BERENBERG
Markets

MONITOR

15 February 2021

Current market commentary

Stock markets recovered quickly from the volatility peak at the end of January. In particular, Chinese equities and US tech stocks have made significant gains since then. Economic optimism, higher-than-expected Q4 20 corporate earnings, positive revisions to earnings expectations and high cash balances are causing investors to see the sell-off as a buying opportunity. We remain constructive on equities but see two risks. If the coronaviruses mutate and vaccines are not effective, economic optimism is likely to evaporate. However, this is not our baseline scenario. We think it is more likely that long-dated bond yields will continue to rise, especially due to rising inflation expectations. If this happens quickly and strongly, the equity market is likely to come under pressure, at least temporarily. Rising real yields would be particularly problematic for markets. This and the behaviour of the US Federal Reserve will have to be monitored.

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

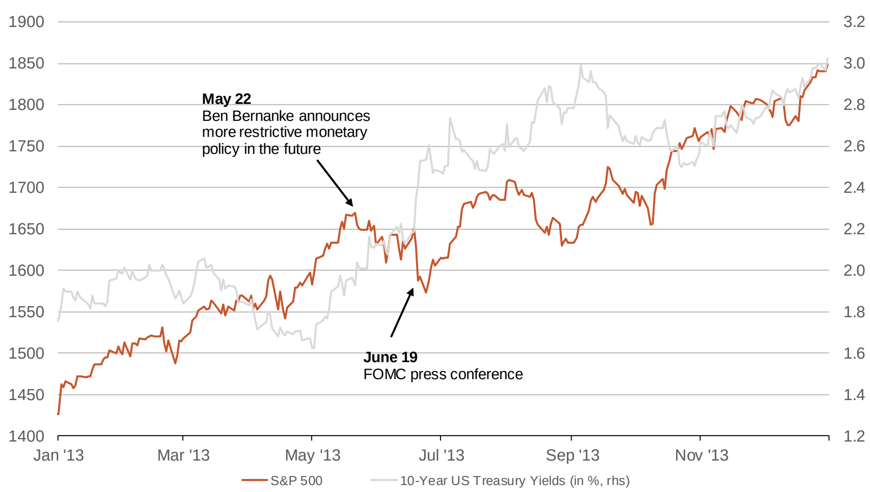
Q4 2020 reporting season comes to an end.

The Q4 reporting season, which was surprisingly positive, will end in the next few weeks. On the corporate side, things will thus be quieter and, especially in the US, share buyback programmes will pick up again significantly. Today, (Monday 15 February), US stock markets are closed due to a public holiday.

A week of economic data is coming up.

This is a busy week in terms of economic data releases. On Tuesday, the ZEW Indicator of Economic Sentiment (Feb.) for Germany and the Empire State Index (Feb.) for the US will be published. On Wednesday, Japanese machinery orders (Dec.), US retail sales (Jan.) and US industrial production (Jan.) will follow. Weekly initial jobless claims, housing data and the Philadelphia Fed Index for the US will be released on Thursday. On Friday, the preliminary Purchasing Managers' Indices (Markit, Feb.) for France, Germany, the Eurozone, the UK and the US are due, as well as UK Retail Sales (Jan.).

U-turn by the Fed and "taper tantrum" unlikely for the time being



- In 2013, the yield on 10-year US government bonds quickly rose towards 3%, driven by real yields after the Fed announced it would reduce its bond purchases.
- In the so-called "taper tantrum", the S&P 500 initially fell by 6 % and struggled to reach new highs in the 3rd quarter of 2013.
- Eventually, it resumed its upward trend, albeit volatile, and the correlation between equities and bonds turned negative again.

5-year periods see following page.
Source: Bloomberg, Time period: 01/01/2013 - 31/12/2013

Multi Asset

	4W (15/01/21 - 12/02/21)	YTD (31/12/20 - 12/02/21)	12/02/20 12/02/21	12/02/19 12/02/20	12/02/18 12/02/19	12/02/17 12/02/18	12/02/16 12/02/17
Brent	12.1	21.0	-14.9	5.8	12.8	-5.1	53.2
Global Convertibles	5.6	10.6	31.1	18.9	11.4	-2.9	26.1
MSCI Emerging Markets	5.1	11.7	18.1	13.7	0.4	9.8	41.6
Industrial Metals	4.3	7.5	18.6	-1.6	-3.9	-2.2	44.5
REITs	4.1	3.9	-18.8	21.7	20.1	-15.7	18.2
MSCI World	3.6	5.8	5.6	26.3	8.9	1.0	31.7
Eonia	0.0	-0.1	-0.5	-0.4	-0.4	-0.4	-0.3
USDEUR	-0.4	0.8	-10.3	4.2	8.5	-13.4	5.8
Global Coporates	-0.5	-0.3	-3.2	13.9	8.0	-7.4	9.4
Gold	-0.5	-3.1	4.5	24.4	7.6	-7.2	5.4
Global Treasuries	-1.0	-0.8	-3.4	9.4	7.6	-7.0	3.4
MSCI Frontier Markets	-1.8	2.8	-5.5	12.2	-3.7	7.7	23.1

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.

- A persistent supply deficit continues to make Brent a winner and cyclical stocks such as emerging market equities and industrial metals also gained against a backdrop of positive growth prospects.
- The focus on risk assets continues to weigh on the gold price. Rising yields also resulted in price losses for government bonds.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/02/2016 – 12/02/2021

Equities

	4W (15/01/21 - 12/02/21)	YTD (31/12/20 - 12/02/21)	12/02/20 12/02/21	12/02/19 12/02/20	12/02/18 12/02/19	12/02/17 12/02/18	12/02/16 12/02/17
MSCI USA Small Caps	6.4	14.9	19.1	16.8	15.0	-5.2	49.8
MSCI EM Asia	6.1	13.6	28.8	16.3	-0.2	12.8	37.4
S&P 500	4.3	5.8	6.4	30.7	14.3	1.3	34.2
Stoxx Europe Small 200	2.8	4.8	6.6	22.6	-2.2	10.3	23.7
Topix	2.8	6.9	8.4	17.1	-1.8	4.1	39.6
Euro Stoxx 50	2.8	4.2	-2.2	24.1	-2.7	5.5	22.2
Stoxx Europe Cyclicals	2.7	5.4	1.0	22.3	-7.5	8.7	32.4
DAX	1.9	2.4	2.2	23.6	-9.4	5.3	30.1
Stoxx Europe 50	0.9	3.4	-6.4	23.3	1.3	2.2	18.7
MSCI UK	-0.7	4.3	-14.9	14.3	4.9	-1.8	20.7
Stoxx Europe Defensives	-0.7	2.8	-8.5	21.6	11.9	-1.7	11.4
MSCI EM Eastern Europe	-1.9	3.6	-17.1	24.3	9.8	2.6	62.2

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.

