

Current market commentary

2019 seemed to be an easy year for financial markets. After all, almost all major asset classes, with the exception of cash, gained. But appearances are deceptive, as there were many reasons for investors to position themselves defensively and thus not to profit fully. For example, political uncertainty reached a record high, especially due to recurring peaks in the trade dispute. In addition, both economic data and corporate earnings were continually disappointing. Nevertheless, markets grew significantly, also thanks to the support of central banks around the world. For the next few weeks, our expectation so far has been that investors' appetite for risk will continue, supported by the Phase 1 agreement and by retail investors who are increasingly investing in equities again. However, the recent geopolitical tensions between the US and Iran as well as the already high equity ratios of systematic investment strategies and the ambitious valuations call for caution.

Short-term outlook

On the 15th of January Donald Trump plans to sign the phase 1 trade agreement with China. At a later stage, negotiations on phase two are to be held. In France the second round of negotiations on pension reform starts on the 9th January and the deadline for comments on the proposed US tariffs on French imports ends on 14th January.

This Tuesday, the market will look at the ISM index for the service industry and November factory orders in the US. On Wednesday, German factory order and the eurozone economic confidence will be released. November industrial production in Germany will be released on Thursday, with U.S numbers to follow on Friday. Labor Market data and Industrial Production data for France and Italy will also be released. The following week in the U.S. is scheduled to receive December retail sales and the Empire State manufacturing business condition index.

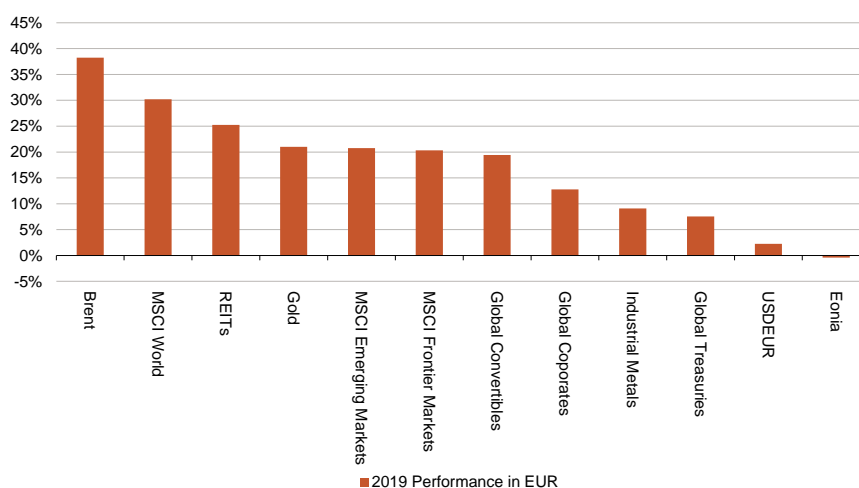
The bi-weekly *Monitor* gives you a structured overview of the current capital market environment and highlights important developments:

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

The signing of the Phase 1 trade agreement is within reach.

Market-relevant data in the coming days will be the US labour market data and factory orders.

Almost all asset classes with a positive return in 2019



- With 2018 being the worst year for all asset classes since the financial crisis, 2019 turned out to be one of the best years.
- The drivers of the strong performance were numerous. In particular, the Fed's shift from a more restrictive to an expansive monetary policy boosted investors' risk appetite. The pessimistic positioning of investors at the beginning of 2019 and the absence of a feared US recession also provided support.

Explanations see page 2.

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



Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (06/12/19 - 03/01/20)	YTD (31/12/19 - 03/01/20)	03/01/19	03/01/18	03/01/17	03/01/16	02/01/15
Brent	7.2	4.5	38.2	-8.0	2.9	27.6	-38.8
MSCI Emerging Markets	6.3	1.3	23.9	-13.3	20.8	16.7	-5.7
Gold	5.3	2.8	22.4	3.9	-1.9	13.9	-1.3
MSCI Frontier Markets	2.3	0.4	20.3	-13.1	15.4	7.5	-5.1
MSCI World	1.9	0.7	32.7	-6.2	6.8	12.4	9.9
Global Convertibles	1.8	1.0	21.2	-0.5	1.7	11.1	9.1
Industrial Metals	1.6	0.4	10.5	-15.0	11.6	23.8	-18.7
Global Coporates	0.1	0.9	12.9	2.7	-5.6	7.9	6.9
Eonia	0.0	0.0	-0.4	-0.4	-0.4	-0.3	-0.1
Global Treasuries	-0.1	0.9	7.4	5.9	-6.3	5.2	7.3
USDEUR	-0.9	0.5	2.1	5.5	-13.4	4.3	10.5
REITs	-1.1	0.1	26.6	-3.7	-7.4	5.2	8.8

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.

- Emerging market equities outperformed over the last four weeks. They benefitted from the announced Phase 1 deal between China and the US and improving EM economic data. The recent geopolitical turmoil also supported oil and gold.
- REITs recently underperformed due to rising bond yields.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/01/2015 - 03/01/2020

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (06/12/19 - 03/01/20)	YTD (31/12/19 - 03/01/20)	03/01/19	03/01/18	03/01/17	03/01/16	02/01/15
MSCI EM Eastern Europe	7.0	1.8	38.0	-0.5	1.4	47.0	5.0
MSCI EM Asia	6.1	1.3	26.4	-15.4	26.1	11.1	-0.9
MSCI UK	3.9	0.3	25.0	-10.4	5.7	4.1	4.0
Stoxx Europe 50	2.8	0.8	29.2	-10.8	7.8	1.8	6.9
Stoxx Europe Cyclical	2.8	0.5	30.6	-18.7	13.0	8.0	5.2
Stoxx Europe Defensive	2.8	0.8	22.6	-0.9	4.7	-1.8	9.6
Stoxx Europe Small 200	2.5	0.4	31.2	-14.4	17.0	2.1	15.6
Euro Stoxx 50	2.2	0.8	31.2	-13.5	8.5	4.5	6.7
S&P 500	1.9	0.7	37.6	-2.9	6.3	17.7	12.1
Russell 2000	0.8	0.1	29.2	-8.4	-0.1	27.2	6.2
DAX	0.4	-0.2	26.9	-19.7	12.0	7.8	10.0
Topix	0.0	-1.0	22.2	-10.0	11.1	7.3	23.7

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 Defensive: Stoxx Europe Defensive TR; DAX: DAX TR; MSCI United Kingdom: MSCI UK TR; MSCI EM Asia: MSCI EM Asia TR; MSCI EM Eastern Europe: MSCI EM Eastern Europe TR.

- Within equity regions, emerging markets performed best. Asia and Eastern Europe gained more than 6% in the last four weeks. Many investors are looking forward to 2020 with confidence, expecting a reduction in political uncertainty and an improvement in economic data.
- British stocks were also among the winners. They are favourably valued relative to other regions and benefitted from decreasing Brexit uncertainty.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/01/2015 - 03/01/2020

Fixed Income

	4-week & YTD		12-month periods over that last 5 years				
	4W (06/12/19 - 03/01/20)	YTD (31/12/19 - 03/01/20)	03/01/19	03/01/18	03/01/17	03/01/16	02/01/15
EM Hard Currency Bonds	1.9	0.0	9.0	-6.0	7.2	7.1	1.2
EM Local Currency Bonds	1.3	0.4	11.2	1.2	0.0	10.5	-0.1
EUR High Yield	1.0	0.2	10.2	-4.0	4.9	8.4	-0.3
EUR Inflation Linkers	0.9	0.7	7.6	-1.7	1.4	3.6	0.7
BTPs	0.8	0.4	11.9	-1.8	0.9	0.4	4.1
USD High Yield	0.7	0.7	16.9	3.7	-7.7	20.5	5.0
EUR Non-Financials	0.5	0.5	6.7	-1.0	2.1	5.2	-1.5
EUR Financials	0.4	0.3	6.4	-1.6	3.4	3.7	0.2
USD Corporates	1.2	0.0	16.4	4.0	-8.2	10.1	9.8
Bunds	0.8	-0.1	3.2	3.0	-1.0	3.5	0.0
Treasuries	1.3	-0.5	8.9	7.6	-11.8	5.7	11.4
Gilts	0.4	-0.7	13.6	0.3	-1.5	-5.4	6.3

