BERENBERG
Markets

MONITOR

14 April 2020

Current market commentary

Why don't share prices continue to fall - after all, a severe global recession is looming and corporate profits are collapsing? Many investors are accordingly cautious and brokers are pessimistic. The consensus is that the old lows of mid-March will be tested at least once again, if not fallen below. If everyone runs in one direction, however, this increases the likelihood of being caught on the wrong foot. Stock markets have risen sharply recently, and the DAX is also back in a bull market after a recovery of more than 20%. And now the first systematic strategies that rely on price momentum are likely to buy stocks again - and that with thin liquidity. Many investors gradually fear of missing out. However, the uncertainty remains enormous, so it seems right to us to only increase risk assets step by step, especially since we have been somewhat overweight in equities for the past three weeks.

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

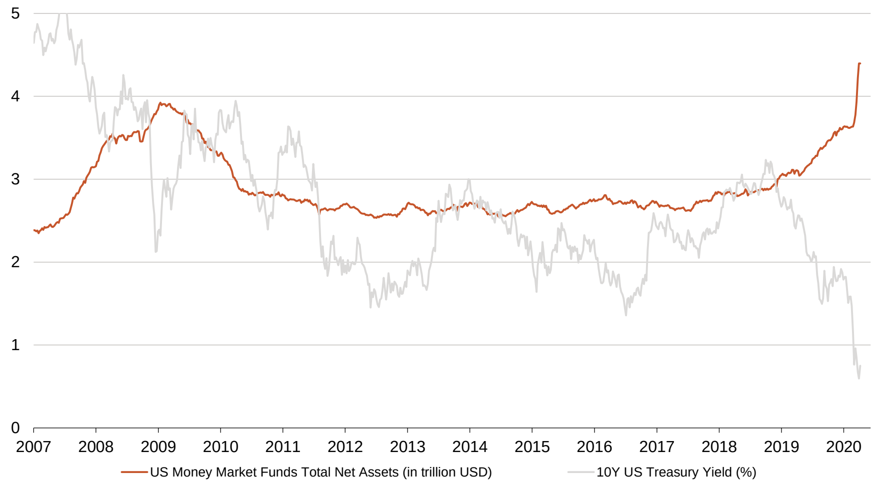
Gradual return to normality in sight.

In Europe, the corona wave has probably reached its peak, while in the US this peak might be also imminent. Investors are therefore focusing on a slow return to normality. Austria and Denmark have already announced this for mid-April. This is also being intensively discussed in other countries such as Germany and the US. The G20 finance ministers and central bank governors will meet on the 16th -17th of April.

Economic data and key corporate figures are once again in the spotlight.

Today is the unofficial start of the S&P500 reporting season. Investors will eagerly follow the impact of the pandemic on corporate guidance. On Wednesday, the US Retail Sales and Industrial Production for March and the Empire State Index for April will be released. On Thursday, the weekly Jobless Claims (US) will be released, and on Friday, the Q1 Economic Growth, Industrial Production and Retail Sales for March for China will be released.

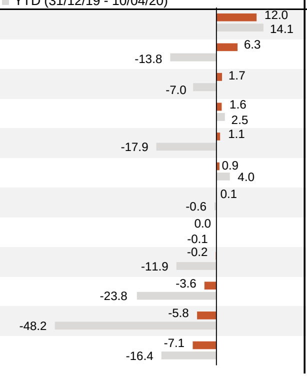
Investors have sufficient dry powder



- The volume of money market funds in the US, for example, has reached a record volume of approximately USD 4.5 trillion. Significantly higher than at the peak of the financial market crisis. Investors thus have enough dry powder.
- At the same time, interest rates are falling more and more worldwide. Yields on 10-year US government bonds have fallen to a record low in March. Investors are inevitably being pushed into riskier segments if they want to achieve an adequate return.

Source: Bloomberg, Time period: 03/01/2007 - 08/04/2020

Multi Asset



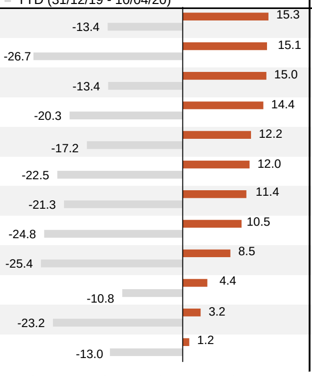
	4-week & YTD		12-month periods over that last 5 years				
	4W (13/03/20 - 10/04/20)	YTD (31/12/19 - 10/04/20)	10/04/19 10/04/20	10/04/18 10/04/19	10/04/17 10/04/18	10/04/16 10/04/17	10/04/15 10/04/16
Gold	12.0	14.1	33.0	7.0	-8.4	8.8	-4.5
MSCI World	6.3	-13.8	-3.6	14.7	-1.0	24.2	-13.1
Global Convertibles	1.7	-7.0	-0.9	13.2	-2.4	21.0	-12.0
USDEUR	1.6	2.5	3.1	9.6	-14.2	7.6	-7.0
MSCI Emerging Markets	1.1	-17.9	-14.3	4.6	7.8	29.2	-24.9
Global Treasuries	0.9	4.0	8.5	8.0	-7.4	2.8	0.5
Global Coporates	0.1	-0.6	6.1	11.0	-8.5	8.1	-4.4
Eonia	0.0	-0.1	-0.4	-0.4	-0.4	-0.3	-0.2
REITs	-0.2	-11.9	-6.4	25.4	-16.8	6.4	-4.8
MSCI Frontier Markets	-3.6	-23.8	-16.5	-5.8	7.5	24.0	-20.8
Brent	-5.8	-48.2	-47.0	14.8	9.5	27.0	-45.4
Industrial Metals	-7.1	-16.4	-19.8	0.8	3.2	36.3	-28.9

MSCI World: MSCI World Net Return; MSCI Emerging Markets: MSCI EM Net Return; MSCI Frontier Markets: MSCI Frontier Markets Net Return;
REITs: MSCI World REITs Index; Global Treasuries: Bloomberg Barclays Global Agg Treasuries TR; Global Corporates: Bloomberg Barclays Global Aggregate Credit TR
Global Convertibles: Bloomberg Barclays Global Convertibles Composite TR; Gold: Gold US Dollar Spot; Brent Crude: Bloomberg Brent Crude Subindex TR;
Industrial Metals: Bloomberg Industrial Metals Subindex TR; Eonia: Eonia Capitalizaiton Index; USDEUR: Price of 1 USD in EUR.

- Over the past four weeks gold and developed markets equities have performed best. REITs and industrial metals were among the relative losers.
- The equity markets benefited from the massive stimulus measures worldwide and the first indications of an imminent coronavirus peak.
- REITs suffered from the high debt levels of some real estate companies and the threat of rent losses.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 09/04/2015 – 10/04/2020

Equities



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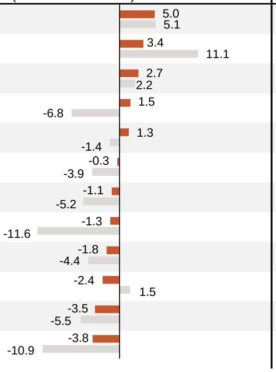
Topix	15.3	-13.4	-3.8	0.6	4.8	25.0	-14.8
MSCI EM Eastern Europe	15.1	-26.7	-13.3	24.2	-1.8	28.4	-18.1
Stoxx Europe Defensives	15.0	-13.4	-5.0	11.3	-0.3	9.5	-15.5
DAX	14.4	-20.3	-11.3	-4.0	1.6	26.8	-22.2
Stoxx Europe 50	12.2	-17.2	-8.9	7.6	-0.8	19.0	-20.4
Euro Stoxx 50	12.0	-22.5	-13.3	2.3	1.3	23.1	-21.8
Stoxx Europe Small 200	11.4	-21.3	-12.5	2.4	6.8	18.4	-11.8
MSCI UK	10.5	-24.8	-20.5	8.0	0.2	17.1	-19.0
Stoxx Europe Cyclicals	8.5	-25.4	-18.8	0.1	4.3	28.2	-23.0
S&P 500	4.4	-10.8	1.6	21.4	-1.3	26.5	-7.6
MSCI USA Small Caps	3.2	-23.2	-17.8	16.5	-2.3	32.5	-16.3
MSCI EM Asia	1.2	-13.0	-9.1	3.9	10.4	30.0	-25.3

