BERENBERG
Markets

MONITOR

22 June 2020

Current market commentary

The last two weeks have shown that volatility remains high and is unlikely to fall back to pre-crisis levels any time soon. With the upcoming reporting season, continuing geopolitical and trade uncertainties, the ongoing corona crisis and the US presidential election due in early November, there are a lot of stumbling blocks ahead. At the same time, the market is supported by the fact that many bears remain underinvested in equities, in addition to the support from central banks. Further, economic data have tended to surprise upwards recently. In addition to all the downside risks, there are also upside risks, including a faster than expected economic recovery and the early availability of a corona vaccine. The sharp and rapid sell-off in mid-June with the subsequent recovery has shown that the downside risk for the stock markets currently seems limited. Investors are currently using sell-offs as an opportunity to add to equities.

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

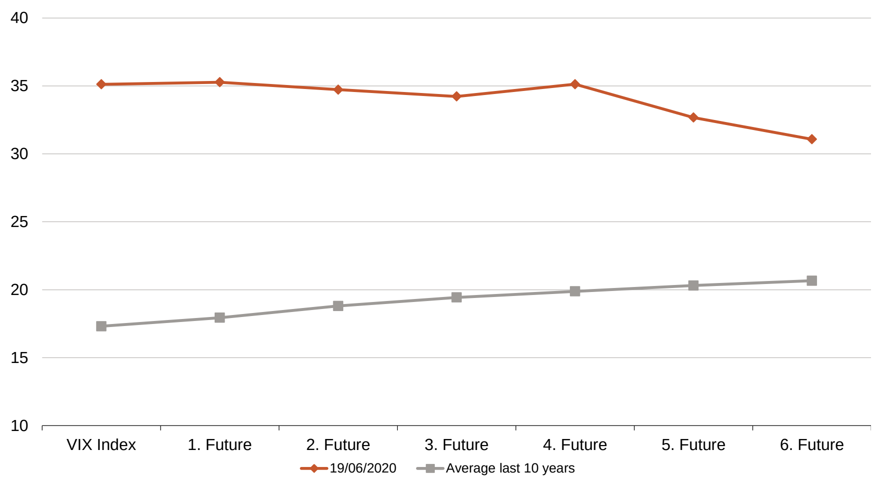
The next few weeks will become political. In Poland, the presidential elections will be held on 28 June, while the US election campaign is gathering momentum. According to the latest polls, Joe Biden is leading in voter favour. June 30th is the official deadline for applying for an extension of the transitional phase of Britain's withdrawal from the EU. In the second half of the year, Germany will take over the EU Council Presidency for six months, and in the course of this period it is likely to push the EU recovery fund further.

Politically it will remain interesting in the coming weeks.

Whether the global economy remains on the path to recovery will be shown by the forthcoming Purchasing Managers' Indices (PMI). On Tuesday, the preliminary June Markit PMIs for Germany, France, the eurozone, Britain and the US will be released. The Business Climate Indices for France and Germany will follow on Wednesday. On June 30th the US Consumer Confidence and July 1st the ISM June PMI for the US will be released.

Purchasing managers' indices provide an insight into the economic recovery path.

Investors expect high volatility until after the US elections



- Investors remain sceptical and by no means complacent. Implied volatility is currently high and market expectations are that it will remain so for at least six months.
- For example, the volatility curve for the S&P 500, measured by the VIX Index and related futures, is trading well above the 10-year average for all maturities.
- The October future contract (4th VIX future) is trading at 35. Following the end of the US elections, a slight decrease in volatility is then expected.

Source: Bloomberg, As of 19/06/2020

Multi Asset

	4-week & YTD: 4W (22/05/20 - 19/06/20)	YTD (31/12/19 - 19/06/20)	12-month periods over that last 5 years: 19/06/19 19/06/20	19/06/18 19/06/19	19/06/17 19/06/18	19/06/16 19/06/17	19/06/15 19/06/16
Brent	13.4	-41.2	-31.9	-11.4	59.4	-15.0	-34.6
MSCI Emerging Markets	7.9	-9.1	-0.9	1.3	5.7	29.7	-14.7
REITs	5.3	-13.3	-11.6	20.4	-6.9	1.1	9.4
Global Convertibles	3.9	4.8	11.5	4.2	6.8	17.2	-5.2
MSCI World	3.8	-5.2	4.2	7.7	7.2	21.9	-5.3
Industrial Metals	3.7	-9.6	-6.1	-11.7	18.2	19.8	-15.5
MSCI Frontier Markets	1.3	-15.7	-10.1	4.7	-0.6	14.5	-5.9
Global Coporates	0.3	2.8	6.8	9.8	-2.9	2.9	5.1
Eonia	0.0	-0.2	-0.4	-0.4	-0.4	-0.4	-0.2
Global Treasuries	-1.6	3.5	4.9	7.9	-2.0	-3.0	11.1
Gold	-2.1	15.2	28.6	10.2	-1.4	-3.1	8.9
USDEUR	-2.5	0.3	0.4	3.2	-3.8	1.2	0.7

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.

- Even though the last two weeks were a little more volatile, the overall performance over the last four weeks remains constructive. The underperformers during the crisis performed best.
- Brent oil gained the most, followed by emerging markets equities and REITs. By contrast, safe havens fared worst.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 19/06/2015 – 19/06/2020

Equities

	4-week & YTD: 4W (22/05/20 - 19/06/20)	YTD (31/12/19 - 19/06/20)	12-month periods over that last 5 years: 19/06/19 19/06/20	19/06/18 19/06/19	19/06/17 19/06/18	19/06/16 19/06/17	19/06/15 19/06/16
Euro Stoxx 50	12.7	-11.6	-3.7	3.3	-1.5	29.0	-15.2
DAX	11.4	-6.9	0.2	-2.9	-1.6	33.8	-12.8
Stoxx Europe Cyclicals	10.7	-15.3	-6.8	-3.2	2.5	33.0	-18.3
MSCI EM Asia	8.1	-3.3	7.1	-3.7	9.1	33.1	-14.2
Stoxx Europe 50	7.6	-8.8	-1.6	7.9	-2.3	22.0	-14.9
Stoxx Europe Small 200	6.1	-11.5	-1.0	-2.0	6.5	25.1	-9.4
Stoxx Europe Defensives	5.1	-4.9	3.2	8.9	-0.8	14.4	-10.2
Topix	4.9	-4.9	6.1	-4.4	8.4	24.0	-7.3
MSCI EM Eastern Europe	3.9	-21.6	-12.2	30.0	6.0	21.5	-10.2
MSCI UK	3.6	-21.4	-14.8	0.7	4.3	16.7	-15.9
MSCI USA Small Caps	3.4	-13.0	-6.2	-0.2	15.3	23.3	-6.7
S&P 500	2.1	-2.9	8.2	11.5	10.7	22.1	1.0

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 regions gained over the last four weeks. It is worth noting that the eurozone clearly outperformed the other major regions in this rally. The DAX and Euro Stoxx 50 were among the relative winners. The Euro Stoxx 50 outperformed the S&P 500 in euro terms by more than 10 percentage points during this period.
- Since the beginning of the year, however, the S&P 500 has still performed best.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 19/06/2015 – 19/06/2020

