BERENBERG
Markets

MONITOR

20 July 2020

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

Current market commentary

Over the past few weeks, cyclical assets such as industrial metals and the Dax have outperformed the market, in line with a series of better than expected economic data The stabilisation of earnings estimates recently and the better-than-expected Q2 reporting season so far have also supported equity markets. In absolute terms, however, Q2 results look poor compared to the previous year. The S&P 500 is expected to see earnings plunge by more than 40% y/y. The low equity positioning of many market participants, the predominantly pessimistic investor sentiment and globally low interest rates continue to support risk investments in the medium term. However, we expect a lacklustre summer. The COVID-19 crisis in the US continues, the US election campaign is gathering momentum and at the end of July a fiscal cliff is looming in the US, with the expiry of the increased unemployment insurance of USD 600 per week.

Short-term outlook

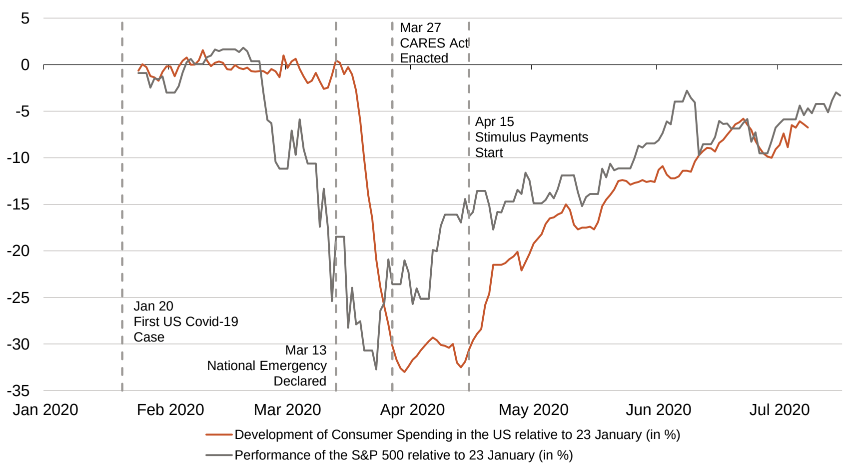
Q2 reporting season creates a clearer picture.

The Q2 reporting season has now clearly picked up speed. Over 10% of the S&P 500 and Stoxx 600 companies have already reported. So far, the figures are, on average, better than expected, precisely because analysts' estimates were initially very pessimistic. By mid-August, the majority of companies will have published their Q2 figures. The impact of COVID-19 on the corporate outlook should be clearer by then, at the latest. After the ECB's 'wait-and-see' stance at last week's meeting, the Fed will announce its future course at its monthly meeting on 29 July.

July Purchasing Managers' Indices on the horizon.

This week, Thursday and Friday will be particularly exciting. On Thursday, the US Initial Jobless Claims will be released, and on Friday, the July Preliminary Manufacturing and Services Purchasing Managers' Indices for Germany, France, UK, the eurozone, and the US will be released.

US consumer spending has stagnated recently



5-year-performance of the S&P 500 on the following page

- The S&P 500 had anticipated the recovery of US consumer spending and has recently been able to make significant gains. However, consumer spending has stagnated since the end of June, in line with the resurgence of COVID-19 cases in the US.
- For spending to return to pre-crisis levels, consumers would need to be convinced that the virus no longer poses a risk. This may require a vaccine or effective treatment.

Change in average consumer credit and debit card spending indexed to January 2020 and seasonally adjusted.
Source: tracktherecovery.org, Berenberg, As of 15/07/2020

Multi Asset

	4-week & YTD: 4W (19/06/20 - 17/07/20)	4-week & YTD: YTD (31/12/19 - 17/07/20)	12-month periods over that last 5 years: 17/07/19 17/07/20	17/07/18 17/07/19	17/07/17 17/07/18	17/07/16 17/07/17	17/07/15 17/07/16
Industrial Metals	4.4	-5.6	-6.4	3.3	3.8	10.8	-8.6
MSCI Emerging Markets	3.7	-5.7	0.6	4.9	2.6	19.5	-7.3
Global Convertibles	2.7	7.6	12.8	7.3	6.8	11.2	-4.4
MSCI World	1.8	-3.5	4.3	8.8	10.1	12.6	-4.3
Gold	1.6	17.1	24.6	20.7	-2.1	-11.3	15.7
Brent	0.1	-41.1	-34.4	-4.6	54.0	-12.5	-32.0
Eonia	0.0	-0.3	-0.4	-0.4	-0.4	-0.4	-0.2
Global Coporates	-0.1	2.7	5.9	11.0	-1.2	-1.4	4.6
Global Treasuries	-1.0	2.4	3.5	9.5	-0.3	-6.9	9.6
MSCI Frontier Markets	-1.7	-17.1	-14.7	9.2	1.9	13.8	-12.0
USDEUR	-2.2	-1.9	-1.8	3.9	-1.6	-3.9	-1.9
REITs	-2.8	-15.7	-13.1	16.9	-0.8	-9.5	11.5

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 better than expected economic data have recently boosted industrial metals and emerging market equities. However, gold also remains in demand due to latent uncertainty and low interest rates.
- REITs, a typical beneficiary of low interest rates, are weakening, however. Impending rent losses due to the ongoing corona crisis are a burden.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 17/07/2015 – 17/07/2020

Equities

	4-week & YTD: 4W (19/06/20 - 17/07/20)	4-week & YTD: YTD (31/12/19 - 17/07/20)	12-month periods over that last 5 years: 17/07/19 17/07/20	17/07/18 17/07/19	17/07/17 17/07/18	17/07/16 17/07/17	17/07/15 17/07/16
DAX	4.8	-2.5	4.7	-2.5	0.6	25.0	-13.8
MSCI EM Asia	4.7	1.2	10.1	1.7	4.1	22.7	-7.0
Stoxx Europe Cyclicals	4.6	-11.5	-3.7	-1.0	0.5	32.8	-21.2
Euro Stoxx 50	3.3	-8.6	-1.8	4.1	0.9	21.9	-17.0
S&P 500	2.0	-0.9	8.2	12.5	14.7	12.0	2.0
Stoxx Europe 50	1.3	-7.6	-0.6	7.1	0.5	14.0	-15.4
Stoxx Europe Small 200	1.1	-10.5	-2.0	0.1	7.2	23.1	-13.1
MSCI USA Small Caps	0.9	-12.3	-6.0	0.8	16.9	13.4	-2.8
Stoxx Europe Defensives	0.6	-4.4	4.7	5.3	5.3	2.8	-9.3
MSCI UK	-0.8	-22.0	-15.6	1.5	5.4	9.9	-15.2
Topix	-2.7	-7.5	2.1	-0.3	7.5	14.0	-6.6
MSCI EM Eastern Europe	-4.2	-24.8	-17.0	23.3	10.6	15.9	-5.3

S&P 500: S&P 500 TR (US-Equity); Stoxx Europe 50: Stoxx Europe 50 TR; Euro Stoxx 50: Euro Stoxx 50 TR; Topix: Topix TR (japanese Equity);
Stoxx Europe Small 200: Stoxx Europe Small 200 TR; MSCI USA Small Caps: MSCI USA Small Caps TR; Stoxx Europe Cyclicals: Stoxx Europe Cyclicals TR;
Stoxx Europe Defensives: Stoxx Europe Defensives TR; DAX: DAX TR; MSCI United Kindom: MSCI UK TR; MSCI EM Asia: MSCI EM Asia TR;
MSCI EM Eastern Europe: MSCI EM Eastern Europe TR.

