MONITOR

08 June 2020

Current market commentary

Underinvested investors continue to suffer. The "pain trade" to the upside has continued. In particular, regions and sectors that had previously underperformed have gained. Cyclicals were the relative winners. The DAX rose strongly and the US dollar depreciated. This was in part due to: substantial fiscal stimuli in the eurozone and Germany, the continued support of the ECB, and systematic investment strategies that rely on momentum which have further increased their equity exposure. Many discretionary asset managers increased their equity positions after exceeding the important 200-day lines in the DAX and S&P 500. Money market funds last week saw the largest outflow since January 2020 - a first small step to reinvesting the plentiful dry powder. Investor sentiment is improving; however, the air should become thinner in the coming weeks. Much positive has been priced in and positioning is now less cautious.

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

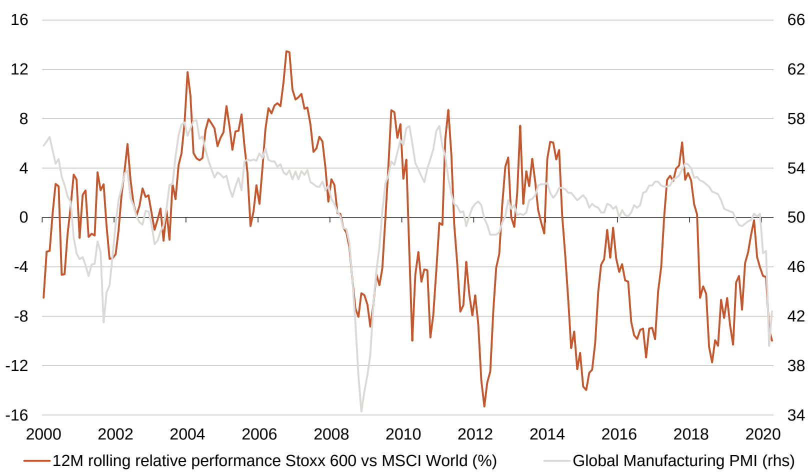
The Fed and the BoE meeting in June is imminent.

The ECB has recently surprised the markets positively with a significant expansion of the PEPP bond purchase program. Now the ball is in the court of the Fed and the Bank of England. The US Federal Reserve will hold its monthly meeting on 10 June and the Bank of England on 18 June. However, neither of the two central banks is expected to cut interest rates. The Recovery Fund is likely to play an important role at the European Council meeting on 18 and 19 June.

The economic outlook should brighten further.

On Tuesday, Germany's important export figures (April) will be released, followed on Wednesday and Thursday by the April industrial production figures for France and Italy. The ZEW Indicator of Economic Sentiment for Germany will be released on 16 June. The US inflation figures will be released on Wednesday (May), the initial jobless claims on Thursday, consumer confidence on 12 June (University of Michigan), and industrial production and retail sales on 16 June 16 (May).

Europe has catch-up potential if the global economy picks up



- Historically, the more cyclical European stocks have tended to outperform the rest of the world when the global PMI rises.
- The looming economic recovery, the strong support from the ECB, the (announced) fiscal programs, the incipient weakness of the US dollar and the fact that international investors are underweight in Europe favour European stocks.
- At the same time, the US is struggling with increased political uncertainty until, at least, the US elections.

Source: Bloomberg, Time period: 28/02/2010 - 31/05/2020

Multi Asset

	4-week & YTD: 4W (08/05/20 - 05/06/20)	4-week & YTD: YTD (31/12/19 - 05/06/20)	12-month periods over that last 5 years: 05/06/19 05/06/20	05/06/18 05/06/19	05/06/17 05/06/18	05/06/16 05/06/17	05/06/15 05/06/16
Brent	24.0	-41.3	-30.1	-13.2	51.2	-11.0	-36.6
REITs	6.6	-9.8	-5.8	17.9	-5.3	-0.2	8.4
MSCI Emerging Markets	5.9	-9.8	1.9	-6.1	10.5	28.4	-16.4
MSCI World	5.8	-3.6	9.5	5.2	7.4	18.1	-4.4
Global Convertibles	3.0	2.8	11.9	2.8	6.8	15.7	-6.2
MSCI Frontier Markets	1.9	-16.4	-10.3	0.9	3.4	15.3	-11.0
Industrial Metals	1.2	-11.1	-5.9	-17.3	25.8	19.2	-21.5
Eonia	0.0	-0.2	-0.4	-0.4	-0.4	-0.4	-0.2
Global Coporates	-0.4	1.0	6.3	9.1	-2.7	3.0	3.2
Global Treasuries	-3.9	1.3	3.6	7.6	-2.1	-1.8	9.2
USDEUR	-4.0	-0.7	-0.6	4.4	-4.0	1.0	-2.2
Gold	-5.0	10.3	25.9	7.2	-2.7	3.9	3.8

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.

- The risk-on rally has continued over the past four weeks. Many important stock indices such as the S&P 500 and DAX have exceeded their 200-day lines, which has led to technical follow-up purchases.
- On the other hand, the safe havens have given way. Currently, there is less need for hedging among investors.
- The euro has gained significantly thanks to the improving sentiment and the major fiscal stimulus in the eurozone.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 05/06/2015 - 05/06/2020

Equities

	4-week & YTD: 4W (08/05/20 - 05/06/20)	4-week & YTD: YTD (31/12/19 - 05/06/20)	12-month periods over that last 5 years: 05/06/19 05/06/20	05/06/18 05/06/19	05/06/17 05/06/18	05/06/16 05/06/17	05/06/15 05/06/16
DAX	17.8	-3.0	7.2	-6.3	-0.3	26.9	-9.8
Euro Stoxx 50	16.7	-8.6	3.1	-0.7	-0.9	22.7	-12.2
Stoxx Europe Cyclicals	16.2	-11.2	0.6	-6.9	4.4	25.6	-15.4
MSCI EM Eastern Europe	11.5	-19.2	-5.3	16.8	11.7	22.7	-9.1
Stoxx Europe Small 200	10.6	-8.4	4.9	-5.2	7.3	19.0	-5.7
MSCI USA Small Caps	10.3	-8.4	1.8	-0.5	14.7	19.3	-6.1
Stoxx Europe 50	8.3	-7.9	2.6	3.8	-1.8	17.3	-11.8
MSCI UK	7.1	-17.7	-8.7	-2.9	5.1	13.2	-12.0
Stoxx Europe Defensives	5.9	-4.5	7.1	5.5	-0.9	9.5	-7.2
S&P 500	4.9	-0.8	14.7	9.4	10.5	19.3	0.7
MSCI EM Asia	3.9	-5.0	8.9	-10.1	14.1	31.4	-17.4
Topix	3.2	-6.6	6.2	-6.9	9.0	19.6	-5.4

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.

