BERENBERG
Markets

MONITOR

23 November 2020

Current market commentary

The optimists have gained the upper hand on the stock market. A market-friendly US election outcome, encouraging vaccine news and ready central banks have significantly improved investor sentiment and led to a rotation from Covid-19 winners (tech, gold, safe government bonds) to Covid-19 losers (value sectors, cyclical commodities). Equity funds have recently recorded the largest inflow ever measured over two weeks with more than USD 70 billion. The market seems to be looking through the current expected growth dip and focusing on the synchronous economic recovery next year. USD 4.3 trillion is still parked in US money market funds. However, for the market to continue to rise in the short term, volatility would have to fall (VIX < 20). Systematic strategies would then also raise demand for equities. Otherwise, following the strong performance in November and in light of the new wave of infections in the US, the upside potential is limited for the time being.

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

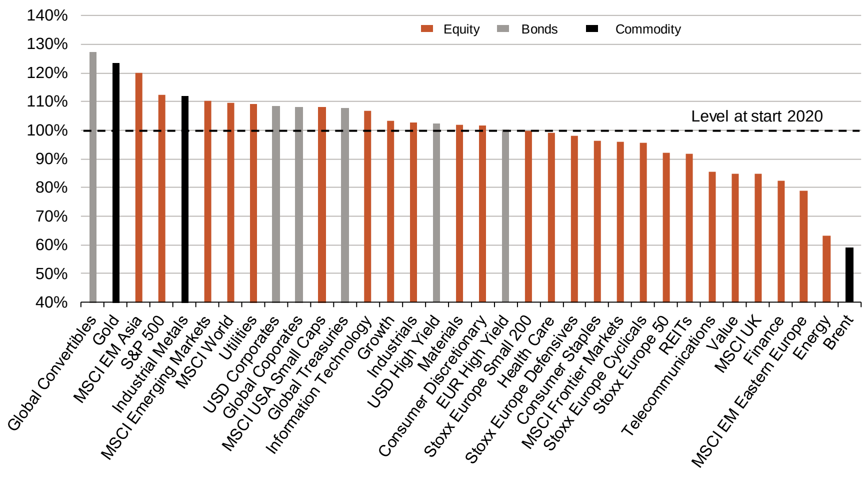
Brexit and US infection figures move into focus.

Brexit negotiations appear to be making progress. According to English media reports, an agreement could be announced this week. In addition to the Brexit negotiations, markets are likely to be particularly sensitive to the continuing high levels of new infections in the US, as possible lockdown measures would harm the US economy and market sentiment. On Thursday US markets will be closed for public holidays.

Ifo business climate index should reflect the situation of the German economy in the second (partial) lockdown.

This Tuesday, the Ifo Business Climate (Nov.) for Germany and the US Consumer Confidence (Conference Board, Nov.) will be published. On Wednesday, the weekly US Initial Jobless Claims, Durable Goods Orders (Oct.), Personal Income and Spending (Oct.) and New Home Sales (Oct.) are announced. Inflation data (Nov.) for France and economic confidence (Nov.) for the eurozone will be released on Friday.

Some assets up in 2020, others with catch-up potential



- Many asset classes have already exceeded the price level at the beginning of 2020 - despite the Covid-19 crisis. However, other asset classes offer strong catch-up potential if the economy recovers strongly in 2021.
- UK equities are likely to be one of these asset classes, as the significant underweight of many investors is likely to close at least somewhat after the conclusion of Brexit negotiations. In fact, a positive Brexit settlement should be a catalyst for a catch-up rally.

Sectors and styles are based on the MSCI Europe. See pages 2 and 8 for further explanation and performance data.
Source: Bloomberg, Time period: 30/12/2019 - 20/11/2020

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (23/10/20 - 20/11/20)	YTD (31/12/19 - 20/11/20)	20/11/19 20/11/20	20/11/18 20/11/19	20/11/17 20/11/18	20/11/16 20/11/17	20/11/15 20/11/16
MSCI Emerging Markets	6.3	4.7	9.7	14.1	-9.5	24.0	3.1
Industrial Metals	6.3	7.7	8.5	2.7	-6.8	8.5	25.0
Brent	5.7	-43.5	-39.4	9.6	11.2	10.8	-11.4
Global Convertibles	4.8	20.5	22.6	15.5	0.5	6.2	4.2
MSCI World	4.5	3.5	5.9	20.7	2.2	10.1	2.4
REITs	4.3	-13.5	-15.0	20.3	0.4	1.0	-2.9
Global Coporates	1.5	2.4	1.8	14.4	-0.1	-2.6	3.6
MSCI Frontier Markets	1.4	-9.2	-6.5	14.1	-8.3	15.7	-2.4
Global Treasuries	0.9	2.0	0.7	11.5	0.9	-5.6	4.7
USDEUR	0.0	-5.4	-6.6	2.7	3.2	-9.8	0.5
Eonia	0.0	-0.4	-0.5	-0.4	-0.4	-0.4	-0.3
Gold	-1.6	16.6	18.7	23.7	-1.3	-4.6	12.7

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

- The market-friendly US election outcome and the positive vaccine news have led to a risk-on environment. Stocks, REITs, industrial metals and oil rose accordingly.
- Gold as a safe haven, on the other hand, is currently no longer in such high demand and has fallen over the last four weeks.
- Since the beginning of the year, global convertible bonds have now overtaken gold as the best asset class.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 20/11/2015 – 20/11/2020

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (23/10/20 - 20/11/20)	YTD (31/12/19 - 20/11/20)	20/11/19 20/11/20	20/11/18 20/11/19	20/11/17 20/11/18	20/11/16 20/11/17	20/11/15 20/11/16
MSCI UK	10.9	-18.9	-14.7	12.6	-2.3	9.7	-9.3
MSCI EM Eastern Europe	10.2	-25.1	-21.8	29.1	3.3	17.9	5.7
Stoxx Europe Cyclicals	9.3	-4.2	-1.0	18.3	-11.9	20.8	-5.4
Euro Stoxx 50	8.5	-5.6	-3.9	21.6	-10.2	20.8	-9.9
Stoxx Europe Small 200	8.0	-0.1	4.0	19.9	-7.4	21.5	-6.6
MSCI USA Small Caps	7.8	2.1	4.9	15.8	2.7	5.7	12.7
Topix	7.1	1.8	2.1	13.9	-2.7	11.5	1.6
Stoxx Europe 50	7.1	-7.6	-5.1	19.2	-6.0	15.8	-10.7
Stoxx Europe Defensives	6.0	-6.9	-4.7	15.9	2.6	12.2	-13.3
MSCI EM Asia	6.0	14.3	19.6	15.0	-11.5	28.5	3.0
DAX	3.9	-0.8	-0.2	18.9	-15.3	22.4	-4.1
S&P 500	2.7	6.0	8.9	23.4	7.7	8.8	7.4

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

- The approaching end of Brexit negotiations and hopes of a strong economic recovery next year have boosted UK equities. The British equity index also benefitted from its high weighting in value sectors (energy, banks, etc.), which rose particularly strongly as a result of the vaccine news.
- Eastern European and cyclical European stocks were also among the outperformers.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 20/11/2015 – 20/11/2020

