BERENBERG
Markets

MONITOR

18 January 2021

Current market commentary

Rising analyst earnings estimates and economic optimism have provided a friendly start to the year for stocks. Asian emerging markets, US small caps and UK equities were particularly strong. Gold and safe-haven government bonds, on the other hand, suffered from a rise in bond yields. 10-year US government bond yields exceeded the important 1 percent mark for the first time since March 2020. A further rise in yields is supported by the fact that Joe Biden now also has a Senate majority after the Georgia election and can implement more of his fiscal plans, even if he is likely to make compromises due to the narrow majority. Rising commodity prices as well as inflation expectations and a more positive momentum also argue for rising interest rates in addition to the increasing US government debt. The big question is at what level of yields the Fed will step in and bring "yield curve control" into play. The Fed is likely to get nervous at the 1.5% level at the latest.

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 market is eagerly awaiting Q4 corporate figures.

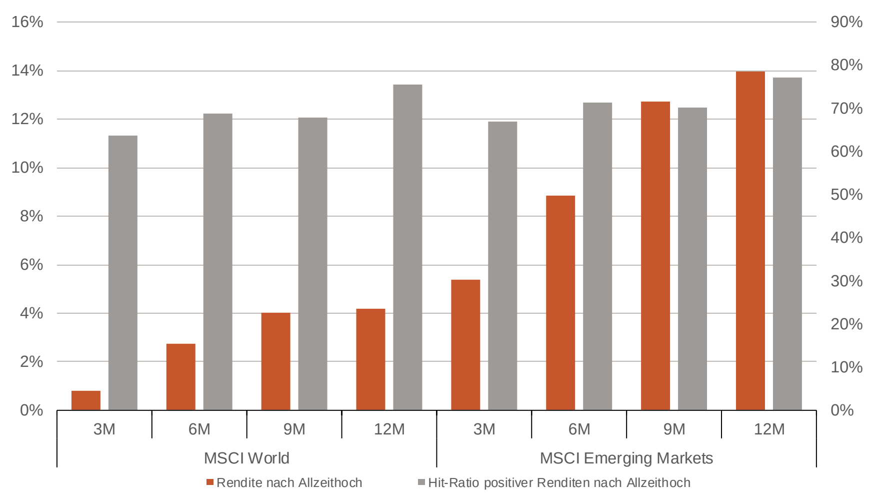
The Q4 corporate reporting season has picked up at an accelerated pace with numbers from the major US banks. So far, corporate numbers look promising thanks to mostly positive surprises. In the STOXX Europe 600, however, hardly any companies have reported thus far. Within Europe the possible impact of the widespread lockdowns on Q4 figures is particularly important. On the central bank side, the ECB meets on 21 January and the Fed on 27 January. Politically, in addition to Covid 19 decisions, the inauguration of Joe Biden as US president is to come on 20 January and the World Economic Forum meeting from 25 to 29 January will be exciting.

Inauguration of Joe Biden as US President.

Purchasing managers indices will show the stability of the economic recovery

Tomorrow, Tuesday, the ZEW Indicator of Economic Sentiment for Germany will be published. This will be followed on Wednesday by the inflation figures for Europe and the UK. Things will get exciting on Friday, when a large number of preliminary purchasing managers' indices for January will be published.

A new all-time high is rarely the end of the road



- Even if new all-time highs appear to many investors to be based on exaggeration, so that a correction would soon be necessary, a look at the past cannot confirm this assumption.
- On the contrary, at least statistically, average returns over the next 3 to 12 months are consistently positive after a new all-time high. On a 12-month view, returns after an all-time high are even positive in almost 80% of cases.

Average total return and hit ratio over different time periods after reaching a new all-time high.
Source: Bloomberg, Period: 31.12.1998 - 31.12.2020

Multi Asset

	4-week & YTD: 4W (18/12/20 - 15/01/21)	YTD (31/12/20 - 15/01/21)	12-month periods over that last 5 years: 15/01/20 15/01/21	15/01/19 15/01/20	15/01/18 15/01/19	15/01/17 15/01/18	15/01/16 15/01/17
MSCI Emerging Markets	8.5	6.3	12.4	18.6	-8.3	19.7	33.2
Brent	7.2	8.0	-30.4	18.9	-2.2	7.4	64.5
MSCI Frontier Markets	6.5	4.7	-4.4	18.4	-12.2	16.4	19.1
Global Convertibles	5.5	4.7	29.5	19.2	3.3	2.1	17.3
MSCI World	3.1	2.1	6.4	26.8	-1.7	8.4	23.6
REITs	1.7	-0.2	-16.8	21.8	7.9	-10.8	10.0
USDEUR	1.5	1.2	-7.7	2.4	7.5	-13.2	2.5
Global Coporates	0.7	0.2	0.1	13.4	4.0	-5.8	7.1
Global Treasuries	0.5	0.2	0.2	7.4	6.5	-6.5	3.7
Eonia	0.0	0.0	-0.5	-0.4	-0.4	-0.4	-0.3
Industrial Metals	-0.7	3.1	7.3	9.7	-11.5	4.4	41.2
Gold	-1.4	-2.6	8.4	23.5	3.4	-2.9	12.8

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

- In the last four weeks, most asset classes have gained. Brent and emerging market equities in particular continued their upward trend.
- Rising bond yields and a stronger US dollar recently weighed somewhat on the gold price. Since the beginning of the year, gold has been the worst-performing asset class.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 15/01/2016 – 15/01/2021

Equities

	4-week & YTD: 4W (18/12/20 - 15/01/21)	YTD (31/12/20 - 15/01/21)	12-month periods over that last 5 years: 15/01/20 15/01/21	15/01/19 15/01/20	15/01/18 15/01/19	15/01/17 15/01/18	15/01/16 15/01/17
MSCI EM Asia	9.9	7.0	21.8	21.9	-10.4	24.1	26.6
MSCI USA Small Caps	8.7	8.0	15.3	22.2	-1.0	4.0	39.4
MSCI EM Eastern Europe	5.3	5.7	-17.2	33.0	0.9	8.5	63.1
MSCI UK	5.2	5.0	-14.0	19.9	-7.9	7.9	15.3
Topix	4.4	4.0	7.3	16.1	-8.3	12.2	17.9
Stoxx Europe Small 200	4.1	1.9	6.0	24.8	-10.8	19.2	14.1
Stoxx Europe Defensives	4.0	3.6	-5.0	21.2	1.1	5.6	7.0
Stoxx Europe Cyclicals	3.5	2.6	2.3	22.3	-16.4	16.4	22.0
Stoxx Europe 50	2.9	2.5	-4.8	25.4	-9.6	9.6	12.7
S&P 500	2.9	1.5	7.6	31.2	1.8	9.5	27.3
Euro Stoxx 50	1.6	1.4	-2.6	26.3	-12.7	11.3	16.0
DAX	1.2	0.5	2.6	23.3	-17.5	13.5	21.8

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 positive investor sentiment is reflected in price increases across all equity regions. Cyclical equity regions in Asia and small caps benefited particularly strongly. The gains in the Euro Stoxx 50 and the S&P 500 were somewhat more moderate.
- British equities continued their recovery. They are among the outperformers year-to-date.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 15/01/2016 – 15/01/2021