- Over the past four weeks, cyclical equity regions have been outperforming. The Dax and Asian emerging markets fared better than their US counterparts.
- Eastern European and Japanese equities were the worst performers. Until recently, there were relatively few negative earnings revisions for Japanese companies, but these have recently increased.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 17/07/2015 – 17/07/2020

Fixed Income

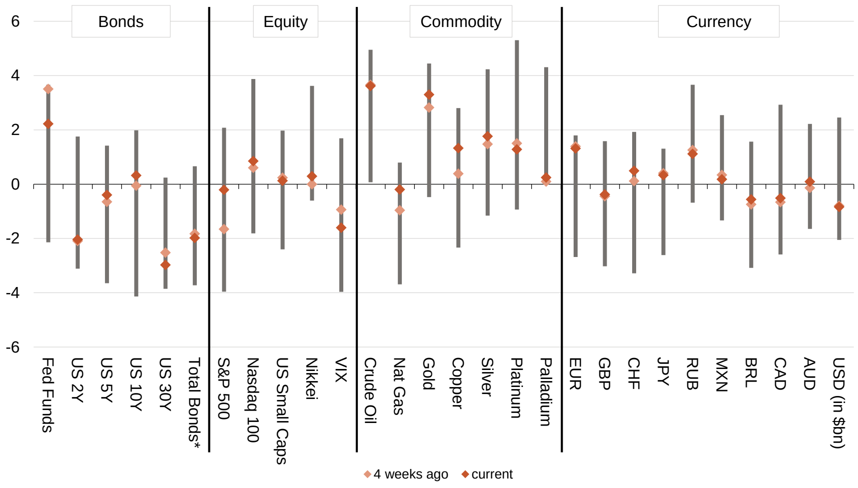
	4-week & YTD: 4W (19/06/20 - 17/07/20)	4-week & YTD: YTD (31/12/19 - 17/07/20)	12-month periods over that last 5 years: 17/07/19 17/07/20	17/07/18 17/07/19	17/07/17 17/07/18	17/07/16 17/07/17	17/07/15 17/07/16
EM Hard Currency Bonds	1.6	-1.6	-1.1	7.0	-2.5	1.5	10.4
EUR Inflation Linkers	1.4	-1.1	-0.3	3.3	4.1	-1.3	3.6
BTPs	1.3	2.1	4.2	9.0	0.0	-3.7	7.0
EUR Non-Financials	0.6	-0.4	-0.2	5.1	1.3	-0.5	6.2
EUR Financials	0.6	-0.7	-0.3	4.8	0.9	2.0	4.4
EUR High Yield	0.4	-4.5	-2.1	3.6	1.3	6.5	1.9
Bunds	0.2	2.2	1.1	4.9	2.4	-4.0	7.0
Gilts	-0.1	1.5	9.1	4.5	1.4	-6.0	-4.6
USD Corporates	-0.3	4.9	9.1	14.0	-2.1	-1.8	5.9
Treasuries	-1.3	7.2	9.3	11.2	-2.4	-5.3	3.7
EM Local Currency Bonds	-1.4	-4.4	-1.5	12.2	-3.4	0.5	3.2
USD High Yield	-1.6	-4.6	-0.9	11.8	0.6	5.0	1.9

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.

- For carry investments, the picture is mixed over the last four weeks. While EM hard currency bonds continued to gain, USD high-yield bonds performed significantly worse. A rise in insolvencies in the US and the still tense COVID-19 situation are weighing on credit spreads.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 17/07/2015 – 17/07/2020

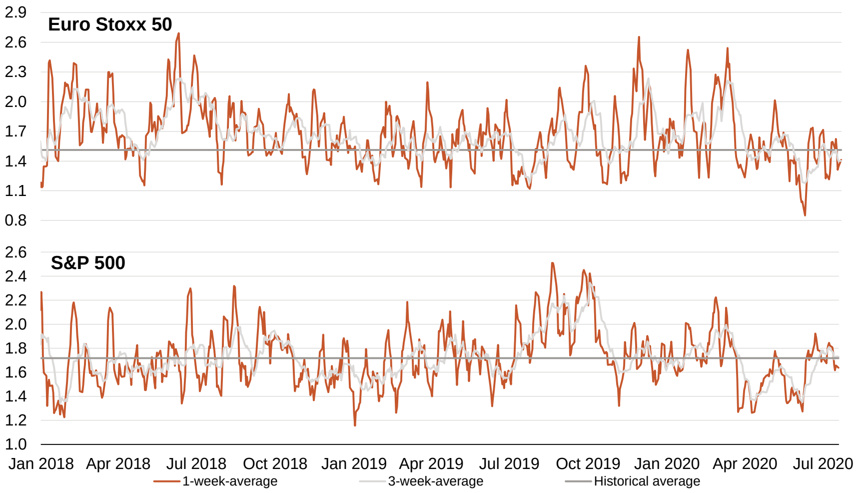
Non-Commercial Positioning



- After speculative investors have missed out on some of the bulk of the recovery rally, they have recently become a little bolder. The short positions in the S&P 500 were almost completely liquidated in the aggregate.
- Long positions in gold and silver futures were increased further.

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: 14/07/2010 - 14/07/2020

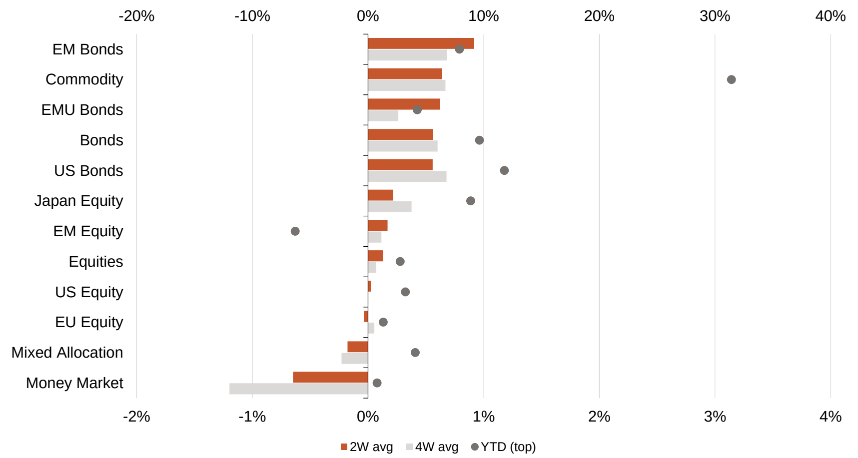
Put-Call Ratio



- The put-call ratios for eurozone and US equities are now near the long-term averages. This indicates that option market participants are not euphoric.
- This is a good sign as it this reduces the probability that investors will be caught on the wrong foot in the event of a potential sell-off.

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 - 17/07/2020

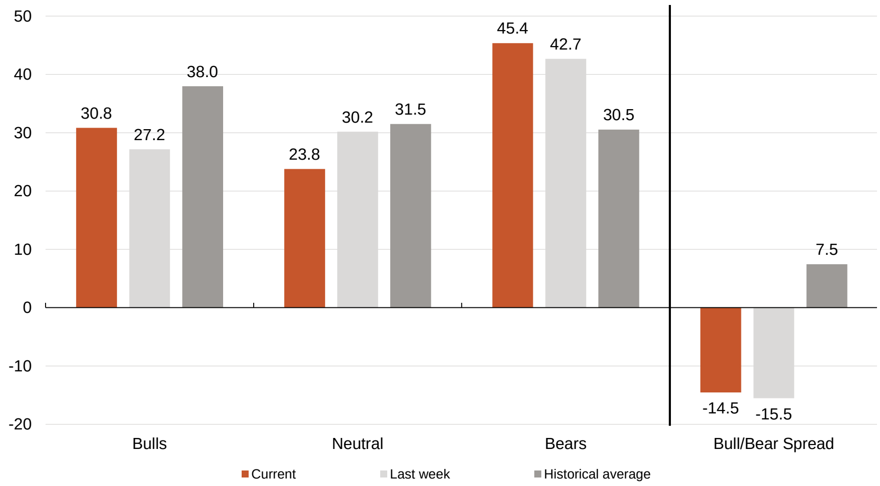
ETF Flows



- ETF investors have recently been increasingly looking for carry in the form of emerging market bonds. At the same time they have markedly sold money market ETFs over the last two weeks.
- Overall, there was little demand for equities - Japanese equities were the most in demand, thanks to the Bank of Japan's ETF buying programmes.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2019 - 17/07/2020

