BERENBERG *Markets*

INVESTMENT COMMITTEE MINUTES

09 March 2023

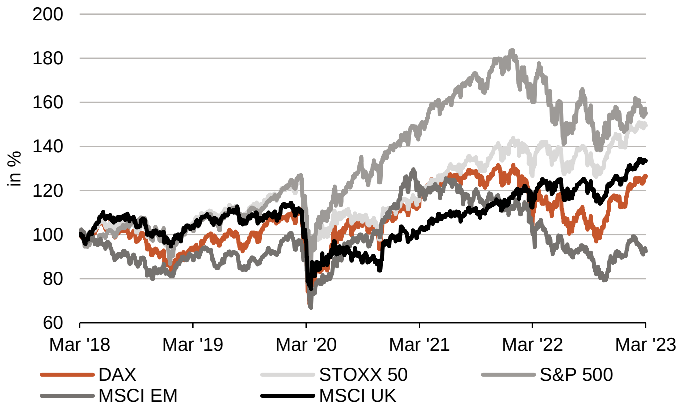
Managers of the Committee

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, 08/03/2018 - 08/03/2023.

Most important assessments at a glance

Economics	• US economy more robust than expected. Mini recession likely in mid-2023, soft landing possible. Upswing in 2024. • Europe: Gas situation eases. Mild setback in winter, new upswing from summer. Inflation slowly declining. • Central banks: Interest rates will peak in mid-2023. US Fed cuts rates from end of 2023, ECB rates remain high.
Equities	• Equity markets defend gains, but the air to the upside is thinner. Outperformance of European and value equities. • Economic challenges and monetary policy are likely to cap earnings growth and valuations across the board. • Risk-reward ratio not particularly attractive. We have reduced the equity quota to a slight underweight.
Bonds	• Yields rise on robust economy and steadier inflation. Yield on 10-year treasuries above 4% for a short term. • Corporate bonds a real alternative to equities with attractive yields. Local currency bonds preferred in emerging markets. • We are now only slightly underweight in bonds following recent purchases.
Commodities	• Gold burdened by stronger USD and higher real interest rates. Upside potential fundamentally limited in the short term. • Oil maintains sideways movement since December. Supported in the medium term by China recovery and restrictive producers. • Base metals suffer from slow China recovery. Stronger China data in Q2 and tight supply should support.
Currencies	• The EUR seamlessly continued its upward movement in the new year before strong US data led to a slight correction. • The GBP cannot hold its recovery gains and falls back again against the EUR. • At times, the EUR was trading above parity again against the CHF. Most recently, it went down to around CHF0.99 per EUR.

Current market commentary

Equities, especially European equities, largely defended their good start to the year. However, the air is getting thinner. Within European equities, value stocks recently performed better than the ytd stronger growth stocks. Even if the global economy is more robust than expected, the significantly higher interest rates and the withdrawal of liquidity by the central banks are likely to leave their mark on the economy and thus on companies. This can already be seen in the development of corporate profits, which are likely to be only marginally positive in 2023 compared to the previous year, if at all. After the stock rally at the beginning of the year, there should also be hardly any room for further valuation expansion. We no longer consider the risk-reward ratio for US equities in particular to be very attractive, and have therefore reduced our equity weighting to a slight underweight. We think there is more potential in favourably valued regions such as Latin America, Asia and the UK than in the US.

Interest rate pressure is not over yet, as the higher-than-expected inflation data and more restrictive central bank comments impressively show. Yields on government bonds have risen significantly again. For 10-year US government bonds, for example, the 4% mark was temporarily recaptured. Nevertheless, we consider bonds with manageable maturities, especially EUR IG corporate and emerging market bonds, to be a real alternative to equities. They offer a high current yield and, in the event of an economic slowdown, should be less burdened than equities thanks to the high carry. Accordingly, we have recently added to short-dated bonds in favour of equities.

On the commodity side, crude oil in particular has recently made gains. We think there is further potential here in the medium term, especially for industrial metals. Supply is likely to remain limited, while demand is more likely to increase.

