BERENBERG
PARTNERSHIP SINCE 1590

HORIZON *handout*

The Berenberg Capital Markets Outlook • Wealth and Asset Management

September | 2022

Horizon Handout – Capital Market Outlook
Disclaimer

BERENBERG
PARTNERSHIP SINCE 1590

This document is a marketing communication. This information and references to issuers, financial instruments or financial products do not constitute an investment strategy recommendation pursuant to Article 3 (1) No. 34 Regulation (EU) No 596/2014 on market abuse (market abuse regulation) nor an investment recommendations pursuant to Article 3 (1) No. 35 Regulation (EU) No 596/2014, both provisions in connection with section 85 (1) of the German Securities Trading Act (WpHG). As a marketing communication this document does not meet all legal requirements to warrant the objectivity of investment recommendations and investment strategy recommendations and is not subject to the ban on trading prior to the publication of investment recommendations and investment strategy recommendations.

This document is intended to give you an opportunity to form your own view of an investment. However, it does not replace a legal, tax or individual financial advice. Your investment objectives and your personal and financial circumstances were not taken into account. We therefore expressly point out that this information does not constitute individual investment advice. Any products or securities described may not be available for purchase in all countries or only in certain investor categories. This information may only be distributed within the framework of applicable law and in particular not to citizens of the USA or persons resident in the USA. The statements made herein have not been audited by any external party, particularly not by an independent auditing firm.

The statements contained in this document are based either on the company's own sources or on publicly accessible third-party sources, and reflect the status of information as of the date of preparation of the presentation stated below. Subsequent changes cannot be taken into account in this document. The information given can become incorrect due to the passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document.
Past performance, simulations and forecasts are not a reliable indicator of future performance and custody fees may occur which can reduce overall performance.

Please refer to the online glossary at www.berenberg.de/glossar for definitions of the technical terms used in this document.

Date: 25 August 2022.

Table of contents

BERENBERG
PARTNERSHIP SINCE 1590

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

BERENBERG
PARTNERSHIP SINCE 1590

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 (27/07/22 - 24/08/22)	YTD (31/12/21 - 24/08/22)	24/08/21 24/08/22	24/08/20 24/08/21	24/08/19 24/08/20	24/08/18 24/08/19	24/08/17 24/08/18
Industrial Metals	6.8	4.5	17.4	37.6	-1.1	-0.6	-4.1
MSCI Frontier Markets	5.2	-5.7	-0.3	34.9	-13.7	11.7	-2.4
Global Convertibles	4.9	-4.6	-5.5	26.9	23.6	1.1	8.1
MSCI World	4.1	-2.1	5.0	31.6	10.8	3.1	15.3
Gold	3.4	9.2	14.5	-6.3	19.4	32.1	-4.8
Brent	2.7	76.8	110.5	56.8	-29.5	-14.7	58.8
REITs	2.4	-5.1	7.0	27.8	-15.5	17.4	3.1
USDEUR	2.3	14.1	18.0	0.3	-5.5	4.3	1.5
MSCI Emerging Markets	1.5	-6.5	-5.8	17.4	10.0	-0.7	0.8
Euro overnight deposit	0.2	-0.1	-0.3	-0.6	-0.5	-0.4	-0.4
EUR Sovereign Debt	-1.8	-7.3	-8.7	0.7	-0.1	5.5	-0.4
EUR Coporates	-2.2	-11.0	-12.5	2.6	-0.4	6.4	0.2

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. Time period: 24/08/2017 – 24/08/2022.
Note: The historical performance presented here is not a reliable indicator of future performance.

Overview of capital markets
Outlook by asset class

BERENBERG
PARTNERSHIP SINCE 1590

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

- Equity markets staged a recovery rally, which is not historically unusual. Challenges remain.
- The pressure on companies is increasing. Analysts have recently lowered global profit expectations further.
- We are positioning ourselves with a slight equity underweight, as the route to a sustainable recovery is not yet clear.

Bonds

- Yield levels of safe government bonds break upwards. Decline in the inversion of the US yield curve.
- Risk premiums on emerging market bonds under pressure. Spreads tighten in emerging markets in particular.
- We underweight bonds and remain cautiously positioned on credit risk. Duration: less short than before

Alternative investments / commodities

- Oil burdened by weak global demand, but supply situation remains tight. Stronger price decline unlikely.
- Dollar strength and real interest rate rise offset by recession concerns. Gold with tailwind as recession strengthens.
- Industrial metals burdened in the short term by demand risks and dollar strength. Long-term drivers accelerating.

