BERENBERG
Markets

MONITOR

04 March 2019

Current market commentary

Global equities gained 11% in the first two months of the year, the strongest start to the year since 1991. In addition to diminishing fears of rising rates and recession, this was mainly due to easing trends in the trade dispute between the US and China. In China, there are also increasing signs of a stabilisation of growth. Most recently, the Caixin Purchasing Managers Index for February surprised positively, credit growth in China has accelerated since November and Chinese house prices are rising faster. If the signs of global stabilisation increase, equities offer further potential, especially as many investors are not positioned very aggressively. Nevertheless, the extremely positive development since the beginning of the year is unlikely to continue in this form, as many political risks such as Brexit remain unresolved, the trade conflict between the US and the EU could flare up and interest fears are likely to return as growth stabilizes.

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

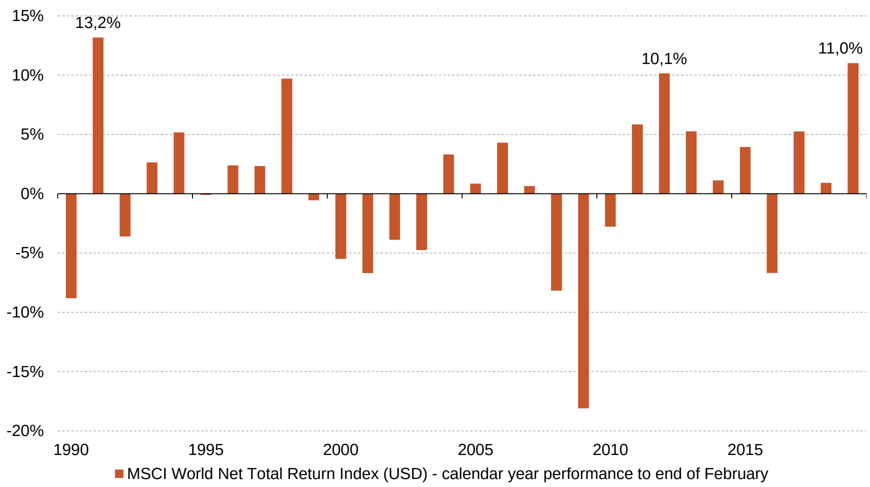
Short-term outlook

Tomorrow, the focus will be on the ISM Purchasing Managers' Index for the non-manufacturing sector and home sales. Details on the European Q4 2018 GDP figures will be published on Thursday. In addition, the ECB is meeting, but no change in monetary policy is expected. The latest economic data will be released on Friday as German industrial orders, French and Italian industrial production, and U.S. labor market data are released.

Next week the British Parliament will again vote on Brexit. In addition, the US and China should continue their trade negotiations at the highest level.

After macro data this week, the focus will be on Brexit and the trade conflict next week.

Global equities made the strongest start to the year since 1991



- Global equities had their best start to the year since 1991.
- Positioning and investment flow analyses suggest that many investors have missed the recovery rally. Since the beginning of the year, more than 50 billion dollars have been withdrawn from equity funds.
- Many investors are awaiting a correction to get back in the game. The danger of a sharp correction in the coming months is therefore limited.

Source: Bloomberg, as of 28/02/2019

Multi Asset

	4W (01/02/19 - 01/03/19)	YTD (31/12/18 - 01/03/19)	01/03/18 01/03/19	01/03/17 01/03/18	01/03/16 01/03/17	01/03/15 01/03/16	28/02/14 01/03/15
Brent	4.8	21.6	13.8	-1.7	35.8	-49.8	-32.4
Industrial Metals	4.4	12.8	-0.6	-1.7	33.2	-19.2	13.4
MSCI World	4.4	12.4	9.9	-0.8	23.6	-6.6	33.0
Global Convertibles	3.4	9.6	10.5	-1.9	19.3	-5.5	23.8
REITs	1.9	11.6	20.3	-17.6	8.0	-2.4	42.0
MSCI Frontier Markets	1.4	6.2	-8.6	11.0	16.4	-13.8	24.7
MSCI Emerging Markets	1.2	9.9	-2.9	12.4	31.1	-19.7	29.5
Global Coporates	1.1	2.9	7.4	-7.6	6.6	0.5	23.6
USDEUR	0.8	0.9	7.9	-14.0	3.1	3.0	23.3
Eonia	0.0	-0.1	-0.4	-0.4	-0.3	-0.1	0.1
Global Treasuries	-0.1	0.8	5.6	-6.5	1.0	5.1	17.6
Gold	-1.1	1.8	6.0	-9.4	4.5	4.6	12.7

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.

- Commodities continue to be among the winners in 2019, with Brent rising by around 5% in the last four weeks alone, thanks to falling inventories and hopes of a de-escalation in the trade conflict.
- Global government bonds and gold, on the other hand, have recently lost value. Investor sentiment has improved and concerns about political risks (trade dispute, Brexit) have recently diminished.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 28/02/2014 - 01/03/2019

Equities

	4W (01/02/19 - 01/03/19)	YTD (31/12/18 - 01/03/19)	01/03/18 01/03/19	01/03/17 01/03/18	01/03/16 01/03/17	01/03/15 01/03/16	28/02/14 01/03/15
Russell 2000	6.9	19.0	14.9	-6.5	39.8	-10.6	30.3
S&P 500	4.8	13.1	14.8	-1.4	27.2	-1.0	42.5
Stoxx Europe 50	4.8	10.5	4.4	-0.4	13.8	-13.8	18.1
Stoxx Europe Cyclicals	4.6	12.7	-4.7	7.5	23.2	-16.6	14.0
Stoxx Europe Small 200	4.6	13.0	0.6	9.2	14.3	-6.4	12.9
Euro Stoxx 50	4.5	10.6	0.1	2.7	16.5	-14.7	17.4
DAX	3.8	9.9	-4.8	1.0	24.2	-14.8	17.6
Stoxx Europe Defensives	3.7	8.2	13.5	-3.2	5.9	-9.1	21.3
MSCI EM Asia	2.9	10.5	-2.5	15.1	28.8	-17.6	38.0
Topix	2.0	7.4	-2.7	5.3	25.8	-5.8	34.9
MSCI UK	1.9	6.5	3.2	0.8	24.9	-8.4	5.4
MSCI EM Eastern Europe	-1.6	9.0	4.1	8.3	40.6	-12.3	-5.3

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; Russell 2000: Russell 2000 TR (US Small Caps); Stoxx Europe Cyclicals: Stoxx Europe Cyclicals TR;
Stoxx Europe Defensives: Stoxx Europe Defensives TR; DAX: DAX TR; MSCI United Kindom: MSCI UK TR; MSCI EM Asia: MSCI EM Asia TR;
MSCI EM Eastern Europe: MSCI EM Eastern Europe TR.