- Within the equity regions, cyclicals in particular have been demand recently. European stock indices - particularly the Dax - have clearly outperformed their US counterparts.
- Small caps also performed significantly better than large caps.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 05/06/2015 - 05/06/2020

Fixed Income

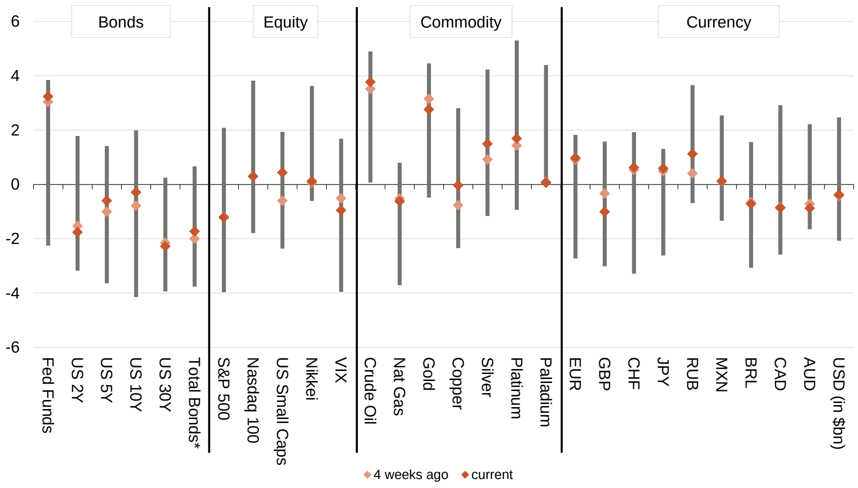
	4-week & YTD: 4W (08/05/20 - 05/06/20)	4-week & YTD: YTD (31/12/19 - 05/06/20)	12-month periods over that last 5 years: 05/06/19 05/06/20	05/06/18 05/06/19	05/06/17 05/06/18	05/06/16 05/06/17	05/06/15 05/06/16
EUR High Yield	6.3	-4.6	-0.2	1.7	1.3	7.3	0.9
EM Hard Currency Bonds	6.1	-4.0	-0.6	4.3	-3.4	6.4	5.8
BTPs	2.5	0.1	8.1	4.7	-1.1	-2.8	7.5
USD High Yield	2.5	-2.6	3.4	10.7	-2.1	13.1	-2.3
EUR Financials	2.0	-1.4	0.7	3.3	0.6	3.1	3.3
EUR Inflation Linkers	2.0	-3.4	0.7	1.1	2.5	0.2	3.0
EUR Non-Financials	1.6	-1.4	0.7	3.4	0.6	2.0	3.9
USD Corporates	-0.6	2.9	9.4	12.8	-4.6	4.1	3.8
EM Local Currency Bonds	-1.2	-3.4	3.7	5.8	-2.5	9.6	-2.7
Bunds	-2.3	0.3	0.1	4.6	0.4	-1.3	6.1
Gilts	-4.6	2.1	8.8	4.4	-0.5	-5.8	2.5
Treasuries	-5.2	6.1	9.1	10.8	-5.0	0.0	3.2

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.

- Risk was also in demand within the bond segments. High yield bonds significantly outperformed corporate bonds, boosted by the partial easing of lockdown measures, the liquidity support provided by central banks and improved investor sentiment. Italian and emerging market bonds also benefitted.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 05/06/2015 - 05/06/2020

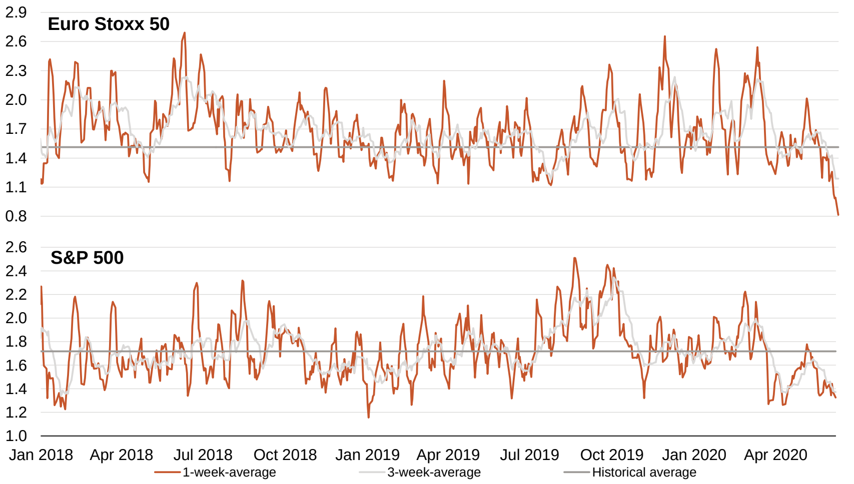
Non-Commercial Positioning



- The majority of speculative investors have not participated in the recovery rally since the end of March. Future positioning in equities is still cautious.
- The crude oil longs, on the other hand, were further expanded.

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: 02/06/2010 - 02/06/2020

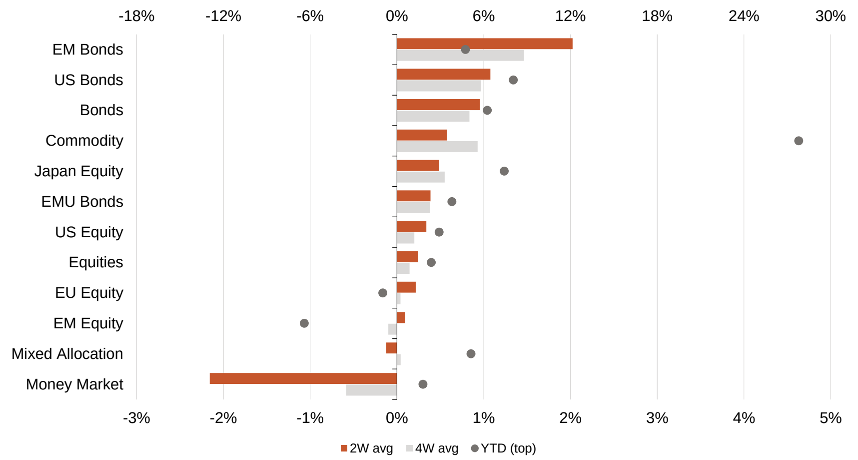
Put-Call Ratio



- Underinvested market participants are now increasingly buying call options to hedge against further upward potential in equities. This pushes the put-call ratio down.
- Puts are rarely bought. As a result, market participants are less hedged and can be caught on the wrong foot more easily.

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 - 05/06/2020

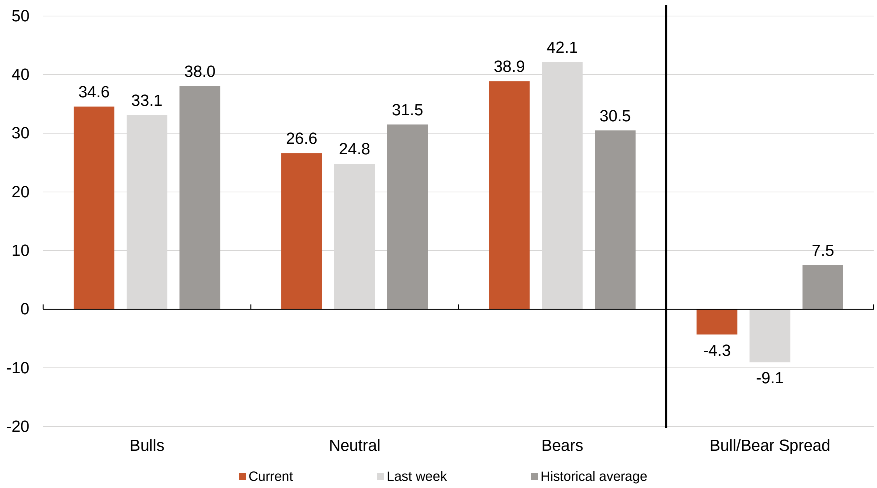
ETF Flows



- While emerging market equities have so far seen little demand, emerging market bonds are in higher demand.
- Money market funds had the largest weekly outflow since January 2020, at almost USD 17 billion, and the dry powder of many investors is now being gradually reinvested.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2019 - 05/06/2020

