BERENBERG
Markets

MONITOR

29 October 2018

Current market commentary

Stock markets recorded sharp losses in October. For the S&P 500, it could be the largest monthly loss (-8.8%) since the financial crisis - despite the booming US economy and record profits for many companies. The market is pricing in a significant slowdown in economic growth. Some companies even seem to have priced in a recession. Although we also expect a moderate slowdown in the global economy in 2019, we believe that fears of a recession and thus the current sell-off are exaggerated. We are confident that stock prices will be higher again by the end of the year. In view of the recent turbulence on the capital markets, we have reviewed our index forecasts. We confirm the forecasts for the S&P500 and MSCI UK. However, we have reduced the DAX target for the end of 2019 by around 6%, as the DAX was recently burdened by further company-specific uncertainties. After the correction, we see solid upside potential for 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

After a stormy October, November should become somewhat calmer. Historically, November and December are good stock market months. The Midterm-Elections on November 6 should also provide a tailwind - the uncertainty about the balance of power in US politics should end. According to polls, a victory for the Democrats in the House of Representatives is emerging, while the Republicans are likely to defend the majority in the Senate. Two days after the Midterm-Elections, the FOMC members of the US Federal Reserve will decide on further interest rate policy. Our economists expect one more interest rate hike this year and two more in 2019 in the first half of the year, followed by a longer pause.
Markets this week will look to the Euro-Zone's preliminary Q3 GDP growth, U.S. consumer confidence, U.S. labor market figures, and industrial sentiment figures. The results of the EBA stress test, which will be published on 2 November, should also be of interest to the markets.

US Congressional Elections in the Focus of Markets.

For 2019, Berenberg expects only two interest rate hikes from the US Federal Reserve.

Index forecasts essentially confirmed

	Aktuell			Ø*
Indexprognosen	**26/10/2018**	**30/06/2019**	**31/12/2019**	**In 12 Monaten**
S&P 500	2,659	3,100	3,100	3,179
Dax	11,201	13,400	13,400	14,438
Euro Stoxx 50	3,135	3,600	3,600	3,879
MSCI Großbritannien	2,011	2,,350	2,400	2,417
Indexpotenzial (in %)				
S&P 500	-	16.6	16.6	19.6
Dax	-	19.6	19.6	28.9
Euro Stoxx 50	-	14.8	14.8	23.7
MSCI Großbritannien	-	16.9	19.4	20.4

- Following the recent price turbulence, we essentially confirm our index forecasts for the equity markets.
- We have reduced our forecast for the DAX. The reason for this is the numerous company-specific uncertainties at DAX companies, for example in the pharmaceutical and automotive sectors. Whether and when a recovery will take place in these cases is difficult to predict. At the end of 2019, we consider a DAX level of 13,400 points to be fair.

Source: Bloomberg, Berenberg, as at: 26/10/2018
* Average, consensus, as of 26/10/2018.

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (28/09/18 - 26/10/18)	YTD (31/12/17 - 26/10/18)	26/10/17 26/10/18	26/10/16 26/10/17	26/10/15 26/10/16	26/10/14 26/10/15	25/10/13 26/10/14
Gold	5.2	-0.3	-0.6	-6.4	10.4	8.3	-0.7
USDEUR	1.8	5.3	2.2	-6.4	1.4	14.6	8.9
Global Treasuries	1.7	2.7	1.8	-7.9	8.5	9.1	8.1
Global Coporates	0.8	1.6	0.5	-2.8	6.1	11.3	12.7
Eonia	0.0	-0.3	-0.4	-0.4	-0.3	-0.1	0.1
Industrial Metals	-0.4	-9.1	-8.1	25.7	4.4	-14.8	7.1
REITs	-2.0	-1.2	-0.5	-4.7	2.1	19.1	15.3
MSCI Frontier Markets	-2.2	-11.6	-11.1	19.4	-0.5	-7.1	33.7
Brent	-3.6	29.8	44.1	-0.1	-10.0	-45.5	-10.2
Global Convertibles	-4.6	2.9	1.5	8.1	4.5	15.8	13.7
MSCI World	-7.5	1.0	2.2	13.5	3.1	19.3	15.3
MSCI Emerging Markets	-8.6	-12.6	-11.0	16.3	8.8	3.4	7.0

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.

- Performance over the last four weeks across all asset classes shows a typical risk-off pattern. Gold and bonds have rallied over the past four weeks, while equities fell sharply in value. Disappointing quarterly figures, especially from technology companies, and mixed economic data weighed on investor sentiment.
- The US dollar continued to appreciate.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/10/2013 - 26/10/2018

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (28/09/18 - 26/10/18)	YTD (31/12/17 - 26/10/18)	26/10/17 26/10/18	26/10/16 26/10/17	26/10/15 26/10/16	26/10/14 26/10/15	25/10/13 26/10/14
Stoxx Europe Defensives	-6.1	-0.9	-1.3	9.1	-8.1	14.8	13.4
Stoxx Europe 50	-6.1	-6.7	-6.7	15.9	-8.7	13.9	5.5
MSCI EM Eastern Europe	-6.7	-0.9	1.7	17.0	9.4	-4.0	-16.5
S&P 500	-6.9	6.5	8.5	14.1	7.0	23.3	24.2
MSCI UK	-7.3	-6.4	-3.4	11.7	12.6	3.3	-1.7
Euro Stoxx 50	-7.7	-8.3	-11.5	21.1	-7.1	15.5	2.6
DAX	-8.5	-13.3	-14.7	22.6	-0.8	20.2	0.0
Topix	-9.3	-5.0	-3.2	11.2	6.3	30.8	5.7
Stoxx Europe Small 200	-10.3	-9.3	-7.5	22.2	-4.5	23.2	2.5
Stoxx Europe Cyclicals	-10.6	-12.1	-12.6	25.6	-6.2	13.3	1.8
Russell 2000	-10.8	2.9	2.9	17.7	6.9	20.3	10.4
MSCI EM Asia	-11.1	-14.2	-13.0	20.6	6.9	11.7	13.0

S&P 500: S&P 500 TR (US-Equity); Stoxx Europe 50: Stoxx Europe 50 TR; Euro Stoxx 50: Euro Stoxx 50 TR; Topix: Topix TR (japanese Equity);
Stoxx Europe Small 200: Stoxx Europe Small 200 TR; 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.

- All equity regions have reported losses in October to date. For the S&P 500, it could even be the largest monthly loss since the financial crisis - even though the US economy is booming and many companies are making record profits.
- Within Europe, small caps and cyclical companies in particular suffered. The market is currently pricing in a significant slowdown in economic growth.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/10/2013 - 26/10/2018

