BERENBERG

Markets

MONITOR

03 September 2018

Current market commentary

While the S&P 500 reached a new all-time high last week, the lack of direction of European stocks continued. Donald Trump has repeatedly managed to weaken foreign stock markets with his twitter posts. Most recently, he rejected the European Union's proposal to abolish all customs duties on car imports. However, Europe is struggling with its own problems such as Brexit uncertainty and concerns about the Italian budget negotiations. Yields on 10-year Italian government bonds climbed temporarily to over 3.2%, which does not help reduce the Italian debt mountain. Frontier market equities also came under pressure as the currency crisis in Argentina intensified. The central bank tried in vain to stop the decline of the peso by raising interest rates sharply (from 45% to 60%). Although the US remains a safe-haven for investors, improving economic data surprises elsewhere are a sign of hope for the rest of the world.

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

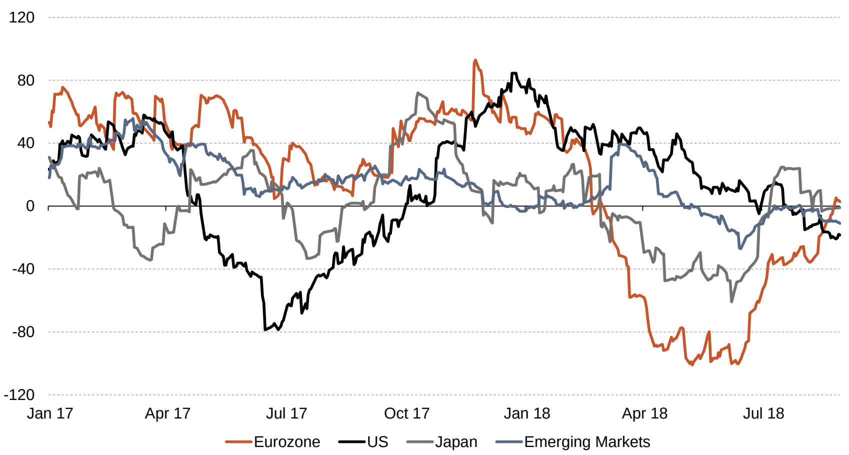
The upheavals in the emerging markets are not over yet.

Previous negative factors will continue to affect the capital markets: After the Turkish lira initially crashed and put pressure on Turkey, the Argentine peso has recently also crashed, although Argentina has already received aid from the IMF and raised interest rates. The trade war between the USA and China is also threatening to escalate further. A public hearing on further punitive tariffs on imported Chinese products is on-going in the USA until 6th September. US President Trump has already said that he intends to introduce customs duties on additional Chinese imports worth $200 billion immediately afterwards. As before, China is threatening to take countermeasures.

This week, a new escalation stage in the trade dispute between the US and China threatens.

This week, the focus in the US is also on the ISM index and labor market data. Other purchasing managers' indices and data on industrial production are published in the euro area. The ECB and the BoE will meet on 13 September, with no concrete changes to monetary policy expected.

Eurozone now with the most positive economic surprises



- In terms of economic surprises, there has recently been a convergence of regions. The surprise indicator for the US has fallen to its lowest level since September 2017. By contrast, the surprises for the eurozone have turned positive and are now outperforming the other regions.
- The economy in the eurozone should thus return to its growth path above trend in the second half of the year, unless new risks weigh on the sentiment.

Explanations see page 5.
Source: Bloomberg, Time period: 01/01/2017 – 31/08/2018

Multi Asset

	4W (03/08/18 - 31/08/18)	YTD (31/12/17 - 31/08/18)	31/08/17 31/08/18	31/08/16 31/08/17	31/08/15 31/08/16	31/08/14 31/08/15	30/08/13 31/08/14
Brent	5.8	25.8	59.8	-4.7	-29.2	-45.8	-2.6
Global Convertibles	1.2	8.6	10.4	7.1	4.0	12.8	16.9
MSCI World	1.1	8.7	15.9	9.1	7.1	12.5	21.6
REITs	0.4	3.8	3.8	-8.8	18.4	10.4	19.9
Global Coporates	0.4	1.4	1.2	-3.2	7.9	11.4	9.4
Global Treasuries	0.3	2.4	0.9	-7.6	11.4	7.8	5.9
Eonia	0.0	-0.2	-0.4	-0.4	-0.3	-0.1	0.1
USDEUR	-0.3	3.5	2.7	-6.3	0.5	17.1	0.7
Gold	-1.2	-4.4	-6.6	-5.4	15.9	3.2	-7.1
MSCI Emerging Markets	-1.5	-3.8	1.8	17.0	12.3	-9.6	20.5
Industrial Metals	-2.2	-10.5	-5.7	27.3	-2.4	-17.0	8.8
MSCI Frontier Markets	-5.6	-9.4	-3.5	18.4	-3.4	-8.3	34.2

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

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 Brent oil price has risen sharply over the last four weeks, driven by falling US inventory data pointing to strong demand.
- The US dollar, on the other hand, did not appreciate further, which, however, did not help frontier markets equities. Since the start of the year, these have now lost more than 9% in euro terms. Argentina, an index heavyweight, came under pressure due to the domestic crisis and the currency collapse.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 30/08/2013 - 31/08/2018

Equities

	4W (03/08/18 - 31/08/18)	YTD (31/12/17 - 31/08/18)	31/08/17 31/08/18	31/08/16 31/08/17	31/08/15 31/08/16	31/08/14 31/08/15	30/08/13 31/08/14
Russell 2000	4.1	18.5	28.5	7.9	9.0	17.4	18.2
S&P 500	2.4	14.0	22.6	9.2	13.0	17.9	25.8
MSCI EM Asia	0.8	-1.7	5.2	17.9	14.1	-2.4	22.3
Stoxx Europe Small 200	-0.2	2.5	9.3	16.2	-0.9	13.5	17.8
Topix	-0.3	1.5	11.3	9.5	4.1	23.3	11.7
Stoxx Europe Defensives	-1.6	4.8	7.2	4.7	-3.4	6.9	25.9
Stoxx Europe Cyclicals	-2.0	-2.4	2.8	21.0	-6.2	5.9	17.0
DAX	-2.0	-4.3	2.6	13.8	3.2	8.3	16.9
MSCI UK	-2.2	-0.5	3.6	13.9	12.8	-5.9	10.1
Euro Stoxx 50	-2.5	-0.9	1.8	16.1	-4.8	5.7	19.8
Stoxx Europe 50	-2.6	-1.6	3.3	9.8	-4.6	5.4	17.6
MSCI EM Eastern Europe	-2.8	0.2	5.5	20.9	6.2	-12.1	-2.4

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

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; Russell 2000: Russell 2000 TR (US Small Caps); Stoxx Europe Cyclicals: Stoxx Europe Cyclicals TR;
Stoxx Europe Defensives: Stoxx Europe Defensives TR; DAX: DAX TR; MSCI United Kindom: MSCI UK TR; MSCI EM Asia: MSCI EM Asia TR;
MSCI EM Eastern Europe: MSCI EM Eastern Europe TR.

