BERENBERG
Markets

MONITOR

15 March 2021

Current market commentary

Stock markets are currently torn between reflation optimism and inflation concerns. When bond yields rise, highly valued stocks fall and vice versa. The increased correlation between equities and bonds, as well as the increased volatility of bonds, has meant that some systematic strategies, such as risk parity funds, have recently had to reduce their exposure to equities and bonds. The rotation from growth into value is likely to remain supported by momentum, at least in the short term - after all, March 2020 now falls out of the rolling 12-month period, a month in which tech held up much better than the value sectors. How far the rotation can go also depends heavily on central banks. If they can calm the market and moderate rate hikes, that would be positive for the broad equity market. Against this background, the Fed meeting this week is very relevant for markets.

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

On March 17, all eyes will be on the U.S. Federal Reserve. The market is eager to see whether the Fed will announce a reaction to the recent sharp rise in nominal yields. On the same day, parliamentary elections will be held in the Netherlands. These should provide insight into voter sentiment in pandemic times. On March 18, the Bank of England meets and will decide on the further course of monetary policy. On March 25-26, EU leaders will meet to discuss the COVID-19 pandemic, the single market, industrial policy, digital transformation and relations with Russia, among other issues.

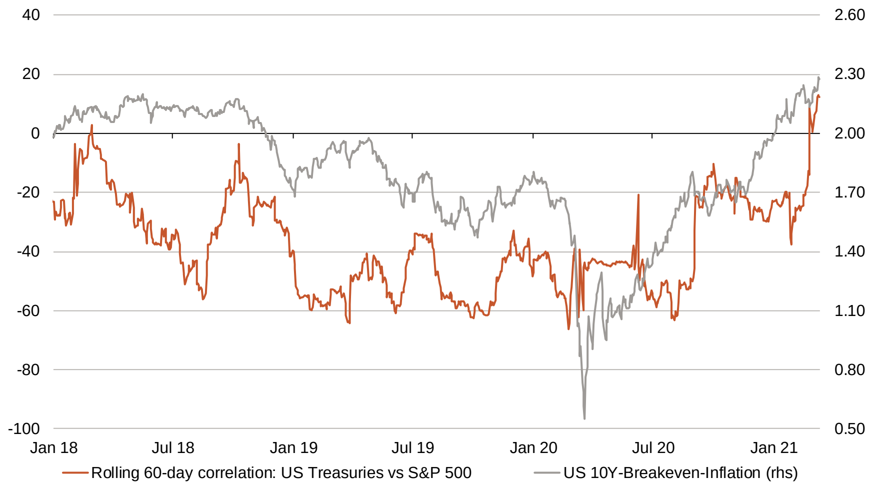
This Tuesday, ZEW Economic Sentiment (Mar.) for Germany, Retail Sales (Feb.) and Industrial Production data (Feb.) for the U.S. will be released. On Thursday, the Philadelphia Fed Index and initial jobless claims in the U.S. will follow.

Central bank policy in the focus of investors in times of rising bond yields.

EU summit with key topics of future cooperation takes place.

ZEW economic expectations for Germany are announced.

Diversification benefit of U.S. government bonds now very low



- U.S. government bond yields have more than tripled since August 2020. This rapid increase has led to increased bond volatility and a change in correlation characteristics: S&P 500 and U.S. government bonds are now positively correlated.
- As a result, government bonds currently no longer provide a strong diversifying effect in the multi-asset portfolio. If there is a prolonged period of elevated inflation, investors will have to get used to this change in correlation, which was the norm in the 1970s and 1980s.

Source: Bloomberg, Time period: 01.01.2018 - 12.03.2021

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	■ 4W (12/02/21 - 12/03/21)	■ YTD (31/12/20 - 12/03/21)	12/03/20 12/03/21	12/03/19 12/03/20	12/03/18 12/03/19	12/03/17 12/03/18	11/03/16 12/03/17
Brent	13.6	37.5	59.2	-40.2	16.4	9.8	14.5
Industrial Metals	3.0	10.8	34.6	-15.2	1.9	2.8	25.4
REITs	2.3	6.3	9.1	-9.8	21.0	-11.5	2.0
USDEUR	1.4	2.2	-6.4	0.9	9.3	-13.5	4.4
MSCI World	1.2	7.1	50.2	-12.3	7.7	2.9	21.1
MSCI Frontier Markets	0.1	2.9	21.7	-12.0	-7.5	11.6	16.6
Eonia	0.0	-0.1	-0.5	-0.4	-0.4	-0.4	-0.3
Global Coporates	-1.2	-1.5	-0.8	8.7	9.6	-6.9	6.4
Global Treasuries	-1.4	-2.2	-5.8	10.1	7.3	-5.1	1.2
Global Convertibles	-3.7	6.5	50.1	-1.6	8.2	1.8	17.9
Gold	-4.0	-7.0	2.6	22.2	7.5	-5.0	0.7
MSCI Emerging Markets	-4.2	7.1	46.0	-13.1	-3.7	16.8	23.8

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.

- Commodities remain the best-performing investments both since the beginning of the year and in the last four weeks.
- Equities show a split picture. While prices rose in the industrialized nations, they fell in the emerging markets. Since the beginning of the year, the two regions are now on a par.
- Bonds recorded losses across the board.
- Gold brought up the rear since the beginning of the year due to higher

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 11.03.2016 - 12.03.2021

Equities

	4-week & YTD		12-month periods over that last 5 years				
	■ 4W (12/02/21 - 12/03/21)	■ YTD (31/12/20 - 12/03/21)	12/03/20 12/03/21	12/03/19 12/03/20	12/03/18 12/03/19	12/03/17 12/03/18	11/03/16 12/03/17
MSCI UK	5.5	10.0	34.6	-26.1	6.5	0.7	10.0
MSCI EM Eastern Europe	4.8	8.6	44.3	-23.6	3.7	14.4	27.1
MSCI USA Small Caps	4.4	19.9	90.7	-24.8	9.5	2.2	29.8
Euro Stoxx 50	3.8	8.2	53.7	-20.9	-1.0	2.9	14.5
Stoxx Europe Cyclicals	3.5	9.1	61.2	-23.0	-6.3	8.8	18.9
DAX	3.2	5.7	58.3	-20.5	-7.2	3.8	21.7
Stoxx Europe Small 200	2.2	7.1	60.6	-19.3	-2.5	12.2	13.0
Stoxx Europe 50	2.0	5.5	35.9	-16.6	4.3	0.6	12.0
S&P 500	1.8	7.8	51.5	-8.5	11.7	3.5	25.3
Stoxx Europe Defensives	-0.1	2.8	30.0	-16.8	11.7	-0.6	5.1
Topix	-1.5	5.3	36.2	-9.6	-1.5	5.4	22.6
MSCI EM Asia	-5.4	7.5	48.4	-6.7	-3.4	19.2	23.5

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 equities suffered losses over the past four weeks.
- The best performers were cyclical segments such as UK and European equities and US small caps.
- More defensive stocks and growth stocks, as found mainly in US large caps, continued to struggle in this environment.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 11.03.2016 - 12.03.2021

