Current market commentary

The trade conflict between the USA and China intensified recently, contrary to market expectations. A short-term agreement is not in sight. In addition, Brexit concerns about Theresa May's potential successors have increased significantly, weighing on the British pound in particular. Risk assets have continued to decline, while US government bonds proved to be a safe haven. With the continuing uncertainty, the economic recovery is likely to be delayed further, as the recently disappointing Ifo index also suggests. In particular, Asian emerging market equities are suffering from the change in sentiment since the beginning of May, as they struggle with persistently negative earnings revisions and strong fund outflows. Since the probability of short-term positive impulses (better economic data, a Brexit agreement or a trading deal) has dropped, a slightly more defensive positioning seems to make sense, especially as the strong YTD performance of many investors makes profit-taking before the typically weaker summer season more likely.

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

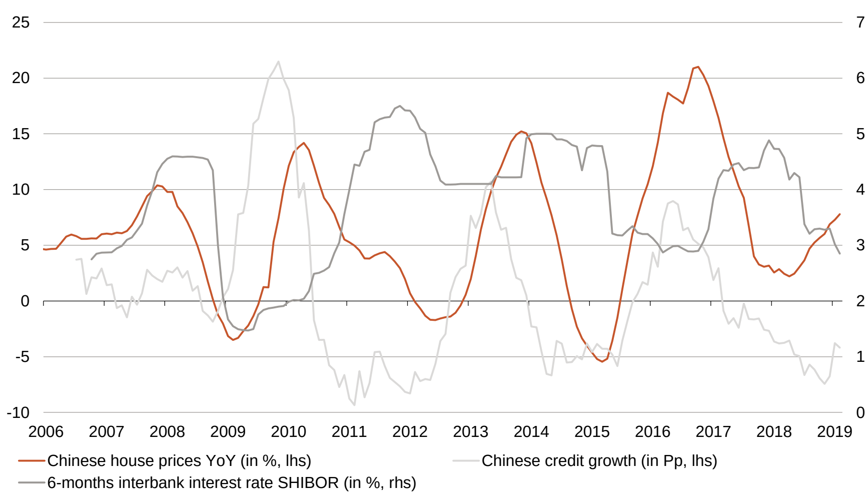
After the recent escalation, the trade war between the US and China remains the dominant topic in the capital markets. Concerns about the negative effects on the economy, higher inflation rates, disrupted supply chains and falling corporate earnings have weighed on the equity markets. Moreover, there is currently nothing that suggests a short-term solution to the conflict is likely. However, there is some small hope for progress in the meeting between US President Trump and Chinese President Xi at the end of June around the G20 summit.

The trade war between the US and China remains the dominat issue.

On Friday, the focus in the US will be on labour market data as well as developments in wages and inflation. Next week, the US purchasing manager indices will provide insight into the development of the economy. In Europe, the aftermath of the European elections will probably also determine national political discussions. Consumer confidence in Germany and France will also be published on Tuesday.

Various data provide information on the development of the economy.

Only a slow recovery of the Chinese economy is likely



- After the beginning of a recovery at the start of the year, Chinese economic data has deteriorated again over the past month. House price growth is slow and no longer comparable with the recovery in 2015/16. In addition, the credit impulse is faltering.
- Taking into account the growing burdens from the trade war with the USA, the recovery of the Chinese economy is likely to be slower than in 2015/16.

Source: Bloomberg, Period : 01/01/2006 - 30/04/2019

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (26/04/19 - 24/05/19)	YTD (31/12/18 - 24/05/19)	24/05/18 24/05/19	24/05/17 24/05/18	24/05/16 24/05/17	24/05/15 24/05/16	23/05/14 24/05/15
Global Treasuries	1.3	2.1	2.1	2.7	-1.4	7.0	-7.4
REITs	1.1	19.1	19.6	-7.3	-0.4	3.3	30.3
Global Coporates	0.4	4.5	4.2	1.6	3.1	2.8	-3.0
MSCI Frontier Markets	0.3	10.2	0.4	3.5	13.7	-11.2	13.2
Eonia	0.0	-0.1	-0.4	-0.4	-0.4	-0.2	0.0
USDEUR	-0.5	2.3	4.6	-4.3	-0.7	-1.1	23.7
Gold	-0.6	2.5	3.0	-0.8	1.9	0.6	15.5
Global Convertibles	-2.5	7.6	-0.5	11.2	15.0	-6.4	3.3
MSCI World	-3.7	14.8	5.7	7.8	17.3	-7.4	33.6
Industrial Metals	-4.9	6.6	-11.2	17.7	23.7	-24.5	8.7
Brent	-5.2	30.0	-6.8	43.2	-2.8	-38.3	-33.5
MSCI Emerging Markets	-8.6	5.1	-6.7	10.0	30.2	-23.0	25.8

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.

- The intensified trade tensions and increased Brexit uncertainty have weighed on risk assets over the last four weeks. Oil and emerging market equities in particular fell sharply.
- Bond yields, on the other hand, continued to fall. REITs, government and corporate bonds benefited from this and performed relatively well.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 23/05/2014 - 24/05/2019

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (26/04/19 - 24/05/19)	YTD (31/12/18 - 24/05/19)	24/05/18 24/05/19	24/05/17 24/05/18	24/05/16 24/05/17	24/05/15 24/05/16	23/05/14 24/05/15
Stoxx Europe Defensives	-0.7	9.2	4.9	-0.2	9.2	-11.2	21.4
MSCI EM Eastern Europe	-1.1	14.0	14.8	6.6	26.6	-18.4	3.5
Stoxx Europe 50	-1.8	14.9	3.0	-0.6	16.6	-15.5	19.9
DAX	-2.5	13.8	-6.6	1.7	25.7	-14.9	21.0
Euro Stoxx 50	-3.1	13.8	-2.1	0.7	22.4	-15.9	17.8
Topix	-3.2	7.5	-7.0	12.4	18.8	-10.1	47.4
MSCI UK	-3.7	12.1	-2.1	4.6	11.3	-15.0	21.2
S&P 500	-4.0	16.2	10.7	10.2	18.0	-1.2	41.0
Stoxx Europe Small 200	-4.2	12.9	-5.0	7.3	17.9	-8.3	23.2
Russell 2000	-5.1	15.3	-1.3	13.7	23.2	-8.9	39.1
Stoxx Europe Cyclicals	-5.8	13.0	-7.5	5.3	24.4	-17.8	19.9
MSCI EM Asia	-9.2	5.0	-9.2	13.6	32.6	-23.6	38.7

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.

- In equities, all the regions considered here have lost value over the last four weeks. Asian emerging markets and European cyclical equities were the main contributors.
- The DAX held up relatively well and even fared better than the S&P 500.
- In this market environment, defensive equities unsurprisingly outperformed.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 23/05/2014 - 24/05/2019

