

### Current market commentary

Stock markets - above all the US megacaps and cyclicals - have continued to rise over the last two weeks. The Nasdaq, which we described as a "safe haven" at the beginning of February, has seen a return of almost 30% since the beginning of the year. Their high cash flow generation, strong balance sheets and share buyback programs provide a supportive effect. In some tech segments, however, a great deal (of hope) has already been priced in, so we currently feel more comfortable with European small caps and cyclical companies. The probability that a Covid-19 vaccine will be approved in the fourth quarter is increasing. There are already seven vaccine projects in the third and final phase of development and Donald Trump is putting a lot of pressure on getting a vaccine approved before the US elections in November if possible. In our opinion, such news - or growing evidence of it - should help the recovery of hard-hit coronavirus industries at least in the short term.

### Short-term outlook

On 10 September, the Governing Council of the ECB meets in Frankfurt to assess economic and monetary developments and discuss monetary policy decisions. A major change of the current course is not expected. On 11 and 12 September the meetings of the Euro Group and the ECOFIN Council will follow in Berlin. Tomorrow, the final purchasing managers' indices for the manufacturing sector of the US and the euro zone for the month of August will be published. The purchasing managers' indices for services will follow on September 3 and data on the labour market in the US on the following day. On September 7, data on industrial production in Germany will be published and the US stock market will remain closed due to Labour Day. This is followed on September 8 by data on economic growth in the euro zone for the second quarter and finally on September 11 by the inflation rate (August) for the USA, the euro zone and Germany.

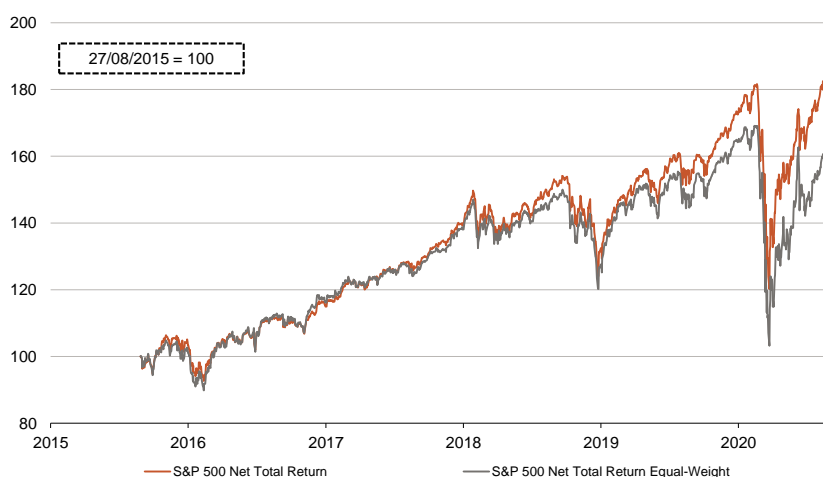
The bi-weekly *Monitor* gives you a structured overview of the current capital market environment and highlights important developments:

- Performance
- Positioning
- Sentiment
- Surprise Indicators
- Economics
- Foreign Exchange
- Equities
- Sovereign Bonds & Central Banks
- Corporate Bonds
- Commodities

*ECB should remain in "wait and see" mode*

*On September 7, Americans celebrate Labour Day. US stock markets remain closed.*

### US megacaps are the dominant performance driver of the S&P 500



- In the past, small caps tended to outperform large caps. However, the opposite has recently been observed in the US - the mega caps are lifting the market to new all-time highs.
- Since the beginning of the year, the S&P 500 has been trading at a plus of over 8%. If all companies included in this index were equally weighted, so that mega caps lose importance, the index would be about 10% lower since the beginning of the year and thus still in negative territory.

Source: Bloomberg, Time period: 27/08/2015 - 28/08/2020



Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (31/07/20 - 28/08/20)	YTD (31/12/19 - 28/08/20)	28/08/19	28/08/18	28/08/17	28/08/16	28/08/15
MSCI Frontier Markets	-15.1	6.5	-12.5	12.9	-3.2	18.0	-3.3
MSCI World	-0.5	5.9	10.3	4.4	16.8	7.8	5.8
Industrial Metals	-1.6	5.5	-0.7	0.1	-1.5	24.3	-2.7
Global Convertibles		5.1	17.4	6.7	10.8	6.4	3.3
Brent	-40.4	3.6	-31.5	-12.1	61.0	-13.4	-18.8
MSCI Emerging Markets		3.2	10.8	-2.1	3.2	15.5	12.1
REITs	-15.2	0.3	-15.9	18.4	5.0	-9.6	15.2
Eonia	0.0		-0.5	-0.4	-0.4	-0.4	-0.3
USDEUR	-1.1		-6.9	5.6	2.4	-6.5	-0.1
Global Treasuries	-1.1	0.2	-3.1	14.8	0.3	-8.3	11.8
Global Corporates	-1.2	0.2	-0.6	15.3	0.9	-3.0	7.0
Gold	-1.6	22.0	18.8	35.3	-6.0	-7.4	16.4

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 Capitalization Index; USDEUR: Price of 1 USD in EUR.

- Risk assets continued to rise in August, while safe havens such as gold and government bonds weakened. The flood of liquidity from central banks, better than expected economic data and coronavirus vaccine hopes were the drivers.
- Developed market equities have now almost wiped out their losses since the beginning of the year.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.

Source: Bloomberg, Time period: 28/08/2015 - 28/08/2020

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (31/07/20 - 28/08/20)	YTD (31/12/19 - 28/08/20)	28/08/19	28/08/18	28/08/17	28/08/16	28/08/15
Topix	-7.9	6.9	3.5	-2.3	11.1	10.5	1.2
S&P 500		6.5	15.4	7.6	23.5	7.9	11.0
Stoxx Europe Small 200	-6.5	6.1	7.0	-4.4	10.2	14.9	-0.5
Stoxx Europe Cyclical	-10.4	5.9	5.9	-8.8	4.1	21.3	-6.9
DAX	-1.6	5.8	11.4	-6.6	3.3	14.5	2.8
MSCI USA Small Caps	-9.7	4.7	-0.2	-4.5	28.2	5.4	7.7
Euro Stoxx 50	-9.9	4.5	0.6	0.3	3.5	16.6	-5.7
MSCI EM Asia		4.1	20.8	-4.5	6.3	17.3	13.0
MSCI UK	-24.3	2.5	-13.7	-2.1	8.4	3.9	-2.7
Stoxx Europe 50		2.4	-0.9	3.8	4.8	9.4	-4.8
MSCI EM Eastern Europe	-25.1	0.9	-10.9	16.8	6.5	16.8	6.9
Stoxx Europe Defensives	-9.2	0.0	-1.4	5.9	8.7	2.6	-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 Cyclical: Stoxx Europe Cyclical TR;  
 Stoxx Europe Defensives: Stoxx Europe Defensives TR; DAX: DAX TR; MSCI United Kingdom: MSCI UK TR; MSCI EM Asia: MSCI EM Asia TR;  
 MSCI EM Eastern Europe: MSCI EM Eastern Europe TR.

- The S&P 500 outperformed in August gaining more than 6% in euro terms. However, the strong performance was mainly due to the megacaps, which are highly weighted in the index.
- Otherwise, cyclical stock market segments and European small caps in particular fared well.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.

