BERENBERG
Markets

MONITOR

03 August 2020

Current market commentary

The lackluster summer has already begun. While equity markets rose in the first three weeks of July, partly thanks to a better-than-expected Q2 reporting season, last week brought a correction - particularly in Europe. However, the major US technology stocks continued to rise thanks to good quarterly figures. Political uncertainty remains high, the positive economic surprises of recent months are likely to fade and a renewed lockdown due to a second wave of corona would be fatal for the global economy. Moreover, the August-September period is often weak for equities. Positive drivers would be an agreement on the next US fiscal package as well as positive developments on a Covid 19 vaccine. We expect a volatile August without much upside potential. However, the still pessimistic sentiment, the less aggressive positioning of many investors and the loose fiscal and monetary policy should limit setbacks and allow us to remain positive for the equity markets in the medium term.

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

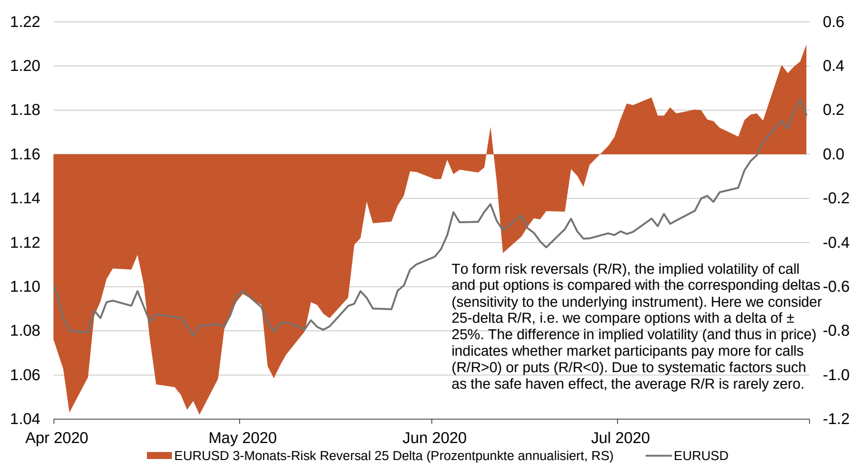
Little impulse is expected from central banks in August.

Central banks are going into a summer break. The next monthly meeting of the Fed and ECB will not take place until September. Only the Bank of England meets in August. However, the market does not expect a rate cut at the meeting (Thursday). The Q2 reporting season has advanced. Although the reporting season continues until the end of August, by mid-August the majority of companies have reported for both the S&P 500 and the Stoxx 600.

In the USA, the labour market data are upcoming.

In the US this week, in addition to Thursday and Friday's employment data, the ISM Manufacturing and Services Purchasing Managers' Index (today, Wednesday) and Factor Orders of June (Tuesday) will be released. Next week the Industrial Production data (July), Retail Sales (July) and Consumer Confidence (Aug.) will follow. This Wednesday the Service PMI for China (Caixin), Italy and Spain will be released, and on Friday the June Industrial Production data for Germany and France.

Options markets are also increasingly positioned pro euro



- The US dollar has recently depreciated significantly. The declining interest rate advantage of US bonds, the political uncertainty (US election) and the continuing high corona cases are a drag, while sentiment for Europe has improved considerably, especially after the decision on the EU Recovery Fund.
- The current pro euro positioning could slow down the trend or lead to countermovements. However, if a synchronous economic upturn occurs in 2021, the US dollar is likely to remain under pressure.

Source: Bloomberg, period: 01.04.2020 - 31.07.2020

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (03/07/20 - 31/07/20)	YTD (31/12/19 - 31/07/20)	31/07/19 31/07/20	31/07/18 31/07/19	31/07/17 31/07/18	31/07/16 31/07/17	31/07/15 31/07/16
Gold	6.3	24.0	31.5	21.9	-2.3	-11.4	21.2
Industrial Metals	1.4	-6.7	-6.8	-0.4	6.4	12.0	-2.8
Eonia	0.0	-0.3	-0.4	-0.4	-0.4	-0.4	-0.2
MSCI Emerging Markets	-0.1	-6.4	0.6	2.9	5.3	17.9	-2.1
Global Convertibles	-0.5	6.3	10.6	9.1	7.8	8.5	-1.3
MSCI World	-1.2	-6.0	1.2	9.0	12.9	9.7	-1.8
Global Coporates	-1.4	1.4	3.4	12.4	0.2	-2.9	5.5
Global Treasuries	-1.8	1.3	1.4	10.9	0.3	-8.5	11.0
REITs	-3.1	-15.5	-13.0	16.2	1.5	-12.1	13.9
Brent	-4.2	-42.5	-38.2	-3.5	50.6	2.2	-33.0
USDEUR	-4.5	-4.8	-6.0	5.5	1.3	-5.6	-1.7
MSCI Frontier Markets	-5.9	-20.3	-18.8	9.1	4.2	13.6	-9.6

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; Global Treasuries: Bloomberg Barclays Global Agg Treasuries TR; Global Corporates: Bloomberg Barclays Global Aggregate Credit TR
Global Convertibles: Bloomberg Barclays Global Convertibles Composite TR; Gold: Gold US Dollar Spot; Brent Crude: Bloomberg Brent Crude Subindex TR;
Industrial Metals: Bloomberg Industrial Metals Subindex TR; Eonia: Eonia Capitalizaiton Index; USDEUR: Price of 1 USD in EUR.

- Worries about a second corona wave and the weakness of the US dollar make gold the winner of the last four weeks. The continually dovish central banks are also giving the precious metal tailwind. Since the beginning of the year gold has been the best asset class.
- In addition to Gold, base metals and emerging market equities also showed a positive performance over four weeks. Laggards were the US dollar and frontier-market equities.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/07/2015 - 31/07/2020

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (03/07/20 - 31/07/20)	YTD (31/12/19 - 31/07/20)	31/07/19 31/07/20	31/07/18 31/07/19	31/07/17 31/07/18	31/07/16 31/07/17	31/07/15 31/07/16
MSCI EM Asia	0.3	0.8	10.3	0.4	5.9	21.6	-2.2
S&P 500	-0.4	-2.5	5.7	13.6	17.3	9.6	4.2
Stoxx Europe Small 200	-0.4	-11.9	-2.8	-1.3	9.3	18.4	-8.8
MSCI USA Small Caps	-0.8	-13.7	-9.6	4.7	18.7	9.6	0.3
Stoxx Europe Cyclicals	-1.7	-15.4	-6.3	-4.9	4.6	27.7	-17.5
DAX	-1.7	-7.1	1.0	-4.8	5.7	17.2	-8.6
MSCI EM Eastern Europe	-3.3	-25.8	-18.5	20.5	17.0	15.4	-2.8
Euro Stoxx 50	-3.4	-13.8	-6.5	1.1	5.0	18.3	-14.5
Stoxx Europe 50	-3.5	-12.7	-5.8	3.9	6.1	10.7	-13.1
Stoxx Europe Defensives	-3.6	-9.2	-1.7	4.6	9.5	0.9	-8.3
MSCI UK	-4.3	-26.1	-20.0	0.2	9.0	7.3	-12.3
Topix	-6.7	-13.8	-5.0	-1.0	10.2	9.5	-2.8

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

- The lackluster summer has already made its mark on equity markets. In the last four weeks, only Asian equities have shown a positive performance in euro.
- Equities in Europe and especially the UK were besides Japanese equities the greatest laggards on a four-week horizon. UK stocks have lost more than 4%.
- By contrast, US and European small caps remained relatively stable.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/07/2015 - 31/07/2020

