Current market commentary

Despite increasing risks, stock markets remain stable. Coronavirus is still spreading and the global economy is expected to recover modestly. A Brexit deal seems difficult at the moment, the risk of a "cold war" between the US and China is increasing and the US presidential elections in November will provide additional uncertainty. However, investors seem to be looking further ahead and are driving valuations to levels not seen since the tech bubble. Positioning is extremely concentrated. Growth, technology and pharmaceutical stocks as well as defensive investments are in demand. Investor hedging (put-call ratios) has recently declined. The market is therefore now slightly more vulnerable to a setback in the event of negative surprises. However, monetary and fiscal policy and the still low equity exposure of many investors are working against this. We are therefore positioning ourselves close to neutral in terms of our equity allocation.

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

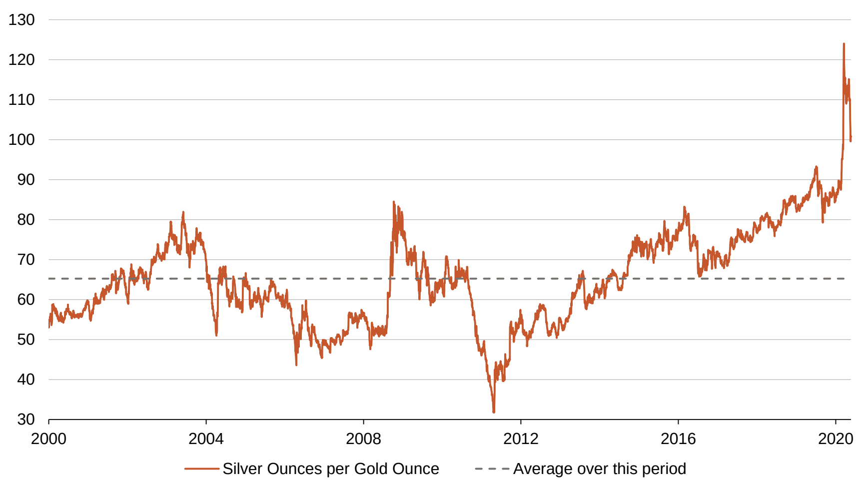
US presidential elections move back into focus.

Due to the postponement of many Democratic primaries for the US presidential candidate due to the coronavirus, June 2 is likely to be a second "Super Tuesday" - even if Joe Biden's victory with the Democrats is unlikely to be taken away. On that day, the Democrats plan to hold primary elections in up to twelve US states. On the other side of the Atlantic, the EU Commission will present its proposal for the EU reconstruction fund on May 27 and the ECB will discuss further monetary policy measures at its monthly meeting on June 4.

Purchasing managers' indices and consumer confidence provide insight into economic recovery.

In the US, consumer confidence will be on Tuesday and durable goods orders and initial claims for unemployment benefits on Thursday. On Friday comes the Chicago Purchasing Managers' Index, followed on June 1 by the Markit and ISM Industrial Purchasing Managers' Index. In the eurozone, consumer confidence will be released on Thursday and inflation data on Friday.

Silver steps out of the shadow of gold



- Amidst the corona crisis, the gold/silver ratio climbed to a new all-time high. While gold benefited from investors' flight to safety, silver suffered from the slump in industrial activity, which accounts for approximately 50% of silver demand.
- As a hybrid between industrial and precious metals, silver should benefit in the coming months from both the economic recovery and the demand for gold, as both precious metals are highly correlated over the long term. Silver appears increasingly attractive.

Source: Bloomberg,Time period: 01/01/2000 - 22/05/2020

Multi Asset

	4-week & YTD: 4W (24/04/20 - 22/05/20)	YTD (31/12/19 - 22/05/20)	22/05/19 22/05/20	22/05/18 22/05/19	22/05/17 22/05/18	22/05/16 22/05/17	22/05/15 22/05/16
Brent	36.2	-48.1	-47.2	-3.2	45.0	-3.1	-38.6
MSCI Frontier Markets	6.2	-16.8	-9.6	0.2	5.6	12.6	-11.4
Global Convertibles	4.3	0.9	8.9	5.2	6.5	15.3	-8.5
MSCI World	3.5	-8.7	2.3	6.9	8.6	18.3	-8.7
MSCI Emerging Markets	2.1	-15.7	-4.6	-5.4	10.9	30.6	-23.7
Industrial Metals	0.6	-12.8	-9.9	-11.8	17.5	24.3	-24.8
Global Coporates	0.5	2.5	8.3	9.9	-3.4	2.9	1.1
Eonia	0.0	-0.2	-0.4	-0.4	-0.4	-0.4	-0.2
Gold	-0.3	17.6	39.4	4.2	-2.3	0.6	1.9
Global Treasuries	-0.4	5.2	8.9	7.8	-3.1	-1.2	5.1
USDEUR	-0.7	2.8	2.3	5.6	-4.6	-0.1	-1.9
REITs	-0.8	-17.7	-13.1	20.5	-7.3	0.0	1.9

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.

- Crude oil (Brent) was by far the best performing asset class in the past four weeks thanks to drastic production cuts on the supply side.
- Equities also performed positively across the board.
- Safe havens such as government bonds and gold, on the other hand, had to give way slightly.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 22/05/2015 – 22/05/2020

Equities

	4-week & YTD: 4W (24/04/20 - 22/05/20)	YTD (31/12/19 - 22/05/20)	22/05/19 22/05/20	22/05/18 22/05/19	22/05/17 22/05/18	22/05/16 22/05/17	22/05/15 22/05/16
MSCI USA Small Caps	9.3	-15.9	-8.3	4.2	12.8	21.8	-9.8
MSCI EM Eastern Europe	7.7	-24.5	-10.7	14.5	8.9	27.2	-19.1
DAX	7.1	-16.4	-9.0	-7.6	4.4	27.3	-16.1
Stoxx Europe Small 200	6.0	-16.5	-5.6	-5.1	9.4	19.1	-9.9
Stoxx Europe Cyclicals	6.0	-23.5	-15.0	-8.2	8.2	26.6	-19.7
Euro Stoxx 50	4.1	-21.5	-12.5	-2.9	2.9	24.2	-17.4
S&P 500	3.4	-4.9	8.2	13.0	10.6	18.9	-2.9
Topix	2.9	-9.4	3.0	-7.0	12.6	18.3	-9.9
MSCI UK	2.4	-24.2	-17.4	-3.2	7.1	13.3	-16.7
Stoxx Europe Defensives	2.1	-9.5	0.9	3.4	1.7	10.7	-12.5
Stoxx Europe 50	1.9	-15.3	-6.5	1.7	1.3	18.6	-17.1
MSCI EM Asia	0.6	-10.5	2.2	-7.7	13.3	33.7	-24.3

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.

