BERENBERG
Markets

MONITOR

25 May 2021

Current market commentary

Markets remain nervous and equity style volatility stays high. There are no clear trends. This is also because the Fed and the markets are unlikely to know better, until late summer, how temporary the recent sharp rise in inflation will really be. Gold and European equities were among the recent outperformers. They benefited from significant inflows. Gold also surpassed its 200-day moving average and was supported by falling real interest rates, a weak US dollar and high volatility in cryptocurrencies. European equities benefited from positive earnings revisions as well as improved investor sentiment due to the vaccine progress and the resulting opening of the economy. For international investors, the current GBP and euro strength and USD weakness may also have played a role. Asia has recently fallen behind. China's economy is weakening somewhat and Japan is administering vaccines much more slowly. Asia could therefore have catch-up potential in H2.

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

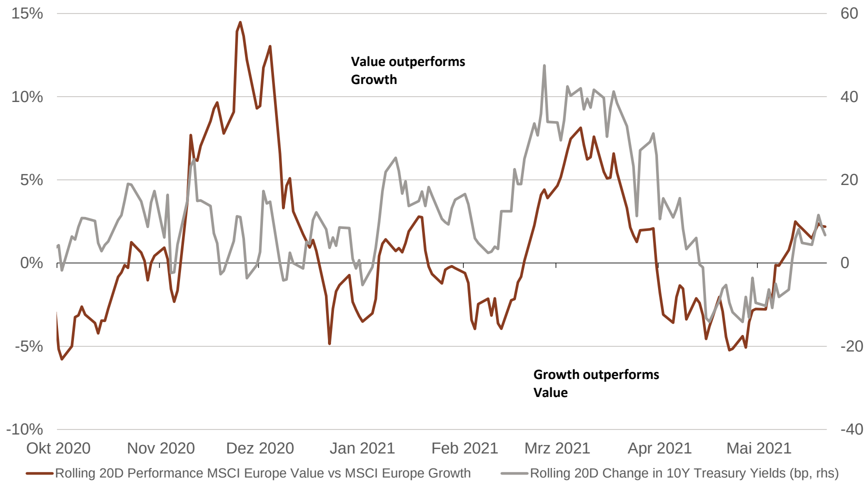
Short-term outlook

The Q1 reporting season is drawing to a close. 85% of S&P500 companies surprised on the upside, beating earnings expectations by a median of 16%. However, stock prices have hardly reacted to these positive surprises, as the equity market had already priced in most of the strong recovery in corporate earnings. Over the next few weeks, the market will again focus more on economic and inflation data. After the surprisingly strong rise in the CPI figures, the highlights will include the Fed's preferred inflation measure, the price index for Personal Consumption Expenditures (PCE deflator), which will be published on Friday for the month of April. The following week on Friday, US labour market data for the month of May will be published. The focus is likely to be on the change in non-farm payrolls and the development of US wages.

The corporate reporting season has hardly moved the markets.

Markets are likely to react sensitively to the release of US inflation data (PCE) and the US labour market data.

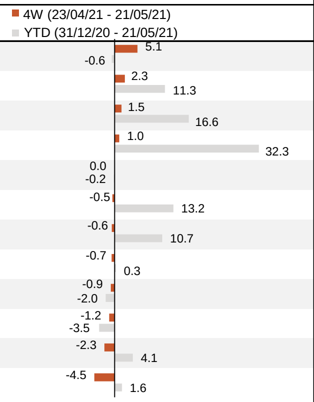
High style volatility: constant ups and downs between value and growth



- The positive vaccine news and Biden's election as US president led to an outperformance of value stocks, especially in November. As the euphoria subsided, growth was able to outperform again, before the commodity rally and strongly rising bond yields helped value companies again.
- Growth hopes and inflation concerns are unlikely to provide clear trends in the coming weeks - style volatility should remain high.

Explanations see page 8.
Source: Bloomberg, Time period: 01/10/2020 - 21/05/2021

Multi Asset



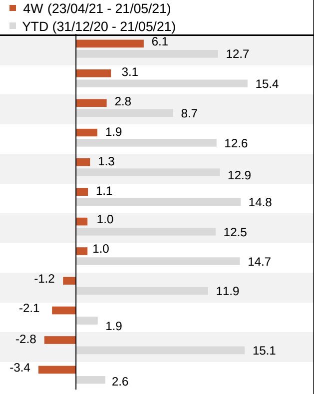
	4-week & YTD		12-month periods over that last 5 years				
	4W (23/04/21 - 21/05/21)	YTD (31/12/20 - 21/05/21)	21/05/20 21/05/21	21/05/19 21/05/20	21/05/18 21/05/19	21/05/17 21/05/18	20/05/16 21/05/17
Gold	5.1	-0.6	-2.1	38.1	4.2	-2.2	0.5
MSCI Frontier Markets	2.3	11.3	25.3	-10.1	-0.9	6.2	13.0
Industrial Metals	1.5	16.6	41.4	-10.0	-10.8	17.3	24.4
Brent	1.0	32.3	58.4	-47.5	-1.0	45.1	-3.4
Eonia	0.0	-0.2	-0.5	-0.4	-0.4	-0.4	-0.3
REITs	-0.5	13.2	18.9	-14.7	20.3	-7.4	0.0
MSCI World	-0.6	10.7	29.7	1.6	6.9	8.9	18.1
USDEUR	-0.7	0.3	-10.1	1.9	5.6	-5.0	0.1
Global Coporates	-0.9	-2.0	-3.1	8.1	9.5	-3.6	3.2
Global Treasuries	-1.2	-3.5	-7.4	8.8	7.4	-3.3	-1.0
MSCI Emerging Markets	-2.3	4.1	31.5	-2.7	-5.0	10.9	30.0
Global Convertibles	-4.5	1.6	29.3	8.0	5.0	6.7	15.4

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.

- Over the last four weeks, the returns for most asset classes were limited – a classic, volatile sideways movement.
- Gold was one of the relative winners, thanks to falling real interest rates and the interim crash in cryptocurrencies, which are seen as a substitute by some investors.
- Global convertibles, on the other hand, suffered from their large tech exposure.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 21/05/2016 – 21/05/2021

Equities



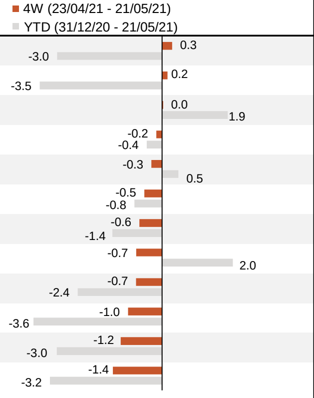
	4-week & YTD		12-month periods over that last 5 years				
	4W (23/04/21 - 21/05/21)	YTD (31/12/20 - 21/05/21)	21/05/20 21/05/21	21/05/19 21/05/20	21/05/18 21/05/19	21/05/17 21/05/18	20/05/16 21/05/17
MSCI EM Eastern Europe	6.1	12.7	19.9	-9.0	13.7	8.4	27.2
MSCI UK	3.1	15.4	24.8	-17.9	-2.3	6.7	13.5
Stoxx Europe Defensives	2.8	8.7	12.6	0.7	3.7	1.8	10.4
Stoxx Europe 50	1.9	12.6	24.2	-6.1	1.9	1.0	18.6
Stoxx Europe Small 200	1.3	12.9	42.7	-6.2	-4.8	9.2	19.0
Euro Stoxx 50	1.1	14.8	41.6	-12.5	-2.5	2.2	24.5
DAX	1.0	12.5	39.5	-8.9	-7.1	3.5	27.5
Stoxx Europe Cyclicals	1.0	14.7	49.6	-15.4	-7.3	7.2	26.9
S&P 500	-1.2	11.9	29.0	7.0	12.8	11.3	18.7
Topix	-2.1	1.9	16.0	3.4	-7.4	13.3	17.8
MSCI USA Small Caps	-2.8	15.1	50.3	-9.9	4.2	13.9	21.5
MSCI EM Asia	-3.4	2.6	31.8	4.7	-7.5	14.2	32.7

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.

