

Current market commentary

Stock markets have continued to rise despite ongoing mixed economic data and faltering trade negotiations between the US and China. Still, quite defensively positioned market participants buy shares after market setbacks in order to jump on the rally - thus feeding the rally. In addition, strong equity market performance is increasingly forcing hedge funds to reduce their short positions. A market-friendly outcome of the election in the UK (surveys point to an election victory for Boris Johnson) should lead to an orderly Brexit on 31/01/2020 and clear the way for a comprehensive fiscal package. This, or an initial agreement between the US and China in the trade dispute, would boost equities once again in the short term. However, even with a significant recovery in economic data, the situation could narrow afterwards, as the stock market is already pricing in a noticeable economic recovery. Valuations are now quite ambitious and the economic recovery is unlikely to be very dynamic.

Short-term outlook

The political uncertainties in Europe could be further reduced following the UK's General Election on 12 December and the resulting decision on Brexit. On the other side of the Atlantic, further progress of the "Phase 1" deal in the US-China trade dispute will be of central importance. If this is not decided in time, the next round of US tariffs against China should start on 15 December. On the monetary side, the Fed will meet on 11 December and the European Central Bank on 12 December. The market does not expect either of them to cut interest rates any further in 2019.

This week, the market is likely to focus on the US Purchasing Managers' Index for Industry (02/12/19, ISM), as well as the U.S. labour market data (06/12/19) and Germany's October industrial production data. On 10 December, the ZEW Economic Survey and October industrial production data from several European countries will be published.

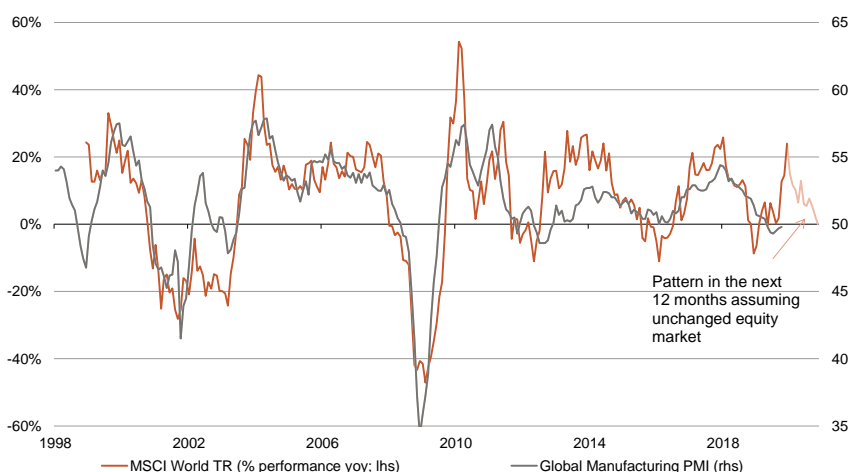
The bi-weekly *Monitor* gives you a structured overview of the current capital market environment and highlights important developments:

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

In contrast to the trade dispute, the state of Brexit could soon be resolved.

No monetary policy impulses are expected from the Fed or the ECB in December.

Stock market has largely priced in an economic recovery



- Measured by the purchasing manager, the decline in global industry has already slowed since July. The next release at the beginning of December could signal a bottoming out of activity with a value above 50. However, the equity market has already largely priced this in and a recovery.
- If the stabilisation and recovery of economic growth that we expect comes about, the further return potential will appear limited. A repetition of the strong development of 2019 is unlikely.

Source: Bloomberg, Time period: 30/11/1998 - 30/11/2020



Multi-Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (01/11/19 - 29/11/19)	YTD (31/12/18 - 29/11/19)	29/11/18	29/11/17	29/11/16	29/11/15	28/11/14
			29/11/19	29/11/18	29/11/17	29/11/16	29/11/15
MSCI World	3.3	28.9	18.6	4.6	10.1	2.7	16.9
Global Convertibles	2.7	18.6	14.4	3.7	5.4	3.3	15.4
MSCI Frontier Markets	2.0	17.6	13.4	-7.5	17.6	-1.5	-2.4
USDEUR	1.3	4.1	3.4	4.0	-10.1	-0.5	17.5
Global Corporates	1.1	13.9	14.7	0.5	-3.2	3.1	12.9
Brent	0.9	27.6	13.8	6.3	12.6	-13.5	-36.1
MSCI Emerging Markets	0.5	14.6	10.4	-6.7	21.9	6.1	-1.2
Global Treasuries	0.1	9.0	11.1	1.6	-5.5	3.6	12.3
Eonia	0.0	-0.4	-0.4	-0.4	-0.4	-0.3	-0.1
REITs	-0.3	27.6	18.9	2.6	-1.7	-1.3	15.5
Gold	-2.7	18.0	22.8	-0.8	-2.9	11.8	6.5
Industrial Metals	-4.7	7.9	2.6	-5.2	2.5	29.0	-20.5

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.

- With the exception of industrial metals, risky assets rose in November. Developed equities gained more than 3%, followed by convertible bonds.
- Many investors are still cautiously positioned and are now jumping on the stock market rally.
- The only asset class that has suffered a loss this year to date is cash.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 28/11/2014 - 29/11/2019

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (01/11/19 - 29/11/19)	YTD (31/12/18 - 29/11/19)	29/11/18	29/11/17	29/11/16	29/11/15	28/11/14
			29/11/19	29/11/18	29/11/17	29/11/16	29/11/15
S&P 500	4.0	32.7	20.9	10.8	9.0	7.6	21.1
Russell 2000	3.7	26.8	11.6	4.4	5.5	11.9	21.9
Stoxx Europe Small 200	2.9	25.2	18.2	-5.6	21.6	-6.6	20.0
Stoxx Europe Cyclical	2.7	23.9	16.1	-10.0	20.6	-5.4	9.4
Euro Stoxx 50	2.2	26.7	20.0	-9.2	21.1	-10.3	10.0
Topix	2.2	22.0	12.5	-2.5	12.1	2.4	30.6
MSCI UK	2.2	19.4	13.3	-1.5	8.8	-8.4	10.5
DAX	2.1	25.4	17.2	-13.5	23.0	-6.0	13.2
Stoxx Europe 50	2.0	25.1	18.0	-4.7	16.5	-11.1	10.2
Stoxx Europe Defensives	1.7	20.7	15.4	3.5	12.3	-13.0	11.8
MSCI EM Asia	1.3	15.7	11.5	-8.5	25.6	5.2	5.8
MSCI EM Eastern Europe	-1.7	30.1	24.5	6.0	16.8	10.7	-0.3

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.

- After the underperformance in October, US equities again performed better than all other equity regions considered in November.
- Small caps and cyclical stocks performed significantly better than defensive stocks. The stabilisation in the global Purchasing Manager Index for industry in recent months has raised hopes that the economy will soon recover.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 28/11/2014 - 29/11/2019

Fixed Income

	4-week & YTD		12-month periods over that last 5 years				
	4W (01/11/19 - 29/11/19)	YTD (31/12/18 - 29/11/19)	29/11/18	29/11/17	29/11/16	29/11/15	28/11/14
			29/11/19	29/11/18	29/11/17	29/11/16	29/11/15
USD Corporates	1.7	18.0	18.9	1.2	-5.4	4.5	17.3
USD High Yield	1.6	16.9	13.7	5.1	-3.0	10.3	12.7
Treasuries	1.2	11.4	13.5	2.8	-8.8	1.1	19.0
EUR High Yield	1.0	8.5	7.9	-3.0	6.7	3.9	1.6
Gilts	0.9	14.7	15.8	-0.4	-1.7	-11.1	17.1
EM Local Currency Bonds	0.3	10.4	11.2	0.4	2.2	2.9	3.9
EUR Financials	-0.2	6.1	6.2	-1.8	4.1	2.5	1.3
Bunds	-0.2	4.4	5.1	1.4	-1.0	2.8	2.9
EUR Non-Financials	-0.3	6.5	6.7	-1.5	2.6	3.8	0.2
EUR Inflation Linkers	-0.4	6.8	7.1	-2.0	4.0	-0.7	2.6
EM Hard Currency Bonds	-0.7	7.5	8.7	-6.9	7.6	4.8	0.6
BTPs	-1.7	11.0	14.4	-5.6	3.6	-1.6	6.8

