Current market commentary

The spread of the coronavirus and the oil price war following the failure of the "OPEC+" talks have led to massive market distortions. The S&P 500 has fallen by more than 20% from its peak about three weeks ago. It recorded the first bear market since the financial crisis - and at record speed. At times, Brent oil fell more than 30% in one day, stock indices saw daily losses of more than 10% and credit spreads skyrocketed. When will the market find a bottom? In our opinion, there must be four P’s: positioning, profitability, policy support and panic. Positioning in risk assets is now low for many investor groups. Policy support is gradually coming from central banks and governments. An element of panic has been there, but since last Thursday this has escalated. As far as profitability is concerned, analysts are still too optimistic. However, the market is already praising a mild recession. We should be slowly approaching the bottom.

Short-term outlook

In order to mitigate the economic consequences of the coronavirus, the market expects that following the monetary policy measures of the central banks, governments will now also implement further fiscal stimulus programs. The EU summit of heads of governments will take place on the 26th-27th of March and the EU-China trade summit on the 30th-31st of March. The primary elections on the 17th of March in Florida, Illinois and Ohio will show whether Joe Biden can further extend his lead as Democratic presidential candidate.

The release of the ZEW Economic Sentiment for Germany tomorrow and the Philadelphia Fed Index for the U.S. on Thursday for the month of March is likely to provide a first glimpse into the economic impact of the virus. In addition, UK Labor Market data and U.S. Retail Sales and Industrial Production data for February will be released on March 17th.

Stock market already pricing in mild recession scenario

While the stock market largely anticipated an economic recovery for this year at the end of last year, it is now pricing in a recession as a result of the coronavirus pandemic.

Ambitious optimism gave way to realistic pessimism. This limits further disappointments and creates potential for positive surprises if the economic consequences of the coronavirus are milder than currently feared or if the economy recovers quickly after the wave has abated.

Source: Bloomberg, time period: 31/12/1999 - 31/12/2020
Multi Asset

4-week & YTD

<table>
<thead>
<tr>
<th>12-month periods over that last 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>13/19</td>
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</tbody>
</table>

- Eonia
- Global Treasuries
- USD/EUR
- Global Corporates
- Gold
- Industrial Metals
- Global Convertibles
- REITs
- MSCI Emerging Markets
- MSCI Frontier Markets
- MSCI World
- Brent

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<th>13/03/19</th>
<th>13/03/18</th>
<th>13/03/17</th>
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<td>-23.5</td>
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<td>4.6</td>
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<td>REITs</td>
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<td>MSCI Emerging Markets</td>
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<td>-7.0</td>
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<td>17.1</td>
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<td>8.8</td>
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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 polishing 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; Indeclula Metals; Bloomberg Industrial Metals Subindices TR; Eonia; Euro Capitalization Index; USD/EUR: Price of 1 USD in EUR.

Equities

4-week & YTD

<table>
<thead>
<tr>
<th>12-month periods over that last 5 years</th>
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<td>13/19</td>
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</table>

| MSCI EM Asia          | -5.8    | -3.4    | 17.0    | 25.4   | -18.7   |
| S&P 500               | 0.4     | 13.7    | 2.2     | 25.5   | -5.4    |
| Topix                  | -14.4   | -2.3    | 4.9     | 23.0   | -10.9   |
| Stoxx Europe Defensive| -16.0   | 13.6    | -1.8    | 5.5    | -8.5    |
| Stoxx Europe 50       | -16.0   | 6.1     | -0.6    | 12.3   | -13.3   |
| MSCI USA Small Caps   | -18.4   | 11.0    | 0.7     | 30.3   | -13.8   |
| Stoxx Europe Small 200| -18.9   | 1.2     | 10.8    | 13.5   | -7.2    |
| MSCI UK               | -25.7   | 8.5     | -1.2    | 10.9   | -13.4   |
| Euro Stoxx 50         | -20.1   | 0.5     | 1.9     | 14.5   | -13.8   |
| DAX                    | -20.2   | -5.3    | 1.9     | 22.0   | -17.4   |
| MSCI EM Europe Cyclicals| -22.2  | -4.7     | 7.4     | 19.5   | -15.5   |
| MSCI EM Eastern Europe| -20.3   | 4.6     | 12.4    | 28.7   | -6.0    |

MSCI EM Asia; MSCI EM Europe; S&P 500; Topix; Stoxx Europe Defensive; Stoxx Europe 50; Stoxx Europe Small 200; MSCI USA Small Caps; MSCI UK; Euro Stoxx 50; DAX; MSCI EM Europe Cyclicals; MSCI EM Eastern Europe.

