INVESTMENT COMMITTEE MINUTES

13 August 2020

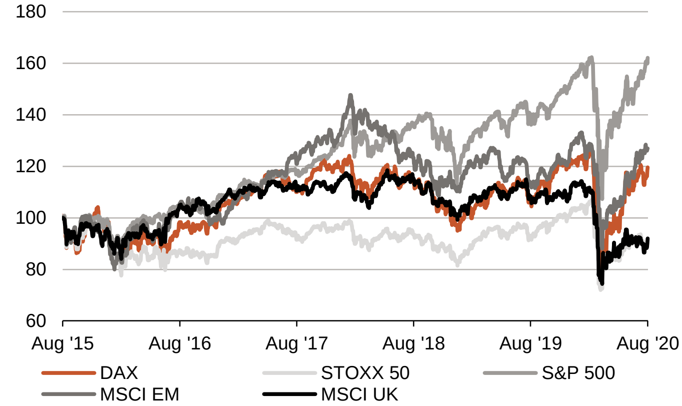
Managers of the Committee

Prof Dr Bernd Meyer
Chief Investment Strategist
Chairman

Dr Holger Schmieding
Chief Economist,
Vice Chairman

The **Committee Members** are listed in the notes.

Development of selected equity indices



Source: Bloomberg, 12/08/2015 - 12/08/2020.

Most important assessments at a glance

Economics	• World economy: The recovery is underway: Consumers are spending money again. Industry is slowly recovering. • Monetary and fiscal policy are supporting the upswing more than ever before. Inflation and yields remain low. • Living with the virus: So far, the renewed rise in infection rates has only slightly slowed down the upswing. The risks remain.
Equities	• Stock markets continued their recovery rally - especially in the US. Q2 company figures were better than feared. • Cyclists and small-caps have been ahead in the last four weeks. Industrial stocks had a clear recovery. • The limited potential over the summer, with risks remaining high, leads us to maintain a neutral equity exposure.
Bonds	• Yields on peripheral government bonds fell significantly, while safe haven government bonds were less in demand. • Increased demand for credit risk supports corporate and emerging market bonds through the summer. • We slightly underweight bonds in the multi-asset portfolio, focus on credit risk and keep maturities moderate.
Commodities	• High demand and limited supply have temporarily pushed the gold price above USD 2,000 an ounce. • The recovery in demand for oil faltered as the number of infections increased. In the short term, the potential is limited. • Industrial metals continued to benefit from the economic recovery and have thus also recently become more expensive.
Currencies	• The strength of the euro is now being joined by a weak dollar. The exchange rate increases to 1.18 US dollars per euro. • GBP suffers from Covid-19 and monetary policy is not providing further impulses. EUR/GBP continues to trade at 0.90. • The Swiss franc is weakening slightly, but remains strong. The euro is at least rising towards 1.08.

Current market commentary

The recovery rally on the stock markets has continued at a slower pace over the past four weeks. US equities in particular have gained ground. Despite the risks involved, there has also been an increase in positive news recently. COVID-19 cases in the US are rising less strongly and the positive development regarding a vaccine gives investors hope. The economic recovery also continued. In this environment, small caps and cyclical stocks in particular have performed well recently. However, value stocks have not fared worse than growth stocks recently. Nonetheless, political uncertainty remains high and the high global number of COVID-19 case numbers globally threatens the economic recovery. Positive drivers would be an agreement on the next US fiscal package as well as an increasingly positive development on a COVID-19 vaccine. The pessimistic sentiment, the less aggressive positioning of many investors and the loose fiscal and monetary policy should limit setbacks. This is also because analysts' earnings expectations have recently begun to pick up again. We are positioning ourselves with a neutral equity weighting, as we continue to expect a volatile summer without much upside potential. Nonetheless, we take a positive view of the equity markets in the medium term. Tactically, we prefer equities from Europe and the emerging markets to those from the US.

Demand for safe government bonds has fallen recently. Yields on 10-year German or US government bonds have hardly changed in the last four weeks, while yields on the European periphery have dropped significantly. Spreads on corporate and emerging market bonds have also fallen recently. One reason, apart from the increased risk appetite, was the low level of primary market activity. The increased position in credit risk over the summer has thus worked well so far.

Gold has temporarily broken through the USD 2,000 an ounce barrier and then, with investors' increased risk appetite of investors, fell markedly.

ECONOMICS

Gradual recovery after the mega-recession; virus risks remain; Biden just before Trump

After the record slump in March and April, the trend has been upward since May; however, recovery is flattening out. Economic policy has averted the financial crisis and is supporting the upturn. More debt, low inflation, low interest rates. The top risk: new hard lockdowns. So far, the US and Europe seem to be able to avoid this.