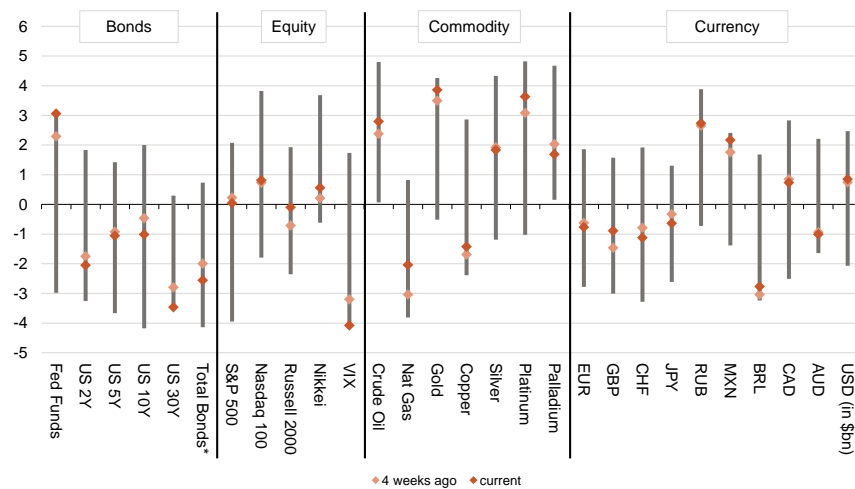
Bunds: Barclays Germany Govt All Bonds TR; BTPs: Barclays Italy Govt All Bonds TR; Treasuries: Barclays US Treasury TR;
 Gilts: Barcl. UK Govt All Bonds TR; EUR Inflation Linkers: Barcl. Euro Govt Inflation-Linked Bond All Maturities TR; EUR Financials: iBoxx Euro Fin. Overall TR;
 EUR Non-Financials: 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 performed best thanks to the recent USD appreciation.
- High yield bonds benefitted from rising risk appetite and higher oil prices. Many companies within the USD high yield index are in the oil sector.
- Italian government bonds have lost around 2% over the last four weeks.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 28/11/2014 - 29/11/2019



Non-Commercial Positioning

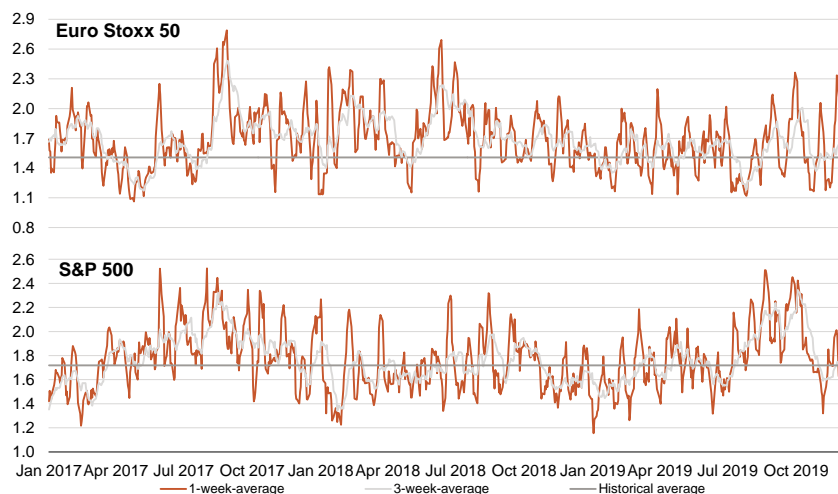


- Speculative investors are still net short in GBP.
- Should the UK's General Election lead to a Conservative majority, as polls currently suggest, the outcome of Brexit should be decided at the end of January. This should lead to a further reduction in the GBP shorts.

The Commodity Futures Trading Commission (CFTC) publishes the Commitments of Traders Reports every Friday. A distinction is made between "non-commercial" and "commercial traders" positions. Non-commercial traders enter into purely speculative positions. Commercial traders hedge underlying transactions with futures or options. The chart shows the historical, normalized distribution in standard deviations and focuses on the net future position (long positions minus short positions) of non-commercial traders, thus indicating how speculative investors have positioned themselves.

*Duration weighted average bond position.
Source: Bloomberg, CFTC, Time period: 19/11/2009 - 19/11/2019

Put-Call Ratio

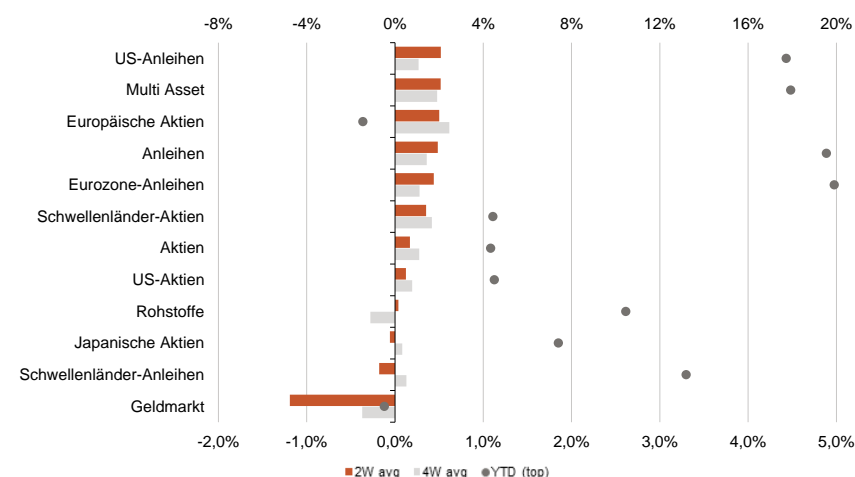


- The put-call ratio for Eurozone equities has recently risen to a multi-year high. After the strong rally, market participants seem to want to hedge their exposure, especially since put options are currently relatively cheap due to the low volatility.

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 - 29/11/2019

ETF Flows

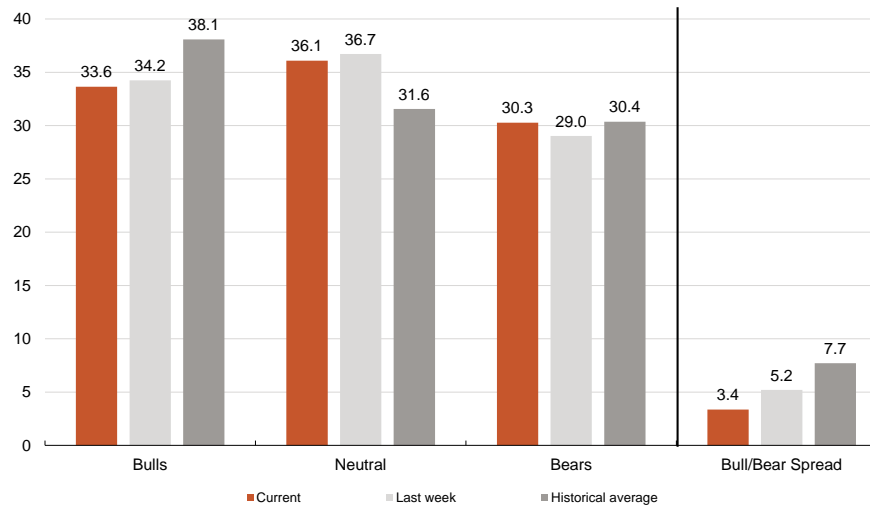


- The risk-on mood in the markets has recently been reflected in ETF flows. While money market ETFs recorded outflows, demand was particularly strong for US bonds, multi-asset and European equities.
- Since the beginning of the year, however, european equity ETFs have still seen the largest outflows; these ETFs have a catch-up potential should the good mood on the stock market continue.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2018 - 29/11/2019



