

Current market commentary

Many asset classes are currently taking on a life of their own. Bond yields have risen markedly in the wake of the somewhat hawkish Fed, only to fall sharply the next day. The U.S. dollar has appreciated, while gold retreated more than 6% from its peak. Stock indices barely moved - although there were strong moves under the surface. Tech stocks shot up and cyclicals slipped. Market participants seem to have reduced their reflation expectations somewhat. However, the option expiration date last Friday may have been at least partly responsible for the sometimes erratic movements. With the increase in traded option volume in recent months, the influence of the options markets on cash markets has increased. However, the focus is likely to return to fundamentals with the Q2 reporting season starting soon. Analysts are optimistic and pre-announcements are positive, however equity markets have already priced in a lot.

Short-term outlook

The Q2 reporting season is picking up speed. In the coming weeks, more companies in both the S&P 500 and the STOXX 600 will present their key figures. The aim is to beat the high expectations of market participants. In addition to corporate reports, central bank policy is likely to remain important for the markets, as increasingly restrictive tones are being sounded. The market is thus eagerly awaiting the monthly meeting of the Bank of England on June 24.

On Wednesday, the preliminary June Purchasing Managers' Indices (PMIs) for Europe and the US will be published. These should provide further insight into the economic recovery. This will be followed on Thursday by the business climate for Germany (Ifo, Jun.) and for France (Insee, Jun.) as well as new orders for durable goods for the U.S. (May). In the following week, the ISM index, consumer confidence and labour market data for the U.S. (Jun.) and German labour market data (Jun.) are due again.

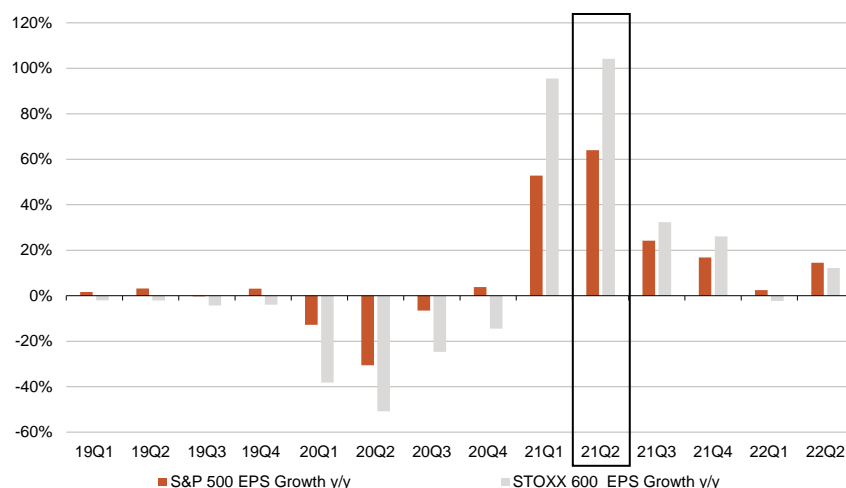
The bi-weekly *Monitor* gives you a structured overview of the current capital market environment and highlights important developments:

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

Q2 reporting season comes into focus

Abundance of economic data in the coming two weeks with U.S. labor market figures as the crowning glory

The bar for the coming reporting season is set high



- One year after a disastrous Q2 2020, the challenge for companies is to at least meet the market's high, largely priced-in earnings growth expectations.
- The market expects earnings growth of more than 60% for the S&P 500 and more than 100% for the STOXX 600. Both values are historically extreme. For the market to gain further, the high expectations must be beaten and the outlook for the following quarters must be positive.

Source: Refinitiv, As of 18/06/2021



Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (21/05/21 - 18/06/21)	YTD (31/12/20 - 18/06/21)	18/06/20	18/06/19	18/06/18	18/06/17	17/06/16
			18/06/21	18/06/20	18/06/19	18/06/18	18/06/17
Brent	12.8	49.3	62.2	-33.4	-10.9	58.3	-14.3
REITs	6.5	20.5	16.4	-10.0	20.1	-6.8	0.8
Global Convertibles	5.5	7.3	30.7	11.2	4.0	7.8	16.2
MSCI Emerging Markets	5.1	9.4	31.5	-0.3	-1.6	8.7	28.1
MSCI Frontier Markets	4.8	16.6	29.0	-10.1	4.3	1.0	13.0
Global Corporates	3.3	1.2	-0.4	6.5	10.2	-3.1	2.8
MSCI World	2.9	13.9	27.6	4.9	6.9	8.6	20.7
USDEUR	2.7	3.0	-5.6	-0.1	3.8	-3.7	0.7
Global Treasuries	-1.4	2.2	-4.2	4.7	8.5	-2.5	-3.0
Eonia	0.0	-0.2	-0.5	-0.4	-0.4	-0.4	-0.4
Industrial Metals	-0.9	15.5	36.8	-6.7	-12.9	21.9	18.3
Gold	-3.7	-4.3	-3.3	27.8	9.4	-1.8	-2.8

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

- Even though oil has weakened somewhat after the Fed meeting, it remains by far the best performing asset class over the last four weeks.
- REITs also performed well, boosted by continued low interest rates.
- Gold has been the big loser in recent weeks and has now slipped back into negative territory in terms of YTD performance.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 18/06/2016 - 18/06/2021

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (21/05/21 - 18/06/21)	YTD (31/12/20 - 18/06/21)	18/06/20	18/06/19	18/06/18	18/06/17	17/06/16
			18/06/21	18/06/20	18/06/19	18/06/18	18/06/17
MSCI EM Eastern Europe	7.0	20.7	25.6	-13.1	29.4	7.9	20.1
MSCI EM Asia	5.0	7.8	32.2	8.4	-7.3	12.9	31.3
Topix	3.6	5.6	14.8	7.9	-6.8	9.6	23.5
S&P 500	2.8	15.0	28.1	9.0	11.2	12.1	20.8
MSCI USA Small Caps	2.5	18.1	46.6	-5.4	-0.1	16.2	22.0
Stoxx Europe 50	2.5	15.4	19.9	-2.6	7.4	-0.9	20.9
Stoxx Europe Defensives	2.4	11.4	10.6	2.4	8.4	0.4	13.5
Stoxx Europe Small 200	1.9	15.1	36.7	-1.2	-3.0	8.1	24.3
Euro Stoxx 50	1.5	16.5	28.5	-4.3	2.3	0.4	27.7
Stoxx Europe Cyclical	1.0	15.8	36.4	-6.6	-4.3	4.4	31.6
MSCI UK	0.2	15.6	22.0	-15.7	0.3	5.5	15.9
DAX	0.1	12.6	25.8	-0.4	-3.9	0.6	32.4

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 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.

- All equity regions have risen over the past four weeks, with emerging markets leading the way.
- Measured in euros, U.S. equities recently outperformed European equities. However, this was primarily due to the renewed strength of the US dollar.

