

Current market commentary

The market-friendly result of the UK's election and the partial agreement of the trade dispute between China and the US have further boosted the stock market. In particular, UK mid-caps made strong gains and cyclical equities benefitted, as there were increasing signs of an economic recovery at the same time. Further, bond yields rose and weighed on safe havens such as government bonds, gold and REITs. There is a good chance that the positive mood in the stock market will continue for some time. Private investors have largely sold equities this year and are likely to invest more in equities again next year after the strong 2019 performance. In addition, the Stoxx 600 has broken out of its sideways range, which has lasted since 2000 – indicating a strong technical signal! We are, however, aware that the easing of trade tensions will not last forever and that share valuations are already pricing in many positive factors. We have therefore recently increased our equity exposure slightly, but have maintained our hedges.

Short-term outlook

Following Boris Johnson's election victory, the UK should leave the EU on 31 January 2020. Market participants are also eager to see whether and what fiscal measures will be taken to support the domestic economy.

In the days leading up to the end of the year, markets will concentrate on US Empire State Manufacturing conditions (16 December), housing data, November industrial production (17 December) and consumer confidence (University Michigan 20 December and Conference Board 31 December) in the US. In Europe, in addition to the labour market data (December 17) and the interest rate decision (December 19) in the UK, the Ifo Business Climate Index in Germany (December 18), the business climate in France and consumer confidence in Italy (December 20) are on the agenda.

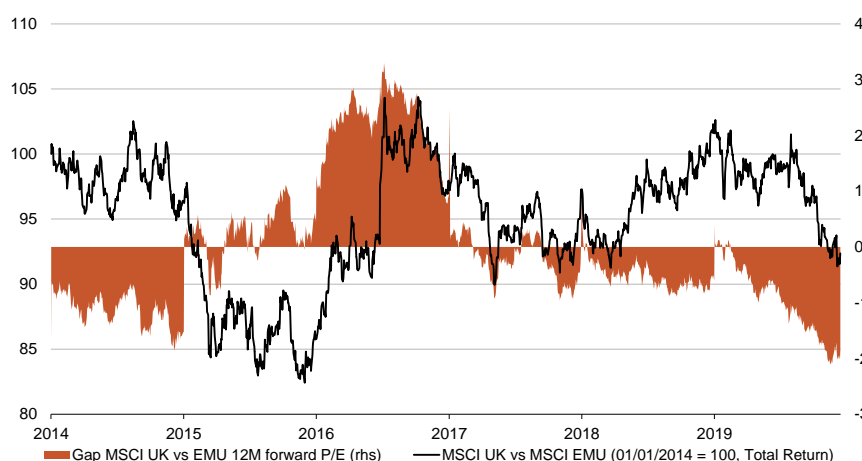
The bi-weekly *Monitor* gives you a structured overview of the current capital market environment and highlights important developments:

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

Developments in the UK will continue to be followed with excitement.

Markets will focus on business climate and consumer confidence.

UK equities with catch-up potential



- UK equities underperformed eurozone equities, particularly in 2019, due to the increased likelihood of a disorderly Brexit.
- UK equities are therefore cheaply valued. The low positioning of international investors in UK equities, which have increasingly retreated due to Brexit chaos, also has had a supportive effect.
- Foreign investors should now gradually return, driven also by the prospect of fiscal stimulus in the UK.

Source: Bloomberg, Time Period: 01/01/2014 - 13/12/2019



Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (15/11/19 - 13/12/19)	YTD (31/12/18 - 13/12/19)	13/12/18	13/12/17	13/12/16	13/12/15	12/12/14
			13/12/19	13/12/18	13/12/17	13/12/16	13/12/15
Brent	3.7	35.9	17.9	9.1	-3.9	24.3	-40.8
MSCI Emerging Markets	3.1	18.7	15.6	-6.5	17.8	20.1	-4.3
MSCI Frontier Markets	1.7	18.6	14.4	-9.4	17.5	6.8	-2.3
MSCI World	1.2	29.3	22.4	0.0	8.1	14.4	12.9
Global Convertibles	0.8	18.3	15.0	2.8	4.4	10.6	11.0
Global Corporates	0.3	13.5	13.4	0.3	-1.7	5.6	9.8
Eonia	0.0		-0.4	-0.4	-0.4	-0.3	-0.1
Gold	-0.1	18.7	21.4	3.0	-2.6	11.5	-0.3
Global Treasuries	-0.4	8.2	9.6	1.8	-3.7	4.5	9.5
Industrial Metals	-0.5	9.3	4.1	-4.6	1.2	32.4	-22.0
USDEUR	-0.6	3.1	2.1	4.1	-10.1	3.5	13.4
REITs	-3.1	22.7	14.6	1.0	-3.1	8.0	9.9

MSCI World: MSCI World Net Return; MSCI Emerging Markets: MSCI EM Net Return; MSCI Frontier Markets: MSCI Frontier Markets Net Return;
 REITs: MSCI World REITs Index; Global Treasuries: Bloomberg Barclays Global Agg Treasuries TR; Global Corporates: Bloomberg Barclays Global Aggregate Credit TR
 Global Convertibles: Bloomberg Barclays Global Convertibles Composite TR; Gold: Gold US Dollar Spot; Brent Crude: Bloomberg Brent Crude Subindex TR;
 Industrial Metals: Bloomberg Industrial Metals Subindex TR; Eonia: Eonia Capitalization Index; USDEUR: Price of 1 USD in EUR.

- Thanks to the market-friendly UK election outcome and the developments made regarding the trade dispute between the US and China, risky assets have developed significantly better than their safer counterparts.
- Brent oil also benefitted from the planned OPEC+ oil production cuts.
- Industrial metals, US-Dollar and REITs were the relative losers.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 12/12/2014 - 13/12/2019

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (15/11/19 - 13/12/19)	YTD (31/12/18 - 13/12/19)	13/12/18	13/12/17	13/12/16	13/12/15	12/12/14
			13/12/19	13/12/18	13/12/17	13/12/16	13/12/15
MSCI EM Asia	3.5	19.9	16.3	-8.0	22.9	15.3	1.1
MSCI UK	3.5	22.0	19.5	-6.3	6.3	5.1	6.8
Stoxx Europe Small 200	3.1	28.0	24.6	-9.1	18.4	1.7	17.4
Stoxx Europe Cyclical	2.2	26.6	22.9	-13.9	14.6	8.9	6.2
Russell 2000	2.2	26.8	18.5	-1.4	1.6	28.5	12.0
Topix	1.5	23.9	17.2	-5.9	10.5	10.2	25.3
S&P 500	1.2	32.8	24.6	5.1	8.0	19.4	16.3
MSCI EM Eastern Europe	1.2	33.9	28.4	5.6	3.0	44.2	0.1
Stoxx Europe 50	0.9	25.9	21.5	-7.7	11.1	2.2	7.2
Stoxx Europe Defensives	0.8	20.7	16.7	1.9	7.7	-1.6	9.2
Euro Stoxx 50	0.6	27.7	23.3	-10.8	13.4	4.1	7.0
DAX	0.3	25.8	21.6	-16.8	16.3	9.1	7.8

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.

