BERENBERG
Markets

MONITOR

07 October 2019

Current market commentary

Last week's US economic data clearly disappointed. The ISM index fell to a 10-year low in September. Moreover the Purchasing Managers' Index (PMI) for the service sector has also fallen noticeably. This has rekindled fears of recessions and boosted speculation about further US interest rate cuts. As a result, stock markets fell sharply with the DAX losing more than 600 basis points at times last week, while falling yields led to rising bond prices. The fact that the sell-off was not stronger is mainly due to positioning. Many investors are already cautiously positioned, as can be seen from the high put-call ratios. We continue to expect markets to be volatile without showing a clear trend. The trade talks, the Brexit negotiations and the Q3 reporting season should provide new impetus.

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

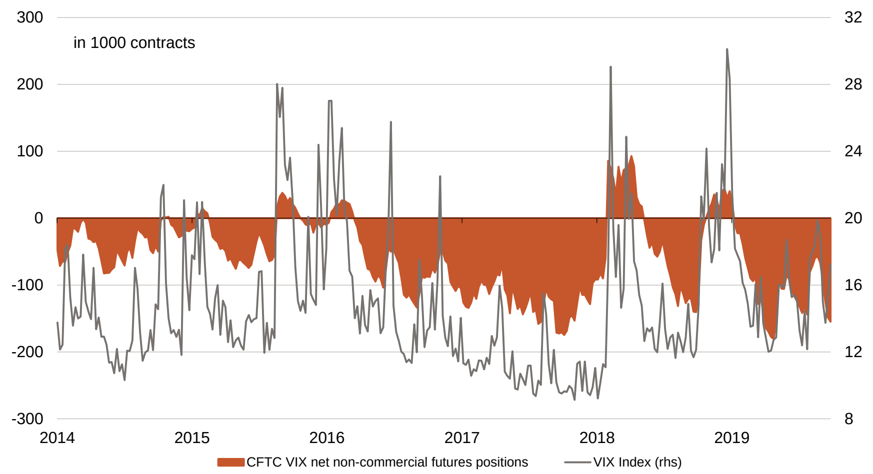
From the 10th of October, the trade talks between the US and China will resume. Trade discussions between the US and Europe are likely to follow and the Brexit negotiations are once again approaching a deadline.
Tomorrow (Tuesday) the Caixin PMI Services Index will provide information on China's economic development. The Federal Reserve Chair Jerome Powell's speech on Tuesday and the minutes of the Fed's last meeting on Wednesday could provide signals as to whether further rate cuts can be expected, as priced in by investors. On Thursday, the focus will be on August industrial production in France, Italy and the UK, as well as US inflation data and initial unemployment claims. Friday is likely to focus on US consumer confidence. In the coming weeks, the corporate reporting season for the third quarter will also pick up speed. The earnings revisions continue to be negative – a clear brightening of the corporate outlook is not to be expected.

The US-China trade war remains in focus.

Brexit negotiations approaching deadline again-

The Fed's monetary policy signals, US consumer confidence and the Q3 reporting season are likely to be in focus.

VIX short positions are elevated again – a warning signal?



- Over the past few weeks, speculative investors have extended their bets to low US equity market volatility, driven also by the more expansive central bank policy worldwide.
- In recent years, significant short positioning in VIX futures has often been a warning signal to equity markets. If volatility rises, surprisingly, these shorts often have to be covered and thus intensify the volatility spikes even further.

Weekly data. Explanations see page 3.
Source: Bloomberg, Time period: 01/01/2014 - 01/10/2019

Multi-Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (06/09/19 - 04/10/19)	YTD (31/12/18 - 04/10/19)	04/10/18 04/10/19	04/10/17 04/10/18	04/10/16 04/10/17	04/10/15 04/10/16	03/10/14 04/10/15
Global Coporates	0.6	14.3	15.5	0.0	-2.1	7.4	8.6
USDEUR	0.5	4.4	4.9	2.1	-4.7	0.1	11.6
REITs	0.5	29.3	27.0	-0.7	-4.9	10.3	15.0
Global Treasuries	0.4	11.2	15.5	0.1	-8.0	9.9	7.8
Gold	0.3	22.5	31.5	-3.9	-4.2	11.5	6.7
Global Convertibles	0.1	15.0	8.5	5.8	9.3	7.6	9.7
Eonia	0.0	-0.3	-0.4	-0.4	-0.4	-0.3	-0.1
MSCI Emerging Markets	-0.5	9.9	6.0	-4.0	17.1	17.1	-8.1
MSCI World	-0.5	21.2	6.3	12.2	13.5	9.6	8.8
Industrial Metals	-1.1	12.0	1.5	-0.8	22.0	3.7	-17.1
MSCI Frontier Markets	-1.7	14.5	11.0	-7.8	20.9	1.6	-15.2
Brent	-3.2	20.1	-22.9	65.3	-4.9	-12.3	-49.7

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.

- October has, so far, not been a good month for risky asset classes. Weak US economic data has rekindled fears of a recession and boosted speculation about further US interest rate cuts.
- Bonds and REITs performed the best in this environment, while Brent oil, industrial metals and equities fell in the last four weeks.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/10/2014 – 04/10/2019

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (06/09/19 - 04/10/19)	YTD (31/12/18 - 04/10/19)	04/10/18 04/10/19	04/10/17 04/10/18	04/10/16 04/10/17	04/10/15 04/10/16	03/10/14 04/10/15
Topix	3.8	16.0	-0.1	10.7	11.4	10.8	17.1
Russell 2000	0.3	17.3	-3.2	13.1	17.3	13.5	13.8
S&P 500	-0.3	24.7	8.7	19.2	14.6	13.1	12.7
MSCI EM Asia	-0.4	9.9	4.7	-3.1	18.4	17.3	-1.3
Stoxx Europe Defensives	-0.6	14.3	7.2	4.6	8.0	0.4	3.2
MSCI EM Eastern Europe	-0.8	20.8	16.3	7.4	19.3	18.3	-17.0
Stoxx Europe Cyclicals	-1.1	12.3	-3.8	-2.2	26.1	0.3	2.4
MSCI UK	-1.3	10.5	-0.5	3.5	8.3	1.7	2.1
Euro Stoxx 50	-1.3	17.7	5.0	-3.6	21.7	1.0	1.1
Stoxx Europe 50	-1.4	17.3	6.4	-1.1	14.9	-0.1	2.6
Stoxx Europe Small 200	-1.4	15.2	0.5	1.4	20.2	4.1	13.9
DAX	-1.5	13.8	-1.9	-5.6	22.1	11.2	3.9

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.