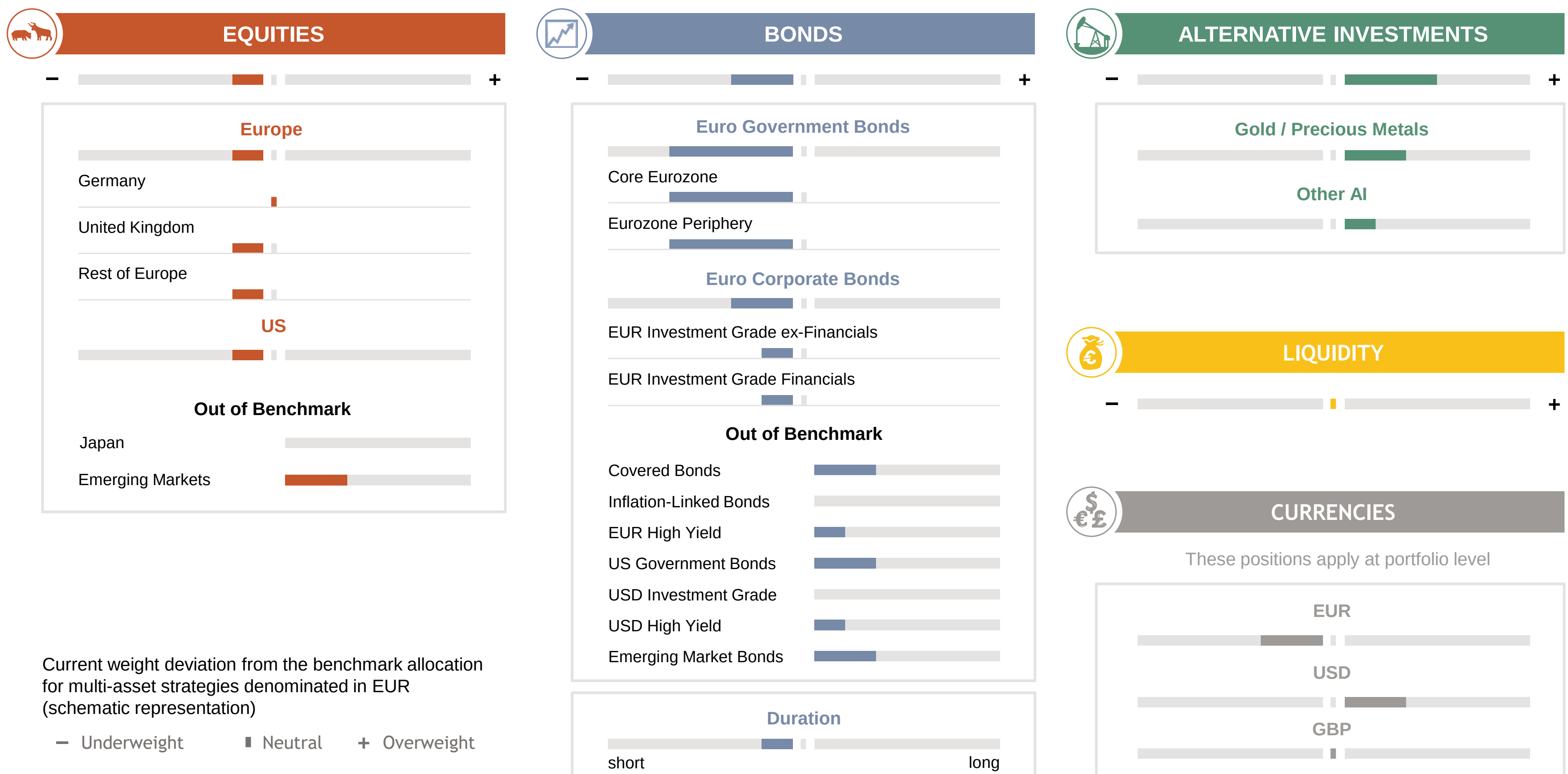
Currencies

- Despite the first interest rate hike, the euro remains weak. Other central banks were faster and seem more determined.
- Europe is particularly affected by the Russia-Ukraine war. The peace dividend has been used up.
- Against the US dollar and the Swiss franc, the euro falls below parity

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

BERENBERG
PARTNERSHIP SINCE 1590

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 24/08/2022.

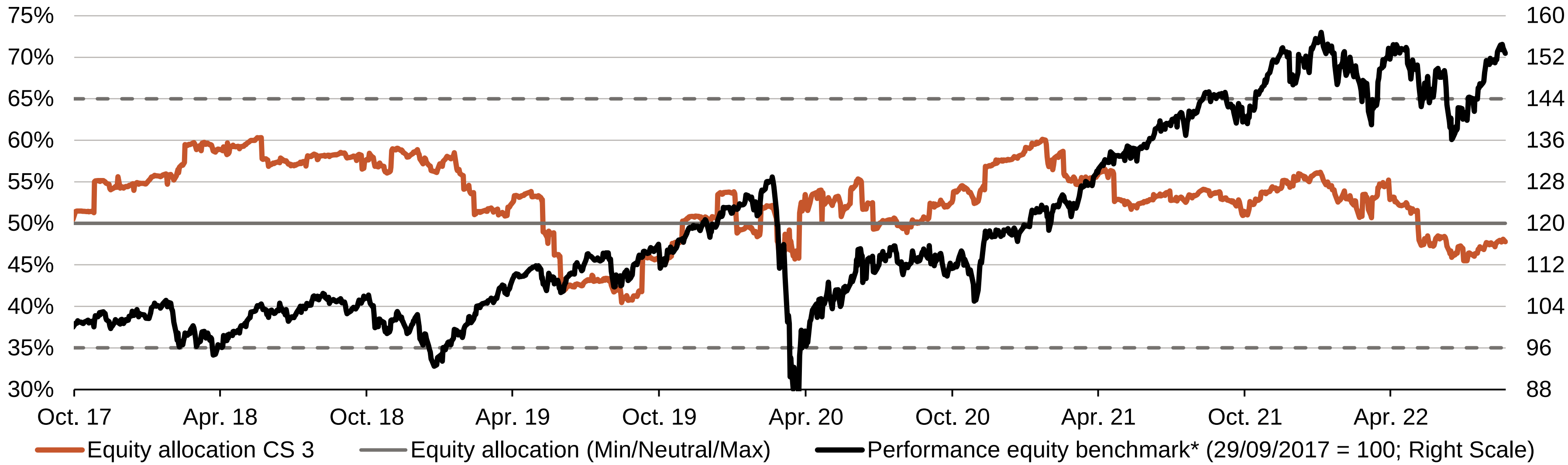
Overview of Berenberg's asset allocation

Review of Core Strategy 3

BERENBERG
PARTNERSHIP SINCE 1590

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

Performance equity benchmark	22/08/17 - 22/08/18	22/08/18 - 22/08/19	22/08/19 - 22/08/20	22/08/20 - 22/08/21	22/08/21 - 22/08/22
	8.73%	5.40%	1.95%	27.68%	6.03%



Sources: SimCorp, Bloomberg, Berenberg. *The "equity benchmark" is 70% STOXX Europe Net Return Index and 30% S&P 500 Net Return Index. Time period: 22/08/2017 – 22/08/2022.
Note: The historical performance presented here is not a reliable indicator of future performance.

- We took advantage of the sharp sell-off in the equity markets after Russia's invasion and the associated negative investor sentiment to gradually increase our equity exposure to a moderate overweight. We then took advantage of the strong recovery in March to take profits, including reducing Latin America somewhat after the strong YTD performance.
- During the short rally after the Fed meeting in May, we further reduced our equity exposure counter-cyclically. Taking into account our position in the tail hedge certificate, we are slightly underweight equities. Our focus on quality stocks should pay off more in this uncertain environment.
- In addition, we have built up a position in US Treasuries after the massive rise in interest rates in the USA. 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 smouldering energy crisis and the threat of recession.

02 Economics

Eurozone
GDP and inflation

BERENBERG
PARTNERSHIP SINCE 1590

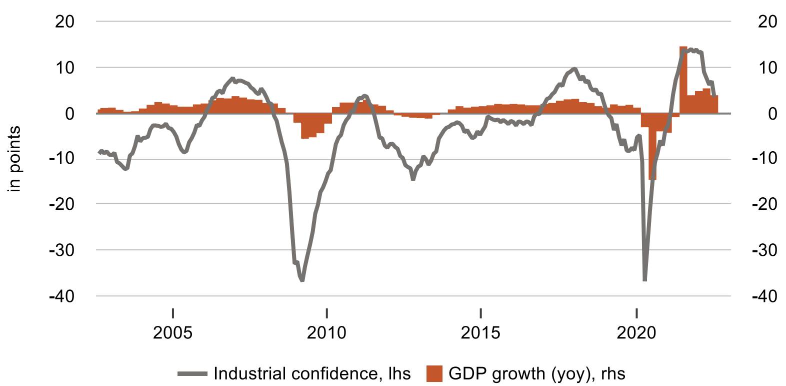
Industrial production: positive surprise

- Industrial production surprisingly increased by 0.7 % in June. The previous month of May was also revised up to 2.1 %. Compared to June 2021, industrial production is 2.4 % higher.
- In the coming months, the problems are likely to shift from the supply to the demand side. We expect both industrial production and the overall economy to slip into recession in Q3.
- Gazprom announced last Friday that it will close the Nord Stream 1 pipeline (NS1) for an unscheduled three-day "maintenance" on 31 August. The gas price has risen further and this brings new uncertainty.

Energy crisis harbours further inflation potential

- Europe is bearing the brunt of the cut in gas supplies imposed by Putin. The ensuing struggle across Europe to build up enough gas reserves for the cold months has driven wholesale gas prices to frightening heights. Even if Europe avoids rationing, as we expect, the dramatically high prices will hurt. Inflation is unlikely to have peaked yet.
- The eurozone is probably already in the early stages of a recession that will last until the warmer months in spring 2023 provide some relief.