Fixed Income

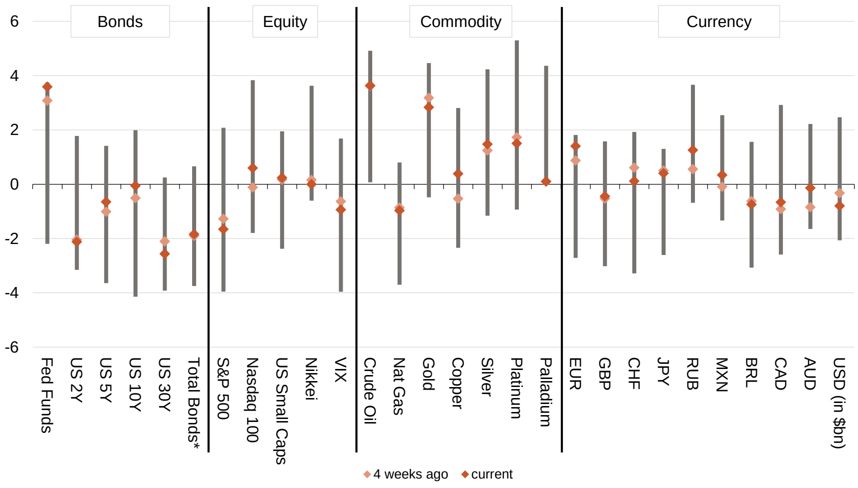
	4-week & YTD: 4W (22/05/20 - 19/06/20)	YTD (31/12/19 - 19/06/20)	12-month periods over that last 5 years: 19/06/19 19/06/20	19/06/18 19/06/19	19/06/17 19/06/18	19/06/16 19/06/17	19/06/15 19/06/16
EUR High Yield	4.9	-5.0	-1.7	3.0	1.0	8.1	1.6
EM Hard Currency Bonds	3.3	-3.1	-1.6	8.5	-5.3	5.9	6.8
EUR Inflation Linkers	2.4	-2.5	0.1	1.8	2.8	1.1	2.7
EUR Financials	2.2	-1.2	0.1	3.9	0.6	3.3	3.9
EUR Non-Financials	2.2	-1.0	0.1	4.3	0.6	1.6	4.9
BTPs	2.0	0.9	6.3	6.0	-1.8	-0.6	7.6
USD High Yield	0.6	-3.1	1.4	10.3	-1.1	13.5	0.2
USD Corporates	-0.2	5.2	10.2	13.2	-4.6	4.5	6.4
Bunds	-0.4	1.9	1.1	5.4	0.2	-2.1	6.7
EM Local Currency Bonds	-1.3	-3.0	2.1	9.5	-4.7	8.2	-0.1
Gilts	-2.6	1.6	8.6	4.4	-0.4	-6.4	0.6
Treasuries	-3.0	8.7	10.5	10.8	-4.7	-0.5	6.0

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.

- EUR high yield bonds have recently gained further ground. Since the beginning of the year they have now lost "only" about 5% in value.
- Hard currency EM government bonds and USD high-yield bonds also benefited from the narrowing of credit spreads. The liquidity support provided by central banks around the world continues to be effective.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 19/06/2015 – 19/06/2020

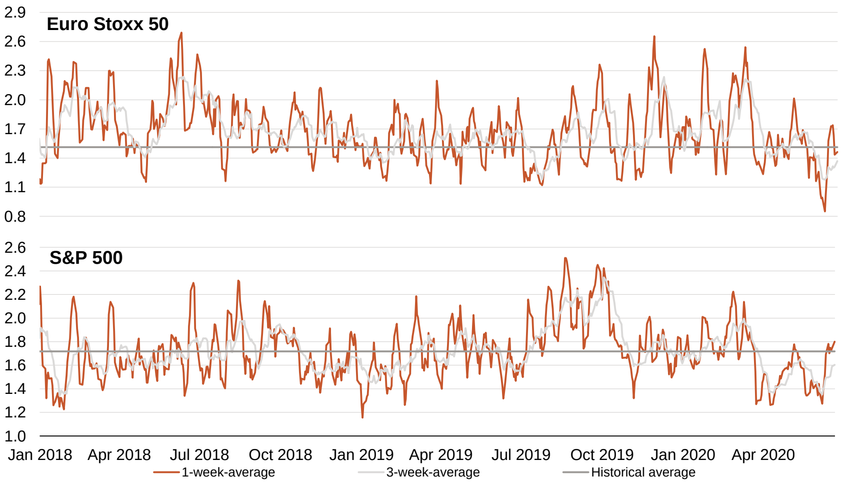
Non-Commercial Positioning



- Speculative investors have recently become somewhat more optimistic. Long positions in gold were reduced and further increased in copper. Within currencies, safe havens such as CHF and JPY were cut, while RUB positions were added.

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: 16/06/2010 - 16/06/2020

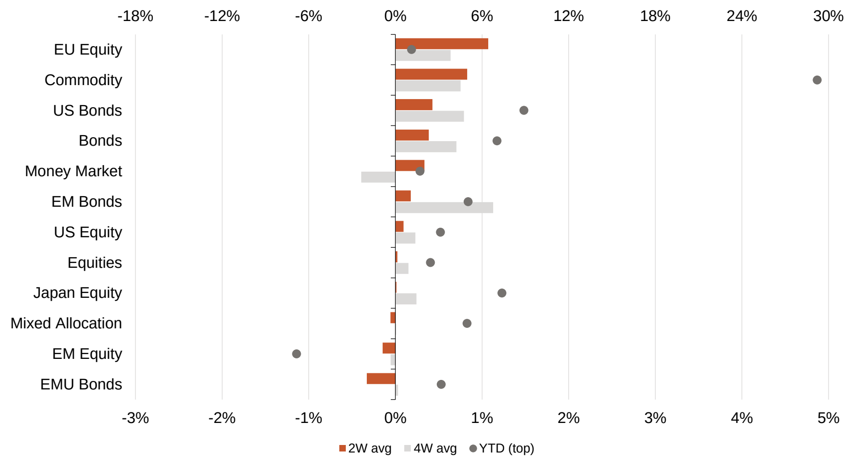
Put-Call Ratio



- The put-call ratio has risen sharply from its lows at the beginning of June. This is an indication that investors have become more cautious and have increased their hedges. This is a good sign, because fewer investors will then be caught on the wrong foot in the event of a selloff.

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 - 19/06/2020

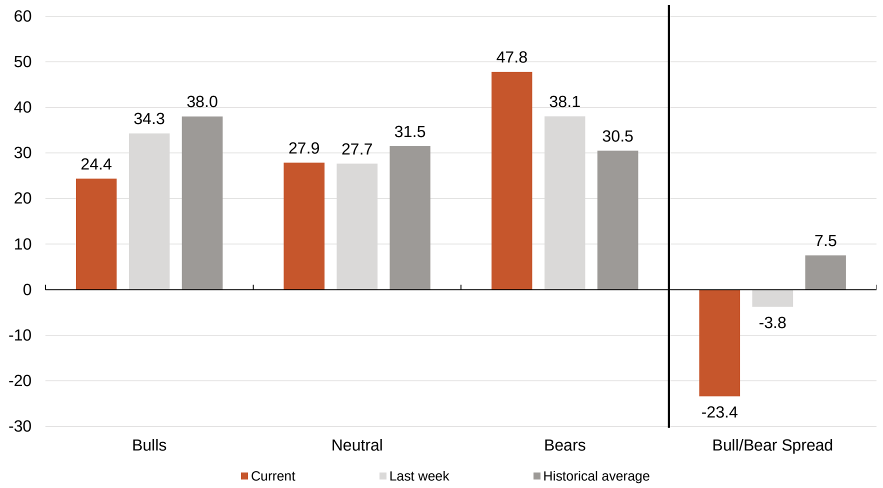
ETF Flows



- ETF investor enthusiasm for European equities has continued to grow in recent weeks. Together with commodities, they have been the most sought-after investments over the past two weeks. The announced fiscal stimuli within the eurozone have certainly been helpful.
- However, emerging market equities remain unpopular. An opportunity?