Fixed Income

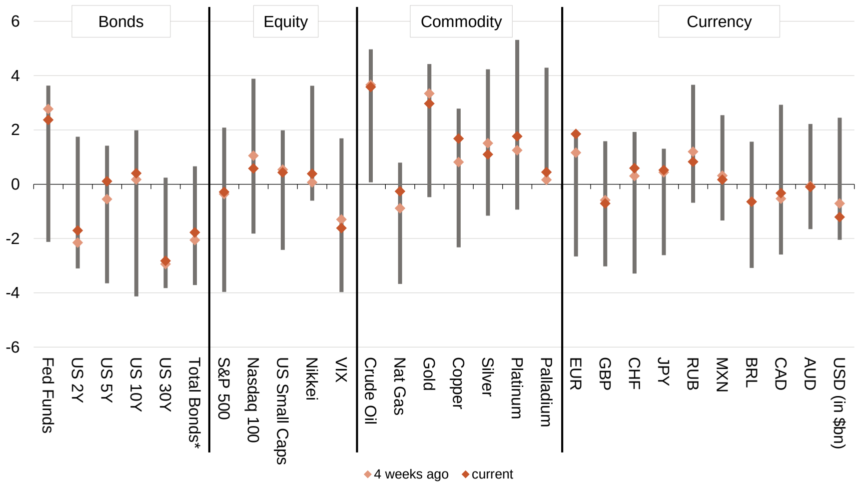
	4-week & YTD		12-month periods over that last 5 years				
	4W (03/07/20 - 31/07/20)	YTD (31/12/19 - 31/07/20)	31/07/19 31/07/20	31/07/18 31/07/19	31/07/17 31/07/18	31/07/16 31/07/17	31/07/15 31/07/16
EM Hard Currency Bonds	2.4	0.1	-0.1	7.4	-2.5	2.1	10.2
EUR Inflation Linkers	2.0	0.3	-0.2	5.3	2.4	-1.4	3.6
BTPs	1.8	3.4	5.1	10.8	-2.0	-3.5	6.3
EUR Non-Financials	1.6	0.5	-0.4	6.3	0.8	-0.9	6.3
EUR High Yield	1.2	-4.0	-1.9	3.8	1.0	6.6	2.5
EUR Financials	1.0	0.0	-0.4	5.6	0.3	2.0	4.6
Bunds	0.9	2.9	0.8	6.6	1.5	-4.7	6.9
Gilts	0.7	3.6	11.4	5.6	1.8	-8.4	-4.3
USD High Yield	-1.0	-5.4	-2.9	13.0	3.2	3.8	2.6
USD Corporates	-2.4	2.9	5.5	16.0	0.1	-4.1	6.6
EM Local Currency Bonds	-3.3	-6.4	-5.0	13.3	-1.3	-0.6	6.5
Treasuries	-3.9	4.4	5.3	13.0	-0.5	-7.6	4.5

Bunds: Barclays Germany Govt All Bonds TR; BTPs: Barclays Italy Govt All Bonds TR; Treasuries: Barclays US Treasury TR;
Gilts: Barcl. UK Govt All Bonds TR; EUR Inflation Linkers: Barcl. Euro Govt Inflation-Linked Bond All Maturities TR; EUR Financials: IBOXX Euro Fin. Overall TR;
EUR Non-Financials: IBOXX Euro Non-Fin. Overall TR; EUR High Yield: Markit iBoxx EUR Liquid HY TR; USD Corporates: iBoxx USD Corporates TR;
USD High Yield: IBOXX USD Liquid HY TR; EM Hard Currency: Barcl. EM Hard Currency Agg Govt Related TR; EM Local Currency: Barcl. EM Local Currency Govt TR.

- Government bonds, especially from emerging markets and the eurozone, have made significant gains in the last four weeks. EUR corporate bonds also performed well.
- US government, USD corporate and EM government bonds (local currency) exhibited a negative performance, largely due to currency effects.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/07/2015 - 31/07/2020

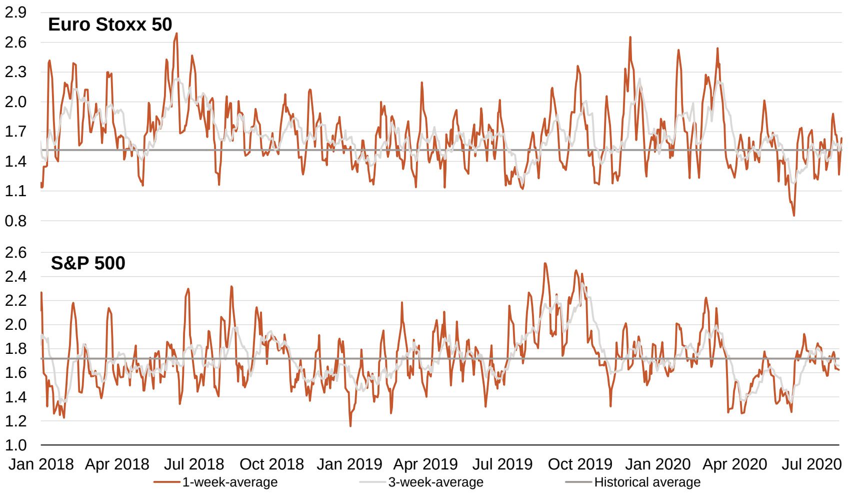
Non-Commercial Positioning



- Speculative investors have again become more cautious towards equities and have reduced their positions. They remain optimistic about many commodities, especially crude oil, copper, silver and gold, as well as the euro.
- Short positions in the US dollar expanded further.

The Commodity Futures Trading Commission (CFTC) publishes the Commitments of Traders Reports every Friday. A distinction is made between "non-commercial" and "commercial traders" positions. Non-commercial traders enter into purely speculative positions. Commercial traders hedge underlying transactions with futures or options. The chart shows the historical, normalized distribution in standard deviations and focuses on the net future position (long positions minus short positions) of non-commercial traders, thus indicating how speculative investors have positioned themselves.
*Duration weighted average bond position.
Source: Bloomberg, CFTC, Time period: 23/12/2010 - 18/12/2020

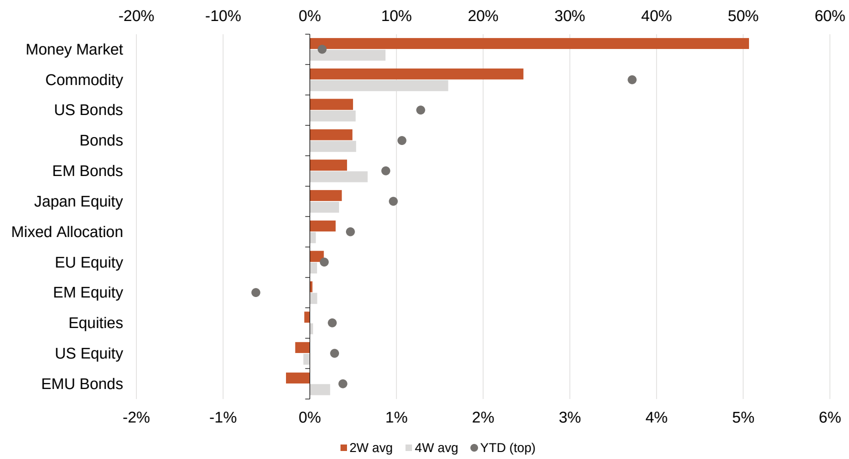
Put-Call Ratio



- On the options market, the market participants only temporarily became more cautious. The put/call ratio for the euro zone has risen sharply in the short term. Recently, the put-call ratio fell back below the long-term average.

The put-call ratio is the ratio of traded put options (speculation on falling prices) to call options (speculation on rising prices) across all maturities. The higher (lower) the ratio, the more cautious (optimistic) are the market participants. The data have been available for the S&P 500 since 20 December 1993 and for the Euro Stoxx 50 since 24 February 2006.
Source: Bloomberg, Time period: 20/12/1993 - 31/07/2020

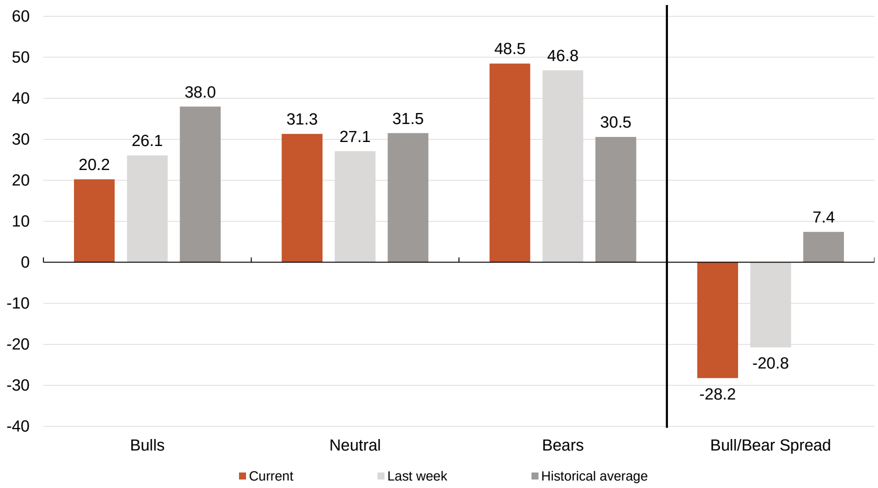
ETF Flows



- ETF investors remain cautious. Most of the money in the last two weeks has gone into money market and commodity ETFs (especially gold and silver). Carry in the form of emerging market bonds is also in demand.
- Inflows into equity ETFs, however, remain modest.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2019 - 31/07/2020