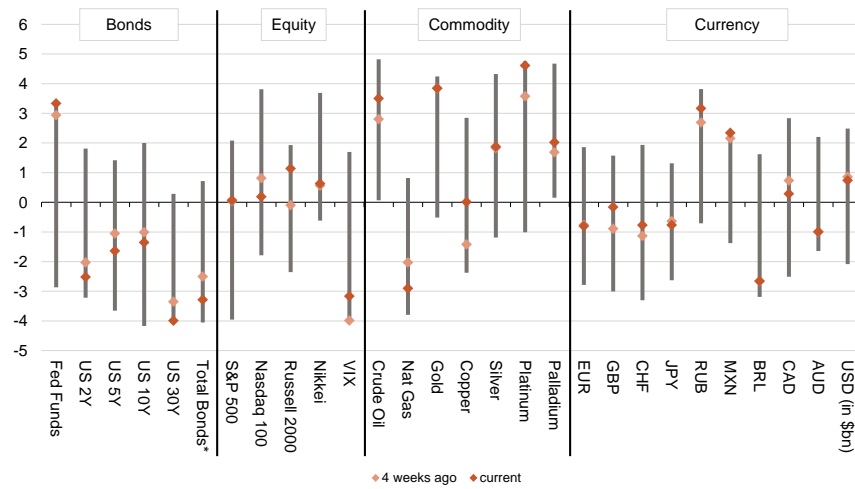
Bunds: Barclays Germany Govt All Bonds TR; BTPs: Barclays Italy Govt All Bonds TR; Treasuries: Barclays US Treasury TR; Gilts: Barcl. UK Govt All Bonds TR; EUR Inflation Linkers: Barcl. Euro Govt Inflation-Linked Bond All Maturities TR; EUR Financials: iBOXX Euro Fin. Overall TR; EUR Non-Financials: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

- Emerging markets were also the big winners within the bond spectrum. Investors have recently demanded riskier bonds. This also includes high yield bonds.
- Safe havens such as US Treasuries and German Bunds, on the other hand, were at a disadvantage.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 03/01/2015 - 03/01/2020



Non-Commercial Positioning

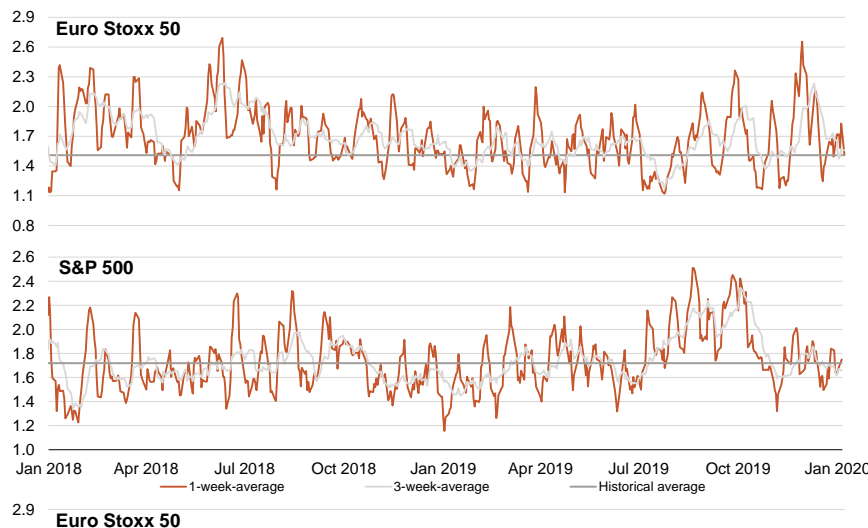


- With the exception of natural gas, speculative investors have recently become more optimistic about commodities. Only a few weeks ago copper was still a pronounced short position. Now hedge funds in aggregate are again betting on non-declining prices.

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: 31/12/2009 - 31/12/2019

Put-Call Ratio

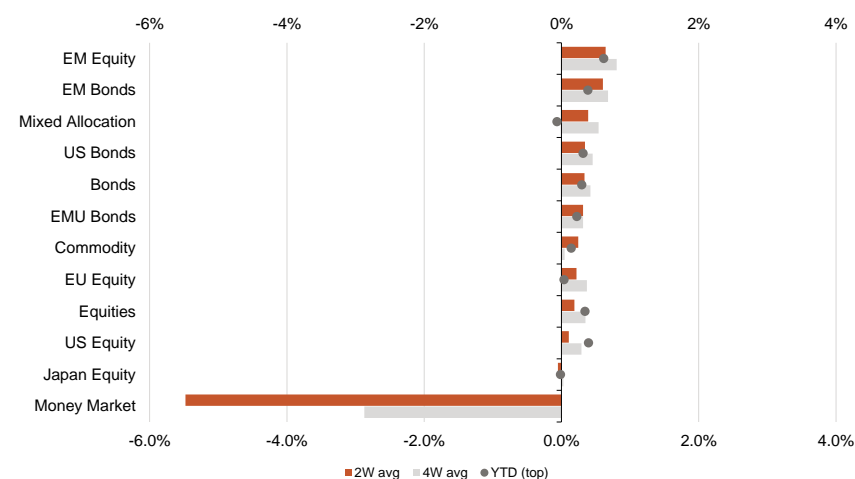


- Put-call ratios are in no man's land at the moment. Option markets suggest that investors are currently neither particularly optimistic nor pessimistic. The put-call option ratio is close to the historical average for both European and US equities.

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

Source: Bloomberg, Time period: 20/12/1993 - 03/01/2020

ETF Flows

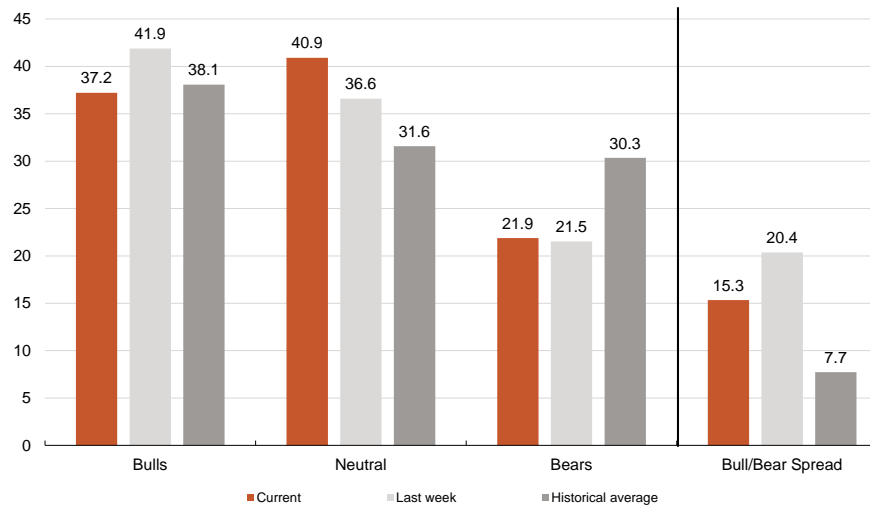


- ETF flows are well aligned with recent developments in financial markets.
- Investors have become bolder and in particular have moved away from money market ETFs while investing in emerging market assets.

