

Current market commentary

Over the past two weeks, stocks have tended volatile sideways to slightly weaker. While the economic data in aggregate remained sobering and the trade conflict escalated further, the already pessimistic positioning of many investors as well as the prospect of further easing measures by the central banks supported markets. We believe that downside risks predominate in the short term. After all, the likelihood of a hard break has risen recently. Moreover, there are still no signs of a recovery in the global economy. In Germany, there is even the threat of a technical recession, including increased short-time work. Equity analysts are also likely to gradually lower their earnings forecasts for 2020, which currently suggest double-digit earnings growth. In the medium to long term, however, we are optimistic about equities. Especially because the relative attractiveness to bonds has risen significantly recently. The market now expects the ECB not to raise interest rates before 2026!

Short-term outlook

Political risks remain with capital markets for the time being. Negotiations between the US and China on trade issues seem to be progressing only slowly, as also the recent escalation in the trade war with new tariff threats shows. The risk of a hard Brexit has not been averted either, as Prime Minister Johnson is sticking to the exit date at the end of October and at the same time demanding new concessions from the EU. Central banks are likely to fight the economic weakness with further monetary easing.

In the US, consumer confidence will be released on Tuesday and GDP growth in the second quarter on Thursday. On September 3, the US Purchasing Managers Indices and on September 6, the US labor market data will provide information about the state of the US economy. In Europe, various purchasing manager indices for the industry will be announced on 2 September.

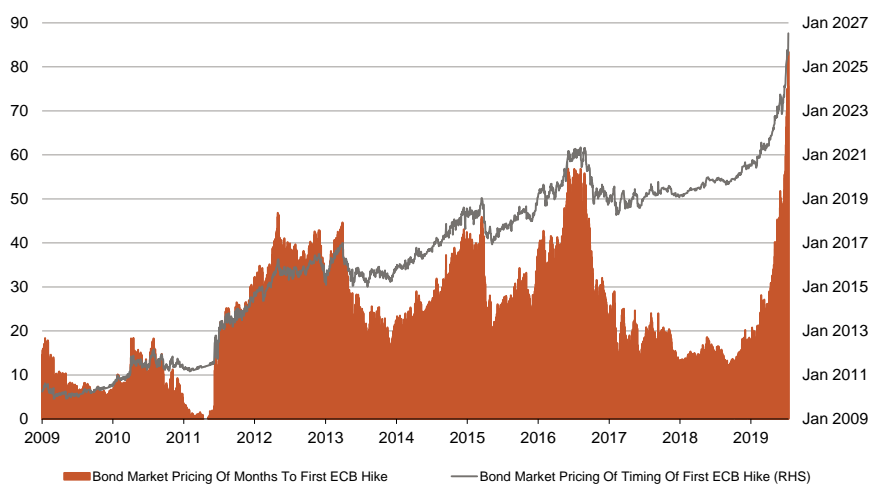
The bi-weekly *Monitor* gives you a structured overview of the current capital market environment and highlights important developments:

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

The trade war and Brexit remain political risks.

US labour market data and European purchasing manager indices are moving into focus.

Market expects low-interest environment to persist for years to come



- Meanwhile, the market is not pricing in the first ECB interest rate hike for 80 months, i.e. for April 2026.
- It is therefore highly likely that the low interest rate environment will remain in place for several years to come - with corresponding negative consequences for savers and banks.
- Yield prospects for bonds are more limited than ever, while equities are becoming relatively more attractive. Against this backdrop, equity valuations remain supported.

Source: Bloomberg, Morgan Stanley,
Time period: 01/01/2009 - 23/08/2019



Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (26/07/19 - 23/08/19)	YTD (31/12/18 - 23/08/19)	23/08/18	23/08/17	23/08/16	23/08/15	22/08/14
			23/08/19	23/08/18	23/08/17	23/08/16	23/08/15
Gold	2.9	7.5	33.4	-6.0	-7.6	16.1	5.4
REITs	2.9	24.8	17.4	2.9	-8.2	14.0	15.2
Global Treasuries	2.9	10.3	12.9	0.5	-7.7	11.9	9.0
Global Corporates	2.4	13.1	13.4	1.2	-2.2	6.7	12.9
Eonia	0.0	-0.2	-0.4	-0.4	-0.4	-0.3	-0.1
USDEUR	-0.1	2.9	3.6	2.3	-4.2	0.7	16.3
MSCI Frontier Markets	-0.5	17.2	10.4	-0.9	18.7	-4.5	-7.1
Industrial Metals	-2.1	6.8	0.3	-4.0	24.2	2.1	-19.4
Global Convertibles	-2.2	13.1	6.3	9.6	7.4	5.0	12.6
MSCI World	-5.4	15.9	3.1	15.2	9.2	7.9	12.9
Brent	-6.6	17.3	-14.1	55.8	-10.4	-9.5	-54.5
MSCI Emerging Markets	-7.1	5.6	-1.1	1.9	16.4	14.8	-10.5

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.

- Over the past four weeks, safe havens such as gold, REITs and government bonds have performed significantly better than riskier assets. Mixed economic data and speculation about further expansionary measures by central banks supported this trend. Emerging market equities lost just over 7%, while Brent oil fell by more than 6%.
- Since the beginning of the year, REITs and gold have been the best asset classes in Euro.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 22/08/2014 - 23/08/2019

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (26/07/19 - 23/08/19)	YTD (31/12/18 - 23/08/19)	23/08/18	23/08/17	23/08/16	23/08/15	22/08/14
			23/08/19	23/08/18	23/08/17	23/08/16	23/08/15
Stoxx Europe Defensives	-1.5	11.6	4.7	8.5	3.2	-1.8	8.9
Topix	-1.6	9.6	-0.8	8.6	10.9	2.8	23.9
Stoxx Europe 50	-4.1	14.3	3.3	4.4	10.0	-4.6	7.1
Stoxx Europe Small 200	-5.3	12.9	-3.6	8.8	15.5	1.1	13.2
Euro Stoxx 50	-5.3	13.8	0.2	2.1	17.8	-5.1	7.5
S&P 500	-5.9	18.3	5.5	21.7	9.4	13.9	17.9
MSCI UK	-5.9	7.9	-2.4	8.6	3.8	-3.0	3.8
MSCI EM Eastern Europe	-6.2	16.4	21.0	6.1	15.1	12.8	-19.3
MSCI EM Asia	-6.2	5.7	-3.8	4.9	18.9	14.7	-3.6
DAX	-6.5	10.0	-6.1	1.6	14.9	4.6	8.4
Russell 2000	-7.6	12.2	-10.6	29.7	6.7	10.0	17.7
Stoxx Europe Cyclical	-8.1	7.8	-7.9	2.9	22.3	-6.6	6.8

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.

