BERENBERG
Markets

MONITOR

04 January 2021

Current market commentary

2020 was a challenging year for financial markets. At the beginning of the year, optimism prevailed. After the US and China signed a trade deal, markets were pricing in a global economic recovery. Many stock indices reached all-time highs in February before the spread of Covid-19 led to a sharp sell-off. A global recession loomed on the horizon. Extremely pessimistic investor sentiment and the courageous intervention of monetary and fiscal policy led to a stock market recovery from the end of March onwards, which until September was mainly driven by Covid-19 beneficiaries, namely the large tech stocks. Then, in the fourth quarter, sectors hit hard by the virus rallied strongly, thanks to Biden's election victory and positive vaccine news. Now consensus expects a global economic recovery in 2021 and markets have largely priced it in. This has increased vulnerability. However, we are still away from extremes in positioning.

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

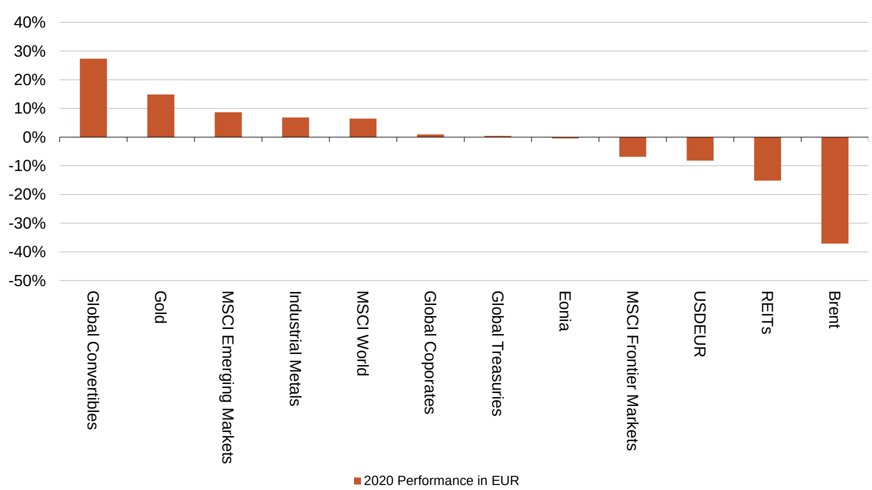
Short-term outlook

Investors are focusing on the two run-off elections in Georgia for the US Senate on January 5. If the Democrats capture both seats, there will be a 50-50 tie in the allocation of seats in the Senate. It would then be up to Vice President-elect Kamala Harris on tie-breaking votes to use her voting power to bring about a decision. A change in the majority in favor of the Democrats would result in Joe Biden being able to implement more of his plans for office. This could weigh on markets. The Republicans' lead has recently shrunk noticeably. The betting markets are now assuming a neck-and-neck race. Otherwise, the market is looking forward to the Q4 reporting season, which starts in mid-January, to get deeper insights into the state of businesses. In addition, the US labor market report on January 8 provides an opportunity to assess the constitution of the US economy.

Run-off elections on January 5 for the U.S. Senate in Georgia are the focus of investors.

Q4 reporting season gets underway in mid-January.

Mixed performance picture in 2020



- After almost all asset classes closed 2019 in positive territory, the Covid-19 pandemic created a mixed picture in 2020. Global convertibles with their high tech index weight and gold were among the relative winners.
- REITs and Brent oil ended the financial year deep in the red.
- The significantly weaker US dollar weighed on investment returns for euro investors in the USD area.

Explanations see page 2.
Source: Bloomberg, Time Period: 31/12/2019 - 31/12/2020

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (03/12/20 - 31/12/20)	YTD (31/12/19 - 31/12/20)	31/12/19 31/12/20	31/12/18 31/12/19	31/12/17 31/12/18	31/12/16 31/12/17	31/12/15 31/12/16
Brent	5.9	-37.1	-37.1	38.3	-10.7	0.2	29.2
Global Convertibles	4.5	27.3	27.3	19.4	0.9	2.4	9.4
MSCI Emerging Markets	3.7	8.7	8.7	20.8	-10.3	20.4	14.5
MSCI Frontier Markets	3.1	-6.8	-6.8	20.3	-12.2	15.7	5.8
Gold	2.5	14.9	14.9	21.0	3.1	-0.7	11.8
MSCI World	2.0	6.5	6.5	30.2	-4.2	7.4	10.8
Global Treasuries	0.3	0.5	0.5	7.5	4.6	-5.8	4.7
REITs	0.3	-15.2	-15.2	25.2	-3.1	-5.9	4.0
Global Coporates	0.2	0.9	0.9	12.8	1.7	-4.3	6.8
Eonia	0.0	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3
Industrial Metals	-0.4	6.9	6.9	9.1	-15.5	13.5	23.5
USDEUR	-0.6	-8.2	-8.2	2.3	4.7	-12.4	3.2

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.

- Over the last four weeks, most asset classes gained. However, the weaker US dollar weighed on EUR returns. Brent oil was the best performer, followed by convertibles.
- In 2020, global convertibles performed best, thanks to their large tech exposure. Gold and equities also gained, while bonds were flat. REITs and Brent oil were the worst performers.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2015 – 31/12/2020

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (03/12/20 - 31/12/20)	YTD (31/12/19 - 31/12/20)	31/12/19 31/12/20	31/12/18 31/12/19	31/12/17 31/12/18	31/12/16 31/12/17	31/12/15 31/12/16
MSCI USA Small Caps	5.2	8.7	8.7	29.3	-5.9	2.4	22.8
MSCI EM Eastern Europe	4.4	-19.1	-19.1	36.9	0.6	2.8	42.0
Stoxx Europe Small 200	4.3	4.8	4.8	29.1	-12.9	18.1	0.5
MSCI EM Asia	3.8	17.9	17.9	21.6	-11.2	25.3	9.4
DAX	3.5	3.5	3.5	25.5	-18.3	12.5	6.9
S&P 500	1.9	8.8	8.8	34.1	0.4	6.9	15.3
Stoxx Europe Cyclicals	1.8	-0.3	-0.3	27.3	-16.6	14.4	6.3
Stoxx Europe 50	1.4	-6.3	-6.3	27.4	-10.2	9.0	0.6
Topix	1.2	3.3	3.3	22.2	-10.0	11.1	7.3
Euro Stoxx 50	1.0	-3.2	-3.2	28.2	-12.0	9.2	3.7
Stoxx Europe Defensives	1.0	-6.3	-6.3	22.2	-1.0	5.0	-2.5
MSCI UK	0.0	-17.9	-17.9	23.3	-9.8	7.4	2.9

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

- Cyclical equity regions and small caps performed best over the last four weeks, which were characterised by economic optimism. In contrast, the S&P 500 barely moved.
- Asian emerging markets were the winners in 2020, followed by US equities. German equities outperformed within Europe. Eastern European and British equities were among the relative losers.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2015 – 31/12/2020

