BERENBERG
Markets

MONITOR

20 September 2021

Current market commentary

The last two weeks have been marked by increased volatility in the stock market, as expected and in line with the recent higher volatility going into the big option expiry week. Options are often rolled these days, leading market makers to unwind or adjust their hedges in turn. However, volatility is likely to remain elevated at least until the Fed meeting this Wednesday, for which some market participants are already expecting a concrete announcement of the schedule for the curbing of bond purchase programs. However, the recent somewhat disappointing US labour market report as well as mixed US economic data should have made this less likely, at least for the September meeting. Thus, it may be that the often historical pattern will also prove true at the Fed meeting. Before the Fed meeting, investors are nervous, volatility rises, then the Fed surprises dovishly and volatility declines again.

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

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

Short-term outlook

Central banks set the tone.

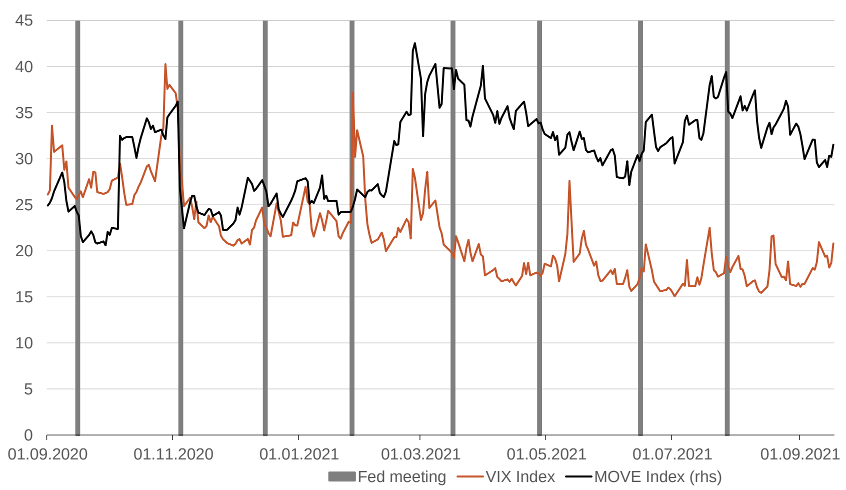
In the next two weeks, central banks will be the focus of attention. On 22 September, the Fed will hold its monthly meeting and on 23 September, the Bank of England will. At the end of September, the ECB Central Bank Forum and the EU Parliament hearing of ECB President Lagarde will take place. The German federal elections will also take place on 26 September. China's National Day, and thus the start of National Day Golden Week, falls on 1 October.

Federal elections in Germany and National Day and Golden Week in China.

In terms of the economy, the focus this week is likely to be on US housing market data and the preliminary Purchasing Managers' Indices for the Eurozone, the UK and the US for September, which will be published on 23 September. This will be followed on 24 September by the ifo Business Climate (Sep.) for Germany. The following week will see retail sales (Aug.), consumer confidence (Oct.) and inflation data (Sep.) for Germany, as well as consumer confidence (Sep.), new orders (Aug.) and the ISM index for the US.

Purchasing Managers' Indices for September are due.

Volatility tends to rise in the run-up to Fed meetings



- In the run-up to Fed meetings, uncertainty and thus implied volatility increase in a similar way to US elections. Many investors hedge "risk events." After Fed meetings, which are often more dovish than the consensus expects, the hedges are then unwound and volatility usually falls again.
- Given that the market has been well prepared for bond purchases to be curtailed and that they are not likely to be immediate, we would expect a similar pattern this time as well.

Source: Bloomberg, Period: 01/09/2020 - 17/09/2021

Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (20/08/21 - 17/09/21)	YTD (31/12/20 - 17/09/21)	17/09/20 17/09/21	17/09/19 17/09/20	17/09/18 17/09/19	17/09/17 17/09/18	16/09/16 17/09/17
Brent	15.8	59.6	78.1	-39.8	-7.9	52.2	2.1
Industrial Metals	6.7	29.5	39.9	-3.7	10.3	-5.3	21.6
MSCI Emerging Markets	4.8	5.0	18.9	4.0	8.7	-3.6	19.0
Global Convertibles	2.1	10.4	26.6	14.6	9.6	8.0	7.5
MSCI Frontier Markets	2.1	24.3	33.3	-8.0	12.2	-6.1	19.2
MSCI World	0.4	21.3	32.9	3.1	9.8	13.1	11.6
Eonia	0.0	-0.3	-0.5	-0.5	-0.4	-0.4	-0.4
USDEUR	-0.2	4.2	1.1	-6.5	5.5	2.3	-6.6
Global Coporates	-0.6	2.7	2.4	1.7	14.0	0.7	-2.8
REITs	-0.9	27.3	27.7	-17.0	20.9	1.9	-4.5
Global Treasuries	-1.0	-0.1	-1.0	-0.1	12.9	0.6	-7.8
Gold	-1.7	-3.7	-8.8	21.0	31.9	-6.9	-5.9

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 past four weeks, most asset classes have been treading water. Brent oil and industrial metals were exceptions due to supply shortages and rose more strongly.
- Gold was the weakest performer. Rising US government bond yields weighed on the precious metal.
- Emerging market equities recently recovered slightly.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 17/09/2016 – 17/09/2021

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (20/08/21 - 17/09/21)	YTD (31/12/20 - 17/09/21)	17/09/20 17/09/21	17/09/19 17/09/20	17/09/18 17/09/19	17/09/17 17/09/18	16/09/16 17/09/17
Topix	11.3	15.8	25.8	0.5	4.2	9.4	10.2
MSCI EM Eastern Europe	6.6	31.1	45.9	-20.4	28.0	2.7	22.4
MSCI EM Asia	5.6	2.3	16.0	13.9	5.5	-1.1	19.7
MSCI USA Small Caps	2.5	21.6	49.2	-7.6	2.3	22.4	10.2
S&P 500	-0.3	24.3	35.1	6.6	12.2	20.3	11.5
Stoxx Europe Cyclicals	-0.4	21.2	35.8	-2.6	-0.1	0.6	25.6
Euro Stoxx 50	-0.4	18.1	26.8	-3.8	8.2	-2.3	22.9
Stoxx Europe Small 200	-0.4	21.6	35.4	2.4	1.6	6.4	19.0
MSCI UK	-1.2	16.7	27.5	-18.7	5.1	4.0	8.4
DAX	-2.0	12.9	17.3	6.8	2.3	-3.4	21.8
Stoxx Europe 50	-2.5	15.9	20.5	-3.6	9.8	0.2	14.1
Stoxx Europe Defensives	-3.4	13.5	15.8	-2.1	9.6	4.6	7.2

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.