Fixed Income

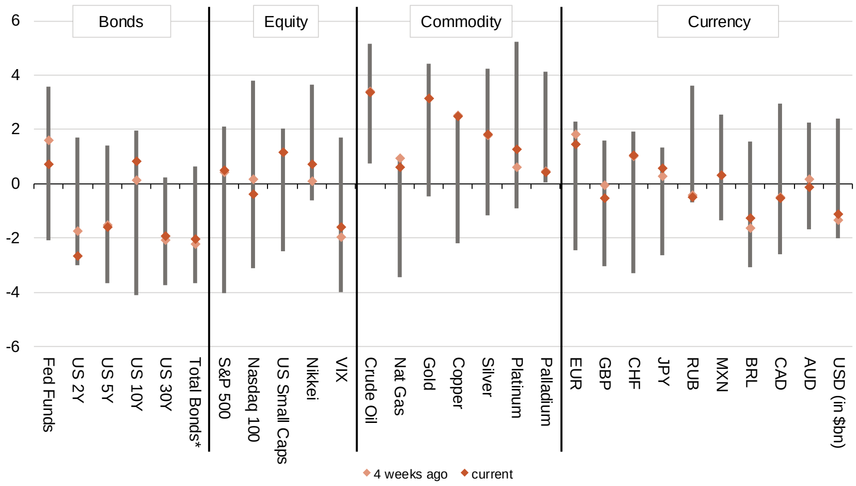
	4-week & YTD		12-month periods over that last 5 years				
	4W (23/10/20 - 20/11/20)	YTD (31/12/19 - 20/11/20)	20/11/19 20/11/20	20/11/18 20/11/19	20/11/17 20/11/18	20/11/16 20/11/17	20/11/15 20/11/16
EM Hard Currency Bonds	2.9	1.8	3.9	8.8	-6.8	7.3	4.5
EUR High Yield	2.2	0.2	1.8	7.3	-2.9	6.8	3.2
EM Local Currency Bonds	2.0	-2.9	-1.9	12.3	0.5	1.1	3.1
USD Corporates	1.9	3.1	2.1	18.3	0.4	-4.6	4.9
USD High Yield	1.8	-3.1	-2.1	13.5	3.7	-2.2	10.4
Gilts	1.4	1.2	1.7	13.9	-0.3	0.1	-12.4
BTPs	1.3	7.3	6.6	17.8	-7.9	4.0	-1.6
EUR Non-Financials	1.0	2.9	2.8	6.7	-1.8	3.0	3.7
EUR Financials	0.8	1.9	2.1	6.3	-2.0	4.2	2.6
EUR Inflation Linkers	0.8	2.0	1.7	7.7	-2.4	4.2	-0.3
Treasuries	0.3	2.6	0.5	13.5	1.6	-8.2	2.2
Bunds	0.1	3.2	1.8	5.2	1.0	-0.5	2.5

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.

- Within bonds, carry assets remain in strong demand. Credit spreads have narrowed further in recent weeks, driven by the global liquidity glut. The hunt for yield continues.
- Safe government bonds have recently underperformed.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 20/11/2015 – 20/11/2020

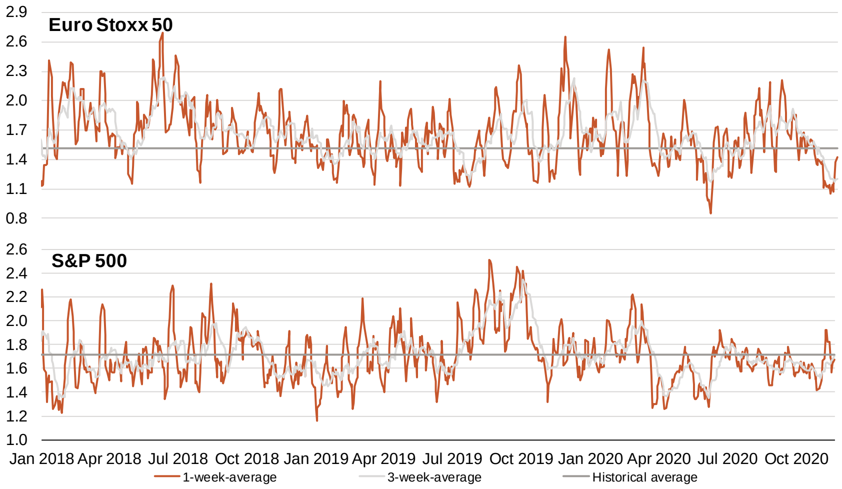
Non-Commercial Positioning



- Despite the recent rally in equity markets, speculative investors remain cautiously positioned.
- Recently, extreme positions such as in USD or EUR have been reduced.

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: 23/12/2010 - 18/12/2020

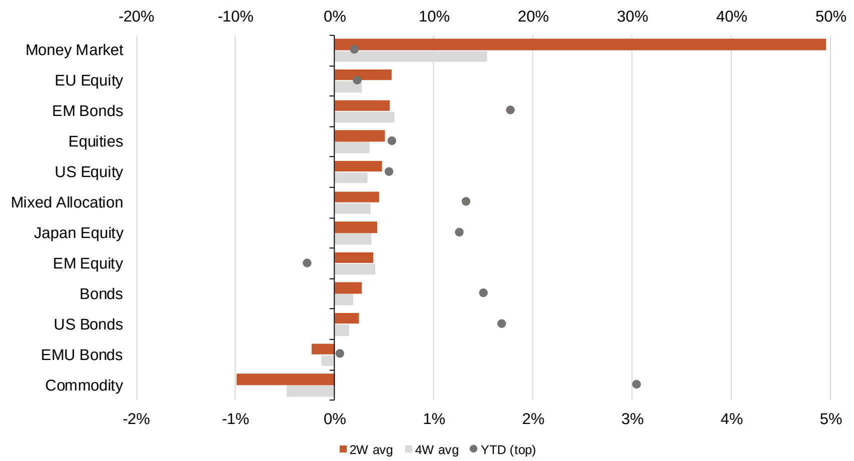
Put-Call Ratio



- Improved investor sentiment is reflected in historically below average put-call ratios for European and US equities.
- After the US elections, these fell further. The positive vaccine news has also led to a falling need for hedging by investors.

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 - 20/11/2020

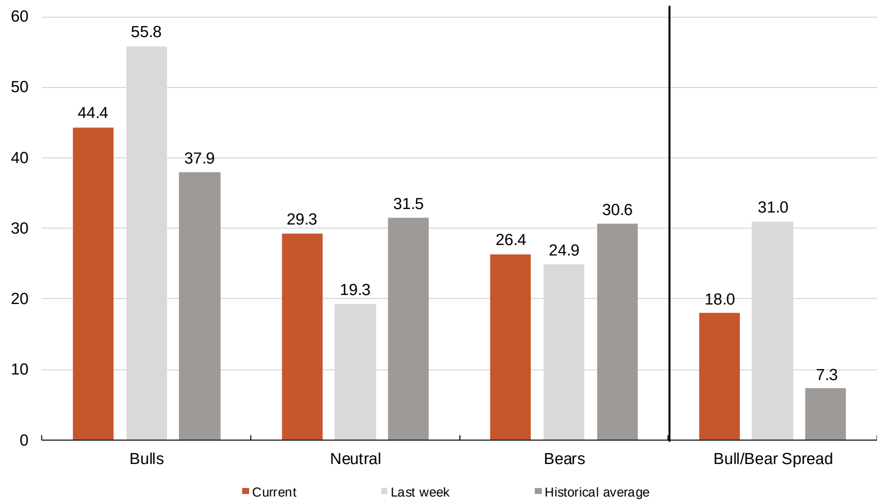
ETF Flows



- Interestingly, not only equity ETFs, but also money market ETFs have recorded inflows. Emerging market bonds also remain in demand.
- Commodity ETFs (especially gold) have seen outflows in recent weeks. The strong development since the beginning of the year and the decreasing political uncertainty with Joe Biden as US president seems to lead to some profit-taking in gold.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2019 - 20/11/2020

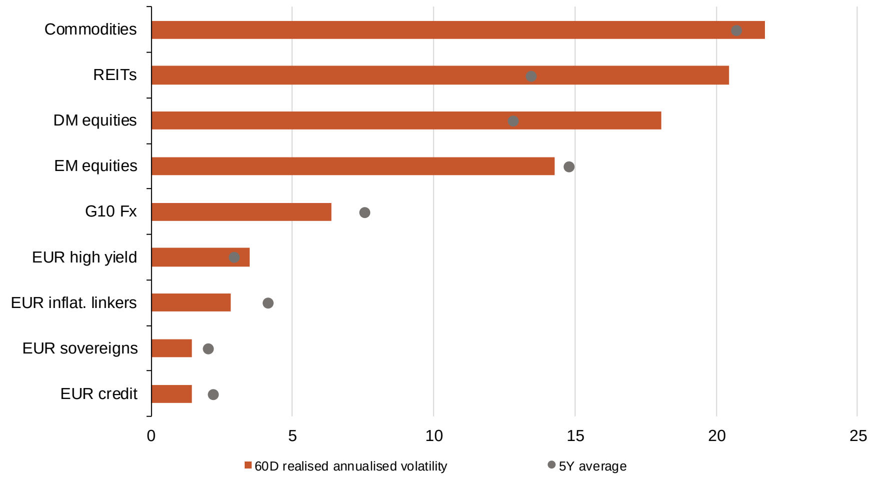
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment of US private investors has improved dramatically in the past two weeks thanks to positive vaccine news. The sentiment has not been as good as in the previous week since the beginning of 2018. Back then, the S&P 500 corrected by about 10% a few days later.
- Hence, in the short term, a little more caution is called for.