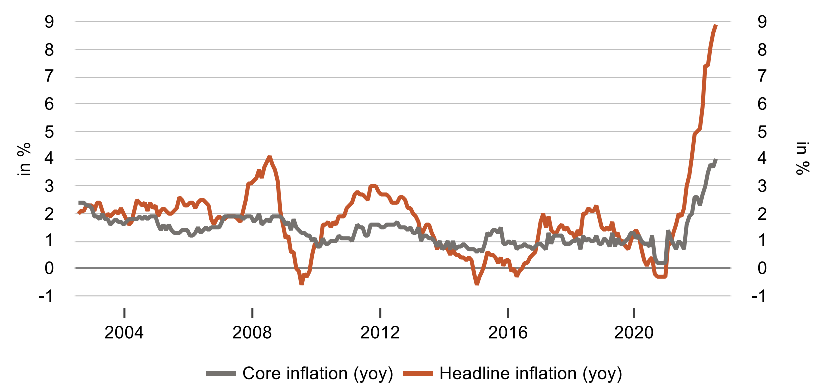
Eurozone GDP growth and industrial confidence



Source: Macrobond

Period: 08/2002 - 08/2022

Eurozone Inflation



Source: Macrobond

Period: 07/2002 - 07/2022

United Kingdom
GDP and inflation

BERENBERG
PARTNERSHIP SINCE 1590

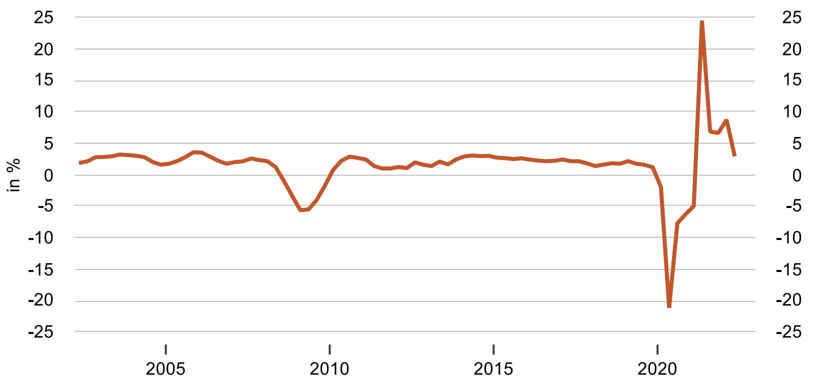
GDP decline in the second quarter

- GDP contracted in Q2. After the economy grew by 0.8 % in the first quarter, GDP declined by 0.1 % in Q2 quarter-on-quarter (growth remains positive year-on-year). This is likely to have been the prelude to recession. We expect that the next three quarters will also show negative numbers. Overall, GDP is likely to fall by 2.3 per cent from its peak. Growth figures are not expected to turn positive again until Q2/2023.
- Private household spending will continue to rise strongly. However, only in nominal terms, i.e. due to inflation. Real expenditure is stagnating.

Double digit inflation rate

- The inflation rate rose from 9.4 % to 10.1 % year-on-year in July. Compared to the previous month, prices rose by 0.6 %. The core inflation rate also rose further, from 5.8 % to 6.2 %. The price increase has thus turned out to be higher than expected. The increase is now as sharp as it was last in 1982.
- So far, we expect inflation to peak in October at just over 12 %. The new July data show that the risk of even higher inflation rates is considerable.
- While wages are rising, the increase is not enough to offset higher prices. These are difficult times for consumers.

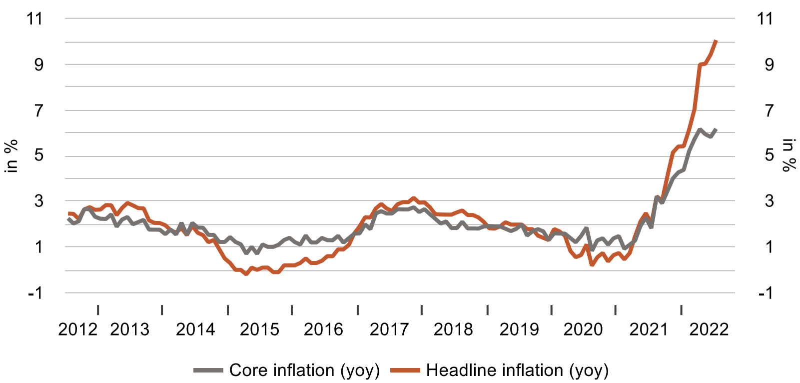
United Kingdom GDP growth (yoy)



Source: Macrobond

Period: 06/2002 - 06/2022

United Kingdom Inflation



Source: Macrobond

Period: 07/2012 - 07/2022

USA
GDP and inflation

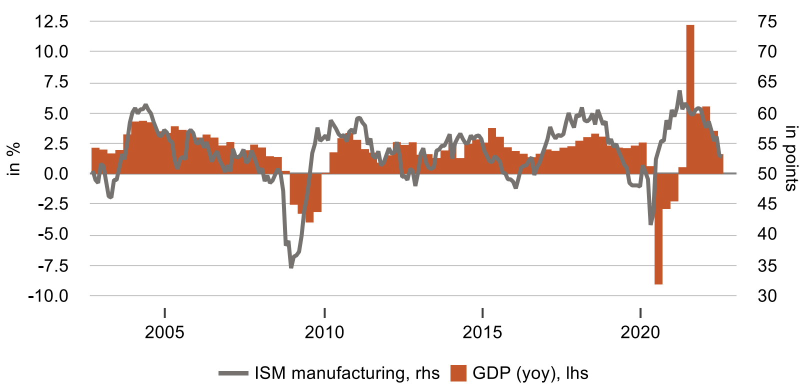
Industrial production rebounds in July

- Industrial production increased 0.6 % month-on-month (m/m) in July following two consecutive monthly declines, reflecting broad-based increases underpinned by a robust 6.5% m/m jump in motor vehicle production . Excluding motor vehicles, the increase in production was only a more modest 0.3 %.
- Retail sales were flat for July as sharp declines in spending at gasoline stations (-1.7% m/m) and on motor vehicles and parts (-1.6% m/m) were offset by a jump in sales at non-store retailers (+2.7% m/m) and furniture, building material, and garden equipment and supplies dealers (+1.5% m/m).

Inflation rate falls slightly in July

- Contrary to expectations, the inflation rate fell slightly in July: Year-on-year (y/y), inflation fell from 9.1 % in June to 8.5 % in July. Prices were stable month-on-month, so there was no further increase in July. The easing on the price front resulted mainly from a decline in petrol prices.
- The core inflation rate (excluding energy and food prices) remained unchanged at 5.9 % y/y. Despite the positive surprise, it is too early to sound the all-clear on the monetary policy front. The Fed will continue to raise interest rates.

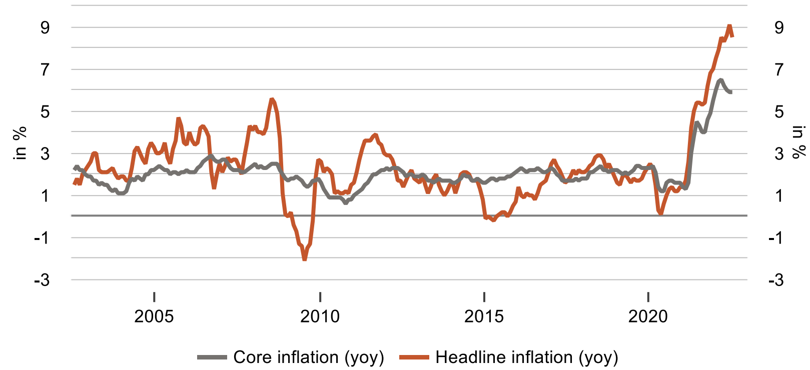
US GDP growth and Purchasing Managers Index



