BERENBERG
Markets

MONITOR

19 July 2021

Current market commentary

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

The peak of economic growth rates is behind us and growth worries are back. At least, that's how it seems when you look at recent market developments. Despite massively rising consumer prices - especially in the US - defensive and growth stocks have recently been able to perform significantly better than value stocks. Yields on safe government bonds have fallen significantly - temporarily to 1.25% for 10-year US government bonds. The broad equity market, on the other hand, rose. The good news is that even if the peak of some economic indicators is behind us, equities should continue to perform positively in the medium term in a positive economic environment. However, after a strong first half of the year, we still expect a bumpy summer and limited upside potential until the end of the year. High valuations, Covid-19 fears, low trading volumes over the summer and high investor equity allocations argue against significantly rising markets for the time being.

Short-term outlook

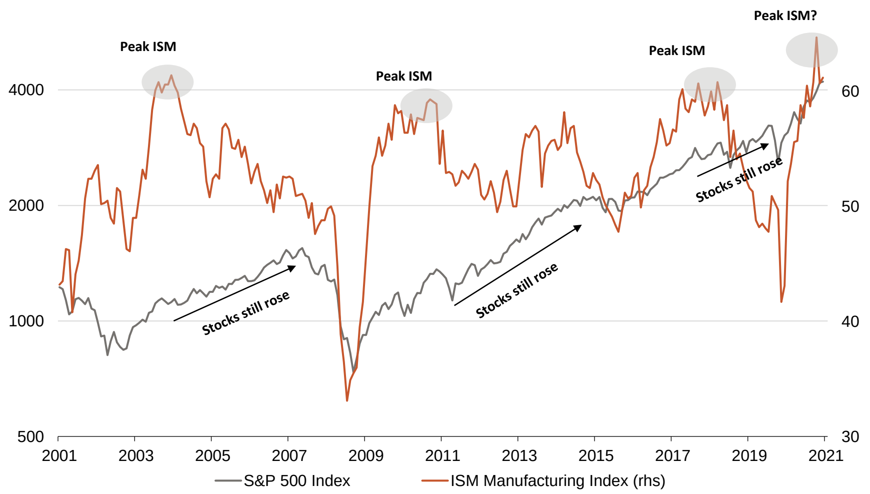
Central banks and corporate ratios are in investors' sights

The next few weeks will be revealing on both a macro and micro level. The ECB and the Fed will decide on the future monetary policy at their monthly meetings on 22 July and 28 July. At a micro level, more than 65% of the S&P 500 and more than 55% of the STOXX 600 companies (by market capitalisation) report their Q2 numbers in the next two weeks. The market expects year-on-year earnings growth of over 65% for the S&P 500 and over 105% for the STOXX 600 - so the bar is set high.

Economic data provide insight into the current strength of growth

Economic data also remain exciting amid market discussion of a slowdown in growth. This Friday, the preliminary Markit Purchasing Managers' Indices (Jul.) for the Eurozone, the US and the UK are due. In addition, retail sales (Jun.) for the UK will be published. The following week will see the Ifo index (Jul.) and inflation data (Jun.) for the eurozone and preliminary Q2 GDP data for several countries.

The high point of economic indicators is not high point of shares



- The markets are pricing in the fact that the economy has passed its peak. This is suggested above all by the recently better performance of growth stocks compared to value stocks and the falling yields on safe government bonds.
- However, this does not mean that the stock markets have already found their peak. As a rule, they continue to develop positively in the medium term even after the peak of economic indicators. In the short term, however, the potential is limited.

For further explanations see page 2 and page 6.
Source: Factset, Time period: 30/06/2001 – 30/06/2021

Multi Asset

	4-week & YTD: 4W (18/06/21 - 16/07/21)	4-week & YTD: YTD (31/12/20 - 16/07/21)	12-month periods over that last 5 years: 16/07/20 16/07/21	16/07/19 16/07/20	16/07/18 16/07/19	16/07/17 16/07/18	15/07/16 16/07/17
Industrial Metals	6.1	22.6	37.5	-4.9	2.5	4.4	10.3
REITs	4.6	26.1	28.1	-14.3	17.2	-0.5	-9.5
Gold	3.2	-1.2	-2.8	25.9	18.4	-1.1	-11.6
MSCI World	3.0	17.3	29.5	3.7	10.2	9.2	12.7
Brent	2.1	52.5	61.9	-34.7	-2.5	50.7	-11.5
Global Treasuries	1.1	-0.3	-2.3	3.8	9.4	-0.5	-6.8
Global Coporates	0.9	2.1	0.4	6.2	10.8	-1.3	-1.4
MSCI Frontier Markets	0.6	17.3	31.3	-14.3	9.7	0.5	14.8
USDEUR	0.5	3.5	-3.6	-1.5	4.5	-2.1	-3.8
Eonia	0.0	-0.3	-0.5	-0.4	-0.4	-0.4	-0.4
Global Convertibles	-0.6	6.7	26.8	12.2	7.9	6.1	11.3
MSCI Emerging Markets	-0.7	8.7	26.0	-0.6	6.0	2.4	19.1

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

- Over the last four weeks, the majority of asset classes have developed positively – only EM equity and convertible bonds lost in value.
- Industrial Metals and REITs have continued to perform well recently and are the strongest performing asset class after crude oil since the beginning of the year.
- The gold price is recovering after a weak start to the year and benefitted above all from falling real interest rates.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 14/07/2016 – 16/07/2021

Equities

	4-week & YTD: 4W (18/06/21 - 16/07/21)	4-week & YTD: YTD (31/12/20 - 16/07/21)	12-month periods over that last 5 years: 16/07/20 16/07/21	16/07/19 16/07/20	16/07/18 16/07/19	16/07/17 16/07/18	15/07/16 16/07/17
S&P 500	4.5	20.2	32.0	7.3	14.3	13.6	12.1
Stoxx Europe Small 200	1.6	17.0	36.8	-2.4	0.8	7.4	22.6
Stoxx Europe Cyclicals	1.1	17.1	31.8	-4.3	0.1	0.0	32.9
MSCI UK	0.6	16.3	22.7	-16.1	2.0	5.4	9.9
DAX	0.6	13.3	20.7	3.6	-1.0	-0.6	25.5
Stoxx Europe Defensives	0.3	11.7	9.6	4.2	6.2	5.1	2.6
Stoxx Europe 50	0.2	15.6	17.7	-1.1	7.5	0.3	14.1
Topix	0.0	5.6	17.5	2.5	0.4	6.8	14.0
MSCI EM Eastern Europe	-0.6	20.0	28.0	-16.6	23.2	11.2	15.8
MSCI EM Asia	-0.8	6.9	25.6	8.6	2.5	4.1	22.4
Euro Stoxx 50	-1.1	15.3	22.1	-2.4	4.9	0.4	22.2
MSCI USA Small Caps	-1.6	16.2	44.3	-6.8	2.6	15.9	13.3

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.

