BERENBERG Markets

MONITOR

01 July 2019

Current market commentary

Corporate profit warnings and poor economic data were outweighed by the ECB's and the Fed's prospect of further easing monetary policy. Equities and bonds gained significantly in June and Bund yields reached an all-time low last week. Bonds with a global volume of around 13 trillion US dollars now bear negative interest rates, which is roughly equivalent to China's GDP! Investors are therefore increasingly forced to take risks in order to achieve any sort of positive return. This speaks in favour of rising share prices in the long term. However as a result, valuations of equities have also risen recently, while political uncertainty remains high and the economic recovery is still to come. We therefore believe that the risks are currently underestimated. Our picture would only change if solutions were to emerge in the respective conflicts and if the economic data were to recover. Only then should the equity quota be markedly increased again.

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

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

Short-term outlook

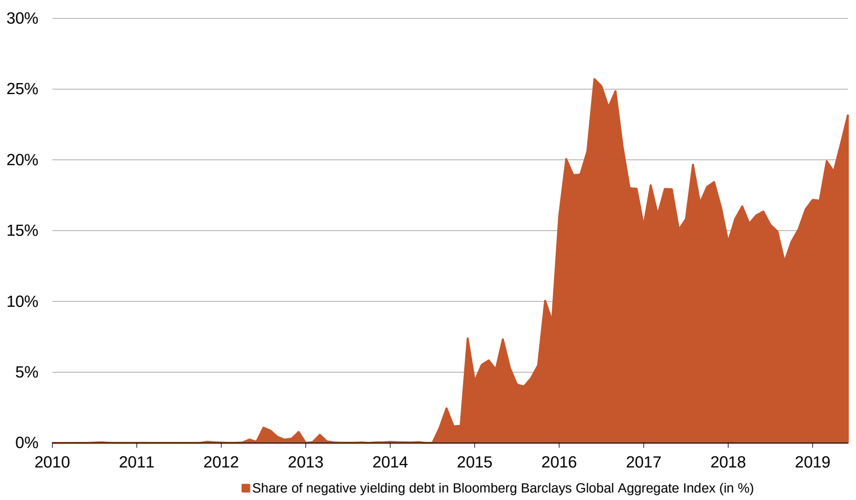
Market participants have welcomed the news that the US and China are resuming trade talks, even though details are not yet known. In the beginning corporate reporting season for the second quarter, many companies are likely to lower their outlook with the delayed economic recovery. In the US, the guidance for Q2 has been already downgraded by the second highest number of S&P500 companies since 2006 - particularly in the IT and Health care sector.

The focus is on new negotiations in the trade war and the upcoming earnings season.

OPEC is meeting earlier this week and is expected to extend the production cuts in the second half of the year according to initial agreements between Saudi Arabia and Russia. The focus for Wednesday's economic data will be on the Chinese Caixin Purchasing Managers' Index for Services, the U.S. Industrial Orders Index and the ISM Services Index. The U.S. labor market data is expected to be very exciting on Friday.

The OPEC meeting and leading indicators should give new impetus.

Central bank policy increases investors' investment crisis



- Both the ECB and the Fed have considered an even looser monetary policy over the next few months. As a result, 10-year Bund yields fell to an all-time low.
- Globally, c. 23% of the bonds now bear below-zero yields – this trend is rising. Investors therefore have no choice but to invest in riskier asset classes in order to generate a positive return. The hunt for yield thus continues for the time being.

Source: Bloomberg, own calculations,
Time period: 29/01/2010 - 28/06/2019

Multi Asset

	4W (31/05/19 - 28/06/19)	YTD (31/12/18 - 28/06/19)	28/06/18 - 28/06/19	28/06/17 - 28/06/18	28/06/16 - 28/06/17	28/06/15 - 28/06/16	27/06/14 - 28/06/15
Gold	6.0	10.8	14.8	-1.7	-7.4	12.7	9.1
MSCI World	4.7	17.9	8.9	7.8	19.7	-7.3	27.1
MSCI Emerging Markets	4.4	11.5	5.5	3.9	24.8	-15.0	17.3
Brent	4.2	25.1	-10.6	67.4	-16.7	-35.1	-38.8
Global Convertibles	2.0	11.7	5.9	6.1	15.1	-5.9	22.9
MSCI Frontier Markets	0.5	12.8	6.3	0.4	16.4	-11.6	5.8
Global Coporates	0.4	8.2	9.6	-1.8	0.1	6.4	16.4
Industrial Metals	0.3	5.5	-9.6	15.0	14.1	-12.8	0.7
Global Treasuries	0.1	5.5	7.5	-0.7	-6.8	13.5	10.6
Eonia	0.0	-0.2	-0.4	-0.4	-0.4	-0.2	0.0
REITs	-0.2	18.1	13.1	-2.0	-4.5	13.0	21.4
USDEUR	-1.8	0.8	1.7	-1.7	-2.7	1.0	22.2

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.

- Gold has continued its recent upward trend. This development was supported by falling interest rates worldwide in anticipation of US interest rate cuts and gold's status as a safe haven.
- Equities in emerging markets and industrial nations also performed well.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 27/06/2014 - 28/06/2019

Equities

	4W (31/05/19 - 28/06/19)	YTD (31/12/18 - 28/06/19)	28/06/18 - 28/06/19	28/06/17 - 28/06/18	28/06/16 - 28/06/17	28/06/15 - 28/06/16	27/06/14 - 28/06/15
Euro Stoxx 50	6.0	18.3	6.1	-2.3	31.5	-21.6	15.1
MSCI EM Eastern Europe	5.8	23.0	28.0	9.8	19.5	-10.1	-8.1
DAX	5.7	17.4	1.8	-3.7	33.9	-17.8	17.1
Russell 2000	5.2	17.9	-1.5	14.8	26.8	-11.3	33.3
S&P 500	5.2	19.5	12.7	11.5	18.9	0.0	33.7
Stoxx Europe Cyclicals	4.9	16.2	-0.1	0.9	40.7	-26.0	17.8
Stoxx Europe Small 200	4.7	16.6	1.1	6.3	29.9	-16.8	20.1
Stoxx Europe Defensives	4.7	12.3	8.8	1.5	10.7	-12.1	15.0
Stoxx Europe 50	4.6	17.9	8.8	-2.0	22.0	-18.3	17.2
MSCI EM Asia	4.5	10.6	1.6	5.9	28.3	-14.8	28.1
MSCI UK	2.7	13.3	0.7	6.2	17.9	-19.6	16.7
Topix	1.6	8.5	-4.1	9.2	19.7	-8.7	35.6

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.