- **Largely stable:** The situation has not changed fundamentally in the last four weeks. Provided that the major risks (overburdened health care systems, new trade wars) can be avoided, the global economy may continue to recover. With the €750 billion programme for the future, the EU has strengthened the basis for the upturn.
- **Full steam ahead against the crisis:** The measures against the COVID-19 pandemic have plunged the economies of Europe and the USA into the deepest recession of the post-war period. Economic policy has succeeded in preventing a major financial crisis. Since May, the economy has picked up again. After consumers on both sides of the Atlantic initially reopened their wallets, the industrial sector has also been experiencing a noticeable upturn since June.
- **Out of the deep valley:** So far, the data match the ticking economic trend we expect for the developed world. A strong but not quite V-shaped rebound in economic output after the lockdowns were loosened is being followed by a slowly flattening upswing. Households and companies will continue to hold back on major purchases and investments for some time to come.
- **No quick return to normality:** The US, the eurozone and the UK may be able to make up about half of the slump from Q2 in the third quarter. But they will probably not be able to reach the economic output of late 2019, i.e. before the pandemic, until early 2022 (US, Germany), summer 2022 (eurozone) or early 2023 (in the Brexit-damaged UK).
- **Living with the virus:** After a dramatic increase from mid-June to mid-July, the infection curve in the USA has flattened out again somewhat (chart). This supports our assumption that we will also succeed in avoiding a new, hard, general and expensive lockdown in Europe. Provided that we use targeted regional measures, rapid testing and renewed discipline to contain the pandemic in such a way that the healthcare systems are not critically overburdened, the economy should be able to recover further.
- **America votes:** With ten weeks left before the November 3rd election in the US, Joe Biden and his Democrats are ahead. However, the lead in the polls has recently narrowed somewhat to around 6 instead of 9 percentage points. The Democrats want more regulation at home. Parts of the US economy would suffer as a result. But a calmer foreign and trade policy would be good for Europe and the world.

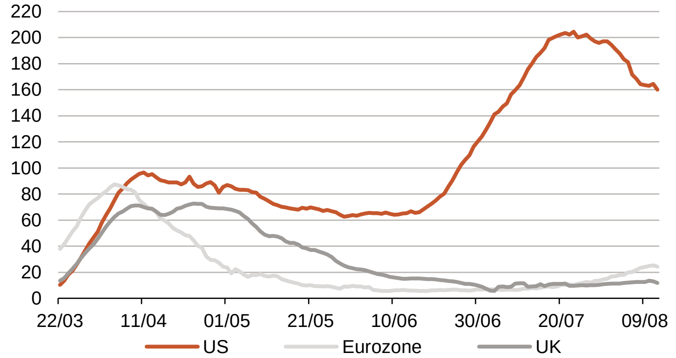
More debt: Central banks need to buy more bonds to provide the extra prudential funds that households, businesses and financial institutions want to hold during and after a crisis. This does not seem inflationary. In the short term, inflation will fall as demand continues to weaken. Over the next five years, inflation may increase slightly.

GDP and inflation forecasts (%)

		GDP growth			Inflation		
	%	2019	2020	2021	2019	2020	2021
World	100.0	2.3	-3.8	3.5			
US	24.2	2.2	-4.7	3.5	1.8	0.9	1.1
China	15.8	6.2	2.5	5.0	2.9	3.2	2.1
Japan	5.9	0.7	-4.5	3.6	0.5	0.0	0.2
India	3.2	5.0	-2.5	3.5			
Latin America	6.2	1.5	-6.0	3.5			
Europe	25.7	1.2	-8.0	5.8			
Eurozone	16.1	1.3	-8.4	6.2	1.2	0.5	0.8
Germany	4.7	0.6	-6.2	4.8	1.4	0.5	1.6
France	3.3	1.5	-10.9	8.6	1.3	0.9	1.0
Italy	2.4	0.3	-10.7	6.4	0.6	0.3	1.1
Spain	1.7	2.0	-13.6	9.0	0.8	-0.3	0.6
Rest of western Europe							
UK	3.3	1.5	-9.5	6.5	1.8	0.0	1.3
Switzerland	0.8	0.8	-6.5	5.0	0.6	0.0	0.6
Sweden	0.7	1.3	-6.0	5.0	1.8	0.9	1.3
Eastern Europe							
Russia	1.9	1.0	-5.0	3.5	4.5	2.0	3.0
Turkey	0.9	-1.2	-6.0	3.5	15.2	9.0	8.5

