BERENBERG Markets

MONITOR

01 March 2021

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

Current market commentary

Rising bond yields are setting the pace in markets and are causing higher volatility across all asset classes. The 10-year US government bond yield even temporarily exceeded 1.6% last week. Some investors took refuge in money market vehicles. There was a pronounced rotation in equity markets. The relative winners were cyclicals and value sectors such as financials and energy, while defensive sectors such as utilities and highly valued growth stocks suffered. Although bond yields have already risen sharply and thus there may be some counter-movements, these trends should continue over the next few weeks. The long-term momentum signals from systematic strategies have just turned for oil and US government bond yields and should become stronger. After all, oil bottomed out in April last year, while US government bond yields also had a temporary low in April.

Short-term outlook

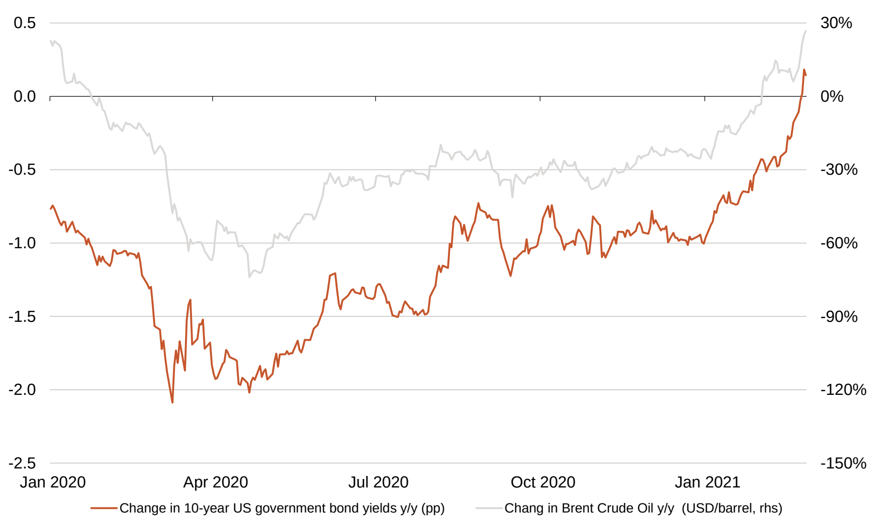
China is setting the course for the future.

China is setting the course for the future. On 4 and 5 March, the National People's Congress will take place to vote on the 14th Five-Year Plan. In addition to economic self-sufficiency and technological leadership, the focus is likely to be on ecological goals. In terms of monetary policy, things will get interesting on 11 March. On that day, the ECB will hold its monthly meeting. The monetary policy approach to the current strength of the euro and rising bond yields are likely to be topics.

Many economic data are due - purchasing managers' indices and US labour market figures in focus.

This afternoon the ISM Purchasing Managers' Index (PMI) for US industry and the preliminary inflation data (Feb.) for Germany will be released. This will be followed on Tuesday by the preliminary inflation data (Feb.) for the eurozone. Wednesday will be dominated by the beleaguered services sector, as the service PMI for the Eurozone and US will be released. In addition, German retail sales (Jan.) will be published. After US new orders on Thursday, US labour market data will follow on Friday.

12-month momentum positive for Brent and US Treasury yields now



- The sharp rise in oil prices and US government bond yields has meant that 12-month momentum has now turned for both assets.
- The short- and long-term signals from momentum strategies are now positive for oil and negative for bonds.
- As the signals are likely to get stronger in the coming weeks due to the base effect, the trends (rising oil price, falling bonds) should remain supported by systematic investment strategies.

Source: Bloomberg, Time period: 01/01/2020 - 26/02/2021

Multi Asset

	4W (29/01/21 - 26/02/21)	YTD (31/12/20 - 26/02/21)	26/02/20 26/02/21	26/02/19 26/02/20	26/02/18 26/02/19	26/02/17 26/02/18	26/02/16 26/02/17
Brent	18.0	26.5	-6.0	-4.1	9.2	2.9	41.7
Industrial Metals	10.6	11.5	26.3	-8.3	-2.8	1.9	33.0
MSCI World	3.0	2.8	10.5	15.1	6.8	2.6	24.9
Global Convertibles	2.0	5.2	28.0	14.3	9.2	-0.4	20.3
MSCI Emerging Markets	1.2	5.1	18.1	5.1	-3.3	13.6	34.9
REITs	1.1	1.7	-17.8	17.7	17.9	-16.3	11.5
MSCI Frontier Markets	0.6	1.7	-3.6	9.4	-6.8	10.4	16.9
USDEUR	0.5	1.2	-9.9	4.7	8.1	-14.2	3.5
Eonia	0.0	-0.1	-0.5	-0.4	-0.4	-0.4	-0.3
Global Coporates	-1.3	-1.6	-5.4	15.0	8.2	-8.5	7.8
Global Treasuries	-2.1	-2.6	-6.1	10.5	6.8	-7.6	2.5
Gold	-5.7	-7.6	-4.8	29.2	7.8	-9.1	6.4

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

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

- Tight supply and rising demand are boosting Brent oil and industrial metals. Since the beginning of the year, both commodity segments have gained more than 11% in euro terms.
- By contrast, sharply rising bond yields continue to weigh on government bonds and gold. Since the beginning of the year and over the last four weeks, these safe havens have declined.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/02/2016 – 26/02/2021

Equities

	4W (29/01/21 - 26/02/21)	YTD (31/12/20 - 26/02/21)	26/02/20 26/02/21	26/02/19 26/02/20	26/02/18 26/02/19	26/02/17 26/02/18	26/02/16 26/02/17
MSCI USA Small Caps	6.9	11.8	26.1	5.6	12.3	-2.7	37.8
Stoxx Europe Cyclicals	5.4	4.5	8.0	9.3	-7.0	12.3	23.3
Euro Stoxx 50	4.5	2.6	3.7	11.7	-2.4	7.4	16.2
MSCI UK	3.7	4.2	-9.3	3.9	5.0	0.0	15.4
S&P 500	3.2	2.9	12.1	19.0	10.9	2.8	28.3
DAX	2.6	0.5	7.9	10.7	-7.9	6.1	24.1
Stoxx Europe Small 200	2.5	2.7	11.1	11.5	-2.1	13.3	14.9
MSCI EM Eastern Europe	1.9	0.6	-13.8	17.9	1.4	11.2	45.5
Stoxx Europe 50	1.8	0.8	-2.9	12.4	1.9	3.3	14.3
Topix	1.7	1.8	10.9	6.7	-2.6	5.3	26.8
MSCI EM Asia	1.4	6.6	27.8	7.6	-3.1	16.0	31.4
Stoxx Europe Defensives	-0.7	-0.4	-7.1	13.8	10.6	-0.4	6.7

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

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

- The rapid rise in yields led to a pronounced rotation within equities. Investors moved away from defensive stocks and highly valued tech stocks and invested in cyclicals.
- British equities have been among the relative winners since the beginning of the year. Financials and commodity sectors, which have performed well this year, are strongly represented in this equity index.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/02/2016 – 26/02/2021

