BERENBERG Markets

MONITOR

09 August 2021

Current market commentary

While there is little to see at the index level and the S&P 500 is even at an all-time high, there is plenty of movement below the surface. Cyclical sectors have tended to be among the underperformers in the last 2-3 months, despite positive earnings revisions, as the rise in COVID-19 cases has dented investor sentiment. Technology stocks, on the other hand, rallied strongly. Bond yields on safe government bonds continued to fall. In addition to future central bank policy, the decisive factor for the further development of stock markets is the extent to which the spread of the Delta variant burdens economic growth. Currently the risk still seems low, but if there is no containment, the optimistic consensus economic forecasts will probably have to be revised downwards. Many market participants have already become more cautious and have hedged, which is why the stock market should have a hard time falling significantly without an external trigger.

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

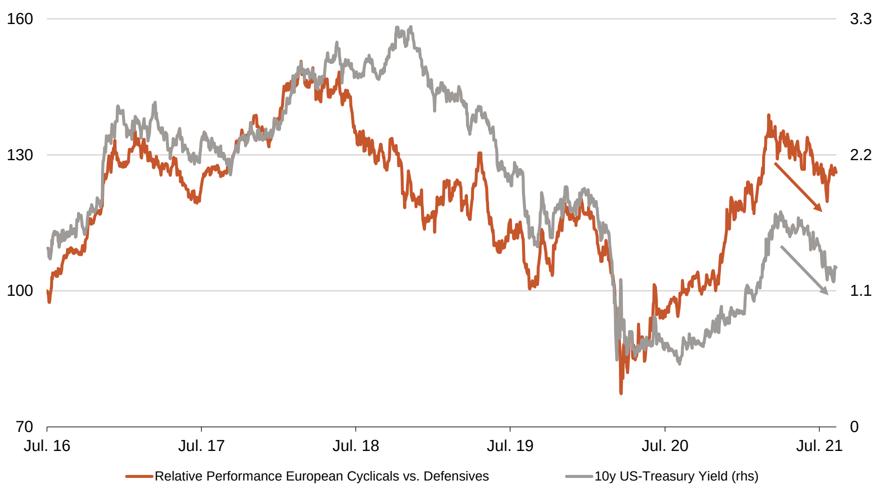
Strong Q2 reporting season comes to an end.

The better-than-expected Q2 reporting season is slowly coming to an end. In the S&P 500, over 400 companies have already reported. More than 80% of these companies beat earnings expectations. Monetary policy should also be quiet in the next two weeks, as the Fed Economic Forum (Jackson Hole) will not take place until the end of August and the ECB will not meet until early September.

Consumer price inflation in the US is likely to move the market.

On the other hand, the economic situation is likely to remain exciting. On Tuesday, the ZEW Indicator of Economic Sentiment (Aug.) for Germany and on Wednesday consumer price inflation for the US will be released. Industrial production data (Jun.) for the UK and the Eurozone as well as preliminary UK Q2 economic growth will follow on Thursday. US consumer confidence (Uni Michigan, Aug.) will be released on Friday and US retail sales (Jul.), US industrial production data (Jul.) and the Empire Manufacturing Index (Aug.) the following week.

Under the surface, equities are also pricing in less economic optimism



- The 10-year US government bond yield has fallen by more than 50 bps since May. Besides the Fed and short-covering, increasing COVID-19 and economic concerns were also a trigger for this.
- Stock markets continued to rise, also in Europe, but under the surface there was a clear outperformance of defensive over cyclical sectors. Recently, however, the trend has turned slightly again. The big question is whether bond yields will rise again by the end of the year. We believe they will.

Source: Bloomberg, own calculations
Time period: 06/08/2016 - 06/08/2021

Multi Asset

	4W (09/07/21 - 06/08/21)	YTD (31/12/20 - 06/08/21)	06/08/20 06/08/21	06/08/19 06/08/20	06/08/18 06/08/19	06/08/17 06/08/18	05/08/16 06/08/17
MSCI Frontier Markets	3.5	20.7	39.4	-16.5	5.5	6.2	13.9
MSCI World	2.5	20.8	34.6	7.3	3.0	13.6	10.2
REITs	2.4	27.8	29.7	-13.4	13.0	3.2	-10.6
Industrial Metals	2.3	24.7	39.6	-1.7	-2.1	4.5	12.9
Global Treasuries	1.4	0.4	-0.5	0.4	11.2	0.8	-8.6
Global Coporates	1.1	2.7	1.9	3.2	11.7	0.9	-2.9
USDEUR	1.0	3.9	1.0	-5.7	3.1	1.9	-5.8
Global Convertibles	0.6	9.2	28.4	15.4	5.0	9.4	7.2
Eonia	0.0	-0.3	-0.5	-0.5	-0.4	-0.4	-0.4
MSCI Emerging Markets	-0.8	5.4	20.2	9.8	-3.8	4.4	16.3
Gold	-1.5	-3.5	-13.7	31.9	26.0	-2.3	-11.3
Brent	-4.0	49.0	58.2	-29.5	-13.7	52.3	-0.2

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

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.

- On a monthly basis two unusual pictures emerged in markets. Firstly, commodities performed among the best (industrial metals) as well as the worst (Brent, Gold). Secondly, both equities and government bonds were able to make gains. Across asset classes, markets currently seem inconsistent in their economic outlook.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 06/08/2016 – 06/08/2021

Equities

	4W (09/07/21 - 06/08/21)	YTD (31/12/20 - 06/08/21)	06/08/20 06/08/21	06/08/19 06/08/20	06/08/18 06/08/19	06/08/17 06/08/18	05/08/16 06/08/17
Stoxx Europe Cyclicals	3.9	22.8	40.4	2.5	-8.9	1.8	29.0
Stoxx Europe Small 200	3.6	22.1	40.9	4.5	-4.9	7.6	19.5
Euro Stoxx 50	2.7	19.3	31.2	0.5	-2.9	2.0	21.0
S&P 500	2.6	23.9	35.9	11.7	6.5	19.3	9.3
Stoxx Europe 50	2.1	18.5	25.8	0.3	-0.3	3.7	12.6
Topix	1.8	5.8	22.9	0.9	-4.2	9.7	12.9
Stoxx Europe Defensives	1.8	14.2	18.2	1.5	1.2	8.2	3.1
MSCI EM Eastern Europe	1.8	23.1	30.6	-11.6	15.3	14.0	14.4
MSCI UK	1.4	19.5	30.1	-12.6	-5.2	6.5	8.0
DAX	0.5	14.9	25.2	8.8	-8.2	2.4	18.6
MSCI USA Small Caps	0.2	21.5	48.8	-2.1	-3.0	21.9	8.2
MSCI EM Asia	-1.5	2.8	17.4	21.5	-6.2	4.9	19.5

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

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.

