BERENBERG
Markets

MONITOR

11 June 2018

Current market commentary

The Nasdaq 100 reached a new record high last week. Since the beginning of 2008, the earnings estimates for US tech companies have risen by an incredible 220 percent. The great financial crisis has thus been more than overcome. The European indices, above all the Euro Stoxx 50, have been unable to keep up. The index has lost more than 20% since 2008, while earnings estimates have even fallen by 30%. And the picture has not improved recently: In the last four weeks, US equities rose, while the Euro Stoxx 50 fell due to concerns about Italy. We do not expect any major upside potential for the European stock markets in the coming months: shrinking central bank balance sheets, tariff discussions and political risks limit the upside. By contrast, cautious sentiment is supportive, as can be seen from the high put/call ratio for the Euro Stoxx 50. Moreover, the euro appreciation drag is fading which is positive for euro zone corporate profits.

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

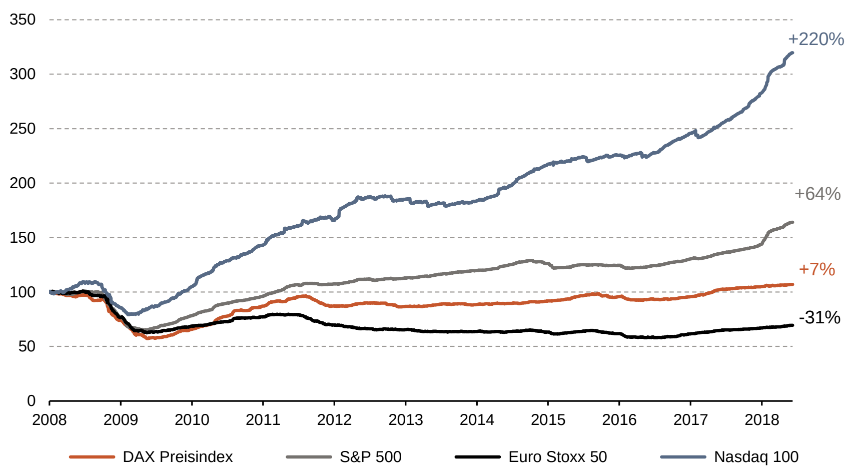
This week holds important decisions ready for investors. On Wednesday, the Federal Reserve meeting takes place and market participants expect the second US interest rate hike of 0.25 bp to 1.75-2.0% this year. The Fed's communication should also be influenced by US consumer prices published the day before. The European Central Bank (ECB) will meet on Thursday, from which market participants expect an exit timetable for the bond purchase program. Politically, the meetings of US President Trump and North Korean leader Kim Jong Un and the discussion and vote of the British House of Commons on the Brexit are scheduled for Tuesday.

The Fed interest rate decision and ECB communication regarding the end of bond purchases will be important this week.

The OPEC meeting is eagerly awaited next week on 20/21 June. So far, the countries participating in the agreement to reduce oil production have expressed contrary opinions on further production policy. The meeting of the Bank of England (BoE) is scheduled for June 21, but no action is expected.

The meetings of OPEC and the BoE will come to the fore next week.

Nasdaq 100 with new record high thanks to rising profits



- The Nasdaq 100 reached a new record high last week: earnings estimates have risen by 220% since the beginning of 2008, while the Nasdaq has returned a good 240%.
- The picture is different for the European stock markets. Earnings estimates for the Euro Stoxx 50 have even fallen by 31% since 2008. It is therefore not surprising that the index also fell in capital terms by 22% in the same period - even though it rose by 9% including dividends.

12-month forward earnings expectations for selected equity indices, indexed, Jan 2008 = 100
Source: Factset, Commerzbank Research; as of 08/06/2018

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (11/05/18 - 08/06/18)	YTD (31/12/17 - 08/06/18)	08/06/17 08/06/18	08/06/16 08/06/17	08/06/15 08/06/16	08/06/14 08/06/15	07/06/13 08/06/14
Industrial Metals	6.8	5.5	24.9	19.6	-20.5	5.7	-5.3
REITs	2.6	-1.5	-5.2	-0.3	9.7	19.9	4.2
Global Convertibles	2.4	7.2	5.3	16.4	-4.6	22.0	14.0
MSCI World	2.1	4.8	7.8	17.4	-2.5	25.0	16.7
USDEUR	1.5	2.0	-4.7	1.6	-0.9	20.9	-3.1
Brent	1.3	20.7	56.9	-17.7	-31.8	-36.0	6.1
Global Coporates	1.0	-0.8	-3.8	3.5	3.9	16.8	2.4
Global Treasuries	0.7	1.5	-3.4	-1.3	10.0	10.4	0.3
Eonia	0.0	-0.2	-0.4	-0.4	-0.2	0.0	0.2
Gold	-0.1	1.7	-3.2	2.9	6.5	13.2	-12.2
MSCI Frontier Markets	-0.2	-1.9	4.1	15.2	-9.6	5.0	24.8
MSCI Emerging Markets	-0.7	0.8	8.5	25.8	-13.0	16.2	5.7

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.

- Most asset classes have gained in euro terms over the last four weeks. A stronger US dollar also helped. Industrial metals, driven by copper and nickel, performed best. Equities gained only slightly after the recovery rally that started in April.
- Frontier markets equities (Argentina) and EM stocks (rising US bond yields), however, declined.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 07/06/2013 - 08/06/2018

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (11/05/18 - 08/06/18)	YTD (31/12/17 - 08/06/18)	08/06/17 08/06/18	08/06/16 08/06/17	08/06/15 08/06/16	08/06/14 08/06/15	07/06/13 08/06/14
Russell 2000	5.8	11.8	14.0	22.8	-5.1	32.4	15.9
S&P 500	3.7	7.1	10.9	19.2	2.7	32.2	17.4
MSCI EM Asia	1.9	4.0	12.0	29.9	-14.3	29.1	7.5
Topix	0.6	4.0	9.5	18.7	-4.3	36.5	9.8
Stoxx Europe Small 200	-0.2	3.1	7.4	17.1	-3.9	13.4	28.1
MSCI UK	-0.3	1.8	6.7	23.1	-4.1	2.3	10.7
Stoxx Europe Defensives	-1.1	2.2	-0.3	7.4	-5.2	13.3	25.5
DAX	-1.8	-1.2	0.4	24.4	-7.7	10.8	21.0
Stoxx Europe 50	-1.9	-1.5	-1.3	14.9	-10.2	12.6	16.7
Stoxx Europe Cyclicals	-2.5	0.5	4.1	24.6	-13.7	10.5	22.1
Euro Stoxx 50	-2.7	0.4	-0.7	21.2	-10.4	8.0	24.4
MSCI EM Eastern Europe	-3.8	-1.8	8.6	16.8	-3.4	-9.8	2.5

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; Russell 2000: Russell 2000 TR (US Small Caps); 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 continue to lead the winners' list for the last four weeks. They increased by 5.8%, while the S&P 500 climbed by just under 4%.
- European equities recently fared much worse. Disappointing economic data and concerns about Italy weighed on investor sentiment.
- Within EM, Asian equities performed significantly better than their Eastern European counterparts.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 07/06/2013 - 08/06/2018