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2019 - 19/06/2020

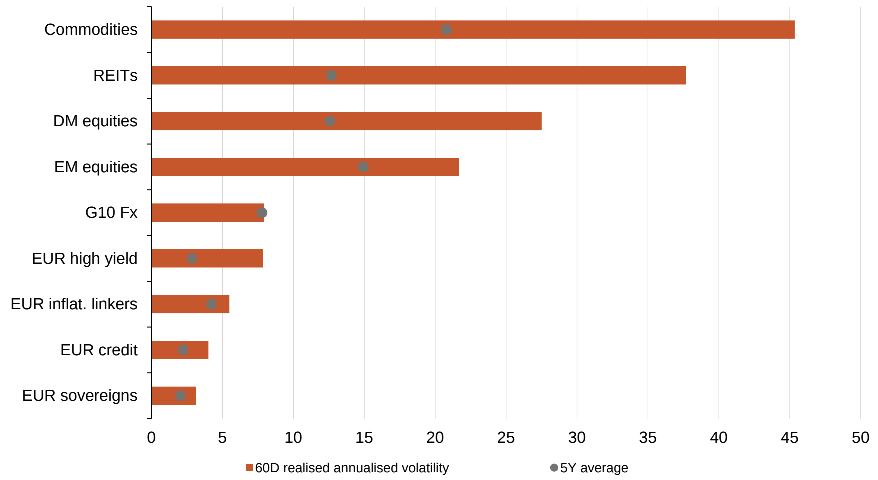
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment among US private investors has deteriorated dramatically recently. Last week, bulls and bears were in balance, but now there is great pessimism due to rising infection rates, social unrest and overheated stock markets. At -23.4 pp, the bull/bear spread is even more negative than in 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 – 18/06/20

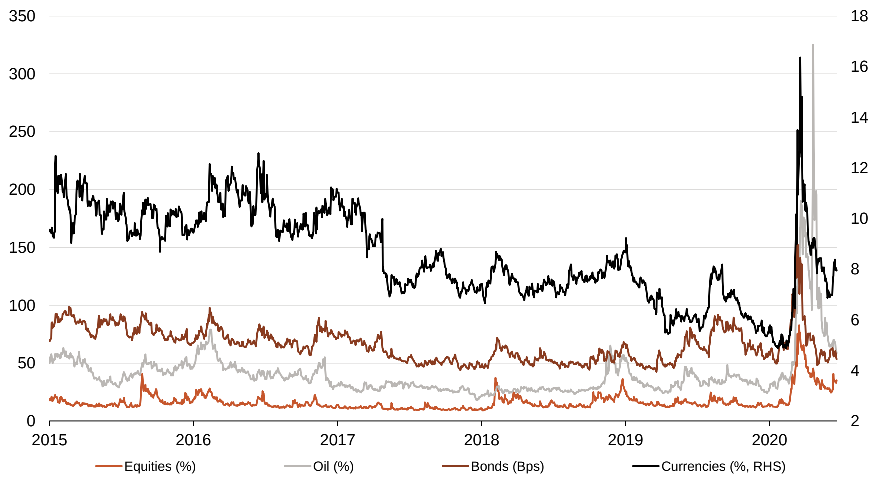
Realised Volatilities



- Realised volatility in developed and emerging market equities over the last 60 days has fallen by over 10pp despite the sharp sell-off on 11 June. However, this is mainly due to the fact that the worst days of March have now been excluded from the calculation.
- Relative to the last 5 years, volatility has continued to be significantly higher, especially in risk investments.

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: 19/06/2015 – 19/06/2020

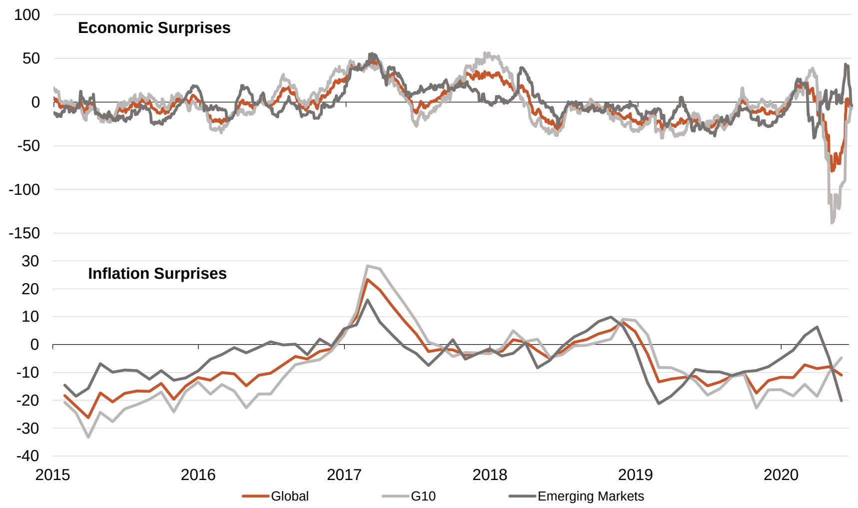
Implied Volatilities



- The VIX jumped above the 40 mark again in the last two weeks and shows what fragile ground the stock market stands on. Recently, implied volatility fell again, but is still very high in historical terms at 35.
- The implied volatility for oil has continued to fall in the last two 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 – 19/06/2020

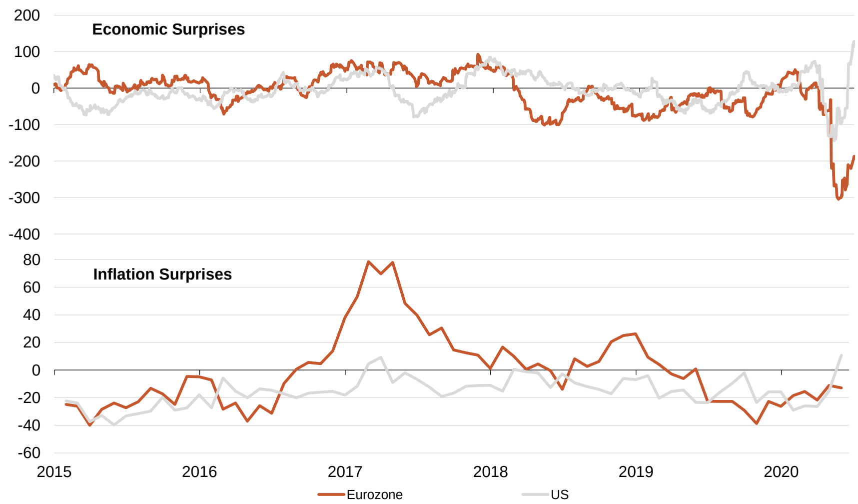
Global



- With the spread of Covid-19 in many emerging markets, the economy there has also been affected. Most recent economic surprises have been negative. In South Korea the unemployment rate rose to a 10-year high and in Brazil retail sales (April) were weaker than expected. In China, industrial production surprised to the upside in May while retail sales disappointed.
- On a global level, the industrialised nations in particular provided positive support for the economic surprise index.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 19/06/2020

