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HORIZON *handout*

The Berenberg Capital Markets Outlook • Wealth and Asset Management

December | 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.

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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

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 (21/10/21 - 18/11/21)	YTD (31/12/20 - 18/11/21)	18/11/20 18/11/21	18/11/19 18/11/20	18/11/18 18/11/19	18/11/17 18/11/18	18/11/16 18/11/17
Gold	6.6	5.2	3.5	18.9	24.2	-2.4	-3.8
S&P 500	6.0	36.4	39.7	8.7	19.9	11.9	8.2
Euro Stoxx 50	5.5	25.7	28.3	-4.1	19.8	-8.0	20.4
DAX	4.8	18.2	22.9	0.0	16.5	-12.7	21.8
Topix	3.6	12.3	14.6	1.2	14.6	-3.1	11.8
USDEUR	2.2	7.4	4.2	-6.6	3.1	3.3	-10.2
MSCI Emerging Markets	0.9	8.0	12.4	9.5	12.7	-8.1	23.4
EUR Sovereign Bonds	0.6	-1.0	-0.9	1.7	4.9	-1.3	1.6
EUR IG Bonds	0.4	-0.6	-0.3	2.3	6.3	-1.5	3.4
EM Hard Currency Bonds	0.3	-0.3	1.8	6.2	11.8	-2.0	9.3
Eonia	0.0	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4
Brent	-0.5	82.0	105.0	-40.1	3.1	17.8	11.1

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: 18/11/2016 – 18/11/2021.

Overview of capital markets
Outlook by asset class

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Economics

- The upswing was slowed down in autumn by supply bottlenecks and new Covid-19 uncertainties.
- Inflation continues to rise - in the US, Europe and Germany. Central banks begin to take countermeasures.
- While the US Federal Reserve is tightening monetary policy, the ECB remains hesitant.

Equities

- Many stock markets hit new all-time highs. Chinese equities remain volatile but seem to be stabilising.
- Corporate profits are expected to increase again next year, but growth rates are expected to decline.
- We remain constructive on equities. However, the risk of a technical countermovement has increased recently.

Bonds

- Yield pressure due to stagflation concerns (high inflation, low growth) led to a flattening of the yield curves.
- Spreads on EUR credit are at an unattractive level. EM high-yield bonds have increased spreads.
- We underweight bonds and focus on credit risks and off-benchmark themes. Duration: short.

Alternative investments / commodities

- Oil prices face headwinds. Debate on oil reserve releases and Covid-19 concerns put an end to the oil price rally for now.
- Precious metals such as gold and silver reacted to continued high inflation and were thus able to make significant gains.
- Industrial metals are taking a breather after a strong annual performance. However, the structural trend remains intact.

Currencies

- The US dollar is once again in full gear. High inflation raises expectations of faster rising US interest rates.
- Even though the Bank of England was hesitant at its last meeting, the British pound is picking up speed again.
- The Swiss franc continues to push upwards. The ‘wait-and-see’ attitude of the ECB weakens the euro exchange rate.

Overview of Berenberg's asset allocation
Current positioning within asset classes

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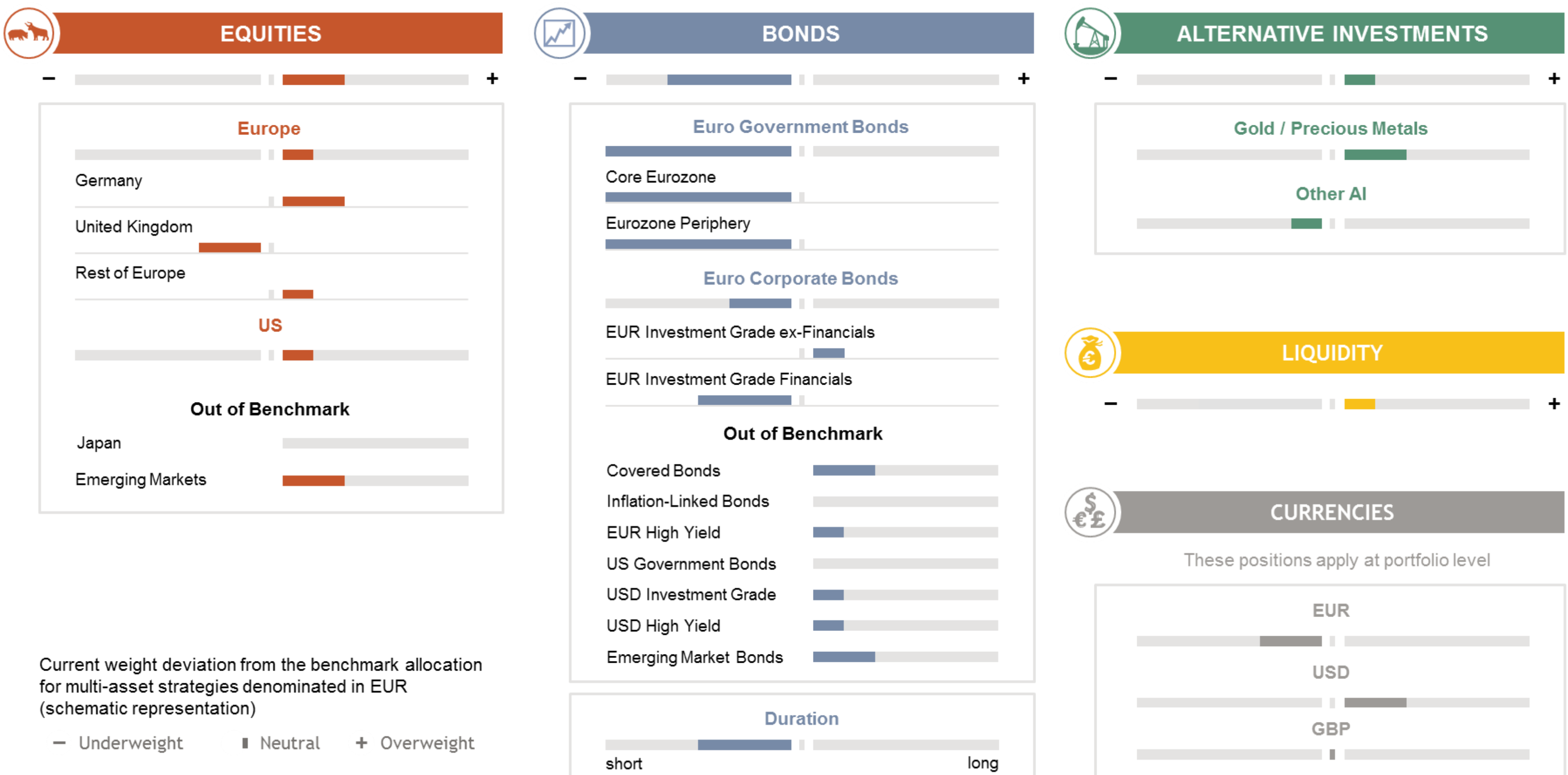
Portfolio positioning of a balanced mandate at a glance



Source: Berenberg.

As of 18/11/2021.

