BERENBERG *Markets*

MONITOR

21 October 2024

Current market commentary

Donald Trump has recently seen a significant increase in the polls in the swing states and is now considered the favourite for the office of US President. The betting markets even price in a 60 per cent probability of victory for Trump. Accordingly, the 'Trump trades' have recently gained. US banks, also supported by strong Q3 reports, US small caps, the US dollar and Bitcoin have all risen significantly. It is widely expected that smaller companies in particular, whose business is limited to the US market, should benefit from Trump's programme of deregulation and protectionism. By contrast, other equity regions such as Europe and China have recently lagged relatively behind. Gold prices reached a new all-time high despite a stronger US dollar and rising interest rates, supported by positive price momentum, central bank purchases, ETF inflows and growing concerns that national debt will continue to rise regardless of the outcome of the US elections.

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

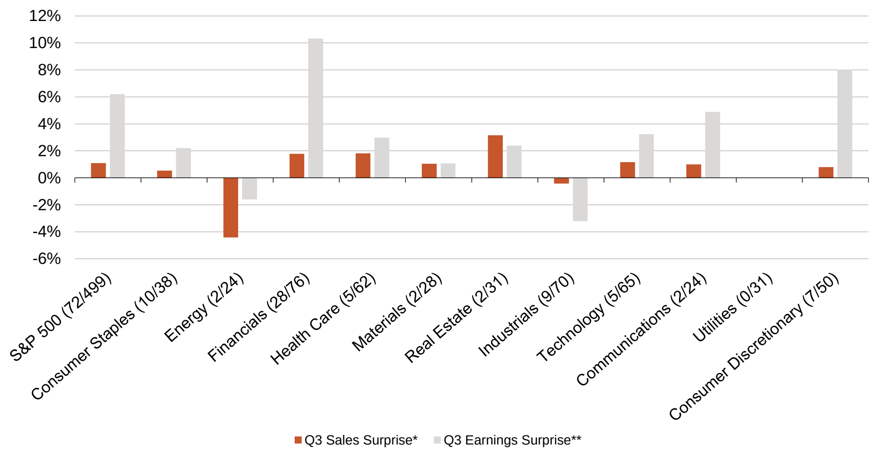
Focus on Q3 reporting season and international politics.

The Q3 reporting season is in full swing. In the next two weeks alone, 58.2% of S&P 500 companies will report. On the political front, the meetings of the IMF and the World Bank on 21 and 26 October, as well as the summits of the BRICS countries from 22-24 October and the Asia-Pacific Economic Cooperation (APEC) from 1-7 November, will be exciting.

Purchasing managers' indices, labour market and inflation data in the investor's view.

This week, the focus is on the preliminary purchasing managers' indices for the service and manufacturing sectors (Oct.) for Germany, the UK and the eurozone on Thursday. On Friday, the University of Michigan's Consumer Confidence Index (Oct.) will be followed by the preliminary US orders for durable goods (Sep.) and the ifo Business Climate for Germany. Next week, the purchasing managers' data for the USA and China (Oct.), US GDP (Q3), US labour market data for the non-agricultural sector (Oct.) and inflation data (Oct.).

Positive start to the Q3 reporting season in the US



*,** Percentage deviation of reported results from consensus

- The US reporting season kicked off with the banks about two weeks ago. They surprised on the upside, particularly on the earnings side. The trend was boosted by increased investment banking activity and higher-than-expected net interest income.
- So far, 72 (15%) of the S&P 500 companies have reported and have mostly surprised positively. For the rest of the reporting season, there is a good chance that the recently reduced earnings expectations will be exceeded – thanks in part to the robust US economy.

Source: Bloomberg, as of 18/10/2024

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (20/09/24 - 18/10/24)	YTD (29/12/23 - 18/10/24)	18/10/23 18/10/24	18/10/22 18/10/23	18/10/21 18/10/22	18/10/20 18/10/21	18/10/19 18/10/20
MSCI Emerging Markets	7.4	17.4	21.8	3.0	-16.9	17.4	6.8
Gold	6.6	34.0	35.5	10.2	10.3	-6.2	21.5
Industrial Metals	6.4	12.0	12.6	-6.3	-6.6	53.7	-0.7
Global Convertibles	6.1	9.6	13.0	-3.1	-13.3	22.9	29.8
MSCI World	5.1	22.0	29.5	10.3	-5.5	30.5	7.6
MSCI Frontier Markets	3.5	11.9	13.8	-0.9	-15.9	32.0	-4.7
USDEUR	2.7	1.6	-3.0	-6.4	17.8	0.9	-4.6
REITs	2.6	12.0	26.5	-10.7	-11.3	27.6	-18.1
Brent	2.5	6.8	-11.7	7.6	58.1	106.6	-36.5
EUR Coporates	1.0	4.2	10.5	3.8	-15.9	0.2	1.6
EUR Sovereign Debt	0.7	2.5	8.0	-0.5	-11.1	-1.3	1.2
Euro overnight deposit	0.3	3.1	3.9	2.7	-0.4	-0.6	-0.5

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.

- Most recently, all asset classes have seen positive performance in euro terms, supported by a stronger US dollar. Gold in particular continued to rise and has now gained more than 30% year to date.
- Industrial metals and oil also benefited from the announcement of Chinese stimulus measures, although the euphoria has recently subsided somewhat.
- Euro government bonds moved sideways over the last month despite an initial rally at the beginning of October.

Total return for selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 18/10/2019 – 18/10/2024

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (20/09/24 - 18/10/24)	YTD (29/12/23 - 18/10/24)	18/10/23 18/10/24	18/10/22 18/10/23	18/10/21 18/10/22	18/10/20 18/10/21	18/10/19 18/10/20
MSCI EM Asia	8.8	22.3	25.0	5.1	-19.4	12.4	17.8
S&P 500	5.8	26.6	33.7	10.3	-0.7	31.8	13.2
MSCI USA Small Caps	5.7	15.2	28.2	-3.6	-4.9	43.1	2.2
DAX	5.0	17.3	30.2	18.2	-17.5	19.9	2.2
MSCI UK	2.6	16.0	18.9	13.9	-0.4	36.4	-20.5
Stoxx Europe Cyclicals	2.5	15.9	32.0	16.5	-18.5	38.8	-5.1
Euro Stoxx 50	2.5	12.8	24.5	21.5	-14.5	30.4	-7.4
Stoxx Europe 50	2.3	12.3	17.6	17.8	-2.8	26.7	-6.7
MSCI Japan	1.8	11.4	16.4	15.4	-13.7	20.1	-0.3
Stoxx Europe Small 200	1.4	8.3	22.8	6.7	-28.3	35.4	1.3
MSCI EM Latin America	1.4	-12.8	1.9	0.4	23.5	26.2	-31.5
Stoxx Europe Defensives	1.2	13.4	14.0	15.5	-0.8	20.9	-5.3

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.

- Most stock markets have performed positively over the past four weeks. Asian equities in particular benefited from the Chinese stimulus measures, while US equities received additional support from solid economic data.
- European stock markets, on the other hand, remained largely unchanged, after a few weak quarterly figures weighed on the region.