Estimated ETF flows in percent of assets under management, sorted by 2-week average.
Source: Bloomberg, Time period: 04/12/2019 - 03/01/2020



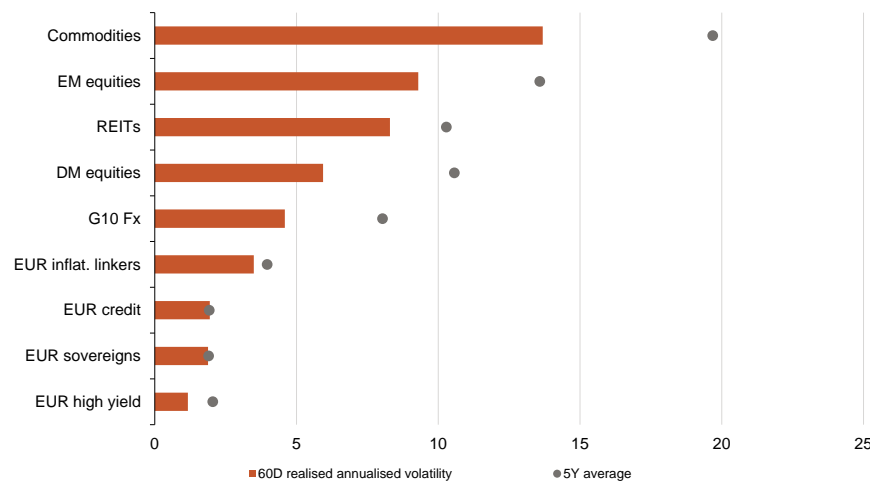
AAII Sentiment Survey (Bulls vs Bears)



- US private investors are neutral to optimistic for the next six months. Only 22 percent of participants surveyed by the AII expect US share prices to fall in the first half of 2020, with bulls accounting for the historical norm. It is striking that a particularly large number of investors have a neutral market opinion.

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: 23/07/1987 - 03/01/2020

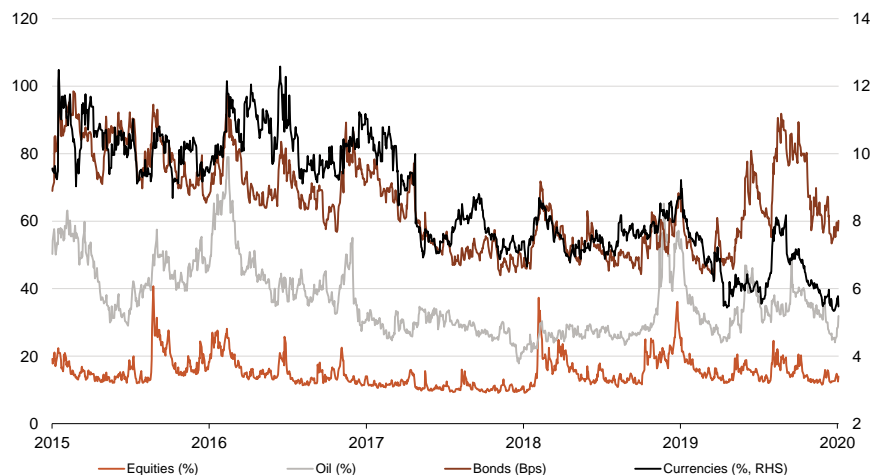
Realised Volatilities



- The easing of tensions in the trade conflicts has led to reduced volatility.
- Commodities show the highest volatility of asset classes considered here, supported also by the recent geopolitical escalation in the Middle East. However, volatility is low compared to the own 5-year history.
- EUR high-yield bonds currently have by far the lowest volatility.

Realised volatility (in percent) measures the historical range of variation of a time series and is defined here as the standard deviation of the daily returns over the last 60 trading days. Volatility is often used as a measure of risk.
 Source: Bloomberg, Time period: 04/01/2015 - 03/01/2020

Implied Volatilities

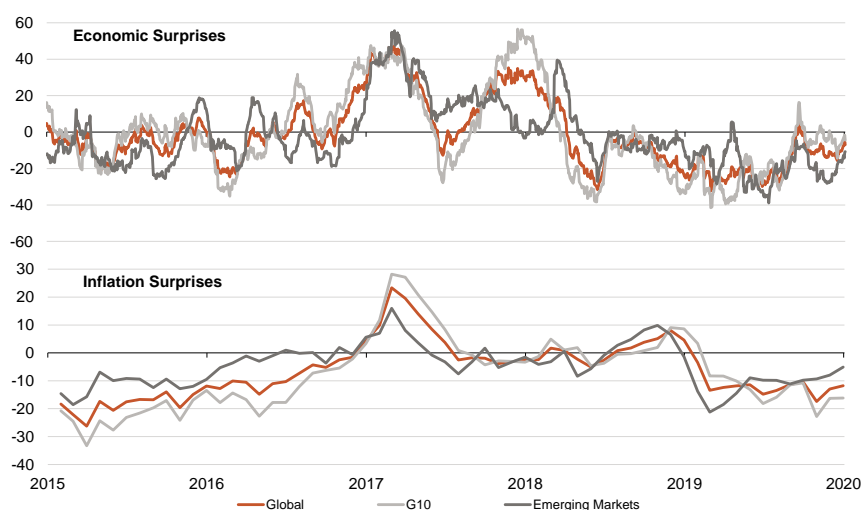


- Implied volatilities are at historically low levels across all asset classes, thanks to the global expansionary central bank policy.
- However, implied volatilities have recently risen from their low levels. In particular, oil volatility jumped following the US missile attack on an Iranian general in Baghdad.

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: 01/01/2015 - 03/01/2020



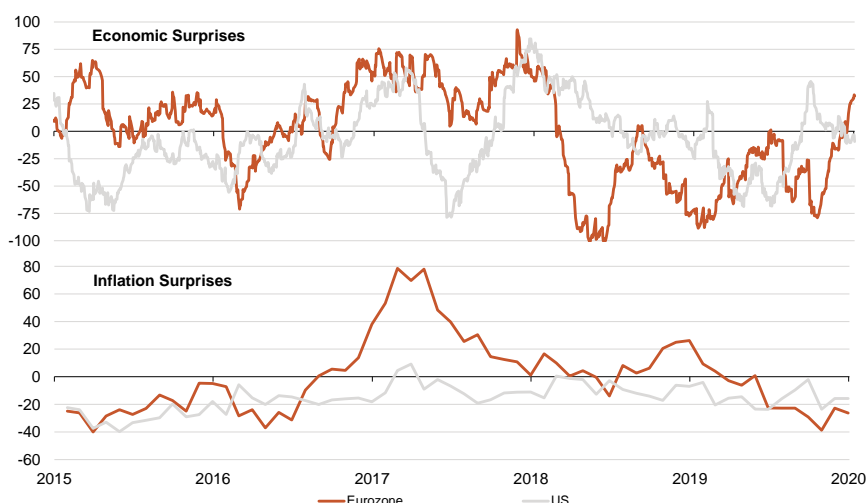
Global



- In recent weeks there have been an increasing number of positive economic surprises at the global level, in the G10 countries and in emerging markets. The industrialised countries (G10) are on the verge of regaining positive territory.
- Among emerging markets, China performed well in November with rising corporate earnings (+5.4% MoM) and rising industrial production (+6.2% YoY). In contrast, the industrial purchasing managers' indices in China in December were mixed.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 03/01/2020