Fixed Income

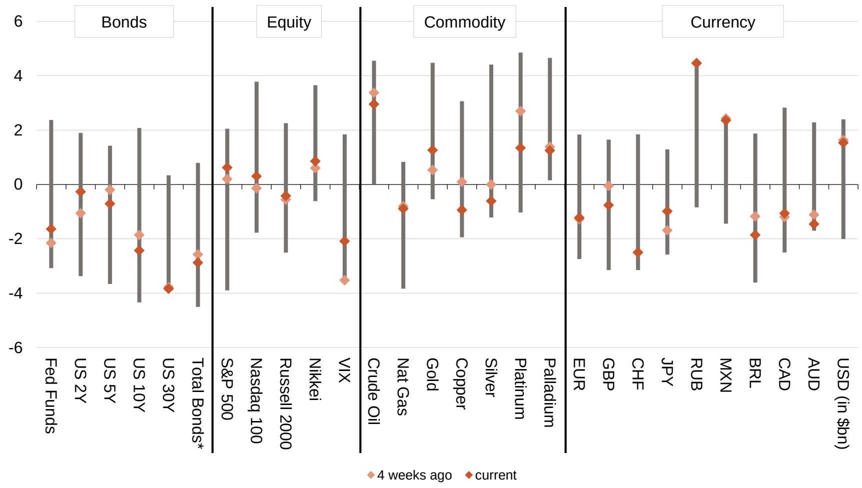
	4-week & YTD		12-month periods over that last 5 years				
	4W (26/04/19 - 24/05/19)	YTD (31/12/18 - 24/05/19)	24/05/18 24/05/19	24/05/17 24/05/18	24/05/16 24/05/17	24/05/15 24/05/16	23/05/14 24/05/15
Treasuries	0.8	5.1	10.9	-5.9	-0.4	2.3	26.9
EM Hard Currency Bonds	0.7	5.4	6.4	0.9	8.3	3.3	0.2
Bunds	0.6	2.4	4.4	0.5	-1.1	3.7	6.6
BTPs	0.3	2.2	2.0	0.4	-1.4	4.4	10.5
USD Corporates	0.1	8.4	12.3	-4.9	3.7	2.4	26.7
EUR Inflation Linkers	0.1	1.5	-0.3	3.2	0.5	0.9	3.7
Gilts	-0.1	6.2	5.1	-2.4	-4.9	-0.8	25.1
EUR Non-Financials	-0.3	3.8	3.1	1.0	2.3	1.8	4.6
EUR Financials	-0.3	3.4	2.8	1.0	3.1	1.9	4.1
EM Local Currency Bonds	-0.8	0.8	0.3	2.5	8.7	-4.5	-8.2
EUR High Yield	-0.8	5.1	2.1	1.7	7.6	-0.4	3.9
USD High Yield	-1.1	10.4	11.6	-2.9	12.1	-2.7	25.4

Bunds: Barclays Germany Govt All Bonds TR; BTPs: Barclays Italy Govt All Bonds TR; Treasuries: Barclays US Treasury TR;
Gilts: Barcl. UK Govt All Bonds TR; EUR Inflation Linkers: Barcl. Euro Govt Inflation-Linked Bond All Maturities TR; EUR Financials: IBOXX Euro Fin. Overall TR;
EUR Non-Financials: IBOXX Euro Non-Fin. Overall TR; EUR High Yield: Markit iBoxx EUR Liquid HY TR; USD Corporates: iBoxx USD Corporates TR;
USD High Yield: IBOXX USD Liquid HY TR; EM Hard Currency: Barcl. EM Hard Currency Agg Govt Related TR; EM Local Currency: Barcl. EM Local Currency Govt TR.

- US government bonds have recently lived up to their status as safe havens. Calculated in euros, they increased by slightly less than 1% in the last four weeks. Since the beginning of the year, they have gained over 5%.
- High-yield bonds and local EM government bonds, on the other hand, came under pressure due to increased risk aversion and were the worst performers in the last four weeks.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 23/05/2014 - 24/05/2019

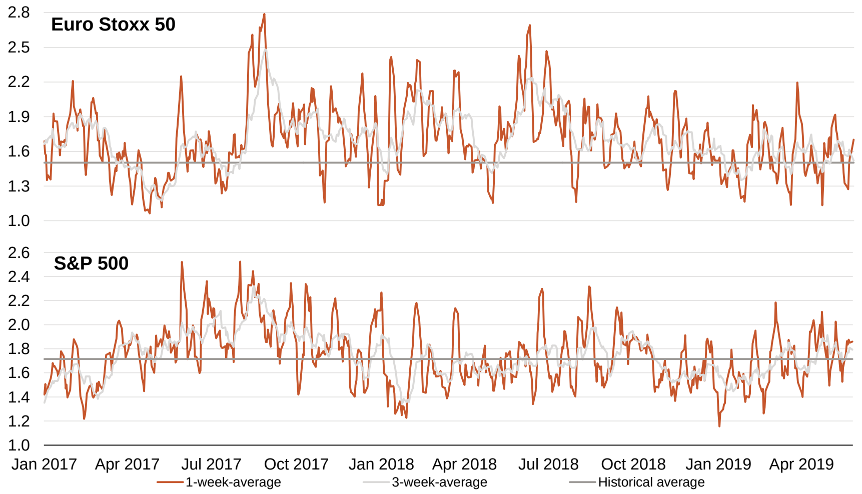
Non-Commercial Positioning



- The increased volatility since the beginning of May has ensured that the net short position in VIX futures has been significantly reduced compared to four weeks ago.
- Speculative investors have further built up their net long position in gold.

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: 21/05/2009 - 21/05/2019

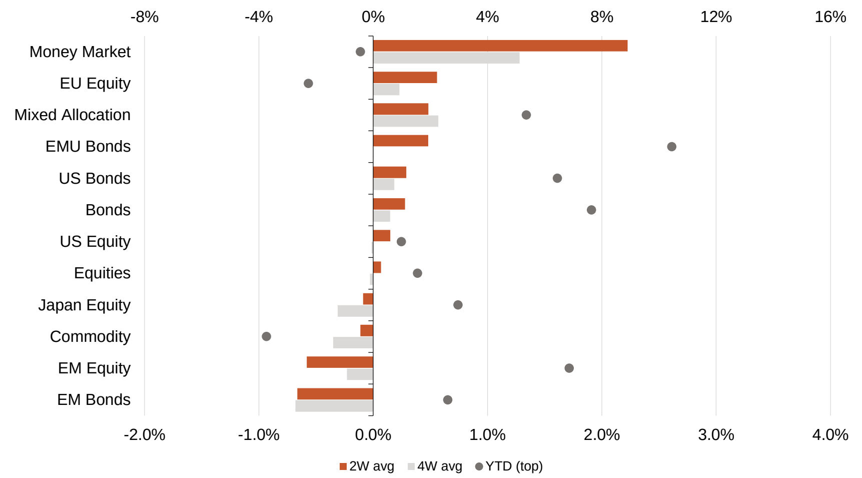
Put-Call Ratio



- The hedging ratios for the S&P 500 were recently increased. After the strong YTD performance, it is not surprising that some market participants want to hedge their profits, especially since the 200-day line of the S&P 500 is not far away from the current levels.

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 - 24/05/2019

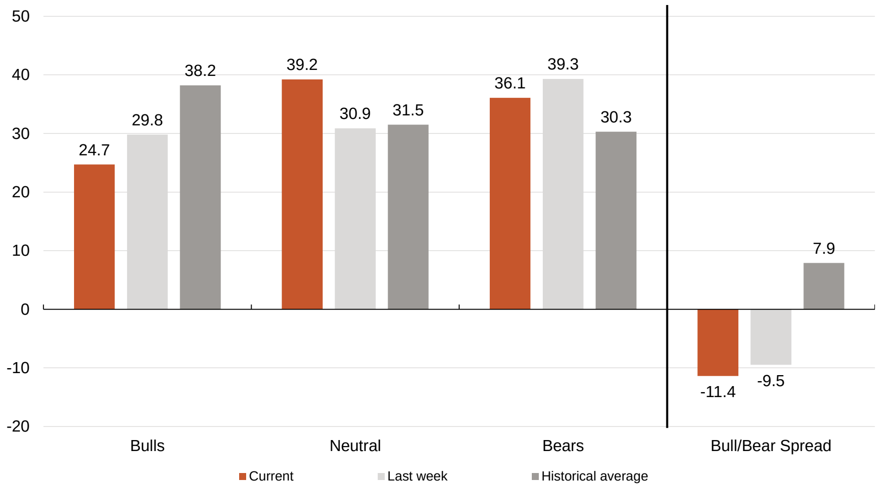
ETF Flows



- In the current market environment, money market ETFs are again in strong demand. European equity ETFs have also been able to record inflows of funds in the last two weeks.
- Investors, on the other hand, are currently divesting emerging market equities, bonds and commodities. The tariff discussion and the associated growth concerns are a burden.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2017 - 24/05/2019

