

Current market commentary

While economic data in the US has not been able to surprise positively on average, unlike in other regions, the positive earnings revisions continued globally - particularly in commodity-heavy regions such as Latin America and Eastern Europe. For Latin America, earnings growth of more than 200% is now even expected for this year. Accordingly, emerging market equities outside Asia have also outperformed recently. In our view, the market is likely to remain in a “wait-and-see” mode over the next few months until it becomes clear how the Fed will act and what Joe Biden can actually implement of his stimulus plans. While surveys show that investor sentiment has recently risen significantly, the options market suggests that investors are hedging more. We see this as supportive, along with the still high holdings in money market funds and steady equity fund inflows. Without an external trigger, we do not expect a stronger correction.

Short-term outlook

The next few days will be dominated by central banks. The ECB meets on June 10, the Fed on June 16 and the BoE on June 24. With the end of the Covid-19 crisis on the horizon, the economic recovery is likely to gain further momentum and central banks will begin to discuss at what point the flood of money should be curtailed. The markets are likely to watch this with a wary eye.

On Tuesday, the ZEW index (Jun.) and industrial production (Apr.) for Germany and retail sales (Apr.) for Italy will be published. On Thursday, industrial production data (Apr.) for Italy, France and Spain and consumer price inflation (May) for the US will follow. We conclude the week with U.S. consumer confidence (Jun.) and U.K. industrial production (Apr.) on Friday. In the following week, retail sales (May), industrial production (May) and several economic sentiment indices for the U.S. will be published.

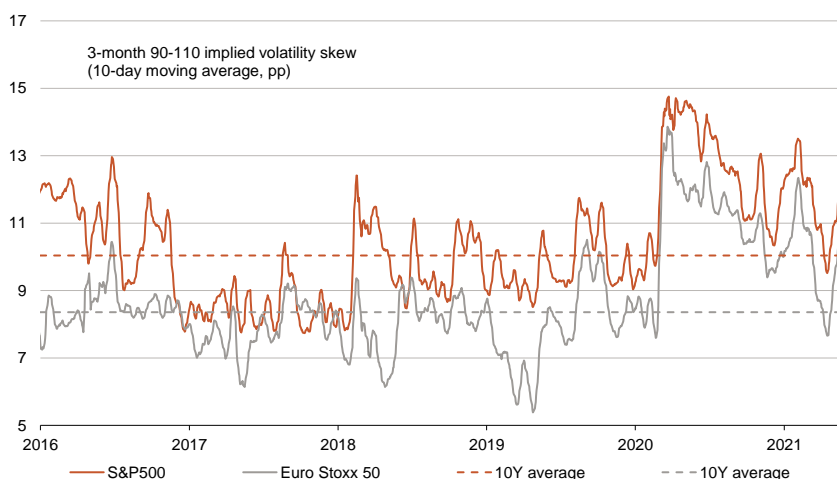
The bi-weekly **Monitor** gives you a structured overview of the current capital market environment and highlights important developments:

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

Central banks face important decision.

Economic data should continue to be good due to lockdown easing.

Good sign - investors seem to be hedging via options



- The implied volatility for 3M put options (10% out of the money) is in general markedly higher than for 3M call options (10% out of the money).
- This can be explained by increased hedging demand from institutional investors and the tendency for volatility to increase during selloffs.
- However, this skew (price difference between put and call options) is now significantly higher than in the last 10 years. Investors thus appear to be hedging, which should limit the downside potential for equities.

Source: Bloomberg, Time period: 01/01/2016 - 04/06/2021



Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (07/05/21 - 04/06/21)	YTD (31/12/20 - 04/06/21)	04/06/20	04/06/19	04/06/18	04/06/17	03/06/16
Brent	5.5	43.3	62.7	-35.7	-11.2	50.4	-10.4
REITs	4.2	18.5	15.3	-7.2	14.8	-4.8	0.1
MSCI Frontier Markets	3.9	13.9	27.1	-10.1	1.7	2.4	15.2
Gold	3.3	0.0	2.8	28.3	6.7	-2.6	3.6
MSCI Emerging Markets	2.6	8.3	32.8	0.2	-6.6	11.4	27.9
MSCI World	0.7	12.8	27.8	7.9	3.8	7.7	18.1
Global Convertibles	0.6	3.9	30.5	10.5	3.0	6.6	15.6
Global Corporates	0.2	-1.3	-0.8	5.7	9.4	-2.8	2.9
USDEUR	0.0	0.4	-6.8	-0.7	4.0	-3.6	0.7
Eonia	0.0	-0.2	-0.5	-0.4	-0.4	-0.4	-0.4
Global Treasuries	-0.1	-3.0	-4.0	3.8	7.6	-2.0	-2.0
Industrial Metals	-3.0	19.7	47.1	-8.9	-15.4	23.3	20.2

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 Capitalization Index; USDEUR: Price of 1 USD in EUR.

- REITs have continued to gain ground over the past four weeks after bond yields tended to stagnate and many fears about the real estate market have not materialised. Since the beginning of the year, REITs have now even significantly outperformed equities.
- Brent oil has broken out to the upside, thanks to falling inventories. It has now gained more than 40 percent in euro terms since the beginning of the year.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.

Source: Bloomberg, Time period: 04/06/2016 - 04/06/2021

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (07/05/21 - 04/06/21)	YTD (31/12/20 - 04/06/21)	04/06/20	04/06/19	04/06/18	04/06/17	03/06/16
MSCI EM Eastern Europe	7.7	19.3	22.6	-7.9	16.3	11.8	23.3
Stoxx Europe Small 200	2.6	16.3	35.3	3.8	-5.9	7.0	19.4
MSCI EM Asia	1.9	6.3	34.0	7.5	-10.3	14.7	30.6
DAX	1.9	14.4	26.2	3.8	-6.3	-0.4	26.9
Euro Stoxx 50	1.7	16.7	28.2	-0.4	-1.2	-0.8	23.1
Stoxx Europe Cyclical	1.6	17.7	36.7	-2.6	-7.5	4.7	25.8
Stoxx Europe 50	1.5	14.2	19.2	0.2	3.0	-1.2	17.3
Stoxx Europe Defensives	1.4	8.6	8.4	5.8	3.8	0.0	9.5
MSCI UK	0.8	16.5	20.3	-11.5	-3.6	5.9	12.8
Topix	0.6	4.5	15.7	8.3	-8.9	9.2	19.6
S&P 500	0.0	13.9	28.6	12.5	8.2	10.8	19.2
MSCI USA Small Caps	-0.2	18.2	45.6	-1.8	-0.5	14.0	19.8

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 Cyclical: Stoxx Europe Cyclical TR;
Stoxx Europe Defensives: Stoxx Europe Defensives TR; DAX: DAX TR; MSCI United Kingdom: MSCI UK TR; MSCI EM Asia: MSCI EM Asia TR;
MSCI EM Eastern Europe: MSCI EM Eastern Europe TR.

- Eastern European equities and European small caps in particular have recently benefited from the ongoing commodity rally and the good economic figures. The Dax rose as well.
- Japanese and US equities were among the laggards.
- Since the beginning of the year, the Euro Stoxx 50 has outperformed the S&P 500 in euro terms - a rare occasion in recent years.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.

Source: Bloomberg, Time period: 04/06/2016 - 04/06/2021

Fixed Income

	4-week & YTD		12-month periods over that last 5 years				
	4W (07/05/21 - 04/06/21)	YTD (31/12/20 - 04/06/21)	04/06/20	04/06/19	04/06/18	04/06/17	03/06/16
EUR Inflation Linkers	1.1	1.8	8.7	0.8	0.6	2.8	0.3
EM Local Currency Bonds	1.0	0.7	1.3	3.0	5.7	-2.0	9.2
Gilts	-2.7	0.8	-1.6	9.0	4.2	-0.4	-6.1
BTPs	-1.9	0.7	5.6	8.2	3.5	-0.1	-2.8
EM Hard Currency Bonds	-2.3	0.6	5.4	-0.5	4.0	-3.5	6.3
EUR High Yield	0.5	2.5	10.2	-0.9	1.7	1.2	7.2
USD Corporates	-1.7	0.4	-3.1	8.7	12.5	-4.4	4.1
USD High Yield	0.1	2.7	2.7	2.4	10.3	-1.8	12.8
Treasuries	-2.5	0.0	-9.1	8.9	11.5	-5.2	0.0
EUR Financials	-0.1	-0.3	4.0	0.4	3.1	0.5	3.2
EUR Non-Financials	-0.9	-0.1	4.0	0.4	3.4	0.4	2.1
Bunds	-3.1	-0.1	-0.9	0.6	4.8	0.1	-1.2

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: Market 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.

