BERENBERG
Markets

MONITOR

06 July 2020

Current market commentary

European stock markets are again approaching their temporary highs of early June, driven by vaccine hopes and positive economic surprises. In absence of an unanticipated exogenous shock, we believe downside potential remains limited. Investor sentiment is still not euphoric, most brokers are cautious in the short term and investor positioning remains muted. A lot of money is parked on the sidelines, which is gradually being put back into play. Money market funds, for example, have recently recorded the largest outflows since December 2019, and money supply growth fuelled by central banks is also providing support. Most recently, volatility has markedly fallen again, which should lead to further equity buying of systematic strategies. The increase in COVID-19 cases in the US and many emerging markets and ambitious valuations are somewhat clouding the picture. We would, however, not be surprised if markets continue to rise - precisely because hardly anyone expects them to.

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

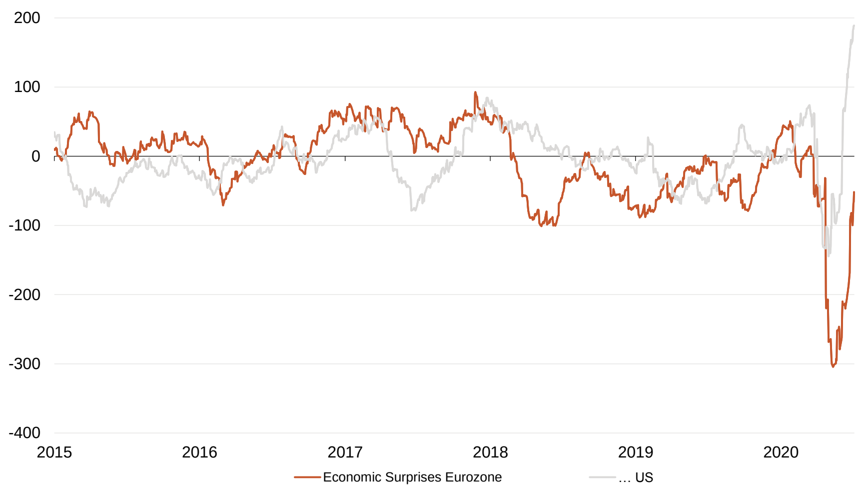
In addition to monetary and fiscal policy decisions, the Q2 corporate reporting season should move markets.

At the EU summit on 17 July, discussions will centre around the EU Recovery Fund. Reaching an agreement at this summit, however, is likely to remain a major challenge. While the ECB holds its monthly meeting on 16 July, the G20 finance ministers and central bank governors will meet in Saudi Arabia on 18 July. Monetary policy therefore remains exciting. On the corporate side, the unofficial start of the US Q2 reporting season is on 14 July, with the opening of the books of major US banks. In addition to the quarterly figures, the outlook of the companies is likely to be a decisive factor.

Industrial production data should show the path of economic recovery.

The May industrial production data will be published for Germany on Tuesday, and for France and Italy, on Friday. Industrial production data for the US will follow on 15 July. The Empire Manufacturing Index will also be released on 15 July, while US Retail Sales for June will follow on 16 July, and the US Consumer Confidence (University of Michigan) data on 17 July.

The trend for economic surprises is upwards



- Recently, there have been many positive economic surprises worldwide. The economic recovery after the corona shock has so far been faster than the consensus had expected.
- Our economists have recently adjusted their GDP forecasts upwards.
- Earnings expectations have also stabilised. The upcoming Q2 reporting season will show whether the positive tone is also reflected in corporate outlooks.

Explanations see page 5.
Source: Bloomberg, Time period: 01/01/2015 - 03/07/2020

Multi Asset

	4-week & YTD: 4W (05/06/20 - 03/07/20)	4-week & YTD: YTD (31/12/19 - 03/07/20)	12-month periods over that last 5 years: 03/07/19 03/07/20	03/07/18 03/07/19	03/07/17 03/07/18	03/07/16 03/07/17	03/07/15 03/07/16
Gold	5.8	16.7	25.6	17.1	0.1	-10.8	14.6
MSCI Emerging Markets	3.9	-6.3	0.2	6.3	3.9	21.1	-11.4
Global Convertibles	3.9	6.8	12.5	8.0	6.4	12.7	-3.9
Industrial Metals	3.6	-8.0	-4.2	-7.3	9.7	13.2	-11.2
Brent	2.3	-40.0	-33.2	-10.9	59.3	-14.0	-33.2
Global Coporates	1.9	2.9	6.1	11.1	-1.5	-0.5	5.8
Global Treasuries	1.8	3.2	4.0	9.0	0.0	-7.5	12.6
MSCI Frontier Markets	1.3	-15.3	-10.9	9.0	-1.4	17.4	-12.3
USDEUR	0.4	-0.3	0.3	3.4	-2.5	-2.0	-0.3
Eonia	0.0	-0.2	-0.4	-0.4	-0.4	-0.4	-0.2
MSCI World	-1.2	-4.8	2.7	12.0	7.7	15.7	-3.4
REITs	-3.3	-12.8	-10.5	17.3	-1.7	-6.8	14.9

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.

- Almost all asset classes have gained in value over the last four weeks. Gold and emerging market equities were the best performers, but brent oil and base metals also made strong gains.
- Gold remains the best asset class this year, with a total return of almost 17% in euro terms this year.
- REITs, on the other hand, have continued to underperform over the last four weeks.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/07/2015 - 03/07/2020

Equities

	4-week & YTD: 4W (05/06/20 - 03/07/20)	4-week & YTD: YTD (31/12/19 - 03/07/20)	12-month periods over that last 5 years: 03/07/19 03/07/20	03/07/18 03/07/19	03/07/17 03/07/18	03/07/16 03/07/17	03/07/15 03/07/16
MSCI EM Asia	5.8	0.5	9.1	2.8	5.4	25.1	-11.7
Topix	-1.2	-7.6	1.5	1.2	7.1	16.6	-7.6
S&P 500	-1.3	-2.1	7.1	16.4	11.0	15.6	3.1
Stoxx Europe Defensives	-1.4	-5.8	0.8	9.3	3.9	3.5	-4.7
Stoxx Europe 50	-1.8	-9.5	-4.1	9.8	-0.2	15.6	-11.6
Euro Stoxx 50	-2.3	-10.7	-5.1	6.8	0.1	24.3	-13.8
DAX	-2.5	-5.4	-0.7	2.2	-1.0	27.6	-11.6
Stoxx Europe Cyclicals	-3.1	-14.0	-7.6	1.5	0.7	35.1	-19.4
Stoxx Europe Small 200	-3.4	-11.6	-3.9	2.5	7.3	23.4	-10.8
MSCI USA Small Caps	-5.1	-13.0	-7.2	3.4	14.2	18.5	-4.0
MSCI EM Eastern Europe	-5.1	-23.3	-16.1	27.4	11.5	17.6	-7.2
MSCI UK	-6.3	-22.8	-17.7	3.0	6.0	11.1	-12.3

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.

