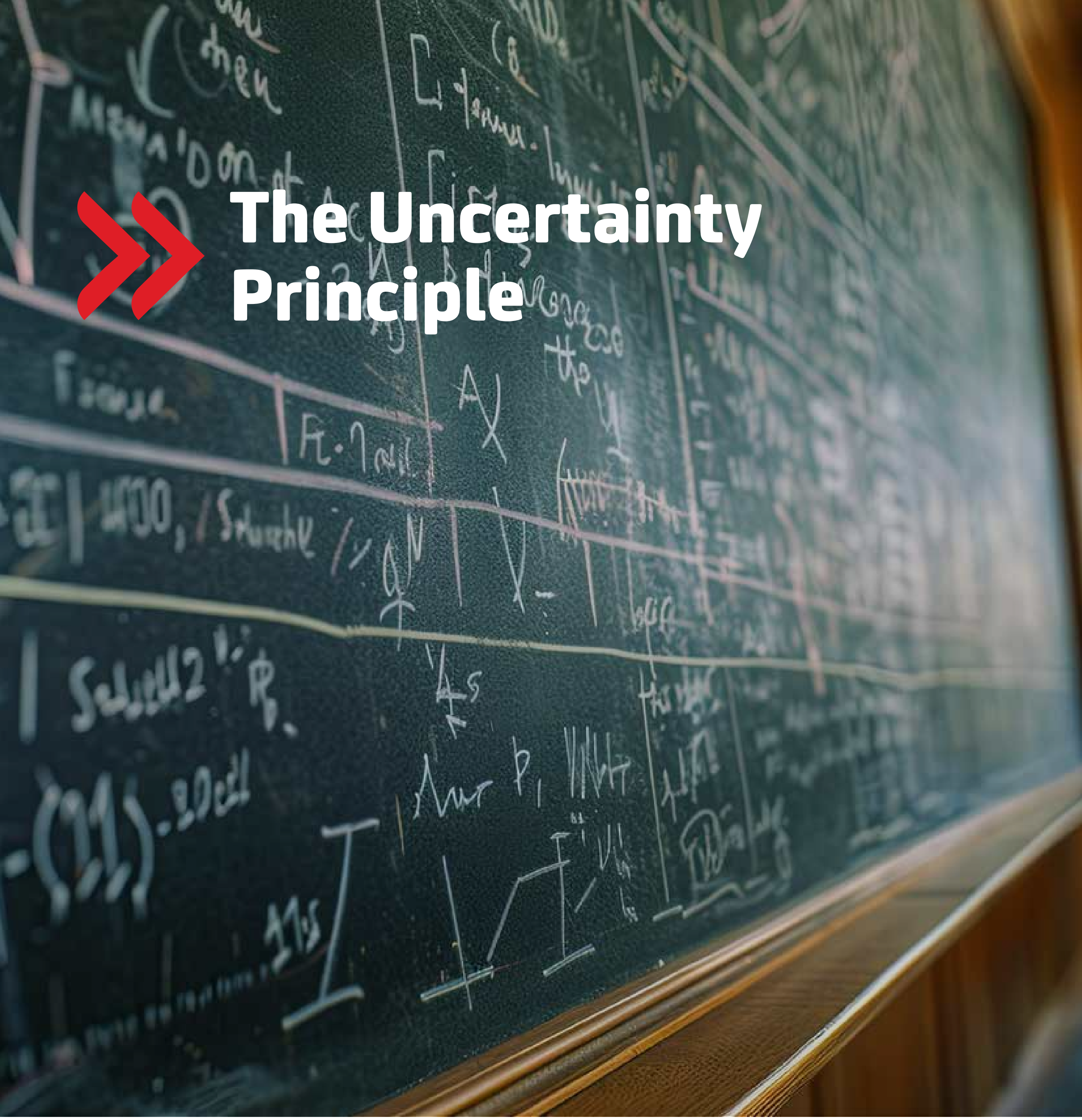
The Uncertainty Principle



Monthly Outlook

The Uncertainty Principle
Understanding Market Dynamics
amid Geopolitical Tensions

UniCredit

November 2024

Index

Summary

MACROECONOMIC ENVIRONMENT

Recent economic data indicates that the US and the EU economies are experiencing divergent trends. The US economy appears robust, with upward revisions in GDP growth and strong job creation reported in recent months. The labour market remains resilient, leading to a notable decrease in the unemployment rate. While some indicators suggest that employment figures may be slightly overstated, the overall trend points to stability rather than a significant downturn. In contrast, the Eurozone has encountered unexpected economic slowdowns, with weaker growth signals emerging from various sectors. Overall inflation is easing on both sides of the Atlantic Ocean, but core inflation (i.e. excluding food and energy) has shown signs of a greater persistence, indicating underlying pressures that continue to challenge both economies.

MONETARY POLICY AND CENTRAL BANKS

In response to these economic developments, central banks in both regions are adjusting their monetary policies. In the US, the market has shifted expectations regarding interest rate cuts, with market participants anticipating gradual reductions in the coming months due to the stronger-than-expected economic data. Recent meeting minutes reveal differing opinions within the Fed on the pace of easing, indicating a more careful approach to rates normalisation. At the same time, the European Central Bank (ECB) has acted decisively in response to the Eurozone's economic challenges, lowering interest rates amid weaker inflation and growth forecasts. The ECB has emphasised the importance of addressing downside risks to economic activity, reflecting a proactive stance to support the economy. Finally, the People's Bank of China has implemented a range of monetary easing measures to bolster China's economic recovery, including interest rate cuts and reductions in reserve requirements. These actions aim to support domestic demand and stabilise the economy amid declining growth indicators and ongoing structural challenges.

FINANCIAL MARKETS

In the last few weeks, global financial markets have responded to the changing economic landscape and central bank actions. In the US, strong employment figures and optimistic corporate earnings expectations have contributed to positive investor sentiment, resulting in a strong performance for the stock market. The anticipation of further interest rate cuts by the Fed is also contributing to a favourable environment for stocks. Conversely, the Eurozone has experienced mixed market reactions, where the ECB's monetary easing has provided some support, but economic uncertainty has tempered enthusiasm. In China, recent stimulus measures have triggered a rally in equities, although concerns about the sustainability of growth remain amid structural issues.

In fixed income markets, expectations of continued interest rate cuts have initially led to a decline in US bond yields, but more recent strong labour market data caused a subsequent uptick of the entire curve. On the contrary, in the Eurozone, yields fell slightly, showing some decoupling from the US movements due to the region's distinct economic challenges.

Overall, both equity and fixed income markets reflect a cautious optimism driven by central bank easing policies – but potential volatility looms, influenced by upcoming earnings reports, geopolitical tensions, and differing recovery trajectories.

CIOs' Letter

2024 is drawing to a close and so far, it has turned out very differently to how many investors expected it to at the end of last year. At that time, many discussions centred on recession risks in the US, while expectations regarding the European economy were geared towards a moderate recovery after a prolonged lean period. A year ago, for example, around a fifth of global research houses expected a **technical recession[1]** in the US in 2024, while this group did not expect any negative growth figures for Europe. The economic trajectory that developed was much different than expected: The US economy proved to be surprisingly robust, while the European phase of weakness has continued to date.

[1]In Europe, a technical recession is often defined as at least two consecutive quarters of negative real GDP growth.

This development can be seen in the performance of the global bond markets this year. At the end of last year, US recession worries manifested themselves, among other things, in investors' hopes for early and significant interest rate cuts by the US Federal Reserve (Fed). This triggered a rally at the beginning of the year, particularly in US government bonds. However, strong US labour market figures dispelled hopes of rapid and substantial interest rate cuts, which in turn led to significant bond price losses in the first months of this year. Bond prices only recovered when interest rate cuts actually became apparent.

In contrast, the stock markets recorded pleasingly strong price rises, particularly in the US – a development that the pessimists, in particular, would not have expected. The stock markets not only proved surprisingly robust in the face of recession worries, but also in the face of several geopolitical risk factors such as the war in the Middle East or the frightening development of Russia's war against Ukraine from a Western perspective. For instance, a year ago, the recent escalation in the Middle East (see also Focus) would hardly have been compatible with a double-digit performance of European and US share indices and an **oil price of well below USD80[2]** (see table on page 21).

[2]The resilience of the markets in relation to the war in the Middle East is discussed in more detail in the Focus section of this publication.