- All equity indices shown here have gained in the last four weeks.
- Cyclically oriented equity regions such as American small caps and the Dax led the way.
- The UK, which was badly hit by coronavirus, underperformed, partly because of additional concerns about Brexit.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 22/05/2015 – 22/05/2020

Fixed Income

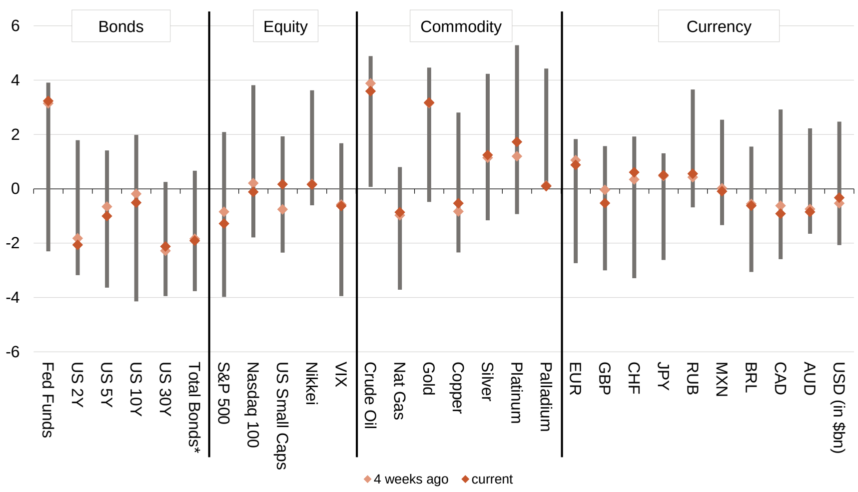
	4-week & YTD: 4W (24/04/20 - 22/05/20)	YTD (31/12/19 - 22/05/20)	22/05/19 22/05/20	22/05/18 22/05/19	22/05/17 22/05/18	22/05/16 22/05/17	22/05/15 22/05/16
EM Hard Currency Bonds	6.0	-6.2	-2.1	3.7	-2.9	6.4	3.4
USD High Yield	2.5	-3.6	1.4	12.7	-2.6	12.6	-3.7
BTPs	2.1	-1.1	7.6	1.2	0.7	-1.1	4.1
EM Local Currency Bonds	1.6	-1.8	6.4	5.6	-1.9	7.8	-6.0
EUR Inflation Linkers	1.0	-4.8	0.1	-0.2	3.1	0.5	0.8
EUR High Yield	1.0	-9.4	-5.7	2.0	1.9	7.7	-0.5
EUR Financials	0.5	-3.4	-1.0	3.0	1.0	3.1	1.9
EUR Non-Financials	0.3	-3.1	-0.7	3.3	0.8	2.3	1.8
USD Corporates	0.2	5.4	12.7	13.5	-5.4	3.9	1.9
Bunds	-0.1	2.4	3.2	4.8	-0.2	-1.1	3.8
Treasuries	-1.2	12.0	15.9	12.0	-6.3	-0.5	1.9
Gilts	-1.7	4.4	12.6	5.6	-3.5	-3.7	-2.2

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 bond markets, demand for risk has increased again over the past four weeks. Emerging market bonds and Italian government bonds were particularly popular with investors. But corporate bonds also performed well.
- Safe government bonds such as US Treasuries were the weakest performers.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 22/05/2015 – 22/05/2020

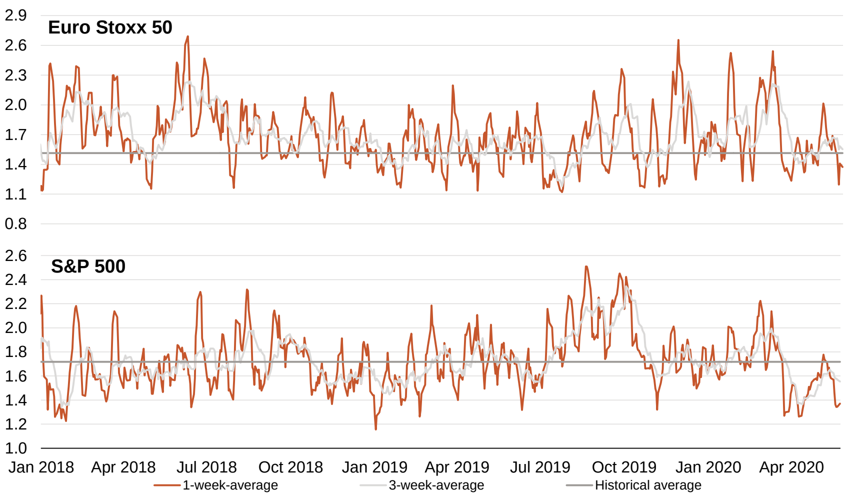
Non-Commercial Positioning



- Speculative investors have recently positioned themselves more optimistically.
- Positions in risky assets such as US small caps, copper and the Russian ruble have increased slightly.
- In addition, speculative investors are betting on rising interest rates in the medium to long term.

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: 19/05/2010 - 19/05/2020

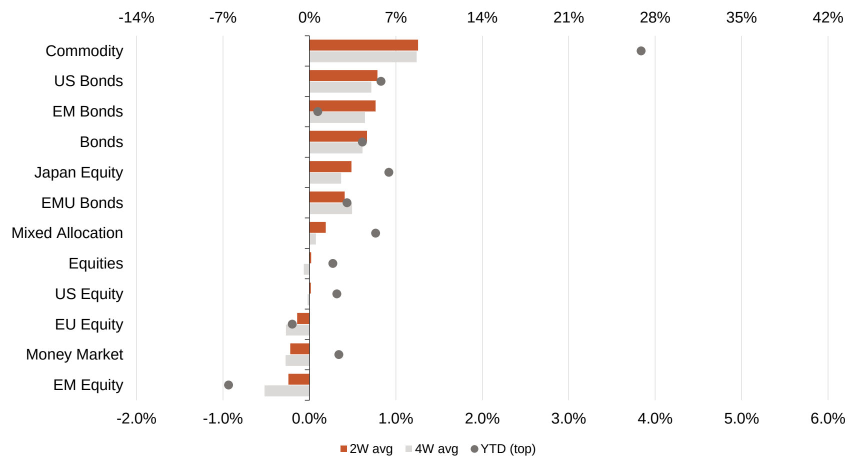
Put-Call Ratio



- Investors' need for security has recently declined significantly.
- For US equities in particular, the put-call ratio is far below the historical average. The "Fear of Missing Out" (FOMO) among investors seems to be on the rise. This could make the market vulnerable to a setback in the event of negative news.

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 - 22/05/2020

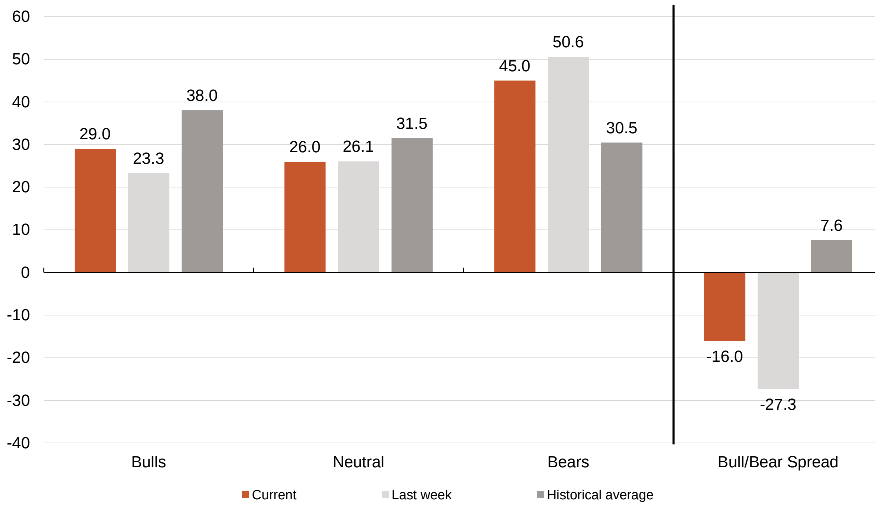
ETF Flows



- Commodity ETFs experienced the strongest demand both since the beginning of the year and in the last two and four weeks respectively. Especially for gold, holdings are climbing to new highs every week. Silver is also increasingly in demand.
- Equity ETFs recorded further outflows. Only Japanese stocks were popular with investors – also thanks to the Japanese central bank, which buys equity ETFs.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2019 - 22/05/2020