Total return (including reinvested dividends) of selected equity indices, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 18/06/2016 - 18/06/2021

Fixed Income

	4-week & YTD		12-month periods over that last 5 years				
	4W (21/05/21 - 18/06/21)	YTD (31/12/20 - 18/06/21)	18/06/20	18/06/19	18/06/18	18/06/17	17/06/16
			18/06/21	18/06/20	18/06/19	18/06/18	18/06/17
USD Corporates	2.0	4.5	-2.2	10.3	13.3	-4.7	4.3
Treasuries	0.7	4.0	-8.0	10.2	11.5	-5.1	-0.6
USD High Yield	3.3	5.4	4.5	1.4	10.5	-0.9	13.1
EM Local Currency Bonds	2.5	2.1	2.0	1.9	9.7	-4.8	8.0
Gilts	-1.7	1.8	-1.1	9.4	4.5	-0.4	-6.5
EM Hard Currency Bonds	-1.6	1.5	5.3	-1.6	7.6	-5.0	6.0
BTPs	-1.9	1.2	5.1	6.1	6.0	-1.5	-0.7
Bunds	-2.7	1.0	-1.6	0.7	6.0	0.0	-2.1
EUR High Yield	0.9	2.8	9.9	-1.4	2.6	1.1	8.1
EUR Non-Financials	0.7	0.7	3.3	0.2	4.4	0.6	1.6
EUR Financials	-0.1	0.6	3.5	0.0	3.9	0.7	3.2
EUR Inflation Linkers	0.6	1.0	7.0	-0.1	1.9	2.8	1.1

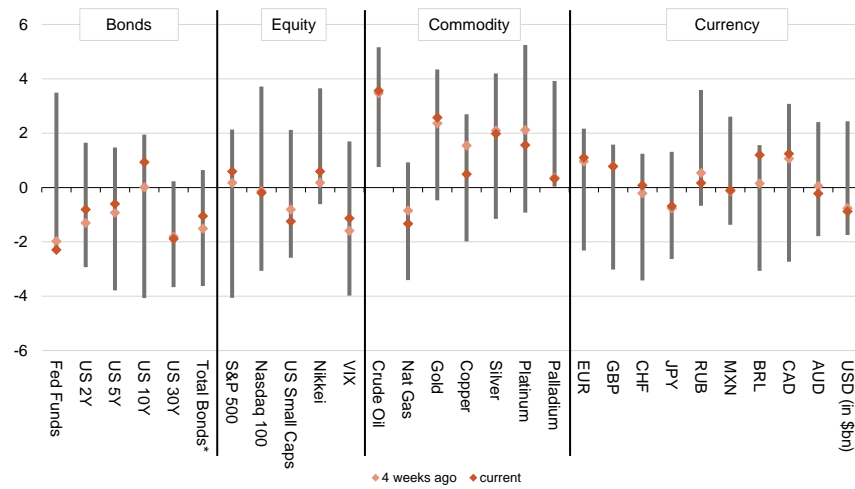
Bunds: Barclays Germany Govt All Bonds TR; BTPs: Barclays Italy Govt All Bonds TR; Treasuries: Barclays US Treasury TR;
 Gilts: Barcl. UK Govt All Bonds TR; EUR Inflation Linkers: Barcl. Euro Govt Inflation-Linked Bond All Maturities TR; EUR Financials: iBoxx Euro Fin. Overall TR;
 EUR Non-Financials: iBoxx Euro Non-Fin. Overall TR; EUR High Yield: Markt 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.

- Across all bond segments, there have been price gains over the past four weeks, thanks to falling bond yields.
- USD bonds additionally benefited from the currency appreciation.
- However, we expect interest rates to rise again by the end of the year due to the rosier economic environment and less dovish central banks, accordingly we are avoiding long-duration bonds.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 18/06/2016 - 18/06/2021



Non-Commercial Positioning

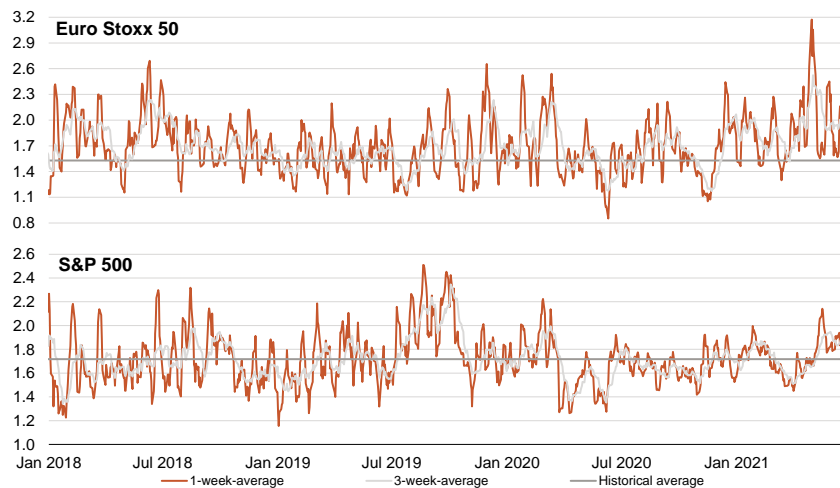


- Speculative investors have recently become somewhat more optimistic about the file market.
- Compared to four weeks ago, they have also significantly expanded their long positions on the BRL after the BRL's recent strong gains.

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: 08/06/2011 - 08/06/2021

Put-Call Ratio

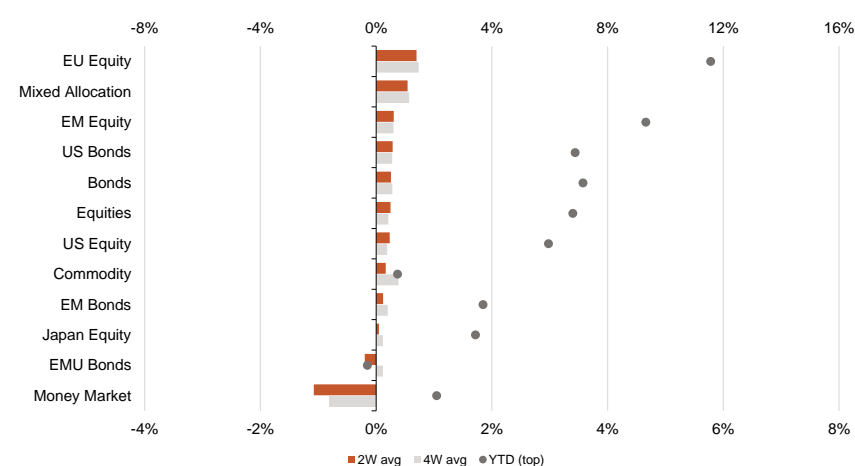


- Investors are still not complacent. At any rate, this is indicated by the put-call ratios for the Euro Stoxx 50 and S&P 500, which are above the long-term average. Some market participants seem to be hedging via the options market at the moment.

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 - 18/06/2021

ETF Flows



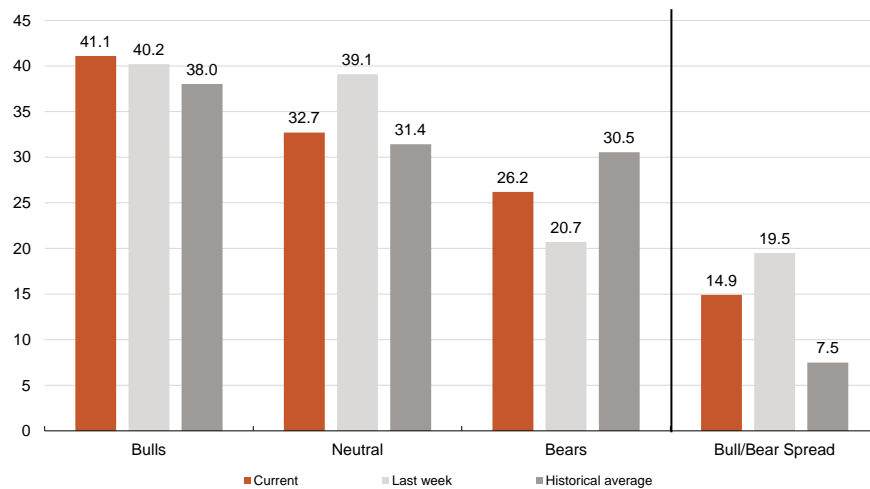
- European equities continued to be the most sought-after asset class by investors in recent weeks. Since the beginning of the year, inflows, measured as a percentage of assets under management, are now almost twice as high in Europe compared with U.S. equities.
- However, in addition to equities, bonds recorded overall inflows.
- Money market ETFs saw outflows again recently.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.

