Current market commentary

Growth fears as well as the Brexit and Italian risks continue to weigh on the markets. In particular, the oil price, technology stocks and cyclical stocks suffered (p. 8). Stock markets are once again testing the lows of October. However, the main indices appear to be stabilizing recently. Pessimism is now widespread. The number of pessimistic investors in the US has risen to over 47% (p. 4), the highest level since the beginning of 2016. In addition, speculative investors are again positioned net long in volatility (p.3). The stock market is already anticipating a further significant slowdown in economic growth (see chart below). If we add a US dollar that has moved away from its top, emerging market currencies and equities that are recovering, and the more dovish comments of regional Fed presidents, the stock market recovery we expect to see at the end of the year and into the new year is still likely to come.

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

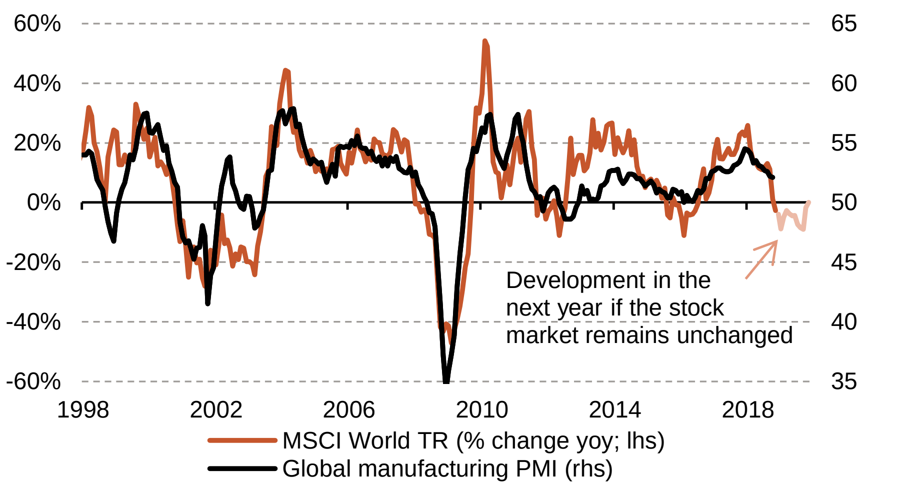
Even after the EU special summit, Brexit remains a risk factor, especially as the outcome of the negotiations still has to be approved by the British Parliament. The initiated EU deficit proceedings against Italy and its draft budget for 2019 are also likely to cause unrest for some time to come. However, market participants should look ahead to the G-20 meeting in Argentina, where the US and China will be discussing trade issues. Progress in the negotiations could prevent a further escalation of the trade dispute with an increase in US tariffs at the turn of the year.

Brexit, Italy and the trade dispute between the US and China dominate the headlines.

This week, the focus is likely to be on German and US consumer confidence, US income, price and unemployment data, as well as European consumer prices. Attention will also be focused on the OPEC meeting on 6 December and the question of whether and to what extent oil production will be reduced in order to curb oversupply and price erosion.

Inflation and growth data as well as the OPEC meeting are in focus.

Stock market already pricing in significant slowdown in growth



- The global Manufacturing Purchasing Managers' Index (PMI), as an indicator of economic growth, correlates strongly with the performance of the global stock market.
- With the recent losses, equities are already pricing in a further significant decline in the global PMI to or below the stagnation level of 50.
- If the PMI develops as in 2011/12 or 2015/16, i.e. if growth weakens but there is no recession, equities offer upside potential.

01/01/1998 - 23/11/2018
Source: Bloomberg, As of 23/11/2018

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (26/10/18 - 23/11/18)	YTD (31/12/17 - 23/11/18)	23/11/17 23/11/18	23/11/16 23/11/17	23/11/15 23/11/16	23/11/14 23/11/15	22/11/13 23/11/14
REITs	4.2	2.9	1.2	-0.4	-1.9	16.5	26.8
MSCI Emerging Markets	3.8	-9.3	-10.0	22.7	4.8	0.1	11.4
MSCI Frontier Markets	2.2	-9.7	-7.6	15.0	-1.4	-1.5	25.4
Global Convertibles	0.7	3.6	1.6	5.6	4.4	14.9	15.2
USDEUR	0.6	5.9	4.5	-11.0	0.8	16.5	9.4
MSCI World	0.3	1.4	2.5	9.1	3.4	16.1	19.3
Global Treasuries	0.3	3.0	1.6	-5.1	3.9	11.6	7.7
Eonia	0.0	-0.3	-0.4	-0.4	-0.3	-0.1	0.1
Global Coporates	-0.1	1.6	0.8	-3.0	3.4	12.5	13.2
Gold	-0.2	-0.5	-1.0	-3.2	12.0	3.7	5.7
Industrial Metals	-1.8	-10.7	-7.5	3.5	34.3	-25.4	15.1
Brent	-23.7	-0.9	3.8	7.2	-8.1	-44.3	-19.6

MSCI World: MSCI World Net Return; MSCI Emerging Markets: MSCI EM Net Return; MSCI Frontier Markets: MSCI Frontier Markets Net Return;
REITs: MSCI World REITs Index; Global Treasuries: Bloomberg Barclays Global Agg Treasuries TR; Global Corporates: Bloomberg Barclays Global Aggregate Credit TR
Global Convertibles: Bloomberg Barclays Global Convertibles Composite TR; Gold: Gold US Dollar Spot; Brent Crude: Bloomberg Brent Crude Subindex TR;
Industrial Metals: Bloomberg Industrial Metals Subindex TR; Eonia: Eonia Capitalizaiton Index; USDEUR: Price of 1 USD in EUR.

- Over the last four weeks, REITs led the winners list, followed by emerging and frontier stocks.
- Despite the recent losses, most asset classes remained virtually unchanged month-on-month. Developed markets equities gained slightly.
- Industrial metals suffered from growth concerns, while the oil price plummeted due to oil oversupply and declining positioning.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 22/11/2013 - 23/11/2018

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (26/10/18 - 23/11/18)	YTD (31/12/17 - 23/11/18)	23/11/17 23/11/18	23/11/16 23/11/17	23/11/15 23/11/16	23/11/14 23/11/15	22/11/13 23/11/14
MSCI EM Asia	4.7	-10.2	-11.9	27.1	4.6	8.4	15.0
MSCI EM Eastern Europe	3.7	2.8	2.0	16.3	8.5	-1.7	-13.8
Stoxx Europe Defensives	2.9	2.1	2.2	13.0	-12.9	10.4	16.6
Topix	1.0	-4.0	-4.4	12.4	2.3	30.2	7.6
Russell 2000	1.0	3.9	3.4	2.5	16.1	19.0	15.4
Stoxx Europe 50	0.7	-6.1	-5.8	16.1	-10.3	9.6	9.6
MSCI UK	0.6	-5.8	-2.2	12.9	12.4	-3.9	4.6
Stoxx Europe Small 200	0.4	-8.9	-6.7	21.4	-6.0	19.6	7.2
Euro Stoxx 50	0.1	-8.2	-9.9	20.7	-9.4	10.6	7.4
DAX	-0.1	-13.4	-14.0	22.0	-3.9	14.0	5.6
Stoxx Europe Cyclicals	-0.2	-12.3	-11.1	19.2	-3.9	9.3	6.7
S&P 500	-0.3	6.3	7.5	7.6	8.7	20.4	27.5

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.

