

Current market commentary

October was very positive. Risky asset classes performed significantly better than safer investments, which in many cases even lost value. Bond yields climbed and the yield curve steepened. Cyclical such as the DAX were big winners. A decreasing political uncertainty, especially the breakthrough of the escalation spiral in the trade dispute between the USA and China and the decreasing probability of a hard Brexit met with a defensive positioning of many market participants. A better-than-expected reporting season also helped. For the (cyclical) rally to continue however, economic data, which so far has still been very mixed, must improve. Although we have become more optimistic in recent weeks and are now again driving a neutral equity quota, for an equity overweight, the leading economic data would have to brighten more clearly.

Short-term outlook

Despite the unexpected cancellation of the climate summit in Chile, at which President Trump and Xi Jinping wanted to meet, both China and the USA intend to conclude Phase 1 of the trade agreement in the coming weeks. The long-term solution to the trade dispute however is viewed critically, at least by China. With regards to corporates, the Q3 reporting season ends in November. So far this has turned out to be better than expected in both Europe and the US. The Fed further cut interest rates on the 30th October, but sounded rather hawkish. We therefore expect, alongside the market, that there will be no further rate cuts in 2019. In the next two weeks, investors will focus their attention on September industrial production (November 6) and ZEW economic expectations (November 12) in Germany, the Bank of England's interest rate decision (November 7), consumer confidence in the US (November 8) and Q3 economic growth in Great Britain (November 11).

Is the outperformance of US equities coming to an end?



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

Signing of the Phase 1 trading agreement is expected.

No further interest rate cuts expected in the USA for the time being.

- Since the financial crisis, US stocks have markedly beat European equities, driven by the different sector structures (US has more technology; Europe has more banks) and the correspondingly better profit development. Over the past year, however, Europe has kept pace with the US. Now the political uncertainty is even on the rise in the US (impeachment, election campaign), while it is decreasing in Europe (Brexit). The interest in Europe is growing, as the first inflows show. A brightening of the global economy and rising bond yields would boost European equities more sustainably.

Source: Bloomberg, Time period: 01/11/2009 - 01/11/2019



Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (04/10/19 - 01/11/19)	YTD (31/12/18 - 01/11/19)	01/11/18	01/11/17	01/11/16	01/11/15	31/10/14
Brent	5.3	26.5	-7.2	31.2	10.5	-19.9	-43.4
MSCI Emerging Markets	3.7	14.0	13.3	-10.2	21.6	8.6	-2.8
MSCI World	3.0	24.8	15.1	3.8	17.5	0.4	15.7
Industrial Metals	1.1	13.2	7.0	-10.9	24.5	8.1	-18.6
MSCI Frontier Markets	0.7	15.3	12.5	-9.3	20.9	-3.0	-6.5
Global Convertibles	0.4	15.5	10.7	2.2	11.9	2.2	13.6
Eonia	0.0		-0.4	-0.4	-0.4	-0.3	-0.1
REITs	-1.0	28.0	23.6	-0.2	0.1	-1.1	15.3
Gold	-1.0	21.3	25.4	-1.4	-5.8	12.3	10.8
Global Coporates	-1.4	12.7	13.2	-0.7	-0.7	5.1	10.3
USDEUR	-1.7	2.7	2.2	1.8	-4.8	-0.5	13.8
Global Treasuries	-2.1	8.8	11.4	0.7	-5.9	7.1	9.3

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, risk assets have developed significantly better than safe havens, despite continued lacklustre economic data.
- In addition to good company reports, the main drivers were reduced political uncertainty, not least because of the avoidance of a hard Brexit at the end of October.
- Global government bonds and gold fell, while equities rose.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 31/10/2014 - 01/11/2019

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (04/10/19 - 01/11/19)	YTD (31/12/18 - 01/11/19)	01/11/18	01/11/17	01/11/16	01/11/15	31/10/14
MSCI EM Eastern Europe	9.5	32.3	30.0	3.2	19.5	11.3	-9.8
DAX	7.9	22.7	13.0	-14.8	27.9	-3.0	16.3
Stoxx Europe Cyclical	7.5	20.7	10.4	-10.1	29.6	-7.6	10.0
Stoxx Europe Small 200	5.7	21.7	12.0	-5.3	26.8	-6.2	20.4
MSCI UK	5.6	16.7	8.6	-1.2	15.9	-10.6	9.5
Euro Stoxx 50	5.2	23.9	16.3	-11.0	25.4	-8.9	12.6
Stoxx Europe 50	4.6	22.6	15.1	-5.9	20.3	-10.3	10.7
Russell 2000	4.3	22.3	6.7	6.8	22.1	2.6	14.1
MSCI EM Asia	3.9	14.2	14.3	-12.7	26.8	6.9	5.0
Stoxx Europe Defensives	3.9	18.7	14.7	0.5	14.4	-11.2	12.3
Topix	2.9	19.4	11.5	-3.9	13.9	5.5	25.8
S&P 500	2.3	27.6	16.8	10.4	18.5	3.4	19.6

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.

- All equity regions gained over the last four weeks. In particular, the cyclicals (including the DAX) experienced a strong rally.
- Europe has recently outperformed the US. Since the beginning of the year, both regions have developed more or less equally when viewed in local currency terms. Thanks to the appreciation of the USD since the beginning of the year, US equities are still ahead in euro terms.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 31/10/2014 - 01/11/2019

Fixed Income

	4-week & YTD		12-month periods over that last 5 years				
	4W (04/10/19 - 01/11/19)	YTD (31/12/18 - 01/11/19)	01/11/18	01/11/17	01/11/16	01/11/15	31/10/14
EUR High Yield	0.4	7.5	4.8	-1.5	6.6	4.9	2.1
Gilts	0.1	13.6	12.3	1.2	4.2	-13.7	16.3
EUR Financials	-0.2	6.3	5.7	-1.3	3.5	4.1	0.9
EUR Non-Financials	-0.3	6.8	6.4	-1.4	1.8	5.7	0.0
EM Hard Currency Bonds	-0.3	8.2	8.6	-6.5	3.7	9.0	0.7
EM Local Currency Bonds	-0.5	10.1	13.2	-1.0	-0.9	8.9	-0.7
EUR Inflation Linkers	-0.5	7.3	7.3	-1.2	2.5	1.1	1.9
USD High Yield	-0.6	15.1	11.6	2.9	3.3	7.5	10.9
BTPs	-1.0	12.9	17.9	-6.7	1.9	0.9	8.0
Bunds	-1.7	4.6	5.8	0.7	-1.2	3.4	3.5
USD Corporates	-1.9	16.1	17.2	-0.9	-1.7	6.4	14.7
Treasuries	-2.9	10.1	13.0	0.0	-5.7	3.5	16.1

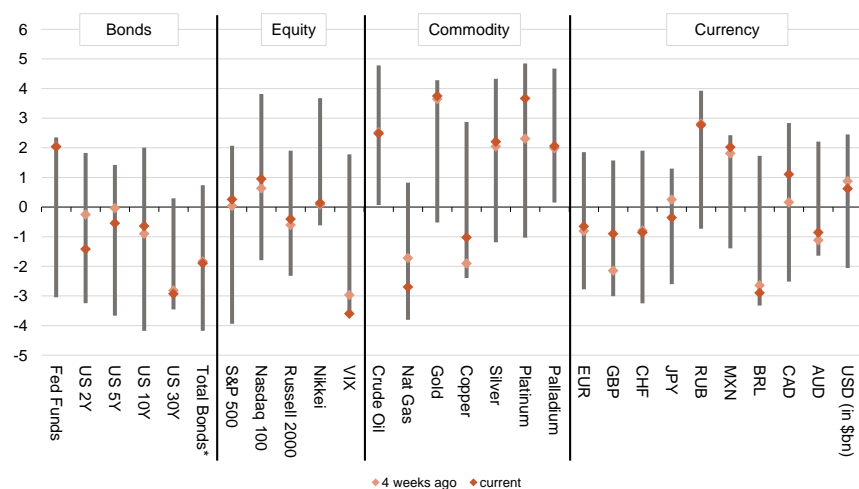
Bunds: Barclays Germany Govt All Bonds TR; BTPs: Barclays Italy Govt All Bonds TR; Treasuries: Barclays US Treasury TR;
 Gilts: Barcl. UK Govt All Bonds TR; EUR Inflation Linkers: Barcl. Euro Govt Inflation-Linked Bond All Maturities TR; EUR Financials: IBOXX Euro Fin. Overall TR;
 EUR Non-Financials: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

