BERENBERG
Markets

MONITOR

11 May 2020

Current market commentary

The disconnect between negative economic data and rising stock markets (Nasdaq 100 is now back in positive territory since the beginning of the year) has continued. Nevertheless, the downward potential for the market should remain limited. The very negative sentiment that has remained supports this view. There are currently 29 percentage points more bears than bulls among US private investors. The put-call ratios have risen in line with this as investors have begun to increase their hedges again. Investors have recently sold equity funds and ETFs, while more than USD 1 trillion has flowed into money market funds since early March. The end of the reporting season and thus the blackout period in the US allows additional support from share buyback programmes, despite their reduction. Directionless volatility seems more likely than a sharp correction. However, should the S&P 500 sustainably breach the 3000 mark and thus the 200-day moving average, the pain for under-invested investors is likely to become even greater.

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

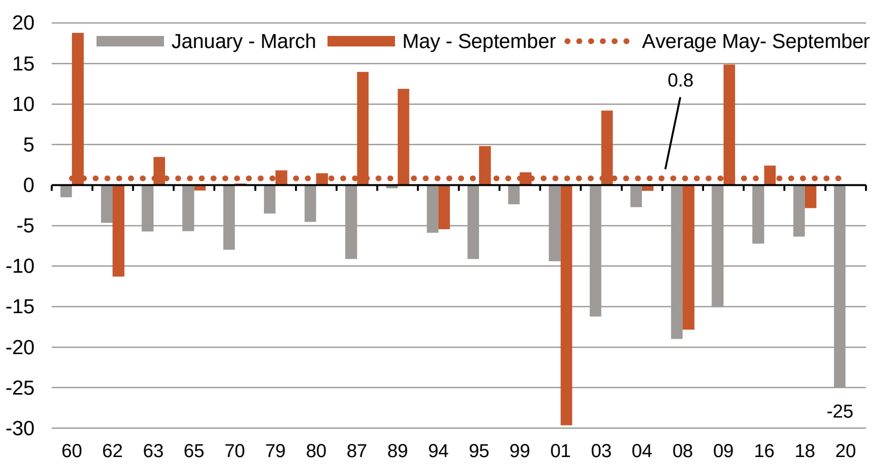
Trade agreement moves into focus

Spain extends its strict lockdown measures once again until 24 May. By contrast, the rest of Europe and the United States are making the gradual resumption of public life more concrete. The coming weeks will show which course is the right one. Meanwhile, President Donald Trump announced that he would examine whether China has fulfilled its obligations under the "Phase I" trade agreement. The trade conflict is also likely to be a topic of discussion at the two-week National People's Congress of China, which is now scheduled to start on 22 May.

Economic data for April reveal damage from global lockdown measures

On 13 May economic growth figures in the UK for Q1 for April will be released. This will be followed by economic growth in Germany on 15th May. On the same day, figures on industrial production in the USA for April should provide the first indication of the economic damage of a full month in "lockdown". On 21 May, the preliminary Markit PMI of the industrial sector and the initial jobless claims in the US will be published.

Sell in May? Weak start to the year tends to be good for summer months



- The DAX got off to a disastrous start with a 25% drop in the first quarter.
- However, a negative start to the year does not tend to go hand in hand with a weak summer season ("sell in May and go away"). Quite the contrary.
- Since 1960 German stocks have posted a loss in Q1, 20 times. When this was the case, they generated an average return of +0.8% from May to September.
- In the years achieving a positive Q1 (41 times) however, the DAX fell by an average of 1% from May to September.

Development of Bloomberg's DAX index, which dates back to 1959, in years with negative Q1, in euros and in %.
Source: Bloomberg, Time period: 31/12/1959 - 31/03/2020

Multi Asset

	4W (10/04/20 - 08/05/20)	YTD (31/12/19 - 08/05/20)	08/05/19 08/05/20	08/05/18 08/05/19	08/05/17 08/05/18	08/05/16 08/05/17	08/05/15 08/05/16
	4-week & YTD		12-month periods over that last 5 years				
MSCI Frontier Markets	7.6	-18.0	-11.9	-0.3	6.3	16.2	-13.3
Global Convertibles	7.3	-0.2	6.6	7.9	3.3	19.6	-8.2
MSCI World	5.7	-8.9	1.6	10.2	3.5	23.1	-8.3
Industrial Metals	5.0	-12.2	-11.1	-8.5	16.1	21.1	-26.7
MSCI Emerging Markets	3.7	-14.9	-8.1	0.1	9.1	30.9	-21.7
Global Coporates	2.0	1.4	7.6	9.8	-4.9	5.3	1.0
Gold	1.8	16.1	37.2	3.3	-1.3	-0.6	6.6
Global Treasuries	1.4	5.5	9.6	6.9	-3.7	-0.2	5.8
USDEUR	0.9	3.4	3.2	6.0	-7.9	4.4	-1.7
Eonia	0.0	-0.2	-0.4	-0.4	-0.4	-0.4	-0.2
REITs	-3.9	-15.4	-8.5	17.4	-9.1	0.7	4.5
Brent	-8.5	-52.6	-51.4	3.5	42.4	0.1	-43.6

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 last four weeks, almost all asset classes have gained - with the exception of REITs and Brent oil. Frontier market equities and convertible bonds were the best performers.
- Since the beginning of the year, gold has remained by far the best asset class. Investors have gained more than 16% since the beginning of the year.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 08/05/2015 – 08/05/2020

Equities

	4W (10/04/20 - 08/05/20)	YTD (31/12/19 - 08/05/20)	08/05/19 08/05/20	08/05/18 08/05/19	08/05/17 08/05/18	08/05/16 08/05/17	08/05/15 08/05/16
	4-week & YTD		12-month periods over that last 5 years				
MSCI USA Small Caps	8.2	-16.9	-11.2	9.7	5.8	27.9	-8.3
S&P 500	6.0	-5.5	7.1	16.7	4.5	24.5	-2.4
Stoxx Europe Small 200	5.2	-17.2	-7.7	-1.9	6.3	23.3	-9.9
MSCI EM Asia	5.1	-8.6	-1.2	-1.4	12.2	33.3	-21.6
Topix	4.6	-9.4	1.5	-4.9	9.3	23.1	-7.9
Stoxx Europe Defensives	4.1	-9.8	1.4	4.5	1.6	12.0	-13.2
DAX	3.2	-17.7	-10.5	-5.7	1.7	28.6	-15.7
Stoxx Europe 50	2.8	-14.9	-5.9	4.0	-1.0	21.3	-17.5
Stoxx Europe Cyclicals	2.4	-23.6	-16.5	-4.4	3.9	31.5	-19.7
MSCI UK	2.2	-23.2	-17.0	2.0	3.3	16.0	-17.5
Euro Stoxx 50	1.1	-21.6	-12.8	-1.3	0.2	27.4	-17.2
MSCI EM Eastern Europe	-1.1	-27.6	-11.1	14.5	3.6	28.0	-18.5

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.