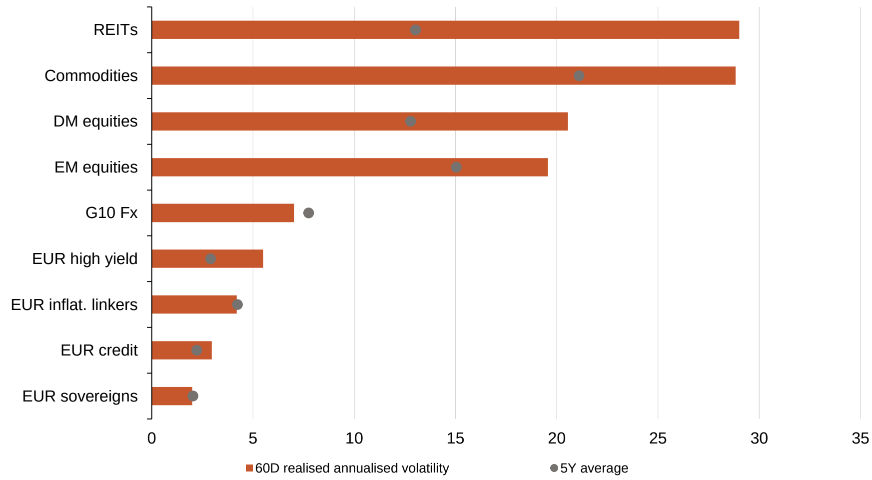
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment among US private investors is still very subdued. The decline in the proportion of respondents with neutral opinions has been equally divided between bulls and bears, with the result that the bull-bear spread has increased by only 1ppt compared to last week, even though bulls have reached the 30% mark for the first time in 5 weeks.

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 - 16/07/20

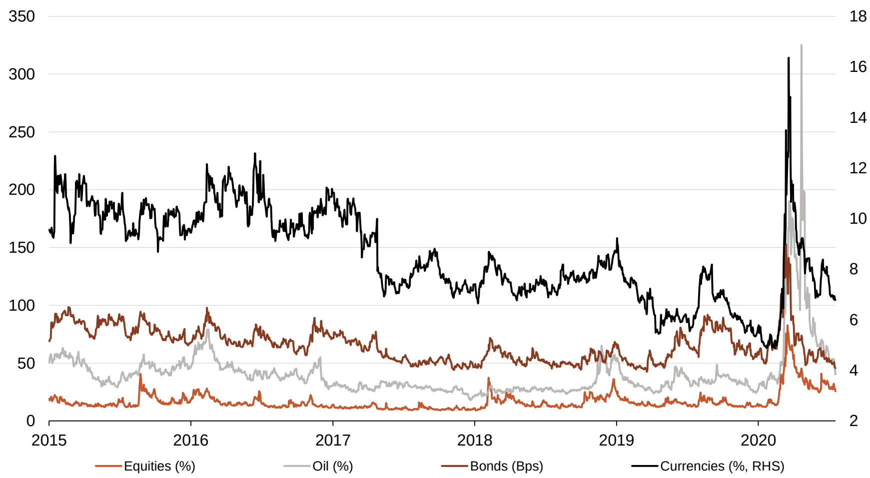
Realised Volatilities



- Realised volatilities have continued to fall in almost all asset classes in the last two weeks. Only emerging market equities were unable to post a decline, so that after months of higher volatility, equities in developed countries are now showing a similar degree of volatility.
- The 60-day volatility of commodities has recently fallen significantly and is even trading below that of REITS.

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: 17/07/2015 - 17/07/2020

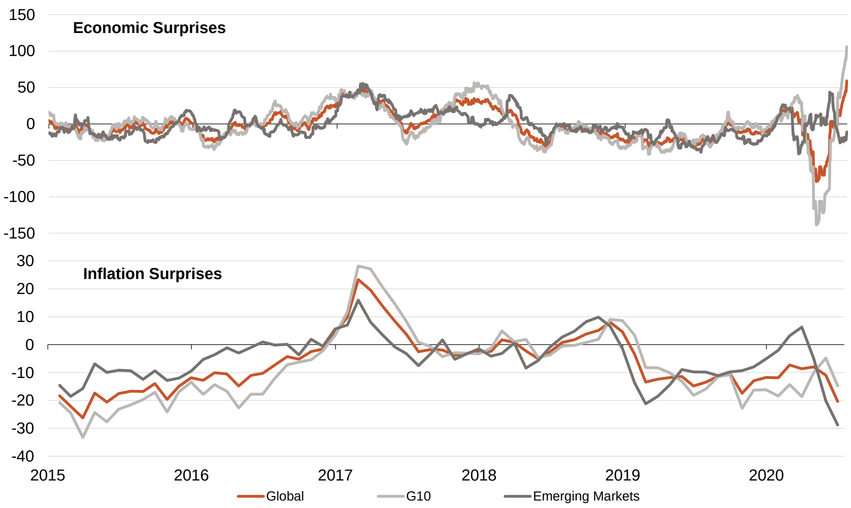
Implied Volatilities



- Implied volatilities of currencies and government bonds are now back to pre-crisis levels. At 40, the implied volatility in oil is also already close to its 5-year average.
- Only the VIX has so far had difficulty in breaking through the 30 mark on a sustained basis.

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 - 17/07/2020

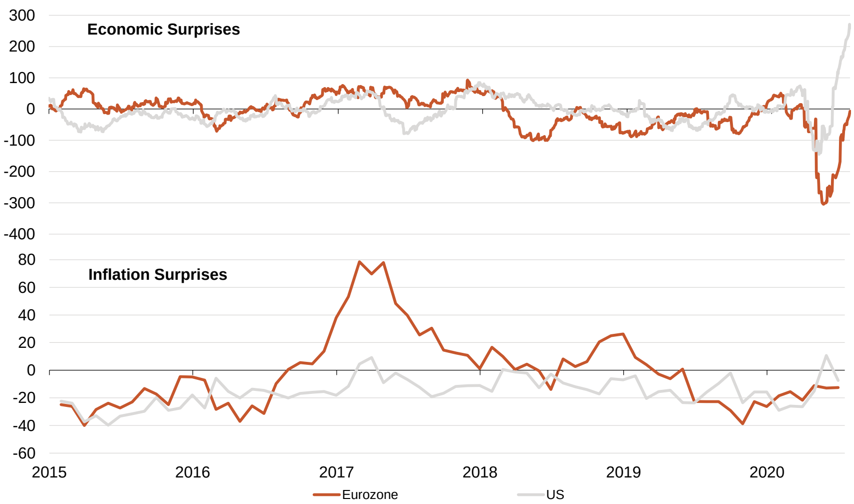
Global



- The economic data of the industrial nations (G10) as well as on a global level have recently surprised on average clearly upwards. The main drivers were the US and the eurozone. In the emerging markets, however, the data was mixed. In China, Q2 growth figures, industrial production data and exports have recently surprised on the upside, while retail sales have disappointed.
- Inflation recently surprised on the downside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 17/07/2020

