

Current market commentary

Two weeks ago, with investors increasingly complacent, we argued that equity markets needed positive stimulus from economic data, a trade deal between China and the US and/or a Brexit clarification. Otherwise, investors would have to be prepared for setbacks. Unfortunately, these impulses have not only failed to materialise, but the trade conflict between the USA and China has even intensified. Should these impulses come in the near future, the stock markets should recover again and not immediately transition to the summer weakness that we expect later. After all, we have already seen two similar (even slightly stronger) setbacks in the DAX this year. Economic optimism, solid corporate results and share buyback programs supported the markets. However, should the impulses fail to materialise, things could quickly move in the opposite direction - also because systematic strategies would reduce their equity exposures again. A neutral equity positioning seems appropriate.

Short-term outlook

The political risks have returned. Investors will be watching how the trade conflict between the US and China continues, in particular after last week's losses. There could also begin a trade war between the US and the EU because, this week, the US will decide on import duties on cars from the EU. These topics cover the ongoing corporate reporting season.

Regarding economic news, the ZEW's Survey for May will be released tomorrow, Tuesday. On Wednesday, the focus will be on Chinese industrial production, US retail sales and US industrial production. In addition, the US Philadelphia Fed Index will be released on Thursday and the US consumer confidence follows on Friday. The elections for the EU Parliament will take place from 23 to 26 May, whereby the outcome of nationalist or populist parties might influence the EU's ability to act.

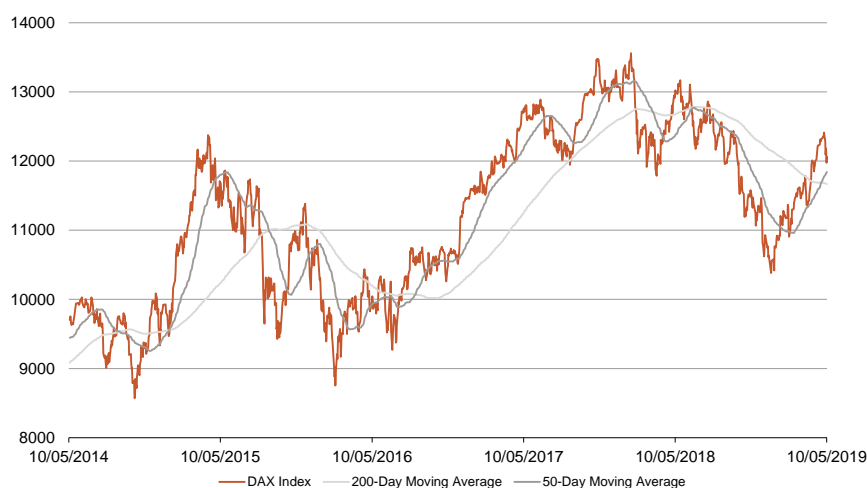
The bi-weekly *Monitor* gives you a structured overview of the current capital market environment and highlights important developments:

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

The trade policy risks cover the corporate reporting season.

Various economic data and the EU elections are scheduled for the next two weeks.

Last week, the DAX endured its third largest setback YTD



- Last week, the DAX endured its third largest setback since the beginning of the year. Following similar setbacks at the beginning of February and end of March, however, the DAX recovered quickly, partly due to a moderate investor positioning.
- We believe that the mixed economic data and increased political uncertainties justify a neutral equity positioning. With the expected positive impulses, the stock market should reach new highs for the year. Otherwise, however, the summer weakness has already begun.

Source: Bloomberg, Time period: 10/05/2014 - 10/05/2019



Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (12/04/19 - 10/05/19)	YTD (31/12/18 - 10/05/19)	10/05/18	10/05/17	10/05/16	10/05/15	09/05/14
			10/05/19	10/05/18	10/05/17	10/05/16	10/05/15
MSCI Frontier Markets	0.9	11.0	-1.9	5.8	16.6	-12.6	13.5
Global Treasuries	0.6	1.7	1.3	5.0	-4.3	6.9	-6.4
USDEUR	0.6	2.1	6.1	-8.8	4.7	-1.4	22.8
Global Corporates	0.4	4.3	3.7	3.4	0.6	2.9	-1.9
Gold	0.3	2.4	3.2	-1.1	0.8	5.0	13.2
Eonia	0.0	-0.1	-0.4	-0.4	-0.3	-0.2	0.0
Brent	-0.1	34.2	-0.2	44.0	1.7	-43.3	-31.2
MSCI World	-0.8	16.0	8.2	4.2	21.8	-6.8	33.2
Global Convertibles	-0.9	9.5	1.2	12.4	14.1	-6.0	3.6
REITs	-1.1	16.7	17.1	-8.8	-0.2	6.1	29.7
MSCI Emerging Markets	-4.5	9.6	-3.0	8.4	32.2	-21.2	29.0
Industrial Metals	-5.9	7.2	-8.9	15.6	24.7	-28.6	17.2

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 Capitalization Index; USDEUR: Price of 1 USD in EUR.

- Frontier (FM) stocks have performed best over the last four weeks. Once again, FM stocks are relatively uncorrelated to the rest of the world. Since few international investors are invested, there is hardly any money to be withdrawn. In addition, FM companies tend to have a domestic revenue focus.
- Industrial metals and emerging market equities fell the most.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 09/05/2014 - 10/05/2019

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (12/04/19 - 10/05/19)	YTD (31/12/18 - 10/05/19)	10/05/18	10/05/17	10/05/16	10/05/15	09/05/14
			10/05/19	10/05/18	10/05/17	10/05/16	10/05/15
DAX	0.5	14.2	-7.4	2.1	27.0	-14.2	22.2
Russell 2000	-0.1	19.4	5.4	5.9	31.7	-8.5	38.6
S&P 500	-0.2	18.0	14.5	5.6	23.2	-0.8	40.9
Topix	-0.9	7.5	-5.6	8.9	21.7	-7.2	44.7
Euro Stoxx 50	-1.6	13.6	-3.2	0.5	25.7	-16.0	17.5
Stoxx Europe 50	-1.6	13.6	1.6	-0.7	20.0	-16.0	19.6
Stoxx Europe Defensives	-2.4	7.6	3.2	0.7	11.1	-11.6	20.0
Stoxx Europe Small 200	-2.6	14.2	-3.4	5.7	23.0	-8.9	19.9
MSCI UK	-2.8	13.2	-0.3	3.0	17.1	-16.7	20.0
Stoxx Europe Cyclical	-3.4	14.7	-6.7	4.4	31.2	-19.0	18.4
MSCI EM Eastern Europe	-4.6	9.6	9.7	4.0	31.6	-19.1	11.8
MSCI EM Asia	-4.9	10.1	-3.9	11.4	34.5	-21.4	41.5

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 Cyclical: Stoxx Europe Cyclical TR;
 Stoxx Europe Defensives: Stoxx Europe Defensives TR; DAX: DAX TR; MSCI UK: MSCI United Kingdom; MSCI EM Asia: MSCI EM Asia TR;
 MSCI EM Eastern Europe: MSCI EM Eastern Europe TR.