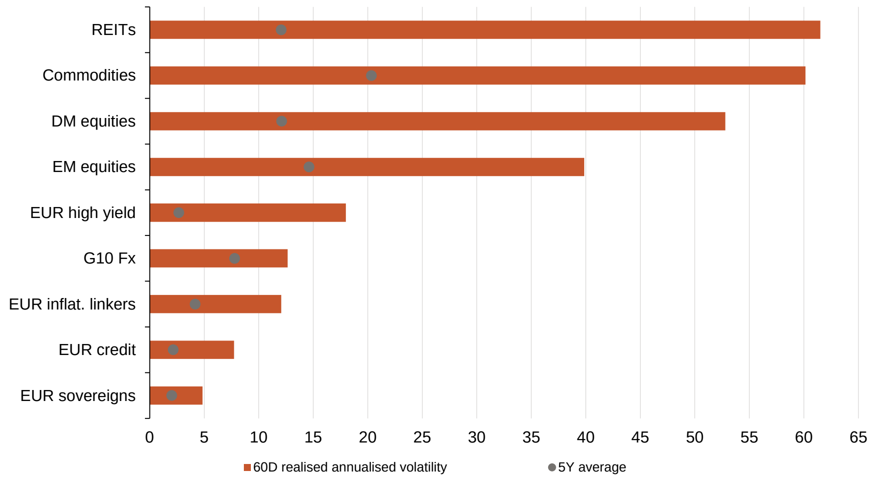
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment of US private investors has improved relative to the previous week, driven by hopes for an early availability of a vaccine against Covid-19.
- However, the bull/bear spread remains very negative at -16Pp by historical standards.
-

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 – 21/05/20

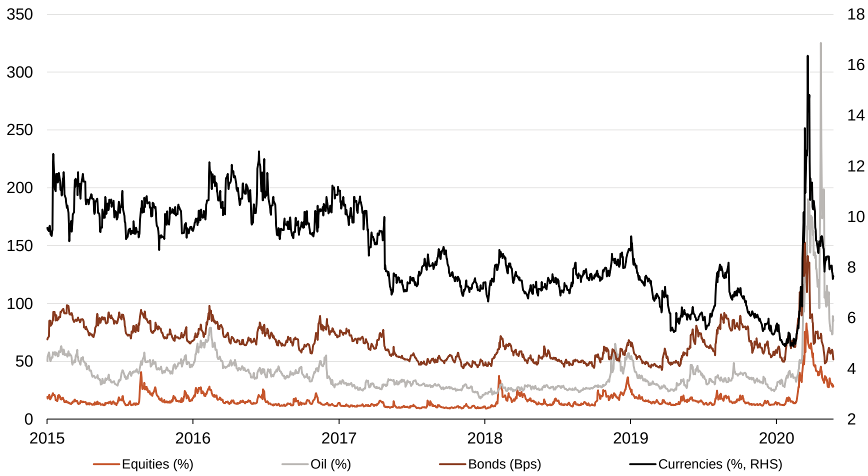
Realised Volatilities



- The realised 60-day volatilities for commodities and REITs have raised again compared to two weeks ago.
- In other asset classes, the picture remains volatile but almost unchanged
- The realised volatility of European high yield bonds was almost 18% in the last 60 days, which is roughly 7 times higher than the average over the past 5 years.

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: 22/05/2015 – 22/05/2020

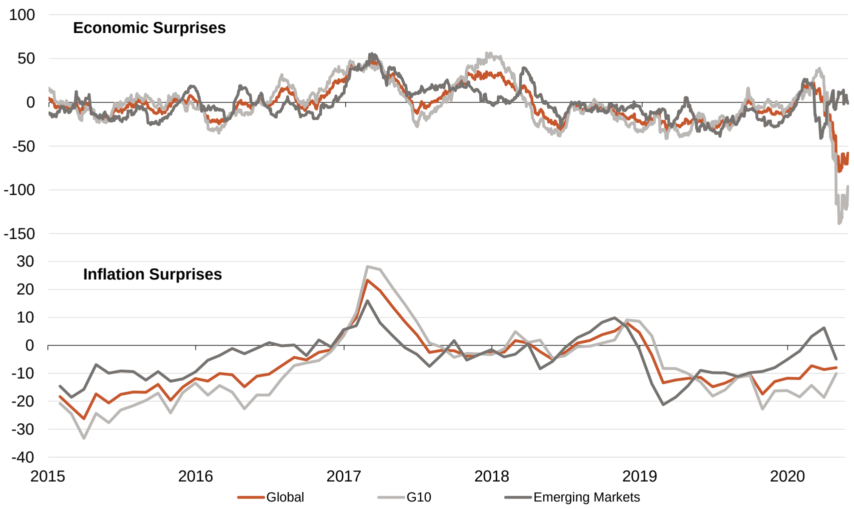
Implied Volatilities



- The implied volatility of oil has continued to fall sharply thanks to strict production cuts and is now almost 80% lower than its peak on 21 April.
- The VIX jumped as high as 38 in the last two weeks, but has recently returned below 30.

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 – 22/05/2020

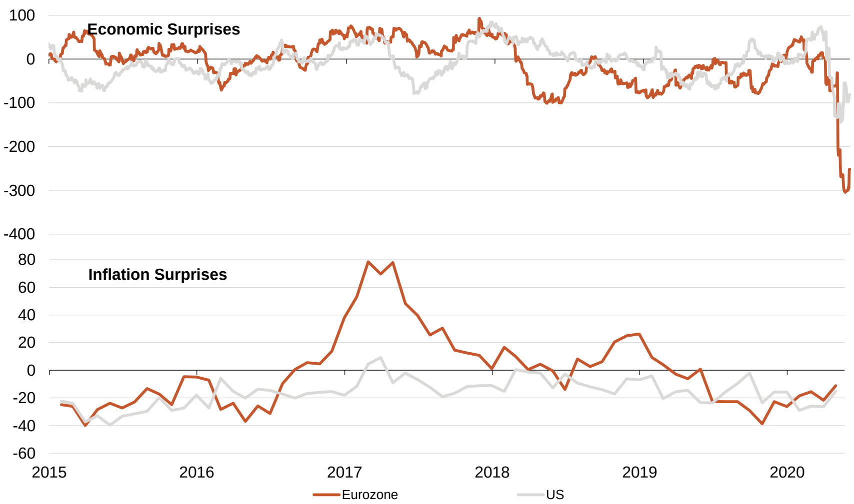
Global



- The economic surprise indices have stabilised somewhat. Economic data have not disappointed to such a massive extent in recent times. While the index is still deep in negative territory in the industrialised countries (G10), it has managed to stay in positive territory in emerging markets. In China, industrial production rose by +3.9% (cons. +1.5%, YoY) in April, while retail sales in April were below expectations at -7.5%.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 22/05/2020