Fixed Income

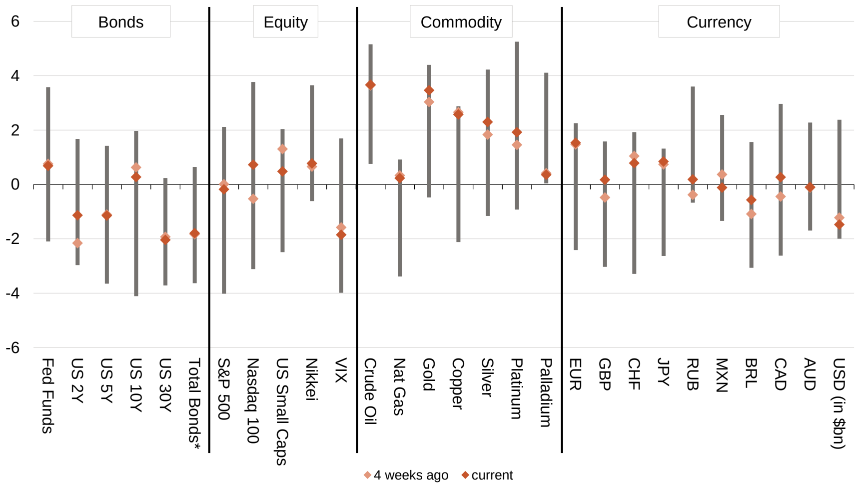
	4-week & YTD		12-month periods over that last 5 years				
	4W (03/12/20 - 31/12/20)	YTD (31/12/19 - 31/12/20)	31/12/19 31/12/20	31/12/18 31/12/19	31/12/17 31/12/18	31/12/16 31/12/17	31/12/15 31/12/16
Gilts	2.7	2.9	2.9	13.7	-0.6	-2.0	-4.5
EM Hard Currency Bonds	1.1	3.2	3.2	9.5	-6.3	7.1	7.0
EM Local Currency Bonds	0.8	-3.4	-3.4	11.5	1.5	0.4	9.0
BTPs	0.4	7.9	7.9	10.6	-1.3	0.8	0.7
USD High Yield	0.4	-3.9	-3.9	16.9	3.4	-6.7	18.8
EUR High Yield	0.3	1.7	1.7	9.5	-3.4	4.8	8.1
EUR Financials	0.2	2.4	2.4	6.1	-1.5	3.2	3.8
Bunds	0.2	3.0	3.0	3.0	2.4	-1.4	4.0
EUR Inflation Linkers	0.1	3.1	3.1	6.6	-1.5	1.4	3.8
EUR Non-Financials	0.1	3.0	3.0	6.4	-1.1	1.8	5.4
USD Corporates	-0.2	0.7	0.7	16.2	2.7	-6.8	8.7
Treasuries	-0.4	-0.9	-0.9	8.8	5.9	-10.1	4.1

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.

- Over the past four weeks, the appreciation of the euro weighed on USD bonds in particular. Treasuries were also burdened by rising yields.
- In 2020, Italian government bonds performed best, thanks to the expansion of the ECB purchase programs. However, German Bunds and EUR corporate bonds also benefited and closed the year in positive territory.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 31/12/2015 – 31/12/2020

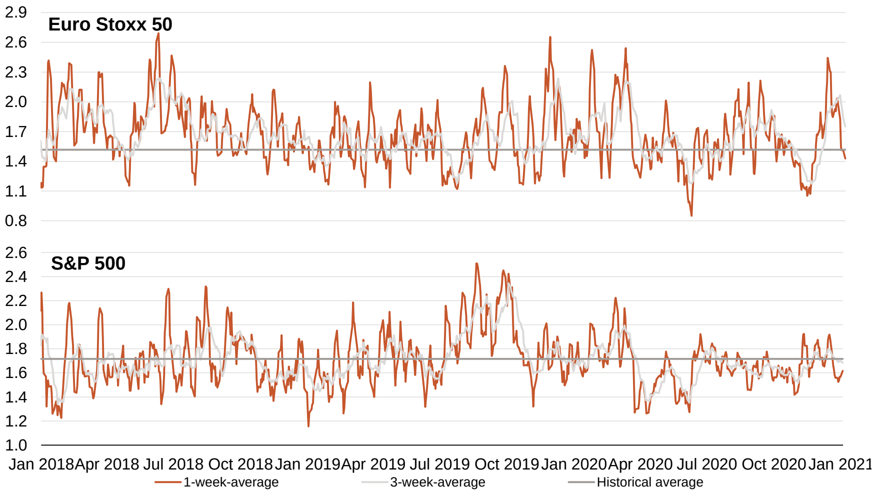
Non-Commercial Positioning



- Speculative investors are still only cautiously invested in equities via futures. While they have increased Nasdaq longs over the past four weeks, they have reduced their US small caps exposure. In addition, they are only neutrally invested in the aggregate S&P 500.

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: 22/12/2010 - 22/12/2020

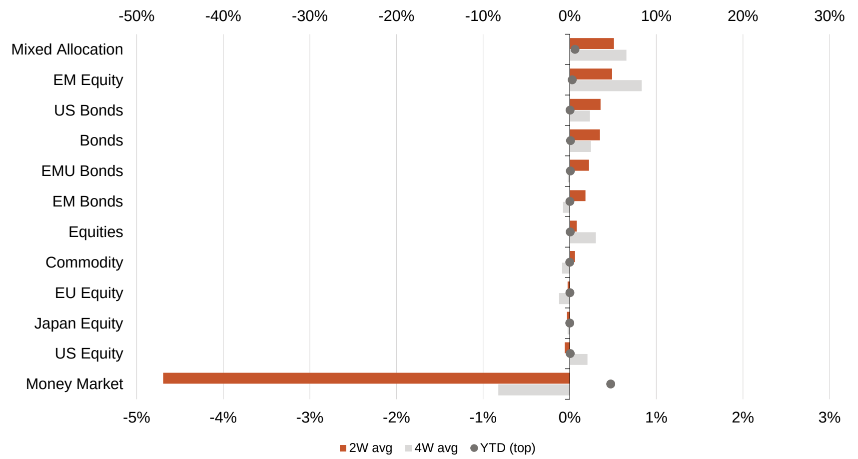
Put-Call Ratio



- At the index level, put-call ratios are not particularly low for either the Euro Stoxx 50 or the S&P 500. A good sign! It can therefore be assumed that investors still have hedges in place so that they are not caught on the wrong foot in the event of a sell-off.

The put-call ratio is the ratio of traded put options (speculation on falling prices) to call options (speculation on rising prices) across all maturities. The higher (lower) the ratio, the more cautious (optimistic) are the market participants. The data have been available for the S&P 500 since 20 December 1993 and for the Euro Stoxx 50 since 24 February 2006.
Source: Bloomberg, Time period: 20/12/1993 - 31/12/2020

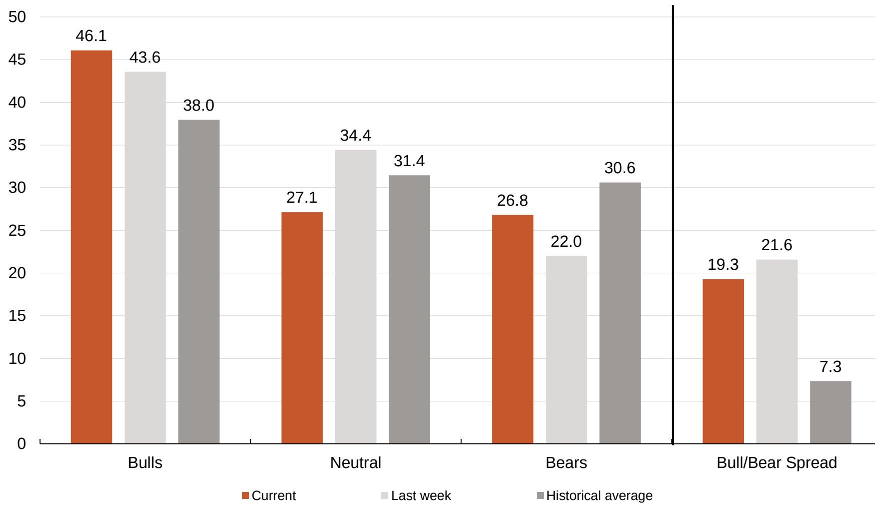
ETF Flows



- Reduced uncertainty regarding the US elections, Brexit and vaccines has led ETF investors to withdraw more funds from money market vehicles recently. Emerging market equities were the main beneficiaries of the rotation.
- Emerging market bonds, on the other hand, have recently seen outflows.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 04/12/2020 - 01/01/2021

