

Current market commentary

The positive trend in equity markets does not seem to be stoppable. The Iran conflict and the coronavirus were quickly priced out again. Both merely led to a small single-digit correction, which was used as a buying opportunity. The equity markets reached new all-time highs. On the corporate side, the Q4 reporting season is proceeding satisfactorily. The technology sector remains the driving force. The Nasdaq 100 has already recorded a return of over 8% since the beginning of the year in US dollars. While equities have more than recovered, crude oil and most base metals are still trading below pre-coronavirus levels. We see catch-up potential there. The US primary elections that have just begun have hardly moved markets so far. Super Tuesday on 3 March, when primary elections will be held in many states, will be more substantial. The negotiations between the UK and the EU, which are expected to start at the beginning of March, should lead to increased volatility in the British pound and UK shares.

Short-term outlook

By the end of next week, the majority of companies in the S&P 500 and Stoxx 600 will have presented their Q4 figures. The market will then increasingly focus on economic data again. Most companies will be able to resume their share buyback programs and give equity markets additional tailwind.

Investors are eagerly awaiting leading indicators for the month of February. These will show the extent to which the coronavirus has dampened the economic outlook for companies. The ZEW Economic Expectation report for Germany will be released on Tuesday, the Purchasing Managers' Indices for the UK, France, Germany on Friday, and for the US on February 21. This week, the Empire State (February 18th) and Philadelphia Fed Index (February 20th) will also be released in the U.S. However, leading indicators from China, which will be published between February 29 and March 4, are likely to be even more exciting.

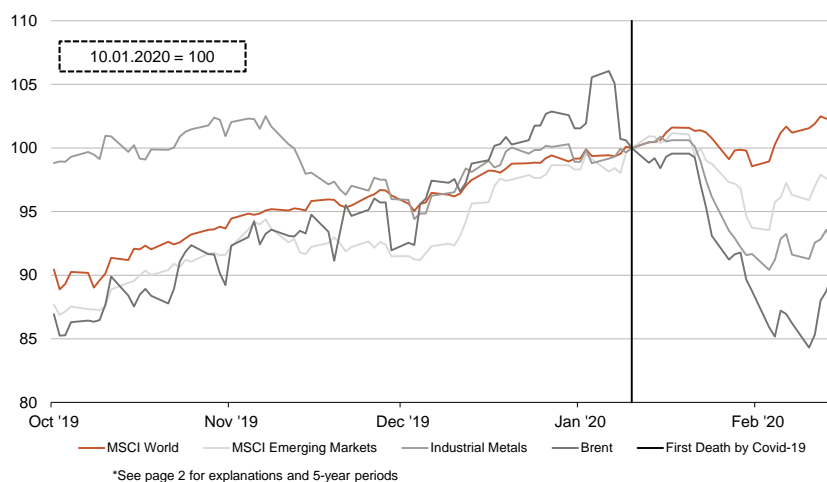
The bi-weekly *Monitor* gives you a structured overview of the current capital market environment and highlights important developments:

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

The Q4 corporate reporting season is coming to an end. Share buybacks should accelerate.

The market is eagerly awaiting early indicators of the economy after the coronavirus.

Industrial metals and crude oil with catch-up potential



- The asset classes most affected by the coronavirus (Covid-19) were industrial metals and crude oil. In contrast, equities in the developed world are already trading above their levels before the first death.
- Although emerging market equities also fell sharply, the sell-off was less dramatic than in the commodity markets.
- If the equity markets are right, industrial metals and crude oil offer catch-up potential.

Source: Bloomberg, Time period: 30/09/2019 - 14/02/2020



Multi Asset

	4-week & YTD		12-month periods over that last 5 years				
	4W (17/01/20 - 14/02/20)	YTD (31/12/19 - 14/02/20)	14/02/19	14/02/18	14/02/17	14/02/16	13/02/15
			14/02/20	14/02/19	14/02/18	14/02/17	14/02/16
REITs	6.8	10.4	23.1	22.3	-17.0	18.6	-12.3
Global Convertibles	4.3	8.4	19.5	11.3	-3.1	26.9	-9.4
Gold	4.2	8.1	25.9	7.1	-6.6	5.6	1.9
Global Corporates	3.1	4.5	14.3	9.4	-8.6	9.7	-0.7
MSCI World	3.1	6.9	26.1	9.0	0.1	33.3	-12.3
Global Treasuries	3.0	3.7	9.8	8.0	-7.3	3.4	3.8
USDEUR	2.4	3.5	4.3	10.2	-15.0	6.4	1.2
Eonia	0.0	-0.1	-0.4	-0.4	-0.4	-0.3	-0.1
MSCI Emerging Markets	-1.3	2.8	13.8	-1.2	10.4	43.1	-25.1
MSCI Frontier Markets	-1.3	1.5	12.7	-4.0	7.0	23.9	-15.1
Industrial Metals	-5.9	-3.1	-1.3	-7.4	0.9	45.2	-25.0
Brent	-7.5	-8.2	4.8	15.1	-3.0	52.1	-53.8

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.

- After the coronavirus has been rampant in recent weeks, almost all the asset classes have been performing well since the beginning of the year.
- Only base metals and Brent are still trading below their levels at the turn of the year.
- REITs performed particularly well in the last four weeks due to the fall in interest rates.

Total return of selected asset classes, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 13/02/2015 - 14/02/2020

Equities

	4-week & YTD		12-month periods over that last 5 years				
	4W (17/01/20 - 14/02/20)	YTD (31/12/19 - 14/02/20)	14/02/19	14/02/18	14/02/17	14/02/16	13/02/15
			14/02/20	14/02/19	14/02/18	14/02/17	14/02/16
S&P 500	4.0	8.6	30.8	14.1	0.2	36.4	-7.9
Stoxx Europe Cyclical	2.5	3.8	21.6	-7.8	8.2	34.0	-21.0
MSCI USA Small Caps	1.9	5.3	16.6	14.7	-5.5	51.6	-17.6
Stoxx Europe Defensives	1.9	5.4	21.4	12.4	-2.0	11.6	-12.8
DAX	1.6	3.7	23.9	-10.1	4.8	31.3	-18.2
Stoxx Europe Small 200	1.4	3.2	22.5	-2.4	9.7	25.0	-12.6
Stoxx Europe 50	1.0	3.3	22.5	1.5	1.8	19.4	-16.7
Euro Stoxx 50	1.0	2.8	23.9	-2.9	4.3	23.7	-18.1
Topix	0.7	1.5	15.3	1.6	2.7	38.5	-10.5
MSCI EM Asia	-0.7	4.2	15.9	-1.1	13.1	38.9	-22.0
MSCI UK	-1.4	0.0	12.9	4.9	-1.8	21.4	-18.4
MSCI EM Eastern Europe	-5.0	0.1	28.7	3.1	3.8	63.4	-22.1

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; MSCI USA Small Caps: MSCI USA Small Caps TR; 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.

- In the first one and a half months of this year, US-large caps have already gained more than 8% in euro terms, almost half of which is attributable to the recent strength of the dollar.
- However, the more cyclical equity regions of Europe have also been able to record a pleasing performance over the past four weeks. Investors apparently expect only a short-term economic slowdown due to the coronavirus.

