BERENBERG
Markets

MONITOR

12 October 2020

Current market commentary

October has so far been much better than September; and the second half of October is even more positive for stock markets, at least historically speaking. The first US companies have clearly exceeded the pessimistic Q3 expectations of analysts. In addition, the first TV debate between the US presidential candidates, Donald Trump's handling of the Covid-19 disease and his unilateral (temporary) cancellation of the fiscal package, have led to an increased probability of a victory for Joe Biden. Surveys and betting markets now assume that the Democrats will also take over the Senate, so stock markets will increasingly price in their government plans (fiscal stimulus, partial easing of the trade dispute, tax increase). The uncertainty surrounding the elections has consequently eased somewhat. In addition to the US elections, the approval of a Covid-19 vaccine is particularly relevant for the further development of markets. Volatility is likely to remain high in the short 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

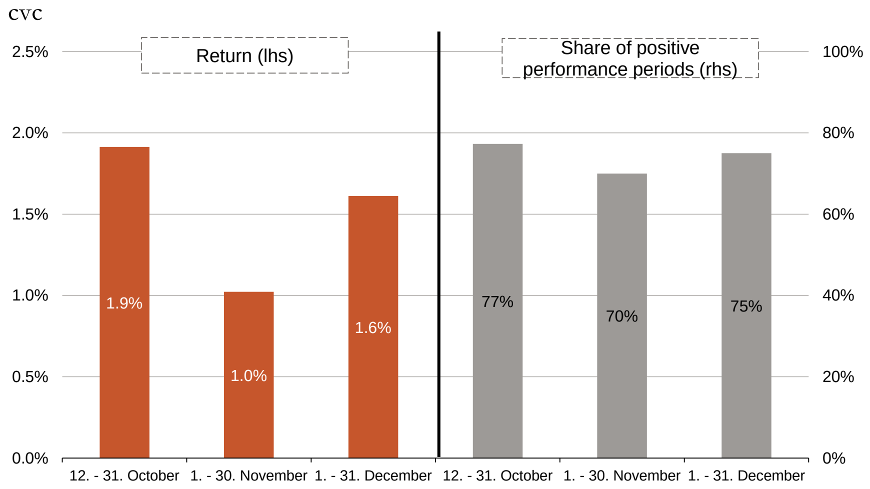
The Q3 reporting season is picking up speed.

The Q3 reporting season in the US will pick up speed tomorrow with the first corporate figures of some major US banks. The first company reports of the last few days give hope for a good Q3 reporting season. Politics, and especially the US election, are also keeping markets busy. However, it is uncertain whether the TV debate of the presidential candidates will take place on 22 October. On the 15 and 16 of October, the EU summit will discuss, among other things, the future relationship with the UK and climate change. The UK, on the other hand, threatened to break off the talks on the 15 October.

Economic data with insight into the impact of the second wave of the coronavirus.

This week, the ZEW Economic Sentiment (13 Oct., DE), the UK Labour Market Data (13 Oct.), the Eurozone Industrial Production (14 Oct.), the Empire State and Philadelphia Fed Index (15 Oct., US) and the US Retail Sales, US Industrial Production and US Consumer Confidence (16 Oct.) will be published. The first purchasing managers' indices for October will be released in the following week.

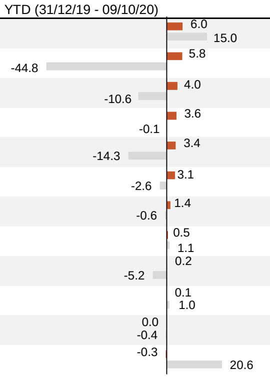
Seasonality - best period for equities is just around the corner



- Historically, the second half of October and the following months of November and December have, on average, been very good months for global equities. In at least 70% of the cases since 1998 they have shown a positive return.
- Although seasonality is a supporting factor, the coming months are likely to be more volatile than usual due to the US presidential election, the further spread of the coronavirus and efforts to contain it.

We use price data from the MSCI AC World.
Source: Bloomberg, Time period: 12.10.1998 - 31/12/2019

Multi Asset



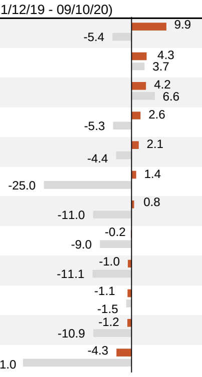
	4-week & YTD		12-month periods over that last 5 years				
	■ 4W (11/09/20 - 09/10/20)	■ YTD (31/12/19 - 09/10/20)	09/10/19 09/10/20	09/10/18 09/10/19	09/10/17 09/10/18	09/10/16 09/10/17	09/10/15 09/10/16
Global Convertibles	6.0	15.0	20.0	9.0	4.6	10.0	6.0
Brent	5.8	-44.8	-36.7	-23.2	66.4	-7.1	-16.0
MSCI Frontier Markets	4.0	-10.6	-6.3	12.1	-8.6	20.9	1.2
MSCI World	3.6	-0.1	8.1	6.7	10.8	13.9	6.4
REITs	3.4	-14.3	-16.8	24.6	0.8	-2.3	5.7
MSCI Emerging Markets	3.1	-2.6	7.3	7.2	-5.3	16.9	11.0
Industrial Metals	1.4	-0.6	-3.1	1.3	-2.0	23.8	0.5
Global Treasuries	0.5	1.1	-1.8	14.6	0.4	-7.1	9.8
USDEUR	0.2	-5.2	-7.2	4.7	2.2	-4.6	1.4
Global Coporates	0.1	1.0	0.0	14.7	0.3	-1.5	7.2
Eonia	0.0	-0.4	-0.5	-0.4	-0.4	-0.4	-0.3
Gold	-0.3	20.6	18.9	32.5	-5.3	-2.5	10.2

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.

- Crude oil (Brent) was one of the big winners over the last four weeks. However, this is only a snapshot. Since the beginning of the year the energy commodity is still the biggest loser with a loss of over 40%.
- Equity markets also performed well across all regions, with FM stocks outperforming their developed counterparts.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 09/10/2015 – 09/10/2020

Equities



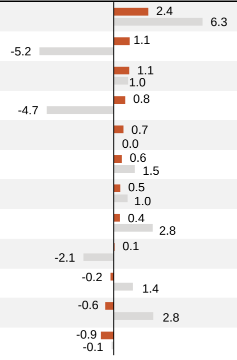
	4-week & YTD		12-month periods over that last 5 years				
	■ 4W (11/09/20 - 09/10/20)	■ YTD (31/12/19 - 09/10/20)	09/10/19 09/10/20	09/10/18 09/10/19	09/10/17 09/10/18	09/10/16 09/10/17	09/10/15 09/10/16
MSCI USA Small Caps	9.9	-5.4	3.0	0.5	12.6	15.7	9.3
S&P 500	4.3	3.7	12.7	8.2	18.1	14.6	11.3
MSCI EM Asia	4.2	6.6	17.8	7.5	-5.9	19.0	12.2
Stoxx Europe Small 200	2.6	-5.3	6.9	2.5	-0.9	22.6	-1.9
Topix	2.1	-4.4	0.8	1.3	8.5	11.1	8.4
MSCI UK	1.4	-25.0	-16.0	0.5	2.3	11.1	-5.8
Stoxx Europe Cyclicals	0.8	-11.0	1.0	-1.7	-4.3	27.0	-5.6
Stoxx Europe Defensives	-0.2	-9.0	-3.0	9.5	2.7	10.1	-4.3
Stoxx Europe 50	-1.0	-11.1	-3.8	8.3	-2.6	16.6	-5.4
DAX	-1.1	-1.5	7.9	1.0	-7.7	23.7	3.9
Euro Stoxx 50	-1.2	-10.9	-3.4	7.1	-5.5	23.4	-4.9
MSCI EM Eastern Europe	-4.3	-31.0	-22.1	17.3	6.5	18.7	6.8

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.