Overview of Berenberg's asset allocation

Review of Core Strategy 3

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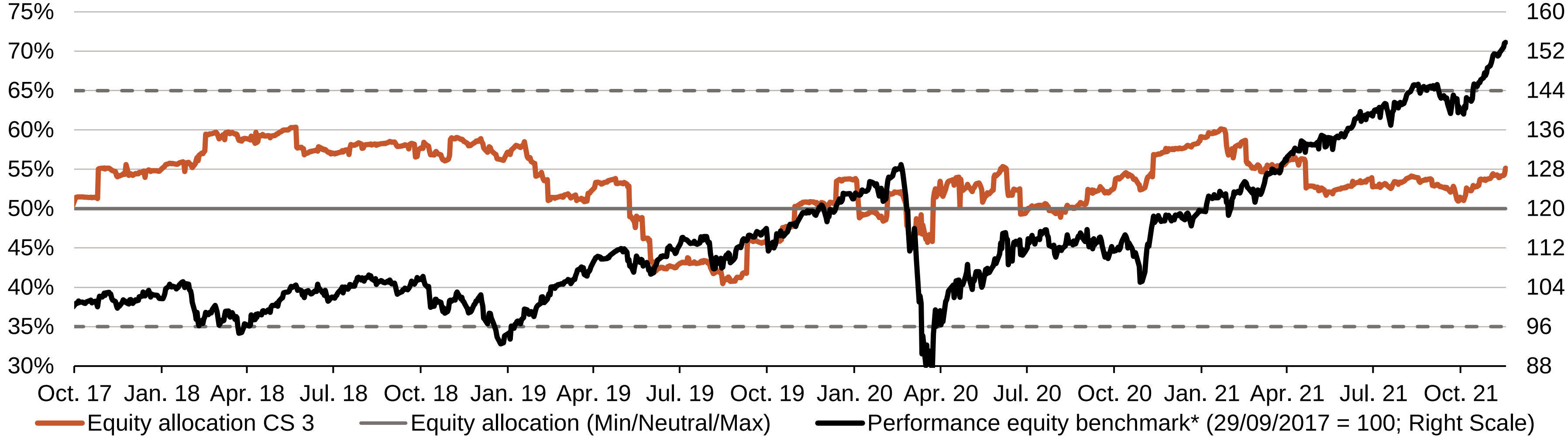
Management of the equity allocation of a balanced multi-asset mandate since inception

Performance equity benchmark	17/11/16 - 17/11/17	17/11/17 - 17/11/18	17/11/18 - 17/11/19	17/11/19 - 17/11/20	17/11/20 - 17/11/21
	12.34%	0.47%	18.73%	-1.19%	30.28%



Sources: SimCorp, Bloomberg, Berenberg. *The "equity benchmark" is 70% STOXX Europe Net Return Index and 30% S&P 500 Net Return Index. Time period: 17/11/2016 – 17/11/2021.
Note: The historical performance presented here is not a reliable indicator of future performance.

- Throughout September, concerns about China, the upcoming tapering and high energy prices dominated investor sentiment and caused equity prices to fall. We took advantage of this opportunity and added slightly to equities to maintain our moderate equity overweight. From the beginning of October and with the start of another very positive reporting season so far, investors have regained their optimism and equity markets are already trading at or near their all-time highs.
- In the meantime, however, equities are likely to have considerably less upside potential. Valuations are likely to fall rather than rise in the coming months, while earnings growth is likely to normalise. The situation is different for China. Valuations there have already fallen significantly. The problem areas of 2021 (growth, real estate crisis, regulatory and monetary/fiscal policy) should continue to subside or even provide positive tailwinds in some cases. We therefore saw the stabilisation of the stock market in October/November as an opportunity and increased our strategic exposure to Chinese equities.

02 Economics

Eurozone
GDP and inflation

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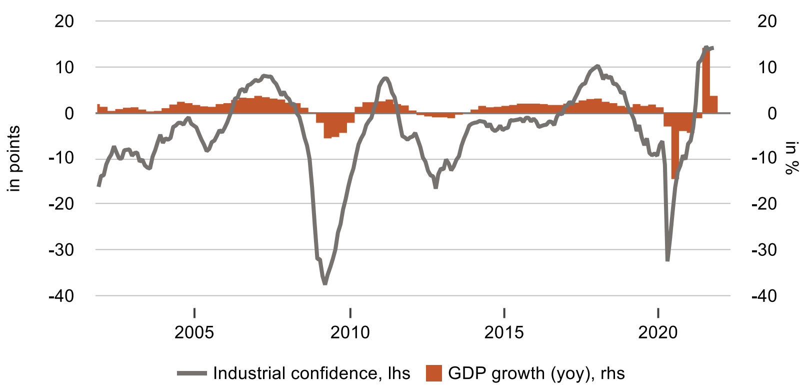
A new Covid-19 wave hits Europe

- The number of reported SARS-CoV-2 infections has recently increased to a new record level in some European countries, including Germany, Austria, the Netherlands and Slovenia.
- It is difficult to assess the impact of rising numbers of infections coupled with large numbers of vaccinated citizens for public health. The vaccines protect against severe courses of the disease. Therefore, it can currently be assumed that the decoupling will continue in the long term: new waves of infections should not cause the level of medical burdens as they have done in the past.

Vaccination rates to be further advanced

- An accelerated vaccination process (including more booster shots) and restrictions on unvaccinated/vulnerable individuals will help manage the pandemic and limit economic damage.
- Unless there is widespread infection with vaccine-resistant mutations, it is unlikely that the bulk of governments will again resort to blanket restrictions that limit economic activity and keep fully protected individuals out of public life.

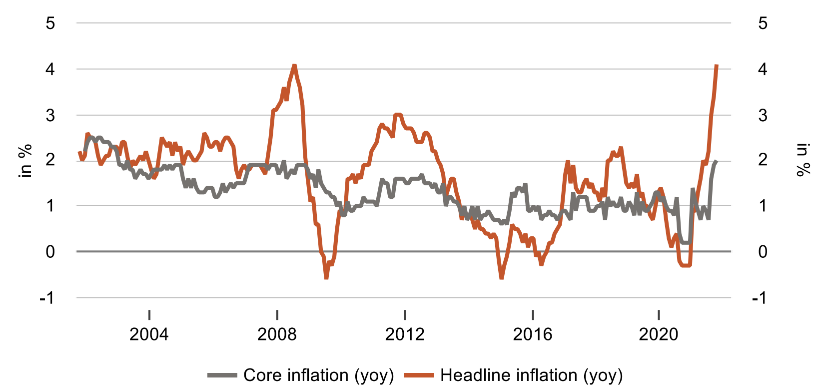
Eurozone GDP growth and industrial confidence



Source: Macrobond

Period: 11/2001 - 11/2021

Eurozone Inflation (yoy)



Source: Macrobond

Period: 10/2001 - 10/2021

United Kingdom
GDP and inflation

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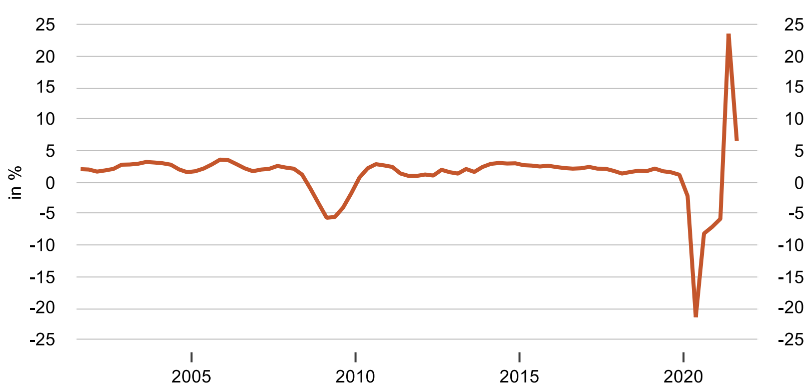
Solid GDP growth

- Real GDP grew again after the impressive 5.5% in Q2. In Q3, however, the increase was only 1.3% (QoQ).
- The UK is on track to reach pre-crisis levels of early 2020 GDP in Q1 2022.
- Private consumption and government spending in particular grew faster than expected.
- The jobs market is booming. The headline unemployment rate edged down to 4.3% in September from 4.5% in August – below consensus and our expectations of 4.4%.