Source: Bloomberg, Time period: 31/12/2020 - 18/06/2021



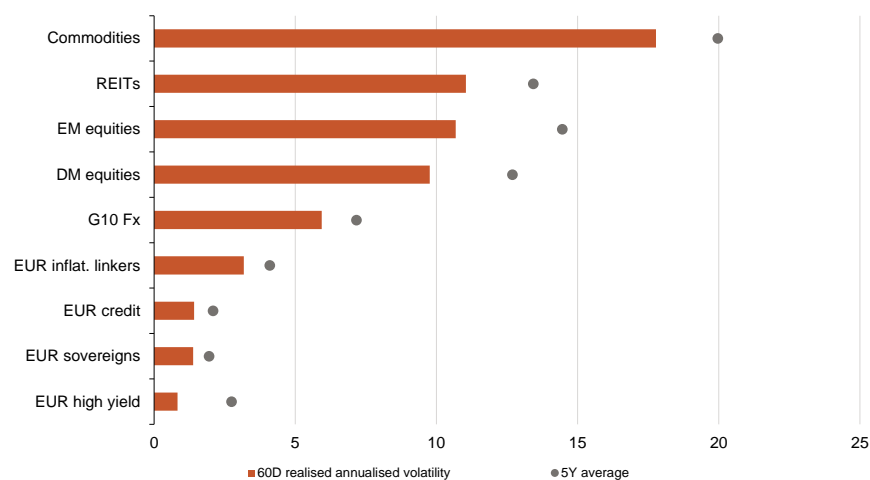
AAIL Sentiment Survey (Bulls vs Bears)



- The sentiment among U.S. private investors remains distinctly optimistic. For 20 weeks now, the bulls have outweighed the bears.
- Recently, however, the number of neutral investors has declined significantly, and the number of pessimists in particular has increased.

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, AAIL, Time period: 23/07/87 - 17/06/21

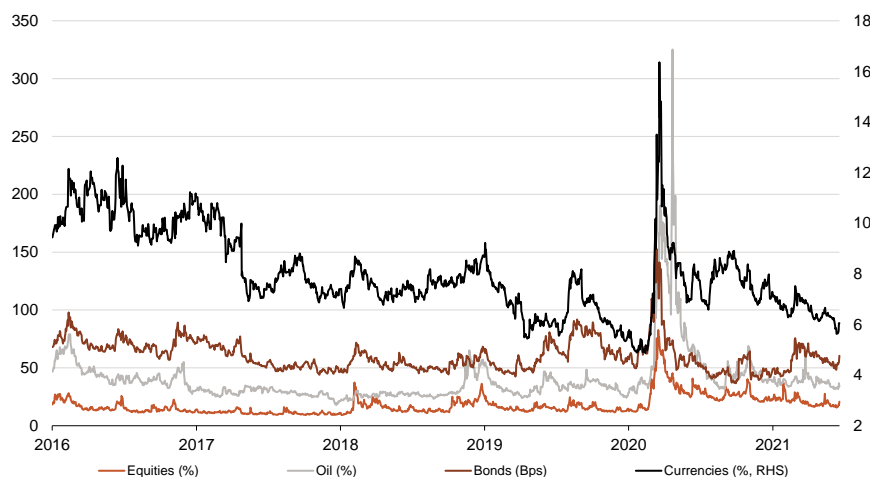
Realised Volatilities



- The realised volatility over the last 60 days is now below the average of the last five years for all asset classes shown here.
- In particular, volatility has fallen in commodities and emerging market equities over the past two weeks.
- In the case of developed market equities, realised volatility fell below the 10% mark for the first time since the beginning of the Covid-19 crisis.

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: 18/06/2016 - 18/06/2021

Implied Volatilities

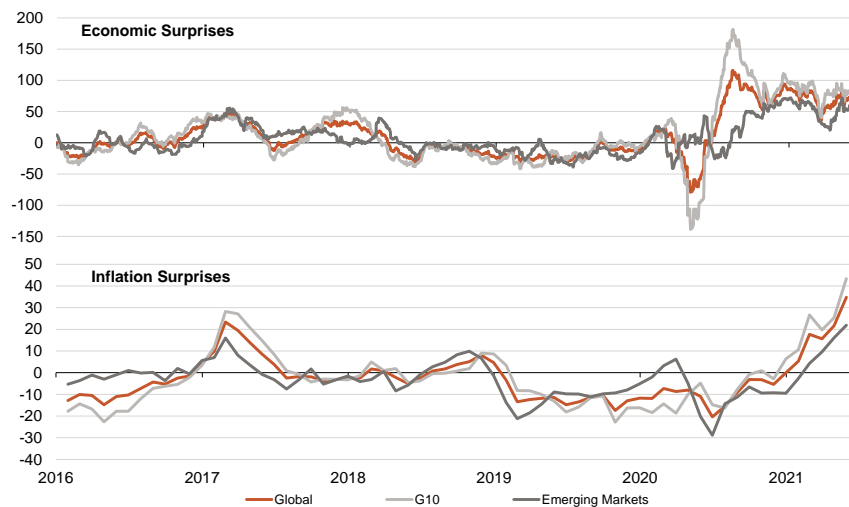


- The implied volatility of equities also reached a new post-pandemic low in the last two weeks - the VIX fell below the mark of 16.
- In the days after the Fed meeting, however, the fear barometer then shot up again to over 20 points.

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 - 18/06/2021



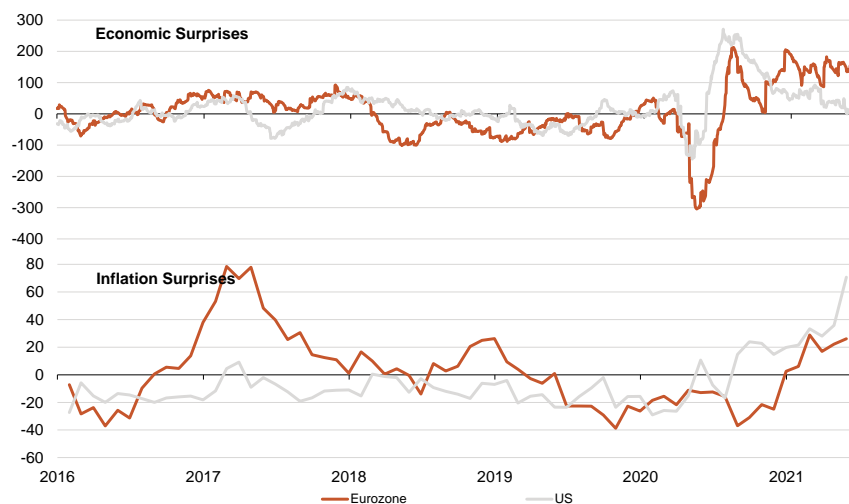
Global



- Emerging markets are catching up with the industrialised nations, as shown by the more positive economic surprises recently. However, these did not come from China, where the upswing is weakening somewhat. In May, for example, industrial production, retail sales and exports disappointed. In Brazil, on the other hand, retail sales surprised to the upside in April.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 18/06/2021