- Japan was by far the strongest equity region recently, driven by positive earnings revisions and emerging optimism regarding a new economic policy, following the announcement of Prime Minister Yoshihide Suga's resignation.
- However, Eastern Europe remains the best performing equity region globally, boosted by the ongoing commodity rally as well as the relatively cheap valuation.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 17/09/2016 – 17/09/2021

Fixed Income

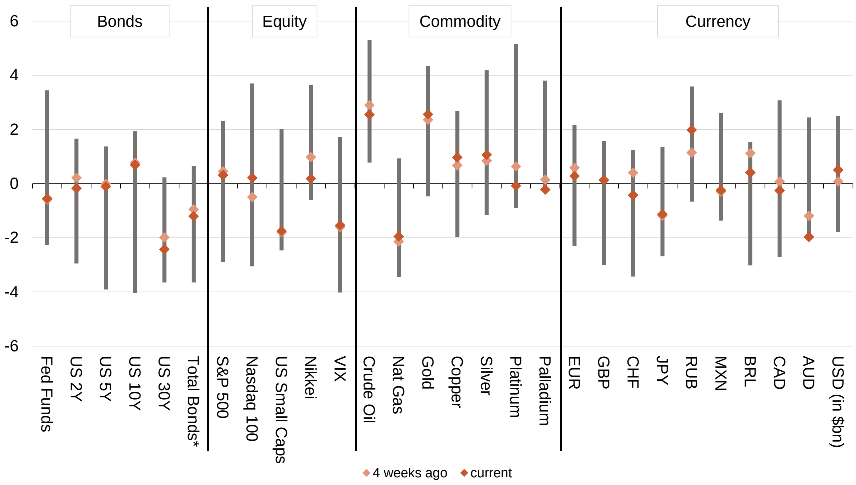
	4-week & YTD		12-month periods over that last 5 years				
	4W (20/08/21 - 17/09/21)	YTD (31/12/20 - 17/09/21)	17/09/20 17/09/21	17/09/19 17/09/20	17/09/18 17/09/19	17/09/17 17/09/18	16/09/16 17/09/17
USD High Yield	1.1	8.6	10.2	-4.3	13.4	5.4	1.5
EUR High Yield	0.5	3.8	7.8	-0.9	4.5	0.7	6.3
EM Hard Currency Bonds	0.4	-0.7	1.8	2.2	7.5	-6.1	3.8
EM Local Currency Bonds	0.2	3.3	5.4	-3.4	16.7	-4.7	-0.2
EUR Inflation Linkers	0.1	4.9	7.6	-0.9	6.9	1.7	-0.2
USD Corporates	-0.1	4.3	3.1	2.6	17.8	0.9	-3.8
EUR Financials	-0.6	0.3	1.9	0.6	5.5	0.0	1.9
Treasuries	-0.8	2.6	-1.9	2.1	15.5	0.4	-7.2
EUR Non-Financials	-0.9	-0.3	1.6	0.7	6.2	0.1	-0.1
BTPs	-1.1	-0.8	2.5	2.0	15.0	-2.0	-2.3
Bunds	-1.8	-2.4	-1.9	0.1	7.0	0.7	-2.8
Gilts	-2.0	-0.4	1.9	3.1	11.7	0.0	-5.9

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.

- Safe government bonds recently performed the worst. The significant undershooting of bond yields from March to July, also fuelled by momentum strategies, was thus compensated to some extent.
- USD high-yield bonds again showed the best performance in the last four weeks and thus remain the strongest bond segment since the beginning of the year - helped by 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: 17/09/2016 – 17/09/2021

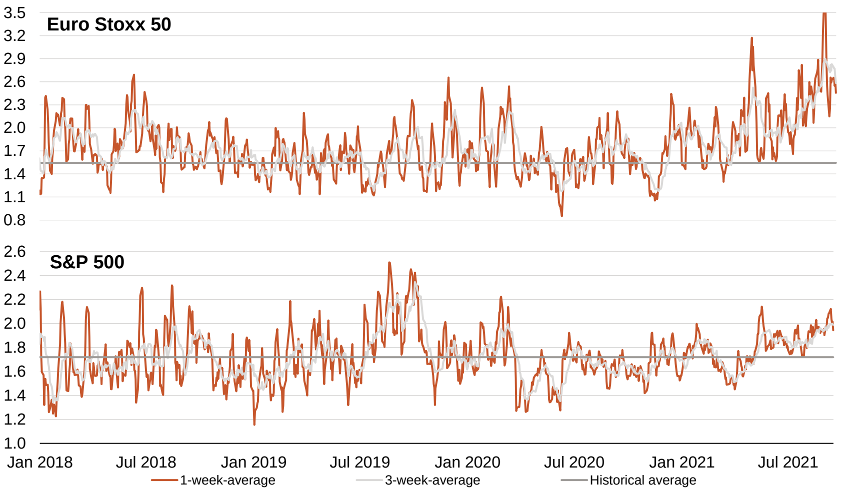
Non-Commercial Positioning



- Hedge funds have recently been increasingly betting on rising interest rates again. Bond futures across almost all maturities recorded reductions in positions.
- In equity markets, the picture is more ambiguous. Amongst US tech stocks, short positions were closed, while there were also profit taking on Nikkei longs.

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: 14/09/2011 - 14/09/2021

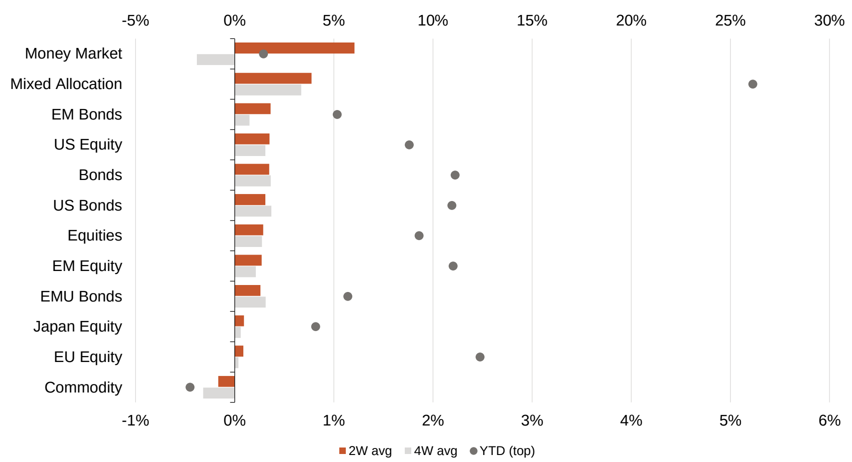
Put-Call Ratio



- The put-call ratio remains high, especially in Europe. Here, 2.5 times as many puts were traded as calls on average over the last three weeks. Investors' need for hedging remains high.
- This is also reflected in the skewness. The cost of a put 10% out of the money is currently twice as high as for a call 10% out of the money in both Europe and the US.

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 - 17/09/2021

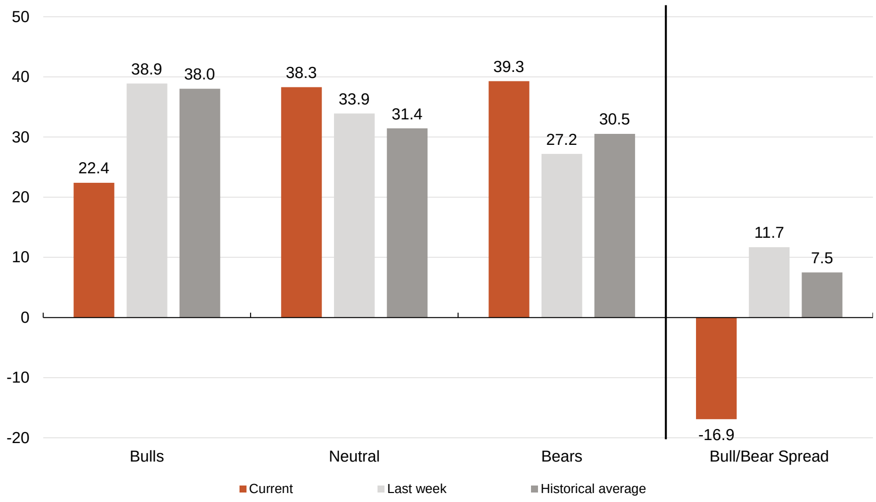
ETF Flows



- Although commodities have been amongst the best performing assets since the beginning of the year, they have been the only asset class to see outflows both over the last few weeks and year-to-date.
- With falling equity prices and increased growth scepticism, money market ETFs have recently enjoyed renewed popularity and recorded the largest inflows.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2020 - 17/09/2021

