BERENBERG Markets

MONITOR

06 September 2021

Current market commentary

Many equity regions have continued to edge upwards recently, thanks to positive earnings revisions, ongoing inflows and share buyback programmes. The S&P 500 marked its 54th all-time high this year. Laggards such as U.S. small caps and Japanese equities outperformed, supported by short covering and renewed economic optimism. Bond yields recently moved sideways, despite continued high inflation figures. The market is waiting for new indications from central banks regarding the curbing of bond purchase programmes. These are likely to be given at the central bank meetings scheduled for September. The fact that many investors are nervous and hedging can be seen in the persistent increase in implied volatility - with the VIX has never closed below 15 this year - and the high differential between hedging and upside participation costs. However, systematic investors as well as trend-following strategies have continued to buy stocks, making the market slightly more vulnerable overall.

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

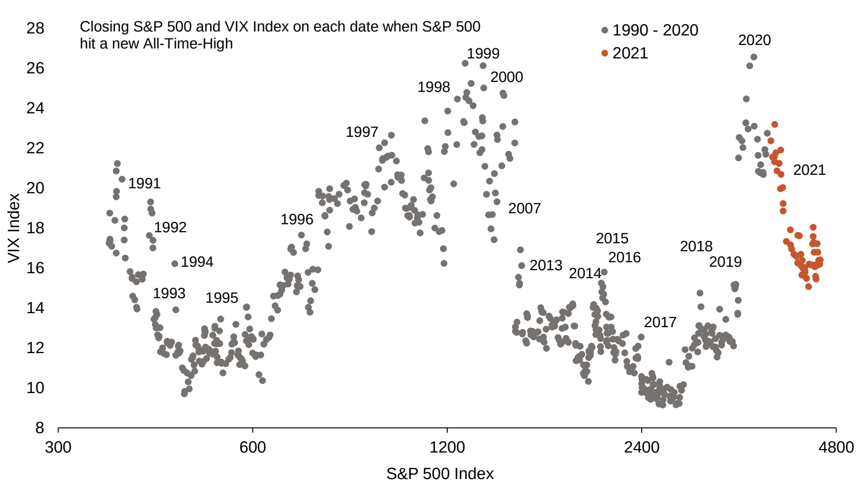
Short-term outlook

Today, US stock markets are closed as a result of Labour Day. Following the recently more hawkish tones of some ECB members, the ECB meeting on September 09 should provide more clarity on future monetary policy in the euro zone. Politically, things will get exciting at the Eurogroup meeting on September 10/11 as well as the lower house elections in Russia on September 19. This Tuesday, ZEW economic expectations (Sep.) and industrial production data (Jul.) for Germany will be released. On Thursday, inflation data (Aug.) for China, exports (Jul.) from Germany and weekly initial jobless claims in the U.S. will follow. Industrial production data (Jul.) for the U.K., France and Italy and producer prices (Aug.) for the U.S. will be released on Friday. The following week, inflation data, consumer confidence, retail sales and U.S. industrial production data for August will be published.

ECB meeting offers insights into future monetary policy direction.

Industrial production data may provide insights into the impact of supply shortages.

Despite S&P all-time highs, the VIX stubbornly holds above the 15 mark



- On average, the S&P 500 has marked a new all-time high every third trading day this year.
- However, the VIX has stubbornly remained above the 15 mark, suggesting a cautious attitude of investors.
- In the years following the financial crisis, all-time highs were realised at much lower VIX levels. However, the combination of relatively high implied volatility and all-time highs in the S&P 500 is not a novelty. Around the turn of the millennium, it was more the norm.

Source: Bloomberg, Time period: 01/01/1991 - 03/09/2021

Multi Asset

	4W (06/08/21 - 03/09/21)	YTD (31/12/20 - 03/09/21)	03/09/20 03/09/21	03/09/19 03/09/20	03/09/18 03/09/19	03/09/17 03/09/18	02/09/16 03/09/17
Gold	2.6	-1.0	-5.6	15.6	36.4	-7.5	-5.9
REITs	2.5	31.0	30.8	-17.7	21.1	3.3	-9.0
Brent	2.1	52.1	65.9	-32.5	-16.1	59.8	-4.5
MSCI World	1.1	22.2	31.7	7.6	5.7	15.0	8.8
Global Convertibles	1.1	10.4	26.7	15.4	7.1	9.8	6.8
Industrial Metals	1.0	26.0	37.8	-4.1	4.9	-6.8	28.1
MSCI Frontier Markets	0.9	21.8	31.3	-11.6	14.3	-4.3	18.5
MSCI Emerging Markets	0.8	6.3	20.4	8.1	1.0	0.2	16.8
Eonia	0.0	-0.3	-0.5	-0.5	-0.4	-0.4	-0.4
Global Coporates	-0.6	2.0	1.5	-0.1	15.4	1.0	-3.2
Global Treasuries	-0.8	-0.4	-0.8	-3.2	15.1	0.6	-7.3
USDEUR	-1.0	2.8	-0.2	-7.4	5.9	2.1	-5.9

Column groups: 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.

- The major asset classes have not moved much over the last four weeks: Gold was the best performing asset, gaining 2.6%, while USD/EUR lost the most with 1.0%.
- Accordingly, the market is taking a breather and waiting for new impulses, which should come soon in the form of the Fed alongside the approaching Q3 reporting season.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/09/2016 – 03/09/2021

Equities

	4W (06/08/21 - 03/09/21)	YTD (31/12/20 - 03/09/21)	03/09/20 03/09/21	03/09/19 03/09/20	03/09/18 03/09/19	03/09/17 03/09/18	02/09/16 03/09/17
MSCI EM Eastern Europe	5.2	29.5	44.5	-16.9	20.9	4.1	20.4
Topix	3.9	10.0	21.6	2.4	-0.1	9.9	9.5
Stoxx Europe Small 200	1.9	24.5	41.2	4.2	-2.5	8.6	14.4
Stoxx Europe Defensives	1.9	16.4	20.3	-3.3	8.1	6.7	3.4
S&P 500	1.2	25.4	32.6	12.4	8.0	22.1	9.2
MSCI USA Small Caps	1.1	22.9	50.5	-3.0	-4.7	25.9	6.9
Stoxx Europe Cyclicals	0.9	23.9	40.2	2.2	-6.3	2.2	19.4
MSCI EM Asia	0.8	3.6	17.1	18.4	-2.3	3.9	18.1
Euro Stoxx 50	0.7	20.1	29.4	-1.3	3.6	1.2	14.7
Stoxx Europe 50	0.3	18.9	24.9	-3.0	6.6	3.0	8.1
DAX	0.1	15.0	20.9	9.6	-3.5	1.7	13.7
MSCI UK	-0.1	19.3	31.7	-16.9	0.7	6.0	2.7

Column groups: 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.