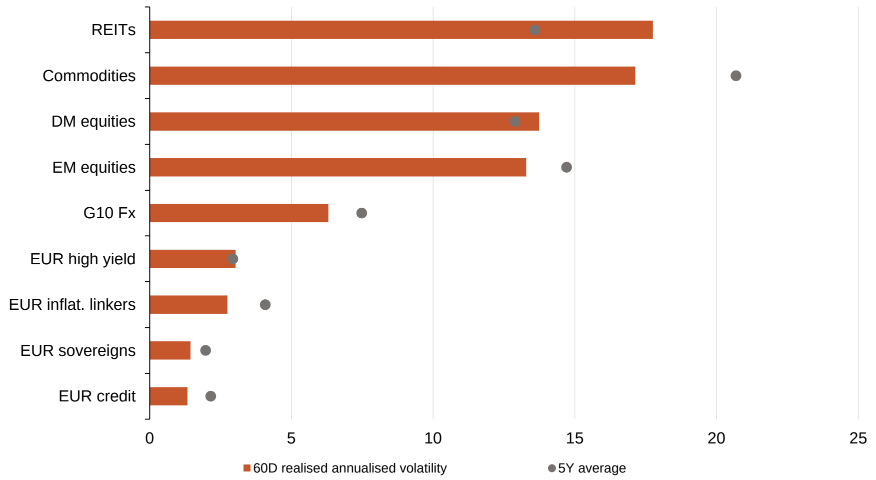
AAII Sentiment Survey (Bulls vs Bears)



- There has been little change in the sentiment of US private investors recently. The optimists clearly dominate the pessimists. The bull-bear spread is currently at 19.3%, 12 pp higher than 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 – 31/12/20

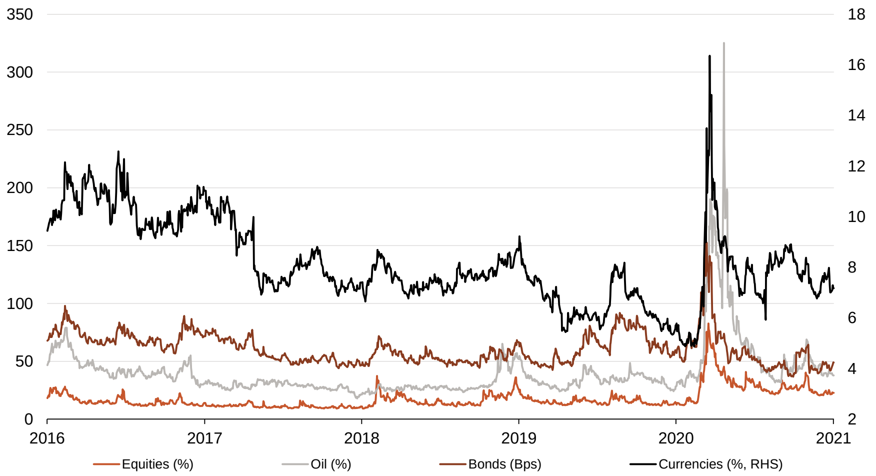
Realised Volatilities



- Compared to their own 5-year history, volatility remains elevated for developed market equities and REITs.
- In contrast, volatility for EUR corporate and government bonds is historically low and low compared to all other asset classes. The ECB's ultra-loose monetary policy is the main reason for this.

Realised volatility (in percent) measures the historical range of variation of a time series and is defined here as the standard deviation of the daily returns over the last 60 trading days. Volatility is often used as a measure of risk.
Source: Bloomberg, Time period: 31/12/2015 – 31/12/2020

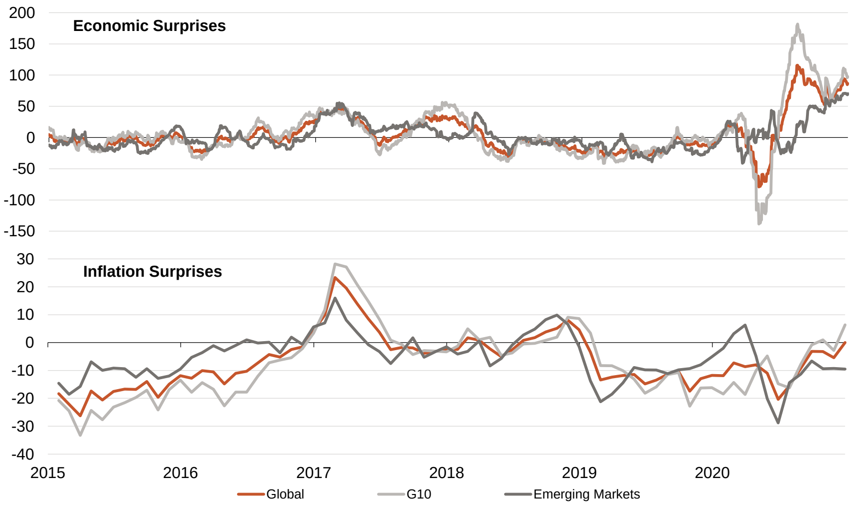
Implied Volatilities



- Over the past few weeks, implied volatilities for many asset classes have fallen. This is not unusual for the time of year. The VIX is now trading near the 20 mark again. Going below 20 would be a positive sentiment signal for equity markets.

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: 01/01/2016 – 31/12/2020

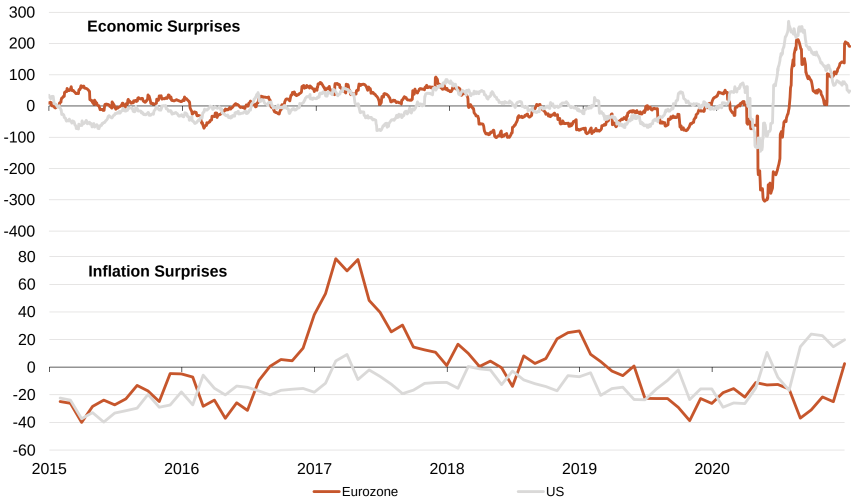
Global



- The momentum of positive economic surprises has recently weakened for the G10 nations. For emerging markets, however, the surprise indicator continued to rise. For example, Polish export figures and Mexican industrial production were positive surprises.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 31/12/2020