In terms of the often-cited "election risk", the super election year 2024 has already offered a lot: New elections to the French National Assembly and an election thriller in France following the European elections (resulting in a challenging majority in the French parliament), the three state elections in the eastern German federal states (with the formation of a government still unclear), the re-election of India's Prime Minister Narendra Modi (in the world's largest democratic vote), which many expected, and the recent National Council elections in Austria (which saw the right-wing populist and Eurosceptic FPÖ emerge as the strongest party). However, the most important political event of the year, which is also likely to have the most far-reaching implications for market events, is still to come: The presidential election in the US, which will remain exciting at least until election day. In addition, quite a few political observers believe that this will continue in the days and weeks after the election. Recently, former US President Donald Trump's chances of winning have increased again, which is also reflected in the recent price gains of shares that could supposedly benefit from Donald Trump's policies: Traditional energy companies, financial stocks, and healthcare shares, which would likely benefit from Trump's deregulatory political agenda. The medium and longer-term effects of a possible second Trump presidency remain unclear. It is difficult to predict which of the promised political projects he would actually pursue in the event of an election victory – and for which he could organise a parliamentary majority. These could include initiatives that the markets would welcome, such as tax cuts. However, other measures could also cause upheaval, such as the rumoured switch in US government financing from tax-based to tariff-based revenues. Such a drastic system change, the realisation of which hardly seems realistic, could cause considerable damage to the international market structure.

So far, all of the risk factors mentioned – including those that have at least partially materialised, such as the war in the Middle East – have failed to dampen the positive mood on the capital markets. The reason for this lies not only in the prospect of (further) substantial interest rate cuts, which should support economic activity and the global financial markets, but also in the confidence that the so-called **"soft landing"**[3] of the US economy is increasingly emerging as the most likely scenario. Despite all the burdens, the prospect of continued robust economic growth and, as a result, rising corporate profits are supporting the markets. Regarding the boom in artificial intelligence (AI), there are currently no signs of systemic exaggerations or an imminent end to this development. However, it is also clear that the transformation triggered by AI will produce both winners and losers. In the next phase, the focus will not only be on the hardware and software manufacturers directly affected by AI (i.e. companies that offer AI chips and algorithms), but also on which business models and companies will benefit from the use of AI technology on the one hand, and which are likely to become obsolete on the other. Investors should therefore remain vigilant.

[3]A soft landing describes a phase in which economic growth slows but the economy does not enter a recession. A hard landing, on the other hand, describes a sudden and sharp slowdown in the economy, which usually leads to a recession.

All in all, the market environment remains constructive in view of inflation trending towards the central bank target of 2%, falling central bank interest rates, resilient labour markets on both sides of the Atlantic and a robust US economy as a global growth engine. Equities, especially US stocks, should remain in demand in the coming months, while on the bond side the outcome of the US elections remains to be seen. Even though the US economy is in good shape, diversification of risk across different asset classes can help to reduce risk. US equities are relatively highly valued both in international comparison and in a historical context. This could give rise to volatility risks. We therefore continue to favour a neutral positioning on equities, but a positive one on bonds. High capital market interest rates compared to the past five to 10 years have the pleasant side effect for investors that balancing the portfolio risk profile with fixed interest securities can now bring interesting returns. However, a slightly higher duration risk must be accepted in return. In recent quarters, fixed-term deposits have produced interest income above long-term inflation expectations. This phase is likely to come to an end in the coming months. Longer-dated interest-bearing securities are therefore increasingly coming into focus, as they also offer a hedge against possible economic risks.

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In Focus

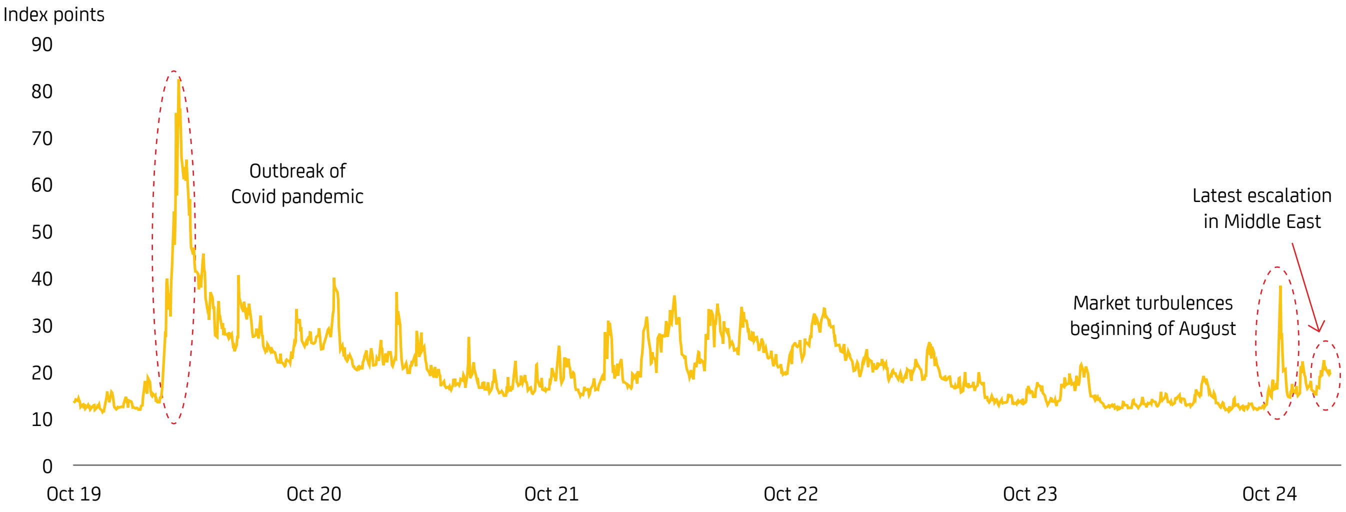
Spiral of escalation in the middle east conflict
How are financial markets weathering the geopolitical tensions?

On 7 October 2023, the radical Islamic terrorist organisation Hamas killed hundreds of men, women and children in Israel. The attack plunged the Middle East into a deep crisis. Around a year after the raid, the conflict has entered a new phase of escalation and has also spread to Lebanon and Iran, fuelling fears of a larger, direct conflict between Israel and Iran. While US President Joe Biden's administration has repeatedly called for de-escalation, the global financial markets remain surprisingly calm in view of the latest developments: The **VIX index**[4] has risen recently, but a historical comparison shows that it is still at a moderate level of around 20, well below its peak after the outbreak of the COVID pandemic, and also below the value observed during the market turbulence at the beginning of August this year (see chart 1). We shed light on the background and outline which developments could lead to a major **risk-off movement**[5] on the markets.

[4]Often described by dealers themselves as labelled "fear knife", reflects the VIX index exceeded the forecasts the stock market volatility of the S&P 500 for the coming 30 days. The anticipated Fluctuation range of the market is conceptually with the overall level of the perceived uncertainty, which is usually used for events with increased risk potential.

[5]When market participants are riskaverse and favour safe investments, this is referred to as a "risk-off" sentiment. In risk-off sentiment, investors often withdraw their money from riskier investments and invest in safe investments such as government bonds or gold. If, on the other hand, market participants show a higher risk appetite and invest in riskier assets, this is referred to as a "risk-on" sentiment. In risk-on sentiment, investors tend to invest in equities, commodities and emerging market currencies.

1. VIX INDEX STILL AT A MODERATE LEVEL



Note: Past performance, simulations and forecasts are not a reliable indicator of future performance. The indices cannot be purchased and therefore do not include any costs. When investing in securities, costs are incurred which reduce the performance. When investing in foreign currencies, the return may also rise or fall as a result of currency fluctuations.

Source: Bloomberg, UniCredit Group Investment Strategy, observation period: 15.10.2019-15.10.2024

MIDDLE EAST CONFLICT MOVES THE OIL MARKET: OIL PRICE SOARS TEMPORARILY

Until the beginning of October, the oil market had largely ignored the increasing tensions in the Middle East. In light of weakening demand in China and signs of an economic slowdown in the US, oil prices had overall fallen in recent months. After the price of Brent crude fell significantly in the third quarter – and temporarily to its lowest level in almost three years in September – the price shot up by almost 10% at the beginning of October following Iran's missile attack on Israel (see chart 2). Although this was the largest increase since January 2023 (on a weekly basis), the overall movements still appear moderate: oil prices have risen, but from a low level. In view of the intensification of the conflict, volatility is likely to continue for the time being, but a price explosion is not expected – provided there is no massive escalation and the oil supply remains largely intact.

2. OIL PRICES UP ONLY MODERATELY IN A LONG-TERM CONTEXT

Note: Past performance, simulations and forecasts are not a reliable indicator of future performance. The indices cannot be purchased and therefore do not include any costs. When investing in commodities, acquisition and custody costs incurred are not taken into account. When investing in foreign currencies, the return may also rise or fall as a result of currency fluctuations.
Source: Bloomberg, UniCredit Group Investment Strategy, observation period: 15.10.2019-15.10.2024

While some **OPEC+ countries**[6] are currently weighing steps to ease production restrictions, including Saudi Arabia, the leading nation in OPEC and the world's largest oil exporter, several other factors that were not present in this form in previous crises should help to dampen an oil price increase. For example, after two years of sustained production cuts, OPEC+ producers have considerable reserve capacity (more than five million barrels per day), which could be reactivated if Iranian supplies are interrupted. In addition, the West also has strategic oil reserves that could help stabilise prices. The shale oil reserves in the US offer an additional buffer, as the drilling companies based there are theoretically able to quickly expand their production volumes.