- US equities, and above all US small caps, have recently gained further in value, boosted by rising corporate profits.
- Asian emerging markets have made a slight recovery. This was supported by falling US interest rates and the absence of further global escalation of the trade war.
- European equities, on the other hand, have shown the worst performance. The crisis in Turkey, Brexit concerns and the uncertainty around the Italian budget negotiations had a dampening effect.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 30/08/2013 - 31/08/2018

Fixed Income

	4W (03/08/18 - 31/08/18)	YTD (31/12/17 - 31/08/18)	31/08/17 31/08/18	31/08/16 31/08/17	31/08/15 31/08/16	31/08/14 31/08/15	30/08/13 31/08/14
Treasuries	0.7	-0.7	-1.5	-0.9	5.1	2.3	3.6
USD High Yield	0.6	6.1	5.7	0.8	8.6	13.5	10.2
Bunds	0.5	1.6	0.9	-2.8	7.3	2.1	7.6
USD Corporates	0.3	1.7	1.4	-4.2	9.7	16.5	9.6
EUR High Yield	0.0	-0.1	0.7	5.3	4.9	1.1	8.8
EUR Financials	-0.1	-0.7	-0.2	1.9	5.7	0.7	8.1
EUR Non-Financials	-0.1	-0.1	0.2	-0.3	7.4	0.2	8.3
Gilts	-0.3	-0.6	2.4	-11.0	1.0	15.6	15.8
EM Hard Currency Bonds	-0.4	1.5	1.0	-1.2	12.1	13.1	10.5
EUR Inflation Linkers	-0.4	-0.8	0.7	-0.5	5.8	-1.8	6.6
BTPs	-2.0	-6.2	-5.5	-3.5	7.7	4.9	15.8
EM Local Currency Bonds	-2.5	-3.6	-3.2	-1.0	12.5	-3.0	11.8

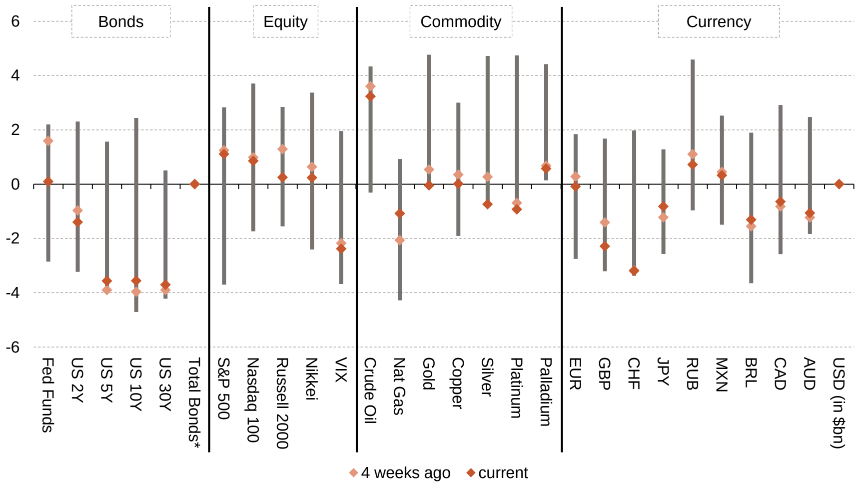
4-week & YTD; 12-month periods over that last 5 years

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.

- Safe havens such as the US Treasuries and Bunds were in high demand and gained significantly due to numerous political risks in August. 10-year US yields fell from 3% at the beginning of August to 2.86% at the end of the month.
- Riskier bonds such as local emerging market and Italian government bonds, on the other hand, have been punished and lost between 2-3% over the last four weeks.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 30/08/2013 - 31/08/2018

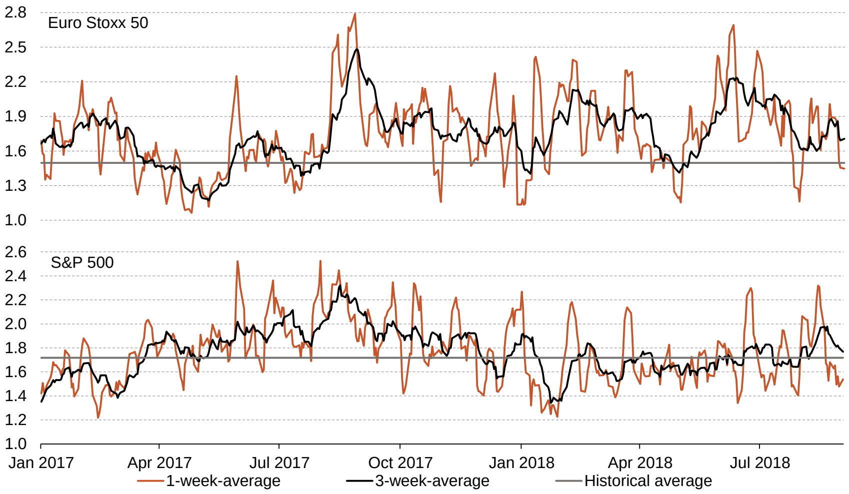
Non-Commercial Positioning



- Speculative investors remain skeptical about US bonds and precious metals. As for gold, they have recently considerably increased their short positions.
- The strongest net long positions are in crude oil and the US dollar. The EUR positioning is now neutral.

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: 28/08/2008 - 28/08/2018

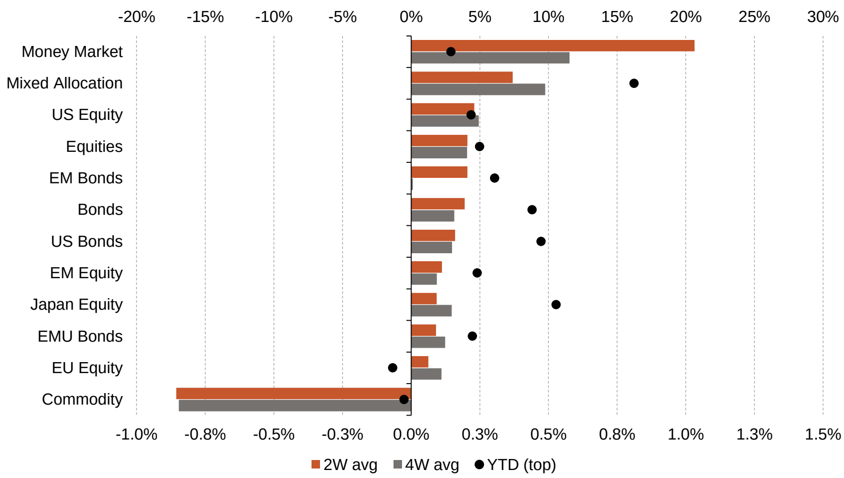
Put-Call Ratio



- The recovery of the stock markets over the last week has led to a significant reduction in the put-call ratio for both the Euro Stoxx 50 and the S&P 500.
- The hedging ratio for both stock indices is now below the historical average.

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 - 31/08/2018

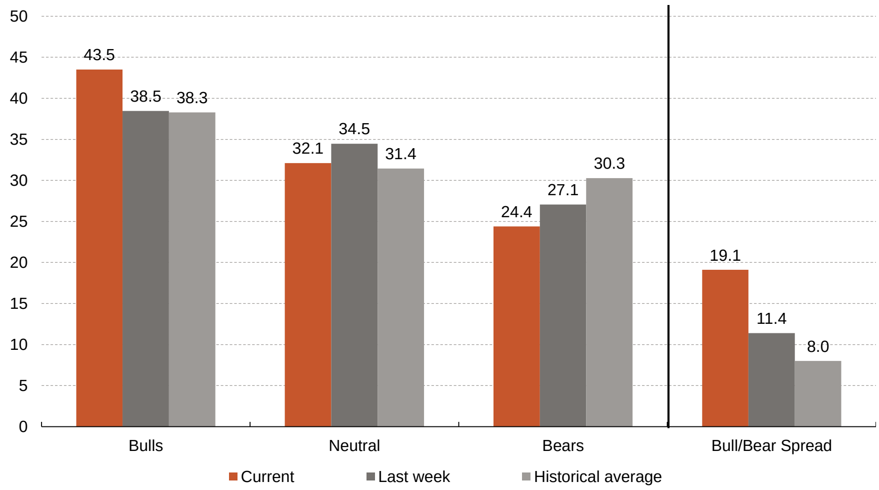
ETF Flows



- In view of the various risks, the global demand for money market ETFs has recently been particularly strong, followed by multi-asset investments.
- Emerging markets bonds saw ETF inflows over the last two weeks, indicating that some investors see the sell-off of the last few months as a buying opportunity.
- Commodities, on the other hand, have registered further outflows.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2017 - 31/08/2018

