Current market commentary

The S&P 500 and NASDAQ indices both reached new all-time highs last week. European indices have also recently risen. The Q2 reporting season in the US is better than expected, thanks in part to significant profit reductions in advance and central banks fostering hopes for an economic recovery through a loose monetary policy. The central banks of South Africa, Russia, India, Chile and Turkey have already begun to cut interest rates. Growth stocks and cyclical companies in particular have benefited from this recently. Emerging market currencies and bonds are also likely to benefit. However, there is still little sign of an economic recovery. Leading economic indicators have deteriorated further recently, such as the German Ifo Index. So far, the stock markets have been unimpressed by this. Thus, we remain cautious, because if economic recovery fails to materialise, there will probably be significant setbacks in the stock markets.

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

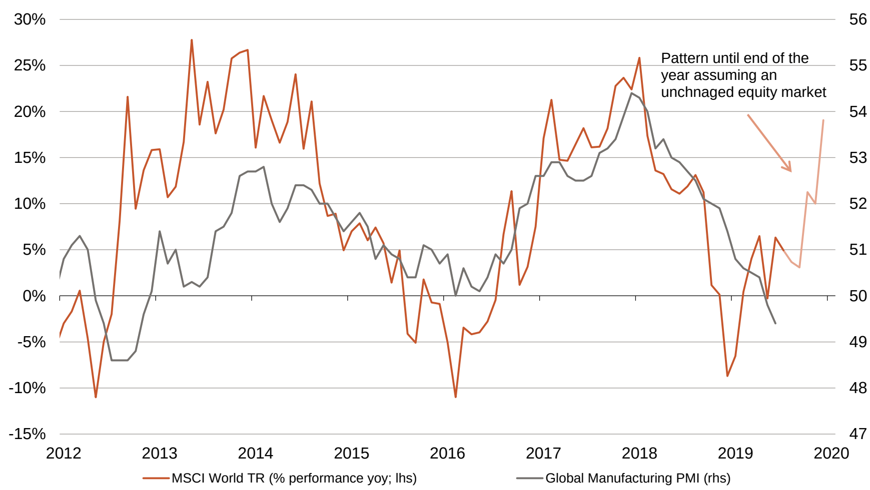
This week the focus is on the Federal Reserve. Market participants expect the Fed to cut interest rates by 0.25 percentage points and have already priced in further rate cuts in the coming months. Moreover, the trade talks between the US and China may also provide new impetus. In addition, the corporate earnings season is still at its peak. While companies earnings in both the US and Europe have been a surprise to the upside so far, at least in Europe, the number of guidance reductions is increasing.

The focus is on the US interest rate decision, the trade talks and the corporate earnings season.

On Wednesday, China's Purchasing Managers Indices will indicate whether the stimulus measures are working for the economy. In the US, the Fed's interest rate decision will be in focus on Wednesday. On Thursday, the EU Purchasing Managers' Indices for Manufacturing will be released, as will be the ISM index in the US. On Friday, the US labor market data and the University of Michigan's Consumer Sentiment Index will reflect the state of the US economy.

Various purchasing managers' indices, US consumer confidence and US labour market data are published.

Equity markets decoupled from the economy?



- All major leading indicators are pointing down, but global equities are holding up surprisingly well and are decoupling from the economy. The market is looking for an economic recovery.
- The hope is that a turnaround in interest rates by the Fed, monetary easing by other central banks such as the ECB, a solution to the trade conflict and the economic stimulation by China will give the economy renewed momentum.
- If things turn out differently, there is a risk of significant setbacks. Caution remains the order of the day.

Explanations see page 6.
Source: Bloomberg, Time Period: 01.01.2012 - 31.12.2019

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (28/06/19 - 26/07/19)	YTD (31/12/18 - 26/07/19)	26/07/18 26/07/19	26/07/17 26/07/18	26/07/16 26/07/17	26/07/15 26/07/16	25/07/14 26/07/15
MSCI Frontier Markets	4.4	17.8	8.0	2.6	15.0	-10.0	1.7
MSCI World	3.9	22.6	9.6	11.9	10.8	-0.3	24.4
Global Convertibles	3.5	15.6	8.4	7.6	9.1	-0.5	21.2
Industrial Metals	3.3	9.0	0.0	4.2	13.4	-4.1	-10.2
Gold	2.9	14.0	21.4	-2.3	-10.6	20.1	2.8
REITs	2.7	21.3	16.5	-0.6	-11.3	15.8	22.3
USDEUR	2.2	3.0	4.6	0.8	-6.4	0.0	22.3
Global Coporates	2.1	10.5	12.0	-0.5	-2.8	6.0	16.7
MSCI Emerging Markets	2.0	13.7	3.6	4.6	17.9	-2.1	5.7
Global Treasuries	1.6	7.2	10.2	0.3	-8.2	10.9	11.4
Brent	0.4	25.6	-7.4	55.3	-4.3	-32.2	-45.5
Eonia	0.0	-0.2	-0.4	-0.4	-0.4	-0.2	0.0

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.

- In the risk-on environment of the past four weeks, stocks of the frontier markets and the industrial nations showed the best performance.
- Single individual industrial metals benefited from news of a supply deficit and speculative positioning.
- Bonds also performed well across all segments, as they continued to be sought after in anticipation of further monetary easing by the ECB and the Fed.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 25/07/2014 – 26/07/2019

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (28/06/19 - 26/07/19)	YTD (31/12/18 - 26/07/19)	26/07/18 26/07/19	26/07/17 26/07/18	26/07/16 26/07/17	26/07/15 26/07/16	25/07/14 26/07/15
S&P 500	5.2	25.7	14.1	16.4	10.2	6.5	31.2
Russell 2000	3.0	21.5	-0.9	18.7	13.6	0.7	32.7
Topix	2.7	11.4	-2.3	12.0	11.9	-4.9	32.5
Stoxx Europe Small 200	2.3	19.2	0.3	8.8	20.0	-9.6	20.9
MSCI EM Asia	1.9	12.8	1.0	5.7	21.1	-2.5	15.5
Euro Stoxx 50	1.6	20.2	3.2	3.2	20.2	-14.8	16.3
MSCI UK	1.2	14.7	1.6	6.8	8.3	-10.4	11.4
Stoxx Europe 50	1.1	19.2	5.5	3.9	12.3	-12.3	16.1
MSCI EM Eastern Europe	0.9	24.1	21.9	14.1	14.4	-0.1	-8.5
Stoxx Europe Defensives	0.9	13.3	5.5	7.6	1.8	-6.9	16.3
Stoxx Europe Cyclicals	0.9	17.2	-2.3	2.8	30.1	-17.8	15.4
DAX	0.2	17.6	-3.0	4.1	20.1	-9.7	17.7

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.