Fixed Income

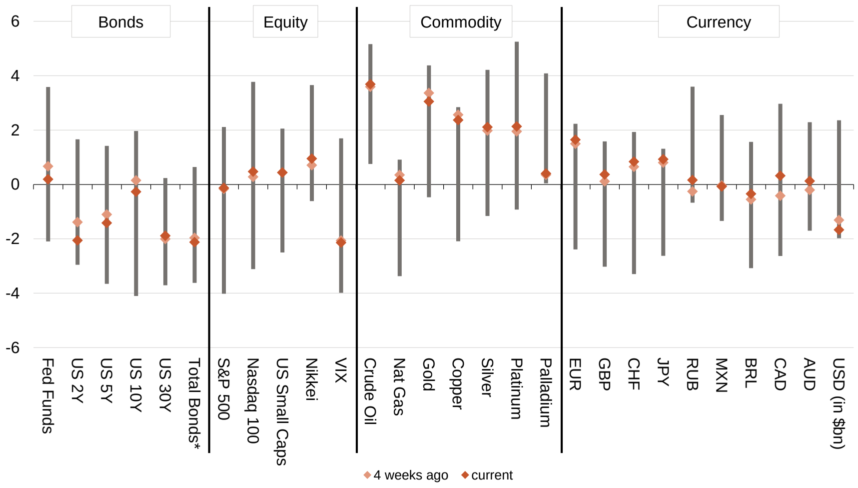
	4-week & YTD: 4W (18/12/20 - 15/01/21)	YTD (31/12/20 - 15/01/21)	12-month periods over that last 5 years: 15/01/20 15/01/21	15/01/19 15/01/20	15/01/18 15/01/19	15/01/17 15/01/18	15/01/16 15/01/17
USD High Yield	2.0	1.4	-3.6	13.8	8.9	-8.1	23.3
EM Local Currency Bonds	1.5	1.1	-3.3	10.5	3.4	-0.4	13.7
Gilts	1.1	-0.7	1.2	13.7	1.3	0.8	-6.7
USD Corporates	0.9	0.1	-0.6	16.8	5.0	-7.8	8.9
EUR Inflation Linkers	0.7	0.5	3.2	6.9	-1.2	2.1	3.3
Treasuries	0.4	0.1	-2.2	10.5	7.8	-11.5	3.0
EUR High Yield	0.4	0.4	1.7	8.8	-2.7	4.7	10.2
EUR Non-Financials	0.2	0.2	3.0	6.4	-0.8	1.9	5.6
EUR Financials	0.0	0.0	2.2	6.2	-1.5	3.4	3.7
Bunds	-0.2	-0.2	2.5	2.8	3.5	-1.3	2.2
BTPs	-0.3	-0.4	7.3	11.5	-2.2	1.6	-0.2
EM Hard Currency Bonds	-1.2	-1.5	1.2	8.4	-4.8	5.8	9.9

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.

- Political uncertainty in Italy resulted in a widening of spreads for Italian government bonds. Inflation-indexed bonds, on the other hand, benefited from a positive environment and gained at the beginning of the year.
- USD bonds profited from the dollar appreciation. USD high-yield bonds in particular rose in euro terms.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 15/01/2016 – 15/01/2021

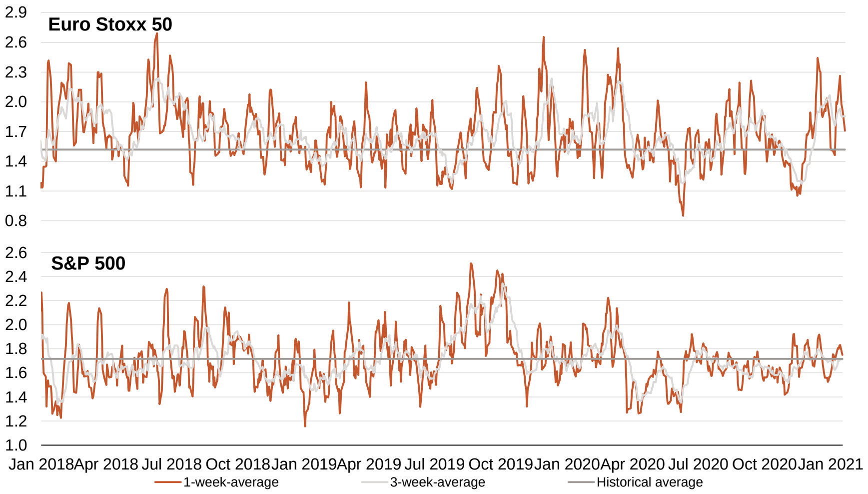
Non-Commercial Positioning



- Interestingly, speculative investors have reduced their short positions since November. This in turn creates more potential for rising bond yields because the positioning is no longer so pronounced.

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: 12/01/2011 - 12/01/2021

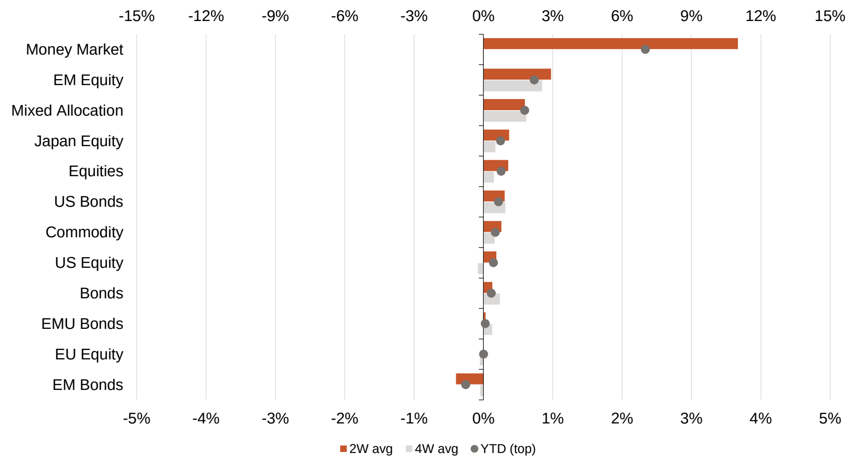
Put-Call Ratio



- The put-call ratios at index level at least remain elevated and indicate that institutional investors are not getting overconfident, but are continuing to hedge. At the individual stock level, the picture looks completely different at the moment implying that significantly more calls are being bought than puts.

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 – 15/01/2021

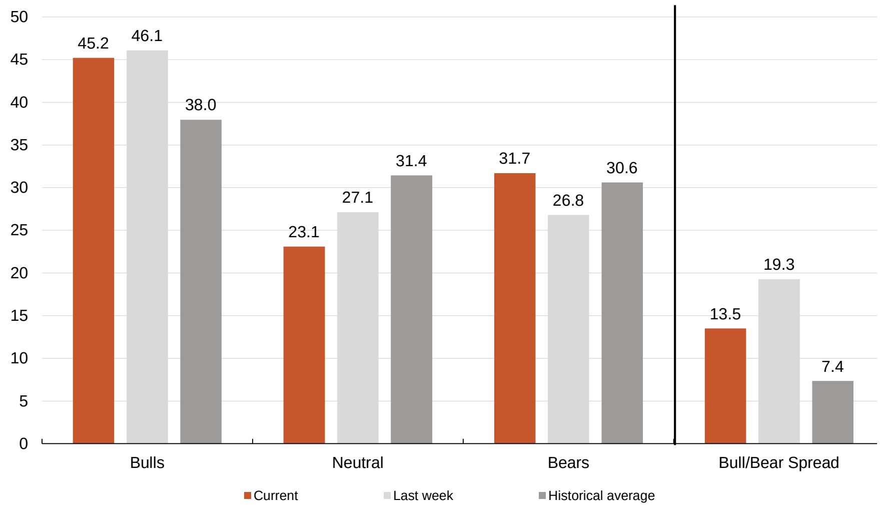
ETF Flows



- ETF flows show a mixed picture. Money market vehicles have seen surprisingly strong inflows, while emerging market bond ETFs have struggled with outflows.
- Commodity ETFs have hardly seen any flows in aggregate so far in 2021.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 – 15/01/2021