ECONOMICS

The outlook continues to brighten: economy more stable than expected

US: Fed hits the brakes hard. Interest rate summit mid-2023. Mild recession mid-2023. Fed cuts interest rates from end-2023.
Europe: Stagnation until spring 2023, noticeable upswing thereafter. Leading indicators are recovering.
Inflation peaks in the US and Europe. Price pressure decreases in 2023, but core inflation still above 2% in 2024.

- **The outlook is brightening.** On both sides of the Atlantic, the economy is holding up a little better than expected. China has reached herd immunity the hard way and is opening up again. However, as many central banks will tighten their interest rate policies even further in the coming months and the monetary policy turnaround of 2022 will only have its full effect in the course of the year, the global economy will remain below the long-term trend for the time being.
- **Improvement in sight. The** economic outlook has brightened, especially in China and Europe. Shortly before the end of the heating season, Europe's gas storage facilities are far better filled than usual for the season, at around 55%. As less gas will have to be bought in the coming summer, the risk of a gas shortage in the winter of 2023/24 has decreased significantly. Exchange prices for gas and electricity have fallen noticeably. Consumers are less pessimistic about the future. Therefore, the economy may pick up again in the spring after a winter stagnation.
- **Euro inflation has peaked:** Inflation is expected to fall noticeably from March onwards, as the explosive rise in energy and food prices in 2022 will then drop out of the year-on-year comparison. Supply chains are less disrupted. This also helps the economy and eases price pressures. However, the core rate of inflation (excluding energy and food) will continue to rise for the time being.
- **Mixed news from the US:** While the economy is holding up a little better than expected so far, US inflation is only slowly declining. Consumers are drawing on the extra savings they built up during the pandemic. However, the robust economic and inflation data of recent months are overstated by special factors. Overall, both the chances of a soft landing for the US economy and the risk of the Fed hitting the brakes too hard have increased somewhat.
- **China – short-term boost:** After abruptly abandoning the zero-COVID-19 policy, China has achieved herd immunity at great loss of life. Demand is rising. Together with additional monetary and fiscal stimulus, China may experience a growth spurt for a few quarters. As supply from China increases at the same time, this will hardly fuel world inflation. For the global economy, the Chinese upswing roughly offsets the US mini-recession. However, in view of high domestic debt and deep-seated structural problems, Chinese growth will slow down significantly again in 2024.

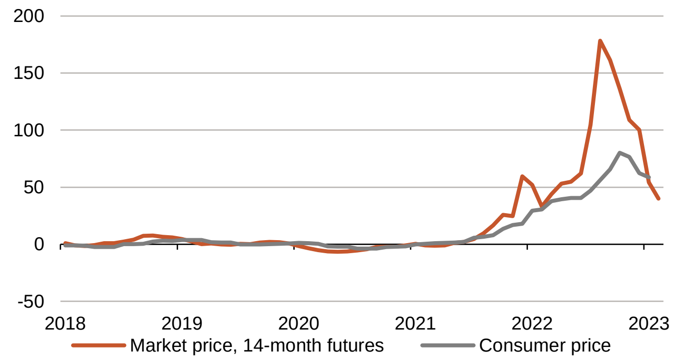
Interest rate peak in mid-2023. The US Fed is likely to raise its key rate to 5.5% by June, only to lower it again from the end of 2023 or at the start of the election year 2024 as inflationary pressures abate. The ECB's deposit rate could reach 3.5% or even 3.75% by mid-year and then remain there for the time being.

GDP and inflation forecasts (%)

