BERENBERG
Markets

MONITOR

17 September 2018

Current market commentary

Investors have had hard time making money over the last four weeks. Almost all asset classes have declined in euro terms. The ongoing trade war and worries over emerging markets have had a dampening effect. The Brent oil (falling inventories) and Italian government bonds (budget negotiations) were exceptions. The silver lining, however, is that a lot of bad news has already been priced into the markets. Most analysts have revised down their earnings estimates (especially for emerging market equities), sentiment of US investors is no longer as optimistic and funds flows show strong demand for money market and multi-asset ETFs. Put-call ratios for Europe and the US have recently risen. All this suggests that investors are positioned cautiously, which is good news for upside potential in equities. Even if political uncertainties still dominate in the short term, we expect a positive year-end with a catch-up potential for European and emerging market 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

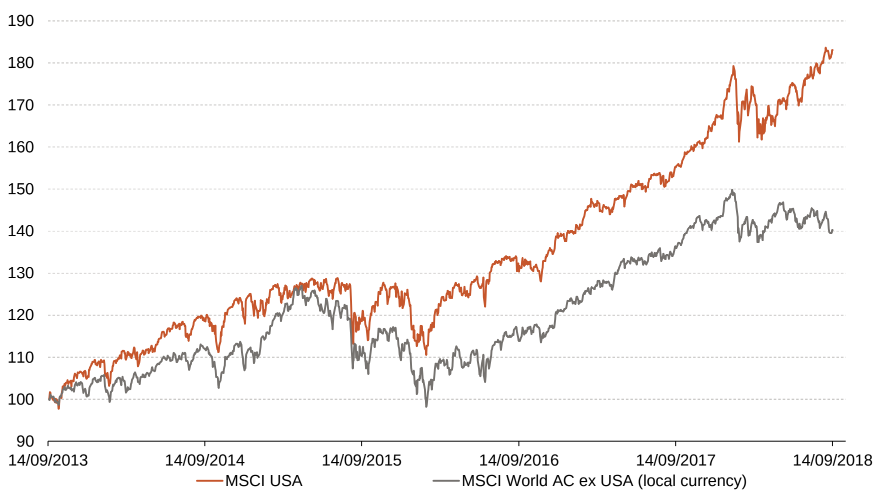
Last week the US's offer to China to speak on trade issues has still led to a relief in the stock markets, especially in Asia. The situation could worsen again this week as US President Trump threatened to impose short-term punitive tariffs on USD 200 billion worth of goods at the weekend. At the same time, uncertainty about the budget negotiations in Italy, Brexit negotiations and US congressional elections remains, so investors are likely to hold off reinvestment for the time being.

The further progress of the trade war between the USA and China is closely monitored.

This week's focus is on the Bank of Japan's (BoJ) interest rate decision on Wednesday and US data on the labor and housing market. PMI data for Germany, France and the euro area will be released on Friday. In politics, the EU summit on Thursday is notable, revolving as it will around Brexit. Next week, the Fed meeting will take centre stage on 26 September, where a further interest rate hike of 0.25% is expected.

The focus is likely to be on PMI data in the euro zone and the Fed's meeting..

No steady state: US stocks strongly decoupled from the rest of the world



- US equities have beaten the rest of the world by 12% since the beginning of the year - thanks to record corporate earnings, share buybacks and M&A activity.
- As a result of the large performance gap relative to Europe and emerging markets, momentum strategies also favour the US strongly.
- In the medium term, however, mean reversion seems likely: "risk-on" with falling US dollar and Europe's and emerging market's catch-up potential or "risk-off" with strong US dollar and falling US equities.

Net return indices; 14/09/2013 = 100
Source: Bloomberg, Time period: 14/09/2013 - 14/09/2018

Multi Asset

	4W (17/08/18 - 14/09/18)	YTD (31/12/17 - 14/09/18)	14/09/17 14/09/18	14/09/16 14/09/17	14/09/15 14/09/16	14/09/14 14/09/15	13/09/13 14/09/14
	4-week & YTD		12-month periods over that last 5 years				
Brent	6.4	26.1	52.7	3.0	-19.5	-51.6	-5.4
Eonia	0.0	-0.3	-0.4	-0.4	-0.3	-0.1	0.1
Global Convertibles	-0.2	7.5	8.5	9.1	3.8	12.0	14.3
MSCI World	-0.5	7.9	13.7	13.1	7.2	9.4	17.8
Gold	-0.8	-5.3	-7.9	-5.1	20.0	3.3	-4.9
MSCI Emerging Markets	-1.2	-6.5	-2.3	20.4	12.9	-10.6	12.9
USDEUR	-1.6	3.3	2.6	-5.6	0.6	14.5	2.6
Global Coporates	-1.7	0.7	0.7	-1.8	6.9	11.4	9.5
Global Treasuries	-1.9	1.5	0.4	-6.8	10.3	9.1	5.3
Industrial Metals	-3.3	-13.0	-4.8	22.7	-2.4	-16.0	9.3
REITs	-3.3	2.3	1.8	-3.4	14.7	11.1	13.5
MSCI Frontier Markets	-5.1	-11.0	-6.5	20.5	-3.5	-10.6	36.8

MSCI World: MSCI World Net Return; MSCI Emerging Markets: MSCI EM Net Return; MSCI Frontier Markets: MSCI Frontier Markets Net Return;
REITs: MSCI World REITs Index; Global Treasuries: Bloomberg Barclays Global Agg Treasuries TR; Global Corporates: Bloomberg Barclays Global Aggregate Credit TR
Global Convertibles: Bloomberg Barclays Global Convertibles Composite TR; Gold: Gold US Dollar Spot; Brent Crude: Bloomberg Brent Crude Subindex TR;
Industrial Metals: Bloomberg Industrial Metals Subindex TR; Eonia: Eonia Capitalizaiton Index; USDEUR: Price of 1 USD in EUR.

- It has been incredibly difficult for investors to make money over the last four weeks. All asset classes with the exception of Brent Oil have declined in value.
- The ongoing trade war between China and the US and the sell-off of emerging markets weighed on investor sentiment, in particular frontier markets stocks.
- Brent oil gained in the wake of falling Iran oil exports and declining US inventories.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 13/09/2013 – 14/09/2018

Equities

	4W (17/08/18 - 14/09/18)	YTD (31/12/17 - 14/09/18)	14/09/17 14/09/18	14/09/16 14/09/17	14/09/15 14/09/16	14/09/14 14/09/15	13/09/13 14/09/14
	4-week & YTD		12-month periods over that last 5 years				
MSCI EM Eastern Europe	1.6	-1.2	2.8	22.1	8.3	-16.2	-5.3
Stoxx Europe Small 200	0.6	1.5	6.0	19.6	-0.2	12.2	11.2
Stoxx Europe Cyclicals	0.1	-3.1	-0.2	25.7	-5.0	2.2	11.3
S&P 500	0.1	13.8	21.2	13.5	11.9	15.1	23.0
Russell 2000	-0.2	16.8	24.9	12.9	7.3	15.4	14.3
DAX	-0.7	-6.1	-3.3	20.8	2.4	5.0	13.4
Euro Stoxx 50	-0.8	-2.3	-2.6	22.0	-3.9	0.7	15.9
Stoxx Europe Defensives	-0.9	3.8	4.7	7.5	-1.8	3.7	22.3
MSCI EM Asia	-0.9	-4.7	0.7	21.4	13.7	-3.8	16.9
Topix	-1.6	-0.1	9.2	11.2	8.1	16.1	7.3
Stoxx Europe 50	-1.7	-2.6	-0.1	14.2	-3.4	1.6	13.9
MSCI UK	-3.1	-2.0	3.9	13.7	14.0	-8.1	6.9

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.