- The S&P 500 - driven by strong US technology stocks - performed the best in the last four weeks.
- European equities, on the other hand, weakened due to rising incidence figures and a cooling of the economic recovery momentum.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 14/07/2016 – 16/07/2021

Fixed Income

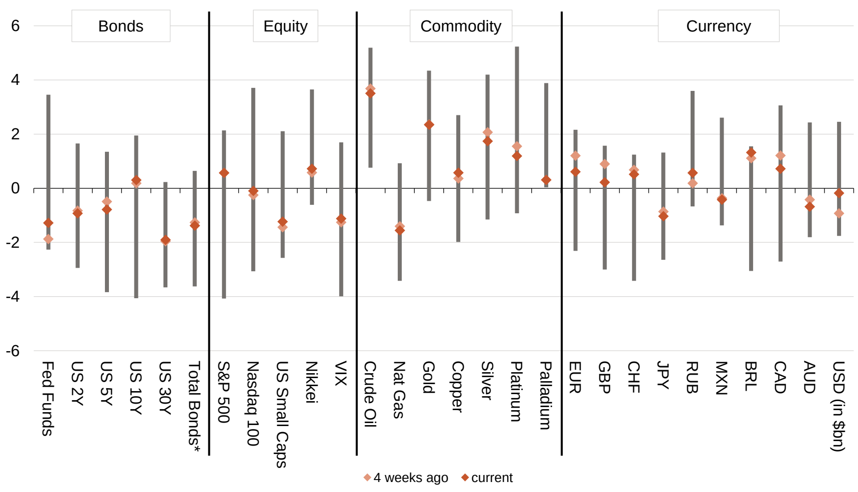
	4-week & YTD: 4W (18/06/21 - 16/07/21)	4-week & YTD: YTD (31/12/20 - 16/07/21)	12-month periods over that last 5 years: 16/07/20 16/07/21	16/07/19 16/07/20	16/07/18 16/07/19	16/07/17 16/07/18	15/07/16 16/07/17
EUR Inflation Linkers	1.7	2.8	7.2	-0.1	3.4	3.9	-1.5
Gilts	1.6	-0.2	0.5	10.6	3.9	1.5	-6.0
USD High Yield	1.3	6.7	7.5	-1.0	12.5	0.2	4.9
Treasuries	1.2	1.8	-6.0	9.7	11.1	-2.7	-5.2
USD Corporates	1.1	3.2	-1.2	9.6	14.2	-2.5	-1.8
BTPs	1.1	-0.8	4.8	4.2	9.6	-0.3	-4.0
Bunds	0.9	-1.7	-1.1	1.6	4.8	2.3	-4.1
EUR Non-Financials	0.7	0.0	3.4	-0.1	5.0	1.4	-0.6
EM Local Currency Bonds	0.6	2.7	3.9	-1.6	12.9	-3.7	0.4
EUR Financials	0.5	0.4	3.4	-0.2	4.8	1.0	1.9
EM Hard Currency Bonds	0.2	-1.4	3.6	-1.2	6.7	-2.2	1.4
EUR High Yield	0.1	2.9	9.7	-2.3	3.7	1.3	6.4

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

- Most bond segments have developed positively in the last four weeks thanks to falling yields.
- EUR inflation-indexed bonds were the best performers in the last four weeks.
- USD bonds benefitted from falling yields and, above all, from the strong US dollar.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 14/07/2016 – 16/07/2021

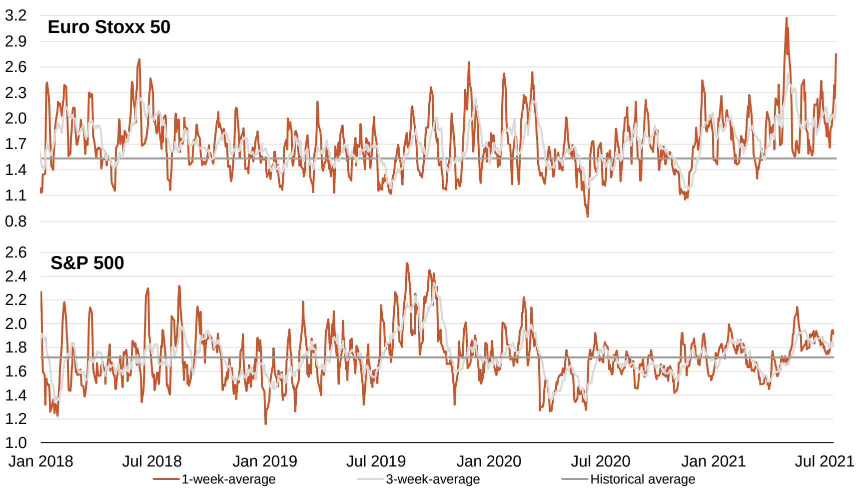
Non-Commercial Positioning



- Speculative investors have not significantly increased their shorts on US government bonds in recent weeks despite significantly rising US inflation.
- In the currency market, USD and RUB were more in demand, while EUR and GBP were reduced.

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: 13/07/2011 - 13/07/2021

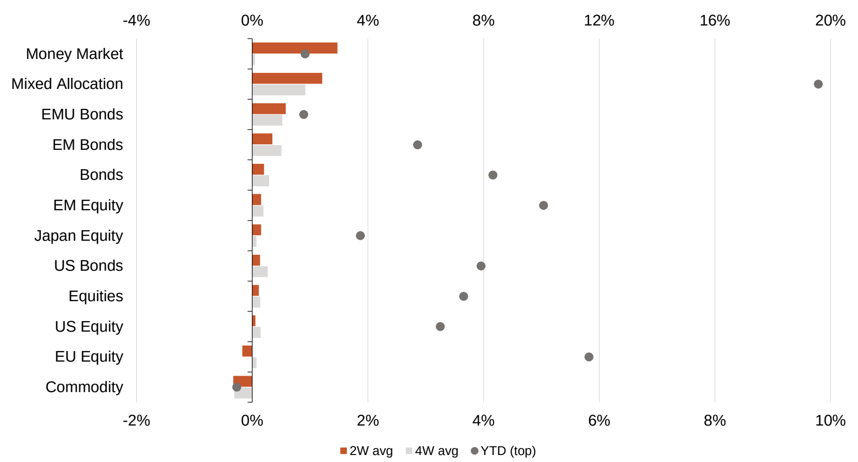
Put-Call Ratio



- In recent weeks, the put-call ratio at the index level has risen more strongly again, which indicates increased hedging by market participants.
- The historically higher level - especially in Europe - indicates an increased risk awareness of market participants.

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 - 16/07/2021

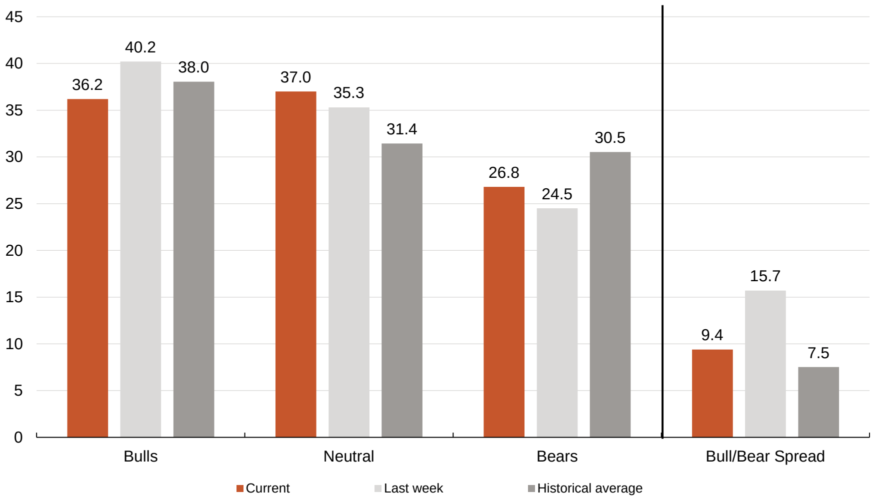
ETF Flows



- In the last two weeks, demand for money market ETFs has increased significantly.
- Demand for multi-asset and bond ETFs also continued to rise, while inflows into pure equity ETFs tended to stagnate. Investors in ETF markets were more 'risk-conscious' in recent weeks.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 - 16/07/2021