- Over the last four weeks, all the equity regions considered here have lost value - with the exception of the DAX. The escalation of the trade conflict last week has left its mark. Asian emerging markets suffered the most.
- The DAX surprisingly remained stable, due in part to the encouraging Q1 reports of companies such as Adidas and SAP.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 09/05/2014 - 10/05/2019

Fixed Income

	4-week & YTD		12-month periods over that last 5 years				
	4W (12/04/19 - 10/05/19)	YTD (31/12/18 - 10/05/19)	10/05/18	10/05/17	10/05/16	10/05/15	09/05/14
			10/05/19	10/05/18	10/05/17	10/05/16	10/05/15
Treasuries	1.5	3.9	11.3	-9.1	3.1	2.2	26.9
USD Corporates	1.1	7.6	13.2	-8.1	7.2	2.2	27.0
Gilts	0.9	6.4	6.3	-4.8	-0.8	-2.5	25.3
Bunds	0.8	2.0	4.5	-0.1	-1.6	3.6	7.9
EUR Non-Financials	0.6	3.9	3.0	1.1	1.9	2.1	5.1
EM Hard Currency Bonds	0.6	5.1	6.1	1.7	7.1	3.6	0.9
EUR Financials	0.4	3.7	2.7	1.3	3.0	1.9	4.4
USD High Yield	0.1	10.3	13.1	-6.2	17.9	-3.9	24.8
EUR Inflation Linkers	-0.1	1.3	-1.3	4.2	0.3	0.3	5.0
EUR High Yield	-0.5	5.2	1.7	2.2	7.8	-0.2	3.4
BTPs	-0.9	1.4	-1.6	4.1	-1.9	3.5	10.1
EM Local Currency Bonds	-2.0	1.0	-1.3	5.4	5.4	-2.9	-7.0

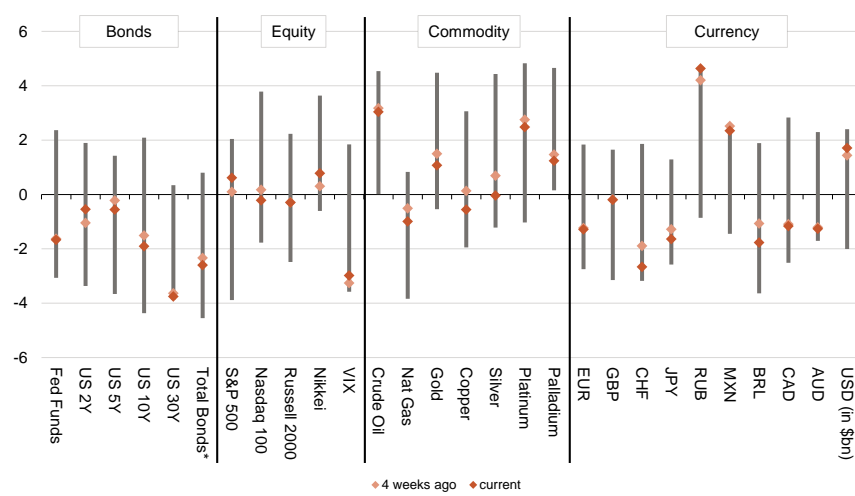
Bunds: Barclays Germany Govt All Bonds TR; BTPs: Barclays Italy Govt All Bonds TR; Treasuries: Barclays US Treasury TR;
 Gilts: Barcl. UK Govt All Bonds TR; EUR Inflation Linkers: Barcl. Euro Govt Inflation-Linked Bond All Maturities TR; EUR Financials: IBOXX Euro Fin. Overall TR;
 EUR Non-Financials: IBOXX Euro Non-Fin. Overall TR; EUR High Yield: Markt 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.

- US Treasuries have lived up to their status as safe havens and have gained value over the last four weeks.
- However, riskier segments such as Italian government bonds and local EM government bonds came under pressure.
- EM hard-currency government bonds performed relatively well in an environment of increased uncertainty. The stronger dollar helped.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 09/05/2014 - 10/05/2019



Non-Commercial Positioning

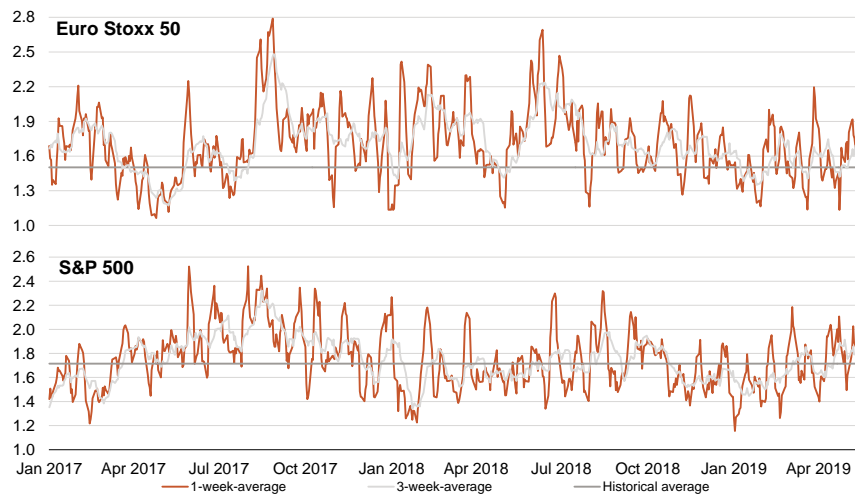


- The record net short positioning in VIX futures was once again a good warning signal for complacency. In the wake of the recent VIX spike, some speculative investors had to close their short positions.
- The covering of net long positions contributed to the fall in oil prices

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: 12/05/2009 - 07/05/2019

Put-Call Ratio

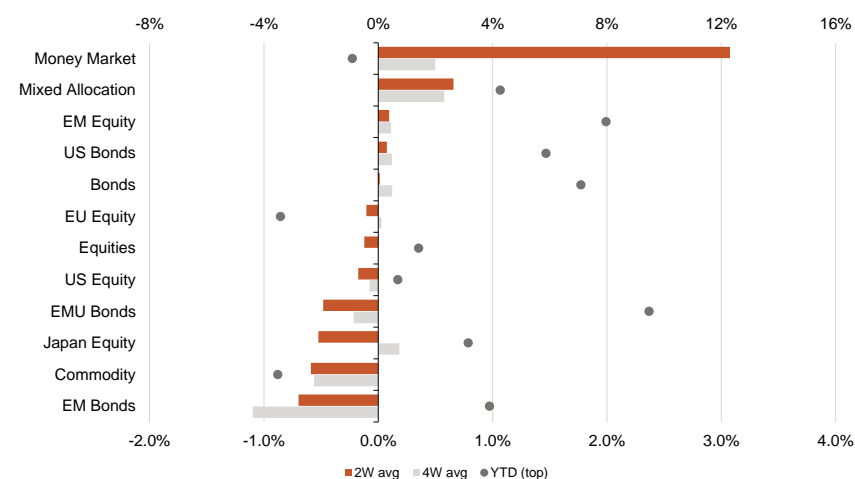


- The complacency of investors is no longer to be seen in the put call ratio for the Euro Stoxx 50. This hedging ratio increased in the course of the recent escalation in the trade dispute.
- In the US the put call ratio has also risen significantly and stands above the historical average.

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 - 10/05/2019

ETF Flows



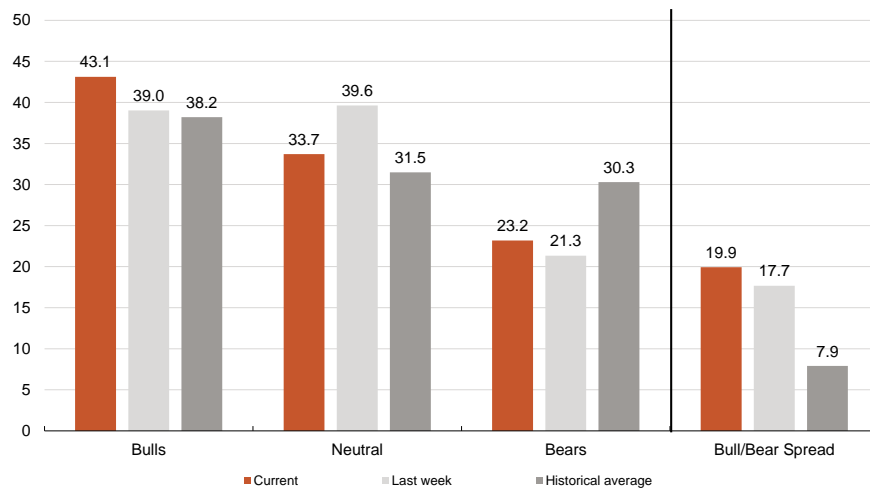
- Thanks to the re-intensified trade conflict, money market ETFs are once again enjoying increasing popularity. Multi asset products have also recently been in demand.
- Investment vehicles for European equities, on the other hand, have suffered outflows in 59 of the last 61 weeks. The mixed economic figures, the Brexit uncertainty as well as the trade conflict are weighing on sentiment

Estimated ETF flows in percent of assets under management, sorted by 2-week average.