- The performance picture for equities also looks negative. While European small caps and US equities held up to some extent, UK equities, Japanese equities and Asian emerging market equities continued their downward trend.
- Since the beginning of the year, the difference in performance between the US and the rest of the world has thus continued to increase. The S&P 500 gained 14% in euro terms, while, for example, the MSCI UK lost 2% in euro terms.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 13/09/2013 – 14/09/2018

Fixed Income

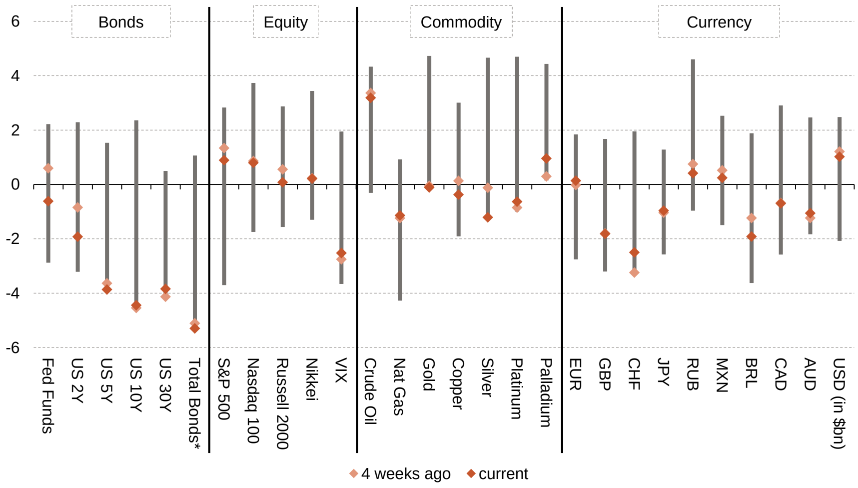
	4W (17/08/18 - 14/09/18)	YTD (31/12/17 - 14/09/18)	14/09/17 14/09/18	14/09/16 14/09/17	14/09/15 14/09/16	14/09/14 14/09/15	13/09/13 14/09/14
	4-week & YTD		12-month periods over that last 5 years				
BTPs	2.1	-3.5	-2.8	-2.5	6.1	5.7	16.4
EUR Inflation Linkers	0.2	-0.5	1.4	-0.3	5.2	-0.5	5.6
EUR High Yield	0.0	0.0	0.6	6.1	4.7	0.8	8.4
EUR Financials	-0.4	-0.8	-0.1	1.9	5.3	1.0	8.0
Treasuries	-0.5	-1.5	-2.0	-0.6	4.2	3.6	3.0
EUR Non-Financials	-0.8	-0.6	0.0	0.0	6.6	0.5	8.4
Bunds	-1.1	0.9	0.6	-2.5	5.6	3.9	6.9
Gilts	-1.1	-1.2	-0.1	-5.8	-3.0	18.7	11.8
USD High Yield	-1.1	6.1	5.4	2.8	7.1	13.0	10.5
EM Hard Currency Bonds	-1.8	1.1	0.4	0.3	12.0	11.5	10.8
EM Local Currency Bonds	-2.0	-4.2	-4.5	1.1	13.6	-4.3	8.7
USD Corporates	-2.3	1.0	0.9	-2.6	8.1	16.2	10.8

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.

- The signs of relief in the Italian budget negotiations had a positive effect on the Italian government bonds. They gained 2.1%. The yield spread to German government bonds narrowed by more than 40 basis points.
- Emerging market bonds, on the other hand, in particular local currency emerging market bonds, remained under pressure and continued their decline over the last month.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 13/09/2013 – 14/09/2018

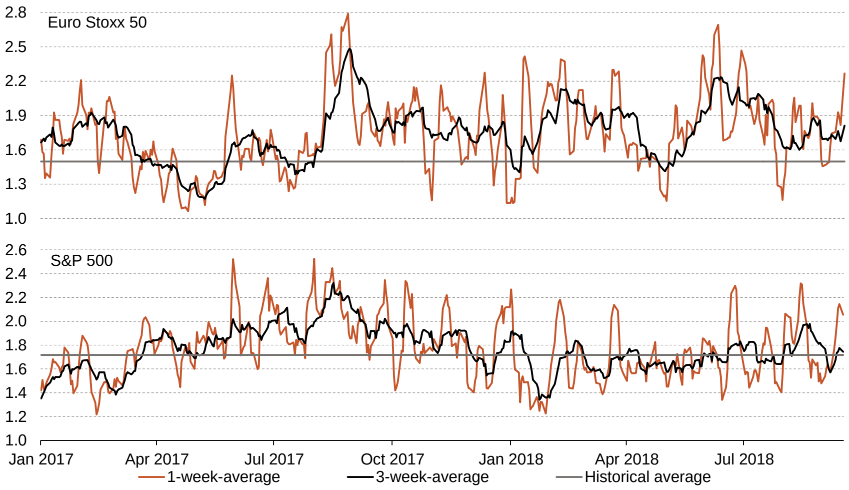
Non-Commercial Positioning



- Speculative investors remain skeptical about US bonds and precious metals. They have even significantly increased their short positions for silver recently.
- The most bullish positions are in crude oil and the dollar. Positioning of the euro is 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: 11/09/2008 - 11/09/2018

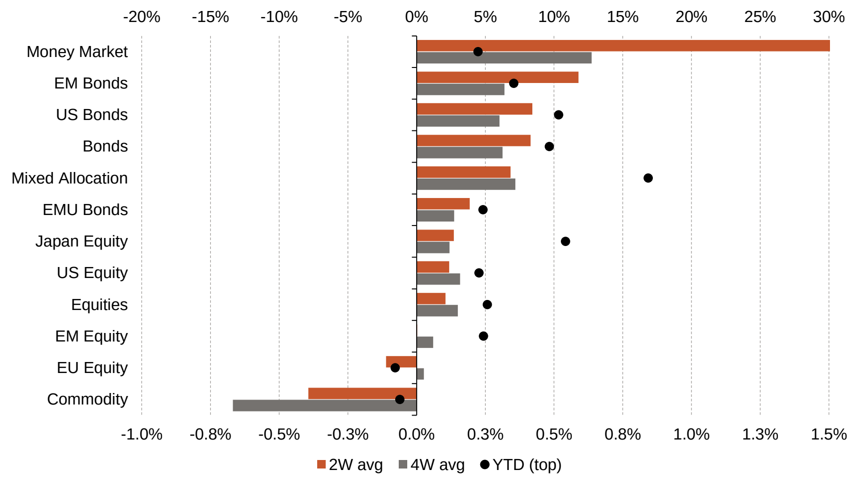
Put-Call Ratio



- Investors have increased their hedging quotas for both the US and Europe. Persistant political uncertainties continue to drive investors' caution.
- The 3-week average put-call ratio for the Euro Stoxx 50 has now been above the historical average since the beginning of May.