- All stock indices considered have increased in value over the last four weeks. Eastern European equities continued their upward trend and recorded the strongest performance since the beginning of the year.
- Japanese and Asian emerging market equities have underperformed the broad market this year, mainly due to the strong Yen and the trade war.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 27/06/2014 - 28/06/2019

Fixed Income

	4W (31/05/19 - 28/06/19)	YTD (31/12/18 - 28/06/19)	28/06/18 - 28/06/19	28/06/17 - 28/06/18	28/06/16 - 28/06/17	28/06/15 - 28/06/16	27/06/14 - 28/06/15
BTPs	3.6	5.4	7.8	-2.7	-1.9	7.6	5.8
EM Hard Currency Bonds	3.5	8.6	8.4	-4.3	4.4	7.9	0.2
EUR Inflation Linkers	2.3	4.1	2.6	2.6	0.0	3.3	1.2
EM Local Currency Bonds	2.2	6.3	10.7	-3.4	3.1	1.9	8.5
EUR High Yield	1.9	6.5	4.6	0.1	8.9	-0.1	2.1
EUR Non-Financials	1.6	5.7	4.9	0.8	1.0	5.6	1.4
EUR Financials	1.6	5.2	4.7	0.4	3.3	3.8	1.7
Bunds	1.0	4.2	5.1	1.3	-3.6	9.1	3.4
USD High Yield	0.8	11.0	10.3	0.3	9.4	0.3	21.5
USD Corporates	0.6	10.4	12.9	-3.1	-0.2	8.6	22.7
Gilts	-1.0	5.4	3.8	0.6	-5.0	-1.8	21.6
Treasuries	-1.2	5.6	9.0	-2.8	-4.8	8.0	24.5

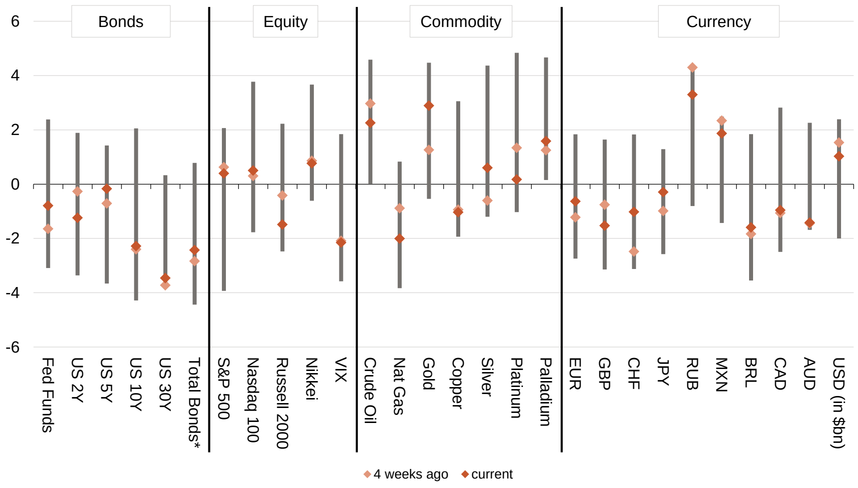
4-week & YTD / 12-month periods over that last 5 years

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 the bond spectrum considered, more risky segments such as Italian government bonds and EM government bonds (hard and local) performed particularly well.
- US government bonds underperformed due to a weaker dollar in the last four weeks. However, in light of expected Fed interest rate cuts, declining inflation and numerous political risks, gains have persisted 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: 27/06/2014 - 28/06/2019

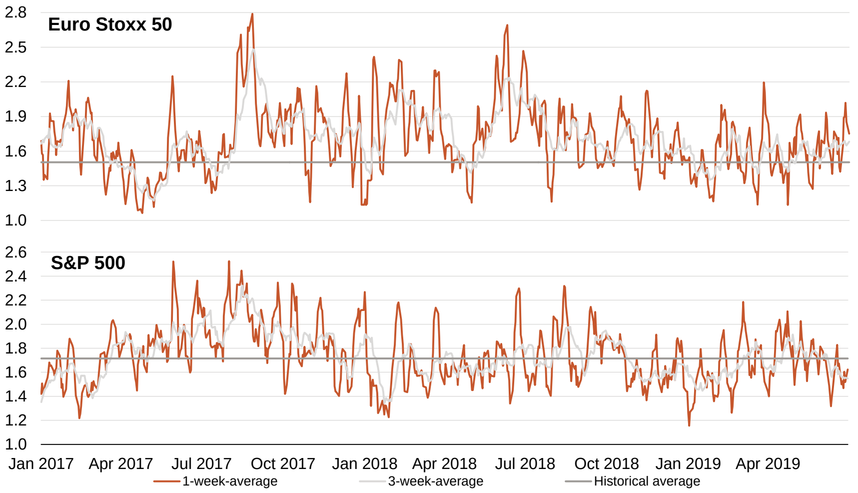
Non-Commercial Positioning



- Speculative investors have further increased their position in gold, but reduced exposure to oil.
- Within currencies, short positions in CHF in particular were reduced and further increased in GBP.

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: 25/06/2010 - 25/06/2019

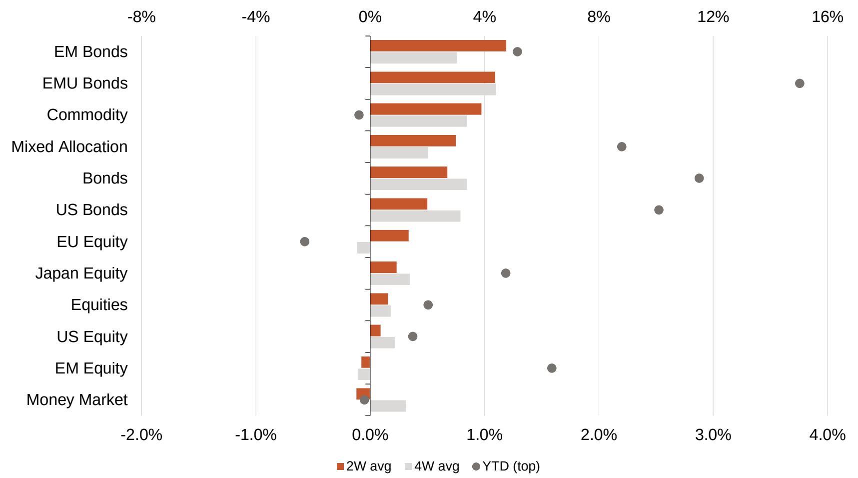
Put-Call Ratio



- While the hedges in the US were further reduced, the opposite was true for the Eurozone. The put-call ratio has risen s over the past weeks, reflecting investors' scepticism.
- Investors are more optimistic about the US.

The put-call ratio is the ratio of traded put options (speculation on falling prices) to call options (speculation on rising prices) across all maturities. The higher (lower) the ratio, the more cautious (optimistic) are the market participants. The data have been available for the S&P 500 since 20 December 1993 and for the Euro Stoxx 50 since 24 February 2006.
Source: Bloomberg, Time period: 20/12/1993 - 28/06/2019

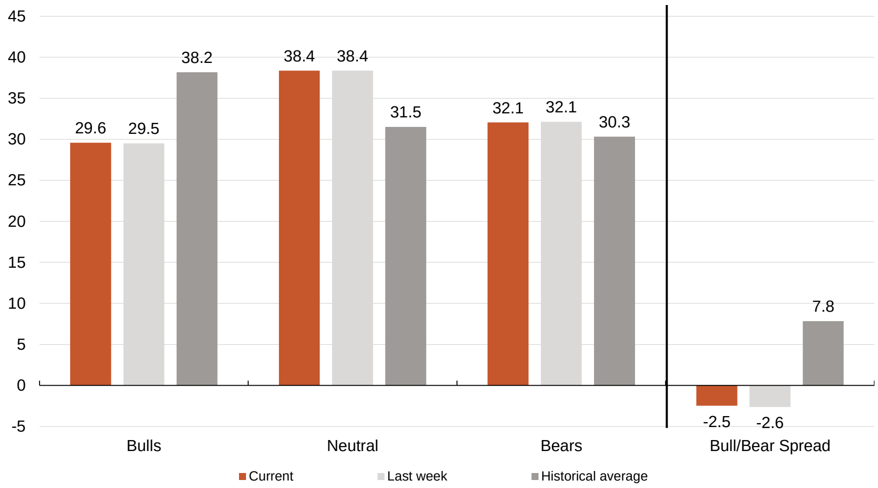
ETF Flows



- Bond ETFs continued to be in high demand in recent weeks and recorded further inflows.
- In contrast, money market and emerging market equities vehicles have struggled with outflows.
- European equities have recently seen inflows again.
- Due to increased inflows, commodities ETFs have been almost in neutral territory since the beginning of the year.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2018 - 28/06/2019