- Asian emerging market equities have performed best by far. Encouraging economic data such as better than expected purchasing managers' indices (PMI) from China provided support.
- UK stocks continued to underperform. Ongoing Brexit uncertainty is a burden. In addition, the sector structure of the equity index with few technology stocks is unfavourable in the current environment.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/07/2015 - 03/07/2020

Fixed Income

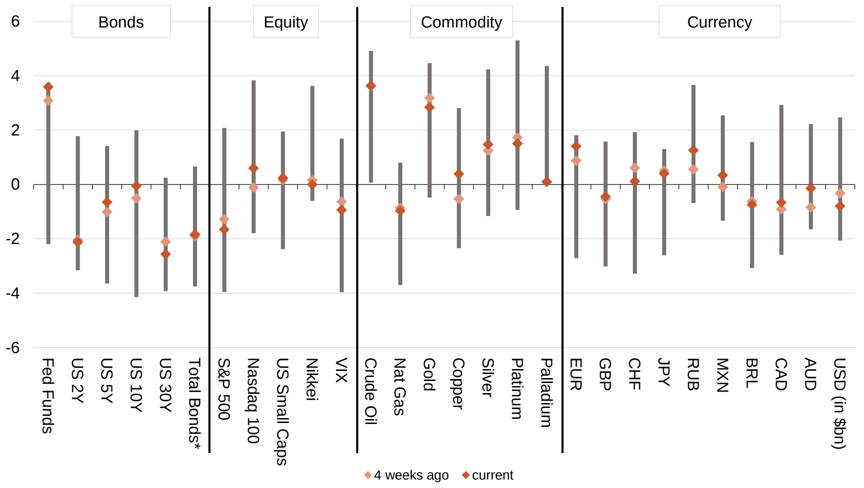
	4-week & YTD: 4W (05/06/20 - 03/07/20)	4-week & YTD: YTD (31/12/19 - 03/07/20)	12-month periods over that last 5 years: 03/07/19 03/07/20	03/07/18 03/07/19	03/07/17 03/07/18	03/07/16 03/07/17	03/07/15 03/07/16
USD Corporates	2.5	5.5	9.6	14.6	-3.0	-0.4	7.5
Treasuries	2.3	8.6	10.6	10.9	-2.8	-4.7	6.5
EUR Inflation Linkers	1.8	-1.7	-0.5	2.8	4.0	-1.3	4.5
EM Hard Currency Bonds	1.7	-2.3	-2.2	8.8	-3.5	2.4	9.6
Bunds	1.6	2.0	0.4	5.3	2.3	-4.4	8.2
BTPs	1.4	1.5	3.6	9.8	-1.0	-3.5	9.4
Gilts	0.7	2.8	9.0	5.5	1.6	-5.9	-2.8
EUR Financials	0.4	-1.0	-0.5	5.1	0.8	2.4	4.3
EUR Non-Financials	0.2	-1.1	-0.9	5.3	1.3	0.1	5.7
EM Local Currency Bonds	0.1	-3.3	0.4	12.4	-3.3	0.9	3.5
EUR High Yield	-0.5	-5.1	-2.9	4.9	0.4	7.8	1.3
USD High Yield	-1.9	-4.4	-0.4	12.2	-0.7	8.7	0.8

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.

- High yield bonds have underperformed over the past four weeks. Cases of insolvency have led to higher risk premiums. In addition, some profit-taking is likely to have occurred after the strong recovery of recent months.
- USD corporate bonds, on the other hand, continued to perform positively. Since the beginning of the year, they have been one of the strongest bond segments together with US government bonds.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/07/2015 - 03/07/2020

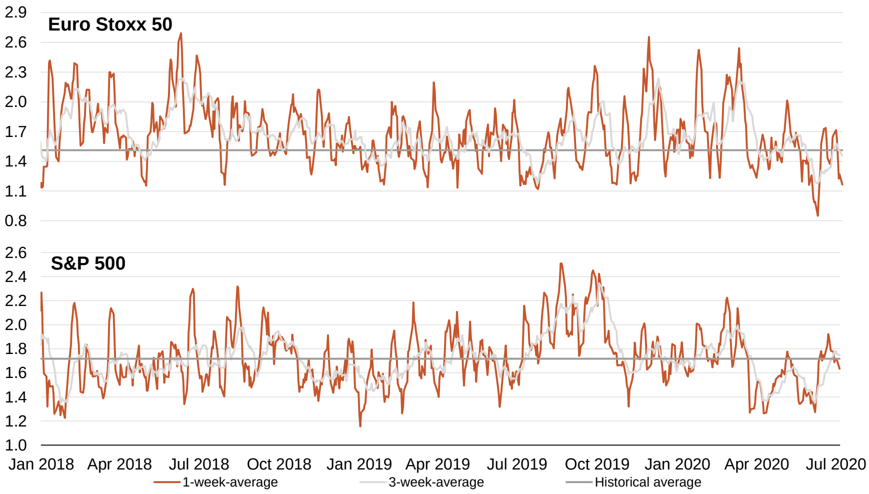
Non-Commercial Positioning



- Speculative investors have become somewhat more optimistic again. Long positions in the Nasdaq, US small caps, copper and RUB were increased, while short positions in VIX futures were added. Safe havens such as gold, CHF and JPY were reduced.

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: 30/06/2010 - 30/06/2020

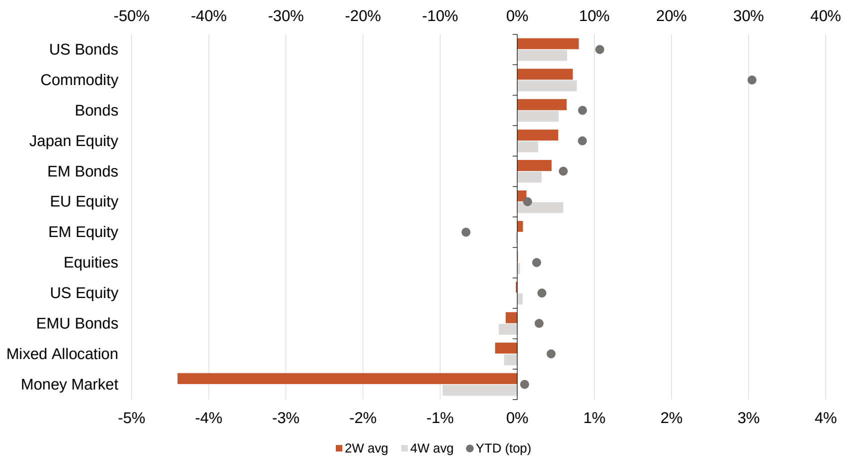
Put-Call Ratio



- The put-call ratios do not show a clear picture at present. Investors are more uncertain than ever as to whether equity markets will continue to rise or fall. The put-call ratio for eurozone equities has recently fallen sharply, while it has risen for the US. Options market participants are correspondingly more optimistic for eurozone equities than for US equities.

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 - 03/07/2020

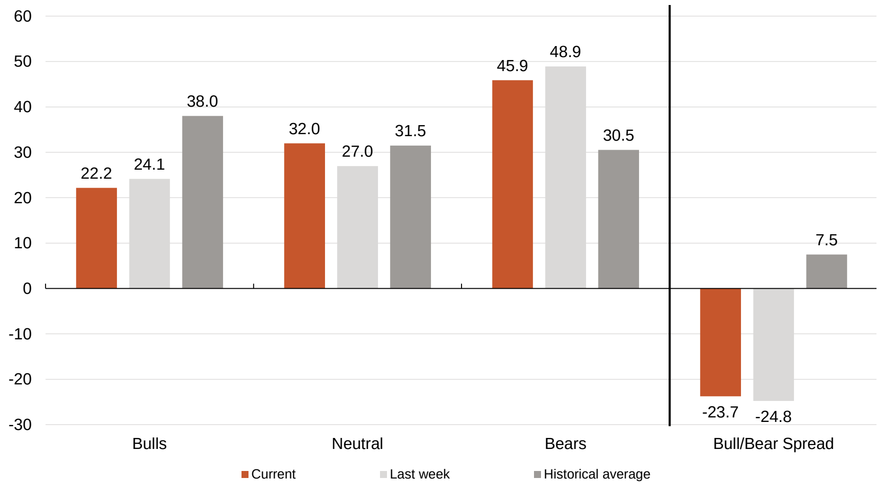
ETF Flows



- Money market ETFs have recently seen the strongest outflows. Eurozone bonds are as well no longer in high demand. Investors currently prefer commodities (especially precious metals), US and emerging market bonds.
- The picture for equity ETFs is mixed. Japanese equities saw ETF inflows, US equities recorded outflows.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2019 - 03/07/2020