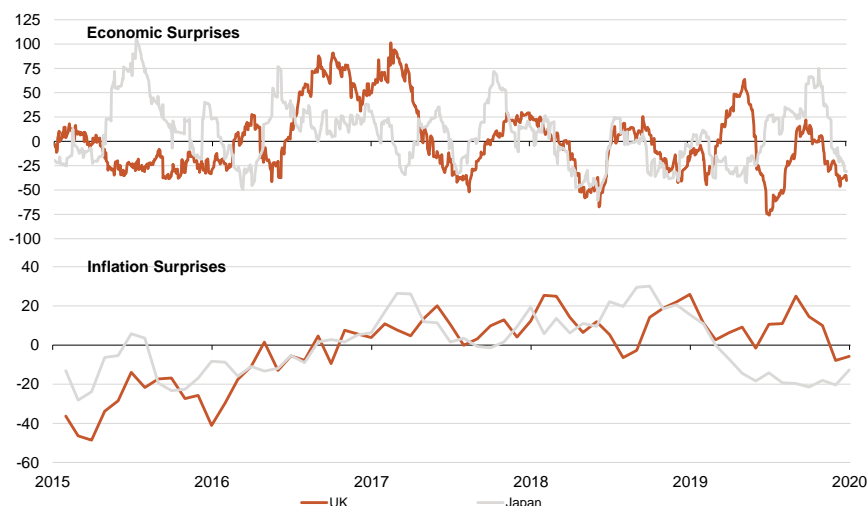
Eurozone and US



- Economic data from the eurozone has recently been much more positive. In Germany, the IFO business climate index and the Markit purchasing managers' index surprised positively in December. The GfK consumer confidence, on the other hand, has been slightly disappointing.
- Economic data in the US tended to disappoint slightly. Q3 economic growth turned out as expected, while consumer confidence and the ISM Manufacturing Index disappointed in December.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 03/01/2020

UK and Japan



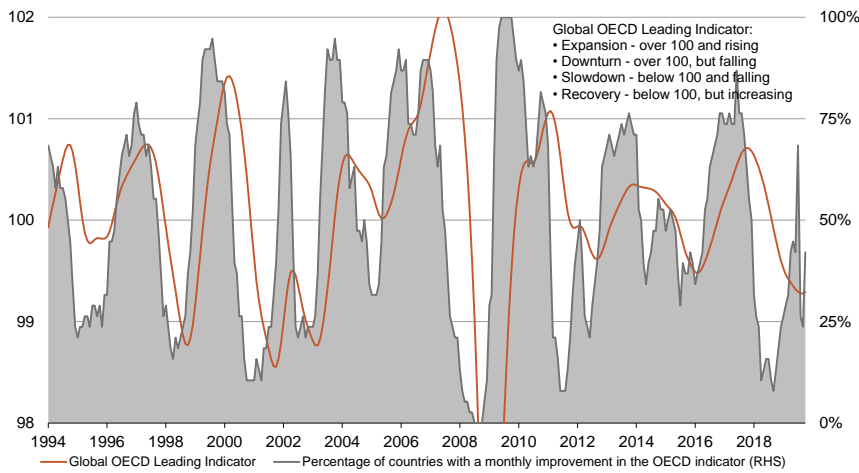
- In Japan, the latest economic data has been less positive. In November, industrial production fell by 0.9% (MoM) and retail sales by 2.1% (YoY).
- Preliminary Q3 economic growth in the UK has surprised positively at 1.1% (YoY).

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: 01/01/2015 - 03/01/2020



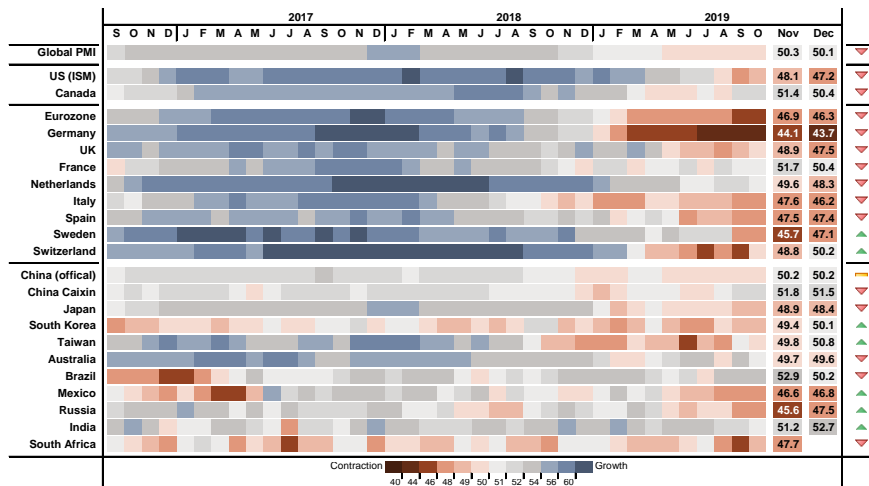
OECD Leading Indicator



- 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 - 31/12/2019

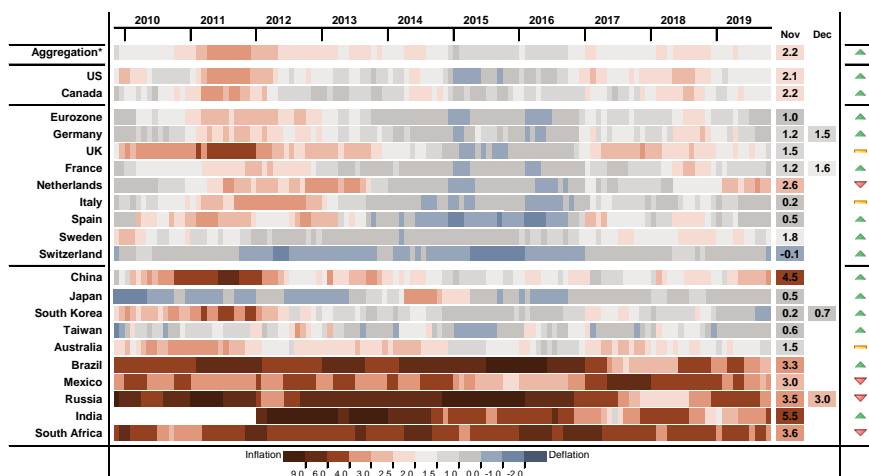
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- In Germany, the industrial PMI deteriorated in December to 43.7 points compared to the previous month, but turned out better than expected.
- The US ISM index in December fell to its lowest level since 2009.
- In China, the official PMI has remained stable, while the Caixin fell slightly.

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: 30/09/2017 - 31/12/2019

Headline Inflation

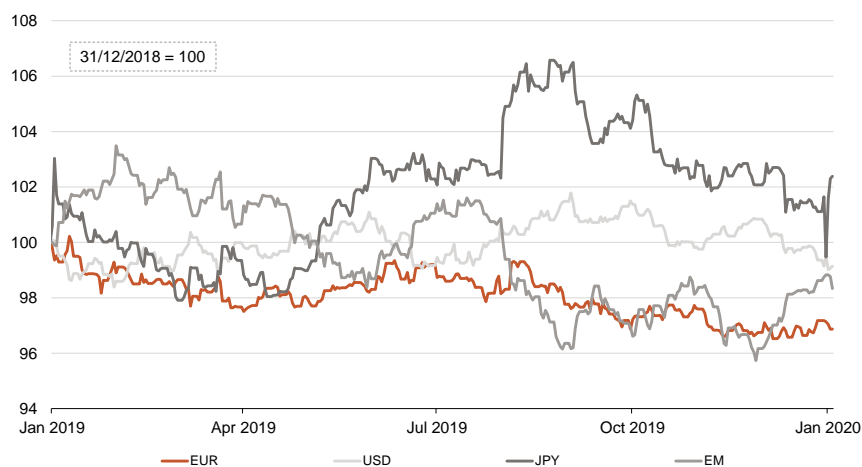


- Aggregate inflation rose to 2.2% in November. Rising inflation in China and the US in particular has contributed to this.
- In the UK, inflation in November remained unchanged at 1.5%. In Russia, however, inflation fell to 3% in December, while in Germany it rose to 1.5% and France to 1.6%.