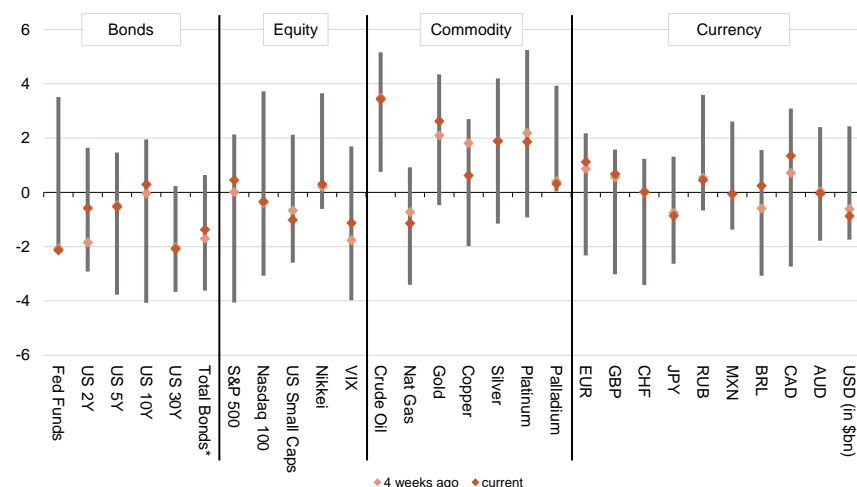
- In bonds, carry continues to be in demand. Emerging market and high-yield bonds have been ahead recently. Emerging market local currency bonds have now even turned positive year-to-date.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.

Source: Bloomberg, Time period: 04/06/2016 - 04/06/2021



Non-Commercial Positioning

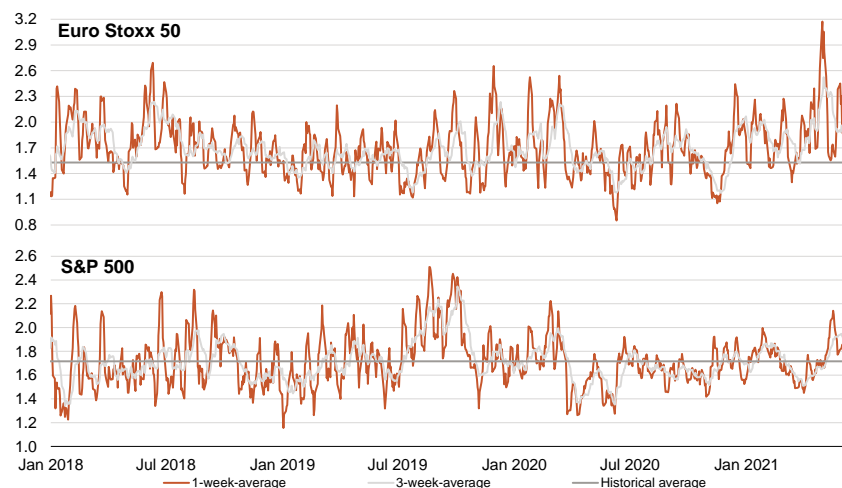


- Speculative investors have recently reduced their VIX shorts further. This could indicate that they see the risk of a volatility increase over the summer.
- Otherwise, they mainly extended their long positions in Gold, BRL and CAD.

The Commodity Futures Trading Commission (CFTC) publishes the "Commitments of Traders" report every Friday. A distinction is made between the positions of "non-commercial" and "commercial traders". "Non-commercial traders take purely speculative positions. "Commercial Traders" hedge underlying transactions through futures or options. The chart shows the historical normalized distribution in standard deviations and focuses on the net futures position (long positions minus short positions) of "Non-Commercial Traders" and thus indicates how speculative investors have positioned themselves.

*Weighted with the duration of the respective futures.
Source: Bloomberg, CFTC, Period: 01/06/2011 - 01/06/2021

Put-Call Ratio

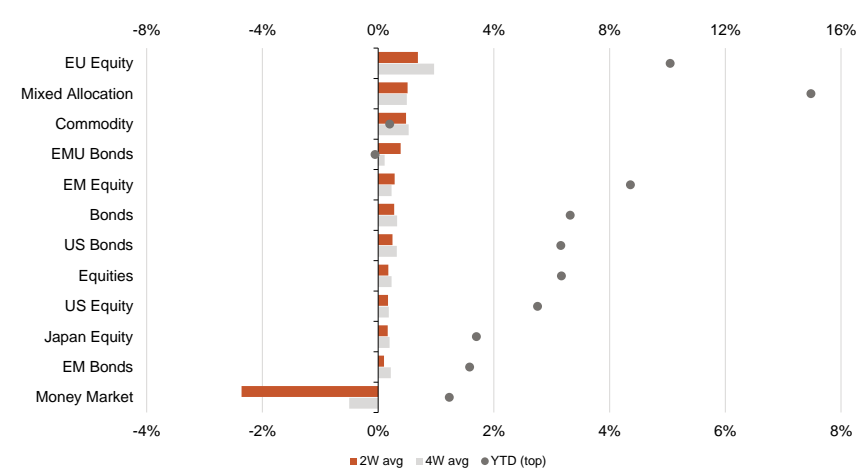


- Fluctuations in put-call ratios continue, especially for eurozone equities. The ratios are at slightly above-average levels for both the Euro Stoxx 50 and the S&P 500. This indicates that investors are currently somewhat cautious rather than exuberant.

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 - 04/06/2021

ETF Flows

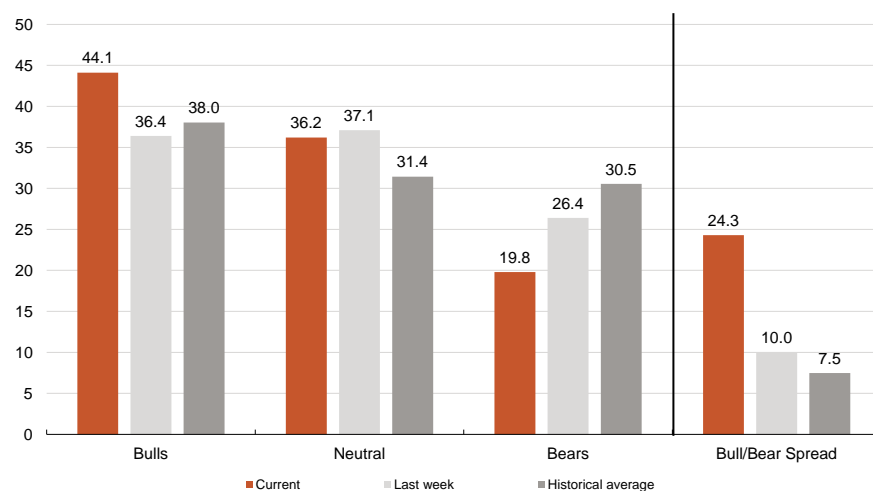


- Recently, European equity ETFs have seen strong inflows. One reason for this is that U.S. investors are now increasingly looking to European equities as a "cyclical play."
- The increased risk-on sentiment can also be seen in the outflows of money market ETFs over the past two weeks.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 - 04/06/2021



AAIL Sentiment Survey (Bulls vs Bears)

