BERENBERG Markets

MONITOR

29 March 2021

Current market commentary

The constant alternation between growth concerns and reflation hopes has dominated the last few weeks and is likely to continue to characterise the coming months. Most recently, asset classes that had performed best since the beginning of the year tended to be among the biggest losers. Energy and financial stocks fell, as did oil and industrial metals, while defensive stocks and the US dollar celebrated a comeback. This is probably due to the (for the time being) lack of a further rise in yields in safe bonds. In addition, profit taking and rebalancing flows from pension funds at the end of the quarter probably played a role, as did the renewed lockdown measures in Europe. In any case, the environment for investors has not become any easier, as there are no clear trends at the moment. Against this backdrop, we believe it makes all the more sense to balance one's portfolio: to focus on megatrends over the long term, but also to take advantage of the opportunities offered by a broad economic recovery.

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

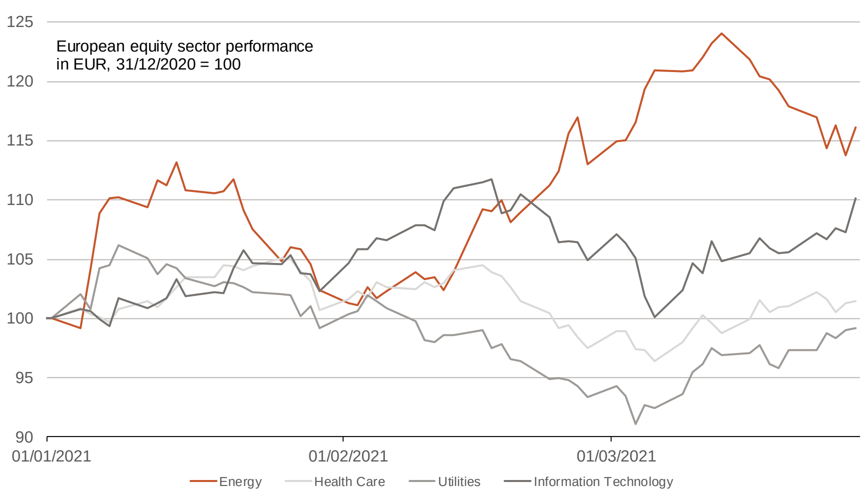
The Q1 reporting season is approaching and is eagerly awaited by market participants.

In mid-April, the Q1 reporting season in the US picks up significantly, starting with the corporate figures of the major banks. After the 2020 P/E expansion, earnings growth should drive the markets this year. The market is thus eagerly awaiting Q1 key figures and corporate outlooks. G20 finance ministers and central bank governors meet on 7-8 April.

Purchasing managers' indices will provide insights into the state of the economic recovery.

On Tuesday, Eurozone economic confidence (Mar.), US consumer confidence (Mar., Conference Board) and German inflation data will be released (Mar.). Japanese industrial production (Feb.), official Chinese purchasing managers' indices (Mar., PMI), US Chicago PMI (Mar.) and eurozone inflation data (Mar.) will be released on Wednesday. This will be followed on Thursday by the March industrial PMIs for the US (ISM, Markit), Europe (Markit) and China (Caixin) as well as German retail sales (Feb.). The week will be concluded with the US labour market data on Friday.

A lot of movement below the surface in equities



- The energy sector has been one of the big winners so far this year, thanks to restrictive OPEC policies and demand optimism in the wake of the economic recovery.
- Defensive sectors such as utilities, on the other hand, suffered from the rise in interest rates as "bond proxies". However, they have recovered recently, as have the health care and technology sectors. Oil companies recently experienced profit-taking, also due to stricter lockdown measures in Europe.

Explanations see page 8.
Source: Bloomberg, Time period: 31/12/2020 - 26/03/2021

Multi Asset

	4W (26/02/21 - 26/03/21)	YTD (31/12/20 - 26/03/21)	26/03/20 26/03/21	26/03/19 26/03/20	26/03/18 26/03/19	26/03/17 26/03/18	25/03/16 26/03/17
	4-week & YTD		12-month periods over that last 5 years				
REITs	8.7	10.5	20.1	-16.5	26.8	-15.0	2.9
MSCI World	5.9	8.8	42.5	-6.9	14.3	-0.8	19.9
Brent	3.7	31.2	75.5	-48.8	11.0	19.5	12.5
USDEUR	2.4	3.6	-6.5	2.1	10.5	-13.2	3.4
MSCI Frontier Markets	2.4	4.1	27.9	-15.7	-6.1	9.1	17.7
Gold	2.3	-5.5	-0.6	26.6	7.4	-5.6	5.7
Industrial Metals	2.2	13.9	48.8	-20.7	5.8	-2.3	29.6
Global Treasuries	1.3	-1.3	-3.6	7.2	8.2	-5.9	1.4
Global Coporates	1.1	-0.5	4.9	2.6	11.7	-7.7	5.5
MSCI Emerging Markets	0.2	5.3	46.7	-14.9	0.4	8.3	26.2
Eonia	0.0	-0.1	-0.5	-0.4	-0.4	-0.4	-0.3
Global Convertibles	-0.7	4.4	48.4	-2.7	11.4	-0.2	17.1

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.

- The constant alternation between growth concerns and reflation hopes set the tone over the last few weeks, which led to a heterogeneous picture on the financial markets.
- Emerging market equities and global convertible bonds were among the relative losers, while REITs and developed market equities gained more.
- The US dollar made a comeback and appreciated across the board.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/03/2016 – 26/03/2021

Equities

	4W (26/02/21 - 26/03/21)	YTD (31/12/20 - 26/03/21)	26/03/20 26/03/21	26/03/19 26/03/20	26/03/18 26/03/19	26/03/17 26/03/18	25/03/16 26/03/17
	4-week & YTD		12-month periods over that last 5 years				
DAX	7.0	7.5	47.5	-12.4	-3.1	-2.3	22.5
S&P 500	7.0	10.1	43.7	-2.6	19.3	0.4	21.8
Euro Stoxx 50	6.4	9.2	38.6	-11.9	4.1	-2.4	18.8
Stoxx Europe 50	6.1	6.9	24.1	-9.1	10.7	-4.5	16.4
MSCI UK	6.0	10.5	24.7	-21.1	11.7	-3.8	14.1
Topix	6.0	7.9	35.6	-8.4	3.9	1.2	21.9
Stoxx Europe Cyclicals	5.4	10.1	50.0	-16.6	-1.7	2.8	23.5
MSCI USA Small Caps	4.9	17.2	77.8	-20.5	13.6	-0.2	27.5
Stoxx Europe Defensives	4.8	4.3	17.8	-8.7	17.8	-4.6	8.7
MSCI EM Eastern Europe	4.3	4.9	29.8	-20.5	12.8	4.0	31.4
Stoxx Europe Small 200	4.2	7.1	53.0	-15.8	1.8	6.8	15.0
MSCI EM Asia	-0.9	5.6	50.6	-9.8	0.8	10.7	25.4

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.

