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Markets

INVESTMENT COMMITTEE MINUTES

10 December 2020

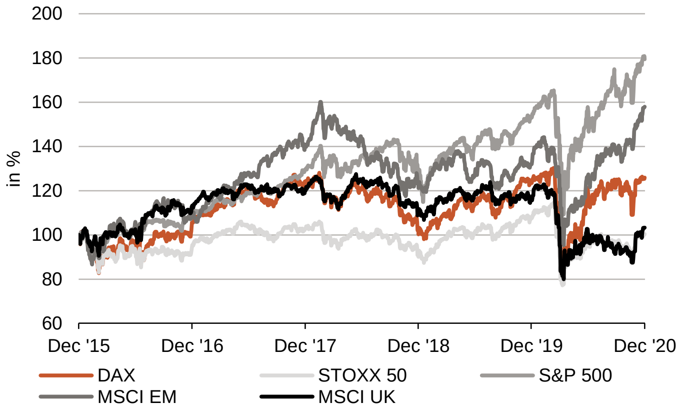
Managers of the Committee

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, 09/12/2015 - 09/12/2020.

Most important assessments at a glance

Economics	• Dull pandemic winter in Europe and US but 2021 outlook continues to improve thanks to Biden and first vaccines • US after the election: Calmer foreign and trade policy is good for the world, Biden names competent experts • Strong growth in 2021 in large parts of the world with low inflation; monetary and fiscal policy will support the economy
Equities	• Price explosion due to vaccine successes in November. Further potential exists, but much has already been priced in • Cyclical, small-cap and value stocks were the recent winners. Rotation of growth into value is progressing more moderately • We enter 2021 with an overweight position in equities and a more cyclical stance, but remain vigilant
Bonds	• Yields on safe haven government bonds in Europe remain at rock-bottom, while in the US has passed the low point • Spreads continued to fall and are no longer high in historical terms. EM local currency bonds are increasingly interesting • We are underweight bonds and focus on credit risk and off-benchmark themes. Duration: short
Commodities	• Gold fell at times to below USD 1,800 an ounce with the risk on movement, but it remains supported in the medium term • Brent oil has been able to break the USD 50 per barrel barrier thanks to vaccine successes. Supply flexibility limits potential • Industrial metals emerge stronger from the Covid-19 crisis. However, investor positioning makes us more cautious
Currencies	• The single currency is rising above $1.20 to the euro - from its own strength and because of the weakness of the US dollar • Will there be Brexit agreement? If so, the pound sterling would have short-term potential for appreciation • CHF remains in demand as a safe haven. If the appetite for risk increases, the franc will weaken at least slightly

Current market commentary

After the price fireworks in November, many equity regions have not yet moved noticeably in December - which is relatively normal after such a strong rise. In addition, many investors want to wait for the central bank meetings in December. Most recently, UK equities have been the main source of movement. The imminent end of the Brexit saga, coupled with the approval of a vaccine for UK, has boosted UK stocks. This was supported by the fact that the rather value-heavy UK share indices benefited particularly from economic optimism. In recent weeks, cyclical, small caps and value stocks have been ahead in Europe. The rotation of growth in value has thus continued, but has recently lost momentum. We remain constructive about equities into the new year for two reasons. First, the major investment committees that are now meeting are setting the course for 2021, which should lead to inflows into equities. Second, the strong momentum and falling volatility should push systematic investors even further into
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the market. We are therefore starting 2021 with a significant overweight position in equities and a more cyclical bias. Nevertheless, we are becoming increasingly vigilant as much has already been priced in and investors have become more optimistic.

In Europe, yields on safe haven government bonds have recently fallen again, while yields on US government bonds have risen slightly. Lockdown measures continue to slow down the economic recovery in Europe, while inflation concerns are already emerging in the US. As a result, the steepness of the yield curve in the US has also increased significantly. Credit risk remains in demand for corporate bonds. Spreads have fallen further. On the emerging markets side, we are increasingly fond of local currency bonds as fundamentals are improving.

Gold remains supported in the medium term. We believe there is only limited short-term potential for crude oil and industrial metals.