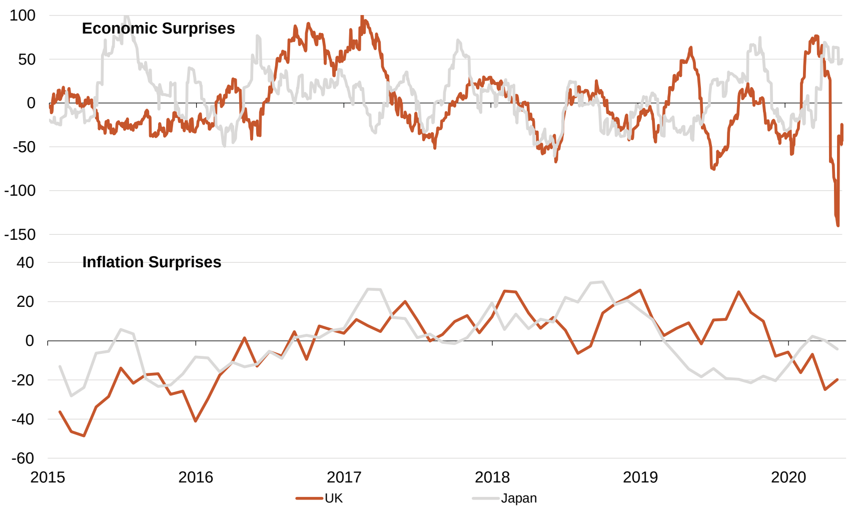
Eurozone and US



- In the eurozone, the indicator also stabilised above -300. The ZEW Indicator of Economic Sentiment as well as the German May Purchasing Managers' Index (PMI) for industry were below expectations, while the ZEW component for future expectations surprised positively.
- In the US, consumer confidence (May), industrial production (April) and the Empire Manufacturing Index (May) surprised positively, while retail sales (April) and the preliminary manufacturing Markit-PMI (May) disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 22/05/2020

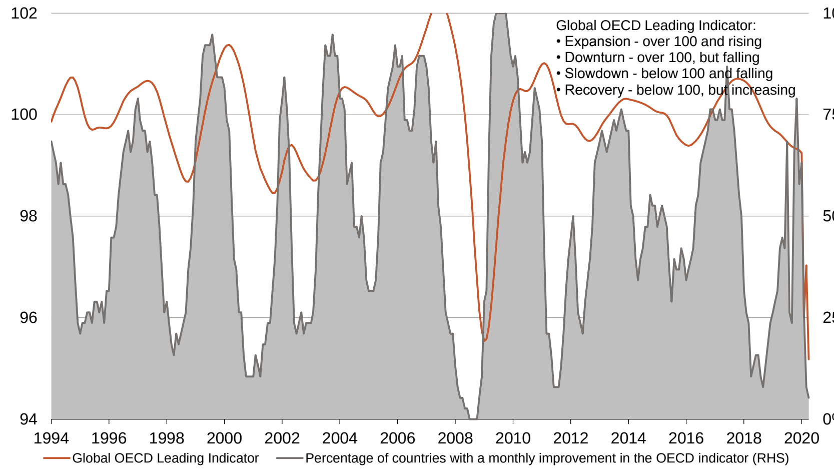
UK and Japan



- In the UK, Q1 GDP at 1.6% (YoY) and industrial production in March at -8.2% were both lower than expected.
- In Japan, both Q1 GDP at -0.9% (QoQ) and machinery orders in March at -0.7% (YoY) fell less than expected.

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 - 22/05/2020

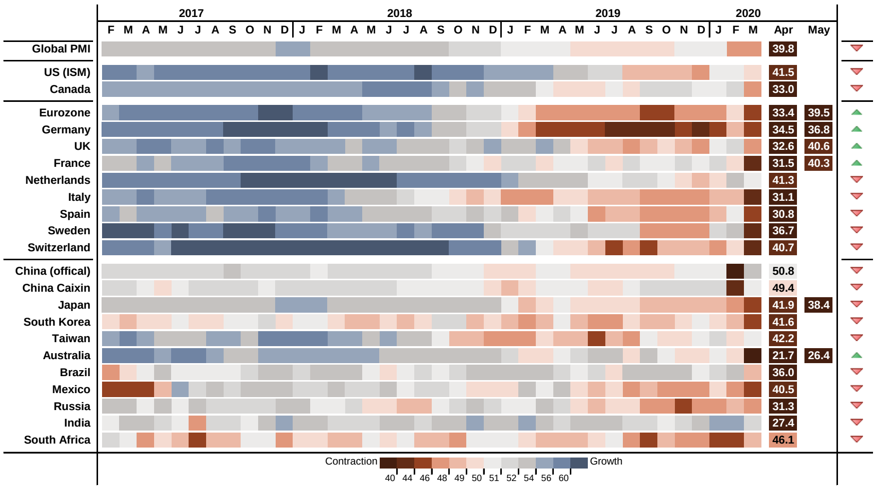
OECD Leading Indicator



- The OECD leading indicator for April has further deteriorated relative to March. At around 95 points, the leading indicator has fallen below the lowest value seen during the financial crisis.
- Compared to the previous month, the indicator improved in April in only 5% of the regions. These are China and Mexico in particular.

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 -30/04/2020

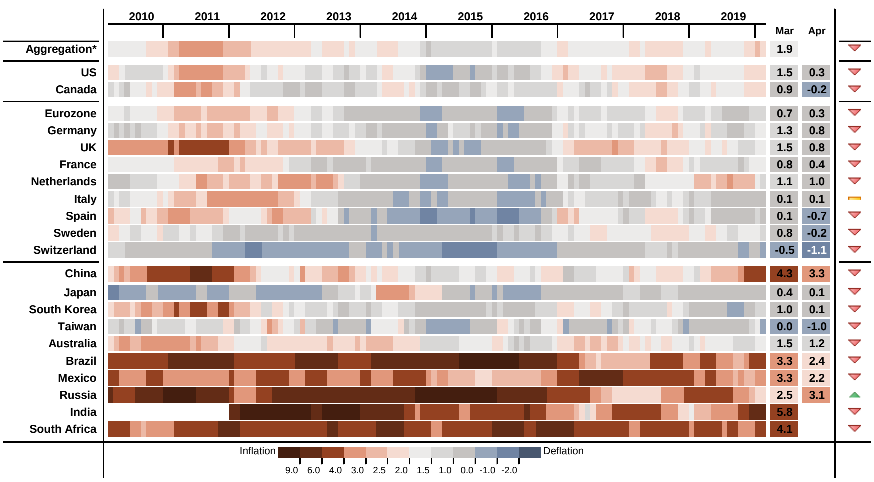
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- Although the bulk of the preliminary PMIs improved in May compared to April, they still indicate an economic slowdown from the previous month. Thus, the easing measures have not yet yielded the desired economic results.

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: 28/02/2017 - 22/05/2020

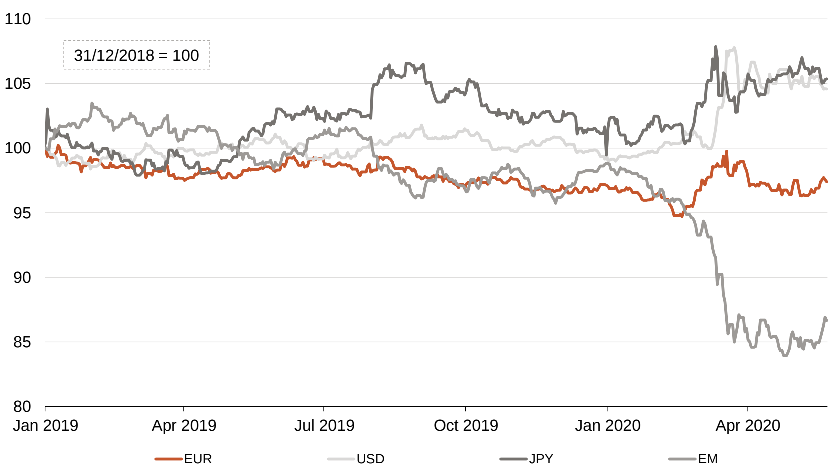
Headline Inflation



- In the USA, inflation fell to almost zero in April at 0.3%, while in Canada it had already fallen below zero. Sharply falling fuel prices have contributed to this in both countries.
- In China inflation has fallen to 3.3%. Price pressure from the food sector has recently eased.
- Russia recorded rising inflation in April, partly due to rising food prices.