[6]The Organisation of the Petroleum Exporting Countries Plus (OPEC+) is a loose association consisting of the 12 OPEC members and 10 of the world's largest non-OPEC oil-exporting nations (including Russia).

TRANSIT OF FOSSIL FUELS THROUGH THE STRAIT OF HORMUZ REMAINS THE ACHILLES' HEEL

An interruption in direct supplies from Iran would presumably have a manageable impact on the global oil market. This is because the importance of **Iran**[7], which exports around 1.5 million barrels per day (according to calculations by Vortexa, an analysis company specialising in the energy sector), is manageable in relation to the overall oil market; many sanctions against the country are still in place. The greater concern is that an attack by Israel on Iran's oil industry could mark the start of a major direct conflict between the two countries and have a negative impact on the transit of fossil fuels through the Strait of Hormuz. The Strait connects the Persian Gulf with the Indian Ocean and is one of the most important shipping routes for the transport of crude oil, petroleum products and liquefied natural gas (LNG). Almost a third of the oil transported by sea passes through this bottleneck. Iran has threatened to blockade the route several times in the past, but this has never materialised. An interruption to this important transport route could cause oil prices to rise significantly and even drive them to new record highs, as **alternative routes are limited**[8].

In view of the impending winter in the northern hemisphere and the associated increase in demand, such a scenario would also be problematic for the global gas markets. Qatar's LNG exports account for more than 20% of global LNG trade, and with Qatar planning to significantly expand

[7]Most recently, Iran produced almost four million barrels per day, around 4% of global production. Nevertheless, the country appears to have found ways to export its crude oil – including to China.

[8]To a certain extent, the East-West crude oil pipeline (Abqaiq-Yanbu) across the Arabian Peninsula and the Abu Dhabi Crude Oil Pipeline represent alternatives for Saudi Arabia and the United Arab Emirates, although the former leads into the Red Sea, which has already been bypassed.

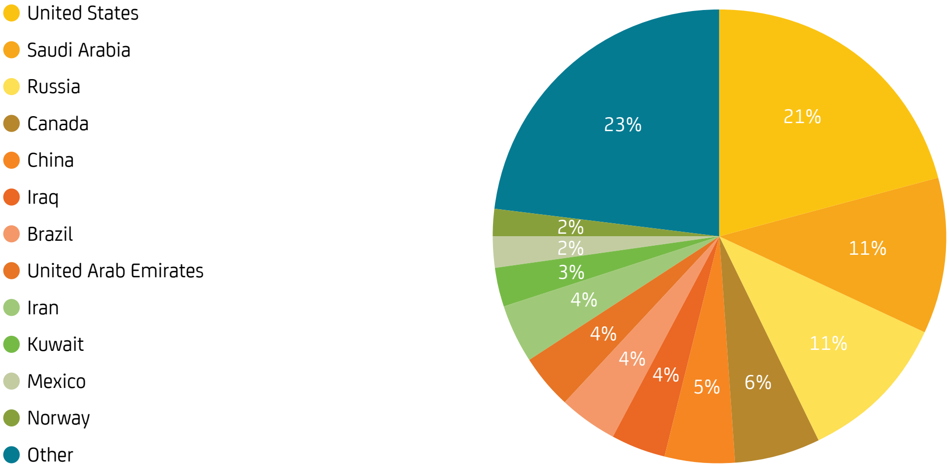
its LNG capacity to over 170 billion cubic metres by 2027, the Strait of Hormuz is likely to become even more important for LNG flows. The development of corresponding capacities has also made the Middle East more important as a supplier of refined products, particularly for Europe. The European Union (EU) is more dependent than in the past on supplies of LNG and refined petroleum products from the region, not least because of its sanctions against Russia.

OIL MARKETS HAVE "LEARNT" HOW TO DEAL WITH GEOPOLITICAL CRISES

Although the risks cannot be denied, oil markets have apparently "learnt" to deal with geopolitical crises in a way that seemed unthinkable just a few years ago, when concerns about a potential escalation in the Middle East alone caused oil prices to explode. The likelihood of a new oil crisis, comparable to the oil price shock of 1973, seems much lower today. This is also due to changes on the supply side. For instance, thanks in part to new fracking methods, the US has become by far the largest producer in the world (see chart 3) and is largely energy self-sufficient.

3. US BY FAR THE WORLD'S LARGEST OIL PRODUCER

Global production: 102 million barrel / day (2023)



Source: US Energy Information Administration (EIA), UniCredit Group Investment Strategy

In addition, although global demand for oil is still growing, it is slowing down. The US Energy Information Administration (EIA), for example, recently lowered its **crude oil price forecasts**[9] for this year and next year to USD81 and USD78 per barrel of Brent, respectively. It justifies its revisions with concerns about the global economic outlook, in particular due to continued subdued demand from China. These would outweigh short-term supply uncertainties due to geopolitical risks in the Middle East. In mid-October, OPEC cut its oil demand forecasts for this and next year for the third time in a row. In the longer term, the IEA assumes that demand for fossil fuels will have peaked before 2030 and that global **oil demand will have levelled off at a maximum of just under 106 million barrels per day**[10] (from around 103 million barrels this year). The IEA expects global production capacities to grow significantly faster than demand and to exceed it by around 8 million barrels per day by 2030. This would mean sustained downward pressure on the oil price. According to the IEA, the transformation of energy systems worldwide – including both the expansion of electromobility and the rapid growth of renewable energies – is also contributing to this development.

[9]Link: https://www.eia.gov/outlooks/steo/pdf/steo_full.pdf

[10]Link: https://iea.blob.core.windows.net/assets/493a4f1b-c0a8-4bfc-be7b-b9c0761a3e5e/Oil2024.pdf

ASSESSMENT OF THE IMPACT OF THE CURRENT SITUATION ON THE INVESTMENT STRATEGY

Regarding the global financial markets, the extent of a possible risk-off movement induced by the Middle East conflict will largely depend on whether and to what extent the situation deteriorates further. While a ceasefire agreement and an exchange of prisoners between Israel and Hamas (best case scenario) currently seem a long way off, we do not expect a full-blown war between Israel and Iran (worst case scenario). In our base case scenario, in which energy supplies from the Middle East should be secured without major interruptions, the global financial markets should continue to view the region with a certain degree of composure. In this respect, fundamental adjustments to our asset allocation in response to developments in the Middle East do not appear to be appropriate at present.

In any case, the impact of geopolitical crises on the long-term performance of an appropriately diversified multi-asset portfolio is controversial: A **study by the world's largest asset manager BlackRock**[11], for example, concludes that the market reaction to geopolitical shocks (on average) is manageable and generally short-lived. We observe that geopolitical risks only have a significant impact on asset prices when they have a lasting effect on growth or inflation prospects. Thanks to the still intact narrative of a soft economic landing in the US, especially as it is accompanied by the prospect of further interest rate cuts and robust earnings expectations in 2025 and 2026, risky assets such as equities currently remain well supported.

[11]Link: https://www.blackrock.com/us/individual/literature/whitepaper/bii-gauging-geopolitics-june-2019.pdf

Nevertheless, increased market volatility is to be expected in the coming weeks (not only due to the Middle East crisis, but also in the context of the US presidential election on 5 November). In the event of a serious escalation of the Middle East conflict, a more pronounced correction of prices for risky assets, which have recently reached new highs again, appears inevitable – especially as more serious disruptions in the Strait of Hormuz could undermine consumer and investor confidence and fuel fears of inflation and recession. According to calculations by the International Monetary Fund (IMF), a permanent increase in the oil price of 15% would temporarily lead to a 0.7 percentage point (pp) higher global inflation rate. The IMF also sees a risk of significant economic repercussions for the region and the global economy, without quantifying the potential impact. This would also complicate the task of central banks, which cannot simultaneously fight inflation and support the economy.

As a portfolio hedge in the event of further escalation, investments in energy stocks from outside the Middle East appear worth considering, as these should benefit from an interruption in oil production in or oil transport from the Middle East. Gold can also be a building block in a portfolio, although the precious metal appears to be less and less orientated towards the typical **"safe haven"**[12] factors, i.e. hedging against geopolitical risks. Rather, the gold price is likely to benefit from further interest rate cuts – and thus falling yields – as well as continued robust demand from central banks (although this has recently declined) and increasing interest from investors.

[12]Investments in "safe havens" generally retain their value or even increase in value when the market collapses. The lower risk of safe havens, which traditionally include gold, government bonds, defensive equities and cash, is usually accompanied by lower potential returns.

