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HORIZON *handout*

The Berenberg Capital Markets Outlook • Wealth and Asset Management

October | 2022

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 September 2022.

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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 that last 5 years				
	4W (29/08/22 - 26/09/22)	YTD (31/12/21 - 26/09/22)	26/09/21 26/09/22	26/09/20 26/09/21	26/09/19 26/09/20	26/09/18 26/09/19	26/09/17 26/09/18
USDEUR	4.0	18.4	22.0	-0.8	-6.1	7.5	0.4
Euro overnight deposit	0.0	-0.3	-0.5	-0.6	-0.5	-0.4	-0.4
Gold	-2.8	4.9	13.0	-6.7	16.2	35.4	-7.3
EUR Sovereign Debt	-3.1	-10.7	-11.4	-0.3	0.1	5.6	-0.5
MSCI Frontier Markets	-3.2	-10.1	-6.8	29.4	-7.5	12.6	-5.7
EUR Coporates	-3.5	-14.7	-15.4	1.8	0.2	6.2	-0.4
Global Convertibles	-3.6	-9.4	-11.9	28.6	21.2	5.2	6.5
MSCI World	-5.9	-10.7	-4.0	34.2	1.9	9.4	12.8
Industrial Metals	-6.1	-1.6	5.3	44.3	-5.7	4.9	-1.5
MSCI Emerging Markets	-6.6	-12.6	-12.0	20.9	0.9	6.5	-0.6
REITs	-10.3	-16.7	-5.1	29.0	-20.7	27.8	-0.4
Brent	-15.5	52.4	63.9	87.3	-39.7	-12.5	49.2

MSCI World: MSCI World Net Return; MSCI Emerging Markets: MSCI EM Net Return; MSCI Frontier Markets: MSCI Frontier Markets Net Return;
REITs: MSCI World REITs Index; EUR Sovereign Debt: IBOXX Eurozone Sovereign 1-10Y TR; EUR Corporates: IBOXX Euro Corporates Overall TR;
Global Convertibles: SPDR Convertible Securities ETF; Gold: Gold US Dollar Spot; Brent Crude: Bloomberg Brent Crude Subindex TR;
Industrial Metals: Bloomberg Industrial Metals Subindex TR; Euro overnight deposit: ICE BofA Euro Overnight Deposit Rate Index; USDEUR: Price of 1 USD in EUR.

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

Time period: 26/09/2017 – 26/09/2022.

Overview of capital markets
Outlook by asset class

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Economics

- Inflationary pressures remain high and Europe in an energy crisis. Consumers are unsettled.
- The risks and stress factors are leading into recession, even if labour markets are still robust.
- Inflationary pressure is too high: central banks must continue to tighten monetary policy even if the economy is slowing down

Equities

- Negative earnings revisions are likely to continue during the Q3 reporting season, in line with the economic slowdown.
- Higher risks in Europe are accompanied by lower valuations. Europe offers catch-up potential.
- Low investor positioning should limit downside potential. Year-end rally seems possible..

Bonds

- Rise in yields on safe government bonds continued unabated. Flattening of the US yield curve.
- Risk premiums for emerging market bonds increased slightly. High-yield bonds in particular with widening spreads.
- We underweight bonds and remain cautiously positioned on credit risk. Duration: less short than before

Alternative investments / commodities

- Oil affected by weak global demand, but supply is still tight. A stronger price drop is unlikely.
- Gold hit by strong dollar and higher real interest rates. Monetary policy turnaround necessary for sustained upward trend.
- Industrial metals burdened in the short term by demand risks and dollar strength. Supercycle remains intact.

Currencies

- Despite the interest rate hikes, the euro remains weak. Other central banks were faster and seem more determined.
- In addition to monetary policy, the uncertainty ahead of winter is a particular burden: How badly will the economy be hit?
- Against the US dollar and the Swiss franc, the euro falls well below parity.

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

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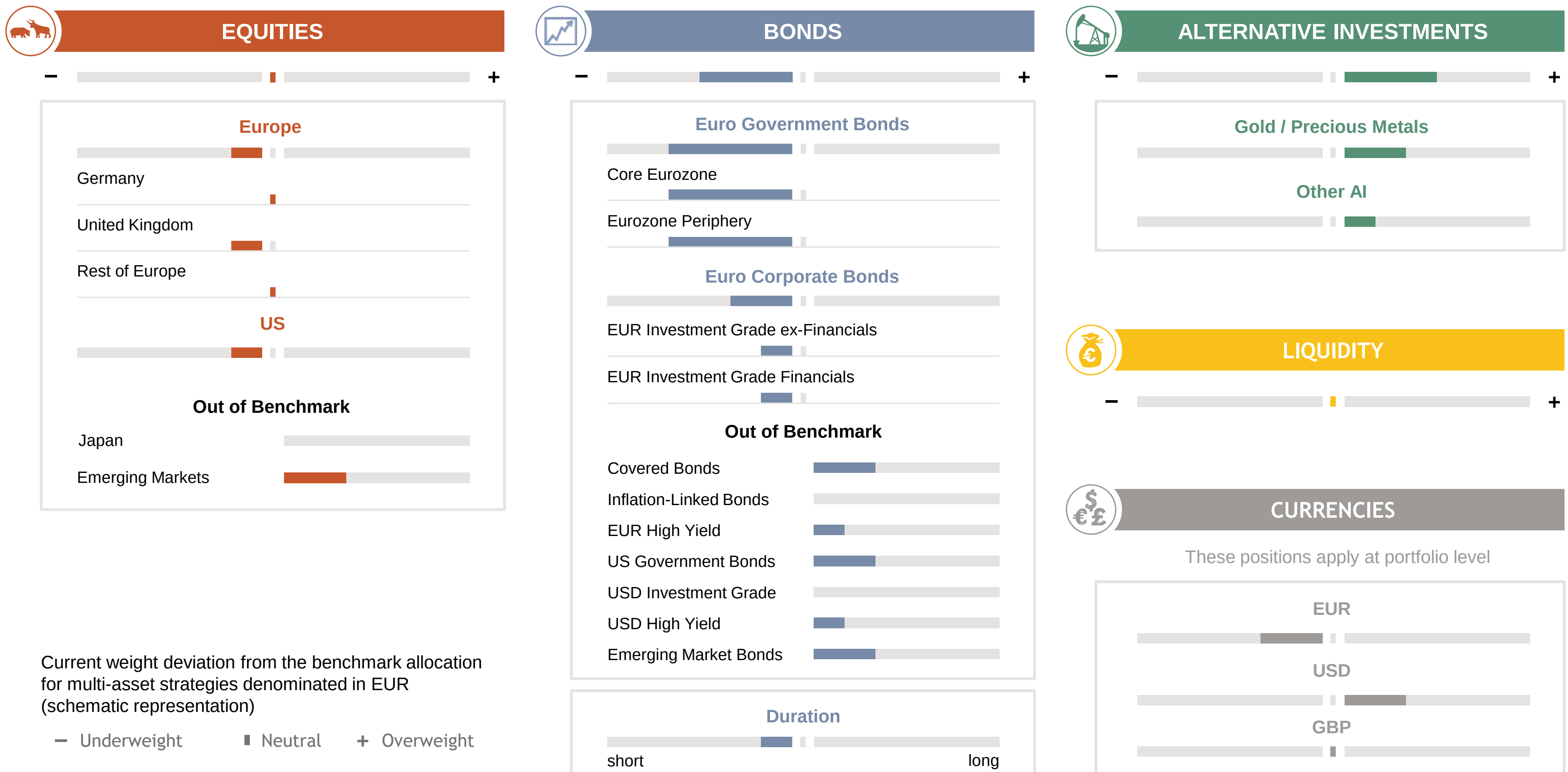
Portfolio positioning of a balanced mandate at a glance



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

− Underweight ▮ Neutral + Overweight

Source: Berenberg

As of 26/09/2022.