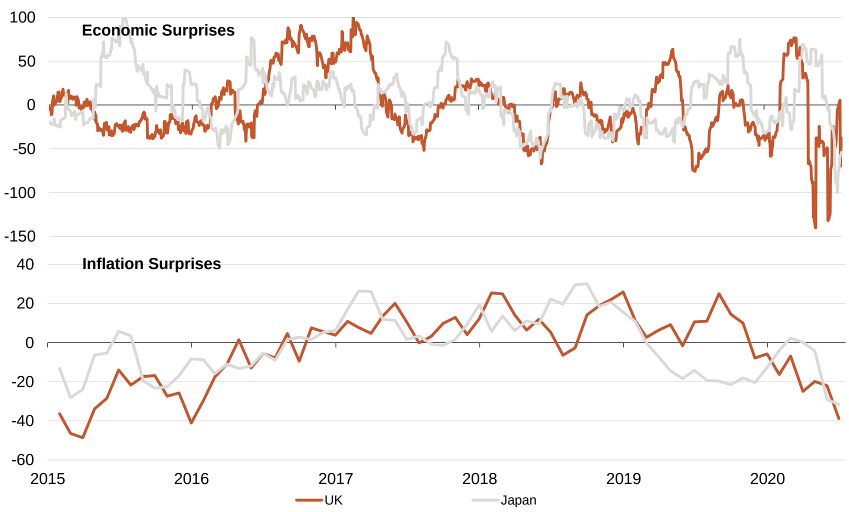
Eurozone and US



- The economic surprise index for the US continued to soar. Recently, industrial production data, the Empire State Manufacturing Index, the ISM Non-Manufacturing Index and retail sales have provided positive surprises. Consumer confidence and labour market data were disappointing.
- In the eurozone, the data is also improving. May industrial production surprised on the upside in both Italy and France, while it disappointed in Germany, as did the ZEW index.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 17/07/2020

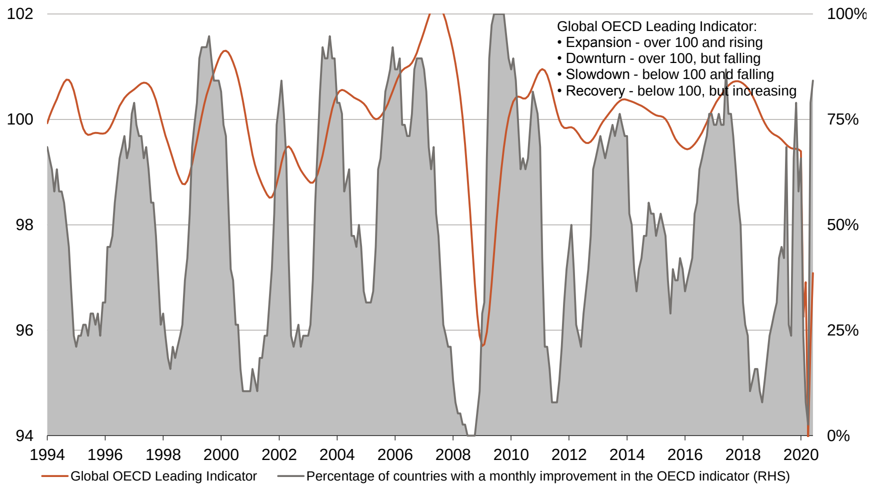
UK and Japan



- The economic surprises in Japan and the UK, however, are still clearly in negative territory. In the UK, industrial production (MoM) surprised on the downside in May, while the unemployment rate was lower than expected at 3.9%.

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 - 17/07/2020

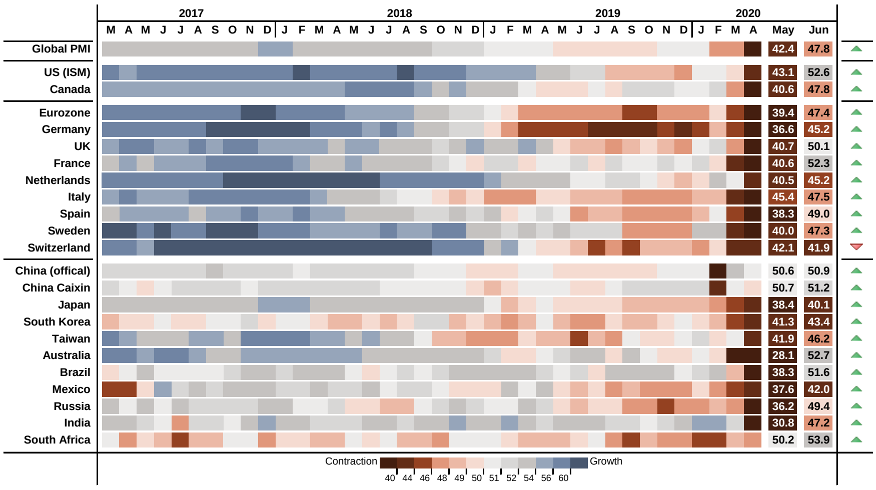
OECD Leading Indicator



- At over 97 points, the global OECD leading indicator continued to rise in June in the direction of 100, and although the expansion threshold still seems a long way off, the global economy is in a clear recovery phase, at least according to this indicator.
- In June, over 80% of the countries observed saw an improvement in the June leading indicator compared with May.

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 - 30/06/2020

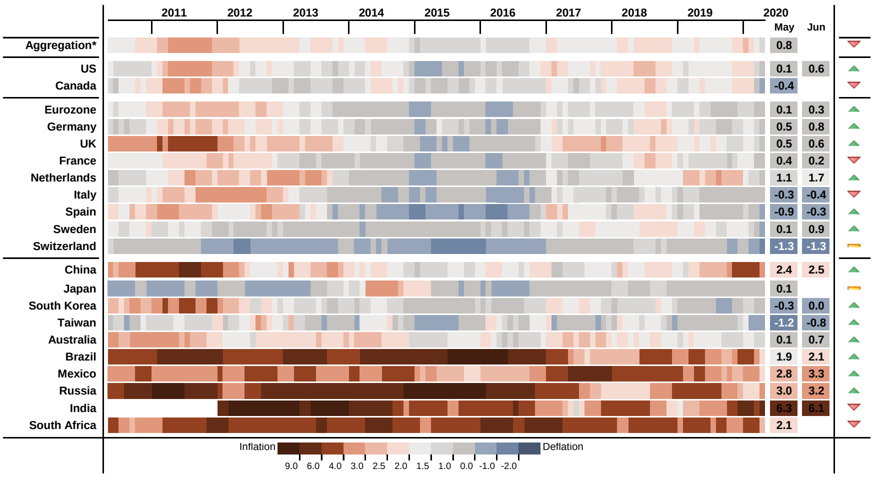
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global manufacturing industry seems to have bottomed out. The global PMI reached a 5-month high of 47.8 and most countries saw an improvement in the PMI from the May figure.
- The ISM index (USA) has jumped above the 50 expansion threshold.