- Small caps have recently developed significantly better than large caps both in the US and in Europe. In addition to positive seasonality, this performance was driven by increasing signs of a global economic recovery.
- As a result, cyclical equities performed significantly better than defensive equities.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 12/12/2014 - 13/12/2019

Fixed Income

	4-week & YTD		12-month periods over that last 5 years				
	4W (15/11/19 - 13/12/19)	YTD (31/12/18 - 13/12/19)	13/12/18	13/12/17	13/12/16	13/12/15	12/12/14
			13/12/19	13/12/18	13/12/17	13/12/16	13/12/15
Gilts	2.2	15.8	15.9	-1.1	-1.2	-8.2	12.6
EUR High Yield	1.2	9.1	8.8	-3.0	5.2	6.7	0.4
EM Hard Currency Bonds	1.0	8.6	8.6	-6.2	7.7	6.4	2.0
USD High Yield	0.7	17.2	13.5	4.5	-3.8	19.5	9.3
USD Corporates	0.6	17.5	17.2	0.9	-3.6	7.6	13.8
BTPs	0.4	11.5	12.9	-3.9	2.8	0.0	6.4
EUR Inflation Linkers	0.3	7.2	6.6	-1.9	3.7	1.6	2.2
EM Local Currency Bonds	0.3	10.8	11.5	0.5	1.1	11.2	0.5
EUR Financials	0.3	6.3	6.5	-2.2	4.4	2.9	0.8
EUR Non-Financials	0.0	6.6	6.8	-1.9	3.2	4.3	-0.6
Bunds	-0.4	3.9	4.1	1.3	0.6	2.2	1.6
Treasuries	-0.5	10.1	10.8	2.9	-6.9	3.2	14.9

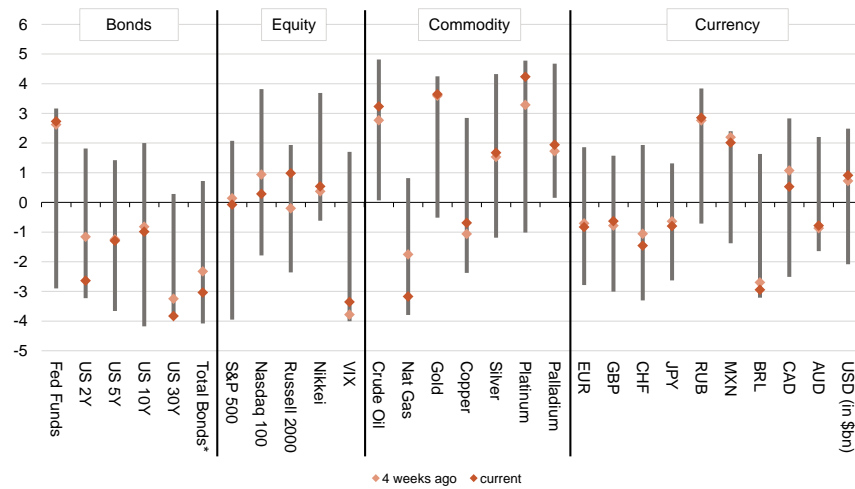
Bunds: Barclays Germany Govt All Bonds TR; BTPs: Barclays Italy Govt All Bonds TR; Treasuries: Barclays US Treasury TR;
 Gilts: Barcl. UK Govt All Bonds TR; EUR Inflation Linkers: Barcl. Euro Govt Inflation-Linked Bond All Maturities TR; EUR Financials: iBOXX Euro Fin. Overall TR;
 EUR Non-Financials: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

- Within the bond segment, short maturities and credit risk have recently been in demand.
- British government bonds and EUR-High-Yield bonds performed best, while safe havens such as German government bonds and US Treasuries declined. They suffered from rising bond yields after political uncertainty waned recently.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 12/12/2014 - 13/12/2019



Non-Commercial Positioning

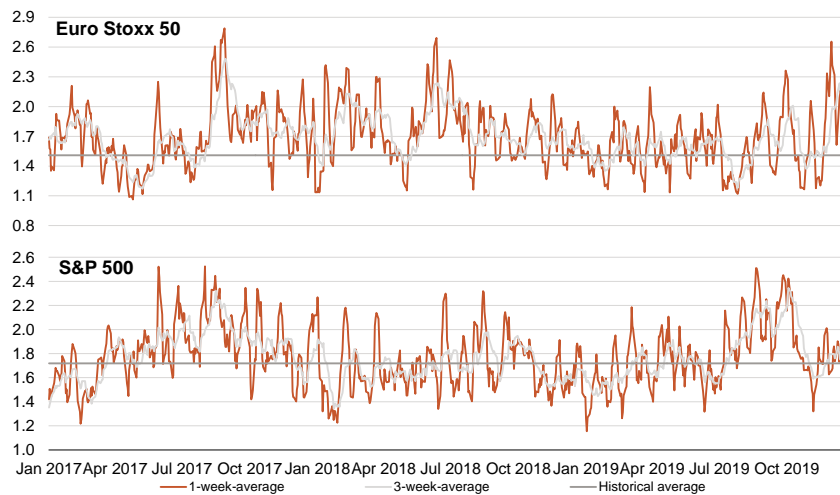


- Speculative investors continue to bet on rising bond yields, especially at the long end of the yield curve.
- Precious metals also continue to be preferred, while copper remains a popular short, even though its position has recently been slightly reduced.

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: 13/12/2009 - 13/12/2019

Put-Call Ratio

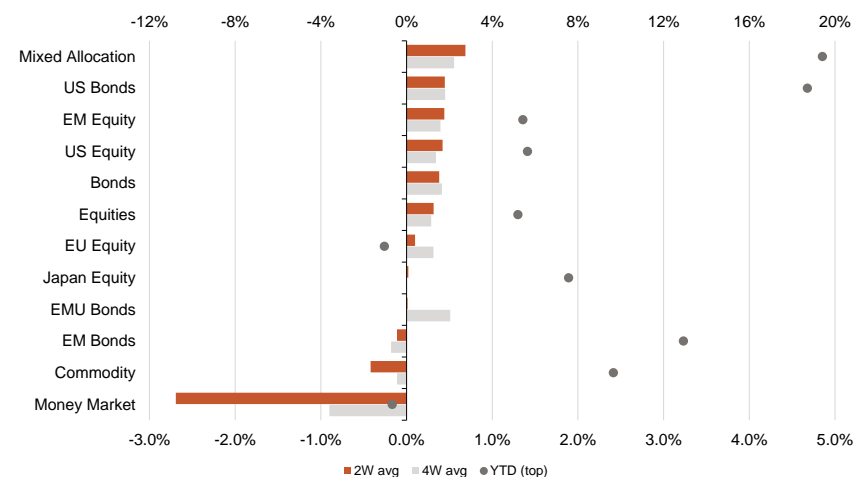


- In the aftermath of the British elections and the partial agreement in the trade dispute, the put call ratios have fallen back significantly. Investors have increasingly reduced hedging.
- Compared with the historical average, the levels are slightly below or around average.

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 - 13/12/2019

ETF Flows

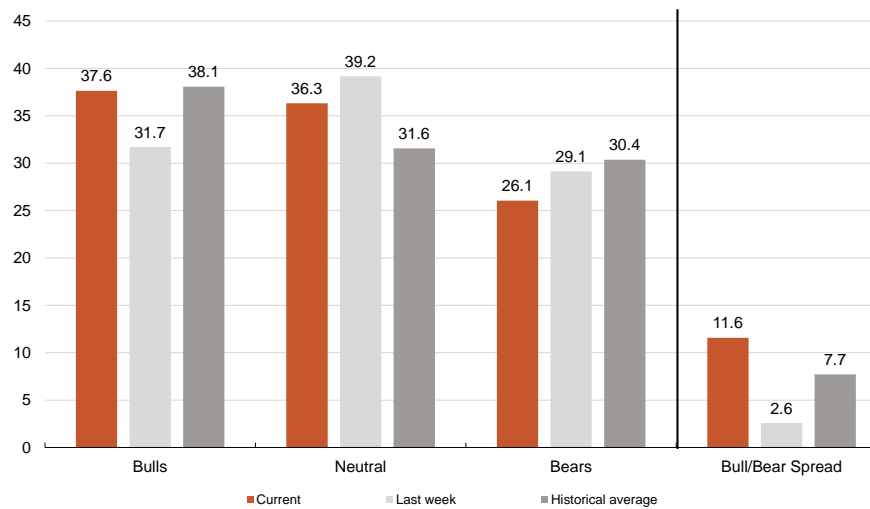


- Investors have most recently been demanding multi-asset ETFs, while money market products and commodities have struggled with outflows.
- Regarding regional variation within equities, emerging markets saw the largest inflows, followed by the US. Japan recorded outflows.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 31/12/2018 - 13/12/2019