- Within the equity regions, Eastern European stocks benefited from a recovery in the oil price.
- Japan also gained significantly, boosted by improving sentiment and rising earnings estimates from analysts.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/09/2016 – 03/09/2021

Fixed Income

	4W (06/08/21 - 03/09/21)	YTD (31/12/20 - 03/09/21)	03/09/20 03/09/21	03/09/19 03/09/20	03/09/18 03/09/19	03/09/17 03/09/18	02/09/16 03/09/17
EM Hard Currency Bonds	0.9	-0.4	1.5	1.9	9.1	-6.2	2.2
EUR High Yield	0.2	3.5	7.6	-0.8	4.5	0.6	5.3
EUR Inflation Linkers	0.1	4.6	7.6	-1.8	8.0	0.9	-0.3
USD High Yield	-0.2	7.0	8.2	-4.1	13.2	5.3	1.1
EUR Financials	-0.3	0.5	2.1	-0.1	6.2	-0.2	1.9
EM Local Currency Bonds	-0.4	3.1	6.3	-4.1	15.3	-3.9	-0.7
EUR Non-Financials	-0.6	0.0	2.0	-0.4	7.0	0.2	-0.3
BTPs	-0.8	-0.7	3.2	1.0	19.2	-5.1	-3.3
USD Corporates	-0.8	2.8	1.2	0.3	19.5	1.4	-4.0
Bunds	-0.9	-1.7	-1.2	-2.0	8.5	1.0	-2.6
Treasuries	-0.9	1.4	-3.1	-0.6	17.5	0.7	-7.0
Gilts	-1.5	0.5	1.1	4.1	12.5	1.4	-10.9

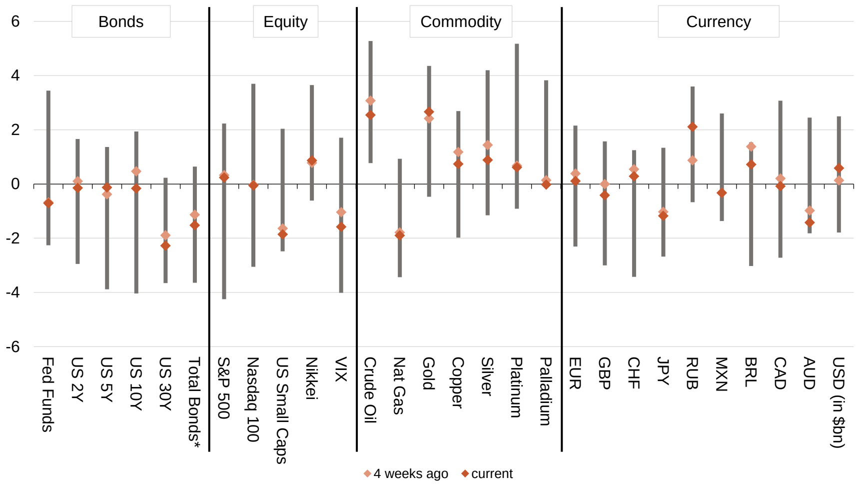
Column groups: 4-week & YTD; 12-month periods over that last 5 years

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.

- Carry bonds recently outperformed safe government bonds significantly, buoyed by the continued hunt for yield and dovish comments from Jerome Powell at the Jackson Hole meeting.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/09/2016 – 03/09/2021

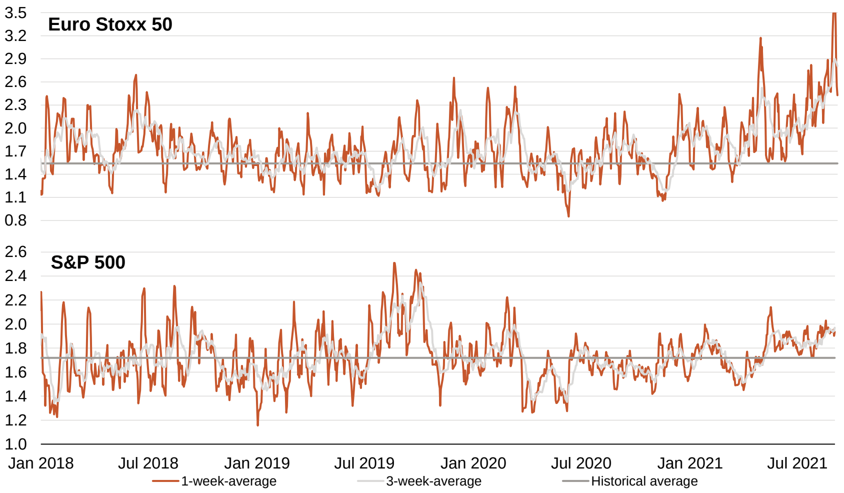
Non-Commercial Positioning



- Hedge funds have recently reduced commodities in aggregate. In particular, long copper and silver positions were significantly cut.
- Within currencies, long positions in RUB and USD were built up.
- Futures positioning in equities remains very moderate.

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: 31/08/2011 - 31/08/2021

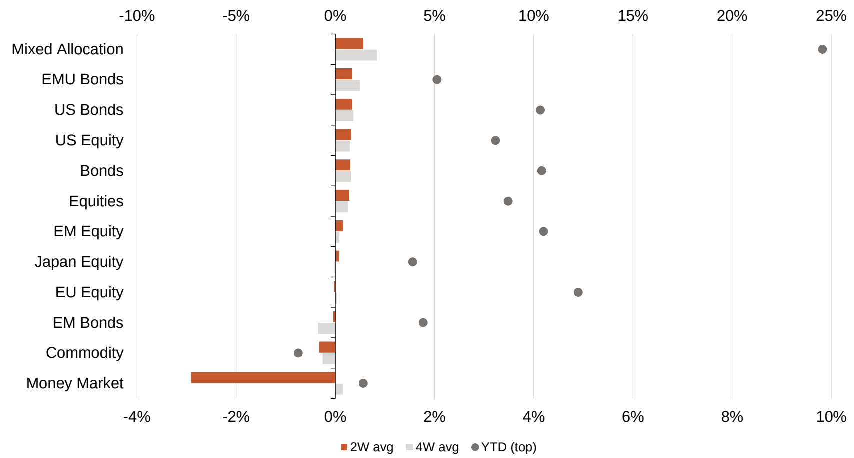
Put-Call Ratio



- The fact that investors continue to have a strong need for hedging is also reflected in the put-call ratio.
- At the end of August, the put-call ratio for the Euro Stoxx exceeded levels seen during the Covid-19 crisis, reaching its highest level since 2016.
- The S&P put-call ratio is currently slightly above the 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 - 03/09/2021

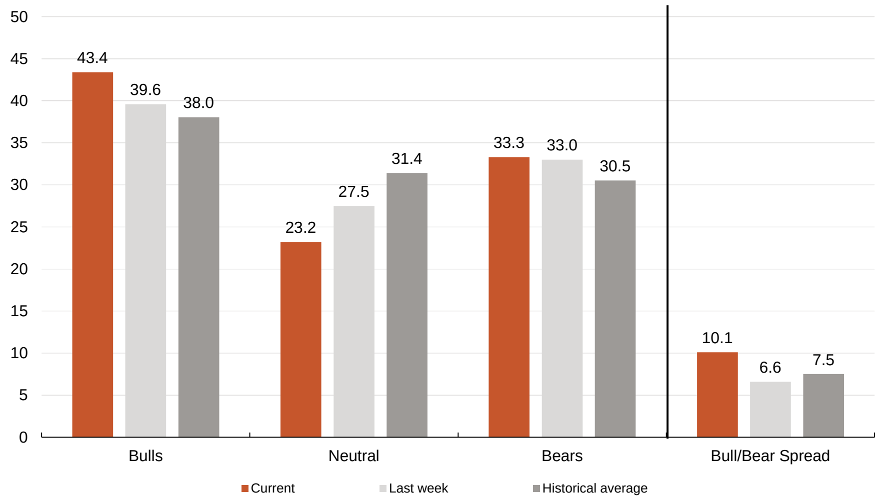
ETF Flows



- Bond ETFs in almost all segments have recorded inflows in recent weeks and are thus ahead of equity ETFs in aggregate.
- In the last two weeks, demand for money market ETFs has fallen significantly, recording the strongest outflow of the last two weeks.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 - 03/09/2021