- Within equity regions, there has recently been a clear picture. European equity regions gained the most, followed by US equities, while Asian regions underperformed.
- Europe benefited from the gradual reopening of the economy. In Asia, on the other hand, there were renewed lockdowns and restrictions, such as in Japan. This weighed on investor sentiment.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 21/05/2016 – 21/05/2021

Fixed Income



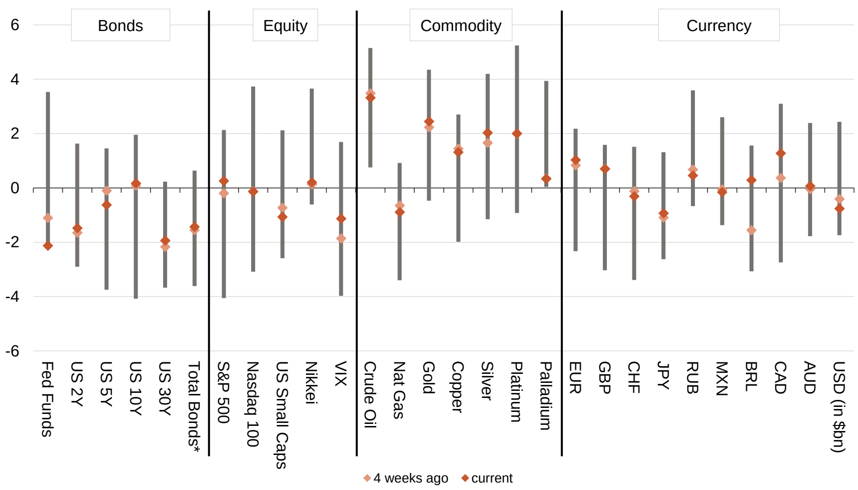
	4-week & YTD		12-month periods over that last 5 years				
	4W (23/04/21 - 21/05/21)	YTD (31/12/20 - 21/05/21)	21/05/20 21/05/21	21/05/19 21/05/20	21/05/18 21/05/19	21/05/17 21/05/18	20/05/16 21/05/17
EM Hard Currency Bonds	0.3	-3.0	6.5	-1.8	4.1	-3.2	6.3
Gilts	0.2	-3.5	-4.8	12.8	5.1	-3.7	-3.3
EUR High Yield	0.0	1.9	14.4	-5.8	2.0	2.1	7.6
EM Local Currency Bonds	-0.2	-0.4	-1.9	6.6	5.6	-2.4	7.9
EUR Inflation Linkers	-0.3	0.5	8.8	0.3	-0.2	2.8	0.6
EUR Financials	-0.5	-0.8	5.1	-1.0	2.9	1.1	3.1
EUR Non-Financials	-0.6	-1.4	4.8	-0.7	3.2	0.9	2.4
USD High Yield	-0.7	2.0	2.5	0.7	12.7	-2.8	12.8
USD Corporates	-0.7	-2.4	-6.1	12.1	13.3	-5.7	4.3
Bunds	-1.0	-3.6	-3.1	3.3	4.6	-0.2	-1.0
BTPs	-1.2	-3.0	6.2	7.3	1.4	0.4	-1.1
Treasuries	-1.4	-3.2	-13.9	15.8	11.3	-6.5	0.0

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

- Most bond segments are not moving much and are still in the red since the beginning of the year due to the increase in yields.
- US bonds have recently been additionally burdened by the falling US dollar.
- Since the beginning of the year, investors have only been able to earn money with EUR and USD high-yield bonds measured in euros.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 21/05/2016 – 21/05/2021

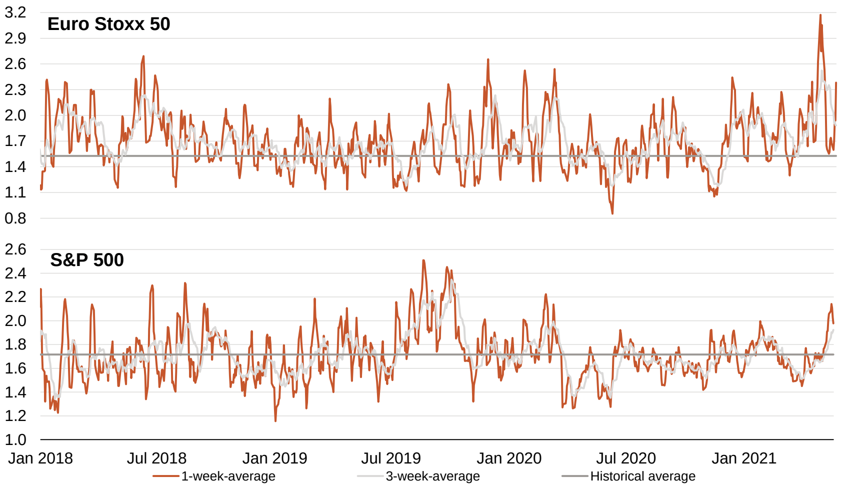
Non-Commercial Positioning



- The fact that one-sided positioning makes the markets vulnerable was felt most recently in crude oil, which fell sharply last week.
- In contrast, the rather cautious positioning of hedge funds in equity futures has had a rather supportive effect on the recent downward fluctuations.

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: 18/05/2011 - 18/05/2021

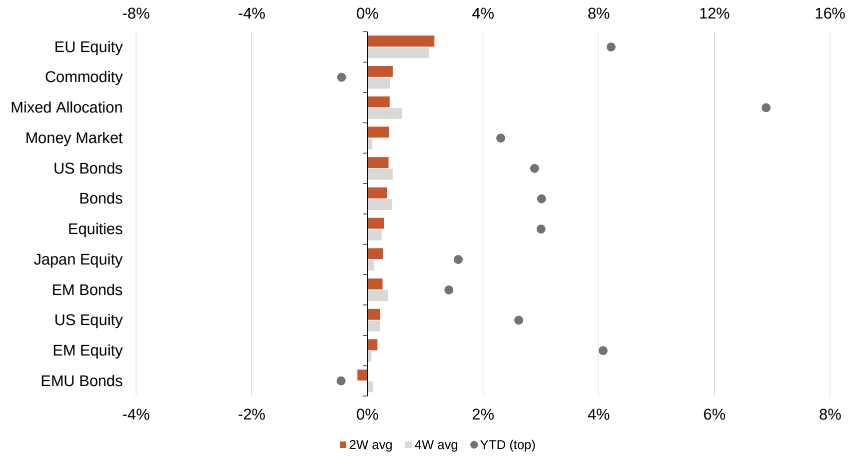
Put-Call Ratio



- Current market nervousness can be seen by the swings in the put-call ratios. For US equities, hedges have recently been raised considerably. The trend for European equities has also been pointing upwards recently, after some hedges seemed to be have monetised in previous weeks.

