BERENBERG
Markets

MONITOR

04 February 2019

Current market commentary

According to the motto "Better safe than sorry", the US Federal Reserve has halted its cycle of interest rate hikes for the time being. As a result, the US dollar weakened and bond yields fell. Emerging market and REITs in particular, benefited from the Fed's new orientation. Carry is in vogue again. Since the beginning of the year, most asset classes have been clearly in positive territory - despite disappointing economic data and the continuing uncertainty surrounding Brexit and the trade dispute. While December was characterised by pessimism, complacency now seems to be taking hold among investors, also implied by below-average hedging ratios. After suffering its weakest December since 1931, the S&P 500 enjoyed its best January performance since 1987 this year, and with a rising US stock market, Donald Trump's aggressiveness is likely to increase again. The probability of a stock market setback is rising again.

The bi-weekly ***Monitor*** gives you a structured overview of the current capital market environment and highlights important developments:

- Performance
- Positioning
- Sentiment
- Surprise Indicators
- Economics
- Foreign Exchange
- Equities
- Sovereign Bonds & Central Banks
- Corporate Bonds
- Commodities

Short-term outlook

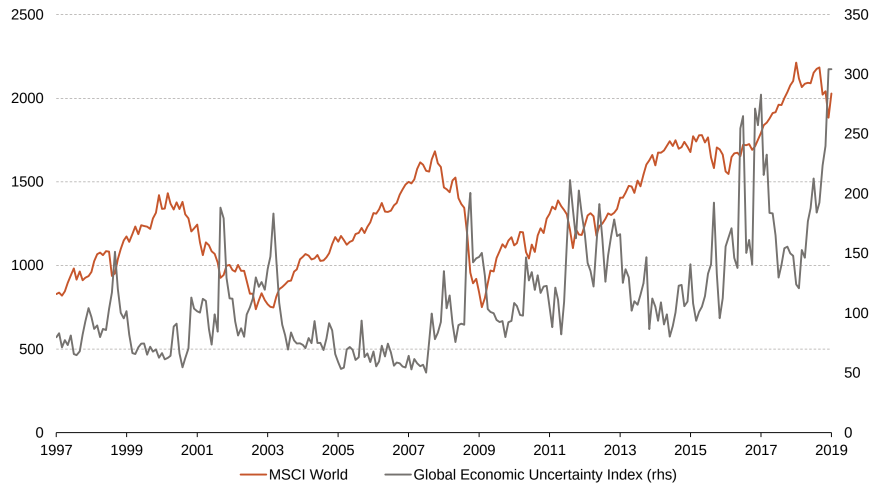
The current earnings season will continue to affect market sentiment, especially as the price swings at the individual stock level have been high lately. After the recent negotiations regarding the trade war between the US and China, hope for a solution has risen despite the lack of decisions. In contrast, no solution is foreseeable for Brexit and the risk of a hard Brexit is increasing.

Focus on individual price reactions to quarterly figures and political risks

Tomorrow the ISM non-manufacturing index will be announced in the US. German industrial orders will be released on Wednesday, and December industrial production data for Germany, France and Italy will be released on Thursday and Friday, which should reflect the weak growth in Q4 2018. At the Eurogroup meeting early next week, the Irish central bank governor Philip Lane should be appointed as successor to ECB chief economist Praet.

Some data indicate the extent of the slowdown in growth

There is still no shortage of political uncertainties

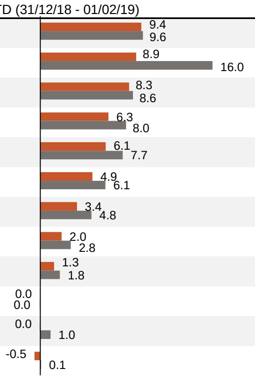


- Stock market periods driven by politics tend to be short lived. However, the frequency and severity of the uncertainties are currently so high that these are increasingly becoming normal. For example, the trade dispute has more and more real economic consequences. Therefore, the upside potential for European equities (Brexit, Italy, etc.) is currently limited. If, however, these uncertainties subside, more opportunities should emerge.

Source: Baker & Davis, Bloomberg;
Time period: 31/01/1997 - 31/01/2019

PERFORMANCE

Multi Asset



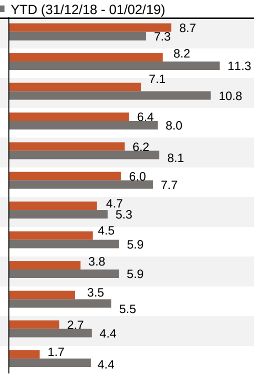
	4-week & YTD		12-month periods over that last 5 years				
	■ 4W (04/01/19 - 01/02/19)	■ YTD (31/12/18 - 01/02/19)	01/02/18 01/02/19	01/02/17 01/02/18	01/02/16 01/02/17	01/02/15 01/02/16	31/01/14 01/02/15
REITs	9.4	9.6	13.5	-9.3	3.9	-5.1	46.9
Brent	8.9	16.0	2.3	4.9	42.5	-44.9	-41.1
MSCI Emerging Markets	8.3	8.6	-6.2	20.4	27.5	-18.0	25.9
Industrial Metals	6.3	8.0	-6.2	4.5	33.0	-21.2	10.9
MSCI World	6.1	7.7	1.8	8.3	18.4	-1.3	28.0
Global Convertibles	4.9	6.1	6.9	1.2	16.5	-2.3	20.9
MSCI Frontier Markets	3.4	4.8	-9.6	12.2	17.8	-12.8	21.6
Gold	2.0	2.8	6.7	-4.0	8.4	-8.9	23.3
Global Coporates	1.3	1.8	7.0	-6.4	5.5	0.0	22.5
Eonia	0.0	0.0	-0.4	-0.4	-0.3	-0.1	0.1
Global Treasuries	0.0	1.0	7.8	-6.7	2.3	1.7	17.1
USDEUR	-0.5	0.1	9.2	-13.9	1.1	3.6	19.5

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.

- A more cautious tone from the US Federal Reserve has led to the US dollar halting its appreciation and treasury yields falling.
- REITs and emerging market equities benefitted most in the last four weeks from the prospect of US interest rates not (strongly) rising further.
- The majority of asset classes has gained since the beginning of the year. Government bonds performed worst.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/01/2014 - 01/02/2019

Equities



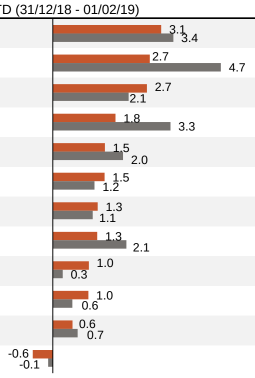
	4-week & YTD		12-month periods over that last 5 years				
	■ 4W (04/01/19 - 01/02/19)	■ YTD (31/12/18 - 01/02/19)	01/02/18 01/02/19	01/02/17 01/02/18	01/02/16 01/02/17	01/02/15 01/02/16	31/01/14 01/02/15
MSCI EM Asia	8.7	7.3	-7.7	24.0	23.1	-15.2	35.0
Russell 2000	8.2	11.3	4.8	1.3	35.6	-6.9	24.9
MSCI EM Eastern Europe	7.1	10.8	3.7	10.2	47.9	-2.6	-19.8
S&P 500	6.4	8.0	6.4	8.8	21.7	2.9	36.7
Stoxx Europe Small 200	6.2	8.1	-7.6	18.3	11.0	-0.2	12.4
Stoxx Europe Cyclicals	6.0	7.7	-12.9	15.4	20.6	-9.7	9.3
Topix	4.7	5.3	-7.0	11.6	15.4	5.9	23.2
Euro Stoxx 50	4.5	5.9	-8.9	12.6	11.0	-7.6	14.2
DAX	3.8	5.9	-14.0	11.5	19.5	-8.8	14.9
Stoxx Europe 50	3.5	5.5	-5.5	9.4	7.6	-6.6	15.6
MSCI UK	2.7	4.4	-2.3	9.3	22.1	-7.5	7.1
Stoxx Europe Defensives	1.7	4.4	5.1	5.5	-0.4	-2.6	21.9