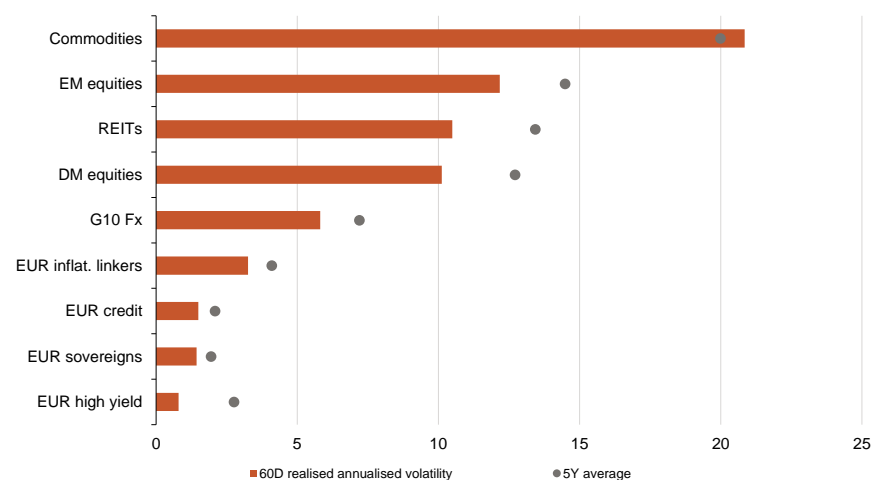


- The mood of US private investors has improved again in the past two weeks. The number of those who are pessimistic has fallen sharply.
- At 24 pp, the bull/bear spread is again around three times higher than the historical average.

The Sentiment Survey, conducted by the American Association of Individual Investors, determines the percentage of each individual investor who is optimistic, pessimistic or neutral about the U.S. stock market over a six-month horizon. It has been conducted since 1987. The survey is conducted Thursday through Wednesday, and results are released every Thursday. It tends to be supportive for the stock market when there is a high proportion of bears and a low proportion of bulls. On the other hand, it tends to be negative when there are significantly more optimists than pessimists.

Source: Bloomberg, AAIL, Period: 23/07/1987 - 03/06/2021

Realised Volatilities

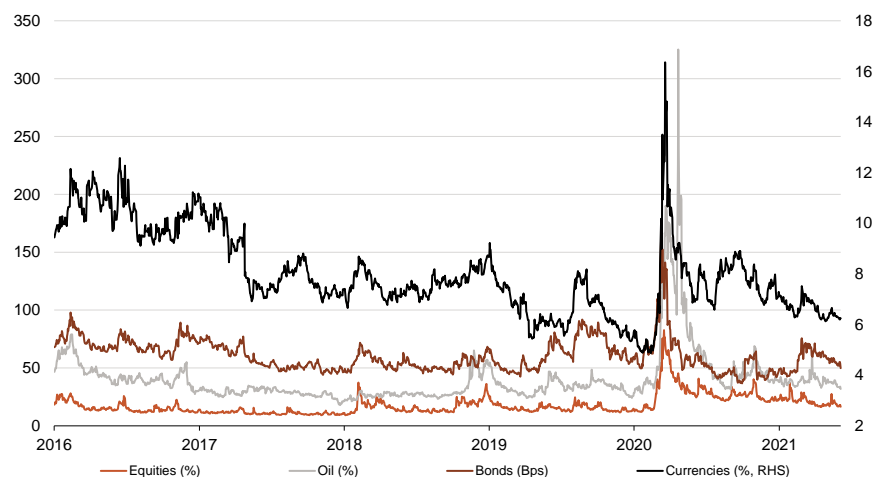


- The realised volatilities of the last 60 days are currently below their 5-year averages for all asset classes shown here, with the exception of commodities.
- In addition, the order by level of volatility is now also identical to that of the 5-year average. The exception here is in the bond segment. Here, high-yield bonds uncharacteristically exhibit lower volatility than government bonds.

Realized volatility (in percent) measures the range of fluctuation of a time series and is defined here as the standard deviation of the daily return over the last 60 trading days. Volatility is often used as a measure of risk.

Source: Bloomberg, Time period: 04/06/2016 - 04/06/2021

Implied Volatilities



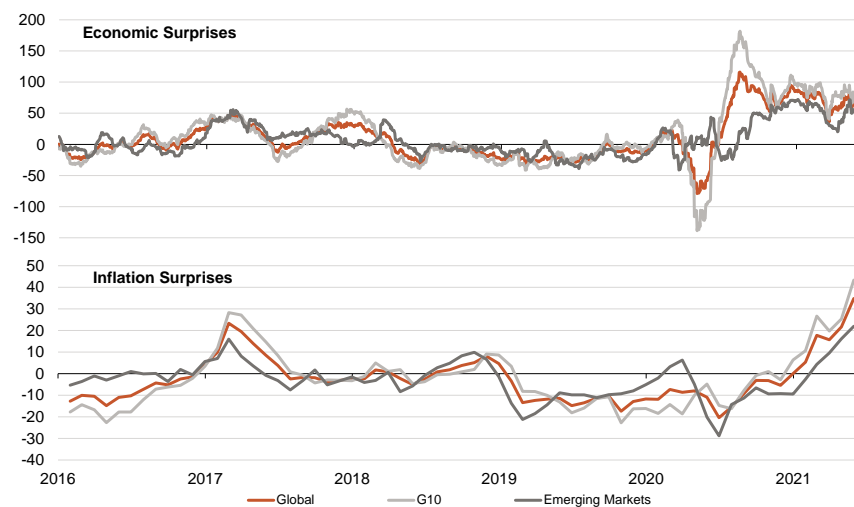
- Implied volatility has fallen slightly for equities, currencies, oil and bonds over the past two weeks.
- After the two spikes in May, the VIX is now trading at 16 points, close to its low for the year in April.

The price of options depends on the range of fluctuation, i.e. the volatility of the underlying instrument. Accordingly, implied volatility can be interpreted as a measure of the range of fluctuation currently expected on the market for the underlying instrument over the remaining term of the option. It is a measure of the 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 - 04/06/2021



Global

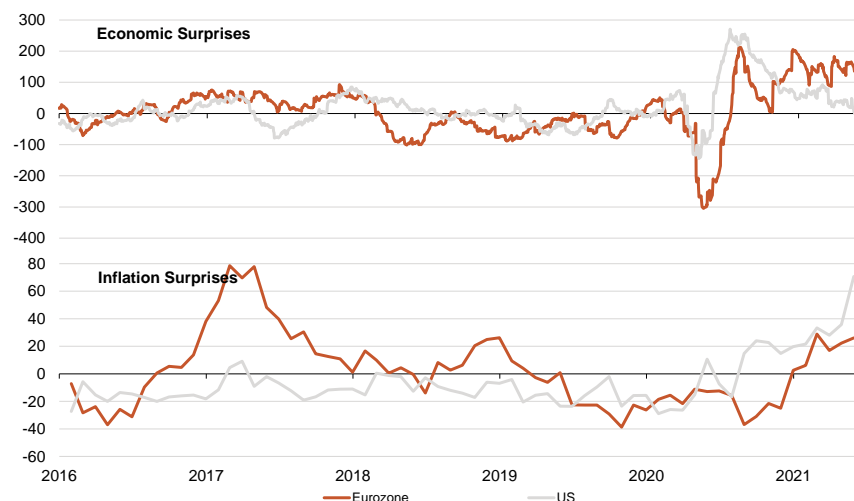


- Globally, the economy continues to surprise to the upside, even though the high may be behind us.
- Economic surprises in emerging markets also remained in the positive territory. In China, industrial purchasing managers' indices (PMIs) were close to expectations, while Q1 GDP growth in India and industrial production and labour market data in Russia surprised positively.
- Despite the higher inflation expected by many economists, the data have recently surprised on the upside.

See explanations below.