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 – 19/11/20

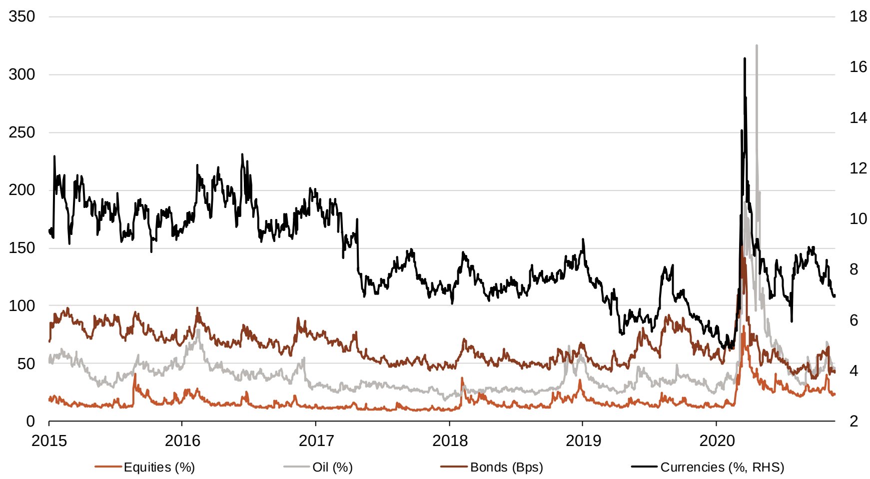
Realised Volatilities



- The realised volatility of the last 60 days has recently seen the strongest increase in commodities and REITs. Unusually, this time a sharp rise in prices was responsible for the increase in volatility.
- As corporate bond yields came under less pressure than government bond yields in the wake of the risk-on environment, both asset classes have swapped places over the past two weeks.

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: 20/11/2015 – 20/11/2020

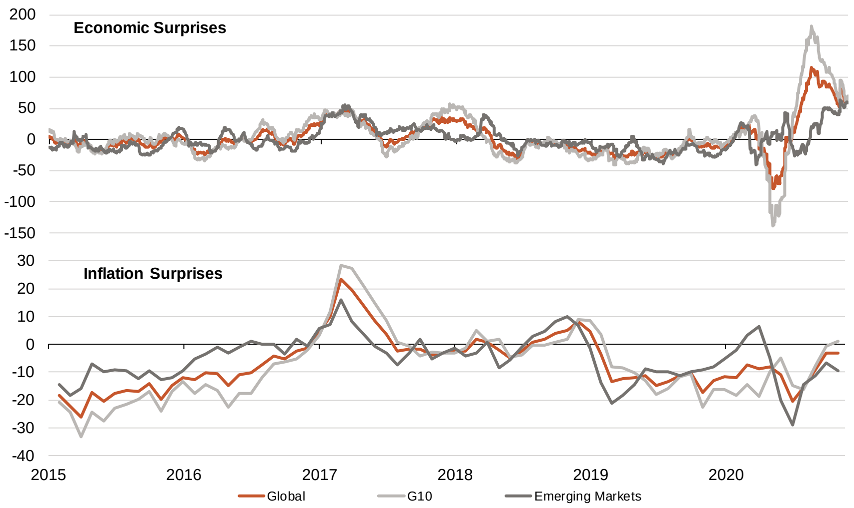
Implied Volatilities



- Implied volatility has only risen for government bonds in the last two weeks, as investors fear a further increase in yields.
- The VIX recently fell below 25 and is currently at its lowest level since the end of August.

The price of options depends on the volatility of the underlying instrument. Implied volatility can therefore be interpreted as a measure of the currently expected fluctuation range of the underlying compared to the market over the remaining term of the option. It is a measure of prevailing uncertainty in the financial markets.
Stocks = VIX Index, Oil = OVX Index, Government Bonds = MOVE Index, Currencies = CVIX Index
Source: Bloomberg, Time period: 01/01/2015 – 20/11/2020

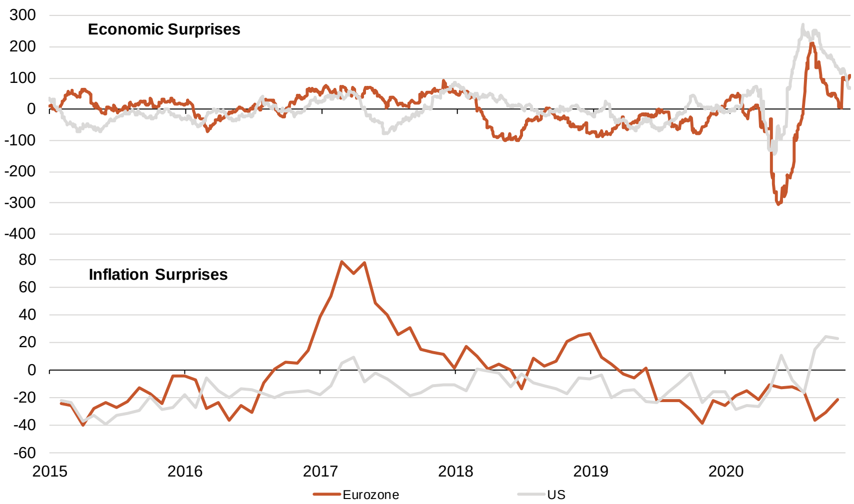
Global



- The positive economic surprises in the industrial nations (G10) and in emerging markets are at a similarly stable level. In emerging markets, China was able to impress with better-than-expected industrial production data and exports, while growth in retail sales was clearly positive but slightly below expectations. Industrial production in India has also been a positive surprise recently.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 20/11/2020

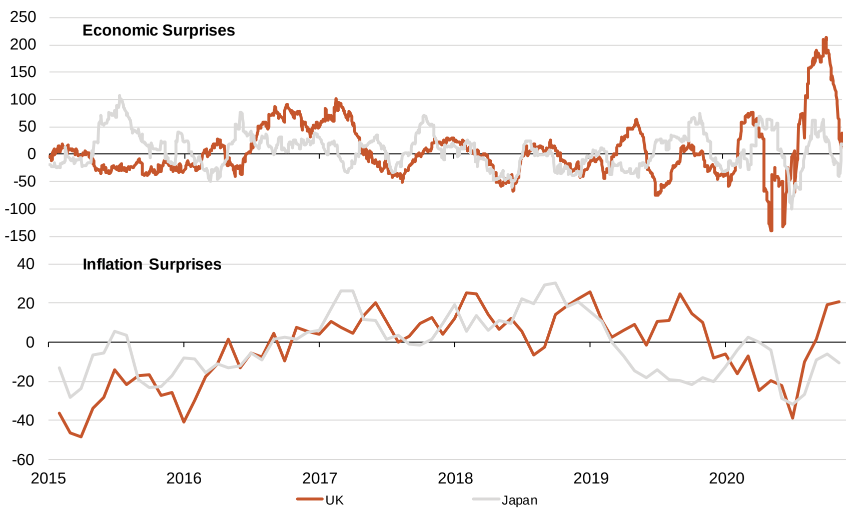
Eurozone and US



- The economic surprises in the eurozone recently broke the downward trend. Although the ZEW Index for Economic Sentiment for Germany and the industrial production data in Italy turned out worse than expected, German exports and French industrial production data were able to surprise positively.
- In the US, consumer confidence, retail sales and the Empire Manufacturing Index disappointed, while industrial production, the Philadelphia Fed Index and housing market data surprised positively.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 20/11/2020

