BERENBERG Markets

MONITOR

05 July 2021

Current market commentary

The constant back and forth of investment styles continues. Recently, growth companies were once again ahead. Shares from healthcare and technology sectors in particular were able to make stronger gains. Value stocks, on the other hand, were weighed down by Covid-19 fears around the Delta variant as well as falling bond yields. Style volatility is likely to persist for some time, helped by mixed economic and inflation data. In addition, positioning is no longer as pronounced in one direction or the other. The equity market as a whole is currently supported by ongoing inflows as well as a build-up of risk positions on the part of systematic investors. Price momentum is positive for many equity regions and volatility has continued to fall. The VIX is at its lowest level since February 2020, but as equity markets have already priced in a lot of positivity, we see limited upside potential until the end of the year. Consequently, we are only slightly overweight equities.

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

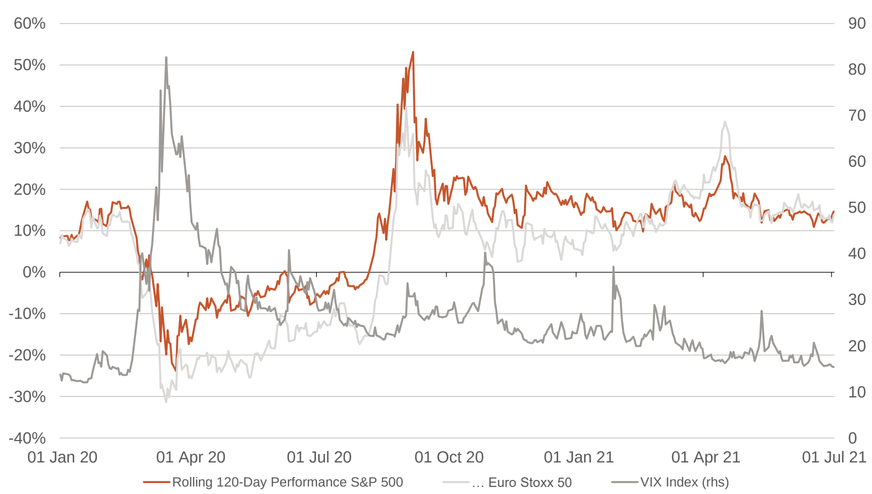
Stock market activity is likely to be defined by the Q2 reporting season.

The Q2 reporting season will determine stock market activity. With the key figures of the major US banks next week, the reporting season picks up speed. For the S&P 500, the market expects Q2 earnings growth of more than 60% year-on-year. The G20 meeting this weekend is expected to drive the global tax debate, which is likely to affect a number of multinationals. US stock markets are closed today (for US bank holidays).

Economic recovery should continue, at least in the West.

Tomorrow, Germany's new orders (May) and ZEW economic sentiment (July) are due, as well as the US services ISM (June). This will be followed by Germany's industrial production data (May) on Wednesday and exports (May) on Thursday. Industrial production (May) for France, Italy and the UK as well as inflation data (June) for China will be published on Friday. In the following week, industrial production data and retail sales data will be released for both the USA and China.

Positive momentum & falling VIX - systematics increase equity exposure



- S&P 500 hit all-time highs last week, meanwhile implied volatility, in the form of the VIX, has fallen below 16 to pre-pandemic levels. This suggests that recently, especially rule-based strategies such as CTAs and vol-target funds, have ramped up their leverage and thus further increased equity exposure.
- Systematic investors are still away from extreme levels regarding the equity exposure, but they are approaching it. Once they have reached it, equity markets are likely to become more vulnerable again.

Source: Bloomberg, Period: 01/01/2020 - 02/07/2021

Multi Asset

	4-week & YTD: 4W (04/06/21 - 02/07/21)	4-week & YTD: YTD (31/12/20 - 02/07/21)	12-month periods over that last 5 years: 02/07/20 02/07/21	02/07/19 02/07/20	02/07/18 02/07/19	02/07/17 02/07/18	01/07/16 02/07/17
Brent	9.4	56.8	64.2	-31.5	-13.0	62.8	-16.0
Global Convertibles	5.0	9.1	30.0	12.9	7.3	7.1	12.3
MSCI Frontier Markets	4.6	19.1	31.3	-10.5	8.8	-0.7	16.1
MSCI World	4.4	17.8	31.5	3.8	10.5	8.9	14.8
REITs	3.0	22.0	18.4	-8.9	15.6	-1.0	-7.7
Global Coporates	2.7	1.4	-0.6	6.5	10.7	-1.4	-0.5
USDEUR	2.5	3.0	-5.3	0.4	3.1	-1.8	-2.5
Global Treasuries	1.7	-1.4	-4.1	4.6	8.4	0.0	-7.4
Industrial Metals	1.5	21.6	41.2	-3.4	-9.2	11.8	12.6
MSCI Emerging Markets	1.0	9.4	27.9	-0.7	5.8	5.5	20.0
Eonia	0.0	-0.2	-0.5	-0.4	-0.4	-0.4	-0.4
Gold	-3.1	-3.1	-4.6	25.6	17.8	-1.8	-9.8

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

- Brent oil is rising and rising. Since the beginning of the year, it is now more than 50% in euro terms, supported by rising demand due to the economic recovery.
- Global convertible bonds also rose strongly. The index is very technology-heavy and benefited accordingly from the Nasdaq rally of recent weeks.
- Gold was the worst performer and is also the weakest asset class since the beginning of the year

Total return for selected asset classes, in euro and in percent, sorted by 4-week performance.
Source: Bloomberg, Period: 02/07/2016 – 02/07/2021

Equities

	4-week & YTD: 4W (04/06/21 - 02/07/21)	4-week & YTD: YTD (31/12/20 - 02/07/21)	12-month periods over that last 5 years: 02/07/20 02/07/21	02/07/19 02/07/20	02/07/18 02/07/19	02/07/17 02/07/18	01/07/16 02/07/17
S&P 500	5.8	20.5	33.9	8.2	14.1	12.9	14.8
MSCI USA Small Caps	3.5	22.4	53.0	-6.3	2.2	15.7	17.1
Stoxx Europe Defensives	3.4	12.3	10.9	2.3	9.7	3.6	2.6
MSCI EM Eastern Europe	2.7	22.5	27.9	-14.8	26.5	13.1	16.2
Stoxx Europe 50	1.4	15.8	18.7	-2.4	10.1	0.0	14.2
MSCI EM Asia	1.1	7.5	27.5	7.4	2.3	7.5	24.0
Topix	1.1	5.6	18.8	0.5	1.2	7.1	16.9
Stoxx Europe Small 200	0.8	17.2	38.3	-2.6	2.4	7.1	22.7
MSCI UK	0.8	17.4	23.1	-16.1	3.1	6.2	10.2
Stoxx Europe Cyclicals	-0.1	17.7	35.5	-6.2	1.2	1.8	32.9
Euro Stoxx 50	-0.1	16.6	25.5	-3.5	6.9	0.6	22.5
DAX	-0.3	14.1	24.1	0.7	2.4	-0.7	26.1

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.