- Within equities, defensive European equities performed significantly better than their cyclical counterparts. Weak economic data and concerns about further escalations in the trade war supported this development.
- In addition to European equities, Japanese stocks have also recently outperformed other equity regions.
- Asian equities in particular remained under pressure.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 22/08/2014 - 23/08/2019

Fixed Income

	4-week & YTD		12-month periods over that last 5 years				
	4W (26/07/19 - 23/08/19)	YTD (31/12/18 - 23/08/19)	23/08/18	23/08/17	23/08/16	23/08/15	22/08/14
			23/08/19	23/08/18	23/08/17	23/08/16	23/08/15
Treasuries	3.6	11.6	14.6	0.9	-5.4	4.4	21.0
USD Corporates	2.8	16.3	16.7	1.6	-2.6	8.8	17.3
Bunds	2.4	7.1	7.9	0.9	-3.2	6.1	4.3
Gilts	1.9	8.9	9.6	2.2	-10.3	-2.4	20.8
BTPs	1.6	10.3	14.8	-4.1	-4.0	7.2	6.3
EUR Inflation Linkers	1.2	8.3	7.2	1.3	-1.1	5.8	0.0
EUR Non-Financials	0.8	7.9	6.7	0.3	-0.3	6.5	1.5
EUR Financials	0.6	7.0	6.0	0.0	1.9	5.0	1.7
EUR High Yield	0.2	7.6	3.8	1.0	5.7	4.5	1.4
USD High Yield	-0.1	13.8	10.7	5.9	2.5	9.0	12.2
EM Hard Currency Bonds	-0.8	8.7	7.8	-4.6	1.2	13.0	-0.7
EM Local Currency Bonds	-1.1	8.3	13.7	-2.6	-1.3	12.9	-1.8

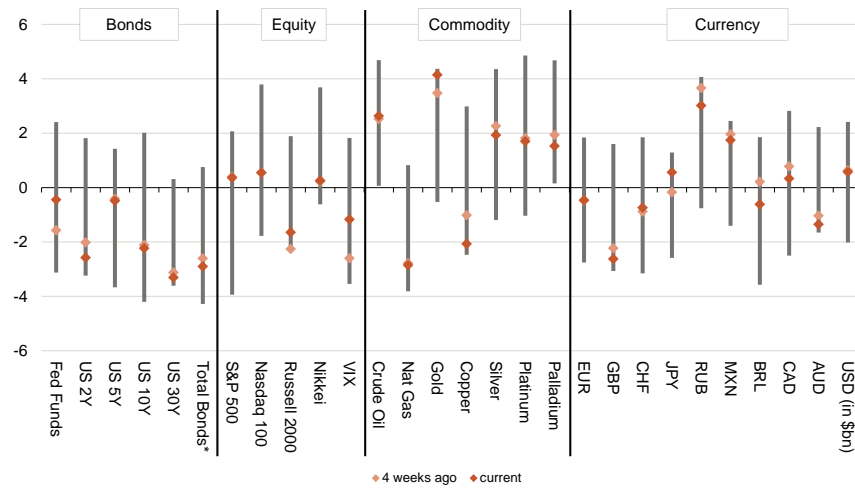
Bunds: Barclays Germany Govt All Bonds TR; BTPs: Barclays Italy Govt All Bonds TR; Treasuries: Barclays US Treasury TR;
 Gilts: Barcl. UK Govt All Bonds TR; EUR Inflation Linkers: Barcl. Euro Govt Inflation-Linked Bond All Maturities TR; EUR Financials: IBOXX Euro Fin. Overall TR;
 EUR Non-Financials: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

- US bonds have outperformed all other bond regions since the beginning of the year. On the one hand, bond yields in the US have fallen more sharply than in Germany, for example. On the other hand, the US dollar has also appreciated against the euro since the beginning of the year.
- EM government bonds have recently performed worse. Fund outflows and increased risk aversion among international investors had a negative impact.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 22/08/2014 - 23/08/2019



Non-Commercial Positioning

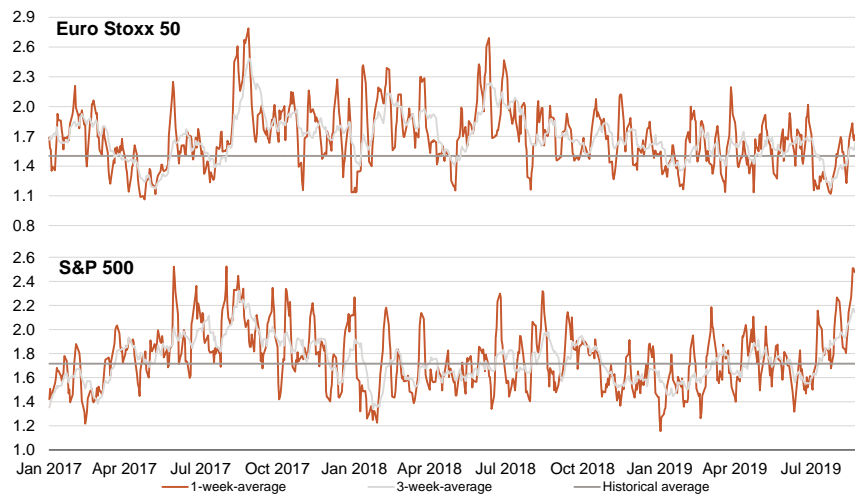


- Speculative investors have recently significantly reduced their short positions in the VIX, while the shorts in copper and GBP have continued to expand.
- They are particularly optimistic for gold and RUB.

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: 20/08/2009 - 20/08/2019

Put-Call Ratio

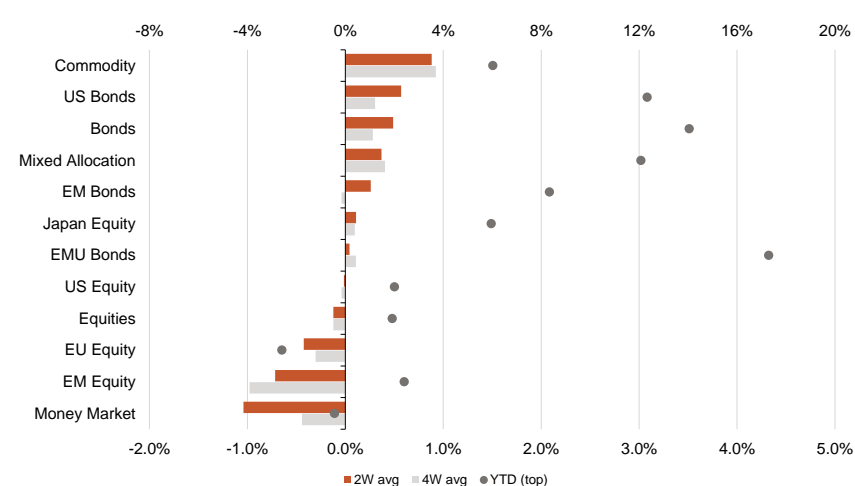


- In the last week, hedges in the US especially were increased further. Accordingly, the put-call ratio is well above its historical average.
- But scepticism also continues to prevail for eurozone equities.

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 - 23/08/2019

ETF Flows

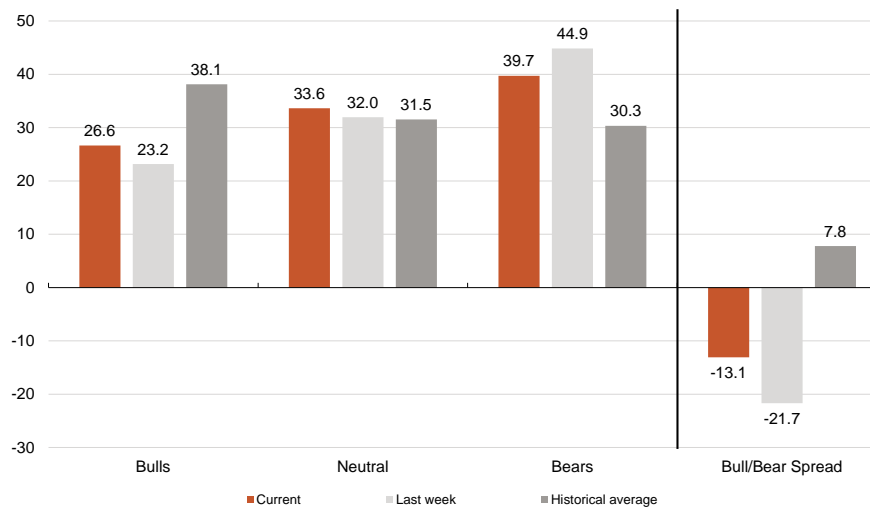


- ETF flows have been subdued over the last few weeks. Apparently there does not seem to be much conviction in the market. In addition, many investors are on summer holidays.
- Bonds tended to be in demand, while European and emerging market equities in particular were sold.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2018 - 23/08/2019



