Current market commentary

After the strong rally in November, many equity regions have barely moved in December - which is perfectly normal after such a strong run. Especially as many investors now want to wait for the central bank meetings in the next two weeks. Movement has recently been seen above all in British stocks. Hopes of an imminent Brexit deal coupled with the UK approval of a vaccine, which is heavily dependent on the service sector, have boosted British stocks. This was supported by the fact that the sector structure (many cyclical sectors) of British stock indices is currently benefiting particularly from the burgeoning economic optimism. We remain constructive for equities into the new year. On the one hand, major investment committees that are now taking place are setting the course for 2021, which should lead to inflows into equities. On the other hand, the strong momentum and falling volatility should push systematic investors even further into the market.

The bi-weekly ***Monitor*** gives you a structured overview of the current capital market environment and highlights important developments:

- Performance
- Positioning
- Sentiment
- Surprise Indicators
- Economics
- Foreign Exchange
- Equities
- Sovereign Bonds & Central Banks
- Corporate Bonds
- Commodities

Short-term outlook

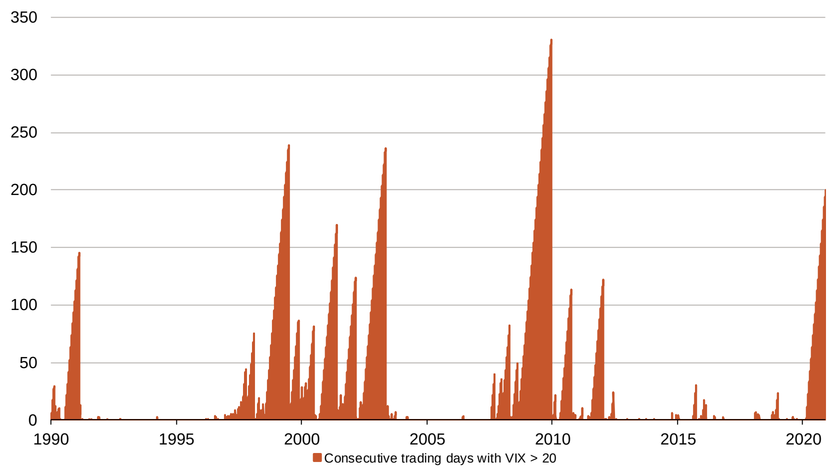
The ECB will meet on 10th December, the Fed on 16th December and the BoE on 17th December. The market expects the ECB to expand its support programmes (PEPP/TLTRO). The European Council meets on 10th-11th December to discuss COVID-19, climate change, security and external relations. In the US, the deadline for the budget is 11th December and several FDA vaccine reviews are expected to be completed by mid-December. Brexit: The transitional period between the UK and the EU ends on 31st December.

December will be dominated by central banks, the vaccine and Brexit.

Tomorrow the ZEW Indicator of Economic Sentiment (Dec.) for Germany will be released. On Wednesday, Japanese machinery orders (Oct.), German exports (Oct.) and Chinese inflation data (Nov.) will follow. Industrial production data (Oct.) for France and the UK and US inflation data (Nov.) will be released on Thursday. Italian industrial production and US consumer confidence will follow on Friday.

Industrial production data provide an insight into the state of European industry.

VIX below 20 would further boost demand for equities



- The VIX, a measure of the volatility of American stocks, closed at 20.79 on Friday, above 20 for 200 trading days - the longest streak since the financial crisis.
- The historical average of the VIX since 1990 is 19.5, and we expect the VIX to fall below 20 soon.
- Since the market loves round numbers, this would be a positive sentiment signal. In addition, the falling volatility would lead to a stronger demand for stocks in volatility-based strategies.

Source: Bloomberg, Time period: 02/01/1990 - 04/12/2020

Multi Asset

	4W (06/11/20 - 04/12/20)	YTD (31/12/19 - 04/12/20)	04/12/19 04/12/20	04/12/18 04/12/19	04/12/17 04/12/18	04/12/16 04/12/17	04/12/15 04/12/16
Brent	20.2	-39.9	-37.0	13.2	10.3	-1.3	5.9
Industrial Metals	6.0	8.4	11.5	-0.3	-4.3	2.9	29.8
Global Convertibles	4.8	22.8	24.5	13.3	4.7	5.8	5.1
MSCI World	4.7	5.1	7.6	17.8	3.7	11.3	4.8
MSCI Emerging Markets	4.1	5.8	12.5	7.4	-3.3	21.2	9.5
REITs	3.2	-14.4	-15.0	17.3	3.4	-0.3	-0.2
MSCI Frontier Markets	2.5	-9.5	-7.5	11.6	-6.8	19.0	1.4
Eonia	0.0	-0.4	-0.5	-0.4	-0.4	-0.4	-0.3
Global Coporates	-0.7	0.7	0.1	13.5	1.0	-2.4	5.0
Global Treasuries	-1.7	0.1	-0.9	9.9	2.4	-4.9	5.5
USDEUR	-2.0	-7.5	-8.6	2.4	4.6	-10.1	2.0
Gold	-7.7	12.1	14.0	21.9	1.5	-2.5	10.6

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

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

- Brent oil, one of the worst asset classes since the beginning of the year, rose the most over the last four weeks. The positive vaccine news has led to lower demand concerns. Industrial metals and equities also benefited from greater economic optimism.
- In contrast, gold and government bonds as safe havens were underperformers.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 04/12/2015 – 04/12/2020

Equities

	4W (06/11/20 - 04/12/20)	YTD (31/12/19 - 04/12/20)	04/12/19 04/12/20	04/12/18 04/12/19	04/12/17 04/12/18	04/12/16 04/12/17	04/12/15 04/12/16
MSCI EM Eastern Europe	13.6	-21.2	-16.1	20.5	9.0	12.1	22.6
MSCI UK	12.0	-17.1	-13.2	12.0	-1.6	8.1	-3.7
Stoxx Europe Cyclicals	11.6	-1.4	1.9	15.6	-10.0	20.1	-1.9
MSCI USA Small Caps	11.3	5.6	7.6	14.8	3.2	7.0	14.4
Euro Stoxx 50	10.5	-3.6	-1.3	18.0	-8.4	21.5	-6.8
Stoxx Europe Small 200	9.0	1.0	4.5	18.5	-6.4	22.6	-5.8
Stoxx Europe 50	6.7	-6.8	-4.0	16.0	-3.9	16.3	-7.3
DAX	6.6	0.4	1.2	15.9	-13.2	24.2	-2.2
Stoxx Europe Defensives	4.4	-6.7	-4.3	13.2	4.1	12.5	-9.5
Topix	3.9	1.9	1.9	12.4	-1.5	12.1	5.9
S&P 500	3.3	7.7	10.5	20.5	8.9	10.8	9.1
MSCI EM Asia	2.7	14.7	22.1	7.5	-4.4	24.4	7.8

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

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

- Eastern European stocks benefited from rising oil prices and gained more than 14% in the last four weeks.
- British equities were also among the relative winners, boosted by the vaccine breakthrough and Brexit deal hopes.
- The S&P 500 with its large tech weight was one of the big underperformers recently. US Small Caps performed 8% better over the last four weeks.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 04/12/2015 – 04/12/2020

Fixed Income

	4W (06/11/20 - 04/12/20)	YTD (31/12/19 - 04/12/20)	04/12/19 04/12/20	04/12/18 04/12/19	04/12/17 04/12/18	04/12/16 04/12/17	04/12/15 04/12/16
EUR High Yield	3.0	1.5	2.5	7.8	-2.9	6.6	4.4
EM Hard Currency Bonds	1.8	2.2	4.3	7.8	-6.4	8.5	4.8
EUR Inflation Linkers	1.7	2.9	2.8	6.3	-2.0	3.9	1.8
EUR Financials	0.7	2.2	2.2	6.3	-2.1	4.5	3.0
EUR Non-Financials	0.6	2.9	2.8	6.6	-1.7	3.1	4.5
EM Local Currency Bonds	0.3	-3.6	-2.0	9.5	1.5	2.9	4.8
BTPs	0.2	7.3	7.2	13.4	-5.5	3.8	0.0
USD High Yield	0.1	-4.0	-3.5	12.3	5.6	-2.5	12.7
Gilts	-0.5	-0.2	-1.0	14.9	-0.6	-2.0	-7.3
Bunds	-0.7	2.7	1.6	4.4	1.4	-0.2	3.9
USD Corporates	-1.3	0.5	-0.6	17.4	1.7	-4.2	6.3
Treasuries	-2.9	-0.7	-2.5	11.7	3.7	-8.0	3.2

