BERENBERG
Markets

MONITOR

17 June 2019

Current market commentary

Stock markets recovered somewhat from their May losses in June. This was due in particular to the US Federal Reserve, which can now envisage interest rate cuts. Historically, the start of the interest rate cut cycle tended to be positive for equities. However, moderate investor positioning and cautious investor sentiment also helped. Meanwhile, the risks have also risen sharply recently. The probability of a hard Brexit has increased. The trade conflict continues to escalate, while economic data is now also disappointing in the US. And with the oil tanker attack, tensions between the US and Iran have increased. All this suggests that equities are moving at best sideways in a volatile manner over the summer months – in particular as three Fed rate cuts for the next twelve months have already been priced in by the market. There should be a lack of positive impulses.

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

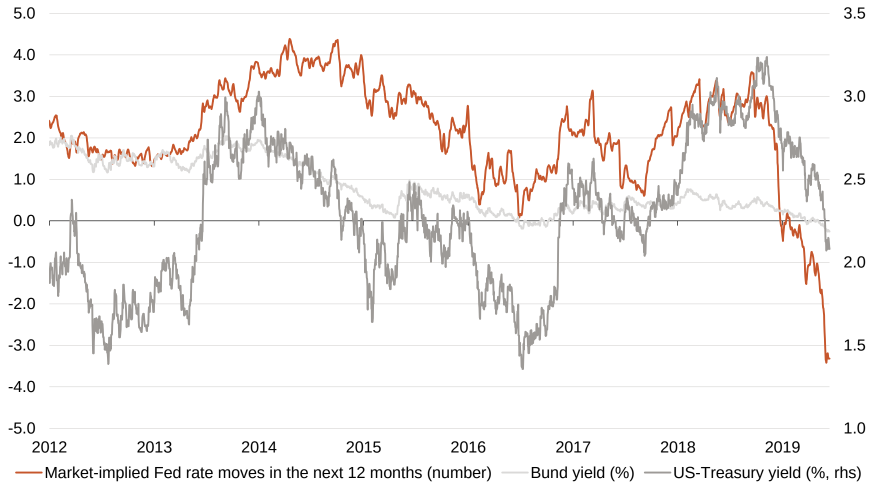
The G20 summit is eagerly awaited due to the trade war.

Following an agreement between the US and Mexico, there is hope that the US and China will also agree on their trade disputes on the fringes of the G20 summit on 28-29 June. Without a breakthrough, the market is unlikely to receive any positive impetus for further upside, especially as the latest data on Chinese industrial growth were below expectations and fuelled economic concerns. On the other hand, expectations are rising with regard to interest rate cuts by the Fed.

The focus is on the Fed's monetary policy and other economic data.

Market participants will focus on the FOMC decision on 19 June, which should provide more insight into the Fed's future monetary policy. The OPEC meeting on 25/26 June will also provide information as to whether OPEC will, as expected, extend its production cuts for the second half of the year. The ZEW Indicator of Economic Sentiment will be released tomorrow, Tuesday, and the Purchasing Managers' Indices for Germany, France and the eurozone will be released Friday. In the USA, PMI data is also expected on Friday.

Market prices already three Fed rate cuts in the next 12 months

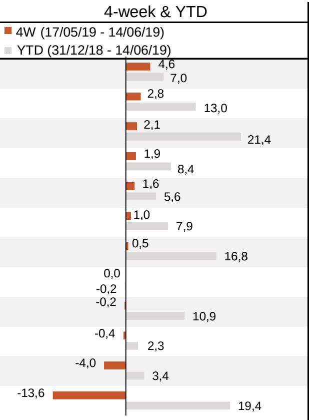


- The market is ahead of the Fed and is already anticipating three rate cuts in the next twelve months. A first rate cut in July is priced in at c. 90%. Accordingly, safe haven yields have fallen significantly. German Bund yields are at an all-time low.
- This represents an asymmetric risk. If the Fed lowers interest rates, the market has expected this anyway. Should the Fed, however, act more slowly, this could lead to disappointment.

Source: Bloomberg, Morgan Stanley, own calculations,
Time period: 01/01/2012 – 14/06/2019

PERFORMANCE

Multi Asset



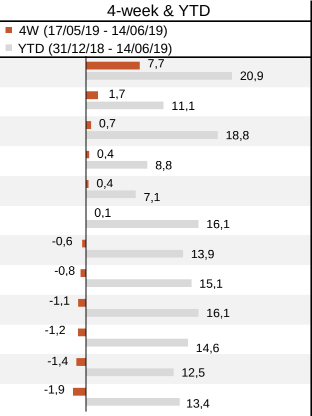
	4-week & YTD		12-month periods over that last 5 years				
	4W (17/05/19 - 14/06/19)	YTD (31/12/18 - 14/06/19)	14/06/18 14/06/19	14/06/17 14/06/18	14/06/16 14/06/17	14/06/15 14/06/16	13/06/14 14/06/15
Gold	4,6	7,0	6.3	0.1	-2.0	9.4	11.2
MSCI Frontier Markets	2,8	13,0	2.9	3.2	14.0	-9.7	4.5
REITs	2,1	21,4	19.2	-5.9	0.5	9.1	22.3
MSCI Emerging Markets	1,9	8,4	-4.0	10.1	28.5	-15.5	14.6
Global Treasuries	1,6	5,6	8.2	-2.8	-2.6	11.1	10.2
Global Coporates	1,0	7,9	9.8	-2.9	2.2	5.3	15.9
MSCI World	0,5	16,8	5.3	9.6	20.1	-5.5	25.3
Eonia	0,0	-0,2	-0.4	-0.4	-0.4	-0.2	0.0
Global Convertibles	-0,2	10,9	2.8	8.0	15.7	-5.0	21.6
USDEUR	-0,4	2,3	3.2	-3.0	-0.1	0.6	20.1
Industrial Metals	-4,0	3,4	-16.8	25.7	17.4	-18.8	5.5
Brent	-13,6	19,4	-12.0	61.7	-16.9	-35.4	-37.9

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.

- Gold was the clear winner of the last four weeks. A cautious Fed, a weaker dollar and increased geopolitical risks helped.
- Frontier market equities also performed well. The "emerging markets of tomorrow" have been little affected by the trade conflict.
- Industrial metals and oil, on the other hand, suffered from the escalation in the trade dispute and the mixed economic data.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 13/06/2014 – 14/06/2019

Equities



	4-week & YTD		12-month periods over that last 5 years				
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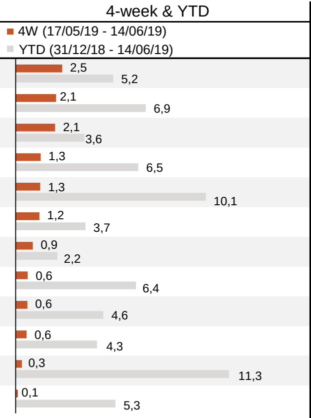
MSCI EM Eastern Europe	7,7	20,9	23.2	10.7	22.3	-10.5	-9.3
Stoxx Europe Defensives	1,7	11,1	5.1	2.6	14.4	-12.1	12.9
S&P 500	0,7	18,8	9.9	12.8	19.3	1.9	32.5
Topix	0,4	8,8	-6.3	9.5	23.7	-8.1	34.2
MSCI EM Asia	0,4	7,1	-8.8	14.0	30.6	-15.3	26.3
Stoxx Europe 50	0,1	16,1	3.7	1.6	22.3	-17.1	13.0
Stoxx Europe Small 200	-0,6	13,9	-6.2	10.3	26.1	-11.7	15.8
Euro Stoxx 50	-0,8	15,1	-1.6	2.1	30.2	-17.8	9.5
Russell 2000	-1,1	16,1	-4.9	16.6	24.6	-7.4	32.3
DAX	-1,2	14,6	-7.7	2.4	34.5	-15.0	12.9
MSCI UK	-1,4	12,5	-2.9	8.5	18.1	-17.8	13.9
Stoxx Europe Cyclicals	-1,9	13,4	-8.0	7.0	34.5	-21.3	12.9

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.