Source: Bloomberg, Time period: 01/01/2016 - 04/06/2021

Eurozone and US

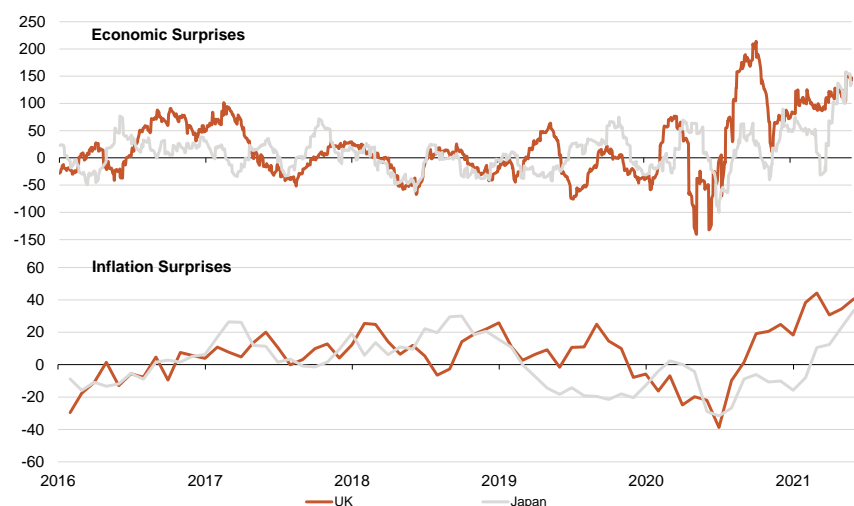


- High economic expectations in the US could not be significantly exceeded recently. Consumer confidence and new orders were below expectations. By contrast, the ISM manufacturing index surprised positively.
- In the euro zone, the situation is still different. Here, expectations were beaten. In Germany, for example, the Ifo business climate index and the ISM index surprised positively.
- In the US., inflation is clearly surprising to the upside, while this is less pronounced in the euro zone.

See explanations below.

Source: Bloomberg, Time period: 01/01/2016 - 04/06/2021

UK and Japan



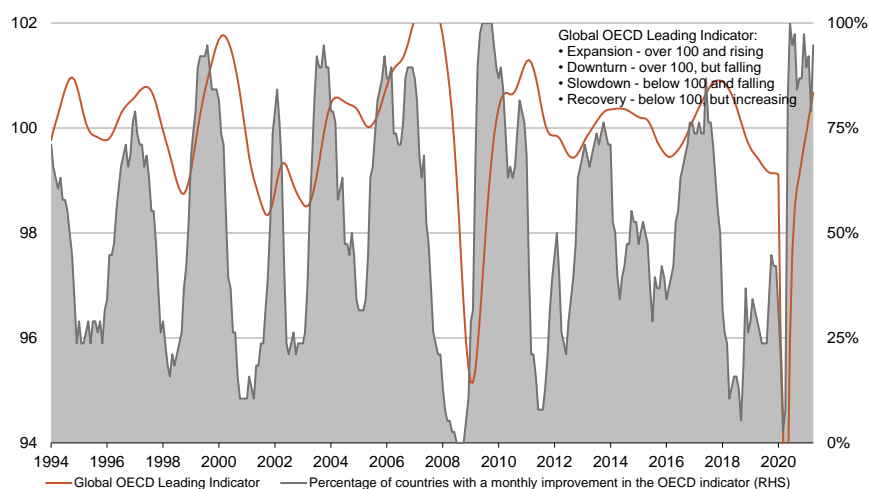
- In both the UK and Japan, economic activity continues to surprise to the upside, even though industrial production recently disappointed in Japan. In the UK, the PMIs surprised to the upside in May.

The Citigroup Economic Surprise Indices are defined as weighted historical normalized data surprises (actual releases vs. Bloomberg survey median) over the past three months. A positive index value indicates that economic data have, on balance, outperformed consensus. The indexes are calculated daily in a rolling three-month window. The indexes 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 - 04/06/2021



OECD Leading Indicator

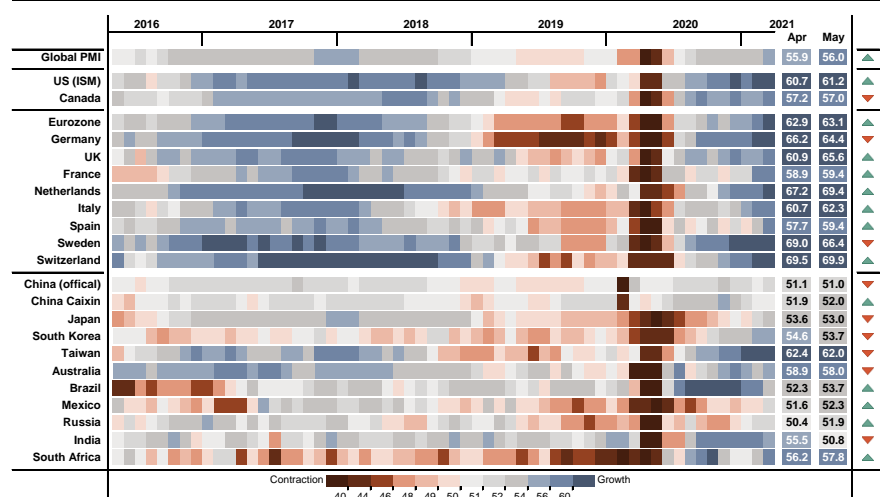


- In April, the OECD leading indicator was above the 100 mark for the third month in succession - and the trend is upward. This means that the global economy is continuing to expand.
- The number of countries that saw a monthly improvement in the indicator rose to 95%. This is likely also due to increasingly widespread vaccine availability.

The OECD Leading Indicator is composed of a number of selected economic indicators whose composition provides a robust signal of future turning points. A turning point usually signals a turning point in the business cycle in 6-9 months. However, lead times are sometimes outside this range and turning points are not always correctly identified.

Source: OECD, Bloomberg, Period: 31/01/1994 - 31/05/2021

Manufacturing Purchasing Managers Index (Manufacturing PMI)

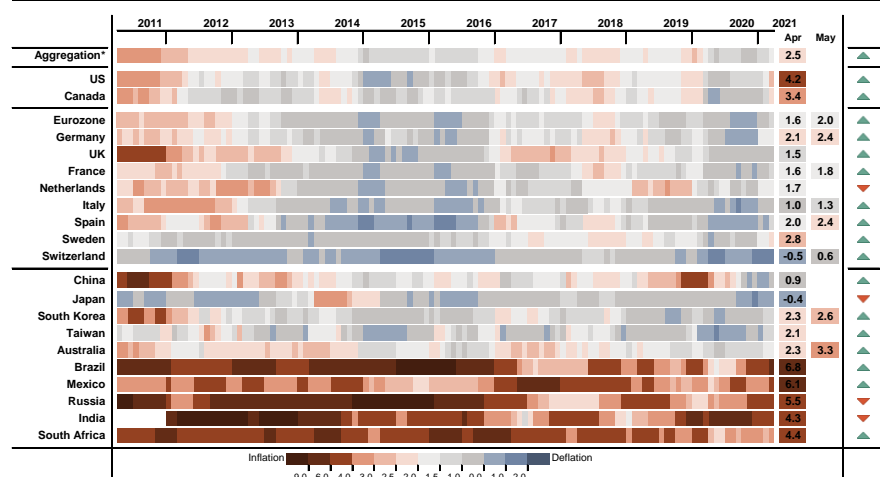


- The global PMI rose from 55.9 in the previous month to 56.0 in May, reaching the highest level since April 2010.
- In the USA and the eurozone PMIs continued to rise as well.
- In Asia, the high seems to be behind us as PMIs fell slightly in May.

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 respective change from the previous month. A value of 50 is regarded as neutral, a value of over 50 points as an indicator of increasing activity and a value of under 50 points as an indicator of decreasing activity in industry compared with the previous month. On average, the index has a 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 on the development of key indicators such as new orders.