- One should never write off US equities. Thanks to the strong rally in technology stocks, which make up a large part of the S&P index, and the appreciating US dollar, the S&P 500 rose by more than 5% over the last four weeks. US small caps gained strongly as well, as did defensive European stocks.
- The fear of the delta mutation as well as falling bond yields led to an underperformance of cyclical stocks and accordingly also the DAX.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 02/07/2016 – 02/07/2021

Fixed Income

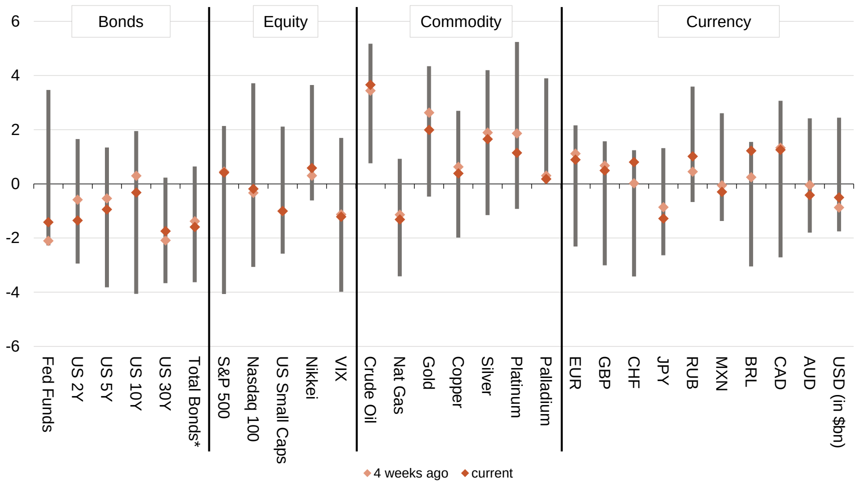
	4-week & YTD: 4W (04/06/21 - 02/07/21)	4-week & YTD: YTD (31/12/20 - 02/07/21)	12-month periods over that last 5 years: 02/07/20 02/07/21	02/07/19 02/07/20	02/07/18 02/07/19	02/07/17 02/07/18	01/07/16 02/07/17
USD Corporates	4.1	2.3	-2.3	10.1	13.9	-2.6	-0.7
USD High Yield	3.8	6.5	7.1	0.1	11.5	0.2	8.1
Treasuries	3.4	0.8	-8.0	10.9	10.4	-2.4	-4.9
Gilts	1.3	-1.5	-1.4	9.6	5.1	1.4	-5.8
EM Local Currency Bonds	1.2	1.9	1.5	1.1	11.9	-3.2	0.8
BTPs	0.6	-1.3	4.6	5.4	8.2	-0.9	-3.7
Bunds	0.5	-2.6	-1.6	0.7	5.1	2.1	-4.3
EM Hard Currency Bonds	0.4	-1.9	3.7	-2.0	9.1	-3.9	2.5
EUR Non-Financials	0.4	-0.6	3.7	-0.8	5.2	1.3	0.1
EUR Financials	0.3	0.0	3.4	-0.4	5.0	0.8	2.4
EUR High Yield	0.3	2.7	10.2	-2.9	5.0	0.1	7.7
EUR Inflation Linkers	0.3	2.0	6.9	0.3	2.2	3.9	-1.3

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.

- US bonds have been the best performers recently, supported by the stronger US dollar and falling US bond yields.
- Overall, however, all bond segments were able to gain over the last four weeks.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 02/07/2016 – 02/07/2021

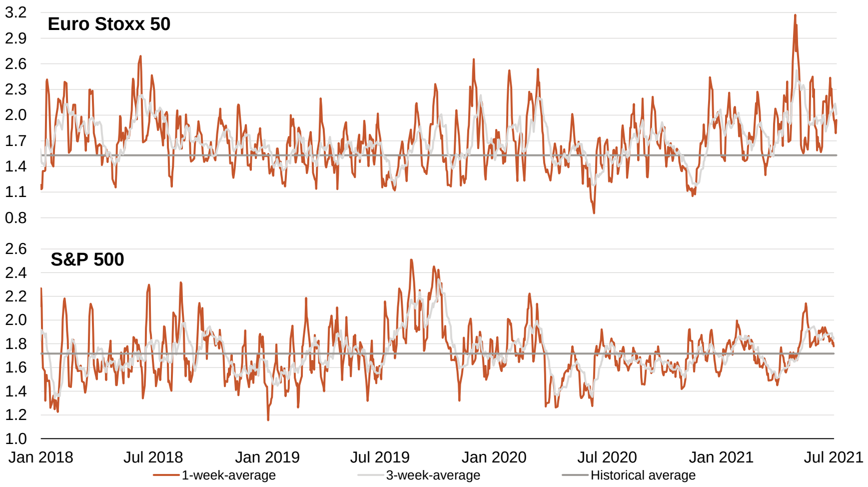
Non-Commercial Positioning



- Within the commodity segment, speculators have become much more cautious compared to four weeks ago. A pronounced long position now only exists for crude oil, while the copper position is close to zero.
- In addition, the CHF net longs have recently been significantly increased.

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: 29/06/2011 - 29/06/2021

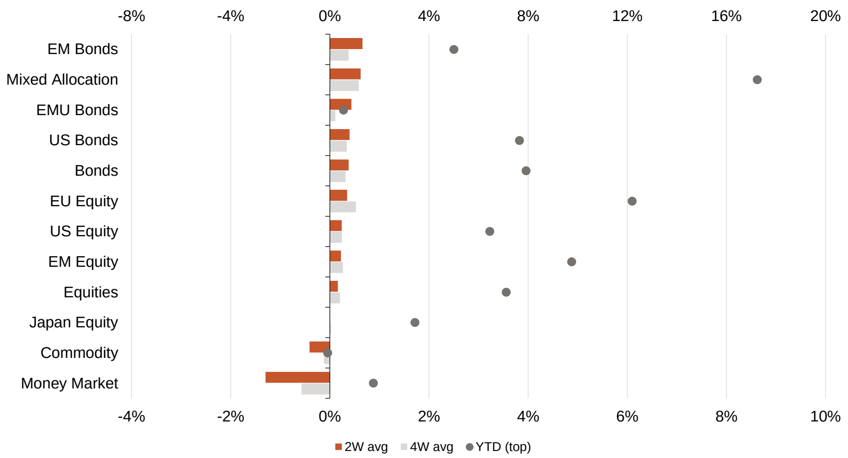
Put-Call Ratio



- The put-call ratios remain elevated at the index level. Apparently, some market participants have recently hedged via put options. This should limit the downside potential for equities if there is no external shock.

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 - 02/07/2021

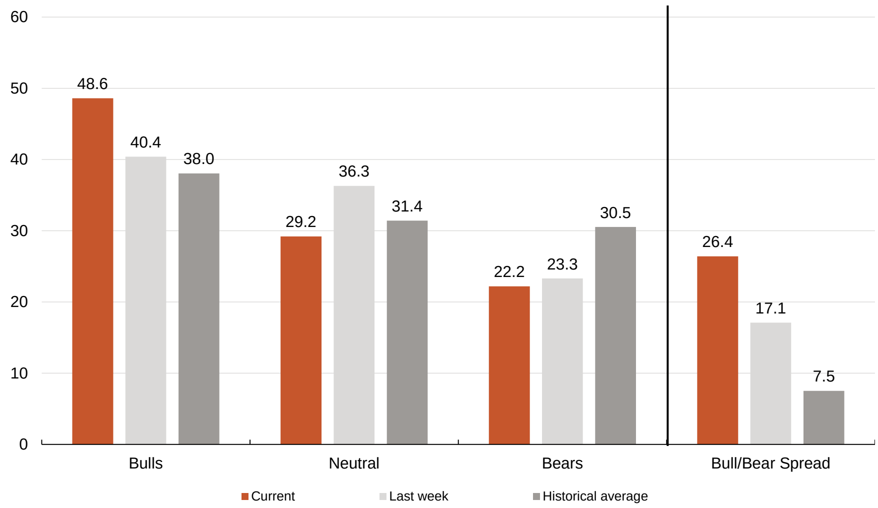
ETF Flows



- ETF investors have recently divested from money market and commodity vehicles and sought emerging market bonds.
- Within the equity regions, Europe has been most preferred recently.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 - 02/07/2021