Source: Macrobond

Period: 07/2001 - 07/2022

USA Inflation



Source: Macrobond

Period: 07/2002 - 07/2022

Economic forecasts
Key estimates at a glance

BERENBERG
PARTNERSHIP SINCE 1590

	GDP growth (in %)						Inflation (in %)					
	2022		2023		2024		2022		2023		2024	
		Ø**		Ø**		Ø**		Ø**		Ø**		Ø**
USA	1.5	1.7	-0.6	1.1	1.0	1.7	7.9	8.1	3.9	3.7	2.8	2.5
Eurozone	2.5	2.8	-1.1	0.8	2.3	1.9	8.3	7.9	5.0	4.1	2.0	2.0
Germany	1.0	1.5	-1.4	0.8	2.3	1.9	8.5	7.8	5.9	4.5	2.0	2.2
France	2.1	2.4	-0.8	1.0	2.2	1.8	6.0	5.8	4.3	3.5	1.9	1.9
Italy	2.9	3.1	-1.2	0.6	1.4	1.6	7.7	7.3	4.7	3.6	1.9	1.9
Spain	4.2	4.4	-0.4	1.9	2.4	2.4	9.3	8.4	4.8	3.5	2.0	2.0
United Kingdom	3.0	3.5	-1.2	0.2	1.7	1.5	9.4	9.2	6.2	6.3	1.6	2.0
Japan	1.2	1.5	-0.1	1.7	1.3	1.1	2.1	2.0	1.3	1.3	0.7	0.8
China	3.5	3.7	4.6	5.2	4.3	5.0	2.1	2.3	2.3	2.3	2.3	2.1
World*	2.5	2.9	1.4	2.7	2.5	3.0		7.2		4.4		3.3

Source: Bloomberg. Berenberg as of 23/08/2022.
* 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

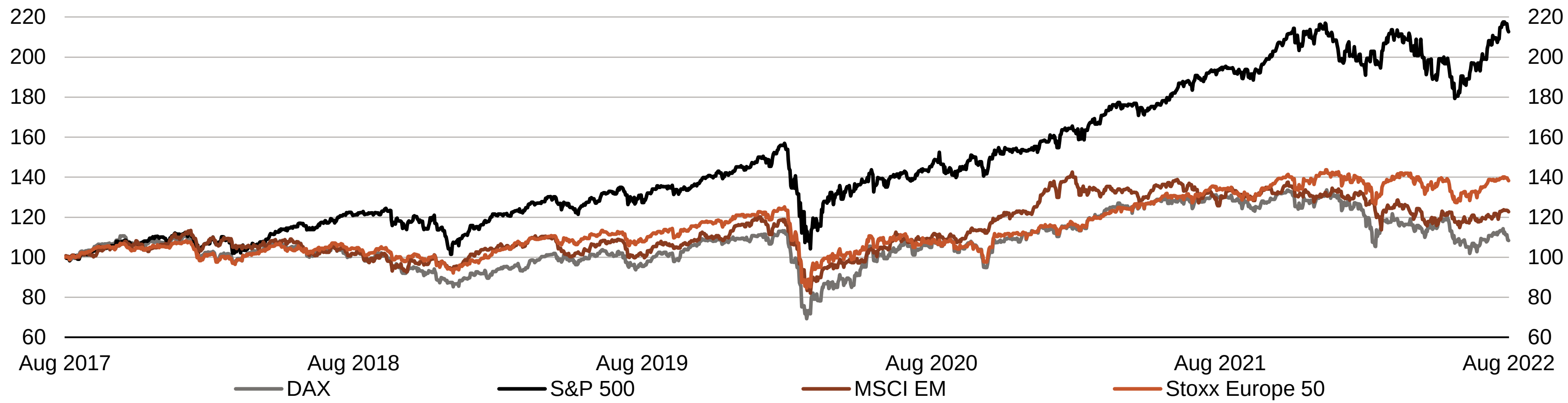
Market developments
Caution is still advisable

BERENBERG
PARTNERSHIP SINCE 1590

The bulk of the recovery rally should be behind us

- A better-than-expected Q2 reporting season, thin summer liquidity, record-breaking equity buyback programmes, better-than-expected US economic data, peak inflation, the Fed pivot narrative, return of retail investors and low positioning of systematic and discretionary investors helped markets recover significantly from the June lows. However, the challenges are not over yet.
- With the August option expiration, however, headwinds increased again, which in our view were also fundamentally justified. Geopolitical risks (China, Russia,...), the energy crisis, weak consumer confidence and economic growth, pressure on corporate margins and the continued decline in monetary policy support from central banks up to a possible policy error continue to make us cautious. The probability of a setback has recently increased significantly. However, this should then clear the way for a longer-term recovery. We therefore remain slightly underweighted in equities for the time being.

Performance of selected equity indices



Source: Bloomberg; performance in EUR scaled to 100.

Time period: 23/08/2017 – 23/08/2022.

Corporate earnings
Pressure on profits remains high

BERENBERG
PARTNERSHIP SINCE 1590

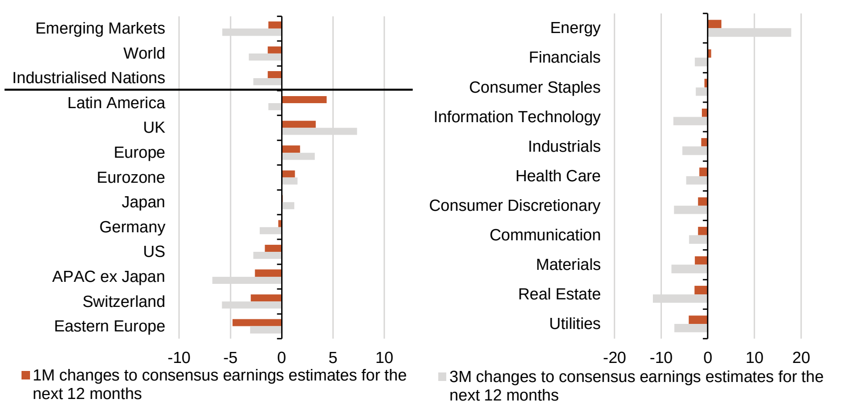
Analysts increasingly sceptical

- Analysts see challenges ahead for companies as input costs remain high and consumer weakness makes it increasingly difficult for companies to pass on higher prices. Over the past four weeks, analysts have lowered profit forecasts in developed markets, but also in emerging markets.
- Regionally, the bulk of companies from the UK and Latin America have recently been able to escape this trend. However, this could quickly change with the increasing economic gloom.

Global earnings growth below 4% in 2022

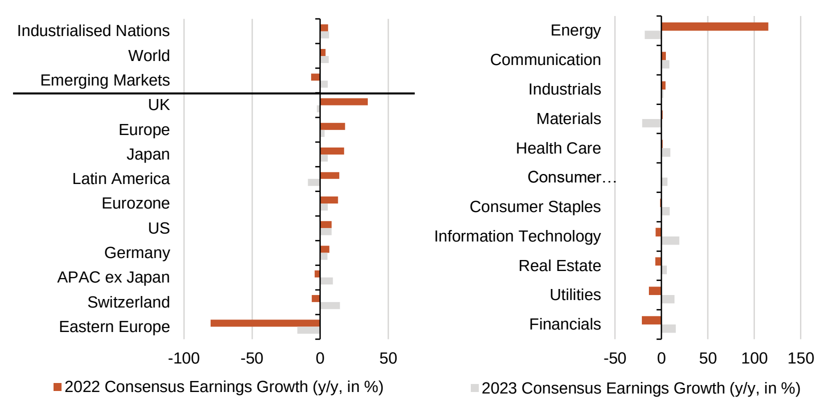
- Geopolitical risks, inflationary pressures, staff shortages and supply bottlenecks have had a significant impact on corporate earnings since the beginning of the year. At the beginning of the year, consensus for 2022 saw global earnings growth of more than 7%. With the latest earnings revisions, this growth has now slipped below the 4% mark. A further decline cannot be ruled out.
- At the sector level, the energy sector has noticeably escaped this development. The expected earnings growth for 2022 has also continued to rise recently.