Source: Bloomberg, Time period: 28/08/2015 - 28/08/2020

Fixed Income

	4-week & YTD		12-month periods over that last 5 years				
	4W (31/07/20 - 28/08/20)	YTD (31/12/19 - 28/08/20)	28/08/19	28/08/18	28/08/17	28/08/16	28/08/15
EUR High Yield	-2.6	1.4	-1.0	4.0	1.0	5.6	4.6
EUR Financials		0.4	-0.6	6.3	-0.3	1.9	5.6
EM Hard Currency Bonds		0.2	1.0	7.9	-4.9	1.6	12.7
EUR Non-Financials		0.1	-1.0	7.1	0.0	-0.3	7.3
BTPs	0.0	3.3	1.6	17.7	-4.8	-3.9	7.8
USD High Yield	-5.5	-0.1	-3.7	13.0	5.8	0.5	7.7
EUR Inflation Linkers	-0.2	0.1	-2.2	8.2	0.9	-1.0	6.2
EM Local Currency Bonds	-6.9	-0.5	-3.8	13.9	-2.8	-1.7	12.1
Bunds	-1.2	1.7	-2.8	8.9	0.6	-3.1	7.1
Treasuries	-2.0	2.3	-0.9	17.2	0.5	-6.3	4.1
USD Corporates	-2.3	0.5	-0.4	19.8	1.3	-4.2	8.2
Gilts	-2.4	1.1	3.7	12.9	1.3	-11.3	0.2

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: Market 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.

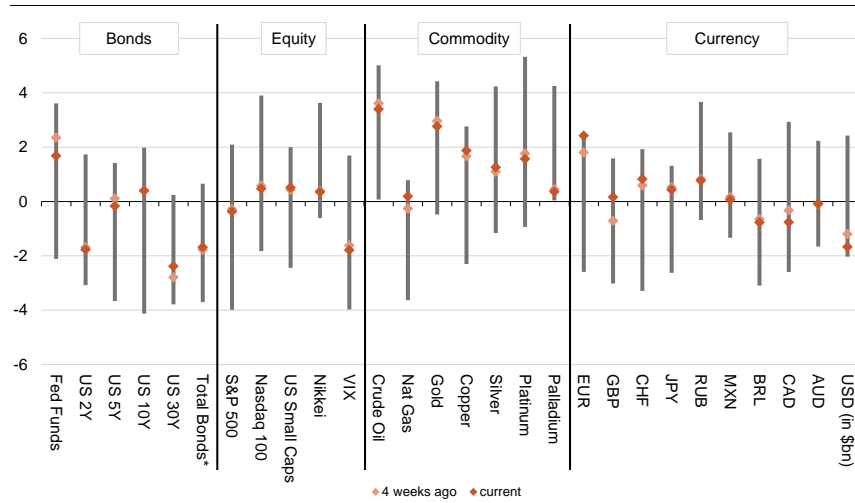
- Carry investments were the big winners over the last four weeks, while safe government bonds suffered from rising yields. The Federal Reserve is now setting a symmetric inflation target, which means that it now explicitly tolerates overshooting inflation. This led to a rise in long-term bond yields.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.

Source: Bloomberg, Time period: 28/08/2015 - 28/08/2020



Non-Commercial Positioning

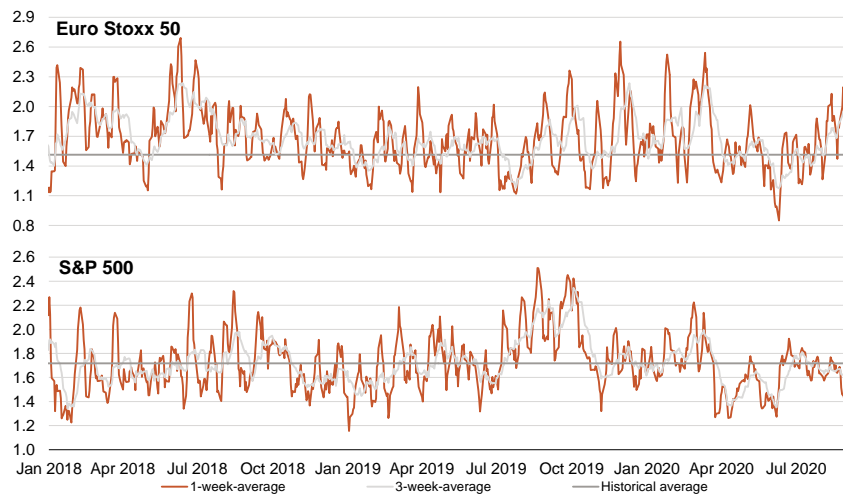


- Speculative investors have further increased their euro positions over the last four weeks. Consequently, USD positions were further reduced. This partly explains the strong appreciation of the euro in recent months. However, it also makes the positioning vulnerable.

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: 25/08/2010 - 25/08/2020

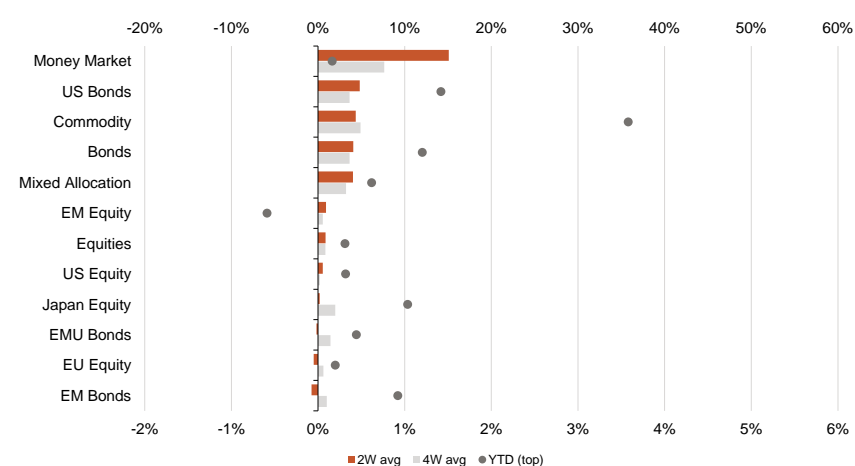
Put-Call Ratio



- While the put/call ratio for Eurozone equities is above the long-term average, it has recently fallen sharply for US equities and is historically low. Many (retail) investors are currently buying call options to participate in the potential upside. Hedging, on the other hand, is less in demand. Investors are becoming complacent about US equities. A warning sign?

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 - 28/08/2020

ETF Flows

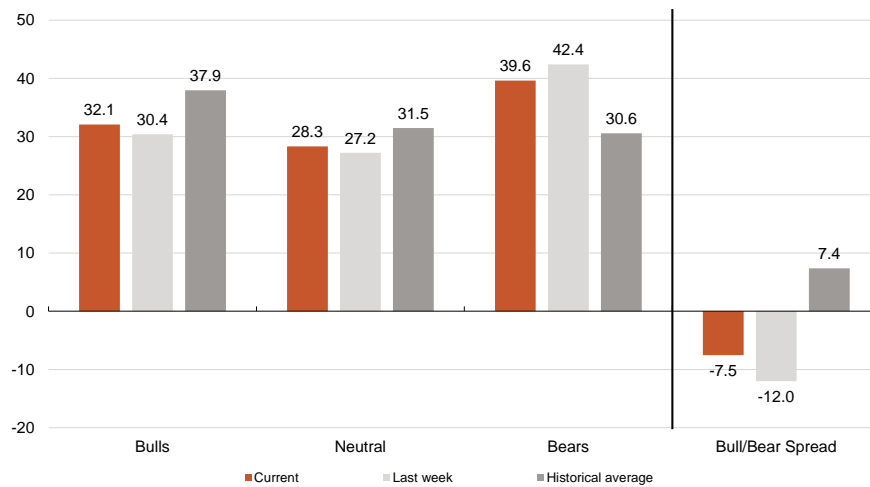


- ETF flows do not show a pronounced risk appetite. Money market, commodity and bond vehicles collected most of the money.
- Investors, on the other hand, sold emerging market bonds over the last two weeks.
- There were no major flow movements in equity ETFs.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.  
Source: Bloomberg, Time period: 31/12/2019 - 28/08/2020