The PMI is an overall index that provides a general overview of the economic situation in industry. The PMI is derived from a total of eleven sub-indices, which reflect the change from the previous month. A value of 50 is regarded as neutral, a value of over 50 points as an indicator of rising activity in industry and a value of less than 50 points for falling activity in industry compared with the previous month. The index has an average lead time before actual industrial production of three to six months. The PMI is based on a survey of a relevant selection of purchasing managers regarding the development of parameters such as incoming orders.
Source: Bloomberg, Time period: 31/03/2017 - 30/06/2020

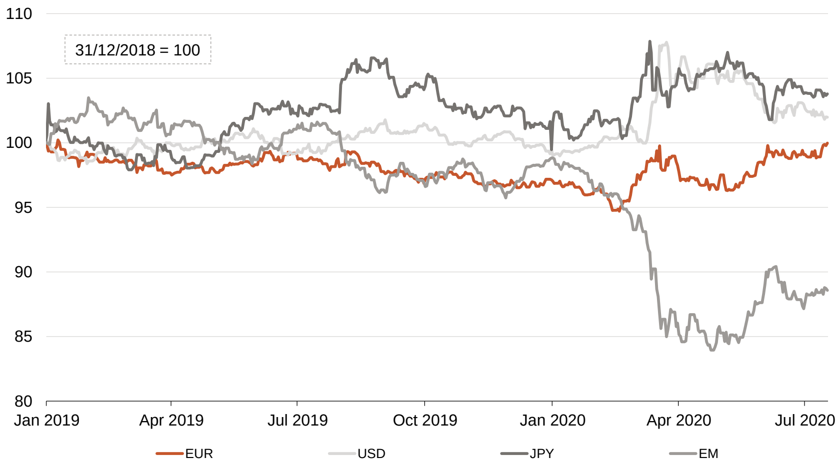
Headline Inflation



- The US consumer price index rose by 0.6% in June. Inflation has thus risen significantly compared with May (0.1%). The rise in energy prices was the biggest price driver.
- In the UK, however, inflation rose only slightly to 0.3%.
- In China, inflation turned out as expected at 2.5%.

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. * = weighting by gross domestic product.
Source: Bloomberg, Time period: 31/10/2010 - 31/12/2020

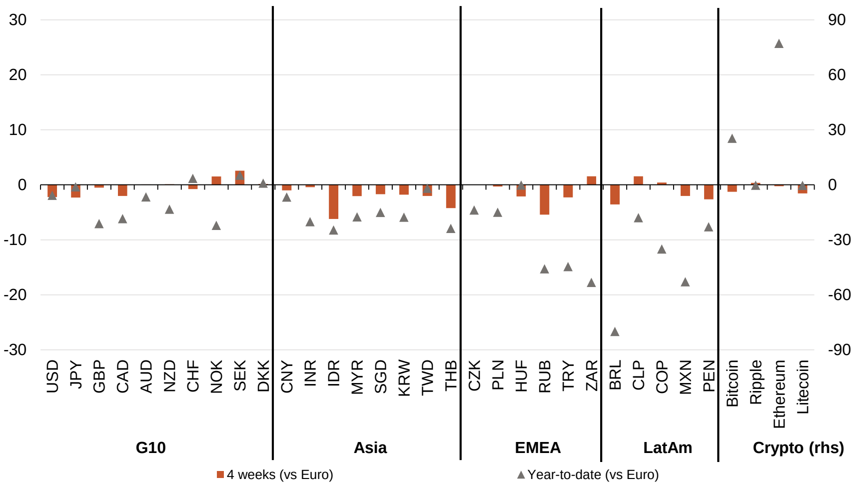
Trade-Weighted Currency Development



- A moderate risk-on sentiment was recently noticeable in currency markets. Emerging market currencies and the euro gained, while the US dollar lost ground. The Japanese yen, as a safe haven, only slipped slightly, as it benefited from good domestic economic data.

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 - 17/07/2020

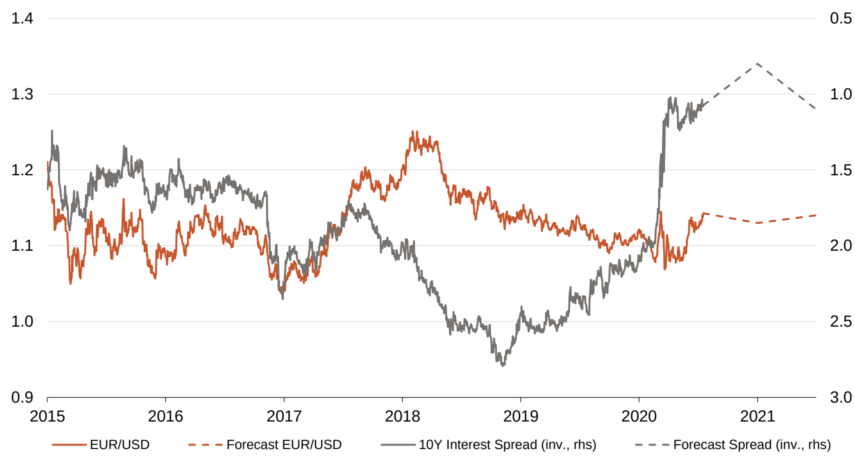
Currency Moves vs Euro



- In the past four weeks, the euro has gained against almost all the currencies shown here. In a few cases, cyclical currencies such as the Norwegian krone were slightly ahead.
- The South African rand was able to gain in recent weeks thanks to a higher gold price despite rising infection rates.
- It has become surprisingly quiet around crypto-currencies in recent weeks.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2019 - 17/07/2020

EUR/USD exchange rate and interest rate differential



- The euro has been on an upward trend for the past two weeks and is currently trading at 1.14 EUR/USD. The euro is therefore close to its temporary high seen at the beginning of March, when it briefly gained strongly due to the reversal of carry trades.
- The interest rate differential between German Bunds and US Treasuries has narrowed towards 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

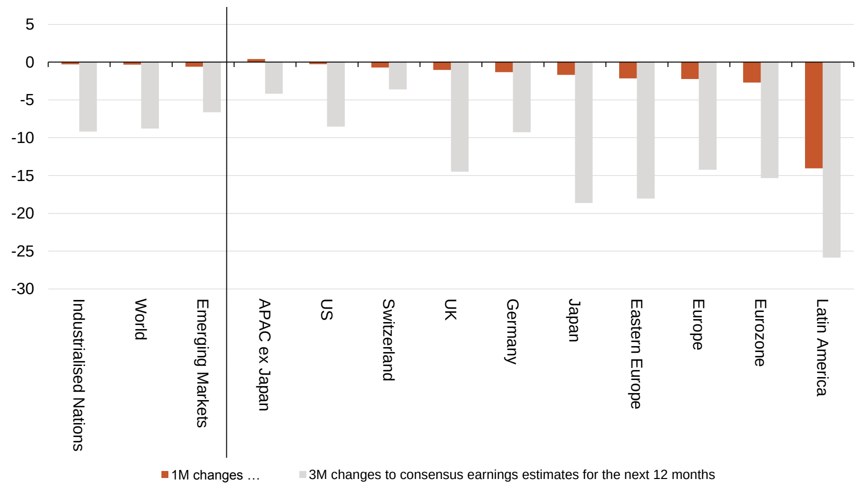
	4W (19/06/20 - 17/07/20)	YTD (31/12/19 - 17/07/20)	17/07/19 17/07/20	17/07/18 17/07/19	17/07/17 17/07/18	17/07/16 17/07/17	17/07/15 17/07/16
	4-week & YTD		12-month periods over that last 5 years				
Materials	5.6	-4.0	3.5	-0.3	10.8	27.8	-14.2
Utilities	5.2	5.4	16.5	14.1	4.7	2.5	-5.3
Information Technology	4.9	7.7	16.7	4.9	17.1	27.6	-5.3
Industrials	4.2	-10.2	-0.4	3.9	3.8	24.4	-6.9
Finance	3.8	-23.1	-17.3	-1.6	-7.4	42.7	-31.4
Consumer Discretionary	3.4	-14.0	-7.2	3.1	4.9	20.6	-19.6
Growth	2.5	-0.6	7.3	7.7	4.5	12.9	-10.1
Value	1.7	-19.2	-13.2	-0.1	-0.2	21.9	-18.5
Telecommunications	0.5	-14.9	-11.2	0.9	-12.1	1.3	-19.8
Health Care	-0.2	5.8	21.0	10.3	-1.2	2.3	-12.8
Consumer Staples	-1.3	-4.8	-2.5	13.2	-3.3	5.4	2.7
Energy	-4.0	-36.1	-36.6	-2.8	30.0	1.6	0.4

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.

