BERENBERG Markets

MONITOR

01 February 2021

Current market commentary

After the good start to the year, stock markets consolidated at the end of January. Virus mutations, tighter restrictions and problems with vaccine distribution tested the markets' patience, and investors reduced risks. We have also reduced our overweight in equities somewhat. We expect increased volatility in the short term - not least because of the aggressive individual stock bets by US private investors that are leading to hedge funds covering short positions which, as a consequence, also have to reduce risks on the long side. This then increases volatility, which might lead to a further risk reduction of systematic strategies. In the medium term, however, we remain optimistic. Negative real interest rates, loose monetary and fiscal policy, high cash holdings, rising profits and their relative valuation all argue in favour of equities. Moreover, demand from momentum strategies should increase from mid-March onwards, when the 1-year price momentum also turns positive for European equities.

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

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

Short-term outlook

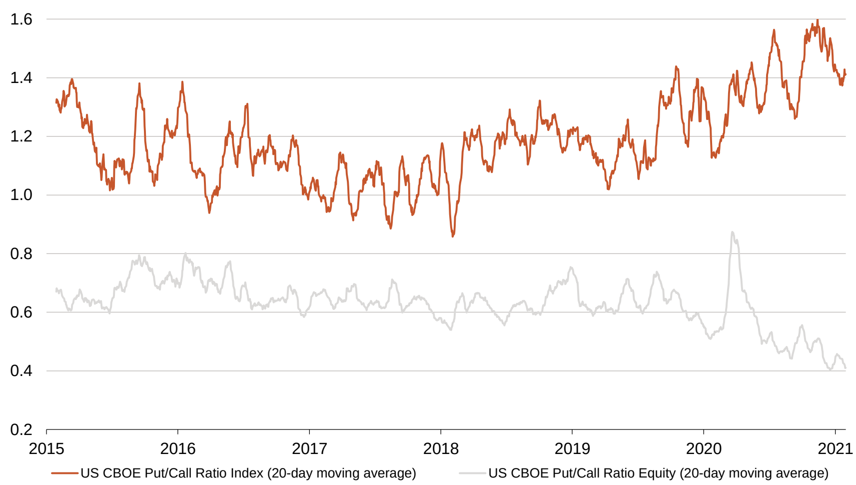
The Q4 reporting season is in full swing - with significantly more positive than negative surprises so far. In terms of market capitalisation, around 15% of companies from the STOXX Europe 600 and more than 45% from the S&P 500 have already reported. In the next two weeks, another 35% will be added to the STOXX Europe 600 and another 30% to the S&P 500. The Bank of England also meets on 4 February. The market does not expect an interest rate move for the time being. In China, the New Year will be celebrated on 12 February.

Q420 reporting season: more positive than negative surprises.

Today, the manufacturing purchasing managers' index (PMI) for the US and some European countries will be published. On Tuesday, the Q4 GDP growth of the Eurozone will be published and on Wednesday the purchasing managers' index of the service sector for Spain, Italy, China and the USA. The state of the beleaguered service sector is likely to be of strong interest. On Friday, German new orders and monthly US labour market data will be released.

State of the service industry in focus.

Option markets euphoric for single stocks, sceptical for overall market



- The historically very low put-call ratio for US individual stocks shows that investors are aggressively positioned for selected individual stocks, but hardly take any hedges for them.
- In contrast, the put-call ratio for US index options remains elevated. Investors thus seem to be hedging the overall market, even if they are betting on a strong performance of individual names, especially tech stocks.

Source: Bloomberg, Period: 01/01/2015 - 29/01/2021

Multi Asset

	4W (01/01/21 - 29/01/21)	YTD (31/12/20 - 29/01/21)	29/01/20 29/01/21	29/01/19 29/01/20	29/01/18 29/01/19	29/01/17 29/01/18	29/01/16 29/01/17
	4-week & YTD		12-month periods over that last 5 years				
Brent	7.1	7.1	-27.0	12.2	0.0	6.4	33.3
MSCI Emerging Markets	3.7	3.9	12.3	13.6	-9.9	22.2	28.2
Global Convertibles	3.1	3.1	25.9	19.3	3.7	2.7	16.3
MSCI Frontier Markets	1.1	1.1	-8.4	18.2	-10.2	12.1	19.7
Industrial Metals	0.8	0.8	13.2	-2.1	-8.3	6.6	30.1
USDEUR	0.6	0.6	-9.3	3.8	8.3	-13.6	1.2
REITs	0.5	0.6	-18.2	19.7	11.8	-9.4	5.3
Eonia	0.0	0.0	-0.5	-0.4	-0.4	-0.4	-0.3
Global Coporates	-0.2	-0.2	-2.3	14.6	5.9	-5.8	5.1
MSCI World	-0.3	-0.2	3.4	26.3	-1.7	9.0	19.6
Global Treasuries	-0.5	-0.5	-2.7	9.5	7.1	-5.9	1.8
Gold	-2.0	-2.0	6.3	24.8	6.0	-2.8	7.8

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.

- Brent benefited strongly from the production cut by Saudi Arabia. Emerging market equities also rose, supported by positive analyst earnings revisions.
- Gold was one of the relative losers recently. A stronger US dollar and rising bond yields weighed somewhat.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 29/01/2016 – 29/01/2021

Equities

	4W (01/01/21 - 29/01/21)	YTD (31/12/20 - 29/01/21)	29/01/20 29/01/21	29/01/19 29/01/20	29/01/18 29/01/19	29/01/17 29/01/18	29/01/16 29/01/17
	4-week & YTD		12-month periods over that last 5 years				
MSCI EM Asia	5.0	5.1	22.8	16.2	-11.8	26.8	23.7
MSCI USA Small Caps	4.6	4.6	12.1	19.1	2.3	2.9	33.9
MSCI UK	0.5	0.5	-17.0	16.7	-6.1	7.6	9.9
Stoxx Europe Defensives	0.3	0.3	-9.1	22.6	0.8	7.6	0.7
Stoxx Europe Small 200	0.2	0.2	5.1	19.5	-8.5	18.8	11.7
Topix	0.1	0.1	3.1	16.5	-8.6	13.0	17.8
S&P 500	-0.3	-0.3	4.8	31.4	2.1	9.5	22.7
Stoxx Europe Cyclicals	-0.8	-0.8	-1.1	17.7	-14.0	16.0	20.9
Stoxx Europe 50	-1.0	-1.0	-8.1	23.7	-8.8	10.8	8.2
MSCI EM Eastern Europe	-1.4	-1.3	-21.1	26.6	2.3	7.3	49.4
Euro Stoxx 50	-1.9	-1.9	-4.9	21.8	-11.1	13.0	11.6
DAX	-2.1	-2.1	0.7	19.0	-15.8	12.8	20.6

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.

