BERENBERG
Markets

MONITOR

14 September 2020

Current market commentary

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

We consider the recent correction in the overheated and in part ambitiously valued US technology sector to be healthy. In addition to some profit-taking after the strong rally, the options market bore some responsibility for this. With their call bets on rising prices, US private investors forced market makers to hedge against further rising markets in the form of stock purchases, which intensified the upward pressure and led to increased volatility. When the reversal occurred, these hedges were reduced and the feedback loop had a strengthening effect on the downward movement. We believe the downside potential is limited as option positioning is no longer so extreme and investors have plenty of dry powder. Volatility spikes (Fed meeting, US elections, Brexit, trade conflict, vaccine news) are likely to recur. Nevertheless, we remain constructive as the economic recovery continues, equities continue to be valued more favorably than bonds and there is no euphoria.

Short-term outlook

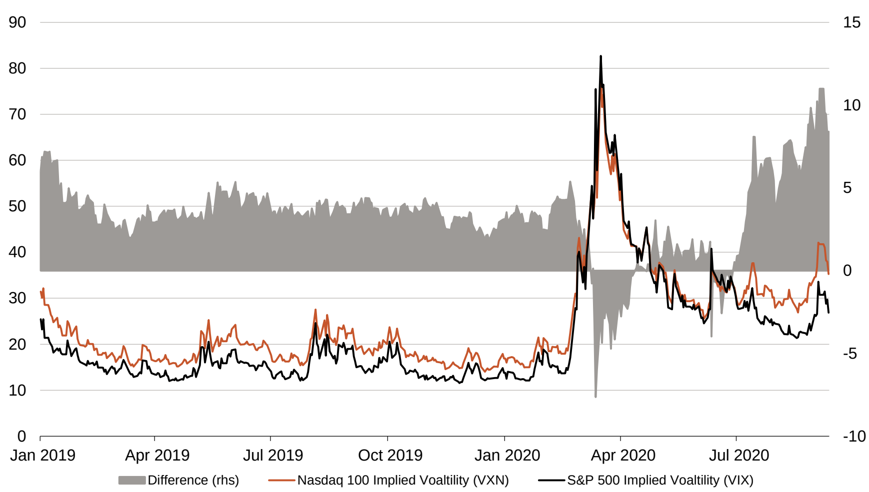
Politics and central banks will set the tone.

Today, the EU and China are discussing future trade relations as well as climate change and the coronavirus pandemic. An EU special summit will also be held on 24-25 September. Issues to be discussed include the domestic market, industrial policy, digital transformation and foreign relations, especially the relations of Turkey and China. After the ECB meeting last week, the Fed (16/09) and the Bank of England (17/09) will hold their September meeting this week. The Bank of England is likely to focus increasingly on the economic risk of a hard Brexit.

Industrial production and retail sales in the focus of the markets.

This week's data releases include Industrial Production data (Aug.) for the eurozone (today), China (15th Sept.) and the U.S. (16th Sept.) as well as Retail Sales data (Aug.) for China (15th Sept.), the US (16th Sept.) and the U.K. (18th Sept.). The ZEW Economic Sentiment and the U.S. Empire State Index will be released on Tuesday and the U.S. Consumer Confidence Index on Friday.

Volatility has increased In August, especially for the Nasdaq



- In August we had the rare phenomenon of US equities and implied volatility rising simultaneously due to imbalances in the options market. As the call options were mainly concentrated on US stocks, Nasdaq volatility has risen enormously. Recently, there has been a decrease in volatility despite the sell-off, which suggests that the position has been cleaned somewhat. The approaching major expiration date in the options market on September 18 should lead to a further position reduction.

Source: Bloomberg, Time period: 01/01/2019 - 11/09/2020

Multi Asset

	4-week & YTD: 4W (14/08/20 - 11/09/20)	4-week & YTD: YTD (31/12/19 - 11/09/20)	11/09/19 11/09/20	11/09/18 11/09/19	11/09/17 11/09/18	11/09/16 11/09/17	11/09/15 11/09/16
MSCI Frontier Markets	4.2	-14.1	-9.9	12.3	-5.5	19.3	-2.8
Industrial Metals	4.2	-2.0	-6.4	11.8	-7.6	25.5	-4.3
Global Treasuries	0.2	0.6	-1.7	13.1	0.5	-7.0	10.7
Global Convertibles	0.1	8.6	12.1	9.3	8.7	7.9	3.8
Global Coporates	0.1	0.9	0.7	14.1	1.1	-2.8	7.3
MSCI Emerging Markets	0.0	-5.5	2.1	9.5	-3.5	15.8	17.4
USDEUR	0.0	-5.3	-7.0	5.4	3.0	-6.0	0.9
Eonia	0.0	-0.3	-0.5	-0.4	-0.4	-0.4	-0.3
Gold	-0.3	21.0	20.4	31.7	-7.0	-6.1	21.0
MSCI World	-0.5	-3.6	2.1	9.7	14.1	10.8	8.4
REITs	-0.8	-17.1	-17.9	19.2	1.9	-4.9	17.3
Brent	-12.0	-47.9	-41.4	-14.3	61.0	-5.4	-18.1

(12-month periods over that last 5 years)

MSCI World: MSCI World Net Return; MSCI Emerging Markets: MSCI EM Net Return; MSCI Frontier Markets: MSCI Frontier Markets Net Return;
REITs: MSCI World REITs Index; 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.

- Over the last four weeks, the major asset classes have hardly moved at all, with the exception of Brent oil, which fell sharply due to demand concerns.
- Frontier market equities have recently recovered somewhat, but alongside oil and REITs are still the biggest losers this year.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 11/09/2015 – 11/09/2020

Equities

	4-week & YTD: 4W (14/08/20 - 11/09/20)	4-week & YTD: YTD (31/12/19 - 11/09/20)	11/09/19 11/09/20	11/09/18 11/09/19	11/09/17 11/09/18	11/09/16 11/09/17	11/09/15 11/09/16
DAX	2.3	-0.3	6.8	3.2	-4.0	18.0	4.4
Topix	1.2	-6.3	0.1	4.1	8.6	8.2	10.1
MSCI EM Asia	0.4	2.4	11.4	6.3	-0.2	16.0	18.2
Euro Stoxx 50	0.4	-9.8	-3.7	9.2	-2.7	17.4	-1.4
Stoxx Europe 50	0.3	-10.2	-4.2	11.1	-0.3	11.0	-1.8
Stoxx Europe Small 200	-0.2	-7.7	1.0	2.2	5.8	16.7	1.0
Stoxx Europe Cyclicals	-0.3	-11.6	-3.4	1.2	0.0	21.0	-3.1
S&P 500	-0.7	-0.6	5.5	11.6	22.2	11.8	12.2
Stoxx Europe Defensives	-0.8	-8.9	-2.4	9.4	4.2	5.6	-0.2
MSCI UK	-3.2	-26.0	-19.7	5.4	3.7	5.8	-0.2
MSCI USA Small Caps	-4.6	-14.0	-10.6	1.1	25.9	9.4	8.6
MSCI EM Eastern Europe	-8.9	-27.9	-20.2	28.8	0.6	19.6	12.1

(12-month periods over that last 5 years)

S&P 500: S&P 500 TR (US-Equity); Stoxx Europe 50: Stoxx Europe 50 TR; Euro Stoxx 50: Euro Stoxx 50 TR; 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.