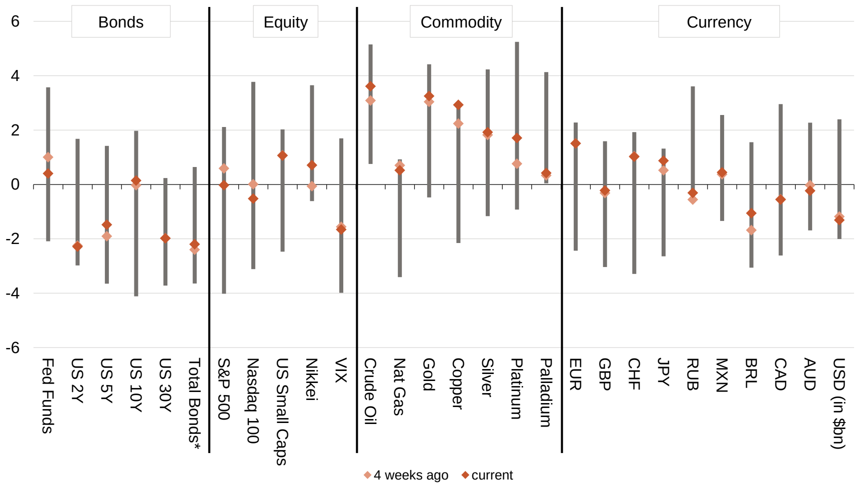
4-week & YTD; 12-month periods over that last 5 years

Bunds: Barclays Germany Govt All Bonds TR; BTPs: Barclays Italy Govt All Bonds TR; Treasuries: Barclays US Treasury TR;
Gilts: Barcl. UK Govt All Bonds TR; EUR Inflation Linkers: Barcl. Euro Govt Inflation-Linked Bond All Maturities TR; EUR Financials: IBOXX Euro Fin. Overall TR;
EUR Non-Financials: IBOXX Euro Non-Fin. Overall TR; EUR High Yield: Markit iBoxx EUR Liquid HY TR; USD Corporates: iBoxx USD Corporates TR;
USD High Yield: IBOXX USD Liquid HY TR; EM Hard Currency: Barcl. EM Hard Currency Agg Govt Related TR; EM Local Currency: Barcl. EM Local Currency Govt TR.

- In the bond segment, the picture of recent weeks has been strengthened: High-yield and emerging market bonds continued to gain in value, while US government bonds declined. Rising US yields and a weak dollar have weighed on US bonds.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 04/12/2015 – 04/12/2020

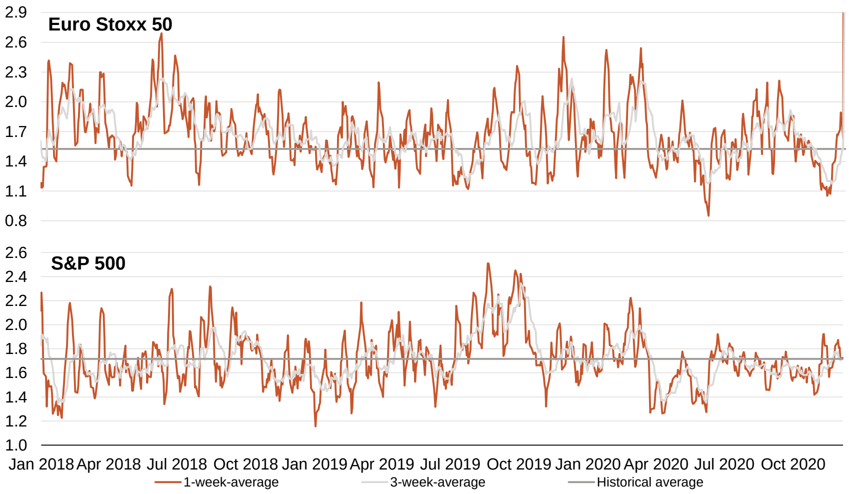
Non-Commercial Positioning



- Speculative investors are still only moderately invested in stocks. Compared to four weeks ago, they have even reduced their net long positions in S&P 500 and Nasdaq futures.
- In contrast, they are particularly optimistic for copper.

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: 01/12/2010 - 01/12/2020

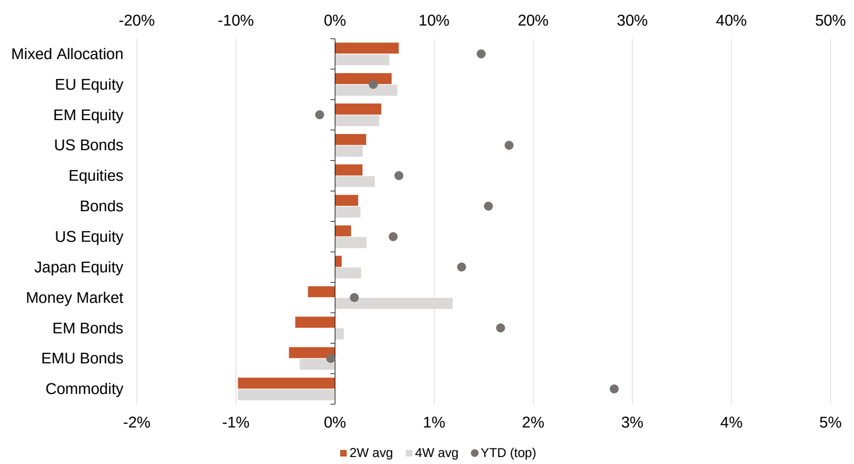
Put-Call Ratio



- Currently, implied volatility for eurozone equities is trading significantly below that for US equities. This makes hedging for eurozone equities cheaper relative to US equities. This may explain why the put/call ratio for eurozone equities is trading above-average levels.

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 - 04/12/2020

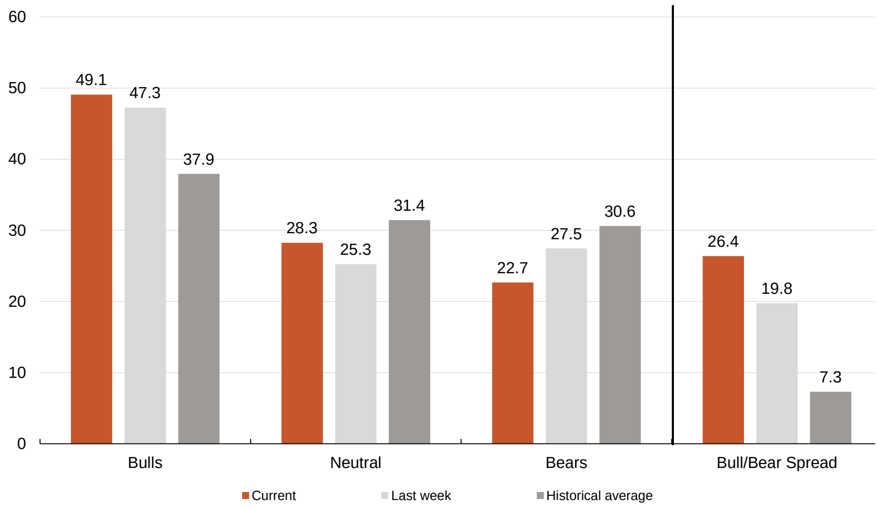
ETF Flows



- European equity EFTs have recently enjoyed greater popularity. On the one hand, investors are betting on a global economic recovery, which would benefit European export companies. On the other hand, a lot of money is currently flowing into British equity ETFs after a Brexit deal has become more likely in recent days.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2019 - 04/12/2020