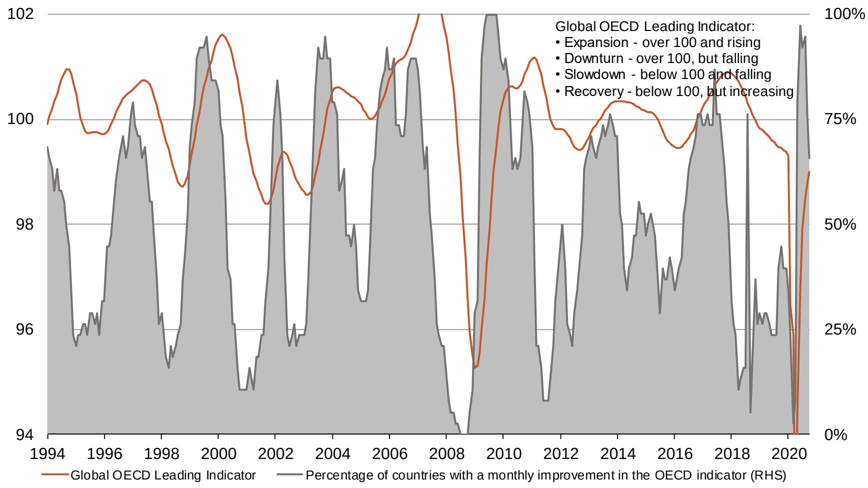
UK and Japan



- In the UK, Q3 economic growth, consumer confidence and industrial production have disappointed. Retail sales have beaten expectations.
- In Japan, however, Q3 economic growth and machinery orders came as a positive surprise.

Citigroup Economic Surprise Indices are defined as weighted historical, normalized data surprises (actual releases vs. Bloomberg survey median) over the last three months. A positive value of the index indicates that the economic data have exceeded the consensus on balance. The indices are calculated daily based on a rolling three-month period. The indices use a time decay function to replicate the markets limited memory, i.e. the weight of a data surprise decreases over time.
Source: Bloomberg, Time period: 01/01/2015 - 20/11/2020

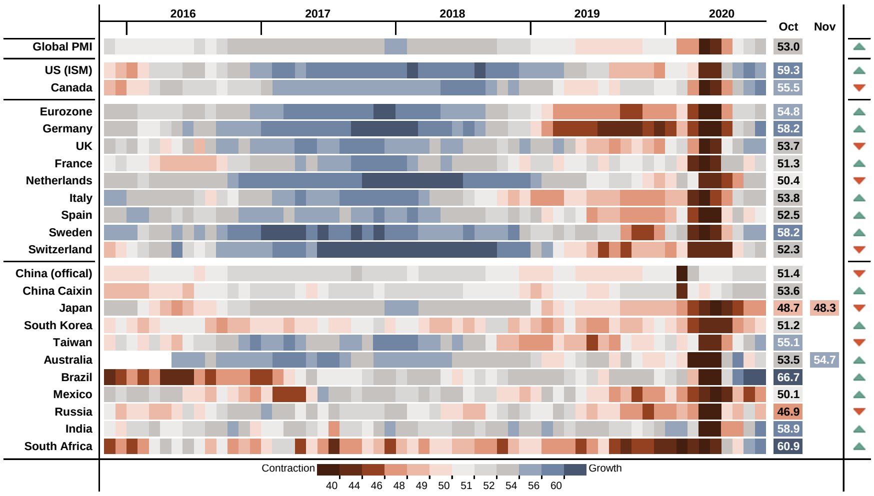
OECD Leading Indicator



- The consequences of the recent lockdowns in many countries can already be seen in the leading indicators. In October, just under 60% of the countries saw a better value for the OECD leading indicator than in the previous month.
- The global OCED leading indicator rose to over 99 points in October despite some weakening countries.

The OECD Leading Indicator is composed of a series of selected economic indicators whose composition provides a robust signal for future turning points. A turning point in the indicator usually signals a turning point in the economic cycle in 6-9 months. However, lead times are sometimes outside this range and turning points are not always correctly detected.
Source: Bloomberg, Time period: 31/01/1994 - 31/10/2020

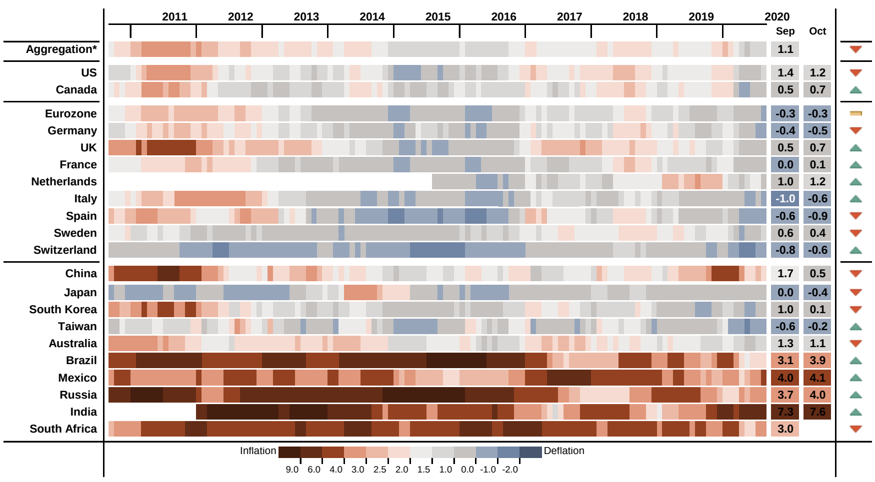
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global PMI rose to 53 in October, which means that the global economy is still on the road to recovery.
- For the month of November, the PMI has turned out worse than expected for Japan and better than expected for Australia.

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: 31/10/2017 - 20/11/2020

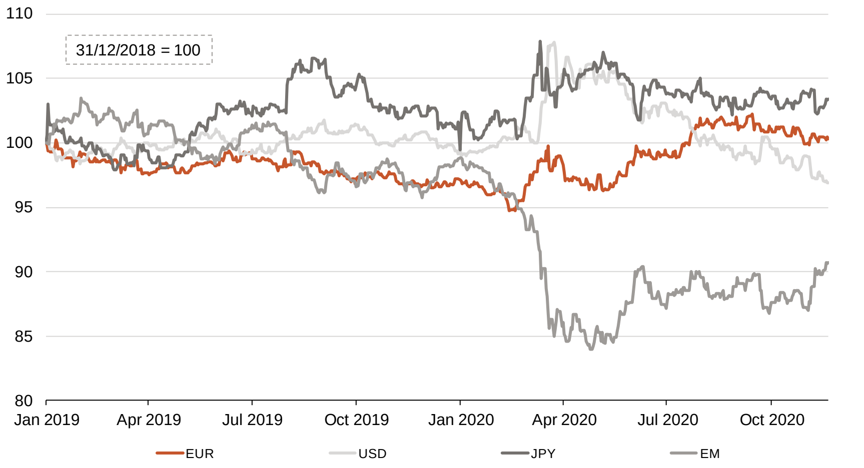
Headline Inflation



- Inflation in the US fell slightly to 1.2% in October. The cost of medical supplies fell slightly and prices for energy and transportation continued to fall. In contrast, prices for food and housing rose.
- At 0.5%, inflation in China fell more than expected in October due to collapsing pork prices.