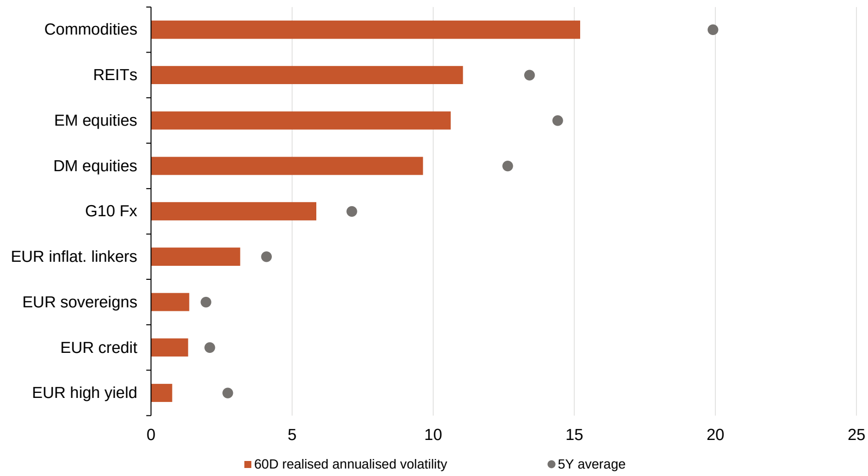
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment among US private investors has again turned from optimistic to euphoric. At over 26 ppts, the bull/bear spread is the highest it has been since mid-April. There are currently more than twice as many bulls as bears. Only the number of neutral investors is close to the historical average.

The sentiment survey conducted by the American Association of Individual Investors determines the percentage of private investors who are optimistic, pessimistic or neutral regarding the US equity market outlook for the upcoming six months. It has been carried out since 1987. The survey is conducted from Thursday to Wednesday and the results are published every Thursday. For the stock market, it tends to be supportive when there is a high proportion of bears and a low proportion of bulls. However, it is a negative indicator when there are significantly more optimists than pessimists.
Source: Bloomberg, AAII, Time period: 23/07/1987 - 01/07/2021

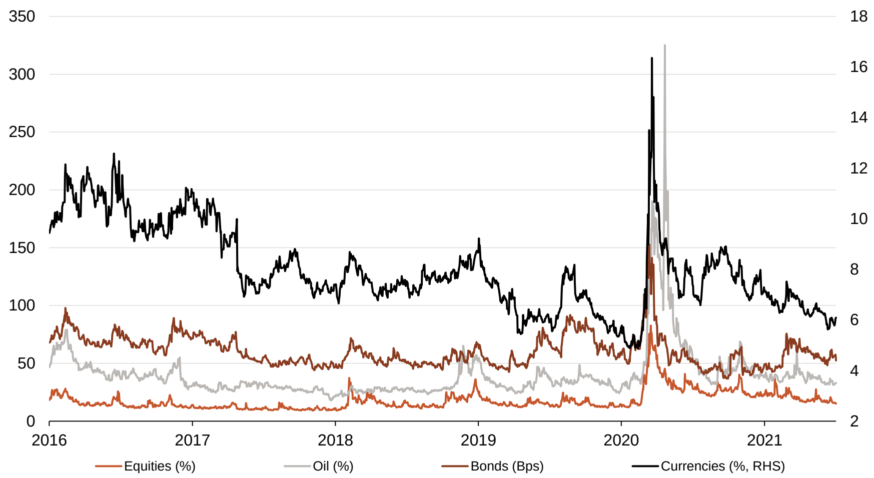
Realised Volatilities



- Realised volatility across all asset classes is currently significantly lower than the average of the last five years.
- Particularly in commodities, volatility has once again come down significantly in the last two weeks.
- Recently, government bonds have again been more volatile than corporate bonds with high credit ratings.

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: 23/07/2016 - 02/07/2021

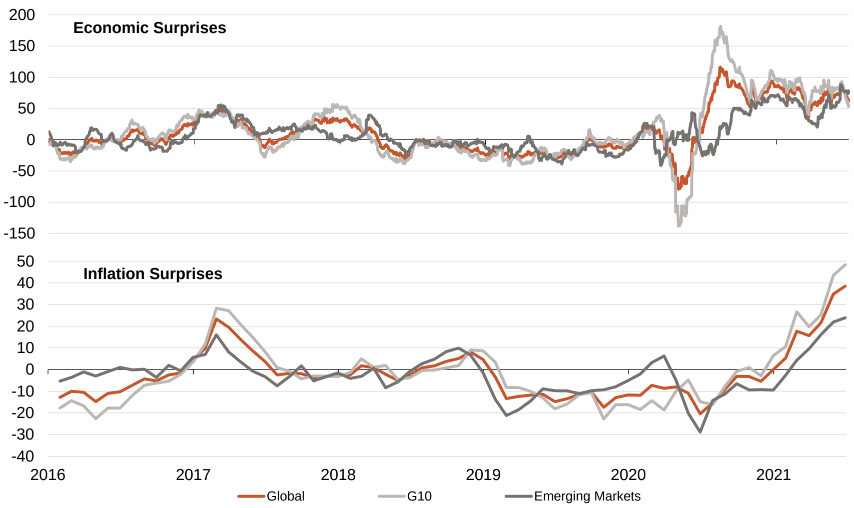
Implied Volatilities



- The VIX marked a new low last week since the outbreak of the pandemic.
- The VVIX (being the measure of implied volatility of the VIX) on the other hand, is still noticeably above the pre-crisis level at over 100 points. Market participants therefore expect significant fluctuations in the volatility of the stock market.

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 - 02/07/2021

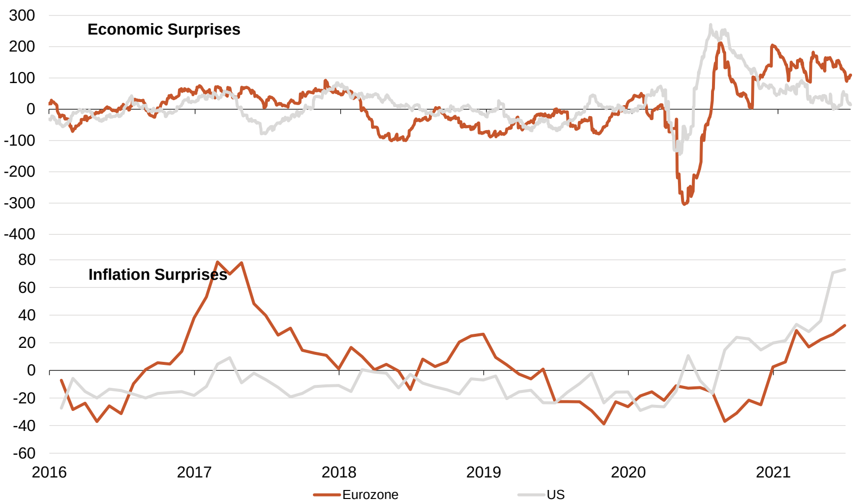
Global



- The peak of the economic surprise is likely behind us. Recently, economic surprises have fallen globally, in the G10 countries as well as in emerging markets. In China, purchasing managers' indices (PMIs) have tended to disappoint, pointing to a slowdown in growth due to new Covid-19 outbreaks and supply chain issues. In Russia, however, industrial production and retail sales were above expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 02/07/2021