- Over the past four weeks, all equity regions except Eastern Europe have added. Russian equities in particular underperformed in the wake of the new sanctions imposed by the EU.
- US small caps, on the other hand, continued to climb and have now risen by 19% in euros since the beginning of the year. European cyclicals also performed well. In China, a stabilization of economic data seems to be becoming increasingly apparent.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 28/02/2014 - 01/03/2019

Fixed Income

	4W (01/02/19 - 01/03/19)	YTD (31/12/18 - 01/03/19)	01/03/18 01/03/19	01/03/17 01/03/18	01/03/16 01/03/17	01/03/15 01/03/16	28/02/14 01/03/15
USD High Yield	2.5	7.4	13.6	-11.2	21.3	-4.5	26.5
EUR High Yield	1.7	3.9	0.8	3.0	10.8	-3.7	4.8
EM Hard Currency Bonds	1.4	3.5	9.9	-9.2	13.9	4.6	23.0
Gilts	1.2	4.7	5.8	-4.0	-3.5	-2.0	27.9
USD Corporates	1.2	3.2	10.2	-11.1	8.8	1.5	30.7
EUR Financials	0.8	1.9	0.8	2.4	3.8	-0.7	7.2
EUR Non-Financials	0.6	1.8	0.8	1.4	4.0	-1.6	8.3
Treasuries	0.5	0.3	9.7	-13.0	1.5	5.7	28.6
EM Local Currency Bonds	-0.1	3.2	4.9	-4.6	13.6	-6.7	21.0
BTPs	-0.2	0.1	-2.2	3.7	-2.6	1.8	16.0
Bunds	-0.4	0.3	3.5	-1.8	-0.1	2.0	10.2
EUR Inflation Linkers	-0.4	0.1	-1.2	2.9	2.5	-2.8	7.6

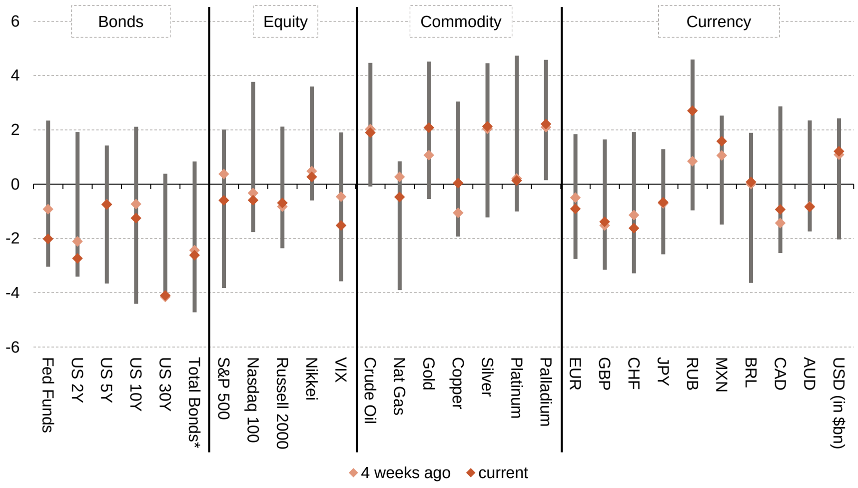
4-week & YTD; 12-month periods over that last 5 years

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.

- Within bonds, riskier segments such as high yield and emerging market bonds also performed best.
- German government bonds, on the other hand, declined over the last four weeks, but have still been slightly up since the beginning of the year.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 28/02/2014 - 01/03/2019

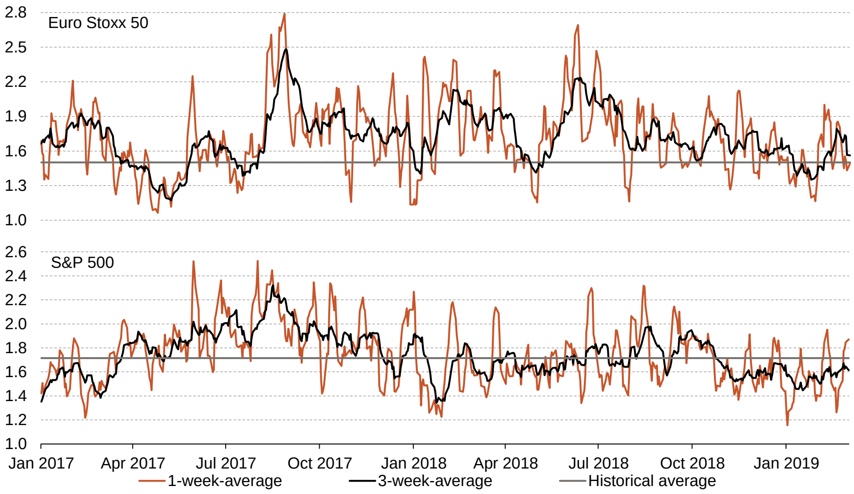
Non-Commercial Positioning



- The latest CFTC data shows that speculative investors in aggregate did not participate in the stock market rally. Short positions predominate, especially for US equities.
- For commodities and commodity-sensitive currencies such as the rouble, however, investors have become more optimistic.

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: 19/02/2009 - 19/02/2019

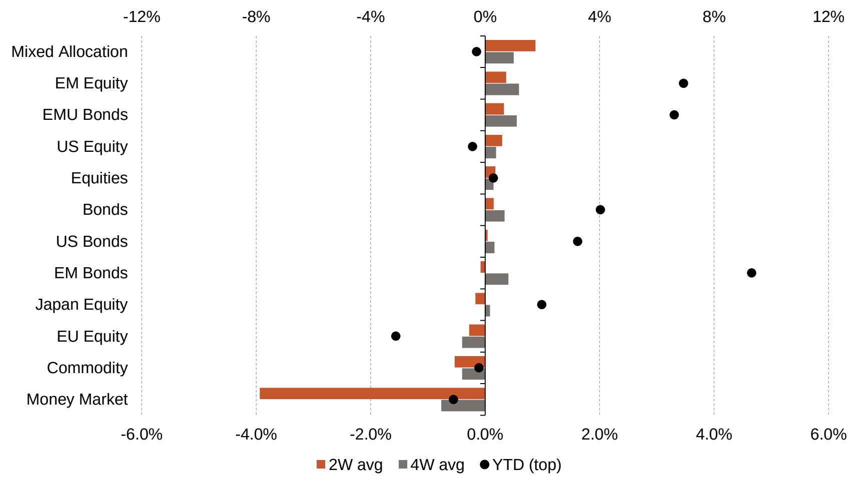
Put-Call Ratio



- The put-call ratio is currently neither particularly pronounced for the Euro Stoxx 50 nor for the S&P 500.
- The 1-week average for both regions is close to the long-term average since 1993.

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 - 01/03/2019

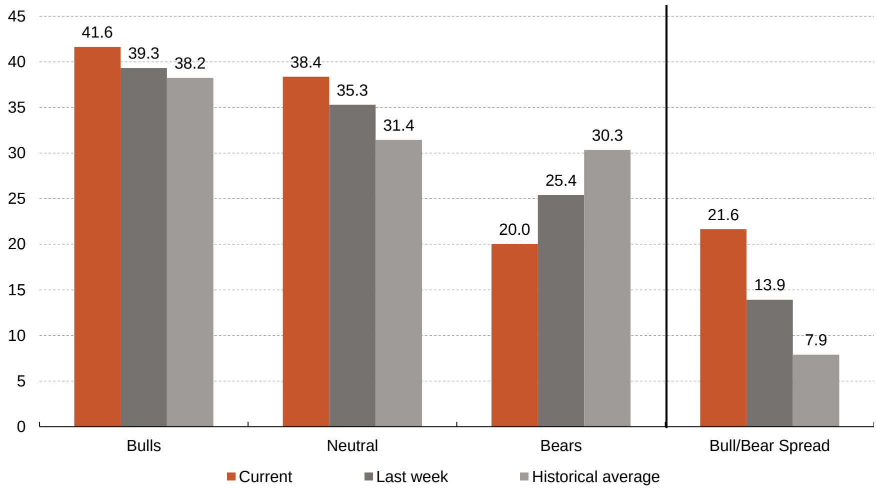
ETF Flows



- After money market ETFs recorded significant inflows in December, outflows are now on the rise. Most recently, money has been invested in multi-asset and emerging market equity ETFs.
- Despite the recovery rally, European equities funds still face outflows. Eurozone bonds, on the other hand, are in demand.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2018 - 01/03/2019