Total return (including reinvested dividends) for selected stock indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 18/10/2019 – 18/10/2024

Fixed Income

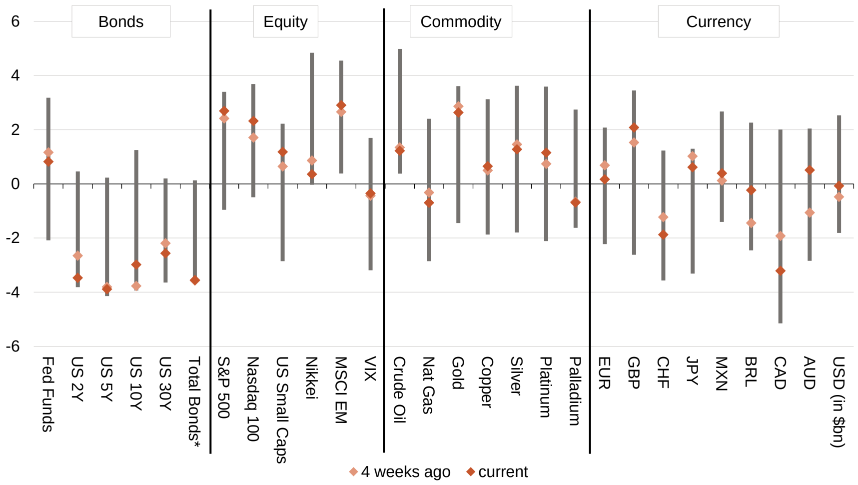
	4-week & YTD		12-month periods over that last 5 years				
	4W (20/09/24 - 18/10/24)	YTD (29/12/23 - 18/10/24)	18/10/23 18/10/24	18/10/22 18/10/23	18/10/21 18/10/22	18/10/20 18/10/21	18/10/19 18/10/20
USD High Yield	2.9	9.6	13.8	-0.7	3.7	8.8	-2.2
EM Hard Currency Bonds	1.3	8.9	16.1	1.6	-11.5	3.4	-2.4
USD Corporates	1.0	5.6	13.5	-4.5	-7.9	1.9	4.6
EM Local Currency Bonds	0.5	3.9	8.6	5.1	-7.0	2.4	-7.5
BTPs	0.5	4.4	13.2	0.7	-18.3	-0.6	4.4
EUR High Yield	0.4	6.8	13.5	10.2	-15.2	7.7	0.4
EUR Non-Financials	0.4	2.9	9.4	3.2	-16.3	0.0	1.9
EUR Financials	0.3	4.4	10.6	4.6	-15.3	0.7	1.2
Bunds	0.2	0.5	7.5	-3.1	-16.1	-3.4	1.9
Treasuries	0.2	3.4	5.7	-7.7	1.8	-2.2	2.6
Chinese Sovereign Bonds	-1.0	5.6	7.2	3.0	5.8	5.3	2.5
Gilts	-1.3	2.3	12.8	-2.1	-27.8	-1.2	2.2

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

- Almost all USD-denominated bonds gained in euro terms over the last four weeks. However, this was purely a currency effect. In USD terms, these bond segments fell due to the rise in US interest rates.
- Chinese government bonds have recently suffered from a sharper rise in yields due to the announced stimulus measures.

Total return (including reinvested coupons) for selected bond indices, in euros and in per cent, sorted by 4-week performance.
Source: Bloomberg, Time period: 18/10/2019 – 18/10/2024

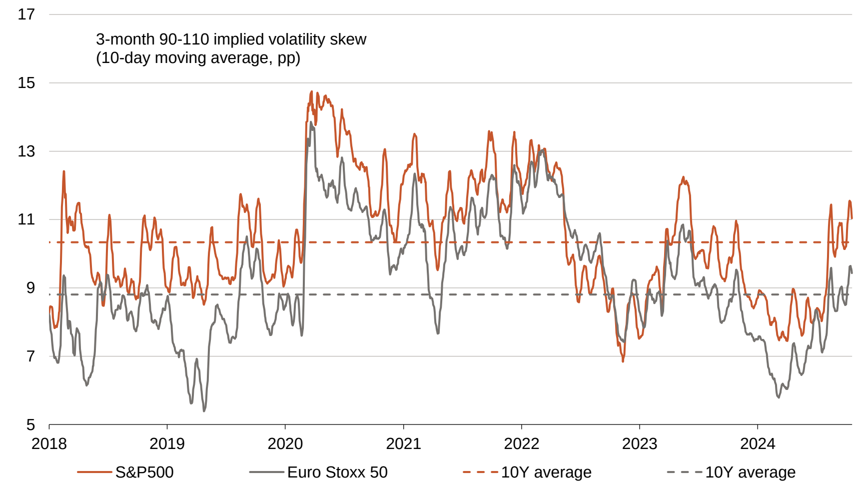
Non-Commercial Positioning



- Speculative investors have recently increased their holdings of US small caps as the likelihood of a second term in office for Donald Trump has increased.
- In the bond market, they appear to be betting on a flattening of the US yield curve – they have built up shorts in 2-year Treasuries and reduced their shorts in 10-year Treasuries.

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: 15/10/2014 - 15/10/2024

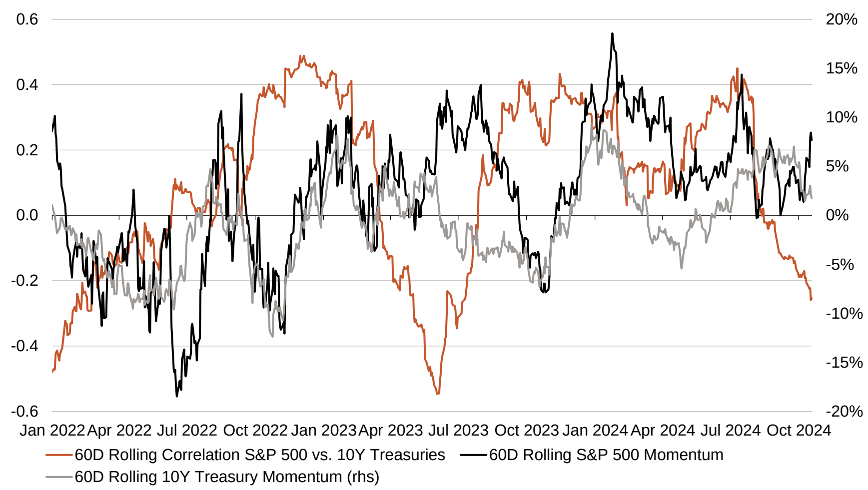
Put-Call-Skew



- The skew has recently steepened for both the S&P 500 and the Euro Stoxx 50 and is now above the 10-year average for both indices.
- The increase is mainly due to the rise in the price of out-of-the-money put options. Investors seem to be increasingly seeking to hedge the substantial stock market gains seen since the beginning of the year in anticipation of the US election.

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: 18/10/2014 - 18/10/2024

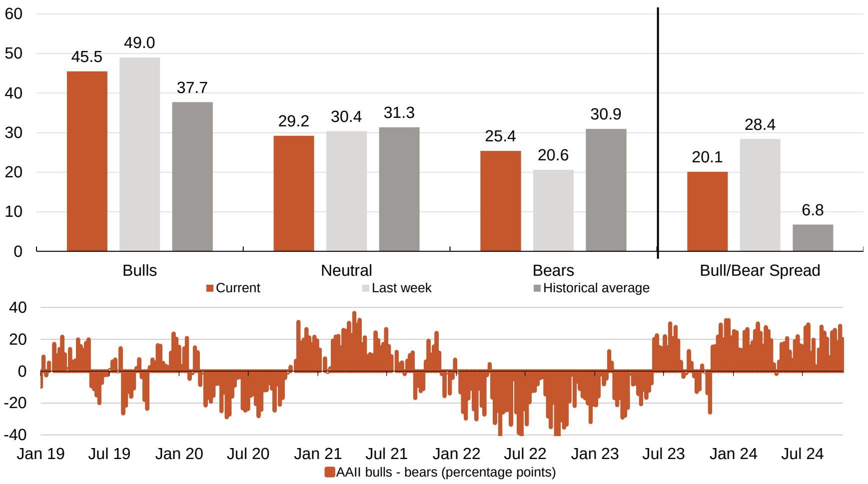
60-Day Momentum and Correlation



- The 60-day correlation between US equities and bonds has fallen further in recent weeks as investors have shifted their focus from the inflation outlook to the economic outlook. The S&P 500, for example, reached four new all-time highs in October alone, despite the fact that 10-year Treasury yields rose significantly during the same period.