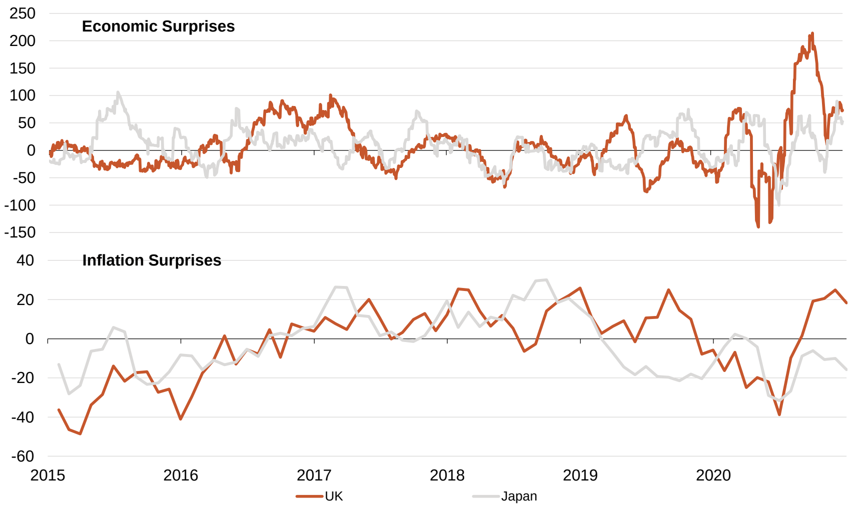
Eurozone and US



- In the eurozone, the preliminary purchasing managers' indices beat expectations by a wide margin in some cases. The French services PMI was the most significant positive surprise, arriving at 49.2 vs. expectations of 40.
- In the US, on the other hand, most of the economic data surprised negatively. The December Philly Fed Index and retail sales excluding autos disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 31/12/2020

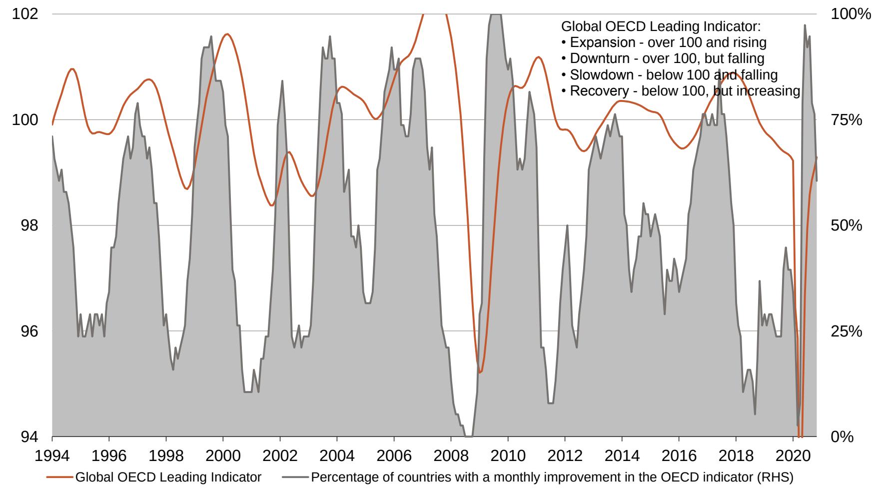
UK and Japan



- The economic surprise indicators for both Japan and the UK are in the green zone. In the UK, moreover, inflation data recently also surprised to the upside.

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 - 31/12/2020

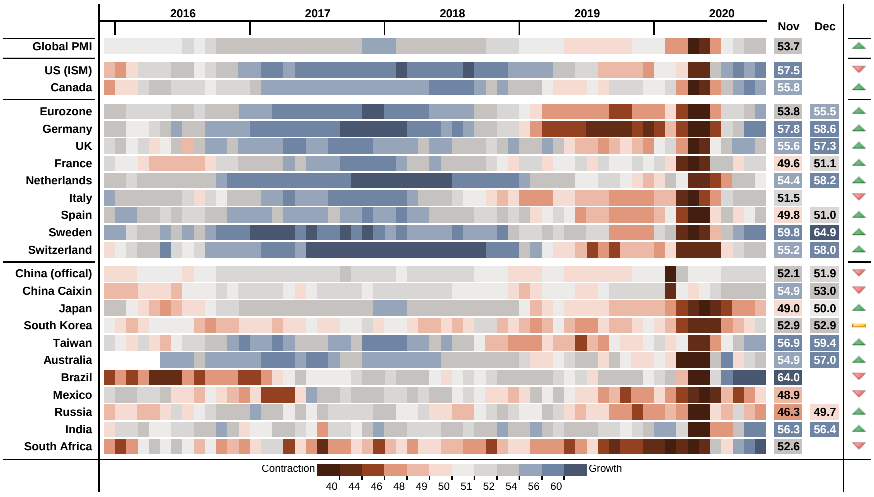
OECD Leading Indicator



- The leading indicator for all OECD economies was slightly up at 99,3 points for November. The indicator continues to recover from the lows of the Covid-19 crisis in most major economies. The sub-indicators for the seven largest economies - the US, Japan, Canada, France, Italy, Germany and the UK - point to stable growth momentum.

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 - 30/11/2020

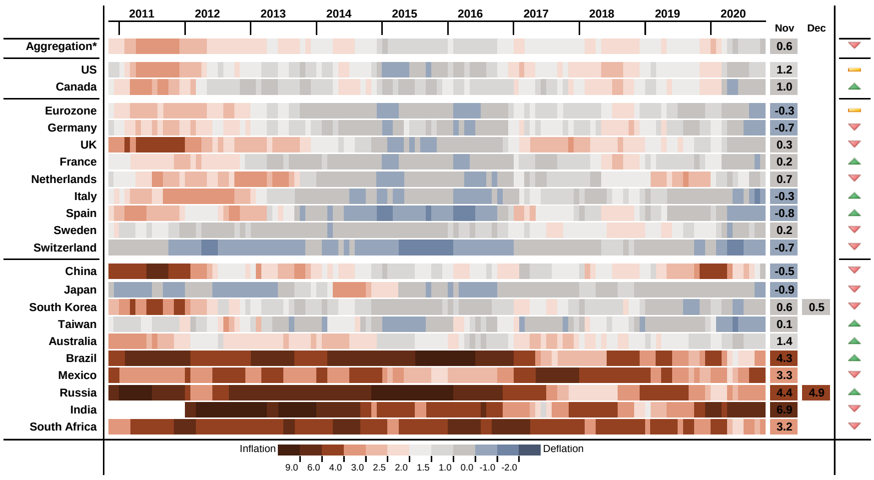
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- Almost all purchasing managers' indices published so far for December signal a further recovery in industry compared with the previous month. For the eurozone, for example, the index improved from 53.8 to 55.5.

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: 31/12/2015 - 31/12/2020

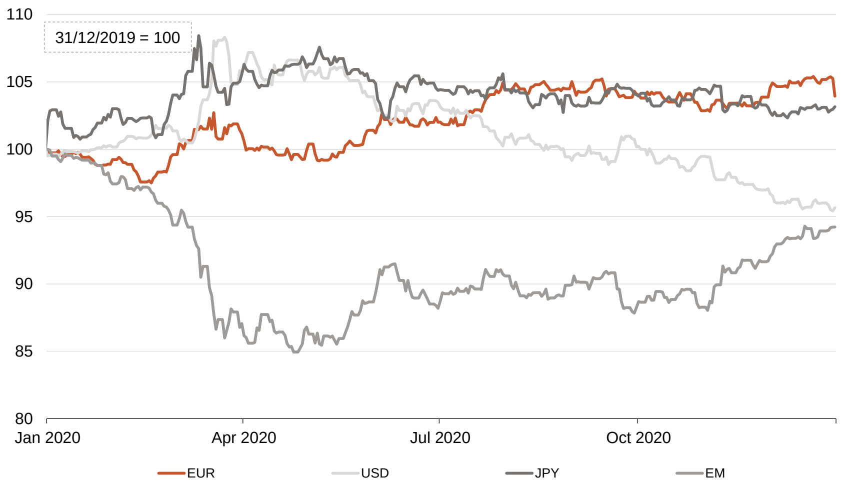
Headline Inflation



- The inflation figures for November have also been very subdued. Global aggregate inflation, for example, has fallen to 0.6%. It will be exciting next spring when inflation is compared with the Covid-19 lows of 2020.