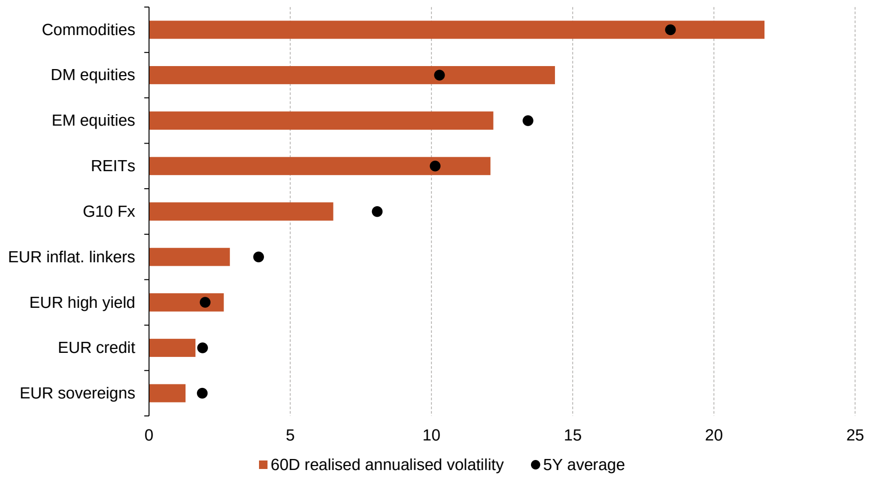
AAII Sentiment Survey (Bulls vs Bears)



- Investor sentiment has improved over a 2-week period. The share of optimistic investors has risen from 35% to almost 42%.
- The bull/bear spread rose to 21.6%, the highest level since June 2018. With the high proportion of bulls, the clear optimism calls for caution.

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 - 28/02/19

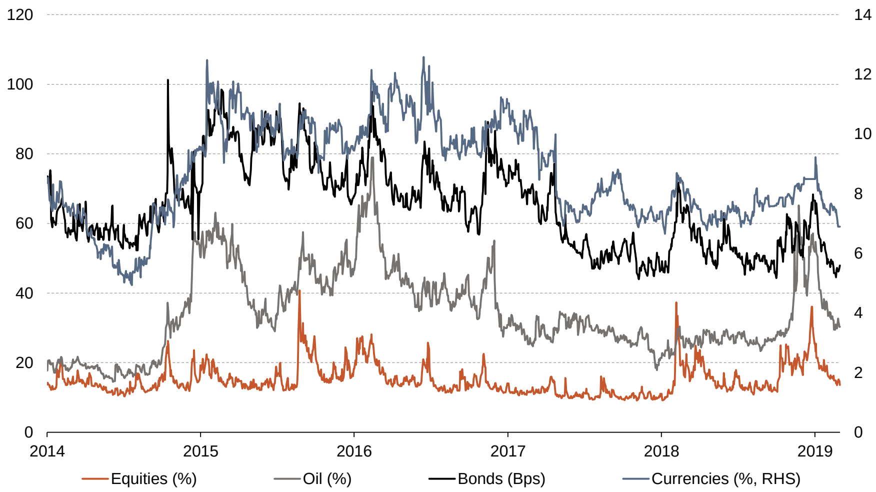
Realised Volatilities



- Over the past two weeks, realised volatility in commodities and equities has fallen. In comparison with its own history, the volatility of emerging market equities is below average.
- For the G10 currencies and all bond segments except EUR high-yield bonds, the realised volatility trades below the 5-year average.

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: 01/03/2014 - 01/03/2019

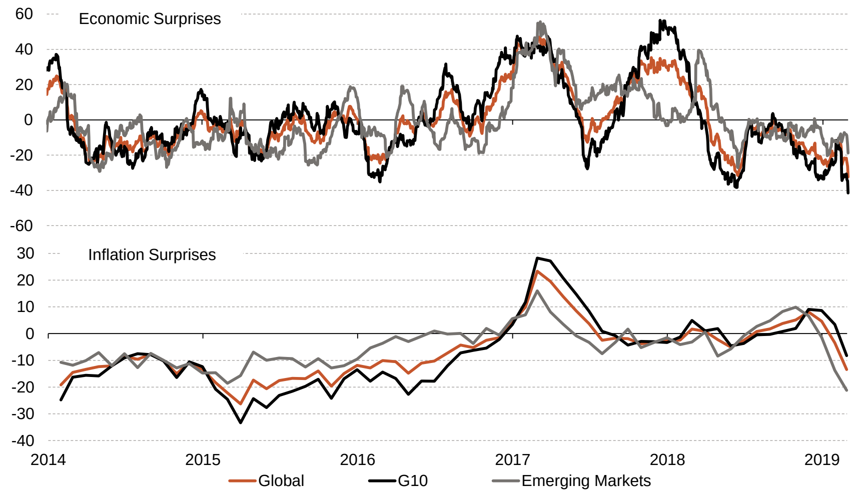
Implied Volatilities



- After a further decline, implied volatility has recently stabilised at low levels.
- We expect volatility to peak again in the course of 2019 as political risks (e.g. Brexit, trade war) remain and the outlook for GDP growth and corporate earnings has deteriorated.

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: 01/01/2014 - 01/03/2019

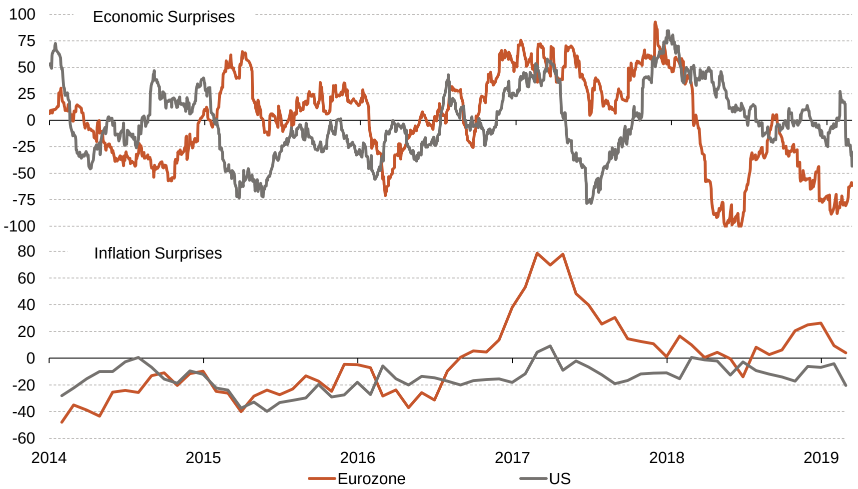
Global



- Emerging markets have recently experienced negative surprises again after a lengthy recovery phase. On aggregate average, the economic surprises were negative. In China, for example, the official industry PMI surprised negatively with 49.2 (49.5 expected), while the unofficial one surprised positively.
- Global economic surprises continued to be primarily negative. The US was the main driver of the sharp downward slide.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 01/03/2019

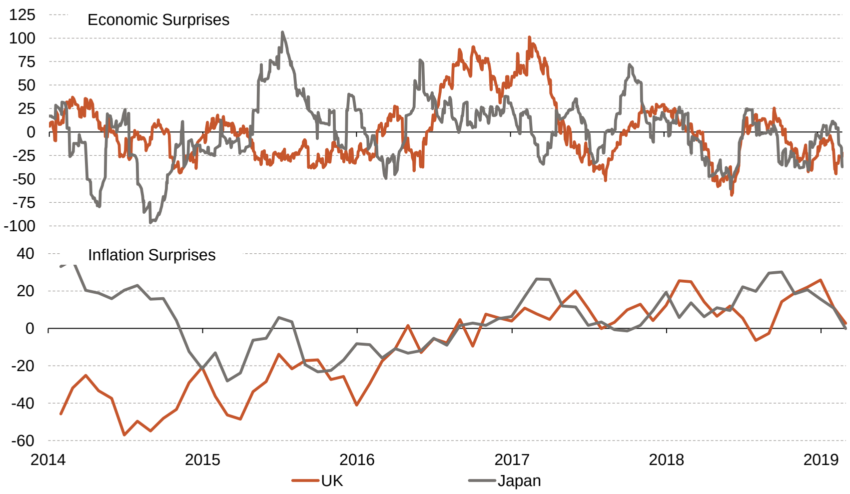
Eurozone and US



- The trend of negative economic surprises in the US continues. In December, for example, orders for capital goods and industrial orders were weaker than expected. On the other hand, the annualized Q4/2018 economic growth of 2.6% surprised positively thanks to rising corporate investments.
- In the Euro-Zone, the economic data surprised somewhat less negatively. However, they are still clearly negative in aggregate.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 01/03/2019