Overview of Berenberg's asset allocation

Review of Core Strategy 3

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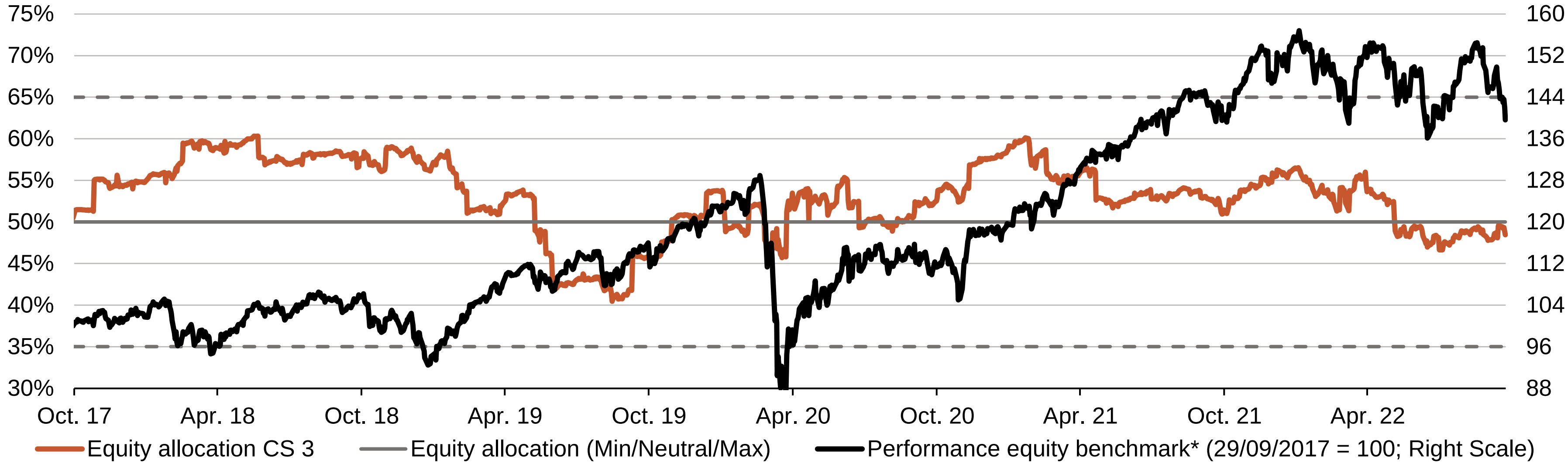
Management of the equity allocation of a balanced multi-asset mandate since inception

Performance equity benchmark	23/09/17 - 23/09/18	23/09/18 - 23/09/19	23/09/19 - 23/09/20	23/09/20 - 23/09/21	23/09/21 - 23/09/22
	6.97%	9.28%	-3.91%	29.48%	-2.41%



Sources: SimCorp, Bloomberg, Berenberg. *The "equity benchmark" is 70% STOXX Europe Net Return Index and 30% S&P 500 Net Return Index. Time period: 23/09/2017 – 23/09/2022.
Note: The historical performance presented here is not a reliable indicator of future performance.

- We had reduced our equity exposure in several steps from April to June. In addition, we had built up a position in US Treasuries after the large rise in interest rates. In Europe, we have also recently invested in government bonds with a long duration in several steps in order to reduce our bond underweight in view of the looming energy crisis and the threat of recession.
- In September, following higher-than-expected US inflation figures, we increased our equity weighting to neutral again. While we expect further negative earnings revisions and a recession, the record negative investor sentiment and positioning suggests limited downside potential. On the other hand, if there is positive news (such as falling inflation numbers, a Fed pivot), we should see broad short covering and rising markets.
- Taking into account our position in the tail hedge certificate, we are slightly underweight equities. Our overweight in quality stocks should also pay off more in this uncertain environment.

02 Economics

Eurozone
GDP and inflation

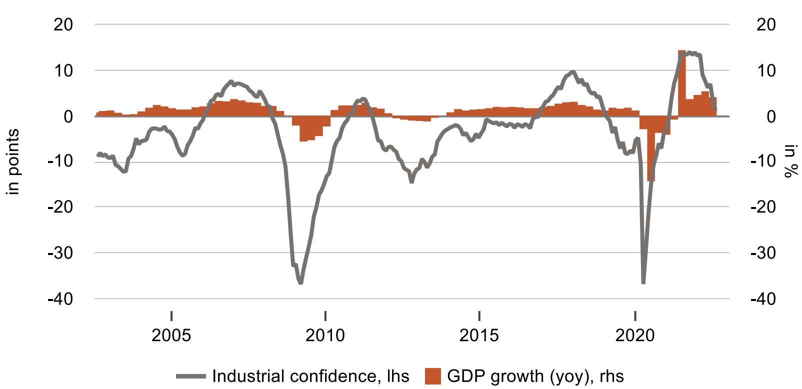
Poor mood reaches the companies

- With consumer confidence at a record low, more and more businesses are feeling the pinch. With energy prices soaring, consumers have less money to spend on other goods and services.
- As purchasing managers become more cautious, production indices in the September surveys fell further below the expansion/contraction line of 50, reaching a 20-month low of 48.2 points in the eurozone, down from 48.9 in August. The data confirms our assessment that the European economy has already slipped into recession in the third quarter. Things are likely to get worse in the winter.

Inflation continues to pick up

- At +9.1% year-on-year, the price increase in August was higher than ever before. The core rate of inflation rose to 4.3%. This means that even if one leaves out high energy and food prices, the inflation rate is more than twice as high as the ECB is actually aiming for. However, the peak is probably still ahead of us.
- The range of inflation rates among the euro-participating countries is remarkable - it extends from +6.5% in France to 25.2% in Estonia. In France, government price caps on energy prices are making themselves felt. However, this only disguises the costs or shifts them onto future taxpayers.

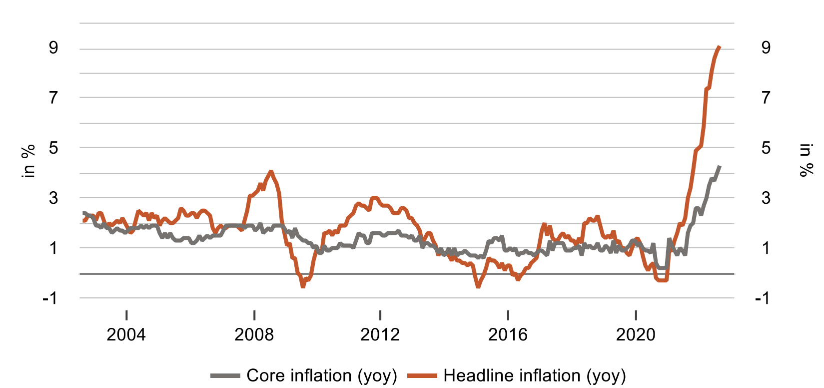
Eurozone GDP growth and industrial confidence



Source: Macrobond

Period: 08/2002 - 08/2022

Eurozone Inflation



Source: Macrobond

Period: 08/2002 - 08/2022

United Kingdom
GDP and inflation

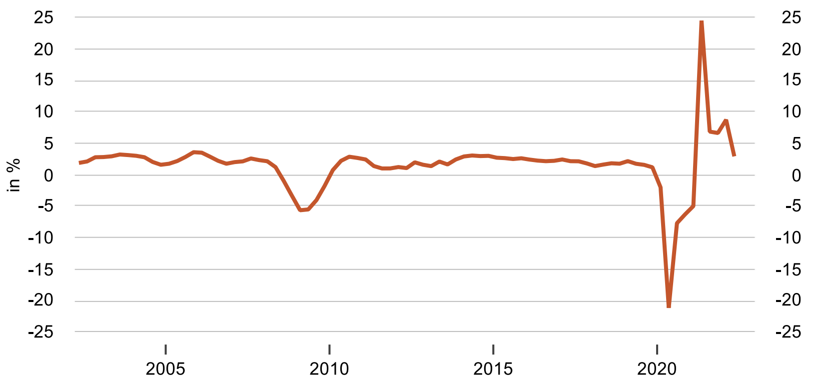
British government plans package of measures

- The British government is planning a series of economic policy measures which, while understandable in the acute emergency, should be viewed quite critically in the long term. The capping of energy costs limits the downside risks for the economy and the upside risks for inflation in the short term, but the longer-term inflation risks increase.
- Tax cuts are helpful for the economy, but they pose further risks to longer-term inflation and to the sound-ness of public finances - because they are only partly self-financing. In addition, there are a number of other projects for which the details are not yet entirely clear.

