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HORIZON *handout*

The Berenberg Capital Markets Outlook • Wealth and Asset Management

February | 2021

Horizon Handout – Capital Market Outlook
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Please refer to the online glossary at www.berenberg.de/glossar for definitions of the technical terms used in this document.

Date: 28 January 2021.

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An online glossary with definitions of technical terms is available at www.berenberg.de/en/glossary

01 Overview of capital markets outlook and asset allocation

Concise overview of capital markets
Performance review

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Performance of selected asset classes

Total return of asset classes in the last 4 weeks, year-to-date and over 5 years (%, EUR)

	4-week & YTD		12-month periods over the last 5 years				
	4W (29/12/20 - 26/01/21)	YTD (31/12/20 - 26/01/21)	26/01/20 26/01/21	26/01/19 26/01/20	26/01/18 26/01/19	26/01/17 26/01/18	26/01/16 26/01/17
MSCI Emerging Markets	10.4	8.2	14.9	15.1	-9.4	21.9	34.5
Brent	9.4	8.1	-27.2	12.6	0.1	5.7	49.4
S&P 500	4.1	3.1	7.9	30.5	3.2	9.6	25.1
Topix	2.1	3.1	4.6	17.7	-8.2	12.8	21.9
DAX	0.8	1.1	2.2	20.3	-15.4	12.6	20.6
USDEUR	0.7	0.5	-9.3	3.5	9.0	-14.1	1.8
Euro Stoxx 50	0.4	1.3	-3.0	22.8	-10.9	12.6	12.7
EUR IG Bonds	0.1	0.1	2.0	6.5	-0.6	3.1	4.1
Eonia	0.0	0.0	-0.5	-0.4	-0.4	-0.4	-0.3
EUR Sovereign Bonds	-0.2	-0.2	1.4	3.1	1.3	1.0	0.2
EM Hard Currency Bonds	-0.4	-0.6	5.4	11.1	0.1	7.5	12.2
Gold	-0.7	-2.1	6.8	24.7	5.2	-2.4	8.0

S&P 500: S&P 500 TR (US equities); Euro Stoxx 50: Euro Stoxx 50 TR; DAX: DAX TR (German equities); Topix: Topix TR (Japanese equities);
MSCI Emerging Markets: MSCI EM NR (EM equities); EUR Sovereign Bonds: IBOXX Euro Eurozone Sovereign 1-10 TR; EUR IG Bonds: IBOXX Euro Corporates Overall TR;
EM Hard Currency Bonds: Barclays EM Hard Currency Agg Govt Related TR; Gold: Gold US Dollar Spot; Brent: Bloomberg Brent Crude Subindex TR;
Eonia: Eonia Capitalization Index; USDEUR: USDEUR: Price of 1 USD in EUR. All return data are calculalated in EUR.

Sources: Bloomberg, Berenberg.
Note: The historical performance presented here is not a reliable indicator of future performance.

Time period: 26/01/2016 – 26/01/2021.

Concise overview of capital markets
Outlook by asset class

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Economics

- Recovery interrupted by second wave of infection. Smaller setback than in spring last year.
- Governments and central banks continue to support the economic comeback with all means at their disposal.
- Monetary and fiscal policy support and vaccines argue for a strong recovery from spring onwards.

Equities

- Equities performed well at the start of the year, with emerging market equities in particular gaining ground.
- Analysts have raised earnings estimates across almost all regions, and valuations have fallen as a result.
- We prefer European and emerging market equities in particular throughout 2021.

Bonds

- Rising inflation expectations are likely to push yields up further. Safe government bonds remain unattractive.
- Investment-grade corporate bonds with limited potential. We prefer market-sensitive segments.
- We underweight bonds and focus on credit risk and off-benchmark themes. Duration: short.

Alternative investments / commodities

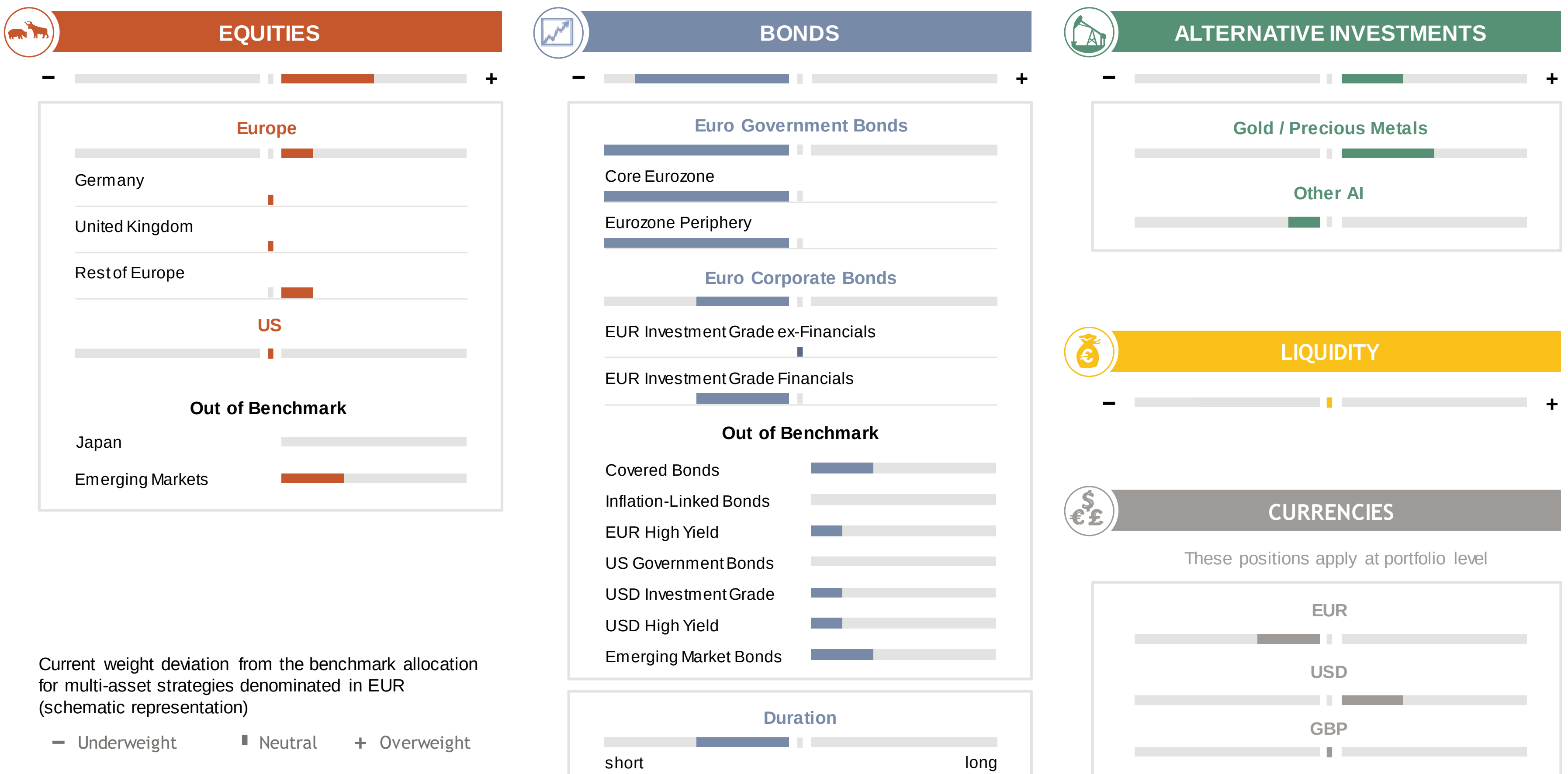
- Gold under pressure in the short term due to strong dollar and higher real rates. Emerging markets should boost demand.
- Saudi Arabia boosts oil price and cements supply deficit. US production stagnates.
- Structural demand trends for industrial metals remain intact. However, the high prices are more susceptible to setbacks.