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, riskier segments such as US small caps and Asian emerging markets performed best. The rally was driven by improved investor sentiment and hopes for progress between the US and China in their trade dispute.
- Since the beginning of the year, defensive European stocks and UK stocks, burdened by Brexit, have performed worst.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/01/2014 - 01/02/2019

Fixed Income



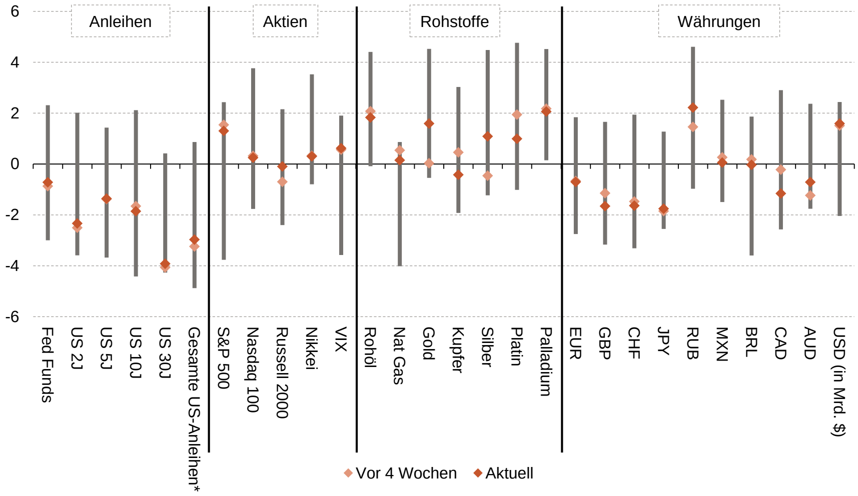
	4-week & YTD		12-month periods over that last 5 years				
	■ 4W (04/01/19 - 01/02/19)	■ YTD (31/12/18 - 01/02/19)	01/02/18 01/02/19	01/02/17 01/02/18	01/02/16 01/02/17	01/02/15 01/02/16	31/01/14 01/02/15
Gilts	3.1	3.4	3.9	-1.0	-6.8	-1.9	28.5
USD High Yield	2.7	4.7	12.1	-9.2	19.8	-3.7	22.5
EUR High Yield	2.7	2.1	-1.5	4.4	9.6	-1.7	4.4
EM Local Currency Bonds	1.8	3.3	5.7	-1.6	10.4	-8.3	22.7
USD Corporates	1.5	2.0	10.0	-9.8	7.2	0.6	29.2
EUR Financials	1.5	1.2	-0.2	3.5	2.9	0.2	6.9
EUR Non-Financials	1.3	1.1	0.3	2.4	4.0	-1.9	8.3
EM Hard Currency Bonds	1.3	2.1	9.6	-7.8	13.0	5.1	20.2
BTPs	1.0	0.3	-1.8	4.6	-2.9	3.2	15.5
EUR Inflation Linkers	1.0	0.6	-0.6	3.3	1.3	-1.3	6.7
Bunds	0.6	0.7	4.3	-1.0	0.0	0.4	10.6
Treasuries	-0.6	-0.1	11.7	-13.3	0.5	3.8	27.1

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.

- Similar to equities, riskier segments such as USD high yield bonds and emerging market bonds were among the biggest winners.
- In line with this, safe havens such as German government bonds and US Treasuries lagged well behind.
- Better than expected US economic data last Friday led to a slight increase in US yields.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/01/2014 - 01/02/2019

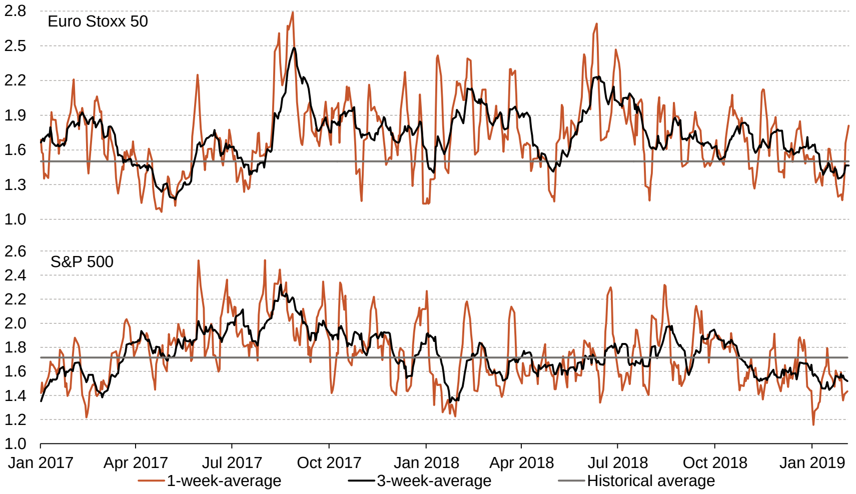
Non-Commercial Positioning



- The longest shutdown in the history of the US implies that CFTC data are not fully updated. The positioning data shown here are therefore outdated.

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: 25/01/2009 - 25/01/2019

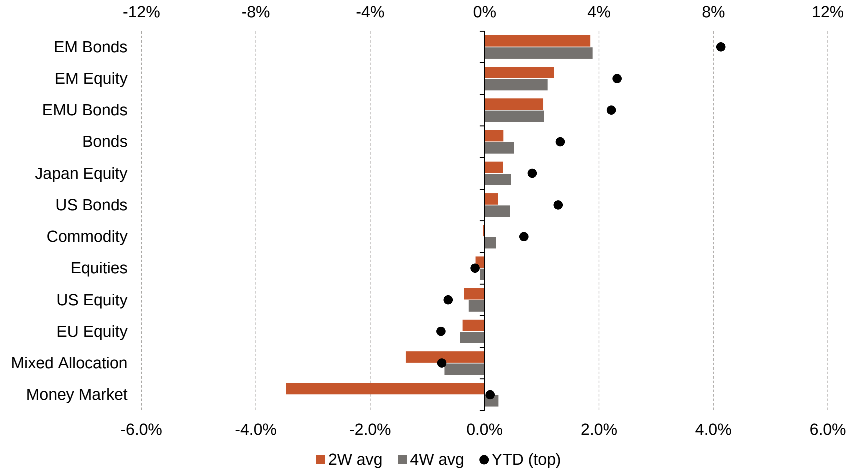
Put-Call Ratio



- The options market is currently optimistic. The 3-week averages of the put-call ratio for eurozone and US equities are below average. The hedging ratio for US equities particularly appears to be low. This carries the risk that investors could be caught off guard after the strong rally at the beginning of the year.

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 - 01/02/2019

ETF Flows

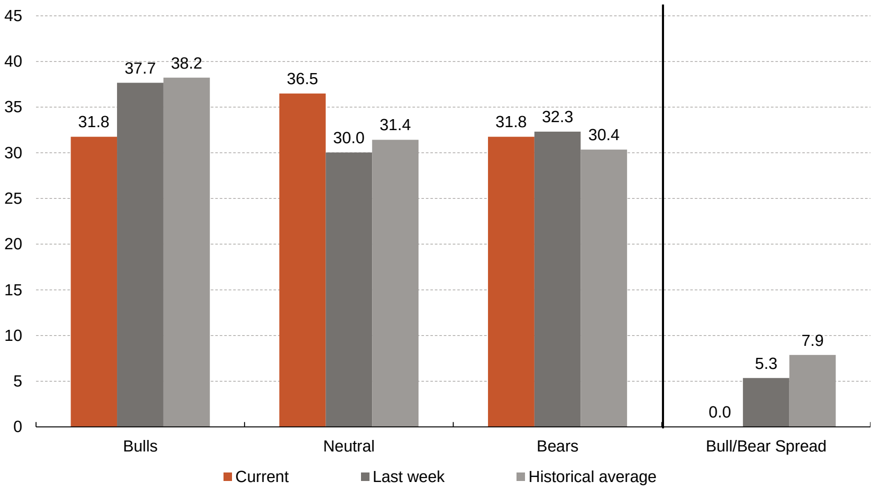


- Money market ETFs have seen the largest inflows over the last three months. This was mainly due to persistent political risks and the poor performance of risky investments. Over the past two weeks, however, as investor sentiment improved, funds have been flowing out of the money market, especially into emerging market bonds and equities.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2017 - 01/02/2019