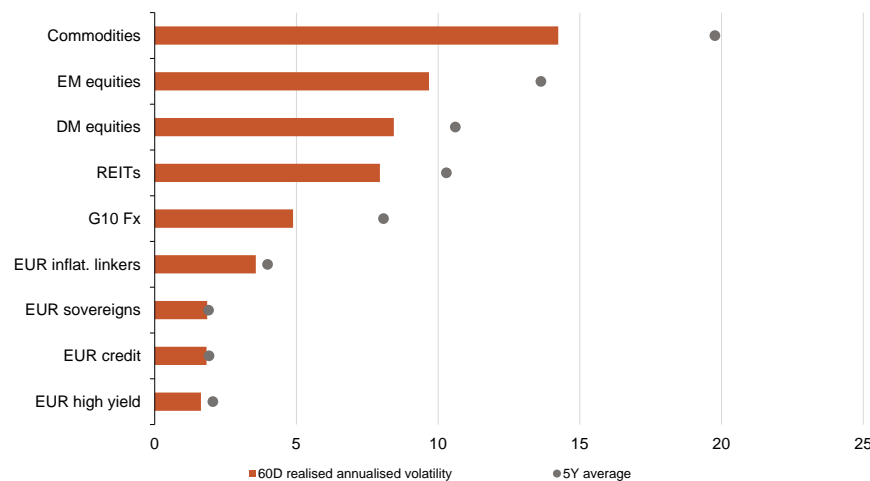
AAII Sentiment Survey (Bulls vs Bears)



- Despite the increased political risks in the US, the majority of US private investors were not pessimistic - the number of bears is below the historical average. Instead, the majority of investors are optimistic about the future, although many are still undecided on how to position themselves.

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 - 12/12/19

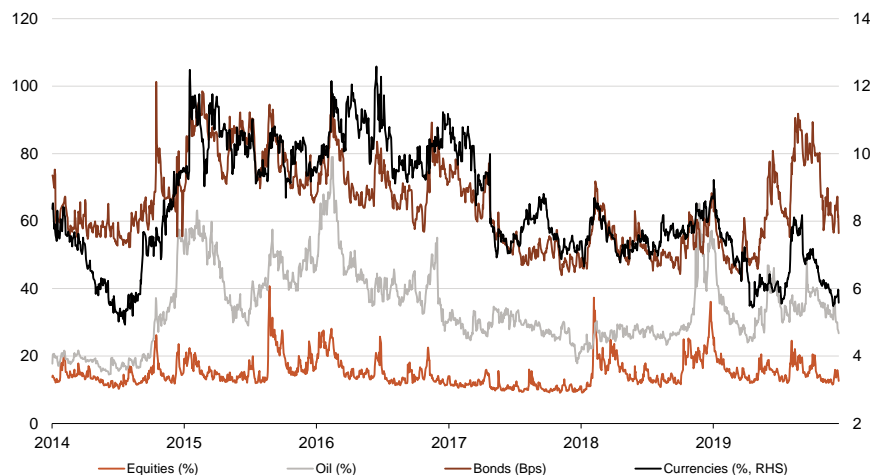
Realised Volatilities



- The realised volatility of commodities has recently declined significantly as the oil price shock following the drone attacks on Saudi refineries in September has now fallen out of the 60-day window. Nevertheless, commodities remain by far the most volatile asset class.
- The realised volatility of the remaining asset classes is almost unchanged compared to two weeks ago. As a result, the volatilities in all asset classes are now trading below their 5-year average.

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: 13/12/2014 - 13/12/2019

Implied Volatilities

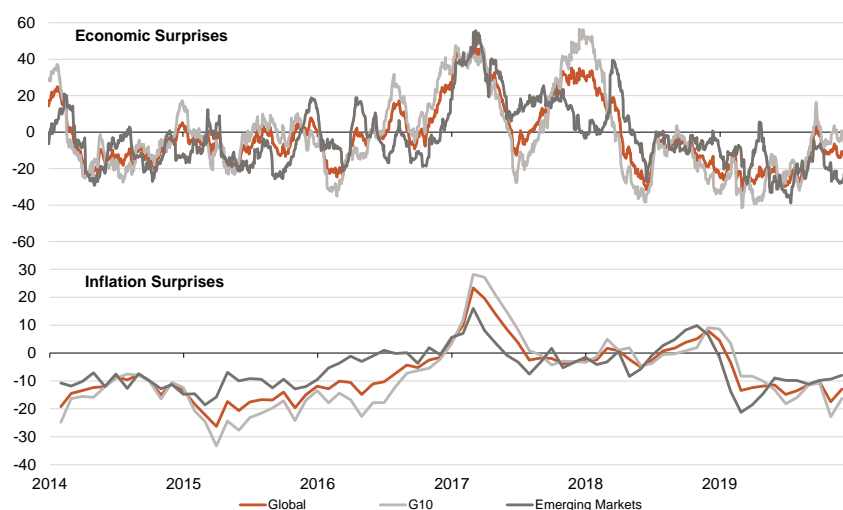


- The implied volatility has fallen noticeably in oil. All other asset classes recorded similar volatilities to two weeks ago.
- As warned in the last issue, equity markets were vulnerable after new lows for the year in the VIX and fell sharply temporarily. As a result, the VIX briefly rose by over 40%.

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 - 13/12/2019



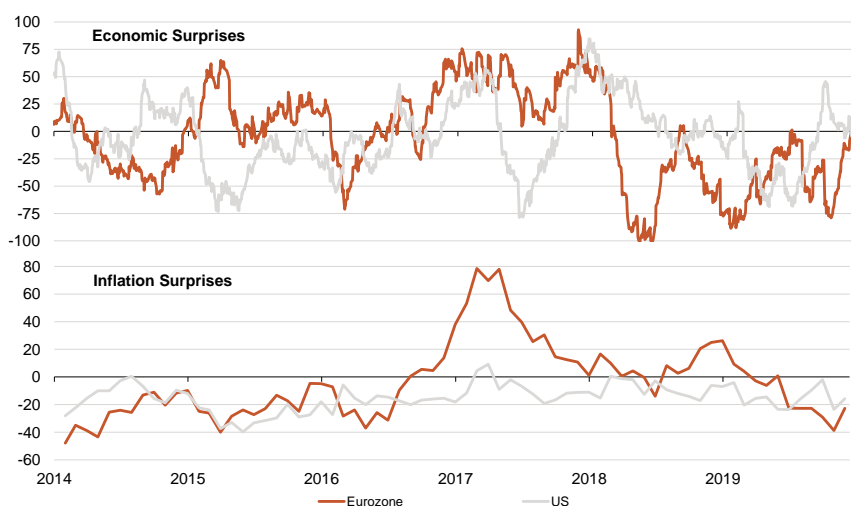
Global Surprises



- Global economic surprises have not yet found their way out of negative territory. Nevertheless, economic surprises in industrialised countries remained relatively stable and in the emerging markets they were less negative. In China, industrial production, retail sales and the purchasing managers' indices, in particular the new order component, surprised positively. On the downside were South Korea's November exports, which at -14.3% (YoY) fell stronger than expected.