Currencies

- The Italian government crisis is weighing on the euro. Nevertheless, the exchange rate remains above 1.20 USD/EUR.
- As expected, the British pound is benefiting from the Brexit deal. However, the virus brings uncertainty.
- The Swiss franc remains very highly valued because of the many uncertainties.

Concise overview of Berenberg's asset allocation
Current positioning within asset classes

Portfolio positioning of a balanced mandate at a glance



Current weight deviation from the benchmark allocation for multi-asset strategies denominated in EUR (schematic representation)

− Underweight ▮ Neutral + Overweight

Source: Berenberg.

As of 27/01/2021

Concise overview of Berenberg's asset allocation

Review of Core Strategy 3

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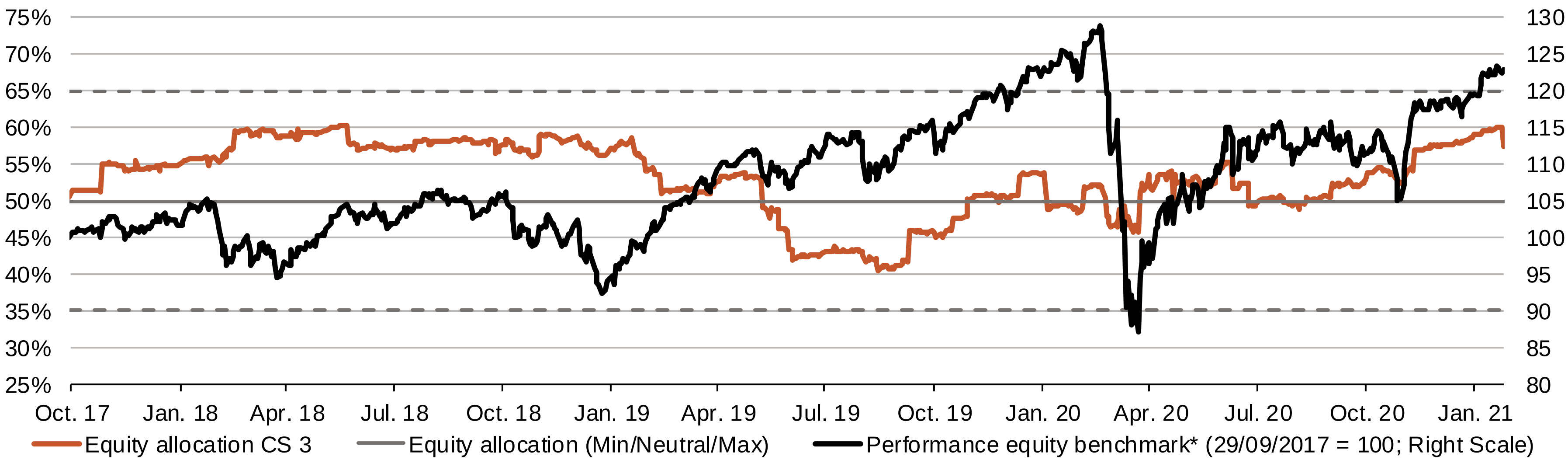
Management of the equity allocation of a balanced multi-asset mandate since inception

Performance equity benchmark	26/01/16 - 26/01/17	26/01/17 - 26/01/18	26/01/18 - 26/01/19	26/01/19 - 26/01/20	26/01/20 - 26/01/21
	13.95%	10.16%	-5.45%	26.26%	-1.64%



Sources: SimCorp, Bloomberg, Berenberg. *The "equity benchmark" is 70% STOXX Europe Net Return Index and 30% S&P 500 Net Return Index. Time period: 25/01/2016 – 25/01/2021.
Note: The historical performance presented here is not a reliable indicator of future performance.

- Since September, we gradually increased our equity exposure after the tough summer in order to benefit from further economic recovery and vaccine progress, with further steps in November. In turn, we had reduced safe-haven assets such as US Treasuries. Within equities, we had positioned ourselves more cyclically to participate in the rotation to covid losers. Important building blocks are positions in small caps, China and closing the underweight in the UK.
- Not all investors are yet fully invested in equity markets again and cash holdings are at a high level, so inflows into equities are likely to continue for the time being. Nevertheless, we believe that from a fundamental perspective further upside potential is now limited and that the market is more susceptible to a correction. In addition, the inflation trend in particular should be monitored.
- We have therefore recently started to slightly reduce our equity overweight. Overall, we still have a strong "growth quality" focus, complemented by selected cyclical exposure.

02 Economics

Eurozone
GDP and inflation

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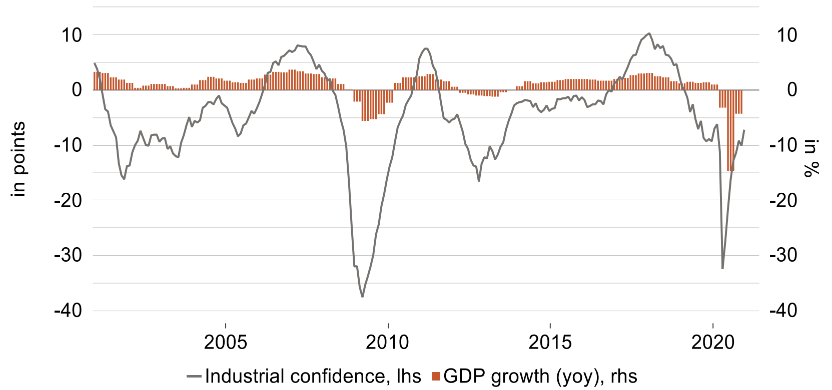
PMI's lower than expected

- The Eurozone Composite PMI for the eurozone falls back to 47.5 points in January (December: 49.1). Thus, it is deeper in contraction territory. With respect to the second major lockdown, however, this development was also expected.
- Driven by strong demand from the US and China, the manufacturing sub-index remains in expansionary territory. At 54.7 points in January, it is slightly below the December level of 55.2 points. The service sector saw output fall at the second-fastest rate since May.

Prices continue to decline in December

- With an inflation rate of -0.3 % yoy, prices continued to fall in December. The pandemic continues to temporarily create a price-dampening environment.
- Although inflation data are the main target for the ECB, the persistently declining prices have not given any reason for further monetary policy measures for the time being. For 2021 as a whole, we expect an inflation rate of 0.9%.