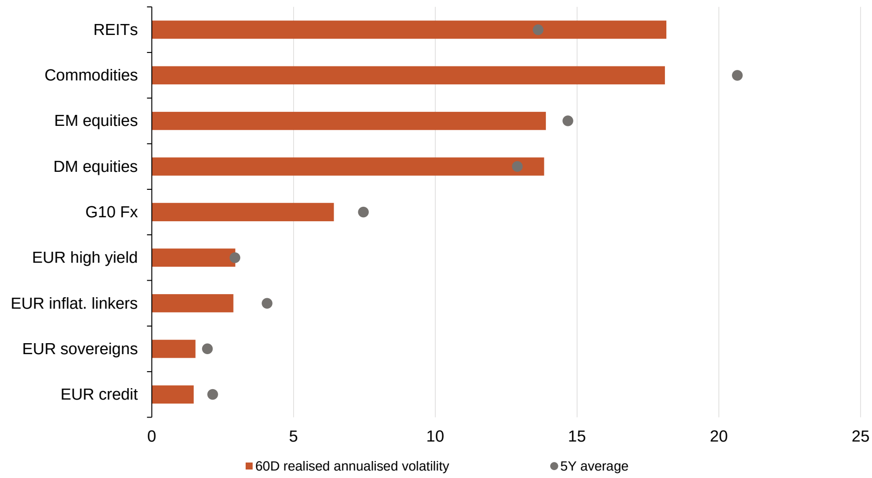
AAII Sentiment Survey (Bulls vs Bears)



- Due to technical problems at the AAII, the US Private Investor Sentiment Survey is out of date. An update is expected this week.
- Nevertheless, the previous week's figures show that investor sentiment remains good, although the bull/bear spread is now well below its November high of over 30 pp.

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 - 07/01/21

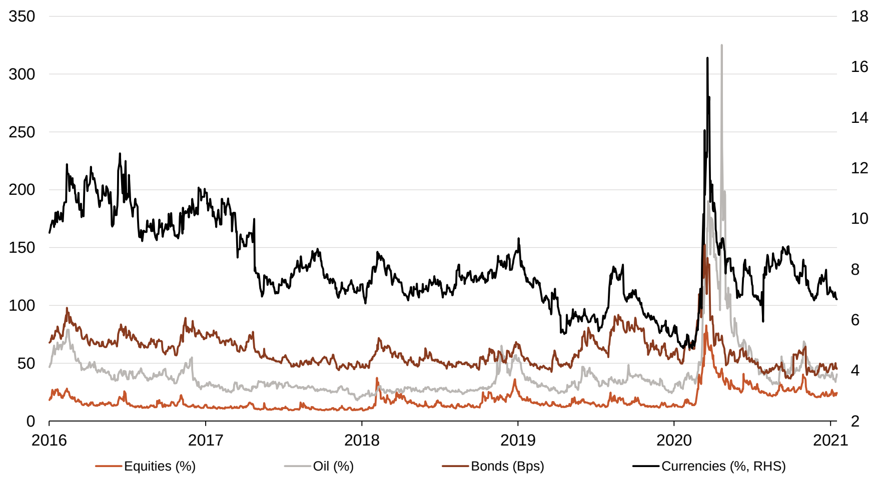
Realised Volatilities



- Only the realised volatilities of REITS and developed market equities over the last 60 days are still above their 5-year-averages.
- With rising inflation expectations, the realised volatility of inflation linkers has risen recently.
- Corporate bonds were less volatile than government bonds, as the former were able to compensate for rising inflation expectations in part through lower risk premiums.

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: 15/01/2016 - 15/07/2021

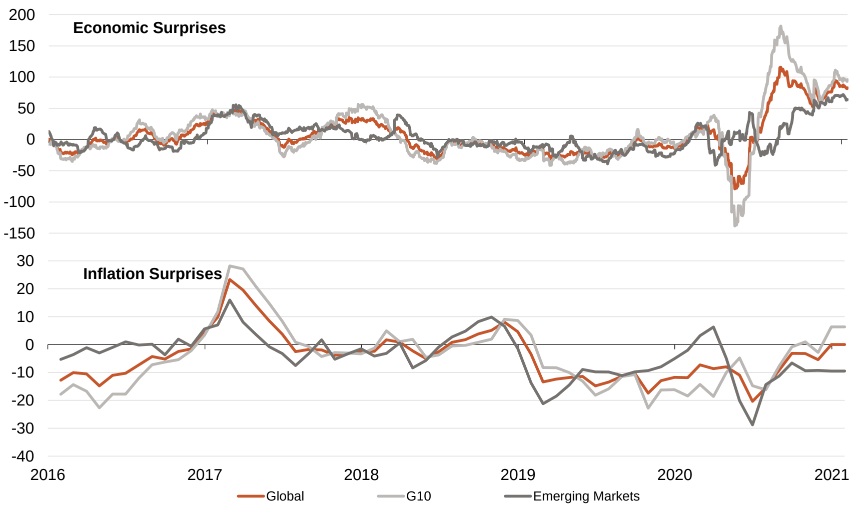
Implied Volatilities



- Implied volatilities are largely unchanged compared to two weeks ago.
- The VIX is currently trading at 24, still well above its pre-crisis level and also above its historical average of 19.

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 - 15/01/2021

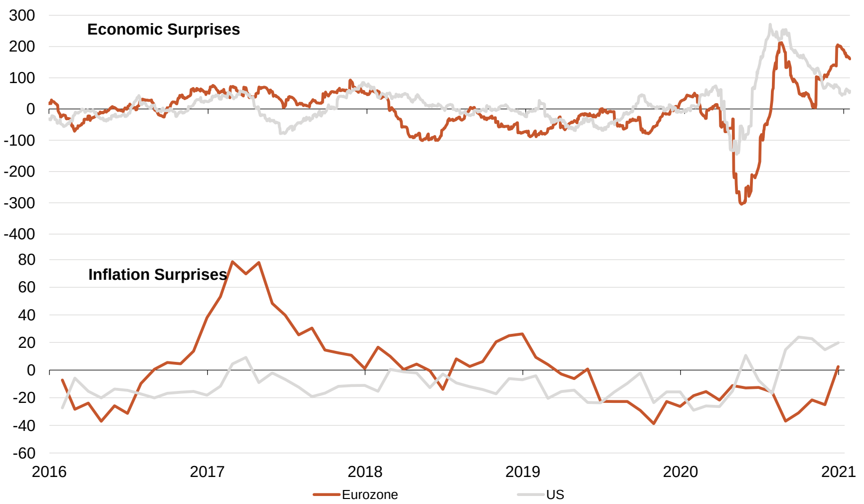
Global



- Positive economic surprises continued in 2021. All three indices were able to remain in clearly positive territory. In the industrialised nations, the peak of positive economic surprises is already behind us, while the emerging markets continue to surprise strongly. In China, the industrial purchasing managers' index (PMI), imports and exports surprised positively in December.
- Inflation at the global level has recently ceased to surprise negatively, which fits with investors' expectations of rising prices.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 – 15/01/2021