Fixed Income

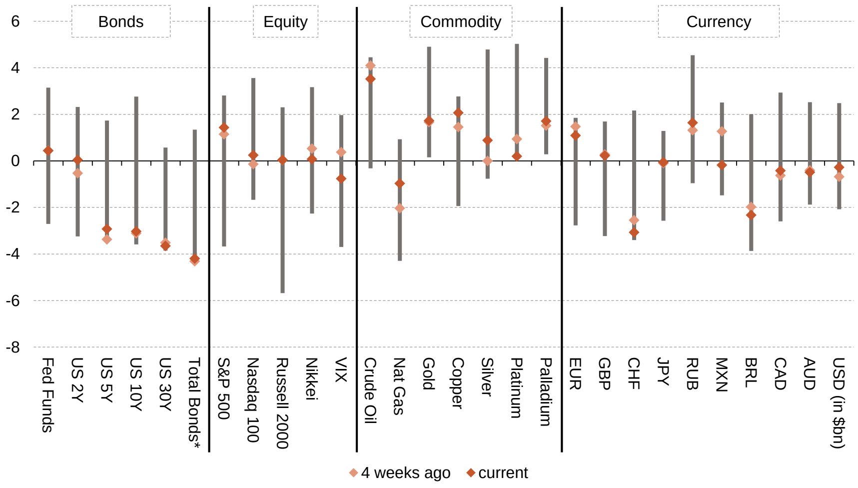
	4-week & YTD		12-month periods over that last 5 years				
	4W (11/05/18 - 08/06/18)	YTD (31/12/17 - 08/06/18)	08/06/17 08/06/18	08/06/16 08/06/17	08/06/15 08/06/16	08/06/14 08/06/15	07/06/13 08/06/14
USD High Yield	2.1	2.6	-2.5	12.6	-0.7	21.7	5.0
Treasuries	2.0	0.4	-6.1	0.9	3.6	24.3	-2.5
USD Corporates	1.5	-1.2	-5.5	4.9	4.3	23.4	1.6
EM Hard Currency Bonds	1.0	-0.7	-4.7	8.7	4.9	18.9	3.0
Bunds	0.9	0.7	-0.2	-1.3	6.8	4.5	2.7
Gilts	0.8	0.0	-2.6	-4.8	2.7	20.8	5.1
EUR Non-Financials	-0.4	-0.7	0.1	1.8	4.4	2.6	5.2
EUR Financials	-0.7	-1.3	0.1	3.1	3.6	2.4	6.1
EUR High Yield	-0.9	-0.9	1.0	6.9	1.3	2.5	9.6
EM Local Currency Bonds	-1.3	-1.7	-4.1	7.5	1.0	7.3	1.2
EUR Inflation Linkers	-2.6	-1.4	1.0	0.3	3.4	0.9	2.1
BTPs	-7.6	-5.8	-4.1	-2.5	7.7	5.5	12.4

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.

- USD high-yield bonds rose 2.1% in the last four weeks, even against a stronger dollar. Robust economic data and their short duration helped. Other USD bonds were also among the winners.
- Italian government bonds came under pressure during the course of the formation of the government in Rome. Investors fear rising debt and, in the worst case, Italy's withdrawal from the euro.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 07/06/2013 - 08/06/2018

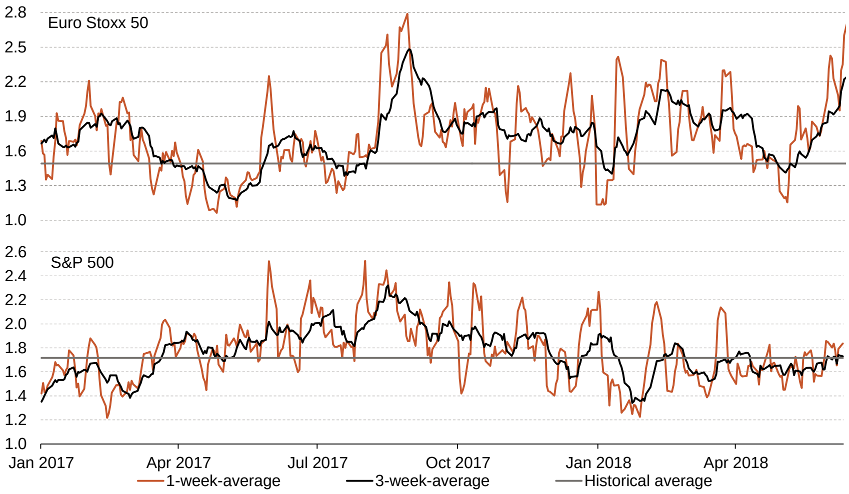
Non-Commercial Positioning



- Speculative investors remain sceptical about long-term US bonds and optimistic about oil. The extreme EUR long position, on the other hand, was reduced further. The USD positioning is correspondingly less short.
- Equity positioning remains moderate.

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: 10/06/2008 - 05/06/2018

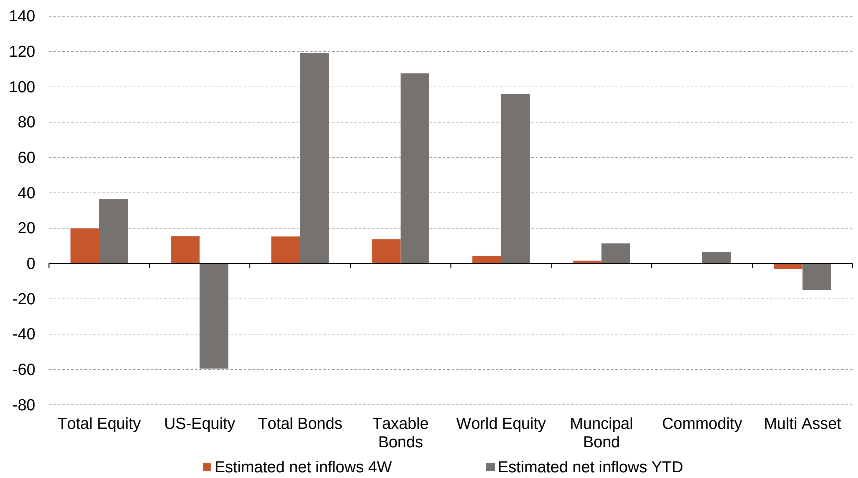
Put-Call Ratio



- In recent weeks, market participants have become increasingly pessimistic about the Euro Stoxx 50. The put-call ratio is well above the historical average.
- Meanwhile, the market participants are not particularly optimistic or pessimistic about the S&P 500.

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 - 08/06/2018

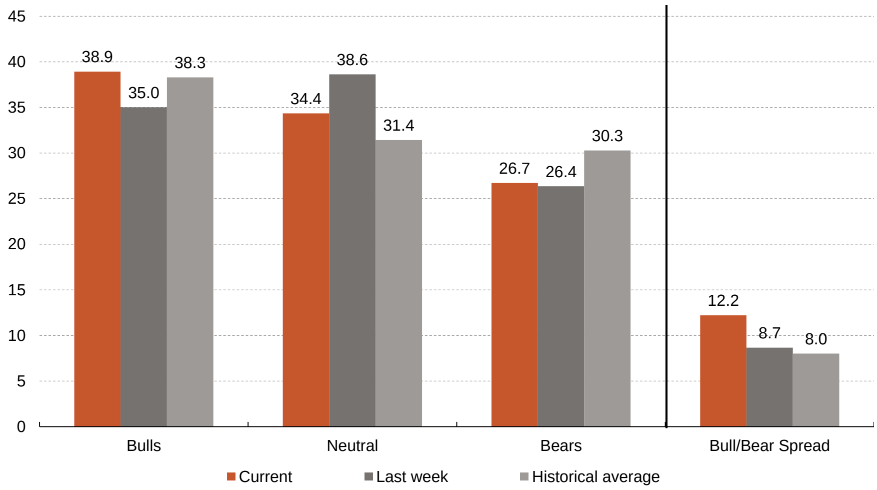
Fund flows



- US investors remain sceptical about multi-asset products. They have sold multi-asset funds worth $3 billion net in the last four weeks.
- In contrast, equities and bonds inflows were 20 and 15 billion US dollars, respectively, over the same period. In particular US stocks saw inflows.
- Investments in raw materials have also recently risen in the US.