- In addition to defensive European stocks, Eastern European emerging markets performed best. Russian equities in particular gained.
- Japanese equities underperformed the broad market this year, but recently fared better. In addition to a stronger yen, there were also hopes that the planned VAT hike would be postponed or cancelled altogether in the autumn.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 13/06/2014 – 14/06/2019

Fixed Income



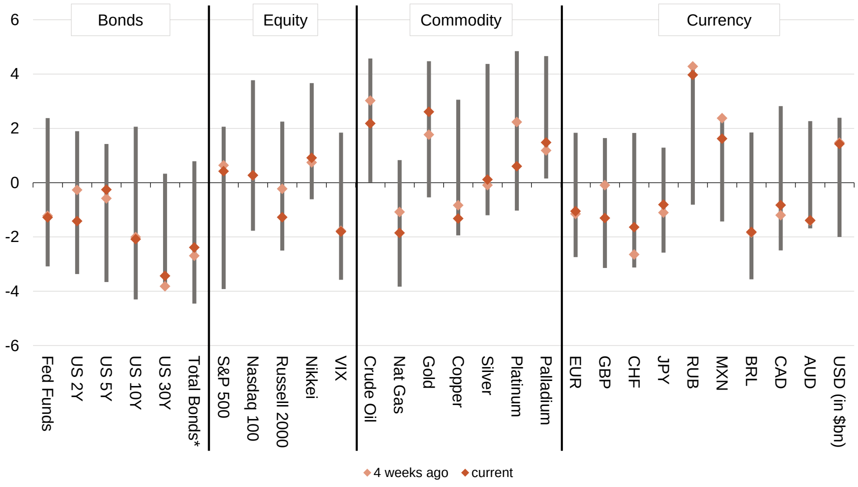
	4-week & YTD		12-month periods over that last 5 years				
	4W (17/05/19 - 14/06/19)	YTD (31/12/18 - 14/06/19)	14/06/18 14/06/19	14/06/17 14/06/18	14/06/16 14/06/17	14/06/15 14/06/16	13/06/14 14/06/15
EM Local Currency Bonds	2,5	5,2	8.2	-3.8	8.1	-0.1	7.2
EM Hard Currency Bonds	2,1	6,9	6.3	-4.6	6.5	6.7	0.5
BTPs	2,1	3,6	5.9	-3.0	-0.5	7.5	5.2
Treasuries	1,3	6,5	11.3	-4.9	-1.6	6.3	22.9
USD Corporates	1,3	10,1	13.0	-4.3	3.1	6.7	21.7
Bunds	1,2	3,7	5.5	-0.4	-1.9	7.3	4.8
EUR Inflation Linkers	0,9	2,2	0.8	1.8	1.4	2.6	1.7
Gilts	0,6	6,4	4.1	-0.2	-6.0	1.2	21.4
EUR Non-Financials	0,6	4,6	4.0	0.1	1.8	4.7	2.4
EUR Financials	0,6	4,3	3.6	0.4	3.3	3.6	2.3
USD High Yield	0,3	11,3	10.3	-0.6	12.1	0.0	19.7
EUR High Yield	0,1	5,3	2.4	1.1	8.0	0.6	2.1

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.

- Within bonds, high-yield bonds performed worst. Credit spreads have risen recently due to increased political uncertainty and weak economic data.
- Emerging market government bonds, on the other hand, are benefiting from US rate cut hopes. Both local and hard-currency bonds rose over 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: 13/06/2014 – 14/06/2019

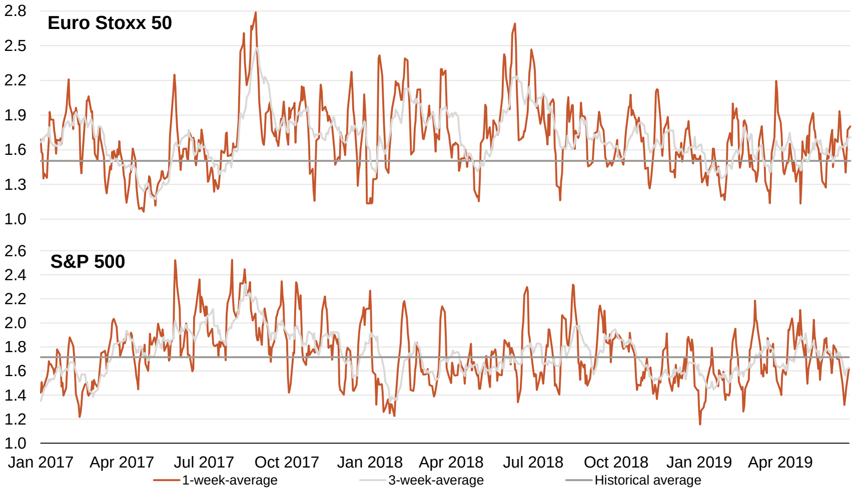
Non-Commercial Positioning



- Speculative investors have recently significantly increased their gold positions after the Fed signaled its intention to lower interest rates.
- Within the currencies, short positions in the JPY in particular have been reduced and further increased in CHF.

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: 11/06/2014 - 11/06/2019

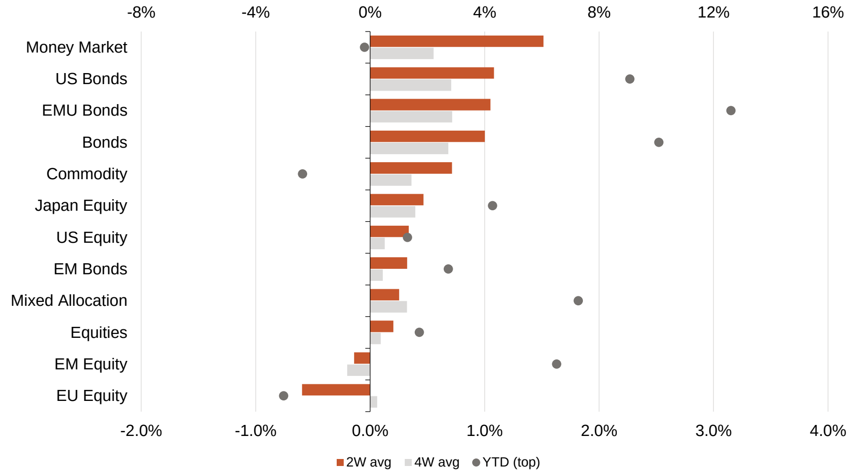
Put-Call Ratio



- While the hedges for the eurozone have recently been ramped up again, the opposite was true for the US. The put-call ratio fell sharply last week after the Fed signaled its intention to lower interest rates.
- Investors remain more sceptical about the eurozone.

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 - 14/06/2019

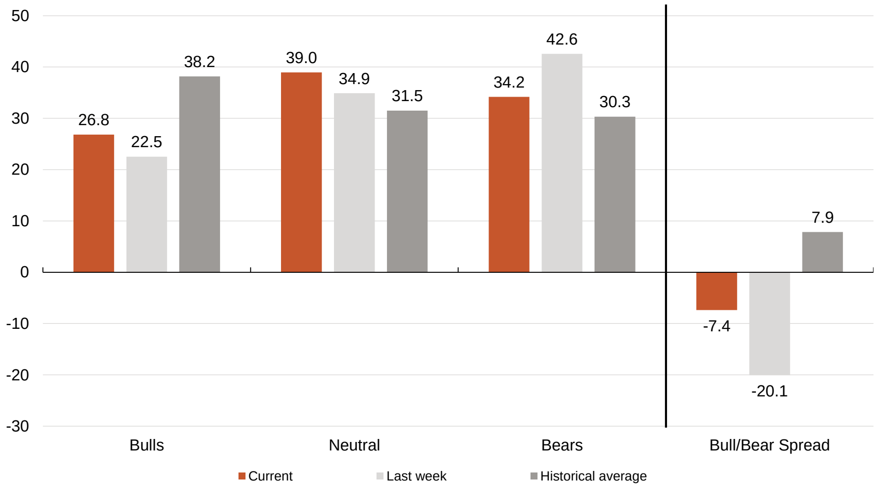
ETF Flows



- Safe havens continued to be in demand with ETF investors. Money market and bond vehicles have seen the largest inflows in recent weeks.
- European and emerging market equities, on the other hand, have struggled with outflows in the last two weeks.
- Japanese equities have recently seen inflows again.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2017 - 14/06/2019