- After having been one of the biggest underperformers this year until the summer, Japanese equities have recently outperformed strongly. Over the past four weeks, Japan has been one of the few equity regions that has even managed to gain.
- While small caps recently outperformed in the US, European small caps were among the underperformers.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/10/2014 – 04/10/2019

Fixed Income

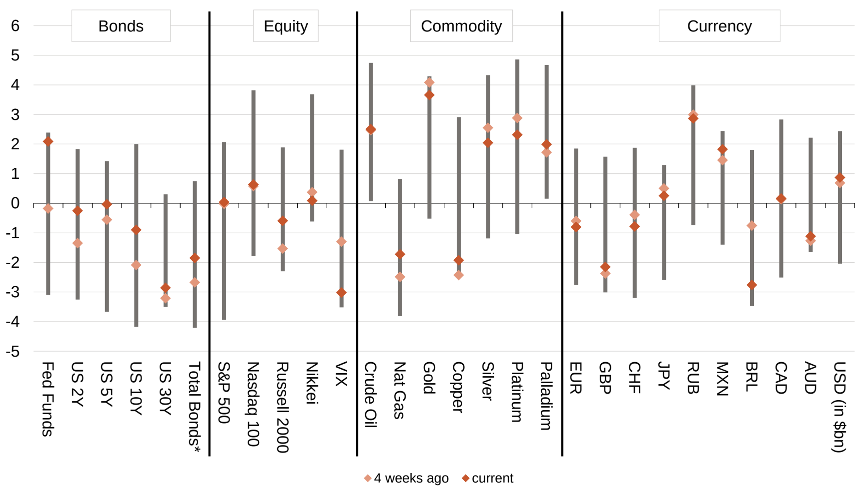
	4-week & YTD		12-month periods over that last 5 years				
	4W (06/09/19 - 04/10/19)	YTD (31/12/18 - 04/10/19)	04/10/18 04/10/19	04/10/17 04/10/18	04/10/16 04/10/17	04/10/15 04/10/16	03/10/14 04/10/15
Gilts	1.9	13.5	15.1	0.1	-4.9	-5.2	15.6
EM Local Currency Bonds	1.1	10.6	16.0	-3.2	-1.7	15.9	-4.7
Treasuries	1.0	13.3	18.0	-0.3	-6.3	4.3	15.2
USD Corporates	0.8	18.3	19.8	0.1	-2.3	8.2	12.3
BTPs	0.3	14.0	18.9	-4.2	-3.3	4.9	6.1
USD High Yield	0.1	15.8	11.7	4.9	2.3	13.5	5.5
EUR Non-Financials	-0.3	7.2	6.7	-0.3	-0.3	8.1	-0.7
EUR Financials	-0.3	6.5	5.9	-0.4	2.0	5.6	0.4
Bunds	-0.4	6.4	8.5	0.3	-3.5	5.5	4.0
EM Hard Currency Bonds	-0.9	8.6	8.1	-5.7	1.9	13.1	0.3
EUR High Yield	-0.9	7.1	3.3	0.4	6.2	7.0	-0.4
EUR Inflation Linkers	-0.9	7.8	7.7	0.6	-1.3	4.8	0.6

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.

- Within bonds, safe havens have tended to perform best. British government bonds also benefitted from a GBP appreciation after hopes of a soft Brexit had risen slightly.
- EUR high-yield bonds and EM government bonds in hard currency suffered from investors' increased risk aversion.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/10/2014 – 04/10/2019

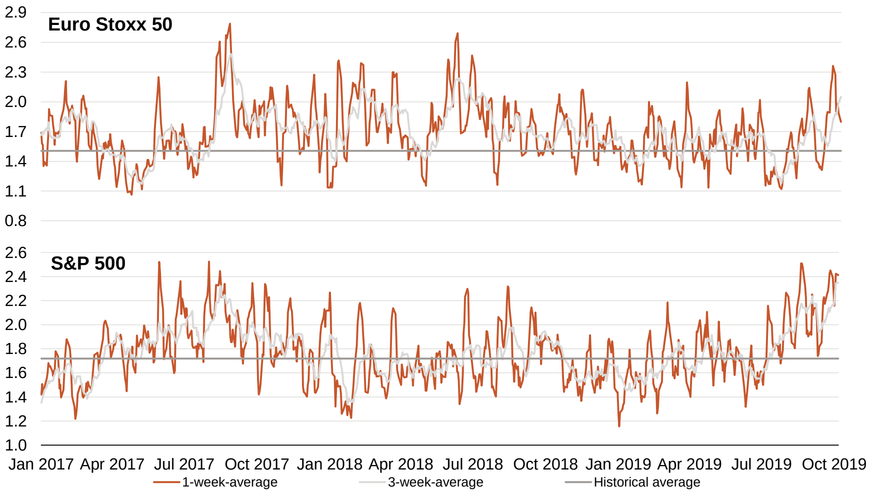
Non-Commercial Positioning



- Speculative investors have recently increased their commodity positions. Copper shorts have been reduced, while long positions in gold, silver and platinum have been increased.
- VIX short positions were strongly 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: 01/10/2009 - 01/10/2019

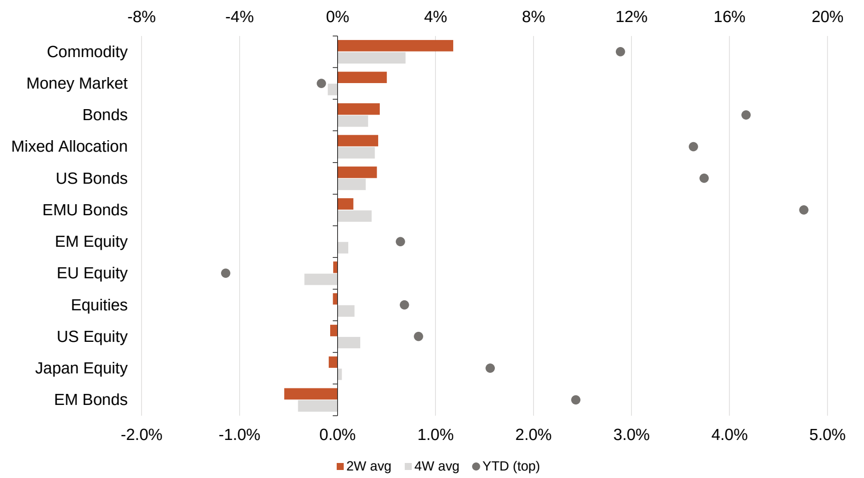
Put-Call Ratio



- The equity market setback has caught many investors at least on the right foot. Hedging ratios for both European and US equities have risen significantly over the past four weeks.
- This could also explain why the sell-off to date has been more limited than in Q4 2018 and is unlikely to be as pronounced as last year.

The put-call ratio is the ratio of traded put options (speculation on falling prices) to call options (speculation on rising prices) across all maturities. The higher (lower) the ratio, the more cautious (optimistic) are the market participants. The data have been available for the S&P 500 since 20 December 1993 and for the Euro Stoxx 50 since 24 February 2006.
Source: Bloomberg, Time period: 20/12/1993 - 04/10/2019

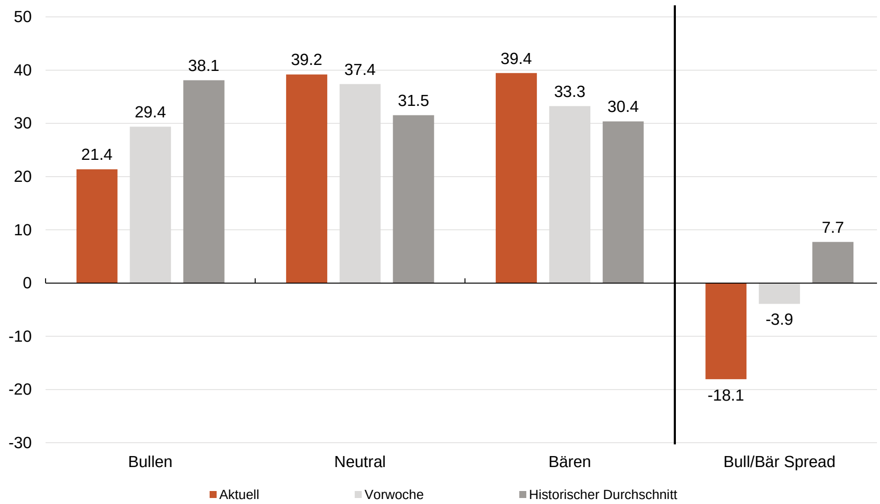
ETF Flows



- The largest ETF inflows continue to be in commodities. There is particularly strong demand for precious metals.
- Bond ETFs continue to be bought, especially those with a focus on the US and the Eurozone.
- Eurozone bond ETFs have been able to collect the most money as a percentage of assets under management since the beginning of the year. However, the base of assets under management is still low. In absolute terms, US bond ETFs recorded the largest inflows.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2018 - 04/10/2019