- With the steady improvement in economic data, many cyclical sectors, such as basic materials, industrials and cyclical consumer goods, were able to post decent gains over the past four weeks.
- The European energy sector, on the other hand, has continued to decline. High oil inventories and the investment industry's greater focus on ESG issues are weighing on the sector.

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: 17/07/2015 – 17/07/2020

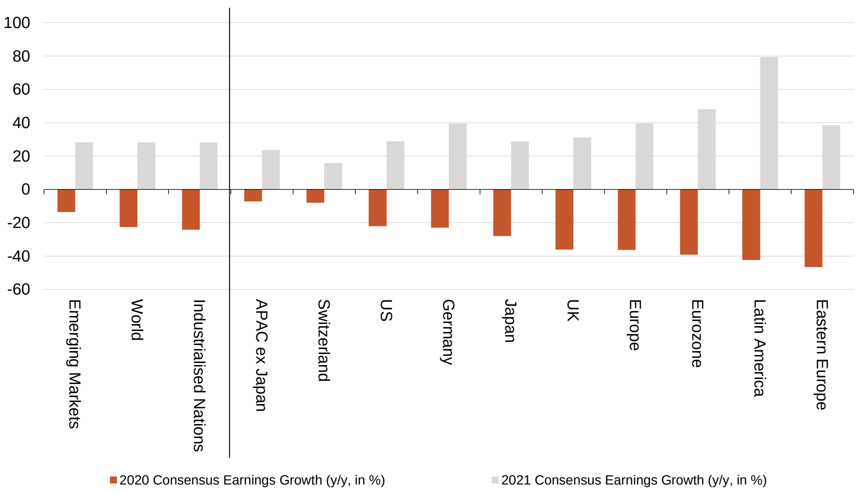
Changes in Consensus Earnings Estimates



- Earnings revisions have recently stabilised further for many regions. Asia Pacific ex Japan, the US, UK and Switzerland have seen hardly any reductions in earnings estimates over the past month.
- This does not apply to Latin America. The negative momentum there has actually increased lately.

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 17/07/2020

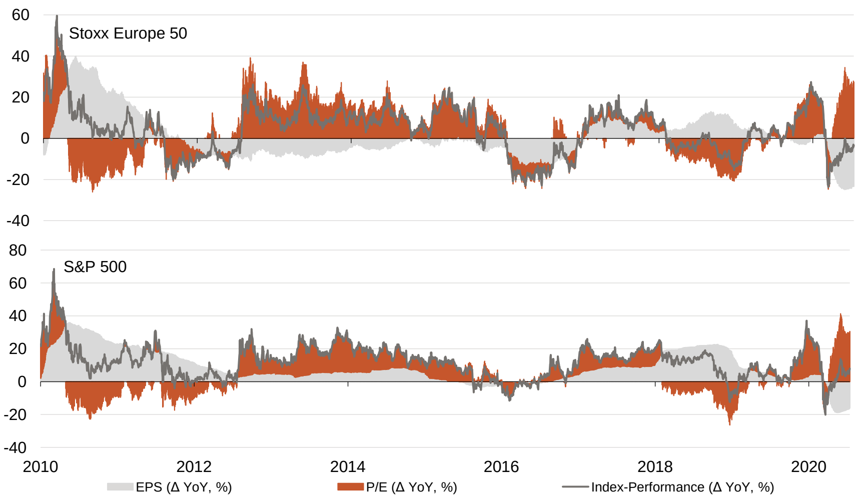
Earnings Growth



- The Q2 reporting season has now begun and will show whether earnings estimates have bottomed out. Initial results - particularly in the banking sector - were encouraging. Many companies have been able to exceed the very low expectations.
- For next year, analysts expect earnings to rise by at least 15% in all regions.

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 17/07/2020

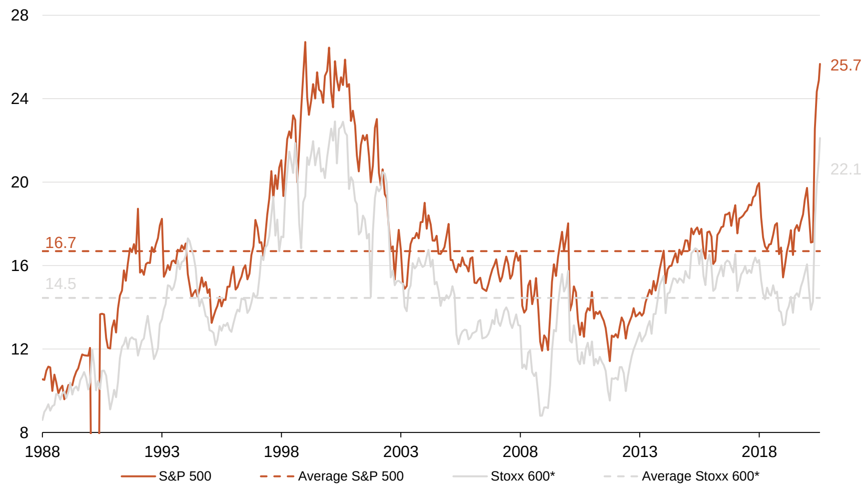
Contribution Analysis



- While US equities are already showing positive returns relative to the previous year, this is not yet the case for European equities. Although valuations have risen somewhat more in Europe, profits in the USA have fallen much less.

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 - 17/07/2020

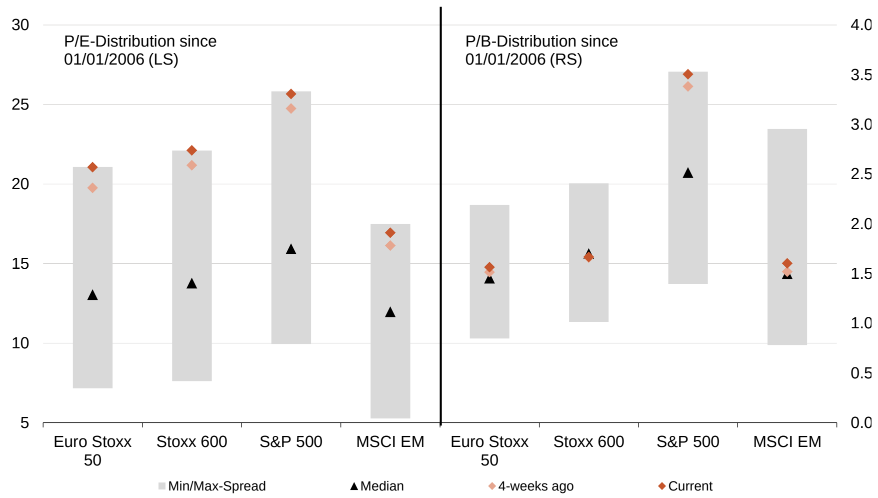
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Equity valuations on a P/E basis for the next 12 months have continued to rise. However, valuations are likely to fall in the next few quarters. The reason for this is that the P/E ratio is based on the next 12 months. With the end of the current reporting season the likely weak "Q2 2020" results will be replaced by the estimated and much higher "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 - 17/07/2020