- Despite a further Fed interest rate cut at the end of October, bond yields have risen over the past four weeks, with corresponding price losses as a result.
- British bonds gained at least in euro terms, as the pound appreciated strongly due to the reduced probability of a hard Brexit.
- US government bonds fell by more than 2 percent. Since the start of the year, however, they have gained more than 10 percent.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 31/10/2014 - 01/11/2019



Non-Commercial Positioning

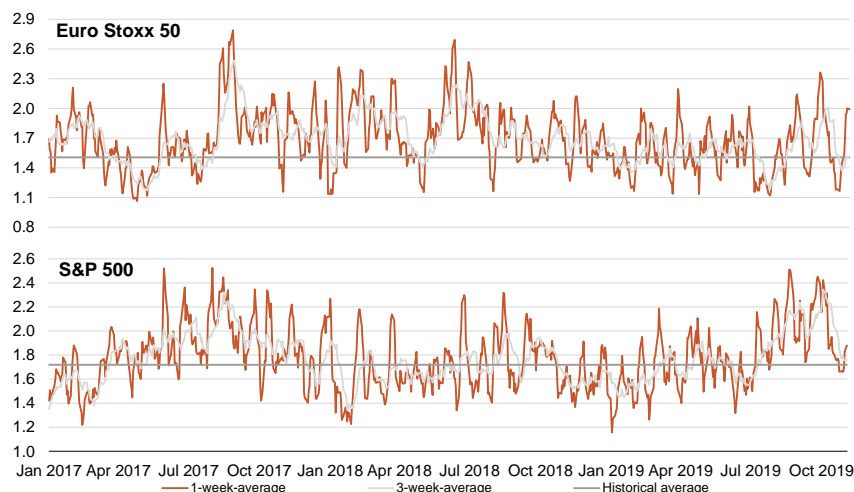


- Speculative investors have recently slightly increased their equity exposure. However, the positioning is still moderate.
- GBP shorts have been strongly reduced in the course of more positive Brexit news.

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: 01/11/2009 - 01/11/2019

Put-Call Ratio

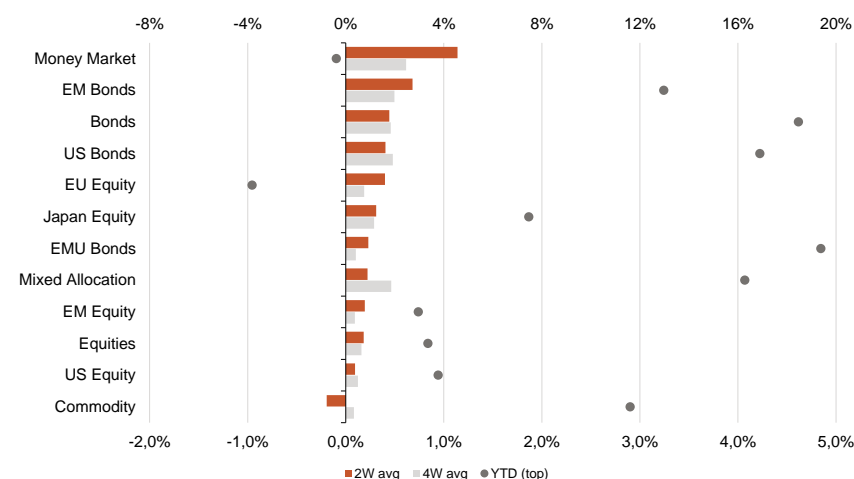


- While investors have recently increased their hedges for Eurozone equities, they have become more constructive for US equities.
- The put-call ratio for the S&P 500 is close to its historical average.

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

Source: Bloomberg, Time period: 20/12/1993 - 01/11/2019

ETF Flows

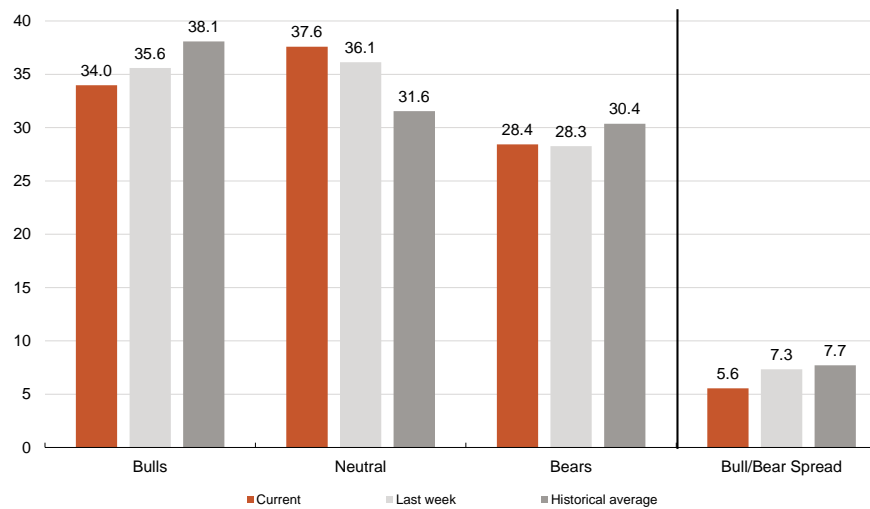


- Despite declining political uncertainty, money ETFs have recently seen the largest inflows, followed by emerging market bond ETFs.
- Equity ETFs have also been able to attract inflows, especially ETFs focused on UK equities, thanks to the reduced likelihood of a hard Brexit.
- Commodity ETFs, on the other hand, have seen very little movement in aggregate over the last two weeks.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2018 - 01/11/2019



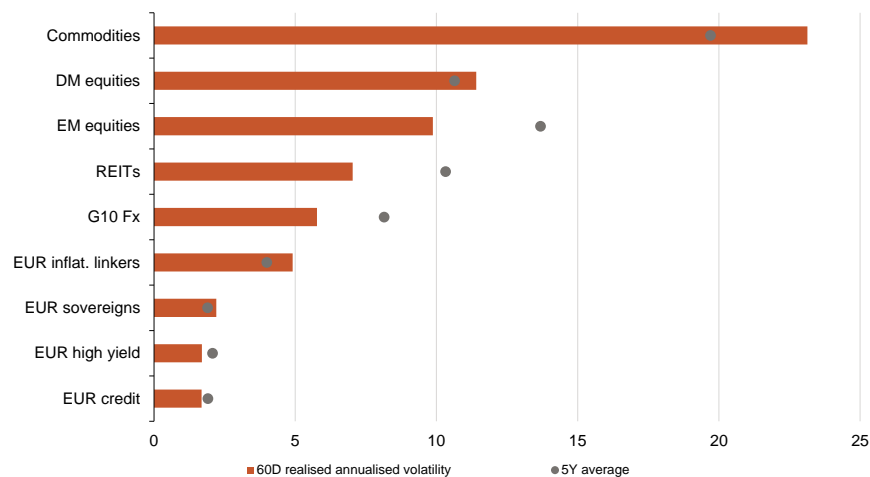
AAII Sentiment Survey (Bulls vs Bears)



- The proportion of bulls among US private investors has fallen slightly compared to the previous week. The bear rate, on the other hand, remained almost unchanged. The relative majority of US investors have a neutral view of stock market performance over the next six months.