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 - 18/10/2024

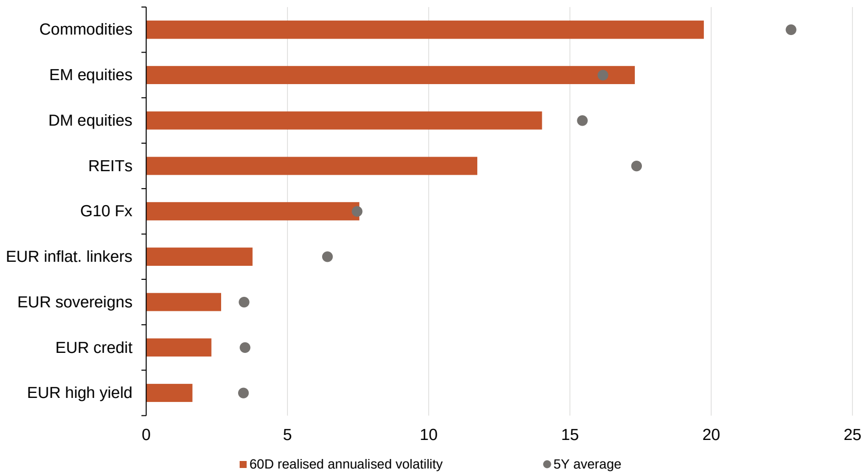
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment among US private investors remains extremely optimistic. The bulls have now been in the majority since the end of April. This year, there has only been one week in which the bears had the upper hand. Since records began, there has only been one year, 1999, in which the bears dominated for just one week.

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 – 17/10/2024

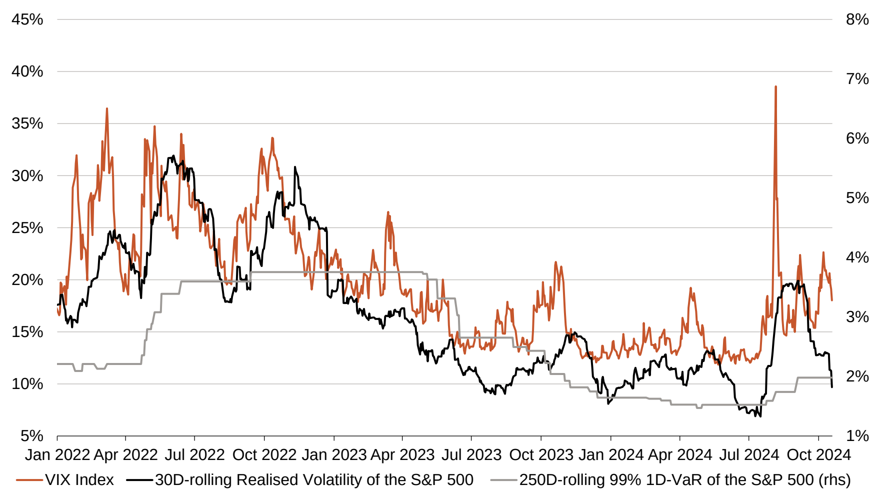
Realised Volatilities



- Realised volatility has recently risen, especially for commodities, but remains below the medium-term average. The increase was due to higher fluctuations in crude oil prices due to the simmering conflict in the Middle East.
- For developed market equities, realised volatility over the last three months is currently close to the five-year average. In mid-July, it was well below 10%.

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: 18/10/2019 - 18/10/2024

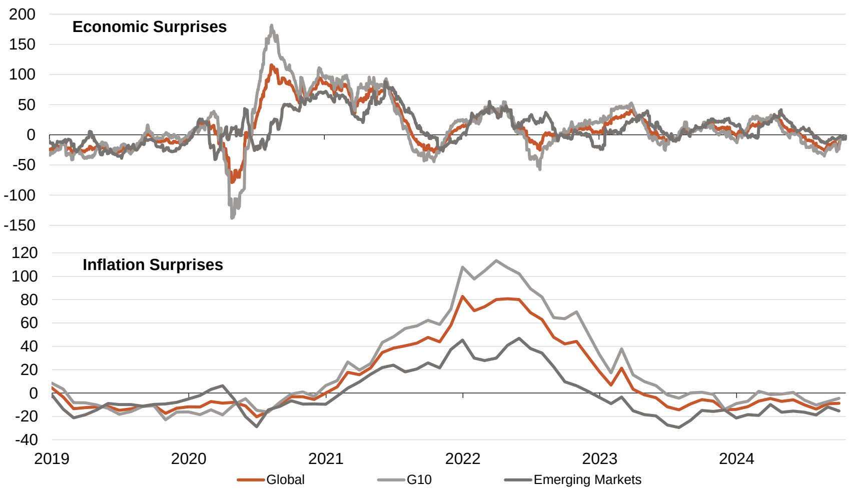
Volatility and Value-at-Risk of the S&P 500



- The volatility premium in the S&P 500 is currently very high due to the upcoming US election. While the VIX is close to 18, realised volatility is actually below 10%. Should the election fail to cause any upheaval, this difference is likely to narrow and the unwinding of hedges should give the market a tailwind.

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 – 18/10/2024

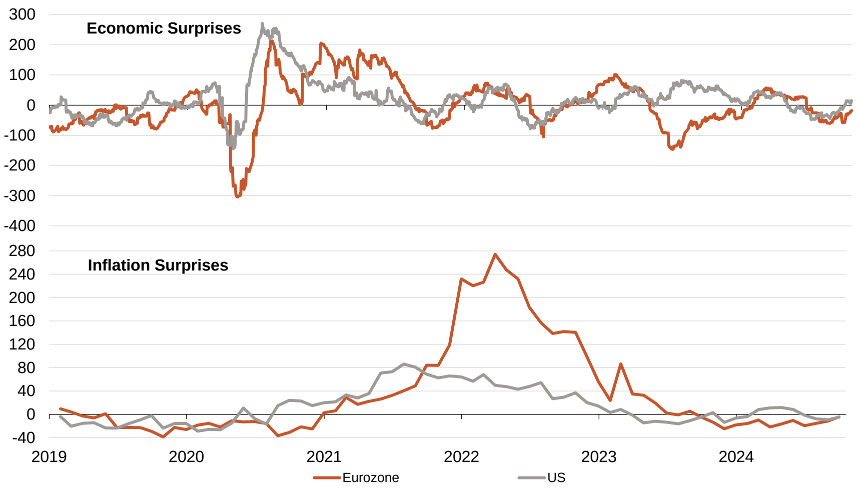
Global



- The negative economic surprises continued to decline slightly in the industrialised countries in the last four weeks, while they increased slightly in the emerging markets.
- In Canada, both the unemployment rate and consumer price inflation were lower than expected in September. In Australia, the number of new jobs in September surprised on the upside.
- In India and Mexico, industrial production in August was below expectations, while the trade balance in China in September was disappointing.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 – 18/10/2024

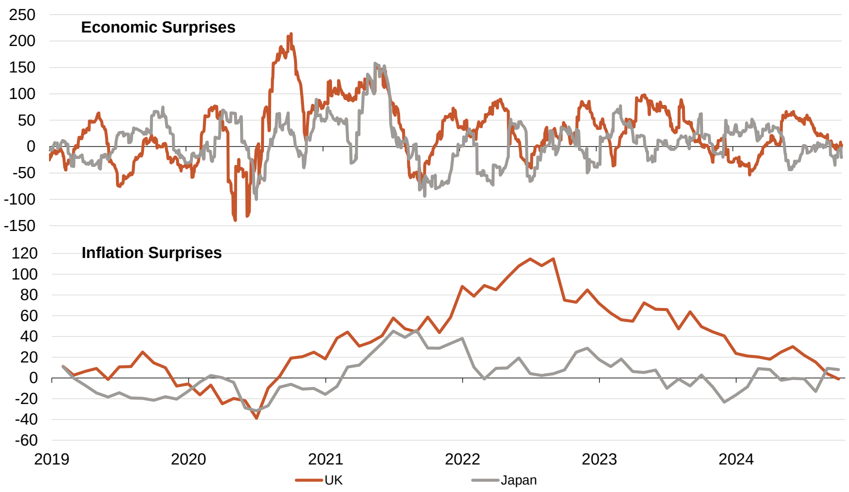
Eurozone and US



- The economic surprises in the US have turned positive for the first time since April this year, as we expected. The latest initial jobless claims were below expectations, while retail sales surprised upwards in September. In contrast, industrial production in September was disappointing.
- In the eurozone, negative economic surprises continued to decrease in the last two weeks. Industrial production came in as expected in September, while consumer price inflation surprised on the downside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2019 – 18/10/2024