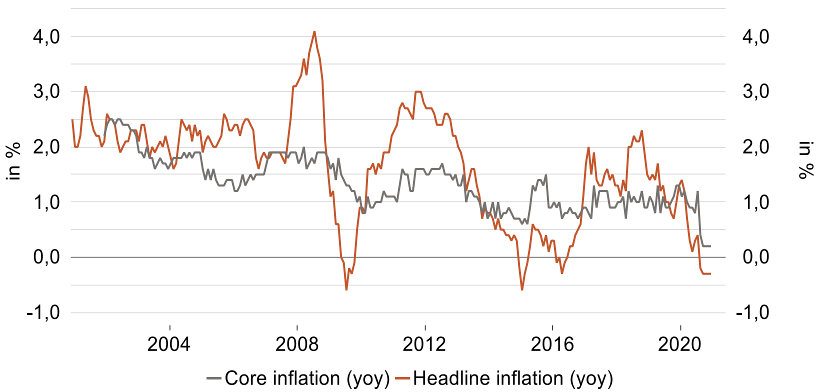
Eurozone GDP growth and economic sentiment



Sources: Macrobond

Time period: 12/2000 – 12/2020

Eurozone inflation



Source: Macrobond

Time period: 12/2000 – 12/2020

Great Britain
GDP and inflation

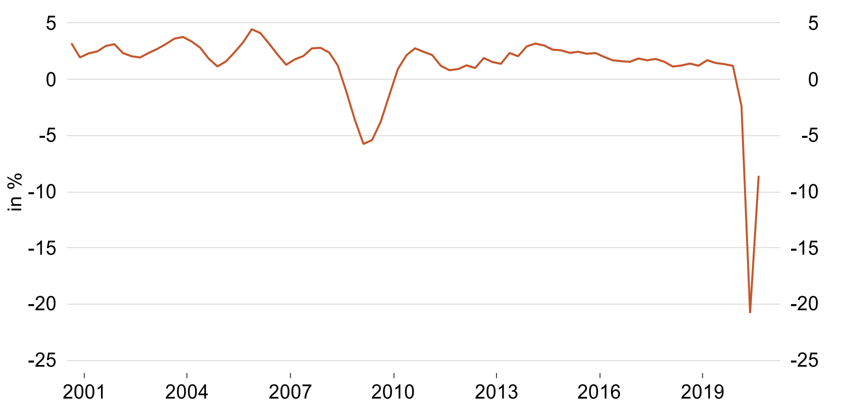
Consumer confidence down

- Consumer confidence is close to the record low seen during the financial crisis. In contrast, households' assessment of their current financial situation is close to the post-Lehmann record high.
- While consumers and households are concerned about the way ahead, they continue to be in a good financial position. Thus, the generous fiscal policy measures are having an effect by preserving jobs and temporarily supporting incomes.

Inflation picks up slightly in December

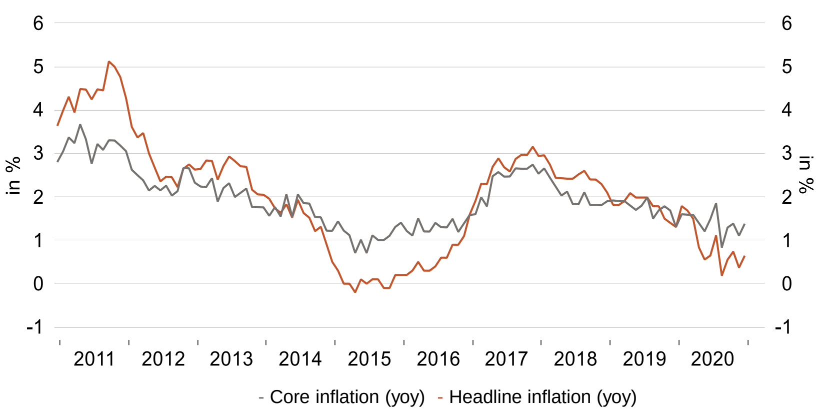
- Despite the severe economic constraints, price pressures increased somewhat in December. With an increase of 0.3 % mom, the inflation rate is likely to have risen by 0.6 % yoy (November: 0.3 %). This slightly exceeds expectations (consensus: 0.5 %).
- Despite low inflation rates, we do not think that the Bank of England will provide further stimulus at its meeting on 04.02.2021.
- For 2021 we expect an inflation rate of 1.3%.

Great Britain GDP growth



Source: UK Office for National Statistics Time periode: 09/2000 – 09/2020

Great Britain inflation



Source: UK Office for National Statistics Time periode: 12/2010 – 12/2020

USA
GDP and inflation

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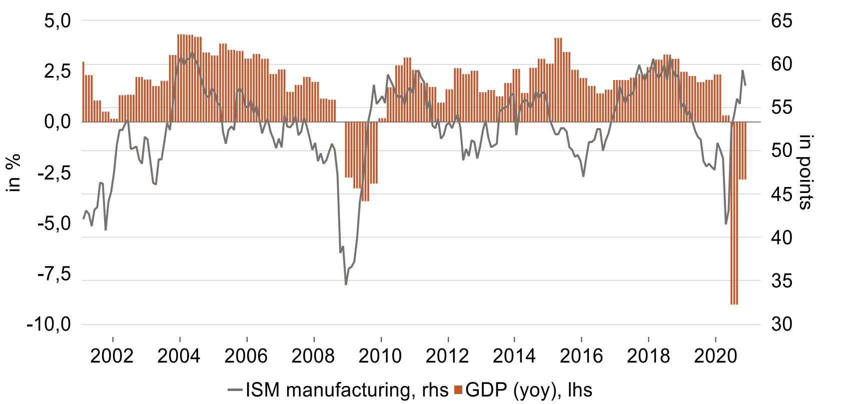
Positive news from the real estate sector

- In December, the number of housing starts increased by 5.8 % mom. At an annualized 1.67 million units, this is the highest level since September 2006.
- Housing starts have experienced a V-shaped recovery in the second half of 2020. This has been driven primarily by the favorable interest rate environment, rising demand and a low supply of properties for sale.
- Meanwhile, the number of approved building applications for single-family homes is up 18 % year-on-year. The momentum is therefore likely to continue.

Inflation picks up slightly in December

- In December, prices have risen by 0.4 % mom and by 1.4 % yoy. The year-on-year price increase rate is thus about 1.3 percentage points higher than in the pandemic low (0.1% in April), but still almost one percentage point below its pre-crisis level (2.3% in February). The recent rise was mainly driven by recent strong increases in energy prices.
- As soon as the acute phase of the pandemic subsides, inflation should also become more noticeable again. Therefore, we expect an inflation rate of 2.3% for 2021 .

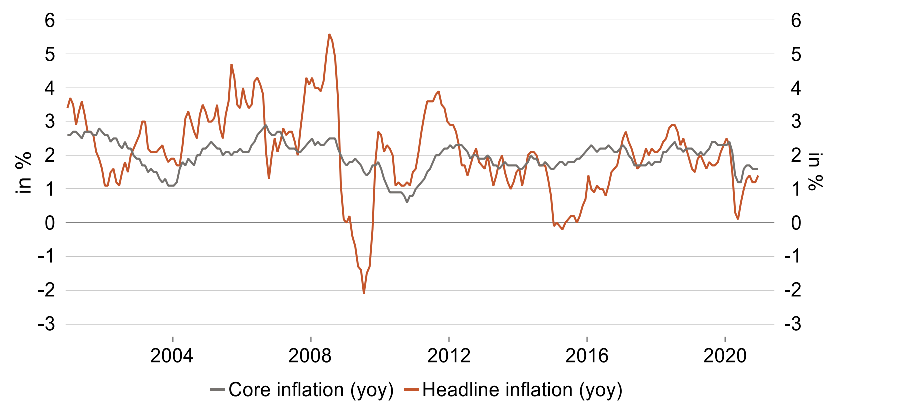
US GDP growth and Purchasing Managers Index



Source: Macrobond

Time period: 12/2000 – 12/2020

US inflation



Source: Macrobond

Time period: 12/2000 – 12/2020

Economic forecasts

Most important estimates at a glance

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	GDP growth (in %)						Inflation (in %)					
	2020		2021		2022		2020		2021		2022	
		Ø**		Ø**		Ø**		Ø**		Ø**		Ø**
USA	-3.7	-3.5	5.0	4.1	4.1	3.5	1.3	1.2	2.2	2.2	2.4	2.1
Eurozone	-7.2	-7.3	4.7	4.3	3.9	3.9	0.2	0.3	0.8	0.9	1.3	1.2
Germany	-5.5	-5.5	4.1	3.5	3.7	3.7	0.4	0.4	1.3	1.3	1.2	1.4
France	-9	-9.0	6.9	5.9	4.0	3.8	0.5	0.5	0.9	0.8	1.3	1.1
Italy	-9.2	-9.0	5.5	5.2	3.4	3.7	-0.1	-0.1	0.6	0.5	1.3	0.8
Spain	-11.7	-11.5	7.3	5.7	6.3	5.8	-0.3	-0.3	0.7	0.6	1.3	1.1
United Kingdom	-11.5	-10.7	6.0	4.7	6.5	5.5	0.9	0.9	1.2	1.5	2.1	1.9
Japan	-5.3	-5.3	3.4	2.6	1.9	2.0	0.0	0.0	0.1	0.0	0.5	0.5
China	2.7	2.1	9.0	8.4	4.8	5.5	2.5	2.6	1.4	1.6	2.2	2.3
World*	-3.4	-3.8	4.3	5.2	3.2	3.9		2.2		2.7		2.9

Source: Bloomberg. Berenberg as of 26/01/2021.
* At actual exchange rates. not purchasing power parity; PPP would give more weight to the fast-growing emerging-market countries.
** Average of estimates of other experts (Bloomberg); consensus.