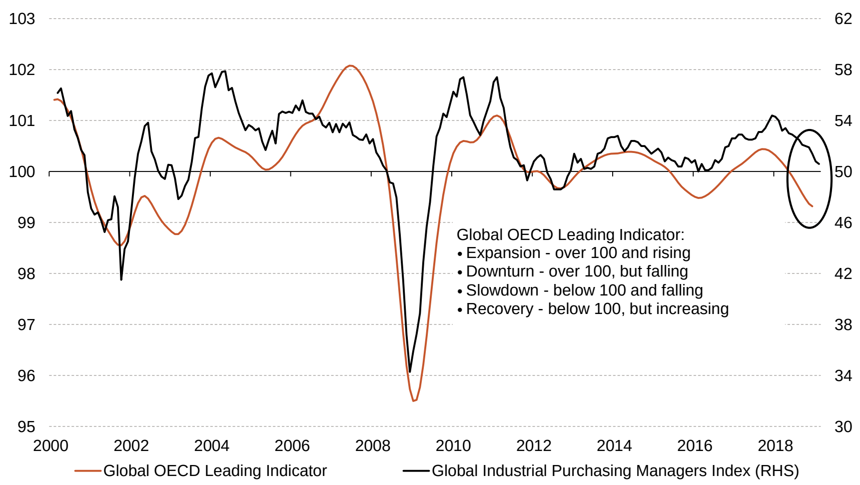
UK and Japan



- Both Japan and the UK are now in the midst of negative economic surprises.
- While the unemployment rate in the UK remained stable at 4%, industrial production (MoM) in Japan fell for the third time in a row.

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: 01/01/2014 - 01/03/2019

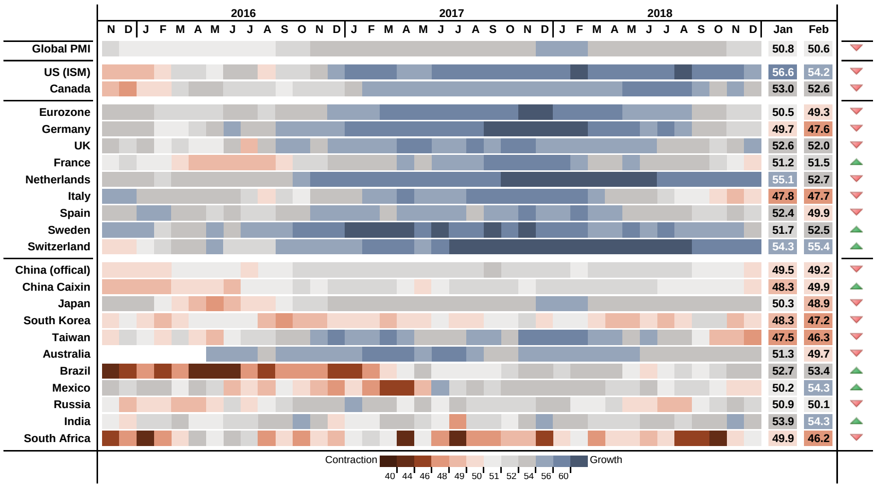
OECD Leading Indicator and Global Purchasing Managers Index



- With 99.3 points, the OECD leading indicator has reached its lowest level since 2009.
  At 50.6 points in February, the global industry purchasing managers' index is only slightly below the January level of 50.8 points.

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: 31/01/2000 - 28/02/2019

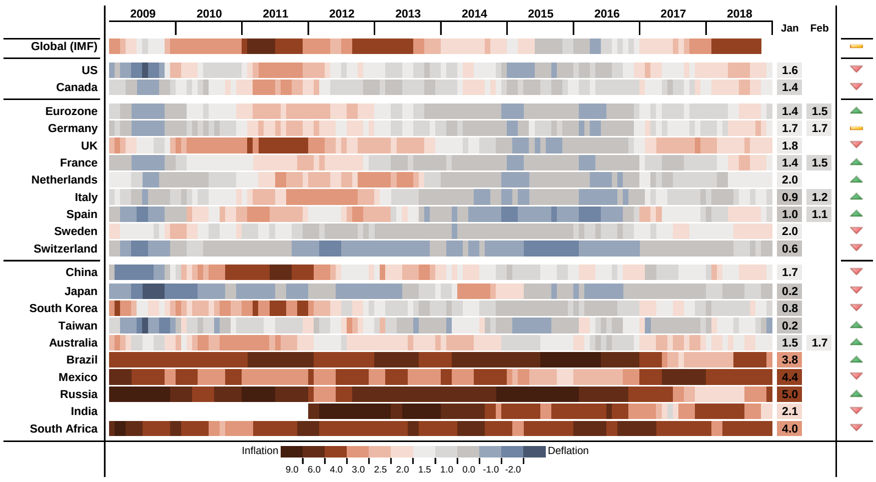
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The industrial situation in the euro zone continued to deteriorate. At 49.3, the PMI has slipped below the important 50s threshold. In Germany, the PMI fell to its lowest level since December 2012.
- There were conflicting signals in China's PMIs. Therefore, the PMI ground could be reached.

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: 30/11/2015 - 28/02/2019

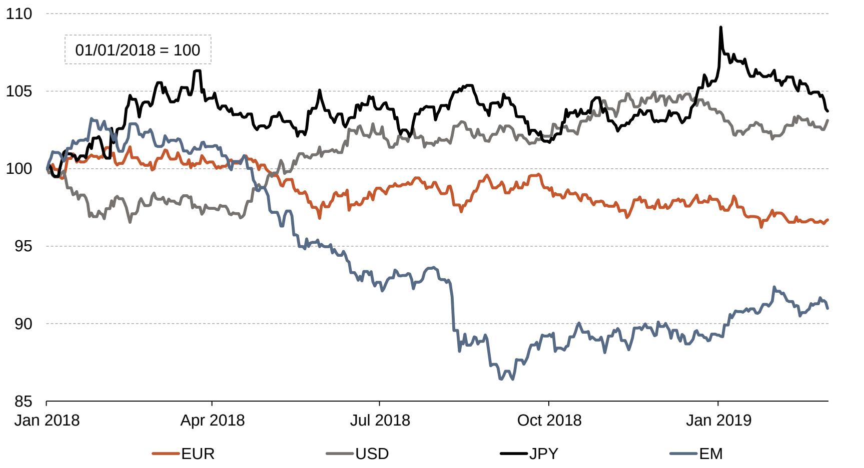
Headline Inflation



- Consumer prices in France and the Netherlands rose more strongly in February than in the previous month. The main driver was the rise in energy prices.
- Inflation in Germany remained at 1.7%. While headline inflation remained stable, the core inflation rate rose in February.