Fixed Income

	4W (29/01/21 - 26/02/21)	YTD (31/12/20 - 26/02/21)	26/02/20 26/02/21	26/02/19 26/02/20	26/02/18 26/02/19	26/02/17 26/02/18	26/02/16 26/02/17
EUR High Yield	0.6	1.0	2.9	5.4	0.6	3.0	11.2
USD High Yield	0.5	1.5	-5.1	12.4	13.8	-11.2	23.2
EUR Financials	-0.5	-0.7	0.7	5.1	0.7	2.1	4.4
BTPs	-0.8	-1.4	3.3	13.5	-1.5	3.7	-2.5
EUR Non-Financials	-0.9	-1.1	0.5	5.8	1.0	0.9	4.7
EUR Inflation Linkers	-1.2	-0.9	0.6	7.9	-0.9	2.5	2.6
EM Local Currency Bonds	-1.4	-1.1	-6.7	10.1	5.2	-4.6	15.4
USD Corporates	-1.5	-1.9	-7.4	19.7	11.4	-12.3	10.1
Treasuries	-1.7	-2.0	-9.6	15.4	12.1	-14.7	2.5
Bunds	-2.0	-2.4	-1.9	4.6	4.1	-2.6	0.6
EM Hard Currency Bonds	-2.5	-3.6	-2.2	7.1	-0.3	1.9	8.4
Gilts	-3.8	-4.4	-6.5	13.3	6.3	-4.7	-0.8

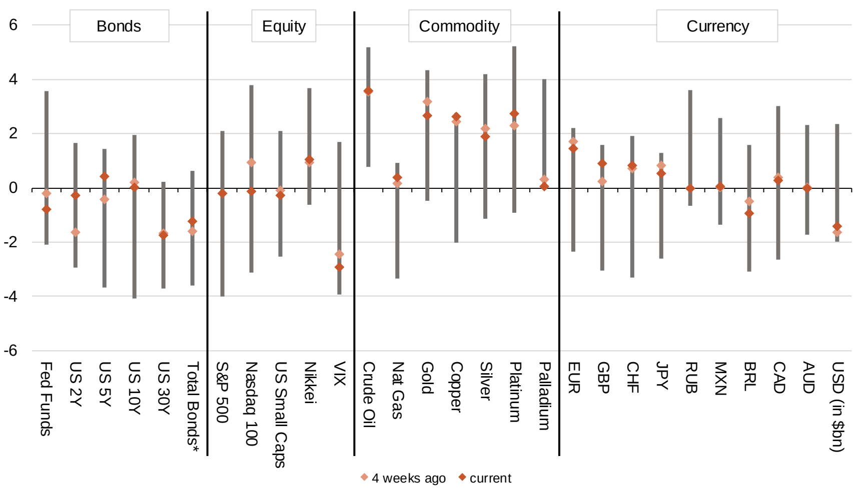
4-week & YTD; 12-month periods over that last 5 years

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

- Since the beginning of the year, only one bond segment is now in the green: high-yield bonds. The relatively short duration and the hunt for yield in the current low interest rate environment are supporting prices here.
- Government bonds have really taken a beating in the last four weeks. Bond yields on 10-year US Treasuries rose 34bp in February.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/02/2016 – 26/02/2021

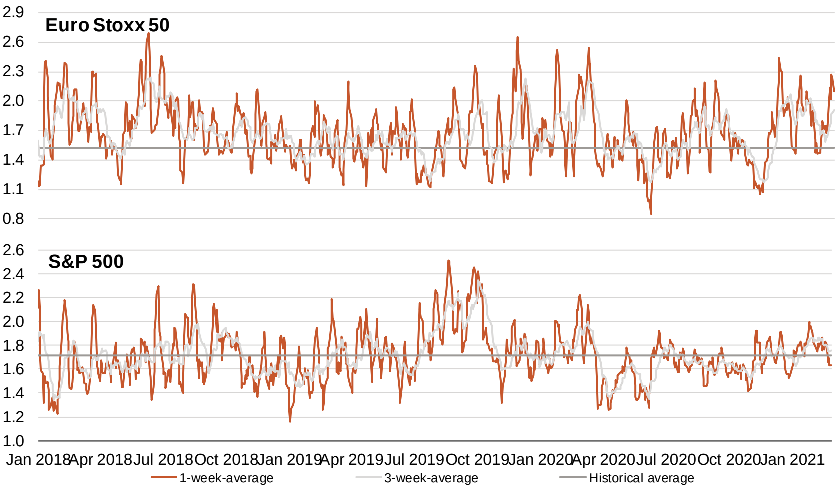
Non-Commercial Positioning



- Speculative investors have reduced their bets on rising interest rates over the past four weeks. The positioning is accordingly anything but pronounced. This could put further pressure on US government bonds.

The Commodity Futures Trading Commission (CFTC) publishes the Commitments of Traders Reports every Friday. A distinction is made between "non-commercial" and "commercial traders" positions. Non-commercial traders enter into purely speculative positions. Commercial traders hedge underlying transactions with futures or options. The chart shows the historical, normalized distribution in standard deviations and focuses on the net future position (long positions minus short positions) of non-commercial traders, thus indicating how speculative investors have positioned themselves.
*Duration weighted average bond position.
Source: Bloomberg, CFTC, Time period: 23/02/2011 - 23/02/2021

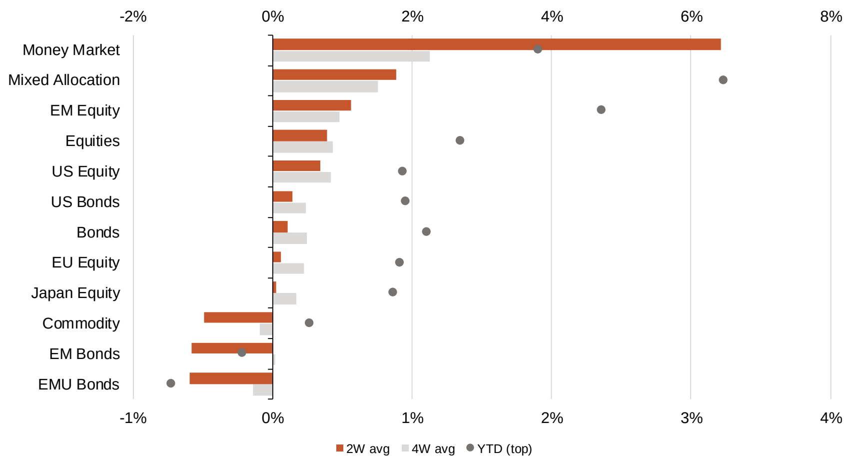
Put-Call Ratio



- The put-call ratio for the Euro Stoxx 50 has recently increased significantly. This indicates an increasing hedging demand by investors. Especially since the implied volatility for US equities is significantly higher, which makes US hedging relatively more expensive. Accordingly, the put-call ratio for the S&P 500 is not particularly pronounced.

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 - 26/02/2021

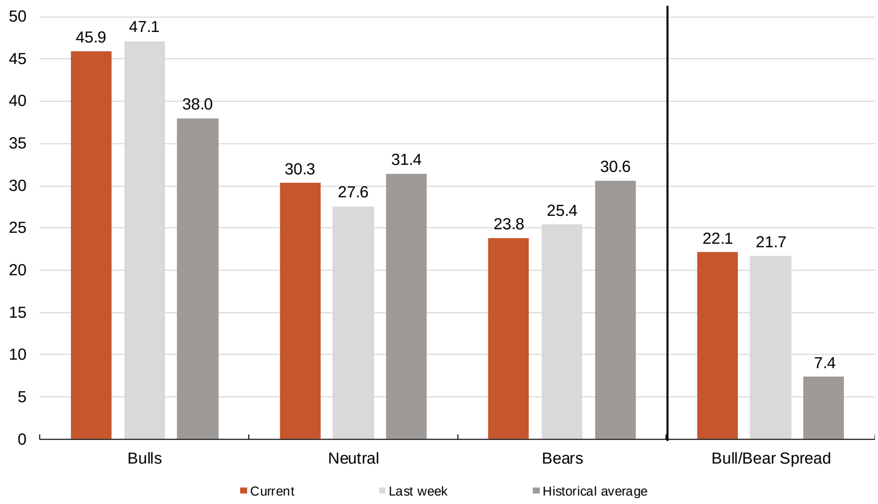
ETF Flows



- The turmoil in the markets has led to increased demand for money market and multi-asset ETFs.
- Bond ETFs, on the other hand, have seen outflows, for example in the emerging market space.
- Strong outflows in gold ETFs also caused outflows in commodities in general.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 - 26/02/2021