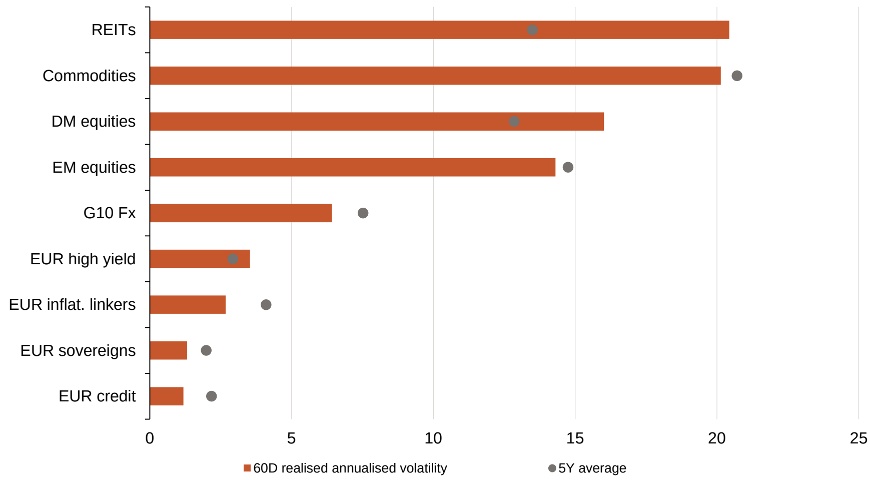
AAII Sentiment Survey (Bulls vs. Bears)



- Among US private investors there is now a pronounced sense of optimism. The bull/bear spread is now positive for the sixth week in a row and is with 20 ppts in the 84th percentile in historical comparison, i.e. in only 16% of cases respondents were even more optimistic.

The sentiment survey conducted by the American Association of Individual Investors determines the percentage of the respective private investors who are optimistic, pessimistic or neutral for the U.S. stock market on a six-month horizon. It has been conducted since 1987. The survey is conducted from Thursday to Wednesday and the results are published every Thursday. It tends to be supportive of the stock market when there is a high proportion of bears and a low proportion of bulls. On the other hand, it tends to be negative when there are significantly more optimists than pessimists.
Source: Bloomberg, AAII, Time period: 23/07/1987 - 03/12/2020

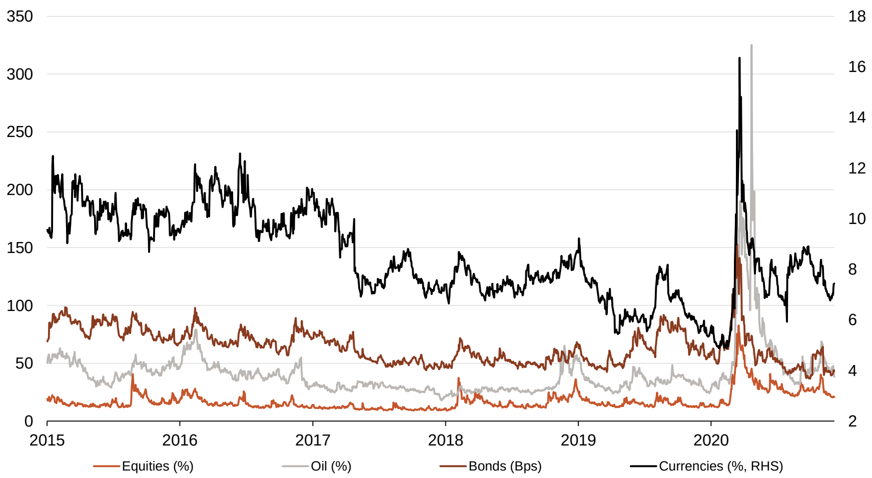
Realised Volatilities



- The realised volatility of the last 60 days for commodities and equities of industrialised countries has fallen noticeably in the last two weeks.
- The volatility of commodities is now below its 5-year average.
- REITs currently exhibit the highest volatility. At over 20%, it is well above its own long-term average of 13.5%.

The realized volatility (in percent) measures the fluctuation margin of a time series and is defined here as the standard deviation of the daily return over the last 60 trading days. Volatility is often used as a measure of risk.
Source: Bloomberg, Time period: 04/12/2015 - 04/12/2020

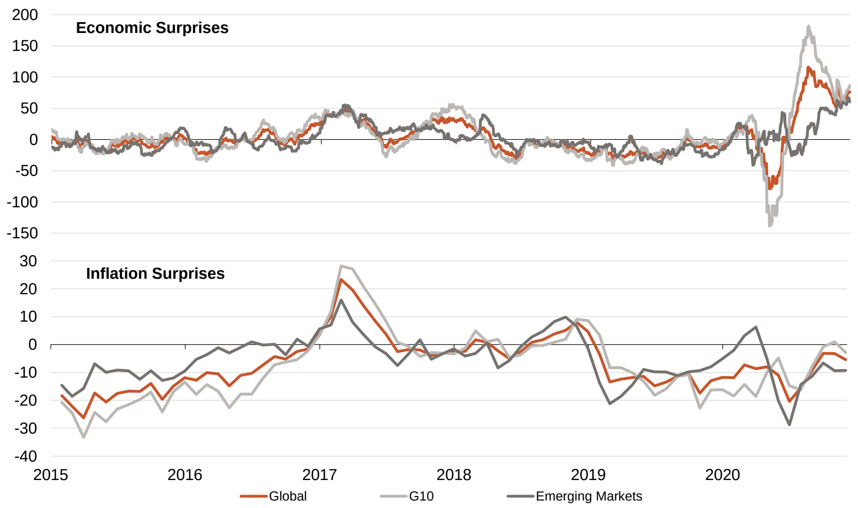
Implied Volatilities



- Implied volatilities are almost unchanged compared to two weeks ago.
- The VIX has been trading slightly lower, but is still struggling to break through the important mark at 20. Once broken systematic volatility strategies should increase their equity exposure.

The price of options depends on the fluctuation margin, i.e. the volatility of the underlying instrument. Accordingly, the implied volatility can be interpreted as a measure of the fluctuation margin currently expected in the market for the underlying instrument over the remaining term of the option. It is a measure of the 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 – 04/12/2020

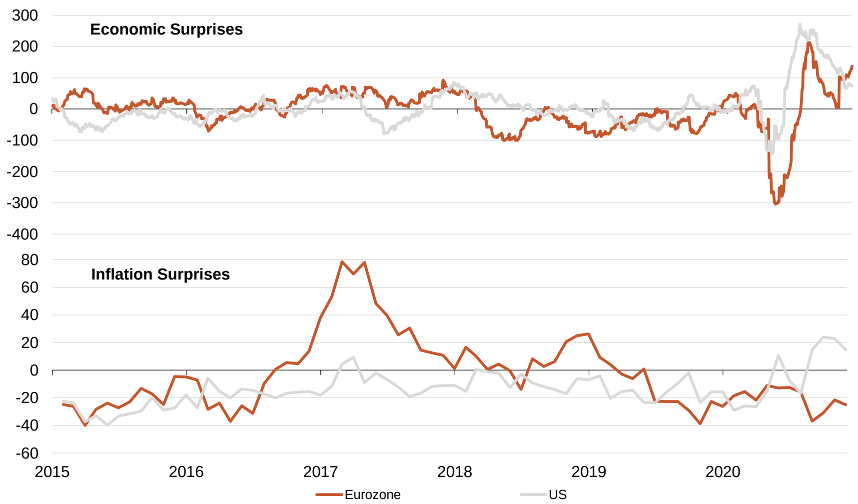
Global



- The global economic recovery continues despite lockdown measures. Aggregate economic data at global level, in the industrialised countries and in the emerging markets, has recently surprised on the upside. In the emerging markets, the figures in China have been particularly convincing. The Caixin and the official PMIs for both industry and services in November were surprisingly positive. In addition, industrial profits in October were significantly higher than a year ago.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 04/12/2020