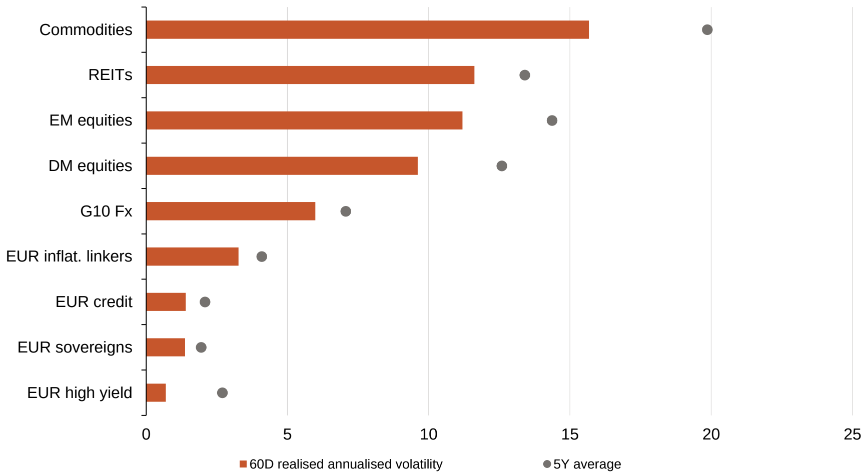
AAII Sentiment Survey (Bulls vs Bears)



- The sentiment of US private investors has deteriorated slightly over the past few weeks. Euphoria has now turned into average optimism. At 9.4 ppts, the bull/bear spread is at its lowest level since the beginning of February.

The sentiment survey conducted by the American Association of Individual Investors determines the percentage of private investors who are optimistic, pessimistic or neutral regarding the US equity market outlook for the upcoming six months. It has been carried out since 1987. The survey is conducted from Thursday to Wednesday and the results are published every Thursday. For the stock market, it tends to be supportive when there is a high proportion of bears and a low proportion of bulls. However, it is a negative indicator when there are significantly more optimists than pessimists.
Source: Bloomberg, AAII, Time period: 23/07/87 – 15/07/21

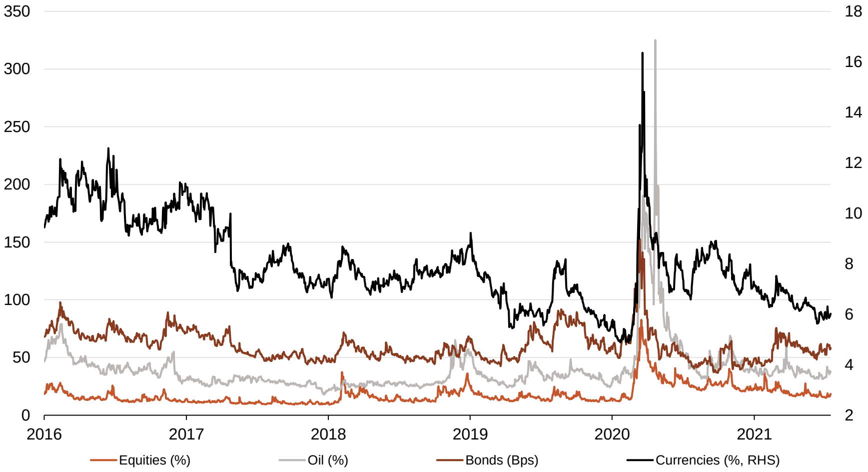
Realised Volatilities



- Realised volatilities are largely unchanged compared to two weeks ago.
- The realised volatility of developed market equities has been consistently below the 10% mark since mid-June, which is historically low.
- Thanks to further narrowing of spreads, high-yield bonds have been able to absorb interest rate movements and have thus been the asset class with the lowest volatility since the beginning of February.

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: 16/07/2016 – 16/07/2021

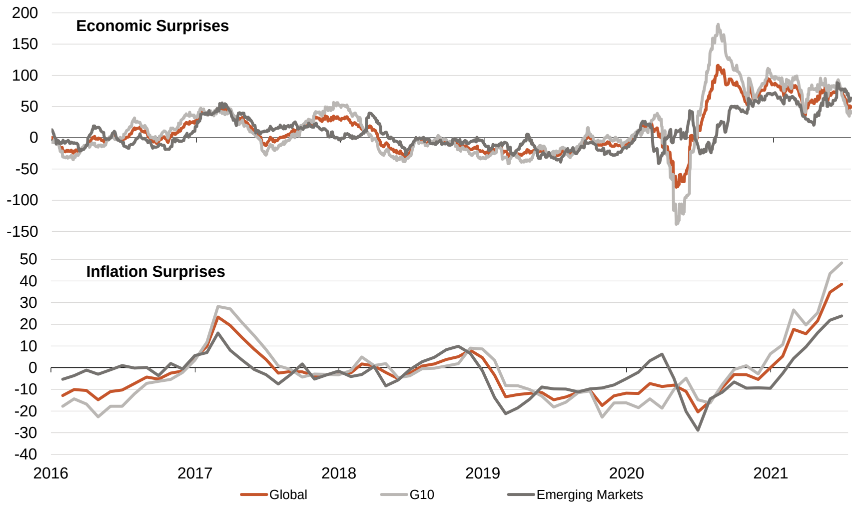
Implied Volatilities



- The VIX is currently at 17%, roughly the average of the last 10 years. The situation is different for the VIX futures. Here, all contracts from August onwards are trending above the 20% mark. Investors therefore remain cautious and are buying hedges at an index level.

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 - 16/07/2021

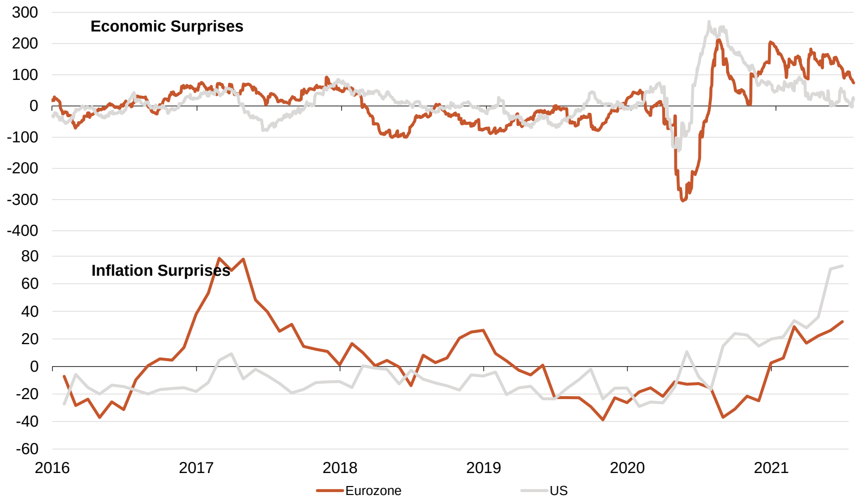
Global



- The positive economic surprises retreating. Most recently, there have been fewer positive surprises at a global level in the industrialized nations (G10) as well as the emerging markets, than in the spring.
- The emerging markets still look better. In China, Q2 economic growth was slightly below expectations, but retail sales, industrial production and exports surprised positively in June.
- Inflation data recently surprised significantly on the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 16/07/2021