**AAIL Sentiment Survey (Bulls vs Bears)**

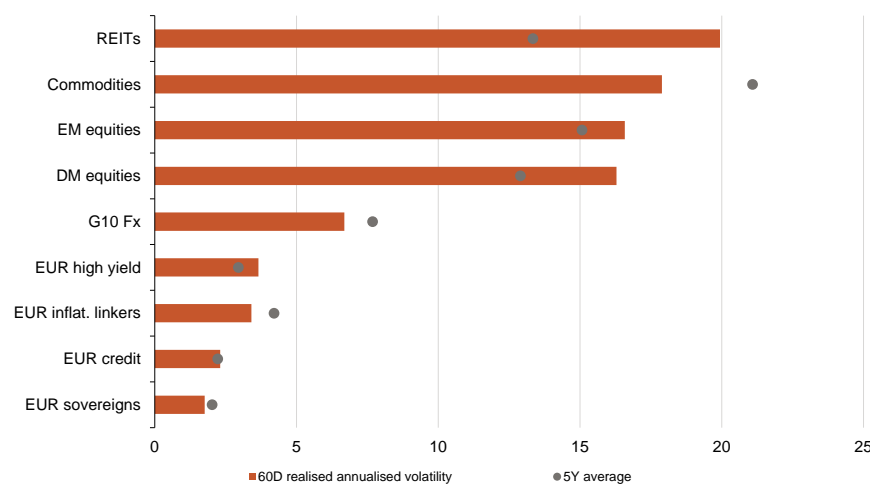


- The sentiment of US private investors has now improved for the fifth consecutive week thanks to falling infection rates in the US and vaccine hopes.
- However, the bull/bear spread remains negative at 7.5 pp and bears remain clearly in the majority at almost 40%.

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, AAIL, Time period: 23/07/87 - 27/08/20

**Realised Volatilities**

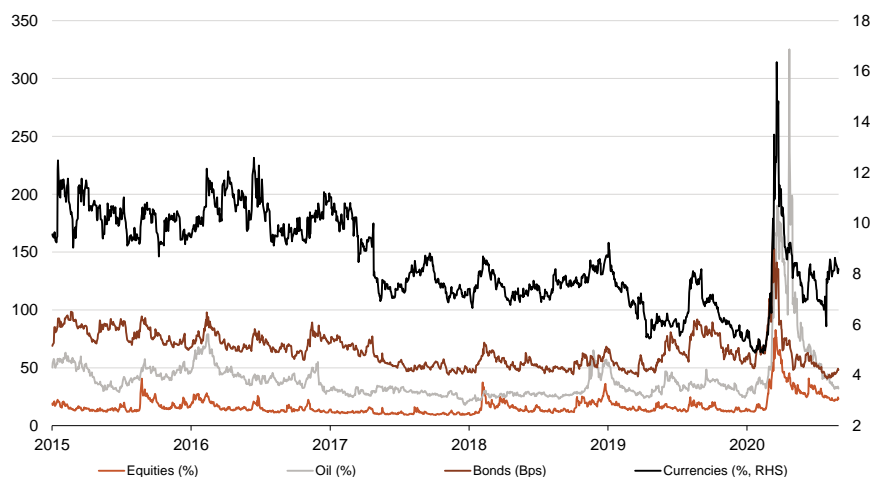


- Realised volatilities have fallen over the last two weeks, especially in risky asset classes. Commodities are still the only risk assets that exhibit volatility below their 5-year average.
- Recently, equities in developed countries have again been somewhat more volatile than their counterparts in emerging markets - a picture that is somewhat atypical by historical standards.

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: 28/08/2015 - 28/08/2020

**Implied Volatilities**



- The implied volatility has only decreased noticeably for oil. At 32, it is now at pre-crisis levels.
- With higher yields, implied volatility has recently risen for government bonds.
- The VIX continues to struggle to break through the 20 mark.

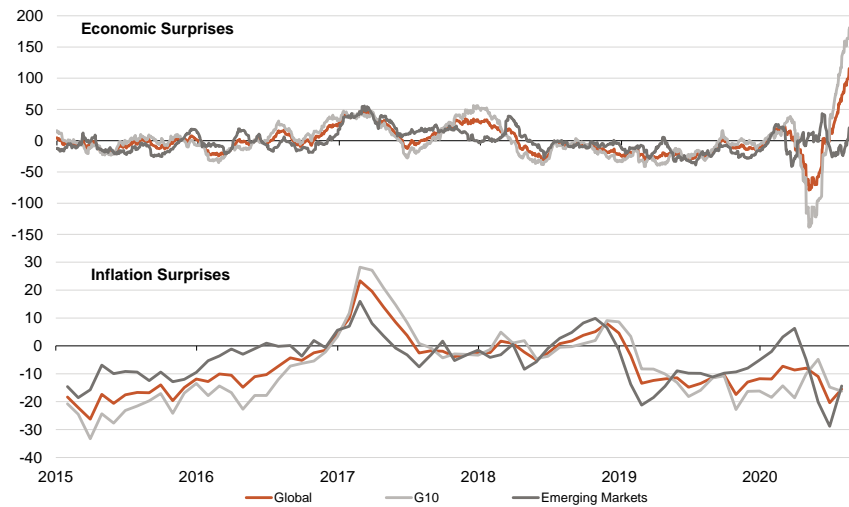
The price of options depends on the volatility of the underlying instrument. Implied volatility can therefore be interpreted as a measure of the currently expected fluctuation range of the underlying compared to the market over the remaining term of the option. It is a measure of prevailing uncertainty in the financial markets.

Stocks = VIX Index, Oil = OVX Index, Government Bonds = MOVE Index, Currencies = CVIX Index

Source: Bloomberg, Time period: 01/01/2015 - 28/08/2020



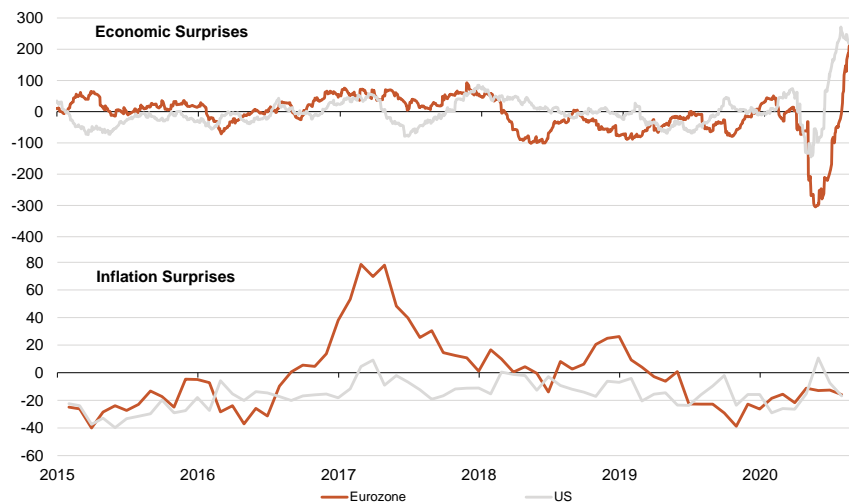
## Global



- After their previously strong rise, economic surprises both globally and in the G10 countries have declined slightly in the last two weeks, but remain at very high levels. By contrast, the emerging market index continued to rise, although industrial production and retail sales in China were slightly disappointing year-on-year.
- Inflation surprises in all three indices remain clearly in negative territory.

