BERENBERG
Markets

MONITOR

09 November 2020

Current market commentary

Stock markets have responded to the US elections with relief. One reason for this, apart from the reduction of hedges, may have been that the election result (president Biden, divided Congress) essentially secures the status quo but with less political tension. The tone in trade and foreign policy should become more diplomatic. Moreover, a majority in the Republican Senate is likely to limit significant changes in tax and spending policies. US equities should therefore continue to perform well relative to other regions, as the pillars of US strength - tech and low taxes - should remain intact. And indeed, the S&P 500 has historically delivered the strongest returns under a Democratic president with a split Congress. We remain constructive for equities and optimistic for European small caps, (Asian) emerging market equities and bonds. Especially as approval of a Covid 19 vaccine is approaching and the global economy is expected to recover next year.

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

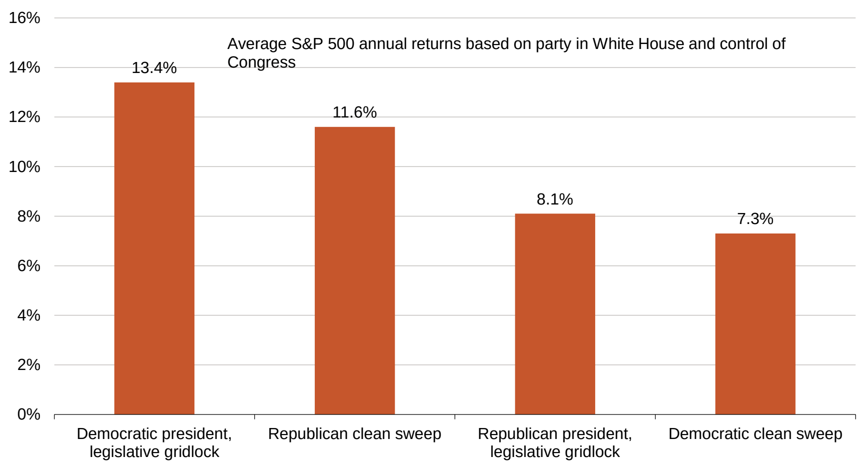
The US presidential election appears to be over. In the coming weeks, however, the outcome of the election is likely to keep markets busy. Incumbent Trump has already filed several lawsuits. This week the ECB is inviting people to the ECB Forum from 10th-12th November. Central bank members, academics, representatives of the financial markets and, among others, journalists will discuss current policy issues, as well as the longer-term implications of certain topics.

The outcome of the US elections is likely to keep markets busy.

This Tuesday the inflation figures for China (Oct.), the labour market data for the UK, the industrial production data (Sep.) for France and Italy and the ZEW Indicator of Economic Sentiment (Nov.) for Germany will be published. Industrial production data (Sep.) for the UK and the euro zone and October inflation data for the US will follow on Wednesday. On Friday, Q3 economic growth in the euro zone and consumer confidence (University of Michigan) in the US are published.

Economic data is moving into focus of investors.

Democratic president and legislative gridlock best scenario



- In the US, the Democrats are expected to win the presidential election and the Republicans should keep their majority in the Senate. Historically, this combination has been associated with strong stock market performance in the following year. A split Congress stands for balanced policies and less market-unfriendly reforms.
- In addition to diminishing policy uncertainty, loose monetary and fiscal policy in particular should continue to support the stock markets.

Further performance data of the S&P 500 see page 2.
Source: HSBC, Time period: 01/01/1932 - 31/12/2019

Multi Asset

	4W (09/10/20 - 06/11/20)	YTD (31/12/19 - 06/11/20)	06/11/19 06/11/20	06/11/18 06/11/19	06/11/17 06/11/18	06/11/16 06/11/17	06/11/15 06/11/16
MSCI Emerging Markets	4.3	1.7	4.8	14.0	-8.6	25.8	2.1
Industrial Metals	2.9	2.2	-1.8	7.7	-11.2	24.8	6.7
Global Convertibles	1.8	17.1	20.3	11.8	1.2	14.3	-2.0
Global Treasuries	0.7	1.8	0.7	11.7	-0.1	-5.9	7.1
Gold	0.7	21.4	22.0	25.4	-2.7	-5.8	15.5
MSCI World	0.5	0.4	3.4	16.0	3.9	20.3	-4.0
Global Coporates	0.4	1.4	1.2	13.7	-1.2	0.0	3.5
Eonia	0.0	-0.4	-0.5	-0.4	-0.4	-0.4	-0.3
USDEUR	-0.4	-5.6	-6.8	3.3	1.6	-4.0	-3.6
MSCI Frontier Markets	-1.3	-11.8	-8.6	13.0	-8.3	20.8	-5.9
REITs	-3.2	-17.1	-17.8	20.8	-1.1	3.5	-2.5
Brent	-9.4	-50.0	-45.9	-5.3	22.1	24.8	-23.2

4-week & YTD; 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 past four weeks, the markets had increasingly priced in a Biden victory, including the Democratic Senate takeover. Accordingly, "reflationary assets" developed positively. Base metals and emerging market equities were among the winners.
- Brent oil, on the other hand, lost significant value due to demand concerns in the wake of the second wave of corona in Europe.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 06/11/2015 – 06/11/2020

Equities

	4W (09/10/20 - 06/11/20)	YTD (31/12/19 - 06/11/20)	06/11/19 06/11/20	06/11/18 06/11/19	06/11/17 06/11/18	06/11/16 06/11/17	06/11/15 06/11/16
MSCI EM Asia	4.7	11.7	15.1	15.6	-11.2	30.8	0.4
Topix	2.5	-2.0	-1.5	12.6	-3.5	17.9	1.6
S&P 500	0.5	4.3	8.3	17.5	10.3	21.4	-1.9
MSCI EM Eastern Europe	0.5	-30.6	-29.6	29.5	6.5	23.6	4.2
MSCI USA Small Caps	0.3	-5.1	-1.9	9.8	6.7	23.6	-3.8
Stoxx Europe Cyclicals	-0.8	-11.7	-8.9	12.8	-9.9	31.9	-11.1
MSCI UK	-1.3	-26.0	-23.1	10.8	-1.9	17.7	-12.0
Stoxx Europe 50	-1.7	-12.7	-10.7	17.2	-6.1	22.6	-13.1
Stoxx Europe Defensives	-1.8	-10.6	-8.6	15.4	0.7	16.2	-13.2
Euro Stoxx 50	-2.1	-12.7	-11.3	18.2	-10.6	27.8	-12.3
Stoxx Europe Small 200	-2.1	-7.3	-2.9	13.3	-5.1	28.4	-8.8
DAX	-4.4	-5.8	-5.3	14.8	-14.7	31.3	-6.6

4-week & YTD; 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.