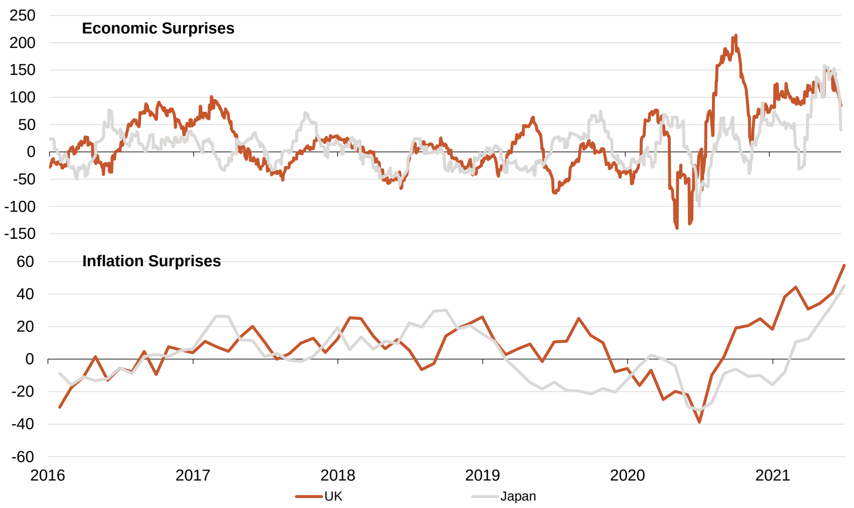
Eurozone and US



- The economic surprise index for the US continues to scratch zero, indicating a balanced relationship between positive and negative surprises. For example, consumer confidence surprised on the upside, while the ISM index and the Markit PMI disappointed.
- In the Eurozone, data continued to surprise on the upside. In Germany, the Ifo economic index, labour market data and the industrial PMI were better than expected.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 02/07/2021

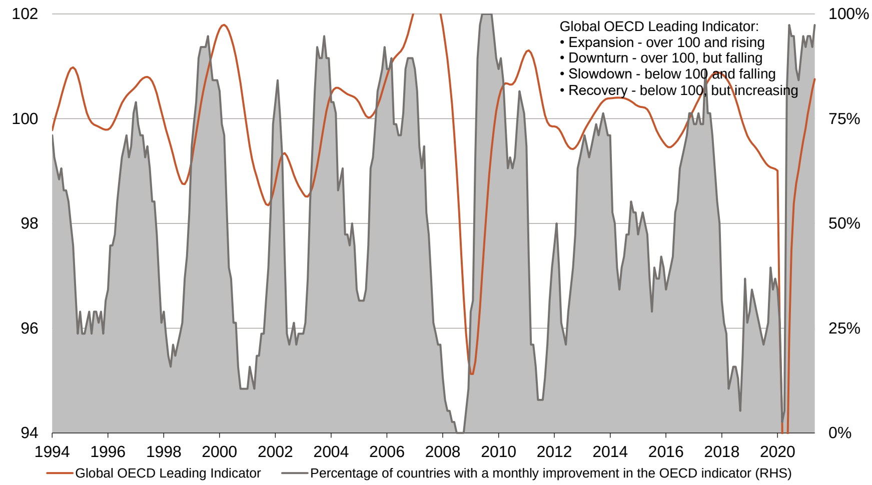
UK and Japan



- In the UK, the manufacturing PMI, the services PMI and consumer confidence have disappointed recently, partially due to Covid-19 new infection figures rising significantly once again.
- In Japan, industrial production data disappointed. Retail sales were above 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 - 02/07/2021

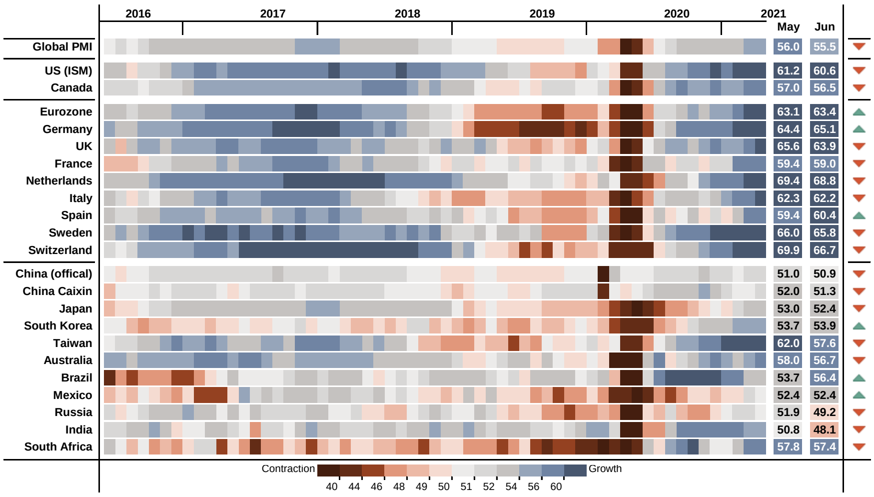
OECD Leading Indicator



- 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 compared to the previous month. Thus, the economic recovery is 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

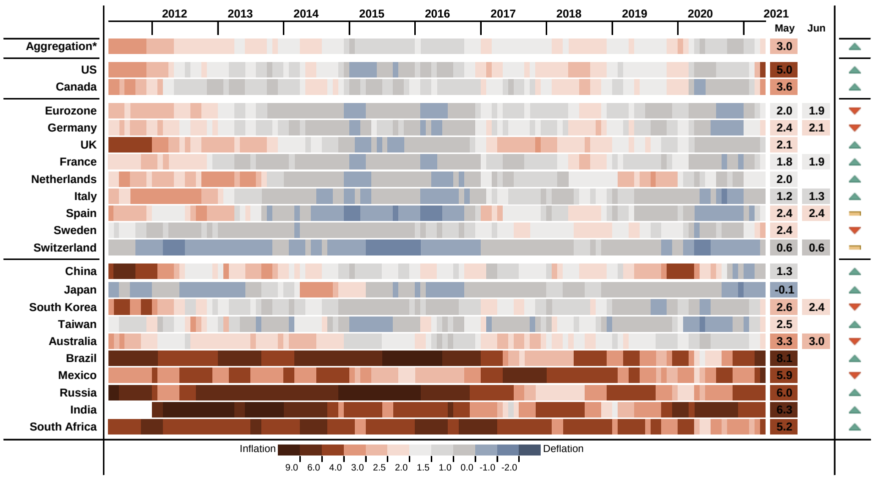
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- PMIs remain above 50 in most regions and even above 60 in the bulk of Western countries, indicating significant economic growth. Within the Eurozone, Germany and Spain's June PMI even increased compared to the previous month.

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: 30/06/2017 - 30/06/2021

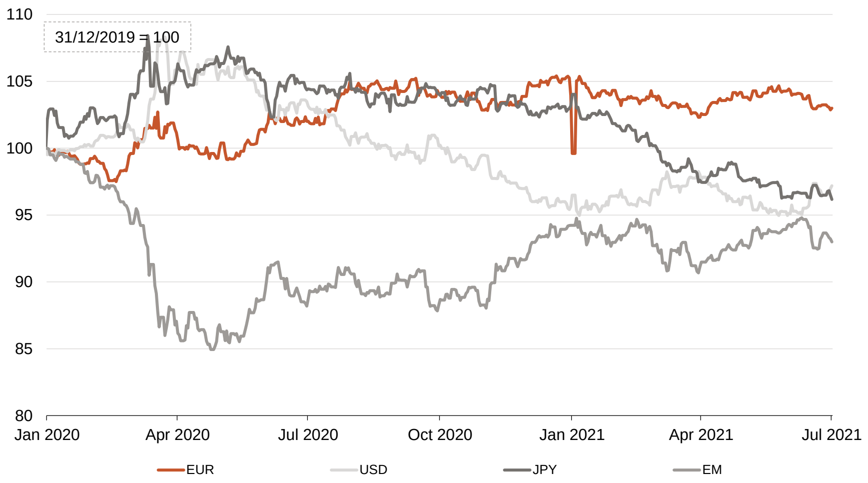
Headline Inflation



- In June, inflation in the eurozone fell slightly compared with May. The decline was mainly due to lower increases in energy and service costs. Within the eurozone, France and Italy saw slightly rising inflation data.
- Inflation also fell slightly in South Korea or Australia in June.