- Over the last four weeks, almost all stock indices shown here have experienced gains. The only exception is Asian emerging market equities. This is mainly due to the current wave of regulation in China. As a result, the affected tech giants based there, typically index heavyweights, had to fall, in some cases significantly.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 06/08/2016 – 06/08/2021

Fixed Income

	4W (09/07/21 - 06/08/21)	YTD (31/12/20 - 06/08/21)	06/08/20 06/08/21	06/08/19 06/08/20	06/08/18 06/08/19	06/08/17 06/08/18	05/08/16 06/08/17
Gilts	2.7	1.9	1.7	10.5	5.8	2.0	-8.8
EUR Inflation Linkers	2.2	4.5	6.9	0.1	5.9	1.6	-0.6
EM Local Currency Bonds	1.8	3.5	7.0	-2.8	9.9	-0.6	-2.1
Bunds	1.4	-0.9	-0.8	-0.1	7.2	1.4	-3.7
BTPs	1.3	0.1	3.9	5.3	12.2	-3.5	-3.4
Treasuries	1.2	2.3	-2.7	3.8	13.0	0.4	-7.4
USD Corporates	1.2	3.6	1.6	4.6	14.9	1.0	-3.5
EUR Non-Financials	0.9	0.6	3.0	-0.2	5.9	0.7	-0.4
USD High Yield	0.7	7.2	9.2	-1.6	9.5	4.3	3.1
EUR Financials	0.7	0.8	3.0	-0.1	5.4	0.1	2.3
EUR High Yield	0.5	3.3	8.7	-1.0	3.3	0.8	6.6
EM Hard Currency Bonds	0.2	-1.3	0.7	1.3	7.4	-3.3	2.2

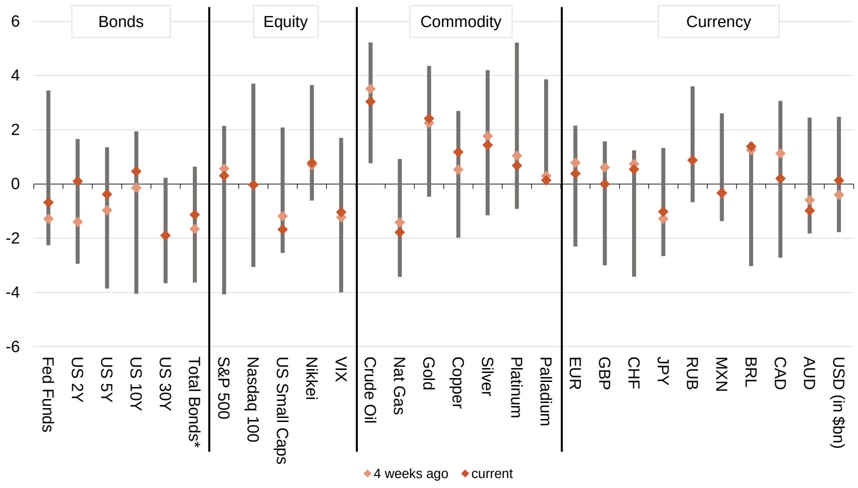
4-week & YTD; 12-month periods over that last 5 years

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.

- In bond markets, all segments made gains over the past month.
- Thanks to falling yields and simultaneously rising inflation expectations, EUR inflation-indexed bonds were among the best performers.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 06/08/2016 – 06/08/2021

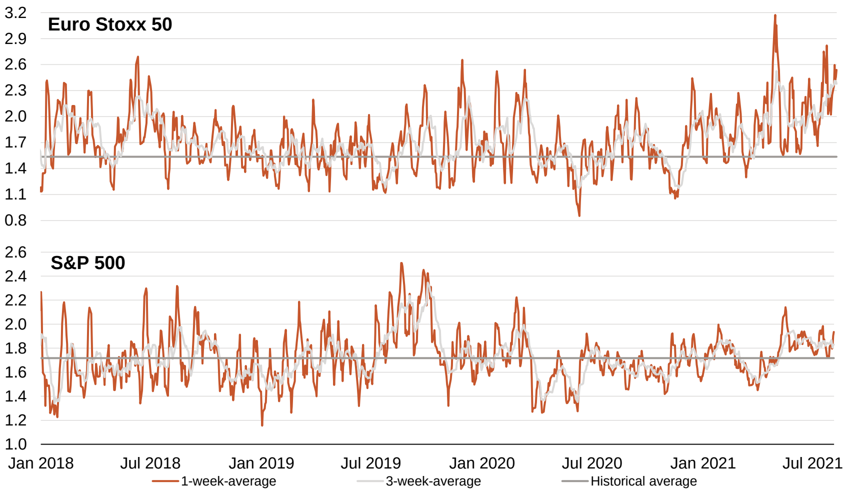
Non-Commercial Positioning



- Hedge funds have significantly increased their positions in bonds over the last month and are thus one of the contributors to the fall in interest rates.
- After net longs in copper were almost completely liquidated, investors have now added strongly again.

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: 03/08/2011 - 03/08/2021

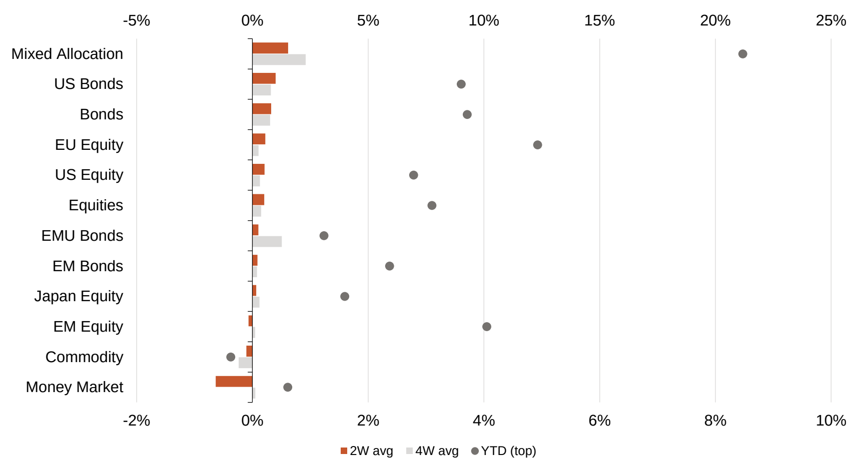
Put-Call Ratio



- In Europe, there is currently significant increased demand for hedging. The put-call ratio for the Euro Stoxx is as high as it was during the COVID-19 crisis in March last year. For the DAX it is even at a 14-year high.
- Meanwhile, for the S&P 500, the put-call ratio is close to its historical average.

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 - 06/08/2021

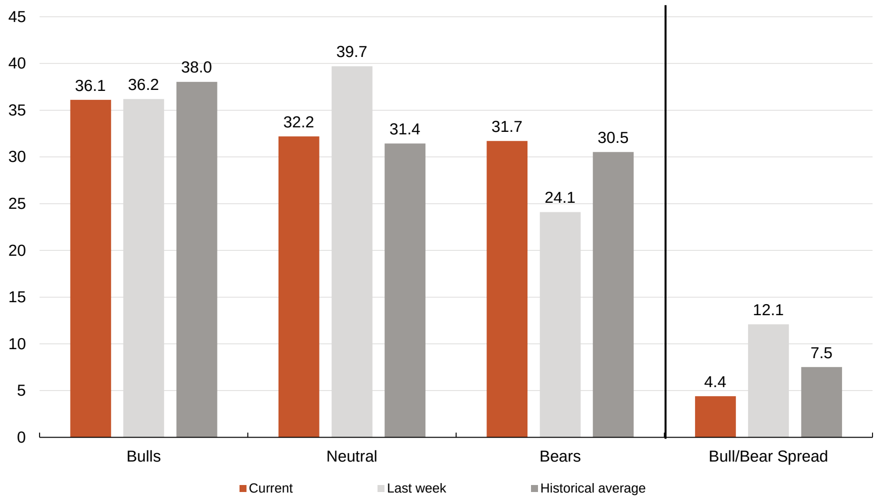
ETF Flows



- Multi Asset ETFs remained most popular amongst investors in recent weeks and since the beginning of the year.
- Bond ETFs in all segments recently recorded inflows. Measured in terms of own assets under management, they were thus ahead of equity ETFs overall.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 - 06/08/2021