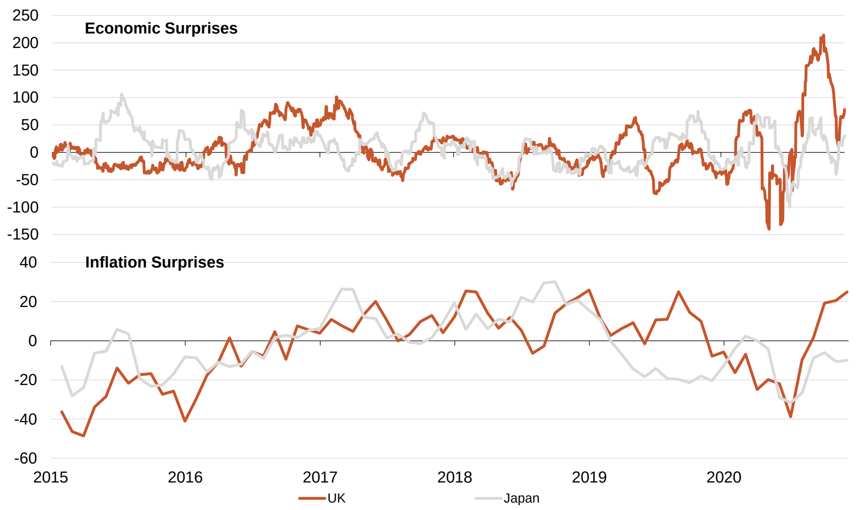
Eurozone and US



- The Eurozone Surprise Index is now back above the US Index. In Germany, the IFO Business Climate Index, retail sales, labour market data and new orders came as a positive surprise, while the November PMIs disappointed.
- In the US, Markit PMIs and durable goods orders were above expectations, while consumer confidence, labour market data and ISM industrial PMI were below.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 04/12/2020

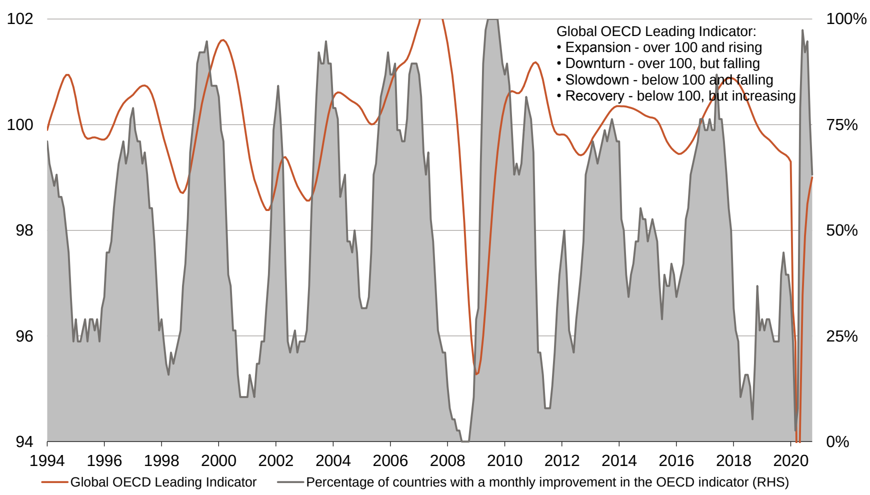
UK and Japan



- Economic surprises in the UK have recently been more positive again. The Markit PMIs and housing market data have provided positive surprises.
- In Japan, both industrial production data and retail sales exceeded expectations.

Citigroup Economic Surprise Indices are defined as weighted historical, normalised data surprises (actual releases vs. Bloomberg survey median) over the last three months. A positive value of the index indicates that the economic data has 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 - 04/12/2020

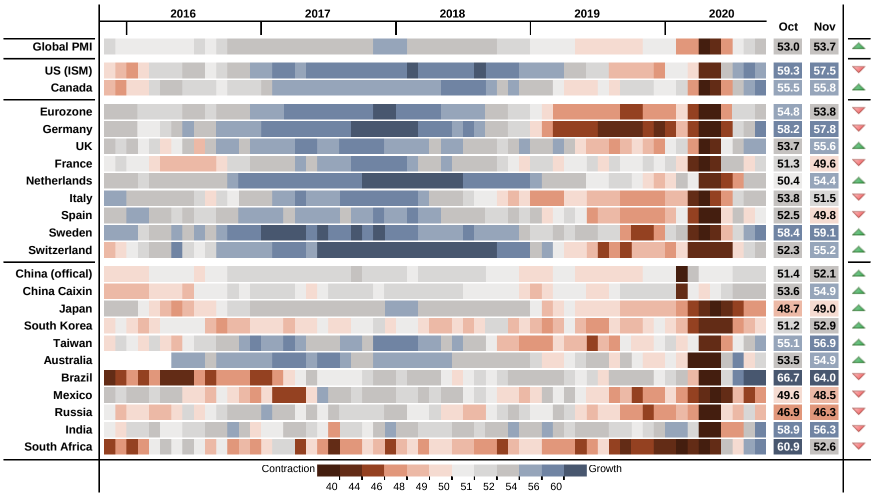
OECD Leading Indicator



- The consequences of restrictions relating to Covid-19 can already be observed in the leading indicators of many countries. In October, only just under 60% of the countries saw a better value for the OECD leading indicator than in the previous month.
- However, 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

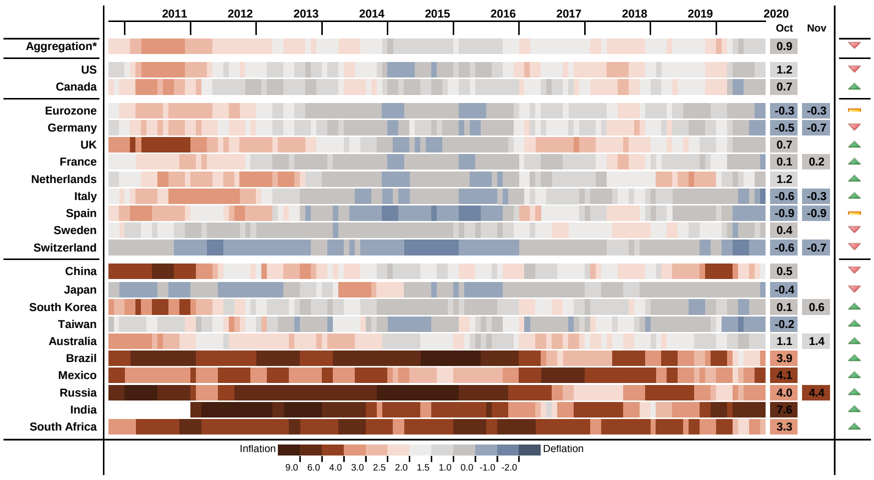
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- Global industry is proving resilient despite high infection rates. The global PMI has reached a new annual high of 53.7.
- In the US and the eurozone, PMIs have recently declined but remain at high levels.
- In China both PMIs have risen.

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 to 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: 31/11/2017 - 31/11/2020

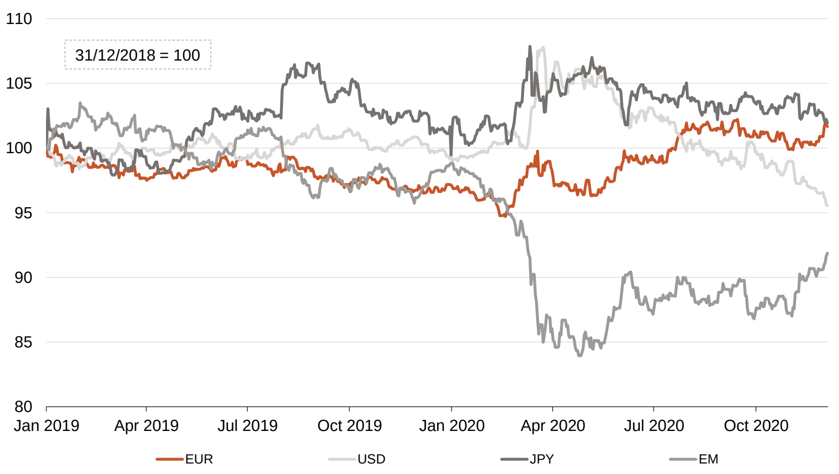
Headline Inflation



- Instead of inflation, the eurozone continues to see deflation. In Germany, inflation fell to -0.7% in November. In addition to the reduction in VAT, the main year-on-year driver was falling energy costs.
- Spain and Switzerland saw similarly low inflation rates, while in France prices rose slightly.