AAII Sentiment Survey (Bulls vs Bears)

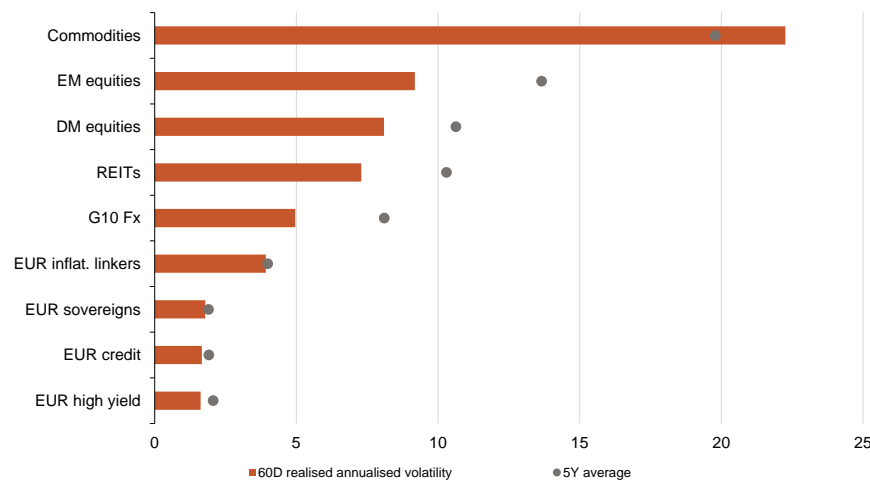


- After the strong performance on the US stock markets, bulls and bears are currently balancing each other out. However, the majority of US private investors are currently unsure in which direction the market will move in the future. Depending on the news flow, the mood could quickly change in one direction or the other.

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, AII, Time period: 23/07/87 - 28/11/19

Realised Volatilities

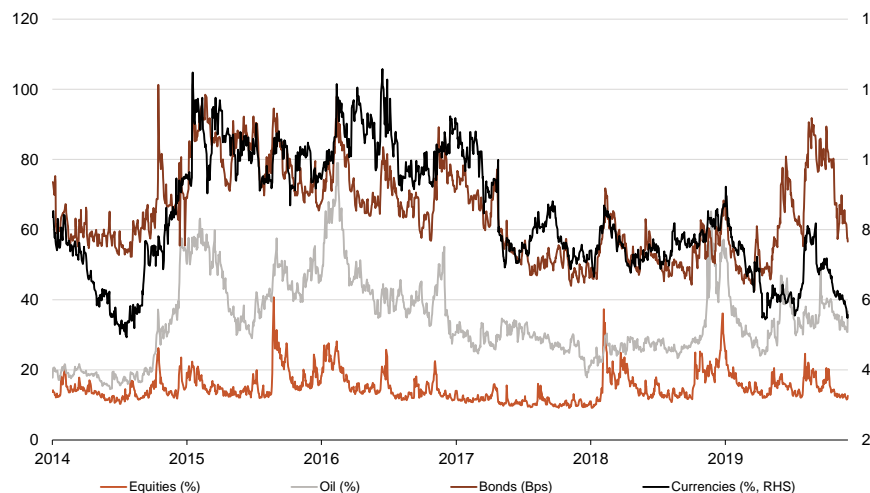


- The realised 60-day volatility has decreased in all asset classes compared to two weeks ago. The stabilisation of the economy has brought some calm to the capital markets.
- Only commodities currently show realised volatility above their 5-year average.
- The volatility in emerging market equities has approached the levels of equities in developed markets again.

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: 23/07/2014 - 29/11/2019

Implied Volatilities



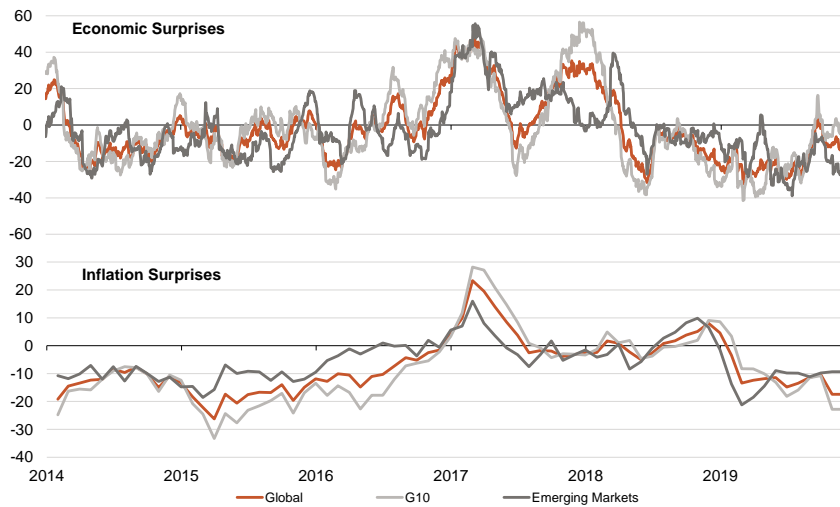
- Implied volatilities have also fallen across the board.
- The VIX recently hit a new low for the year. Coupled with the still extreme short positioning of speculative investors, this is typically a warning signal for an increased vulnerability of the stock markets, so caution remains the order of the day.

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 - 29/11/2019



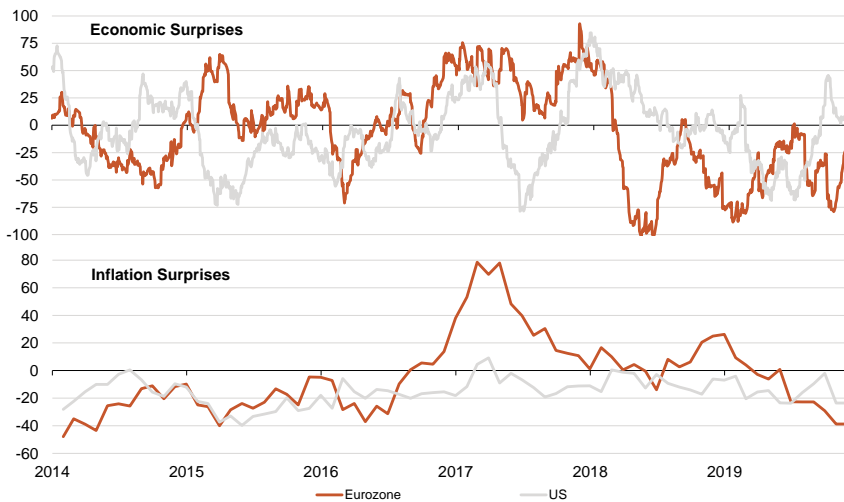
Global



- Thanks to solid economic data from the Eurozone and the US, the economic surprises of the industrial nations (G10) have returned to positive territory.
- Emerging markets have not yet seen a majority of positive surprises from the economic data. In China, industrial profits fell by 9.9% year-on-year in October, while in Russia, retail sales and industrial production surprised positively in October.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 29/11/2019