03 Equities

Market developments
Friendly start to the year for equities

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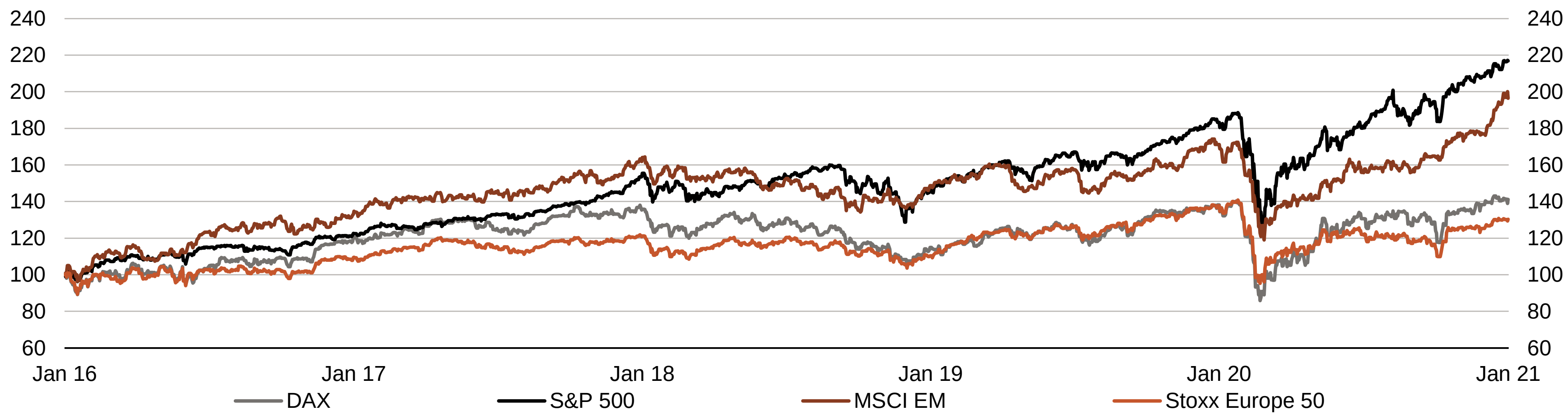
Positive equity market trend continued in January, especially in emerging markets

- Positive investor sentiment is reflected in price increases across all equity regions. Cyclical equity regions in Asia and small caps benefited particularly strongly. The gains in the Euro Stoxx 50 and the S&P 500 were somewhat more moderate. Another supportive factor was that analysts continued to revise their earnings estimates upwards for most regions - especially for emerging markets. In addition, equities still remain attractively valued relative to government bonds.
- British equities continued their recovery. They are among the outperformers this year. In addition to positive earnings revisions, the reduced Brexit uncertainty is likely to have contributed to this. In addition, the UK is making significantly more progress on the Covid vaccine distribution than continental Europe.

Performance of selected equity indices



Source: Bloomberg; performance scaled to 100.

Time period: 26/01/2016–26/01/2021.

Corporate earnings

Positive earnings revisions, high earnings growth in 2021

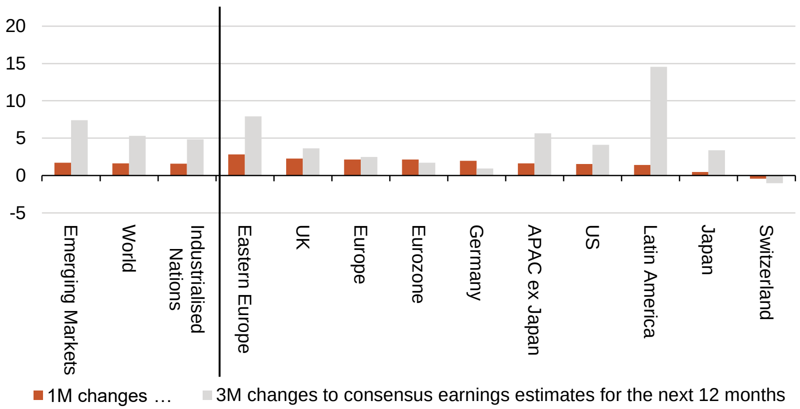
Positive revisions across almost all regions

- Analysts continue to revise their earnings estimates for the next twelve months upwards. Most recently, they have become more optimistic about emerging markets and Europe in particular.
- Switzerland, on the other hand, is the only region with negative profit revisions over one and three months.

Analysts optimistic for 2021 and 2022

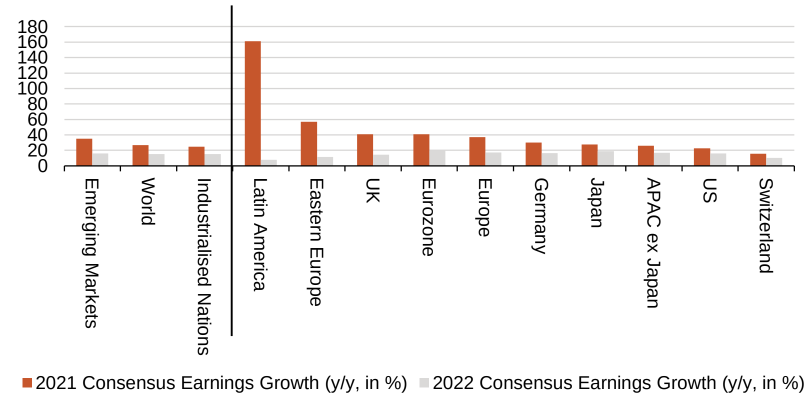
- For both 2021 and 2022, consensus expects positive growth rates for corporate profits across all regions. In line with consensus expectations, corporate profits should already reach or exceed 2019 levels in most regions in 2021.
- However, growth rates are expected to decline significantly next year as the base effect diminishes.

Only Switzerland with negative profit revisions



Source: FactSet. As of 27/01/2021.

Positive earnings growth rates for 2021 and 2022



Source: FactSet. As of 27/01/2021.