- US equities have recovered significantly over the last few weeks and are now on par in euro terms with eurozone equities since the beginning of the year, thanks to the appreciation of the USD. German equities also rose, driven by automobile stocks.
- Asian emerging markets suffered somewhat, partly due to increasing concerns about tighter monetary policy in China.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/03/2016 – 26/03/2021

Fixed Income

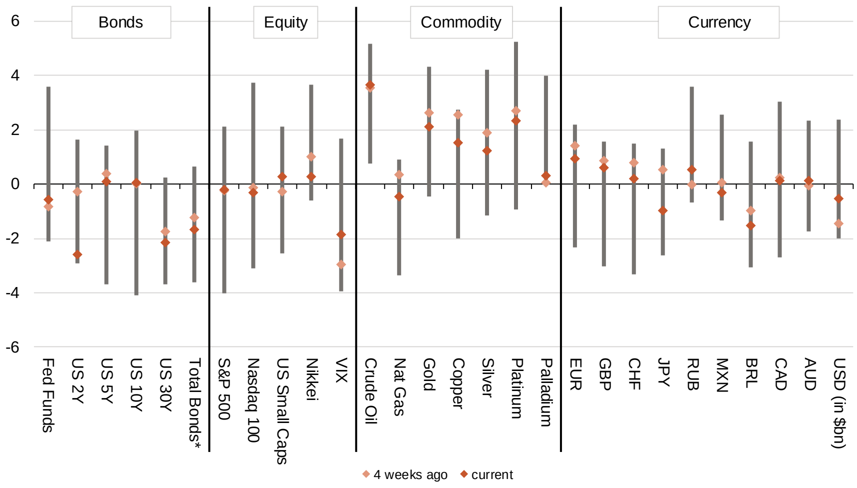
	4W (26/02/21 - 26/03/21)	YTD (31/12/20 - 26/03/21)	26/03/20 26/03/21	26/03/19 26/03/20	26/03/18 26/03/19	26/03/17 26/03/18	25/03/16 26/03/17
	4-week & YTD		12-month periods over that last 5 years				
Gilts	2.7	-1.8	0.9	4.3	7.4	-0.5	-2.6
USD High Yield	2.6	4.1	15.1	-6.6	17.8	-9.9	17.5
EUR Inflation Linkers	2.4	1.4	10.5	-0.5	-0.8	4.9	0.2
Treasuries	1.6	-0.4	-10.0	15.4	15.5	-13.2	2.5
USD Corporates	1.3	-0.6	4.3	4.7	16.6	-11.6	7.4
EM Local Currency Bonds	1.2	0.1	2.7	0.9	6.9	-5.3	11.1
BTPs	0.9	-0.5	6.2	9.9	-1.3	5.1	-3.8
Bunds	0.4	-2.1	-0.6	2.6	4.2	-0.2	-0.8
EUR Financials	0.4	-0.3	10.4	-4.5	2.0	2.2	2.8
EUR High Yield	0.4	1.3	22.8	-12.1	1.6	3.1	7.6
EUR Non-Financials	0.3	-0.8	9.1	-3.3	2.3	1.8	2.0
EM Hard Currency Bonds	-1.2	-4.8	10.1	-6.7	1.1	0.9	6.6

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.

- Most investment segments gained in euro terms, led by US bonds, which benefited from the appreciation of the USD.
- Within EUR bonds, inflation-linked bonds gained in particular.
- Hard-currency emerging market and EUR non-financial bonds were among the relative losers.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 26/03/2016 – 26/03/2021

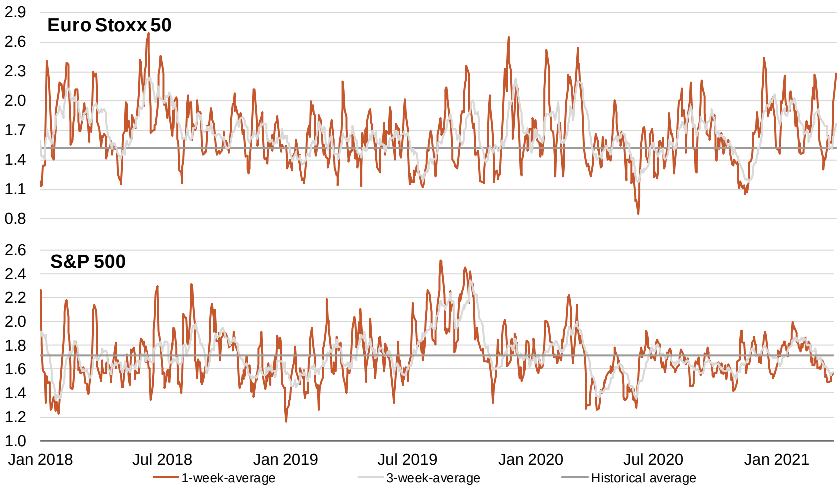
Non-Commercial Positioning



- Speculative investors have taken profits in commodity investments after the massive rally over the first quarter.
- The USD short positioning has also been reduced significantly recently.

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: 23/03/2011 - 23/03/2021

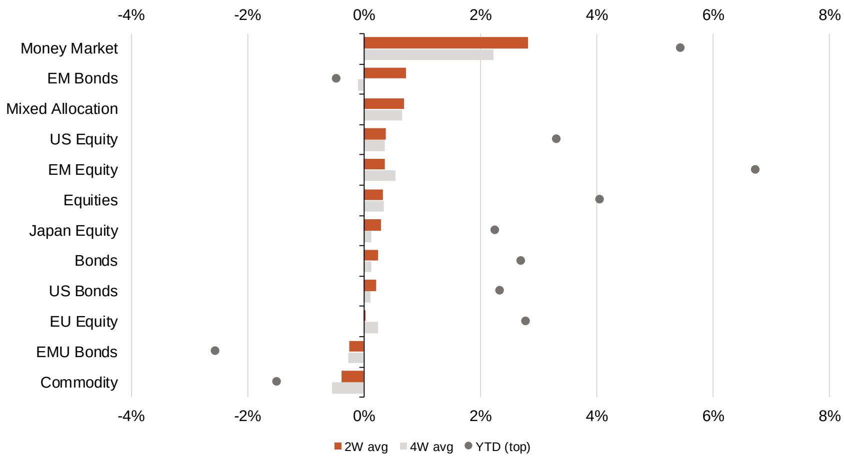
Put-Call Ratio



- Investors seem to have become more cautious about European equities, probably thanks to the third Covid-19 wave and further lockdown measures. At least this is suggested by the rise in the put-call ratio for the Euro Stoxx 50.

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 - 26/03/2021

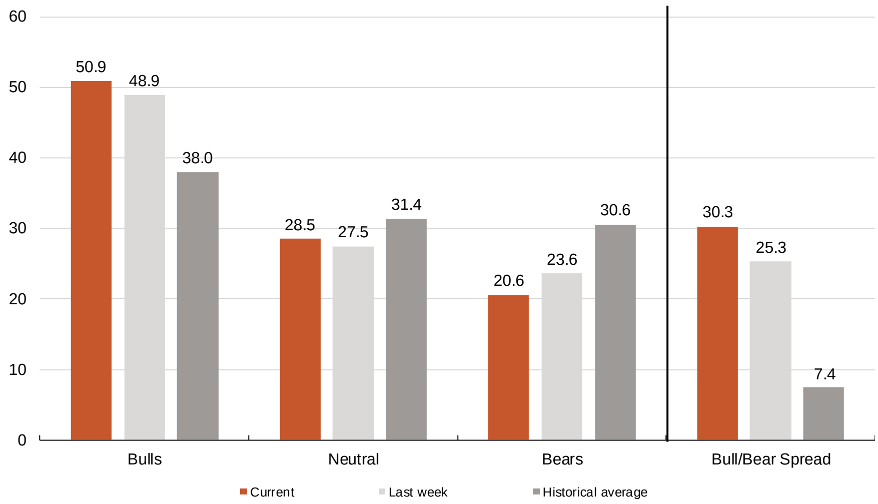
ETF Flows



- Both European equities and EUR bonds have seen ETF outflows or respectively few ETF inflows as of late. Sentiment towards Europe seems to have deteriorated somewhat due to the sluggish progress of the vaccination programme.
- Stronger inflows into money market ETFs indicate a wait-and-see approach of investors.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 - 26/03/2021