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 - 21/05/2021

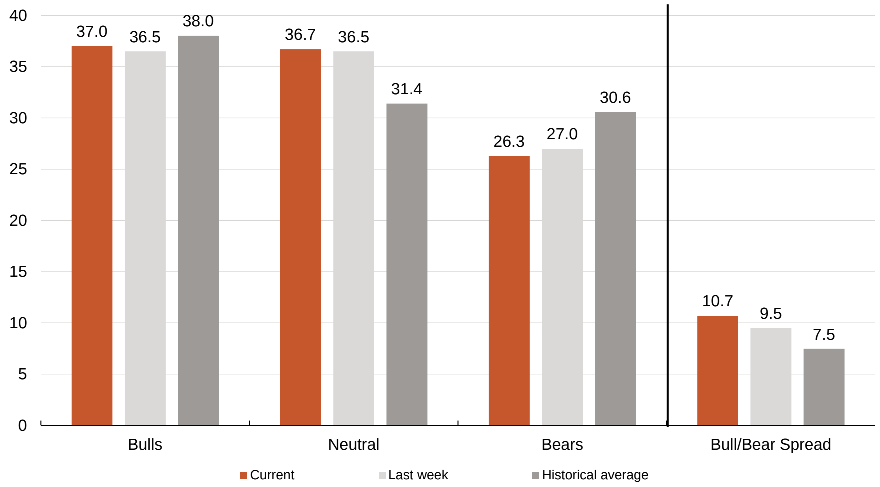
ETF Flows



- Fund flow support for capital markets is still there. Since the beginning of the year, more than 3% net new money has flowed into both equity and bond products, according to EPFR.
- Over the past two weeks, European equities and gold have recorded the strongest ETF inflows. These flows are likely to have supported the good performance of both asset classes.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 - 21/05/2021

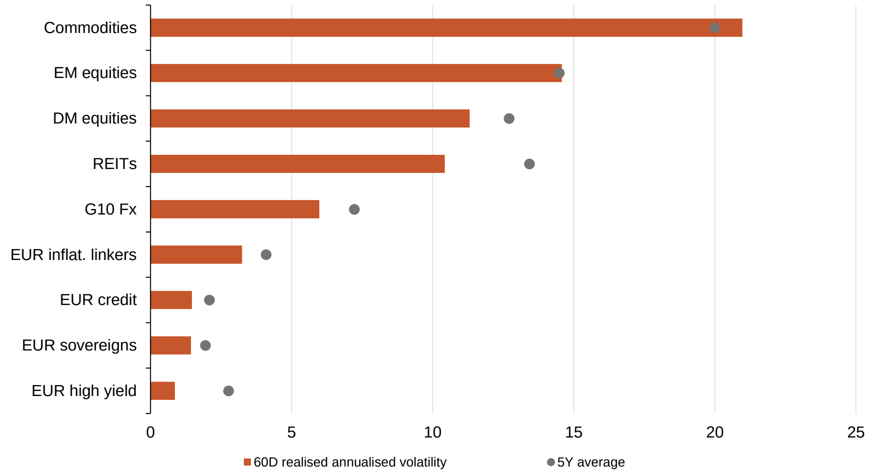
AAII Sentiment Survey (Bulls vs Bears)



- Sentiment among US private investors has deteriorated somewhat in the last two weeks. The number who are neutral has risen sharply and is now on a par with the bulls.
- However, with a bull/bear spread of over 10 pp, investors remains optimistic overall.

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 – 20/05/21

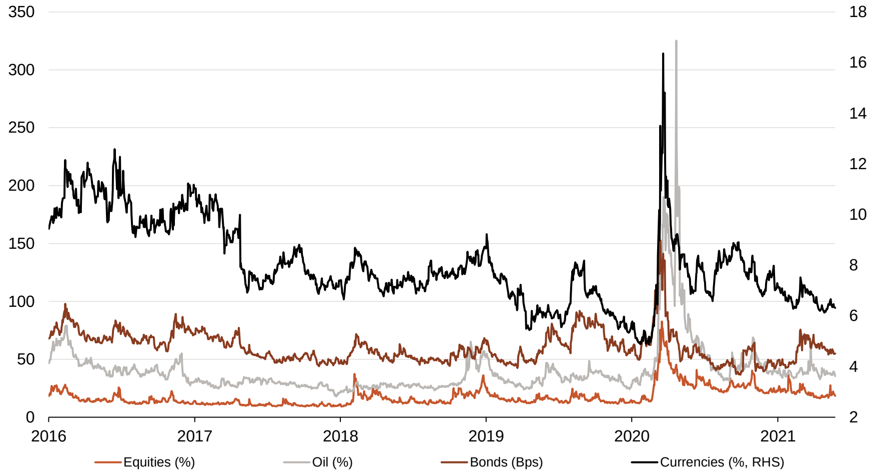
Realised Volatilities



- Currently, only commodities are showing above-average volatility.
- Despite increasing inflation concerns, realised volatility of developed market equities has fallen over the last two weeks and is now well below the 5-year average.
- EUR high yield bonds continue to have by far the lowest volatility.

Realised volatility (in percent) measures the historical range of variation of a time series and is defined here as the standard deviation of the daily returns over the last 60 trading days. Volatility is often used as a measure of risk.
Source: Bloomberg, Time period: 24/05/2016 – 24/05/2021

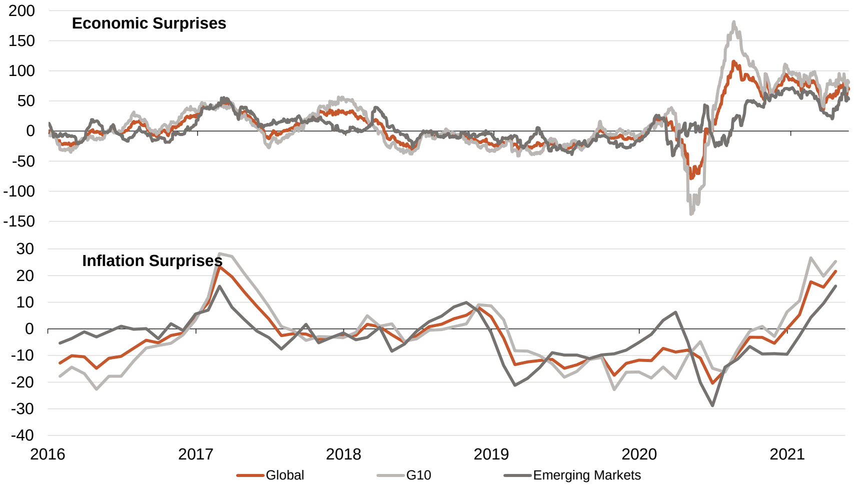
Implied Volatilities



- The VIX is still extremely sensitive to sell-offs on the stock market. The 3-day 4% setback in mid-May resulted in the VIX jumping from 17 to 28 - an increase of over 60%.
- Implied volatility for other asset classes is almost unchanged relative to a fortnight ago.

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 – 24/05/2021

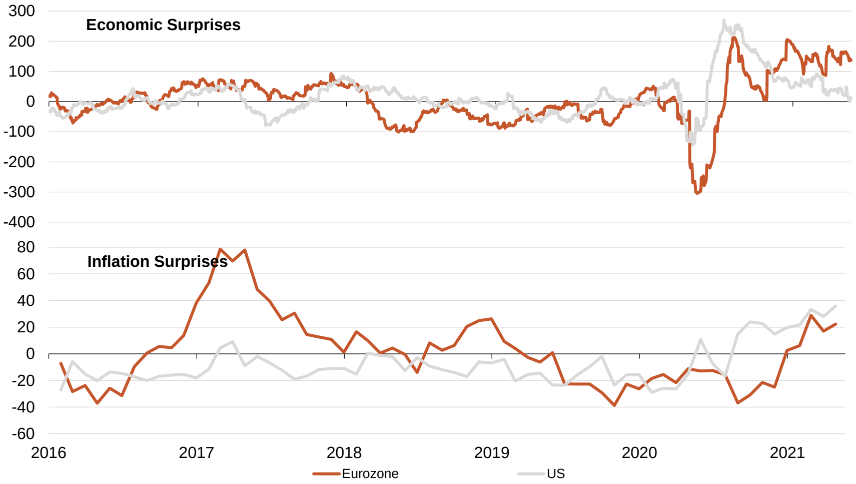
Global



- Positive economic surprises have recently diminished noticeably in both developed and emerging markets.
- In China, annual industrial production growth (Apr.) was slightly disappointing, while in India (Mar.) it was again a positive surprise.
- Inflation data surprised the most in industrialised countries, but also in emerging markets.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 – 24/05/2021