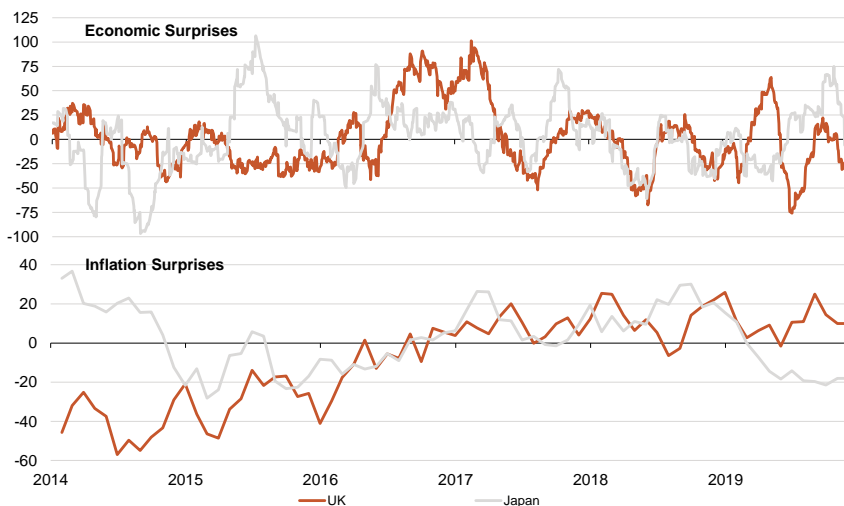
Eurozone and US



- The index for the economic surprises in the US has recently turned back into positive territory. The Q3 economic growth (QoQ), the economic sentiment (University of Michigan) and the Markit Purchasing Managers' Index have surprised upwards, while consumer confidence has slightly disappointed.
- In the eurozone, the Ifo Business Climate Index, GfK Consumer Confidence in Germany and the Purchasing Managers' Index for industry in France and Germany beat expectations.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 29/11/2019

UK and Japan

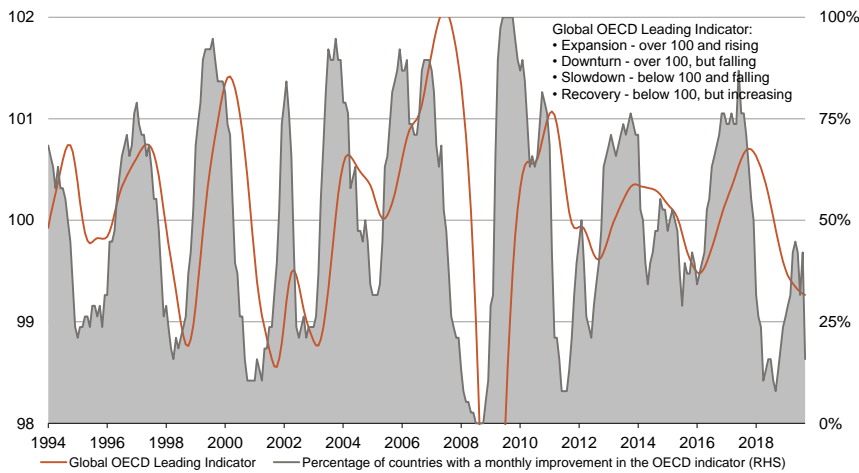


- The economic surprises in both the UK and Japan are on their way south. In Japan, retail sales recorded the sharpest decline in 4 years after the VAT increase. In the UK, the Purchasing Managers' Indices surprised negatively.

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 - 29/11/2019



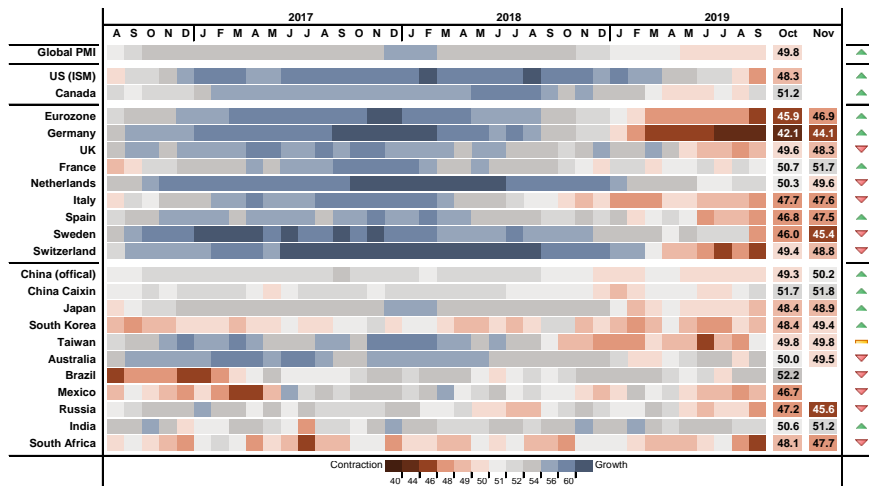
OECD Leading Indicator



- The OECD leading indicators from September continue to show a gloomy economic picture. The proportion of countries with a monthly improvement has fallen to below 20%. According to OECD data, a transition from the economic slowdown to the recovery could still take some time.

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 - 30/09/2019

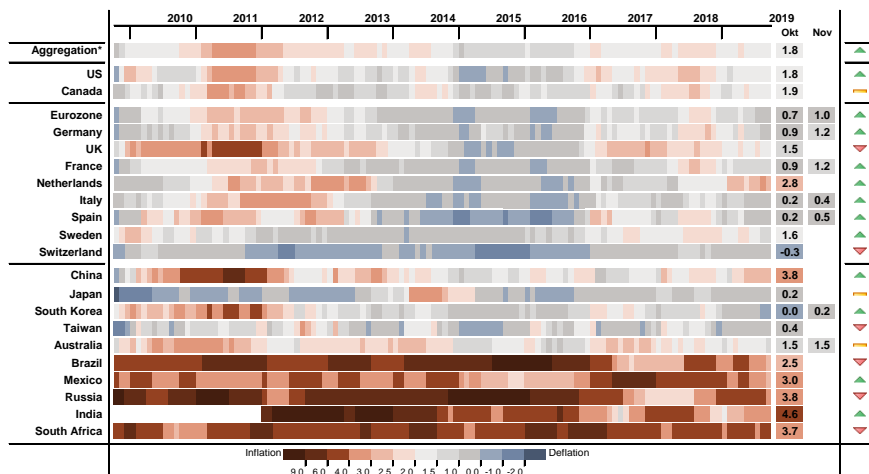
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The PMI in the eurozone is on an upward trend and reached 46.9 in November. Both France and Germany saw an improvement. The latest figures were also better in China. France and China are in the growth zone with a value of over 50.

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: 31/08/2016 - 30/11/2019

Headline Inflation

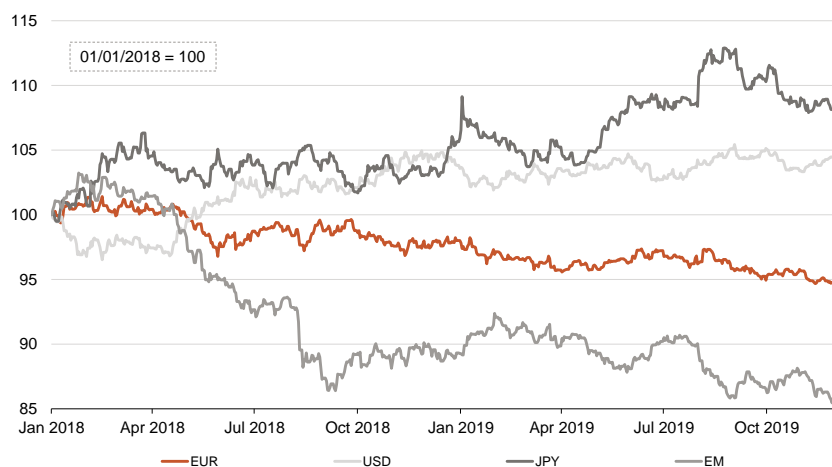


- Despite the declining inflation in Europe, global inflation rose slightly to 1.8% in October.
- In November, inflation in both Germany and France rose to 1.2%. In the case of Germany, this corresponds to a 5-month high. Inflation in the eurozone reached 1.0%.