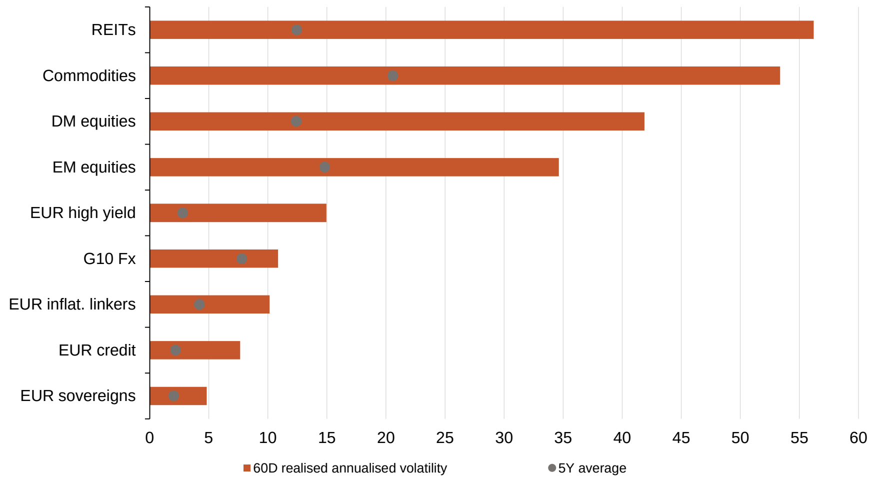
AAII Sentiment Survey (Bulls vs Bears)



- Although the mood of US private investors is still generally pessimistic, it has recently improved considerably compared with the previous months.
- At -4.3 ppts, the bull-bear spread is still negative but higher than it has been since the beginning of March.

The sentiment survey conducted by the American Association of Individual Investors determines the percentage of private investors who are optimistic, pessimistic or neutral regarding the US equity market outlook for the upcoming six months. It has been carried out since 1987. The survey is conducted from Thursday to Wednesday and the results are published every Thursday. For the stock market, it tends to be supportive when there is a high proportion of bears and a low proportion of bulls. However, it is a negative indicator when there are significantly more optimists than pessimists.
Source: Bloomberg, AAII, Time period: 23/07/87 - 04/06/20

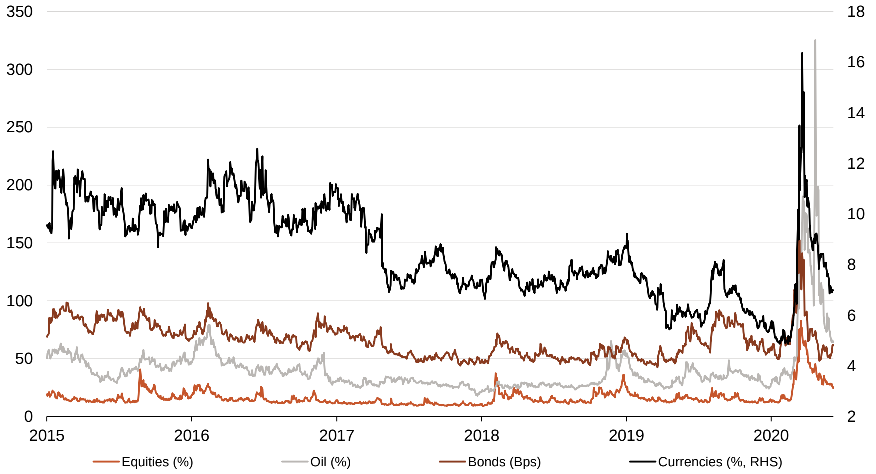
Realised Volatilities



- Realised 60-day volatilities have fallen significantly compared to two weeks ago, especially in risk assets such as equities, REITS and commodities. The reason for this is that the first few volatile days in March are now excluded from the calculation.
- Nevertheless, the current realised volatilities are still several times higher than their 5-year averages. A gradual normalisation should occur in the coming weeks and months.

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: 05/06/2015 - 05/06/2020

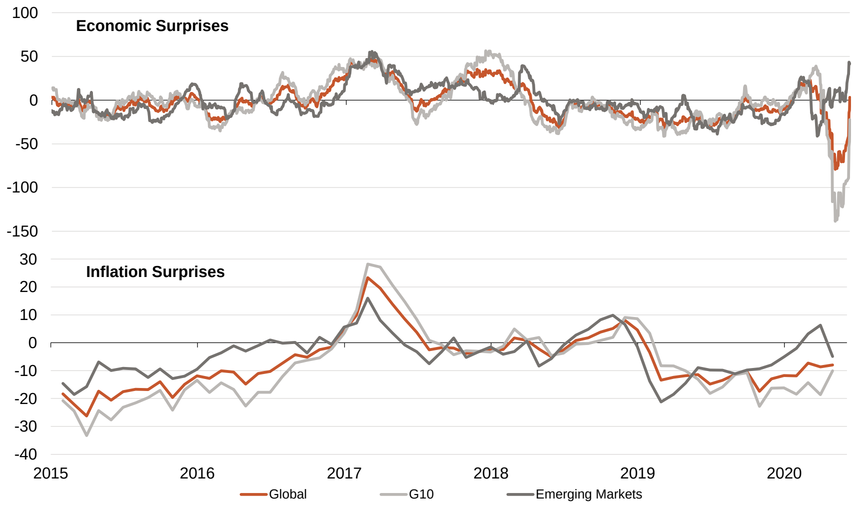
Implied Volatilities



- The VIX was able to stay below the mark of 30 in the past two weeks and is currently trading at around 25.
- The implied volatility in oil has also continued to fall.
- As a result of the rotation towards risk assets, implied volatility in government bonds has risen slightly in recent weeks.

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 - 05/06/2020

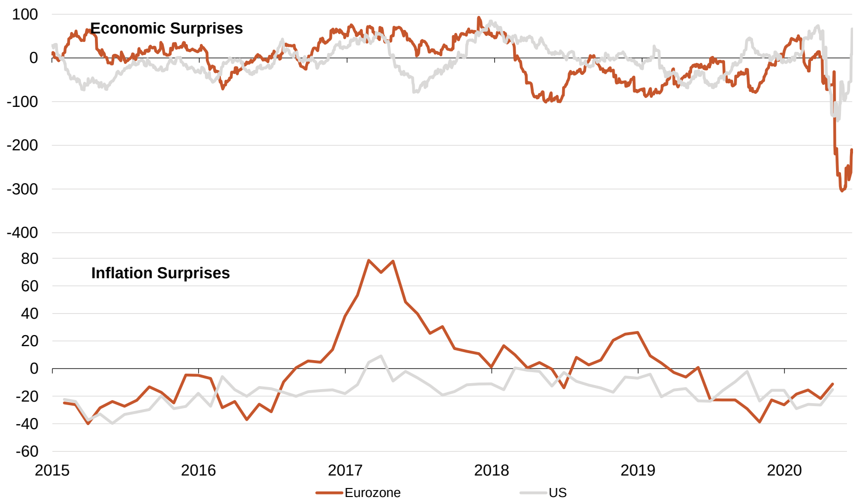
Global



- The measures taken by governments to revive the economy are showing success. Economic data are beginning to surprise increasingly upwards, slowly pulling the 3-month average of the industrial nations (G10) and on a global level towards positive territory.
- The economic surprise index for emerging markets is already clearly in positive territory. Recently, China's purchasing managers' indices for May have provided a marked upward surprise.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 05/06/2020