Brexit late effects

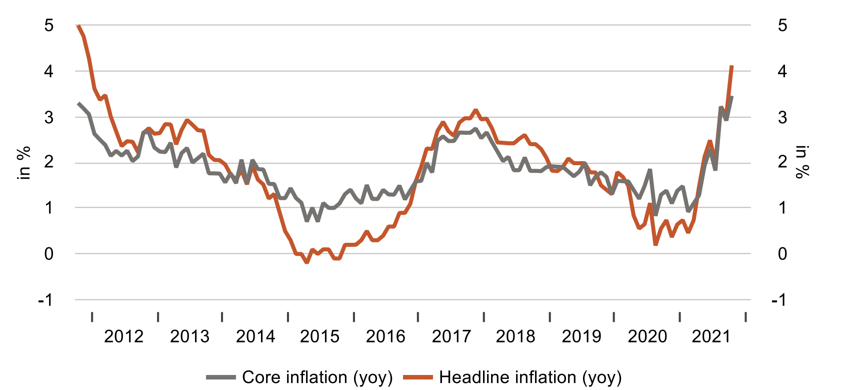
- Despite positive signs, business investment growth remained weak in Q3. In particular, investment stalled after the Brexit vote and then collapsed during the pandemic.
- While the weak trade data partly reflects global supply chain issues and shortages of key inputs, the UK's Brexit woes and higher non-tariff barriers are hugely exacerbating the situation in the port and transport sectors.
- In addition, the dispute over the Northern Ireland Protocol is having a negative impact on investment decisions.

UK GDP growth (yoy)



Source: Macrobond Period: 09/2001 - 09/2021

UK Inflation (yoy)



Source: Macrobond Period: 10/2011 - 10/2021

United States
GDP and inflation

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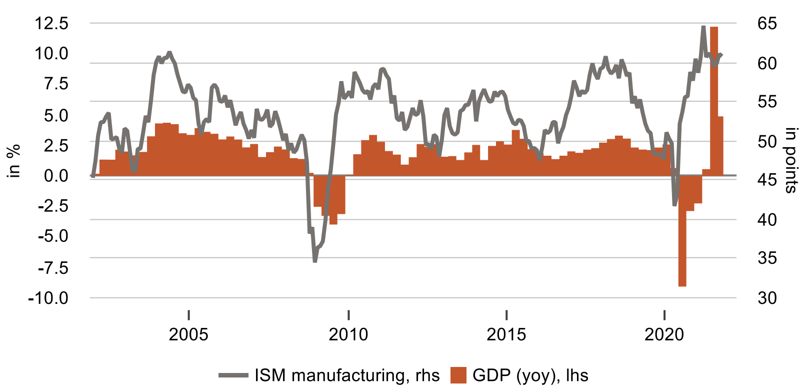
Inflation continues to pick up

- With a price increase of 0.9% compared to September (core inflation: +0.6%), the consumer price index rose by 6.2% yoy (core inflation: +4.6%). This is the highest level since 1990.
- This price increase is due to a combination of supply shortages and strong demand.
- Pent-up consumer and business demand, along with ample monetary and fiscal stimulus, point to persistently high US inflation even as supply bottlenecks ease.

Higher prices are followed by higher wage demands

- The US Producer Price Index (PPI) for final demand increased by 0.6% month-on-month (MoM) in October, lifting its yoy increase to 8.6%. October marked the 10th consecutive month in which headline PPI increased by more than 0.5% MoM reflecting the impact of high demand amid persistent and pervasive supply constraints.
- Meanwhile, inflation expectations are affecting wages and price-setting behaviour: faced with labour shortages and rising prices, workers are demanding higher wages. At the same time, expectations that inflation will remain high are reflected in firms' product pricing decisions.

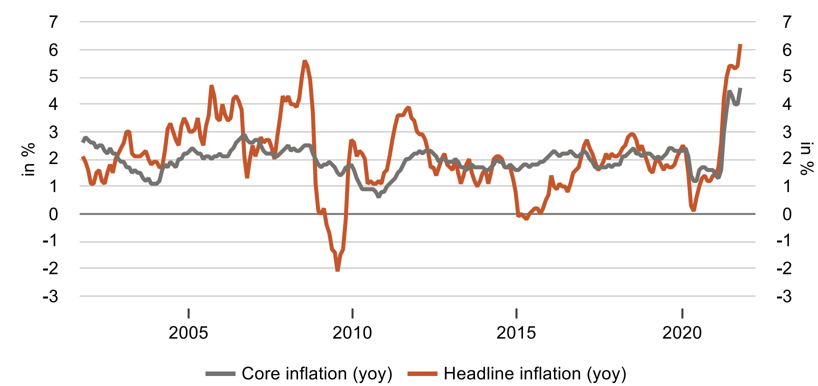
US GDP growth and Purchasing Managers Index



Source: Macrobond

Period: 10/2000 - 10/2021

US Inflation (yoy)



Source: Macrobond

Period: 10/2001 - 10/2021

Economic forecasts
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	-3.4	-3.5	5.5	5.5	3.7	3.9	1.2	1.3	4.6	4.5	4.2	3.6
Eurozone	-6.5	-6.8	5.1	5.1	4.9	4.2	0.3	0.3	2.5	2.4	2.3	2.2
Germany	-4.9	-5.3	2.7	2.8	5.0	4.4	0.4	0.5	3.0	3.0	2.3	2.4
France	-8.0	-8.3	6.8	6.7	4.7	4.1	0.5	0.5	2.1	2.0	2.1	1.9
Italy	-9.0	-8.9	6.4	6.2	5.0	4.4	-0.1	-0.1	1.8	1.8	1.7	1.8
Spain	-10.8	-11.4	4.5	4.7	6.5	5.9	-0.3	-0.3	2.8	2.8	2.3	2.3
United Kingdom	-9.7	-9.9	6.8	7.0	5.0	5.0	0.9	0.9	2.4	2.4	3.5	3.5
Japan	-4.7	-4.8	2.5	2.2	2.4	2.6	0.0	0.0	-0.2	-0.2	0.8	0.7
China	2.0	2.3	8.0	8.0	5.2	5.4	2.5	2.5	0.8	1.0	1.9	2.2
World*	-3.1	-3.7	4.8	5.8	3.6	4.4		2.2		3.7		3.5

Source: Bloomberg. Berenberg as of 18/11/2021.
* 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
Year-end rally is consensus now