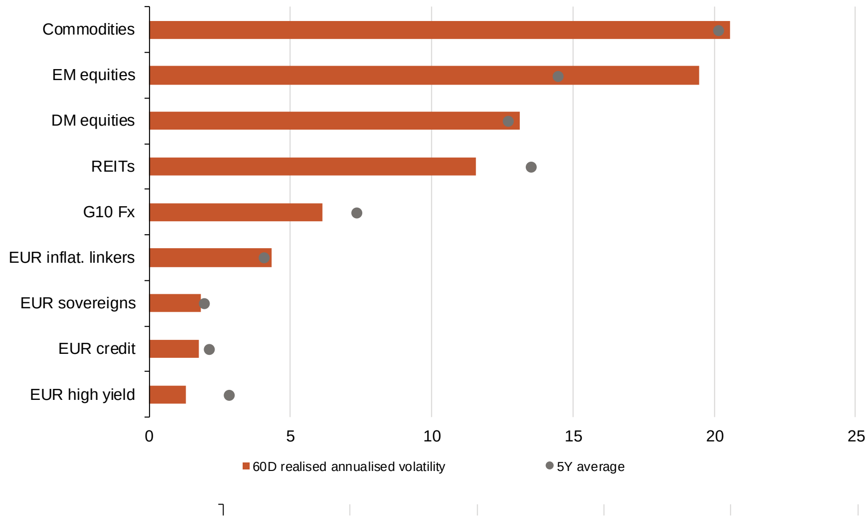
AAII Sentiment Survey (Bulls vs. Bears)



- The mood among US private investors remains distinctly optimistic. At 51%, the bulls are in the absolute majority again for the first time since the beginning of November '20. The number of bears, on the other hand, is at its lowest level since December '19. The bull/bear spread is positive for the 20th week in a row.

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 – 25/03/21

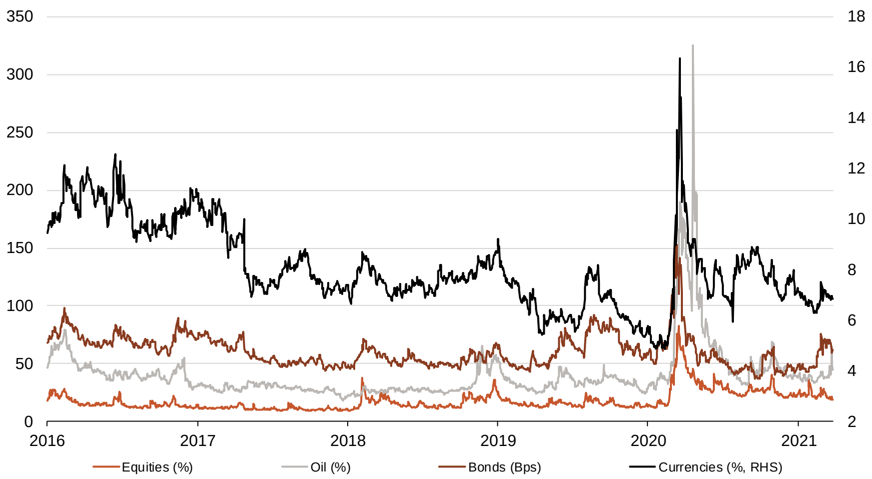
Realised Volatilities



- With the rapid drop in oil prices, commodities now have the highest levels of realised volatility seen here, closely followed by emerging market equities.
- Meanwhile, the realised volatility of developed market equities is right at its 5-year average.
- The picture for government, corporate and high-yield bonds is inversely to that of their 5-year averages.

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: 26/03/2016 – 26/03/2021

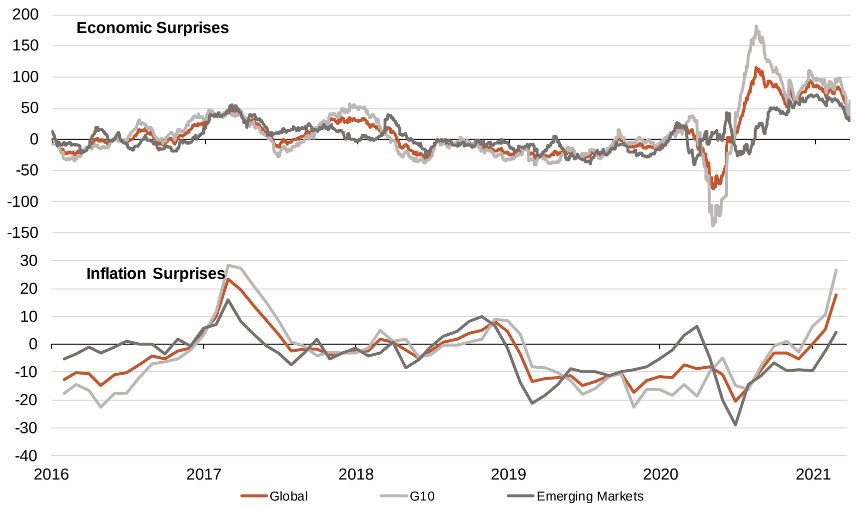
Implied Volatilities



- Implied volatility has also recently jumped sharply in the oil market.
- Implied volatility has fallen again for government bonds.
- The VIX is currently hovering around 20. In the last 10 trading days, it has closed below this important mark five times.

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 – 26/03/2021

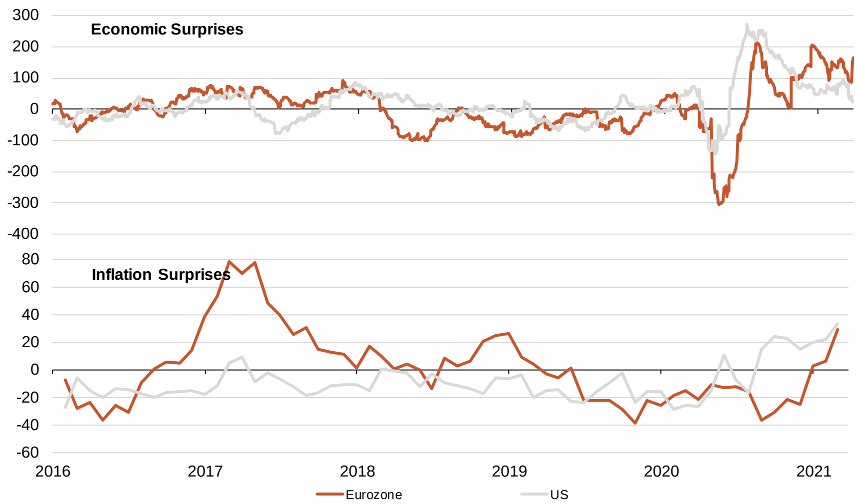
Global



- Positive economic surprises continue to decrease, even if they remain clearly in the positive range. In addition to the industrialised nations, emerging markets also saw fewer economic data that surprised to the upside. Nevertheless, China's retail sales and industrial production data for February were positive surprises. In Russia, however, industrial production data and additionally South Africa retail sales disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 26/03/2021