- Asian stocks benefited from a recently initiated Asia-Pacific trade agreement in addition to the expected economic recovery in China.
- European equities fell on news of delayed vaccine deliveries and the ongoing government crisis in Italy.
- Positive earnings revisions and reduced Brexit uncertainty helped UK equities gain ground.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 29/01/2016 – 29/01/2021

Fixed Income

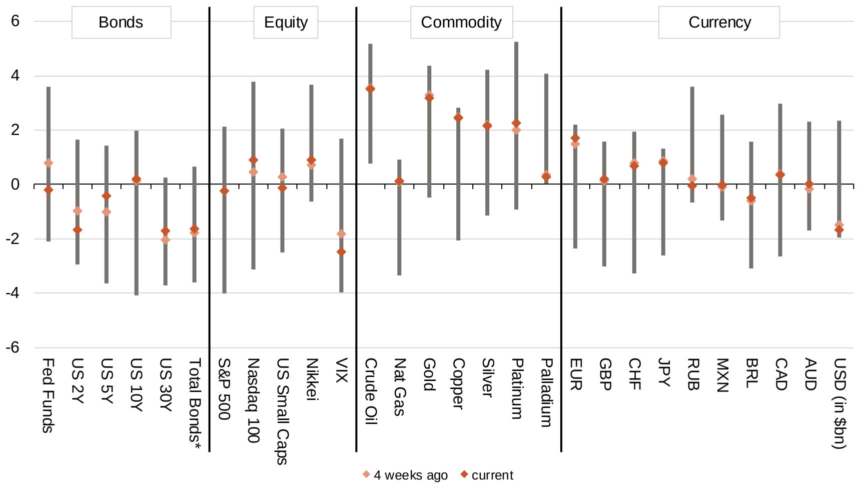
	4W (01/01/21 - 29/01/21)	YTD (31/12/20 - 29/01/21)	29/01/20 29/01/21	29/01/19 29/01/20	29/01/18 29/01/19	29/01/17 29/01/18	29/01/16 29/01/17
	4-week & YTD		12-month periods over that last 5 years				
USD High Yield	1.0	1.0	-4.8	14.4	10.2	-8.7	19.9
EUR High Yield	0.4	0.4	1.8	8.0	-2.1	4.5	9.9
EUR Inflation Linkers	0.3	0.3	1.8	7.8	-0.2	2.4	1.3
EM Local Currency Bonds	0.3	0.3	-5.0	11.1	4.2	-0.8	10.0
EUR Financials	-0.1	-0.1	1.5	6.1	-0.5	3.4	2.9
EUR Non-Financials	-0.2	-0.2	1.7	6.9	-0.1	2.3	3.9
Treasuries	-0.3	-0.3	-5.1	13.1	10.6	-12.6	0.1
USD Corporates	-0.3	-0.3	-3.6	18.9	8.5	-9.4	7.2
Bunds	-0.5	-0.5	1.0	4.1	4.1	-1.1	-0.1
BTPs	-0.7	-0.7	4.1	12.8	-0.7	3.4	-2.6
Gilts	-0.8	-0.6	-1.6	13.5	4.3	-0.6	-7.0
EM Hard Currency Bonds	-1.2	-1.2	1.0	7.9	-3.5	5.6	8.0

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.

- Rising inflation expectations caused yields to rise slightly across many regions and resulted in price losses.
- In Italy, the dissolution of the government coalition led to an additional widening of spreads.
- USD high-yield bonds remain popular with investors due to higher risk premiums relative to IG and government bonds.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 29/01/2016 – 29/01/2021

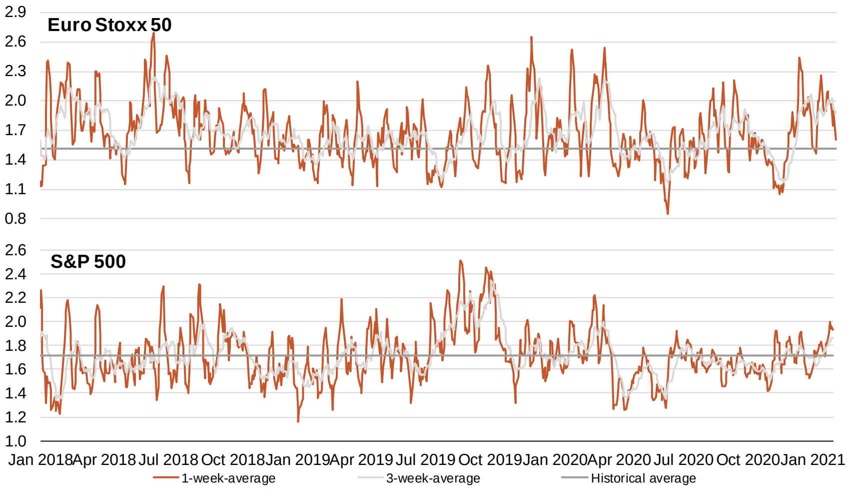
Non-Commercial Positioning



- Speculative investors used the temporary USD strength to extend their USD shorts. EUR longs were also increased.
- Within equities, hedge funds are slightly optimistic about Japanese equities in the aggregate. They are also increasingly betting on falling volatility again.

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: 26/01/2011 - 26/01/2021

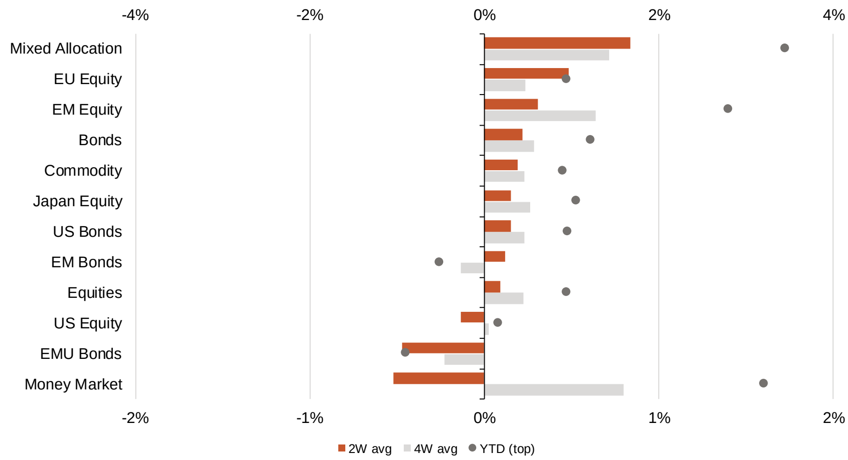
Put-Call Ratio



- While hardly any hedges in the form of puts are still being bought at the individual stock level, the situation is different at the index level. The put-call ratios for the Euro Stoxx 50 and S&P 500 are at historically above-average levels. This signals that institutional investors are increasingly hedging again.

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 - 29/01/2021

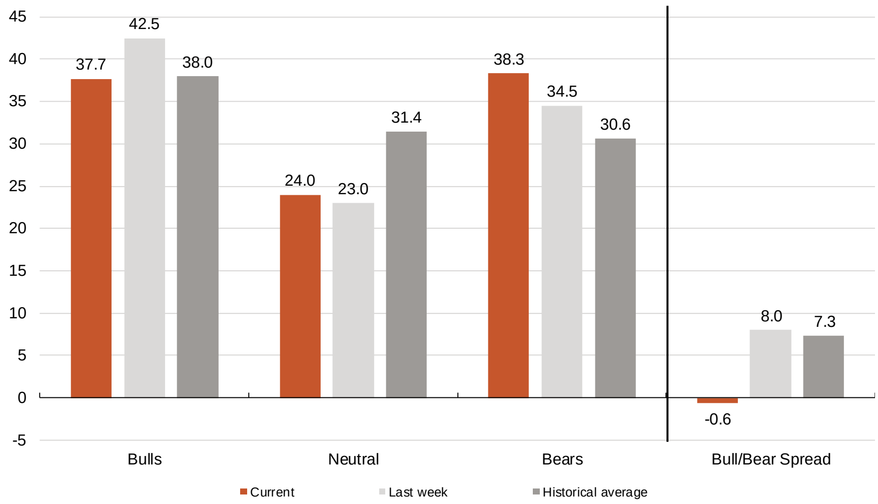
ETF Flows



- ETF investors have recently been in particular demand for multi-asset vehicles. In addition, European and emerging market equities were popular.
- Eurozone bonds, on the other hand, had to contend with outflows. The lower risk premiums and low bond yields are not exactly supportive.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 - 29/01/2021