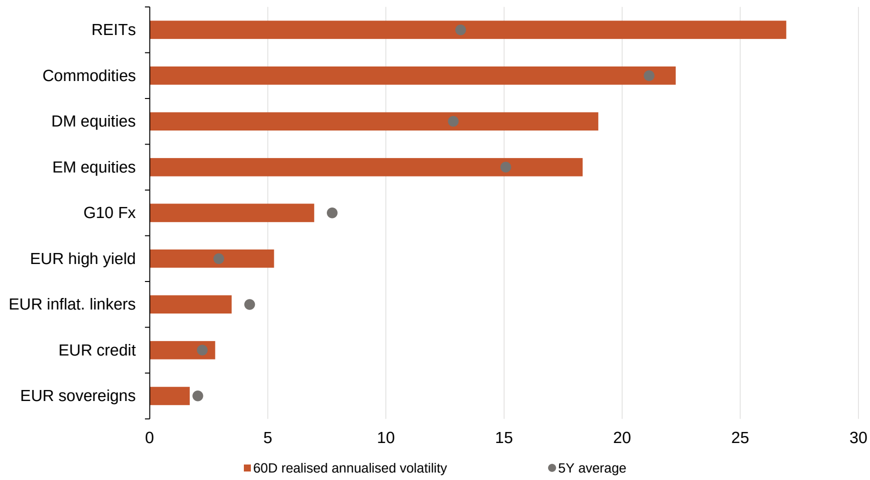
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment of US private investors has also continued to fall. With a bull/bear spread of -28.2, current investor sentiment is worse than at the peak of the Covid 19 crisis. However, yield prospects for US equities over the next 6 months are also likely to be much lower than at that time.

The sentiment survey conducted by the American Association of Individual Investors determines the percentage of private investors who are optimistic, pessimistic or neutral regarding the US equity market outlook for the upcoming six months. It has been carried out 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. However, it is a negative indicator when there are significantly more optimists than pessimists.
Source: Bloomberg, AAII, Time period: 23/07/87 - 30/07/20

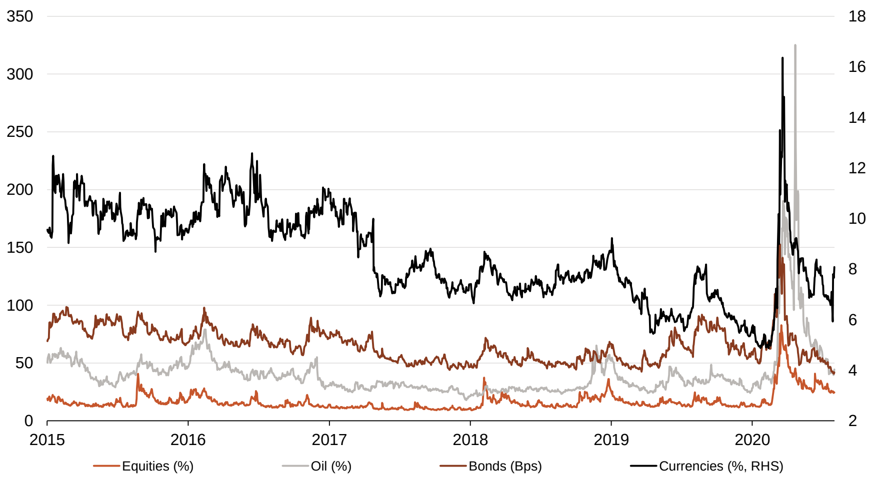
Realised Volatilities



- Realised volatilities in almost all asset classes have fallen in the last two weeks. In commodities, the 60-day volatility is now clearly approaching the 5-year average. The global economic recovery is leading to rising demand for commodities and is thus providing a tailwind in this asset class.
- Currently, however, only the 60-day volatility of the G10 currencies and EUR inflation linkers is below the historical average.

Realised volatility (in percent) measures the historical range of variation of a time series and is defined here as the standard deviation of the daily returns over the last 60 trading days. Volatility is often used as a measure of risk.
Source: Bloomberg, Time period: 31/07/2015 - 31/07/2020

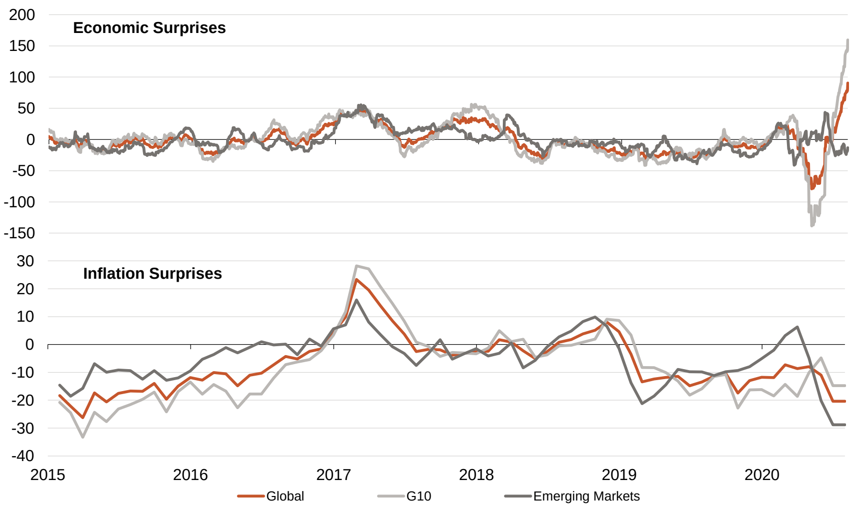
Implied Volatilities



- While the implied volatility in equities, oil and government bonds has continued to fall over the past two weeks, the implied volatility in currencies has risen significantly again. The weakness of the USD has also pushed the CVIX index towards 8.
- Equity volatility (VIX) has recently dropped to below 25.

The price of options depends on the volatility of the underlying instrument. Implied volatility can therefore be interpreted as a measure of the currently expected fluctuation range of the underlying compared to the market over the remaining term of the option. It is a measure of prevailing uncertainty in the financial markets.
Stocks = VIX Index, Oil = OVX Index, Government Bonds = MOVE Index, Currencies = CVIX Index
Source: Bloomberg, Time period: 01/01/2015 - 31/07/2020

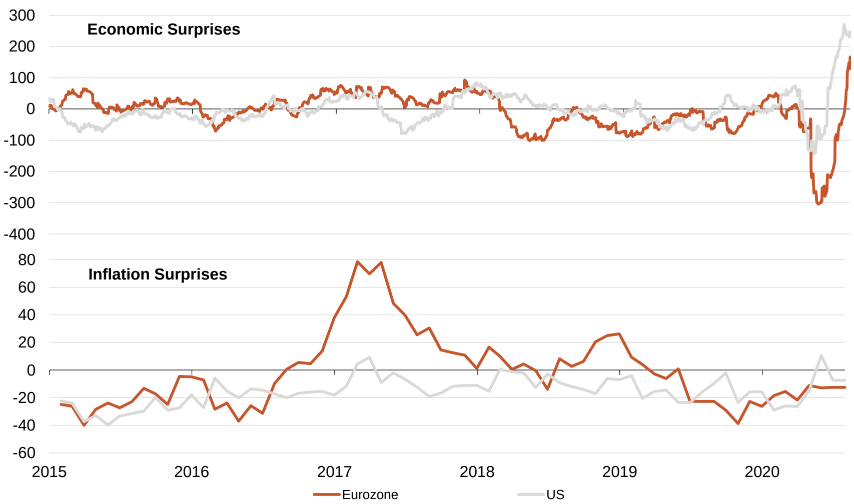
Global



- Global and G10 economic data continued to surprise to the upside. While it has recently been the US that has driven both indices up, it was recently the eurozone that has been the main driver.
- By contrast, economic data in emerging markets continue to be rather disappointing. South Korea has slipped into a technical recession and in China only the industrial purchasing managers' index has provided a positive surprise. The Service Purchasing Managers Index was disappointing.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 31/07/2020