Source: Bloomberg, Time period: 31/05/2016 - 31/05/2021

Headline Inflation



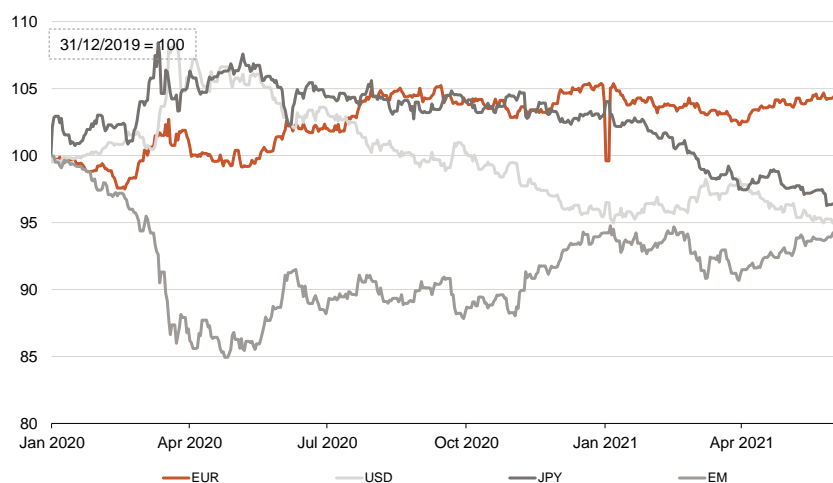
- Prices are now rising significantly in Europe. In May, inflation in the euro zone was 2% and as high as 2.4% in Germany and Spain.
- In Asia and Australia, prices are also picking up. South Korea saw inflation of 2.6% in May and Australia saw 3.3%.

Inflation (in %, compared with the previous year) is measured using a consumer price index, also known as a basket of goods. This basket includes all goods and services purchased by a household on average per year. = Weighting according to gross domestic product.

Source: Bloomberg, Time period: 31/05/2011 - 31/05/2021



Trade-Weighted Currency Development

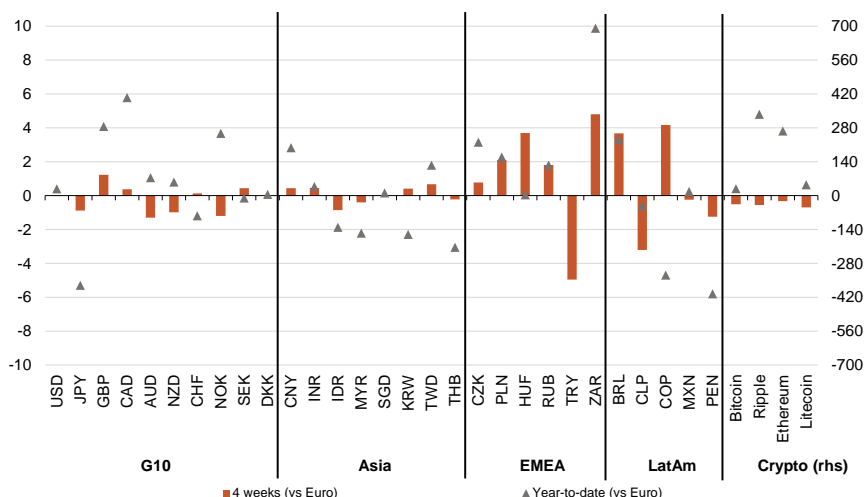


- The trends in the currency market, which were already apparent two weeks ago, continued for the USD, JPY and EM.
- Emerging market currencies appreciated, while the US dollar and the Japanese yen depreciated.
- The euro moved sideways in the last two weeks.

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 - 04/06/2021

Currency Moves vs Euro

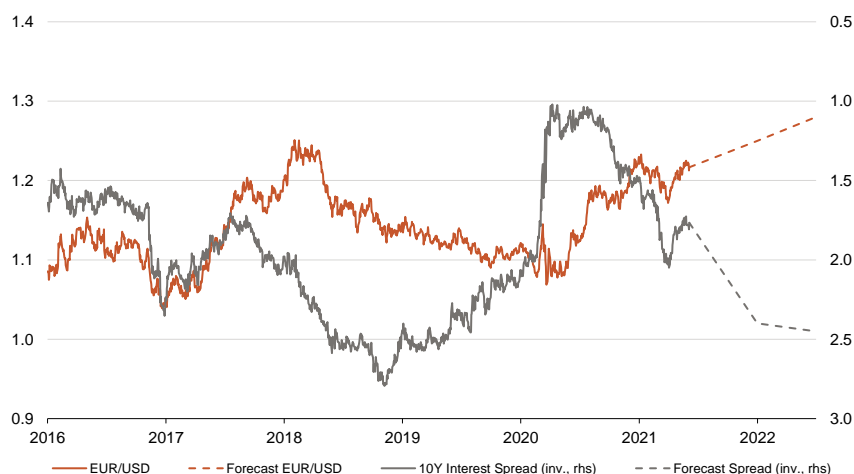


- The euro's performance against other currencies has been mixed over the past four weeks.
- The Canadian dollar benefitted from oil price development and showed the strongest development among the G10 currencies since the beginning of the year.
- The Brazilian real continued to rise despite inflationary pressures, as the market expects a counter-reaction from the Central Bank.
- Cryptocurrencies, on the other hand, suffered further losses against the euro.

Performance of selected currencies against the euro, in percent.

Source: Bloomberg, Time period: 31/12/2020 - 04/06/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD exchange rate has fluctuated above the 1.21 mark over the past two weeks.
- Economic data on both sides of the Atlantic continue to point to a strong recovery. However, investors remain cautious ahead of the ECB's policy-setting meeting.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year U.S. government bonds and 10-year Bunds. The forecasts were prepared by Berenberg Volkswirtschaft.

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 (07/05/21 - 04/06/21)	YTD (31/12/20 - 04/06/21)	04/06/20	04/06/19	04/06/18	04/06/17	03/06/16
Consumer Discretionary	5.0	21.9	51.3	-0.4	-7.6	5.9	19.4
Consumer Staples	2.9	10.4	13.2	0.0	11.5	-8.4	12.2
Growth	2.7	13.7	25.4	9.1	2.7	1.6	16.0
Finance	2.6	20.8	33.9	-15.3	-7.6	-0.9	25.1
Health Care	2.5	7.6	3.3	21.8	9.4	-9.4	10.9
Energy	2.2	19.2	15.4	-31.8	-4.4	26.6	19.1
Value	1.3	16.3	26.1	-11.4	-4.5	1.5	21.2
Information Technology	1.3	17.5	32.3	18.1	0.0	12.2	30.4
Industrials	1.0	16.6	38.4	2.2	-2.4	2.8	25.7
Telecommunications	0.0	13.3	14.7	-11.3	-1.9	-12.0	0.1
Materials	-0.8	18.8	43.1	1.9	-7.8	18.1	32.2
Utilities	-1.7	-0.1	12.7	15.3	11.9	-0.6	9.0

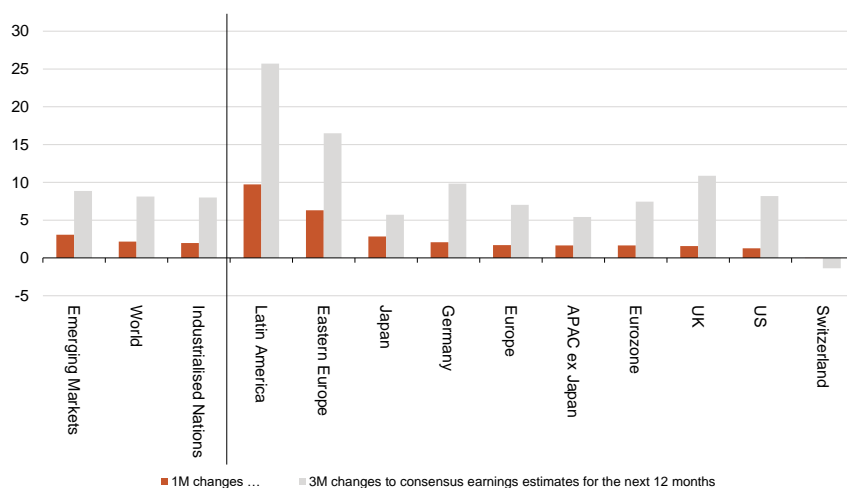
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Staples: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR; Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. 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.

- The back and forth between value and growth continues. Over the last four weeks, European growth companies have slightly outperformed value stocks. However, since the beginning of the year, value has outperformed growth by almost 3 percentage points.
- Consumer discretionary performed best over the last four weeks, followed by consumer staples. Utilities and basic materials underperformed the most.