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.
Source: Bloomberg, Time period: 28/02/2009 - 28/02/2019

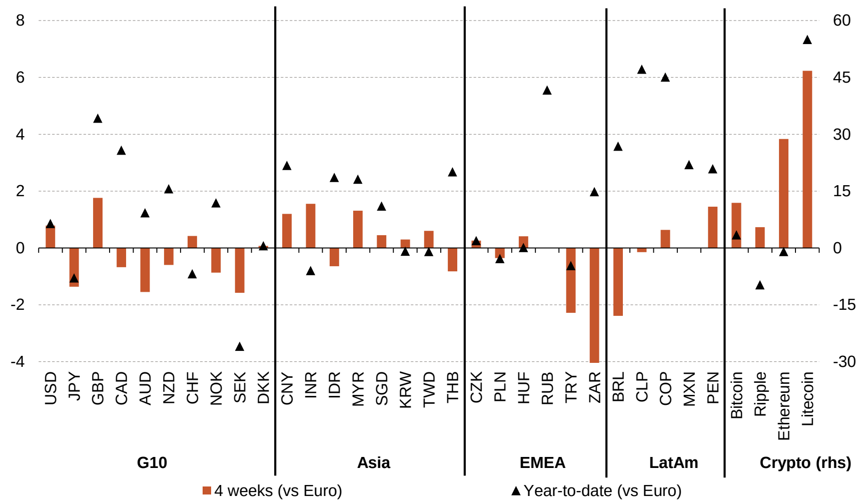
Trade-Weighted Currency Development



- Fluctuations on the currency markets have recently been low. In particular, the trade-weighted US dollar and euro were very stable. The EUR/USD exchange rate also fluctuated sideways, as the negative and positive news from both currency areas balances each other out.
- The Japanese yen continued to depreciate in the risk-on environment, while emerging market currencies benefited from capital inflows.

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: 01/01/2018 - 01/03/2019

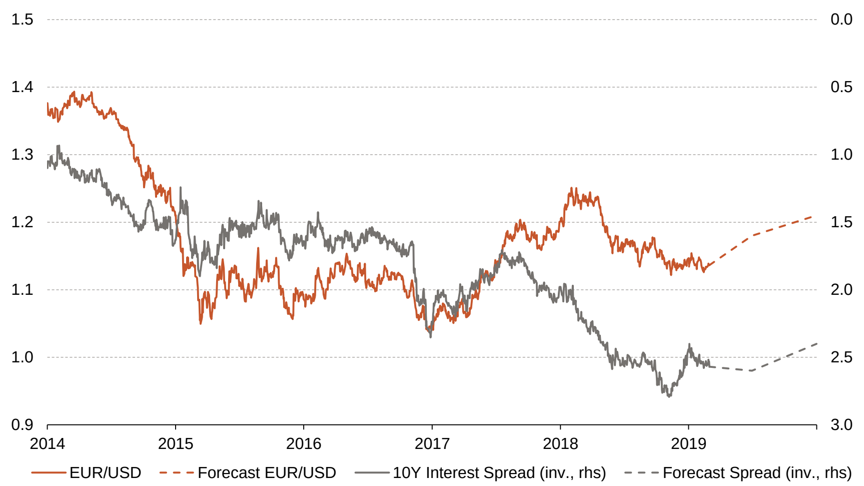
Currency Moves vs Euro



- The British pound appreciated against the euro, driven by the reduced probability of a hard Brexit.
- Asian currencies appreciated across the board against the euro. EM currencies benefited from the risk-on environment and corresponding capital inflows.
- The crypto currencies have gained in value in recent weeks and are benefiting from the overall higher risk appetite of market participants.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2018 - 01/03/2019

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate has been stagnating for weeks, fluctuating around 1.14 dollars per euro. Negative surprises in US economic data and political risks in Europe are balancing each other out.
- With the wait-and-see monetary policy on both sides of the Atlantic, the interest rate differential between 10-year Bunds and US Treasuries also remains around 2.5 percentage points.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US Treasuries and 10-year Bunds.
Source: Bloomberg, Time period: 01/01/2014 - 31/12/2019

European Sector & Style Performance

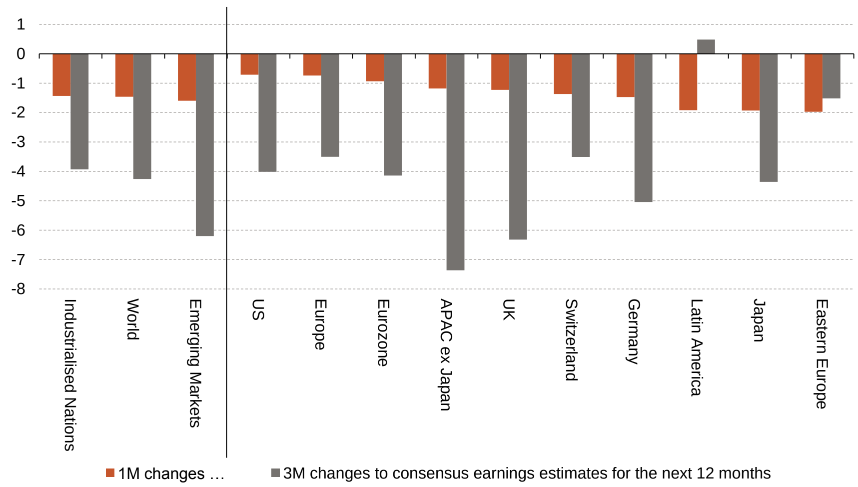
	4W (01/02/19 - 01/03/19)	YTD (31/12/18 - 01/03/19)	01/03/18 01/03/19	01/03/17 01/03/18	01/03/16 01/03/17	01/03/15 01/03/16	28/02/14 01/03/15
	4-week & YTD		12-month periods over that last 5 years				
Information Technology	6.2	13.8	6.4	10.5	20.3	-4.6	23.8
Health Care	5.5	9.7	15.9	-8.9	6.2	-9.9	28.0
Finance	5.2	11.3	-10.6	9.3	21.5	-19.6	13.6
Growth	4.9	11.9	5.9	1.6	10.2	-6.3	22.6
Consumer Discretionary	4.8	15.3	0.3	4.6	9.6	-11.6	25.7
Materials	4.4	14.4	1.5	8.0	42.0	-24.8	13.7
Industrials	4.4	12.9	0.9	5.2	21.7	-9.2	14.6
Consumer Staples	4.2	10.4	9.6	-6.0	7.4	0.7	30.3
Value	3.5	10.1	-0.1	2.8	19.5	-18.0	15.4
Energy	3.2	10.0	14.1	5.0	26.6	-17.9	2.2
Telecommunications	-0.2	0.4	-3.1	-6.2	-8.1	-7.0	25.2
Utilities	0.3	8.3	19.8	-0.2	2.1	-10.7	16.8

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, all European sectors have gained ground. Growth and cyclicals have outperformed value and defensive equities. Recession fears are no longer an issue in the equity market at the moment.