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: 30/11/2009 - 30/11/2019



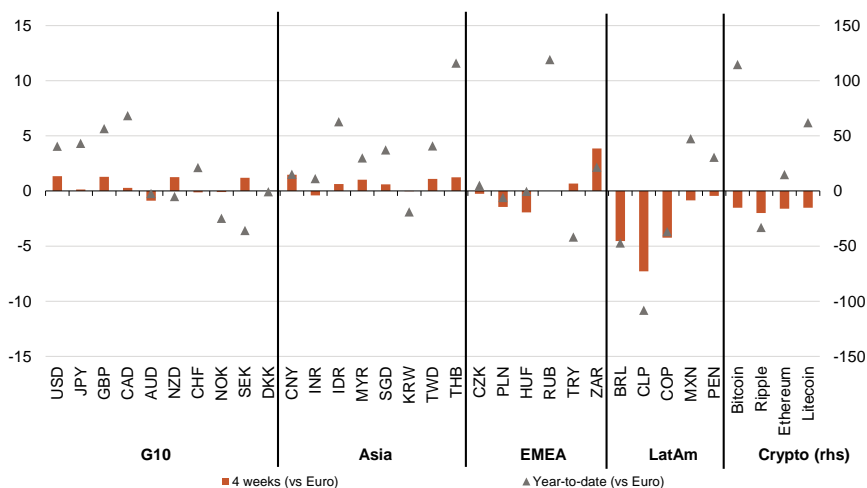
Trade-Weighted Currency Development



- In recent weeks, the US dollar has made further gains on a trade-weighted basis. This is surprising given the stabilisation of the global economy. The Japanese yen on the other hand, which is also a safe haven, fell.
- Emerging market currencies have still not found their bottom. Domestic political tensions, particularly in Latin America, are weighing on confidence in the currencies of several countries.

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 - 29/11/2019

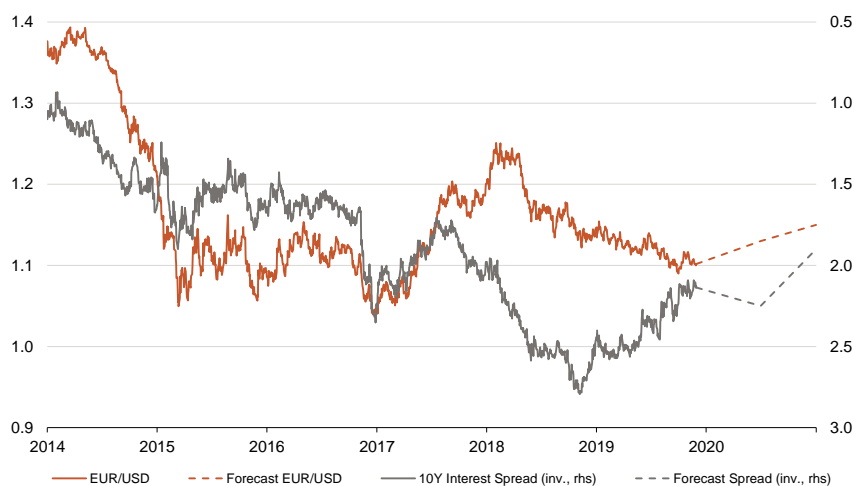
Currency Moves vs Euro



- In the last 4 weeks, the euro has fallen slightly against many of the G10 currencies. After taking office at the beginning of the month, Christine Lagarde seems to continue the expansionary course of her predecessor. The euro thus remains under pressure.
- The political instability in parts of Latin America seems to be spilling over into Brazil. Despite double intervention by the Brazilian central bank in the form of USD sales, the real lost almost 5% against the euro in the last four weeks.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2018 - 29/11/2019

EUR/USD exchange rate and interest rate differential



- The EUR/USD currency pair has now settled slightly above 1.10. The current news situation does not indicate any major movements.
- No stronger upward trend is to be expected for the euro for the time being, as the ECB's expansionary policy is likely to keep the exchange rate under pressure.

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 (01/11/19 - 29/11/19)	YTD (31/12/18 - 29/11/19)	29/11/18	29/11/17	29/11/16	29/11/15	28/11/14
Information Technology	4.5	35.4	27.9	-2.2	27.0	-3.2	22.0
Health Care	3.2	29.0	21.9	4.9	8.1	-15.6	14.0
Industrials	3.1	33.2	24.6	-7.4	21.3	-0.4	15.3
Growth	2.7	30.4	23.2	-3.6	16.6	-10.1	19.0
Finance	1.8	18.1	9.2	-12.7	20.4	-11.3	8.7
Consumer Staples	1.7	23.9	17.0	-3.3	13.0	-9.0	24.4
Consumer Discretionary	1.7	30.3	22.2	-7.6	15.4	-9.7	17.0
Materials	1.6	22.4	18.0	-7.4	19.4	14.0	-2.5
Value	1.2	16.6	9.7	-5.9	16.6	-6.3	5.3
Telecommunications	0.3	6.6	1.5	-4.2	7.6	-24.1	16.6
Utilities	0.0	25.1	25.2	-1.3	19.3	-12.9	1.0
Energy	-0.6	6.8	1.9	6.3	18.0	3.4	1.0

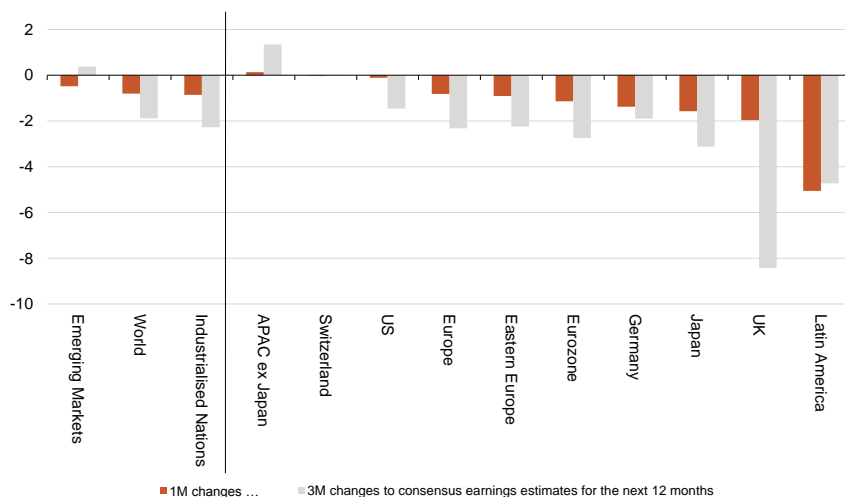
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Staples: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR; Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech. NR; Materials: MSCI Europe Materials NR; Telecommunications: MSCI Europe Telecommunication Services NR; Utilities: MSCI Europe Utilities NR; Value: MSCI Europe Value NR; Growth: MSCI Europe Growth NR.

- Defensive sectors such as utilities and telecommunications have recently been left behind in Europe. The dwindling political risks (Brexit, US-China trade dispute) have led investors to invest more in cyclical equities.
- Information technology and industrials outperformed.

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

Source: Bloomberg, Time period: 28/11/2014 - 29/11/2019

Changes in Consensus Earnings Estimates



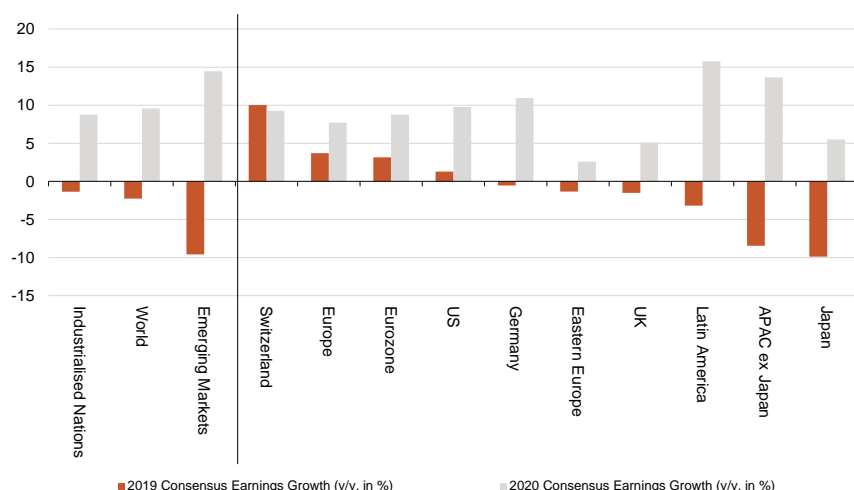
- Over the last three months, the UK and Latin America have seen the biggest downward revisions in their earnings estimates. However, the momentum in the UK has recently slowed and should continue to improve if there is a soft Brexit and fiscal stimulus.
- Positive earnings revisions over the last three months have only occurred in Asia Pacific ex Japan.

