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# HORIZON *handout*

The Berenberg Capital Markets Outlook • Wealth and Asset Management

January | 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: 20 December 2021.

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

# 01 Overview of capital markets outlook and asset allocation

# 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 (19/11/21 - 17/12/21) | YTD (31/12/20 - 17/12/21) | 17/12/20 17/12/21 | 17/12/19 17/12/20 | 17/12/18 17/12/19 | 17/12/17 17/12/18 | 16/12/16 17/12/17 |
| USDEUR | 0.4 | 8.7 | 9.2 | -9.1 | 1.8 | 3.5 | -11.0 |
| EM Hard Currency Bonds | 0.2 | -0.1 | 0.2 | 7.0 | 11.8 | -1.4 | 9.3 |
| EUR IG Bonds | 0.0 | -0.3 | -0.4 | 2.4 | 6.7 | -1.9 | 3.5 |
| Eonia | 0.0 | -0.5 | -0.5 | -0.5 | -0.4 | -0.4 | -0.4 |
| EUR Sovereign Bonds | -0.1 | -0.8 | -0.9 | 1.8 | 3.8 | -0.4 | 1.2 |
| S&P 500 | -1.3 | 35.3 | 37.0 | 8.0 | 30.2 | 0.6 | 7.4 |
| Gold | -2.2 | 2.9 | 4.1 | 16.1 | 20.6 | 2.7 | -1.6 |
| Topix | -2.4 | 11.1 | 11.6 | 1.5 | 17.9 | -6.0 | 9.5 |
| MSCI Emerging Markets | -3.8 | 4.2 | 6.2 | 7.4 | 19.0 | -8.1 | 18.6 |
| DAX | -3.9 | 13.2 | 13.6 | 2.9 | 23.4 | -17.8 | 14.9 |
| Euro Stoxx 50 | -4.4 | 19.4 | 19.1 | -3.0 | 25.7 | -11.7 | 12.0 |
| Brent | -4.7 | 69.8 | 71.1 | -37.2 | 22.9 | 4.4 | -3.3 |

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: 17/12/2016 – 17/12/2021.

# Overview of capital markets
## Outlook by asset class

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### Economics

- The omicron variant brings new uncertainty. There is, however, enough purchasing power for a recovery in spring.
- Inflation keeps rising in the US, in the UK, in the Eurozone and in Germany.
- The upward pressure on prices is forcing central banks to turn around. The Fed and the BoE are leading the way, while the ECB remains hesitant.

### Equities

- Corporate profits should rise next year, but growth rates are expected to decline.
- Valuations are likely to decline slightly due to rising bond yields and less liquidity support.
- We see limited upside potential for equities in 2022, despite no alternatives.

### Bonds

- Safe government bonds are likely to remain out of favour and we expect losses.
- For European corporate bonds, we focus on short maturities with relatively high yields.
- For emerging market bonds, we are wary of high duration, but attractive valuations offer hope.

### Alternative investments / commodities

- COVID-19 brings oil prices down again. There's short-term recovery potential if infection rates subside.
- Gold rises following central bank meetings. Potential rising real interest rates remain the biggest headwind.
- Industrial metals should gain when the economy picks up again.

### Currencies

- The euro seems to have found its trough against the US dollar. The latest ECB decision does not weaken the euro.
- The BoE is tightening. However, the interest rate advantage over the euro is priced in so the sideways movement continues.
- The Swiss franc is very strong. Part of the franc's strength can be explained by the much lower level of inflation.

# Overview of Berenberg's asset allocation

## Current positioning within asset classes

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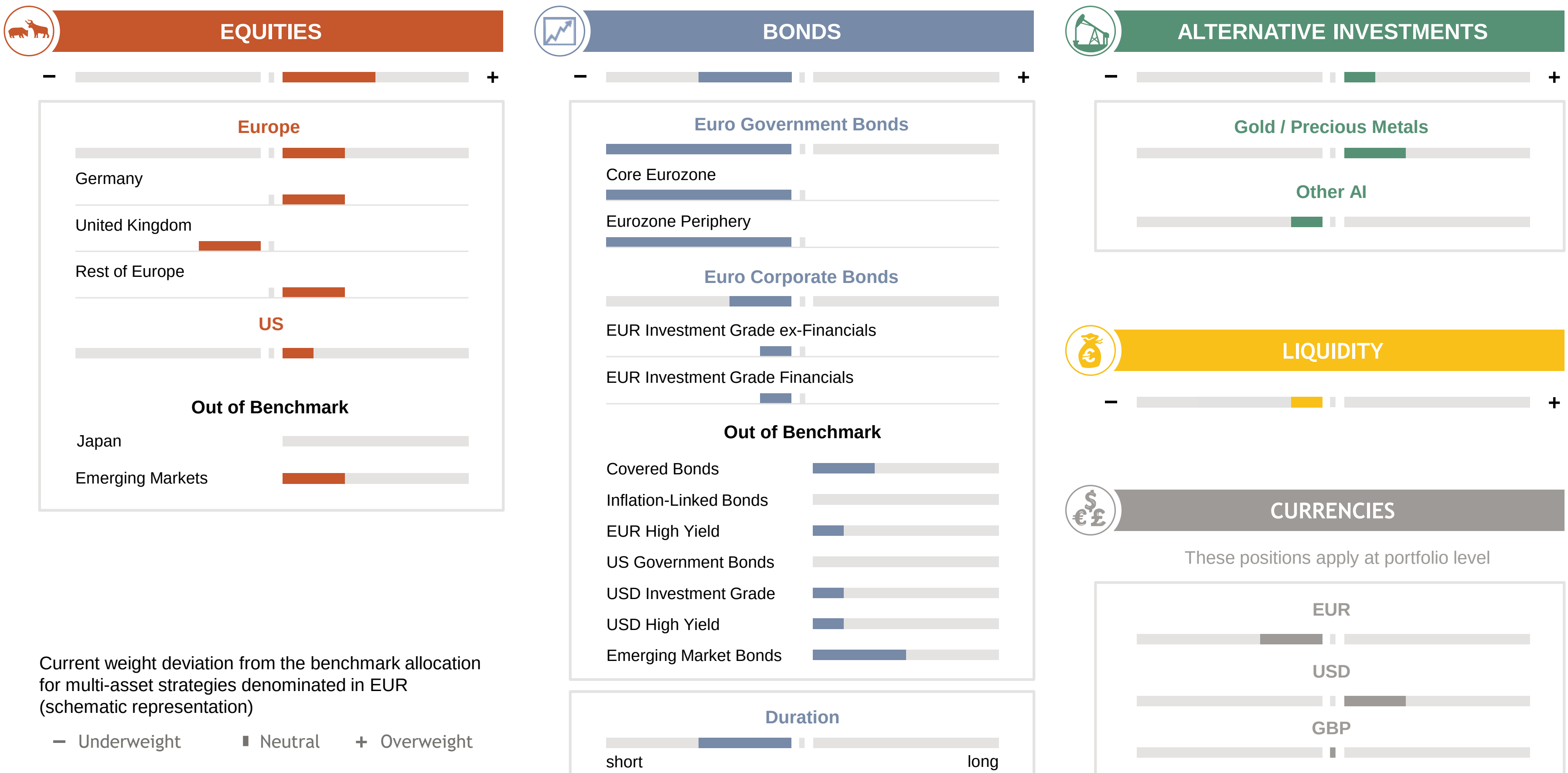
### Portfolio positioning of a balanced mandate at a glance