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 usually have less growth imagination and are valued lower.

Source: Bloomberg, Time period: 04/06/2016 - 04/06/2021

Changes in Consensus Earnings Estimates

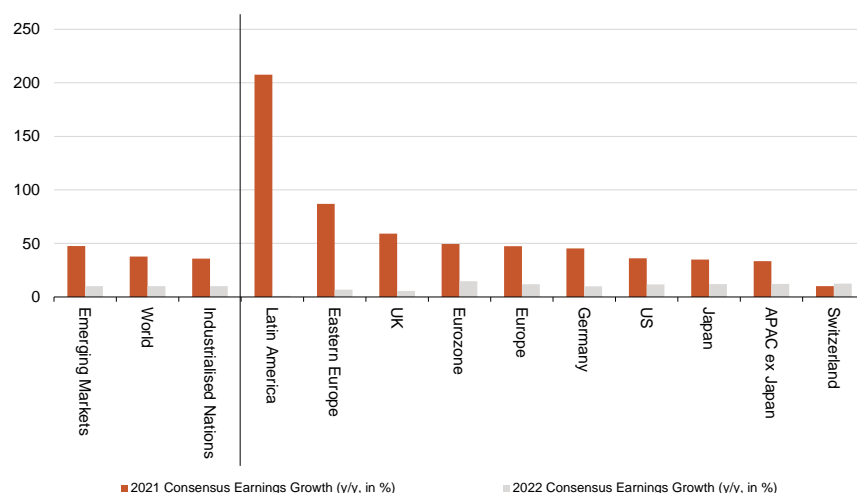


- Analysts have to further revise their earnings estimates upward, especially for the commodity-heavy equity regions. In Latin America and Eastern Europe, earnings estimates were adjusted upward by 9% and 5% over the last month, respectively.
- For Switzerland, on the other hand, there were hardly any earnings revisions. This also explains the strong underperformance of Swiss equities this year.

1-month and 3-month changes in consensus earnings estimates for the next 12 months, in percent. APAC ex Japan = Asia Pacific excluding Japan

Source: FactSet, as of 04/06/2021

Earnings Growth



- The 2021 earnings estimate for Latin America have now exceeded the 200% mark. However, analysts expect only temporary effects. They do not expect any further earnings growth next year. Accordingly, they may soon be forced to adjust next year's earnings estimates upward as well - especially if raw material prices remain elevated.

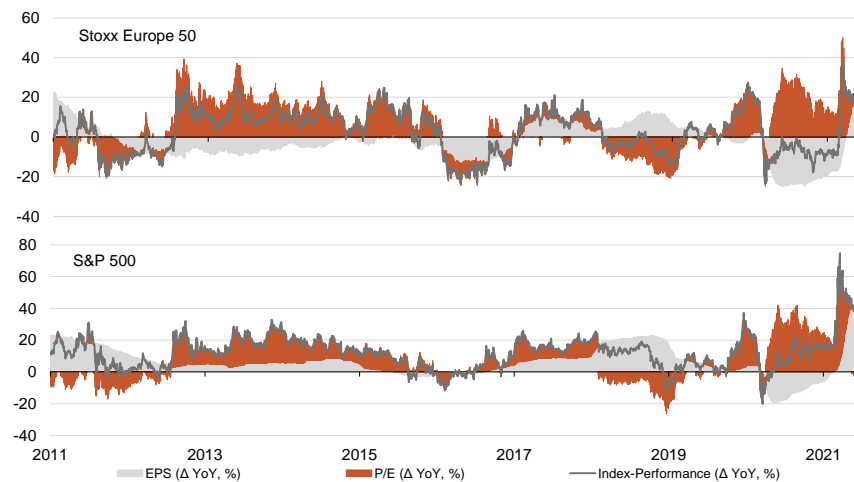
Calendar year earnings growth consensus expectations for selected equity regions, compared to the previous year and in percent. The earnings estimates of the individual companies are aggregated using the index weights (bottom-up).

APAC ex Japan = Asia Pacific ex Japan

Source: FactSet, as of 04/06/2021



Contribution Analysis

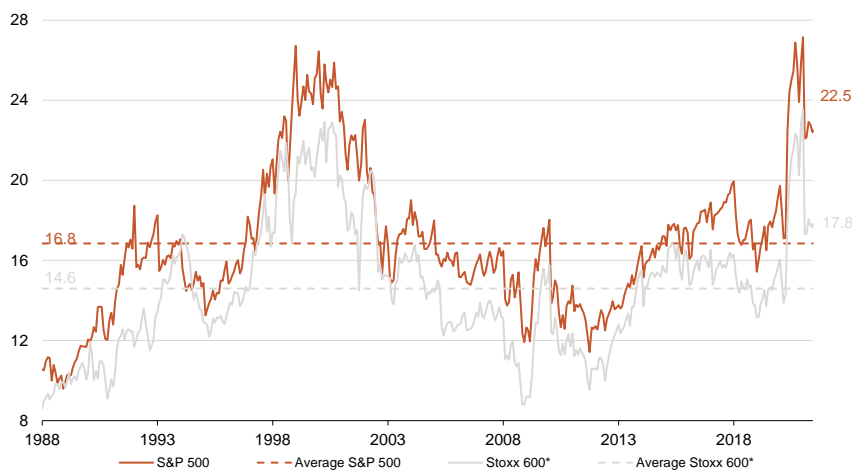


- Now that the hope phase on the stock markets is over and corporate profits are actually rising significantly, P/E valuations are falling year-on-year.

Analysis of the drivers of stock market development over the last 12 months. The change in earnings estimates and the change in valuation (price/earnings ratio) are taken into account. EPS = earnings per share

Source: Factset, Time period: 01/01/2011 - 04/06/2021

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

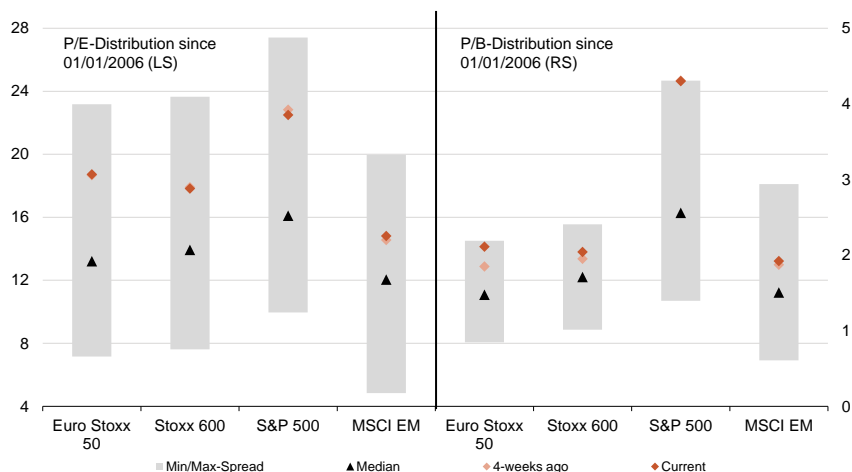


- Equity valuations have recently fallen slightly after earnings revisions rose more strongly than share prices. However, US equities are still trading c. 30% above their long-term P/E average.

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, Period: 31/12/1987 - 04/06/2021

Historical Distribution: Price/Earnings and Price/Book Ratio



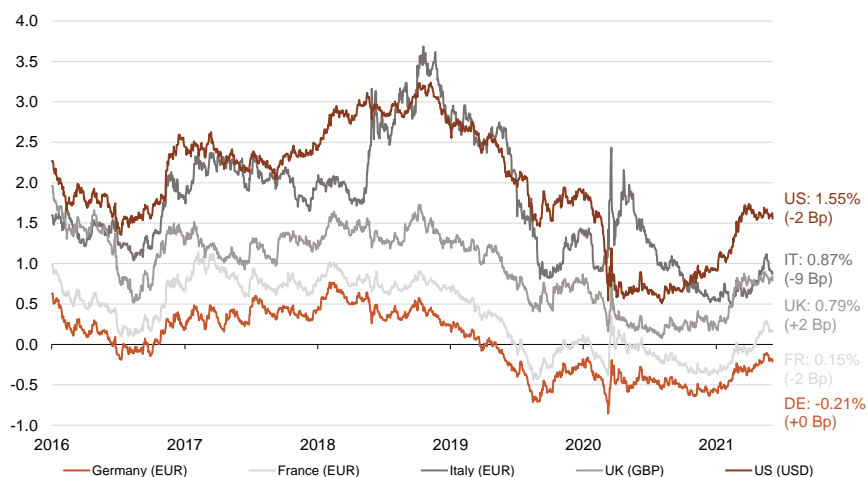
- Compared to four weeks ago, valuations for emerging markets have risen slightly.
- Valuations remain high in a historical context for all regions, thanks to the expansionary monetary policies of central banks worldwide.

