

### Current market commentary

The consensus expects US earnings to rise by around 2% in 2019, but the S&P 500 has already climbed to an all-time high with more than 20% performance this year. This means that 90% of the increase is driven by an expansion of the P/E ratio. The shares are therefore much more expensive than at the end of last year. One reason for this is that the exaggerated fears of recession in Q4 2018 have been priced out. However, the markets are already pricing in a recovery of the economy in the second half of this year. Meanwhile, economic data continues to disappoint worldwide and, this year in contrast to last year, also in the US. Moreover, the stimulus measures in China seem to have only little effect yet. For an economic recovery to take place in the second half of this year, the trade conflict would have to be defused for a longer period of time and a hard Brexit must be avoided. The central banks have recognised the fragile situation and hold out the prospect of dovish interest rate cuts - also because inflation expectations have fallen further.

### Short-term outlook

In the past few weeks, the stock markets have already priced in interest rate cuts by the US Federal Reserve, a sustained expansive monetary policy by the ECB and a lack of escalation in the trade war. Now the focus is likely to be on the beginning of the corporate reporting season for the second quarter. With leading economic indicators still at low levels and after the first profit warnings, we expect an increasing number of companies to lower their outlook and profit forecasts for 2019.

Tomorrow, the ZEW Indicator of Economic Sentiment will be released in Germany and data on retail sales and industrial production in the US will be released. The state of the US economy is also likely to be guessed by the first applications for unemployment benefits on Thursday and by consumer confidence on Friday. The ECB will meet next time on 25th July and the Fed is expected to cut base interest rates by 0.25% percentage points at its meeting on the 31st July.

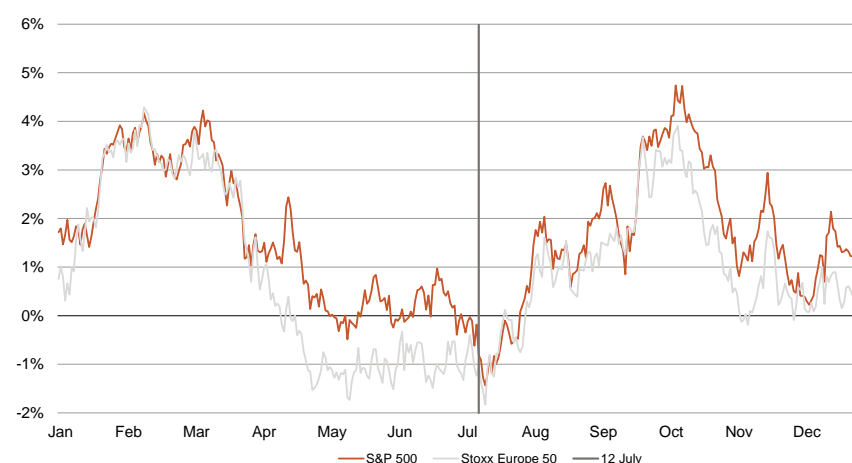
The bi-weekly *Monitor* gives you a structured overview of the current capital market environment and highlights important developments:

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

*The beginning of the corporate earnings season should bring more profit warnings.*

*The economic data from the US will dominate in the coming days.*

### Seasonality - historically weakest phase for equities is around the corner



- By investing in European and US equities, investors would have lost money on average since 1998 if they had bought them mid-July and held them for three months. In addition to the continuing political uncertainty, weak economic data and negative earnings revisions, there is also a warning signal of seasonality.
- Equities are supported above all by the expectation of a ceasefire in the trade war and a looser central bank policy.

Average rolling return for the next 91 days.  
Source: Bloomberg, Berenberg  
Time period: 31/12/1998 - 12/07/2019



Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (14/06/19 - 12/07/19)	YTD (31/12/18 - 12/07/19)	12/07/18	12/07/17	12/07/16	12/07/15	11/07/14
Brent	8.8	29.9	-2.8	59.7	-14.9	-31.4	-40.7
Gold	4.9	12.3	17.5	-0.1	-11.3	15.6	6.0
MSCI Emerging Markets	3.6	12.3	4.4	4.0	19.8	-5.8	10.3
Industrial Metals	3.5	7.1	-1.1	6.6	10.0	-6.8	-5.6
MSCI World	3.4	20.8	9.8	9.8	13.2	-0.7	25.0
MSCI Frontier Markets	3.1	16.5	9.2	0.2	16.2	-10.1	2.2
Global Convertibles	2.7	13.9	7.5	6.8	11.3	-1.3	21.3
Global Coporates	0.9	8.9	10.5	-1.3	-1.5	7.6	15.6
Global Treasuries	0.3	5.9	8.9	-0.2	-7.6	12.9	10.4
REITs	0.1	21.5	15.7	1.6	-10.8	16.4	22.0
Eonia	0.0	-0.2	-0.4	-0.4	-0.4	-0.2	0.0
USDEUR	-0.5	1.7	3.5	-2.2	-3.1	0.9	21.9

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 Capitalization Index; USDEUR: Price of 1 USD in EUR.

- Commodities have been the clear winners in the past 4 weeks. Gold continues to benefit as a safe haven. Thanks to the production cuts ruled by OPEC, Brent has been able to increase its performance since the beginning of the year to just under 30%.
- Equities also exhibited a very positive performance throughout fuelled by dovish central banks.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.  
 Source: Bloomberg, Time period: 11/07/2014 - 12/07/2019

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (14/06/19 - 12/07/19)	YTD (31/12/18 - 12/07/19)	12/07/18	12/07/17	12/07/16	12/07/15	11/07/14
S&P 500	4.0	23.5	13.9	14.2	12.6	6.3	31.7
Euro Stoxx 50	3.6	19.2	4.3	0.6	22.9	-14.4	14.7
Stoxx Europe Small 200	3.6	17.9	0.1	8.5	21.7	-9.5	20.3
MSCI EM Asia	3.4	10.7	0.9	5.4	23.4	-5.5	19.4
Stoxx Europe Cyclical	3.0	16.8	-0.5	0.4	33.4	-18.5	16.5
Russell 2000	2.7	19.2	-2.3	17.5	16.3	-1.9	33.6
MSCI EM Eastern Europe	2.6	24.0	22.8	12.6	16.0	-2.7	-11.1
Topix	2.1	11.1	2.0	6.1	15.9	-2.6	29.6
DAX	1.9	16.7	-1.4	-1.1	26.7	-11.9	17.1
Stoxx Europe 50	1.7	18.0	6.7	0.9	14.3	-12.0	16.2
MSCI UK	1.6	14.3	1.0	7.2	9.2	-10.9	13.4
Stoxx Europe Defensives	0.5	11.7	5.0	6.1	2.8	-6.4	16.5

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 Cyclical: Stoxx Europe Cyclical TR;  
 Stoxx Europe Defensives: Stoxx Europe Defensives TR; DAX: DAX TR; MSCI United Kingdom: MSCI UK TR; MSCI EM Asia: MSCI EM Asia TR;  
 MSCI EM Eastern Europe: MSCI EM Eastern Europe TR.