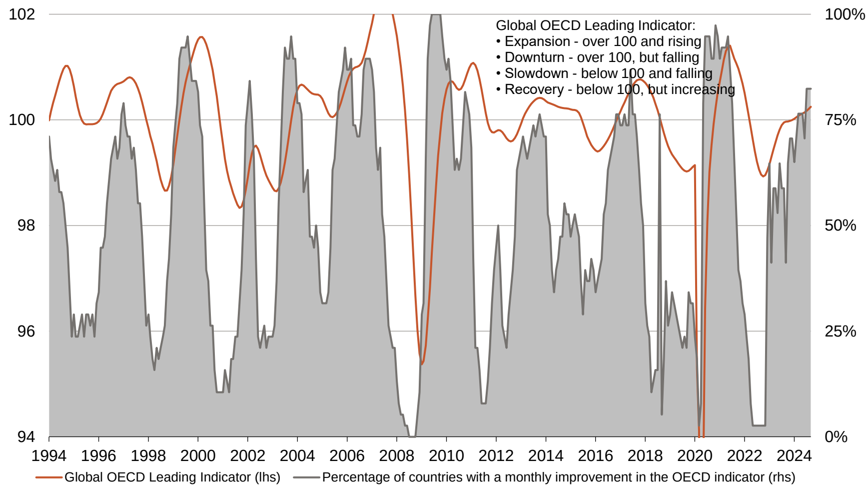
UK and Japan



- In Japan, core machinery orders in August were below expectations, while the trade balance surprised on the upside.
- In the UK, industrial production surprised on the upside in August and the unemployment rate surprised on the downside in the third quarter.

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 – 18/10/2024

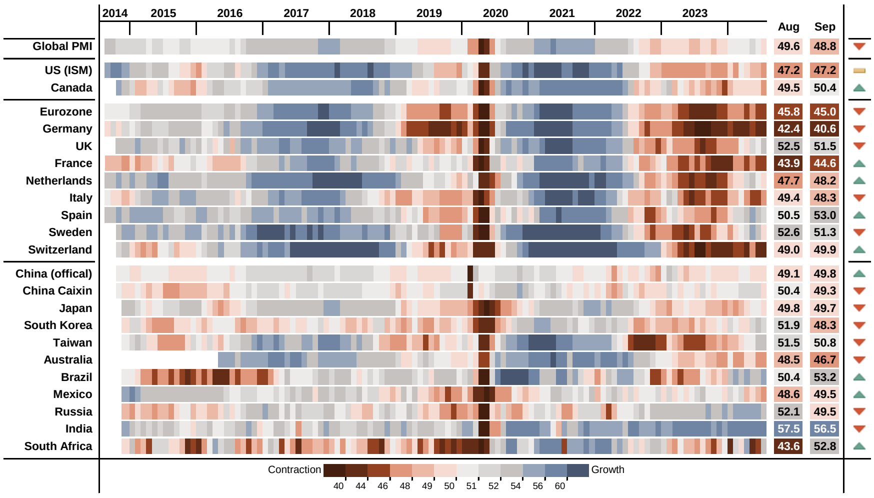
OECD Leading Indicator



- The global economy continues to expand. In September, the OECD's revised leading indicator was 100.3, above the 100 mark for the ninth month in a row.
- The leading indicator shows that in September the economic situation improved in 82% of the countries considered compared with the previous month, with Canada again recording the strongest increase and Mexico and China the strongest decrease.

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 – 18/10/2024

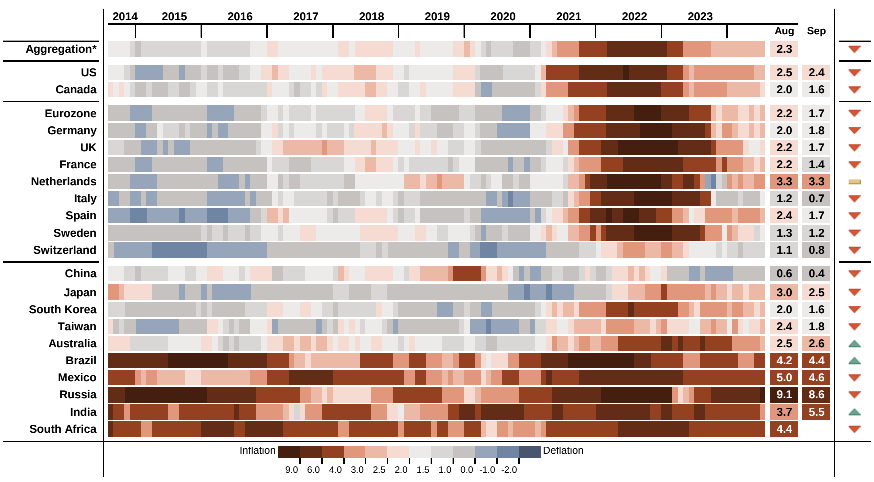
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- Global PMI data for September indicated a slight weakening of industrial activity in September compared to the previous month for the third month in a row. In Germany, the Purchasing Managers' Index reached its lowest level since September last year. Industrial activity thus declined for the 27th consecutive month.

The PMI is an overall index that provides a general overview of the economic situation in industry. The PMI is derived from a total of eleven sub-indices, which reflect the respective change from the previous month. A value of 50 is regarded as neutral, a value of over 50 points as an indicator of rising and a value of under 50 points as an indicator of declining activity in industry compared to the previous month. On average, the index has a lead time before actual industrial production of three to six months. The PMI is based on a survey of a relevant selection of purchasing managers on the development of key indicators such as new orders.
Source: Bloomberg, Time period: 01/01/2014 – 18/10/2024

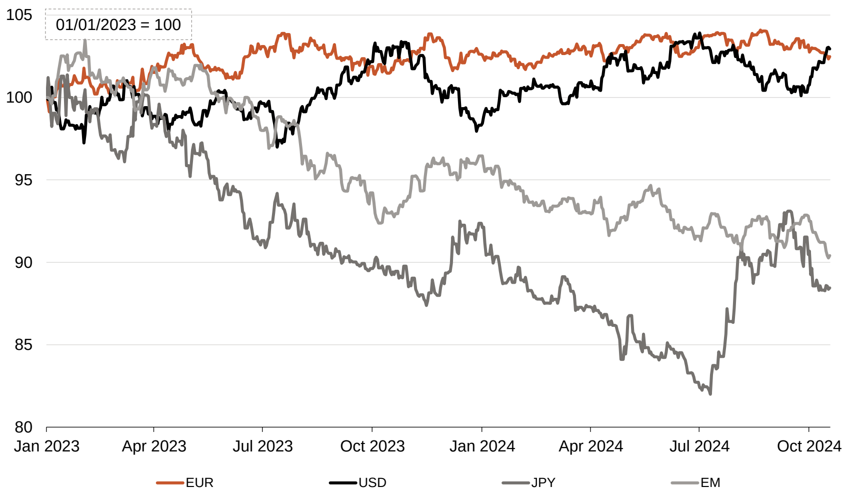
Headline Inflation



- The global trend towards disinflation continued in consumer price inflation data in September. In the US, monthly consumer price inflation continued to fall year-on-year in September, albeit with a slight upward surprise, while core inflation rose month-on-month.