- In the hope of an economic recovery later in the year, many investors are stocking up on cyclical stocks.
- Small caps have been the winners in recent weeks. Japanese and Asian emerging market equities have also benefited from this trend.
- UK and Eastern European stocks lost value in recent weeks, in a temporarily volatile market environment.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/02/2016 – 12/02/2021

Fixed Income

	4W (15/01/21 - 12/02/21)	YTD (31/12/20 - 12/02/21)	12/02/20 12/02/21	12/02/19 12/02/20	12/02/18 12/02/19	12/02/17 12/02/18	12/02/16 12/02/17
BTPs	0.8	0.4	4.8	14.9	-2.3	4.0	-1.6
EUR High Yield	0.8	1.2	2.2	7.7	-0.6	3.4	12.2
USD High Yield	0.6	2.0	-5.8	14.1	14.1	-10.5	29.9
EM Hard Currency Bonds	0.4	-1.1	0.6	7.6	-0.6	2.1	9.9
EM Local Currency Bonds	0.0	1.1	-5.3	10.9	6.8	-4.3	16.4
EUR Financials	0.0	0.0	1.3	5.6	0.5	2.6	4.6
EUR Inflation Linkers	-0.1	0.4	1.9	8.3	-1.1	2.9	2.4
EUR Non-Financials	-0.4	-0.2	1.6	5.9	1.0	1.4	4.8
USD Corporates	-0.7	-0.6	-5.1	18.3	11.1	-10.7	12.5
Treasuries	-0.9	-0.8	-6.3	12.5	12.2	-13.6	4.2
Bunds	-1.2	-1.4	0.2	3.6	4.7	-2.1	0.1
Gilts	-1.3	-2.0	-2.9	13.8	6.2	-4.2	-4.7

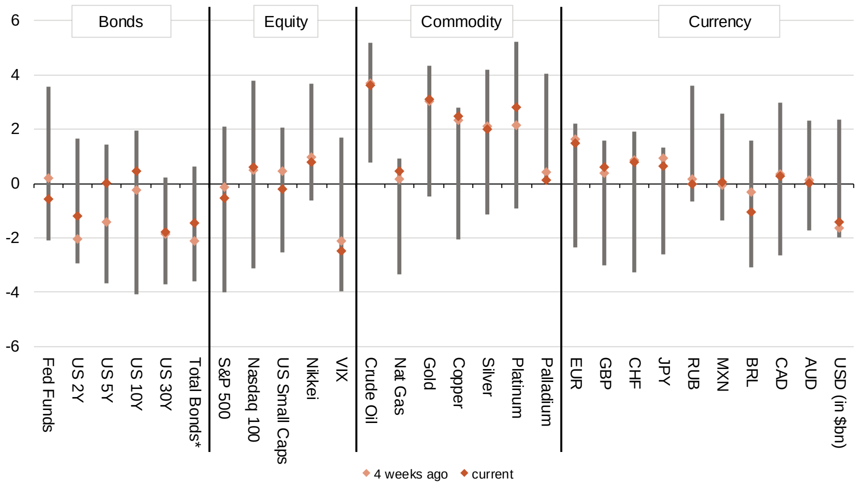
4-week & YTD; 12-month periods over that last 5 years

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.

- The biggest losses due to rising yields were recorded in UK and German government bonds.
- In the case of the riskier high-yield and emerging market bonds, falling risk premiums resulted in price gains.
- A reduced risk of new elections led to lower risk premiums and consequently gains in Italian government bonds.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 12/02/2016 – 12/02/2021

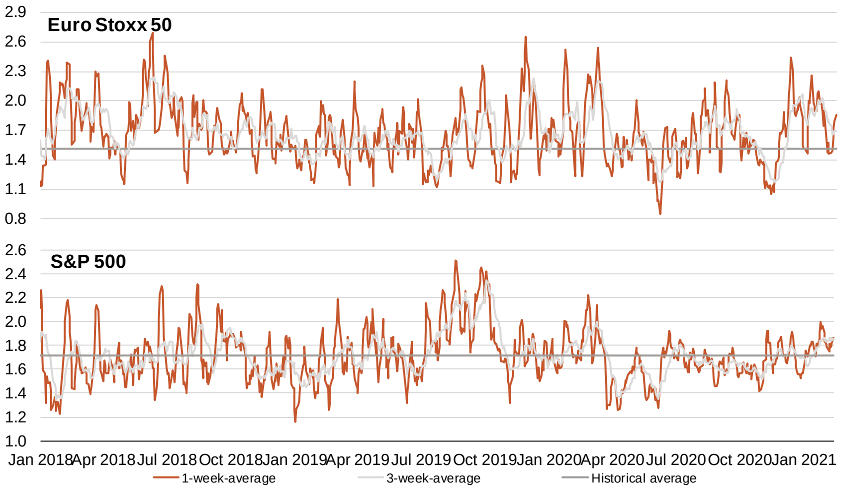
Non-Commercial Positioning



- Speculative investors have taken profits on US small caps over the past four weeks and reduced their net long position in them.
- They are most pessimistic about US government bonds and most optimistic about commodities.

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: 09/02/2011 - 09/02/2021

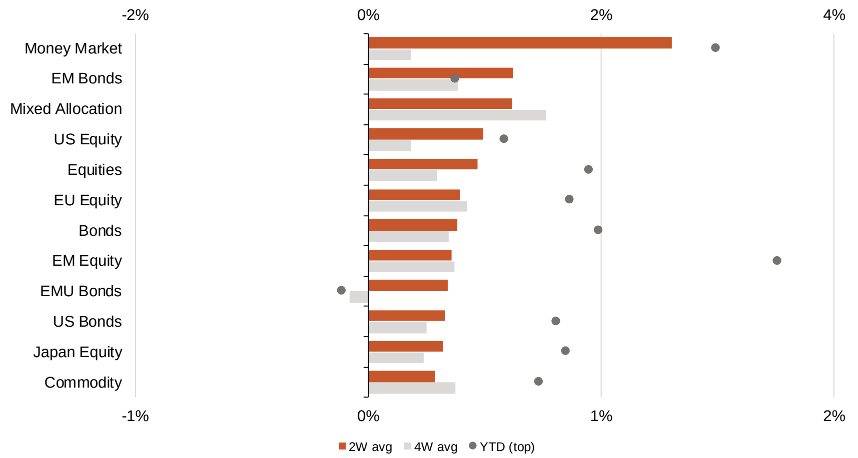
Put-Call Ratio



- The put-call ratios at index level still signal increased hedging – despite the high volatility, which makes hedging via options expensive. Accordingly, there can be no talk of complacency among market participants yet.

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 - 12/02/2021

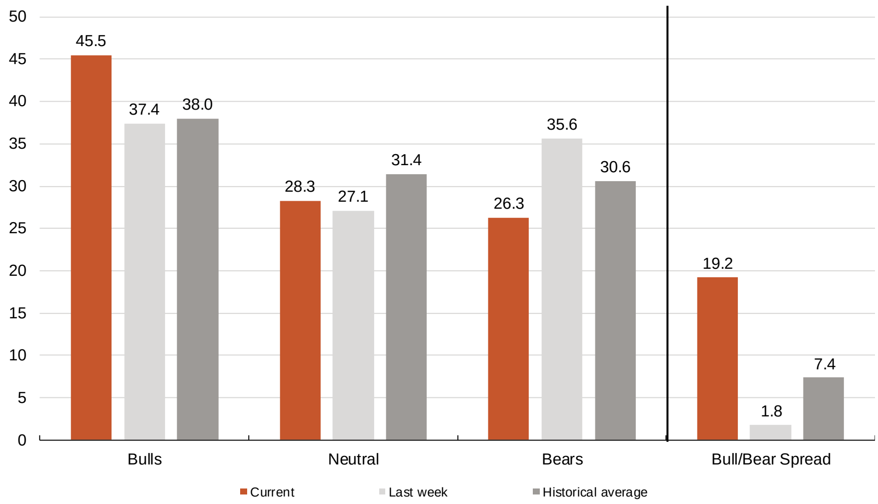
ETF Flows



- Over the last two weeks, all asset classes considered here had ETF inflows. Investors, on the other hand, are becoming more cautious and are mainly asking for money market and multi-asset vehicles.
- Within bonds, emerging market ETFs are clearly favoured, supported by the low interest rate environment and the hunt for yield.