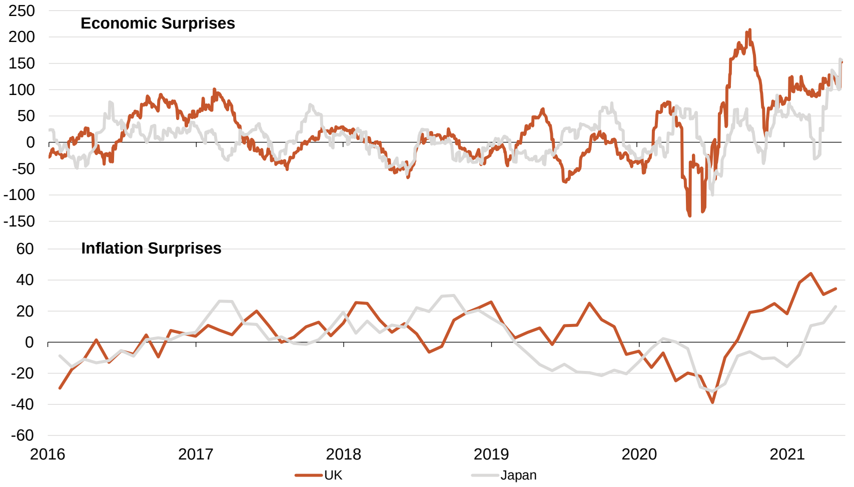
Eurozone and US



- Economic data from the US can hardly surprise on the upside. The situation is different in Europe, but here, too, the first negative surprises are appearing. The growth of industrial production in Italy (March) was negative at -0.1%. The forecast was +0.4%. The ZEW economic expectations for Germany were much stronger than the expected 72.0 at 84.4.
- Inflation data, meanwhile, continued to surprise strongly on the upside. The CPI MoM (Apr.) in the US came in at 0.8%, four times higher than the expected 0.2%.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 – 24/05/2021

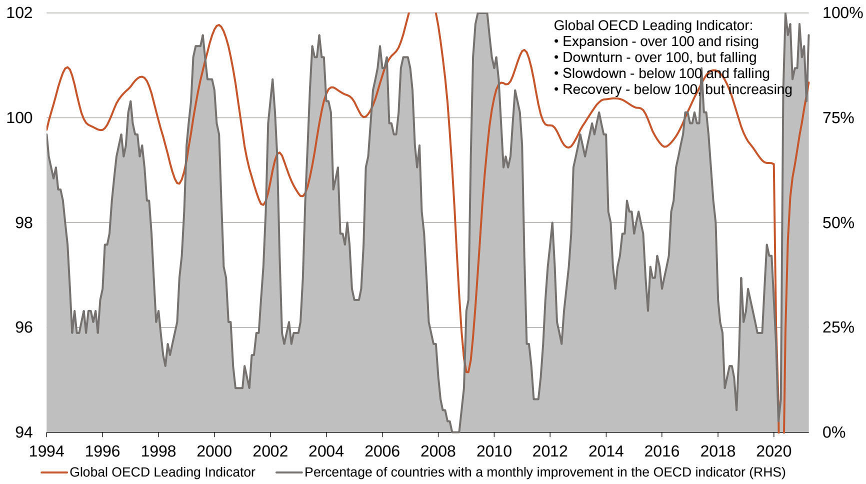
UK and Japan



- In Japan, the positive economic surprises rose strongly compared to a fortnight ago despite rising infection figures.
- In the UK, the number also rose. Inflation data for April came in as expected at 0.6% MoM.

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 – 24/05/2021

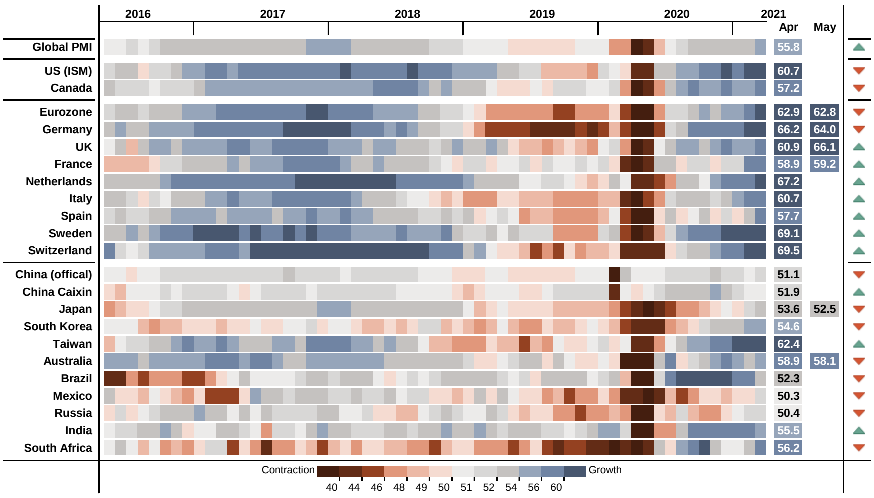
OECD Leading Indicator



- The OECD leading indicator was above the 100 mark for the third month in a row in April - and the trend is upwards. This means that the global economy continues to expand.
- The number of countries that saw a monthly improvement in the indicator rose to 95%. This is probably also due to the increasingly widespread availability of vaccines.

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 – 30/04/2021

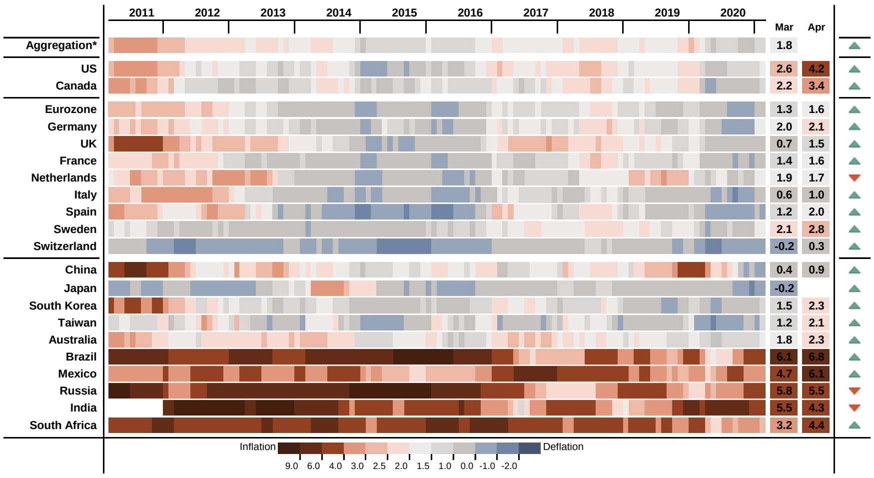
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The purchasing managers' indices point to expansion across all countries. However, there are regional divergences. While in Asia, with the exception of Taiwan, the PMIs are close to the 50 mark, in the West they are well above 60 points in some cases.