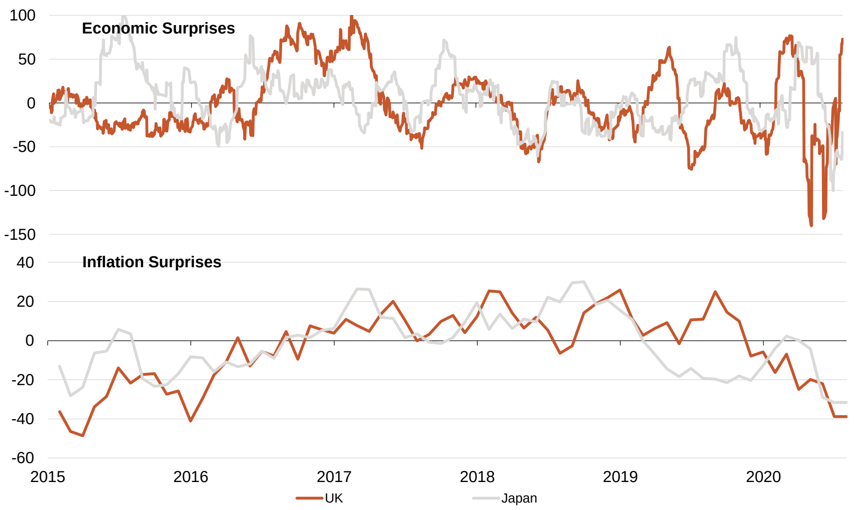
Eurozone and US



- While the positive economic data for the US ended its high, data for the eurozone recently turned out to be much better than expected. In Germany, the IFO index and labour market data surprised to the upside, while Q2 GDP growth disappointed. In the eurozone, however, the Purchasing Managers' Indices provided a clear positive surprise.
- In the US, consumer confidence, purchasing managers' indices and labour market data disappointed, while orders for durable goods were better than expected.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 31/07/2020

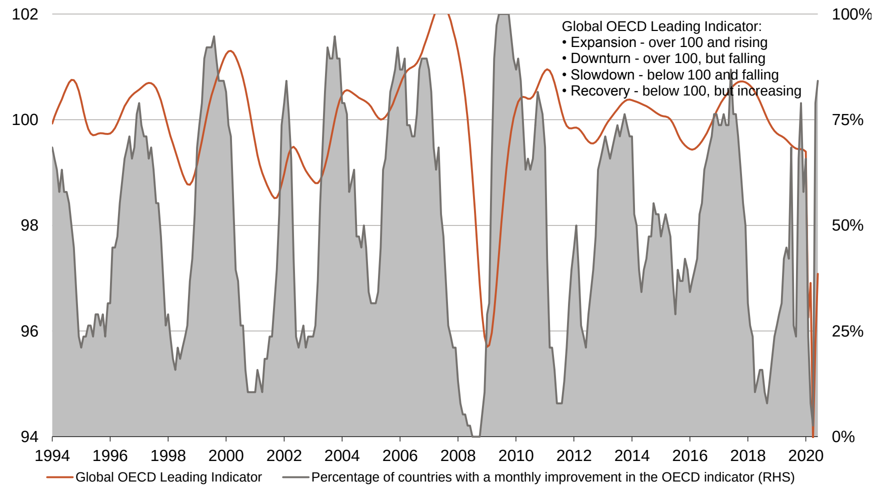
UK and Japan



- Like in the eurozone, economic data from UK has recently been better than expected. Both Retail Sales and the Purchasing Managers' Indices have provided a positive surprise.
- In Japan, June industrial production was better than expected.

Citigroup Economic Surprise Indices are defined as weighted historical, normalized data surprises (actual releases vs. Bloomberg survey median) over the last three months. A positive value of the index indicates that the economic data have exceeded the consensus on balance. The indices are calculated daily based on a rolling three-month period. 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: 01/01/2015 - 31/07/2020

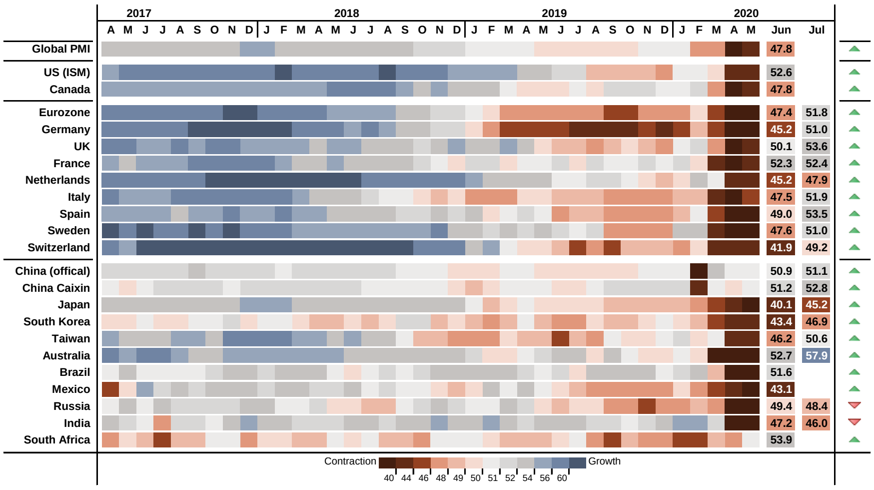
OECD Leading Indicator



- At over 97 points, the global OECD leading indicator continued to rise in June towards 100, and although this is the expansion threshold, it still seems a long way off. The global economy is in a clear recovery phase, at least according to this indicator.
- In June, over 80% of the countries observed saw an improvement leading indicator compared to May.

The OECD Leading Indicator is composed of a series of selected economic indicators whose composition provides a robust signal for future turning points. A turning point in the indicator usually signals a turning point in the economic cycle in 6-9 months. However, lead times are sometimes outside this range and turning points are not always correctly detected.
Source: Bloomberg, Time period: 31/01/1994 - 30/06/2020

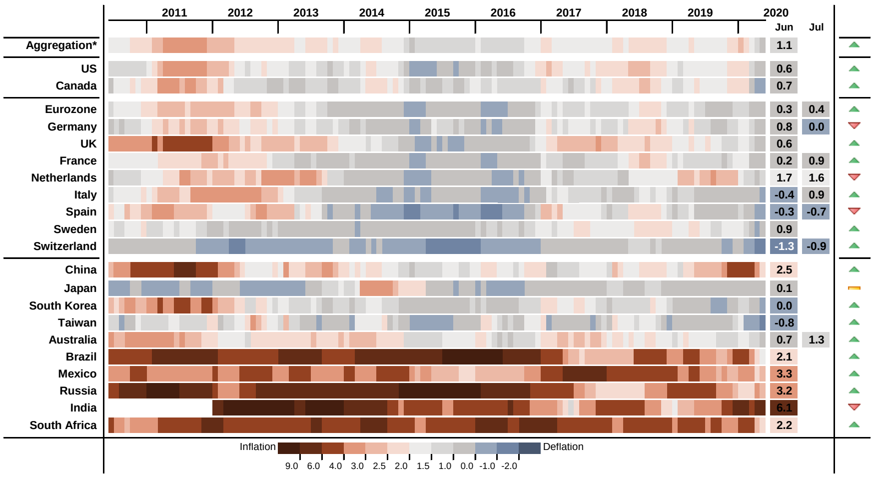
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The eurozone industrial PMI rose above the growth threshold of 50 in July, indicating a clear economic recovery. One of the largest index recovery was seen in Germany with an increase of more than 5 points.
- China's industrial PMI also continued to rise in July.

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 change from the previous month. A value of 50 is regarded as neutral, a value of over 50 points as an indicator of rising activity in industry and a value of less than 50 points for falling activity in industry compared with the previous month. The index has an average 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 regarding the development of parameters such as incoming orders.
Source: Bloomberg, Time period: 31/08/2017 - 31/07/2020

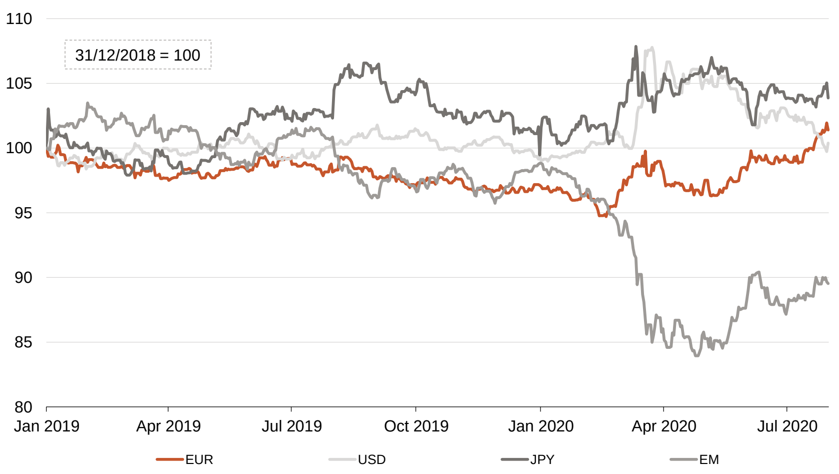
Headline Inflation



- Inflation in Germany fell to zero in July - thanks in part to a reduction in VAT.
- Global inflation broke the downward trend and rose from 0.9% in May to 1.1% in June.
- In Canada, inflation jumped to 0.7% in June. This was the biggest rise in consumer prices since March 2011, with transport costs in particular rising again.