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

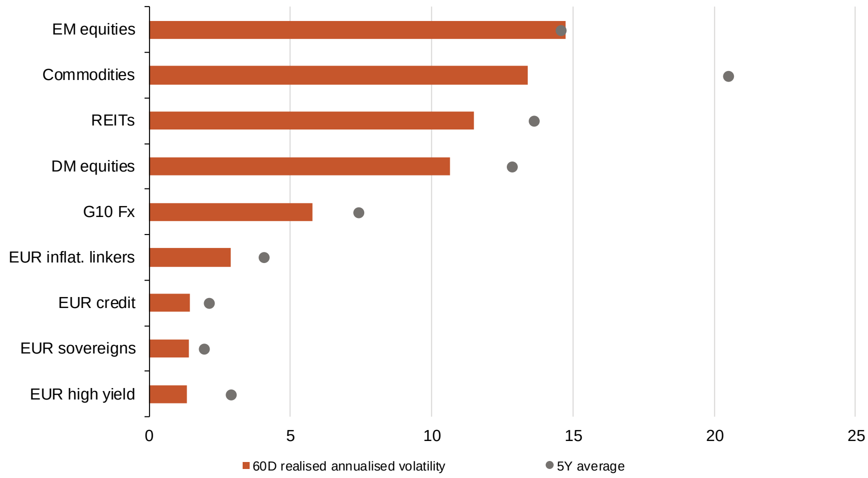
AAII Sentiment Survey (Bulls vs Bears)



- After a rather subdued mood among US private investors over the past three weeks, there is now a return to pronounced optimism.
- The bulls currently outnumber the bears by about 19 ppts and are thus significantly more than historically.

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 – 11/02/21

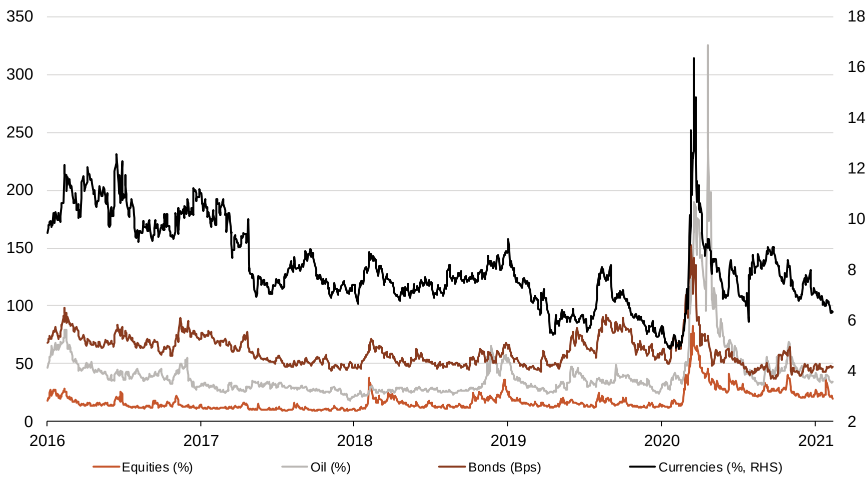
Realised Volatilities



- Unusually, riskier sub-investment grade bonds have been less volatile than corporate or even government bonds. The reason for this is that the positive price effect of falling spreads in the sub-investment grade space more than offset the negative price effect of rising interest rates.
- REITs are showing lower realised volatility than the historical average over the last 60 days for the first time since the start of the Covid-19 crisis.

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: 12/02/2016 – 12/02/2021

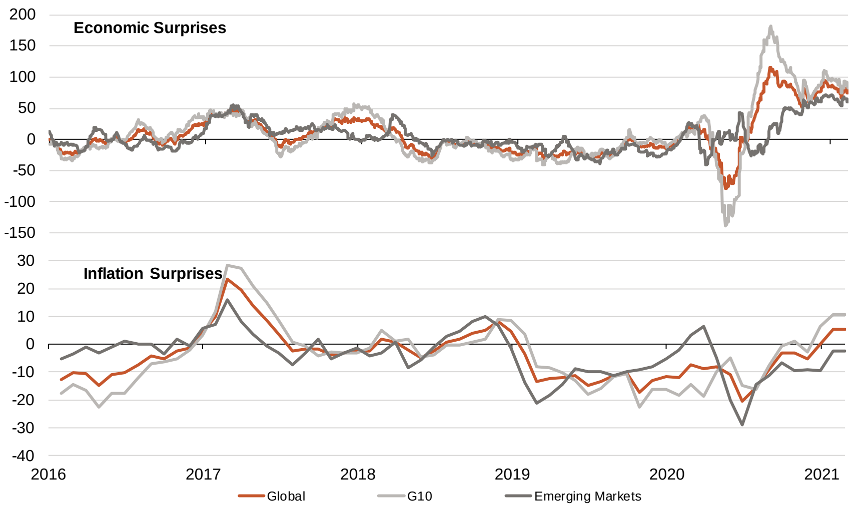
Implied Volatilities



- After the VIX shot up at the turn of the month, it fell back markedly within a few days. Finally, the VIX has broken through the important 20 mark after 246 trading days. This was the second longest period on record. The record is 331 days at the time of the global financial crisis in 2008/09.

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 – 12/02/2021

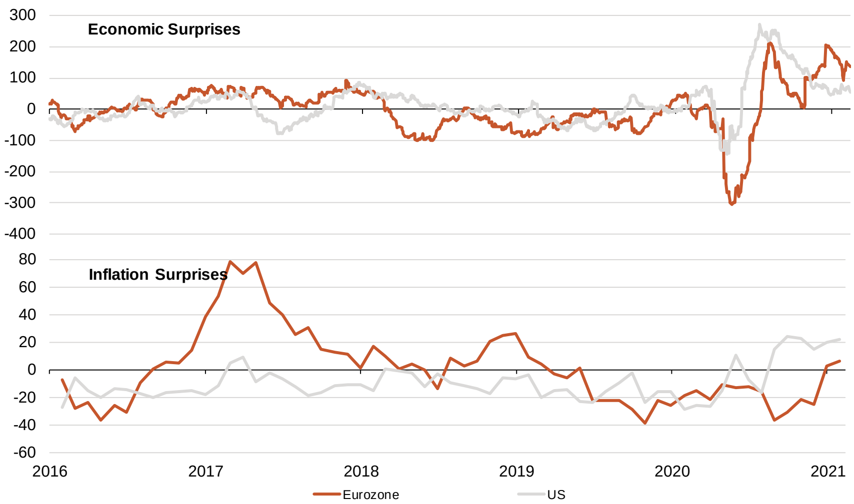
Global



- Economic data continued to surprise on the upside in recent weeks. Since mid-2020, all three economic surprise indicators have been in positive territory. However, the Chinese data have recently been disappointing. In addition to inflation data, the Purchasing Managers' Index (PMI) for industry and the service sector came in worse than expected.
- At the global level, however, inflation is starting to surprise on the upside, further fuelling inflation concerns.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 12/02/2021