Fixed Income

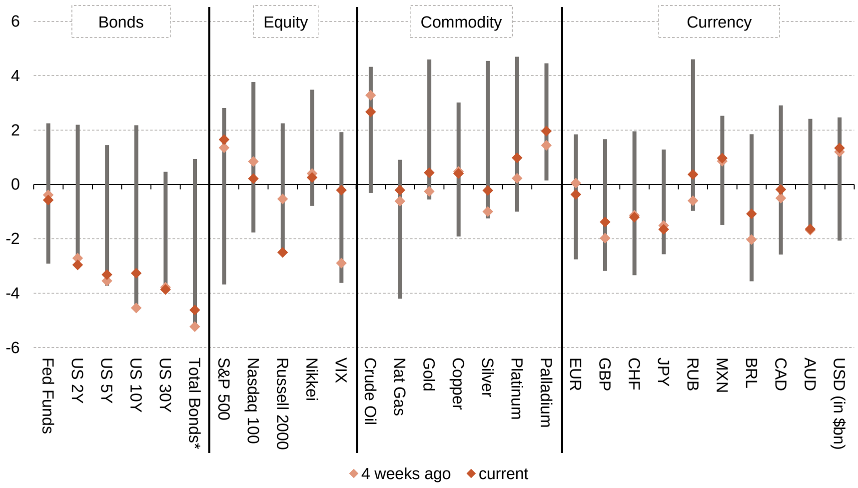
	4-week & YTD		12-month periods over that last 5 years				
	4W (28/09/18 - 26/10/18)	YTD (31/12/17 - 26/10/18)	26/10/17 26/10/18	26/10/16 26/10/17	26/10/15 26/10/16	26/10/14 26/10/15	25/10/13 26/10/14
Gilts	1.7	-0.1	2.3	-0.1	-11.2	16.2	15.8
EM Hard Currency Bonds	1.4	3.3	1.1	-1.7	11.9	13.0	13.3
EM Local Currency Bonds	1.3	-1.2	-0.3	-3.8	11.0	0.3	8.8
USD Corporates	1.1	2.3	0.5	-4.2	7.8	15.9	15.9
Bunds	0.9	1.7	1.6	-2.1	3.8	3.9	7.0
USD High Yield	0.2	6.6	3.4	0.1	10.7	11.9	14.5
EUR Non-Financials	0.1	-0.4	-0.4	0.7	6.1	0.3	7.4
EUR Financials	0.0	-0.9	-0.7	2.7	4.3	1.2	6.9
Treasuries	0.0	-1.7	-1.1	-1.3	3.0	2.6	3.0
EUR Inflation Linkers	-0.8	-1.6	-0.6	0.4	2.3	2.8	3.4
EUR High Yield	-1.1	-1.1	-1.4	5.9	5.4	2.1	5.2
BTPs	-1.8	-6.2	-6.5	-0.5	2.4	8.7	12.6

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.

- There was strong demand for safe government bonds in October in the wake of the financial market turbulence. German government bonds climbed by 0.9% and now stand at +1.7% since the beginning of the year.
- EM government bonds are also doing well. Local EM bonds benefited from easing tensions with regard to Turkey.
- Italian government bonds are at the bottom of the performance table over the last four weeks and YTD.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/10/2013 - 26/10/2018

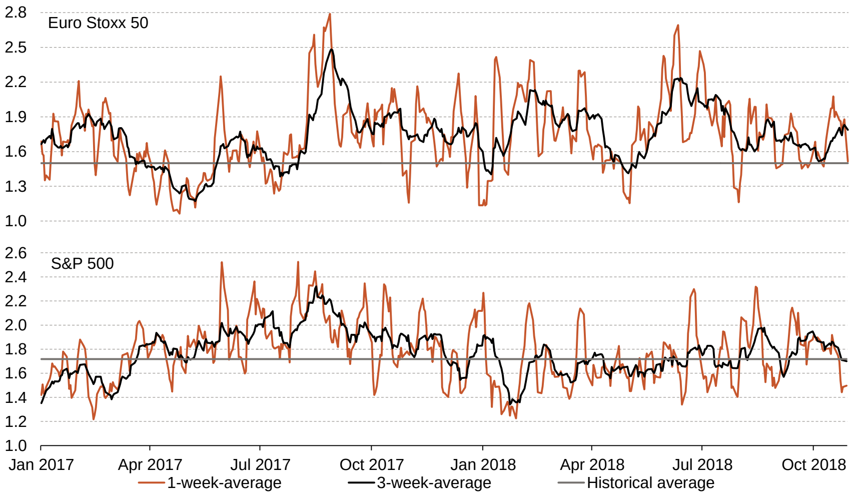
Non-Commercial Positioning



- Speculative investors have recently significantly reduced their risk appetite. In particular, they reduced their net short positions on the VIX and increased their net short positions on US small caps.
- The EUR sentiment has also continued to deteriorate.

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: 23/10/2008 - 23/10/2018

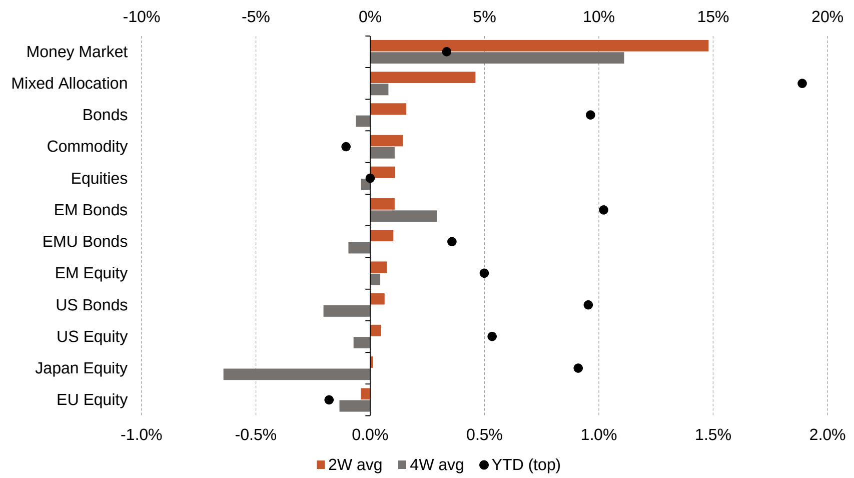
Put-Call Ratio



- Despite the recent market correction, the put call ratio for the S&P 500 is below the historical average on a 1-week average. Investors thus seem to be counting on a rapid recovery.
- The situation is different for the Euro Stoxx 50. Here, hedging has risen above the historical average after a long dry spell.

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 - 26/10/2018

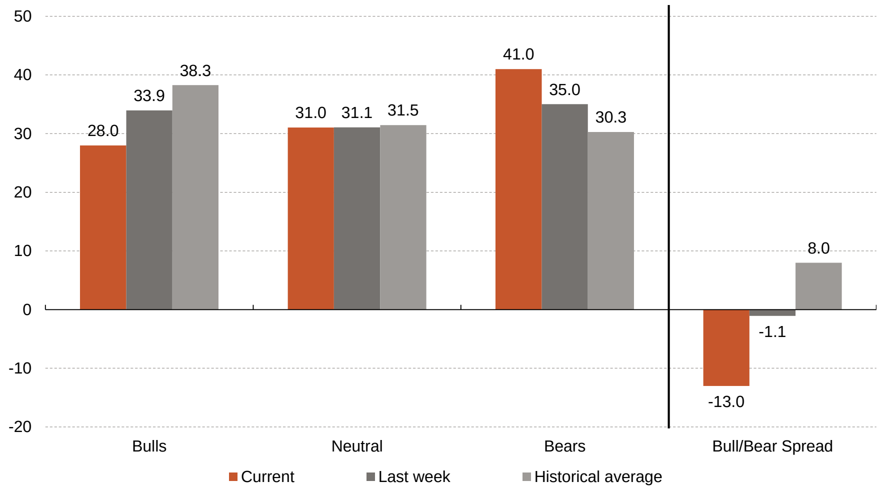
ETF Flows



- ETF investors have recently become more courageous again. Although they invested most of their money in money market ETFs over the last two weeks, at the same time they also bought shares, especially from the US and EM.
- Bond ETFs, on the other hand, showed weaker demand. Over the last four weeks, Euro-Zone and US bonds saw outflows, while EM bonds saw some inflows.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2017 -26/10/2018