Negative profit revisions continue



Source: Factset, MSCI Regions and Europe sectors As of 23/08/2022.

Profit expectations on a downward trend



Source: FactSet; MSCI regions and European sectors. As of 23/08/2022.

Valuation & Sentiment

Market recovery with a sour taste

BERENBERG
PARTNERSHIP SINCE 1590

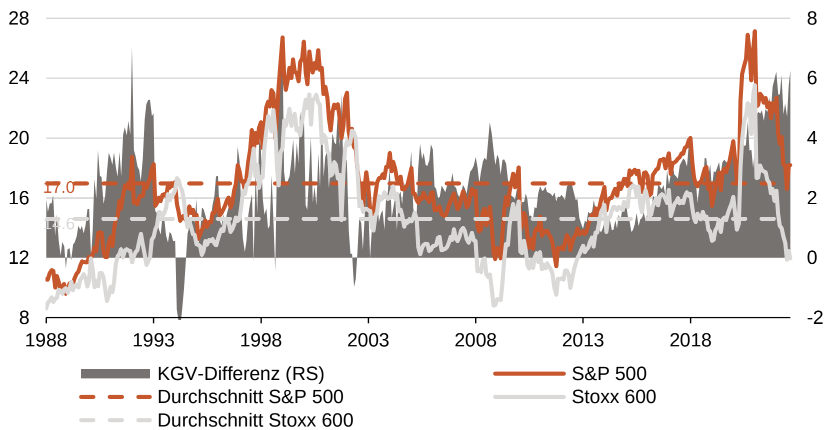
Problems in Europe drive investors into US equities

- Markets have clearly moved away from their June lows with the recent recovery rally. However, this rally was not felt equally in all equity markets. US equities were able to recover significantly more than their European counterparts. Reasons included the continuing problems in Europe (geopolitics, economic weakness, energy crisis).
- The valuation premium of US equities over European equities has thus widened significantly in recent weeks. US equities are now trading at a historically high P/E premium of around 6 points.

Recovery likely to lose momentum

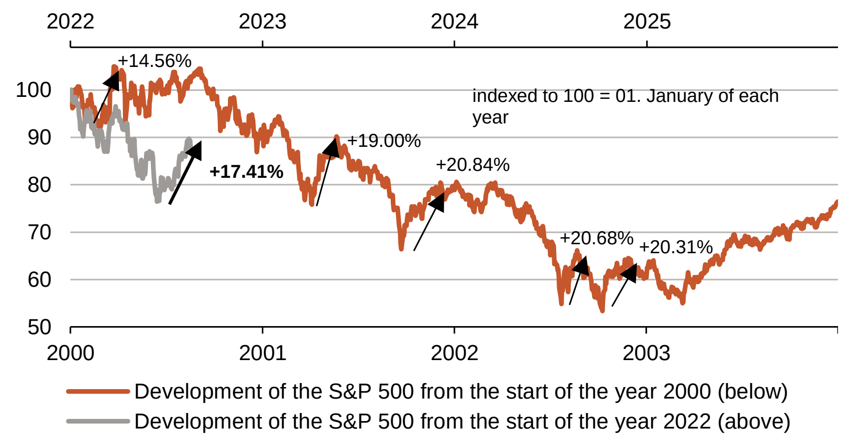
- The key question for investors at the moment is whether the market has already seen the lows or whether the rally of the last few weeks is a bull trap.
- The former is supported by the extreme pessimism of investors and the fact that a soft landing of the economy is again within the realm of possibility after the latest inflation and labour market data.
- Nevertheless, caution is still advisable. The outlook remains fraught with great risks and the past shows that recoveries of >15% are not atypical in bear markets.

US equities remained in demand despite high valuation



Source: Factset, own calculations. Time period: 01/01/1988 – 23/08/2022.

Bull market or bull trap after all?



Source: Bloomberg, own calculations. Time period: 01/01/2000 – 23/08/2022

Equity allocation

China offers recovery potential

US

Underweight

- The earnings expectations of US companies are still clearly too high in view of high inflation, the restrictive policy of the Fed and the resulting threat of recession. These risks are not adequately reflected in the higher valuation of US stocks.
- Within equity regions, 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 the 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

- The weaker euro, the agreed fiscal packages and the comparatively cheap valuation should make European equities less vulnerable.
- However, Russia's Ukraine war and the associated rise in inflation are likely to weigh on European companies in particular. We are neutrally weighted in 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

BERENBERG
PARTNERSHIP SINCE 1590

	Current			Ø*
Index forecasts	**23/08/2022**	**31/12/2022**	**30/06/2023**	**in 12 months**
S&P 500	4,129	3,900	4,100	4,750
Dax	13,194	14,500	15,800	17,975
Euro Stoxx 50	3,653	3,800	4,000	4,666
MSCI UK	2,155	2,200	2,350	2,506

Index potential (in %)				
S&P 500	-	-5.5	-0.7	15.1
Dax	-	9.9	19.7	36.2
Euro Stoxx 50	-	4.0	9.5	27.8
MSCI UK	-	2.1	9.0	16.3

Source: Bloomberg. Berenberg. as of 23/08/2022.
*Average based on bottom-up estimates.

04 Bonds

10y
15y
20y
Current Price Yield
0 / .01
0.13 / .13
0.26 / .26
11-16+ / .72
Maturity Date
Coupon
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
11/20

Government bonds
Restrictive central banks in focus

BERENBERG
PARTNERSHIP SINCE 1590

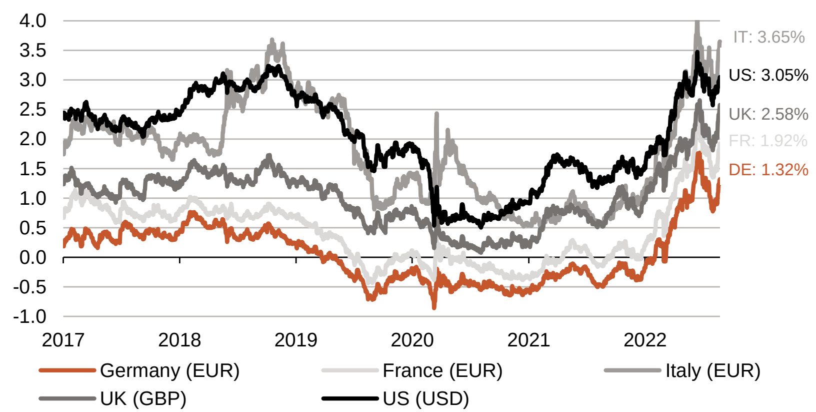
Rising government bond yields

- After the significant decline in yields since June, yields on safe government bonds rose again from the beginning of August, when global bond markets sold off as a result of more restrictive tones by central banks. As a result, US-treasuries recently returned to yields above the 3%-mark.
- With gloomier economic data, in mid-August the market was pricing a 50 and 75 basis point rate hike at the September FOMC meeting with similar probabilities but is now leaning towards 75 basis points following the Fed's restrictive tones.