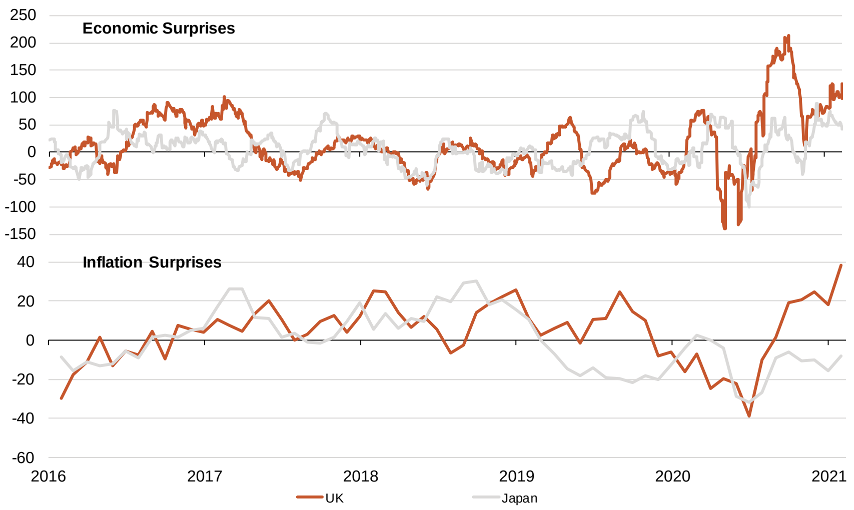
Eurozone and US



- Despite the slowdown in economic recovery, the Eurozone was still able to meet expectations. In Germany, however, disappointing economic data recently emerged from industrial production, new orders, retail sales and the service PMI.
- Unlike the Eurozone, the US is not struggling with a Q4 recession. There, the industrial and services PMI, the unemployment rate and new orders have surprised positively. However, consumer confidence has recently disappointed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2016 - 12/02/2021

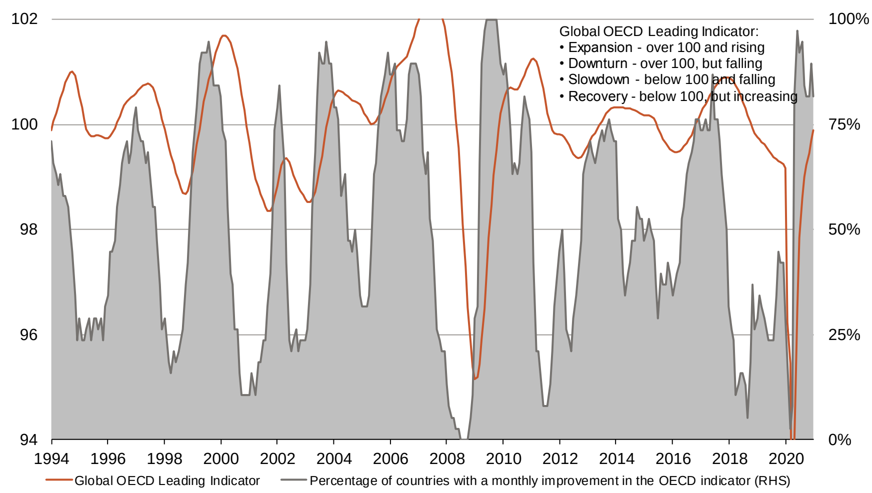
UK and Japan



- In the UK, economic growth has not been as bad as expected. Industrial production, on the other hand, disappointed. Inflation surprised significantly on the upside.
- In Japan, machinery orders rose by almost 10% and car sales by around 7% year-on-year.

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 - 12/02/2021

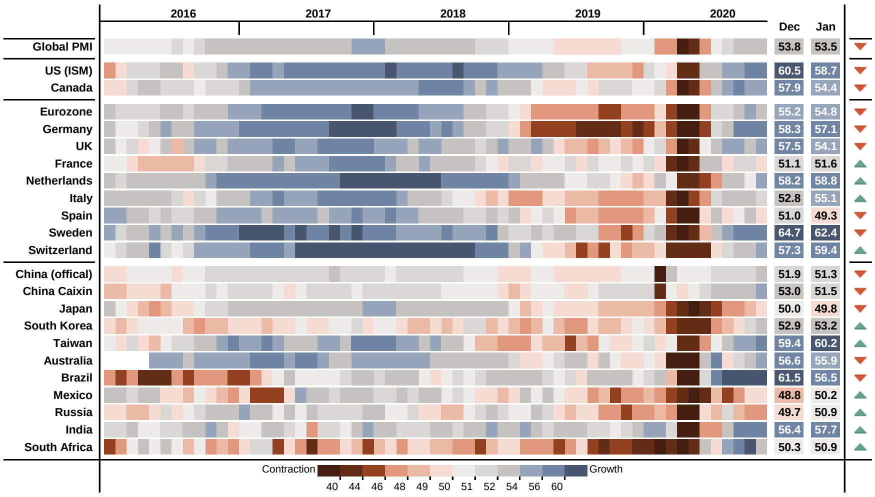
OECD Leading Indicator



- With a value of 100 and rising, the global economy would turn into expansion. At 99.9, the global economy is on the verge of expansion, according to the OECD Early Indicator. The individual country values also indicate that the value of 100 is imminent. In 82% of all countries, the value rose in January compared to December, despite lockdowns.

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 - 31/01/2021

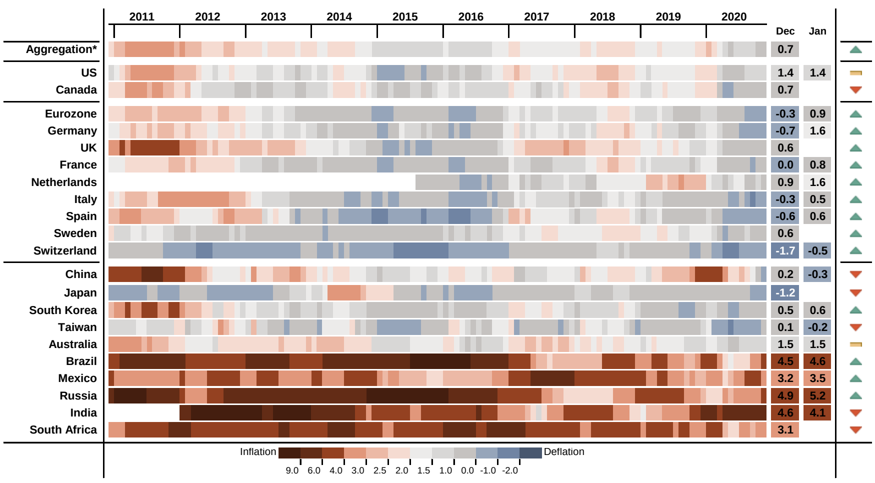
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global industrial PMI for January remains above 50 (growth). However, the reading fell slightly compared to December as the lockdown measures hurt the recovery.
- In the US, the PMI also declined slightly, but remains well above 50 points.

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: 30/09/2017 - 31/01/2021

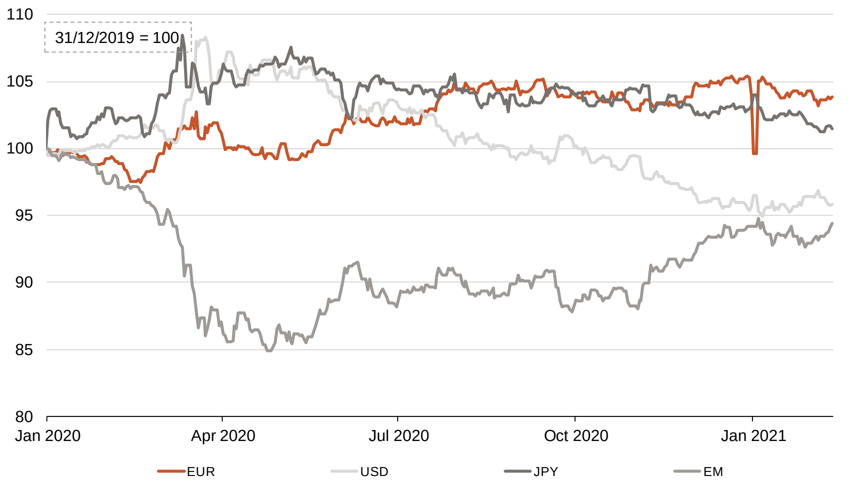
Headline Inflation



- Inflation is on the rise. In the Eurozone, inflation rose in January in all countries shown. However, the increase is also due to special effects such as the basket change in the index and the late winter sales.
- In China, consumer prices fell by 0.3% in January, indicating a fragile economic recovery.