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: 31/05/2016 – 31/05/2021

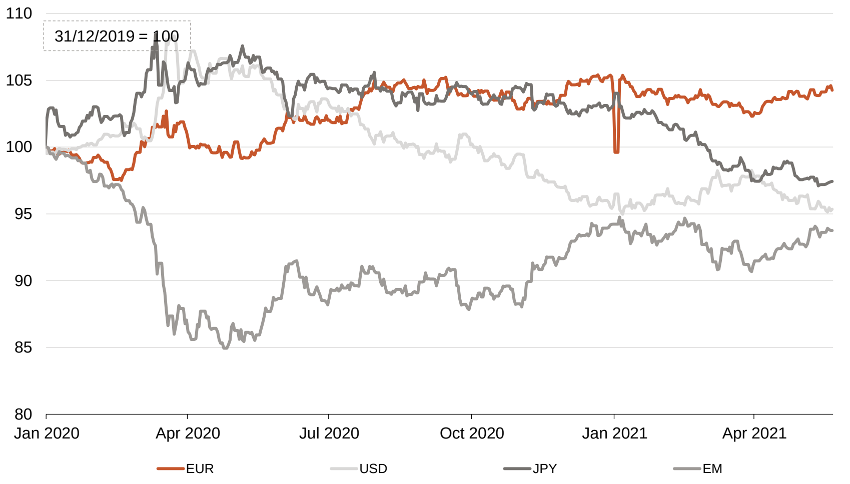
Headline Inflation



- With the exception of the Netherlands, Russia and India, inflation rose in all the countries shown here in April, the latter two having already recorded very high inflation rates.
- Among the industrialised nations, inflation rose considerably, especially in North America - to 4.2% in the US and 3.4% in Canada.

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: 30/04/2011 – 30/04/2021

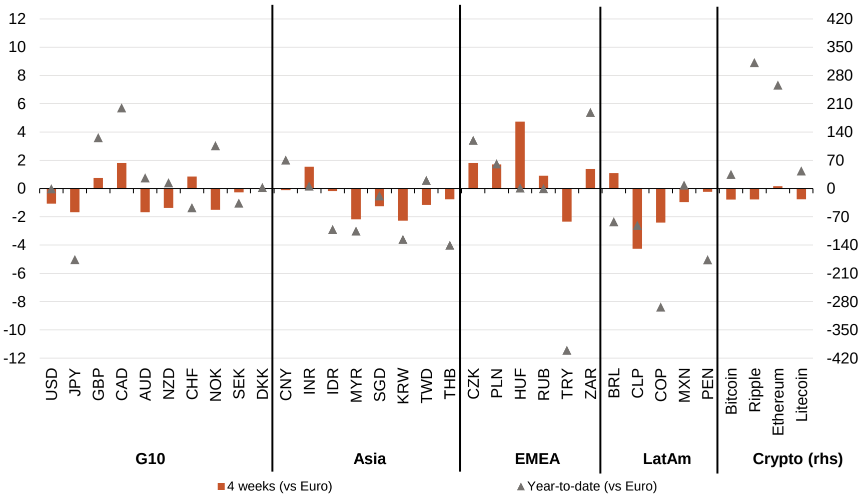
Trade-Weighted Currency Development



- The Japanese yen continued to weaken on a trade-weighted basis. In the last two weeks, however, it was not necessarily its safe-haven nature that was detrimental, but the rising infection figures in Japan.
- The euro and emerging market currencies appreciated, while the US dollar depreciated slightly.

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 - 24/05/2021

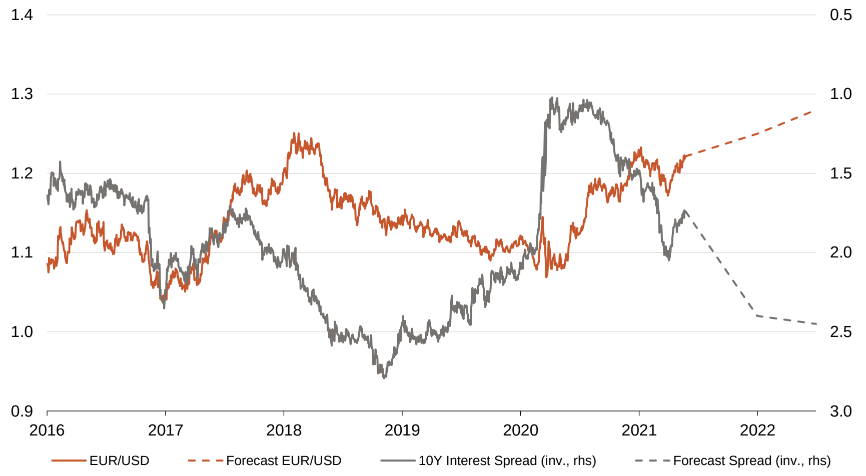
Currency Moves vs Euro



- The Turkish lira has been the weakest since the beginning of the year. The reason for this is the overly expansive central bank policy in view of the high inflation rates in the country.
- The Peruvian sol recovered most of its losses of the last weeks after the market-friendly presidential candidate Fujimori is now ahead of the left-leaning Castillo in the polls.
- Cryptocurrencies suffered one of the sharpest sell-offs in years last week.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2020 - 24/05/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD exchange rate has fluctuated above the 1.21 mark in the last two weeks.
- The rising inflation concerns, especially in the US, combined with a still cautious central bank did not really impact the currency pair.

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 - 30/06/2022

European Sector & Style Performance

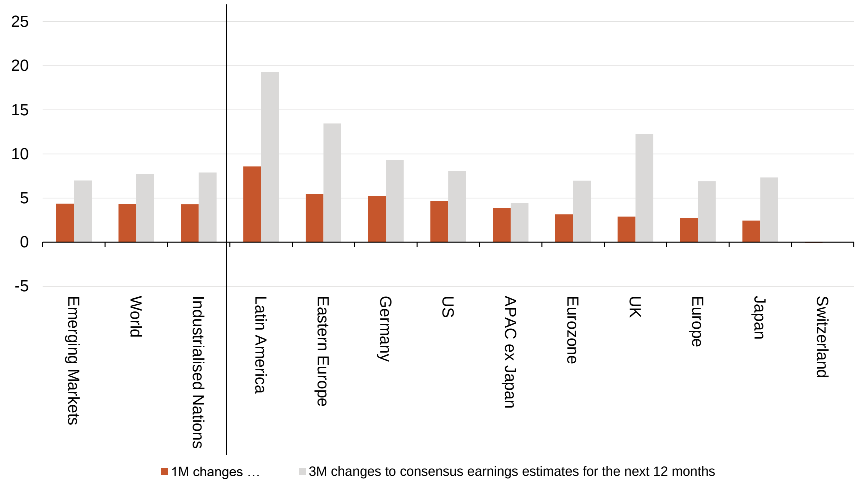
	4-week & YTD		12-month periods over that last 5 years				
	■ 4W (23/04/21 - 21/05/21)	■ YTD (31/12/20 - 21/05/21)	21/05/20 21/05/21	21/05/19 21/05/20	21/05/18 21/05/19	21/05/17 21/05/18	20/05/16 21/05/17
Energy	6.2	16.8	21.2	-39.4	-3.6	26.9	22.2
Finance	5.6	19.0	51.5	-27.8	-9.7	2.5	27.7
Consumer Staples	3.8	9.5	15.4	-3.5	12.3	-6.9	12.5
Value	3.0	14.8	37.7	-21.6	-5.5	4.1	22.7
Health Care	2.4	7.2	0.6	24.8	8.2	-7.2	12.8
Telecommunications	2.2	12.9	24.5	-18.3	-1.8	-11.3	-1.5
Growth	0.5	10.9	27.9	3.1	3.2	3.9	16.4
Utilities	0.4	3.0	27.9	4.4	9.2	3.5	8.6
Materials	0.2	15.7	51.3	-7.7	-7.5	19.6	33.7
Consumer Discretionary	0.2	16.1	60.2	-11.9	-8.2	8.8	19.2
Industrials	0.1	14.1	50.8	-10.2	-1.7	6.1	24.6
Information Technology	-4.0	13.4	39.0	4.9	4.3	14.0	31.7

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.