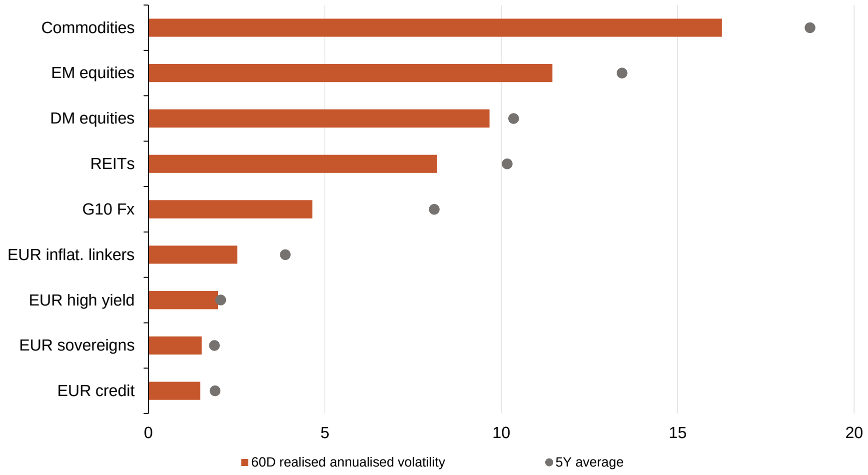
AAII Sentiment Survey (Bulls vs Bears)



- Among US private investors, the share of pessimists (bears) fell significantly to 34% during the last week.
- However, the share of investors with an optimistic outlook rose only slightly to just under 27%. The majority of 39% of investors are neutral.

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 – 13/06/19

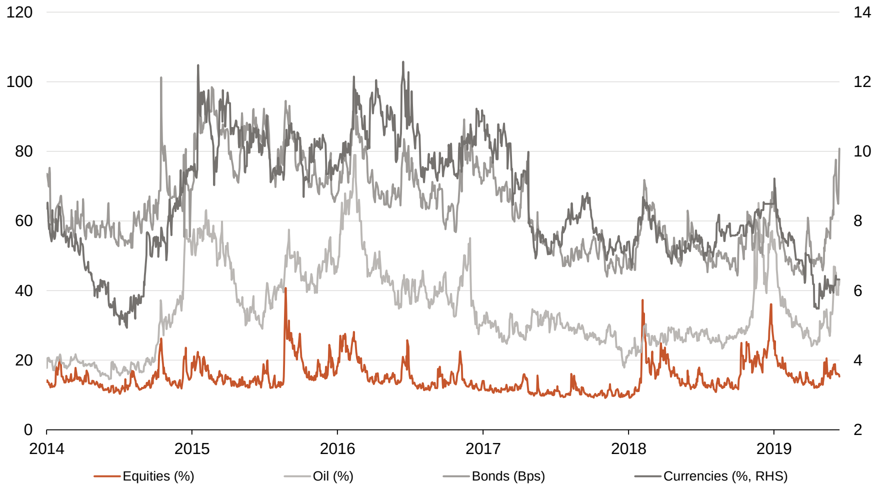
Realised Volatilities



- Over a period of two weeks, 60-day volatility that has been realized has risen, especially for commodities, developed market equities and currencies.
- Only in the case of EUR high yield bonds does realized volatility correspond to the 5-year average. Otherwise, volatility is below average in historical comparison.
- The ranking of asset classes remained unchanged.

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: 14/06/2014 – 14/06/2019

Implied Volatilities

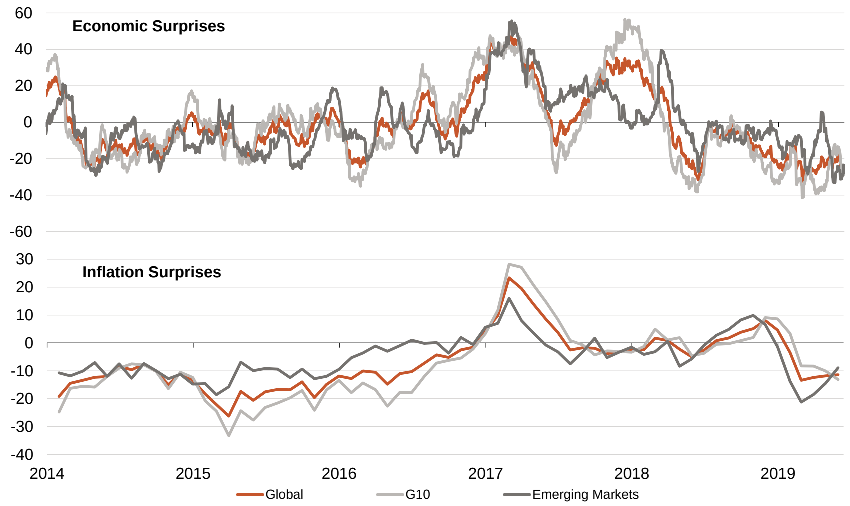


- Over the past few weeks, government bonds and oil in particular have seen an increase in implied volatility.
- In the case of government bonds, the flight to safe havens and the expectation of falling US base interest rates were responsible for a drop in yields.
- Oil, on the other hand, corrected sharply due to falling investor positioning.

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 – 14/06/2019

SURPRISE INDICATORS

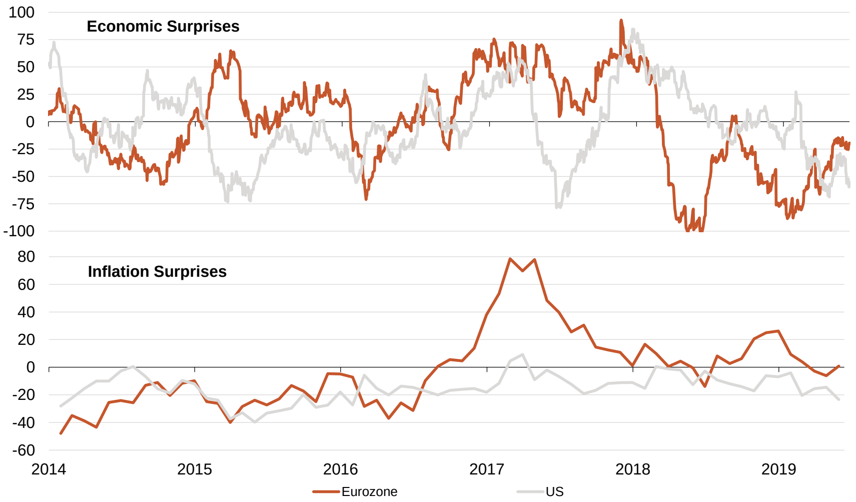
Global



- Negative economic surprises have recently continued both in the industrial nations and in the emerging markets. Within emerging markets, for example, there have recently been disappointments in South Africa (GDP) and Russia (purchasing managers' index for industry).
- The global inflation surprise indicator also remains in the red area. Recently, the inflation figures in South America, among other things, have surprised negatively.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 14/06/2019