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 13/12/2019

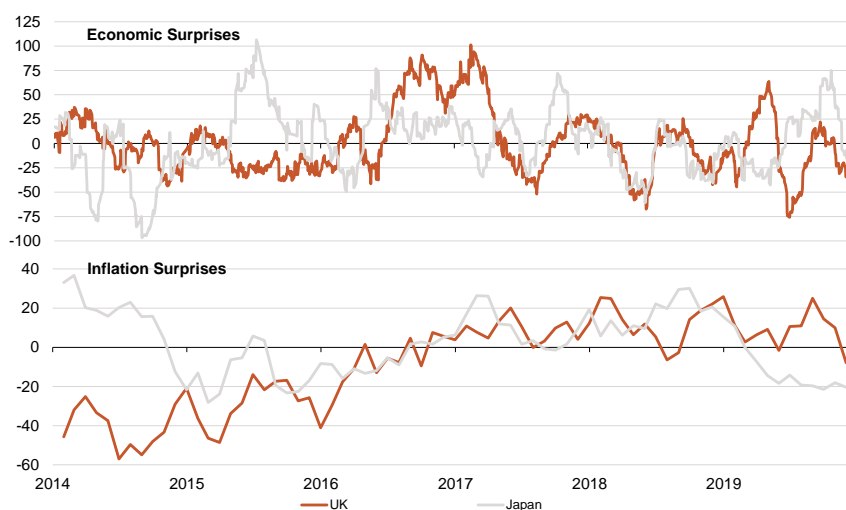
Eurozone and US



- In the eurozone, the economic data has recently been convincing and has surprised upwards. In Germany, the ZEW index surprised upwards, while industrial production was disappointing in October.
- At 3.5%, the unemployment rate in the US has fallen to its lowest level since 1969, while the ISM purchasing managers' index has disappointed slightly and the Markit has surprised positively

See explanations below.
Source: Bloomberg, Time period: 01/01/2014 - 13/12/2019

UK and Japan

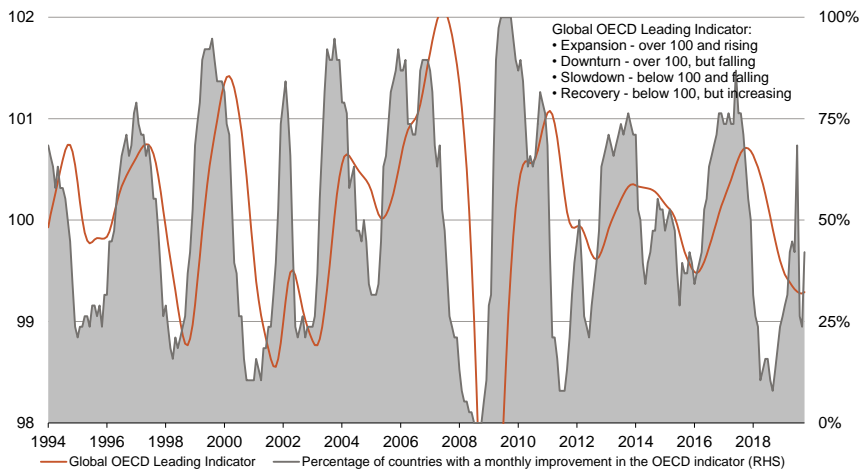


- In Japan, economic data was recently disappointing. Machine Orders in October fell by -6.0% (MoM) for the fourth consecutive month and industrial production fell by 4.5% (MoM).
- In the UK, the industrial PMI surprised positively in November.

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 - 13/12/2019



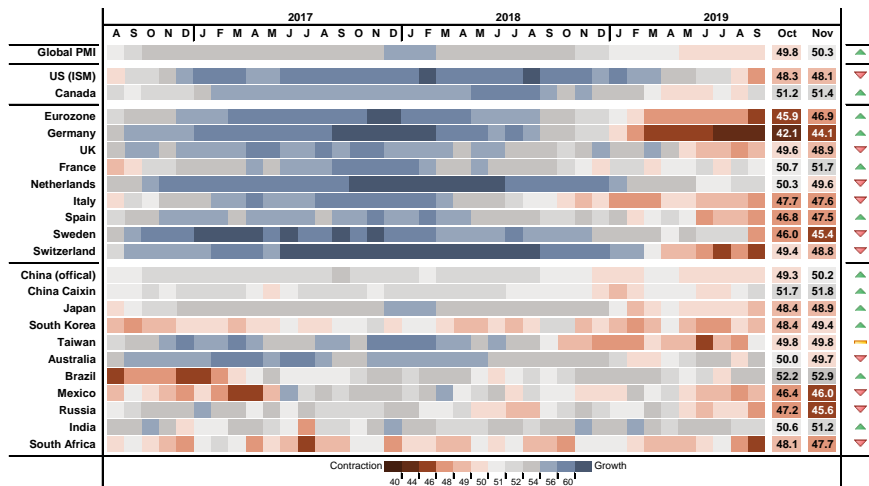
OECD Leading Indicator



- The OECD leading indicator rose again in October for the first time in a year, thus indicating a recovery in the global economy. In a monthly comparison, the indicator improved in 42% of the countries surveyed.

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 - 31/10/2019

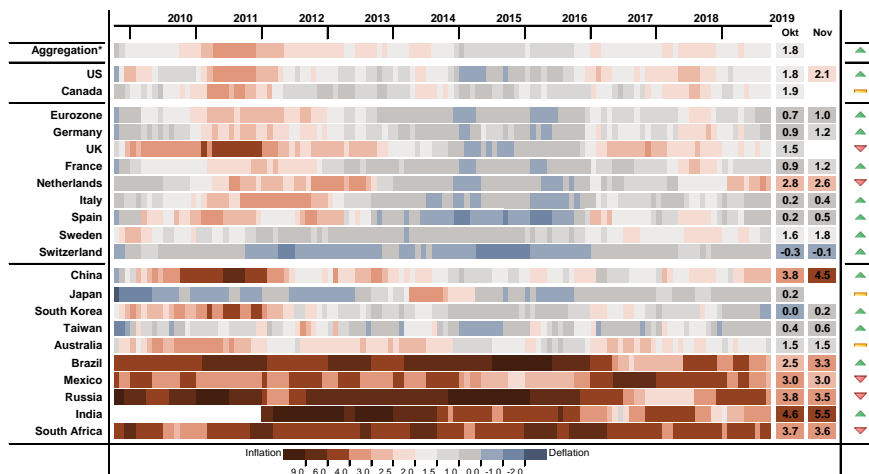
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- In November, the global PMI of industries rose above the important growth mark of 50 points.
- In the US, the ISM index surprisingly dropped to 48.1 points. The trade dispute and strikes in the auto industry weighed on the industry.

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: 31/08/2015 - 30/11/2019

Headline Inflation

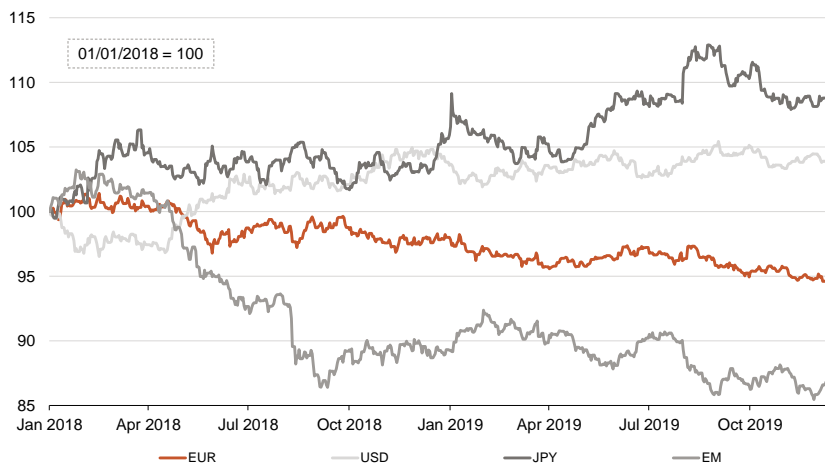


- Inflation in the US climbed to a new annual high of 2.1% in November. The dragging effect of comparatively low energy prices is diminishing.
- Consumer prices in China rose by 4.5% in November, a 7-year high. The main driver of inflation was rising pork prices.
- Switzerland is struggling with deflation.