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: 31/11/2010 - 31/11/2020

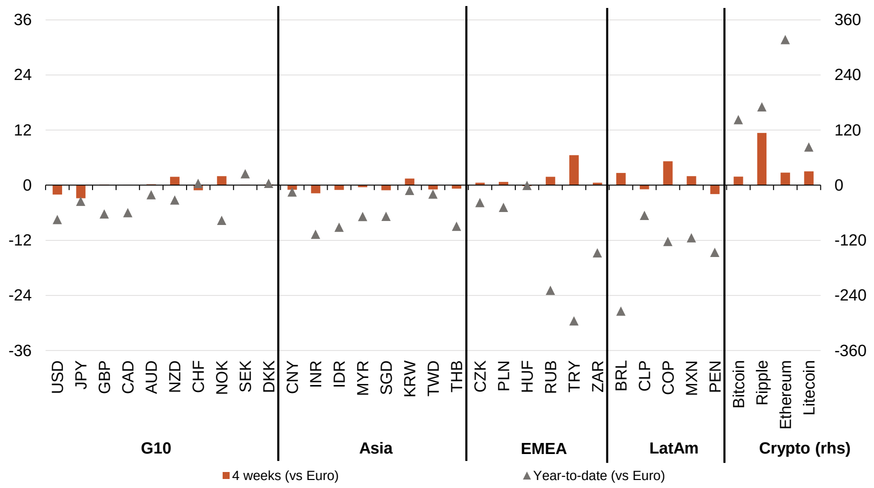
Trade-Weighted Currency Development



- The picture in currency markets over the last two weeks was very clear.
- Safe havens, such as the Japanese yen and especially the US dollar, had to give way in the risk-on movement.
- By contrast, emerging market currencies and especially the euro appreciated strongly on a trade-weighted basis.

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 proportion of trade with the country or currency zone.
Source: Bloomberg, Time period: 01/01/2019 - 04/12/2020

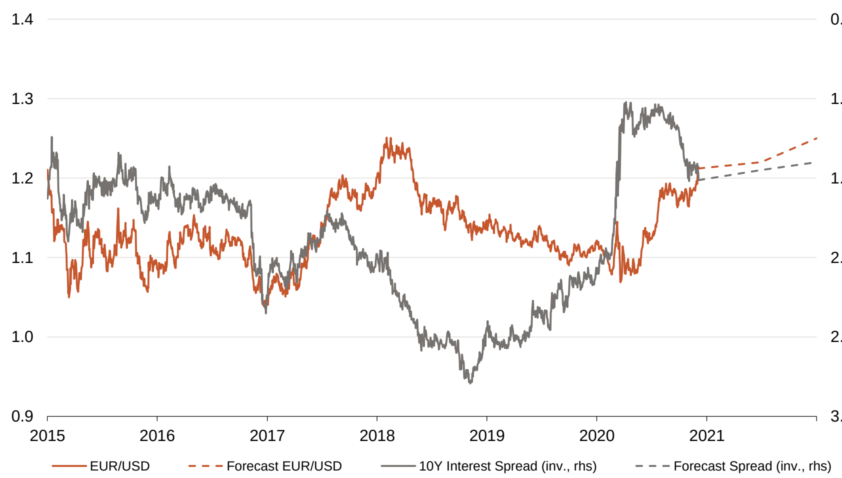
Currency Moves vs. Euro



- The euro has recently made gains against many of the currencies shown here. A possible agreement on the topic of Brexit, the improving Covid-19 situation and the prospect of an early vaccine boosted the euro.
- Commodity currencies from emerging market countries or e.g. the Norwegian krone performed even better thanks to a sharp increase in commodity prices.

Performance of selected currencies against the Euro, in percent.
Source: Bloomberg, Time period: 01/01/2020 - 04/12/2020

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD has gained momentum in the last two weeks, and recently broke through the important 1.20 ceiling, placing the euro at its highest level in over 2 years.
- While the common currency benefited from a brighter economic outlook, the U.S. dollar suffered from rising inflation expectations.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US government bonds and 10-year German government bonds. The forecasts were prepared by Berenberg Volkswirtschaft.
Source: Bloomberg, Time period: 01/01/2015 - 31/12/2021

European Sector & Style Performance

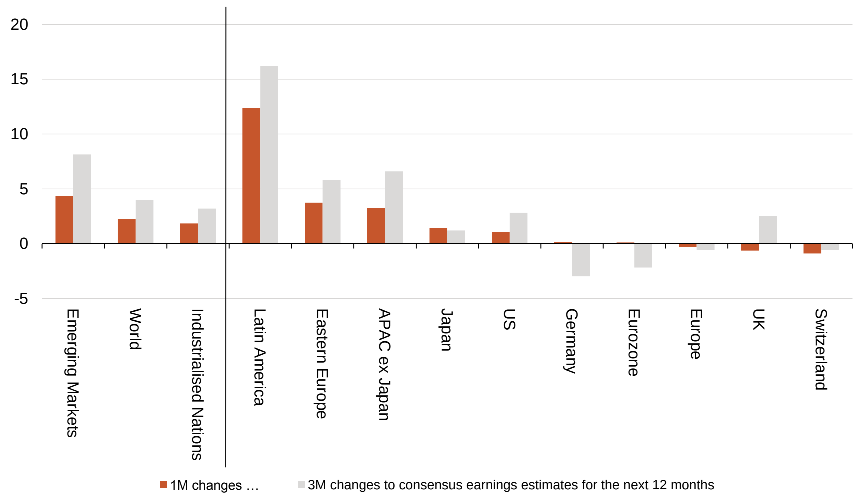
	4-week & YTD		12-month periods over that last 5 years				
	4W (06/11/20 - 04/12/20)	YTD (31/12/19 - 04/12/20)	04/12/19 04/12/20	04/12/18 04/12/19	04/12/17 04/12/18	04/12/16 04/12/17	04/12/15 04/12/16
Energy		-30.4	-28.4	-1.2	7.9	12.5	16.6
Finance	20.7	-13.8	-9.9	8.9	-12.8	19.2	-8.3
Value	14.7	-12.4	-9.3	8.9	-6.0	15.9	-1.8
Telecommunications	9.7	-12.8	-12.5	-0.7	-5.2	9.7	-20.2
Consumer Discretionary	9.6	3.3	7.4	20.1	-8.0	17.1	-9.1
Materials	9.0	6.6	10.6	16.8	-6.9	18.8	21.6
Information Technology	7.7	10.3	13.1	25.9	-0.3	29.0	-4.4
Industrials	6.4	2.2	4.5	24.1	-7.8	21.7	2.8
Utilities	3.2	7.7	13.5	22.9	-0.7	20.6	-11.5
Growth	1.5	2.9	5.8	21.2	-3.0	17.8	-8.4
Consumer Staples	0.3	-5.9	-3.7	15.3	-2.7	14.6	-7.0
Health Care	-2.4	-2.3	0.6	20.0	5.9	9.8	-14.0

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.

- Over the last four weeks, the European Value Index, which includes many energy and financial companies, outperformed the Growth Index by more than 11 percent - supported by increased economic optimism. Since the beginning of the year, however, Growth remains the clear outperformer.