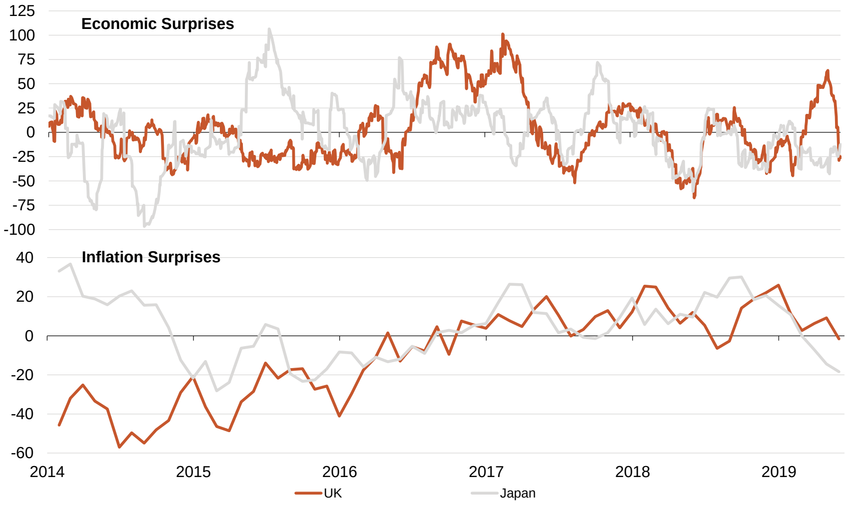
Eurozone and US



- In May, US employment rose by only 75 thousand, significantly less than in April (224 thousand) and much weaker than expected (consensus 175 thousand). The unemployment rate remained at 3.6%, while wage growth fell slightly to 3.1%. Overall, the employment trend has thus weakened.
- US consumer prices rose by 1.8 percent in May compared with the same month last year. However, analysts had anticipated inflation of 1.9 percent.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 14/06/2019

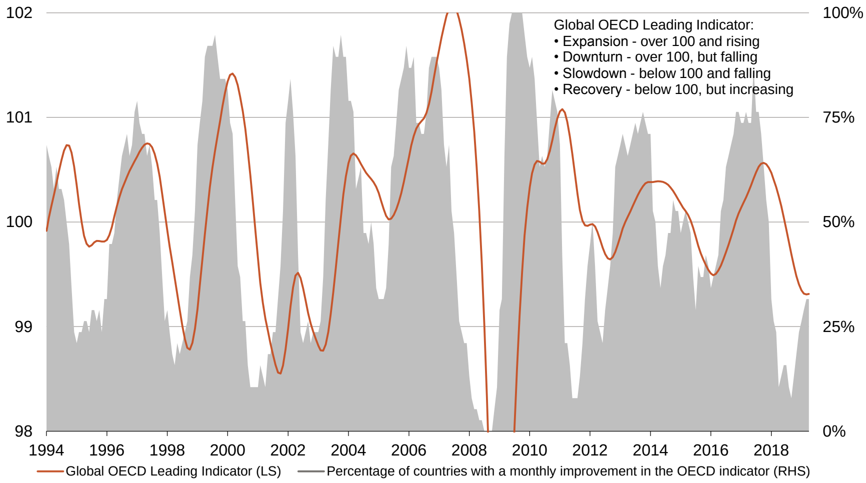
UK and Japan



- A slump in car production caused the British economy to shrink in April. GDP fell by 0.4 percent month-on-month, the largest decline since 2016.
- On the inflation side, the trend in the UK and Japan is also pointing downwards.

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 - 14/06/2019

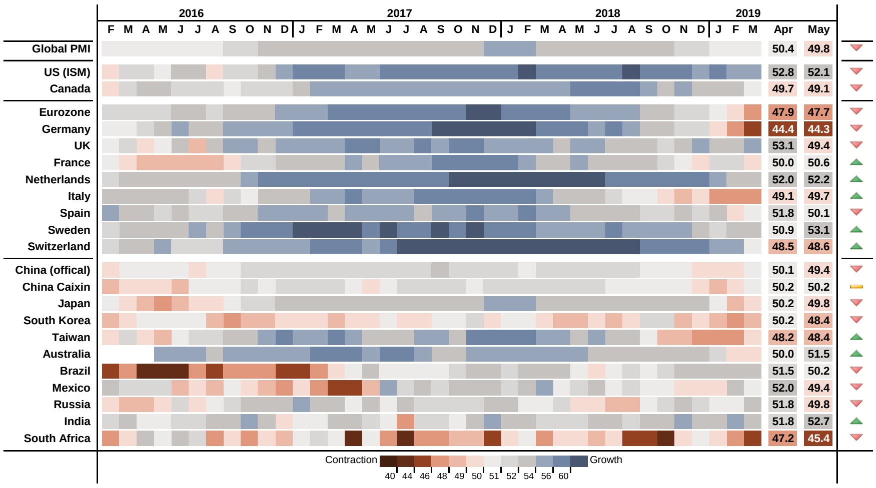
OECD Leading Indicator



- The OECD leading indicator points to a slowdown in growth in most large member states.
- Such signs exist, for example, for the US, Japan, Canada and the euro area as a whole, including Germany and Italy.

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: 31/01/1994 - 30/04/2019

Manufacturing Purchasing Managers Index (Manufacturing PMI)

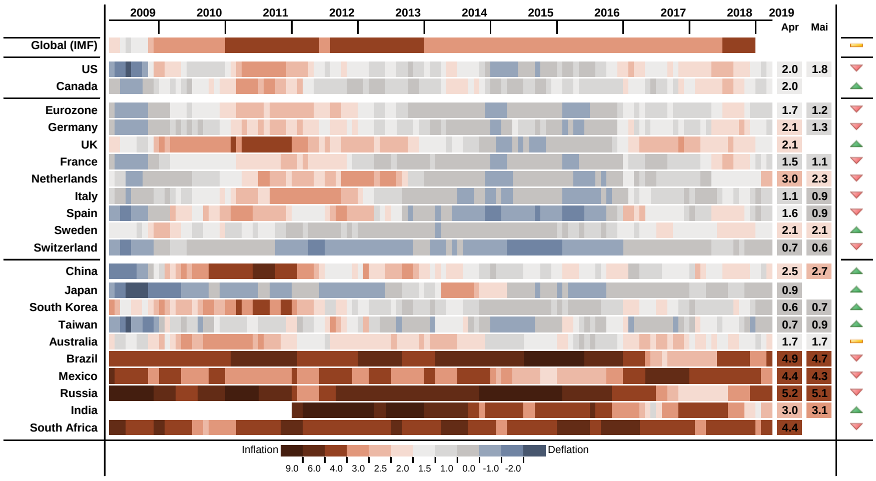


	Apr	May	
Global PMI	50.4	49.8	▼
US (ISM)	52.8	52.1	▼
Canada	49.7	49.1	▼
Eurozone	47.9	47.7	▼
Germany	44.4	44.3	▼
UK	53.1	49.4	▼
France	50.0	50.6	▲
Netherlands	52.0	52.2	▲
Italy	49.1	49.7	▲
Spain	51.8	50.1	▼
Sweden	50.9	53.1	▲
Switzerland	48.5	48.6	▲
China (offical)	50.1	49.4	▼
China Caixin	50.2	50.2	▬
Japan	50.2	49.8	▼
South Korea	50.2	48.4	▼
Taiwan	48.2	48.4	▲
Australia	50.0	51.5	▲
Brazil	51.5	50.2	▼
Mexico	52.0	49.4	▼
Russia	51.8	49.8	▼
India	51.8	52.7	▲
South Africa	47.2	45.4	▼

- Most purchasing managers' indices for industry fell in May compared with the previous month. The global PMI even slipped below the 50 mark. The indices for the US, the eurozone and China all performed weaker.
- India, Australia and France, on the other hand, are positive exceptions..