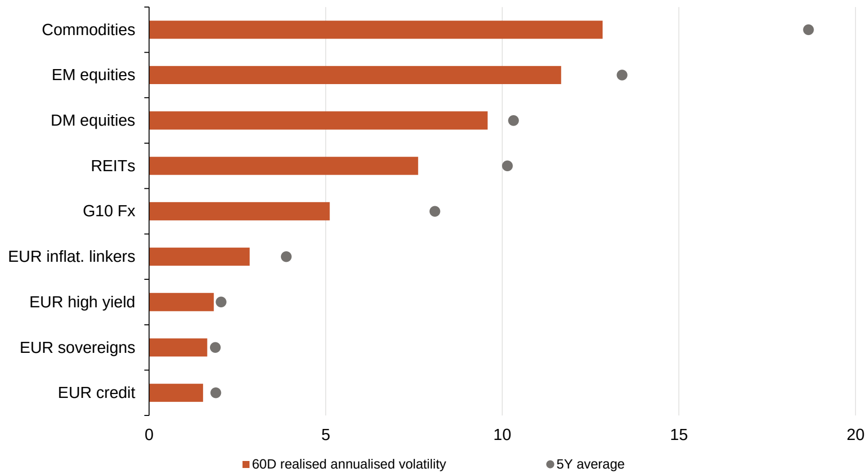
AAII Sentiment Survey (Bulls vs Bears)



- Only 25% of US private investors are still optimistic (bulls). This is a significant decrease from the 43% bull share two weeks ago. The escalation of the trade war has made investors more cautious.
- The bull/bear spread has fallen to -11.4% as bears prevail.

The sentiment survey conducted by the American Association of Individual Investors determines the percentage of private investors who are optimistic, pessimistic or neutral regarding the US equity market outlook for the upcoming six months. It has been carried out since 1987. The survey is conducted from Thursday to Wednesday and the results are published every Thursday. For the stock market, it tends to be supportive when there is a high proportion of bears and a low proportion of bulls. However, it is a negative indicator when there are significantly more optimists than pessimists.
Source: Bloomberg, AAII, Time period: 23/07/87 – 23/05/19

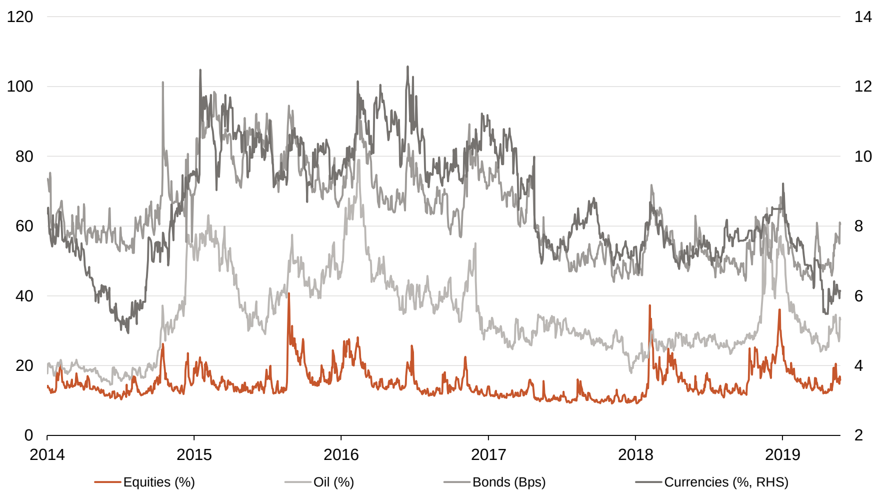
Realised Volatilities



- The price losses of recent weeks have led to a significant increase in the volatility of emerging market equities. However, commodities remain the most volatile asset class.
- The realized 60-day volatility has also picked up noticeably in the case of equities of industrialized countries.
- However, for all the investment classes shown, realised volatilities remain below 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: 24/05/2014 – 24/05/2019

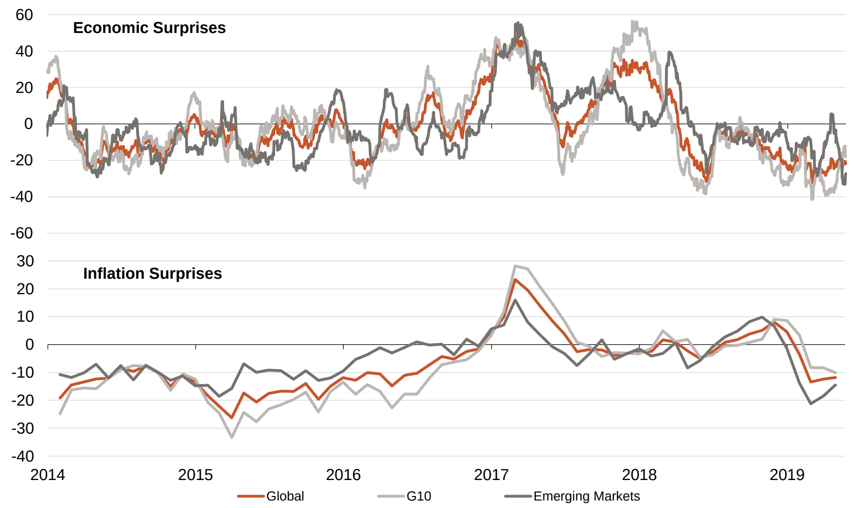
Implied Volatilities



- The rise in implied volatilities at the beginning of May was followed by an initial calming before a renewed rise was observed across all asset classes.
- However, implied volatilities across all asset classes remain far from 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 – 24/05/2019

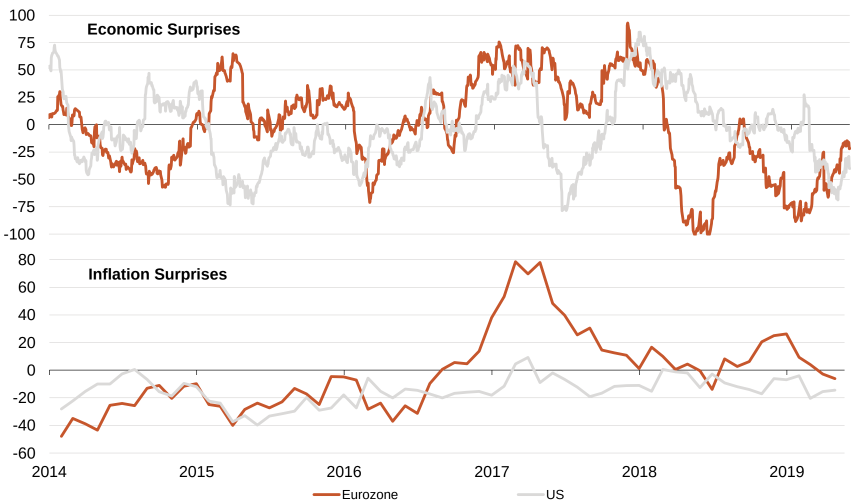
Global



- The picture in emerging markets has deteriorated further, as the momentum of negative economic surprises has continued. Emerging markets have not disappointed to this extent since 2013. In China, for example, industrial production in April was 5.4%, well below the consensus of 6.5% in a year-on-year comparison.
- Globally economic surprises remained unchanged over the two week period due to more positive values in the industrial nations (G10).