- Within equity regions, cyclical indices such as the DAX remain well supported. After US stocks clearly outperformed the rest of the world in August, there has recently been a more pronounced setback, which mainly affected US technology stocks.
- The oil price setback has also led to a relative underperformance of Eastern European stocks. Within emerging markets, Asia remains the strongest region.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 11/09/2015 – 11/09/2020

Fixed Income

	4-week & YTD: 4W (14/08/20 - 11/09/20)	4-week & YTD: YTD (31/12/19 - 11/09/20)	11/09/19 11/09/20	11/09/18 11/09/19	11/09/17 11/09/18	11/09/16 11/09/17	11/09/15 11/09/16
EUR High Yield	0.8	-2.2	-0.8	4.5	0.5	5.5	5.2
USD High Yield	0.5	-5.5	-4.9	13.3	6.3	0.9	8.5
Bunds	0.4	2.3	-0.7	7.7	0.1	-2.0	5.7
EUR Non-Financials	0.4	0.9	0.4	6.4	-0.4	0.2	6.8
EM Local Currency Bonds	0.3	-6.3	-4.9	17.1	-4.8	-1.0	15.5
EUR Financials	0.3	0.5	0.1	5.8	-0.5	2.0	5.4
Treasuries	0.3	3.4	1.0	15.5	1.2	-6.7	5.0
BTPs	0.2	3.8	1.6	15.2	-3.0	-2.2	6.2
USD Corporates	0.2	1.6	1.4	18.0	1.8	-3.7	9.1
EM Hard Currency Bonds	0.0	0.8	1.5	9.5	-7.2	2.7	12.4
EUR Inflation Linkers	-0.5	-0.1	-1.5	6.8	1.1	0.1	5.3
Gilts	-1.4	-0.7	2.5	10.8	0.5	-7.6	-1.6

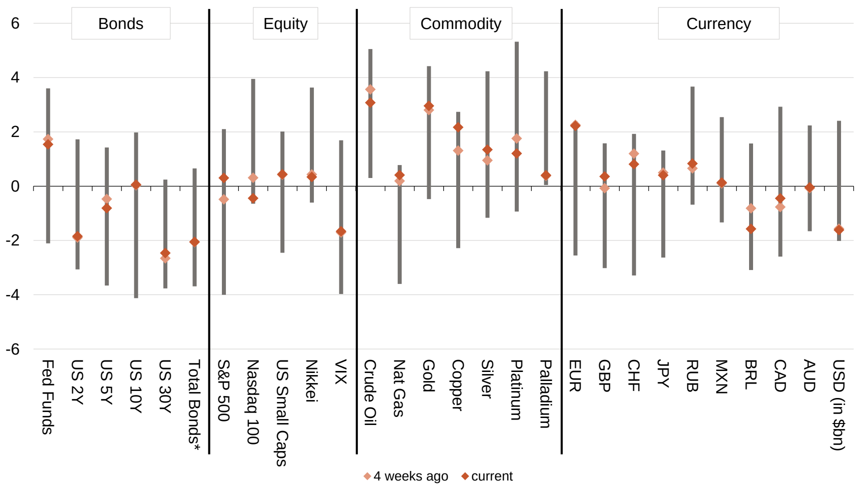
(12-month periods over that last 5 years)

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.

- The recent escalation in the Brexit dispute has put pressure on the pound. In line with this, British government bonds have fared the worst over the last four weeks in euro terms.
- EUR high yield bonds have fared best of late, followed by USD high yield bonds. Investors continue to focus on carry positions.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 11/09/2015 – 11/09/2020

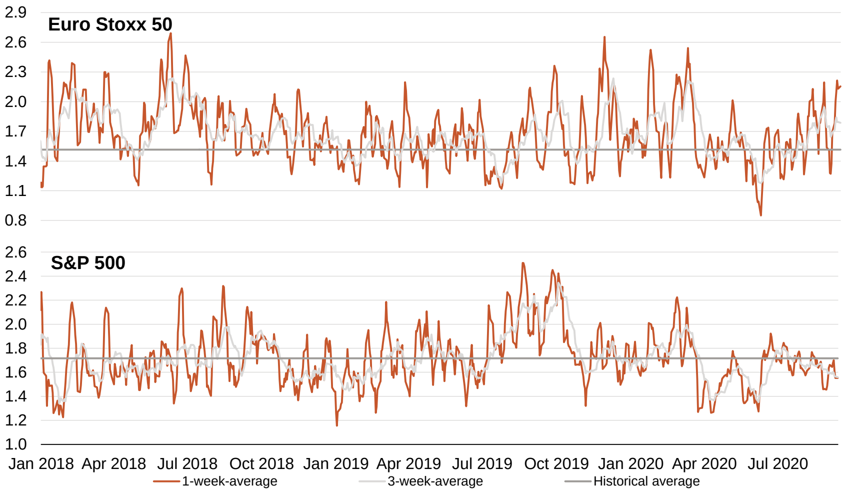
Non-Commercial Positioning



- Speculative investors are still not particularly risk averse. They are moderately positioned in equities, while they continue to take pronounced net gold long positions. In addition, from February to August, they have sharply reduced their net short positions in 10-year US Treasuries.

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: 08/09/2010 - 08/09/2020

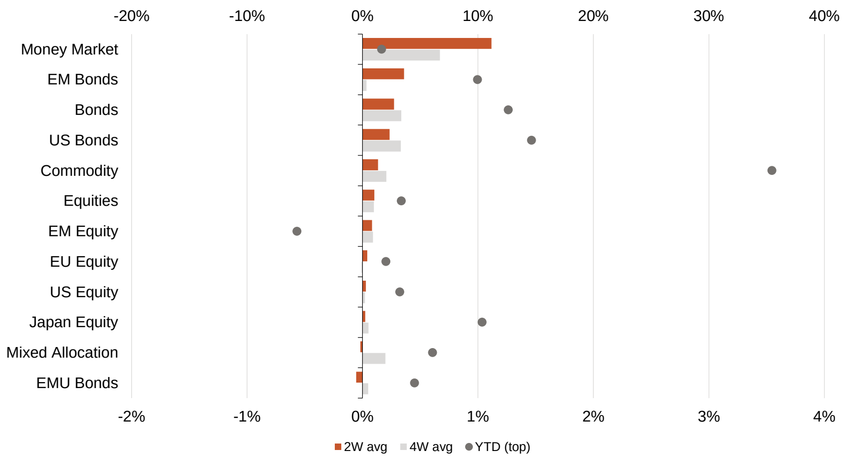
Put-Call Ratio



- While the put/call ratio for eurozone equities has risen in recent weeks and is well above the historical average, the ratio for US equities is at historically low levels. At present, a particularly large number of call options on US technology stocks are being bought. This makes the US market vulnerable should there be stronger sell-offs, as seen in the last two weeks.