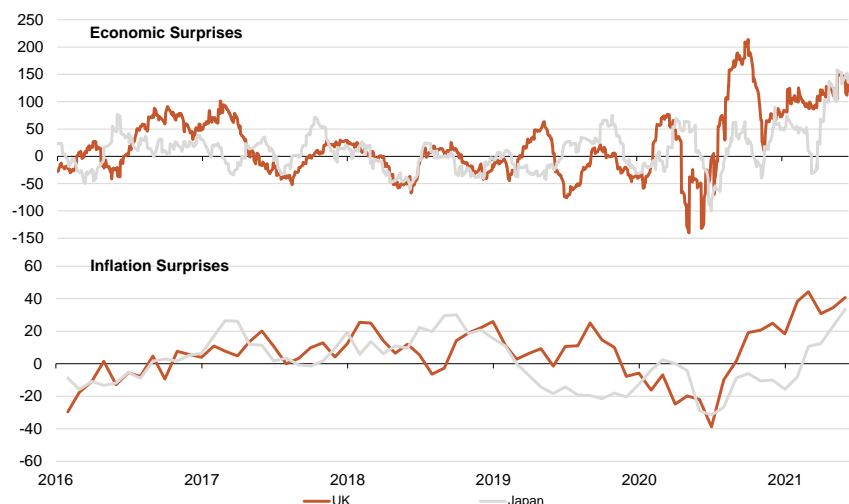
Eurozone and US



- In the US, positive economic surprises recently prevailed again. Consumer confidence and industrial production beat expectations, while retail sales disappointed.
- In the euro zone, the ZEW index and new orders for Germany as well as industrial production in France disappointed. Industrial production in Italy, on the other hand, surprised to the upside.
- Inflation is on the rise and has surprised to the upside, particularly in the US.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 04/01/2021

UK and Japan

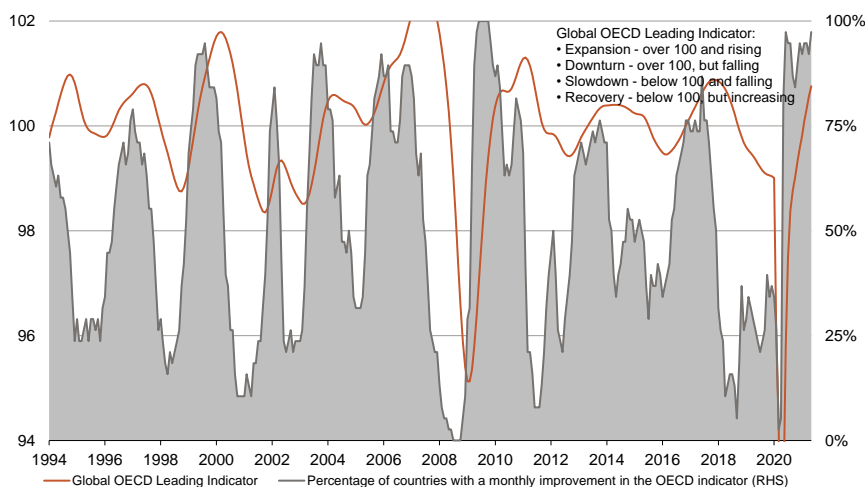


- Japan and the UK were able to hold their ground in clearly positive territory, even though there have also been disappointments as of late. In Japan, for example, machinery orders and exports disappointed, while in the UK it was industrial production that fell short of expectations.

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 - 18/06/2021



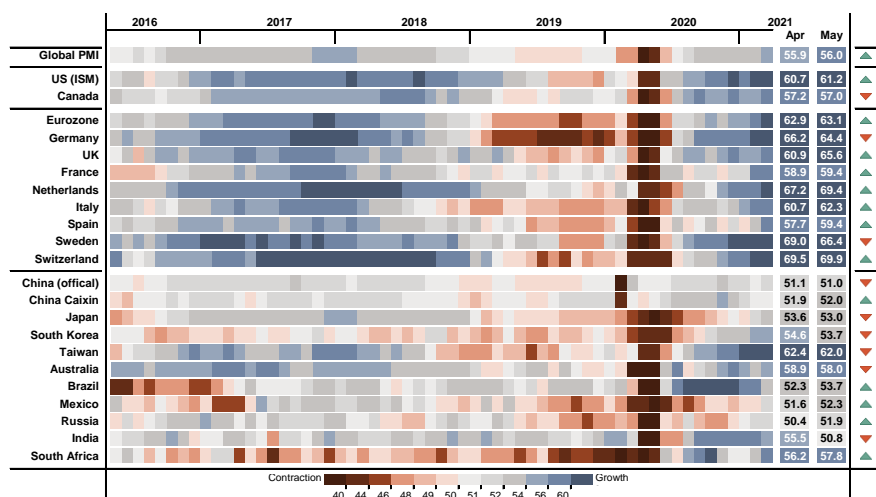
OECD Leading Indicator



- The global economy is in the midst of economic expansion. The OECD leading indicator rose to a value of 100.75 in May.
- Of the countries covered, 97% saw an improvement in the indicator relative to the previous month. The economic recovery is thus broadly supported.

The OECD Leading Indicator is composed of a series of selected economic indicators whose composition provides a robust signal for future turning points. A turning point in the indicator usually signals a turning point in the economic cycle in 6-9 months. However, lead times are sometimes outside this range and turning points are not always correctly detected.
 Source: Bloomberg, Time period: 31/01/1994 - 31/05/2021

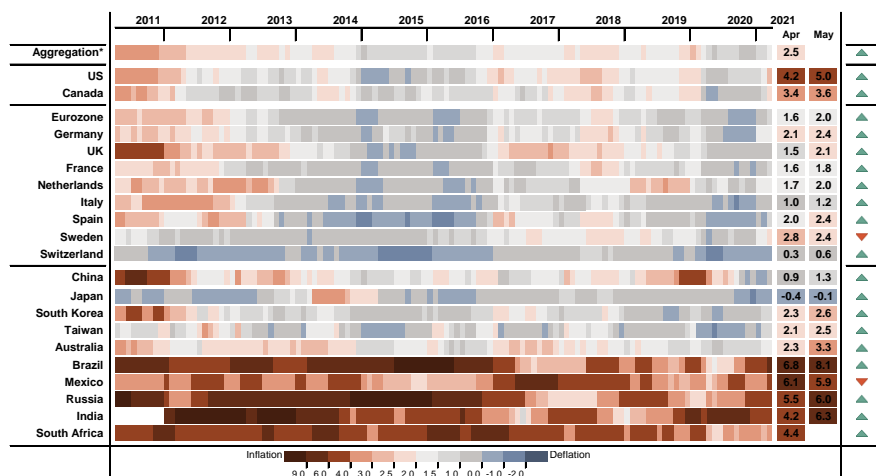
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global PMI rose to 56.0 in May, its highest level since April 2010.
- In the US and the euro zone, the PMIs also continued to rise.
- In Asia, the high seems to be behind us. The majority of 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 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

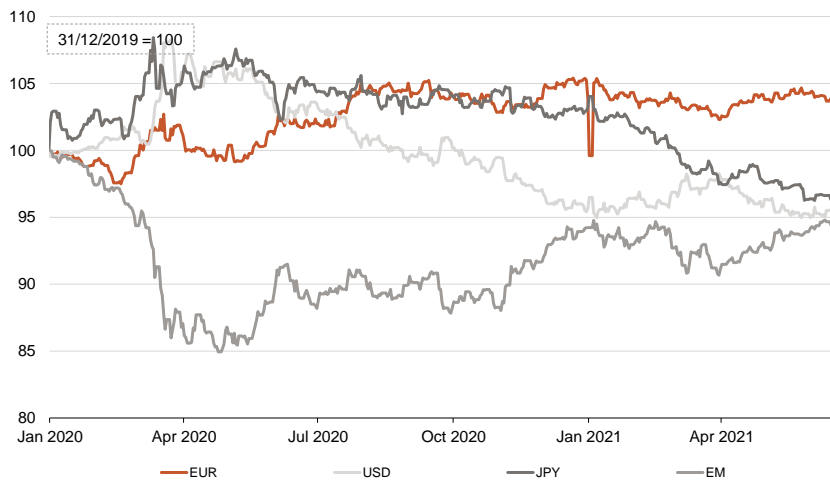


- Not only in developing countries such as Brazil, Mexico, Russia or India was inflation above 4% in May, but also in the US.
- In the US, this is the highest level since August 2008, partly due to base effects. In addition, rising consumer demand, rising raw material prices, supply bottlenecks and higher wages are playing a decisive role.