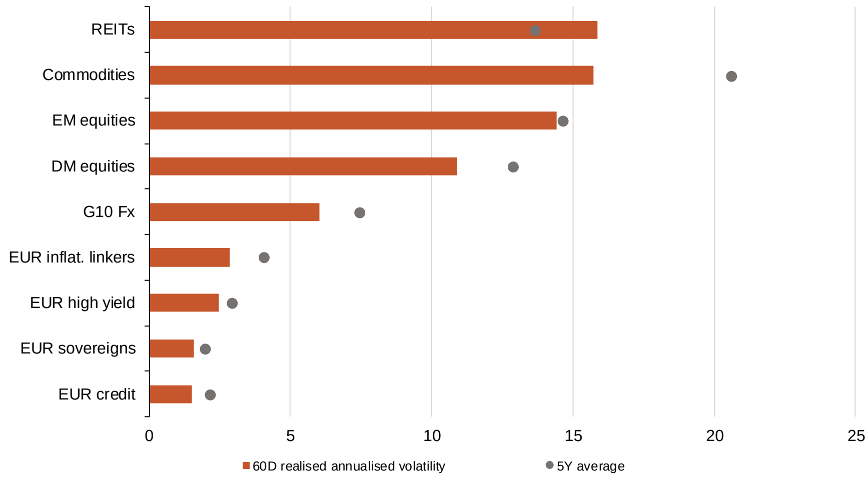
AAII Sentiment Survey (Bulls vs Bears)



- Optimism among US private investors has waned recently. For the first time since mid-October last year, the bears outweigh the bulls. Although there is currently strong speculation in individual cases, the overall market does not share this euphoria.

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 - 28/01/21

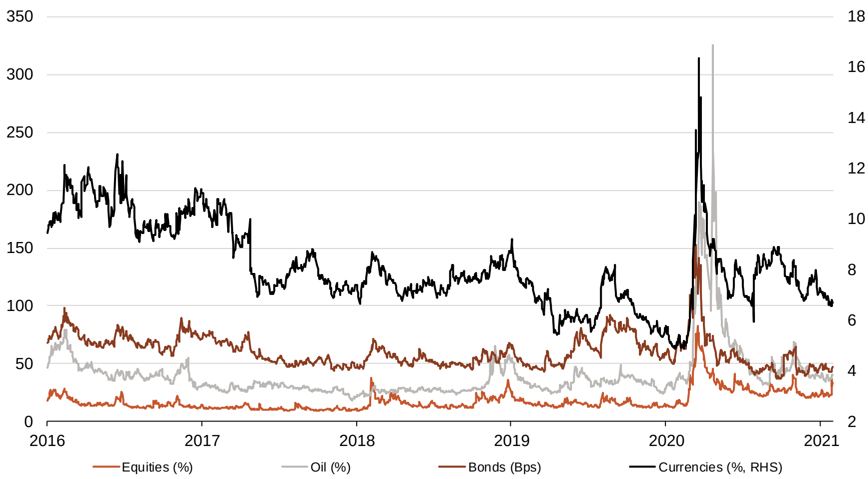
Realised Volatilities



- The realised volatility of developed market equities has fallen significantly in the last two weeks despite the recent sharper movements. The reason for this is that the volatile days from the end of October have now fallen out of the calculation. Thus, realised volatility is again below its average of the last 5 years.
- Volatility has also declined in the remaining asset classes.
- Only REITs still exhibit above-average volatility.

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: 29/01/2016 - 29/01/2021

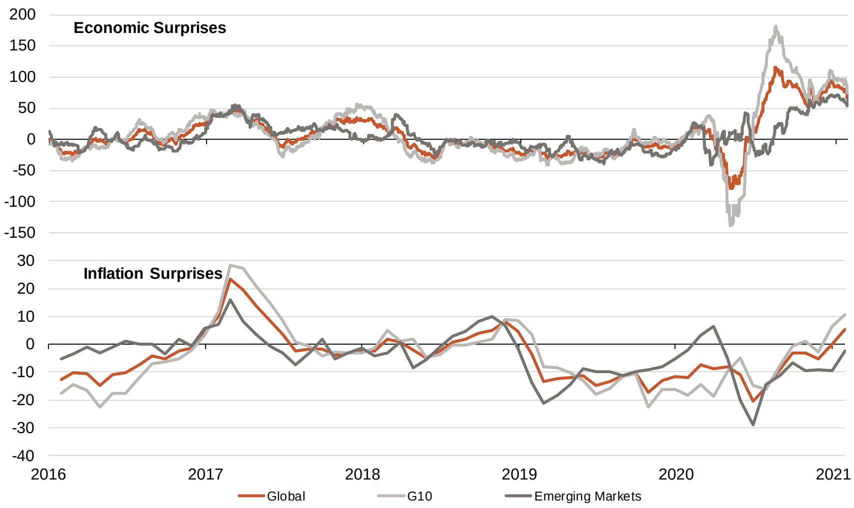
Implied Volatilities



- The VIX jumped sharply again last week and at times almost reached the 38 mark. Since then, however, the "fear barometer" has fallen again and is currently trading around the 33 mark.
- Implied volatilities remained largely unchanged for oil and government bonds, and even fell slightly for currencies.

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 - 29/01/2021

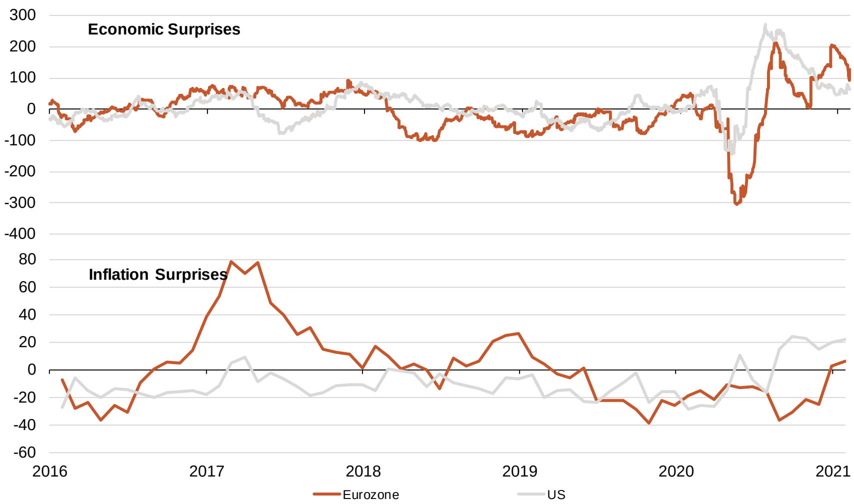
Global



- The positive economic surprises are beginning to subside, at least temporarily, as the effects of the lockdown measures are reflected in the economic data. With the end of the current Covid-19 wave (thanks to vaccines and warmer weather), economic activity should pick up again.
- In China, Q4 economic and industrial production growth for December were above 6% (YoY). However, both were slightly below expectations. On the other hand, retail sales surprised positively.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 29/01/2021