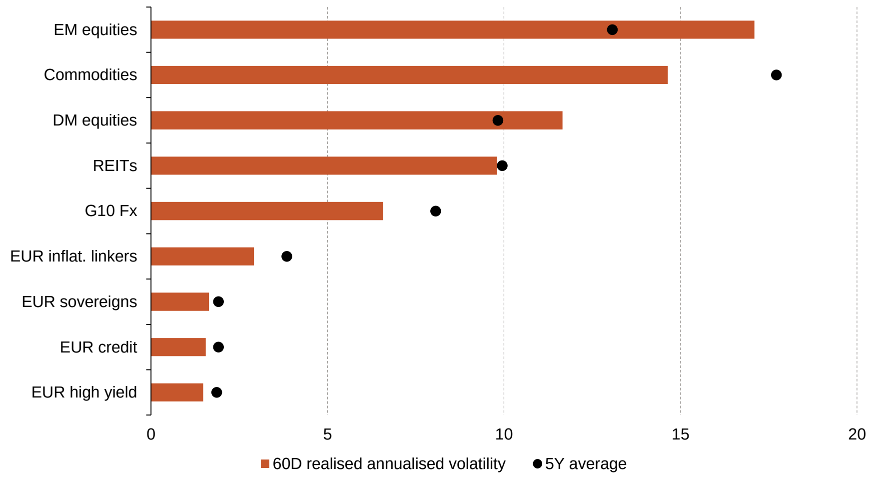
AAII Sentiment Survey (Bulls vs Bears)



- The number of bears has continued to increase. Meanwhile, 41% of private US investors are pessimistic about equities over a 6-month horizon, while only 28% are still optimistic.
- The Bull-Bear spread is thus 21 percentage points away from the historical average.

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 - 24/10/18

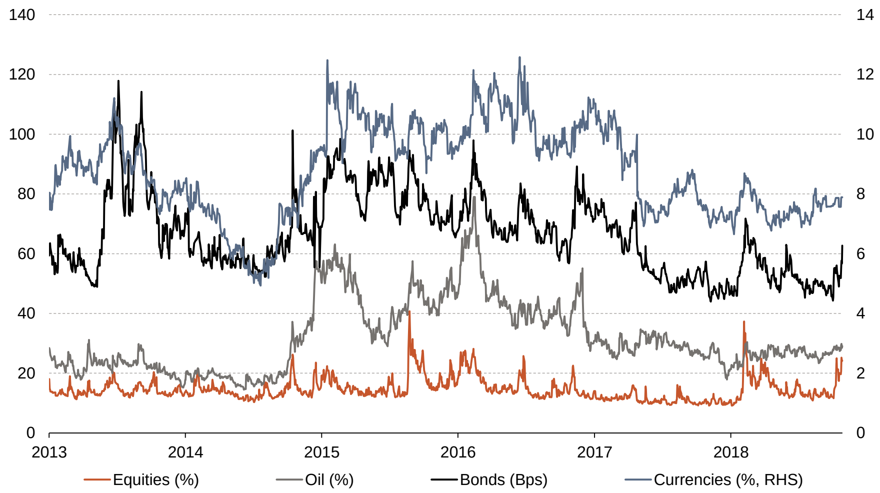
Realised Volatilities



- The recent turmoil in the financial markets has not surprisingly led to an increase in the range of fluctuation in equities. Realised volatility of the last 60 days is now above the 5-year average for emerging market and developed markets equities. For REITs it is only slightly below the 5-year average.
- EUR high-yield bonds were the least volatile.

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: 26/10/2013 - 26/10/2018

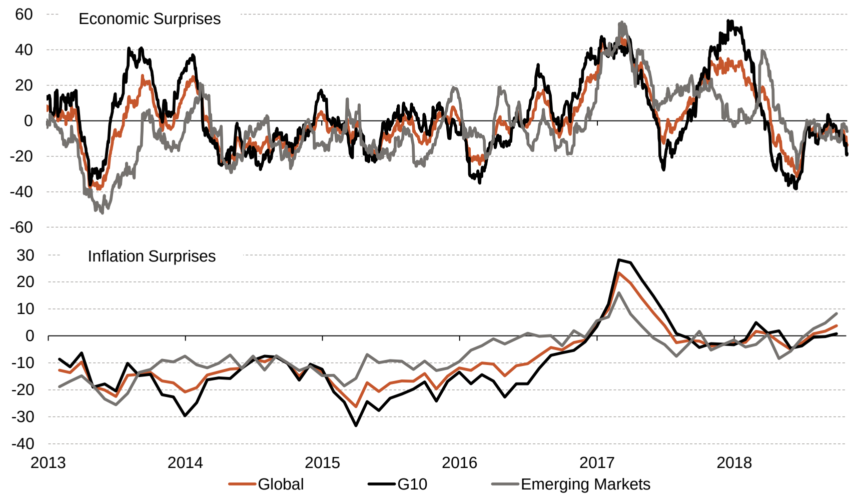
Implied Volatilities



- Implied volatility has increased across all asset classes. The biggest jumps were in government bonds and equities. This was due to a series of profit warnings during the Q3 reporting season and mixed economic data.
- The VIX Index is now trading well above the 20 mark again.

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 - 26/10/2018

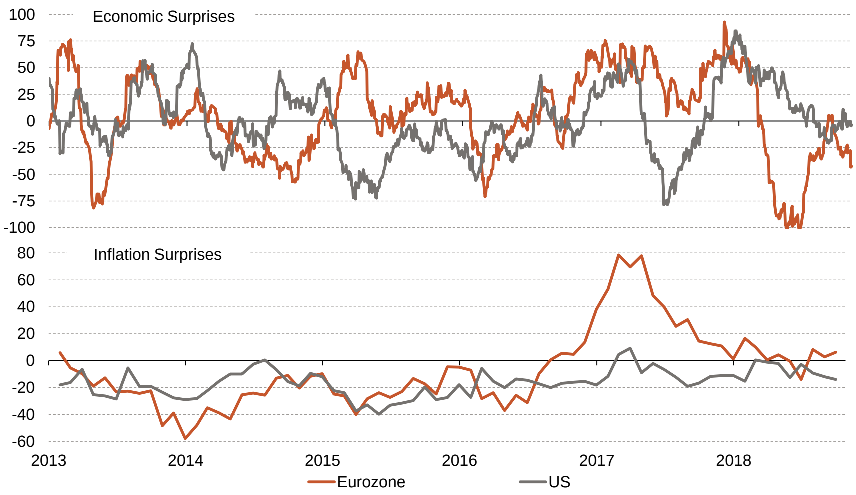
Global



- While the industrialized countries (G10) have been rather disappointing in economic terms over the past three months, emerging markets have fared somewhat better.
- However, the disappointments also slightly outweighed the positive surprises in the emerging markets. GDP growth for Q3 in China, for example, at 6.5%, was slightly below the expected 6.6% year-on-year.
- Inflation data for the last three months have tended to be above expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2013 - 26/10/2018

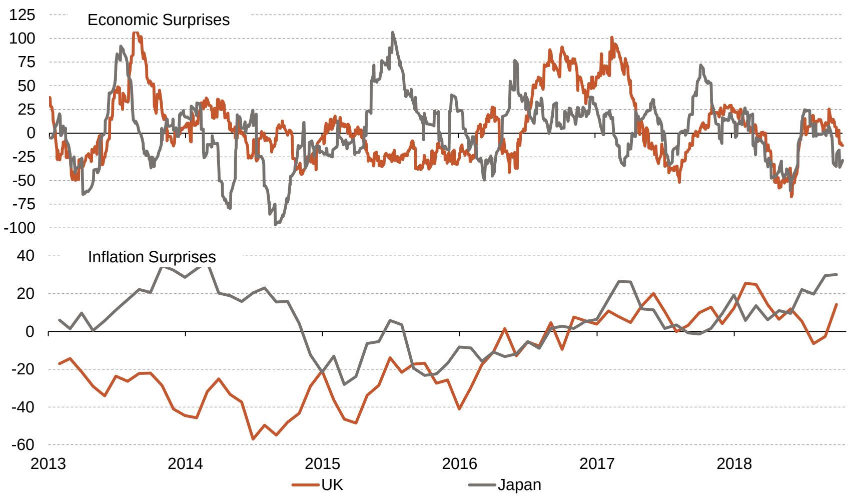
Eurozone and US



- Negative surprises in the eurozone outweighed in the aggregate, while economic data in the U.S. was released in line with expectations.
- In Germany, the leading indicators (IFO Index and ZEW Index) and the Industrial Purchasing Managers' Index were particularly disappointing.
- September inflation in the eurozone was 2.7%, slightly below the expected 2.8%.