ECONOMICS

Despite the second wave of the pandemic, the outlook for 2021 continues to brighten

Strong recovery of the global economy expected in 2021 after the mega-recession in 2020
Quiet trade policy thanks to Biden: Good prospects for world trade. Janet Yellen stands for strong fiscal stimulus
Second wave of the pandemic: Economic setback for Europe - but vaccines support positive outlook for 2021

- **Upturn without inflation:** Despite the current setback in Europe and - to a lesser extent - in the US, the lights for the global economy in 2021 are green. The early phase of a new upswing being characterised by strong growth with inflation initially still very low. Economic policy is giving the global economy a stronger boost than ever before. Thanks to its own credit stimuli, China remains robust for the time being, despite considerable long-term risks. Strong growth in key consumer countries with low interest rates is also positive for many emerging markets.
- **Severe setback:** With the cool and dark season, COVID-19 infections and deaths have increased sharply in Europe and the USA. Almost all countries in Europe and many US states had to cut back on economic activity again. Germany is getting off rather lightly. But in countries such as France and the UK, where a large part of the retail sector was also closed in November, economic output will decline significantly in Q4. However, the setback will be far less severe than in March: the measures are more targeted and will not come as a shock. Trucks are rolling, even if restaurants are closed. Instead of interrupted supply chains, strong demand from China is shaping the situation in industry.
- **Hope for vaccines and spring:** The virus situation is stabilising in some European countries. While Germany still has to tighten its restrictions, countries like France and Belgium, which took tougher action in November, have loosened the reins again somewhat. The UK has started its vaccination programme. Other European countries and the USA will follow within a few weeks. By spring at the latest, the situation should ease noticeably thanks to warmer weather and medical advances. In Q3, the eurozone was able to make up almost all the economic losses from Q2 2020. This suggests that the economy can start to recover strongly from the current setback in spring 2021.
- **Hello Joe:** The winner of the US elections stands for a calm foreign and trade policy. We believe that this will benefit world trade in 2021 and Europe, which is particularly dependent on exports. The Trump risk of a real US-EU trade war is likely to be gone. Biden's first staffing decisions are encouraging. As the future US Secretary of the Treasury, Janet Yellen stands for a fiscal policy that supports the economy without burdening it with excessive taxes.

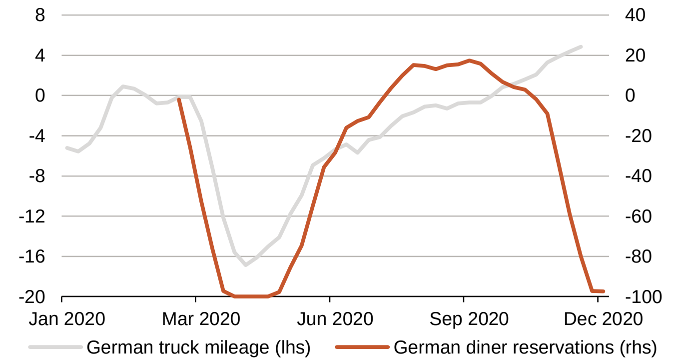
No inflation, low interest rates: In the short term, inflation will remain low while unemployment remains high. However, inflation will increase over the next three years. The US Federal Reserve and the ECB will allow this. They want to support the economy for as long as possible and will only take countermeasures if inflation is significantly higher. This is positive for the economy and markets.

GDP and inflation forecasts (%)

		GDP growth			Inflation		
	%	2019	2020	2021	2019	2020	2021
World	100.0	2.3	-3.3	4.1			
US	24.2	2.2	-3.5	3.9	1.8	1.2	1.8
China	15.8	6.2	2.7	9.0	2.9	2.6	1.4
Japan	5.9	0.7	-5.3	3.2	0.5	0.1	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	-7.6	5.2			
Eurozone	16.1	1.3	-7.5	5.1	1.2	0.2	0.8
Germany	4.7	0.6	-5.6	4.5	1.4	0.4	1.3
France	3.3	1.5	-9.3	7.0	1.3	0.5	0.9
Italy	2.4	0.3	-9.5	6.1	0.6	-0.1	0.6
Spain	1.7	2.0	-12.0	7.1	0.8	-0.4	0.7
Rest of western Europe							
UK	3.3	1.3	-11.7	8.0	1.8	0.9	1.2
Switzerland	0.8	0.8	-5.7	4.3	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