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: 30/11/2008 - 30/11/2019



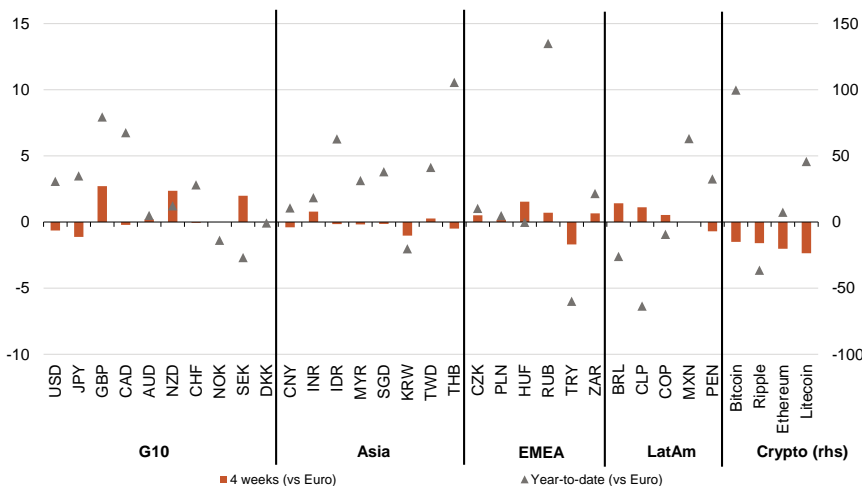
Trade-Weighted Currency Development



- After months of strength, the dollar weakened on a trade-weighted basis in the last two weeks. In particular, the Fed's reaffirmation to keep interest rates low had a negative impact.
- Emerging market currencies benefited from the dollar's weakness and finally appear to be bottoming out.
- The euro stabilized, while the Japanese yen was less in demand as a safe haven.

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 - 13/12/2019

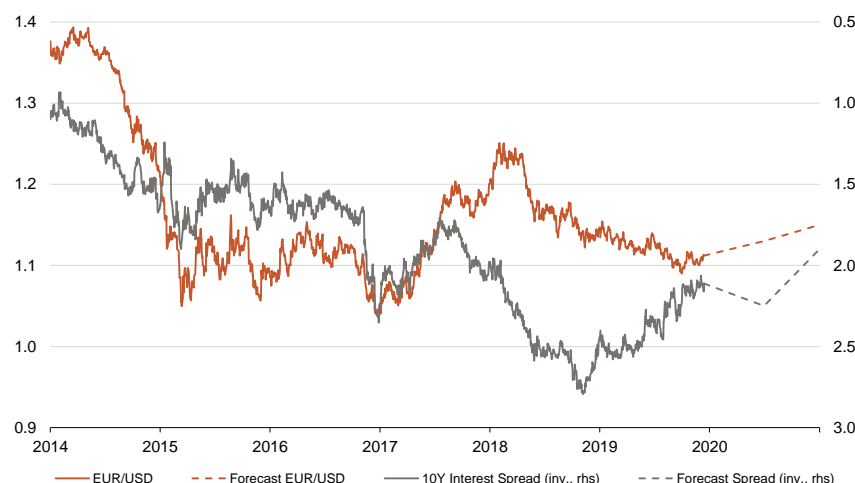
Currency Moves vs Euro



- In the last four weeks there has been no clear trend in the euro against the G-10 currencies. Emerging market currencies have remained stable across the board.
- The Brazilian real and the Chilean peso, which have recently come under pressure, gained some ground again in the last four weeks.
- Due to increased risk appetite in the market, crypto currencies were less in demand as alternative, uncorrelated investments and lost up to 30% against the euro.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2018 - 13/12/2019

EUR/USD exchange rate and interest rate differential



- Over the past two weeks, the euro has appreciated slightly against the dollar, breaking through the 1.11 mark for the first time since early November.
- Since both the Fed and the ECB are likely to continue their course, further impulses from the central banks should not materialise.
- However, the euro should gain against the dollar if the global economy gains momentum.

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 (15/11/19 - 13/12/19)	YTD (31/12/18 - 13/12/19)	13/12/18	13/12/17	13/12/16	13/12/15	12/12/14	
Utilities	3.1	27.5	23.7	3.6	13.3	-5.0	0.6	
Finance	3.1	21.7	18.0	-17.7	12.4	4.1	5.3	
Information Technology	2.8	38.2	31.7	-3.9	25.8	4.2	17.2	
Health Care	2.1	28.9	23.9	2.7	5.8	-7.8	11.2	
Consumer Discretionary	2.1	32.5	27.6	-11.4	11.5	1.2	13.8	
Materials	1.7	24.8	23.0	-10.4	15.6	32.5	-6.7	
Value	1.6	18.8	15.1	-9.3	9.7	9.7	2.0	
Growth	1.1	30.6	25.8	-6.3	14.3	-0.9	16.2	
Industrials	1.0	34.7	30.6	-10.6	16.5	11.6	12.2	
Consumer Staples	0.5	23.7	18.1	-5.5	11.2	0.6	22.3	
Telecommunications	-0.2	5.2	2.5	-7.9	4.0	-12.4	11.3	
Energy	-4.5	6.2	2.8	3.6	7.8	31.3	-3.0	

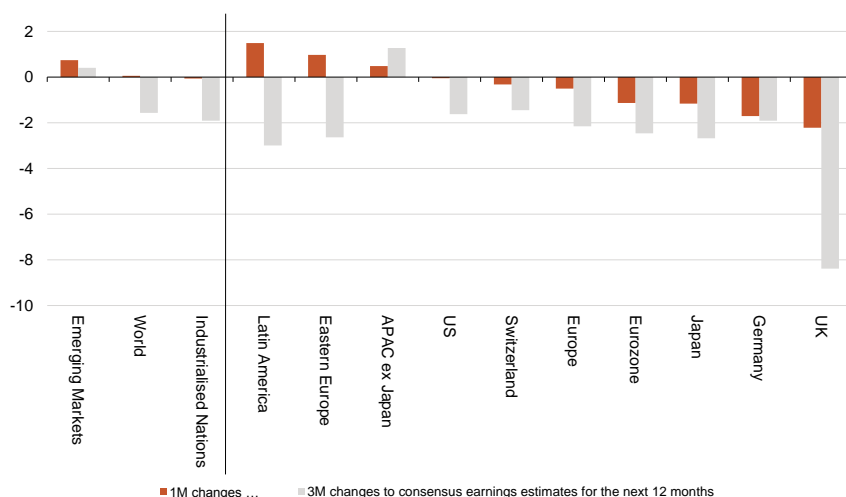
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Staples: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR; Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech.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

- Over the past four weeks, financials have developed positively alongside the European utilities.
- Rising bond yields and relatively attractive valuations have supported this trend.
- The worst performing sector was energy.