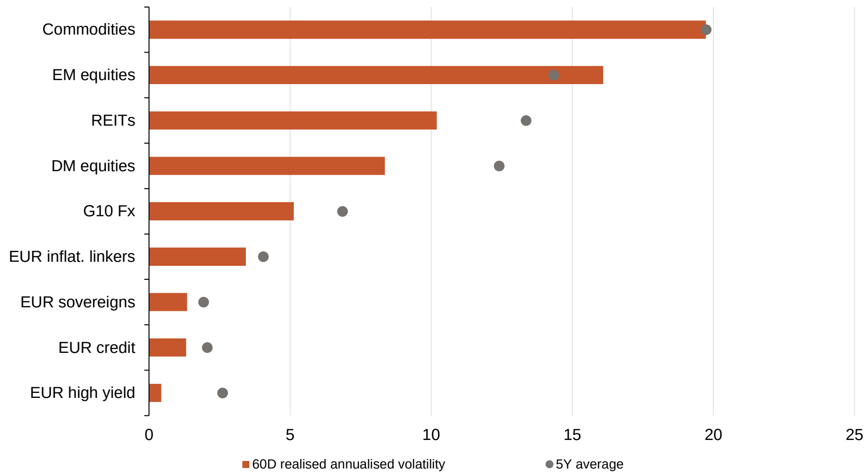
AAII Sentiment Survey (Bulls vs Bears)



- US retail investor sentiment deteriorated dramatically last week. The bull-bear spread turned around 29ppts to -17ppts. The mood has not turned this negatively since October last year.
- The trigger may have been, amongst other factors, a fall in stock prices in the first two weeks of September.

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 – 16/09/21

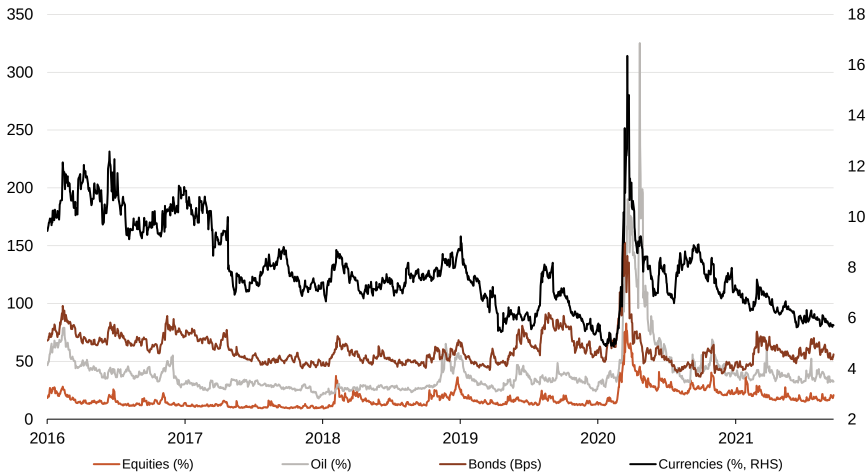
Realised Volatilities



- Realised volatilities are almost unchanged compared to two weeks ago. The ranking also remained the same.
- Slightly declining volatility was seen in developed market equities and G10 currencies. For the latter, volatility is now only slightly above 5%.

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: 17/09/2016 – 17/09/2021

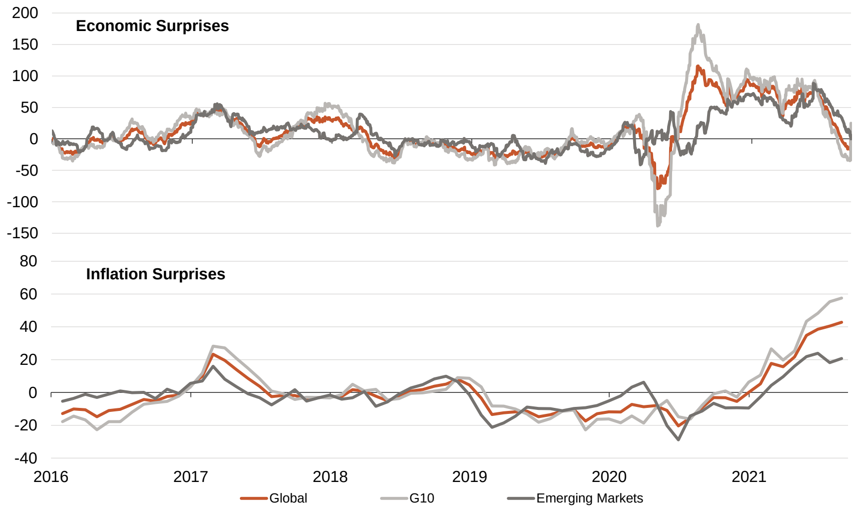
Implied Volatilities



- Implied volatility in stock markets remains above the 15% mark, despite the fact that realised volatility has been below 10% for almost 2 months.
- Many investors remain cautious.

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 – 17/09/2021

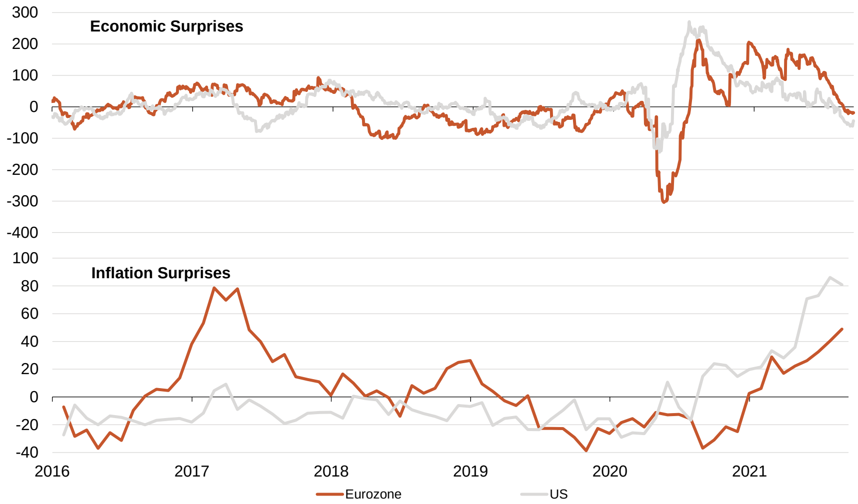
Global



- The weakening of economic growth continues to be clearly reflected in economic surprises. The G10 economic surprise index and the global index remain in negative territory. The trend for the emerging markets does not look much better. There, the index is on the verge of a downturn into negative territory.
- Inflation data in the industrialised nations continued the positive surprises.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 – 17/09/2021