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: 31/10/2010 - 31/12/2019



Trade-Weighted Currency Development

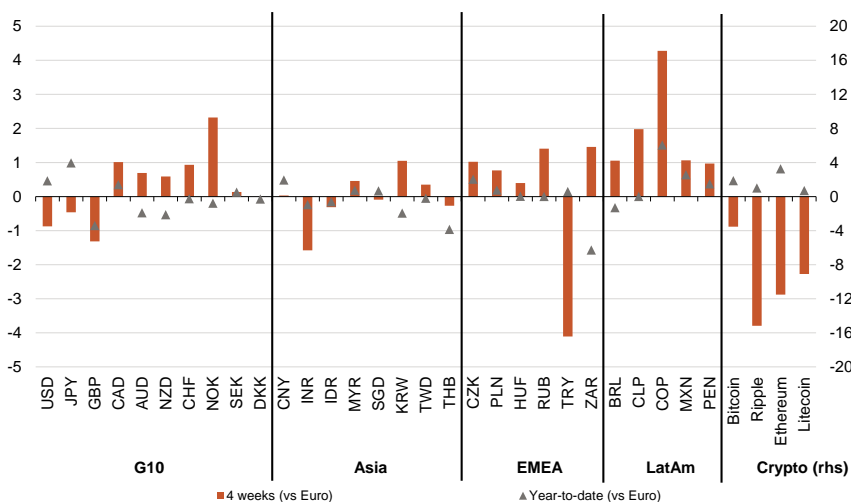


- Emerging market currencies have gained further ground in recent weeks, but have recently had to give in slightly.
- After a brief period of weakness, the Japanese yen has recently gained strongly again. Due to the escalating conflict between Iran and the USA, the Yen was increasingly in demand again in its function 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: 31/12/2018 - 03/01/2020

Currency Moves vs Euro

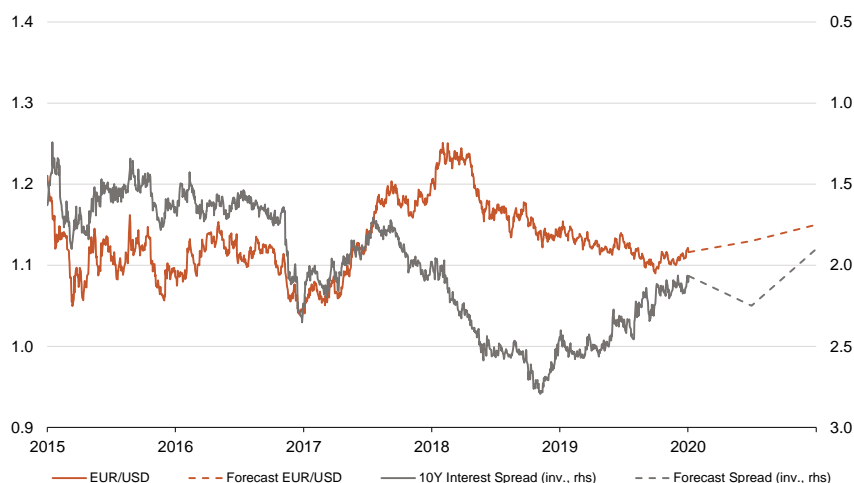


- The euro has depreciated against most other currencies in the last four weeks. The Latin American currencies in particular were able to gain against the euro. Recently, the Japanese yen and the US dollar have also gained ground again.
- Crypto-currencies have lost value in the past four weeks.

Performance of selected currencies against the euro, in percent.

Source: Bloomberg, Time period: 31/12/2019 - 03/01/2020

EUR/USD exchange rate and interest rate differential



- The euro has appreciated against the US dollar in recent weeks, temporarily breaking through the 1.12 mark for the first time since August 2019. The escalation in the Middle East, on the other hand, recently caused the US dollar to appreciate.
- If the economy picks up and geopolitical concerns abate, the euro should regain ground.

EUR/USD exchange rate and interest rate differential (in percentage points) of 10-year US Treasuries and 10-year Bunds.

Source: Bloomberg, Time period: 01/01/2015 - 31/12/2020



European Sector & Style Performance

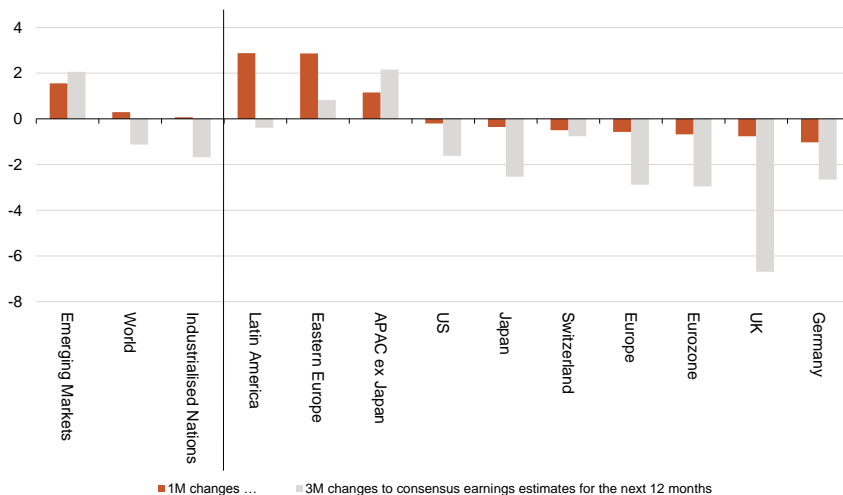
	4-week & YTD		12-month periods over that last 5 years				
	4W (06/12/19 - 03/01/20)	YTD (31/12/19 - 03/01/20)	03/01/19	03/01/18	03/01/17	03/01/16	02/01/15
Utilities	0.3	4.7	29.4	4.1	8.0	-5.3	0.8
Energy	2.5	4.2	10.3	-0.6	4.8	34.7	-8.2
Finance	0.7	4.2	24.4	-20.0	9.0	2.7	6.0
Value	0.8	3.4	21.3	-12.5	6.9	9.1	1.0
Materials	-0.1	3.1	30.0	-17.0	18.8	29.6	-8.2
Health Care	0.4	2.9	32.1	-1.0	2.0	-8.1	15.1
Consumer Discretionary	0.4	2.9	37.0	-16.9	9.1	0.4	13.0
Growth	0.6	2.2	35.1	-11.0	11.7	-1.5	16.3
Information Technology	1.1	2.0	45.3	-12.1	21.0	4.6	15.5
Consumer Staples	0.9	1.9	26.7	-8.3	7.9	-0.4	21.1
Industrials	0.3	1.3	38.7	-15.6	14.7	12.0	8.9
Telecommunications	0.6	0.7	5.1	-9.3	0.5	-12.3	12.6

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.

- Europe's long-suffering financial institutions have made a comeback over the past four weeks, thanks to rising bond yields and investor confidence. Like utilities, they were among the outperformers.
- Value did better overall than growth. Over the past year, however, the investment style has under-performed by over 10% against growth.