Source: Bloomberg, Time period: 31/12/2018 - 10/05/2019



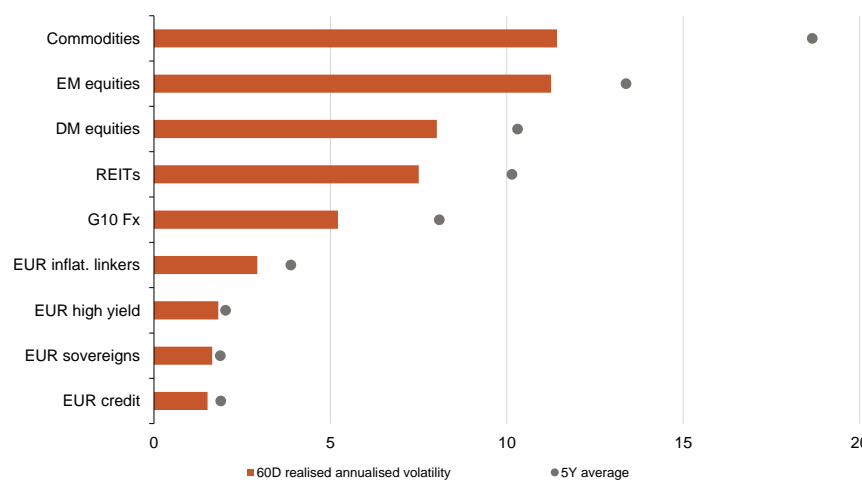
AAll Sentiment Survey (Bulls vs Bears)



- Among US private investors, the share of optimists (bulls) has risen to 43%, the highest level since October 2018, when the S&P 500 reached an all-time high.
- The bull/bear spread of around 20% is also very high and is a warning contra-indicator.

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, AAll, Time period: 23/07/87 - 09/05/19

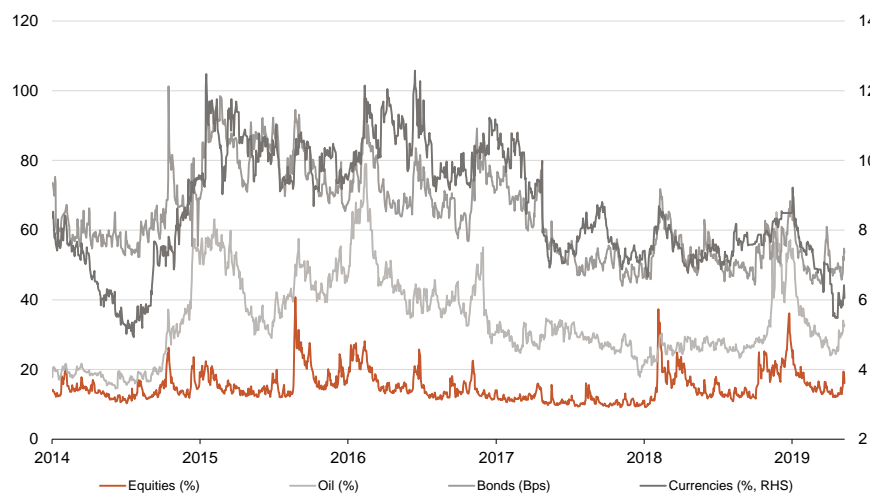
Realised Volatilities



- With recent price losses and sharp market movements, the realised 60-day volatilities have risen. The sharpest rise in volatility was recently recorded by emerging market equities.
- As usual, commodities and equities remain the asset classes with the highest volatility.
- Compared to the respective 5-year average, the volatility realised is still below average for all the asset classes presented.

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: 10/05/2014 - 10/05/2019

Implied Volatilities

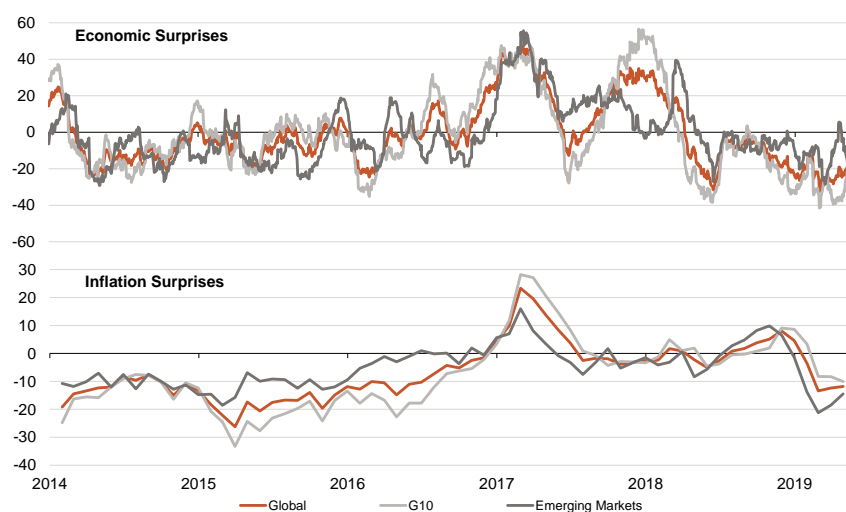


- Recent price distortions due to the escalation of the trade war and burgeoning growth concerns have led to significantly rising implied volatilities across all asset classes.
- However, across all asset classes, implied volatilities remain far below the peaks of February or December 2018.

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 - 10/05/2019



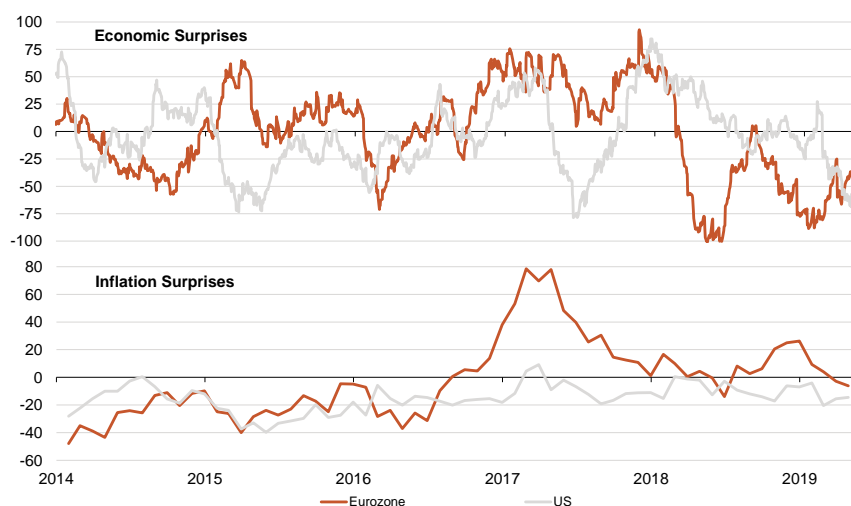
Global



- In the last two weeks, the economies of industrial nations (G10) have increasingly performed better. Both the USA and Europe surprised less negatively.
- In contrast, the emerging markets have mostly surprised negatively. In China, the Caixin Industry PMI was lower than expected, while the Service PMI surprised slightly positively. In the Philippines, Q1 growth of 5.6% YoY was below expectations of 6.1%.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 10/05/2019