Valuation & Positioning
Valuations down, divided picture on the options market

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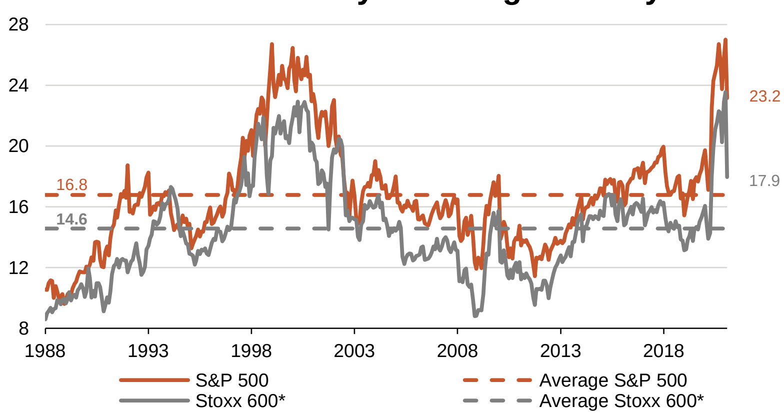
Ratings declined as expected

- Equities remain expensive relative to their own history. However, the P/E ratios have recently fallen significantly compared to December. There are two reasons for this. On the one hand, earnings estimates have risen. On the other hand, the lower "Q3 2020" estimates were recently replaced by the higher "Q3 2021" estimates in the rolling calculation window.

Divided picture on the options market

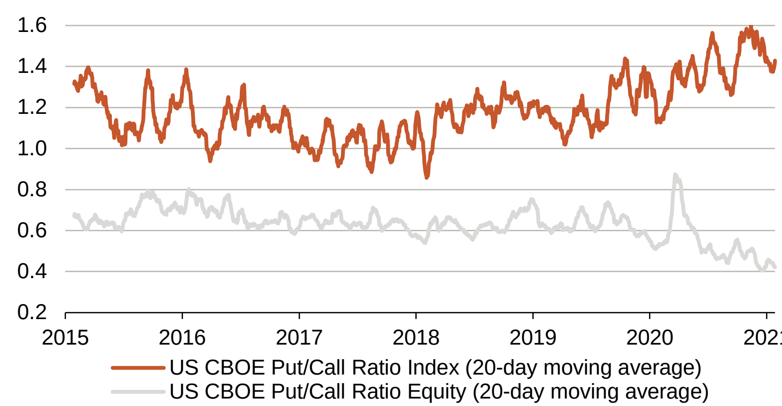
- The put/call ratio remains elevated for US index options but very low for US individual stocks. Investors thus still appear to be cautious for the overall market, even if they are betting on a strong performance of individual names, especially tech stocks.
- The historically very low put-call ratio for individual stocks shows that investors are optimistic about selected individual stocks, but hardly enter into hedges for individual names.

Valuations have recently fallen significantly



* For the Stoxx 600, the history prior to 2000 is of MSCI Europe.
Source: Bloomberg, own calculation Time period: 31/12/1987 – 26/01/2020.

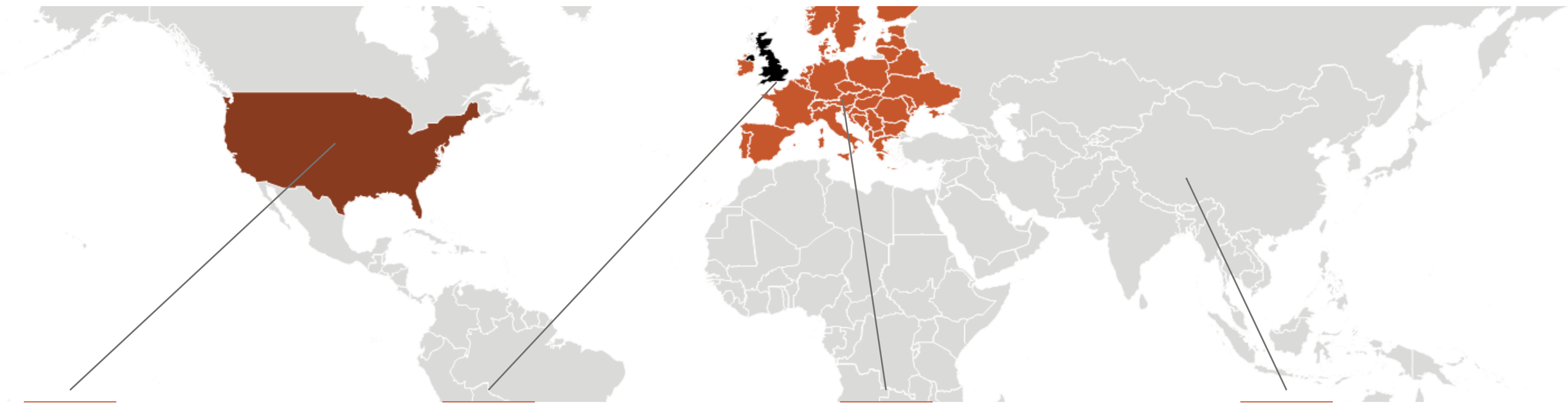
Options market euphoric for individual shares



Source: Bloomberg, own calculations. Time period: 01/01/2015 – 26/01/2021.

Equity allocation

Emerging markets and Europe ex UK overweight



USA

Underweight

- We have partially realised gains in US small caps after the massive rally.
- Should bond yields rise more strongly due to the strong economic recovery expected by the consensus, highly valued US equities in particular should underperform.

United Kingdom

Neutral

- Positive earnings revisions, less Brexit uncertainty, a clearer economic revival, relatively cheap valuations in a regional context as well as a substantial underweight of the investment consensus suggest that one should no longer afford to be underweight from a risk management point of view alone.

Europe ex. UK

Overweight

- A synchronous global economic recovery, after last year's Covid-19 recession, should particularly benefit export-dependent European companies.
- The adopted fiscal packages and the ECB's monetary policy should also provide support.

Emerging markets

Overweight

- Emerging market equities are likely to be one of the main beneficiaries of a global economic recovery.
- We are particularly positive on Chinese equities. Chinese companies should benefit from the flourishing domestic economy and the recently concluded Asia-Pacific trade agreement.

Equity market forecasts

Estimates for selected indices

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Index forecasts	Current 26/01/2021	30/06/2021	31/12/2021	Ø* in 12 months
S&P 500	3,850	3,800	3,950	4,127
Dax	13,871	14,000	14,600	15,549
Euro Stoxx 50	3,593	3,700	3,800	3,957
MSCI UK	1,867	1,950	2,050	2,084

Index potential (in %)				
S&P 500	-	-1.3	2.6	7.2
Dax	-	0.9	5.3	12.1
Euro Stoxx 50	-	3.0	5.8	10.1
MSCI UK	-	4.4	9.8	11.6

Source: Bloomberg, Berenberg, as of 26/01/2021.
*Average based on bottom-up estimates.


U.S. Treasuries
Coupon
Maturity Date
Current Price Yield
3-Month
6-Month
12-Month
2-Year
3-Year
5-Year
7-Year
10-Year
0.000
0.000
0.000
1.000
1.375
2.375
3.125
3.375
4.375
11/18/2010
10/31/2011
11/15/2012
10/31/2014
10/31/2016
11/15/2019
11/15/2039
0 / .01
0.13 / .13
0.26 / .26
11-16+ / .72
11/20
20y
15y

04 Bonds

Government bonds
Rise in yields still restrained

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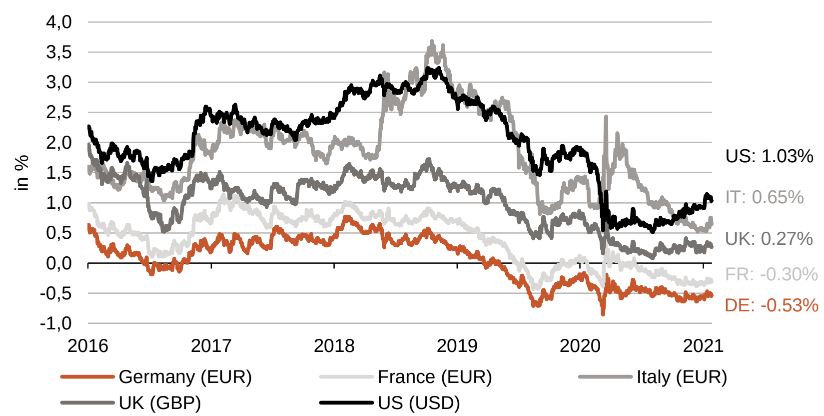
Inflation expectations cause yields to rise slightly

- Investors' rising inflation expectations - especially in the US - are pushing up yields. Massive fiscal packages and looser monetary policies should lead to rising prices and thus rising inflation/yields in the future. US government bonds have already ruled and are yielding over 1%.
- In Europe, investors are still somewhat more sceptical. Only in Italy have yields risen significantly after the government coalition broke up and the new election is now pending. Uncertainty in Italy has thus increased again.