Fixed Income

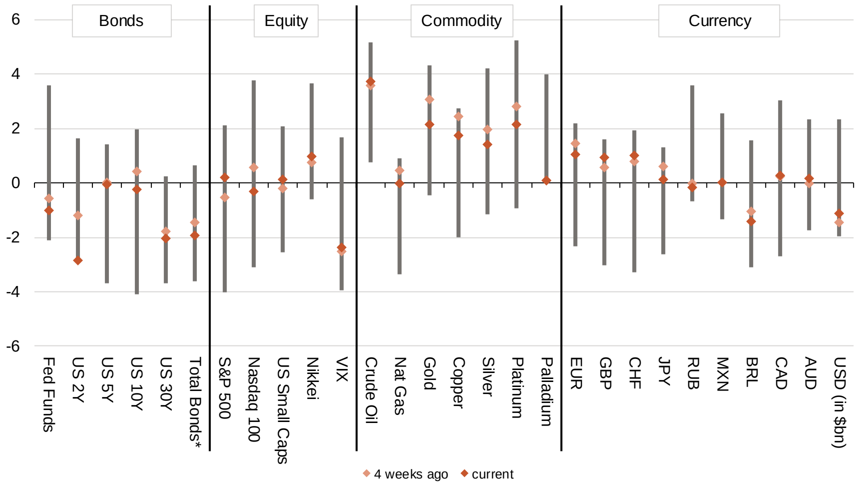
	4-week & YTD		12-month periods over that last 5 years				
	■ 4W (12/02/21 - 12/03/21)	■ YTD (31/12/20 - 12/03/21)	12/03/20 12/03/21	12/03/19 12/03/20	12/03/18 12/03/19	12/03/17 12/03/18	11/03/16 12/03/17
USD High Yield	0.5	2.5	9.1	-2.1	15.0	-9.6	18.4
EUR Inflation Linkers	0.2	0.6	7.8	1.6	-0.4	4.3	0.0
EUR High Yield	0.1	1.3	14.2	-5.1	0.6	3.6	8.0
EUR Financials	-0.4	-0.4	4.0	1.7	1.0	3.1	2.7
EUR Non-Financials	-0.7	-0.9	3.4	2.6	1.3	2.3	2.6
Treasuries	-0.9	-1.7	-10.0	15.1	13.4	-12.8	3.3
BTPs	-1.1	-0.7	9.7	6.9	-1.3	5.2	-4.1
Bunds	-1.1	-2.4	-4.4	7.1	4.2	-0.4	-0.5
Gilts	-1.2	-3.2	-3.9	11.6	7.2	-1.5	-5.7
USD Corporates	-1.6	-2.2	-0.7	9.9	13.5	-10.6	8.7
EM Local Currency Bonds	-1.7	-0.6	-0.8	4.2	5.6	-2.7	10.1
EM Hard Currency Bonds	-3.7	-4.8	6.0	-2.3	-0.2	2.7	5.7

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.

- With the exception of high-yield bonds and EUR inflation-indexed bonds, all the segments shown here have performed negatively over the past four weeks.
- EM government bonds denominated in hard currencies suffered the biggest losses. The reason for this is the renewed strength of the US dollar.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 11.03.2016 - 12.03.2021

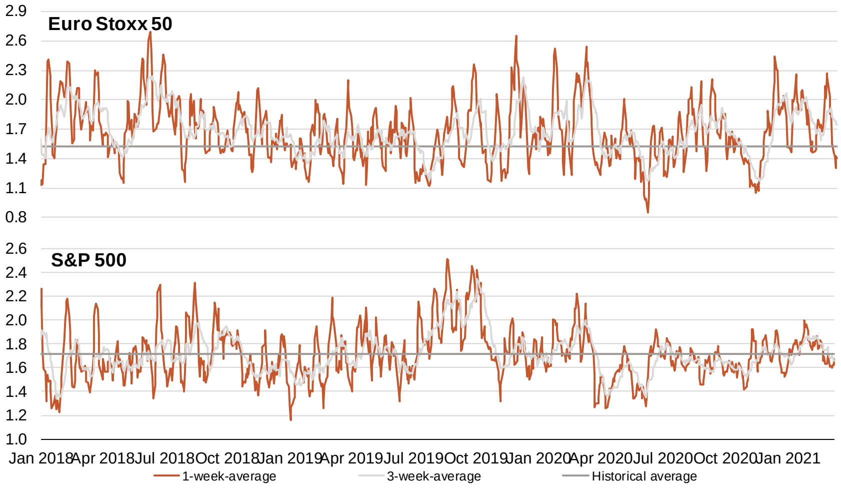
Speculative Positioning



- Speculative investors have expanded their short positions in UST government bonds compared to four weeks ago, but are still not extremely positioned.
- In the currency space, they are now clearly more optimistic on the British pound.

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: 09.03.2011 - 09.03.2021

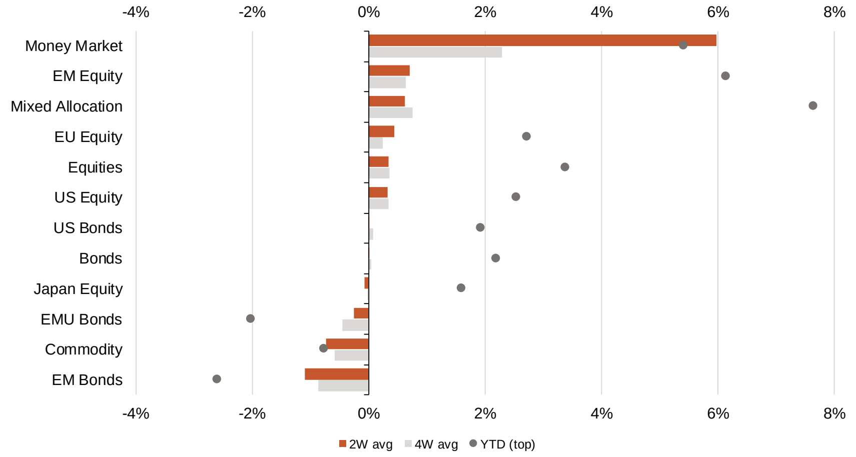
Put-Call Ratio



- While the put-call ratio for the S&P 500 has been trending near its historical average for several months now, it has fallen from a historically high level to a historically rather low level for the Euro Stoxx 50. Option market participants seem to have become correspondingly more optimistic about eurozone equities.

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 - 12.03.2021

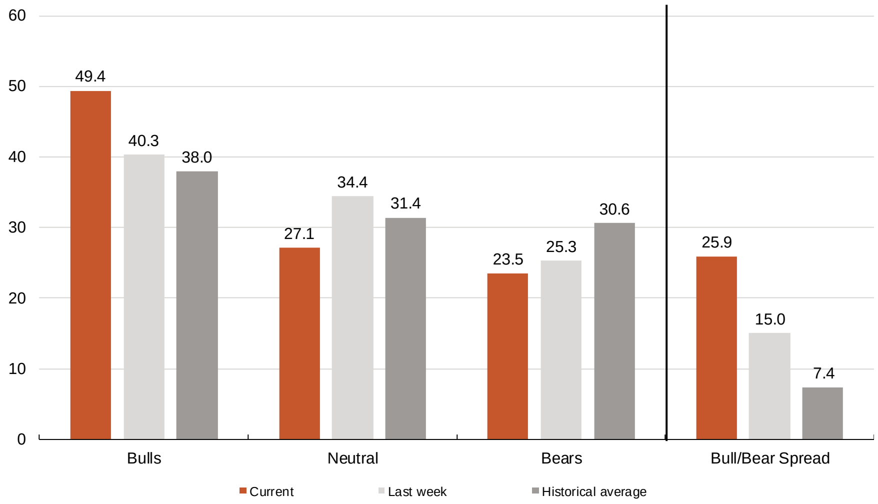
ETF Flows



- Money market vehicles have seen by far the largest ETF inflows recently. One reason could be the increased bond volatility or the increased correlation between bonds and equities, which has led to risk parity funds having to reduce risk recently.
- Within equities, emerging markets and European equities have been in particular demand recently.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31.12.2020 - 12.03.2021

