BERENBERG
Markets

MONITOR

07 January 2019

Current market commentary

2018 was a challenging year for the capital markets. The share of asset classes with a positive performance was even lower than in 2008, the year of the global financial crisis. Cash was one of the strongest asset classes in 2018. 75 percent of the asset classes under review showed a negative return. The DAX, for example, lost more than 18%. In addition to the trade dispute, the main drivers were increased political uncertainty, declining central bank support and fears of recession. Global corporate earnings, on the other hand, rose - and analysts expect earnings to rise again in 2019. However, economic data has clouded over recently and the ongoing trade dispute continues to weigh on sentiment. The mood among brokers and investors is through the floor. Positioning is also very defensive. We see this as a good sign and remain optimistic for 2019, especially since the pressure on the USA and China to find a compromise has recently increased significantly.

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

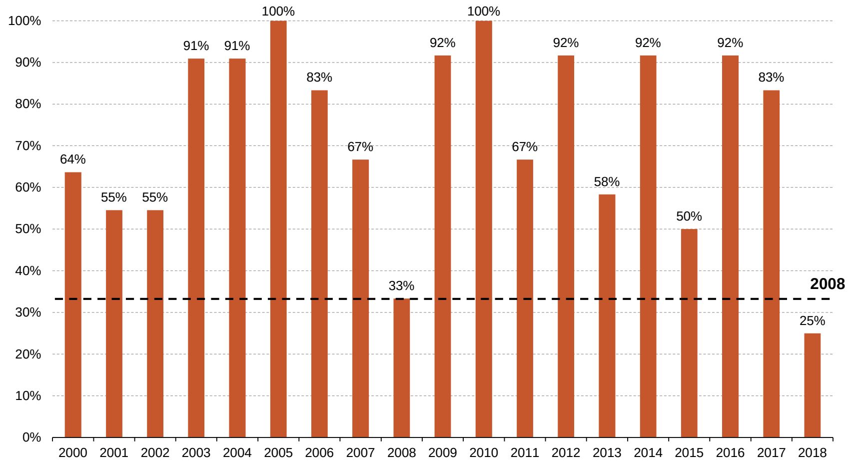
First negotiations regarding trade conflict begin

This week could be crucial for further capital market developments. The US and China will meet today and tomorrow for the first negotiation and try to find a rapprochement in the trade conflict. November industrial production and export data for Germany, Eurozone economic and business confidence and November industrial production for France, the UK and Italy will also be published.

Vote on Brexit deal coming up.

The Brexit deal will be voted on in the UK parliament the following week. Our economists remain confident that there will be no hard Brexit, even if Parliament does not agree to the deal and this initially continues to unsettle markets.

In 2018 there were fewer assets* with positive returns than in 2008



*Equities: Europe, USA, Japan, Emerging Markets; Bonds: EUR government bonds, EUR corporate bonds, US government bonds, EM hard currency bonds; Commodities: gold, oil, industrial metals; Cash in hand

- 2018 was a difficult multi-asset year, especially from the perspective of a euro investor. Currency hedging costs for USD amounted to more than 3% in 2018. Higher hedging costs made US bonds, emerging market bonds and Liquid Alternatives, which invest primarily in USD assets, significantly less attractive.
- Most asset classes lost value in 2018, mainly equities, commodities and corporate bonds. Cash was one of the best asset classes in 2018.

Share of asset classes with positive total return.
Source: Factset, As of 01/01/2019

Multi Asset

	4-week & 2018: 4W (07/12/18 - 04/01/19)	4-week & 2018: 2018 (31/12/17 - 31/12/18)	12-month periods over that last 5 years: 04/01/18 04/01/19	04/01/17 04/01/18	04/01/16 04/01/17	04/01/15 04/01/16	03/01/14 04/01/15
Gold	2.8	3.1	2.9	-1.2	11.8	0.1	8.8
Global Treasuries	2.1	4.6	6.0	-6.2	4.1	7.8	12.4
Global Coporates	0.6	1.6	2.6	-5.4	7.0	7.1	16.8
USDEUR	0.0	4.7	5.9	-13.1	3.3	10.8	13.2
Eonia	0.0	-0.4	-0.4	-0.4	-0.3	-0.1	0.1
Global Convertibles	-1.4	0.8	0.8	1.9	11.7	8.2	16.1
MSCI Emerging Markets	-1.5	-10.3	-12.2	21.3	20.1	-8.4	13.1
MSCI Frontier Markets	-2.9	-12.2	-12.6	15.7	8.0	-5.7	19.9
MSCI World	-3.1	-4.2	-4.1	6.7	14.7	8.3	19.6
Industrial Metals	-3.4	-15.5	-13.2	10.0	28.9	-20.5	6.2
REITs	-7.5	-3.1	-0.9	-9.6	6.8	7.9	35.2
Brent	-7.7	-10.7	-6.1	1.5	28.9	-38.7	-39.4

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.

- 2018 was an extremely difficult year for multi-asset investors. Capital markets were burdened above all by the many political uncertainties. Stocks, REITs, industrial metals and many bonds lost value, in some cases sharply.
- One of the few winners was the US dollar. It gained 4.7% against the euro in 2018. This benefited the euro price of gold, which closed last year on a positive note.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/01/2014 - 04/01/2019

Equities

	4-week & 2018: 4W (07/12/18 - 04/01/19)	4-week & 2018: 2018 (31/12/17 - 31/12/18)	12-month periods over that last 5 years: 04/01/18 04/01/19	04/01/17 04/01/18	04/01/16 04/01/17	04/01/15 04/01/16	03/01/14 04/01/15
MSCI UK	0.9	-8.8	-7.4	11.1	22.9	-4.3	0.6
Stoxx Europe Defensives	0.5	-1.0	0.6	4.9	0.9	7.3	12.0
Stoxx Europe Cyclicals	-0.1	-16.6	-16.6	14.4	11.1	2.2	3.2
DAX	-0.2	-18.3	-18.2	13.7	12.7	5.3	3.5
Euro Stoxx 50	-0.4	-12.0	-12.5	10.3	8.0	3.3	4.9
Stoxx Europe 50	-0.5	-10.2	-9.2	8.5	4.4	4.4	6.2
Stoxx Europe Small 200	-0.6	-12.9	-12.5	18.2	3.9	13.3	4.2
MSCI EM Eastern Europe	-1.8	0.4	-0.4	4.4	49.0	3.0	-28.2
MSCI EM Asia	-3.1	-11.2	-14.4	26.3	14.4	-3.7	22.7
S&P 500	-3.8	0.4	0.3	6.1	19.1	10.9	29.9
Russell 2000	-4.6	-6.6	-4.8	-1.5	31.3	4.1	19.0
Topix	-5.6	-10.0	-11.2	10.5	10.6	22.9	10.1

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, European equities fell most sharply in 2018. And within Europe, Germany in particular suffered. The DAX lost more than 18% in the last year. In addition to many home-made problems, the trade dispute and worries about growth were particular burdens.
- Asian equities also fell sharply due to concerns about China's growth.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/01/2014 - 04/01/2019