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: 04/12/2015 – 04/12/2020

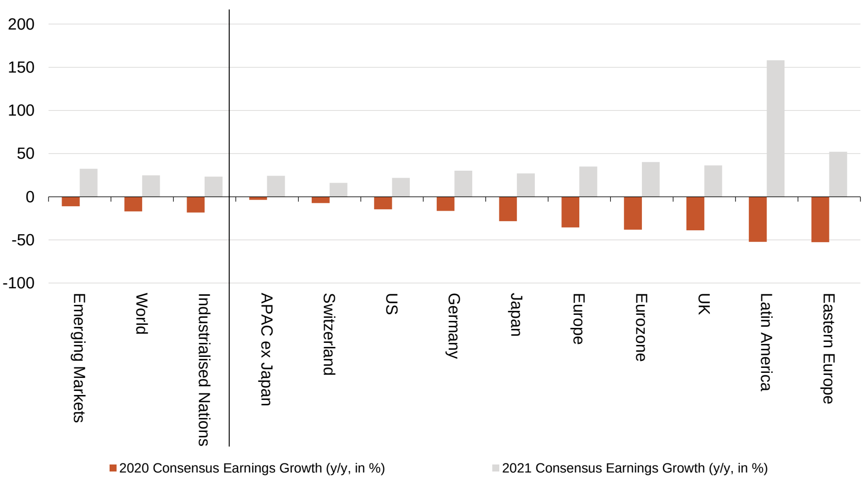
Changes in Consensus Earnings Estimates



- Positive earnings revisions continue, especially for emerging markets. Analysts have raised their earnings estimates for the next 12 months for Latin America alone by more than 12%.
- Earnings estimates for Japan and the US have also been revised upwards.
- Earnings revisions for Switzerland, however, were negative.

1-month and 3-month changes in consensus earnings estimates for the next 12 months, in percent.
APAC excl. Japan = Asia Pacific excl. Japan
Source: FactSet, as of 04/12/2020

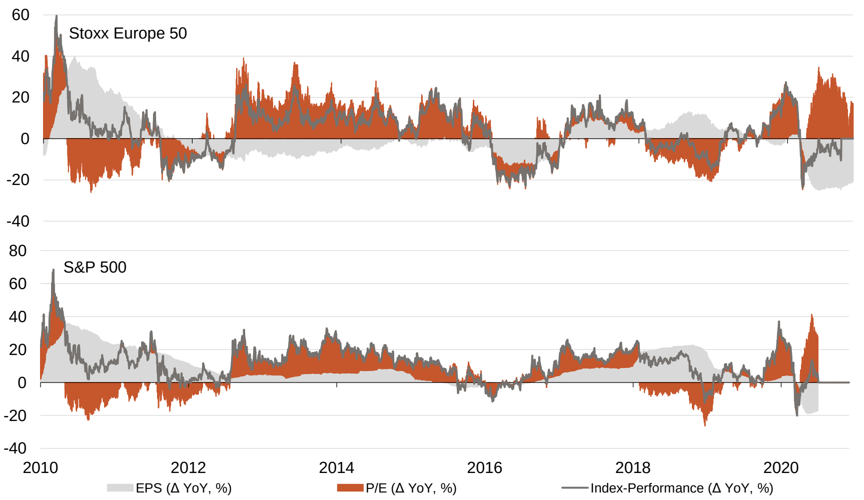
Earnings Growth



- Analysts are extremely positive for next year's corporate earnings growth rates, which is not surprising given that earnings are coming from a lower base due to the slump in profits this year. However, the high estimates may even be too pessimistic, as analysts tend to have a hard time with inflection points.

Calendar year earnings growth consensus expectations 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 excl. Japan = Asia Pacific excl. Japan
Source: FactSet, as of 04/12/2020

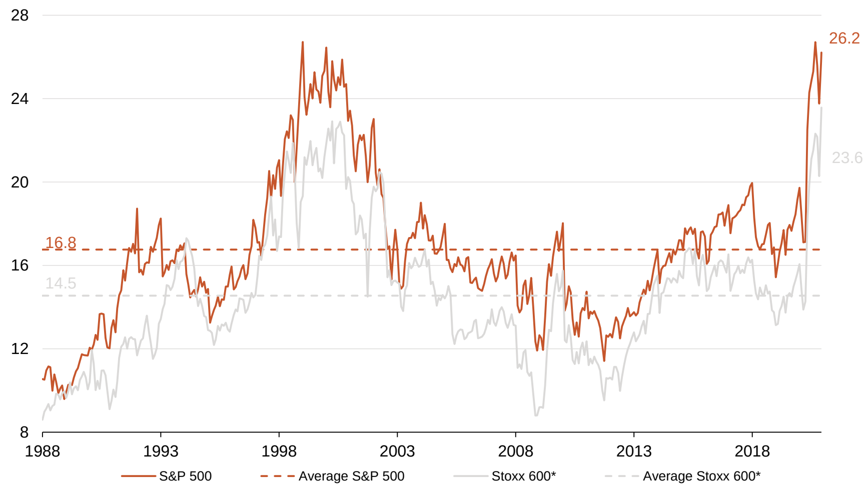
Contribution Analysis



- Stock markets in the US and Europe were driven purely by a P/E expansion this year. Lower interest rates were mainly responsible for the higher valuations. Future profits are worth more with a lower discount factor. In addition, the market has, to a certain extent, looked through the current Covid-19 crisis, especially after the positive vaccine news, and focused on the economic recovery 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 - 04/12/2020

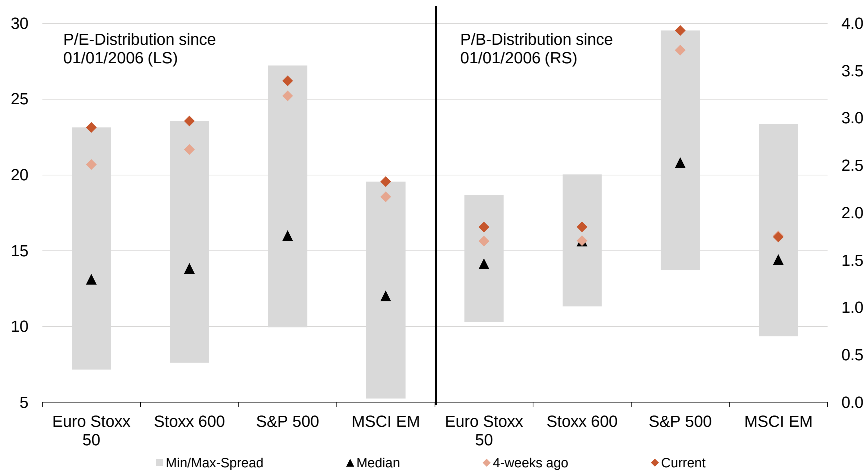
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- After last weeks' strong rally, the P/Es shot up again. The market considers the current Covid-19 restrictions to be temporary and is already pricing in a partial recovery in 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 - 04/12/2020

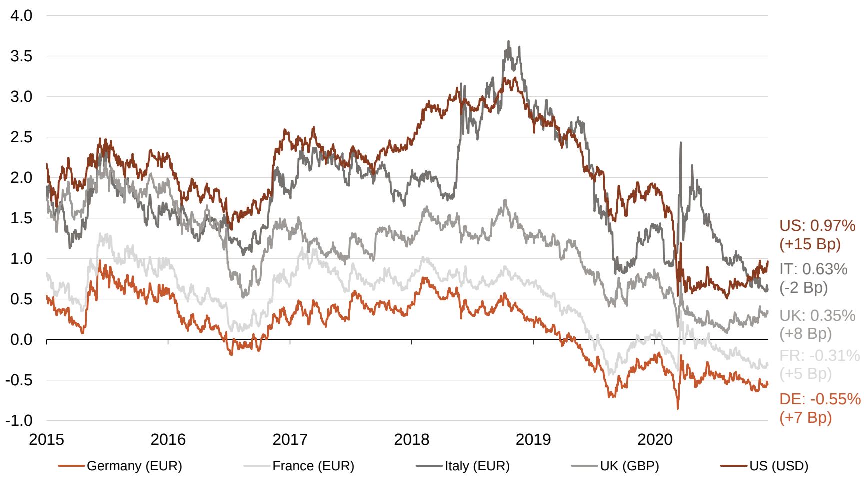
Historical Distribution: Price/Earnings and Price/Book Ratio



- Many equity regions are at the upper end of their valuation range since 2006, and the S&P 500 remains one of the most expensive equity barometers in the world, not least because of its index composition (many expensive, but fast-growing companies).