- US small caps were by far the best performer in the last four weeks with a return of almost 10%, while European small caps only posted gains of almost 3%.
- Asian emerging markets, Japan, and US large caps also performed well.
- European equities, on the other hand, lagged behind and recorded slight losses.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 09/10/2015 – 09/10/2020

Fixed Income



	4-week & YTD		12-month periods over that last 5 years				
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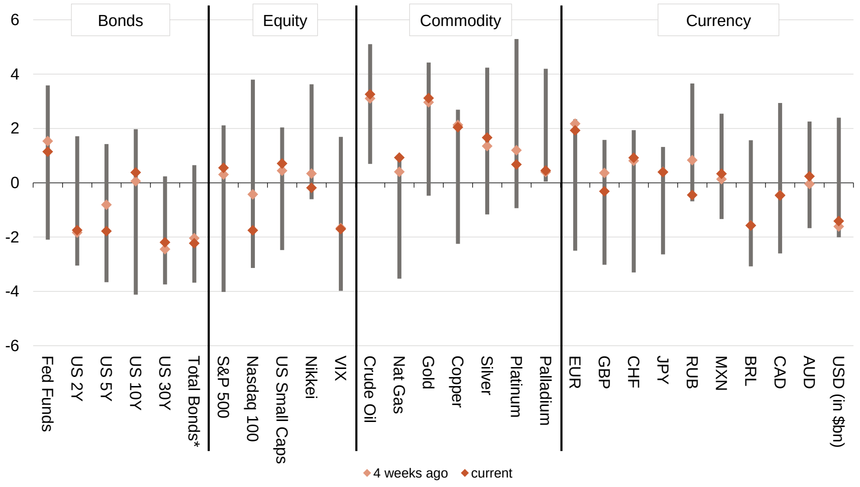
BTPs	2.4	6.3	3.4	20.4	-6.0	-2.2	4.3
EM Local Currency Bonds	1.1	-5.2	-4.3	14.8	-1.7	-1.7	11.6
EUR Inflation Linkers	1.1	1.0	-0.1	8.2	-0.3	-0.3	4.1
USD High Yield	0.8	-4.7	-4.0	12.2	4.4	2.1	11.7
Gilts	0.7	0.0	1.5	12.8	1.6	-1.9	-7.0
EUR Non-Financials	0.6	1.5	0.9	6.5	-0.3	0.1	7.4
EUR Financials	0.5	1.0	0.7	5.9	-0.5	2.2	5.0
Bunds	0.4	2.8	-0.3	8.2	0.3	-2.7	5.3
EUR High Yield	0.1	-2.1	0.3	3.4	0.1	6.3	5.8
USD Corporates	-0.2	1.4	-0.2	19.2	0.1	-2.4	9.5
Treasuries	-0.6	2.8	-0.8	17.0	0.1	-5.8	5.1
EM Hard Currency Bonds	-0.9	-0.1	1.0	8.3	-5.9	2.2	11.1

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.

- In bond markets, most segments posted gains over the past four weeks. Hard currency bonds from emerging markets suffered the most.
- The biggest winners were Italian government bonds, which recently recorded the lowest yield in their history at 0.71%.
- Safer European securities such as British or German government bonds also performed well.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 09/10/2015 – 09/10/2020

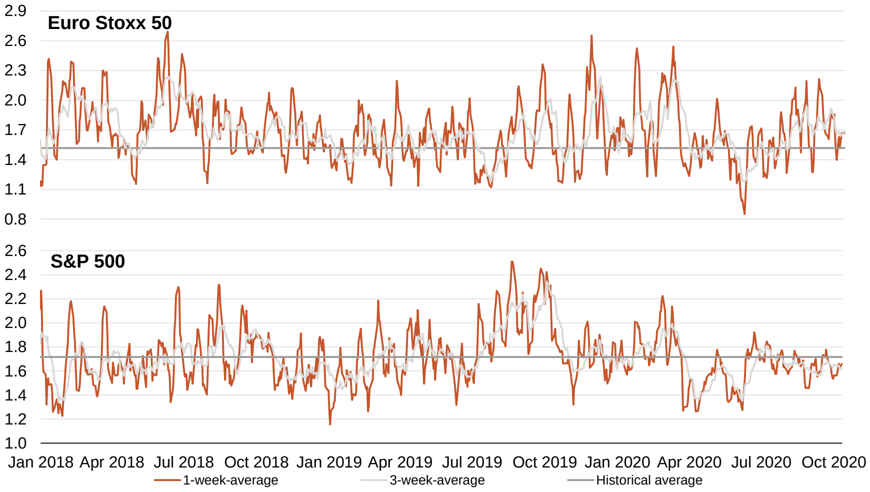
Non-Commercial Positioning



- Speculative investors have recently bought US stocks again. In particular, the record short position on the Nasdaq 100 from two weeks ago has been reduced significantly.
- As the likelihood of a disorderly hard Brexit increases, investors are now net short the British pound.

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: 06/10/2010 - 06/10/2020

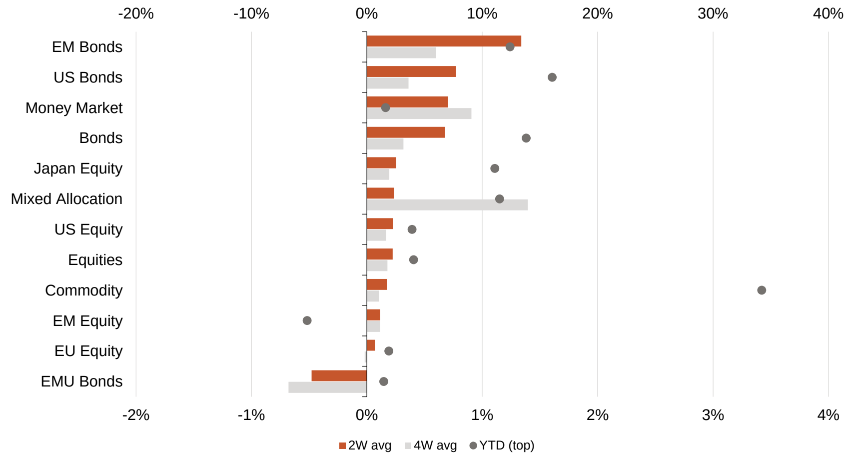
Put-Call Ratio



- In options markets, demand for calls relative to puts increased again compared to two weeks ago, especially for eurozone equities, so that the put-call ratio is now close to its historical average. The put-call ratio for US equities has fallen slightly.
- In total, market participants have become less cautious compared to two weeks ago.