Steepening of the US yield curve

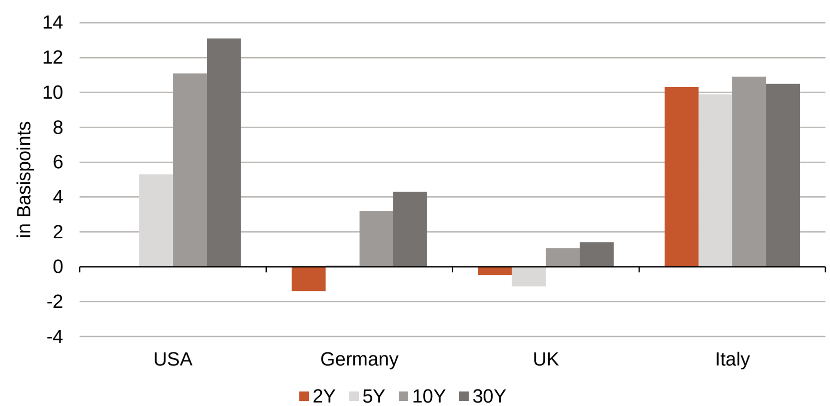
- Rising government debt and increasing inflation expectations are causing yields in the US to rise, especially at the long end of the yield curve. Investors are thus increasingly paying for the risk of interest rate changes and inflation.
- In Italy, it was not inflation expectations but political uncertainty that drove yields up. Thus, a similar rise in yields was seen there across the different maturities.
- In the medium term, we expect yields to continue rising and therefore consider government bonds to be unattractive.

Yields on 10-year government bonds rise slightly



Source: Bloomberg, 10-year government bonds. Time period: 01/01/2016–26/01/2021

US with significantly rising yields at the long end



Source: Bloomberg; monthly change in yields of 2, 5,10, 30-year government bond yields. Time period: 26/12/2020–26/01/2021.

Corporate bonds
Historically low risk premiums

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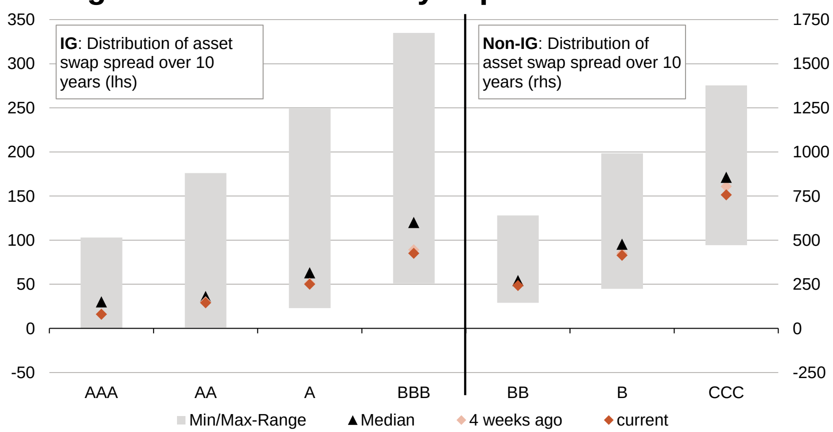
Lower potential for IG corporate bonds

- The risk premiums on IG corporate bonds are below the historical 10Y median in all segments. The potential for further declines in risk premiums is thus limited, even though demand for safe corporate bonds remains high. We prefer more market-sensitive investments such as high-yield or emerging market bonds.
- High-yield bonds are also no longer cheap, but - if the economic picture is positive - they still offer significantly more potential with a risk premium of between 250 and 750 basis points.

Real estate bonds with falling risk premiums

- Over the past four weeks, real estate bonds in particular have seen falling risk premiums. On the one hand, yields in Europe have not risen further, which helps the often highly indebted real estate companies. Real estate companies continue to offer attractive risk premiums compared to other sectors.
- EUR financial bonds, on the other hand, saw slightly rising risk premiums. Recently falling yields in the Eurozone created headwinds in the business model of financial companies.

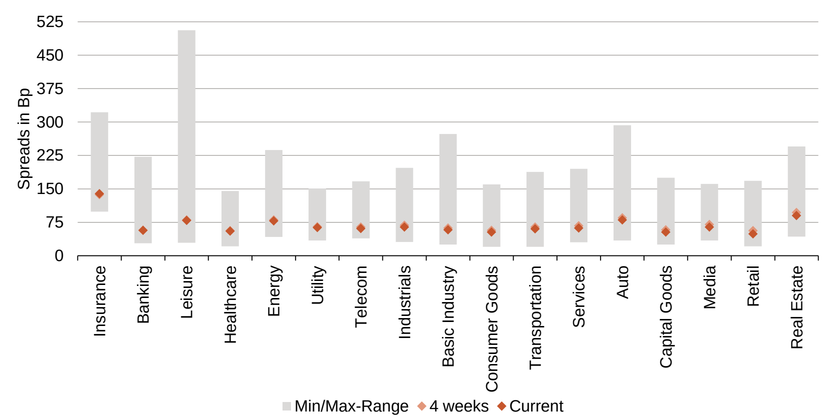
All segments are historically expensive



Source: Factset, 10Y distribution of spreads of EUR corporate bonds by rating

Time period: 26/01/2011-26/01/2021

Real estate companies with spread narrowing



Source: Factset, Historical 5-year distribution of euro sector risk premiums

Time period: 26/01/2016-26/01/2021

Capital market strategy
Bonds

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Core segments

Government bonds
Underweight

- Euro bonds remain in a low-yield environment, but are still in demand in risk-off phases with high credit ratings.
- We expect yields to rise slightly, although the central banks' low interest rate policy is likely to continue. Duration should be kept short - interest rate risks are not sufficiently remunerated.

Corporate bonds
Overweight

- The loose monetary policy and low yields on government bonds make us prefer corporate bonds to government bonds. We expect a catch-up movement in cyclical sectors, for example automobiles or capital goods.
- Within the corporate bond segment, we prefer securities with a solid balance sheet and thus low default risk.

Other segments

Emerging market bonds
Overweight

- Emerging market bonds remain strategically interesting due to their higher yield and economic catch-up potential. We also find frontier market bonds exciting.
- We are expressly optimistic about emerging market local currency bonds and prefer government securities there.

High yield bonds
Overweight

- Despite the narrowing of spreads, the relatively attractive risk premiums still call for a tactical allocation. In the case of US exposures, the currency risk should be hedged.
- In European high-yield bonds, we position ourselves away from the usual names.