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: 30/06/2011 - 30/06/2021

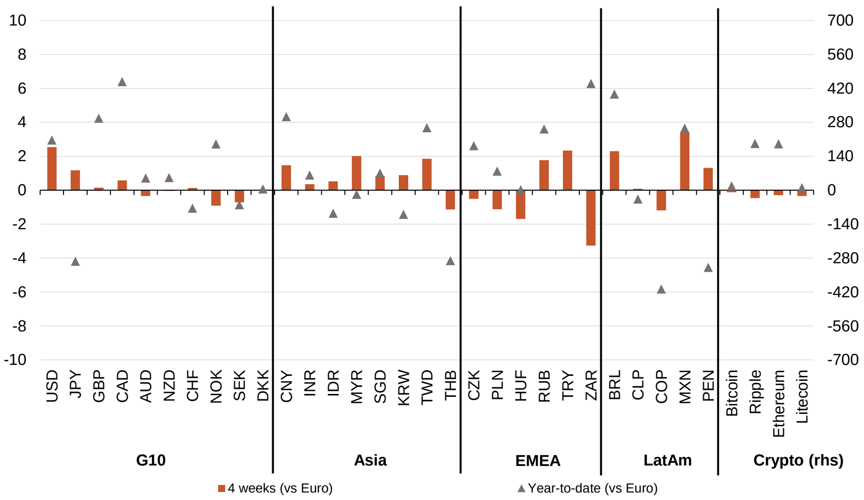
Trade-Weighted Currency Development



- Dollar strength and related weakness in the euro and emerging market currencies came to a halt in the last two weeks.
- The Japanese yen also moved laterally.

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 - 02/07/2021

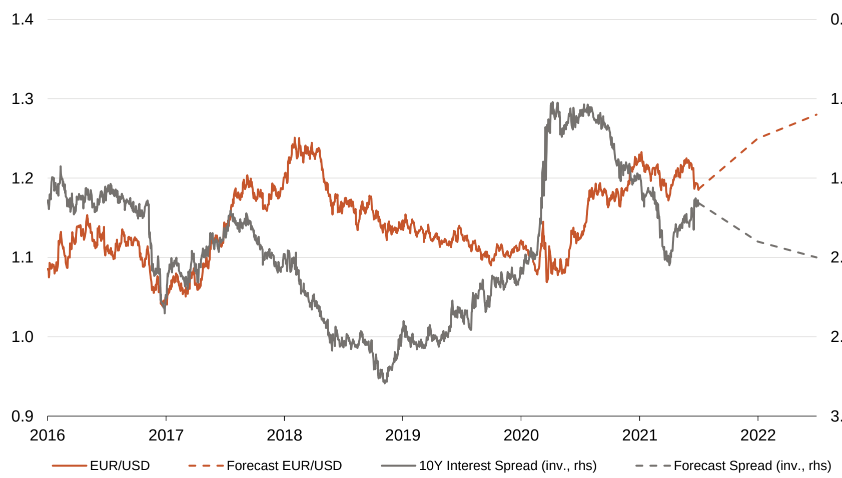
Currency Moves vs Euro



- Given the prospect of interest rate hikes by the Fed, emerging market currencies have done surprisingly well in recent weeks, not only against the Euro but also against the US-dollar.
- Besides rising commodity prices, this is also due to the fact that many of the central banks themselves have either already raised interest rates (e.g. BRL, MXN) and/or announced increases (e.g. TRY).

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2020 - 02/07/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD exchange rate has stabilised around the 1.19 mark in the past two weeks.
- With US yields falling, the interest rate differential between Bunds and US Treasuries is the lowest it has been since mid-February.

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: 4W (04/06/21 - 02/07/21)	4-week & YTD: YTD (31/12/20 - 02/07/21)	02/07/20 02/07/21	02/07/19 02/07/20	02/07/18 02/07/19	02/07/17 02/07/18	01/07/16 02/07/17
Health Care	6.0	14.1	6.9	17.6	16.8	-5.5	3.9
Information Technology	3.7	21.8	33.2	12.0	10.4	15.4	28.8
Growth	3.0	17.0	26.8	5.1	11.2	3.2	12.6
Telecommunications	2.4	16.1	17.8	-12.4	2.4	-10.0	-1.3
Industrials	1.5	18.4	39.7	-3.2	8.3	1.5	26.0
Consumer Staples	1.5	12.1	13.2	-1.4	13.7	-3.5	4.5
Energy	0.9	20.3	22.5	-37.3	-0.4	31.5	1.7
Utilities	0.3	0.3	9.2	13.2	17.5	3.5	1.6
Materials	-0.5	18.2	40.3	-2.3	2.8	15.1	26.6
Consumer Discretionary	-0.6	21.1	51.7	-7.2	4.8	4.4	20.7
Value	-0.7	15.4	25.4	-14.5	1.8	0.8	21.8
Finance	-2.7	17.5	30.4	-17.7	-0.8	-5.5	41.3

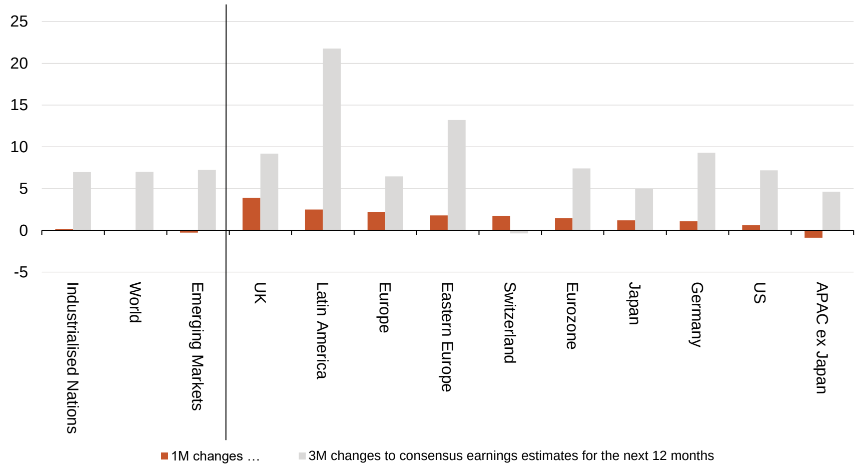
(12-month periods over that last 5 years)

Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Stables: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR; Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. NR; Materials: MSCI Europe Materials NR; Telecommunications: MSCI Europe Telecommunication Services NR; Utilities: MSCI Europe Utilities NR; Value: MSCI Europe Value NR; Growth: MSCI Europe Growth NR.

- The back and forth between value and growth continues. Over the last four weeks, growth companies have clearly led the way, especially in the healthcare and technology sectors, supported by falling bond yields.
- Since the beginning of the year, both investment styles are now up more than 15%.