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 - 09/10/2020

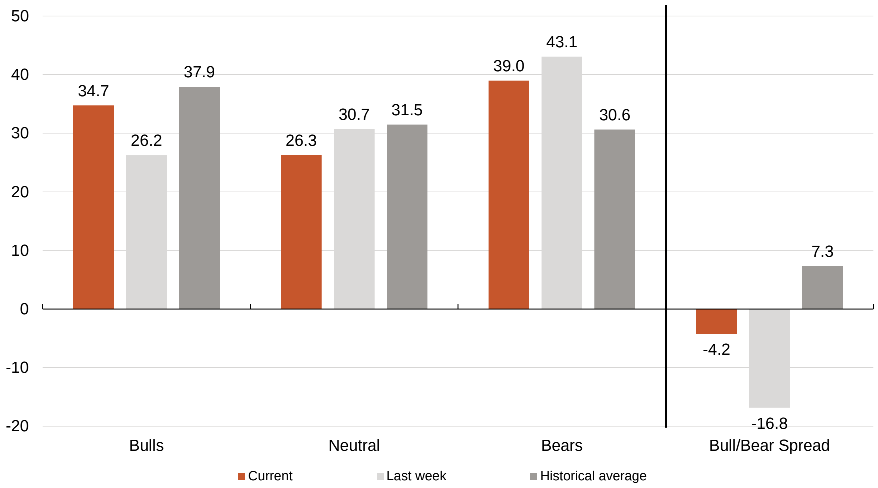
ETF Flows



- Amid rising US yields in recent weeks, ETF investors have mainly been looking for bond products in addition to money market funds - with the exception of eurozone bonds.
- Equity ETFs recorded moderate inflows across the board. Japanese equities are particularly popular these days, thanks to the positive momentum and the new reform-friendly Prime Minister Suga.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2019 - 09/10/2020

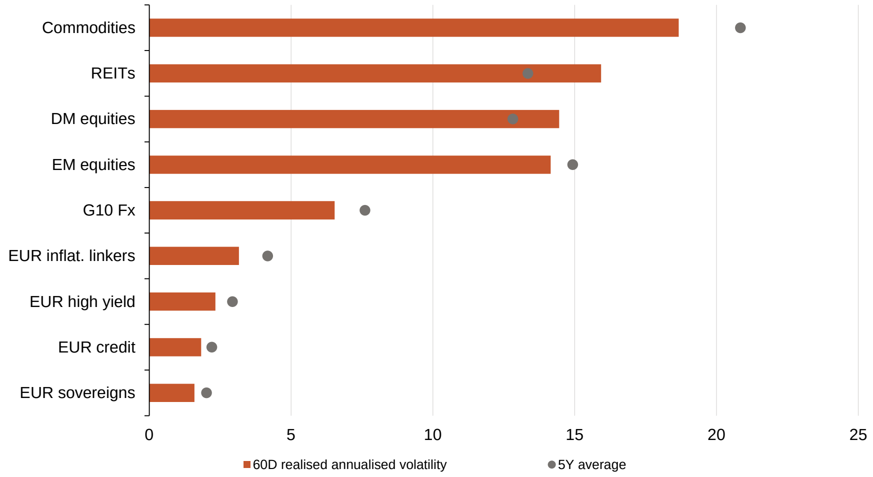
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment of US private investors has improved significantly compared to previous weeks. The bull/bear spread is at -4.2ppts, its highest level since mid-June. However, there is still no sign of euphoria. Although the number of bulls has increased by 8.5ppts, it is still below its historical average.

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 – 08/10/20

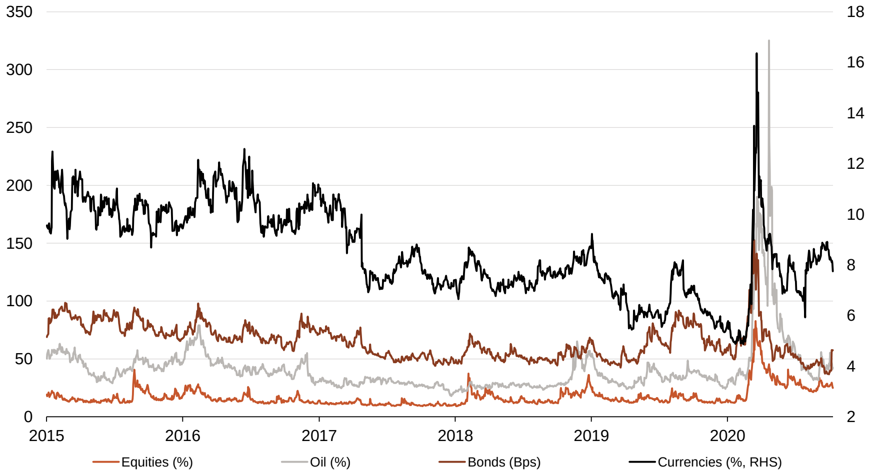
Realised Volatilities



- Over the past two weeks, the asset classes presented here exhibited unusually mixed changes in their realised volatilities.
- While volatility in emerging market equities has declined and is currently even below its 5-year average, volatility in developed market equities has increased slightly.
- REITs and commodities also saw an increase in their realised volatilities over the past 60 days.

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: 09/10/2015 – 09/10/2020

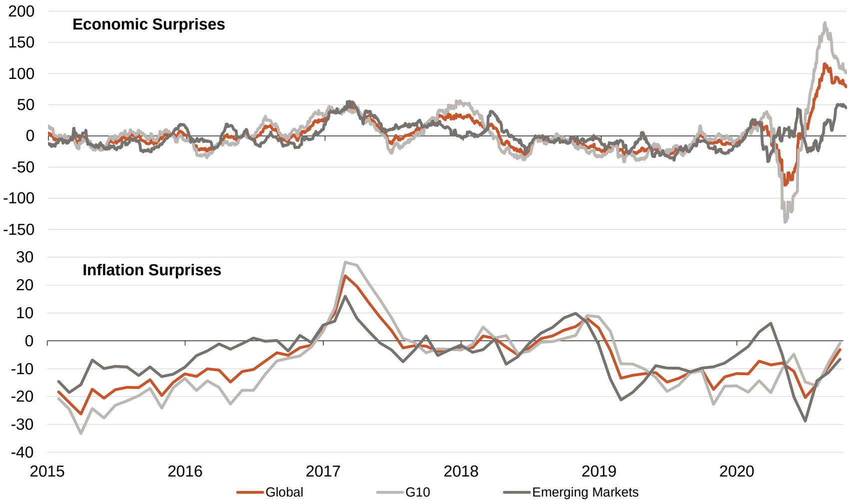
Implied Volatilities



- The implied volatility in government bonds has recently increased significantly as yields have risen.
- In currency markets a slight decrease in implied volatility could be observed after the US dollar ended its upward trend.
- At 25, the VIX remains at an elevated level.

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 – 09/10/2020

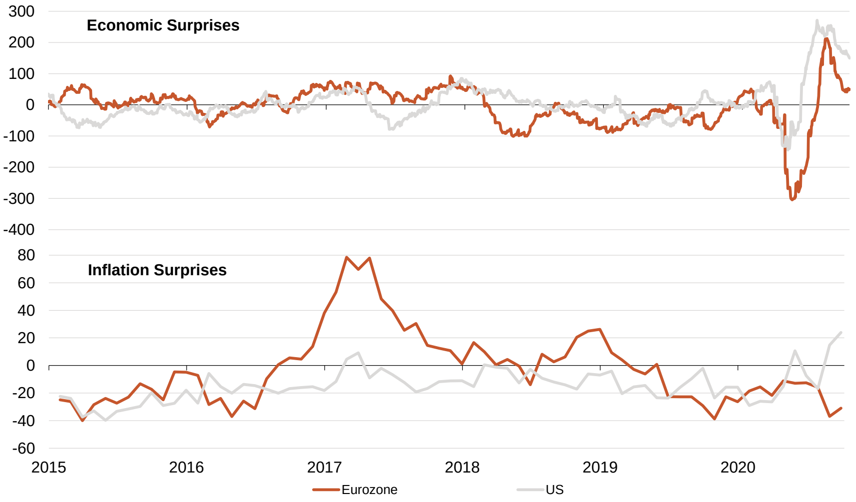
Global



- The positive momentum of the global economy is losing steam. In the industrialised nations, positive economic surprises have decreased significantly. In emerging markets, on the other hand, the economic surprise index remained at a high level. Thanks to good exports business, the official Purchasing Managers' Index (PMI) in China was again able to provide positive surprises in September. By contrast, the Caixin PMI for industry was slightly disappointing at 53 points.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 09/10/2020