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 24/05/2019

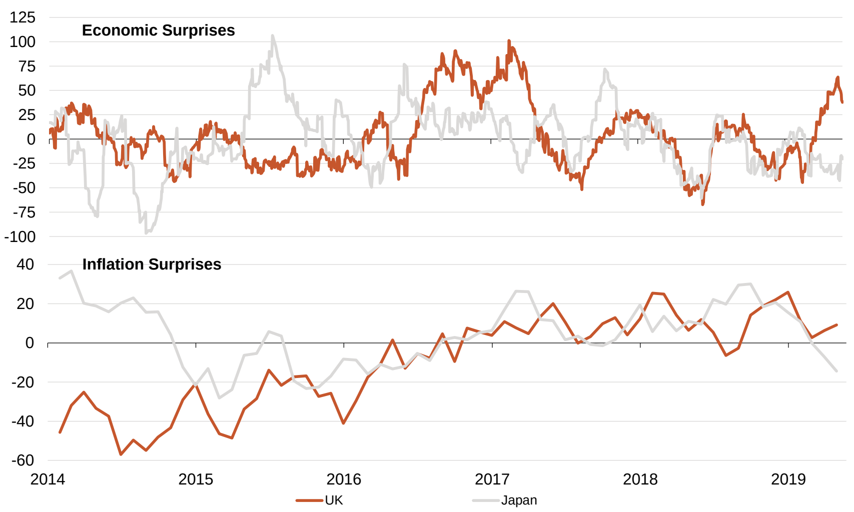
Eurozone and US



- Economic data for both Europe and the USA have been less negative recently than they were two weeks ago. Nevertheless, the index remains negative. In the USA, the April Purchasing Managers' Index (Markit) for industry surprised and industrial production (MoM) fell for the third time this year. In the Eurozone, the aggregated purchasing managers' index for industry in May was worse than expected at 47.7.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 24/05/2019

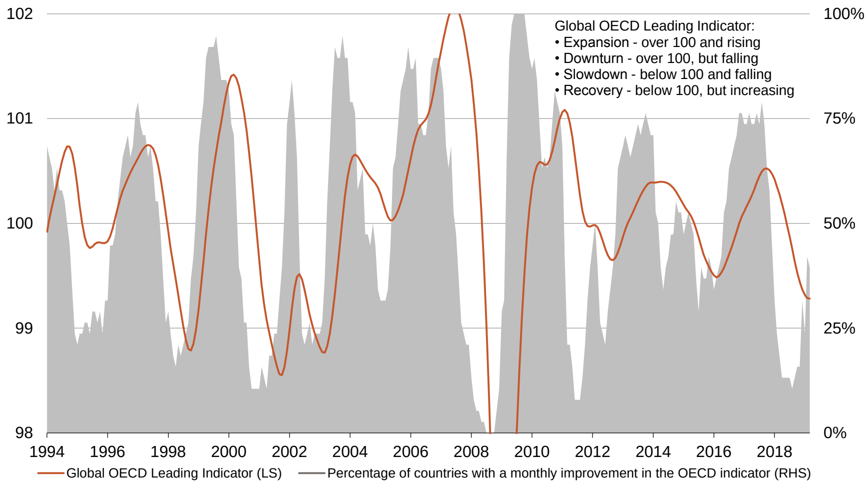
UK and Japan



- The economic surprises in the UK were less positive. However, retail sales in April were better than expected.
- In Japan, economic growth for Q1 surprised positively with an annualized 2.1%, while exports disappointed.

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 - 24/05/2019

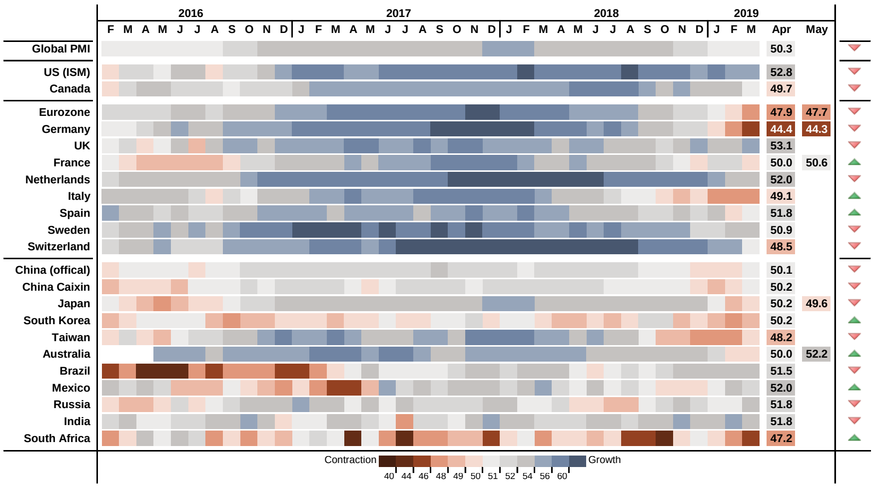
OECD Leading Indicator



- In March, more than 35% of the countries recorded a better OECD leading indicator than in February.
- If geopolitical concerns calm down, the global early indicator should recover and the economy should regain momentum.

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 - 31/03/2019

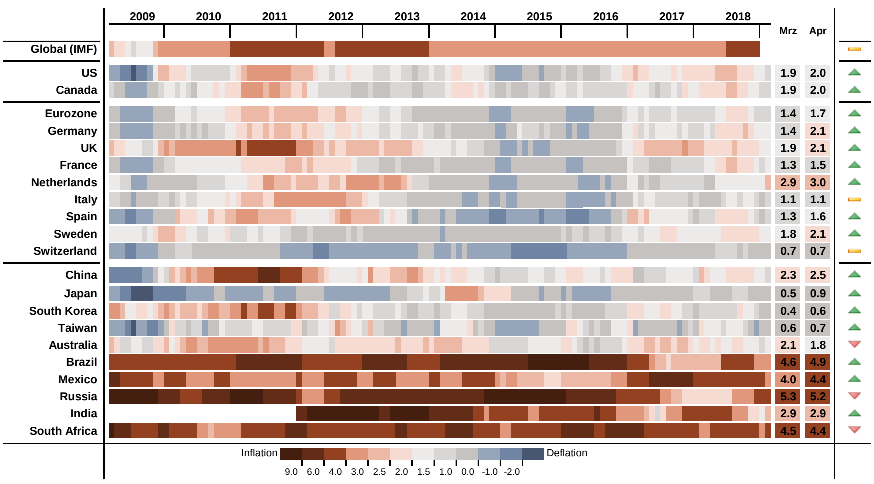
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The industrial PMI in Germany has recently deteriorated slightly, falling to 44.3 points.
- France, on the other hand, recorded a better PMI compared to the previous month, with the PMI rising for the second time in a row.

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 points 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: 28/02/2016 - 24/05/2018

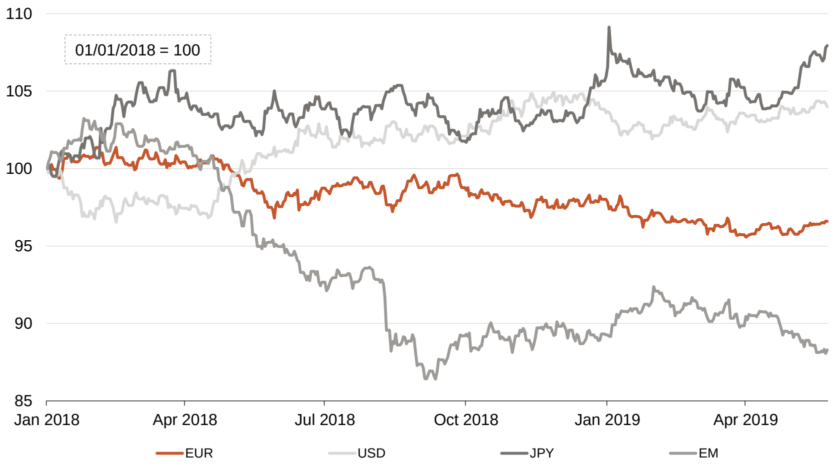
Headline Inflation



- In the UK, inflation rose 2.1% in April, above the important 2% mark. Higher energy prices were the main driver of inflation. April was a month of rising prices in Europe.
- Prices also rose in Asia in April. China, Japan, 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