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: Bloomberg, Time period: 28/02/2014 - 01/03/2019

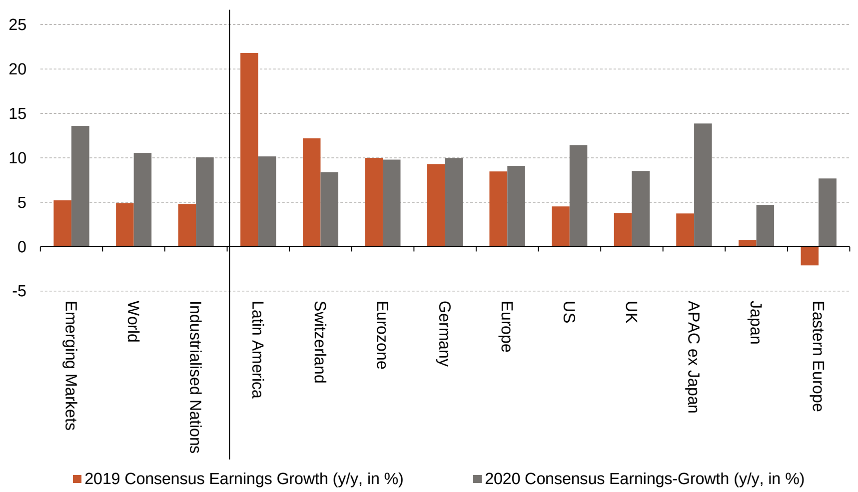
Changes in Consensus Earnings Estimates



- Analysts continue to adjust their earnings estimates downwards in line with the weaker economic data. Only Latin America has seen positive earnings revisions over the past three months.
- On the positive side, however, the momentum of downward revisions has slackened. Earnings revisions for Asia Pacific ex Japan were reduced by 7.4% in the last three months, but "only" corrected by 1.2% in the last 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 01/03/2019

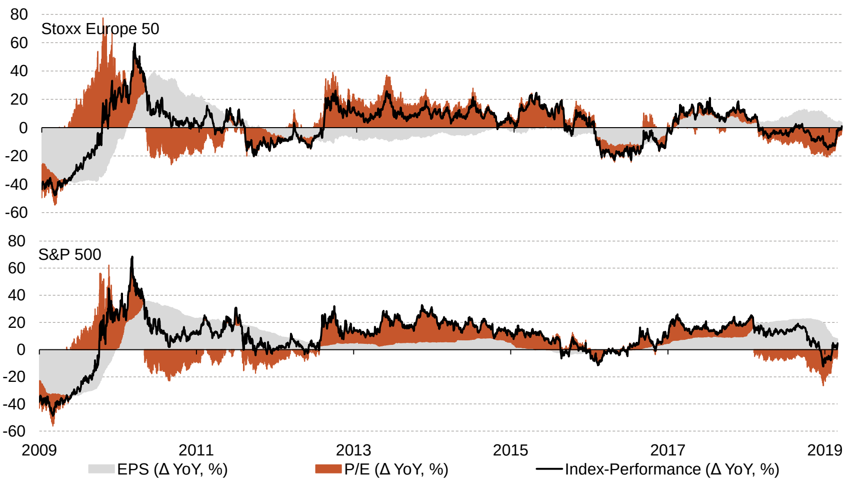
Earnings Growth



- For most equity regions, earnings expectations for 2019 are extremely moderate. The consensus expects profit growth of less than 5% for the US, Asia Pacific ex Japan, Great Britain, Japan and Eastern Europe.
- Only for Latin America and Europe are the profit forecasts relatively high. Many analysts expect Brazil in particular to adopt a more business-friendly course after the recent presidential elections.

Calendar year earnings growth expected to the consensus 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 01/03/2019

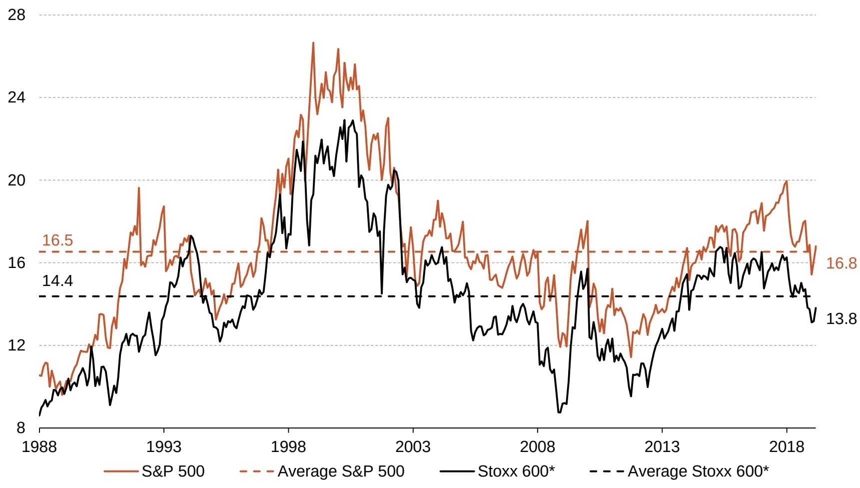
Contribution Analysis



- Trade (policy) risks and growth concerns have led to a significant reduction in valuation ratios in recent months. Since the beginning of the year, however, a pricing out of fears of recession has led to an increase in valuations.
- While the consensus lowered earnings expectations in line with weaker economic data, equity markets around the world climbed.

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: 01/01/2009 - 01/03/2019

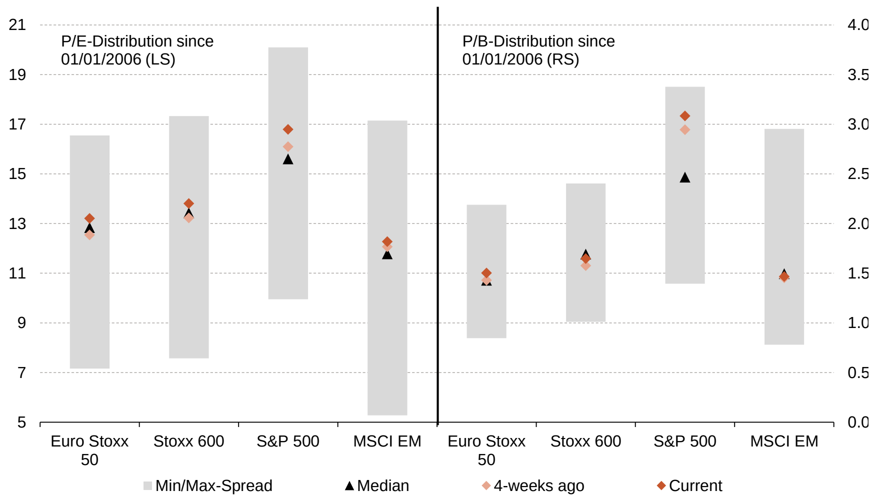
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Now European and US equities are again fairly valued - in comparison with their own history.
- More positive economic data and positive earnings revisions appear to be necessary for the stock market rally to continue. Otherwise, the further upside potential appears to be limited at present.

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, Time period: 31/12/1987 - 01/03/2019

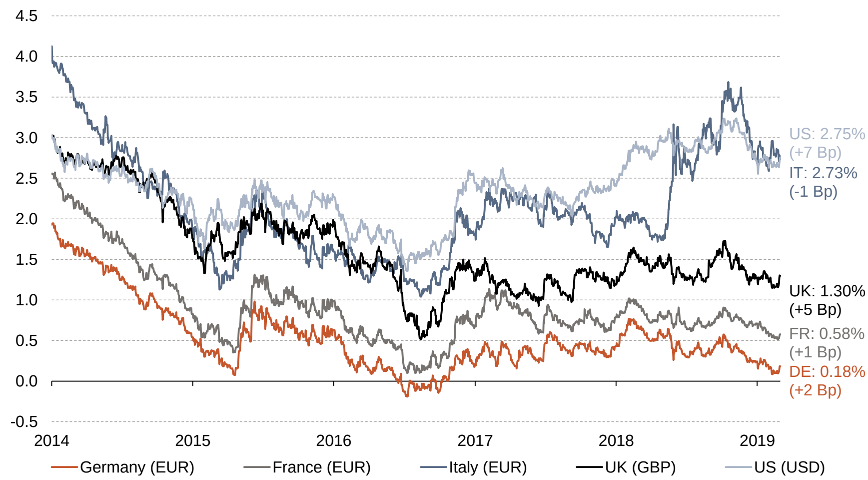
Historical Distribution: Price/Earnings and Price/Book Ratio



- Although emerging market equities have outperformed other regions since the fourth quarter of 2018, they are still relatively cheap relative to other regions.
- However, comparisons with the region's own history now also seem to indicate that emerging market equities are fairly valued.