- The tightened corona-related restrictions weighed on European shares. Germany and European small caps were among the relative losers of the last four weeks.
- In Asia, on the other hand, the virus is under better control, which is also reflected in robust economic data. Recently, emerging markets in Asia and Japan have developed accordingly positively.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 06/11/2015 – 06/11/2020

Fixed Income

	4W (09/10/20 - 06/11/20)	YTD (31/12/19 - 06/11/20)	06/11/19 06/11/20	06/11/18 06/11/19	06/11/17 06/11/18	06/11/16 06/11/17	06/11/15 06/11/16
EM Local Currency Bonds	1.5	-3.8	-3.4	13.2	-0.4	0.2	5.7
EUR High Yield	0.7	-1.4	0.1	4.9	-1.4	7.0	4.2
EUR Non-Financials	0.7	2.2	1.9	6.4	-1.6	1.9	6.2
BTPs	0.7	7.0	5.1	17.6	-6.8	2.0	2.3
USD High Yield	0.6	-4.1	-3.6	12.4	3.2	4.2	4.2
Bunds	0.6	3.4	2.2	5.5	0.4	-1.4	5.2
EM Hard Currency Bonds	0.6	0.4	2.0	7.9	-5.8	3.3	9.2
EUR Financials	0.5	1.5	1.4	5.6	-1.4	3.6	4.3
USD Corporates	0.5	1.8	1.3	17.9	-1.3	-0.9	3.9
Gilts	0.4	0.4	1.1	11.8	0.9	1.0	-9.9
EUR Inflation Linkers	0.2	1.2	0.3	7.4	-1.3	2.6	2.3
Treasuries	-0.6	2.2	0.7	14.0	-1.1	-4.6	1.1

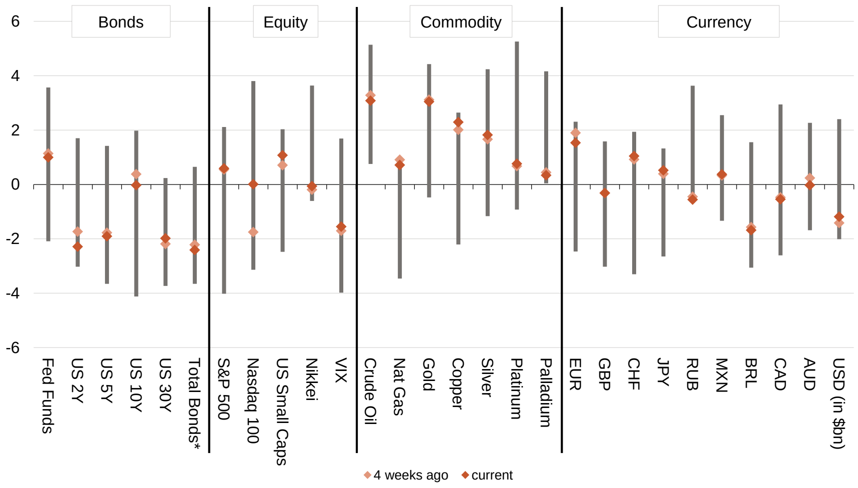
4-week & YTD; 12-month periods over that last 5 years

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 hunt for yield continues on the bond markets. Emerging markets bonds, Italian government bonds and high-yield securities benefited from this.
- However, rising yields weighed on US government bonds. In recent weeks the market has increasingly priced in a global economic recovery next year.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 06/11/2015 – 06/11/2020

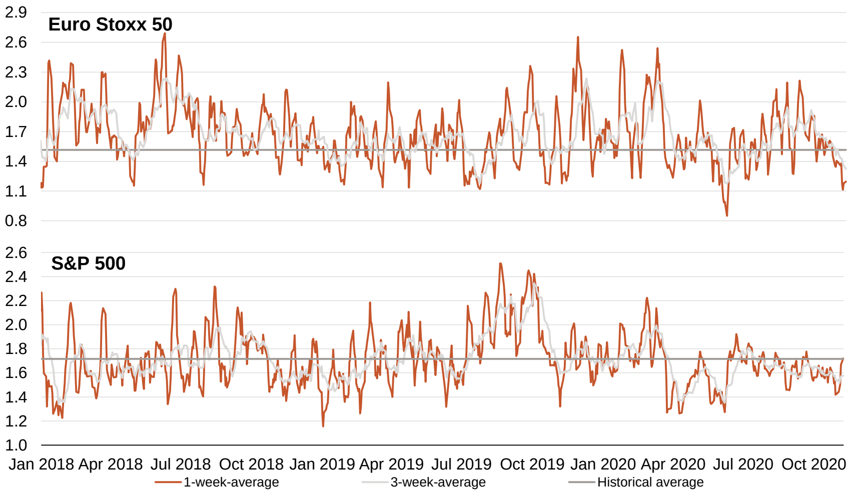
Non-Commercial Positioning



- In the run-up to the US elections, speculative investors had strongly bet on rising US interest rates in anticipation of a "blue wave". This one-sided positioning then led to sharply falling yields when it became clear that the Democrats were unlikely to take over the Senate.

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: 02/11/2010 - 02/11/2020

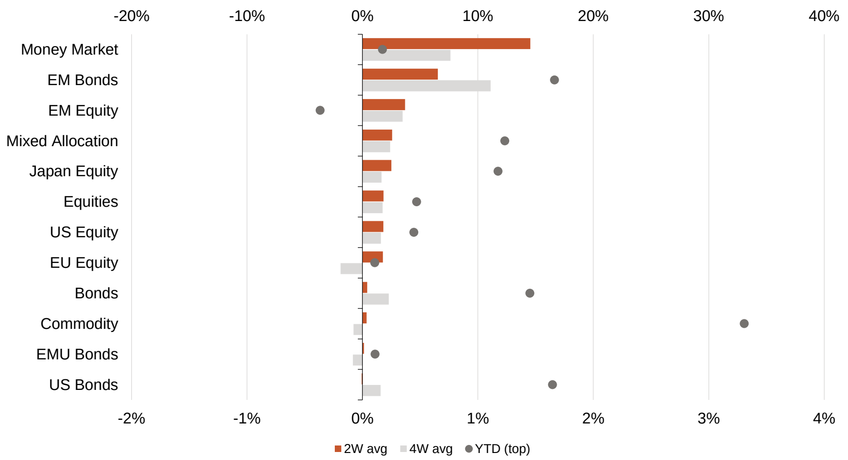
Put-Call Ratio



- Many hedges were unwound after the US elections. There was a tendency to sell puts and buy calls. This caused the put-call ratio in Europe to fall strongly.

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 - 06/11/2020

ETF Flows



- Money market ETFs have seen larger inflows in recent weeks. This parked money should be reinvested in the coming weeks.
- Equities have recently been more in demand among ETF investors, particularly emerging markets and Japan. Sentiment towards European equities has also improved recently.
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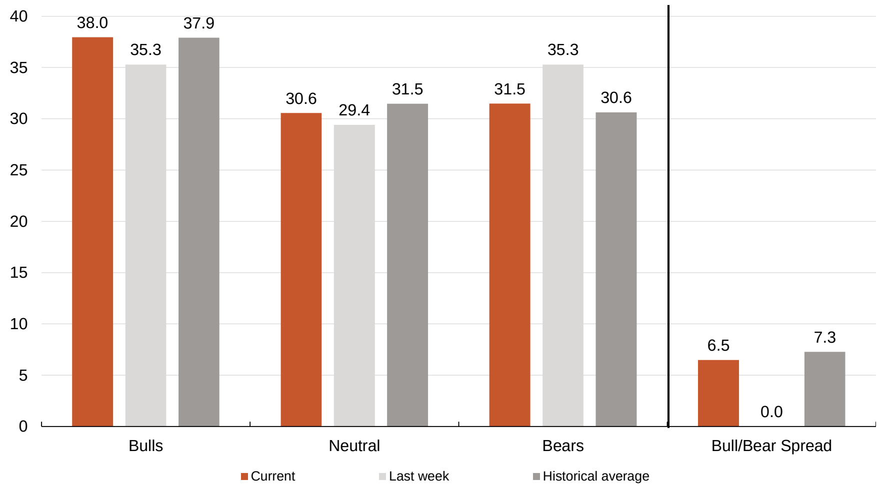
Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2019 - 06/11/2020