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 - 11/09/2020

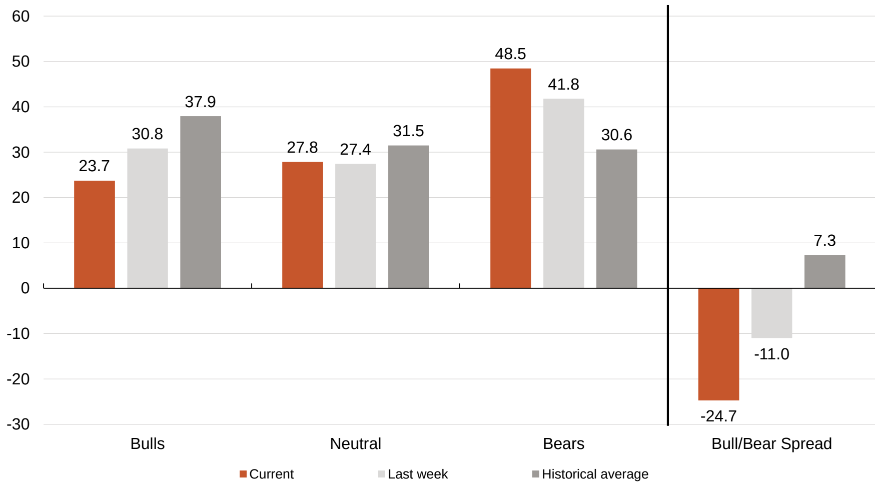
ETF Flows



- ETF investors are still not particularly optimistic about stocks. Money market vehicles have recently seen the largest inflows, driven by the increase in equity volatility and the uncertainties surrounding the upcoming US elections.
- Precious metals and carry in the form of emerging market bonds are also in demand.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2019 - 11/09/2020

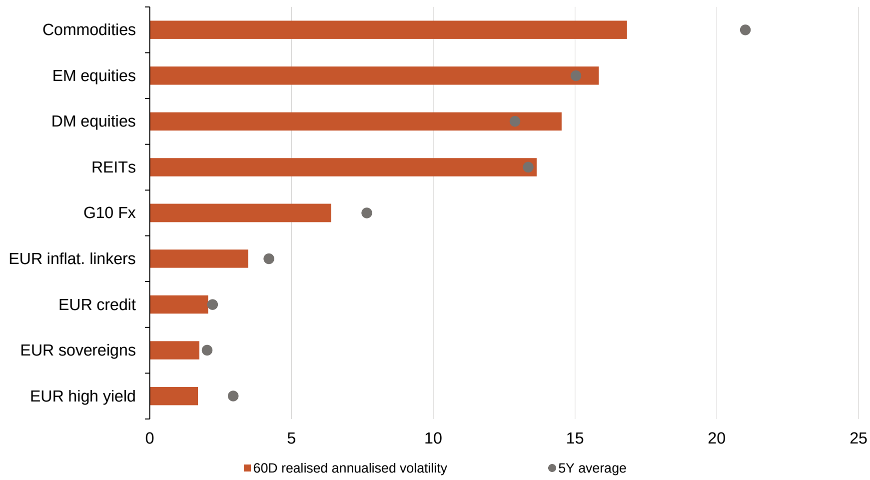
AAII Sentiment Survey (Bulls vs Bears)



- After the short but sharp sell-off of American technology stocks, US private investors are once again much more pessimistic than in previous weeks.
- A bull/bear spread of -20 pp or less has generally proved to be a good indicator of rising equity markets in recent months.

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 – 10/09/20

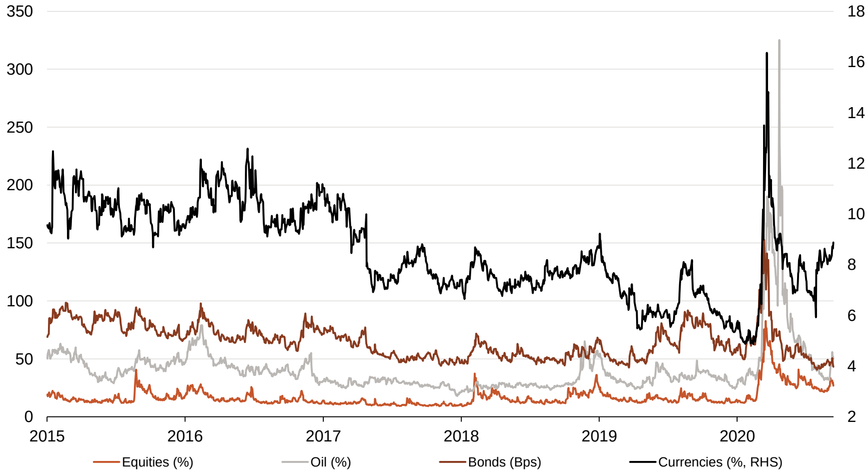
Realised Volatilities



- Realised volatilities in risky assets continued to fall.
- Two weeks ago, REITs exhibited the highest volatility. Now, realised volatility has fallen below the 15% mark over the last 60 days.
- For euro high-yield bonds, volatility has even fallen below the average of the last 5 years for the first time since mid-February.

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: 11/09/2015 – 11/09/2020

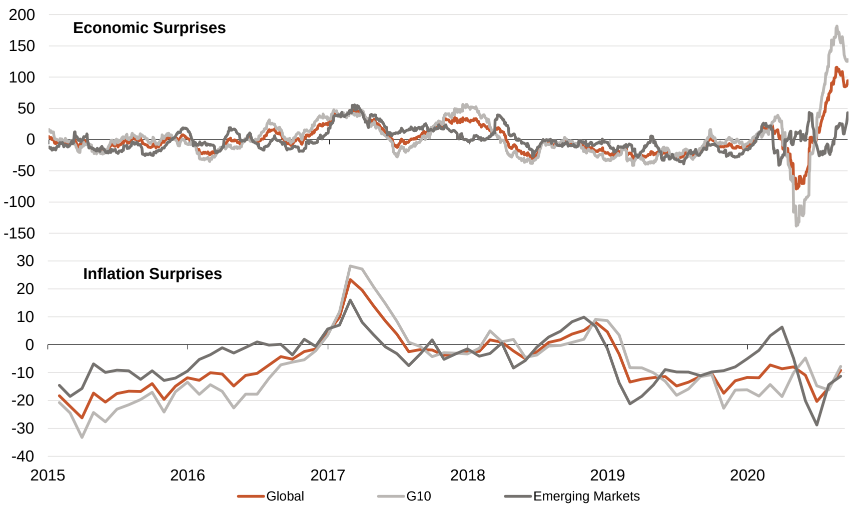
Implied Volatilities



- Implied volatilities, on the other hand, have risen again over the past two weeks.
- The VIX jumped from 25 to over 35 as a result of the US sell-off, but has recently started to decline again.
- Demand concerns in oil markets caused implied volatility to rise sharply there.

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 – 11/09/2020

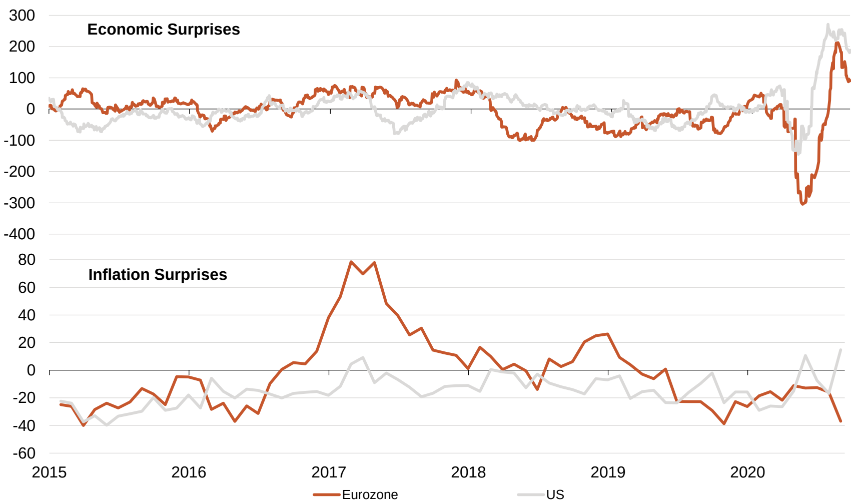
Global



- Positive economic surprises on a global level are fading. The G10 countries in particular have seen less economic data recently which beat expectations. In contrast, the data for the emerging markets on average provided positive surprises. In China, the Caixin purchasing managers' indices and exports (Aug.,YoY) were better than expected and in South Korea unemployment fell below 4%. In South Africa, on the other hand, the economy suffered a massive slump of over 50% (Q2, QoQ).