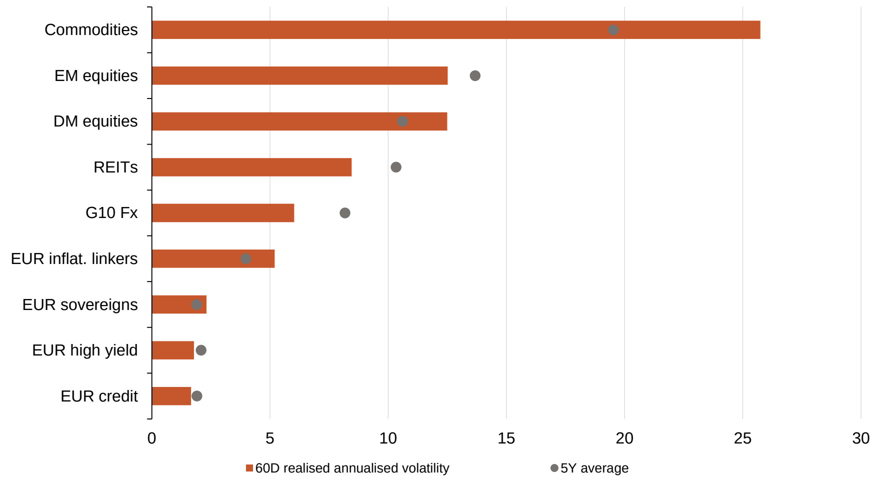
AAII Sentiment Survey (Bulls vs Bears)



- US private investors have recently become much more pessimistic with regards to poorer economic data.
- Only 21% of investors are still optimistic about the market development in the next six months, while the proportion of bears is almost 40%.

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 – 04/10/19

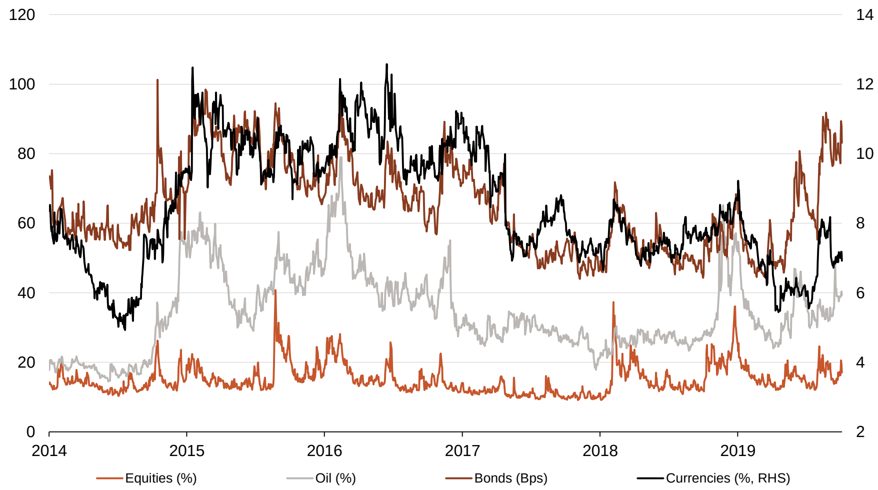
Realised Volatilities



- The realised 60-day volatilities have recently fallen somewhat for commodities and emerging market equities, but they remain the highest among asset classes.
- Developed market equities have been more volatile recently.
- Compared to the respective 5-year average, volatility is currently above average for commodities, industrialised countries' equities, EUR inflation linkers and EUR government bonds.

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: 04/10/2014 – 04/10/2019

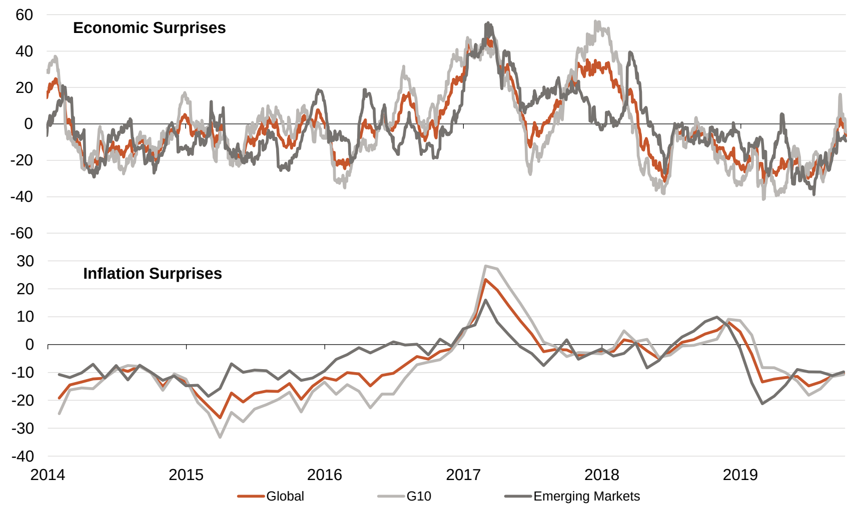
Implied Volatilities



- After the spike in oil prices, implied volatility has come down again along with the price.
- After a significant decline, volatilities for government bonds and currencies have recently risen again. Equity volatility has also increased.

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 – 04/10/2019

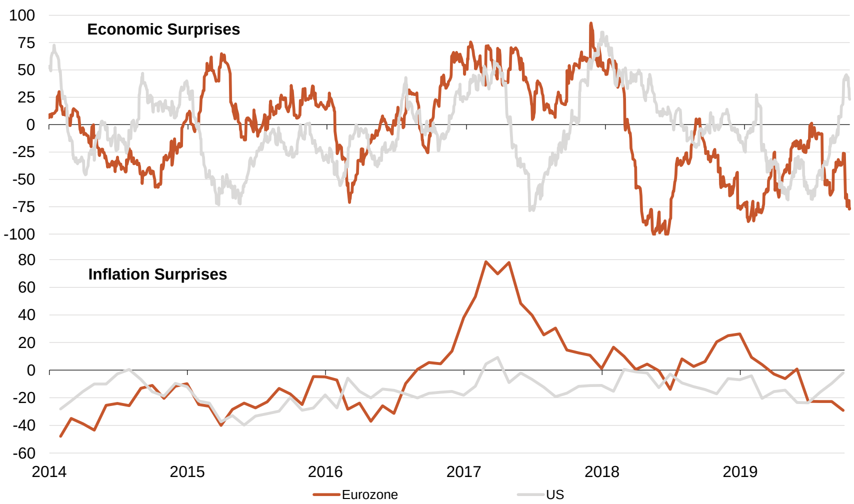
Global



- The global and G10 economic surprises indicators have recently returned to negative territory. Further, the poor US Manufacturing PMI figures have contributed to this. In emerging markets, the index stagnated slightly in the negative area.
- Inflation surprises are stagnating also in the negative range. Recent inflation data for September was generally weaker than in the previous month.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 10/04/2019