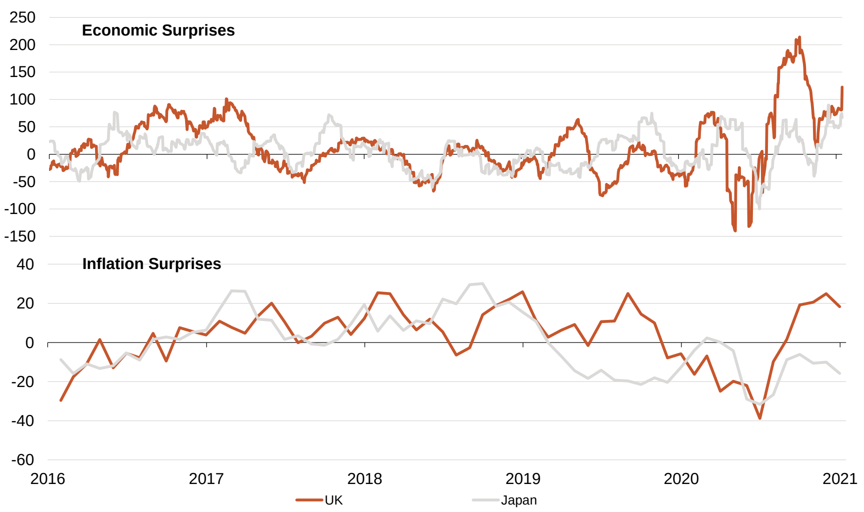
Eurozone and US



- In the euro area, aggregate economic surprises continue to be positive, although they have declined somewhat recently. In Germany, new orders (Nov.), retail sales (Nov.), exports and imports (Nov.) and economic growth for 2020 have been better than expected. Industrial production (YoY, Nov.), on the other hand, has disappointed.
- In the US, recent labour market data and retail sales have disappointed, while manufacturing PMIs and new orders have surprised on the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 15/01/2021

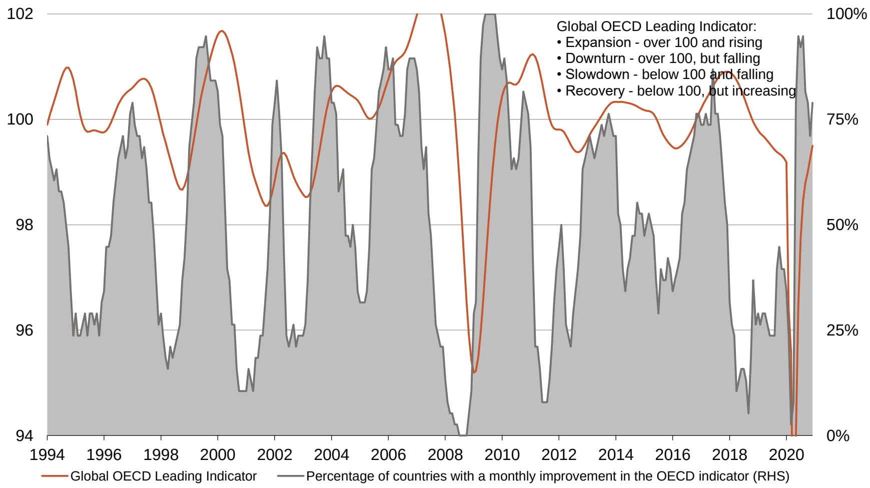
UK and Japan



- In the UK, industrial production (Nov.) and manufacturing production (Nov.) disappointed, while the industrial PMI (Dec.) surprised to the upside.
- In Japan, core orders for machinery equipment in particular has recently been 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: 01/01/2016 – 15/01/2021

OECD Leading Indicator



- In December, the OECD leading indicator rose to just under 99.5 points. The economic recovery is thus continuing according to this indicator. More than 75% of participating countries achieved an improvement in the indicator compared to November. The economic recovery is thus broadly supported.
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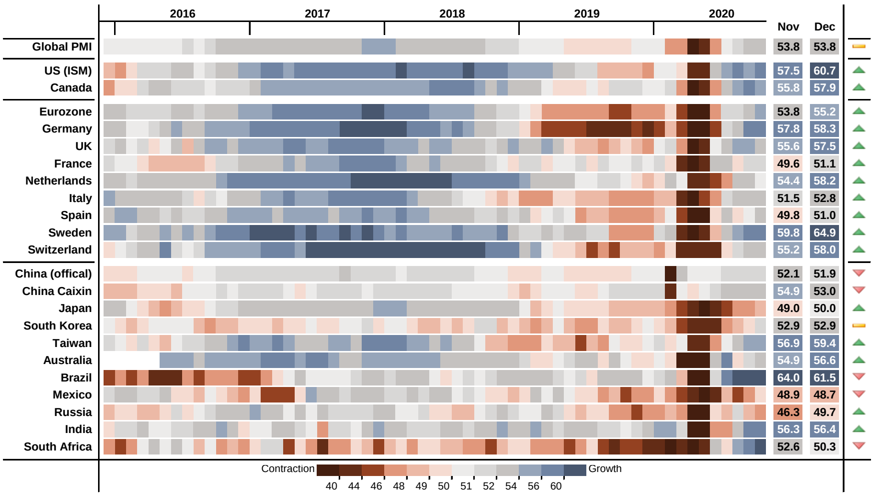
The OECD Leading Indicator is composed of a series of selected economic indicators whose composition provides a robust signal for future turning points. A turning point in the indicator usually signals a turning point in the economic cycle in 6-9 months. However, lead times are sometimes outside this range and turning points are not always correctly detected.
Source: Bloomberg, Time period: 31/01/1994 – 31/12/2020

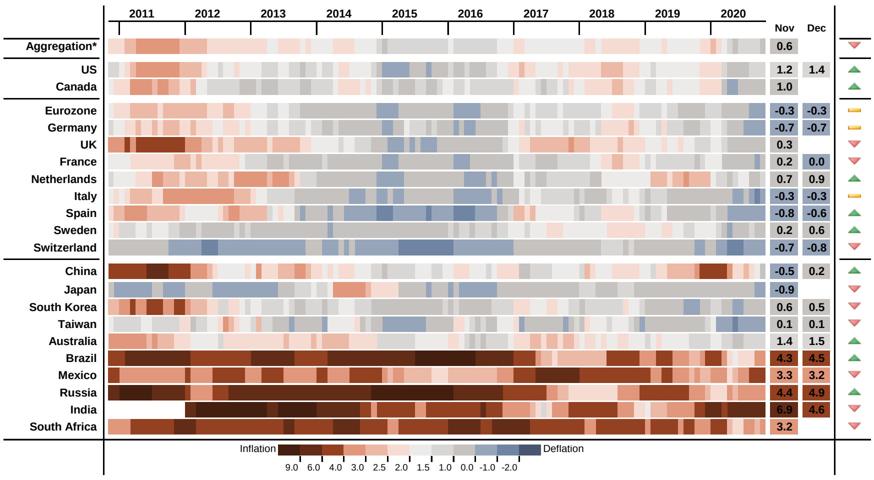
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global Purchasing Managers Index for December remained stable compared to November, indicating continued growth.
- The ISM-PMI for the USA rose significantly to over 60 points. Europe also saw a broad upward trend.

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

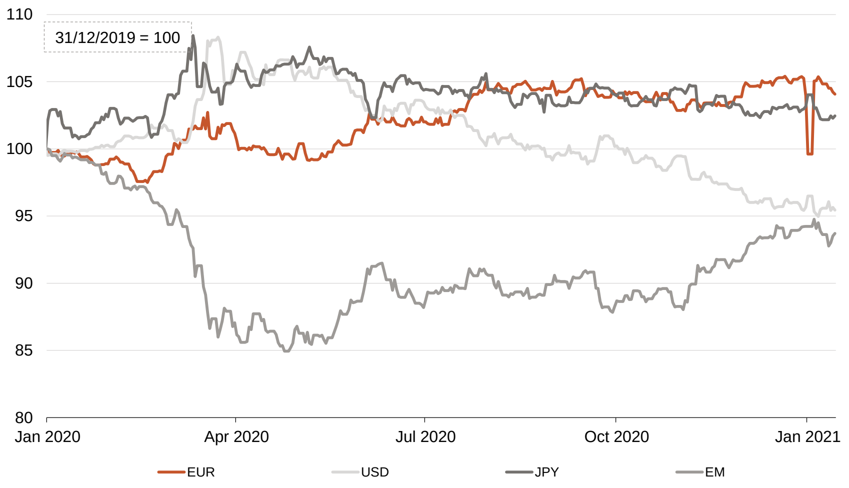
Headline Inflation



- Inflation rates for December remain subdued. In the US, inflation rose slightly to 1.4% in December, while inflation in the eurozone remained flat at -0.3%. The main driver of inflation in the US was rising energy prices.
- In China, inflation edged back into positive territory at 0.2%.