- US equities continued their outperformance over the past four weeks. In euro terms, the S&P 500 is now "only" 5.5% negative since the beginning of the year. US small caps are much more negative, but have also risen strongly over the past four weeks.
- Eastern European equities with their relatively high share of energy stocks remain the underperformers.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 08/05/2015 – 08/05/2020

Fixed Income

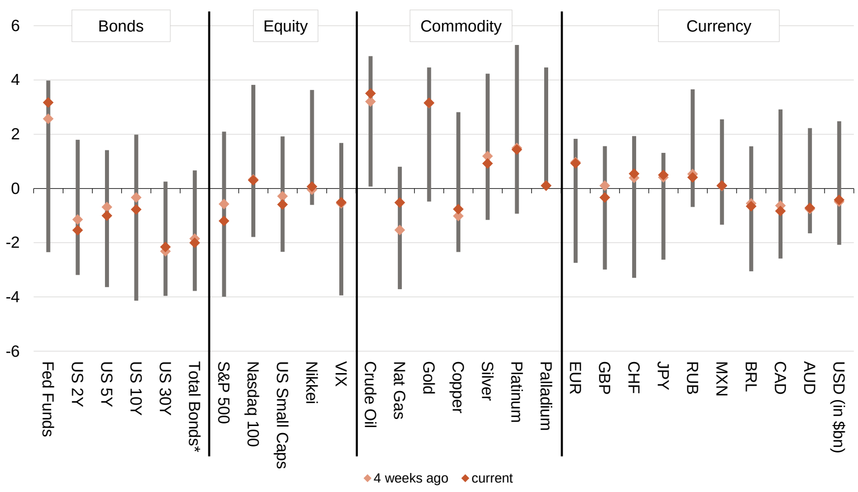
	4W (10/04/20 - 08/05/20)	YTD (31/12/19 - 08/05/20)	08/05/19 08/05/20	08/05/18 08/05/19	08/05/17 08/05/18	08/05/16 08/05/17	08/05/15 08/05/16
	4-week & YTD		12-month periods over that last 5 years				
EUR Non-Financials	2.7	-3.0	-0.8	3.2	1.2	1.7	2.2
USD High Yield	1.9	-5.0	0.0	13.8	-5.4	17.9	-4.6
Gilts	1.8	7.0	14.0	6.1	-3.7	-1.2	-2.8
EM Local Currency Bonds	1.7	-2.2	5.6	5.3	-3.4	9.6	-4.3
EM Hard Currency Bonds	1.6	-9.4	-5.3	3.7	-2.7	5.8	3.6
EUR High Yield	1.5	-10.3	-6.7	1.9	2.3	7.4	0.0
USD Corporates	1.3	3.5	11.3	13.6	-7.5	7.1	1.7
Bunds	1.2	2.7	3.8	4.6	-0.2	-1.4	3.4
EUR Financials	1.2	-3.3	-1.2	2.8	1.3	2.9	1.9
Treasuries	0.8	12.0	17.1	11.2	-8.5	3.1	1.8
EUR Inflation Linkers	-0.2	-5.3	-0.7	-0.9	4.3	0.4	0.1
BTPs	-1.0	-2.3	6.0	-1.5	4.4	-1.8	3.4

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.

- Italian government bonds have performed the worst in the past four weeks. Those hoping for Corona bonds were disappointed. In addition, the Federal Constitutional Court has classified the purchase of government bonds by the European Central Bank as partially unconstitutional. This led to an increase in the risk premiums of peripheral bonds.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 08/05/2015 – 08/05/2020

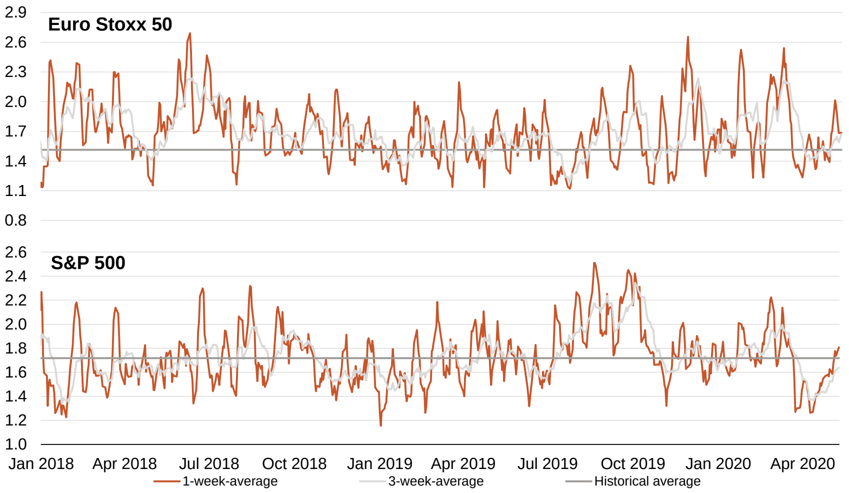
Non-Commercial Positioning



- Despite the recent rally in equity markets, hedge funds remain cautiously positioned in the futures market. They are particularly sceptical about the S&P 500.
- They have recently increased their net long positions in oil.

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: 05/05/2010 - 05/05/2020

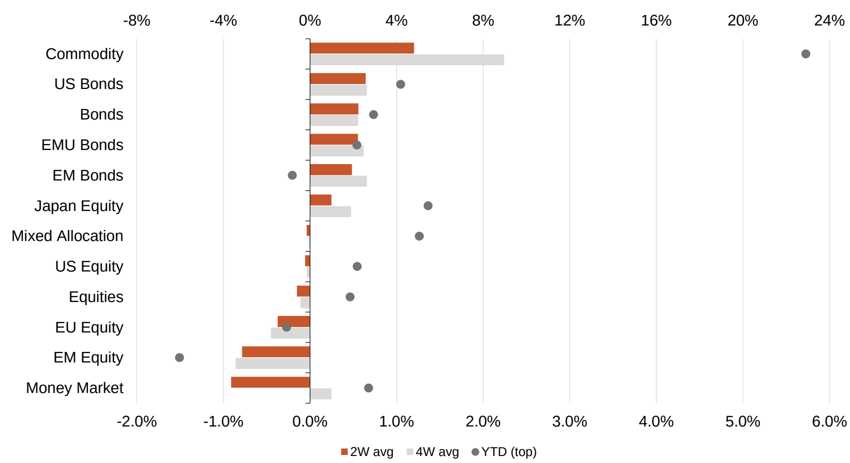
Put-Call Ratio



- Most recently, the hedges for European and US equities have risen again.
- Investor positioning and sentiment remain cautious. This decreases the probability that stock markets will fall sharply because investors will not be caught on the wrong foot again.

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 - 08/05/2020

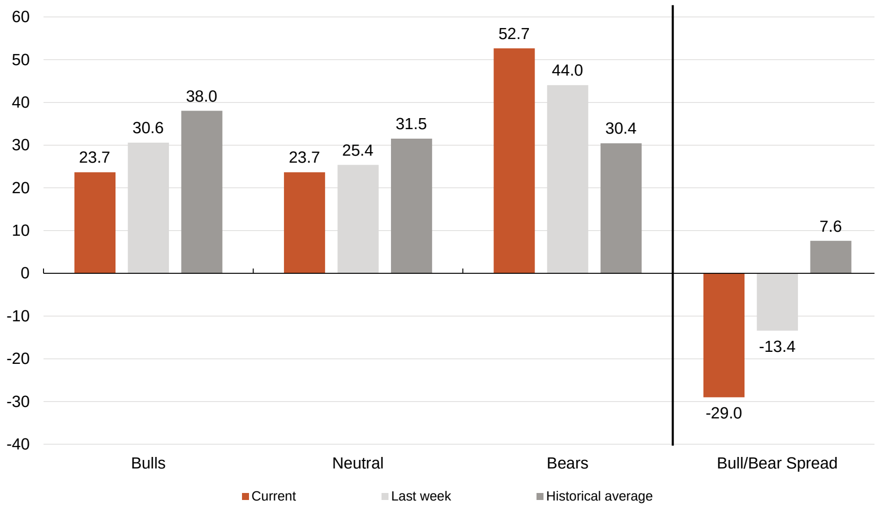
ETF Flows



- Commodity ETFs have been in high demand in the last two weeks. Many investors have increased their gold positions - and oil ETFs are also likely to have seen inflows after the massive drop in prices.
- Equity ETFs were heavily sold. After the strong recovery rally, profits were taken.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2019 - 08/05/2020