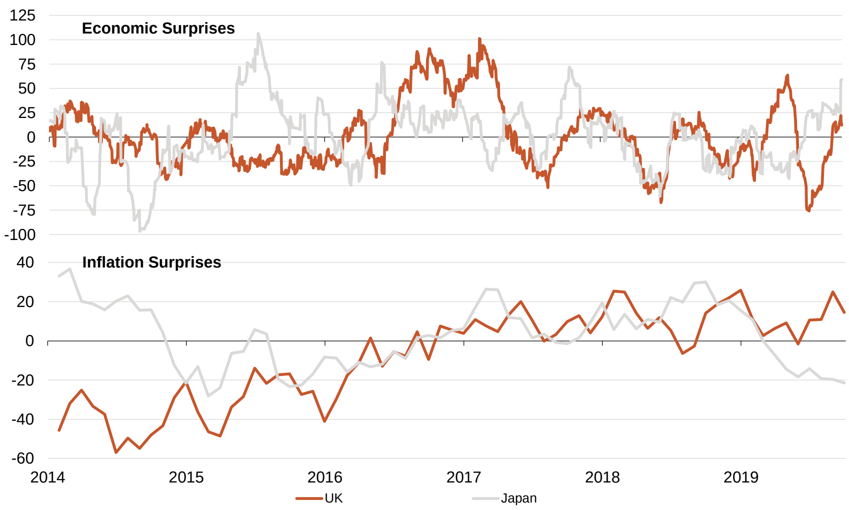
Eurozone and US



- For the Eurozone, economic surprises have sunk even deeper into negative territory citing the poor PMI figures as the main cause. For manufacturing they remain in recession and for Germany the index fell to its lowest level since the 2009 financial crisis.
- Economic surprises have also worsened in the US which was caused by the lowest US manufacturing PMI in 10 years.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 04/10/2019

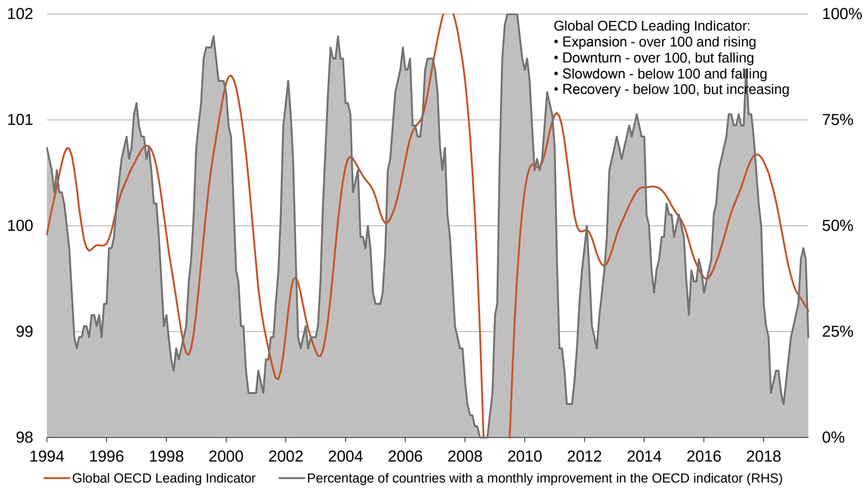
UK and Japan



- Despite worse than expected PMIs for the construction and services sectors, the UK's economic surprises have remained in positive territory.
- In Japan, retail sales and the Tankan Index surprised positively.

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 - 04/10/2019

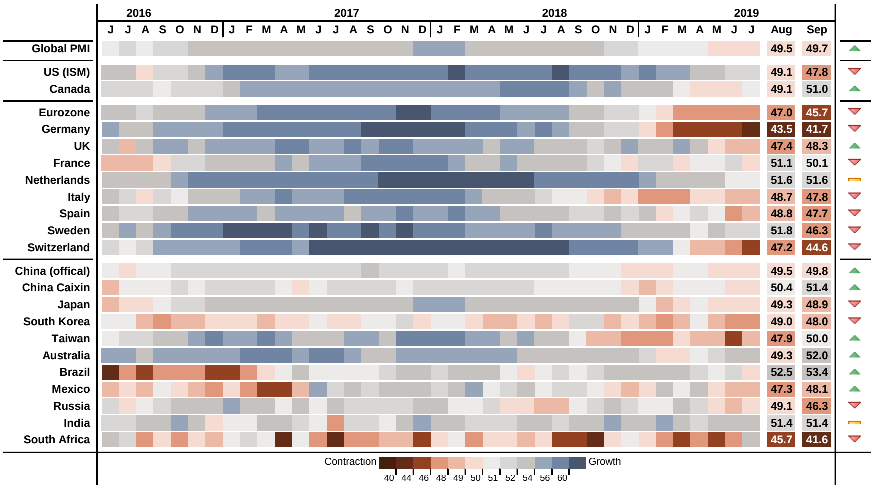
OECD Leading Indicator



- The OECD leading indicator remains at its lowest level since the financial crisis and, for the time being, indicates a global economic slowdown.
- Only 25% of the countries surveyed reported an improvement in the leading indicator in July. The share has thus deteriorated further compared with the previous month.

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 - 31/07/2019

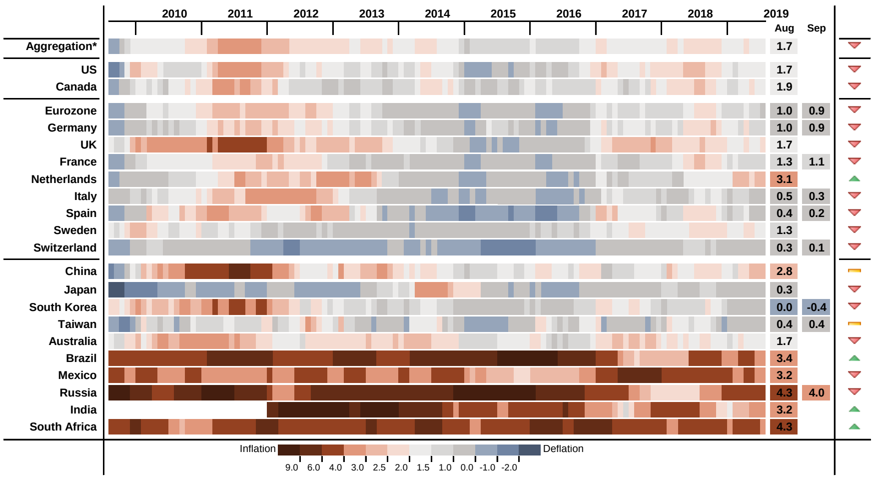
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global industrial PMI remains below 50 and thus below the expansion threshold.
- In the US, the Manufacturing PMI fell to its lowest level since 2009 at 47.8. In Germany, the index also fell to its lowest level since the financial crisis.

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: 30/09/2015 - 04/10/2019

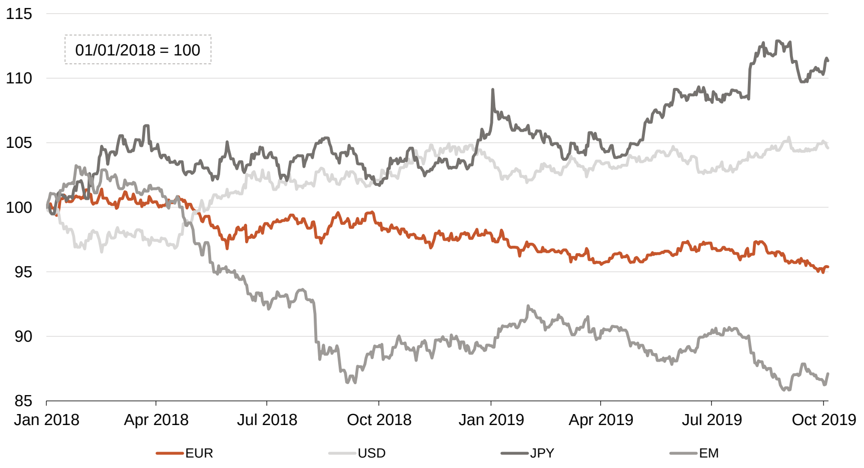
Headline Inflation



- The inflation data for September are declining worldwide.
- In the Eurozone and Germany, the inflation rate fell to 0.9%. In addition to the weak economy, the lower inflation rate is one of the reasons why the ECB is pursuing a more expansionary monetary policy with a bundle of measures.