Trucks roll, even when restaurants are closed



01/03/ - 09/12/2020. % change year-on-year in each case. Mileage of trucks on German motorways (LHS). Restaurant reservations via OpenTable (RHS). Source: Destatis, OpenTable

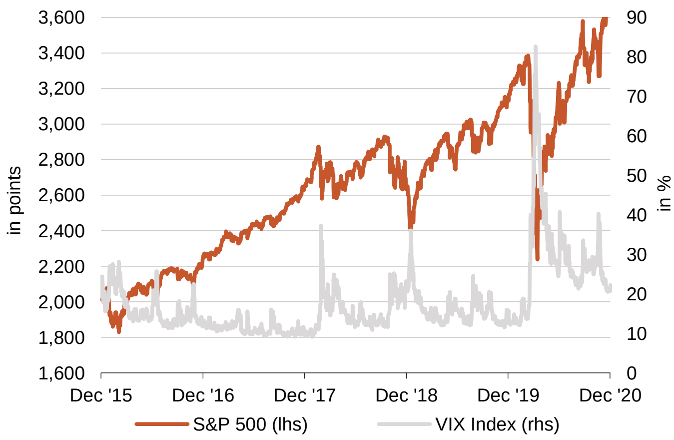
EQUITIES

2021 with further potential

There was a stock price explosion due to vaccine successes. Further potential exists, but much has already been priced in Cyclical, small cap and value stocks were the recent winners. Rotation of growth in value is progressing more moderately We enter 2021 with an overweight position in equities and a more cyclical stance, but we remain vigilant

- **After the price explosion in November, many equity regions have not yet moved noticeably in December** - which is relatively normal after such a strong price movement. In addition, many investors want to wait for the central bank meetings in December. There has been movement recently in UK equities in particular, which have benefited from the value rotation, vaccine approval and Brexit hope. However, the Brexit negotiations are keeping the markets in suspense. By 31 December at the latest, there should be greater clarity and a significant reduction in uncertainty, from which UK equities should benefit.
- **Cyclical**, **small cap** and **value stocks** were the winners of the last four weeks. Our cyclical and small-cap exposure therefore continued to prove correct. In Europe, **cyclical stocks** were able to outperform **defensive stocks** by a substantial 4%. **Small caps** outperformed **large caps** by around 3%. At sector level in Europe, energy stocks gained around 20% and financials around 10%. The rotation from **growth** to **value stocks** has continued in the last four week, albeit at a much more moderate pace. Many investors now seem to have significantly reduced their underweight position in value stocks, which should limit the further potential for value.
- We remain constructive for equities into the new year. On the one hand, the investment committees now taking place are setting the course for 2021, which should lead to inflows into equities. On the other hand, the strong momentum and falling volatility should drive systematic investors further into the market.
- We are starting 2021 with a **significant overweight position in equities** and a **more cyclical bias**. Despite further potential, we are becoming increasingly vigilant as much has already been priced in and investors have become more optimistic.

Performance and volatility of the S&P 500 Index



Source: Bloomberg, 09/12/2015 - 09/12/2020.

Overview of equity markets (short/medium term)

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

	As of 09/12/2020	Performance in local currency ytd	1-year	3-year	P/E	Dividend yield
DAX	13,340	+0.7%	+1.8%	+1.4%	19.6	2.6%
SMI	10,430	+1.6%	+3.4%	+23.8%	20.1	3.0%
MSCI UK	1,845	-11.6%	-7.9%	-2.4%	20.6	3.4%
EURO STOXX 50	3,529	-3.3%	-1.3%	+8.4%	23.0	2.6%
STOXX EUROPE 50	7,336	-6.5%	-4.3%	+7.0%	20.8	3.1%
S&P 500	3,673	+15.7%	+19.3%	+46.7%	26.0	1.6%
MSCI Em. Markets	1,256	+15.2%	+22.5%	+22.7%	0.6	2.0%