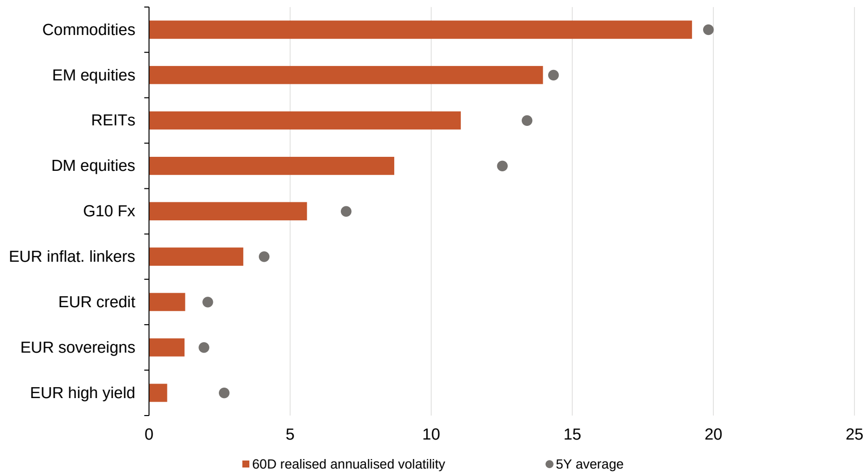
AAII Sentiment Survey (Bulls vs Bears)



- Although the bulls still outweigh the bears, US private investors are far less optimistic than in previous weeks.
- At 4.4 ppts the bull-bear-spread is now even below its 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: 23/07/87 – 05/08/21

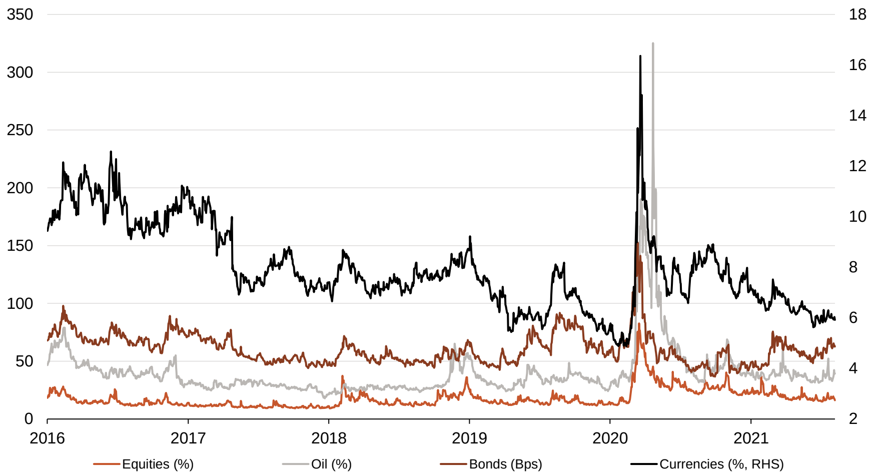
Realised Volatilities



- Realised volatility has risen noticeably in the last two weeks, especially in emerging market equities and commodities. The latter suffered primarily from the spread of the Delta variant. Emerging market equities suffered from rising COVID-19 cases as well as regulatory uncertainty in China.
- The realised volatility of developed market equities remains strikingly low at below 10%.

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 period06/08/2016 – 06/08/2021

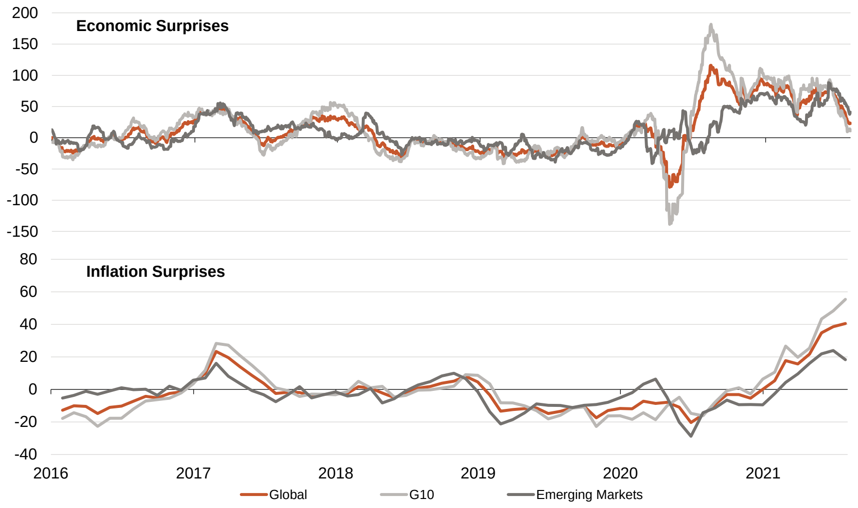
Implied Volatilities



- Implied volatility for equities has settled between 17% and 20% in recent weeks.
- For government bonds, an upward trend in implied volatility has been evident since mid-June. Investors therefore expect higher fluctuations in bonds again after the strong downward movement in interest rates.

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 – 06/08/2021

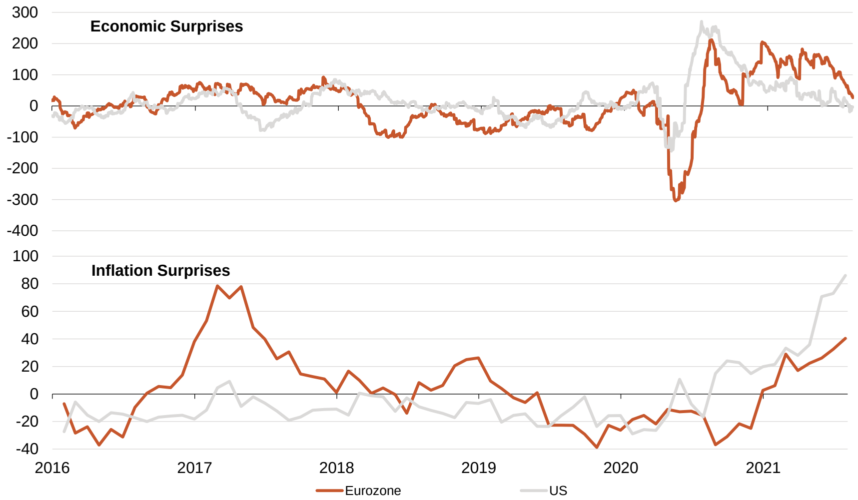
Global



- The economic surprise indices continue to approach zero. Most recently, positive economic surprises decreased significantly both globally, in the industrialised nations and in the emerging markets.
- In China, the data was mixed recently. While the manufacturing purchasing managers' indices (PMIs) disappointed, the service PMIs surprised on the upside.
- Meanwhile, inflation data in the industrialised nations continued the positive surprise streak.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 06/08/2021