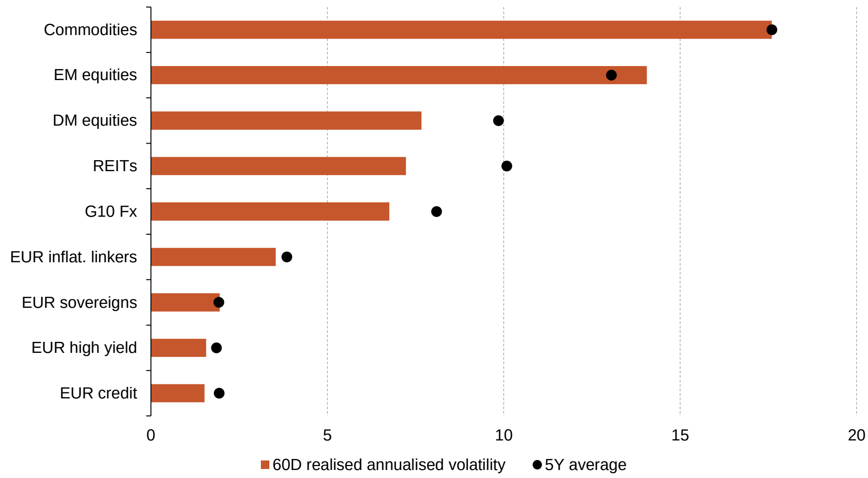
AAII Sentiment Survey (Bulls vs Bears)



- US investors have become significantly more optimistic over the last week. 43.5% now expect a rising stock market in the next six months - and only 24.4% anticipate a falling market.
- One reason for the optimism was the S&P 500's new all-time high last week.

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 - 30/08/18

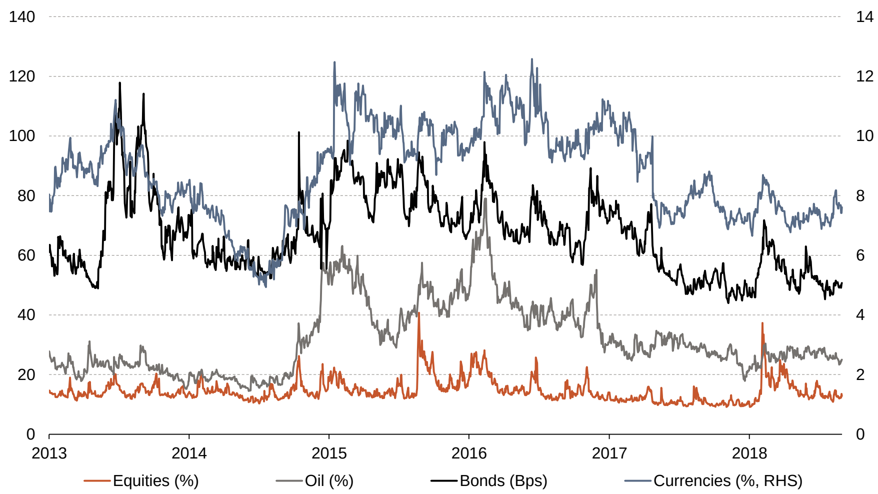
Realised Volatilities



- Volatility on the commodity and EM stock markets has recently exceeded the 5-year average. Continued trade discussions between the US and China, as well as the Turkey crisis, have resulted in higher fluctuations.
- On the bond side, the volatility compared to history is the highest for government bonds. The forthcoming Italian budget negotiations are casting their shadows ahead.

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: 31/08/2013 - 31/08/2018

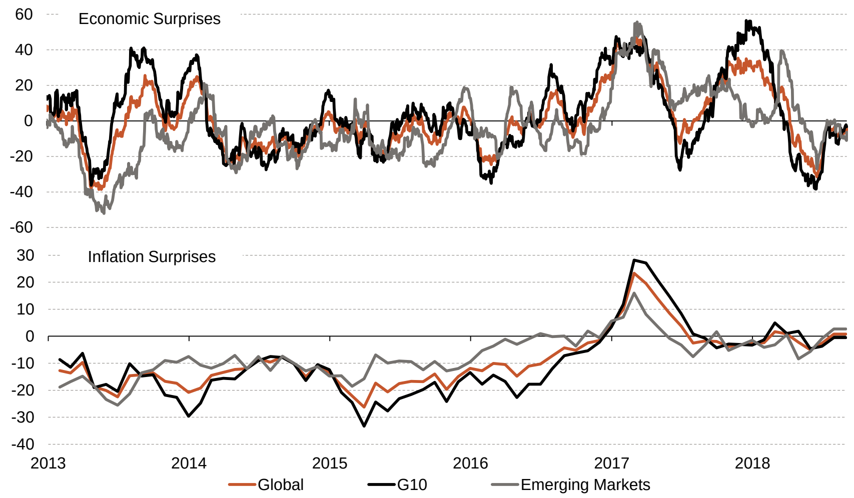
Implied Volatilities



- After the sharp rise in mid-August, currency volatility has recently fallen again. Emerging market currencies such as the Turkish lira have stabilised slightly last week.
- Despite the political uncertainties, implied volatility for all asset classes remains historically low.

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 underlying compared to 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: 01/01/2013 - 31/08/2018

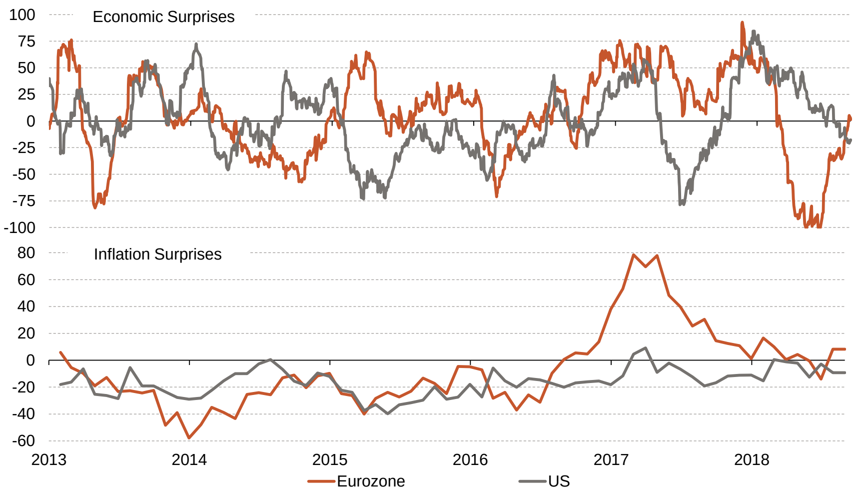
Global



- The danger of contagion in Emerging Markets after the Turkish crisis has now become evident in the macroeconomic data. Emerging markets have recorded numerous negative economic surprises.
- The major industrialized countries (G10) were able to offset this development with increasingly positive surprises, so that economic surprises at the global level have remained stable in the slightly negative range over the past four weeks.