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; MSCI USA Small Caps: MSCI USA Small Caps TR; 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 last four weeks, Japanese equities rose the most.
- Cyclical European equities continued to underperform.
- Since the beginning of the year the S&P 500 has now lost "only" 11 % in euro terms. The Stoxx Europa 50 stands at -17%. US equities benefited from a more favourable sector structure as well as coordinated fiscal and monetary policy measures.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 09/04/2015 – 10/04/2020

Fixed Income



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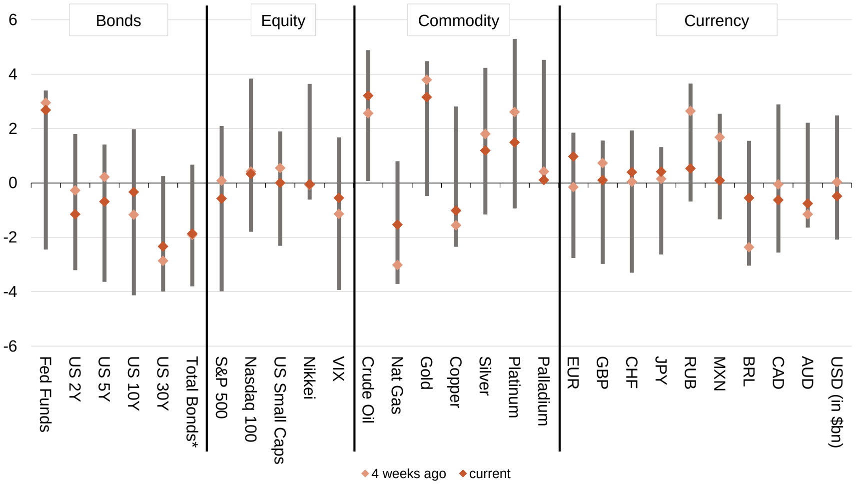
	4W (13/03/20 - 10/04/20)	YTD (31/12/19 - 10/04/20)	10/04/19 10/04/20	10/04/18 10/04/19	10/04/17 10/04/18	10/04/16 10/04/17	10/04/15 10/04/16
Gilts	5.0	5.1	11.4	5.8	-3.0	1.0	-7.1
Treasuries	3.4	11.1	17.0	14.3	-14.2	5.9	-4.1
USD Corporates	2.7	2.2	11.1	15.1	-12.2	10.7	-5.9
USD High Yield	1.5	-6.8	-0.9	17.0	-11.3	22.8	-11.3
BTPs	1.3	-1.4	6.8	-1.6	4.8	-2.8	1.3
EM Local Currency Bonds	-0.3	-3.9	2.2	7.2	-5.6	12.1	-9.3
EUR Inflation Linkers	-1.1	-5.2	-0.6	-0.7	4.6	0.0	-2.6
EUR High Yield	-1.3	-11.6	-8.3	2.3	3.2	7.5	-1.4
EUR Financials	-1.8	-4.4	-2.0	2.4	1.6	3.2	0.5
Bunds	-2.4	1.5	2.6	4.3	-1.5	-0.2	1.1
EUR Non-Financials	-3.5	-5.5	-2.8	2.7	0.8	2.3	0.5
EM Hard Currency Bonds	-3.8	-10.9	-7.1	0.6	1.3	6.2	1.7

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.

- In contrast to the stock markets, the bond markets were hardly able to recover from their lows. In particular, the riskier segments such as hard EM government bonds and high yield bonds remain under pressure.
- EUR high yield bonds have lost more than 1% in the last four weeks. Since the beginning of the year they have lost almost 12%.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 09/04/2015 – 10/04/2020

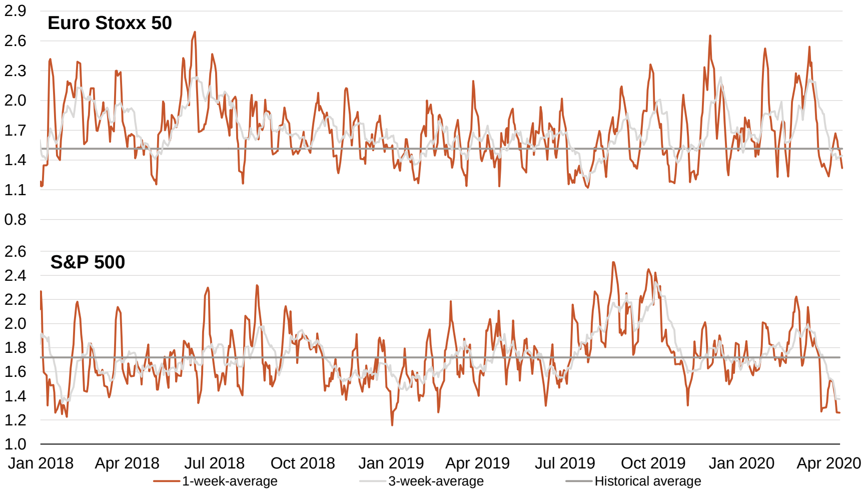
Non-Commercial Positioning



- Speculative investors continue to tend to remain neutrally positioned.
- One of the biggest changes occurred in the currency area: over the last four weeks, pessimism against the euro gave way to optimism.

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: 07/04/2010 - 07/04/2020

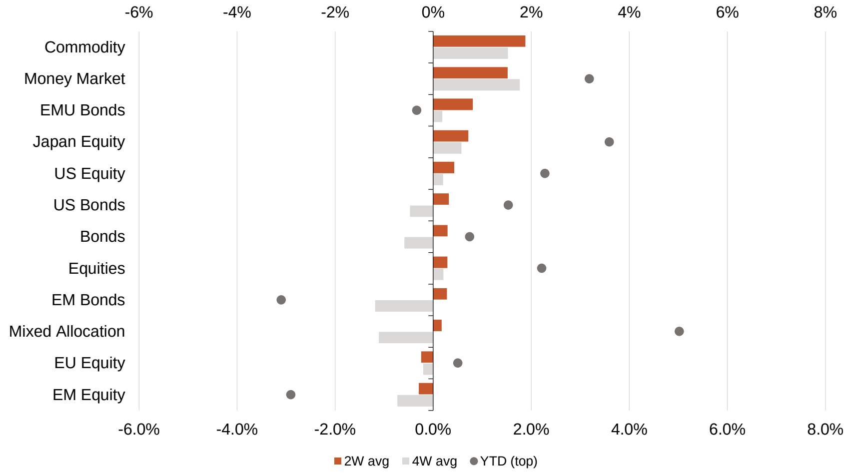
Put-Call Ratio



- The put-call ratios remain historically low. One reason for this is probably the fact that many hedges (puts) have been unwound at a profit in recent weeks.
- In addition, put options are currently very expensive due to the continuing very high volatility, leading to many investors shrinking back from hedging via put options.