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

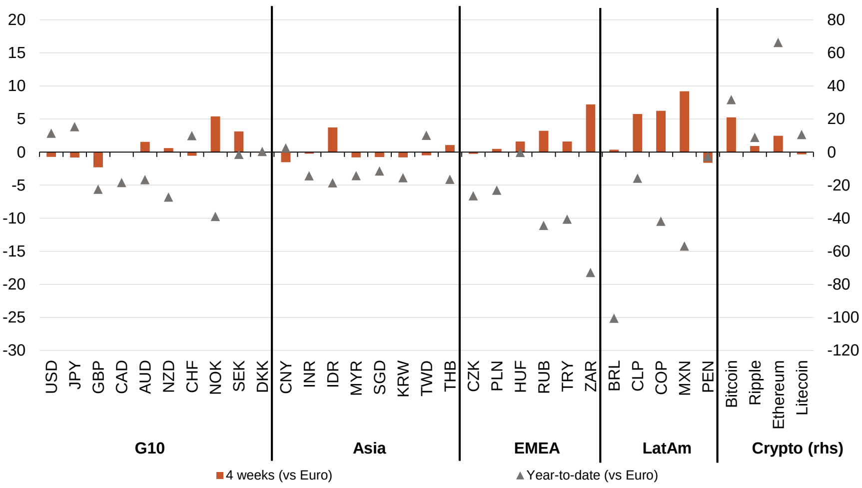
Trade-Weighted Currency Development



- A "risk-on" attitude was noticeable in currency markets over the last two weeks.
- Emerging market currencies made strong gains on a trade-weighted basis. The euro also exhibited positive performance.
- The US dollar and the Japanese yen were less in demand due to their function as safe havens.

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 - 22/05/2020

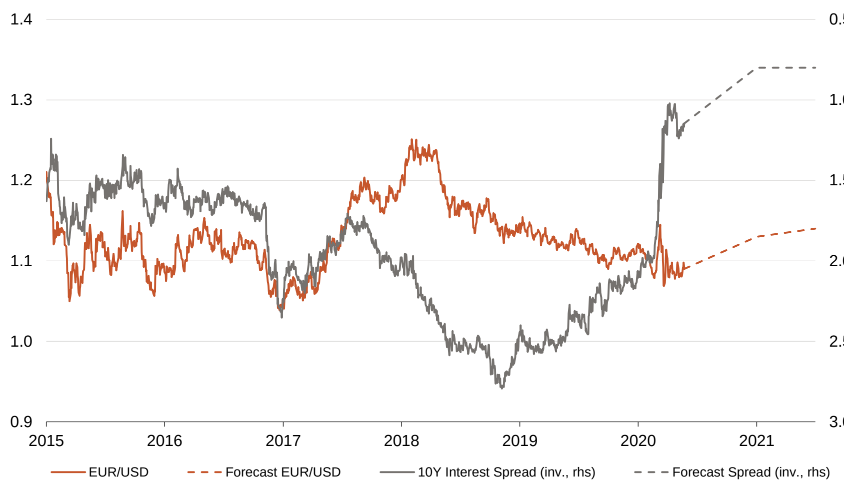
Currency Moves vs Euro



- Among the G10 currencies, commodity currencies such as the Australian dollar and the Norwegian krone have been the main winners against the euro over the past four weeks.
- Latin American and Eastern European currencies made the biggest gains as investors' risk aversion eased.
- Asian currencies fell slightly across the board.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2019 - 22/05/2020

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate has recently fluctuated around the 1.09 mark, and the implied volatility of the currency pair has continued to decrease over the past two weeks.
- The interest rate differential between Bunds and US Treasuries has narrowed slightly and is currently trading at around 1.1%.

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: 4W (24/04/20 - 22/05/20)	4-week & YTD: YTD (31/12/19 - 22/05/20)	22/05/19 22/05/20	22/05/18 22/05/19	22/05/17 22/05/18	22/05/16 22/05/17	22/05/15 22/05/16
Industrials	7.6	-21.6	-10.3	-2.0	6.8	24.1	-9.1
Materials	6.3	-16.1	-7.2	-8.2	20.3	33.7	-23.0
Information Technology	5.7	-5.9	4.5	5.4	14.5	31.0	-10.9
Consumer Discretionary	4.9	-23.1	-11.8	-8.8	9.0	19.3	-18.2
Utilities	3.9	-10.2	4.2	9.3	2.8	9.2	-12.1
Growth	3.9	-8.2	2.7	3.5	3.9	16.4	-11.2
Telecommunications	3.5	-21.1	-17.8	-3.2	-11.1	-0.5	-12.6
Finance	2.9	-34.1	-27.5	-11.3	3.8	27.2	-24.6
Value	2.6	-27.5	-21.2	-6.6	4.7	22.5	-19.8
Health Care	1.6	4.6	24.0	8.8	-6.8	12.5	-16.0
Energy	0.0	-36.7	-39.2	-3.9	26.7	21.8	-16.1
Consumer Staples	0.0	-8.7	-4.1	12.9	-7.5	13.0	-0.3

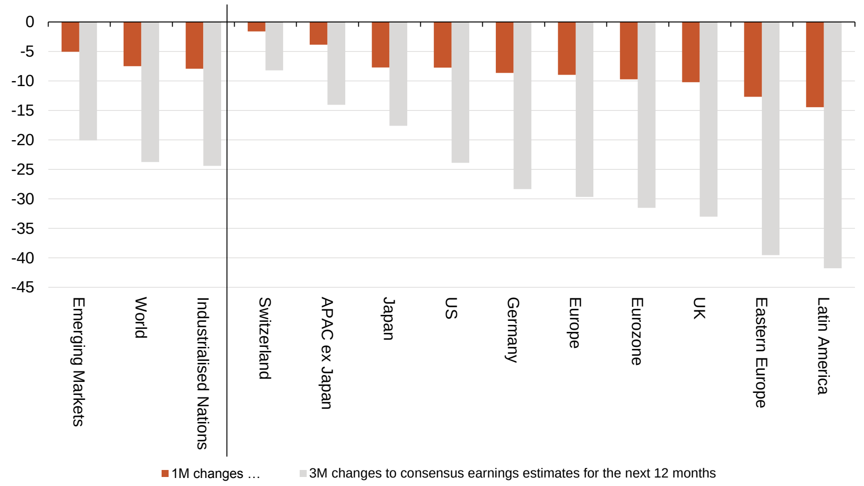
12-month periods over that last 5 years

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.

- In the last four weeks, cyclical stocks made a small comeback. The industrial and basic materials sectors lead the performance table. Defensive sectors such as healthcare and consumer staples have been the least successful.
- Growth remains an investor's favourite and is ahead of Value on both a four-week and annual basis.