Inflation is measured (in percent, year-on-year comparison) using a consumer price index, also known as a shopping basket of goods. This shopping basket contains all goods and services that a household purchases on average per year. * = weighting by gross domestic product.
Source: Bloomberg, Time period: 31/07/2010 - 31/07/2020

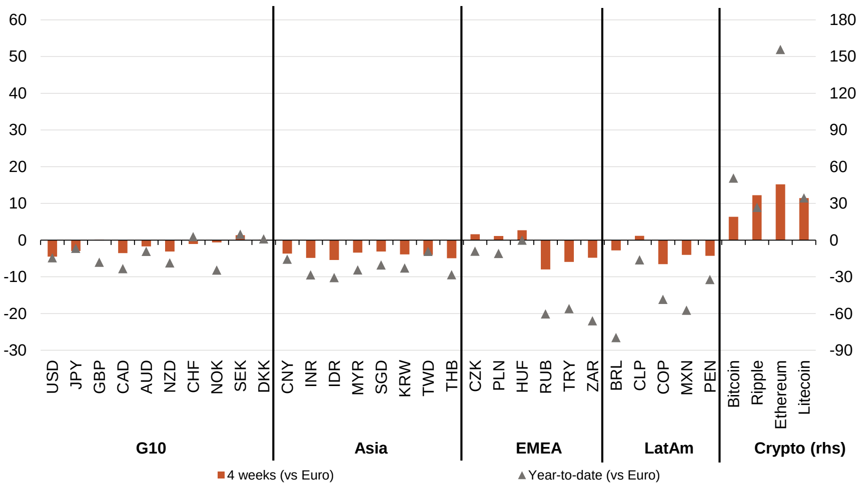
Trade-Weighted Currency Development



- The weakness of the US dollar has also prevailed in the last two weeks, as the US gave up much of its interest rate advantage.
- The winners were the euro, emerging market currencies and even the Japanese yen. The demand for safe havens such as the yen continues unabated. The USD weakness is not due to excessive risk appetite.

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: 01/01/2019 - 31/07/2020

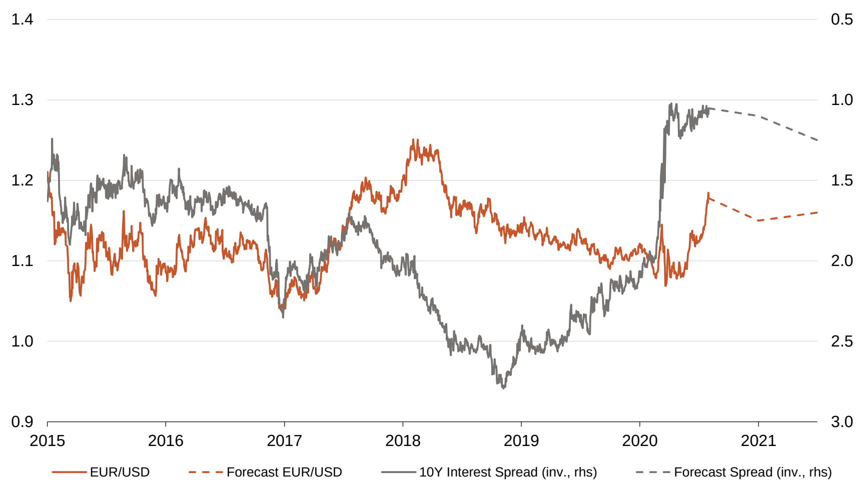
Currency Moves vs Euro



- The euro also benefitted recently from the political willingness to compromise and the arguably better crisis management in Europe. In the last four weeks, the euro has appreciated especially against the USD and Asian currencies, as well as the Russian ruble and Turkish lira.
- Crypto-currencies have recently reawakened and have gained about 30% on average in the last four weeks.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2019 - 31/07/2020

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate has approached 1.19. The main reason for the appreciation of the euro was the reduced interest rate differential (close to 1%) between the US and the eurozone (more USD hedging, less EUR hedging).
- In addition, sentiment regarding the eurozone has improved significantly, while in the USA political uncertainty in the run-up to the US elections is high.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US Treasuries and 10-year Bunds.
Source: Bloomberg, Time period: 01/01/2015 - 30/06/2021

European Sector & Style Performance

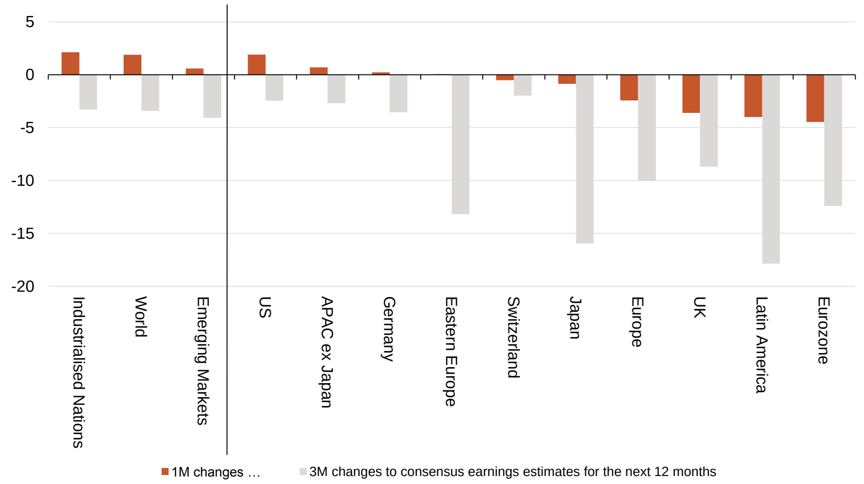
	4W (03/07/20 - 31/07/20)	YTD (31/12/19 - 31/07/20)	31/07/19 31/07/20	31/07/18 31/07/19	31/07/17 31/07/18	31/07/16 31/07/17	31/07/15 31/07/16
	4-week & YTD		12-month periods over that last 5 years				
Materials	1.3	-7.6	1.0	-3.1	15.2	23.7	-8.7
Utilities	0.7	2.9	14.7	13.9	5.8	-0.1	-2.6
Consumer Staples	0.0	-5.6	-3.8	11.3	2.7	1.7	4.7
Growth	-0.6	-3.6	3.8	7.1	8.2	8.0	-6.5
Information Technology	-0.9	3.7	12.1	6.4	17.3	16.6	4.8
Industrials	-1.7	-14.1	-4.4	2.3	8.7	17.8	-4.0
Health Care	-3.7	-0.1	12.1	9.2	5.9	-2.9	-10.3
Consumer Discretionary	-4.1	-19.1	-12.5	3.1	7.8	13.2	-14.7
Value	-4.7	-24.4	-17.9	-3.9	4.6	19.3	-16.3
Finance	-5.0	-28.5	-20.5	-8.0	-3.4	39.2	-28.6
Telecommunications	-6.1	-20.6	-18.8	-1.1	-8.6	2.4	-19.0
Energy	-10.2	-42.4	-43.1	-4.1	31.7	8.6	-3.4

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; Telecommunications: MSCI Europe Telecommunication Services NR; Utilities: MSCI Europe Utilities NR; Value: MSCI Europe Value NR; Growth: MSCI Europe Growth NR.

- Stocks from the energy sector lost almost 10% in the last four weeks. The COVID-19 impact is weighing heavily on the sector, which was also reflected in quarterly reports.
- At factor level, growth stocks were, again, clearly ahead. Value was down over 4%, while Growth was down only slightly.