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: 31/10/2011 - 31/01/2021

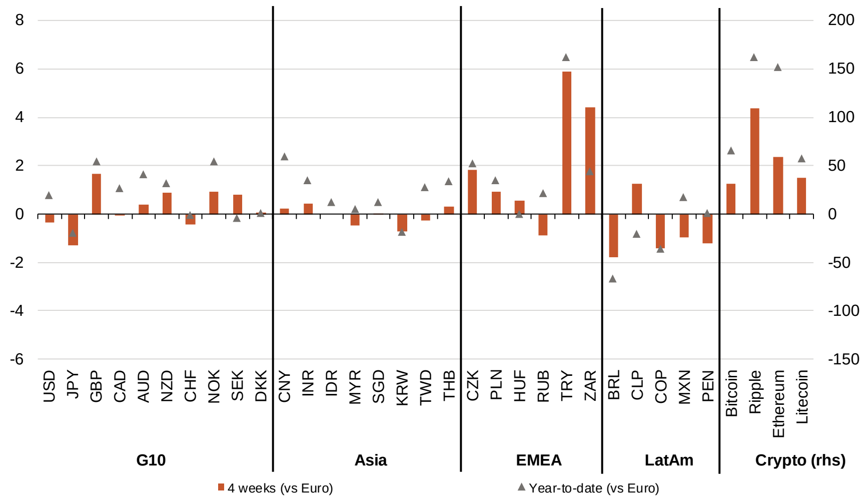
Trade-Weighted Currency Development



- Emerging market currencies were able to gain again in recent weeks. The reason for this was not only investors' appetite for risk but also the ever-rising commodity prices.
- The Japanese yen, the US dollar and the euro, on the other hand, had to weaken on a trade-weighted basis.

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 - 12/02/2021

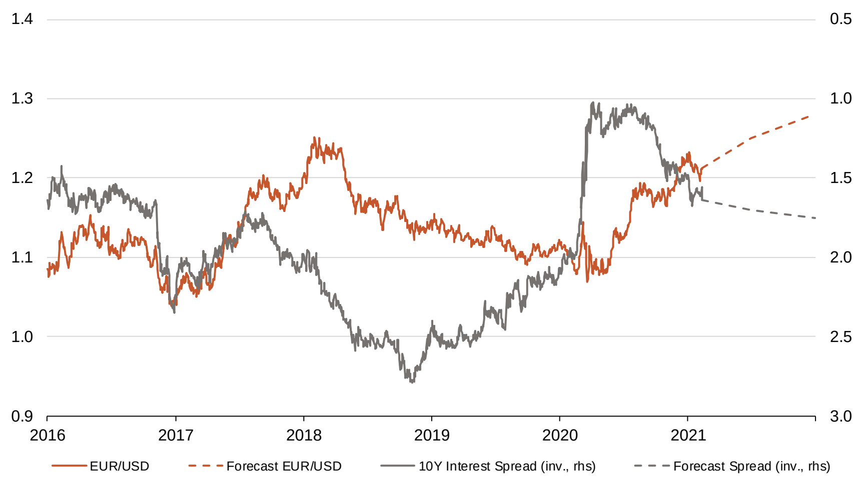
Currency Moves vs Euro



- In the last four weeks, a broad weakness of the euro became apparent. The was mainly due to the sluggish progress of vaccinations in the EU compared to other countries.
- The Turkish lira is the biggest gainer against the euro, thanks to a Turkish central bank governor's statement that interest rate cuts remain unlikely for a long time.
- Bitcoin reached new all-time highs after it was announced that Tesla, producer of electric cars, had invested USD 1.5 billion.

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

EUR/USD Exchange Rate and Interest Rate Differential



- The US dollar has gained against the euro since the beginning of the year and is currently trading at 1.21 per euro. The strength was driven by rising US interest rates, hopes for a generous fiscal stimulus from the Biden administration and progress in vaccination distribution. The interest rate differential between US Treasuries and German Bunds has recently narrowed after interest rates in Europe rose more sharply.

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 - 31/12/2021

European Sector & Style Performance

	4W (15/01/21 - 12/02/21)	YTD (31/12/20 - 12/02/21)	12/02/20 12/02/21	12/02/19 12/02/20	12/02/18 12/02/19	12/02/17 12/02/18	12/02/16 12/02/17
Information Technology	9.0	11.0	15.8	37.0	5.2	12.6	28.4
Consumer Discretionary	5.3	4.3	10.2	22.1	-4.7	7.2	18.1
Growth	3.4	4.4	4.7	29.2	3.0	3.9	16.1
Finance	1.9	5.0	-15.0	19.8	-13.5	10.0	30.2
Industrials	1.7	4.6	4.5	29.2	-1.5	6.6	30.8
Materials	1.5	6.1	15.6	16.3	-2.5	8.6	54.9
Telecommunications	1.0	3.0	-12.0	8.5	-3.9	-4.1	-3.5
Health Care	0.6	4.1	-4.1	31.7	13.3	-6.6	10.4
Value	-0.5	3.3	-11.5	13.7	-2.3	4.0	27.3
Consumer Staples	-0.9	-1.6	-7.9	20.0	5.7	-1.3	9.2
Utilities	-4.6	-1.4	-1.7	34.1	22.2	-0.5	4.7
Energy	-6.2	3.9	-27.6	-5.6	15.3	3.5	37.9

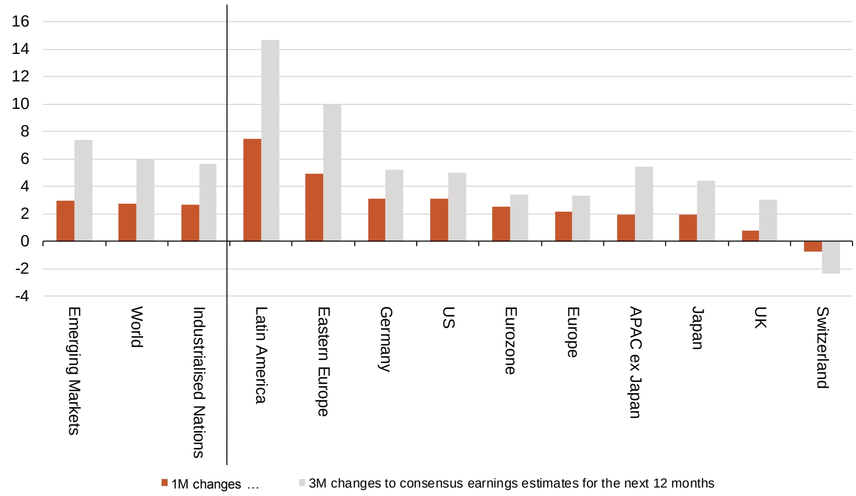
4-week & YTD; 12-month periods over that last 5 years

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

- The IT sector and consumer cyclicals benefited from a positive reporting season and economic optimism.
- The energy sector was unable to continue its positive trend since the start of the year and utility stocks also continued to decline.
- The growth investment style has regained ground, relative to value.