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 - 14/09/2018

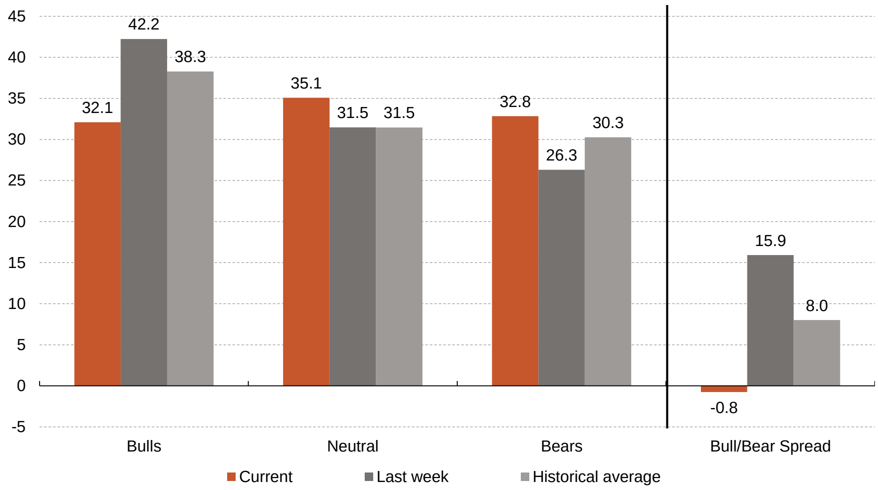
ETF Flows



- Investors' uncertainty is also reflected in the high inflows into money market and multi-asset ETFs. Bond ETFs (especially US bonds) have also managed to attract slight inflows globally.
- Commodity ETFs, on the other hand, have experienced further outflows in the last two weeks, primarily as a result of the weak gold market.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2017 - 14/09/2018

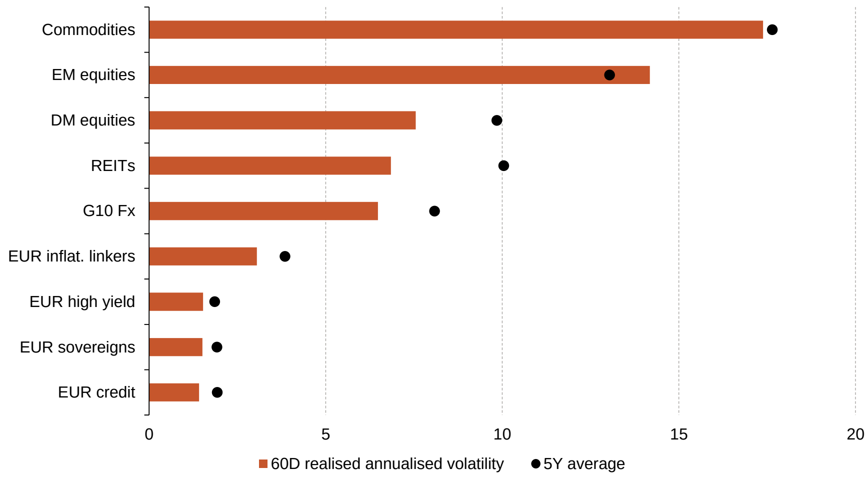
AAII Sentiment Survey (Bulls vs Bears)



- The proportion of bulls fell by about 10 percentage points to 32.1% compared to the previous week. The share of bears, on the other hand, has increased to 32.8%. Bulls and bears are thus in balance. Compared to historic figures, however, sentiment is rather pessimistic.

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 – 13/09/18

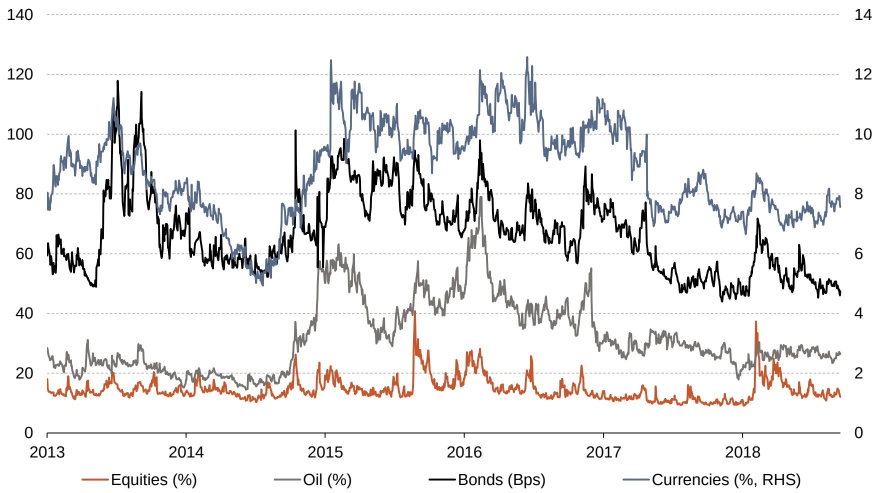
Realised Volatilities



- Realised volatilities for all asset classes apart from emerging market equities are currently lower than the historical 5-year average.
- As Compared to their own history, the fluctuations are lowest for developed markets equities, REITs and G10 currencies.
- September and October have the tendency of being volatile stock market months as the last 90 years have shown.

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: 14/09/2013 – 14/09/2018

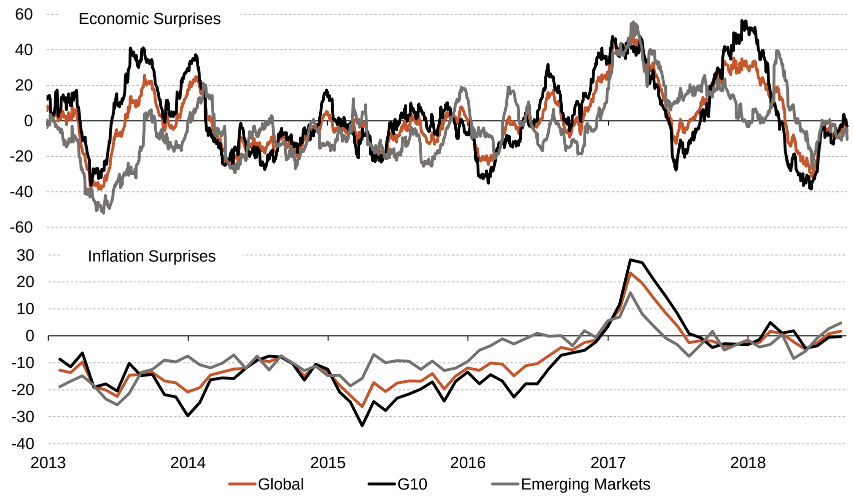
Implied Volatilities



- Oil volatility has recently slightly increased again, among other things due to lower US inventories, Hurricane Florence and the threat of Iran sanctions.
- In view of the unchanged interest rate decisions of the ECB and the BoE, volatility in bond markets has recently declined. Currency volatility, on the other

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: 01/01/2013 – 14/09/2018

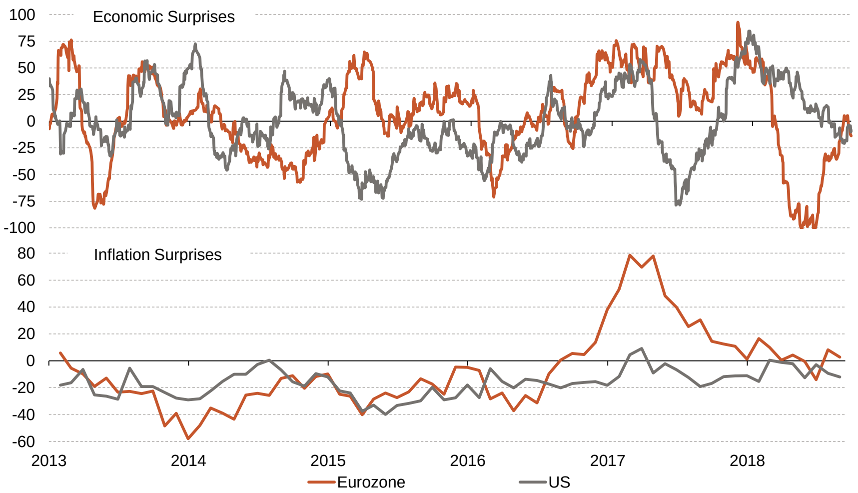
Global



- Economic expectations at the global level, in the industrial nations (G10) and emerging countries were almost met.
- Besides many positive surprises there were also some negative ones. South Africa, for example, slipped into recession as Q2 GDP growth (QoQ) was negative at -0.7% (expected +0.6%).
- Inflation has been surprising upwards, especially in the emerging markets, driven by countries such as Turkey and Argentina.