BoE raises key interest rate by 50 basis points

- The Bank of England (BoE) is relying on smaller interest rate steps in its fight against inflation. While the Swedish central bank raised the key interest rate by 100 basis points last week and the Fed followed with a 75 rate step on Wednesday, the BoE continued its series of 50 rate steps on Thursday. The key interest rate now stands at 2.25%. The central bank also announced it would gradually reduce its £857 billion bond holdings from October.
- The vote was mixed. Five members voted in favour of the 50 basis point rate cut. Three votes were for a larger step of 50 and one for a small step of 25 points.

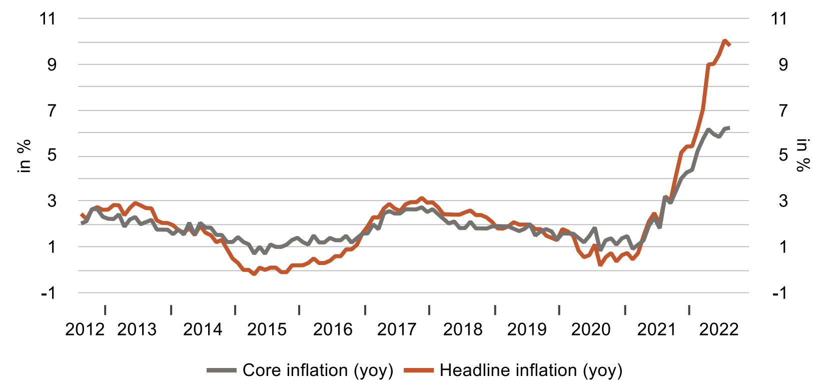
United Kingdom GDP growth (yoy)



Source: Macrobond

Period: 06/2002 - 06/2022

United Kingdom Inflation



Source: Macrobond

Period: 08/2012 - 08/2022

USA
GDP and inflation

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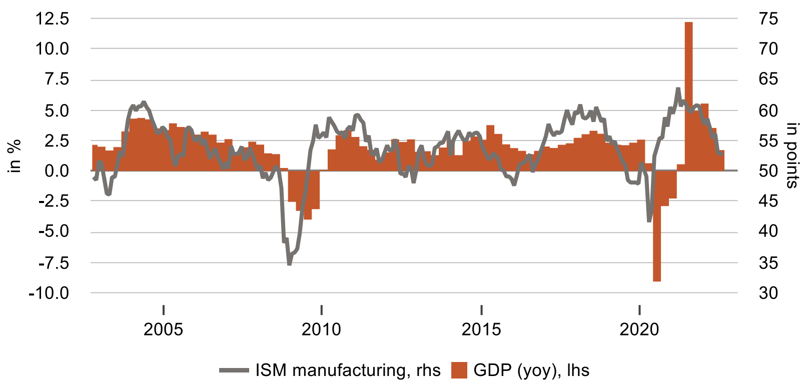
US Fed makes another big interest rate move

- The US Federal Reserve has raised the key interest rate by another 75 basis points to 3.00-3.25%. This comparatively large rate move is in line with the expectations of most observers. The Fed points out that indicators point to moderate production and spending growth and that the labour market is still robust. At the same time, inflation remains high.
- Even after this interest rate step, the Fed considers further rate hikes to be appropriate. In addition, the central bank is continuing to reduce its balance sheet and emphasises that it is determined to bring inflation back to its target value of 2%.

Inflation slightly down in August

- Inflation fell for the second month in a row. In August, prices were 8.3% higher than in the same month of the previous year (after 8.5% in July). However, the decline was somewhat weaker than expected. However, the core rate of inflation (excluding energy and food prices) increased. After 5.9% in July, the core rate is now 6.3%.
- Despite the slight decline, inflationary pressure remains high. The US Federal Reserve will therefore continue to tighten monetary policy. We currently expect the key interest rate to peak at 4.50-4.75% (in Q1/2023).

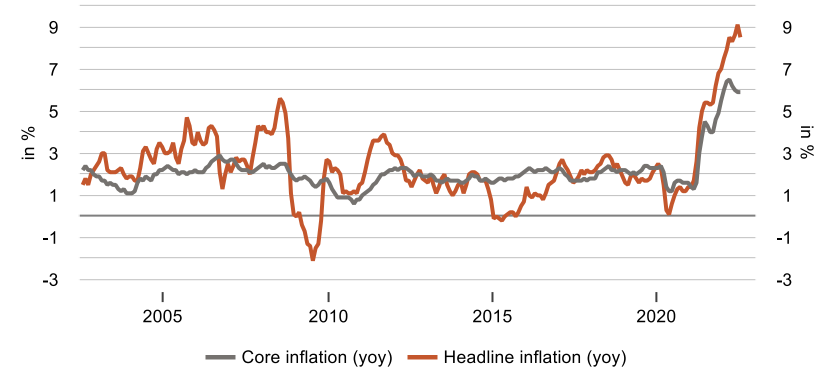
US GDP growth and Purchasing Managers Index



Source: Macrobond

Period: 08/2001 - 08/2022

USA Inflation



Source: Macrobond

Period: 08/2002 - 08/2022

Economic forecasts
Key estimates at a glance

	GDP growth (in %)						Inflation (in %)					
	2022		2023		2024		2022		2023		2024	
		Ø**		Ø**		Ø**		Ø**		Ø**		Ø**
USA	1.5	1.6	-0.4	0.9	0.9	1.6	7.9	8.0	3.6	3.8	2.5	2.4
Eurozone	2.8	2.9	-1.3	0.3	2.5	1.9	8.4	8.2	6.2	5.0	2.1	2.1
Germany	1.1	1.5	-1.8	-0.2	2.6	1.9	8.5	8.1	6.4	5.4	2.0	2.2
France	2.1	2.5	-1.1	0.5	2.4	1.7	5.9	5.9	4.9	4.1	1.9	2.0
Italy	3.0	3.3	-1.5	0.4	1.5	1.6	8.0	7.7	6.1	4.5	1.8	1.8
Spain	4.2	4.4	-0.6	1.6	2.4	2.3	9.3	8.9	5.0	4.2	2.0	2.0
United Kingdom	3.1	3.5	-1.0	-0.2	1.9	1.5	8.9	9.1	4.9	6.5	1.5	2.3
Japan	1.7	1.6	0.5	1.5	1.4	1.2	2.2	2.1	1.4	1.4	0.7	0.8
China	3.0	3.4	4.0	5.1	4.0	5.0	2.1	2.3	2.4	2.3	2.3	2.1
World*	2.6	-	0.9	-	2.4	-	-	7.2	-	4.6	-	3.3

Source: Bloomberg. Berenberg as of 26/09/2022.
* 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
Opportunities after the storm