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 - 31/10/19

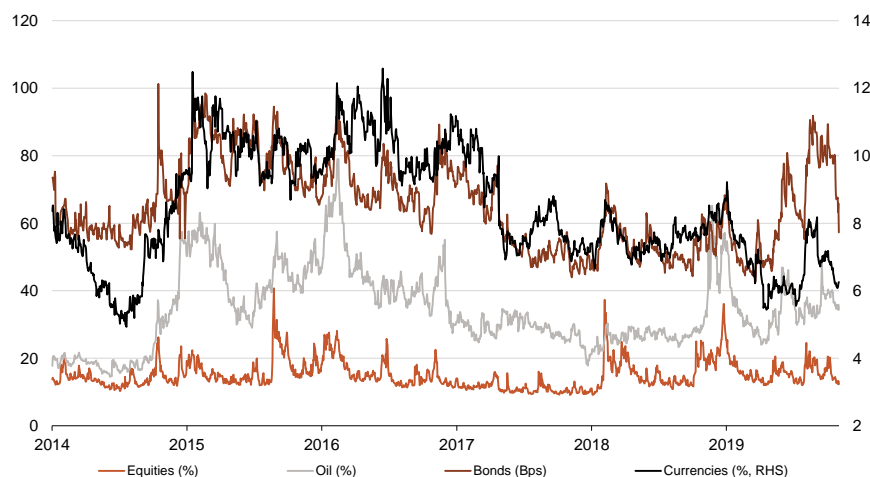
Realised Volatilities



- The volatility for commodities remains the largest of all the asset classes considered here. It is also higher than the average of the last 5 years.
- The volatility of emerging market equities, on the other hand, is significantly lower compared to their own history and also lower than that of developed market equities.
- EUR corporate bonds show the lowest overall volatility, thanks in part to the ECB's loose monetary policy.

Realised volatility (in percent) measures the historical range of variation of a time series and is defined here as the standard deviation of the daily returns over the last 60 trading days. Volatility is often used as a measure of risk.
Source: Bloomberg, Time period: 01/11/2014 - 01/11/2019

Implied Volatilities

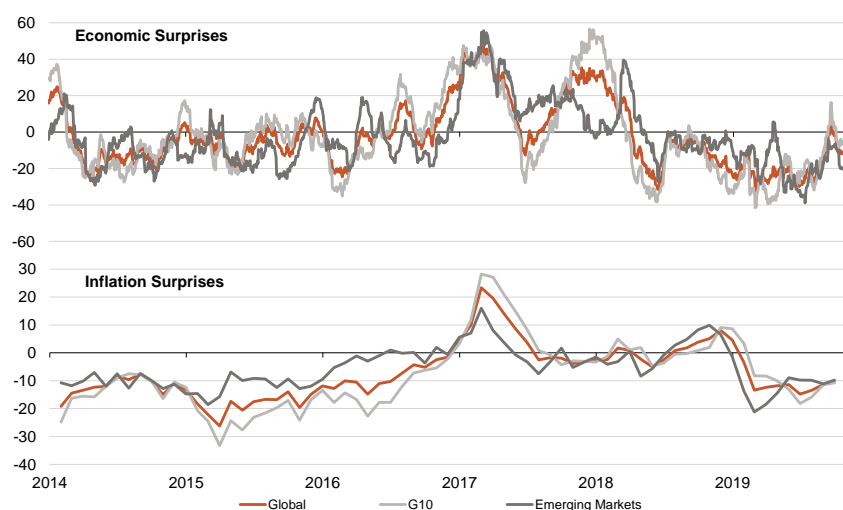


- Implied volatilities have recently fallen sharply across all asset classes. Weakening political uncertainty and a further interest rate cut by the Fed has had a positive effect on investors' propensity to invest.
- The implied equity market volatility is now approaching its annual lows again.

The price of options depends on the volatility of the underlying instrument. Implied volatility can therefore be interpreted as a measure of the currently expected fluctuation range of the underlying compared to the market over the remaining term of the option. It is a measure of prevailing uncertainty in the financial markets.
Stocks = VIX Index, Oil = OVX Index, Government Bonds = MOVE Index, Currencies = CVIX Index
Source: Bloomberg, Time period: 01/01/2014 - 01/11/2019



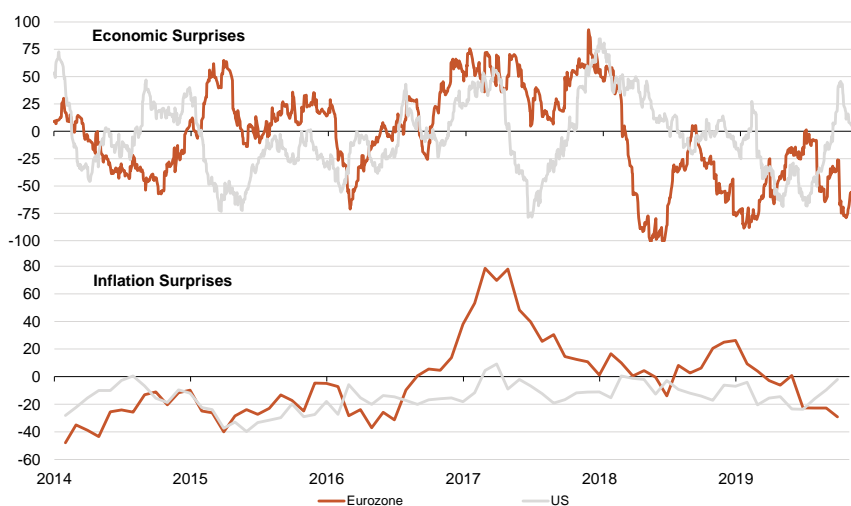
Global



- The index level of both global and emerging market economic surprises has hardly changed recently. In China, the official October Purchasing Managers' Index for industrials was 49.3 points, and in South Korea Q3 economic growth was lower than expected.
- The G10 industrial nations, on the other hand, recorded a slight improvement in the index. The main drivers for this were good economic data in Japan and positive momentum in the Eurozone.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 01/11/2019

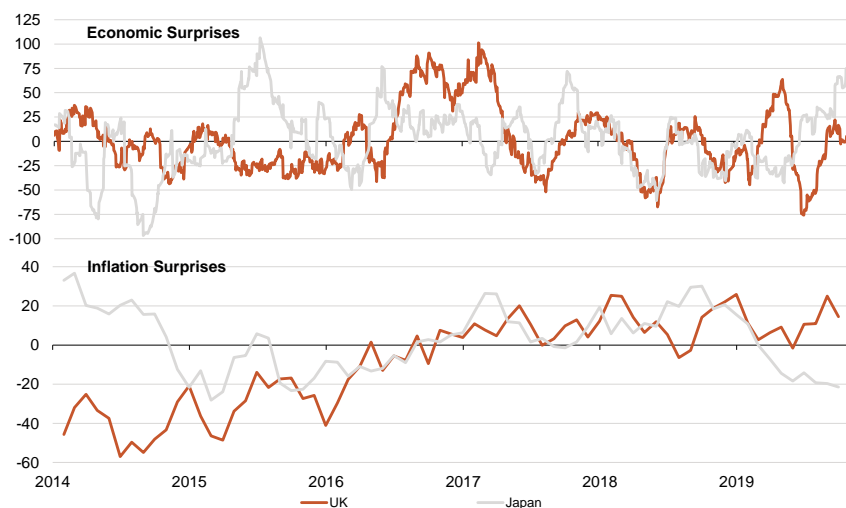
Eurozone and US



- The economic surprises in the Eurozone recently showed a positive momentum. The Ifo Business Climate Index in Germany, for example, stopped its downward trend with a stable value and was slightly better than expected.
- In the USA, the index is still in positive territory, but has fallen significantly in recent weeks. While consumer confidence was slightly worse than expected, Q3 economic growth surprised with an increase of 1.9% YoY.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 04/01/2019