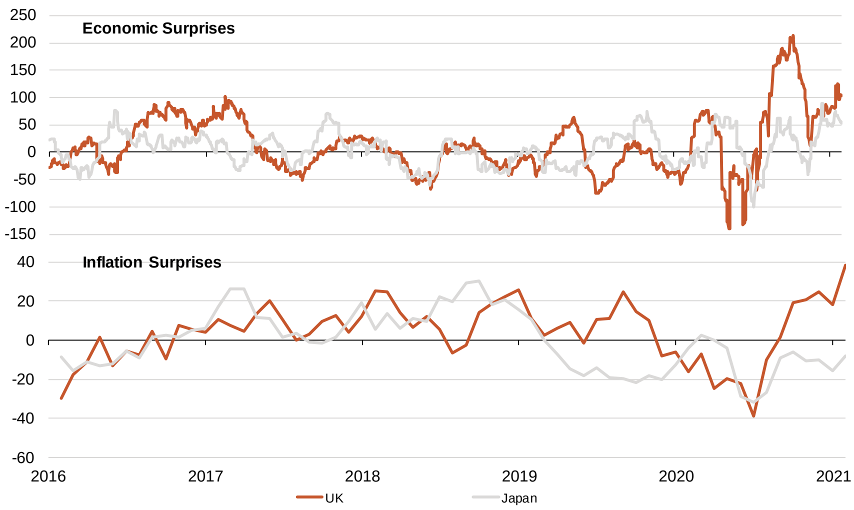
Eurozone and US



- The strict lockdown measures in the Eurozone weighed on the economy in Q4. In Germany, consumer confidence, the ZEW and IFO economic indices have disappointed, while the purchasing managers' indices (PMI) have surprised positively.
- In the US, on the other hand, there have been more positive surprises recently. In addition to the labour market data, the Markit PMIs (Dec.) beat expectations, while Q4 growth slightly disappointed.
- Inflation has recently surprised on the upside in the Eurozone and the US.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 29/01/2021

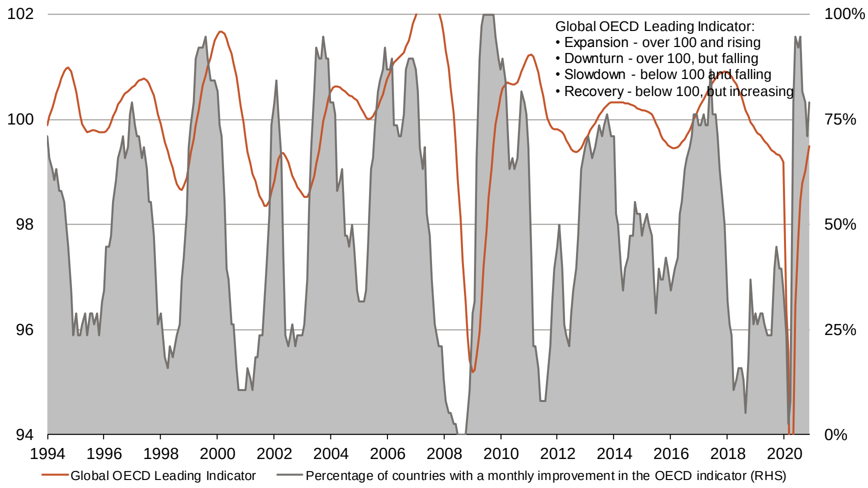
UK and Japan



- In the UK, the unemployment rate was better than expected, while PMIs and retail sales disappointed.
- In Japan, the preliminary January PMIs were below the December PMIs. Retail sales (Dec.), on the other hand, surprised positively.

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 - 29/01/2021

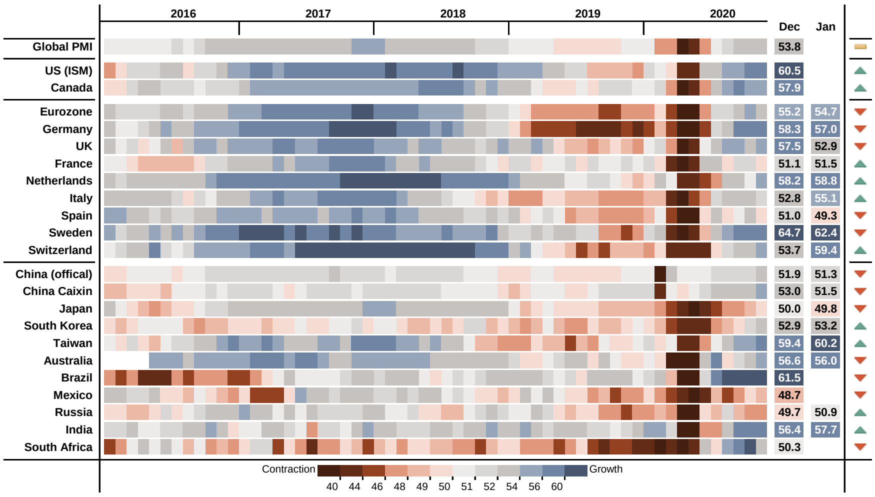
OECD Leading Indicator



- In December, the OECD Leading Indicator rose to almost 99.5 points. More than 75% of the participating countries achieved an improvement in the indicator compared to November. The economic recovery is thus broadly supported.

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 - 31/12/2021

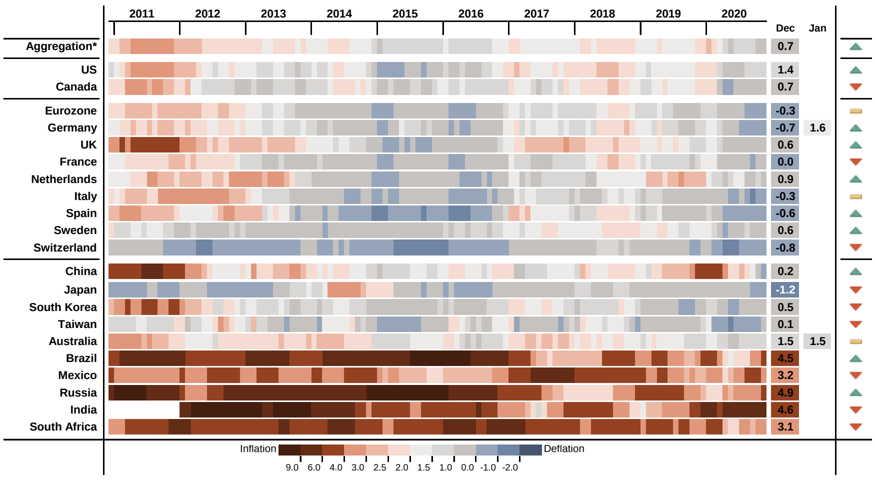
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The Eurozone PMI remained above the 50-point growth threshold in January, even though it fell slightly compared to the previous month. Only in France did it rise slightly compared to the previous month.
- In China, the PMIs also recorded a slight decline.

The PMI is an overall index that provides a general overview of the economic situation in industry. The PMI is derived from a total of eleven sub-indices, which reflect the change from the previous month. A value of 50 is regarded as neutral, a value of over 50 points as an indicator of rising activity in industry and a value of less than 50 points for falling activity in industry compared with the previous month. The index has an average lead time before actual industrial production of three to six months. The PMI is based on a survey of a relevant selection of purchasing managers regarding the development of parameters such as incoming orders.
Source: Bloomberg, Time period: 31/01/2016 - 29/01/2021

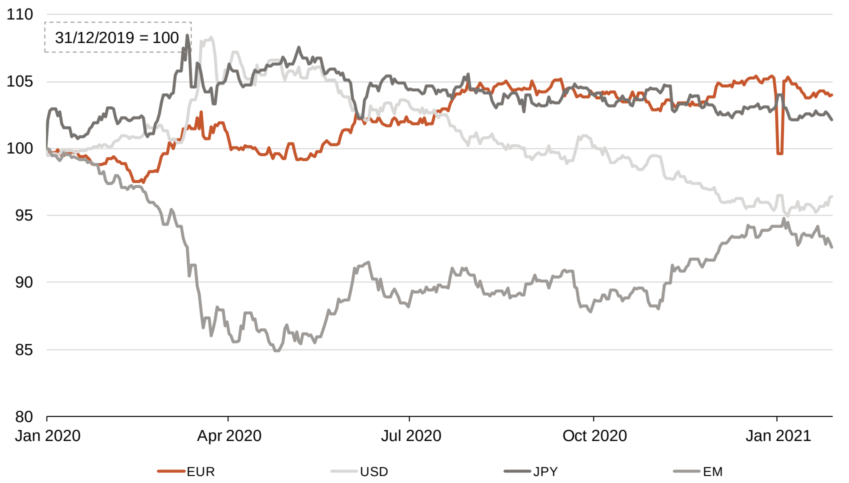
Headline Inflation



- Global aggregate inflation rose slightly in December to 0.7% from 0.6% in November. Inflation thus seems to be picking up.
- In Germany, preliminary January inflation jumped to 1.6%. In December it was still at -0.7%. The expiry of the temporary VAT cut, higher CO_2 prices and increased minimum wages have pushed prices up.