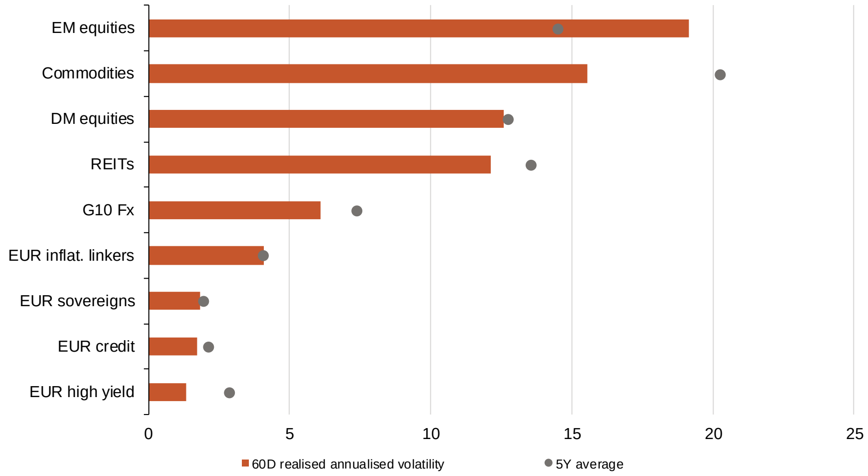
AAII Sentiment Survey (Bulls vs. Bears)



- Euphoria is spreading again among US private investors. The bull/bear spread is well above its historical average and the number of bulls is higher than it has been since early November. At that time, the first positive vaccine news came out.

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: 23.07.1987 - 11.03.2021

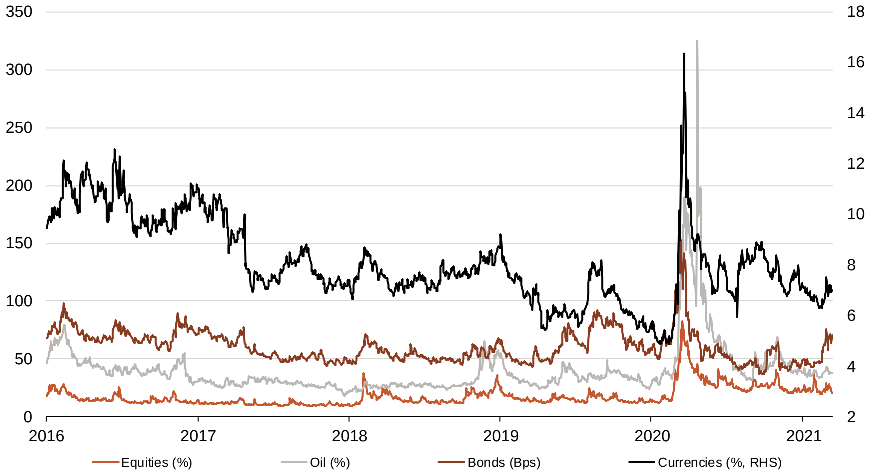
Realised Volatilities



- Realised volatility over the past 60 days has increased in all asset classes over the past two weeks.
- The increase was most pronounced in emerging market equities. They are also the only investment with above-average volatility compared to the last 5 years.
- The volatility of high-yield bonds remains unusually low. Spread tightening was able to compensate for rising government bond yields.

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: 12.03.2016 - 12.03.2021

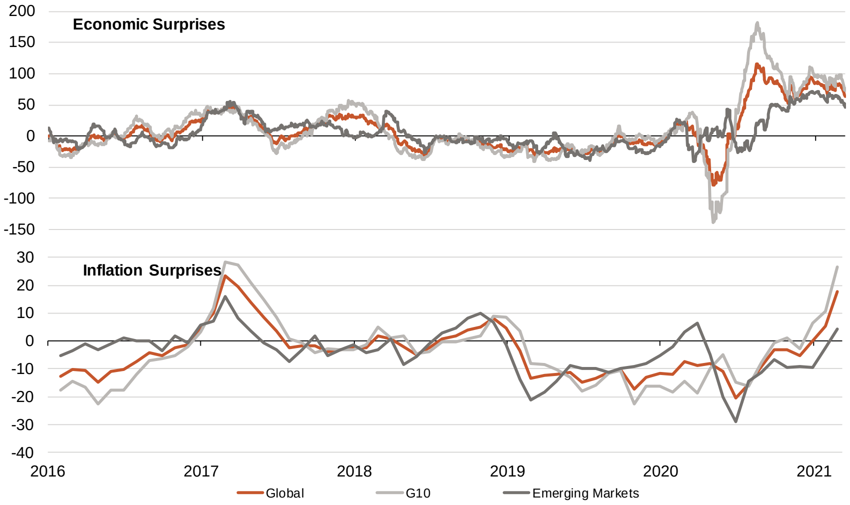
Implied Volatilities



- Implied volatilities have recently come back somewhat.
- The VIX jumped to 30 at times in the past two weeks, but calmed down again shortly afterwards and is currently at 21. The fear barometer continues to react very sensitively to stock market movements.

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 - 12.03.2021

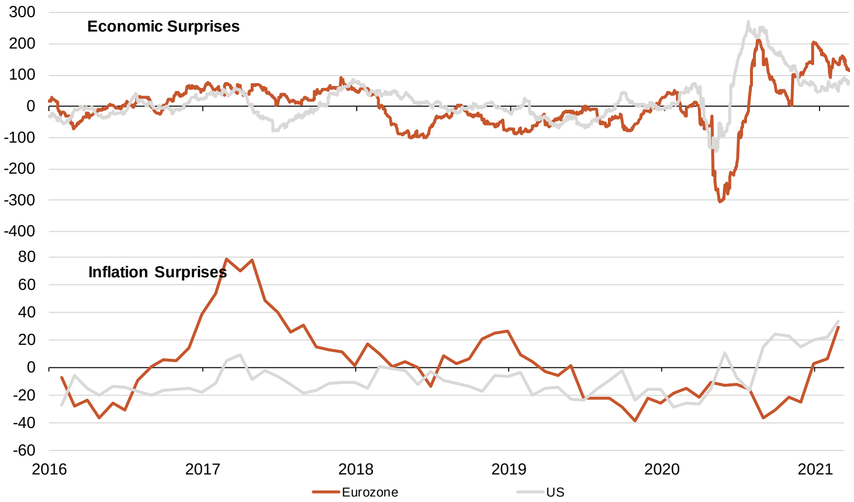
Global



- The economic surprises in most industrialised and emerging countries have not been as clearly positive as in recent months. In China, for example, the manufacturing Purchasing Managers' Index (PMI) (Feb.) surprised negatively, while the services PMI came in as expected and export data better than expected.
- Inflation, on the other hand, has surprised to the upside at both G10, emerging market and global levels. In China, inflation was negative in February, but

See explanations below.
Source: Bloomberg, Time period: 01.01.2016 - 12.03.2021

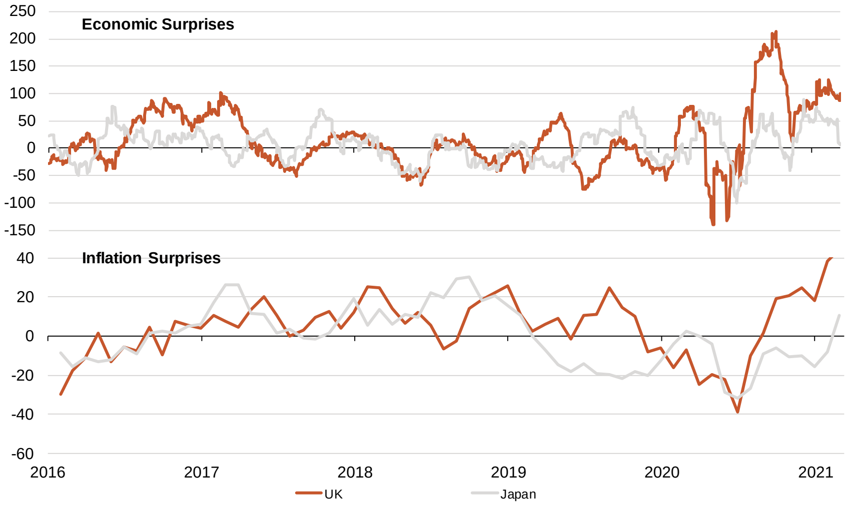
Eurozone and US



- The USA continued to convince with a clear economic recovery and has also recently beat expectations. Both labour market data, the industrial PMI and the industrial new orders surprised to the upside. The service PMI, on the other hand, disappointed.
- In the Eurozone, the economic recovery is not progressing as quickly. In Germany, industrial production disappointed, while new orders surprised to the upside.