Inflation is measured (in percent, year-on-year comparison) using a consumer price index, also known as a shopping basket of goods. This shopping basket contains all goods and services that a household purchases on average per year. * = weighting by gross domestic product.
Source: Bloomberg, Time period: 31/10/2010 - 31/10/2020

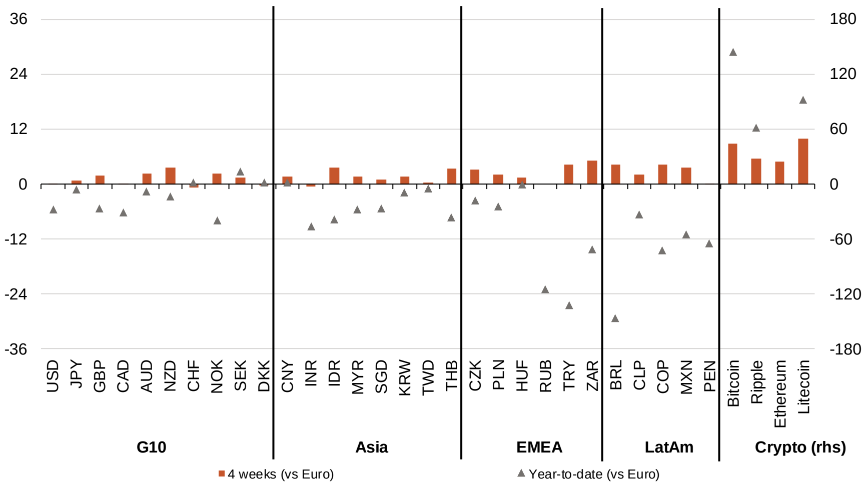
Trade-Weighted Currency Development



- With a vaccine in sight and Biden as the expected US president, emerging market currencies have continued their steep appreciation over the past two weeks.
- The other three currencies shown here have suffered losses on a trade-weighted basis.
- The Japanese yen lost nearly 2% in response to the positive vaccine news, but has subsequently benefitted from rising infection rates.

A trade-weighted index is used to measure the effective value of an exchange rate against a basket of currencies. The importance of other currencies depends on the share of trade with the country or currency zone.
Source: Bloomberg, Time period: 01/01/2019 – 20/11/2020

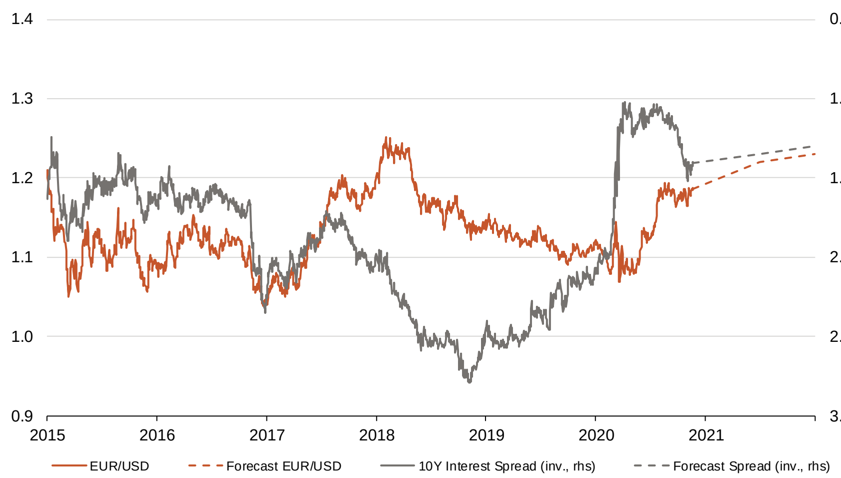
Currency Moves vs. Euro



- Over the last four weeks, the euro suffered losses against almost all the currencies shown here.
- While Europe is suffering from lockdowns, the rest of the world is looking forward to a 'soon-to-come' vaccine.
- The currencies that have been hardest hit since the beginning of the year were the ones that benefitted the most lately. The Turkish lira has appreciated by more than 10% since its low in early November, as President Erdogan finally showed his willingness to fight high inflation by tightening monetary policy.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2019 - 20/11/2020

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD exchange rate has been fluctuating sideways around the 1.18 level for the past two weeks. Although the dollar lost its appeal with the victory of Biden, rising infection rates in Europe have also put pressure on the common currency.
- The interest rate differential between US Treasuries and Bunds also remained almost unchanged at 1.4%.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US Treasuries and 10-year Bunds.
Source: Bloomberg, Time period: 01/01/2015 - 31/12/2021

European Sector & Style Performance

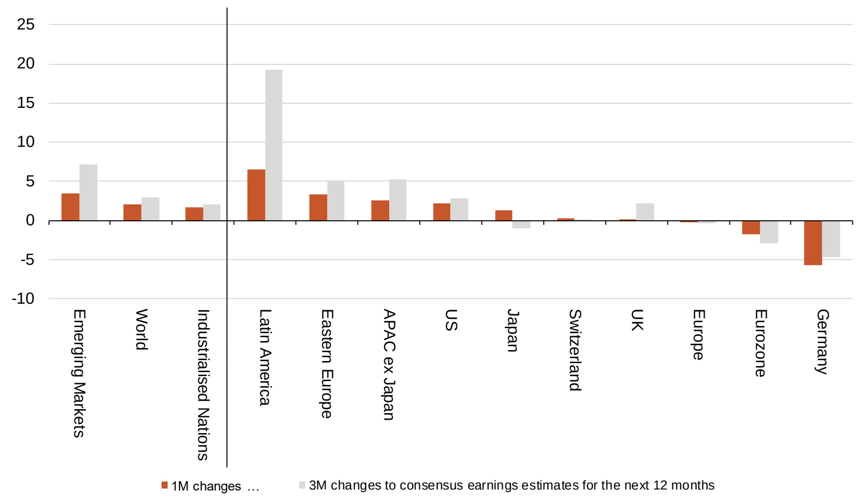
	4-week & YTD: 4W (23/10/20 - 20/11/20)	4-week & YTD: YTD (31/12/19 - 20/11/20)	12-month periods over that last 5 years: 20/11/19 20/11/20	20/11/18 20/11/19	20/11/17 20/11/18	20/11/16 20/11/17	20/11/15 20/11/16
Energy	24.1	-36.8	-37.1	4.2	8.0	16.4	4.5
Finance	16.7	-17.6	-14.0	11.6	-13.9	18.4	-10.5
Value	11.7	-14.9	-12.3	10.9	-6.3	15.8	-6.3
Consumer Discretionary	10.1	1.8	5.2	23.3	-9.6	16.3	-9.6
Industrials	8.8	2.5	4.6	28.2	-10.1	22.3	-0.4
Telecommunications	7.0	-14.3	-14.4	4.9	-8.4	7.1	-23.7
Utilities	6.1	9.8	15.2	23.5	1.3	20.2	-15.4
Materials	5.2	2.0	5.6	17.1	-7.8	22.6	11.2
Growth	3.8	3.4	6.4	24.6	-6.2	17.6	-10.1
Consumer Staples	2.7	-3.6	-1.5	16.9	-3.9	13.4	-9.2
Health Care	2.6	-0.8	3.6	21.4	3.0	7.4	-15.2
Information Technology	0.9	7.0	10.4	31.7	-8.7	31.2	-3.1

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.

- Earlier and better-than-expected Covid-19 vaccine news has fuelled hopes that the economy and the sectors particularly affected by the virus can recover strongly next year. Accordingly, the value sectors such as energy and financials gained by more than 16 percent.
- Sectors benefitting from the Covid-19 market environment such as technology, on the other hand, hardly moved in recent weeks.

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: Factset, Time period: 20/11/2015 – 20/11/2020

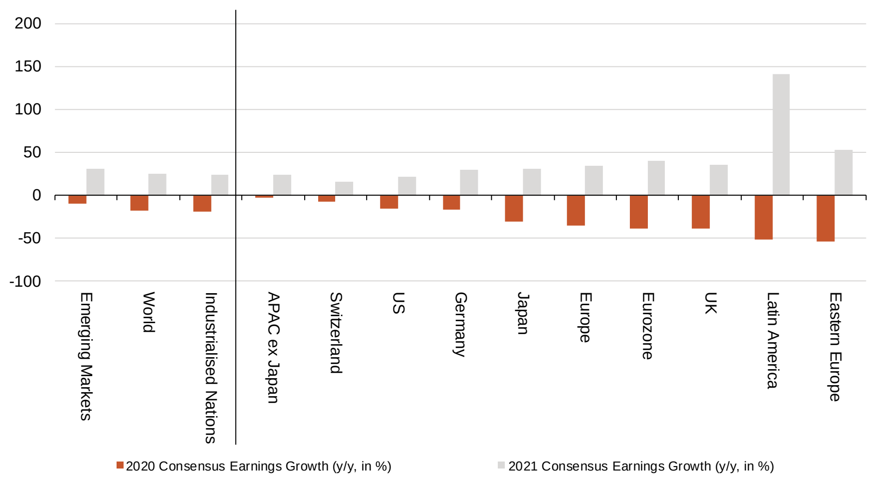
Changes in Consensus Earnings Estimates



- The positive Q3 reporting season and the approaching approval of a Covid-19 vaccine have led to higher earnings estimates for most regions.
- Eastern Europe and Latin America also benefitted from higher commodity prices.
- Earnings estimates for German companies, on the other hand, were adjusted slightly downwards as a result of the renewed partial lockdown.