See explanations below.
Source: Bloomberg, Time period: 01/01/2013 - 14/09/2018

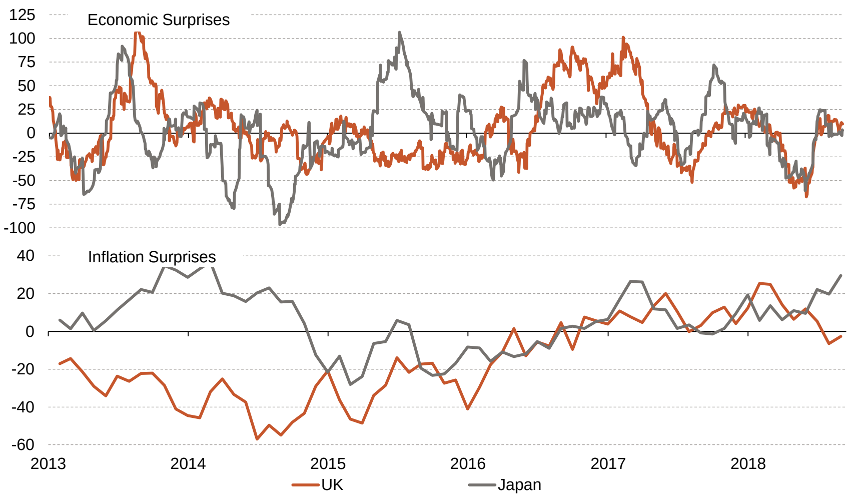
Eurozone and US



- The eurozone was unable to continue the upward trend in economic surprises over the past two weeks. Industrial sentiment in the eurozone was as expected, while in Germany industrial orders in July were disappointing at -0.9% (MoM).
- Industrial sentiment in the USA was was very strong. At 61.3 points, the ISM index reached its highest value since 2004 and the smaller companies were also very positive (NFIB: 108.8).

See explanations below.
Source: Bloomberg, Time period: 01/01/2013 - 14/09/2018

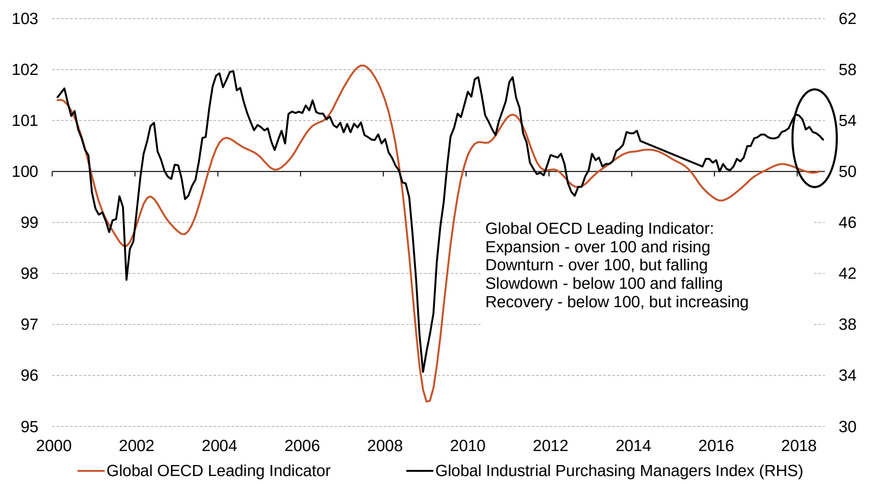
UK and Japan



- In the UK, economic data were recently somewhat weaker, but were able to surprise slightly upwards.
- The Japanese economy is robust and recorded rising machine orders (+11% MoM). Inflation: Japanese wholesale prices (+3.1% in August) surprised upwards.

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 - 14/09/2018

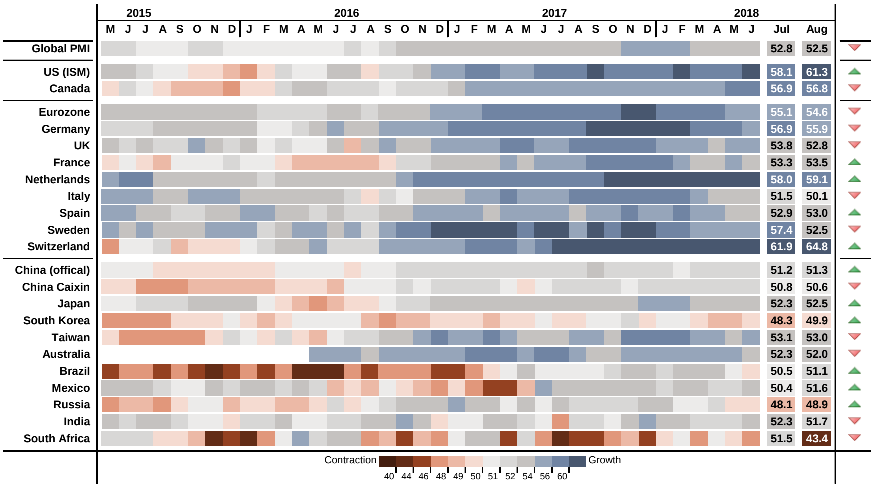
OECD Leading Indicator and Global Purchasing Managers Index



- Global industrial sentiment fell to 52.5 in August, continuing the downward trend.
- A turnaround could be triggered by fading trade disputes - and there seems to be hope here. The US is in negotiations with Europe and, despite recent threats, has shown willing to talk to China.

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 - 31/08/2018

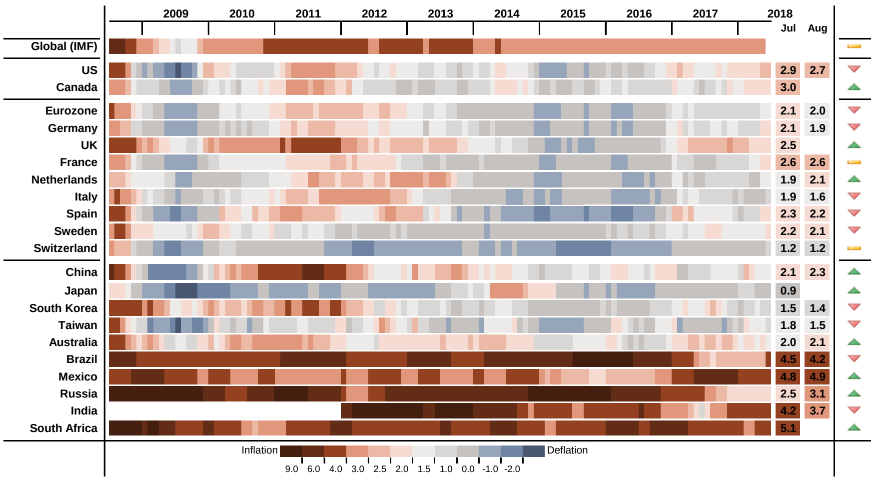
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The USA continues to decouple itself from the rest of the world. Only Switzerland, with industrial sentiment at 64.4, was able to top the US.
- At the other end of the scale is South Africa. Sentiment is down at 43.4, which could further exacerbate the recession.