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: 31/12/2010 - 31/12/2020

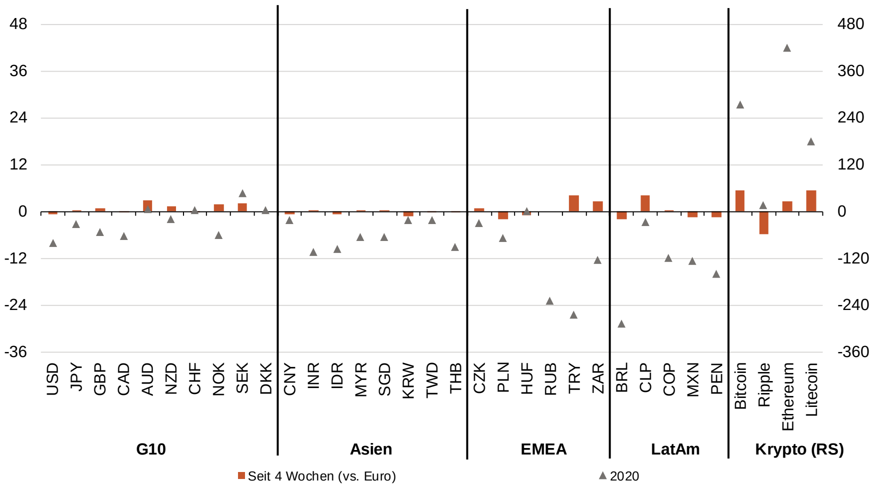
Trade-Weighted Currency Development



- The dollar continues to fall. In turn, the euro and emerging market currencies in particular are gaining. The yen, on the other hand, is holding steady. Many investors expect the USD to remain weak due to the massive increase in US debt.

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: 01/01/2020 - 31/12/2020

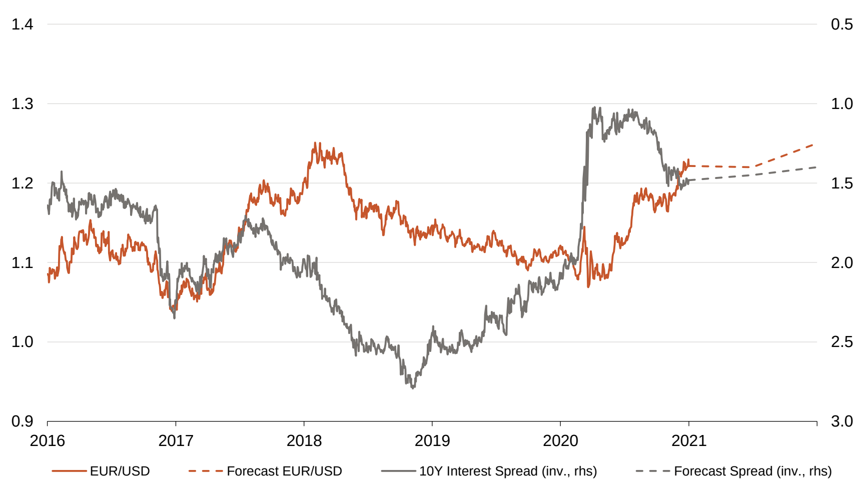
Currency Moves vs Euro



- The big winners in 2020 in currencies were crypto currencies. Ethereum gained more than 400%, Bitcoin 240%. One reason for the increased demand was the fear among some investors that fiat currencies would increasingly lose value due to extreme monetary policy.
- Among the big losers in 2020 were the BRL, TRY and RUB.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2019 - 01/01/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The interest rate differential between USD and EUR has increased again over the last few months. This has not weighed on EUR/USD, yet. However, it makes USD hedging more expensive again for euro investors. We are still far from the recent highs in the interest rate differential of 10-year yields. The spread was almost 3 percentage points at the end of 2018.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US Treasuries and 10-year Bunds.
Source: Bloomberg, Time period: 01/01/2016 - 31/12/2021

European Sector & Style Performance

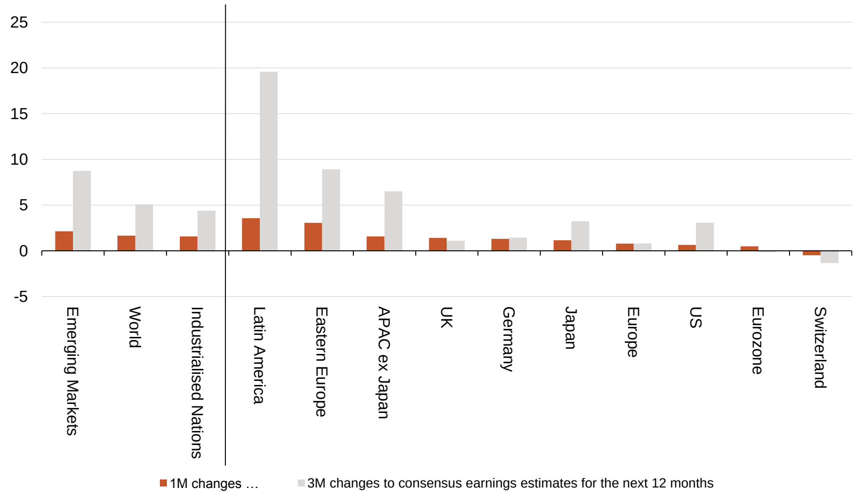
	4-week & YTD		12-month periods over that last 5 years				
	4W (03/12/20 - 31/12/20)	YTD (31/12/19 - 31/12/20)	31/12/19 31/12/20	31/12/18 31/12/19	31/12/17 31/12/18	31/12/16 31/12/17	31/12/15 31/12/16
Information Technology	5.0	14.5	14.5	37.6	-6.8	19.6	4.2
Materials	3.4	9.4	9.4	26.4	-13.9	18.7	28.6
Utilities	3.4	11.7	11.7	29.8	2.9	8.5	-5.3
Growth	3.3	5.9	5.9	32.4	-9.5	12.3	-2.2
Consumer Discretionary	3.1	6.5	6.5	33.0	-14.4	9.7	-0.5
Consumer Staples	2.9	-3.5	-3.5	25.3	-8.9	8.8	-0.3
Industrials	1.8	3.7	3.7	35.1	-13.2	15.3	10.8
Health Care	1.2	-1.9	-1.9	31.8	-0.6	2.9	-9.4
Value	0.2	-12.9	-12.9	19.6	-11.6	8.3	7.4
Telecommunications	0.0	-13.5	-13.5	4.7	-9.6	1.7	-13.3
Finance	-1.5	-15.6	-15.6	22.3	-19.3	12.0	-0.1
Energy	-1.9	-33.9	-33.9	8.7	-0.6	5.2	32.8

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 month, European growth companies again outperformed value stocks, driven by the rise in IT companies. Financials were among the relative losers.
- The best performing European sectors in 2020 were IT and utilities. Energy and financials underperformed the most.