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 11/09/2020

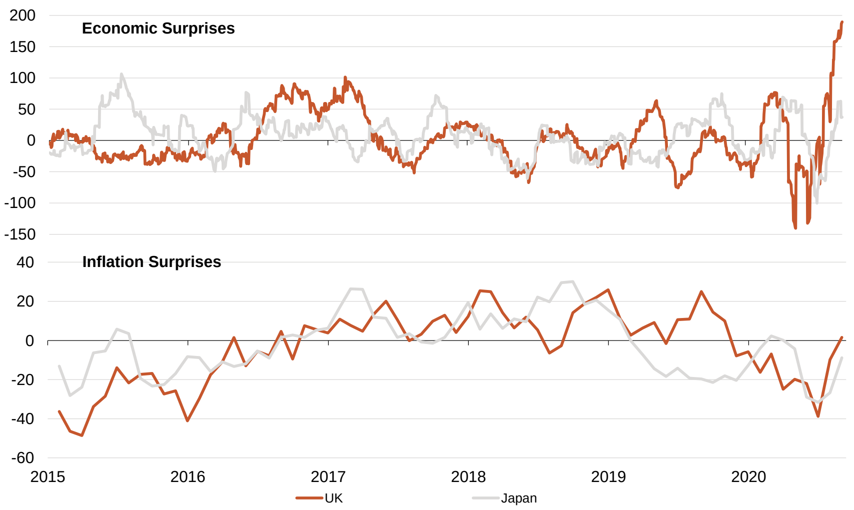
Eurozone and US



- In the US and the eurozone, positive economic surprises have further diminished. Positive surprises in the US were the ISM and the Markit purchasing managers' index (industry), the unemployment rate and Factory Orders. By contrast, the service PMI and the latest labour market data were disappointing.
- In Germany, industrial production data, retail sales (MoM) and exports disappointed, while in France the purchasing managers' indices and industrial production were weak.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 11/09/2020

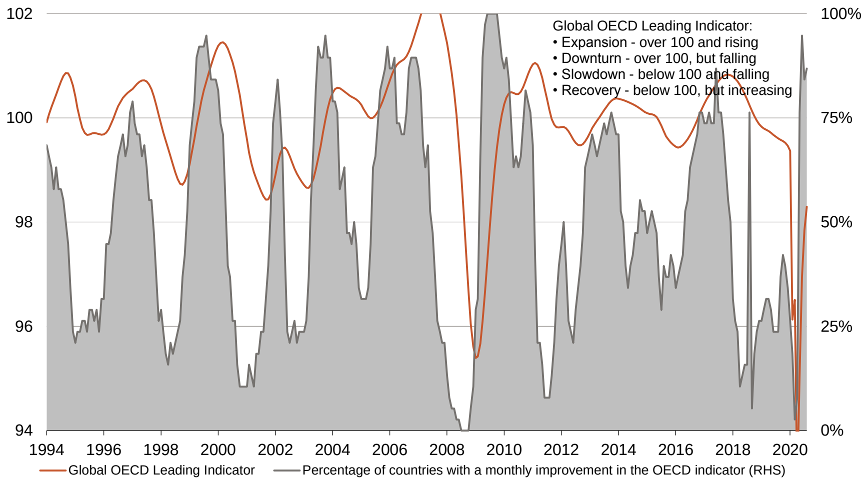
UK and Japan



- In the UK, positive economic surprises have picked up significantly. Industrial production and housing market data in July were better than expected.
- In Japan, labour market data, economic growth and Core Machine orders came in as positive surprises.

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 - 11/09/2020

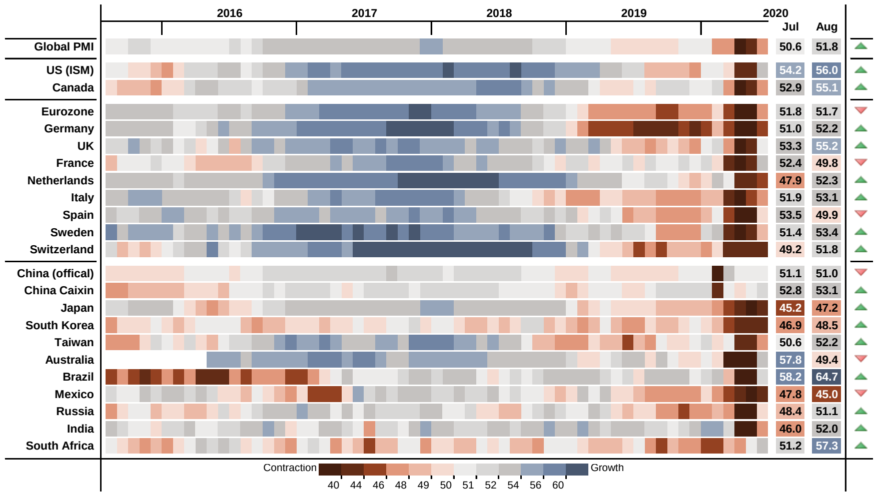
OECD Leading Indicator



- The OECD leading indicator continued to rise in August, reaching 98.3 points, thus indicating that the global economy is continuing to recover.
- Looking at the individual countries, almost 90% achieved a better leading indicator in August than in July.

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 - 31/08/2020

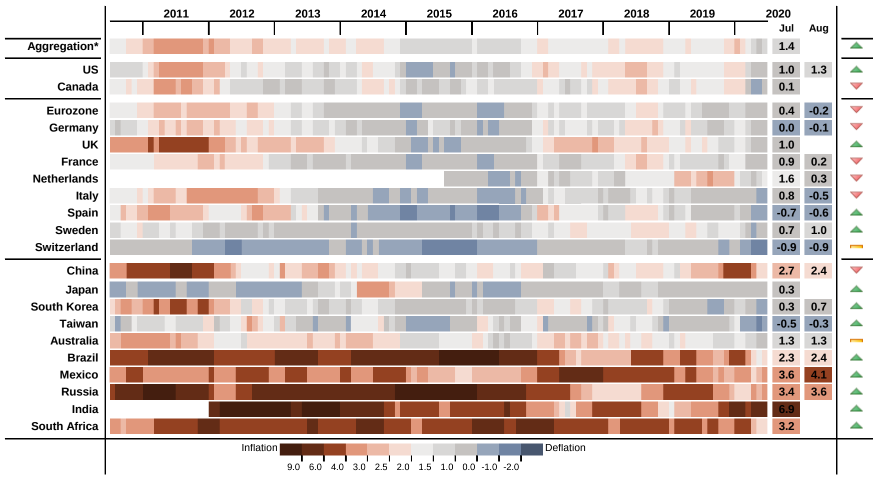
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- Industry is still on an upward trend. The global PMI has risen for the fourth time in a row and at 51.8 is clearly in the growth zone.
- The ISM index in the USA and the Caixin PMI in China also continued to improve relative to 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: 31/08/2015 - 31/08/2020

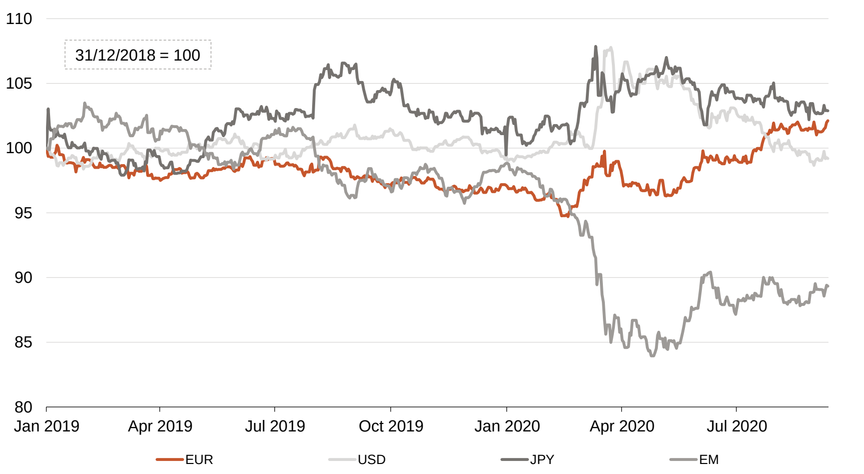
Headline Inflation



- Prices remain capped. In Germany and the eurozone they even fell slightly. Falling energy prices and less sharp rises in food prices were the biggest drivers in Germany.
- In the US, inflation rose to 1.3% in August - thanks in particular to sharply rising food prices.
- In most emerging markets, inflation is on the rise 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: 31/08/2010 - 31/08/2020