Total return of European equity sectors and European style indices, 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 generally have less growth potential and are valued lower.
Source: Bloomberg, Time period: 31/07/2015 – 31/07/2020

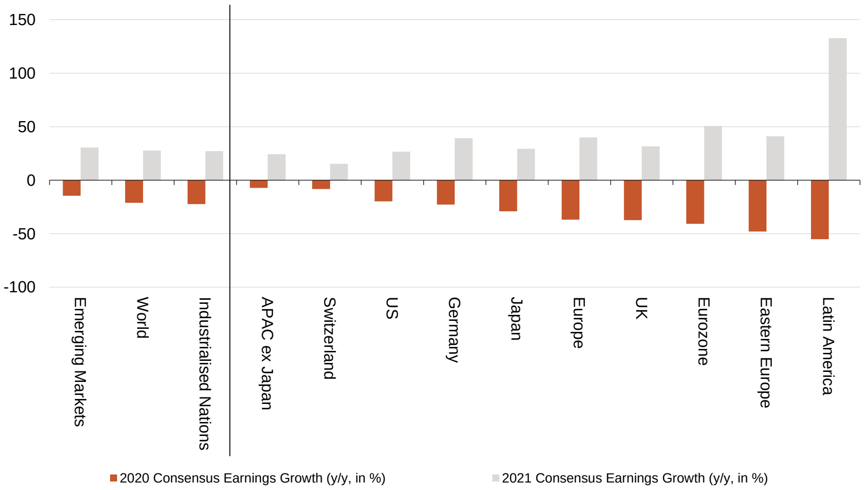
Changes in Consensus Earnings Estimates



- Earnings revisions have recently stabilised further for many regions. The US, Asia Pacific ex Japan, Germany and Eastern Europe have seen no reductions in earnings estimates over the last month. The Q2 reporting season has contributed significantly to the stabilisation in earnings estimates. In the US, 80% of companies were able to exceed earnings estimates.
- This does not apply to Latin America and the eurozone. There, the negative momentum has even increased recently.

1-month and 3-month changes in consensus earnings estimates for the next 12 months, in percent.
APAC ex Japan = Asia Pacific ex Japan
Source: FactSet, as of 31/07/2020

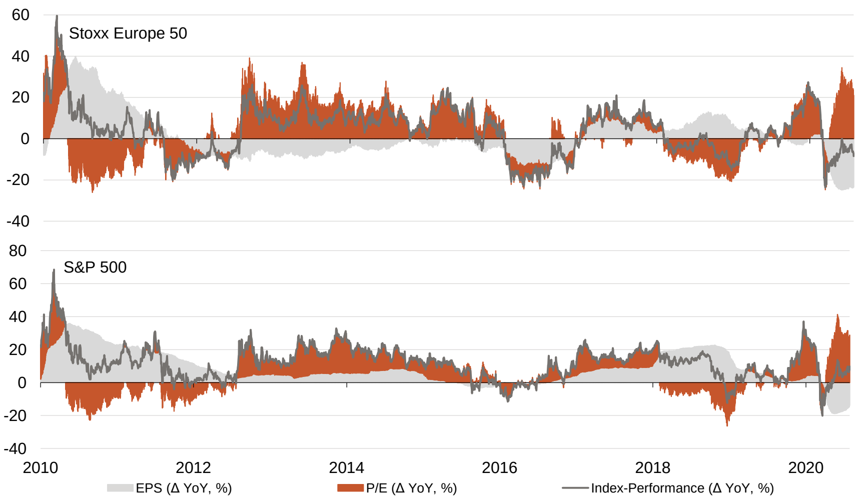
Earnings Growth



- For 2021, analysts expect earnings to rise by at least 15% for all regions. Latin American companies are likely to see the strongest recovery, thanks to a significant base effect. For this year, earnings are expected to collapse by more than 50%. Analysts expect corporate earnings in Switzerland and Asia ex Japan to fall by less than 10% this year.

Calendar year earnings growth expected to the consensus for selected equity regions, compared to the previous year and in percent. The earnings estimates of the individual companies are aggregated using the index weights (bottom-up).
APAC ex Japan = Asia Pacific ex Japan
Source: FactSet, as of 31/07/2020

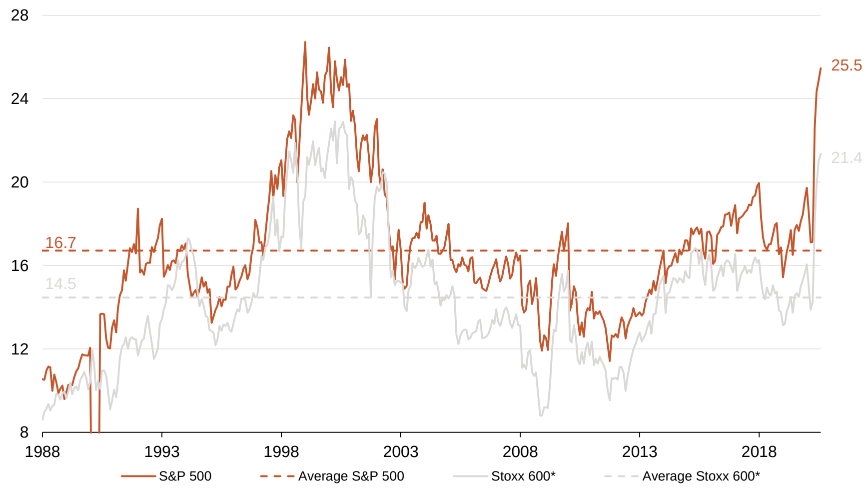
Contribution Analysis



- While in recent months the main driver of stock market performance has been valuation expansion, the recent improvement in earnings expectations for the next 12 months has supported prices. This is because the current Q2 reporting season has so far gone better than expected in both Europe and the US.

Analysis of the stock market drivers over the last 12 months. This takes into account the change in earnings estimates and the change in valuation (price/earnings ratio). EPS = earnings per share
Source: Bloomberg, Time period: 01/01/2010 - 31/07/2020

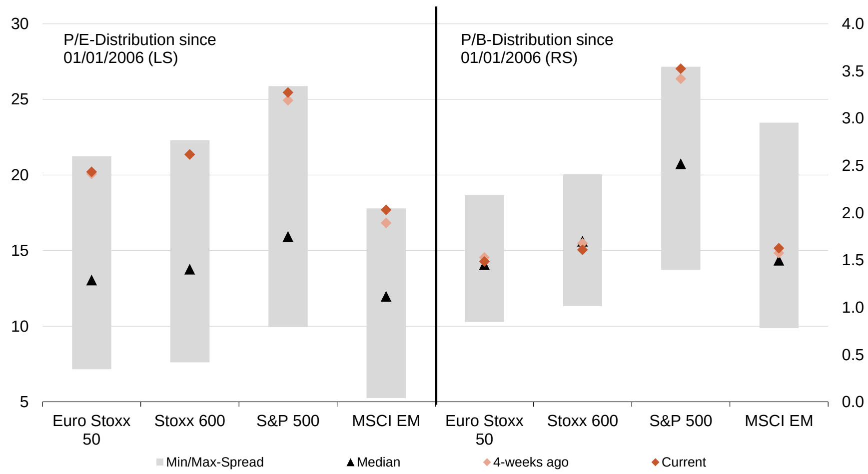
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Equity valuations have not risen further in the last two weeks. While valuations in the US remained almost unchanged at 25.5, they even fell slightly in Europe to 21.4.
- In the future, valuations based on earnings estimates for the next 12 months are likely to fall again somewhat, as after the reporting season the "Q2 2020" results will be replaced by the higher "Q2 2021" estimates.

P/E valuation based on earnings estimates for the next twelve months for European and US equities and the respective P/E average since 1988 * For the Stoxx 600, the history prior to 2000 is of MSCI Europe.
Source: Bloomberg, IBES Time period: 31/12/1987 - 31/07/2020

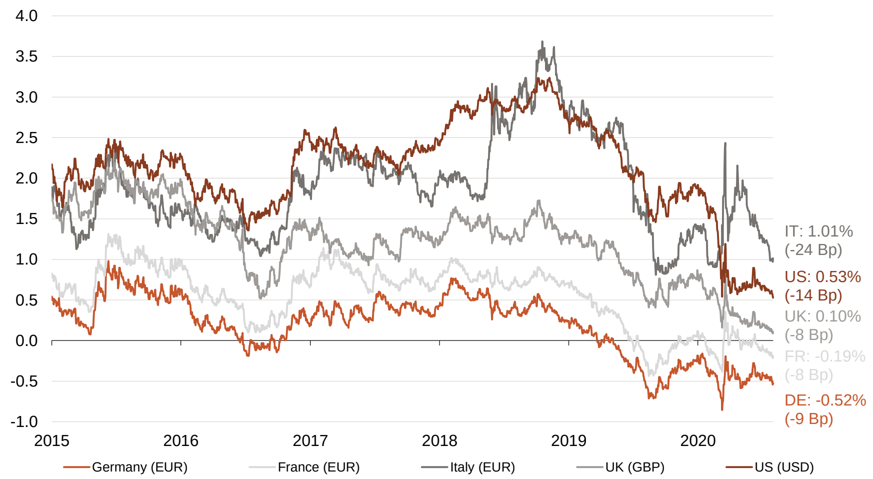
Historical Distribution: Price/Earnings and Price/Book Ratio



- Based on the P/E ratio, eurozone, European, US and emerging market equities are historically expensive. The current P/E ratios in all regions are close to the 10-year high.
- Based on the P/B, only US stocks look expensive. However, emerging market equities got also a little more expensive over the past four weeks in line with this measure.