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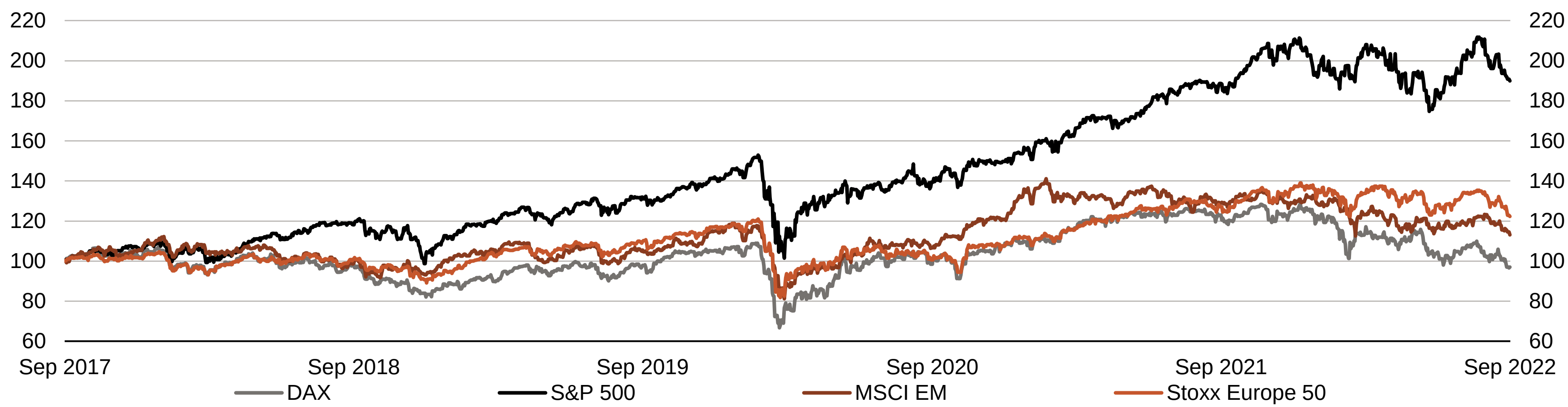
Recovery potential into the new year

- After the summer recovery rally, a countermovement came with the autumn. Stubbornly high inflation figures in Europe, restrictive central banks and negative revisions of earnings estimates led to a correction in global equity markets. The Dax and Japanese shares still held up best in comparison. In contrast, UK equities and European small caps suffered particularly. The S&P 500, like the Stoxx 600, has now fallen below the June and July lows and is back at the level of the end of 2020.
- In the short to medium term, equity markets are likely to be influenced by key issues such as recession, peak inflation and central bank policy, and thus continue to be macro-driven. At the same time, investor sentiment and positioning is extremely low. In our view, there are increasing opportunities. Investors with a defensive positioning should consider whether it is time for a more balanced positioning. We have taken a step in this direction.

Performance of selected equity indices



Source: Bloomberg; performance in EUR scaled to 100.

Time period: 26/09/2017 – 26/09/2022.

Corporate earnings
Earnings pressure likely to persist

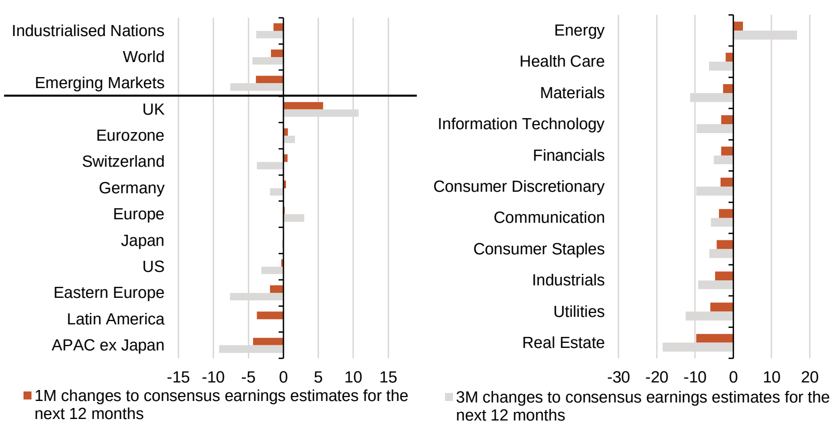
Analysts remain sceptical

- Analysts expect an increasingly challenging environment for companies. High input costs with increasingly difficult pass-through to the end consumer, high inventories and weakening demand are adding to the headwinds. Over the past four weeks, analysts have lowered earnings estimates in both developed and emerging markets.
- Regionally, there were negative revisions especially in Latin America, Asia and Eastern Europe. Analysts only made positive earnings revisions for Great Britain, Switzerland, Germany and the Eurozone.

US earnings growth below 8% in 2022

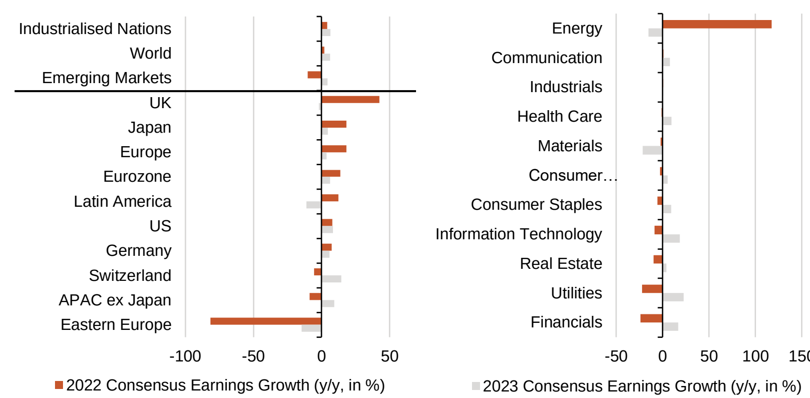
- Risks from all sides (inflationary pressure, energy crisis in Europe, staff shortages, economic weakness) have had a significant impact on corporate earnings. At the beginning of the year, consensus expected US earnings growth of around 10% for 2022. With the latest revisions, it is now just under 8%.
- A further decline with the Q3 reporting season coming up soon cannot be ruled out. However, earnings are in nominal terms and thus supported by inflation. We therefore do not expect a slump of 10-20% as in past recessions.

Negative earnings revisions continue



Source: Factset, MSCI Regions and Europe sectors As of 26/09/2022.

Global 2022 earnings growth below 2%



Source: FactSet; MSCI regions and European sectors. As of 26/09/2022.

Valuation & Sentiment

Optimism should increase towards the end of the year

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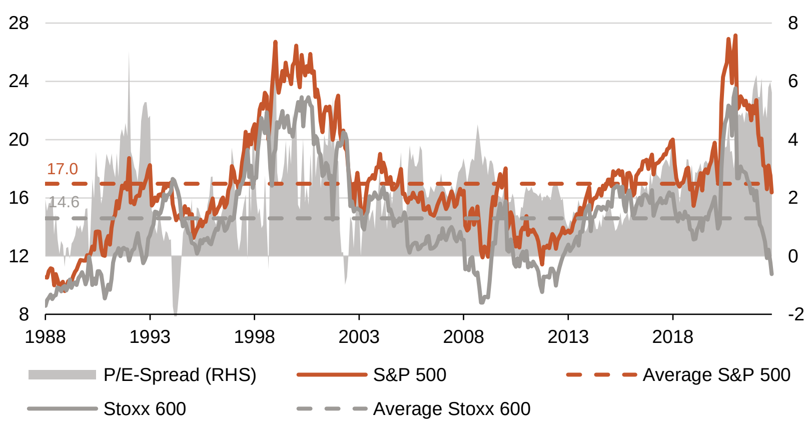
Equities become cheaper by the week

- The US market is now trading at a P/E ratio of 16.4x, slightly below the historical average. In light of a looming recession, however, this is by no means cheap. The high valuation may be attributed to the concentrated structure index and the high proportion of non-fundamental investors.
- European equities, on the other hand, are now very cheap with a P/E ratio of 10.8x, both relative to their own history and relative to US equities. In part, this valuation discount is justified, among other things, due to the influence of Putin's war and the energy crisis. Conversely, Europe also offers more catch-up potential if not all risks materialise.