Fixed Income

4-week & YTD

<table>
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<th>12-month periods over that last 5 years</th>
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<td>13/19</td>
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</tbody>
</table>

| Bunds                     | 6.0     | 4.1     | -0.5    | -0.4   | 0.0    |
| Treasuries               | 14.8    | 13.6    | -13.1   | 3.1    | -3.7   |
| EUR Non-Financials       | 1.8     | 1.4     | 2.3     | 2.7    | -0.9   |
| EUR Financials           | 0.9     | 1.1     | 3.0     | 2.7    | -0.1   |
| Gilts                    | 7.3     | 7.2     | -1.7    | -5.2   | -4.4   |
| BTPs                     | 6.7     | -1.5    | 5.4     | -4.2   | 0.5    |
| EUR Inflation Linkers    | 1.1     | -0.3    | 4.2     | 0.1    | -3.8   |
| USD Corporates           | 10.5    | 13.8    | -11.0   | 8.7    | -6.0   |
| EM Local Currency Bonds  | 4.1     | 5.7     | -3.6    | 10.5   | -6.5   |
| EM Hard Currency Bonds   | -2.3    | -0.2    | 2.7     | 5.8    | 3.5    |
| EUR High Yield           | -5.8    | 0.8     | 3.6     | 8.0    | -1.6   |
| USD High Yield           | -0.7    | 15.9    | -10.0   | 18.3   | -9.5   |

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

- Fewer than four weeks ago we saw new all-time highs in stock markets. Due to the coronavirus and the oil-supply war, this now seems to be an eternity away.
- In the last four weeks alone, Brent oil has lost 40%, stocks in the industrial nations almost 25%.
- No asset class has been able to generate a positive return over the last four weeks.

All equity regions considered here have now been clearly in the red since the beginning of the year and over the last four weeks.
- The Asian regions, where coronavirus first broke out and seems to have already passed its peak in some areas, have lost the least.
- Eastern European equities, which have been particularly hard hit by the additional oil price shock, have performed the weakest.

High-yield bonds have come under strain in recent weeks. Apart from the general risk-off sentiment, the main driver was the sell-off in oil. Energy companies make up a good part of the index, especially in the USD high yield segment. The risk premiums for highly indebted oil companies rose considerably.
- Safe havens such as German government bonds recently performed well.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/03/2015 - 13/03/2020

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/03/2015 - 13/03/2020

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/03/2015 - 13/03/2020
Speculative investors have recently covered their shorts in US bonds and reduced their longs in equities. The net positioning in VIX futures is now only slightly negative. A net long position has historically been a good buy signal for equities.

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.

Put-call ratios have shot up considerably in recent weeks, especially for European investors. This is a signal that investors have become more strongly hedged.

Some of these hedges were recently reversed.

ETF Flows

Money market ETFs were unsurprisingly in high demand in this market environment. Many investors park their money in liquidity, especially as bonds have become even less attractive due to the fall in yields.

Emerging market investments, on the other hand, were sold most in the ETF segment.
As the number of infected people rises in the USA, local private investors have become increasingly pessimistic. Bears are now the absolute majority at 51.3% and the bull bear spread is historically low at -21.6%. Capitalisation of markets therefore seems to be imminent.

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 - 12/03/20

After the western world had become increasingly infected by coronavirus, volatility in equities in developed countries exploded. Even emerging market equities show lower realised volatility.

In the wake of the OPEC fiasco, realised 60-day volatility in commodity markets also increased sharply.