Total return of selected equity indices, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 13/02/2015 - 14/02/2020

Fixed Income

	4-week & YTD		12-month periods over that last 5 years				
	4W (17/01/20 - 14/02/20)	YTD (31/12/19 - 14/02/20)	14/02/19	14/02/18	14/02/17	14/02/16	13/02/15
			14/02/20	14/02/19	14/02/18	14/02/17	14/02/16
Treasuries	4.0	5.7	13.0	14.2	-15.0	4.4	4.6
USD Corporates	4.0	6.1	18.7	13.3	-12.6	13.1	-0.4
BTPs	3.3	3.4	14.5	-1.7	3.6	-1.5	1.9
Gilts	3.2	4.8	14.8	6.6	-4.7	-4.7	-0.4
USD High Yield	2.6	4.5	14.2	16.0	-12.5	30.9	-9.9
EM Local Currency Bonds	2.0	3.6	11.6	6.8	-5.5	17.5	-8.9
EUR Inflation Linkers	1.5	1.9	8.3	-0.7	2.8	2.5	-2.2
Bunds	1.3	1.7	3.6	5.1	-2.0	-0.2	1.3
EM Hard Currency Bonds	1.2	1.7	7.7	0.1	1.4	10.1	-0.6
EUR Financials	0.9	1.1	5.6	0.7	2.5	4.5	-1.4
EUR Non-Financials	0.9	1.3	5.8	1.4	1.3	4.7	-2.3
EUR High Yield	0.3	0.8	7.6	-0.1	2.9	12.3	-4.4

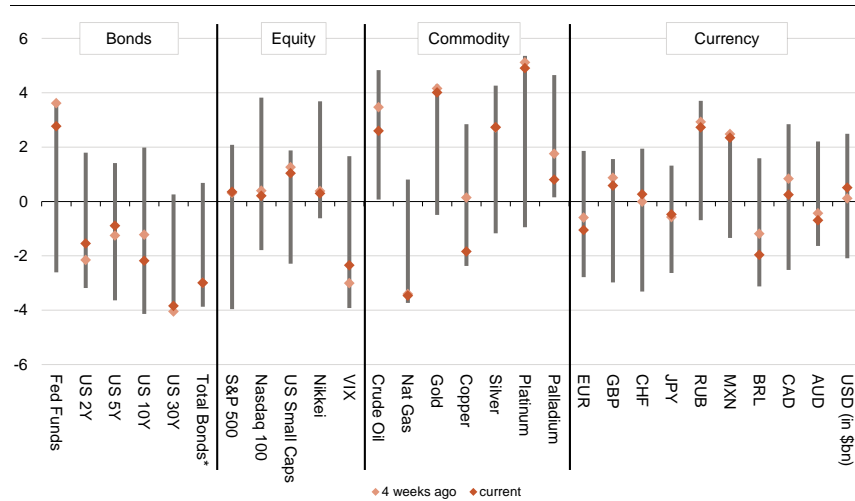
Bunds: Barclays Germany Govt All Bonds TR; BTPs: Barclays Italy Govt All Bonds TR; Treasuries: Barclays US Treasury TR;
 Gilts: Barcl. UK Govt All Bonds TR; EUR Inflation Linkers: Barcl. Euro Govt Inflation-Linked Bond All Maturities TR; EUR Financials: iBoxx Euro Fin. Overall TR;
 EUR Non-Financials: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

- Bond markets has been positive across all segments over the last four weeks and since the beginning of the year. And here, too, the USA is leading the field thanks to the strong dollar.
- After the clear election defeat of Salvini and his right-wing Lega in Emilia Romagna, early elections have been averted for the time being, to which Italian government bonds reacted positively.

Total return of selected fixed income indices, in euros and in percent, sorted by 4-week performance.
 Source: Bloomberg, Time period: 13/02/2015 - 14/02/2020



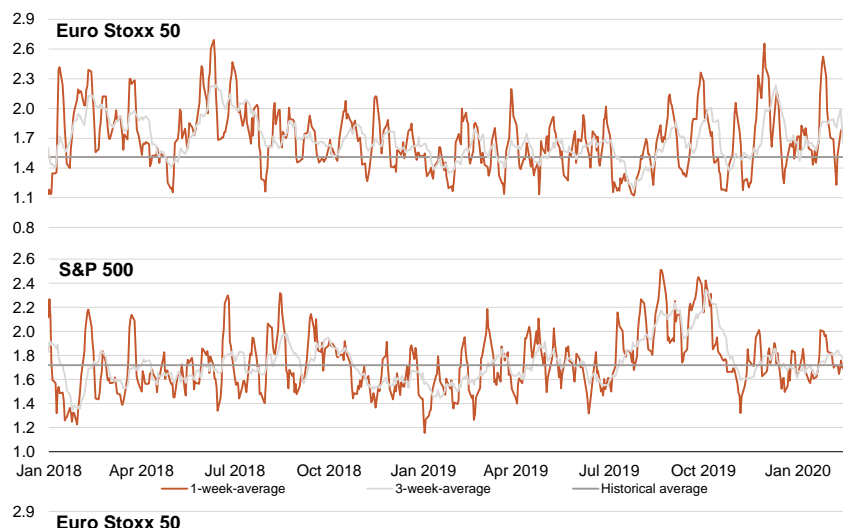
Non-Commercial Positioning



- Speculative investors have significantly reduced their positioning in crude oil due to the demand shock caused by the coronavirus.
- In copper there was a massive increase in net short positioning.

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: 11/02/2010 - 11/02/2020

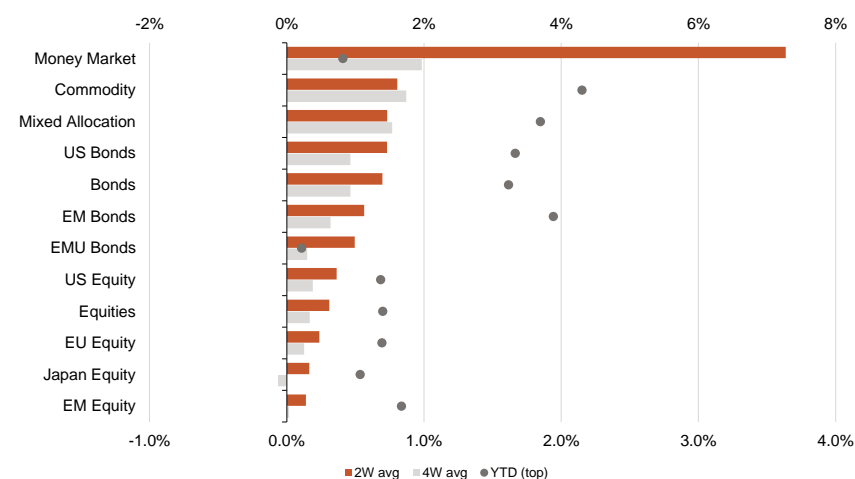
Put-Call Ratio



- The put-call ratio for American equities is currently trading at its historical average. Despite new all-time highs, there does not seem to be a pronounced need for security at the moment.
- In Europe, the market is becoming increasingly vulnerable to setbacks given the very low put-call ratio.

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 - 14/02/2020

ETF Flows

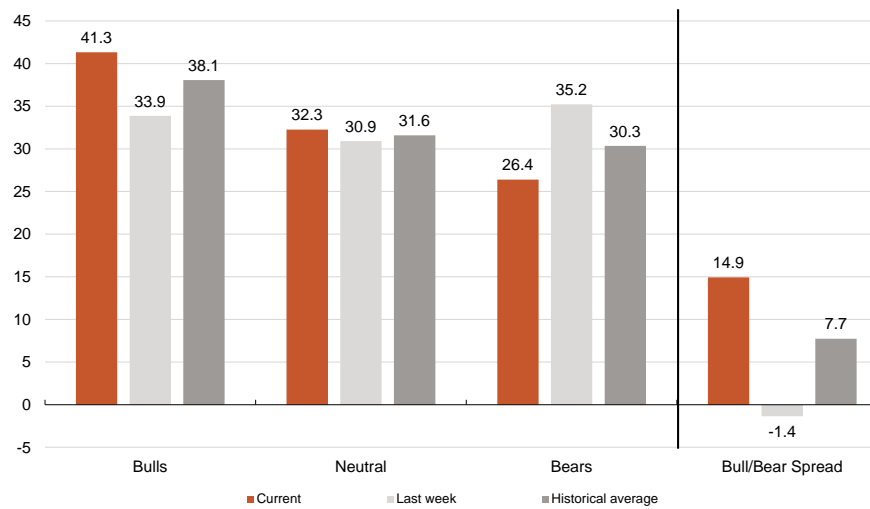


- ETF flows have been positive across all asset classes both over the last few weeks and year-to-date.
- While there were outflows from money market ETFs at the beginning of the year, demand was exceptionally strong in the last two weeks. The reasons for this were the increased market risks and the passing on of negative interest rates at more and more banks.
- Bond ETFs also remain popular with investors, whereas equities saw only very slight inflows.

