnings Estimates



- At the start of the fourth-quarter reporting season, analysts have become more pessimistic.
- As has been the case over the past three months, they have made negative earnings revisions over the past month, particularly for the Asia ex-Japan region.
- At the sector level, they are more optimistic, especially for the energy sector, thanks to the significant rise in oil prices over the past four weeks.

1-month and 3-month changes in consensus earnings estimates for the next 12 months of the regional and Europe sector MSCI indices, in per cent.
Source: FactSet, as of 17/01/2025

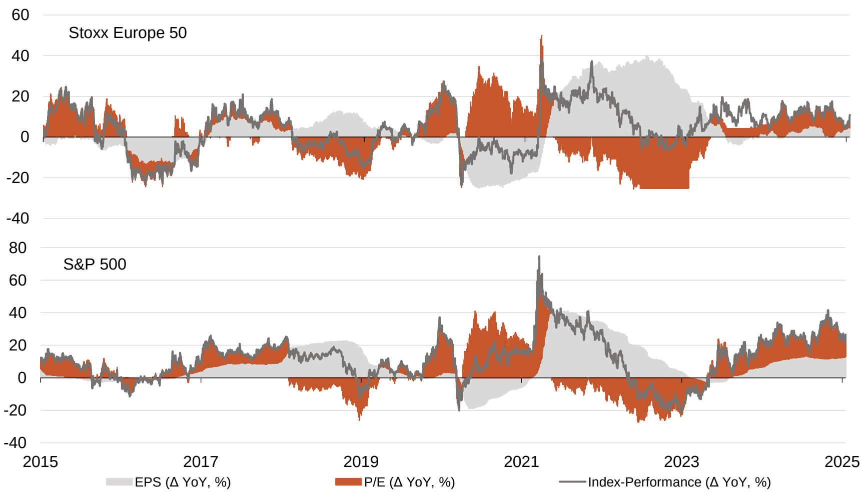
Earnings Growth



- For 2025, analysts are more positive for both the US and Europe.
- While they still expect annual earnings growth of 9.5% and 2.3% for the US and Europe respectively in 2024, this rises to 14.7% and 8.2% 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 17/01/2025

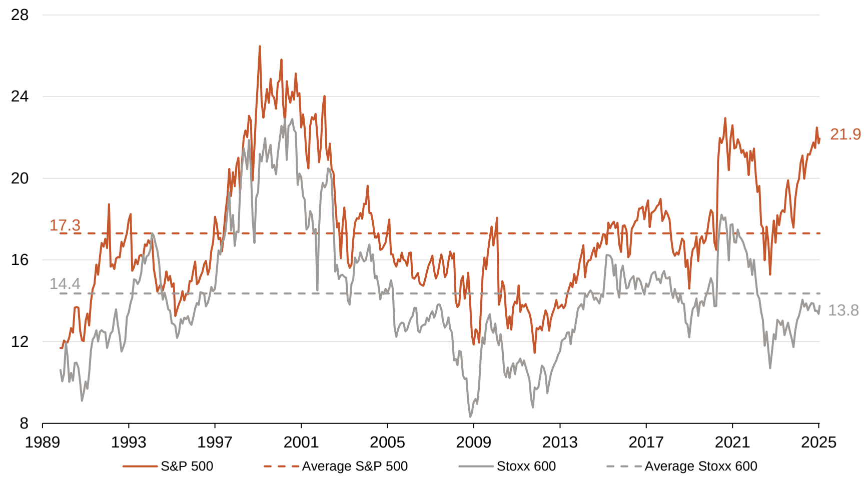
Contribution Analysis



- Over the past 12 months, the EuroStoxx 50 has again been driven more by year-on-year corporate earnings growth (EPS).
- Over the past 12 months, the S&P 500 has been driven almost equally by rising corporate earnings (EPS) and solid valuation expansion (P/E).