AAll Sentiment Survey (Bulls vs Bears)

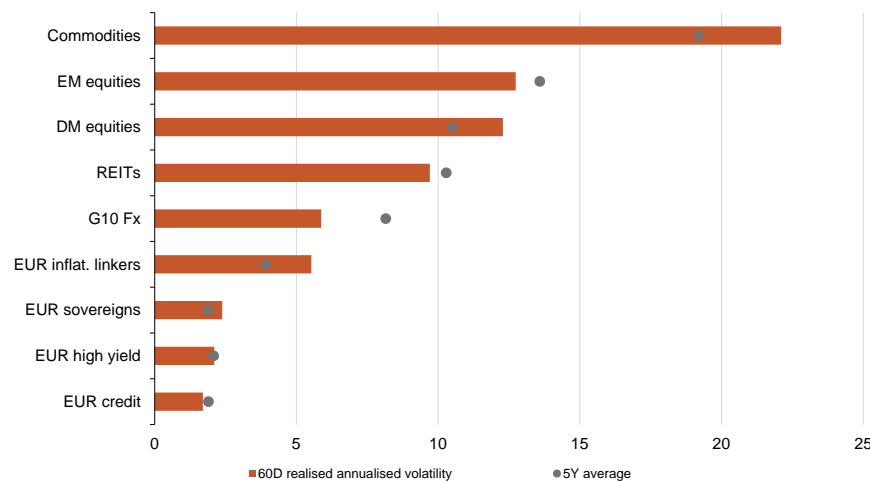


- The mood among US private investors has improved. The share of optimists (bulls) has risen to 26.6%, while the share of pessimists (bears) has fallen to about 40%.
- The bull/bear spread has improved to -13, which is comparatively pessimistic and suggests little downward pressure on the equity market.

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, AAll, Time period: 23/07/87 - 22/08/19

Realised Volatilities

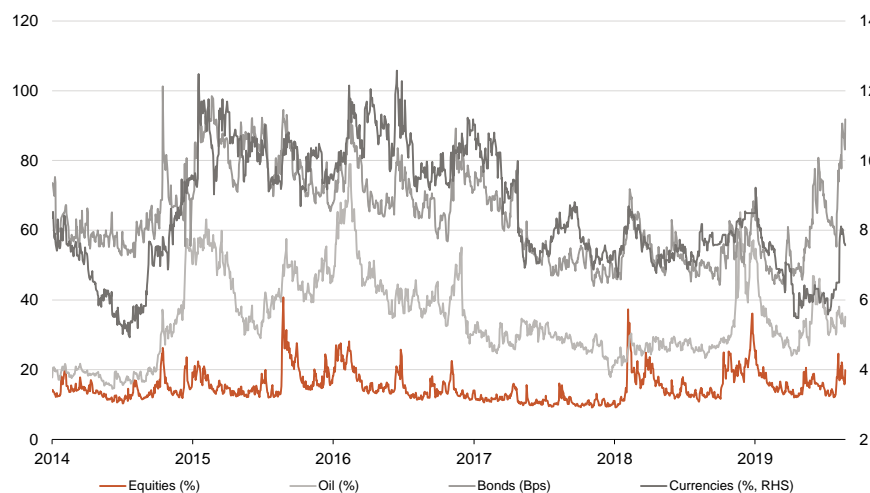


- Realized 60-day volatilities have increased compared to 2 weeks ago, especially for stocks of industrialized countries, REITS, EUR inflation linkers and EUR government bonds.
- Compared to their own 5-year average, the volatility is now above average for commodities, shares of industrial countries, EUR inflation linkers and EUR government bonds.
- There is still no sign of a currency war in terms of volatility.

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: 23/08/2014 - 23/08/2019

Implied Volatilities



- With regard to implied volatility, government bonds and currencies have recently seen a sharp rise. The massive fall in yields and fears of a currency war are visible here.
- In the case of equities and oil, implied volatility has fallen due to the trade conflict calming down temporarily.

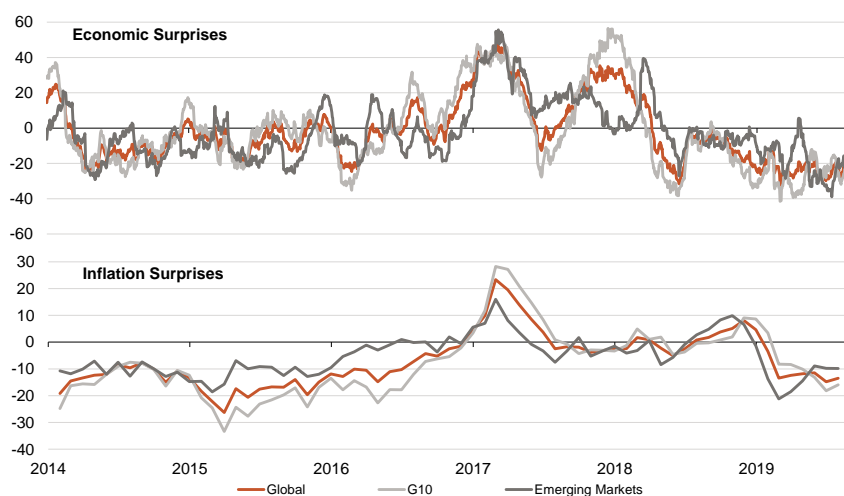
The price of options depends on the volatility of the underlying instrument. Implied volatility can therefore be interpreted as a measure of the currently expected fluctuation range of the underlying compared to the market over the remaining term of the option. It is a measure of prevailing uncertainty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

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

Source: Bloomberg, Time period: 01/01/2014 - 23/08/2019



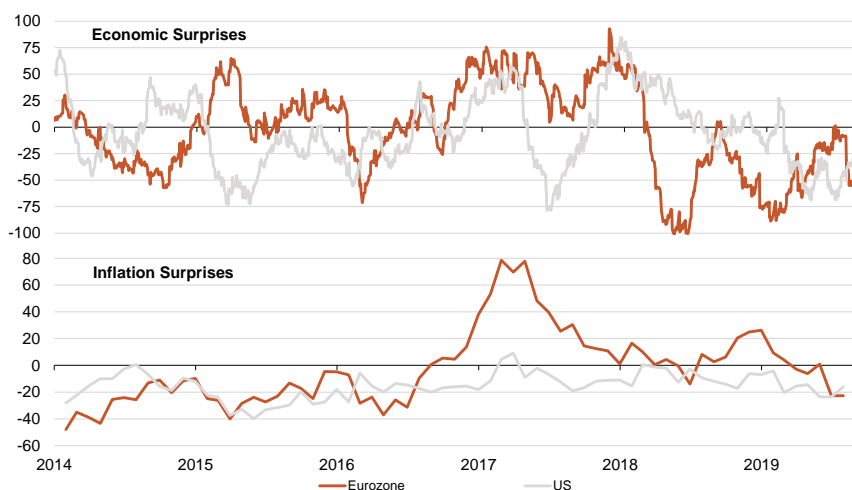
Global



- So far, there is no sign of a global economic recovery. On average, negative surprises continue to dominate economic data.
- Emerging markets: In July, industrial production, lending and car sales in China and retail sales in Russia disappointed.
- While inflation in most countries also surprised downwards in July, it surprised upwards in Russia, China and the USA.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 23/08/2019