See explanations below.
Source: Bloomberg, Time period: 01/01/2013 - 31/08/2018

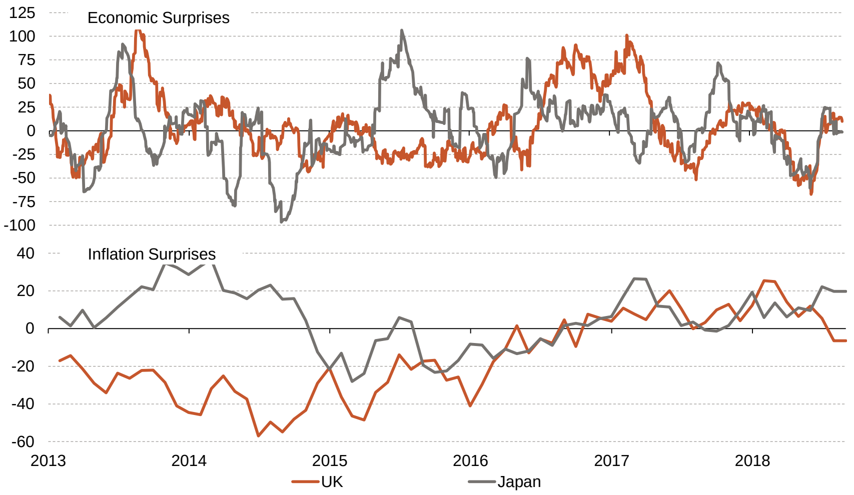
Eurozone and US



- Positive economic surprises (e.g. IFO business climate index of 103.8) in the Eurozone have catapulted the index above the zero threshold for the first time since the end of February. One beneficiary of this is the euro.
- In the USA, the economy is at its peak with the annualized Q2 growth of 4.2% (QoQ) and high consumer confidence. But there have also been disappointments. The real estate market weakened and industrial sentiment has turned out to be worse than expected.

See explanations below.
Source: Bloomberg, Time period: 01/01/2013 - 31/08/2018

UK and Japan



- The UK economy remains stable, even if recent price developments on the real estate market have been somewhat discouraging.
- Japan reported disappointing figures: Industrial production fell by 0.1% (MoM) in July and the unemployment rate rose to 2.5% in August.

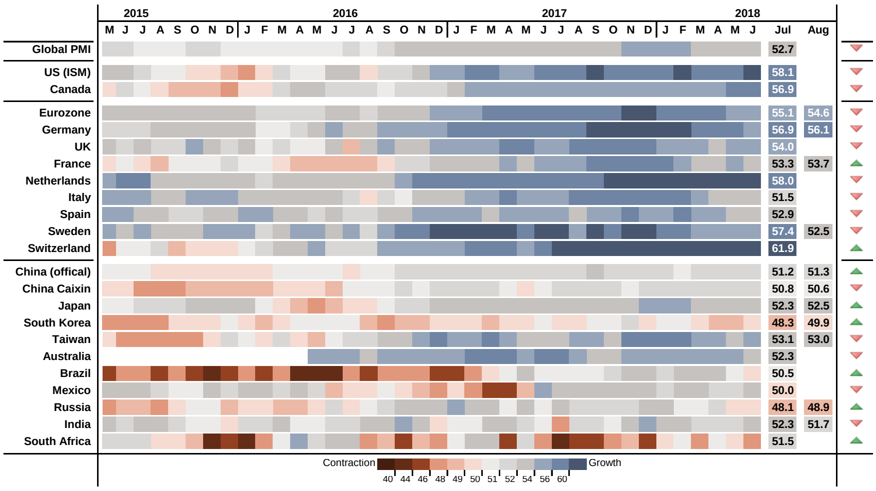
Citigroup Economic Surprise Indices are defined as weighted historical, normalized data surprises (actual releases vs. Bloomberg survey median) over the last three months. A positive value of the index indicates that the economic data have exceeded the consensus on balance. The indices are calculated 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: 01/01/2013 - 31/08/2018

OECD Leading Indicator and Global Purchasing Managers Index

- Despite the robust macroeconomic situation and the first trade agreements (USA & Mexico), global concerns are growing: The Turkish crisis could infect other emerging countries, the US continues to threaten China and Europe with rising tariffs, politics in Italy and Brexit cause difficulties for global industrial managers and investors.

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: 31/01/2000 - 31/07/2018

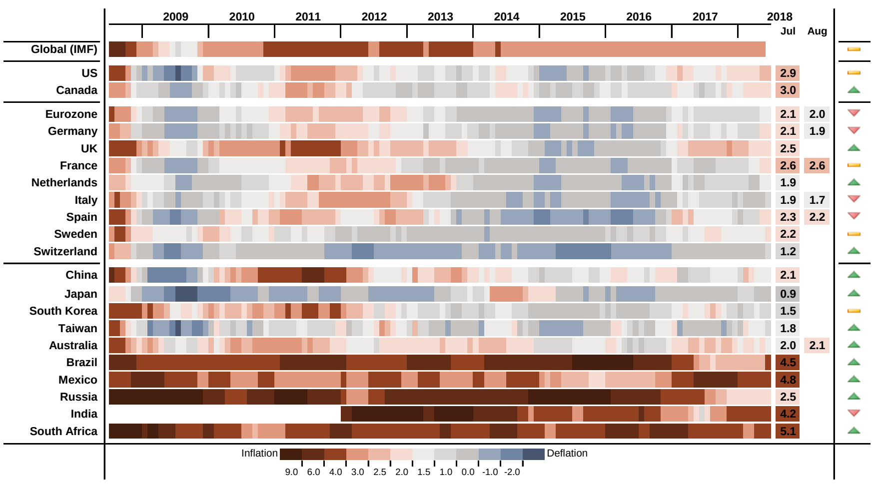
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The reasons mentioned above have led to increased volatility of industrial sentiment. After rising in July, the German industrial PMI fell slightly again in August.
- France was able to surprise upwards with an increased PMI of 53.7.

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 points 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: 31/05/2015 - 31/08/2018

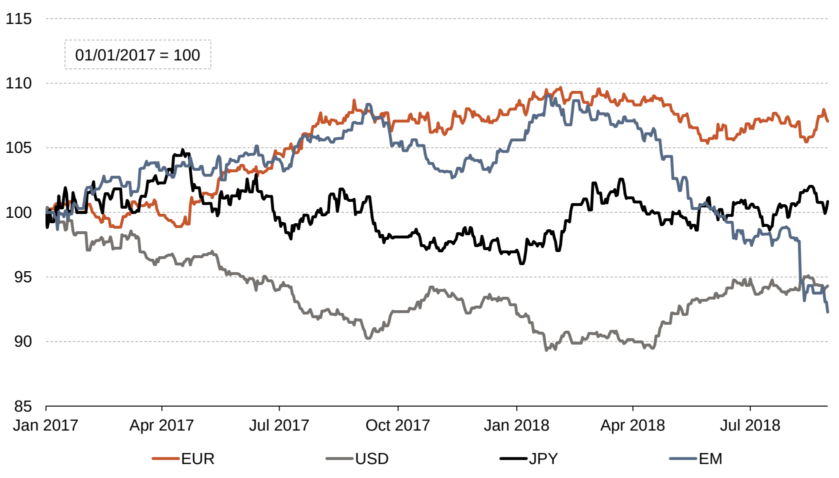
Headline Inflation



- Inflation in Germany was at 1.9% in August, below the 2% mark again, contrary to market expectations. One reason for the lower inflation is that some federal states have lowered the fees for childcare in kindergartens and crèches as of 1st August.
- In neighboring France, however, inflation remains high. At 2.6%, this was 0.1pp above expectations.