See explanations below.  
Source: Bloomberg, Time period: 01/01/2015 - 28/08/2020

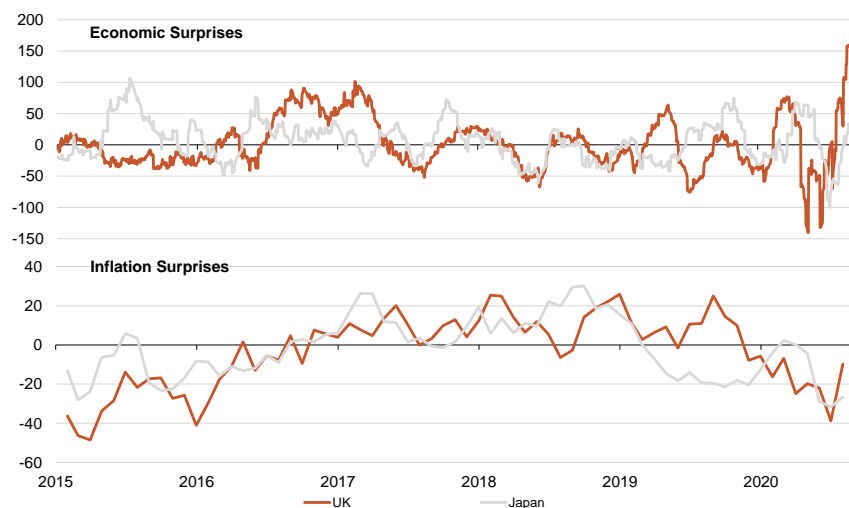
## Eurozone and US



- The positive surprises in the euro zone were not able to match the US, which they had previously. In Germany, private consumer spending and the expectations component of the ifo index fell short of forecasts, as did the purchasing managers' index in manufacturing and the service sector in France. In contrast, PMI and real estate market data in the US were strong.

See explanations below.  
Source: Bloomberg, Time period: 01/01/2015 - 28/08/2020

## UK and Japan

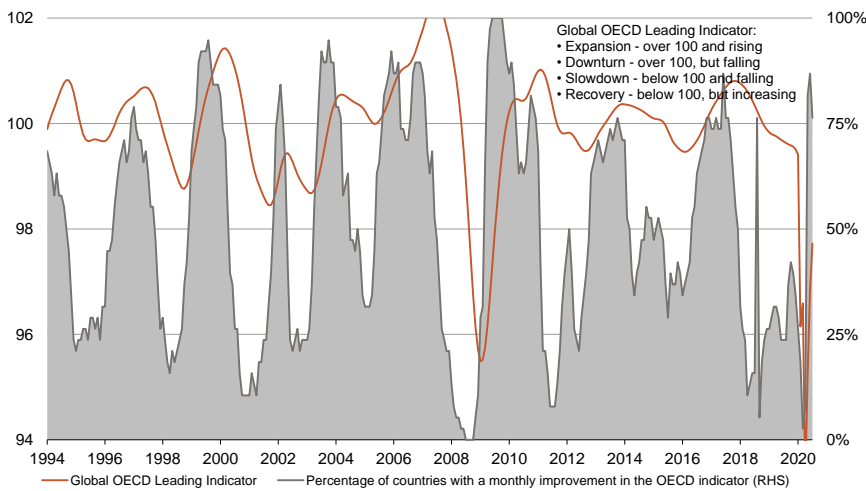


- The PMIs in the UK also exceeded expectations, as did retail sales - the economic surprise index rose sharply.
- In Japan, the index rose against the backdrop of positively surprising foreign trade data.

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 - 28/08/2020



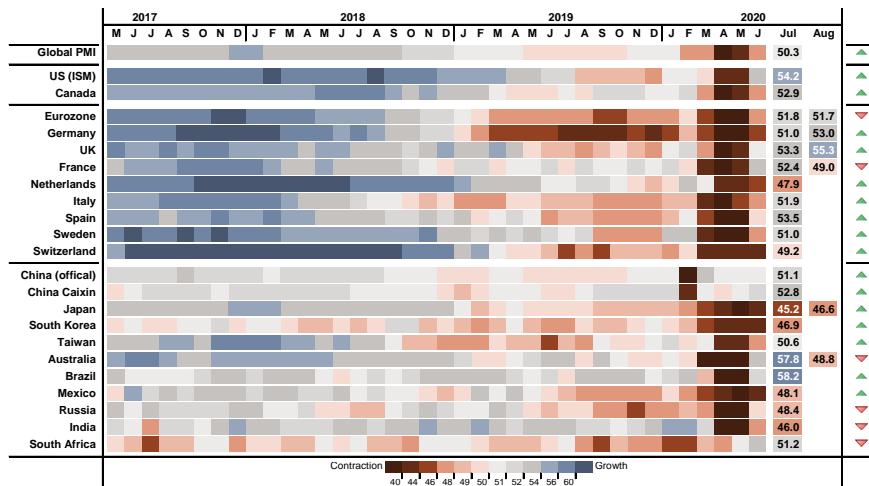
OECD Leading Indicator



- The global OECD leading indicator, at just less than 98 points, is only slightly below the 100 mark, the passing of which would be a further expansive signal.
- More than three-quarters of OECD countries have recently seen an improvement in the leading indicator.

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 - 31/07/2020

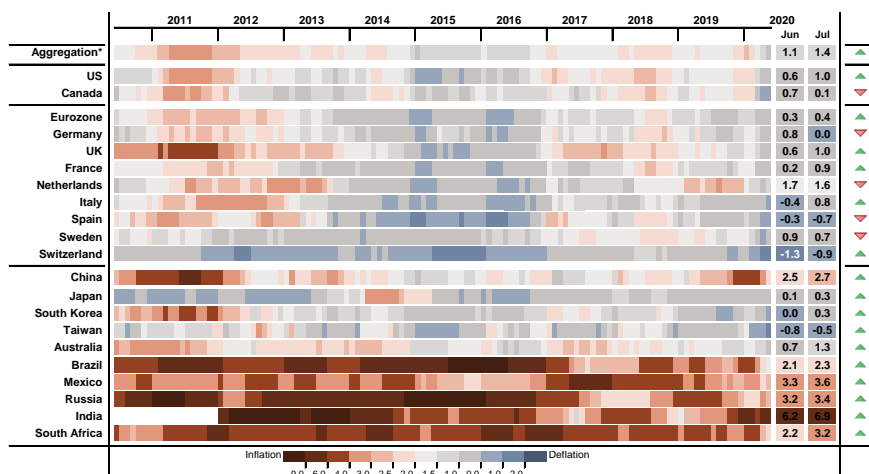
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The preliminary August data for the industrial PMI show a mixed picture. In Europe, increases are seen in Germany and the UK, while France is falling behind the previous month's figure and even below the 50 mark. In Japan, the index rose.

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: 31/05/2017 - 31/07/2020

Headline Inflation

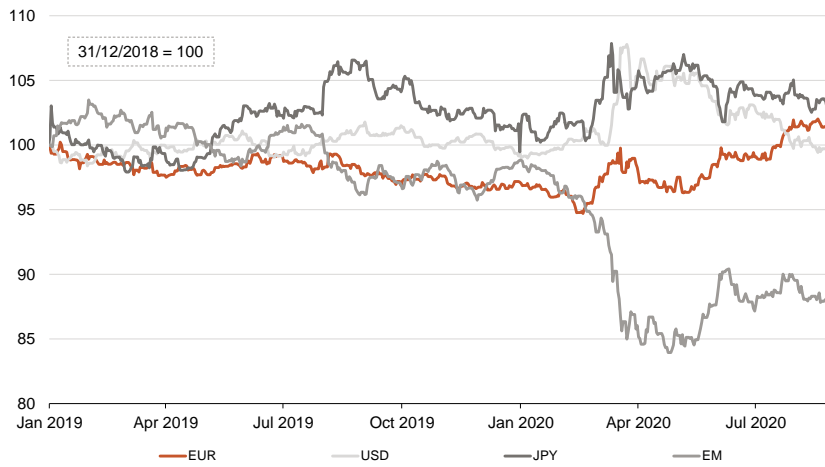


- On an aggregated basis, inflation rose year-on-year to +1.4% in July from +1.1% in June. Price levels rose both in the USA and the euro area, as well as in China and Japan.
- The decline in Germany is due in part to developments in the energy and food sectors.