Estimated ETF flows in percent of assets under management, sorted by 2-week average. Source: Bloomberg, Time period: 31/12/2019 - 14/02/2020



AAII Sentiment Survey (Bulls vs Bears)

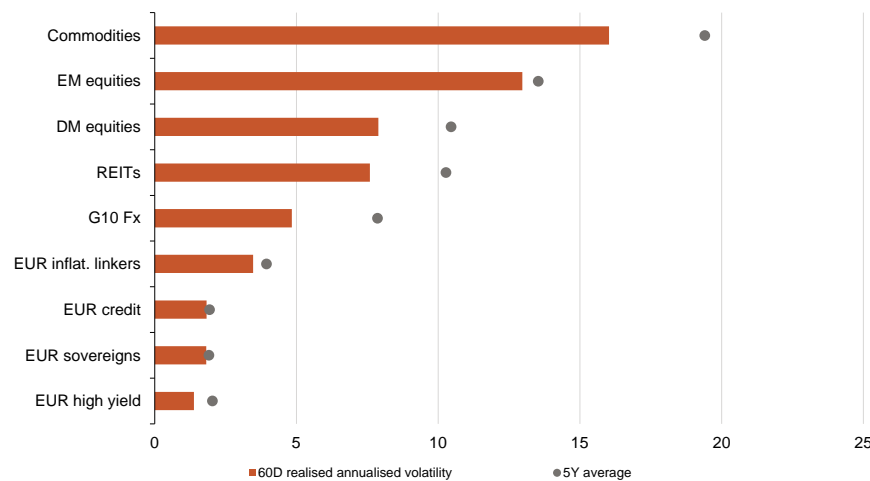


- The erratic mood among US private investors since the beginning of the year continues. While the bears had the upper hand in the previous week, optimism now clearly prevails in the US market.
- At 14.9, the bull-bear spread is currently almost twice as high as the historical average.

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 - 13/02/20

Realised Volatilities

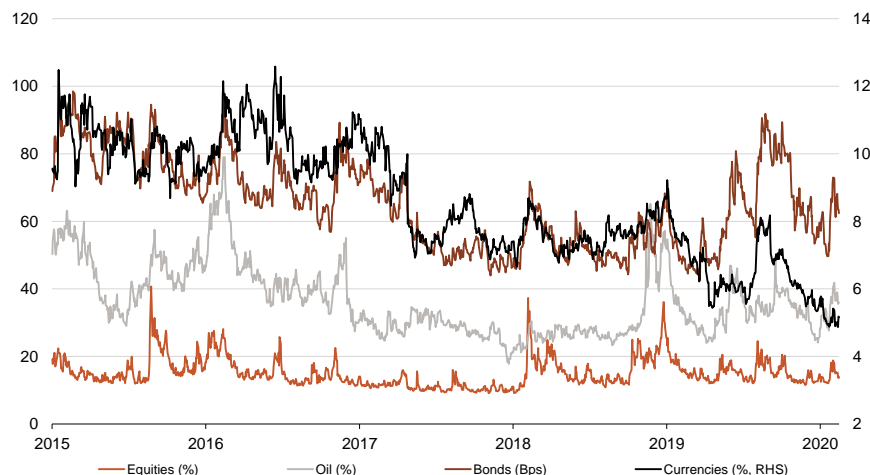


- The outbreak of the coronavirus caused an increase in realised volatility, especially in commodity markets and emerging market equities.
- Equities in developed markets also showed increased volatility compared with two weeks ago, which for the first time since the beginning of the year now exceeds the realised volatility of REITs.
- By contrast, safer asset classes such as European government and corporate bonds have recently been less volatile than two weeks ago.

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: 13/02/2015 - 14/02/2020

Implied Volatilities



- In line with realised volatility, implied volatility of government bonds has also fallen again.
- The other asset classes presented here also show lower implied volatilities than two weeks ago. The uncertainty in markets with regard to the coronavirus appears to be abating.

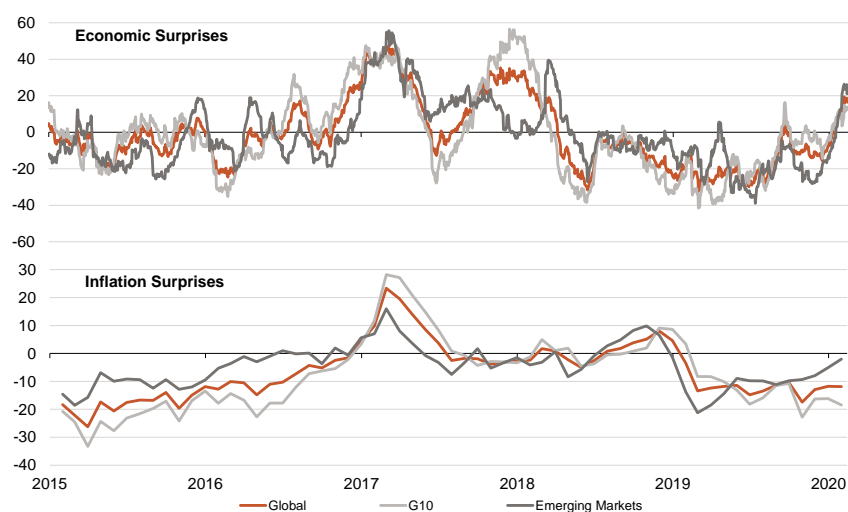
The price of options depends on the volatility of the underlying instrument. Implied volatility can therefore be interpreted as a measure of the currently expected fluctuation range of the underlying compared to the market over the remaining term of the option. It is a measure of prevailing uncertainty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

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

Source: Bloomberg, Time period: 01/01/2015 - 14/02/2020



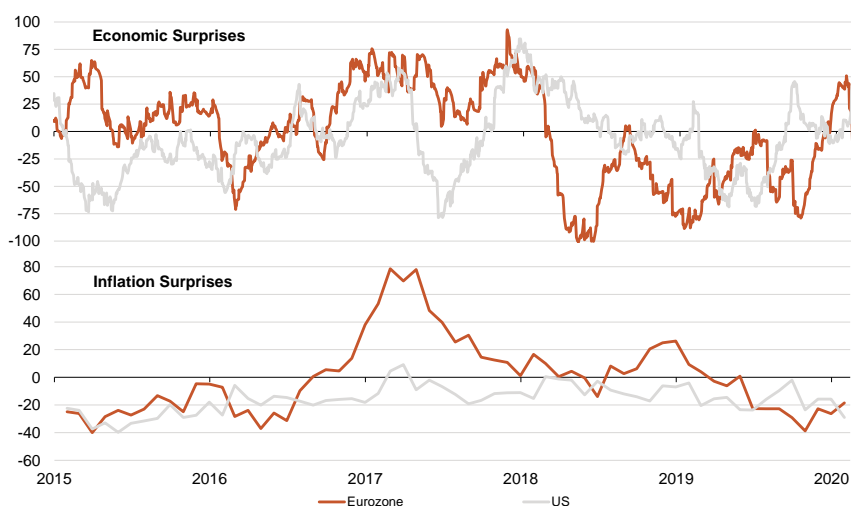
Global



- Although the latest economic data in Europe, which mostly relate to December, have disappointed, there have tended to be positive economic surprises at the global level and in the emerging markets. In China, however, the purchasing managers' index for the services sector (Jan.) has recently disappointed and the February figures are also likely to be rather modest due to the coronavirus.
- Inflation in emerging markets has recently surprised less strongly to the downside, as inflation in China and India was higher than expected.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 14/02/2020