See explanations below.
Source: Bloomberg, Time period: 01/01/2013 - 26/10/2018

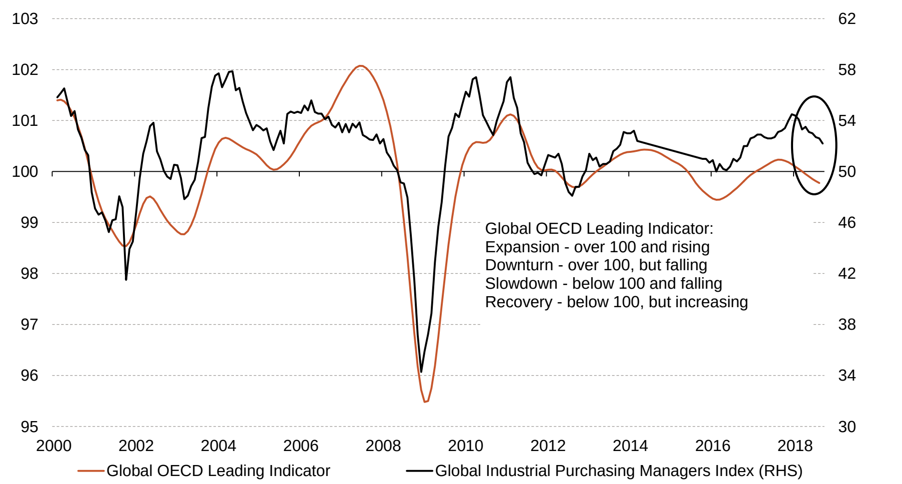
UK and Japan



- In the UK, retail sales fell by 0.8% month-on-month in September and rose by only 3% year-on-year (cons. 3.6%).
- Industrial sentiment in Japan, on the other hand, improved. The September PMI for industry is 0.6 points above the August level.

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 - 26/10/2018

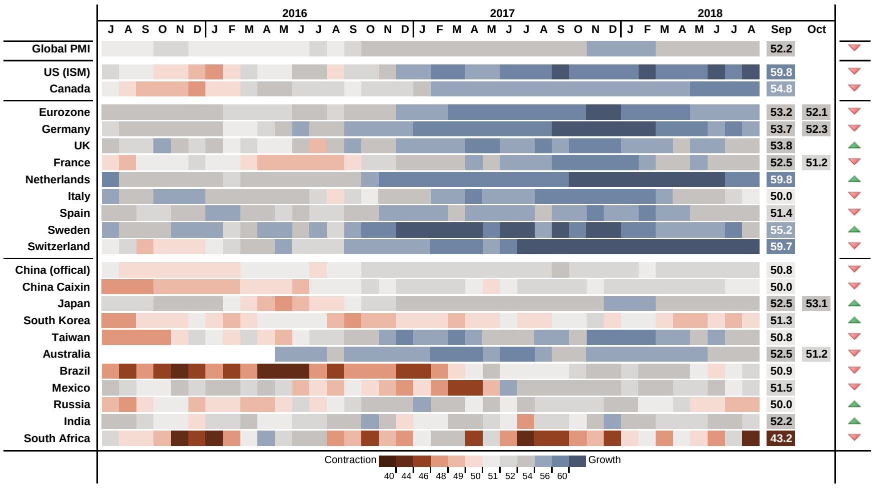
OECD Leading Indicator and Global Purchasing Managers Index



- The global economy continues to cool down. Both the global purchasing managers' index and the OECD leading indicator are in a downward trend.
- At 52.2 points, the global purchasing managers' index for September is above the 50 point mark, signaling rising activity in the economy compared with the previous month.

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 - 30/09/2018

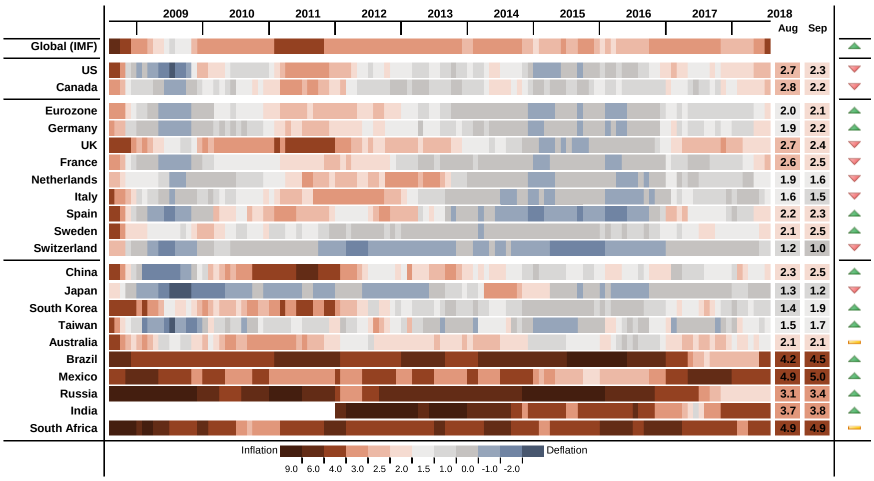
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The eurozone PMI continues to cloud over. With a value of 52.1 points in October, it is only 2.1 points away from the 50 point mark.
- The October PMI has worsened in both Germany and France compared to the previous month.

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: 31/01/2015 - 26/10/2018

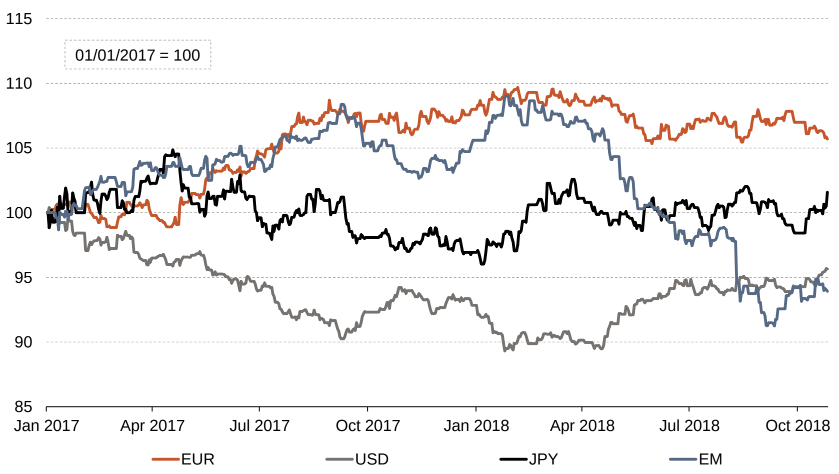
Headline Inflation



- In the UK, inflation fell to 2.4% in September, well below the August figure of 2.7%.
- In China, inflation is rising for the fifth time in a row. With inflation at 2.5% in September, inflation is at its highest level since February 2018, due to weather-related price increases and high demand due to public holidays.