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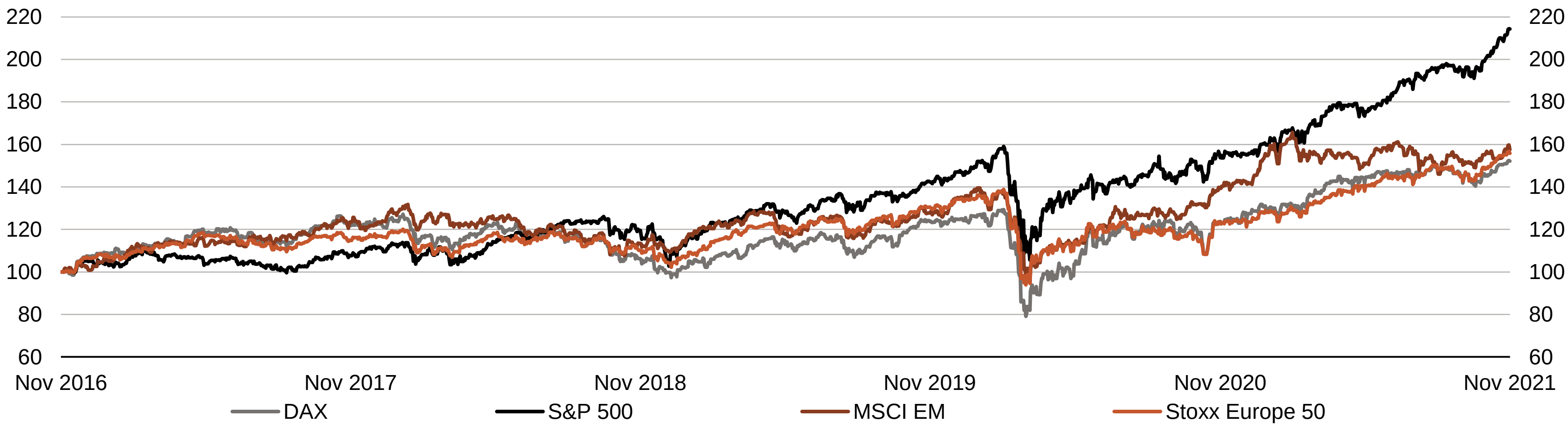
Investors jump on the stock market rally and drive prices further upwards

- The market is increasingly pricing in interest rate hikes and market participants are intensely debating whether high inflation is temporary or permanent. Meanwhile, many equity markets are marking one all-time high after another, supported by declining volatility that is pushing rule-based strategies more into equities. Most recently, US and European equities in particular have performed very well, while emerging market equities have at least stabilised.
- Another pillar of the equity rally is private investors, who are now again betting more heavily on rising share prices by means of options. The volume of traded options on individual US stocks recently exceeded the record set in January 2021 by 60%. Many market participants expect a year-end rally, as do we. However, optimistic investor sentiment and increased risk positioning now make a technical setback more likely.

Performance of selected equity indices



Source: Bloomberg; performance in EUR scaled to 100.

Time period: 18/11/2016 – 18/11/2021.

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Corporate earnings

Higher earnings estimates thanks to good Q3 reporting season

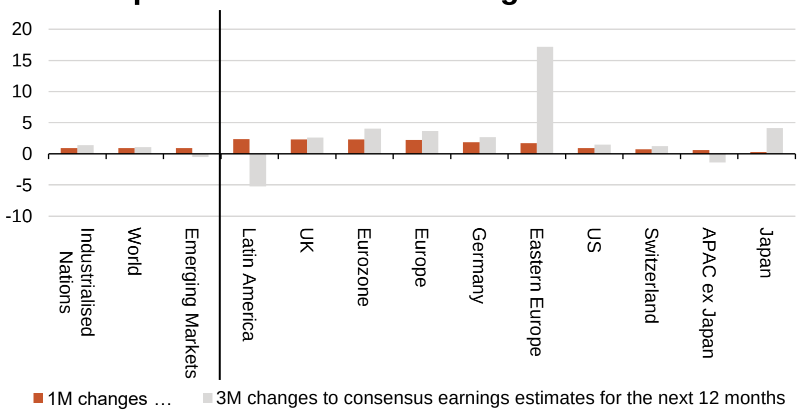
Broad profit revisions

- Analysts have now raised their earnings estimates for the next 12 months for all regions which has not happened for a long time. The decent Q3 reporting season is likely to have contributed to this, whereby the profit margin concerns for many companies did not materialise.

Significant earnings recovery this year

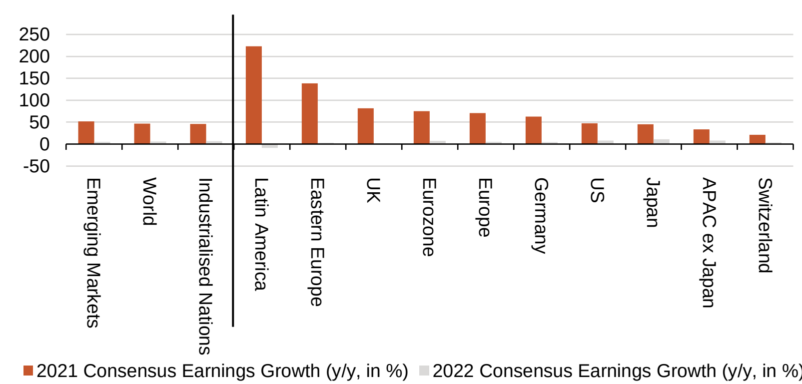
- The easy comparisons in earnings growth will soon be over. Next year, companies will no longer have to compare themselves with the weak year 2020, but with the strong year 2021. Profit growth rates for all regions are correspondingly lower.
- This year, corporate profits for many regions are up by more than 50% compared to the previous year.

Positive profit revisions for all regions



Source: FactSet. As of 19/11/2021.

2021: earnings growth greater than 50% for many regions



Source: FactSet. As of 19/11//2021.

Valuation & Options Market

US equities still expensive, options market investors optimistic

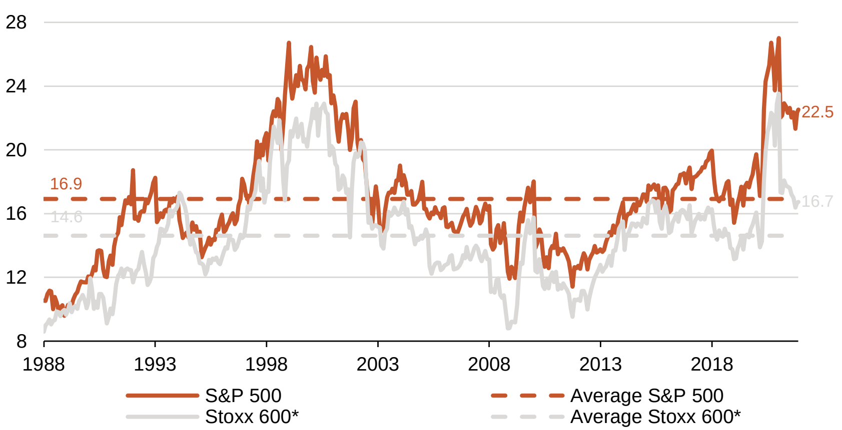
US equities continue to trade at valuation premium

- US equities are currently trading around 30% above their long-term P/E average. Falling interest rates, more passive (and therefore valuation-sensitive) investing, and a changed sector structure (higher tech weighting, fewer banks) have led to this significant rise in valuations in recent years.