See explanations below.
Source: Bloomberg, Time period: 01.01.2016 - 12.03.2021

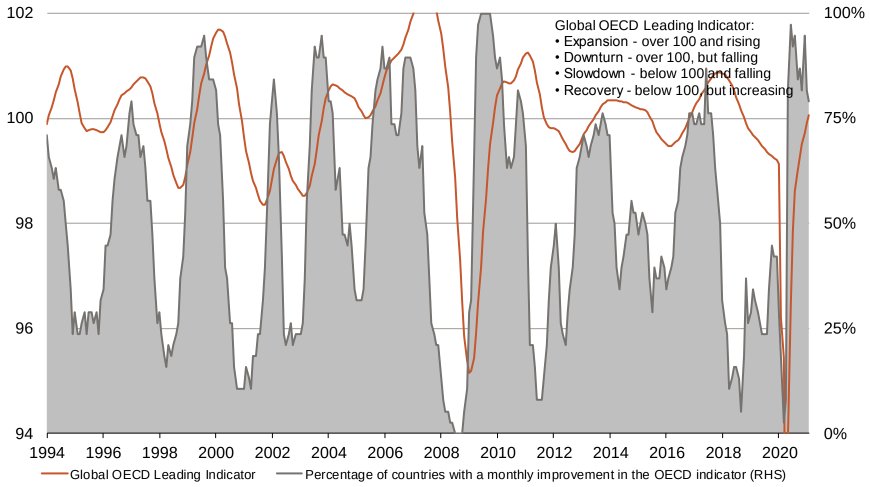
UK and Japan



- The UK saw mixed economic data recently. Industrial production disappointed, while PMIs were better than expected.
- In Japan, the final Q4 economic growth data was particularly disappointing.

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 - 12.03.2021

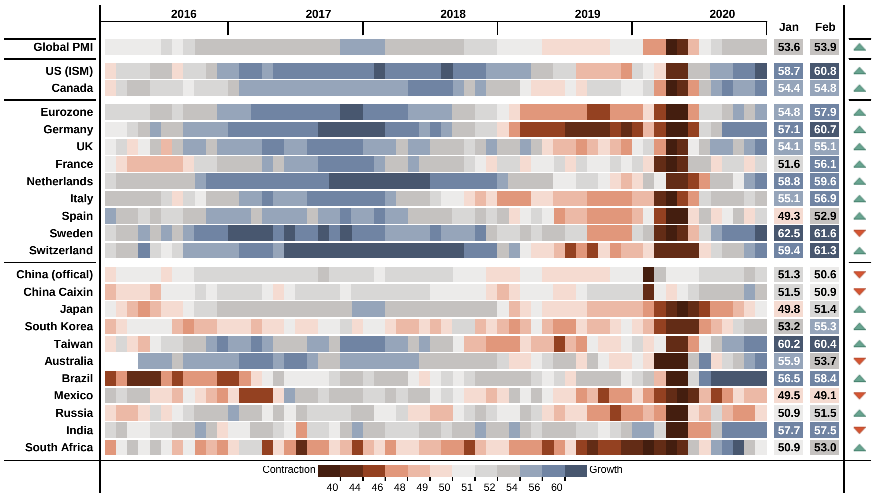
OECD Leading Indicator



- The OECD leading indicator passed the 100 mark in February. Thus, the indicator has turned from the economic recovery phase to the expansion phase.
- However, not all countries saw an improvement in the leading indicator. In addition, some countries from Europe continue to record a value below 100.

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 - 28.02.2021

Manufacturing Purchasing Managers Index (Manufacturing PMI)

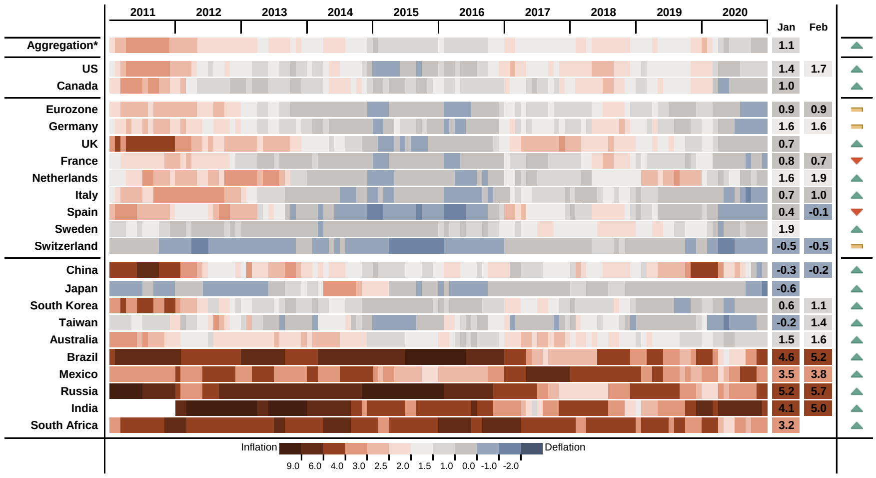


	Jan	Feb	
Global PMI	53.6	53.9	▲
US (ISM)	58.7	60.8	▲
Canada	54.4	54.8	▲
Eurozone	54.8	57.9	▲
Germany	57.1	60.7	▲
UK	54.1	55.1	▲
France	51.6	56.1	▲
Netherlands	58.8	59.6	▲
Italy	55.1	56.9	▲
Spain	49.3	52.9	▲
Sweden	62.5	61.6	▼
Switzerland	59.4	61.3	▲
China (offical)	51.3	50.6	▼
China Caixin	51.5	50.9	▼
Japan	49.8	51.4	▲
South Korea	53.2	55.3	▲
Taiwan	60.2	60.4	▲
Australia	55.9	53.7	▼
Brazil	56.5	58.4	▲
Mexico	49.5	49.1	▼
Russia	50.9	51.5	▲
India	57.7	57.5	▼
South Africa	50.9	53.0	▲

- The global PMI continued to rise in February. In addition to rising PMIs in Europe, the increase was mainly driven by the strong US PMI. In contrast, the PMIs in China disappointed in February.

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 - 28.02.2021

Headline Inflation

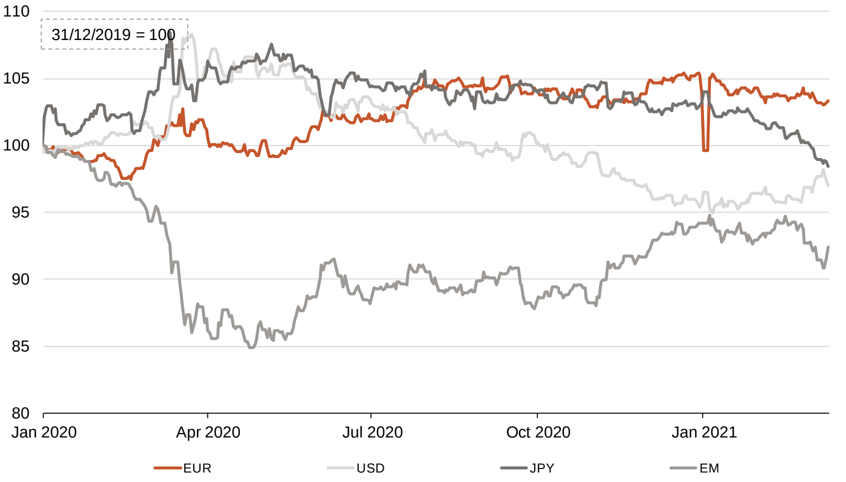


	Jan	Feb	
Aggregation*	1.1		▲
US	1.4	1.7	▲
Canada	1.0		▲
Eurozone	0.9	0.9	▬
Germany	1.6	1.6	▬
UK	0.7		▲
France	0.8	0.7	▼
Netherlands	1.6	1.9	▲
Italy	0.7	1.0	▲
Spain	0.4	-0.1	▼
Sweden	1.9		▲
Switzerland	-0.5	-0.5	▬
China	-0.3	-0.2	▲
Japan	-0.6		▲
South Korea	0.6	1.1	▲
Taiwan	-0.2	1.4	▲
Australia	1.5	1.6	▲
Brazil	4.6	5.2	▲
Mexico	3.5	3.8	▲
Russia	5.2	5.7	▲
India	4.1	5.0	▲
South Africa	3.2		▲