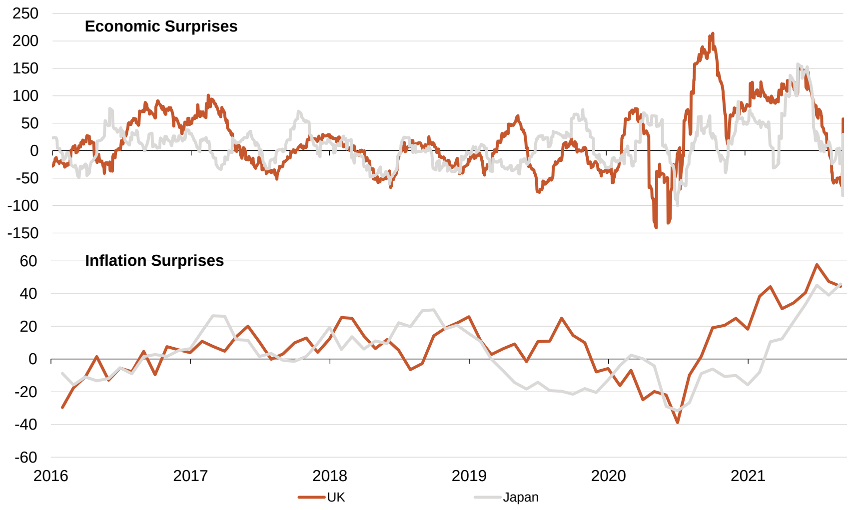
Eurozone and US



- In both the US and the Eurozone, negative economic surprises have dominated in recent weeks.
- In the US, for example, industrial production data recently disappointed. On the other hand, the Empire Manufacturing Index and retail sales were well above expectations.
- In the Eurozone, industrial production surprised strongly on the upside, while exports fell short of expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 – 17/09/2021

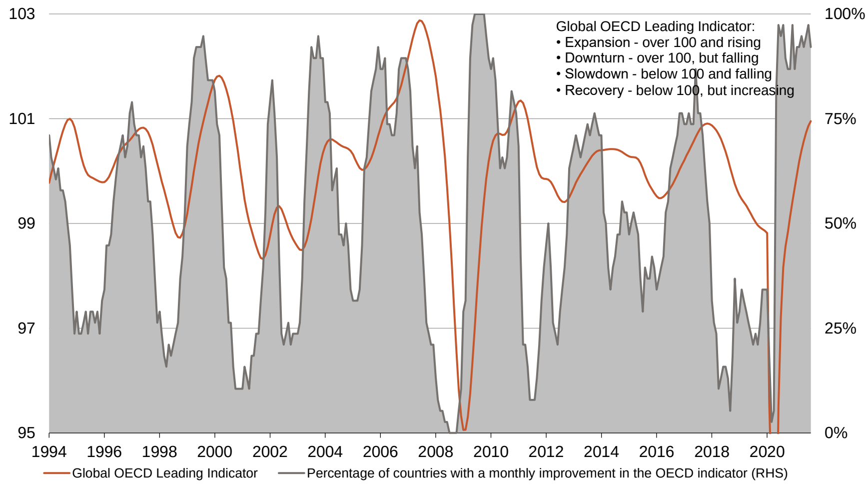
UK and Japan



- In the UK, monthly GDP and most recently retail sales disappointed, while industrial production exceeded expectations.
- In Japan, both machinery order data and the trade balance surprised negatively. Exports were clearly positive.

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 – 17/09/2021

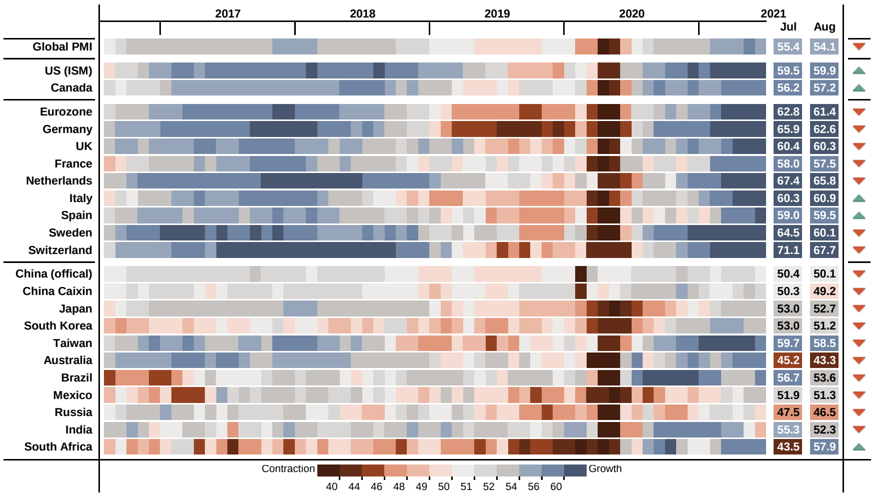
OECD Leading Indicator



- The OECD leading indicator has recently continued its upward trend. The global economy thus remains clearly in the expansion phase.
- The picture is supported by the high proportion of countries which saw an improvement in the indicator compared with the previous month. With a share of more than 90%, the expansion is broadly supported.

The OECD Leading Indicator is composed of a series of selected economic indicators whose composition provides a robust signal for future turning points. A turning point in the indicator usually signals a turning point in the economic cycle in 6-9 months. However, lead times are sometimes outside this range and turning points are not always correctly detected.
Source: Bloomberg, Time period: 31/01/1994 - 31/08/2021

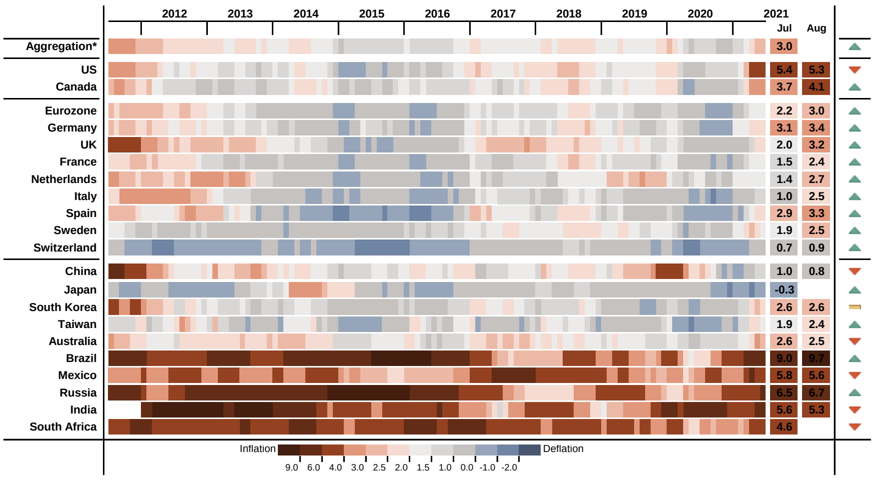
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global PMI recorded a slight loss in August to 54.1, but remains above the important 50 growth threshold.
- In most Western regions, the PMI remains above 60, although the bulk of countries recorded a falling August PMI.

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: 30/08/2016 - 31/08/2021

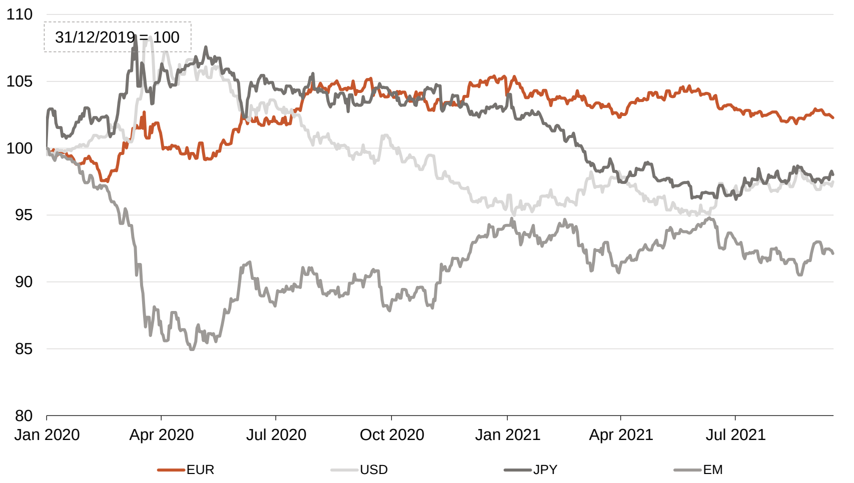
Headline Inflation



- In August, consumer prices in the Eurozone continued to rise without exception. The increased inflation is likely to be with us for longer and prove more sustainable than expected by the bulk of market participants.
- In the US, inflation declined slightly in August, but remains at its high level of 5.3%.