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 - 29/01/2021

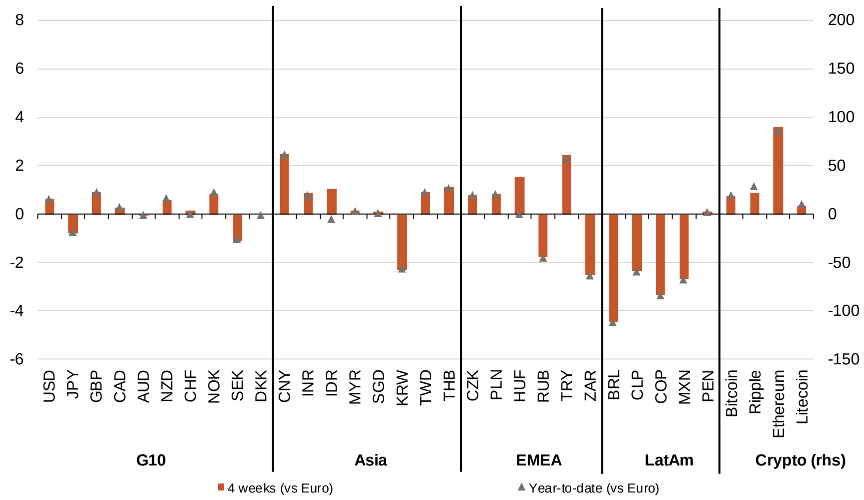
Trade-Weighted Currency Development



- A clear trend could not be observed in currency markets over the last two weeks. The trade-weighted currency indices shown here fluctuated sideways, influenced by Covid-19 news flow.
- The recent risk-off sentiment caused the US dollar to strengthen somewhat and emerging market currencies to fall.

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 - 29/01/2021

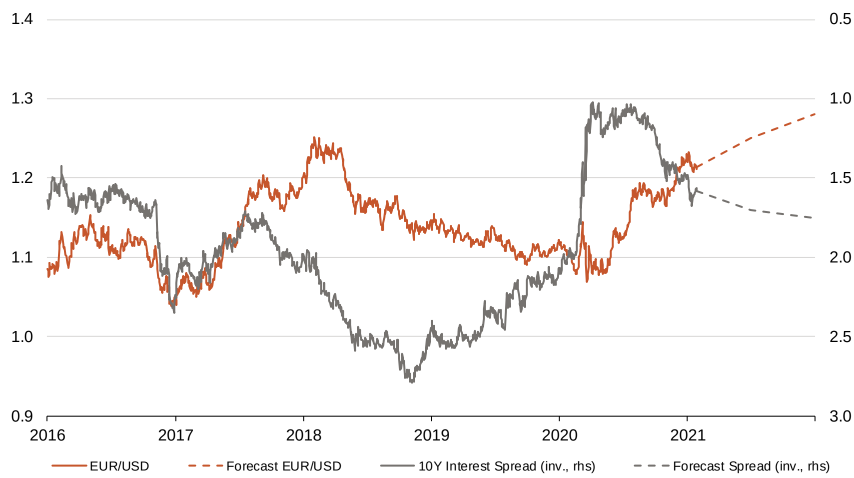
Currency Moves vs Euro



- Since the beginning of the year, most currencies have been ahead of the euro. However, the weakness of the euro is more due to the mismanagement of the EU's vaccine strategy than to Christine Lagarde's threats to lower the already negative deposit rate even further if necessary.
- Latin American currencies, the Russian ruble and the South African rand exhibit noticeable losses against the euro.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2020 - 29/01/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD exchange rate has fluctuated around the 1.21 mark over the past two weeks. Neither the ECB nor the Fed meeting could give the currency pair any direction.
- The interest rate differential between US Treasuries and Bunds has recently narrowed again, as interest rates have fallen, especially in the US.

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

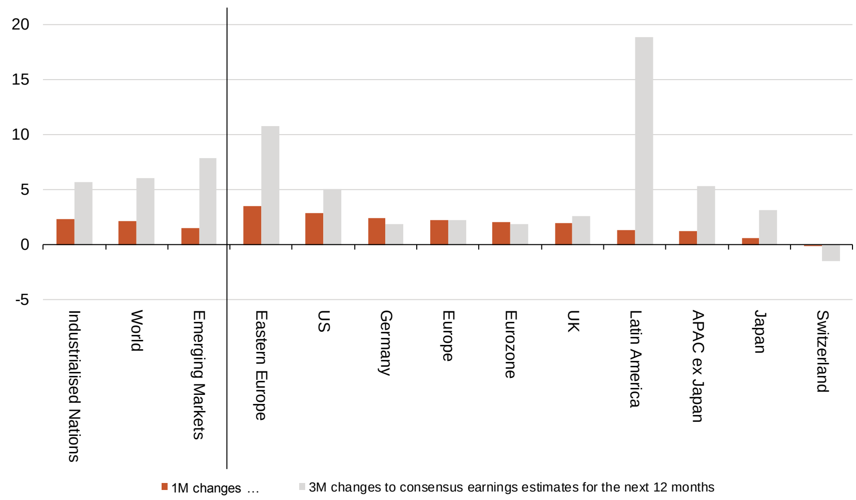
	4-week & YTD: 4W (01/01/21 - 29/01/21)	4-week & YTD: YTD (31/12/20 - 29/01/21)	12-month periods over that last 5 years: 29/01/20 29/01/21	29/01/19 29/01/20	29/01/18 29/01/19	29/01/17 29/01/18	29/01/16 29/01/17
Energy	2.4	2.4	-30.2	2.0	-0.2	11.3	31.4
Information Technology	2.3	2.3	13.0	31.2	-2.1	21.9	10.1
Materials	1.0	1.0	14.3	13.3	-11.0	16.8	51.8
Health Care	0.7	0.7	-4.9	33.8	-0.1	4.7	-2.8
Telecommunications	0.2	0.2	-13.6	5.4	-10.0	4.4	-13.0
Industrials	-0.5	-0.5	1.1	28.5	-9.5	16.0	18.7
Growth	-0.6	-0.6	2.5	28.9	-6.0	12.2	5.0
Utilities	-0.8	-0.8	1.1	32.6	12.1	9.6	-6.4
Value	-0.9	-0.9	-12.9	12.0	-10.1	11.3	17.0
Consumer Discretionary	-2.1	-2.1	6.5	21.2	-11.4	12.2	9.6
Consumer Staples	-2.8	-2.8	-7.9	22.7	-3.3	5.6	0.8
Finance	-2.8	-2.8	-17.0	12.9	-18.6	15.2	17.4

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.

- Amid concerns of a delayed economic recovery, the financial sector performed the worst. Consumer goods were also among the underperformers.
- The energy sector benefited from higher oil prices. The health sector and IT were also among the few winners in recent weeks.