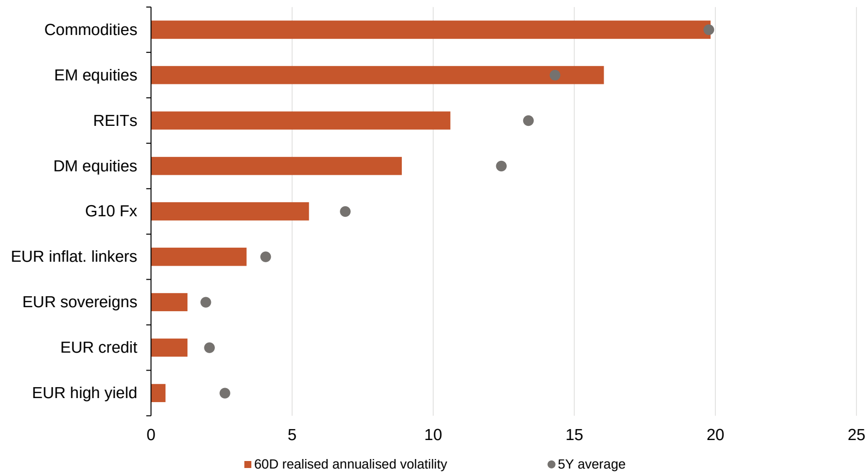
AAII Sentiment Survey (Bulls vs Bears)



- After the poor sentiment of recent weeks, U.S. private investors are now showing renewed optimism.
- At 10 pp, the bull/bear spread is currently slightly above 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: 23/07/1987 - 02/09/2021

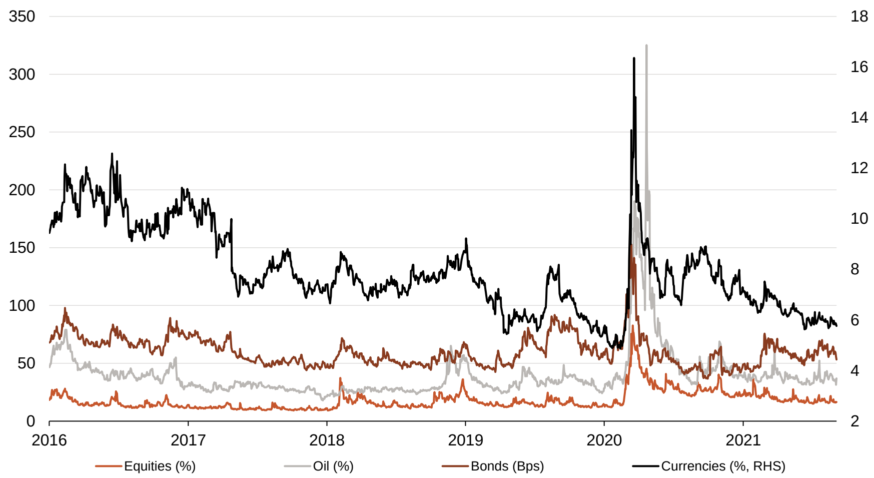
Realised Volatilities



- Realised volatility is currently below the average of the last 5 years for almost all asset classes.
- The primary exception is emerging market equities. Here, volatility has risen sharply in recent weeks due to regulatory uncertainty in China.

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: 03/09/2016 - 03/09/2021

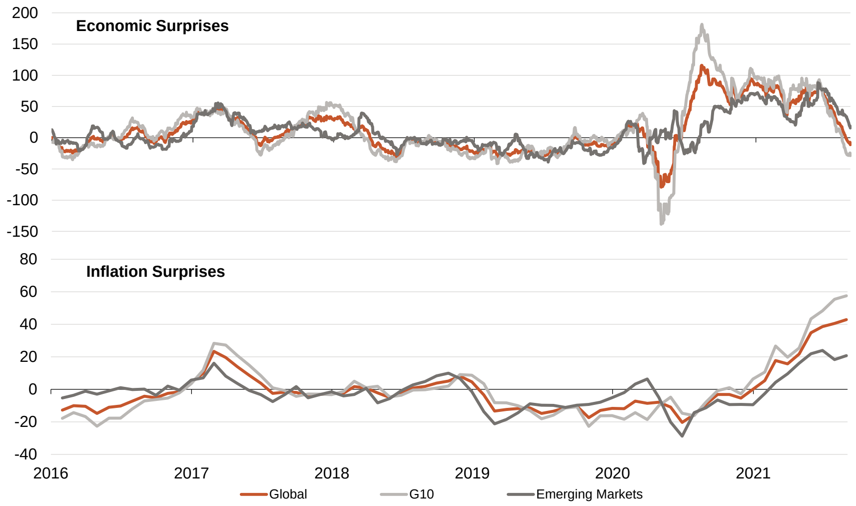
Implied Volatilities



- The VIX has been trading continuously below the 20% mark for the last two weeks and recently settled at around 16%. However, the difference between real and implied volatility of the S&P 500 is at almost 9 pp in the 90th percentile and thus very high.

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 - 03/09/2021

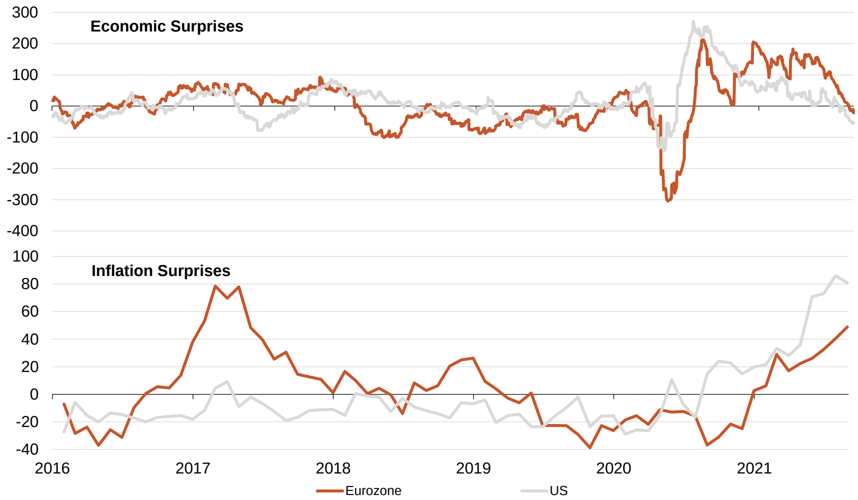
Global



- Falling economic headline indices continue to highlight the weakening of global economic growth. Both the G10 and the global index have recently dipped into the negative territory.
- While emerging markets paint a more positive picture, the index here also represents a downward trend. Purchasing managers' indices (PMIs) in China were consistently disappointing in August.
- Inflation data in the industrialised countries continued the positive series of surprises.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 03/09/2021

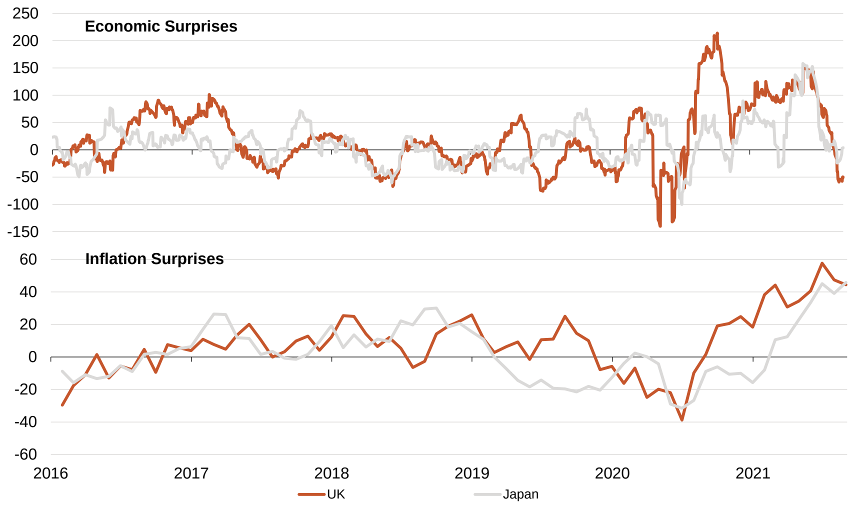
Eurozone and US



- Economic surprises in the USA have been increasingly negative in recent weeks. Also, in the euro zone the negative economic surprises have clearly outweighed for the first time since July 2020. In the USA, labour market data and consumer confidence disappointed, while the ISM industrial index surprised to the upside.
- In both the euro zone and the USA, inflation data surprised significantly to the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 03/09/2021