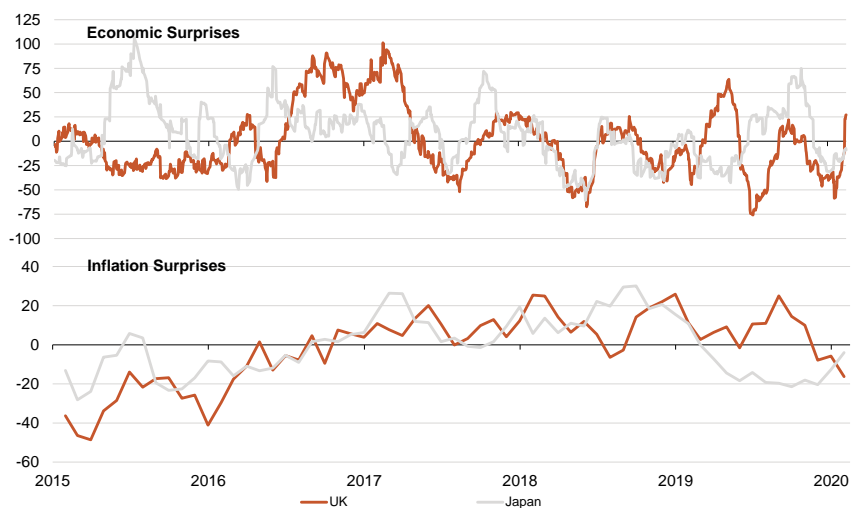
Eurozone and US



- The picture in the eurozone and the USA has turned. In the eurozone, the economic outlook has turned negative. Disappointing industrial production and new orders in several eurozone countries in December were the biggest negative factors. The Purchasing Managers' Indices, however, were better than expected. In the US, labor market data, new orders (Dec.), consumer confidence and the Purchasing Managers' Indices (ISM, Jan.) surprised to the upside.

See explanations below.
Source: Bloomberg, Time period: 01/01/2015 - 14/02/2020

UK and Japan

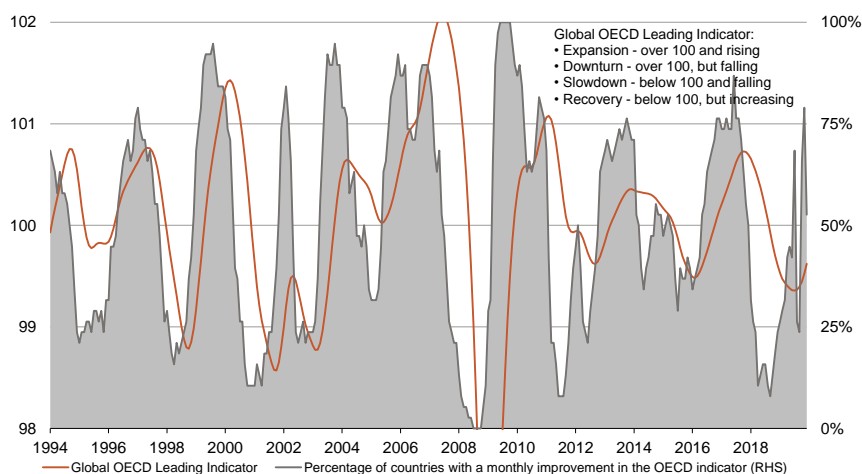


- The UK recently surprised with better than expected Q4 growth and rising purchasing managers' indices.
- In Japan, machinery orders fell by 35.6% year-on-year in January, while the purchasing managers' index for industry as a whole rose slightly.

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 - 14/02/2020



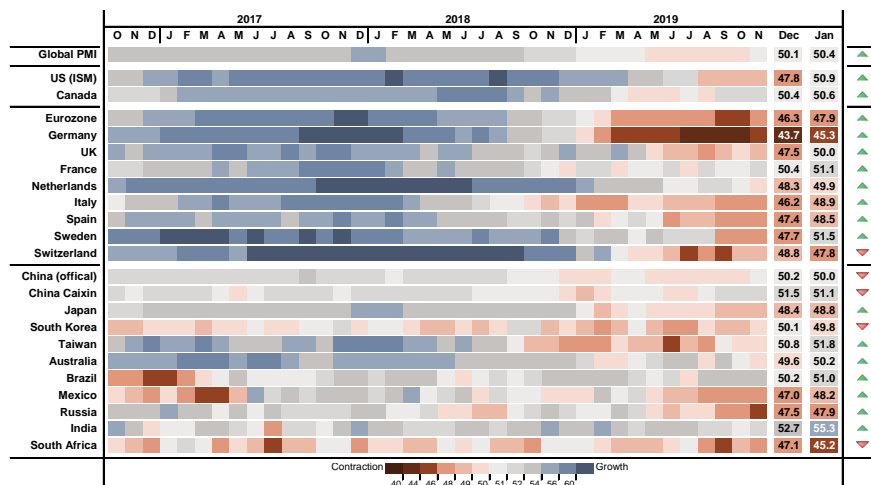
OECD Leading Indicator



- As in the previous month, the OECD leading indicator for December indicates a global economic recovery. Although this could be delayed by the outbreak of the coronavirus, in our view it is unlikely to fail. The number of countries with a better OECD indicator than in the previous month also remains above 50%.

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

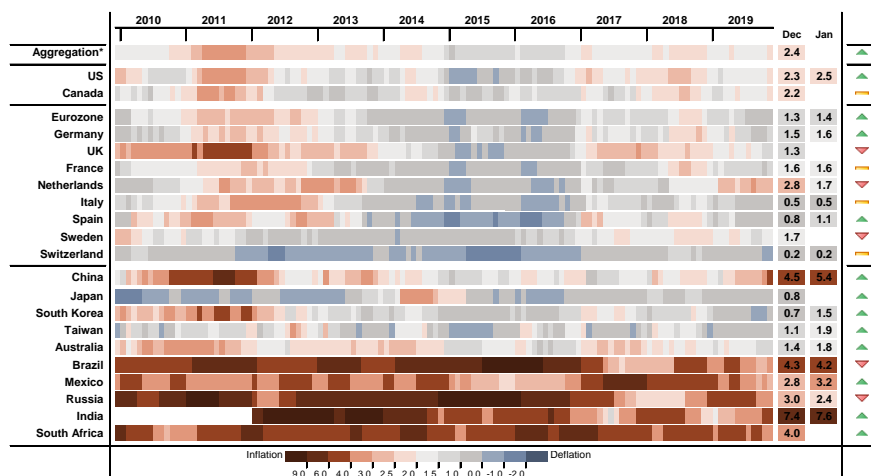
Manufacturing Purchasing Managers Index (Manufacturing PMI)



- The global PMI rose to 50.4 in January, its highest level since April 2019, and the industrial purchasing managers' index has risen in the majority of industrialised nations, such as the US, Germany, France and the UK, while the purchasing managers' index in China has fallen 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: 31/10/2016 - 31/01/2020

Headline Inflation

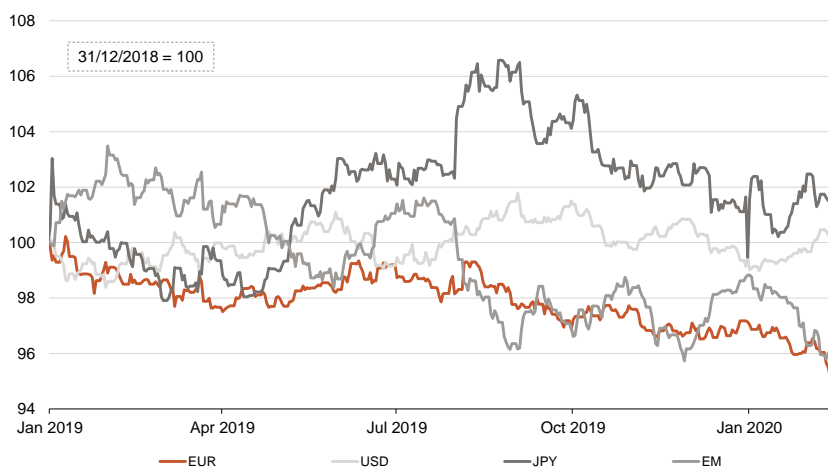


- In the USA, inflation rose to 2.5% and remained above the 2% target.
- In China, inflation rose sharply again in January to 5.4%. In addition to the weak Renminbi and higher food prices, the outbreak of the coronavirus is likely to have contributed to rising inflation. In other Asian countries such as India and South Korea, inflation has also risen.