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: 31/01/2008 - 30/09/2018

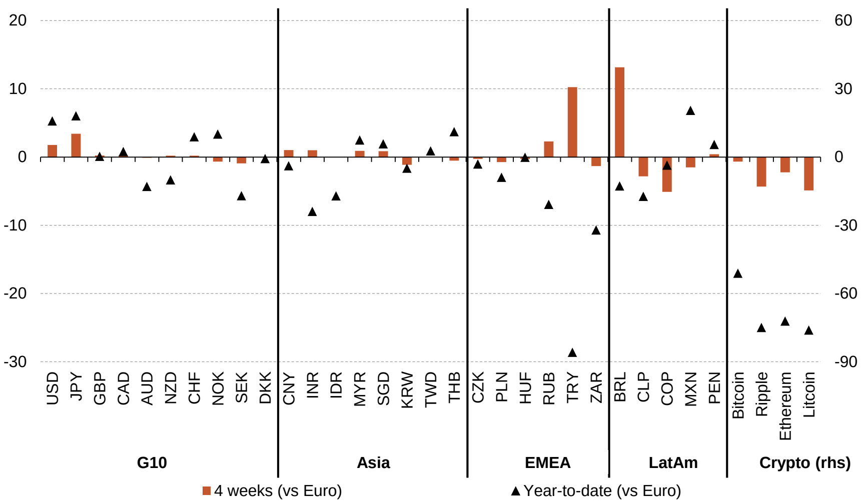
Trade-Weighted Currency Development



- Safe havens have been in demand in the last two weeks. Both the US dollar and the Japanese yen have continued to appreciate.
- While emerging market currencies recovered slightly after fears surrounding Turkey and Argentina calmed, the euro had to contend with increasing concerns in Italy.

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 - 26/10/2018

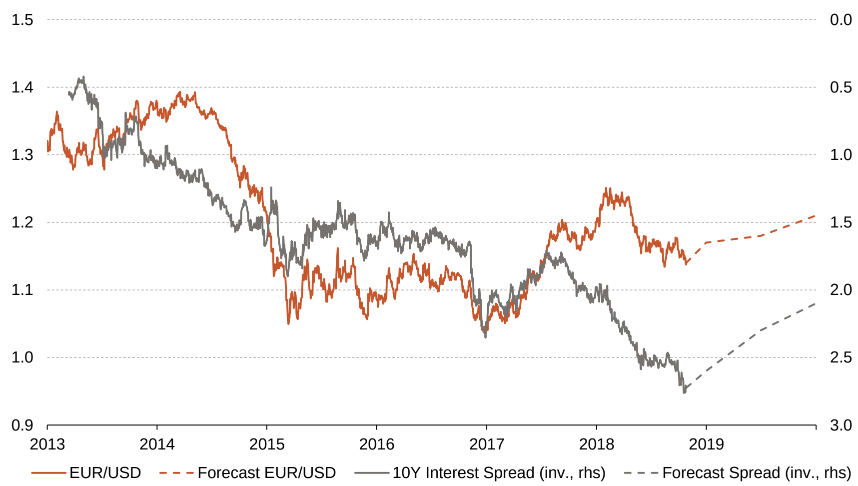
Currency Moves vs Euro



- In the ongoing risk-off environment, the currencies of the G10 countries were mostly somewhat stronger against the euro, with the US dollar, the yen and the Canadian dollar benefiting in particular.
- The recovery of the Turkish lira continues. After the central bank significantly raised key interest rates, demand for the Turkish lira increased again.
- Rising risk aversion put pressure on most crypto currencies.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 01/01/2018 - 26/10/2018

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate has fallen below the 1.14 threshold. Rising US interest rates, a stable economy and the risk-off environment support the US dollar.
- The interest rate differential between US Treasuries and German Bunds is historically high and should remain high for the time being. The reduction in political uncertainty and the end of the ECB's ultra-loose monetary policy could change

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 - 31/12/2020

European Sector & Style Performance

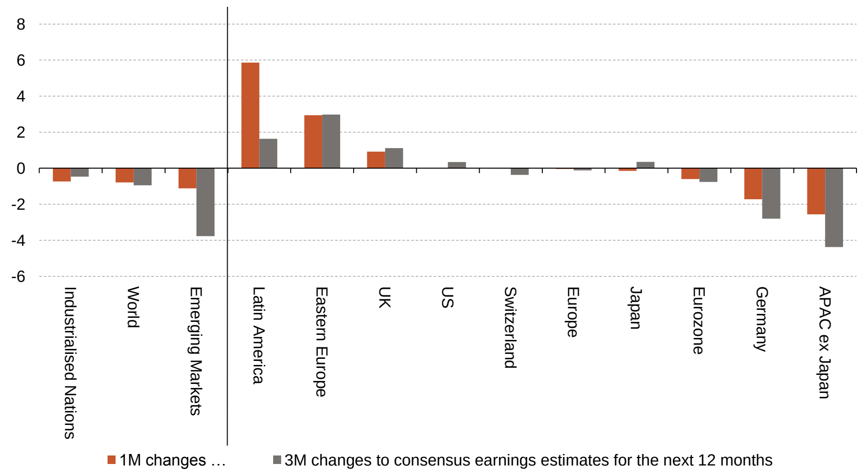
	4-week & YTD: 4W (28/09/18 - 26/10/18)	4-week & YTD: YTD (31/12/17 - 26/10/18)	12-month periods over that last 5 years: 26/10/17 26/10/18	26/10/16 26/10/17	26/10/15 26/10/16	26/10/14 26/10/15	25/10/13 26/10/14
Consumer Staples	-2.0	-3.8	-3.1	8.2	-1.5	31.4	3.1
Utilities	-2.3	-1.1	-5.4	11.9	-7.3	6.9	16.0
Telecommunications	-2.8	-15.2	-14.3	0.8	-15.4	26.8	3.8
Health Care	-5.8	0.3	-0.8	8.6	-13.0	17.4	22.0
Value	-6.7	-7.7	-7.9	18.1	-6.3	9.1	5.7
Growth	-8.7	-6.3	-6.6	16.6	-6.2	24.4	3.9
Energy	-8.8	6.6	12.1	13.7	5.8	-5.4	1.5
Finance	-9.4	-15.2	-16.6	26.8	-14.1	12.9	5.3
Consumer Discretionary	-9.6	-9.4	-10.1	18.7	-9.6	29.7	-0.4
Materials	-10.2	-9.2	-7.2	26.2	8.0	3.0	-1.5
Industrials	-10.8	-8.9	-10.6	24.0	3.7	17.7	-2.9
Information Technology	-11.5	-2.3	-4.4	27.4	3.5	27.4	1.7

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.

- All European equity sectors retreated over the last four weeks. The biggest setback was suffered by the technology sector. It lost more than 11% over the last four weeks, after many semiconductor companies in particular reported disappointing results.
- Defensive sectors such as consumer staples, utilities and telecommunications providers performed best.