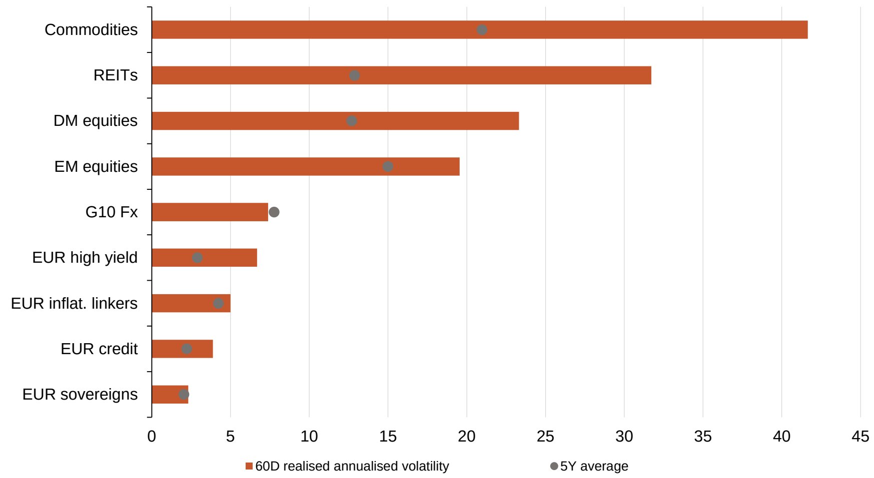
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment among US private investors is still very pessimistic. The bull-bear spread has been trading below the -20ppts mark for the third week in a row. The last time such a pronounced pessimism was observed, was in March 2009. Historically, the current sentiment is a good buy indicator for the next 3 to 6 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 - 02/07/20

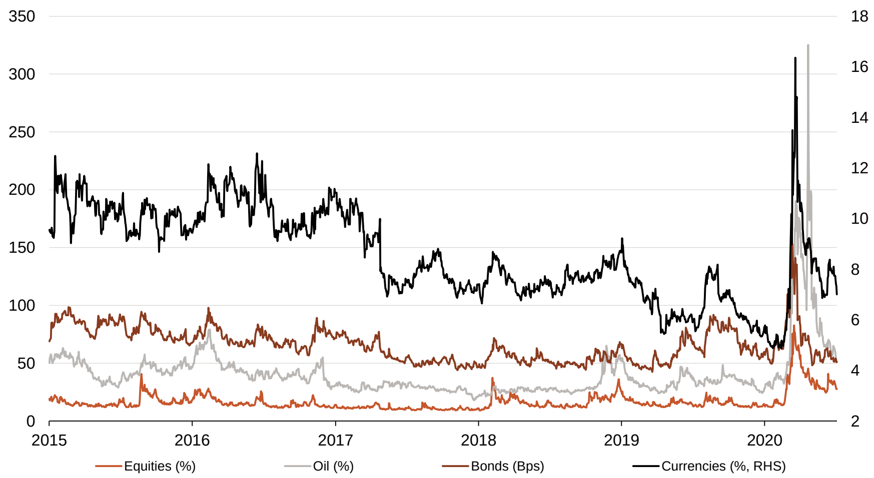
Realised Volatilities



- Realised volatilities of the last 60 days have fallen further in risk investments over the last two weeks. Emerging market equities are now showing volatility similar to their historical average. It is also noticeable that equities in developed countries still exhibit higher volatility than their counterparts in emerging markets.
- G10 currencies are currently the only asset class to show lower volatility than their 5-year average.

Realised volatility (in percent) measures the historical range of variation of a time series and is defined here as the standard deviation of the daily returns over the last 60 trading days. Volatility is often used as a measure of risk.
Source: Bloomberg, Time period: 03/07/2015 - 03/07/2020

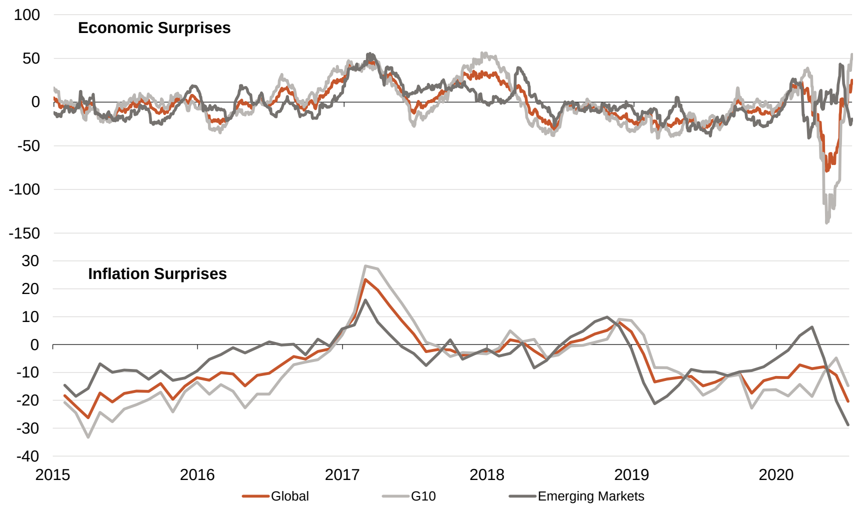
Implied Volatilities



- The implied volatilities in all asset classes presented here have fallen over the last two weeks.
- The VIX has recently broken through the 30 mark and is currently trading at 28. However, there is still no sign of complacency in equity markets.

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 - 03/07/2020

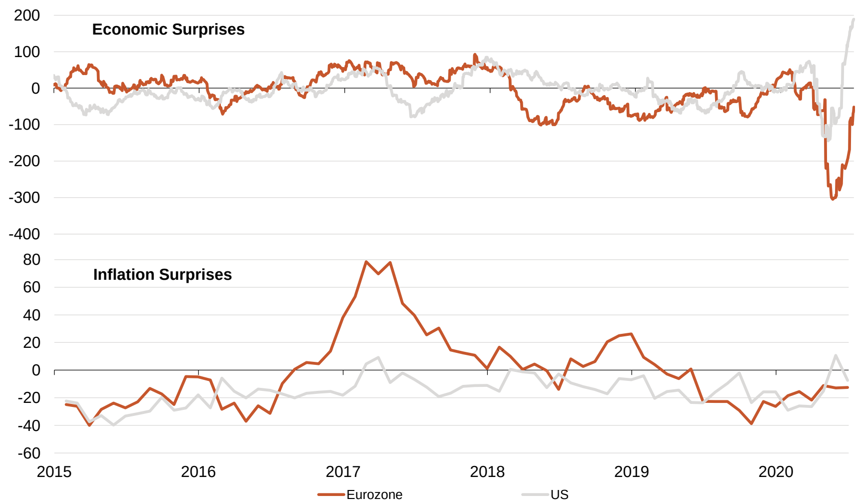
Global



- The economic recovery seems to be progressing faster than many expected. Both globally and in industrialised nations, economic data has recently surprised on the upside. Only in emerging markets can a contrary trend be observed. While the PMI (June) in China surprised on the upside, industrial production in Brazil and South Korea has fallen more sharply than expected. Exports and the PMI in South Korea have also disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 03/07/2020