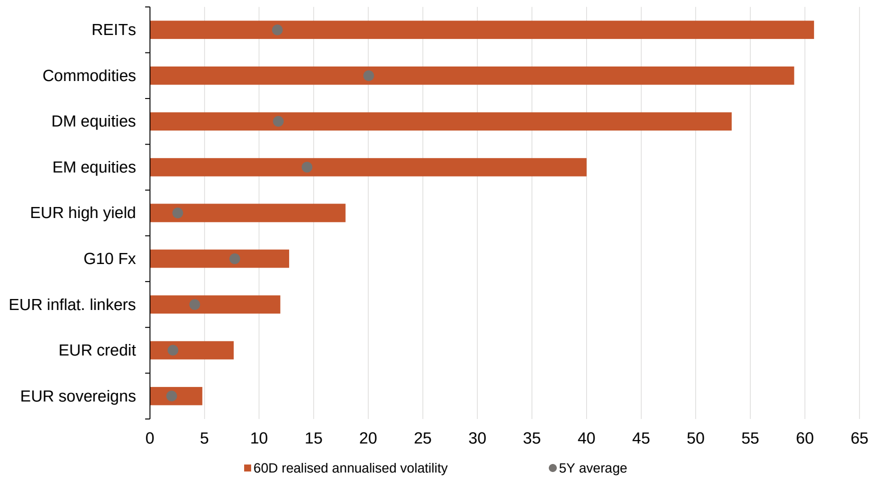
AAII Sentiment Survey (Bulls vs Bears)



- US private investors have recently become much more pessimistic again. The bears are currently in the absolute majority with almost 53%.
- The bull-bear spread has reached a new low in this crisis and, at 29 ppts, it is the most negative since the beginning of 2016.

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 - 07/05/20

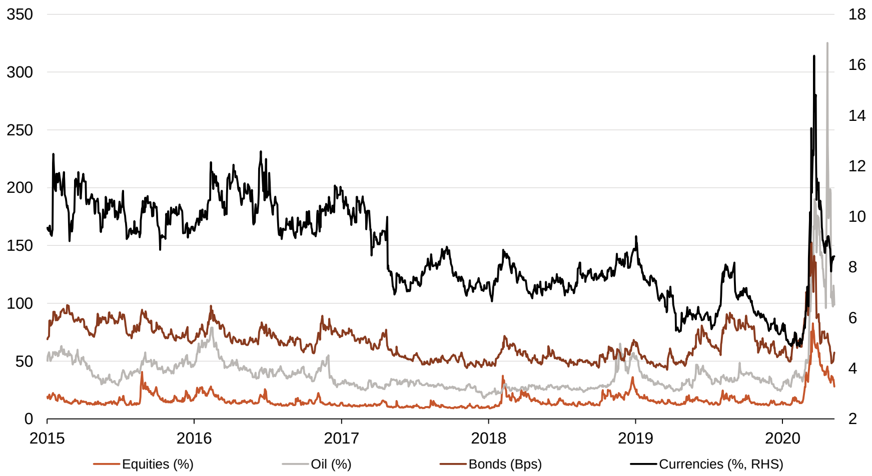
Realised Volatilities



- The realised 60-day volatilities remain extreme, but the picture remains almost unchanged from the last few weeks.
- Despite temporarily negative oil prices, commodities only rank 2nd, while REITs remain the most volatile asset class in the COVID-19 crisis.
- Contrary to its the 5-year average, the current volatility of emerging market equities is lower than that of developed market equities.

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: 08/05/2015 - 08/05/2020

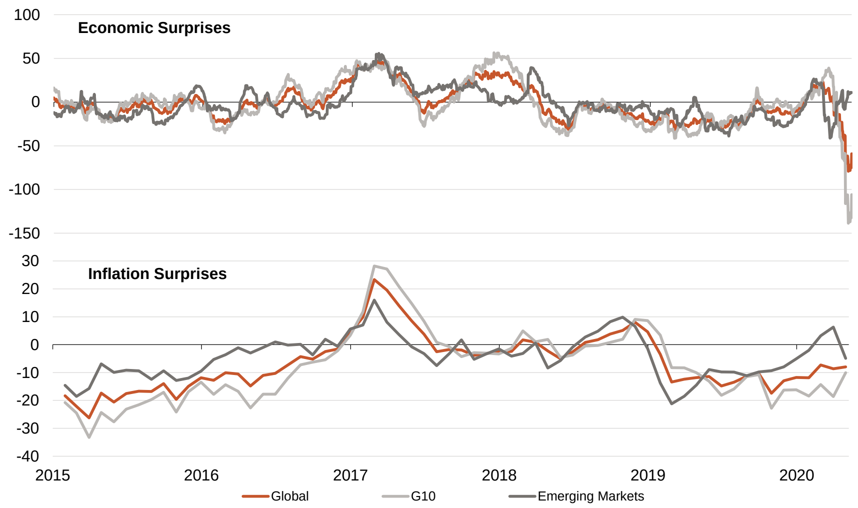
Implied Volatilities



- The implied volatilities have recently continued to fall across all asset classes.
- Although the VIX is still trading well above average, it has fallen by over 60% since its all-time high in March.
- The implied volatility of oil has also declined significantly.

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 - 08/05/2020

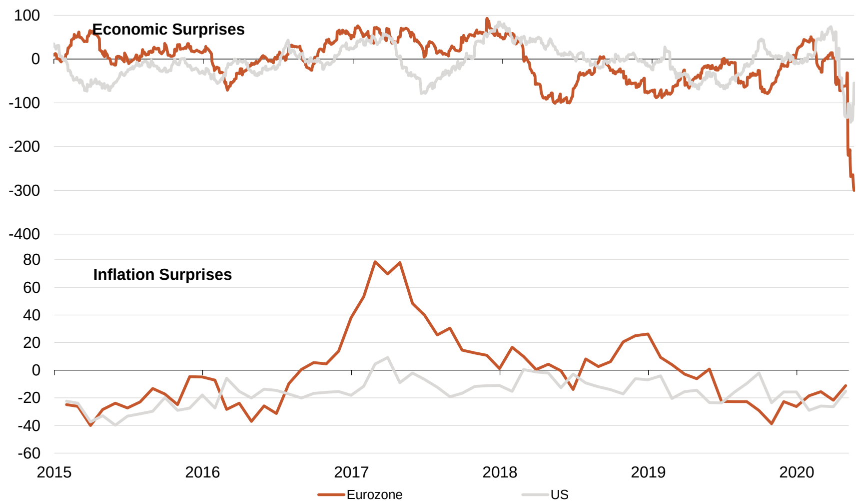
Global



- In developed countries (G10) and globally, economic data have tended to surprise negatively.
- The emerging markets offer a ray of hope. There the economic surprises have recently turned positive again. However, the purchasing managers' indices (PMI) in China's manufacturing sector were slightly below expectations in April, while the services PMI exceeded expectations. In South Korea, industrial production (March) rose unexpectedly by 4.6%.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 08/05/2020

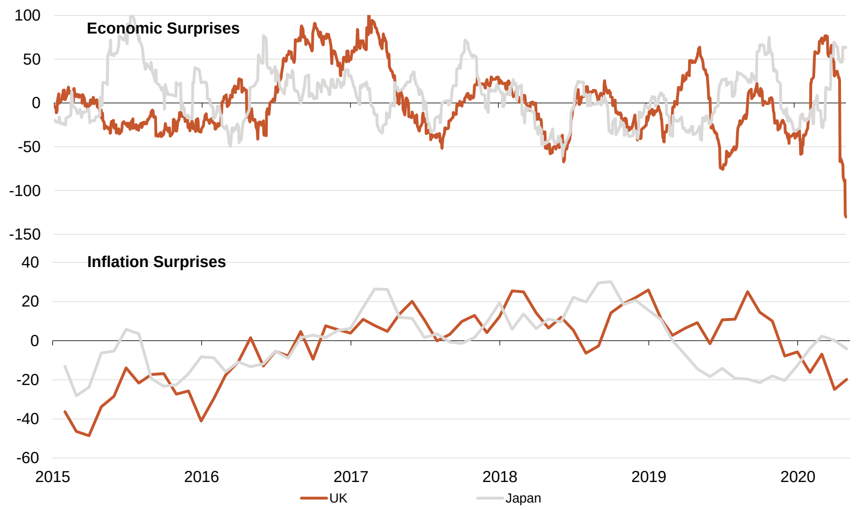
Eurozone and US



- In the eurozone, there were further economic disappointments. The economy experienced a historic downturn with negative growth of -3.8% (QoQ) in Q1. France was hit particularly hard with -5.8%. In Germany, incoming orders slumped substantially more sharply than expected in March, falling by 15.6%.
- In the US, Q1 growth was -4.8% (expected -4%, QoQ). The unemployment rate rose to 14.7% in April and the ISM manufacturing PMI surprised slightly upwards due to the supplier component.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 08/05/2020