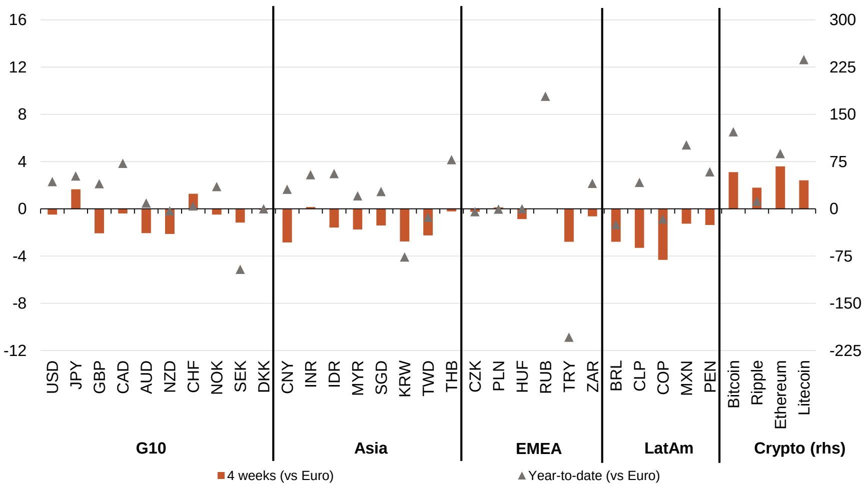
Trade-Weighted Currency Development



- The Japanese yen remains sought after during risk-off phases. In May, it rose on a trade-weighted basis.
- Despite the recent escalation in the trade conflict, the US dollar gained some ground. The euro has been relatively stable.
- Due to the uncertainty caused by the trade war and renewed growth concerns, emerging market currencies have continued to depreciate.

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 - 24/05/2019

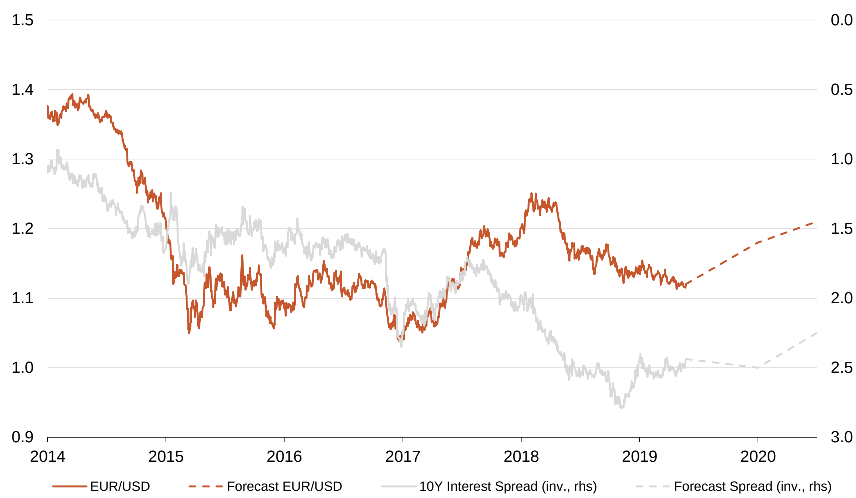
Currency Moves vs Euro



- On a 4-week horizon, the Japanese yen and the Swiss franc in particular have appreciated against the euro. Investors flee into both currencies during uncertain times.
- The euro appreciated against most Asian and emerging market currencies. The Indian rupee is an exception due to the re-election of President Modi.
- Crypto currencies have been in high demand lately. Bitcoin has already grown by more than 100% since the beginning of the year.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 01/01/2019 - 24/05/2019

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate has continued its downward trend and is currently trading at 1.12 dollars per euro.
- The US dollar is benefiting from the escalation of the trade war with China. The euro, on the other hand, is weighed down by mixed economic data and political uncertainties in various eurozone countries. Our economists expect an exchange rate of 1.18 EUR/USD at the end of the year following an economic recovery in the euro zone.

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 - 30/06/2020

European Sector & Style Performance

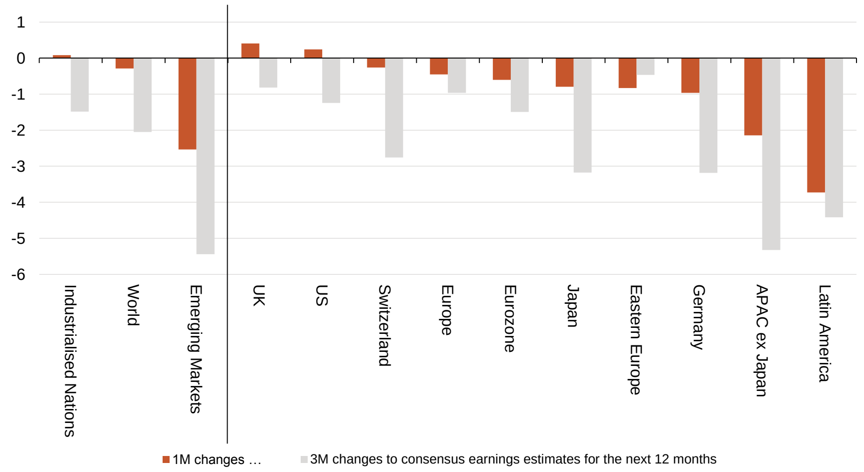
	4-week & YTD		12-month periods over that last 5 years				
	4W (26/04/19 - 24/05/19)	YTD (31/12/18 - 24/05/19)	24/05/18 24/05/19	24/05/17 24/05/18	24/05/16 24/05/17	24/05/15 24/05/16	23/05/14 24/05/15
Health Care	1.7	12.2	11.1	-8.0	10.6	-14.6	33.8
Utilities	0.9	12.1	10.9	0.7	8.6	-10.8	13.3
Consumer Staples	0.7	19.3	12.4	-7.1	11.0	1.5	24.7
Growth	-1.5	17.6	3.8	2.7	14.5	-9.6	26.5
Energy	-2.3	10.1	-2.5	21.0	21.8	-16.0	-3.2
Information Technology	-3.7	21.3	3.8	12.1	29.7	-8.6	33.6
Value	-4.8	8.9	-5.2	1.8	20.9	-18.4	16.7
Industrials	-4.9	16.3	-1.9	4.6	22.7	-7.6	18.0
Telecommunications	-5.2	-0.6	-3.0	-12.4	-0.5	-12.3	30.3
Finance	-5.6	10.4	-9.7	0.4	24.4	-22.3	22.2
Consumer Discretionary	-6.0	14.5	-8.4	7.6	17.2	-17.0	30.6
Materials	-6.6	12.6	-7.2	17.2	31.8	-21.9	12.8

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.

- Defensive sectors such as healthcare, utilities and consumer staples performed best and even gained in the last four weeks.
- The fall in bond yields, however, once again weighed on the European financial sector. In the last four weeks, the sector has fallen more than 5%. Materials and consumer discretionary also suffered heavy losses.