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 29/11/2019

Earnings Growth



- Even though analysts have revised their earnings estimates for 2020 further downwards in recent weeks, consensus expectations are still far too optimistic.
- In particular, we do not anticipate any margin widening and consider a global earnings growth rate of 4-7% to be realistic.

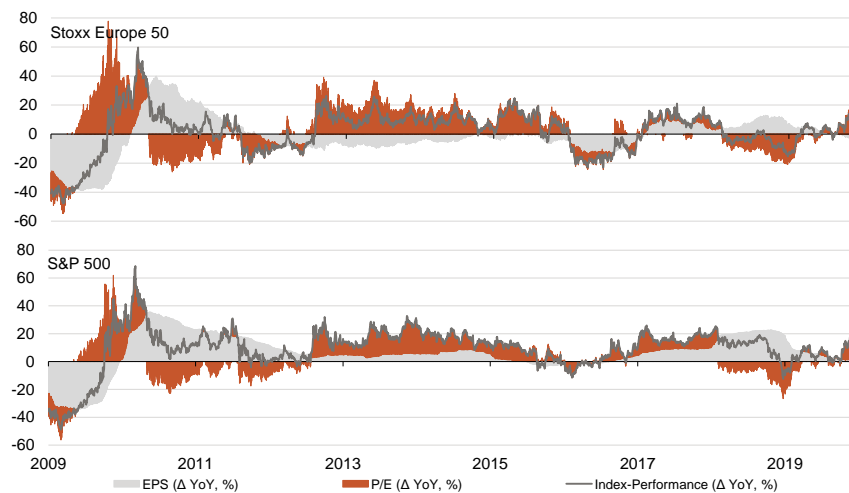
Calendar year earnings growth expected to the consensus for selected equity regions, compared to the previous year and in percent. The earnings estimates of the individual companies are aggregated using the index weights (bottom-up).

APAC ex Japan = Asia Pacific ex Japan

Source: FactSet, as of 29/11/2019



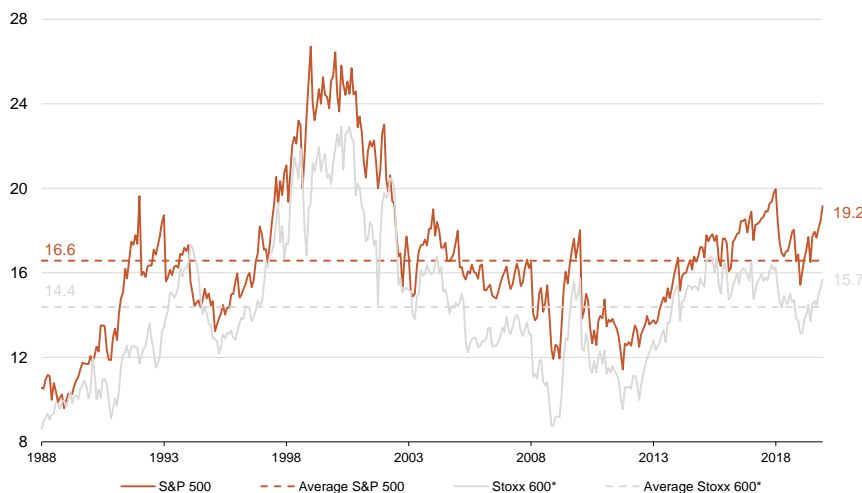
Contribution Analysis



- The contribution analysis shows that the stock markets have been driven by a P/E expansion this year. Profits in the US stagnated and declined in Europe.
- On the one hand, P/E ratios expanded so strongly because the recession feared at the end of 2018 was thought to be avoided. On the other hand, bond yields fell sharply this year, leading to lower discount factors and thus higher 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 - 29/11/2019

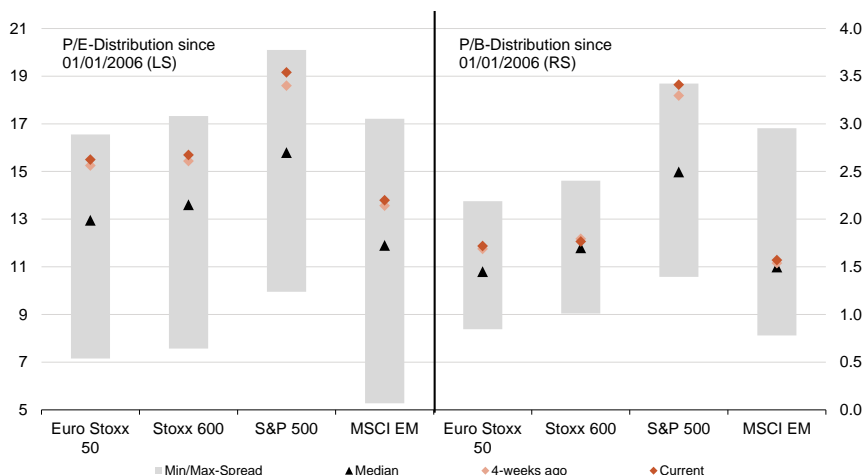
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- US equities are now almost as expensive as they were at the end of 2017, when the US tax reform became more concrete and the market anticipated analysts' positive earnings revisions. This time, the market is hoping for a de-escalation in the trade dispute and economic stabilisation.
- If these positive impulses fail to materialise, which our economists do not expect, the market will be susceptible to a stronger setback.

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 - 29/11/2019

Historical Distribution: Price/Earnings and Price/Book Ratio

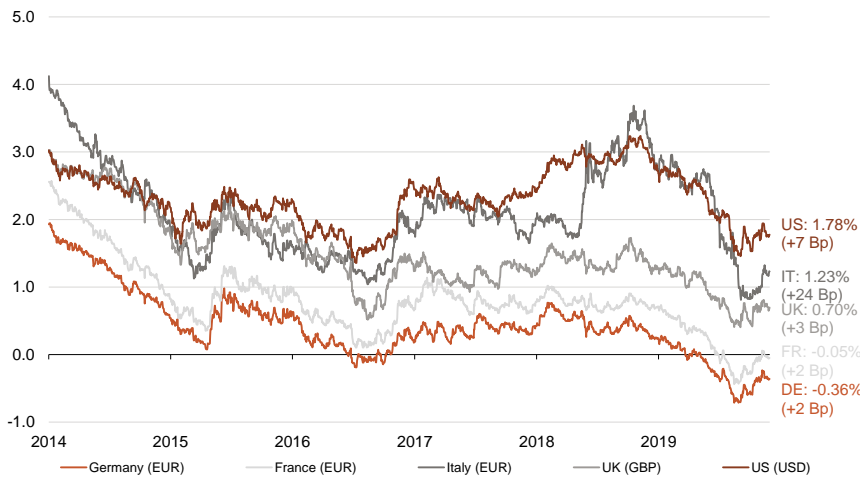


- On a P/B basis, US equities are now trading at their highest level since at least 2006, while the other regions considered here are trading close to their historical median.
- Meanwhile on P/E basis, all regions are valued expensively compared to their own history.