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: 31/05/2011 - 31/05/2021



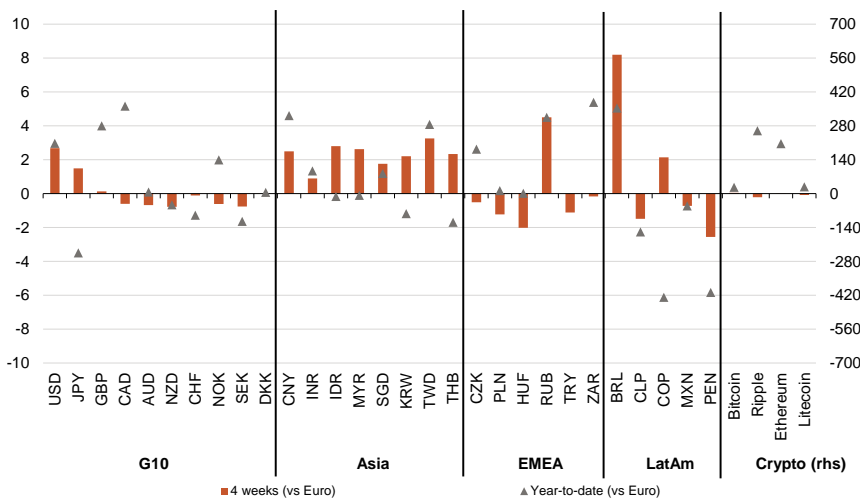
Trade-Weighted Currency Development



- With the U.S. dollar strengthening again in the wake of the Fed meeting, the euro and emerging market currencies depreciated on a trade-weighted basis.
- The Japanese yen recently appreciated.

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 - 18/06/2021

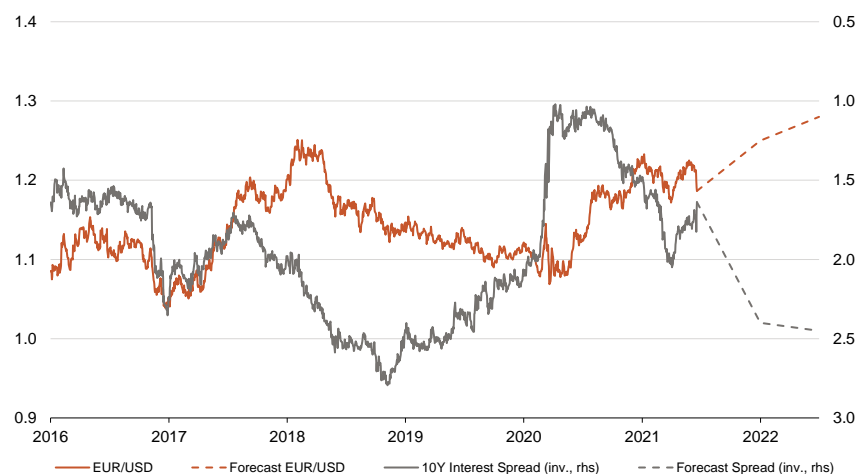
Currency Moves vs Euro



- Asian currencies recorded gains across the board over the past four weeks.
- Among the G10 currencies, the U.S. dollar in particular has performed the strongest. Since the beginning of the year, however, the Canadian dollar still leads the way.
- The Brazilian real benefited from another interest rate hike by the Brazilian central bank to curb inflation here.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2020 - 18/06/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD exchange rate has moved in favour of the U.S. dollar in recent weeks and is currently trading below the 1.20 mark again.
- The reason for the recent dollar strength is the more restrictive tones of the U.S. Federal Reserve (Fed).

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

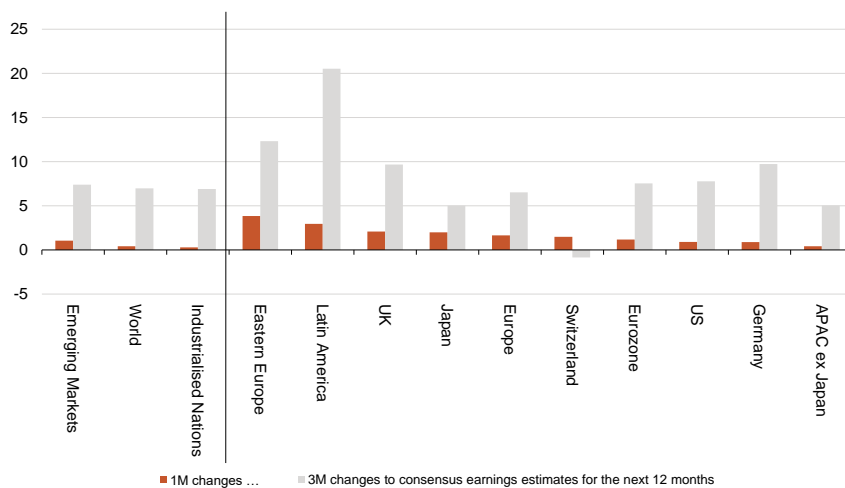
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			18/06/21	18/06/20	18/06/19	18/06/18	18/06/17
Health Care	5.4	13.0	6.1	18.6	15.5	-8.1	15.2
Information Technology	4.9	19.0	33.9	13.6	-0.4	18.8	34.5
Consumer Discretionary	4.0	20.7	54.9	-7.4	-3.4	7.5	22.7
Growth	3.9	15.2	26.9	4.7	6.9	2.9	20.4
Consumer Staples	2.1	11.8	13.1	-1.3	15.6	-8.0	15.6
Industrials	1.9	16.3	40.1	-4.0	2.6	2.9	31.0
Telecommunications	1.9	15.0	18.4	-14.8	1.3	-11.1	5.1
Energy	1.0	18.0	18.0	-35.1	-1.9	25.8	15.9
Value	0.0	14.8	26.3	-14.5	-1.3	0.8	25.4
Finance	-0.9	17.9	33.9	-18.1	-5.1	-3.0	33.8
Materials	-1.6	13.9	37.6	-2.9	-3.1	19.3	33.1
Utilities	-2.4	0.6	13.8	8.5	18.6	-2.4	12.5

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.