Historical distribution of valuation ratios for selected equity regions since 2006. The maximum (upper limit of the gray bar) and minimum (lower limit of the gray bar) are shown in addition to the current value, the observation four weeks ago and the historical median.

Source: Bloomberg, Time period: 01/01/2006 - 04/06/2021



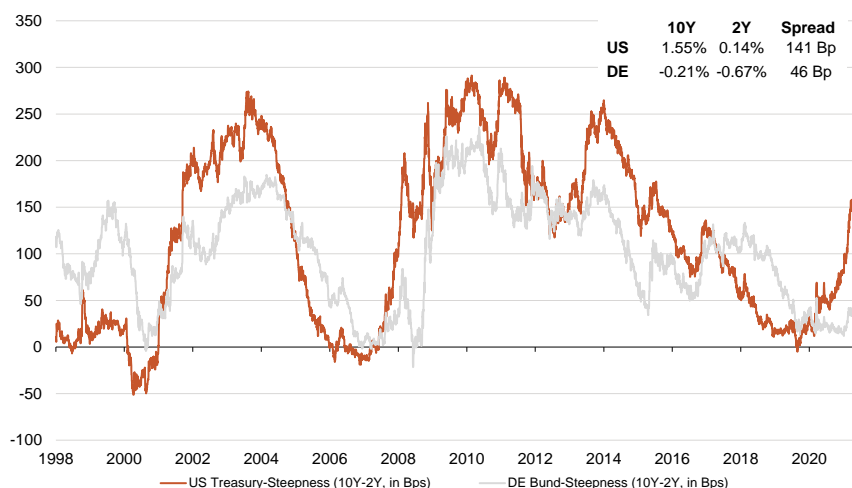
10-Year Government Bond Yields



- The rise in yields has recently taken a break. Yields on safe haven government bonds have tended to fall in the last four weeks.
- The decline in yields was most pronounced for Italian government bonds, with a drop of 9 basis points (bp).
- U.S. government bonds, on the other hand, saw little change in yields.

Effective yield on 10-year government bonds and change over the past four weeks in basis points (in parentheses).
Source: Bloomberg, Time period: 01/01/2016 - 04/06/2021

Yield Curve Steepness (10Y - 2Y)

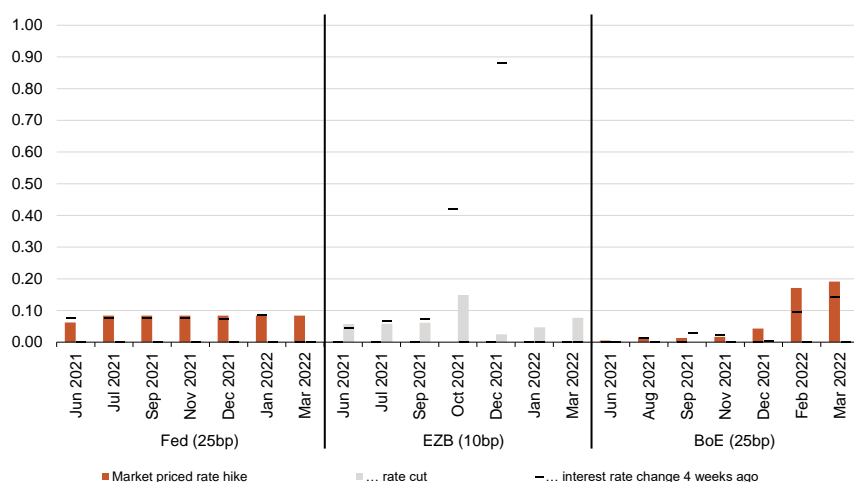


- The steepness of the German and U.S. yield curves has not increased further in the past two weeks despite the ongoing economic recovery. Many market participants see the increased inflation as temporary and have recently increased their purchases of bonds with a higher duration again.

The yield curve distinguishes between the so-called short end and the long end. The reason for this is the way in which factors influence yields. Central banks control the short end of the curve through their monetary policy and key interest rates. By contrast, the long end is influenced less by central banks than by inflation expectations, supply, demand and risk premiums.

Source: Bloomberg, Time period: 01/01/1998 - 04/06/2021

Implicit Changes in Key Interest Rates



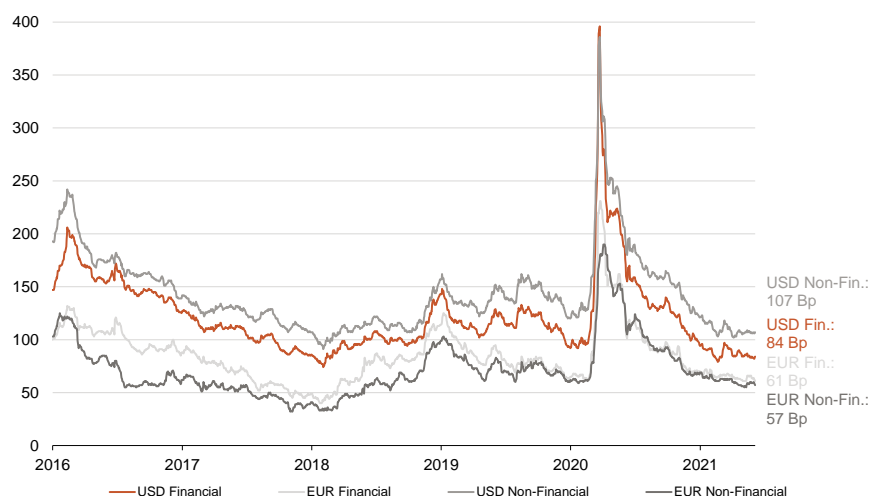
- Despite fears of a tighter monetary policy starting in late summer, the market has so far expected an interest rate hike by the Fed with only around 10% probability in 2021.
- In the eurozone, which still needs to recover economically, an interest rate hike in 2021 is priced in with 0% probability.
- The market does not see an interest rate hike in the UK before 2022.

Derivatives on money market interest rates - such as fed funds futures - can be used to determine the change (number of steps) in the policy rate priced by the market.

Source: Bloomberg, Time period: 07/05/2021 - 04/06/2021



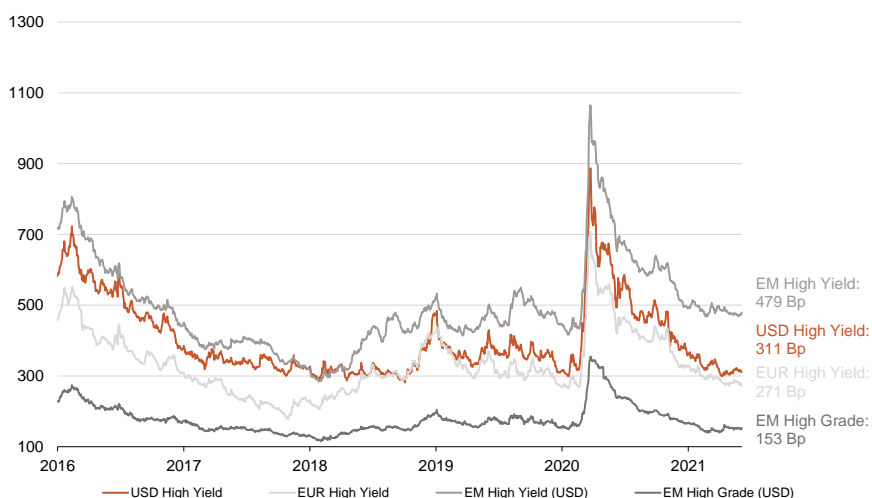
Credit Spreads Financial and Non-Financial Bonds