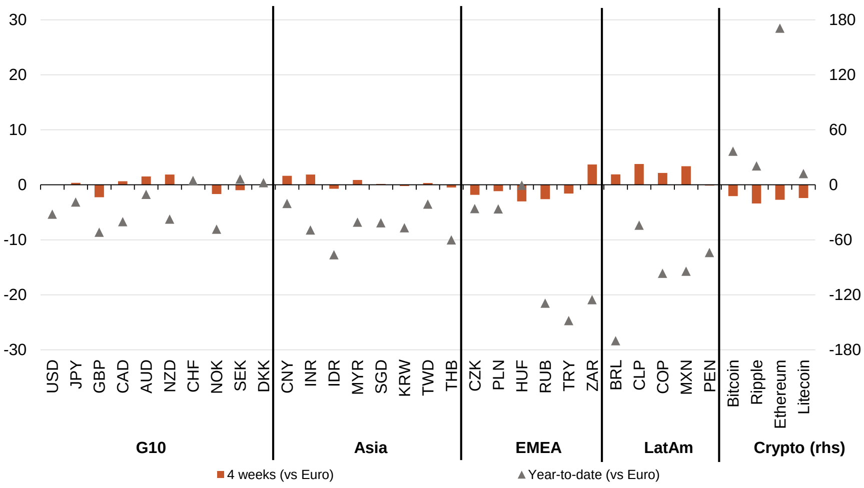
Trade-Weighted Currency Development



- The US dollar has stabilised on a trade-weighted basis over the past two weeks.
- Emerging market currencies moved volatile sideways. Individual issues dominated the movements.
- The Japanese yen is slowly but surely losing value in the course of the global economic recovery, as it is increasingly less in demand for its function as a safe haven.

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 - 11/09/2020

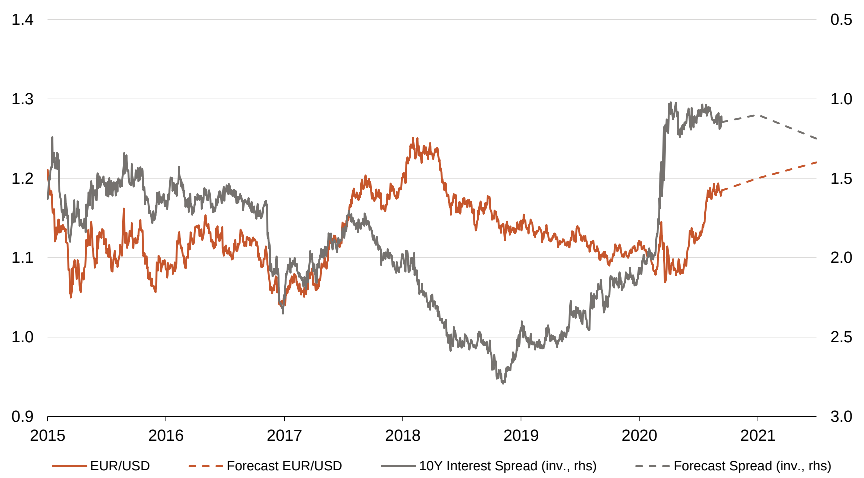
Currency Moves vs Euro



- Developments in currency markets paint a mixed picture. Among the G10 currencies, cyclical currencies such as the Australian or New Zealand dollar were slightly ahead. The pound depreciated in the wake of renewed concerns about a disorderly hard Brexit.
- Among emerging markets, Latin American currencies gained against the euro, while Eastern Europe lagged behind.
- Crypto-currencies have lost ground over the last four weeks.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2019 - 11/09/2020

EUR/USD exchange rate and interest rate differential



- There was no clear direction in the EUR/USD exchange rate over the last two weeks.
- According to ECB President Lagarde last Thursday, the appreciation of the euro must be monitored further, but there is no need for action at present. Market participants took this news positively, so that the euro has recently gained ground again.

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

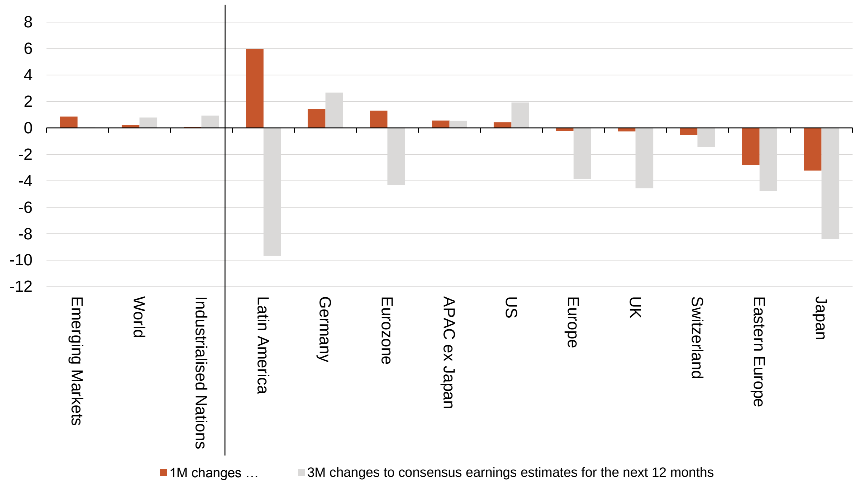
	4-week & YTD		12-month periods over that last 5 years				
	4W (14/08/20 - 11/09/20)	YTD (31/12/19 - 11/09/20)	11/09/19 11/09/20	11/09/18 11/09/19	11/09/17 11/09/18	11/09/16 11/09/17	11/09/15 11/09/16
Consumer Discretionary	4.0	-10.1	-3.5	9.4	0.8	13.4	-4.6
Materials	3.6	-0.6	7.2	5.7	2.8	25.6	7.3
Consumer Staples	1.3	-4.5	-5.7	18.7	-1.7	3.8	15.2
Industrials	1.1	-7.2	1.1	6.7	4.5	16.7	8.0
Growth	1.1	-0.5	5.6	11.4	3.9	10.5	3.0
Health Care	0.6	0.5	10.7	14.2	1.8	4.3	-7.0
Information Technology	-0.2	5.9	15.1	8.3	12.7	20.0	15.5
Value	-0.9	-21.5	-15.9	3.0	-1.0	15.4	-3.0
Telecommunications	-2.7	-19.1	-18.7	8.5	-12.4	-0.8	-9.7
Finance	-2.7	-26.8	-19.9	-1.3	-5.6	24.0	-12.7
Utilities	-3.2	0.8	9.6	19.3	-2.8	9.6	5.4
Energy	-7.2	-42.9	-41.3	-4.0	24.8	8.6	13.8

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.

- Cyclical sectors have continued their recent outperformance, while technology stocks have recently lagged behind after the strong performance this year. One-sided positioning and ambitious valuations have led to a healthy setback. However, technology stocks remain attractive in the long term due to their strong earnings growth. They should also benefit from the ongoing digitalisation and increased ESG flows.