Investor sentiment at rock bottom

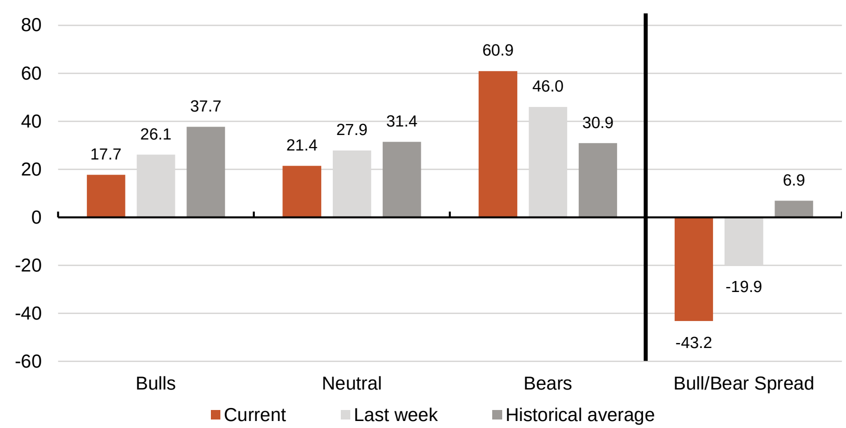
- US retail investor sentiment has reached a new low in this crisis. In the AAII survey, 61% of respondents said they expect equity markets to fall over the next 6 months. Only 18% expect markets to rise.
- Since the start of the survey in 1987, there have only been 3 weeks in which the bull/bear spread was lower than -43 ppts. In the following 12 months, the S&P 500 rose by more than 20% in all three cases. So equity markets should not be far from capitulation.

US equities now valued below historical average



Source: Bloomberg, own calculations. Time period: 01/01/1988 – 26/09/2022.

Pessimism dominates among US retail investors



Source: Bloomberg, AAII, own calculations. Time period: 23/07/1987 – 22/09/2022

Equity allocation
Maintaining the overweight in emerging markets

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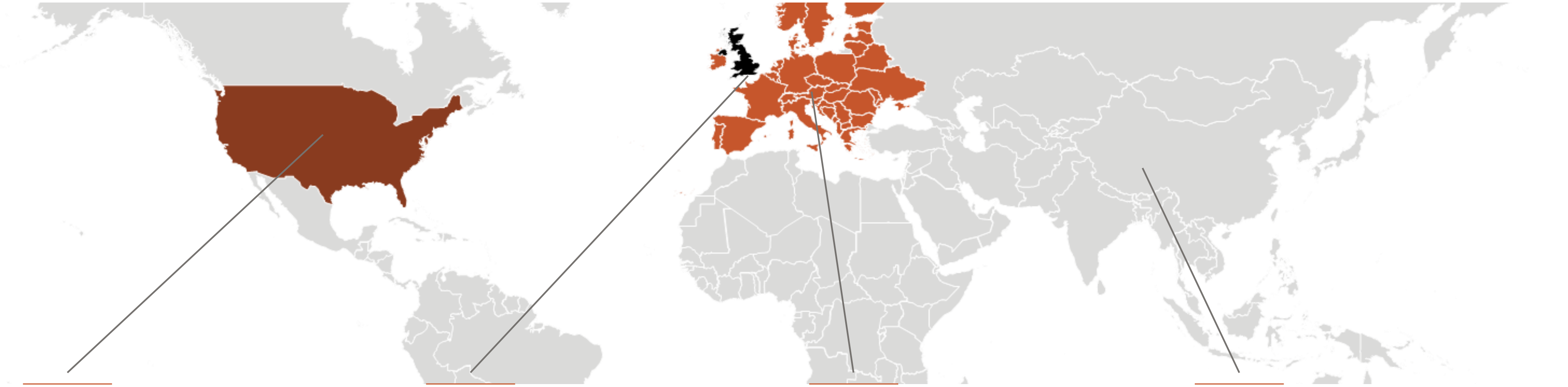


US
Underweight
- The earnings expectations of US companies are still clearly too high in the context of of high inflation, the restrictive policy of the Fed and the resulting threat of recession. These risks are not adequately reflected in the higher valuations of US stocks.
- With regards to equities, we are underweight US equities and close to neutral on European equities.

United Kingdom
Underweight
- UK equities are cheap compared to many other regions. At an index level, UK equities have a more defensive as well as commodity-rich profile, which should pay off in an environment of rising interest rates and geopolitical risks.
- We have reduced the underweight.

Europe ex. UK
Neutral
- Russia's war in Ukraine and the associated rise in inflation are likely to weigh on European companies in particular.
- However, European equities are now favourably valued compared to their historic data and the US, and thus offer catch-up potential. We have a neutral weighting on Europe ex UK.

Emerging markets
Overweight
- We have included Latin American equities in Q1 as they should benefit from higher commodity prices and represent a value-heavy addition to the portfolio.
- The chance of a market recovery in China has risen due to increasing stimulus programmes and more situation-appropriate covid policies.

Equity market forecasts

Estimates for selected indices

Index forecasts	Current 26/09/2022	30/06/2023	31/12/2023	Ø* in 12 months
S&P 500	3,655	4,250	4,500	4,729
Dax	12,228	15,000	15,800	17,866
Euro Stoxx 50	3,343	4,000	4,200	4,633
MSCI UK	2,023	2,350	2,400	2,554

Index potential (in %)				
S&P 500	-	16.3	23.1	29.4
Dax	-	22.7	29.2	46.1
Euro Stoxx 50	-	19.7	25.7	38.6
MSCI UK	-	16.2	18.6	26.2

Source: Bloomberg. Berenberg. as of 26/09/2022.
*Average based on bottom-up estimates.

04 Bonds

6m 1y 2y 3y 4y 5y 6y 7y 8y 9y 10y 15y 20y
Maturity Date
Coupon
Current Price Yield
U.S. Treasuries
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

Government bonds
Challenging environment opens up opportunities

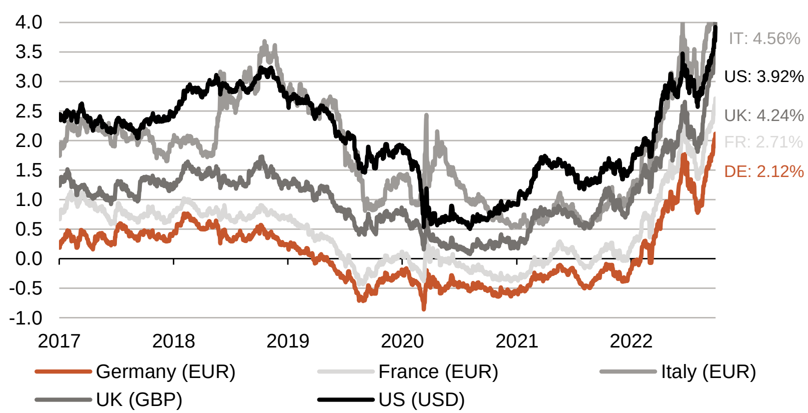
Unabated rise in government bond yields

- The rise in yields since the beginning of August continued unabated in recent weeks as global bond markets fell following more restrictive statements from central banks. As a result, US government bonds again yielded just below the 4% mark – the highest since 12 years ago – and German and Italian government bonds also yielded higher.
- However, a lot of movement came mainly from the UK. UK gilts slumped after the government agreed to further tax cuts. Fears of higher inflation and debt weighed on yields, pushing them above 4%.