Inversion of the US yield curve

- Most recently, however, the latest preliminary purchasing managers' index data in particular was below expectations. As a result, the inversion of the US yield curve fell slightly to "only" -25 basis points. The last time the curve was at this level was in September 2000.
- Interest rates also increased in Europe, whereby the increasing divergence between core and periphery countries remained. However, the German yield curve is still in positive territory.

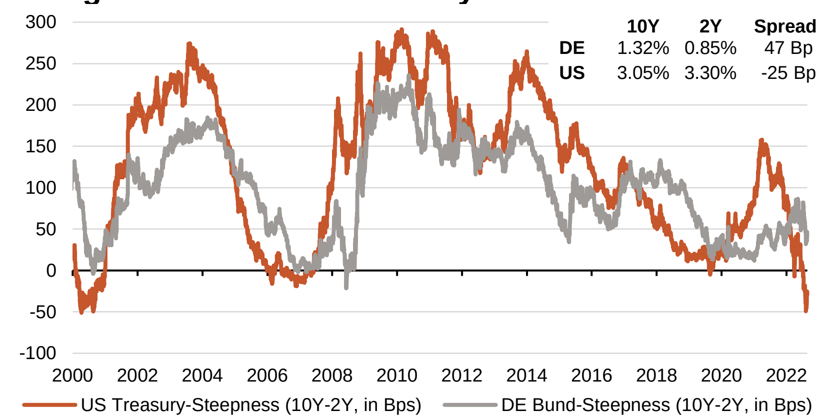
Yields in the euro area trended upwards



Source: Bloomberg

Time period: 01/01/2017 – 23/08/2022

Strongest inversion of the US yield curve since 2000



Source: Bloomberg

Time period: 01/01/1998 – 23/08/2022

Corporate & EM bonds
Homogeneous narrowing of risk premiums

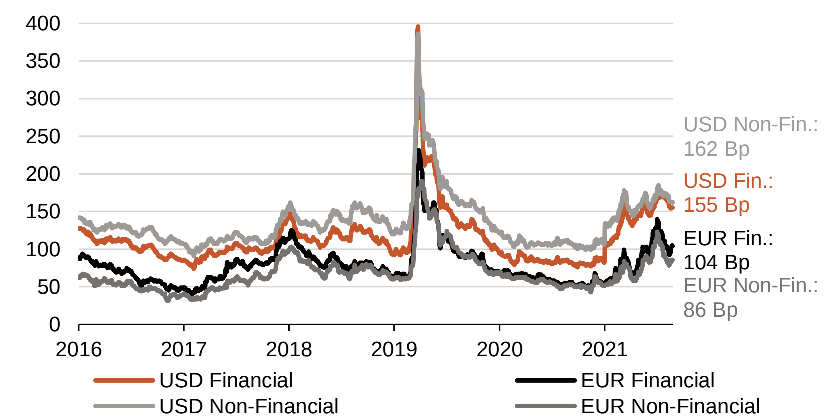
Significant spread narrowing in the Eurozone

- Corporate bonds saw spreads narrow across all segments over the last four weeks. In particular, risk premiums narrowed for US investment grade bonds: 15 basis points for financial bonds and 11 basis points for other corporate bonds. Spreads on financial bonds thus returned to the level seen in mid-June.
- European corporate bonds also saw slight spread narrowing. In EUR investment-grade bonds, for example, risk premiums fell by 3 basis points for financial bonds and 6 basis points for other corporate bonds compared to four weeks ago.

Emerging markets: Decrease in risk premiums

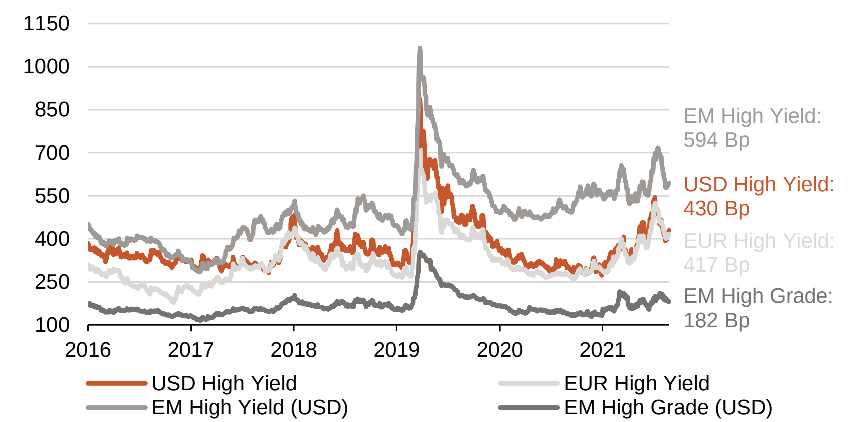
- The high-yield bond market also saw a noticeable decline in risk premiums over the last four weeks. The risk premiums of USD high-yield bonds lost almost 33 basis points, and EUR high-yield bonds also showed a narrowing of 42 basis points.
- However, the largest decrease in risk premiums was seen in emerging market high-yield bonds. These fell almost 100 basis points to early June levels. EM high grade bonds saw a narrowing of 25 basis points.

EUR risk premiums lower again



Source: Factset Time period: 01/01/2017 – 23/08/2022

Spreads on EM bonds narrowed significantly



Source: Factset Time period: 01/01/2017 – 23/08/2022

Capital market strategy
Bonds

BERENBERG
PARTNERSHIP SINCE 1590

Core segments

Government bonds
Underweight

- In the case of high credit ratings, safe government bonds remain fundamentally in demand in risk-off phases. With the rise in yields and in view 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.

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 the Asian region as having an advantage over others; the local currency component in particular seems opportune to us here, 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

BERENBERG
PARTNERSHIP SINCE 1590

Base interest rates and government bond yields (in %)	23/08/2022	31/12/2022		30/06/2023	
	Current		Ø*		Ø*
US					
Base interest rate	2.25-2.5	3.50-3.75	3.60	3.50-3.75	3.65
10Y US yield	3.05	2.90	3.06	3.20	3.03
Eurozone					
Base interest rate	0.50	1.50	1.50	1.50	1.65
10Y Bund yield	1.32	1.00	1.26	1.50	1.34
United Kingdom					
Base interest rate	1.75	2.50	2.50	2.50	2.50
10Y Gilt yield	2.57	2.10	2.21	2.50	2.06

Source: Bloomberg. Berenberg as of 23/08/2022.
*Average of estimates by other experts (Bloomberg) consensus.