Source: Berenberg

Covid-19: New infections per million inhabitants



22 March - 12 August 2020: New infections per day, average of the last seven days. Source: Johns Hopkins University

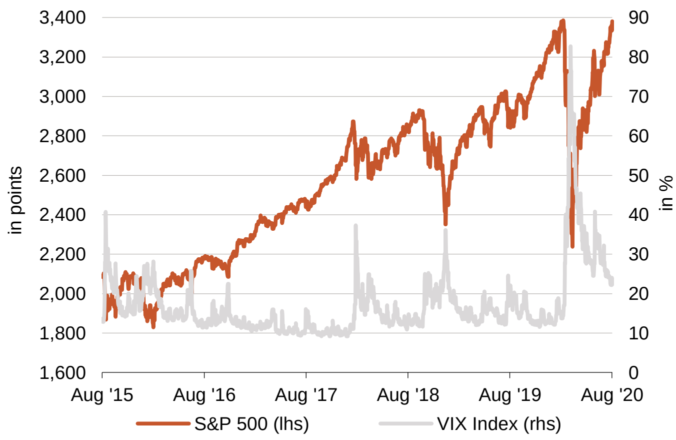
EQUITIES

Corporate earnings give hope

The stock markets continued their recovery rally - especially in the US. Q2 company figures were better than feared. Cyclists and small-caps have been ahead in the last four weeks. Industrial stocks had a clear recovery.
The limited potential over the summer, with risks remaining high, allows us to maintain a neutral equity exposure.

- **The stock markets have continued their recovery rally, albeit at a slower pace**. A significantly better than expected Q2 reporting season and the decline in the number of new COVID-19 cases in the USA have given the markets a further tailwind. This was particularly felt by US equities, which in the last four weeks have risen by over 4% in USD terms (S&P 500). European equities (Stoxx 600), on the other hand, only gained by just under 1%. As the economic recovery continues, however, European equities should offer considerable catch-up potential.
- **Value stocks** have performed similarly to **growth stocks** in recent weeks. In Europe, **cyclicals** have done much better than **defensive stocks,** with a lead of around 4% on a four-week horizon. On a sector level, the industrial sector in Europe was the main sector to outperform on a monthly basis, with returns of over 7%. The technology, healthcare and communications sectors were relative laggards, however. **European small caps** also made significant gains, while **large caps** were sold.
- Political uncertainty remains high and the high COVID-19 case numbers continue to threaten economic recovery. Positive drivers would be an agreement on the next US fiscal package and a positive development on a COVID-19 vaccine. However, the still pessimistic sentiment, the less aggressive positioning of many investors and the loose fiscal and monetary policy should limit setbacks. This is also because analysts' earnings expectations have recently begun to pick up again.
- We continue to position ourselves with a **neutral equity weighting**, as we expect a volatile summer without much upside potential. Nevertheless, we are looking positively at the equity markets in the medium term. Tactically, we prefer equities from the eurozone and emerging markets.

Performance and volatility of the S&P 500 Index



Source: Bloomberg, 12/08/2015 - 12/08/2020.

Overview of equity markets (short/medium term)

Regions	Old	New
US	→	→
Europe	→	↗
Emerging markets	→	↗
Japan	→	→

	As of 12/08/2020	Performance in local currency ytd	1-year	3-year	P/E 2019E	Dividend yield
DAX	13,059	-1.4%	+11.8%	+8.7%	20.5	2.7%
SMI	10,279	-0.1%	+8.8%	+27.8%	19.8	3.1%
MSCI UK	1,769	-16.2%	-11.6%	-5.9%	19.4	3.7%
EURO STOXX 50	3,363	-8.1%	+3.9%	+8.9%	21.1	2.9%
STOXX EUROPE 50	7,161	-8.7%	+2.2%	+10.0%	20.1	3.3%
S&P 500	3,380	+5.9%	+19.5%	+46.8%	26.1	1.7%
MSCI Em. Markets	1,094	-0.1%	+15.3%	+13.9%	17.8	2.3%