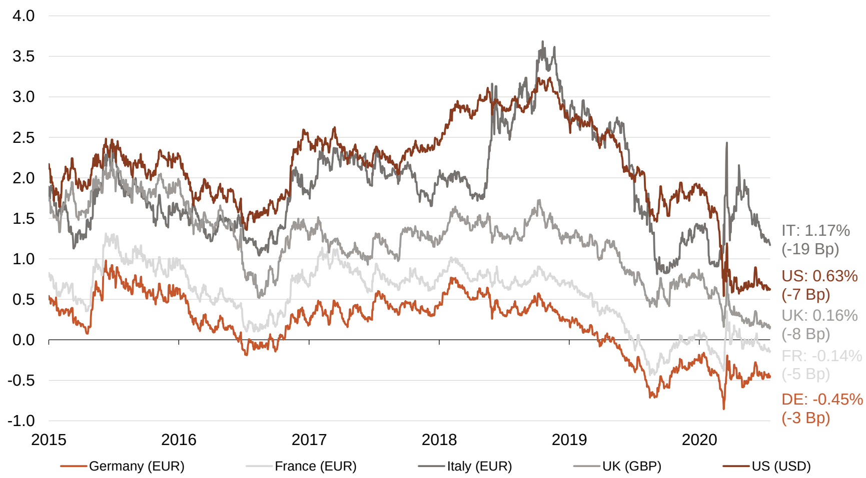
Historical Distribution: Price/Earnings and Price/Book Ratio



- At the moment, no equity region is relatively 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 thus remain more attractive than many 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 - 17/07/2020

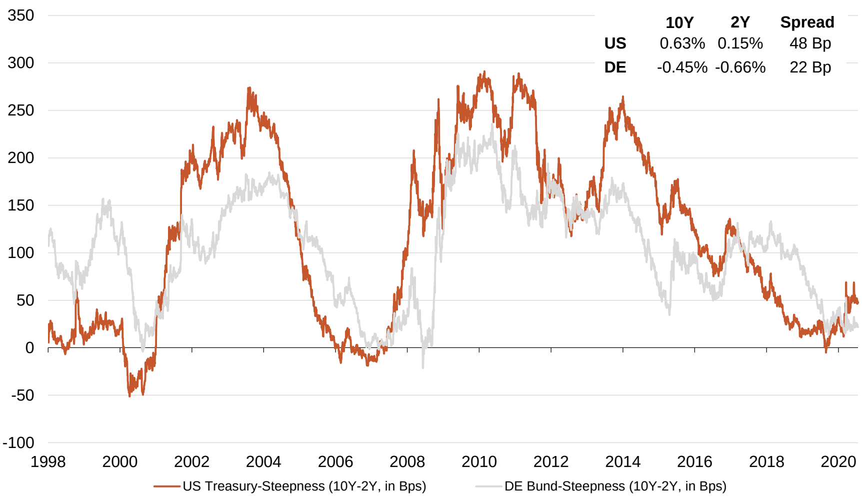
10-Year Government Bond Yields



- Yields on safe haven government bonds appear to have been bounded upwards by central bank purchases and the existing uncertainties. In recent weeks, yields on 10-year government bonds have fallen in the US, Italy, Germany, France and the UK. At -19 basis points, Italy saw the largest fall in yields on a four-week horizon.

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 - 17/07/2020

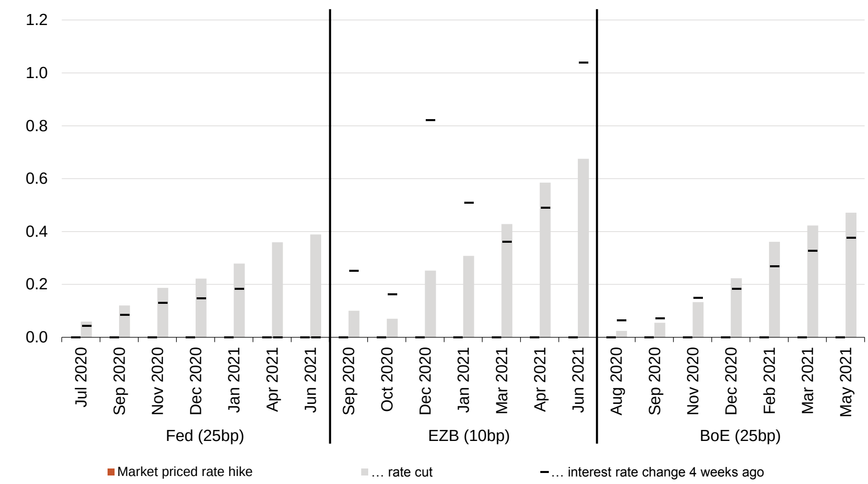
Yield Curve Steepness (10Y - 2Y)



- The steepness of the German and US yield curve has hardly changed in the last two weeks. Investors remain concerned about the rise in coronavirus cases in some countries and US states and the extent of the economic recovery.

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 - 17/07/2020

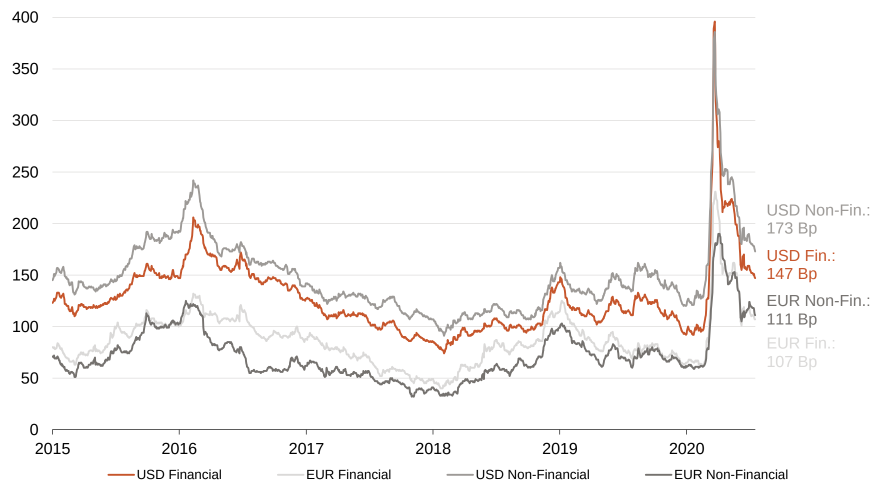
Implicit Changes in Key Interest Rates



- The Governing Council of the ECB did not further ease monetary policy last week and is still on pause regarding further measures. The market now only expects a single rate cut through to December 2020 with a probability of around 30%.
- The discussion about yield curve control and negative interest rates in the US has caused the market to maintain a 30% probability of a Fed rate cut by mid

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: 20/06/2020 - 17/07/2020

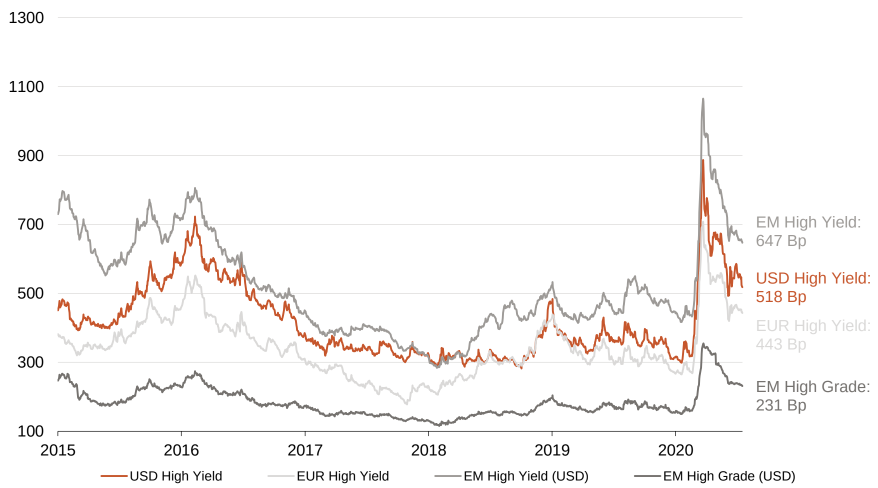
Credit Spreads Financial and Non-Financial Bonds