- Over the past four weeks, equities have continued to perform well around the world. The S&P 500 reached new all-time highs and even surpassed the 3000 point mark for the first time. Eurozone equities were also sought after.
- The DAX developed comparatively weakly due to numerous profit warnings of cyclical companies.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.  
 Source: Bloomberg, Time period: 11/07/2014 - 12/07/2019

Fixed Income

	4-week & YTD		12-month periods over that last 5 years				
	4W (14/06/19 - 12/07/19)	YTD (31/12/18 - 12/07/19)	12/07/18	12/07/17	12/07/16	12/07/15	11/07/14
BTPs	3.8	7.5	9.3	-0.9	-4.0	8.6	6.2
EUR Inflation Linkers	2.8	5.0	2.8	3.7	-0.9	4.3	0.3
EM Local Currency Bonds	2.5	7.8	12.2	-2.8	0.1	5.1	7.0
EM Hard Currency Bonds	1.6	8.6	6.7	-2.2	1.1	10.5	0.0
EUR High Yield	1.6	7.0	4.0	1.3	6.6	2.5	1.8
EUR Non-Financials	1.1	5.8	4.7	1.3	-0.4	7.1	1.0
EUR Financials	1.1	5.4	4.6	0.9	2.2	5.1	1.3
USD Corporates	0.8	10.9	13.5	-2.6	-1.6	9.0	22.7
USD High Yield	0.8	12.1	11.8	0.3	5.1	4.4	21.0
Bunds	-0.2	3.5	4.3	2.4	-4.3	8.4	3.3
Treasuries	-0.2	6.2	10.6	-2.7	-5.4	7.6	24.1
Gilts	-0.7	5.7	4.0	2.5	-7.5	-0.3	19.3

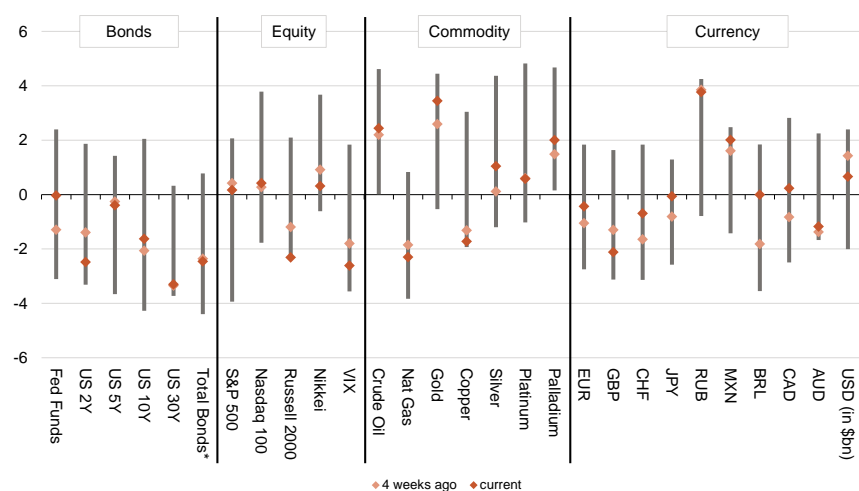
Bunds: Barclays Germany Govt All Bonds TR; BTPs: Barclays Italy Govt All Bonds TR; Treasuries: Barclays US Treasury TR;  
 Gilts: Barcl. UK Govt All Bonds TR; EUR Inflation Linkers: Barcl. Euro Govt Inflation-Linked Bond All Maturities TR; EUR Financials: IBOXX Euro Fin. Overall TR;  
 EUR Non-Financials: IBOXX Euro Non-Fin. Overall TR; EUR High Yield: Markt 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.

- After the central banks announced a looser monetary policy, investors were pushed into riskier fixed income segments in search for yield. As a result, Italian and emerging market bonds were able to make particularly strong gains.
- German government bond yields reach new lows and traded temporarily below the ECB's deposit rate.
- Gilts lost the most due to the weak pound.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.  
 Source: Bloomberg, Time period: 11/07/2014 - 12/07/2019



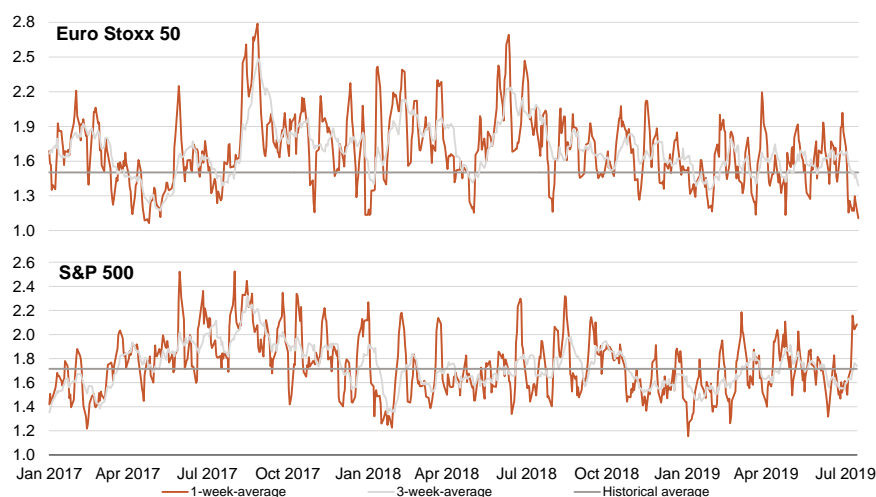
Non-Commercial Positioning



- Non-commercial investors have recently once again increased their positions in gold.
- Net long positions in equities remained moderate. Short positions in VIX futures were increased though.

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: 09/07/2014 - 09/07/2019

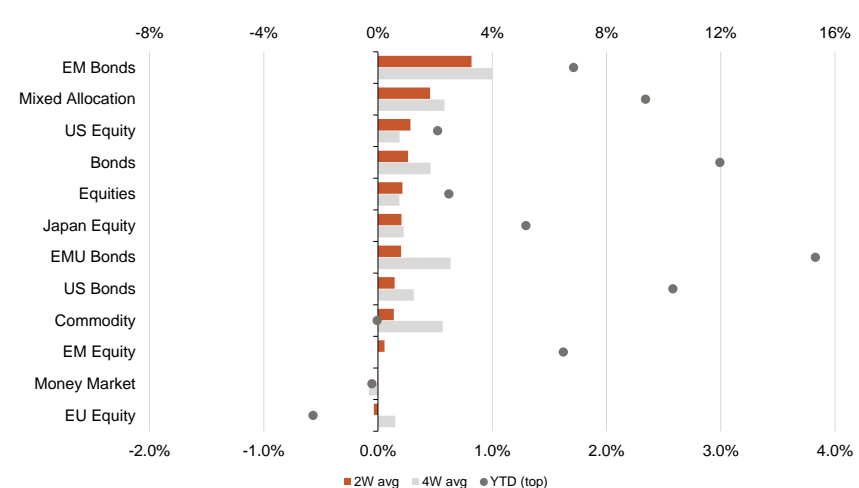
Put-Call Ratio



- The picture in the equity markets has changed recently. After reaching new all-time highs in the USA, speculative investors are increasingly expecting prices to fall.
- For the eurozone, on the other hand, investors are now more optimistic.

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 - 12/07/2019

ETF Flows

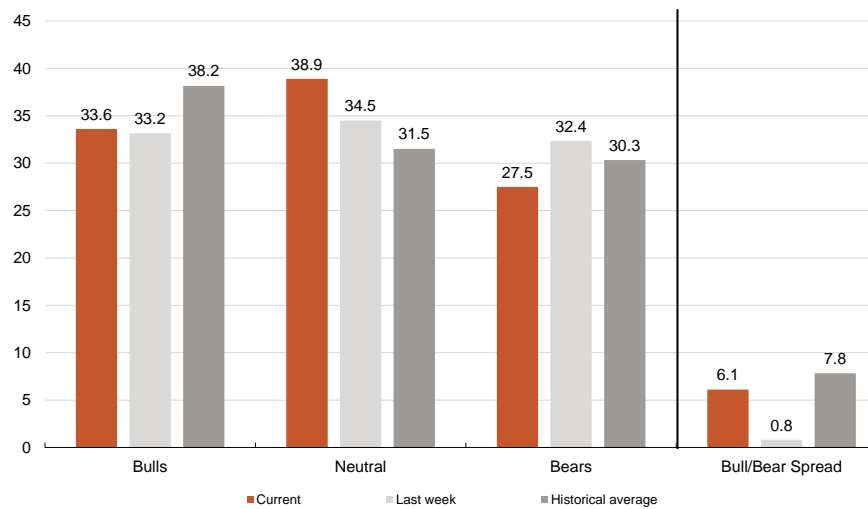


- Bond ETFs continue to attract inflows. Demand is particularly strong for emerging market bonds, benefiting from the "hunt for yield".
- Commodity ETFs saw further inflows.
- Among equity ETFs, US equities in particular were in demand. European equities continue to struggle with weak demand.
- Japanese equities, on the other hand, remain in demand despite underperformance.