- Within equities, emerging markets and defensive European equities performed best. These gained slightly over the last four weeks.
- The S&P500, which has shown the best performance since the beginning of the year, suffered the biggest losses due to the strong correction in the IT sector.
- Due to growth concerns, cyclical European equities and the DAX recorded more noticeable losses in the meantime.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 22/11/2013 - 23/11/2018

Fixed Income

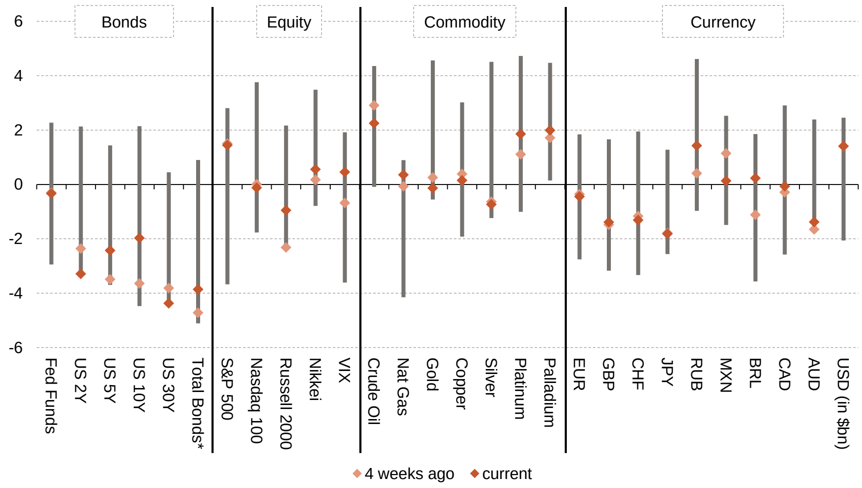
	4-week & YTD		12-month periods over that last 5 years				
	4W (26/10/18 - 23/11/18)	YTD (31/12/17 - 23/11/18)	23/11/17 23/11/18	23/11/16 23/11/17	23/11/15 23/11/16	23/11/14 23/11/15	22/11/13 23/11/14
EM Local Currency Bonds	1.8	0.6	0.9	1.5	3.0	3.0	10.6
BTPs	0.9	-5.4	-6.8	4.6	-1.7	7.2	13.1
Treasuries	0.3	-1.4	-1.6	2.4	1.1	1.6	3.5
USD Corporates	0.0	2.4	0.9	-4.7	4.8	17.6	16.3
Bunds	0.0	1.7	1.0	-0.4	2.9	3.0	7.7
EM Hard Currency Bonds	-0.2	3.1	1.8	-2.5	7.4	16.0	14.3
Gilts	-0.4	-0.5	0.5	-1.2	-11.1	17.6	15.8
USD High Yield	-0.6	6.0	4.8	-3.6	11.1	11.8	13.9
EUR Financials	-0.7	-1.6	-1.8	4.2	2.7	1.3	7.0
EUR Non-Financials	-0.8	-1.3	-1.6	2.9	3.9	0.0	7.8
EUR Inflation Linkers	-1.1	-2.7	-3.1	4.3	0.0	2.1	4.6
EUR High Yield	-1.4	-2.5	-2.6	6.8	3.4	2.4	5.0

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.

- Within bonds, local currency emerging market government bonds as well as US and Italian government bonds performed best.
- USD and EUR corporate bonds lost ground due to rising credit spreads in the wake of current growth concerns. This development was even more pronounced for USD and EUR high-yield bonds, which lost more value.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 22/11/2013 - 23/11/2018

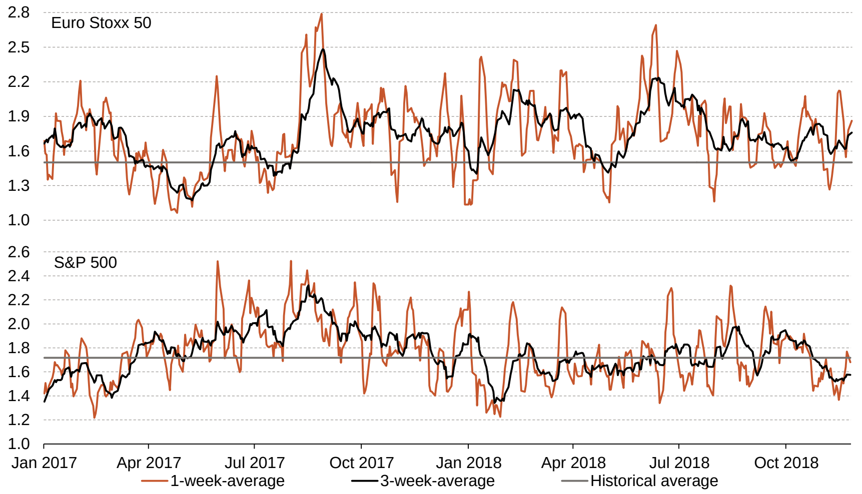
Non-Commercial Positioning



- In 10-year US bonds, investors have reduced their short positions and contributed to falling yields.
- Risk positions have recently been reduced in view of the higher volatility. The VIX Future Position has risen into the net-long area.

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: 23/11/2008 - 20/11/2018

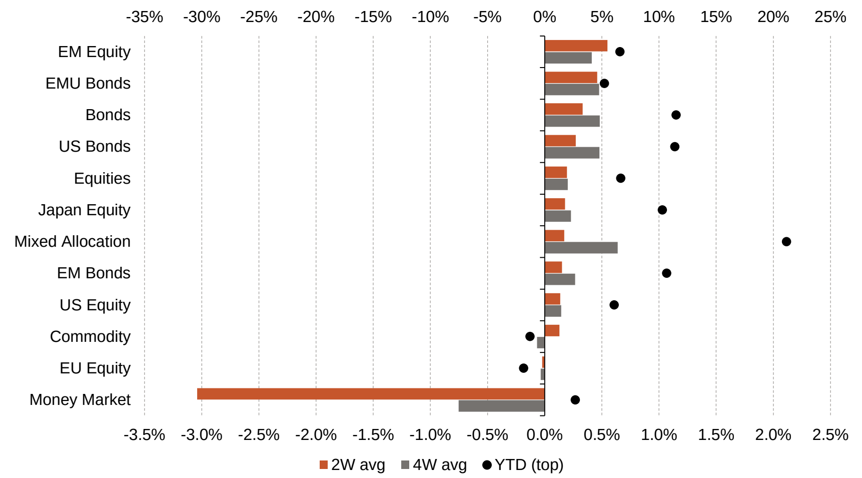
Put-Call Ratio



- Put call ratios for the Euro Stoxx 50 have recently risen again. The 1- and 3-week averages are at a historically elevated level and signal a slight pessimism.
- In the US, the averages of put call ratios have also increased. However, the 3-week average is still below the historical average, signaling thus no elevated investor bearishness.

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 - 06/04/2018

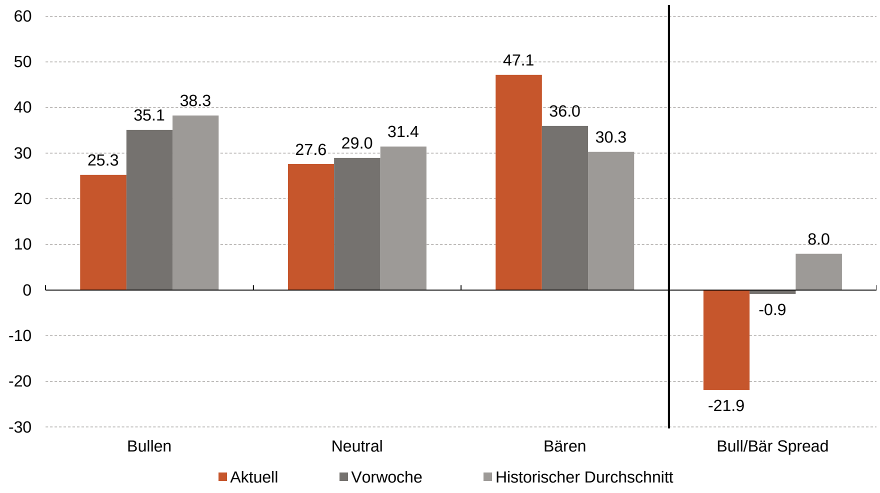
ETF Flows



- Investors seem to see current levels as a buying opportunity in almost all asset classes. They withdrew funds from the money market. Emerging market equities and multi-asset products recorded the largest ETF inflows.
- In terms of equity regions, investors preferred emerging markets and the US. European equities, on the other hand, even recorded slight ETF outflows.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2017 - 23/11/2018