- After a recent breather, spreads have fallen again. On a two-week perspective, spreads on EUR non-financial bonds in particular have fallen (-10 bp), while EUR financial bonds saw the smallest decline (-6 bp). USD-IG corporate bonds saw a similarly large decline at around 8 to 9 bp.
- Both EUR and USD corporate bonds have seen the largest spread tightening in the auto sector as of late.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 – 17/07/2020

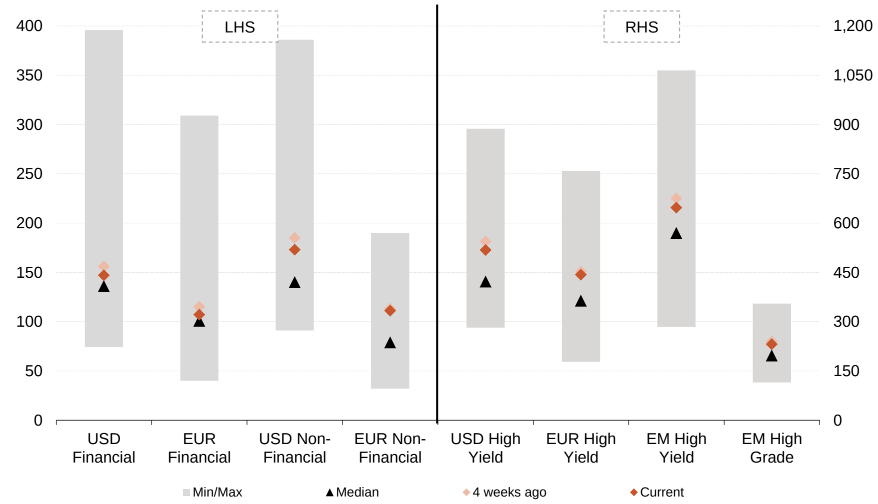
Credit Spreads High Yield and Emerging Markets Bonds



- Spreads on high-yield bonds have also come down again. USD high-yield bonds saw the largest spread narrowing in the last two weeks at over 40 basis points. The retail and insurance sectors experienced the largest decline in spreads.
- EUR high yield bonds saw a spread tightening of only 14 basis points.

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 – 17/07/2020

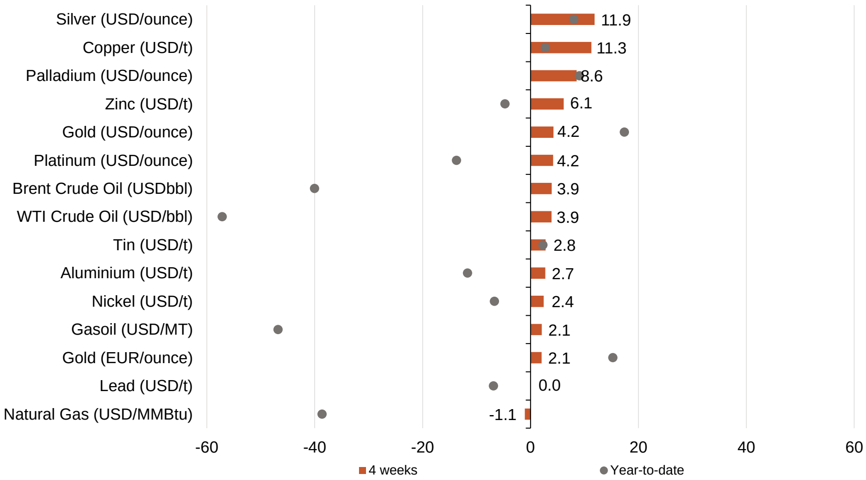
Historical Distribution of Credit Spreads (in bp)



- While spreads have narrowed further in the last two weeks, they have hardly moved at all in many segments on a four-week horizon. EUR high-yield bonds, for example, are currently showing a similar level of spreads seen four weeks ago.

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: 17/07/2010 – 17/07/2020

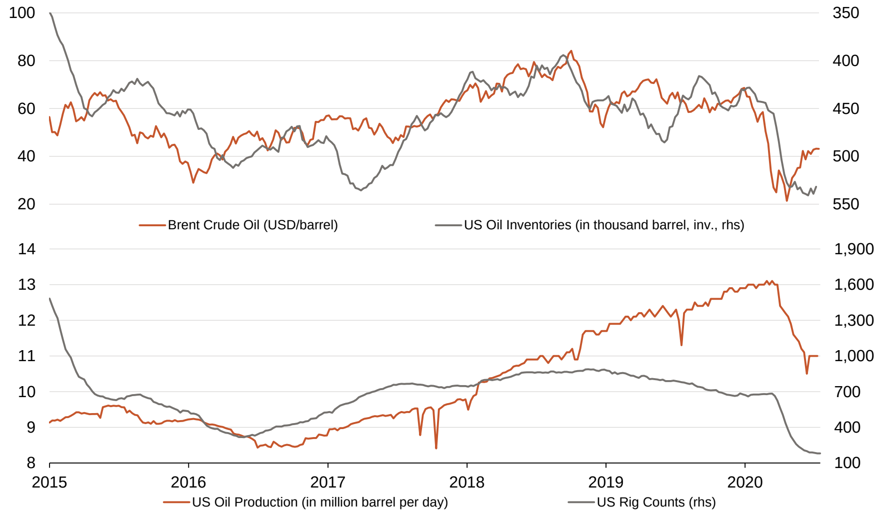
Commodities Performance



- Over the past four weeks, commodity markets have gained across the board. Silver leads the field and gained over 10%. Although demand from the industrial sector is likely to remain weak, gold's little brother is becoming increasingly popular among investors, hence sharply rising ETF holdings are driving the price up further.
- Copper also showed strong growth thanks to reduced mine output in Chile.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 – 17/07/2020

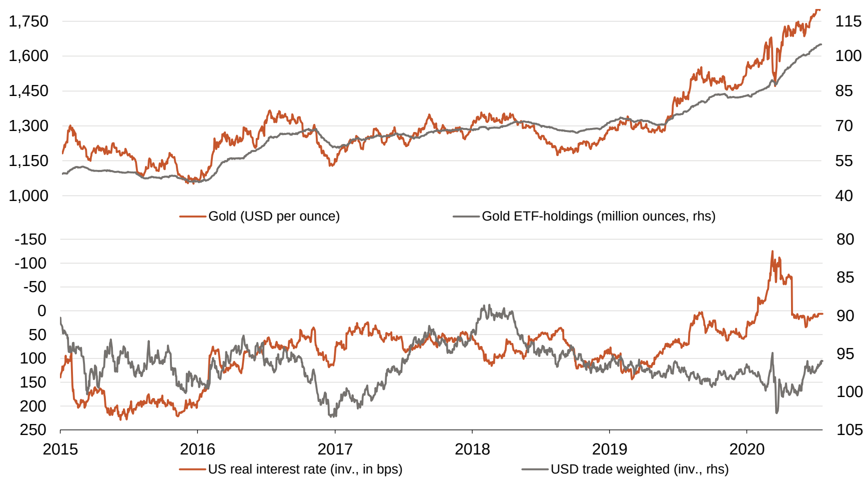
Crude Oil



- Brent consistently traded above the USD 40 per barrel mark over the past two weeks. The reason for the stable prices, despite corona restrictions becoming tighter again in some regions, boils down to the currently unanimous action taken by OPEC+. However, some US producers have already turned the taps on again, and it remains to be seen whether countries like Russia will put up with this or follow suit.

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 – 17/07/2020

Gold



- Gold was able to gain further in the past few weeks thanks to continuous ETF inflows and falling real interest rates and is now trading above USD 1,800 an ounce.
- The last time this mark was broken was in 2011, the year of the all-time high at USD 1,900 an ounce, which is not too far away from current levels.

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 – 17/07/2020

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IMPORTANT NOTICES

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