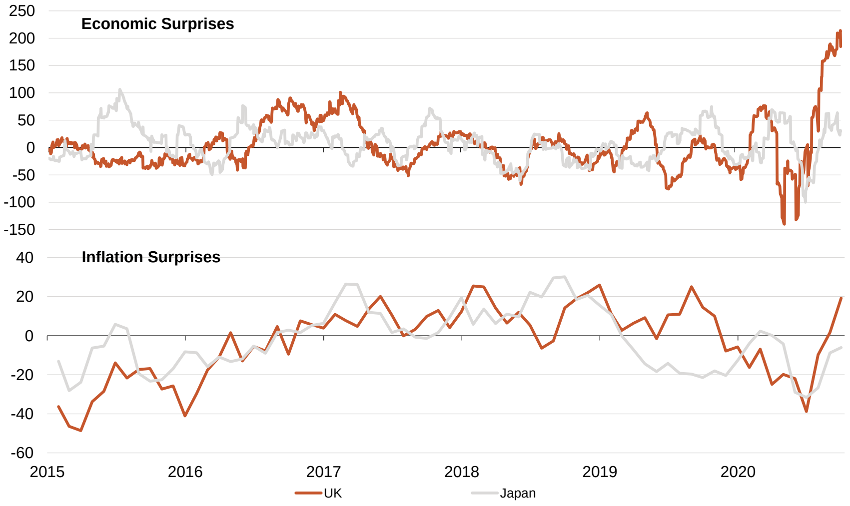
Eurozone and US



- While coronavirus infections continue to rise in Europe, economic surprises in the eurozone are diminishing and are approaching zero. In Germany and France, industrial production data (Aug.) have disappointed. In addition to German exports, retail sales in August were a positive surprise for Germany and Italy.
- In the US, September consumer confidence, labour market data and the service PMI surprised positively, while the ISM PMI and Factory Orders disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 09/10/2020

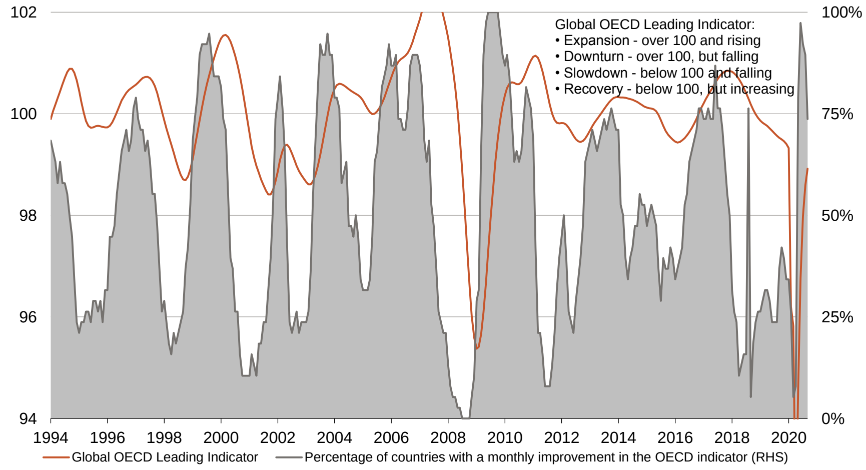
UK and Japan



- In the UK, housing market data and the bulk of the September PMIs surprised on the upside. Industrial production was disappointing.
- In Japan, sentiment in the manufacturing sector has continued to recover. Industrial production and retail sales surprised positively.

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 - 09/10/2020

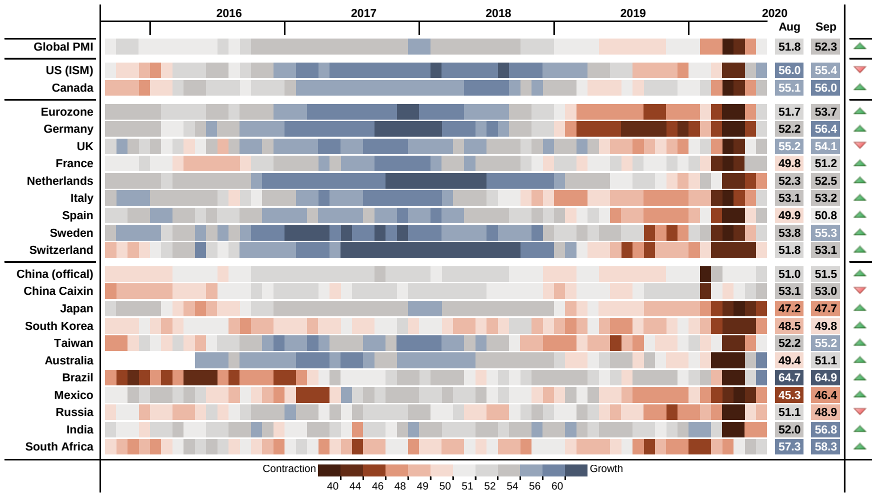
OECD Leading Indicator



- The global economy is still in the recovery phase. However, it has lost some of its speed. The global OECD leading indicator improved only slightly in September, and fewer than 75% of the countries covered recorded an improvement in the leading indicator compared with August.

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 - 30/09/2020

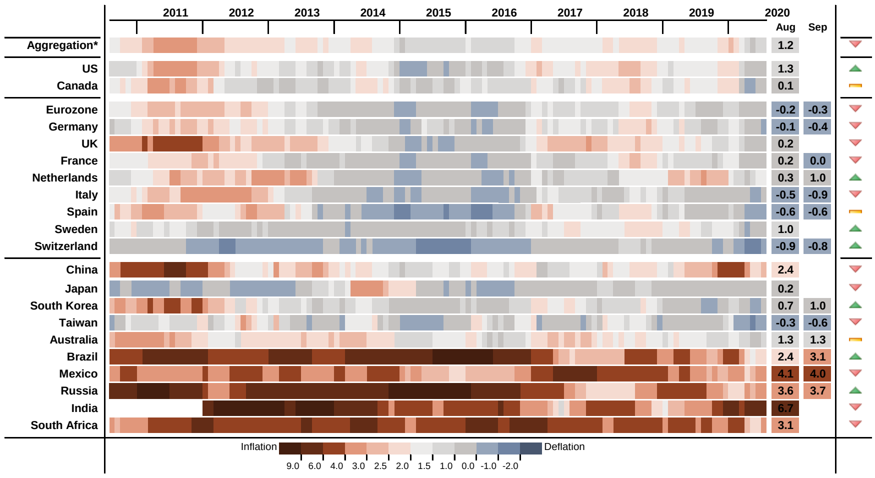
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global industrial PMI rose to 52.3 in September thanks to an increase in new orders. The industrial sector thus also recovered in September.
- In the US, however, the PMI fell to 55.4 points, but is still in the growth range.

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: 30/09/2017 -30/09/2020

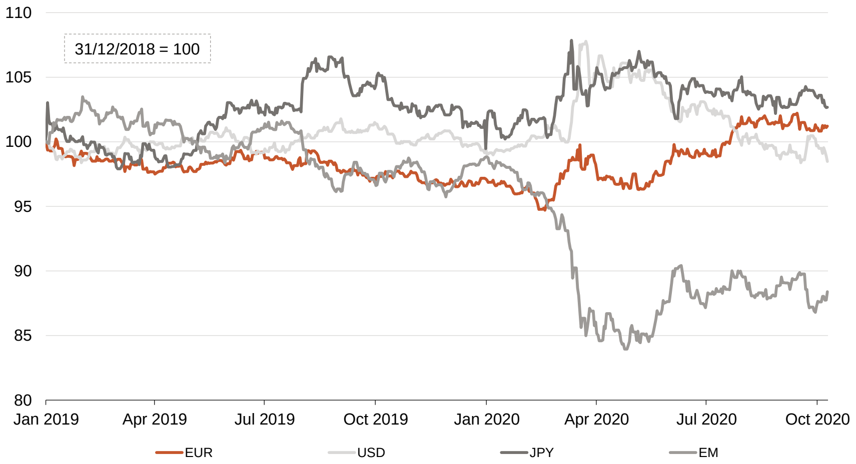
Headline Inflation



- September was marked by deflation in Europe. Prices fell the most in Italy and Switzerland. However, Germany also saw falling prices with an inflation of -0.4%. In the Netherlands, however, inflation continued to rise.