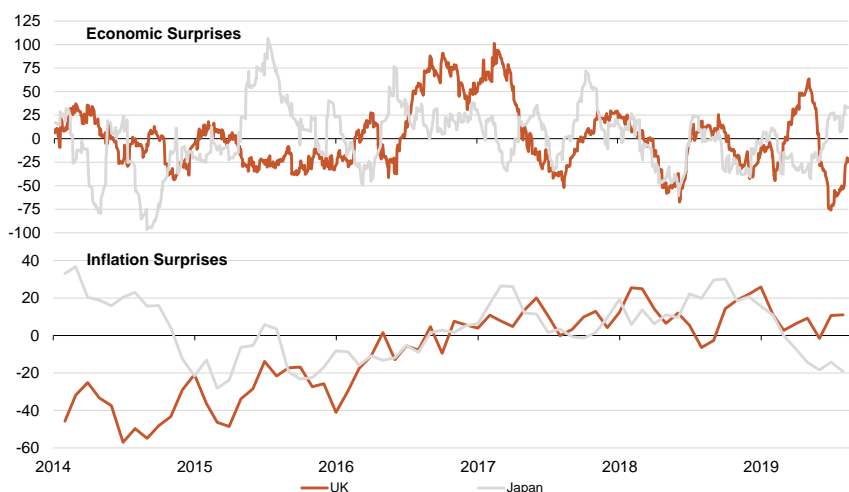
Eurozone and US



- Negative momentum continued in the euro zone. In Germany, the economy shrank in Q2 (QoQ) and economic expectations (ZEW) deteriorated. On the other hand, industrial sentiment (PMI) in Germany and France has improved.
- USA: Economic conditions (Empire Manuf.), the economic outlook (Phil. Fed) and retail sales were better than expected. However, the manufacturing Markit PMI in August was disappointing and is below the 50 mark again for the first time since 2009.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 23/08/2019

UK and Japan

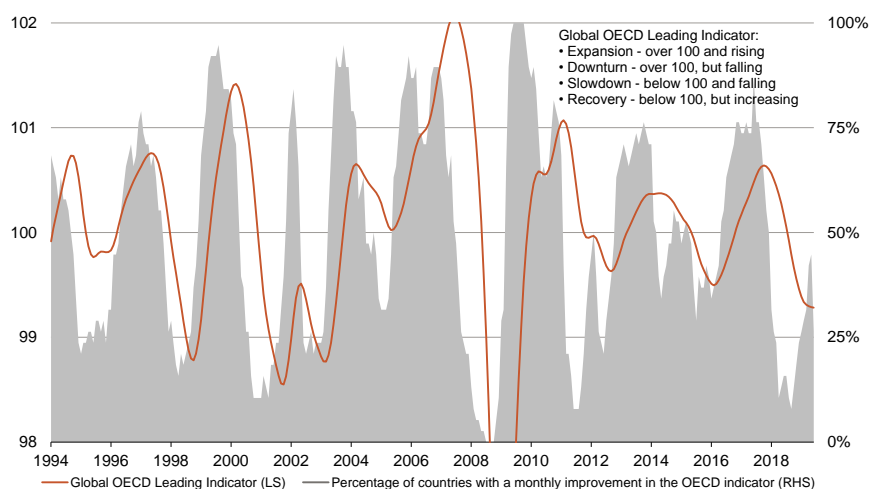


- Retail sales in the UK were better than expected in July and inflation surprised with 2.1% (up 1.9%) year-on-year.
- In Japan, industrial production fell by 3.3% (MoM) in June, while the August PMIs improved.

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 - 23/08/2019



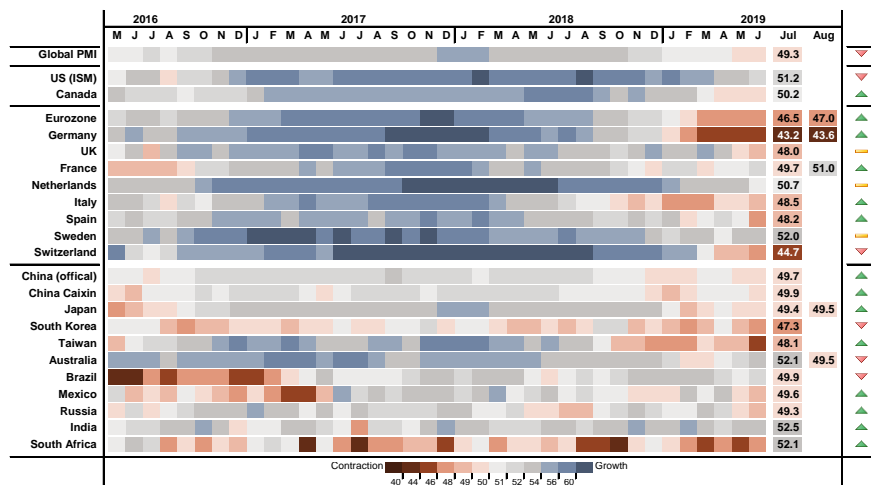
OECD Leading Indicator



- A recovery of the global economy in 2019 continues to appear unlikely. Only around 26% of the countries surveyed recorded an improvement in the leading indicator in June compared with the previous month.
- If Q3 growth turns out to be negative as Q2 growth was, there would be a technical recession in Germany in the second half of the year.

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 - 30/06/2019

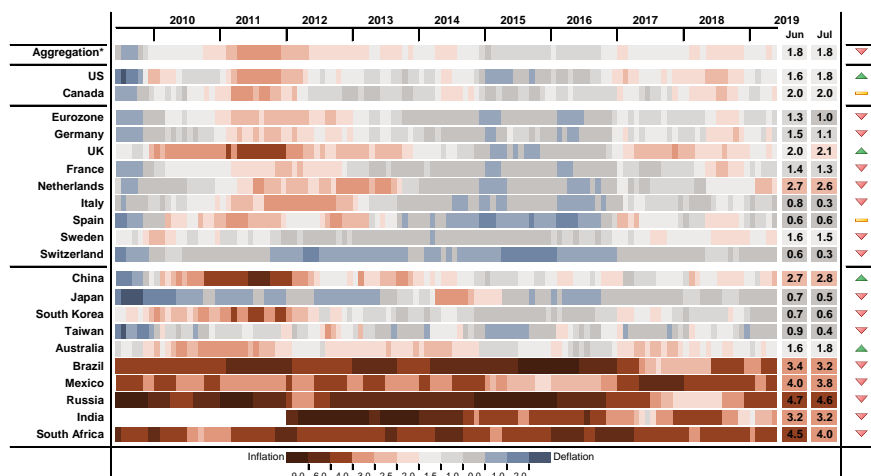
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- August PMIs in the eurozone, Germany, France and Japan were better than in the previous month. With the exception of France, however, most of the figures are below the important 50 mark.

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 - 23/08/2019

Headline Inflation

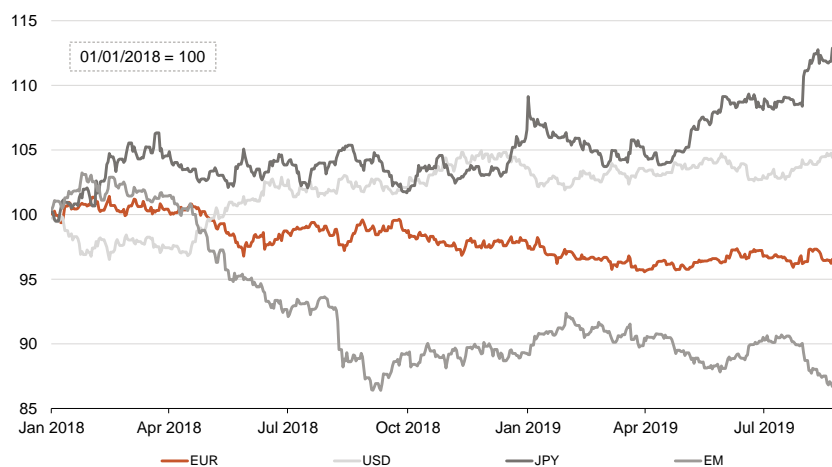


- Despite falling global inflation, the USA, the UK, China and Australia saw inflation rise in July.
- In the US, prices rose by 0.3% month-on-month, the largest increase since April.
- Inflation in South Africa in July took us by surprise by a significant fall to 4%.
- In Japan, inflation in July reached 0.5%, the lowest level since March.