Total cash flows estimated by Investment Company Institute (mutual funds and ETFs) of US investors, in USD billions.
Source: Bloomberg, Time period: 03/01/2018 - 30/05/2018

AAII Sentiment Survey (Bulls vs Bears)

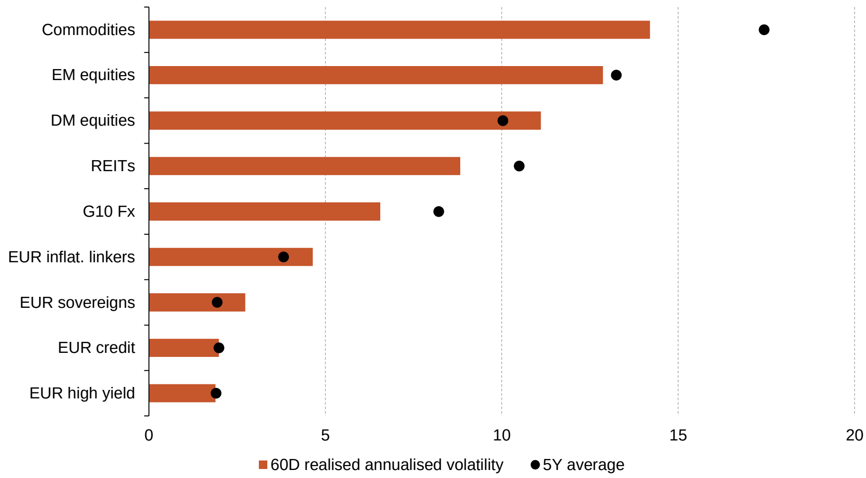


- The share of optimists in the US has increased to 38.9%, while the bear share of 26.7% is historically rather low.
- The bull/bear spread is therefore strongly positive, a warning signal for too much optimism.

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 – 07/06/18

Realised Volatilities

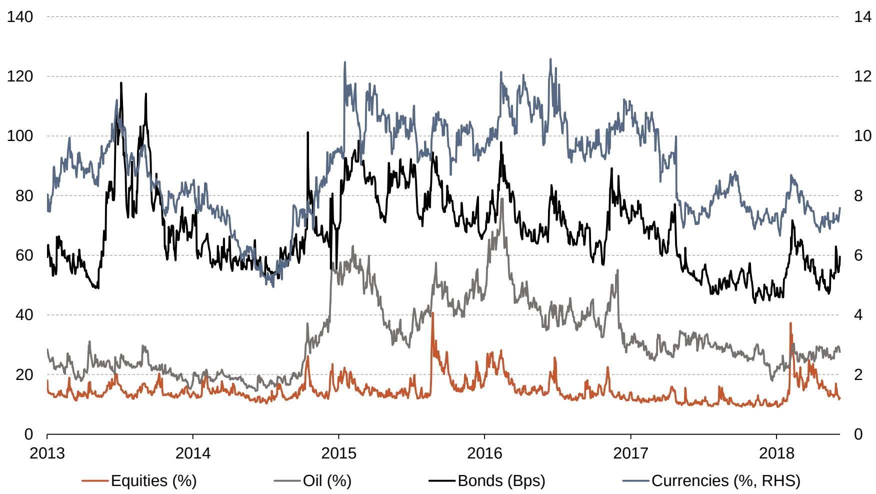


- The last few weeks have left their mark on the bond markets. Government bonds, especially Italian bonds, experienced a sharp increase in volatility due to the risk-on/risk-off behaviour of market participants.
- Meanwhile, the range of swings for EUR inflation linked and for EUR government bonds is above their respective 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: 06/04/2013 – 08/06/2018

Implied Volatilities



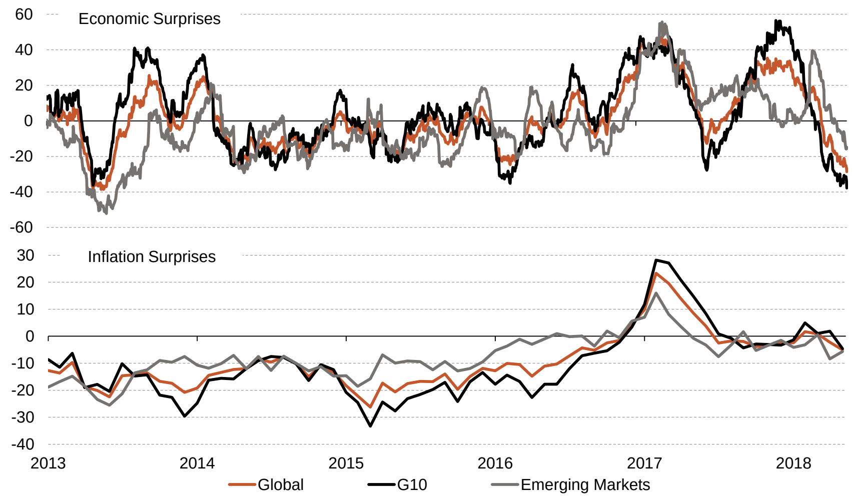
- Implied volatility in the oil market has continued to increase. Possible supply bottlenecks caused by the Iran conflict and Venezuela caused uncertainty in the markets.
- In contrast, the implied volatility of US equities continued to fall. The VIX closed at 12 last week.

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: 01/01/2013 – 08/06/2018

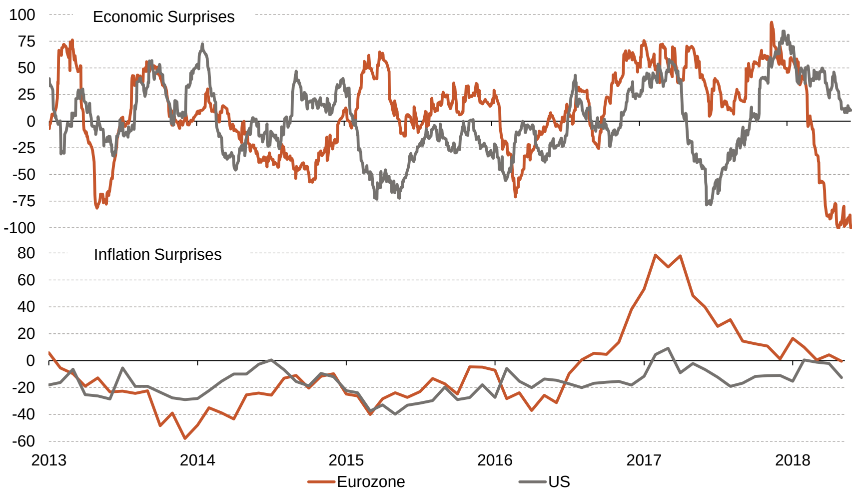
Global



- The negative economic surprises of the G10 countries and the emerging markets have continued in recent weeks. The bottom should be near.
- Emerging markets suffered in particular from high US bond yields and the strong US dollar.
- Inflation data surprised downward in May. G10 countries have recently joined this trend. Inflation fear is currently not an acute issue.