Macro & Markets

US economy solid, growth risks in the Eurozone increase

USA: DATA REVISIONS SHOW ECONOMY IN ROBUST CONSTITUTION

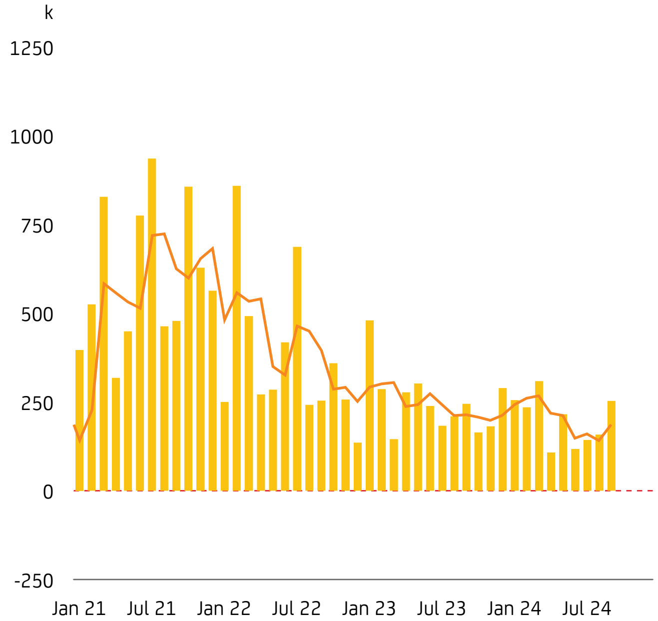
The latest economic data suggests that the US economy remains in robust shape. Not only has the GDP growth of the last two years been revised upwards, showing that the US economy has grown more strongly than many expected, but the latest employment figures also show that the US labor market remains robust (see chart 4). For example, 254,000 new jobs were created in September, more than at any time since March and significantly more than analysts had expected (150,000 on average). The unemployment rate also fell for the second month in a row and is now back at just over 4%. Although there are some statistical indications that the employment figures in September may have been somewhat too high, they do not provide any evidence of a sharp downturn in the economic situation. Looking at the long-term employment trend, it continues to show a weakening and thus normalization trend, which supports our assumption of a **soft landing**[13] of the economy. The slowdown in momentum is also evident on the inflation side. The overall rate fell for the sixth consecutive month in September 2024 to 2.4% year-on-year (from 2.5% in August), the lowest level since February 2021. The decline was mainly due to the decline in energy prices (deflation) (-6.8% compared to -4% in August). By contrast, year-on-year inflation in the core rate (overall rate excluding the volatile energy and food components) accelerated to 3.3% after 3.2% in the two previous months, which is mainly due to the slowdown in the fall in prices for new and used cars. By contrast, the much-noticed prices for rents and services (excluding residential rents) rose less sharply, which reduced the underlying inflationary pressure.

As the markets consider the inflation issue to be largely averted, the focus is now primarily on growth issues. Against this backdrop, the recent better-than-expected US economic data has prompted the markets to price in interest rate cuts by the US Federal Reserve (see chart 4). While the market was still expecting three interest rate cuts by the end of 2024 (i.e. 75 bp) before the publication of the US labor market data, it has now fully priced in one rate cut and only expects a rate cut of 25 basis points for each of the November and December meetings (i.e. 50 bp by the end of 2024). This trend will continue at the beginning of 2025, where a 25 bp rate cut is expected over the course of the first quarter. The recalibration of the interest rate path was also supported by the published minutes of the US Federal Reserve's September meeting, which show a controversial discussion about the easing measures introduced. When the key interest rate was cut in September, there were some Fed members who would have preferred a less pronounced easing of monetary policy. According to the minutes, several Fed members noted that a 25 bp cut (rather than the 50 bp cut that actually occurred) would be consistent with a gradual normalization of monetary policy, which would give policymakers time to assess the degree of monetary tightening in light of further economic developments. We assume that the US Federal Reserve will now gradually continue its cycle of interest rate cuts, with two rate cuts of 25 bp each in November and December, followed by five further interest rate cuts of the same amount by the end of 2025.

[13] Soft landing describes a phase in which economic growth slows but the economy does not enter a recession. A hard landing, on the other hand, describes a sudden and sharp slowdown in the economy, which usually leads to a recession.

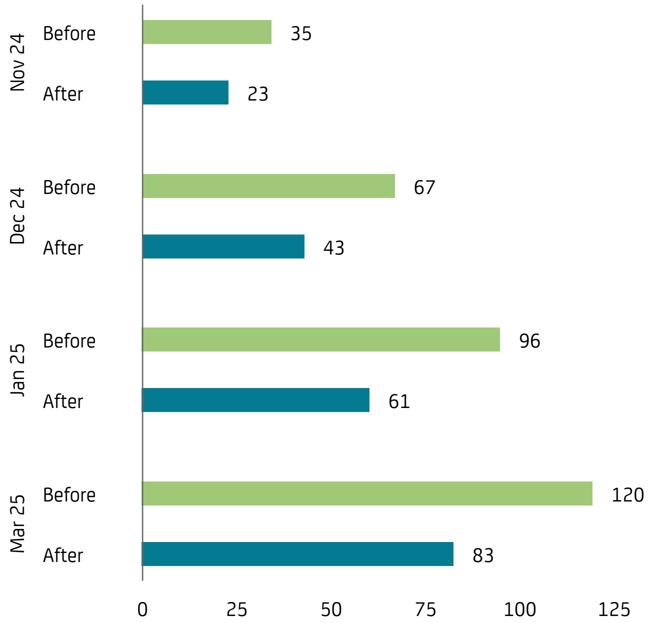
4. US LABOR MARKET SURPRISINGLY ROBUST IN SEPTEMBER, MARKETS ADJUST INTEREST RATE EXPECTATIONS

US LABOUR MARKET



MARKET EXPECTATIONS FOR US INTEREST RATE CUTS

in bp, before and after US labour market release (4th Oct 2024)



Source: Bureau of Labor Statistics (BLS), Bloomberg, UniCredit Group Investment Strategy

EUROZONE: ECB LOWERS KEY INTEREST RATES AGAIN DUE TO INCREASED GROWTH RISKS

The economic recovery in the eurozone slowed unexpectedly sharply in the third quarter. The Purchasing Managers' Index for the manufacturing sector fell to **45 points**[14] in September (compared to just under 46 points in the previous month), the lowest level this year (see chart 5). The corresponding index for the services sector also fell further, reaching a value of just over 51 points (after around 53 points in the previous month). Although this development continues to indicate moderate growth in the sector, it marks the weakest expansion in seven months. Furthermore, the inflation rate in the eurozone has fallen. The overall rate fell to 1.7% year-on-year in September (after 2.2% in August), the lowest level since April 2021. It is therefore below the ECB's target of 2%. The development of the core rate, which fell to 2.7% (from 2.8% in the previous month), should be particularly positive for the ECB, with inflation in services slowing in particular (to 3.9% after 4.1%).

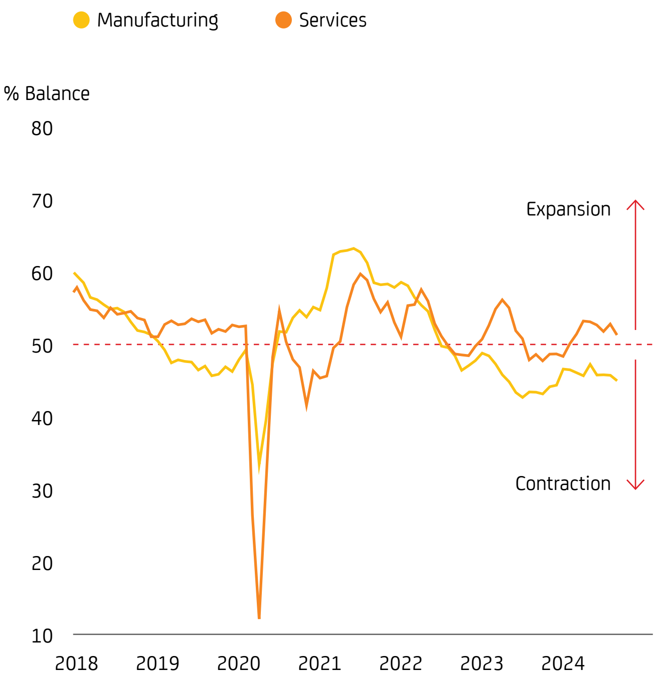
[14] Statisticians expect business activity to expand above the 50-point mark.