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: 31/07/2009 - 31/07/2019



Trade-Weighted Currency Development

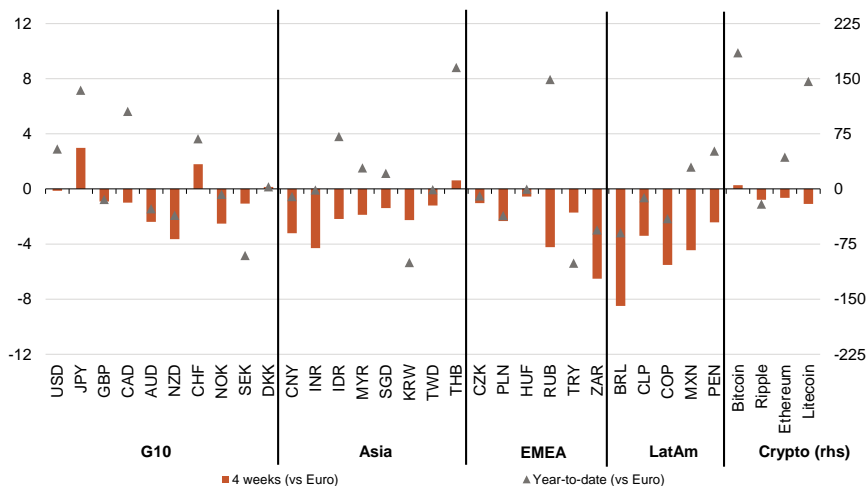


- The recent downward pressure on emerging market currencies continues. The Chinese yuan fell to 7.1 against the US dollar. The Argentine peso also came under pressure due to the political crisis in Argentina.
- The trade-weighted US dollar and especially the Japanese yen remain sought after as safe havens.
- The euro recently remained stable and fluctuated sideways on a trade-weighted basis.

A trade-weighted index is used to measure the effective value of an exchange rate against a basket of currencies. The importance of other currencies depends on the share of trade with the country or currency zone.

Source: Bloomberg, Time period: 01/01/2018 - 23/08/2019

Currency Moves vs Euro

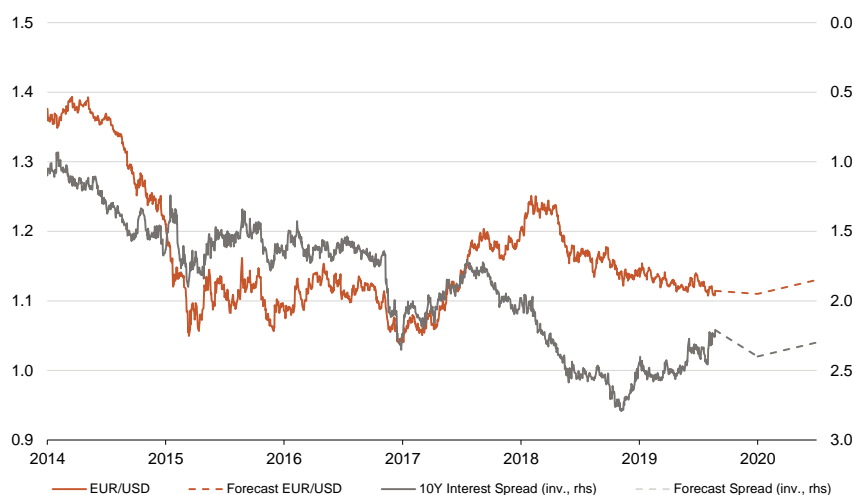


- Over the past four weeks, the US dollar, the yen and the Swiss franc have appreciated against the euro as safe havens among the G10 currencies.
- The currencies from Asia, EMEA and Latin America almost all depreciated against the euro. In particular, the South African rand and the Brazilian real came under pressure.
- The crypto currencies consolidated last and most of them fell slightly.

Performance of selected currencies against the euro, in percent.

Source: Bloomberg, Time period: 31/12/2018 - 23/08/2019

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate fluctuates sideways around 1.11 dollars per euro. Expansionary monetary policy and the economic data on both sides of the Atlantic are in balance.
- The interest rate differential between 10-year US Treasuries and German Bunds has fallen to around 2.3%. US Treasuries in particular benefited from the expectation of further US interest rate cuts and the flight to safe government bonds.

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 (26/07/19 - 23/08/19)	YTD (31/12/18 - 23/08/19)	23/08/18	23/08/17	23/08/16	23/08/15	22/08/14
			23/08/19	23/08/18	23/08/17	23/08/16	23/08/15
Health Care	1.5	19.8	11.9	6.7	-0.4	-5.2	19.9
Consumer Staples	0.3	23.6	11.7	2.8	2.0	13.4	15.3
Utilities	-0.4	17.4	17.5	-0.5	8.2	-0.5	0.5
Growth	-2.9	20.4	5.4	8.0	7.4	2.7	14.8
Telecommunications	-3.0	-0.1	0.0	-9.3	-0.5	-11.6	22.2
Industrials	-5.6	16.7	-0.7	7.8	14.0	7.5	8.9
Value	-6.7	4.3	-5.9	2.3	16.5	-7.2	3.2
Consumer Discretionary	-7.4	16.0	-0.6	6.1	10.4	-4.5	18.8
Information Technology	-7.8	19.4	-1.1	18.7	16.6	16.6	8.0
Finance	-8.3	3.0	-10.2	-4.7	31.4	-19.3	11.0
Materials	-9.0	6.5	-6.5	8.6	20.5	6.2	-6.9
Energy	-9.1	-0.4	-11.0	29.7	7.7	7.0	-19.2

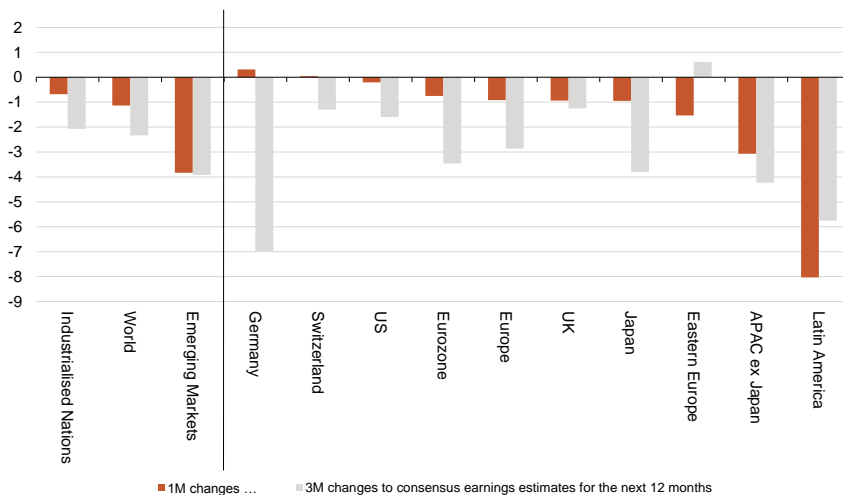
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Staples: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR; Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech.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

- Over the past four weeks, defensive equity sectors have performed best in Europe. The Healthcare and Consumer Staples sectors were even able to gain.
- In contrast, commodities, energy and finance lost the most.
- Growth stocks have outperformed value stocks by more than 16 Ppts since the beginning of the year.