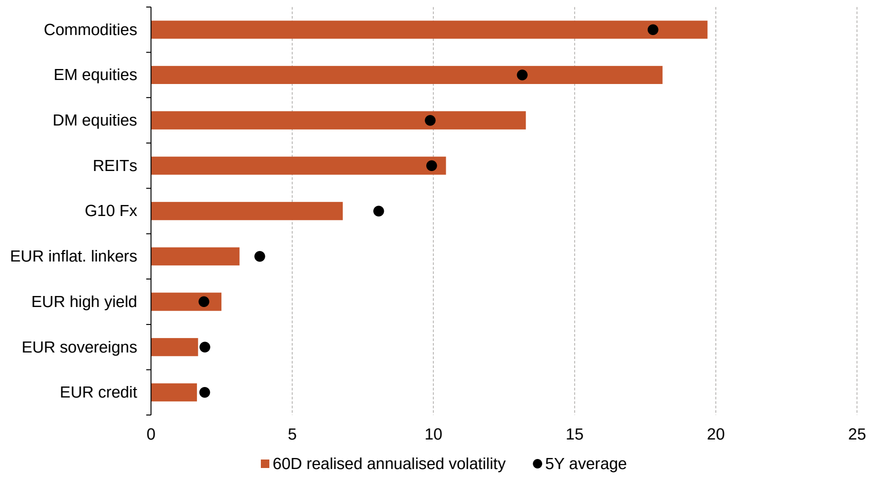
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment of US private investors has deteriorated significantly with the recent losses. The proportion of bears is as high as it was at the beginning of 2016.
- The significantly higher proportion of pessimists than optimists signals that many negative news items already seem to have been priced into the markets.

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 - 23/11/18

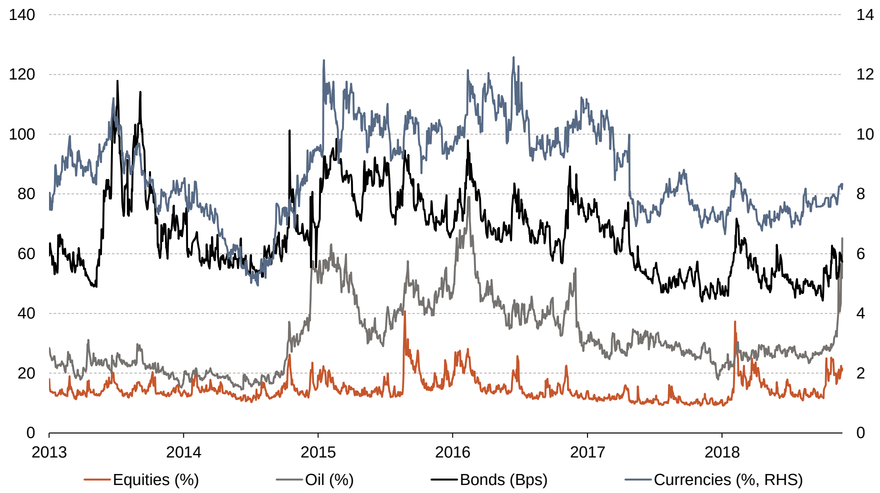
Realised Volatilities



- Commodities are the most volatile asset class due to recent oil price jumps, closely followed by emerging market equities.
- In the case of commodities, emerging market and industrial countries equities, REITs and EUR high-yield bonds, the realised volatility is above the own 5-year average.
- EUR corporate and government bonds have the lowest volatility of any of the investment classes presented here.

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: 23/11/2013 - 23/11/2018

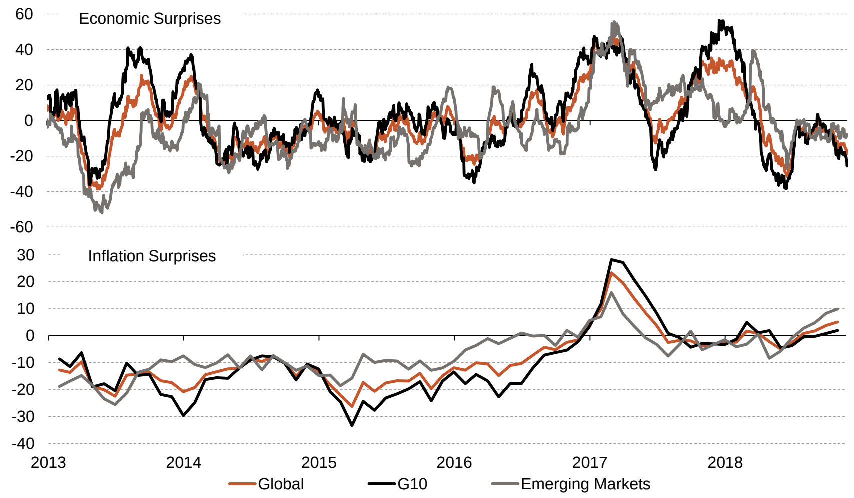
Implied Volatilities



- With the recent drop in prices, implied volatility in oil has exploded. In the course of the risk-off environment, however, the volatility of equities and government bonds has also increased.
- The numerous political risks and the declining central bank support should lead to more volatility peaks.

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 - 23/11/2018

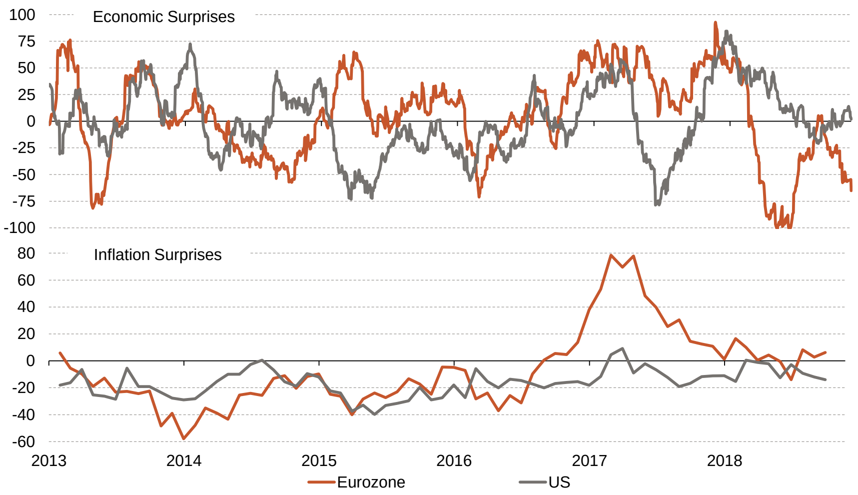
Global



- Economic data in the G10 countries as well as in emerging markets and at the global level has continued to surprise to the downside. However, the negative level of two weeks ago could be mostly maintained.
- Emerging markets: The Thai economy grew more slowly than expected in Q3 (3.3%). The Turkish economy fell by 2.7% year-on-year. On the other hand, industrial production in China rose by 5.9% in October.