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

Source: Berenberg.

As of 17/12/2021.

# Overview of Berenberg's asset allocation

## Review of Core Strategy 3

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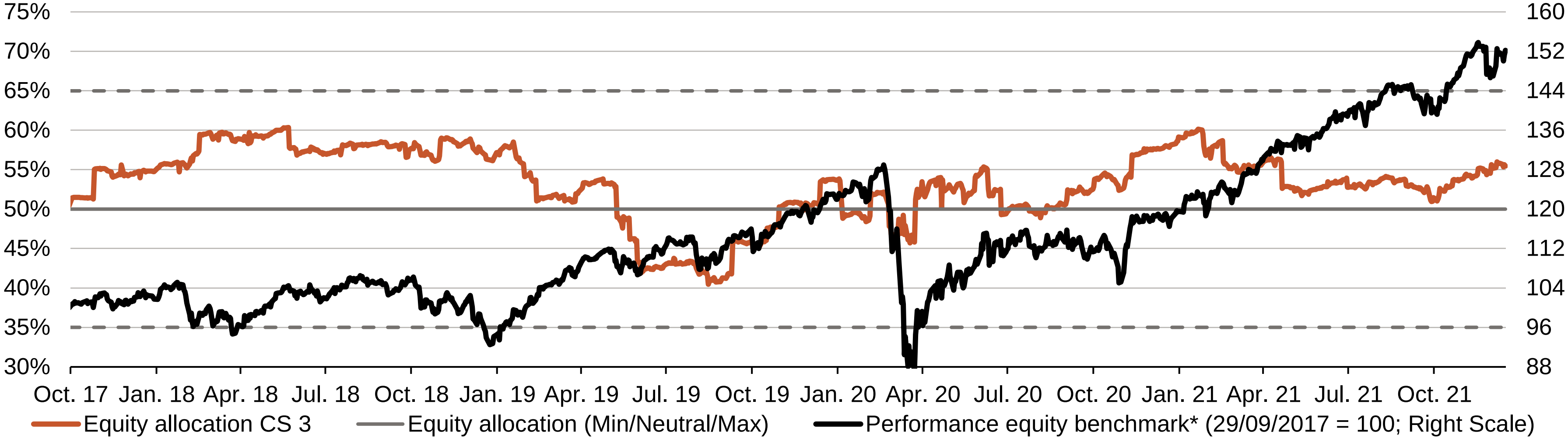
### Management of the equity allocation of a balanced multi-asset mandate since inception

| Performance equity benchmark | 16/12/16 - 16/12/17 | 16/12/17 - 16/12/18 | 16/12/18 - 16/12/19 | 16/12/19 - 16/12/20 | 16/12/20 - 16/12/21 |
|---|---|---|---|---|---|
| | 8.70% | -4.60% | 24.69% | -2.49% | 27.98% |




Sources: SimCorp, Bloomberg, Berenberg. *The "equity benchmark" is 70% STOXX Europe Net Return Index and 30% S&P 500 Net Return Index. Time period: 16/12/2016 – 16/12/2021.
Note: The historical performance presented here is not a reliable indicator of future performance.

- We started the fourth quarter with only a slight overweight in equities. We used the slight market correction in September/October, the clarity around the start of the tapering of the US Federal Reserve's bond purchases at the beginning of November and the setback due to the omicron variant to raise the equity weighting in several steps to a medium overweight. Amongst others, we increased our position in Chinese equities given signs of stabilisation in China.
- We are maintaining our equity overweight for the time being. This is supported by the solid economic outlook, seasonality, high money market fund holdings, the lack of alternatives in equities and the recent positive earnings revisions. The overweight will probably have to be reconsidered in the course of the first quarter of 2022, as tapering is likely to increase volatility in markets again in the medium term. Government bonds remain unattractive and corporate bonds continue to lose their appeal. Emerging market bonds are more interesting. Gold and other commodities are important portfolio diversifiers.