As expected, the ECB lowered the deposit rate for the third time this year at its meeting in October by 25 bp to 3.25% (see chart 5). The refinancing rate was reduced to 3.40 %. The **"doves"**[15] in the ECB Governing Council had been in favor of a further interest rate cut for some time. The decision was not only based on an updated assessment of the inflation outlook. In addition to the weak inflation report from September, particular reference was made to the recent weaker leading indicators, which are weighing on the economic outlook. The latter was also discussed at the press conference. ECB President Lagarde clearly pointed out the downside risks to growth that have recently emerged. Referring to the latest leading indicators (in particular the purchasing managers' indices), she noted that economic activity had been weaker than expected. In particular, she emphasized that growth in private consumption had fallen short of expectations and that the downside risks to employment growth had increased. These statements reinforce our view that the ECB will gradually continue its cycle of interest rate cuts and further reduce interest rates at its meetings over the coming year, with the deposit rate likely to reach a final level of 2% in September 2025.

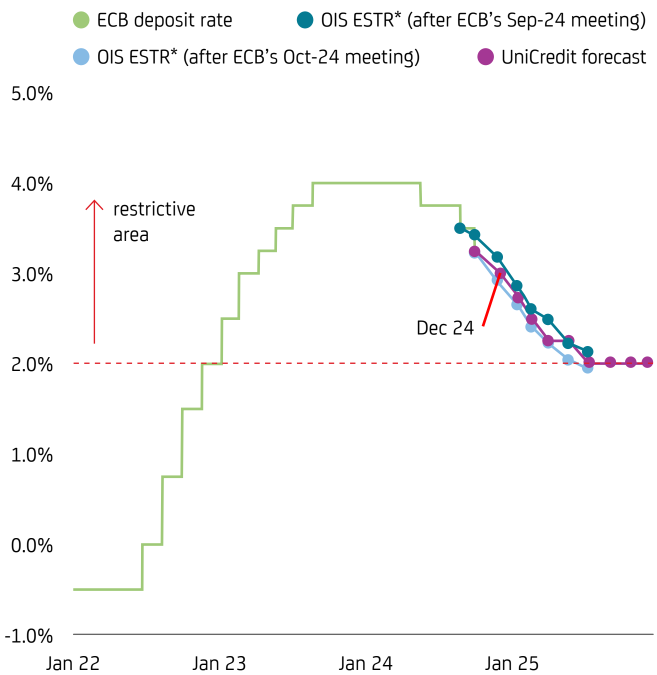
[15] Doves are generally in favour of a looser monetary policy and low interest rates in order to stimulate economic growth.

5. GROWTH RISKS IN THE EUROZONE ARE INCREASING, ECB DELIVERS EXPECTED NEXT INTEREST RATE MOVE

EUROZONE PURCHASING MANAGER INDEXES



EUROZONE KEY INTEREST RATE AND MARKET EXPECTATIONS



*An overnight index swap (OIS) is an interest rate swap in which a fixed interest rate is exchanged for a variable interest rate, whereby the variable interest rate relates to an overnight index (in this case the euro short-term rate, ESTR).
Source: S&P Global, ECB, Bloomberg, UniCredit Group Investment Strategy

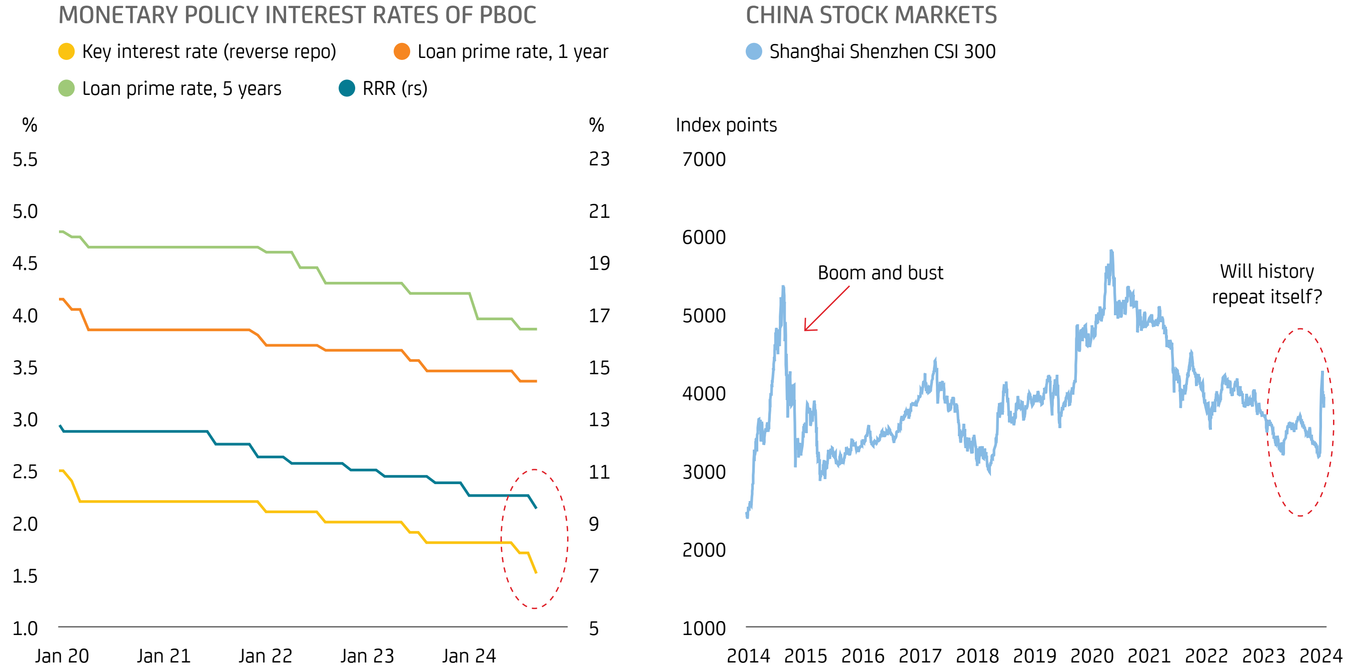
CHINA: ECONOMIC RECOVERY CONTINUES TO LOSE MOMENTUM IN THE THIRD QUARTER

According to the latest growth figures, the Chinese economy grew by 6.4% in the third quarter compared to the same quarter of the previous year, which was stronger than expected, but slower than at any time in the last six quarters. Inflation also remained stable in September at 0.4% (after 0.6% in the previous month) for consumer prices and -2.8% (after -1.8% in the previous month) for producer prices (compared to the same month of the previous year). The weak inflation on the consumer side in particular points to continued sluggish domestic economic development, even though private consumption has recently regained some momentum. Government subsidies for the modernization of consumer durables and increased subsidies for car purchases are likely to have had a supporting effect here. However, the economic outlook remains rather subdued, as leading indicators (e.g. purchasing managers' indices) continue to decline, meaning that the government's self-imposed growth target of 5% in 2024 is unlikely to be achieved. It will therefore be important to see in the coming weeks what additional stimulus measures the Chinese government will take to further boost growth.

In order to stabilize economic development, the Chinese government has recently announced a series of monetary and fiscal support measures. It can be assumed that further details will be announced after the meeting of the Standing Committee of the National People's Congress (NPCSC). However, a date for the meeting has not yet been set. In terms of monetary policy, the People's Bank of China (PBoC) has taken a number of measures in recent weeks. In addition to lowering the existing mortgage interest rate (by around 50 bp) to support the real estate market, the PBoC lowered the **RRR**[16] by 50 bp (and announced a further cut of 25-50 bp by the end of the year) and the key interest rate by 20 bp (see chart 6). In addition, new share buyback facilities totaling 800 billion Chinese renminbi were announced. The exact details of the fiscal support measures are still pending. Due to the high level of government debt, however, we see little chance of significant measures in the short to medium term and therefore only limited growth impetus. It can be assumed that it will take some time to identify suitable measures to overcome China's structural problems (including high overcapacity in industry and the construction sector as well as weak private demand). Moreover, such measures will probably only take full effect after a certain delay. Meanwhile, the Chinese stock markets reacted to the announcement of the new measures with a significant price rally (see chart 6 and our comments in the following section).

[16] The RRR (Reserve Requirement Ratio) is the minimum reserve ratio for banks, which determines the amount of mandatory balances to be held. Due to this obligation, the bank cannot use part of its available balances at the central bank for other purposes, e.g. as credit on the interbank market. A reduction in the RRR is therefore considered to stimulate growth.

6. CHINA WITH FURTHER STIMULUS MEASURES TO SUPPORT THE ECONOMY, STOCK MARKETS BENEFIT



Note: Past performance, simulations and forecasts are not a reliable indicator of future performance. The indices cannot be purchased and therefore do not include any costs. When investing in securities, costs are incurred which reduce the performance. When investing in foreign currency, the return may also rise or fall as a result of currency fluctuations.