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: 31/08/2008 - 31/08/2018

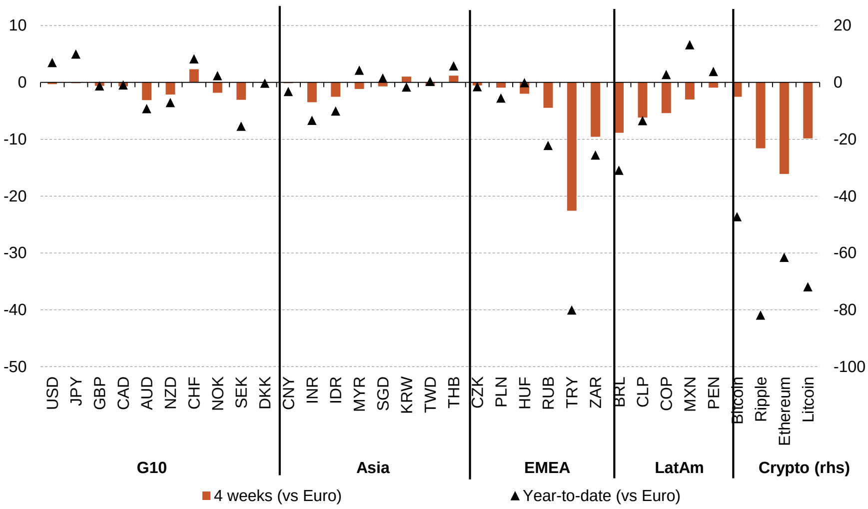
Trade-Weighted Currency Development



- Volatility in FX markets remains high. The Turkish lira continues to lose value and other Emerging Market currencies remain under pressure.
- The announcement by Fed President Powell to continue the cycle of interest rate hikes slowly has weakened the US dollar again somewhat.
- The trade-weighted euro benefited from solid 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: 01/01/2017 - 31/08/2018

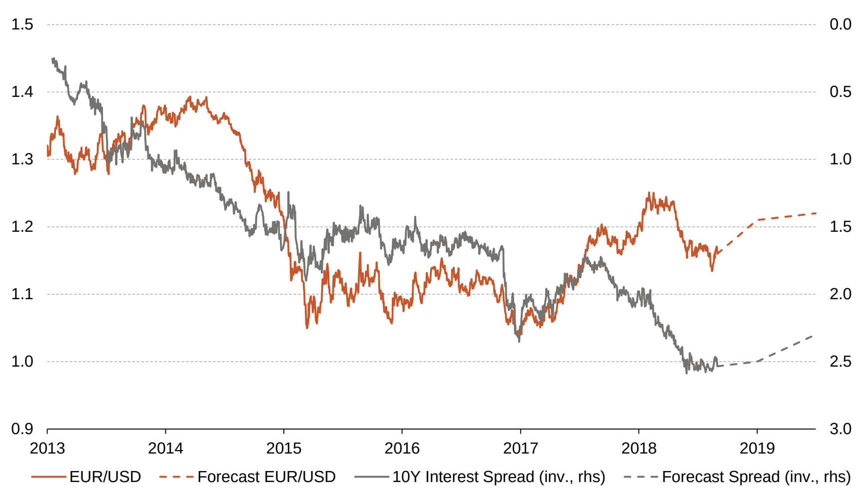
Currency Moves vs Euro



- With the exception of the Swiss franc, the currencies of the G10 countries have lost against the euro. The euro benefited from good economic data and the prospect of a slower tightening of US monetary policy.
- Emerging market currencies, especially the Turkish lira, remain under pressure. The ruble, the real and the rand are also losing significantly in value.
- Crypto currencies are being avoided in this environment by investors.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 01/01/2018 - 31/08/2018

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate rose to 1.17 before easing slightly to 1.16 over the last few days. In addition to good economic data, the euro also benefited from Fed communication, not to speed up the cycle of interest rate hikes, but to continue slowly.
- The interest rate differential between 10-year US and German government bonds remains high at around 2.5 percentage points.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US Treasuries and 10-year Bunds.
Source: Bloomberg, Time period: 01/01/2013 - 30/06/2019

European Sector & Style Performance

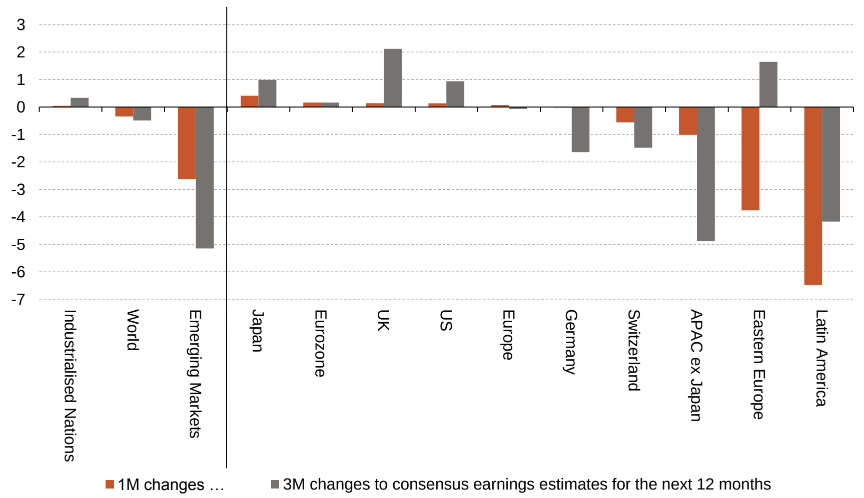
	Seit 4 Wochen & Jahresanfang (YTD)		12-Monats-Zeiträume der letzten 5 Jahre				
	4W (03.08.18 - 31.08.18)	YTD (31.12.17 - 31.08.18)	31.08.17 31.08.18	31.08.16 31.08.17	31.08.15 31.08.16	31.08.14 31.08.15	30.08.13 31.08.14
Informationstechnologie	1.8	13.5	20.2	16.1	14.9	8.1	17.7
Industrie	0.4	2.6	8.5	14.2	6.3	8.7	12.4
Zyklische Konsumgüter	-0.2	0.5	7.0	11.6	-6.1	18.4	13.1
Growth	-0.2	3.6	8.2	8.2	1.5	13.6	14.1
Energie	-1.2	10.5	28.8	8.1	6.5	-20.8	18.0
Gesundheit	-1.3	6.2	5.6	1.9	-7.6	18.1	25.9
Versorger	-1.9	1.8	-1.7	9.0	0.3	-2.7	30.8
Grundstoffe	-2.2	-1.0	9.3	22.7	4.4	-7.3	15.5
Basiskonsumgüter	-2.3	-0.6	1.8	2.0	13.1	13.6	13.5
Value	-3.2	-3.1	1.4	15.5	-6.7	1.7	21.8
Finanzen	-3.7	-8.2	-5.3	27.1	-16.8	9.1	19.0
Telekommunikation	-6.9	-13.1	-12.8	0.1	-12.3	20.6	22.2

Zyklische Konsumgüter: MSCI Europe Consumer Discretionary NR; Basiskonsumgüter: MSCI Europe Cons. Staples NR; Energie: MSCI Europe Energy NR; Finanzen: MSCI Europe Financials NR; Gesundheit: MSCI Europe Health Care NR; Industrie: MSCI Europe Industrials NR; IT: MSCI Europe Inform. Techn. NR; Grundstoffe: MSCI Europe Materials NR; Telekommunikation: MSCI Europe Telecommunication Services NR; Versorger: MSCI Europe Utilities NR; Value: MSCI Europe Value NR; Growth: MSCI Europe Growth NR.

- Information technology has been the best performing European sector over the last four weeks. Since the beginning of the year, the industry has now risen more than 13%.
- By contrast, financial companies continued to suffer. The Turkish crisis, higher risk premiums for Italy and falling Bund yields had a negative impact.
- Growth has also outperformed value.