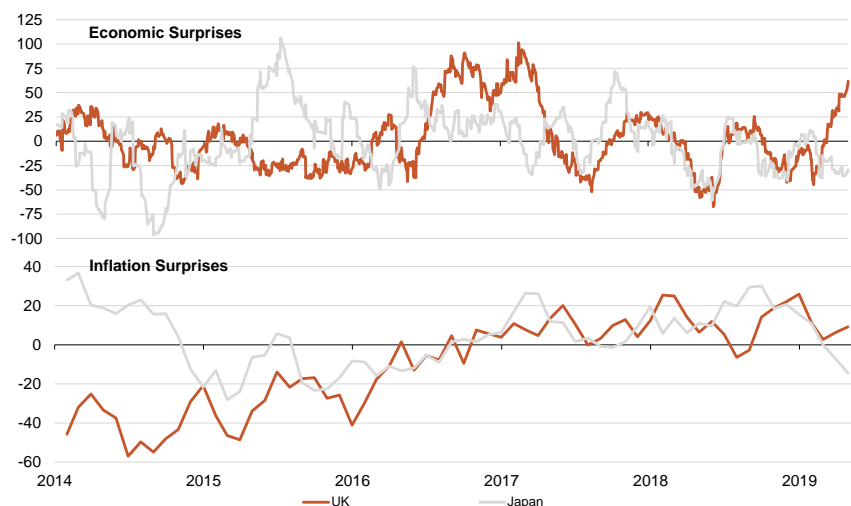
Eurozone and US



- Positive economic news from both the Eurozone and the USA are increasing, however, economic surprise for both regions remains negative.
- In the USA, the unemployment rate fell to 3.6%, the lowest level since 1969, and consumer confidence surprised upwards.
- Q1 growth in the eurozone was better than expected at 0.4% QoQ. The purchasing managers' indices for industry in France, Italy and Spain also surprised positively.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 10/05/2019

UK and Japan

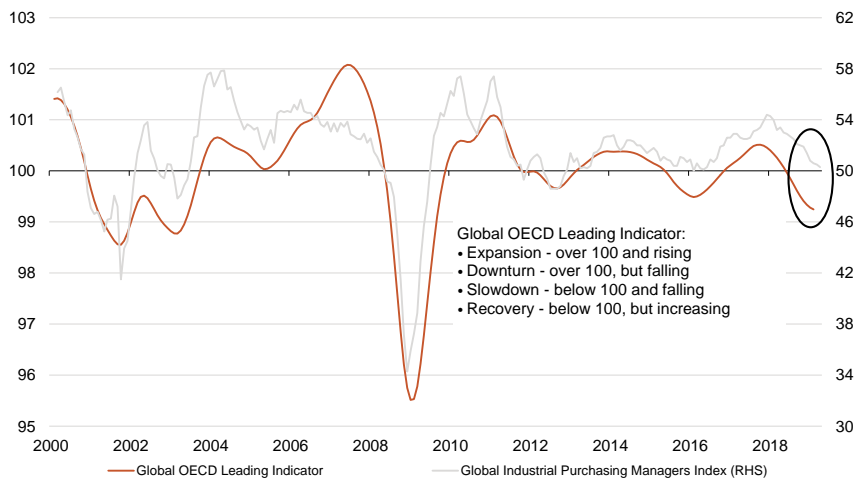


- The UK economy continued to surprise positively. Q1 growth was 1.8% YoY and industrial production in March rose 0.5% YoY.
- In Japan, economic data was predominantly disappointing.

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 - 10/05/2019



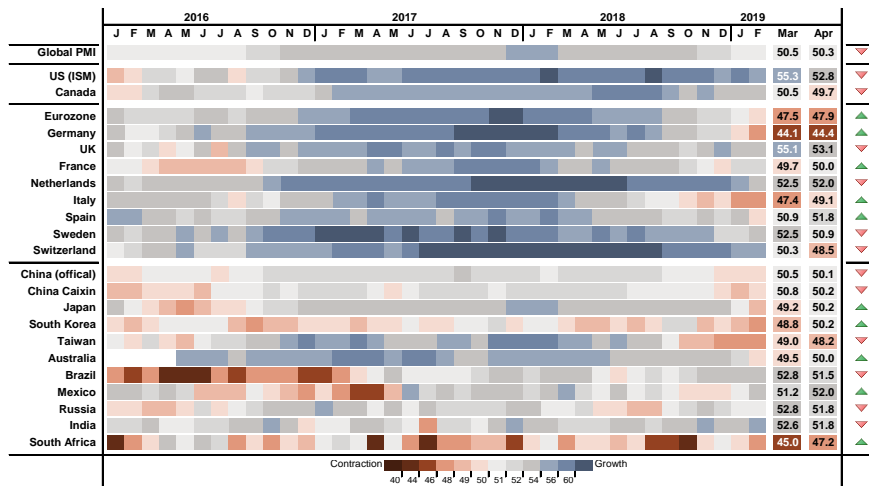
OECD Leading Indicator and Global Purchasing Managers Index



- The aggregated global purchasing managers' index for industry fell slightly to 50.3 points in April. However, this was primarily due to the decline in the PMI in the USA. The global economy remains above the important expansion threshold of 50 points.

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 - 30/04/2019

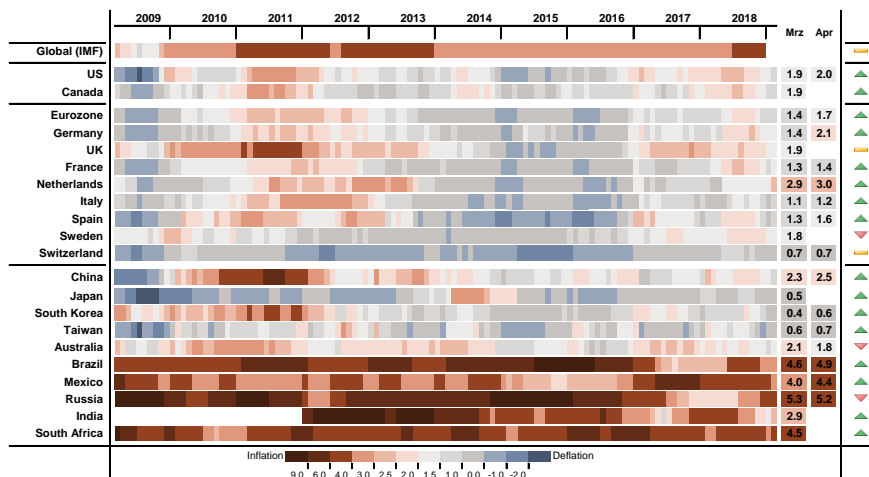
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- In US, the ISM fell by 2.5 points to 52.8, its lowest level since October 2016.
- Sentiment is improving in the eurozone. The PMI of Germany, France, Italy and Spain is better in April than in March.

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: 31/01/2016 - 30/04/2019

Headline Inflation

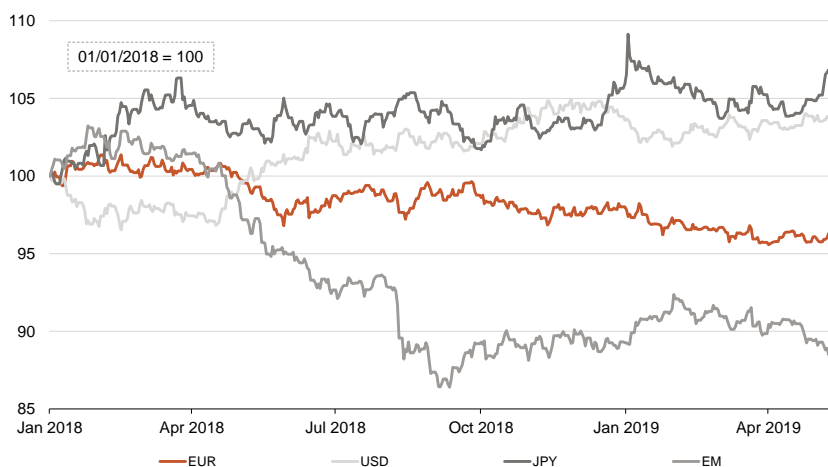


- Inflation in the eurozone rose significantly in February. More expensive package tours due to the Easter holiday were a main driver of rising inflation. Inflation rose above the 2% mark in Germany, and in the Netherlands even to 3%.
- Prices in April also rose in Asia. China, South Korea and Taiwan saw higher inflation than in March.