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

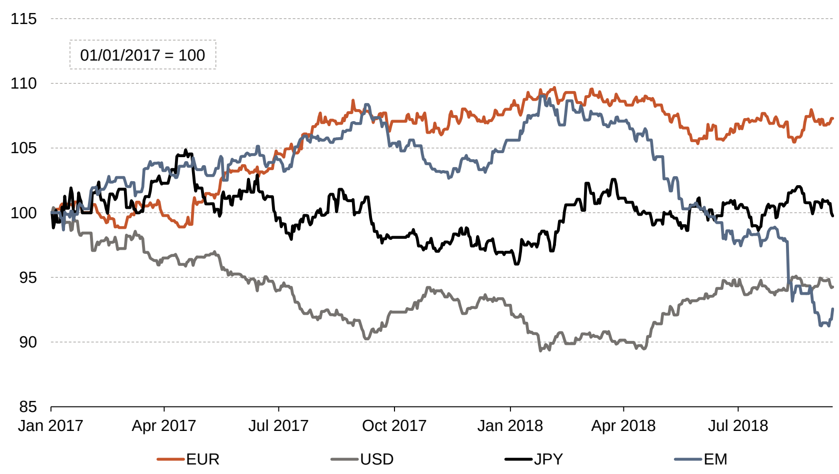
Headline Inflation



- August inflation of 2.7% in the US surprised downwards (expected 2.8%). However, pressure on prices could increase in the future, as wages in August rose by 2.9% year-on-year.
- While inflation fell again in Europe for the most regions, the picture is mixed in the emerging countries. In Russia, China and Mexico it was rising, while it fell in Taiwan or India.

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

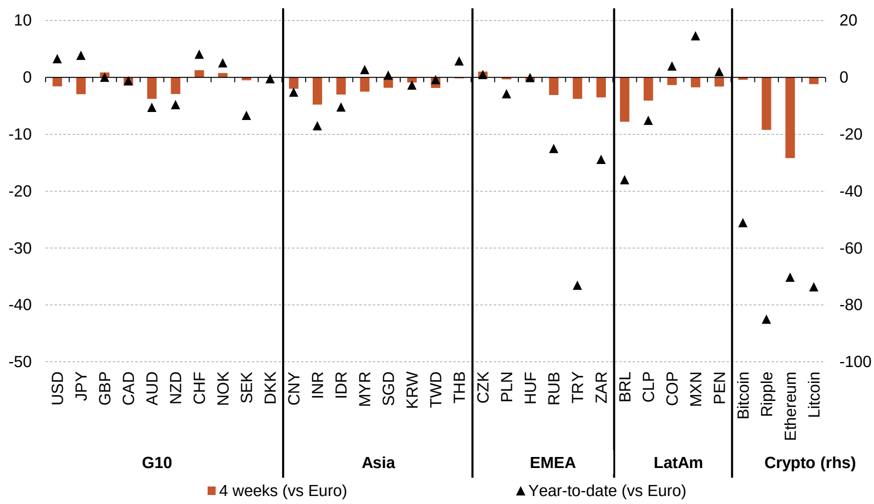
Trade-Weighted Currency Development



- Emerging market currencies have continued to lose value in recent weeks. The Turkish lira has recently stabilised thanks to a significant interest rate hike by the central bank.
- The trade-weighted euro benefited from the prospect of new trade talks between the US and China, while the US dollar was less in demand and depreciated slightly.

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 - 14/09/2018

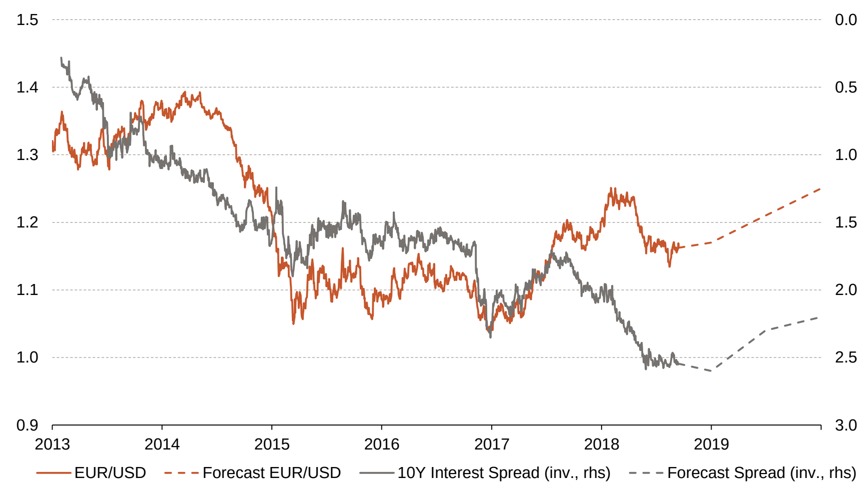
Currency Moves vs Euro



- In the last 4 weeks, the Swiss franc, the Norwegian krone and UK pound appreciated against the euro. Thanks to the risk on mood, the euro was largely able to gain against other currencies.
- Emerging currencies continued to depreciate against the euro, especially the Brazilian real.
- Crypto currencies remained under pressure except for bitcoin.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 01/01/2018 - 14/09/2018

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate has recently fluctuated between 1.16 and 1.17. The Euro benefited from lower risks of an escalating trade conflict and signaled willingness to reach an agreement on Brexit negotiations.
- The interest rate differential between 10-year bonds remains high. Since the Fed is likely to raise key rates twice more this year, US Treasuries yield advantage should remain in place.

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 - 31/12/2019

European Sector & Style Performance

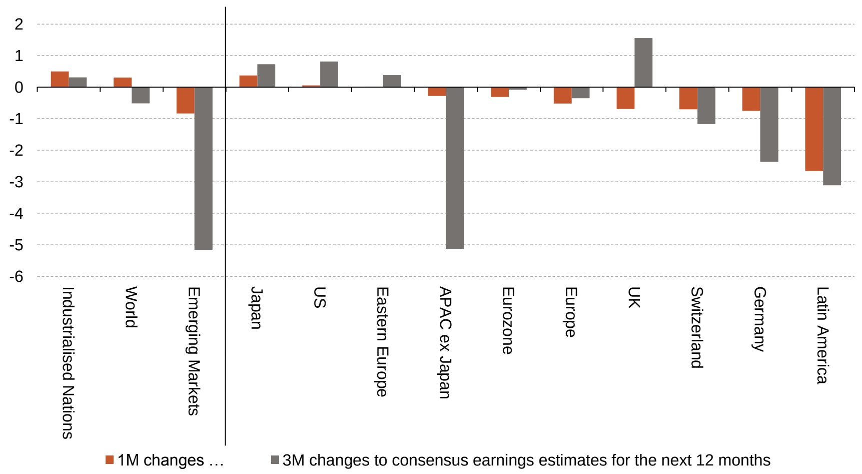
	4-week & YTD: 4W (17/08/18 - 14/09/18)	4-week & YTD: YTD (31/12/17 - 14/09/18)	12-month periods over that last 5 years: 14/09/17 14/09/18	14/09/16 14/09/17	14/09/15 14/09/16	14/09/14 14/09/15	13/09/13 14/09/14
Energy	1.4	10.4	23.6	15.9	9.0	-23.2	13.3
Industrials	0.4	1.4	3.9	19.4	7.5	5.8	6.6
Finance	0.2	-7.8	-6.5	31.1	-15.2	4.3	13.6
Materials	0.0	-2.9	5.1	27.0	6.2	-9.3	7.8
Information Technology	-0.5	9.8	12.7	21.9	14.3	4.6	11.2
Growth	-0.7	1.9	4.2	12.0	2.4	10.1	11.2
Health Care	-0.9	4.9	1.9	4.7	-6.2	12.6	27.7
Value	-1.0	-3.5	-1.1	20.1	-5.3	-1.9	15.6
Consumer Discretionary	-1.3	-1.4	1.5	17.1	-6.3	15.9	7.4
Utilities	-2.4	0.5	-3.3	10.5	3.0	-7.0	23.7
Telecommunications	-3.6	-13.1	-12.1	2.7	-12.4	17.3	14.5
Consumer Staples	-3.7	-2.3	-0.6	4.6	13.9	10.1	11.2

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 oil price rising, European energy companies have also recently gained ground. With an increase of more than 10% since the beginning of the year, energy has been the best-performing sector, followed by information technology.
- Telecommunications companies have lost 3.6% over the last four weeks and are the worst-performing sector since the beginning of the year, with a loss of more than 13.1%.