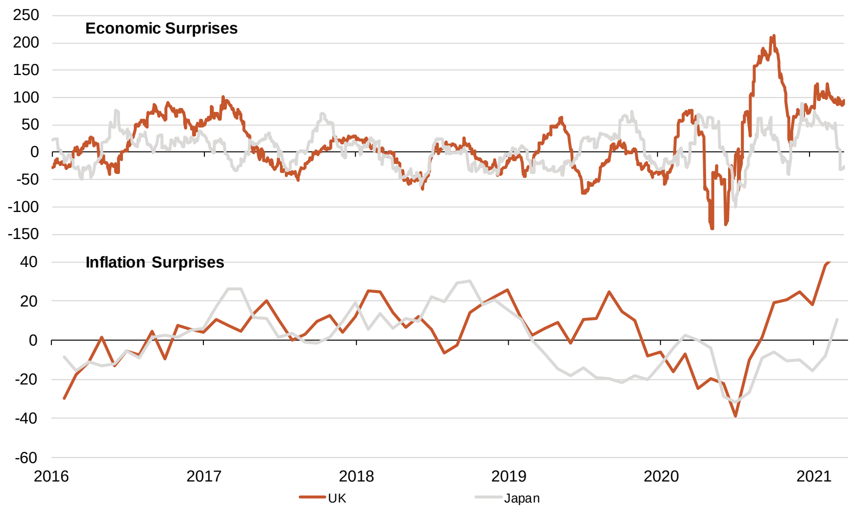
Eurozone and US



- Covid-19 continues to keep the Eurozone in suspense. However, the purchasing managers' indices (PMI) were able to surprise significantly upwards in March, in part due to being collected before the recent lockdowns. In Germany, the ZEW index, the Ifo index and both purchasing managers' indices (industry & services) beat expectations.
- In the US, the economic situation continues to look good, even if a few data points such as new orders, retail sales and industrial production have recently disappointed somewhat.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 26/03/2021

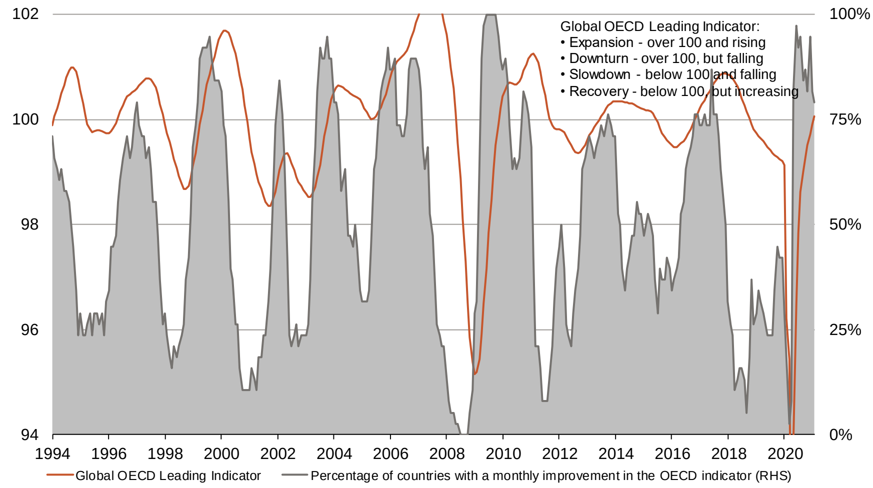
UK and Japan



- In the UK, retail sales, PMIs and consumer confidence surprised on the upside.
- In Japan, however, the economic index turned negative. The only recent positive surprise was in machinery orders.

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 - 26/03/2021

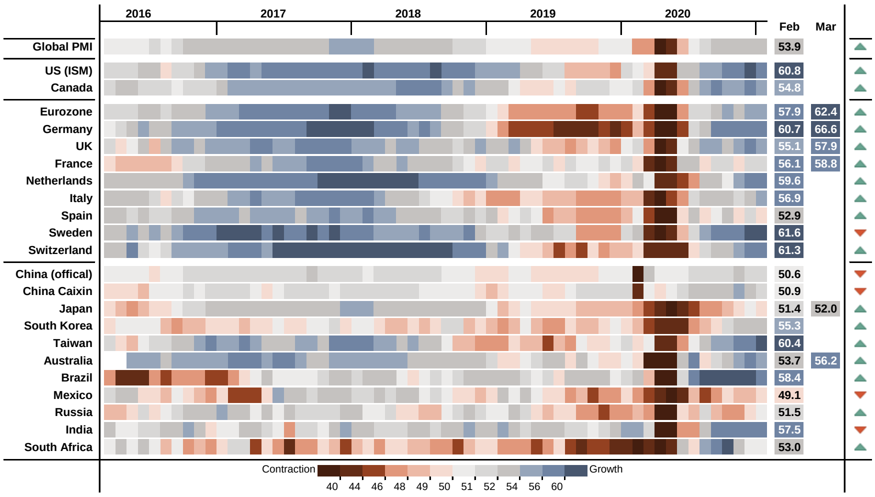
OECD Leading Indicator



- 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

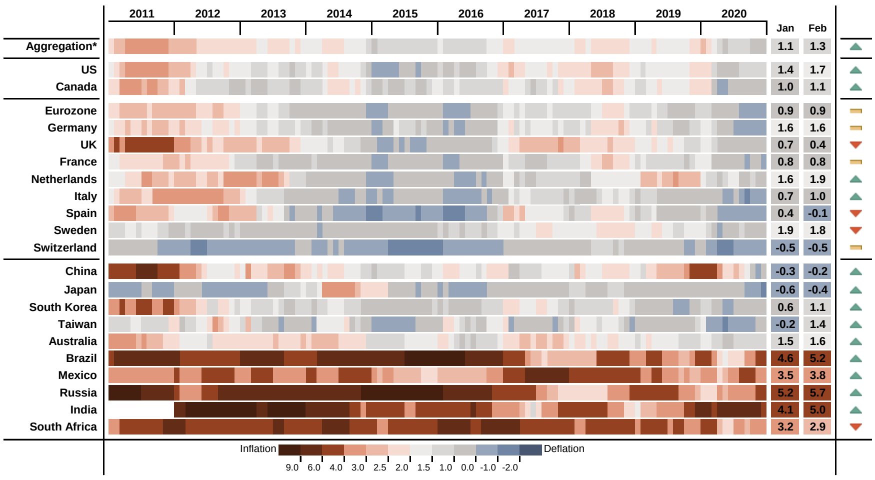
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The industrial sector continues to be unimpressed by Covid-19 and has recently posted significant gains. The preliminary March PMIs in Europe have all surprised to the upside so far.
- In Japan and Australia, the March PMI has also risen.

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: 31/03/2016 – 26/03/2021

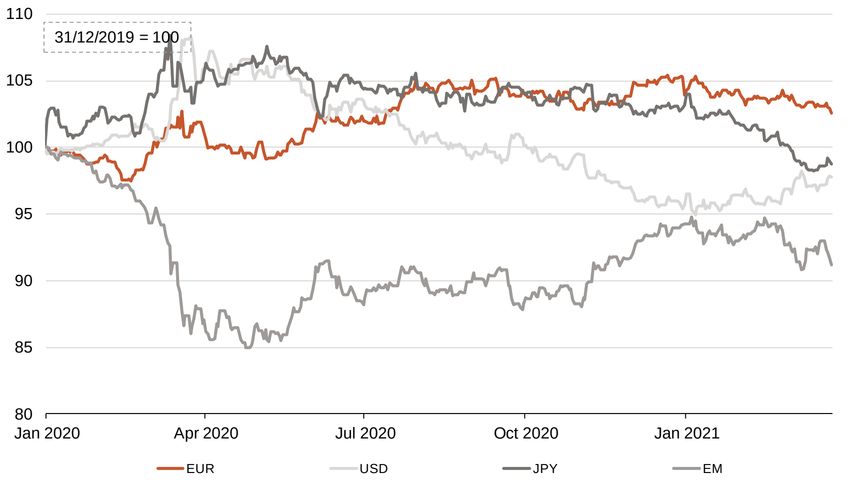
Headline Inflation



- Global aggregate inflation rose to 1.3% in February. The main drivers were countries outside Europe, while in Europe inflation tended to stagnate relative to January.
- In the UK, inflation unexpectedly fell in February. The main downward pressure came from a decline in clothing and footwear prices and less strong increases in used car prices.