Investors are no longer so strongly hedged

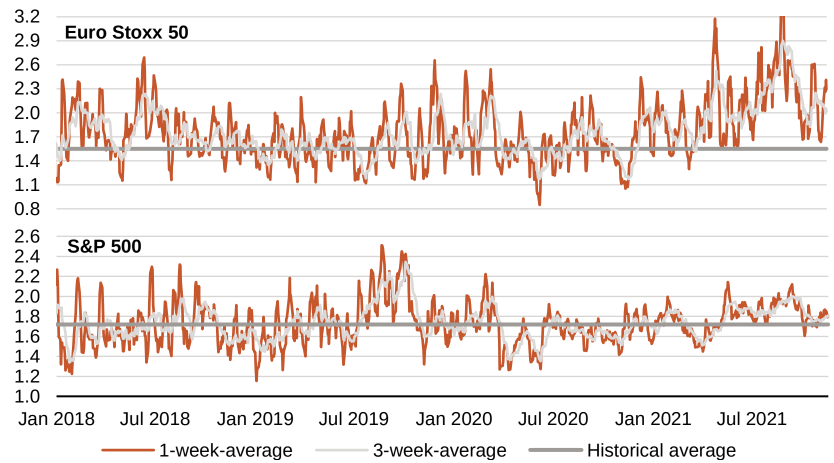
- The market is now no longer as strongly hedged as it was in September/October. Investors are increasingly betting on a year-end rally. This has pushed prices up but makes the market somewhat more vulnerable in the short term.
- Options market participants are particularly optimistic about US stocks. The number of short-dated call options on popular tech stocks has recently increased significantly.

US equities remain ambitiously valued



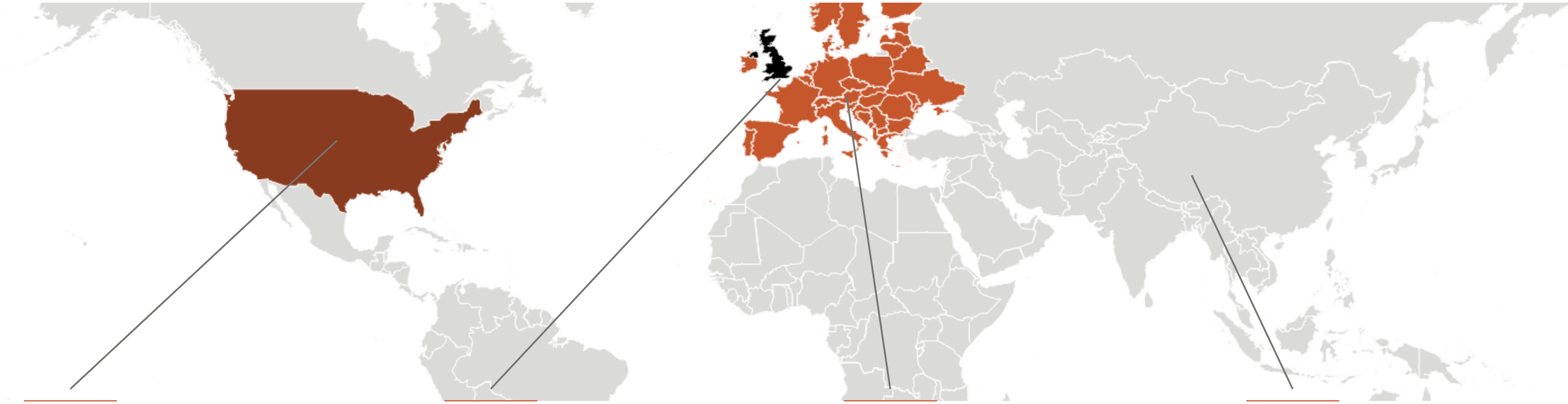
Source: Bloomberg, own calculations. Time period: 31/12/1987– 18/11/2021.

Options market participants less hedged in the US



Source: Bloomberg, own calculations. Time period: 01/01/2018– 18/11/2021.

Equity allocation
Adding to Chinese stocks



US

Neutral

- Rising bond yields are likely to weigh on high valued US equities, while structural growth strength provides security against emerging growth concerns.
- The US remains the region most supported by share buybacks and by fund flows.
- We have recently slightly increased our position in US equities and are now neutrally positioned within equities.

United Kingdom

Underweight

- After partially taking profits on UK small caps in the spring, we recently sold completely our large-cap ETF.
- We remain slightly underweight UK equities.

Europe ex. UK

Overweight

- The reduction of supply bottlenecks should benefit export-dependent European companies in particular.
- The weaker euro, adopted fiscal packages and the ECB's monetary policy should also provide support.

Emerging markets

Overweight

- Emerging market equities should be one of the main beneficiaries of a global economic recovery.
- We have recently added to Chinese equities after they stabilised in October/November and after the regulatory firestorm subsided. Especially as valuations are already pricing in high-risk premiums.

Equity market forecasts
Estimates for selected indices

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Index forecasts	Current 18/11/2021	30/06/2022	31/12/2022	Ø* in 12 months
S&P 500	4,705	4,600	4,700	5,126
Dax	16,222	16,500	17,000	18,772
Euro Stoxx 50	4,384	4,400	4,600	4,887
MSCI UK	2,041	2,100	2,150	2,337

Index potential (in %)				
S&P 500	-	-2.2	-0.1	9.0
Dax	-	1.7	4.8	15.7
Euro Stoxx 50	-	0.4	4.9	11.5
MSCI UK	-	2.9	5.3	14.5

Source: Bloomberg. Berenberg. as of 18/11/2021.
*Average based on bottom-up estimates.

04 Bonds


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

Government bonds
Back and forth on yields

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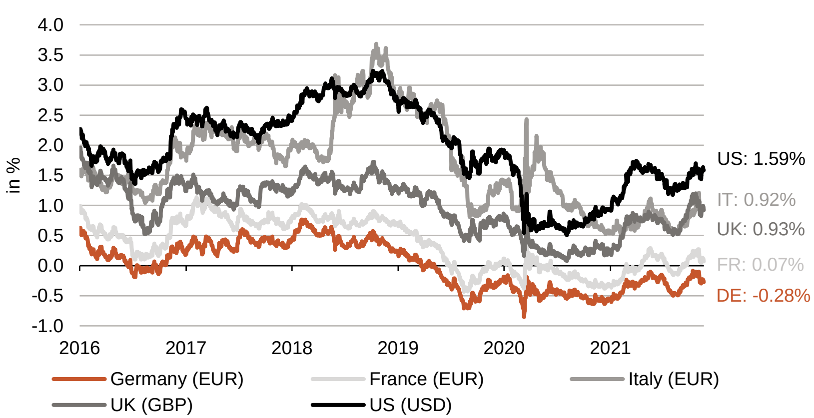
High volatility in yields

- The back and forth in bond yields continues. After the Bank of England's monthly meeting turned out to be more dovish than the market expected, bond yields fell significantly. The latest inflation data from the US, which were well above expectations, then led to rising yields again. In the last four weeks, 10-year US yields have therefore remained almost unchanged.
- In the UK, however, bond yields fell significantly in recent weeks.