Total return of European equity sectors and European style indices, in euros and in percent, sorted by 4-week performance. The difference between Value and Growth lies in the valuation. A growth stock is highly valued because the company is expected to grow strongly. Value stocks generally have less growth potential and are valued lower.
Source: Bloomberg, Time period: 23/05/2014 – 24/05/2019

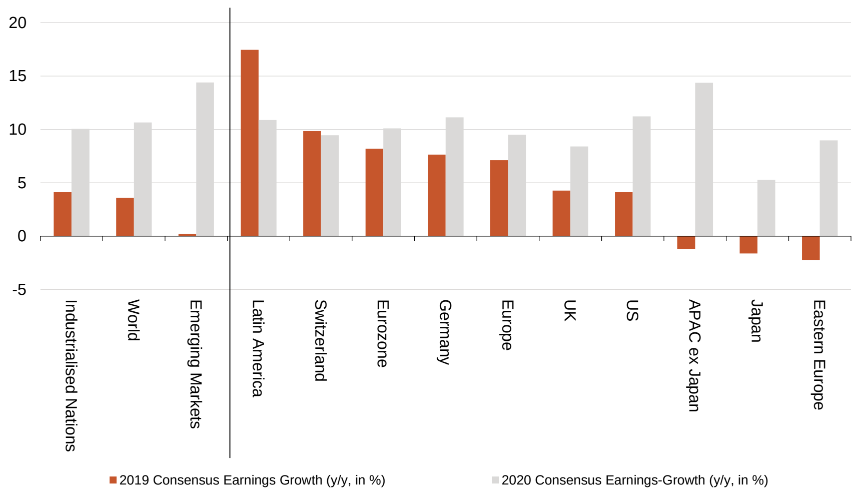
Changes in Consensus Earnings Estimates



- Over the past month, analysts have slightly raised their earnings estimates for industrialized country companies for the next twelve months. This is due solely to the higher earnings estimates for the USA and Great Britain.
- The negative earnings revision trend for emerging markets, on the other hand, continues. Last month alone, estimates were reduced by over 2%. Over the last three months this has exceeded 5%.

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 24/05/2019

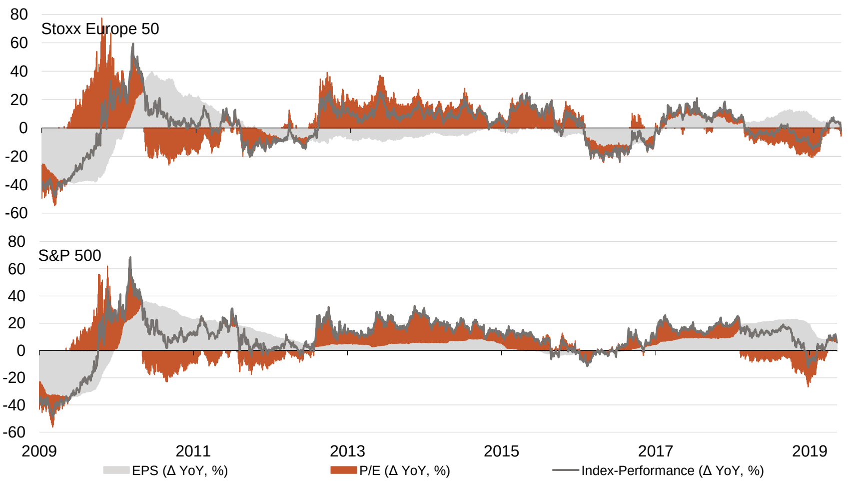
Earnings Growth



- Consensus estimates for 2019 earnings growth for emerging market companies is now only marginally positive. Analysts are sceptical about Asian emerging markets in particular.
- If the uncertainty surrounding the trade war persists, this is likely to have a negative impact on the real economy and thus result in further negative earnings revisions.

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 24/05/2019

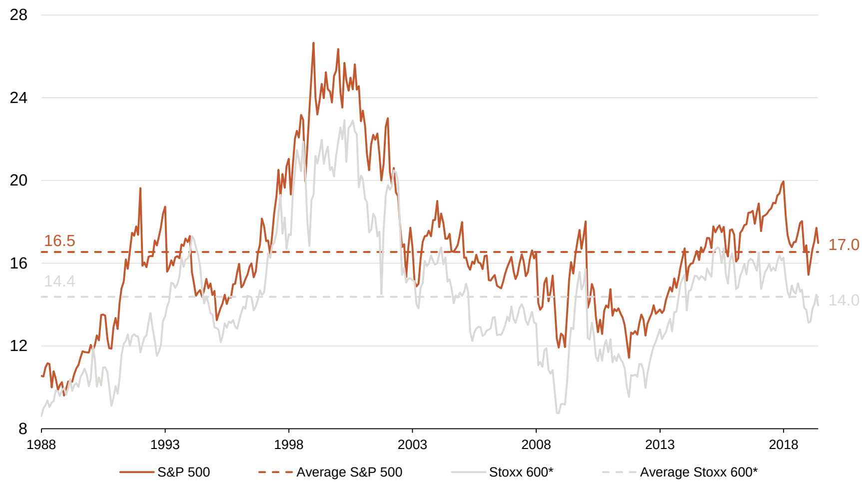
Contribution Analysis



- The recent correction in the markets has ensured that European equity prices remain virtually unchanged compared with the previous year. The P/E valuation and European corporate profits have also hardly changed.
- The picture is different in the USA. Both profits and valuations have increased compared to the previous year and as such, the S&P 500 was able to increase.

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 - 24/05/2019

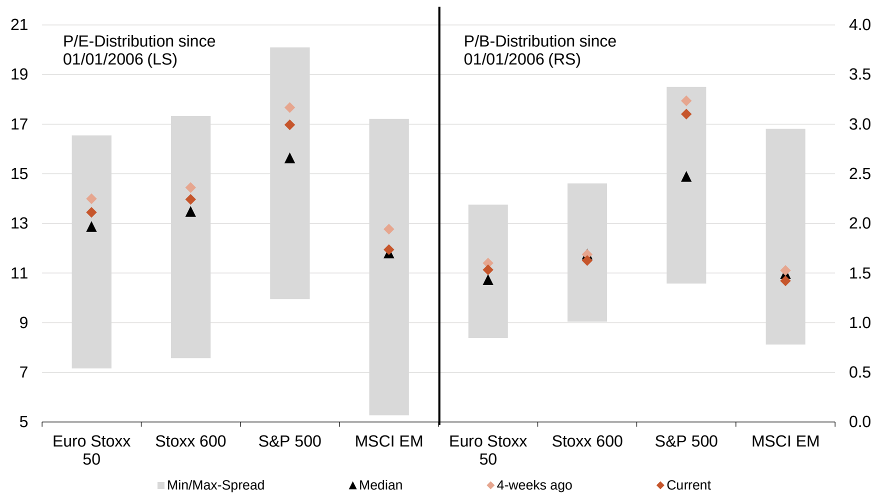
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The price/earnings ratio for European and US equities has recently been on the decline, especially for the S&P 500 where the P/E fell more sharply. While earnings estimates have risen recently, the S&P 500 fell.
- The P/E ratio for the Stoxx 600 stands at 14 and is therefore fair compared to the historical average since 1987.

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 - 24/05/2019

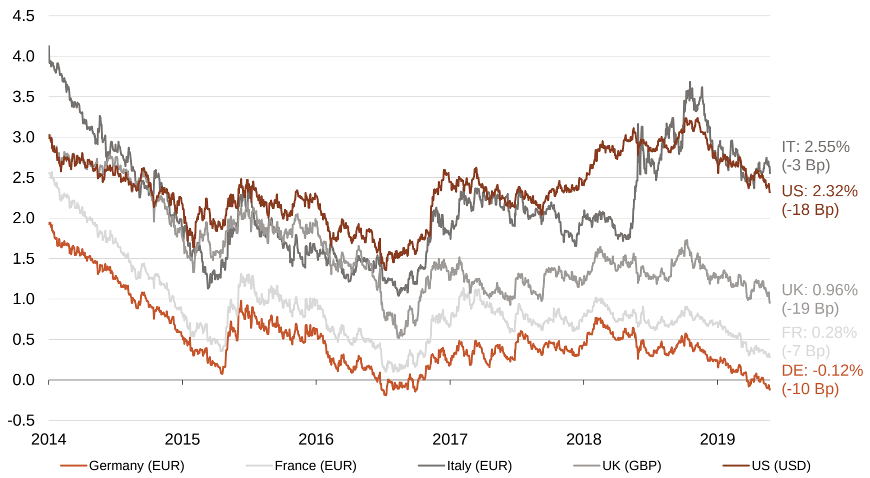
Historical Distribution: Price/Earnings and Price/Book Ratio



- Valuations have recently become more favourable across all equity regions.
- Compared to its own history and to all other regions, however, the USA continues to be the most expensive country. Emerging markets equities are valued lowest. However, the recent escalation in the trade conflict could lead to further negative earnings revisions for EM companies.