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: 12/02/2016 – 12/02/2021

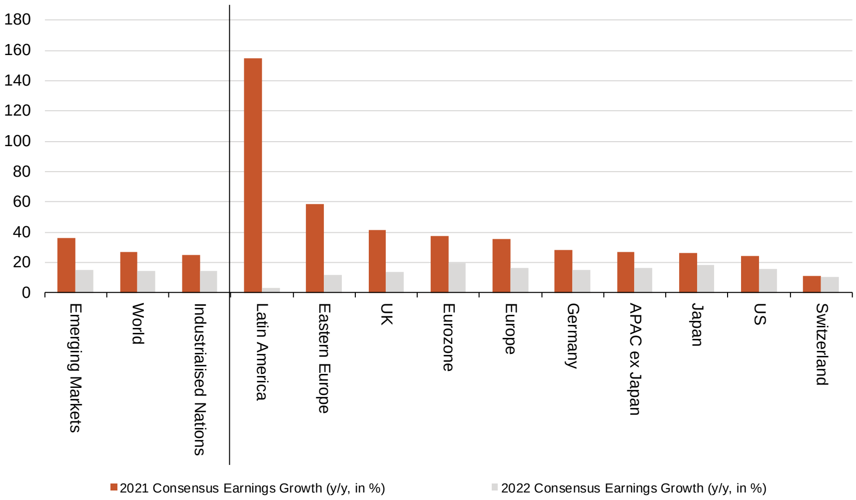
Changes in Consensus Earnings Estimates



- Analysts continue to diligently revise earnings estimates upwards across almost all regions. Only Switzerland saw negative earnings revisions over the last month.
- Earnings estimates for the next twelve months for Latin America and Eastern Europe have each been adjusted upwards by more than 9% over the last three months.

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 12/02/2021

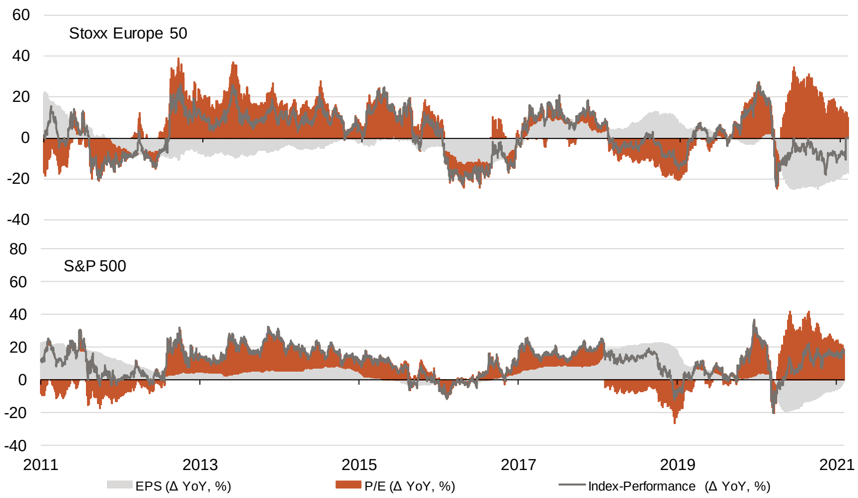
Earnings Growth



- Latin America is now expected to see earnings growth of more than 150% in 2021. Eastern Europe follows by a wide margin with estimated 2021 earnings growth of around 60%.
- For the UK, the consensus still expects earnings growth of 40%.

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 12/02/2021

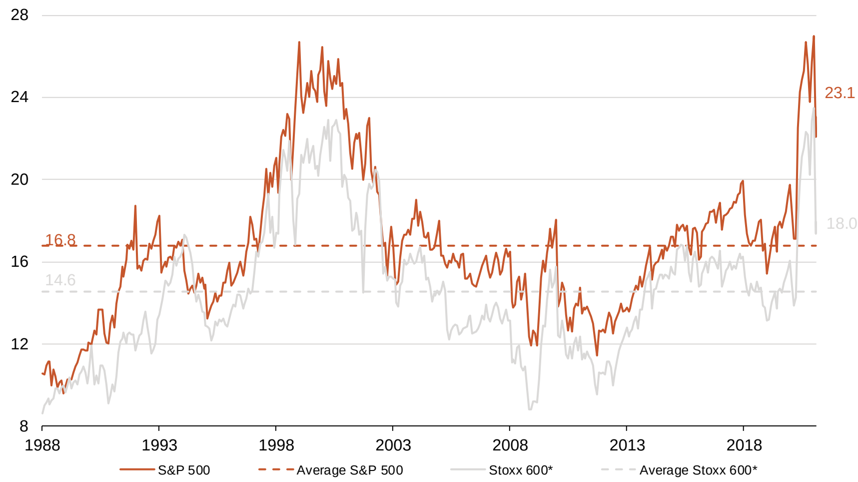
Contribution Analysis



- 82% of the more than 370 S&P 500 companies that have published their Q4 20 results so far have exceeded expectations. Earnings expectations for Q4 20 have turned positive accordingly.
- In Europe, the picture looks much more negative: profits are still more than 15% below the previous year's level.

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 - 12/02/2021

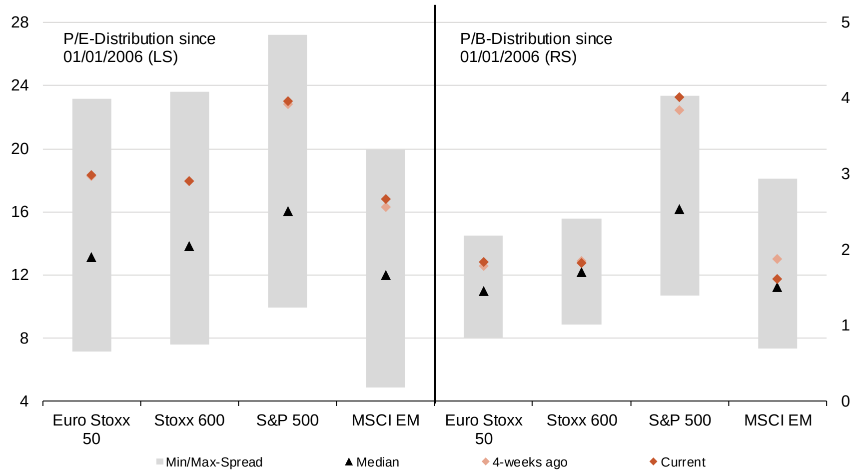
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Thanks to positive earnings revisions, P/E valuations for the S&P 500 and Stoxx 600 have recently fallen significantly.
- The Stoxx 600 is currently trading on a P/E ratio of 18, which is still significantly higher than the long-term average of 14.6.

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 - 12/02/2021

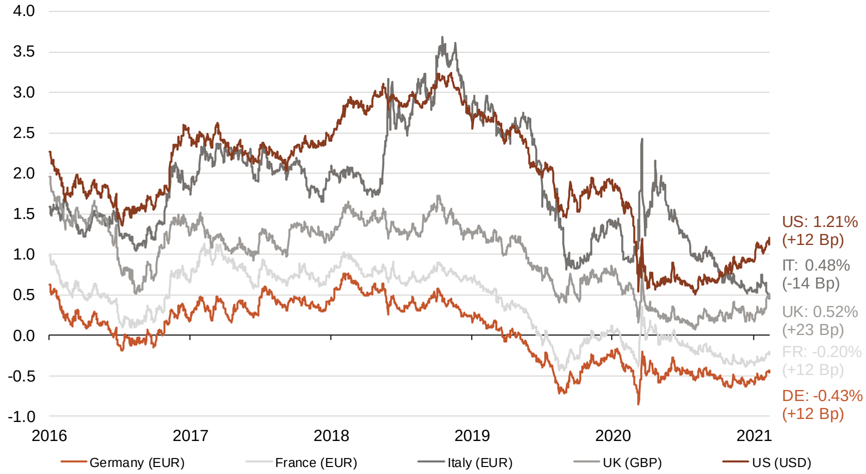
Historical Distribution: Price/Earnings and Price/Book Ratio



- Across all regions, US equities remain the most ambitiously valued, especially on a price-to-book basis.
- Emerging market equities are also expensively valued relative to their own history, but are more favourably valued relative to other regions.