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: 22/05/2015 – 22/05/2020

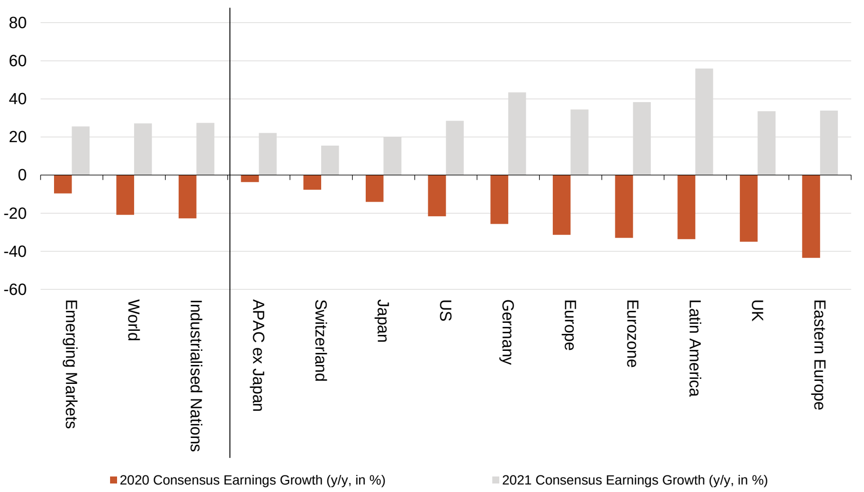
Changes in Consensus Earnings Estimates



- Negative earnings revisions also continued recently, although they have lost some of their magnitude. Latin America recorded the strongest negative earnings revisions, while Switzerland, as a relatively defensive equity market, saw the lowest negative earnings revisions.
- Germany, which suffered comparatively less from the coronavirus, saw a lower negative earnings revision on a monthly basis compared with the eurozone average.

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 22/05/2020

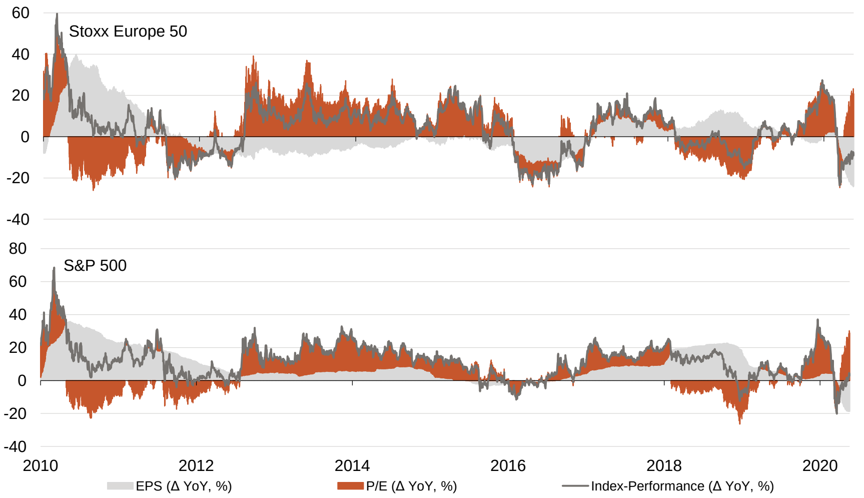
Earnings Growth



- For 2020, consensus expects a global decline in profits of almost 20%. The expected decline in earnings in the industrialised nations is above average at over 22%, while it is expected to be much less severe in the emerging markets at 9%.
- For 2021, analysts then expect profits to rise again significantly - especially for Germany and Latin America.

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 22/05/2020

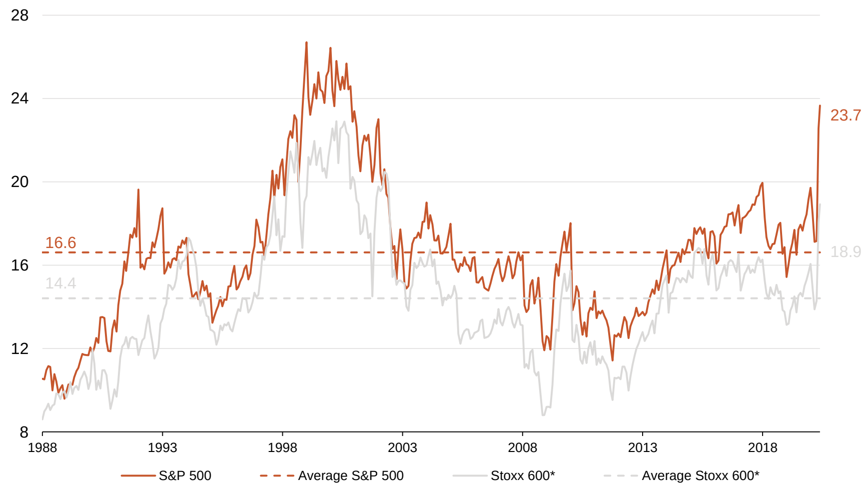
Contribution Analysis



- The S&P 500 is now showing a positive development again for the year as a whole. Rising valuations can thus more than compensate for the falling profit expectations. The market is already looking at a time post Covid-19.
- The trend in Europe is similar, even though the positive performance range for the year has not yet been reached there.

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 - 22/05/2020

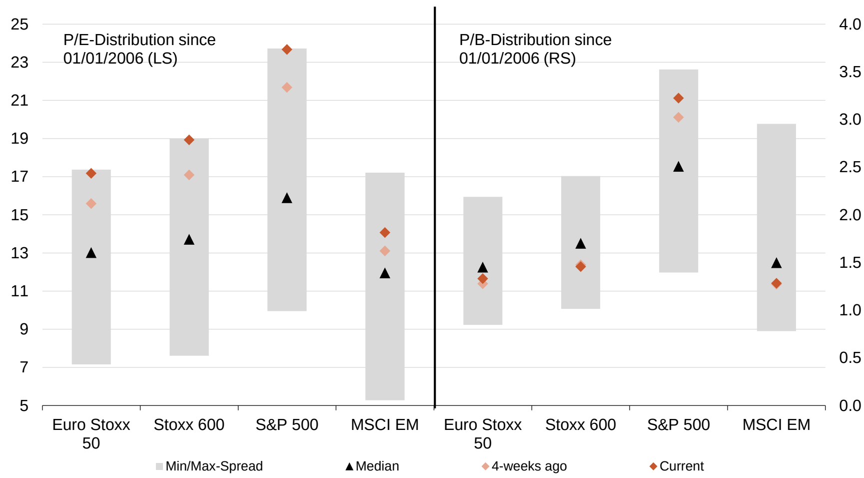
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The market continues to see through the Corona crisis. Valuation levels have recently risen further in both Europe and the USA.
- However, there are significant differences within the indices - especially in the S&P 500, where negative P/E's like in the energy sector pull the average down, while P/E's above 100 in the leisure sector distort it upwards.

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 - 22/05/2020

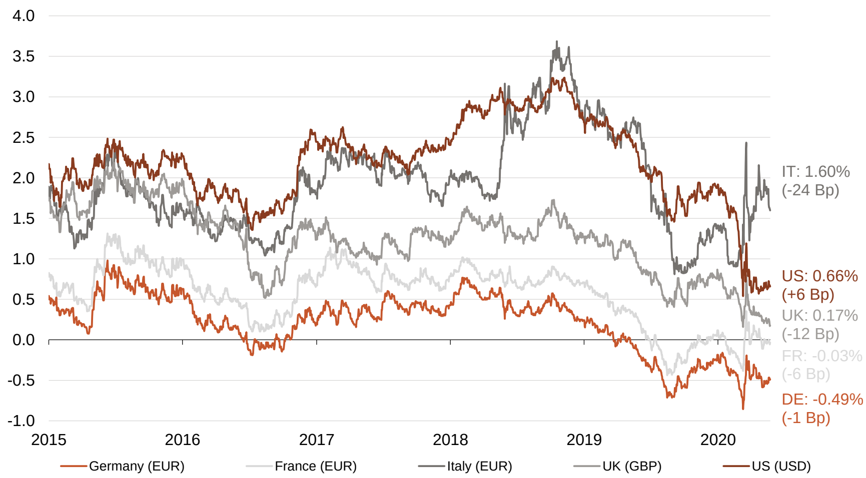
Historical Distribution: Price/Earnings and Price/Book Ratio



- Based on the price-earnings ratio, all regions appear expensive compared to the 10-year median. The price-to-book ratio provides a slightly different picture. Here, European stocks continue to appear cheap. US equities, on the other hand, are expensive at this level. However, this is at least partly due to the less capital-intensive sector structure.