Stagflation worries in bond markets

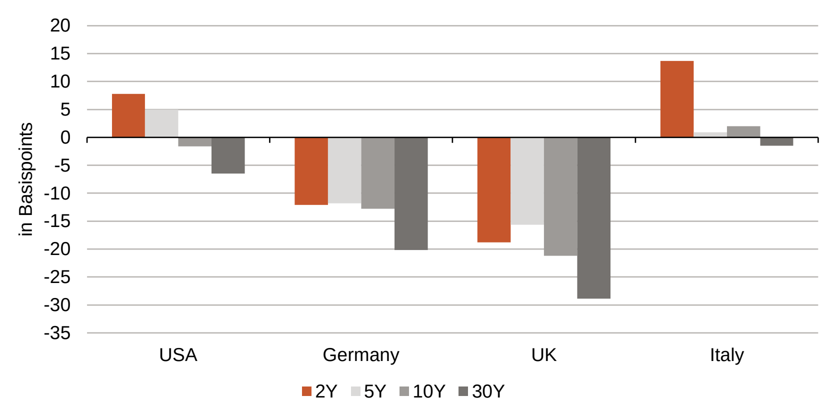
- Despite, or precisely because of, high inflation numbers in the US, the steepness of the US yield curve has fallen in the last four weeks. While yields at the short end have risen significantly, yields at the longer end have fallen slightly. The market thus fears an overreaction by central banks and an accompanying slowdown in economic growth.
- In Germany and the UK, however, yields have fallen across the board.

Yields with increased volatility



Source: Bloomberg, 10-year government bonds. Time period: 01/01/1990–18/11/2021.

US yield rise mainly at the short end



Source: Bloomberg; monthly change yields of 2, 5,10, 30-year government bond yields. Time period: 21/10/2021–18/11/2021.

Corporate & EM bonds

Attractiveness of EUR-Credit continues to decline

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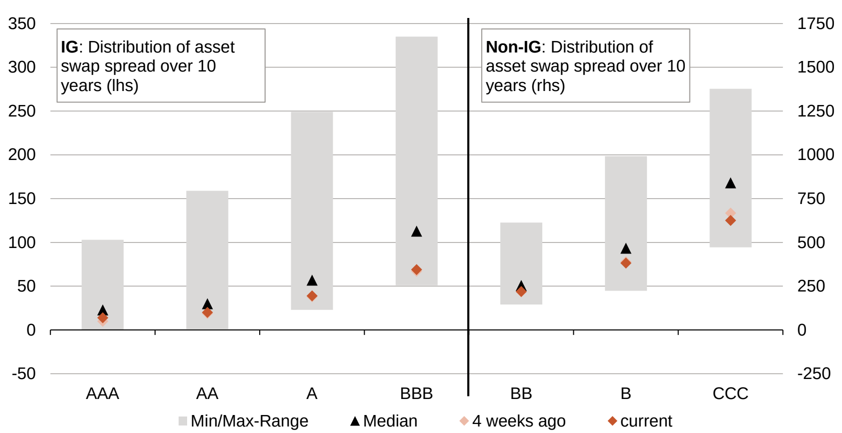
Low attractiveness with historically low spreads

- The historically low spreads with hardly any narrowing potential continue to make EUR investment-grade corporate bonds look unattractive. This is because the low spreads offer relatively little, if any, buffer in the event of rising yields.
- EUR high-yield bonds offer somewhat more narrowing potential. However, the risk/return profile is no longer very attractive either. In our opinion, the default risk is no longer compensated lucratively enough.

Spreads of EM high-yield bonds increased

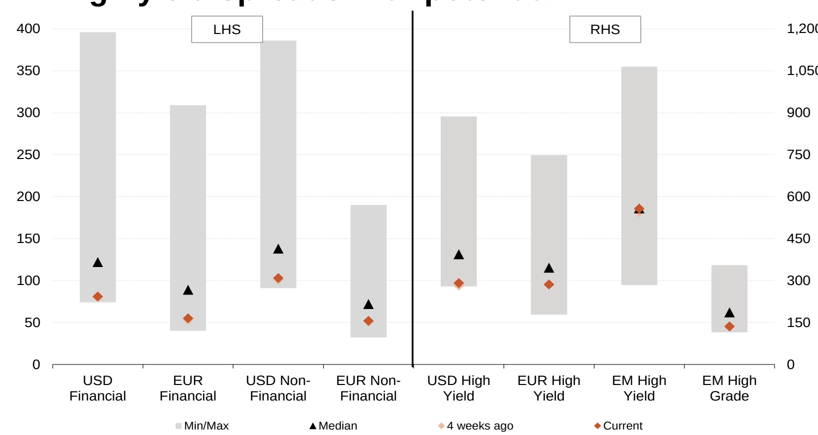
- After a brief recovery, the risk premiums on emerging market high-yield bonds have recently risen to the level of four weeks ago. The real estate crisis in China continues to weigh on the entire segment. However, the Chinese government has recently shown an increasing willingness to provide support. The recovery potential should therefore not be neglected.
- In contrast, the risk premiums on EUR and USD high-yield bonds have fallen slightly in the last four weeks.

Spread narrowing potential is limited



Source: Factset, 10Y distribution of spreads of EUR corporate bonds by rating. Time period: 18/11/2011–18/11/2021.

EM high yield spreads with potential



Source: Factset, 10Y spread distribution. Time period: 18/11/2011–18/11/2021

Capital market strategy
Bonds

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Core segments

Government bonds
Underweight

- Euro bonds have recently interrupted the downward trend that started at the beginning of the year and yields have become less attractive again. In the case of high credit ratings, safe government bonds remain fundamentally in demand in risk-off phases.
- We expect yields to rise again, although the central banks' low interest rate policy will continue. Duration should be kept short, interest rate risks are not sufficiently remunerated.

Corporate bonds
Overweight

- The loose monetary policy and the low yields on government bonds make us prefer corporate bonds to government bonds, despite the now limited spread margins.
- Within the corporate bond segment, we prefer securities with more credit risk and shorter maturities.

Other segments

Emerging market bonds
Overweight

- Emerging market bonds remain strategically interesting due to higher yield and economic catch-up potential.
- We are optimistic about high-yield government bonds. Local currency bonds are also benefitting from the recent rise in interest rates in many emerging markets and are suitable as an add-on.

High yield bonds
Neutral

- For the time being, we are holding on to the addition of high-yield bonds, but are becoming more cautious, as the historically low spreads are making the risk/return profil less attractive.
- For European high-yield bonds, we are positioning ourselves away from the usual securities.

Forecasts

Estimates for selected bond markets

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	18/11/2021	30/06/2022		31/12/2022	
Base interest rates and government bond yields (in %)	**Current**		**Ø***		**Ø***
US					
Base interest rate	0.00-0.25	0.25-0.50	0.30	0.75-1.00	0.50
10Y US yield	1.59	2.00	1.87	2.30	2.03
Eurozone					
Base interest rate	0.00	0.00	0.00	0.00	0.00
10Y Bund yield	-0.28	0.20	-0.02	0.50	0.05
United Kingdom					
Base interest rate	0.10	0.50	0.45	0.75	0.65
10Y Gilt yield	0.92	1.50	1.23	1.80	1.30

Source: Bloomberg. Berenberg as of 18/11/2021.
*Average of estimates by other experts (Bloomberg) consensus.