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



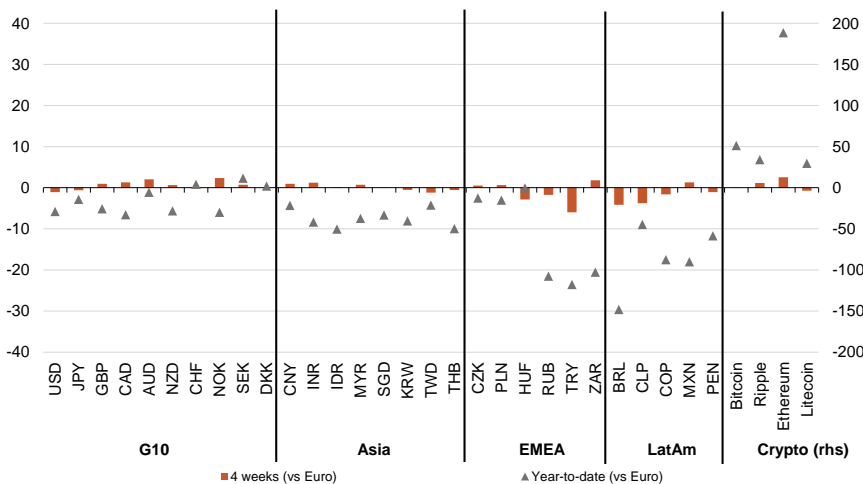
Trade-Weighted Currency Development



- No clear trends could be observed in currency markets recently. Only the US dollar fell slightly relative to two weeks prior on a trade-weighted basis.
- The euro, the Japanese yen and emerging market currencies stabilised at their respective levels.

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 - 28/08/2020

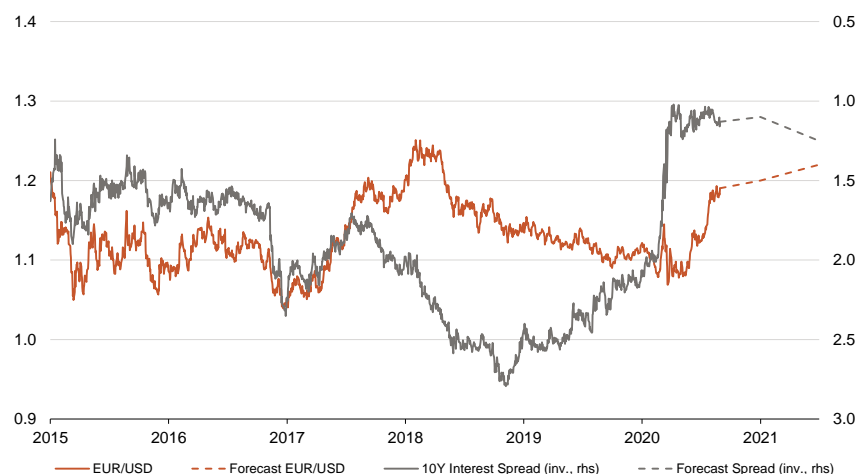
Currency Moves vs Euro



- While the euro has appreciated broadly against most currencies in recent weeks, the picture is currently less clear. The reason for the end of the upward trend was recent weak economic data in the EU.
- The Brazilian real continued its free fall after the Senate blocked a presidential veto on public servant wage increases.
- The Russian ruble suffered from the protests in neighboring Belarus.

Performance of selected currencies against the euro, in percent.  
Source: Bloomberg, Time period: 31/12/2019 - 28/08/2020

EUR/USD exchange rate and interest rate differential



- Due to a relatively stronger increase in inflation expectations in the US, the Euro has recently gained slightly and is currently quoted at 1.19 EUR/USD.
- Our economists assume that this upward trend will continue and see the exchange rate at 1.20 EUR/USD by the end of the year.

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

	4-week & YTD		12-month periods over that last 5 years				
	4W (31/07/20 - 28/08/20)	YTD (31/12/19 - 28/08/20)	28/08/19	28/08/18	28/08/17	28/08/16	28/08/15
			28/08/20	28/08/19	28/08/18	28/08/17	28/08/16
Consumer Discretionary	-12.0	8.7	0.0	-1.6	8.4	10.8	-5.9
Industrials	-7.0	8.3	7.8	-1.9	10.0	12.6	6.9
Finance	-24.5	5.6	-9.9	-10.8	-4.5	30.6	-19.0
Information Technology		5.0	25.4	-2.7	22.0	15.1	14.5
Value	-21.1	4.3	-10.0	-5.6	2.9	15.7	-7.2
Materials		4.2	13.5	-7.8	11.4	19.5	6.5
Telecommunications	-18.1	3.2	-15.3	2.4	-9.7	-1.1	-12.0
Energy	-40.6	3.2	-35.9	-10.4	30.7	6.5	7.7
Growth		2.9	8.6	5.0	9.5	7.1	1.8
Consumer Staples	-0.8	-0.1	-5.5	14.0	2.8	1.2	13.6
Health Care	-5.7	-0.9	8.8	11.9	6.9	0.6	-7.3
Utilities	-1.0	-1.7	10.1	19.8	-1.1	8.0	0.6
		1.1					

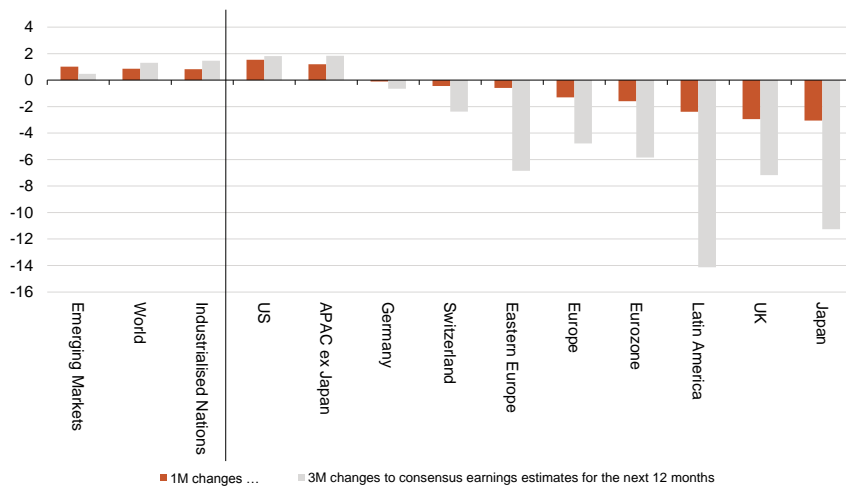
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Staples: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR; Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech.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

- Thanks to good economic data and vaccine hopes, cyclical sectors in Europe in particular have seen gains in recent weeks, especially cyclical consumer goods. Financials also gained, boosted by rising yields. Defensive sectors such as utilities and health care underperformed.