- Over the past four weeks, global equities have continued their positive development since the beginning of the year thanks to central banks, renewed trade talks between the US and China and good corporate earnings results.
- The S&P 500 leads the winners list, supported by a stronger US dollar.
- With its cyclical orientation, the DAX performed below average in light of the falling Ifo index and purchasing manager index.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 25/07/2014 –26/07/2019

Fixed Income

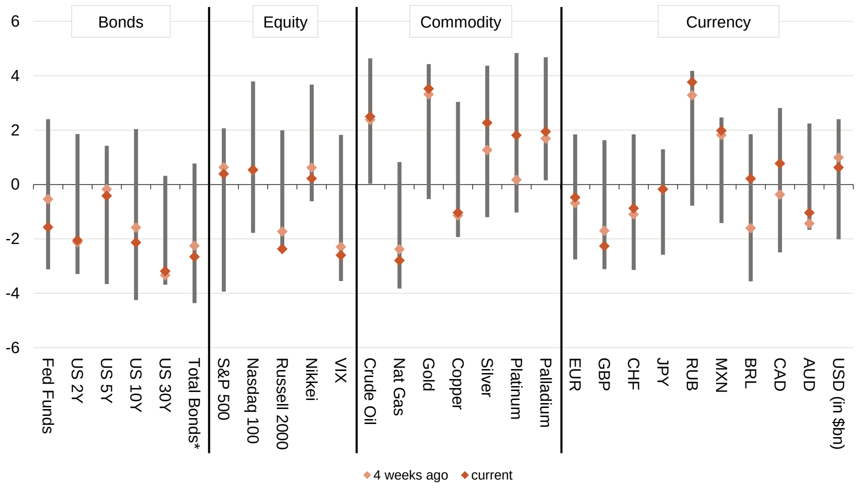
	4-week & YTD		12-month periods over that last 5 years				
	4W (28/06/19 - 26/07/19)	YTD (31/12/18 - 26/07/19)	26/07/18 26/07/19	26/07/17 26/07/18	26/07/16 26/07/17	26/07/15 26/07/16	25/07/14 26/07/15
BTPs	3.1	8.6	10.4	-1.7	-3.2	6.6	7.0
EM Local Currency Bonds	3.0	9.5	12.7	-1.8	-0.2	5.8	5.0
EUR Inflation Linkers	2.8	7.0	5.1	3.0	-1.1	3.5	0.8
USD High Yield	2.6	13.9	12.8	1.7	3.5	4.9	20.4
USD Corporates	2.4	13.1	15.6	-1.3	-3.6	7.7	23.3
Treasuries	1.9	7.6	12.5	-1.6	-7.4	5.3	25.8
Gilts	1.4	6.8	5.7	2.3	-7.2	-3.9	21.8
EUR Non-Financials	1.3	7.1	6.0	1.0	-0.7	6.2	2.3
EUR Financials	1.1	6.4	5.4	0.5	2.1	4.4	2.2
EM Hard Currency Bonds	0.9	9.6	7.2	-2.4	2.4	10.0	-0.5
EUR High Yield	0.7	7.3	4.0	1.0	6.5	2.2	2.7
Bunds	0.5	4.6	5.8	1.9	-4.1	6.6	4.6

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.

- Following indications of a more expansionary monetary policy by the Fed and the ECB, as well as interest rate cuts by various other central banks, the hunt for yield continued. Emerging market and high-yield bonds in particular were the main beneficiaries.
- Italian government bonds benefited from the fact that there was no break in government and that the ECB is likely to buy up bonds again.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 25/07/2014 – 26/07/2019

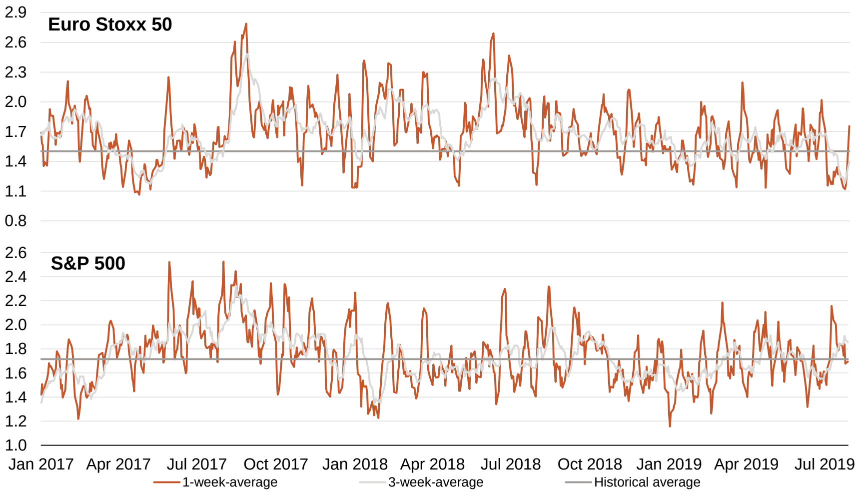
Non-Commercial Positioning



- Speculative investors have once again expanded their positions in all precious metals.
- The short positions in VIX futures, Sterling (GBP) and US Mid-Caps stocks (Russell 2000) further increased.

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: 26/07/2009 - 26/07/2019

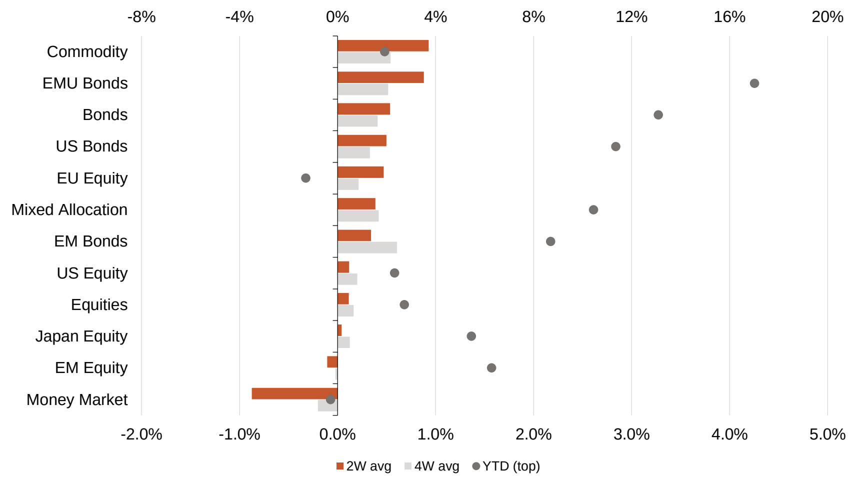
Put-Call Ratio



- Investors were increasingly optimistic about the eurozone until the ECB was unable to meet the high expectations of a more expansionary monetary policy.
- In the US too, investors are more optimistic after the recent all-time high of the S&P 500, resulting in the put-call ratio falling to its 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 - 26/07/2019

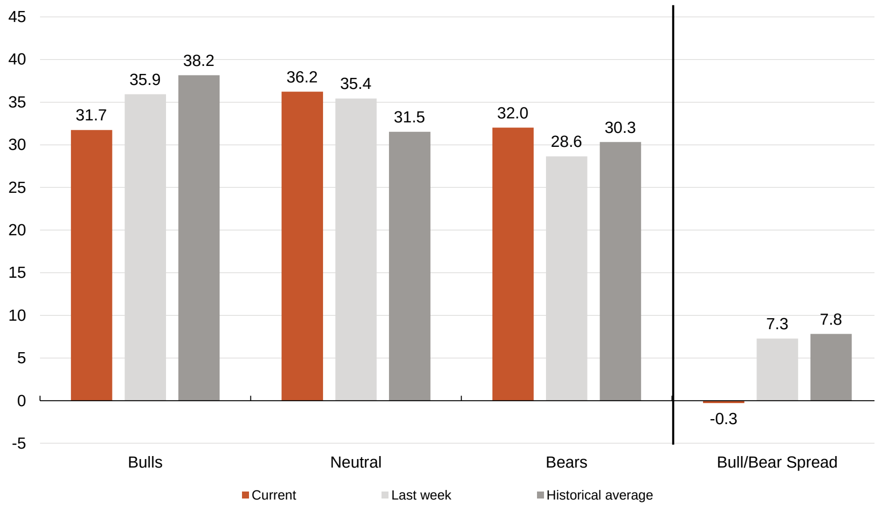
ETF Flows



- Over the past four weeks, all asset classes have generated ETF inflows, with the exception of money market investments which recorded outflows in particular over the past two weeks.
- European equities have recorded ETF outflows since the beginning of the year. The largest ETF inflows were in eurozone bonds, which recently benefited again from the prospect of a more expansionary ECB monetary policy.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2018 - 26/07/2019