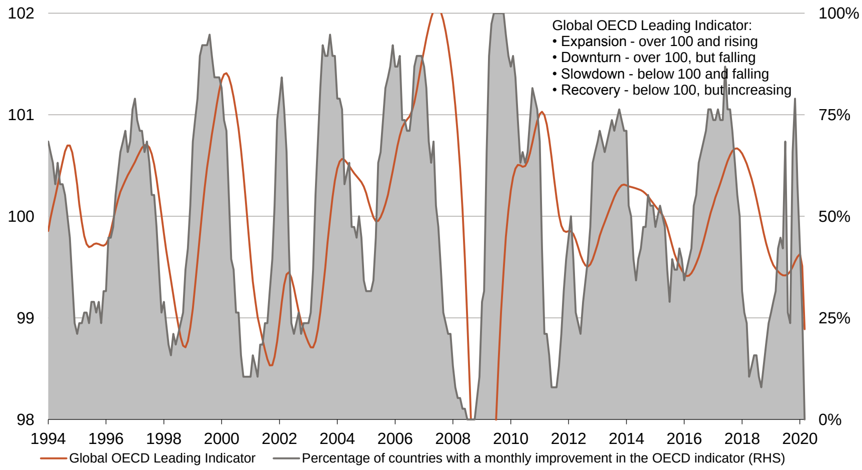
UK and Japan



- In the UK, the purchasing managers' index for the construction industry fell unexpectedly sharply to 8.2 points.
- In Japan industrial production and retail sales have recently surprised on the upside, while unemployment remained at 2.5% in March.

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 - 08/05/2020

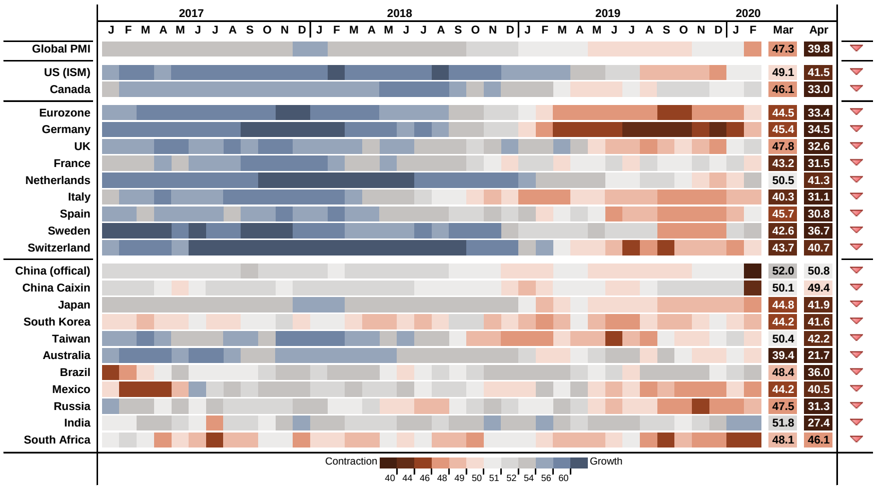
OECD Leading Indicator



- The heavy lockdown measures to contain the coronavirus continue to weigh on the economic outlook. The OECD leading indicator continues to point to an economic slowdown.

The OECD Leading Indicator is composed of a series of selected economic indicators whose composition provides a robust signal for future turning points. A turning point in the indicator usually signals a turning point in the economic cycle in 6-9 months. However, lead times are sometimes outside this range and turning points are not always correctly detected.
Source: Bloomberg, Time period: 31/01/1994 - 31/12/2020

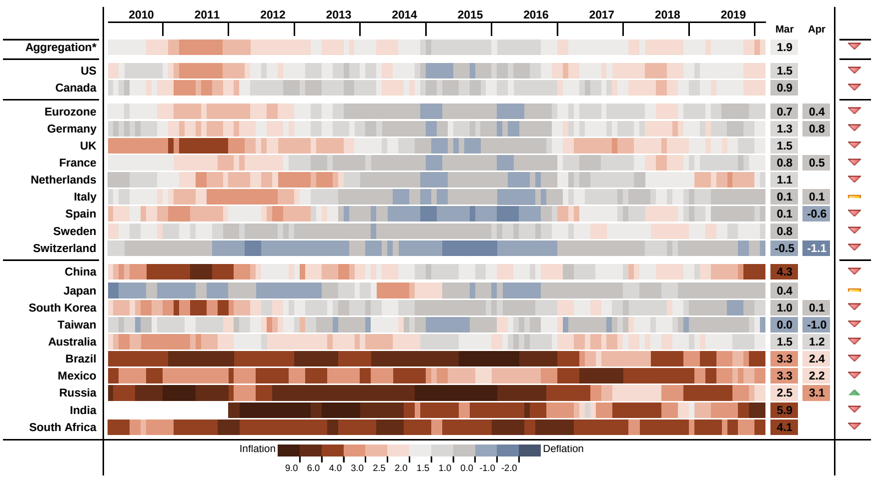
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global PMI fell to an all-time low of 39.8 in April. The effects of global lockdown measures are clearly visible.
- All of the regions listed recorded a falling PMI in April and a deterioration from the previous month. Only the Chinese economy appears to have remained stable.

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: 31/01/2017 - 30/04/2020

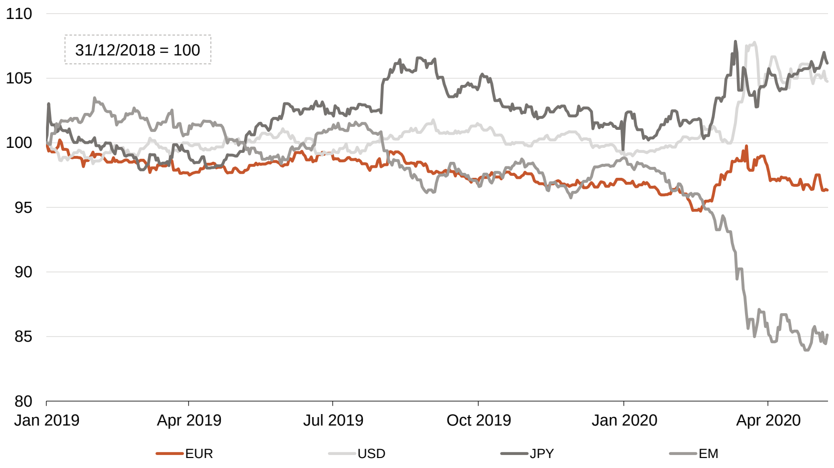
Headline Inflation



- Inflation is still on the decline. In the euro area inflation was only 0.4% in April. Some countries such as Spain have already seen prices fall.
- Switzerland is already in a deflationary environment and has recorded falling prices for the third consecutive month.