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 - 10/04/2020

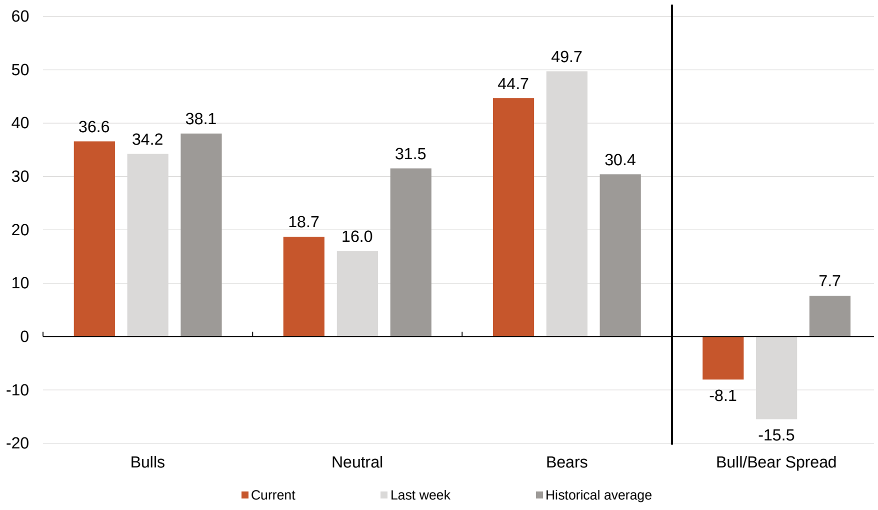
ETF Flows



- Most ETF inflows have recently seen commodities (gold) and money market vehicles.
- Overall, the momentum for risk asset flows has improved significantly in the last two weeks. Over the last four weeks, for example, there have been outflows in emerging markets bonds, but over the last two weeks there have been inflows again.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2019 - 10/04/2020

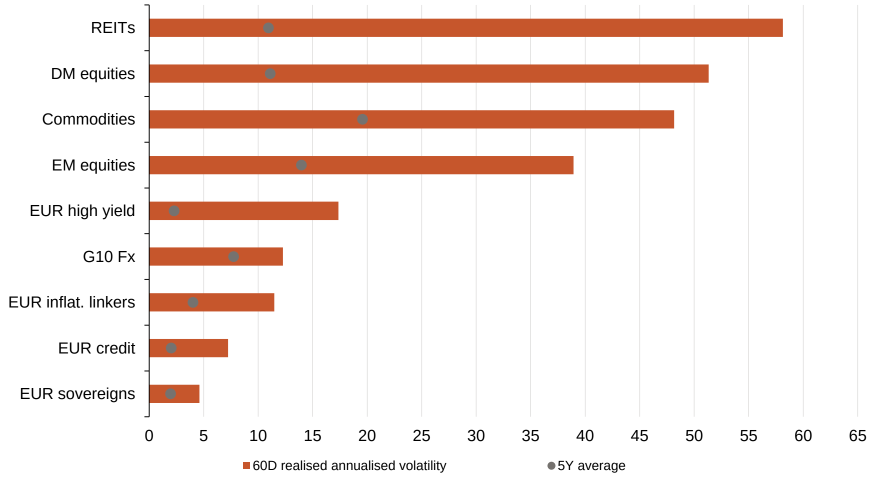
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment of US private investors has recently improved a little, but bears still outweigh bulls at around 8%.
- It is noticeable that the proportion of bulls is close to the historical average and therefore some investors see the current situation as a buying opportuni-

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 – 09/04/20

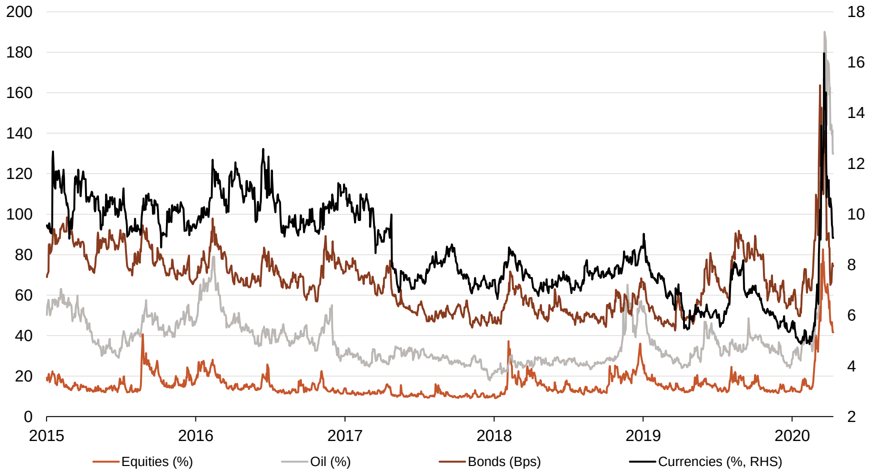
Realised Volatilities



- The realised volatility over the last 60 days is significantly above its average over the last 5 years across all asset classes.
- REITs and equities in the developed world were the most volatile - ahead of commodities, despite the oil shock.
- As the epicenter of the coronavirus is now in developed countries, emerging market equities have a lower volatility by comparison.

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: 10/04/2015 – 10/04/2020

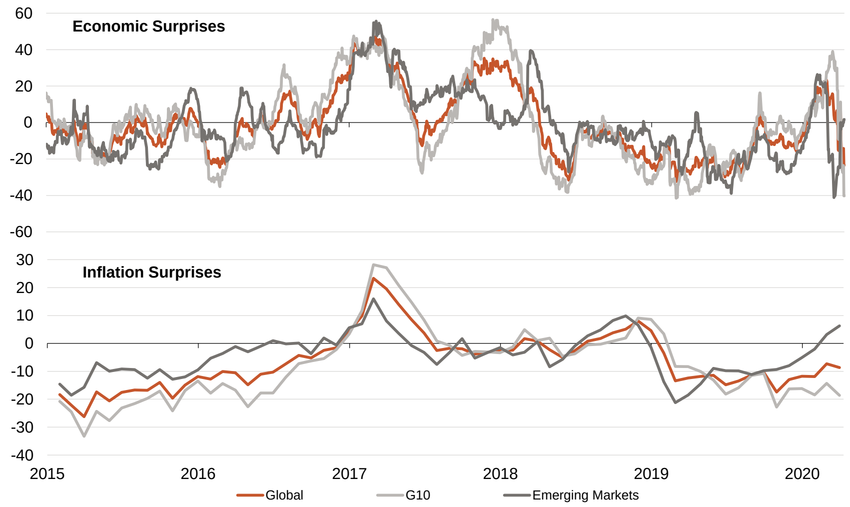
Implied Volatilities



- The implied volatilities seem to have peaked and have been falling across the board over the last two weeks.
- However, the volatility in oil is still extremely high by historical standards at 115. The VIX is currently trading at around 42 having halved since its peak.

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: 01/01/2015 – 10/04/2020

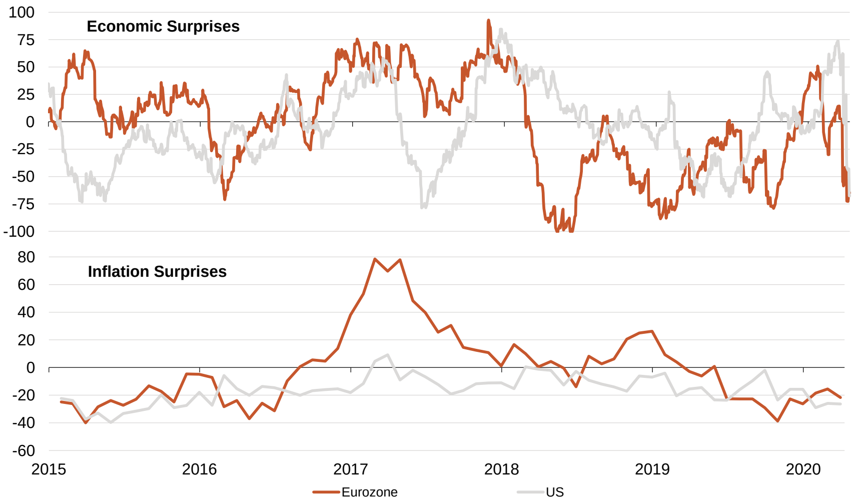
Global



- Average economic surprises in emerging markets are now close to neutral again, thanks to China's return to economic normality. All purchasing managers' indices in China for March, for example, have surprised on the upside. The picture is worse for the developed nations, with noticeably negative economic surprises.
- Inflation in the emerging markets has also recently surprised on the upside, whereas the opposite is the case in the developed countries.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 10/04/2020