UK and Japan

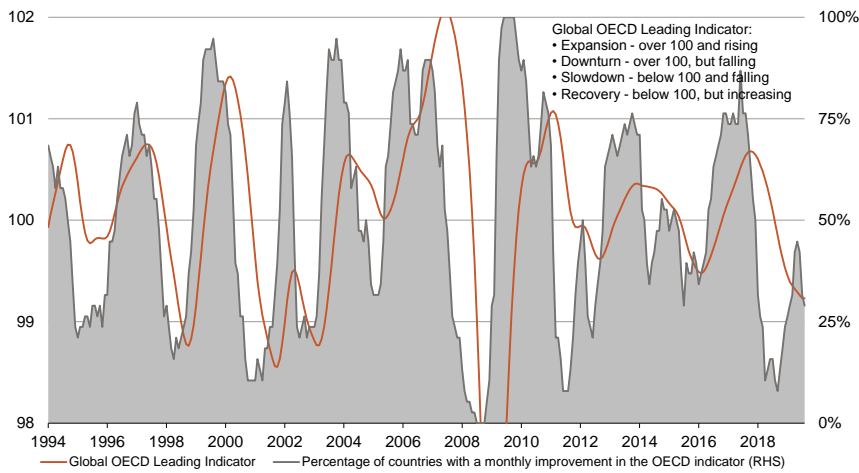


- In Japan, economic data continued to exceed expectations. Industrial production in September rose by 1.4% MoM (cons. 0.4).
- In the UK, the data were recently mixed. However, the industrial purchasing managers' index surprised upwards.

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 - 04/01/2019



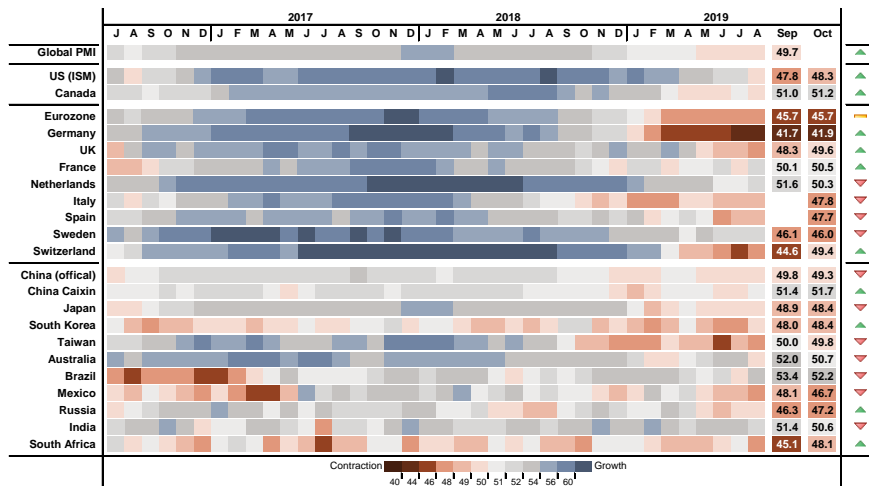
OECD Leading Indicator



- Now that the political uncertainties have recently diminished, the global economic data also seem to be slowly reaching a bottom. Economic growth in Q3 was better than expected in both the Eurozone and the US. According to the OECD leading indicator however, the comparatively weak economic growth could still remain somewhat intact.

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 - 31/08/2019

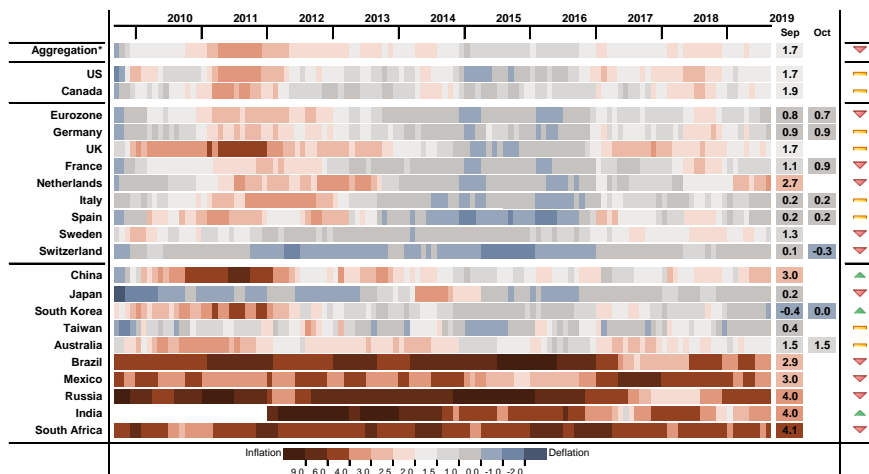
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- In Europe, the purchasing managers' indices seem to be reaching a bottom. In Germany, for example, the October PMI was slightly better than the September PMI. Asia looks more mixed. The PMI has fallen in Japan and Taiwan, while it has risen in China (Caixin) and South Korea.

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: 31/07/2016 - 31/10/2019

Headline Inflation

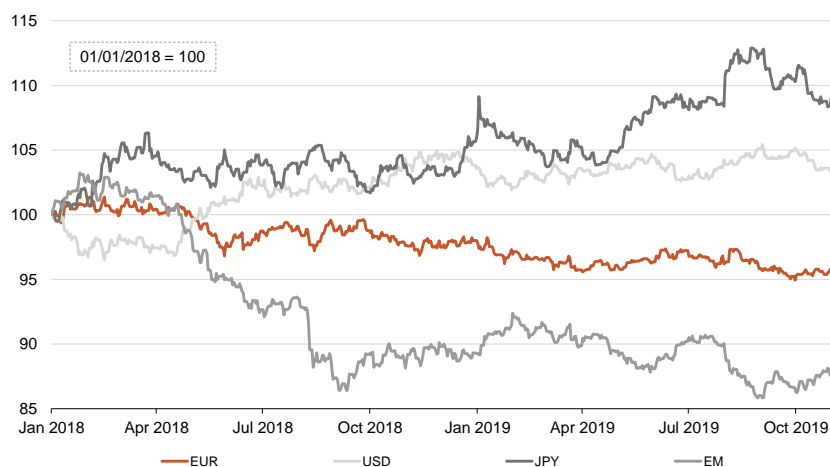


- The downward trend in inflation continued in October. In the Eurozone, inflation fell to 0.7%, even though the core inflation rate rose slightly to 1.1%. The main driver for the difference was the fall in energy prices, which caused inflation to be lower than core inflation.

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: 31/10/2008 - 31/10/2019



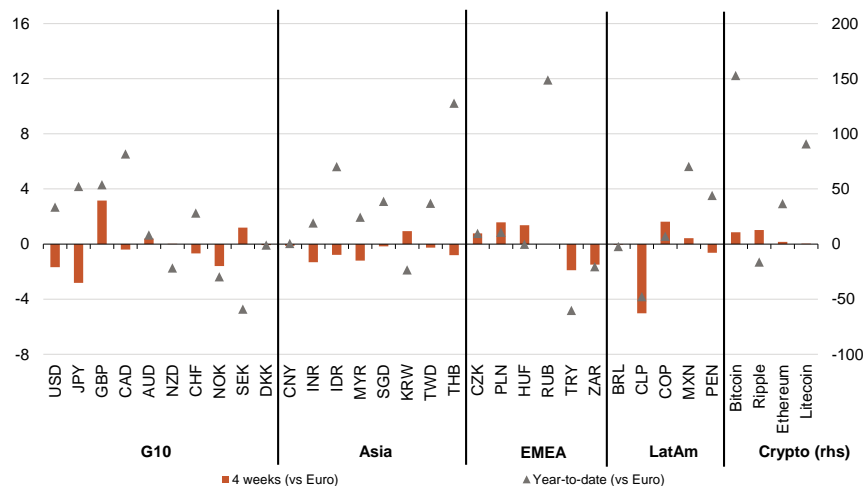
Trade-Weighted Currency Development



- The return of risk appetite led to a sustained depreciation of the Yen and a further appreciation of emerging market currencies.
- While the US dollar continued to lose ground recently, the EUR remained stable. A possible end to the Brexit saga has helped.