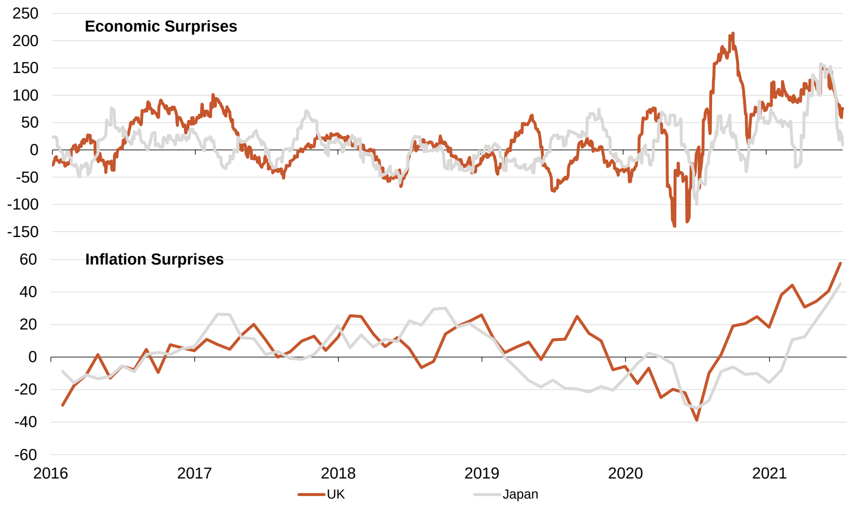
Eurozone and US



- In the US, the positive and negative economic surprises still balance each other out.
- The Eurozone, on the one hand, continued to impress with positive surprises, even if they have decreased. In Germany, on the other hand, faced negative surprises recently. The ZEW index, industrial production, incoming orders and exports were all below expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 16/07/2021

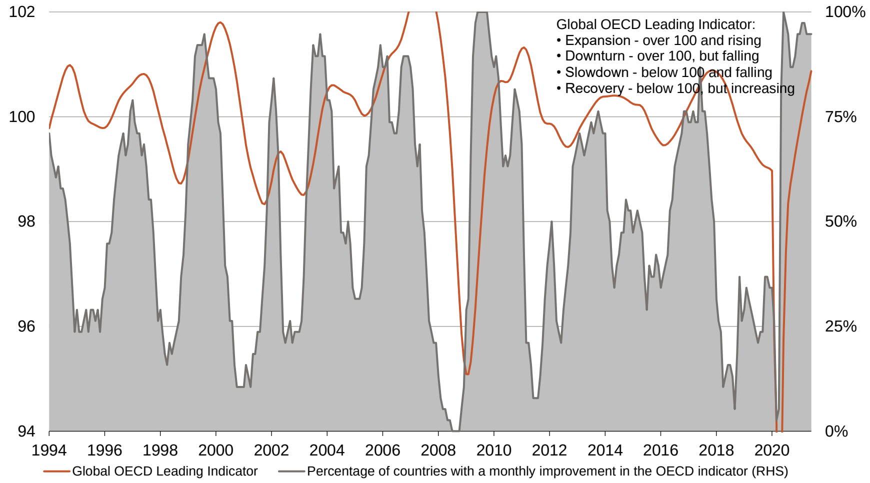
UK and Japan



- In the UK, the Purchasing Managers' Indices recently surprised on the upside, while production data disappointed.
- In Japan, mechanical engineering orders recently surprised on the upside.

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 - 16/07/2021

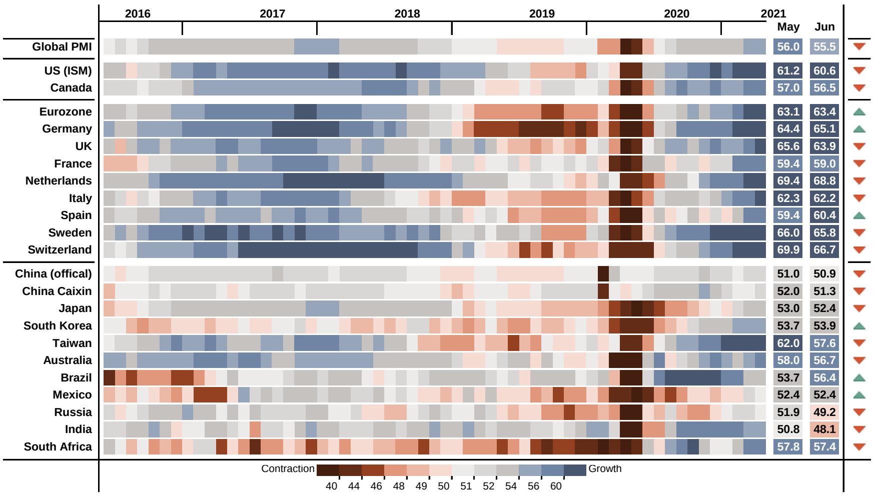
OECD Leading Indicator



- Economic expansion continues, although it is likely to lose some momentum. In June, the OECD indicator rose to 100.87 from 100.66 in May.
- The expansion is also broad-based as - 95% of the countries covered saw an improvement in the indicator from the previous month.

The OECD Leading Indicator is composed of a series of selected economic indicators whose composition provides a robust signal for future turning points. A turning point in the indicator usually signals a turning point in the economic cycle in 6-9 months. However, lead times are sometimes outside this range and turning points are not always correctly detected.
Source: Bloomberg, Time period: 31/01/1994 – 30/06/2021

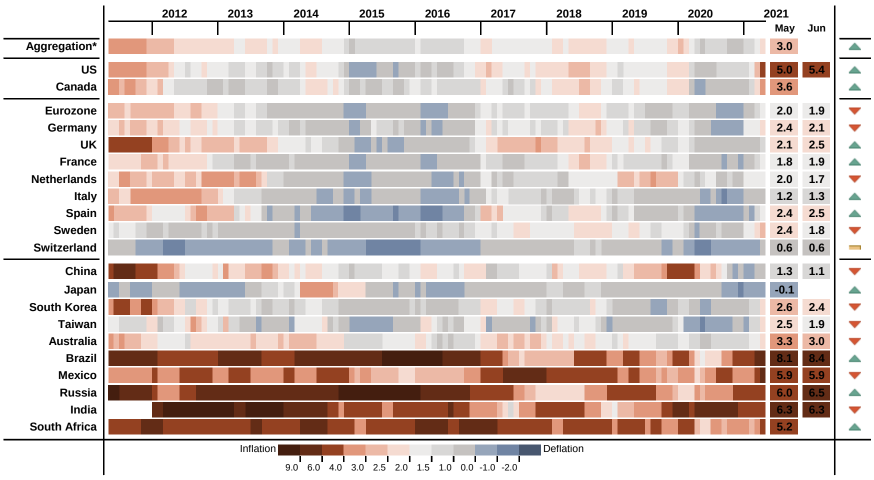
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- PMIs remain above 50 in most regions and even above 60 in the bulk of Western countries, indicating significant economic growth. In the Eurozone, Germany and Spain, the 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: 30/06/2016 – 30/06/2021

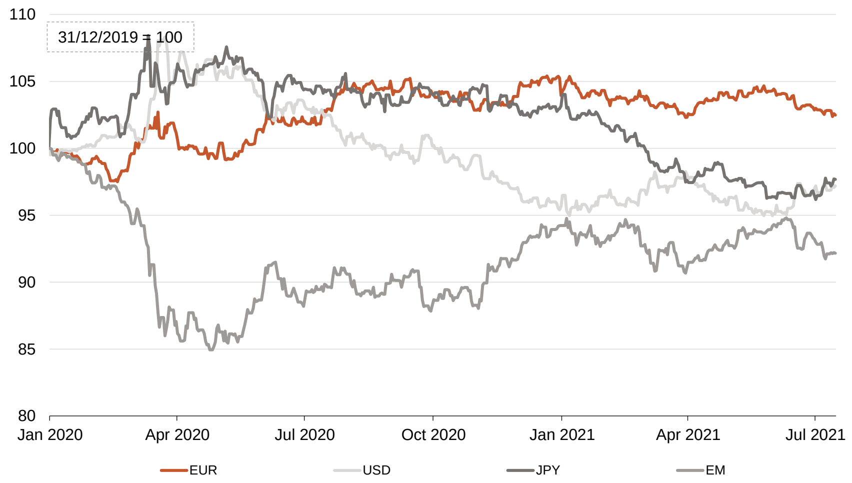
Headline Inflation



- The US saw another sharp rise in consumer prices in June, which could be a sign that the elevated inflation rates are not just temporary.
- But it is not only in the US that prices are rising significantly. In the UK, inflation rose to 2.5% in June.
- In China, on the other hand, remains at a low single-digit level.