See explanations below.
Source: Bloomberg, Time period: 01/01/2013 - 08/06/2018

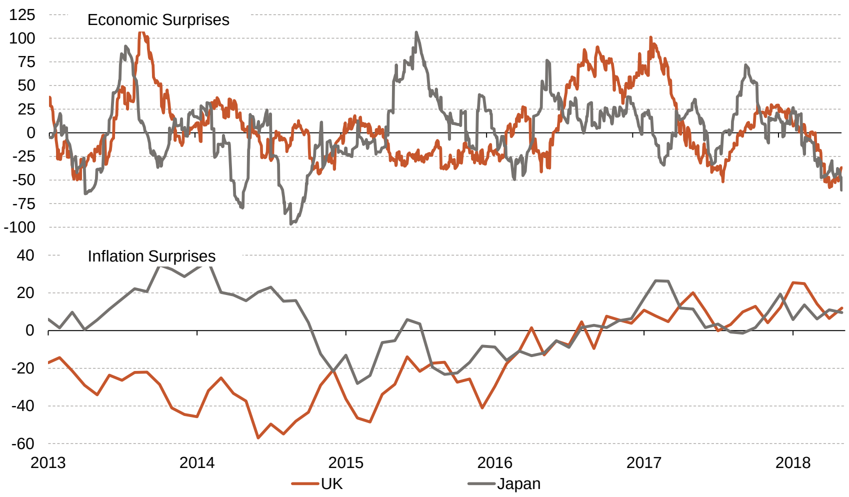
Eurozone and US



- US economic data continued to surprise upwards. The downward trend in positive surprises seems to have been broken. The unemployment rate in May, for example, unexpectedly fell to 3.8%.
- In the euro zone, the negative surprises seem to have bottomed out. In Germany, for example, the unemployment rate unexpectedly fell to 5.2% (5.3% was expected).
- US inflation surprised downwards, while the inflation surprise in the Eurozone (1.9% instead of the expected 1.6%) surprised upwards.

See explanations below.
Source: Bloomberg, Time period: 01/01/2013 - 08/06/2018

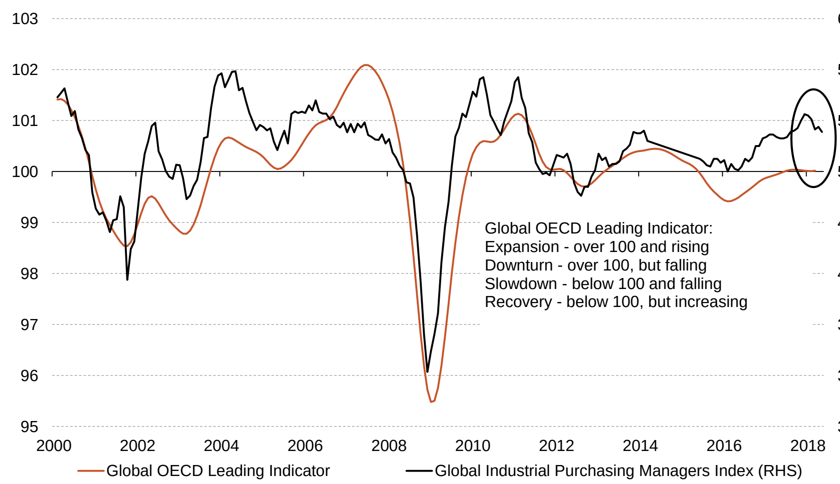
UK and Japan



- In the UK, the negative momentum has eased. Most recently, the purchasing managers' index for industry has surprised upwards.
- Inflation has surprised both in Japan and in the UK - in Japan recently somewhat less.

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: 01/01/2013 - 08/06/2018

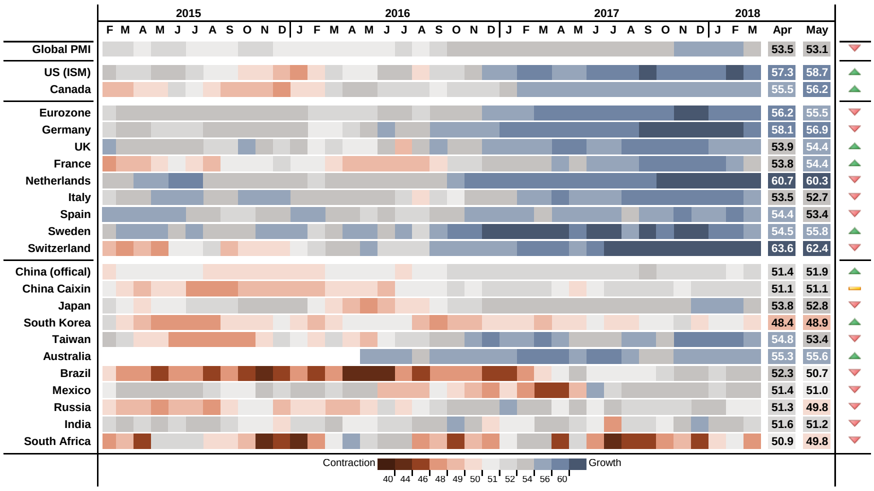
OECD Leading Indicator and Global Purchasing Managers Index



- Although the global economy is still expanding, the mood of industry in the global aggregate is waning.
- The global PMI fell to 53.1 in May (April: 53.5). Political uncertainties around Italy and Spain clouded the picture for Europe while US protectionism is holding the world economy in suspense.

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: 31/01/2000 - 31/05/2018

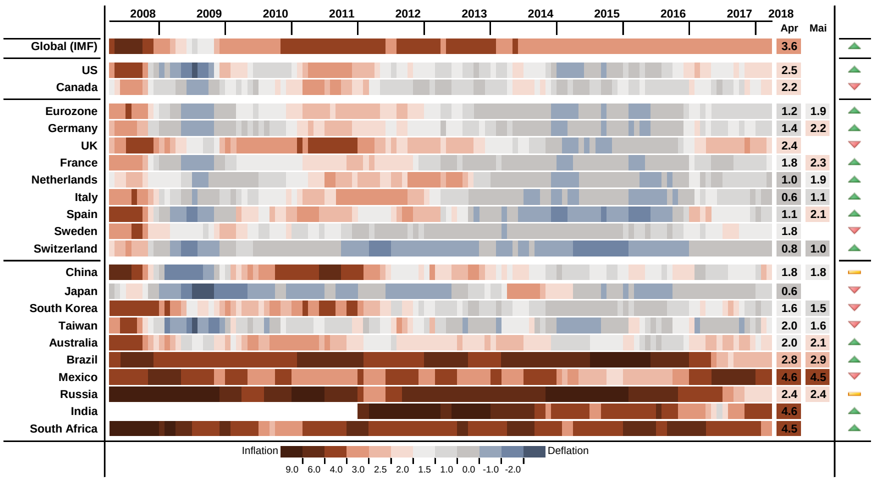
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- In North America, PMIs have recently risen further, the mood among purchasing managers remains very positive.
- In Europe, only Great Britain, France and Sweden were able to convince.
- Contrary to some fears, the mood in China remained (officially) stable with a PMI of 51.1 and 51.9.

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: 31/01/2015 - 31/05/2018

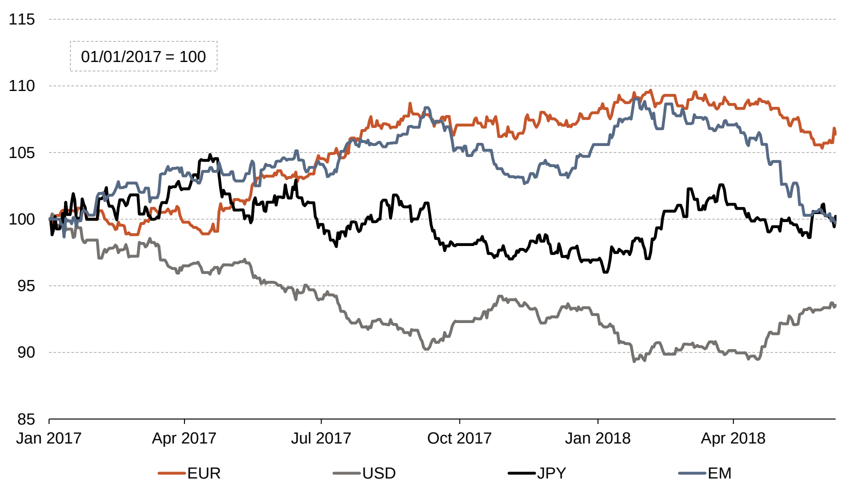
Headline Inflation



- In May, most regions recorded higher inflation, also driven by an oil price base effect and some local currency developments.
- The eurozone is close to the ECB inflation target of 2% with a May inflation rate of 1.9%. However, due to the base effect mentioned above, the ECB should not overweight this figure at its meeting on 14 June.