		GDP growth			Inflation		
	Share	2023	2024	2025	2023	2024	2025
World	100.0	1.9	2.3	2.6			
US	23.7	0.8	0.8	2.2	4.2	2.6	2.4
China	18.3	4.7	4.2	3.9	2.4	2.3	2.3
Japan	5.1	1.4	1.2	1.6	2.7	1.2	0.8
India	3.3	6.5	6.7	6.0			
Latin America	5.2	1.0	2.4	2.5			
Europe	26.2	0.1	1.5	1.4			
Eurozone	15.0	0.7	1.6	1.5	5.7	2.4	2.5
Germany	4.4	0.0	1.6	1.5	5.9	2.4	2.5
France	3.0	0.5	1.7	1.7	5.5	2.3	2.5
Italy	2.2	0.2	1.1	1.1	6.5	2.3	2.5
Spain	1.5	1.3	1.8	2.0	4.9	2.5	2.5
Other Western Europe							
United Kingdom	3.3	-0.5	1.6	1.7	1.8	2.0	2.3
Switzerland	0.8	0.6	1.4	1.2	2.2	1.3	1.5
Sweden	0.7	0.0	1.7	1.6	6.0	2.2	2.4
Eastern Europe							
Russia	1.8	-3.5	-1.5	-1.5	7.0	5.0	4.5
Turkey	0.8	2.5	2.5	2.0	45.0	25.0	20.0

Source: Berenberg

Gas prices in the Eurozone (vs. 2018-1H2021, €/MWh)



Deviation from average 2018-1H2021; Exchange price: TTF, 14-month futures; Consumer price index converted to €/MWh via average household gas price 2015-19. Sources: Eurostat, Bloomberg, Berenberg, January 2018-February 2023.

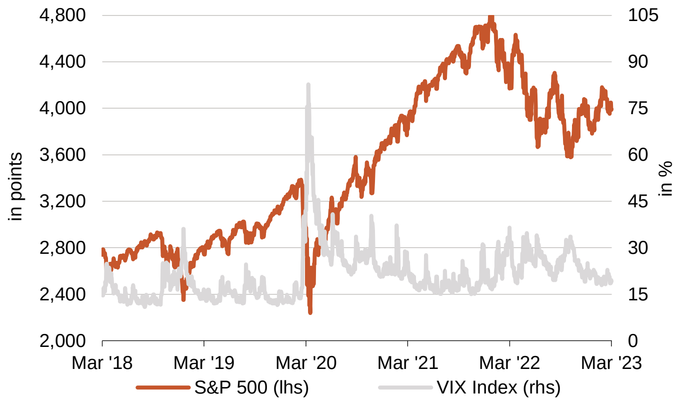
EQUITIES

The air is getting thinner

Equity markets defend gains, but air to the upside thinner. Outperformance of European and value equities. Economic challenges and monetary policy are likely to cap earnings growth and valuations across the board. Risk-reward ratio not particularly attractive. We have reduced the equity quota to a slight underweight.

- The **stock markets have been** moving sideways recently and thus defended their ytd gains. European equities were among the most strongly supported. A more favourable valuation and the absence of a winter recession provided tailwind. US equities, on the other hand, tended to have a harder time. Solid economic and inflation data put valuation pressure on the slightly more expensive US equities through rising interest rates. In Asian equities, caution was initially called for on the markets after the rally at the turn of the year. On the one hand, the markets are waiting for concrete signs of the extent to which the recovery effects from China's opening up are likely to have an impact, and on the other hand, geopolitical concerns are weighing.
- At **sector levels, energy and telecommunications stocks** in particular shone in Europe over the last four weeks, each with a performance of almost 4%. **Industrial** and **financial stocks** as well as **consumer goods** also gained. Growth-heavy sectors such as **health care** and **technology**, on the other hand, tended to lose ground. **Real estate** shares brought up the rear with a loss of almost 8% over the last four weeks. **Large caps were** ahead of their **small-cap** counterparts. After the recovery of **growth stocks at the beginning of the year**, **value stocks** recently performed better again due to rising interest rates.
- Despite the more robust than expected global economy, higher interest rates and the withdrawal of liquidity by central banks are likely to weigh on the economy and companies. The first signs can already be seen in corporate earnings performance. The ytd rally should also limit the likelihood of further valuation expansion. We therefore consider the risk-reward ratio to be less attractive, especially for US equities, and have therefore **reduced** our **equity weighting to a slight underweight**.

Performance and volatility of the S&P 500 Index



Source: Bloomberg, 08/03/2018 - 08/03/2023.