See explanations below.
Source: Bloomberg, Time period: 01/01/2013 - 23/11/2018

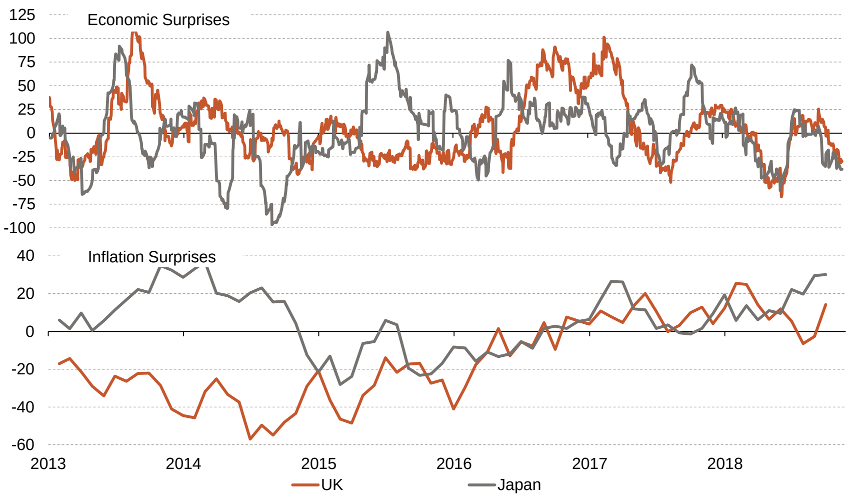
Eurozone and US



- The gap between the US economy and the euro zone remains. Consumers and industry in the USA continue to be in excellent mood, while in the third quarter Germany recorded negative economic growth for the first time since March 2015 compared with the previous quarter at -0.2%.
- Inflation data in the USA remain below expectations. However, inflationary pressure could come from rising wages, which rose by 3.1% year-on-year in October.

See explanations below.
Source: Bloomberg, Time period: 01/01/2013 - 23/11/2018

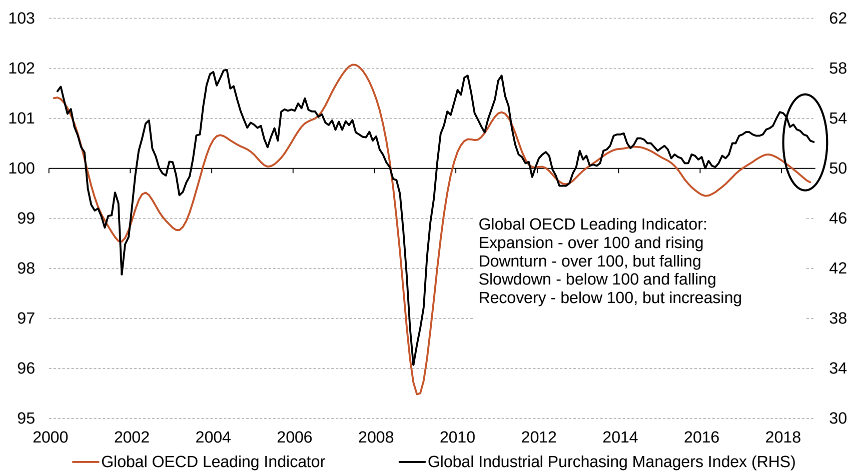
UK and Japan



- As expected, Japan's Q3 GDP fell by 0.3% compared to the previous quarter and October exports rose by 8.2% year-on-year.
- In the United Kingdom, the unemployment rate rose to 4.1% in September (4.0% 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: 01/01/2013 - 23/11/2018

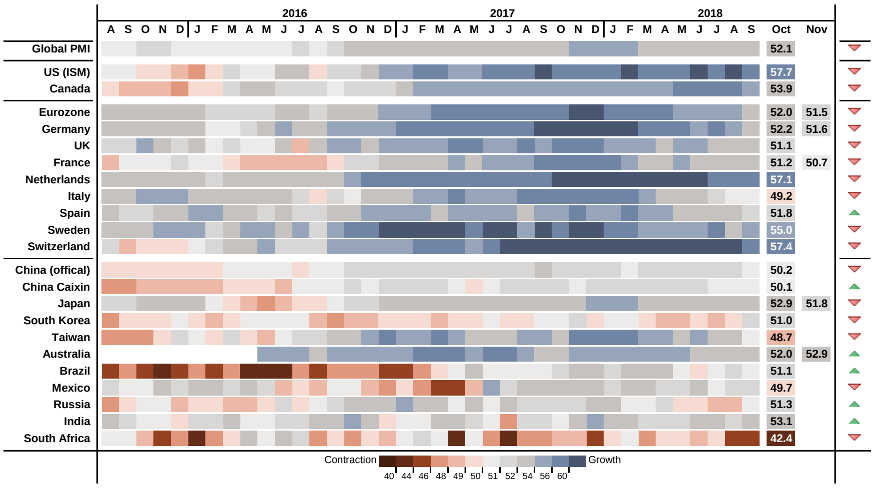
OECD Leading Indicator and Global Purchasing Managers Index



- Leading indicators are likely to continue to fall for the time being, for example the European purchasing managers' indices continued to fall in November.
- Developments such as rising house prices in China provide hope for a recovery. These suggest that monetary and fiscal stimulation is beginning to work there.

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 - 31/10/2018

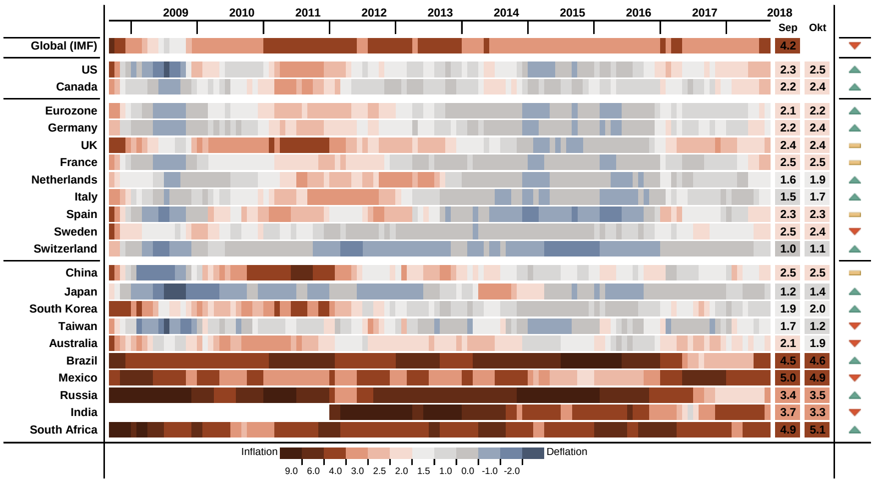
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- Global industrial sentiment has weakened slightly, but continues to signal solid growth.
- In China, sentiment has stabilized close to the 50s threshold.
- Italy, Taiwan and Mexico notable are negative with values below 50.

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 - 31/10/2018

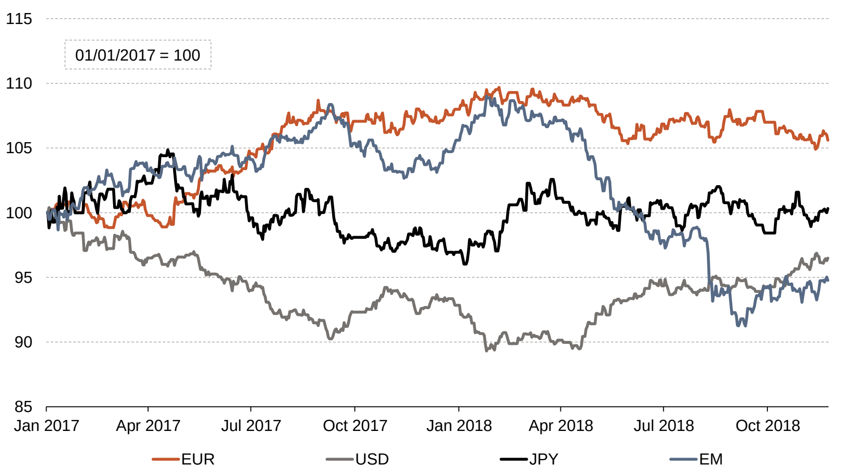
Headline Inflation



- Global inflation rose to 4.2% in September, continuing the trend of rising prices.
- Both Europe and also the USA experienced rising prices in October compared to the previous year, in particular due to the oil price. October inflation in the USA was 2.5%, well above the September figure of 2.3%.