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: 11/09/2015 – 11/09/2020

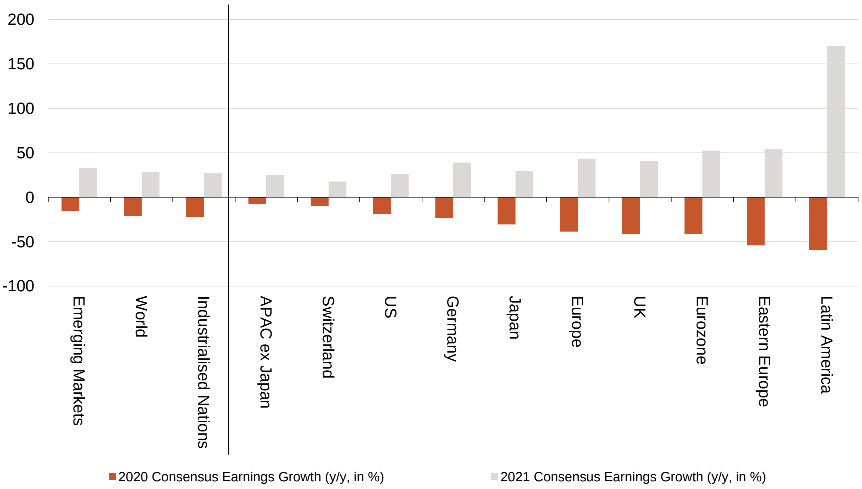
Changes in Consensus Earnings Estimates



- After many companies exceeded expectations in the Q2 reporting season and economic data surprised positively, analysts have now become bolder. Over the past month, they have raised their aggregate estimates for the emerging markets - especially for Latin America.
- They have also raised their earnings expectations for Germany.
- For Japan, on the other hand, they have been cut the most.

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 11/09/2020

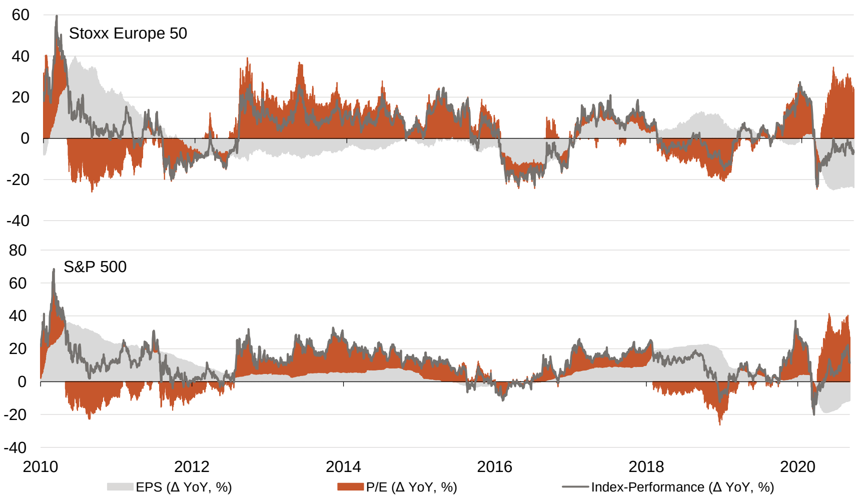
Earnings Growth



- Should earnings in the second half of the year develop better than expected, Asia Pacific ex Japan could still post positive earnings growth for this year. Profits in the defensive Swiss equity market are also proving to be relatively robust once again.
- According to the consensus, Latin America and Eastern Europe are likely to record the biggest drop in earnings 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 11/09/2020

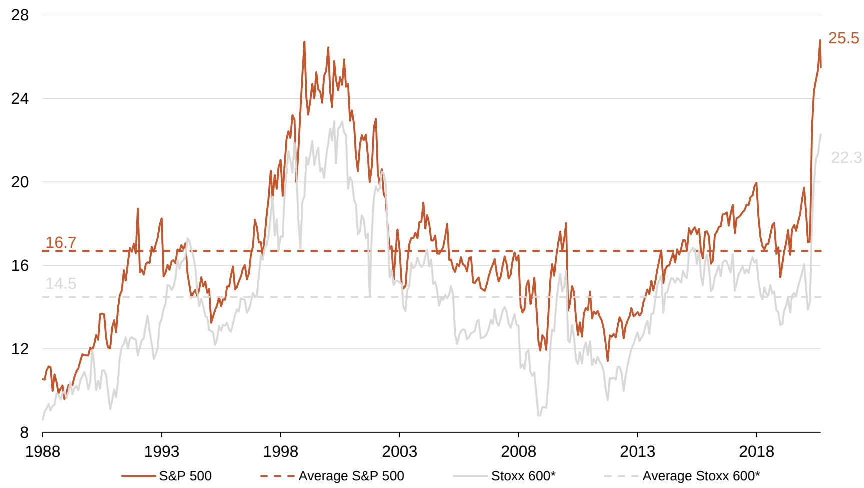
Contribution Analysis



- Despite the recent correction, US equities are still positive on a 1-year horizon, thanks to the powerful valuation expansion caused by a sharp fall in interest rates.
- European stocks have also become significantly more expensive compared to the previous year. However, they are still slightly negative year-on-year.

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 - 11/09/2020

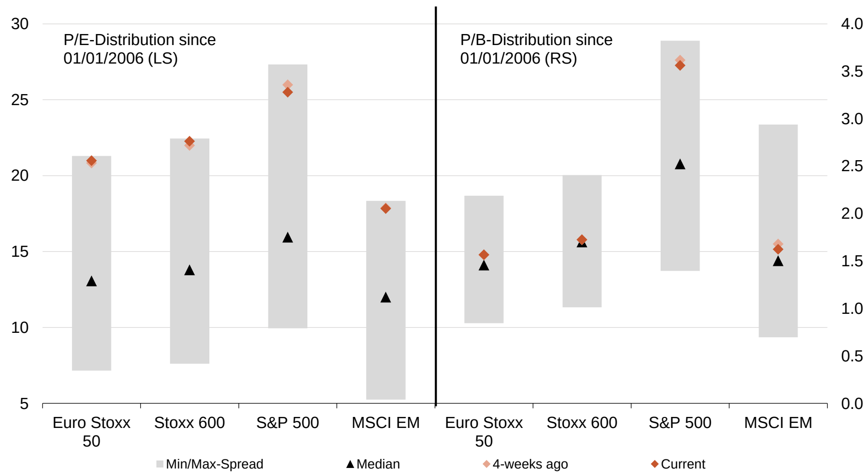
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- US stocks are currently valued at a P/E ratio of 25.5. They are thus similar expensive as at the turn of the millennium. The difference to then, however, is that most companies today are actually making good money. In addition, 10-year US government bonds still carried interest rates of more than 6% at that time; today they are quoted below the 1% mark. Equities are now accordingly more favorably valued than before, in comparison to bonds.