Total return of European equity sectors and European style indices, in euros and in percent, sorted by 4-week performance. The difference between Value and Growth lies in the valuation. A growth stock is highly valued because the company is expected to grow strongly. Value stocks generally have less growth potential and are valued lower.
Source: Factset, Time period: 29/01/2016 – 29/01/2021

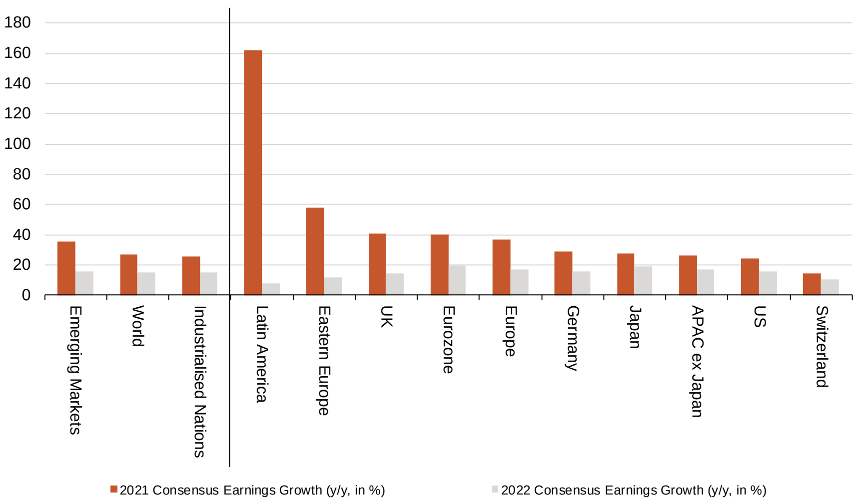
Changes in Consensus Earnings Estimates



- The US reporting season for the fourth quarter exceeded analysts' expectations. More than 80% of the companies have exceeded earnings expectations so far. Accordingly, earnings estimates are being adjusted further upwards.
- But other regions also see positive profit revisions. Switzerland remains an exception.

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 29/01/2021

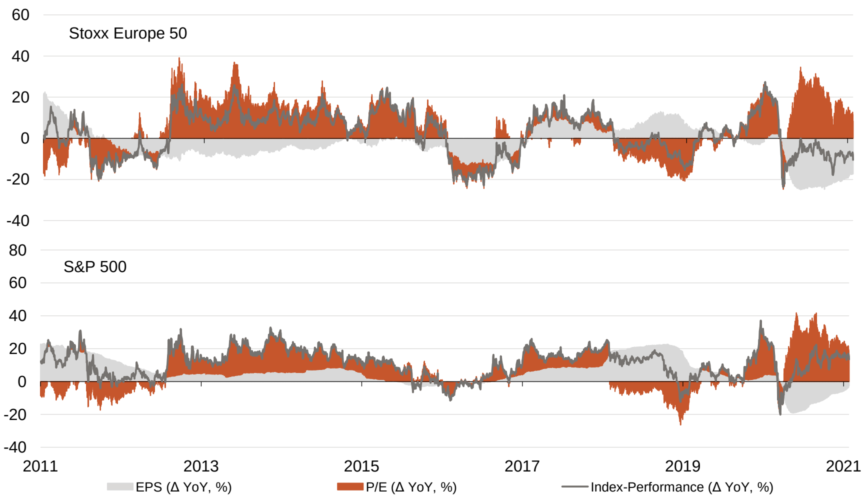
Earnings Growth



- For 2021, consensus expects Latin America to grow profits by more than 160%. Eastern Europe and the UK follow as regions with the highest earnings growth rates.
- Overall, earnings for emerging markets are expected to rise more strongly than profits for developed markets in 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 29/01/2020

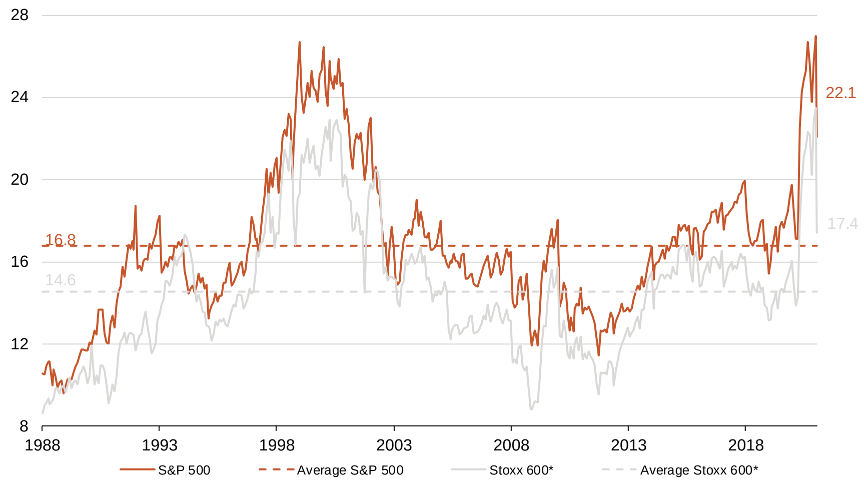
Contribution Analysis



- While US equities are clearly positive again on a 1-year basis, eurozone equities are still in the negative territory. This is mainly due to the fact that corporate profits there have developed significantly worse than in the USA.

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 - 29/01/2021

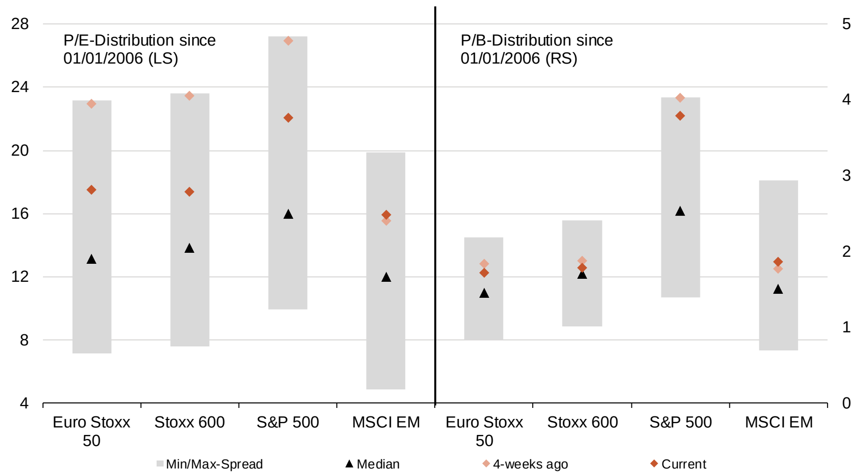
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Valuations continue to tumble. The fall out of old earnings estimates from 2020 as well as positive earnings revisions make for more moderate P/E ratios - even if they still seem high from a historical perspective.

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 - 29/01/2021

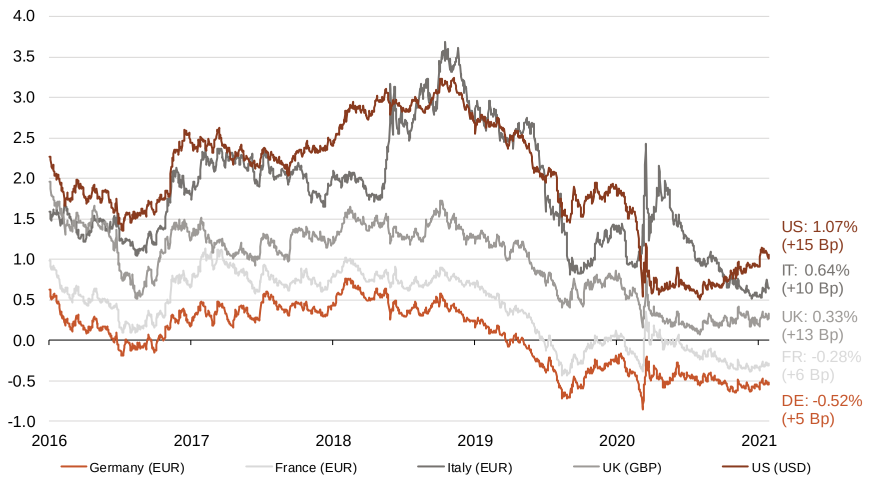
Historical Distribution: Price/Earnings and Price/Book Ratio



- Over the last four weeks, valuation ratios have fallen significantly for all regions, especially on a P/E basis, but also on a P/B basis.
- In relative terms, emerging markets remain attractive.