- While most stock indices have barely moved recently despite constant ups and downs in aggregate, things look different under the surface.
- The European IT sector fell 4% in the last four weeks, while financial and energy stocks, for example, gained more than 5%.
- Sector and style volatility are likely to remain elevated over the next few weeks.

Total return of European equity sectors and European style indices, in euros and in percent, sorted by 4-week performance. The difference between Value and Growth lies in the valuation. A growth stock is highly valued because the company is expected to grow strongly. Value stocks generally have less growth potential and are valued lower.
Source: Factset, Time period: 21/05/2016 – 21/05/2021

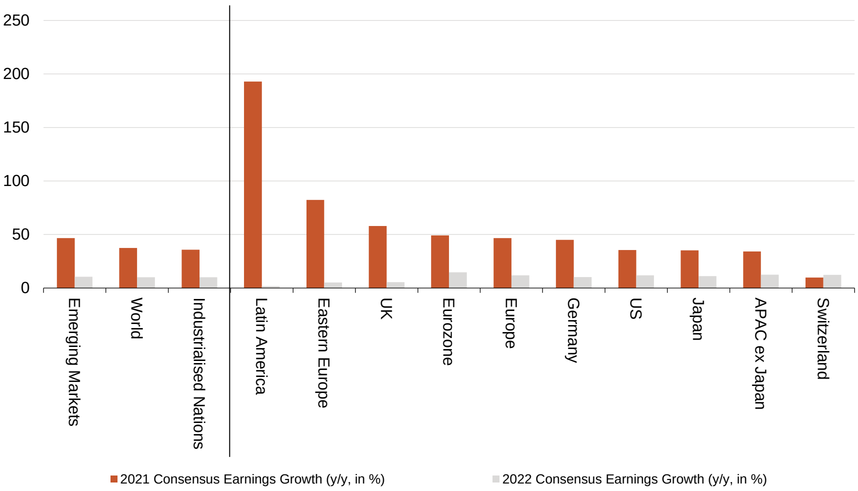
Changes in Consensus Earnings Estimates



- The fundamental backdrop for equities remains favourable. Almost all regions have seen positive earnings revisions over the past month. Latin America, Eastern Europe and Germany benefited most from rising corporate earnings estimates.

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 21/05/2021

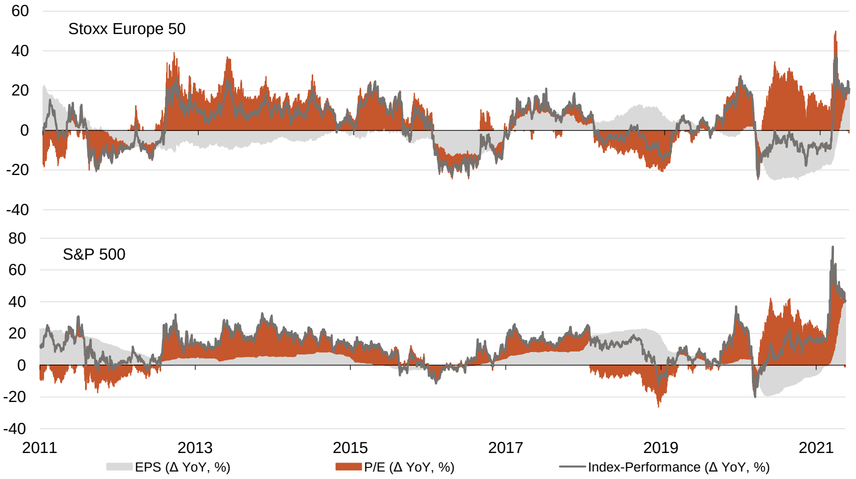
Earnings Growth



- Thanks to the rapid increase in earnings estimates in recent months, earnings growth in Latin America is now expected to be nearly 200% year-on-year. Eastern Europe and the UK follow in terms of the highest earnings growth rates for 2021. These regions are particularly benefiting from base effects, as they suffered disproportionately from the Covid crisis last 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 21/05/2021

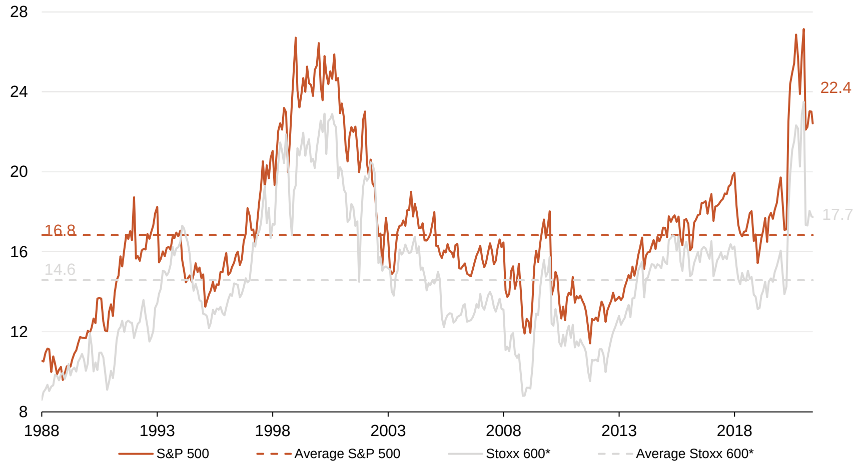
Contribution Analysis



- Compared to the previous year, the P/E ratios for the Euro Stoxx 50 and S&P 500 have hardly changed. The fact that the markets nevertheless rose strongly was primarily due to the positive development of corporate earnings.

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 - 21/05/2021

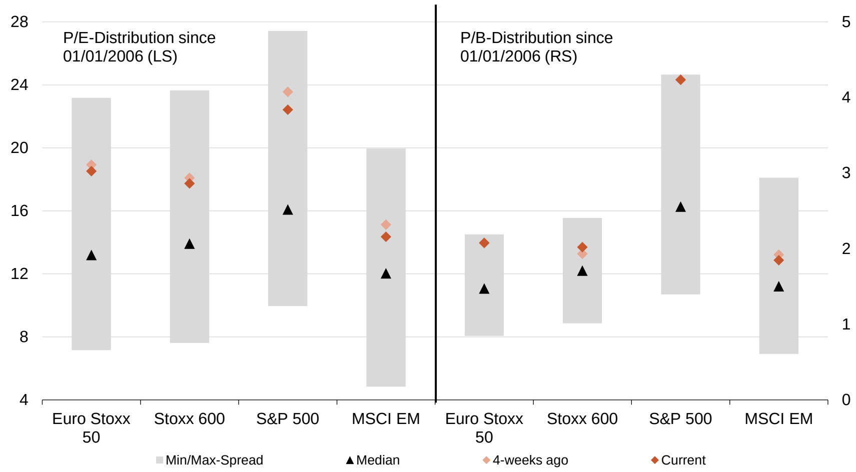
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Equity valuations have barely moved recently at the index level. In a historical context, however, equities remain expensively valued, so rising interest rates continue to pose a risk to further upside potential. Rising corporate earnings are all the more important for the further direction of the equity markets.