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: 30/04/2010 - 30/04/2020

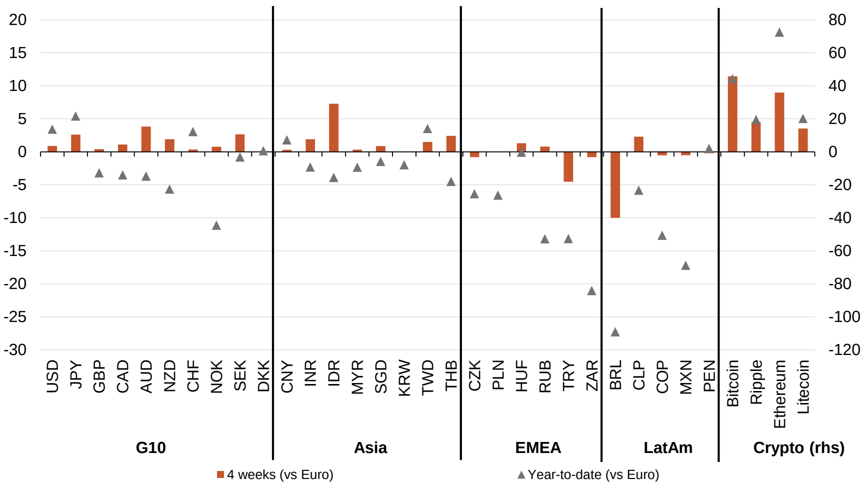
Trade-Weighted Currency Development



- The Japanese Yen has been surprisingly resilient lately in light of the gradual easing of quarantine measures. The reason for this is probably the Bank of Japan's so far moderate course, while other central banks are printing fresh money at record speed.
- The recent stabilisation of the oil price also had an impact on currency markets. Emerging market currencies appear to be bottoming out.

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 - 08/05/2020

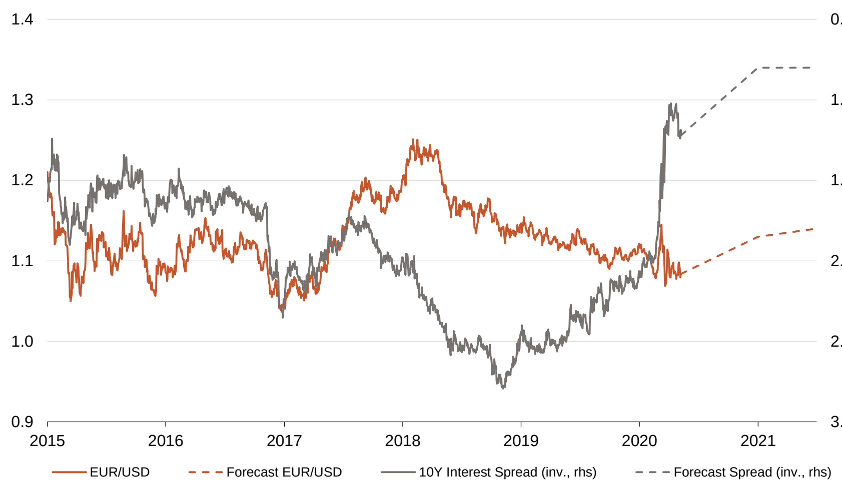
Currency Moves vs Euro



- In the past few weeks, only a few significant movements against the euro could be observed.
- Dwindling currency reserves coupled with rising foreign currency liabilities are scratching the confidence of investors and are causing the Turkish Lira and the Brazilian Real to depreciate further.
- Crypto-currencies have appreciated by up to 40% in recent weeks.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2019 - 08/05/2020

EUR/USD exchange rate and interest rate differential



- Catastrophic economic data from the euro zone has caused the common currency to depreciate against the dollar to below 1.08 euros per US dollar.
- Meanwhile, the interest rate differential between Bunds and US Treasuries has again widened by almost 20 basis points to around 1.2%.

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

	4W (10/04/20 - 08/05/20)	YTD (31/12/19 - 08/05/20)	08/05/19 08/05/20	08/05/18 08/05/19	08/05/17 08/05/18	08/05/16 08/05/17	08/05/15 08/05/16
Health Care	9.2	3.3	23.2	10.5	-8.1	15.3	-16.1
Growth	5.1	-8.9	2.3	5.5	1.4	19.3	-11.1
Information Technology	4.6	-7.3	4.5	7.2	9.9	35.6	-10.9
Industrials	3.5	-22.6	-12.1	1.6	1.7	29.5	-9.2
Materials	3.0	-17.7	-10.1	-1.8	14.3	32.3	-21.9
Consumer Discretionary	2.9	-22.5	-13.6	-3.9	5.0	22.9	-17.3
Consumer Staples	2.7	-7.5	-1.8	13.1	-7.7	13.7	-0.3
Utilities	0.8	-10.6	5.7	7.8	4.8	7.2	-10.1
Telecommunications	0.5	-21.3	-20.2	-4.7	-4.7	1.2	-14.7
Value	0.4	-26.3	-20.9	-3.3	2.0	25.5	-19.9
Finance	0.0	-31.8	-26.8	-8.3	0.7	34.2	-25.0
Energy	-5.3	-35.5	-35.7	-1.2	20.7	20.3	-16.7

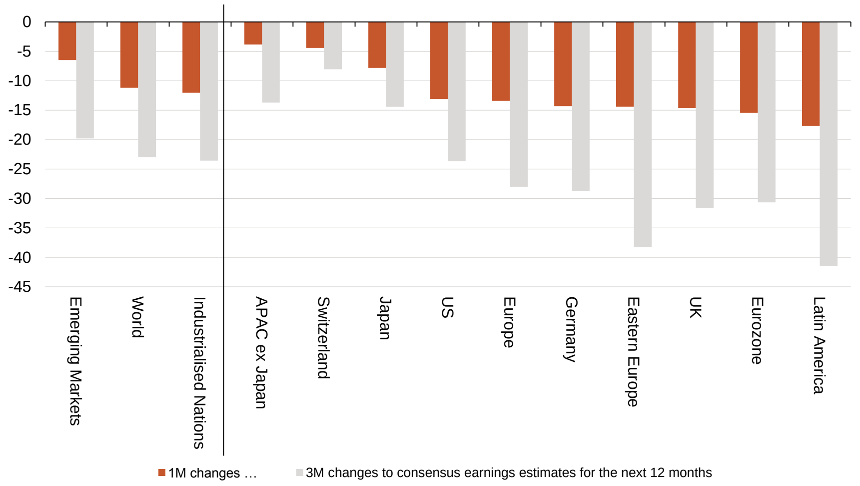
4-week & YTD; 12-month periods over that last 5 years

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.

- Over the past four weeks, growth stocks have continued to outperform value stocks. Since the beginning of the year, the difference in performance between growth and value has now amounted to 17pp.
- The European healthcare sector has been the best performer over the last four weeks. Year-to-date it is now back in positive territory.

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: 08/05/2015 - 08/05/2020

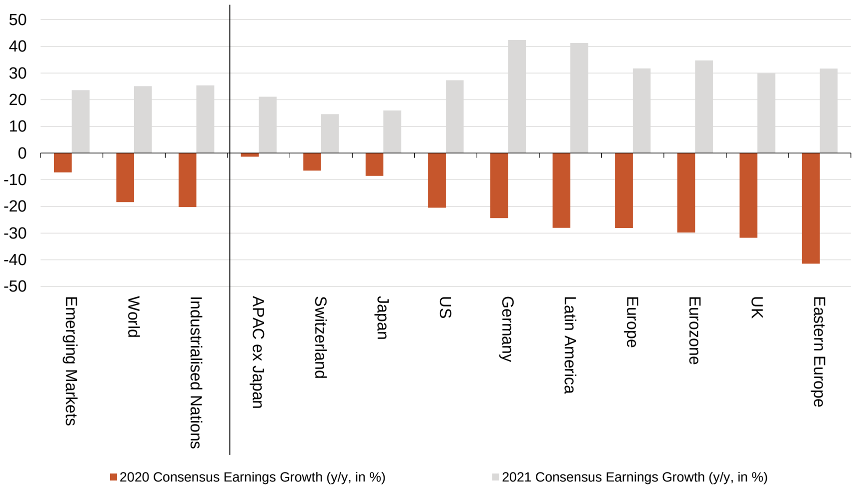
Changes in Consensus Earnings Estimates



- The wave of negative earnings revisions has increased further during the course of the Q1 reporting season. Many companies are lowering their earnings forecasts or no longer issuing any at all.
- The strongest negative earnings revisions are those for Latin America, the eurozone and the UK.