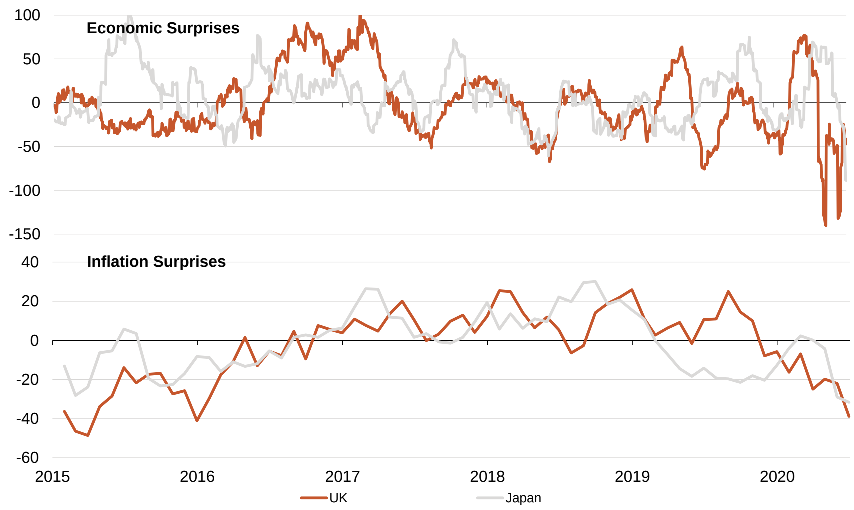
Eurozone and US



- In the US, positive economic surprises continue. The ISM purchasing managers' index rose surprisingly fast to 52.6 points, thus returning to the expansion zone. Consumer confidence also rose markedly in June and the latest labour market data also provided upward surprises.
- The situation in the eurozone also improved significantly. The June PMI surprised in most states positively, and in Germany the Ifo Index and retail sales were better than expected.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 03/07/2020

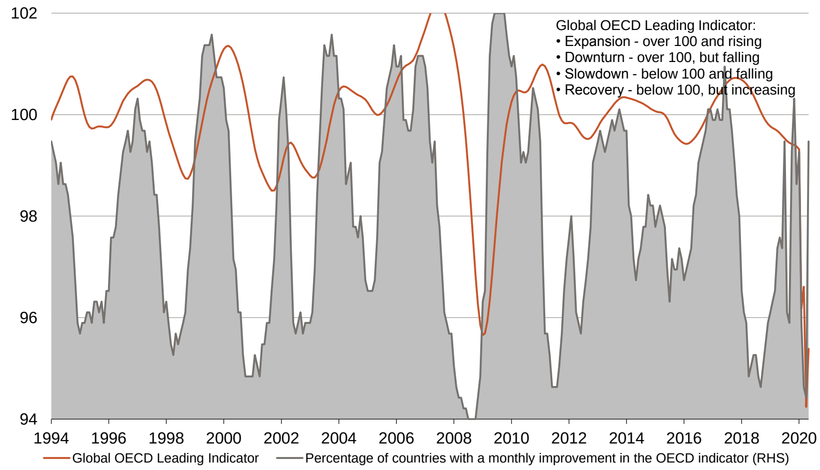
UK and Japan



- While economic data in UK was mixed, economic data in Japan has disappointed considerably. In Japan the PMI (June), industrial production data (May) and retail sales (May) were weaker than expected.

Citigroup Economic Surprise Indices are defined as weighted historical, normalized data surprises (actual releases vs. Bloomberg survey median) over the last three months. A positive value of the index indicates that the economic data have exceeded the consensus on balance. The indices are calculated daily based on a rolling three-month period. The indices use a time decay function to replicate the markets limited memory, i.e. the weight of a data surprise decreases over time.
Source: Bloomberg, Time period: 01/01/2015 - 03/07/2020

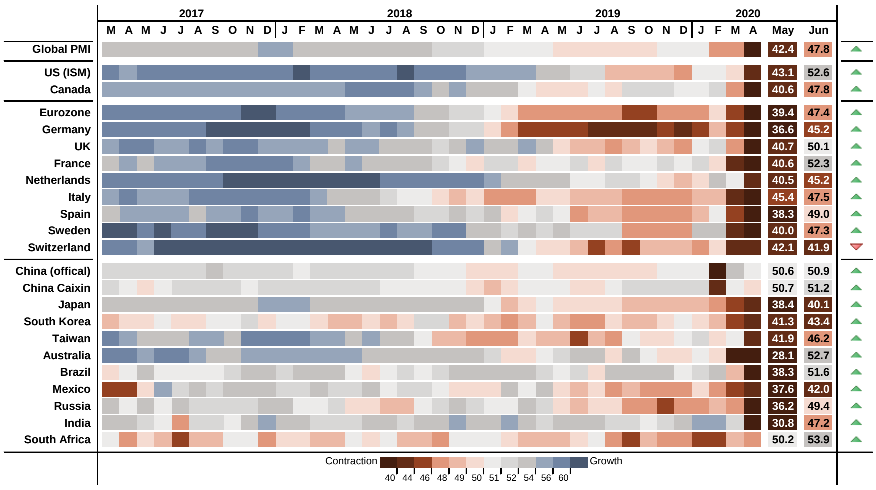
OECD Leading Indicator



- The global OECD leading indicator recovered slightly in May relative to April, indicating a recovery in the global economy.
- In May, the OECD leading indicators improved in over 60% of countries. In addition to the US, this was also the case in Germany, France and the UK.

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 - 31/05/2020

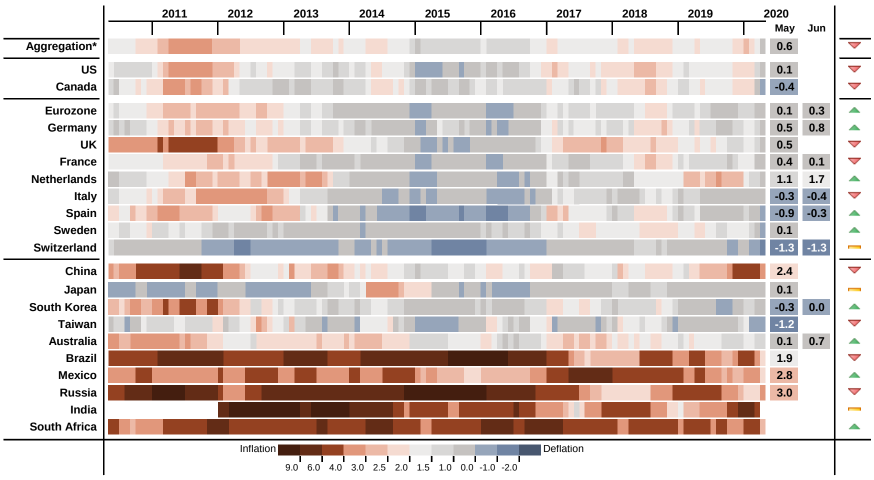
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global manufacturing industry seems to have bottomed out. The global PMI reached a 5-month high of 47.8 and most countries saw an improvement in the PMI from the May figure.
- The ISM index (US) has jumped above the 50 expansion threshold.