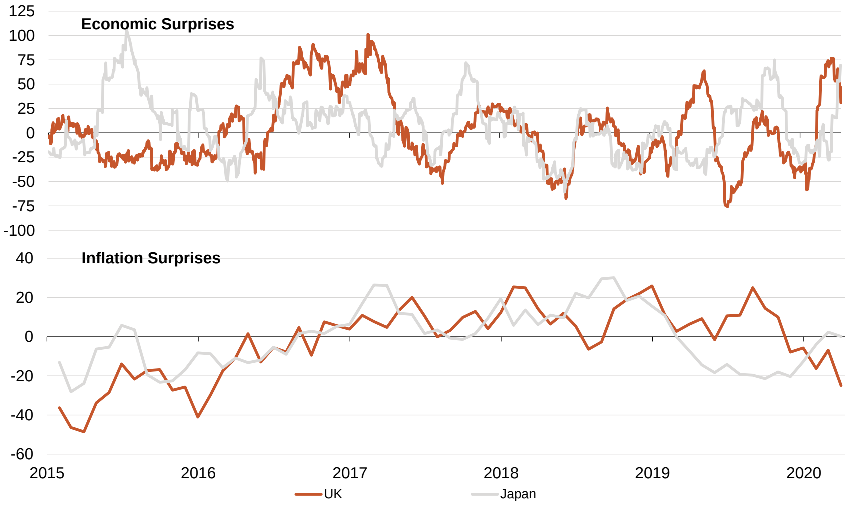
Eurozone and US



- The economic surprises in both the eurozone and the US are clearly negative. In the US, unemployment rose much more than expected and consumer confidence slumped massively, while the ISM purchasing managers' index for industry was better than expected at 49.1. However, this was mainly due to the way the supplier component was calculated. In the eurozone, consumer confidence, labour market data and the purchasing managers' indices fell sharply.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 10/04/2020

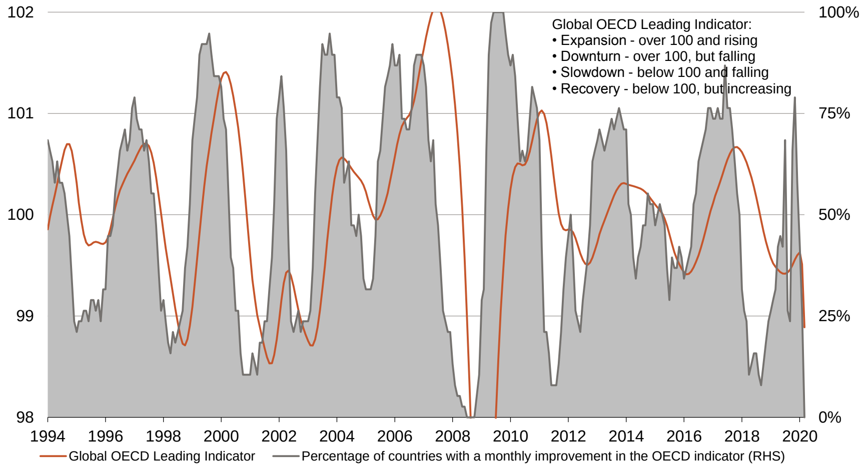
UK and Japan



- Japan surprised on the upside. Industrial production, machinery orders and retail sales in February were stronger than expected.
- In the UK the economic surprises are beginning to crumble. There, too, the corona effects should continue to be felt.

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: 01/01/2015 - 10/04/2020

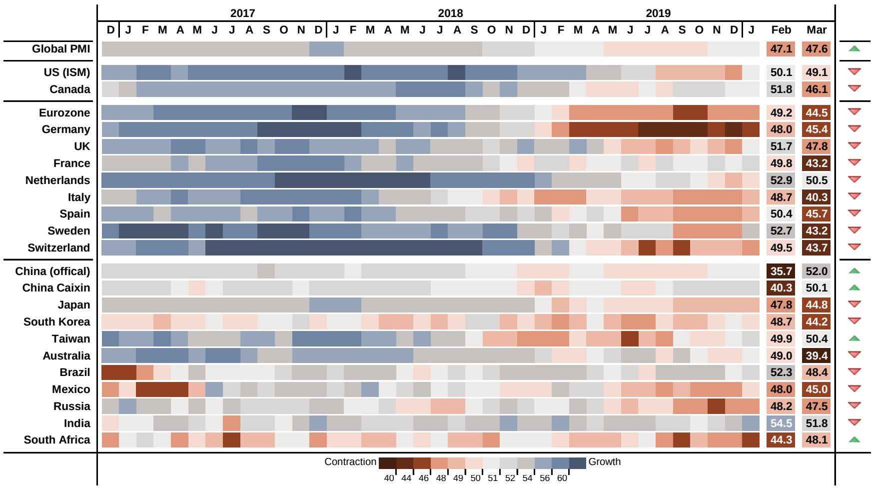
OECD Leading Indicator



- The OECD leading indicator, with a value below 99 points and falling indicates a significant economic slump. There wasn't an improvement of the indicator for a single country in March compared to 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 - 31/03/2020

Manufacturing Purchasing Managers Index (Manufacturing PMI)

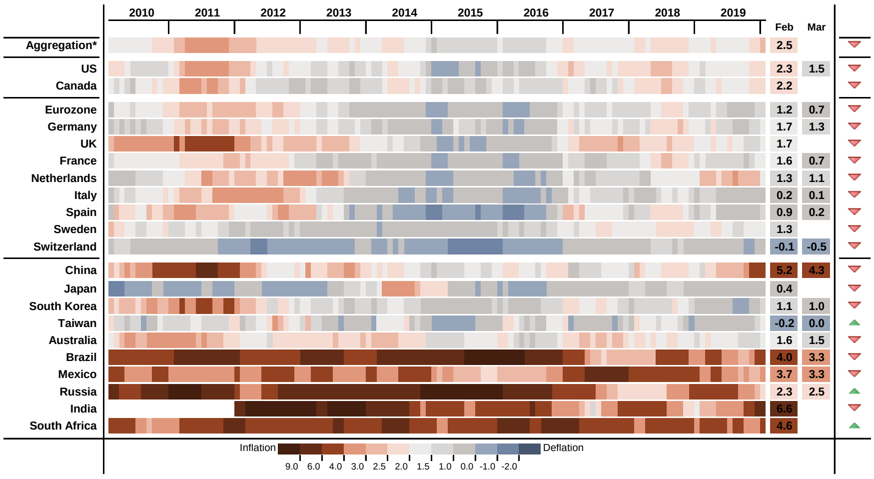


	Feb	Mar	
Global PMI	47.1	47.6	▲
US (ISM)	50.1	49.1	▼
Canada	51.8	46.1	▼
Eurozone	49.2	44.5	▼
Germany	48.0	45.4	▼
UK	51.7	47.8	▼
France	49.8	43.2	▼
Netherlands	52.9	50.5	▼
Italy	48.7	40.3	▼
Spain	50.4	45.7	▼
Sweden	52.7	43.2	▼
Switzerland	49.5	43.7	▼
China (offical)	35.7	52.0	▲
China Caixin	40.3	50.1	▲
Japan	47.8	44.8	▼
South Korea	48.7	44.2	▼
Taiwan	49.9	50.4	▲
Australia	49.0	39.4	▼
Brazil	52.3	48.4	▼
Mexico	48.0	45.0	▼
Russia	48.2	47.5	▼
India	54.5	51.8	▼
South Africa	44.3	48.1	▲

- The global PMI improved, reaching 47.6 in March, thanks to the significant recovery of the Chinese PMIs and the relative stability of the ISM index in the US.
- In Europe, the March PMI fell in all of the countries shown here and fell below the 50 level in most countries.