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: 30/09/2010 - 30/09/2020

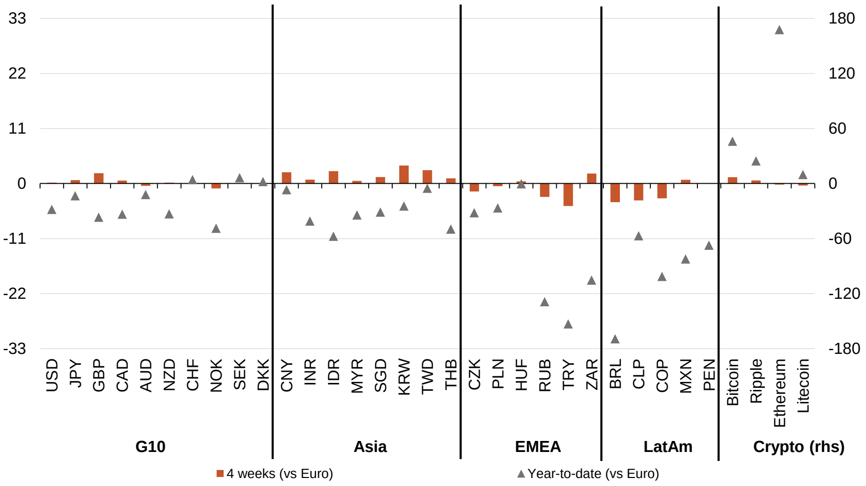
Trade-Weighted Currency Development



- After the safe havens in currency markets had gained strength in the previous weeks, a rotation has been observed recently. The US dollar and the Japanese yen gave way noticeably, while emerging market currencies were able to form a bottom and regain ground.
- The euro remained largely unaffected by these developments and stabilised.

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 - 09/10/2020

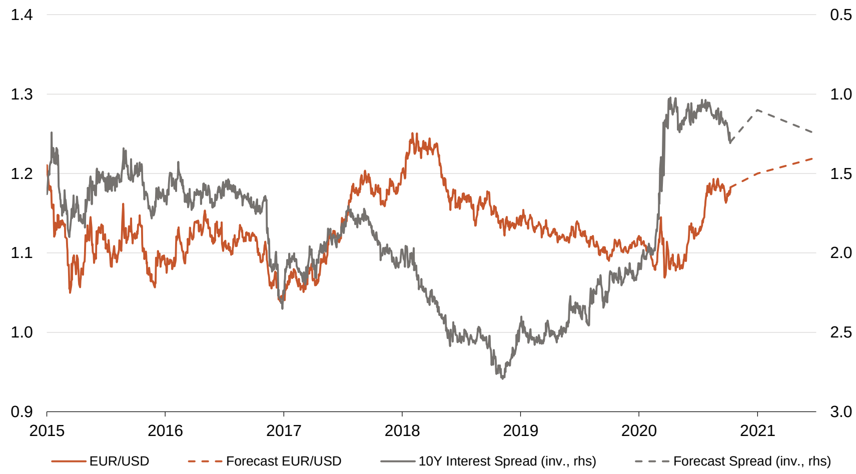
Currency Moves vs Euro



- Currency developments against the euro have been mixed over the past four weeks.
- Among the G10 currencies, commodity currencies such as the Australian and New Zealand dollars and the Swedish krona in particular depreciated. The Sterling appreciated.
- Asian currencies performed well, while the rest of the emerging market currencies recorded losses.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2019 - 09/10/2020

EUR/USD exchange rate and interest rate differential



- The temporary strength of the US dollar has come to an end over the last two weeks and the euro has regained the upper hand, with the pair currently trading near the EUR/USD 1.18 level.
- Meanwhile, the interest rate differential between US Treasuries and Bunds has widened to 1.3%, driven by a stronger rise in US yields.

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

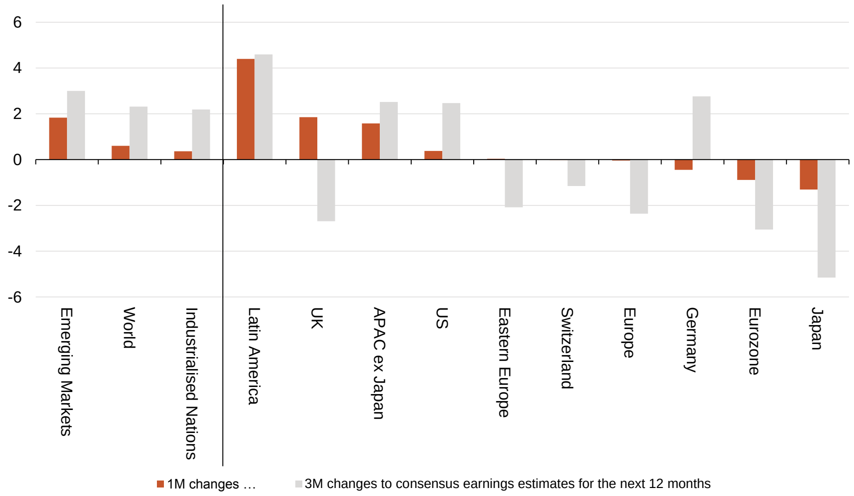
	4-week & YTD		12-month periods over that last 5 years				
	■ 4W (11/09/20 - 09/10/20)	■ YTD (31/12/19 - 09/10/20)	09/10/19 09/10/20	09/10/18 09/10/19	09/10/17 09/10/18	09/10/16 09/10/17	09/10/15 09/10/16
Information Technology	3.7	9.7	22.0	7.8	6.4	21.6	13.7
Utilities	3.5	4.3	10.6	25.0	-2.2	14.8	-6.7
Consumer Discretionary	2.8	-7.6	3.9	4.6	-3.2	20.1	-8.0
Industrials	2.3	-5.1	7.4	6.5	-2.7	22.3	5.4
Growth	2.1	1.6	10.1	11.3	-0.5	14.8	-0.9
Health Care	0.7	1.1	11.3	14.5	-1.3	9.1	-5.1
Consumer Staples	0.6	-3.9	-2.9	17.4	-3.2	6.4	5.7
Telecommunications	0.6	-18.6	-18.4	10.1	-13.9	5.7	-13.0
Materials	0.1	-0.5	12.8	-2.5	3.1	24.5	9.2
Value	-0.9	-22.2	-14.3	-1.6	-2.8	20.9	-6.4
Finance	-2.9	-28.9	-19.1	-5.1	-9.4	31.9	-15.8
Energy	-6.2	-46.4	-43.9	-11.4	24.3	12.8	3.5

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.

- The recent oil correction weighed on energy companies and made it the worst performing sector with approximately 6% loss of value over the last four weeks.
- Since the beginning of the year, the information technology sector has developed best and, alongside utilities and consumer discretionary companies, has also recently shown strong performance.