Fixed Income

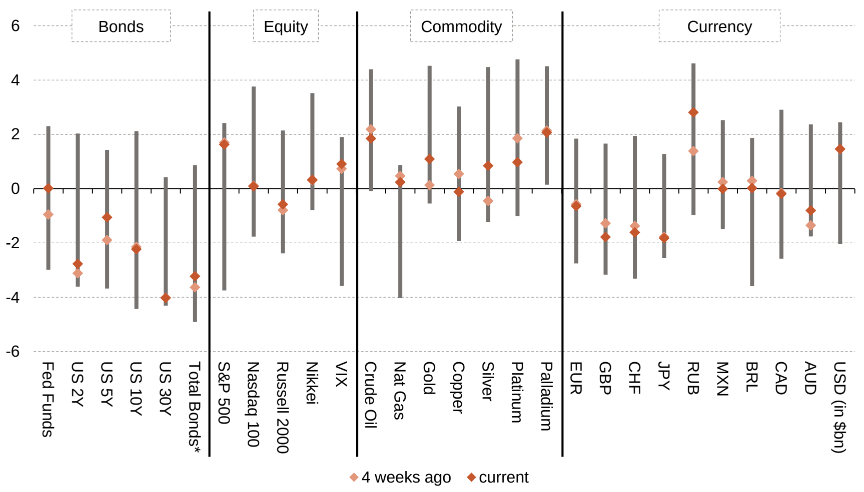
	4-week & 2018: 4W (07/12/18 - 04/01/19)	4-week & 2018: 2018 (31/12/17 - 31/12/18)	12-month periods over that last 5 years: 04/01/18 04/01/19	04/01/17 04/01/18	04/01/16 04/01/17	04/01/15 04/01/16	03/01/14 04/01/15
EM Local Currency Bonds	1.9	1.4	1.9	0.7	10.3	-0.9	11.3
BTPs	1.7	-1.3	-2.1	1.2	0.1	4.4	15.1
Treasuries	1.2	5.9	7.3	-11.5	4.0	12.2	19.1
EM Hard Currency Bonds	1.0	3.5	4.7	-6.1	13.8	12.0	14.4
USD Corporates	0.8	2.7	4.0	-8.3	9.1	10.4	21.1
Bunds	0.2	2.4	2.6	-0.9	3.1	0.4	10.9
EUR Non-Financials	0.2	-1.1	-1.3	2.1	5.0	-1.3	8.8
EUR Financials	0.1	-1.5	-1.9	3.4	3.6	0.4	7.6
Gilts	-0.1	-0.6	0.5	-2.0	-6.0	7.1	21.8
EUR High Yield	-0.4	-3.4	-4.2	4.9	8.6	-0.4	3.9
USD High Yield	-0.6	3.4	5.2	-7.8	20.4	5.0	15.5
EUR Inflation Linkers	-0.7	-1.5	-1.9	1.7	3.4	0.9	5.7

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.

- Excluding the effect of the USD appreciation, most bonds lost value in 2018. Riskier bonds came under considerable pressure, especially towards the end of 2018. EUR high yield bonds, for example, lost more than 3% in 2018.
- However, Italian bonds also closed the year in negative territory due to the budget dispute. Bunds benefited from political uncertainty and gained in 2018.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/01/2014 - 04/01/2019

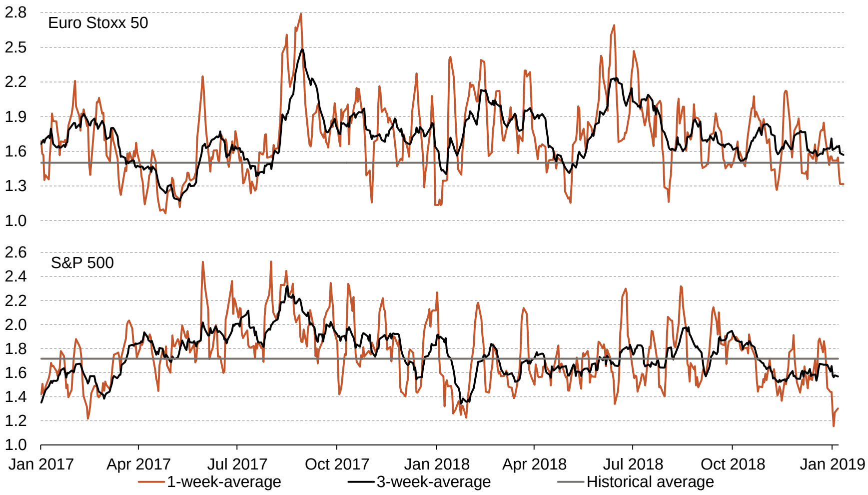
Non-Commercial Positioning



- The sharp reduction in short positions in US bonds contributed to the continued decline in yields.
- Gold climbed above the 200-day line in December 2018, leading to technical follow-up purchases. The net position for gold is now long again.

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: 23/12/2008 - 18/12/2018

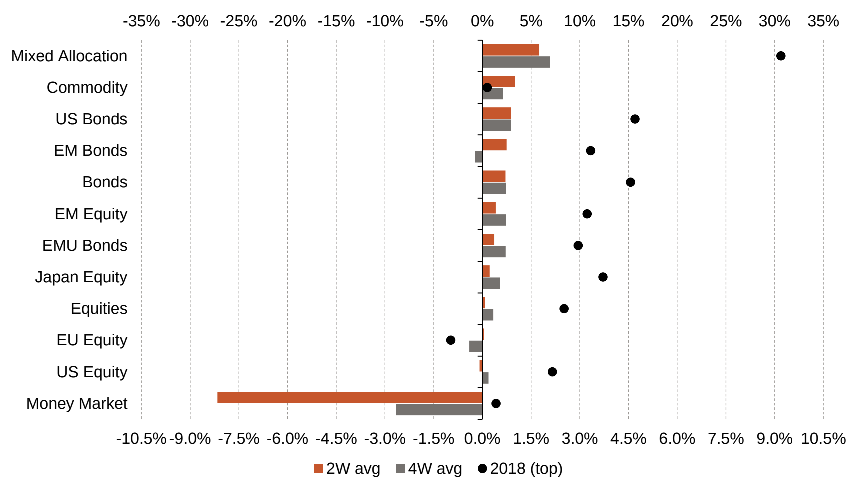
Put-Call Ratio



- Despite the poor performance and mood on the stock markets, put call ratios are currently not particularly high. This suggests that market participants expect equities, especially US equities, to bottom out.

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 - 04/01/2019

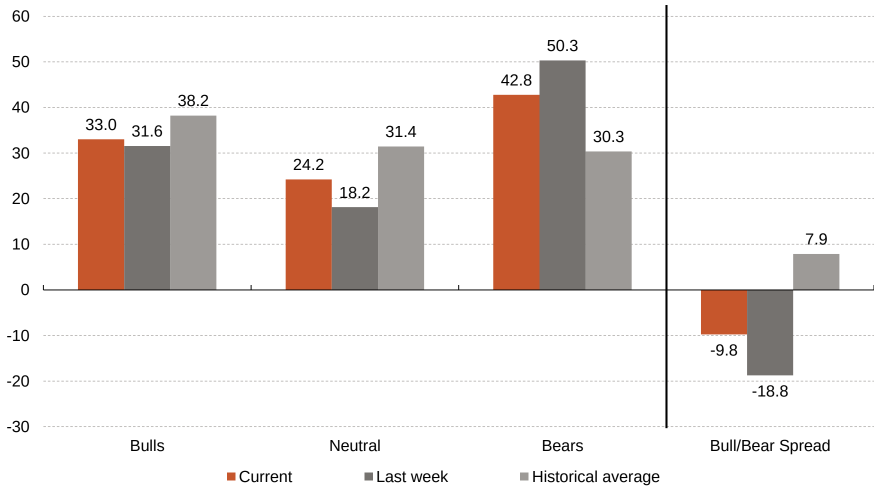
ETF Flows



- Although 2018 was not a good year for multi-asset investors, multi-asset ETFs recorded by far the largest inflows. One reason for this is that the assets under management of multi-asset ETFs are significantly lower than those of equities ETFs, for example, and thus enable higher growth rates. On the other hand, multi-asset investments outperformed pure equity investments in 2018.
- European equity ETFs saw the only net outflows in 2018.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2017 - 04/01/2019