Historical distribution of valuation indicators for selected stock regions since 2006, showing the current value, the observation four weeks ago and the historical median, the maximum (upper limit of the grey bar) and the minimum (lower limit of the grey bar).
Source: Bloomberg, Time period: 01/01/2006 - 31/07/2020

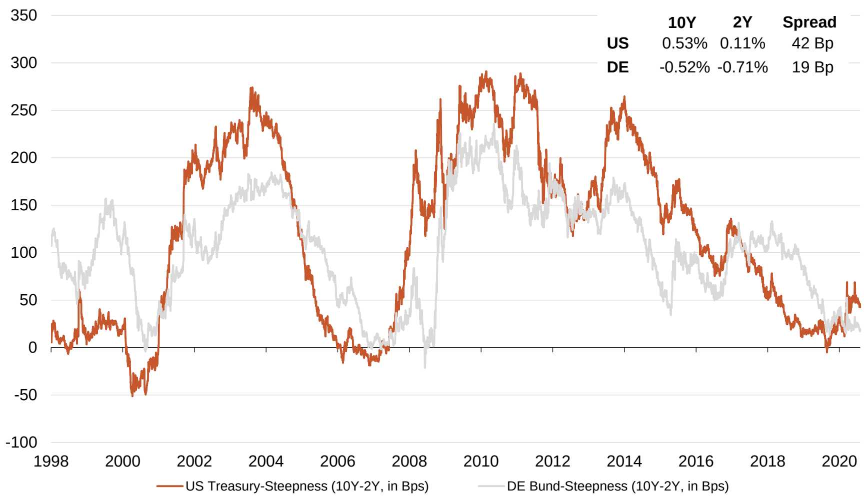
10-Year Government Bond Yields



- Worries about a second lockdown are driving bond yields further down. The yield on 10-year German government bonds is trading below -0.5%, while the yield on US Treasuries is near its all-time low at 0.53%.
- In addition to COVID-19 concerns, the agreement on an EU Recovery Fund and the resulting first-time grouping of debt in the EU has pushed the yield on 10-year Italian government bonds to around 1%.

Effective yield of 10-year government bonds and change in the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2015 - 31/07/2020

Yield Curve Steepness (10Y - 2Y)

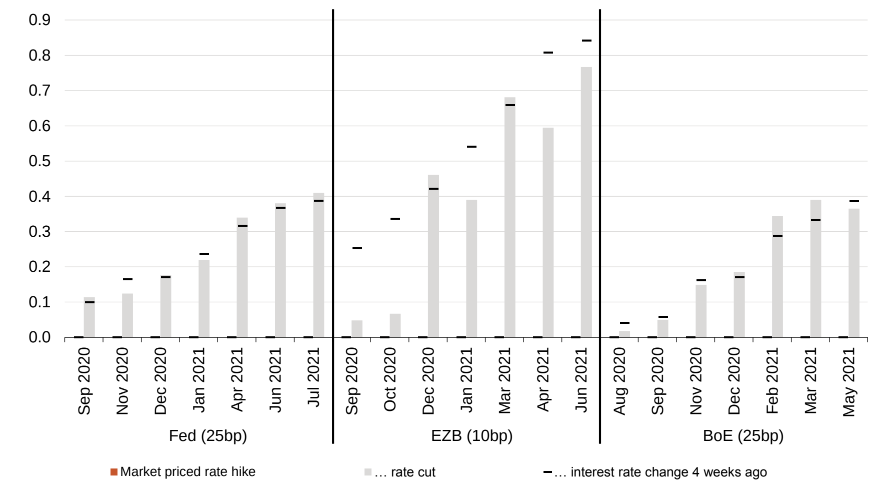


	10Y	2Y	Spread
US	0.53%	0.11%	42 Bp
DE	-0.52%	-0.71%	19 Bp

- At 19 basis points, the steepness of the German yield curve is now back within reach of the 10-year low of 13 basis points.
- The picture in the US is different. Here, the steepness of the yield curve is with 42 basis points, far away from its 2019 low.

The yield curve distinguishes between the so-called short and the long end. The reason for this lies in the way in which factors influence returns. Central banks control the short end of the curve through their monetary policy and key rates. By contrast, the long end is influenced less by central banks than by inflation expectations, supply, demand and risk premia.
Source: Bloomberg, Time period: 01/01/1998 - 31/07/2020

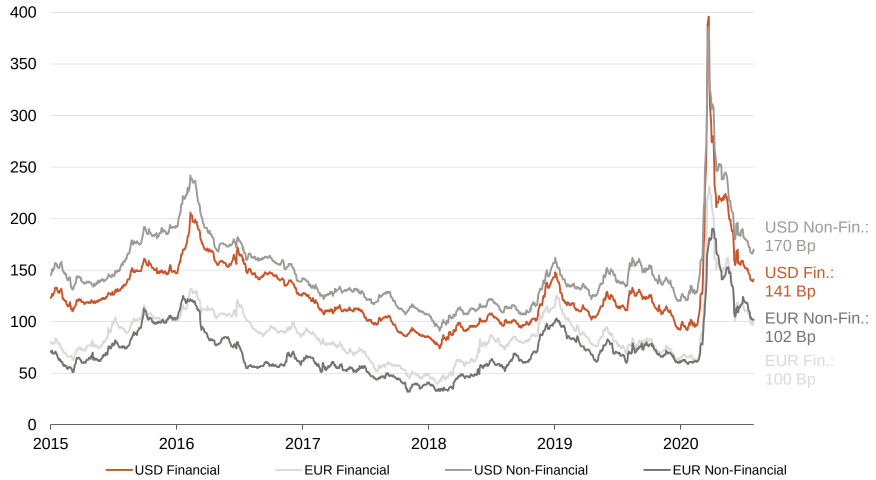
Implicit Changes in Key Interest Rates



- The continuing high level of uncertainty due to fears of a second COVID-19 wave means that the probability of a rate cut in all three regions remains close to the level of four weeks ago. In the euro-zone, the probability of a rate cut by March 2021 is even close to 70%.
- At the July meeting of the Fed, it was decided to leave interest rates and the pace of bond purchases unchanged for the time being.

Derivatives on money market rates - such as the Fed funds futures - can be used to determine changes (number of steps) in the key interest rate priced by the market
Source: Bloomberg, Time period: 03/07/2020 - 31/07/2020

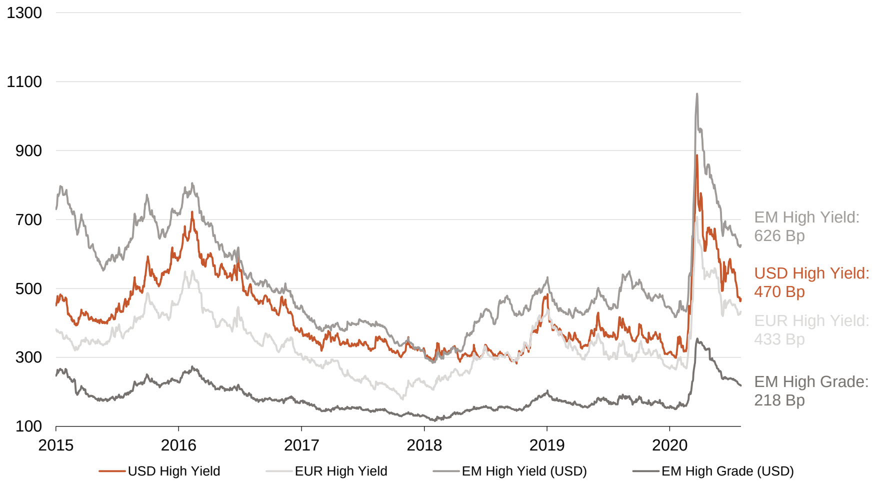
Credit Spreads Financial and Non-Financial Bonds



- Spreads on corporate bonds with solid balance sheets (investment grade) have fallen further in the last two weeks. This was particularly the case for EUR non-financial and EUR financial bonds. There the spreads have fallen by around 10 basis points.
- The ongoing economic recovery provided increasing tailwind for EUR corporate bonds of the automotive sector in particular.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 - 31/07/2020