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 - 31/01/2020



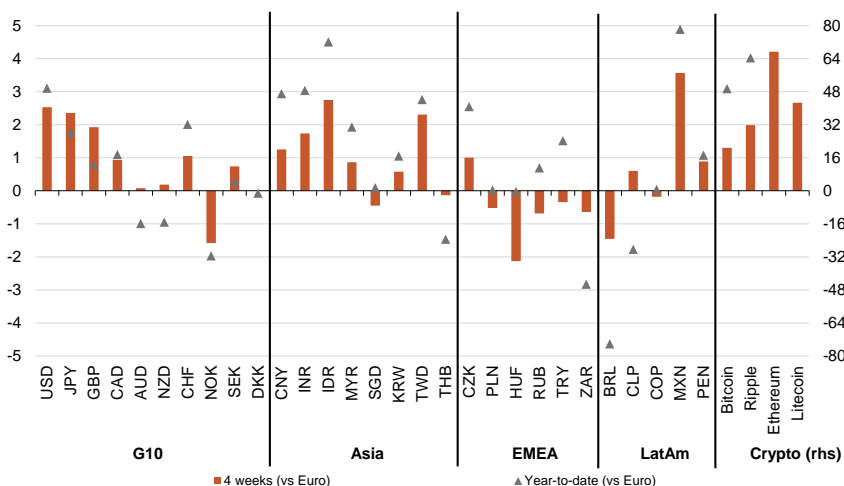
Trade-Weighted Currency Development



- The biggest laggard in currency markets over the last two weeks was the euro. Its weakness was triggered by disappointing economic data, among other things.
- Emerging market currencies also continued to lose on a trade-weighted basis due to the coronavirus and its economic consequences.
- By contrast, particularly the US dollar was able to benefit from the shift in currency markets, while the Japanese yen recently stopped its upward trend.

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: 01/01/2019 - 14/02/2020

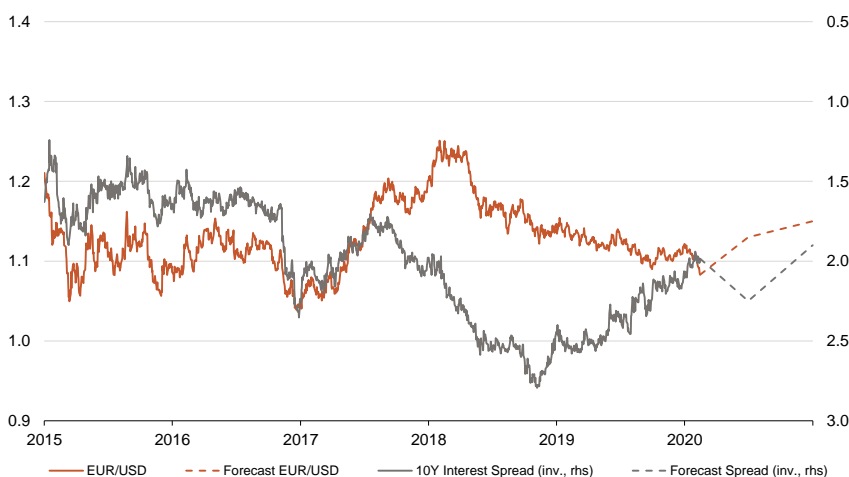
Currency Moves vs Euro



- The euro could only hold its own against the EMEA region in the last four weeks.
- Although the coronavirus originates in China, Asian currencies have appreciated against the euro.
- Crypto-currencies have been able to further increase their gains since the beginning of the year.

Performance of selected currencies against the euro, in percent.
Source: Bloomberg, Time period: 31/12/2019 - 14/02/2020

EUR/USD exchange rate and interest rate differential



- Following the recent weakness of the euro and the strengthening of the dollar, the euro-dollar exchange rate is now below the mark of USD 1.09 per euro and thus at its lowest level since May 2017.
- The stable US economy, the positive yields on Treasuries, and its function as a safe haven continue to boost demand for the US dollar.

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 (17/01/20 - 14/02/20)	YTD (31/12/19 - 14/02/20)	14/02/19	14/02/18	14/02/17	14/02/16	13/02/15
Utilities	8.2	14.2	36.9	21.2	0.0	5.0	-11.7
Finance	4.5	4.3	20.7	-14.5	8.7	32.2	-23.3
Information Technology	4.2	9.6	34.3	6.3	12.4	29.8	-10.5
Health Care	1.9	6.1	30.5	13.5	-6.2	10.2	-11.9
Growth	1.8	5.4	28.0	3.4	4.0	16.5	-9.4
Industrials	0.7	3.3	26.9	-0.7	6.2	32.1	-14.5
Telecommunications	0.7	1.3	8.5	-2.9	-5.1	-3.4	-11.9
Consumer Staples	0.6	3.3	19.3	6.7	-1.2	9.1	1.0
Value	0.5	1.3	13.5	-2.7	3.1	28.8	-22.1
Materials	-0.6	0.1	14.2	-3.1	9.1	56.6	-29.8
Consumer Discretionary	-3.2	-0.4	21.3	-5.8	6.4	19.9	-16.1
Energy	-7.7	-6.4	-7.0	15.7	2.8	38.6	-24.0

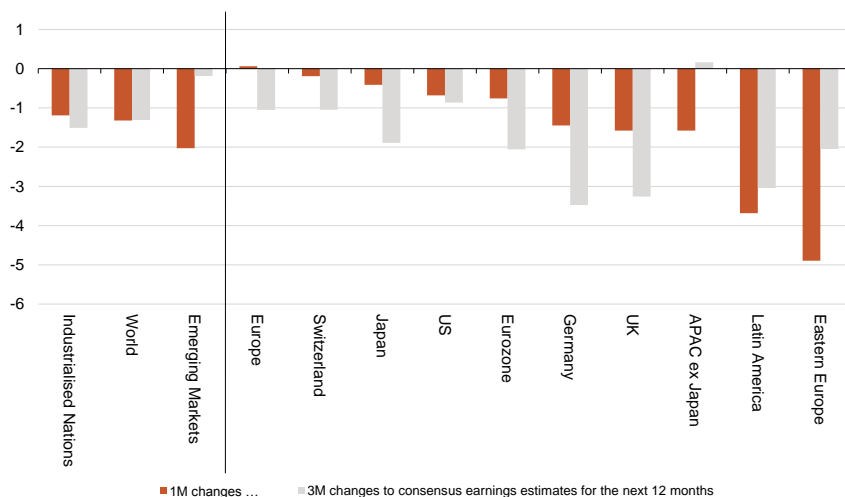
Consumer Discretionary: MSCI Europe Consumer Discretionary NR; Consumer Staples: MSCI Europe Cons. Staples NR; Energy: MSCI Europe Energy NR; Finance: MSCI Europe Financials NR; Health Care: MSCI Europe Health Care NR; Industrials: MSCI Europe Industrials NR; Information Tech.: MSCI Europe Inform. Tech.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

- Following the rapid recovery on the European stock markets, only the energy sector has now shown a significant negative performance year-to-date due to the sharp drop in oil prices.
- Utilities and the financial sector have performed particularly well in the last four weeks.