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 08/05/2020

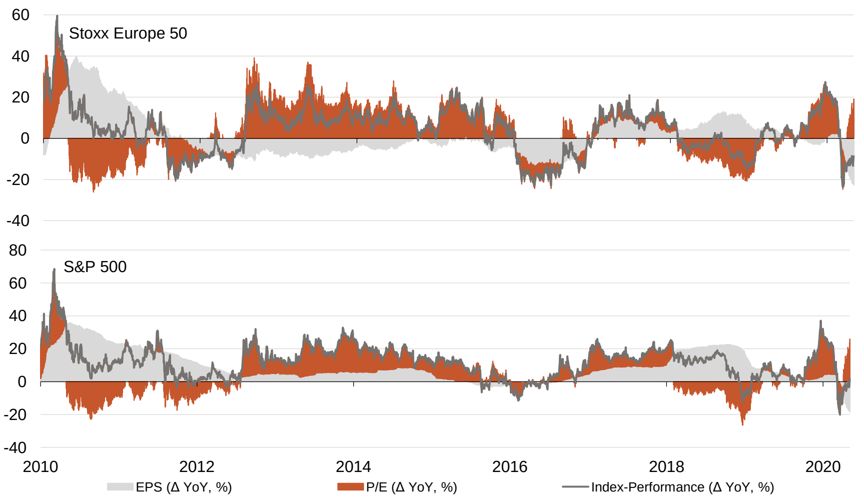
Earnings Growth



- Consensus expects global earnings to fall by more than 20% in 2020 - but in our opinion this is still far too cautious, with further earnings revisions likely to follow.
- Analysts then expect a strong recovery in earnings in 2021 - especially in Germany.

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 08/05/2020

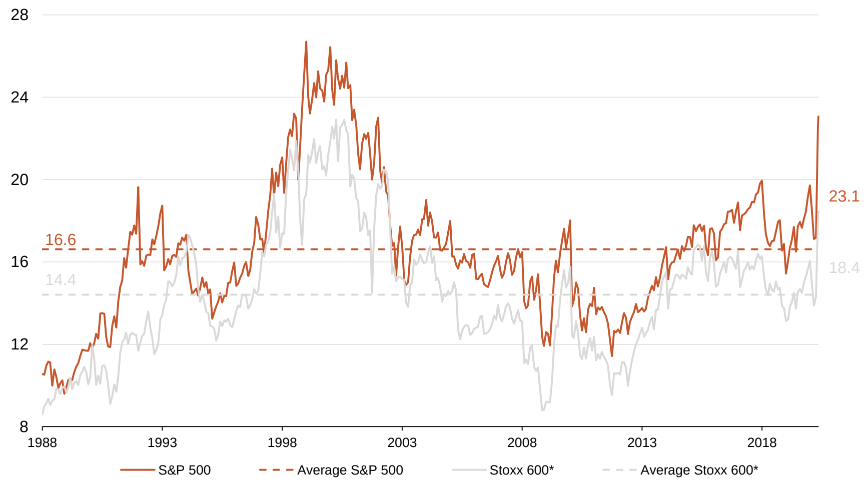
Contribution Analysis



- The largest performance driver of equities over the past 12 months has clearly been valuation expansion. P/E levels in Europe and the USA have risen by around 20 percent year-on-year.
- Corporate earnings, on the other hand, have fallen year-on-year.

Analysis of the stock market drivers over the last 12 months. This takes into account the change in earnings estimates and the change in valuation (price/earnings ratio). EPS = earnings per share
Source: Bloomberg, Time period: 01/01/2010 - 08/05/2020

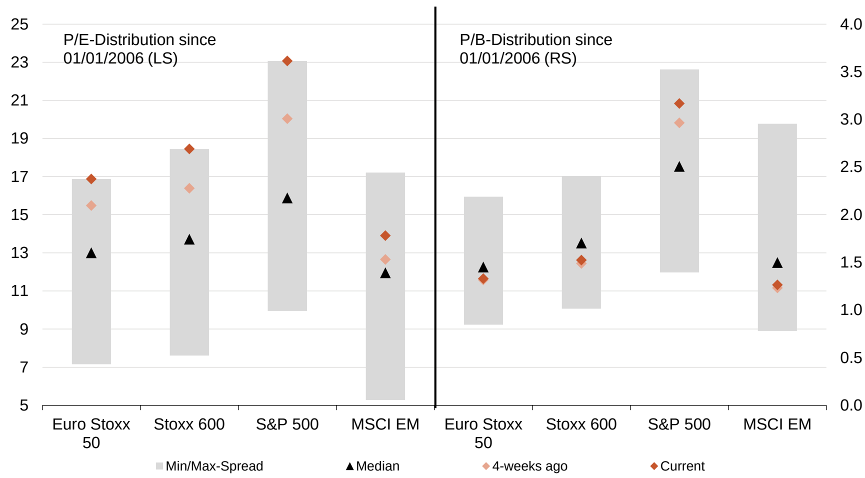
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Equity valuations have recently only known one direction: upwards. Investors are looking through the low corporate earnings of the next 12 months and expect a recovery in 2021.
- European and US stocks have only been this expensive in recent during the tech bubble.

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 - 08/05/2020

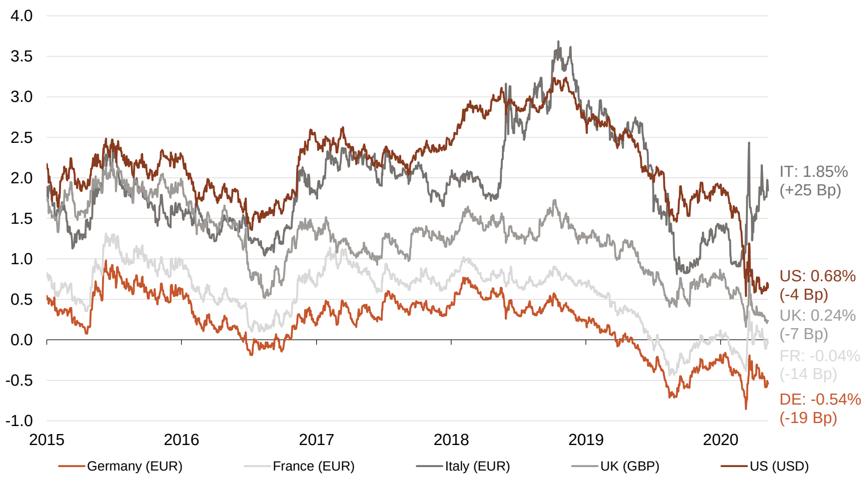
Historical Distribution: Price/Earnings and Price/Book Ratio



- Thanks to the strong rise in all equity regions in recent weeks, European equities are now also valued very ambitiously on a P/E basis.
- Of all the regions considered here, emerging market equities are relatively the most attractively valued - even if they appear slightly expensive 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 - 08/05/2020