Even EUR government bonds, the beneficiaries of the turbulence, show slightly higher volatility compared to their own 5-year history.

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: 01/01/2015 - 13/03/2020

Implied volatilities have also risen sharply.

The VIX is trading at over 60 - a level only seen during the financial crisis in 2008/09.

The implied volatility of oil has risen to over 100 for the first time in history.

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.

Source: Bloomberg, Time period: 01/01/2015 - 13/03/2020
• Economic data from the industrial nations in January and February tended to surprise upwards. However, coronavirus overshadowed this, as the data is a retrospective measure. March will provide further insight into the economic damage caused by the virus.

• In emerging markets, the latest economic data has already disappointed significantly. In China, Purchasing Managers’ Indices and exports have disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 13/03/2020

• Both the US and eurozone economies were able to surprise on an aggregated level.

• In the eurozone, Germany reported a significant increase in factory orders and industrial production (MoM) in January, while industrial production in France disappointed.

• Positive economic surprises in the US are close to the 2017 high. However, hardly any March economic data is available yet.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 13/03/2020

• In the UK, January industrial production and the February purchasing managers’ indices provided a negative surprise.

• The Japanese economy contracted by -1.8% (QoQ) in Q4, more than previously estimated, and the services PMI fell to 46.8 points in February.

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 market’s limited memory, i.e. the weight of a data surprise decreases over time.

Source: Bloomberg, Time period: 01/01/2015 - 13/03/2020
ECONOMICS

OECD Leading Indicator

- Economic recovery, as indicated by the OECD early indicator from December, is unlikely to come, at least in the first half of 2020. Due to coronavirus, our economists expect a technical recession in the eurozone in the first half of the year and a recovery to trend growth in the second half.

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 - 31/12/2020

Manufacturing Purchasing Managers Index (Manufacturing PMI)

- The global PMI fell below the 50 point growth mark in February. At 47.2, this is the lowest level since 2009.

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: 30/11/2016 - 29/02/2020

Headline Inflation

- In February, inflation in the USA fell to 2.3%.

Inflation fell from 1.4% to 1.2% in the euroarea in February. Only in Germany inflation rose slightly to 1.7% but remains below the 2% target.

- Pork prices in China remain very high and thus inflation remained above 5% in February.

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: 28/02/2010 - 29/02/2020
The currency market was not immune to Covid-19 either.

The Japanese Yen has been in high favor with safe-haven investors in recent weeks, marking a new 3-year high. The Euro and recently the US Dollar were also sought after as safe havens.

Emerging market currencies have continued to suffer significantly. The downward trend that has existed since the beginning of the year has accelerated further in recent weeks.

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.

The euro gained against almost all currencies presented here.

The euro appreciated against high-interest currencies in particular, as it was used in the past as a financing currency in so-called carry trades due to low levels of interest rates in the euro zone. These trades are now being reversed as a result of the risk-off sentiment.

Even the typically uncorrelated cryptocurrencies could not withstand the recent selling pressure.

Appreciation of the euro against the US dollar has continued. At its peak, the common currency rose to as much as 1.13 US dollars per euro.

The relatively sharp drop in yields of US Treasuries compared to German government bonds led to a significant narrowing of the interest rate differential, which in turn supported the strength 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: 01/01/2015 - 31/12/2021
European Sector & Style Performance

<table>
<thead>
<tr>
<th>4-week &amp; YTD</th>
<th>12-month periods over that last 5 years</th>
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<td></td>
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<tr>
<td>Health Care</td>
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Changes in Consensus Earnings Estimates

- Analysts have recently lowered their earnings estimates, especially in emerging markets. Eastern Europe and Latin America have seen the largest negative earnings revisions. The oil selloff in particular had a negative impact.
- By contrast, earnings estimates for the US have hardly fallen at all and have even risen for Switzerland. Analysts will likely have to correct this substantially in the coming weeks.

Earnings Growth

- Analysts' earnings estimates are far too optimistic. Despite coronavirus and the oil price war, consensus still expects 5% growth in global corporate earnings. Especially for the commodity-rich Latin America, estimates seem too high.
- We consider even a stagnation in profit growth compared with the previous year to be optimistic.