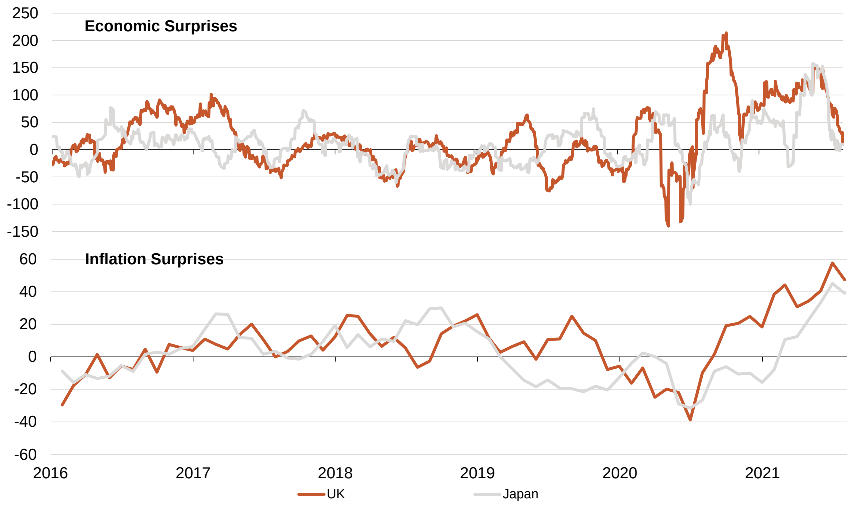
Eurozone and US



- In July, the negative economic surprises in the US clearly outweighed the negative surprises for the first time since 2020. The ISM Manufacturing Index, Q2 GDP growth and new orders disappointed. The labour market data and consumer confidence surprised on the positive side.
- In Europe, the trend is also downwards. In Germany, the Ifo index, consumer confidence and the services PMI disappointed, while new orders and the industrial PMI surprised on the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 06/08/2021

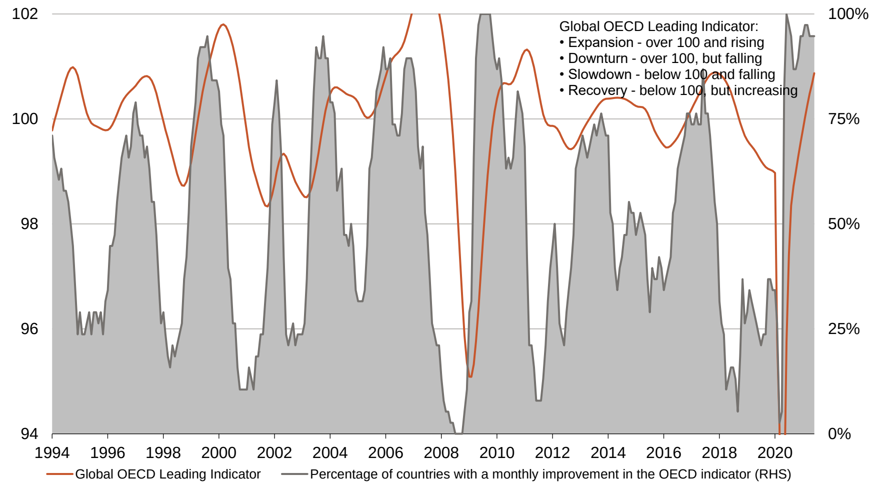
UK and Japan



- The UK and Japan also saw an increase in disappointing economic data. In the UK, housing market data disappointed recently. Japan, on the other hand, reported better-than-expected industrial production.

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 - 06/08/2021

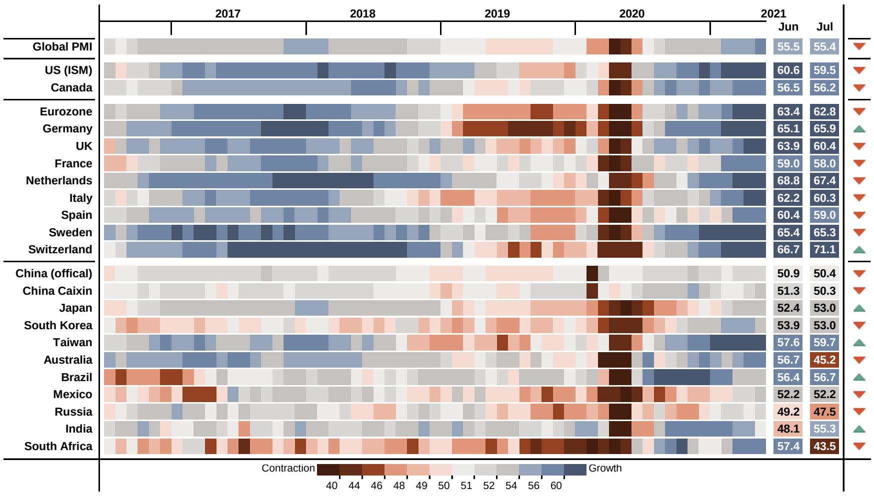
OECD Leading Indicator



- 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 with 95% of the countries seeing 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 - 31/12/2021

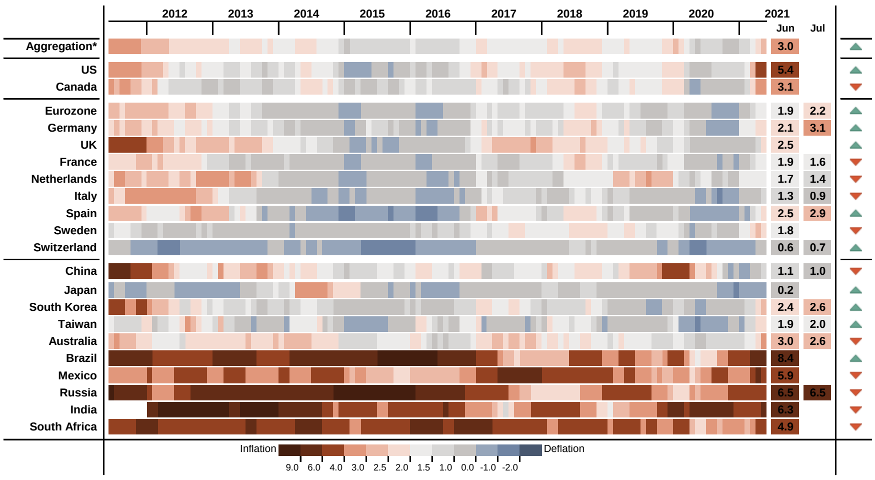
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global PMI fell to 55.4 in July after reaching a high of 56 in May. Global growth momentum is thus slowing down.
- In most western regions, the PMI remains above 60. In Germany and Switzerland, the July PMI even rose.

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: 30/07/2016 - 31/07/2021

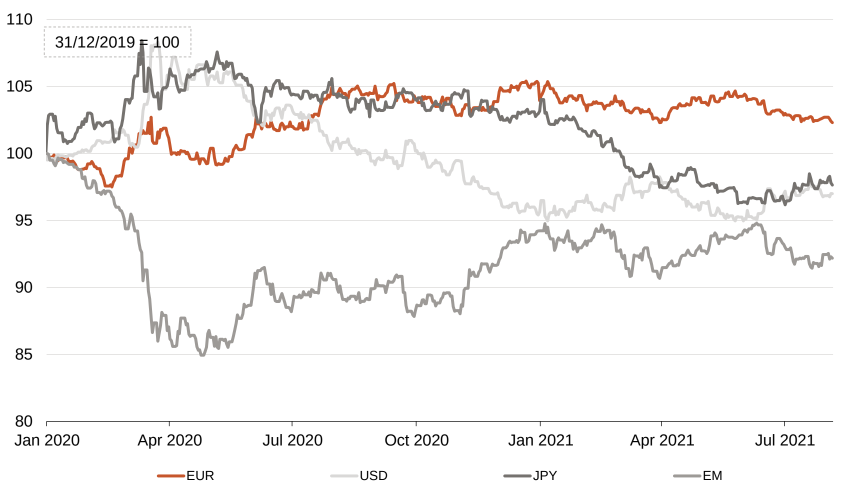
Headline Inflation



- Eurozone inflation continued to rise in July at 2.2%, the highest since 2018.
- Germany also recorded historically high inflation of 3.1%. However, the surge in inflation is mainly due to the VAT effect after the tax was temporarily reduced in the second half of 2020.