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: 31/03/2017 - 30/06/2020

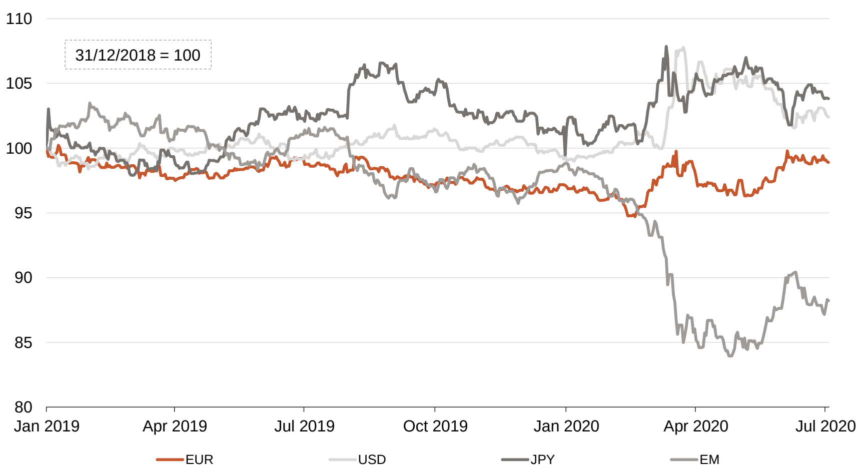
Headline Inflation



- Inflation in the eurozone remains low in June. The slight increase is mainly due to the recovery of crude oil prices.
- The same applies to Germany. In July, however, the lowering of the value-added tax should significantly slow down the rise in inflation.

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.
Source: Bloomberg, Time period: 30/06/2010 - 30/06/2020

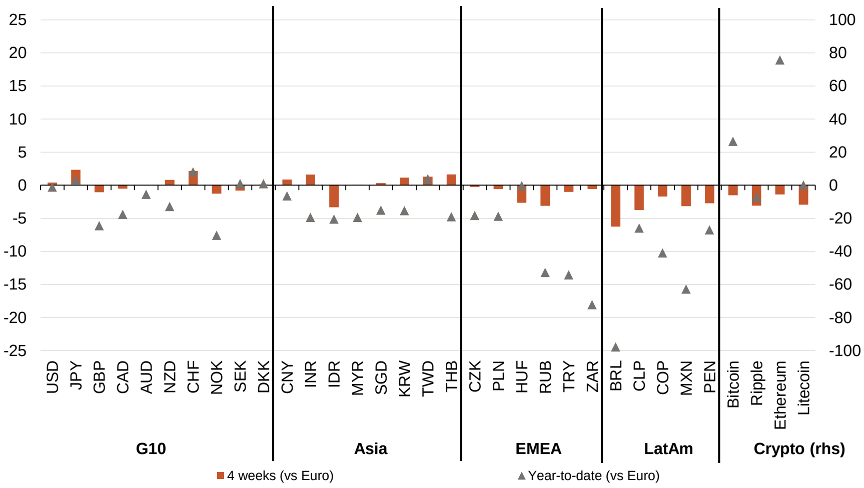
Trade-Weighted Currency Development



- Emerging market currencies continued their downward trend over the past two weeks. This was mainly due to soaring infection rates in South America and increased risk aversion among investors.
- The depreciation of the Japanese Yen does not paint a picture of risk aversion, but this can be explained by poor economic data coming from the Japanese economy.

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 - 03/07/2020

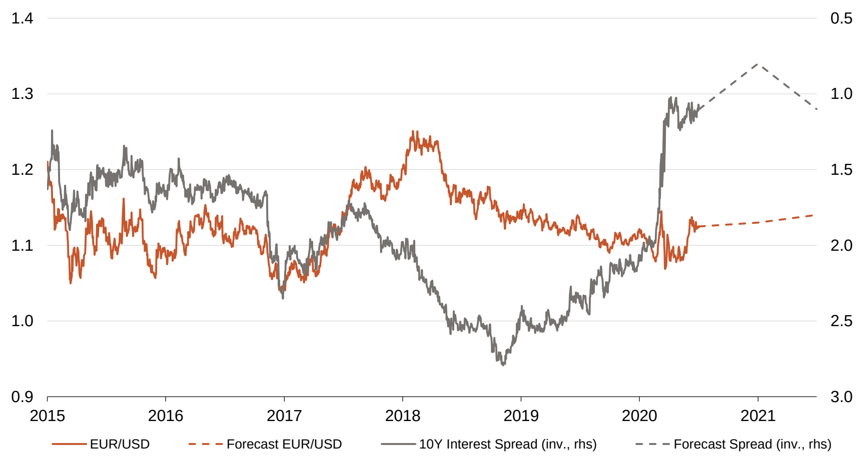
Currency Moves vs Euro



- In the last four weeks, the euro gained slightly against many currencies shown here. In some cases safe havens like the Swiss franc gained the upper hand.
- In Latin America especially, many currencies continued to depreciate. As Brazil is the second most affected country by coronavirus, while the situation still seems to be out of control, the real continued to fall sharply.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2019 - 03/07/2020

EUR/USD exchange rate and interest rate differential



- With no further monetary and fiscal policy fireworks expected on either side of the Atlantic, the last few weeks have been rather muted in the Euro-Dollar market. The euro recently fluctuated between 1.12 and 1.13 EUR/USD.
- The interest rate differential between US Treasuries and Bunds has also stabilised slightly above the 1% mark.

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

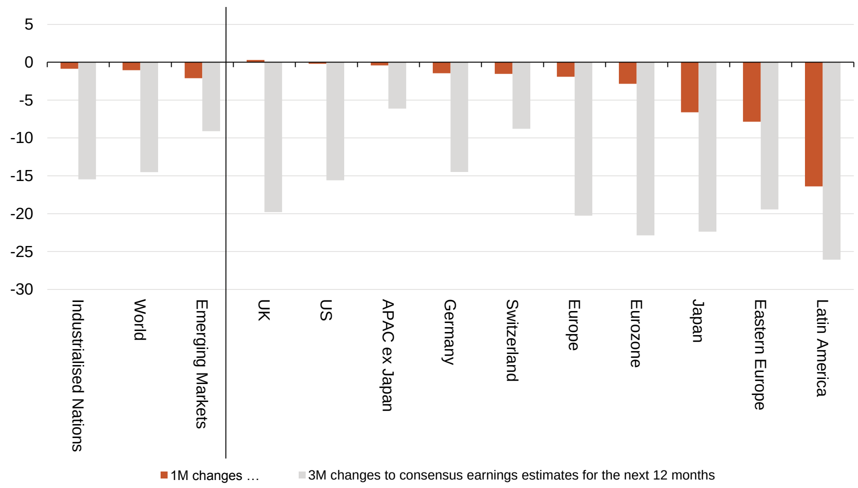
	4-week & YTD: 4W (05/06/20 - 03/07/20)	4-week & YTD: YTD (31/12/19 - 03/07/20)	03/07/19 03/07/20	03/07/18 03/07/19	03/07/17 03/07/18	03/07/16 03/07/17	03/07/15 03/07/16
			12-month periods over that last 5 years				
Utilities	2.8	2.2	11.2	17.2	4.6	2.3	-1.2
Health Care	1.2	3.8	15.5	16.8	-4.9	4.2	-6.6
Information Technology	1.0	4.6	11.4	10.9	15.3	29.2	-3.7
Growth	0.0	-3.0	3.5	11.3	3.3	13.3	-5.6
Consumer Staples	-0.2	-5.6	-3.8	13.8	-2.5	4.7	10.5
Materials	-1.7	-8.8	-3.6	3.2	12.5	29.4	-14.8
Telecommunications	-2.8	-15.5	-14.0	1.4	-8.8	-0.6	-13.4
Industrials	-2.8	-12.6	-4.4	8.2	1.3	27.2	-4.7
Value	-4.7	-20.6	-15.9	1.7	0.1	23.7	-16.1
Consumer Discretionary	-5.3	-15.6	-8.8	5.3	4.0	21.8	-18.3
Finance	-5.8	-24.7	-19.5	-0.5	-6.8	44.4	-28.7
Energy	-12.2	-35.9	-37.5	-2.2	30.5	3.6	0.7

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.

- Thanks to strong performance in June, some European sectors have now turned positive since the beginning of the year. In addition to healthcare, these include utilities and information technology companies.
- The energy sector is at the back of the pack, which has continued to decline over the past four weeks.