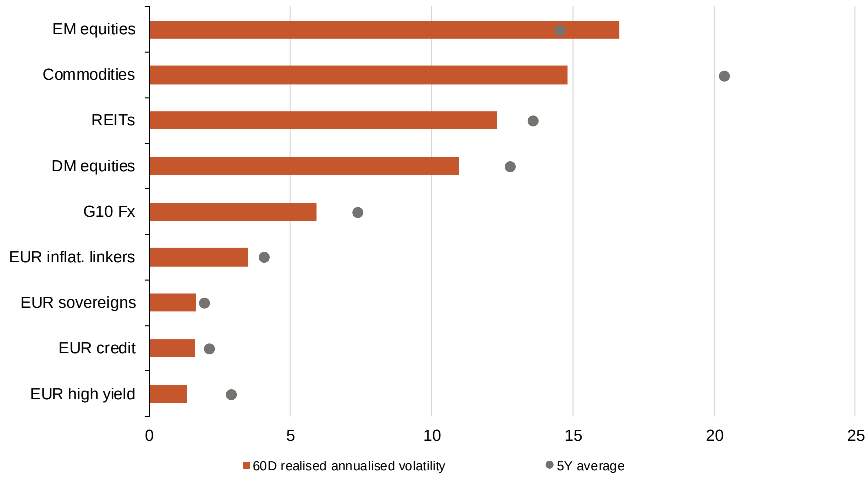
AAII Sentiment Survey (Bulls vs Bears)



- Optimism among US private investors remains high. The bull-bear spread has even risen slightly compared to the previous week and at 22.1pp is well above the historical average of 7.4pp. Too much optimism tends to be negative for the markets.

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 – 24/02/21

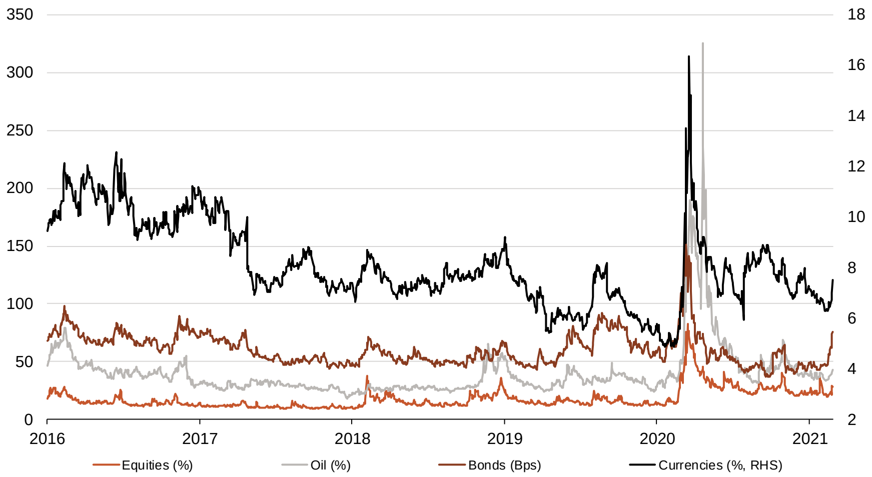
Realised Volatilities



- While realised volatility for developed market equities is still below the 5-year average, this is not the case for emerging market equities. Realised volatility is highest relative to all other asset classes and relative to its own history.
- The volatility of EUR high-yield bonds, on the other hand, is historically low.

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: 23/07/2016 – 26/02/2021

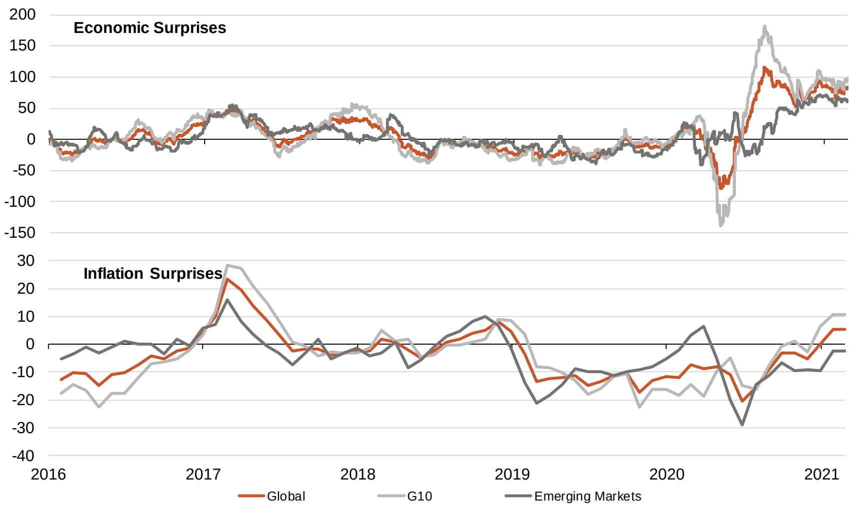
Implied Volatilities



- Recently, implied volatilities have increased across all asset classes due to the strong rise in bond yields.
- The implied volatility for government bonds has naturally increased the most.

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 – 26/02/2021

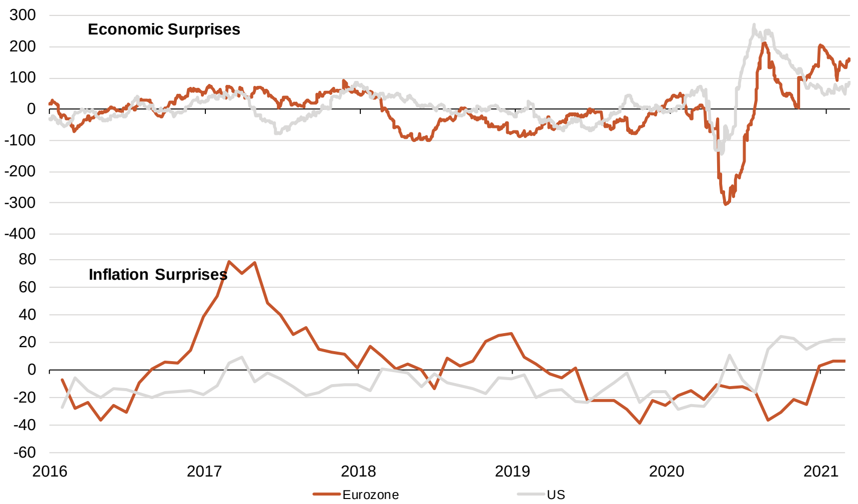
Global



- Economic data at the global level as well as in the G10 countries and the emerging markets were able to surprise to the upside on average in recent weeks.
- In emerging markets, India saw exports rise by 6.2% (YoY) in January and in Russia the unemployment rate fell to 5.8%. Retail sales in Russia and South Africa also surprised to the upside in January.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 26/02/2021