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: 31/12/2015 – 31/12/2020

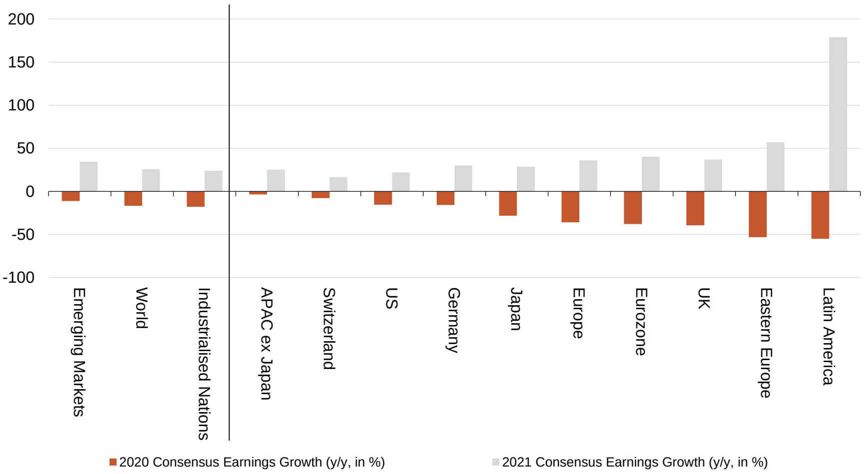
Changes in Consensus Earnings Estimates



- In line with our expectations, analysts have recently revised their earnings estimates upwards across almost all regions - particularly strongly for Latin America and Eastern Europe, which are benefiting from rising commodity prices.
- However, the UK and Germany have also seen recent increases in earnings estimates.

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 01/01/2021

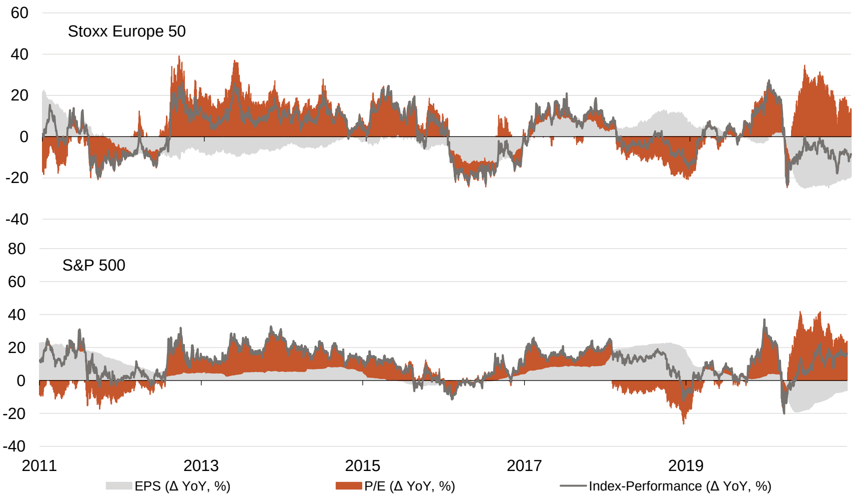
Earnings Growth



- While analysts expect a decline in earnings for all regions in 2020, they are all the more optimistic for 2021.
- It is particularly noteworthy that they expect a smaller drop in profits for emerging markets in 2020 than for the developed markets, but a stronger increase in earnings for 2021.

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 ex Japan = Asia Pacific ex Japan
Source: FactSet, as of 01/01/2021

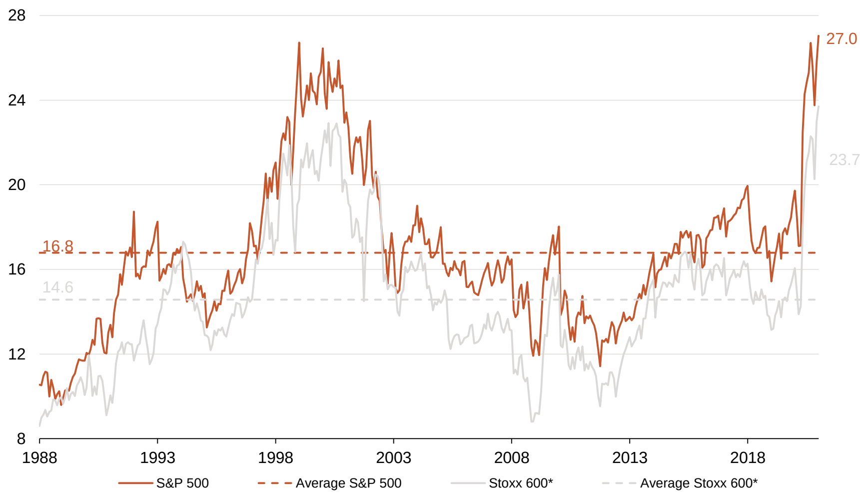
Contribution Analysis



- The contribution analysis shows that for the Stoxx Europe 50 in particular, price development was rarely driven by earnings in recent years, but frequently by P/E expansion.

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 - 01/01/2021

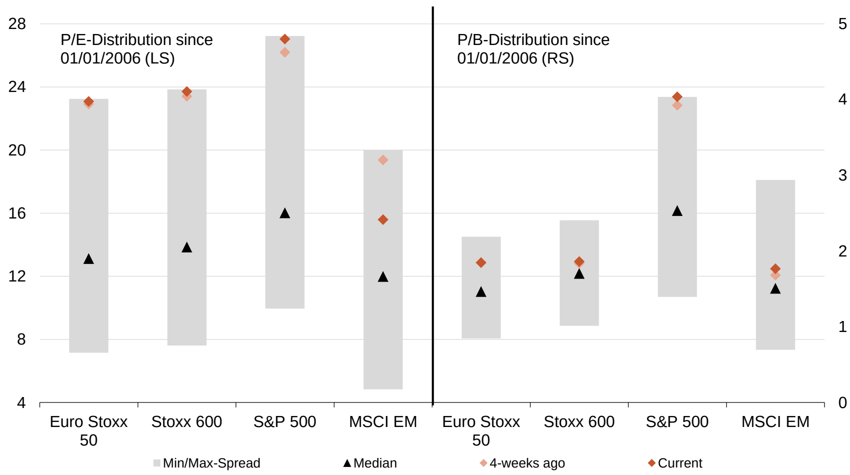
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Although earnings estimates have recently risen, valuations have continued to climb. Stock indices have risen correspondingly faster than earnings expectations.
- Extremely low interest rates have meant that we are now at valuation levels similar to those seen during the technology bubble at the turn of the millennium.

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 - 01/01/2021

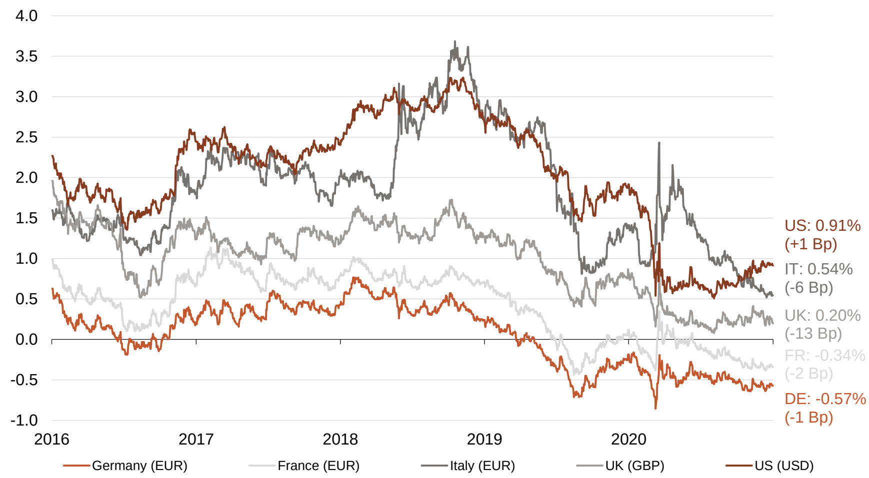
Historical Distribution: Price/Earnings and Price/Book Ratio



- All equity regions are priced expensively relative to their own history on a P/E basis. In relative terms, emerging market equities are the most favorably valued and US equities the most expensive at the index level. The comparison lags, however, due to the sector structure of the individual stock indices differing greatly.