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

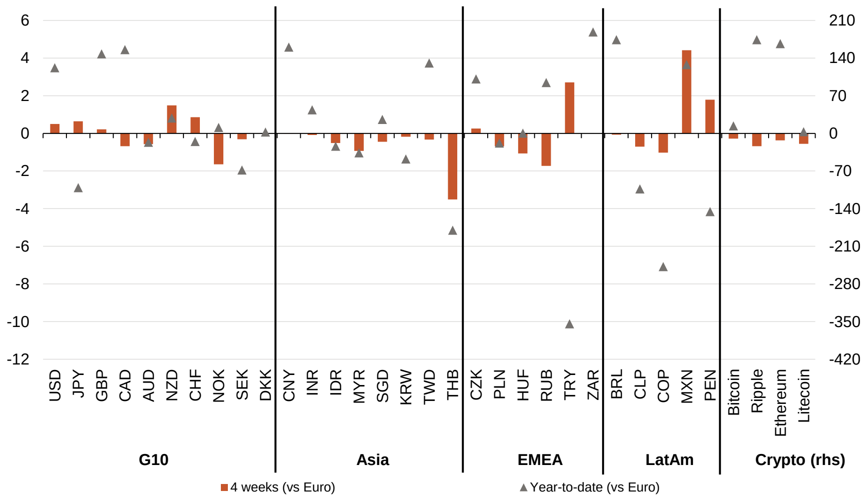
Trade-Weighted Currency Development



- The risk-off sentiment dominated currency markets in the last two weeks with COVID-19 cases rising globally again. Accordingly, the Japanese yen in particular was able to appreciate, while emerging market currencies from Latin America came under pressure.

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 - 16/07/2021

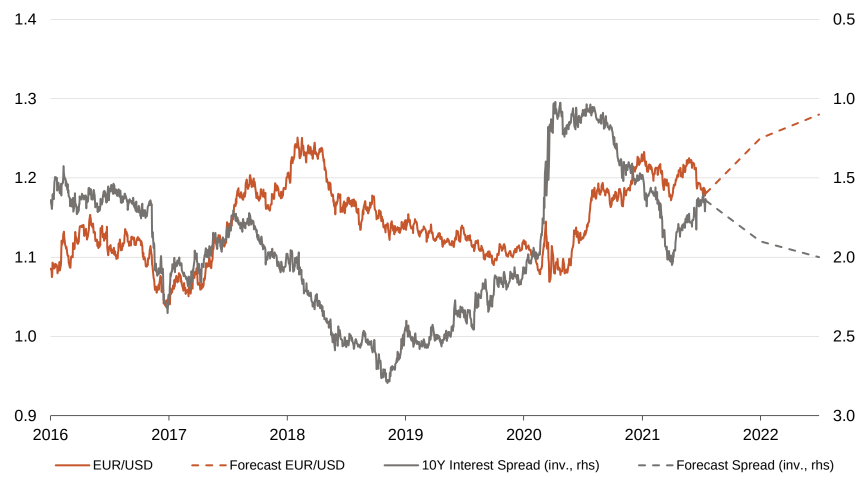
Currency Moves vs Euro



- The picture of currency moves against the euro over the last month is mixed.
- Among the G10 currencies, commodity currencies such as the Canadian dollar, the Australian dollar and the Norwegian krone have weakened. Safe havens such as the US dollar and the Japanese yen were ahead.
- Although China's economic indicators are weaker than the ones in the euro zone, the renminbi is one of the strongest currencies year to date.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2020 - 16/07/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD exchange rate temporarily fell below the 1.18 mark in the last two weeks.
- Fed Chairman Powell's hearing and the ECB policy review both struck slightly dovish tones but they were not enough to push the exchange rate noticeably in either direction.

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

	4W (18/06/21 - 16/07/21)	YTD (31/12/20 - 16/07/21)	16/07/20 16/07/21	16/07/19 16/07/20	16/07/18 16/07/19	16/07/17 16/07/18	15/07/16 16/07/17
Materials	4.4	18.9	36.3	2.3	1.5	10.1	27.1
Information Technology	4.1	23.8	33.3	15.0	5.7	16.1	27.9
Growth	2.0	17.5	25.7	6.8	8.1	4.1	12.9
Health Care	2.0	15.2	7.9	20.3	10.2	-1.6	2.5
Industrials	1.8	18.3	36.0	-0.3	4.7	2.6	25.1
Consumer Staples	1.1	13.0	14.8	-2.3	12.4	-3.0	5.4
Utilities	0.7	1.3	8.2	16.1	13.9	4.1	2.7
Telecommunications	0.1	15.2	17.1	-11.8	0.2	-10.3	0.6
Value	-0.8	13.8	22.6	-13.8	0.7	-0.3	22.0
Finance	-2.2	15.3	25.5	-17.4	-0.5	-7.7	42.9
Consumer Discretionary	-2.5	17.7	46.0	-7.9	4.0	5.1	20.0
Energy	-4.1	13.1	15.2	-37.0	-0.7	29.9	1.6

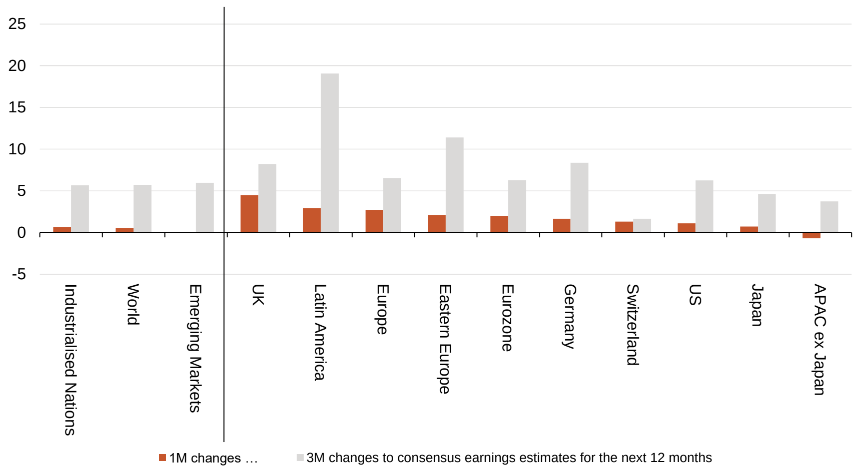
4-week & YTD | 12-month periods over that last 5 years

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 worst performers over the last four weeks have been several cyclical sectors, most notably energy, despite the fact that the oil price remains high.
- The picture at the top of the rankings is more ambiguous. Both defensive and growth-tilted sectors (e.g. IT, healthcare) and cyclical areas (basic materials, industrials) were able to make gains.