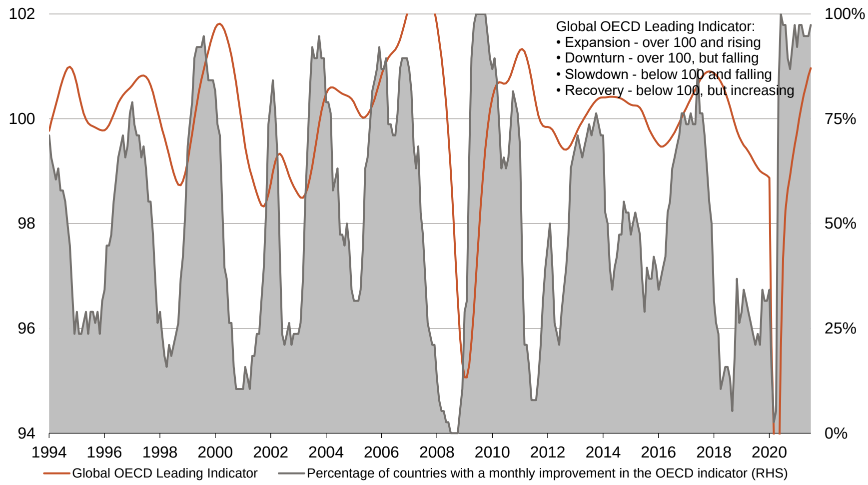
UK and Japan



- The index for the UK recently stabilised after the industrial PMI and housing market data provided a positive surprise.
- After a brief lapse into negative territory, Japan recently beat expectations again.

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 - 03/09/2021

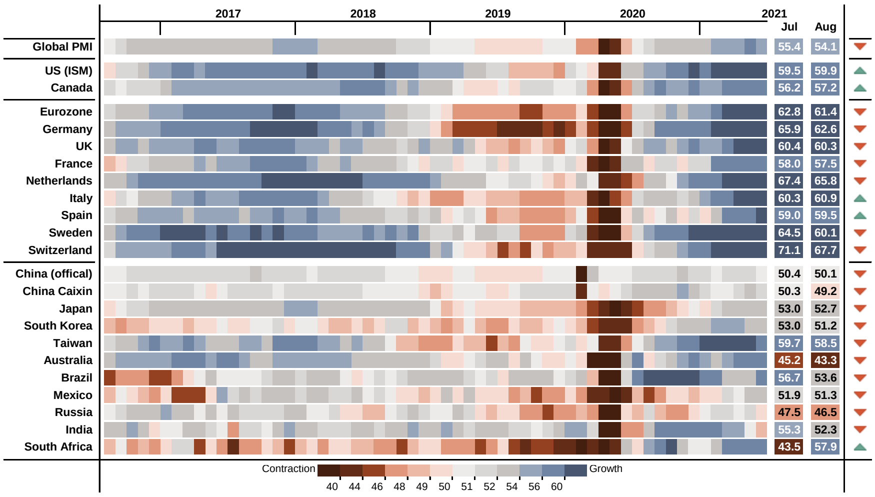
OECD Leading Indicator



- In July, the OECD leading indicator exceeded its peak value from 2011. The expansion of the global economy is thus continuing, albeit with weakening growth.
- Of the countries covered, 97% saw an improvement in the indicator compared with the previous month. The expansion is thus broad-based.

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 - 31/07/2021

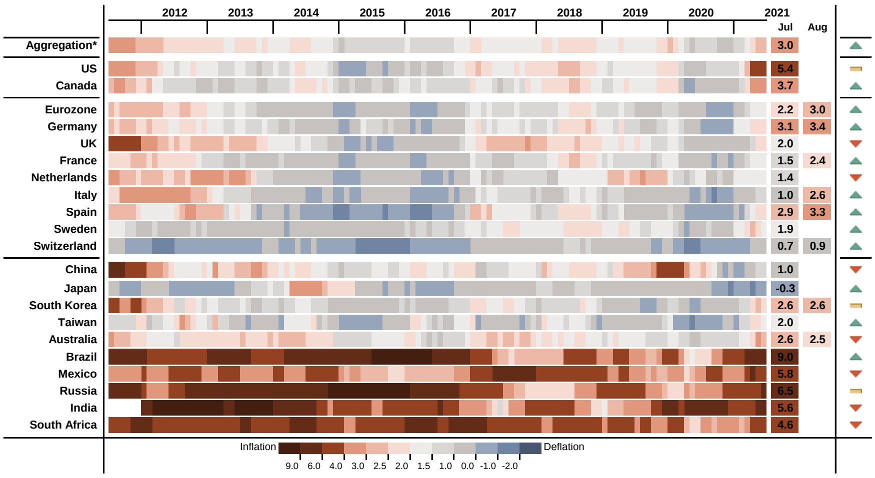
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global PMI fell to 54.1 in August, but remains above the important growth threshold of 50.
- However, the bulk of countries saw a falling PMI with the exception of the US, Canada, Italy, Spain and South Africa. In China, the Caixin index even slipped into contraction.

The PMI is an overall index that provides a general overview of the economic situation in industry. The PMI is derived from a total of eleven sub-indices, which reflect the change from the previous month. A value of 50 is regarded as neutral, a value of over 50 points as an indicator of rising activity in industry and a value of less than 50 points for falling activity in industry compared with the previous month. The index has an average lead time before actual industrial production of three to six months. The PMI is based on a survey of a relevant selection of purchasing managers regarding the development of parameters such as incoming orders.
Source: Bloomberg, Time period: 31/08/2016 - 31/08/2021

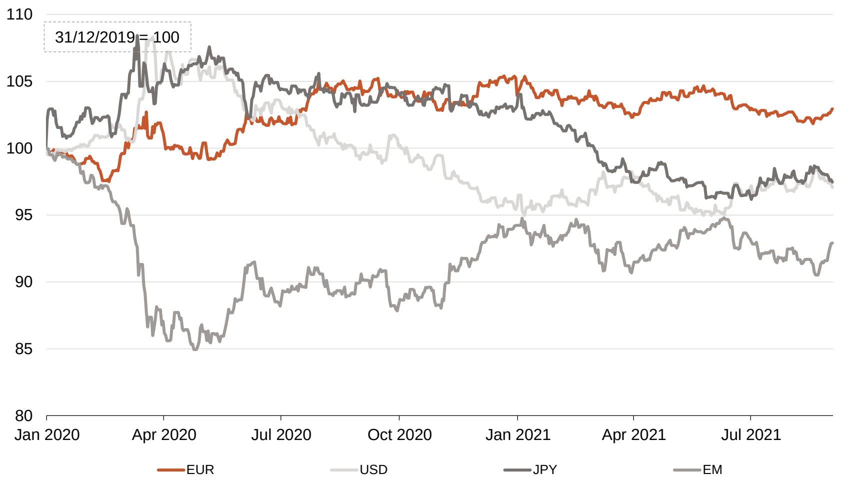
Headline Inflation



- Consumer prices in the euro zone continued to rise in August, reaching 3.0%, the highest level since 2008.
- The surge in inflation is mainly attributable to base effects from the rebound in oil prices, the reversal of the temporary German VAT cut and supply bottlenecks.