Inflation (in %, compared to the previous year) is measured using a consumer price index, also called a basket of goods. This basket contains all goods and services that a household purchases on average per year. * = Weighting according to gross domestic product.
Source: Bloomberg, Time period: 01/01/2014 – 18/10/2024

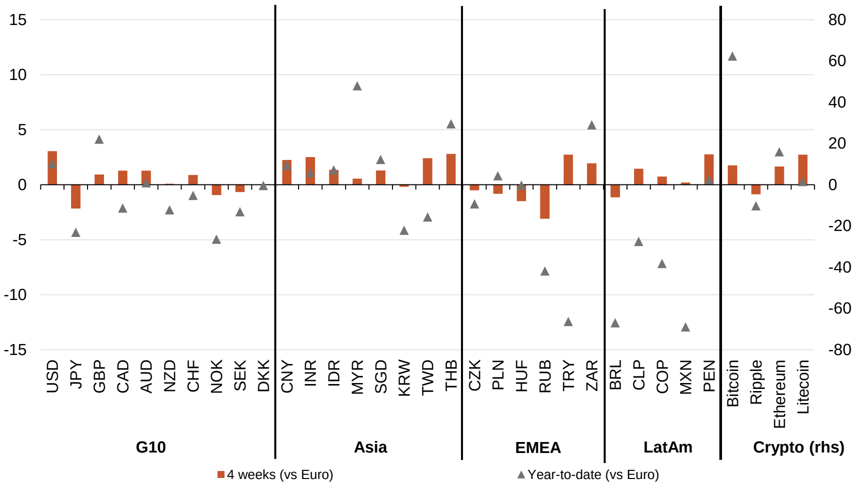
Trade-Weighted Currency Development



- The robust labour market, positive economic surprises and stubborn core inflation have further dampened investors' expectations of a rate cut by the Fed and recently given the US dollar a tailwind.
- The increasing negative economic surprises and comments by BoJ member Adachi that interest rate hikes should be at a "very moderate" pace have recently weighed on the Japanese yen.

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 - 18/10/2024

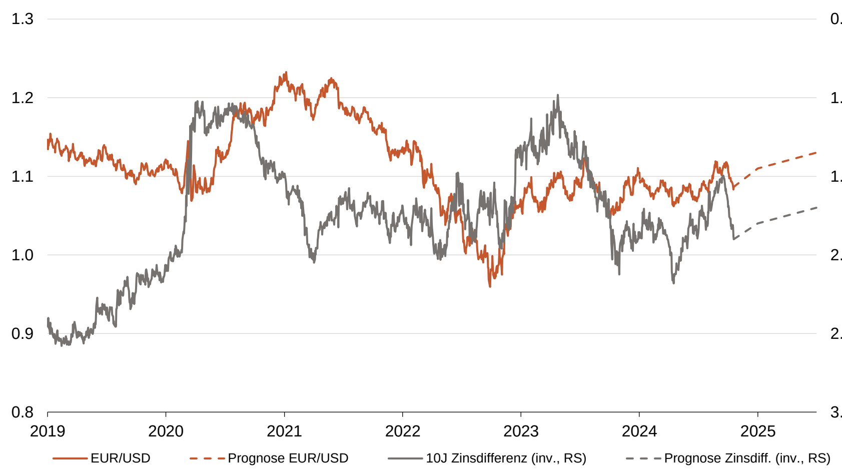
Currency Moves vs Euro



- Brazil's weaker-than-expected September inflation weighed on the Brazilian real, which has been weak since the beginning of the year.
- The Reserve Bank of India left its key interest rate unchanged as expected after its regular meeting, while the higher-than-expected inflation rate in September gave the Indian rupee an additional boost.
- The strong increase in jobs in the British labour market and the lowest unemployment rate since January of this year recently gave the British pound a tailwind.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2023 - 18/10/2024

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



- As expected, the ECB cut its key interest rate by 25 basis points at its scheduled meeting last week. Although inflation remains on a downward trend, ECB President Lagarde pointed out that inflation is expected to rise in the coming months and emphasised that 'interest rates will remain as restrictive as necessary for as long as necessary'.

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

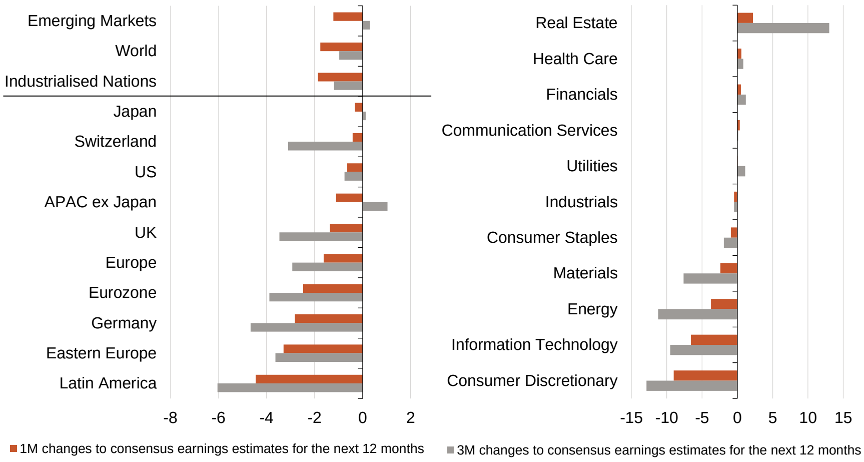
	4-week & YTD		12-month periods over that last 5 years				
	4W (19/09/24 - 17/10/24)	YTD (30/12/23 - 17/10/24)	17/10/23 17/10/24	17/10/22 17/10/23	17/10/21 17/10/22	17/10/20 17/10/21	18/10/19 17/10/20
Telecommunications	3.6	19.8	25.3	10.7	-11.2	19.6	-22.1
Utilities	2.6	9.6	22.0	12.9	-9.9	6.0	9.9
Industrials	2.3	17.1	33.7	20.7	-18.6	32.3	4.0
Finance	2.3	23.6	32.6	26.0	-11.8	54.3	-26.5
Consumer Discretionary	1.4	1.9	9.7	17.1	-21.5	36.7	-0.4
Consumer Staples	1.3	3.8	5.3	1.4	-1.6	11.9	-1.7
Value	1.3	13.8	19.0	19.7	-6.3	35.2	-19.6
Materials	0.2	4.7	16.3	8.7	-11.2	31.4	7.7
Growth	-0.1	10.0	19.2	12.6	-17.2	26.2	8.8
Health Care	-1.1	16.7	14.5	14.5	-1.8	15.5	9.5
Energy	-1.8	-1.3	-7.7	22.5	23.5	83.0	-46.6
Information Technology	-5.9	5.1	23.9	23.4	-32.6	40.1	17.4

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.

- In Europe, sectors with a higher interest rate beta have recently gained. For example, many telecom companies have high debt ratios and the sector should benefit from the upcoming interest rate cuts.
- On the other hand, the IT sector has been weighed down by weak Q3 earnings reports in Europe so far. Heavyweight ASML surprised investors with a profit warning.