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 - 26/07/2019

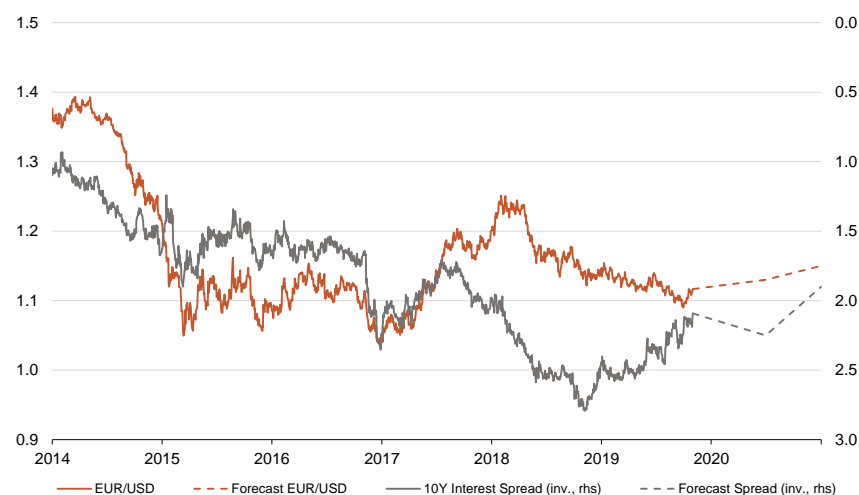
Currency Moves vs Euro



- In the last four weeks, the British pound has made the strongest gains against the euro thanks to substantial Brexit progress and the election on 12 December.
- The biggest loser of the G10-currencies against the euro was the Japanese yen, which was less in demand as a safe currency.
- In Latin America, the Brazilian real and the Mexican peso appreciated against the euro.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 01/01/2019 - 01/11/2019

EUR/USD exchange rate and interest rate differential



- The EUR/USD exchange rate was unable to maintain its recent upward momentum and remained at an exchange rate of around 1.11 US dollars to the euro.
- For the end of 2020, our economists see a spread tightening of German government bonds and US Treasuries to around 1.8%.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US Treasuries and 10-year Bunds.
Source: Bloomberg, Time period: 01/01/2014 - 31/12/2020



European Sector & Style Performance

	4-week & YTD		12-month periods over that last 5 years				
	4W (04/10/19 - 01/11/19)	YTD (31/12/18 - 01/11/19)	01/11/18	01/11/17	01/11/16	01/11/15	31/10/14
Consumer Discretionary	8.7	28.2	16.8	-8.3	21.9	-10.7	25.1
Industrials	8.1	29.2	20.1	-9.9	29.4	0.8	13.8
Materials	8.0	20.4	9.1	-4.7	29.3	9.3	-0.6
Finance	7.5	16.0	6.4	-13.2	28.6	-14.6	9.7
Value	6.1	15.2	7.0	-6.4	21.9	-7.1	5.6
Information Technology	5.4	29.6	18.7	-3.2	35.6	-1.3	23.3
Health Care	4.6	25.0	19.3	1.8	12.9	-16.2	16.9
Growth	4.1	26.9	19.0	-5.1	20.5	-8.5	20.9
Energy	3.7	7.4	-1.4	9.3	20.3	5.6	-9.0
Telecommunications	2.1	6.3	7.5	-10.9	5.2	-18.0	21.5
Utilities	1.6	25.0	28.8	-5.6	15.1	-7.6	1.5
Consumer Staples	-1.5	21.8	14.6	-3.6	10.9	-3.4	26.7

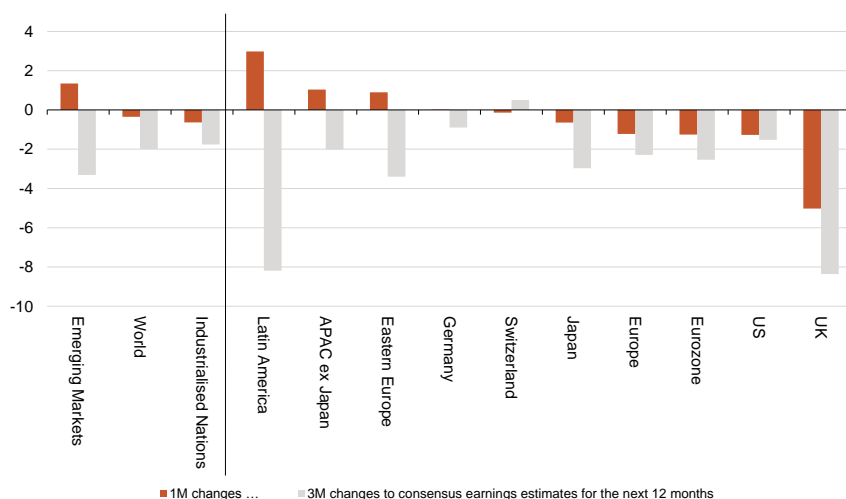
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Staples: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR; Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech.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

- Cyclical consumer goods, which include automobile manufacturers, for example, have performed significantly better than basic consumer goods over the past four weeks. Hopes for improving economic data as well as conciliatory tones in the trade dispute supported this development.
- Defensive sectors have recently lagged in Europe.

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: 31/10/2014 - 01/11/2019

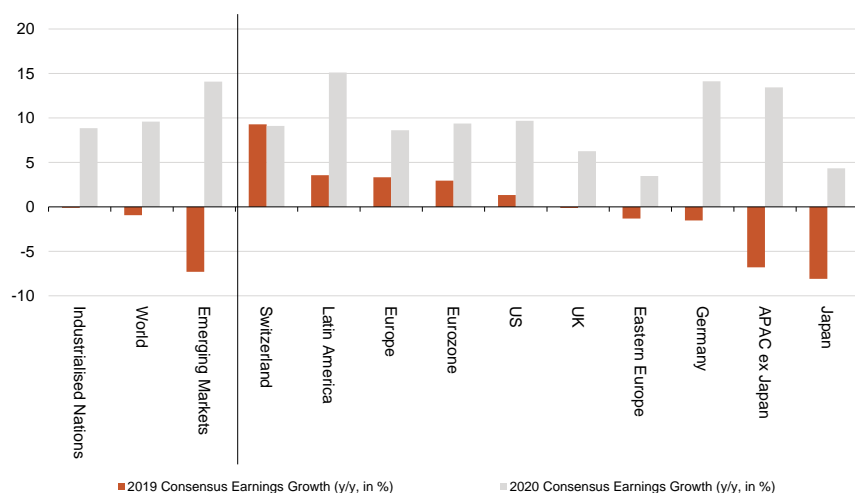
Changes in Consensus Earnings Estimates



- The momentum of negative earnings revisions has recently slowed. Emerging markets have even seen positive changes in consensus earnings estimates in aggregate. Analysts have become more positive for Latin America in particular.
- For the UK and the US, however, negative earnings revisions continued over the past month.