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: 03/01/2015 - 13/03/2020
Contribution Analysis

- Now stock markets are no longer in the black compared to the previous year.
- Stock prices have tumbled and analysts’ earnings estimates will follow.

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: 01/01/2010 - 13/03/2020

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

- Stock markets have now fallen below their historical average valuation levels in the US. The S&P 500’s P/E ratio is now at 15.9. During the financial crisis, however, it fell to below 12, for example.
- However, the interest rate level at that time was also quite different. Relative to bonds, equities are now very attractively valued.

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, IBES Time period: 31/12/1987 - 13/03/2020

Historical Distribution: Price/Earnings and Price/Book Ratio

- Most equity regions are now favourably valued compared to their own history (since 2006). Particularly, equities in the eurozone.
- The US remains the exception. On a P/E basis US equities are now fairly valued, on a P/B basis they remain still 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 - 13/03/2020
The yield on 10-year German government bonds recently reached a new low of around -0.9%. With the exception of Italian government bonds, European neighbours also saw a significant drop in yields.

The yield on 10-year US government bonds fell temporarily to below 0.5% and then stabilized at under 1%.

Despite the economic worries related to coronavirus, the steepness of the German and US yield curve has not decreased further. The steepness of the US yield curve has even increased by four 16 points in a two-week comparison. Thus, a global recession is not yet indicated by this indicator.

Following the surprise rate cut at the beginning of March, the Fed cut rates by a further 100 bps last night. The target range for Fed key rates is now 0 - 0.25%. In addition, a bond purchase program was launched.

The ECB did not lower deposit rates at its March meeting. However, the bond purchase program was expanded. However, the market is pricing in interest rate cuts by the end of the year.

The BoE recently lowered rates by 50 basis points.
The sale of credit risks has caused the risk premiums on investment grade corporate bonds (IG) to rise massively. The liquidity of bonds has recently been considerably restricted.

USD non-financial bonds saw spreads widen by more than 90 basis points. For EUR non-financial bonds the widening was below 50 basis points, as corporate balance sheets are much better and the energy sector is less strongly represented than for USD bonds.

**Explanations see middle and bottom illustration.**

Source: FactSet, Time period: 01/01/2015 – 13/03/2020

**In the case of USD high yield bonds, the energy sector suffered in particular, as the fall in oil prices weighed on the profitability of many companies. The spread on USD high yield widened by over 200 basis points in a two-week comparison.**

**EM high yield bonds also suffered massively. The pricing of the global economic recovery and the oil price shock hit commodity-sensitive countries particularly hard.**

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: 01/01/2015 – 13/03/2020

All segments are now favourable compared to the 10-year median. Risk premiums on USD non-financial bonds are at their 10-year highs.

**Compared to the 10-year median, the current risk premiums on EUR corporate bonds are still moderate and have room to rise.**

Source: FactSet, Time period: 13/03/2010 – 13/03/2020
• Energy commodities have been hit particularly hard recently. While demand concerns dominated in recent weeks, it was the OPEC debacle that caused the last rapid fall in prices.

• Even gold lost all the performance it has posted since the beginning of the year, despite the massive sell-offs in stock markets.

• Relative to stock markets, base metals have held up comparatively well in recent weeks.

Total return of selected commodity prices, in percent, sorted by 4-week performance. Source: Bloomberg, Time period: 01/01/2020 - 13/03/2020

The OPEC+ meeting surprisingly ended in a fiasco. Originally, the market hoped for further cuts to counteract weak demand. Instead, Russia wanted to put US shale oil producers out of business. The Saudis reacted to this by massively expanding production on their part, starting a price war. As a result, Brent recorded its largest daily loss since 1991 and is currently trading at just USD 32 per barrel.

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: 01/01/2015 - 13/03/2020

• Gold, typically a safe haven, also fell significantly in recent days. The reason for the unusual poor performance in times of sharply falling share prices was the repeated reduction of gold positions to create liquidity in order to meet margin calls in other positions.

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: 01/01/2015 - 13/03/2020
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