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 - 01/03/2019

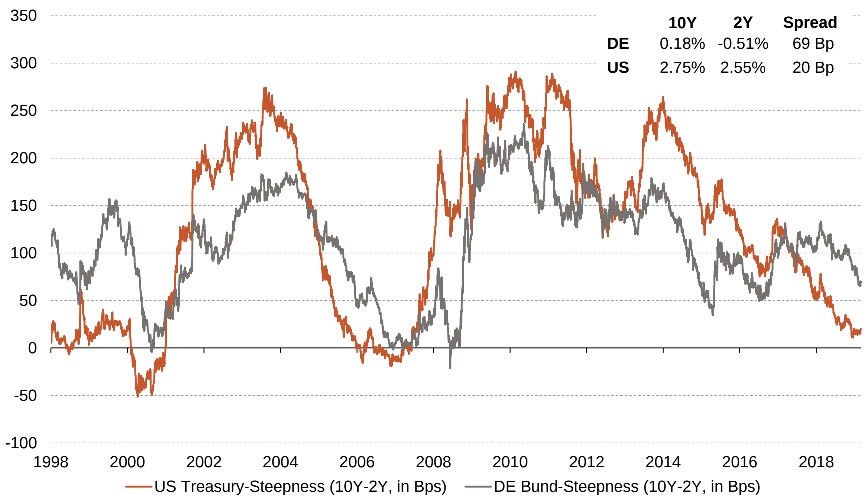
10-Year Government Bond Yields



- Yields on British Gilts have risen to 1.30%. Due to the recent advances in the Brexit process, Gilts were not in high demand.
- In a four-week comparison, the yield on Italian government bonds hardly moved at all. Investors' concerns have not risen any further recently.
- German Bunds continue to show a return of less than 20 basis points. Recently, however, there was a trend reversal and thus a slight increase in yields.

Effective yield of 10-year government bonds and change in the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2014 - 01/03/2019

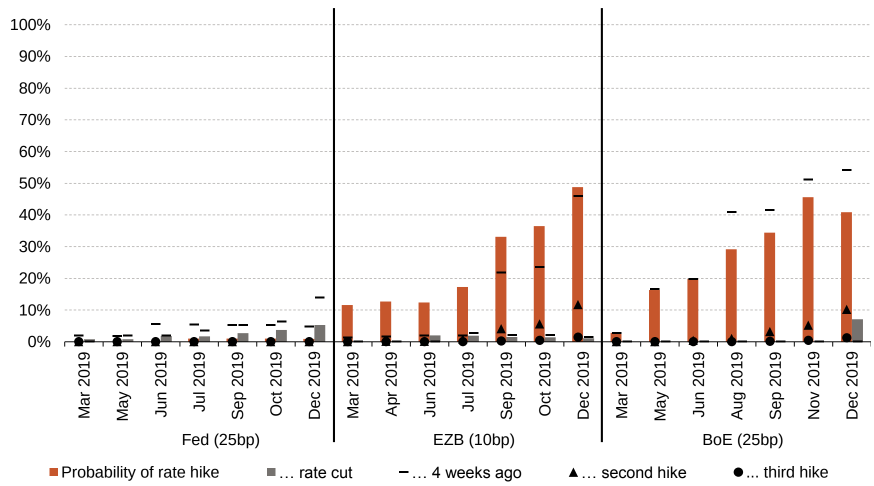
Yield curve steepness (10Y - 2Y)



- In the last two weeks there has been little movement in the steepness of the US and German yield curves.
- The slope of the German yield curve remained below 70 basis points and the slope of the US yield curve remained around 20 basis points.

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 - 01/03/2019

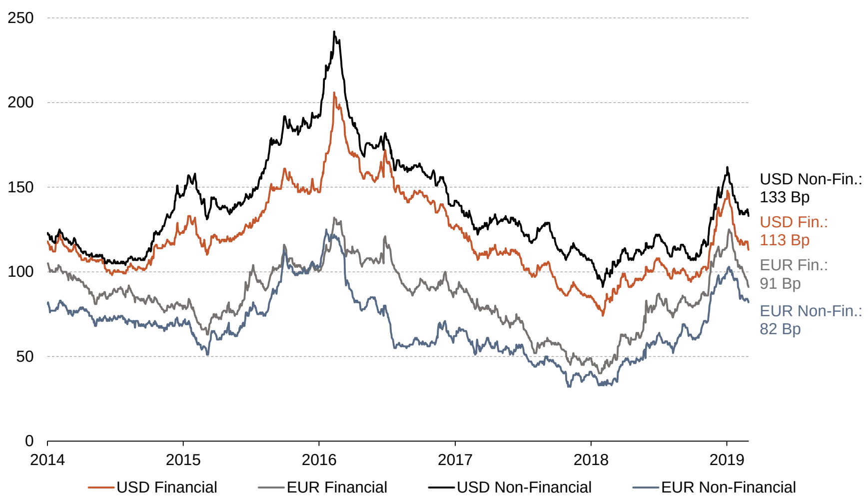
Implicit Probabilities for Changes in Key Interest Rates



- Following the Fed's recent statement that inflationary pressure is low the market does not expect interest rates to rise again in 2019.
- In the Eurozone, the market expects a rate hike in September 2019 with a 30% probability, after inflation rose slightly again in February.
- The BoE may also raise interest rates in September with a probability of around 30%, according to market expectations.

Derivatives on money market rates - such as the Fed funds futures - can be used to determine the probability of a change in the key interest rate priced by the market
Source: Bloomberg, Time period: 01/02/2019 - 01/03/2019

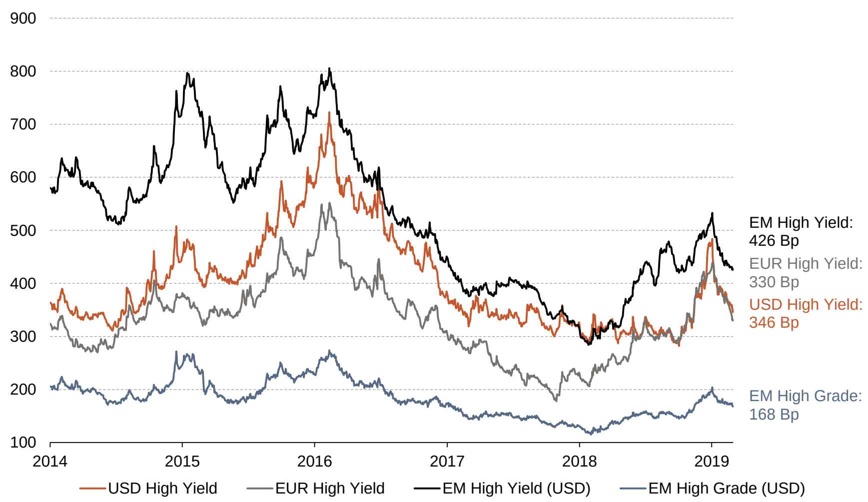
Credit Spreads Financial and Non-Financial Bonds



- The spreads on USD financial and non-financial bonds as well as on EUR non-financial bonds remained largely unchanged. Only EUR financial bonds saw a clear spread tightening of 9 basis points in a two-week comparison.
- In EUR corporate bonds, banks have outperformed all other sectors as hopes for ECB financing support (TLTRO) have risen.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2014 - 01/03/2019