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: 12/12/2014 - 13/12/2019

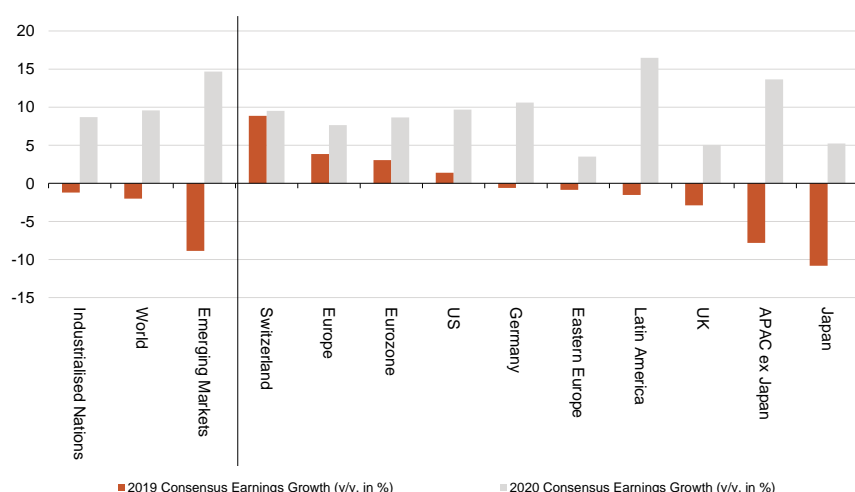
Changes in Consensus Earnings Estimates



- In the wake of the first signs of economic stabilization and the partial agreement in the trade dispute, analysts raised their earnings estimates for emerging markets and Latin America in particular.
- The nonetheless predominant profit revisions are a healthy process, as we think the profit expectations are still too high for next year.

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 13/12/2019

Earnings Growth

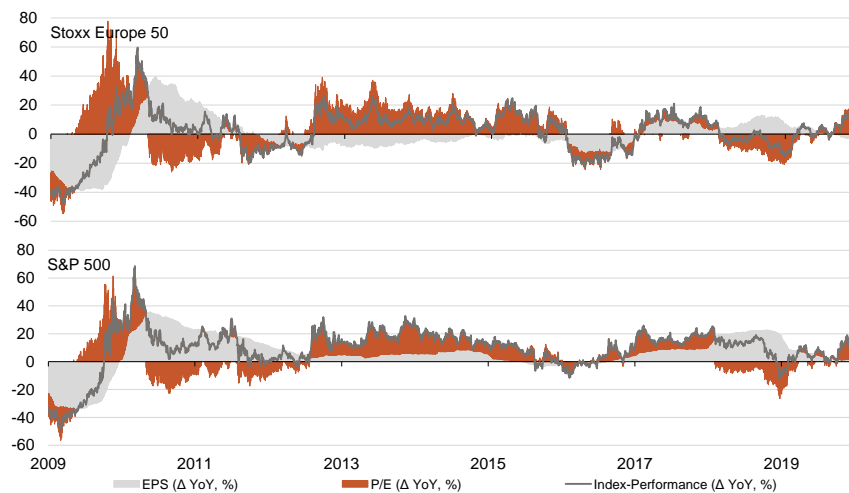


- For 2020 analysts expect a profit growth of approx. 10% for developed countries. We consider this to be too optimistic. Although the global economy is likely to pick up slightly, it is unlikely to experience a boom due to the ongoing political uncertainty (e.g. US election campaign).

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 13/12/2019



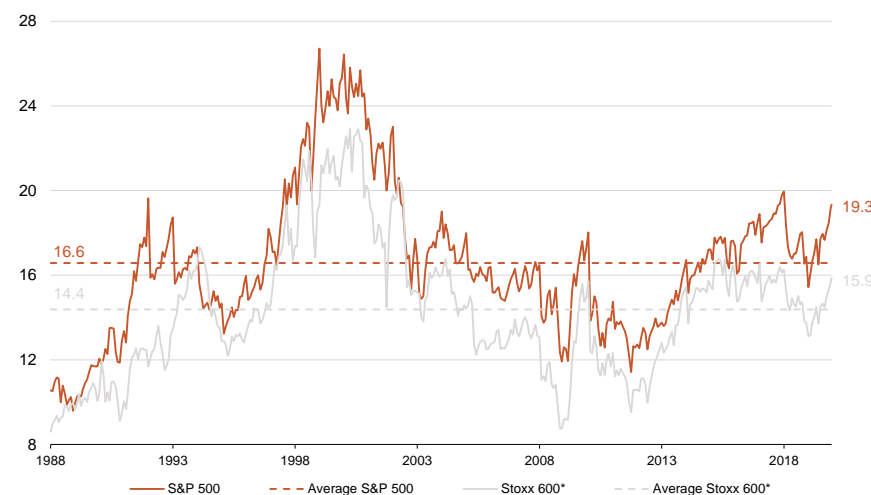
Contribution Analysis



- Central bank support in recent months is having an impact - similar to 2013-2015. Equity markets are climbing because valuations in particular are expanding.
- Profit growth, on the other hand, remains subdued.

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 - 13/12/2019

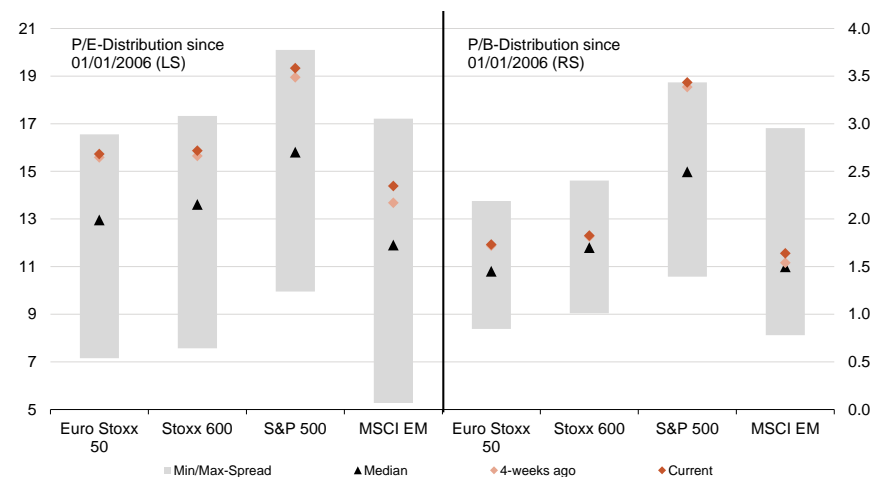
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- Negative earnings revisions, rising stock markets - this inevitably leads to higher valuations.
- The S&P 500 is gradually approaching levels seen at the turn of the year 2017/2018, when US tax reforms became more concrete.
- However, equities remain attractive compared to bonds.

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 - 13/12/2019

Historical Distribution: Price/Earnings and Price/Book Ratio

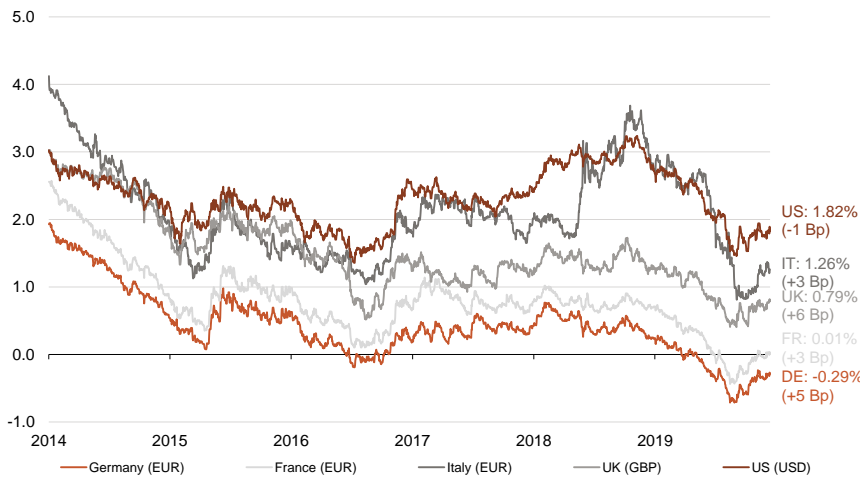


- On a P/E basis, the USA and emerging markets in particular have become more expensive over the last four weeks.
- European equities are also slightly more expensive than their own historic levels, although they have not become more expensive in recent weeks.