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: 13/09/2013 – 14/09/2018

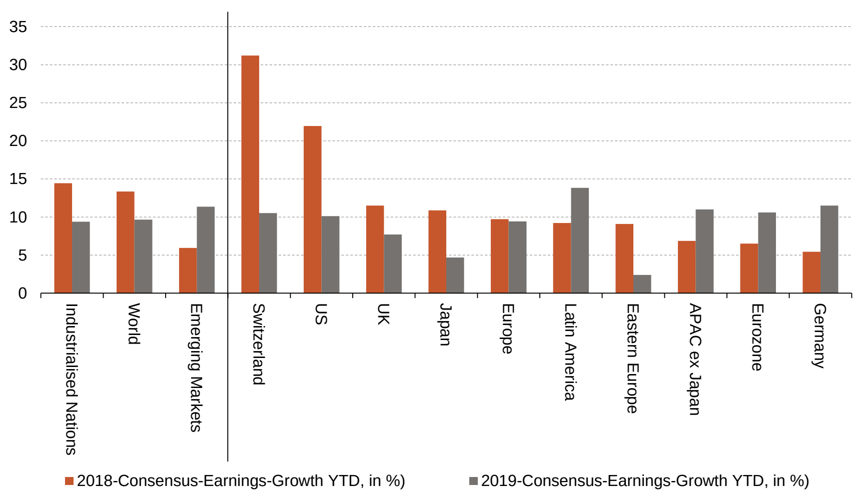
Changes in Consensus Earnings Etimates



- Worries over China and the crises in Turkey and Argentina are not only weighing on sentiment with regard to emerging market equities, but are also prompting severe negative earnings revisions. Over the last three months, 12-month forward earnings estimates were reduced by c. 5%.
- Japan, on the other hand, has recently seen the biggest positive changes in earnings estimates, followed by the US.

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 14/09/2018

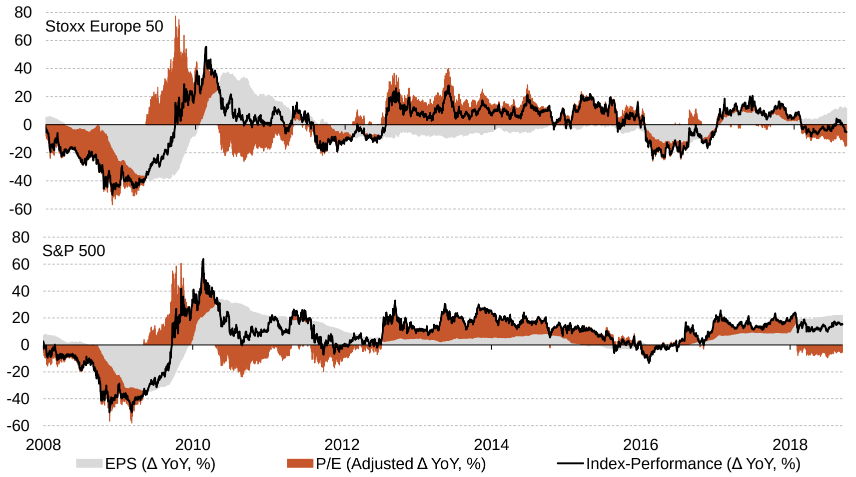
Earnings Growth



- Estimated earnings growth in 2018 is currently the lowest in Germany compared to the regions considered here. In addition to trading related worries, it is burdened by domestic problems such as those in the automotive sector.
- For the US, consensus now estimates a profit increase of 22% in 2018 and 10% in 2019.

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 14/09/2018

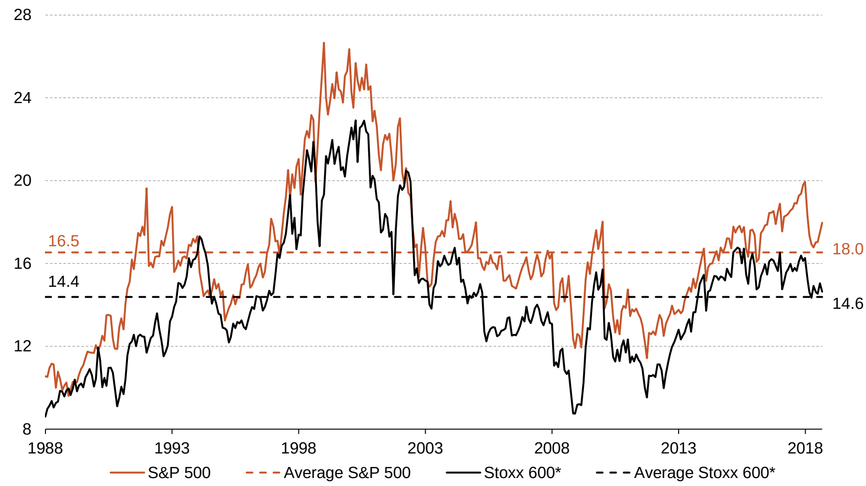
Contribution Analysis



- Valuations over the past twelve months have become more favorable for both the US and Europe as earnings estimates have risen more strongly than the respective equity indices. European stocks have even declined despite rising profits over the last 12 months.
- For the US, however, the increase in profit was significantly higher. The outperformance of the S&P 500 is therefore largely fundamentally justified.

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 - 14/09/2018

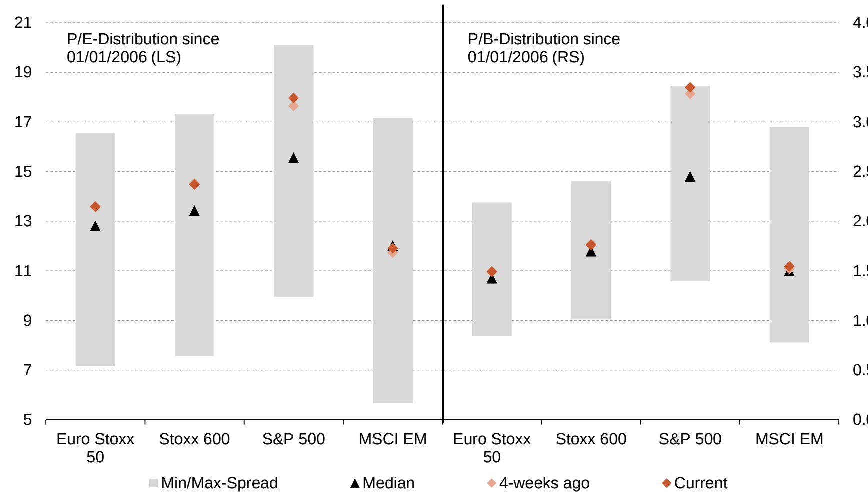
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The valuation gap between the US and Europe has recently widened again. There has been no significant difference in earnings revisions, although the S&P 500 has performed considerably better than the Stoxx Europe 600.
- US equities have a P/E ratio of 18, which is slightly above average compared to their own history.
- European equities, on the other hand, are valued fairly.