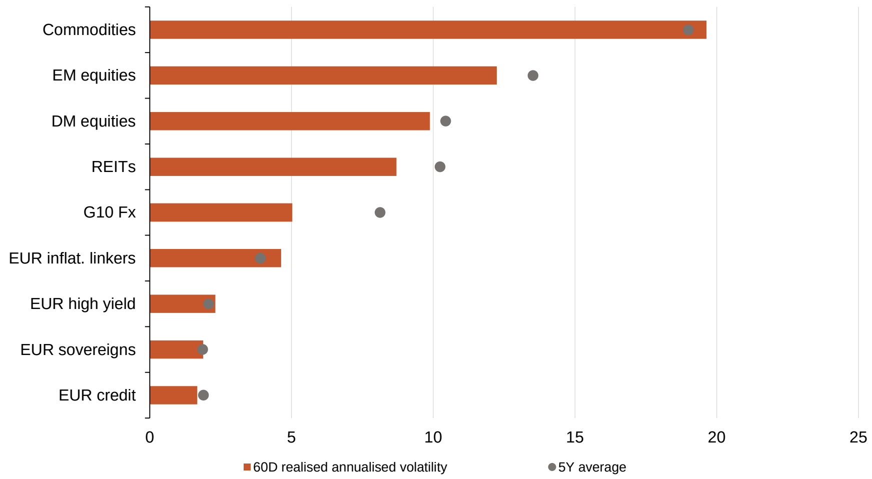
AAII Sentiment Survey (Bulls vs Bears)



- Among US private investors, the relationship between optimists (bulls) and pessimists (bears) is balanced with a bull/bear spread close to zero.
- Recently, the proportion of bulls has declined slightly, while bears have increased. The mood image is neither to be seen as an impulse nor as a warning sign.

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 – 25/07/2019

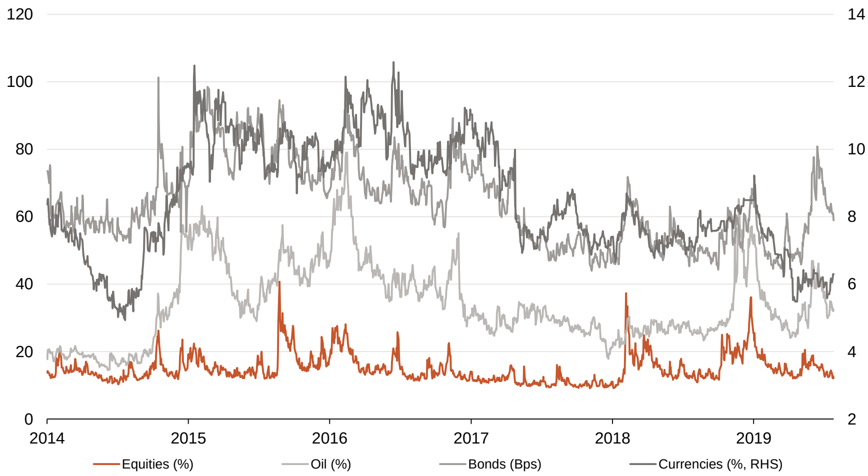
Realised Volatilities



- The realised 60-day volatilities have hardly changed compared to two weeks ago.
- Only commodities, EUR inflation-linked bonds and EUR high-yield bonds are above their 5-year average volatilities.
- The volatility of the G10 currencies is also remarkably low. However, new impetus may soon come from monetary policy.

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: 26/07/2014 – 26/07/2019

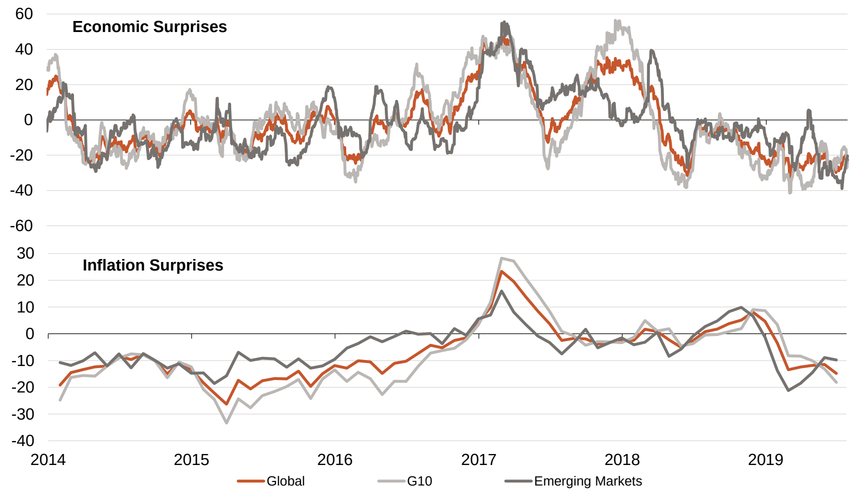
Implied Volatilities



- Over the past two weeks, implied volatilities in oil and currencies have risen slightly, while those in equities and government bonds have continued to decline.
- The prospect of a more expansionary monetary policy has reduced the downside risks for equities and bonds.

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 – 26/07/2019

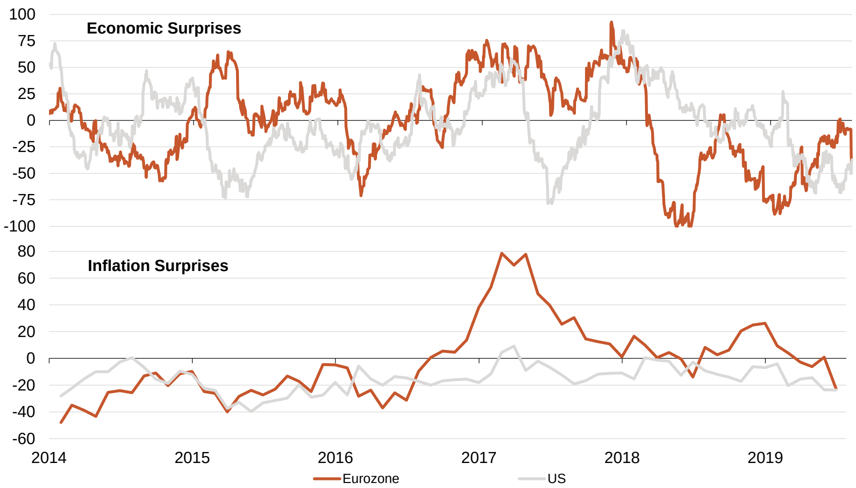
Global



- The trend of predominantly negative global economic surprises continues, despite economic data in the emerging markets faring somewhat better. In China, industrial production (+6.3% YoY) and retail sales (+9.8% YoY) exceeded expectations in June. In South Korea, GDP rose by 1.1% in the second quarter compared to the previous quarter (0.9%).
- Global inflation has recently been weaker than expected.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 – 26/07/2019