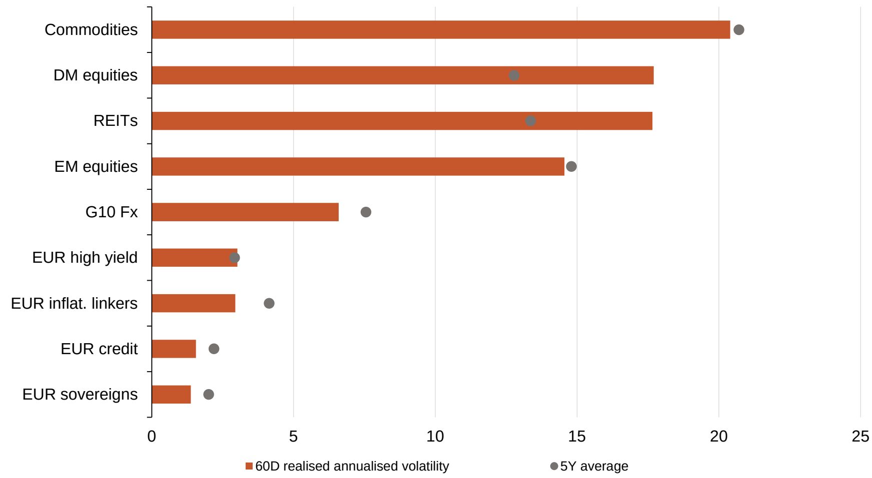
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment among US private investors has continued to improve. For the third consecutive week, bears no longer outnumber bulls.
- The bull/bear spread is higher than it has been since mid-February and at 6.5 ppts is now close to the historical average of 7.3 ppts.

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 – 05/11/20

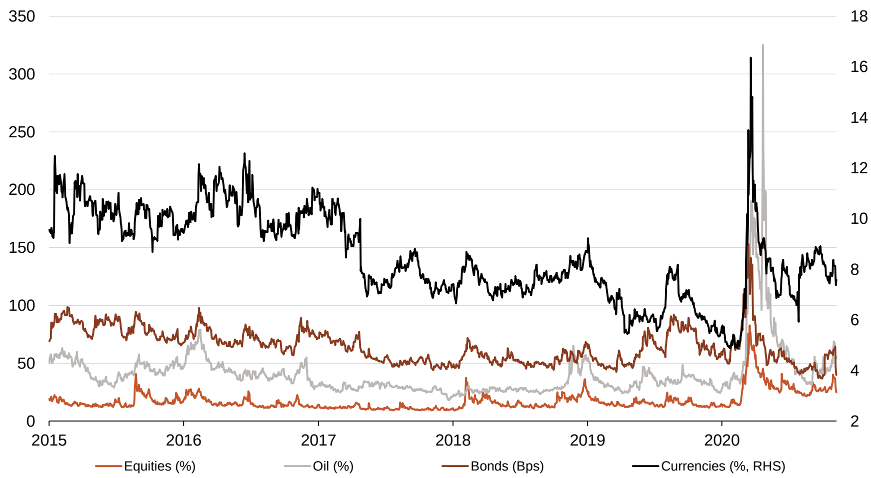
Realised Volatilities



- Realised volatility in risk assets has risen significantly as a result of the second wave of infections across Europe. Commodities were hit particularly hard by resurgent demand concerns.
- REITs and developed market equities remain the only asset classes with volatility higher than their 5-year averages.

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: 06/11/2015 – 06/11/2020

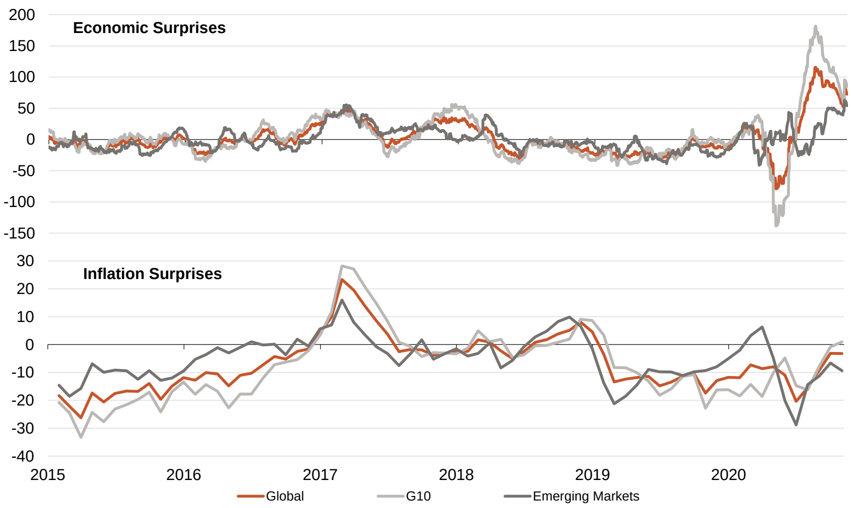
Implied Volatilities



- In the run-up to the US elections and with some European countries in a second lockdown, implied volatility in equities rose sharply at the end of October. Shortly after the presidential election, however, the VIX fell back just as quickly, although no clear winner was initially apparent.

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 – 06/11/2020

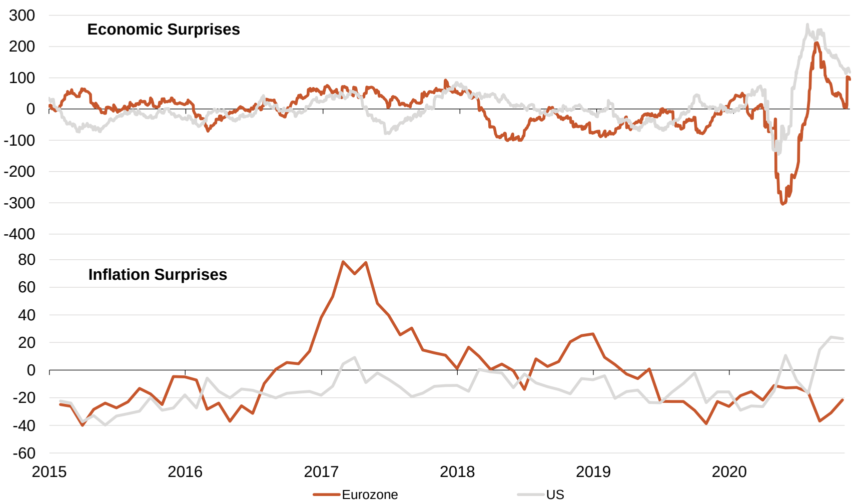
Global



- The global economy continued to recover in the third quarter. Despite rising Covid-19 infections and new lockdown measures, economic data at the global level, in the industrialised countries (G10) and in the emerging markets has recently provided positive surprises. The October purchasing managers' indices (PMIs) in China and India, for example, provided positive surprises.
- Inflation, on the other hand, did not surprise significantly upwards. In the emerging markets, inflation even surprised on the downside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 06/11/2020