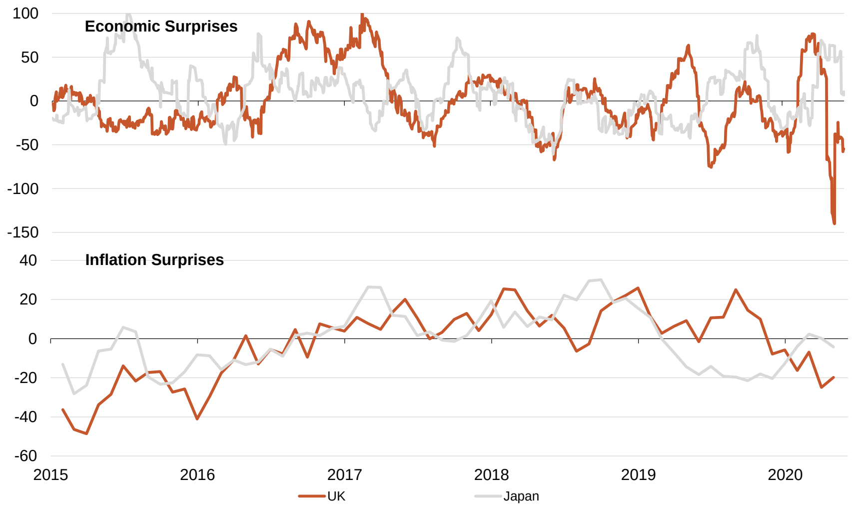
Eurozone and US



- Although the eurozone is still lagging behind the US in terms of positive economic surprises, there have also been some positive surprises recently. The IFO business climate index (May: 79.5) and retail sales for Germany were better than expected. Negative surprises came from labour market data, new orders and consumer confidence.
- In the US, car sales, house sales and factory orders came as a positive surprise, while some purchasing managers' indices and labour market data disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 05/06/2020

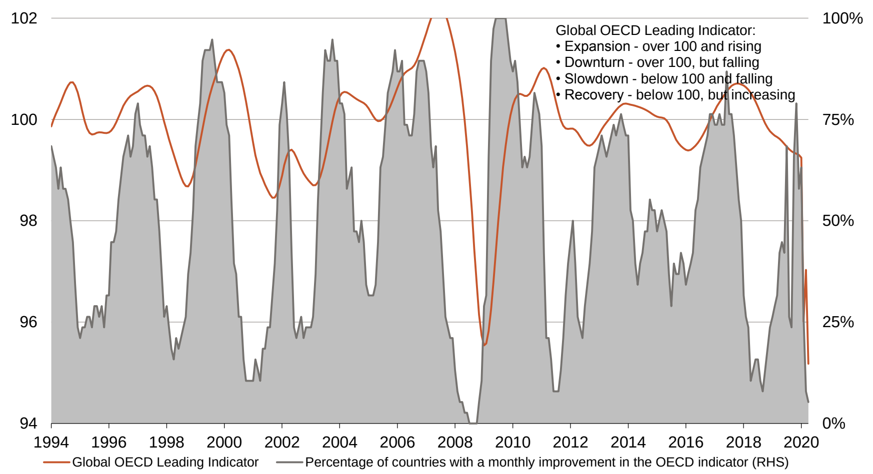
UK and Japan



- In the UK, the Industrial Purchasing Managers' Index for May and housing market data were disappointing.
- In Japan, industrial production and retail sales for April came as a negative surprise, while labour market data was better 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 - 05/06/2020

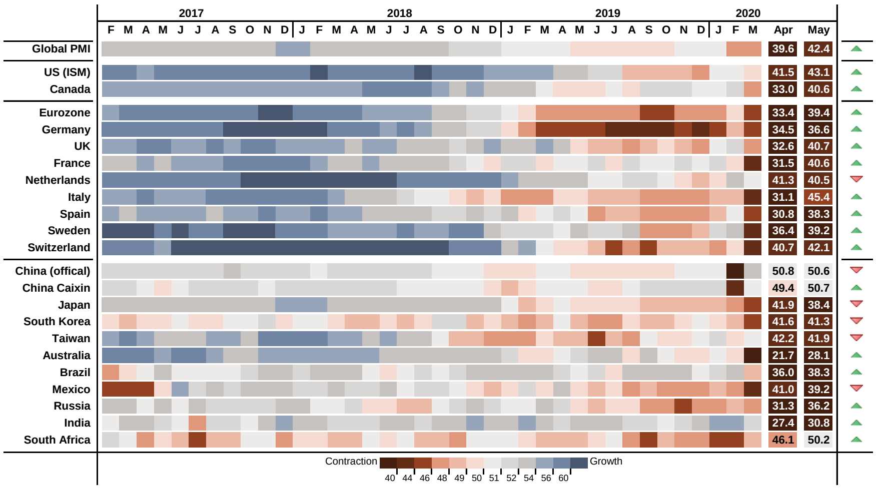
OECD Leading Indicator



- 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 regions include 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

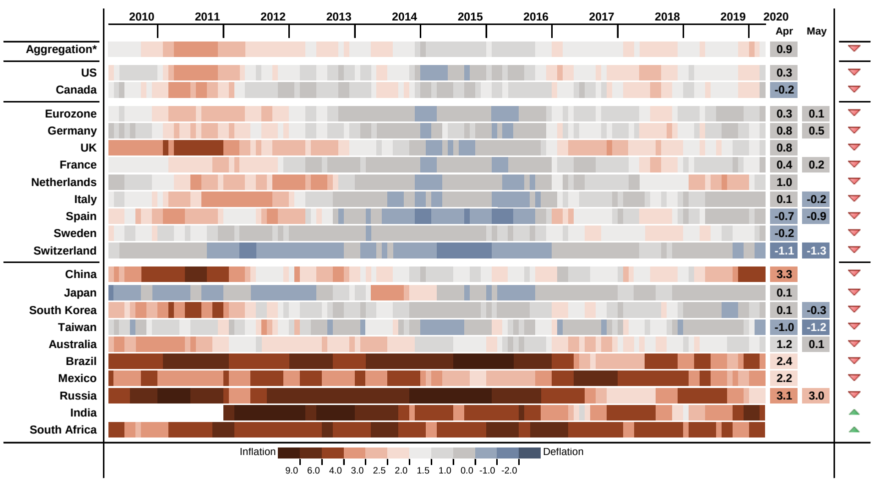
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- Signs of stabilisation are increasing. The global PMI rose to 42.4 points in May, and in China the manufacturing purchasing managers' indices, at over 50 points, point to a continued economic recovery.

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 - 31/05/2020

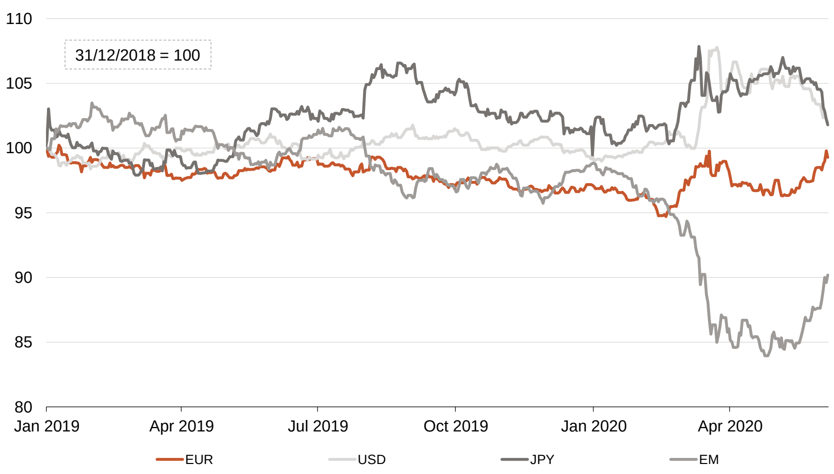
Headline Inflation



- Inflation is still on the decline. In the eurozone, the inflation rate fell to 0.1% in May. This was mainly due to the continued decline in energy prices. In Germany, inflation has fallen to a four-year low.
- In May, prices even fell in several countries. In addition to Switzerland and Spain, inflation has now also fallen below zero in Italy.