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: 31/05/2016 - 31/05/2019

Headline Inflation

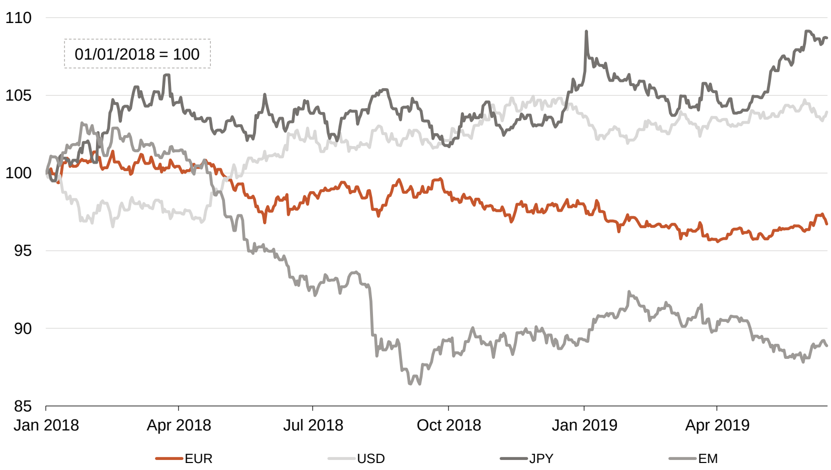


	Apr	Mai	
Global (IMF)			▬
US	2.0	1.8	▼
Canada	2.0		▲
Eurozone	1.7	1.2	▼
Germany	2.1	1.3	▼
UK	2.1		▲
France	1.5	1.1	▼
Netherlands	3.0	2.3	▼
Italy	1.1	0.9	▼
Spain	1.6	0.9	▼
Sweden	2.1	2.1	▲
Switzerland	0.7	0.6	▼
China	2.5	2.7	▲
Japan	0.9		▲
South Korea	0.6	0.7	▲
Taiwan	0.7	0.9	▲
Australia	1.7	1.7	▬
Brazil	4.9	4.7	▼
Mexico	4.4	4.3	▼
Russia	5.2	5.1	▼
India	3.0	3.1	▲
South Africa	4.4		▼

- The inflation picture is more mixed. While the inflation rate in the USA and the Eurozone tended to fall compared to previous months, it has risen for most Asian countries.
- In China, for example, inflation rose from 2.5 percent in April to 2.7 percent in May.

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: 28/02/2009 - 31/05/2019

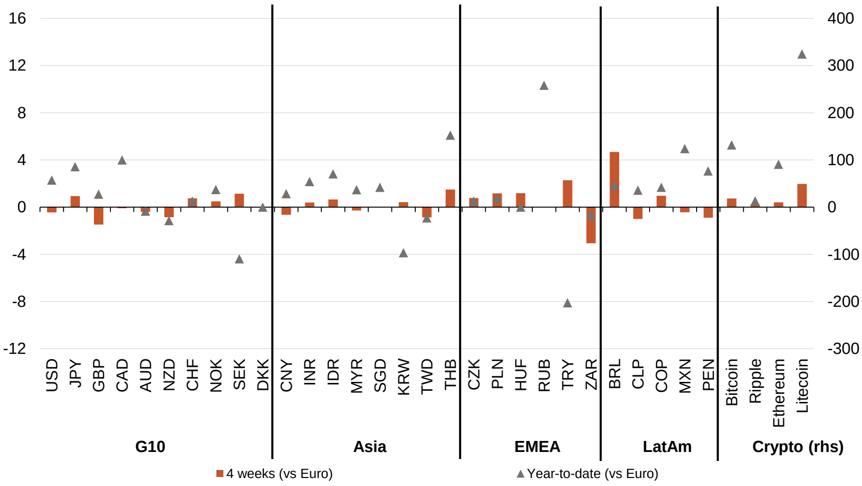
Trade-Weighted Currency Development



- The Japanese yen has recently remained in demand on a trade-weighted basis and has continued to be strong.
- The US dollar depreciated slightly due to the expectation of US interest rate cuts. On the other hand, the euro and EM currencies appreciated slightly on a trade-weighted basis. This could be the beginning of a trend reversal.

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 – 14/06/2019

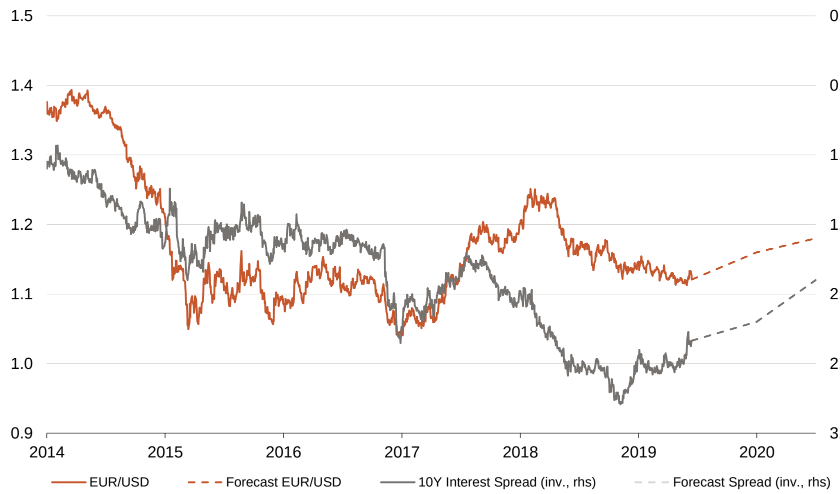
Currency Moves vs Euro



- Over the past four weeks, most currencies have depreciated slightly against the euro. Exceptions were the Turkish lira and the Brazilian real, which benefited more from the weakness of the dollar.
- The British pound continued to depreciate due to Brexit uncertainty and the Chinese renminbi suffered from the trade war.
- With the crypto currencies the Litecoin continued its high flight.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2017 – 14/06/2019

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate has temporarily risen slightly but is now quoted again at around 1.12 dollars per euro.
- Under the expectation that the US key interest rates will be cut in the coming months as they have been priced in by the market, the interest rate differential between US Treasuries and Bunds is also likely to narrow. This speaks for a slightly rising exchange rate as forecast by our economists.

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

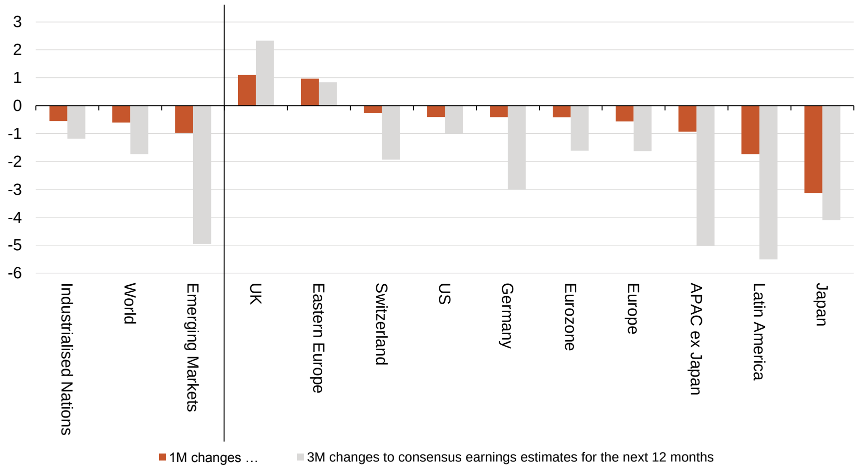
	4-week & YTD		12-month periods over that last 5 years				
	4W (17/05/19 - 14/06/19)	YTD (31/12/18 - 14/06/19)	14/06/18 14/06/19	14/06/17 14/06/18	14/06/16 14/06/17	14/06/15 14/06/16	13/06/14 14/06/15
Utilities	4,4	16,2	15.2	-0.4	14.3	-8.9	2.8
Health Care	2,8	13,9	11.6	-6.3	15.0	-14.6	25.6
Telecommunications	1,7	2,1	-1.7	-9.8	6.8	-16.9	22.7
Growth	0,7	19,3	3.4	4.9	20.9	-11.1	19.5
Consumer Staples	0,4	20,2	13.5	-6.0	15.0	1.1	18.2
Materials	0,2	15,7	-7.3	21.2	37.6	-21.7	8.2
Industrials	0,1	18,7	-1.2	5.2	32.1	-9.7	11.7
Consumer Discretionary	-0,9	16,5	-7.2	8.9	25.4	-19.9	24.0
Value	-1,6	9,1	-4.7	3.2	28.2	-20.4	9.1
Information Technology	-2,7	20,1	-4.5	21.0	35.3	-9.2	24.7
Finance	-3,0	9,3	-8.7	-0.2	37.0	-27.8	14.8
Energy	-3,6	9,3	-5.0	29.5	19.0	-12.1	-12.3

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.