Inflation is measured (in percent, year-on-year comparison) using a consumer price index, also known as a shopping basket of goods. This shopping basket contains all goods and services that a household purchases on average per year. Source: Bloomberg, Time period: 30/04/2009 - 30/04/2019



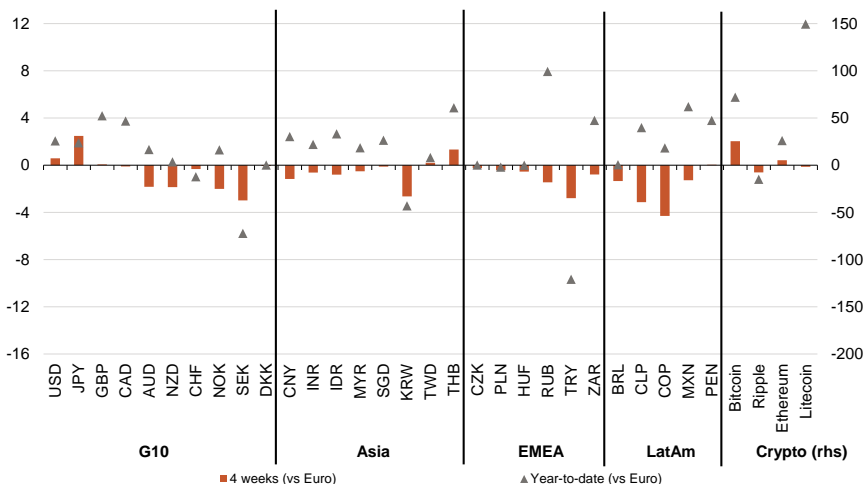
Trade-Weighted Currency Development



- In the current risk-off environment, the Japanese yen was particularly sought after, as it made significant gains on a trade-weighted basis.
- The US dollar and the euro were comparatively stable.
- Emerging market currencies have depreciated more markedly due to the escalation in the trade war. In particular, the Chinese yuan and the Turkish lira were under pressure.

A trade-weighted index is used to measure the effective value of an exchange rate against a basket of currencies. The importance of other currencies depends on the share of trade with the country or currency zone.
Source: Bloomberg, Time period: 01/01/2018 - 10/05/2019

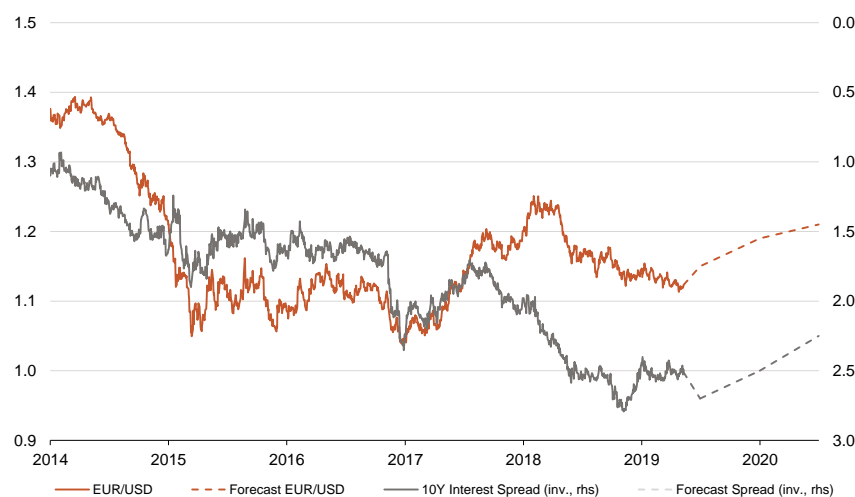
Currency Moves vs Euro



- Over a 4-week period, the US dollar and the Japanese yen have primarily appreciated against the euro.
- The emerging market currencies have weakened across the board against the euro. The Turkish lira, along with the Turkish stock market, has clearly lost ground after the local elections in Istanbul were repeated and doubts arose about the rule of law of the government.
- Among the crypto currencies, the Bitcoin could gain significantly.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2018 - 10/05/2019

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate continues to fluctuate within a narrow range around 1.12 US dollars per euro.
- Our economists expect a smaller interest rate spread between 10-year US Treasuries and Bunds in the medium term. The euro is expected to recover to an exchange rate of 1.19 EUR/USD, benefiting from a recovery of the economy over the course of the year.

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 & YTD		12-month periods over that last 5 years				
	4W (12/04/19 - 10/05/19)	YTD (31/12/18 - 10/05/19)	10/05/18	10/05/17	10/05/16	10/05/15	09/05/14
			10/05/19	10/05/18	10/05/17	10/05/16	10/05/15
Consumer Staples	1.0	17.3	11.8	-7.9	12.5	1.5	25.4
Utilities	-0.1	10.3	8.9	3.2	7.0	-9.2	12.6
Growth	-0.2	16.6	3.8	1.2	17.8	-9.5	25.6
Information Technology	-0.2	19.6	3.8	10.9	35.0	-10.1	33.1
Health Care	-1.4	8.8	8.8	-9.0	12.9	-13.6	32.0
Telecommunications	-1.5	2.0	-5.1	-5.9	-0.4	-12.9	26.5
Industrials	-1.5	17.4	-0.6	2.4	28.4	-8.3	16.6
Consumer Discretionary	-2.1	17.0	-5.5	4.4	20.7	-15.5	30.4
Finance	-3.1	12.1	-10.5	1.1	33.1	-24.1	20.1
Value	-3.9	9.9	-5.5	2.2	25.3	-19.2	15.8
Energy	-5.3	8.7	-4.1	21.9	23.3	-17.3	-2.9
Materials	-6.5	14.5	-4.6	15.0	35.0	-22.7	14.1

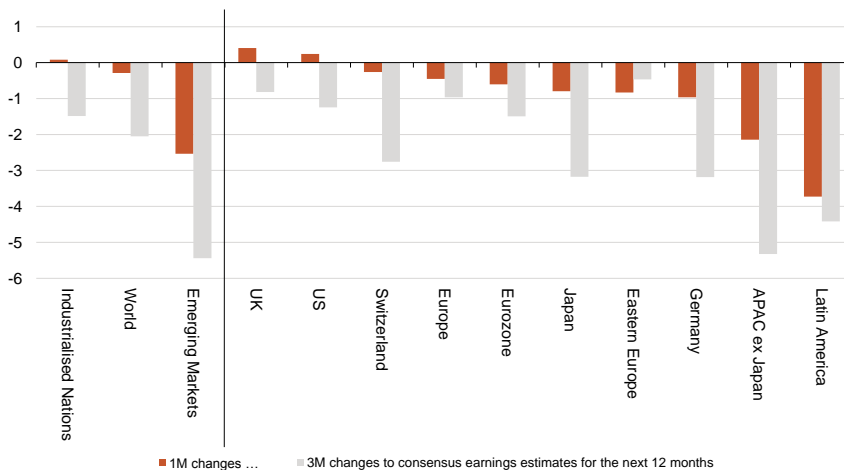
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Staples: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR; Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. 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, the commodity-related equity sectors in particular have come under pressure due to the recent escalation in the trade conflict between China and the US.
- The financial sector was also among the losers, as falling interest rates are bad for banks' interest margins.