SENTIMENT

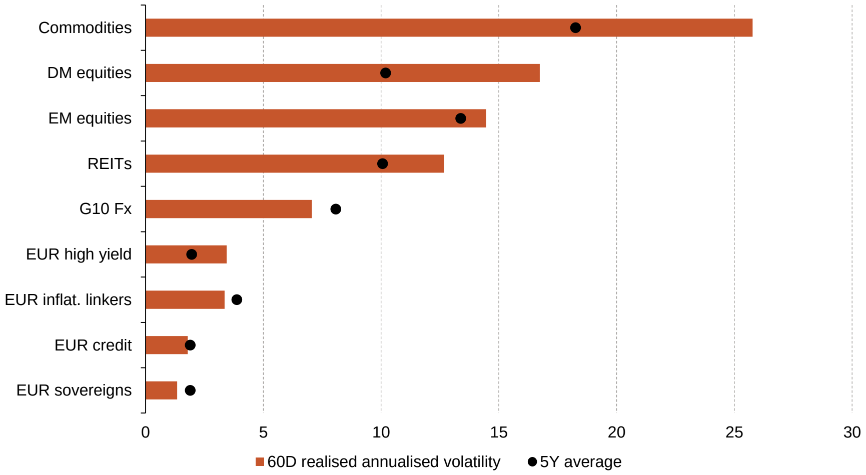
AAII Sentiment Survey (Bulls vs Bears)



- Sentiment among US investors is neutral with a balanced bull/bear spread.
- Despite the sharp rise in equity markets in January, the share of bulls fell by around 6%, while the share of bears remained almost constant at around 32%.

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 – 31/01/19

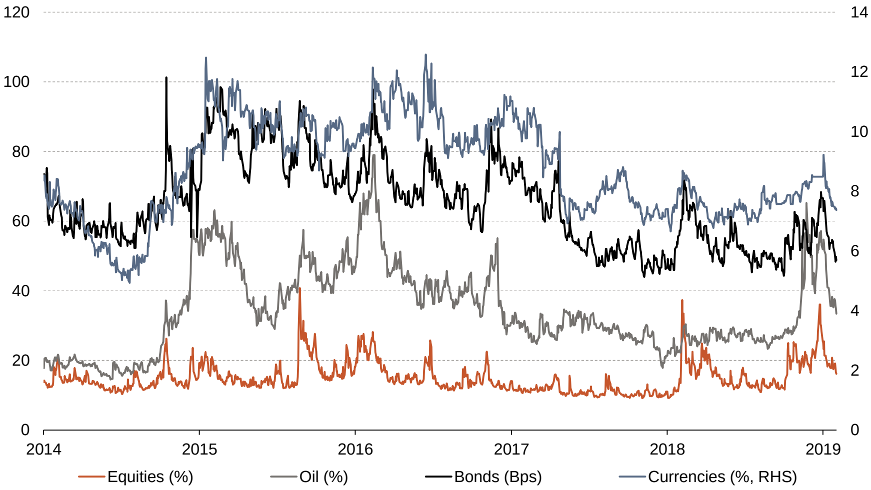
Realised Volatilities



- Realized 60-day volatility has recently risen further for commodities and is significantly higher than the 5-year average. For emerging market equities, on the other hand, realized volatilities have fallen and are approaching their historical average.
- Despite the recent recovery in risky assets, volatility in all segments, with the exception of G-10 currencies and bond segments, is higher than 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: 01/02/2014 – 01/02//2019

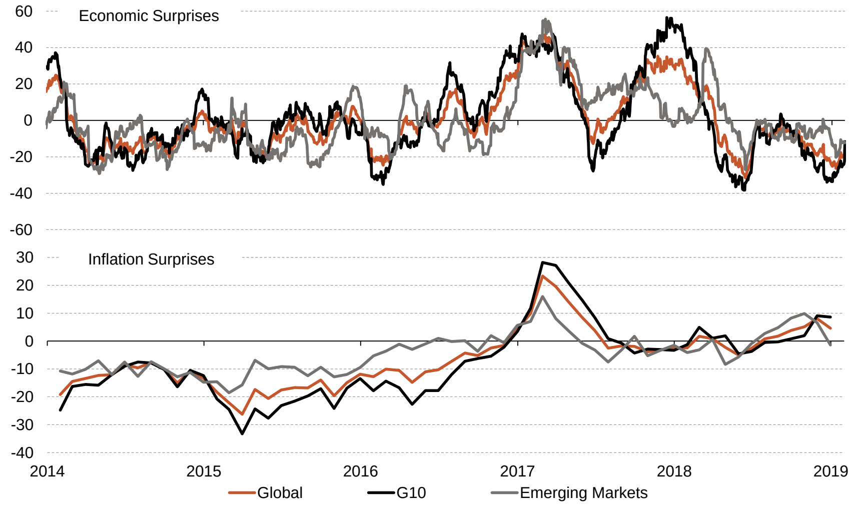
Implied Volatilities



- Since the end of December, alongside the recovery in risky assets, implied volatility in all asset classes has fallen significantly.
- While implicit volatility is still relatively high for oil, it has fallen to historically normal levels for the other asset classes.

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 – 01/02/2019

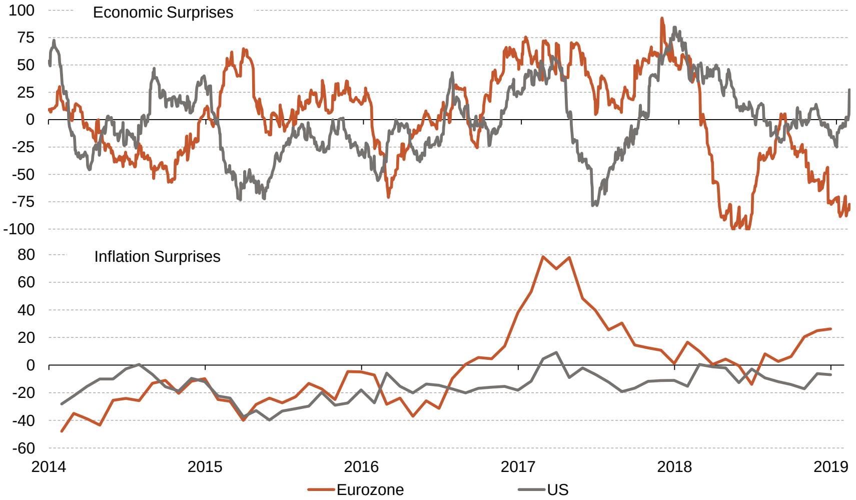
Global



- Negative global economic surprises have eased slightly recently, which in turn has slightly boosted the aggregate 3-month average.
- Emerging markets in particular appear to be recovering. They are increasingly positively surprising. For example, India's industrial purchasing managers' index was higher than a month ago. On the other hand, Chinese economic growth in 2018 fell to 6.6%, its lowest level since 1990.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 01/02/2019

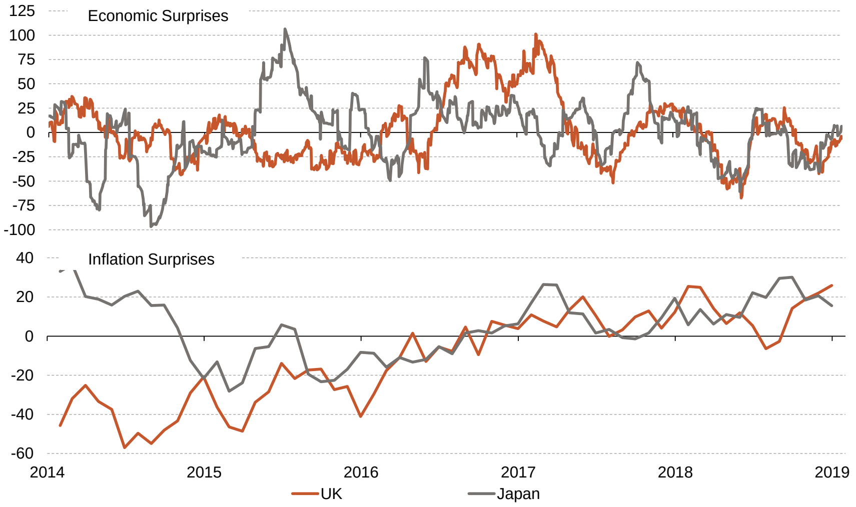
Eurozone and US



- The eurozone continues to disappoint. In Germany, for example, surveys on the current corporate situation (IFO, ZEW) and industrial sentiment have disappointed, while Italy's economy has slipped into a technical recession.
- In the US, despite the shutdown and some negative surprises such as consumer confidence or the business confidence in the Chicago area, aggregated economic data was convincing.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 01/02/2019