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 - 14/09/2018

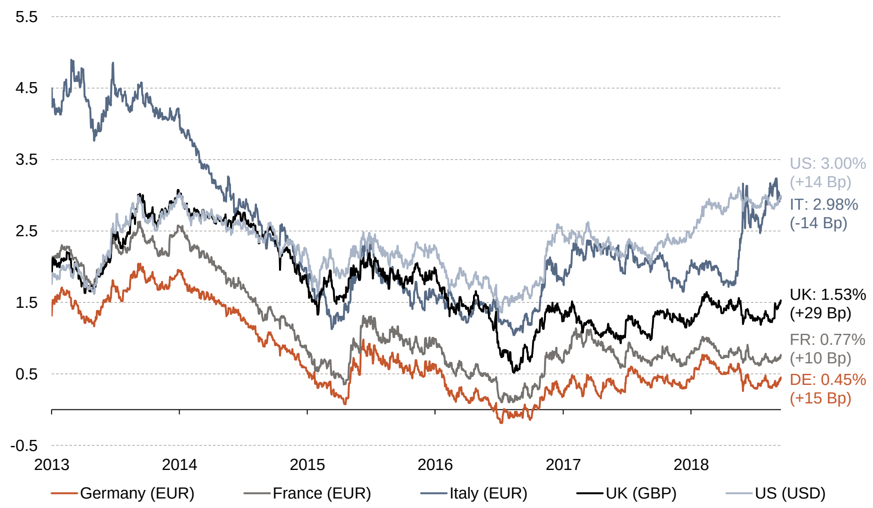
Historical Distribution: Price/Earnings and Price/Book Ratio



- US equities are the most expensive among the regions considered here. The price/book value ratio of the S&P 500 is at its highest valuation level since at least 2006.
- Only emerging market equities are currently valued within the median range and thus appear to be relatively attractive compared to the 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 - 14/09/2018

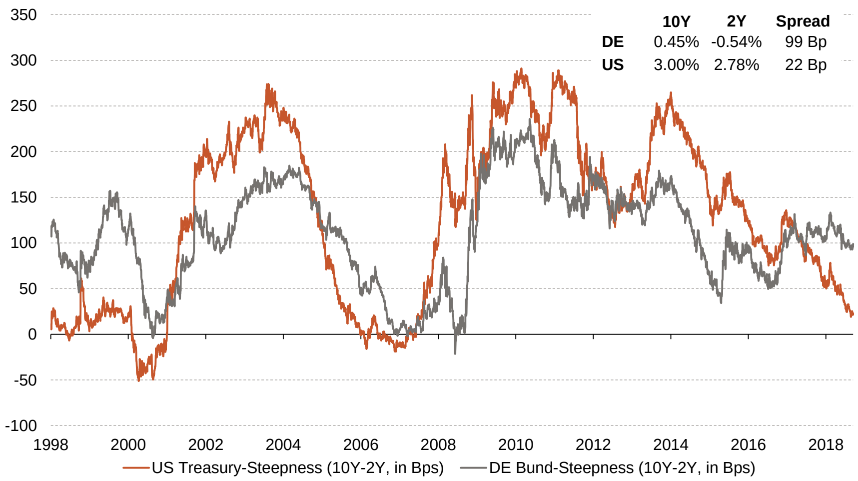
10-Year Government Bond Yields



- Italian government bonds were in demand again recently. The Italian government's suggestion to keep the budget deficit below 3% and thus meet EU targets calmed the markets.
- In the USA, yields rose to 3%, mainly thanks to the strong US economy.
- UK yields breached 1.5% again as optimism grew that a satisfactory agreement on Brexit negotiations would be reached.

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 - 14/09/2018

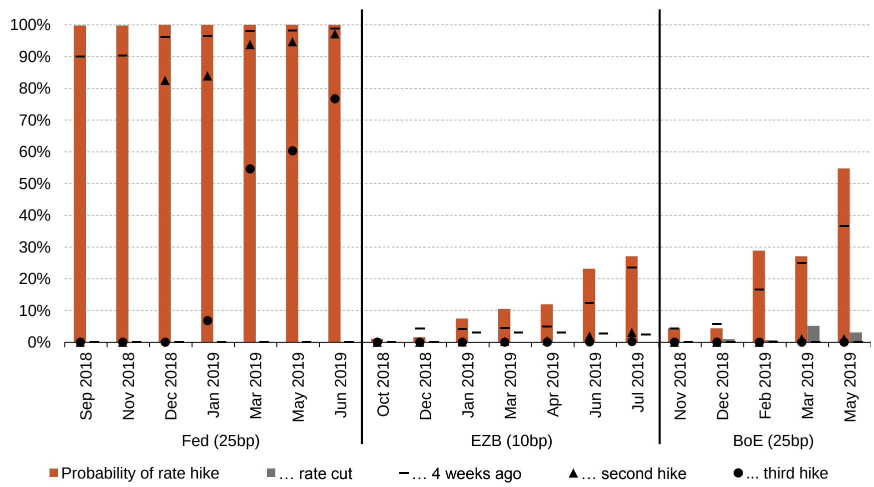
Yield curve steepness (10Y - 2Y)



- The steepness of the US yield curve remained at over 20 basis points. The recently increasing speed towards inversion has thus slowed down.
- The steepness of the German yield curve has been fluctuating for months around a value of around 100 bp and is thus far from inverting.

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 - 14/09/2018

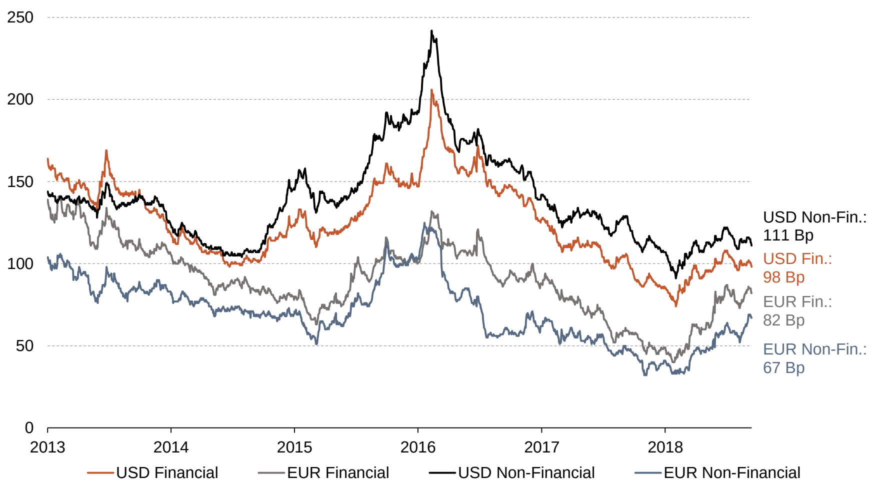
Implicit Probabilities for Changes in Key Interest Rates



- Positive economic data in the USA are galvanising the Fed in its course of gradual interest rate hikes. An interest rate hike in September is priced in with almost 100% probability, while the fourth interest rate hike in 2018 is priced in with around 80%.
- At its September meeting, the ECB was more dovish than expected. As a result, the likelihood of a rise in interest rates before July 2019 has fallen again below 15%.

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: 17/08/2018 - 14/09/2018

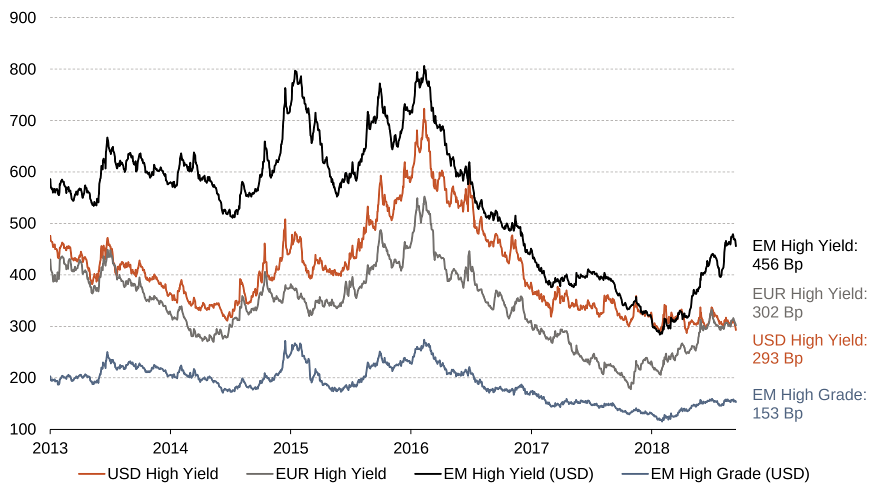
Credit Spreads Financial and Non-Financial Bonds