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 - 13/12/2019



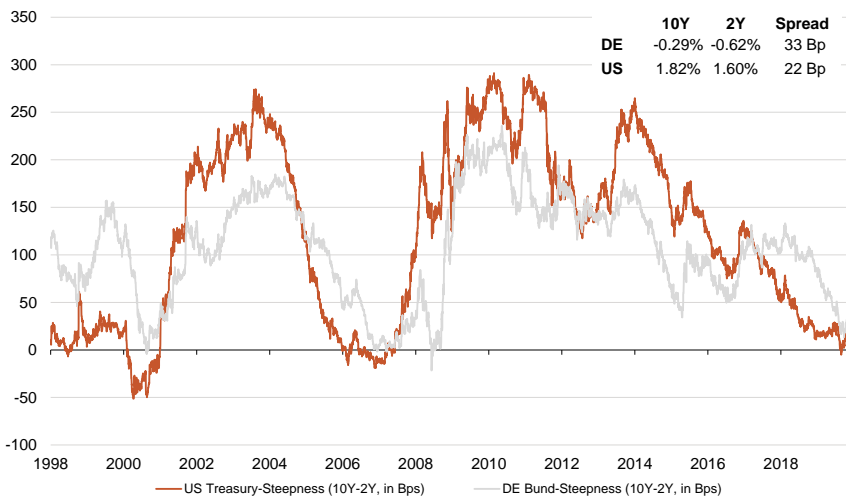
10-Year Government Bond Yields



- With the election victory of conservatives in the UK and the forthcoming trade agreement between China and the US, political uncertainties have clearly diminished. As a result, yields on safe government bonds have risen significantly. US Treasuries are moving towards the 2% yield mark and yields on UK Gilts have risen by 6 bps in the last four weeks. Government bonds were therefore less in demand.

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 - 13/12/2019

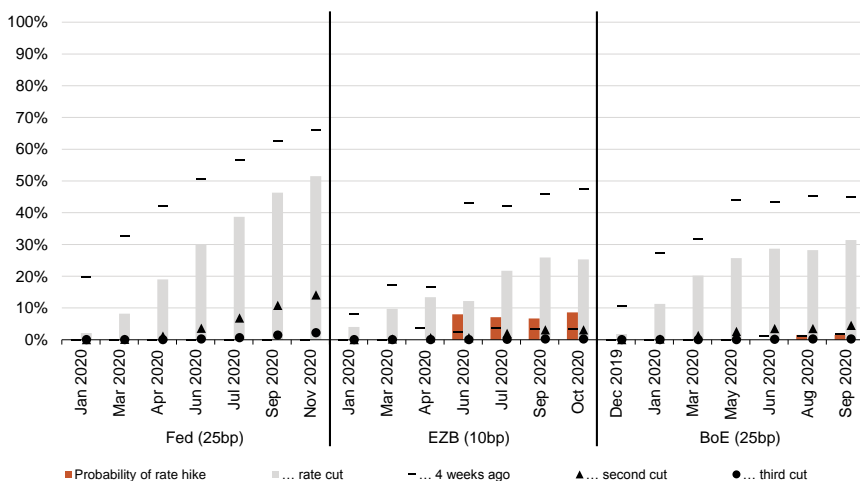
Yield curve steepness (10Y - 2Y)



- As political uncertainty ebbed, the steepness of the US and German yield curve rose significantly. In the last two weeks, the German curve crossed the 30 basis point threshold and the US curve the 20 bps threshold.

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 - 13/12/2019

Implicit Probabilities for Changes in Key Interest Rates

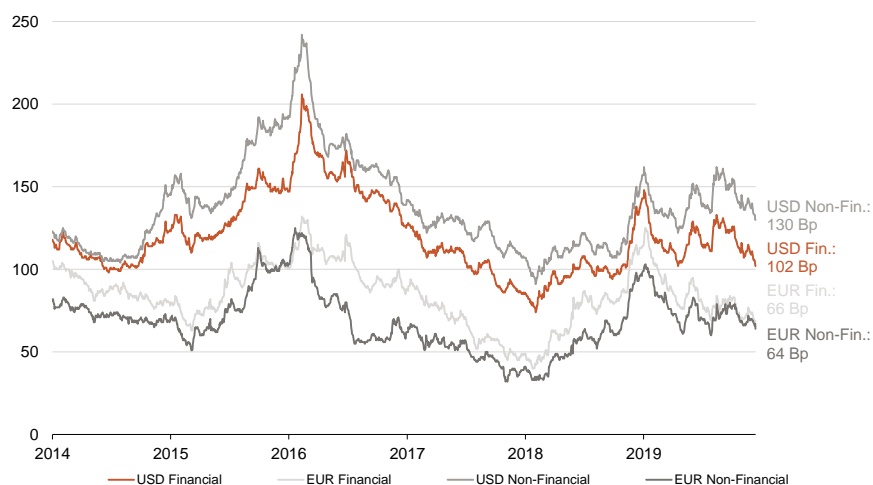


- The bottoming out of the global economy and significant progress in geopolitics has significantly reduced the likelihood of a rate cut in the US, the eurozone and the UK. For the US, the market is pricing an interest rate cut in 2020 with a probability of just over 50% and in the eurozone the market is already speculating on an interest rate increase.

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: 15/11/2019 - 13/12/2019



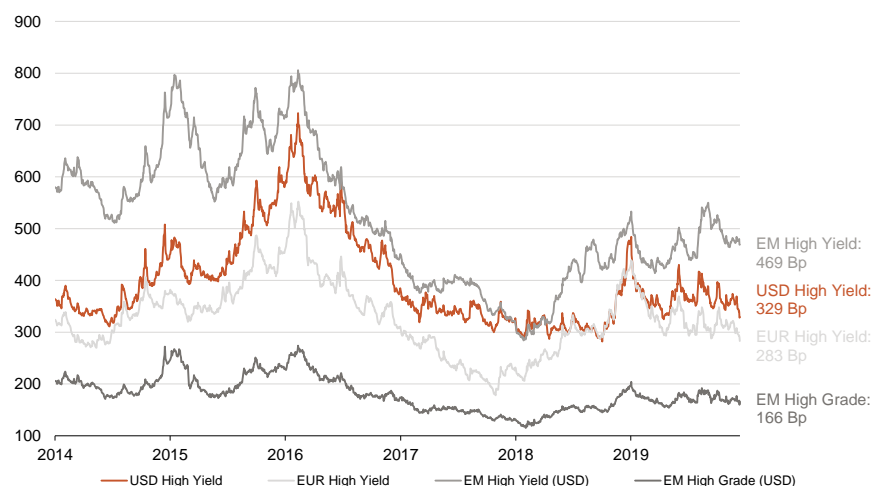
Credit Spreads Financial and Non-Financial Bonds



- Spreads on investment-grade corporate bonds have fallen significantly in the last two weeks. At 7 bps, spreads on USD bonds fell in absolute terms by a similar amount as spreads on EUR bonds.
- In the case of EUR bonds, cyclical sectors such as the insurance, automotive and leisure industries in particular saw spreads fall. For USD bonds, it was energy and telecom sectors.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2014 - 13/12/2019