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

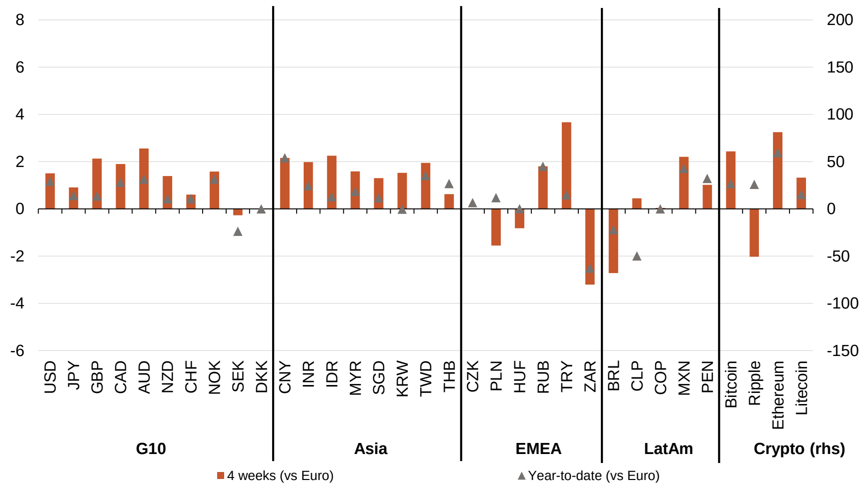
Trade-Weighted Currency Development



- After emerging market currencies had been on an upward trend since October last year, this trend has been broken for the time being.
- In contrast, the US dollar has stabilised recently on a trade-weighted basis.
- The yen lost ground due to increased infection figures in Japan.

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 - 15/01/2021

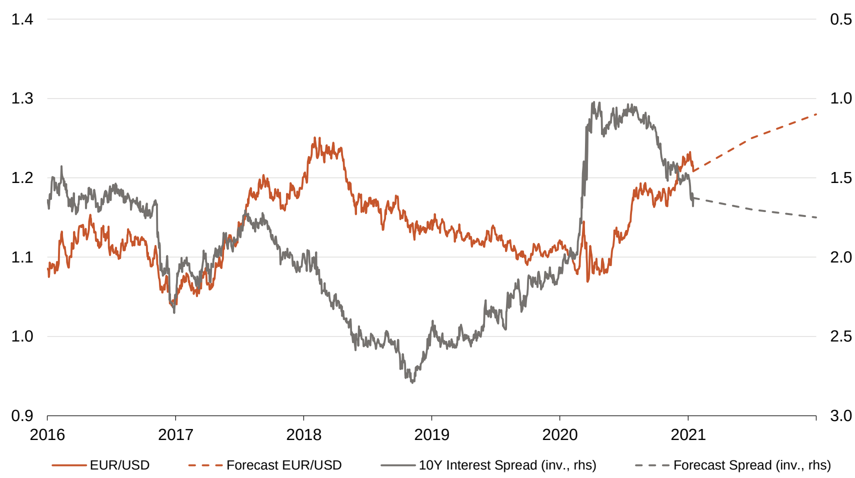
Currency Moves vs Euro



- The euro has had to weaken broadly against the G10 and Asian currencies over the past four weeks.
- One of the reasons for the euro's weakness was the sluggish progress on immunisation in Europe.
- The biggest laggards against the euro were the South African Rand due to the rapidly spreading Covid-19 mutation there and the Real, which is still suffering from the political gridlock in Brazil.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 18/12/2020 - 15/01/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD exchange rate fell to 1.21 in the last two weeks. Higher interest rates and a second impeachment trial against President Trump strengthened demand for the US dollar.
- Although interest rates continued to rise on both sides of the Atlantic, the interest rate movement for US Treasuries was significantly stronger than for Bunds, so much so that the interest rate differential rose to 1.6%.

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

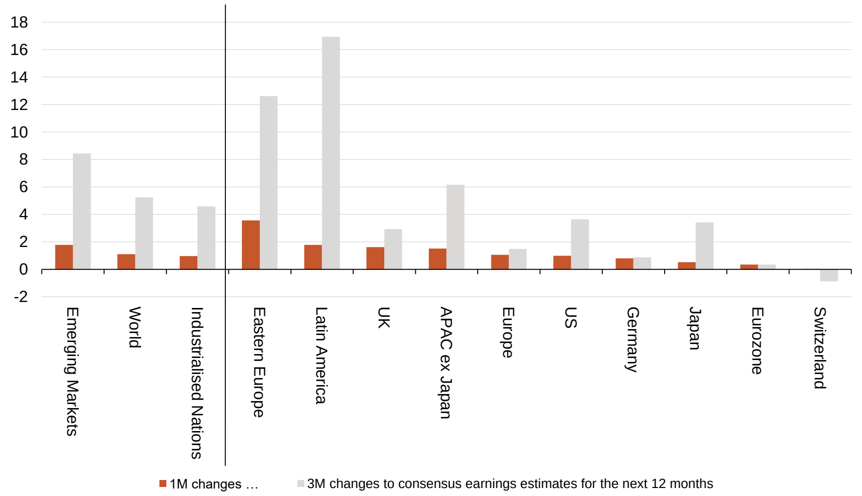
	4W (18/12/20 - 15/01/21)	YTD (31/12/20 - 15/01/21)	15/01/20 15/01/21	15/01/19 15/01/20	15/01/18 15/01/19	15/01/17 15/01/18	15/01/16 15/01/17
	4-week & YTD		12-month periods over that last 5 years				
Energy	7.9	10.8	-27.7	5.6	-0.6	9.8	49.5
Utilities	6.0	3.4	12.5	28.8	5.8	10.7	-0.1
Materials	4.6	4.6	17.0	18.6	-14.1	20.1	51.7
Value	4.0	3.7	-9.5	15.5	-11.6	10.3	21.6
Finance	3.7	3.0	-11.9	15.9	-19.6	14.9	15.4
Information Technology	3.6	1.9	12.6	38.9	-6.4	20.7	16.0
Health Care	3.5	3.5	-1.4	32.5	1.8	2.4	0.4
Industrials	3.5	2.8	5.3	32.7	-13.1	16.9	24.5
Growth	2.0	1.0	4.7	31.2	-7.8	12.5	8.9
Telecommunications	0.8	1.9	-12.0	4.9	-9.2	-1.7	-3.8
Consumer Discretionary	0.4	-0.9	3.4	30.4	-13.3	10.6	14.2
Consumer Staples	0.4	-0.7	-5.3	24.0	-5.8	7.4	7.1

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.

- The value investment style has benefited from higher bond yields in Europe in recent weeks. In particular, sectors such as financials, utilities and energy have gained.
- The worst performance was in the defensive consumer staples sector, which suffered from higher bond yields.