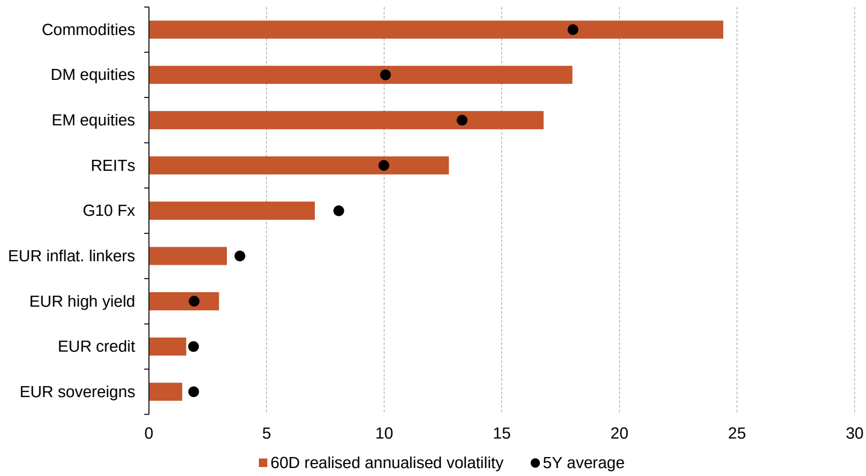
AAII Sentiment Survey (Bulls vs Bears)



- The bulls among US investors have recently made slight gains. Historically, however, the share of optimists for the US equity market is still quite low.
- The recent strong price losses continue to put pressure on sentiment.

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 - 03/01/19

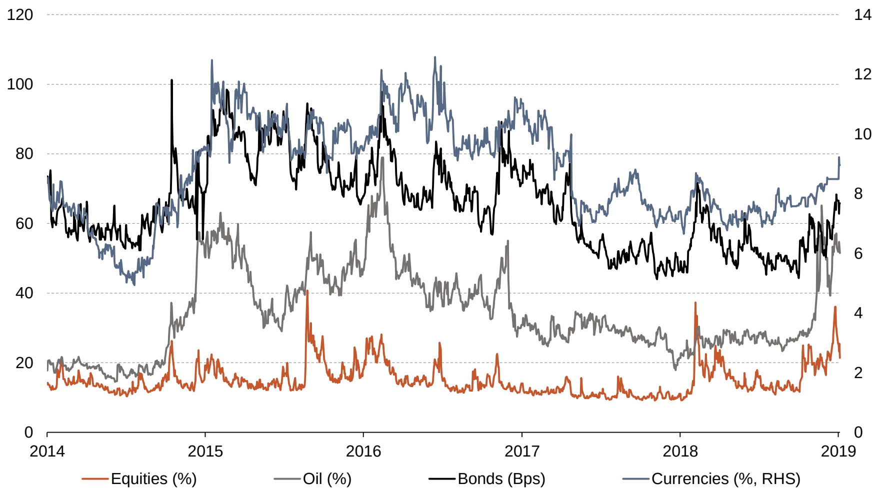
Realised Volatilities



- The fluctuation margin for riskier asset classes increased significantly at the turn of the year. The realized volatilities for equities, REITs, commodities and EUR high yield bonds are above their respective 5-year averages.
- We have thus finally left the low volatility environment behind us. Persistent political uncertainties and lower central bank liquidity support should also lead to higher price swings in 2019.

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: 04/01/2014 - 04/01/2019

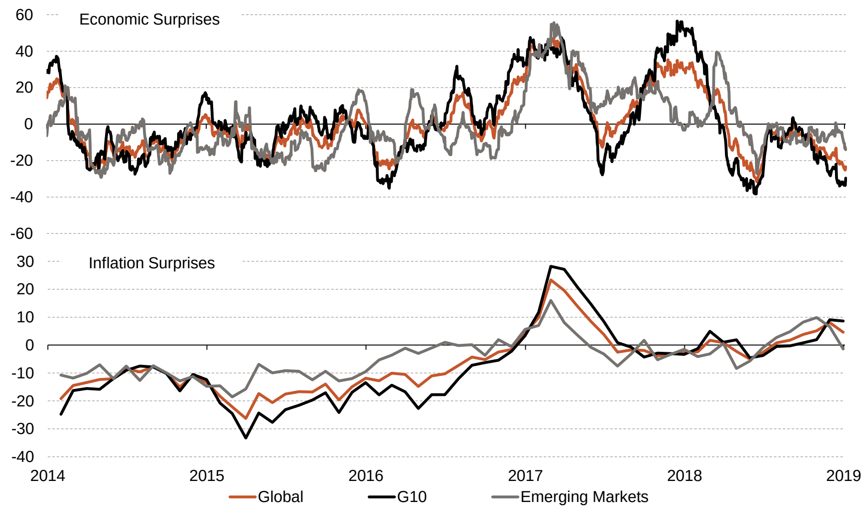
Implied Volatilities



- Implied volatility for equities at the end of 2018 will roughly reach the level of the volatility peak in February 2018, when rising yields and fears of inflation led to a technical sell-off.
- Other asset classes such as currencies, oil and government bonds also recently saw a sharp rise in volatility.

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: 01/01/2014 - 04/01/2019

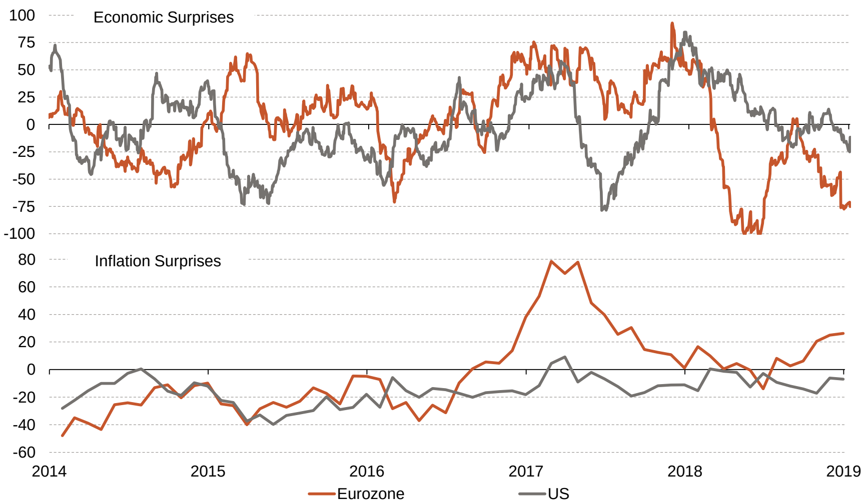
Global



- Aggregated economic surprises have disappointed across the board in the last three months.
- After a short period of mostly positive surprises, emerging markets' economic data have clearly turned into negative surprises. Industrial sentiment in China, for example, has slipped below the expansion threshold of 50 points.
- Inflation has only surprised less to the upside and for emerging markets it event surprised to the downside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 04/01/2019

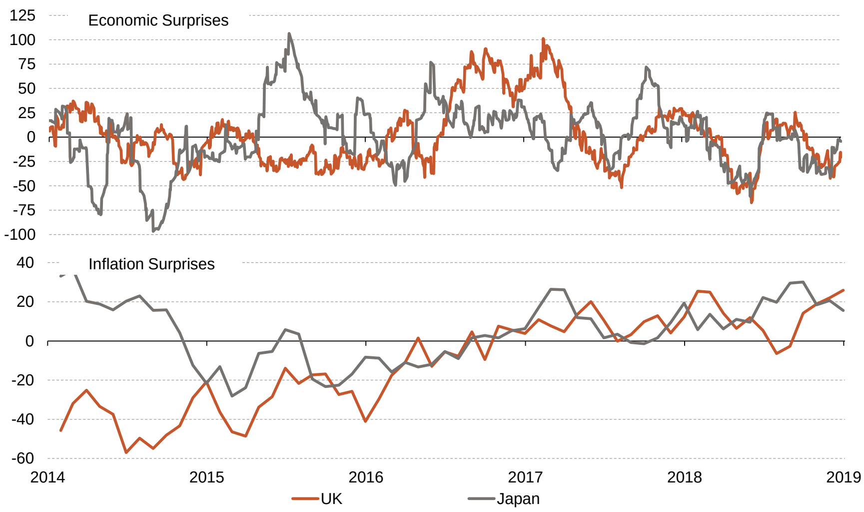
Eurozone and US



- The USA can no longer escape the global downward trend. The majority of recent economic data has been disappointing. Good labor market data contrasts with declining industrial and consumer sentiment.
- In the eurozone, the downward trend has continued due to worse than expected economic data. Inflation in December was for the most part lower than expected, although this cannot yet be seen in the aggregated 3-month average.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 04/01/2019