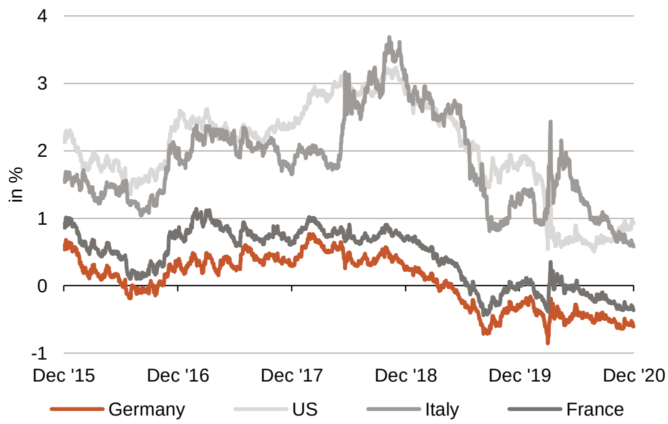
BONDS

Positive returns remain a scarce resource

Yields on safe haven government bonds in Europe remain at rock-bottom, while in the US the low point is behind us
Spreads continued to fall and are no longer high in historical terms. EM local currency bonds increasingly interesting
We underweight bonds and focus on credit risk and off-benchmark themes. Duration: short

- With increased risk appetite, yields on **European government bonds** also rose temporarily. Recently, however, there has been a countermovement as the Brexit negotiations continue to drag on and new lockdown measures are being considered. Uncertainty has thus increased again, at least temporarily. In the last four weeks, yields on **German, British** and **French government bonds have** fallen by 10 basis points. Yields on **Italian government bonds** have fallen even more than 15 basis points.
- By contrast, yields on 10-year **US government bonds** have hardly changed over the past four weeks. In the US, inflation expectations have risen significantly with the increased prospect of a sustained economic upswing and the announced fiscal package. As a result, the steepness of the US yield curve has also increased noticeably in recent weeks.
- **Corporate bonds** are still in demand. Spreads, although often no longer high by historical standards, have fallen significantly in the last four weeks thanks to increased risk appetite, a decline in new issues and the hunt for yield. The biggest spread tightening was in **EUR high yield bonds** at over 40 bp, while **USD high yield bonds** narrowed by just around 20 bp. **IG corporate bonds** experienced significantly less spread tightening as quality was less in demand. In **emerging market bonds,** capital inflows are clearly picking up and fundamentals are improving. We favour government over corporate bonds and local currency over hard currency.
- **We are significantly underweight bonds.** We maintain our focus on corporate and emerging market bonds and keep maturities relatively short.

Yields on 10-year government bonds



Source: Bloomberg, 09/12/2015 - 09/12/2020.

Overview of bond markets (short/medium term)

Orientation	Old	New
Duration	Short	Short
Government bonds	↘	↘
Corporate bonds	↗	↗
High-yield bonds	↗	↗
Emerging market bonds	↗	↗

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

		Performance in index currency		
	As of 09/12/2020	ytd	1-year	3-year
Government bonds (iBOXX Europe Sovereigns Eurozone)	263.88	+5.2%	+4.5%	+11.7%
Covered bonds (iBOXX Euro Germany Covered)	207.76	+1.9%	+1.4%	+4.4%
Corporate bonds (iBOXX Euro Liquid Corporates 100 Non-Financials)	163.59	+2.8%	+2.7%	+7.2%
Financial bonds (iBOXX Euro Liquid Corporates 100 Financials)	161.66	+2.3%	+2.2%	+5.6%
Emerging market bonds (Bloomberg Barclays EM USD Aggregate TR Index Unhedged)	1,273.72	+5.3%	+6.7%	+16.5%
High-yield bonds (Bloomberg Barclays Global High Yield Total Return Index, USD)	1,494.87	+5.7%	+7.9%	+14.9%

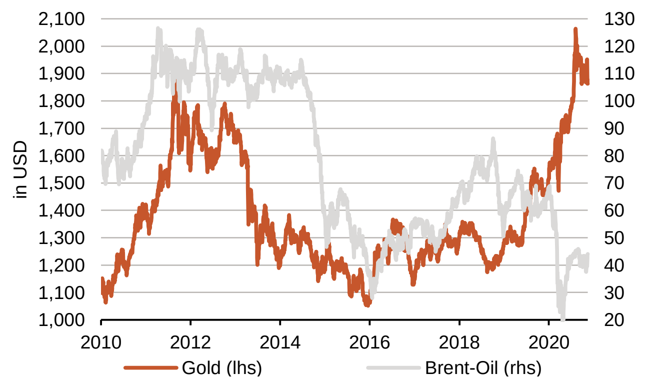
COMMODITIES

Crude oil up, gold down

Gold lacked lustre, but there is medium-term support
The oil price is being supported by positive vaccine news
Industrial metals are emerging as winners of the crisis