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: 22/08/2014 - 23/08/2019

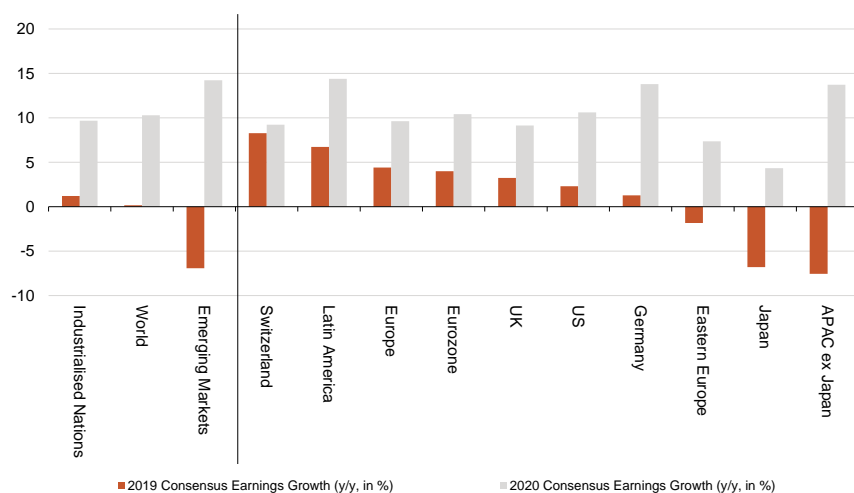
Changes in Consensus Earnings Estimates



- After the strong downward revisions of the last three months, earnings expectations for Germany have recently stabilised. Other developed markets have also seen little change in their earnings forecasts recently.
- In contrast, negative earnings revisions in emerging markets, particularly Latin America, have also been strong recently.

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 23/08/2019

Earnings Growth

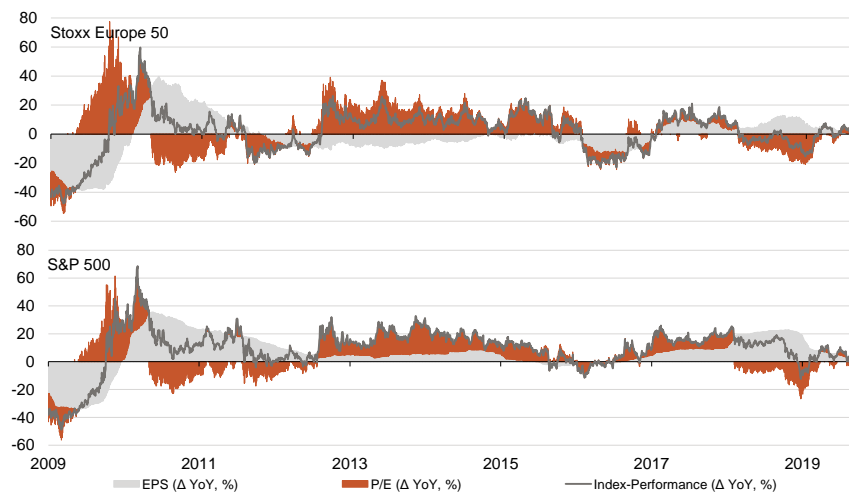


- Expected earnings growth for 2019 is extremely poor. For Asia Pacific ex Japan, Japan and Eastern Europe, analysts anticipate falling profits compared to the previous year.
- For the US and Germany, profit growth is expected to be close to zero.
- For 2020, however, growth forecasts for many regions are still in the double-digit range. There are likely to be further downward revisions.

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 23/08/2019



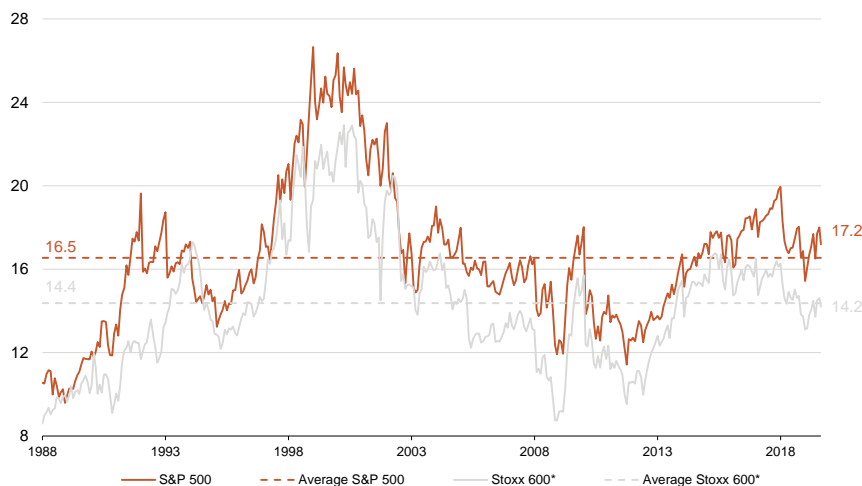
Contribution Analysis



- Even though the last twelve months have been very volatile, investors would hardly have made any money with an investment in the Stoxx Europe 50 or S&P 500. For example, the S&P 500 lost almost 20% before a pronounced recovery with new all-time highs setting in. It then fell again from the levels in August. Earnings and valuations hardly changed at all compared to one year ago.

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 - 23/08/2019

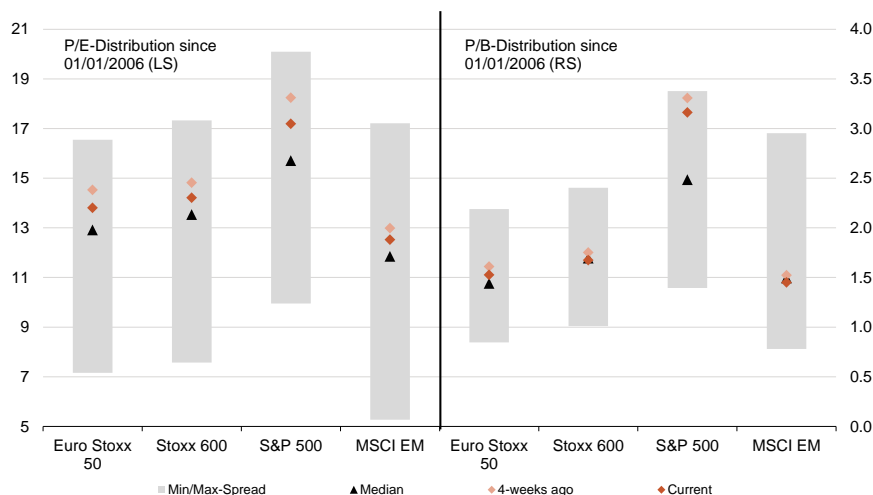
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- While European equities are still priced fair to their own history with a P/E ratio of 14.2. US equities are slightly expensive.
- Compared to bonds, however, equities are still valued very favorably. And the ongoing low interest rate environment makes equities attractive in the long term.