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 - 21/05/2021

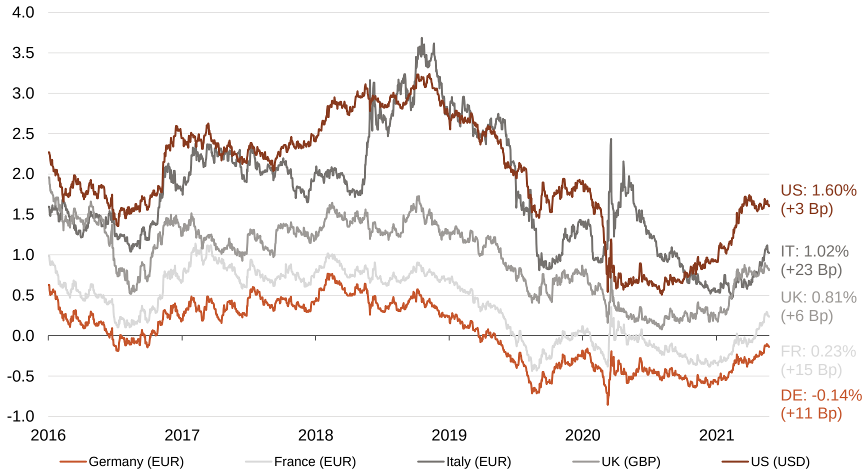
Historical Distribution: Price/Earnings and Price/Book Ratio



- Compared to their own history, emerging markets are the most favourably valued. Despite positive earnings revisions, they have hardly gained since the beginning of the year - Asian emerging markets have especially underperformed. Accordingly, there could be catch-up potential for emerging markets in the second half of the year.

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 - 21/05/2021

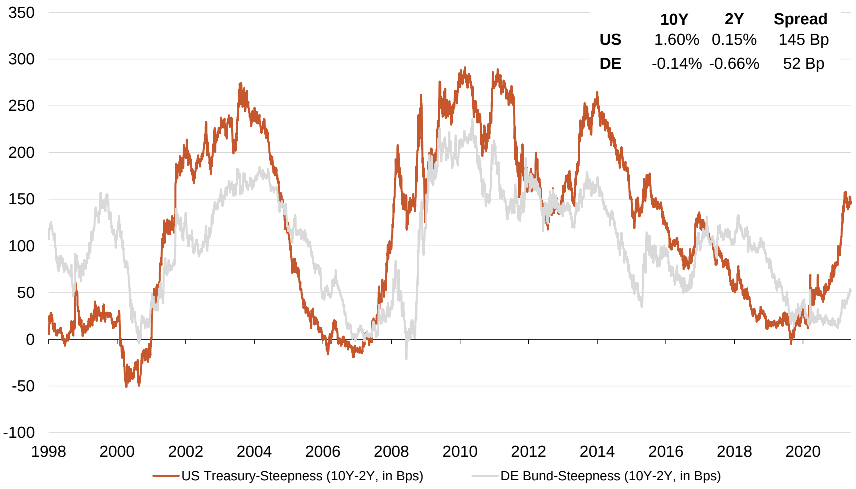
10-Year Government Bond Yields



- Interest rates have risen in Europe over the last four weeks. As earlier in the US, in particular inflation concerns were the trigger.
- In Italy, the yield on 10-year government bonds rose above the 1% mark for the first time since September last year. Although the yield on German government bonds is still slightly negative, it is the highest it has been since mid-2019.

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 - 24/05/2021

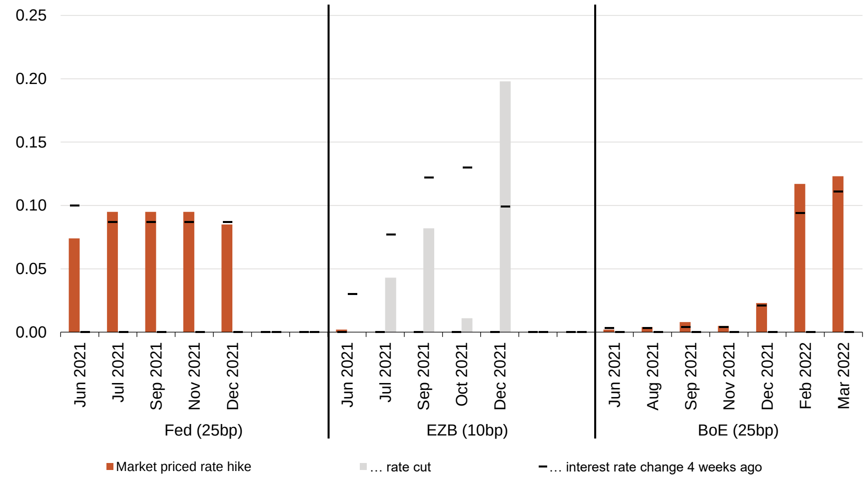
Yield Curve Steepness (10Y - 2Y)



- Due to rising yields the yield curves for both Germany and the US have also steepened.
- At 145bp, the curve in the US is no longer far from the multi-year high in March of this year.
- In Germany, the curve is steeper than it has been since mid-2019, at 52 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 - 24/05/2021

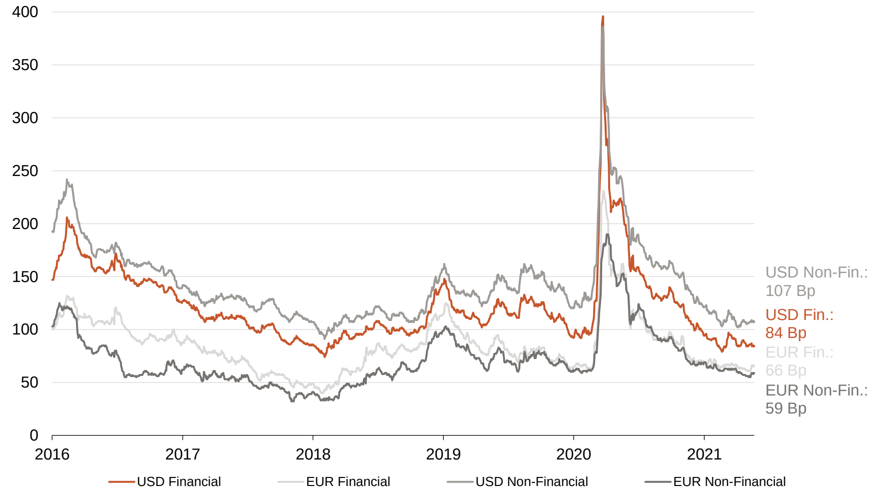
Implicit Changes in Key Interest Rates



- The market estimates the probability of a Fed rate hike at around 10% for the next few meetings. This means that the probability has hardly changed compared to 4 weeks ago, even though well-known voices such as ex-US Treasury Secretary Larry Summers have recently criticised the Fed's expansionary monetary policy.
- The market seems to regard interest rate hikes by the ECB this year as almost impossible.

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: 26/04/2021 - 24/05/2021

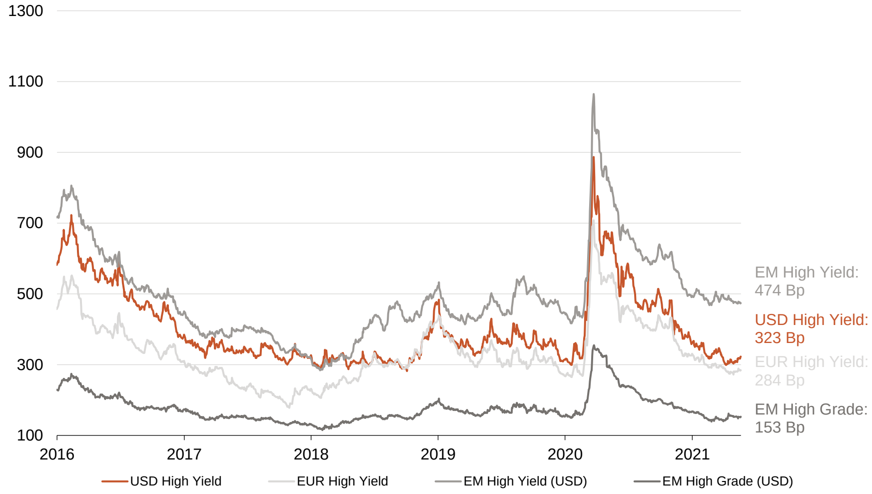
Credit Spreads Financial and Non-Financial Bonds