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: 14/02/2015 - 14/02/2020

Changes in Consensus Earnings Estimates



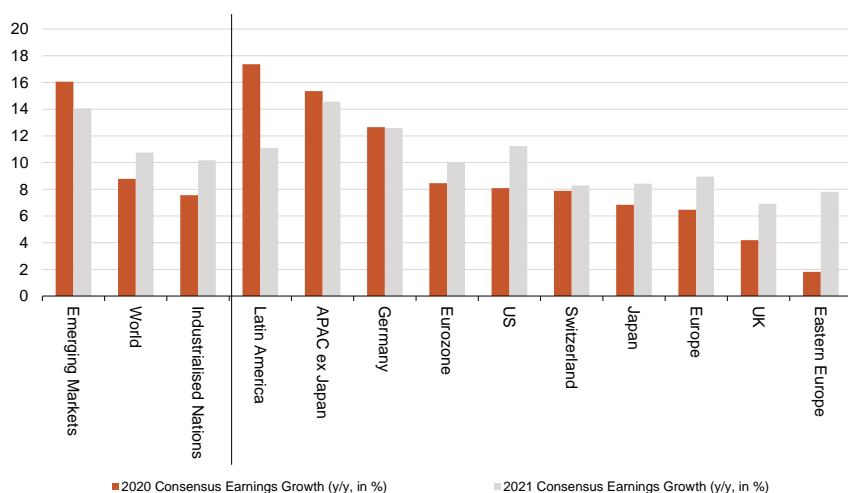
- The negative earnings revisions by analysts around the world continue to persist due to the coronavirus.
- Especially in the emerging markets of Eastern Europe and Latin America, earnings estimates have been revised downwards by more than 5% on a monthly basis.
- Analysts have also lowered their earnings estimates for German companies by over 3% in the last three months.

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 14/02/2020

Earnings Growth



- Although analysts have already revised their earnings estimates for emerging markets sharply downwards, they still forecast earnings growth of around 16% in 2020.
- The economic slowdown caused by the coronavirus and rising wages will put pressure on sales and margins in the future, resulting in earnings estimates for 2020 continuing to be too optimistic.

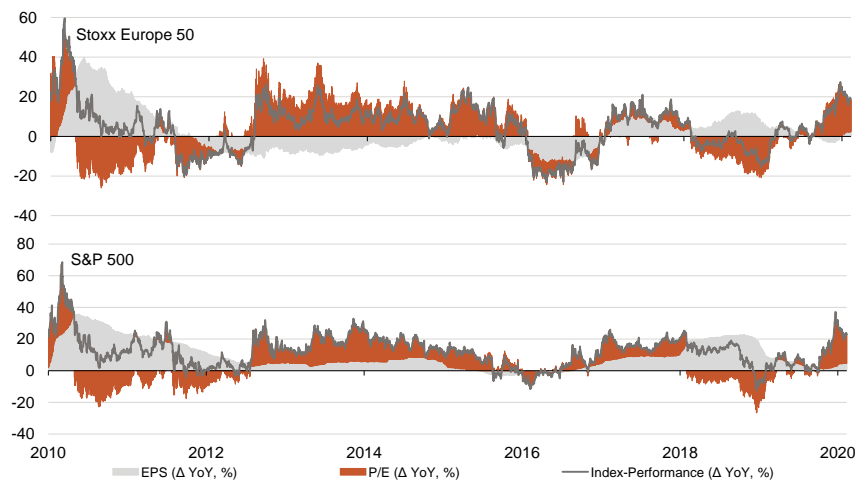
Calendar year earnings growth expected to the consensus for selected equity regions, compared to the previous year and in percent. The earnings estimates of the individual companies are aggregated using the index weights (bottom-up).

APAC ex Japan = Asia Pacific ex Japan

Source: FactSet, as of 14/02/2020



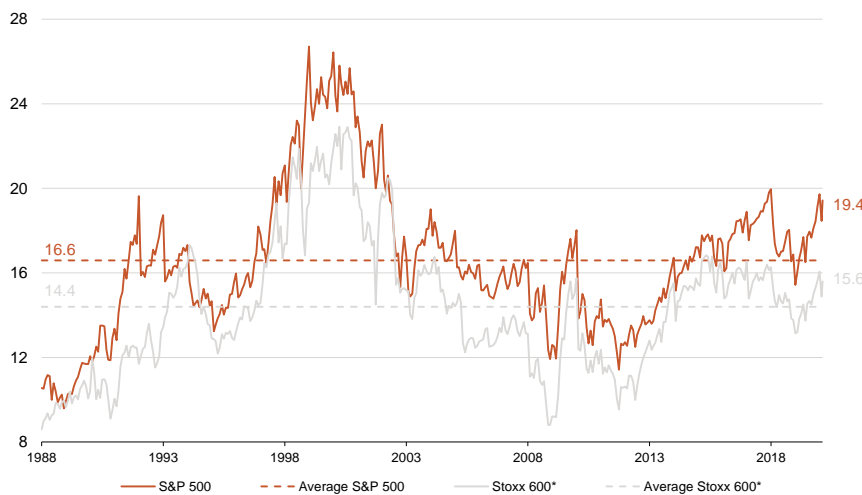
Contribution Analysis



- The increase in valuations was one of the main drivers of good stock market performance recently. However, rising corporate earnings in both Europe and the US are also playing an increasingly important role. The Q4 reporting season is proceeding satisfactorily on both sides of the Atlantic and the technology sector remains the driving force.

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 - 14/02/2020

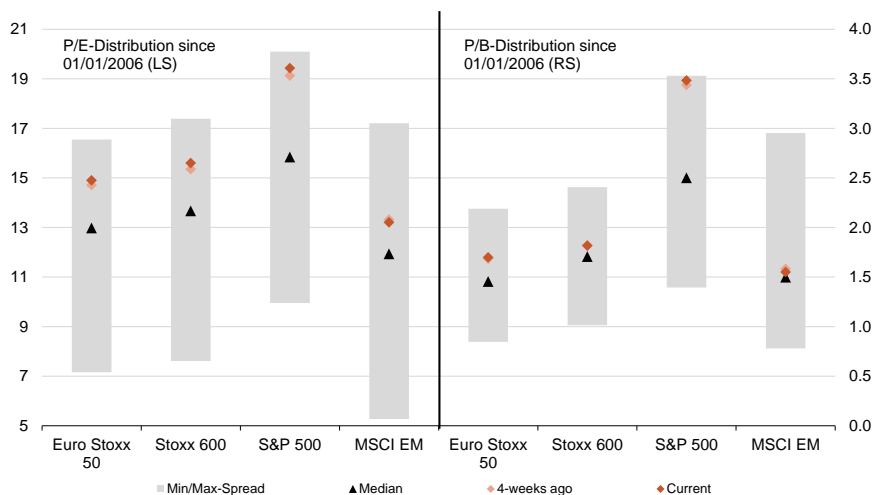
Price-Earnings Ratio (P/E Ratio) of European and US Equities



- In the wake of the declining rate of coronavirus infection and lack of alternatives, investors have become more optimistic again and continued to buy shares. This led to a rising P/E ratio in both Europe and the USA, with US equities benefiting disproportionately. Both equity regions are now trading well above the historical average again.

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, IBES Time period: 31/12/1987 - 14/02/2020

Historical Distribution: Price/Earnings and Price/Book Ratio

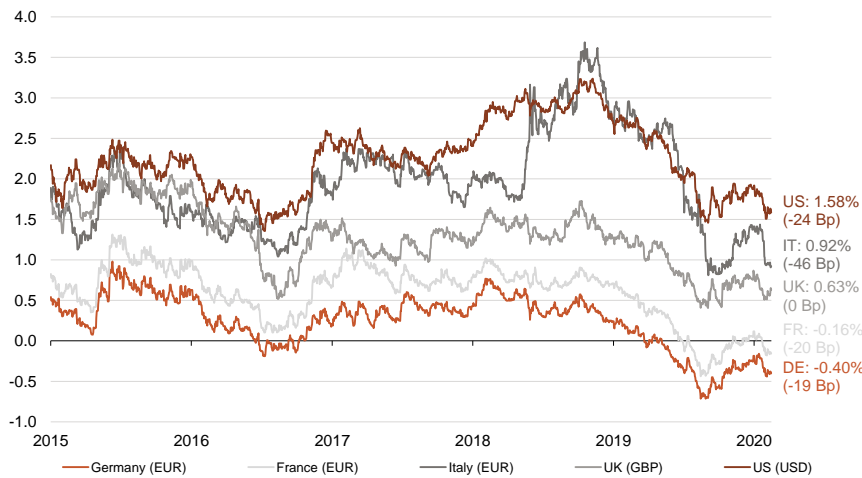


- The price-to-book ratio of the S&P 500 recently approached its 14-year high. The price-earnings ratio has also increased significantly and is close to its highest level since 2006.
- While the valuation ratios of European equities have also widened, emerging market equities saw little change and thus offer catch-up potential.