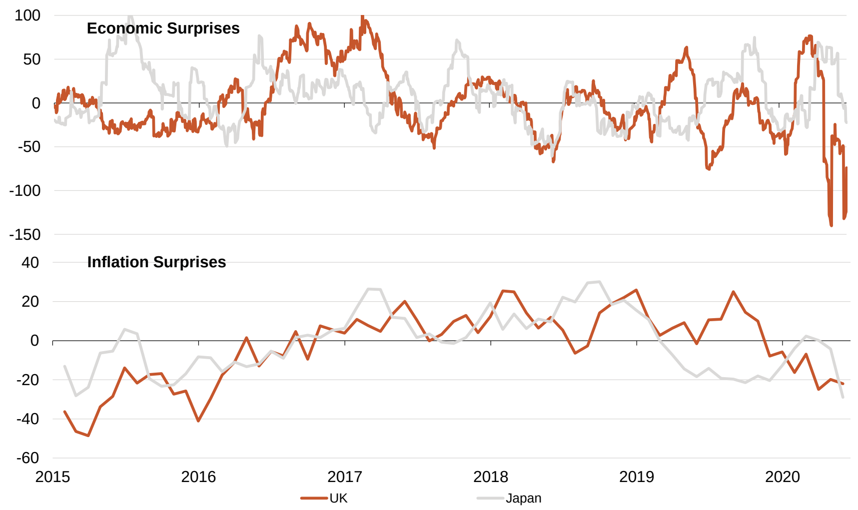
Eurozone and US



- Despite recently disappointing labour market figures and industrial production, the aggregate economic data in the USA continued to provide positive surprises. Consumer confidence (June), retail sales (May) and the Empire Manufacturing Index and Philadelphia Fed Business Outlook were better than expected.
- The eurozone is also on a positive trend. In Germany, for example, the ZEW Index of Economic Expectations surprised positively.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 19/06/2020

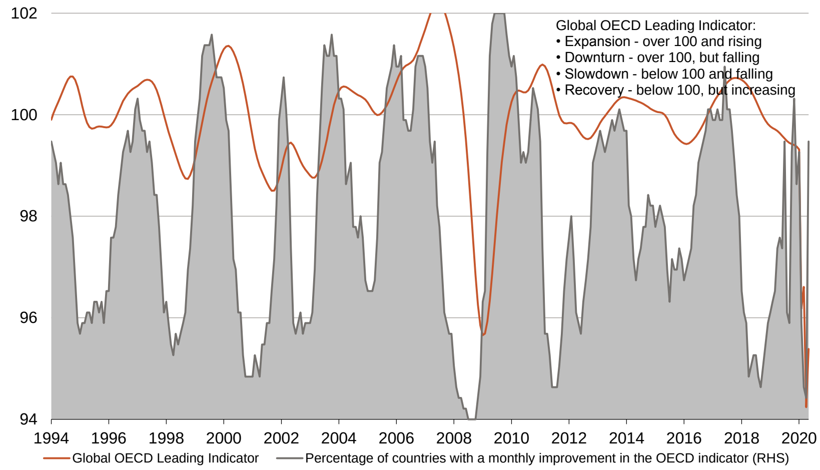
UK and Japan



- Economic data in both the UK and Japan have disappointed. In the UK, industrial production (April) and in Japan, new machinery orders (April) and exports (May) were worse than expected. Retail sales in the UK were a positive surprise (May).

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 - 19/06/2020

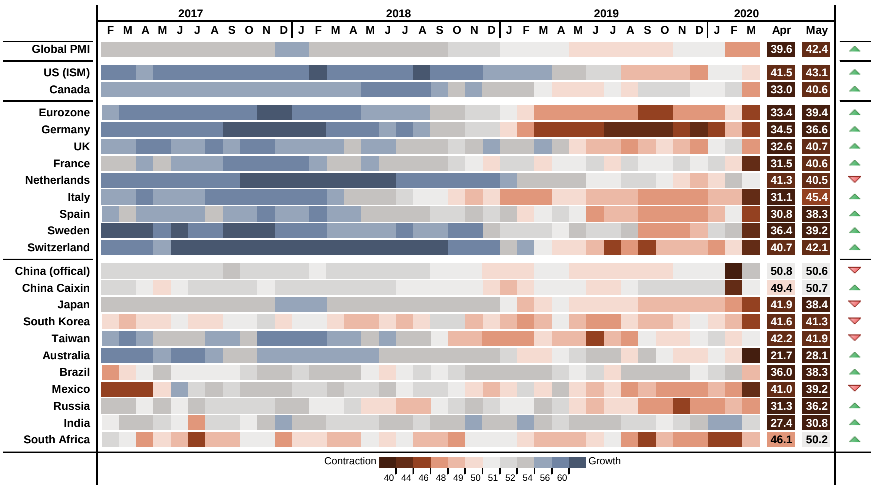
OECD Leading Indicator



- The global OECD leading indicator recovered slightly in May relative toApril, indicating a recovery in the global economy.
- In May, the OECD leading indicators improved in over 60% of countries. In addition to the US, this was also the case in Germany, France and the UK, for example.

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 - 31/05/2020

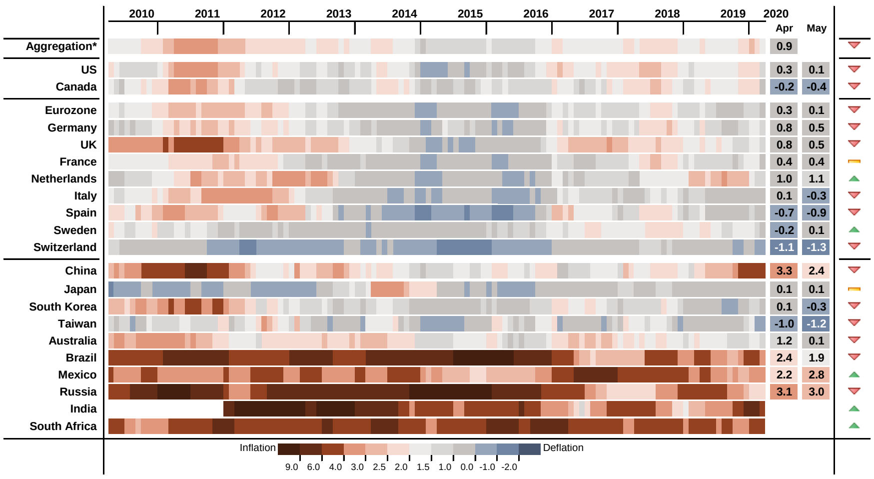
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- Signs of stabilisation are increasing. The global PMI rose to 42.4 points in May, and in China the purchasing managers' indices for industry, at over 50 points, indicate 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

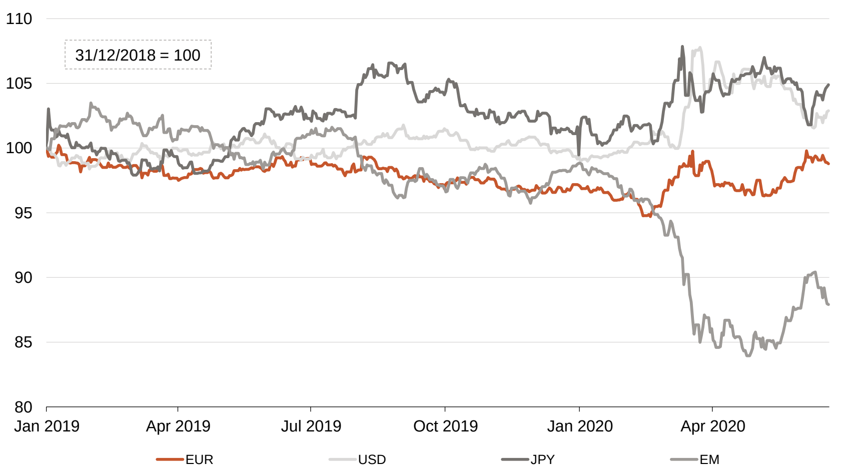
Headline Inflation



- Inflation is still on the decline globally. In the US it fell to 0.1% in May, in the UK to 0.5% and in China to 2.4%. In China, price increases in the food sector are falling.
- In the USA, core inflation, which does not take into account volatile food and energy prices, was significantly higher at 1.2%.