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 20/11/2020

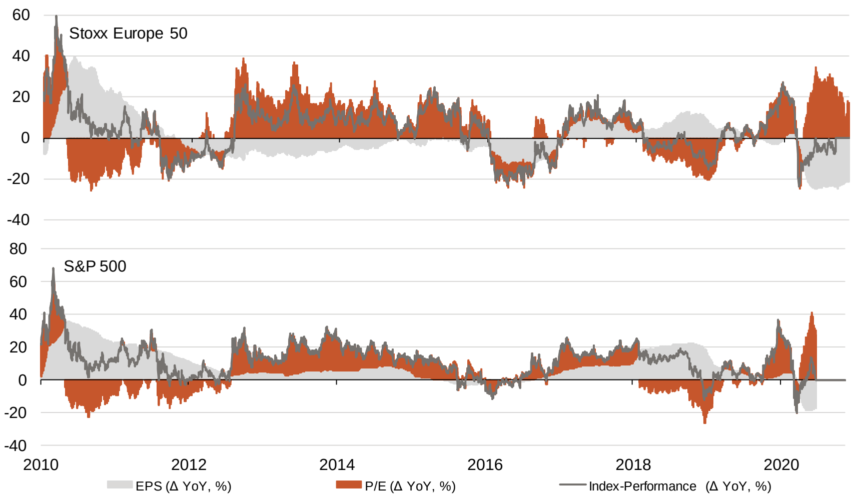
Earnings Growth



- Next year, most companies can look forward to a substantial increase in profits. Analysts expect profits to rise by more than 30% for emerging markets and by more than 20% for developed markets.
- US companies in aggregate are forecast at the end of 2021 to return to or even exceed the earnings level of the end of 2019 - according to the consensus.

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 20/11/2020

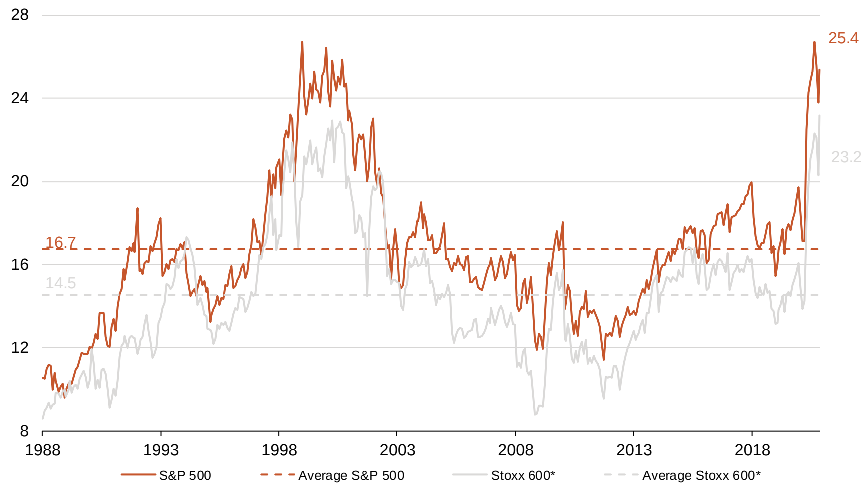
Contribution Analysis



- Over the last twelve months, stock markets have been driven primarily by an expansion of valuations. Earnings estimates have fallen compared to the previous year both in the US and in Europe. This should change next year.

Analysis of the stock market drivers over the last 12 months. This takes into account the change in earnings estimates and the change in valuation (price/earnings ratio). EPS = earnings per share
Source: Bloomberg, Time period: 01/01/2010 - 20/11/2020

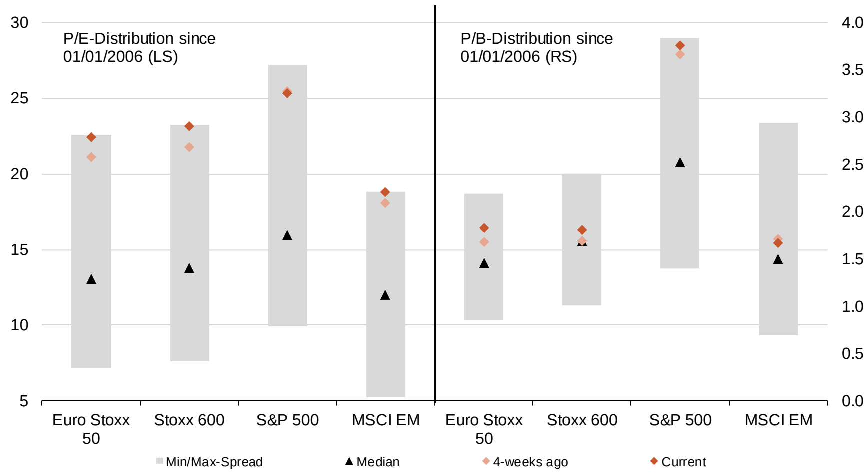
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Equities in the US and Europe remain ambitiously valued compared to their own history. This is mainly because investors see through the current Covid issues and focus on rising corporate earnings next year.

P/E valuation based on earnings estimates for the next twelve months for European and US equities and the respective P/E average since 1988 * For the Stoxx 600, the history prior to 2000 is of MSCI Europe.
Source: Bloomberg, IBES Time period: 31/12/1987 - 20/11/2020

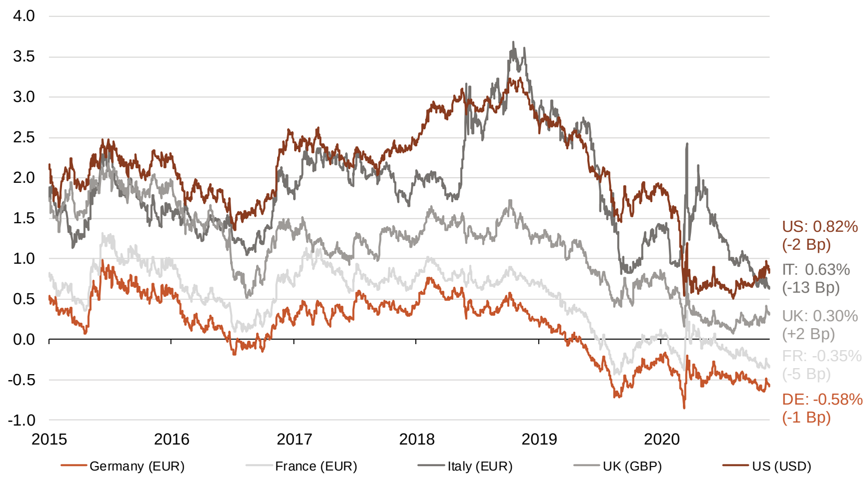
Historical Distribution: Price/Earnings and Price/Book Ratio



- The strong rise in European stock markets combined with negative earnings revisions has led to a marked increase in valuations for the Euro Stoxx 50 and Stoxx 600.
- At an index level, all regions considered here are expensive compared to their own history.