Inflation is measured (in percent, year-on-year comparison) using a consumer price index, also known as a shopping basket of goods. This shopping basket contains all goods and services that a household purchases on average per year.
Source: Bloomberg, Time period: 31/10/2008 - 31/12/2019

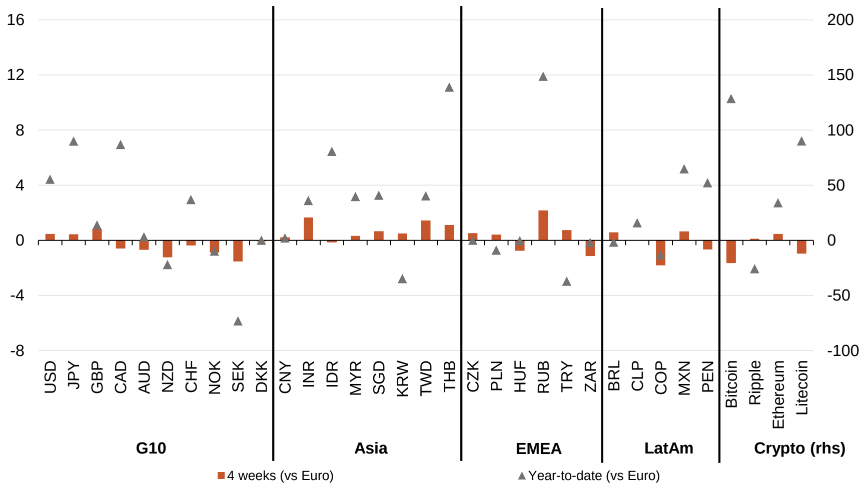
Trade-Weighted Currency Development



- In recent weeks, the trade-weighted euro has continued to depreciate. Both the ECB's expansionary monetary policy and the weak economic data are weighing on the euro.
- The US dollar gained further on a trade-weighted basis. Given the potential limit of US capital flows to China, concerns of an escalation in the trade war grew, thus supporting the dollar.
- Emerging market currencies suffered from the global slowdown in growth.

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 - 04/10/2019

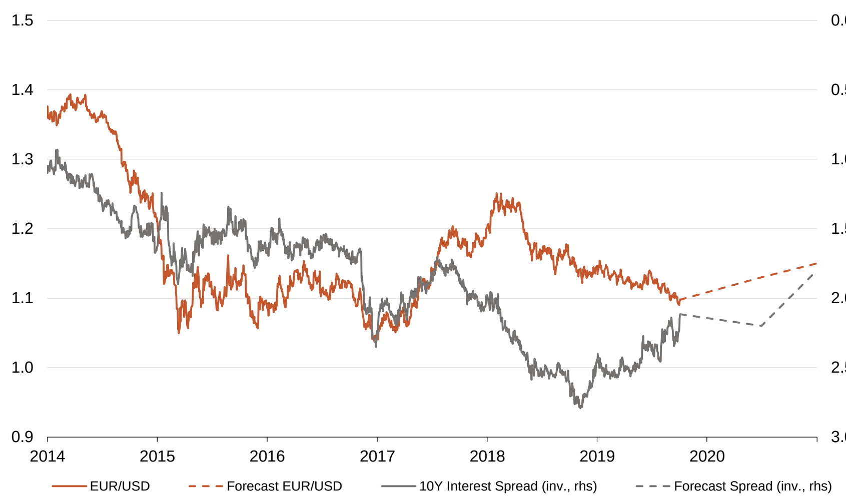
Currency Moves vs Euro



- The British pound gained against the euro on a monthly basis as the proroguing of the UK parliament was deemed to be unlawful and a hard Brexit became less likely.
- Asian currencies were able to gain against the euro.
- Crypto-currencies came under pressure as the Bitcoin in particular broke through technical support marks.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2018 - 04/10/2019

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate fell temporarily below 1.09 last week, but is now trading at around 1.10 again.
- The US Dollar continues to benefit from political and economic uncertainty and remains demanded as a safe haven.
- Our economists see the EUR/USD exchange rate becoming somewhat higher in the course of next year if an economic recovery takes place, leading to a strengthening of the euro.

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

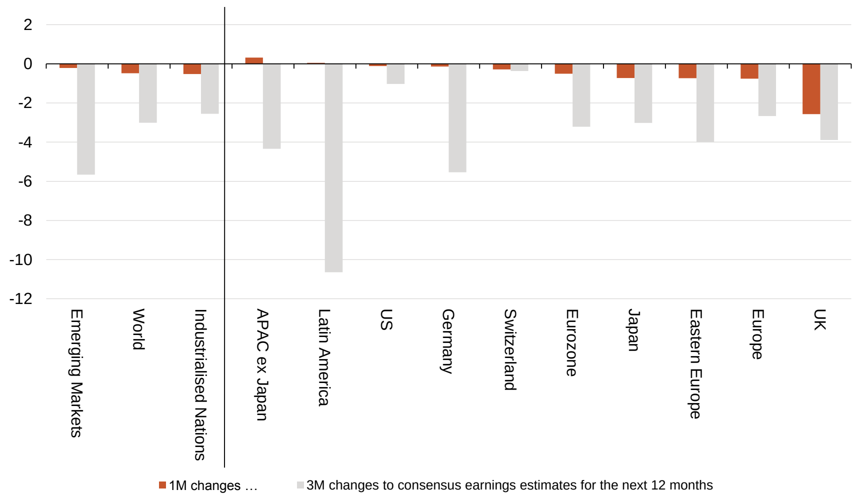
	4-week & YTD: 4W (06/09/19 - 04/10/19)	4-week & YTD: YTD (31/12/18 - 04/10/19)	12-month periods over that last 5 years: 04/10/18 04/10/19	04/10/17 04/10/18	04/10/16 04/10/17	04/10/15 04/10/16	03/10/14 04/10/15
Utilities	1.7	23.1	25.7	-0.4	6.9	1.9	-4.1
Energy	0.9	3.7	-12.8	25.9	13.8	14.9	-18.9
Telecommunications	0.8	4.2	8.1	-12.0	0.4	-5.5	12.1
Finance	0.3	7.9	-6.4	-7.3	32.4	-12.6	3.8
Value	-0.2	8.6	-2.8	-1.1	19.4	0.2	-2.0
Health Care	-2.1	19.5	12.2	0.0	8.2	-4.1	8.4
Materials	-2.2	11.6	-4.6	4.8	23.9	21.0	-9.1
Information Technology	-2.9	23.0	3.4	11.2	17.7	20.5	8.5
Industrials	-2.9	19.6	4.0	-1.0	20.7	13.6	6.3
Growth	-3.1	21.9	9.0	1.1	12.2	5.2	12.3
Consumer Staples	-3.8	23.7	16.7	-2.7	2.4	12.7	18.6
Consumer Discretionary	-4.4	18.0	2.5	-1.7	17.3	0.1	17.0

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.

- The economic recovery is still to come. Accordingly, cyclical consumer goods have underperformed recently and lost more than 4% over the last four weeks.
- The European utilities and energy sectors were among the outperformers.