Estimated ETF flows in percent of assets under management, sorted by 2-week average. Source: Bloomberg, Time period: 31/12/2018 - 12/07/2019



**AAIL Sentiment Survey (Bulls vs Bears)**

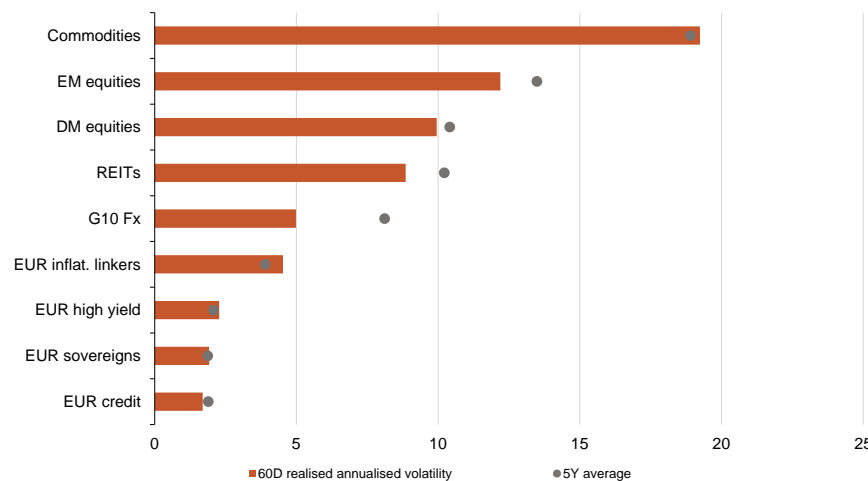


- Among US private investors, the share of pessimists (bears) has fallen to 27.5%. A high share of just under 39% is neutral.
- At 6.1%, the bull/bear spread is close to the historical average, which means that sentiment is not expected to give an impulse to the stock market, nor is it a warning signal.

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, AAIL, Time period: 23/07/87 - 11/07/19

**Realised Volatilities**

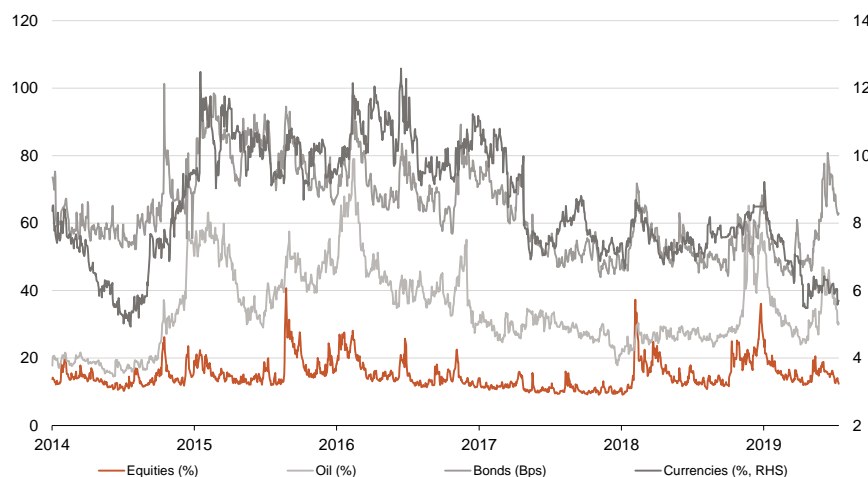


- The realised 60-day volatilities have risen in the last few days, especially for commodities and EUR inflation linked bonds, which are now also above the 5-year average.
- The ranking of asset classes remained unchanged. Stocks have the second highest volatility after commodities, followed by REITs and currencies.
- Compared to the 5-year average, volatility on the G10 foreign exchange markets is remarkably low.

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: 12/07/2014 - 12/07/2019

**Implied Volatilities**



- Over the past two weeks, implied volatilities have fallen across all asset classes.
- In the case of government bonds, the extremely sharp decline in yields has initially come to an end and a countermove has begun.
- The implied volatility of equities is now close to its low for the year.

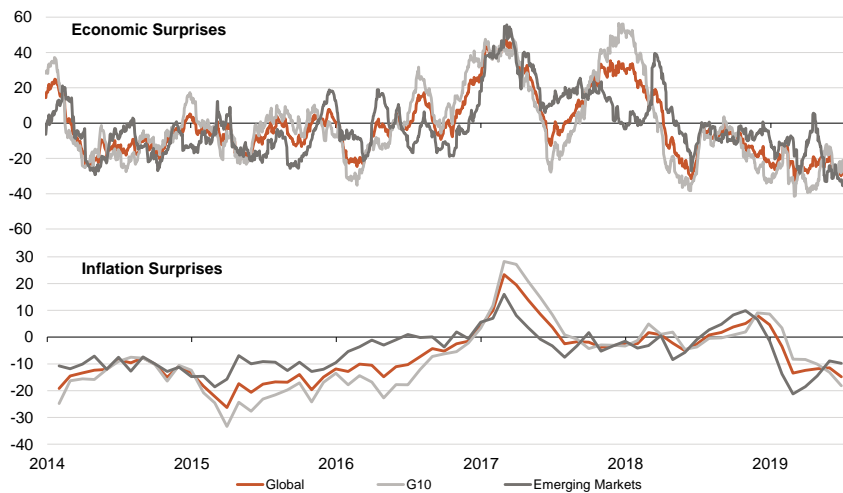
The price of options depends on the volatility of the underlying instrument. Implied volatility can therefore be interpreted as a measure of the currently expected fluctuation range of the underlying compared to the market over the remaining term of the option. It is a measure of prevailing uncertainty in the financial markets.

Stocks = VIX Index, Oil = OVX Index, Government Bonds = MOVE Index, Currencies = CVIX Index

Source: Bloomberg, Time period: 01/01/2014 - 12/07/2019



## Global

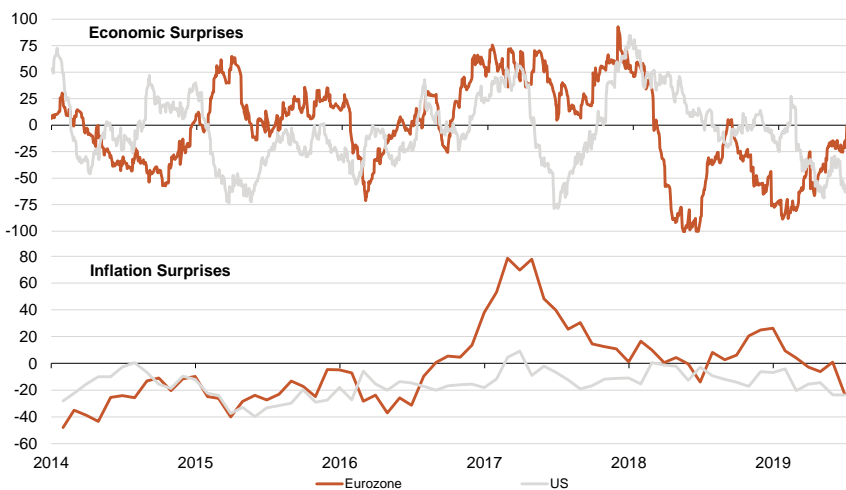


- The global economic surprise indicator has remained well below zero in the last two weeks. In isolated cases, figures from the USA, for example, have surprised positively, but the majority remained disappointing. In China economic growth slowed to a 27-year low of 6.2% (YoY) in the second quarter.
- Global inflation has recently been weaker than expected. This, combined with the weak economic data, raised hopes for a looser monetary policy on the part of the central banks.

See explanations below.