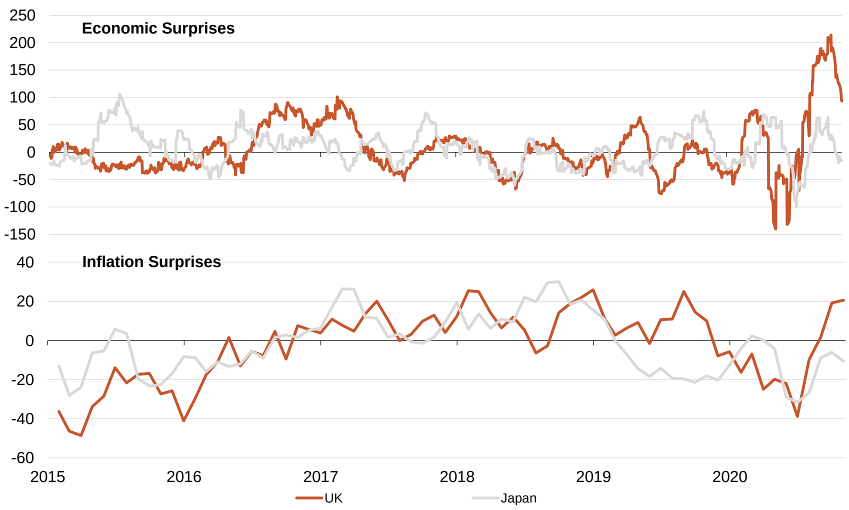
Eurozone and US



- The Eurozone recently managed to surprise positively again. In many euro countries, Q3 economic growth turned out better than expected. In Germany the industrial PMI surprised on the upside, while the Ifo index disappointed.
- In the US, Q3 economic growth, labour market data, consumer spending, the ISM index for industry and new orders surprised positively, while consumer confidence disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 06/11/2020

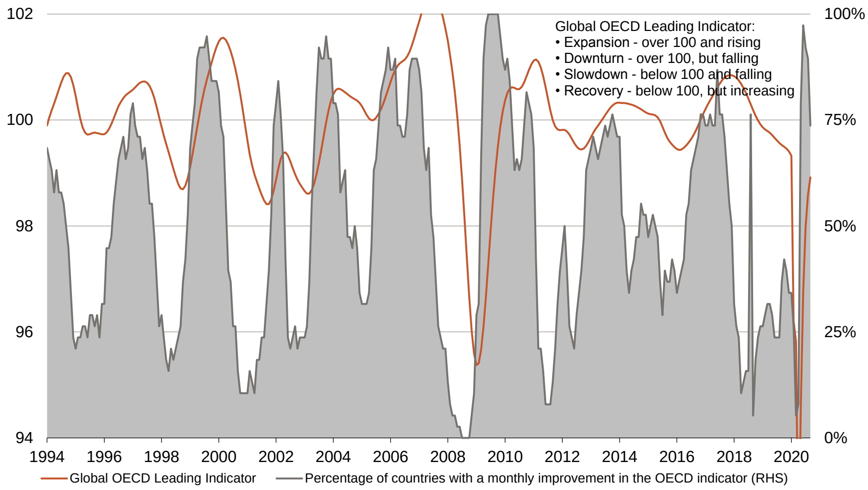
UK and Japan



- In the UK, the industrial PMI was positive and the service PMI and construction PMI were a negative surprise.
- In Japan, retail sales and housing market data disappointed, while labour market data and industrial production data 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 has 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 - 06/11/2020

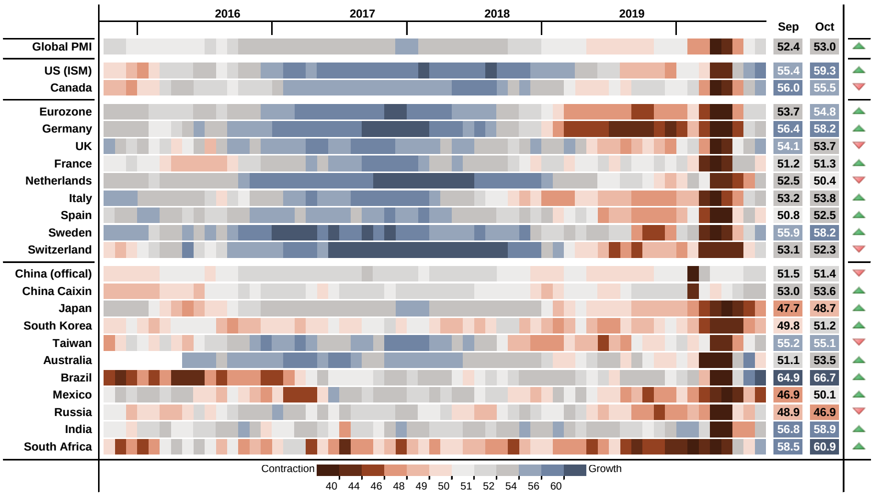
OECD Leading Indicator



- 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

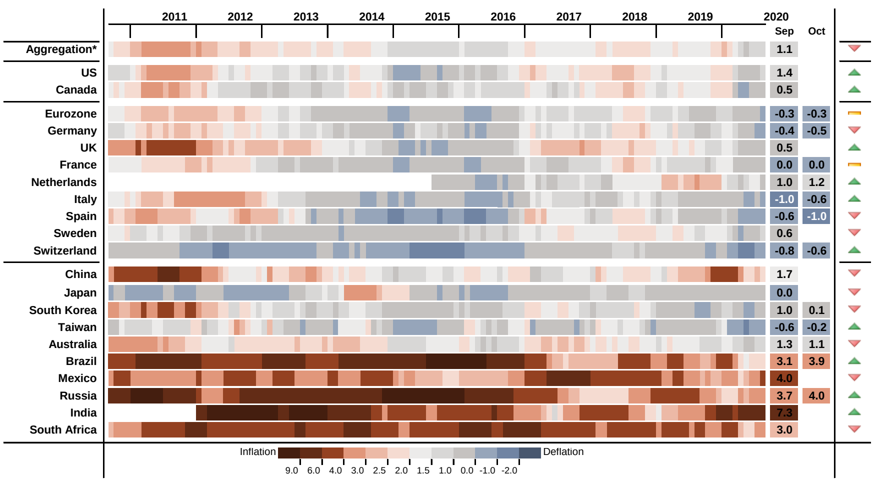
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global PMI rose to 53 in October, which means that the global economy is still on the road to recovery.
- The US ISM index rose to 59.3 in October, its highest level since September 2018.
- In China, the Caixin PMI rose to 53.6.

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: 31/10/2015 - 31/10/2020

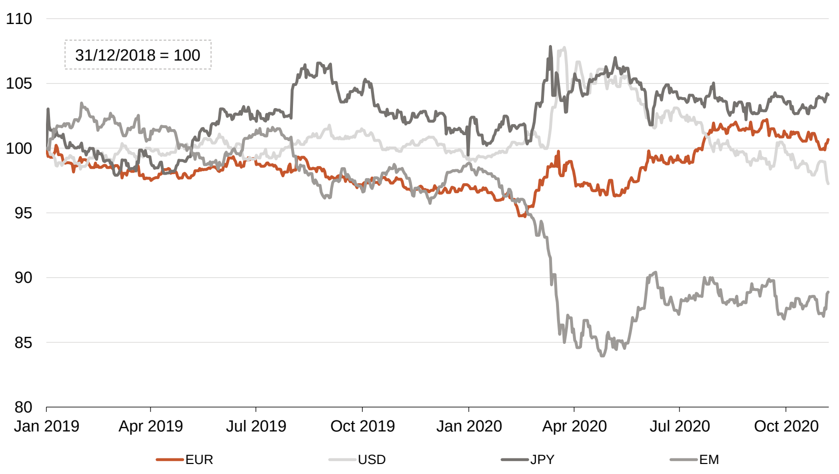
Headline Inflation



- German inflation fell to -0.5% in October. While food prices rose noticeably year-on-year, the core inflation rate fell.
- In the eurozone, consumer prices are expected to fall by 0.3% in October, in line with the previous month and in line with market expectations.