- Over the past four weeks, IT stocks gained almost 5%, also thanks to positive corporate comments. The technology sector is now once again one of the European sectors with the best performance since the beginning of the year.
- By contrast, utilities have recently fared worst. The sector has barely moved since the beginning of the 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: 18/06/2016 - 18/06/2021

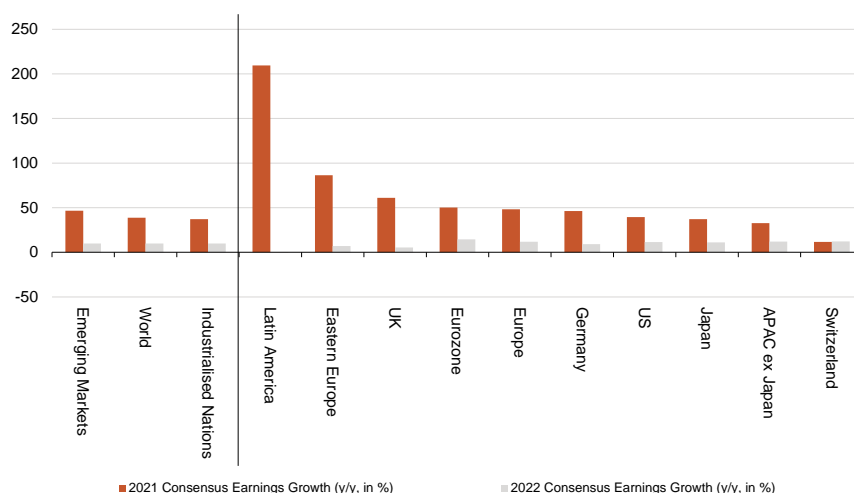
Changes in Consensus Earnings Estimates



- Analysts continue to raise their earnings estimates across all regions - most recently for Eastern Europe, Latin America and the UK in particular.
- The Q2 reporting season coming up soon will show whether the optimism is justified.

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 18/06/2021

Earnings Growth

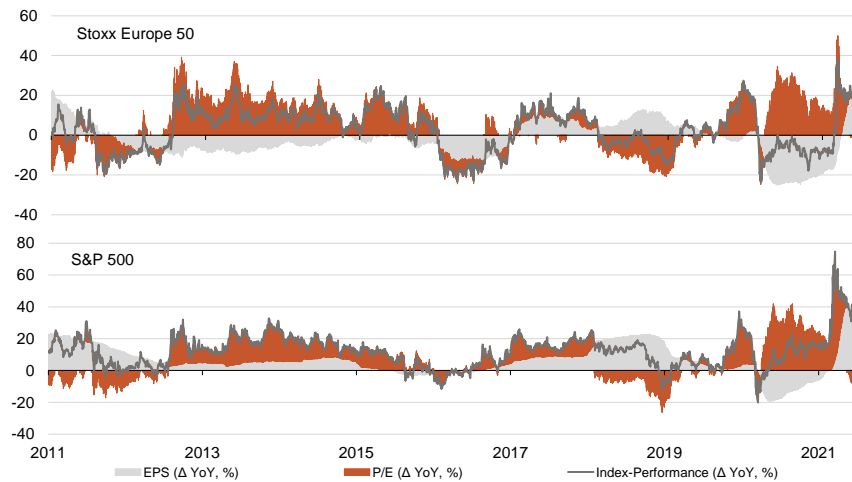


- Consensus expects earnings growth of just under 50% for emerging markets - Latin America with almost 210% and Eastern Europe with more than 80% earnings growth are the main drivers for this.
- Switzerland is currently the only region with a higher estimated earnings growth rate for 2022 than for 2021.

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 18/06/2021



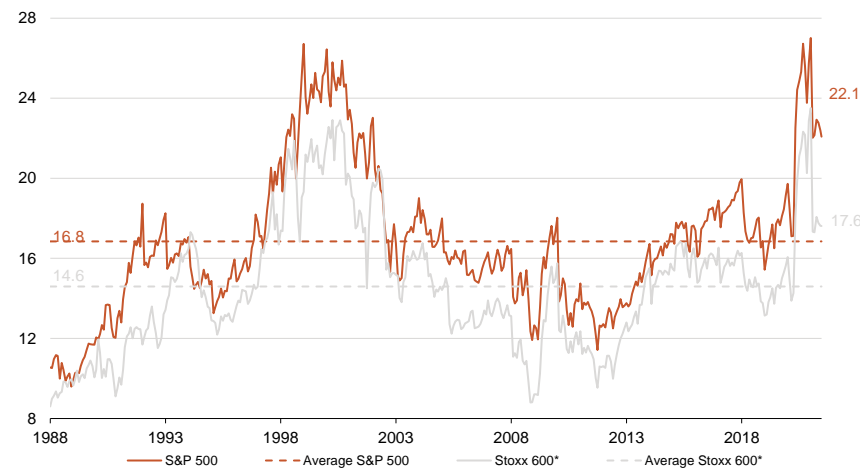
Contribution Analysis



- Now that the hopeful phase in markets is coming to an end and corporate profits are actually rising significantly, P/E valuations are falling year-on-year in both the US and Europe.

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 - 18/06/2021

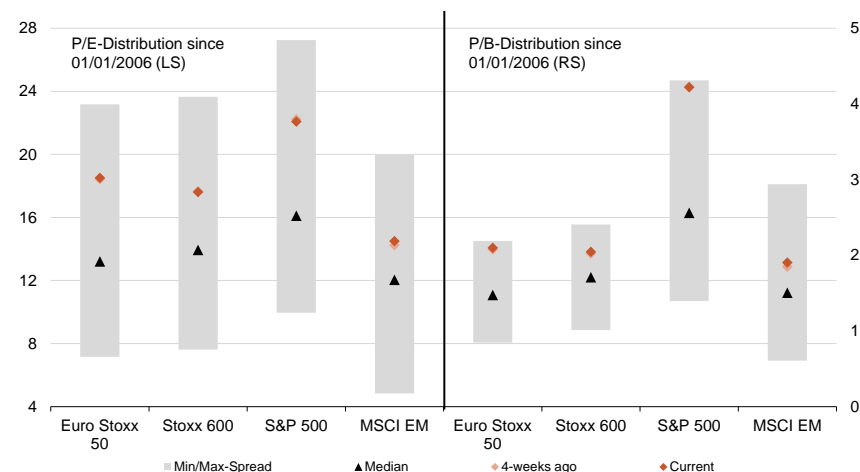
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Most recently, the P/E ratios for the Euro Stoxx 50 and S&P 500 have remained relatively constant. On the one hand, markets have not moved particularly at the index level, and on top of that, the extent of earnings revisions has also eased.

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 - 18/06/2021

Historical Distribution: Price/Earnings and Price/Book Ratio

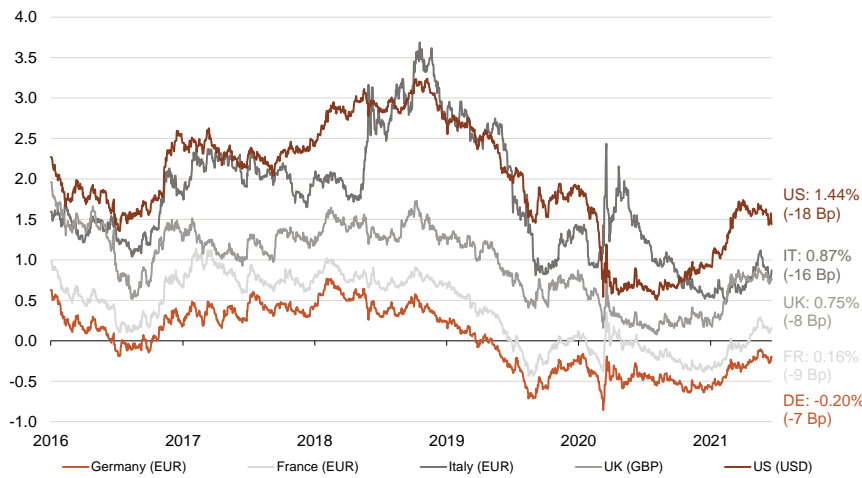


- Emerging market equities are the most favourably valued relative to all other regions. US equities are still the most expensively valued - but no longer to the same extreme as at the turn of 2020/2021.