Source: Bloomberg, Time period: 01/01/2014 - 12/07/2019

## Eurozone and US

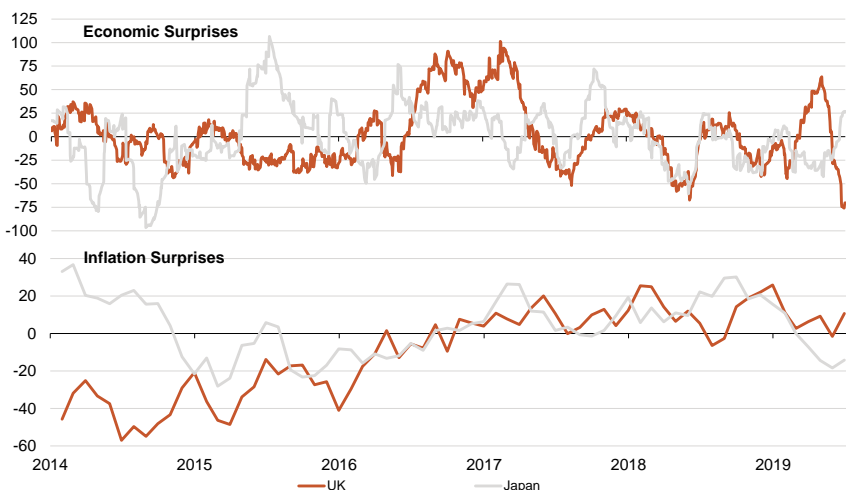


- In the eurozone, the economic data has again been disappointing. At -2.2% (MoM), industrial new orders in Germany fell considerably worse than expected.
- In the USA, strong labour market figures and the Industrial ISM Purchasing Managers' Index surprised upwards. Core inflation in the US rose unexpectedly by 0.3% compared to the previous month.

See explanations below.

Source: Bloomberg, Time period: 01/01/2014 - 12/07/2019

## UK and Japan



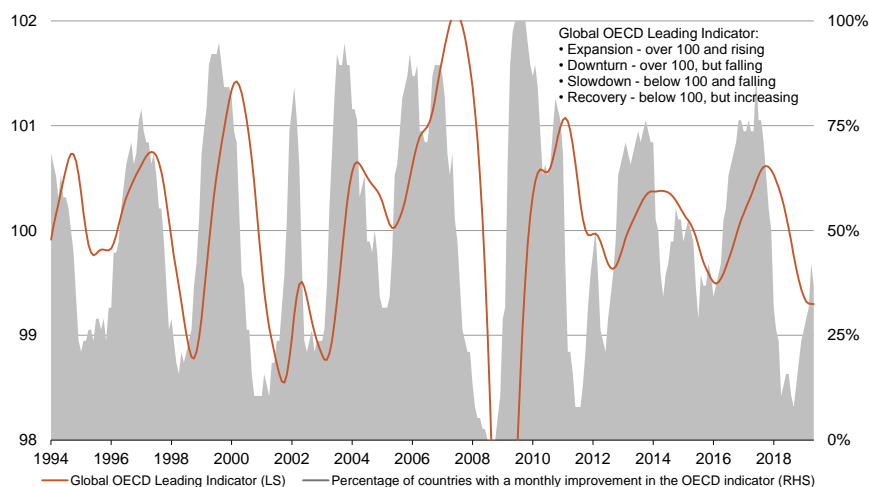
- In Great Britain, sentiment indicators have recently been very disappointing and production in the manufacturing sector has risen by only 1.4% (MoM) (2.2% as expected).
- Japan surprised the aggregate in a clearly positive way despite, for example, declines in incoming orders for machinery.

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 - 12/07/2019



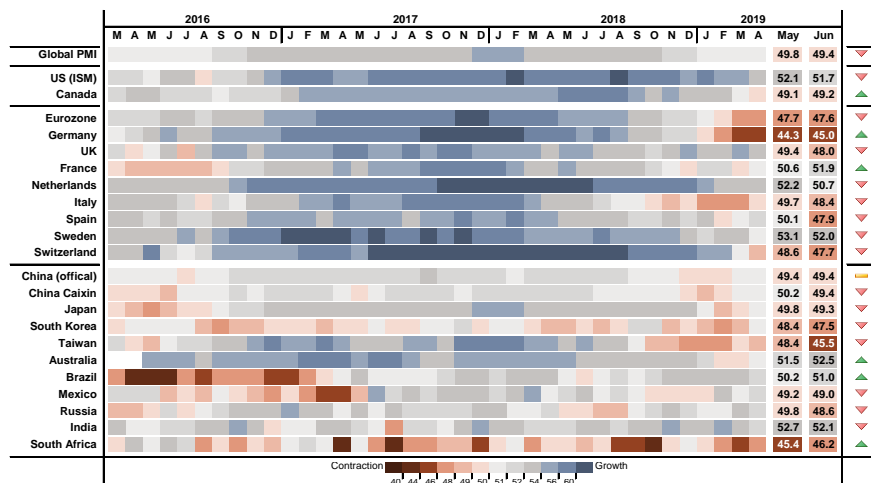
### OECD Leading Indicator



- The global OECD leading indicator recently remained again below the expansion mark of 100 points.
- Only India, Brazil, Mexico, Hungary and Australia were able to record an OECD leading indicator of over 100 points in May, which could point to rising growth in the future.

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 - 31/05/2019

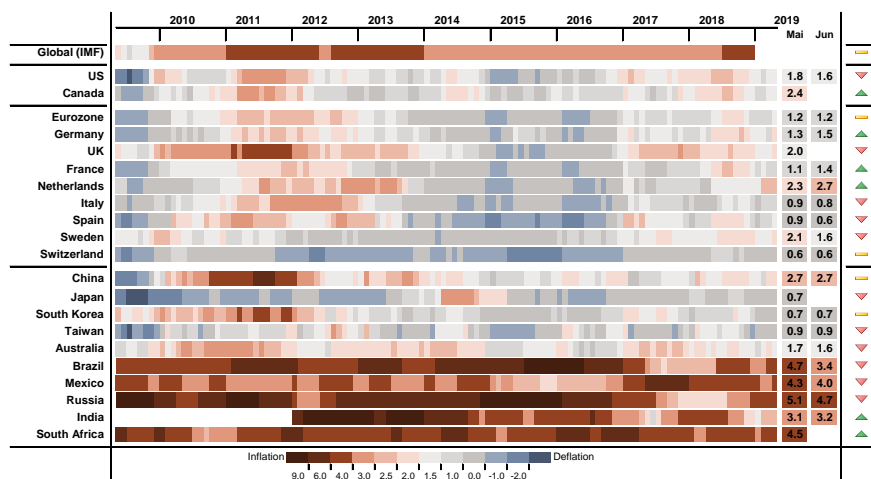
### Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global PMI deteriorated slightly in June and, at 49.4, is below the 50 point growth mark for the second time in a row.
- In China, both the official and the Caixin PMI now point to a contraction of the economy.

The PMI is an overall index that provides a general overview of the economic situation in industry. The PMI is derived from a total of eleven sub-indices, which reflect the change from the previous month. A value of 50 is regarded as neutral, a value of over 50 points as an indicator of rising activity in industry and a value of less than 50 points for falling activity in industry compared with the previous month. The index has an average lead time before actual industrial production of three to six months. The PMI is based on a survey of a relevant selection of purchasing managers regarding the development of parameters such as incoming orders. Source: Bloomberg, Time period: 31/05/2016 - 30/06/2019

### Headline Inflation

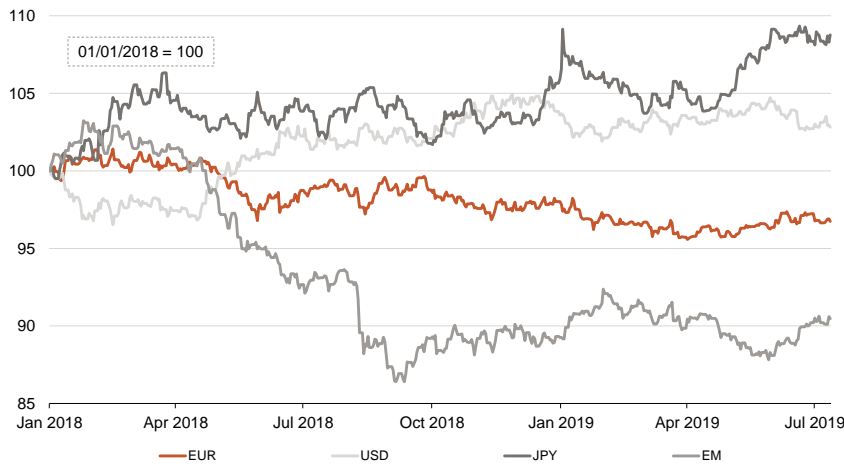


- In June, inflation in the US fell to 1.6%, well below the 2% mark. This means that inflation does not stand in the way of a more dovish Fed course.
- Germany and France, on the other hand, recorded rising inflation rates of 1.5% and 1.4%, respectively.
- In China, inflation remains at 2.7%.