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: 31/03/2011 – 26/03/2021

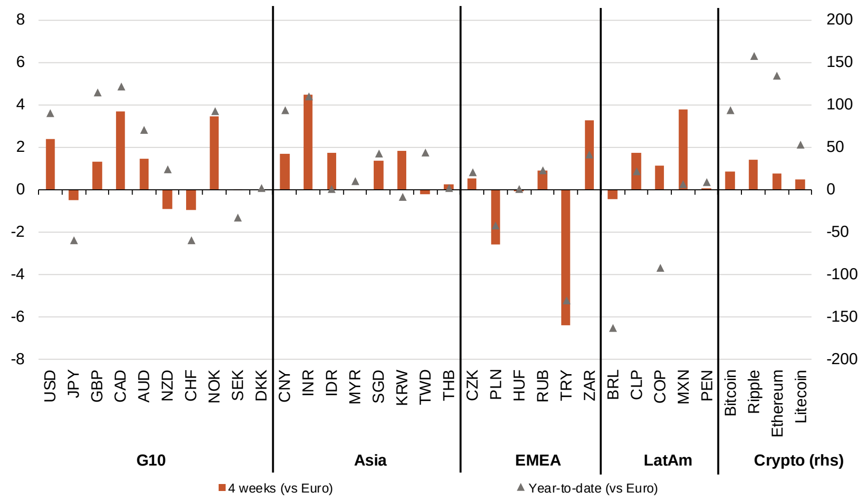
Trade-Weighted Currency Development



- The Japanese yen bottomed out in the last two weeks after a month-long downward trend.
- The euro depreciated further on a trade-weighted basis with renewed lockdowns in France, Italy and Germany.
- Emerging market currencies fluctuated sideways.

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 - 26/03/2021

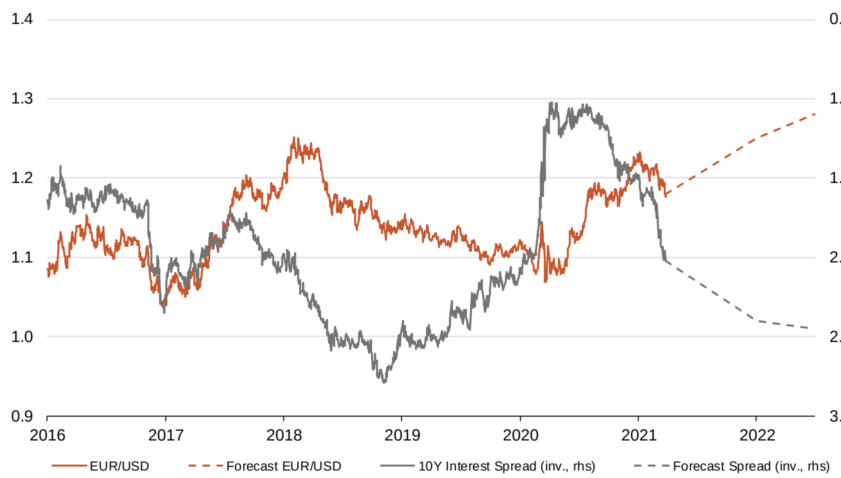
Currency Moves vs. Euro



- Asian currencies saw gains across the board. The opposite was true in the EMEA region. The Turkish lira experienced a particularly sharp drop after President Erdogan removed the head of the Turkish central bank from office after he had raised key interest rates only the day before.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2020 - 26/03/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The euro continued its downward trend against the US dollar. The EUR/USD exchange rate is currently even below the 1.18 mark again and thus lower than it has been since the beginning of November 2020.
- The interest rate differential between US Treasuries and Bunds has widened further and currently stands at around 2%. This is giving the US dollar an additional tailwind alongside the significantly more dynamic US vaccination campaign.

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 and Style Performance

	4-week & YTD: 4W (26/02/21 - 26/03/21)	4-week & YTD: YTD (31/12/20 - 26/03/21)	26/03/20 26/03/21	26/03/19 26/03/20	26/03/18 26/03/19	26/03/17 26/03/18	25/03/16 26/03/17
Telecommunications	8.6	10.0	24.1	-22.1	3.7	-11.5	-3.4
Consumer Staples	8.4	1.3	13.4	-7.3	18.4	-9.2	9.5
Value	6.9	10.7	34.7	-22.3	3.7	-1.3	20.3
Consumer Discretionary	6.5	9.9	58.5	-12.9	0.0	2.3	12.4
Industrials	6.4	8.9	52.8	-11.0	3.7	1.0	21.3
Utilities	6.2	-0.8	25.0	1.9	22.8	-1.0	3.9
Finance	5.8	14.2	36.9	-20.6	-7.9	2.3	23.6
Information Technology	5.0	10.2	49.4	0.4	10.6	6.3	23.3
Growth	4.6	4.5	31.9	-2.8	10.6	-1.2	12.1
Materials	4.2	10.6	63.3	-18.3	5.3	5.5	37.1
Health Care	4.1	1.5	11.9	3.9	22.8	-11.3	9.2
Energy	2.7	16.1	20.3	-38.4	17.3	7.3	23.3

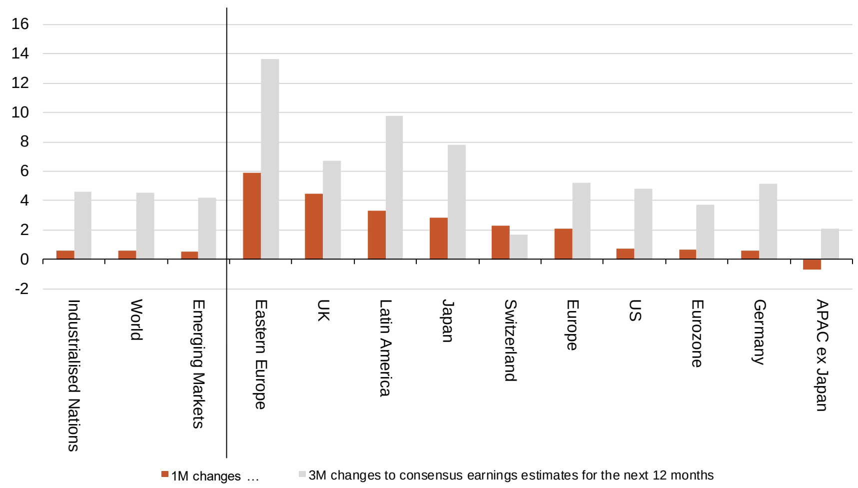
12-month periods over that last 5 years

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 has recently been a reversal. Defensive sectors such as telecoms, consumer staples and utilities have risen significantly, helped by the absence of a further rise in bond yields.
- Energy companies, on the other hand, underperformed after the significant rally this year.

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: 26/03/2016 – 26/03/2021

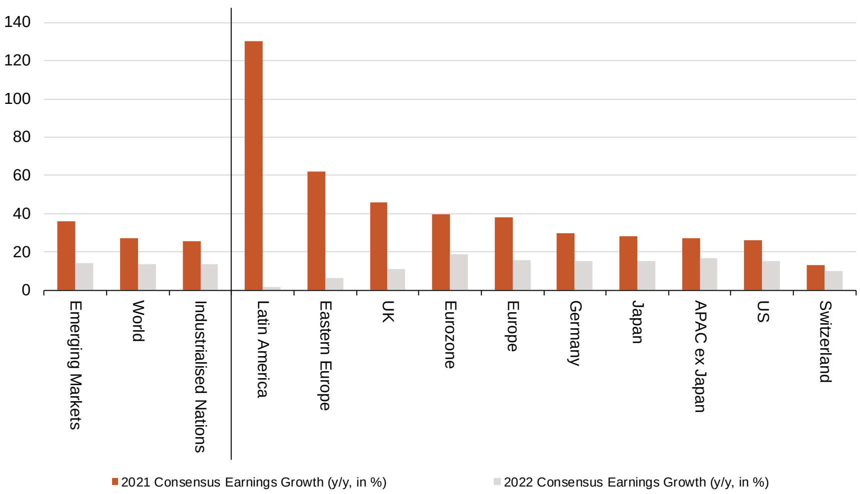
Changes in Consensus Earnings Estimates



- Over the last month, analysts have become even more optimistic about earnings estimates for the next 12 months. Almost all regions saw upward revisions, especially Eastern Europe, Latin America and the UK.
- Asia Pacific ex Japan, on the other hand, saw downward revisions.