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: 31/07/2011 - 31/07/2021

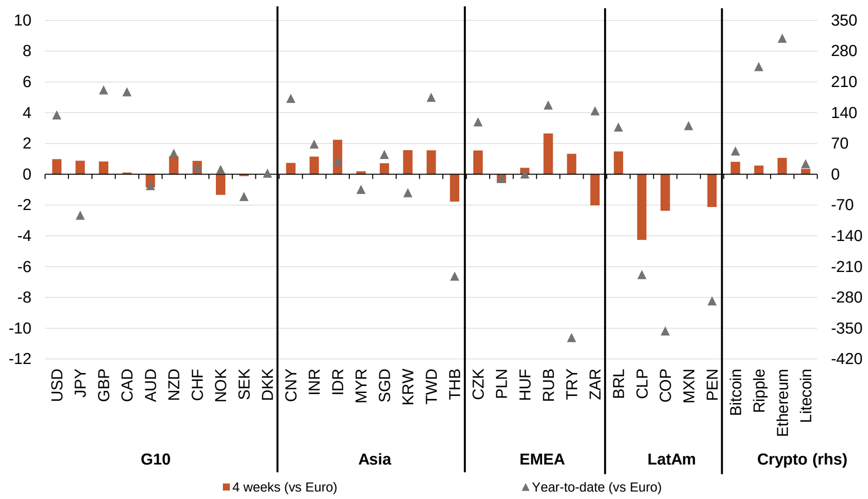
Trade-Weighted Currency Development



- The US dollar and the Japanese yen moved in the same direction upwards last month thanks to the risk-off sentiment in currency markets. Recently, the dollar weakened slightly more after economic growth in the US fell almost 2% short of expectations.

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 - 06/08/2021

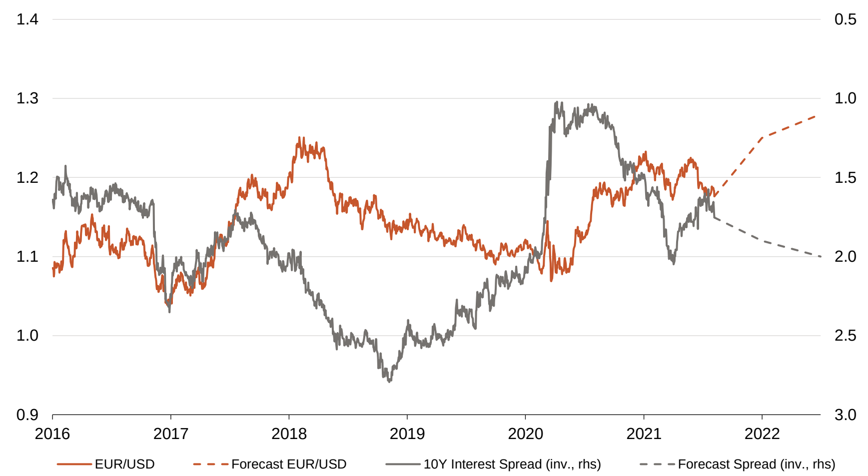
Currency Moves vs Euro



- Currency developments against the Euro have been mixed over the past four weeks.
- While Asian currencies gained even with rising COVID-19 figures.
- Among the worst performers in recent weeks was the Peruvian sol. This was mainly due to the nomination of Guido Bellido, a Marxist, as prime minister.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2020 - 06/08/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD exchange rate was still moving upwards towards 1.19 until the end of July. Recently, however, the common currency weakened again. In addition to particularly strong ISM services PMI figures, the somewhat more hawkish tones of the US Federal Reserve Chairman Clarida were also able to support the dollar.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US Treasuries and 10-year Bunds.
Source: Bloomberg, Time period: 01/01/2016 - 30/06/2022

European Sector & Style Performance

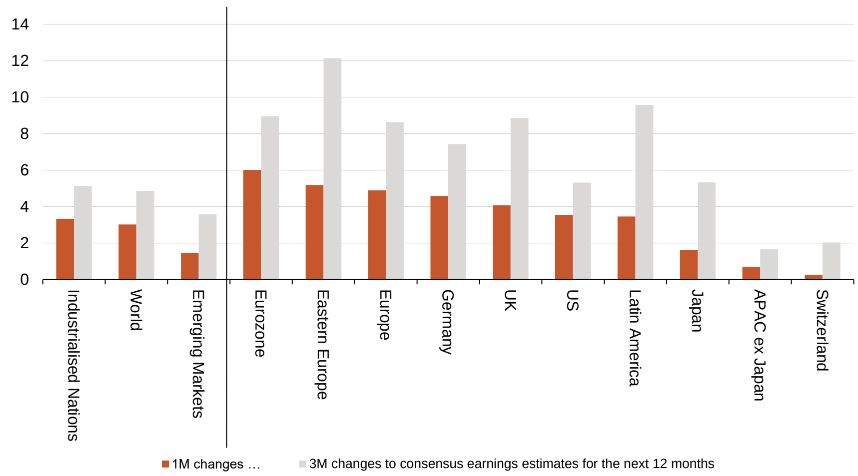
	4-week & YTD		12-month periods over that last 5 years				
	4W (09/07/21 - 06/08/21)	YTD (31/12/20 - 06/08/21)	06/08/20 06/08/21	06/08/19 06/08/20	06/08/18 06/08/19	06/08/17 06/08/18	05/08/16 06/08/17
Information Technology	7.0	32.1	43.2	21.2	-0.1	16.2	18.9
Finance	4.4	22.0	40.5	-14.2	-11.2	-6.6	40.8
Growth	3.5	21.7	32.5	9.3	2.7	6.8	9.7
Materials	3.0	23.5	42.4	12.6	-8.6	11.9	23.5
Industrials	2.9	23.1	42.1	5.5	-2.3	6.5	19.1
Health Care	2.1	17.3	15.9	14.2	5.8	7.0	-2.4
Consumer Discretionary	1.9	22.2	55.9	-4.2	-1.6	4.3	15.1
Value	1.8	17.3	31.6	-10.9	-7.9	1.7	20.9
Utilities	1.3	2.3	11.1	15.9	14.6	1.6	4.0
Telecommunications	1.1	16.1	24.8	-15.0	-4.1	-9.8	3.0
Energy	0.9	18.8	29.0	-34.1	-11.2	27.1	11.8
Consumer Staples	-0.1	12.0	15.6	-1.4	6.4	1.9	3.9

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.

- Increasing COVID-19 concerns are noticeable in the relative performance of the European sectors. The technology sector outperformed, while energy was among the relative losers.
- Growth outperformed Value by nearly 2 pp over the last four weeks.