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: 03/10/2014 – 04/10/2019

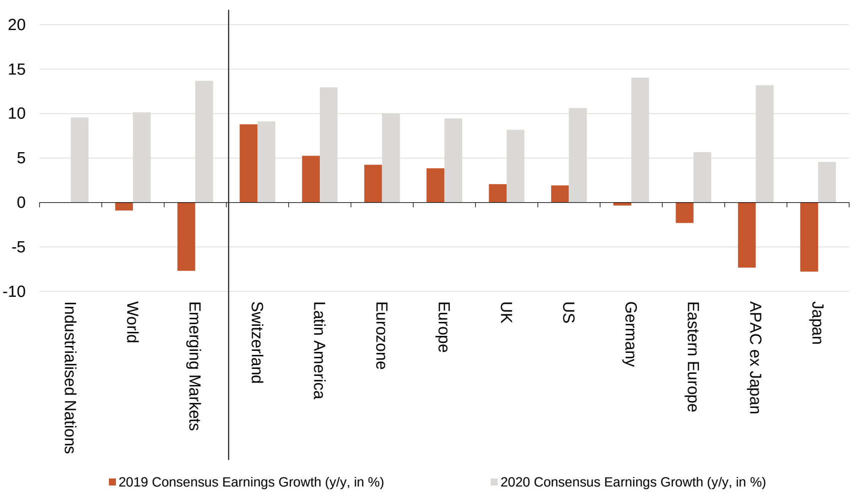
Changes in Consensus Earnings Estimates



- The majority of earnings estimates continue to be revised downwards. Most recently, there have been negative earnings revisions for Latin America and the UK.
- However, earnings estimates for Asia Pacific ex -Japan have recently stabilised.
- We expect further negative earnings revisions for the industrial nations and emerging markets, as the estimates for 2020 in particular appear far too optimistic.

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 04/10/2019

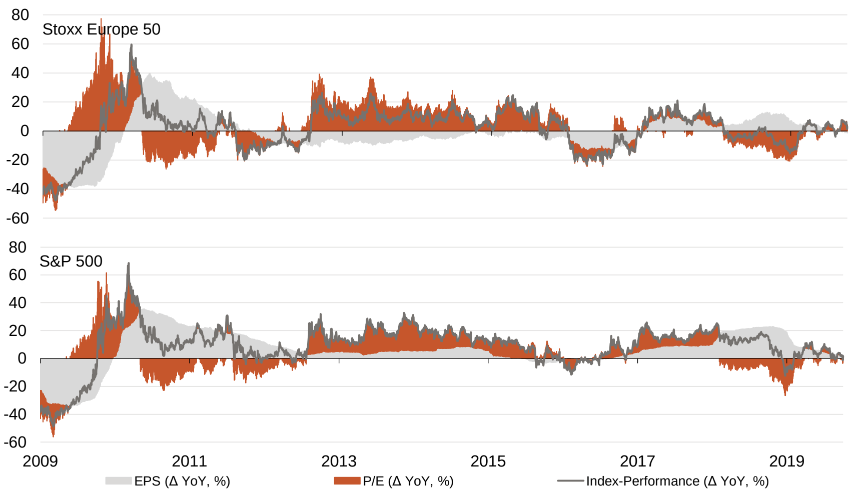
Earnings Growth



- For industrial nations and emerging markets, the consensus now no longer expects positive profit growth in 2019. A recession has been forecasted for Germany in addition to Eastern Europe, Asia Pacific and Japan.
- For 2020, consensus earnings expectations for many regions are in the double-digit range. Expectations are likely to be revised downwards significantly in the coming weeks.

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 04/10/2019

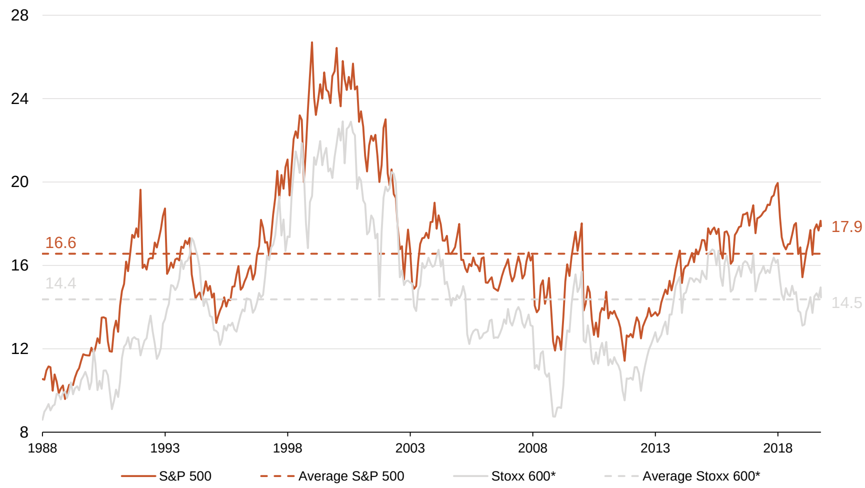
Contribution Analysis



- Compared to twelve months ago, both European and US equities have remained virtually unchanged.
- One reason for this is that corporate profits have barely grown over the last twelve months.

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 - 04/10/2019

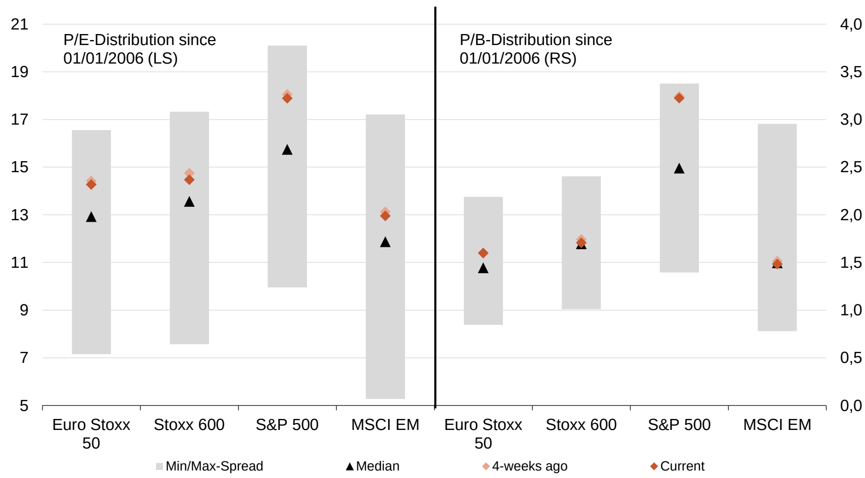
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Stock markets have risen over the last few months without the earnings or economic outlook improving. As a result, valuations have climbed markedly.
- US equities were, at times, as expensive as they were in January 2018, before stock markets corrected sharply last week.

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 - 04/10/2019

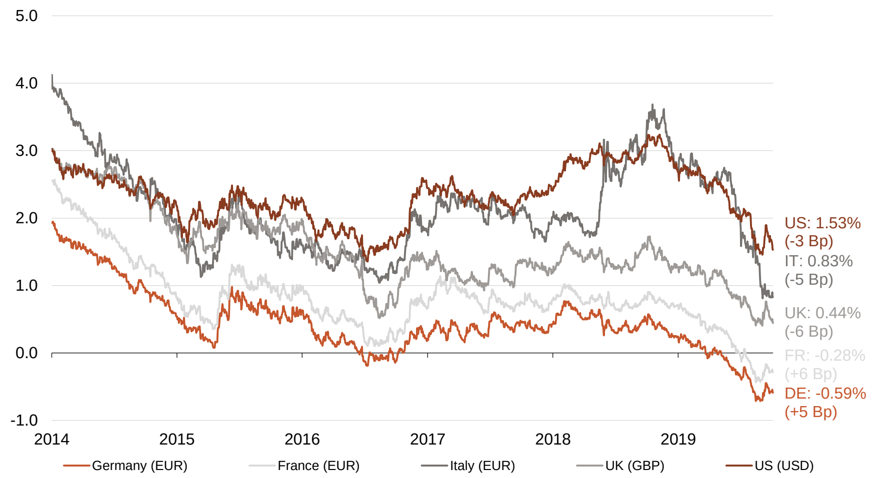
Historical Distribution: Price/Earnings and Price/Book Ratio