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

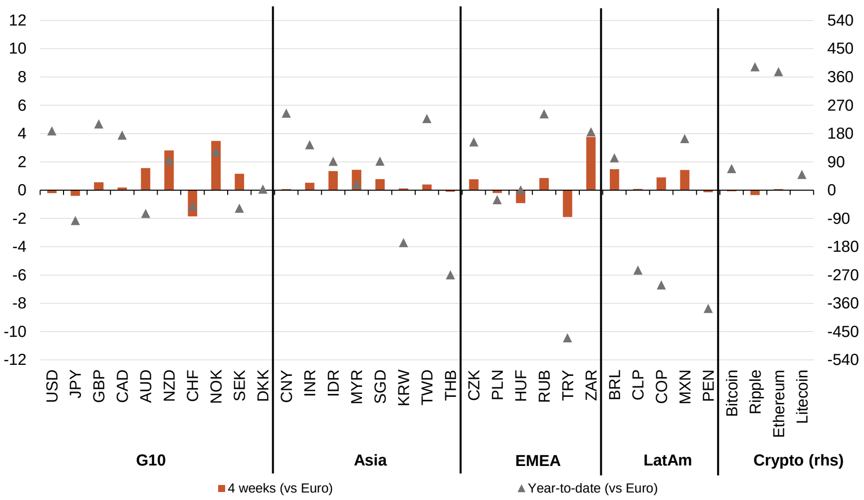
Trade-Weighted Currency Development



- In currency markets, investors again tended to favour safe havens such as the dollar and the Japanese yen over the euro and emerging market currencies.
- One exception was the Indian rupee, which rose strongly after industrial production surprisingly increased by 11.5% year-on-year. The economy seems to be picking up again strongly after the delta wave.

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 - 17/09/2021

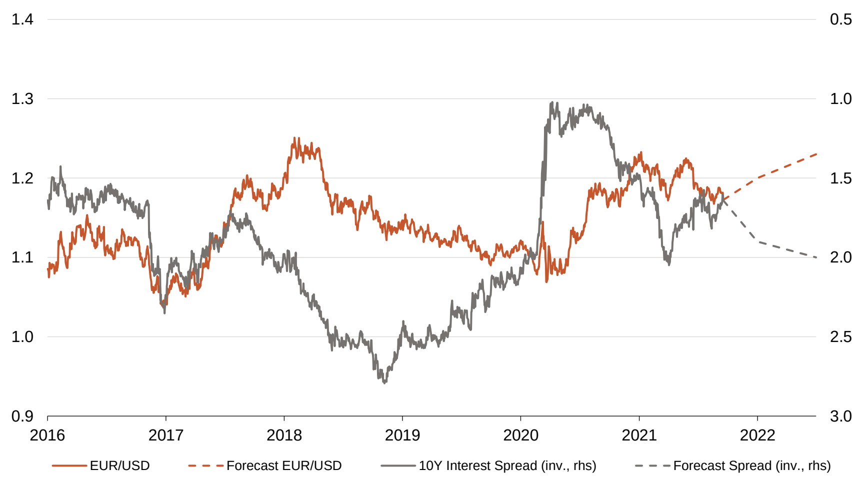
Currency Moves vs Euro



- Currency movements against the euro showed a mixed picture relative to the previous month. The Norwegian krone was one of the best performers. In addition to the rising oil price, it also benefited from the now confirmed interest rate hike by Norges Bank.
- Among the emerging market currencies, the South African rand recently performed best. Here, too, expectations of rising key interest rates provided a boost.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2020 - 17/09/2021

EUR/USD Exchange Rate and Interest Rate Differential



- The EUR/USD exchange rate switched from an uptrend to a downtrend. The euro now trades below the 1.18 mark again.
- Since the beginning of the year, the euro has already weakened by around 4% against 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

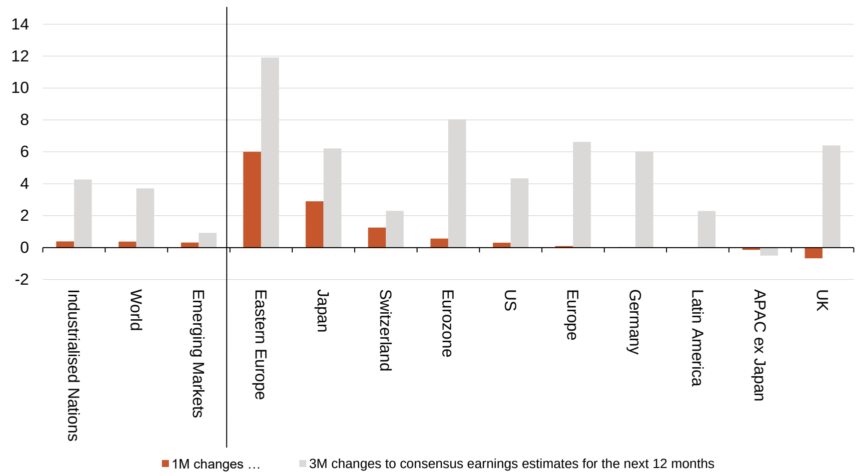
	4-week & YTD		12-month periods over that last 5 years				
	4W (20/08/21 - 17/09/21)	YTD (31/12/20 - 17/09/21)	17/09/20 17/09/21	17/09/19 17/09/20	17/09/18 17/09/19	17/09/17 17/09/18	16/09/16 17/09/17
Energy	6.2	20.1	40.1	-42.7	-3.6	24.3	16.5
Information Technology	3.4	37.4	47.4	15.8	8.4	11.8	21.9
Consumer Discretionary	0.8	15.9	34.3	-0.5	6.6	1.1	18.3
Industrials	0.5	23.2	35.3	3.0	5.8	4.6	18.8
Finance	-0.8	19.7	39.2	-20.3	-2.9	-5.3	31.3
Growth	-0.8	20.8	26.8	7.5	10.6	4.2	11.7
Value	-2.3	14.1	26.2	-15.7	1.8	-0.3	20.2
Consumer Staples	-2.5	9.7	10.6	-4.4	16.8	-0.7	4.3
Telecommunications	-3.8	14.4	21.9	-18.7	8.0	-11.6	2.3
Materials	-4.0	16.1	26.1	8.9	3.5	5.6	26.9
Health Care	-6.1	15.4	10.4	13.0	13.7	2.3	3.5
Utilities	-6.9	0.1	12.1	6.9	23.0	-2.5	11.4

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.

- Within the European equity sectors, energy companies made a comeback, benefiting from the stronger oil price. However, IT companies also made significant gains.
- By contrast, more defensive sectors were weighed down by rising bond yields and were among the relative losers.