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 - 01/01/2021

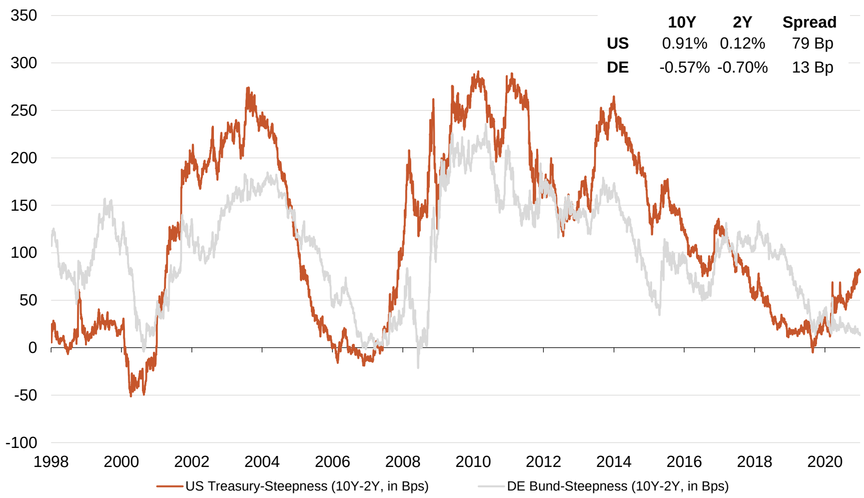
10-Year Government Bond Yields



- Recently, there has been a clear divergence between US yields and European government bond yields. While US 10-year yields have risen in line with the spreading economic optimism, German Bund yields, for example, have continued to tread water. One reason for this is the scarcity of German Bunds due to loose ECB policy. In addition, the market expects inflation to rise in the US, rather than in the eurozone.

Effective yield of 10-year government bonds and change in the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2016 - 31/12/2020

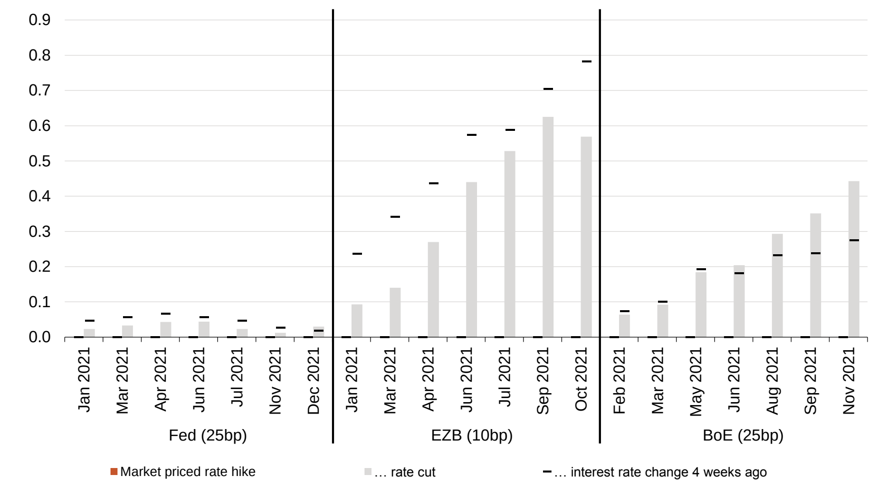
Yield Curve Steepness (10Y - 2Y)



- The U.S. yield curve has steepened further. The spread between 10-year and 2-year U.S. yields were at 80 basis points, the highest level since October 2017.

The yield curve distinguishes between the so-called short and the long end. The reason for this lies in which factors influence returns. Central banks control the short end of the curve through their monetary policy and key rates. By contrast, the long end is influenced less by central banks than by inflation expectations, supply, demand and risk premia.
Source: Bloomberg, Time period: 01/01/1998 - 31/12/2020

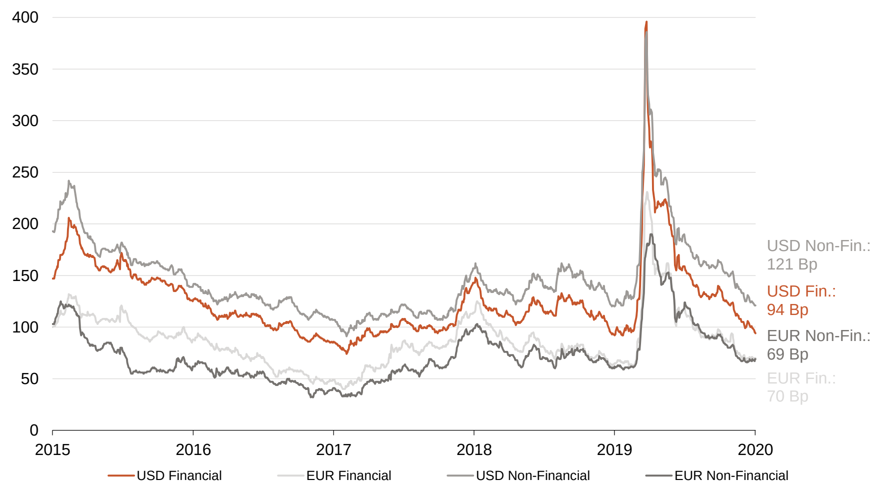
Implicit Changes in Key Interest Rates



- The market neither expects interest rate cuts nor rate hikes by the major central banks over the next few months. It is pricing in the highest probability of an interest rate cut for the ECB. For the Fed and BoE, this is virtually ruled out until at least September 2021.

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: 03/12/2020 - 31/12/2020

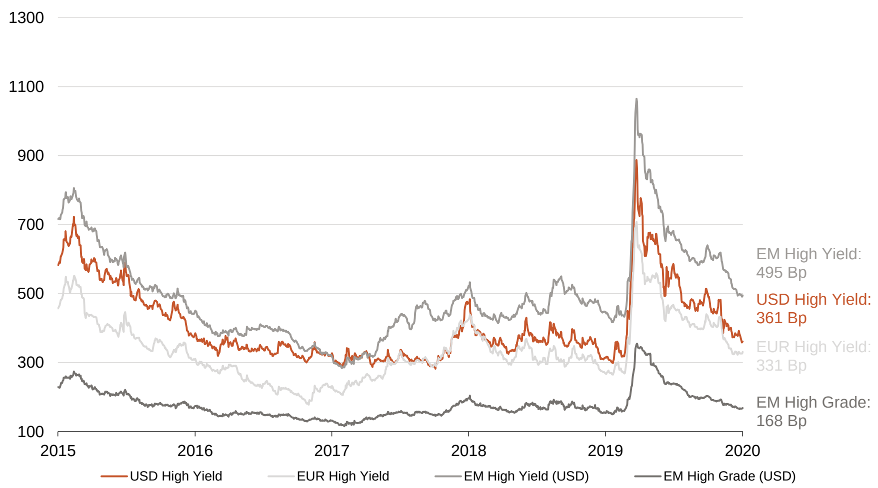
Credit Spreads Financial and Non-Financial Bonds



- The extremely loose monetary policy of the major central banks has recently led to a further decline in credit spreads on corporate bonds. In pure valuation terms, corporate bonds thus appear unattractive.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 – 31/12/2020