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 - 29/11/2019



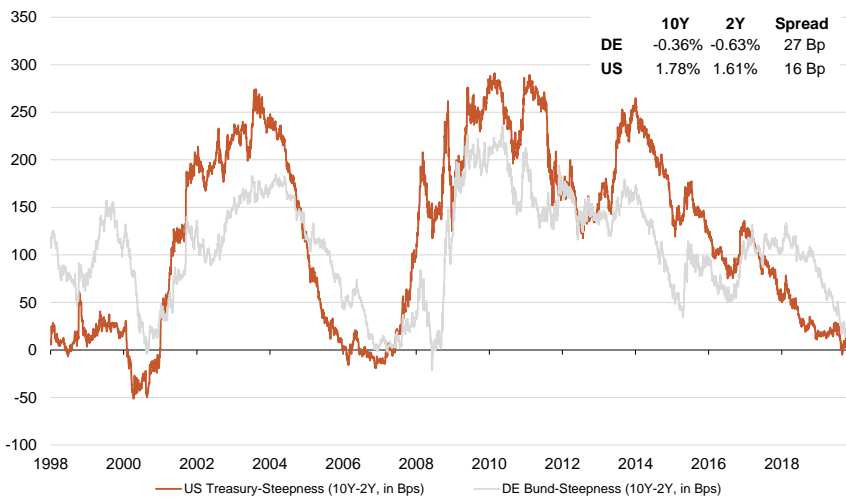
10-Year Government Bond Yields



- The latest rise in yields on safe government bonds has recently taken a breather. Economic data seems to be improving slowly, but there has been little progress in the trade dispute and Brexit.
- Only Italian government bonds recently saw significantly rising yields, as the disappointing results of regional elections for the governing coalition weighed on investor sentiment.

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 - 29/11/2019

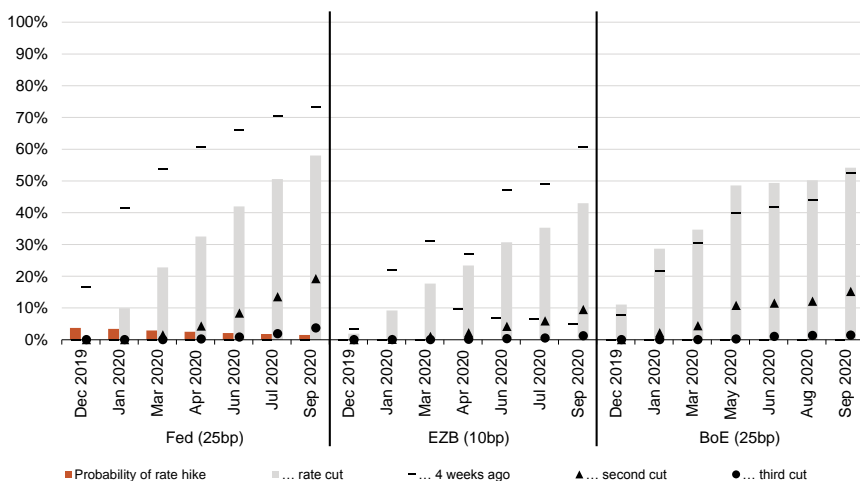
Yield curve steepness (10Y - 2Y)



- The steepness of the US yield curve has recently declined again. Demand for 10-year US government bonds has risen again, as progress in the "Phase 1" deal has been limited so far and part of the market consider a deal in 2019 to be unlikely. The passing of laws to support demonstrators in Hong Kong has not helped.

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 - 29/11/2019

Implicit Probabilities for Changes in Key Interest Rates

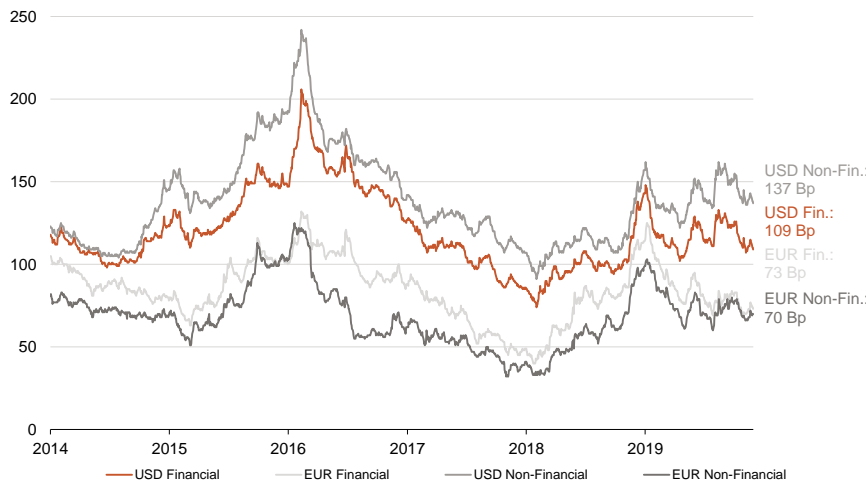


- In the eurozone and the US, the likelihood of a further rate cut until September 2020 has fallen further. In fact, the market almost completely rules out a further rate cut in 2019.
- In the UK, the probability of a rate cut until September 2020 remains close to 50%. The ongoing Brexit uncertainty is weighing on the economy and could therefore make a rate cut necessary.

Derivatives on money market rates - such as the Fed funds futures - can be used to determine the probability of a change in the key interest rate priced by the market
Source: Bloomberg, Time period: 01/11/2019 - 29/11/2019



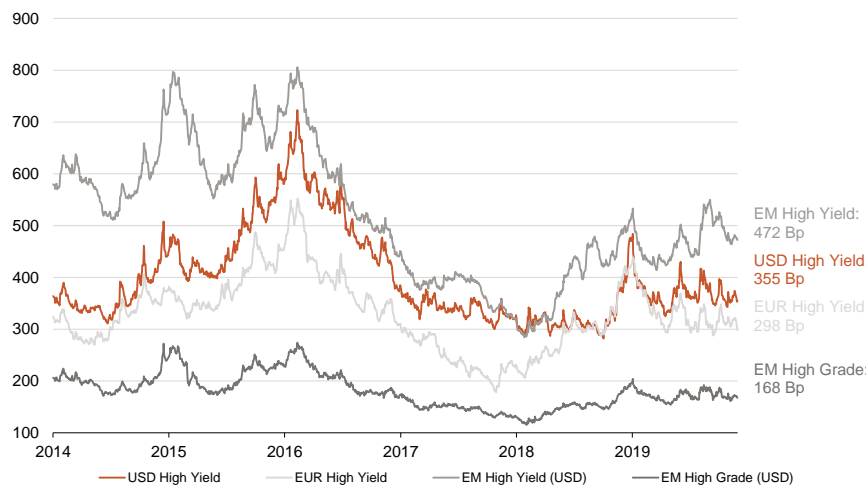
Credit Spreads Financial and Non-Financial Bonds



- Spreads on corporate bonds have tended to move sideways in the last two weeks. While risk premiums on investment grade bonds have fallen by around two basis point on the USD side, they remained almost stable on the EUR side.
- Within EUR corporate bonds, non-financial bonds in particular saw a widening of spreads, with the telecom and automotive sectors as the main sufferers.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2014 - 29/11/2019

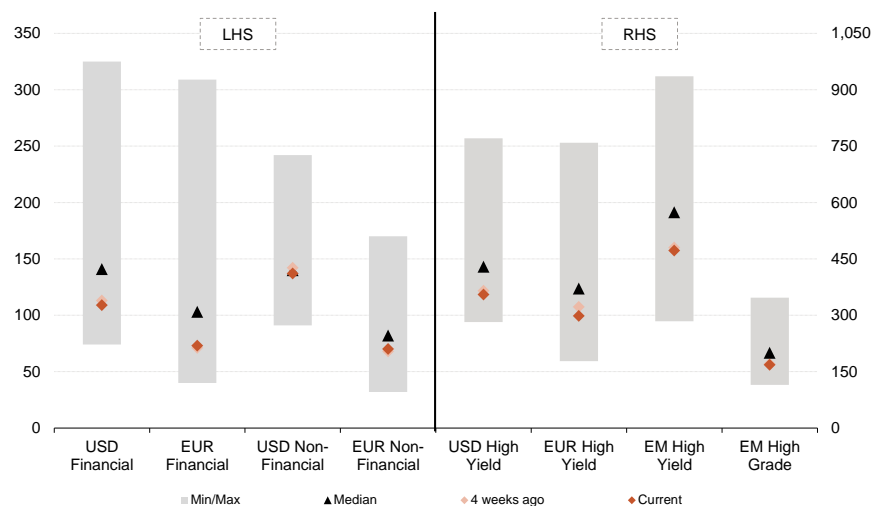
Credit Spreads High Yield and Emerging Markets Bonds



- In the area of high-yield bonds, spreads on USD and EUR bonds have recently narrowed significantly again. Emerging market high-yield bonds, on the other hand, saw rather stable spreads. USD high-yield bonds saw a decline of 7 basis points and EUR high-yield bonds of 21 basis points.
- The telecoms sector saw the largest increase in USD high yield bonds, while the aerospace sector experienced the greatest contraction.