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: 30/08/2013 – 31/08/2018

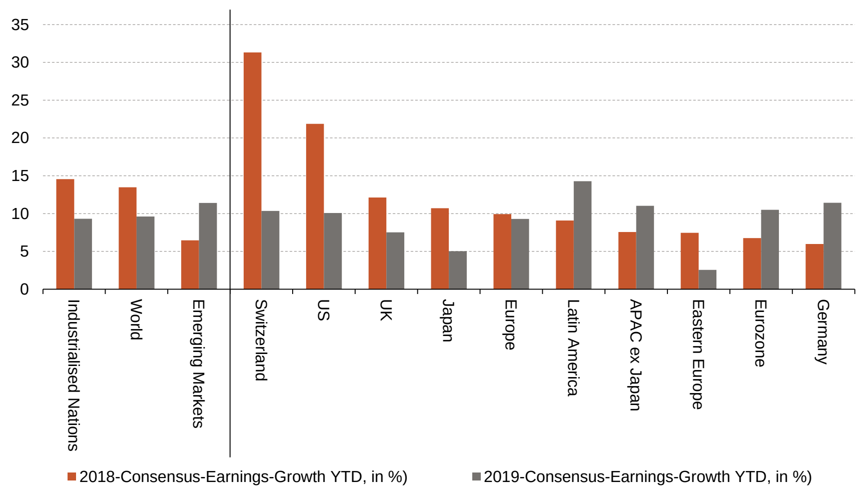
Changes in Consensus Earnings Estimates



- While the developed markets have seen slightly positive changes in earnings estimates for the next twelve months, emerging markets have experienced highly negative revisions.
- Within the emerging markets, Latin America in particular has recently recorded lower earnings estimates.
- Overall, the UK saw the most favourable changes in profits over the last three months - partly thanks to greater competitiveness brought about by the recent weakness of the pound.

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 31/08/2018

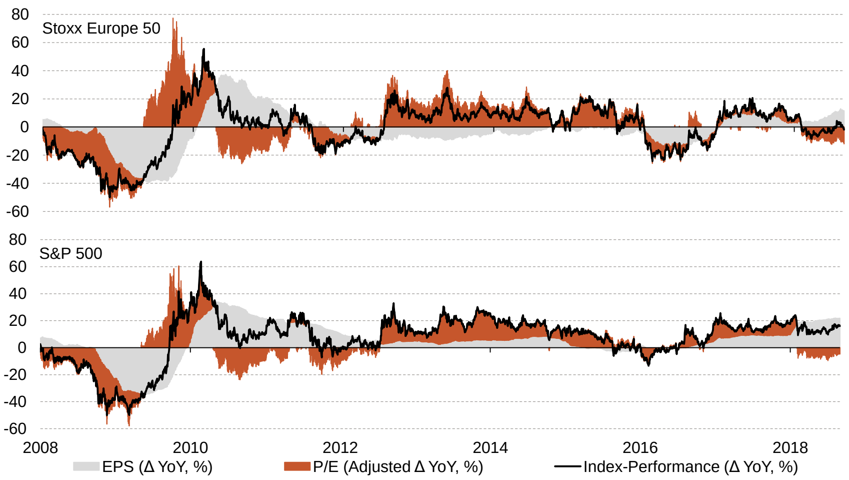
Earnings Growth



- For the US, a 22% increase in profit is being expected for 2018. The consensus also expects double-digit earnings growth for next year.
- The lowest profit growth is anticipated for Germany in 2018 after profit warnings from individual companies such as Continental. The analysts are, however, more optimistic for the next year.

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 31/08/2018

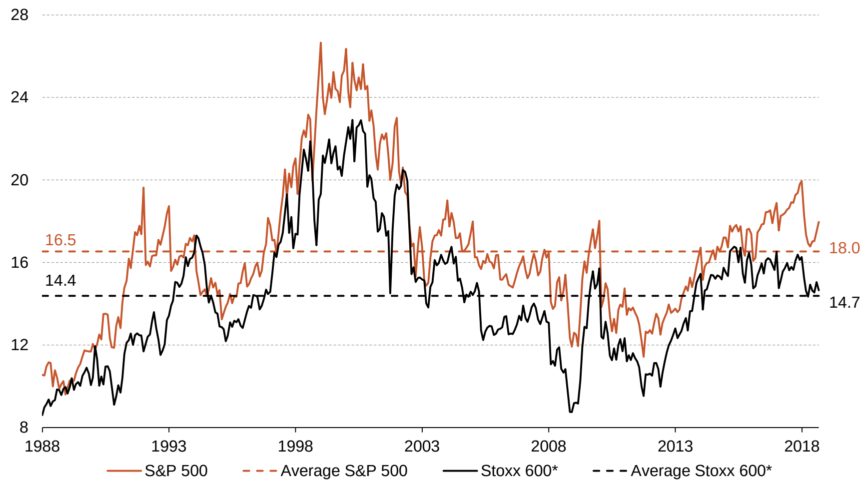
Contribution Analysis



- While the S&P 500 is now about 20% higher than a year ago, the Stoxx Europe 50 has remained almost unchanged compared to the previous year.
- Earnings estimates have risen for both stock indices during this period - although the increase for the USA has been much stronger, partly due to the US tax reform.
- P/E ratios have declined for both regions, but significantly less for Europe due to the weak price performance.

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: 01/01/2008 - 31/08/2018

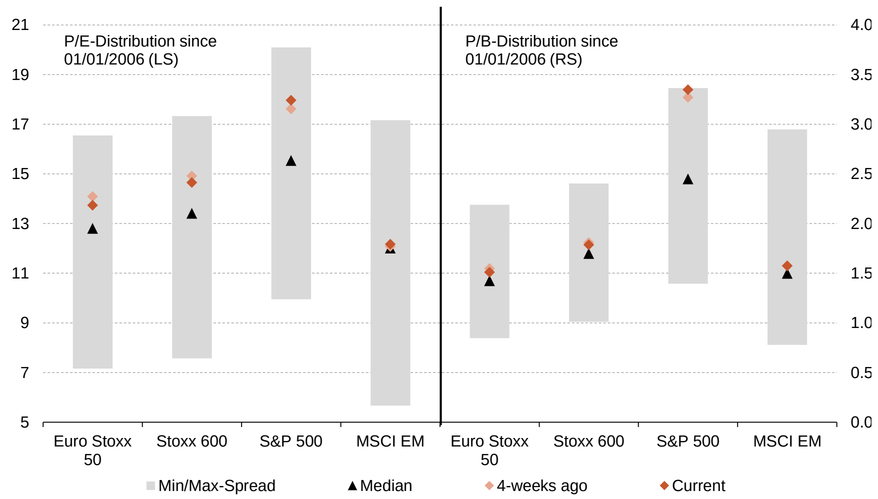
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The S&P 500 reached a new all-time high last week, which led to technical follow-up purchases. Due to the strong price development, the P/E ratio for the S&P 500 has risen again to 18, the highest level since January.
- As European equities have underperformed lately, the P/E premium for the US equities have increased to 3.3 points.

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, Time period: 31/12/1987 - 31/08/2018

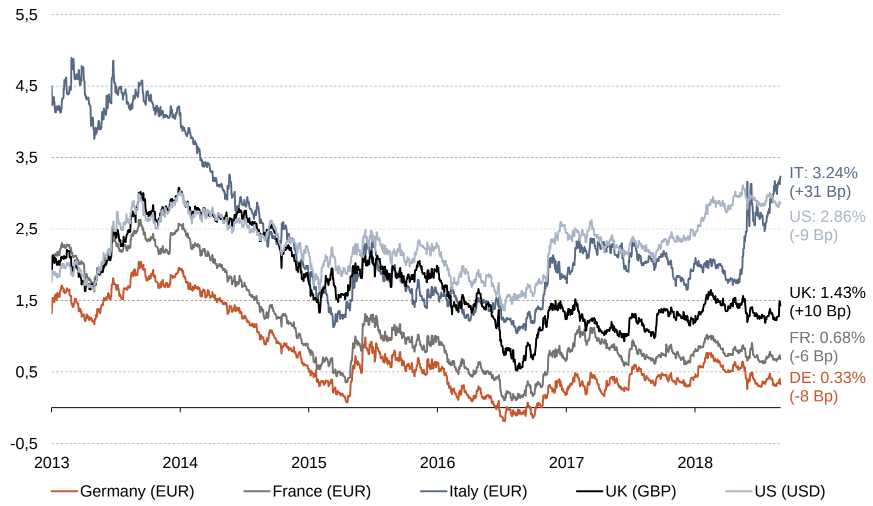
Historical Distribution: Price/Earnings and Price/Book Ratio



- US equities are valued most expensively among all regions under consideration. The price/book value ratio of the S&P 500 is at its highest valuation level since at least 2006.
- Only emerging markets equities are currently valued within the median range and thus appear relatively attractive with respect to other regions.