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 - 12/02/2021

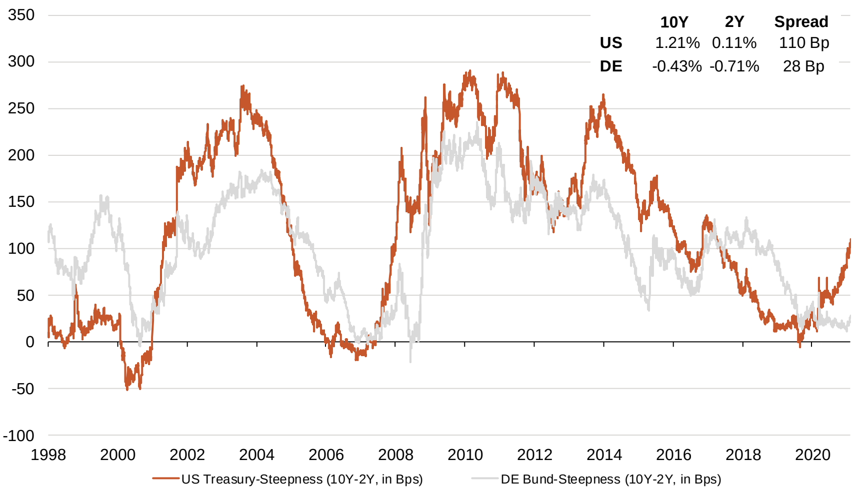
10-Year Government Bond Yields



- Inflation concerns continued to put pressure on yields in recent weeks. In European government bonds, German, French and UK government bonds, among others, saw rising yields. Italian government bonds, on the other hand, saw falling yields, thanks to hopes for a government under Mario Draghi. The yield differential between German and Italian government bonds recently fell to levels last seen in 2015.

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 - 12/02/2021

Yield Curve Steepness (10Y - 2Y)

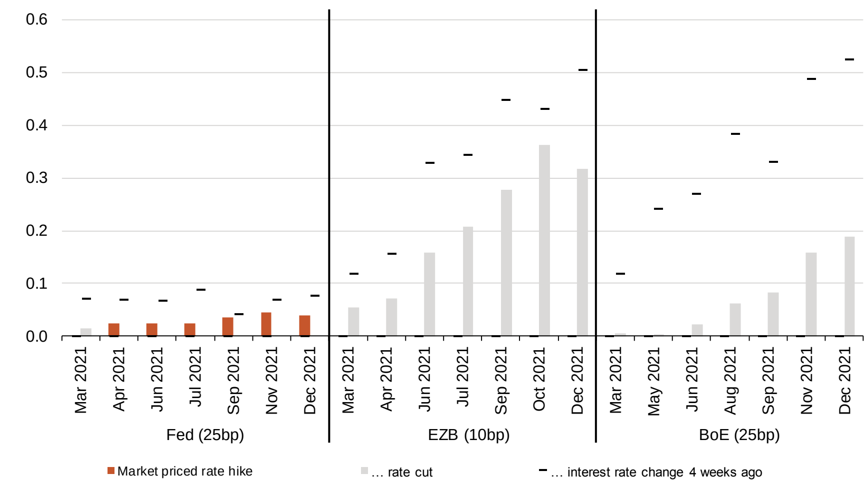


	10Y	2Y	Spread
US	1.21%	0.11%	110 Bp
DE	-0.43%	-0.71%	28 Bp

- The steepness of the US yield curve has jumped above the 100bps mark and was at its highest level since 2017. Interest rates at the short end are anchored by loose monetary policy, while inflation expectations at the long end are creating pressure.
- The German yield curve has also tightened slightly and is expected to rise further.

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 - 12/02/2021

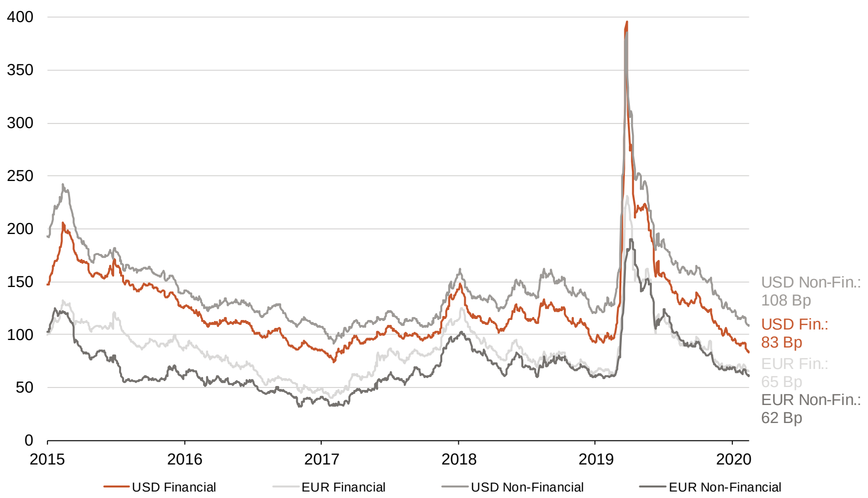
Implicit Changes in Key Interest Rates



- As inflation expectations rose, so did expectations of an interest rate hike by the Fed. By the end of 2021, the market expects a rate hike of 25 bps with a 5% probability.
- In the eurozone, on the other hand, the consensus does not expect an interest rate hike until the end of 2021. On the contrary, the market expects a rate cut with a probability of over 30%.

Derivatives on money market rates - such as the Fed funds futures - can be used to determine changes (number of steps) in the key interest rate priced by the market
Source: Bloomberg, Time period: 22/01/2021 - 12/02/2021

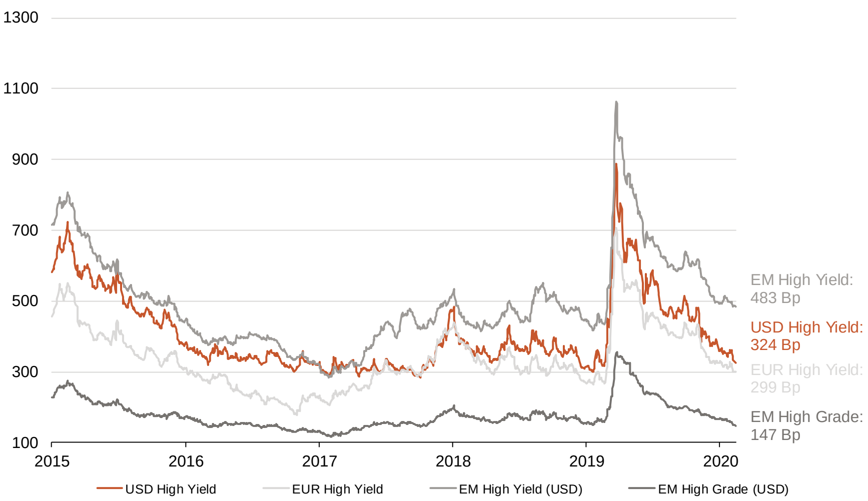
Credit Spreads Financial and Non-Financial Bonds



- In the last two weeks, risk premiums on investment grade corporate bonds have consistently fallen by more than 5 bps. The sharpest decline was in USD corporate bonds.
- At a sector level for EUR corporate bonds, the leisure and insurance sectors saw the largest spread narrowing. In USD corporate bonds, it was the energy and leisure sectors.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2016 - 12/02/2021