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: 01/01/2015 - 17/01/2025

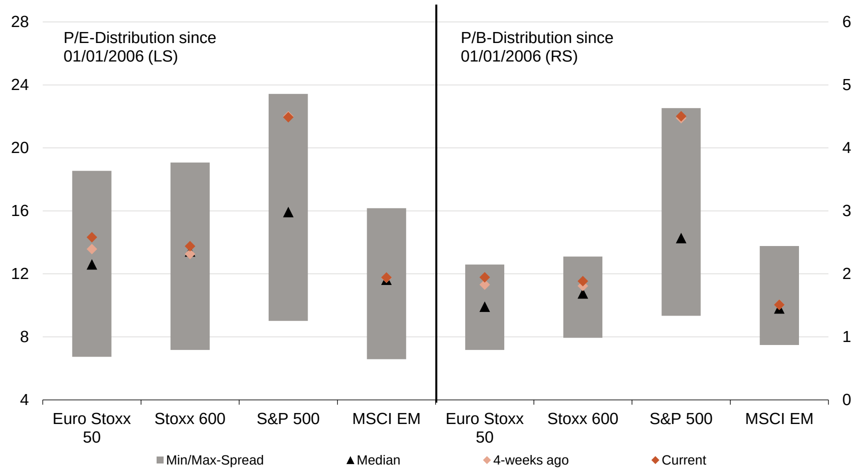
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The valuation gap between US and European equities remains significantly wide, but has narrowed slightly recently.
- While the P/E ratio in the US has fallen slightly from 22.5 four weeks ago to 21.9, valuation levels in Europe remain broadly unchanged below their long-term average.

P/E valuation based on earnings estimates for the next twelve months of European and US equities as well as the respective P/E average since 1988. *For the Stoxx 600, the history before 2000 was taken from MSCI Europe.
Source: Bloomberg, Factset, Time period: 31/12/1987 - 17/01/2025

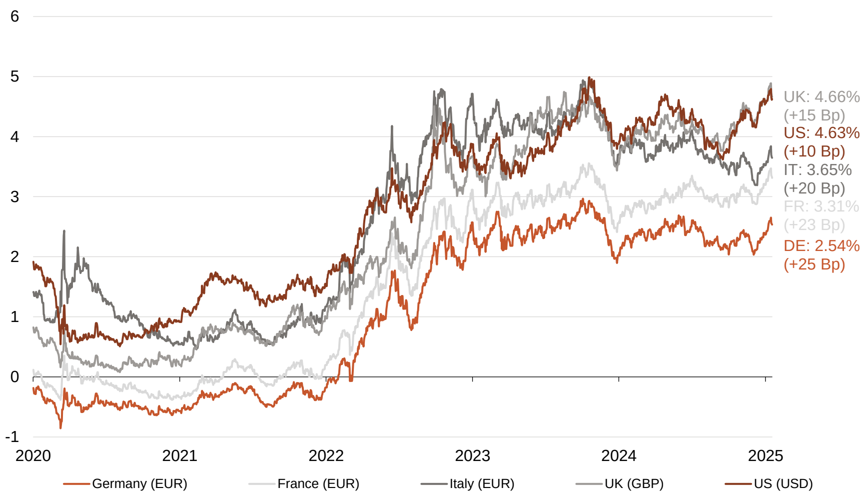
Historical Distribution: Price/Earnings and Price/Book Ratio



- US equities started the year at the upper end of their historical valuation range on a price-to-earnings basis.
- While emerging market P/Es are moving towards the median, showing a slight tightening of valuations, European equity valuations are widening slightly.

Historical distribution of valuation ratios for selected equity regions since 2006. In addition to the current value, the observation four weeks ago and the historical median, the maximum (upper limit of the grey bar) and minimum (lower limit of the grey bar) are shown.
Source: Bloomberg, Time period: 01/01/2006 - 17/01/2025