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 - 14/02/2020



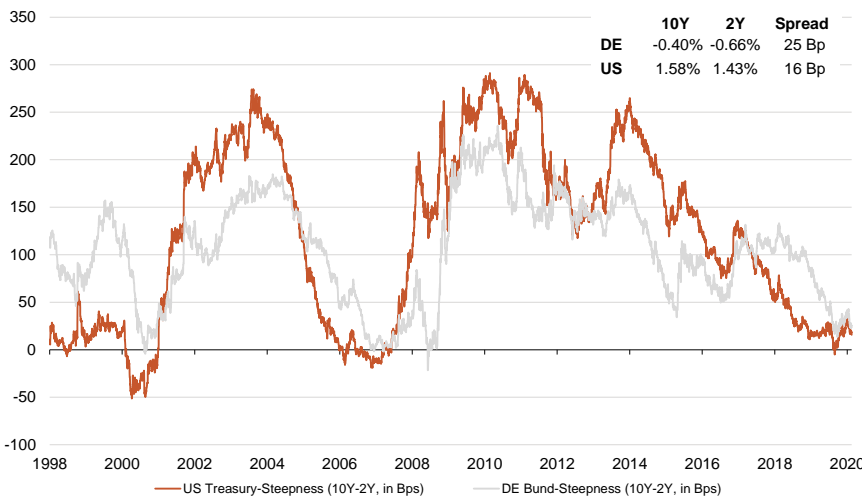
10-Year Government Bond Yields



- European government bonds are yielding significantly lower yields than a month ago. Investors sought protection in safe government bonds as the coronavirus spread. The European periphery in particular experienced a massive yield tightening. Italian government bonds saw yields fall by almost 50 basis points over the month.
- The yield on 10-year US government bonds fell to almost 1.5% at the end of January, only to stabilise recently at around 1.6%.

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 - 14/02/2020

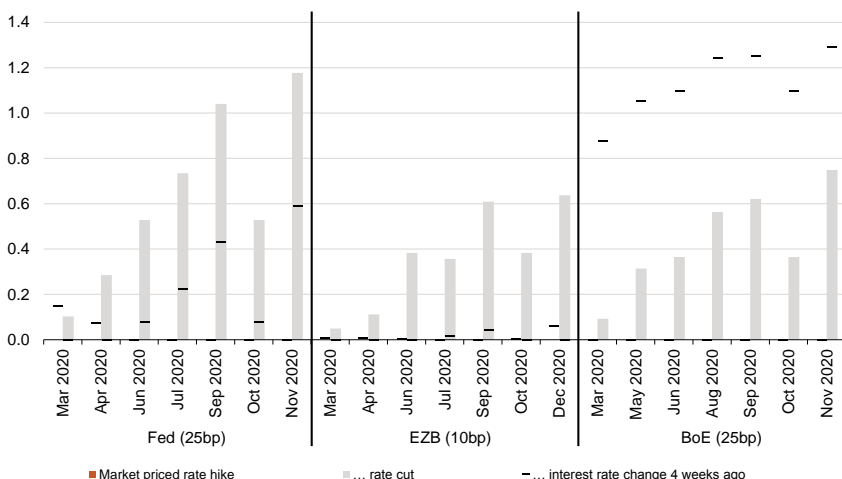
Yield curve steepness (10Y - 2Y)



- The steepness of the yield curve in Germany and the US has hardly changed in the last two weeks and remains low. In contrast to the equity market, the bond market has not yet priced out the economic risk posed by the coronavirus and remains cautious.

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 - 14/02/2020

Implicit Changes in Key Interest Rates

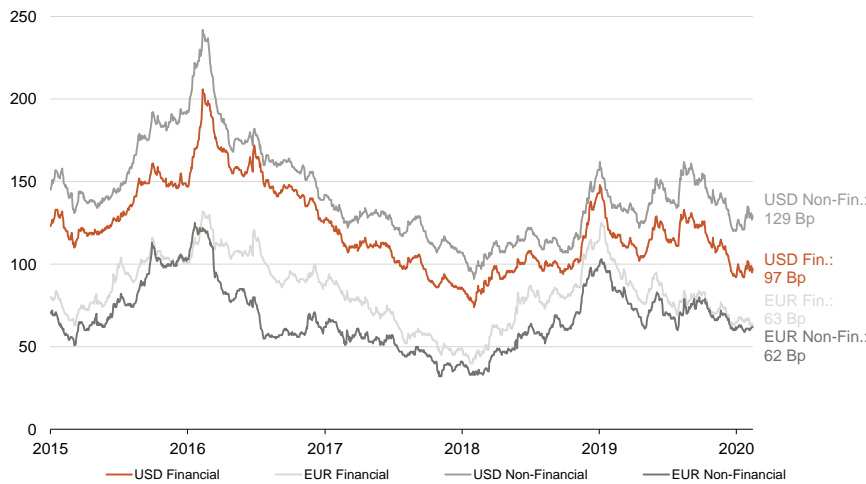


- With the decline in the coronavirus infection rate and the good US economic data, the market is now pricing in only one interest rate cut by the Fed this year, compared to two rate cuts two weeks ago.
- After the interest rate cut in the UK failed to materialise in January, the market is now only pricing in an interest rate cut until November 2020 with just under 80% probability.

Derivatives on money market rates - such as the Fed funds futures - can be used to determine changes (number of steps) in the key interest rate priced by the market
Source: Bloomberg, Time period: 17/01/2020 - 14/02/2020



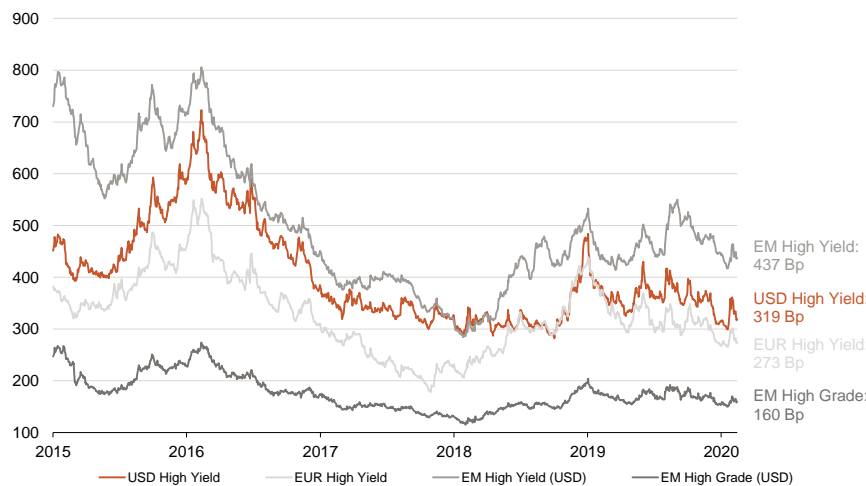
Credit Spreads Financial and Non-Financial Bonds



- In the last two weeks, spreads on investment-grade corporate bonds have fallen by several basis points. USD corporate bonds, which have experienced a disproportionate widening of spreads in the wake of the coronavirus, have recently seen the largest narrowing of spreads.
- In USD bonds, the leisure sector saw the largest spread tightening on a two-week horizon, while it experienced the largest spread widening in EUR bonds.