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 - 20/11/2020

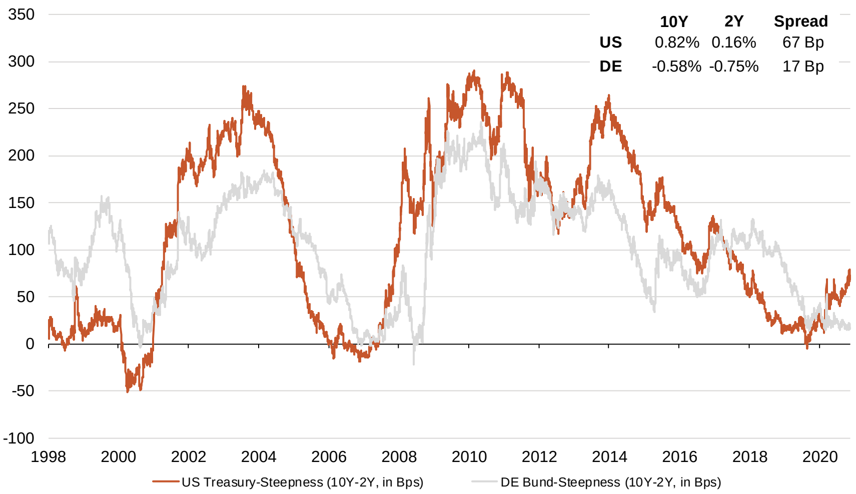
10-Year Government Bond Yields



- The consequences of the lockdowns and the positive vaccine news have balanced each other out over the last few days. Yields on safe haven government bonds have moved only slightly. 10-year German government bonds saw yields fall by just one basis point in the last four weeks. Only UK government bonds saw a small rise in yields, as hopes of a resolution to Brexit negotiations have increased.

Effective yield of 10-year government bonds and change in the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2015 - 20/11/2020

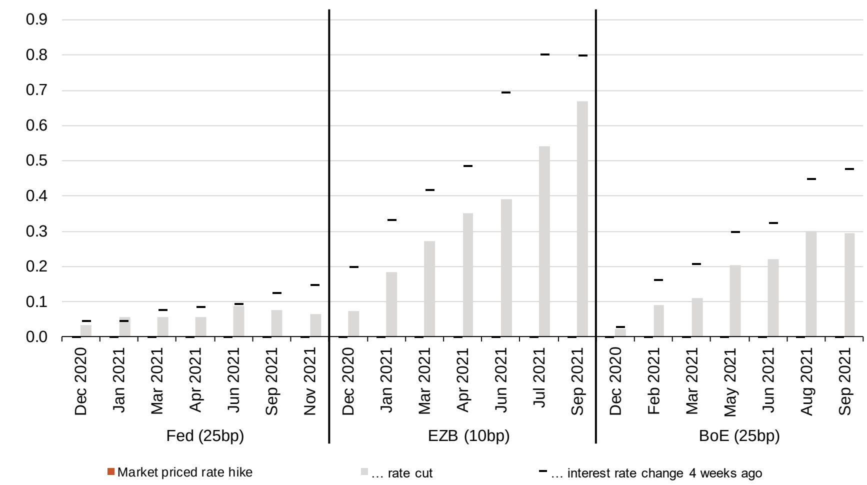
Yield Curve Steepness (10Y - 2Y)



- The steepness of the US yield curve has risen again slightly in the last two weeks, reaching 80 basis points recently, the highest level since 2018.
- In contrast, the steepness of the German yield curve remained below 20 basis points.

The yield curve distinguishes between the so-called short and the long end. The reason for this lies in the way in which factors influence returns. Central banks control the short end of the curve through their monetary policy and key rates. By contrast, the long end is influenced less by central banks than by inflation expectations, supply, demand and risk premia.
Source: Bloomberg, Time period: 01/01/1998 - 20/11/2020

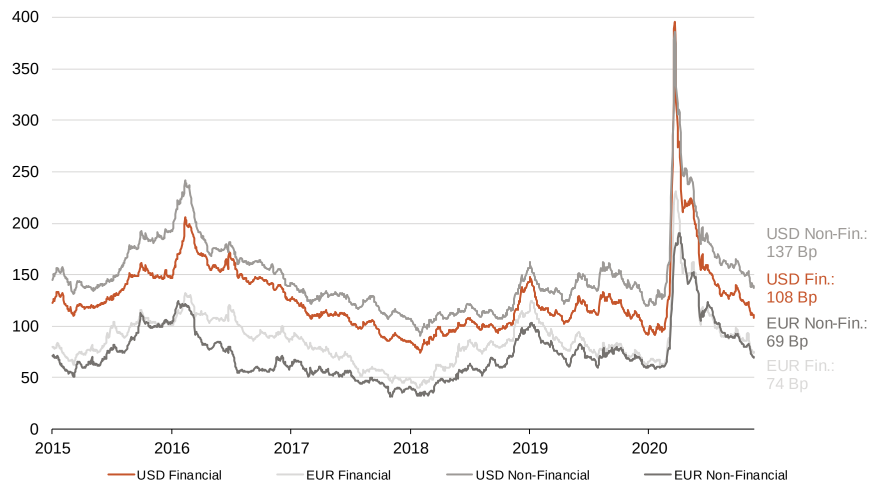
Implicit Changes in Key Interest Rates



- A rate cut by the ECB at the December meeting is only priced in by the market with around 10% probability. However, the ECB has signaled that it intends to hold on to its PEPP bond purchases longer than previously expected.
- The positive development in the Brexit talks has significantly reduced the probability of a rate cut in the UK. Until mid 2021 the probability is below 30%.

Derivatives on money market rates - such as the Fed funds futures - can be used to determine changes (number of steps) in the key interest rate priced by the market
Source: Bloomberg, Time period: 23/10/2020 - 20/11/2020

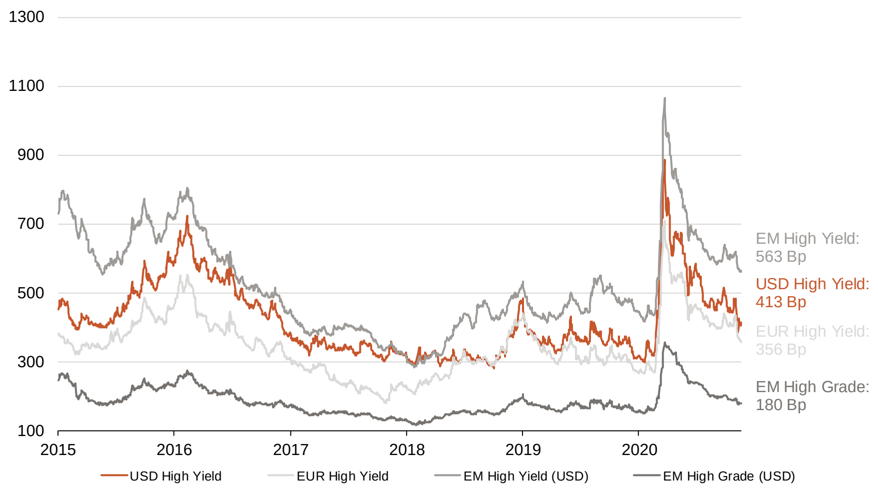
Credit Spreads Financial and Non-Financial Bonds



- The decline in risk premia on IG corporate bonds continued in the last two weeks. The risk premium has fallen by 8 basis points on average. The largest spread narrowing was seen in EUR non-financial bonds at 10 basis points.
- The positive vaccine news and slowly falling new infection numbers in Europe led to a narrowing of spreads in the eurozone, especially for real estate, leisure and transport companies.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 – 20/11/2020

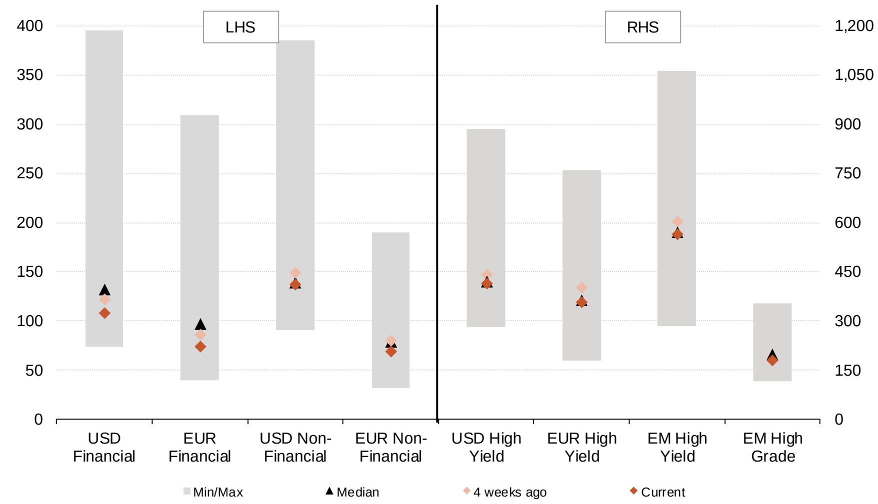
Credit Spreads High Yield and Emerging Markets Bonds



- Spread tightening was even more pronounced for high yield bonds. USD high yield bonds saw a spread tightening of 13 basis points in the last two weeks, while EUR and EM high yield bonds saw a spread tightening of more than 30 basis points.
- At the USD sector level, the leisure sector saw the largest spread widening, while the transportation sector saw the largest spread widening.