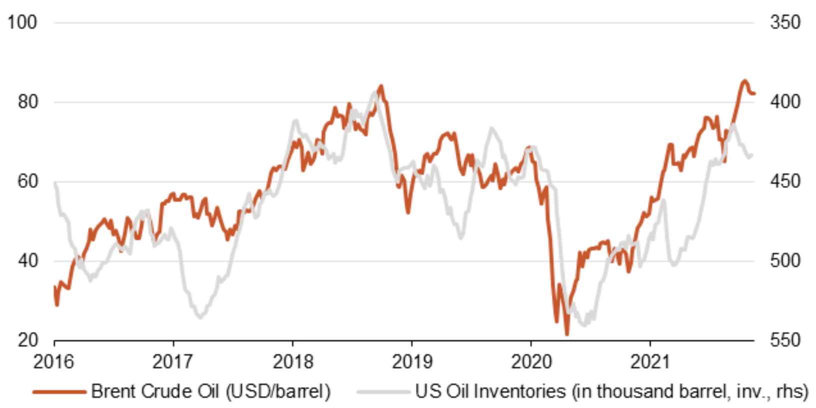
05 Commodities

Crude oil
Situation in the oil market eases

US and China could release oil reserves

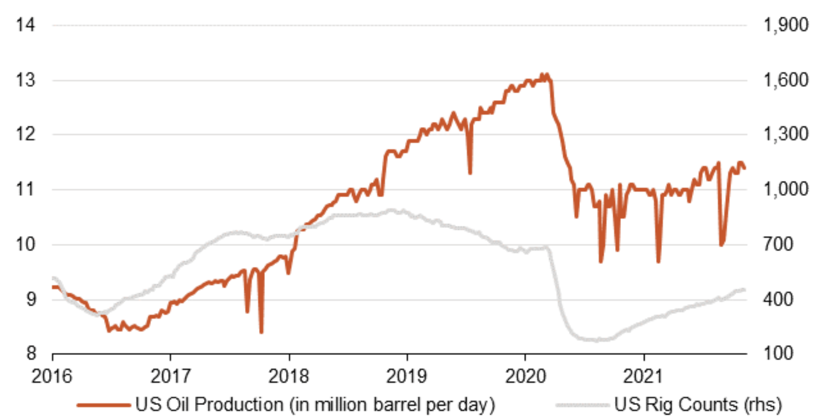
- The oil price is on course to consolidate after an astonishing YTD rally and as a result of relaxing political and OPEC+ related signals. The preliminary peak for Brent was reached at the end of October at just under USD 86 / barrel. Since then, the oil price has dropped significantly.
- At the beginning of November, OPEC+ held a meeting at which it was decided to continue production increases in December "only" to the extent planned. However, OPEC+ did not rule out additional expansions in the future.
- Recently, US President Joe Biden and Chinese President Xi Jingpin signalled their willingness to release state oil reserves in order to guarantee global energy supplies and to counteract price increases. This created selling pressure on the global energy market. In addition, renewed Covid-19 concerns have weighed.

Oil price with consolidation



Source: Bloomberg, own calculations. Time period: 01/01/2016 – 18/11/2021.

US oil production continues to trend slightly upwards



Source: Bloomberg, own calculations. Time period: 01/01/2016 – 18/11/2021.

Precious and industrial metals
Inflation worries boost precious metals

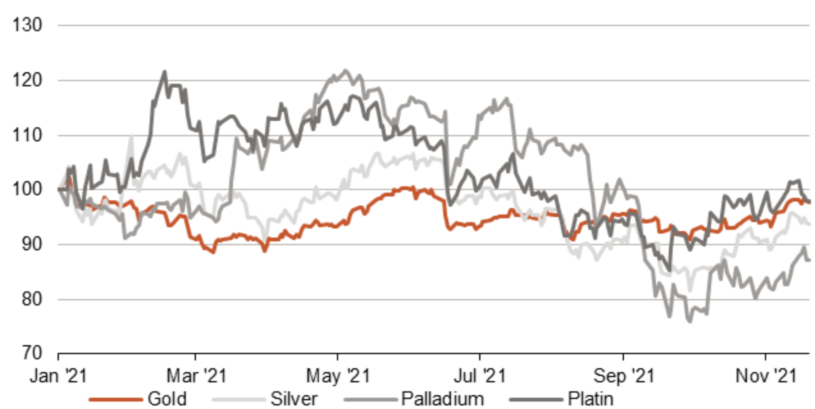
Precious metals lead the field

- In the wake of surprisingly high inflation figures, which fuelled stagflation fears among investors, precious metals posted gains for the most part. Gold broke through the USD 1,850 per ounce mark, reaching its highest level since mid-June.
- Silver and other precious metals also made strong gains in recent weeks. In addition to inflation concerns, the physical market for silver is likely to show a supply deficit again this year for the first time since 2015.

Industrial metals remain structurally in demand

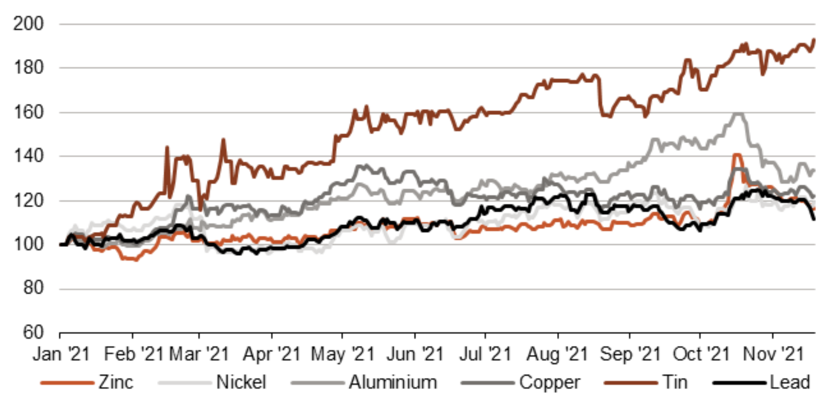
- The supply worries for industrial metals in the wake of energy price increases and the associated announcement of smelter closures have clearly diminished.
- After partly explosive developments in October, industrial metals such as zinc, nickel, copper or aluminium have consolidated in the last 4 weeks and are now back on a more healthy upward trend.
- The long-term positive outlook for industrial metals due to their integral role for a variety of green technologies remains.

Precious metals benefit from inflation worries



Source: Bloomberg, own calculations. Time period: 01/01/2021 – 18/11/2021.

Industrial metals are back on a more healthy trend



Source: Bloomberg, own calculations. Time period: 01/01/2020 – 18/11/2021.

06 Currencies

Market Development
Interest rates and currencies

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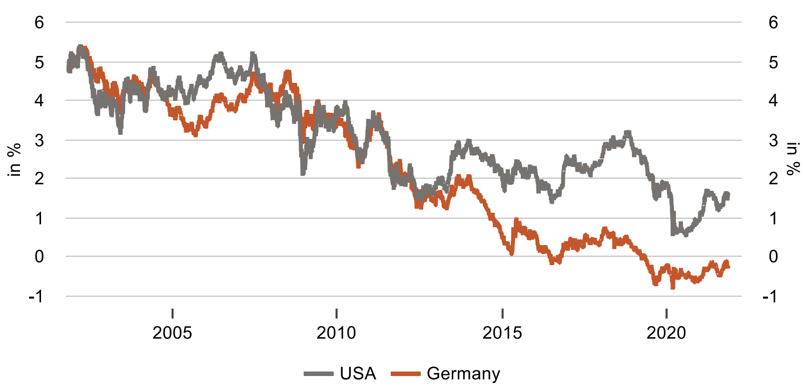
Does the Fed need to tighten monetary policy faster?