# 02 Economics

# Eurozone
## GDP and inflation

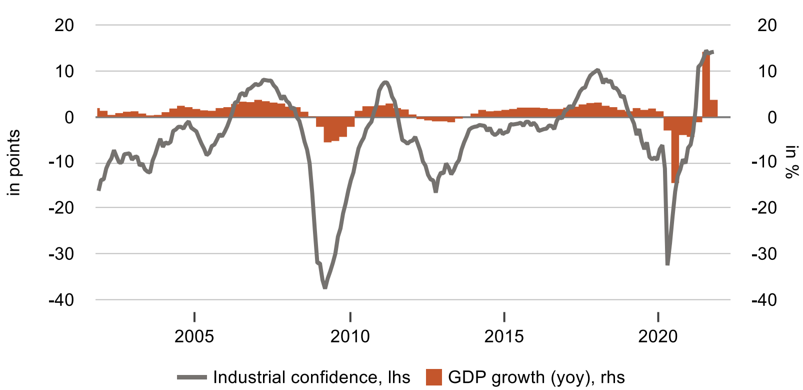
### Inflationary pressure could slightly ease

- Following the jump to a 30-year record of 4.9% in November, there is a good chance that inflation will gradually ease in December; for example, a barrel of Brent crude oil currently costs around €65, €5.50 less than in November.
- On the economic side, risks have increased again due to the new virus variant. The massive wave of infection is likely to result in further restrictions on the economy and society. Consumer confidence data will be published this week, in which a negative "omicron effect" is likely to be apparent.

### ECB revises inflation forecast for 2022

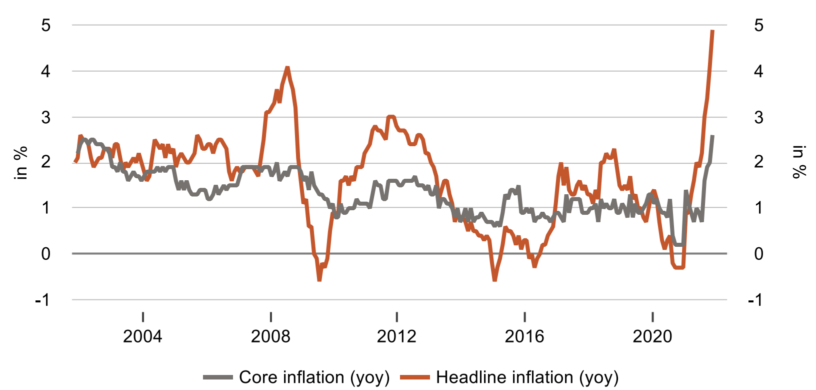
- The ECB almost doubles its inflation forecast for 2022 to 3.2% from 1.7%. From 2023, however, the ECB expects inflation to return to 1.8% and thus below its target of 2%.
- Unlike the Fed and the Bank of England, however, the ECB does not yet see any need to tighten its policy more strongly. It sees factors over which it has no direct influence as the main drivers of inflation, which is currently too high and will probably remain so in 2022. President Lagarde cites geopolitics, energy prices and even weather conditions as reasons for overshooting inflation.

### Eurozone GDP growth and industrial confidence




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

### Eurozone Inflation




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

# UK
# GDP and inflation

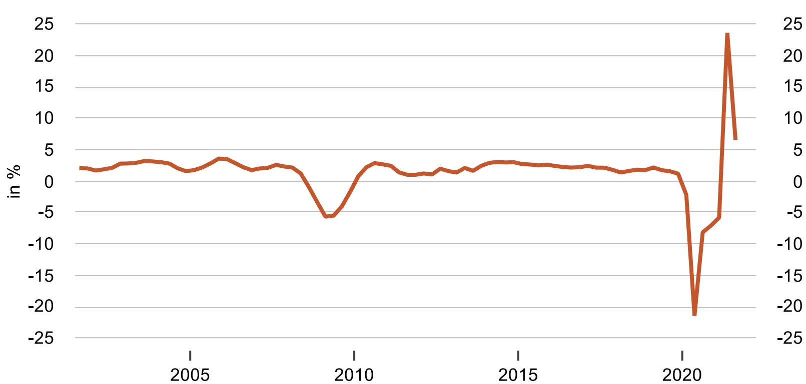
## Bank of England raises key interest rates

- The Bank of England (BoE) most recently raised its key interest rate by 15 basis points to 0.25%. Previously, inflation had risen to 5.1% in November.
- The decision was made despite the current rapid spread of the Omicron variant and the increasing concern that stricter measures would have to be taken again. For the BoE, the fight against inflation takes a higher priority currently.
- At present, inflationary pressure in the UK is enormous due to the pronounced labour shortage and five years of investment restraint since the Brexit referendum in 2016.

## Away from Omicron, the outlook is positive

- Despite ongoing COVID-19 uncertainties and global supply-side dislocations that will temporarily slow real output growth, the outlook for the UK is fundamentally positive.
- Household incomes are robust as the labour market is thriving. Businesses are becoming increasingly optimistic.
- Due to private consumption and a recovery in investment, overall growth is likely to be above trend in the medium term.

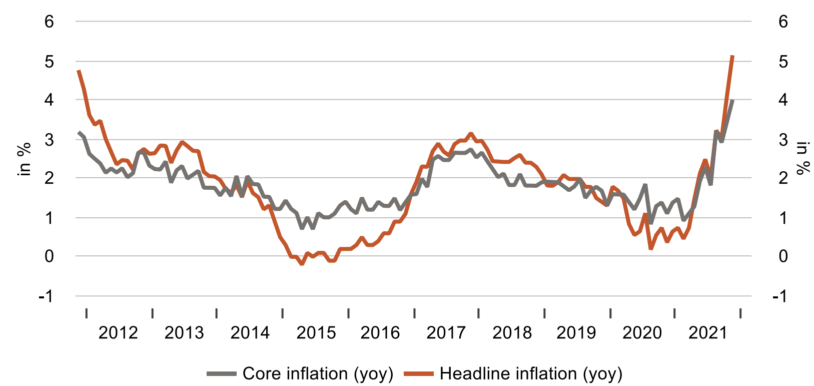
### UK GDP growth (yoy)