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

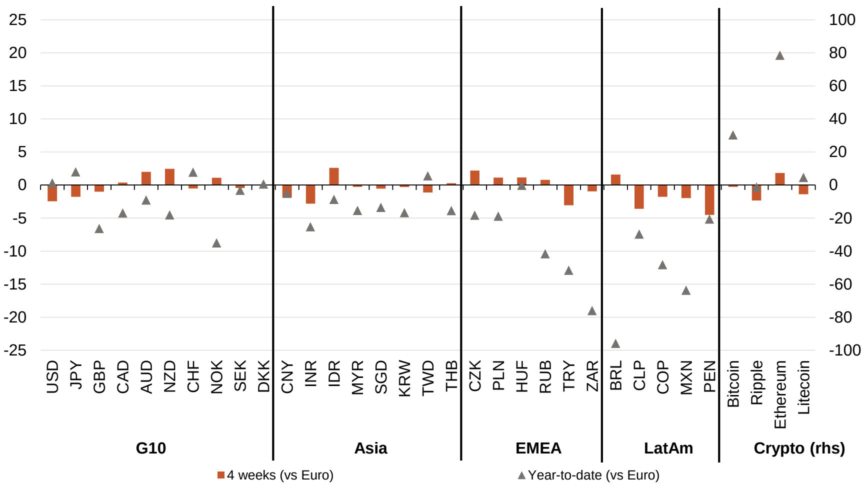
Trade-Weighted Currency Development



- The Japanese Yen regained its strength in the past two weeks as risk aversion increased.
- The US dollar, also typically a safe haven, could not follow this move.
- Emerging market currencies had to put an end to their upward trend and fell noticeably.

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 - 19/06/2020

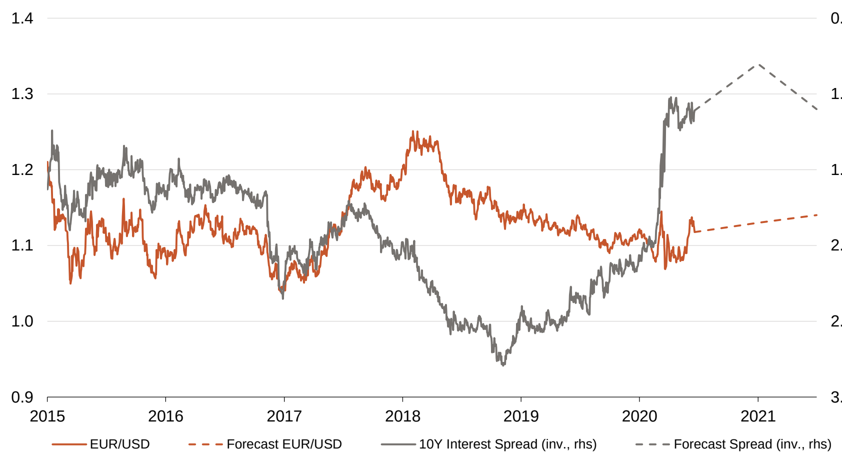
Currency Moves vs Euro



- Movements in the currency market against the euro have been limited over the past four weeks.
- In some cases, commodity currencies such as the Australian dollar and the Norwegian krone performed positively.
- Since the beginning of the year, the Euro has gained against almost all the currencies presented here.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2019 - 19/06/2020

EUR/USD exchange rate and interest rate differential



- In the past two weeks, the euro ended its upward trend against the US dollar and is currently trading around the 1.12 EUR/USD mark.
- The interest rate differential between US Treasuries and Bunds has also stabilised above the 1% mark, but should continue to support the euro in the medium term.

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 (22/05/20 - 19/06/20)	YTD (31/12/19 - 19/06/20)	19/06/19 19/06/20	19/06/18 19/06/19	19/06/17 19/06/18	19/06/16 19/06/17	19/06/15 19/06/16
Finance	12.4	-25.9	-19.0	-4.2	-4.1	35.1	-24.6
Utilities	11.5	0.2	11.2	17.5	-2.5	12.7	-7.1
Industrials	9.9	-13.8	-3.9	4.1	0.3	32.6	-7.1
Value	9.6	-20.6	-14.4	-0.7	-0.5	26.5	-17.6
Information Technology	9.0	2.6	14.7	0.9	16.1	35.8	-7.4
Materials	8.3	-9.1	-2.1	-1.8	15.1	35.3	-19.2
Consumer Discretionary	8.1	-16.8	-7.2	-1.9	5.2	23.5	-17.5
Telecommunications	7.3	-15.3	-13.9	1.4	-11.5	5.3	-15.8
Consumer Staples	5.6	-3.5	0.3	14.9	-8.3	16.2	1.7
Growth	5.6	-3.0	5.8	7.8	1.0	21.5	-9.6
Energy	5.2	-33.4	-34.6	-1.6	24.3	16.9	-8.6
Health Care	1.3	6.0	19.8	16.4	-9.4	16.4	-13.0

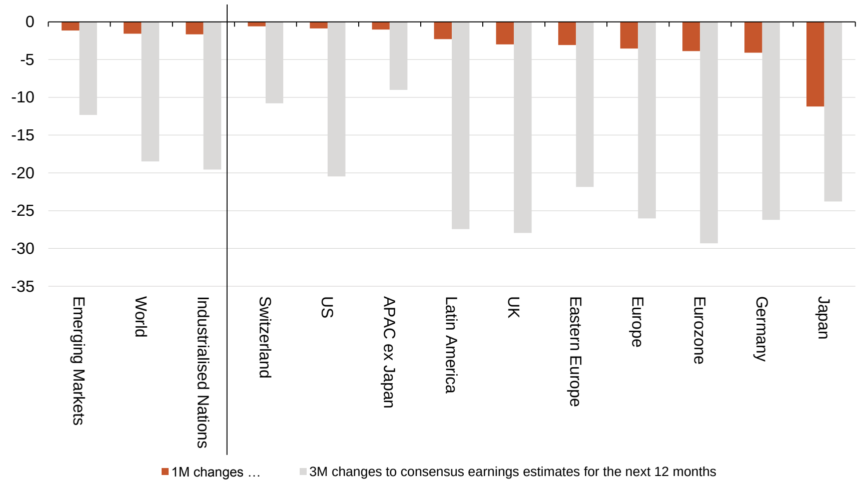
4-week & YTD; 12-month periods over that last 5 years

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.

- Within European sectors, financial companies have recently performed best. The ECB's loose monetary policy and relatively favourable valuations compared to other sectors supported this development. Since the beginning of the year and over the last five years, however, the sector has remained one of the largest underperformers.
- The healthcare sector remains the best performing sector since the beginning of the year, even having lagged somewhat recently.

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: 19/06/2015 – 19/06/2020

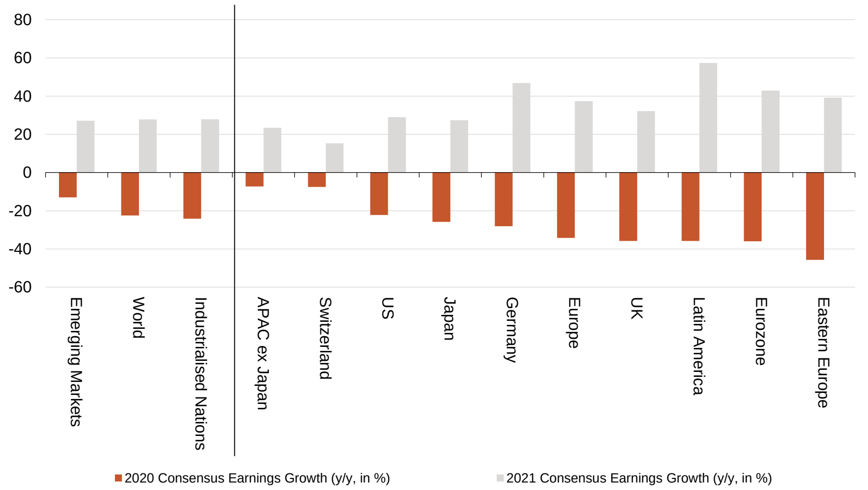
Changes in Consensus Earnings Estimates



- Japan recently saw by far the largest negative earnings revisions, followed by the UK. Most other regions saw smaller changes in earnings estimates. The momentum of recent months has slowed considerably.
- Analysts will follow the upcoming Q2 reporting season closely and then make further adjustments.
- We expect further negative earnings revisions by the end of the year.