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: 03/01/2015 - 03/01/2020

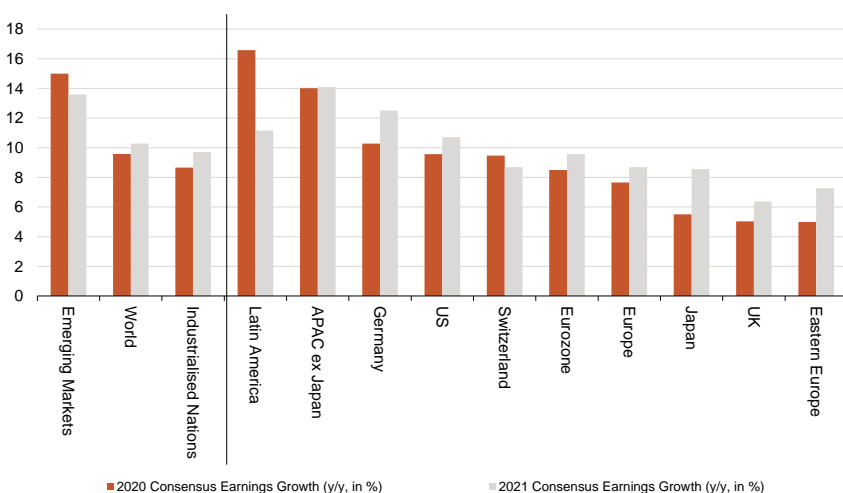
Changes in Consensus Earnings Estimates



- The earnings revisions for the next twelve months have entered into positive territory on aggregate. Analysts have become more optimistic about emerging market companies. Latin America and Eastern Europe saw the biggest positive earnings revisions.
- However, the changes in consensus earnings estimates are much more negative for developed countries. Downward revisions have been made especially for Germany and the UK.

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 03/01/2020

Earnings Growth

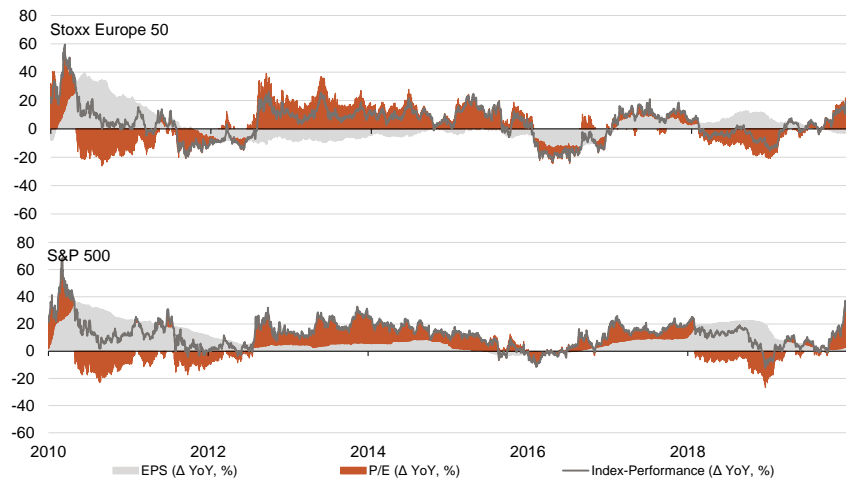


- Analysts forecast the highest 2020 earnings growth for Latin America, followed by Asia Pacific ex Japan. Consensus is also optimistic for Germany after the weak earnings growth in 2019.
- Overall, corporate earnings are expected to grow by 5% or more across all regions. However, history shows that analysts are almost always overly 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 03/01/2020



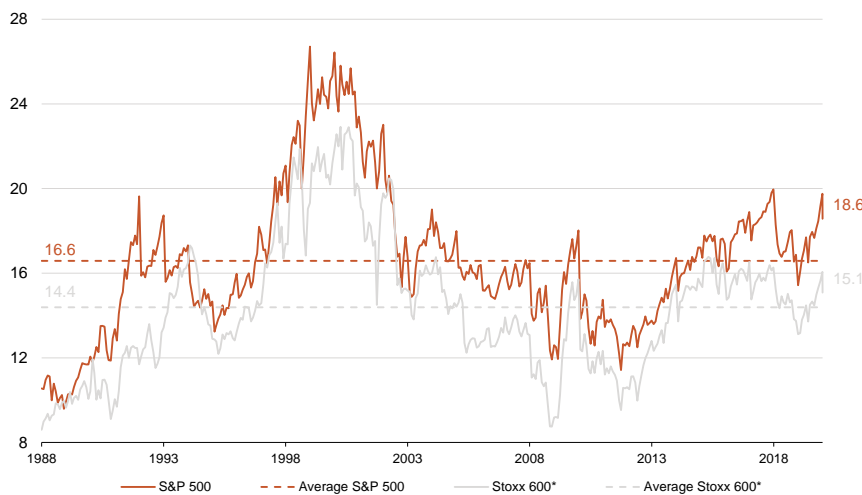
Contribution Analysis



- Following the elimination of the poor stock market performance in Q4 2018 from the rolling 12-month period, the contribution analysis looks much more positive.
- Over the past twelve months, both US and European equities have gained more than 20%. Earnings in the US have risen slightly, while they have stagnated in Europe. Consequently, the rise in valuations have been the main driver of strong equity market performance.

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: 01/01/2010 - 03/01/2020

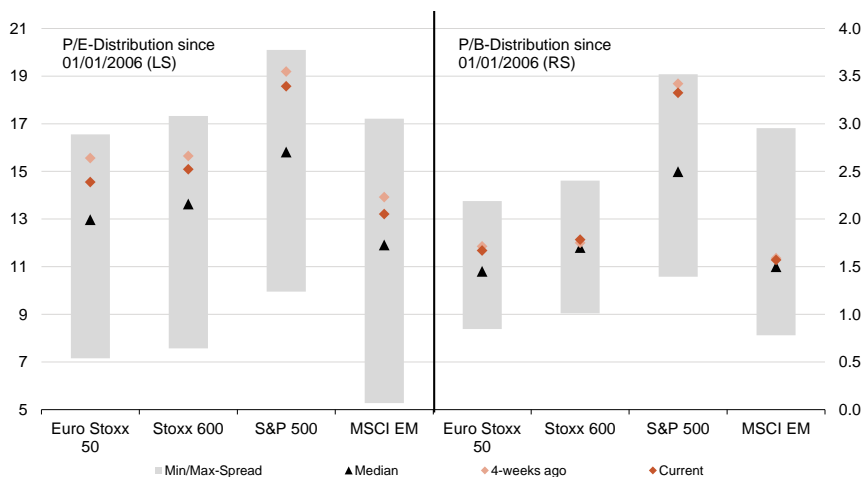
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- European and particularly US stocks remain expensively priced relative to their own history. US equities are similarly expensive, as observed towards the end of 2017, when the market anticipated the US tax reform.
- Compared to bonds, however, European equities remain favourably valued. The dividend yield stands at 3.5%, while German government bonds yields are still negative.

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 - 03/01/2020

Historical Distribution: Price/Earnings and Price/Book Ratio

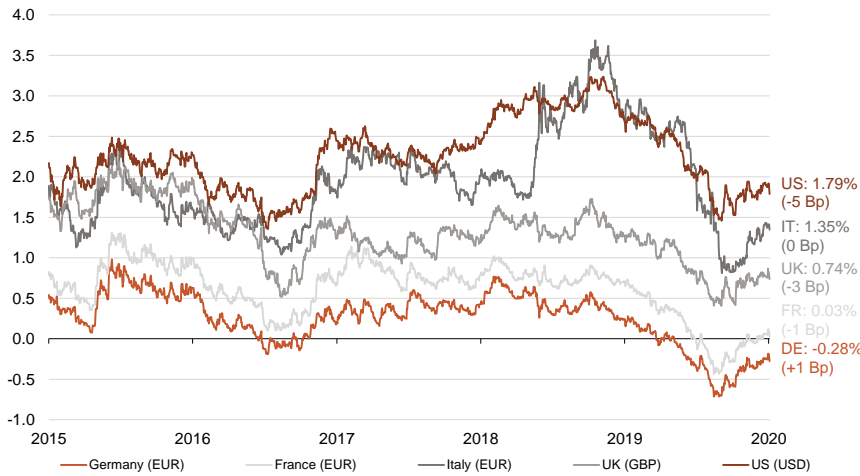


- All equity regions are priced expensively to their own history on both P/E and P/B basis.
- However, US equities are by far the most expensive and emerging market equities the least expensive.