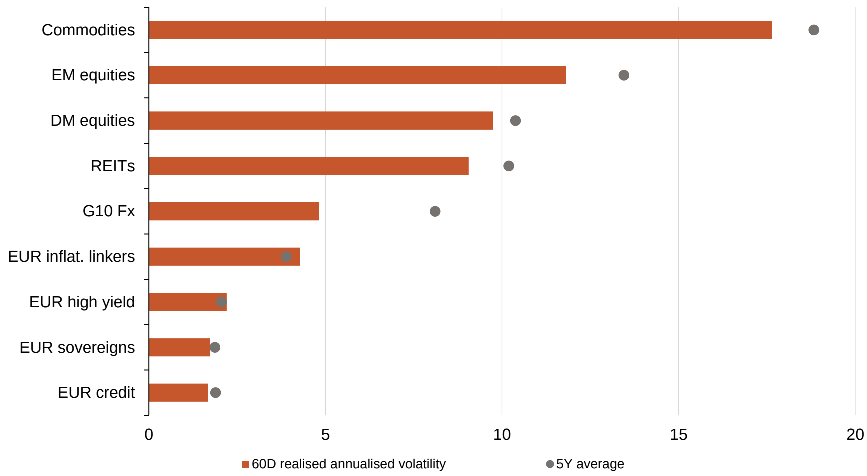
AAII Sentiment Survey (Bulls vs Bears)



- Compared to the previous week, the individual distributions among optimists and pessimists have only changed slightly. The bears in the market continue to outweigh the bulls.
- The majority of investors (38.4%) are still neutral.

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 - 27/06/19

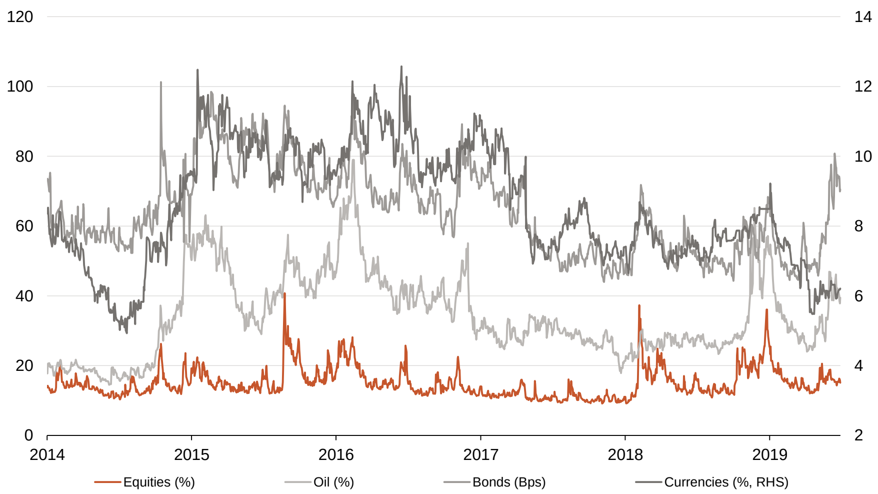
Realised Volatilities



- For most of the risk classes considered, the realised volatilities are approaching the 5-year averages - except of euro inflation linker and high-yield bonds, which are already higher.
- Commodities and equities remain the most volatile investment classes.
- EUR Corporate bonds have the lowest volatility across all asset classes considered.

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: 28/06/2014 - 28/06/2019

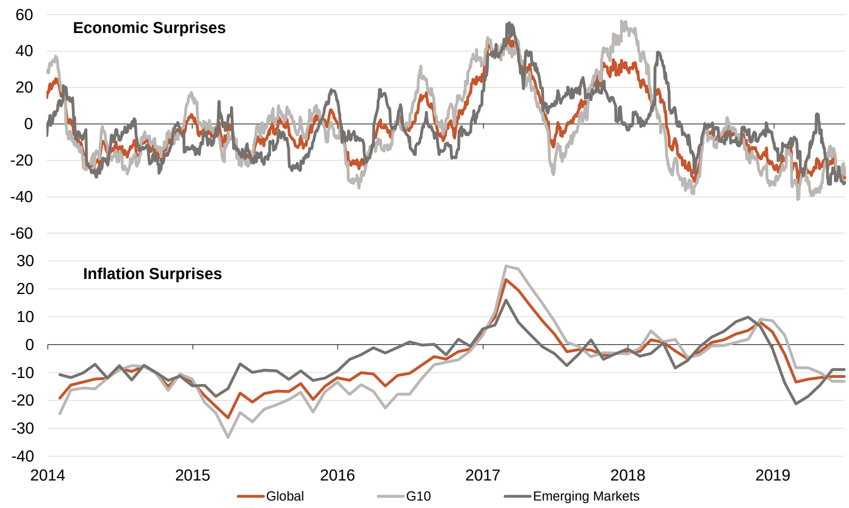
Implied Volatilities



- The implied volatilities have remained relatively stable with minor fluctuations compared to the last observation period two weeks ago.
- The implied volatility for government bonds remains at a historically high level due to possible upcoming interest rate cuts.

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 - 28/06/2019

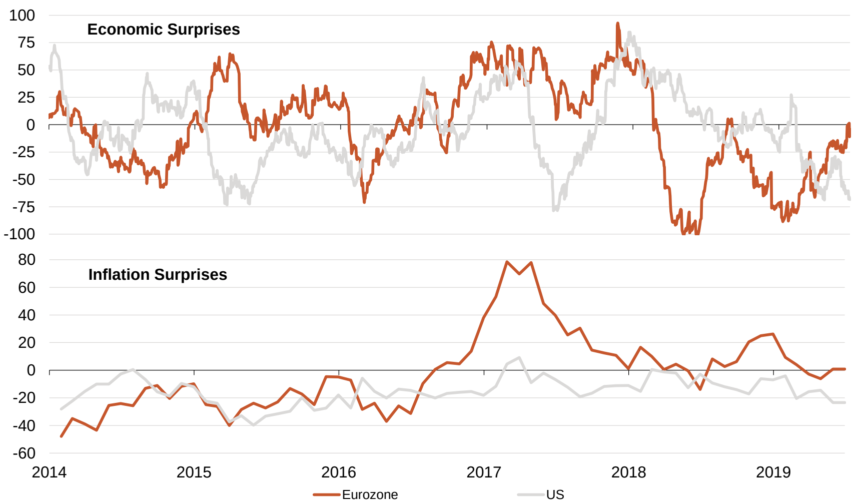
Global



- The global economy has not been able to recover in the last two weeks. Most of the economic surprises in both the industrial nations and the emerging markets were negative. In Russia, for example, industrial production rose by only 0.9% year-on-year in May (1.6% expected) and even fell by 1% in export-oriented South Korea.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 28/06/2019

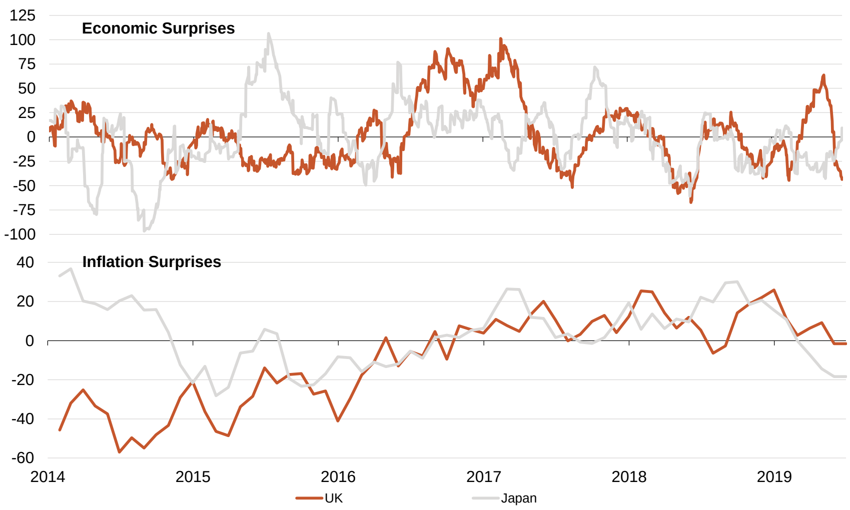
Eurozone and US



- Sentiment indicators in the Eurozone and especially in Germany have recently been disappointing. The IFO and ZEW Expectation Surveys among companies and consumer confidence in the Eurozone were worse than expected.
- In US, the picture is no better. Most of the economic data was disappointing. Consumer and industrial sentiment has fallen and GDP growth in the first quarter of 2019 has been revised downwards to 3.1%.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 28/06/2019