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: 17/09/2016 – 17/09/2021

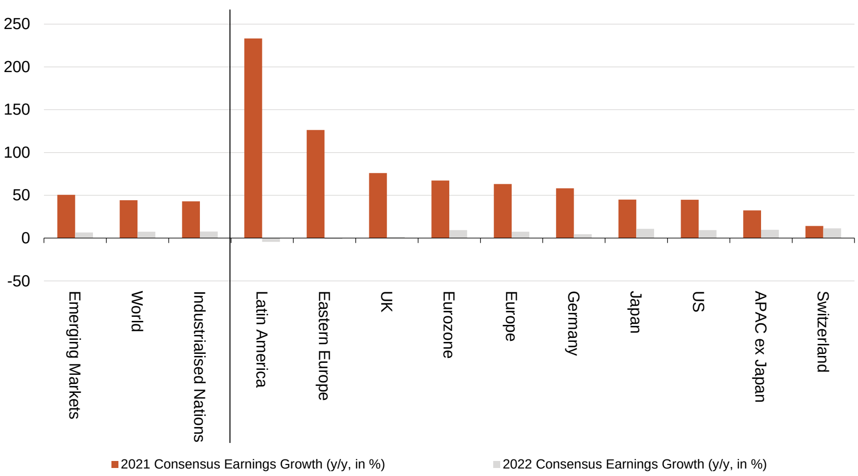
Changes in Consensus Earnings Estimates



- The momentum of earnings revisions has recently weakened for most regions. For the UK and Asia Pacific ex Japan, earnings revisions over the last month were even negative, while for Europe ex UK and the USA they were only slightly positive.
- For Eastern Europe and Japan, on the other hand, analysts have also raised earnings estimates significantly over the past month.

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 17/09/2021

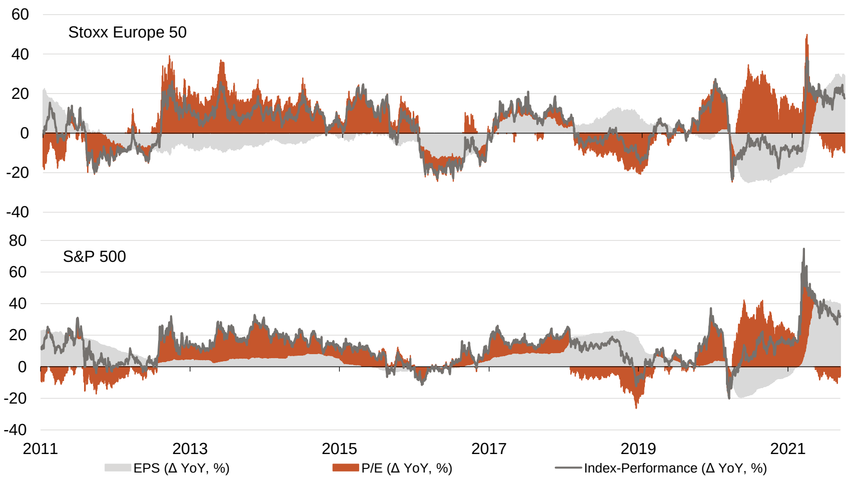
Earnings Growth



- Meanwhile, analysts expect 2021 earnings growth of around 230% for Latin America. The growth rate is so high because Latin American companies suffered heavily from the pandemic last year and are now benefiting from a positive base effect. In addition, many companies are active in the booming commodities sector. However, analysts expect negative earnings growth 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 17/09/2021

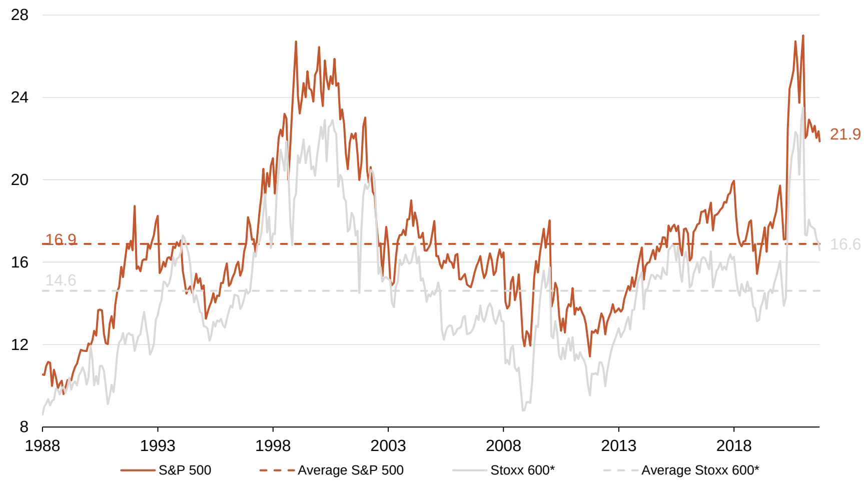
Contribution Analysis



- Equity markets rallied significantly year-on-year on the back of positive corporate reports, upward revisions to earnings expectations, equity fund inflows and TINA sentiment in the face of negative bond real yields, driving Western equity indices from all-time high to all-time high.

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 - 17/09/2021

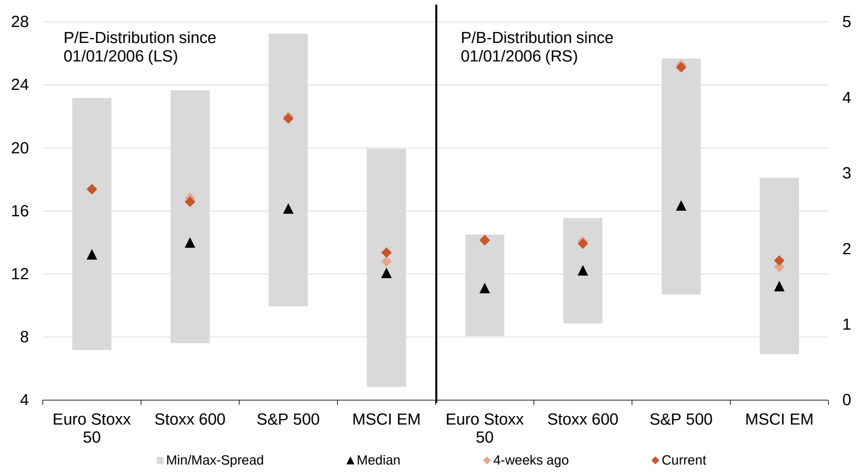
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Analysts' earnings estimates in Europe have continued to rise faster than the stock market. Accordingly, the estimated P/E ratio for the next 12 months has fallen to 16.6. The S&P 500 also saw a slight decline in valuations with a P/E ratio of 21.9.

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 - 17/09/2021

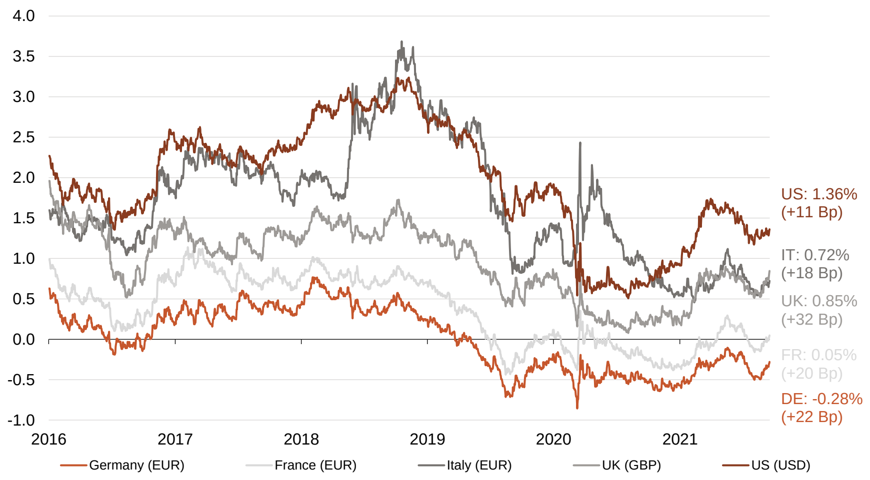
Historical Distribution: Price/Earnings and Price/Book Ratio



- U.S. equities continue to be most expensive in terms of valuation, as they benefited strongly from the Fed's expansionary monetary policy.
- The impact of flow trends should also not be underestimated: passive, thematic and ESG investments are particularly favourable for US stocks, which account for a large weighting in the corresponding indices.