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: 31/08/2011 - 31/08/2021

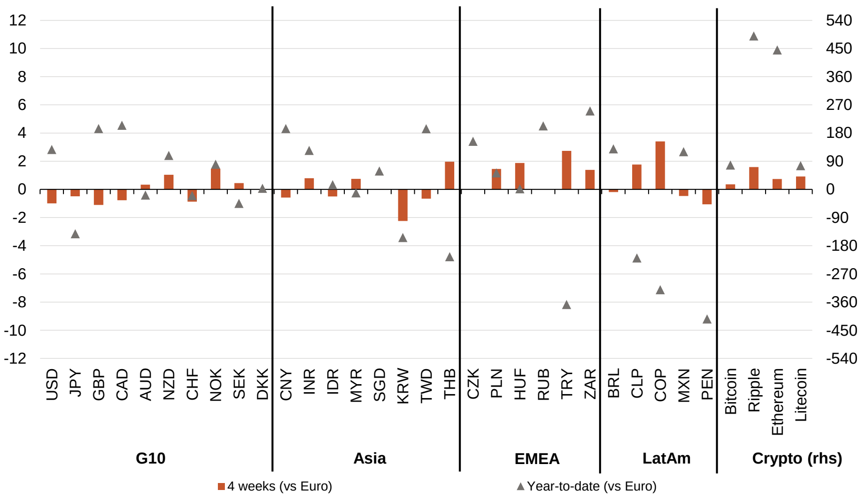
Trade-Weighted Currency Development



- In the last two weeks, currency markets showed an increase in risk appetite.
- Consequently, the dollar and the Japanese yen weakened, while emerging market currencies as well as the euro appreciated.

A trade-weighted index is used to measure the effective value of an exchange rate against a basket of currencies. The importance of other currencies depends on the share of trade with the country or currency zone.
Source: Bloomberg, Time period: 01/01/2020 - 03/09/2021

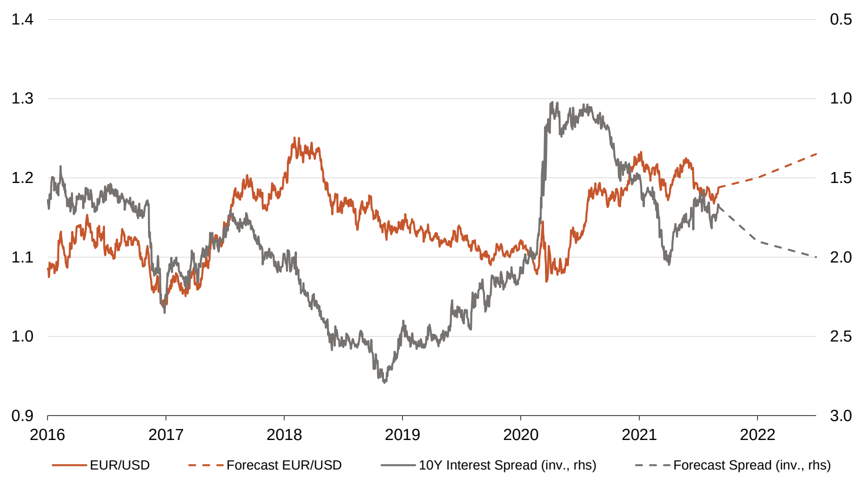
Currency Moves vs Euro



- Currency developments against the euro showed a mixed picture over the past month.
- Emerging market currencies tended to lead the way thanks to a renewed rise in commodity prices.
- Among the Asian currencies, the Thai baht recently performed best on the back of new infections falling at last.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2020 - 03/09/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD exchange rate moved strongly upward again in recent weeks after the low in August and is currently trading at nearly 1.19.
- The exchange rate was boosted by the more dovish tones of Powell in Jackson Hole, where some market participants had already expected an announcement of the reduction of the bond purchase programme.

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 (06/08/21 - 03/09/21)	4-week & YTD: YTD (31/12/20 - 03/09/21)	03/09/20 03/09/21	03/09/19 03/09/20	03/09/18 03/09/19	03/09/17 03/09/18	02/09/16 03/09/17
Information Technology	4.3	37.8	47.4	21.7	-1.1	19.9	15.3
Utilities	3.1	5.5	15.5	8.9	23.5	-2.5	6.6
Health Care	2.8	20.5	19.8	6.5	13.9	5.3	1.6
Industrials	1.2	24.6	40.1	4.1	1.4	7.5	13.1
Growth	1.0	22.9	31.6	5.9	7.9	7.5	7.0
Telecommunications	0.8	17.0	24.8	-17.4	6.3	-12.2	-1.2
Value	-0.2	17.1	30.5	-12.2	-3.2	1.1	13.7
Consumer Staples	-0.4	11.6	13.6	-7.6	17.8	1.5	-0.5
Materials	-0.5	22.8	40.2	9.8	-4.1	7.9	22.1
Finance	-0.6	21.3	39.5	-13.7	-8.9	-5.5	24.5
Energy	-1.2	17.4	32.7	-37.4	-9.5	29.0	6.6
Consumer Discretionary	-3.5	17.9	41.4	-0.3	1.5	5.5	10.3

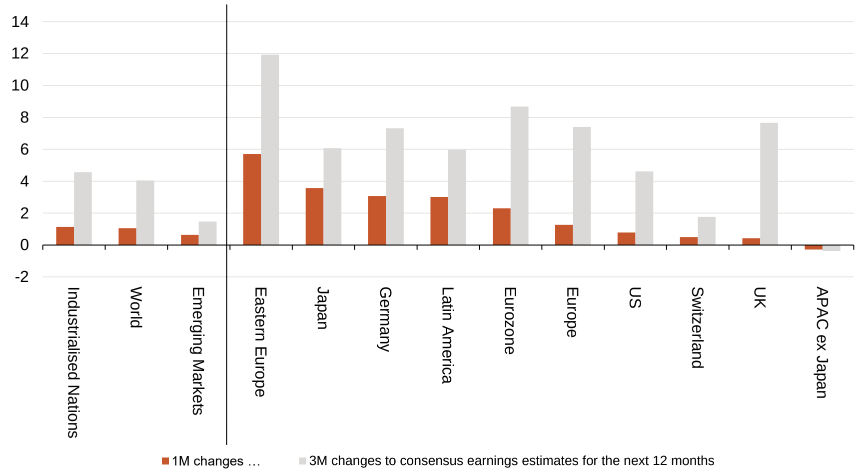
12-month periods over that last 5 years

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.

- Over the last four weeks, defensive and growth sectors outperformed in Europe. Cyclicals, on the other hand, tended to struggle. They were burdened by new growth and covid concerns.
- Since the beginning of the year, the IT sector has now clearly performed best with a return of almost 40%.