- How much further can the risk premiums for IG corporate bonds fall? It seems as if credit spreads are now moving sideways for the time being, especially since there is not much more room to go down. Investors are hardly being compensated for default risks anymore.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 – 21/05/2021

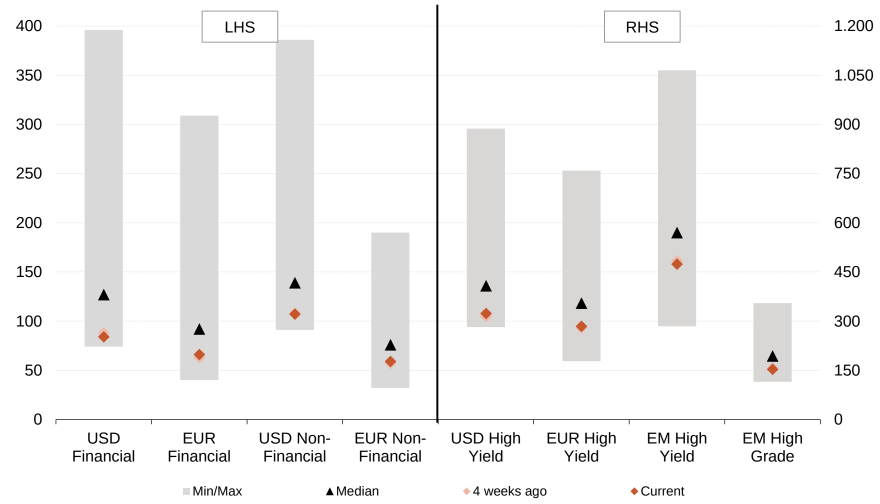
Credit Spreads High Yield and Emerging Markets Bonds



- While the falling risk premiums for EM high-yield bonds have continued recently, there was a countermovement for USD high-yield bonds. Inflation and tapering fears are likely to have been the main drivers of this development.

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 – 21/05/2021

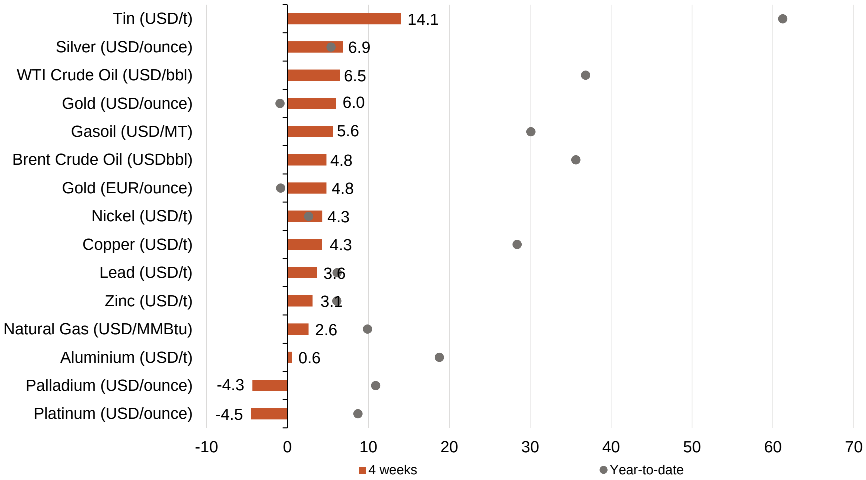
Historical Distribution of Credit Spreads (in bp)



- The fact that not only equities, but also bonds in particular are priced expensively compared to their own history can be seen from the credit spreads. The risk premiums are clearly below the historical medians across all sub-segments. The risk-return ratio for bonds has undoubtedly seen better times before.

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: 04/01/2011 – 21/05/2021

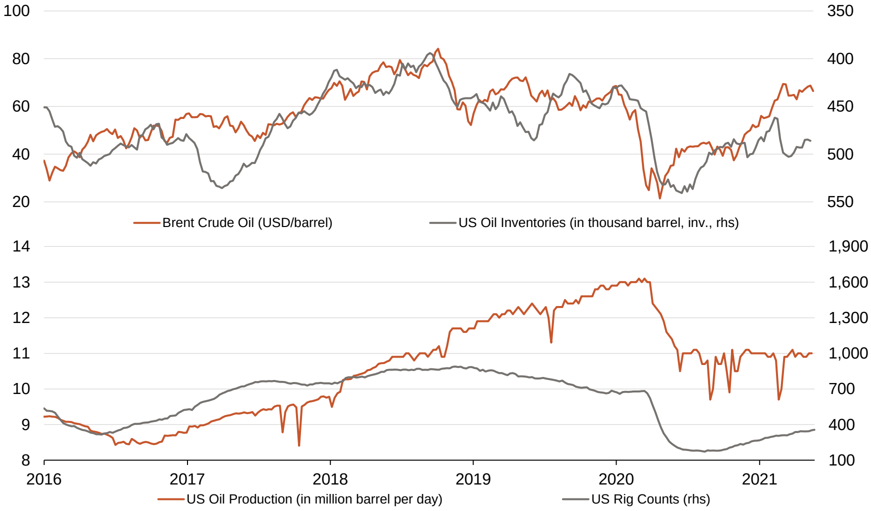
Commodities Performance



- The rally in industrial metals came to a standstill in the last two weeks. Here, too, it was inflation concerns and the associated burden on the economy that put a damper on many metals.
- Only tin was able to make further gains. While demand remains robust, supply is very tight. Stocks reached a record low last week.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2021 - 24/05/2021

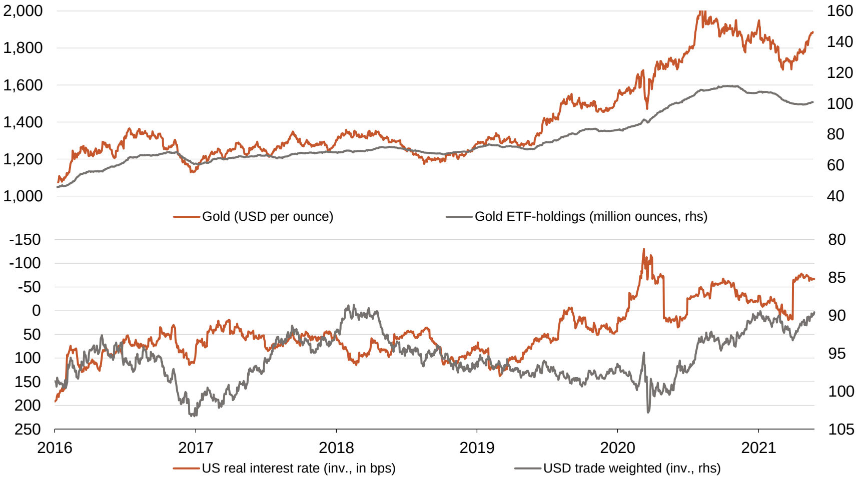
Crude Oil



- Crude oil has been particularly vulnerable to both positive and negative news over the past two weeks.
- After initially hitting a 2-year high thanks to the return of demand in the West, it crashed again shortly afterwards when Iran announced that it would soon export more oil as progress in talks with the USA became apparent.
- Recently, hopes of demand again boosted the price.

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 - 24/05/2021

Gold



- Gold continued its upward trend in the past two weeks. At USD 1,870 per ounce, the precious metal is at its highest level since the beginning of January.
- After months of outflows, ETFs were able to record inflows for the third week in a row.

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 - 24/05/2021

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