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: 26/10/2013 - 26/10/2018

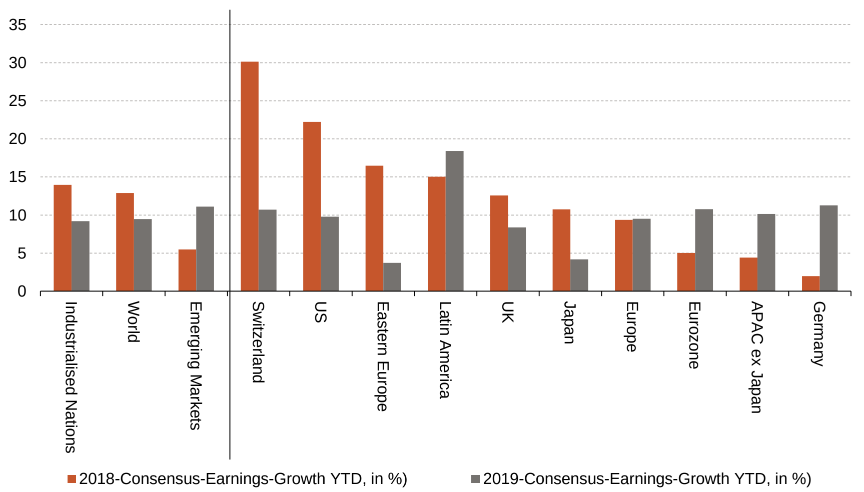
Changes in Consensus Earnings Estimates



- Earnings revisions have recently been negative in aggregate for industrial nations and emerging markets.
- Earnings estimates for the next twelve months have been revised downwards significantly over the last few months, especially for Asian and German companies.
- Latin America, on the other hand, recorded strong positive earnings revisions.
- The profit forecasts for the US and Japan remained virtually unchanged.

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 26/10/2018

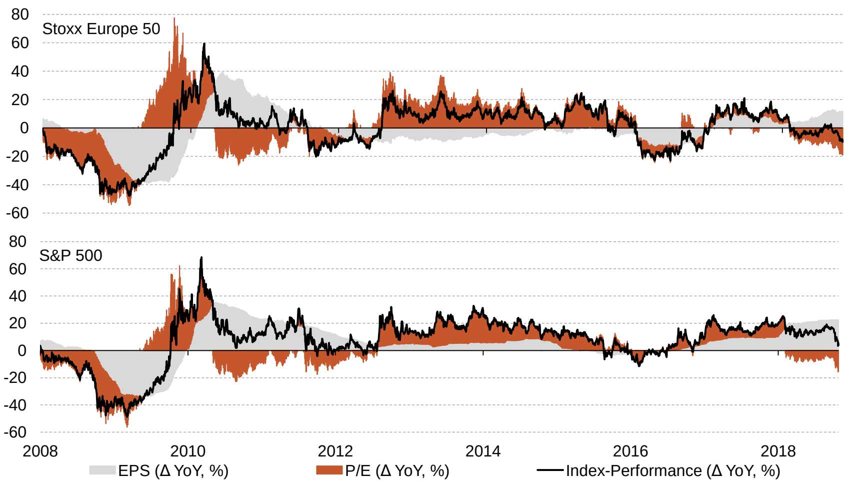
Earnings Growth



- Expected profit growth for 2019 is now no longer in double figures for industrial nations. Consensus expects a slowdown in profit growth especially for Japan - also due to the planned VAT increase next year.
- For the US, expected earnings growth for 2019 is half as high as for 2018 - the base effects of the tax reform are coming to an end.

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 26/10/2018

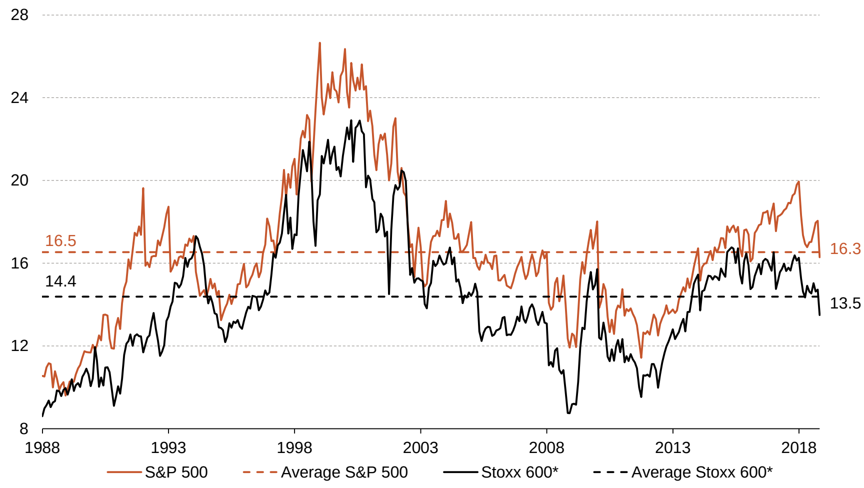
Contribution Analysis



- For both the Stoxx Europe 50 and the S&P 500, valuations over the past 12 months have become significantly more favourable because earnings estimates have developed better than the respective stock indices.
- For the US, however, the increase in profits was significantly stronger. As a result, the S&P 500 has significantly outperformed the Stoxx Europe 50 over the last 12 months.

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 - 26/10/2018

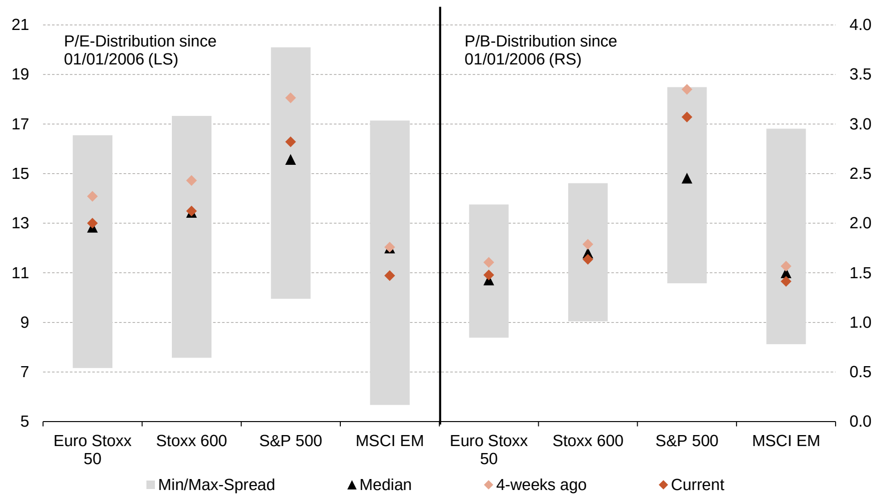
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- After the correction over the last few weeks, valuations came down significantly.
- European equities are now trading cheaper than their long-term P/E ratio.
- US equities are now also slightly cheaper compared to their own history.

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 - 26/10/2018

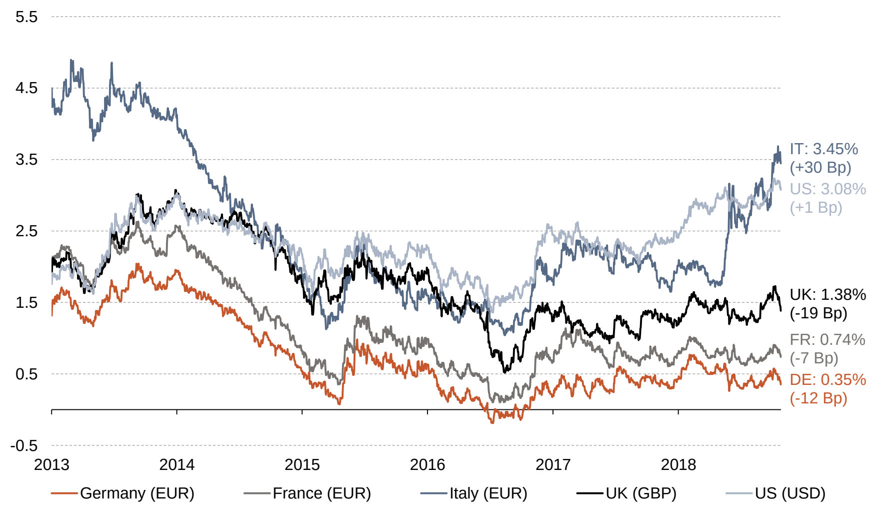
Historical Distribution: Price/Earnings and Price/Book Ratio