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: 09/05/2014 - 10/05/2019

Changes in Consensus Earnings Estimates



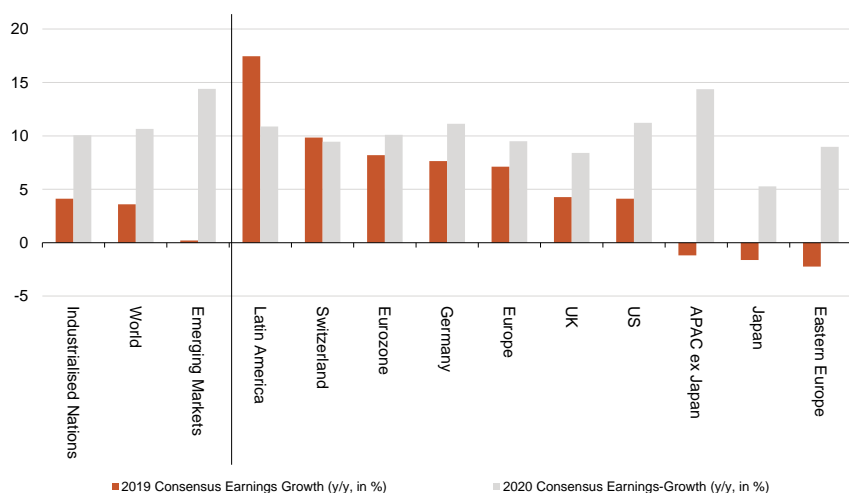
- Over the past month, the developed markets have not, on average, seen further negative revisions of earnings. For the UK and the US, analysts have even raised their earnings estimates for the next 12 months.
- Emerging market equities, on the other hand, continued to struggle with negative earnings revisions, particularly in Latin America.

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 10/05/2019

Earnings Growth



- Analysts expect lower profits for Eastern Europe, Japan and Asia Pacific ex Japan for 2019 than for 2018.
- For the US and UK, earnings estimates for 2019 are below 5%.
- Earnings estimates for the eurozone are significantly higher. However, should the trade conflict escalate, analysts are likely to further reduce their estimates.

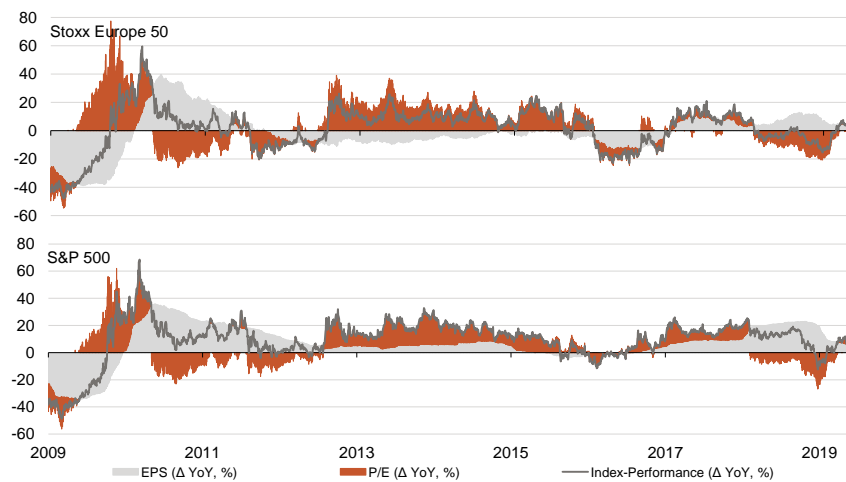
Calendar year earnings growth expected to the consensus for selected equity regions, compared to the previous year and in percent. The earnings estimates of the individual companies are aggregated using the index weights (bottom-up).

APAC ex Japan = Asia Pacific ex Japan

Source: FactSet, as of 10/05/2019



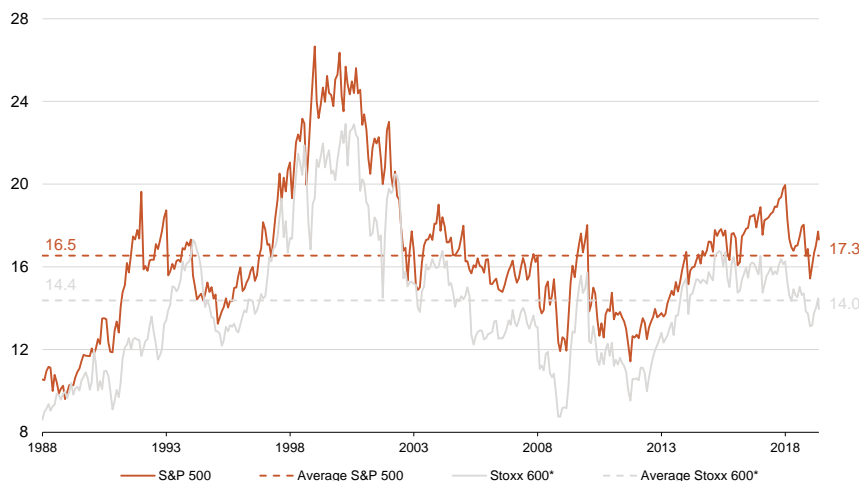
Contribution Analysis



- European equities are roughly where they were 12 months ago. Valuations are slightly lower, whilst earnings have increased.
- In the US, profit growth has been stronger and valuations are slightly higher than 12 months ago. Accordingly, the S&P 500 has gained since May 2018.

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: 01/01/2009 - 10/05/2019

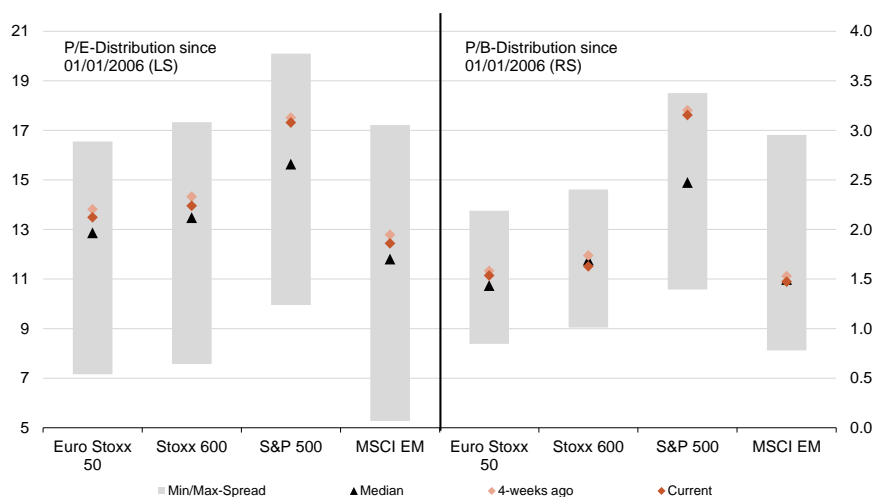
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The price-earnings ratios for European and US equities trade close to their historical averages. Valuations on the equity market thus appear to be fair at the moment.

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 - 10/05/2019

Historical Distribution: Price/Earnings and Price/Book Ratio

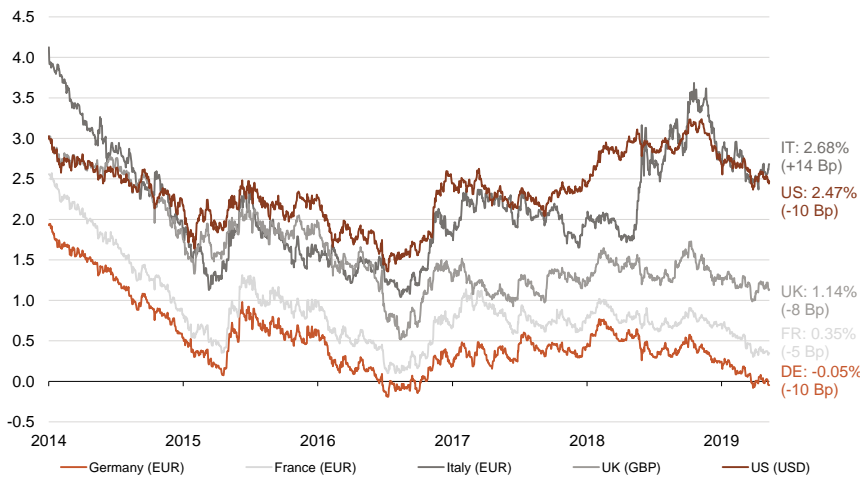


- Historically, US equities are the most expensive on both a price-earnings and price-to-book basis since 2006.
- Emerging markets stocks are fairly valued compared to their own history and are the most attractive relative to all other equity regions.