- European growth equities continue to outperform value equities, also thanks to falling interest rates, which are particularly affecting financial companies. Since the beginning of the year, growth has outperformed value by more than 10 percentage points.
- Over the past four weeks, defensive sectors such as utilities, healthcare and telecommunications have performed best in Europe.

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: 13/06/2014 – 14/06/2019

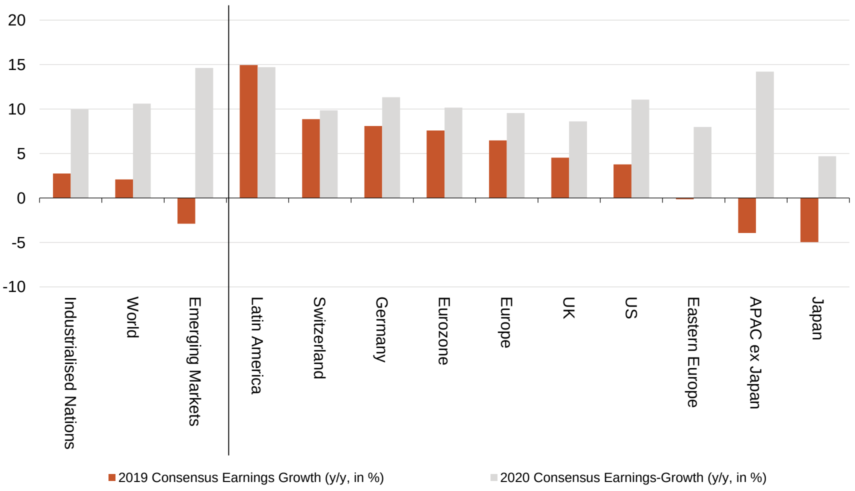
Changes in Consensus Earnings Estimates



- Negative earnings revisions continue. In particular, analysts have reduced their earnings estimates for emerging markets. Earnings expectations for Latin America have been revised downwards by over 5% over the last three months.
- Within the developed markets, Japan in particular is struggling with negative earnings revisions.
- Analysts have even recently raised their estimates for the UK and Eastern Europe.

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 14/06/2019

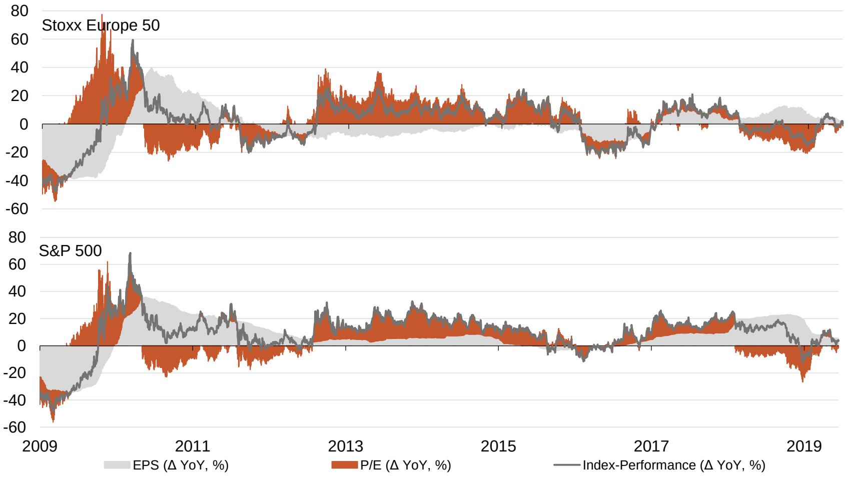
Earnings Growth



- Despite the strong downward revisions, the expected 2019 earnings growth for Latin America is still the largest.
- For Switzerland, just under 9 percent profit growth is also expected for 2019.
- Analysts, on the other hand, predict falling earnings for Japan, APAC ex Japan and Eastern Europe.

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 14/06/2019

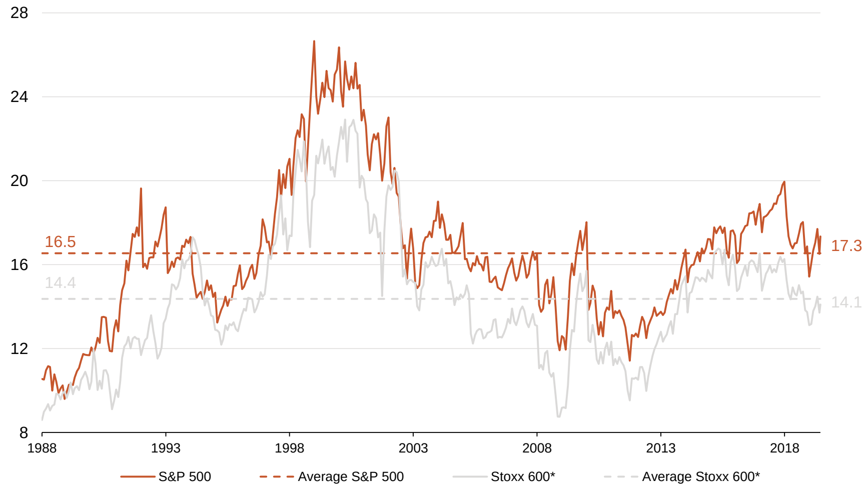
Contribution Analysis



- Despite rising earnings expectations, European equities have barely risen over the past twelve months. The P/E valuation has declined accordingly.
- The picture looks similar in the US: Here, too, earnings estimates rose more strongly than the S&P 500, with the result that the P/E ratio fell year-on-year.

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 – 14/06/2019

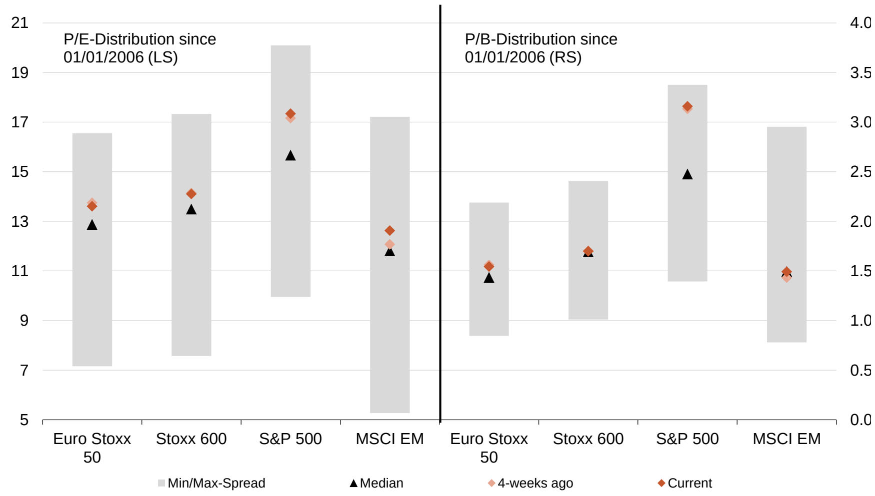
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The P/E ratio for the next twelve months is now 17.3 for the S&P 500 - and thus only slightly more expensive than the historical average.
- The situation is similar for European equities. Although they are significantly cheaper than their US counterparts, they are also valued relatively fairly to their own history. The P/E ratio is 14.1.