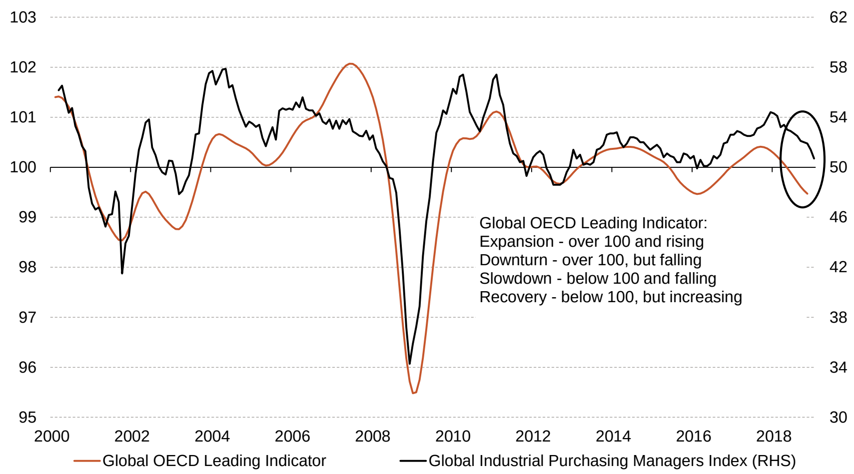
UK and Japan



- Economic data in the UK defies the Brexit chaos. The unemployment rate in November, for example, was 4.0%, below the expected 4.1%.
- Japan again surprised positively in aggregate. For example, December industrial production (MoM) fell less sharply than expected.

Citigroup Economic Surprise Indices are defined as weighted historical, normalized data surprises (actual releases vs. Bloomberg survey median) over the last three months. A positive value of the index indicates that the economic data have exceeded the consensus on balance. The indices are calculated daily based on a rolling three-month period. The indices use a time decay function to replicate the markets limited memory, i.e. the weight of a data surprise decreases over time.
Source: Bloomberg, Time period: 01/01/2014 - 01/02/2019

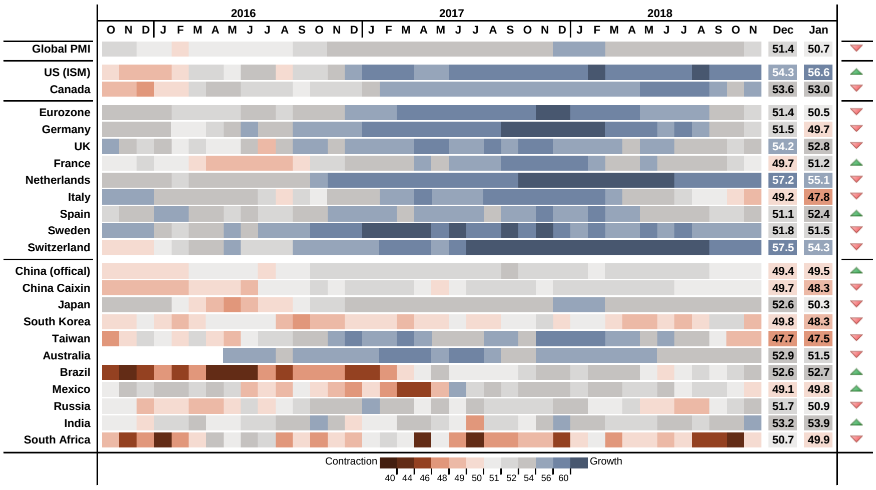
OECD Leading Indicator and Global Purchasing Managers Index



- With a value of around 99.5 points, the OECD leading indicator points to a slowdown in the global economy.
- Our economists expect the global economy to grow by 2.5% in 2019 and 2.7% in 2020, while consensus expects 3.5% for 2019 and 3.3% for 2020. A recession is therefore not in sight.

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)

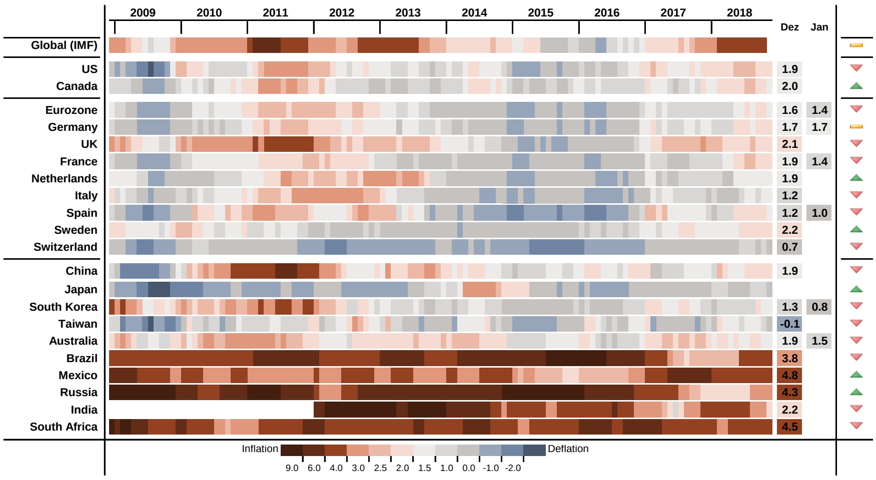


	Dec	Jan	
Global PMI	51.4	50.7	▼
US (ISM)	54.3	56.6	▲
Canada	53.6	53.0	▼
Eurozone	51.4	50.5	▼
Germany	51.5	49.7	▼
UK	54.2	52.8	▼
France	49.7	51.2	▲
Netherlands	57.2	55.1	▼
Italy	49.2	47.8	▼
Spain	51.1	52.4	▲
Sweden	51.8	51.5	▼
Switzerland	57.5	54.3	▼
China (offical)	49.4	49.5	▲
China Caixin	49.7	48.3	▼
Japan	52.6	50.3	▼
South Korea	49.8	48.3	▼
Taiwan	47.7	47.5	▼
Australia	52.9	51.5	▼
Brazil	52.6	52.7	▲
Mexico	49.1	49.8	▲
Russia	51.7	50.9	▼
India	53.2	53.9	▲
South Africa	50.7	49.9	▼

- In January, industrial sentiment in Germany fell below the important level of 50 points.
- According to the official PMI, industrial sentiment in China has improved slightly, while the unofficial PMI has fallen and is therefore showing a less positive picture.