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: 28/08/2015 - 28/08/2020

## Changes in Consensus Earnings Estimates



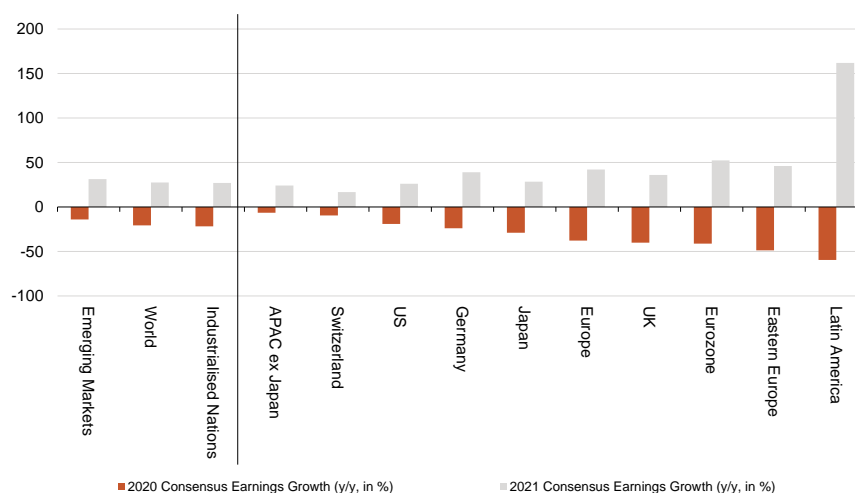
- Earnings revisions have stabilised further for many regions. For Asia Pacific ex Japan and the US, analysts have recently even raised their earnings estimates.
- Within equity sectors, the strongest earnings revisions have been made for 2021 in the energy, consumer cyclical and basic materials industries. In contrast, analysts have lowered their earnings estimates for the real estate sector over the past month.

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 28/08/2020

## Earnings Growth



- For next year analysts expect a synchronous economic upswing and anticipate earnings growth of at least 15% for all regions. According to consensus, Latin American companies are likely to record the strongest profit recovery - thanks to a significant base effect. For this year, earnings are expected to plummet by more than 50%.

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).

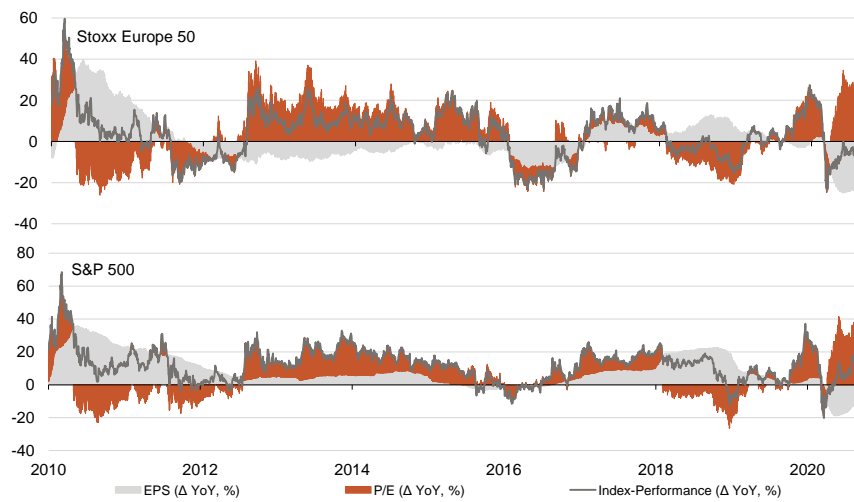
APAC ex Japan = Asia Pacific ex Japan

Source: FactSet, as of 28/08/2020





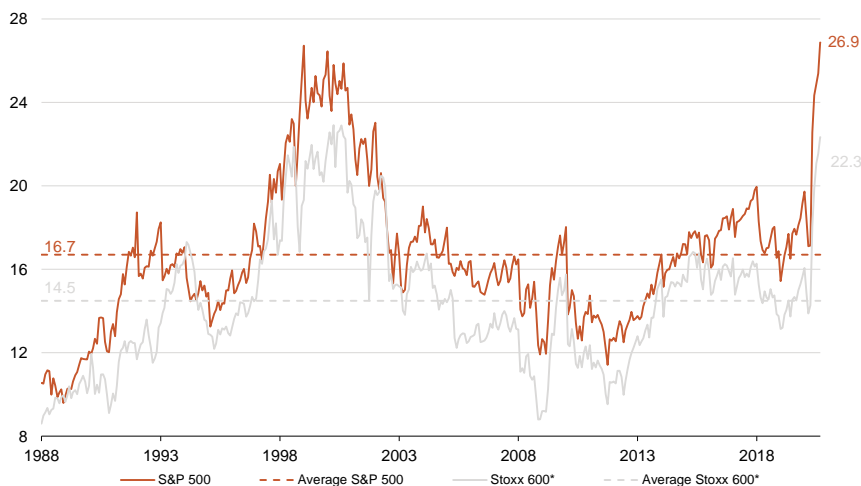
## Contribution Analysis



- While US markets are already significantly higher than a year ago, this is not yet the case for European stock markets. One reason for this is that earnings estimates in Europe have fallen much more sharply than in the US over the last 12 months.

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 - 28/08/2020

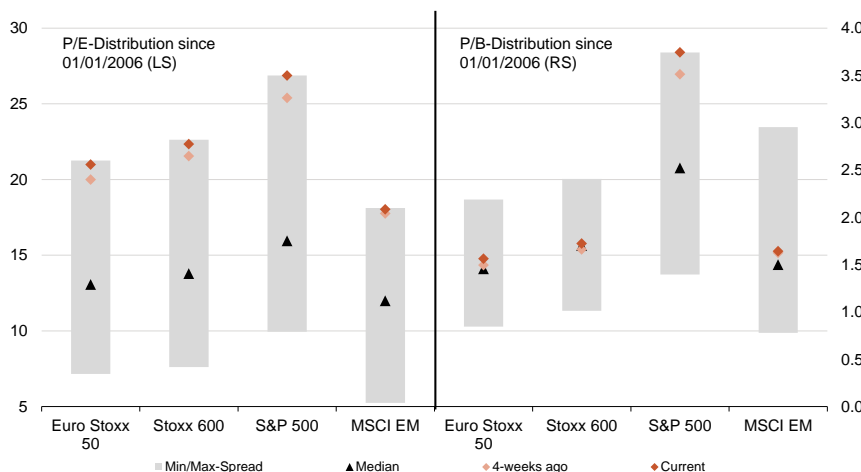
## Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Thanks to the strong performance of the mega caps, the P/E ratio of the S&P 500 rose to almost 27 - which is near the highs seen during the technology bubble at the turn of the millennium. A significant difference to that time, however, is that most technology companies are now generating high profits, which was not the case back then.

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 - 28/08/2020

## Historical Distribution: Price/Earnings and Price/Book Ratio

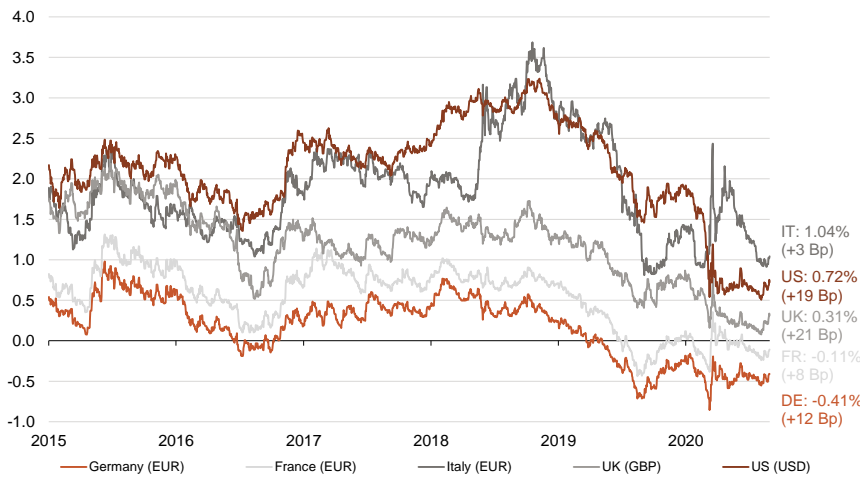


- On a P/E basis, all regions are now valued expensively compared to their historical average. On a price/book basis, on the other hand, the US in particular is richly valued.