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: 02/07/2016 – 02/07/2021

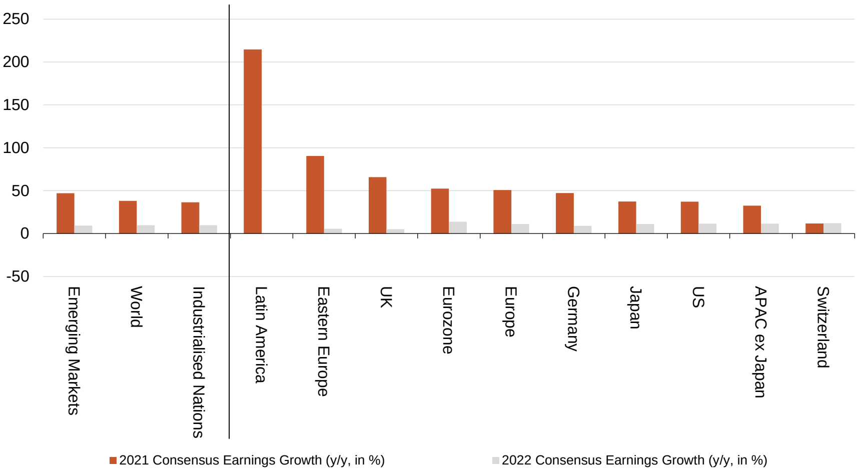
Changes in Consensus Earnings Estimates



- Analysts have further raised their earnings estimates - especially for commodity-heavy regions such as Latin America and Eastern Europe.
- For Asia Pacific ex Japan, on the other hand, they have become more sceptical about the earnings outlook.

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 02/07/2021

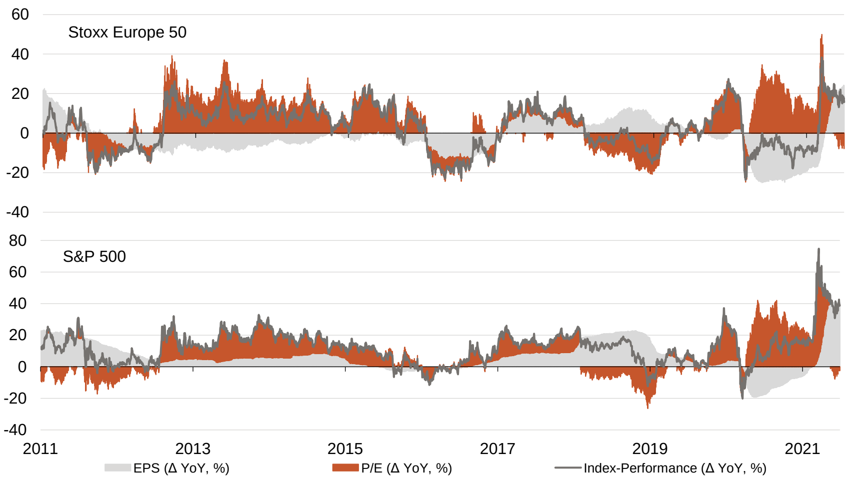
Earnings Growth



- Within Europe, consensus expects the highest 2021 earnings growth for the UK - more than 65% compared to the previous year. For the Eurozone, growth of more than 50% is still anticipated for this year, while the lowest 2021 earnings growth at index level is expected for Switzerland due to its defensive sector structure.

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 02/07/2021

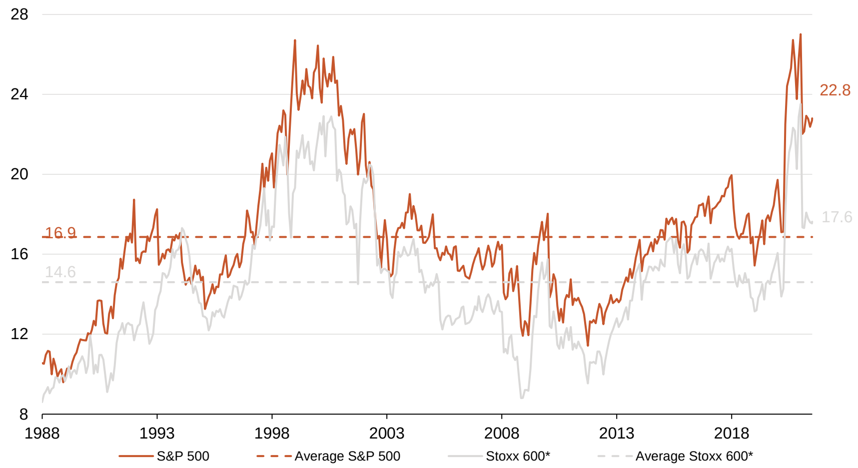
Contribution Analysis



- The price-earnings ratio has recently fallen compared to the previous year for both Europe and the USA. Earnings estimates have risen more than share prices after the Covid-19 crisis. This is a healthy process as valuation levels are at the upper end of the historical spectrum.

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 - 02/07/2021

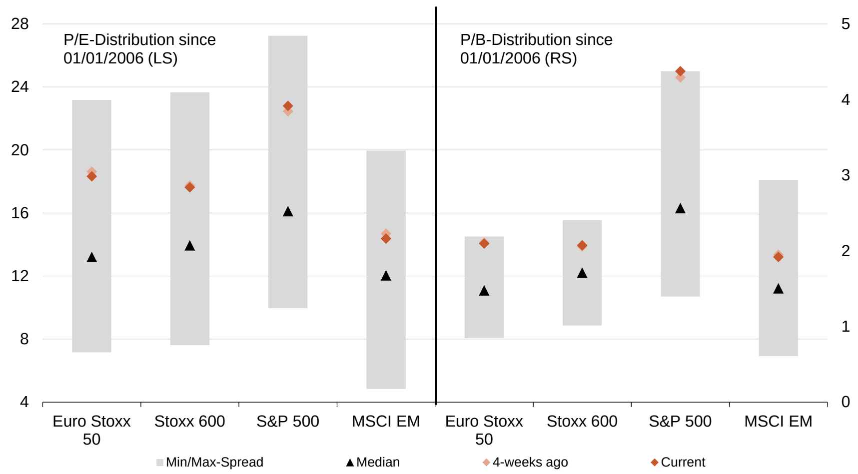
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The steady positive earnings revisions by analysts over the last few months has meant that P/E levels have not risen despite rising share prices. The upcoming Q2 reporting season will show how companies assess the further earnings path.

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 - 02/07/2021

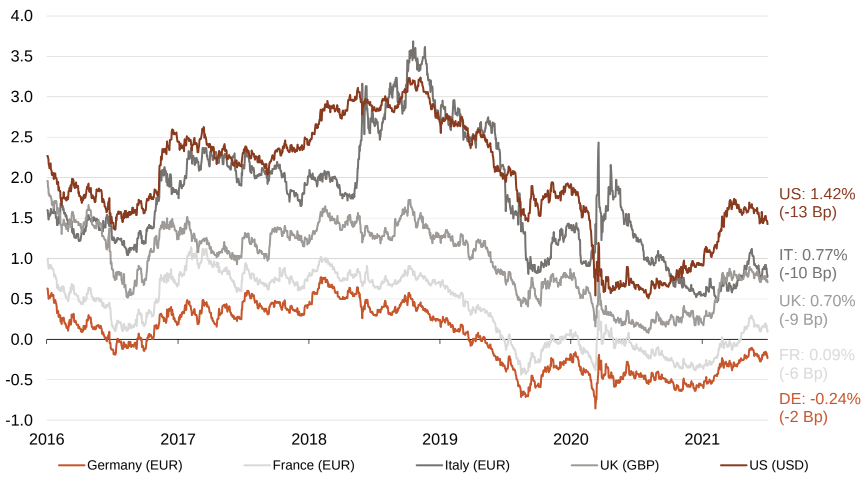
Historical Distribution: Price/Earnings and Price/Book Ratio



- European equities are historically richly valued on a P/E basis, but not extremely expensive. The elevated valuations are likely to stay with us for some time. Low bond yields and massive liquidity around the world are fuelling the hunt for yield.