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 26/03/2021

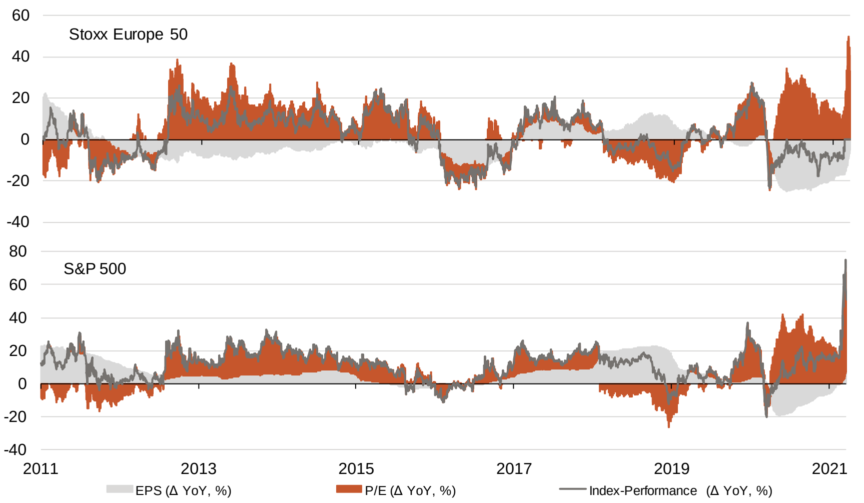
Earnings Growth



- Globally, analysts now expect earnings growth of 27% this year and 14% next year. Within Europe, the largest profit growth (46% year-on-year) is still expected in the UK.

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 26/03/2021

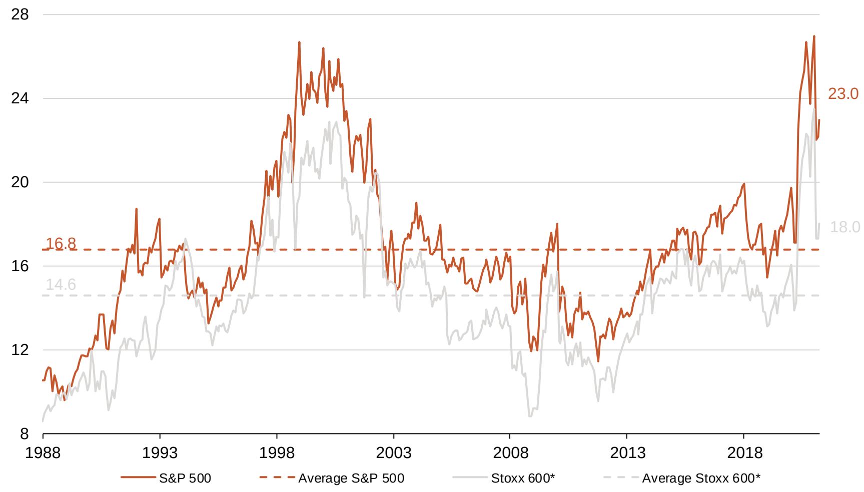
Contribution Analysis



- Stock markets in Europe and the USA have risen by more than 40% at their peak since their lows last year in March. The main driver of this development has been increased valuation levels.

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 - 26/03/2021

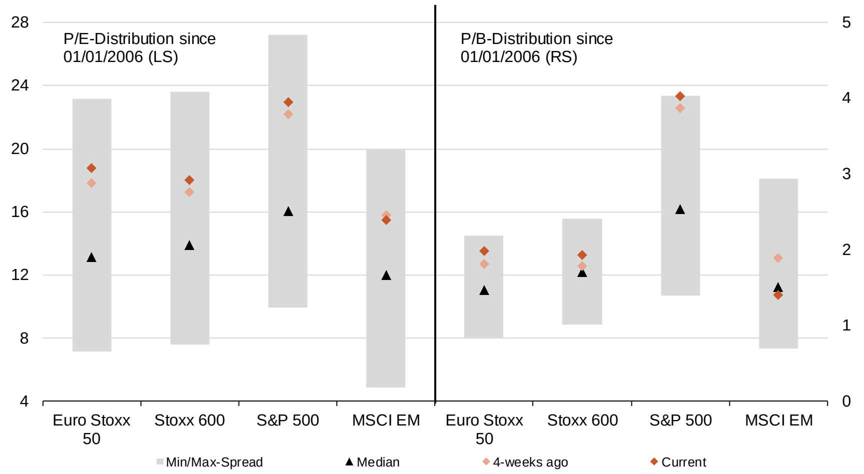
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Equity valuations have risen in recent years as a function of falling interest rates and the rise of price-interested investors (e.g. momentum strategies, passive/thematic investing).
- However, P/E valuations are likely to fall as estimated earnings for the next twelve months are expected to rise significantly - if only because old earnings estimates, still heavily influenced by lockdowns, are falling out of 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 - 26/03/2021

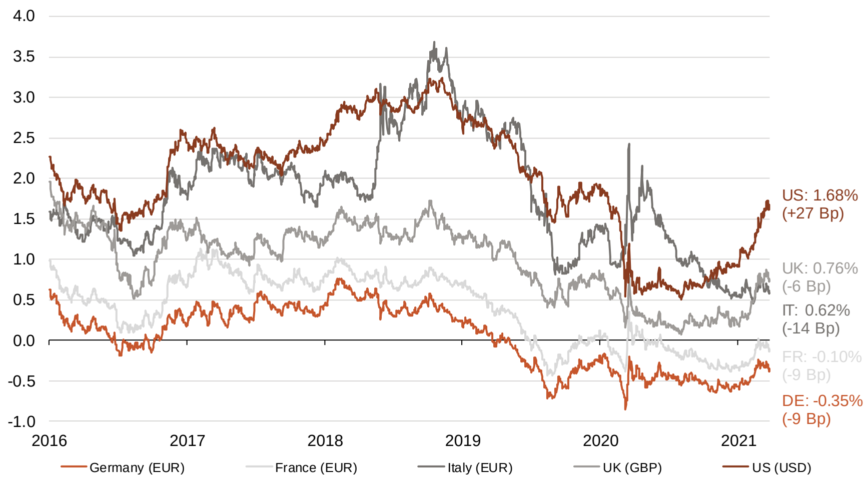
Historical Distribution: Price/Earnings and Price/Book Ratio



- Even though earnings estimates have recently risen further, US equities in particular remain expensively valued relative to their own history.
Emerging market equities are also more ambitiously valued than in the past, but the structure of the index has also changed massively in recent years - away from commodity companies and towards more and more technology-oriented companies.