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 - 28/08/2020



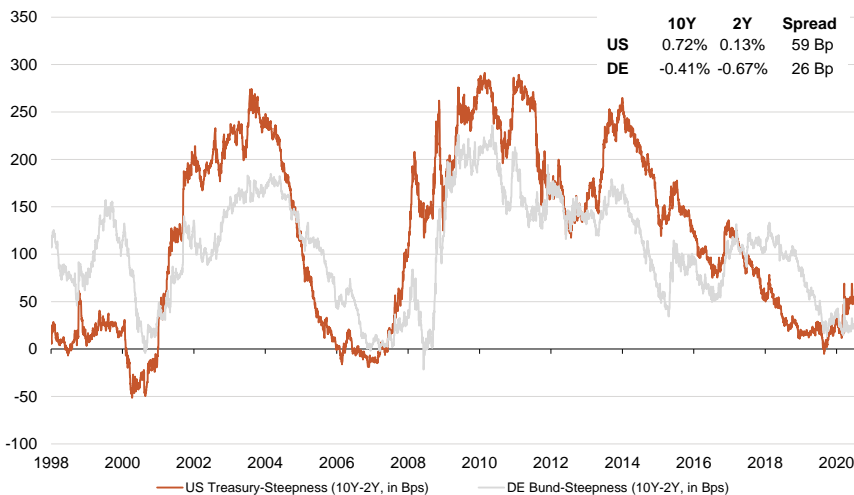
10-Year Government Bond Yields



- Yields on government bonds in the euro zone have risen slightly in the past two weeks. At the same time, the spreads of periphery nations narrowed in relation to the core countries. For example, the German-Italian spread in the ten-year segment fell by five basis points.
- Yields on US Treasuries and UK Gilts rose even stronger than in the euro zone. Optimism about the economic recovery has recently outweighed worries about Covid-19.

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 - 28/08/2020

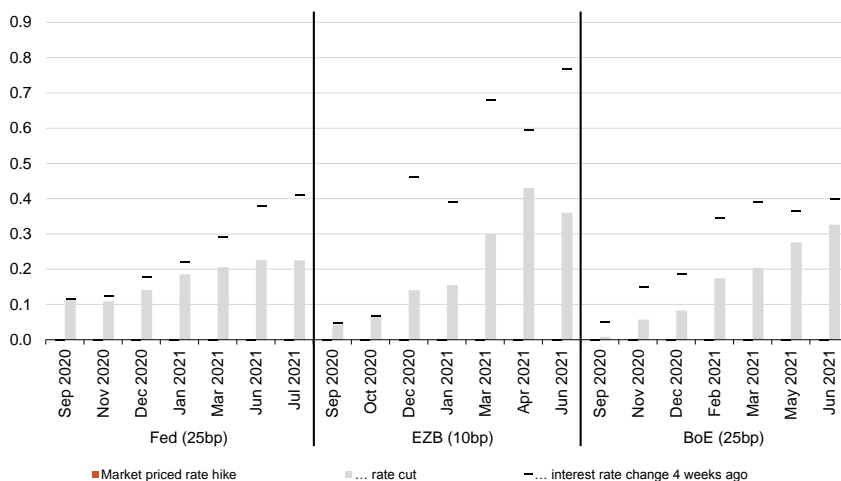
Yield Curve Steepness (10Y - 2Y)



- The steepness of the yield curves in the US and Germany - measured as the difference between ten-year and two-year yields - has hardly changed. The orders of magnitude are still below 60 and below 30 basis points respectively.
- As a possible economic indicator, the curves thus did not recently provide any signals.

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 - 28/08/2020

Implicit Changes in Key Interest Rates

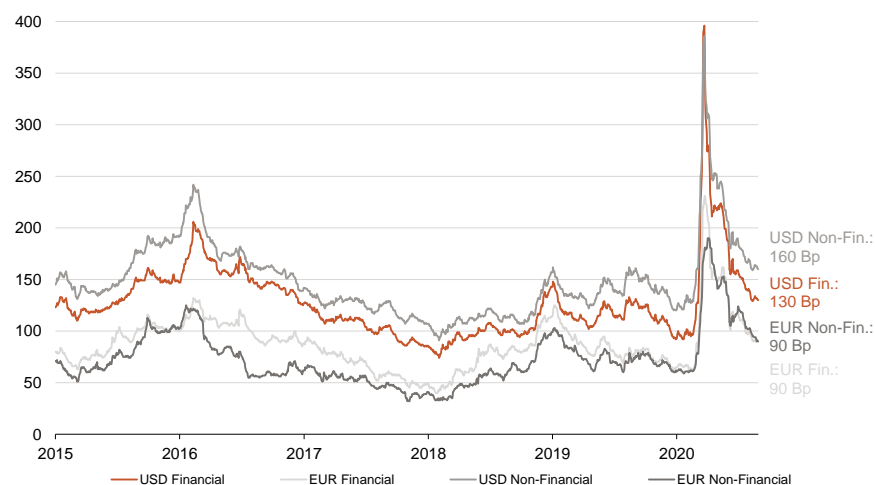


- Looking ahead to mid 2021, the likelihood of interest rate cuts by the Fed, ECB and BoE remains low. A rate cut of -25 basis points by the US Fed, for example, is now only expected with a probability of 22%.
- The Fed, ECB and BoE should remain in "wait-and-see" mode until their next respective meetings in September.

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: 29/07/2020 - 28/08/2020



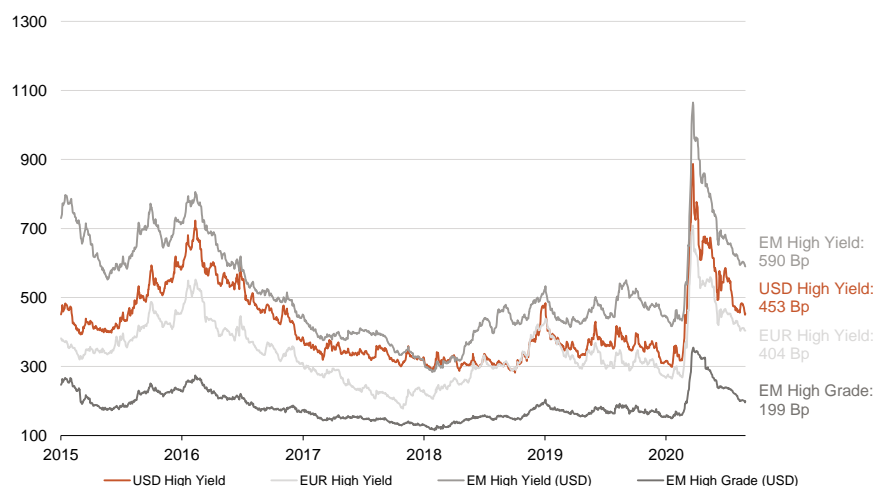
**Credit Spreads Financial and Non-Financial Bonds**



- There has been little change in the past two weeks in the spreads for US dollar investment-grade bonds. In the Euro segment, spreads on corporate bonds narrowed slightly, while those on financial bonds were stable.
- A closer look at the European segment reveals that spreads tightened more in the travel/leisure and energy sectors.