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: 16/07/2016 – 16/07/2021

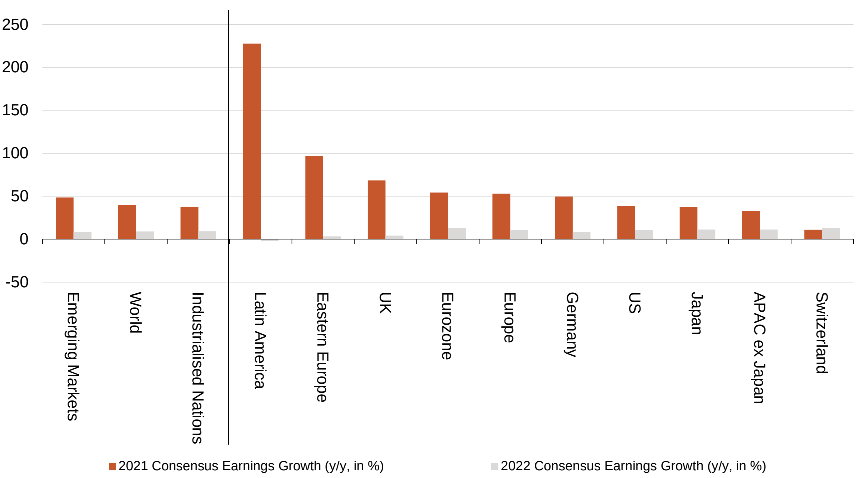
Changes in Consensus Earnings Estimates



- Analysts' earnings estimates for the next year have stagnated over the last month, after rising strongly in the previous months.
- Negative earnings revisions were only seen in emerging markets, although a regional distinction must be made here. While earnings estimates were raised further in Latin America and Eastern Europe, they fell in Asian emerging markets.

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 16/07/2021

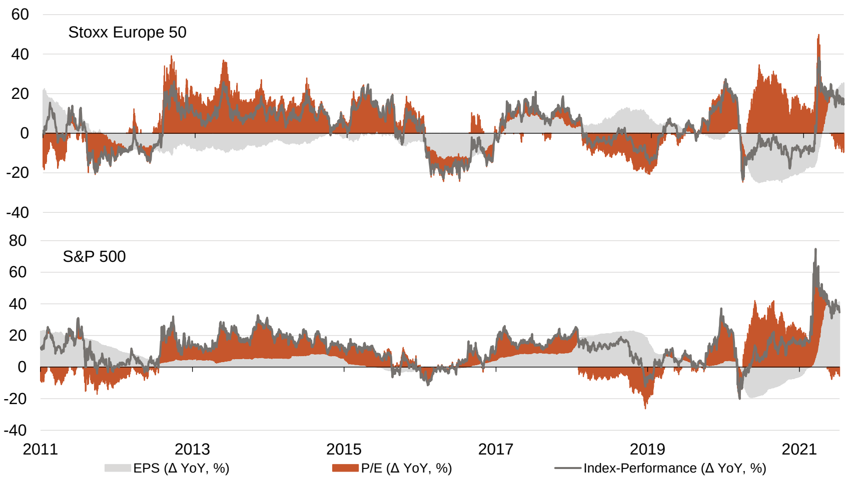
Earnings Growth



- Although earnings estimates for emerging markets have come down slightly, earnings growth for this year remains the strongest at around 50%.
- For next year, analysts see the strongest earnings growth in the Eurozone respectively Europe.

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 16/07/2021

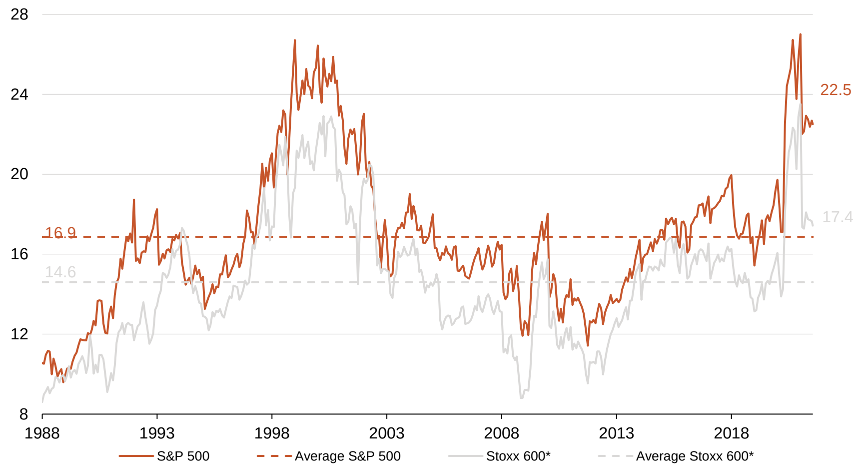
Contribution Analysis



- Equity markets have been driven primarily by earnings growth in recent months, so that even as prices have risen, equities have been able to grow slightly into their valuations.
- Earnings growth in the US is higher than in Europe, yet valuations in the latter have fallen more sharply year-on-year.

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 - 16/07/2021

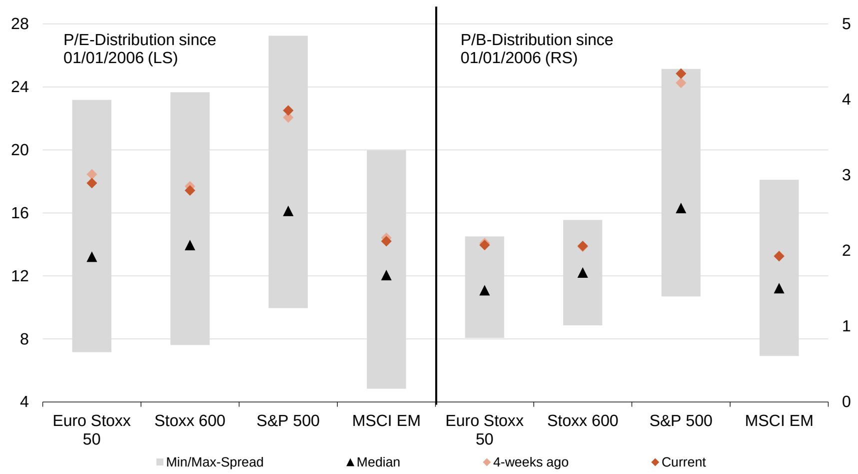
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Equities are climbing from peak to peak. At the same time, however, positive earnings revisions continued and so valuations are currently stagnating at a high level.
- The Q2 reporting season has only recently picked up speed, but of the few companies that have reported, the vast majority have once again beaten analysts' earnings expectations.

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 - 16/07/2021

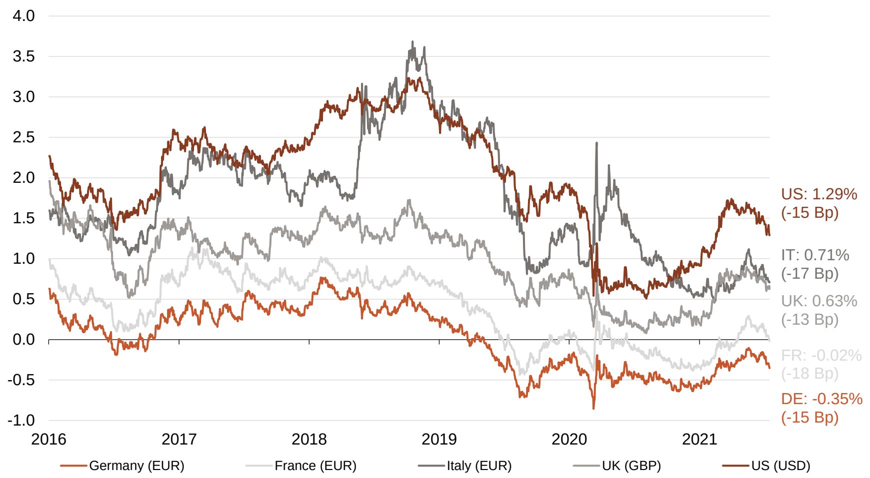
Historical Distribution: Price/Earnings and Price/Book Ratio



- Valuations on an earnings basis have fallen slightly in the last four weeks for Europe and emerging markets. Only in the US has the P/E ratio risen over the last month.
- Asset based valuations have also risen in the US and are currently at their highest level since 2006.