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: 31/12/2016 - 31/03/2020

Headline Inflation

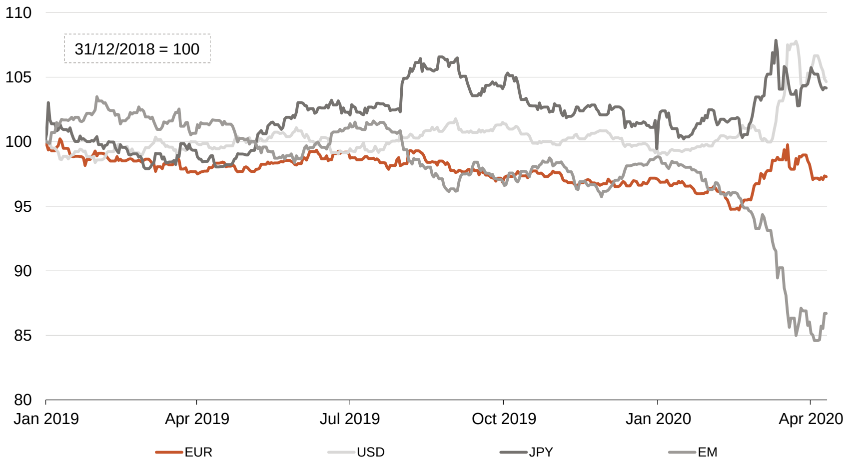


	Feb	Mar	
Aggregation*	2.5		▼
US	2.3	1.5	▼
Canada	2.2		▼
Eurozone	1.2	0.7	▼
Germany	1.7	1.3	▼
UK	1.7		▼
France	1.6	0.7	▼
Netherlands	1.3	1.1	▼
Italy	0.2	0.1	▼
Spain	0.9	0.2	▼
Sweden	1.3		▼
Switzerland	-0.1	-0.5	▼
China	5.2	4.3	▼
Japan	0.4		▼
South Korea	1.1	1.0	▼
Taiwan	-0.2	0.0	▲
Australia	1.6	1.5	▼
Brazil	4.0	3.3	▼
Mexico	3.7	3.3	▼
Russia	2.3	2.5	▲
India	6.6		▼
South Africa	4.6		▲

- The inflation rate in the eurozone fell from 1.2% in February to 0.7% in March. This was mainly due to the fall in the price of crude oil. But the core inflation rate also fell. The fall in oil prices was also felt in the US.
- In Switzerland, inflation remained negative in March at -0.5%. Thus, there is clear deflation. With interest rates already clearly negative, the central bank's options are limited.

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: 31/03/2010 - 31/03/2020

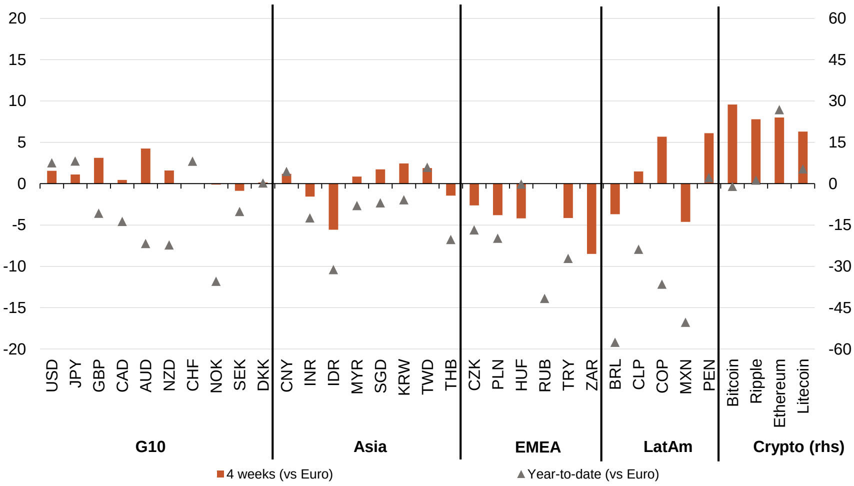
Trade-Weighted Currency Development



- Emerging market currencies have not been able to keep up with the recent rally in equity markets, but are slowly starting to bottom out.
- The US dollar and the Japanese yen remain in demand as safe havens.
- The euro initially had to give way again somewhat, but in recent days it has been trending sideways on a trade-weighted basis.

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: 01/01/2019 - 10/04/2020

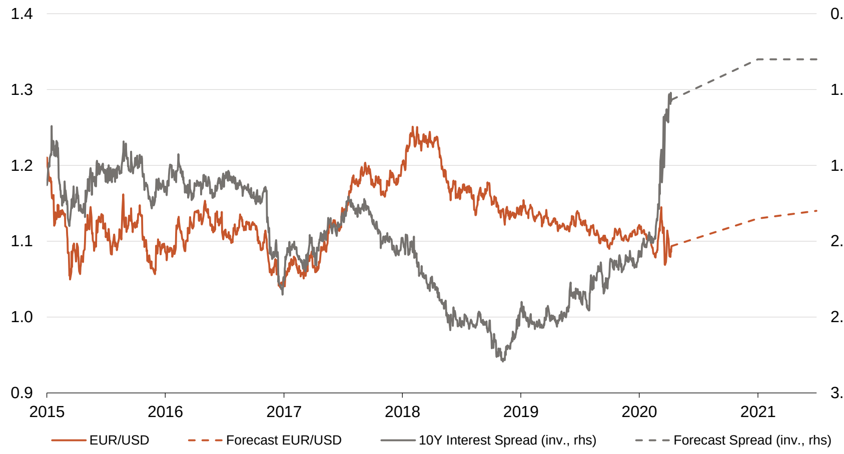
Currency Moves vs Euro



- A clear trend was not evident for the euro in recent weeks. While it was able to hold its own against the currencies of Eastern Europe, it had to give way against some Asian currencies.
- Since the beginning of the year, however, the picture remains intact that the euro has gained against high yielding and commodity currencies. Safe havens are still ahead in the current environment.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2019 - 10/04/2020

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR-USD exchange rate has been extremely volatile recently. No clear trend can be identified. It is currently fluctuating around the 1.09 euro/US dollar mark.
- The interest rate differential between US Treasuries and Bunds has narrowed further and currently stands at just over 1%, the lowest level since the beginning of 2014.

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 - 30/06/2021

European Sector & Style Performance

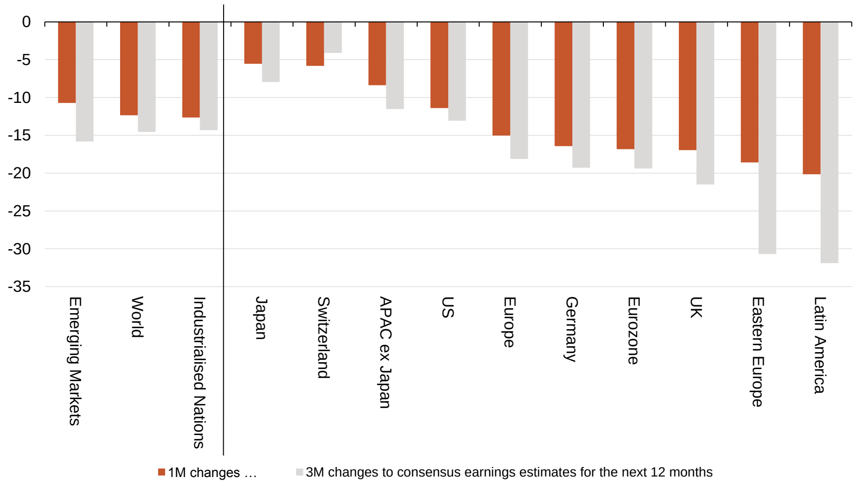
	4-week & YTD		12-month periods over that last 5 years				
	🟥 4W (13/03/20 - 10/04/20)	▨ YTD (31/12/19 - 10/04/20)	10/04/19 10/04/20	10/04/18 10/04/19	10/04/17 10/04/18	10/04/16 10/04/17	10/04/15 10/04/16
Energy	29.6	-31.9	-36.1	12.5	10.1	30.0	-20.5
Information Technology	15.4	-11.4	2.4	10.7	7.9	24.7	-10.8
Materials	14.7	-20.1	-17.0	8.8	6.0	42.4	-25.9
Health Care	14.0	-5.4	10.6	15.6	-6.8	7.0	-18.4
Consumer Discretionary	13.0	-24.7	-14.4	-1.5	6.4	15.9	-20.0
Growth	11.7	-13.3	-1.7	8.3	1.4	14.1	-13.3
Consumer Staples	11.6	-9.9	-3.8	12.6	-5.3	10.5	-3.5
Telecommunications	11.1	-21.7	-20.9	-1.5	-5.0	-2.4	-12.7
Value	10.8	-26.6	-22.8	2.3	2.0	23.9	-23.2
Industrials	7.2	-25.2	-14.2	5.0	2.7	24.2	-12.8
Utilities	6.8	-11.3	2.5	16.7	0.8	7.2	-12.0
Finance	4.3	-31.7	-26.2	-6.4	4.6	28.9	-28.6

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 European energy sector has recovered significantly in recent weeks as a result of the renewed rise in oil prices.
- Since the beginning of the year, however, the financial and oil sectors have remained the relative losers.
- One of the relative winners is the healthcare sector: since the beginning of the year, it has lost only 5%.