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 - 18/06/2021



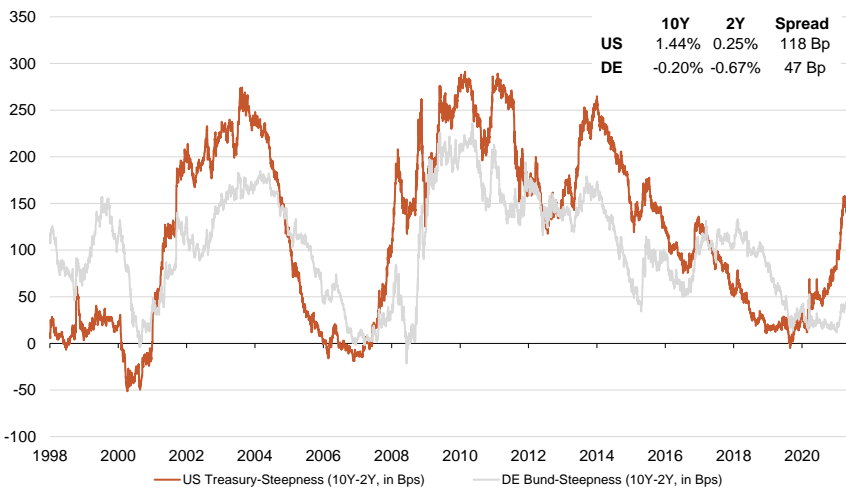
10-Year Government Bond Yields



- Despite the increasingly hawkish sounding US central bank, US interest rates have recently fallen further. Many market participants are now convinced that inflation is only temporary and have reduced their short positions.
- Yields on 10-year German government bonds, for example, have fallen by 14 basis points (bp), while US government bonds have fallen by 18 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 - 18/06/2021

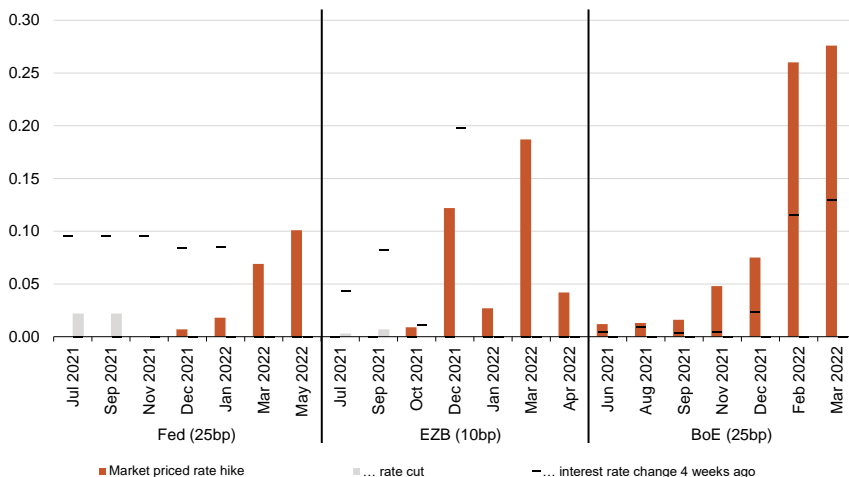
Yield Curve Steepness (10Y - 2Y)



- The steepness of the US yield curve has declined significantly despite the more hawkish Fed. At a level of around 120 bp, the steepness of the US yield curve is now well below the local high of above 150 bps.

The yield curve distinguishes between the so-called short and the long end. The reason for this lies in the way in which factors influence returns. Central banks control the short end of the curve through their monetary policy and key rates. By contrast, the long end is influenced less by central banks than by inflation expectations, supply, demand and risk premia.
Source: Bloomberg, Time period: 01/01/1998 - 18/06/2021

Implicit Changes in Key Interest Rates

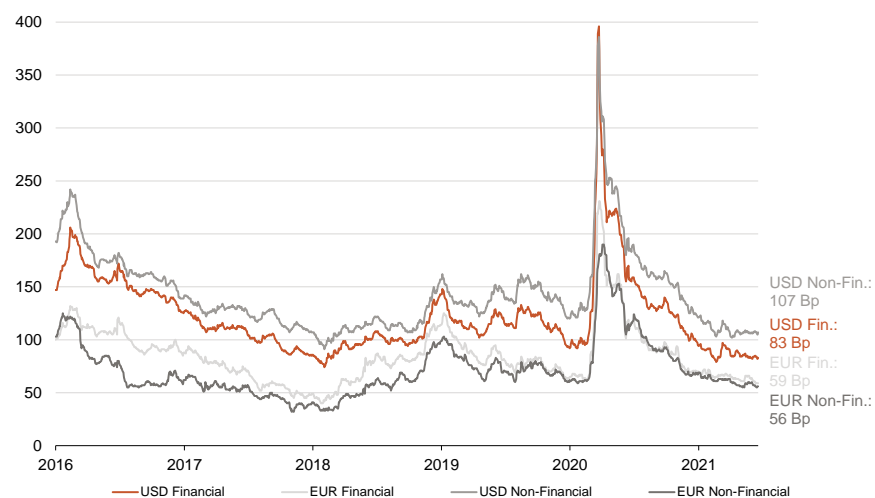


- The Fed's communication is becoming increasingly hawkish, as was recently observed at the meeting in June. The first more restrictive steps in monetary policy are likely to be announced over the next months. Meanwhile, the market expects the first rate hike in May 2022 with a probability of around 10%.
- The market has a clearer view on the BoE's rate hike, which is priced with around 30% probability as of March 2022.

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: 21/05/2021 - 18/06/2021



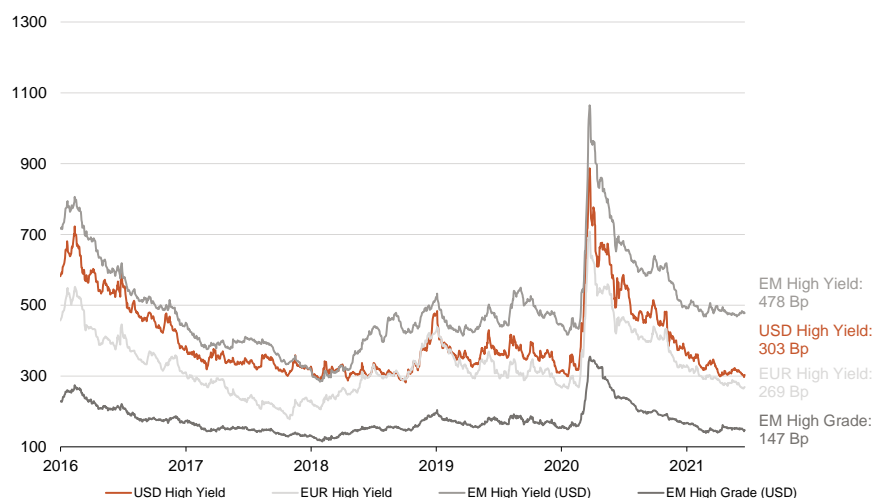
Credit Spreads Financial and Non-Financial Bonds



- Following the massive drop in risk premiums after March 2020, risk premiums have now entered a sideways phase. The already historically low spread level in all segments has not fallen significantly further in recent weeks.
- Among the recent marginal spread tightening, EUR Financial Bonds segment saw the largest spread tightening of 4 bps over the past four weeks.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 - 18/06/2021