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: 31/01/2008 - 31/05/2018

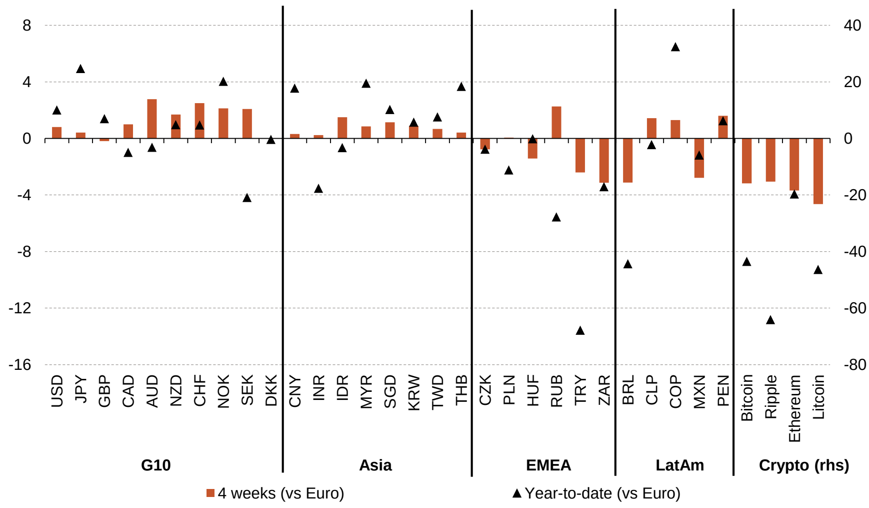
Trade-Weighted Currency Development



- After the appreciation of recent weeks, the trade-weighted US dollar has stabilised.
- After depreciating due to weaker economic data and the formation of the Italian government, the euro has regained strength in recent days.
- The yen was also firmer, while EM currencies remained under pressure.

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: 01/01/2017 - 08/06/2018

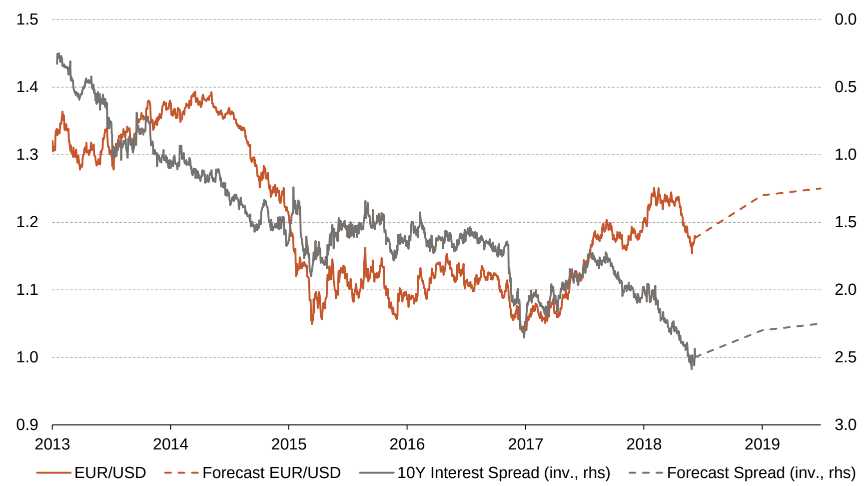
Currency Moves vs Euro



- In the last 4 weeks, the euro depreciated against the G10 and major Asian currencies. This reflects concerns about new risks regarding Italy.
- In recent weeks, the currencies of selected EM countries have been under pressure due to poor data and outflows of funds, in particular the Brazilian real, the Turkish lira, the Mexican peso and the South African rand.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 01/01/2018 - 08/06/2018

EUR/USD exchange rate and interest rate differential



- The interest rate differential between 10-year US Treasuries and Bunds has fallen to 2.4%, but remains high and supports the Dollar.
- As concerns about Italy weakened, the EUR/USD exchange rate rose back to 1.18. If the fundamental data recovers, the euro could appreciate again against the US dollar in the coming months.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US Treasuries and 10-year Bunds.
Source: Bloomberg, Time period: 01/01/2013 - 30/06/2019

European Sector & Style Performance

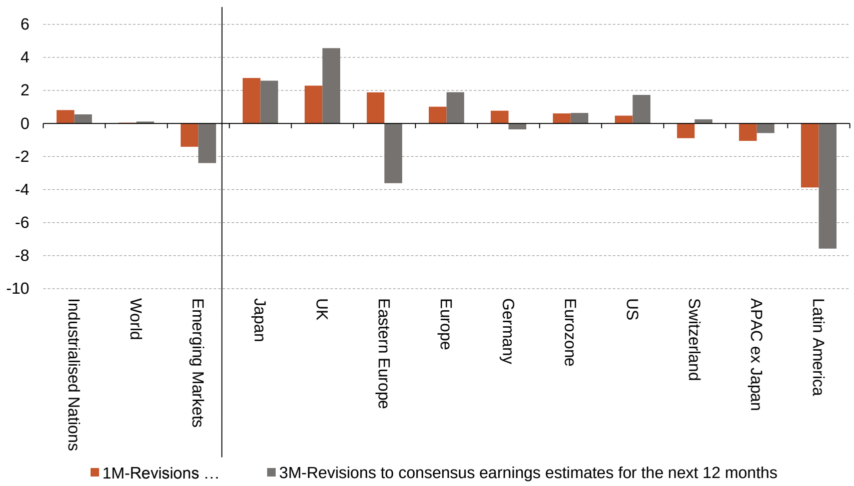
	4-week & YTD		12-month periods over that last 5 years				
	4W (11/05/18 - 08/06/18)	YTD (31/12/17 - 08/06/18)	08/06/17 08/06/18	08/06/16 08/06/17	08/06/15 08/06/16	08/06/14 08/06/15	07/06/13 08/06/14
Information Technology	5.0	12.7	14.8	30.3	-4.3	25.0	15.5
Materials	1.6	5.7	19.4	27.8	-14.6	5.5	15.0
Growth	0.6	2.2	2.6	13.6	-4.3	18.3	15.9
Health Care	0.2	-0.9	-8.3	7.8	-8.4	26.4	20.1
Energy	-0.1	13.4	27.7	11.9	-5.9	-10.3	20.3
Consumer Discretionary	-0.5	5.7	7.4	16.4	-12.1	21.0	23.7
Consumer Staples	-0.7	-5.3	-8.5	9.6	8.0	19.1	9.4
Industrials	-0.7	1.9	2.9	23.6	-3.2	9.7	21.3
Utilities	-3.6	0.6	-4.8	8.8	-2.5	2.9	29.0
Value	-3.6	-0.7	0.6	19.3	-13.0	8.2	24.3
Telecommunications	-4.9	-7.8	-12.0	-0.7	-8.7	20.8	32.1
Finance	-6.7	-5.3	-2.9	25.6	-19.4	12.0	22.9

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 momentum of the technology and basic materials sectors continues. They have been the top performers in the last four weeks.
- With a return of 13.4%, energy is the sector with the best performance since the beginning of the year though it could not continue to gain in the last four weeks.
- European financial stocks lost strongly, dampened by concerns on Italy.