The PMI is an overall index that provides a general overview of the economic situation in industry. The PMI is derived from a total of eleven sub-indices, which reflect the change from the previous month. A value of 50 is regarded as neutral, a value of over 50 points as an indicator of rising activity in industry and a value of less than 50 points for falling activity in industry compared with the previous month. The index has an average lead time before actual industrial production of three to six months. The PMI is based on a survey of a relevant selection of purchasing managers regarding the development of parameters such as incoming orders.
Source: Bloomberg, Time period: 31/10/2015 - 31/01/2019

Headline Inflation

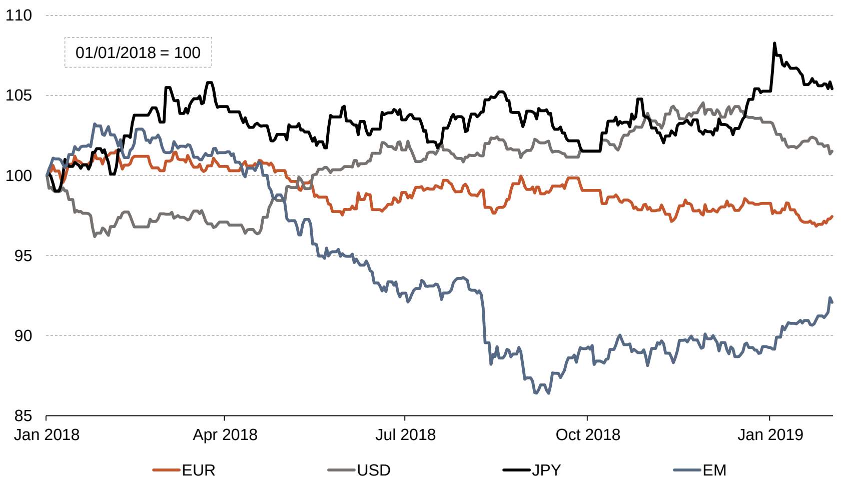


	Dez	Jan	
Global (IMF)			▬
US	1.9		▼
Canada	2.0		▲
Eurozone	1.6	1.4	▼
Germany	1.7	1.7	▬
UK	2.1		▼
France	1.9	1.4	▼
Netherlands	1.9		▲
Italy	1.2		▼
Spain	1.2	1.0	▼
Sweden	2.2		▲
Switzerland	0.7		▼
China	1.9		▼
Japan			▲
South Korea	1.3	0.8	▼
Taiwan	-0.1		▼
Australia	1.9	1.5	▼
Brazil	3.8		▼
Mexico	4.8		▲
Russia	4.3		▲
India	2.2		▼
South Africa	4.5		▼

- In January, inflation did not seem to be rising again. In Germany it stayed stable at 1.7%, while in France it has fallen to 1.4%.
- Lower energy costs in particular have contributed to the fact that consumer prices in aggregate have risen only moderately.

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 - 31/01/2019

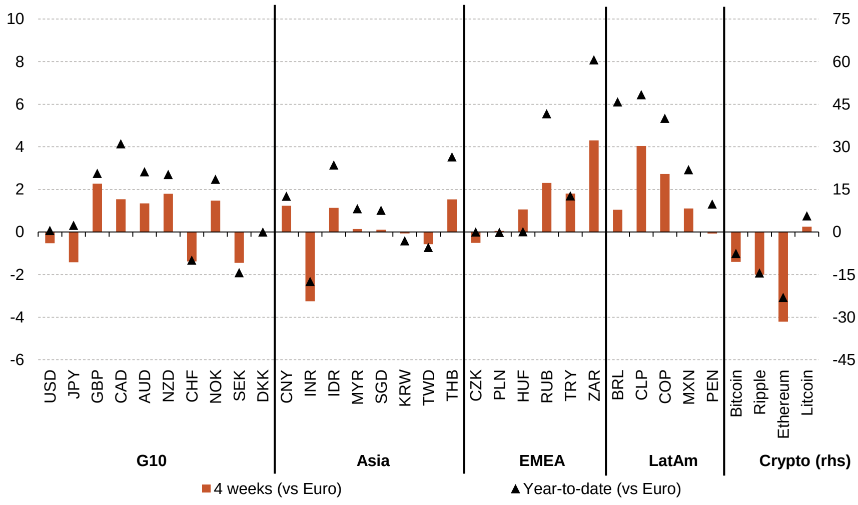
Trade-Weighted Currency Development



- Since the US Federal Reserve signalled it will pause further interest rate hikes due to moderate inflation, the trade-weighted US dollar has weakened somewhat.
- Emerging market currencies have benefited from the Fed's wait-and-see attitude and have continued to appreciate.
- In the risk-on environment, the Japanese yen has depreciated somewhat since the beginning of the year.
- The euro benefited from the dollar and yen weakness.

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 - 01/02/2019

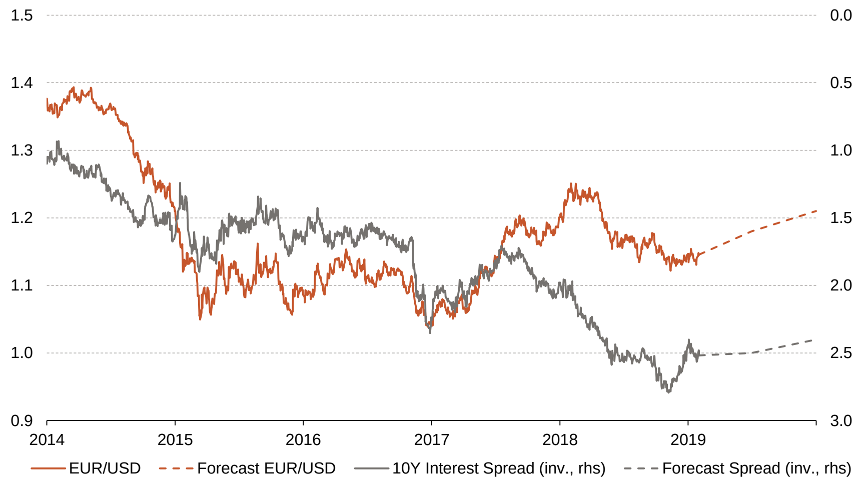
Currency Moves vs Euro



- G10 currencies have been volatile against the euro. Safe-haven currencies have recently depreciated against the euro.
- EM currencies gained thanks to the prospect of a pause in the US interest-rate hike cycle. Compared to the euro, especially the Russian ruble and the South African rand appreciated, both benefitting from firmer raw material prices.
- Most crypto currencies continued their downward trend.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2018 - 01/02/2019

EUR/USD exchange rate and interest rate differential



- The US dollar weakened for only a short period, so that the EUR/USD exchange rate continued to fluctuate sideways around 1.14.
- The interest rate differential between 10-year Bunds and US Treasuries continues to fluctuate around 2.5%. For 2019, our economists expect only a slight reduction in the interest rate differential. However, according to their current forecasts, the euro should appreciate by 5% to 1.21 EUR/USD.

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

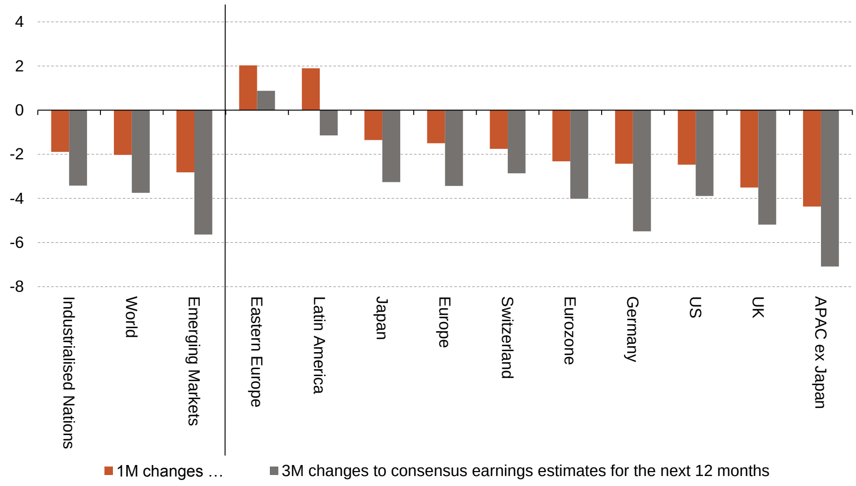
	4-week & YTD		12-month periods over that last 5 years				
	🟥 4W (04/01/19 - 01/02/19)	⬛ YTD (31/12/18 - 01/02/19)	01/02/18 01/02/19	01/02/17 01/02/18	01/02/16 01/02/17	01/02/15 01/02/16	31/01/14 01/02/15
Consumer Discretionary	9.1	10.1	-8.5	12.1	8.5	-5.4	21.5
Information Technology	8.6	7.1	-3.0	22.2	10.6	4.3	20.4
Materials	7.6	9.5	-7.7	15.6	50.6	-23.2	8.7
Industrials	6.8	8.1	-7.8	14.9	18.7	-3.3	9.6
Utilities	6.1	8.0	13.9	10.2	-8.5	-5.1	24.1
Growth	5.3	6.6	-3.8	11.7	4.2	1.1	20.0
Consumer Staples	4.4	5.9	-1.6	7.1	-1.0	6.8	30.9
Value	4.0	6.4	-7.7	10.2	16.3	-12.2	13.2
Finance	3.3	5.9	-18.3	14.8	17.2	-10.8	9.2
Energy	2.7	6.6	6.0	10.9	30.1	-13.2	-1.4
Health Care	1.6	3.9	5.7	0.5	-3.0	-2.3	30.2
Telecommunications	-2.2	-0.6	-7.8	2.8	-14.2	-0.5	22.7

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

- After heavy losses in December, tech firms experienced a strong recovery in January, boosted by good quarterly results in the current earnings season.
- Cyclicals also gained significantly, while more defensive sectors such as telecommunications and healthcare were the main losers. The mood on the stock markets has become more optimistic.