Forecasts

Estimates for selected bond markets

Base interest rates and government bond yields (in %)	26/01/2021	30/06/2021		31/12/2021	
	Current		Ø*		Ø*
USA					
Base interest rate	0.00-0.25	0.00-0.25	0.25	0.00-0.25	0.30
10Y US yield	1.04	1.50	1.19	1.75	1.34
Eurozone					
Base interest rate	0.00	0.00	0.00	0.00	0.00
10Y Bund yield	-0.54	-0.20	-0.42	0.00	-0.31
United Kingdom					
Base interest rate	0.10	0.10	0.10	0.10	0.10
10Y Gilt yield	0.26	0.60	0.38	0.70	0.52

Source: Bloomberg. Berenberg as of 26/01/2021
*Average of estimates by other experts (Bloomberg). consensus

05 Commodities

Crude oil
Oil price well supported thanks to supply deficit

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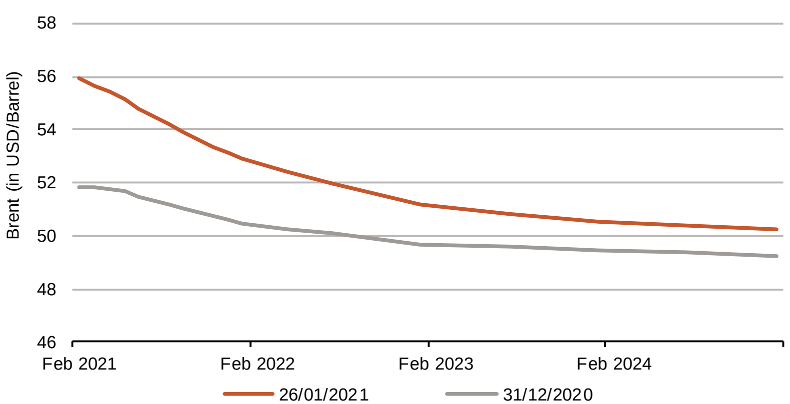
Saudi Arabia boosts oil price and cements supply deficit

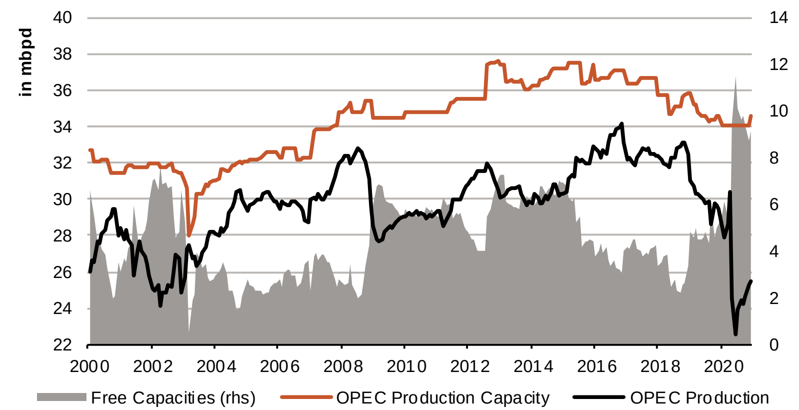
- In the new year, crude oil was able to continue the rally of the past months. While in November and December, it was the vaccine developments that boosted its price, Saudi Arabia caused a positive surprise in the oil market at the beginning of January. At the monthly OPEC+ meeting, the Saudis agreed to unilaterally cut production by an additional one million barrels per day by the end of March.
- The other players on the supply side are also not expected to expand production in the near future. Although the number of active wells in the US is rising again, the level is still so low that the development of new wells is more likely to compensate for the drying up of existing wells. Some shale oil producers confirm that debt reduction and dividend increases, rather than production expansion, are priorities. Meanwhile, production in Libya has returned to pre-export freeze levels, so further expansions there are also likely to be limited.
- With the existing demand overhang, the oil price remains well supported. However, the upside potential is now limited due to the still large inventories and very high spare capacities on the supply side.

Backwardation indicates tight supply



Source: Bloomberg. Time period: 31/12/2020 – 26/01/2025.

Spare capacities of OPEC countries near all-time high



Source: Bloomberg. Time period: 01/01/2000 – 31/12/2021.

Precious and industrial metals

Gold remains attractive

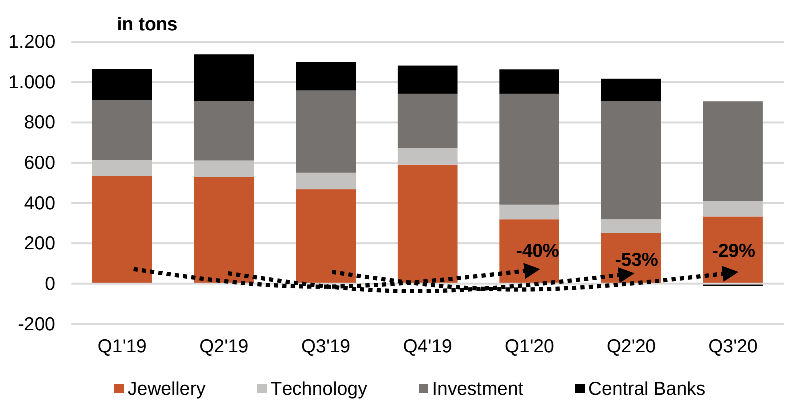
Gold is punished in the short term

- After an initially promising start to the year, gold was forced to fall sharply a little later. Gold was hit twice in the process. A rising US dollar and rising real interest rates put the precious metal under pressure.
- In the meantime, however, real interest rates for US Treasuries (10Y) have fallen below the -1% mark again. The enormous national debt and the falling US dollar that we expect, continue to speak in favour of gold.
- Especially in emerging markets, demand from central banks and demand for gold jewellery is likely to increase noticeably again in 2021.

Industrial metals remain the winners in the new year

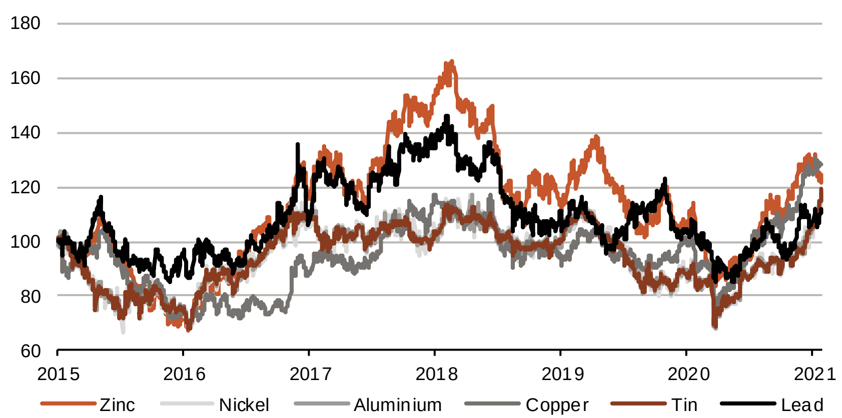
- Industrial metals continued to rise in January. In the meantime, the LME index is trading at its highest level since the beginning of 2013, driven primarily by copper, nickel and tin. In addition to the economic stimulus programmes and the trend towards renewable energies, whose technologies are very metal-intensive, the weak US dollar has also supported metal prices.
- The structural tailwinds should also continue, although metal prices are likely to be vulnerable to short-term setbacks after the strong rally since March 2020 and due to the pronounced positioning of speculative investors.

Jewellery industry should boost demand



Source: World Gold Council, own calculations. Time period: 01/01/2019 – 30/09/2020.

Metals in upward trend since March



Source: Bloomberg.. Time period: 01/01/2015 – 26/01/2021.