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: 31/10/2010 - 31/10/2020

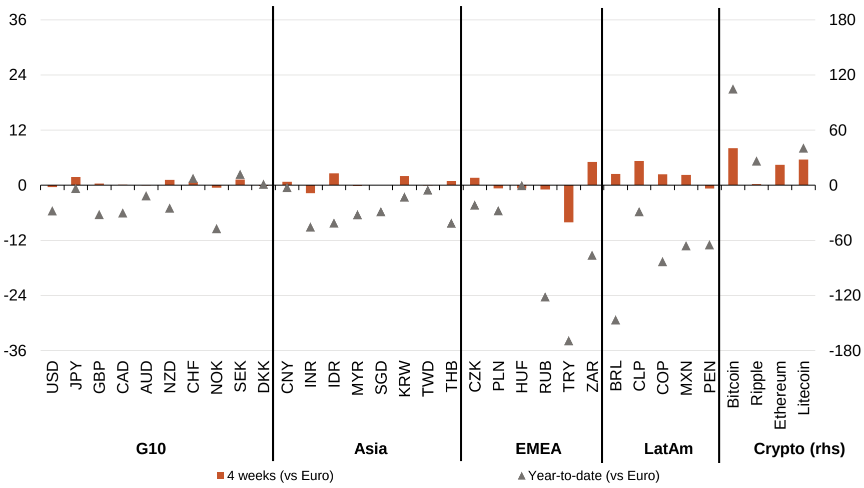
Trade-Weighted Currency Development



- Currency markets were not spared from the resurgence of Covid-19. A temporarily stronger US dollar and falling commodity prices put emerging market currencies under pressure. With Joe Biden's victory, the US dollar fell sharply and EM currencies quickly recovered their losses.
- The Japanese yen was in greater demand again 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 - 06/11/2020

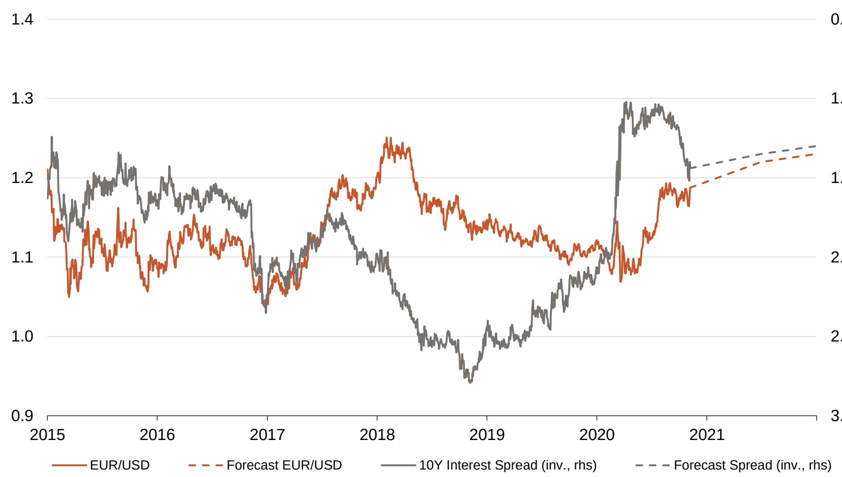
Currency Moves vs Euro



- Many of the currencies presented here have appreciated against the euro recently. The reason for the euro's weakness was not only the deterioration of the economic outlook due to renewed lockdowns, but also Christine Lagarde's indication to increase monetary easing from December onwards.
- The Turkish lira continues to suffer from double-digit inflation rates while monetary policy is still not sufficiently restrictive.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2019 - 06/11/2020

EUR/USD exchange rate and interest rate differential



- After the euro fell almost to 1.16 EUR/USD at the end of October as a result of the second Covid-19 wave and the weakening economy, it recovered its losses as the probability of a Biden victory in the presidential elections increased. The currency pair is currently trading at 1.18.
- Expectations of a globally synchronised economic recovery are weighing on the US dollar.

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 - 31/12/2021

European Sector & Style Performance

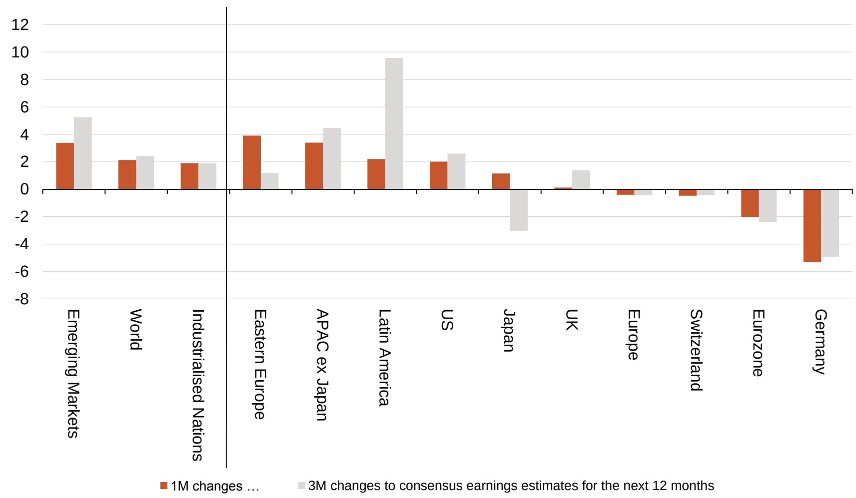
	4-week & YTD: 4W (09/10/20 - 06/11/20)	4-week & YTD: YTD (31/12/19 - 06/11/20)	12-month periods over that last 5 years: 06/11/19 06/11/20	06/11/18 06/11/19	06/11/17 06/11/18	06/11/16 06/11/17	06/11/15 06/11/16
Consumer Discretionary	2.0	-5.7	-3.2	18.0	-8.2	24.3	-12.7
Industrials	1.2	-4.0	-0.9	22.1	-10.1	31.8	-3.8
Finance	0.4	-28.6	-26.5	8.8	-12.1	30.4	-17.7
Utilities	0.1	4.4	8.9	26.3	-4.8	18.2	-9.5
Growth	-0.2	1.4	4.8	20.4	-5.5	23.0	-11.3
Health Care	-1.1	0.0	5.2	20.3	0.9	15.0	-18.2
Materials	-1.7	-2.2	-0.2	12.5	-5.8	33.1	4.9
Value	-1.9	-23.6	-22.3	9.2	-6.4	24.3	-10.0
Consumer Staples	-2.4	-6.2	-4.7	16.5	-4.3	12.9	-5.3
Telecommunications	-2.4	-20.5	-21.8	8.5	-10.7	6.5	-19.9
Energy	-4.4	-48.8	-49.9	1.6	7.8	25.3	0.8
Information Technology	-6.7	2.4	6.7	21.2	-3.7	38.5	-5.4

Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Stables: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR;
Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. NR;
Materials: MSCI Europe Materials NR; Telecommunications: MSCI Europe Telecommunication Services NR; Utilities: MSCI Europe Utilities NR;
Value: MSCI Europe Value NR; Growth: MSCI Europe Growth NR.

- The performance of European equity sectors has been very heterogeneous over the last four weeks. Cyclical consumer goods and industrials were among the relative winners, driven by expectations of a global recovery next year.
- Energy companies were burdened by a falling oil price.