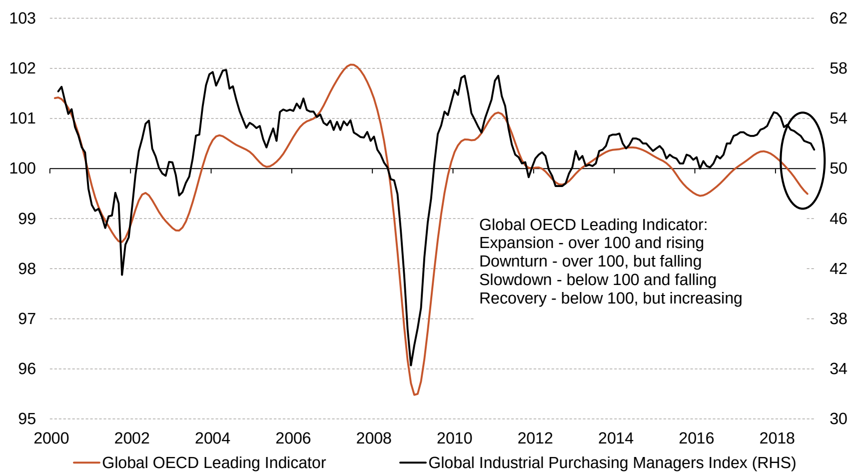
UK and Japan



- In the UK, November growth was solid at 2.3% year-on-year.
- Japan: In November, industrial production rose by 1.4% year-on-year, stronger than expected, and industrial sentiment improved compared with the previous month.

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: 01/01/2014 - 04/01/2019

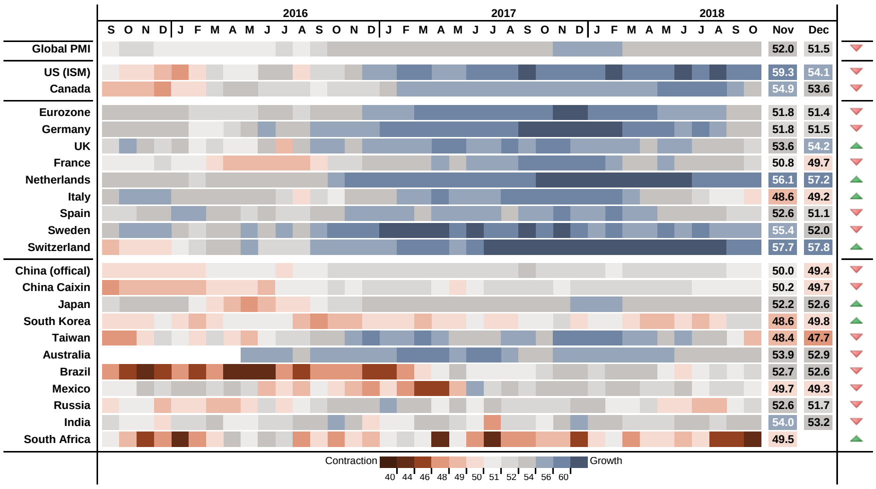
OECD Leading Indicator and Global Purchasing Managers Index



- With a value of around 99.5 points, the OECD leading indicator points to a slowdown in the global economy.
- The global purchasing managers' index also continued to deteriorate, reaching 51.5 points in December. This is the lowest level since September 2016.

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 - 31/12/2018

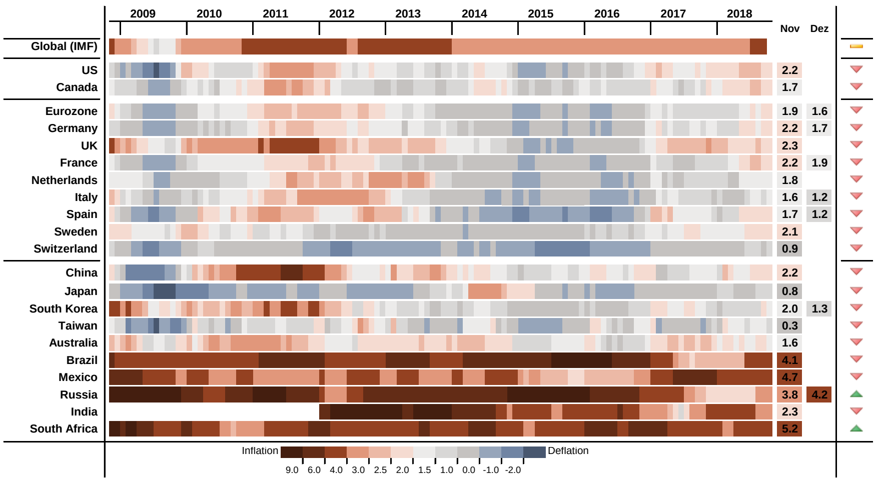
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- France and China have now also fallen below the important expansion threshold of 50 points. In France, the Yellow Vest in particular and in China the trade conflict has further dampened sentiment.
- In the US, the PMI has dropped over 5 pips to 54.1 points. This is the sharpest decline since 2008.

The PMI is an overall index that provides a general overview of the economic situation in industry. The PMI is derived from a total of eleven sub-indices, which reflect the change from the previous month. A value of 50 is regarded as neutral, a value of over 50 points as an indicator of rising activity in industry and a value of less than 50 points for falling activity in industry compared with the previous month. The index has an average lead time before actual industrial production of three to six months. The PMI is based on a survey of a relevant selection of purchasing managers regarding the development of parameters such as incoming orders.
Source: Bloomberg, Time period: 30/09/2015 - 31/12/2018

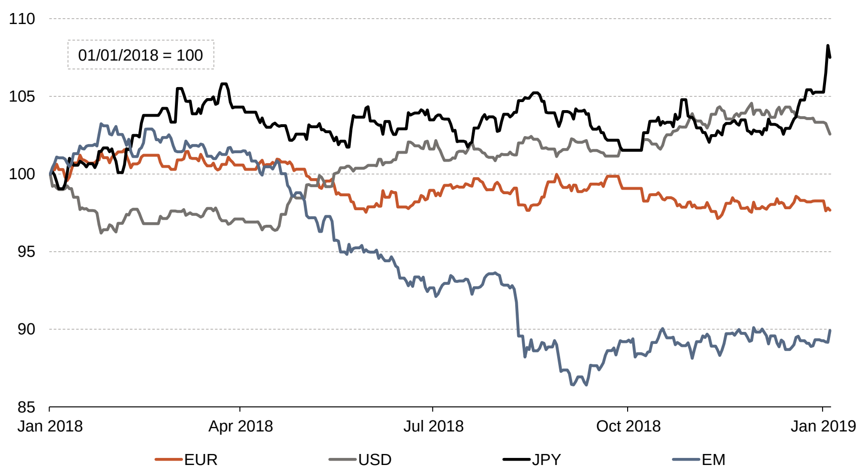
Headline Inflation



- Falling energy prices in both November and December have, as far as is known, led to predominantly lower inflation compared with the previous month. In the eurozone it is now only 1.6%.
- In Germany, inflation even fell well below the 2% mark in December. This was due to falling food and energy prices.