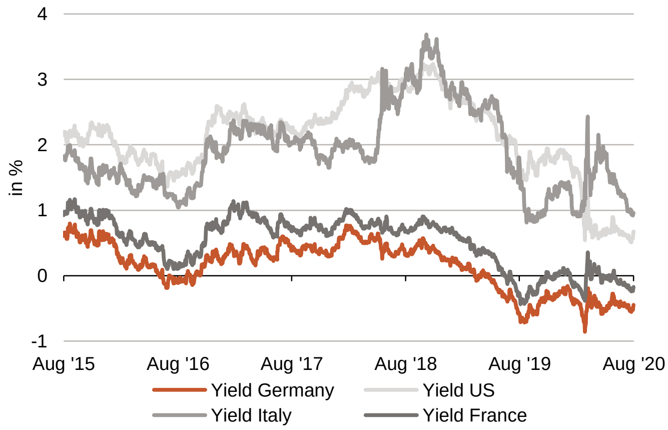
BONDS

Credit risk through the summer

Yields on peripheral government bonds fell significantly, while safe haven government bonds were less in demand. Increased demand for credit risk supports corporate and emerging market bonds through the summer. We slightly underweight bonds in the multi-asset portfolio, focusing on credit risks with moderate maturities.

- Yields on government bonds in the eurozone have continued to fall selectively. There were significantly lower yields on 10-year government bonds in periphery such as **Italy**, **Spain** or **Portugal**. Cohesion within the eurozone increased investor confidence. Government bonds such as those from **France**, which are considered to be more secure, also had narrowing yields. By contrast, the yield on 10-year **German government bonds** remained virtually unchanged at -0.45%.
- Yields on 10-year **US government bonds** have risen slightly over the last four weeks, most recently at 0.67%. The declining number of new COVID-19 cases in the US and the hope for an early vaccine is causing investors to take more risk again. The safe US government bonds were therefore less in demand. Nevertheless, yields may be limited upwards for the time being, as the Fed continues to buy government bonds at scale.
- Positions in credit risk have worked very well so far. Spreads have fallen significantly in the last four weeks. The relatively largest spread narrowing of over 90 basis points (bp) was seen in **USD high yield bonds,** while **EUR high yield bonds** narrowed by around 50bp. **USD** and **EUR-IG corporate bonds**, on the other hand, saw a decline in risk premiums of around 20bp. Thanks to the lack of primary market activity, the narrowing trend is likely to continue. In addition to corporate bonds, we also like **emerging market bonds** and prefer hard currencies over local currencies. Spreads have also fallen there, but still offer considerable potential for narrowing.
- We are **slightly underweight bonds in the multi-asset portfolio.** Here we maintain our focus on corporate and emerging market bonds at the expense of government bonds and keep the maturity comparatively moderate.

Yields on 10-year European government bonds



Source: Bloomberg, 12/08/2015 - 12/08/2020.

Overview of bond markets (short/medium term)

Orientation	Old	New
Duration	Moderat	Moderat
Government bonds	→	→
Corporate bonds	↗	↗
High-yield bonds	↗	↗
Emerging market bonds	↗	↗

Yields (10-year)	Old	New
Germany	→	→
UK	→	→
US	→	→

		Performance in index currency		
	As of 12/08/2020	ytd	1-year	3-year
Government bonds (iBOXX Europe Sovereigns Eurozone)	258.52	+3.0%	+1.4%	+11.1%
Covered bonds (iBOXX Euro Germany Covered)	206.32	+1.2%	-0.6%	+4.1%
Corporate bonds (iBOXX Euro Liquid Corporates 100 Non-Financials)	160.24	+0.7%	-0.6%	+5.8%
Financial bonds (iBOXX Euro Liquid Corporates 100 Financials)	159.51	+1.0%	+0.0%	+4.9%
Emerging market bonds (Bloomberg Barclays EM USD Aggregate TR Index Unhedged)	1,253.99	+3.7%	+6.3%	+16.6%
High-yield bonds (Bloomberg Barclays Global High Yield Total Return Index, USD)	1,424.76	+0.7%	+4.5%	+11.5%

COMMODITIES

Gold with new all-time high

Gold and silver price developed strongly.
Recovery in demand in the oil market stagnates.
Industrial metals continued to rise in price.

- High demand and limited supply of **gold** have recently pushed the gold price, at least temporarily, above USD 2,000 an ounce. In addition to the negative real interest rate, the search for security was also a key factor in this strong performance. Other precious metals such as **silver** and **platinum** also benefited from this. After the strong rally, the first profit-taking now followed. However, we remain positive on gold.
- **Crude oil** (Brent) continued to develop positively in recent weeks and, thanks to positive seasonality, made it above the USD 45 per barrel mark. However, the recovery in demand is increasingly faltering as the number of infections increases. In the short term, the potential therefore remains limited. Only with the widespread availability of a vaccine will oil recover sustainably.
- **Industrial metals** continued to benefit from the economic recovery and have thus also recently become more expensive.