Source: Macrobond

Period: 09/2001 - 09/2021

### UK Inflation




Source: Macrobond

Period: 11/2011 - 11/2021

# USA
GDP and inflation

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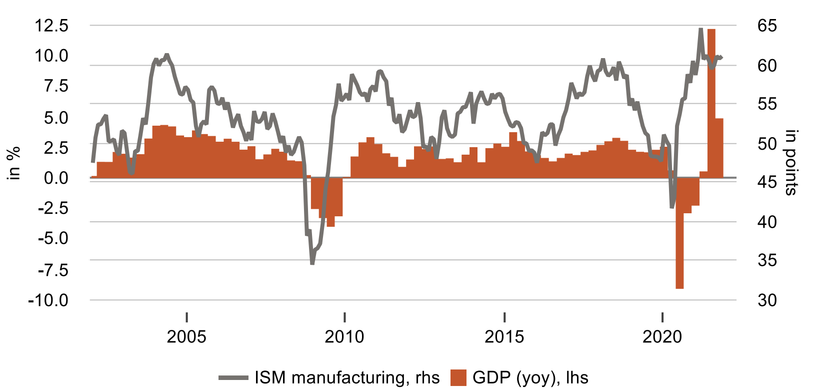
## Industrial production shows strength

- US industrial production rose 0.5% from the previous month. This is about 1% higher than before the pandemic, and it has recovered significantly since April 2020, rising 21.5%.
- Data from November point to strength in the manufacturing sector with a 0.7% increase, with virtually all industry groups posting healthy month-over-month gains.
- Industrial production is expected to continue to rise as supply constraints ease and the parts and distribution bottlenecks that have affected production, particularly in the automotive industry, are removed.

## US retail sales up slightly in November

- US retail sales rose 0.3% in November, well below the consensus of 0.8%, after rising 1.8% in October.
- Overall sales were weighed down by a 5.5% decline in department stores. Despite the slowdown in retail sales growth, sales are 23% higher than February 2020.
- Continued employment growth, rising nominal wages, and healthy household balance sheets should support retail sales growth through the holiday shopping season.

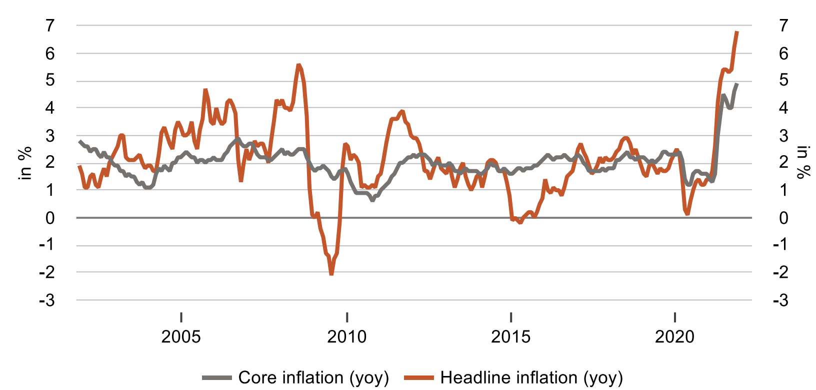
### US GDP growth and Purchasing Managers Index




Source: Macrobond

Period: 11/2000 - 11/2021

### USA Inflation




Source: Macrobond

Period: 11/2001 - 11/2021

# Economic forecasts
## Important estimates at a glance

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| | GDP growth (in %) | | | | | | Inflation (in %) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2023 | | 2021 | | 2022 | | 2023 | |
| | | Ø** | | Ø** | | Ø** | | Ø** | | Ø** | | Ø** |
| USA | 5.5 | 5.6 | 4.1 | 3.9 | 3.3 | 2.5 | 4.7 | 4.7 | 4.6 | 4.2 | 3.1 | 2.4 |
| Eurozone | 5.1 | 5.1 | 4.5 | 4.2 | 2.9 | 2.4 | 2.6 | 2.5 | 2.5 | 2.4 | 1.9 | 1.5 |
| Germany | 2.6 | 2.8 | 4.2 | 4.1 | 3.0 | 2.2 | 3.2 | 3.1 | 2.7 | 2.6 | 2.0 | 1.7 |
| France | 6.7 | 6.7 | 4.4 | 4.0 | 2.8 | 2.2 | 2.1 | 2.0 | 2.1 | 2.0 | 1.8 | 1.5 |
| Italy | 6.3 | 6.3 | 4.6 | 4.5 | 2.2 | 2.1 | 1.9 | 1.9 | 2.4 | 2.2 | 1.7 | 1.2 |
| Spain | 4.4 | 4.5 | 6.2 | 5.8 | 3.5 | 3.3 | 2.9 | 2.9 | 2.7 | 2.7 | 2.0 | 1.4 |
| United Kingdom | 6.8 | 6.9 | 4.8 | 4.8 | 2.4 | 2.2 | 2.5 | 2.5 | 4.1 | 4.0 | 2.6 | 2.1 |
| Japan | 2.0 | 1.8 | 3.1 | 2.9 | 1.4 | 1.4 | -0.1 | -0.2 | 1.1 | 0.7 | 0.7 | 0.7 |
| China | 8.0 | 8.0 | 5.2 | 5.2 | 5.1 | 5.3 | 0.9 | 1.0 | 1.9 | 2.2 | 2.3 | 2.2 |
| World* | 5.7 | - | 4.3 | - | 3.5 | - | - | - | - | - | - | - |

Source: Bloomberg. Berenberg as of 17/12/2021.
* 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
## A turbulent farewell to the old year