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: 15/01/2016 – 15/01/2021

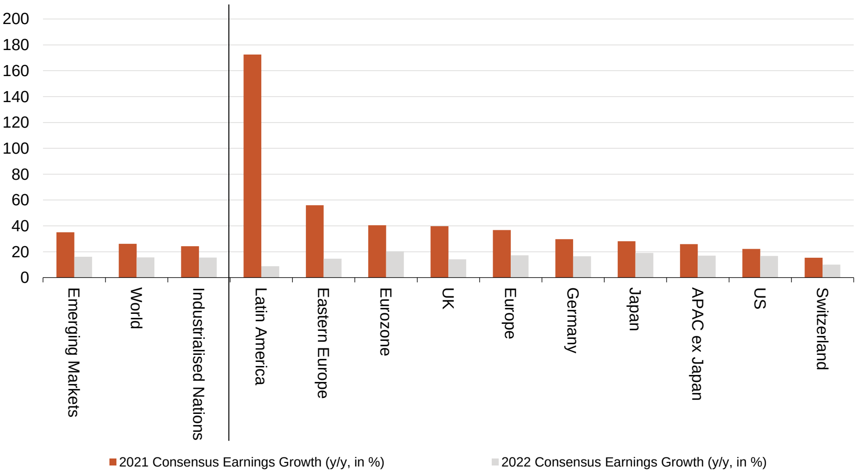
Changes in Consensus Earnings Estimates



- Analysts continue to revise their earnings estimates for the next twelve months upwards. Most recently, they became particularly more optimistic for emerging markets and Europe.
- Switzerland, on the other hand, is the only region with negative profit revisions over one and three months.

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 15/01/2020

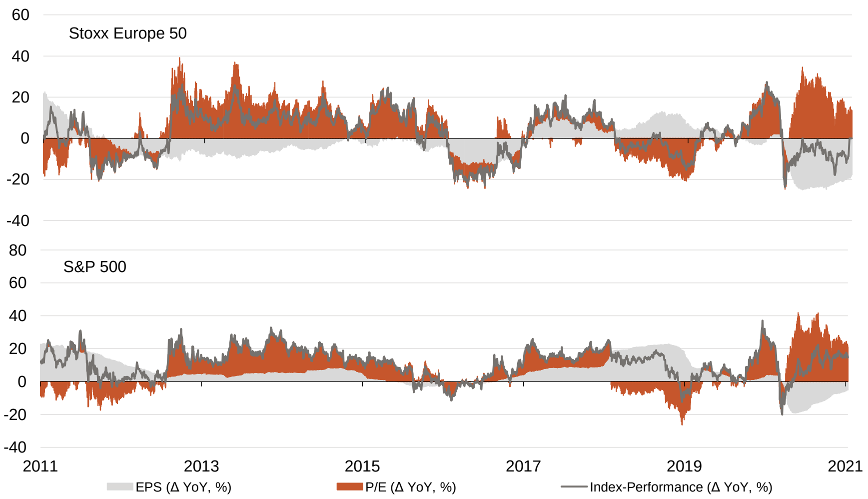
Earnings Growth



- For both 2021 and 2022, the consensus expects positive growth rates for corporate profits across all regions. However, growth rates are likely to decline significantly next year as the base effect diminishes.

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 15/01/2020

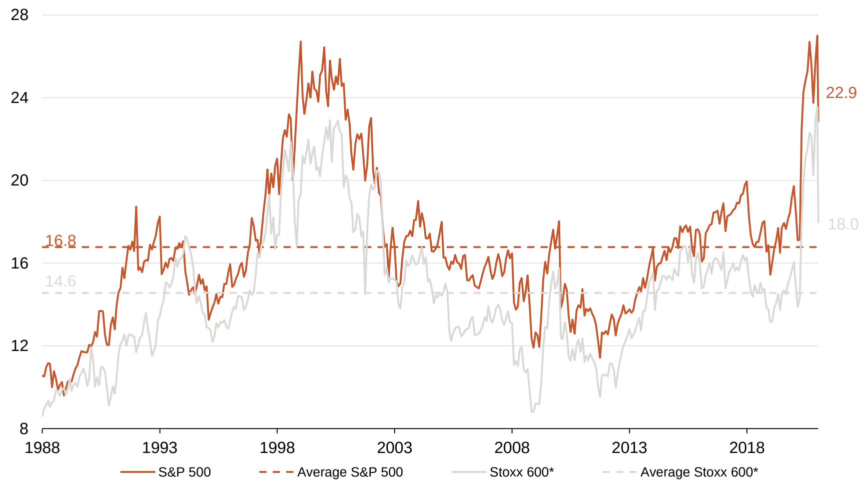
Contribution Analysis



- European equity markets are now gradually negative on a 1-year horizon. Although European corporate profits have fallen by more than 20%, the stock market is looking ahead and already pricing in a recovery.

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: 01/01/2011 - 15/01/2021

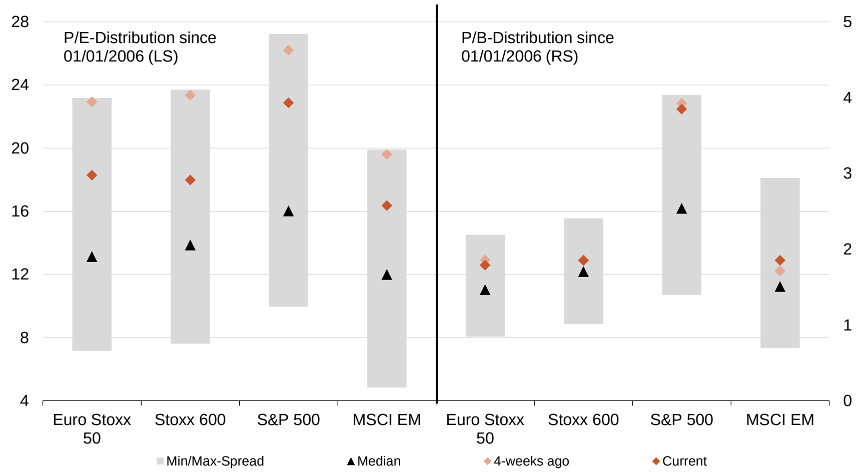
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Shares remain expensive relative to their own history. However, the P/E ratios have recently fallen significantly, compared to December. There are two reasons for this. On the one hand, earnings estimates have risen. On the other hand, the lower Q3 2020 estimates were recently replaced by the higher Q3 2021 estimates in the rolling calculation window.

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 - 15/01/2021

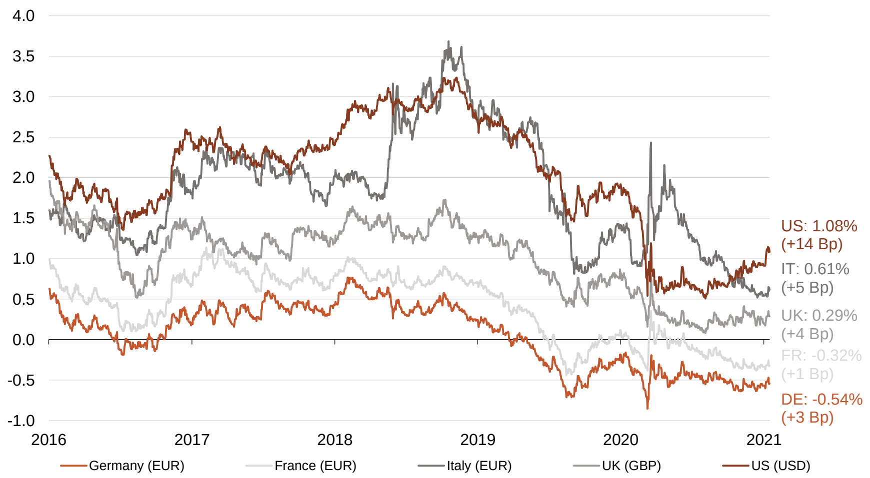
Historical Distribution: Price/Earnings and Price/Book Ratio



- Due to the partial removal of low corporate earnings in 2020 from the rolling calculation window, all regions have now become significantly cheaper on a P/E basis than they were four weeks ago. Compared to the historical median, however, they remain highly valued.