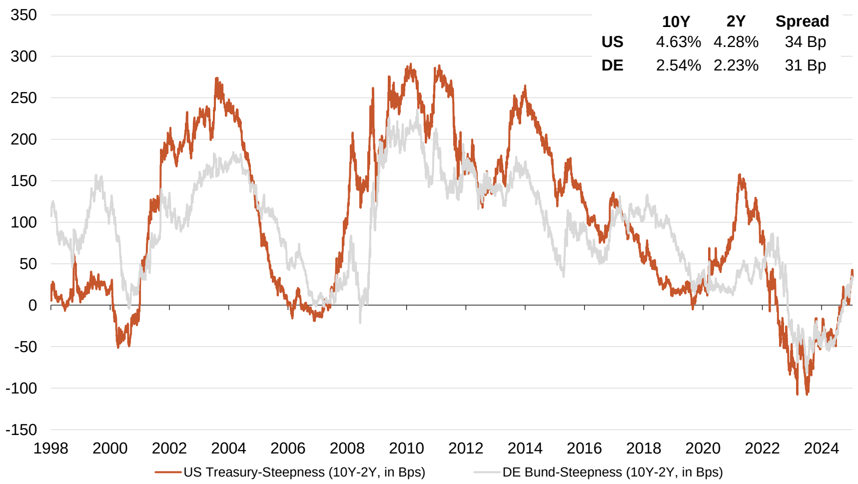
10-Year Government Bond Yields



- US and European government bond yields initially rose sharply over the past four weeks, but then fell just as quickly.
- Fears of more persistent inflation (fuelled by concerns about trade conflicts and rising public debt) initially pushed up long-term US government bond yields. However, December's core inflation rate came in slightly below consensus, ultimately helping to allay some of the inflation fears.

Effective yield on 10-year government bonds and change over the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2019 – 17/01/2025

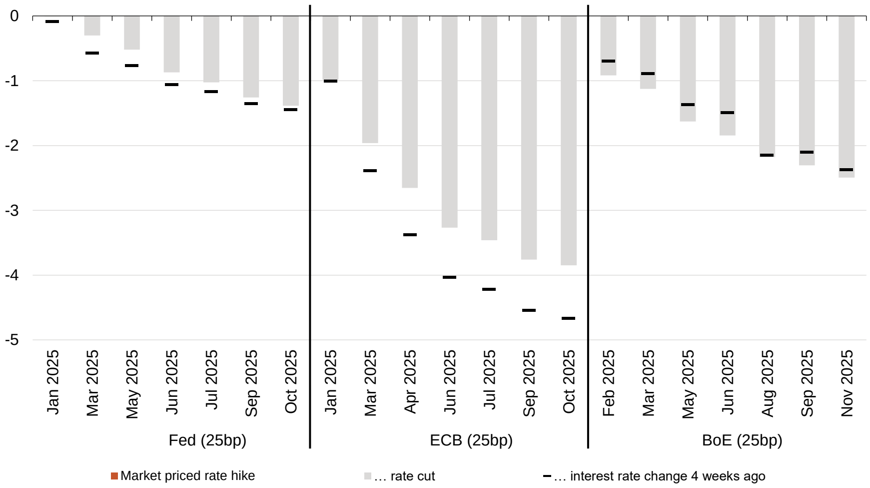
Yield Curve Steepness (10Y - 2Y)



- Over the past two weeks, yields at the long end have risen more sharply than those at the short end.
- The spread between two-year and ten-year US government bonds widened from 31 to 34 basis points. Prior to last week's release of US inflation data, the spread had even exceeded 40 basis points.

The yield curve distinguishes between the so-called short end and the long end. The reason for this is the way in which factors influence yields. Central banks control the short end of the curve through their monetary policy and key interest rates. In contrast, the long end is influenced less by central banks and more by inflation expectations, supply, demand and risk premiums.
Source: Bloomberg, Time period: 01/01/1998 – 17/01/2025