Flattening of the yield curves

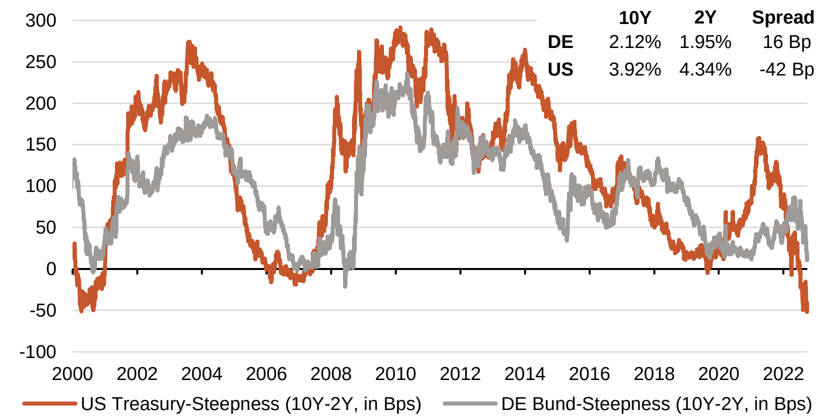
- The market currently expects almost five more interest rate hikes of 25 basis points each by the end of the year. It is likely to become increasingly difficult for the Fed to surprise hawkishly. The Fed pivot is currently priced for the beginning of Q2 next year. For the ECB and BoE, however, the market expects the interest rate turnaround to occur later. For both, the market is still pricing in significant rate hikes until mid-2023.
- The 10Y-2Y interest rate differential has also fallen sharply, so that the US yield curve has inverted further. The market is thus increasingly pricing in a recession.

Yields in the euro area trended upwards



Source: Bloomberg Time period: 01/01/2017 – 26/09/2022

Increasing flattening of yield curves



	10Y	2Y	Spread
DE	2.12%	1.95%	16 Bp
US	3.92%	4.34%	-42 Bp

Source: Bloomberg Time period: 01/01/1998 – 26/09/2022

Corporate & EM bonds
Credit selectively with potential

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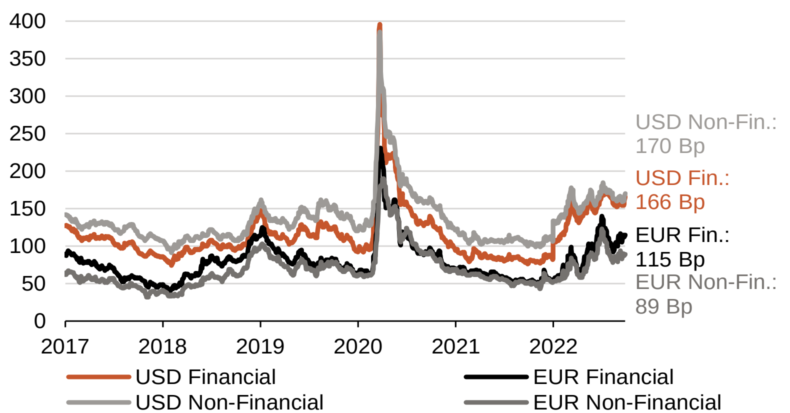
Spread widening for corporate bonds

- Corporate bonds saw slight widening of risk premia over the last four weeks. With high energy costs and an uncertain consumer outlook, sentiment tipped after the summer recovery rally in corporate bonds, pushing risk premiums higher.
- Especially for US investment grade bonds, risk premia increased. Spreads on financial bonds thus returned to a level seen at the beginning of August. European corporate bonds however also saw slight spread widening.

Emerging markets show mixed picture

- The high-yield bond market also experienced a notable increase in risk premiums over the last four weeks. The risk premia of EUR high-yield bonds increased by 22 basis points, and USD high-yield bonds even showed a widening of 37 basis points. Emerging market bonds showed a mixed picture. EM high grade bonds lost 16 basis points, while emerging market high yields gained 30 basis points.
- However, with solid balance sheets and liquidity reserves, we remain constructive in the medium term despite current weakness.

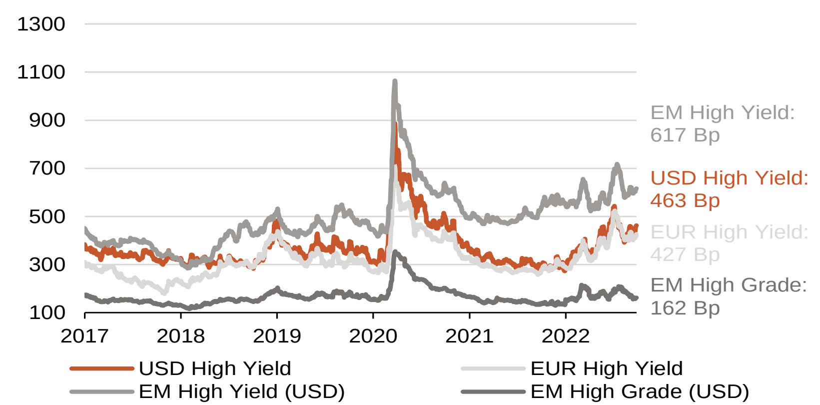
EUR risk premiums lower again



Source: Factset

Time period: 01/01/2017 – 26/09/2022

Rise in risk premiums for high-yield bonds



Source: Factset

Time period: 01/01/2017 – 26/09/2022

Capital market strategy
Bonds

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Core segments

Government bonds
Underweight

- In the case of high credit ratings, safe government bonds remain fundamentally in demand during risk-off phases. With the rise in yields and in light of the threat of a recession, the segment is somewhat more attractive again, despite continued high inflation.
- In the case of rising interest rates, we do not rule out further purchases of long-dated bonds such as European government bonds to increase duration.

Corporate bonds
Overweight

- Corporate bonds have already started to gain in relative attractiveness compared to government bonds due to this year's widening of spreads.
- Within the corporate bond segment, we prefer securities with short maturities. Increasing the duration and EUR credit exposure is also becoming increasingly interesting.

Other segments

Emerging market bonds
Overweight

- Attractive yield levels and a shortage of supply speak in favour of emerging market securities. In general, however, high inflation and rising interest rates, especially in the US, pose increased risks for emerging market investments, especially in hard currency bonds.
- We see Asia as having an advantage over others; the local currency component in particular seems opportune to us, as well as in Latin America.

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 not very high-risk premiums with rising economic risks are making the risk-return ratio less attractive.
- In European high-yield bonds, we are positioning ourselves away from the usual papers.

Forecasts
Estimates for selected bond markets

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Base interest rates and government bond yields (in %)	26/09/2022 Current	30/06/2023 Berenberg	30/06/2023 Ø*	31/12/2023 Berenberg	31/12/2023 Ø*
US					
Base interest rate	3.00-3.25	4.50-4.75	4.10	4.00-4.25	3.90
10Y US yield	3.93	4.00	3.18	4.20	3.02
Eurozone					
Base interest rate	1.25	2.50	2.55	2.50	2.45
10Y Bund yield	2.11	2.50	1.62	2.70	1.57
United Kingdom					
Base interest rate	2.25	3.50	3.40	3.00	3.25
10Y Gilt yield	4.24	3.80	2.66	4.00	2.44

Source: Bloomberg. Berenberg as of 26/09/2022.
*Average of estimates by other experts (Bloomberg) consensus.