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 - 15/01/2021

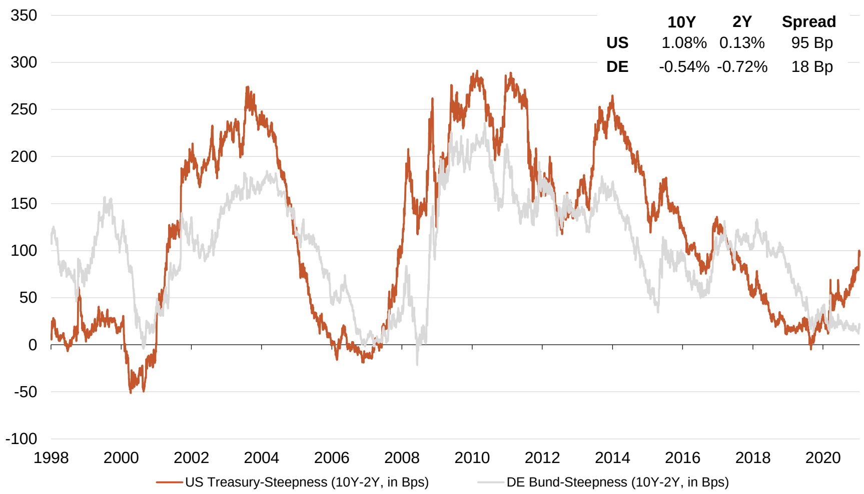
10-Year Government Bond Yields



- The global economic recovery, increasing risk appetite and higher inflation expectations caused yields on European government bonds to rise - despite the worsening Covid-19 situation. In the last four weeks, these have risen by up to 5 bps.
- US government bond yields were up even more significantly. The Democrats' victory in the run-off elections in Georgia, the OPEC+ oil cuts and good economic data in December led to rising inflation expectations and yields.

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 - 15/01/2021

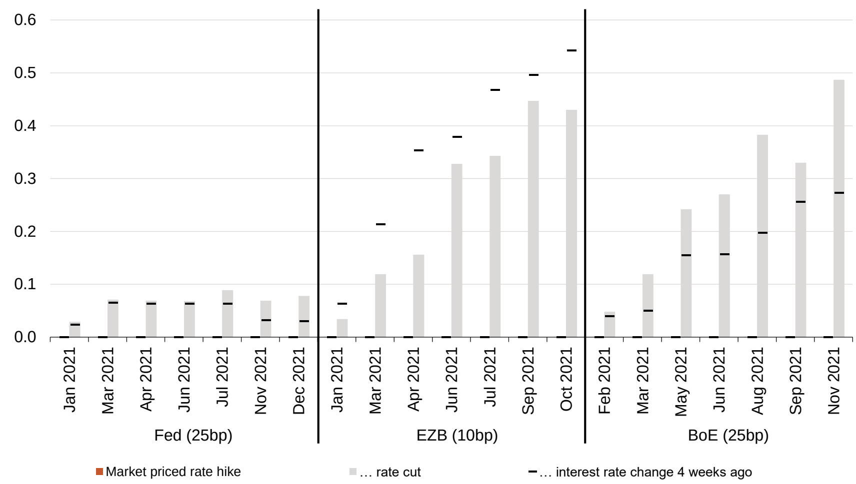
Yield Curve Steepness (10Y - 2Y)



- The steepness of the US yield curve has also increased significantly for the reasons mentioned above. At over 90 bps, it has reached levels last seen before 2018.
- The steepness of the German yield curve, on the other hand, remains very low at under 20 bps.

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 - 15/01/2021

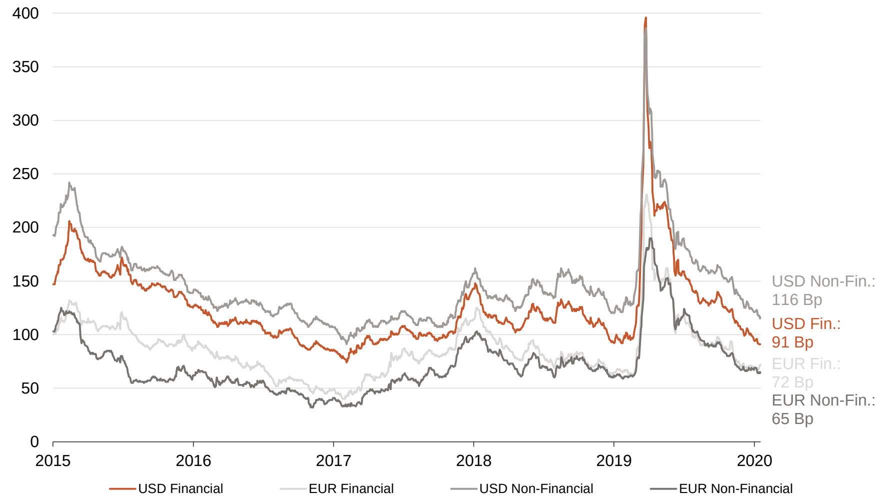
Implicit Changes in Key Interest Rates



- Despite investors' rising inflation expectations, a rate hike by central banks in 2021 remains unlikely. Market participants do not expect the ECB, Fed or BoE to raise interest rates.
- In contrast, the ECB is expected to cut interest rates with a probability of over 40% by October 2021 and the BoE with a probability of almost 50% by November 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: 25/12/2020 - 15/01/2021

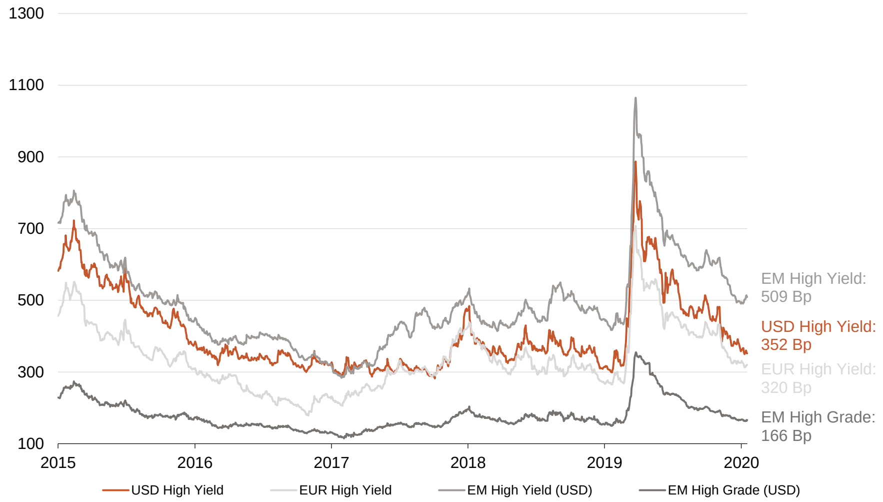
Credit Spreads Financial and Non-Financial Bonds



- In recent weeks, risk premiums on IG corporate bonds have moved slightly, having already reached levels similar to those before the Covid-19 crisis. The likelihood for a further narrowing of spreads has consequently lessened.
- At a sector level, the media and real estate sector saw the largest spread narrowing for EUR-IGs and the energy and basic materials sector for USD-IGs.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 - 15/01/2021