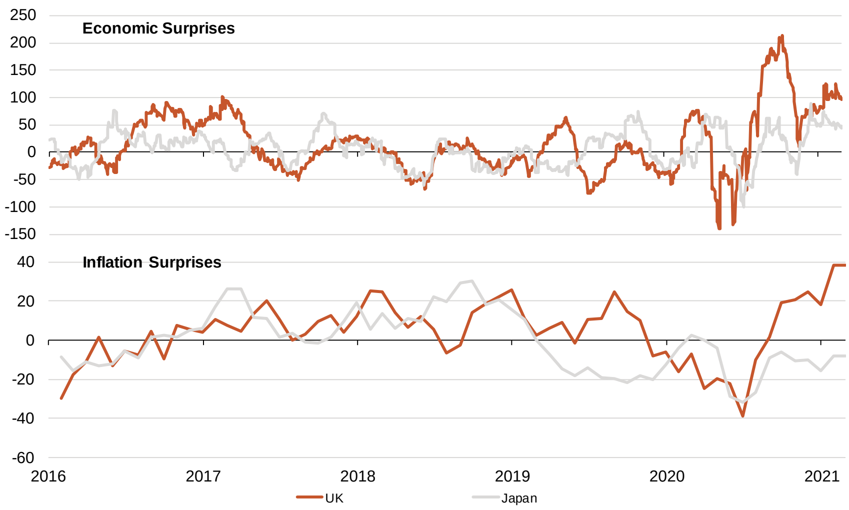
Eurozone and US



- Recent economic data in the Eurozone and the US also surprised to the upside. In Germany, the Ifo business climate index (Feb.) unexpectedly rose strongly. The ZEW economic expectations and the manufacturing PMI also surprised significantly upwards.
- In the US, consumer confidence, retail sales, durable goods orders and industrial production, among others, beat expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 26/02/2021

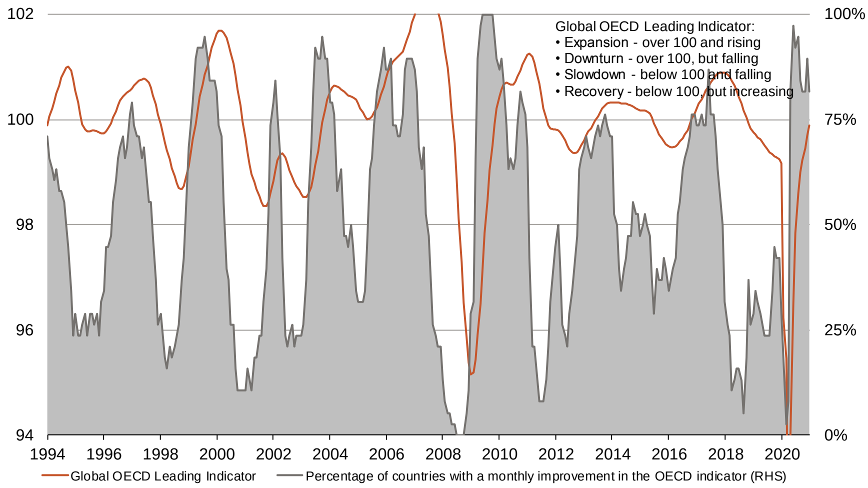
UK and Japan



- In Japan, industrial production data, Q4 economic growth, retail sales and machinery orders were better than expected.
- In the UK, the industrial and services PMIs surprised to the upside, while retail sales disappointed.

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 - 26/02/2021

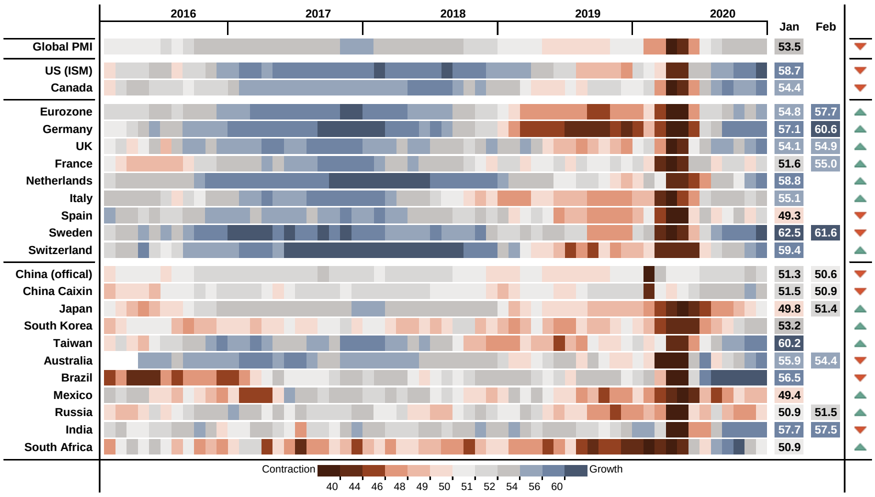
OECD Leading Indicator



- With a value of 100 and rising, the global economy would turn into expansion. At 99.9, and thus the global economy is on the verge of expansion, according to the OECD Early Indicator. The individual country values also indicate that the value of 100 is imminent. In 82% of all countries, the value rose in January compared to December, despite lockdowns.

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 - 31/01/2021

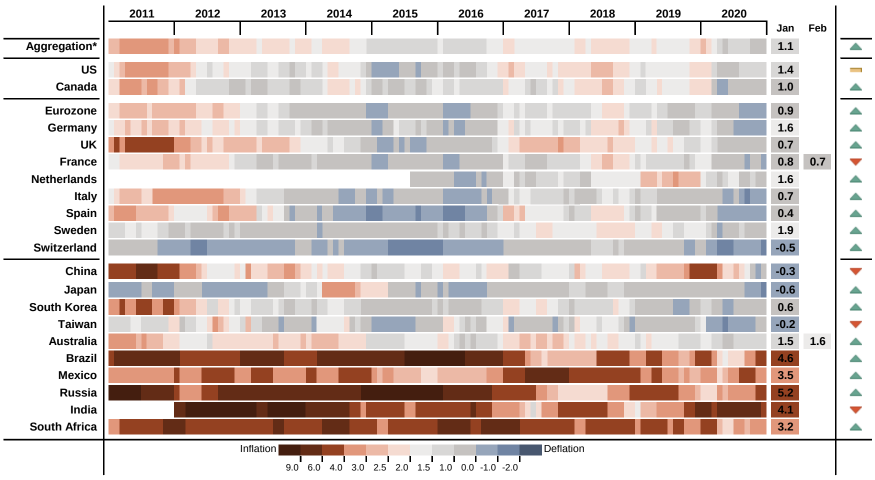
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The manufacturing PMI index, which was surprisingly strong in both Germany and the Eurozone, rose to a three-year high.
- In Japan, the PMI jumped above the important 50 mark in February.
- China PMIs were softer than expected also due to holidays effects.

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: 28/02/2016 - 26/02/2021

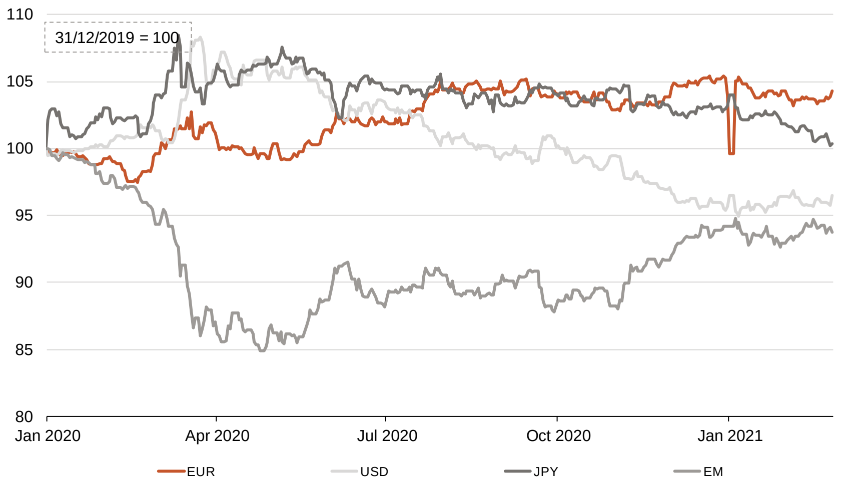
Headline Inflation



- Inflation is coming back. In January, with inflation rising to 1.1% at the global aggregate level. Besides the USA (1.4%), European countries in particular saw relatively high inflation. For example, while inflation in Germany was still -0.7% in December 2020, it was a full 1.6% in January - due in part to special circumstances.