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 - 17/09/2021

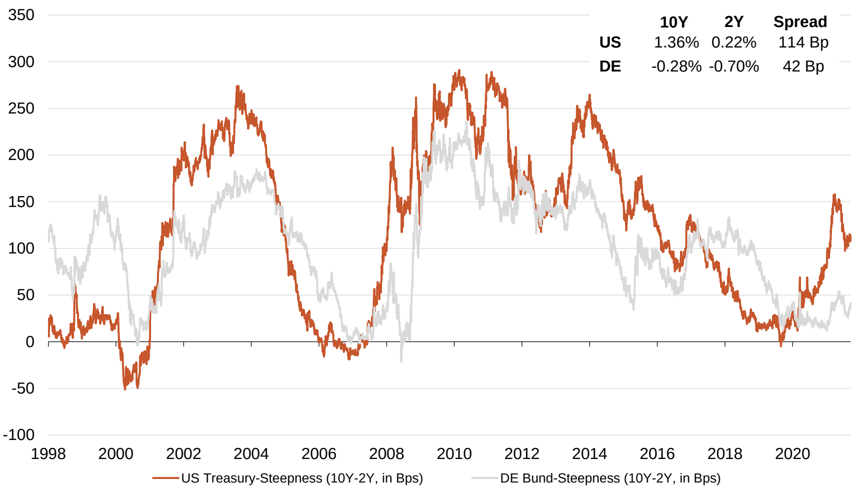
10-Year Government Bond Yields



- Despite recent downward surprises in U.S. inflation, yields on U.S. government bonds have continued to rise in recent weeks. This was due to better-than-expected retail sales and labour market data.
- In Europe yields have also slightly risen in the last two weeks. In the last four weeks, the trend continues to point clearly upward.

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 - 17/09/2021

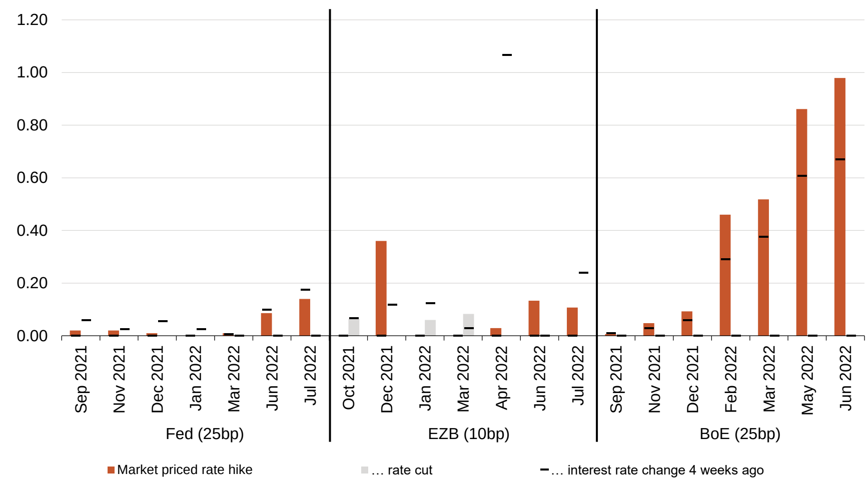
Yield Curve Steepness (10Y - 2Y)



- The steepness of the U.S. yield curve has moved slightly upward in recent weeks.
- The German yield curve, on the other hand, has risen by 8 basis points (bp) much more sharply.

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 - 17/09/2021

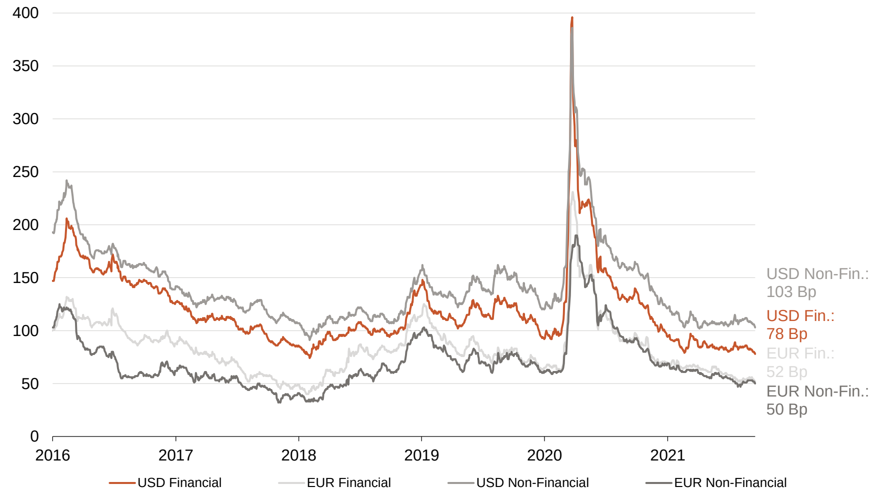
Implicit Changes in Key Interest Rates



- The increasingly hawkish tones of some central bank members as well as solid economic data and increased inflation data slightly increase the probability of an interest rate hike in the euro zone and the US.
- In the UK, on the other hand, the market is pricing in an almost 100% probability of a rate hike by mid-2022 after inflation rose to more than 3% in August.

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: 20/08/2021 - 17/09/2021

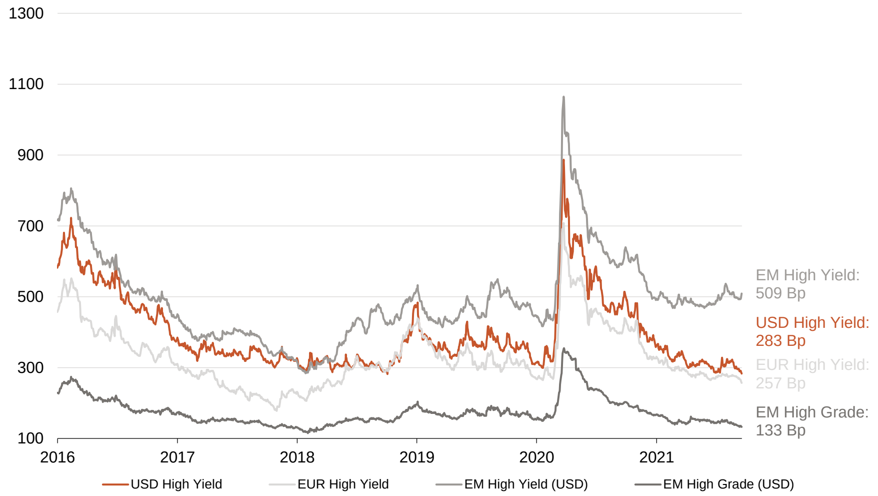
Credit Spreads Financial and Non-Financial Bonds



- As in the previous weeks, IG corporate bond spreads fell slightly in the last two weeks.
- USD corporate bonds saw spreads narrow by up to 6 basis points, while EUR corporate bonds saw spreads narrow by around 3 basis points.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 – 17/09/2021