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 - 23/08/2019

Historical Distribution: Price/Earnings and Price/Book Ratio

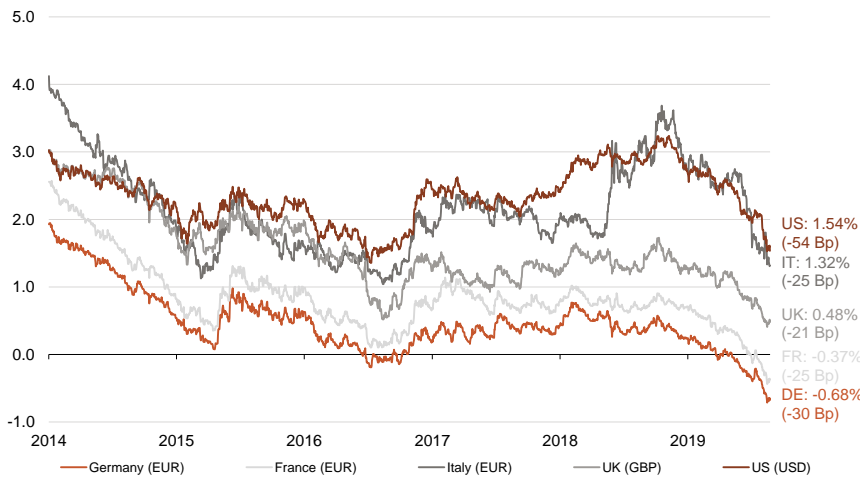


- On a P/E basis, all regions considered here have become cheaper compared to four weeks ago.
- The most attractive stocks are emerging market equities. However, it should not be forgotten that the earnings estimates can be corrected further downwards due to the muted global economy and the ongoing trade conflict. Ceteris paribus, equities would then become more 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 - 23/08/2019



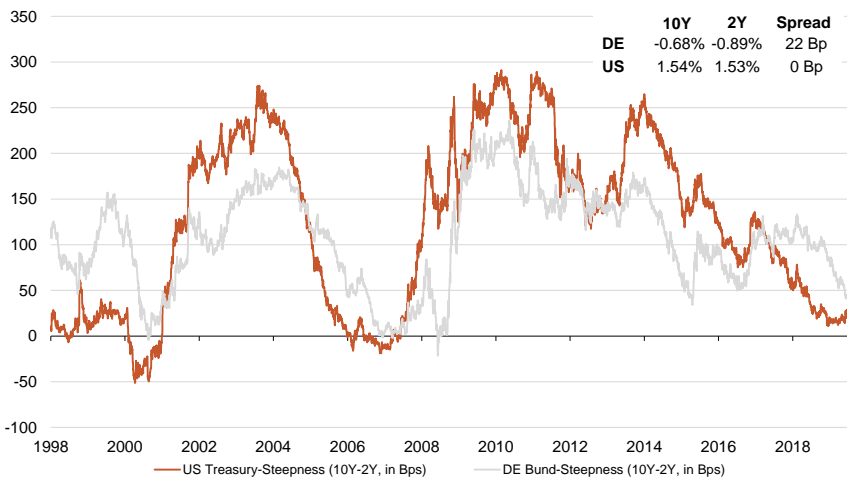
10-Year Government Bond Yields



- Yields on government bonds have also fallen further recently in the wake of increasing fears of recession. For the first time, 30-year German government bonds were issued with a negative yield in a new issue.
- Following the resignation of Prime Minister Giuseppe Conte in Italy and the resulting possibility of new elections, budget hopes rises among market participants. Italian bonds then recovered and saw a yield decline of 25 basis points over four 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 - 23/08/2019

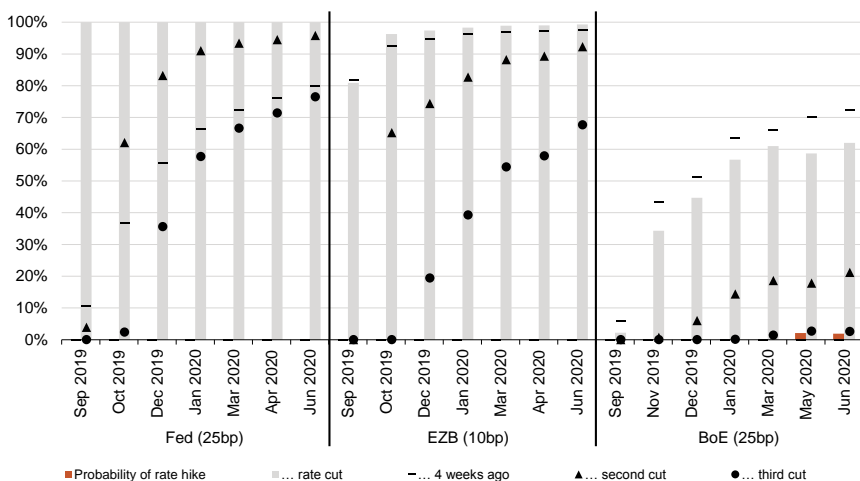
Yield curve steepness (10Y - 2Y)



- The slope of the US curve is only one basis point away from a renewed inversion. In addition to the UK curve, the US yield curve is also temporarily inverted. Historically, after an inversion, a recession has often occurred after one to two years.
- The steepness of the German yield curve has been reduced to 22 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 - 23/08/2019

Implicit Probabilities for Changes in Key Interest Rates

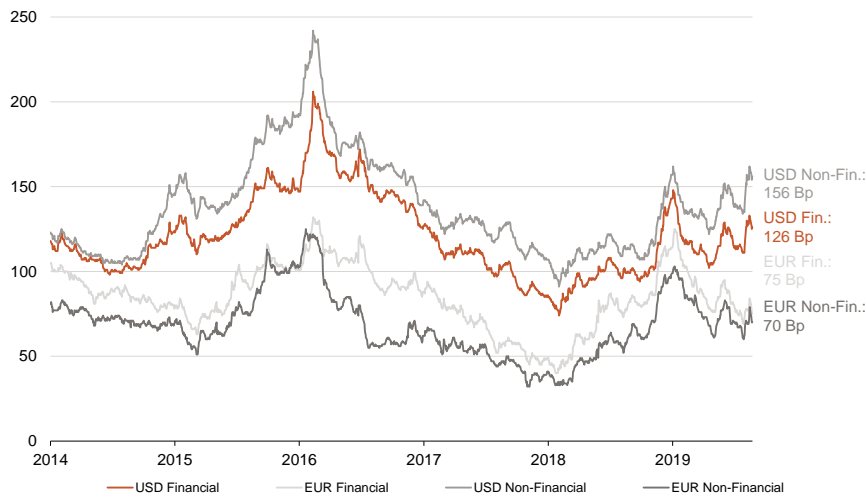


- After the rate cut in July, the market expects a further rate cut by the Fed in September with a probability of 100%. Political pressure is growing, even if the economic data is still good.
- The probability of an interest rate cut in September in the eurozone has fallen to 80%, after the July ECB protocol revealed disagreement over possible measures.

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: 26/07/2017 - 23/08/2019



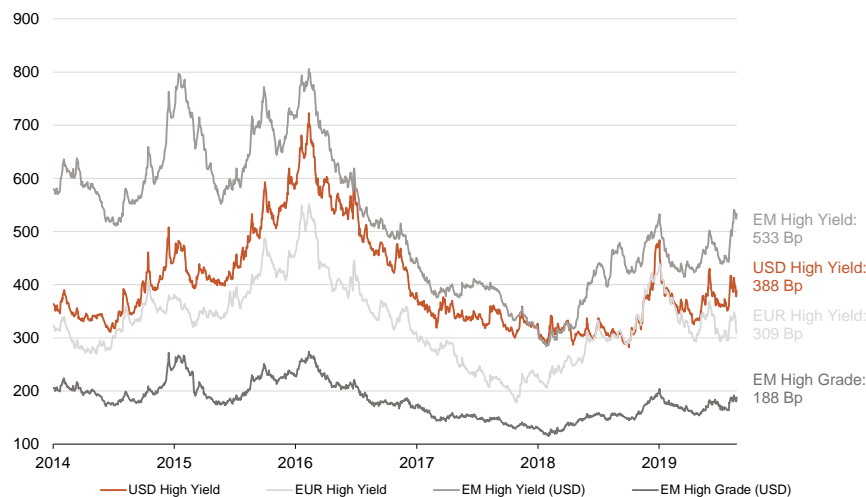
Credit Spreads Financial and Non-Financial Bonds



- For the past two weeks, spreads on USD and EUR corporate bonds have moved sideways. As a result, the credit market has been directionless lately, similar to equity markets.
- For EUR and USD bonds, the capital goods sector in particular saw a widening of spreads, as this more cyclical sector would be disproportionately affected by a recession.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2014 - 23/08/2019