- Inflation rose in February, especially in the USA, driven by higher energy costs.
- In Europe, prices also rose in February, but inflation was at a similar level to January. A significant increase has thus failed to materialise for the time being.
- China, on the other hand, continues to struggle with deflation.

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: 28.02.2011 - 28.02.2021

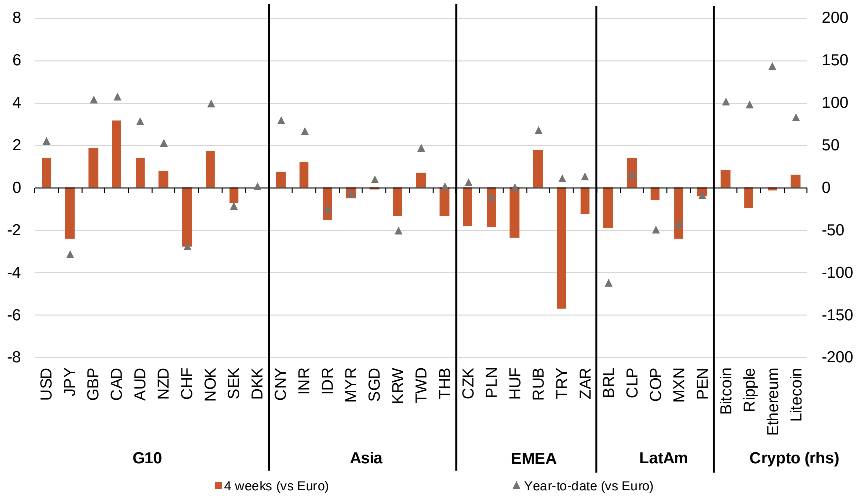
Trade-Weighted Currency Development



- The US dollar has appreciated strongly in the last two weeks after months of weakness. The dollar strength has been supported by the prospect of growth and higher interest rates in the US. The latter is also responsible for the significant weakness of emerging market currencies. Recently however, a counter-movement took place there.
- The Japanese yen continued its downward trend in the prevailing risk-on 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 - 12.03.2021

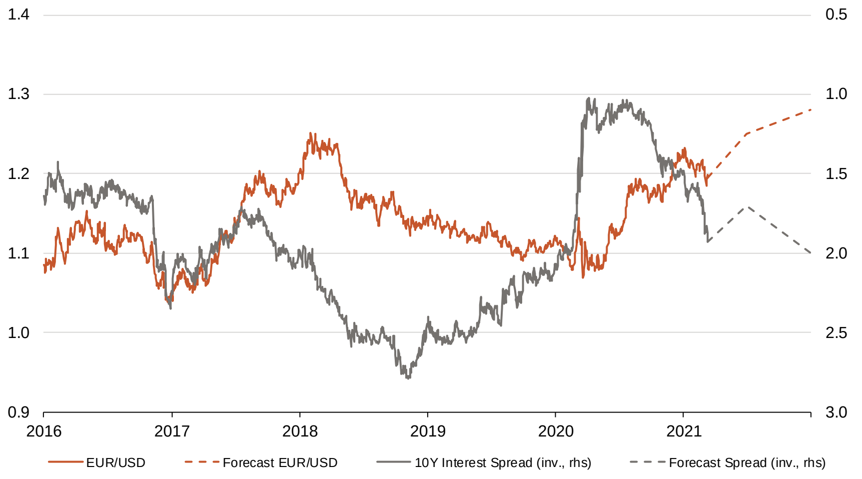
Currency Moves vs. Euro



- In the last four weeks, the euro lost ground against cyclical currencies of the G10.
- It performed well against safe havens and Eastern European currencies.
- The Brazilian real is the worst performer against the euro since the beginning of the year. One of the contributing factors was President Bolsonaro's decision to appoint an ex-military officer as head of the state oil company.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31.12.2020 - 12.03.2021

EUR/USD Exchange Rate and Interest Rate Differential



- In the last two weeks, EUR/USD fell below the 1.20 mark for the first time since the end of November. Stronger rising interest rates and better crisis management in the US made the US dollar more expensive.
- In addition, short and long positions on the US dollar and euro were already very pronounced, making the currency pair more vulnerable to setbacks.

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

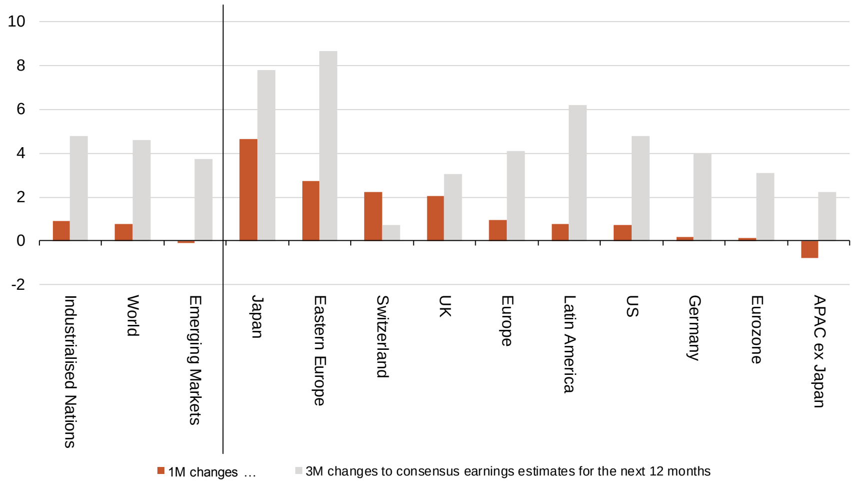
	4-week & YTD		12-month periods over that last 5 years				
	4W (12/02/21 - 12/03/21)	YTD (31/12/20 - 12/03/21)	12/03/20 12/03/21	12/03/19 12/03/20	12/03/18 12/03/19	12/03/17 12/03/18	11/03/16 12/03/17
Energy	19.4	24.1	55.3	-48.0	14.6	6.9	21.8
Finance	8.5	13.9	49.6	-28.0	-11.7	7.0	17.1
Value	6.6	10.0	46.9	-28.9	-0.6	3.2	16.3
Consumer Discretionary	5.4	9.9	78.0	-22.1	-2.7	5.3	10.0
Telecommunications	4.8	7.9	33.7	-27.6	-4.1	-4.9	-7.8
Materials	4.6	10.9	80.0	-25.2	0.1	12.8	34.1
Industrials	3.6	8.3	63.5	-17.3	-0.8	7.9	18.6
Consumer Staples	0.2	-1.4	19.4	-11.5	9.7	-3.1	6.8
Growth	-1.4	2.9	42.4	-9.6	4.0	4.7	9.1
Utilities	-1.7	-3.1	34.7	-6.0	18.4	4.1	0.0
Health Care	-5.1	-1.2	17.5	-1.6	14.5	-6.8	6.6
Information Technology	-5.5	4.8	59.2	-8.9	1.4	16.3	21.6

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.