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: 09/04/2015 – 10/04/2020

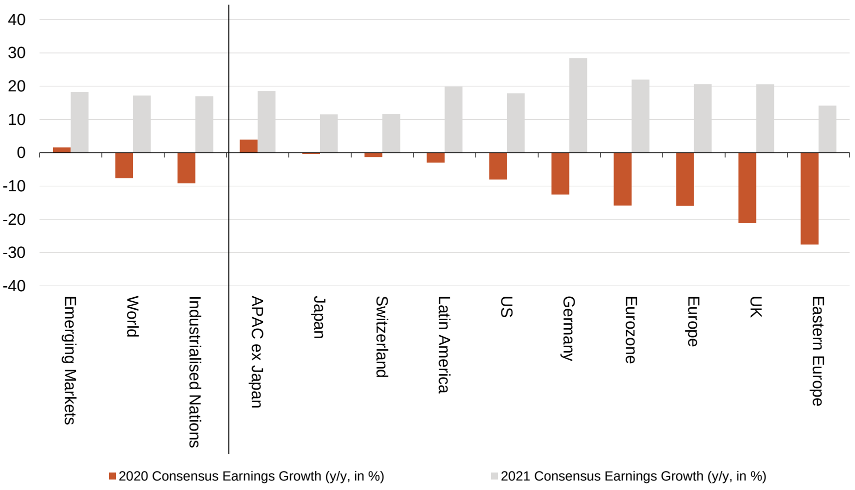
Changes in Consensus Earnings Estimates



- All regions have seen negative earnings revisions over the last 1 and 3 months. However, the spread between the regions is enormous: the commodity-rich regions of Eastern Europe and Latin America have seen earnings revisions of more than 30% in the last three months. However, earnings expectations for Switzerland, which is defensive in terms of its sector structure, have been revised downwards only slightly over the past three months.

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 10/04/2020

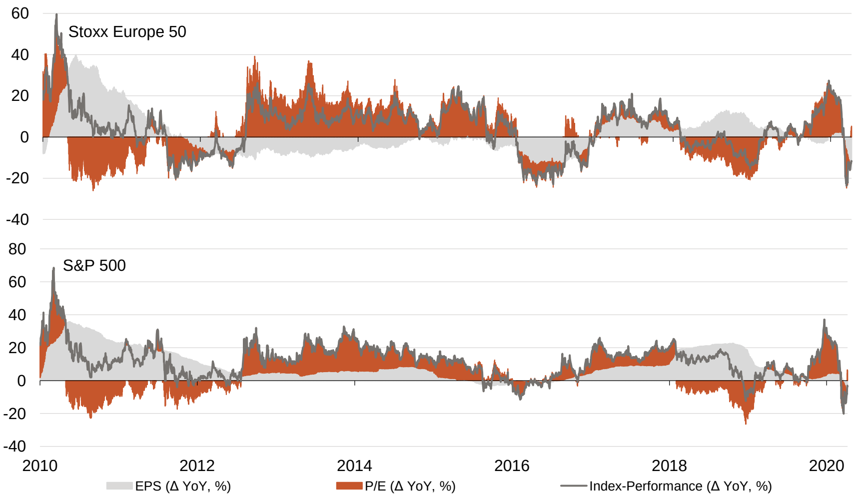
Earnings Growth



- The expected earnings growth for 2020 has now also slipped into negative territory globally - even though analysts still expect slightly positive growth for the emerging markets.
- The upcoming Q1 reporting season should provide more clarity on corporate earnings development and lead to further negative earnings revisions.

Calendar year earnings growth expected to the consensus for selected equity regions, compared to the previous year and in percent. The earnings estimates of the individual companies are aggregated using the index weights (bottom-up).
APAC ex Japan = Asia Pacific ex Japan
Source: FactSet, as of 10/04/2020

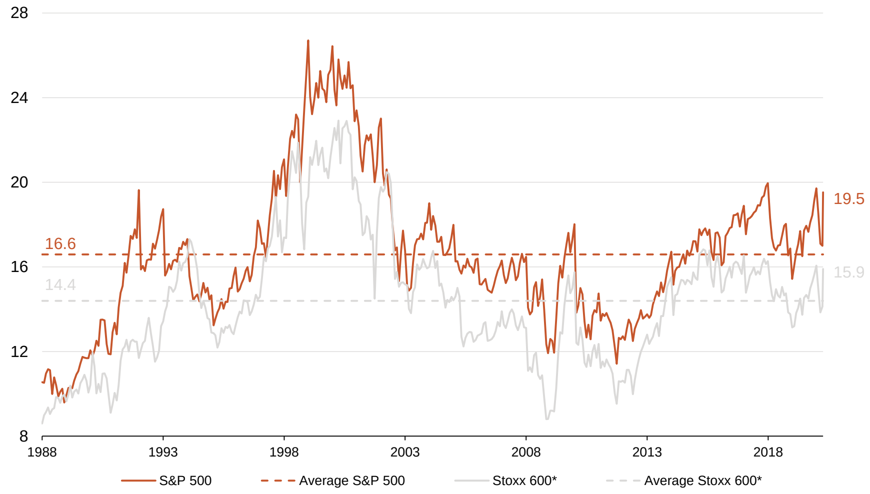
Contribution Analysis



- Compared to 12 months ago, European stocks are still trading at a significantly lower level - even if the P/E ratio has risen slightly over this period. Earnings expectations have fallen sharply.
- In the US, however, the markets have fallen less markedly. Earnings estimates have fallen much less sharply than in Europe, while the P/E ratio has also increased.

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 - 10/04/2020

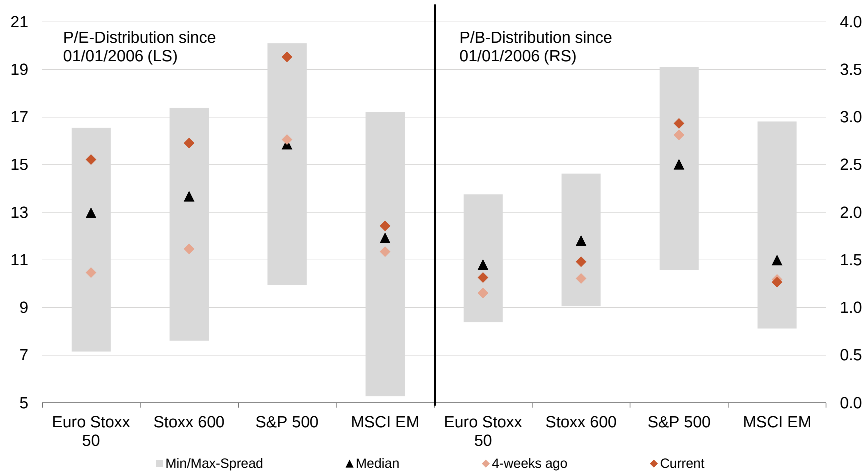
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The pronounced stock market rally of the past two weeks has led to a significant increase in valuations. European and US stocks are now valued more expensively in relation to their own P/E history.
- Relative to bonds, however, equities remain very favourably 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 - 10/04/2020