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 - 22/05/2020

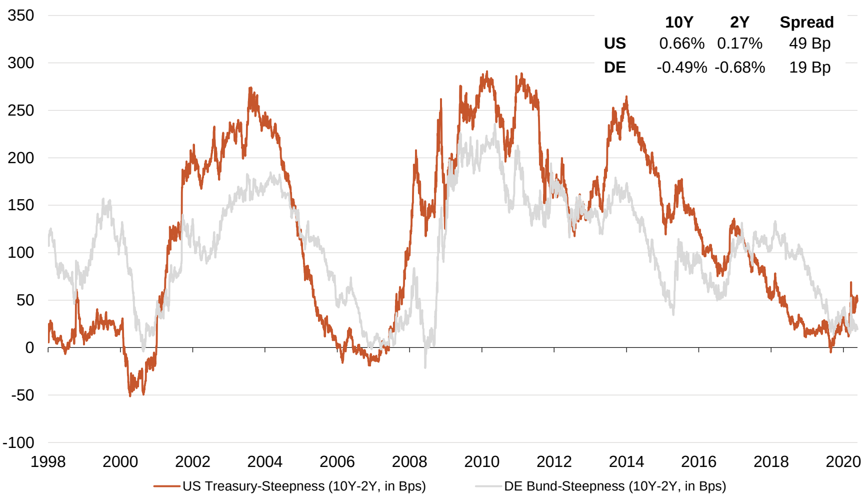
10-Year Government Bond Yields



- Yields on safe government bonds remain at low levels as market uncertainties persist.
- The idea of an EU reconstruction fund and the hunt for yield has brought the yield on 10-year Italian government bonds down to 1.6%.

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 - 22/05/2020

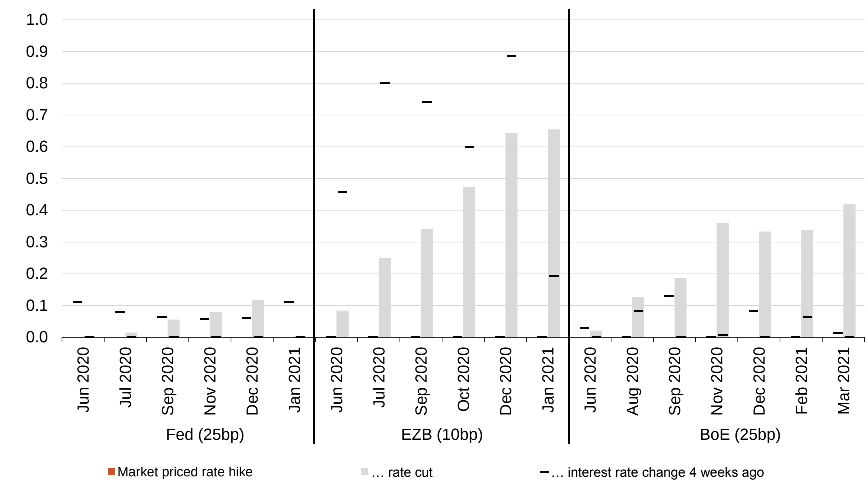
Yield Curve Steepness (10Y - 2Y)



- The steepness of the yield curve for Germany and for the USA has hardly changed in recent weeks. In the German yield structure curve, the difference between 10Y and 2Y yields is 19 basis points and 49 basis points for the USA.

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 - 22/05/2020

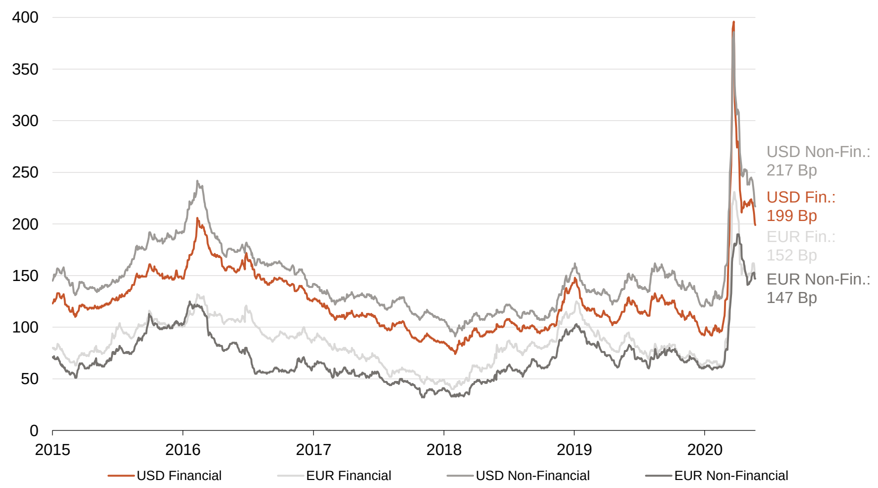
Implicit Changes in Key Interest Rates



- ECB: The market is not expecting a rate cut on 4 June (ECB meeting). The probability of a rate cut is only around 10%. However, a rate cut in 2020 is priced at just less than 70% as of December.
- The probability of a rate cut by the Bank of England has recently risen close to 40%. A key interest rate of zero or below is thus also moving ever closer in the UK.

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: 07/12/2020 - 22/05/2020

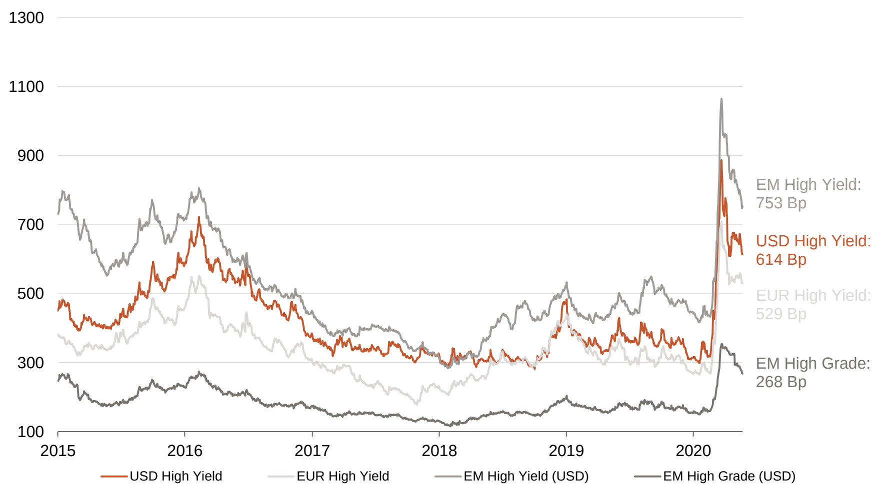
Credit Spreads Financial and Non-Financial Bonds



- The Fed's purchases of corporate bond ETFs are having an impact and have caused spreads on USD-IG corporate bonds to fall further. The industrial, automotive and energy sectors in particular benefited from this.
- By contrast, spreads on EUR corporate bonds have hardly fallen at all and remain close to 150 basis points.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 – 22/05/2020