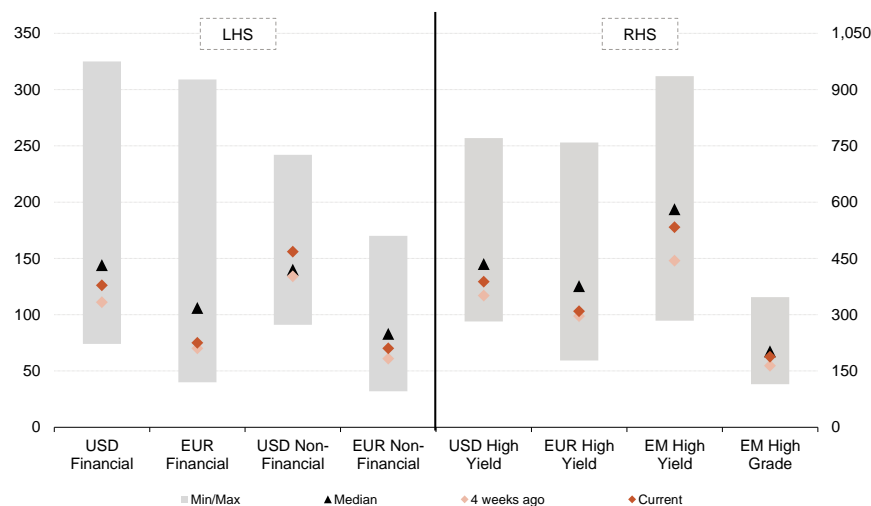
Credit Spreads High Yield and Emerging Markets Bonds



- While USD and EUR high yield bonds have recently recovered somewhat, spreads on emerging market high yield bonds have continued to rise. The ongoing trade conflict, a weak Chinese currency and fears of a recession are increasingly weighing on emerging markets. International investors have thus largely left the asset class.

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 - 23/08/2019

Historical Distribution of Credit Spreads (in bp)

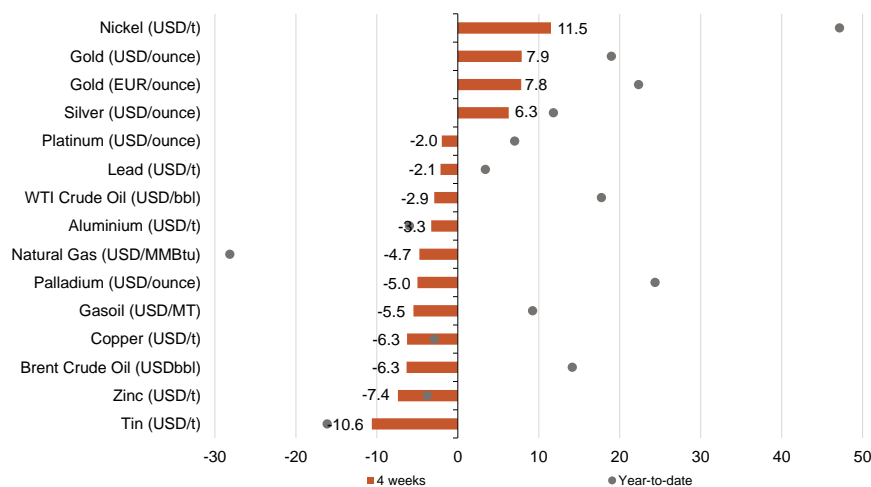


- Following the recent movement in spreads on emerging market high-yield bonds, these are now historically almost fairly valued. Only around 50 basis points of spread widening are still missing to reach the 10-year median.

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: 23/08/2009 - 23/08/2019



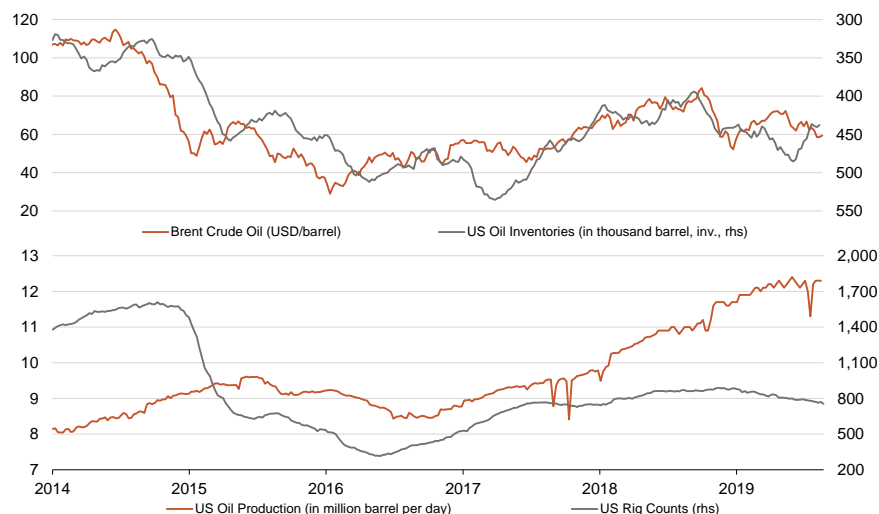
Commodities Performance



- Over the past four weeks, commodity market developments have performed mostly negative.
- Precious metals benefited from inflows and investor positioning.
- Industrial metals suffered the biggest losses due to continued economic concerns and a strong US dollar. Nickel is an exception and has benefited from a possible export stop from the important producer Indonesia.
- Energy commodities have recently declined due to demand concerns, although supply remains scarce.

Total return of selected commodity prices, in percent, sorted by 4-week performance. Source: Bloomberg, Time period: 01/01/2019 - 23/08/2019

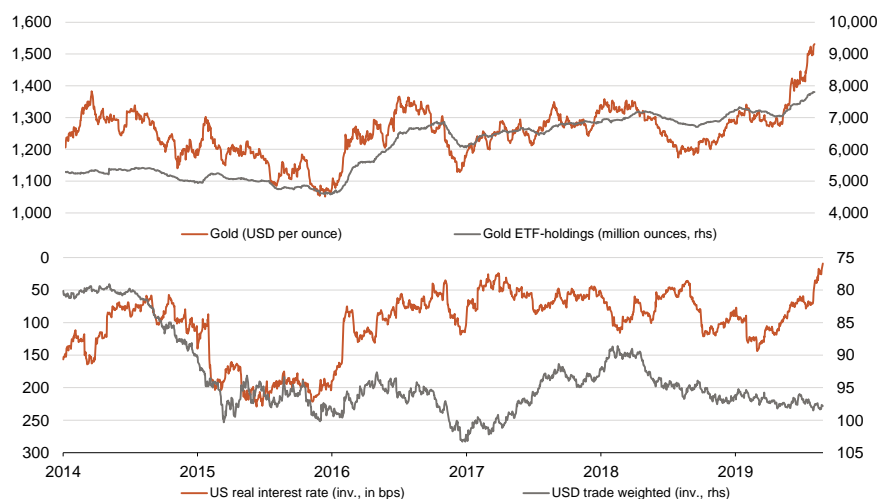
Crude Oil



- The price of Brent crude has temporarily risen above 60 US dollars again. Tight OPEC supply and Saudi Arabia's commitment to cut production further if necessary have supported the price. However, demand concerns with a view to the economy have previously weighed on the price.
- In the US, oil production was boosted again after Hurricane Barry. Nevertheless, US oil inventories have recently fallen further.

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 - 23/08/2019

Gold



- The gold price has risen above 1,500 US dollar per ounce.
- In the medium term, the outlook for gold remains favourable: monetary policy remains expansionary, US real interest rates and bond yields are falling and more and more bonds are showing negative interest rates. In the short term, however, the net long position is very high and suggests a consolidation.

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 - 23/08/2019

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