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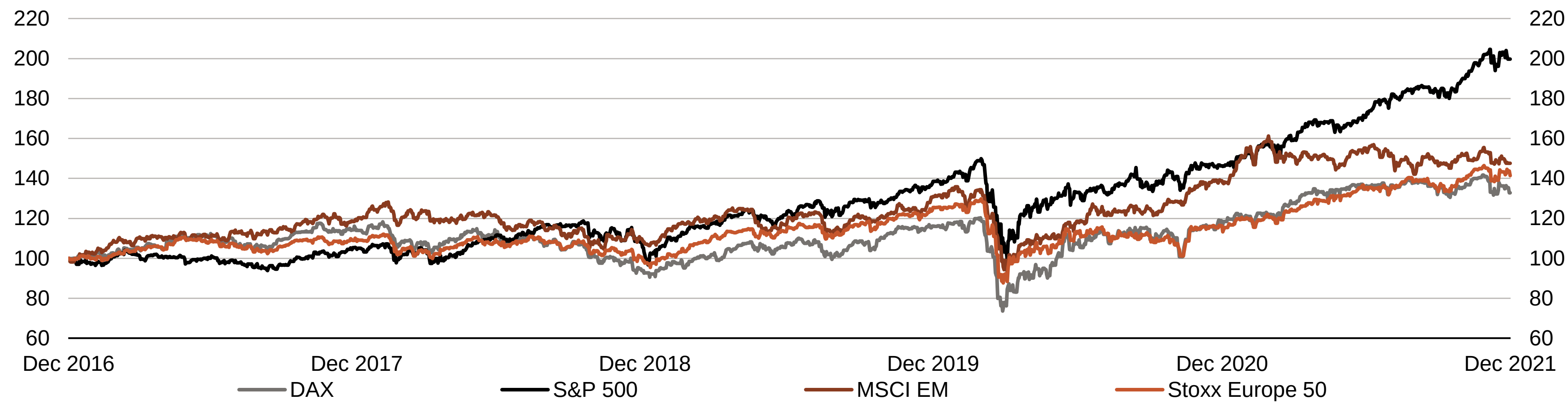
### Fourth quarter marked by increased volatility

- The fourth quarter was characterised by increased volatility, which may well be understood as an indication of the year ahead. After the losses in September in the wake of tapering and concerns regarding China, the quarter started with a strong countermovement upwards, supported by an encouraging Q3 reporting season. Many equity markets hit new all-time highs in mid-November before the omicron variant depressed investor sentiment significantly. In addition, the US Federal Reserve admitted that inflation was probably not just temporary after all and that a stronger reduction in bond purchases would have to be considered accordingly.
- Cyclical equity regions performed the worst in Q4, led by Eastern Europe and Japan. Europe also fell more than 8% at its peak, while the US held up best as it supported by a stronger US dollar, share buyback programmes and private investor flows.

### Performance of selected equity indices




Source: Bloomberg; performance in EUR scaled to 100.

Time period: 17/12/2016 – 17/12/2021.

# Corporate earnings
## Normalised but solid earnings growth expected in 2022

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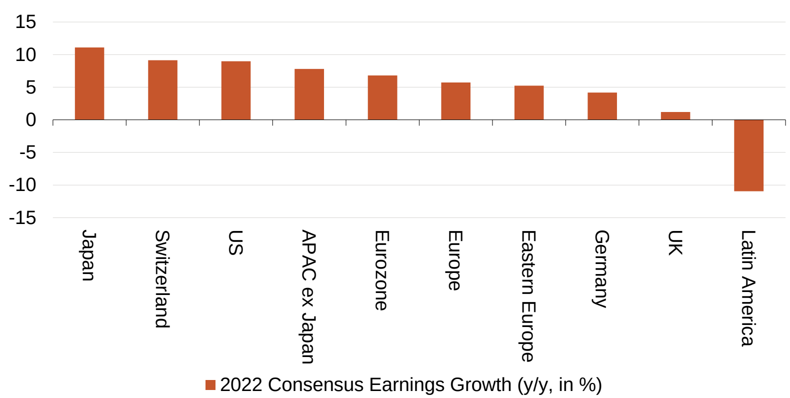
### Normalised earnings growth across the board

- After a strong increase in corporate profits in 2021 due to base effects, there should be a normalisation next year.
- Solid earnings growth of 7% is seen for the Eurozone, while the consensus is most optimistic for Japan with an expectation of 11%. Asia and the US follow behind.
- Only Latin America is expected to see a decline in profits next year, after a +200% increase this year.

### Supporting consumer demand and investment

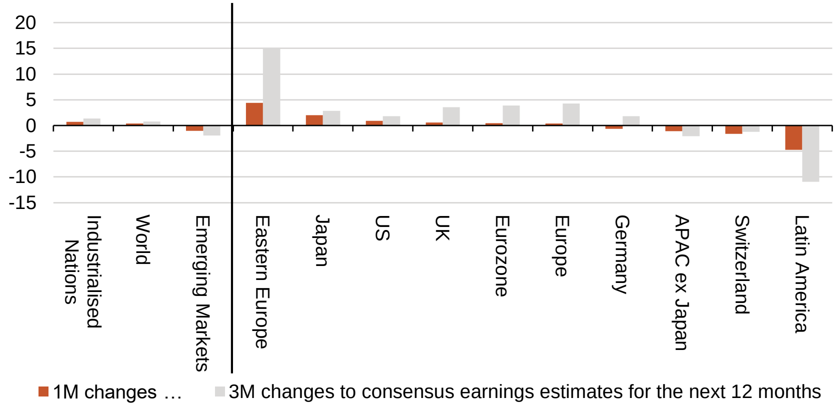
- We think the cautiously optimistic analyst estimates are realistic. Our economists are confident about 2022 and, for example, expect Eurozone GDP to grow at a similar pace next year, as this year.
- Earnings growth will also be supported by more business investment and high profit margins. Companies have largely been able to pass on higher input costs so far. Advancing digitalisation is helping to increase profitability.

### Solid earnings growth expected in 2022




Source: FactSet. As of 17/12/2021.

### Mixed earnings revisions




Source: FactSet. As of 17/12/2021.