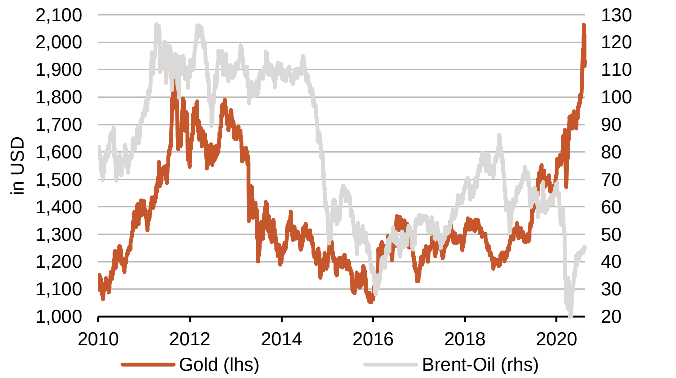
CURRENCIES

Euro strength meets dollar weakness

EUR/USD exchange rate temporarily hits 1.19.
GBP remains under pressure and fluctuates around 0.90.
Swiss franc remains expensive at 1.08 CHF/EUR.

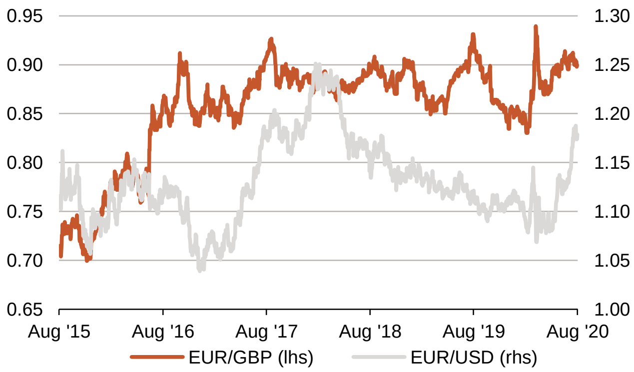
- **EUR/USD**: The agreement on a "reconstruction fund" during the EU special summit in July has given the euro a boost. At the same time, the dollar is not high on investors' minds for several reasons. As a "safe haven" currency, the dollar is currently less in demand as financial markets have recovered and the real economic shock is gradually being digested. In addition, there is concern about the high infection rates in the USA, weak political leadership, domestic political unrest and lax monetary policy.
- **EUR/GBP:** Europe continues to have advantages in the fight against the COVID-19 pandemic. The Bank of England has not given any impetus. The euro therefore continues to be fixed at 0.90 pounds per euro.
- The **Swiss franc** remains the safe haven for investment in the COVID-19 crisis. However, at just under 1.08 francs to the euro, it has at least lost some ground.

Price development



Source: Bloomberg, 01/01/2010 - 12/08/2020.

Exchange rates



Source: Bloomberg, 12/08/2015 - 12/08/2020.

Overview of commodities (short/medium term)	Old	New
Gold	↗	↗
Oil (Brent)	→	→

Overview of currencies (short/medium term)	Old	New
EUR/USD | Euro/US dollar	↗	↗
EUR/CHF | Euro/Swiss franc	↗	→
EUR/GBP | Euro/Sterling	↗	↗
EUR/JPY | Euro/Japanese yen	↗	→

		Performance		
	As of 12/08/2020	ytd	1-year	3-year
Gold USD/ounce	1,916	+26.3%	+26.8%	+48.6%
Silver USD/ounce	25.5	+42.9%	+49.5%	+49.0%
Copper USD/pound	289.1	+3.4%	+11.8%	-0.7%
Brent USD/bbl	45.43	-31.2%	-22.4%	-12.8%

		Performance		
	As of 12/08/2020	ytd	1-year	3-year
EUR/USD	1.18	+5.1%	+5.1%	-0.3%
EUR/CHF	1.07	-1.0%	-1.1%	-5.5%
EUR/GBP	0.90	+6.9%	-2.6%	-0.5%
EUR/JPY	125.98	+3.5%	+6.7%	-2.4%

IMPORTANT NOTES

Members of the Investment Committee

Prof Dr Bernd Meyer | Chief Investment Strategist, Chairman
Dr Holger Schmieding | Chief Economist, Vice-Chairman
Matthias Born | Head Portfolio Management Equities, European Equities
Ulrich Urbahn | Head Multi Asset Strategy & Research
Oliver Brunner | Co-Head Portfolio Management Multi Asset
Ansgar Nolte | Co-Head Portfolio Management Multi Asset
Till Budelmann | US Equities
Alexander Pichler | Bonds
Christoph Mäder | Bonds
Marco Höchst | Commodities
Ludwig Kemper | Commodities
Karsten Schneider | Multi Asset Strategist, Minutes

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