05 Commodities

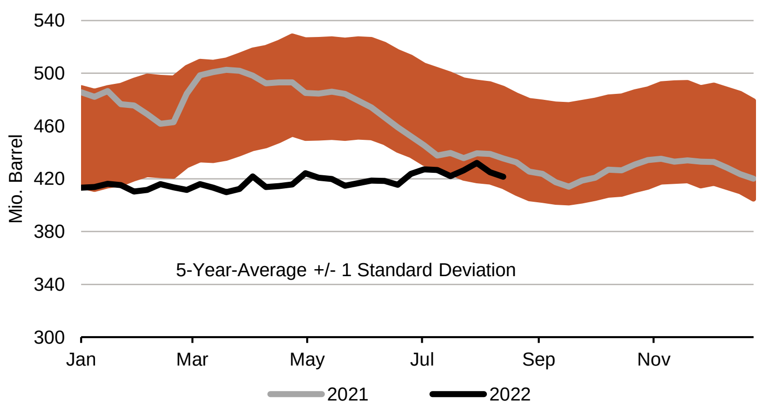
Crude oil
Upside opportunities outweigh downside risks

BERENBERG
PARTNERSHIP SINCE 1590

Supply situation remains tight despite demand concerns

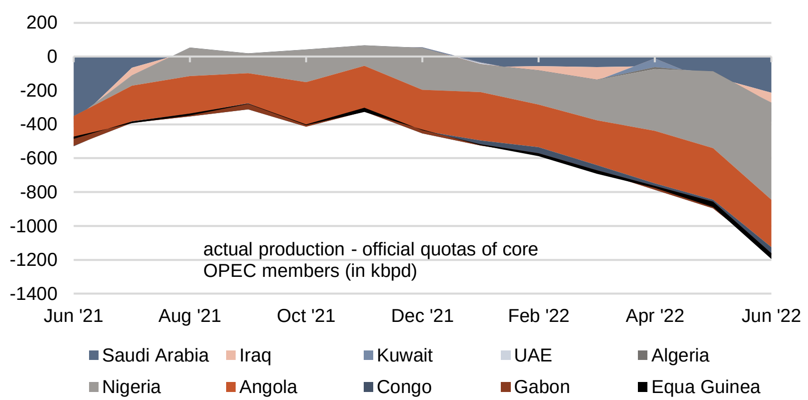
- Oil experienced another month of weakness. While the WTI grade was trading above the USD 120 per barrel mark in mid-June, it is now hovering just above USD 90. This corresponds to a decline of almost 22%. The reason for the price decline is, on the one hand, concerns about a global weakness in demand - recession-related in the West, corona-related in China. On the other hand, the US driving season was much weaker than usual this year due to high petrol prices and unsettled consumers, so that the admittedly already low US inventories, contrary to typical seasonality, did not show any further significant decline.
- The supply situation, however, remains very tight. Hopes that Joe Biden would be able to extract higher production quotas from the Gulf states fell flat. Although OPEC+ announced that it would put another 100 thousand barrels per day on the market, this was below the West's expectations and, in view of the quota shortfalls of the last few months, was probably more of a symbolic act. The new OPEC chief Al-Ghais affirmed that the cartel's ability to increase production was very limited. In this respect, he sees the risk of a "supply squeeze" if demand turns out to be more resilient than expected.
- After the sell-off of recent months, upside opportunities are now likely to outweigh downside risks.

US inventories stable against typical seasonality



Source: Bloomberg, own calculations. Time period: 31/03/2022 – 19/08/2022.

OPEC production continues to fall short of targets



Source: Bloomberg, own calculations. Time period: 30/06/2021 – 30/06/2022.

Precious and industrial metals

Gold and industrial metals with more potential again

BERENBERG
PARTNERSHIP SINCE 1590

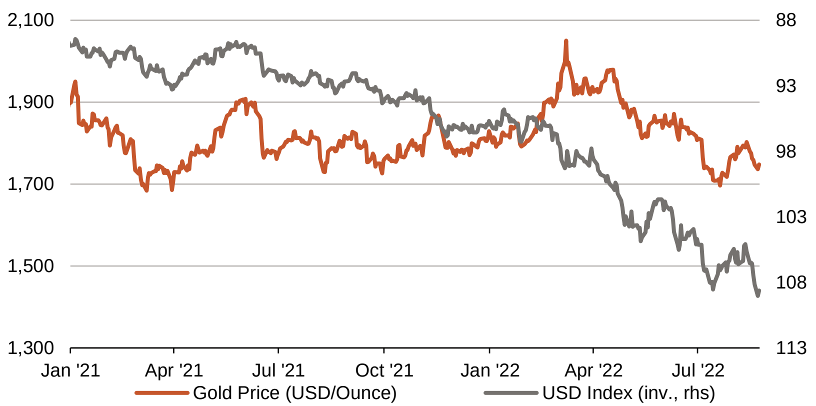
Gold with tailwind during recession

- After five weeks of uptrend, gold suffered a reversal of fortunes. The decline in inflation expectations led to a significant rise in the US dollar and long-term real interest rates. In view of the upcoming Fed meeting, gold fell so close to the 1,750 level again since the middle of the month.
- With current interest rate policy and recession concerns, the tactical direction of gold prices is likely to be determined by the Fed's shift in priorities between fighting inflation and supporting growth. If recession concerns gain the upper hand, the burden of real interest rates is likely to diminish, and gold thus holds positive surprise potential with already low investor positioning.

Industrial metals continue to extend the bottoming out

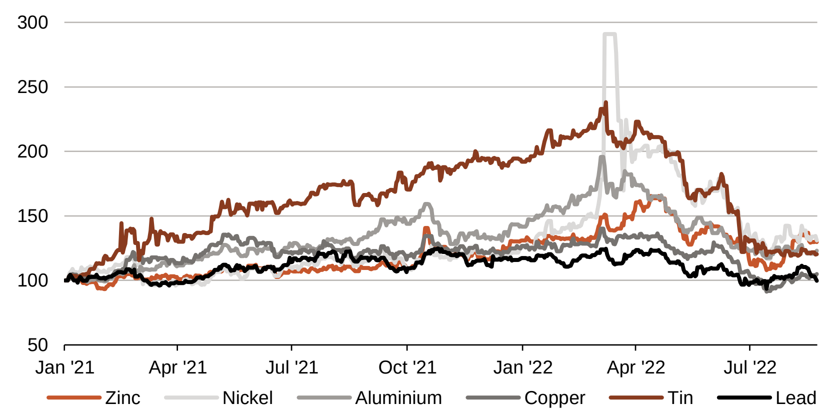
- Base metals continued to stabilise in August, with copper reaching its highest level in almost six weeks. In particular, cooler US inflation and thus more dovishly priced Fed policy by the market provided support. Concerns about supply shortages also continued to rise. A scorching heat wave in China caused power shortages and strained metal plant operations, heightening fears of disruptions. The energy crisis is already affecting production in Europe.
- While metals are likely to remain weighed down by the stronger US dollar in the short term as the Fed continues to tighten, long-term drivers such as decarbonisation not only remain intact but are picking up steam.

Gold weighed down by strong US dollar



Source: Bloomberg, own calculations. Time period: 01/01/2021 – 23/08/2022.

Industrial metals stabilise



Source: Bloomberg, own calculations. Time period: 01/01/2021 – 23/08/2022.

06 Currencies

Market Development
Interest rates and currencies

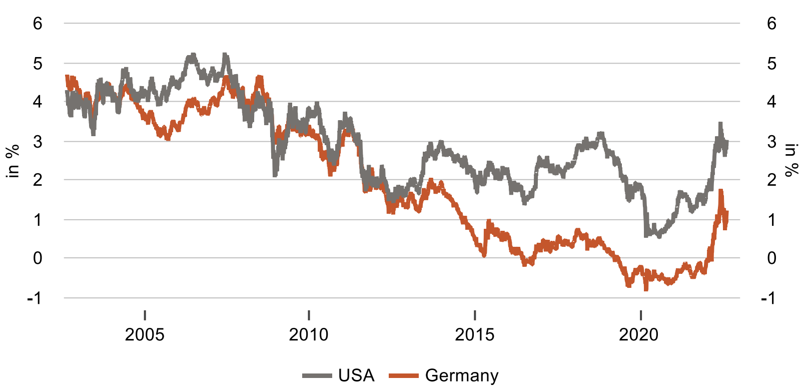
Euro falls below parity

- After US inflation was reported to be weaker than expected, the euro briefly appreciated to 1.03 US dollars per euro. However, a setback followed. The euro is currently trading below parity against the dollar.
- Against the Swiss franc, the euro remains extremely weak and has fallen below 0.96 francs per euro.
- If Liz Truss becomes Boris Johnson's successor, she could, according to reports, question the independence of the Bank of England. This would probably be a negative factor for the British pound.