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: 03/07/2015 – 03/07/2020

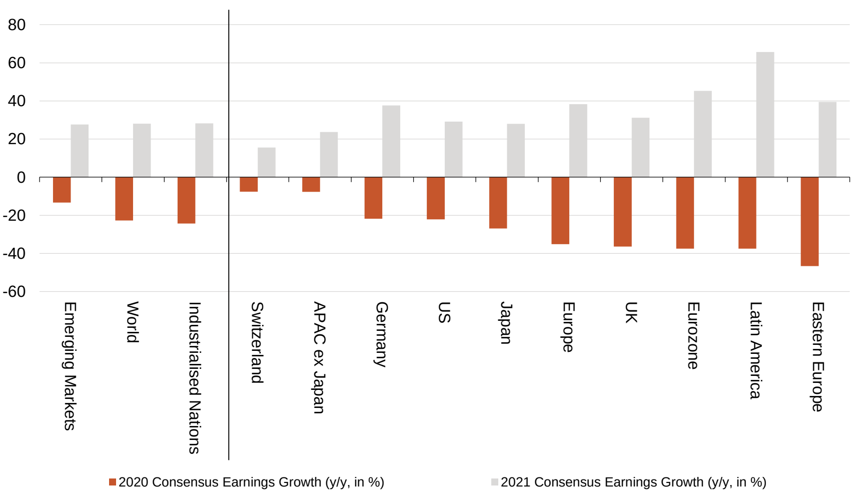
Changes in Consensus Earnings Estimates



- Negative earnings revisions have recently decreased further, especially for the UK, Asian emerging markets and the US. The positive economic surprises in many regions give the analysts hope. The upcoming Q2 reporting season will show whether this is justified.

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 03/07/2020

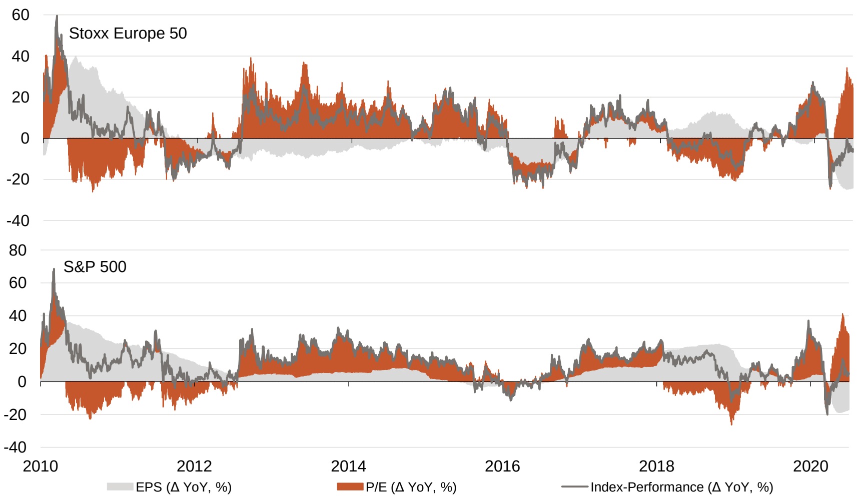
Earnings Growth



- Declines in commodity prices this year are reflected in the profit expectations for various regions. Analysts are most skeptical about this year's earnings growth for Eastern Europe and Latin America.
- For Asia Pacific ex Japan and Switzerland, consensus expects that earnings will only decline marginally.

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 03/07/2020

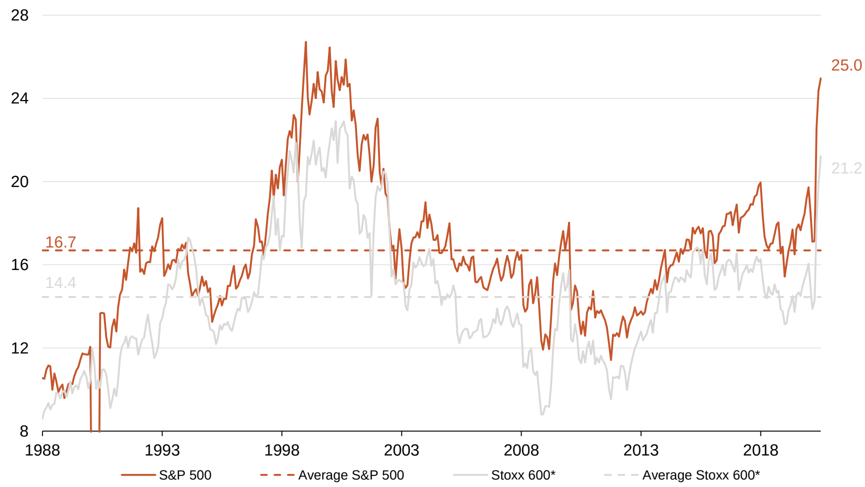
Contribution Analysis



- While US stocks are already back in the black relative to the previous year, this is not yet the case for European stocks. Although valuations have risen somewhat more in Europe, profits in the US have fallen much less.

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 - 03/07/2020

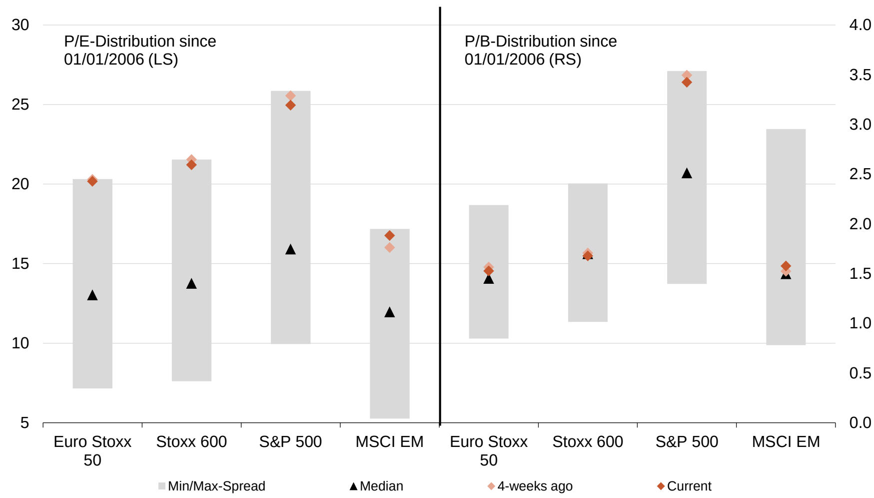
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Negative earnings revisions and rising stock markets over the last few months have led to significantly higher P/E levels. Both European and US equities are trading around 50% above their respective long-term P/E averages.

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 - 03/07/2020

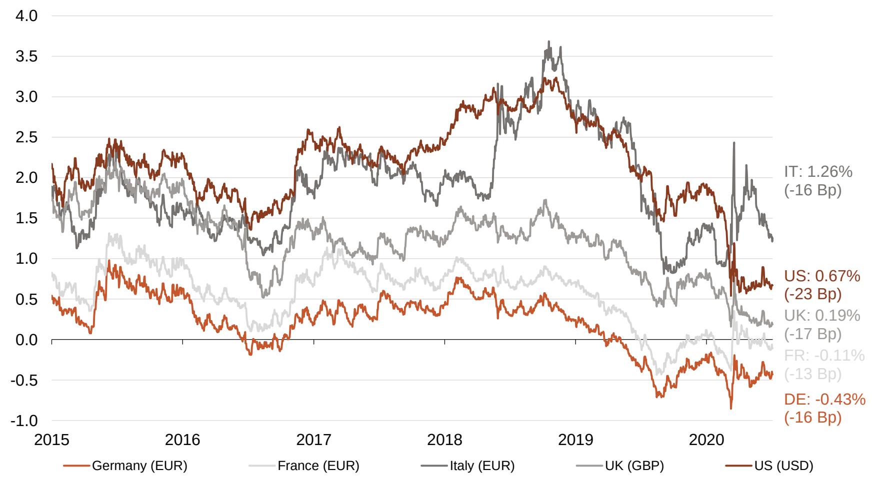
Historical Distribution: Price/Earnings and Price/Book Ratio



- On a P/E basis, all equity regions remain ambitiously valued relative to their own history. On a P/B basis, however, only the USA is expensive.
- The higher valuations are partly due to lower interest rates worldwide, which make equities more attractive compared to bonds.