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: 31/10/2008 - 31/12/2018

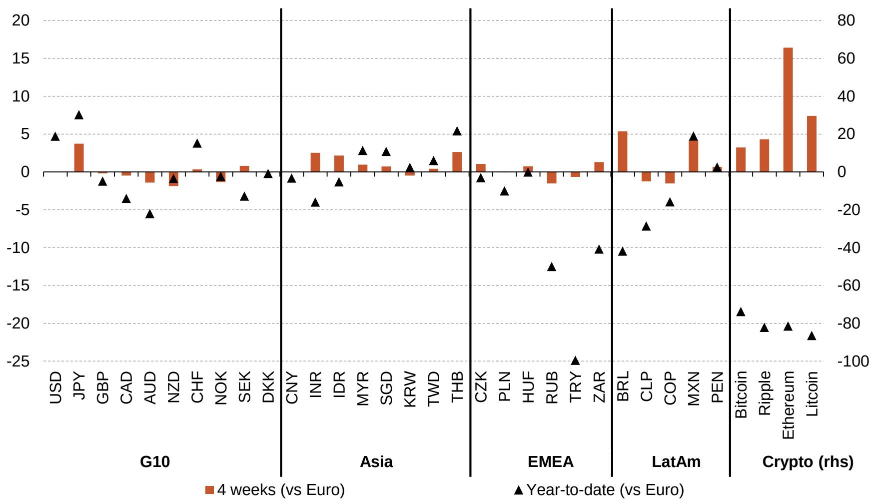
Trade-Weighted Currency Development



- The trade-weighted US dollar has recently weakened somewhat, while the euro has remained relatively stable. The euro was mainly supported by an agreement regarding the Italy budget conflict.
- The trade-weighted Japanese yen has experienced a significant movement. After recent short covering, the yen has appreciated significantly.
- EM currencies have predominantly moved sideways.

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: 01/01/2018 - 04/01/2019

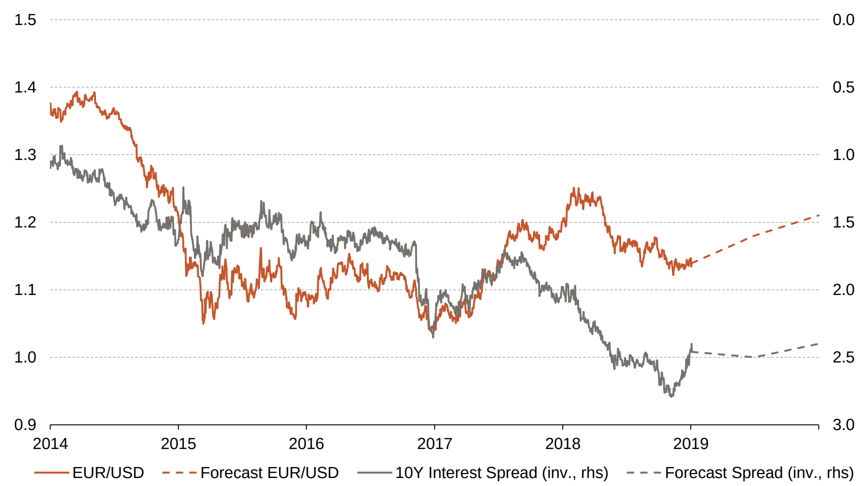
Currency Moves vs Euro



- 2018 was a strong year for safe currencies such as the US dollar, Japanese yen and Swiss franc. Crypto currencies and Turkish lira were the losers.
- Short covering and the resulting "flash crash" have recently led to a significant appreciation of the Japanese yen.
- The Brazilian real has recently appreciated significantly against the euro, as the new president Bolsonaro is striving for a business-friendly policy.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2017 - 04/01/2019

EUR/USD exchange rate and interest rate differential



- The interest rate differential between German Bunds and US Treasuries has narrowed somewhat recently. The EUR/USD exchange rate was unaffected by this and recently fluctuated sideways around the 1.14 level.
- For 2019, our economists expect only a slight reduction in the interest rate differential. However, the euro should appreciate by around 6% to 1.21 EUR/USD according to current forecasts.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US Treasuries and 10-year Bunds.
Source: Bloomberg, Time period: 01/01/2014 - 31/12/2019

European Sector & Style Performance

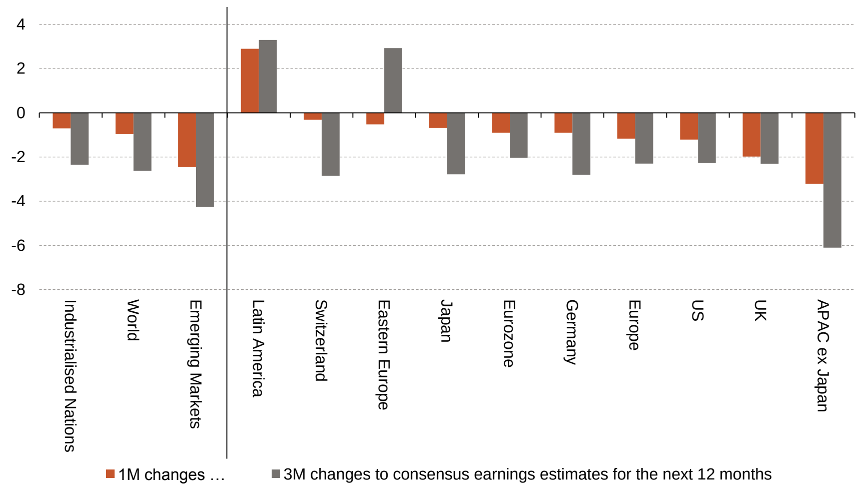
	4-week & 2018: 4W (07/12/18 - 04/01/19)	4-week & 2018: 2018 (31/12/17 - 31/12/18)	04/01/18 04/01/19	04/01/17 04/01/18	04/01/16 04/01/17	04/01/15 04/01/16	03/01/14 04/01/15
			12-month periods over that last 5 years				
Utilities	2.2	2.9	3.6	10.6	-3.8	-1.5	18.5
Materials	1.6	-13.9	-14.1	20.8	33.0	-11.0	-0.2
Energy	0.2	-0.6	0.8	6.2	36.2	-9.3	-7.7
Value	0.2	-11.6	-10.9	8.0	12.0	-1.5	5.7
Finance	0.0	-19.3	-18.4	10.1	6.1	2.9	6.0
Health Care	0.0	-0.6	1.0	2.1	-6.1	12.8	19.0
Industrials	-0.2	-13.2	-13.8	16.8	14.5	6.0	0.1
Telecommunications	-0.8	-9.6	-8.6	0.1	-9.1	9.6	10.5
Growth	-1.2	-9.5	-9.2	12.8	0.8	13.3	7.7
Consumer Discretionary	-1.9	-14.4	-14.6	11.1	2.8	9.3	7.5
Consumer Staples	-2.3	-8.9	-6.8	8.0	1.7	18.6	10.4
Information Technology	-3.1	-6.8	-10.3	22.6	7.1	12.3	8.9

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.

- Within the European equity sectors, only the utilities industry managed to close 2018 in the green. Overall, defensive sectors performed best.
- The financial, cyclical consumer goods, commodities and industrial sectors all lost more than 13% in value in 2018.