- Risk premia for corporate bonds have recently fallen slightly. EUR Non-Financial bonds were an exception.
- In the USA, the narrowing of spreads was driven primarily by the telecommunications and raw materials sectors.
- For EUR Non-Financial bonds, risk premiums have risen primarily in the real estate, retail and media industry.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2013 – 14/09/2018

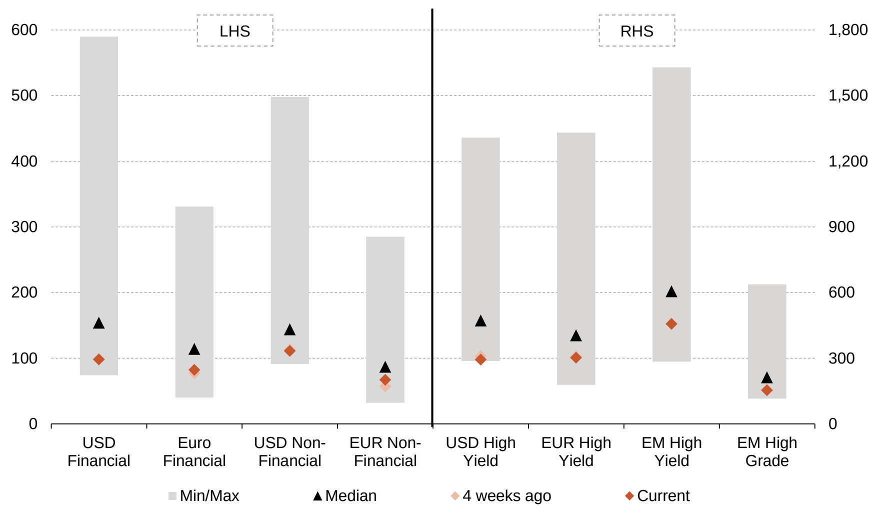
Credit Spreads High Yield and Emerging Markets Bonds



- Risk premia on high-yield and EM high-grade corporate bonds have recently stabilised.
- At 18 basis points, USD High Yield bonds recorded the largest spread narrowing in a two-week comparison. They now even have lower risk premia than EUR High Yield bonds, despite a worse risk profile.

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 – 14/09/2018

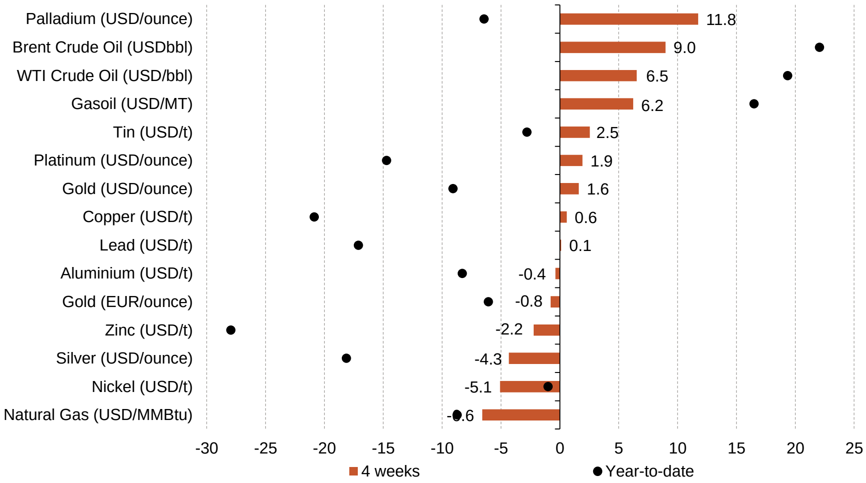
Historical Distribution of Credit Spreads (in bp)



- With the exception of EUR Non-Financial bonds, risk premia have hardly moved in the last four weeks.
- USD High Yield bonds have further approached their 10-year low, while risk premia for EUR financials have risen slightly.

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: 14/09/2008 – 14/09/2018

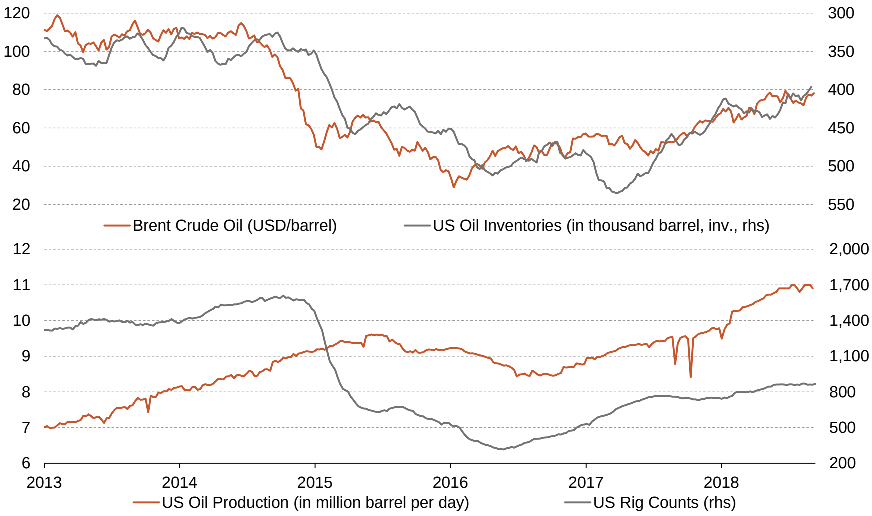
Commodities Performance



- Over the last four weeks, palladium has led the list of winners, followed by energy commodities and gold. The somewhat weaker US dollar supported commodities across the board.
- Base metals recorded slight losses, despite the recent recovery in the course of the US offer of talks with China on trade issues. However, as long as further tariffs are possible, pressure on prices could resume.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2018 – 14/09/2018

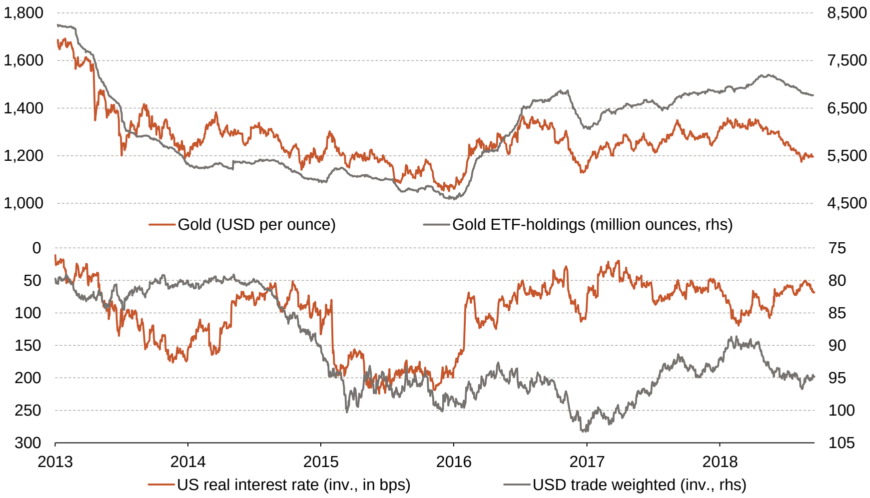
Crude Oil



- The price of crude oil increased due to falling US inventories, a lack of US pipeline capacities, concerns about production shortfalls in the hurricane season and fears of further declines in Iranian oil exports.
- The price of Brent briefly exceeded 80 US dollars per barrel, while WTI temporarily cost more than 70 dollars.

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 – 14/09/2018

Gold



- The price of gold has recently held steady around the important level of USD 1,200 per ounce, supported by the somewhat weaker US dollar.
- The net short positions of speculative financial investors remain at high levels. However, a possible short coverage offers potential for recovery.

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 – 14/09/2018

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IMPORTANT NOTICES

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

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