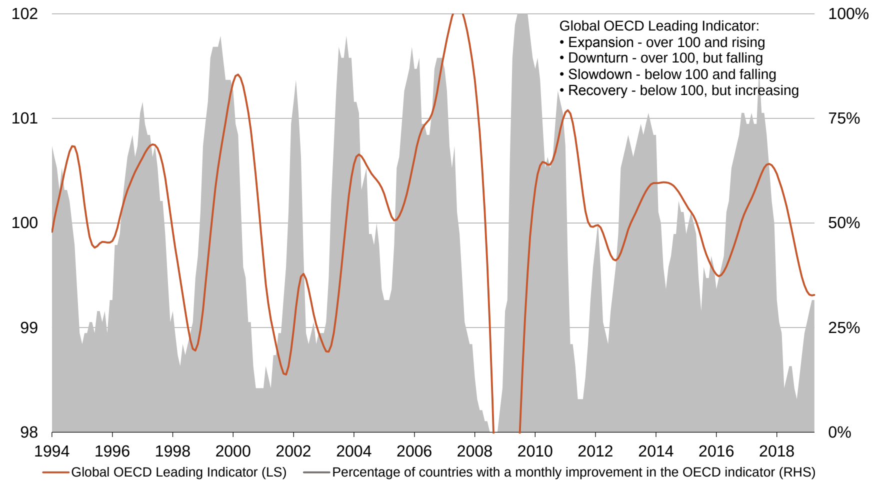
UK and Japan



- In the UK, retail sales rose by only 2.3% year-on-year in May (up 2.7% from a year earlier) and even fell month-on-month.
- Japan recently recorded better data again. Retail sales and industrial production have risen.

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 - 28/06/2019

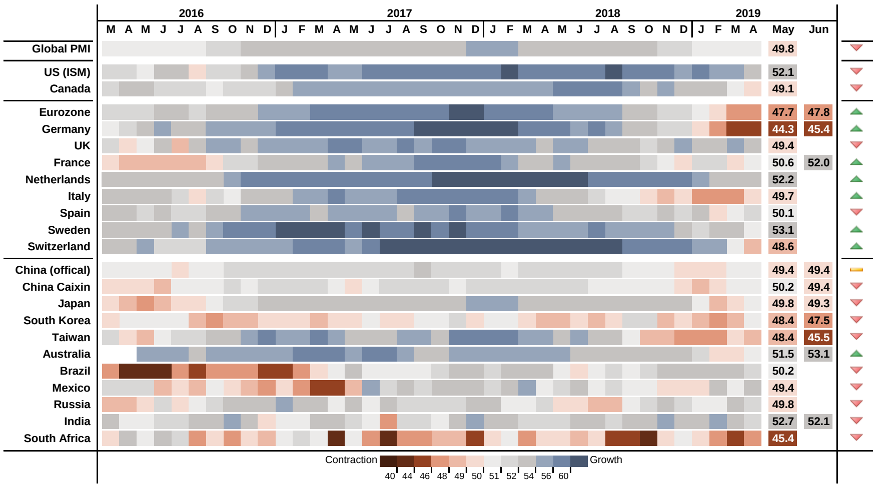
OECD Leading Indicator



- The OECD leading indicator points to a slowdown in growth in most large member states.
- Such signs exist, for example, for the US, Japan, Canada and the euro area as a whole, including Germany and Italy.

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 - 30/04/2019

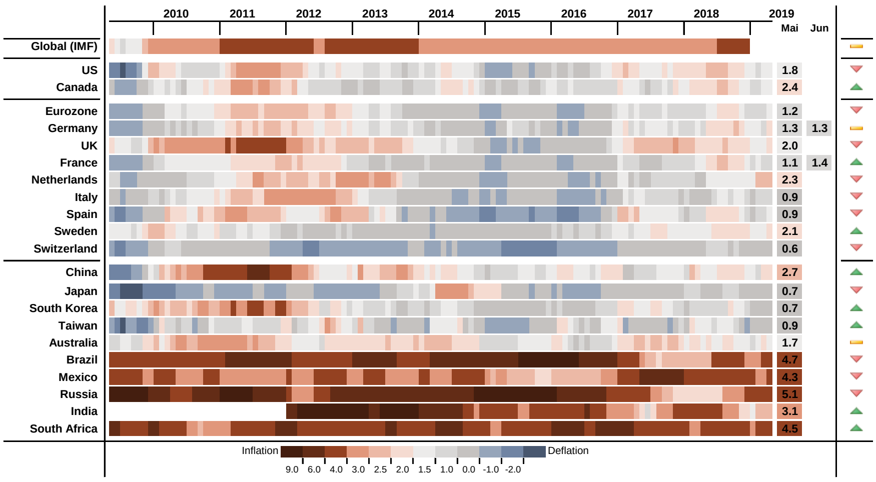
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The industrial PMI for Germany recovered slightly in June, even though it remains at a low level.
- The PMI for the Eurozone as a whole also improved to 47.8 points and remains below the 50 point growth level.

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: 31/03/2016 - 30/06/2019

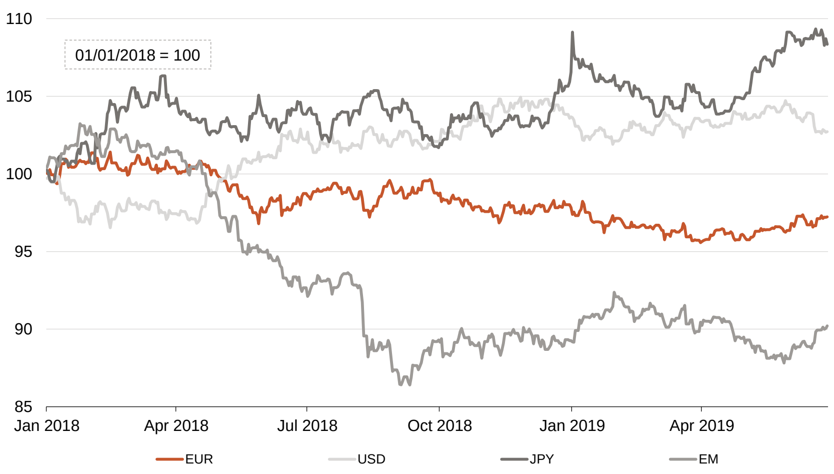
Headline Inflation



- June inflation in Germany remained at the previous month's level of 1.3%. Higher prices for package tours compared with the previous year were a driver of inflation.
- Contrary to the trend of falling inflation in the industrial nations, inflation in Canada rose significantly in May due to rising food and durable goods prices.