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: 06/11/2015 – 06/11/2020

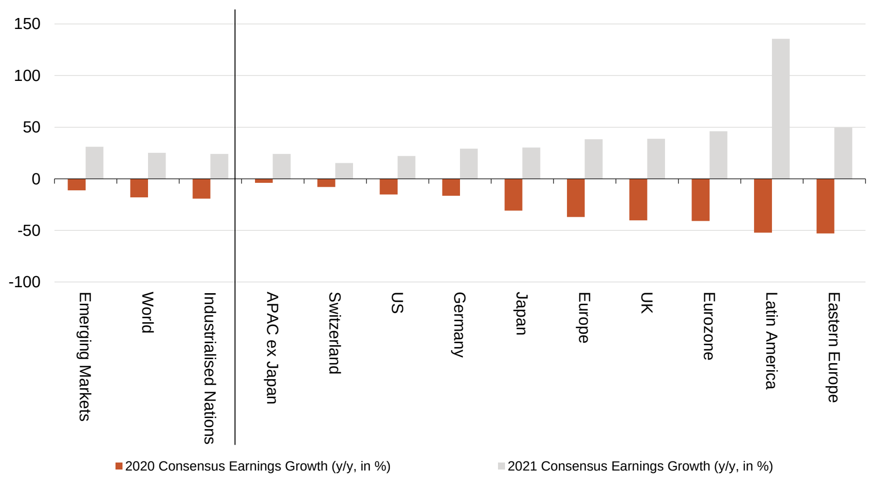
Changes in Consensus Earnings Estimates



- The strong Q3 reporting season has led to positive earnings revisions by analysts. Especially for emerging markets they have recently become more optimistic.
- In the wake of the second Covid-19 wave, eurozone companies have recently seen a reduction in analysts' earnings estimates.

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 06/11/2020

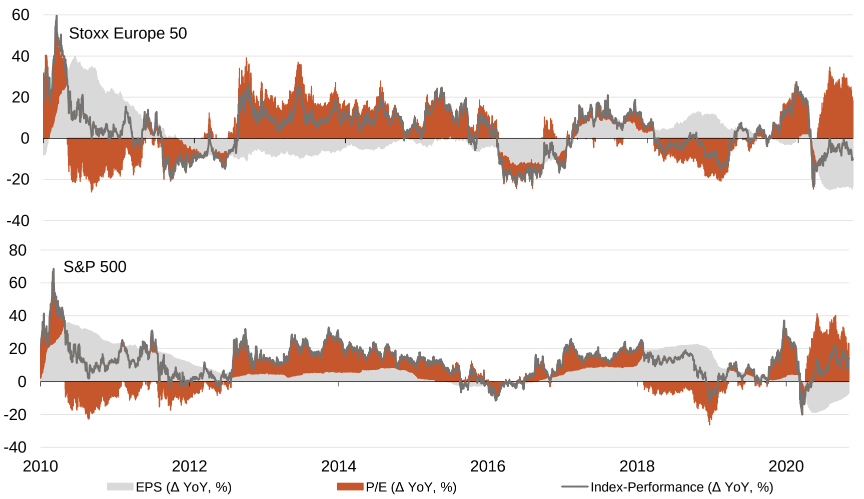
Earnings Growth



- The Q4 reporting season will show whether earnings growth for Asia Pacific ex Japan can turn positive this year.
- Switzerland and the US are likely to see only a relatively small drop in earnings this year relative to other regions.

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 06/11/2020

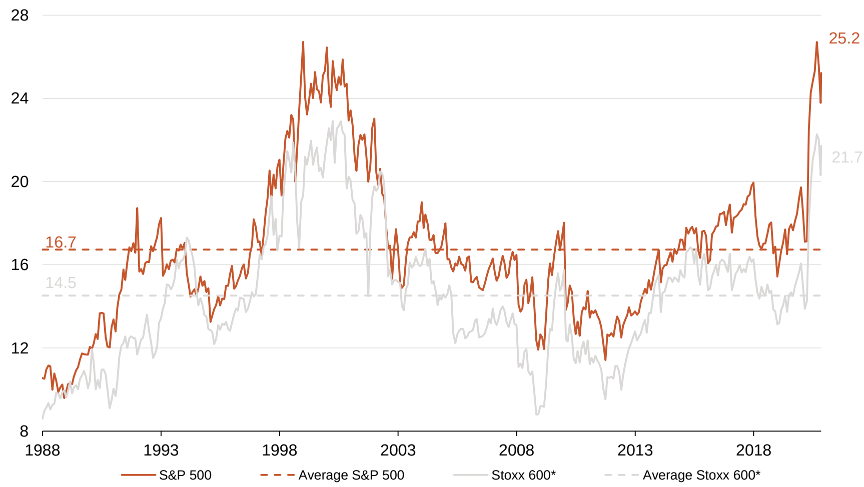
Contribution Analysis



- For over a year, Europe has performed significantly worse than the US. This is despite the fact that the P/E ratio for the Stoxx Europe 50 has risen more sharply than for the S&P 500. The reason: earnings performance for US companies was significantly better than for European companies.

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 - 06/11/2020

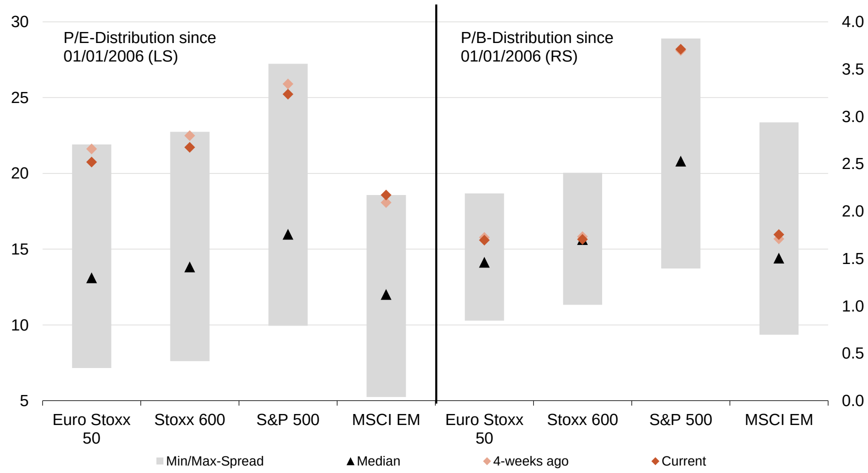
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- On a P/E basis, stock markets remain expensive relative to their own history. Both US and European stocks are valued close to the highs reached during the technology bubble at the turn of the millennium.
- However, bonds are still more expensive than equities, which makes equities appear attractive relative to other asset classes.

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 - 06/11/2020

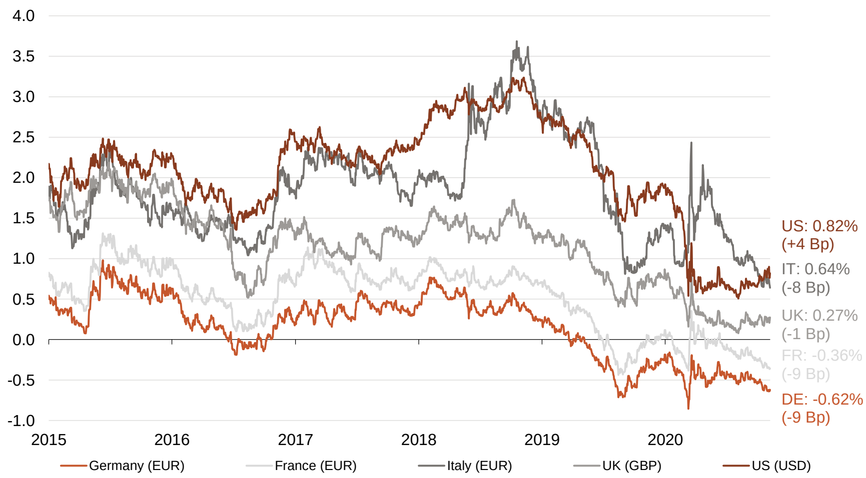
Historical Distribution: Price/Earnings and Price/Book Ratio



- The strong performance of emerging market equities in recent months has led to a sharp rise in P/E valuation. Since 2006, emerging market equities have rarely been valued so ambitiously.