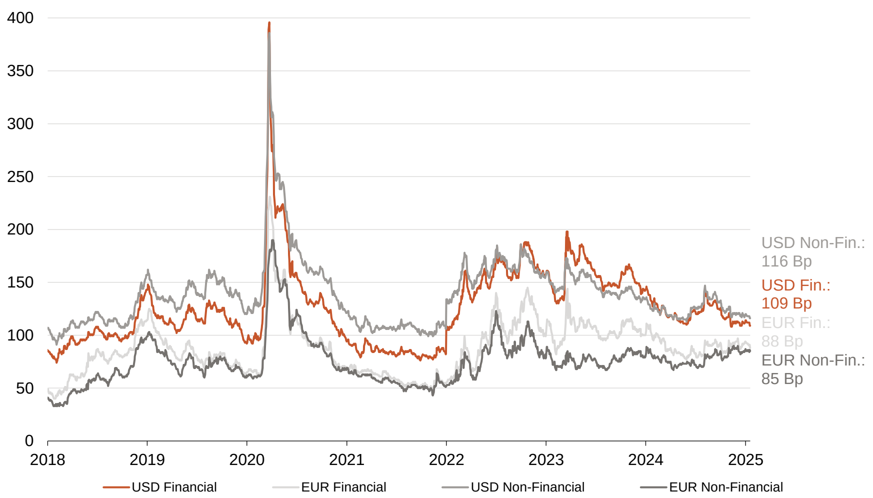
Implicit Changes in Key Interest Rates



- Even though the headline inflation rate in the US came in higher than expected in December due to higher energy and food prices, the cooler core inflation rate (excluding food and energy) helped to calm the market's inflation fears, thus consolidating renewed hopes for a rate cut. The market is currently pricing in a 25 basis point rate cut in July 2025 at 100%. Before the inflation data, it was only just below 80%.

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: 17/12/2024 - 17/01/2025

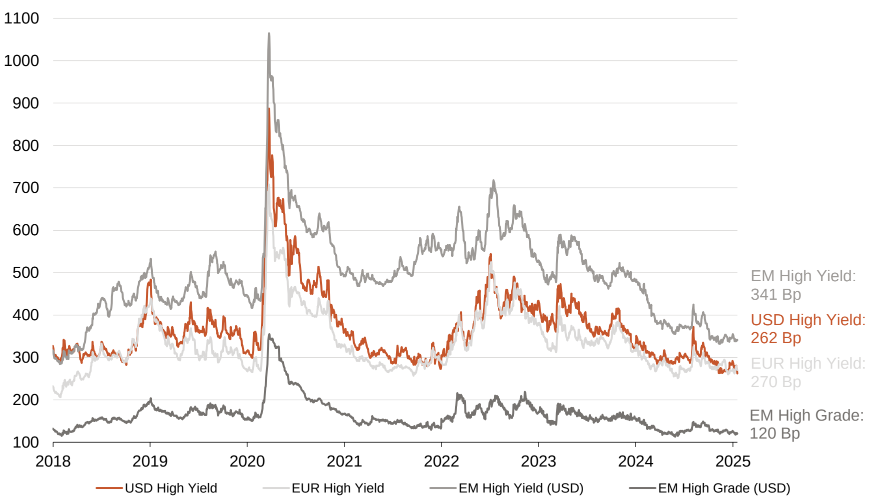
Credit Spreads Financial and Non-Financial Bonds



- Over the past two weeks, spreads on USD and EUR IG corporate bonds have narrowed slightly.
- Spreads on USD financial and USD non-financial bonds narrowed by 5 and 4 basis points respectively. EUR financial bonds showed a similar picture with a narrowing of 5 basis points, while EUR non-financial bonds saw only a marginal narrowing of spreads of just 1 basis point.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2019 – 17/01/2025

Credit Spreads High Yield and Emerging Markets Bonds



- The strongest spread movement over the last two weeks has been seen in USD high yield bonds, where risk premiums have tightened by 24 basis points.
- Emerging market bond spreads have moved even closer to their historic lows as spreads have tightened again over the last two weeks.