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: 03/09/2016 – 03/09/2021

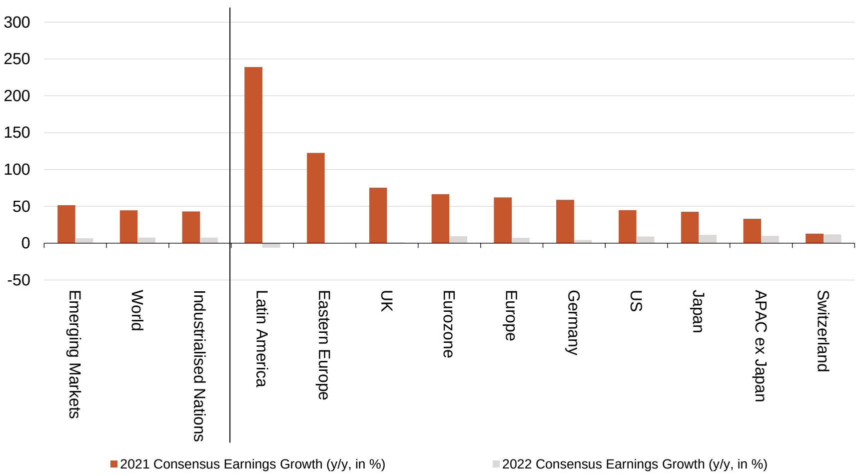
Changes in Consensus Earnings Estimates



- Fundamentally, things continue to look favourably for most regions. Over the past month, analysts have raised earnings estimates for all regions except Asia Pacific ex Japan.
- Consensus has recently been particularly optimistic for Eastern Europe and Japan.

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 03/09/2021

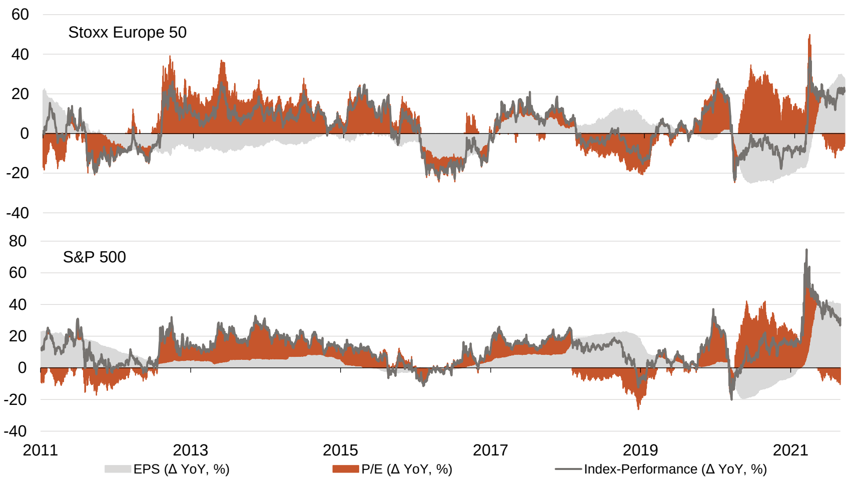
Earnings Growth



- Profit growth for 2022 is now increasingly coming into focus for investors. Analysts expect an earnings growth increase of 8-10% year-on-year for Europe, the USA and Japan. After the strong earnings recovery for Latin America and Eastern Europe this year, consensus for both regions is significantly more pessimistic next year.

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 03/09/2021

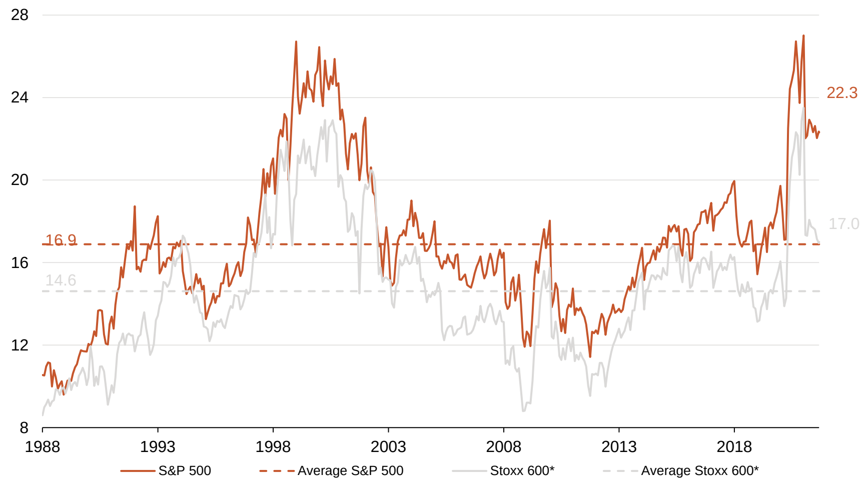
Contribution Analysis



- Stock markets have risen significantly versus the previous year, thanks to strong year-on-year growth in corporate earnings in the USA and Europe. This rise in earnings has meant that, although stock markets are still not favourably valued, they are at least lower than a year ago.

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 - 03/09/2021

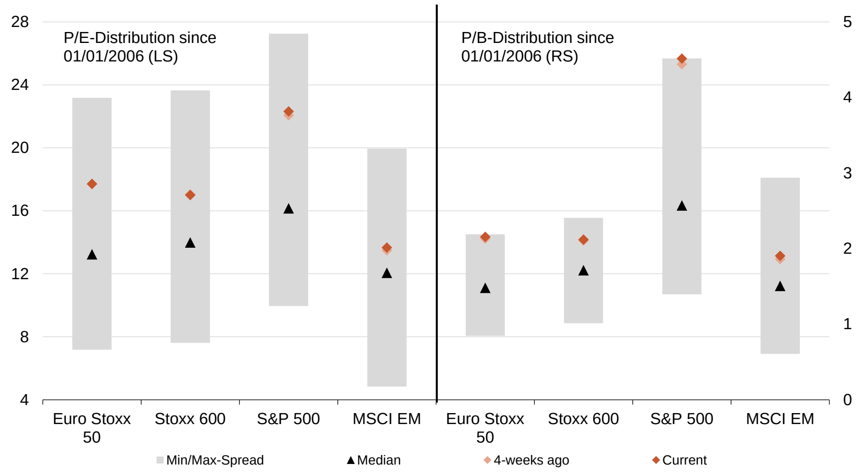
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Analysts' earnings estimates have recently risen faster than the stock market, especially in Europe. Accordingly, the estimated P/E ratio in Europe for the next 12 months has fallen to 17.0. For the S&P 500, the P/E ratio stands at 22.3.

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 - 03/09/2021

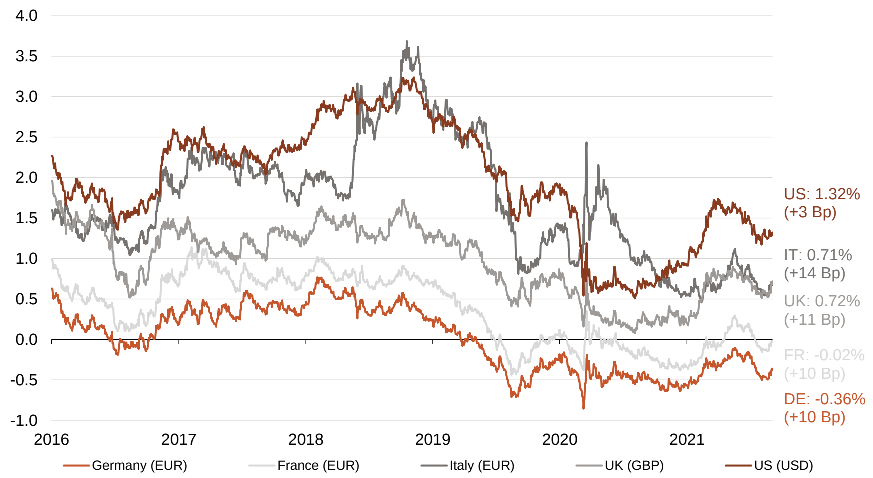
Historical Distribution: Price/Earnings and Price/Book Ratio



- Emerging market equities are the most favourably valued in relative terms and compared with their own history. This is mainly due to China. The market does not know what regulatory changes are still to come, so it is pricing in a significant risk premium.