06 Currencies

Market developments
Interest rates and currencies

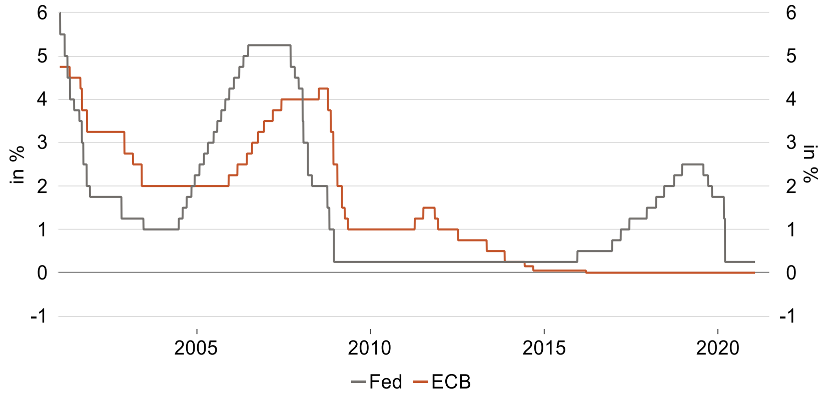
The ECB stays the course

- As expected, the ECB's first monetary policy meeting of the new year did not bring any changes. Neither the key interest rate nor the Asset Purchase Programmes (APP and PEPP) were adjusted.
- Once again, however, the ECB emphasised the flexibility to further increase the Emergency Pandemic Programme (PEPP) if necessary. The current target total volume is 1,850 billion euros. Around €781 billion of this amount has already been used for purchases since the beginning of the crisis.

Dollar weakness yes, dollar crash no

- Although rising debt is a longer-term problem, there is no expectation of a dollar crisis at present. Rather, due to monetary and fiscal policies, a dollar weakness is emerging and is likely to continue for the time being.
- After the euro has recently experienced a correction against the US dollar due to the break-up of the coalition in Italy, there is further catch-up potential in the medium term. By the end of the year we see the euro/US dollar at 1.28.

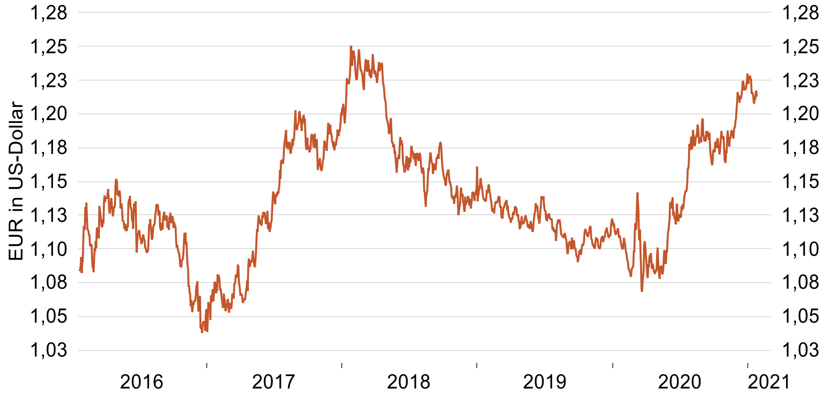
Central bank rates



Source: Macrobond

Time period: 01/2001 – 01/2021

Exchange rate: Euro/US dollar



Source: Macrobond

Time period: 01/2016 – 01/2021

Forecasts
Estimates of key currencies

	26/01/2021	30/06/2021		31/12/2021	
Exchange rate forecasts	Current		Ø*		Ø*
EUR/USD	1.22	1.25	1.23	1.28	1.25
EUR/GBP	0.89	0.87	0.89	0.86	0.90
EUR/CHF	1.08	1.08	1.09	1.1	1.10
EUR/JPY	126	128	126	129	127

Change against the euro (in %)					
USD	-	-0.5	-0.5	-2.8	-2.1
GBP	-	5.9	1.2	7.2	1.2
CHF	-	-1.9	-1.2	-3.0	-3.0
JPY	-	-0.5	1.1	-2.8	-0.9

*Source: Bloomberg. Berenberg as of 26/01/2021.
*Average of estimates of other experts (Bloomberg); consensus.

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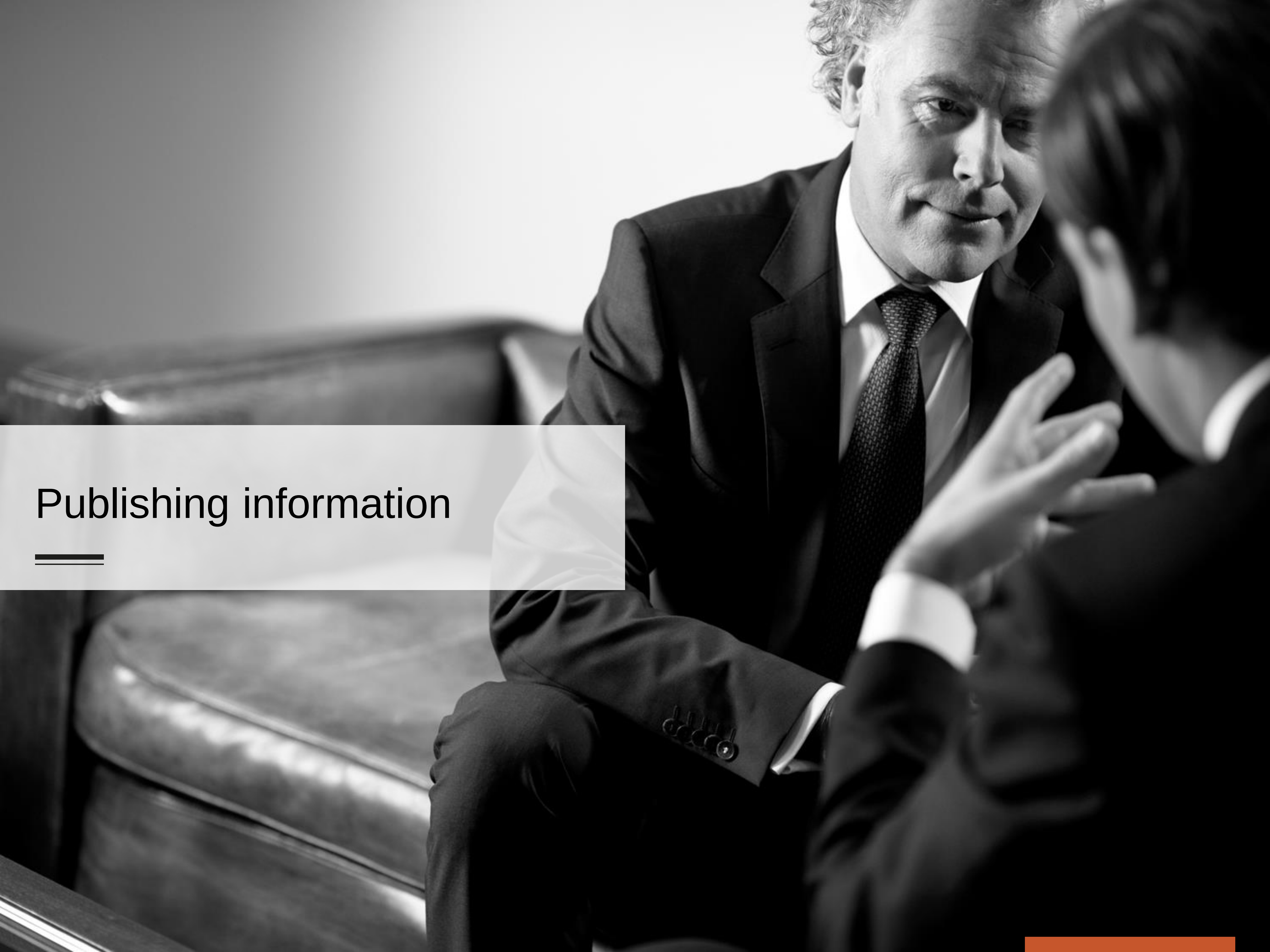

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