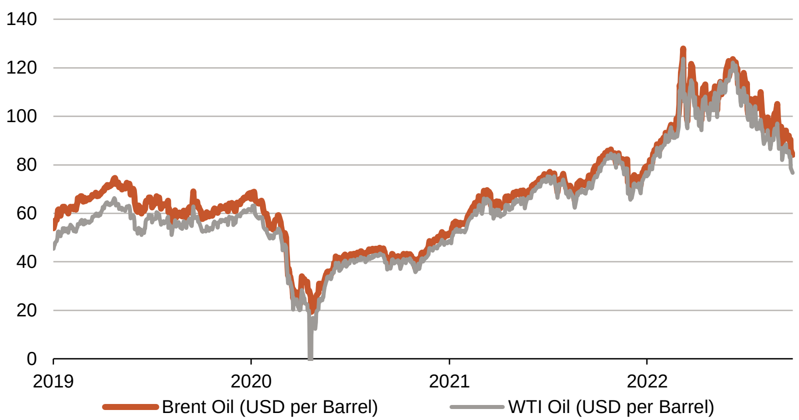
05 Commodities

Crude oil
Sell-off opens up opportunities in the medium term

Demand outlook puts oil under pressure in the short term, but medium-term drivers remain intact

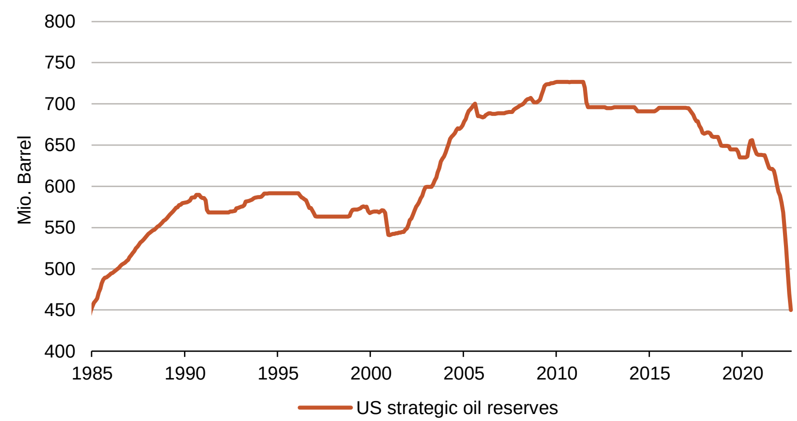
- Oil continued its downward trend at an unabated pace since mid-June. WTI even fell below the USD 80 mark for the first time since January this year. The high energy prices for end consumers seem to be leaving their first traces on demand. Contrary to typical seasonality, US inventories have remained surprisingly stable in recent months. At the same time, uncertainty about the demand outlook has increased significantly in recent weeks due to an increasingly gloomy economic outlook and increasingly restrictive central banks, putting oil prices under strong pressure.
- Beyond this however, there is much positive news to report. For example, OPEC+ is likely to decide on cuts at its meeting on 5 October to counter potential weakness in demand. Moreover, the latter is also likely to be mitigated by the substitution of gas for oil. In addition, the EU's ban on Russian oil imports will take effect at the end of the year and some of that supply is likely to disappear from the global market, as China and India are unlikely to be able to buy all barrels despite massive price cuts. Finally, with oil prices so low, the US is likely to start replenishing its strategic reserves, which are now at their lowest level since the 1980s. So in the medium term, the oil price should rise again.

Strong correction on the oil market



Source: Bloomberg, own calculations. Time period: 01/01/2019 – 26/09/2022.

US strategic reserves at 1980s level



Source: Bloomberg, DOE. Time period: 01/01/1985 – 31/08/2022.

Precious and industrial metals

Gold needs a Fed turnaround and base metals recovery

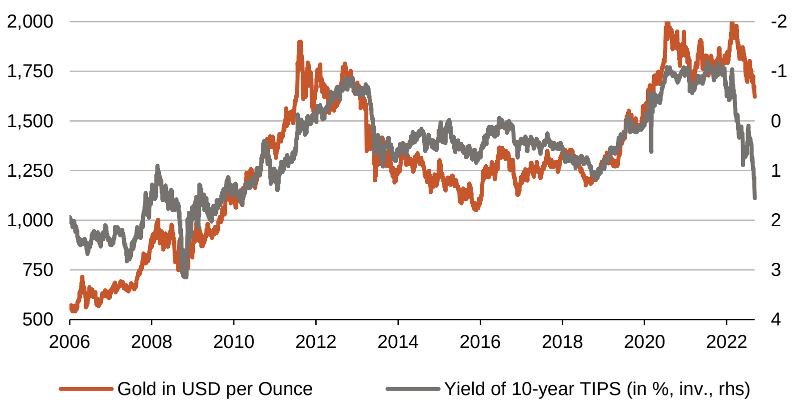
Gold needs monetary policy pivot by the Fed

- Gold suffered significant losses last month and is currently trading at only about USD 1,640 per ounce. Pressure came from all sides. The 10Y real interest rate has risen by about 1 ppt to 1.56% since the beginning of September alone and the US dollar has appreciated relentlessly in trade-weighted terms.
- Only when the Fed begins to signal the pivot in monetary policy, and thus real interest rates and the dollar are likely to fall, should headwinds for gold also diminish. Until then, despite high inflation, the threat of recession and geopolitical risks, it will be difficult for gold to gain in value.

Metals temporarily under pressure, super cycle intact

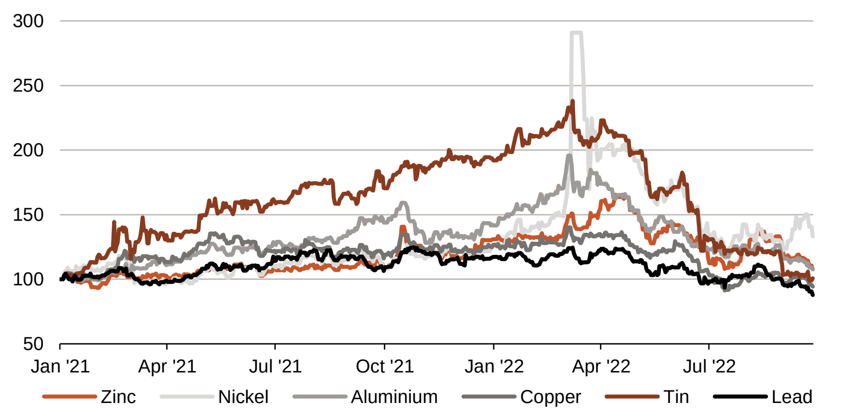
- Industrial metals are holding up surprisingly well in light of the increasingly gloomy economic outlook and the strong US dollar. This is because the energy crisis is affecting metal production, especially in Europe. However, it is likely to remain difficult in the short term with declining demand.
- The super cycle, on the other hand, may have even accelerated. This is because the decarbonisation of our economy, which goes hand in hand with a multiplication of metal demand, has now also taken on a geopolitical dimension with the Russia-Ukraine war, so demand is likely to rise faster. Producers, in turn, are likely to be reluctant to invest under the current economic uncertainty.

Large increase in real yields weighs on gold price



Source: Bloomberg, own calculations. Time period: 01/01/2006 – 26/09/2022.

Industrial metals are holding up well



Source: Bloomberg, own calculations. Time period: 01/01/2021 – 26/09/2022.