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 - 31/08/2018

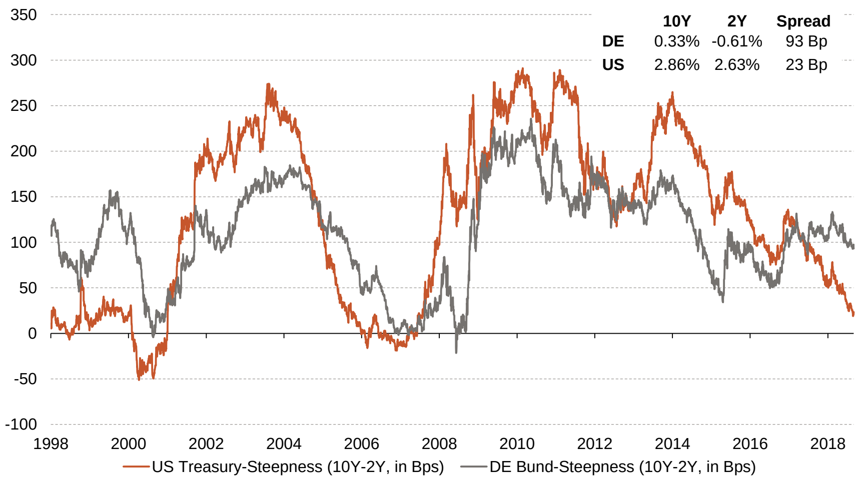
10-Year Government Bond Yields



- Safety is still in demand. German government bonds have recorded yield reductions of 8 basis points, while Italian government bonds had to tolerate a substantial yield increase of 31 basis points.
- British government bonds have suffered from the sell-off of international investors (July: -17.2 billion Pounds), which was triggered by the weak Pound and numerous unresolved issues surrounding Brexit.

Effective yield of 10-year government bonds and change in the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2013 - 31/08/2018

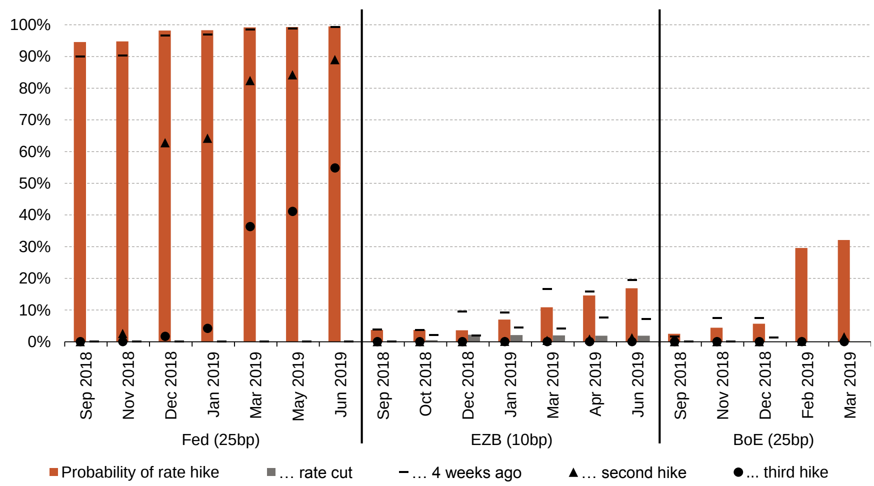
Yield curve steepness (10Y - 2Y)



- The inversion of the US yield curve is approaching. Now it is only 23 basis points away.
- Some market participants see an inversion of the US yield curve as an indication of a recession. There are however some dissenting opinions that the yield curve is only one of many indicators.

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 - 31/08/2018

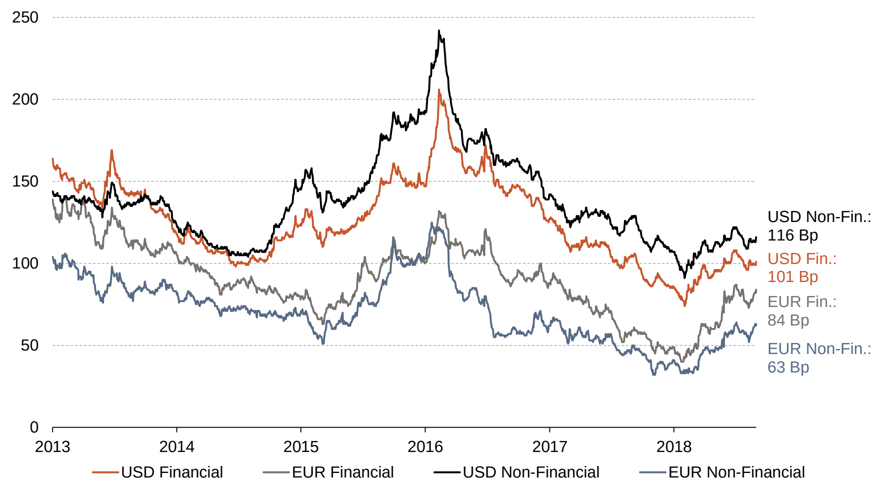
Implicit Probabilities for Changes in Key Interest Rates



- Despite the verbal attacks of US President Trump on the Fed not to raise interest rates any further, the market is pricing in a rise in interest rates in September with around 95% probability.
- Little has changed in the Eurozone and the UK. A rise in interest rates in both regions is extremely unlikely by the end of the year.

Derivatives on money market rates - such as the Fed funds futures - can be used to determine the probability of a change in the key interest rate priced by the market
Source: Bloomberg, Time period: 03/08/2018 - 31/08/2018

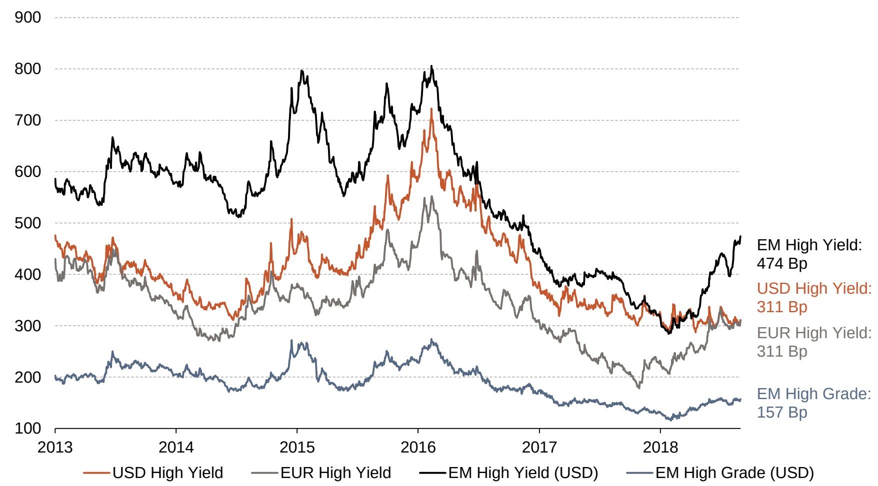
Credit Spreads Financial and Non-Financial Bonds