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: 31/05/2010 - 31/05/2020

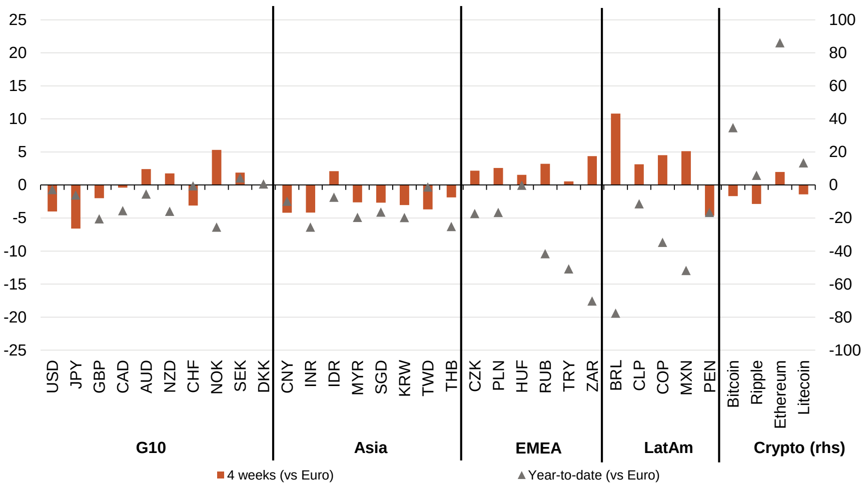
Trade-Weighted Currency Development



- The increased risk appetite of investors was also clearly visible in currency markets. Emerging market currencies and the euro were the big winners of the past two weeks. Safe havens such as the Japanese yen and the US dollar noticeably gave way.

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 - 05/06/2020

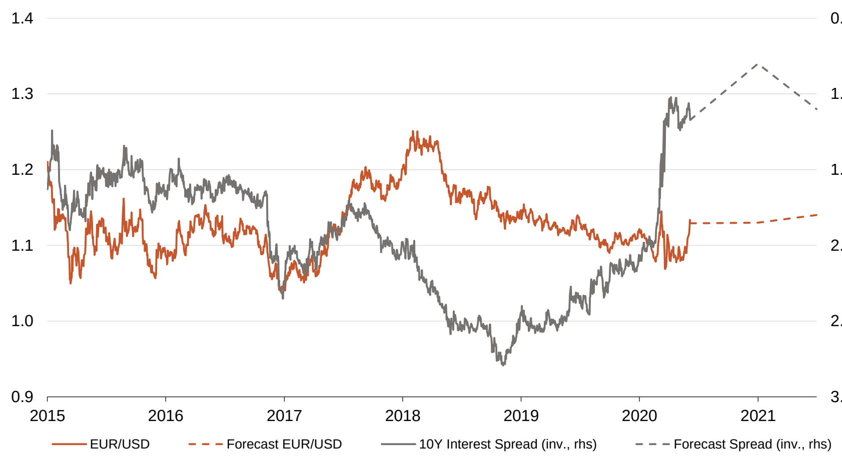
Currency Moves vs Euro



- The euro has been outperformed by high beta currencies over the past four weeks. Among the G10 currencies, these were primarily commodity-focused currencies such as the Norwegian krone or the Australian dollar, which benefitted from the sharp rise in oil prices.
- Currencies from Latin America and the EMEA region also performed well, while Asian currencies fell across the board.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2019 - 05/06/2020

EUR/USD exchange rate and interest rate differential



- The euro has recently made strong gains against the US dollar and is currently trading at around 1.13 EUR/USD.
- Although the ECB has confirmed its dovish course and expanded the PEPP programme by a further EUR600 billion, hopes of a rapid economic recovery in the euro zone currently dominate. In the US, on the other hand, many uncertainties such as social unrest and the upcoming presidential elections are weighing on the US dollar.

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 (08/05/20 - 05/06/20)	4-week & YTD: YTD (31/12/19 - 05/06/20)	05/06/19 05/06/20	05/06/18 05/06/19	05/06/17 05/06/18	05/06/16 05/06/17	05/06/15 05/06/16
Finance	17.1	-20.1	-10.9	-6.6	-2.3	25.2	-20.5
Industrials	16.1	-10.1	4.4	-1.5	3.0	25.3	-5.0
Consumer Discretionary	14.9	-10.9	2.7	-7.3	6.5	19.1	-13.5
Energy	13.3	-27.0	-26.8	-4.2	25.7	19.2	-12.0
Value	13.0	-16.7	-8.1	-3.8	0.7	21.2	-15.2
Materials	12.7	-7.3	4.3	-8.4	19.0	31.8	-18.1
Information Technology	11.8	3.7	19.4	-0.9	14.4	30.1	-5.3
Utilities	11.2	-0.6	14.1	14.5	-1.6	9.2	-5.8
Telecommunications	10.5	-13.0	-10.2	-1.0	-12.4	0.2	-9.2
Growth	6.5	-3.0	9.6	3.3	1.8	15.9	-5.6
Consumer Staples	2.3	-5.4	-0.2	12.7	-8.7	12.2	7.1
Health Care	-0.7	2.6	22.0	10.2	-9.8	10.9	-9.8

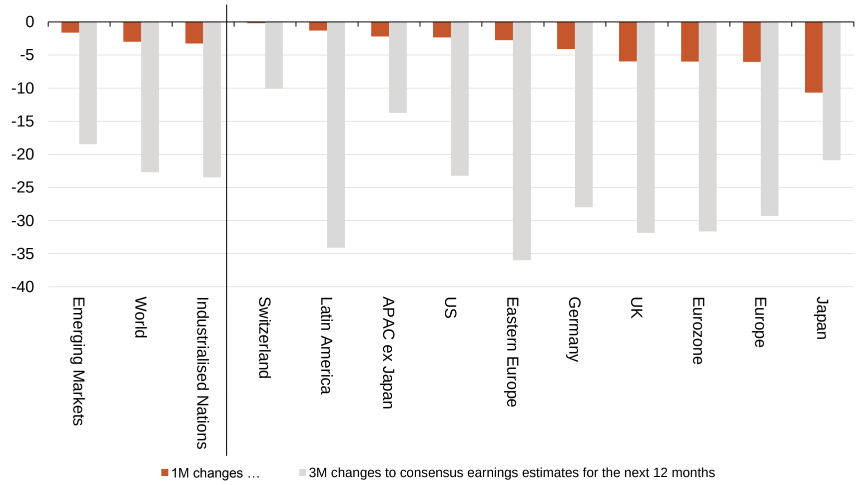
12-month periods over that last 5 years

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.

- Recently there has been a rotation in the European equity sectors. The sectors that have performed most recently are those that have underperformed this year. The industrial and financial sectors were among the relative winners.
- In contrast, health and consumer staples performed worst.