How high the risk associated with the corporate bond is shown by its asset swap spread (in bp). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term as compensation for its credit risk. See further explanation below.
Source: FactSet, Time period: 01/01/2019 – 17/01/2025

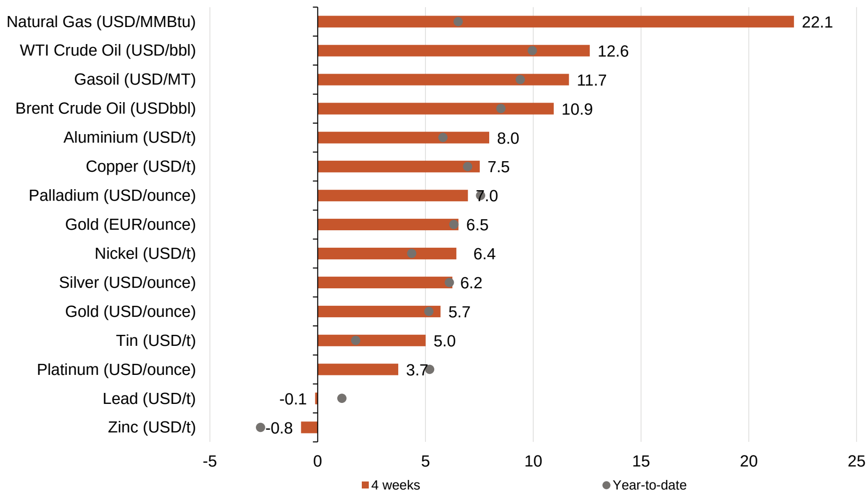
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	17/01/24 17/01/25	17/01/23 17/01/24	17/01/22 17/01/23	17/01/21 17/01/22	17/01/20 17/01/21
EUR Government	2.85	0.23	7.0	-	-	-	-1.6	-0.7	2.7	1.4	-14.7	-3.9	4.5
Germany	2.38	0.24	7.1	-	-	-	-1.8	-1.0	1.3	0.3	-14.4	-3.3	2.5
EUR Corporate	3.37	0.20	4.4	86	1	64	-0.7	-0.3	5.6	4.1	-11.2	-1.8	2.5
Financial	3.46	0.17	3.6	88	-1	50	-0.5	-0.2	6.3	4.6	-9.6	-1.1	2.0
Non-Financial	3.32	0.22	4.8	85	2	77	-0.9	-0.4	5.2	3.8	-12.0	-2.2	2.7
EUR High Yield	5.95	0.17	3.1	270	7	14	-0.2	-0.1	8.6	8.9	-8.9	2.8	2.6
US Treasury	4.50	0.14	5.9	-	-	-	-0.8	0.0	1.6	0.4	-9.3	-3.0	6.5
USD Corporate	5.41	0.18	6.5	114	-1	21	-1.1	0.0	3.7	4.0	-10.9	-2.0	7.8
Financial	5.37	0.14	4.9	109	0	28	-0.7	0.1	5.2	4.8	-8.9	-1.8	7.7
Non-Financial	5.43	0.20	7.2	116	-1	19	-1.3	-0.1	3.0	3.6	-11.7	-2.0	7.9
USD High Yield	7.45	0.03	3.8	262	-11	0	0.4	0.9	10.0	8.3	-7.0	4.2	5.8
EM High Grade	5.33	0.13	5.2	120	-3	1	-0.7	0.0	5.0	4.5	-11.5	-0.8	4.3
EM High Yield	8.07	0.18	3.9	341	0	5	0.0	0.5	12.7	6.3	-9.8	-6.2	6.7

- USD high yield has been one of the strongest bond segments, up 0.9% in USD terms since the start of the year, after a strong performance in 2024. This increases demand and leads to falling risk premiums, also thanks to the greater pricing out of economic risks.

ICE BofA indices in the following sequence: Euro Government; German Government; Euro Corporate; Euro Financial; Euro Non-Financial; Euro High Yield; US Treasury; US Corporate; US Financial; US Non-Financial; US High Yield; High Grade Emerging Markets Corporate Plus; High Yield Emerging Markets Corporate Plus. EM indices are hard currency bonds.
Source: FactSet, Time period: 17/01/2015 – 17/01/2025