Total return of European equity sectors and European style indices, in euros and in percent, sorted by 4-week performance. The difference between Value and Growth lies in the valuation. A growth stock is highly valued because the company is expected to grow strongly. Value stocks generally have less growth potential and are valued lower.
Source: Factset, Time period: 06/08/2016 – 06/08/2021

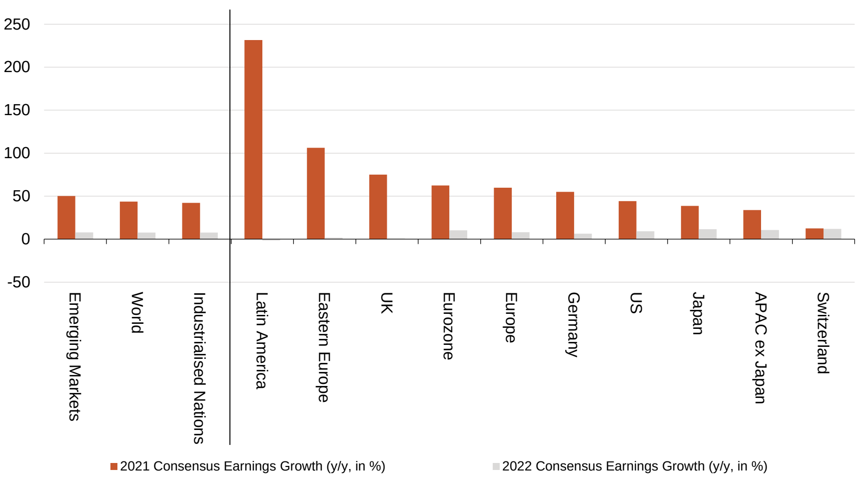
Changes in Consensus Earnings Estimates



- The strong Q2 reporting season is prompting analysts to raise their earnings estimates further - especially for Europe and the US.
- Latin America still saw positive earnings revisions, but momentum has slowed recently.

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 06/08/2021

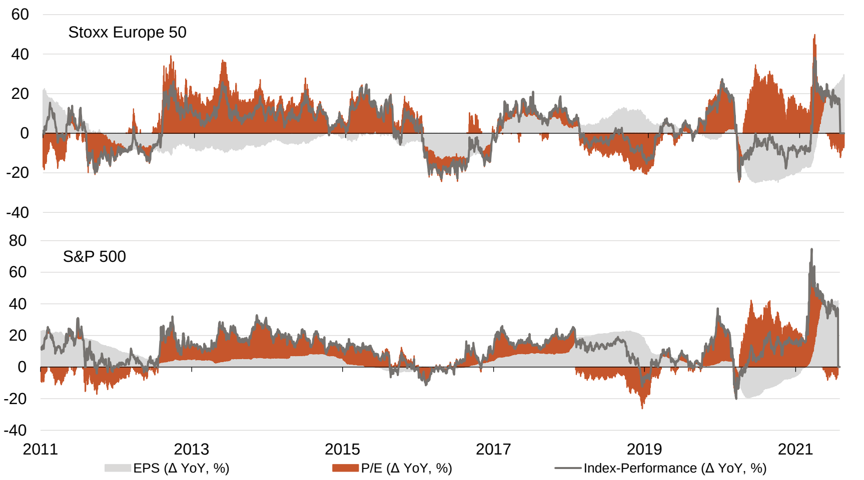
Earnings Growth



- Meanwhile, the consensus expects 2021 earnings growth of 50% year-on-year for emerging markets, thanks to Latin America and Eastern Europe.
- For developed markets, earnings growth is also expected to be extremely high at 42%.

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 06/08/2021

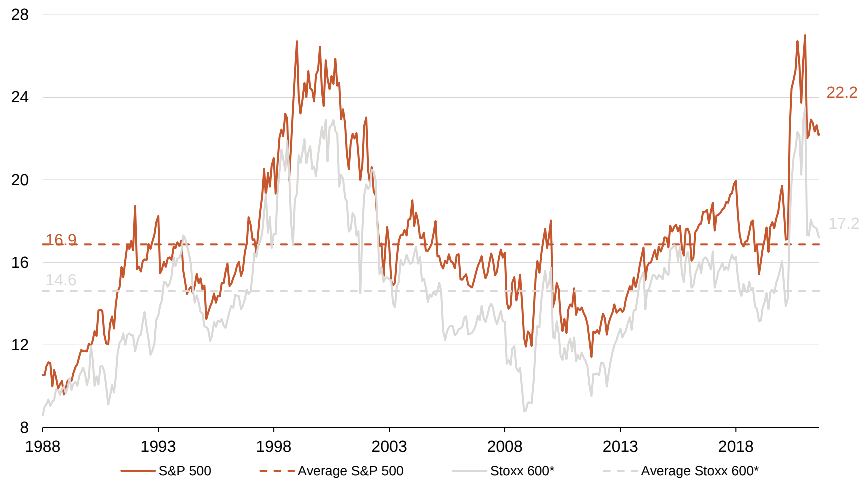
Contribution Analysis



- The positive development of corporate profits has driven stock markets in Europe and the US upwards over the last few months.
- The market had already priced this in last year, so that the P/E levels have fallen sharply this 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 - 06/08/2021

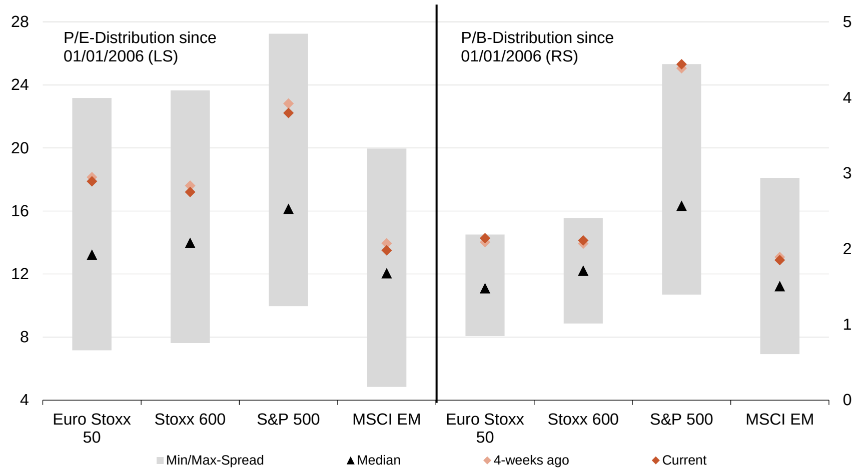
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Thanks to the positive earnings development, P/E ratios have recently come down further. US equities are currently trading at a P/E ratio of around 22, European equities at a P/E ratio of around 17. This is significantly lower than at the beginning of the year, but still above average compared to their own longer history.

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 - 06/08/2021

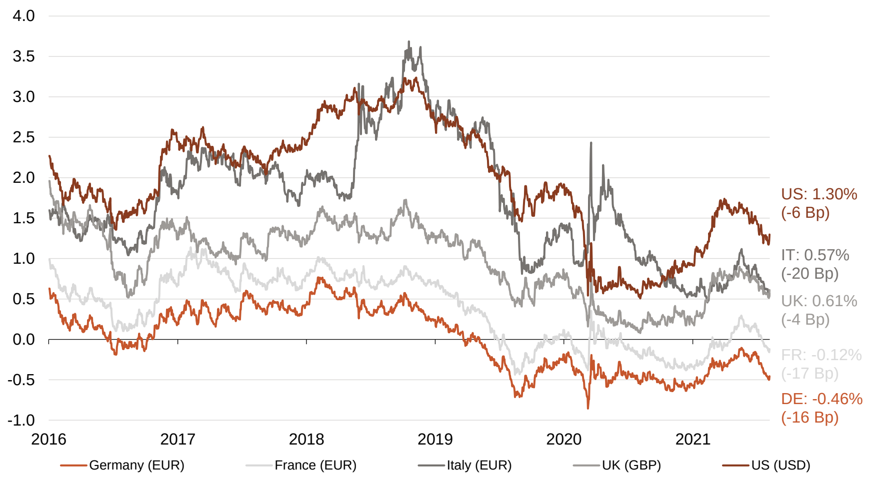
Historical Distribution: Price/Earnings and Price/Book Ratio



- Recently, emerging market equities in particular have become cheaper. Chinese equities, which have come under pressure due to increased uncertainty around regulatory issues, make up a large part of the index. The market is now demanding a higher risk premium accordingly.