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 - 03/09/2021

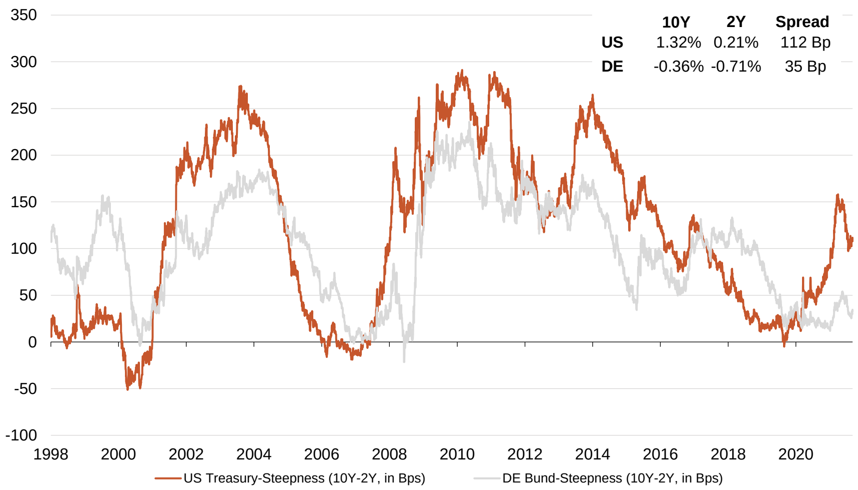
10-Year Government Bond Yields



- Continued elevated inflation readings, as well as the recent resurgence in market participants' inflation expectations and more hawkish tones from some ECB members, caused bond yields to rise over the past four weeks. The yield on Italian government bonds, for example, has risen almost 15 basis points (bps), compared with 10 bps for German government bonds, which are considered very safe.

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 - 03/09/2021

Yield Curve Steepness (10Y - 2Y)

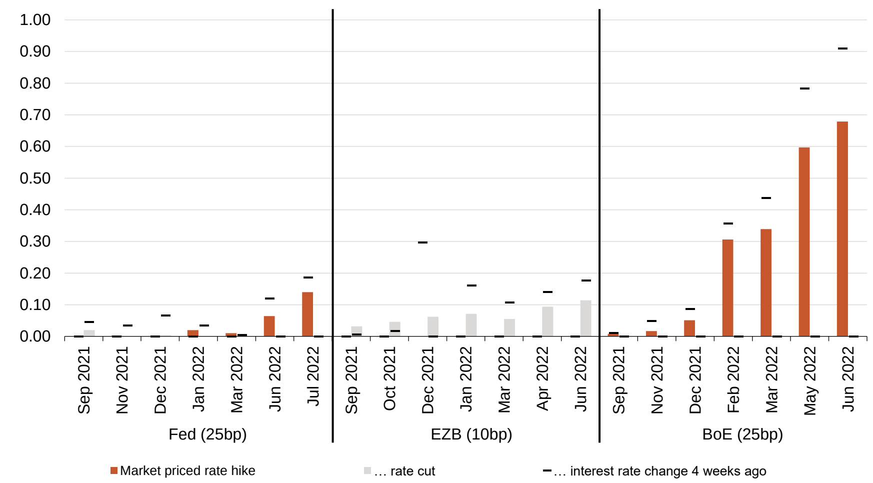


	10Y	2Y	Spread
US	1.32%	0.21%	112 Bp
DE	-0.36%	-0.71%	35 Bp

- In the last two weeks, we saw a slight countermovement in the slopes of the yield curves. The German curve has gained 10 bps, while the U.S. curve has gained 5 bps. The movement is thus in line with investors' rebounding inflation expectations.

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 - 03/09/2021

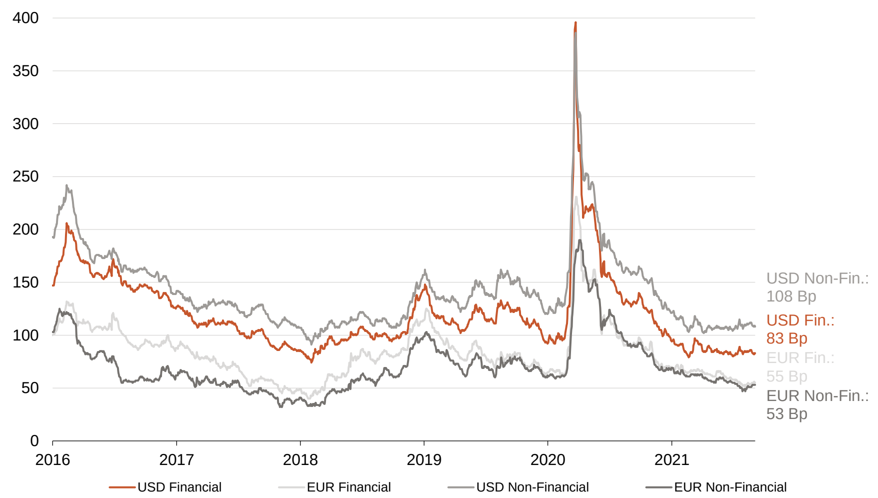
Implicit Changes in Key Interest Rates



- Despite Fed Chairman Powell's rather dovish speeches in Jackson Hole, the probability of an interest rate hike by mid-2022 has not changed much in recent weeks. Good economic data and higher inflation figures are leading to increasing pressure on central banks.
- In the UK, the probability of an interest rate hike by mid-2022 has reached almost 70%.

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: 06/08/2021 - 03/09/2021

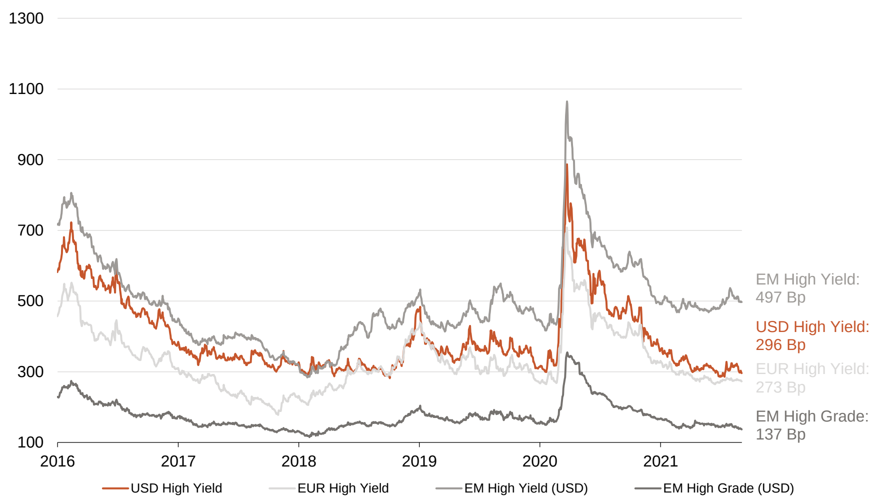
Credit Spreads Financial and Non-Financial Bonds



- In the last two weeks, slight declines in spreads for investment grade corporate bonds were observed - especially for USD corporate bonds.
- USD non-financial bonds, for example, saw spreads narrow by 4 bps. For EUR non-financial bonds, it was only 2 bps. Quality thus remains in demand.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 - 03/09/2021