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 - 11/09/2020

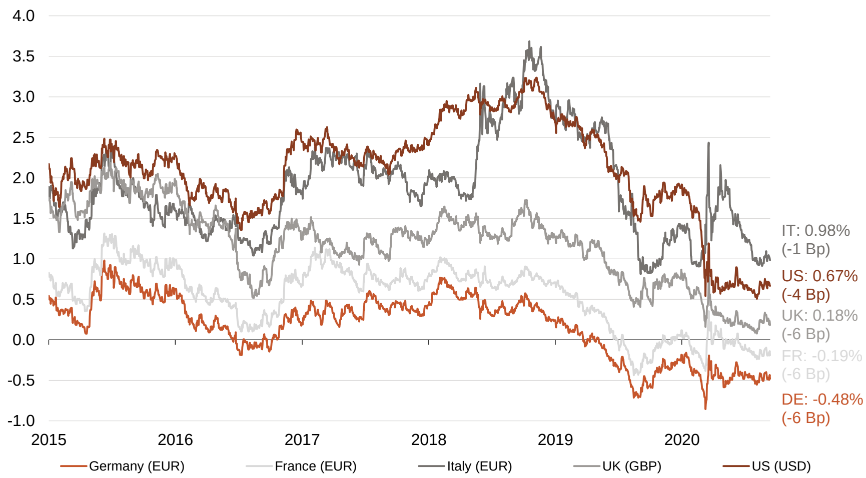
Historical Distribution: Price/Earnings and Price/Book Ratio



- Even though share prices have fallen somewhat recently, most equity regions are expensive compared to their own history - especially US equities.

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 - 11/09/2020

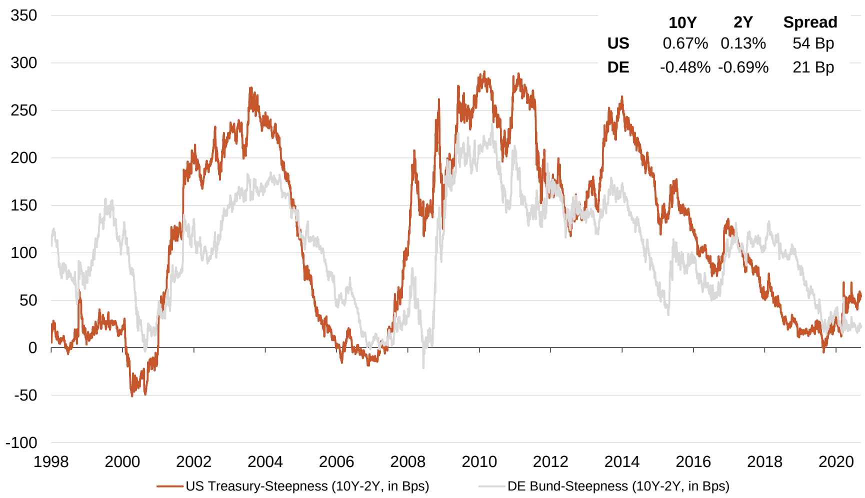
10-Year Government Bond Yields



- Yields on government bonds have fallen slightly in the last four weeks. While yields were first seen to rise, the risk-off environment in the markets has recently led to falling yields again. This was most pronounced in the case of 10-year British government bonds, as the counter-productive behaviour of the British government makes a hard Brexit until the end of the year increasingly likely.

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 - 11/09/2020

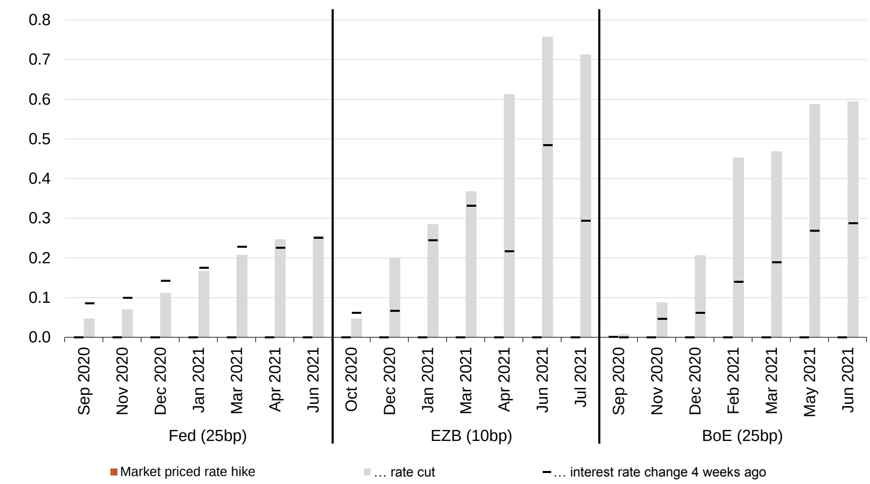
Yield Curve Steepness (10Y - 2Y)



- The steepness of the German and US yield curve remains above 20 and 50 basis points respectively. The bond markets thus continue to see a recovering economy.

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 - 11/09/2020

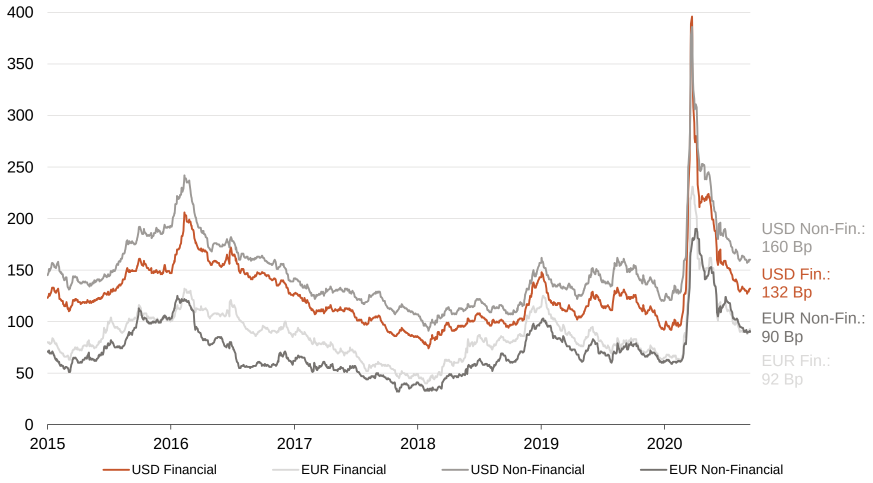
Implicit Changes in Key Interest Rates



- At its last meeting, the ECB did not adopt any significant new measures. A rate cut by the end of the year remains unlikely.
- On the other hand, the Fed has announced a new strategy of a "flexible average inflation target" with a greater focus on employment levels.
- The increased probability of a hard Brexit by the end of the year has significantly increased the probability of a rate cut by the BoE.

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: 14/08/2020 - 11/09/2020

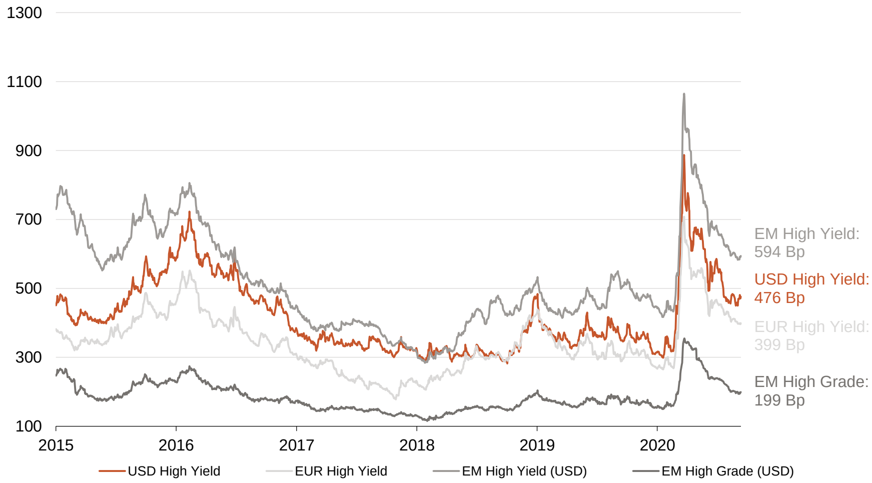
Credit Spreads Financial and Non-Financial Bonds