Historical distribution of valuation indicators for selected stock regions since 2006, showing the current value, the observation four weeks ago and the historical median, the maximum (upper limit of the grey bar) and the minimum (lower limit of the grey bar).
Source: Bloomberg, Time period: 01/01/2006 - 03/01/2020



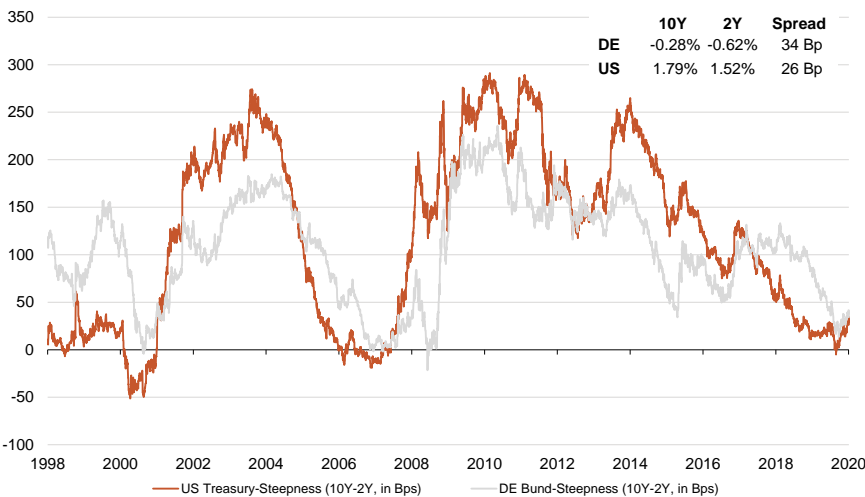
10-Year Government Bond Yields



- The rise in yields on safe government bonds has recently continued temporarily. The decline in trade related political uncertainties led to a risk-on sentiment in markets. US government bonds approached the 2% yield mark and yields on German government bonds moved clearly in the direction of positive yields. However, a flare-up of geopolitical risks recently caused yields to fall again.

Effective yield of 10-year government bonds and change in the last four weeks in basis points (in brackets).
Source: Bloomberg, Time period: 01/01/2015 - 03/01/2020

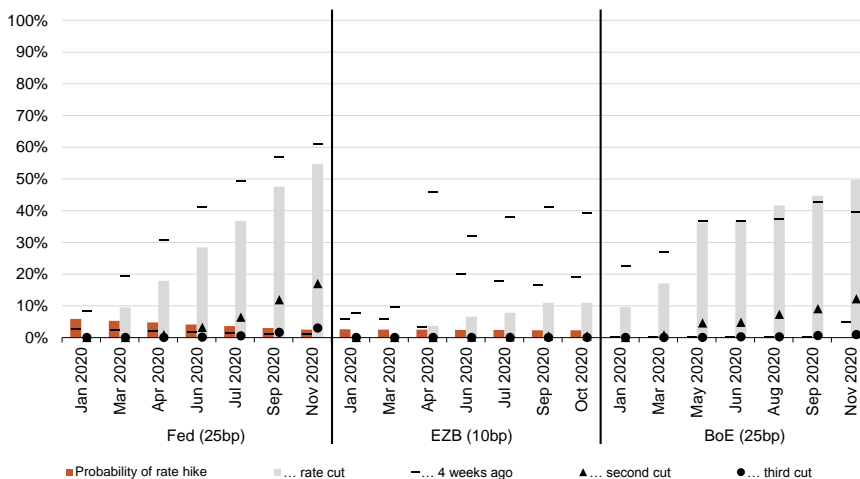
Yield curve steepness (10Y - 2Y)



- The positive sentiment on the markets at the beginning of the year can also be seen in the steepness of the yield curves. The steepness of the US yield curve rose well above 20 basis points and was at times at a level not seen since 2018.

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 - 03/01/2020

Implicit Probabilities for Changes in Key Interest Rates

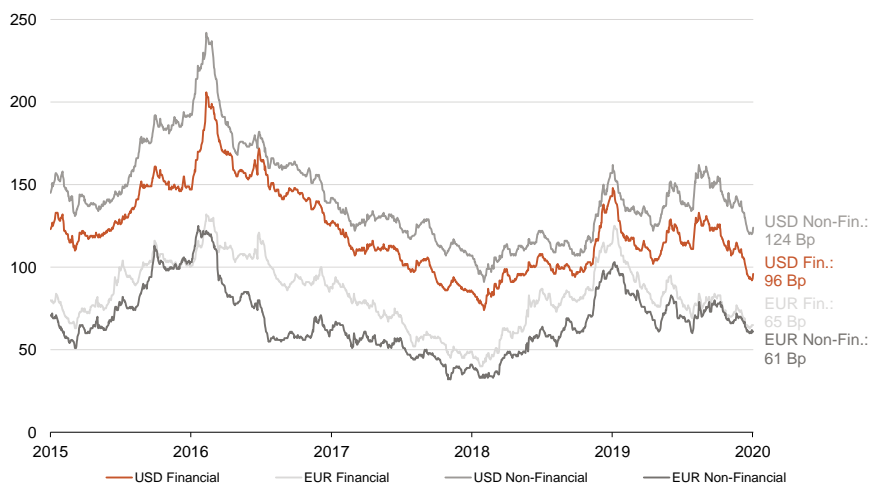


- In the eurozone, the probability of a rate cut is just over 10%. Thus, the market is pricing a stable deposit rate of -0.5% for the coming months, as an interest rate increase is also considered unlikely.
- In the US and the UK, the probability of a rate cut by November 2020 is around 50%. A further easing of monetary policy cannot therefore be ruled out.

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: 06/12/2019 - 03/01/2020



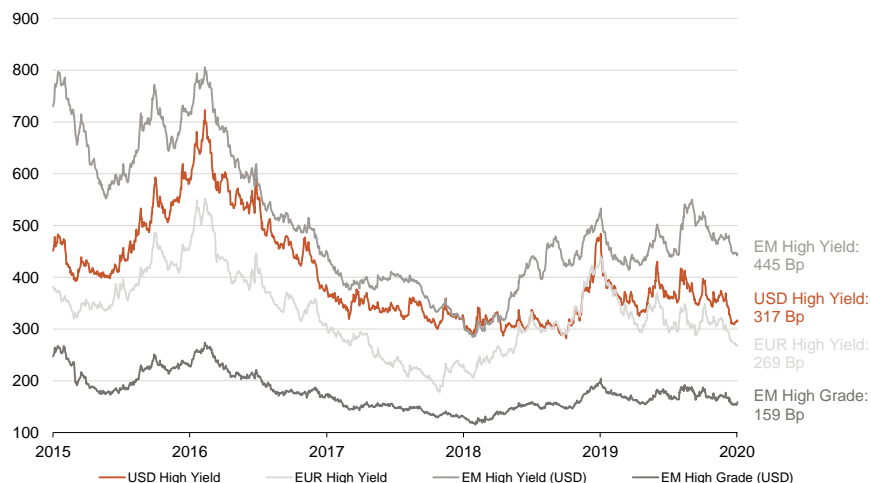
Credit Spreads Financial and Non-Financial Bonds



- Spreads on investment grade USD corporate bonds have fallen significantly due to the chase for yield, while spreads on EUR corporate bonds have tended to remain rather stable.
- Spreads on USD corporate bonds have fallen, especially in the automotive, consumer goods and real estate sectors. In EUR corporate bonds, the service sector saw rising spreads and the insurance sector saw falling spreads.