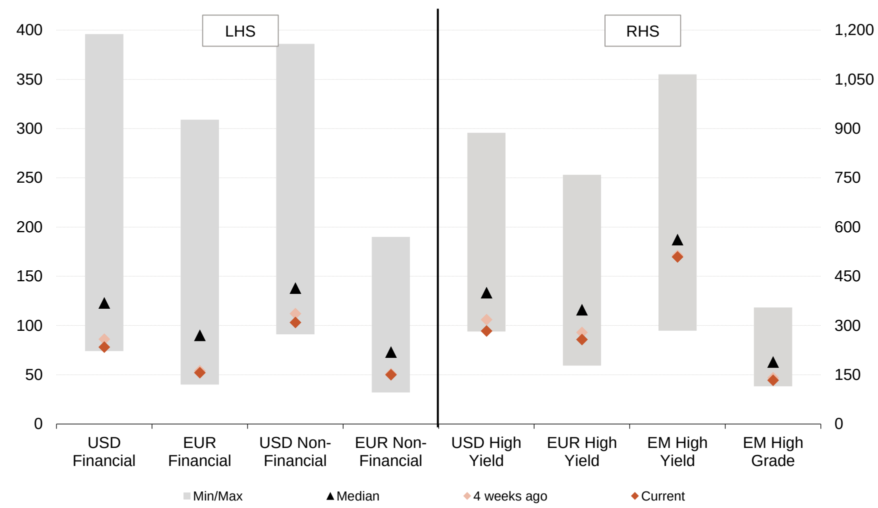
Credit Spreads High Yield and Emerging Markets Bonds



- Risk premiums on EM high-yield bonds have increased slightly in the last two weeks. In addition to the delta variant, the payment difficulties of one of the largest real estate companies in China also played a role.
- USD and EUR high-yield bonds, on the other hand, saw significantly falling risk premiums.

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 – 17/09/2021

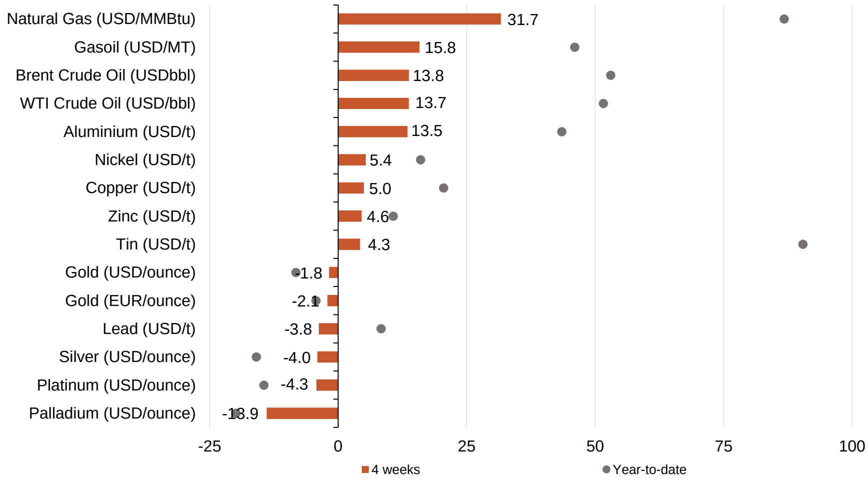
Historical Distribution of Credit Spreads (in bp)



- The risk premium on USD financial bonds and USD high-yield bonds remains close to or at the 10-year lows.
- We see significantly more narrowing potential for EM high-yield bonds, which still offer attractive risk premiums despite the increased credit risk.

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: 17/09/2011 – 17/09/2021

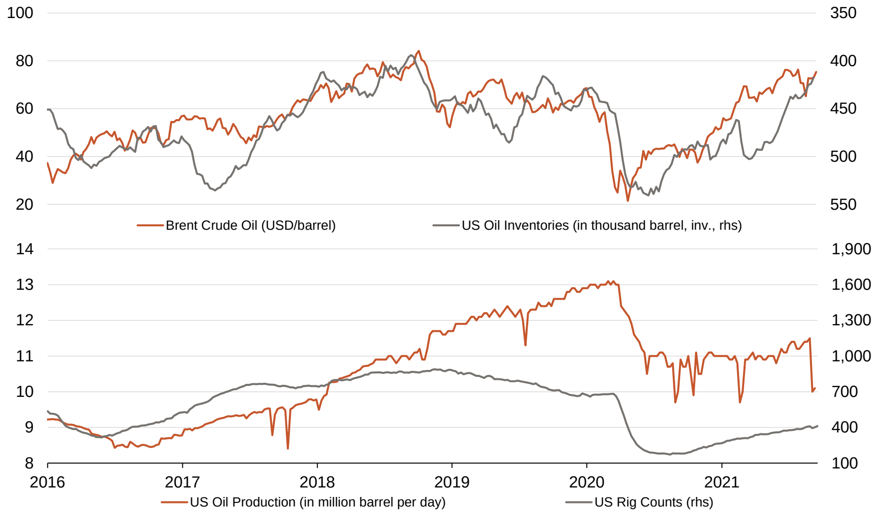
Commodities Performance



- By far the best-performing commodity in the last four weeks has been natural gas. Low inventories after high consumption over the summer fuelled fears of shortages in the winter and caused prices to explode.
- At the other extreme is palladium, which like platinum is suffering from the chip shortage in the automotive industry. This is because demand for both metals is largely determined by the production of catalytic converters.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2021 – 17/09/2021

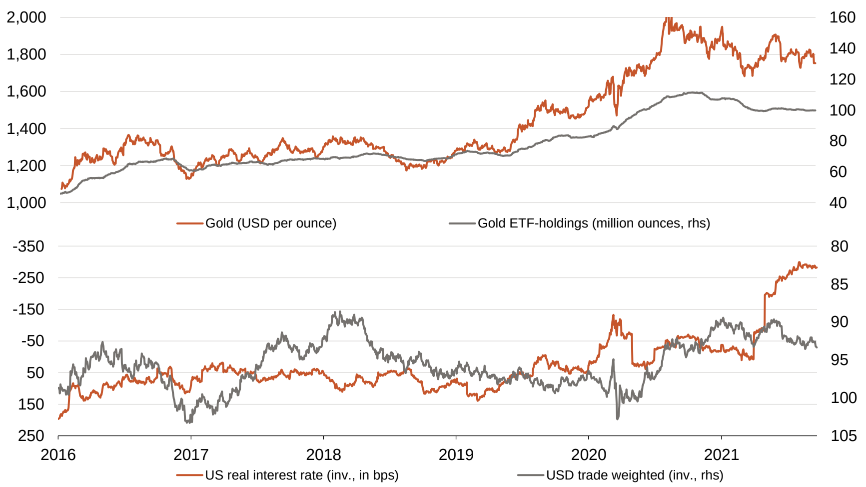
Crude Oil



- Oil has recently made strong gains and is now trading close to its multi-year highs of July.
- The reason for this is the continued tight supply. Although the delta variant continues to fuel demand concerns, the fundamental data paints a different picture. For example, inventories in the US recently fell much more sharply than expected.

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 – 17/09/2021

Gold



- Gold continues to struggle in anticipation of a somewhat more restrictive monetary policy by the Fed. Currently, the precious metal is again trading below the USD 1,800 per ounce mark.
- The mooted return expectations of investors are also reflected in the ETF holdings, which showed little movement in recent weeks.

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 – 17/09/2021

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

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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