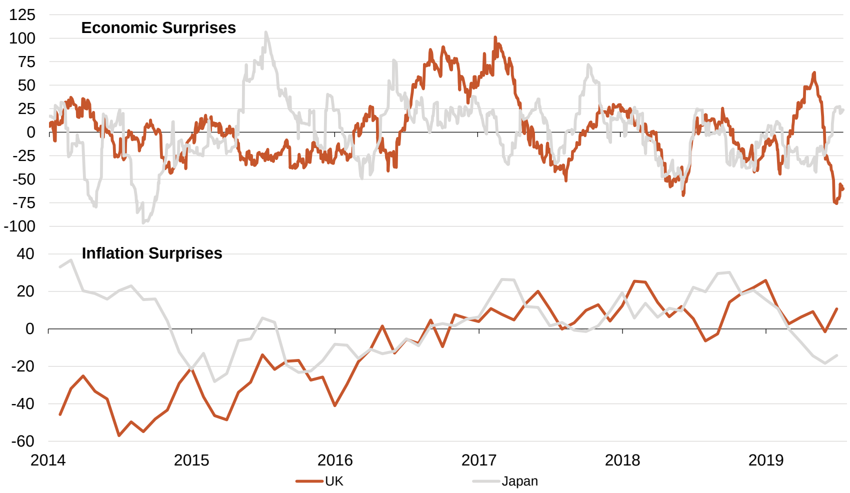
Eurozone and US



- The economic data in the USA were recently mixed. While some sentiment indicators, such as the Markit PMI, are pointing down, retail sales in June surprised with +0.4% and the Philadelphia Fed Index was strong with 21.8 points (previous month: 0.3).
- In the eurozone, data recently deteriorated again. Sentiment indicators such as the Markit PMI, ZEW Index and IFO Index have disappointed. The leading indicators thus continue to trend downwards.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 – 26/07/2019

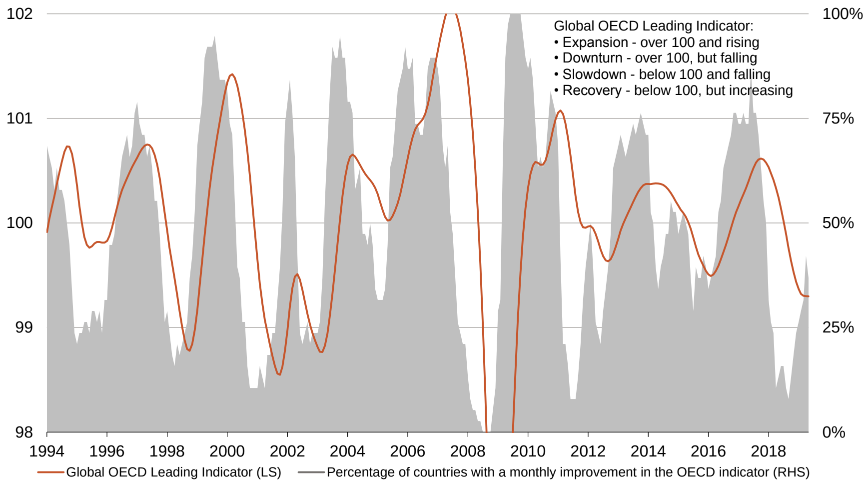
UK and Japan



- Retail sales in the UK surged upwards in June. Core inflation rose slightly month-on-month.
- Japan is one of the few countries with predominantly positive economic surprises. Industrial sentiment (PMI) improved slightly in June.

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 – 26/07/2019

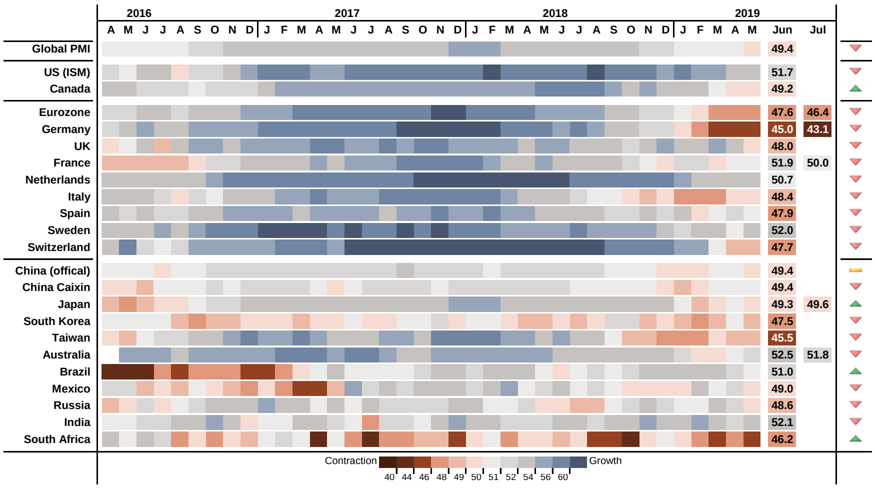
OECD Leading Indicator



- The economic recovery expected by many economists in the second half of the year is still a long time coming. In addition to the OECD leading indicator, important economic indicators such as the Global Purchasing Managers' Index, the ZEW index and the IFO index point to a further economic slowdown.

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 – 31/05/2019

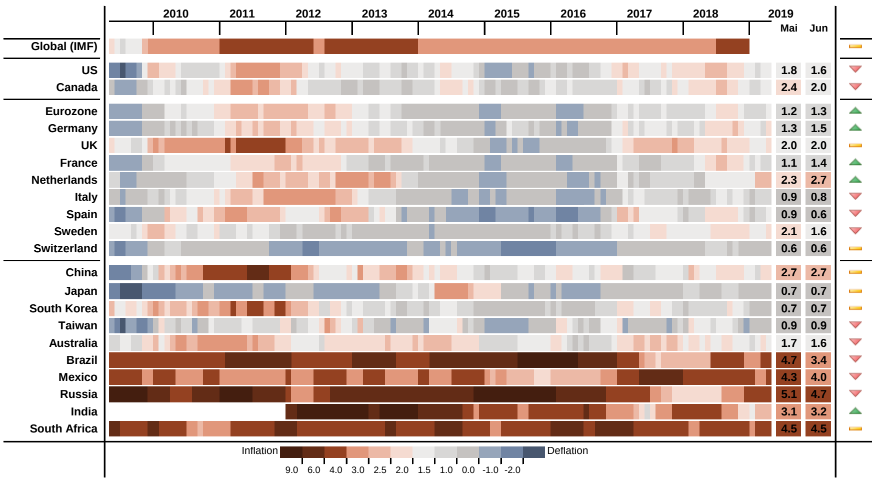
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The PMIs have fallen again in July. At 43.1 points, the sentiment surrounding the German industry is at a 7-year low. The eurozone as a whole cannot escape this and is also facing a declining PMI.
- Japan recorded a slight rise in its PMI in July.

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: 31/08/2016 – 26/07/2019

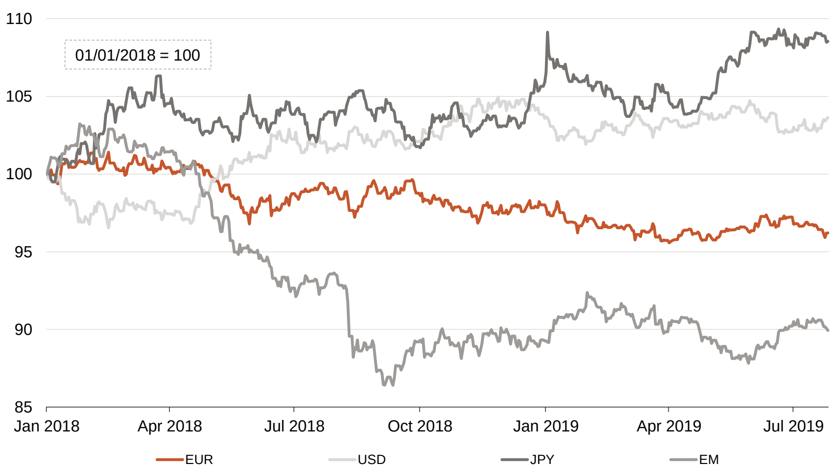
Headline Inflation



- In June, inflation in the UK remained at the previous month's level of 2%. Falling energy prices were more than offset by rising food and clothing prices.
- Inflation in Japan also remained unchanged at 0.7%.