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: 07/06/2013 – 08/06/2018

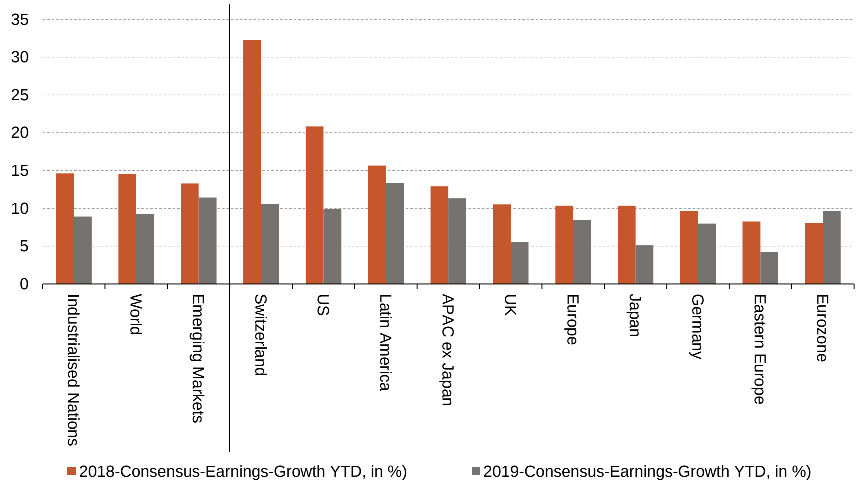
Earnings Revisions



- Japan, the UK and Eastern Europe saw the biggest positive earnings revisions over the past month.
- A weaker euro boosted profit expectations for German and eurozone companies.
- In Latin America, on the other hand, earnings estimates were lowered sharply, not least because of the strike by truck drivers in Brazil, who demanded the re-introduction of a state-regulated oil price.

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 08/06/2018

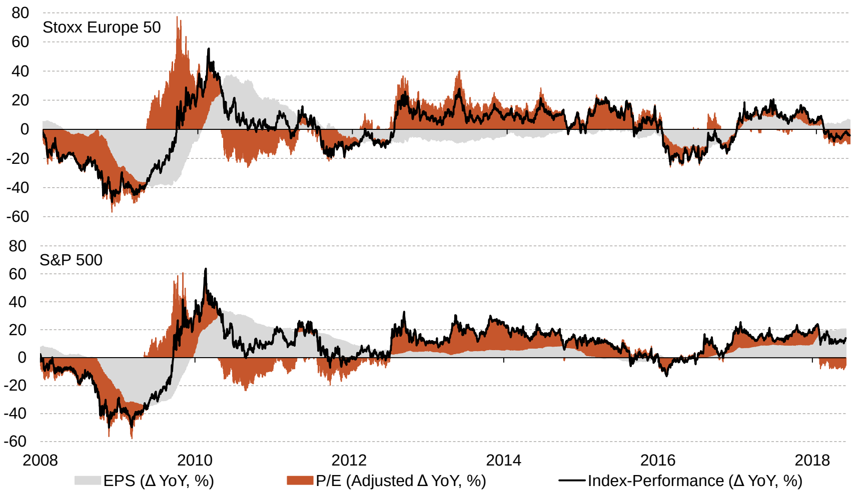
Earnings Growth



- Thanks to positive earnings revisions, expected earnings growth for 2018 is now greater for industrial nations than for emerging markets.
- The euro area remains the only region with higher expected profit growth for 2019 than 2018, with the lowest profit growth expected for the euro area in 2018, followed by Eastern Europe and Germany.

Calendar year earnings growth expected by 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 08/06/2018

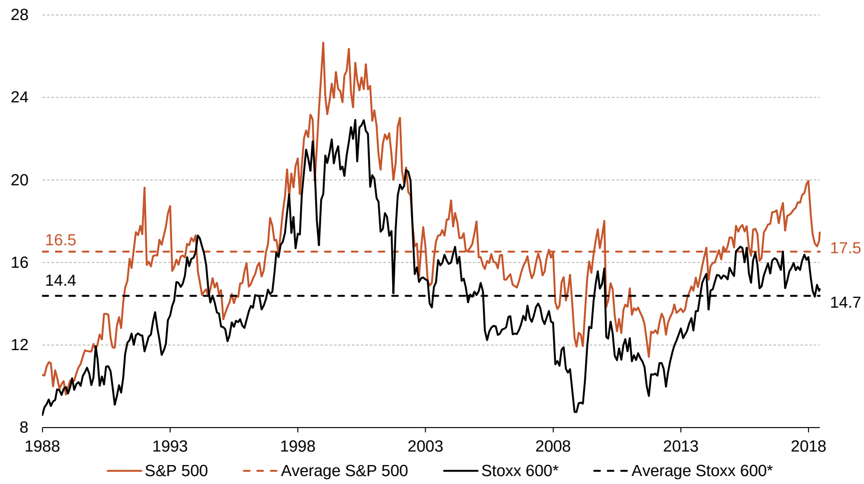
Contribution Analysis



- Despite rising earnings expectations, European stocks have fallen over the last twelve months. The P/E ratio has declined accordingly.
- The picture is different in the US: although the valuation has become more attractive over the past twelve months, it is only because earnings estimates have risen more strongly than the S&P 500.

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: 01/01/2008 - 08/06/2018

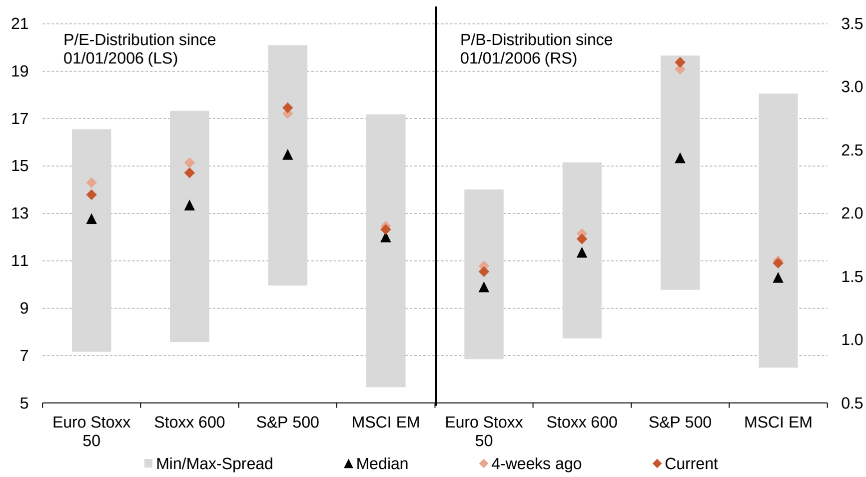
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The 12 month forward P/E ratio for the S&P 500 is now 17.54 and thus only slightly more expensive than the historical average.
- The situation is similar for European equities. Although they are significantly cheaper than their US counterparts, they are also valued slightly more ambitiously than their own history. The P/E ratio stands at 14.7

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, Time period: 31/12/1987 - 08/06/2018

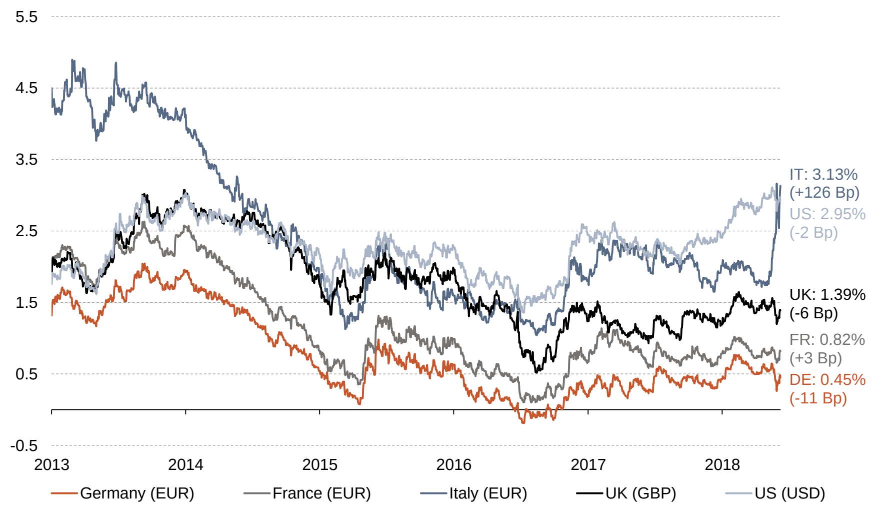
Historical Distribution: Price/Earnings and Price/Book Ratio



- Valuations have not changed much recently. The Euro Stoxx 50 saw the biggest change and has now become cheaper than four weeks ago thanks to rising profit expectations.
- Emerging markets equities are the cheapest in comparison with all other regions and in comparison with their own history - US equities appear to be the most expensive.