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 - 24/05/2019

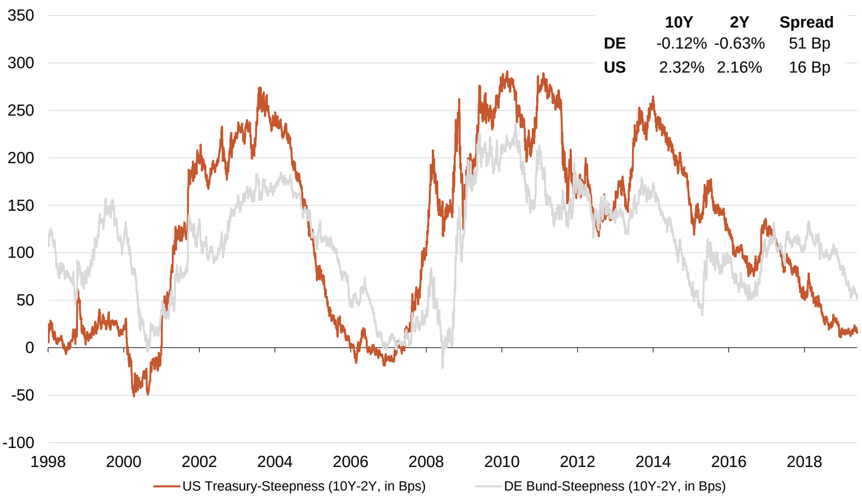
10-Year Government Bond Yields



- Over the past two weeks, investors have increasingly sought protection in safe government bonds. US Treasuries are yielding close to 2.3%, their lowest since 2017. The Deutsche Bund continued to remain below the 0% yield mark.
- British Gilts yield less than 1% following further worries of a chaotic Brexit due to Theresa May's follow-up speculation

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 - 24/05/2019

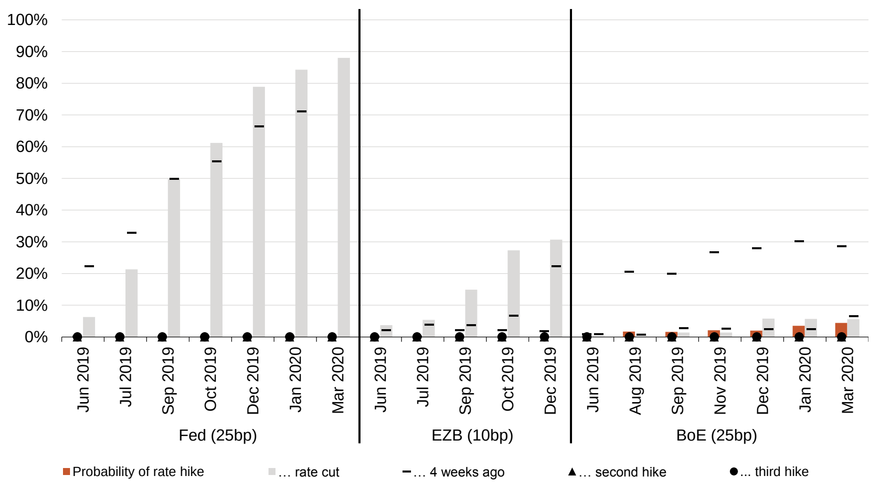
Yield curve steepness (10Y - 2Y)



- The German yield curve has recently somewhat flattened to 51 basis points. The same has occurred for the US yield curve which has flattened to 16 basis points. Concerns about an escalation of the trade conflict and its negative consequences for the economy make investors prefer long-dated bonds.

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 - 24/05/2019

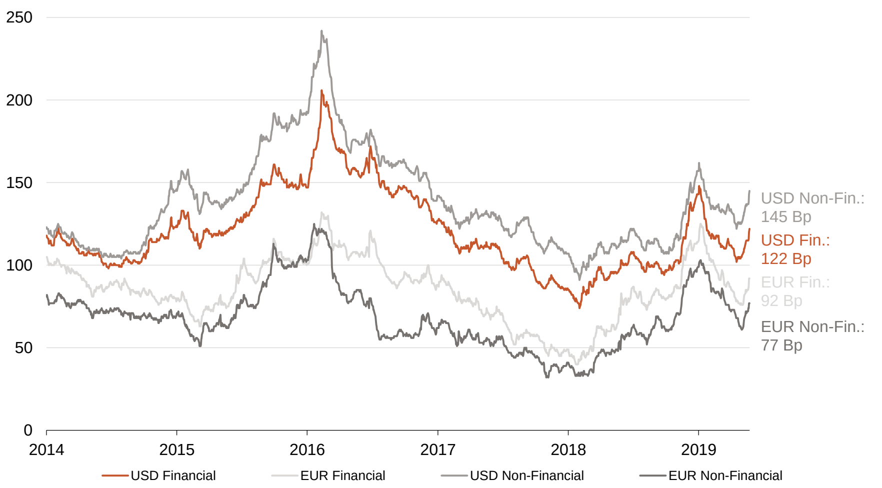
Implicit Probabilities for Changes in Key Interest Rates



- The Fed recently confirmed that it expects low inflation and will react cautiously even if the economy improves. The market is now pricing in an interest rate cut before the end of the year with a probability of just under 80%.
- Amidst the Brexit chaos, the Bank of England seems paralyzed despite increased inflation and a strong economy. Neither a rate hike or cut are expected.

Derivatives on money market rates - such as the Fed funds futures - can be used to determine the probability of a change in the key interest rate priced by the market
Source: Bloomberg, Time period: 26/04/2019 - 24/05/2019

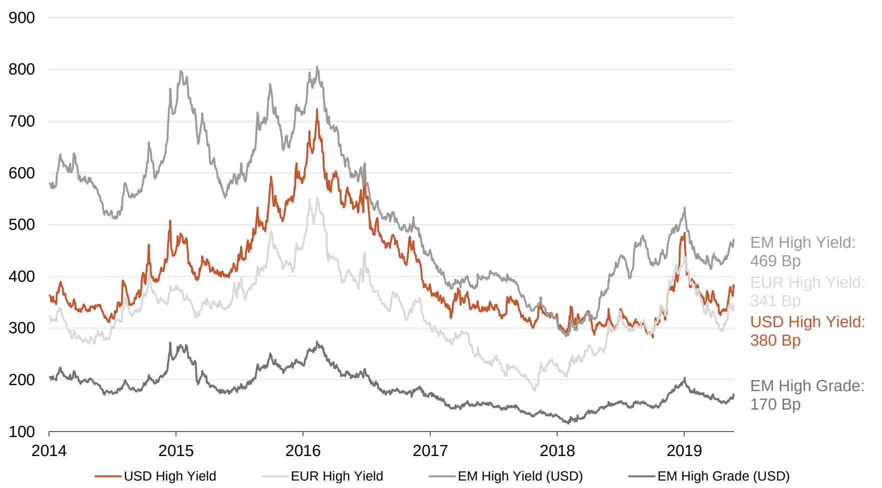
Credit Spreads Financial and Non-Financial Bonds



- Investors have parted with credit risk. Risk premiums on USD and EUR corporate bonds have continued to rise. In a two-week comparison, the spread widened by around 10 basis points.
- In EUR corporate bonds, the real estate, retail and banking sectors suffered most. In USD corporate bonds, the commodities, automotive and entertainment sectors in particular recorded rising risk premiums.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2014 – 24/05/2019