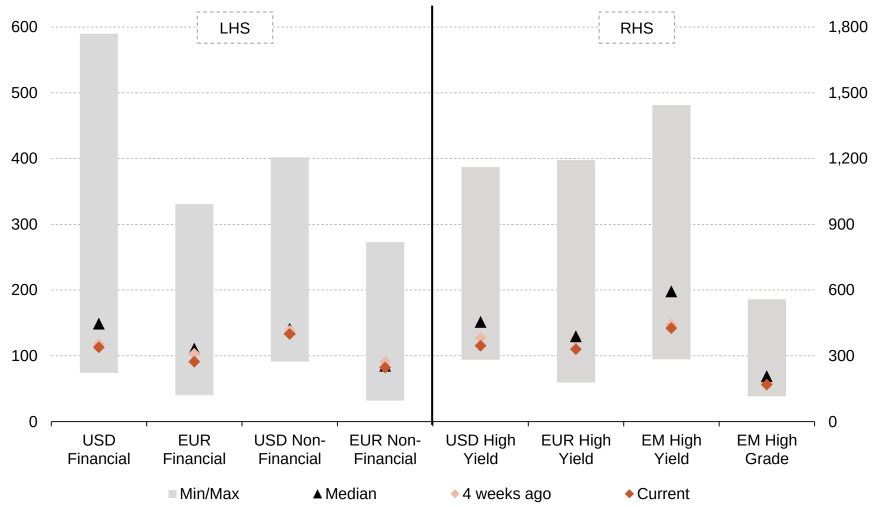
Credit Spreads High Yield and Emerging Markets Bonds



- High-yield bonds recorded further declines in spreads. This particularly affected EUR high yield bonds, which saw a spread tightening of 31 basis points in the last two weeks. The spread is thus again significantly lower than that of USD high-yield bonds.
- In the case of USD high-yield bonds, aerospace companies in particular saw a narrowing of spreads.

The extent of the risk associated with a corporate bond is shown by its asset swap spread (in basis points). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term to offset its credit risk. See further explanations below.
Source: FactSet, Time period: 01/01/2014 - 01/03/2019

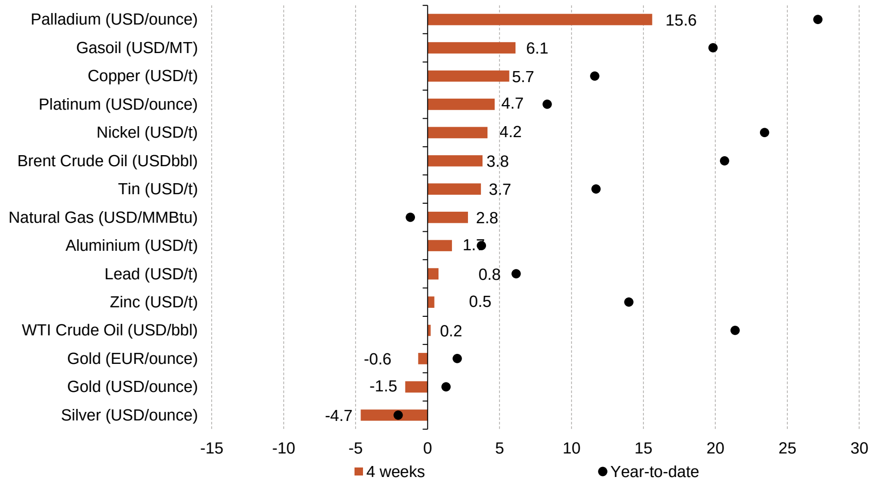
Historical Distribution of Credit Spreads (in bp)



- The spread on EUR high-yield bonds and EUR financial bonds is now well below the 10-year median again after the recent movement.
- EM High Grade is characterized by its stability. The spread remained close to the historical median and the value of four weeks ago.

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: 01/03/2009 - 01/03/2019

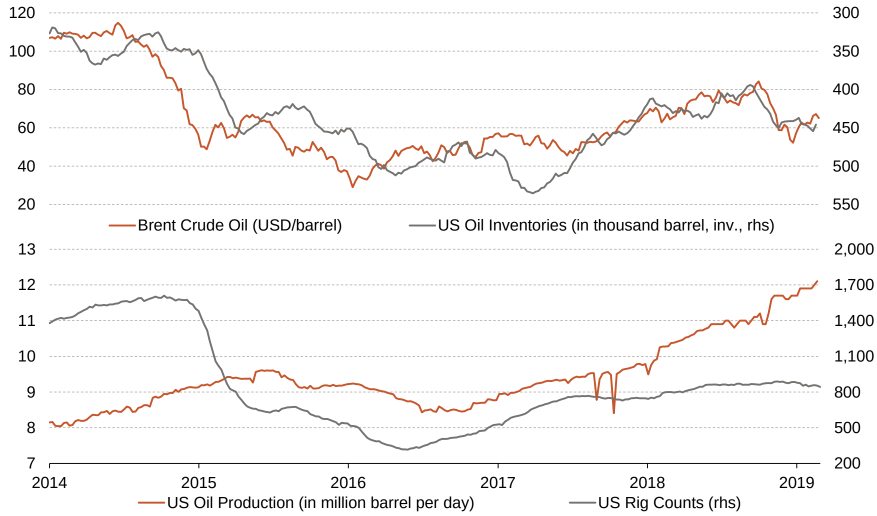
Commodities Performance



- Over the past four weeks, almost all commodities have benefited from investors' increased risk appetite. Gold and silver were negative exceptions.
- The hope of an agreement in the trade dispute between the US and China as well as diminishing economic concerns have supported prices, especially for industrial metals. A stabilisation of Chinese leading indicators for the economy also helped.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2019 - 01/03/2019

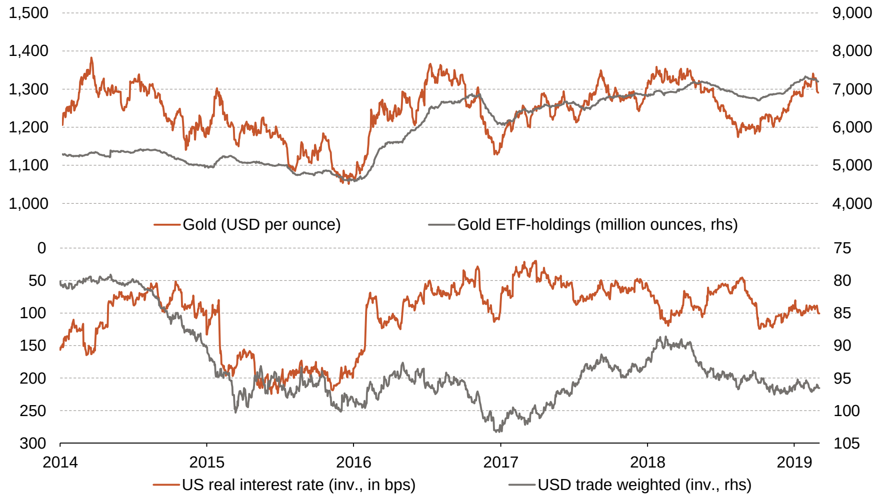
Crude Oil



- Driven by speculators, crude oil (Brent) has continued its upward trend since the beginning of the year and is currently quoted at around 65 US dollars per barrel. The positive momentum should continue in the short term and the price should continue to rise.
- The OPEC + states are consistently adhering to the agreed production cuts, especially Saudi Arabia.
- Since the non-OPEC countries, in particular the USA with its shale oil production, are expanding their production, the oil market is not too tight.

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: 01/01/2014 - 01/03/2019

Gold



- After an interim price peak of around 1,340 US dollars per ounce, the gold price has fallen with ETF outflows. The price fell below the psychological mark of 1,300 US dollars per ounce.
- However, gold should have further potential over the course of the year, especially as real interest rates remain low and the strength of the US dollar is expected to weaken.

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: 01/01/2014 - 01/03/2019

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IMPORTANT NOTICES

Please refer to the online glossary at www.berenberg.de/glossar for definitions of the technical terms used in this document.

Date: 4 March 2019

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