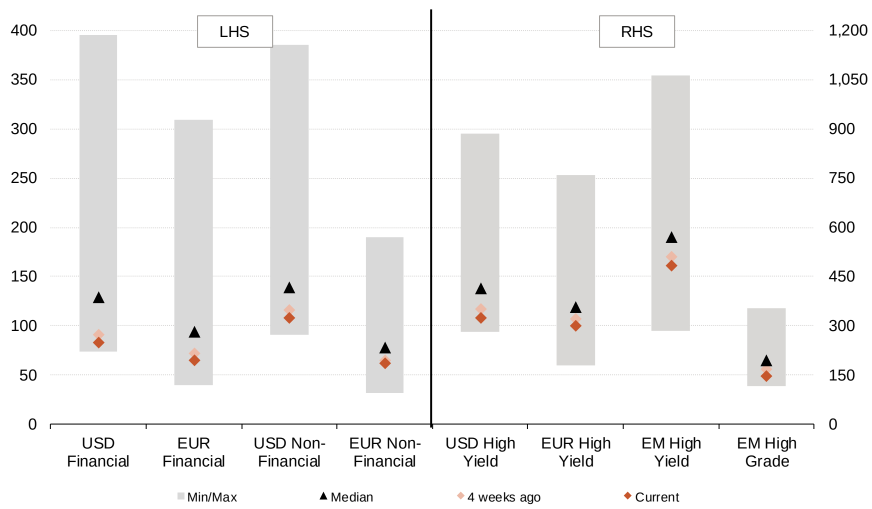
Credit Spreads High Yield and Emerging Markets Bonds



- High-yield bonds have also seen their risk premiums narrow. USD high-yield bonds saw a spread narrowing of just under 30 bps in the last two weeks, while EUR high-yield bonds saw a spread narrowing of around 20 bps. For EM high-yield bonds, the spread tightening was rather modest at around 10 bps.
- The USD retail and USD transport sectors saw the greatest spread increase.

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 - 12/02/2021

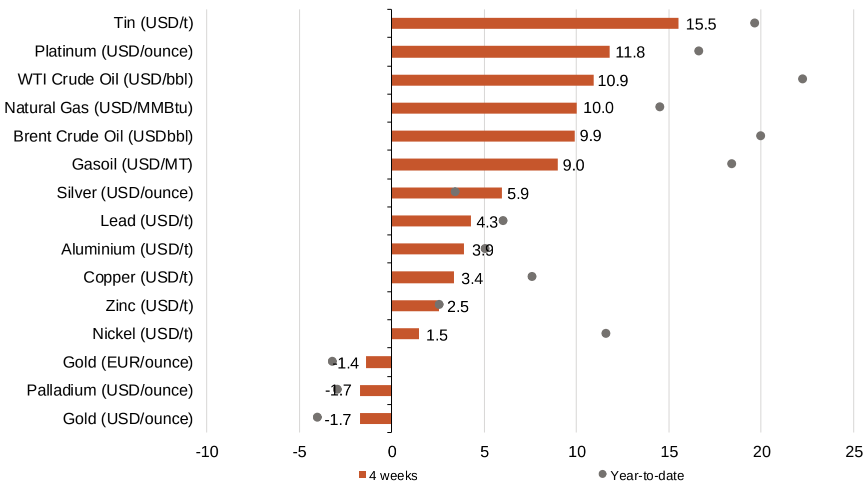
Historical Distribution of Credit Spreads (in bp)



- Corporate bonds are becoming increasingly unattractive as risk premiums have already fallen well below the 10-year median and historically they offer little narrowing potential. In addition, we believe that EUR high-yield bonds are no longer adequately rewarded for the 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: 04/01/2011 - 12/02/2021

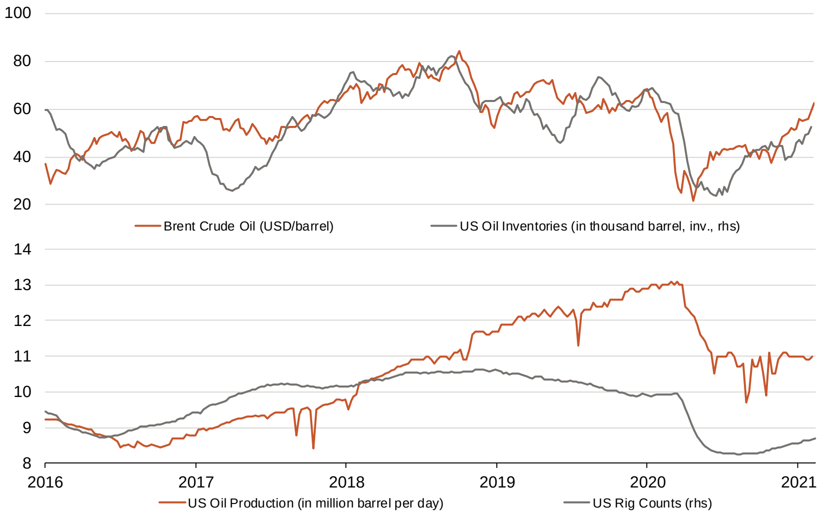
Commodities Performance



- Most commodities continued to gain in the last two weeks.
- Since the beginning of the year, energy commodities have performed well. Over a four-week period, tin has performed the best, gaining more than 15%.
- Only gold and palladium, which is suffering from the slump in activity in the automotive industry, show a negative return since the start of the year.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2021 – 12/02/2021

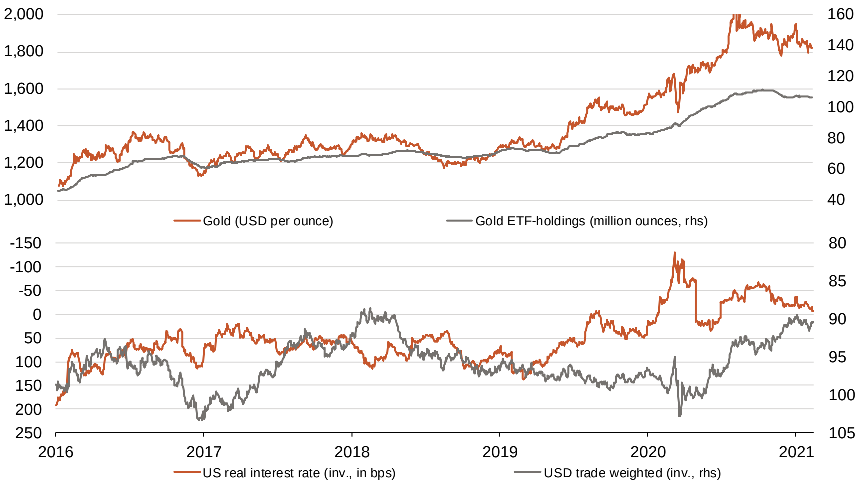
Crude Oil



- Crude oil has once again made strong gains in the past two weeks. Brent crude is trading above the USD 60 per barrel mark for the first time since January 2020. The price was fuelled by figures indicating a sharp decline inventories initially, which was subsequently followed by OPEC+'s adherence to its restrictive production policy. In the US, meanwhile, oil production is stagnating despite the high prices. The EIA no longer expects any substantial expansion for 2021 as a whole.

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 – 12/02/2021

Gold



- Gold temporarily fell below USD 1,800 per ounce in the last two weeks, but was able to stabilise above this mark again in the meantime. A stronger dollar and rising interest rates weighed on the price. Overall, gold is simply less in demand as a safe haven in this current optimistic environment. Fundamentally, however, the signs remain positive.

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 – 12/02/2021

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IMPORTANT NOTICES

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