- The success of the vaccine sent **gold** temporarily into a tailspin. The precious metal temporarily fell below $1,800 an ounce. In the medium term, however, the signs are set on go. On the one hand, the weaker US dollar and the economic recovery, especially in emerging markets, should give a significant boost to jewellery demand again. On the other hand, there is almost no alternative to gold as a safe haven.
- In contrast to gold, the **price of crude oil** (Brent) was able to benefit significantly from the positive vaccine news and is currently trading at close to USD 50 per barrel. However, even with rising demand, the high free capacity of producers should allow only a moderate price increase.
- **Industrial metals** have been one of the best assets since the beginning of the year. In the medium term they remain well supported by structural trends. In the short term, we see little upside potential due to the strong investor positioning.

Price development



Source: Bloomberg, 01/01/2010 - 09/12/2020.

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

	As of 09/12/2020	Performance ytd	1-year	3-year
Gold USD/ounce	1,840	+21.2%	+25.9%	+47.3%
Silver USD/ounce	23.9	+34.2%	+44.2%	+51.0%
Copper USD/pound	350.8	+25.4%	+27.7%	+18.7%
Brent USD/bbl	48.86	-26.0%	-24.0%	-22.9%

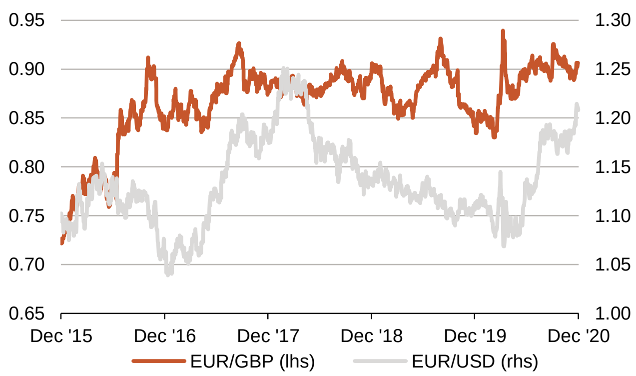
CURRENCIES

Euro with tailwind

The EUR/USD rate is at its highest level since 2018
The GBP is expected to rise after Brexit agreements
The CHF remains structurally strong

- **EUR/USD**: The EUR/USD exchange rate has passed the 1.20 mark with ease. In addition to its own strength, the common currency is benefiting from the ultra-expansive monetary policy of the US Federal Reserve. A further rise in the course of the coming year is likely. There is short-term setback potential in ECB policy: will the ECB attempt to weaken the euro exchange rate verbally or with unexpectedly extensive quantitative measures? In the medium term, the review of the ECB's monetary policy strategy may also change the euro outlook.
- **EUR/GBP:** The pound is still closely linked to news of the Brexit follow-up agreement. If a deal is struck, the pound should rise. For next year, we see room for up to 0.85 pounds per euro.
- The **Swiss franc** remains structurally strong and overvalued. Only rising risk appetite in the markets is temporarily alleviating the upward pressure.

Exchange rates



Source: Bloomberg, 09/12/2015 - 09/12/2020.

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	↗	↗

	As of 09/12/2020	Performance ytd	1-year	3-year
EUR/USD	1.21	+7.7%	+9.2%	+2.6%
EUR/CHF	1.07	-1.0%	-1.7%	-8.1%
EUR/GBP	0.90	+6.6%	+7.1%	+2.6%
EUR/JPY	125.93	+3.4%	+4.8%	-5.7%

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
Christian Bettinger | Bonds
Robert Reichle | Bonds
Ludwig Kemper | Commodities
Marco Höchst | Commodities
Karsten Schneider | Multi Asset Strategist, Minutes

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