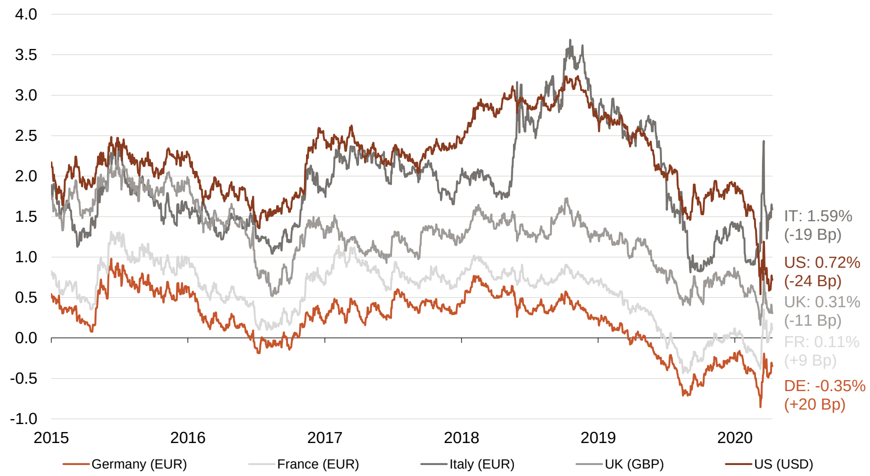
Historical Distribution: Price/Earnings and Price/Book Ratio



- On a price/book value basis, US equities remain expensive.
- All other regions, however, are favorably valued compared to their own history.

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 - 10/04/2020

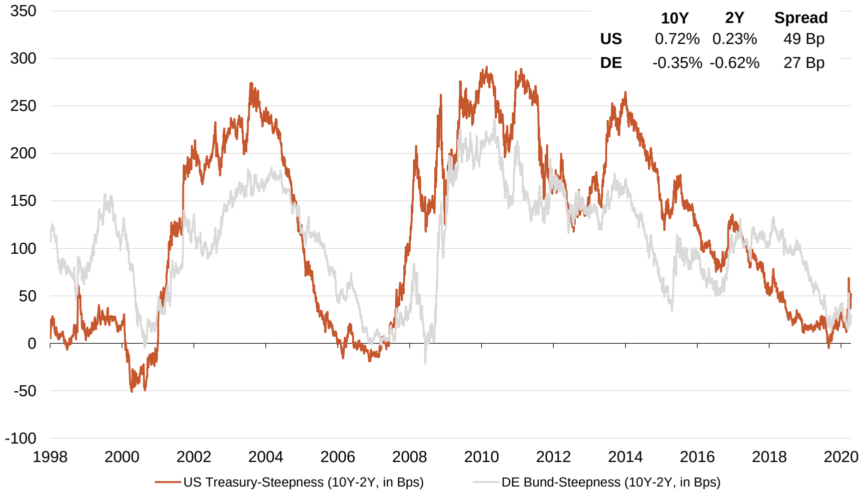
10-Year Government Bond Yields



- Yields are rising again. Yields on 10-year German government bonds, but also on other European government bonds such as those in France, rose noticeably.
- After a brief excursion above the 1% mark, the yield on 10-year US government bonds is stabilising again at a level well below it. The Fed's massive purchasing program supported the securities. The Fed now holds just under 20% of tradable US government bonds.

Effective yield of 10-year government bonds and change in the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2015 - 10/04/2020

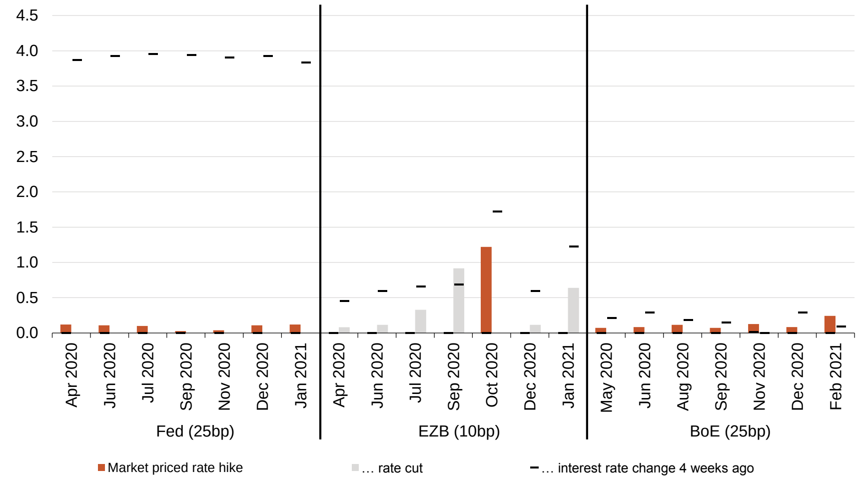
Yield Curve Steepness (10Y - 2Y)



- After a massive rise in the steepness of the US yield curve to over 70 basis points, it recently came back to around 50 basis points. The massive Fed's purchasing program, also at the long end of the curve, has calmed the market.

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 - 10/04/2020

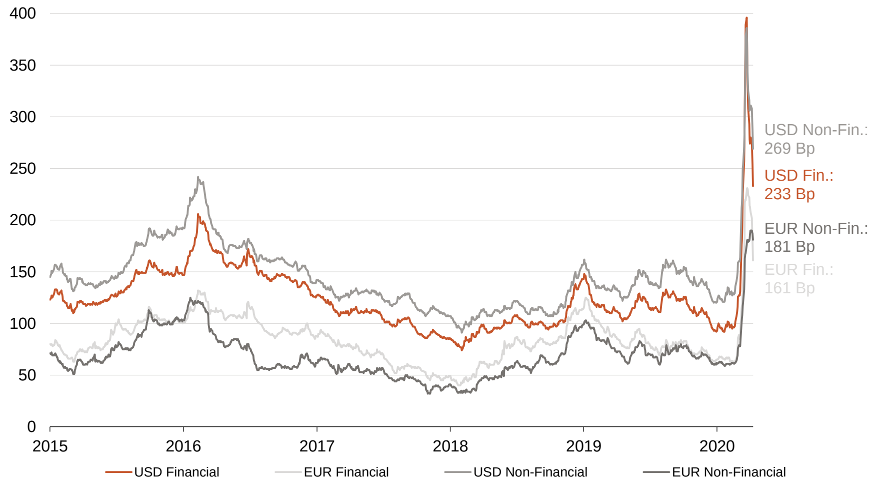
Implicit Changes in Key Interest Rates



- After the announcement of the Fed's new massive liquidity initiative on last Thursday, the market does not expect any significant changes in US central bank rates in 2020. In the US, a rate hike is priced in with only around 10% probability.
- The eurozone is still expected to cut rates in 2020. The probability of such a step in September is almost 100%.

Derivatives on money market rates - such as the Fed funds futures - can be used to determine changes (number of steps) in the key interest rate priced by the market
Source: Bloomberg, Time period: 13/03/2020 - 10/04/2020

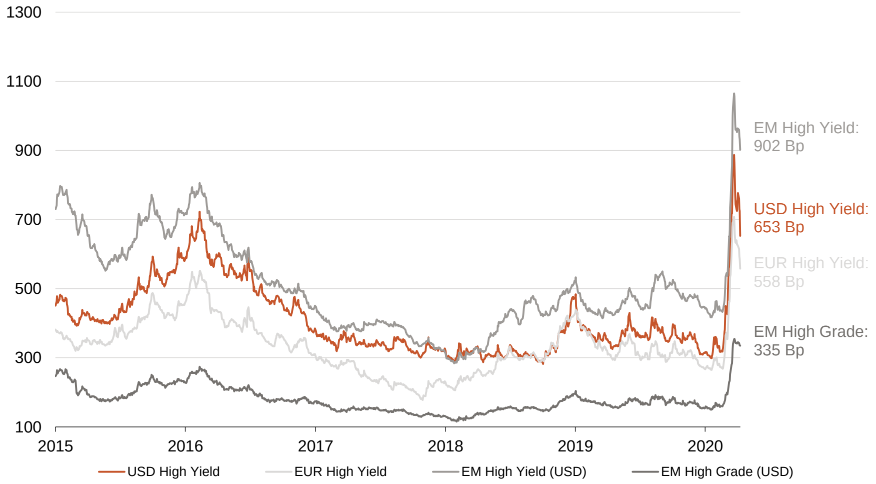
Credit Spreads Financial and Non-Financial Bonds