Source: PBoC, Bloomberg, UniCredit Group Investment Strategy, observation period: 18.10.2014-18.10.2024

FINANCIAL MARKETS: STIMULUS LEADS TO RALLY IN CHINESE EQUITIES, OVERALL CONSTRUCTIVE MARKET ENVIRONMENT EXPECTED UNTIL YEAR-END

The recent, politically motivated stock market rally in China – against the backdrop of the country's structural economic problems – is very similar to the development in 2014/15 (see chart 6 above): Back then, the broad Chinese stock market experienced a remarkable rally and had almost doubled since November 2014 before collapsing spectacularly in June 2015. Then, as now, clear political signals from the central government, a high supply of liquidity to the market and positive investor sentiment were the key factors behind the equity boom, although the Chinese real economy was also in a weak state at the time (i.e. high levels of debt and an unbalanced growth model with a one-sided focus on investment and exports).

While the still unclear economic policy development in China raises questions regarding the medium-term profitability of investments in this region, we do not expect an immediate slump like in 2015. China therefore remains interesting for us from a tactical allocation perspective. However, from a strategic perspective, the Chinese government needs to present a coherent policy program to address the structural problems. These include insufficient private demand and the associated deflation risks as well as overcapacity in the real estate sector. As we have not yet been able to identify any far-reaching political measures to solve these problems, we are sticking to our assessment that additional investment in China is less attractive in the medium term.

Overall, the last few weeks on the global financial markets have been characterized by a predominantly positive mood. After September, which is considered one of the most difficult months on the stock markets, began with a rather negative sentiment and the weakest trading day since the sell-off at the beginning of August, investors increasingly focused on the monetary policy decisions of the Fed and the ECB. The narrative of a "soft landing" for the US economy remained intact (supported by unexpectedly strong economic data), and the latest inflation data from the eurozone and the US underpinned the prospect of a continuation of the gradual cycle of interest rate cuts.

In the reporting period (September 1 to October 18), this mixed situation provided a significant tailwind on the stock markets, with the US markets in particular performing strongly. In addition to the evidently stronger fundamental data for the US economy, the consensus (median of analysts' expectations) for US companies' earnings expectations for the next twelve months is also better than for Europe. Against the backdrop of the interest rate reduction cycle initiated by the Fed and ECB, the expected soft landing of the US economy and a gradual economic recovery in Europe in the coming year, the constructive stock market environment should continue in the last two months of the year. However, setbacks remain possible, particularly in view of possible surprises during the current reporting season, the increased uncertainty surrounding the US presidential elections and the crisis in the Middle East (see also Focus).

A look at fixed-income investments shows that the volatility at the beginning of September led to a flight to quality, while the prospect of (further) interest rate cuts by the major Western central banks initially caused yields on the bond markets to fall further. However, the Fed's increase in the **neutral long-term interest rate**[17] as part of its monetary policy decision in mid-September initiated a trend reversal and pushed yields at the long end slightly higher again. This upward correction in yields subsequently continued. For the first time since August, the yield on 10-year US government bonds climbed back above the 4% mark, and the yield on two-year bonds also temporarily rose above this threshold (see table on page 21). This was mainly due to the surprisingly strong US labor market data and the temporary market expectation of a **"no landing"**[18] for the US economy. Investors continue to focus on the normalization of the yield curve: the US Treasury curve has steepened significantly in recent weeks, i.e. the yield differential between short-term and long-term bonds has widened. Given the deteriorating economic environment in the eurozone, Bund yields were able to partially decouple from the yield trend in the USA. Yields on 10-year Bunds even fell slightly in the reporting period and 2-year Bund yields also largely followed the same downward trend (see table on page 21).

In recent weeks, the escalation of the Middle East conflict has had a major impact on the oil price, although the risk premium in October has since been largely priced out again (see table on page 21, a detailed analysis of the oil price trend can be found in the Focus section). The price of gold climbed to a new record high of over USD 2,700 per troy ounce by the reporting date (October 18). In addition to the uncertainties surrounding the Middle East conflict and the upcoming US elections, the recent fall in the oil price is likely to have provided a boost, as it dampened fears of a stronger rise in inflation and fueled hopes that central banks have further scope to cut interest rates. In the environment outlined above (weak economic data from the eurozone versus robust US data), the recovery rally of the single currency came to a halt for the time being: the euro fell back below the USD 1.10 mark (see table on page 21).

[17]The neutral interest rate is defined as the interest rate that is compatible with fully utilised production potential and a constant inflation rate.

[18]A 'no-landing' scenario describes a situation in which the economy not only avoids a recession, but grows despite a restrictive monetary policy.

Asset Allocation – How we manage our portfolio mandate

Asset		Investment Universe	Investment View		
			Underweight	Neutral	Overweight
Main Asset Classes		Global Equities	○	●	○
Main Asset Classes		Global Bonds	○	○	●
Main Asset Classes		Money Markets	●	○	○
Main Asset Classes		Alternatives	○	●	○
Main Asset Classes in Detail	Equities	US	○	●	○
Main Asset Classes in Detail	Equities	Europe	○	●	○
Main Asset Classes in Detail	Equities	Pacific (DM[1])	○	○	●
Main Asset Classes in Detail	Equities	Emerging Markets	○	●	○
Main Asset Classes in Detail	Bonds	EMU Government Bonds	○	●	○
Main Asset Classes in Detail	Bonds	Non-EMU Government Bonds	○	●	○
Main Asset Classes in Detail	Bonds	EUR IG Corporate Bonds	○	○	●
Main Asset Classes in Detail	Bonds	HY Corporate Bonds	●	○	○
Main Asset Classes in Detail	Bonds	Emerging Market Bonds (Hard Currency)	○	○	●
Main Asset Classes in Detail	Bonds	Emerging Market Bonds (Local Currency)	○	○	●
Main Asset Classes in Detail	Commodities	Oil	○	●	○
Main Asset Classes in Detail	Commodities	Gold	○	●	○

[1]DM= Developed Markets (Australia, Japan, Hong Kong, New Zealand, Singapore)

EQUITIES

GLOBAL EQUITIES: NEUTRAL

The environment for global equities remains favourable: despite monetary policy still in restrictive territory and signs of a slowdown, the US economy remains very resilient. In addition, the trend towards central bank rate cuts is broadening from a global perspective, with the Fed having ample room to further ease rates. Despite a few exceptions, earnings and revenue expectations have not disappointed so far. Moreover, the European economy is more fragile but nonetheless in decent shape, and the prospect of a less restrictive monetary policy continues to provide support as well. The fourth quarter traditionally offers positive seasonality for equities. On the other hand, valuations are relatively high in some areas and geopolitical risk remains meaningful. We are therefore maintaining a neutral weighting for global equities.

EQUITIES EUROPE: NEUTRAL

Recent macroeconomic data indicates that the economic environment in the eurozone remains weak. However, we do not expect another strong decline in economic activity. The labour market remains solid, inflation is cooling, and consumer confidence is regaining ground. Nonetheless, the manufacturing PMI remains sluggish and exposed to the risk of deterioration of global trade. The still comparatively favourable valuations with respect to US stocks support European equities, which offer correspondingly good opportunities for value- and quality-oriented investors. Overall, we think the outlook for the fourth quarter remains constructive and confirm a neutral weighting on the asset class.

US EQUITIES: NEUTRAL

US economic growth is undoubtedly losing steam but remains very robust. Hence, we continue to believe that a soft landing of the US economy remains more likely than a hard landing. The fact that the Fed has initiated its easing cycle, in combination with its constructive messages on the economy and inflation, should support equity markets. However, valuations remain quite high both in historical terms and with respect to the rest of the world. Overall, we prefer to maintain a neutral stance on the asset class.

EMERGING MARKET EQUITIES: NEUTRAL

We remain strategically cautious on emerging market (EM) equities, mainly because of our gloomy outlook on Chinese stocks. Although the Chinese stock market rallied at the end of September, thanks to stimulus by the Chinese government and central bank, geopolitical concerns and structural problems in the economy – mainly related to problems in the real estate sector and low consumer confidence – remain. Overall, valuations of EM equities, in turn, appear comparatively favourable. We continue to favour a neutral weighting and to stress the need for a selective approach to EM by country and sector.

PACIFIC EQUITIES (DEVELOPED MARKETS): OVERWEIGHT

The end of the negative interest rates era and of the yield curve control policy by the Bank of Japan (BoJ) has positive implications for the Japanese yen. The rise in corporate profits and the reform of the Tokyo Stock Exchange are boosting equity prices, encouraging extensive share buybacks. While valuations still do not appear expensive, the potential headwind for earnings from a stronger yen and some mixed policy signals from the BoJ must also be taken into consideration. Overall, we remain overweight on Pacific equities.

MONEY MARKETS: UNDERWEIGHT

Cash generally offers interesting returns, but we favour investments in higher-yielding fixed income asset classes such as euro-denominated corporate bonds with good credit ratings, as we continue to expect interest rates in the US and the eurozone to fall (further). We remain underweight in this investment segment.