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 - 03/07/2020

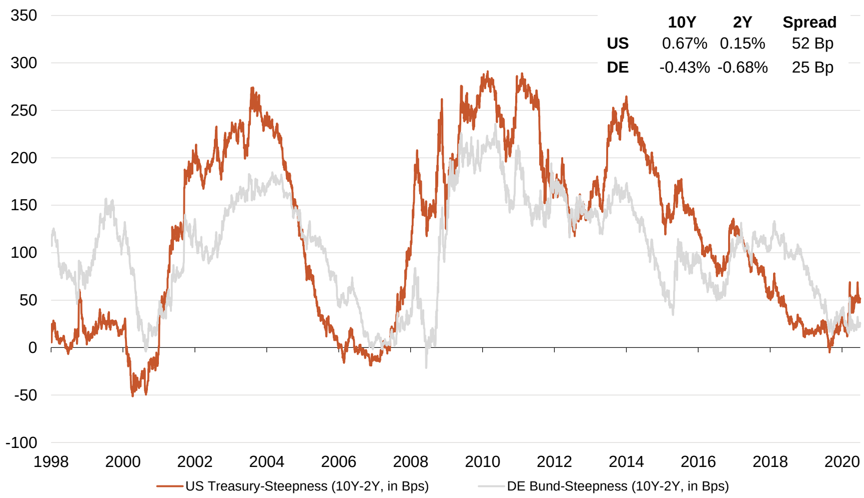
10-Year Government Bond Yields



- In the last two weeks, global yields have continued to fall. Yields on US government bonds fell to 0.67%, while yields on 10-year French government bonds slid back into negative territory.
- Yield spreads on peripheral countries, including Italy, were also driven further down by the idea of introducing EU common debt.

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 - 03/07/2020

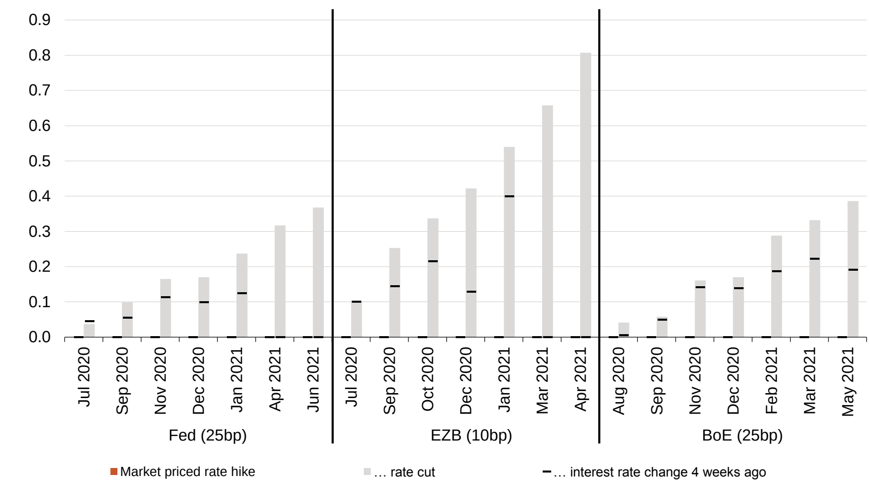
Yield Curve Steepness (10Y - 2Y)



- The steepness of the German and US yield curve has hardly changed in the last two weeks. Investors remain concerned about the rise in coronavirus cases in some countries and US states and the momentum of the emerging economic recovery.

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 - 03/07/2020

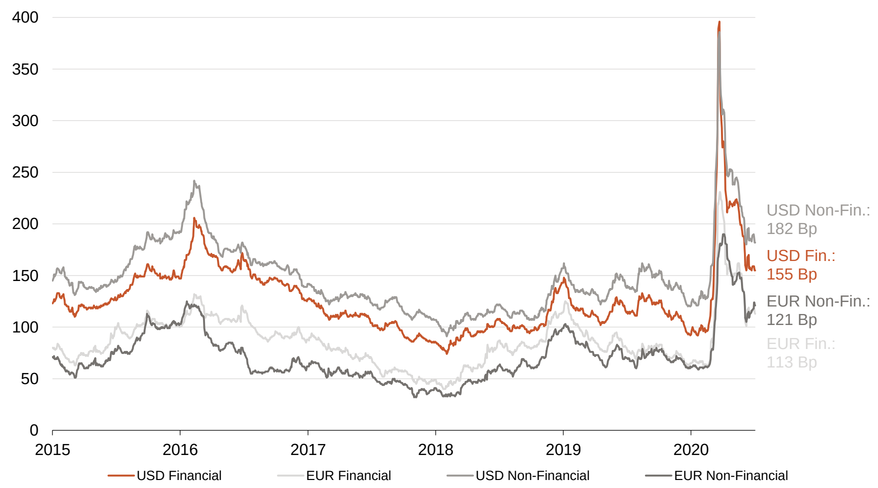
Implicit Changes in Key Interest Rates



- The Fed has again recently expressed itself very dovish. As a result, the market has raised the probability of a rate cut to over 30% in the next 12 months.
- The probability of an interest rate cut by the ECB has also risen to over 70% after the latest monetary policy measure - the increase in the banks' refinancing framework (TLRO).

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: 07/12/2020 - 03/07/2020

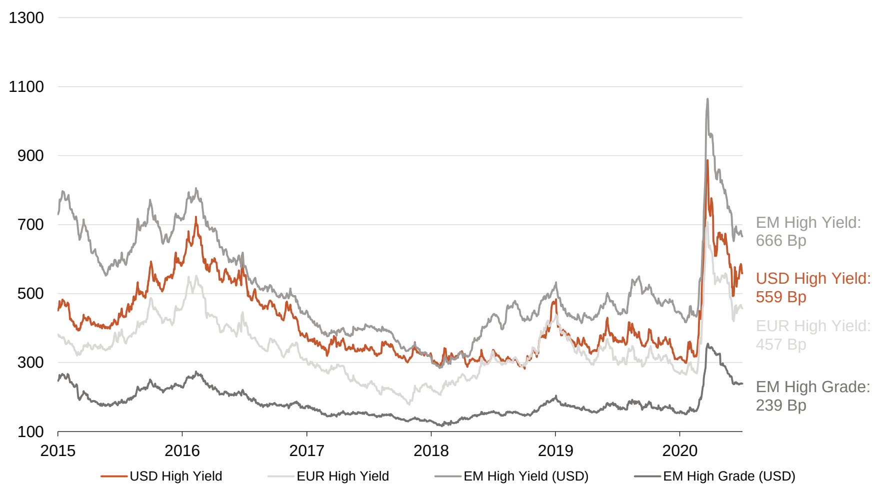
Credit Spreads Financial and Non-Financial Bonds



- Recently, the spreads of investment-grade corporate bonds have not narrowed further. In the case of EUR corporate bonds there has even been a slight widening of spreads. The energy and leisure sectors in particular have seen rising spreads over the past two weeks. In the case of USD corporate bonds, it was the leisure sector that saw the sharpest fall in risk premiums.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 – 03/07/2020