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: 26/07/2009 – 26/07/2019

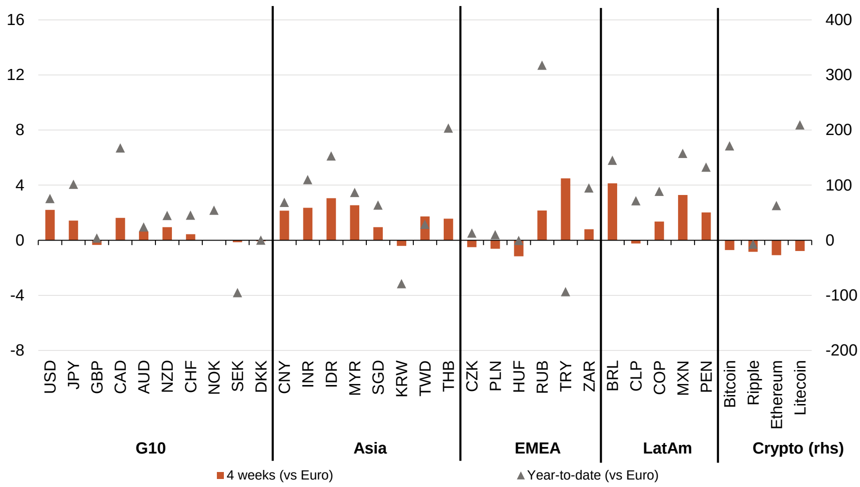
Trade-Weighted Currency Development



- Price movements in the currency markets have recently been comparatively low.
- The US dollar, Japanese yen and emerging market currencies have been stable on a trade-weighted basis in recent weeks.
- The euro came under pressure due to weaker economic data, in particular the purchasing managers' indices, and the expectation of an even more expansionary ECB monetary policy.

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 - 26/07/2019

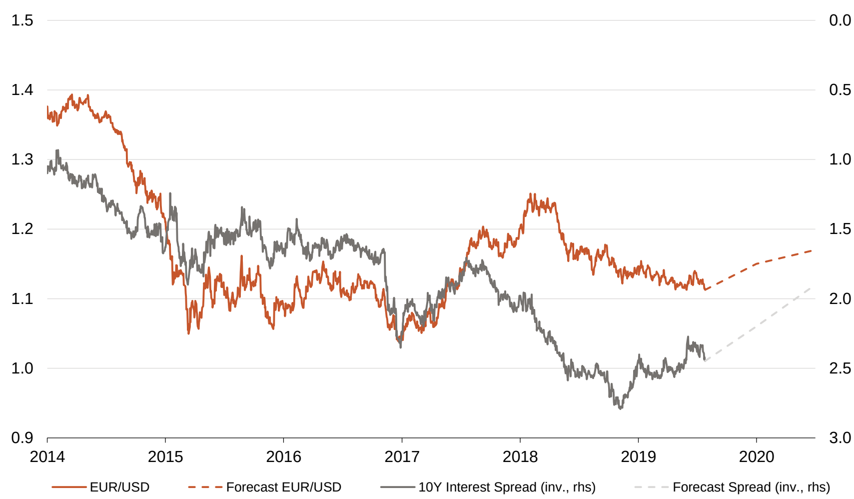
Currency Moves vs Euro



- The recent weakness of the euro is evident against almost all currencies, both developed and emerging.
- The combination of disappointing economic data and the expectation of an even more expansionary ECB monetary policy have weighed on the euro.
- After strong price increases since the beginning of the year, crypto-currencies have clearly corrected in the last weeks.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2018 - 26/07/2019

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate fell to 1.11 dollars per euro. The signals from ECB President Draghi indicate that the ECB will continue to pursue an expansionary monetary policy which is reflected here alongside the fundamental data.
- The interest rate differential between 10-year US Treasuries and Bunds has risen slightly towards 2.5%. Like the weaker economy, the recent expansion is limiting upward potential of the euro for the time being.

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

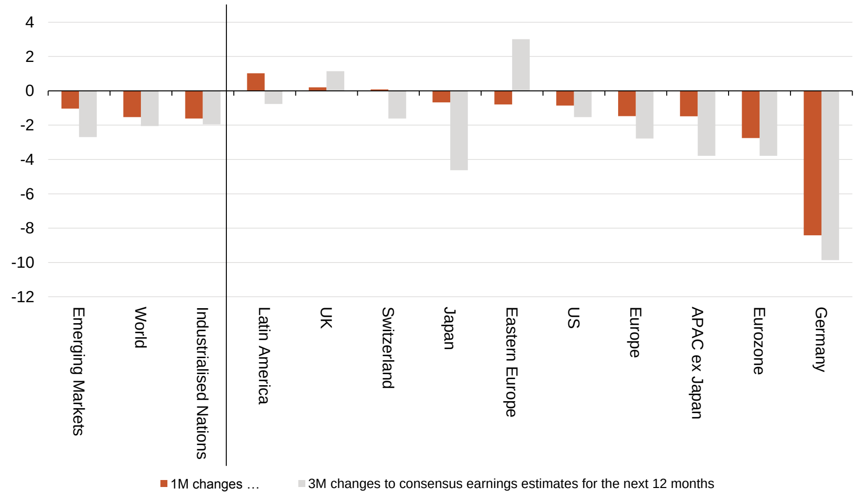
	4-week & YTD		12-month periods over that last 5 years				
	4W (28/06/19 - 26/07/19)	YTD (31/12/18 - 26/07/19)	26/07/18 26/07/19	26/07/17 26/07/18	26/07/16 26/07/17	26/07/15 26/07/16	25/07/14 26/07/15
Consumer Discretionary	3.2	25.2	4.5	7.3	15.9	-15.8	27.5
Consumer Staples	3.2	23.3	11.8	0.2	3.5	5.6	24.0
Information Technology	2.9	29.6	6.4	18.1	18.4	3.6	22.8
Utilities	2.3	17.8	15.8	4.4	0.1	-1.9	4.0
Growth	2.1	24.0	7.5	7.2	9.9	-6.4	24.3
Health Care	2.1	18.0	9.3	3.9	-0.7	-9.5	31.7
Industrials	1.7	23.7	4.1	7.2	20.6	-3.3	14.5
Telecommunications	1.5	3.0	1.8	-10.6	2.1	-18.7	30.9
Value	0.8	11.8	-1.2	2.3	20.4	-15.7	10.4
Finance	0.6	12.4	-4.7	-5.7	41.6	-29.3	21.0
Materials	-1.5	17.1	-1.6	13.9	25.1	-8.7	0.0
Energy	-1.9	9.6	-2.9	30.5	4.4	2.3	-15.1

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.

- In light of the prospect of a looser monetary policy and the hope of an economic recovery, cyclical consumer companies in particular were able to perform well in the last four weeks.
- The losers were value stocks, particularly from the telecommunications and energy sectors.

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: 25/07/2014 – 26/07/2019

Changes in Consensus Earnings Estimates



- As companies have increasingly adjusted their guidance downwards, earnings estimates have been revised in both emerging and developed markets over the past month. Only Latin America and Eastern Europe were able to escape the negative revisions.
- The regions with the strongest negative earnings revisions on a monthly basis were the Eurozone and Germany.