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 - 02/07/2021

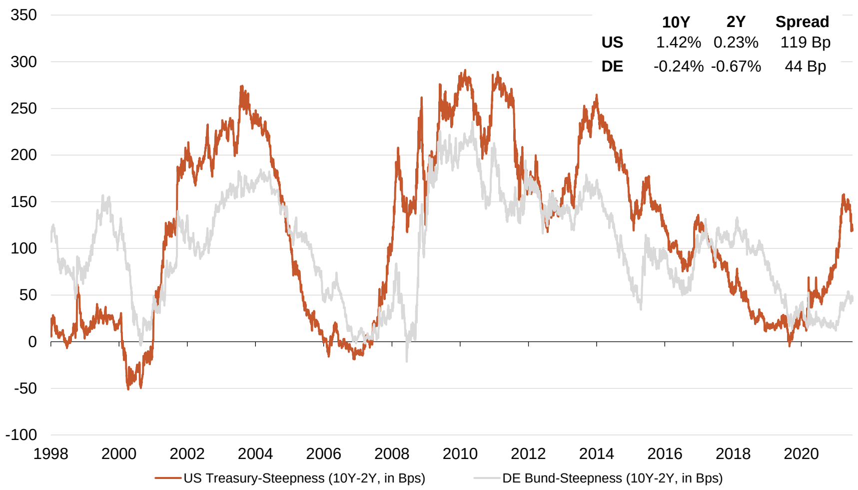
10-Year Government Bond Yields



- Yields have not fallen further after their significant decline in mid-June and have been able to hold a stable level. Yields on 10-year German government bonds, for example, remain close to -20 basis points (bp).
- On a four-week horizon, interest rates in the US have fallen the most, by -13 bp, after the Fed reaffirmed that it will stick to its dovish monetary policy stance for the time being.

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 - 02/07/2021

Yield Curve Steepness (10Y - 2Y)

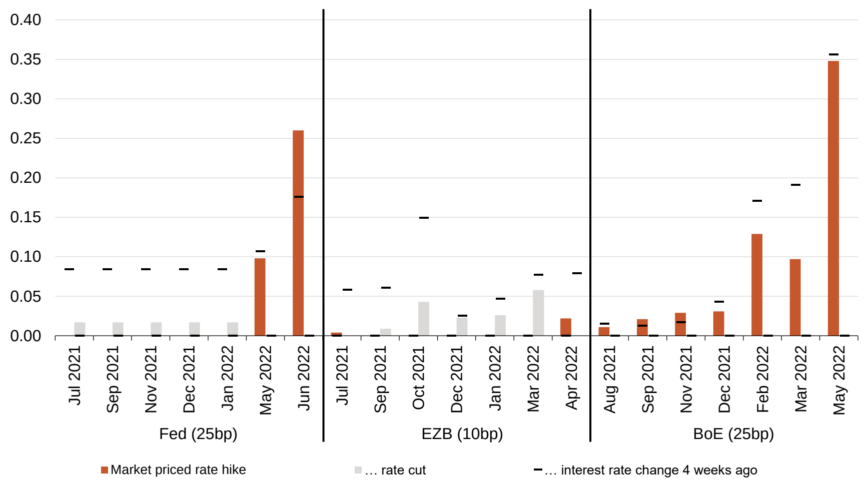


	10Y	2Y	Spread
US	1.42%	0.23%	119 Bp
DE	-0.24%	-0.67%	44 Bp

- In the last two weeks, the steepness of the US and German yield curves has seen little movement. In the US, the steepness is still close to 120 bp, while in Germany it remains below 50 bp.

The yield curve distinguishes between the so-called short and the long end. The reason for this lies in the way in which factors influence returns. Central banks control the short end of the curve through their monetary policy and key rates. By contrast, the long end is influenced less by central banks than by inflation expectations, supply, demand and risk premia.
Source: Bloomberg, Time period: 01/01/1998 - - 02/07/2021

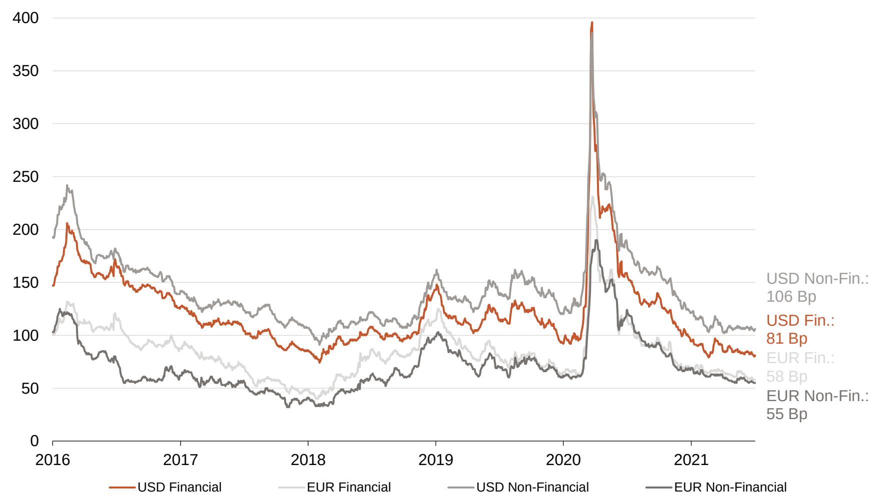
Implicit Changes in Key Interest Rates



- Hardly anyone in the market still sees interest rate cuts. A rate hike, on the other hand, is now increasingly being priced in.
- The market considers an interest rate hike by the Bank of England to be the most likely, with a rate hike as of May 2022 being priced in with a probability of over 30%.

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: 04/06/2021 - 02/07/2021

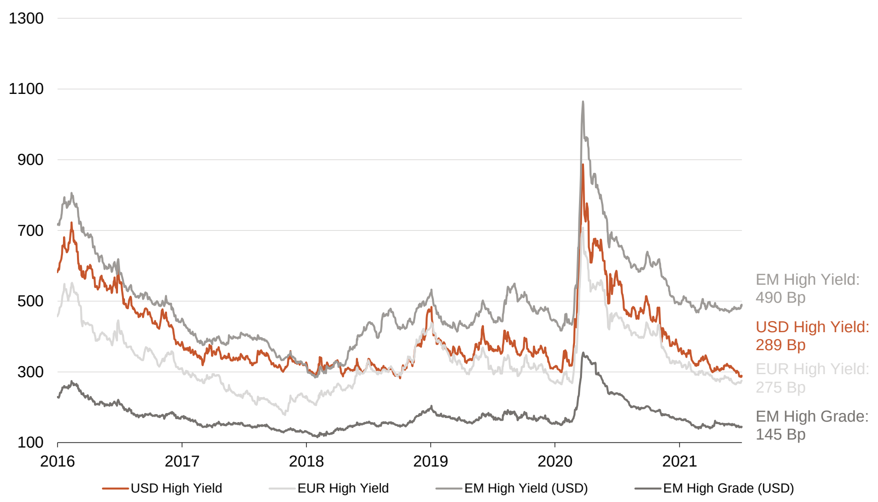
Credit Spreads Financial and Non-Financial Bonds



- Hardly any movement in spreads. Investment-grade corporate bonds have been showing a lateral trend in spreads for several weeks now.
- In the last two weeks, there has only been a minimal spread narrowing of around two basis points across the segments.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 - 02/07/2021