- Spreads on IG corporate bonds have hardly changed in the last two weeks. Positive fund flows, declining new issues and massive secondary market demand should continue to support the segment, even though spreads are no longer very high historically.
- At the EUR sector level, bonds from the automotive sector saw the largest spread tightening, while bonds from the leisure sector saw the largest spread widening.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 – 11/09/2020

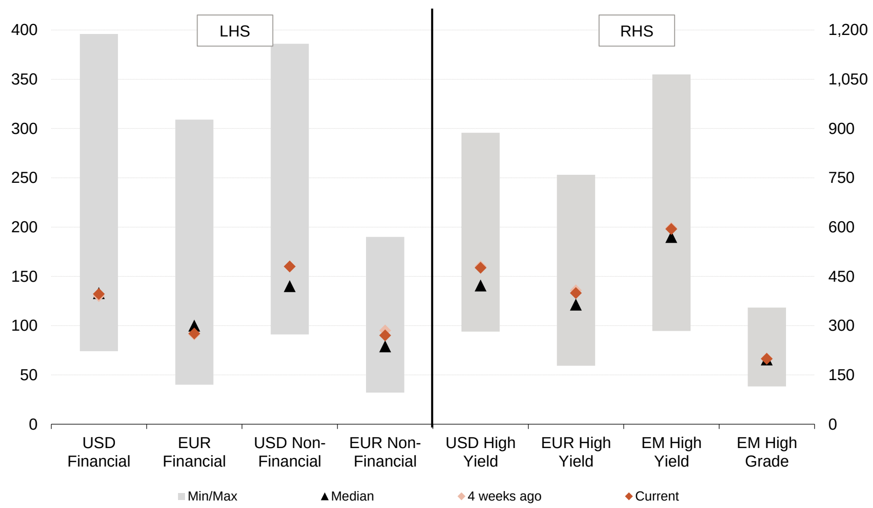
Credit Spreads High Yield and Emerging Markets Bonds



- USD and EUR high-yield bonds have recently developed differently. While spreads on EUR high-yield bonds have fallen slightly in the last two weeks, they have risen by over 20 basis points on USD high-yield bonds. The further rise in default rates in the US was a driver in this regard. The USD consumer sector saw the largest widening of spreads.

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 – 11/09/2020

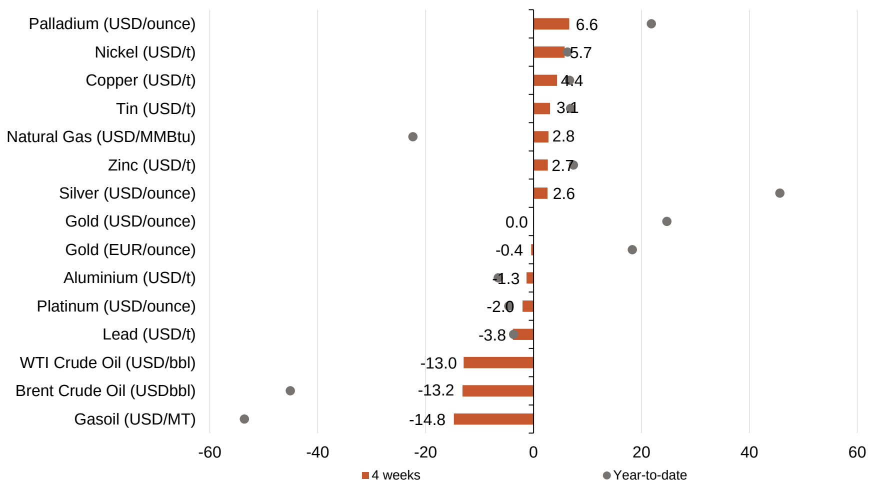
Historical Distribution of Credit Spreads (in bp)



- 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: 11/09/2010 – 11/09/2020

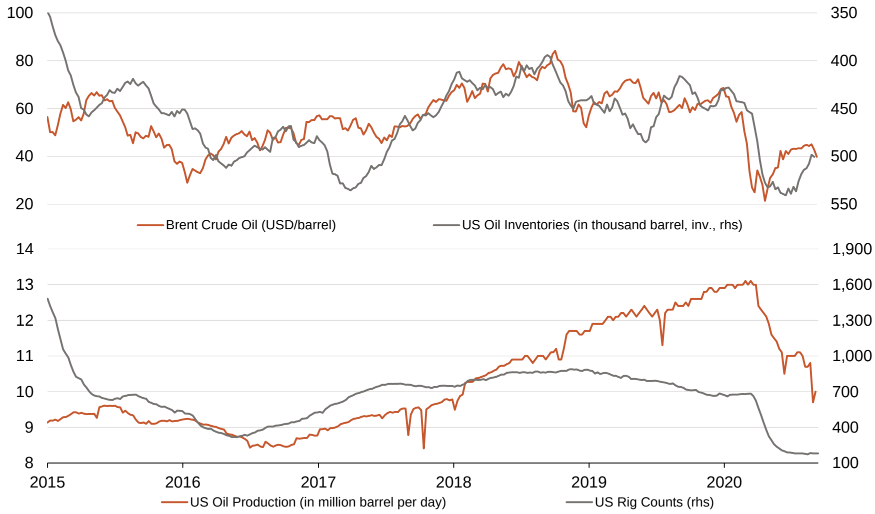
Commodities Performance



- After the positive development of the commodities sector in recent weeks, the picture is now more mixed again.
- Energy commodities are currently lagging far behind.
- Industrial metals have performed best and, with the exception of aluminium and lead, are now in positive territory again since the beginning of the year.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 – 11/09/2020

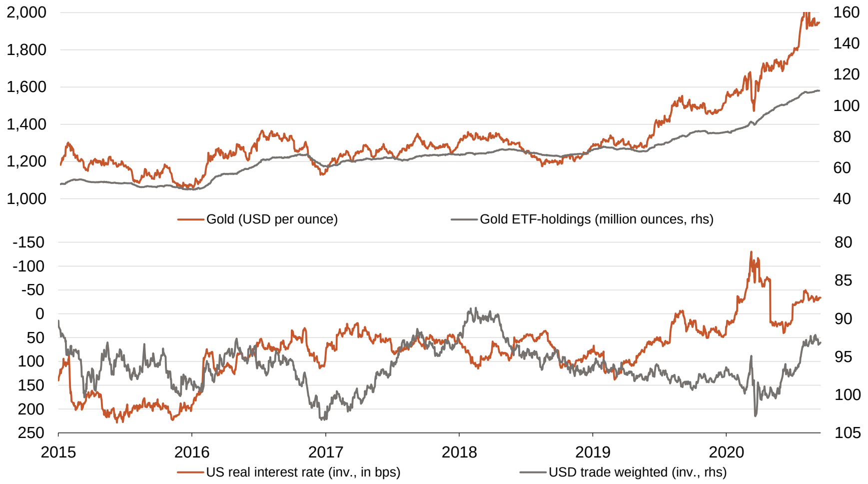
Crude Oil



- Crude oil (Brent) lost over 12% since the beginning of September and currently even trades below the USD 40 per barrel mark.
- The reasons for the price collapse are increasing demand concerns. The EIA has revised its forecast for 2021 downwards once again.
- However, signs are not too bad on the supply side. Adherence to commitments made by OPEC+ remains high and US oil production is at a very low level.

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 – 11/09/2020

Gold



- Gold has been trending sideways for the last two weeks and is currently trading at around USD 1,950 an ounce.
- The rise in real interest rates in the US due to lower inflation expectations was a drag on its price.
- The momentum of ETF purchases also slowed over the last month.

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 – 11/09/2020

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Date: 14 September 2020

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