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

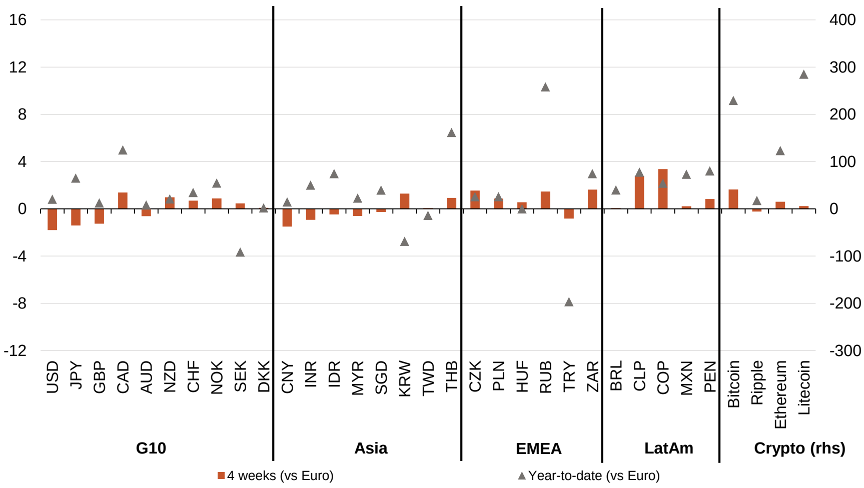
Trade-Weighted Currency Development



- The Japanese yen defended its position as a safe haven for investors. In contrast, the US dollar depreciated sharply, mainly due to expectations of upcoming interest rate cuts.
- Emerging market currencies and the euro benefited from the weakening of the US dollar and confirmed their upward trend. They are the winners of the last few weeks.

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 - 28/06/2019

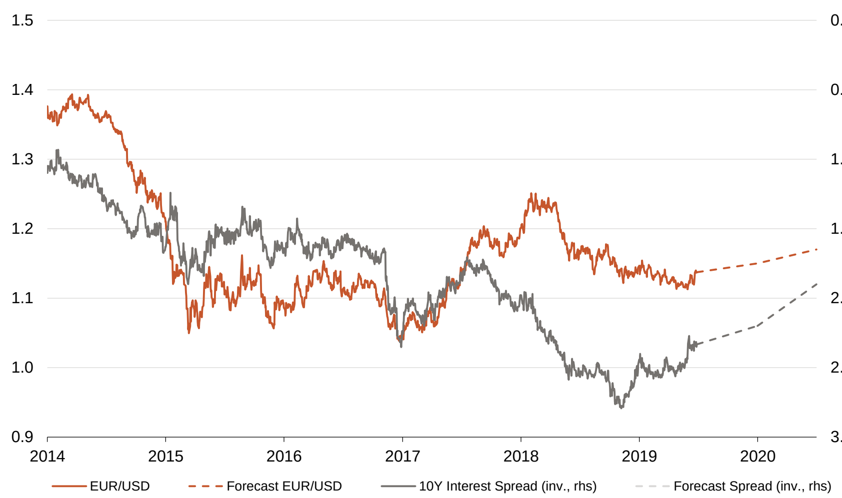
Currency Moves vs Euro



- The performance of the selected currencies against the euro does not show a homogeneous picture.
- The US dollar, the British Pound and many emerging market currencies from Asia have depreciated against the euro.
- The Bitcoin has recently made significant gains, supported by the news that Facebook also wants to launch a crypto currency.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2018 - 28/06/2019

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate rose to 1.14 for a short time. The US dollar was burdened by the prospect of Fed interest rate cuts in the coming months.
- If the expected interest rate cuts take place, the interest rate differential between Bunds and US Treasuries is likely to narrow as a result. This should support a slightly rising exchange rate.

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

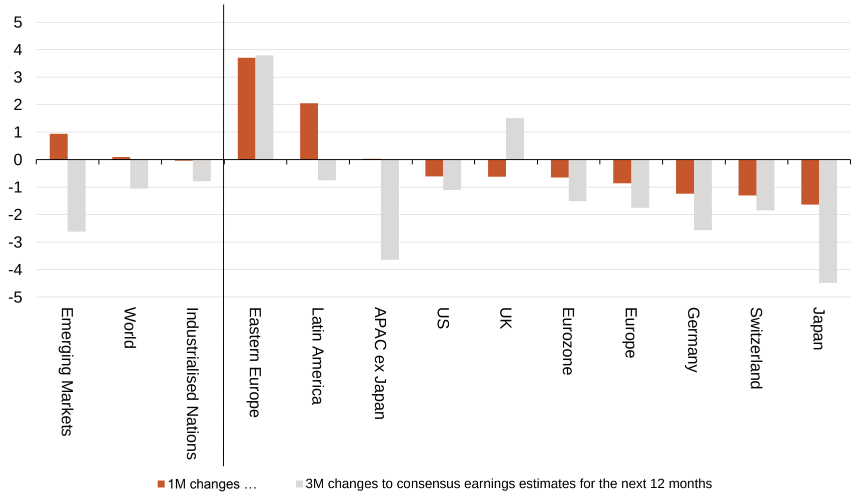
	Seit 4 Wochen & Jahresanfang (YTD)		12-Monats-Zeiträume der letzten 5 Jahre				
	4W (29.05.19 - 26.06.19)	YTD (31.12.18 - 26.06.19)	26.06.18 26.06.19	26.06.17 26.06.18	26.06.16 26.06.17	26.06.15 26.06.16	26.06.14 26.06.15
Grundstoffe	6,1	17,9	1,3	14,5	33,0	-21,0	9,7
Industrie	5,8	21,0	7,0	-1,9	32,1	-9,4	15,0
Informationstechnologie	4,6	24,2	5,2	12,4	34,4	-8,7	28,3
Zyklische Konsumgüter	4,6	18,9	1,0	2,5	25,4	-22,1	28,2
Growth	4,2	20,7	9,0	-0,1	20,5	-11,8	23,5
Gesundheit	4,0	14,5	14,1	-10,2	15,6	-13,8	27,1
Versorger	3,8	15,3	16,2	-2,4	17,0	-12,8	4,8
Energie	3,7	12,7	0,9	27,6	12,5	-10,5	-10,7
Value	2,4	10,2	0,0	-1,0	28,0	-21,7	13,0
Telekommunikation	1,8	1,2	0,8	-11,6	7,2	-21,1	28,8
Finanzen	1,5	10,7	-3,4	-4,4	39,5	-30,8	22,3
Basiskonsumgüter	1,0	19,0	13,0	-8,2	14,5	1,1	22,3

Zyklische Konsumgüter: MSCI Europe Consumer Discretionary NR; Basiskonsumgüter: MSCI Europe Cons. Staples NR; Energie: MSCI Europe Energy NR; Finanzen: MSCI Europe Financials NR; Gesundheit: MSCI Europe Health Care NR; Industrie: MSCI Europe Industrials NR; IT: MSCI Europe Inform. Techn. NR; Grundstoffe: MSCI Europe Materials NR; Telekommunikation: MSCI Europe Telecommunication Services NR; Versorger: MSCI Europe Utilities NR; Value: MSCI Europe Value NR; Growth: MSCI Europe Growth NR.

- Over the past four weeks, all the sectors considered have performed well. The sector with the best performance was Basic Materials, which has risen by almost 18% since the beginning of the year.
- On a 12-month basis, all sectors recorded gains with the exception of the energy and the financial sector.