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 - 26/03/2021

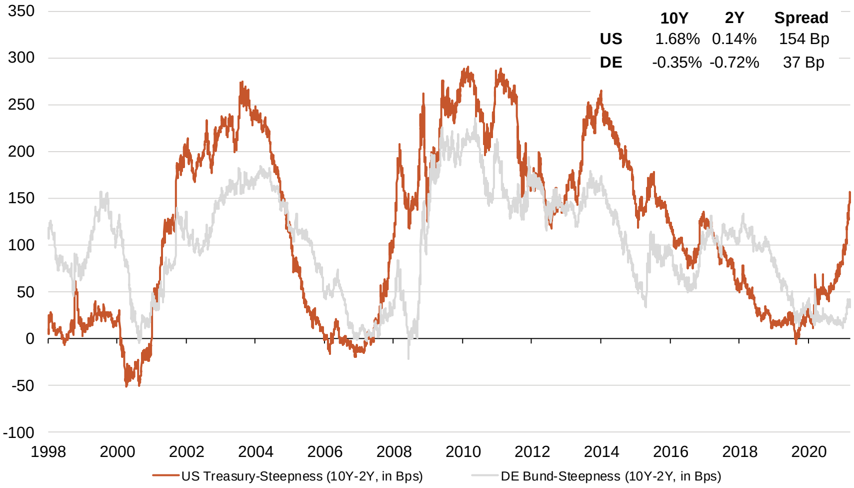
10-Year Government Bond Yields



- In the last two weeks, the rise in bond yields has lost some momentum. Bond yields in the USA have barely risen over the last two weeks, whereas they have risen by 27 basis points (bp) in the last four weeks.
- In the Eurozone, on the other hand, yields have tended to fall over the last four weeks. In Germany, they fell by around 10 bp, while in Italy they fell by almost 15 bp.

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 - 26/03/2021

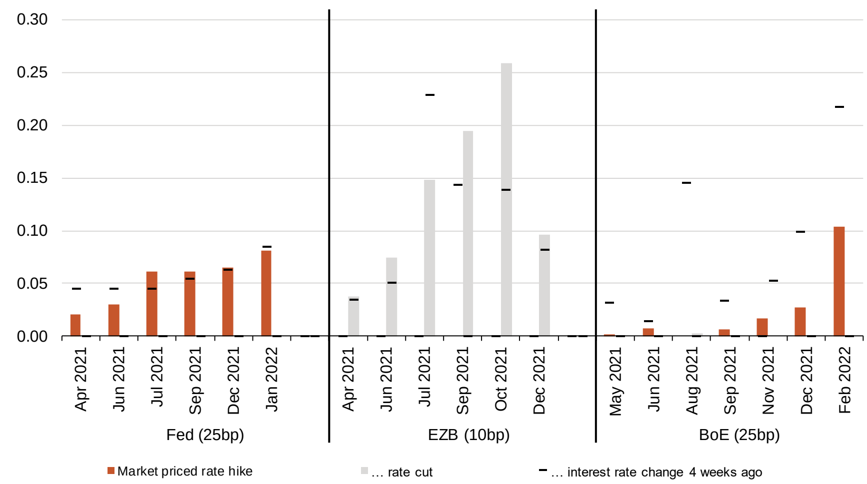
Yield Curve Steepness (10Y - 2Y)



- The steepness of the US yield curve has only slightly increased further over the last two weeks. Nevertheless, the steepness remains above 150 bp and is thus at a pre-2016 level.
- The German yield curve is much less steep in comparison, with a value of less than 50 bp.

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 - 26/03/2021

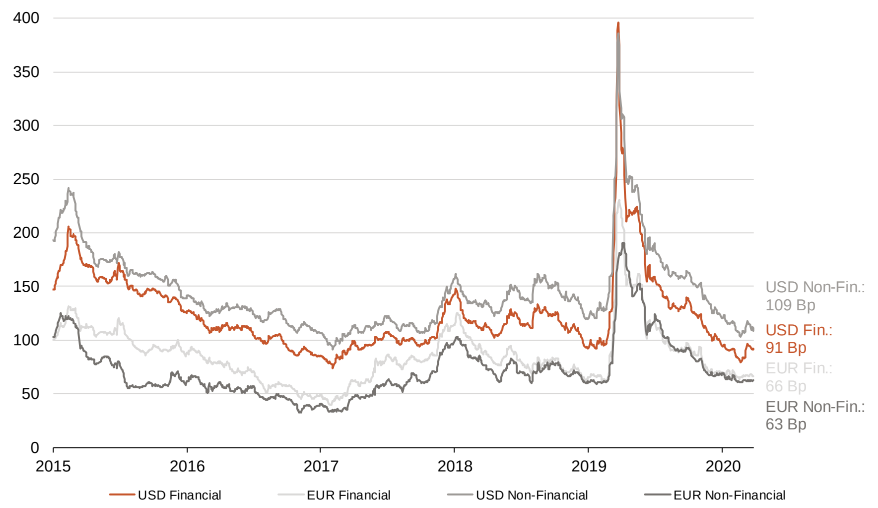
Implicit Changes in Key Interest Rates



- Powell's latest speech was unable to alleviate inflation concerns of the market. The market expects an interest rate hike in the USA by the end of the year with a probability of just under 10%. There is no longer any talk of an interest rate cut.
- In the eurozone, the market does not yet expect an interest rate hike.
- An interest rate hike in the UK, however, is priced with a probability of below 5% 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: 26/02/2021 - 26/03/2021

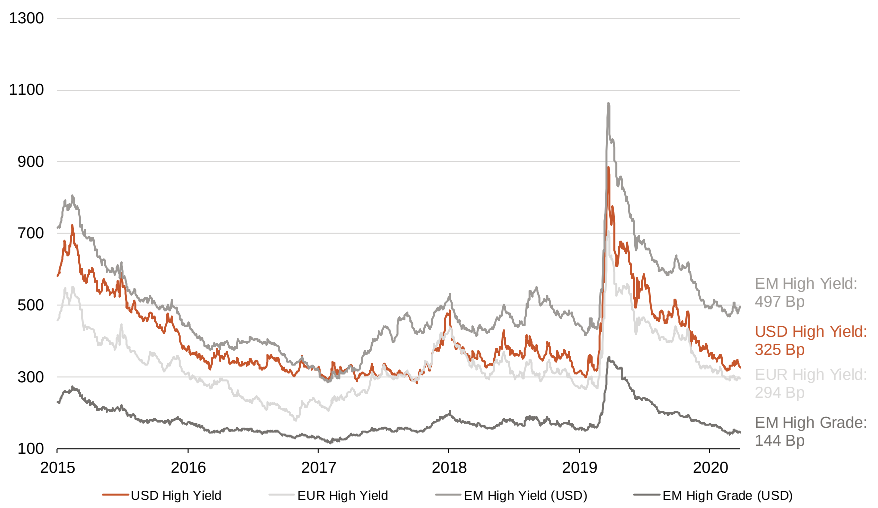
Credit Spreads Financial and Non-Financial Bonds



- Spreads on corporate bonds have started to move downwards again. USD investment-grade corporate bonds experienced a decline in spreads of around 5 bp in the last two weeks, while EUR-IG corporate bonds hardly moved.
- In the case of USD corporate bonds, the telecommunications sector and in the case of EUR corporate bonds, the insurance sector saw the largest spread narrowing.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 - 26/03/2021

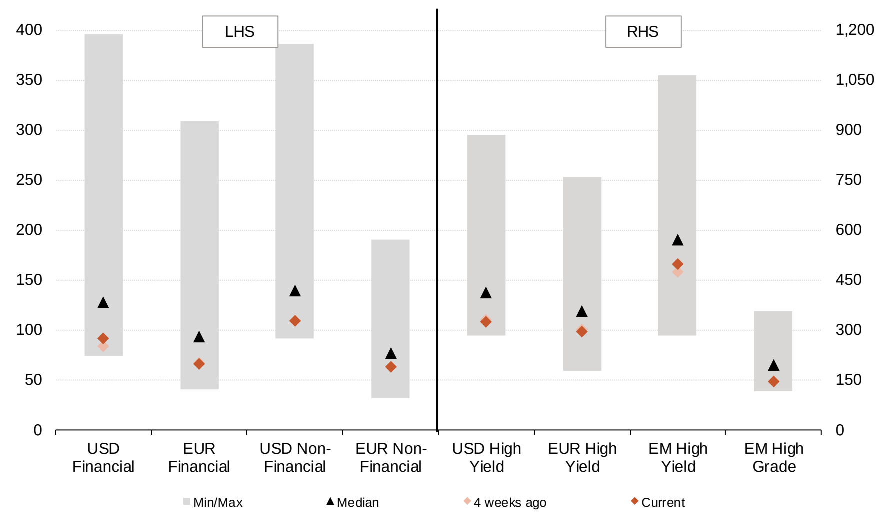
Credit Spreads High Yield and Emerging Markets Bonds