BONDS

GLOBAL BONDS: OVERWEIGHT

Given current yields and prospective monetary policy easing by major western central banks, global bonds offer attractive risk-adjusted returns, supported by ongoing disinflation and slowing, though resilient, economic growth. Historically, a period of rate cuts has been a compelling time for fixed income investments. We reiterate our strategic preference for high quality bonds, such as Euro investment grade corporate and Euro government bonds. Long duration government bonds may play a precious macro-hedging role in the event of a significant economic slowdown (although this is not our baseline scenario). We are thus maintaining our overweight on global bonds.

EMU GOVERNMENT BONDS: NEUTRAL

Euro Government bonds (govies) should benefit from the ongoing disinflation process supporting the ECB's easing cycle. However, future cuts seem already fairly priced in at the current level of yields, and only further deterioration of the economic outlook and labour market data could possibly reflect into additional gains for the asset class. We are therefore maintaining a neutral view on this asset class.

NON-EMU GOVERNMENT BONDS: NEUTRAL

The still robust US economy is supporting non-EMU government bonds, even though signs of a slowdown have recently become clearer. The decision by the Fed to start cutting interest rates boosted the asset class. However, even if marginal, the risk of higher-than-expected inflation and fewer-than-expected interest rate cuts by the Fed remains. We therefore are maintaining a neutral weighting in this asset class.

EURO INVESTMENT GRADE CORPORATE BONDS: OVERWEIGHT

Credit spreads on euro-denominated corporate bonds, which continue to be supported by the resilience of the economic cycle and investors' ongoing search for yield, are at historically tight levels. Overall, the fundamentals of investment grade (IG) companies are expected to remain robust thanks to healthy balance sheets, higher-than-expected earnings, strong cash balances and low leverage levels compared to the long-term averages. We are maintaining our overweight for this asset class.

HIGH YIELD CORPORATE BONDS: UNDERWEIGHT

The credit spreads of high yield (HY) corporate bonds, particularly those of companies with low credit ratings, still do not appear to fully reflect a possible noticeable slowdown in the economy (which is not our base case). In addition, low liquidity of HY bonds makes them less appealing in the current phase of the economic cycle. HY bonds therefore remain underweighted.

EMERGING MARKET BONDS (HARD CURRENCY): OVERWEIGHT

EM bonds in hard currencies generally offer an interesting carry (yield advantage over euro government bonds). Moreover, the continuing monetary easing by the Fed and a weaker US dollar should benefit emerging market economies. Accordingly, we maintain our positive assessment of this asset class, pointing out that given the potential weakening of the US dollar, implementing hedged currency strategies represent an opportunity to limit potential losses for a European investor.

EMERGING MARKET BONDS (LOCAL CURRENCY): OVERWEIGHT

EM bonds in local currency also offer an interesting carry. Ample room for interest rate cuts should benefit the asset class. In addition, EM currencies appear undervalued and are likely to regain ground when the Fed continues to cut interest rates. EM bonds in local currency remain overweighted.

ALTERNATIVES: NEUTRAL

Alternative investments continue to offer diversification potential for the portfolio. Real assets benefit from their role as instruments for hedging against inflation. We are maintaining a neutral weighting for alternative investments.

COMMODITIES: NEUTRAL

On the one hand, low oil inventories, production cuts by OPEC+ (the major oil producing countries and Russia, totalling 23 states), as well as geopolitical tensions, continue to support oil prices. On the other hand, demand has gradually normalized, with the deterioration of the global outlook, but lower rates may provide tailwinds for energy demand. We continue to favour a neutral weighting in this asset class.

GOLD: NEUTRAL

The gold price reached a new record high in October, as gold continues to benefit from central bank purchases – particularly by the People's Bank of China and the Reserve Bank of India – and increasing investor demand. Upcoming interest rate cuts may support gold, while a weaker US dollar and the moderation of geopolitical uncertainties could curb the demand for gold. We are maintaining a neutral weighting.

CURRENCIES

EUR-USD

Latest macro data, particularly the cooling of US inflation, support monetary easing by the Fed, reducing the interest rate gap with respect to ECB rates. In the current environment (weak economic data from the eurozone against robust US data), the recent recovery of the single currency has come to a standstill, but in the medium term, we see the potential for a partial devaluation of the US dollar against the euro.

How to invest

Investment ideas in the current scenario

EQUITY INVESTMENTS

OUR IDEA: THE GLOBAL IMPACT OF CHINA'S STIMULUS

Until mid-September, international investors had been cautious about China due to ongoing economic challenges and a slowdown in growth compared to the previous decade. However, the People's Bank of China's recent announcement of an economic stimulus package has rekindled interest in the country. The measures aim to achieve a 5% GDP growth target for this year and include reducing banks' reserve requirements, cutting interest rates, and a particular focus on the real estate sector – through reducing rates on housing loans and supporting local governments in the purchase of unsold houses. In addition, about $70 billion has been made available for investment funds and insurance companies for them to buy Chinese equities, along with $42 billion earmarked for credit lines for listed companies wishing to buy back their own shares. These interventions represent an even greater commitment than that adopted during the Covid-19 pandemic and immediately generated a rebound in the Chinese stock market, making it the best performing since the beginning of the year – albeit only for a few days.

After the initial euphoria and the closure of some short positions, however, investors are now thinking about whether such stimulus can be sufficient to address the country's deep challenges, such as deflation and the difficulties of the real estate market. Currently, the market believes that the announced package does not represent a "whatever it takes" and that further measures, expected in late October and December, will be crucial to stimulate consumption and further support the recovery of the real estate sector. This and the disappointment with the lack of detail provided regarding fiscal stimulus justify the subsequent retracement.

While waiting for further action, the initial impact of the stimulus can be tracked via key consumer confidence indicators such as demand in the housing sector – especially in the first week of October, which is historically the most active for homebuyers – retail spending data, and travel and restaurant spending. With a national savings rate close to 30%, there is potentially plenty of room for increased consumption.

From an equity perspective, historically in China, economic growth has not always translated into a proportional increase in profits for listed companies. After the mid-September rally, it is possible that the government's efforts will continue to drive the market for a while longer. But for a sustained rally, earnings will need to return to growth and there are currently no signs of support in this regard, unlike what has been observed in Japan with the reforms on Corporate Governance and the focus on Return on Equity.

The Chinese measures have also been felt in Europe, which is the developed area with the highest exposure in terms of revenue to the Chinese market. While not enough to create an impact on European GDP at an aggregate level, considering that it would take a 10% increase in exports to China for a 15 basis points increase in GDP in the EU area, the measures were sufficient for a rebound in the most exposed sectors such as metals & mining (36% of revenues), semiconductors (27%), luxury (20%), chemicals (19%) and automotive (17%). In mid-September the metals & mining sector was trading at a Price-to-Book of more than 1 standard deviation below its historical average relative to the market (STOXX Europe 600), worse than the Covid-19 period and the global financial crisis. As China is the largest consumer of industrial commodities, the announcement of the measures immediately led to a normalisation of valuations, and we believe that any further stimulus will support further re-rating of the sector. The cycle also appears to be favourable, with seasonal restocking activity expected to support underlying commodity prices at least until the end of the year.

On the other hand, we remain more cautious on other sectors due to cyclical and structural issues independent of the "China" theme. The luxury sector had the strongest rebound immediately after the announcement, however, the lack of visibility on topline growth and weak results in the third quarter keep us sceptical about the sector's development in the medium term. In the short term, we recognise that it could hold positive surprises if the stimulus proves capable of increasing consumer confidence and stimulating spending, leading to better-than-expected results for the last three months of the year.

Furthermore, the intervention in China and the recent interest rate cut in the US create a favourable environment for EMs, although greater visibility on upcoming measures is needed for a repositioning towards this area.

In conclusion, given the lack of transparency in corporate governance, a difficult political situation and the strong dependence of the equity index on macroeconomic conditions, we believe it is appropriate to remain cautious while maintaining a neutral strategic exposure to the Chinese domestic market. This is especially true considering that China's weight in the MSCI World All Countries index is now less than 3% and therefore its impact on global portfolios can be considered marginal. Tactically, however, positioning can be more constructive, especially if you believe in upcoming further liquidity injections. In fact, the tactical rally is likely to continue, with analysts estimating rises in a range of 10% to 20%, mainly driven by a re-rating of valuations to narrow the gap with EMs and the growing demand for diversification and benchmarking from international investors. Finally, we believe that increasing or reducing exposure to the country is best maneuvered through companies in the developed world with exposure to China, and which can benefit from a Chinese economic recovery or diversify into other markets if activity levels remain depressed.

BOND INVESTMENTS

OUR IDEA: IS NOW THE TIME FOR EM BONDS?

At its mid-September meeting, the investment committee decided to overweight emerging market (EM) bonds. There are a number of reasons for this move, including the recent decision by the US Federal Reserve (Fed) to cut interest rates by 50 basis points, more than expected, at its meeting in September.