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 19/06/2020

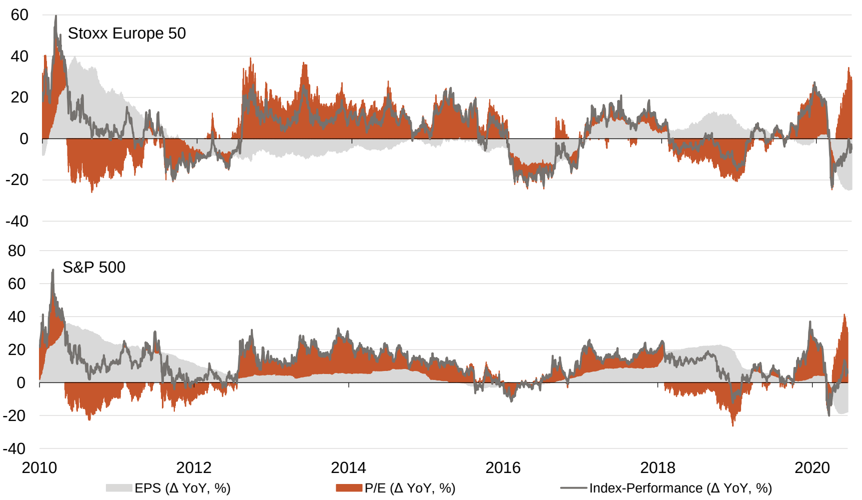
Earnings Growth



- Analysts remain sceptical about the UK. For this year, they expect a relatively sharp drop in profits compared with other regions. By contrast, the estimated earnings recovery next year will be moderate.
- For German stocks, earnings trajectories look much friendlier.

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 19/06/2020

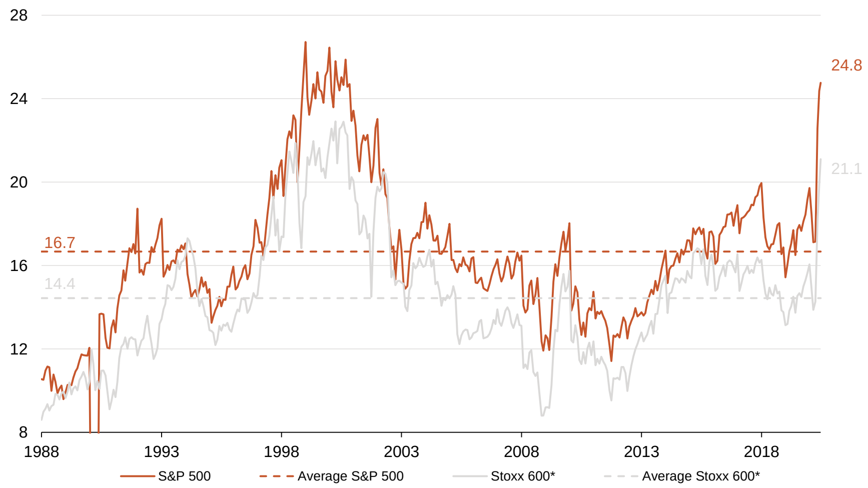
Contribution Analysis



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

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 - 19/06/2020

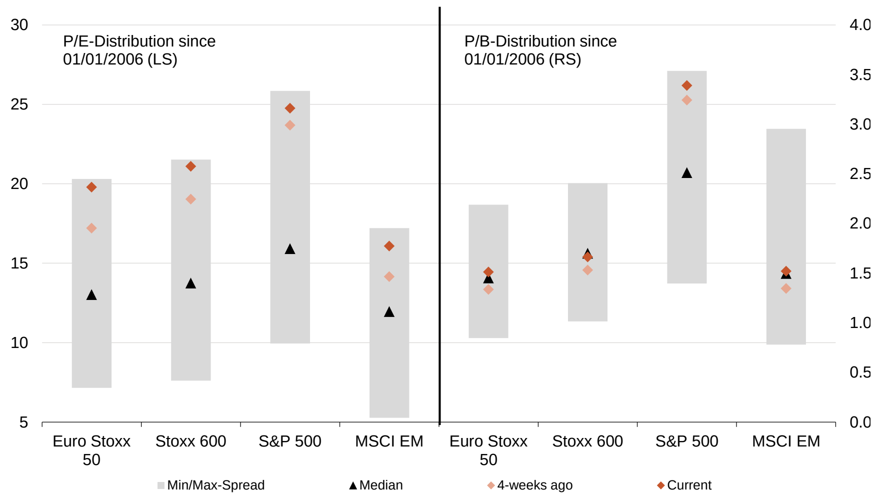
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Equity valuations on a P/E basis for the next 12 months have recently risen to the highest level since the tech bubble. 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 a steady 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 - 19/06/2020

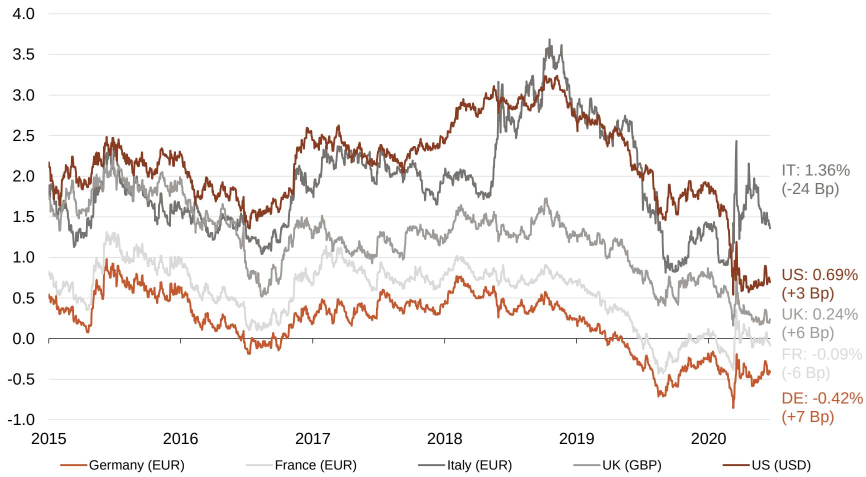
Historical Distribution: Price/Earnings and Price/Book Ratio



- At the moment, no equity region is optically cheap compared to its own history, especially on a P/E basis.
- On a P/B basis, however, only US equities are expensive - emerging markets and European equities are fairly valued.
- However, the comparison is somewhat misleading. Never before has the interest rate level worldwide been so low. Equities therefore remain attractive relative to other asset classes.