1-month and 3-month changes in consensus earnings estimates for the next 12 months, in percent. APAC ex Japan = Asia Pacific ex Japan. Source: FactSet, as of 01/11/2019

Earnings Growth

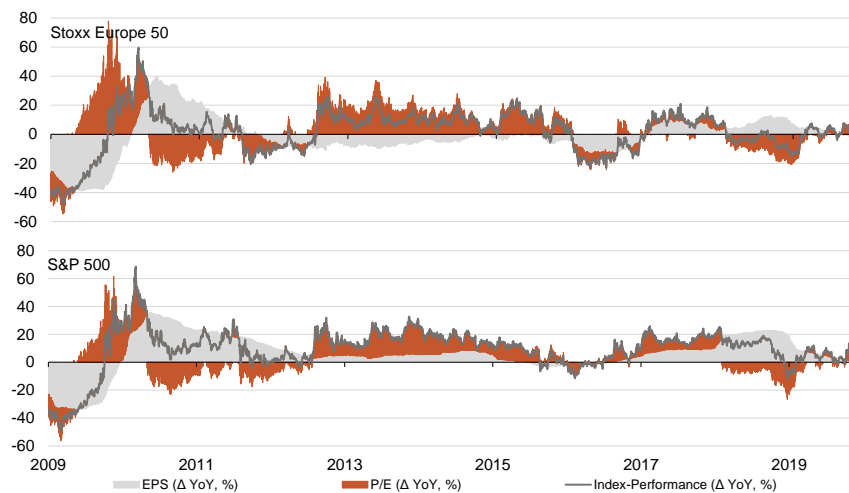


- With the exception of Switzerland, the consensus now expects only weak or even negative earnings growth for all regions in 2019.
- Analysts forecasted significantly higher profit growth for 2020. For the industrialised nations, this is approx. 10% compared to the previous year, and for the emerging markets it is just under 15%. This is far too optimistic.

Calendar year earnings growth expected to the consensus for selected equity regions, compared to the previous year and in percent. The earnings estimates of the individual companies are aggregated using the index weights (bottom-up). APAC ex Japan = Asia Pacific ex Japan. Source: FactSet, as of 01/11/2019



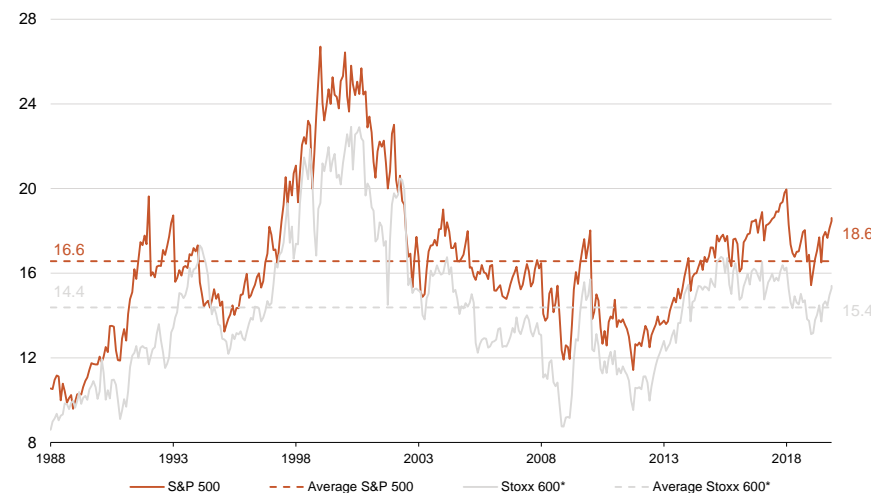
Contribution Analysis



- Thanks to the strong October performance this year, stock markets are now well ahead again year-on-year. This is also due to the fact that the weak October of 2018 has now been blown out of the rolling time window.
- One reason for concern is that the stock market performance was driven purely by valuation expansion. Corporate earnings have hardly changed compared with the previous year.

Analysis of the stock market drivers over the last 12 months. This takes into account the change in earnings estimates and the change in valuation (price/earnings ratio). EPS = earnings per share
Source: Bloomberg, Time period: 01/01/2009 - 01/11/2019

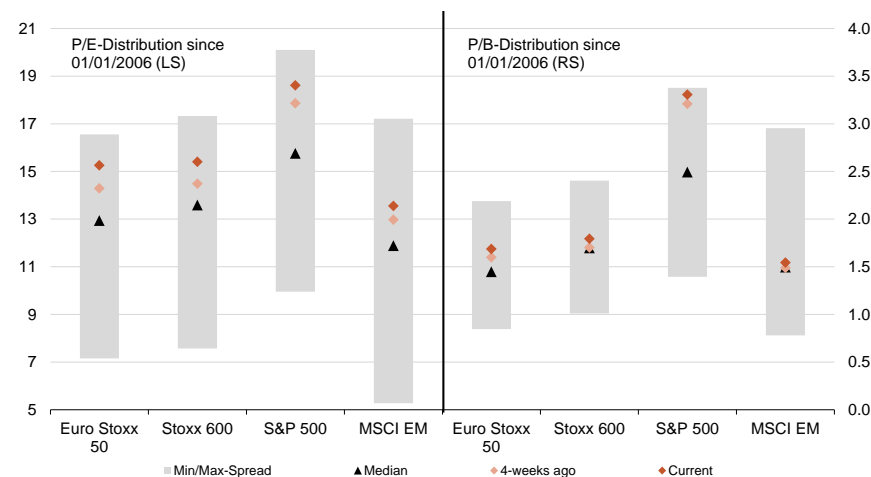
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Equity markets rose despite continued negative earnings revisions in October. As a result, valuations have risen significantly.
- For the S&P 500, the price-earnings ratio for the next 12 months is now 18.6.

P/E valuation based on earnings estimates for the next twelve months for European and US equities and the respective P/E average since 1988 * For the Stoxx 600, the history prior to 2000 is of MSCI Europe.
Source: Bloomberg, Time period: 31/12/1987 - 01/11/2019

Historical Distribution: Price/Earnings and Price/Book Ratio

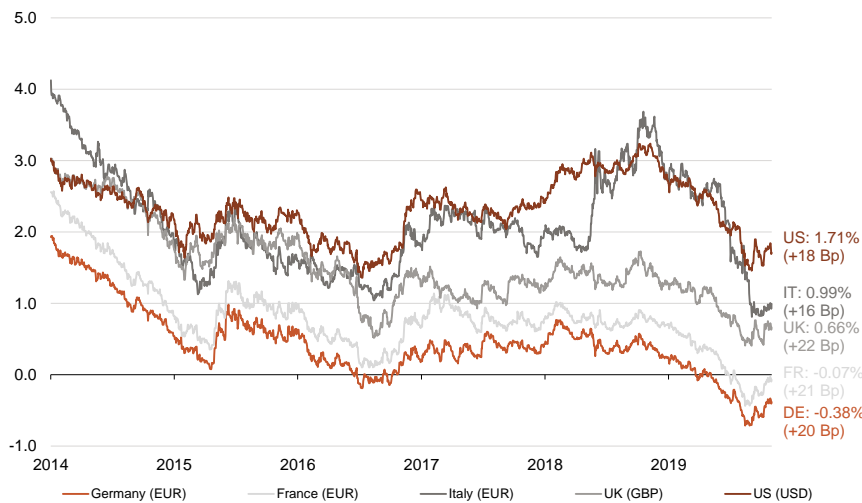


- Stock markets have become more expensive across all regions in the last four weeks. On a P/E basis, however, we are still a long way from extreme levels.
- However, all regions are now more expensive than the median since 2006.