- Analogous to the oil price rally, energy companies were by far the best performers in the last four weeks.
- Value stocks, often stocks with a low duration, performed significantly better than growth stocks in the environment of rising interest rates.
- Companies from the IT, utilities and healthcare sectors recorded losses.

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: 11.03.2016 - 12.03.2021

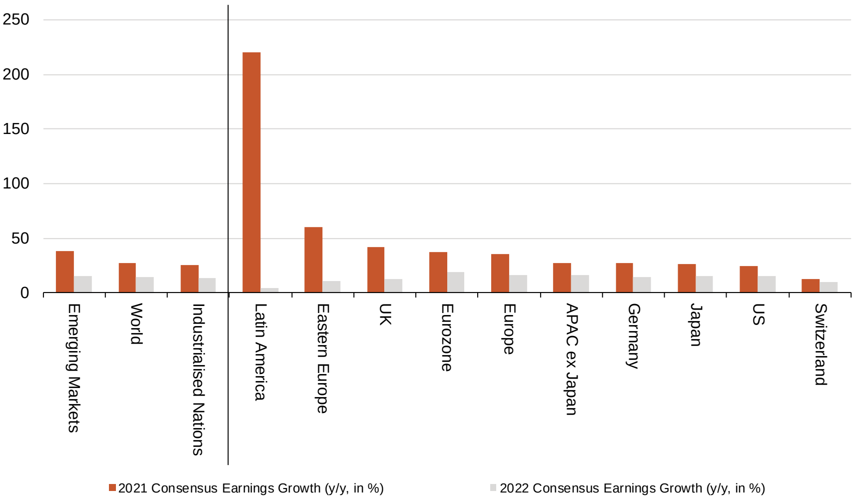
Changes in Consensus Earnings Estimates



- After the significant increases in earnings estimates, there were recently slightly negative revisions for Asia Pacific ex Japan.
- For all other regions and in particular Japan and Eastern Europe, however, the trend of positive earnings revisions continued.
- Fundamentally, the situation of the companies in aggregate looks good.

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 12.03.2021

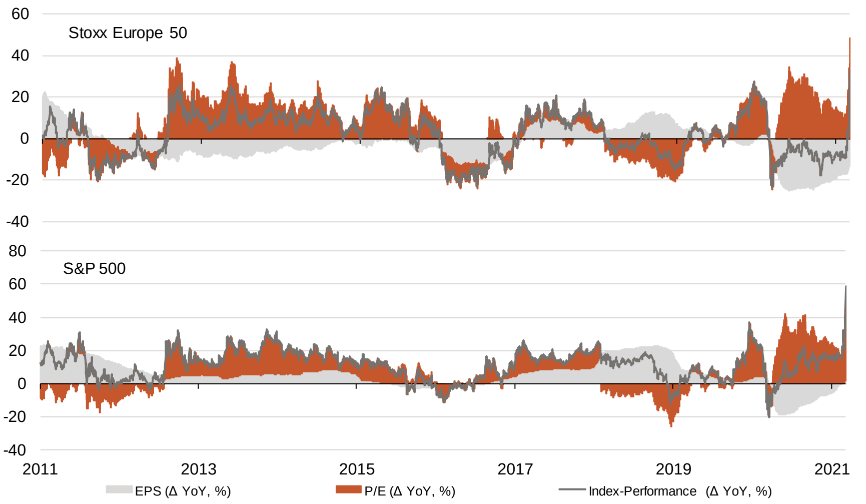
Earnings Growth



- More and more economists are raising their GDP forecasts for this year, especially in the US. This is also reflected positively in earnings estimates for this year and next.
- For example, the consensus expects US earnings growth of 25% this year and 15% next year.

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 12.03.2021

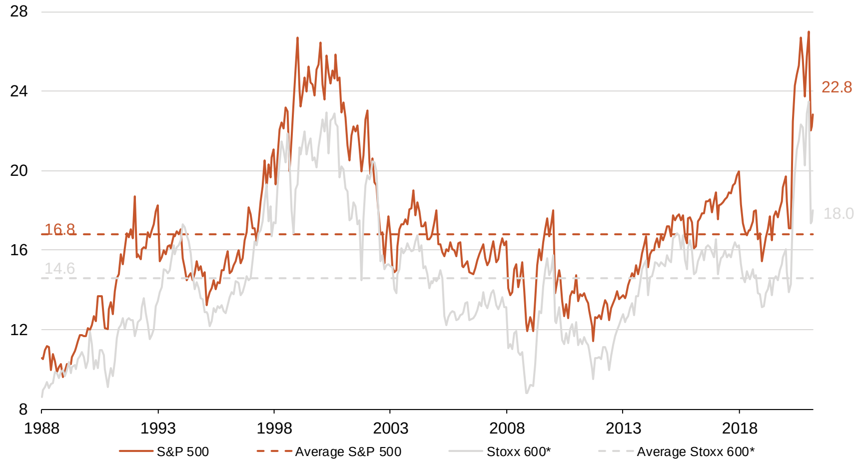
Contribution Analysis



- Stock markets bottomed out last year in March. The performance comparison for the previous year for European and US equities now looks correspondingly positive.

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 - 12.03.2021

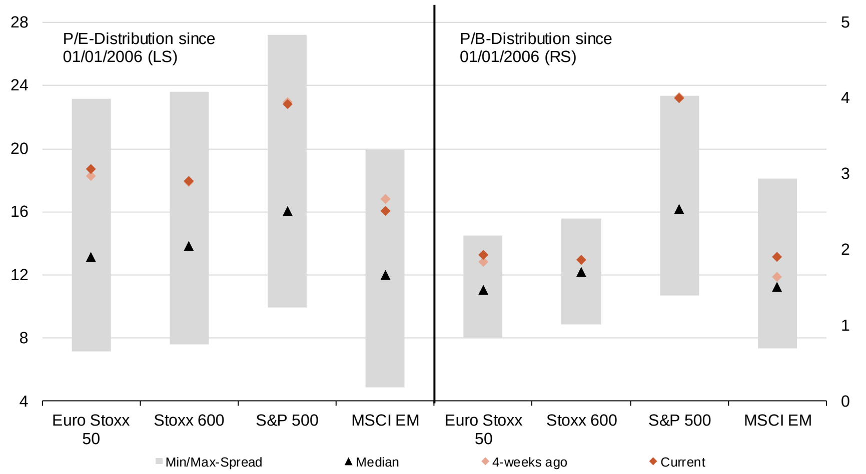
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Equity valuations have risen incrementally again, driven by the positive development in stock markets.
- However, P/E valuations are likely to fall again over the next few months, as estimated earnings for the next twelve months are likely to rise significantly - if only because old earnings estimates still influenced by the lockdown are being removed from 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 - 12.03.2021

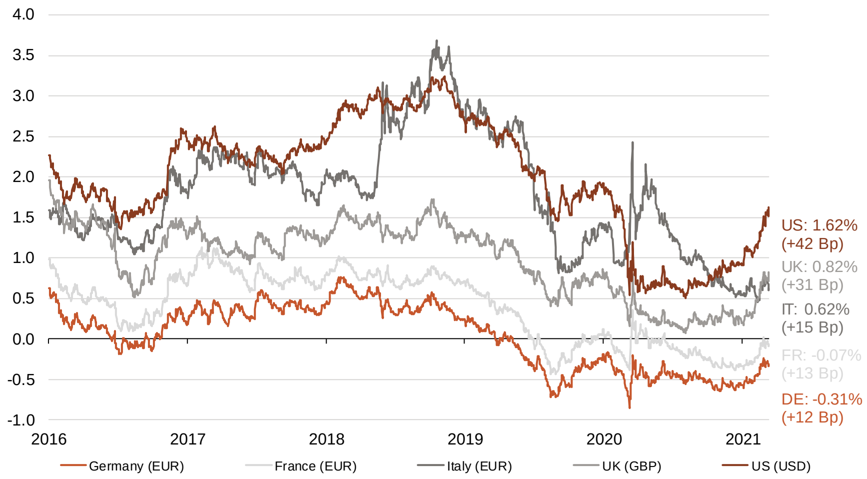
Historical Distribution: Price/Earnings and Price/Book Ratio