Explanations see middle and bottom illustration.  
Source: FactSet, Time period: 01/01/2015 - 28/08/2020

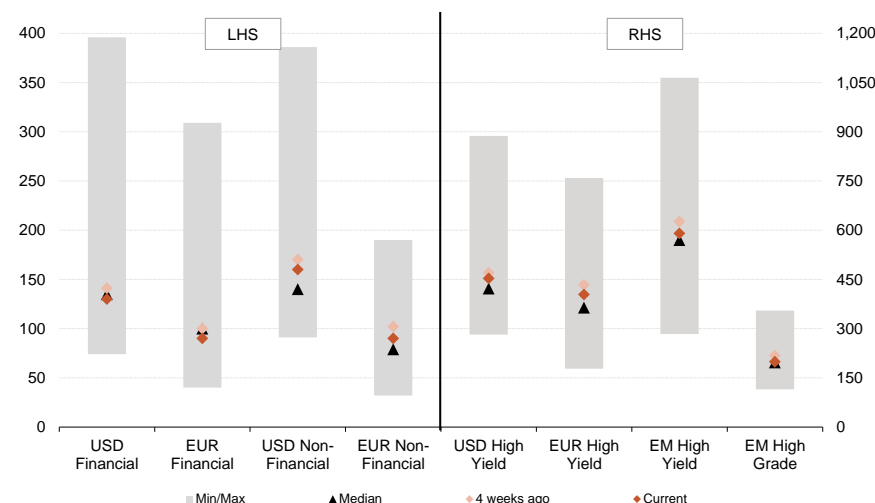
**Credit Spreads High Yield and Emerging Markets Bonds**



- Emerging market bonds have also seen little change in their risk premiums recently, neither in the high-yield nor the high-grade segment.
- Spreads on euro-denominated high yield bonds also saw a sideways movement, while spreads on US dollar-denominated high yield narrowed by around ten 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 - 28/08/2020

**Historical Distribution of Credit Spreads (in bp)**

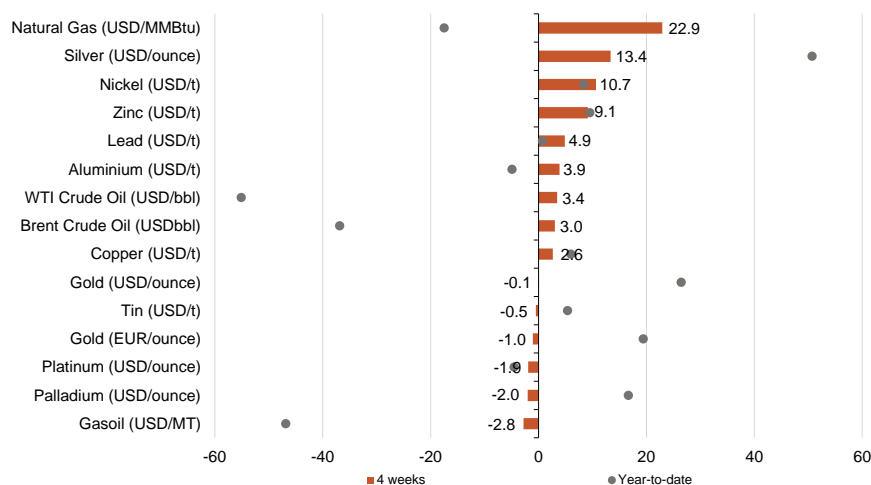


- In the investment grade segment, financial bonds are no longer cheap relative to their own history, while non-financial sector securities still offer spreads above their median.
- The latter also applies to emerging market high yield, US dollar and euro high yield.

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: 28/08/2010 - 28/08/2020



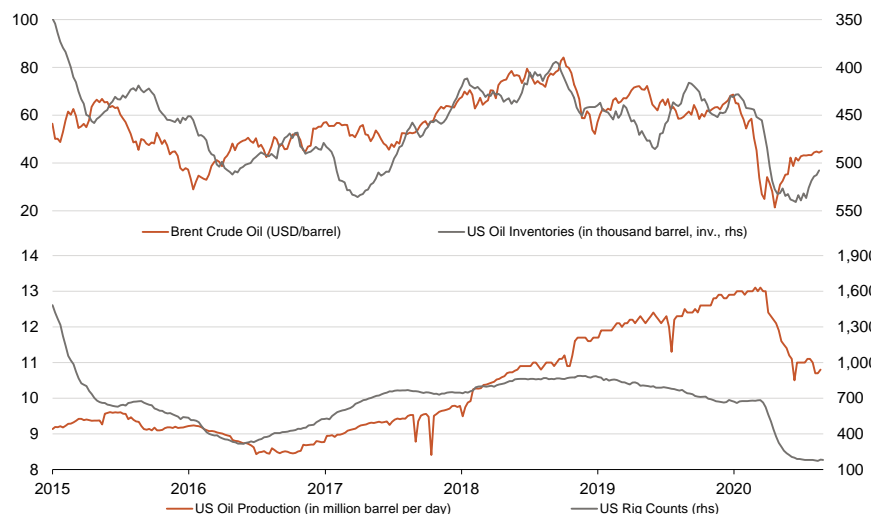
Commodities Performance



- Over the last four weeks, precious metals showed the weakest performance with the exception of silver, despite the metal also weakening over the last two weeks.
- Natural gas performed best thanks to fears of supply shortages in the US due to Hurricane Laura.
- Base metals recorded gains across the board.

Total return of selected commodity prices, in percent, sorted by 4-week performance.  
Source: Bloomberg, Time period: 01/01/2020 - 28/08/2020

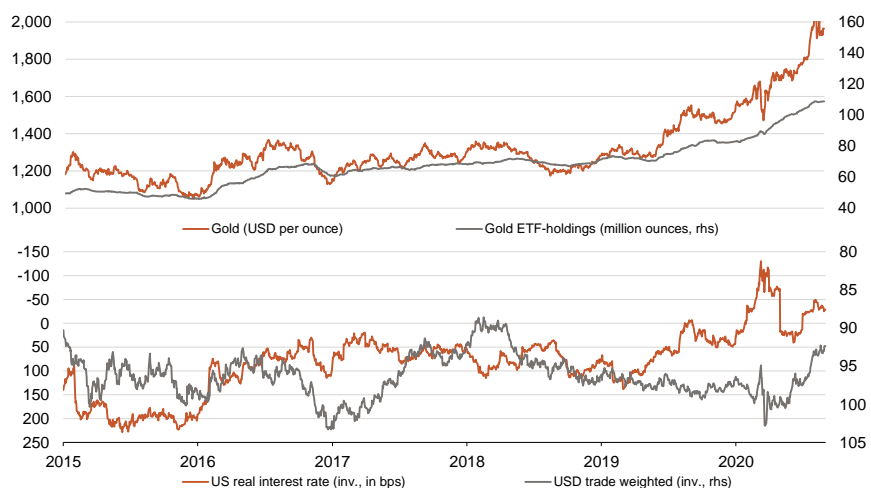
Crude Oil



- The oil price (Brent) has been moving in a narrow corridor between USD 43 and 46 per barrel over the last few weeks. Although the recovery in demand has recently faltered slightly, the market seems to have found its equilibrium thanks to the production cuts by OPEC+.
- In the medium term, the broad availability of a vaccine should boost the recovery in the transport sector, which has yet to take place, and thus provide strong support for demand.

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 - 28/08/2020

Gold



- With increasing optimism about a Covid-19 vaccine and rising interest rates on safe government bonds, gold has been slightly less in demand and is currently trading below the USD 1,965 an ounce mark.
- However, a reversal of the expansive monetary policy is not yet in sight and thus gold also remains well supported in the medium term.

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 - 28/08/2020

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