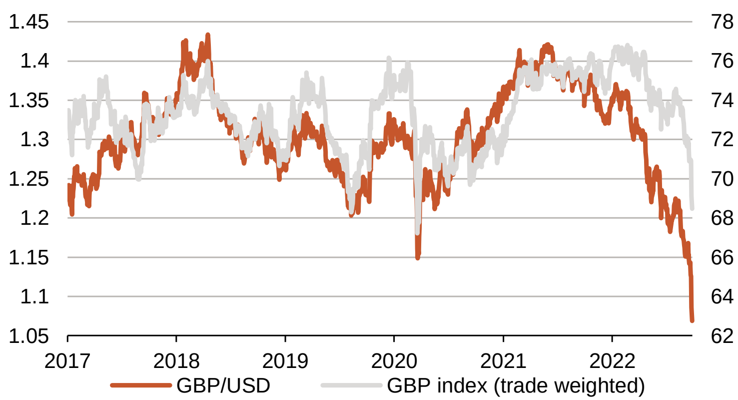
06 Currencies

Market Development
Interest rates and currencies

Pound weakness is mainly dollar strength

- Interest rates are rising and the UK pound exchange rate is under pressure. These market movements reflect different aspects: 1) Uncertainty about the depth of an emerging recession; 2) the risk that Liz Truss could exacerbate inflation with an expansionary fiscal policy.
- As far as the exchange rate is concerned, the news about the pound crash mainly relates to the GBP/USD rate. However, this reflects in particular the pronounced strength of the US dollar. The pound is also contributing some weakness of its own, as a look at the trade-weighted pound exchange rate shows.

Exchange rate: GBP/US-Dollar

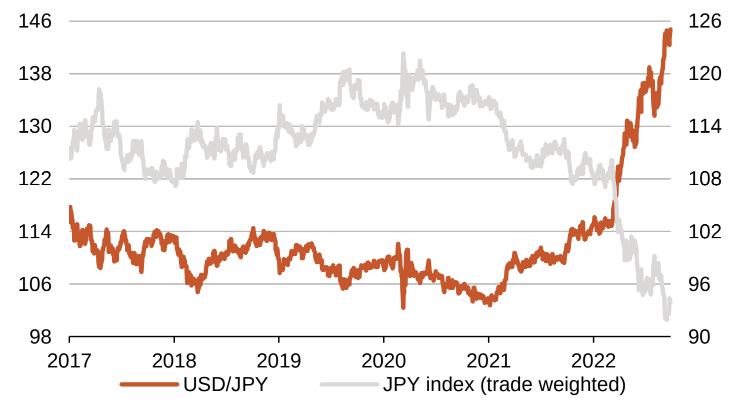


Source: Bloomberg Period: 01/01/2017 – 26/09/2022

Bank of Japan continues loose monetary policy

- The Bank of Japan continues to follow a special path whilst continuing its expansionary monetary policy. The key interest rate will not be touched. As a result, the yen is coming under increasing pressure, especially against the US dollar. The Bank of Japan has now intervened in the foreign exchange market to strengthen the yen. The prospects of success are doubtful.
- Japan is in an unusual position. The inflation rate in August was extremely low at 3% by international standards. In light of the extremely weak yen, inflation is almost puzzlingly low. Extensive government price controls probably play a role.

Exchange rate: US-Dollar/JPY



Source: Bloomberg Period: 01/01/2017 – 26/09/2022

Forecasts
Estimates of key currencies

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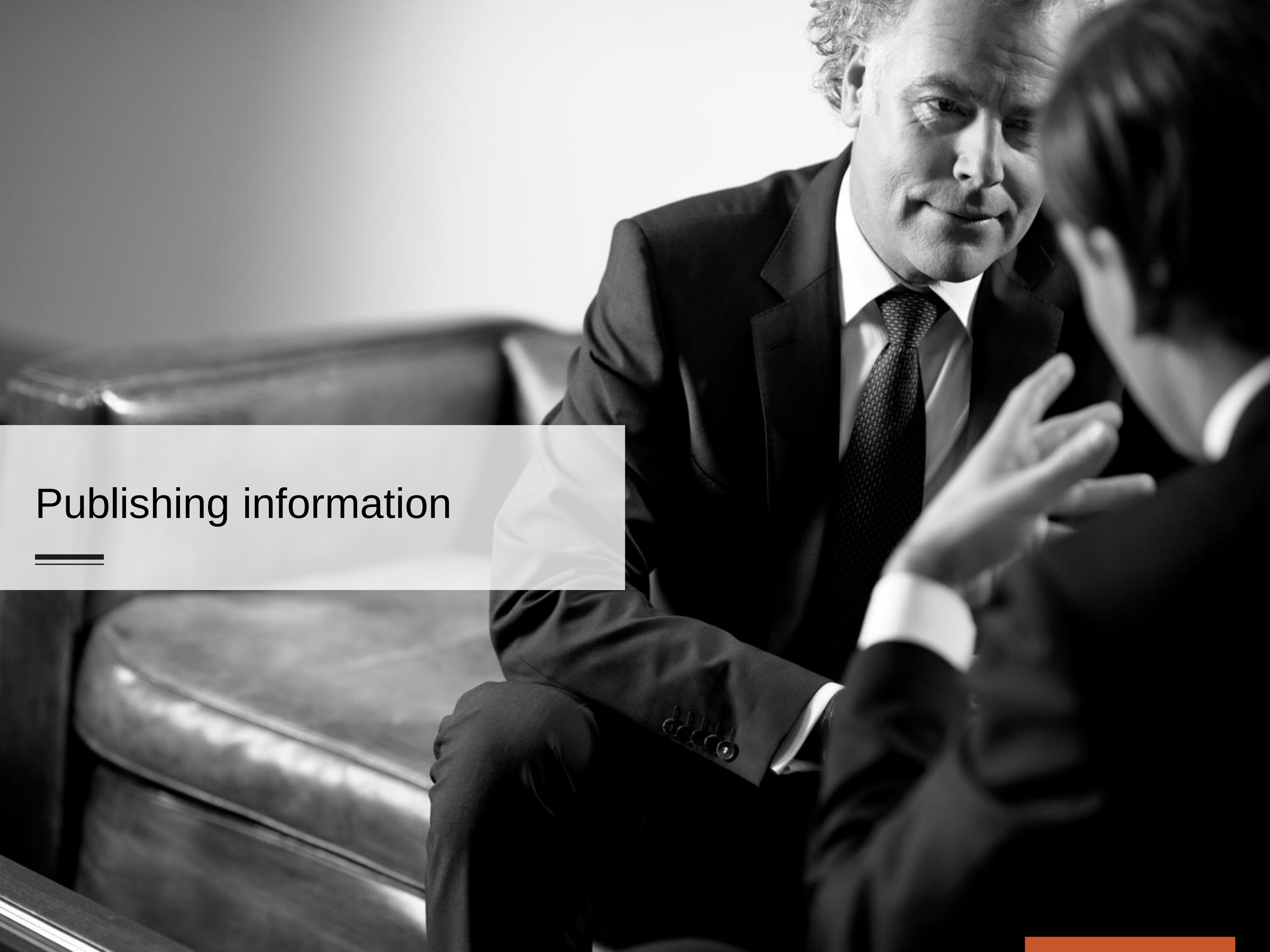
Exchange rate forecasts	26/09/2022 Current	30/06/2023 Berenberg	30/06/2023 Ø*	31/12/2023 Berenberg	31/12/2023 Ø*
EUR/USD	0.96	1.05	1.03	1.10	1.06
EUR/GBP	0.90	0.85	0.87	0.85	0.87
EUR/CHF	0.95	1.00	0.98	1.02	1.00
EUR/JPY	139	147	137	151	138

Change against the Euro (in %)					
USD	-	-8.5	-6.7	-12.6	-9.3
GBP	-	5.8	3.3	5.8	3.3
CHF	-	-4.6	-2.6	-6.4	-4.6
JPY	-	-5.4	1.5	-7.9	1.2

*Source: Bloomberg. Berenberg as of 26/09/2022.
*Average of estimates of other experts (Bloomberg); consensus.



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