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 - 06/11/2020

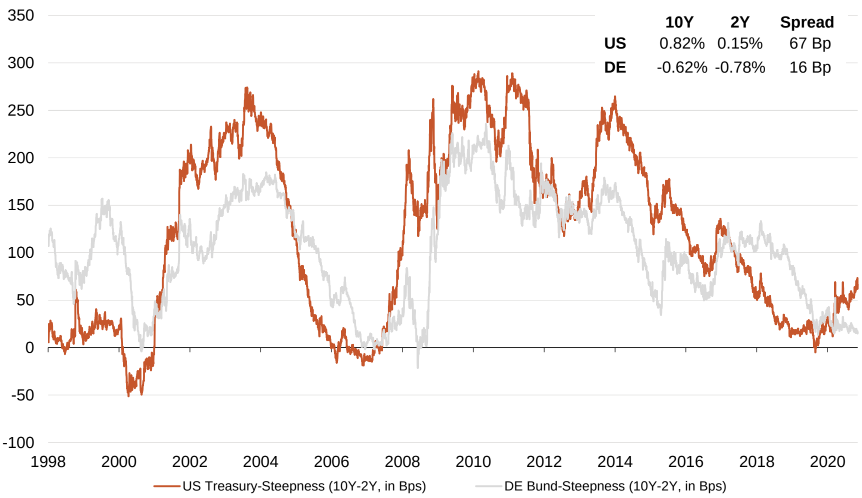
10-Year Government Bond Yields



- The bond markets remain sceptical. Yields on German government bonds have fallen by 9 basis points in the last four weeks. Other European countries such as France, Italy and UK have also seen yields fall.
- Yields on US government bonds rose significantly in the run-up to the US elections only to fall again after the elections. A divided Congress makes a massive fiscal programme less likely and thus lowered inflation expectations.

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 - 06/11/2020

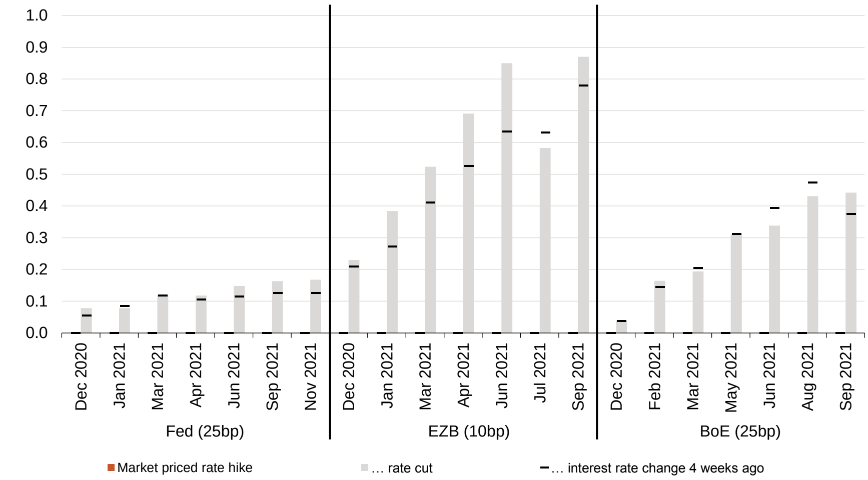
Yield Curve Steepness (10Y - 2Y)



- As inflation expectations in the US have declined, the steepness of the US yield curve has also fallen in the last four weeks slightly.
- The steepness of the German yield curve remains below 20 basis points. In Europe we are currently experiencing a rather deflationary environment.

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 - 06/11/2020

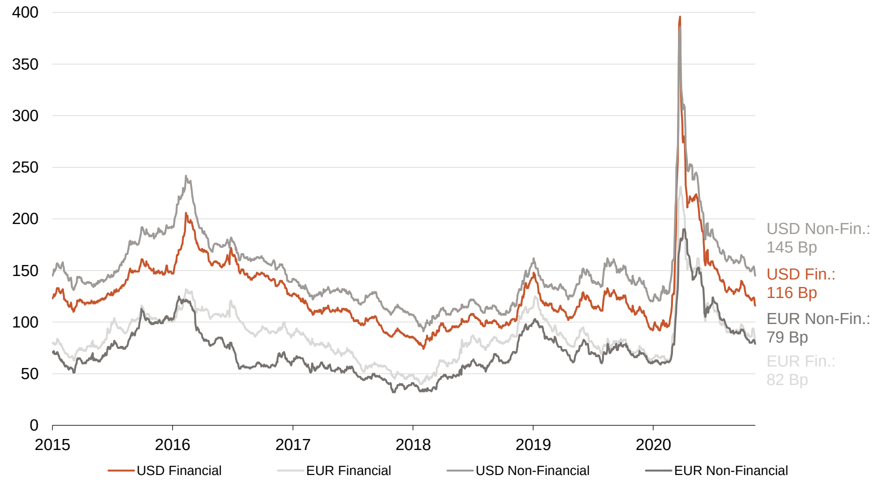
Implicit Changes in Key Interest Rates



- The BoE significantly increased the volume of bond purchases at its last meeting, as the second national lockdown is likely to have a negative impact on economic activity.
- The Fed did not change monetary policy at its meeting but is prepared to support the economy even more if necessary. The key rate remained unchanged.
- In the eurozone, the likelihood of a rate cut has recently increased further.

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: 09/10/2020 - 06/11/2020

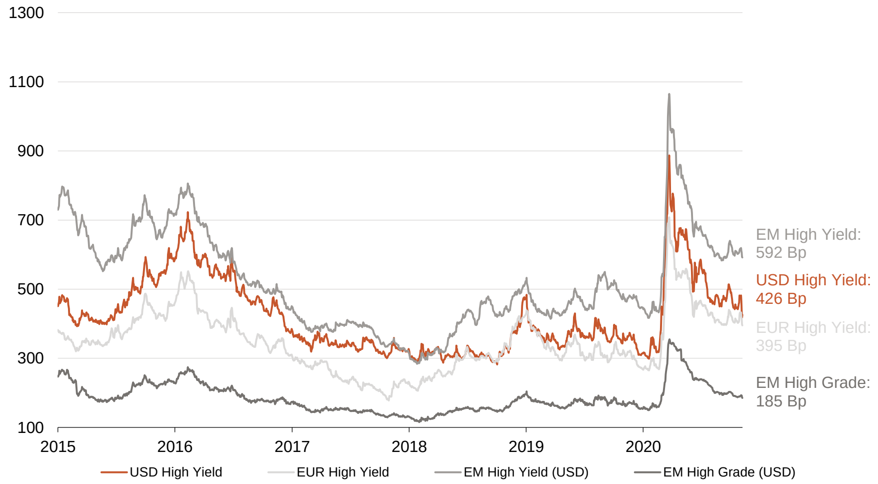
Credit Spreads Financial and Non-Financial Bonds



- Spreads on investment-grade corporate bonds have changed only slightly in the last two weeks. At six basis points, USD financial bonds saw the largest spread tightening. For EUR financial bonds it was four basis points.
- At the EUR and USD sector level, the leisure sector saw the largest spread tightening and the energy sector the largest spread widening in the last four weeks.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 - 06/11/2020