- US equities are by far the most expensive, especially on a price-to-book value basis.
- Emerging market equities, on the other hand, are priced fairly compared to its historical figures and favourably to other equity regions

Historical distribution of valuation indicators for selected stock regions since 2006, showing the current value, the observation four weeks ago and the historical median, the maximum (upper limit of the grey bar) and the minimum (lower limit of the grey bar).
Source: Bloomberg, Time period: 01/01/2006 - 04/10/2019

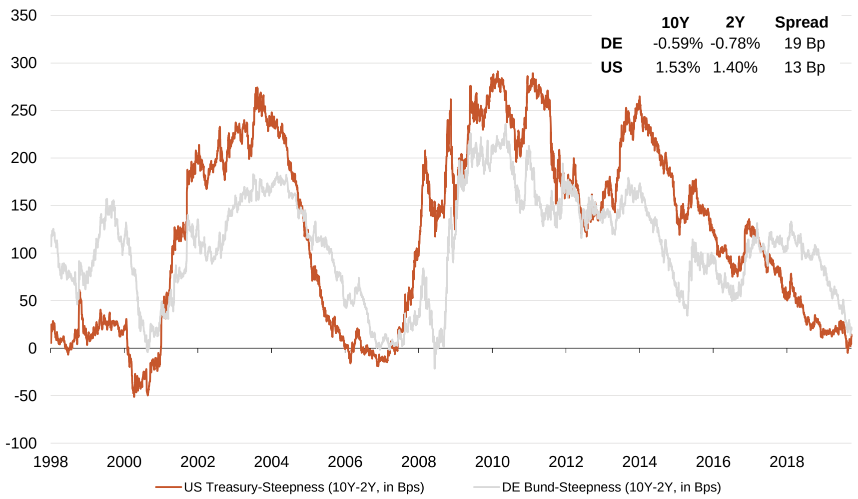
10-Year Government Bond Yields



- Government bond yields have recently fallen in the wake of the strong equity setback. US government bonds in particular benefitted from the increased demand for safe havens. 10-year yields are now back at 1.53%.
- Following the recent disappointing US economic data, the markets are now increasingly pricing in interest rate cuts by the Fed.

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 - 04/10/2019

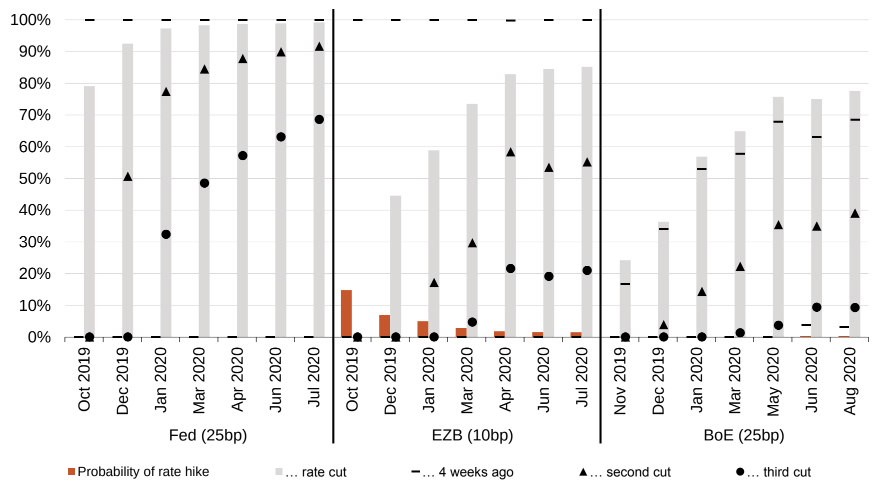
Yield curve steepness (10Y - 2Y)



- The yield curves have steepened again compared to two weeks ago. The US curve is now 14 basis points away from an inversion. Short-term US yields in particular have fallen recently.

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 - 04/10/2019

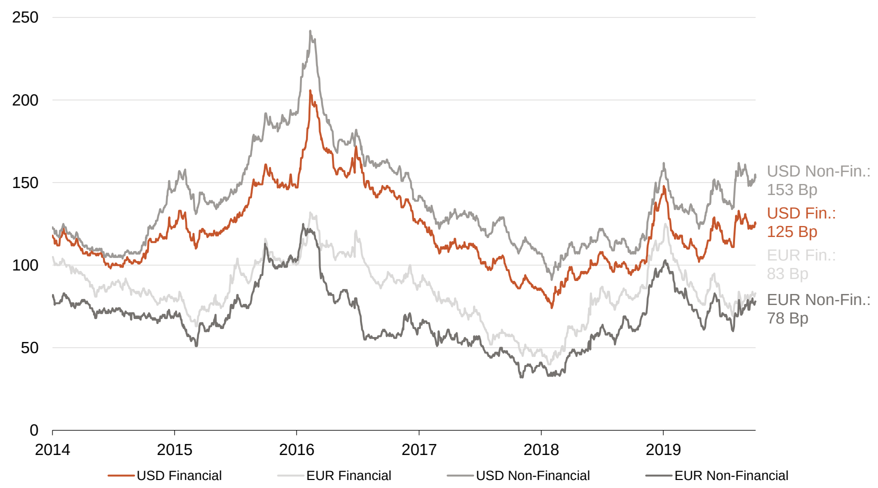
Implicit Probabilities for Changes in Key Interest Rates



- Following the Fed's second rate cut in September, more than 90% of market participants expect a further rate cut by the end of the year. Around half of investors even expect two interest rate cuts of 25 basis points each.
- After the ECB lowered the deposit rate for banks to -0.50% in September, the market is now pricing in a further interest rate cut for January 2020 with a probability of over 50%.

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: 07/12/2018 - 04/10/2019

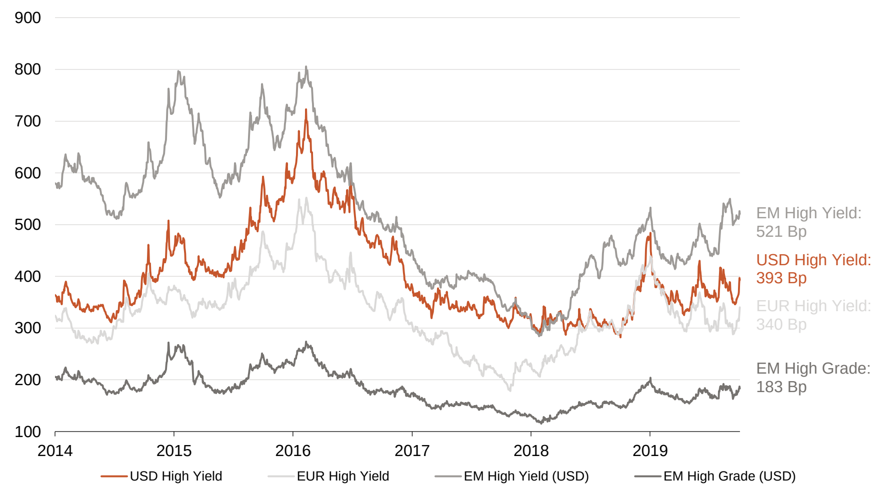
Credit Spreads Financial and Non-Financial Bonds