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: 31/01/2011 - 28/02/2021

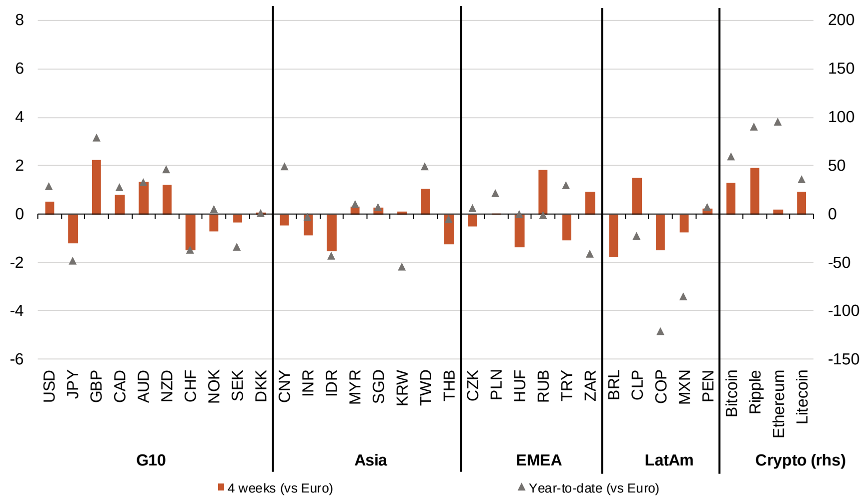
Trade-Weighted Currency Development



- The euro was able to hold steady in trade-weighted terms over the last two weeks.
- The same applies to the USD, which also moved only slightly in trade-weighted terms. This is because interest rates and inflation expectations are not only rising significantly in the USA, but also in the rest of the world.
- The Japanese yen, on the other hand, is still on a downward trend despite the risk-off environment.

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 - 26/02/2021

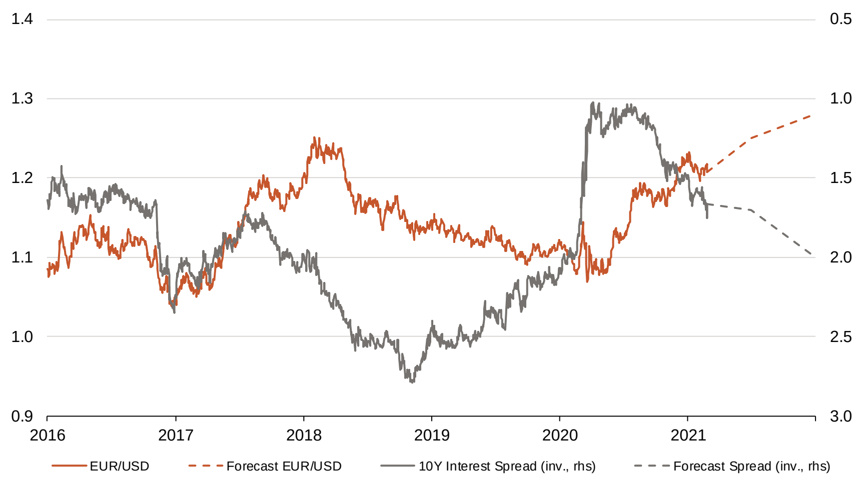
Currency Moves vs Euro



- Within the G10 countries, the euro was able to gain against the safe havens such as the Swiss franc and the Japanese yen in the last four weeks. The British pound and the Australian dollar, on the other hand, made significant gains against the euro.
- In the EMEA countries, the Russian ruble gained against the euro after the oil price rose significantly in recent weeks.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2020 - 26/02/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The interest rate differential between the US and Germany has continued to increase recently. Our economists expect the interest rate differential to widen to as much as 2% by the end of the year.
- However, this trend has not hurt the euro so far. Historically, however, it has often been the case that a rising interest rate differential has been bad for the euro, as investors have increasingly shifted into USD assets.

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

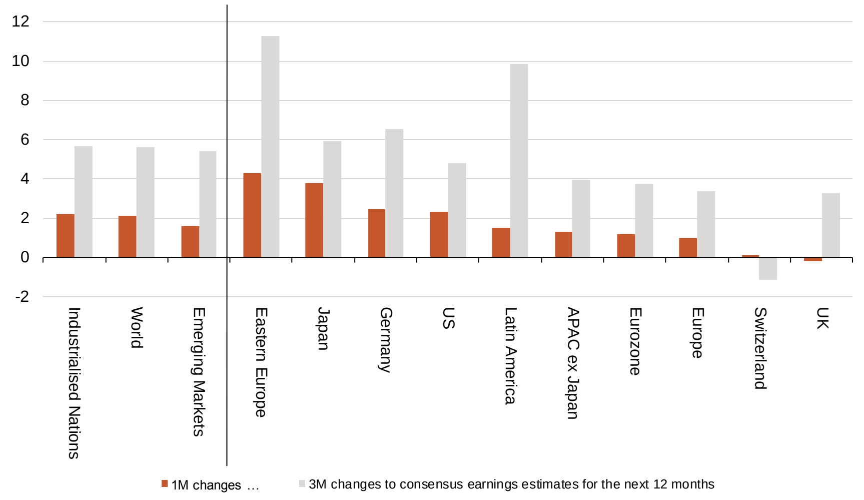
	4-week & YTD		12-month periods over that last 5 years				
	4W (29/01/21 - 26/02/21)	YTD (31/12/20 - 26/02/21)	26/02/20 26/02/21	26/02/19 26/02/20	26/02/18 26/02/19	26/02/17 26/02/18	26/02/16 26/02/17
Finance	11.1	8.0	-5.0	7.2	-13.1	13.2	21.2
Energy	10.4	13.0	-13.2	-15.5	13.2	8.1	27.0
Consumer Discretionary	5.3	3.2	19.0	7.3	-2.3	8.6	11.0
Materials	5.0	6.1	25.1	1.9	-1.7	14.7	43.3
Value	4.5	3.6	-4.7	3.2	-2.3	6.7	19.6
Industrials	2.9	2.4	9.6	15.1	-0.7	10.4	21.3
Information Technology	2.5	4.9	18.8	21.8	5.0	14.2	21.4
Telecommunications	1.0	1.2	-10.3	2.3	-5.1	-4.3	-5.2
Growth	0.5	-0.1	6.1	17.9	3.4	5.2	11.5
Health Care	-3.1	-2.5	-6.1	23.1	12.7	-6.0	5.9
Consumer Staples	-3.9	-6.6	-8.6	11.9	6.7	-3.0	9.6
Utilities	-5.8	-6.6	-7.3	33.7	18.2	2.7	2.7

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.