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 - 29/01/2021

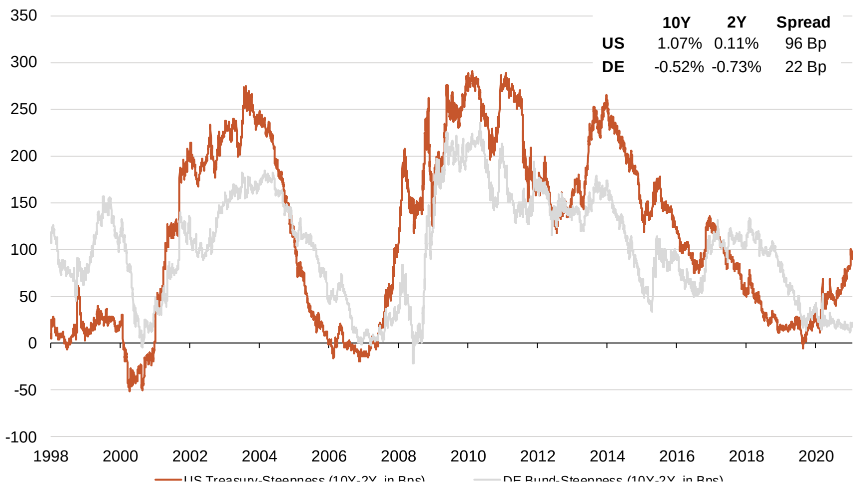
10-Year Government Bond Yields



- Investors' rising inflation expectations are pushing up yields. Massive fiscal packages and loose monetary policy should lead to rising prices and thus rising inflation/yields in the future. US government bonds have already reacted and are yielding over 1%.
- In Europe, investors are still somewhat more sceptical. However, in Italy yields have risen more significantly following the break-up of the government coalition and the upcoming election.

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 - 29/01/2021

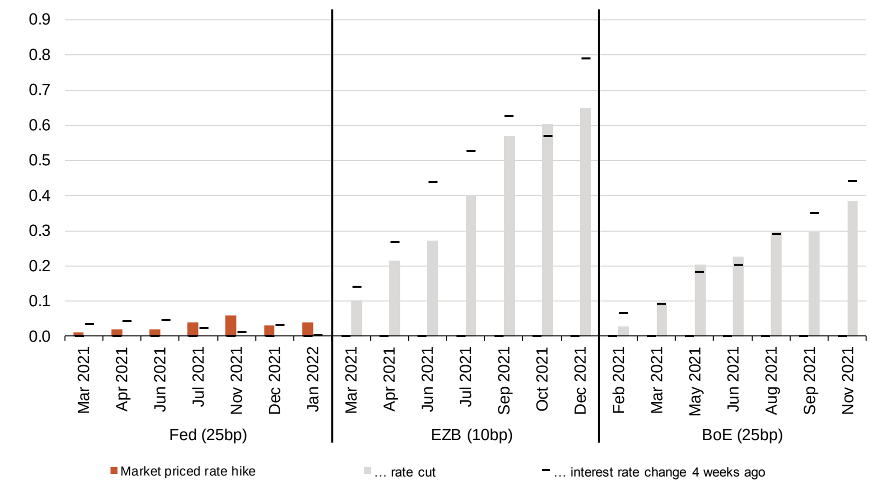
Yield Curve Steepness (10Y - 2Y)



- The steepness of the yield curve in the US remains close to 100 basis points due to rising inflation expectations.
- In Germany, a steepening of the yield curve has not been observed so far. However, this is likely to change as inflation picks up. January inflation was already above 1%.

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 - 29/01/2021

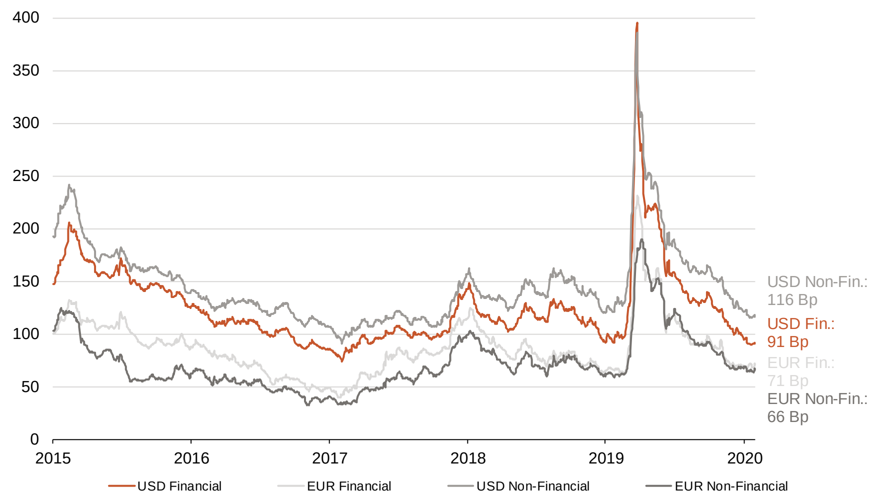
Implicit Changes in Key Interest Rates



- At its January meeting, the Fed made it clear that the expansionary US monetary policy will probably continue for a long time. Nevertheless, the first market participants are already expecting an interest rate hike in December 2021, although the probability of this is less than 10%.
- For the Eurozone, the probability of an interest rate cut remains elevated. Market participants expect this at over 60% by the end of the year.

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: 01/01/2021 - 29/01/2021

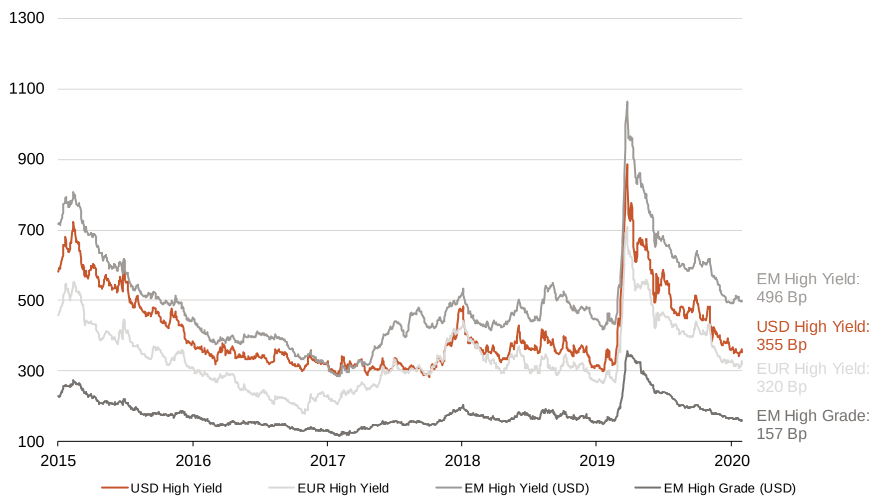
Credit Spreads Financial and Non-Financial Bonds