- Credit spreads on corporate bonds have recently fallen slightly in the investment-grade area.
- With the upcoming Q3 reporting season, issuance is set to slow in October, which should support corporate bonds due to the reduced supply. Over the past five years, primary market activity in the EUR area has almost halved on average compared to September, in October.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2014 - 04/10/2019

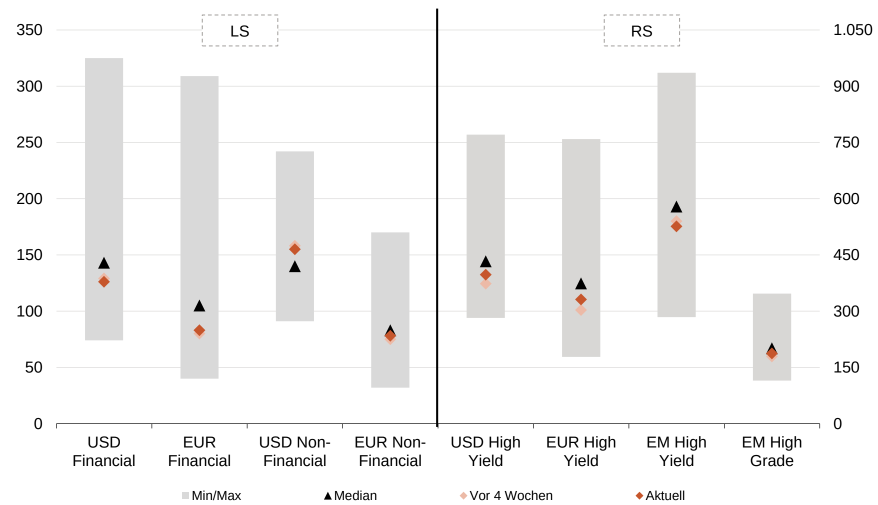
Credit Spreads High Yield and Emerging Markets Bonds



- In the high-yield segment, risk premiums have recently risen as a result of the risk-off environment.
- Credit spreads on USD high-yield bonds are now back at almost 400 basis points, more than 100 basis points away from the lows in 2018.

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 - 04/10/2019

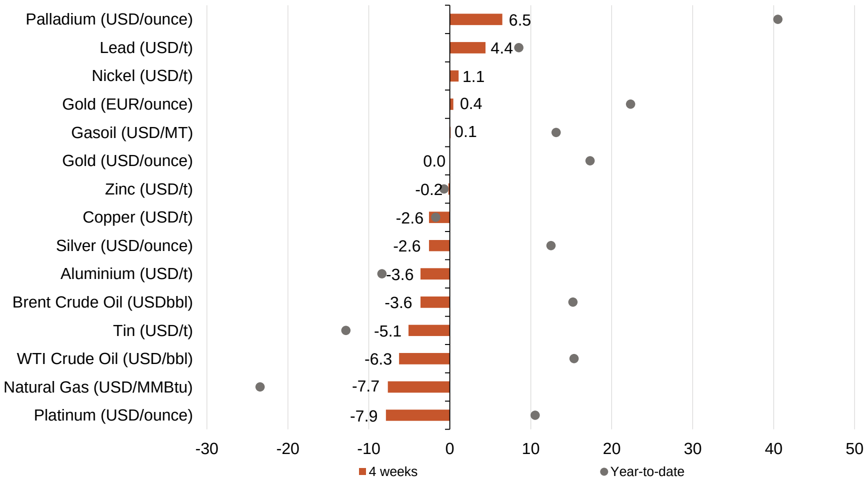
Historical Distribution of Credit Spreads (in bp)



- The largest spread widening in the last four weeks was experienced by EUR high-yield bonds. However, they are still slightly expensive.
- USD non-financial bonds are cheap compared to their own history, while EUR-financial bonds seem quite expensive.

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 - 04/10/2019

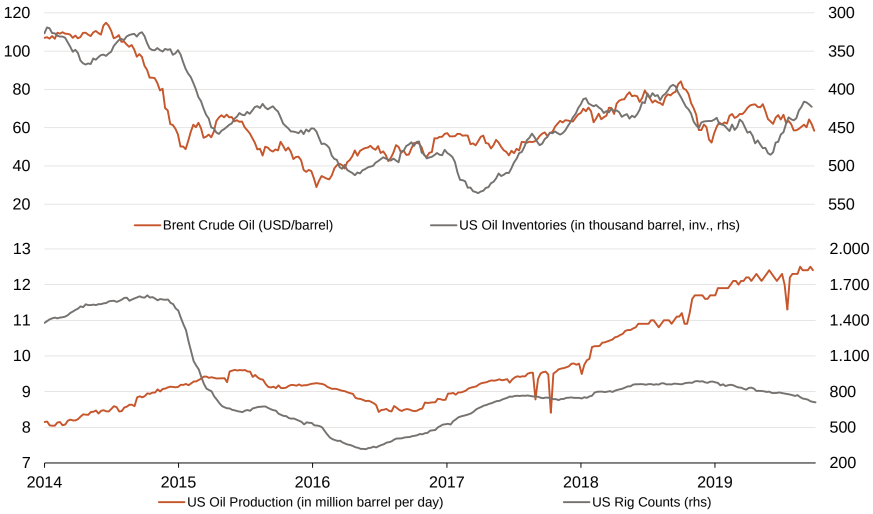
Commodities Performance



- Over the last four weeks, commodities' performance has been mixed.
- Precious metals lost until the end of September due to a higher risk appetite amongst investors, the strong US dollar and rising bond yields. They only gained somewhat in the last few days when these factors reversed.
- Following the attacks on Saudi oil plants, the oil price has relinquished its gains entirely due to demand concerns.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2019 - 04/10/2019

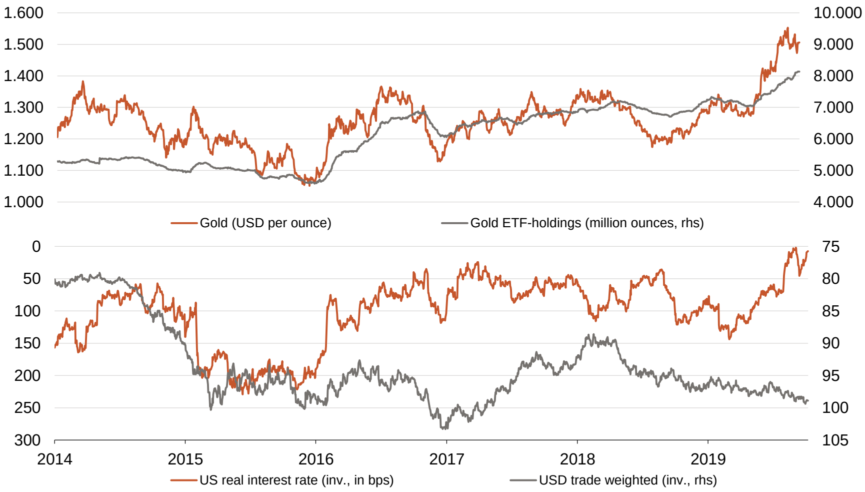
Crude Oil



- After the attacks on Saudi Arabian production and refinery facilities, the oil price jumped in mid-September. In the meantime, however, the price of oil has fallen back below the level of the forerunner.
- In addition to the assurance that Saudi Arabia will restore oil production faster than expected, economic and demand concerns (following the lowest US Manufacturing PMI in 10 years) have recently weighed on the oil price.

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 - 04/10/2019

Gold



- At the end of September, the price of gold fell well below the 1.500 US dollar per ounce mark. Rising bond yields and a strong dollar weighed on its price.
- The recent weak economic data, the losses on the stock market and (trade) political risks led investors back into gold, pushing its price up again.

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 - 04/10/2019

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