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: 05/06/2015 - 05/06/2020

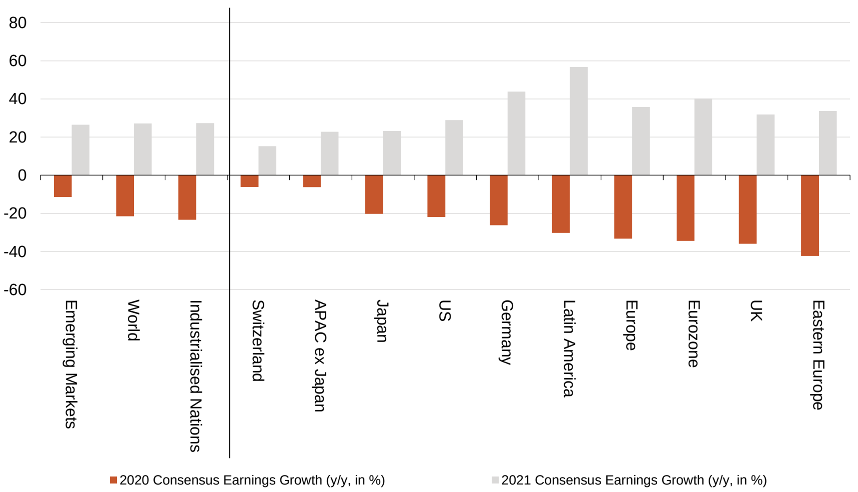
Changes in Consensus Earnings Estimates



- Analysts are continuing to take earnings estimates lower, especially for Japan and Europe.
- However, the momentum of the negative earnings revisions has slowed noticeably. The Q2 reporting season is likely to provide fresh impetus. In addition to the Q2 results, the focus should be on corporate guidance.

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 05/06/2020

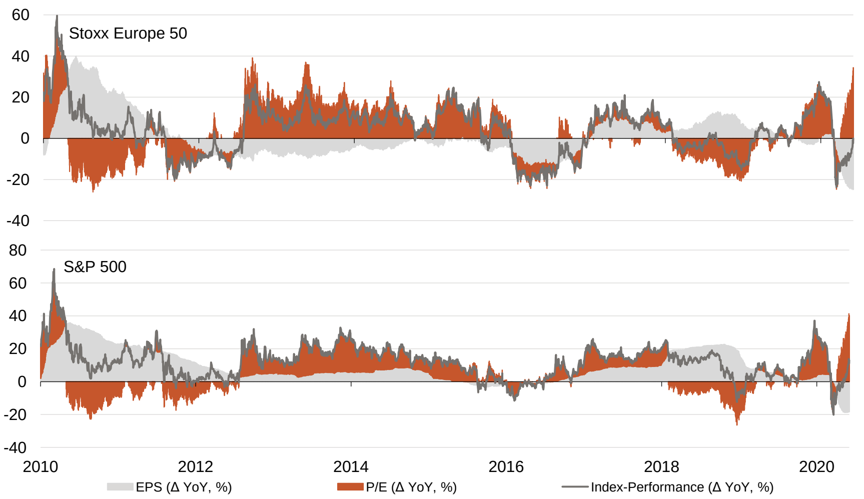
Earnings Growth



- The consensus expects the sharpest drop in profits in 2020 for Eastern Europe and the UK. Asia and Switzerland are likely to see the least dramatic fall in profits.
- A strong recovery is forecast for 2021, with the consensus anticipating recovery for Latin America and 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 05/06/2020

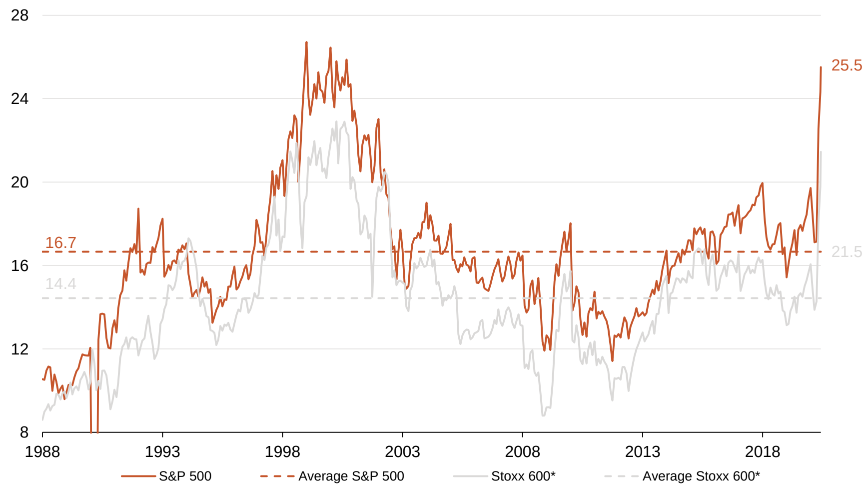
Contribution Analysis



- US equities are now noticeably back in positive territory on a 12-month horizon, despite significantly lower profit expectations compared to the previous year. The market is looking through the results expected for 2020 and is already looking towards 2021.

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 - 05/06/2020

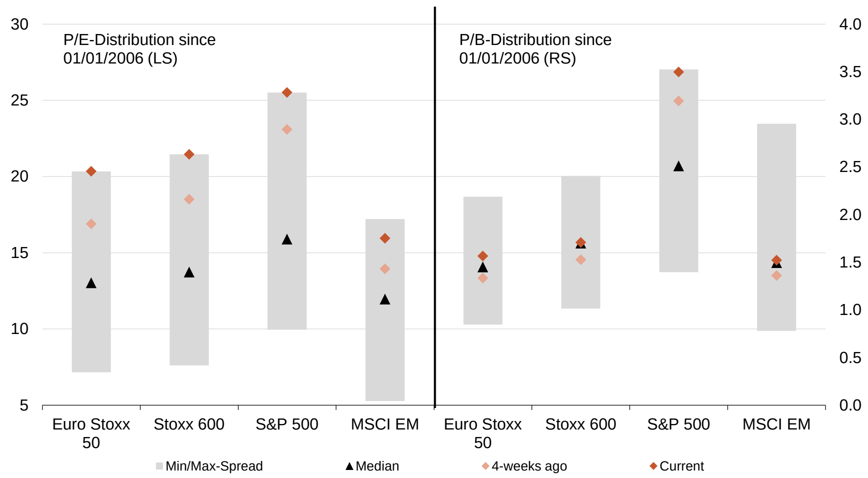
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Equity valuations on a P/E basis for the next 12 months have recently shot through the roof. However, valuations are likely to fall in the next few quarters. This is because the P/E ratio is based on the next 12 months. On 1 July, the likely catastrophic "Q2 2020" results will be replaced by the estimated "Q2 2021" results - which should lead to an improvement in valuation ceteris paribus.

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 - 05/06/2020

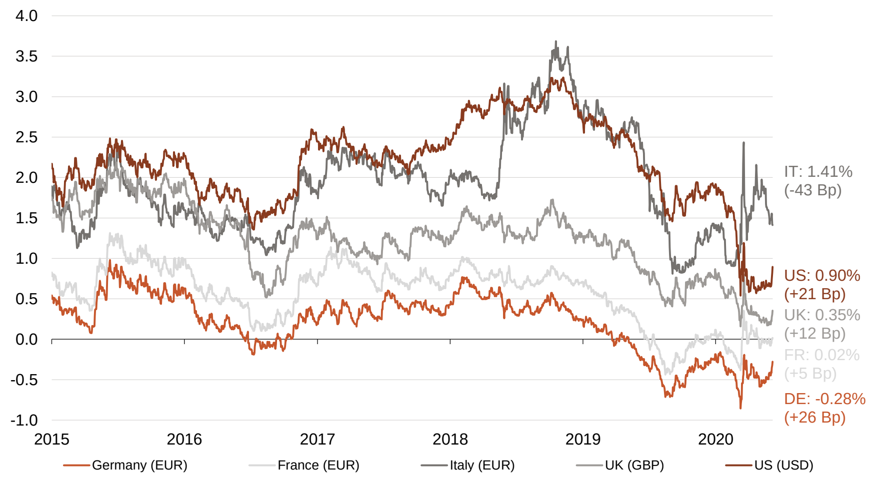
Historical Distribution: Price/Earnings and Price/Book Ratio



- On a P/E ratio basis, all regions are now valued ambitiously in comparison to their own history. This approach, however, does not take into account the relative attractiveness of bonds. What is new this year, is that interest rates are low not only in Europe and Japan, but have also fallen sharply in the US. As a result, there are fewer and fewer alternatives to equities if you want to achieve an adequate return.