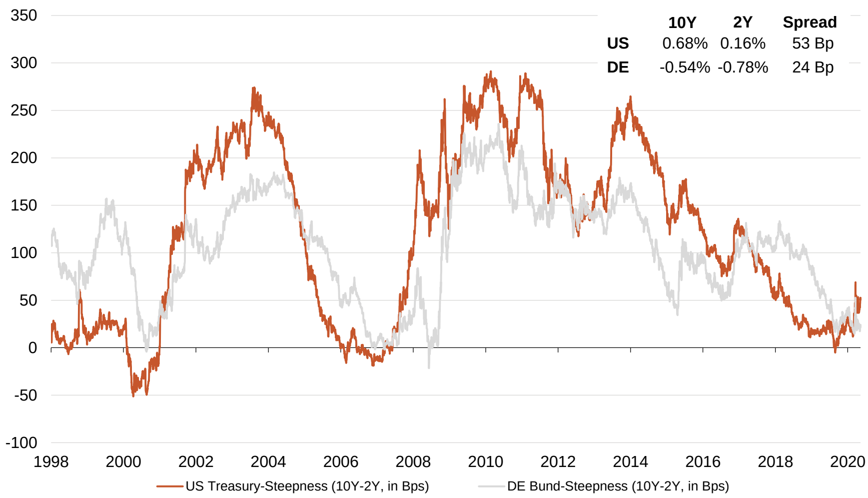
10-Year Government Bond Yields



- The ECB did not decide to expand the bond purchase programme in the April meeting and only held out the prospect of doing so. As a result, yields on Italian government bonds have risen again. These are now close to the 2% mark.
- Safe haven government bonds have continued to fall in recent weeks. The strongest decline was seen in German government bonds at 19 basis points over the past four weeks.

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 - 04/01/2020

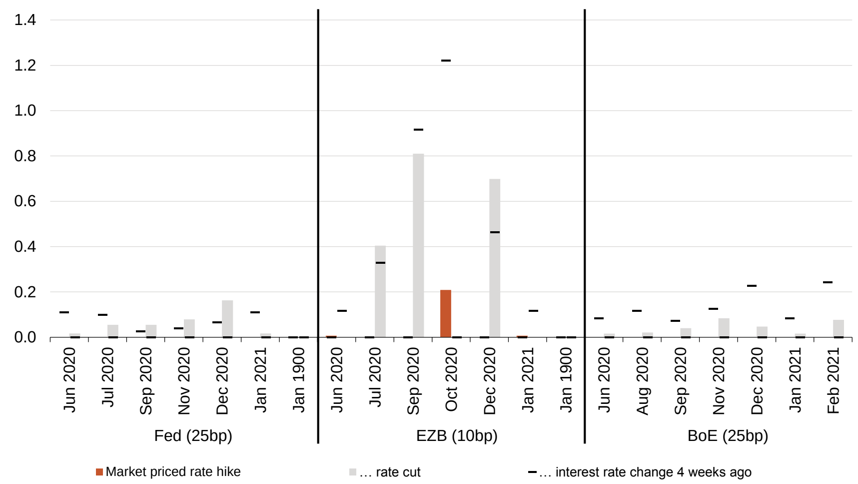
Yield Curve Steepness (10Y - 2Y)



- The steepness of the yield curve for Germany and for the US has hardly changed in recent weeks. In the German yield curve, the difference between 10Y and 2Y yields is 24 basis points and for the US 53 basis points.

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 - 04/01/2020

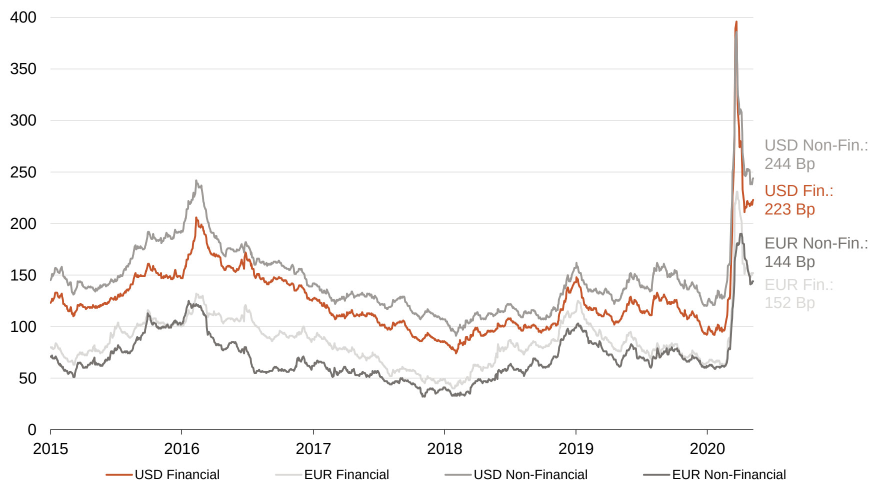
Implicit Changes in Key Interest Rates



- After the Fed confirmed its path of expansive monetary policy in its last meeting, the market does not expect any further rate changes in 2020.
- The perceived probability that the ECB will cut interest rates in the eurozone has fallen slightly. In the April meeting, interest rates for multi-year loans ("TLTRO III") were cut to -1.0%. An increase in bond purchases and the acceptance of high-yield bonds were announced.

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: 10/04/2020 - 08/05/2020

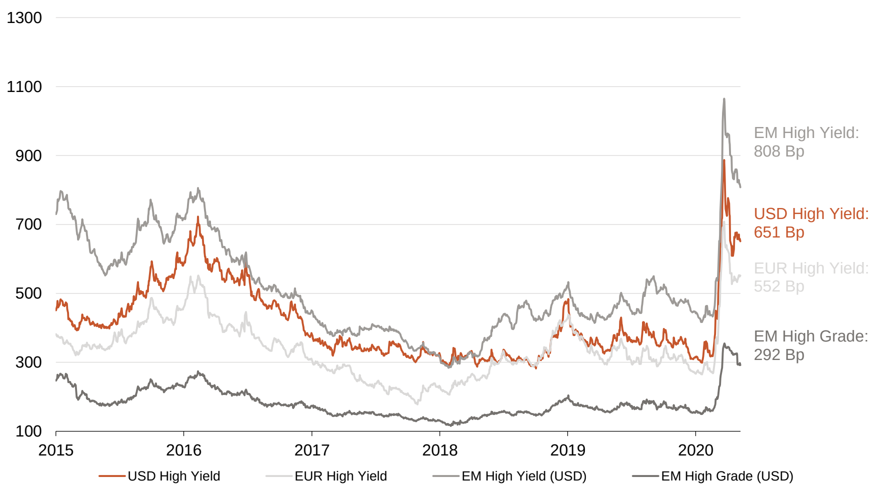
Credit Spreads Financial and Non-Financial Bonds



- Risk premiums on investment-grade corporate bonds have fallen in the last two weeks, especially on non-financial bonds.
- Spreads on USD non-financial bonds have narrowed by 9 basis points in the last two weeks, and by 10 basis points for EUR non-financial bonds. In both segments, the automotive and energy sectors saw the largest spread tightening. The energy sector benefited from the recent rise in crude oil prices.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 - 08/05/2020

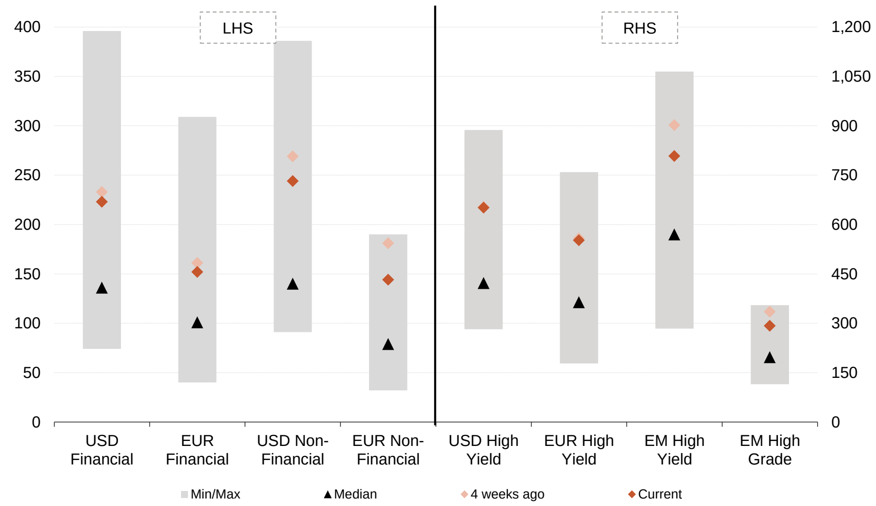
Credit Spreads High Yield and Emerging Markets Bonds



- Risk premiums on EM and USD high yield bonds have also fallen in the last two weeks. Only EUR high yield bonds saw a slight widening of spreads. One reason was the ECB's announcement that no EUR high yield bonds will be bought for the time being.
- The energy sector saw the largest spread tightening in USD high yield bonds, while the capital goods sector saw the largest spread widening.