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 - 29/11/2019

Historical Distribution of Credit Spreads (in bp)

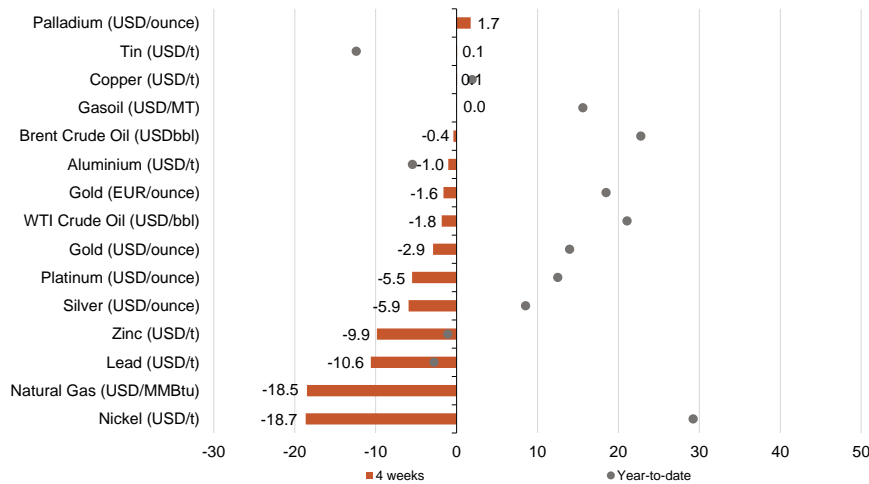


- In a four-week comparison, spreads in all segments hardly changed. Mixed signals from the trade dispute have brought the trend of falling spreads to a halt for the time being. Nevertheless, there is no segment that appears cheap compared to historical data.

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: 29/11/2009 - 29/11/2019



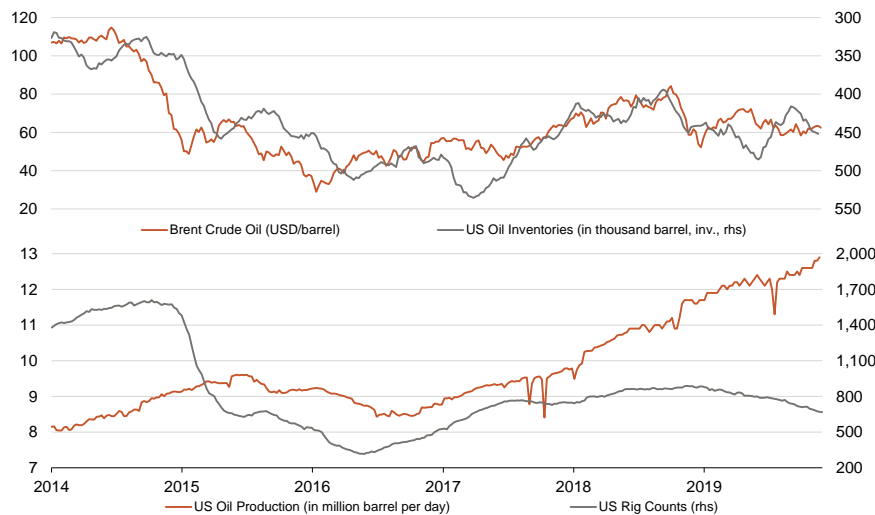
Commodities Performance



- Commodities have performed weakly over the past four weeks across the board. Demand concerns are weighing on industrial metals, while precious metals are suffering from rising bond yields.
- The only exception is palladium. The severe supply concerns for the coming year let the precious metal climb to new all-time highs.
- Nickel has lost almost 19% in the last 4 weeks and thus had to give up part of its considerable gains since the beginning of the year due to Indonesia's export ban.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2019 - 29/11/2019

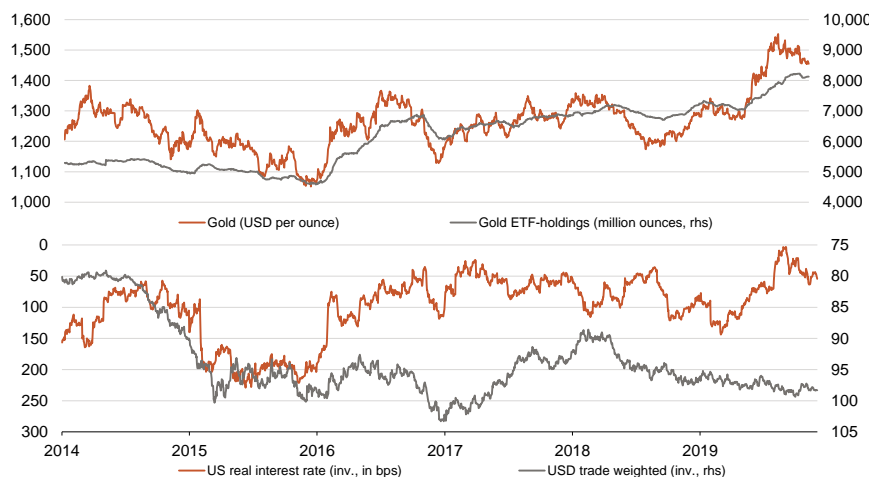
Crude Oil



- Most recently, the price of oil fluctuated around 62 USD per barrel. However, a clear trend is still not visible. The ups and downs are driven on the one hand by the constant transition between optimism and pessimism in the trade dispute and on the other by speculation about the level of possible OPEC production cuts this week.
- In the medium term, however, demand concerns and the production expansions of non-OPEC states will weigh on the price.

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 - 29/11/2019

Gold



- The price of gold is currently trading well below the USD 1,500 an ounce mark. The increased risk appetite of market participants is now having an impact on the precious metal. Strong outflows from ETFs recently put the price under pressure.
- Rising yields increase opportunity costs compared to bonds.

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 - 29/11/2019

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PUBLISHING INFORMATION

PUBLISHER

Prof Dr Bernd Meyer, CFA | Chief Strategist Wealth and Asset Management

EDITORS



Ulrich Urbahn, CFA | Head Multi Asset Strategy & Research

focuses on the multi-asset investment process, the development of investment ideas and capital market communications

+49 69 91 30 90-501 | ulrich.urbahn@berenberg.de



Karsten Schneider | Analyst Multi Asset Strategy & Research

analyses financial markets, supports the multi-asset investment process and participates in capital market publications

+49 69 91 30 90-502 | karsten.schneider@berenberg.de



Ludwig Kemper | Analyst Multi Asset Strategy & Research

analyses financial markets, supports the multi-asset investment process and participates in capital market publications

+49 69 91 30 90-224 | ludwig.kemper@berenberg.de



Richard Garland | UK Wealth Management

manages UK multi-asset discretionary strategies and portfolios

+44 20 3753 -3126 | richard.garland@berenberg.com

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Joh. Berenberg, Gossler & Co. KG
Neuer Jungfernstieg 20
20354 Hamburg (Germany)
Phone +49 40 350 60-0
Fax +49 40 350 60-900
www.berenberg.com
MultiAssetStrategyResearch@berenberg.de