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 - 05/06/2020

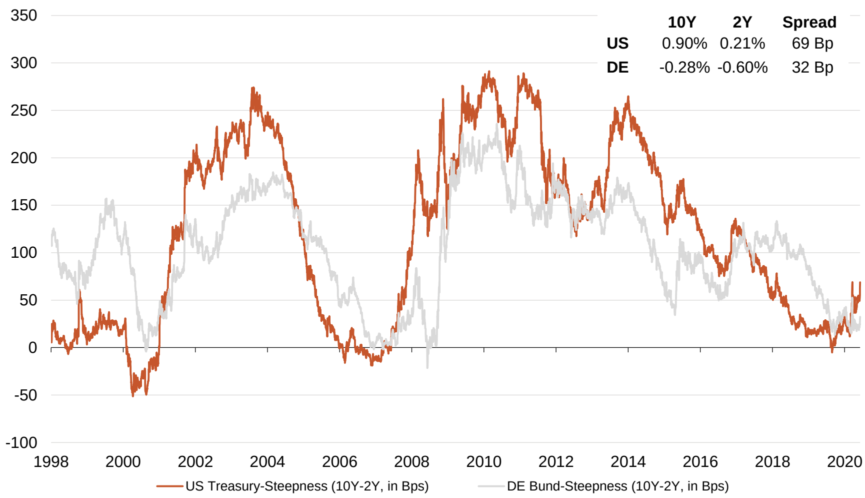
10-Year Government Bond Yields



- The risk-on environment due to the improving economic outlook is driving up yields on safe haven government bonds. Yields on US government bonds rose temporarily to over 0.9% and German government bonds saw a rise of 26 basis points on a 4-week horizon.
- The riskier Italian government bonds benefitted from increased risk appetite and the proposed EU recovery fund. Yields fell by 43 basis points.

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 - 05/06/2020

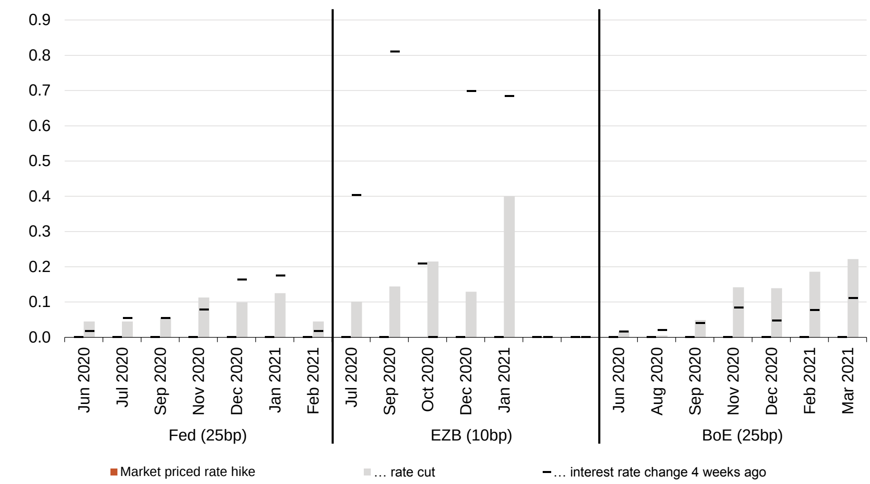
Yield Curve Steepness (10Y - 2Y)



- The steepness of the yield curves has recently increased significantly. In addition to the risk of rising inflation in the long term, the increased risk appetite in particular has caused yields at the long end to rise disproportionately. Hedging was less in demand.

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 - 05/06/2020

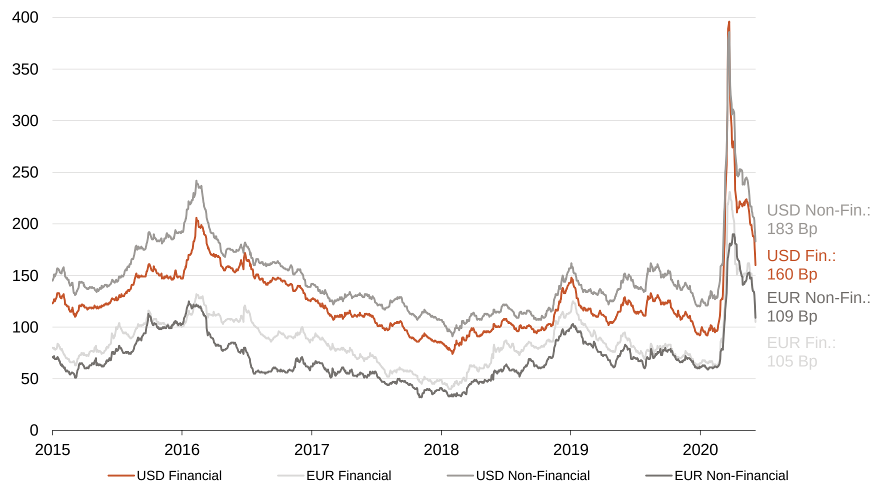
Implicit Changes in Key Interest Rates



- The ECB has recently expanded its PEPP bond purchase program and has left the key interest rate unchanged for the time being. However, the market expects a rate cut by December with a probability of 40%.
- The Fed will meet on 10 June at its monthly meeting and discuss the need for further monetary policy measures. The market, however, does not expect a rate cut in June.

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: 08/05/2020 - 05/06/2020

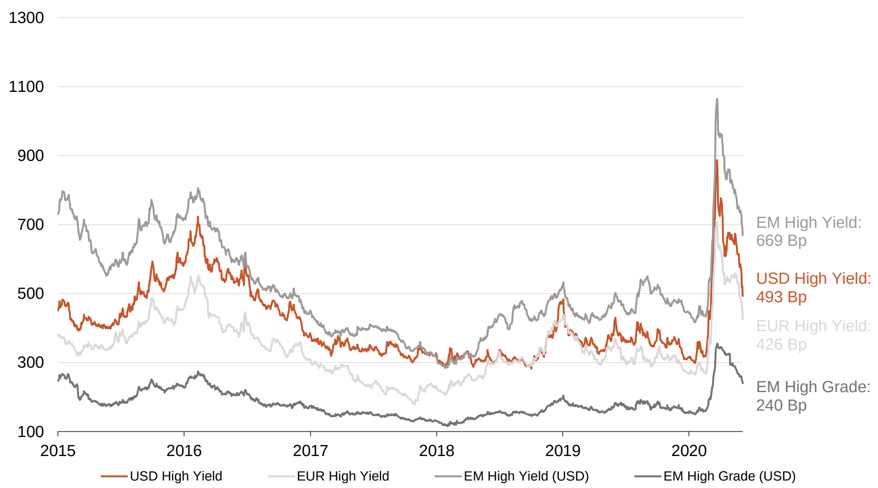
Credit Spreads Financial and Non-Financial Bonds



- Spreads on both USD and EUR-IG corporate bonds have recently fallen significantly. The decline was more than 30 basis points in all segments.
- In the case of EUR corporate bonds, the leisure sector in particular saw a massive spread tightening of over 200 basis points in the last two weeks. However, other cyclical sectors such as the banking and auto sectors also saw spreads fall significantly.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 – 05/06/2020