- USD corporate bonds have recently been characterised by stable risk premias. While spreads in the automotive industry have widened, they have narrowed in the real estate industry.
- EUR corporate bonds are struggling with rising risk premias, also due to increasing new issuances. Car industry bonds were particularly affected by this. Bank bonds were burdened by higher Italian spreads and the Turkish crisis.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2013 - 31/08/2018

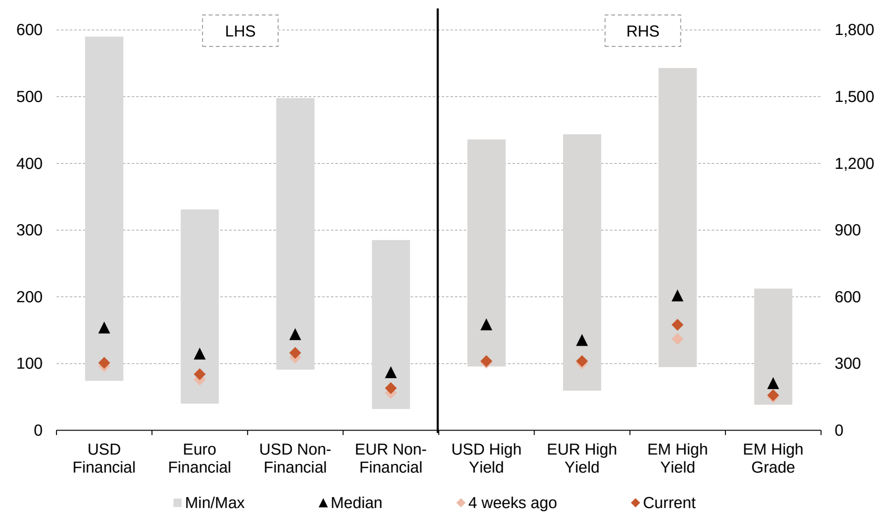
Credit Spreads High Yield and Emerging Markets Bonds



- Emerging market high-yield bonds were not able to recover. The Turkish crisis is also threatening to affect other emerging markets.
- USD and EUR high-yield bonds are priced with similar risk premias despite fundamentally different risk profiles. This was last the case in 2014, after which the USD spreads widened again.

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: 01/01/2013 - 31/08/2018

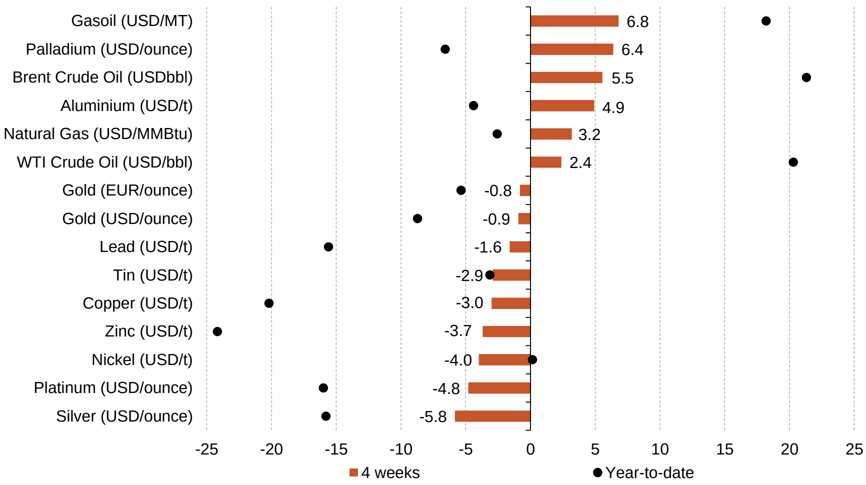
Historical Distribution of Credit Spreads (in bp)



- USD high-yield bonds show extremely low risk premias over a 10-year comparison. An expansion from this low level could have a severe impact on many investors.
- Risk premias for emerging market high-yield bonds continue to move towards the historical 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: 31/08/2008 - 31/08/2018

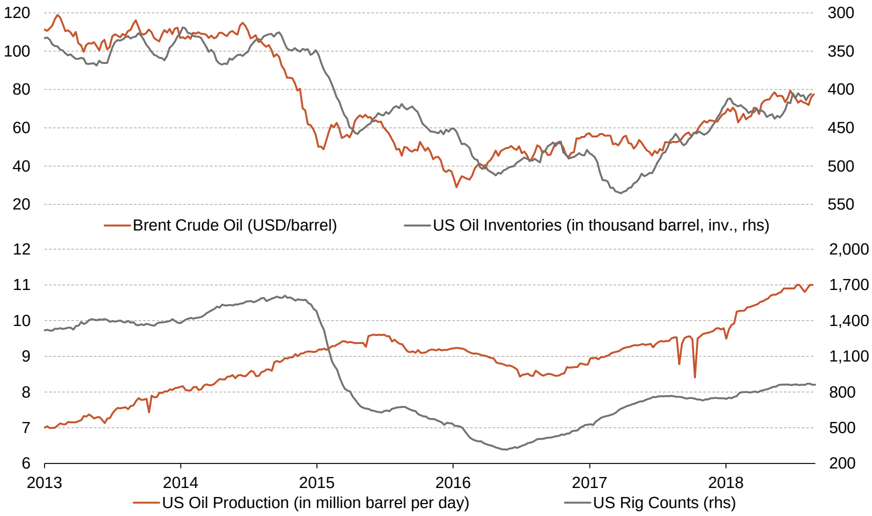
Commodities Performance



- Commodity performance has been very heterogeneous over the past 4 weeks.
- Energy commodities gained slightly, as inventory data point to strong demand and the uncertainty in the run-up to Iran sanctions is also increasing.
- The precious metals platinum and silver were among the biggest losers, while gold fell only slightly.
- Base metals recorded losses due to the trade war.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2018 - 31/08/2018

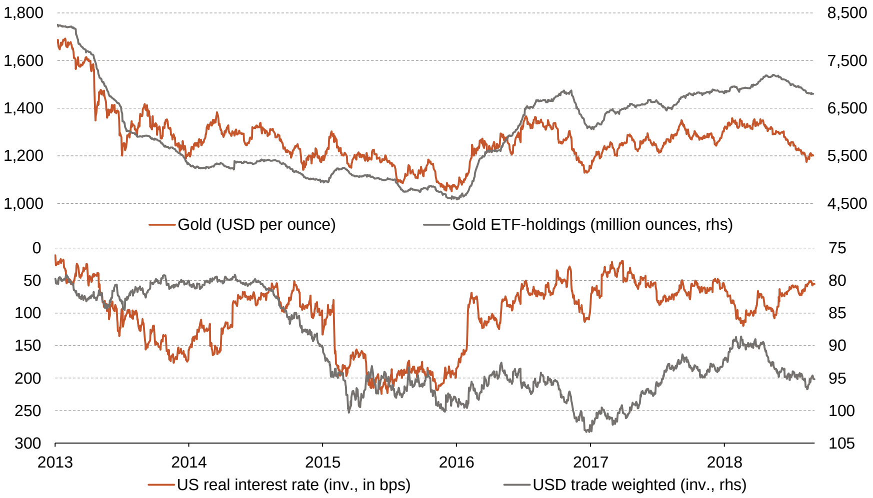
Crude Oil



- The price of Brent oil exceeded USD 77 and WTI oil exceeded USD 70 per barrel.
- Falling US inventories of crude oil as well as gasoline and distillates have supported the oil price.
- Uncertainty in the run-up to the Iran sanctions also had a price-driving effect. Iranian oil exports have already fallen by 1 million barrels a day.

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: 01/01/2013 - 31/08/2018

Gold



- The price of gold is still struggling with the psychologically important level of USD 1,200 an ounce, although the price has stabilised in recent days.
- The falling ETF holdings and declining positions of speculative investors had a negative impact in recent months. The potential covering of short positions offers a rebound potential though.

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: 01/01/2013 - 31/08/2018

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