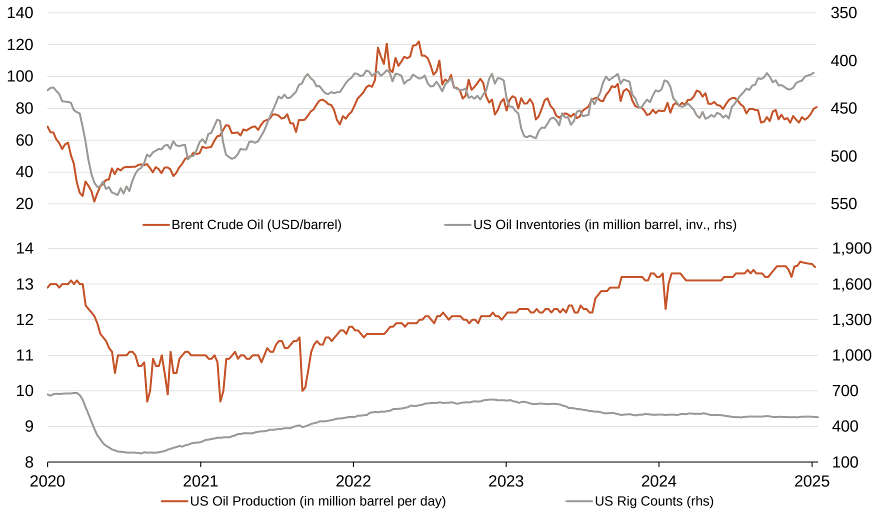
Commodities Performance



- Since the beginning of the year and in recent months, almost all the commodities shown here have performed well.
- Energy commodities have been particularly strong, especially US natural gas, which has benefited from the unusually cold weather.
- Copper has also had a good start to the year, thanks in part to strong imports from China.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 14/12/2024 - 17/01/2025

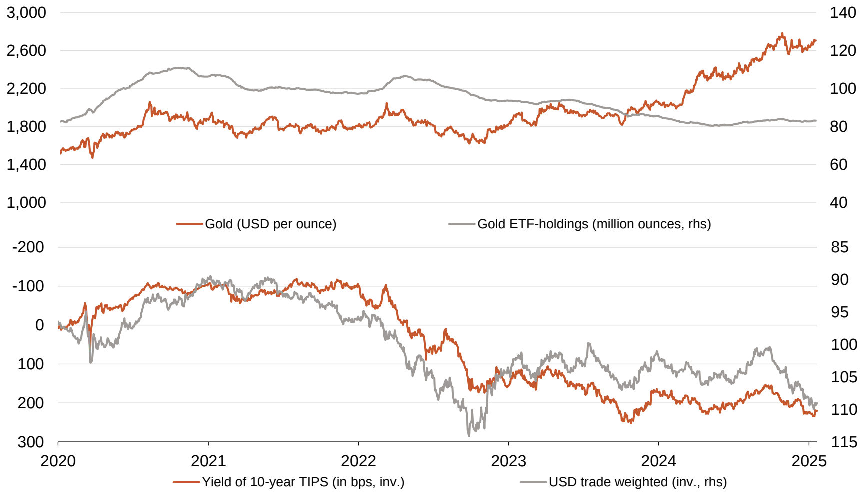
Crude Oil



- Oil prices have been on an upward trend for around five weeks. Last week, Brent crude temporarily reached its highest level in more than four months at USD 82 per barrel.
- Expectations of an oversupplied oil market this year have given way to fears of an imminent supply shortage. The main driver is the tightening of US sanctions on the Russian oil sector, in particular the doubling of the number of sanctioned oil tankers to 270.

Higher oil production and higher inventories tend to weigh on oil prices and vice versa. An increase in active oil wells indicates higher oil production in the future.
Source: Bloomberg, Time period: 01/01/2019 - 17/01/2025

Gold



- The US employment data had only a temporary negative impact on the gold price in early January, as real interest rates fell again in line with lower than expected US inflation, allowing gold to continue to rise despite the strong US dollar and even reach new all-time highs in euro terms.
- ETF holdings rose by almost 500,000 ounces in January.

The US dollar and the real, i.e. inflation-adjusted, interest rate are among the fundamental price factors of the gold price. Rising real interest rates tend to weigh on the gold price, while falling real interest rates have a supportive effect. The same applies to the US dollar. The development of gold ETF holdings reflects financial investors' demand for gold.
Source: Bloomberg, Time period: 01/01/2019 - 17/01/2025

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