- The interest rate attractiveness of investment-grade corporate bonds has recently led to significant inflows of funds into the segment again. Spreads have thus fallen again noticeably. This applies in particular to USD corporate bonds and EUR financial bonds. EUR non-financial bonds have not yet been able to fully follow the recovery. There, the leisure and real estate sectors in particular weighed on the aggregate index.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 - 10/04/2020

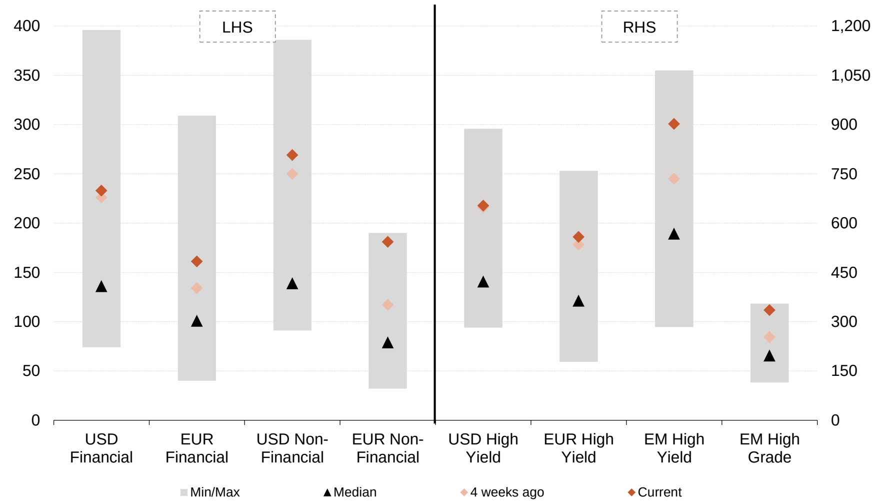
Credit Spreads High Yield and Emerging Markets Bonds



- Even though high-yield bonds also showed a recovery, this is still far from being as pronounced as for IG corporate bonds or even for shares. Investors are shying away from excessive credit risk.
- The rally in emerging market hard-currency bonds is barely visible so far, as it will be much harder for local companies to pay off USD debts.

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 - 10/04/2020

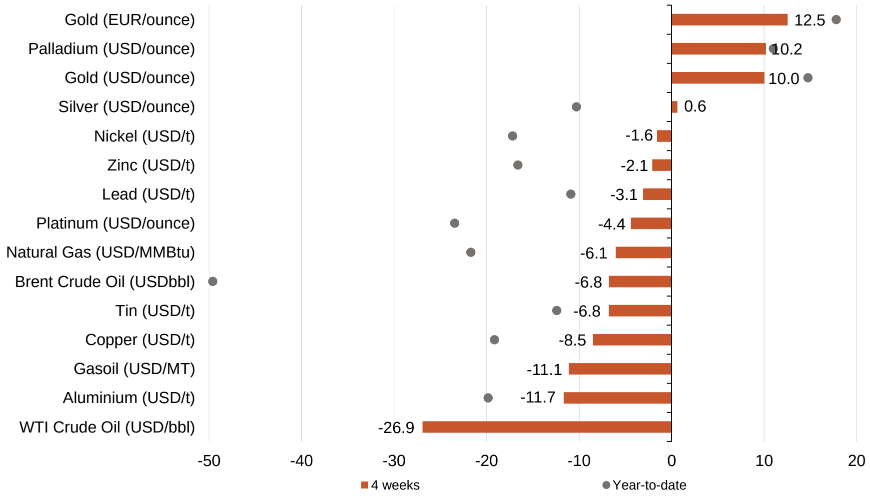
Historical Distribution of Credit Spreads (in bp)



- Spreads have recently fallen further in most segments. Compared to the historical 10-year median, the current spreads remain attractive.
- On the other hand, the spreads on EUR non-financial and EM-IG bonds is still close to the 10-year high.

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: 10/04/2010 - 10/04/2020

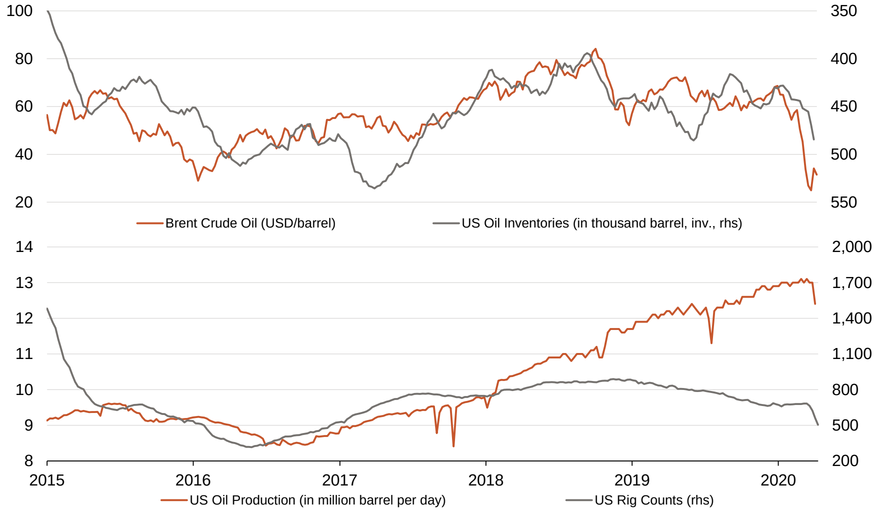
Commodities Performance



- Only precious metals were able to record a positive performance in the last four weeks. While gold has found its old strength, for silver it is merely a snapshot. In fact, since the beginning of the year its return is still negative.
- Base metals continue to suffer from industrial standstill and disrupted supply chains.
- With a loss of over 60% since the beginning of the year, WTI is not surprisingly the tail light on the commodity market.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 - 10/04/2020

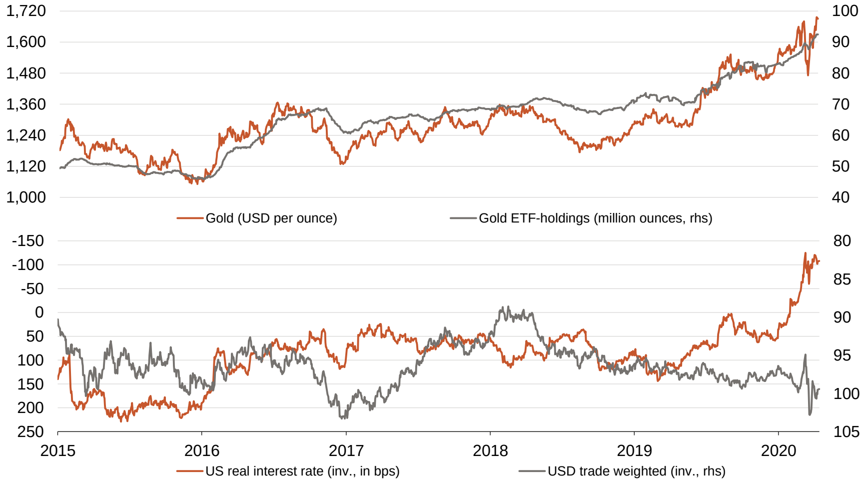
Crude Oil



- Brent has recovered by more than 50% since its low of just under USD 22 per barrel and is currently trading at just under USD 33 per barrel.
- The reason for the rapid recovery are the now agreed OPEC+ cuts of almost 10 million barrels per day. However, these cuts are unlikely to be sufficient to compensate for the demand shock. The potential for disappointment is therefore high.

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 - 10/04/2020

Gold



- After gold was sold off in the last few weeks, it has recently been able to gain strongly again and is currently trading at around $1,710 an ounce. Gold seems to have found its character as a safe haven again.
- As in the past, the rally was driven primarily by ETF investors.

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 - 10/04/2020

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