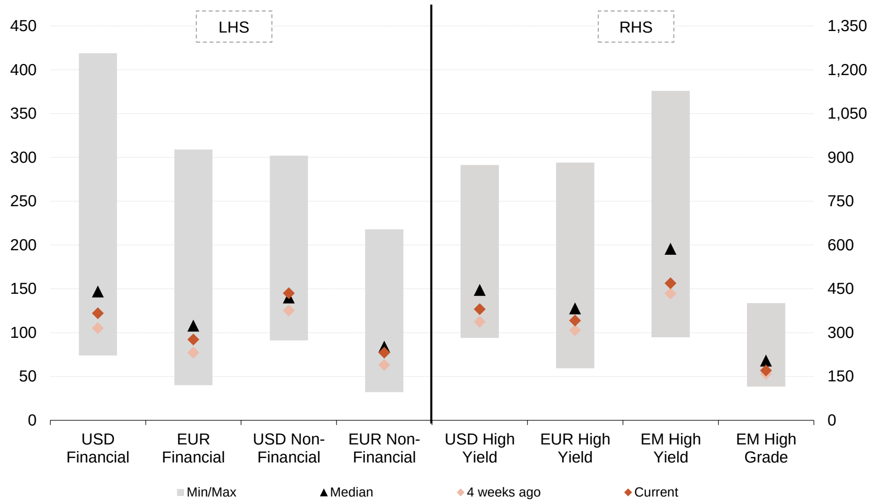
Credit Spreads High Yield and Emerging Markets Bonds



- Spreads have also risen further in the high-yield bond market. EM and USD high-yield bonds were particularly affected. EUR high-yield bonds remained relatively stable in a two-week comparison. The difference between USD and EUR high-yield bonds has now risen to almost 40 basis points.
- The USD energy sector was hit particularly hard by widening spreads due to falling crude oil prices.

The extent of the risk associated with a corporate bond is shown by its asset swap spread (in basis points). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term to offset its credit risk. See further explanations below.
Source: FactSet, Time period: 24/05/2014 – 24/05/2019

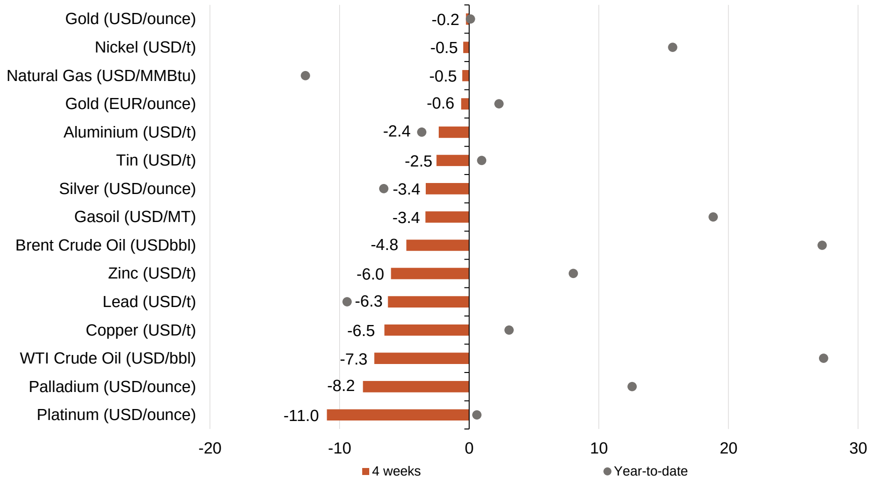
Historical Distribution of Credit Spreads (in bp)



- USD non-financial bonds are now recording a risk premium slightly above the 10-year median and appear to be fairly valued. But EUR non-financial bonds are also close to the 10-year median. Low interest rates on the markets are weighing on the banking and insurance sectors.

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

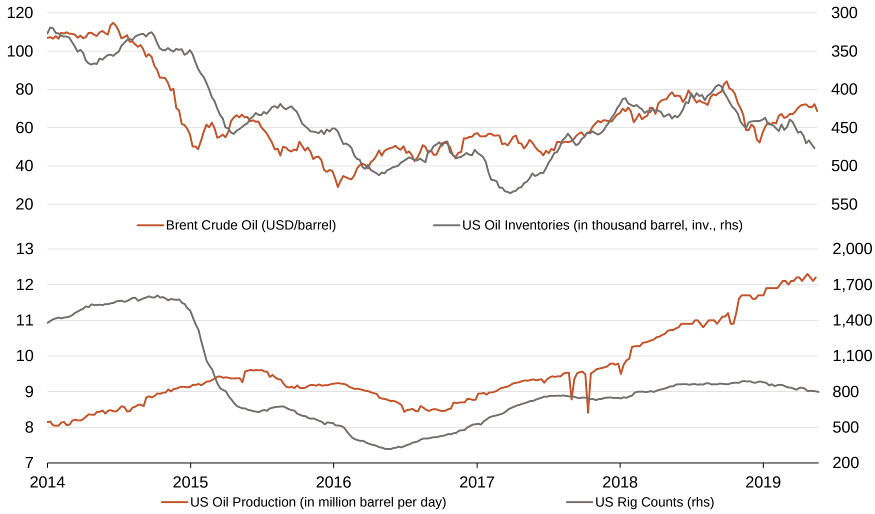
Commodities Performance



- Last month, commodities were widely under pressure. The combination of an escalating trade war between the USA and China, heightened growth concerns and an appreciation of the US dollar created headwinds.
- Gold has been a safe haven investment in the risk-off environment but has also lost slightly over the last 4 weeks.
- The oil price and the industrial metals recorded the largest losses due to demand concerns.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2019 – 24/05/2019

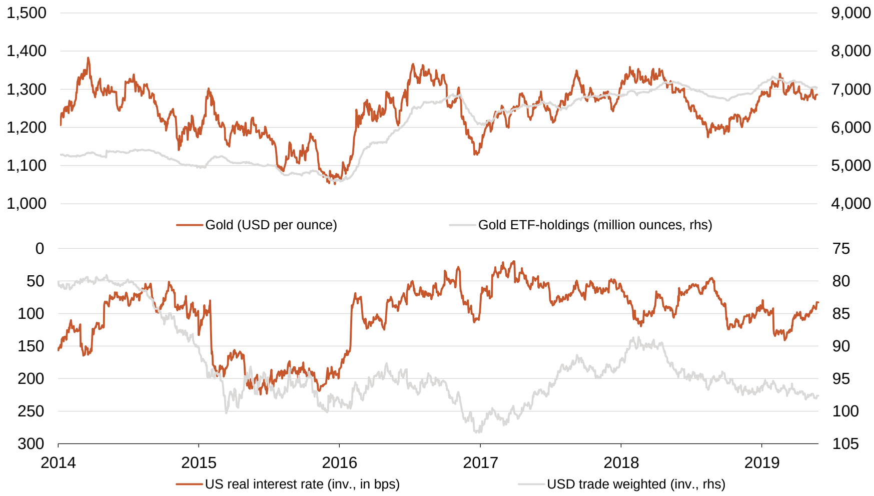
Crude Oil



- The price of oil has fallen significantly in recent days. The significant increase in US crude oil inventories and gasoline inventories has had a negative impact. In addition, demand concerns and presumably a decline in speculative net long positions have depressed the price.
- The effects of the US sanctions against Iran are still difficult to assess. Turkey and some Chinese refineries have recently stopped importing oil from Iran. The oil supply thus remains scarce.

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 – 24/05/2019

Gold



- The gold price is currently fluctuating sideways between 1,270 and 1,300 US dollars per ounce. On days of rising risk aversion and falling equity markets, gold has recently gained in value.
- The strength of the US dollar and the currency devaluations of important customer countries are limiting potential in the short term.

The US dollar and the real interest rate, i.e. adjusted for inflation, are among the fundamental price factors of the gold price. Rising real interest rates tend to depress the price of gold, while falling real interest rates have a supportive effect. The same applies to the US dollar. The development of gold ETF holdings reflects the demand for gold from financial investors.
Source: Bloomberg, Time period: 01/01/2014 – 24/05/2019

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