# Valuation & Sentiment
## Expected normalisation of valuations in 2022

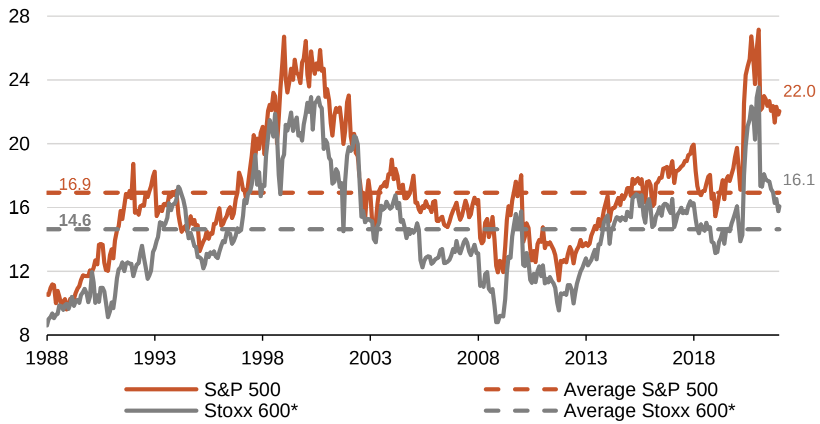
### Valuations likely to decline slightly

- Valuations have fallen this year as we expected. Share prices rose less than corporate earnings. US equities, for example, gained 25%, but earnings rose by 50%. However, compared to their own historical P/E ratios, most equity regions remain highly valued. Rising bond yields should lead to a normalisation in valuation levels, but not to the same extent as in the past, as there are more valuation-insensitive investors (e.g. ETF savings plans).

### Equity markets remain volatile and fragile

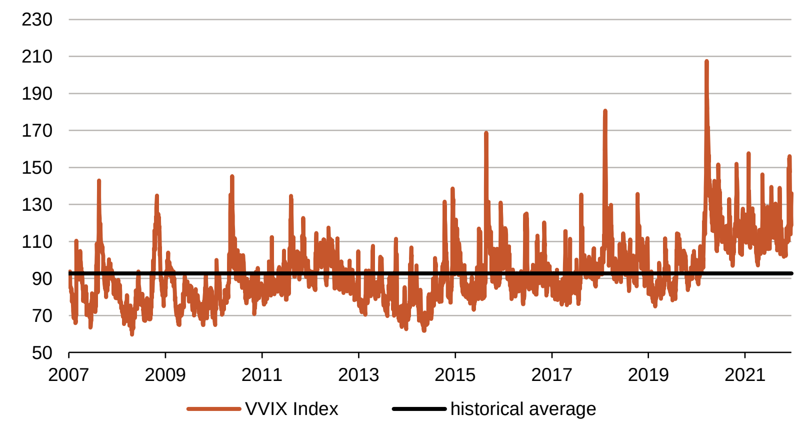
- The realised volatility of developed market equities has recently jumped significantly and is now uncharacteristically trading above the volatility of emerging market equities.
- The VIX reached its highest level since January of this year at the beginning of December at over 30, but subsequently quickly fell back to below 20, to then rise again. Equity markets remain very fragile. But increased vulnerability can also be observed in the other asset classes.

### US equities remain ambitiously valued




Source: Bloomberg, own calculations. Time period: 31/12/1987– 17/12/2021.

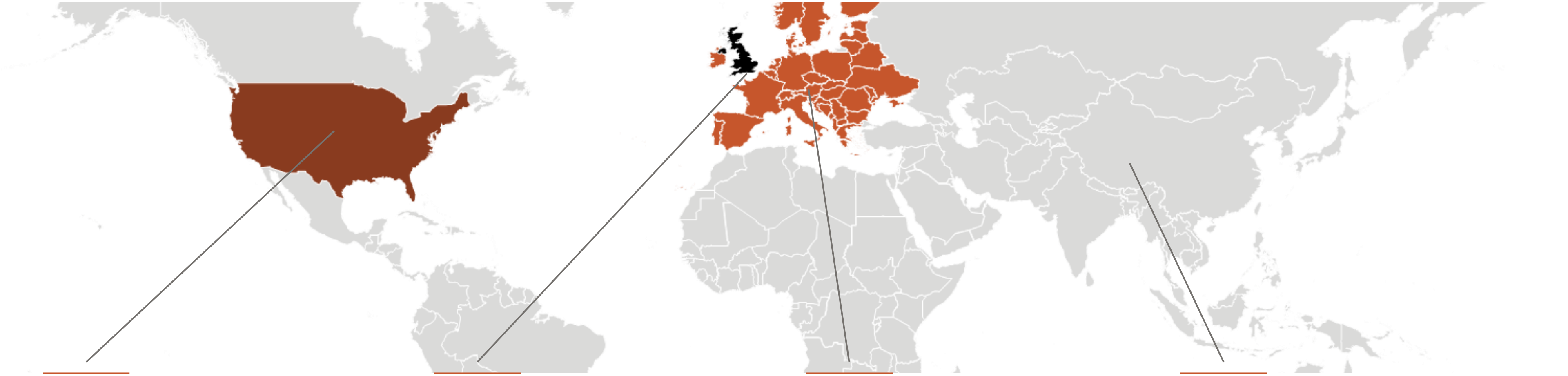
### The volatility of the VIX remains above average




Source: Bloomberg, own calculations. Time period: 01/01/2007– 17/12/2021.

# 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 completely sold 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 given valuations are already pricing in high-risk premiums.

# Equity market forecasts
## Estimates for selected indices

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| Index forecasts | Current 17/12/2021 | 30/06/2022 | 31/12/2022 | Ø* in 12 months |
|---|---|---|---|---|
| S&P 500 | 4,621 | 4,850 | 4,950 | 5,199 |
| Dax | 15,532 | 16,500 | 17,000 | 18,857 |
| Euro Stoxx 50 | 4,161 | 4,400 | 4,600 | 4,925 |
| MSCI UK | 2,050 | 2,125 | 2,200 | 2,387 |

| Index potential (in %) | | | | |
|---|---|---|---|---|
| S&P 500 | - | 5.0 | 7.1 | 12.5 |
| Dax | - | 6.2 | 9.5 | 21.4 |
| Euro Stoxx 50 | - | 5.7 | 10.5 | 18.4 |
| MSCI UK | - | 3.7 | 7.3 | 16.5 |

Source: Bloomberg. Berenberg. as of 17/12/2021.
*Average based on bottom-up estimates.