- Spreads on high-yield bonds have fluctuated in a sideways channel. They have neither risen nor fallen much in the last few weeks.
- In the last two weeks, however, the risk premiums on USD high-yield bonds have fallen slightly by around 10 basis points.
- In USD high-yield bonds, the energy sector saw the largest spread widening, while the media sector experienced the largest 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 - 26/03/2021

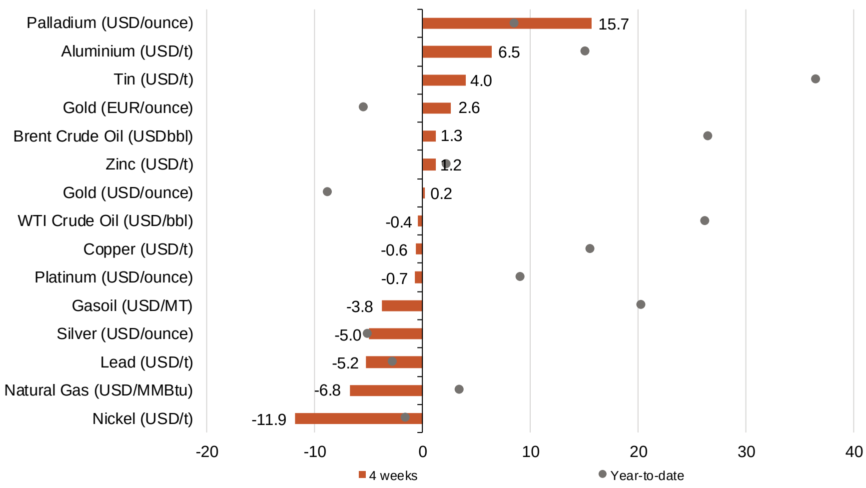
Historical Distribution of Credit Spreads (in bp)



- All bond segments shown are trading below the 10-year median spread and are thus no longer cheap. In the last four weeks, spreads have not fallen significantly and have even risen slightly in some cases. In the course of the economic recovery, we still see potential above all in high-yield and emerging market 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: 26/03/2011 - 26/03/2021

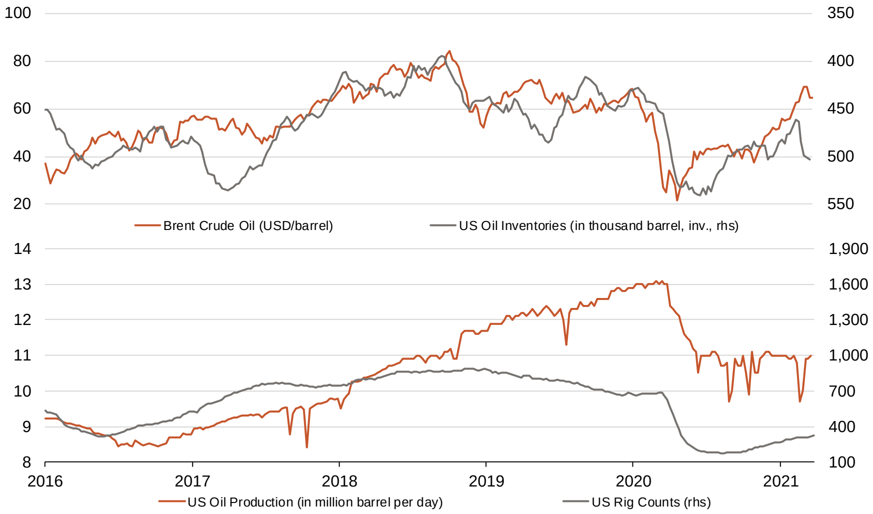
Commodities Performance



- The commodity markets had to record significant losses in some segments in the last four weeks.
- Only palladium was able to make strong gains thanks to production losses in Russia. Supply is thus likely to be in deficit again this year.
- Nickel was by far the biggest loser. The reason for the weakness was the news that a large Chinese producer is making progress in developing a refining method for low-quality nickel so that it could be used in batteries in the future.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2021 - 26/03/2021

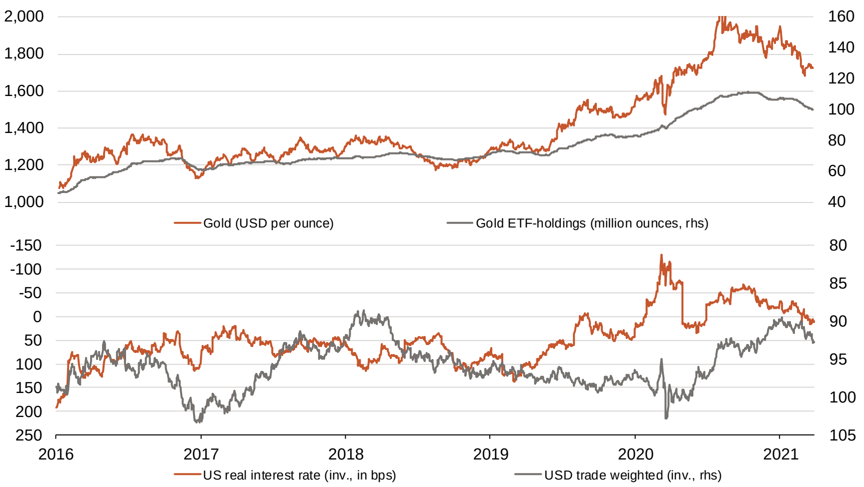
Crude Oil



- The oil price (Brent) fell within the last a few days from almost 70 to just over 60 USD per barrel. The reason for the rapid sell-off was first a slowing recovery in demand in Asia and later the newly imposed lockdowns in Europe.
- The OPEC+ meeting on 1 April is likely to be decisive for further developments. With the recent drop in prices, however, it will be difficult for the members to substantially increase production.

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 - 26/03/2021

Gold



- Gold was able to stabilise above the USD 1,700 per ounce mark over the last two weeks, even though ETF outflows continued to be unchanged.
- While real interest rates were still rising strongly in February, they consolidated in March and thus took a large part of the pressure off 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 - 26/03/2021

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PUBLISHING INFORMATION

PUBLISHER

Prof Dr Bernd Meyer, CFA | Chief Strategist Wealth and Asset Management

EDITORS

Ulrich Urbahn, CFA | Head Multi Asset Strategy & Research
focuses on the multi-asset investment process, the development of investment ideas and capital market communications
+49 69 91 30 90-501 | ulrich.urbahn@berenberg.de

Karsten Schneider | Analyst Multi Asset Strategy & Research
analyses financial markets, supports the multi-asset investment process and participates in capital market publications
+49 69 91 30 90-502 | karsten.schneider@berenberg.de

Ludwig Kemper | Analyst Multi Asset Strategy & Research
analyses financial markets, supports the multi-asset investment process and participates in capital market publications
+49 69 91 30 90-224 | ludwig.kemper@berenberg.de

Richard Garland|UK Wealth Management
manages UK multi-asset discretionary strategies and portfolios
+44 20 3753 -3126 | richard.garland@berenberg.com

IMPORTANT NOTICES

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Joh. Berenberg, Gossler & Co. KG
Neuer Jungfernstieg 20
20354 Hamburg (Germany)
Phone +49 40 350 60-0
Fax +49 40 350 60-900
www.berenberg.com
MultiAssetStrategyResearch@berenberg.de