- Within European equity sectors, there was a threefold picture in February. Value sectors such as energy and financials performed by far the best. The European growth sector followed. And defensive sectors, which partly serve as a substitute for bonds, suffered particularly from rising 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: 26/02/2016 – 26/02/2021

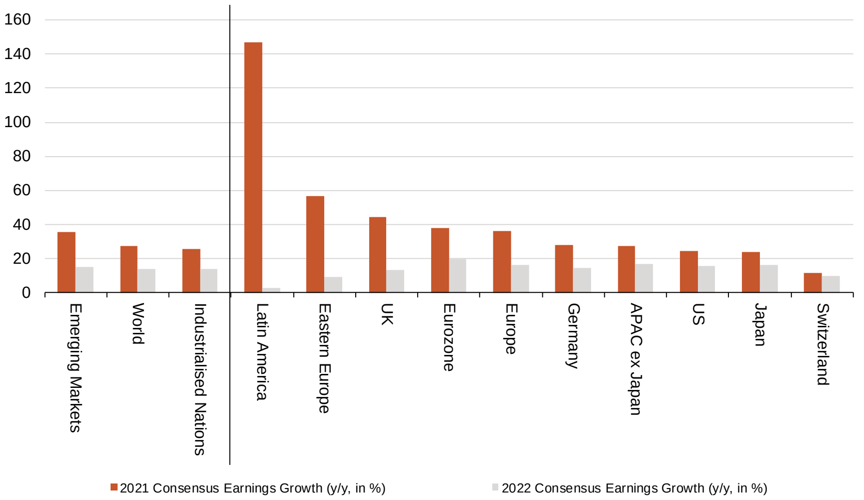
Changes in Consensus Earnings Estimates



- Fundamentally, the picture for equities continues to look good, even though the equity market had already priced in the corporate earnings recovery in the previous months.
- Over the last month, all equity regions except the UK have seen positive earnings revisions, especially Eastern Europe, which is benefiting from the commodity rally.

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 26/02/2021

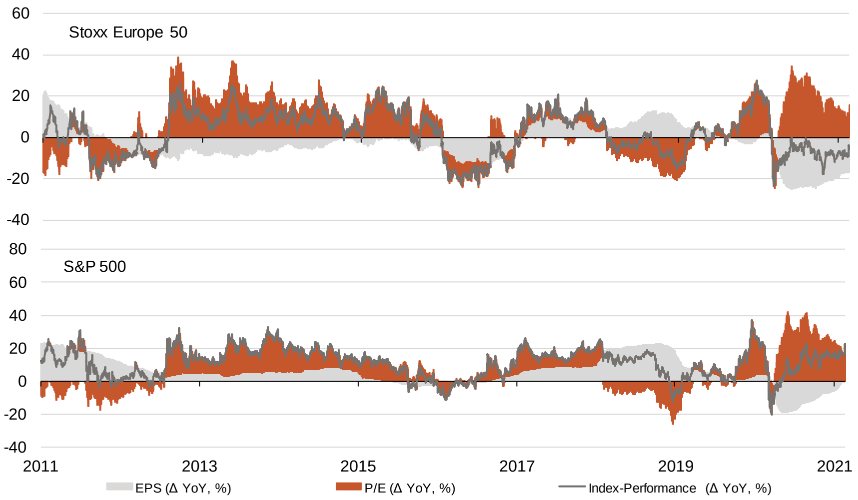
Earnings Growth



- The consensus now assumes that corporate profits for 2021 will grow by 36% for emerging markets and by 26% for developed markets. And analysts are also optimistic for 2022: they expect profits to rise by around 15% for both regions.

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 26/02/2020

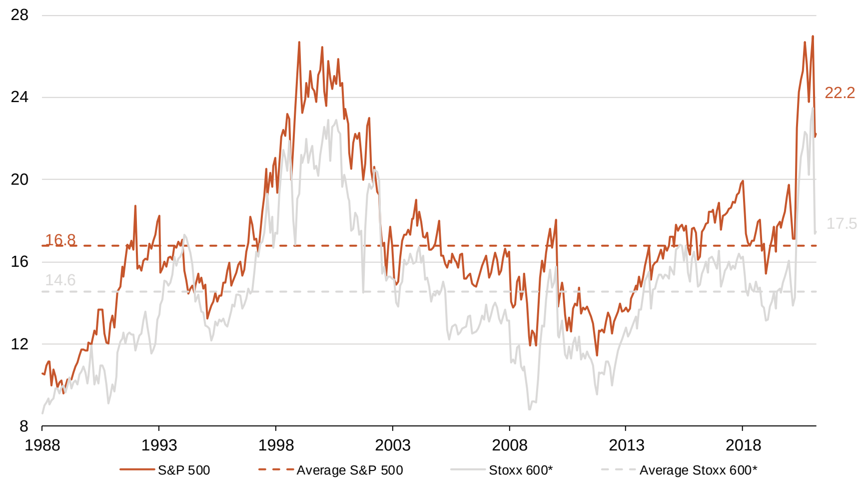
Contribution Analysis



- 80% of the nearly 480 S&P 500 companies that have published their Q4 20 results so far have exceeded expectations. Earnings expectations for Q4 20 have turned positive accordingly.
- In Europe, the picture looks much more negative: profits are still more than 15% below the previous year's level.

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 - 26/02/2021

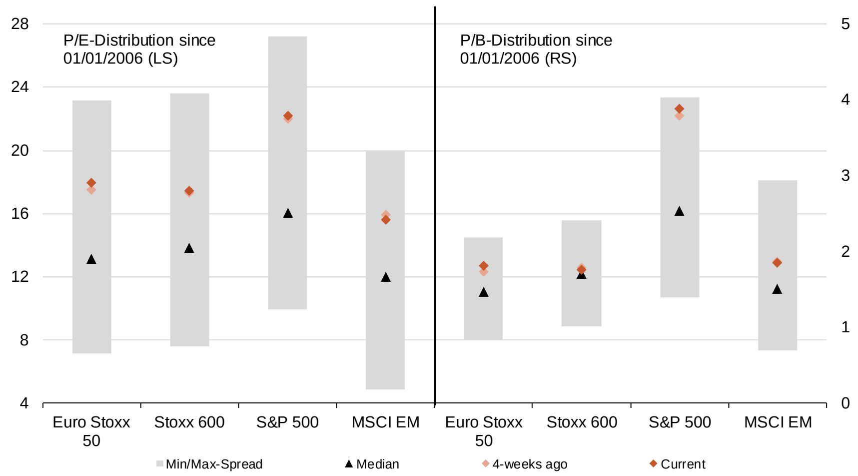
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Rising earnings estimates and falling share prices have recently led to a rapid valuation adjustment. US equities are now valued more than 20% cheaper than at the end of 2020.
- However, the S&P 500 is still trading c. 25% above its historical P/E ratio.

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 - 26/02/2021

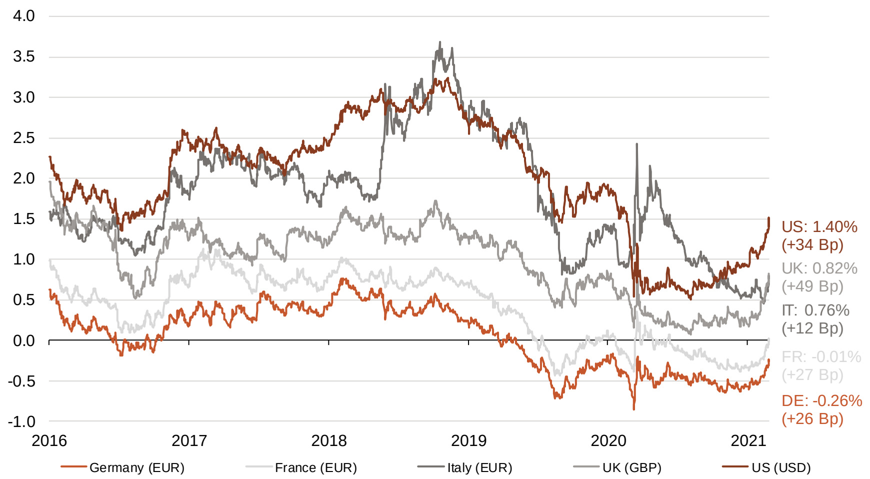
Historical Distribution: Price/Earnings and Price/Book Ratio



- Despite recent valuation adjustments, all regions remain ambitiously valued in a historical context.
- However, the relative attractiveness compared to bonds is still there, even if it has recently declined somewhat due to rising bond yields.