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: 18/10/2019 – 17/10/2024

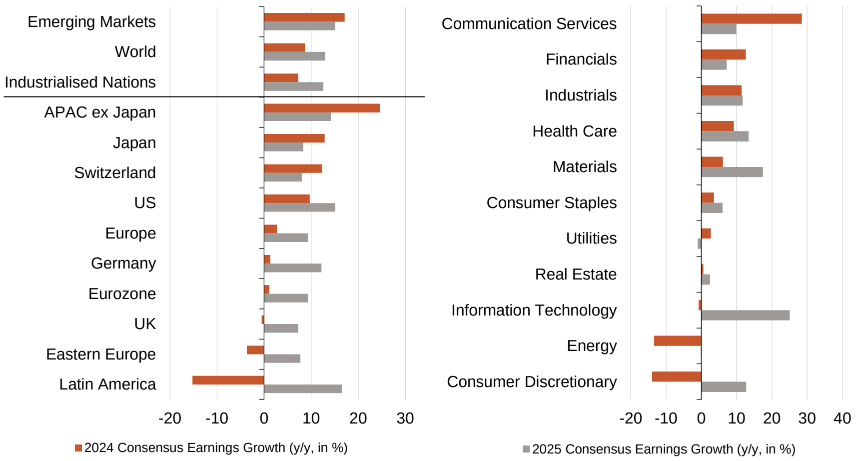
Changes in Consensus Earnings Estimates



- Regionally, analysts have become more pessimistic over the past four weeks, particularly for Eastern Europe and Latin America, as well as for Germany in Europe. Ongoing economic weakness in Germany is weighing on analysts' earnings expectations.
- At the sector level, consumer discretionary and information technology stocks are particularly affected by negative earnings expectations.

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 18/10/2024

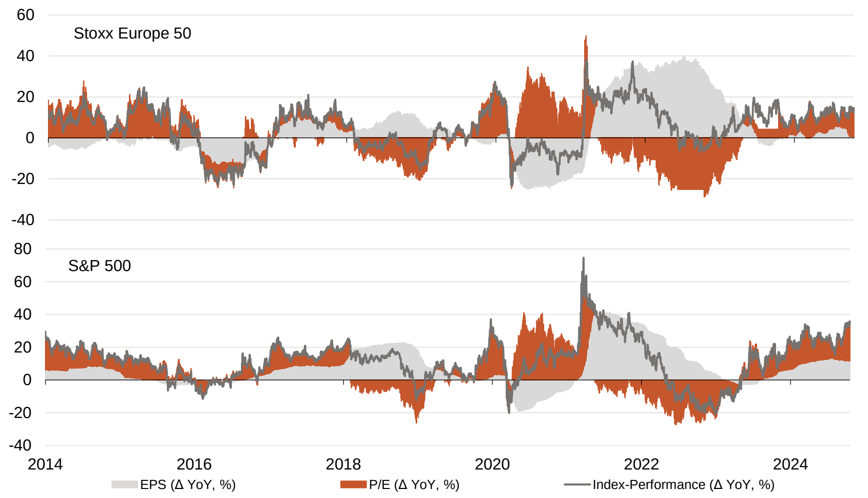
Earnings Growth



- Compared with the end of July, analysts have become more pessimistic about the earnings outlook for the Asian region in the coming year, despite the announcement of a new stimulus package in China at the end of September. Once again, no concrete measures have been taken, leading analysts to doubt the effectiveness of the stimulus package.

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 18/10/2024

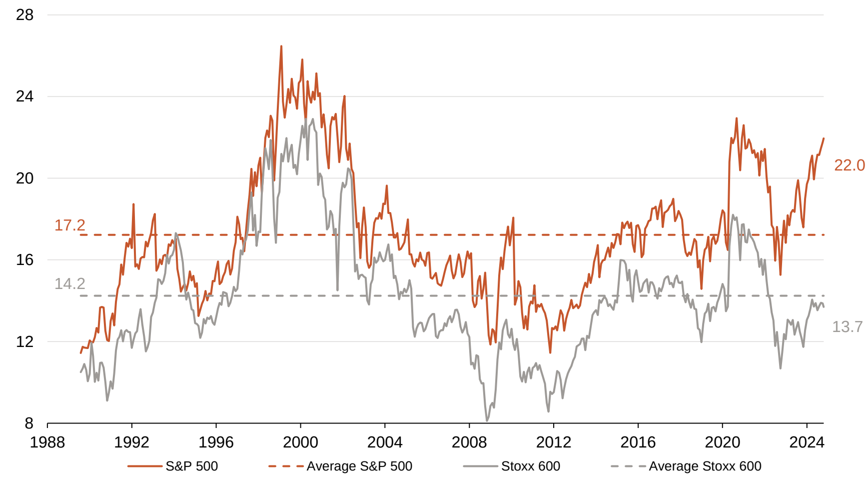
Contribution Analysis



- Over the past 12 months, the performance of the S&P 500 has been largely driven by an increase in valuations, accounting for almost 60% of the total. In the case of the Stoxx Europe 50, the increase in valuations has been the sole driver of performance.
- With the start of the Q3 reporting season, markets are likely to focus again more on earnings.

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 - 18/10/2024

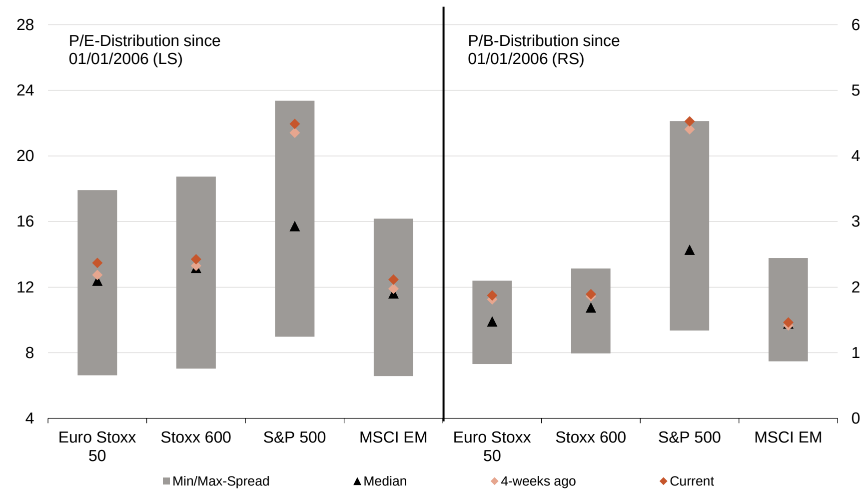
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- US valuations seem to have known only one direction this year. The P/E ratio for the S&P 500 (for the next 12 months) has risen again and at 22x is as high as it was in March 2021.
- In Europe, the picture is very different. Since the beginning of the year, the P/E ratio has hovered around 13x, which is still cheap 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 - 18/10/2024

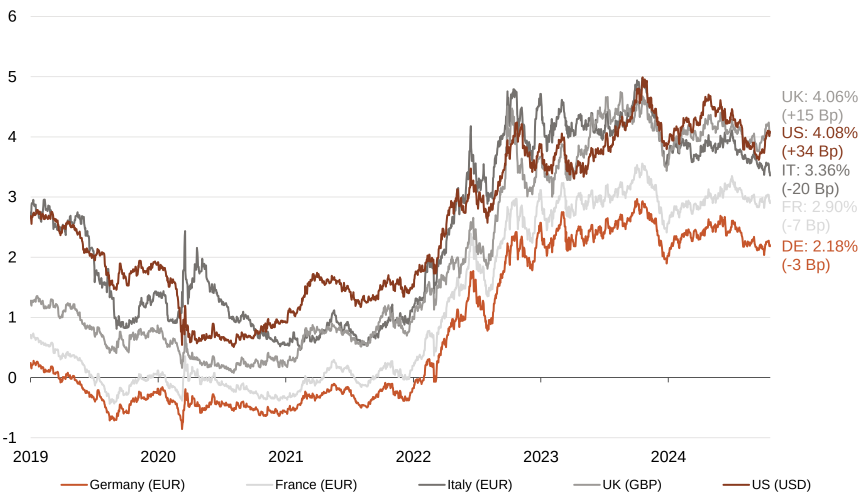
Historical Distribution: Price/Earnings and Price/Book Ratio



- Over the past four weeks, valuations have widened across all equity regions shown here.
- On a price-to-earnings basis, the S&P 500 is currently trading at the maximum of its historical range since 2006.