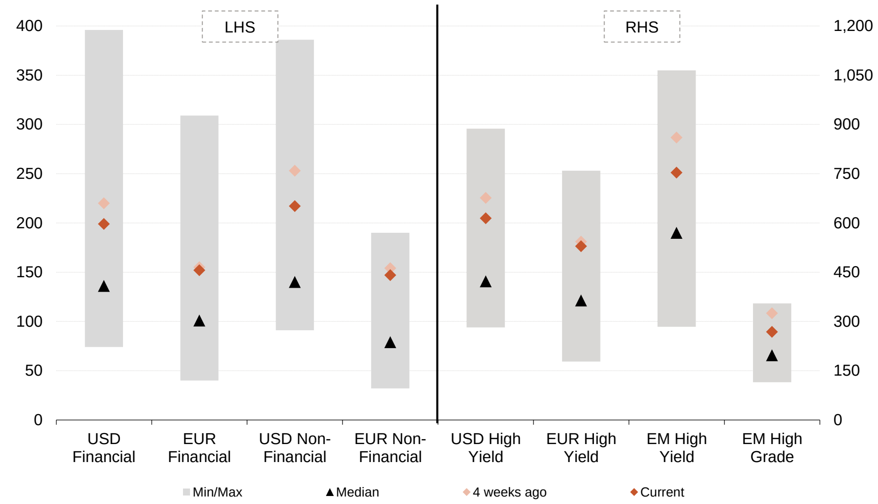
Credit Spreads High Yield and Emerging Markets Bonds



- In the last two weeks, the hunt for returns has been particularly keen on riskier segments. Spreads have fallen over 50 basis points for EM high yield bonds, over 30 basis points for USD high yield bonds and over 15 basis points for EUR high yield bonds.
- The transport and automotive sectors saw the largest spread tightening within USD high yield bonds.

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 – 22/05/2020

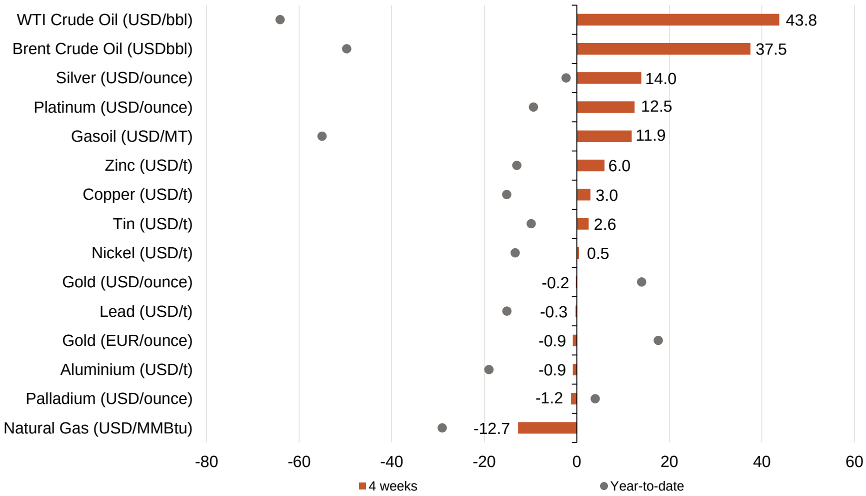
Historical Distribution of Credit Spreads (in bp)



- Emerging market high-yield bonds saw the largest decline in spreads on a four-week horizon. However, there is still room for narrowing above the 10-year median.
- EUR-IG and EUR High Yield bonds saw the smallest movement in spreads.

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: 22/05/2010 – 22/05/2020

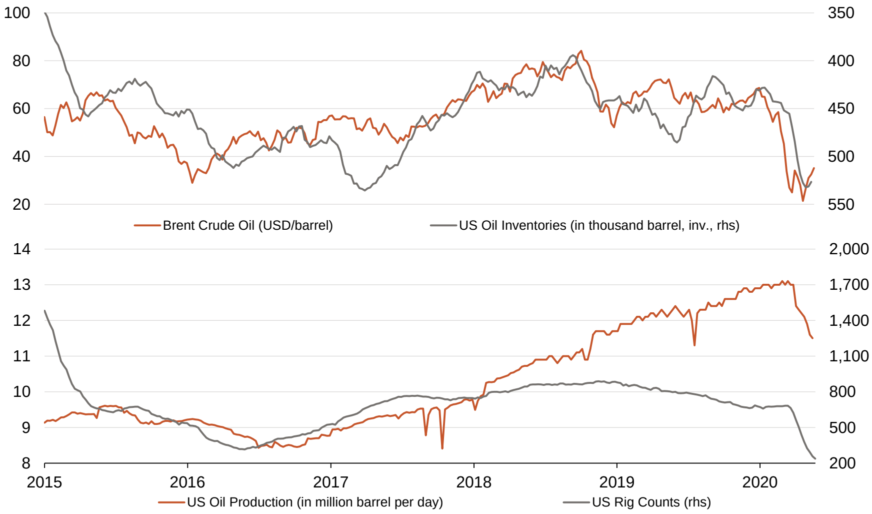
Commodities Performance



- The energy sector was the big winner in the past four weeks thanks to easing tendencies on the oil market.
- Industrial metals also benefited from the more optimistic mood in markets and recorded gains across the board.
- Gold performed surprisingly well in this environment and remained stable.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 – 22/05/2020

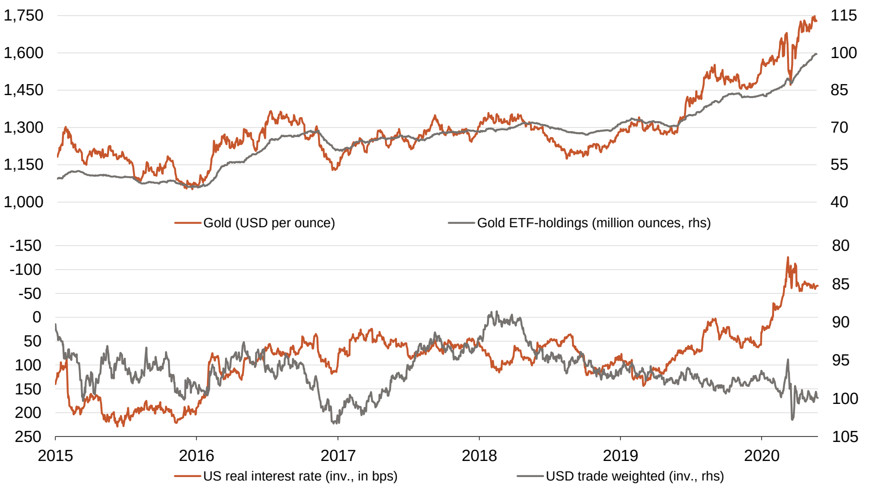
Crude Oil



- Crude oil continued its recovery in the last two weeks. Brent is now trading around the USD 35 per barrel mark again.
- The rally was driven by positive news on both the supply and the demand side. OPEC member states appear to be fulfilling their production cuts faster than expected. At the same time, demand is now also recovering thanks to looser quarantine measures in many places.

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 – 22/05/2020

Gold



- The demand for gold remains strong. At USD 1,730 an ounce, the precious metal is only 9% from its all-time high in 2011.
- Fears of a second wave of infection, massively rising government debt and a possible resurgence of the trade war are driving investors into the safe haven.

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 – 22/05/2020

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IMPORTANT NOTICES

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