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: 30/06/2009 - 30/06/2019



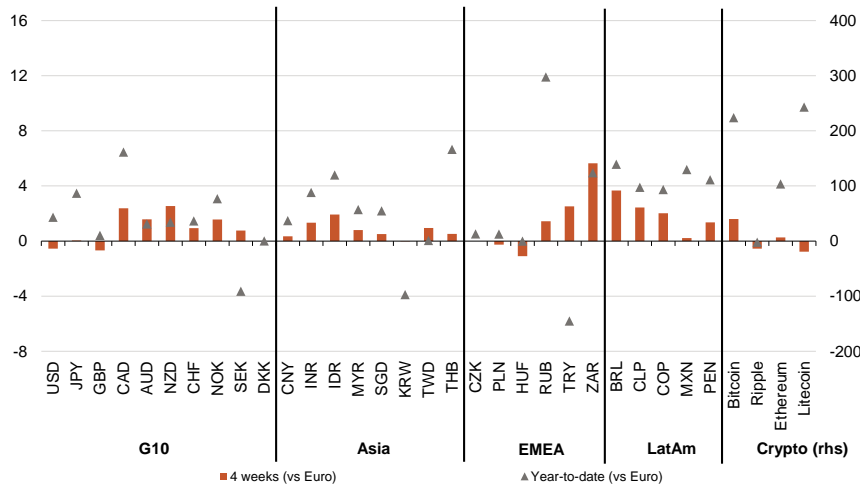
Trade-Weighted Currency Development



- The Japanese yen remains in demand on a trade-weighted basis, especially as economic data does not yet signal a turnaround and tensions between Japan and Korea persist.
- Despite expected interest rate cuts, the US dollar remained stable. Despite the prospect of a sustained expansionary monetary policy, the euro did not come under strong pressure either.
- Emerging market currencies were only able to make very slight gains recently.

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 - 12/07/2019

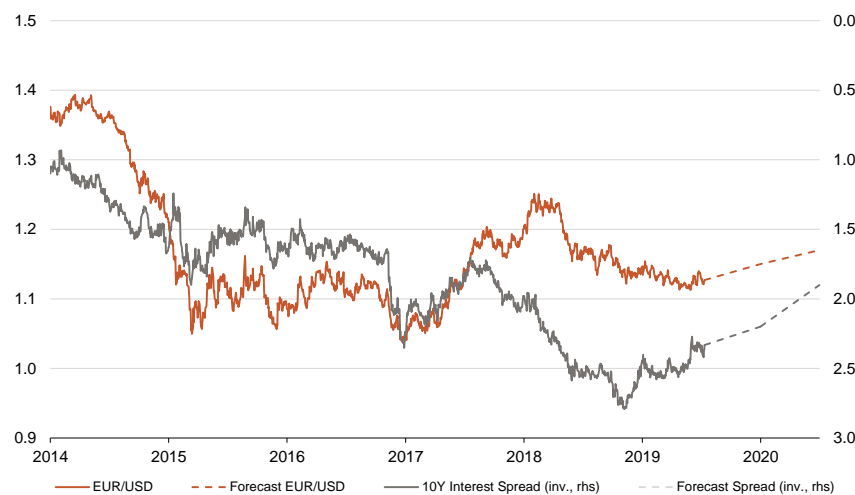
Currency Moves vs Euro



- Over a 4-week period, most of the currencies shown here appreciated against the euro. The announcement of a sustained expansionary monetary policy is reflected here. In particular, the Canadian dollar, the South African rand and the Brazilian real will appreciate.
- Among the crypto currencies, the top dog Bitcoin was able to gain the most recently - thanks to speculation on the Facebook Libra Coin.

Performance of selected currencies against the euro, in percent.  
Source: Bloomberg, Time period: 31/12/2018 - 12/07/2019

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate fluctuates sideways by 1.13 dollars per euro.
- The US Federal Reserve has signaled a turnaround in interest rates and is about to lower them. ECB President Draghi has also signaled that the ECB will continue to pursue an expansionary monetary policy.
- Despite the fundamental undervaluation of the euro, its upward potential is limited for the time being due to the weaker economy.

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 - 30/06/2020



## European Sector & Style Performance

	4-week & YTD		12-month periods over that last 5 years				
	4W (14/06/19 - 12/07/19)	YTD (31/12/18 - 12/07/19)	12/07/18	12/07/17	12/07/16	12/07/15	11/07/14
			12/07/19	12/07/18	12/07/17	12/07/16	12/07/15
Consumer Discretionary	5.5	22.9	3.3	5.7	19.2	-16.5	25.8
Information Technology	5.2	26.4	5.4	16.0	29.0	-2.8	25.0
Finance	4.4	14.1	-0.9	-7.4	43.3	-28.5	21.5
Energy	3.1	12.7	-1.7	32.7	0.9	3.0	-12.5
Value	2.5	11.8	-0.1	0.5	22.4	-15.6	11.4
Growth	2.0	21.8	7.5	4.5	12.6	-6.5	23.5
Industrials	1.5	20.5	4.0	2.0	26.3	-4.0	14.4
Consumer Staples	1.1	21.5	11.8	-1.9	4.6	7.4	22.1
Utilities	0.8	17.2	13.2	5.8	3.1	-3.6	5.5
Materials	0.5	16.3	-0.1	11.7	27.2	-12.2	5.1
Telecommunications	-0.1	2.0	-0.1	-8.0	-0.4	-15.5	30.5
Health Care	-0.2	13.6	8.8	-1.9	3.2	-9.2	29.0

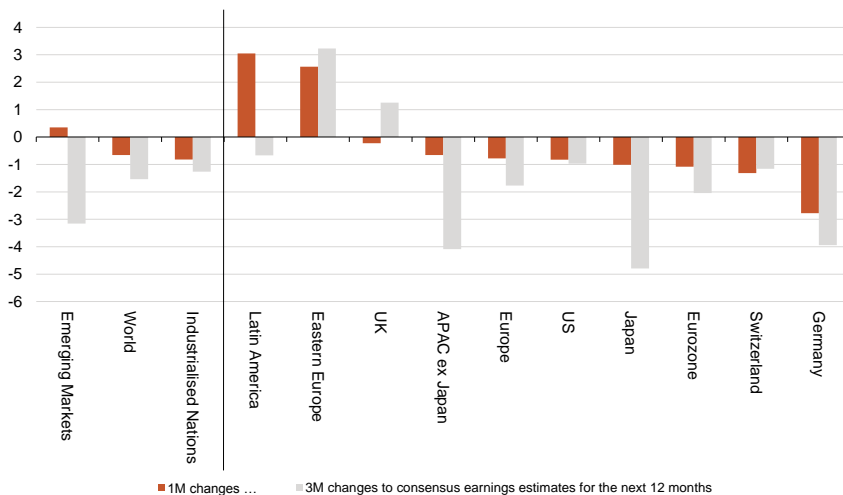
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Staples: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR; Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. 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.