Historical distribution of valuation ratios for selected equity regions since 2006. In addition to the current value, the observation four weeks ago and the historical median, the maximum (upper limit of the grey bar) and minimum (lower limit of the grey bar) are shown.
Source: Bloomberg, Time period: 01/01/2006 - 18/10/2024

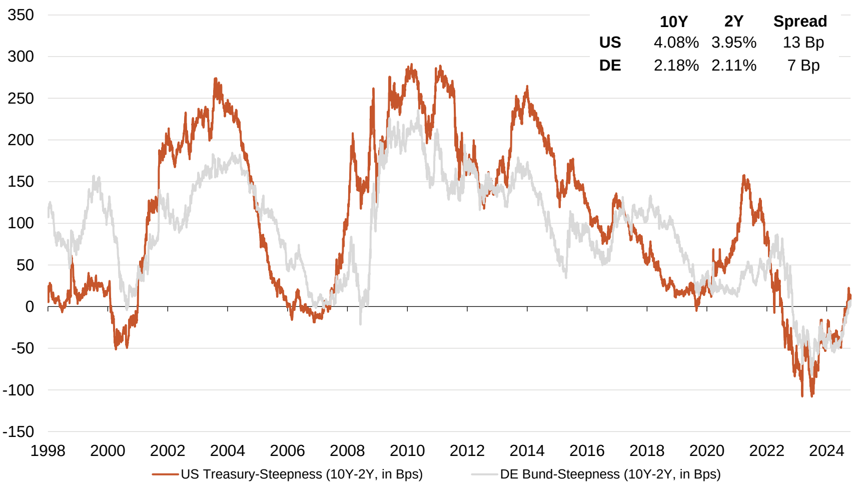
10-Year Government Bond Yields



- The yields on 10-year US government bonds continued their upward trend due to solid economic data, a labour market that remained robust and slightly rising inflation expectations.
- By contrast, yields on British government bonds fell slightly in the last four weeks after the latest inflation data surprised on the downside.
- Yields on German government bonds remain unchanged during the reporting period.

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 – 18/10/2024

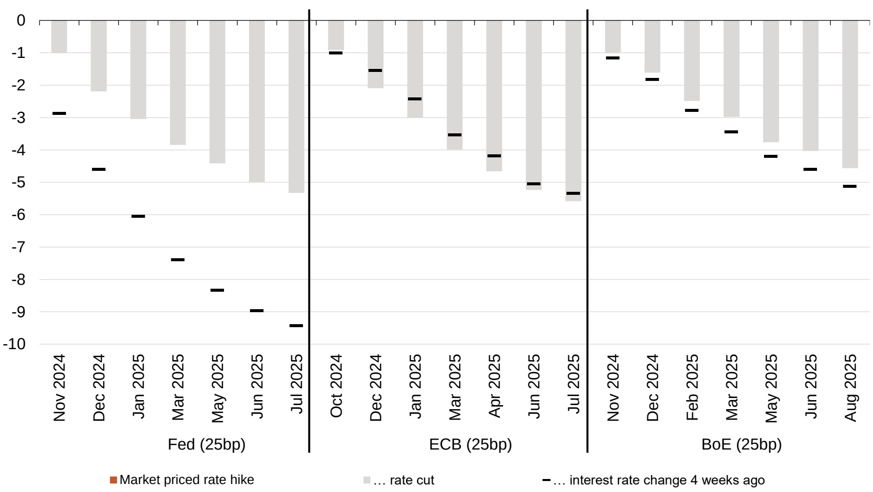
Yield Curve Steepness (10Y - 2Y)



- The yield curve has recently steepened again somewhat in both the US and Germany. In particular, the continued robust US economy, coupled with a solid labour market and slightly rising inflation expectations, led to a steepening of the yield curve.

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 – 18/10/2024

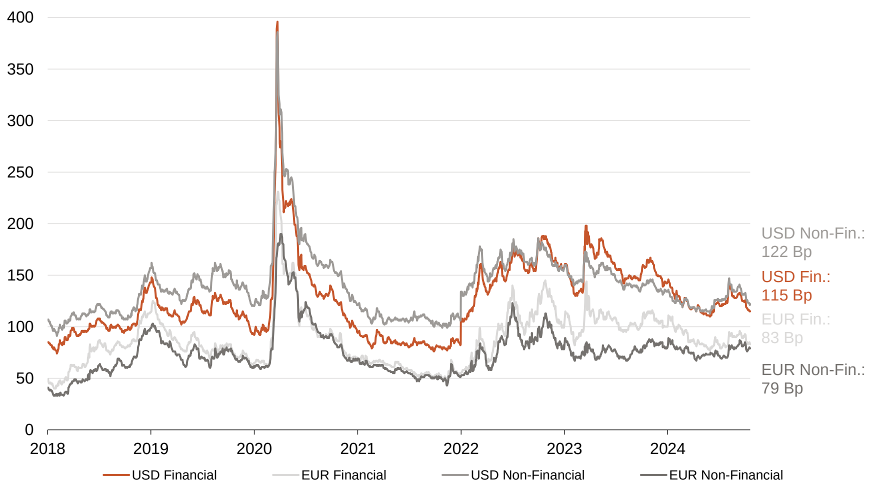
Implicit Changes in Key Interest Rates



- The continued strength of the US economy, loose financial conditions and robust labour market data have recently led to a further pricing out of sharper interest rate cuts in the upcoming central bank meetings.
- Following a further 25 basis point interest rate cut by the ECB last Thursday, the market is currently expecting a further rate cut of 25 basis points, although a move of 50 basis points has not been ruled out.

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 – 18/10/2024

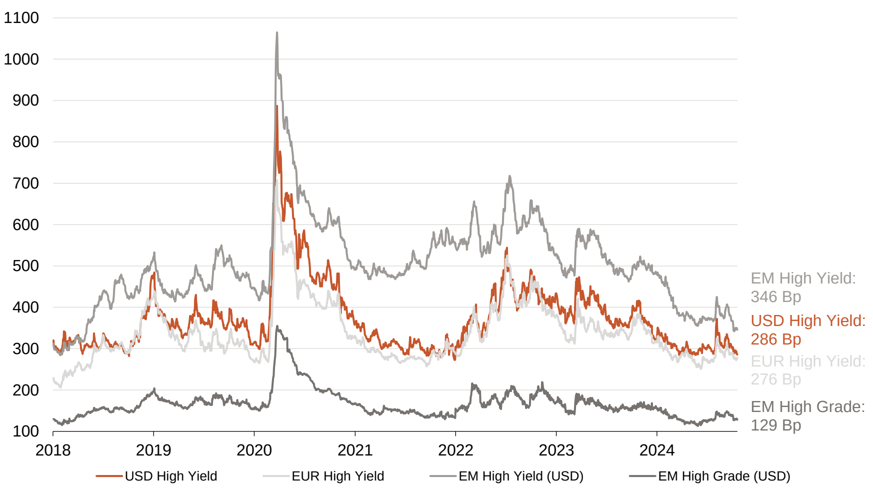
Credit Spreads Financial and Non-Financial Bonds



- Spreads on USD and EUR corporate bonds in the IG sector have continued to tighten over the past two weeks. The bond market seems to have largely priced out concerns about an economic slowdown in the light of recent strong economic data, particularly in the US.
- Spreads on USD financial and non-financial bonds have both narrowed by 8 basis points over the past two weeks.

Explanations: see middle and lower figure.
Source: FactSet, Time period: 01/01/2019 – 18/10/2024

Credit Spreads High Yield and Emerging Markets Bonds



- The renewed risk-on environment also impacted the high yield market. EUR high yield bond spreads tightened by 11 basis points, while USD high yield bond spreads tightened by as much as 15 basis points.
- Asset swap spreads also tightened in the emerging market bond market. High-grade bonds tightened by 6 basis points and high-yield bonds by 12 basis points.