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 - 08/06/2018

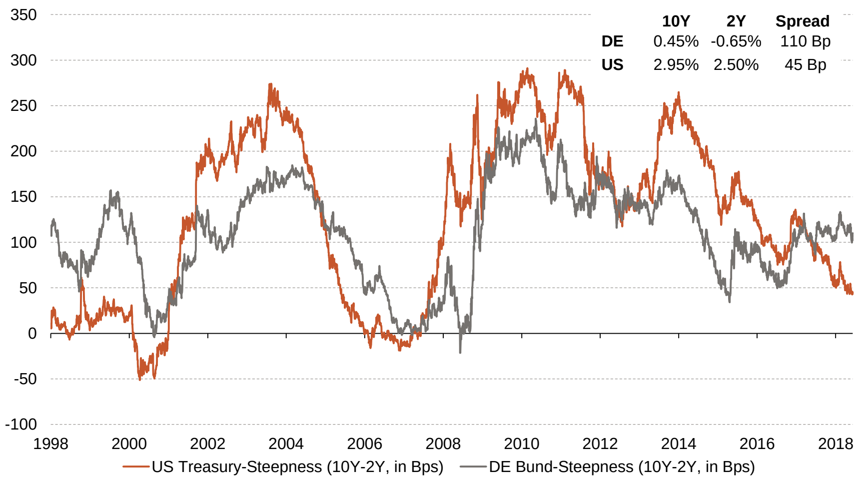
10-Year Government Bond Yields



- The bond market is marked by the vacillation of market participants between risk-on and risk-off. Italy's populist government is currently stirring up fears of another euro crisis.
- As a result, yields on 10-year Italian government bonds rose sharply. On the other hand, safe havens such as Germany lost ground. The bond market has calmed down slightly in recent days, but should remain very volatile.

Effective yield of 10-year government bonds and change in the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2013 - 08/06/2018

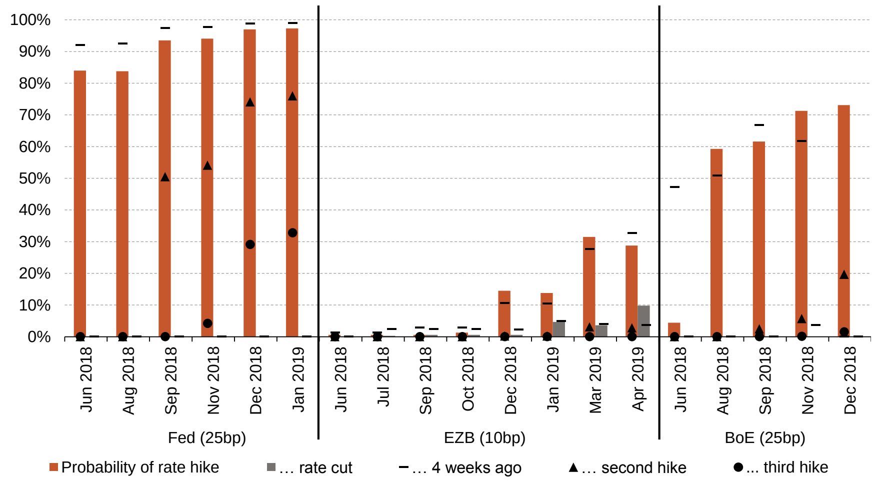
Yield curve steepness (10Y - 2Y)



- The difference in steepness between the US and German yield curves has increased further. The announcement of the end of the ECB's bond purchases could temporarily pause this trend.
- The steepness of the US yield curve remained close to 50 bp and is therefore still a long way from inverting.
- In Germany there was a small expansion to 110 basis points.

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 - 08/06/2018

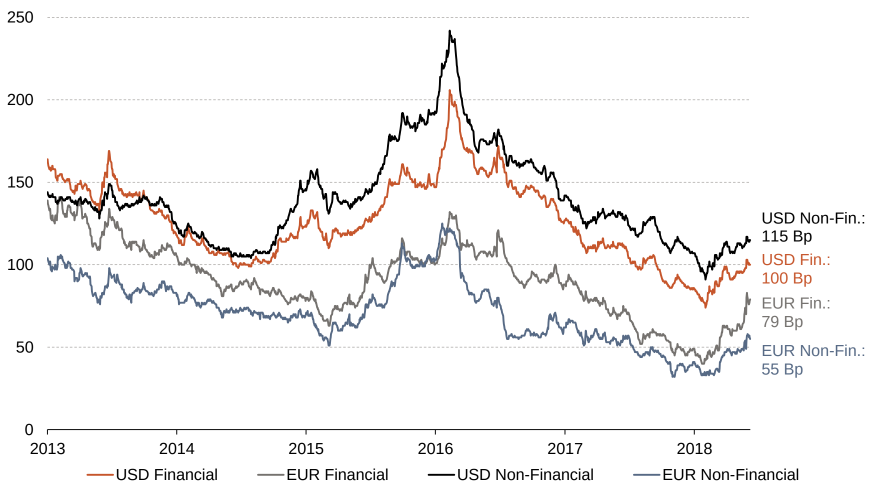
Implicit Probabilities for Changes in Key Interest Rates



- The ECB will discuss the end of the bond purchase programme on 14 June. Possible consequences: rising yields.
- Positive economic data, falling unemployment and rising consumer spending confirm the Fed's interest rate hike. An interest rate hike is priced in at ~85% on 13th of June.
- After good PMI values, the probability of an August BoE interest rate hike increased from ~50% to ~60%.

Derivatives on money market rates - such as the Fed funds futures - can be used to determine the probability of a change in the key interest rate priced by the market
Source: Bloomberg, Time period: 11/05/2018 - 08/06/2018

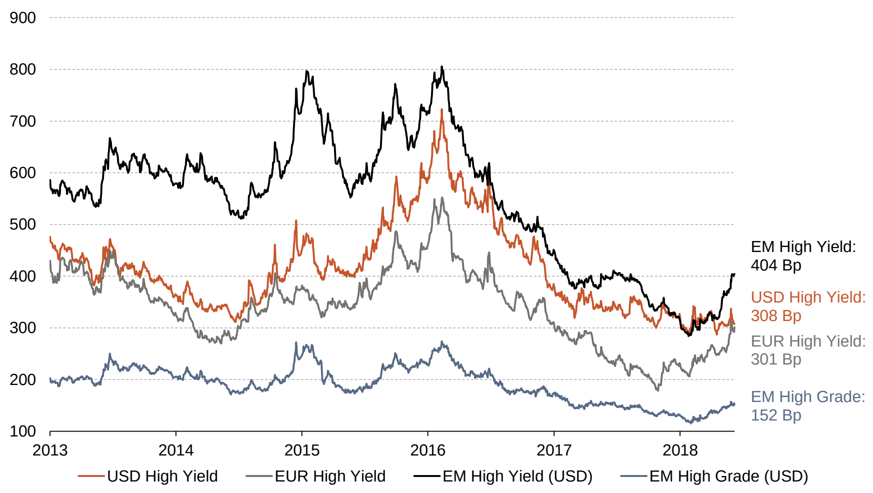
Credit Spreads Financial and Non-Financial Bonds