# 04 Bonds

Current Price Yield
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
0 / .01
0.13 / .13
0.26 / .26
11-16+ / .72
11/20

# Government bonds
## Rising yields continue to weigh

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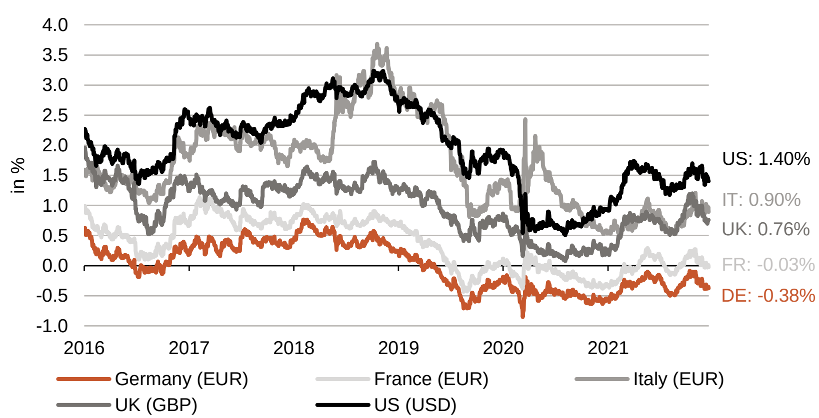
### Government bonds continue to face headwinds

- After a difficult year for safe-haven government bonds, the coming months should not bring a significant trend reversal.
- While persistently high Covid-19 infection figures, geopolitical turmoil or Chinese growth concerns would support demand for safety, these are not our main scenarios. Rather, we expect rising (real) yields for both German Bunds and US Treasuries in the context of solid post-covid demand across the economy.

### 2022 is likely to be a loss year

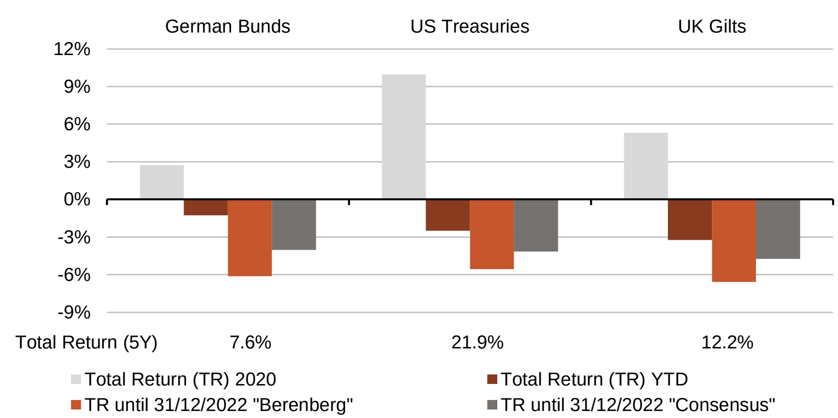
- In addition to scaling back its bond purchases, the Fed is likely to act more restrictively in the form of key interest rate hikes. We expect four interest rate hikes of 25 basis points each by the end of 2022. The ECB is likely to steer the flexible adjustment of its monetary policy exclusively via its bond purchase volume for the time being and not yet raise interest rates.
- However, just as with falling inflation rates over the year, this will not be enough to give safe government bonds wind under their wings. On the contrary, there will probably be no money to be made with them in 2022.

### Yields on the way up




Source: Bloomberg, 10-year government bonds. Time period: 01/01/2016–17/12/2021.

### Another year of losses ahead




Source: Bloomberg, iBoxx government bond indices (7-10 years, TR). Time period: 17/12/2016–17/12/2021.

# Corporate & EM bonds
## Focus on short-dated carry

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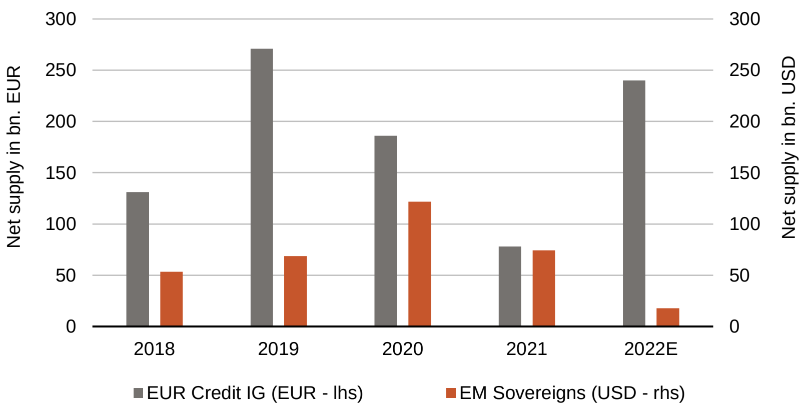
### Low attractiveness with historically low spreads

- High valuations and gradually decreasing demand from the ECB are causing rather subdued return expectations for corporate bonds.
- In addition, a high supply of new issues is forecast in 2022. After several quarters of balance sheet repair, European companies are starting to reduce liquidity cushions and take on new debt in order to make upcoming investments.
- On balance, we expect moderate widening of risk premia and rising yields.