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: 03/01/2014 – 04/01/2019

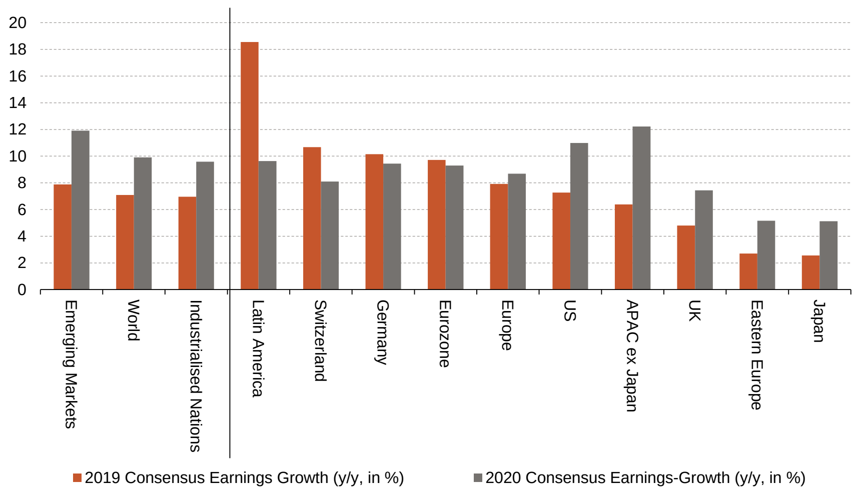
Changes in Consensus Earnings Estimates



- One reason for the strong stock market losses was a large number of profit warnings by companies, which also led to a more pessimistic assessment by analysts. In particular, earnings estimates for Asian emerging markets have been revised downwards significantly in the last three months.
- Latin America represents a ray of hope. Here earnings estimates for the last month were raised.

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 04/01/2019

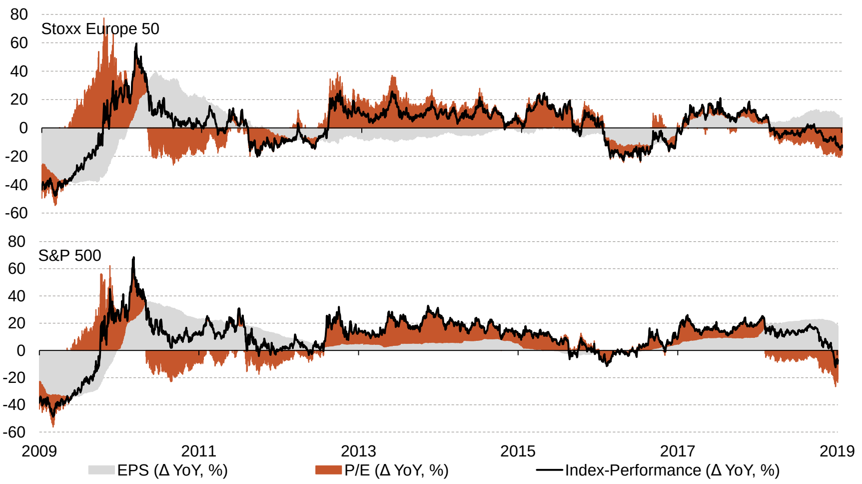
Earnings Growth



- Earnings estimates for 2019 have recently fallen significantly. Expected profit growth for industrial nations and emerging markets is now around 8%.
- For the Euro-Zone and especially for Germany, however, earnings estimates still seem to be too optimistic in view of the current mixed situation. We expect further downward adjustments to be required.

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 04/01/2019

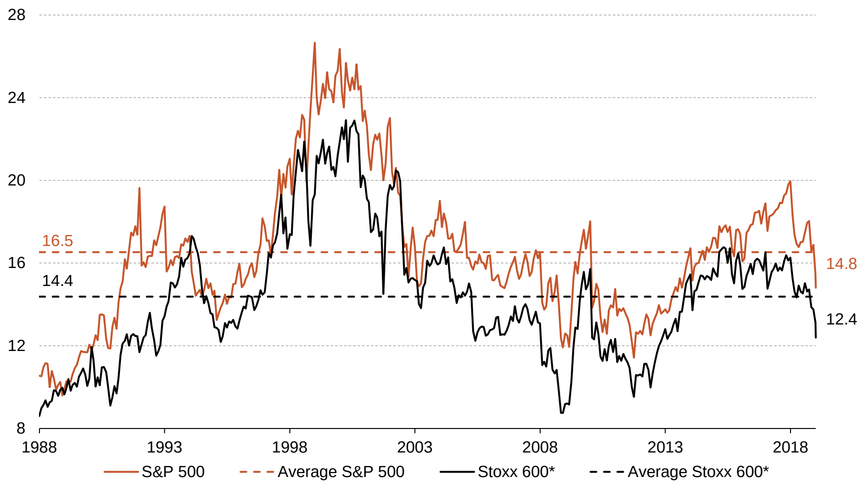
Contribution Analysis



- Over the past 12 months, earnings of European and US companies have risen, although valuations have declined significantly due to numerous negative factors (e.g. trade war).
- While US equities are only slightly negative compared to the previous year, European equities have fallen sharply. The P/E ratio for the Stoxx Europe 50 has fallen by around 20%.

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 - 04/01/2019

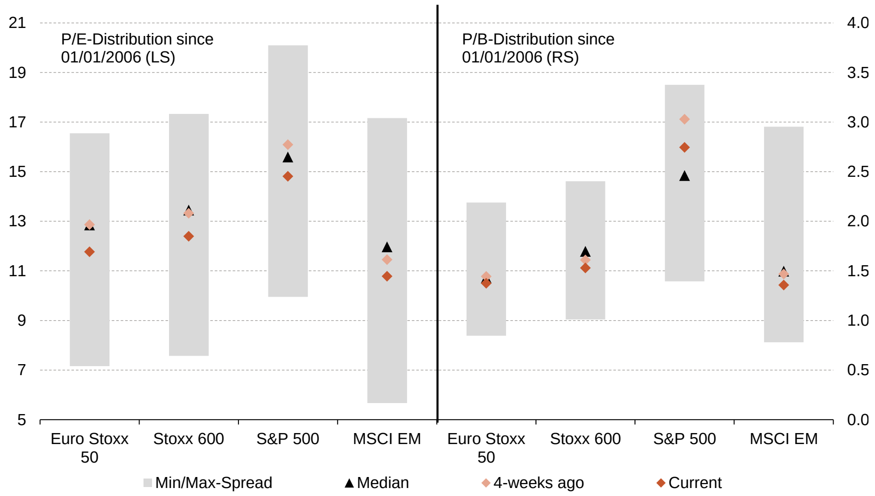
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- At 12.0, the price/earnings ratio for the Stoxx 600 is now at the 2012 level. This means that European equities are currently trading significantly more favourably than the long-term average.
- With a current P/E ratio of 14.3, US equities are also valued favorably compared to the index's own history.