- All equity regions are still ambitiously valued in a historical context.
- However, the relative attractiveness compared to bonds is still given, 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 - 12.03.2021

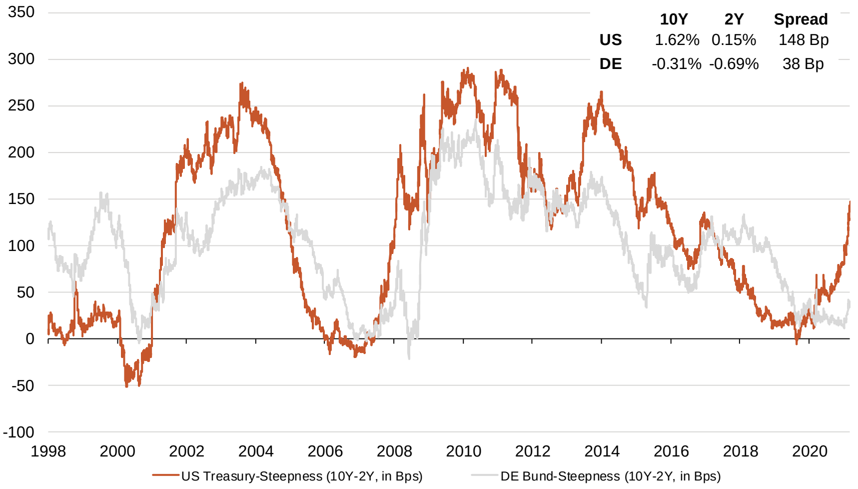
10-Year Government Bond Yields



- The sell-off in government bonds continued in recent weeks. European government bonds, German, French and Italian as well as UK government bonds which saw rising yields of over 10 basis points (bps). Besides inflation expectations, rising real interest rates were the main driver of the movement.
- US government bond yields, on the other hand, rose much more sharply by around 40 bps. The more positive economic news such as the labour market report had an effect there.

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 - 12.03.2021

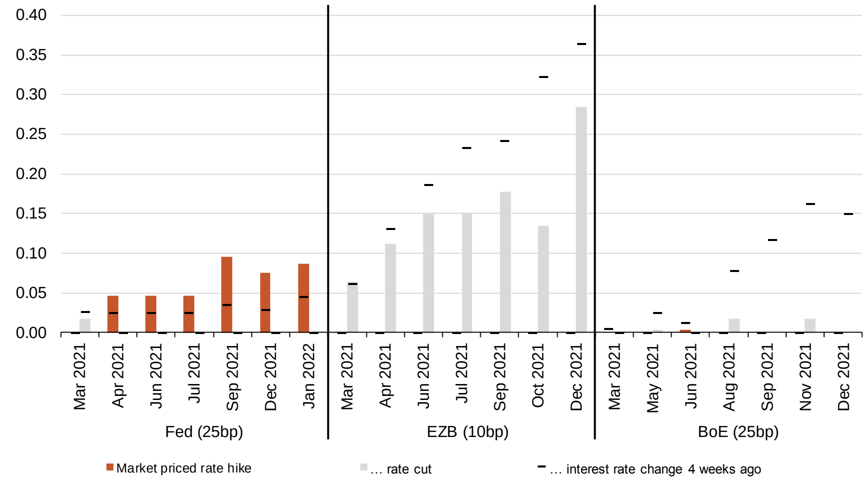
Yield Curve Steepness (10Y - 2Y)



- The steepness of the US yield curve (10Y-2Y) jumped above the 140 bps mark. Besides good economic data, the main driver was the Fed's lack of reaction to rising interest rates.
- The German yield curve also reacted, even though the ECB recently made it clear that it would continue its loose monetary policy.

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 - 12.03.2021

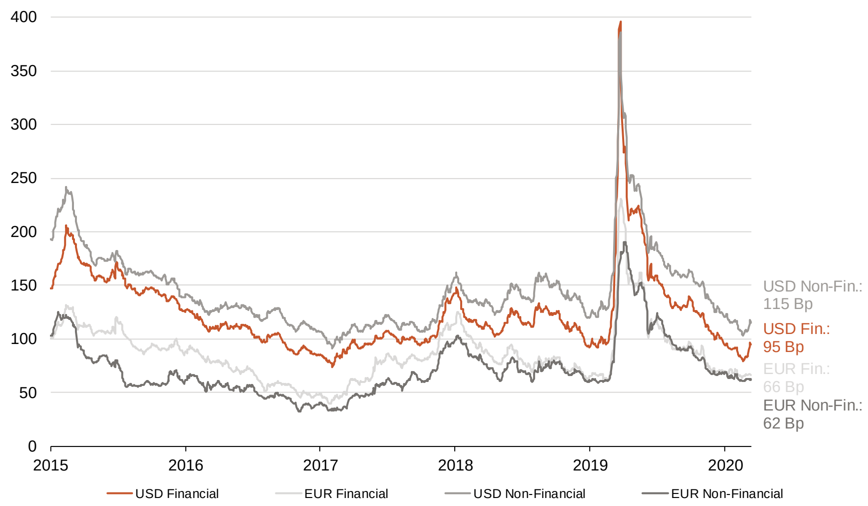
Implicit Changes in Key Interest Rates



- Unlike the Fed which meets this week, the ECB has reacted to the rise in yields in recent weeks and decided to buy more government bonds. Market participants therefore see a probability of over 30% of an interest rate cut in 2021, whereas they do not see this with the Fed. There, even an interest rate hike is priced in with a probability of over 10%.

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 - 12.03.2021

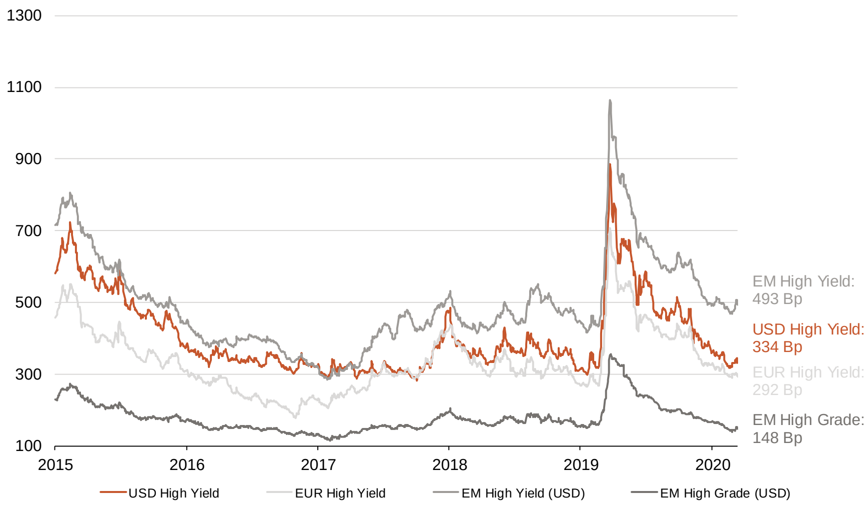
Credit Spreads Financial and Non-Financial Bonds