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: 31/01/2014 – 01/02/2019

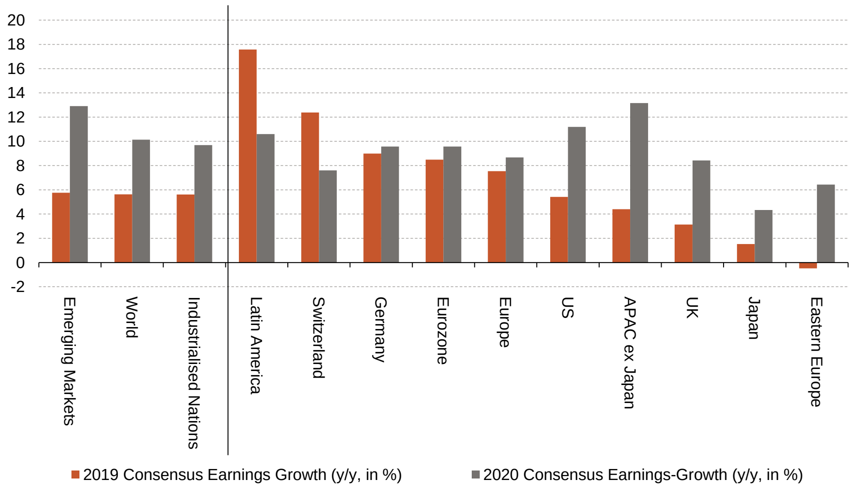
Changes in Consensus Earnings Estimates



- In recent months, analysts have further revised their earnings estimates downwards. For emerging market equities, forecasts for the next 12 months have been revised downwards by almost 6 percent over the last three months. In addition to the ongoing trade dispute, disappointing economic figures are also having a negative impact.
- For Eastern Europe and Latin America, however, there were slight upward revisions over the last month.

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 01/02/2019

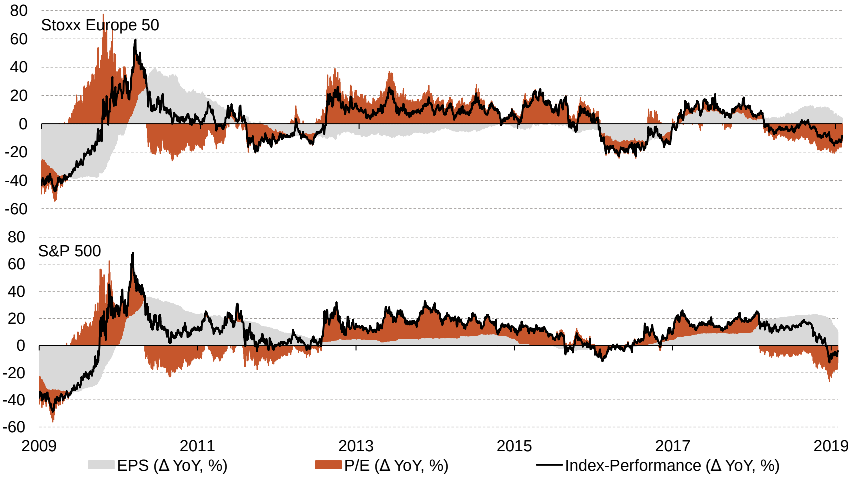
Earnings Growth



- Expected earnings growth for 2019 now seems much more realistic than a few months ago.
- For Eastern Europe, analysts even expect profit in 2019 to be lower than in 2018. For Japan, consensus expects only a 1.5% increase in profits over the previous year.
- For Latin America, on the other hand, analysts are most optimistic.

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 01/02/2019

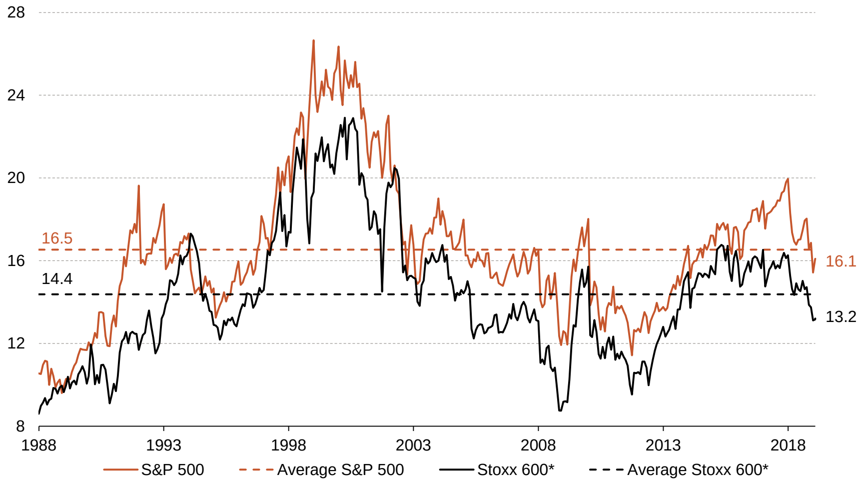
Contribution Analysis



- Over the past 12 months, profits of European and US companies have risen, although valuations have fallen significantly due to numerous negative factors (e.g. the trade war).
- While US equities are only slightly negative compared to the previous year, European equities have fallen sharply. The P/E ratios for Europe and the US have fallen by almost 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 - 01/02/2019

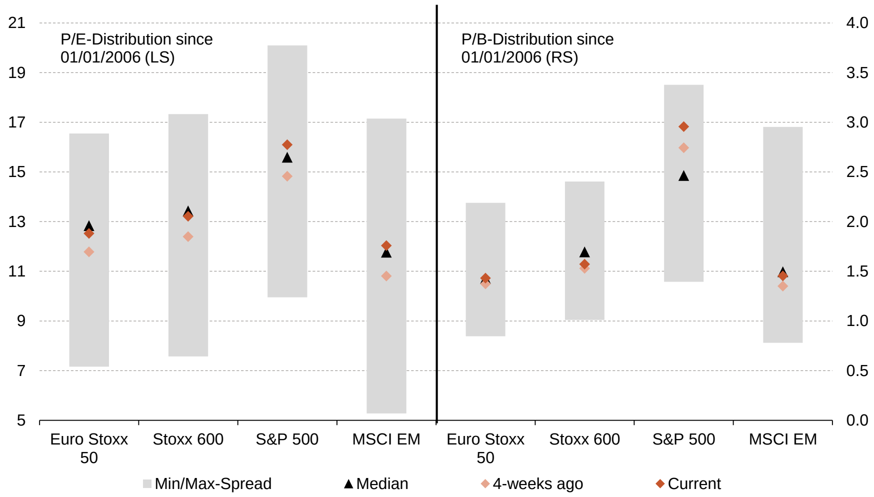
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The current P/E ratio of 13.2 for the Stoxx 600 equals 2013 levels, which means that European equities are currently much cheaper compared to their long-term average.
- With a P/E ratio of 16.1, US equities are currently also valued favourably compared to their own historical average.