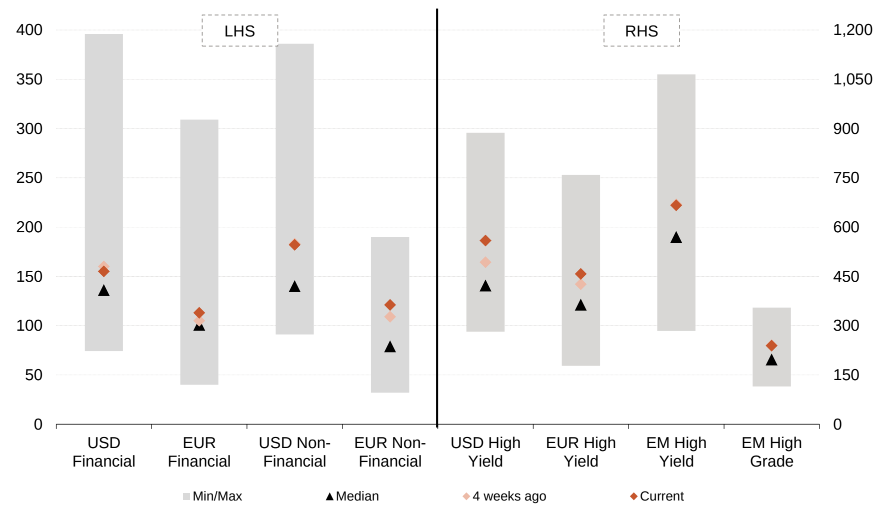
Credit Spreads High Yield and Emerging Markets Bonds



- The continuing sharp rise of corona cases in the US and the resulting slowdown in economic normalization has caused spreads on USD high-yield bonds to rise much more sharply than on EUR high-yield bonds. In addition, rising default rates have pushed up 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 – 03/07/2020

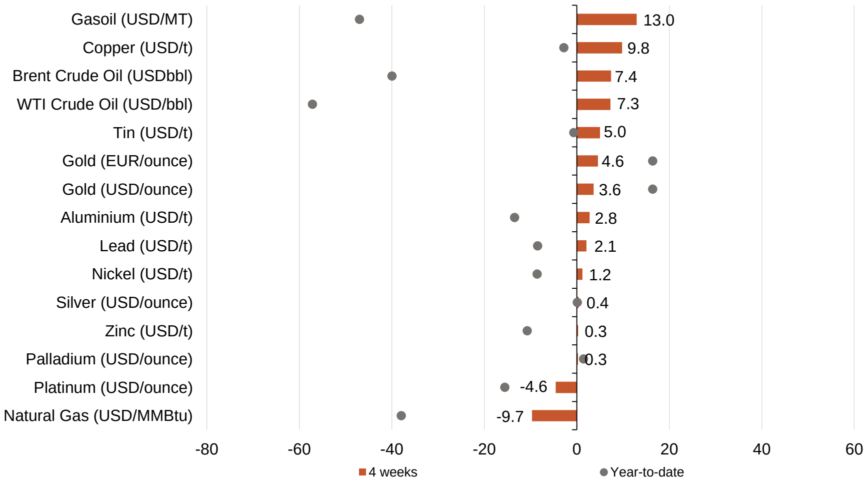
Historical Distribution of Credit Spreads (in bp)



- While spreads on EUR and USD-IG corporate bonds have fallen slightly in the last four weeks, they have remained almost unchanged for EUR high-yield bonds and have even risen significantly for USD high-yield bonds. Some risk-taking investors should see this as an opportunity.

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: 03/07/2010 – 03/07/2020

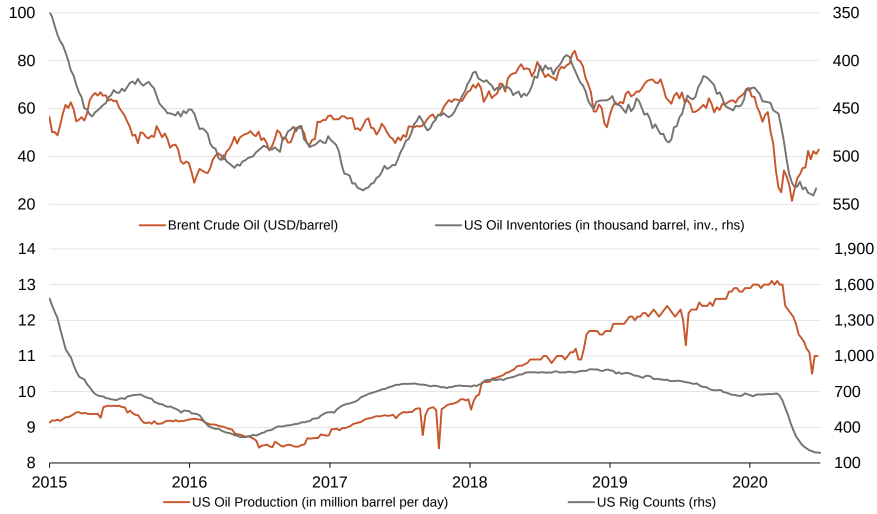
Commodities Performance



- With the exception of natural gas, energy commodities have shown the most positive performance development in the last four weeks.
- However, industrial metals have also gained ground across the board. The biggest winner among metals was copper, due to possible mine closures to combat the coronavirus in Chile, the world's largest copper producer.
- Palladium, silver and platinum, however, which are also used in industrial applications, could not gain.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 - 03/07/2020

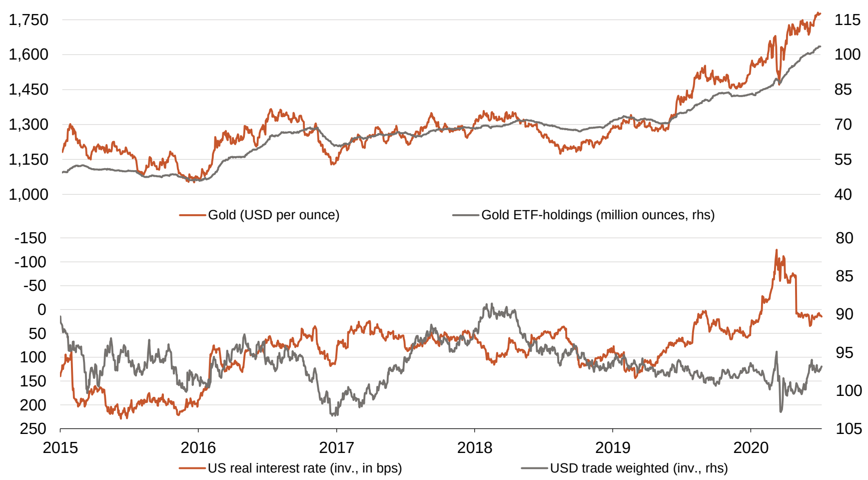
Crude Oil



- In recent weeks, Brent has managed to stay above the USD 40 per barrel mark. The most important supporting factor was OPEC+. At the moment, it appears that all member states are almost completely adhering to their cuts. Production within OPEC fell to its lowest level since 1991, but whether the typical outliers Russia, Iraq and Nigeria will continue to meet their agreed quotas in the coming months is questionable.

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 - 03/07/2020

Gold



- Gold was able to make further gains in the past two weeks and is now trading at around USD 1,775 an ounce. Many investors still seem underinvested. With the high demand for safety, investors are not afraid of the current prices.
- ETF holdings have already risen by almost 25% since the beginning of the year.

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 - 03/07/2020

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IMPORTANT NOTICES

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