Interest rates continue to rise

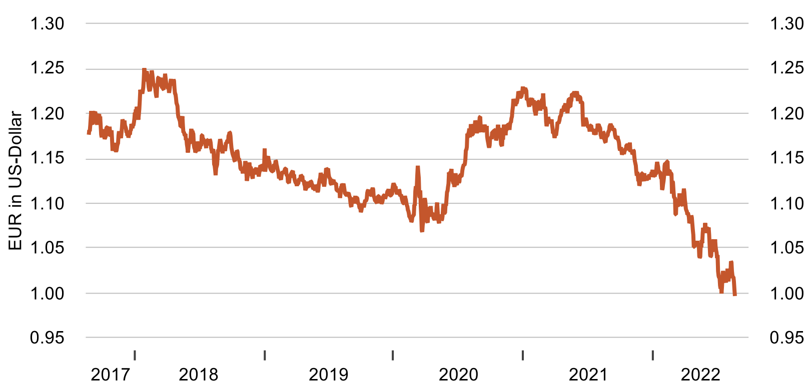
- This year's strong rise in market interest rates was temporarily interrupted and yields came down for a while. Among other things, the strong US labour market report in July has now driven up interest rates again. Since the recession has not yet reached the labour market and wages continue to rise, inflationary pressure remains high and the Fed must tighten monetary policy further.
- Other central banks will also continue to tighten monetary policy. Most recently, the Bank of England raised interest rates by 50 basis points due to high inflation rates and high inflation expectations.

Yields: 10-year government bonds



Source: Macrobond Period: 08/2002 - 08/2022

Exchange rate: Euro/US-Dollar



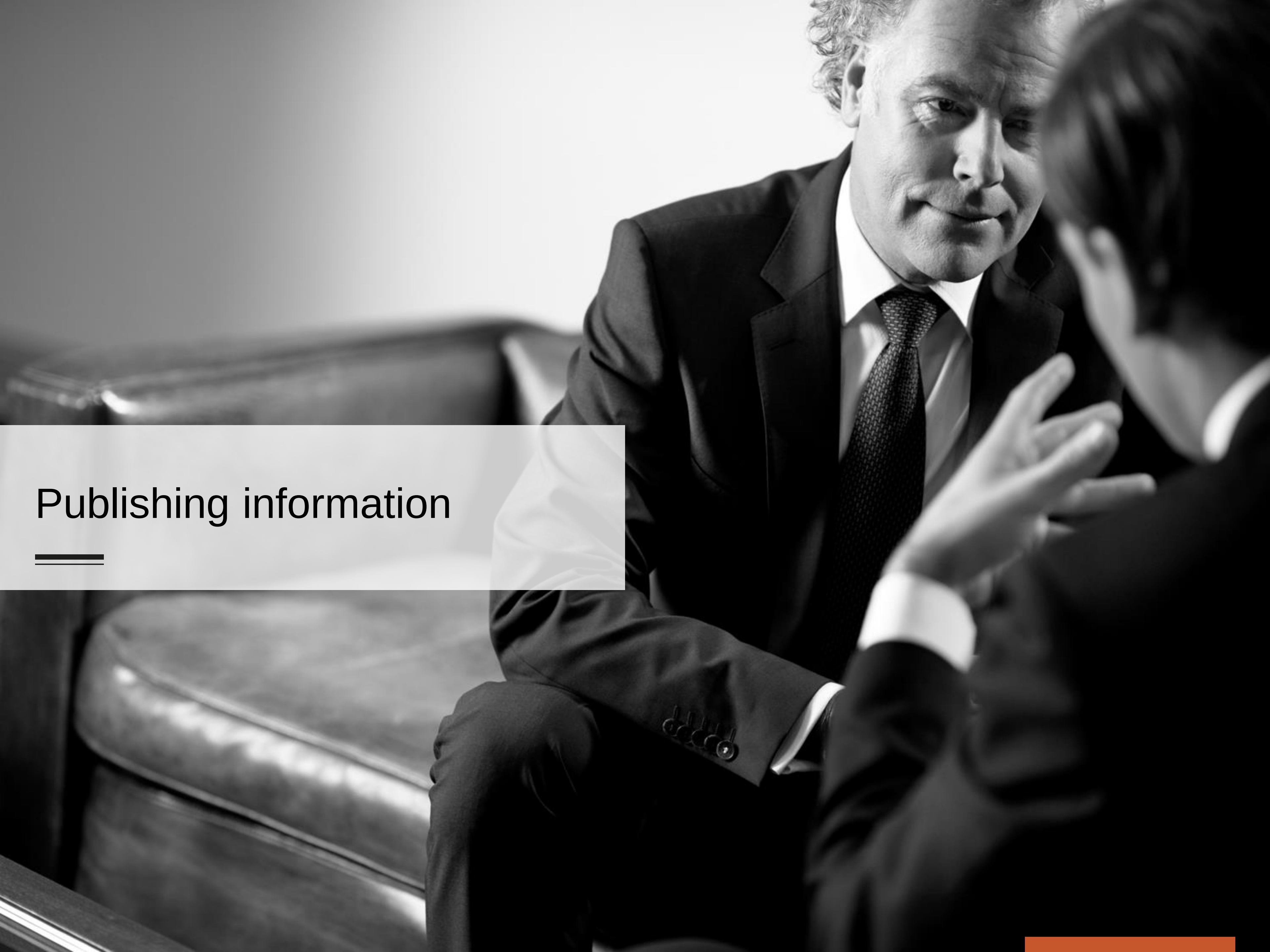
Source: Macrobond Period: 08/2017 - 08/2022

Forecasts
Estimates of key currencies

	23/08/2022	31/12/2022		30/06/2023	
Exchange rate forecasts	**Current**		**Ø***		**Ø***
EUR/USD	1.00	1.00	1.03	1.05	1.06
EUR/GBP	0.84	0.86	0.85	0.85	0.86
EUR/CHF	0.96	1.00	0.98	1.02	1.01
EUR/JPY	136	135	138	142	136

Change against the Euro (in %)					
USD	-	-0.3	-3.2	-5.0	-5.9
GBP	-	-2.0	-0.9	-0.9	-2.0
CHF	-	-3.9	-1.9	-5.8	-4.8
JPY	-	1.0	-0.8	-4.0	0.6

*Source: Bloomberg. Berenberg as of 23/08/2022.
*Average of estimates of other experts (Bloomberg); consensus.



Publishing information

Publishing information

Berenberg
Joh. Berenberg, Gossler & Co. KG
Neuer Jungfernstieg 20
20354 Hamburg
Germany

Phone +49 40 350 60-0
Fax +49 40 350 60-900

Publisher

Prof Dr Bernd Meyer, CFA
Chief Strategist Wealth and Asset Management

Authors

Ulrich Urbahn, CFA
Head Multi Asset Strategy & Research

Karsten Schneider, CFA
Analyst Multi Asset Strategy & Research

Ludwig Kemper
Analyst Multi Asset Strategy & Research

Philina Kuhzarani
Analyst Multi Asset Strategy & Research

Dr Jörn Quitzau
Senior Economist

Contact details

www.berenberg.de
MultiAssetStrategyResearch@berenberg.de