- Volatility has increased in the corporate bond market, as risk premiums have come under pressure - albeit only slightly in recent market fluctuations. For USD-IG corporate bonds, risk premiums have risen by over 10 bps in the last two weeks, compared to only around 2 bps for EUR-IG corporate bonds.
- At the sector level, USD bank bonds and EUR insurance bonds saw the largest spread widening.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01.01.2016 - 12.03.2021

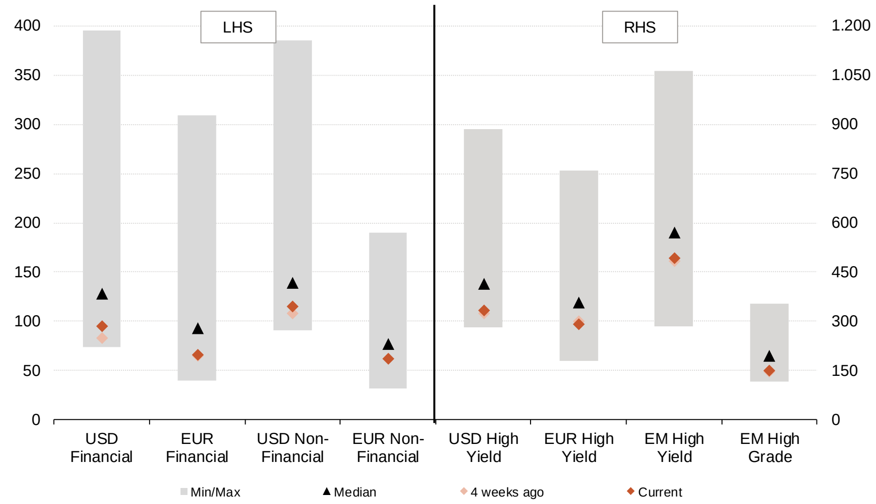
Credit Spreads High Yield and Emerging Markets Bonds



- High-yield bonds saw a significantly stronger movement in risk premiums. USD high-yield bonds experienced a spread widening of over 20 bps, while EUR high-yield bonds held up much better.
- EM corporate bonds also saw significantly rising risk premiums, as they suffered in particular from the strength of the USD and rising US nominal interest rates.

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 - 12.03.2021

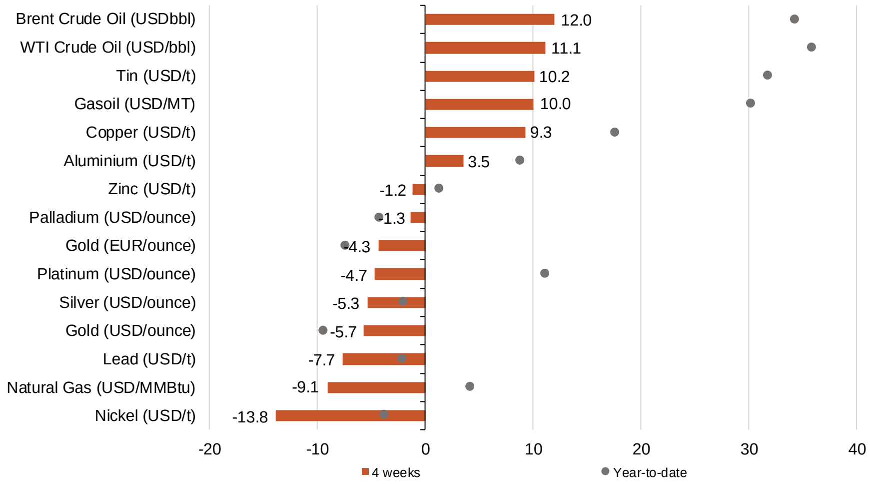
Historical Distribution of Credit Spreads (in bp)



- The trend of falling risk premiums has paused recently. Spreads have thus moved away from the 10-year low again - especially for USD corporate bonds. Nevertheless, corporate bonds remain historically expensive and should have limited potential in an environment of rising interest rates.

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: 12.03.2011 - 12.03.2021

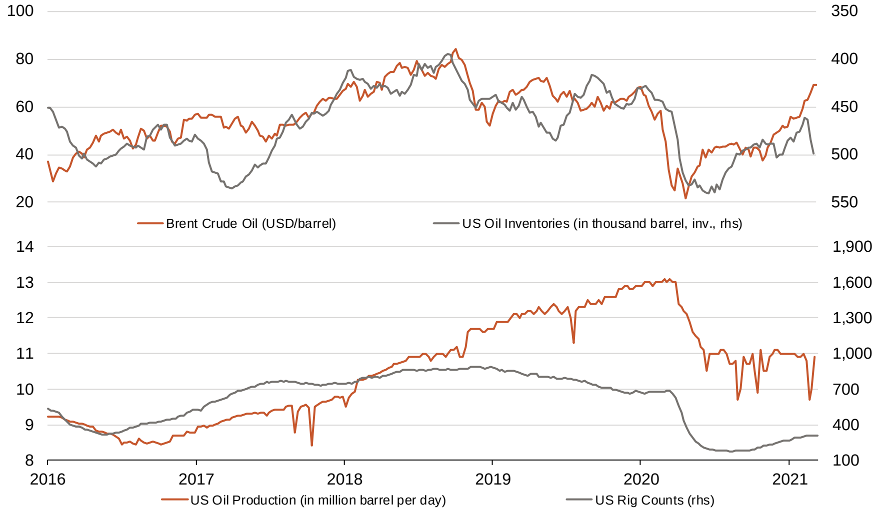
Commodities Performance



- Energy commodities continued their spectacular rally in the last four weeks. Crude oil is now up more than 30% since the beginning of the year.
- Precious metals have been negative across the board, with gold as a safe haven suffering the most from rising interest rates and the risk-on sentiment.
- The picture for industrial metals is split. Nickel and lead are at the bottom of the list, while tin and copper are at the top.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01.01.2021 - 12.03.2021

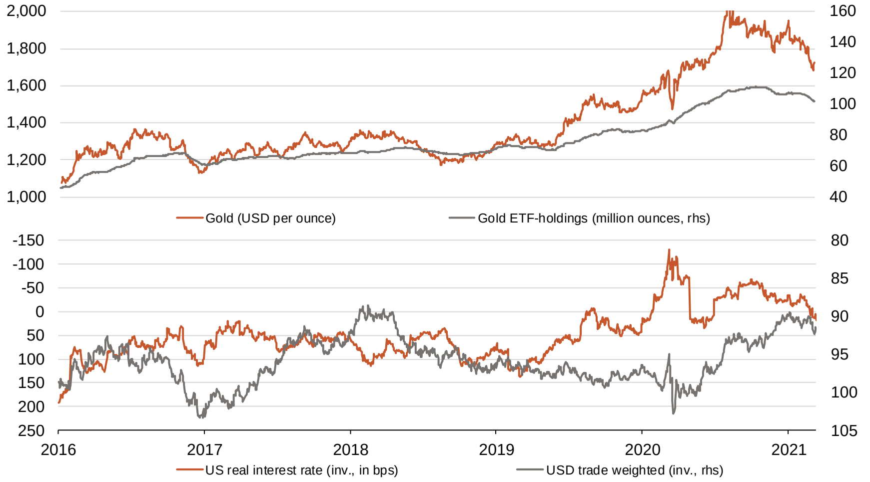
Crude Oil



- OPEC+ managed to surprise the market once again at the beginning of the month. Contrary to expectations that production would be expanded, the cartel decided to continue its restrictive course. The supply deficit was cemented and the oil price reacted accordingly.
- Inventories rose again due to the cold spell in the US and the associated refinery outage. However, this should reverse again once refineries are up and running.

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 - 12.03.2021

Gold



- In the last two weeks, the gold price fell below the USD 1,700 per ounce mark for the first time since June 2020 but is currently trading slightly above it again.
- A strengthening US dollar and rising real interest rates did not provide a good environment for gold. ETF investors withdrew money every trading day for the last four weeks.

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 - 12.03.2021

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