- Risk premia have continued to rise, even though they have recently fallen somewhat.
- EUR financial bonds recorded the largest widening of spreads, driven by the insurance and banking industries, due to the fall in prices of government bonds from the euro periphery.
- In EUR corporate bonds, after deteriorating economic prospects, the utilities and auto industries have increasingly contributed to rising risk premia.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2013 - 08/06/2018

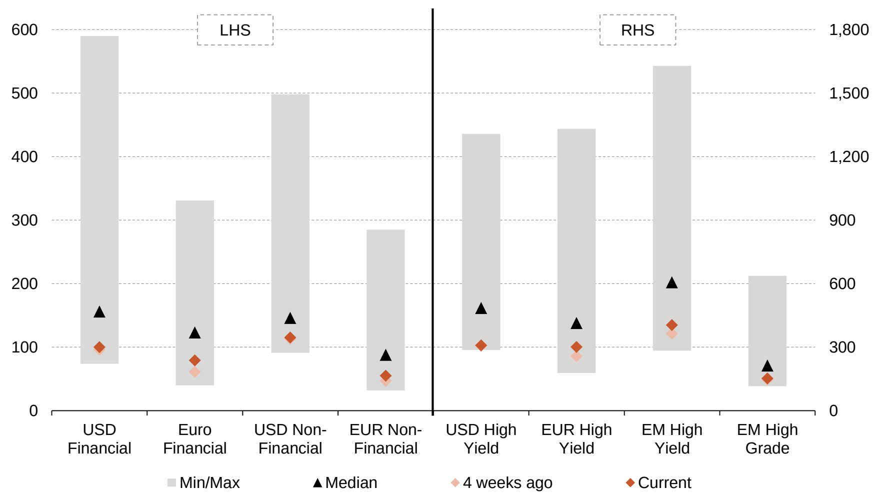
Credit Spreads High Yield and Emerging Markets Bonds



- EM High Yield Spreads reached a new annual high of 404 basis points.
- While USD High Yield has seen risk premia fall in the last two weeks, EUR High Yield risk premia have risen. The reasons are known: Political uncertainties in the euro area and disappointing economic data.
- EM High Grade remained stable.

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: 01/01/2013 - 08/06/2018

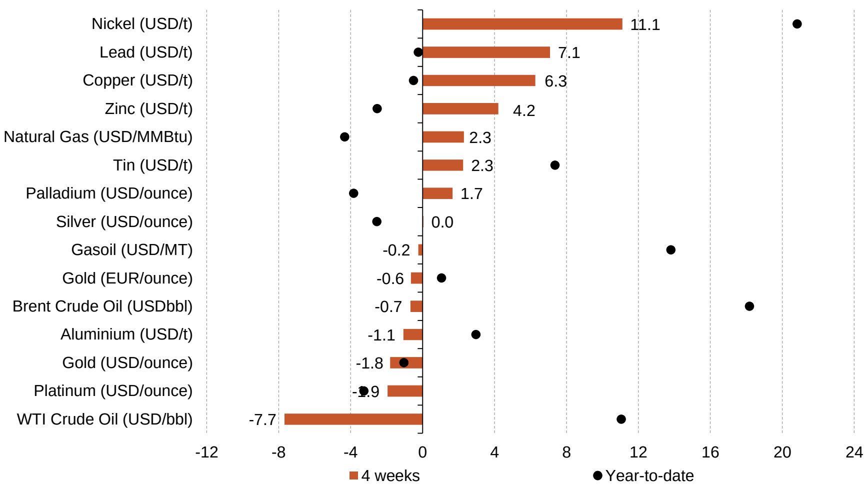
Historical Distribution of Credit Spreads (in bp)



- Increasing risk aversion in markets stopped the spread narrowing for investment-grade bonds, while in particular EUR high-yield bonds recorded higher risk spreads.
- EUR bonds and EM high-yield bonds have become significantly cheaper than 4 weeks ago.

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: 06/06/2008 - 08/06/2018

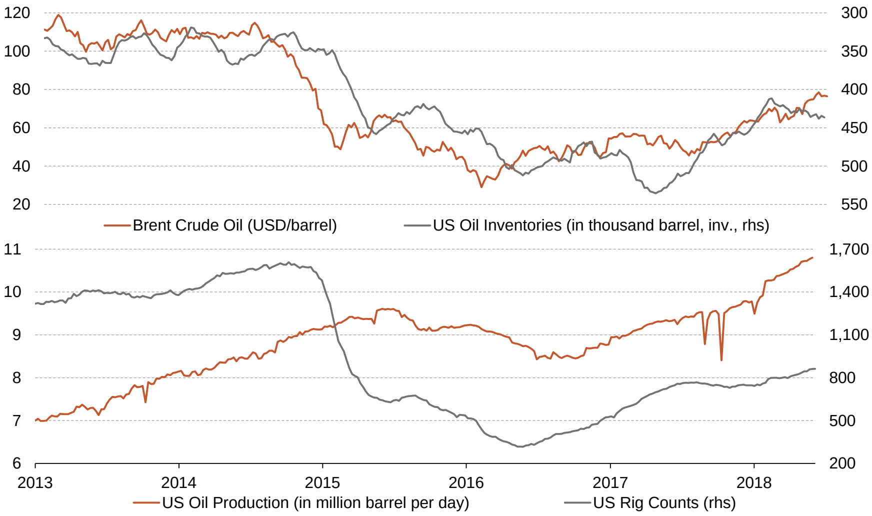
Commodities Performance



- The industrial metals segment recorded the largest gains among commodities in recent weeks. The stronger Chinese import and PMI data played a role here.
- Precious metal prices remained comparatively stable.
- WTI crude oil came under pressure due to rising US inventory data and record US crude oil production.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2018 - 08/06/2018

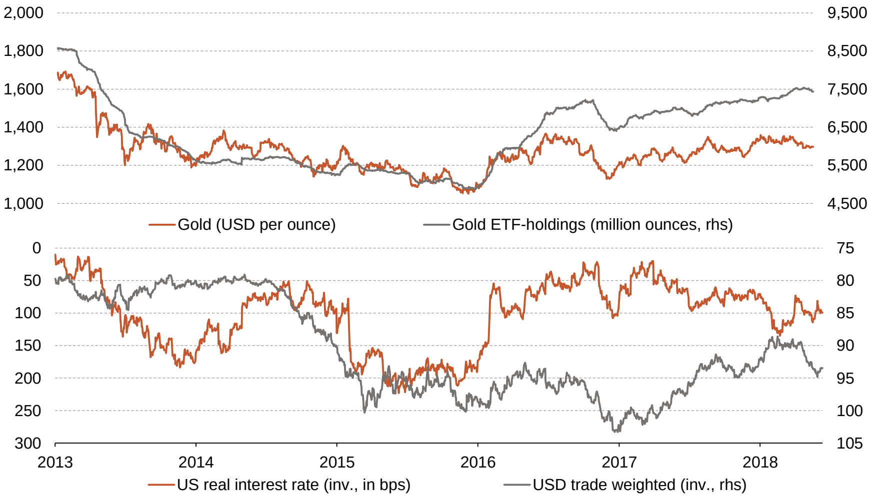
Crude Oil



- The price of Brent oil fluctuated sideways around USD 75 per barrel, supported by OPEC's low supply. The continuing decline in Venezuela's oil exports also effected prices.
- The price difference between Brent and WTI crude oil continued to increase. Record US production, higher net imports and well-filled US inventories weighed on WTI oil.

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: 01/01/2013 - 08/06/2018

Gold



- The gold price continues to struggle with the USD 1,300 per ounce mark, just below the 200-day line.
- USD appreciation and lower risk aversion have recently had a negative impact. Counter-intuitively, political risks have not had their expected price-supporting effect. Before the next Fed interest rate decision, market participants are holding back.

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: 01/01/2013 - 08/06/2018

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