Overview of equity markets (short/medium term)

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

		Total return in local currency				
	As of 08/03/2023	ytd	1-year	3-year	P/E	Dividend yield
DAX	15,632	+12.3%	+21.8%	+35.4%	12.4	3.5%
SMI	3,458	+3.2%	+0.2%	+15.9%	17.9	3.2%
MSCI UK	2,275	+6.9%	+18.6%	+37.8%	10.5	4.2%
EURO STOXX 50	4,288	+13.4%	+26.8%	+44.8%	12.7	3.5%
STOXX EUROPE 50	9,760	+7.2%	+18.1%	+39.5%	13.2	3.5%
S&P 500	7,439	+4.2%	-3.1%	+38.9%	18.2	1.8%
MSCI Em. Markets	978	+2.4%	-7.8%	+4.8%	11.0	3.7%

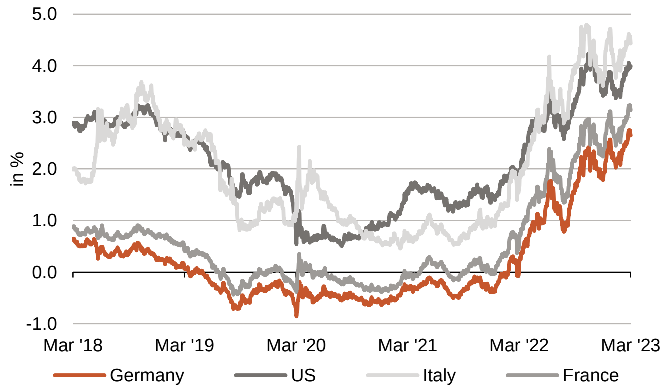
FIXED INCOME

Relative attractiveness increases

Yields rise on robust economy and steadier inflation. Yield on 10-year treasuries above 4% for a short term. Corporate bonds a real alternative to equities with attractive yields. Local currency bonds preferred in emerging markets. We are now only slightly underweight in bonds following recent purchases.

- After robust US labour market data and stubborn global inflation, yields on **government bonds** have risen significantly again. In Germany, the yield on 10-year government bonds is now back at just under 2.7%. For 10-year US government bonds, the 4% mark was even temporarily exceeded. Looking at the European periphery, the spreads between **Italian** and **German government bonds** recently fell below 1.9%.
- **Corporate bonds** in Europe held up strongly in the investment-grade segment from the start of the year. Investors were attracted by the solid risk premiums and the increased yield level, with some yields above 4%, the highest level in more than 10 years. Demand has also been buoyed by renewed interest from yield-seeking investors who had turned to alternatives in the low interest rate environment. This is also reflected in the strong new issues, which we also favour as they offer a yield premium over outstanding bonds. Within corporate bonds, we favour bonds from the financial sector.
- In **emerging market bonds,** rising US yields and the strengthening USD led to a homogeneous downward movement across all investment segments (government bonds and corporate bonds in hard and local currency). With increasing heterogeneous development from the second half of the year onwards, we prefer the local currency segment with low duration and attractive current yield.
- We consider bonds with a manageable maturity, especially IG corporate and emerging market bonds, to be a real alternative to equities due to the high current yield and less exposure to an economic downturn. We are now only **slightly underweight in** bonds.

Yields on 10-year government bonds



Source: Bloomberg, 08/03/2018 - 08/03/2023.

Overview of bond markets (short/medium term)

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

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

	As of 08/03/2023	Performance in index currency ytd	1-year	3-year
Government bonds (iBOXX Europe Sovereigns Eurozone)	207.76	+0.1%	-16.5%	-20.2%
Covered bonds (iBOXX Euro Germany Covered)	175.92	-0.3%	-11.2%	-15.3%
Corporate bonds (iBOXX Euro Liquid Corporates 100 Non-Financials)	136.26	-0.2%	-11.9%	-15.2%
Financial bonds (iBOXX Euro Liquid Corporates 100 Financials)	143.52	+0.0%	-7.7%	-9.3%
Emerging market bonds (J.P. Morgan EMBI Global Diversified unhedged Return EUR)	537.68	+1.7%	-2.5%	-9.9%
High-yield bonds (ICE BofA Global High Yield Index)	403.26	+2.3%	-4.4%	-1.5%