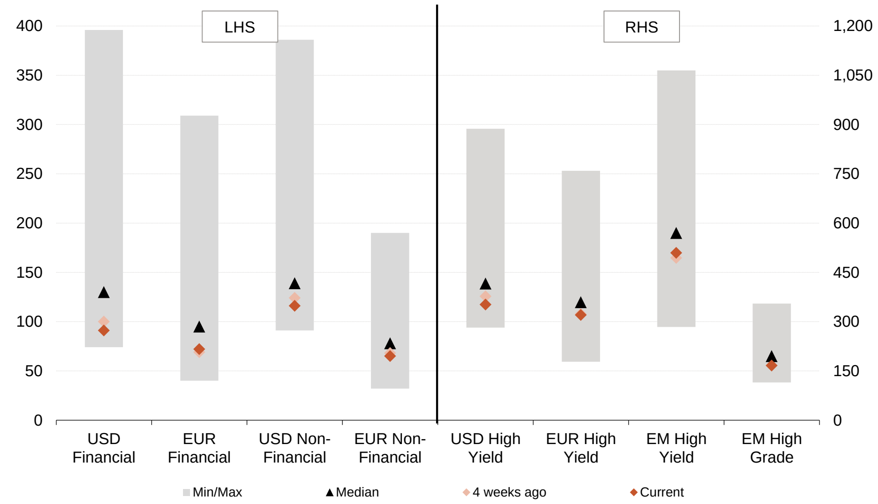
Credit Spreads High Yield and Emerging Markets Bonds



- The picture is somewhat different for high-yield bonds. There is still a little more room for the downside here. In the last few months, EUR high-yield bonds saw the biggest spread tightening with over 10 bps, while USD high-yield bonds saw less than 10 bps.
- EM high-yield bonds, on the other hand, saw spreads widen by over 20 bps.

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: 01/01/2016 - 15/01/2021

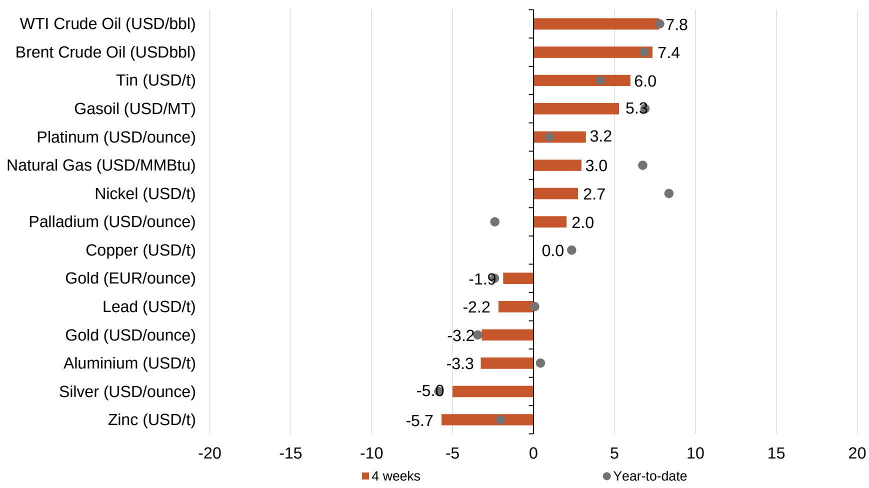
Historical Distribution of Credit Spreads (in bp)



- In the last four weeks, USD corporate bonds, in particular, saw a narrowing of spreads, while other segments such as EUR financial bonds saw little change. Nonetheless, all segments shown remain relatively expensive relative to their own history.

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: 15/01/2011 - 15/01/2021

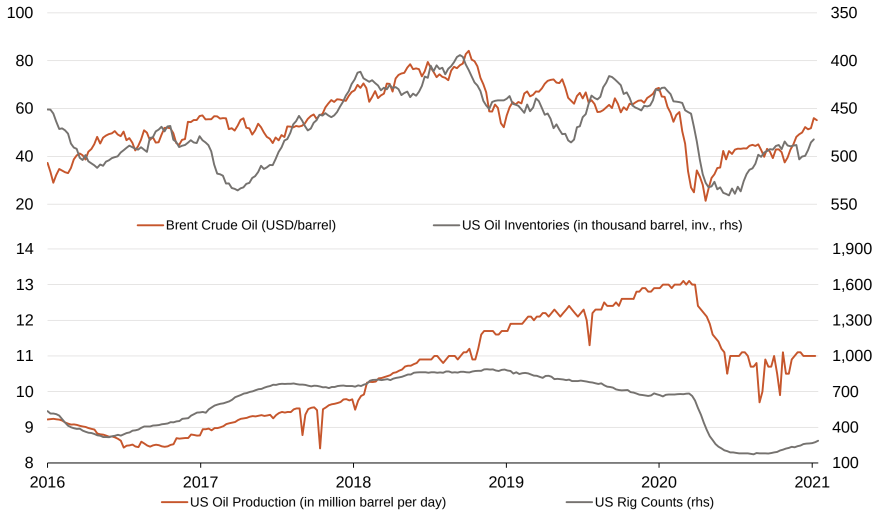
Commodities Performance



- Energy commodities have had the best start into 2021, thanks to OPEC+'s continued restrictive production policy.
- Industrial metals were also able to continue their upward trend from previous months after stagnating in December.
- Precious metals, on the other hand, with the exception of platinum, have been trading in negative territory since the beginning of the year.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 18/12/2020 - 15/01/2021

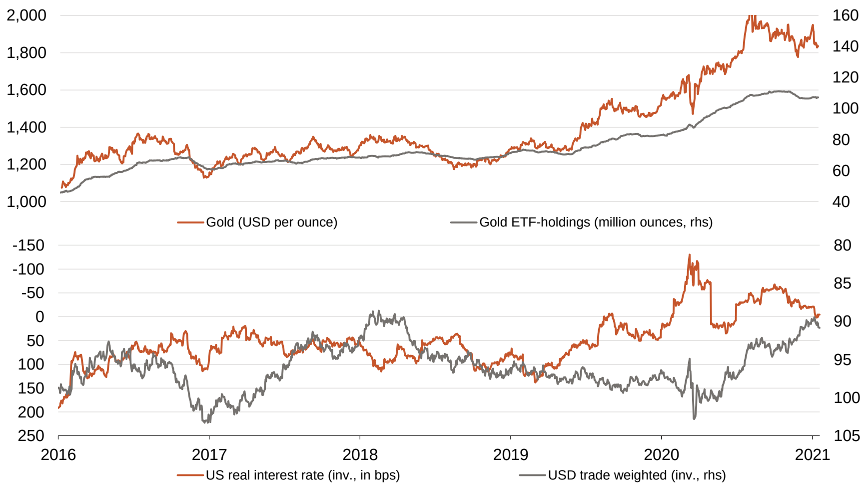
Crude Oil



- Crude oil has already gained about 6% since the beginning of the year. This rally was prompted by Saudi Arabia, as the Saudis agreed at the last OPEC+ meeting to cut their production by another one million barrels per day until the end of March. This will add to the existing supply deficit and provide fundamental support for the oil price. The backwardation of the futures curve has once again steepened significantly and signals the supply shortage.

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 - 15/01/2021

Gold



- At the beginning of the year, gold was still close to the USD 1,960 per ounce mark.
- A little later it was hit twice by rising real interest rates and a rising US dollar and fell to below USD 1,850 per ounce. However, these trends are likely to only be temporary, so the gold price should recover again.

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 US dollar. The development of gold ETF holdings reflects the demand for gold from financial investors.
Source: Bloomberg, Time period: 01/01/2016 - 15/01/2021

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IMPORTANT NOTICES

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