EM debt is particularly attractive as it is the asset class that could benefit most from easing US monetary policy, especially in a soft landing scenario for the US economy.

Although valuations do not appear to have any further significant room to tighten in terms of the differential between US and EM rates, the significantly higher absolute yields of EM bonds offer a very attractive return for a European investor. In fact, in the few weeks following the interest rate cut by the Fed, the asset class saw a recovery in flows.

The rate cuts in the US will also allow EM countries to ease their monetary policies, further strengthening the economies where inflation and financial stability are under control. Conditions also look favourable for EM local currency bonds, in the expectation that EM currencies can gain against the US dollar. In addition, EM corporate bonds should continue to perform well, thanks to the solid fundamentals of many companies, justifying a further tightening of their credit spreads in the coming months. Finally, any increase in commodity prices – as long as it is not accompanied by a jump in volatility, caused for example by tensions in the Middle East – could prove to be an additional advantage.

Of course, there are also risks. In the short term, the sector could suffer from some uncertainty related to the US elections and the implications in terms of US trade policies depending on the victory of one candidate or the other. The two candidates' head-to-head in the polls (and the many possible combinations of the balance between Republicans and Democrats in Congress and the White House) may lead many investors to be cautious. But in all likelihood, after an initial phase of volatility, EM bonds will benefit from macroeconomic and monetary policy fundamentals, especially in a scenario characterised by a soft landing of the US economy and further accommodative policy from the Fed.

The easing of global financing conditions has already enabled many issuers in developing countries to regain market access and drastically reduce the number of defaults over the past few months.

In addition, for many countries, fundamentals appear to be steadily improving. For example, in recent months Paraguay and Azerbaijan have been upgraded by rating agencies to "investment grade".

Progress has also been made in restructuring difficult situations: Ukraine has completed the restructuring of its debt and Ghana launched a debt swap in September, and even niche issuers such as Cameroon have managed to successfully issue Eurobonds on the market.

Significant progress has been made in the restructuring of corporate securities, particularly in Latin America and in some cases also by Chinese real estate companies.

In conclusion, emerging economies are growing faster than the developed world, inflation trends are supportive, and the US is easing into a non-recessionary environment. These are factors that we believe will be sufficient to offset the short-term concerns around the upcoming US election.

The table

DEVELOPMENT OF SELECTED FINANCIAL MARKET INDICES

From	**18.10.23**	18.10.19	18.10.20	18.10.21	18.10.22	18.10.23	18.10.19	**01.01.24**
To	**18.10.24**	18.10.20	18.10.21	18.10.22	18.10.23	18.10.24	18.10.24	**18.10.24**
Stock market indices (total return, in %)								
MSCI World (in USD)	**35.5**	13.3	30.0	-19.4	18.6	35.5	89.3	**20.3**
MSCI Emerging Markets (in USD)	**27.8**	12.1	16.8	-29.2	10.6	27.8	29.9	**15.7**
MSCI US (in USD)	**39.3**	20.7	31.1	-17.7	18.0	39.3	112.8	**24.1**
MSCI Europe (in EUR)	**22.8**	-5.5	30.7	-10.3	15.2	22.8	55.5	**12.8**
MSCI AC Asia Pacific (in USD)	**27.9**	12.0	16.1	-27.9	15.6	27.9	36.8	**15.6**
STOXX Europe 600 (in EUR)	**23.3**	-4.0	30.5	-11.7	15.0	23.3	55.6	**12.9**
DAX 40 (Germany in EUR)	**30.7**	2.0	19.9	-17.5	18.3	30.7	55.6	**17.4**
MSCI Italy (in EUR)	**35.4**	-15.5	38.5	-13.5	37.3	35.4	86.6	**23.0**
ATX (Austria, in EUR)	**24.0**	-26.4	77.1	-22.6	16.4	24.0	44.3	**11.0**
SMI (Switzerland, in CHF)	**21.8**	5.4	20.8	-9.1	4.1	21.8	44.3	**14.3**
S&P 500 (USA, in USD)	**39.1**	18.4	30.7	-15.8	17.9	39.1	112.8	**24.3**
Nikkei (Japan, in JPY)	**26.3**	6.3	26.0	-4.4	20.5	26.3	90.9	**18.4**
CSI 300 (China, in Yuan)	**14.5**	24.6	3.6	-19.6	-3.5	14.5	13.7	**17.7**
Bond market indices (total return, in %)								
US Government Bonds 10Y (in USD)	**11.7**	12.7	-5.0	-17.4	-3.6	11.7	-5.3	**1.5**
US Government Bonds (ICE BofA, in USD)	**10.3**	8.3	-3.3	-14.0	-1.5	10.3	-2.6	**2.4**
US Corporate Bonds (ICE BofA A-BBB, in USD)	**15.9**	8.6	1.5	-19.0	3.4	15.9	6.1	**4.8**
German Bunds 10Y (in EUR)	**9.0**	2.4	-4.1	-18.9	-2.3	9.0	-15.0	**1.0**
EUR Government Bonds 1Y-10Y (iBOXX, in EUR)	**10.3**	2.9	-2.9	-17.9	-1.9	10.3	-11.0	**2.2**
EUR Corporate Bonds 1Y-10Y (iBOXX, in EUR)	**10.7**	1.6	0.2	-15.9	3.8	10.7	-1.7	**4.2**
Bond yields (change in basis points = 0.01 percentage points)								
US Government Bonds 10Y (in USD)	**-90**	-101	84	241	90	-90	233	**21**
US Government Bonds (ICE BofA, in USD)	**-106**	-119	57	319	80	-106	234	**-4**
US Corporate Bonds (ICE BofA A-BBB, in USD)	**-149**	-98	20	373	44	-149	198	**-20**
German Bunds 10Y (in EUR)	**-71**	-22	47	243	61	-71	257	**18**
EUR Government Bonds 1Y-10Y (iBOXX, in EUR)	**-93**	-28	38	265	72	-93	251	**5**
EUR Corporate Bonds 1Y-10Y (iBOXX, in EUR)	**-144**	-13	13	387	14	-144	259	**-25**
Spreads on government bonds (credit spreads, change in basis points)								
US Corporate Bonds (ICE BofA US Corporate Master)	**-48**	14	-44	80	-40	-48	-35	**-21**
US Corporate Bonds (ICE BofA US High Yield)	**-149**	94	-183	184	-63	-149	-114	**-46**
Euro Corporate bonds (ICE BofA Euro Corporate AAA-A)	**-46**	1	-13	111	-49	-46	6	**-26**
Euro Corporate Bonds (ICE BofA Euro High Yield)	**-154**	97	-137	289	-138	-154	-35	**-68**
Money market rates (change in basis points)								
Libor (USD, 3 months)	**-82**	-175	-9	411	143	-82	290	**-74**
Euribor (EUR, 3 months)	**-80**	-10	-4	200	254	-80	361	**-71**
Euro exchange rates (change in %)								
US Dollar (EUR-USD)	**2.7**	5.7	-1.2	-15.2	7.4	2.7	-2.7	**-1.8**
British Pound (EUR-GBP)	**-4.5**	4.7	-7.1	2.9	-0.4	-4.5	-3.8	**-4.3**
Swiss Franc (EUR-SFR)	**-0.7**	-2.5	-0.1	-8.6	-3.1	-0.7	-14.5	**1.5**
Japanese Yen (EUR-JPY)	**2.9**	2.3	7.2	10.7	7.8	2.9	34.5	**4.1**
Commodities (change in %)								
Commodity Index (GSCI, in USD)	**37.0**	23.9	-8.3	-6.9	18.2	37.0	72.8	**30.9**
Industrial metals (GSCI, in USD)	**16.8**	7.3	54.8	-24.9	-0.2	16.8	44.5	**10.4**
Gold (in USD per fine ounce)	**39.1**	27.6	-7.1	-6.6	17.5	39.1	82.5	**31.6**
Crude oil (Brent, in USD per barrel)	**-21.5**	-27.2	96.4	6.8	1.6	-21.5	21.9	**-6.5**

Please note: Past values and forecasts are not a reliable indicator of future performance. Indices cannot be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance. The return on investments in foreign currencies may also rise or fall as a result of currency fluctuations. So-called synthetic bonds are calculated to reflect the performance of government bonds in a fixed maturity range. In each case, the most "suitable" real federal bond at the relevant time is used as a reference for the yield opportunity of the synthetic bond. The development of the expected yield to maturity is shown under the following conditions: servicing of interest payments and redemption in accordance with the terms and conditions and holding until maturity. In this respect, it is a yield opportunity. The yield opportunities reflect the different risk assessments of the investors for the respective products or countries (higher yield opportunity=higher risk assessment). The synthetic bonds cannot be purchased and therefore do not include any costs. In the case of currencies and commodities, acquisition and/or custody costs incurred are not included. Source: Refinitiv Datastream. Data as at 18.10.2024.

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