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 - 16/07/2021

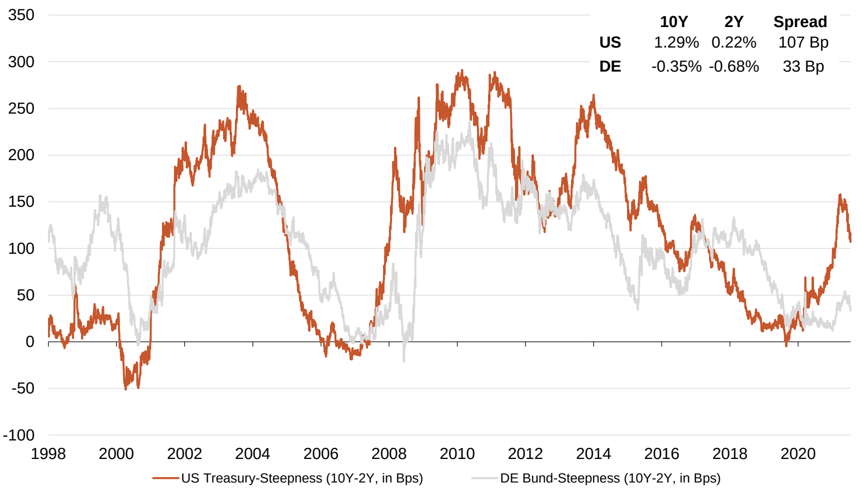
10-Year Government Bond Yields



- Despite inflation data continuing to rise, yields have recently fallen further. Central banks continued to convince market participants that inflation is only temporary, which is reflected in the tendency of inflation expectations to fall.
- In addition, some disappointing economic data from China raised initial growth concerns. In the last four weeks, interest rates have fallen by more than 10 bps in all shown countries.

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 - 16/07/2021

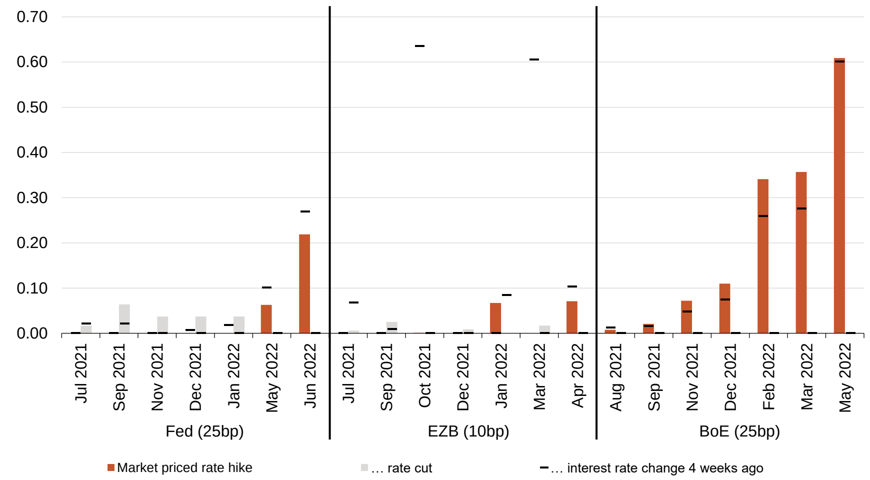
Yield Curve Steepness (10Y - 2Y)



- The steepness of yield curves also fell in the last two weeks in both the US and Germany. Thus, at least the bond market is already pricing in an economic slowdown. Further economic and inflation figures should show whether this is the case. In our opinion, another significant increase in the steepness cannot be ruled out.

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 - 16/07/2021

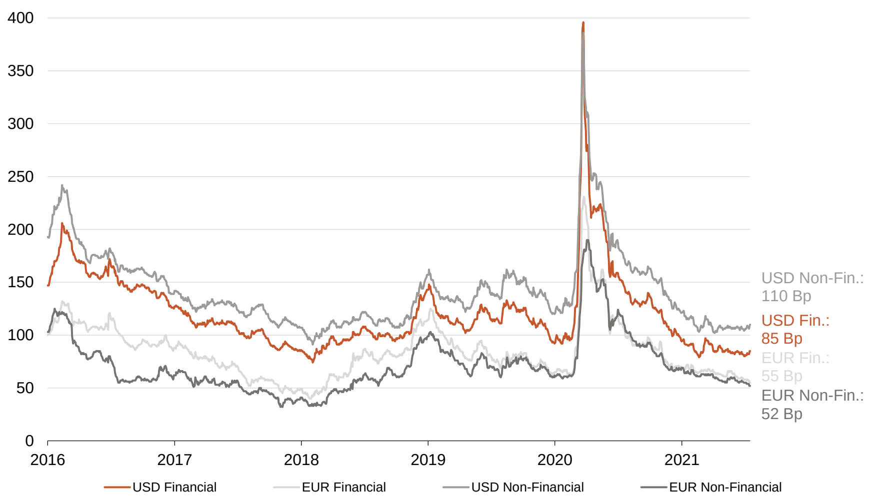
Implicit Changes in Key Interest Rates



- Despite the still dovish US central bank and rising inflation, the market expects the Fed to raise interest rates by over 20% by mid-2022. In the UK, the market even expects a rate hike of over 60% by mid-2022. In both countries we have recently seen prices rise significantly.
- In the Eurozone, the market only expects a rate hike by mid-2022 with a probability of around 10%.

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: 18/06/2021 - 16/07/2021

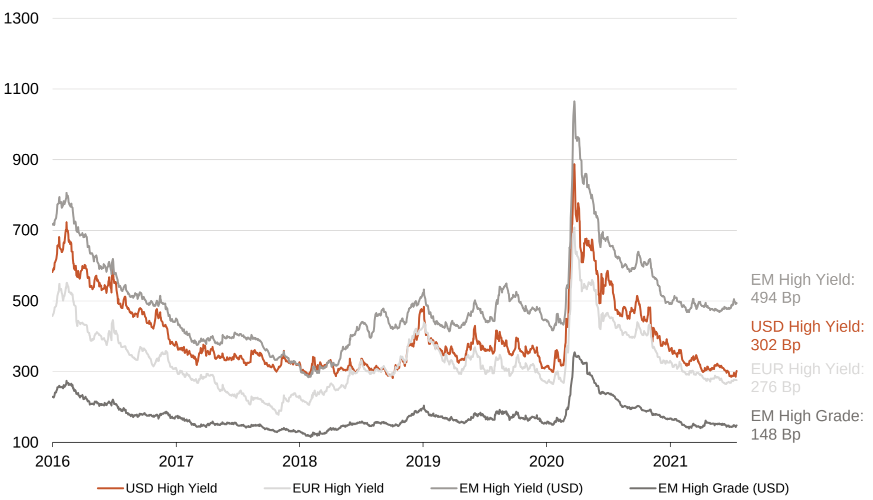
Credit Spreads Financial and Non-Financial Bonds



- The sideways trend in spreads on investment-grade corporate bonds continues. In the last two weeks, there has been no significant movement in any of the segments shown. In the case of USD corporate bonds, spreads have only risen by up to 4 bps, while they have fallen by up to 3 bps in the case of EUR corporate bonds.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 – 16/07/2021