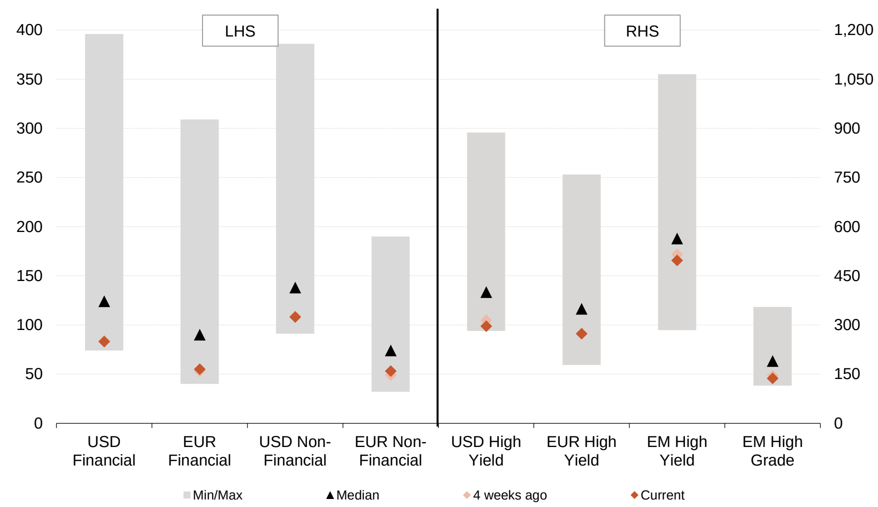
Credit Spreads High Yield and Emerging Markets Bonds



- EM and USD high-yield bonds, on the other hand, saw spreads fall much more sharply in the last two weeks. In both segments, spreads declined by more than 15 bps. We still see noticeable narrowing potential for EM high-yield bonds in particular.
- At 6 bps, spreads of EUR high-yield bonds moved downward significantly less.

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 - 03/09/2021

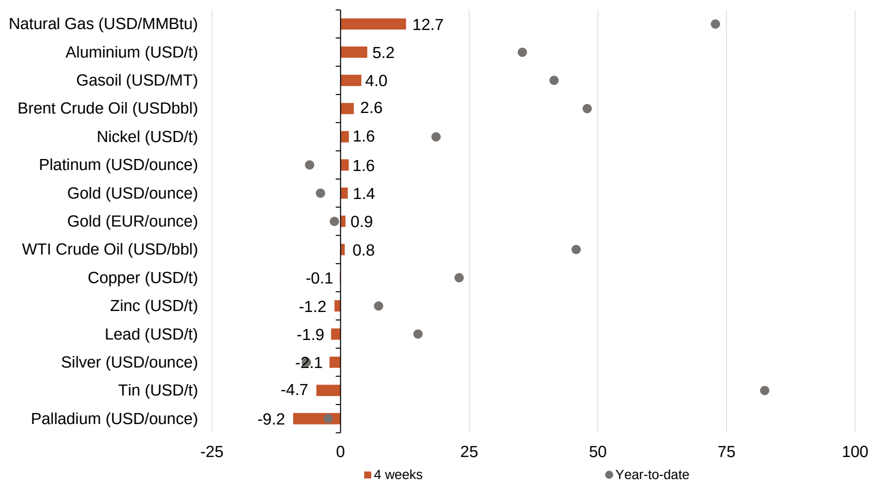
Historical Distribution of Credit Spreads (in bp)



- EM and USD high-yield bonds saw the largest spread tightening in the four-week period. Spreads on USD high-yield bonds thus remain close to the 10-year low. EM high-yield bonds, on the other hand, still have much more room to the downside.

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: 03/09/2011 - 03/09/2021

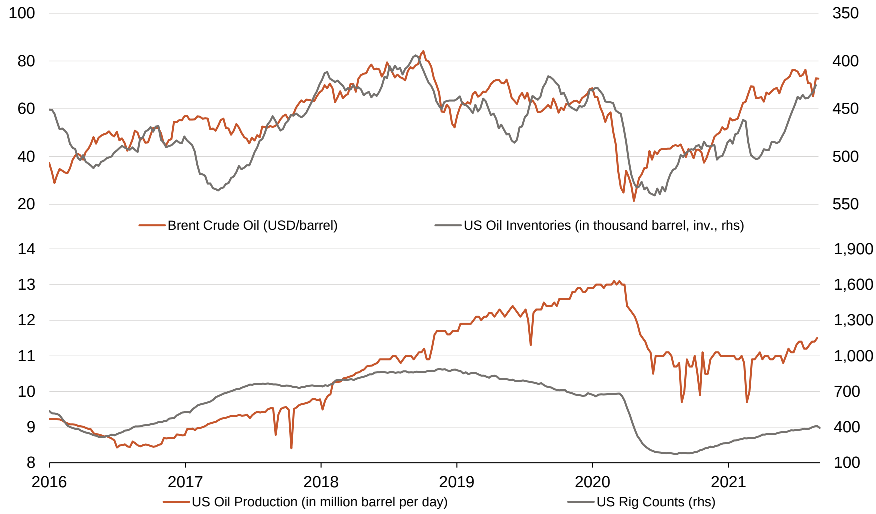
Commodities Performance



- After the challenging past weeks, commodity markets have seen some signs of recovery in all segments.
- Aluminium even climbed to a new 10-year high. However, a Chinese metal association warned that the rally was not fundamentally justifiable.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2021 - 03/09/2021

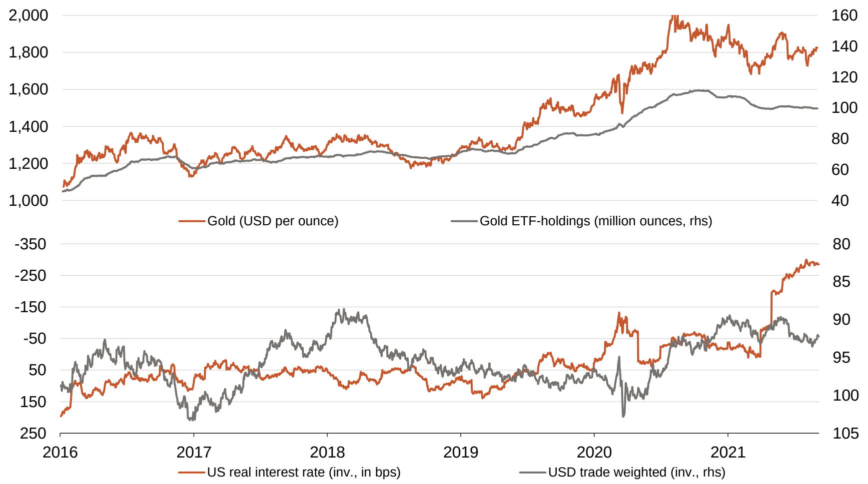
Crude Oil



- Oil was able to recover quickly from its temporary weakness from two weeks ago and is now trading again at around USD 73 per barrel. After all, beyond the delta-variant related demand concerns, the fundamentals show no weakness. US inventories fell by a further 7 million barrels last week.
- Accordingly, OPEC+ decided last week to continue on its course of controlled production increases in October.

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 - 03/09/2021

Gold



- Gold continued its recovery after the "flash crash" over the last two weeks at a reduced pace - despite slightly higher real interest rates. The gold market does not seem entirely unprepared for a somewhat tighter Fed. Currently, the precious metal is again trading above USD 1,800 per ounce.

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 - 03/09/2021

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

IMPORTANT NOTICES

Date: 06 September 2021

The Berenberg Markets series includes the following publications:

- Monitor
- Focus
- Investment Committee Minutes

www.berenberg.de/en/publications

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