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: Factset, Time period: 09/10/2015 – 09/10/2020

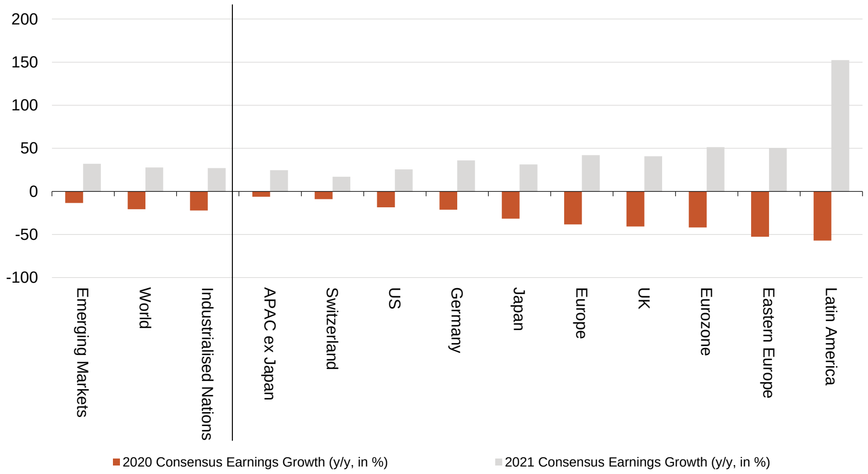
Changes in Consensus Earnings Estimates



- Consensus earnings estimates have improved in a 1-month comparison, especially for the UK and Latin America. Analysts became more pessimistic for Germany, eurozone and Japan.
- In the emerging markets, on a global level as well as in the industrial nations, earnings estimates have improved both on a 1-month and 3-month basis.

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 09/10/2020

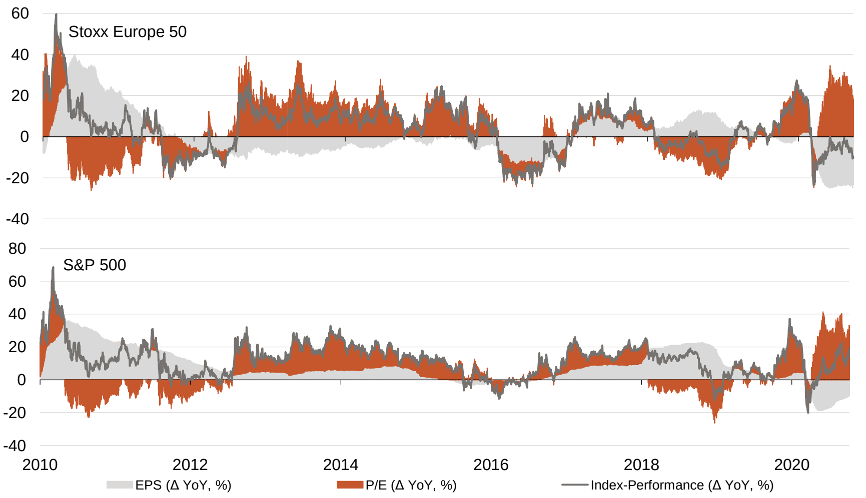
Earnings Growth



- Consensus still expects a 20% drop in profits for the industrialised nations - but the spread between the regions is enormous. For Switzerland, analysts expect a drop in profits of less than 10%, for UK of over 40%. A synchronous economic recovery is then anticipated for next year, which should be reflected in double-digit earnings growth rates.

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 09/10/2020

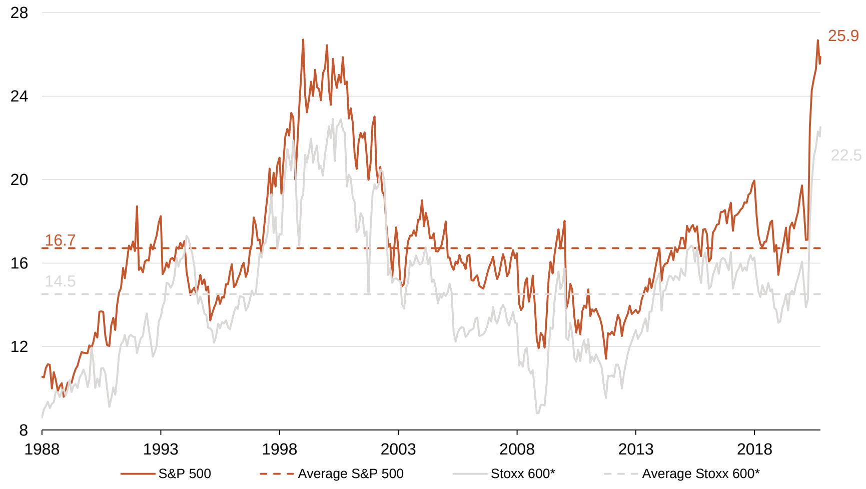
Contribution Analysis



- US equities continue to lead over a one year period with a profit of almost 20%. Both the P/E expansion and the recently more positive earnings outlook have helped.
- European equities posted a loss of over 10% in the same period. The gloomy profit outlook for companies is a burdening factor. But the P/E ratio narrowing has also weighed on share prices recently.

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 - 09/10/2020

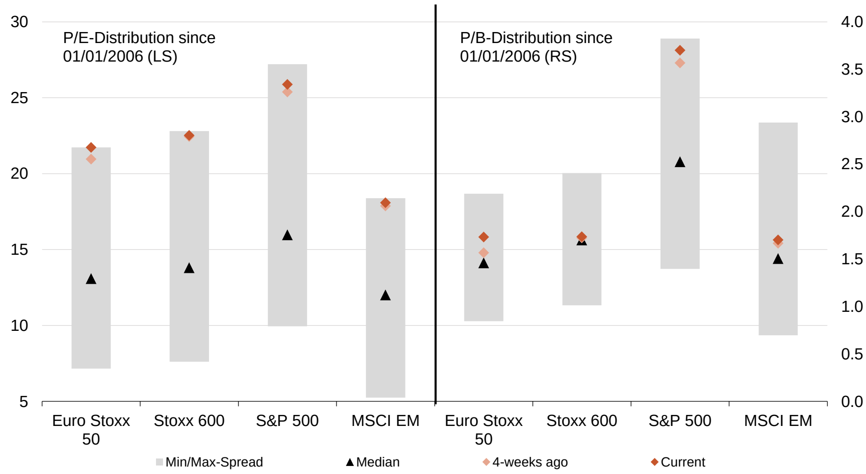
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Following the correction in stock markets in September, prices rose again in October. This was also noticeable in the P/E ratios. The P/E ratio of the S&P 500 rose to 25.9 and the Stoxx 600 to 22.5. Both values are thus well above the historical average.