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 - 04/01/2019

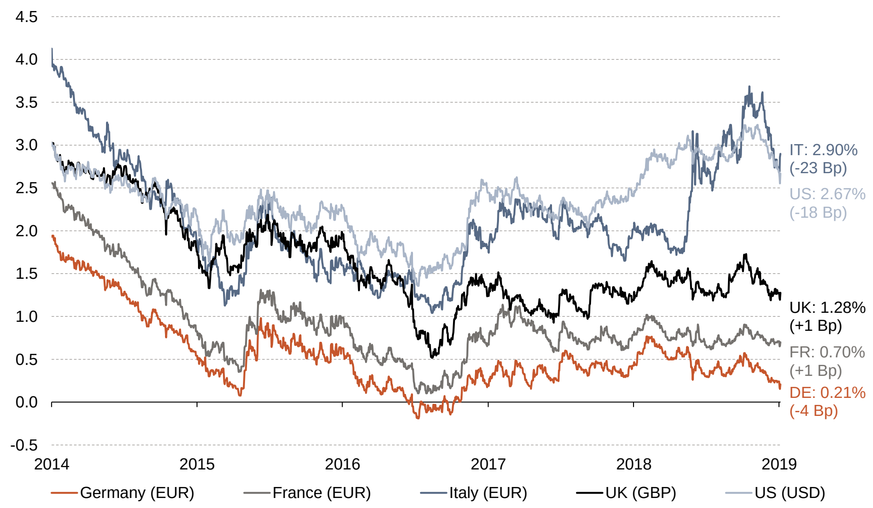
Historical Distribution: Price/Earnings and Price/Book Ratio



- Over the past four weeks, all stock markets have moved downwards from their historical median P/E ratio. All regions now appear attractive on a P/E basis.
- In terms of the price/book value ratio, US equities have recently become significantly cheaper, but with a P/E ratio of over 2.5 they are still trading above their median value since 2006. US equities remain 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 - 04/01/2019

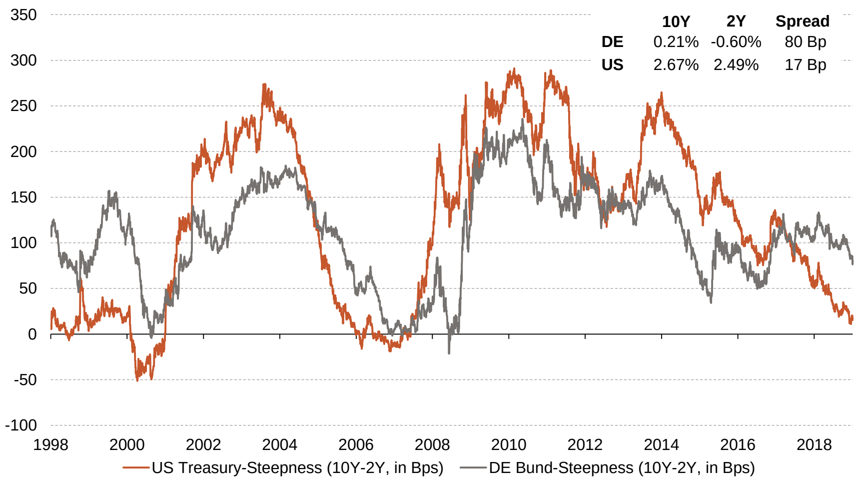
10-Year Government Bond Yields



- Yields on Italian government bonds have fallen markedly by 23 basis points to 2.90% in the last four weeks. The agreement between the EU and Italy on budget disputes has reassured market.
- Global fears of recession have led to a flight into safe investments. The yield on US Treasuries is now only 2.67% and that on German Bunds temporarily below 20 basis points.

Effective yield of 10-year government bonds and change in the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2014 - 04/01/2019

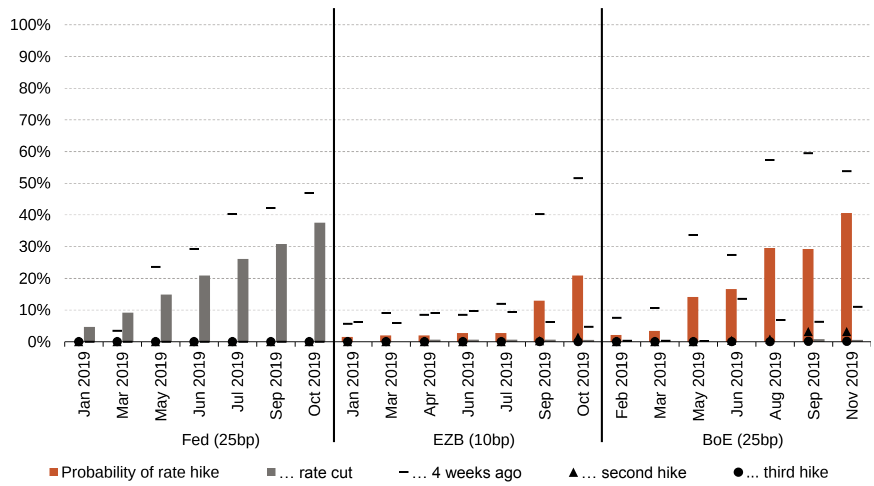
Yield curve steepness (10Y - 2Y)



- The steepness of the German yield curve has fallen for a while below 80 basis points. The narrowing of spreads was primarily driven by the sharp fall in yields on 10-year bonds.
- In the USA, the steepness of the yield curve remained close to 20 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 - 04/01/2019

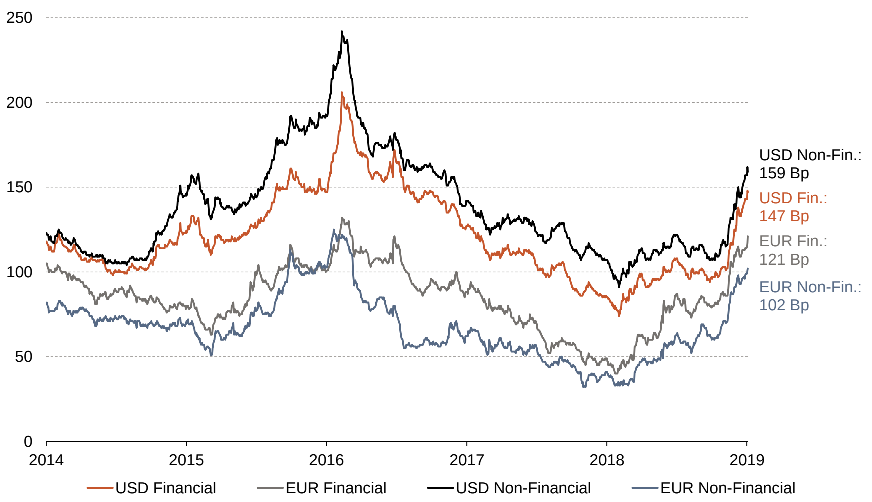
Implicit Probabilities for Changes in Key Interest Rates



- Following the Fed's interest rate hike in December 2018, the market now does not expect any further interest rate hikes in 2019. Driven by fears of a recession, interest rates are more likely to fall by more than 20% by mid-year.
- The likelihood of interest rate hikes in the euro zone and the UK has also fallen significantly.

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: 07/12/2018 - 04/01/2019

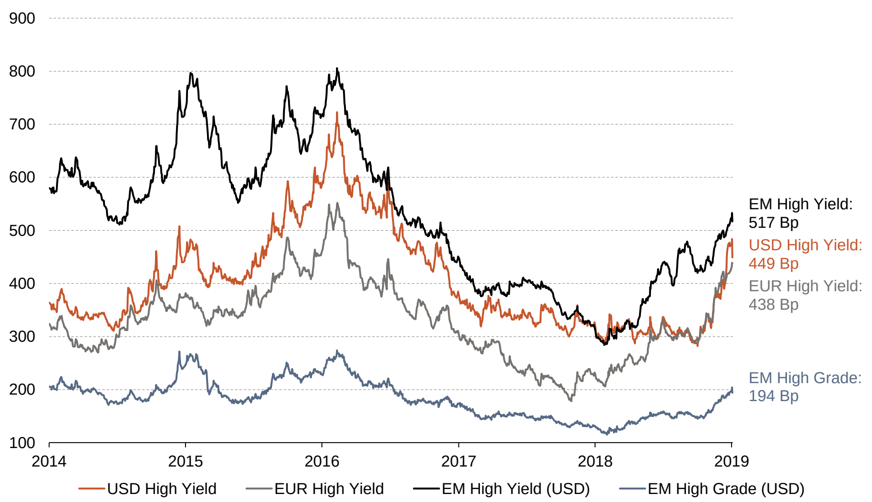
Credit Spreads Financial and Non-Financial Bonds