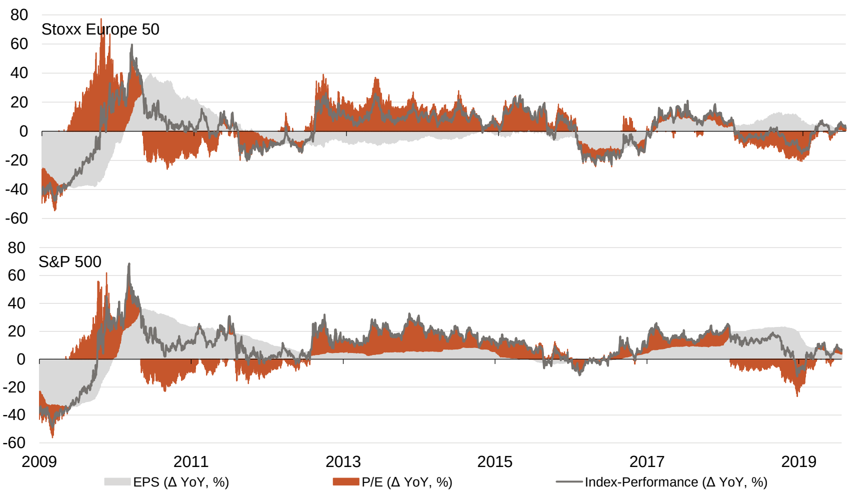
1-month and 3-month changes in consensus earnings estimates for the next 12 months, in percent.
APAC ex Japan = Asia Pacific ex Japan
Source: FactSet, as of 26/07/2019

Earnings Growth

- In 2019, the market expects negative earnings growth in Asia and for emerging markets as a whole. Latin America, on the other hand, is maintaining earnings growth of over 15% for 2019.
- According to analysts, profit growth in Europe in 2019 is higher than in the US. However, further earnings revisions could restrain this lead.

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 26/07/2019

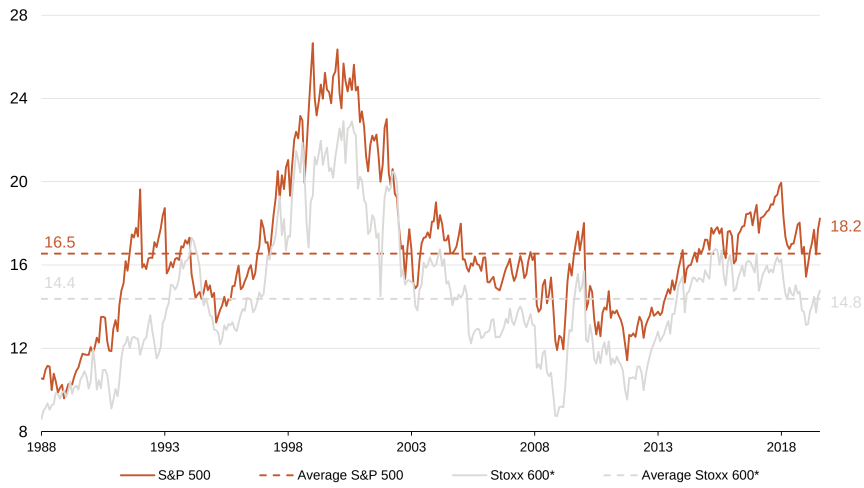
Contribution Analysis



- The rising valuation and profits of US companies recently drove the S&P 500 to a new all time high. It peaked at around 3025 points.
- The recent positive performance of European equities was mainly driven by rising valuations. Profit growth in Europe remained subdued.

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 - 26/07/2019

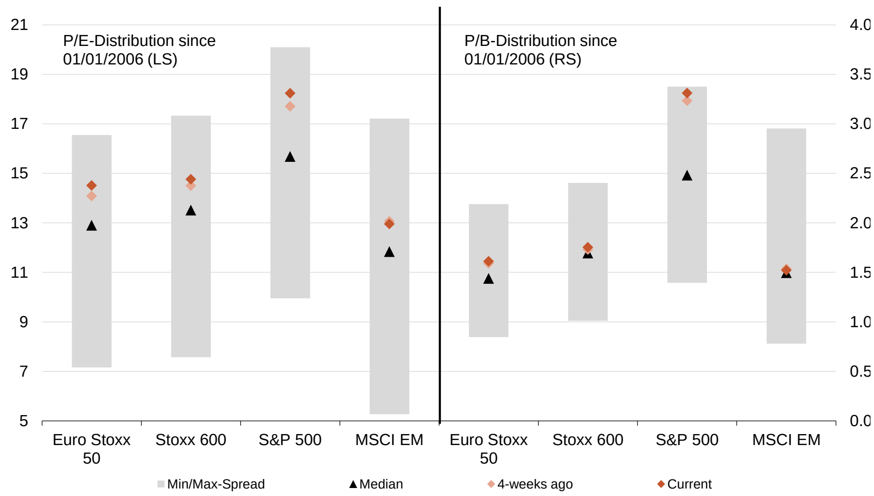
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- In Europe, the valuation in the form of the P/E ratio has risen from 14.6 to 14.8 in the last two weeks. The prospect of a looser monetary policy has boosted the markets.
- In the USA, the P/E ratio of 18.2 is still well above the historical average of 16.5.

P/E valuation based on earnings estimates for the next twelve months for European and US equities and the respective P/E average since 1988 * For the Stoxx 600, the history prior to 2000 is of MSCI Europe.
Source: Bloomberg, Time period: 31/12/1987 - 04/01/2019

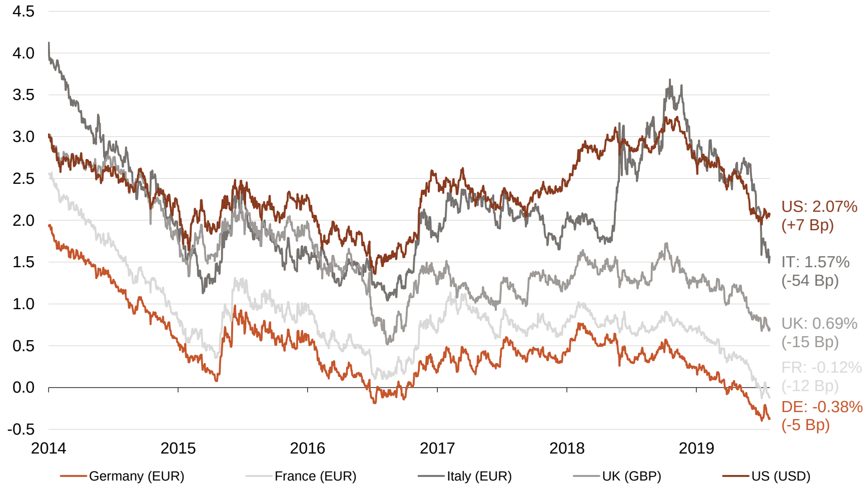
Historical Distribution: Price/Earnings and Price/Book Ratio



- In the past four weeks, valuations have risen further, especially in the USA and Europe. Expectations of a looser monetary policy coupled with slightly negative earnings revisions led to a further rise in prices.
- The valuation of emerging market equities remained virtually unchanged.
- US equities remain the most expensive.