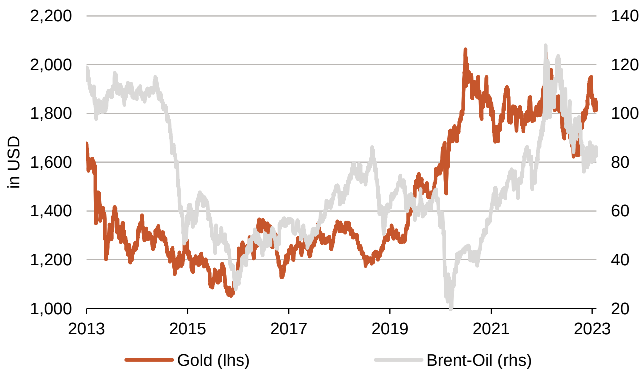
COMMODITIES

Metals and oil with potential

Gold's upside potential fundamentally limited.
Oil supported by China and restrictive producers.
Metals with tailwind on China recovery.

- **Gold** came under strong pressure with the strong US labour market data. This is because the "higher-for-longer" narrative led to a double burden of the increased USD and real interest rates. In the short term, gold is likely to have a hard time as a non-yielding investment in the environment of higher real interest rates. However, uncertainties such as the US debt ceiling and central bank purchases limit the downside potential.
- **Crude oil** continued its volatile sideways movement. The slow China recovery, high inventories and the release of US reserves weighed on the oil price. While supply and demand are balanced in the short term, catch-up effects in Asia and restrictive producers should support the oil price in the medium term.
- **Industrial metals** tended to give back the gains since the start of the year after the weaker China data. After initial signs of improvement (China PMI), a sustained economic recovery in China should give metals new momentum if supply remains tight.

Price development



Source: Bloomberg, 01/01/2013 - 08/03/2023.

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

	As of 08/03/2023	Performance ytd	1-year	3-year
Gold USD/ounce	1,814	-0.6%	-11.6%	+8.4%
Silver USD/ounce	20.0	-16.4%	-24.2%	+15.4%
Copper USD/pound	404.2	+6.1%	-14.0%	+57.1%
Brent USD/bbl	82.66	-3.8%	-35.4%	+82.6%

CURRENCIES

Monetary policy outlook strengthens USD

EUR/USD: EUR falls back against the USD.
EUR/GBP: The GBP is moving sideways.
EUR/CHF: Strong CHF in the interest of the central bank.

- **EUR/USD:** The USD is gaining the upper hand again against the EUR. The strong American labour market, inflation that continues to be clearly too high and statements by Federal Reserve chairman Jerome Powell on future monetary policy have clearly signalled to market players that monetary policy could be tightened even longer or more strongly. The EUR/USD exchange rate has therefore fallen back again, to below USD1.06 per EUR at last count. Developments in the coming weeks will be strongly influenced by the new data on inflation and the US labour market. The more robust the labour market remains, the more the Federal Reserve can concentrate on the fight against inflation and tighten monetary policy. The USD would thus remain firmer for the time being.
- **EUR/CHF:** The EUR has settled around parity against the CHF. The Swiss National Bank is interested in a strong CHF because it dampens inflation. The exchange rate is therefore unlikely to move much.

Exchange rates

Source: Bloomberg, 08/03/2018 - 08/03/2023.

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 08/03/2023	Performance ytd	1-year	3-year
EUR/USD	1.05	-1.5%	-3.2%	-6.5%
EUR/CHF	0.99	+0.3%	-2.0%	-6.2%
EUR/GBP	0.89	+0.6%	+7.0%	+3.0%
EUR/JPY	144.85	+3.2%	+14.9%	+21.7%

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
Ulrich Urbahn | Head Multi Asset Strategy & Research
Oliver Brunner | Co-Head Portfolio Management Multi Asset
Ansgar Nolte | Co-Head Portfolio Management Multi Asset & Equities, Equities
Marco Höchst | Equities
Florian Urbschat | Fixed Income
Ludwig Kemper | Commodities
Philina Kuhzarani | Minutes

Disclaimer

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