Explanations see middle and bottom illustration.
 Source: FactSet, Time period: 01/01/2015 - 03/01/2020

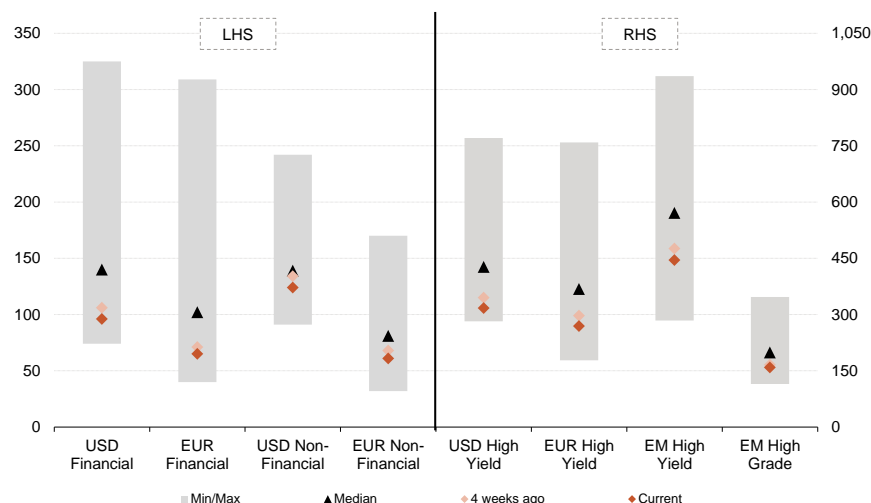
Credit Spreads High Yield and Emerging Markets Bonds



- In addition to USD and EUR high yield bonds, both emerging market investment grade and emerging market high yield bonds benefitted from the recent risk-on the markets. Compared to mid-December, the spreads in all segments have fallen by over 10 basis points.

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: 01/01/2015 - 03/01/2020

Historical Distribution of Credit Spreads (in bp)

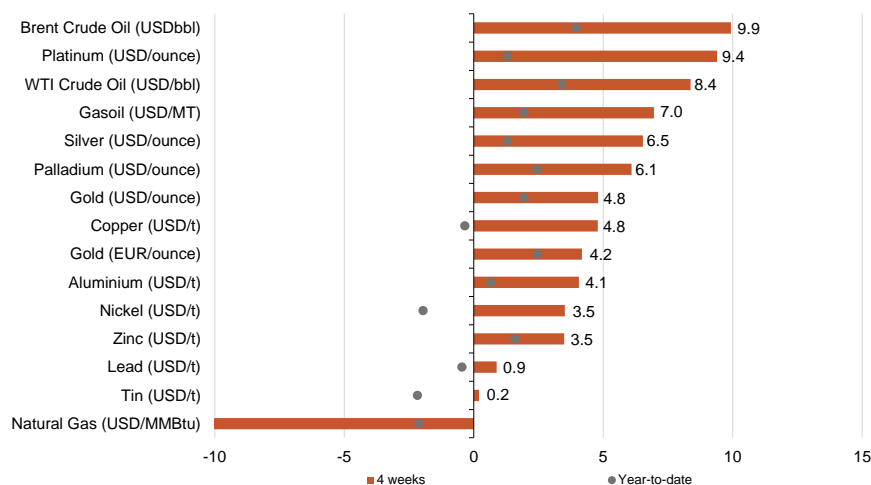


- Spreads have recently fallen significantly. USD non-financial bonds are thus now also among the historically expensive segments.
- Spreads on USD financial bonds has recently fallen below 100 basis points.

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: 04/01/2010 - 03/01/2020



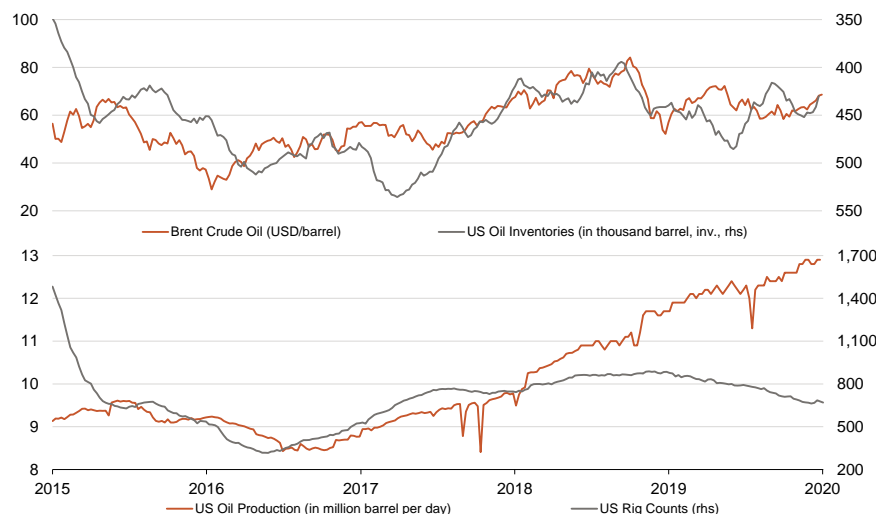
Commodities Performance



- Crude oil is considered a winner of the last four weeks and has also been at the forefront since YTD, given that the US air strike on Iranian General Qassem Soleimani is likely to intensify the conflicts in the Middle East.
- Among precious metals, platinum was able to gain some ground and among the industrial metals, copper shone.
- Natural gas has been at the bottom of the ranking in the last four weeks and since YTD due to massive production expansions in the US.

Total return of selected commodity prices, in percent, sorted by 4-week performance. Source: Bloomberg, Time period: 06/12/2019 - 03/01/2020

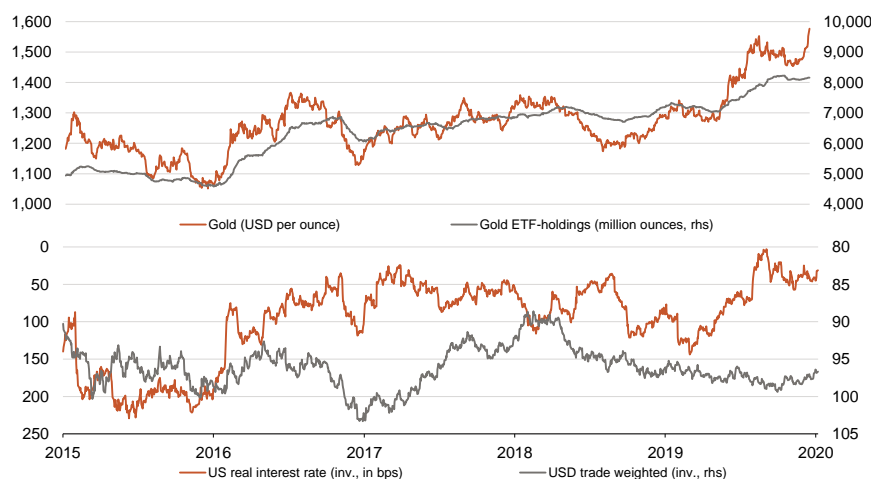
Crude Oil



- After the renewed unrest in the Middle East, the oil price managed to break through the USD 70 per barrel mark for the first time since the drone attack on Saudi refineries.
- The reduction in oil production announced by OPEC+ countries at the end of 2019 has already taken place sporadically. Saudi Arabia, Iraq and the United Arab Emirates have already cut production in December.

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: 01/01/2015 - 03/01/2020

Gold



- Gold has made a comeback in recent weeks. The gold price is now close to USD 1,575 an ounce. Geopolitical risks such as the conflict with Iran have increased the demand for safe assets like gold.
- But the weak US dollar has also supported the price of gold, as this makes gold traded in USD more affordable for investors.

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: 01/01/2015 - 03/01/2020

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