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 - 06/08/2021

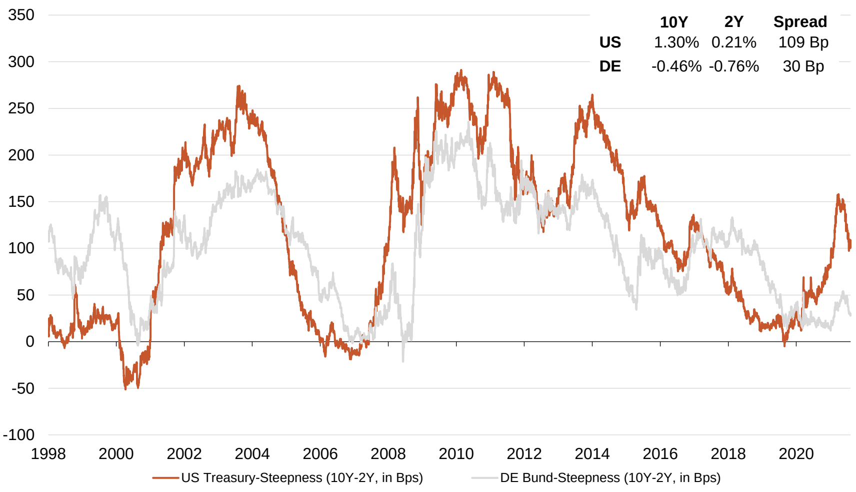
10-Year Government Bond Yields



- Yields on European government bonds have recently fallen significantly and seem to have decoupled from fundamentals. With significantly higher inflation and continued positive economic development, rising yields should again be inevitable in the medium term.
- The picture is similar for US government bonds. The yield has temporarily fallen in recent weeks to below 1.2%, a level we last saw at the beginning of the year.

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 - 06/08/2021

Yield Curve Steepness (10Y - 2Y)

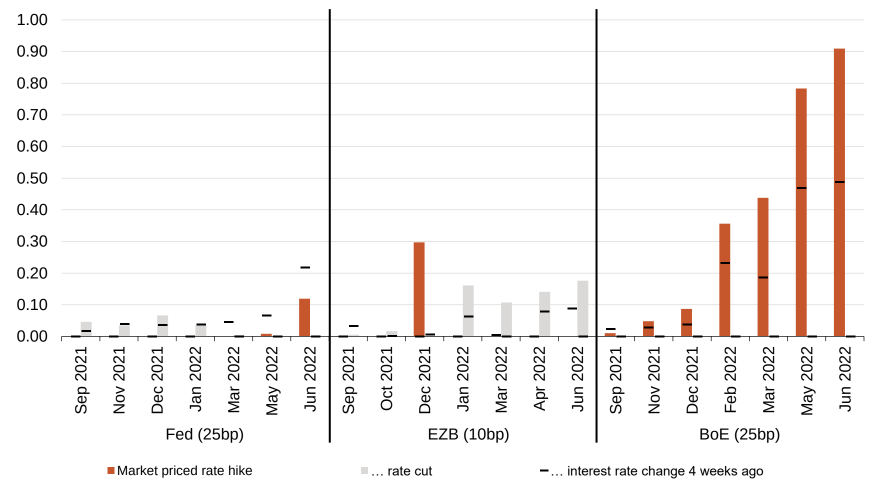


	10Y	2Y	Spread
US	1.30%	0.21%	109 Bp
DE	-0.46%	-0.76%	30 Bp

- The steepness of the German and US yield curves has fallen further in the last two weeks. The US slope scratching temporarily the 100 bps mark. If the momentum of rising US inflation continues, the steepness should increase again.

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 - 06/08/2021

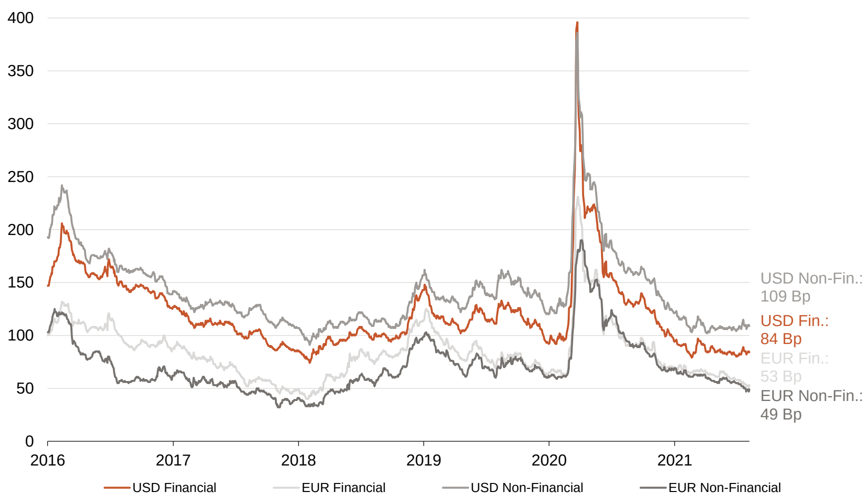
Implicit Changes in Key Interest Rates



- The Bank of England was more dovish than expected at the August meeting. However, the market pricing in a rate hike by June 2022 with over 90% probability.
- By contrast, the market has almost completely priced out an interest rate hike by the Fed and ECB by mid-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: 01/01/2021 - 06/08/2021

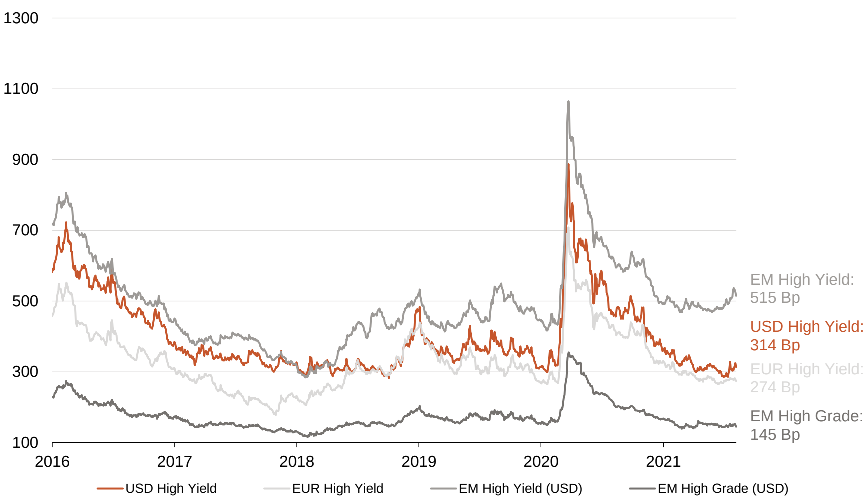
Credit Spreads Financial and Non-Financial Bonds



- Investment-grade corporate bonds have been showing a sideways movement in spreads for weeks.
- The slight narrowing of spreads for EUR corporate bonds is mainly due to ongoing ECB purchases as well as the low level of new issues in the summer.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 – 06/08/2021