- As in 2015, 2018 was also a year of enormously rising spreads. Expansions of more than 50 basis points in the investment grade area were not uncommon.
- Over the past four weeks, spreads have widened primarily on USD corporate bonds. The industrial and basic materials sectors were hit hardest by rising spreads, mainly due to increasing fears of recession.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2014 - 04/01/2019

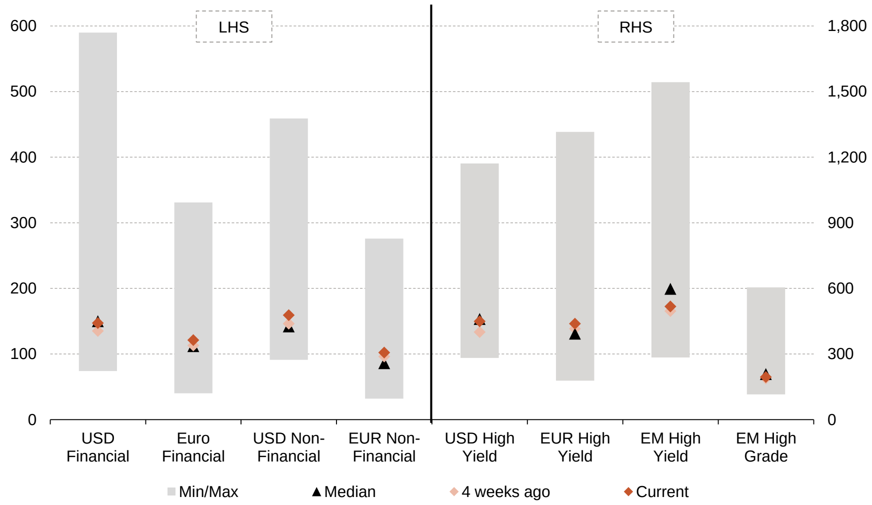
Credit Spreads High Yield and Emerging Markets Bonds



- The spread widening in 2018 for high-yield bonds was even stronger. Here spreads have risen by over 200 basis points in some cases.
- At the end of 2018, there was a massive jump in spreads for USD high-yield bonds. These are now again significantly higher than for EUR high-yield bonds. The sectors with the largest spread widening in the last four weeks were the transport and energy sectors.

The extent of the risk associated with a corporate bond is shown by its asset swap spread (in basis points). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term to offset its credit risk. See further explanations below.
Source: FactSet, Time period: 01/01/2014 - 04/01/2019

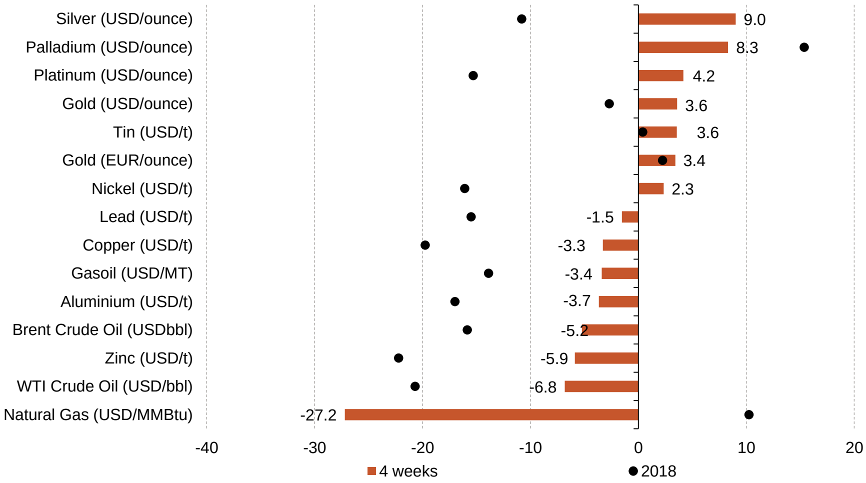
Historical Distribution of Credit Spreads (in bp)



- Spreads are now above the historical 10-year median for most segments.
- Only USD financial bonds and EM high-yield bonds still have a spread that is lower than the historical 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: 04/01/2009 - 04/01/2019

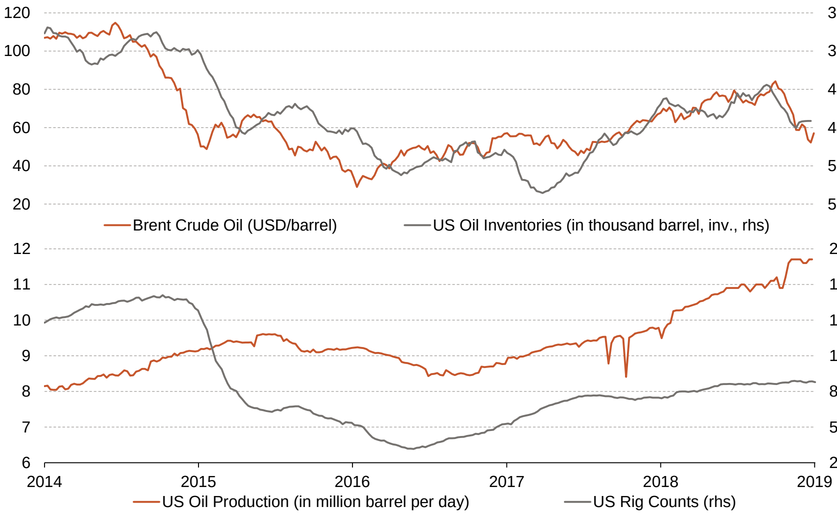
Commodities Performance



- 2018 was a year of extremes for commodities. By the beginning of October, for example, crude oil had gained around 30% and then lost just over 40% again. Palladium has found a new all-time high and gold could not prove to be a safe investment for a long time, but then managed to turn the corner.
- In the last four weeks silver has emerged as the winner and has outperformed gold. Natural gas was by far the loser.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2018 - 04/01/2019

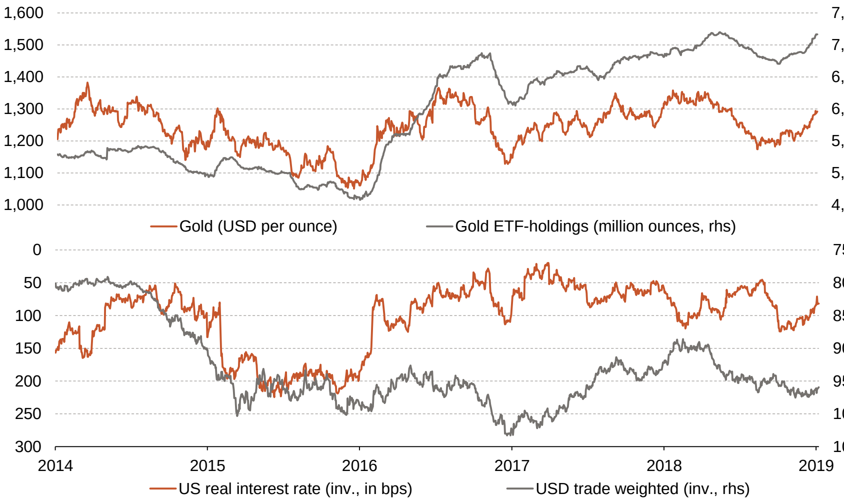
Crude Oil



- After a price slide at the end of December, the oil price recently turned around at just around USD 50 per barrel and recovered to 58 USD/barrel. If the OPEC+ producing countries reduce oil production as announced, a further drop in prices is unlikely.
- US oil inventories remained at around 440,000 barrels, while US oil production rose only slightly to 11.7 million barrels per day.

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: 01/01/2014 - 04/01/2019

Gold



- The gold price has recently made strong gains and is approaching the 1,300 US dollar mark.
- Falling US real interest rates and sharp inflows into gold ETFs due to increasing fears of recession helped the small gold rally.

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: 01/01/2014 - 04/01/2019

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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.

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