- As expected, the Fed announced at its FOMC meeting that it will leave the federal funds rate at zero. Furthermore, it announced that asset purchases will be scaled down. The Fed's statement said that tapering will begin before the end of November. Monthly Treasury bond purchases of $80 billion will be reduced by $10 billion and MBS purchases of $40 billion will be reduced by $5 billion. The Fed‘s balance sheet will be nearly $9 trillion when the program ends in June 2022.
- Inflation, which is now higher once again, could force the Fed to act more quickly.

Monetary policy: pressure on the euro exchange rate

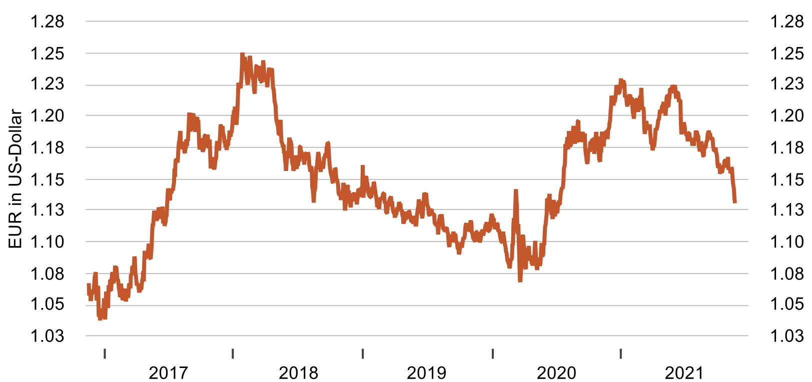
- The European Central Bank (ECB) will also gradually tighten its monetary policy, but much more slowly than the US Federal Reserve.
- These different perspectives are weighing on the euro exchange rate. The exchange rate has recently fallen below 1.14 US dollars per euro, as higher US inflation makes a faster tightening by the US central bank more likely.
- While nominal interest rates are seeking an upward path, real interest rates on 10-year government bonds (US, Germany) are sliding towards -5% due to high inflation.

Yields: 10-year government bonds



Source: Macrobond Period: 11/2001 - 11/2021

Exchange rate: Euro/US-Dollar



Source: Macrobond Period: 11/2016 - 11/2021

Forecasts
Estimates of key currencies

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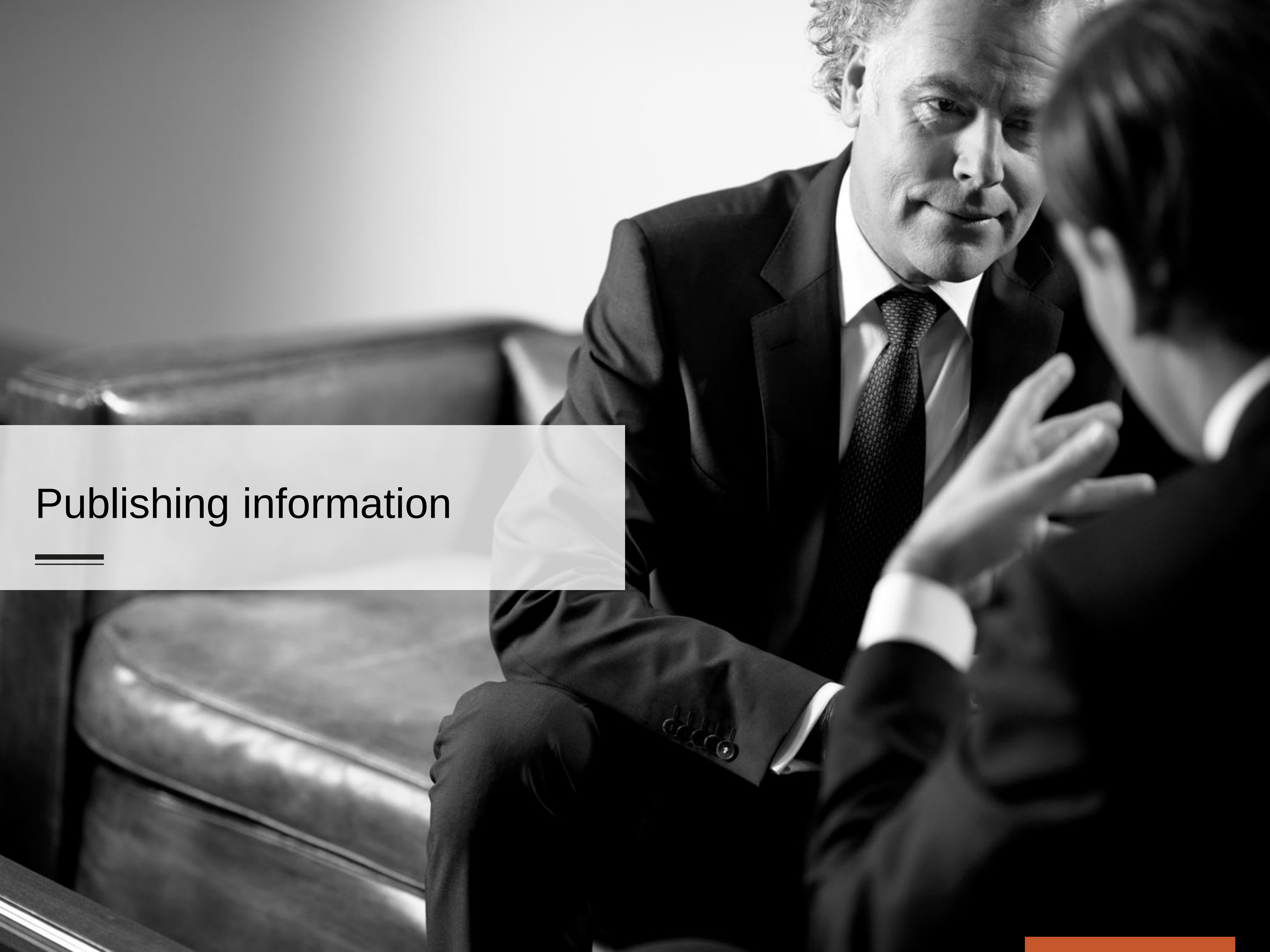
	18/11/2021	30/06/2022		31/12/2022	
Exchange rate forecasts	**Current**		**Ø***		**Ø***
EUR/USD	1.14	1.20	1.16	1.22	1.16
EUR/GBP	0.84	0.85	0.84	0.85	0.83
EUR/CHF	1.05	1.10	1.09	1.10	1.10
EUR/JPY	130	129	132	131	133

Change against the Euro (in %)					
USD	-	-5.2	-2.0	-6.8	-2.0
GBP	-	-0.9	0.3	-0.9	1.5
CHF	-	-4.3	-3.4	-4.3	-4.3
JPY	-	0.7	-1.6	-0.8	-2.3

*Source: Bloomberg. Berenberg as of 18/11/2021.
*Average of estimates of other experts (Bloomberg); consensus.

Publishing information



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