- Risk premiums on Investment Grade (IG) corporate bonds have narrowed only slightly over the past two weeks. The spread narrowing was most pronounced in EUR financial bonds. These saw a narrowing of 4 bp.
- At a sector level, the insurance sector saw the largest spread increase in EUR corporate bonds and the leisure sector in USD corporate bonds.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 - 04/06/2021

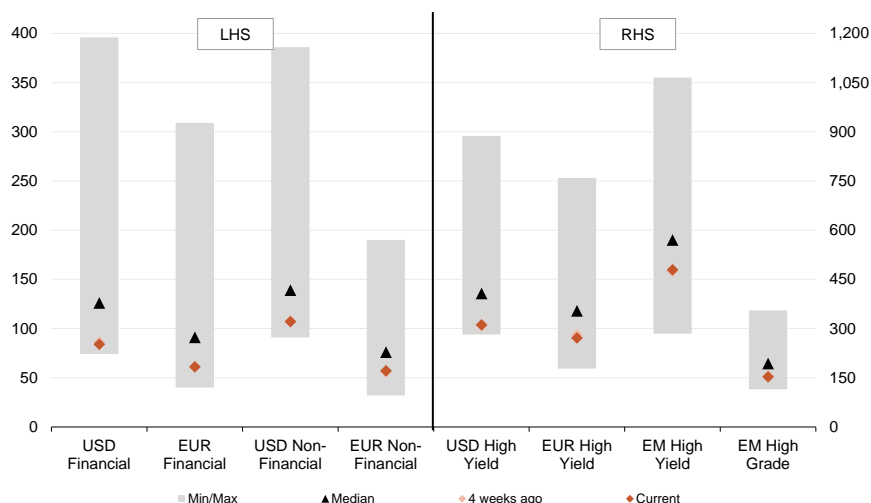
Credit Spreads High Yield and Emerging Markets Bonds



- USD and EUR high-yield bonds saw spread tightening of over 5 bps in recent weeks. In the case of USD high-yield bonds, the leisure sector saw the largest spread narrowing.
- In contrast, risk premiums on EM high-yield bonds have barely moved. The persistently high Covid-19 case numbers in the emerging markets are causing investors to be cautious.

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 - 04/06/2021

Historical Distribution of Credit Spreads (in bp)

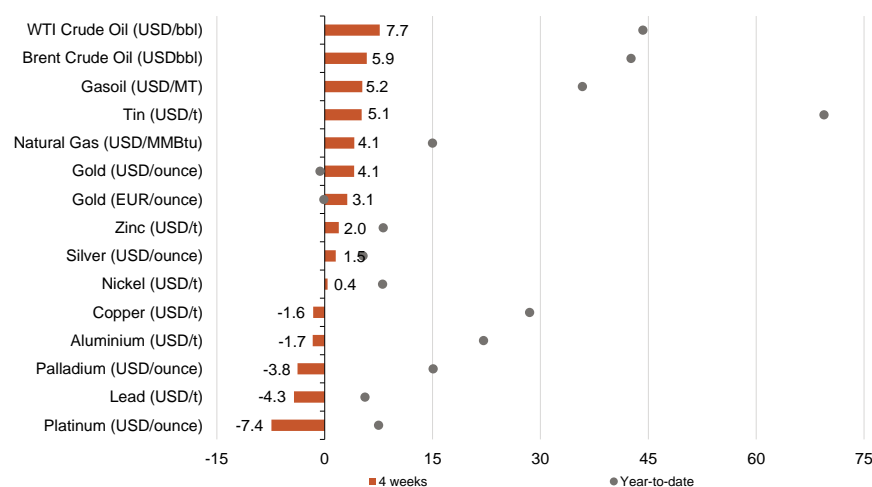


- In all segments, the spread narrowing potential is limited on a historical basis. This was particularly the case for IG securities.
- EUR and EM high-yield bonds, on the other hand, still have more potential.

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: 04/06/2011 - 04/06/2021



Commodities Performance

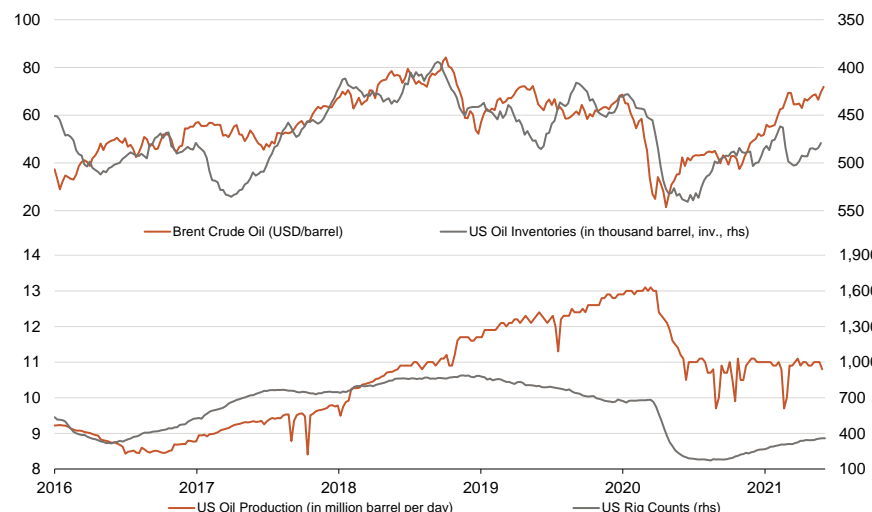


- Energy commodities were the clear winners over the last four weeks, but also since the beginning of the year they lead the field with the exception of tin.
- Industrial metals and cyclical precious metals recently lost ground, whereas gold and silver gained.

Total return of selected commodity prices, in percent, sorted by 4-week performance.

Source: Bloomberg, Time period: 01/01/2021 - 04/06/2021

Crude Oil

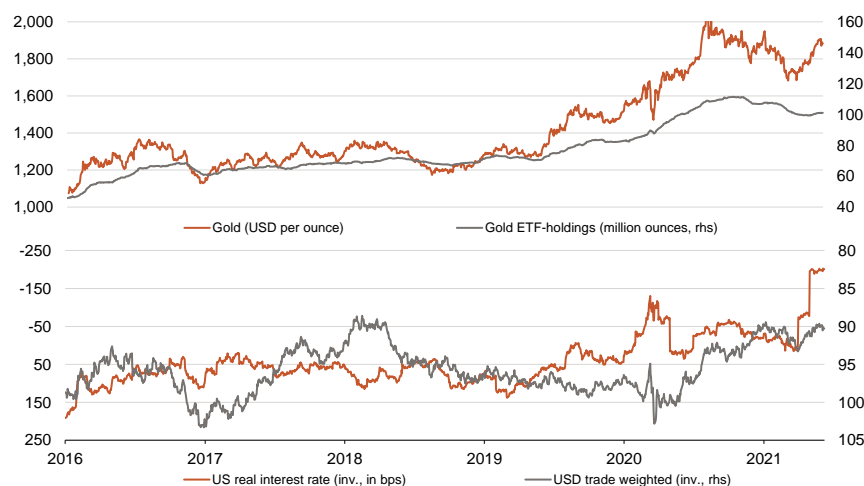


- Crude oil (Brent) continued to gain in the past two weeks, breaking through the USD 70 per barrel mark and reached its highest level since May 2019.
- The decision of OPEC+ to continue its unchanged plan of successive production increases adopted in April was received positively by the market. In concrete terms, this means that production will be increased by around 700 and 800 thousand barrels per day in June and July respectively.

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 - 04/06/2021

Gold



- Gold cracked the USD 1,900 per ounce mark at the end of May and was at its highest level since the beginning of January.
- The recent tailwind likely came less from real interest rates or the US dollar, but rather from the sell-offs of large cryptocurrencies, so that investors increasingly shifted back into gold.

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 - 04/06/2021

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