Historical distribution of valuation indicators for selected stock regions since 2006, showing the current value, the observation four weeks ago and the historical median, the maximum (upper limit of the grey bar) and the minimum (lower limit of the grey bar).
Source: Bloomberg, Time period: 01/01/2006 - 01/11/2019



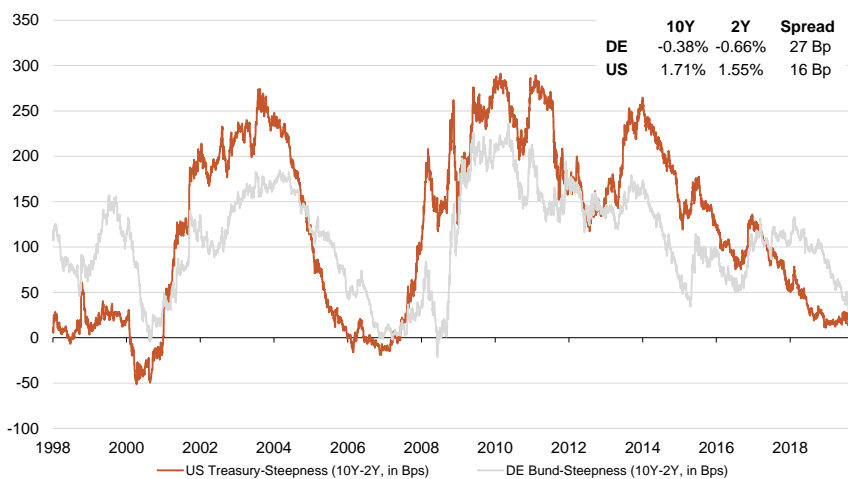
10-Year Government Bond Yields



- Despite the interest rate cut by the Fed, the yield on 10-year US government bonds rose slightly in a two-week comparison.
- Yields on European government bonds have recently moved sideways. Economic data remains weak, while political risks are declining. In the latter case, China recently had doubts as to whether the trade dispute could be resolved in the long term.

Effective yield of 10-year government bonds and change in the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2014 - 01/11/2019

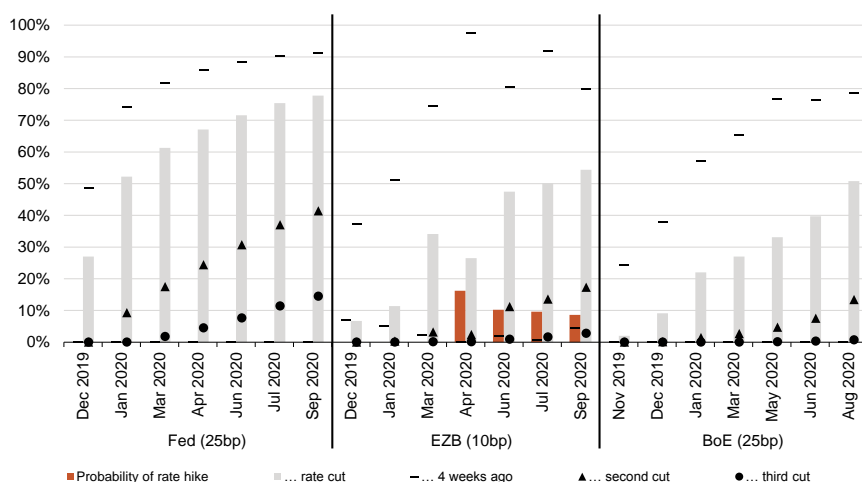
Yield curve steepness (10Y - 2Y)



- The steepness of the German and US yield curve has hardly changed compared to two weeks ago. The US yield curve remains just under 20 basis points and the German curve is just under 30 basis points away from an inversion.

The yield curve distinguishes between the so-called short and the long end. The reason for this lies in the way in which factors influence returns. Central banks control the short end of the curve through their monetary policy and key rates. By contrast, the long end is influenced less by central banks than by inflation expectations, supply, demand and risk premia.
Source: Bloomberg, Time period: 01/01/1998 - 01/11/2019

Implicit Probabilities for Changes in Key Interest Rates

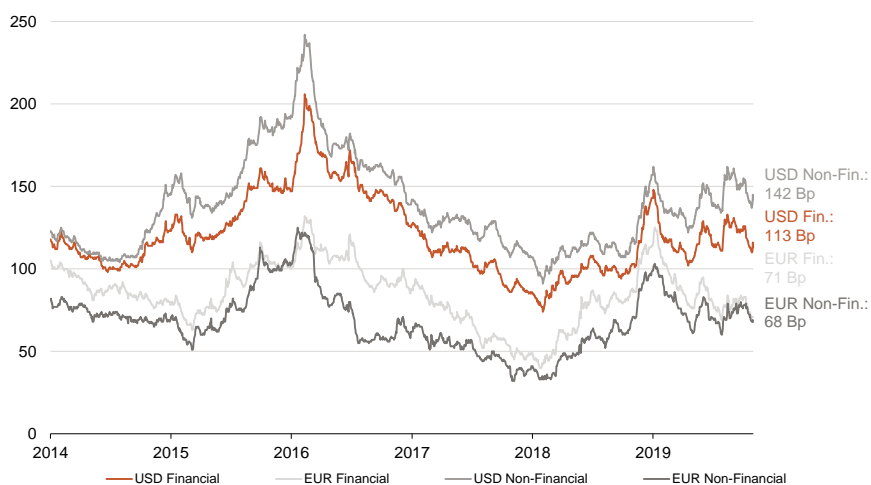


- The Fed recently lowered the key interest rate by a further 0.25% to an interest rate range of 1.50-1.75%. Following the announcement that no further rate cuts are planned for the time being, the market priced a further rate cut in 2019 with a probability of around 25%.
- The respective probability of an interest rate cut in the Eurozone or in the UK fell below 10% 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: 04/10/2019 - 01/11/2019



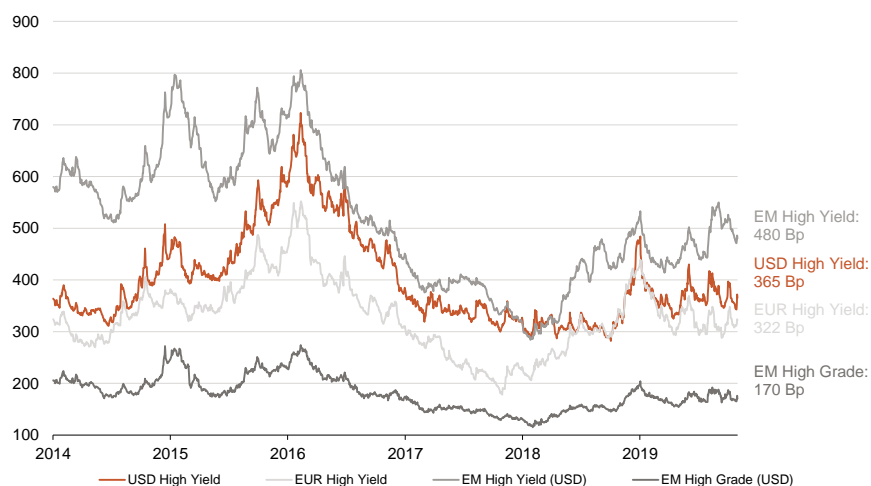
Credit Spreads Financial and Non-Financial Bonds



- Spreads on investment-grade corporate bonds have moved only slightly lower in the last two weeks. The biggest movement was seen in EUR non-financial bonds, with around five basis points.
- At the sector level, the telecommunications sector saw the largest spread narrowing in the last two weeks for EUR corporate bonds and the insurance sector for USD corporate bonds.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2014 - 04/01/2019

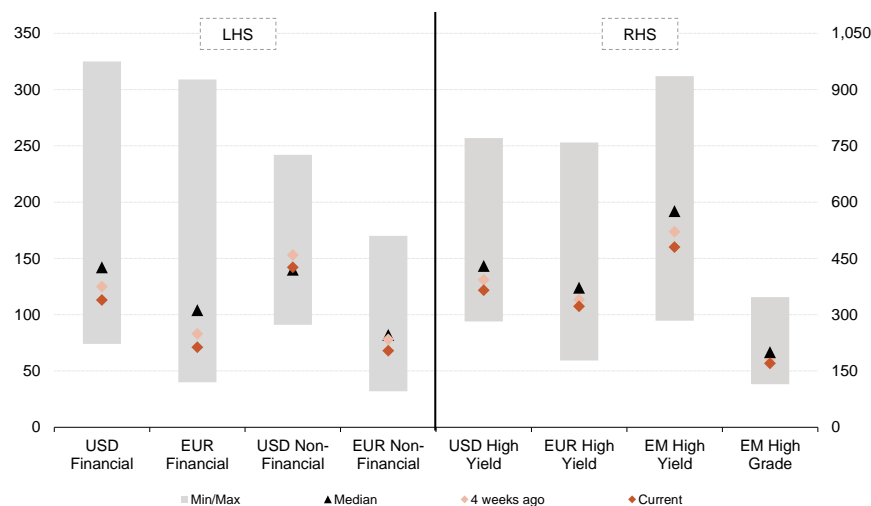
Credit Spreads High Yield and Emerging Markets Bonds



- The picture for high-yield bonds is somewhat more mixed. Emerging market bonds saw spreads narrow, while EUR high-yield bonds recorded relatively stable spreads. The driver for stable spreads on EUR high yield bonds was the divergence within the segment. CCC-rated bonds saw spreads widen, while BB bonds saw spreads narrow.