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 – 14/06/2019

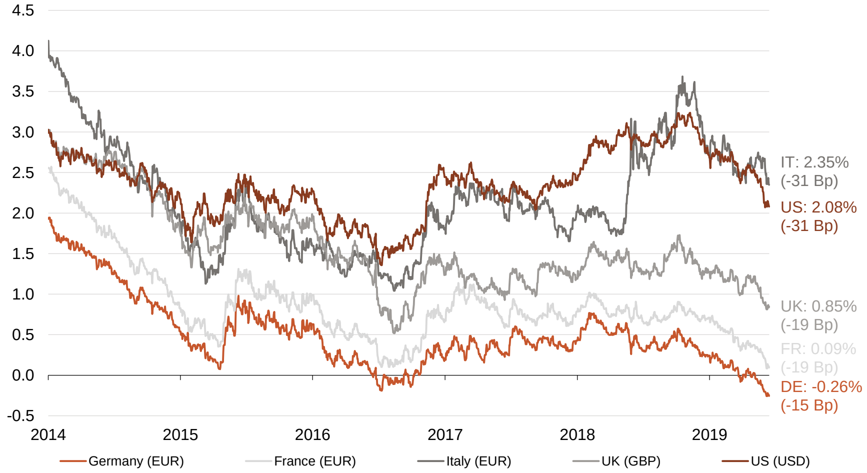
Historical Distribution: Price/Earnings and Price/Book Ratio



- Valuations have not moved strongly recently. The MSCI EM saw the biggest change and has become more expensive than four weeks ago due to falling profit expectations.
- Emerging market equities are the most favourably valued compared to all other regions - US equities seem the most expensive, especially on a P/B basis.

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 – 14/06/2019

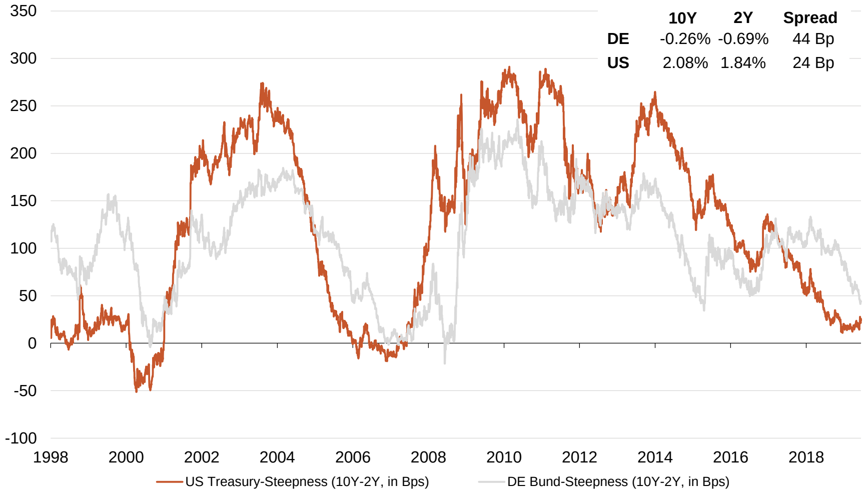
10-Year Government Bond Yields



- In recent weeks, investors have increasingly sought protection in safe government bonds. US Treasuries are yielding close to 2.1%, their lowest yield since 2017.
- Yields on German government bonds hit a new record low in June. Investors are now paying the German government more than 26 basis points to keep their money for 10 years.

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 - 14/06/2019

Yield curve steepness (10Y - 2Y)

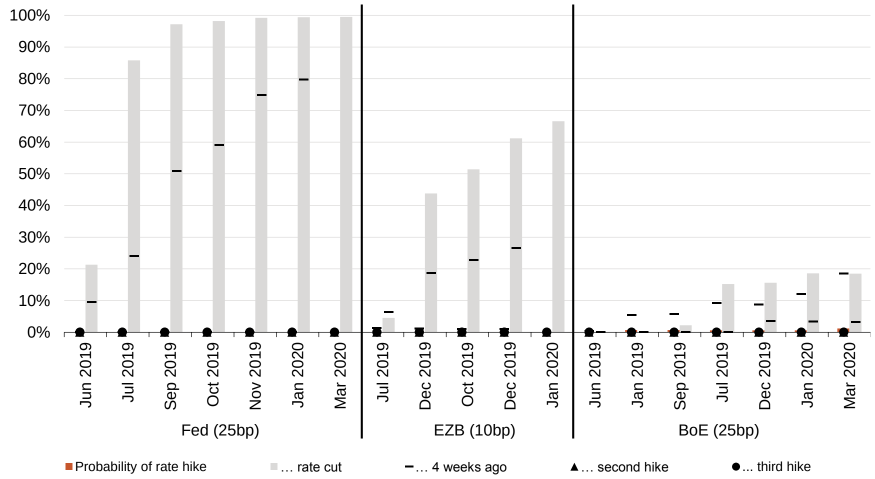


	10Y	2Y	Spread
DE	-0.26%	-0.69%	44 Bp
US	2.08%	1.84%	24 Bp

- The US yield curve has become slightly steeper. Market participants are increasingly pricing in rate cuts by the Fed so that the short end (2 years) has fallen more sharply than the long end (10 years).
- In the case of German government bonds, on the other hand, the short end is more firmly anchored because of the ECB's policy, so that the pressure on bond yields has taken place at the rear end of the bond market. The curve has flattened out accordingly.

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 - 14/06/2019

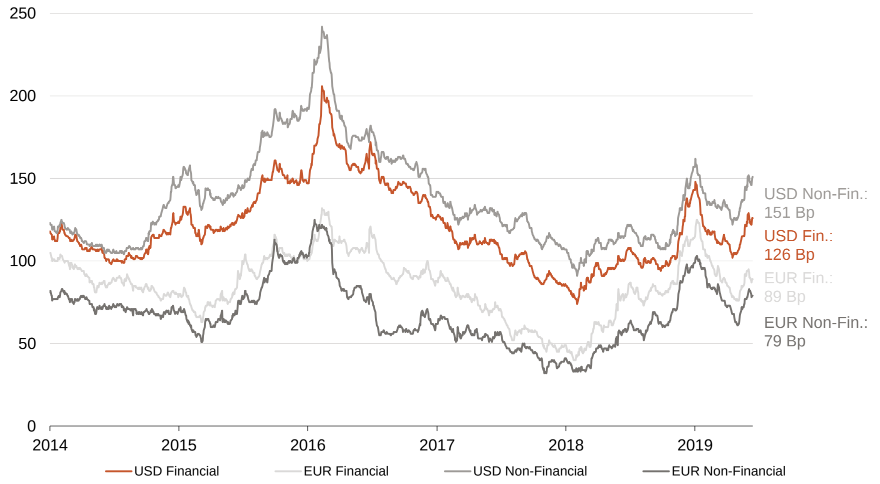
Implicit Probabilities for Changes in Key Interest Rates



- Due to the restrained inflation trend and weaker economic data, more than 80% of the market participants expect the Fed to cut interest rates in July by 25bp.
- After the ECB has already ruled out an interest rate hike until mid-2020, more than 40% of market participants expect an interest rate cut in December 2019
- In view of the Brexit chaos, no steps are expected from the BoE.

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: 17/05/2019 - 14/06/2019

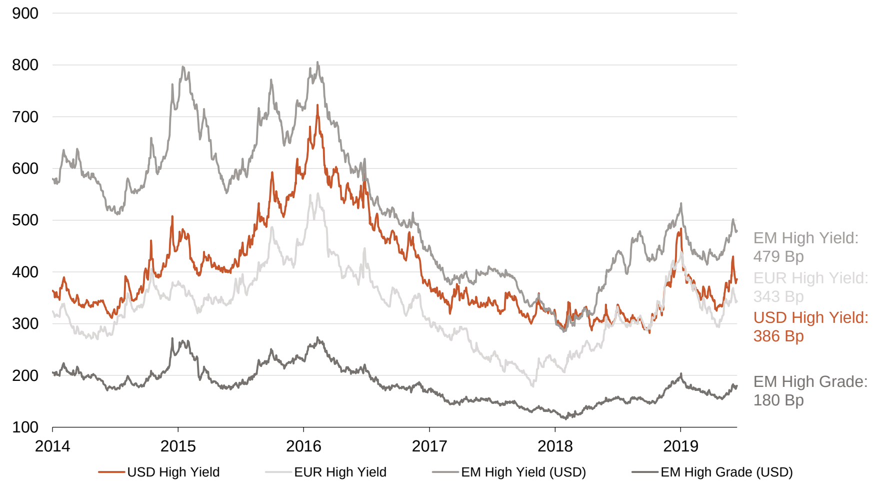
Credit Spreads Financial and Non-Financial Bonds