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 - 01/02/2019

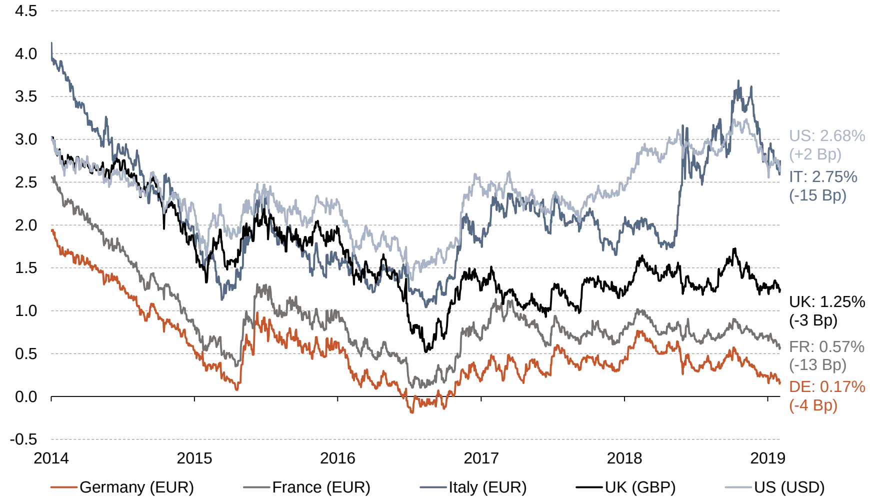
Historical Distribution: Price/Earnings and Price/Book Ratio



- Over the past four weeks, all stock markets have moved upwards away from their historical median P/E ratio. However, all regions appear to be fairly valued on a P/E basis.
- US equities have recently become significantly more expensive in terms of the price/book ratio. They trade at a P/B of over 2.9, noticeably above their median since 2006. US equities thus remain the most expensive.

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 - 01/02/2019

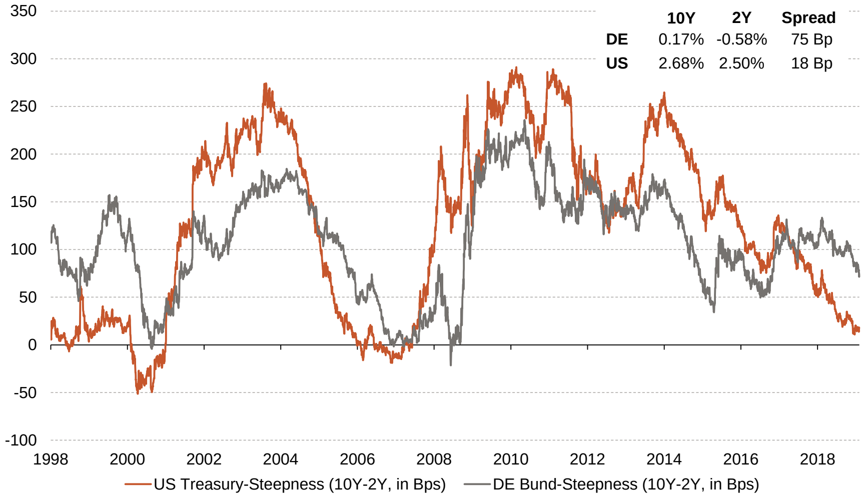
10-Year Government Bond Yields



- Fears of a recession, lower inflation expectations and cautious central banks are causing yields to fall further. US Treasuries now yield less than 2.7%.
- German government bonds were also in strong demand in an environment of political uncertainty. Yields are now at 0.15% and are approaching zero. Yields on Italian government bonds, on the other hand, rose due to disappointing economic data last week.

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 - 01/02/2019

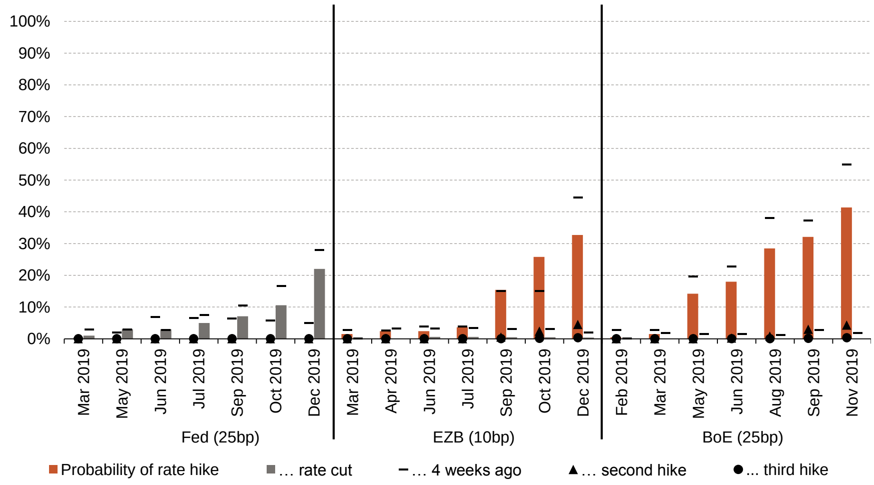
Yield curve steepness (10Y - 2Y)



- The steepness of the German yield curve has fallen below 80 basis points. While negative yields on 2-year government bonds hardly moved, 10-year yields have fallen by 10 basis points in the last two weeks.
- The US Treasury curve steepness remains at 18 basis points.

The yield curve distinguishes between the so-called short and the long end. The reason for this lies 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 - 01/02/2019

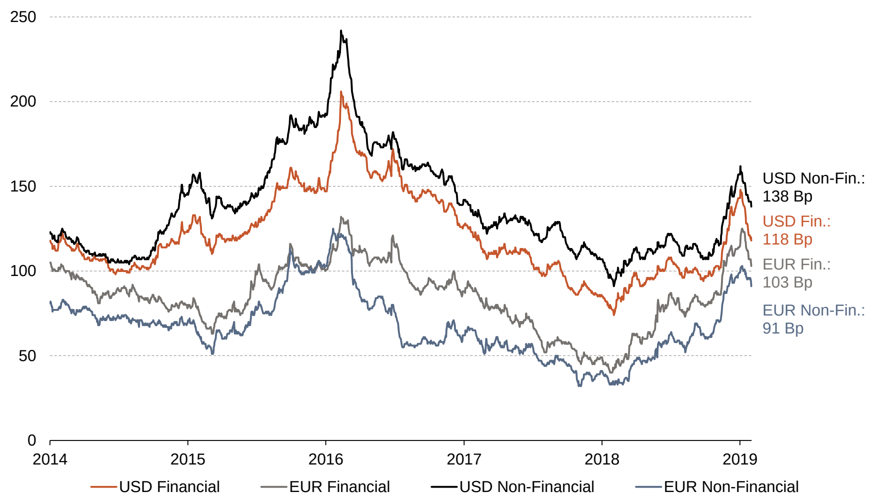
Implicit Probabilities for Changes in Key Interest Rates



- Following the Fed's indication that interest rate hikes could be over, the market is now not expecting another interest rate hike but instead, with 20% probability, an interest rate cut by the end of 2019. The gloomy economic outlook and political pressure have had an impact.
- The probability of an interest rate hike in 2019 in the eurozone is around 30%, while in the UK it is around 40%.

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: 04/01/2019 - 01/02/2019

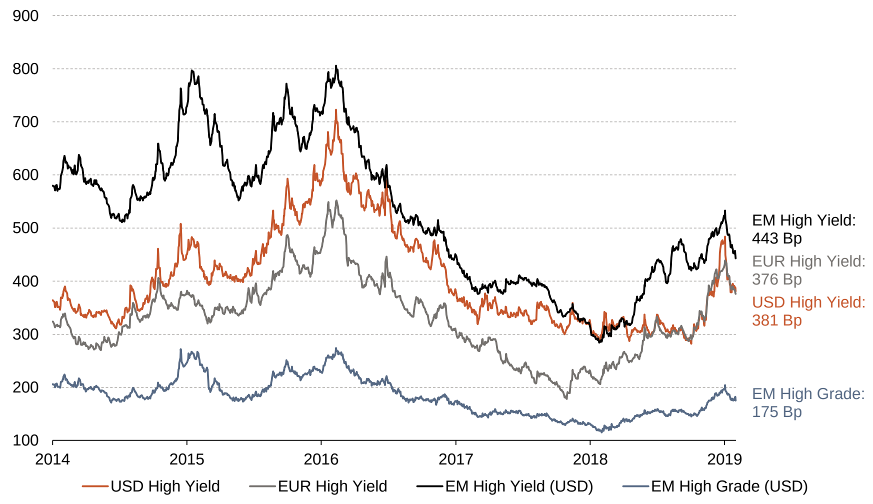
Credit Spreads Financial and Non-Financial Bonds