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 - 09/10/2020

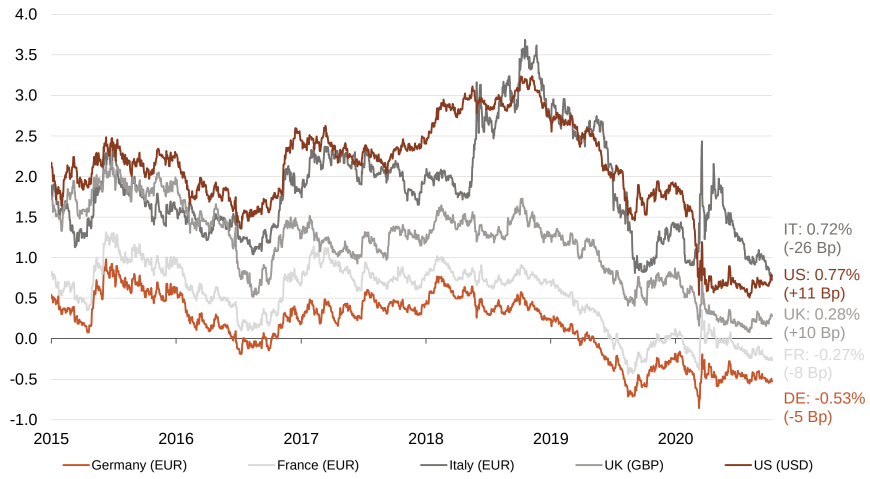
Historical Distribution: Price/Earnings and Price/Book Ratio



- The P/E ratio of the Euro Stoxx 50 has recently risen to its highest level since 2006. The price/book value ratio has also risen significantly. The index is therefore no longer cheap according to valuation measures. Compared to the S&P 500, however, it is still moderately 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 - 09/10/2020

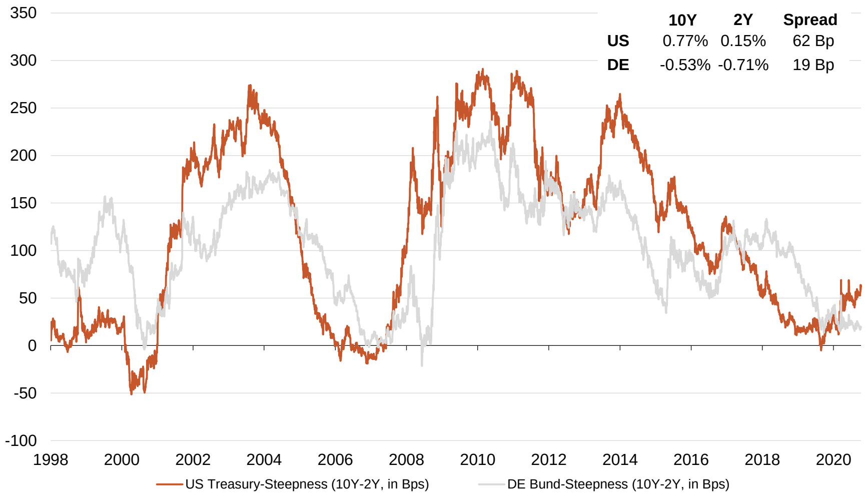
10-Year Government Bond Yields



- The recent rise in market uncertainty has increased demand for safe government bonds. The yield on 10-year German government bonds fell to below -0.55% at times.
- US Treasuries, on the other hand, declined somewhat, due to the increased probability of a democratic election victory, in addition to increased new issuance activity in the coming years.

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 - 09/10/2020

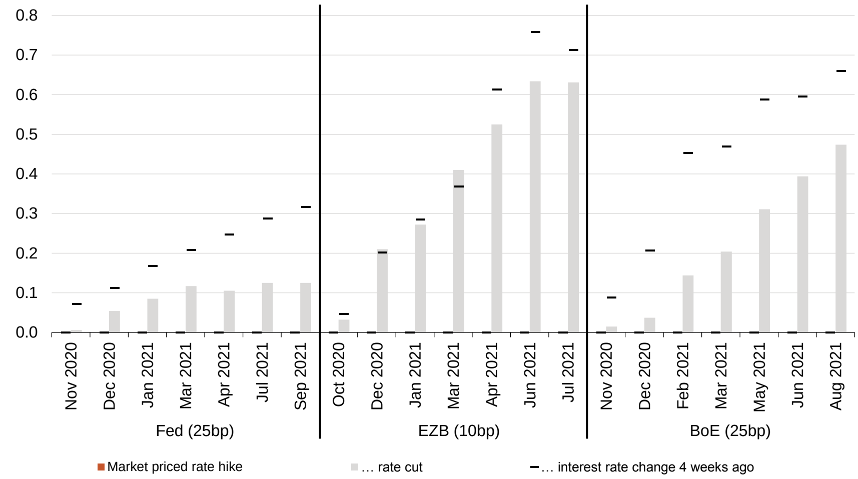
Yield Curve Steepness (10Y - 2Y)



- Rising inflation expectations in the US, partly due to a possible Democratic Party election victory and thus rising government spending, have caused the steepness of the US yield curve to rise to above 60 bp.
- The steepness of the German yield curve remains close to 20 bp, as there is no sign of inflation in the eurozone so far.

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 - 09/10/2020

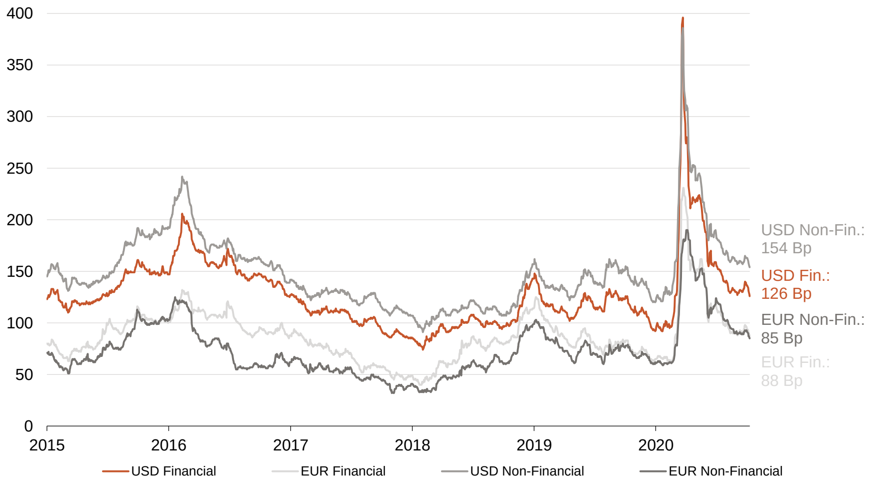
Implicit Changes in Key Interest Rates



- In September, prices in the euro zone fell again. The ECB's inflation target of 2% is still far away. The market is thus pricing in a 60% probability of a rate cut by mid 2021.
- The market expects a rate cut by the Fed by mid-2021 with less than 10% probability. The US Federal Reserve considers fiscal policy to be on duty. However, a new fiscal program has not yet been decided.

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: 11/09/2020 - 09/10/2020

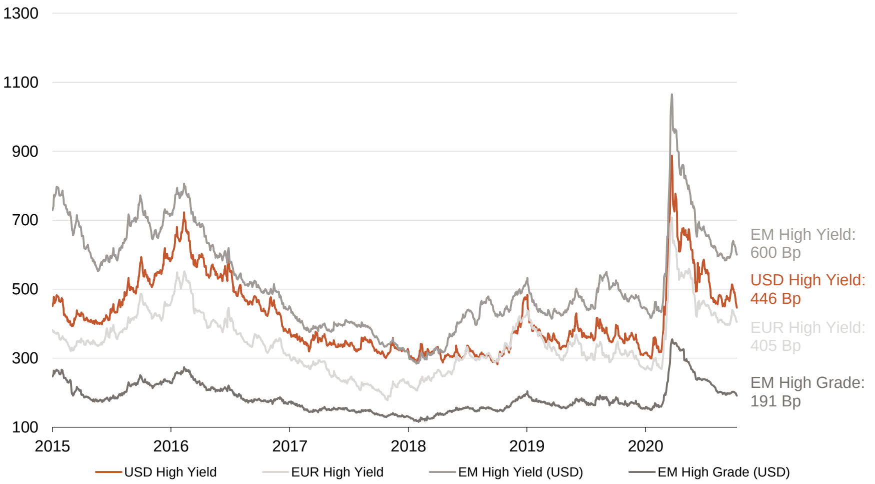
Credit Spreads Financial and Non-Financial Bonds