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 - 31/10/2018

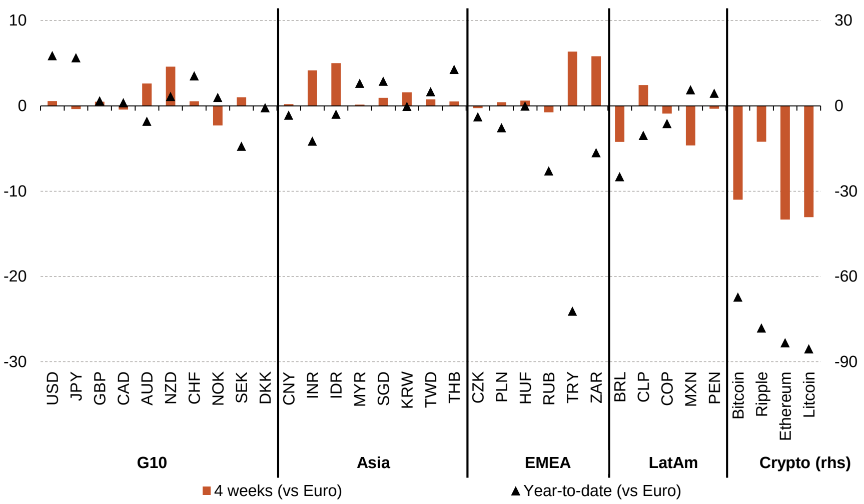
Trade-Weighted Currency Development



- The trade-weighted US dollar remains firm, but has depreciated slightly since its top, including against the euro.
- The British pound depreciated due to resistance to the Brexit negotiation result. The euro was one of these factors, along with minor concerns about Italy.
- The Japanese yen appreciated on days with higher risk aversion.

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 - 23/11/2018

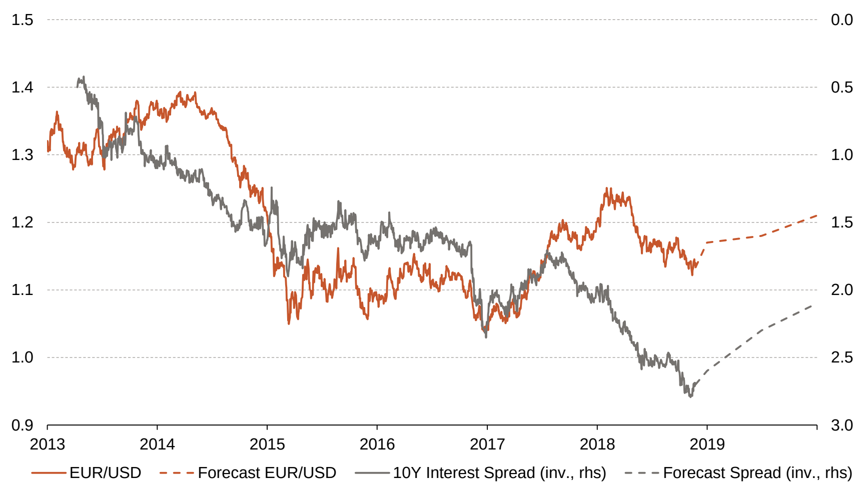
Currency Moves vs Euro



- The euro remained stable against the currencies of the G10 countries. The Norwegian krone came under pressure with the price of oil, while the Australian and New Zealand dollars appreciated against the euro.
- Asian currencies strengthened against the euro over a 4-week period. The Turkish lira continued to recover.
- Crypto currencies continued to come under pressure and have lost another 30% in the last four weeks.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 01/01/2018 - 23/11/2018

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate has recovered from its interim low of 1.12 to 1.14.
- The recent stock market turbulence and some weaker US economic data have fuelled speculation about a slower US interest-rate hike cycle. But the recent strength of the US dollar continued unabated. At the same time, there was no new headwind for the euro from Brexit and Italy.

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 - 31/12/2019

European Sector & Style Performance

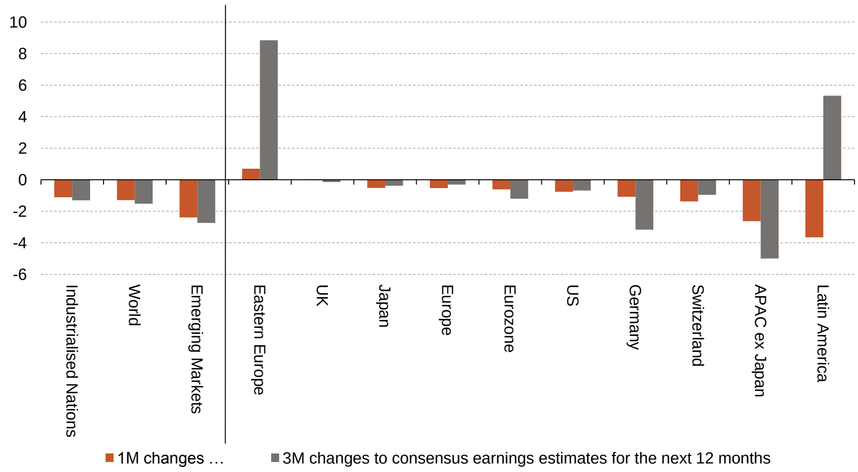
	4W (26/10/18 - 23/11/18)	YTD (31/12/17 - 23/11/18)	23/11/17 - 23/11/18	23/11/16 - 23/11/17	23/11/15 - 23/11/16	23/11/14 - 23/11/15	22/11/13 - 23/11/14
	4-week & YTD		12-month periods over that last 5 years				
Telecommunications	7.9	-8.5	-7.1	6.6	-22.9	17.8	13.6
Health Care	3.8	4.1	3.2	11.2	-17.0	15.0	23.0
Utilities	3.5	2.3	0.0	19.0	-13.4	2.3	17.7
Finance	1.4	-14.1	-12.8	17.1	-9.5	10.1	8.5
Growth	1.0	-5.3	-5.1	18.0	-10.0	19.3	10.2
Consumer Discretionary	1.0	-8.5	-7.2	15.9	-9.3	18.7	6.5
Value	0.4	-7.3	-6.3	14.8	-4.8	4.2	9.0
Consumer Staples	0.1	-3.7	-3.6	14.2	-9.0	25.0	10.9
Industrials	0.0	-9.0	-8.6	20.7	0.9	14.2	3.0
Information Technology	-1.5	-3.8	-7.1	30.2	-1.8	21.3	7.6
Materials	-2.3	-11.2	-9.0	19.7	14.7	-3.9	4.8
Energy	-4.2	2.1	5.0	14.2	7.8	-9.5	3.5

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

- Over the past four weeks, European equity investors have been looking for defensive sectors. In particular, the telecommunications, healthcare and utilities sectors were able to make gains.
- Large losses were suffered by the materials and IT sectors, which are particularly hard hit by growth concerns. The energy sector fell along with the price of oil.