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: 27/06/2014 - 28/06/2019

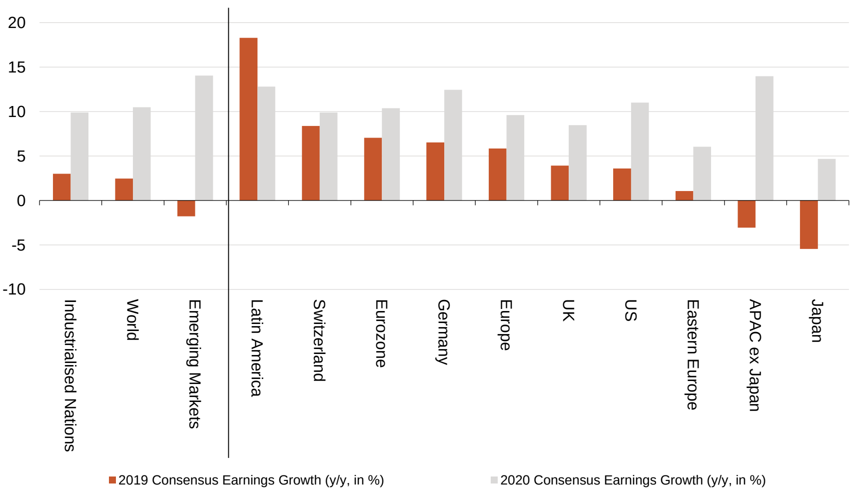
Changes in Consensus Earnings Estimates



- Earnings estimates have recently stabilised. The analysts have only slightly reduced their forecasts for the industrial nations - especially in Japan, there were negative revisions due to a stronger yen, which is burdening export companies.
- There were positive earnings revisions for emerging markets. In particular, the consensus has become more optimistic for Eastern Europe and Latin America

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 28/06/2019

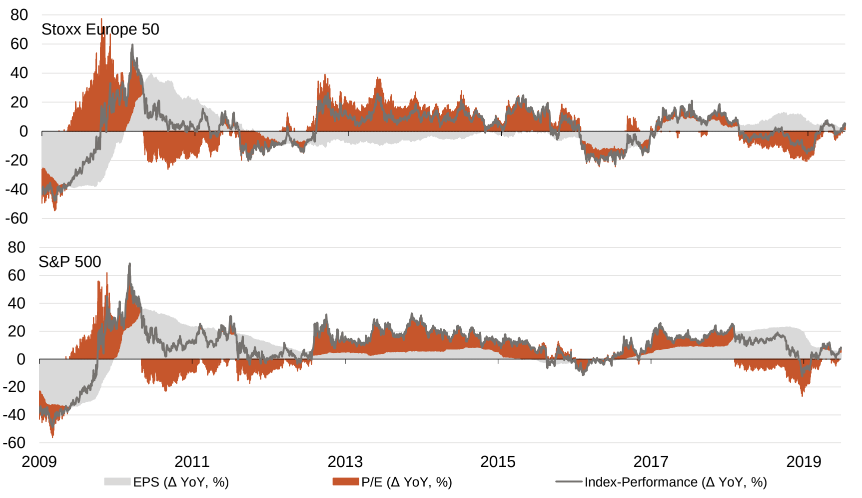
Earnings Growth



- While a decline in profits is expected for emerging markets in 2019, analysts expect a slight increase in profits for industrial nations.
- Consensus expectation is for earnings growth of around 6% for European companies in 2019. In view of the weak economic data and the trade war, we consider this to be too optimistic. There is a risk of profit warnings in the coming reporting season.

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 28/06/2019

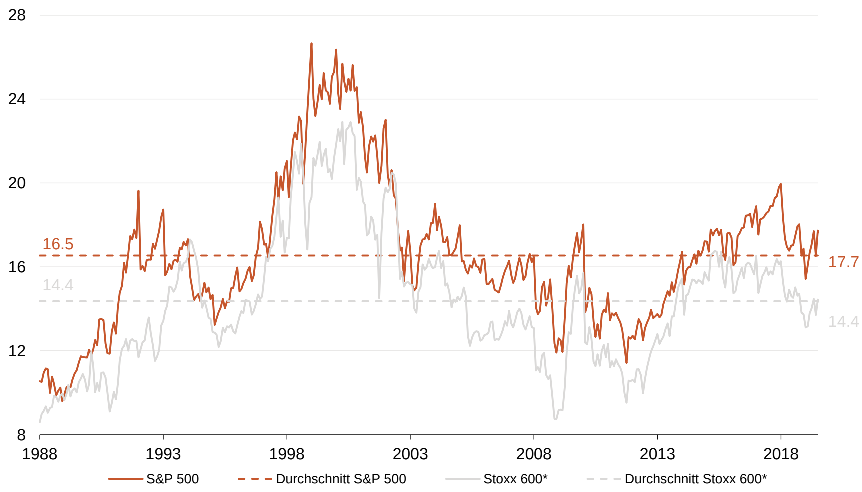
Contribution Analysis



- Over the past twelve months, both US and European equities have gained ground. While the positive performance of US equities was driven primarily by rising profits, European equities benefited from rising valuations.

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: 01/01/2008 - 28/06/2019

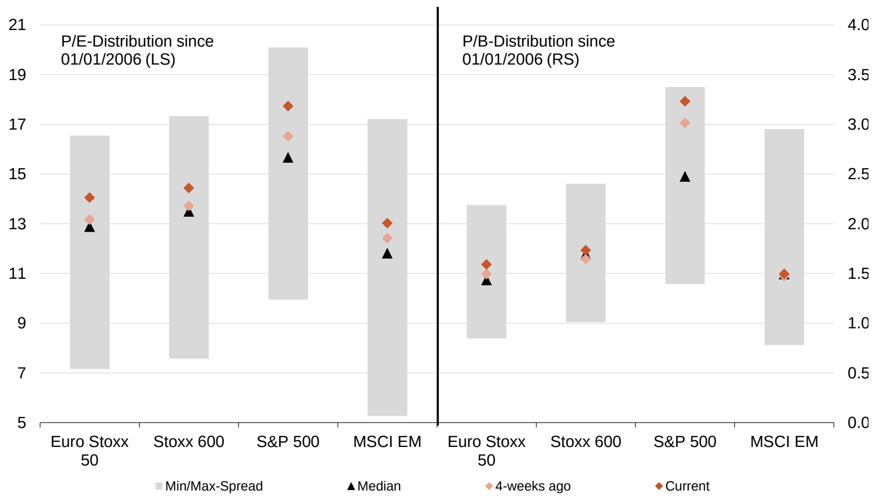
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Over the past month, equities have made strong gains thanks to unexpected interest rate cuts announced by the major central banks.
- As a result, valuations rose. US equities are now trading at a P/E ratio of 17.7, the highest level since April 2019 and August 2018.
- European equities are fairly valued at long-term 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 - 28/06/2019

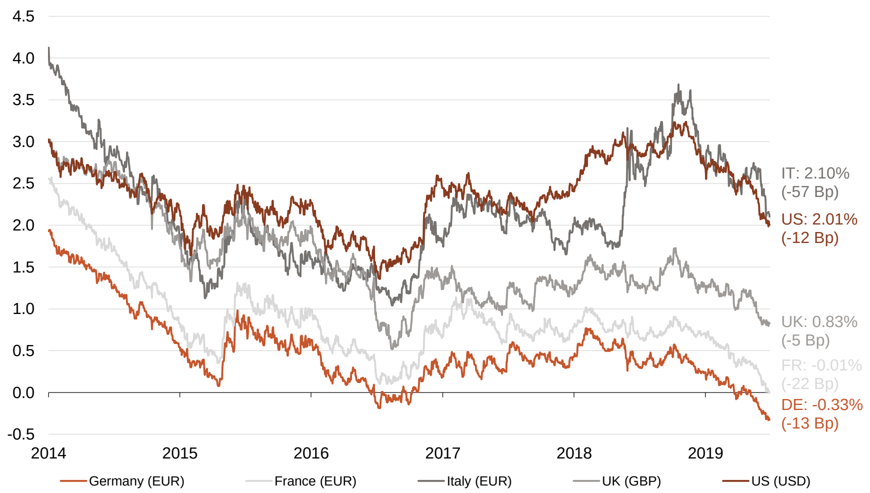
Historical Distribution: Price/Earnings and Price/Book Ratio