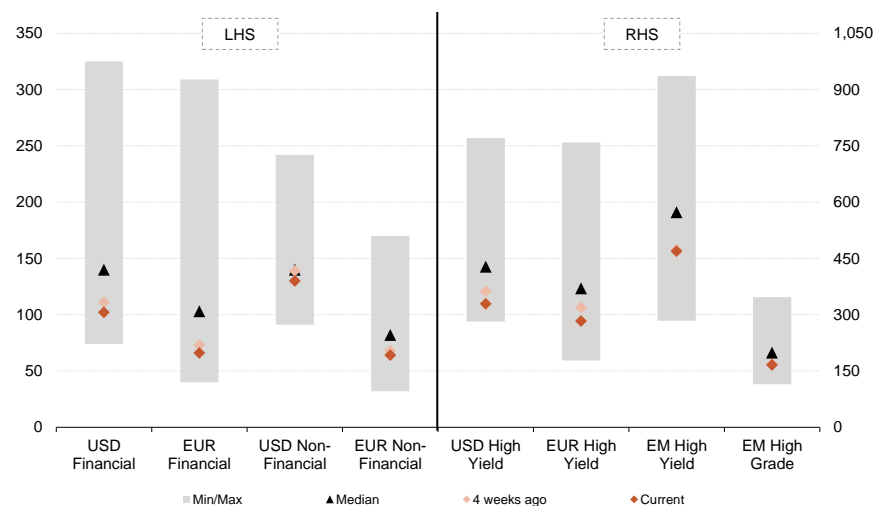
Credit Spreads High Yield and Emerging Markets Bonds



- USD and EUR high yield bonds benefited significantly from the risk-on environment in markets. Spreads on USD high yield bonds have fallen around 30 bps in the last two weeks. For EUR high yield bonds, it was around 15 bps. EUR high-yield bonds with a B rating saw a disproportionately narrower spread and were thus able to catch up somewhat with bonds with a BB rating.

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 - 13/12/2019

Historical Distribution of Credit Spreads (in bp)

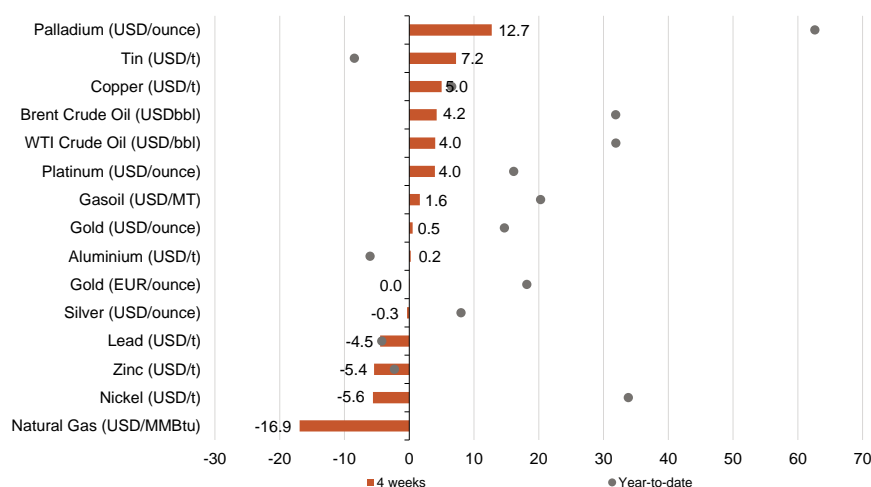


- The risk premium on USD high-yield bonds moved towards its historical 10-year low. This was the largest spread narrowing among the shown segments. Spreads on EM high-yield bonds have not fallen significantly recently and thus offer catch-up potential.

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: 13/12/2009 - 13/12/2019



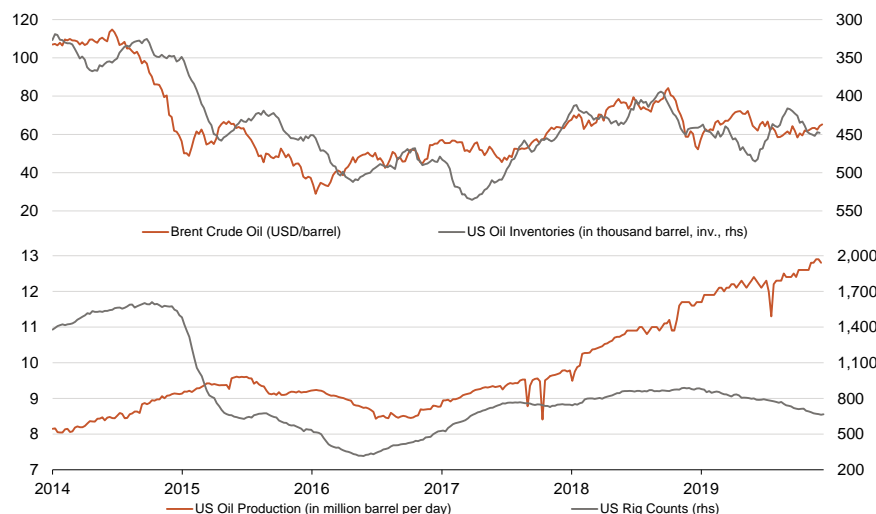
Commodities Performance



- The big winner over the last four weeks has been palladium due to power outages in South Africa, which accounts for over 40% of global mine production.
- The performance of industrial metals has been mixed over the last four weeks. While tin and copper increased, the other metals declined.
- Due to the massive expansion of production in the USA, natural gas has been the laggard both in the last four weeks and 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 - 13/12/2019

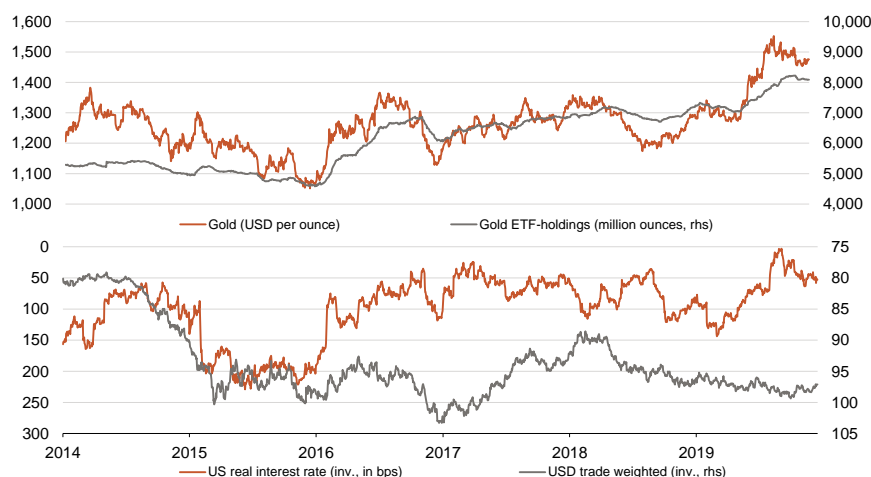
Crude Oil



- Thanks to additional cuts in production from OPEC+, Brent has recently been able to stabilise at around USD 64 per barrel.
- However, despite the cuts, there is a threat of oversupply in the first half of 2020. Even if the economy recovers moderately, demand growth will lag behind the production expansions of non-OPEC countries.

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 - 13/12/2019

Gold



- Gold has been at the mercy of the ever-changing news flow in the China-US trade conflict for the past two weeks, yet it has failed to move closer to the \$1,500 an ounce mark.
- Continued low real interest rates and a weaker dollar, however, limited the precious metal's downward potential.

The US dollar and the real interest rate, i.e. adjusted for inflation, are among the fundamental price factors of the gold price. Rising real interest rates tend to depress the price of gold, while falling real interest rates have a supportive effect. The same applies to the US dollar. The development of gold ETF holdings reflects the demand for gold from financial investors.
Source: Bloomberg, Time period: 01/01/2014 - 13/12/2019

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