- Risk premiums on investment grade corporate bonds have barely moved in the last two weeks as quality was in demand in the risk-off environment.
- Below the surface, however, things look different. The more risk-sensitive sectors such as energy and leisure saw the largest spread widening in both USD and EUR over the past two weeks.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 – 29/01/2021

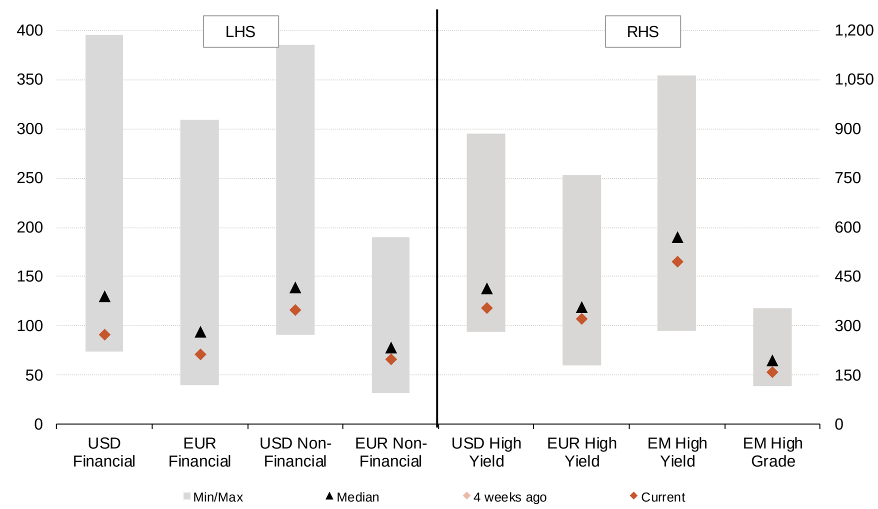
Credit Spreads High Yield and Emerging Markets Bonds



- High-yield bonds saw no spread widening over the last two weeks despite the risk-off environment. EUR and USD high-yield bonds saw little movement in spreads, while EM high-yield bonds saw further spread tightening.
- At the sector level, the insurance and energy sectors saw the largest spread widening in USD high-yield bonds.

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 – 29/01/2021

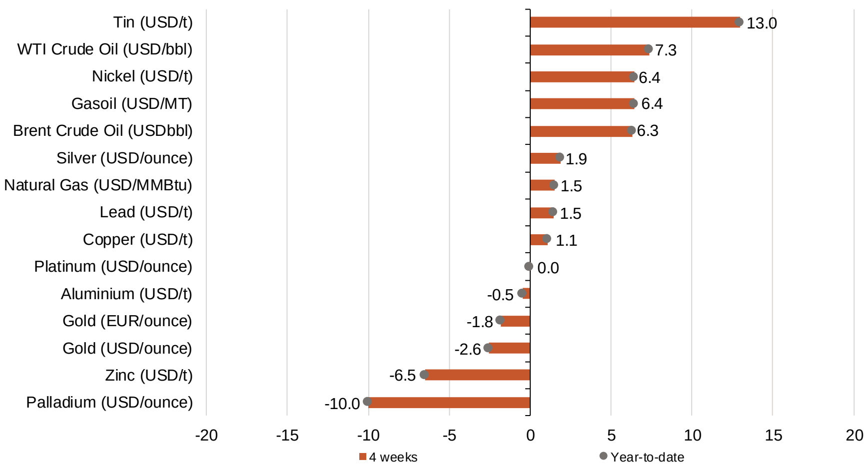
Historical Distribution of Credit Spreads (in bp)



- Risk premiums for corporate bonds are below the historical 10Y median in all segments. The potential for further decreasing risk premiums is thus limited, even if the demand for safe corporate bonds remains high.

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: 29/01/2011 – 29/01/2021

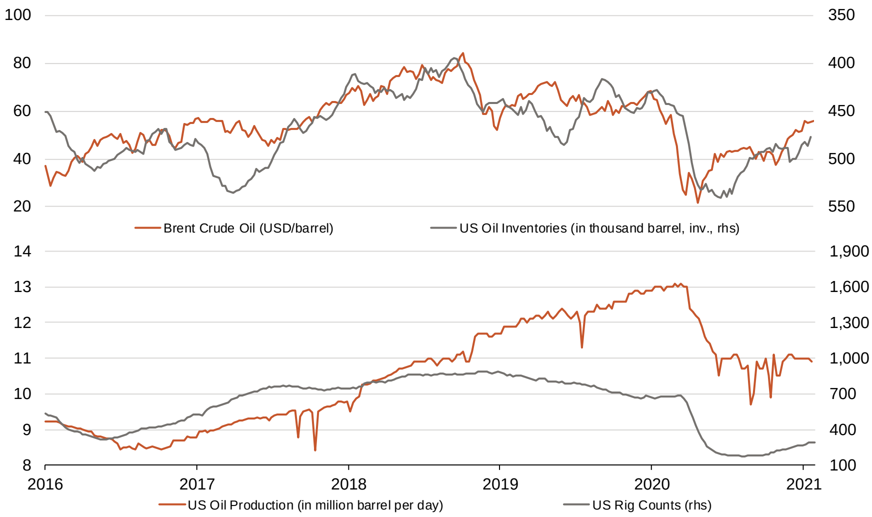
Commodities Performance



- Precious metals show a mixed picture. While gold has recorded losses since the beginning of the year, silver recently started to rally.
- Tin has been the best performer, up 13% since the start of the year. The reason for the rally is the strong demand from the electrical industry, one of the big winners of the Covid-19 crisis, so that the tin market was undersupplied last year and probably will continue to be so this year.
- Energy commodities exhibit positive returns across the board.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 29/12/2020 - 29/01/2021

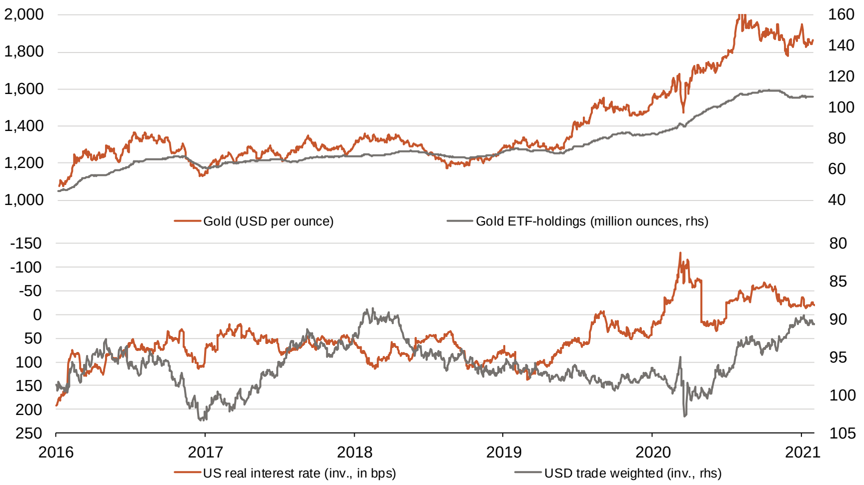
Crude Oil



- While energy stocks have recently recorded losses in the wake of only sluggish progress in vaccination, crude oil has largely been able to maintain its gains since the beginning of the year.
- The supply deficit thanks to OPEC+'s restrictive production policy was recently reflected not only in the steep backwardation of the futures curve, but also in sharply falling inventories.

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 - 29/01/2021

Gold



- After gold came under pressure at the beginning of the year due to the strengthening US dollar and rising real interest rates, the precious metal has fluctuated around the USD 1,850 per ounce mark in the last two weeks.
- However, again falling interest rates have not helped to boost the gold price so far.

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 - 29/01/2021

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IMPORTANT NOTICES

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