Historical distribution of valuation indicators for selected stock regions since 2006, showing the current value, the observation four weeks ago, 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 - 04/12/2020

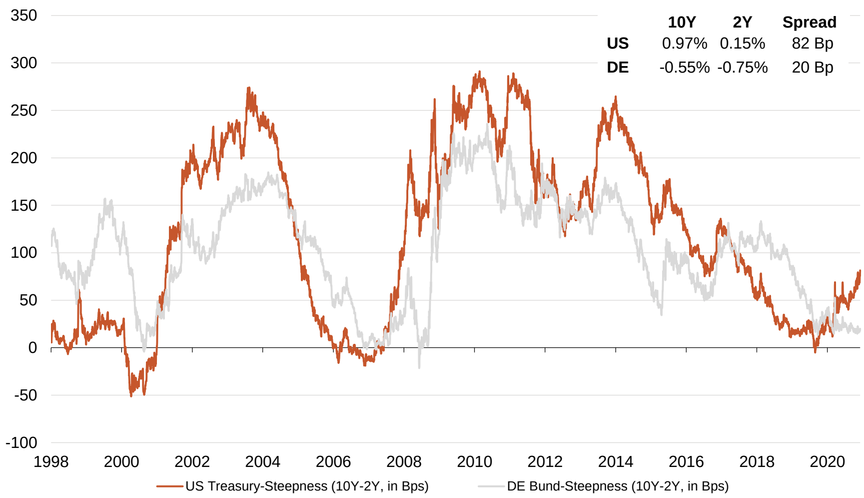
10-Year Government Bond Yields



- As risk appetite increases, so do returns. In the last four weeks, yields on US government bonds have risen by more than 15 basis points and on German government bonds by more than 7 basis points.
- Yields on Italian government bonds, however, have fallen. The yield gap between Italian and German government bonds has thus narrowed further.

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 - 04/12/2020

Yield Curve Steepness (10Y - 2Y)

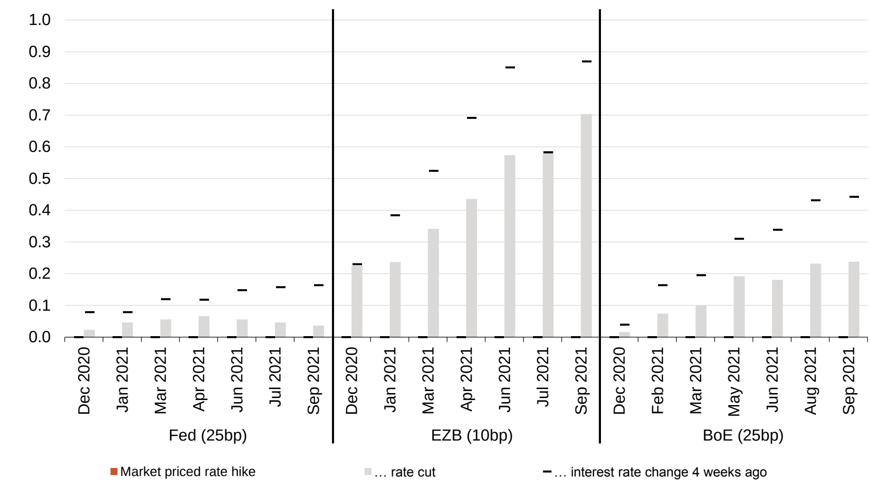


	10Y	2Y	Spread
US	0.97%	0.15%	82 Bp
DE	-0.55%	-0.75%	20 Bp

- Inflation expectations in the US have risen sharply as the prospect of a sustained economic recovery has increased thanks to a positive vaccine outlook. As a result, the steepness of the US yield curve has also risen by more than 10 basis points in the last two weeks.

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 - 04/12/2020

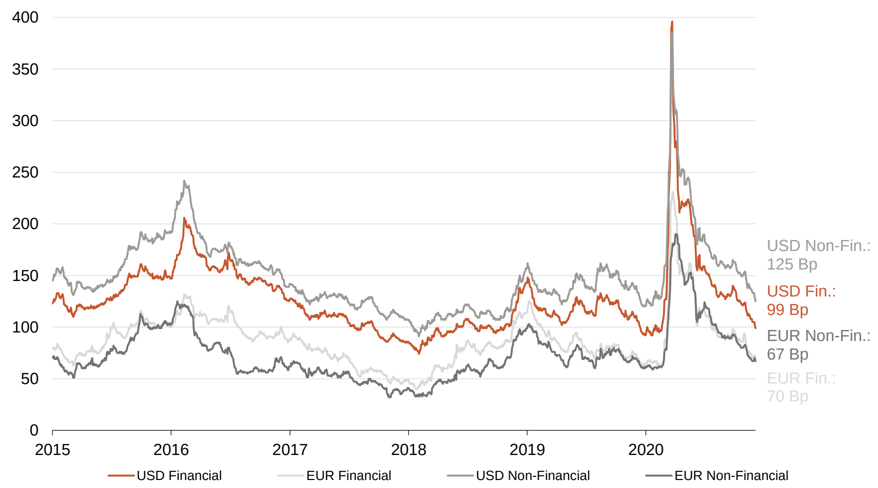
Implicit Changes in Key Interest Rates



- Despite the continued deflationary environment in the eurozone, the likelihood of a rate cut has fallen significantly in the last four weeks. At the ECB meeting in December, interest rates should therefore remain unchanged. However, an expansion of the support programmes (PEPP/TLTRO) is considered likely by the markets.

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: 07/12/2020 - 04/12/2020

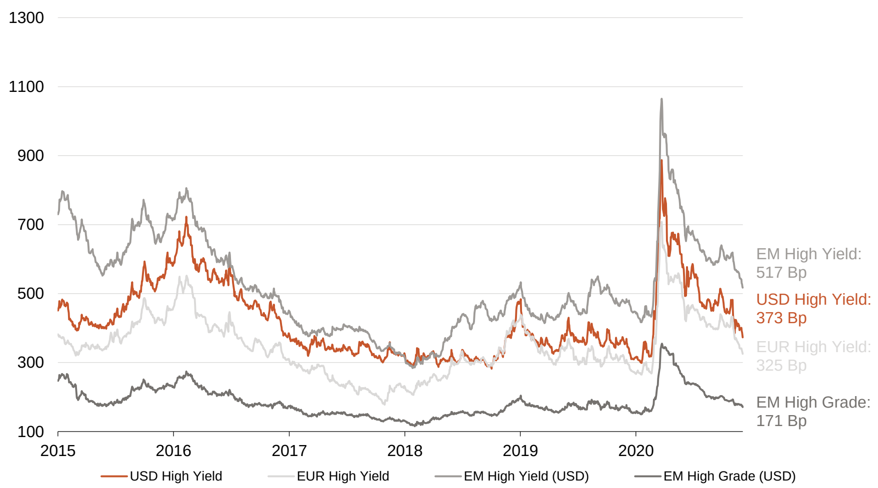
Credit Spreads Financial and Non-Financial Bonds



- Spreads on investment-grade bonds have fallen in the last two weeks - especially on USD corporate bonds. USD non-financial bonds saw a decline of 14 basis points (bp), compared to 9 bp for USD financial bonds. EUR corporate bonds, on the other hand, saw little change in spreads.
- The USD and EUR leisure sectors have seen the largest spread tightening in the last two weeks.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 - 04/12/2020