- Risk premia for financial and corporate bonds have widened in recent weeks. The weak economic data and the intensification of the trade war have had a negative impact.
- Recently, however, there has been a slight movement, especially in EUR financial bonds. A deaf ECB supported this.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2014 - 14/06/2019

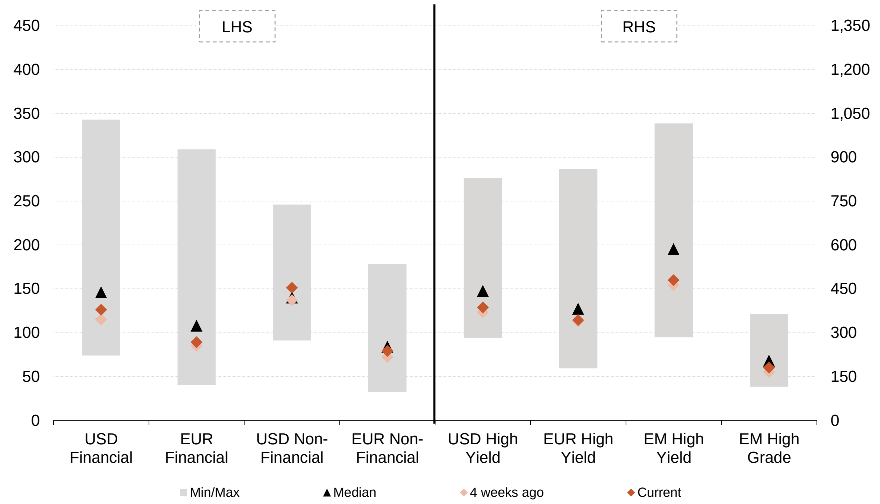
Credit Spreads High Yield and Emerging Markets Bonds



- In the high-yield bond market, too, there was a counter-movement in risk premiums last week. This particularly affected USD high-yield bonds. The spread difference between USD and EUR high-yield bonds has now fallen close to 40 basis points.
- EM high-grade bonds have recently been able to remain relatively stable.

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 - 14/06/2019

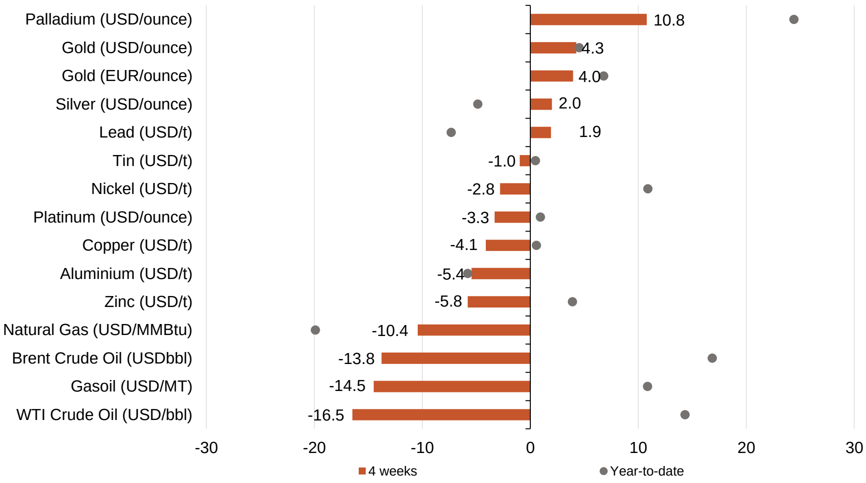
Historical Distribution of Credit Spreads (in bp)



- USD non-financial bonds are now recording a risk premium slightly above the 10-year median and now appear to be fairly valued. But EUR non-financial bonds are also close to the 10-year median. Low market interest rates 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 - 14/06/2019

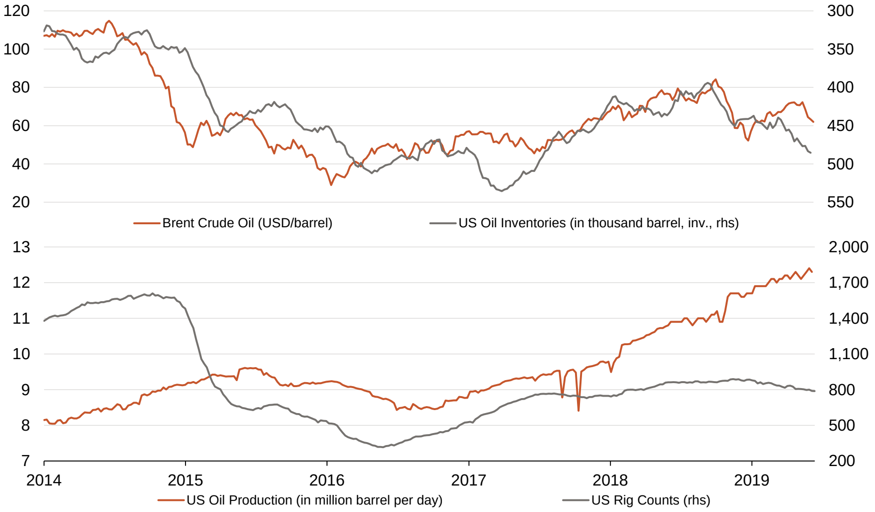
Commodities Performance



- Over the last four weeks, palladium leads the winners list, followed by gold, silver and lead.
- Lead benefited from production stoppages in Australia and, at the same time, from its lowest inventories in 10 years. Gold, on the other hand, was sought after as a safe haven and was supported by expectations of falling US interest rates.
- Industrial metals suffered from the continuing trade war, while oil came under pressure due to demand concerns and speculative positioning.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2018 – 14/06/2019

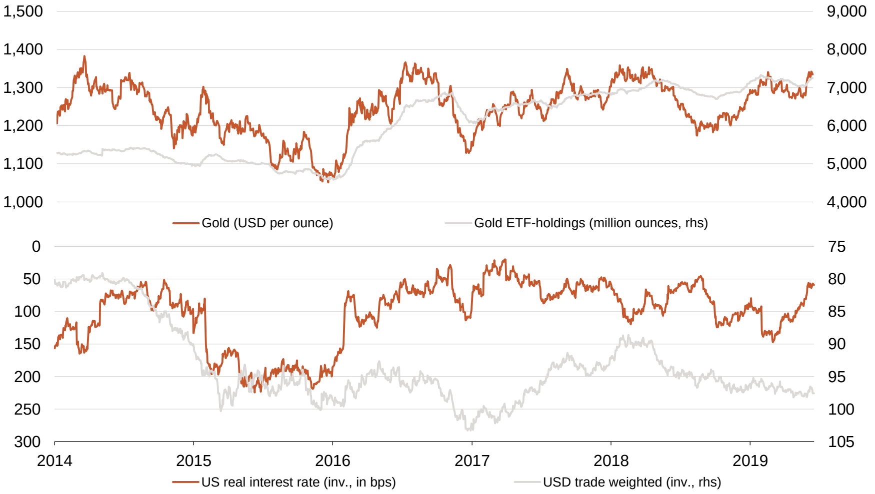
Crude Oil



- In the US, stocks of crude oil and processed products are rising thanks to booming shale oil production, while the rest of the world has a comparatively scarce oil supply due to scarce OPEC production.
- US inventory data and a significant reduction in the net long positions of speculative investors have caused the oil price to plummet over the month.
- OPEC should extend its production cuts by the end of the month.

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 – 14/06/2019

Gold



- Gold was able to gain significantly to the technical resistance at 1.350 US dollars before a small price drop set in.
- The continuing political uncertainty, ETF inflows and the expectation of falling key US interest rates with falling real interest rates and a weaker US dollar supported the gold price.

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 – 14/06/2019

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