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 - 08/05/2020

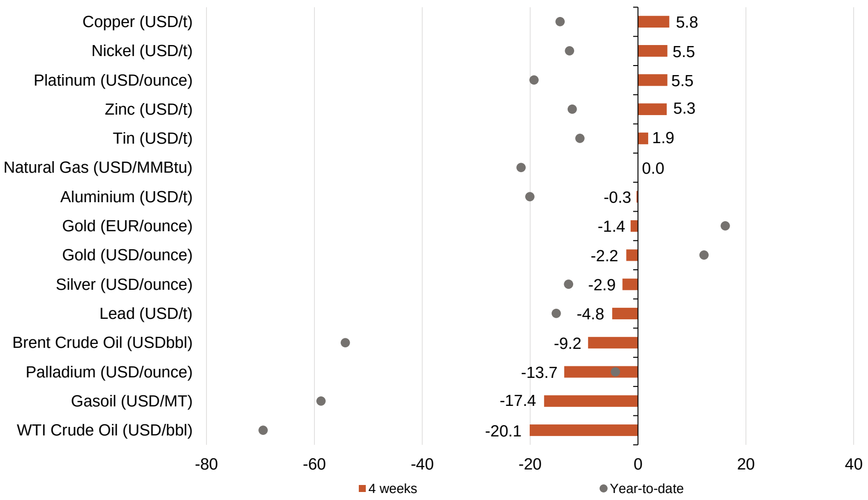
Historical Distribution of Credit Spreads (in bp)



- Over the past four weeks, risk premiums have fallen across all segments. However, EUR High Yield and EM High Grade bonds saw the smallest spread tightening. The absence of ECB purchases of EUR High Yield is causing problems and the difficult economic environment should continue to weigh on emerging markets in particular.

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: 08/05/2010 - 08/05/2020

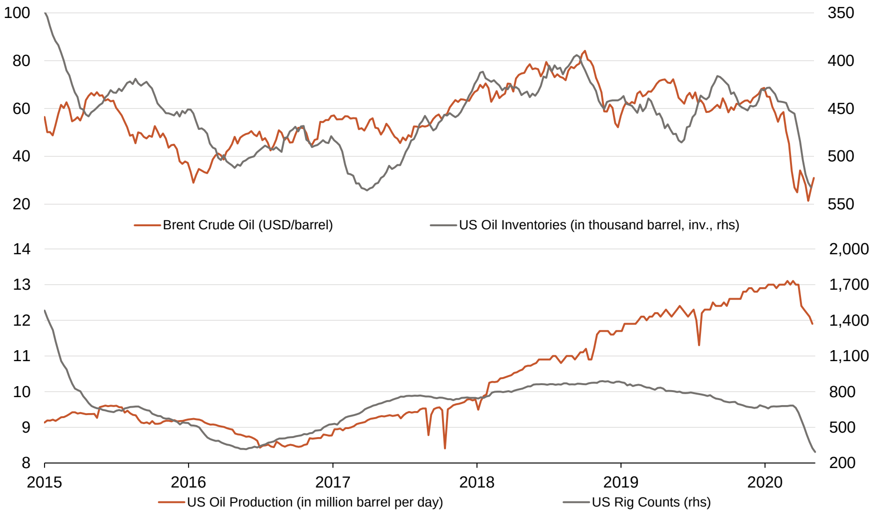
Commodities Performance



- Base metals recently benefited from the surprisingly solid trade data from China. Accordingly, the Chinese took advantage of the favourable metal prices to increase their stocks.
- Meanwhile, gold is the only commodity to have performed positively since the beginning of the year, as palladium has had to give way considerably in recent weeks. The collapse in demand from the automobile industry combined with the reopening of South African mines could lead to the first supply surplus in 10 years.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 - 08/05/2020

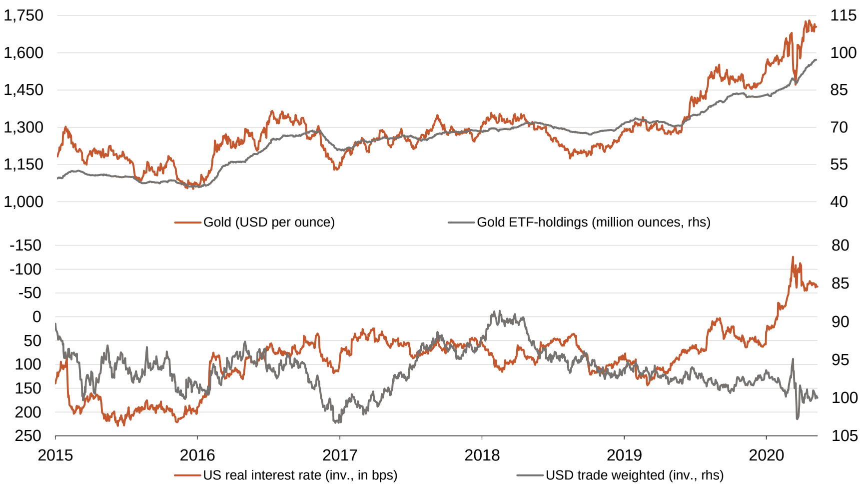
Crude Oil



- Crude oil made a comeback in the past two weeks. Brent is currently trading above the USD 30 per barrel mark again.
- Hopes of an early recovery in demand thanks to looser quarantine measures in many places and the substantial reduction in US shale oil production boosted 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: 01/01/2015 - 08/05/2020

Gold



- A stronger US dollar and higher bond yields slowed gold down in the past few days. As a result the precious metal is currently trading at around $ 1,707 an ounce.
- ETF investors were unfazed by the recent price weakness and continued to buy gold.

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 - 08/05/2020

PUBLISHING INFORMATION

The Berenberg Markets series includes the following publications:

- ► Monitor
- Focus
- Investment Committee Minutes

www.berenberg.de/en/publications

PUBLISHER

Prof Dr Bernd Meyer, CFA | Chief Strategist Wealth and Asset Management

EDITORS

Ulrich Urbahn, CFA | Head Multi Asset Strategy & Research
focuses on the multi-asset investment process, the development of investment ideas and capital market communications
+49 69 91 30 90-501 | ulrich.urbahn@berenberg.de

Karsten Schneider | Analyst Multi Asset Strategy & Research
analyses financial markets, supports the multi-asset investment process and participates in capital market publications
+49 69 91 30 90-502 | karsten.schneider@berenberg.de

Ludwig Kemper | Analyst Multi Asset Strategy & Research
analyses financial markets, supports the multi-asset investment process and participates in capital market publications
+49 69 91 30 90-224 | ludwig.kemper@berenberg.de

Richard Garland|UK Wealth Management
manages UK multi-asset discretionary strategies and portfolios
+44 20 3753 -3126 | richard.garland@berenberg.com

IMPORTANT NOTICES

Joh. Berenberg, Gossler & Co. KG
Neuer Jungfernstieg 20
20354 Hamburg (Germany)
Phone +49 40 350 60-0
Fax +49 40 350 60-900
www.berenberg.com
MultiAssetStrategyResearch@berenberg.de