Explanations see middle and bottom illustration.
Source: FactSet, Time period: 01/01/2015 - 14/02/2020

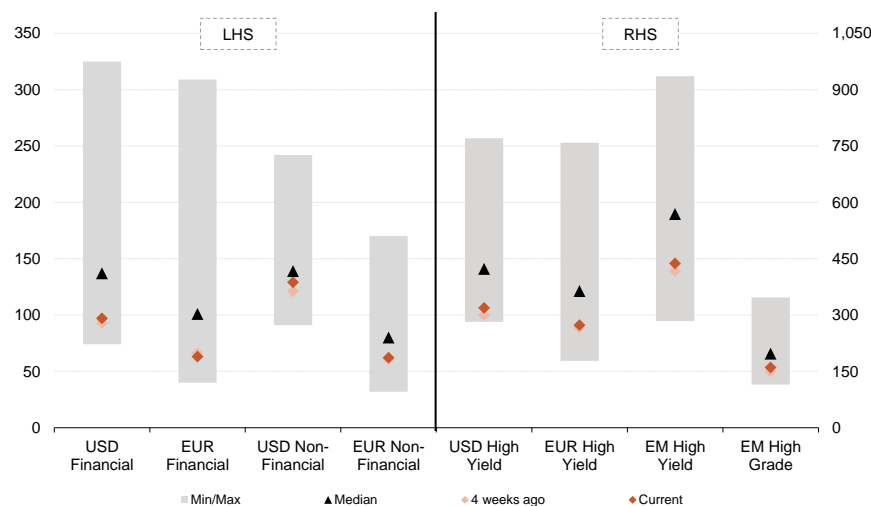
Credit Spreads High Yield and Emerging Markets Bonds



- Spreads for high-yield bonds, which rose in January, have recently fallen significantly. The coronavirus is already being phased out and the economic recovery priced in again. Investors invested new record amounts on a weekly basis. The USD high-yield bond market saw spreads narrow by more than 40 basis points over two weeks. Spreads in the defensive retail sector fell to a five-year low.

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 - 14/02/2020

Historical Distribution of Credit Spreads (in bp)

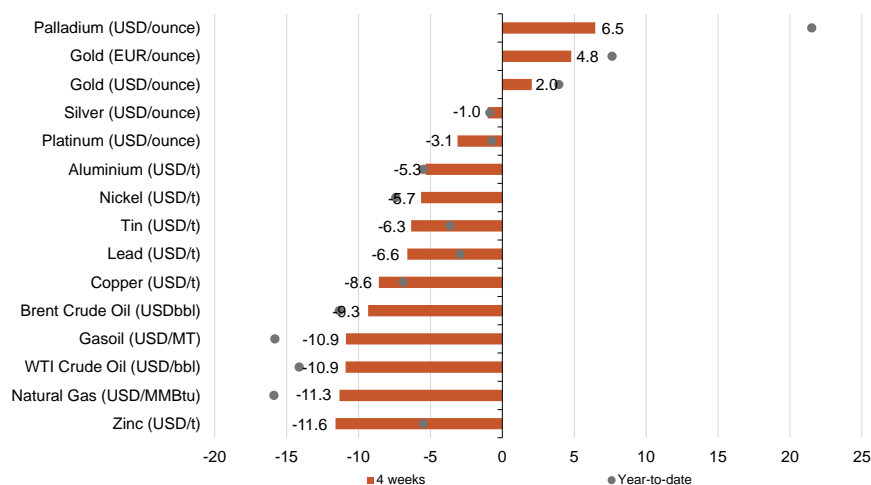


- Spreads on EUR financial and EUR non-financial bonds are already back below the levels of four weeks ago.
- Spreads on emerging market and USD corporate bonds are still slightly above the levels of four weeks ago, but they are also already on the decline.

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: 14/02/2010 - 14/02/2020



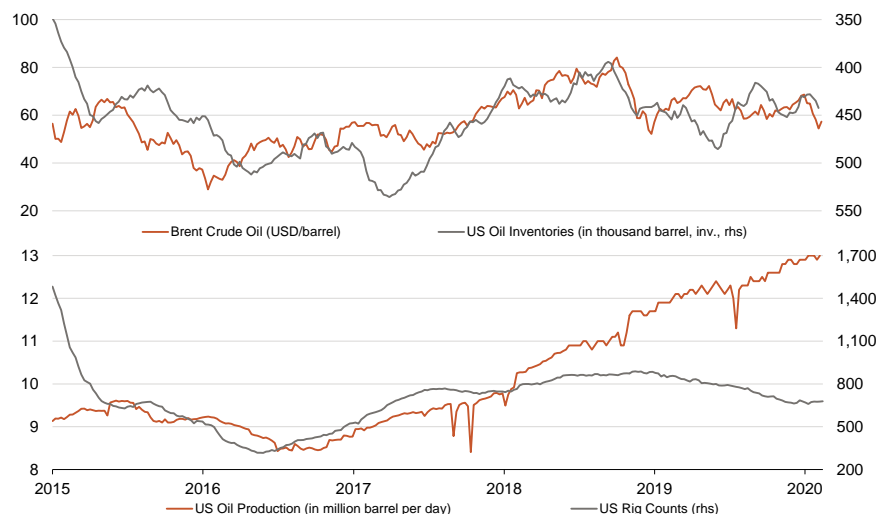
Commodities Performance



- The coronavirus continues to have a firm grip on commodity markets. Only gold and palladium have shown a positive performance year-to-date. Gold remains in demand as a safe haven. Palladium, which is mainly used in industrial applications, is profiting from supply shortages and is therefore the best performer despite the virus. Other industrial metals, recorded losses.
- Energy commodities are at the bottom of the table together with zinc in the last four weeks with losses well into double figures.

Total return of selected commodity prices, in percent, sorted by 4-week performance.
Source: Bloomberg, Time period: 01/01/2020 - 14/02/2020

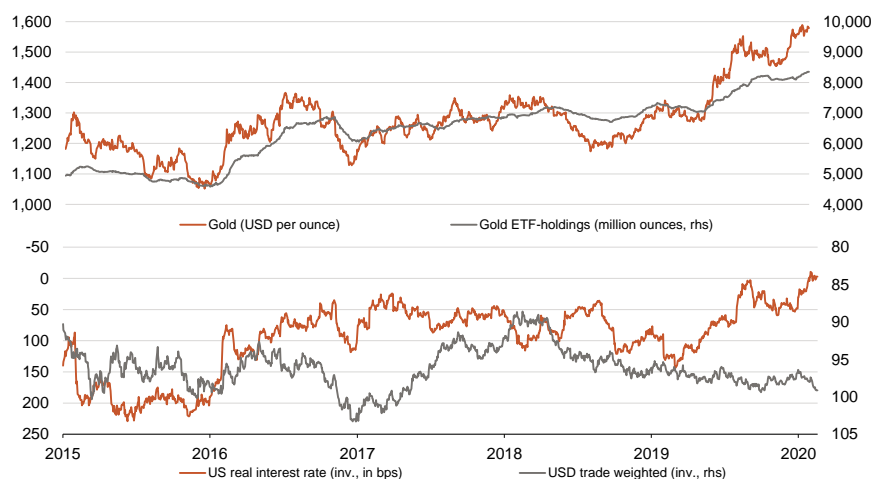
Crude Oil



- The demand shock from China is weighing heavily on the price of oil. At times, Brent was trading at only around USD 55 per barrel. This corresponded to a performance of -17% year-to-date and thus the worst start to the year since 1991.
- The global economic recovery and production outages in Libya of 900,000 barrels per day are currently not being noticed by the market.

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 - 14/02/2020

Gold



- The gold price has held up very well in recent weeks in light of the strengthened dollar and is currently trading at around USD 1,575 an ounce. In euro terms, gold managed to record a new all-time high.
- The gold price was driven most recently by rising ETF holdings, which are now at a new all-time high.

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 - 14/02/2020

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