- After a good performance in the previous months, the health care sector has fallen 0.1% in the last 4 weeks and thereby, together with telecommunications, lags behind.
- For the first time since January, Value has outperformed Growth over the last 4 weeks.

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

Source: Bloomberg, Time period: 11/07/2014 - 12/07/2019

## Changes in Consensus Earnings Estimates



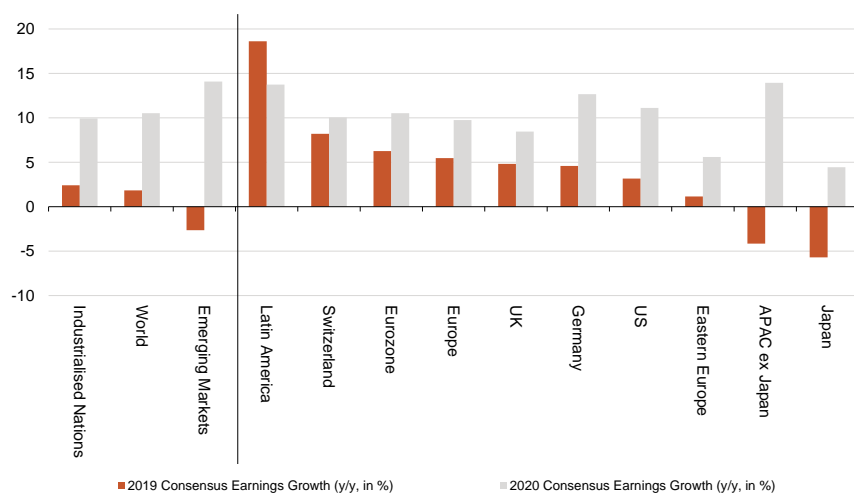
- Earnings estimates have recently become slightly weaker. The analysts have once again noticeably lowered their forecasts, especially for German companies.
- Emerging markets, on the other hand, continue to show a positive earnings revision trend. Earnings revisions for Latin America and Eastern Europe are particularly positive.

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 12/07/2019

## Earnings Growth



- Expected profit growth for 2019 remains largely unchanged compared to the observations made 2 weeks ago.
- Due to the downward revisions for Germany, analysts expect a profit growth less than 5%.
- Latin America and Switzerland continue to lead the field.

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).

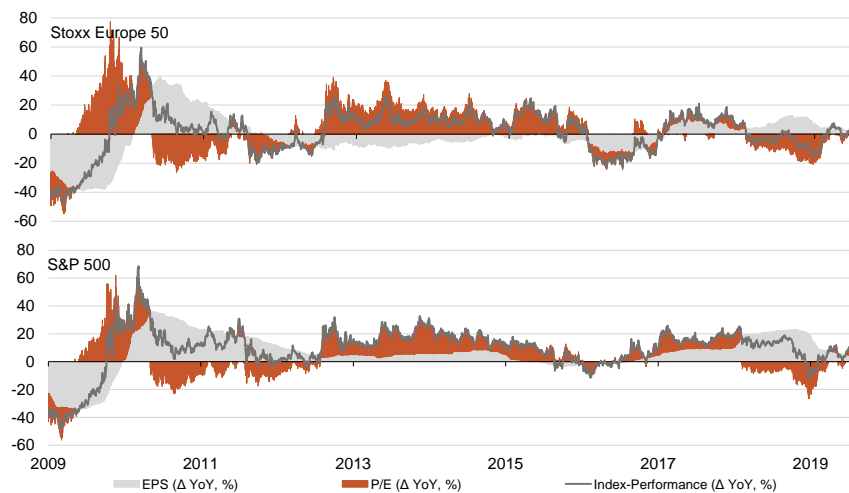
APAC ex Japan = Asia Pacific ex Japan

Source: FactSet, as of 12/07/2019





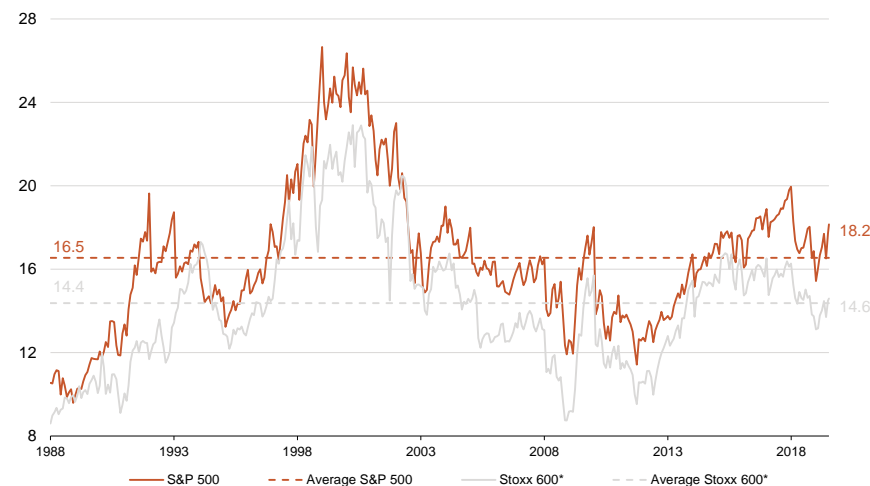
## Contribution Analysis



- Driven by both rising valuations and the positive earnings trend over the past 12 months, the S&P 500 recently exceeded 3000 points for the first time in its history.
- Europe equities have also appreciated over the past 12 months thanks to rising P/E ratios.

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 - 12/07/2019

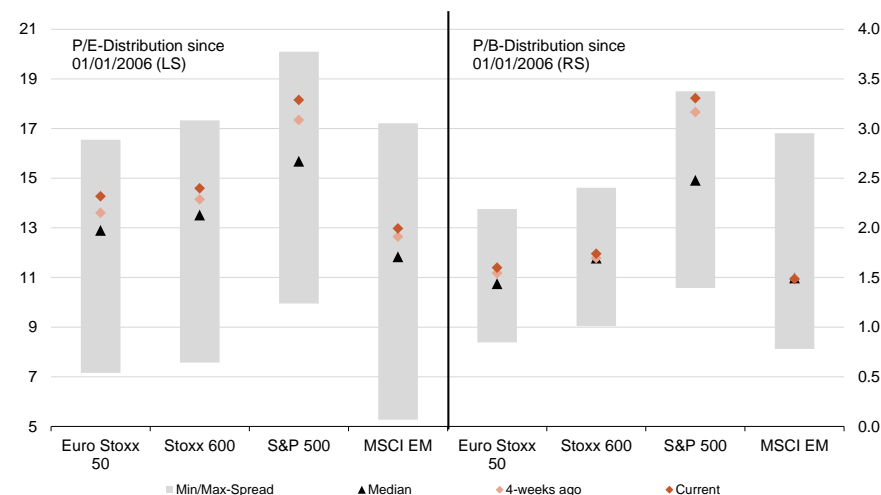
## Price-Earnings Ratio (P/E Ratio) of European and US Equities



- The Fed's reaffirmation that interest rate cuts were on their agenda caused valuations of American equities to rise once again. The P/E ratio is now 18.2 for the S&P 500 and is therefore at similar levels to January 2018.
- The P/E ratios of European equities are now also slightly above the historical average.