- In the last two weeks, spreads have fallen in all investment grade segments. Spreads tightened most in USD financial bonds, which had previously seen a significant widening. But EUR financial bonds also saw a significant narrowing at 10 basis points.
- The automotive and telecom sector saw the largest narrowing in EUR corporate bonds and the retail and media sector in USD corporate bonds.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 - 09/10/2020

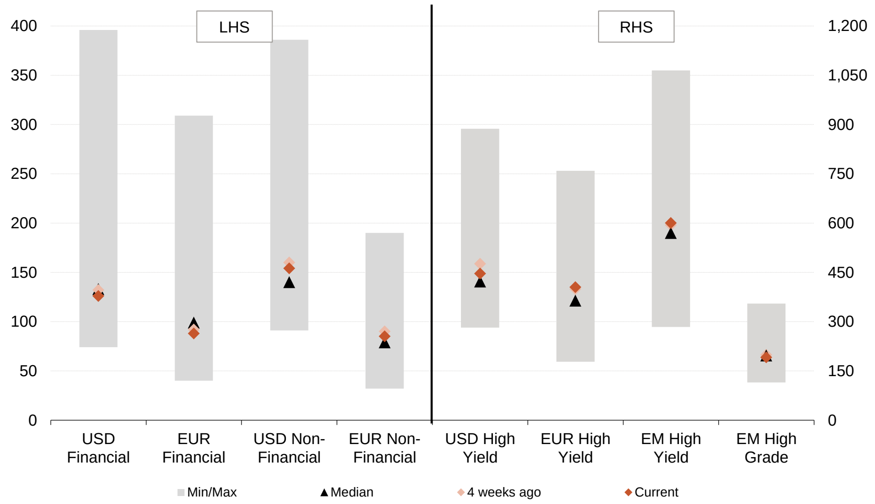
Credit Spreads High Yield and Emerging Markets Bonds



- Spreads for high-yield bonds have also fallen significantly, between 30 and 70 basis points in the last two weeks. USD high-yield bonds saw the largest decline in spreads. The sectors with the greatest narrowing of spreads were the consumer goods and healthcare sectors.

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 - 09/10/2020

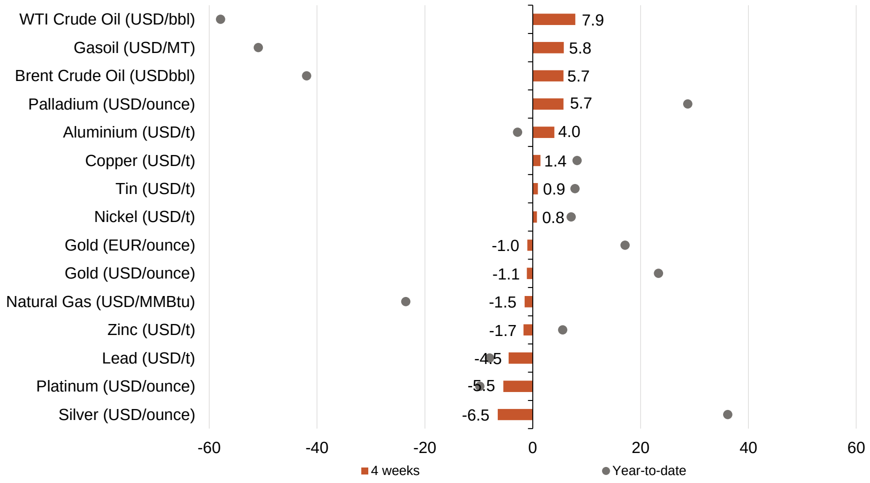
Historical Distribution of Credit Spreads (in bp)



- From a historical perspective, spreads of most segments are now fair and thus offer only limited potential for narrowing.
- A small spread widening in the last four weeks was seen in EM and EUR high yield bonds, while spreads on IG corporate bonds have narrowed slightly.

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: 09/10/2010 - 09/10/2020

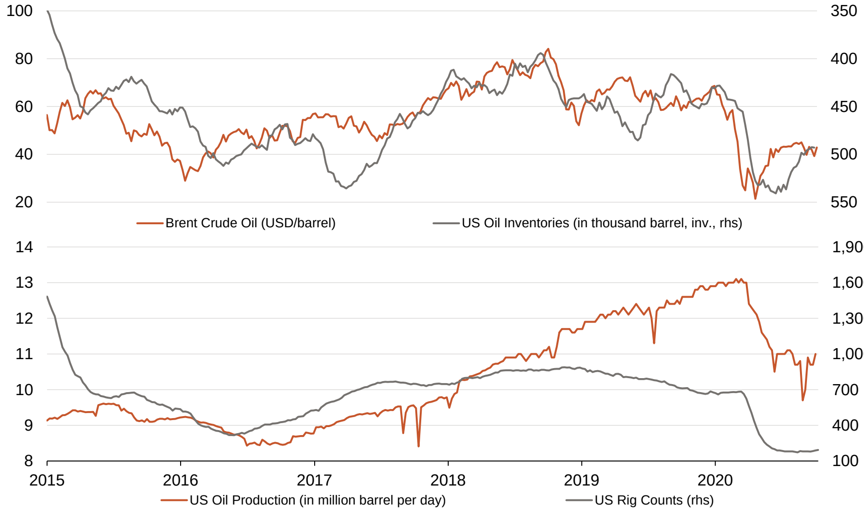
Commodities Performance



- Energy commodities were among the big winners over the last four weeks. Since the beginning of the year, however, they remain the clear losers.
- Precious metals, with the exception of palladium, have recently suffered losses, with silver and platinum suffering the most.
- After months of strong performance, industrial metals had to give way and stagnated recently.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 - 09/10/2020

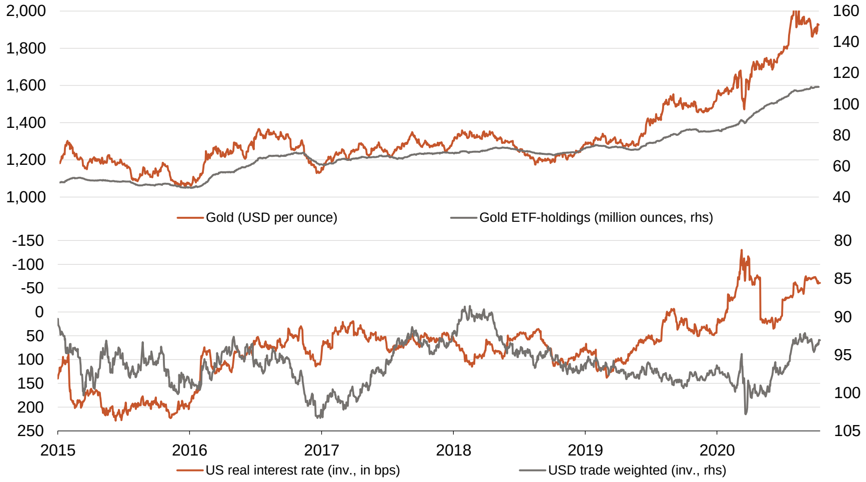
Crude Oil



- The price of crude oil is currently particularly susceptible to fluctuation and has moved in a corridor of 39 to 43 US dollars per barrel in the last two weeks without a clear trend.
- On the one hand, market participants are consistently worried about demand due to rising Covid-19 infections. On the other hand, the market is likely to be in deficit thanks to strict cuts by OPEC+ and the decline in production in the US.

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 - 09/10/2020

Gold



- Thanks to a weaker US dollar, the price of gold recently traded around the USD 1,900 mark per ounce.
- Gold continues to be supported by inflows from ETF investors. Speculative investors have also recently increased their positions again. From a historical perspective, it has been a positive signal when both groups of investors act as buyers in the market.

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 - 09/10/2020

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