- All equity regions shown here have become more expensive over the last four weeks. While share prices rose, earnings estimates have more or less stagnated. Emerging market equities in particular are no longer cheap. The trade conflict weighed primarily on Asian emerging markets.
- US equities are 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 - 28/06/2019

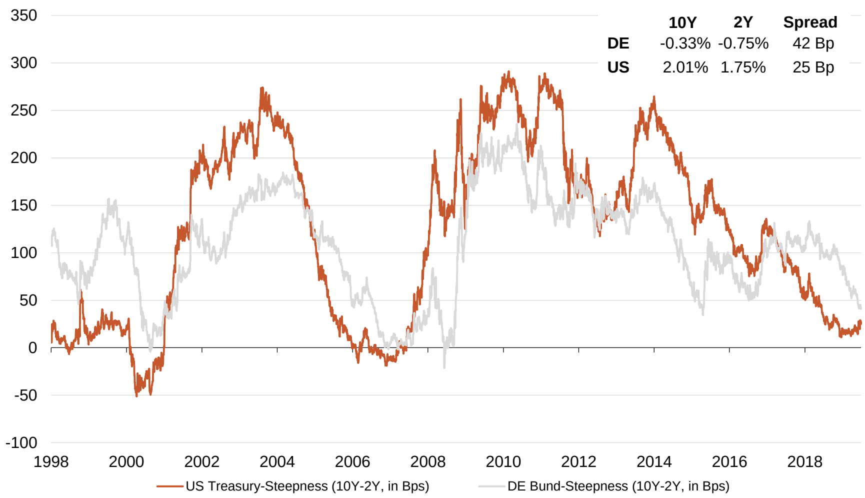
10-Year Government Bond Yields



- Yields on safe government bonds have fallen further recently. Rising uncertainty and the expected fall in central bank interest rates have depressed yields. US Treasuries temporarily recorded a yield of less than 2% and 10-year French government bonds recorded a negative yield for the first time ever.
- Italian government bonds even experienced a yield reduction of 57 basis points within two weeks.

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 - 28/06/2019

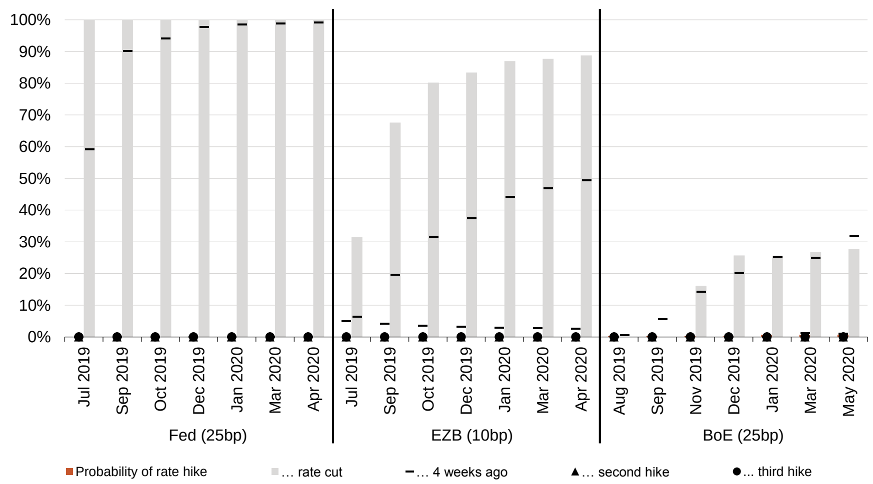
Yield curve steepness (10Y - 2Y)



- The German yield curve has hardly moved in the last two weeks. A possible interest rate cut by the ECB and increased uncertainty have caused yields of 2 and 10-year government bonds to fall.
- The US yield curve has become slightly steeper. A possible rate cut in July put particular pressure on the short end.

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 - 28/06/2019

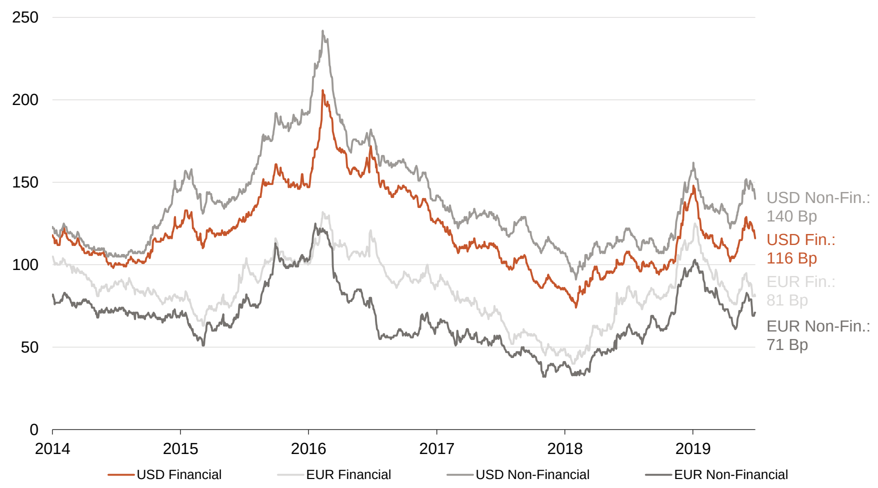
Implicit Probabilities for Changes in Key Interest Rates



- After the Fed promised a rate cut in the coming months, the market has priced in a 100% probability of a rate cut in July 2019.
- The likelihood of a rate cut also increased significantly in the Eurozone after Mario Draghi brought a further easing of monetary policy into play. A rate cut by the ECB until the end of 2019 is now priced to reflect a greater than 80% probability.

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: 31/05/2019 - 28/06/2019

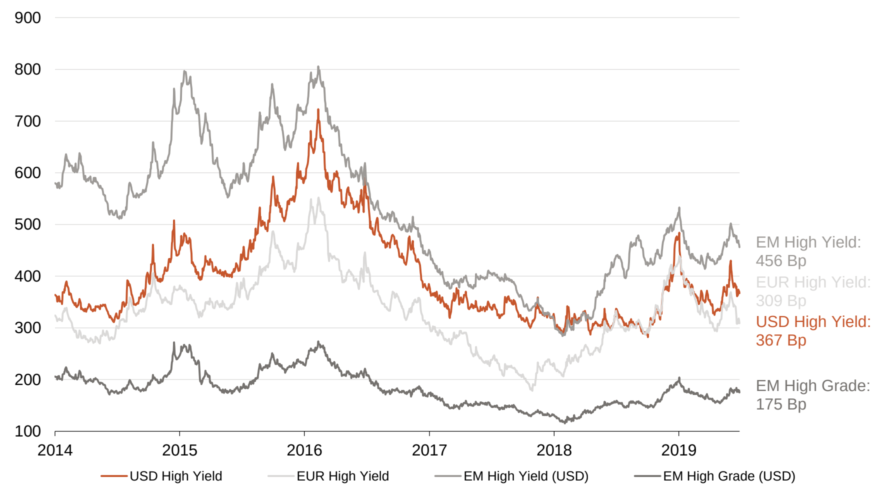
Credit Spreads Financial and Non-Financial Bonds



- Spreads on EUR corporate bonds have fallen significantly in the last two weeks. Not only EUR, but also USD corporate bonds have seen falling spreads. The hope for a solution to the trade conflict and the search for positive yields have driven investors into bonds with credit risk.
- In the case of EUR bonds, the insurance and real estate sectors in particular benefited from falling spreads.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2014 – 28/06/2019