How high the risk associated with the corporate bond is shown by its asset swap spread (in bp). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term as compensation for its credit risk. See further explanation below.
Source: FactSet, Time period: 01/01/2019 – 18/10/2024

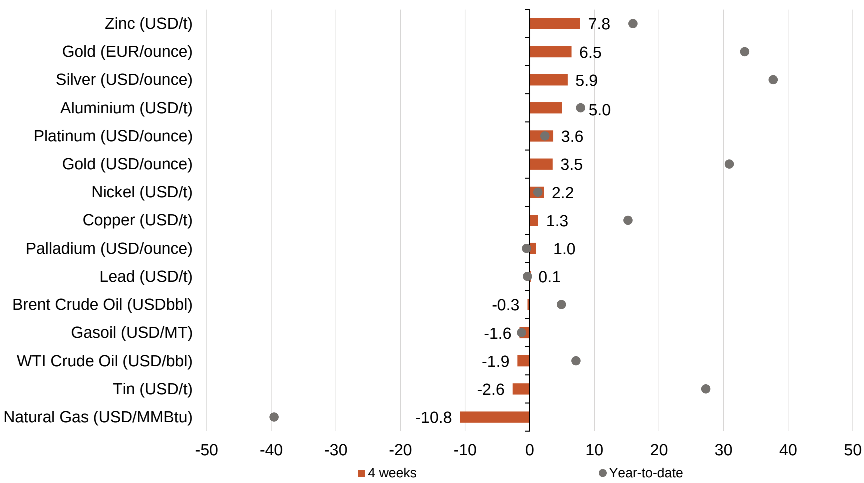
Bond Segments Overview

	Key figures			Asset Swap Spread			Total Return (%, local)						
	Yield (in %)	Δ-1M	Modified Duration	Spread (Bps)	Δ-1M	10Y-Percentile	1M	YTD	18/10/23 18/10/24	18/10/22 18/10/23	18/10/21 18/10/22	18/10/20 18/10/21	18/10/19 18/10/20
EUR Government	2.61	-0.11	7.1	-	-	-	0.8	2.3	10.4	-1.8	-18.1	-2.9	3.0
Germany	2.13	-0.07	7.2	-	-	-	0.3	0.9	7.9	-3.0	-16.2	-3.4	1.9
EUR Corporate	3.23	-0.21	4.5	80	-6	56	1.1	4.3	10.7	3.8	-15.7	0.3	1.6
Financial	3.35	-0.24	3.7	83	-8	45	1.1	4.9	10.8	4.3	-13.9	0.6	1.2
Non-Financial	3.15	-0.18	5.0	79	-4	66	1.1	3.9	10.6	3.4	-16.8	0.1	1.8
EUR High Yield	5.93	-0.30	3.1	276	-15	17	1.2	7.3	14.1	10.2	-15.2	7.7	0.4
US Treasury	4.07	0.35	6.2	-	-	-	-1.9	2.3	9.9	-1.5	-14.0	-3.3	8.2
USD Corporate	5.00	0.22	6.8	120	-11	27	-1.2	4.6	15.0	3.2	-19.1	1.3	8.5
Financial	5.02	0.18	5.1	115	-12	37	-0.7	5.8	14.4	4.1	-16.0	1.0	8.2
Non-Financial	4.99	0.24	7.5	122	-11	25	-1.4	4.0	15.3	2.7	-20.4	1.4	8.6
USD High Yield	7.28	-0.04	3.8	286	-24	0	0.3	7.9	17.3	7.0	-12.6	9.7	3.5
EM High Grade	4.97	0.19	5.5	129	-10	5	-0.7	5.4	12.9	4.3	-17.4	1.0	5.1
EM High Yield	7.73	-0.19	3.9	346	-41	5	1.4	12.3	20.6	11.5	-23.6	4.0	5.2

- Over the last four weeks, US government bonds have seen the sharpest rise in yields and hence the sharpest fall in prices. Emerging market high yield has been the relative winner.
- Spreads on USD high yield bonds are currently in the 0th percentile historically and have never been lower in the last 10 years.

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: 18/10/2014 – 18/10/2024

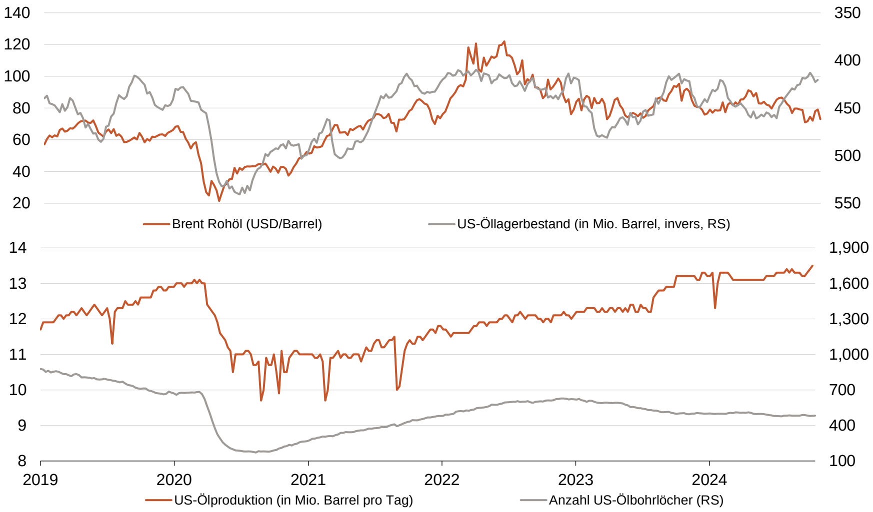
Commodities Performance



- Most notably, metals, both precious and industrial, have risen over the last four weeks. Since the beginning of the year, only natural gas, gas oil, palladium and lead have recorded losses.
- In recent weeks, the commodity markets have been dominated by the stimulus announcements from China. What initially caused euphoria has recently given way to scepticism, as the Chinese central government still owes the market concrete figures.

Total return of selected commodity indices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2022 – 18/10/2024

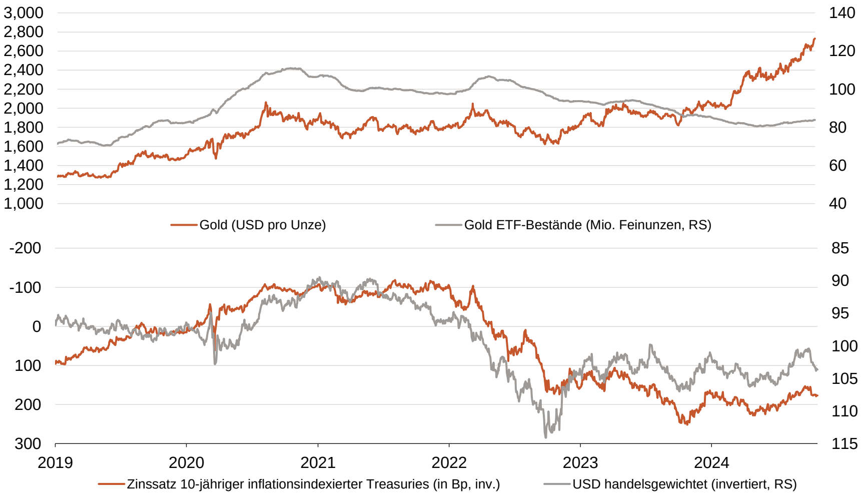
Crude Oil



- Crude oil (Brent) recently fell slightly and is currently trading at around USD 73 per barrel. This was due to Israel's statements that it did not want to attack Iran's oil infrastructure.
- Since the beginning of the year, the spot performance of the energy commodity is now negative. However, thanks to an inverted futures curve, Brent has achieved a total return of over 5% this year.

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 – 18/10/2024

Gold



- Gold seems unstoppable. Last week, the precious metal broke through the next major barrier of USD 2,700 per ounce, although the fundamental drivers were actually working against gold. Real interest rates have risen by 20 bp since the beginning of October and the US dollar has appreciated by more than 3% since then. ETF investors seem unfazed by this and continue to buy.

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 – 18/10/2024

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IMPORTANT NOTICES