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: 23/11/2013 - 23/11/2018

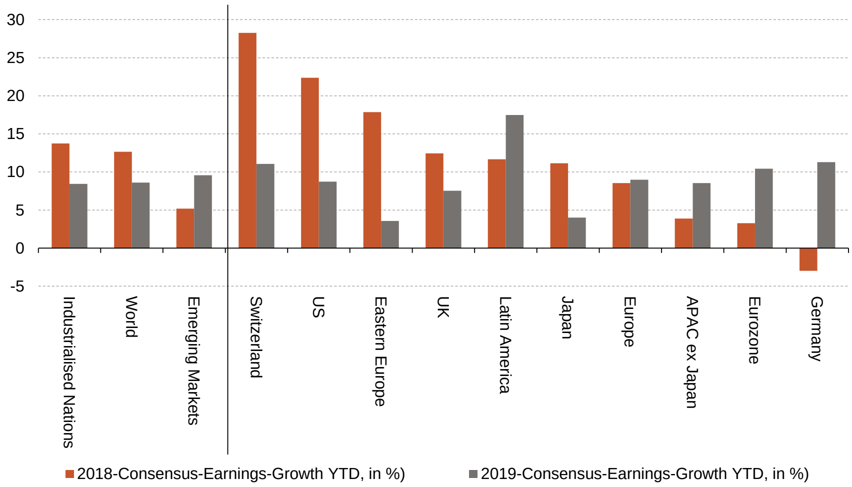
Changes in Consensus Earnings Estimates



- Earnings revisions remain negative for both the aggregated industrialized and emerging countries.
- Over three months, earnings estimates have improved, particularly for Eastern Europe and Latin America. This reflects easing pressure on emerging markets and a stabilization of their currencies.
- The profit outlook for Japan and the USA has deteriorated, with slight reductions in 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 23/11/2018

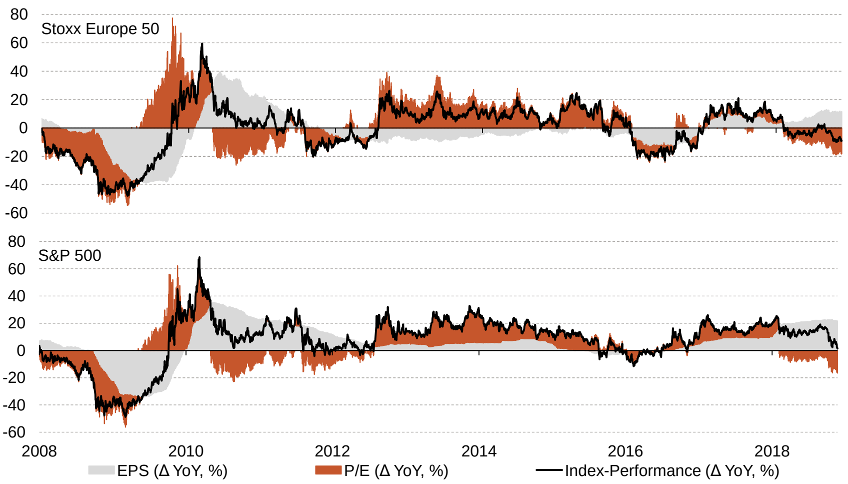
Earnings Growth



- Consensus expectations for profit growth for 2019 have hardly changed. Growth expectations have declined somewhat for the emerging markets.
- Despite the profit revisions of recent months, we consider expectations for 2019 profit growth to be ambitious. We expect a further reduction in earnings expectations for Germany and the euro zone.

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 23/11/2018

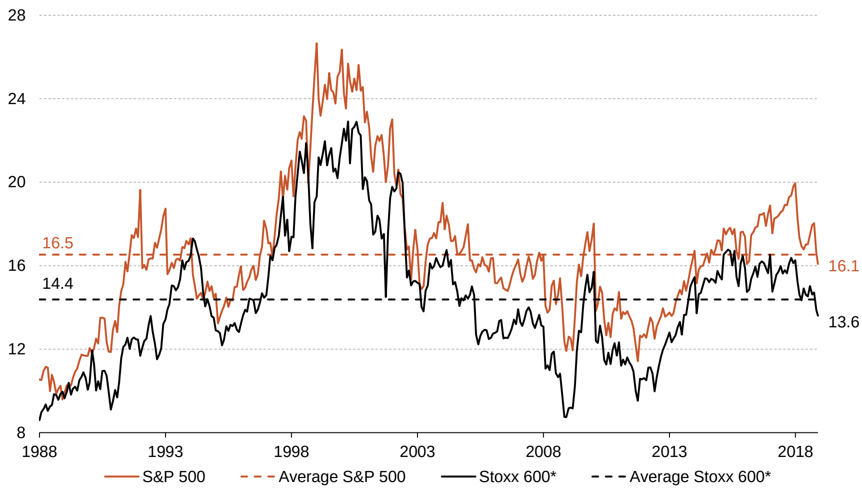
Contribution Analysis



- Recent losses combined with rising profits have led to significantly lower P/E valuations for the Stoxx Europe 50 and the S&P 500.
- However, the US is showing significantly stronger earnings growth, which explains the better performance of the S&P 500 against the Stoxx Europe 50 over the last 12 months.

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 - 23/11/2018

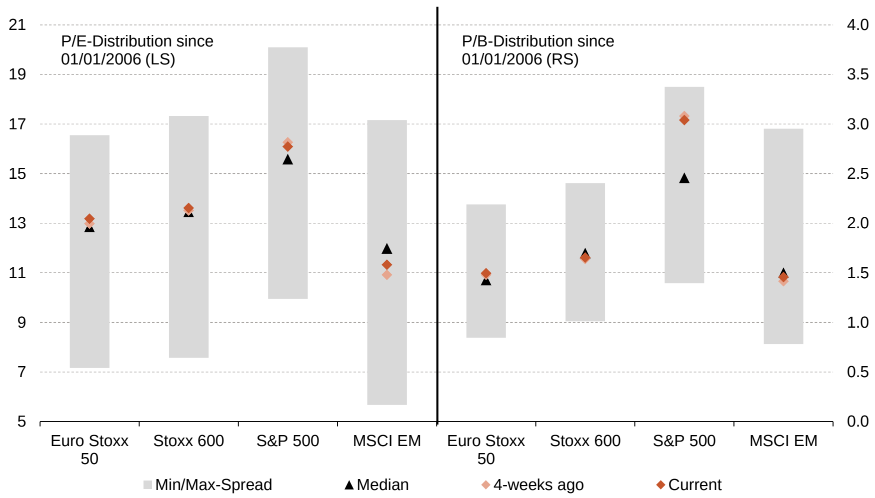
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Valuations based on the P/E ratio have fallen significantly in the course of the correction in recent weeks.
- Both US equities and European equities are now trading below their long-term P/E ratio.
- In comparison to their own history, equities are therefore attractively valued. If risks subside, there is potential for recovery in equities.

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 - 23/11/2018

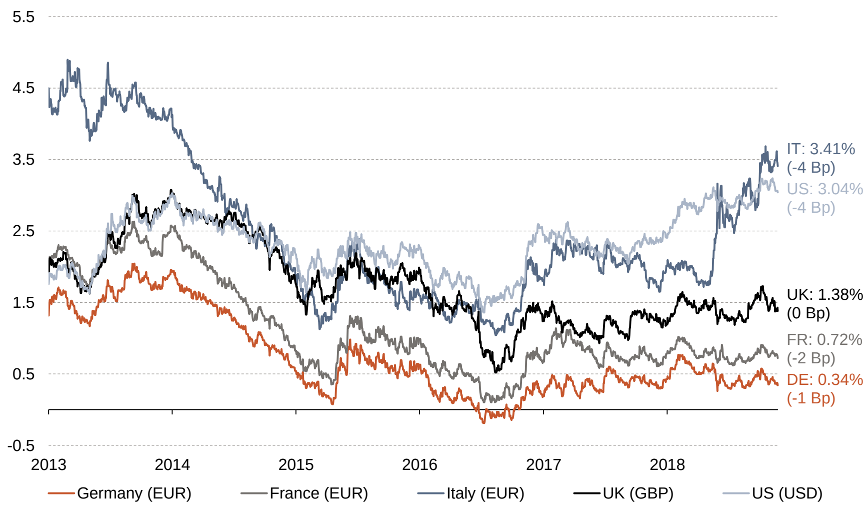
Historical Distribution: Price/Earnings and Price/Book Ratio



- Over a period of four weeks, the P/E ratio and P/B ratio for the S&P500 have decreased.
- The P/E ratio for the European indices and the S&P500 is only slightly above the median since 2006, while emerging markets are even cheaper.
- In Europe and emerging markets, the P/B ratio is close to the median and only in the US is it higher.