Historical distribution of valuation indicators for selected stock regions since 2006, showing the current value, the observation four weeks ago and the historical median, the maximum (upper limit of the grey bar) and the minimum (lower limit of the grey bar).
Source: Bloomberg, Time period: 01/01/2006 - 26/07/2019

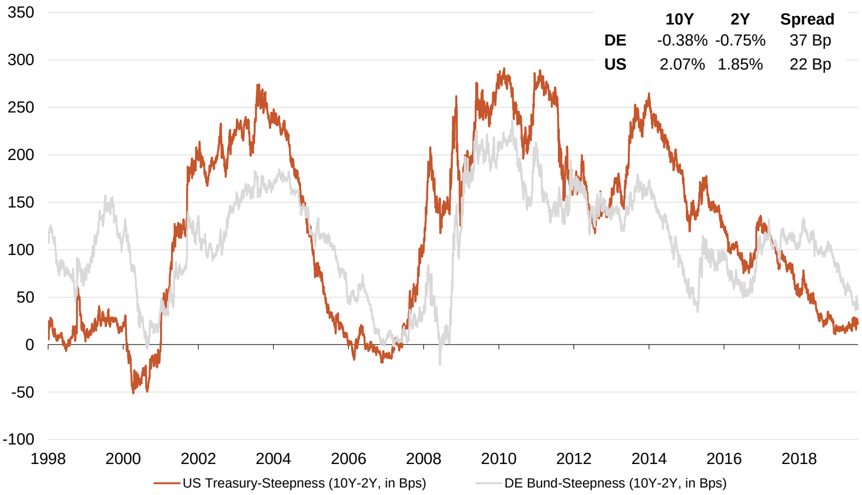
10-Year Government Bond Yields



- European government bond yields have continued to fall in the last two weeks following expectations of an interest rate cut by the ECB in September. Italian government bond yields have recently fallen to their lowest level since 2017.
- US government bonds have hardly moved in the last two weeks, remaining close to 2%.
- With the election of Boris Johnson as the UK's prime minister, Brexit uncertainty remains high and yields on British Gilts remain historically low.

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 - 26/07/2019

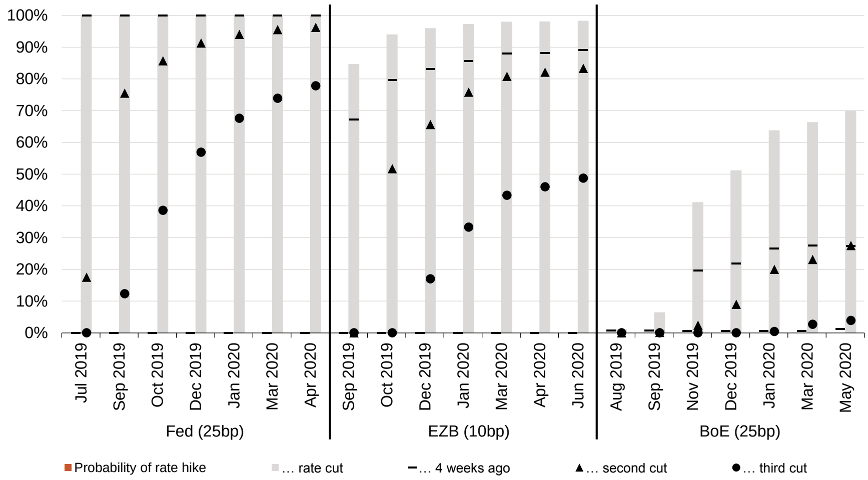
Yield curve steepness (10Y - 2Y)



- With the worsening of economic data in Germany and a possible interest rate cut by the ECB, the steepness of the German yield curve has decreased to 37 basis points.
- At 22 basis points, the steepness of the US yield curve remained close to the 20-point threshold.

The yield curve distinguishes between the so-called short and the long end. The reason for this lies in which factors influence returns. Central banks control the short end of the curve through their monetary policy and key rates. By contrast, the long end is influenced less by central banks than by inflation expectations, supply, demand and risk premia.
Source: Bloomberg, Time period: 01/01/1998 - 26/07/2019

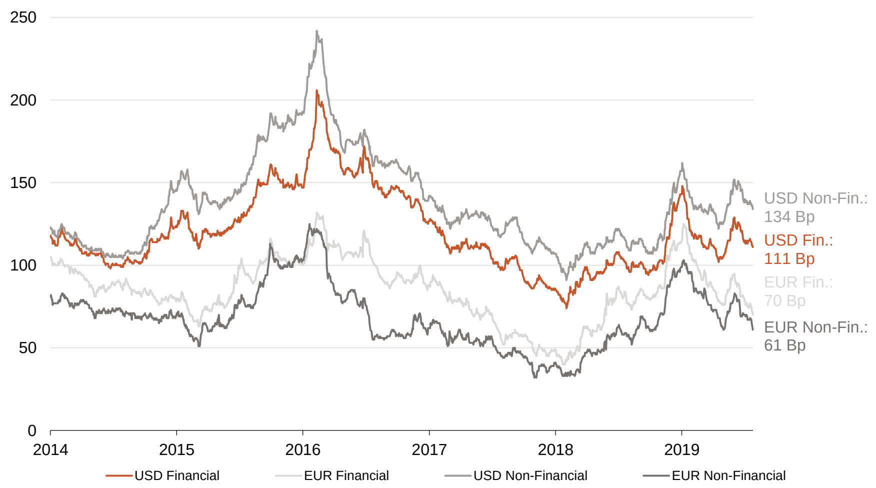
Implicit Probabilities for Changes in Key Interest Rates



- This Wednesday, the Fed is likely to cut interest rates for the first time since 2008. The market expects this with a probability of 100%. Only the size of the interest rate move - whether 25 or 50 basis points - remains controversial in the market.
- After the ECB recently cleared the way for a rate cut, the market is now pricing a rate cut in September with a probability of over 80%.

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: 28/06/2019 - 26/07/2019

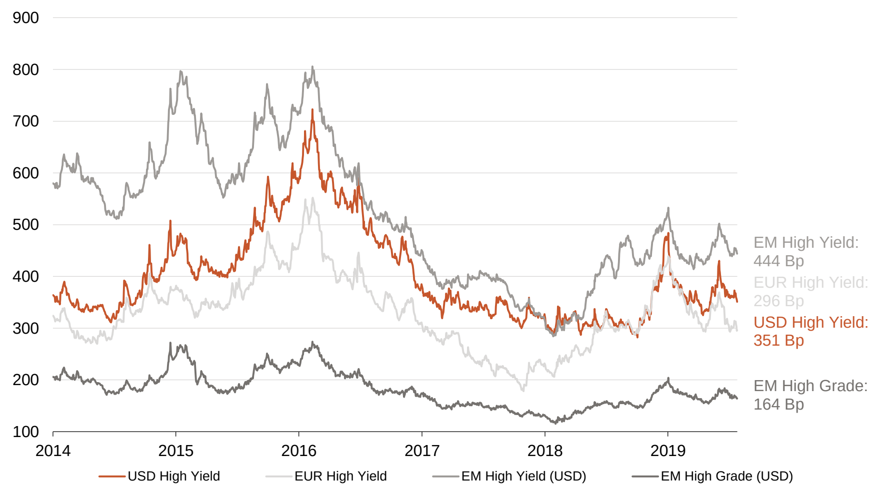
Credit Spreads Financial and Non-Financial Bonds



- New highs in the equity markets could hardly impress the bond markets. Spreads of corporate bonds have narrowed only slightly in the last two weeks.
- On the EUR side, corporate bonds from the insurance sector have experienced the largest spread narrowing in the last two weeks, while USD bonds side the leisure sector have had the biggest spread narrowing.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2014 – 26/07/2019