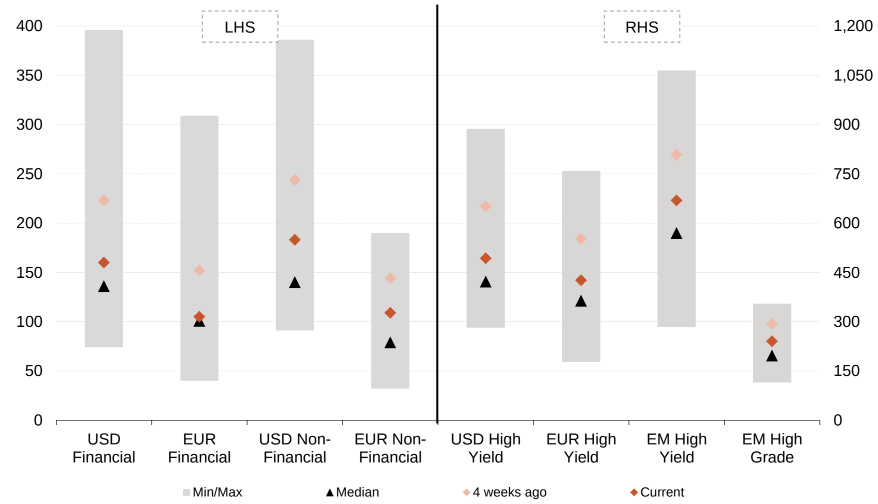
Credit Spreads High Yield and Emerging Markets Bonds



- Spreads for high-yield bonds have also fallen noticeably. In the last two weeks, spreads on EUR and USD high-yield bonds narrowed by over 100 bps, while EM high-yield bonds saw a narrowing of over 70 bps.
- In USD high yield bonds, the leisure and aerospace sectors have seen the largest spread tightening over the period.

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 – 05/06/2020

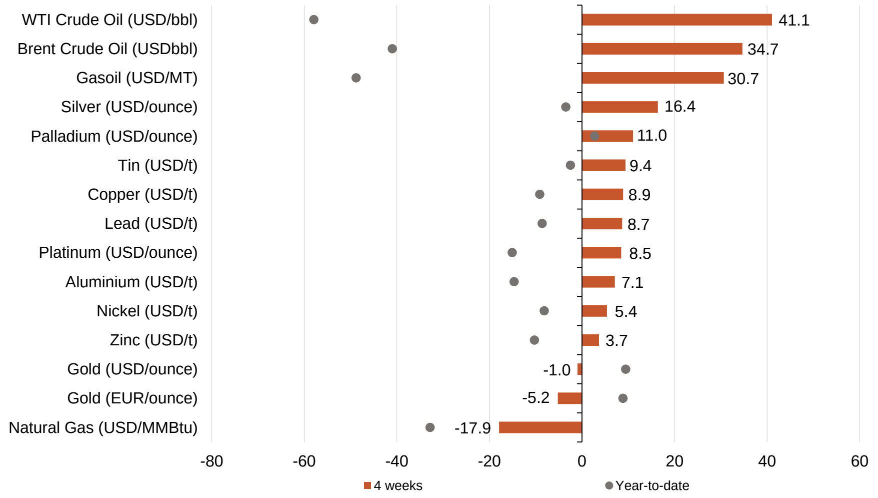
Historical Distribution of Credit Spreads (in bp)



- Spreads are increasingly approaching the 10-year median. For EUR financial bonds they are only about four basis points away. By contrast, EUR non-financial bonds have much more room to move in the direction of the 10-year median.

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: 05/06/2010 – 05/06/2020

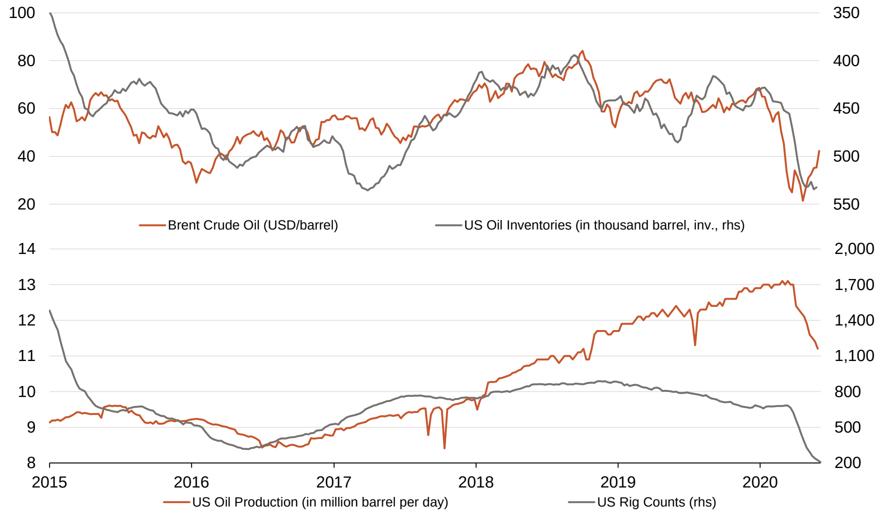
Commodities Performance



- With the exception of natural gas, energy commodities were by far the biggest winners of the last four weeks. However, industrial metals and precious metals such as silver and palladium, which are also used in industrial applications, also posted strong gains.
- Gold was less in demand recently and even recorded a slight loss.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 - 05/06/2020

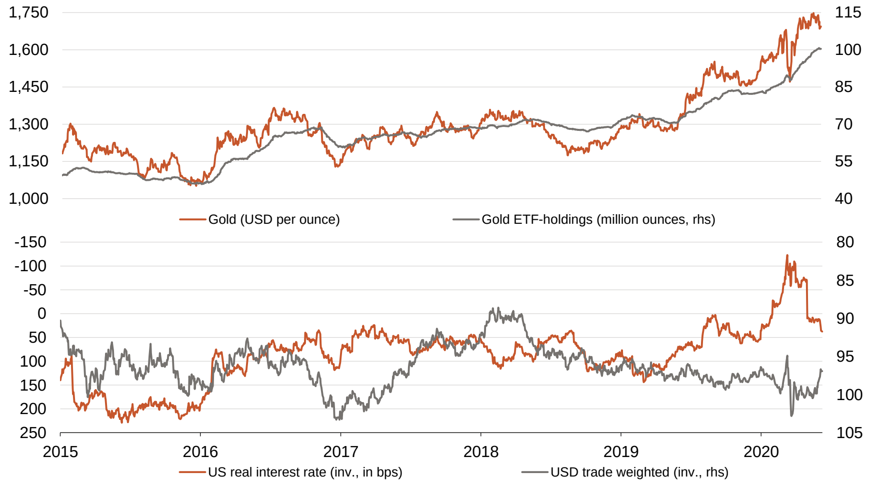
Crude Oil



- Crude oil continued to make strong gains in the past two weeks. Brent is currently trading above the USD 40 per barrel mark again.
- Although OPEC+ was able to agree on an extension of the production cuts last weekend, the potential for crude oil should remain limited in the near future due to the fact that the substantial inventory build-ups must first be reduced. In addition, US producers have already announced that they intend to increase their production volumes again.

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 - 05/06/2020

Gold



- In light of the improving sentiment in capital markets, gold recently had to end its upward trend and is currently trading below USD1,700 an ounce.
- However, investors' demand for security is likely to remain high in future due to the many uncertainties such as a second wave of infections or further escalation in the US-China trade war.

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 - 05/06/2020

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