- Investors were again increasingly looking for risk, and as a result spreadson corporate bonds fell further. USD financial bonds were particularly affected, after US banks posted strong earnings.
- For EUR corporate bonds, too, financial bonds performed significantly better than non-financial bonds.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2014 - 01/02/2019

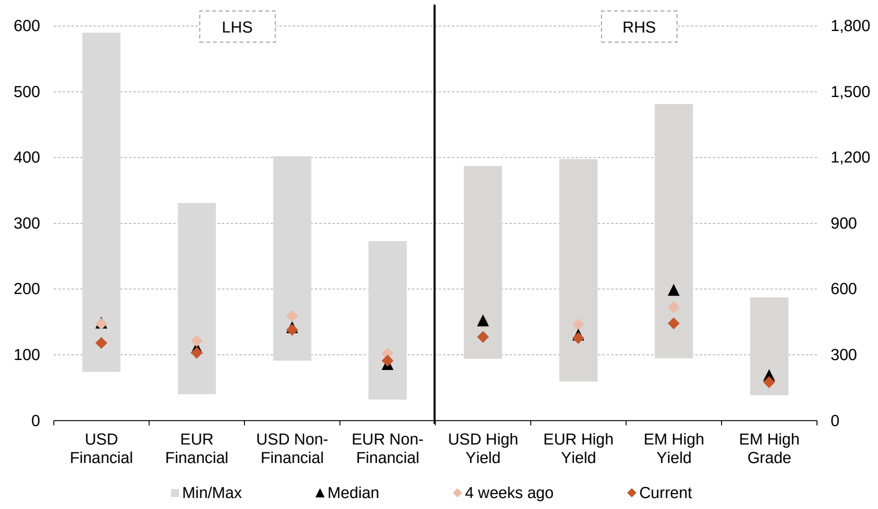
Credit Spreads High Yield and Emerging Markets Bonds



- The decline in spreads was less pronounced for high-yield bonds relative to investment grade bonds. In a two-week comparison, EUR high yield bonds only gained 11 basis points, while USD high yield bonds recorded slightly rising risk premiums.
- EM high yield bonds saw a spread narrowing of 21 basis points in the last two weeks.

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 - 01/02/2019

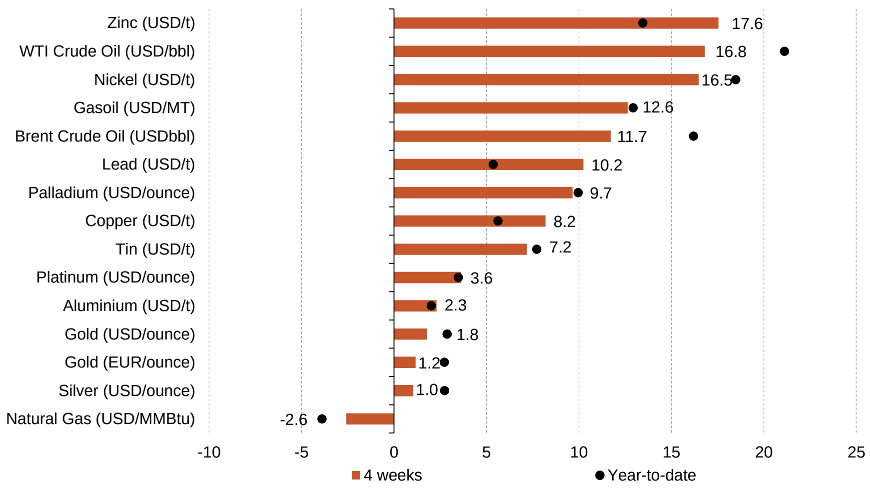
Historical Distribution of Credit Spreads (in bp)



- Spreads on USD financial bonds, USD high-yield and emerging market high-yield bonds are now well below their respective 10-year medians again.
- EM High Grade spreads remained stable. Spreads are close to their historical median and the value of four 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: 01/02/2009 - 01/02/2019

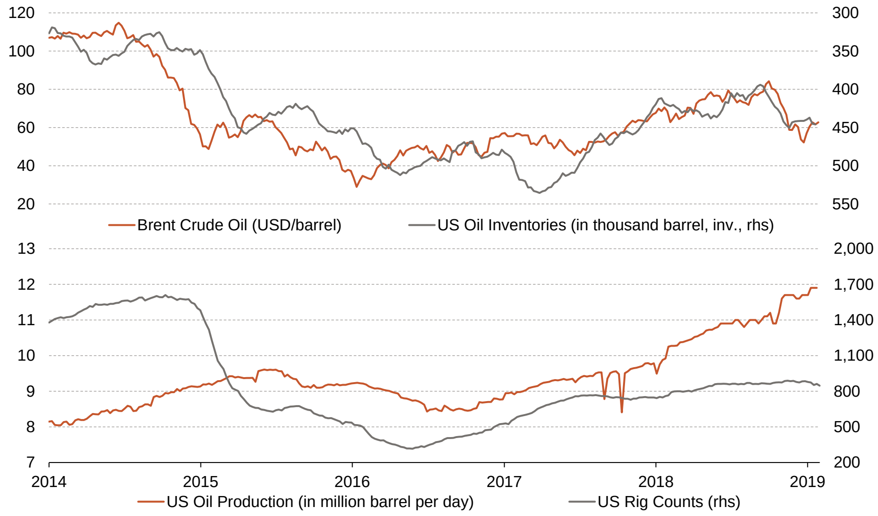
Commodities Performance



- In January, almost all commodities witnessed gains. In addition to the easing of economic worries, hopes for a settlement in the trade dispute and a weaker US dollar have boosted confidence.
- The winner list is led by Zinc, WTI crud oil and Nickel. But all precious metals have also been up slightly since the beginning of the year.
- The decline in US natural gas prices is remarkable given the record consumption during the US cold spell and falling inventory levels.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2018 - 01/02/2019

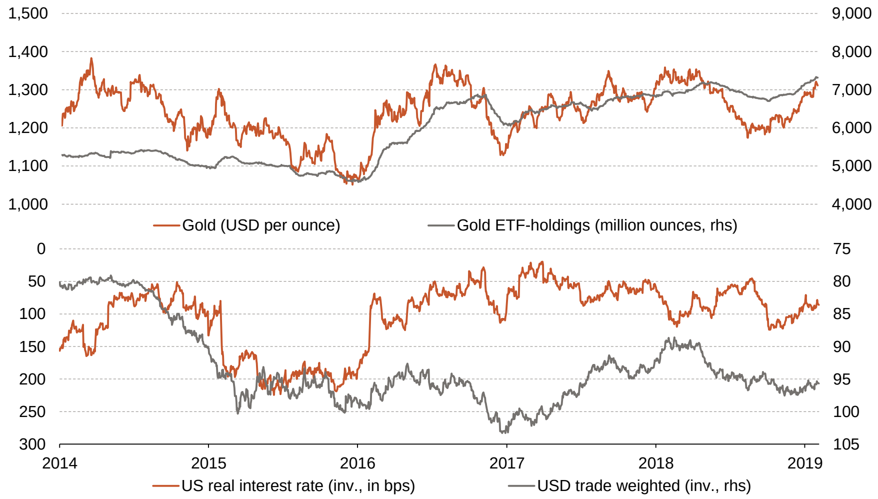
Crude Oil



- In the last two weeks, the price of Brent oil has fluctuated sideways between USD 60 and 63 per barrel.
- The oil price was supported by OPEC production cuts, production losses in Libya and US sanctions against Venezuela.
- The rise in US inventories and the record high and continuing rise in US production may have a dampening effect on crude oil 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: 01/01/2014 - 01/02/2019

Gold



- Due to substantial ETF inflows and global risk factors, the gold price has exceeded the psychological mark of 1,300 US dollars per ounce. Thanks to smouldering risks, gold is holding above this mark.
- The expected pause in US interest rate hikes with a resulting weakening of the US dollar and falling real interest rates have supported gold.

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 - 01/02/2019

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