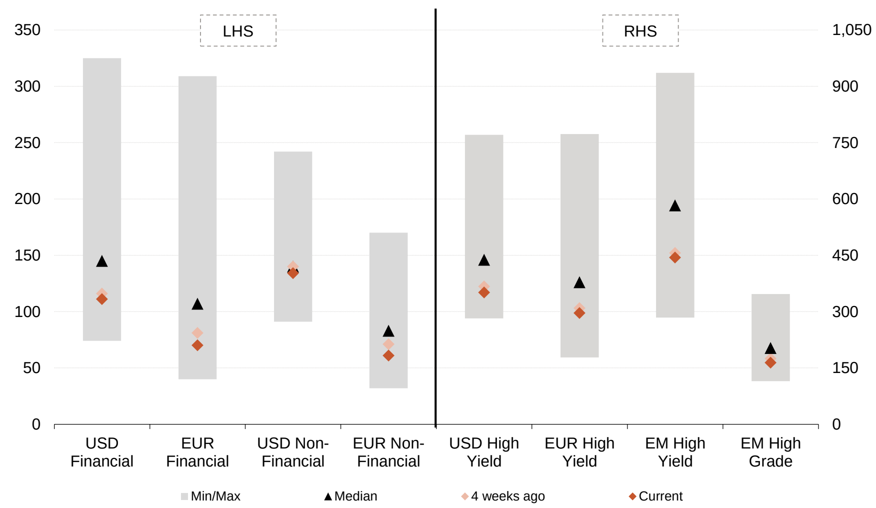
Credit Spreads High Yield and Emerging Markets Bonds



- There was also only a slight decline in spreads for high-yield bonds. The decrease for emerging market and EUR high yield bonds was less than five basis points in the last two weeks, while spreads on USD high yield bonds fell significantly more, by more than 10 basis points. The leisure sector experienced the sharpest falls in spreads and the energy sector experienced the sharpest rises.

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 – 26/07/2019

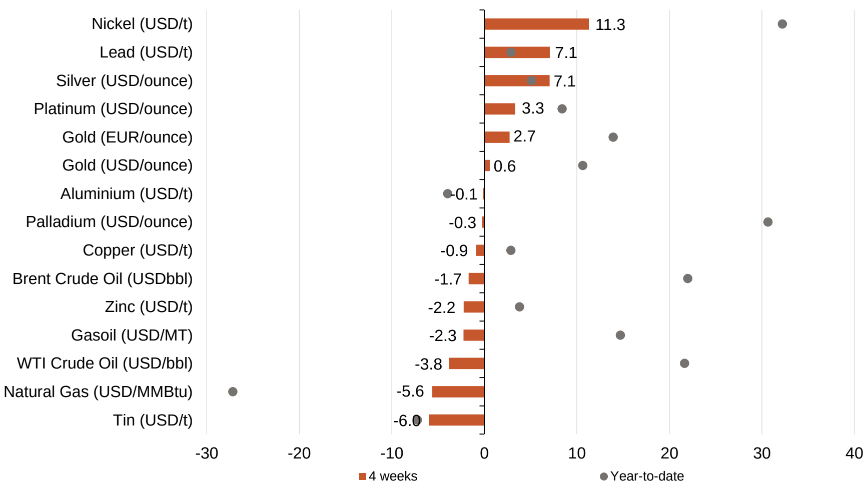
Historical Distribution of Credit Spreads (in bp)



- In the last four weeks, spreads of corporate bonds have fallen slightly. The strongest movement was in EUR bonds, which are likely to benefit from a possible new QE program and the tiered refinancing rate by the ECB.

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: 26/07/2009 – 26/07/2019

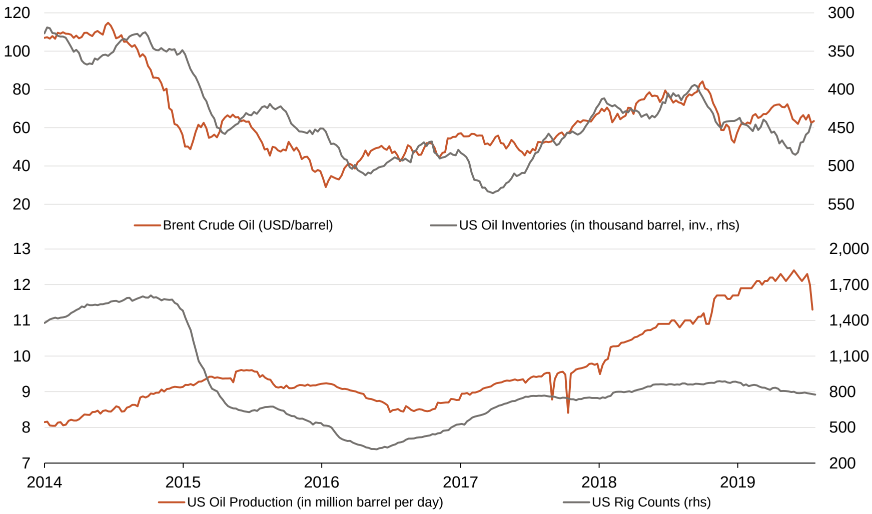
Commodities Performance



- Over the last four weeks, the movements in the commodity markets have been at times very large.
- The prices of nickel and lead have recently gained significantly in value. Prices were driven by a supply deficit and a sharp rise in the speculative positioning of financial investors.
- Among the precious metals, silver and platinum in particular made gains. As a laggard to gold, it benefited from higher investor demand.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2019 – 26/07/2019

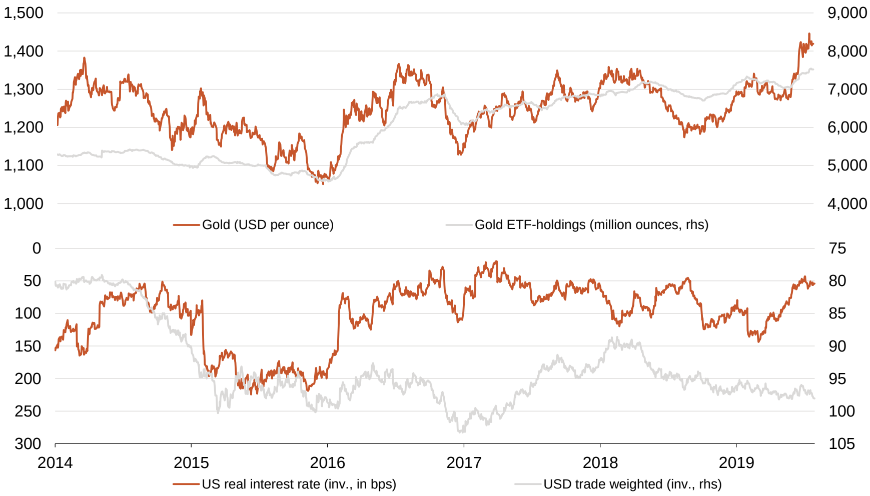
Crude Oil



- The price of Brent Crude fluctuated sideways and is currently quoted at just under USD 65 per barrel. Political tensions with Iran, including the tanker dispute, and temporary demand concerns balanced each other out.
- In the US, oil production and oil inventories have fallen significantly. Hurricane Barry forced numerous oil platforms in the Gulf of Mexico to cease oil production. At the same time, US demand was quite robust with the Driving Season.

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 – 26/07/2019

Gold



- The price of gold is fluctuating sideways above the level of 1,400 US dollars.
- The prospect of a more expansionary monetary policy by the Fed and the ECB, falling bond yields, US real interest rates and brisk investor demand have supported gold. These factors allow further price potential for gold despite the strong US dollar.

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 – 26/07/2019

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