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 - 12/07/2019

## Historical Distribution: Price/Earnings and Price/Book Ratio

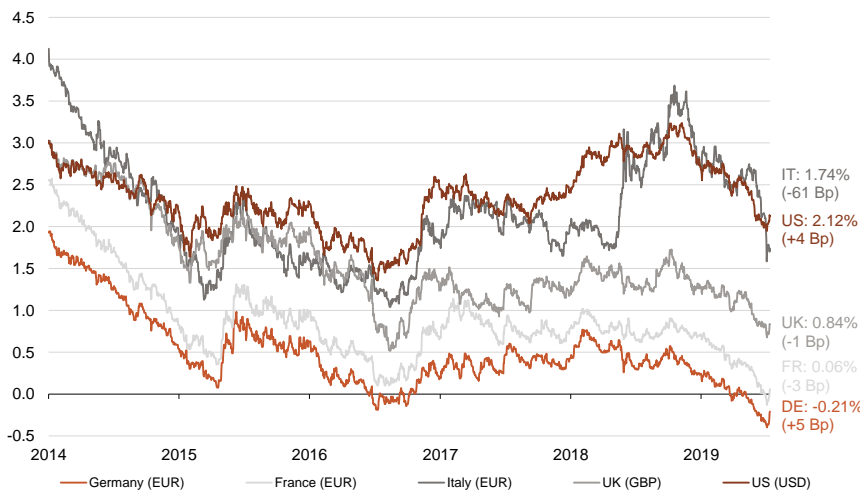


- In the past four weeks, valuations have risen further, especially in the USA and Europe. Expectations of a loose monetary policy coupled with slightly negative earnings revisions led to a further rise in prices.
- The valuation of emerging market equities has also increased.
- US equities remain the most expensive.

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 - 12/07/2019



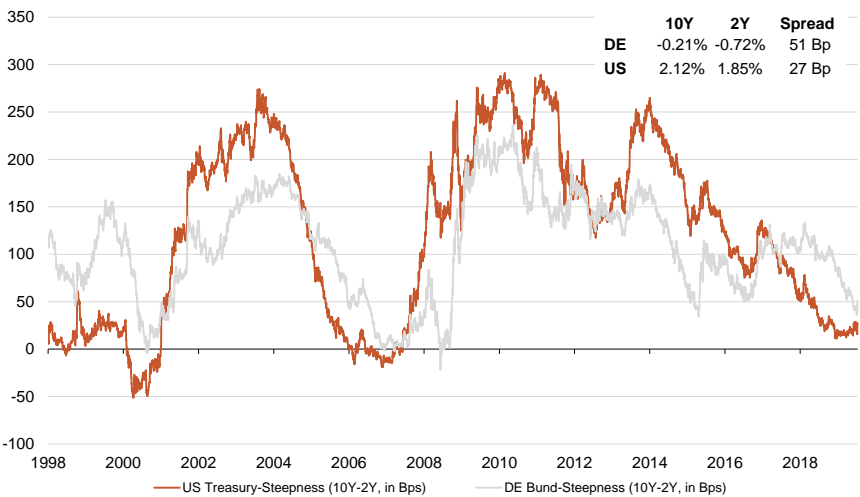
10-Year Government Bond Yields



- Speculation that the ECB might revive quantitative easing (QE) and consider lowering interest rates led to further declines in bond yields. Italian government bonds in particular benefited from this as demand is supported by a new QE programme.
- The increasing likelihood of a hard Brexit means that yields on British Gilts remain well below the 1% mark.

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 - 12/07/2019

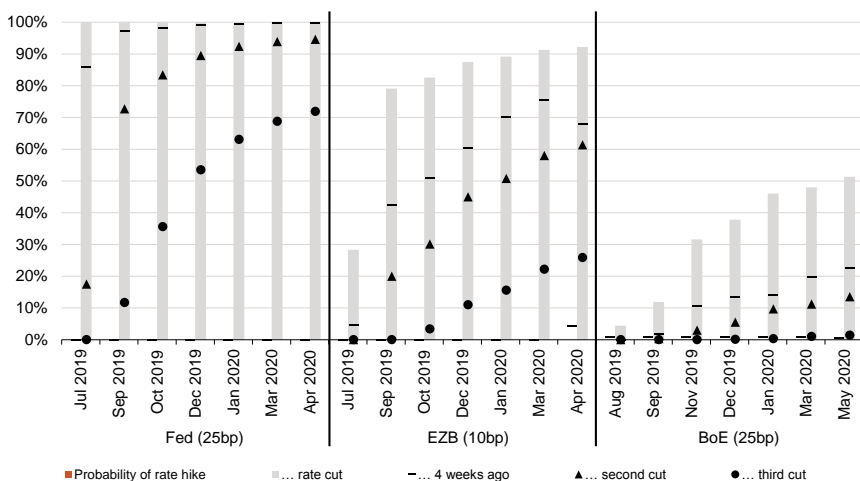
Yield curve steepness (10Y - 2Y)



- In the last two weeks, the steepness of the German and US yield curves have hardly changed at all. At 27 basis points on the US yield curve and 51 basis points on the German yield curve, both are above zero. Thus, despite gloomy economic data, they do not herald an impending recession.

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 - 12/07/2019

Implicit Probabilities for Changes in Key Interest Rates

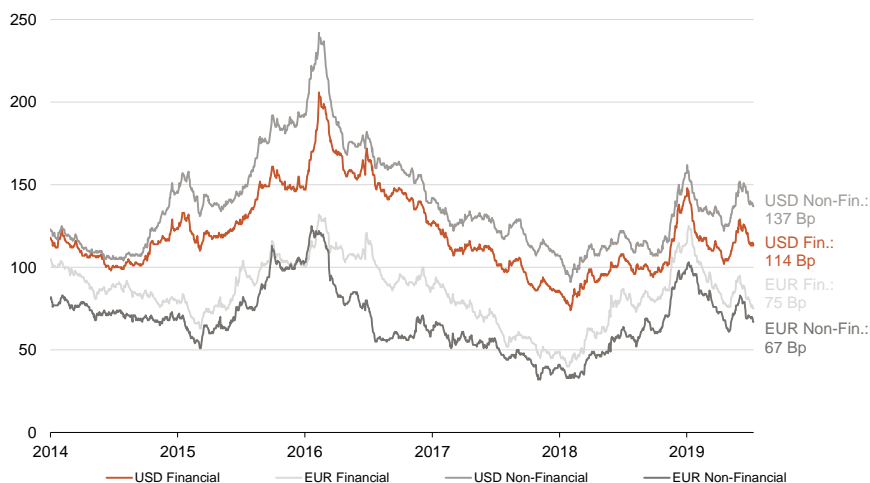


- The likelihood of a Fed rate cut on 31 July remains at 100%. At the moment everything revolves around the question of whether it will be a 25 basis points or 50 hike.
- The market also expects with over 90% probability at least one rate cut by the ECB in 2019.
- As a result of the Brexit chaos and weaker economic data, the probability of a rate cut by the BoE increased to over 35% in 2019.

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: 14/06/2019 - 12/07/2019



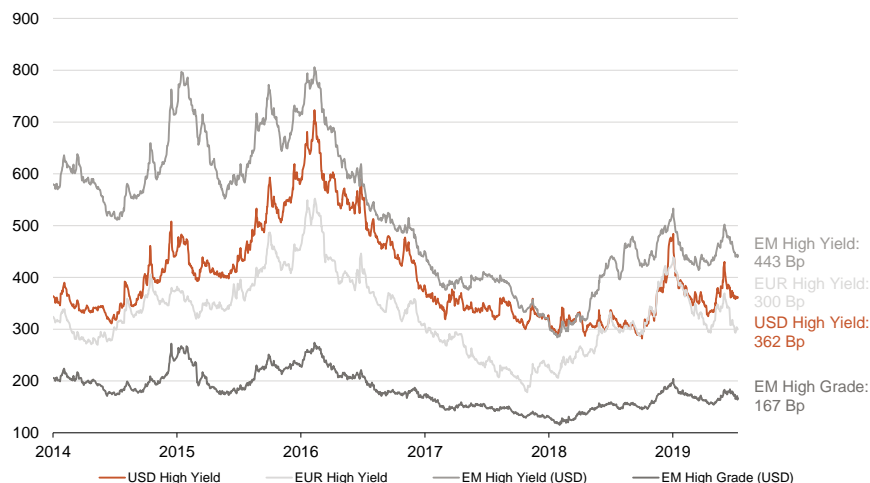
**Credit Spreads Financial and Non-Financial Bonds**



- In a two-week comparison, spreads on USD corporate bonds moved only around three basis points despite new US equity market highs.
- On the other hand, spreads on EUR financial bonds are falling sharply, which would benefit in particular from a new QE program of the ECB. They saw a spread tightening of six basis points over the last two weeks.