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 - 19/06/2020

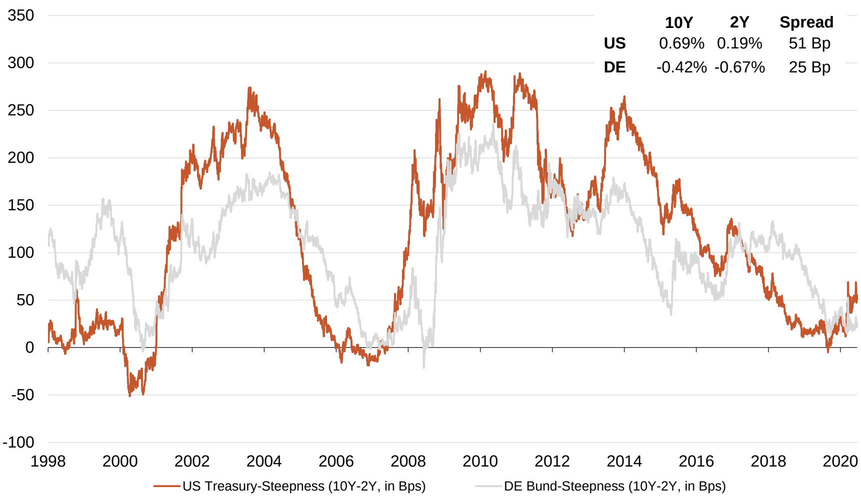
10-Year Government Bond Yields



- Fears of a second corona wave and the emerging concerns about economic recovery put an abrupt stop to the excursion of yields to higher levels. Existing risks and massive central bank purchases should continue to limit any rise in yields. As a result, yields on safe haven government bonds have hardly moved up at all 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 - 19/06/2020

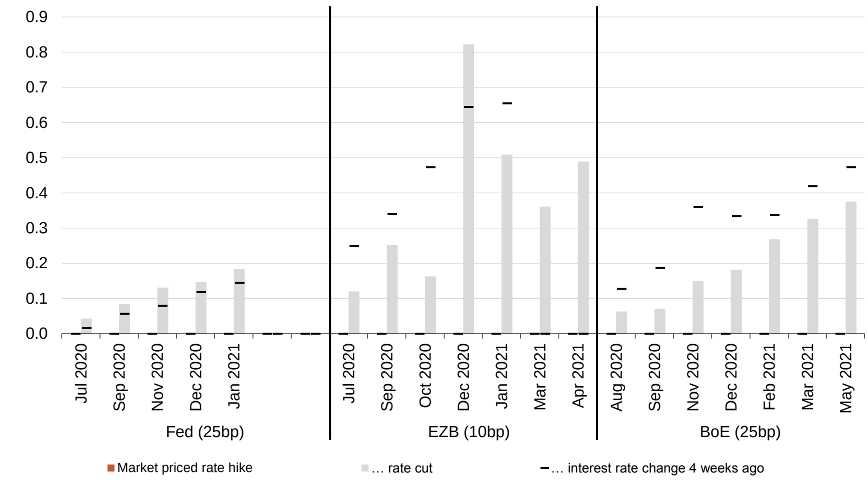
Yield Curve Steepness (10Y - 2Y)



- Following the Fed's announcement that interest rates are likely to remain at zero for years, yields on 10-year government bonds have fallen significantly. As a result, the steepness of the US yield curve has also fallen to almost 50 basis points.
- The German yield curve recently fluctuated around 30 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 - 19/06/2020

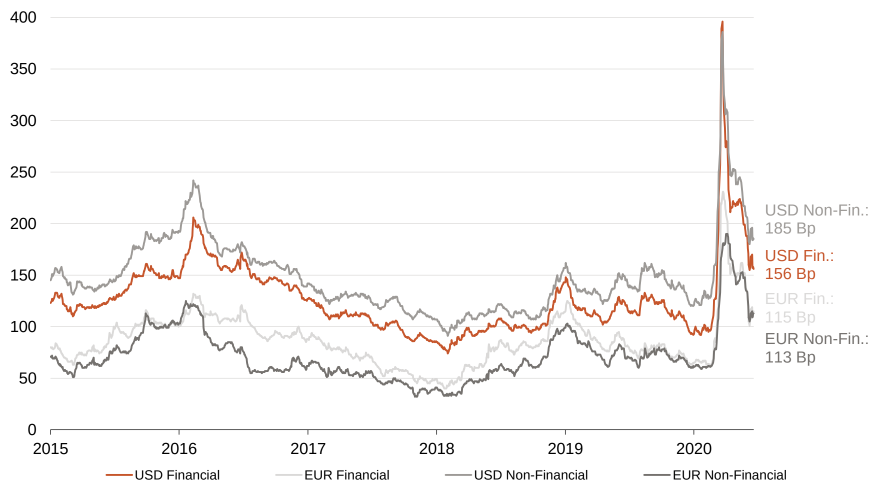
Implicit Changes in Key Interest Rates



- The probability of an interest rate cut by the ECB by the end of the year has risen to over 80%.
- The picture is somewhat different for the USA. Here the market expects only slightly more than a 10% chance that there could be negative rates by the end of the year.
- The Bank of England was unable to exceed market expectations in its June meeting as no clear signal was given regarding future expansionary monetary

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: 19/05/2020 - 19/06/2020

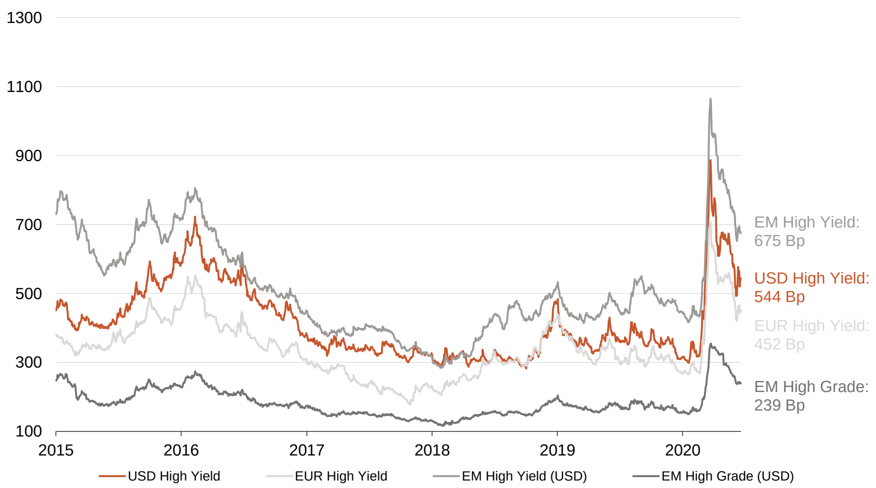
Credit Spreads Financial and Non-Financial Bonds



- The narrowing of spreads on IG corporate bonds has slowed down considerably. Over the past two weeks, spreads have hardly moved at all. USD financial bonds saw the biggest spread tightening, while EUR corporate bonds saw a slight spread widening.
- Within EUR corporate bonds, the real estate and leisure sectors saw the largest spread narrowing.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 – 19/06/2020

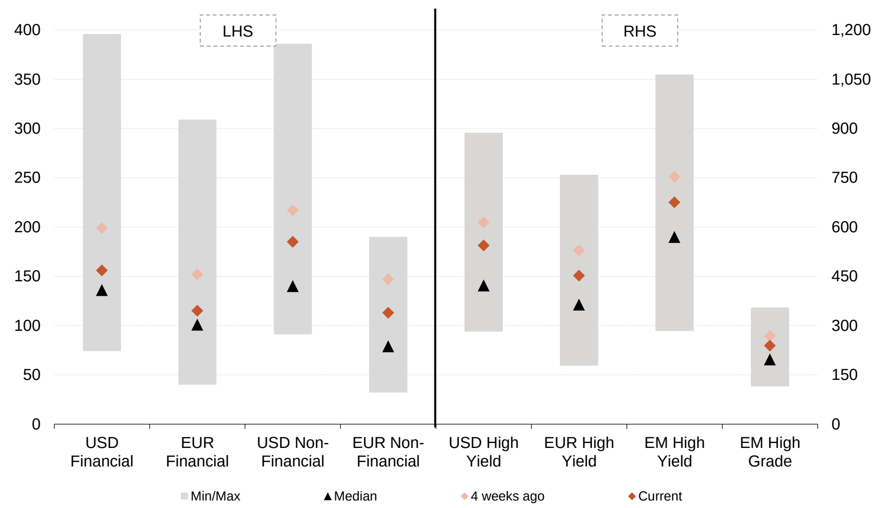
Credit Spreads High Yield and Emerging Markets Bonds