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 - 10/05/2019



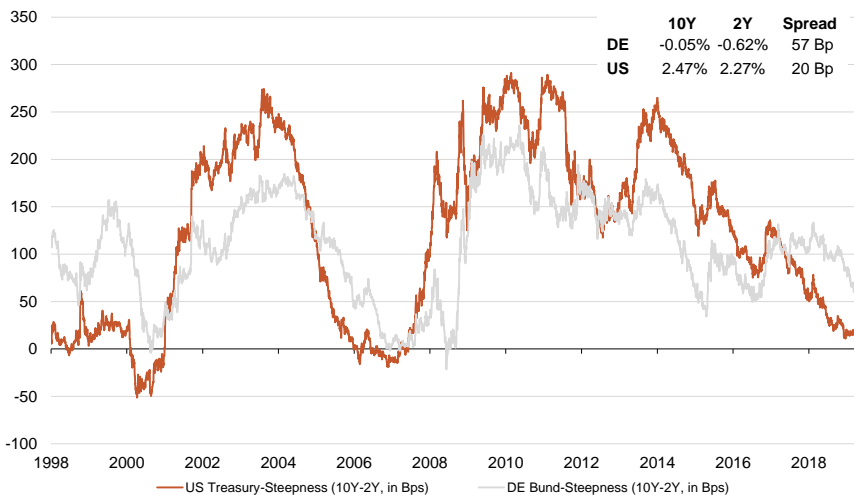
10-Year Government Bond Yields



- After the recent escalation in the trade dispute, investors sought protection in safe government bonds. As a result, German government bonds recorded a yield of less than -5 basis points. US Treasuries saw yields fall by 10 basis points over a four-week period.
- Market sentiment towards Italy continued to deteriorate. Yields on Italian government bonds are now above 2.6%.

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 - 10/05/2019

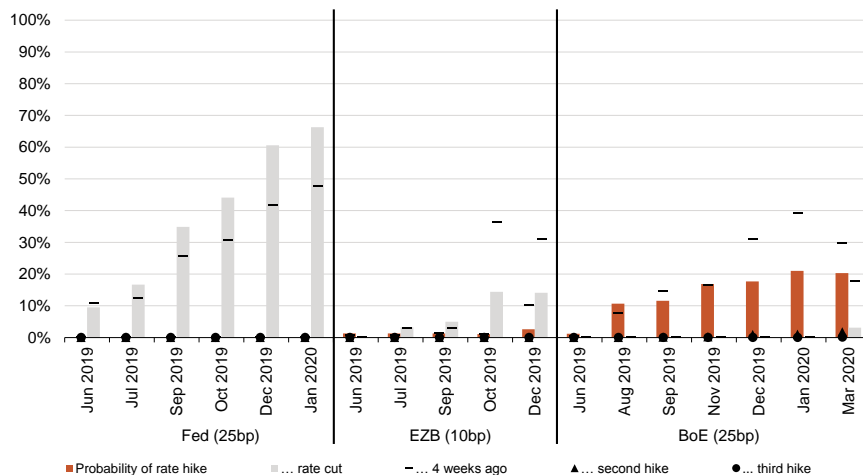
Yield curve steepness (10Y - 2Y)



- Despite the risk-off moves in the markets, the steepness of the US and German yield curve has hardly moved in the last two weeks.
- The US slope remains close to 20 basis points. The steepness of the German yield curve remains below 60 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 - 10/05/2019

Implicit Probabilities for Changes in Key Interest Rates

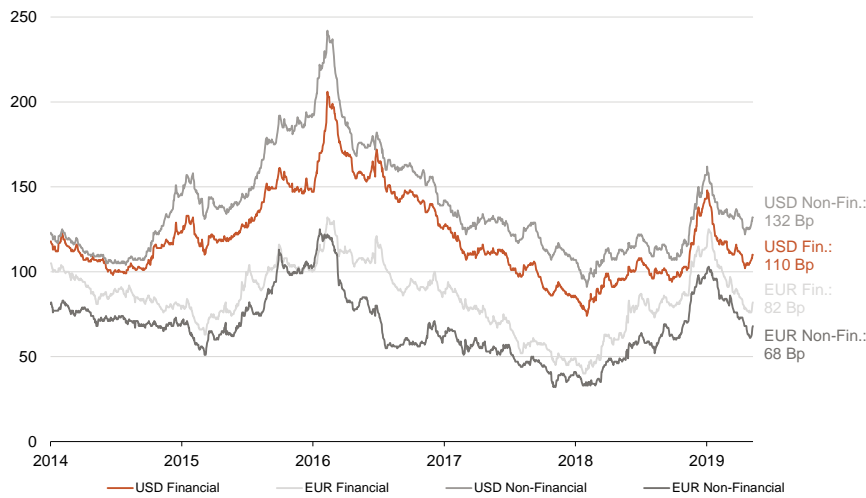


- After the equity market has recently weakened somewhat and the Fed is in observation mode, the market is pricing the likelihood of an interest rate cut by the Fed in 2019 at over 60%.
- The probability of an interest rate cut by the ECB in 2019 is still below 20% despite the rise in inflation and the recently lowered economic forecasts of the EU Commission.

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: 12/04/2019 - 10/05/2019



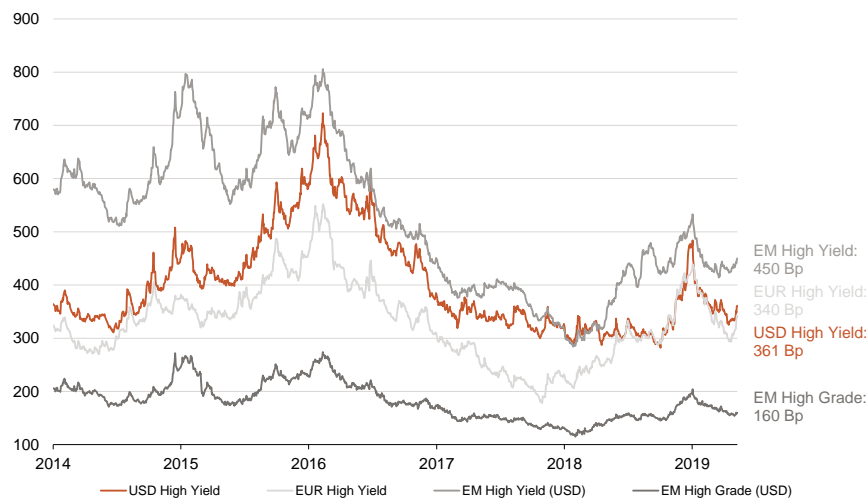
Credit Spreads Financial and Non-Financial Bonds



- Credit risk is less in demand in the current risk-off environment. Spreads on corporate bonds have risen significantly in the last two weeks. This particularly affected USD financial and USD non-financial bonds.
- In the case of EUR bonds, the insurance and retail sectors in particular saw spreads widen, while in the case of USD bonds it was the telecommunications and energy sectors.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2014 - 10/05/2019

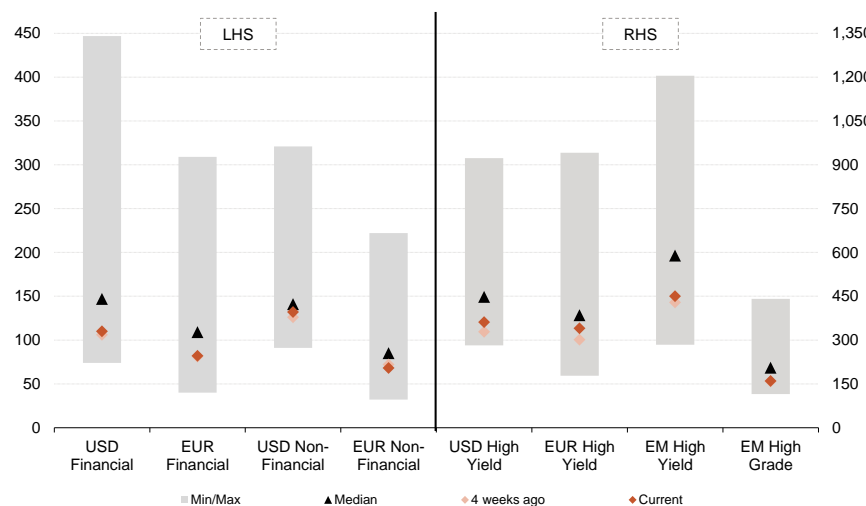
Credit Spreads High Yield and Emerging Markets Bonds



- High-yield bonds also saw a significant widening of spreads as a result of the risk-off moves. EUR high-yield bonds in particular saw spreads rise over 30 basis points in a two week period. A weak economy and political uncertainties continue to weigh on the Eurozone.
- Due to the customs dispute, USD high-yield bonds of the automotive sector in particular saw rising risk spreads.