- Valuations for European and US equities recently fell sharply compared to four weeks ago.
- However, the price/book value ratio of the S&P 500 is still very high compared to its own history and all other regions.
- Emerging market equities are the most attractively valued of all 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 - 26/10/2018

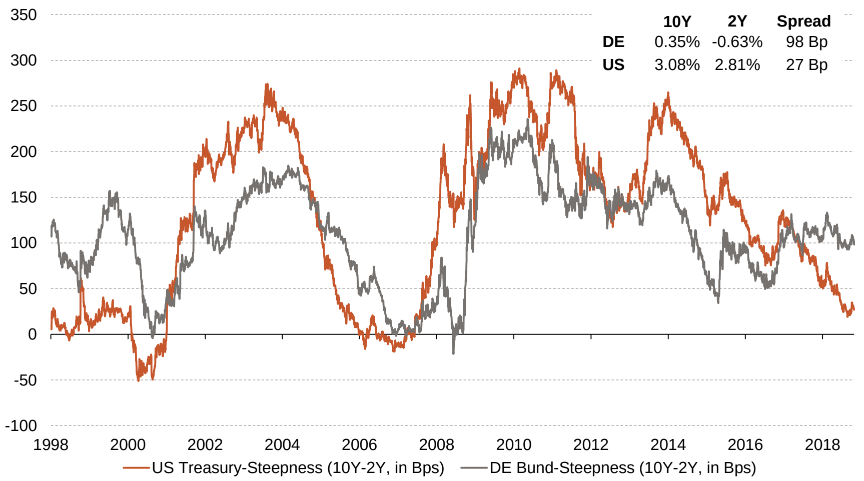
10-Year Government Bond Yields



- Italian government bonds continued to fall in price. The current yield has widened to 3.45% as concerns about Italy's creditworthiness increased further as a result of the planned widening of the structural deficit.
- Volatile markets and thus the risk-off sentiment drove investors into safe government bonds. As a result, German government bonds narrowed by 12 basis points and French government bonds by 6 basis points in a two-week comparison.

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 - 26/10/2018

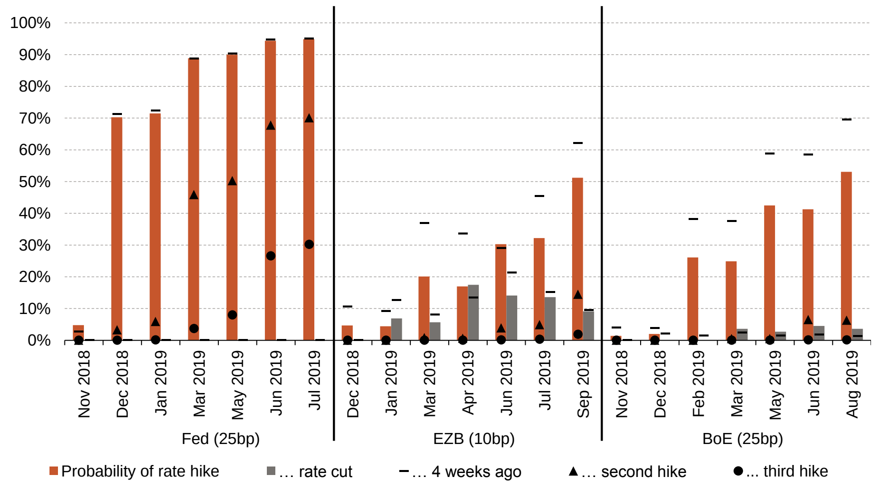
Yield curve steepness (10Y - 2Y)



- The flight into safe long maturity US government bonds has pushed the yield differential of 2 and 10-year government bonds below 30 basis points.
- The steepness of the German yield curve is 98 basis points following a narrowing of ten year yields.

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 - 26/10/2018

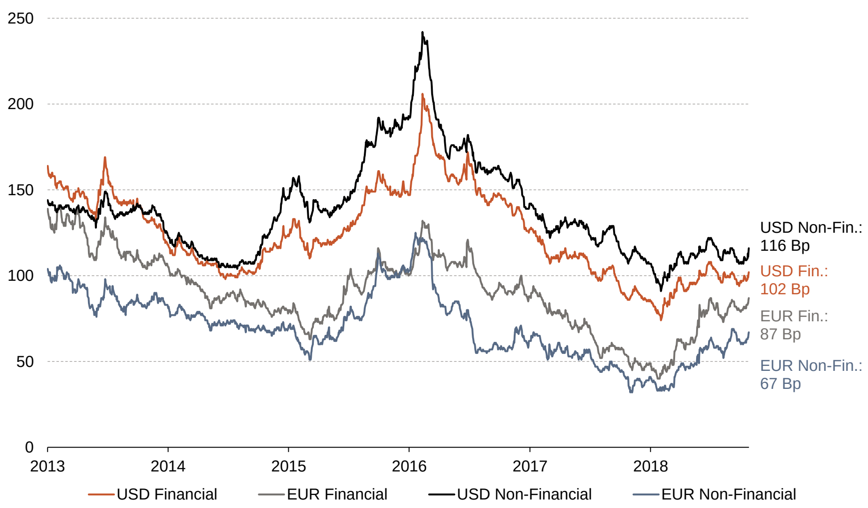
Implicit Probabilities for Changes in Key Interest Rates



- The moderate price increase in September gives the Bank of England some breathing space. As a result, the market's expectations regarding further interest rate cuts have come down somewhat.
- Inflation in the eurozone remains low and the economy is showing initial signs of weakening. Market expectations of an interest rate hike before June 2019 have therefore fallen below 20%.
- USA: The probability of the next interest rate hike in 2018 is 70%.

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: 28/09/2018 - 26/10/2018

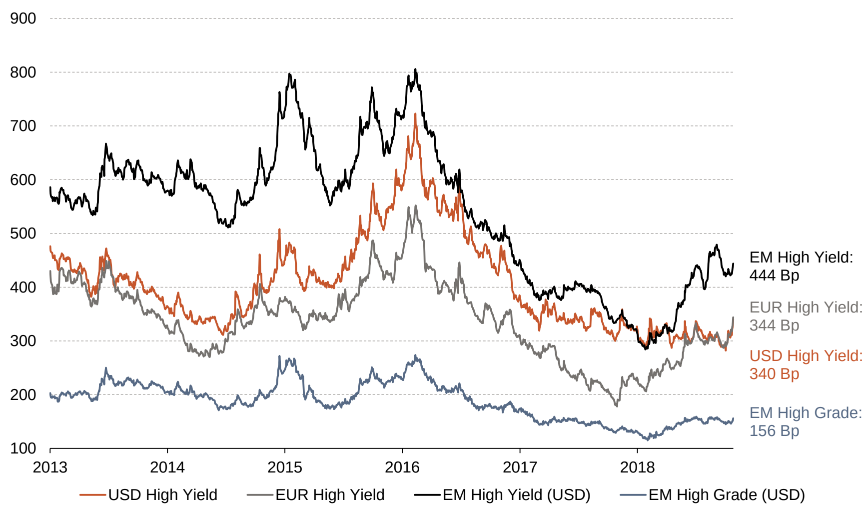
Credit Spreads Financial and Non-Financial Bonds



- Risk premia on corporate bonds moved slightly. However, there was a clear spread widening for Euro- and USD Non-Financial bonds.
- In the case of EUR financial bonds, insurance companies recorded rising risk premia, while risk premia for banks hardly moved. In non-financial bonds, spreads widened, particularly in the automotive and retail industries.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2013 - 26/10/2018