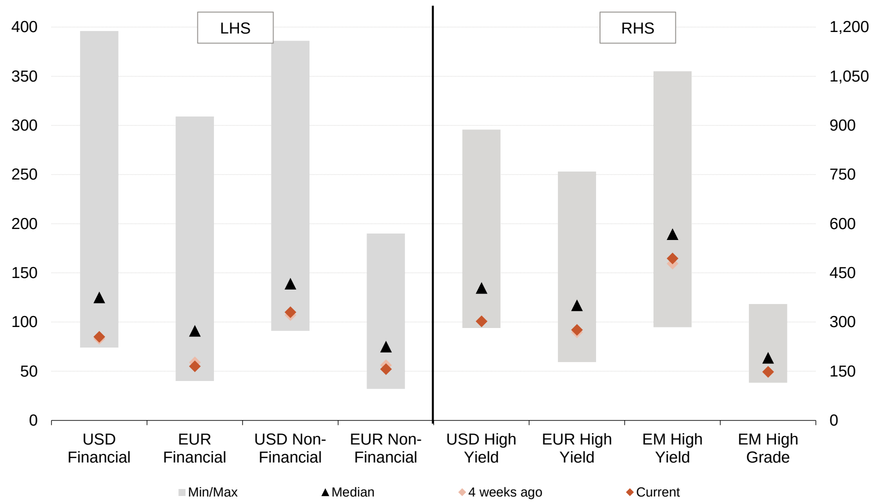
Credit Spreads High Yield and Emerging Markets Bonds



- In high-yield and emerging market bonds, on the other hand, spreads have risen slightly in recent weeks. The spread of the Covid-19 delta variant seems to be at least curbing investors' appetite for risk.
- USD high-yield bonds saw spreads widen by more than 5 bps, while EUR and EM high-yield bonds saw spreads widen by less than 5 bps.

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 – 16/07/2021

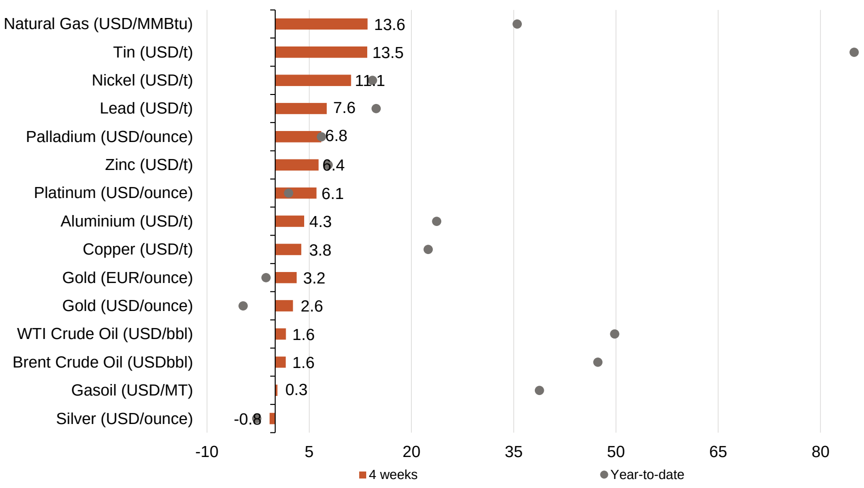
Historical Distribution of Credit Spreads (in bp)



- The trend of broadly falling spreads seems to have been broken for the time being. In the last four weeks, USD-financial, USD-non-financial and high-yield bonds all saw slightly rising spreads again.

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: 16/07/2011 – 16/07/2021

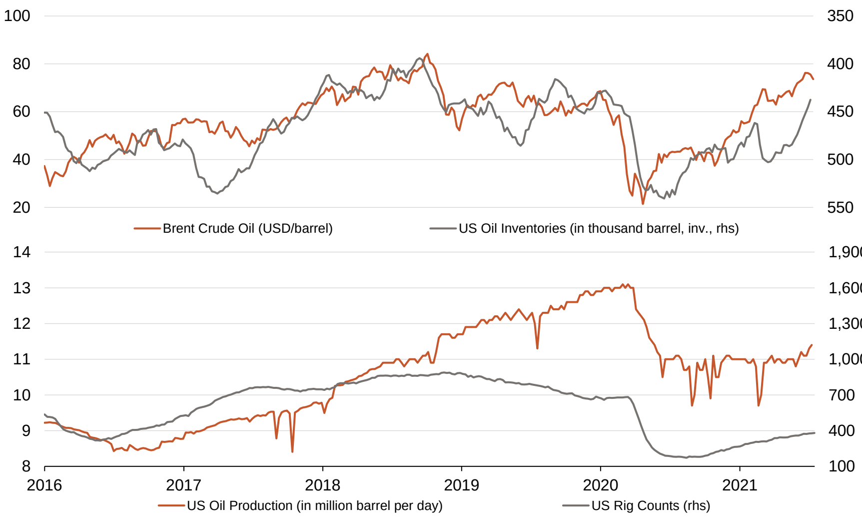
Commodities Performance



- In commodity markets, industrial metals in particular posted strong gains over the past four weeks.
- Tin has even been far ahead of crude oil since the beginning of the year. The metal, which is often used in electronics manufacturing for soldering, has already gained 80%.
- Silver was the weakest performer due to the strengthening US dollar following the FOMC meeting last month.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2021 - 16/07/2021

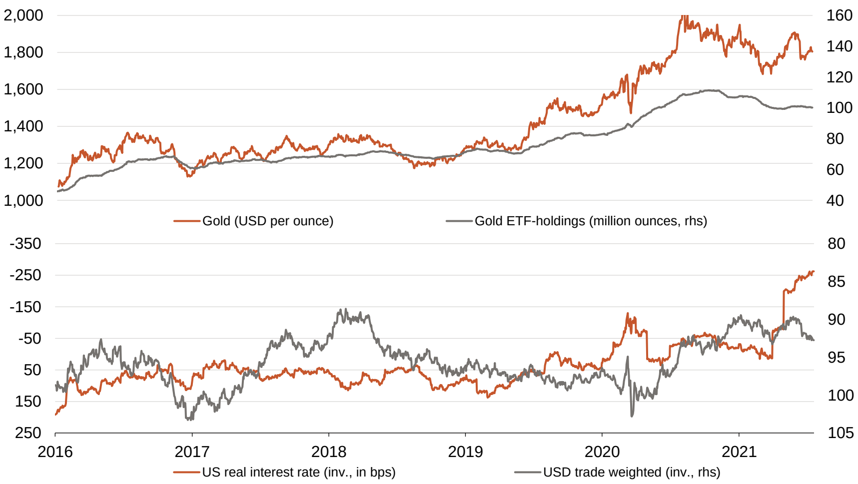
Crude Oil



- Crude oil recently was volatile and moved sideways. In addition to increasing concerns about the spread of the delta variant, the conflict between Saudi Arabia and the United Arab Emirates about how to proceed from April 2022 dominated markets. Now both parties seem to have reached an agreement, so that OPEC+ is likely to finalise an agreement on the urgently needed production increases for this year in the coming weeks.

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 -16/07/2021

Gold



- Gold was able to regain some ground in recent weeks after the price loss in the wake of the FOMC meeting and is currently trading at around USD 1,825 per ounce.
- Support was provided from falling real interest rates, so that gold gained despite a firmer US dollar.

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 - 16/07/2021

BERENBERG
PARTNERSHIP SINCE 1590

PUBLISHING INFORMATION

PUBLISHER

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

EDITORS

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

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

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

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

The Berenberg Markets series includes the following publications:

► Monitor
Focus
Investment Committee
Minutes

www.berenberg.de/en/publications

IMPORTANT NOTICES

Date: 19 July 2021

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