Explanations see middle and bottom illustration.  
Source: FactSet, Time period: 01/01/2014 - 12/07/2019

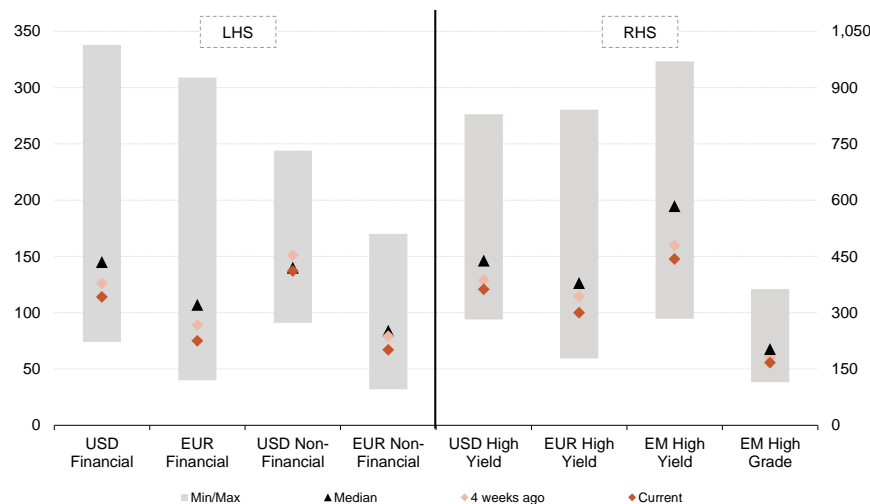
**Credit Spreads High Yield and Emerging Markets Bonds**



- High yield bonds have also experienced slight spread narrowing in the last two weeks. The difference in spreads between USD and EUR high-yield bonds have risen to just over 60 basis points.
- Over the past two weeks, high yield bonds in emerging markets have seen spreads tighten by more than ten basis points.

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 - 12/07/2019

**Historical Distribution of Credit Spreads (in bp)**

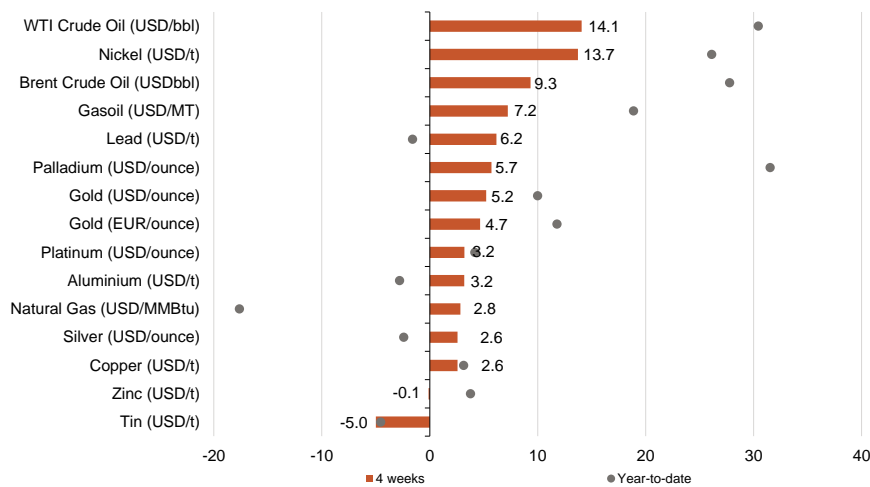


- The spreads on corporate bonds have fallen through the bank on a four-week view. Currently, only USD non-financial bonds appear to be historically fairly valued.
- Thanks to the dovish ECB, EUR high yield bonds have experienced the largest spread narrowing in the last four weeks.

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: 12/07/2009 - 12/07/2019



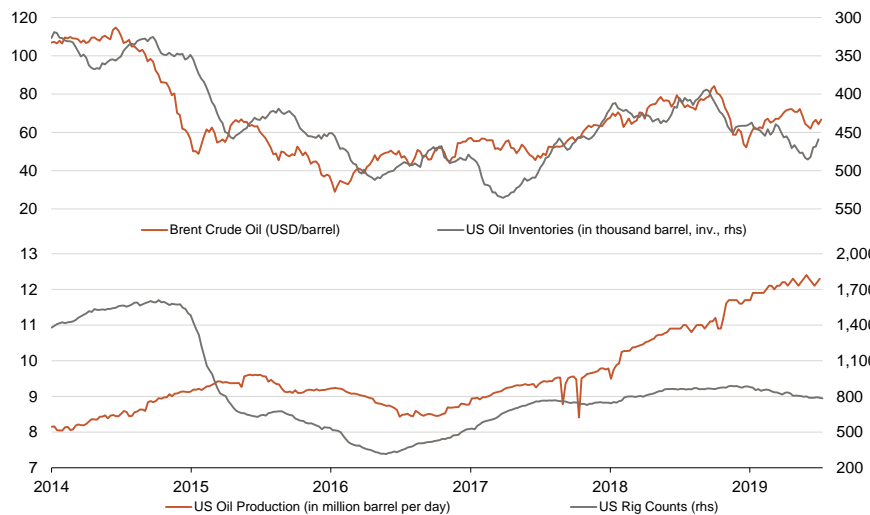
Commodities Performance



- Over a four-week period, WTI crude oil recorded the highest gains driven by OPEC production cuts and the political conflict with Iran.
- Since June, gold has experienced a dynamic rally thanks to the monetary policy outlook and has gained appreciably in value.
- The industrial metals are at the end of the performance overview. Weak economic data, a strong dollar and the ongoing trade war are preventing a turnaround.

Total return of selected commodity prices, in percent, sorted by 4-week performance.  
Source: Bloomberg, Time period: 01/01/2018 - 12/07/2019

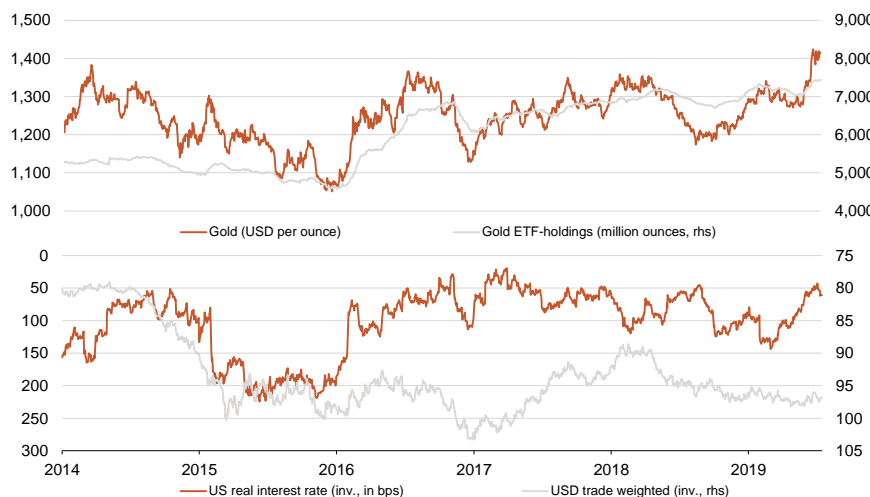
Crude Oil



- The oil price (Brent) has risen to over 65 US dollars per barrel in recent days due to falling US inventories at the beginning of the driving season, hurricane induced production shortfalls in the Gulf of Mexico and political tensions with Iran.
- At the beginning of July, OPEC decided to extend its production cuts until the end of Q1 2020, thus compensating for the expected increase in US oil production and preventing a supply surplus.

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 - 12/07/2019

Gold



- The gold price has risen to a 6-year high and remains above the USD 1,400 per ounce mark.
- Expectations of a more expansionary monetary policy by the Fed and the ECB, falling US real interest rates, overcoming chart- technical resistance levels and high investor demand pushed the price and offer further potential.

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 - 12/07/2019

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