The extent of the risk associated with a corporate bond is shown by its asset swap spread (in basis points). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term to offset its credit risk. See further explanations below.
Source: FactSet, Time period: 01/01/2014 - 10/05/2019

Historical Distribution of Credit Spreads (in bp)

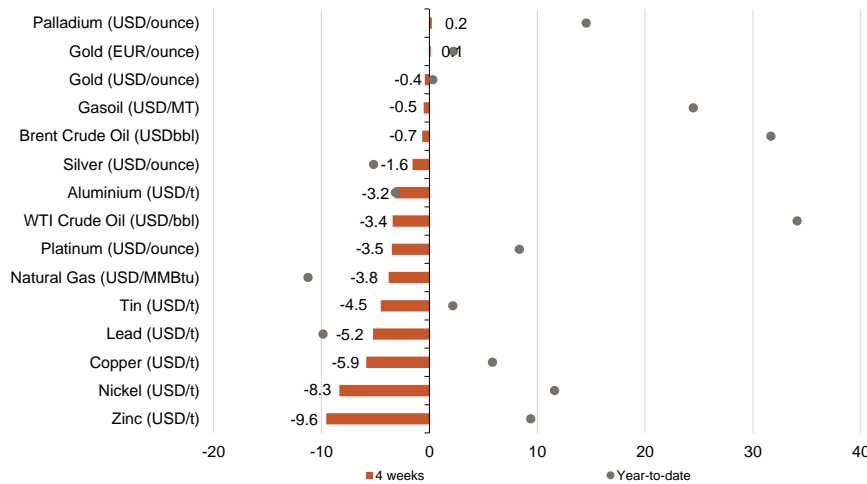


- While spreads on USD high-yield bonds remain far from their historical median, the spreads on EUR high-yield bonds have moved significantly closer to their historical median.
- The spread on USD non-financial bonds are historically in-line.

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: 10/05/2009 - 10/05/2019



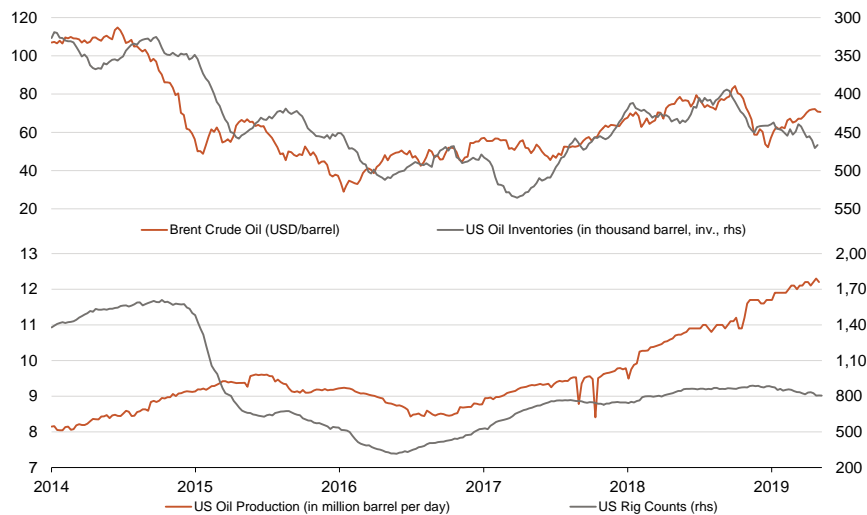
Commodities Performance



- Last month, commodities suffered from the risk off environment created by the US-China trade war and emerging growth concerns. Moreover, a strong dollar put pressure on commodities.
- Precious metals have fluctuated sideways, benefiting from the new risks.
- The oil price held up well due to tight OPEC supply and new US sanctions against Iran.
- Industrial metals suffered particularly badly from the trade war and tariff increases by the US.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2019 - 10/05/2019

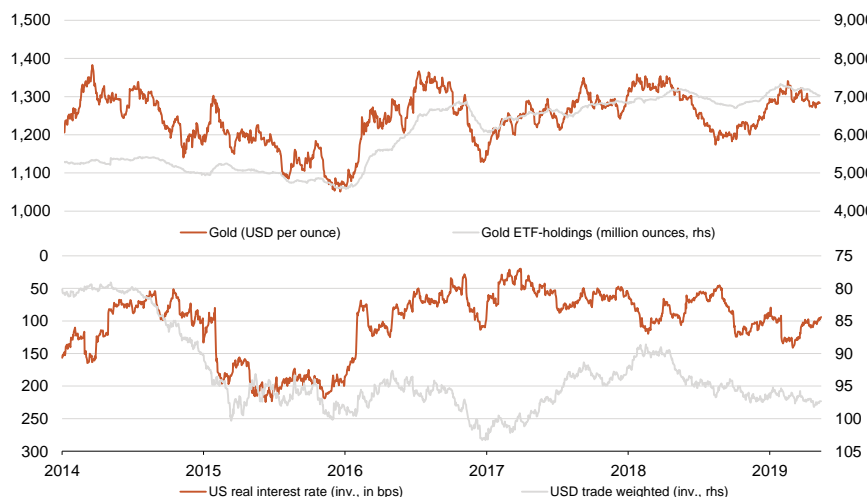
Crude Oil



- Brent crude oil trade sideways around 70 US dollars per barrel, after reaching a high of 75 US dollars at the end of April.
- The stricter US sanctions against Iranian oil exports that have been in force since the beginning of May and an overall shortage of OPEC supplies has provided recent support to oil.
- Concerns about oil demand and the sharp rise in investors' net long positions could cause a pullback, considering that US inventories rise.

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 - 10/05/2019

Gold



- Gold has fluctuated sideways over the past four weeks and stabilized at 1,280 US dollars per ounce.
- Decreasing ETF holdings, a declining positioning and a firm US dollar weighed heavily on gold. However, lower US real interest rates and trade policy risks could outweigh these factors recently.

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 - 10/05/2019

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PUBLISHING INFORMATION

PUBLISHER

Dr. Bernd Meyer, CFA | Chief Strategist Wealth and Asset Management

EDITORS



Ulrich Urbahn, CFA | Head Multi Asset Strategy & Research

focuses on the multi-asset investment process, the development of investment ideas and capital market communications

+49 69 91 30 90-501 | ulrich.urbahn@berenberg.de



Guido Urban, CFA | Senior Analyst Multi Asset Strategy & Research

is in charge of capital market publications with a focus on commodities, supports the investment process and develops investment ideas

+49 69 91 30 90-215 | guido.urban@berenberg.de



Karsten Schneider | Analyst Multi Asset Strategy & Research

analyses financial markets, supports the multi-asset investment process and participates in capital market publications

+49 69 91 30 90-502 | karsten.schneider@berenberg.de



Richard Garland | UK Wealth Management

will be in charge of managing UK Discretionary Wealth Management portfolios

+44 20 3753 -3126 | richard.garland@berenberg.com

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Date: 13 May 2019

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Joh. Berenberg, Gossler & Co. KG
Neuer Jungfernstieg 20
20354 Hamburg (Germany)
Phone +49 40 350 60-0
Fax +49 40 350 60-900
www.berenberg.com
MultiAssetStrategyResearch@berenberg.de