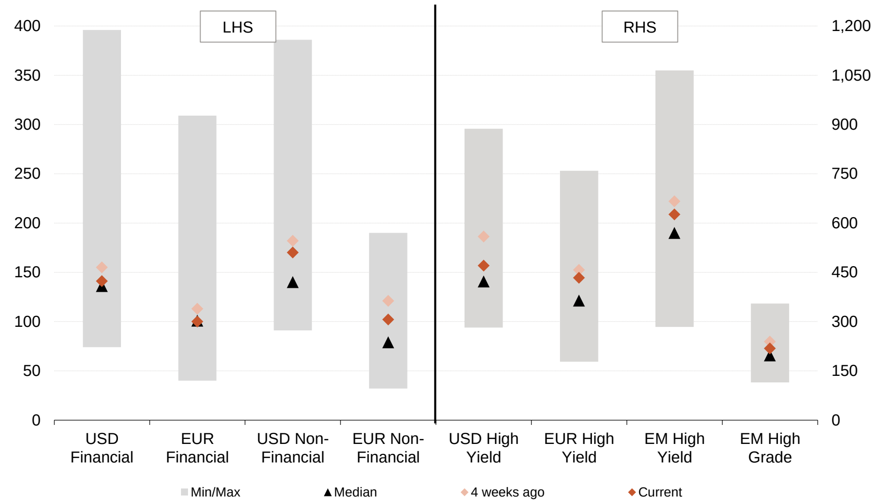
Credit Spreads High Yield and Emerging Markets Bonds



- The search for yield has caused spreads on high-yield bonds to fall significantly. From a two-week perspective, spreads on USD high-yield bonds have fallen most sharply, by more than 40 basis points.
- The difference between the spreads of EUR and USD high yield bonds has recently narrowed to below 40 basis points.

The extent of the risk associated with a corporate bond is shown by its asset swap spread (in basis points). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term to offset its credit risk. See further explanations below.
Source: FactSet, Time period: 01/01/2015 - 31/07/2020

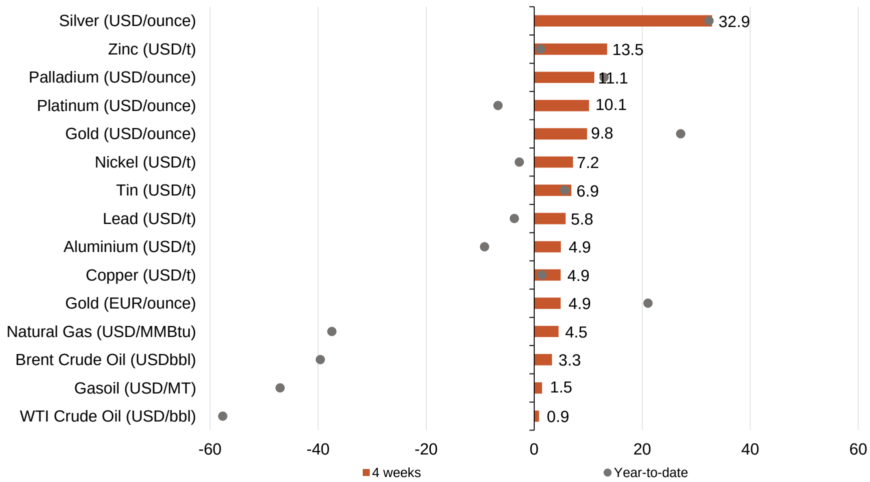
Historical Distribution of Credit Spreads (in bp)



- The biggest spread tightening on a four-week horizon was seen in USD high yield bonds.
- Spreads on EUR and USD financial bonds are now close to the 10-year median. Both bond segments are thus no longer cheap on a historic basis.

USD Financial = ICE BofAML US Financial; EUR Financial = ICE BofAML Euro Financial; USD Non-Financial = ICE BofAML US Non-Financial; EUR Non-Financial = ICE BofAML Euro Non-Financial; USD High Yield = ICE BofAML US High Yield; EM High Yield = ICE BofAML High Yield Emerging Markets Corporate Plus; EM High Grade = ICE BofAML High Grade Emerging Markets Corporate Plus. The EM indices shown here are hard currency bonds.
Source: FactSet, Time period: 31/07/2010 - 31/07/2020

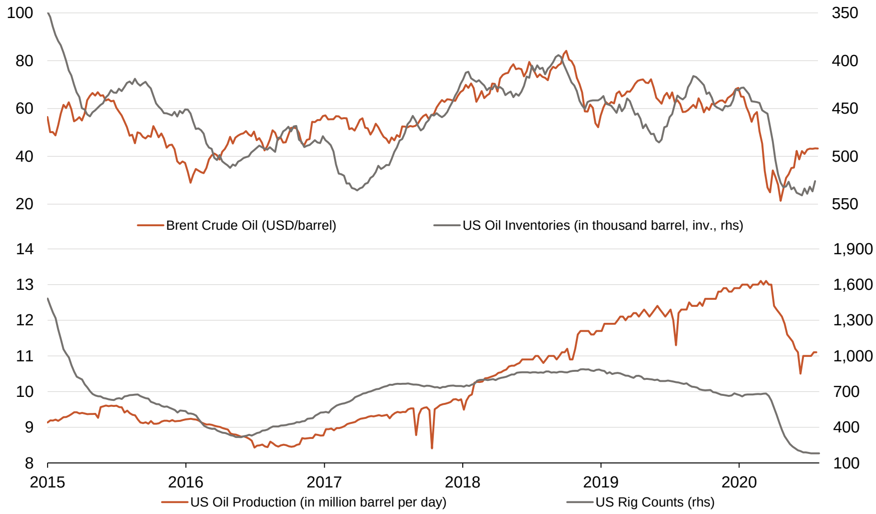
Commodities Performance



- Monthly returns in commodities markets painted a constructive picture in which a decline in economic concerns provided positive returns across the board.
- In particular, metals with pronounced sensitivity to industrials benefitted from global fiscal programs, while precious metals additionally benefitted from uncertainties surrounding a second wave of the virus and the US elections.
- Silver combines these characteristics and has shown the best annual development so far.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 - 31/07/2020

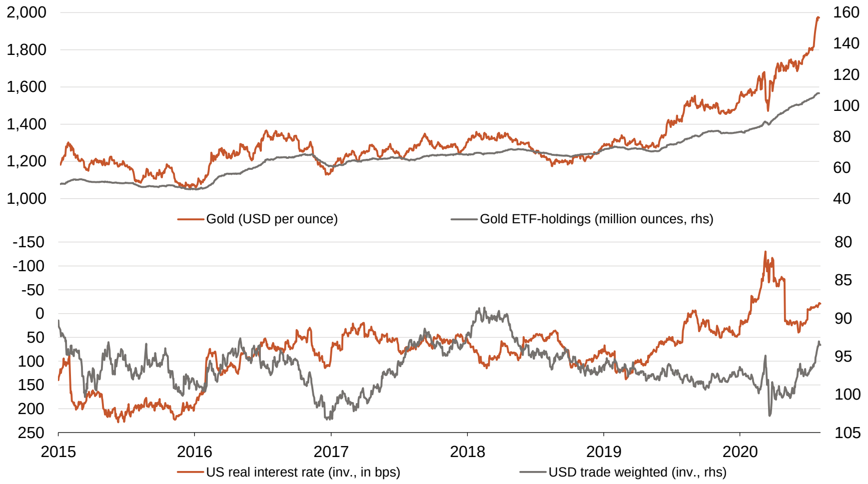
Crude Oil



- The economic recovery boosted global demand for crude oil, which translated into price increases against the backdrop of low inventories.
- However, rising prices recently provided incentives to deviate from the previous discipline of adhering to the agreed funding cuts. As a result, US oil production increased, partly motivated by improved export prospects due to the depreciation of the US dollar.

Higher oil production and higher inventories tend to depress oil prices and vice versa. An increase in active oil rigs indicates a future increase in oil production.
Source: Bloomberg, Time period: 01/01/2015 - 31/07/2020

Gold



- Driven by ongoing uncertainties and steady ETF inflows, gold rises from record to record highs.
- Macroeconomic factors have also supported the gold price recently. The USD depreciated noticeably and real US yields are negative again.
- The US elections on the horizon also create a need for hedging.

The US dollar and the real interest rate, i.e. adjusted for inflation, are among the fundamental price factors of the gold price. Rising real interest rates tend to depress the price of gold, while falling real interest rates have a supportive effect. The same applies to the US dollar. The development of gold ETF holdings reflects the demand for gold from financial investors.
Source: Bloomberg, Time period: 01/01/2015 - 31/07/2020

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IMPORTANT NOTICES

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