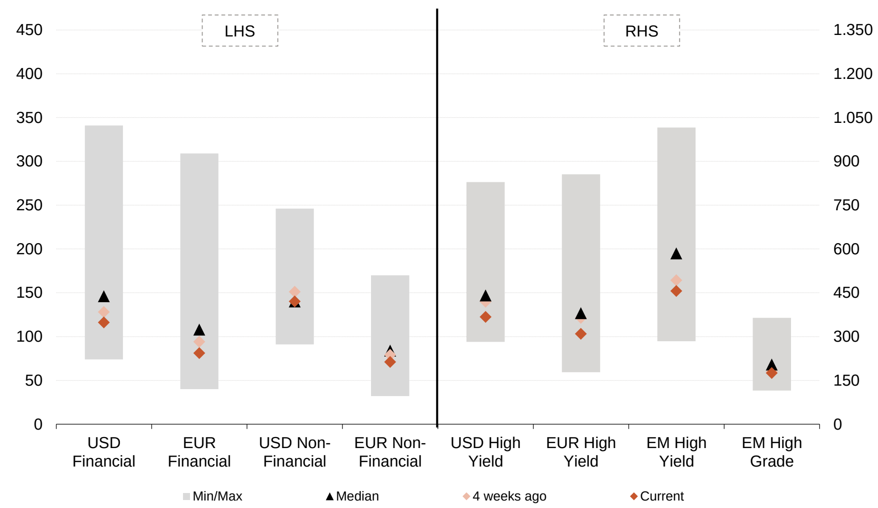
Credit Spreads High Yield and Emerging Markets Bonds



- High-yield bonds also recorded significantly lower spreads. This applies to EM, USD and EUR high-yield bonds. Even though the narrowing of spreads on EM high-yield bonds was less pronounced. The spreads on EUR high-yield bonds almost reached its low for the year.
- Contrary to the trend, the USD retail sector recorded rising 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 – 28/06/2019

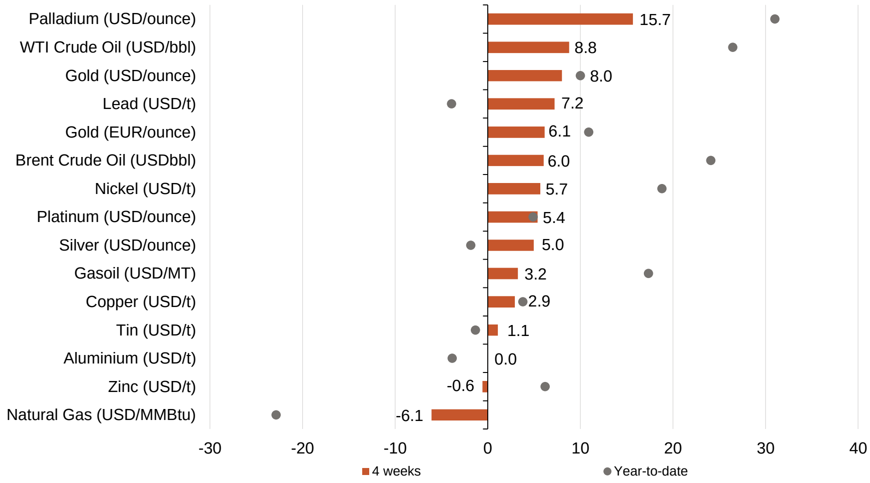
Historical Distribution of Credit Spreads (in bps)



- Only USD non-financial bonds have spreads close to the historical median and thus appear to be fairly valued.
- The risk premium on EUR financial bonds has slipped significantly below the historical median in the last two 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: 28/06/2009 – 28/06/2019

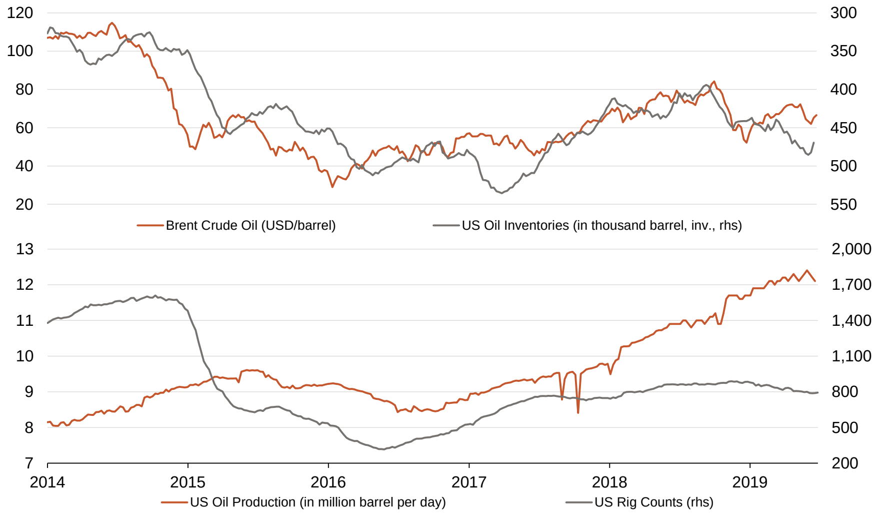
Commodities Performance



- On a 4-week horizon, precious metals top the list of winners in commodities. They benefited from higher investor demand and the prospect of a looser monetary policy on the part of the Fed and the ECB.
- Industrial metals fared differently. The somewhat weaker US dollar was supportive, but the uncertainty surrounding the trade war continues to weigh on the commodity. Lead increased due to the lowest level of stock in the past ten years.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2018 – 28/06/2019

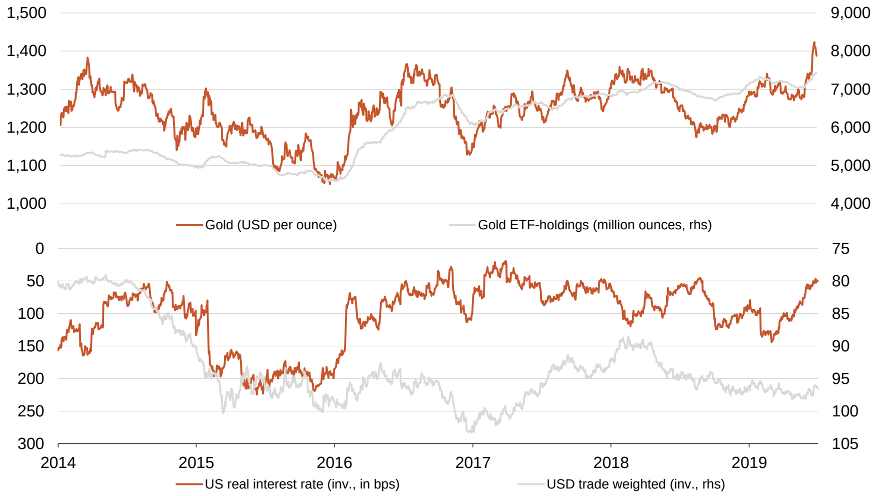
Crude Oil



- The Brent oil price recovered from its lows in mid-June and rose recently to USD 66 per barrel. Falling US oil inventories at the beginning of the Driving Season and political tensions between the US and Iran drove up prices.
- This week, the OPEC+ Group will discuss its funding policy for the second half of the year. Production cuts are expected to be extended, with OPEC compensating for the expected increase in US oil production.

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 – 28/06/2019

Gold



- Last week, the gold price rose to its highest level since 2013. Political uncertainties, strong investor demand and the expectation of falling key interest rates by the Fed and the ECB have fuelled the price increase.
- The falling bond and real interest rates, the weakening of the US dollar and the chart technical outbreak also supported the gold price.

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 – 28/06/2019

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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.

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