The extent of the risk associated with a corporate bond is shown by its asset swap spread (in basis points). This indicates the yield that the issuer must pay in addition to the swap rate for the respective term to offset its credit risk. See further explanations below.
Source: FactSet, Time period: 01/01/2014 - 01/11/2019

Historical Distribution of Credit Spreads (in bp)

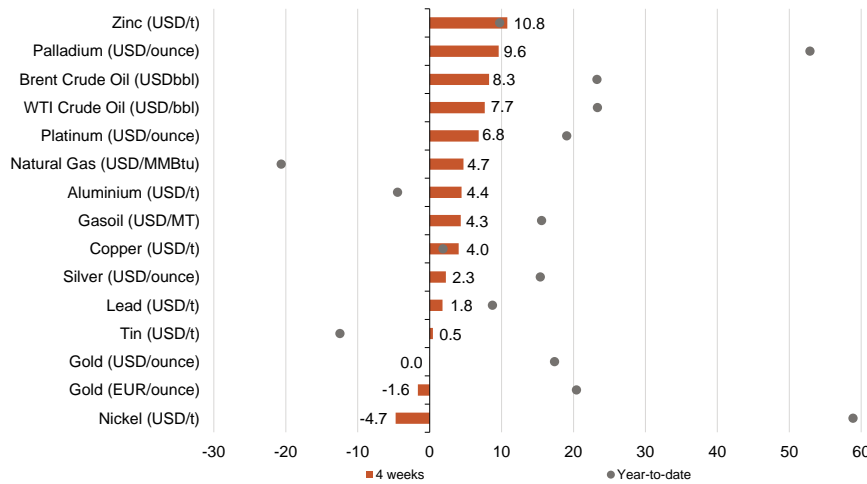


- Thanks to diminishing political uncertainty, risk premiums on corporate bonds fell sharply. In the last four weeks, only EUR high yield bonds did not experience any significant spread tightening, as the difficulties of individual companies led to rising spreads in the CCC rating area.

USD Financial = ICE BofAML US Financial; EUR Financial = ICE BofAML Euro Financial; USD Non-Financial = ICE BofAML US Non-Financial; EUR Non-Financial = ICE BofAML Euro Non-Financial; USD High Yield = ICE BofAML US High Yield; EM High Yield = ICE BofAML High Yield Emerging Markets Corporate Plus; EM High Grade = ICE BofAML High Grade Emerging Markets Corporate Plus. The EM indices shown here are hard currency bonds.
Source: FactSet, Time period: 01/11/2009 - 01/11/2019



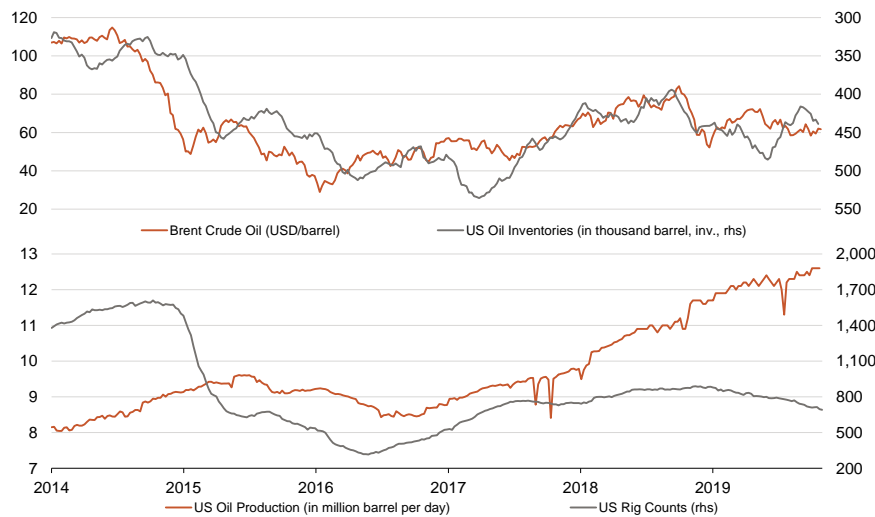
Commodities Performance



- Palladium has proven to be the most strongly performing precious metal over the past four weeks. Recently, palladium once again reached a new all-time high of over USD1,800 an ounce.
- Crude oil and zinc, in particular, also performed very well in the last four weeks.
- The price of gold remained unchanged, lagging behind with nickel, which still shows considerable performance since the beginning of the year.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2019 - 01/11/2019

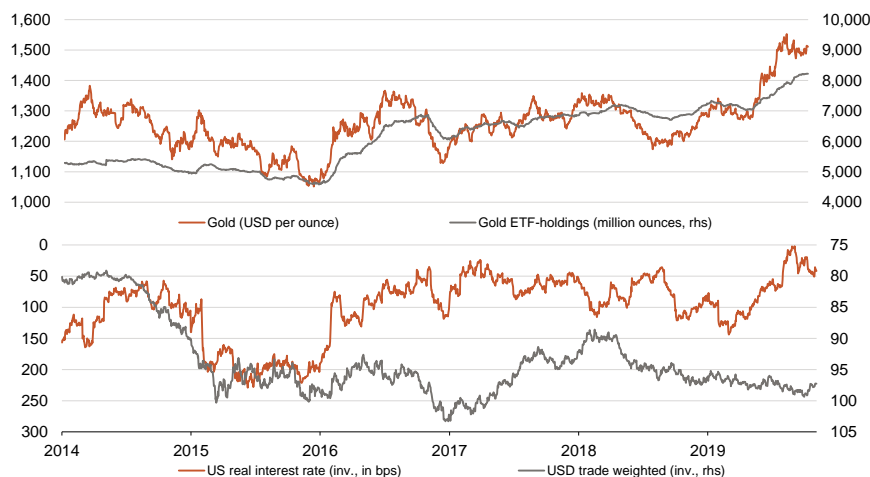
Crude Oil



- The price of crude oil has risen slightly in recent weeks. While OPEC wants to cut production, Russia and Brazil have increased production further. US oil inventories have fallen further, while the trend towards rising US oil production has lost momentum. Nevertheless, there is still a global oversupply, which could put pressure on oil prices.

Higher oil production and higher inventories tend to depress oil prices and vice versa. An increase in active oil rigs indicates a future increase in oil production.
Source: Bloomberg, Time period: 01/01/2014 - 01/11/2019

Gold



- The price of gold continues to fluctuate around USD1,500 per ounce. Rising ETF holdings, a rather weak USD and slightly lower real interest rates have a positive effect on the price.
- The increased risk appetite in the markets forms a counterweight that could dampen further price gains.

The US dollar and the real interest rate, i.e. adjusted for inflation, are among the fundamental price factors of the gold price. Rising real interest rates tend to depress the price of gold, while falling real interest rates have a supportive effect. The same applies to the US dollar. The development of gold ETF holdings reflects the demand for gold from financial investors.
Source: Bloomberg, Time period: 01/01/2014 - 01/11/2019

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Date: 04 November 2019

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