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 - 26/02/2021

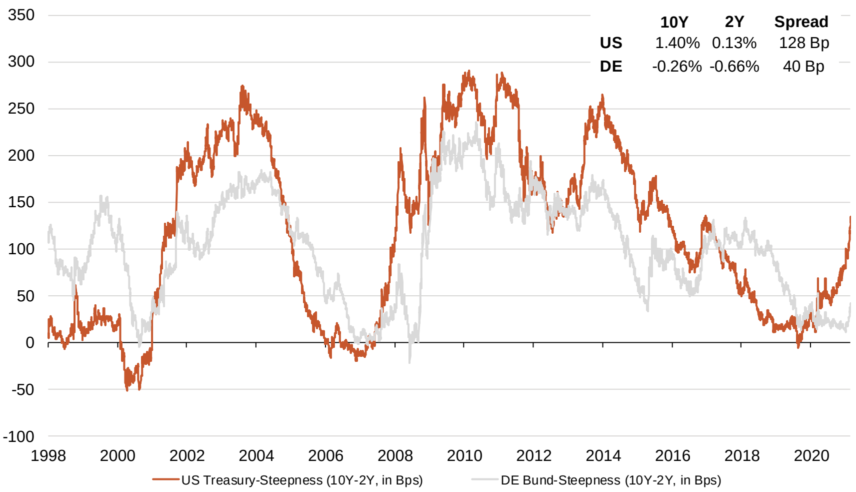
10-Year Government Bond Yields



- Prices in the Eurozone rose significantly in January compared to the previous year - also due to special circumstances. But prices are also continuing to rise in the US. This, and the loose fiscal as well as monetary policy, has pushed up market participants' inflation expectations and thus nominal interest rates significantly. However, alongside inflation expectations, real interest rates are also starting to rise. The yield on 10-year US government bonds has thus recently jumped temporarily above the 1.6% mark.

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 - 26/02/2021

Yield Curve Steepness (10Y - 2Y)

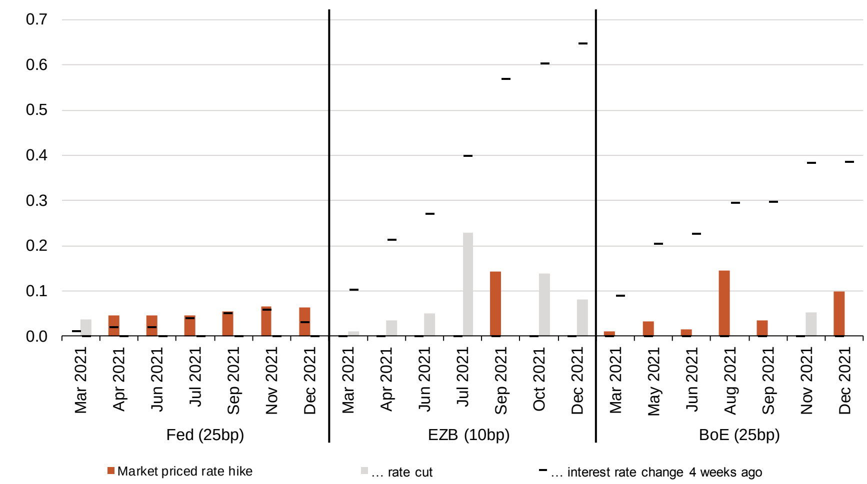


	10Y	2Y	Spread
US	1.40%	0.13%	128 Bp
DE	-0.26%	-0.66%	40 Bp

- The continued loose monetary policy in the US and the Eurozone is keeping interest rates at the short end of the yield curves at a low level. Government bonds with a longer maturity, on the other hand, have already seen significantly rising yields, as investors demand risk compensation in the longer term due to the possibility of further rising inflation.
- The steepness of the US yield curve recently jumped above 130 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 - 26/02/2021

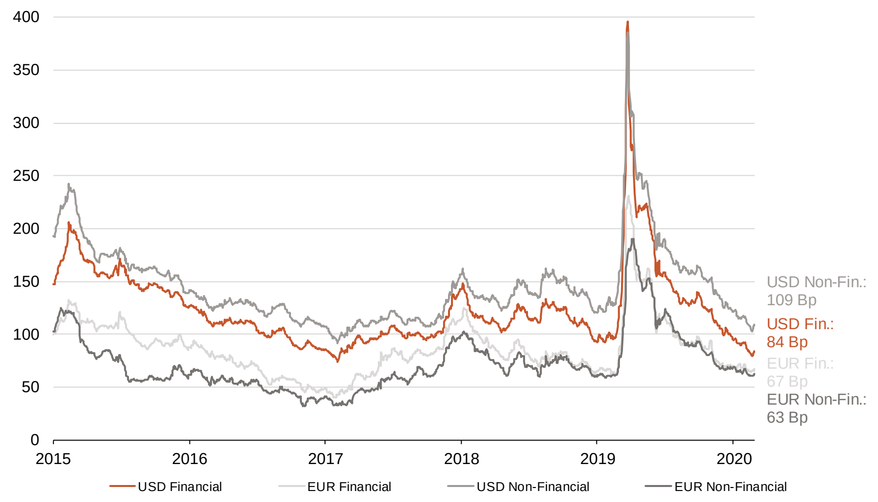
Implicit Changes in Key Interest Rates



- Like the ECB and the Fed, the BoE is also satisfied with its current monetary policy stance and is keeping its current course unchanged. Four weeks ago, the market was still pricing in a rate cut at the ECB and the BoE. There is currently no sign of that. Rising inflation expectations could even lead to an expected interest rate hike. This can already be observed.

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: 04/02/2021 - 26/02/2021

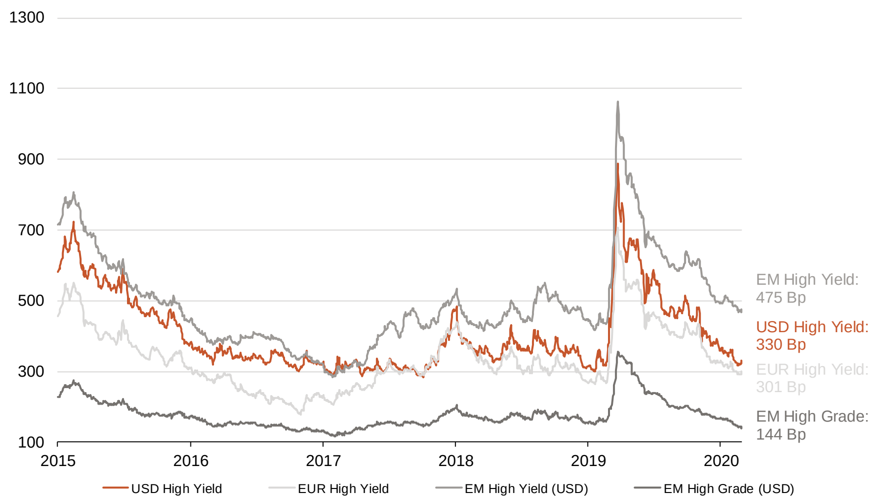
Credit Spreads Financial and Non-Financial Bonds



- Corporate bonds are still in demand, as global central banks are buying heavily and have also recently emphasised that bond purchases will continue for the time being even if the economy improves. Spreads on IG corporate bonds were thus able to remain stable even in the recent risk-off environment.
- EUR corporate bonds, the insurance sector saw the largest spread widening and the transport sector the largest spread narrowing.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 – 26/02/2021