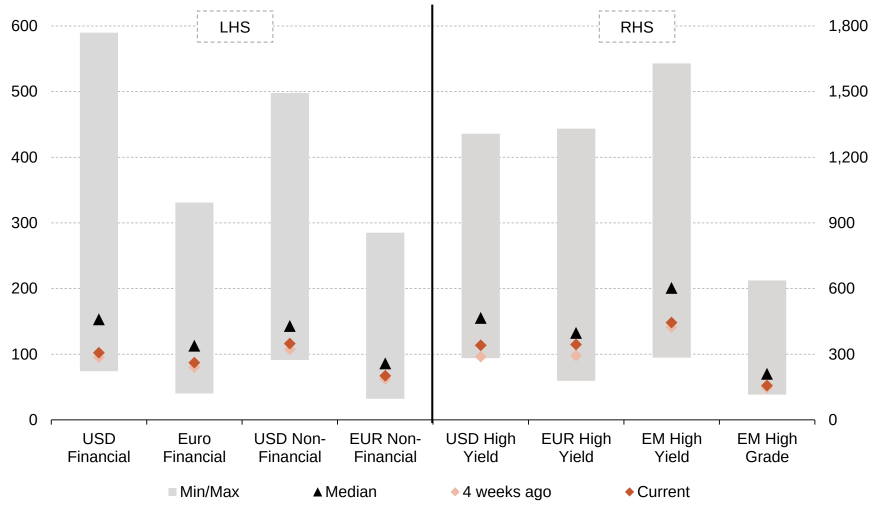
Credit Spreads High Yield and Emerging Markets Bonds



- Risk premia rose significantly on USD and EUR high-yield bonds. Investors have withdrawn from this risky investment. High-yield bonds have seen significant capital outflows in recent weeks.
- Risk premia on emerging market high yield bonds have widened slightly and moved above 440 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: 01/01/2013 - 26/10/2018

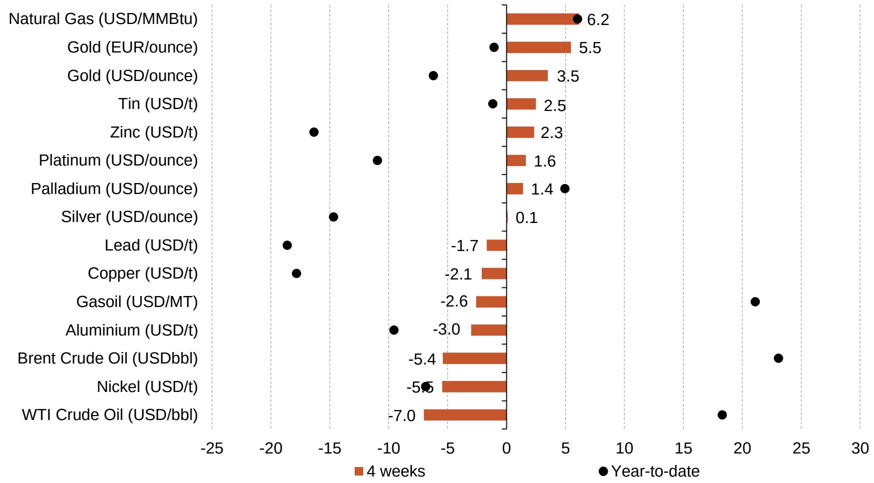
Historical Distribution of Credit Spreads (in bp)



- The risk premia on USD high yield bonds has moved further away from its historical minimum in the last two weeks.
- For EUR high yield bonds, the risk premium is no longer far from 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: 26/10/2008 - 26/10/2018

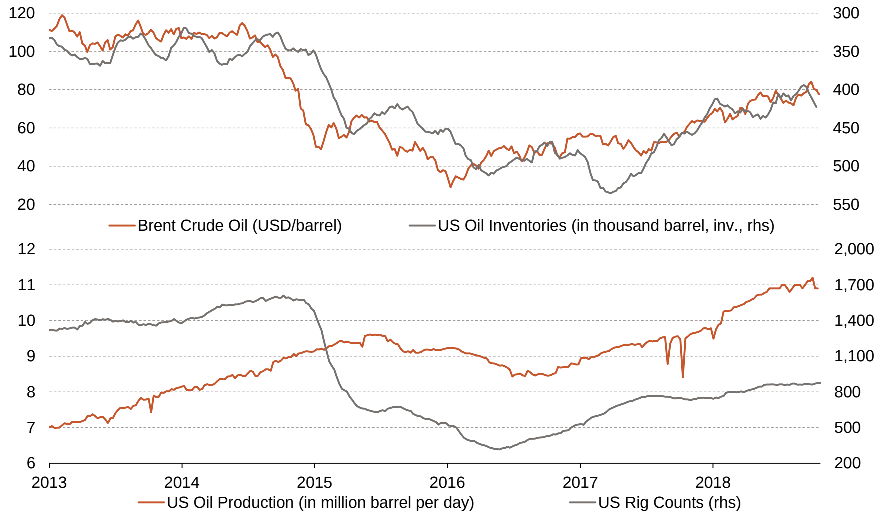
Commodities Performance



- Precious metals such as gold, platinum, palladium and silver benefited from the risk-off sentiment in the markets. They have recorded an increase in value of up to 5,5% over the last four weeks. Palladium benefited from a supply shortage and reached a new all-time high on 23 October.
- Brent and WTI crude oil have been the losers in the last four weeks. Concerns about supply bottlenecks have subsided.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2018 - 26/10/2018

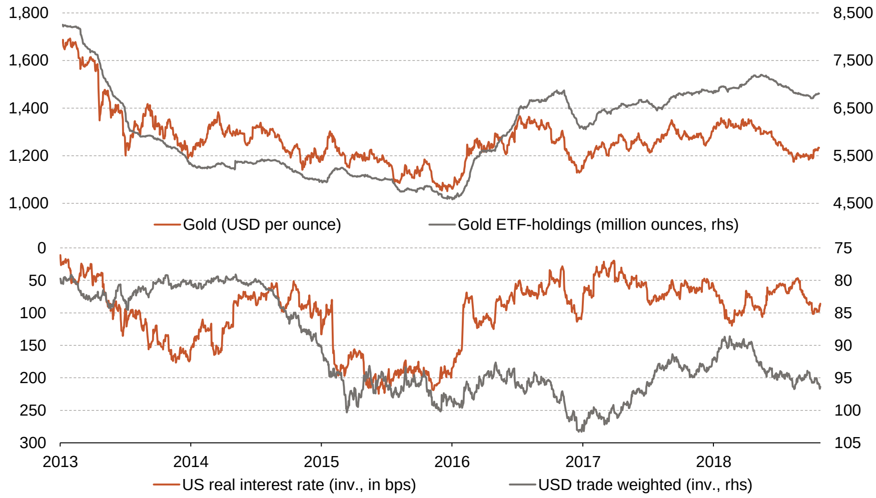
Crude Oil



- Following the rally in crude oil since the beginning of the year, there has been a correction in the last four weeks. Crude oil lost between 5 and 7%.
- Strongly rising US inventories, Saudi Arabia's announcement to increase oil production, and a possible slowdown in the economy have alleviated concerns about supply shortages.

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 - 26/10/2018

Gold



- Despite the strength of the US dollar, gold managed to hold its ground above the USD 1200 an ounce mark and proved to be a functioning portfolio hedge in the recent risk-off environment.
- Increased ETF holdings indicate a growing demand for gold. Volatile stock markets could reinforce this trend.

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 - 26/10/2018

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