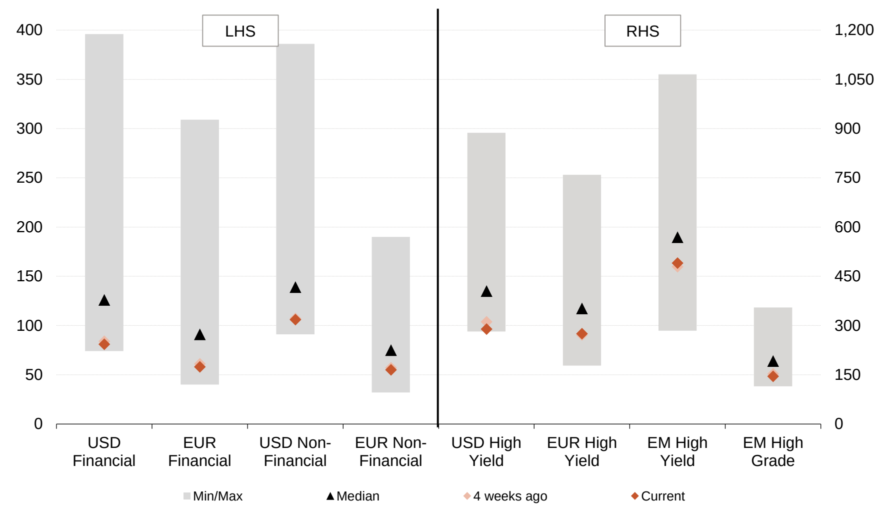
Credit Spreads High Yield and Emerging Markets Bonds



- In high-yield bonds, USD and EUR saw spreads continue to fall.
- Emerging high-yield bonds, on the other hand, failed to benefit from the risk-on environment and saw rising spreads. Over the past two weeks, spreads have risen above 10 basis points due to USD strength and continued Covid-19 constraints.

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 - 02/07/2021

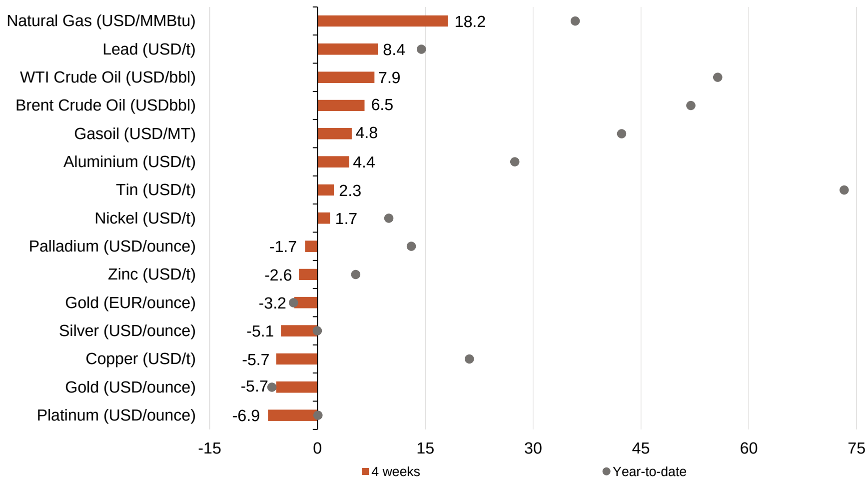
Historical Distribution of Credit Spreads (in bp)



- Spreads have fallen in the last four weeks in all segments except emerging market high-yield bonds. There, spreads are still well above the historical 10-year lows.

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: 02/07/2011 - 02/07/2021

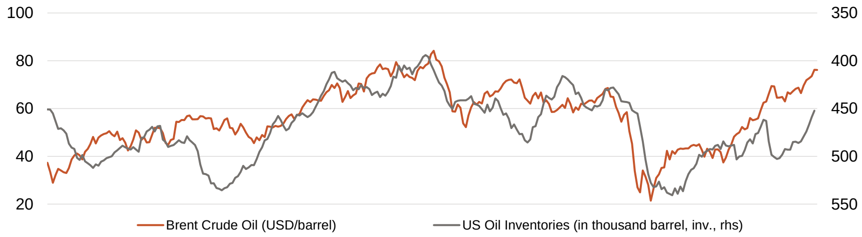
Commodities Performance

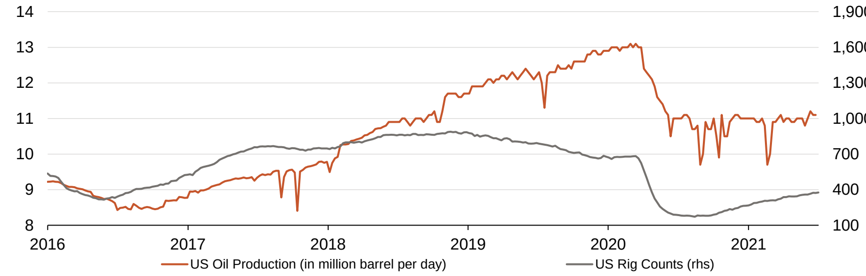


- Energy commodities continue to lead the commodity sector over the last four weeks. Rising travel activity and fewer lockdowns are boosting demand.
- The picture for industrial metals was mixed. Lead and aluminium gained. Copper, on the other hand, fell sharply, partly because speculative investors almost completely liquidated their net long positions.
- Precious metals have been the weakest performers both since the beginning of the year and over the last month.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2021 - 02/07/2021

Crude Oil

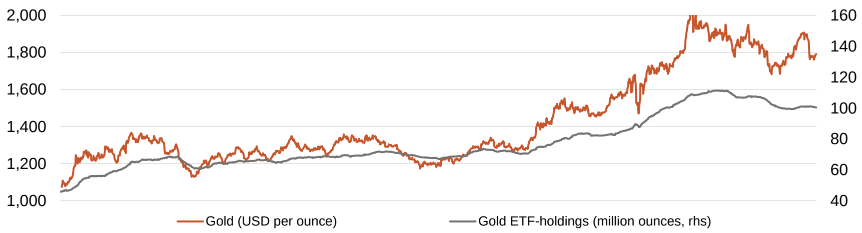


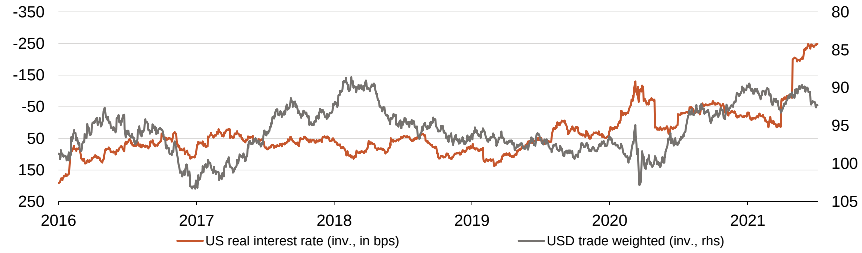


- Crude oil was able to make further gains in the last two weeks and cracked the USD 75 per barrel mark. Since the beginning of the year, the "black gold" has already gained more than 47%.
- The spread of just under USD 2 between Brent and WTI is strikingly low. This is probably due to the US' great thirst for oil. Stocks have fallen for the sixth week in a row and are now back at pre-crisis levels.

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 - 02/07/2021

Gold





- After the sell-off following the Fed meeting, gold has now stabilised at around USD 1,780 per ounce.
- Investors remain cautious after the setback. While ETF holdings stagnated, speculative investors reduced their positioning to the lowest level since June 2019.

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 - 02/07/2021

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IMPORTANT NOTICES

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