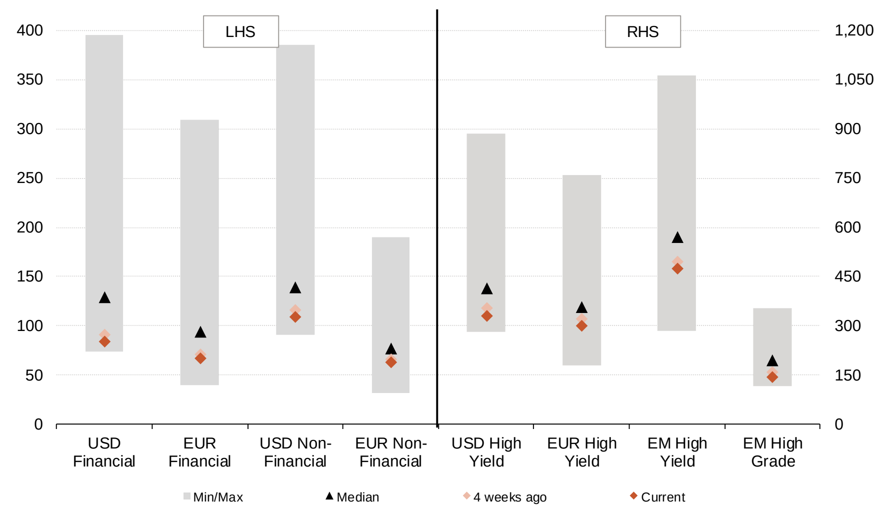
Credit Spreads High Yield and Emerging Markets Bonds



- For high-yield bonds, there was even a slight narrowing of spreads despite the risk-off environment. Compared to a fortnight ago, spreads on USD and EUR high-yield bonds fell by around 5 bps, while they declined by over 10 bps for EM high-yield bonds.
- In USD high-yield bonds, the healthcare sector saw the largest spread widening, while the leisure sector saw the largest spread narrowing.

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 – 26/02/2021

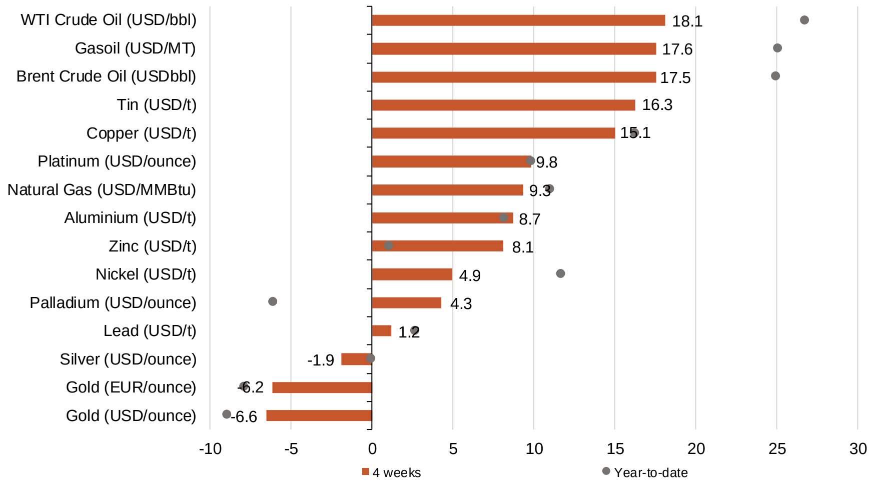
Historical Distribution of Credit Spreads (in bp)



- Spreads on EUR corporate bonds remained stable despite the recent risk-off environment on the markets and even narrowed slightly in the last four weeks, especially for high-yield 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: 26/02/2011 – 26/02/2021

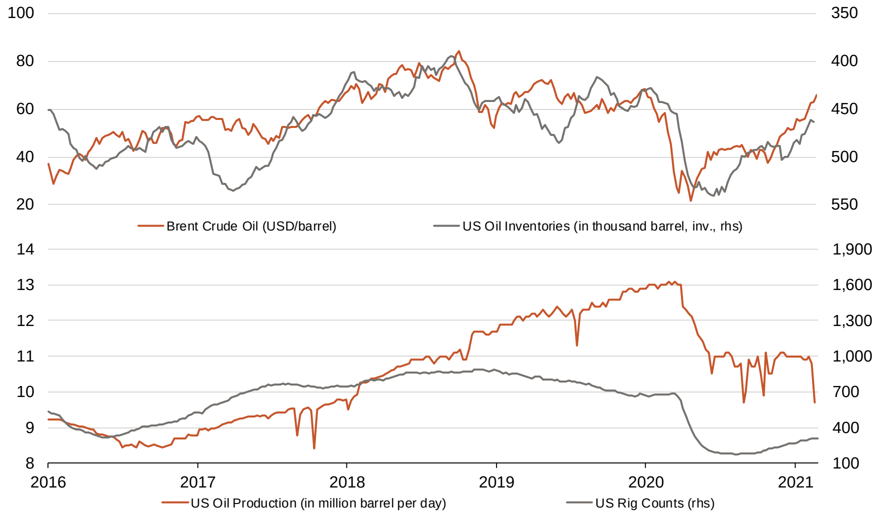
Commodities Performance



- The more cyclical the better - cyclical commodities were particularly sought after in the sign of the economic upswing.
- On a monthly basis, all industrial metals and energy commodities increased in price, while gold lost value due to rising interest rates.
- The picture has been almost identical since the beginning of the year. Only palladium lost value alongside gold, as the tight supply situation eased here.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2021 - 26/02/2021

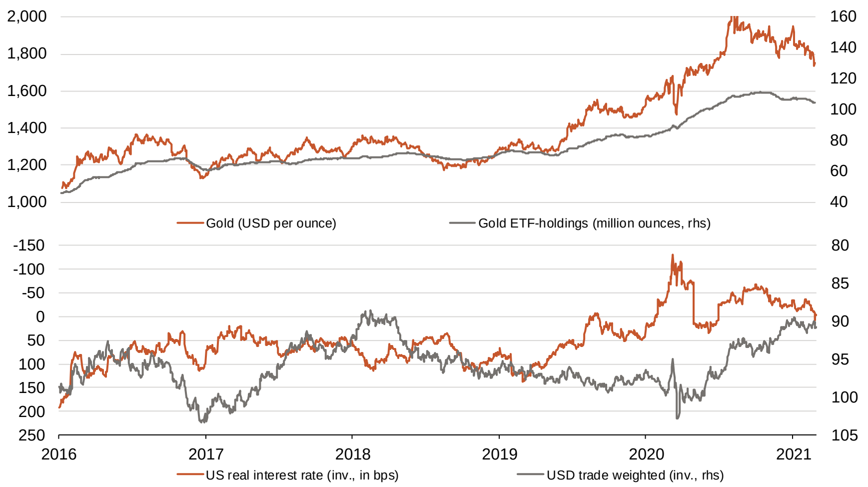
Crude Oil



- The economic recovery is boosting demand for crude oil and so there has recently been a seasonally unusual reduction in inventories.
- At the same time, OPEC(+) is showing great discipline in complying with the agreed production cuts, while the number of active wells in the US is only slowly increasing.
- Supply constraints and higher oil prices are likely to emerge in the course of the year.

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 - 26/02/2021

Gold



- Gold was supported in recent years by continuous ETF inflows, among other things. Low interest rates and global uncertainties tempted people to buy.
- As a result of numerous stimuli and the economic recovery, uncertainty receded and interest rates began to rise. This increases the opportunity costs of holding gold and recently weighed noticeably on the gold price.

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 - 26/02/2021

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IMPORTANT NOTICES

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