The extent of the risk associated with a corporate bond is shown by its asset swap spread (in basis points). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term to offset its credit risk. See further explanations below.
Source: FactSet, Time period: 01/01/2015 – 20/11/2020

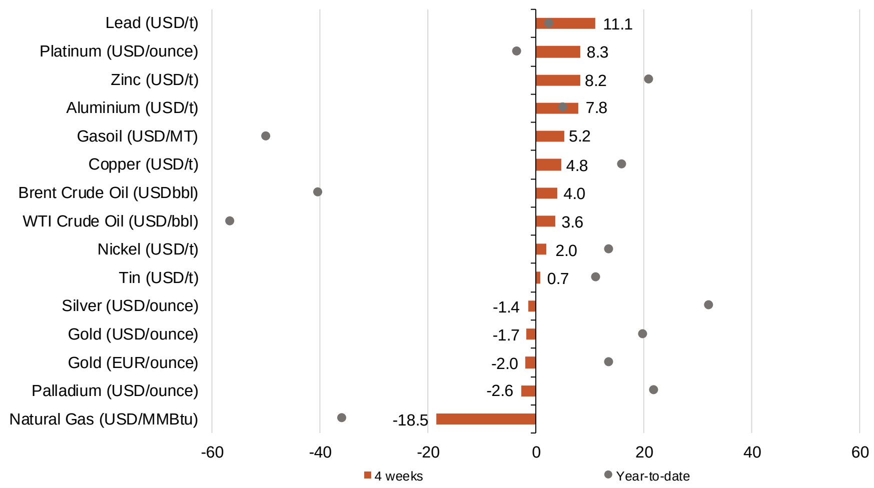
Historical Distribution of Credit Spreads (in bp)



- As a result of the recent significant narrowing of spreads, all segments are now reporting spreads below or close to the 10-year median. From a historical perspective, no segment is therefore cheap anymore. However, we still consider a further narrowing of spreads to be probable, even if the potential is more limited than a few weeks ago.

USD Financial = ICE BofAML US Financial; EUR Financial = ICE BofAML Euro Financial; USD Non-Financial = ICE BofAML US Non-Financial; EUR Non-Financial = ICE BofAML Euro Non-Financial; USD High Yield = ICE BofAML US High Yield; EM High Yield = ICE BofAML High Yield Emerging Markets Corporate Plus; EM High Grade = ICE BofAML High Grade Emerging Markets Corporate Plus. The EM indices shown here are hard currency bonds.
Source: FactSet, Time period: 20/11/2010 – 20/11/2020

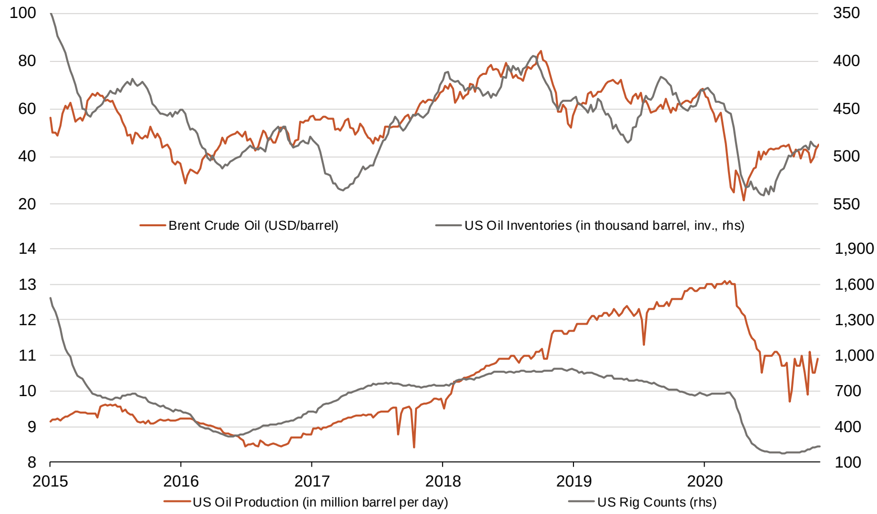
Commodities Performance



- The big winners over the last four weeks were industrial metals. As a result, all of the metals shown here are now trading in positive territory since the beginning of the year. However, precious metals, particularly gold and silver, suffered from the increased risk appetite.
- Natural gas marked a 2-year high at the end of October thanks to potential infrastructure damage from storm Zeta and an expected cold November. After neither of these events occurred, it fell particularly sharply shortly thereafter.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 - 20/11/2020

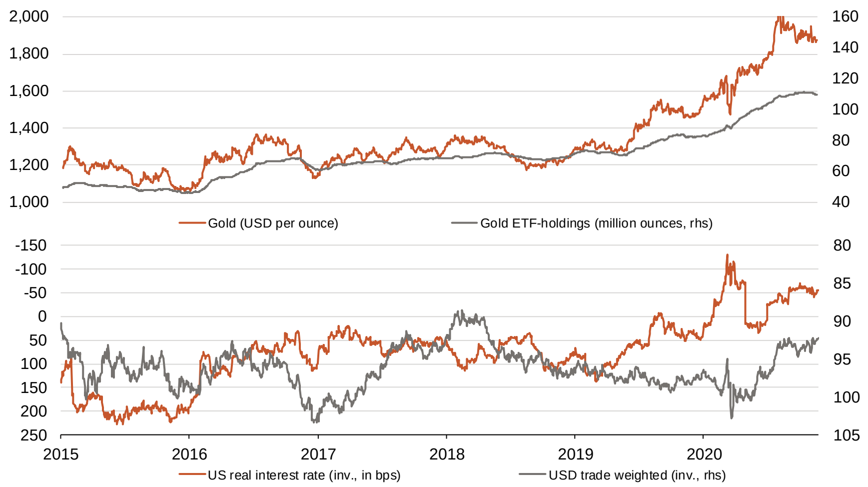
Crude Oil



- The vaccine news boosted the price of oil. Since the announcement, crude oil has gained over 10%. However, this move is still far away from an excessive price increase. At USD 45 per barrel, the price of oil (Brent) is still below the highs in August.
- Meanwhile, expectations for the meeting of OPEC+ countries on 1 December are high. Market participants expect at least an extension of the current cuts by another three to six months.

Higher oil production and higher inventories tend to depress oil prices and vice versa. An increase in active oil rigs indicates a future increase in oil production.
Source: Bloomberg, Time period: 01/01/2015 - 20/11/2020

Gold



- The upward trend in gold as a result of Biden's victory lasted only briefly. Following the vaccine news and investors' increased risk appetite, gold fell back below USD 1,900 an ounce.
- Apart from the reduced uncertainty, rising inflation, negative real interest rates, a falling dollar and rising government debt should provide further support for the precious metal in the medium term.

Inflation is among the fundamental price factors of the gold price. Rising real interest rates tend to depress the price of gold, while falling real interest rates have a supportive effect. The same applies to the US dollar. The development of gold ETF holdings reflects the demand for gold from financial investors.
Source: Bloomberg, Time period: 01/01/2015 - 20/11/2020

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IMPORTANT NOTICES

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