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 - 23/11/2018

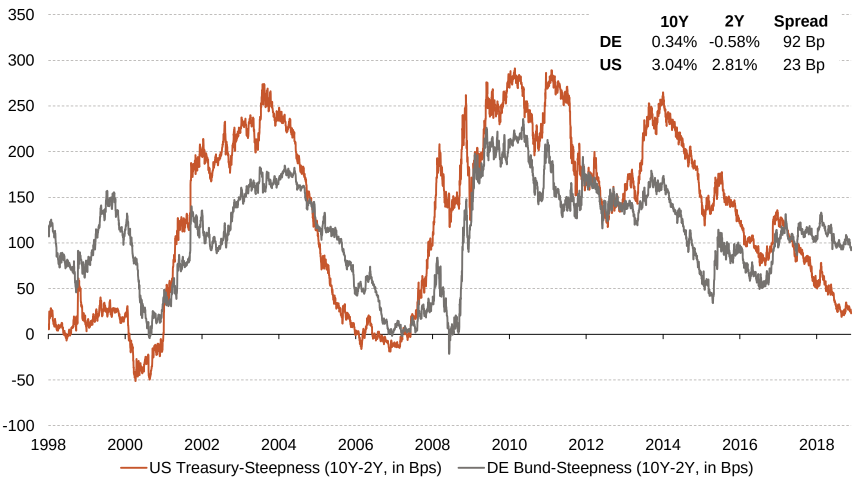
10-Year Government Bond Yields



- The flight to safety continues. Yields on safe government bonds such as US Treasuries and German Bunds have fallen. Yields on Italian government bonds also fell after a temporary rise to over 3.4%.
- In the UK, investors continue to be cautious and buy government bonds. In the course of the ongoing but turbulent Brexit negotiations, yields fell to 1.38%.

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 - 23/11/2018

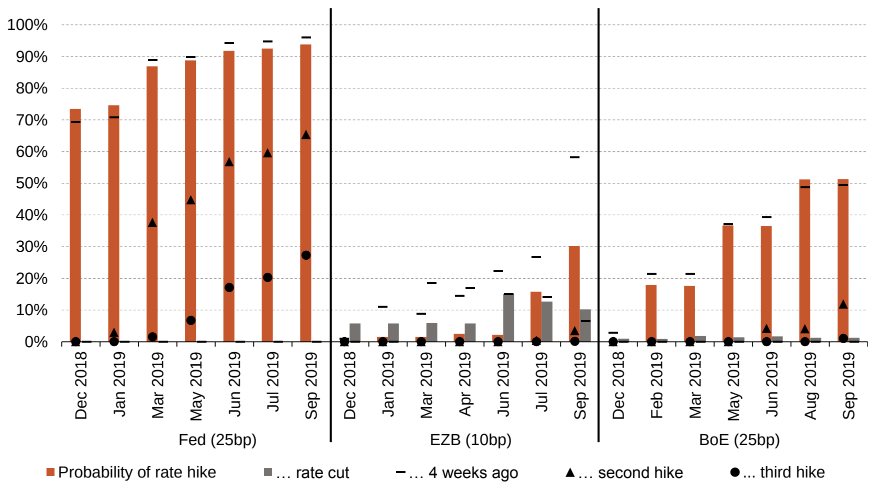
Yield curve steepness (10Y - 2Y)



- Yields on 2 and 10-year US government bonds have fallen by around 14 basis points in the last two weeks. There was therefore no impact on the steepness of the curve, which remains at 23 basis points.
- The steepness of the German yield curve has slipped below 100 basis points in the course of the risk-off 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 - 23/11/2018

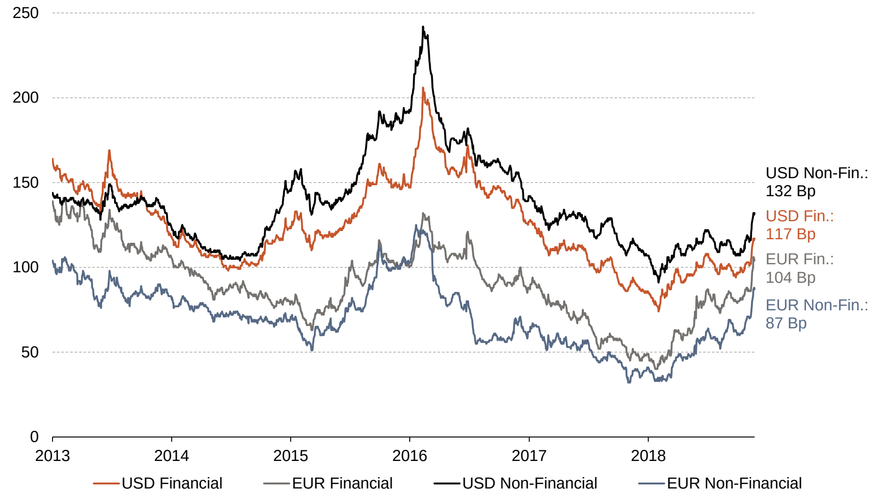
Implicit Probabilities for Changes in Key Interest Rates



- The probability of an interest rate hike by the Fed in December has risen to over 70% despite fears of a global recession and verbal pressure from US President Trump to lower interest rates.
- The likelihood of an interest rate hike next year has fallen sharply in the euro zone. Political unrest and fears of recession make a move on interest rates less likely.

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: 26/10/2018 - 23/11/2018

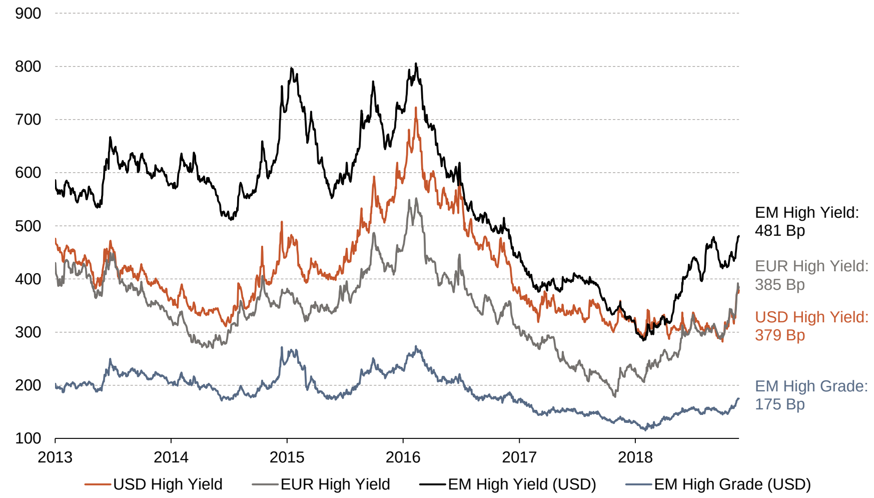
Credit Spreads Financial and Non-Financial Bonds



- In the last two weeks there has been a sell-off in corporate bonds as growth concerns have increased. Credit spreads have widened, partly due to increased new issues.
- In the case of USD and EUR non-financial bonds, the investment goods industry was particularly hard hit. The credit spreads of their EUR bonds is now at a 10-year high.
- The worries in Italy and the costs of environmental catastrophes caused credit spreads to rise, particularly in the EUR insurance industry.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2013 - 23/11/2018