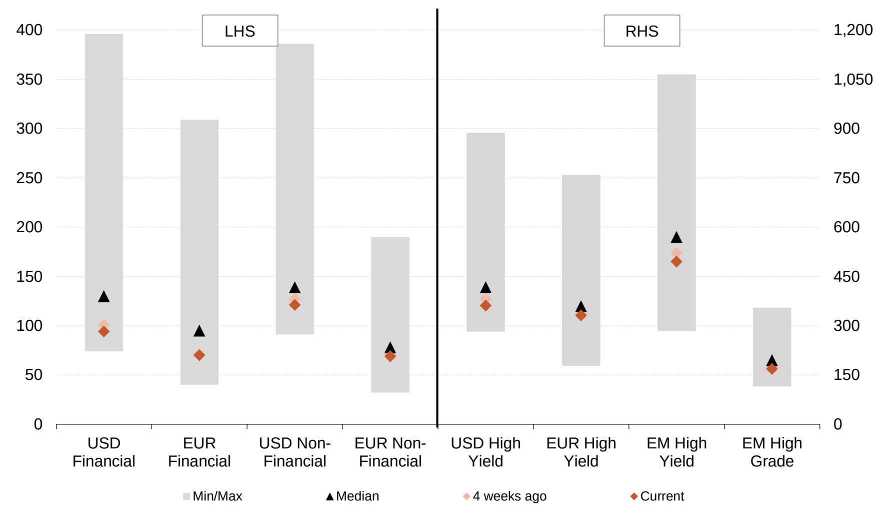
Credit Spreads High Yield and Emerging Markets Bonds



- Credit spreads of high-yield bonds from emerging markets also came down sharply recently. However, compared to pre-Covid-19 levels, they still appear attractively valued.
- EUR and USD high-yield bonds are once more valued similarly to mid-2019.

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 – 31/12/2020

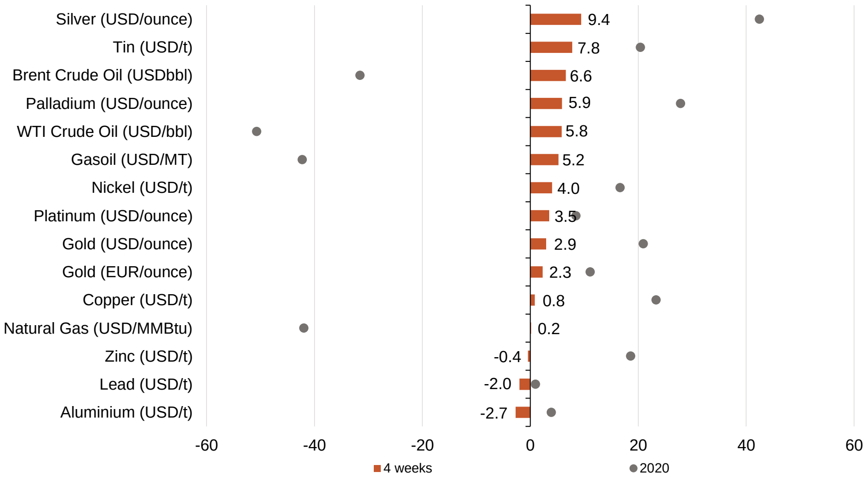
Historical Distribution of Credit Spreads (in bp)



- All bond segments considered here are expensively valued relative to their own history. The highest credit spread is currently for EM high-yield bonds, while the lowest is for EM high-grade bonds.

USD Financial = ICE BofAML US Financial; EUR Financial = ICE BofAML Euro Financial; USD Non-Financial = ICE BofAML US Non-Financial; EUR Non-Financial = ICE BofAML Euro Non-Financial; USD High Yield = ICE BofAML US High Yield; EM High Yield = ICE BofAML High Yield Emerging Markets Corporate Plus; EM High Grade = ICE BofAML High Grade Emerging Markets Corporate Plus. The EM indices shown here are hard currency bonds.
Source: FactSet, Time period: 31/12/2010 – 31/12/2020

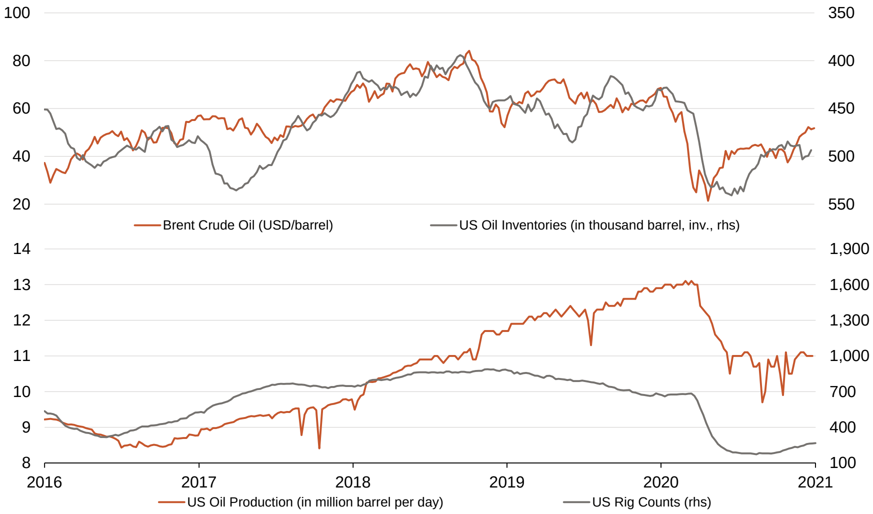
Commodities Performance



- Silver has outperformed all other precious metals over the last four weeks. Additionally, in 2020 as a whole, it is the commodity with the strongest performance. In particular, it has benefited from its cheap relative valuation compared to gold in the spring of 2020.
- Crude oil remains the worst performing commodity in 2020 even after the recent recovery rally, mainly due to the sharp drop in oil demand caused by the Covid-19 pandemic.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 - 31/12/2020

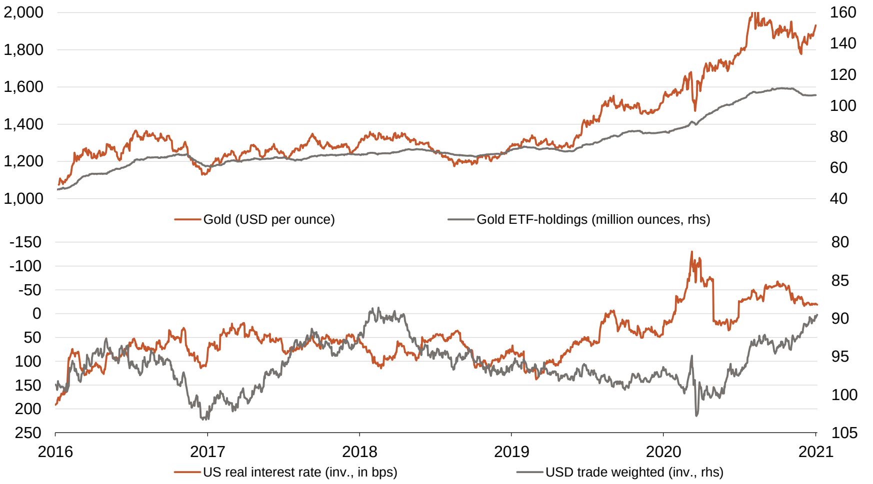
Crude Oil



- The price of crude oil continued to stabilise in December, trading above USD 50 per barrel. This was boosted in particular by increased optimism about the future due to the positive news on vaccines.
- The sharp drop in oil prices in 2020 is also reflected in US oil production. This is still just under 40% below the pre-Covid-19 highs.

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: 01/01/2016 - 01/01/2021

Gold



- After gold had a lackluster performance in October and November, it was able to stabilise recently. Low real interest rates and a falling US dollar are supportive.

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: 01/01/2016 - 01/01/2021

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IMPORTANT NOTICES

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