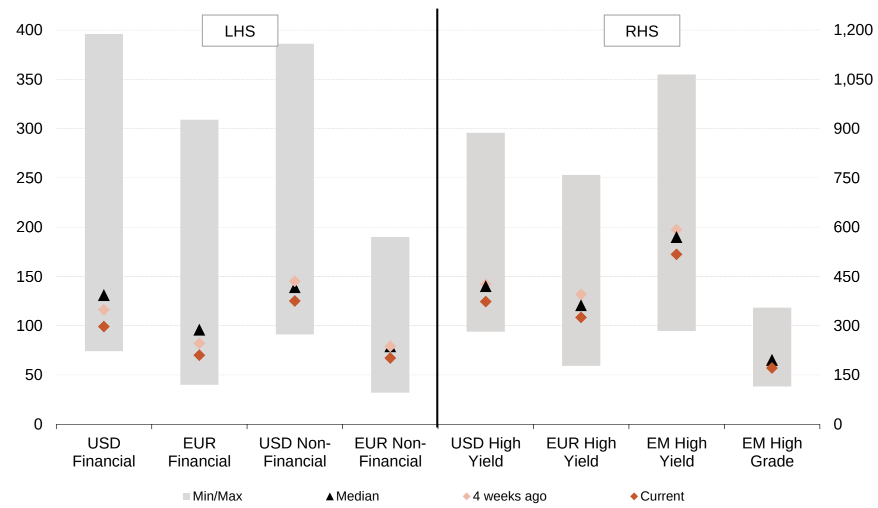
Credit Spreads High-Yield and Emerging Markets Bonds



- Spreads on high-yield bonds have also fallen significantly in the last two weeks. EM high-yield bonds saw spreads narrow by around 30 bp, while EUR and USD high-yield bonds saw spreads narrow by around 30 bp.
- In USD high-yield bonds, the transport and aerospace sectors experienced the largest spread tightening in the last two weeks.

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 so as to offset its credit risk. See further explanations below.
Source: FactSet, Time period: 01/01/2015 - 04/12/2020

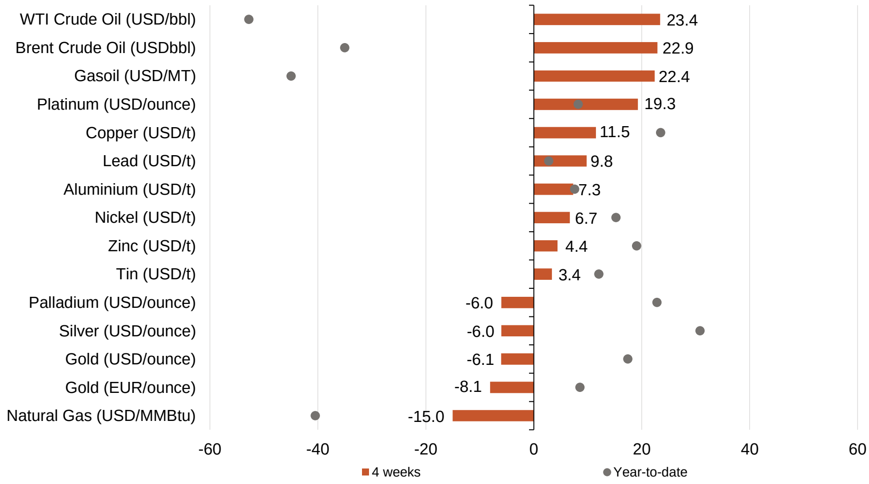
Historical Distribution of Credit Spreads (in bp)



- All the bond segments shown here now have spreads below their 10-year median. Thus, no segment is historically favourable any more. This is most pronounced for USD and EUR financial bonds, which continue to be supported by central bank measures.

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: 04/12/2010 - 04/12/2020

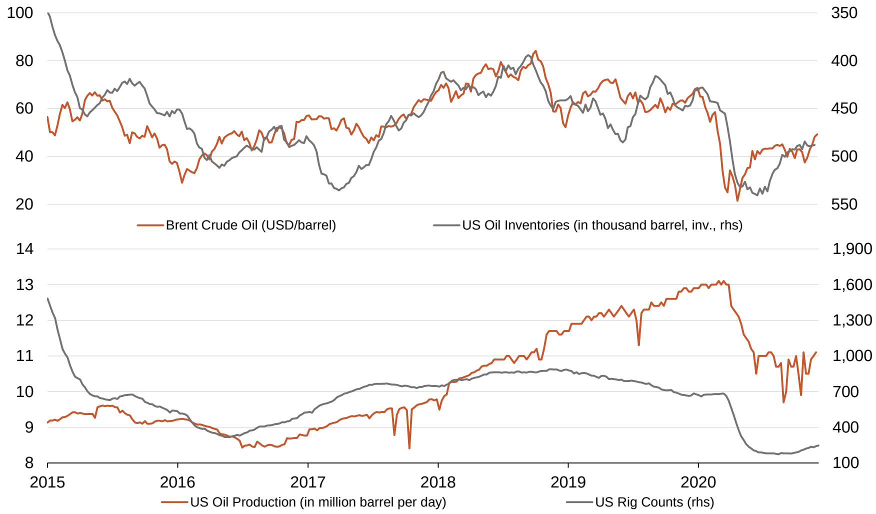
Commodities Performance



- The rotation in commodity markets has continued in recent weeks. The biggest winners were energy commodities with returns of up to 20%.
- Precious metals are on the losing side in the current risk-on environment. Only platinum was able to make strong gains. The precious metal, 50% of whose demand is determined by industrial applications, is trading at USD 1,060 an ounce – its highest level since mid-2016.
- Industrial metals continued their upward trend.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 - 04/12/2020

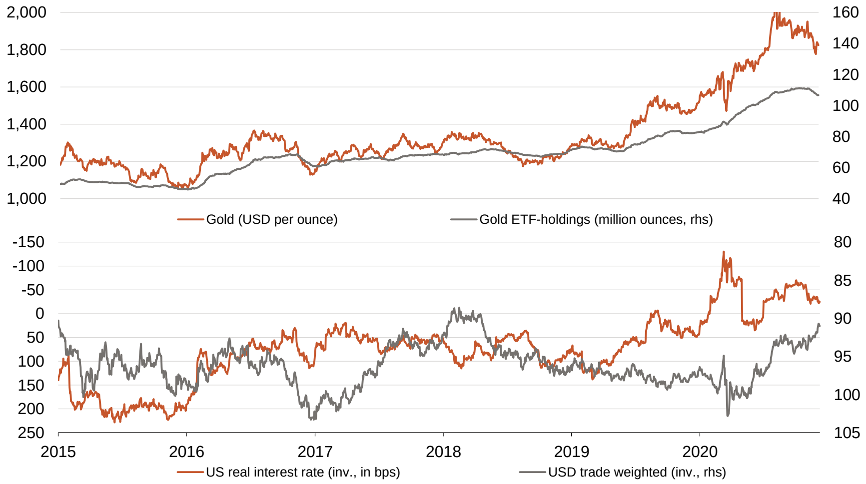
Crude Oil



- The price of crude oil (Brent) continued to rise in the last two weeks and is currently trading near the USD 50 per barrel mark.
- OPEC+ recently decided to increase its production by 500k barrels per day starting in January and will decide on further increases on a monthly basis in the future. Although the market expectations of an extension of the existing cuts were not met, the new strategy was still received positively overall.

Higher oil production and higher inventories tend to have a negative impact on oil prices and vice versa. An increase in active oil wells indicates higher oil production in the future.
Source: Bloomberg, Time period: 01/01/2015 - 04/12/2020

Gold



- In the strong risk-on movement, gold fell below the USD 1,800 an ounce mark, but has recently been able to stabilise again at USD 1,840 an ounce.
- ETF holdings recorded outflows of over 4 million ounces as a result of the shift into risky assets since their peak in mid-November.

The US dollar and the real, i.e. inflation-adjusted, interest rate are among the fundamental price factors of the gold price. Rising real interest rates tend to weigh on the gold price, 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 - 04/12/2020

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