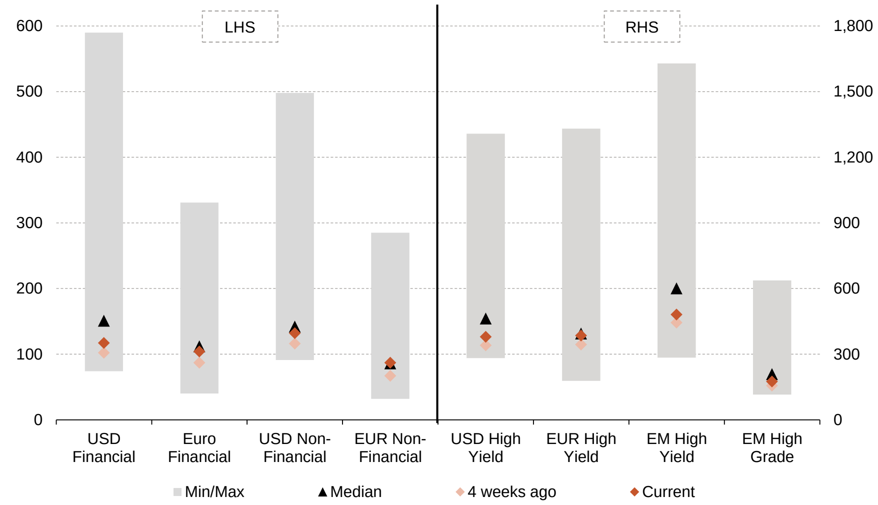
Credit Spreads High Yield and Emerging Markets Bonds



- The high-yield bond market, which is positively correlated to the equity market, also suffered strongly. Credit spreads rose by an average of 30 basis points.
- One industry recorded particularly sharply rising credit spreads: The energy industry was affected not only by the risk-off sentiment but also by the sharp fall in crude oil prices.

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 - 23/11/2018

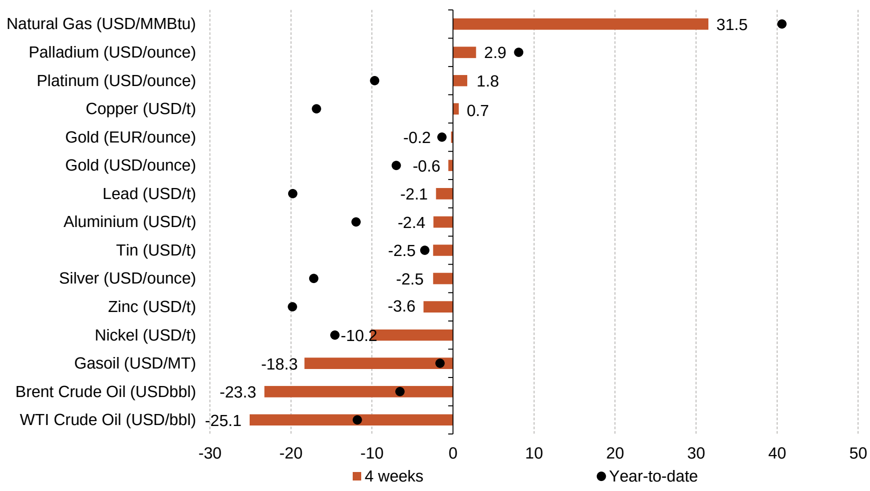
Historical Distribution of Credit Spreads (in bp)



- Uncertainties in Europe are having an impact on the bond market. Credit spreads for EUR financial, EUR non-financial and EUR high yield bonds are now close to or above their historical median.
- However, credit spreads on USD non-financial bonds have also moved significantly closer to the median.

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: 23/11/2008 - 23/11/2018

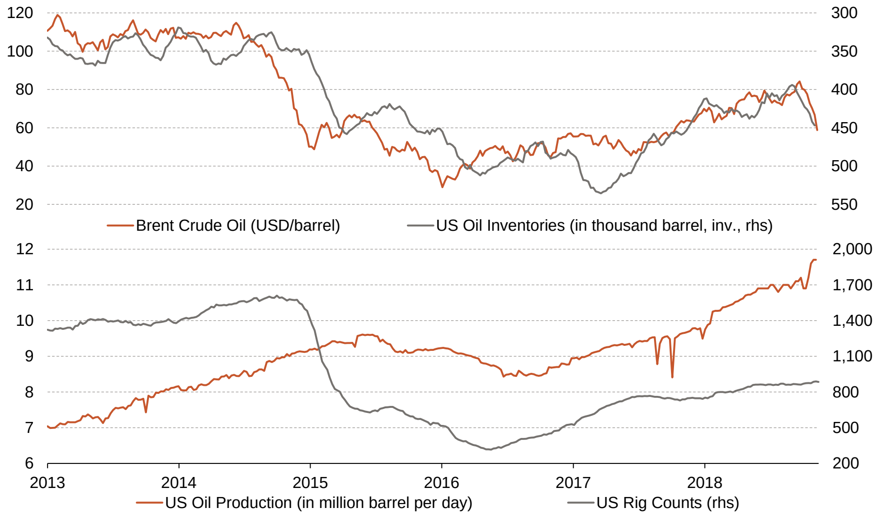
Commodities Performance



- US natural gas prices jumped due to a cold snap in the US, the lowest inventories for 15 years and exploding speculative positions.
- Precious metals were able to hold their ground in a more volatile capital market environment, while industrial metals suffered moderate losses due to growth concerns.
- Crude oil (Brent and WTI) came under massive pressure due to the current oversupply and the reduction of speculative positioning.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2018 - 23/11/2018

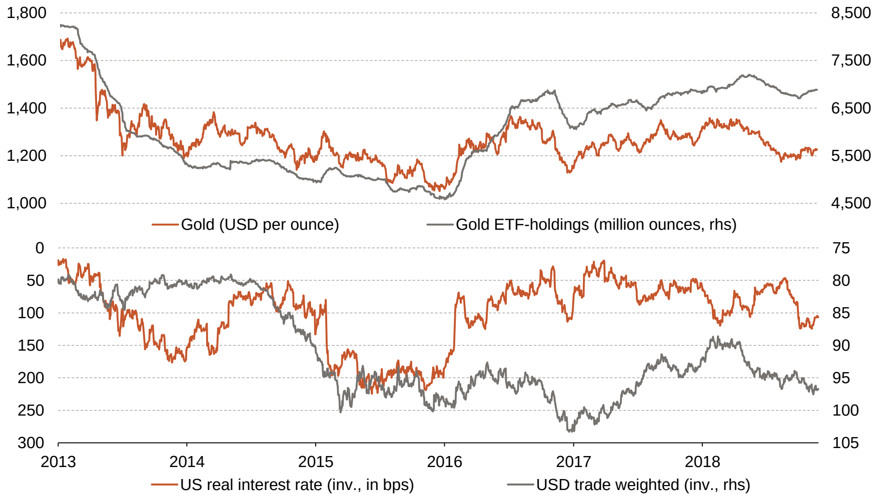
Crude Oil



- The decline in oil prices has continued. The price decrease from the high point in early October is more than 30%.
- The sharp rise in oil production in the USA, Russia, Saudi Arabia and other countries, coupled with lower production outages in Iran and Venezuela, have led to an oversupply on the oil market. Inventories are rising correspondingly sharply. At its meeting on 6 December, OPEC should react by cutting production in order to stabilize prices.

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 - 23/11/2018

Gold



- Gold has been able to hold above the USD 1200 an ounce mark in recent weeks despite declining positioning and the strong US dollar.
- Increases in ETF holdings and gold purchases by central banks have supported the gold price. The historically high short position offers upside potential in the medium term.

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 - 23/11/2018

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IMPORTANT NOTICES

Please refer to the online glossary at www.berenberg.de/glossar for definitions of the technical terms used in this document.

Date: 26 November 2018

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