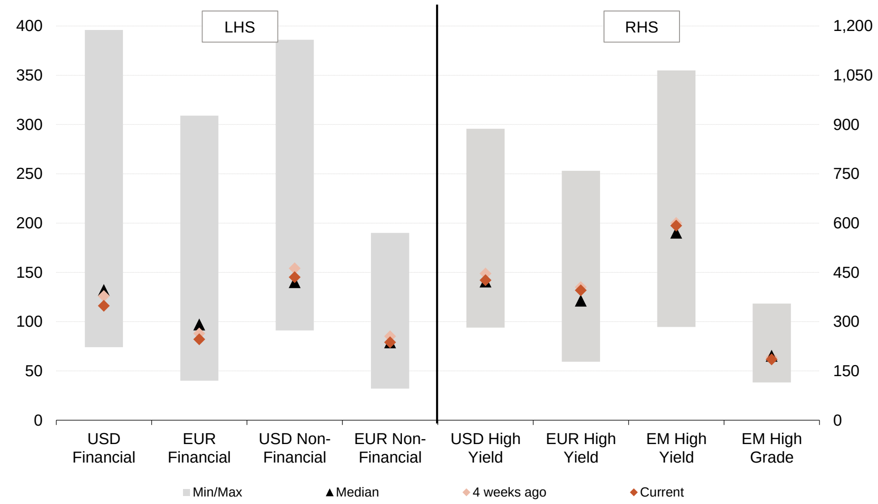
Credit Spreads High Yield and Emerging Markets Bonds



- Spreads on USD high yield bonds have fallen by more than 15 basis points in the last two weeks as the outcome of the US elections has removed some uncertainty from the market.
- Spreads on EUR high yield bonds have fallen much less than on USD high yield bonds as the increasing lockdown measures in Europe are likely to weigh on the economy.

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 - 06/11/2020

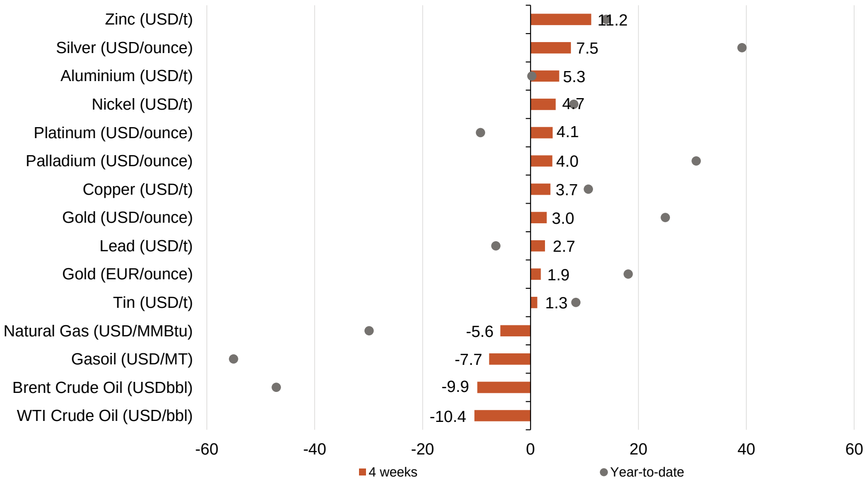
Historical Distribution of Credit Spreads (in bp)



- From a historical perspective, spreads of most segments are now fair and in some cases back to pre-Corona levels. The risk premia thus offer only limited potential for narrowing.
- The picture is different for EUR high-yield bonds, where risk premiums have recently fallen only 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: 06/11/2010 - 06/11/2020

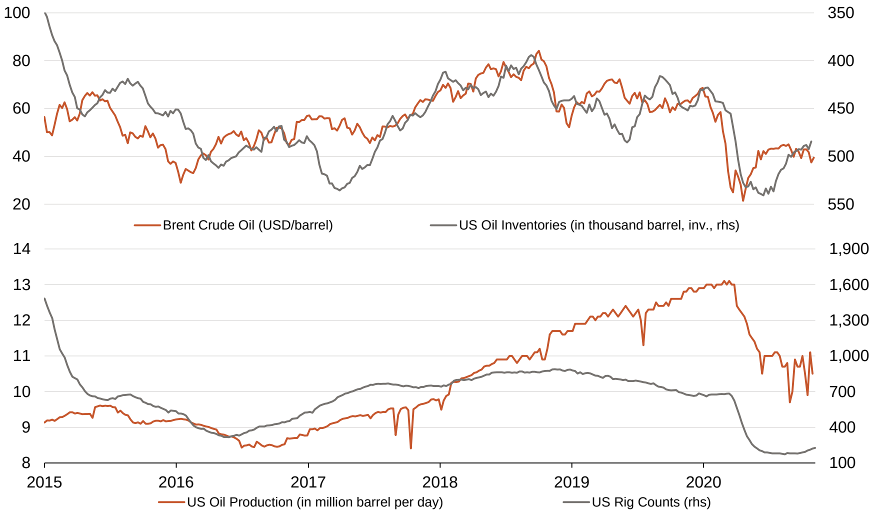
Commodities Performance



- The commodities market has seen a strong divergence between cyclical commodities over the past four weeks. While industrial metals made strong gains, energy commodities had to give way.
- With Joe Biden and his climate-friendly policies, base metals should continue to be well supported.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 - 06/11/2020

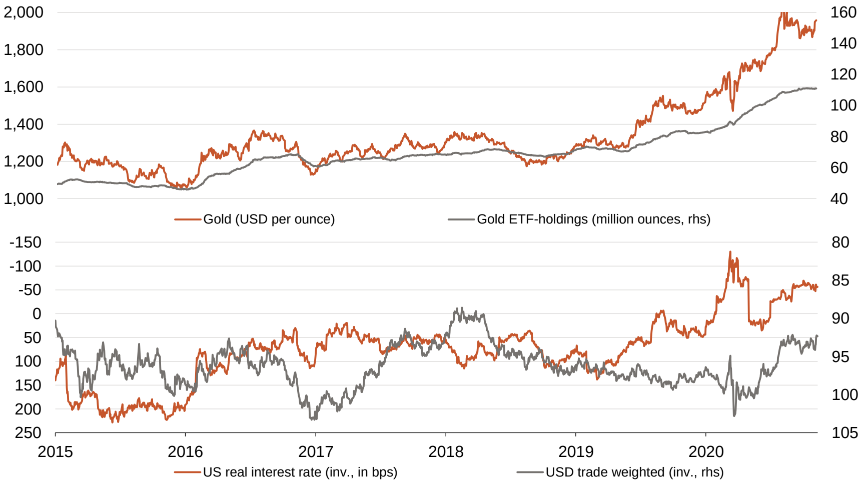
Crude Oil



- In the last two weeks, crude oil temporarily fell as low as USD 36 per barrel. While demand concerns spread in Europe, Libya announced that it would significantly increase its oil production again after months of civil war, thus endangering the fragile balance between demand and supply.
- Following the US presidential election, oil was able to rise above the USD 40 mark again - even though Biden who is shale oil-critical won the election.

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 - 06/11/2020

Gold



- After fluctuating sideways in October, gold was able to break out in November after the US election and is now trading at around USD 1,950 an ounce, the highest since mid-September. The combination of a falling dollar and falling real interest rates gave gold a strong boost.

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 - 06/11/2020

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IMPORTANT NOTICES

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