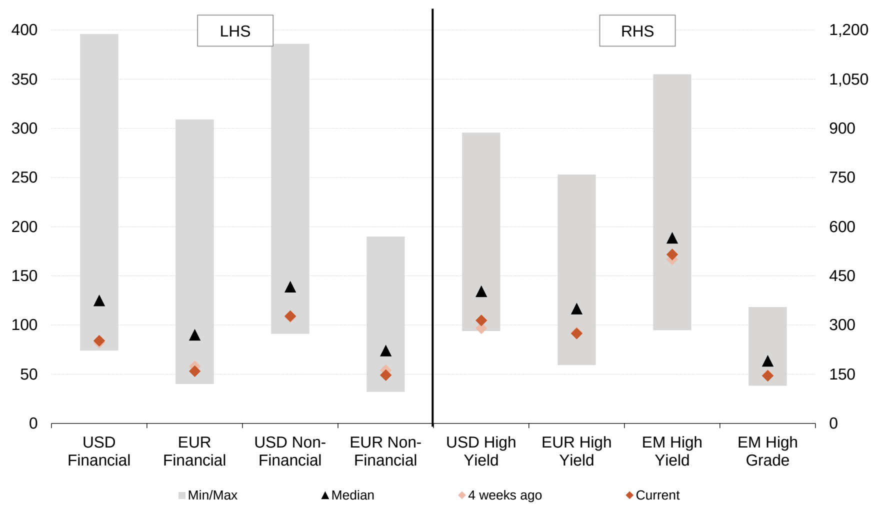
Credit Spreads High Yield and Emerging Markets Bonds



- In USD and EM high-yield bonds, on the other hand, spreads rose moderately in recent weeks. The widening of spreads is mainly due to the spread of the COVID-19 Delta variant as well as emerging growth concerns.
- EUR high-yield bonds, on the other hand, were much more stable and saw even slightly falling spreads.

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 – 06/08/2021

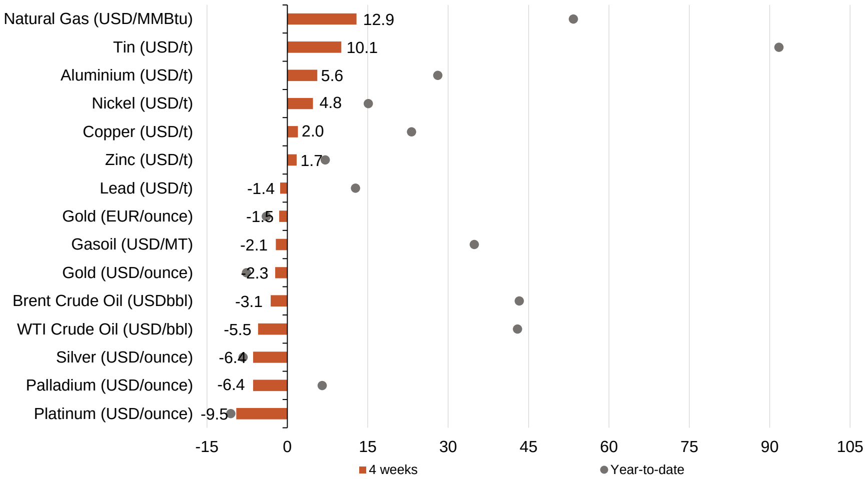
Historical Distribution of Credit Spreads (in bp)



- While risk premiums on USD corporate bonds are already lingering at the lower end of the 10-year range, there is much more room for them to move downwards amongst EM high-yield bonds, especially after the recent widening of spreads.

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: 06/08/2011 – 06/08/2021

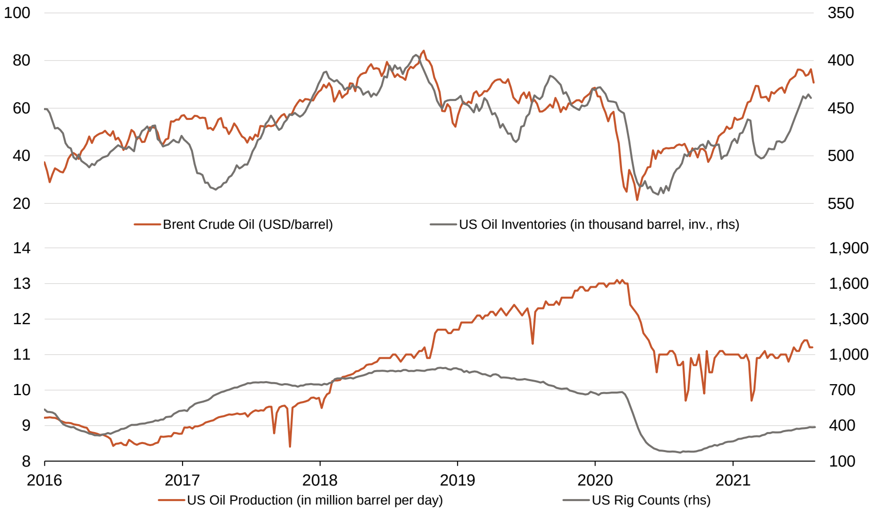
Commodities Performance



- Commodity markets are currently showing an unusual picture for this year: Energy commodities (with the exception of natural gas) are in last place. The winners of the last few weeks, on the other hand, are once again industrial metals. Precious metals such as palladium and platinum, which are often used in industrial applications, could not benefit from this and rank last.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2021 - 06/08/2021

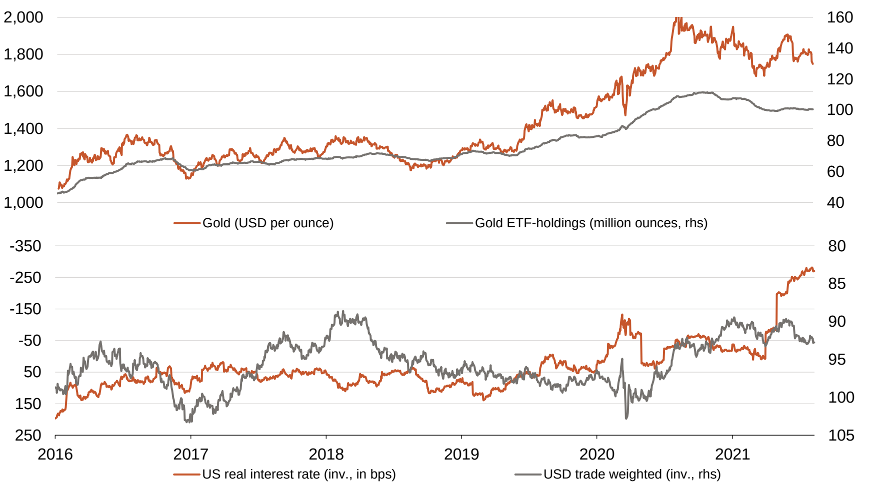
Crude Oil



- With the increasing spread of the Delta variant, demand concerns emerged again throughout the oil market. The fact that OPEC+ decided to increase its production by 400 thousand barrels per day was not conducive to this mood. As a result, the oil price fell towards USD 70 per barrel.
- However, the oil market is still likely to be in deficit despite rising COVID-19 figures and production expansions.

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 - 06/08/2021

Gold



- Gold has recently fell below USD 1,800 per ounce. In light of the fact that real interest rates have fallen to an all-time low, one might think that this price is too low. However, it is more likely that gold investors do not consider the current interest rate level to be sustainable and expect real interest rates to rise again.

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 - 06/08/2021

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IMPORTANT NOTICES

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