- Spreads on the high-yield bond side have also failed to narrow further in the last two weeks. They have risen between 6 and 51 basis points on EM, USD and EUR high yield bonds. USD high-yield bonds saw the largest 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 – 19/06/2020

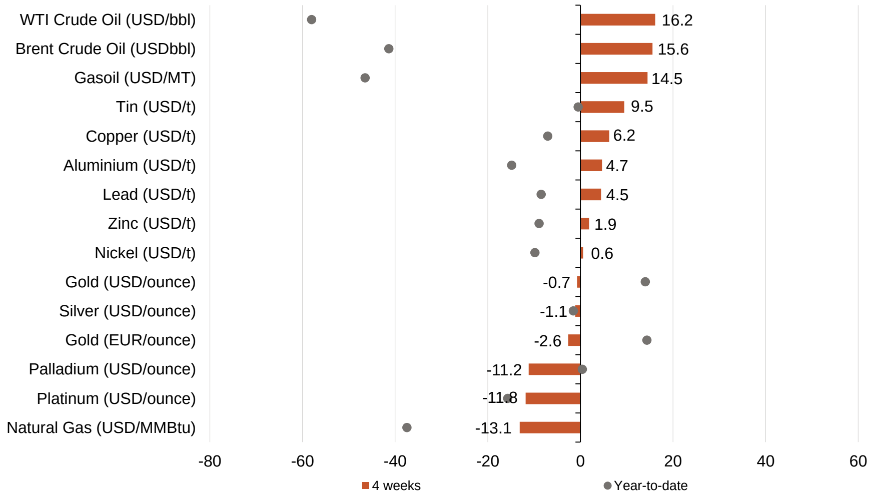
Historical Distribution of Credit Spreads (in bp)



- While spreads have hardly moved at all in the past two weeks, they have narrowed significantly on a four-week horizon. Most of the segments shown here continue to have significant narrowing potential in the direction of the 10-year median. We prefer EUR non-financial bonds to financial bonds.

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: 19/06/2010 – 19/06/2020

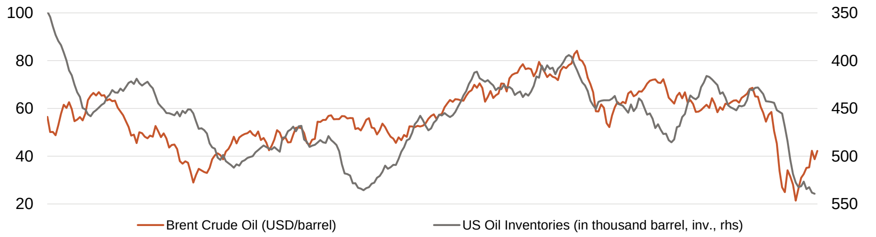
Commodities Performance

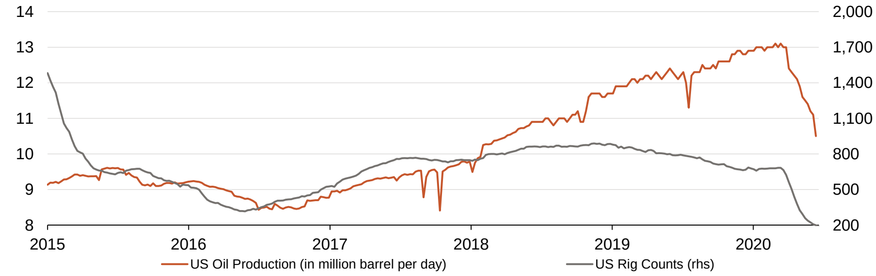


- Energy commodities were the biggest winners in commodity markets over the past four weeks, although the rally has recently lost momentum.
- Base metals were also able to gain ground. Since the beginning of the year, however, they are still down.
- Precious metals have lagged. In euro terms, gold fell by almost 3%, but nevertheless remains the best performing investment since the beginning of the year.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 – 19/06/2020

Crude Oil

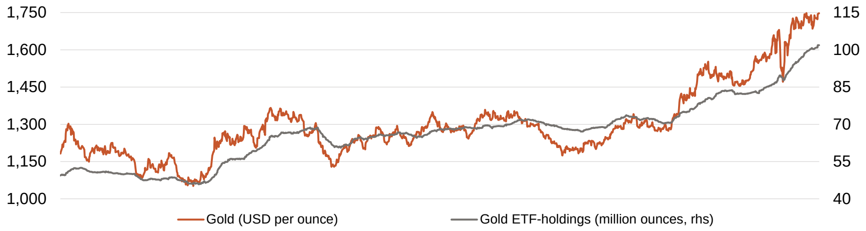


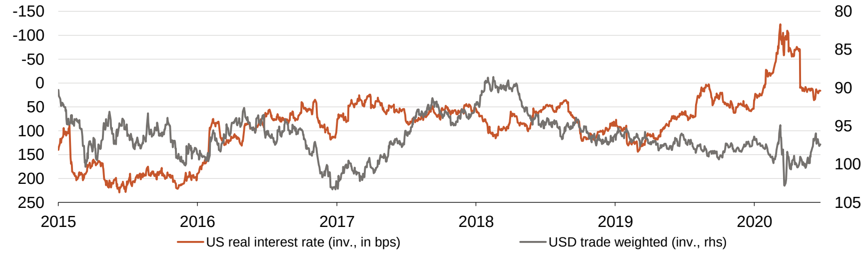


- In view of the still enormous inventories, crude oil is doing surprisingly well. In the past two weeks, Brent fluctuated around the USD 40 per barrel mark.
- US oil production has fallen significantly over the past few months, but despite the extremely low level of drilling activity, it is now likely to rise gradually as existing wells are tapped 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 – 19/06/2020

Gold





- Inflows into gold ETFs stagnated in the past weeks, thus an important driver of the gold rally was missing. Recently stocks have been rising again and gold rose to USD 1,750 an ounce.
- Over the medium term a weaker US dollar and negative real interest rates should provide support.

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 – 19/06/2020

PUBLISHING INFORMATION

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

This document is a marketing communication. This information and references to issuers, financial instruments or financial products do not constitute an investment strategy recommendation pursuant to Article 3 (1) No. 34 Regulation (EU) No 596/2014 on market abuse (market abuse regulation) nor an investment recommendations pursuant to Article 3 (1) No. 35 Regulation (EU) No 596/2014, both provisions in connection with section 85 (1) of the German Securities Trading Act (WpHG). As a marketing communication this document does not meet all legal requirements to warrant the objectivity of investment recommendations and investment strategy recommendations and is not subject to the ban on trading prior to the publication of investment recommendations and investment strategy recommendations.

This document is intended to give you an opportunity to form your own view of an investment However, it does not replace a legal, tax or individual financial advice. Your investment objectives and your personal and financial circumstances were not taken into account. We therefore expressly point out that this information does not constitute individual investment advice. Any products or securities described may not be available for purchase in all countries or only in certain investor categories. This information may only be distributed within the framework of applicable law and in particular not to citizens of the USA or persons resident in the USA. The statements made herein have not been audited by any external party, particularly not by an independent auditing firm.

The statements contained in this document are based either on the company's own sources or on publicly accessible third-party sources, and reflect the status of information as of the date of preparation of the presentation stated below.

Subsequent changes cannot be taken into account in this document. The information given can become incorrect due to the passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. Past performance, simulations and forecasts are not a reliable indicator of future performance and custody fees may occur which can reduce overall performance.

Please refer to the online glossary at www.berenberg.de/glossar for definitions of the technical terms used in this document.

Date: 22 Juni 2020

BERENBERG
PARTNERSHIP SINCE 1590

The Berenberg Markets series includes the following publications:

- ► Monitor
- Focus
- Investment Committee Minutes

www.berenberg.de/en/publications

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