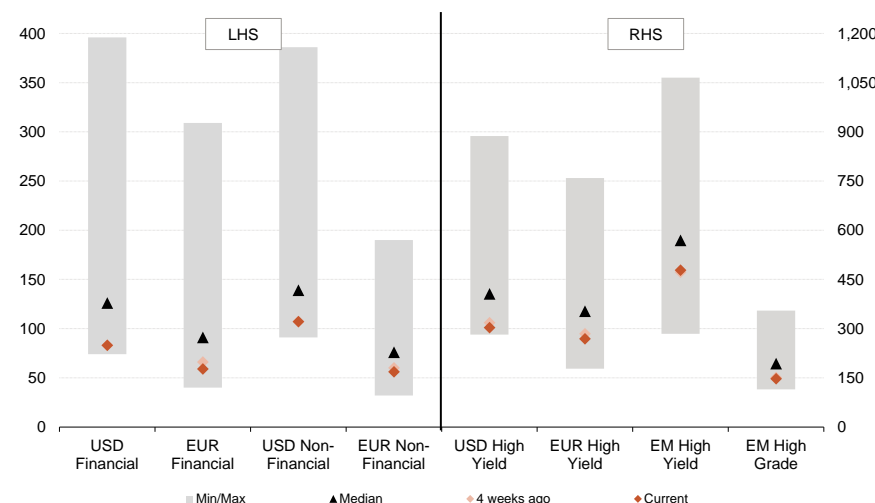
Credit Spreads High Yield and Emerging Markets Bonds



- The picture is somewhat different for high-yield bonds. Here, too, risk premiums are at a low level, but have even more downside potential. This is particularly the case for EM high-yield bonds.
- Over the past four weeks, USD high yield bonds saw a spread tightening of 14 bps, compared to 4 bps for EUR high yield bonds.

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 - 18/06/2021

Historical Distribution of Credit Spreads (in bp)

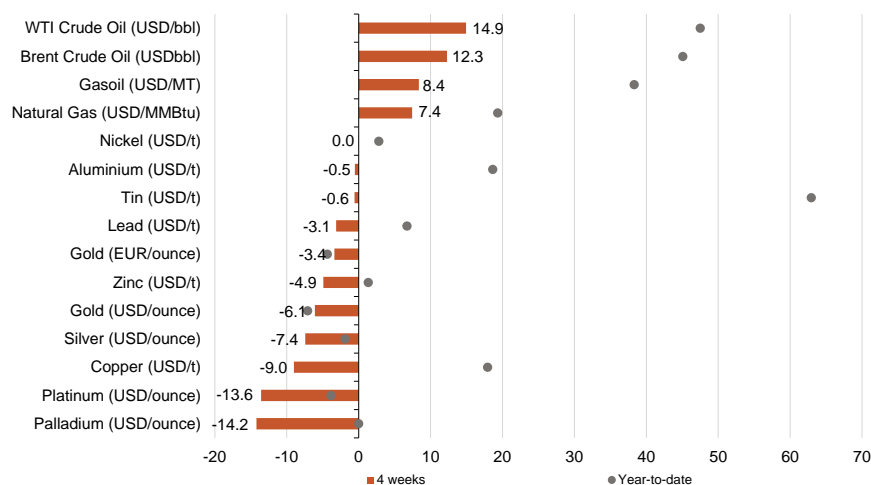


- The risk premiums for USD corporate bonds are already at the lower end of the 10-year range. For EUR corporate bonds, on the other hand, there is still a little more room for downside. However, the potential is most pronounced for EM high-yield bonds.

USD Financial = ICE BofAML US Financial; EUR Financial = ICE BofAML Euro Financial; USD Non-Financial = ICE BofAML US Non-Financial; EUR Non-Financial = ICE BofAML Euro Non-Financial; USD High Yield = ICE BofAML US High Yield; EM High Yield = ICE BofAML High Yield Emerging Markets Corporate Plus; EM High Grade = ICE BofAML High Grade Emerging Markets Corporate Plus. The EM indices shown here are hard currency bonds.
Source: FactSet, Time period: 18/06/2011 - 18/06/2021



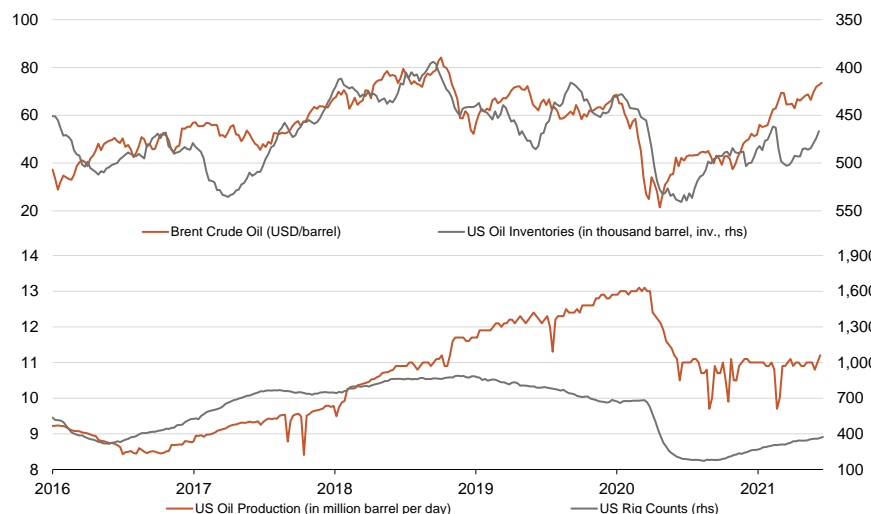
Commodities Performance



- In the last four weeks, the commodities market has seen an unusual dynamic relative to the year so far: Almost all commodities, with the exception of energy commodities, recorded losses.
- Precious metals were hit particularly hard as a result of the Fed's more restrictive tone. Industrial metals also suffered from the statements of the central bankers. The latter were additionally burdened by China's efforts to put a stop to commodity price rises.

Total return of selected commodity prices, in percent, sorted by 4-week performance. Source: Bloomberg, Time period: 01/01/2021 - 18/06/2021

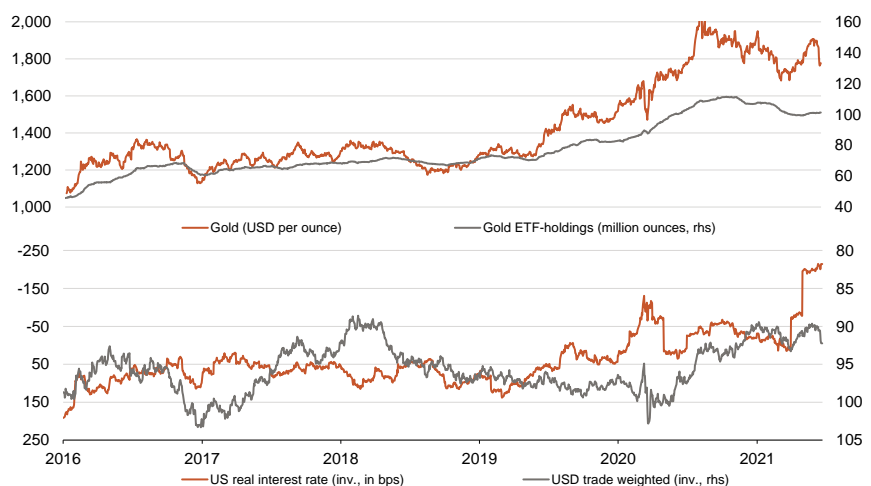
Crude Oil



- Crude oil now appears to have sustainably broken through the USD 70 per barrel mark. A sharp drop in inventories in the US points to a strong recovery in demand.
- Talks to end U.S. sanctions on Iranian oil exports were paused after the election of hardliner Raisi as Iran's president, but even a deal is unlikely to worry market participants too much given the West's current thirst for oil.

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 - 18/06/2021

Gold



- Gold experienced a particularly sharp sell-off as a result of the Fed meeting. The precious metal lost more than USD 70 within two days and fell back below the USD 1,800 per ounce mark after the U.S. central bank announced that it would tighten the reins of its monetary policy more quickly than anticipated.

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 - 18/06/2021

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