### Emerging market bonds: Valuations are attractive

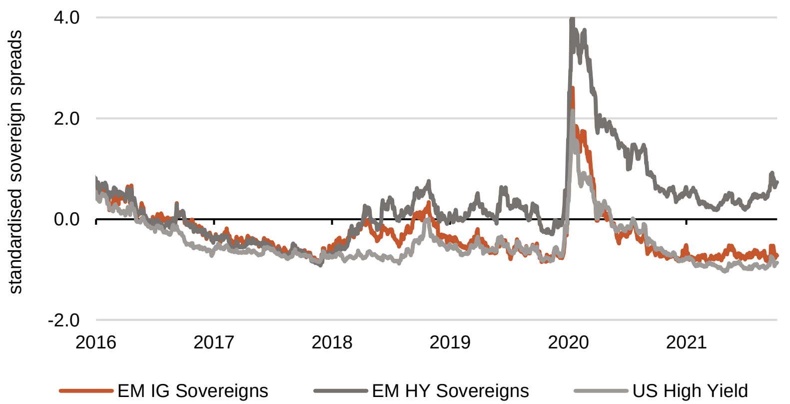
- In general, high inflation and rising interest rates, especially in the US, pose increased risks for emerging market investments.
- However, we are encouraged by current valuations and the overall technical picture. Risk premiums in the hard currency segment have risen to attractive entry levels. The picture is similar in the local currency segment, where, with the exception of the Covid-19 crisis in March 2020, yields are as high as they were last three years ago.

### New issues: diverging trends




Source: J.P. Morgan Time period: 01/01/2018–31/12/2022 (expected values)

### EM: High yield risk premiums very attractive




Source: Bloomberg, presentation: historical Z-score, observation period 15 years Time period: 14/12/2016–14/12/2021

# 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 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**

- 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.
- We see the Asian region as having an advantage over others; the local currency segment in particular seems opportune to us.

#### 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 profile 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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| Base interest rates and government bond yields (in %) | 17/12/2021 | 30/06/2022 | | 31/12/2022 | |
|---|---|---|---|---|---|
| | Current | | Ø* | | Ø* |
| **US** | | | | | |
| Base interest rate | 0.00-0.25 | 0.25-0.50 | 0.38 | 1.00-1.25 | 0.77 |
| 10Y US yield | 1.40 | 1.80 | 1.85 | 2.20 | 2.04 |
| **Eurozone** | | | | | |
| Base interest rate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 10Y Bund yield | -0.38 | 0.00 | -0.02 | 0.30 | 0.08 |
| **United Kingdom** | | | | | |
| Base interest rate | 0.25 | 0.50 | 0.45 | 0.75 | 0.65 |
| 10Y Gilt yield | 0.76 | 1.10 | 1.27 | 1.60 | 1.40 |

Source: Bloomberg. Berenberg as of 17/12/2021.
*Average of estimates by other experts (Bloomberg) consensus.

# 05 Commodities

# Crude oil
## Oil wrongly in a bear market

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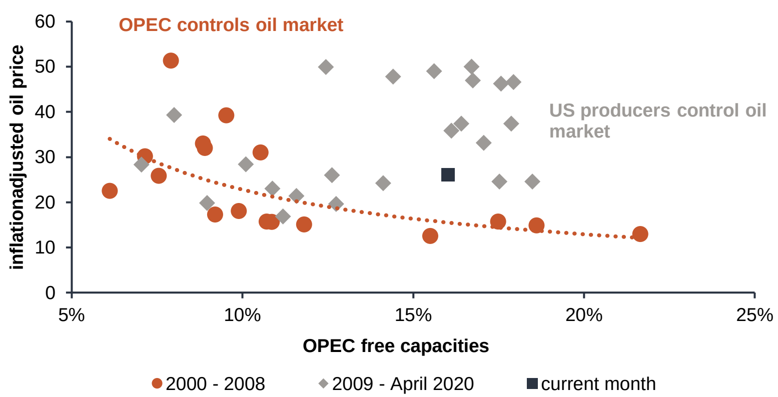
### Oil with easing infection situation with upward chances

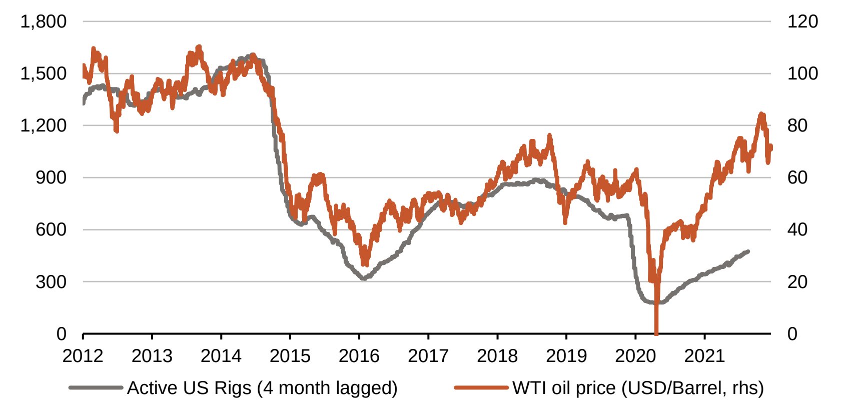
- The fourth quarter in the oil market was characterised by highs and lows. In October, oil reached its highest level in seven years, before it then slid into a bear market in November with the spread of the Omicron variant.
- The extent of the sell-off seems exaggerated, however, implying a sharper decline in demand over the coming months than last winter. With the change in daily new infections abating, oil should gain noticeably again in the short term.
- If OPEC+ retains control of the oil market, as it has since April 2020, oil could benefit from a continued supply shortage in the medium term. This is because, like US shale oil producers, some cartel members have sharply cut back on capital spending, which should eventually result in declining production capacity and provide a tailwind for the oil price.

### Oil price rises as production capacity falls




Source: J.P. Morgan, Bloomberg, own calculations. Time period: 01/01/2000 – 30/11/2021.

### US drilling activity remains very subdued




Source: Bloomberg, own calculations. Time period: 01/01/2012 – 17/12/2021.

# Precious and industrial metals
## Cyclical commodities with opportunity

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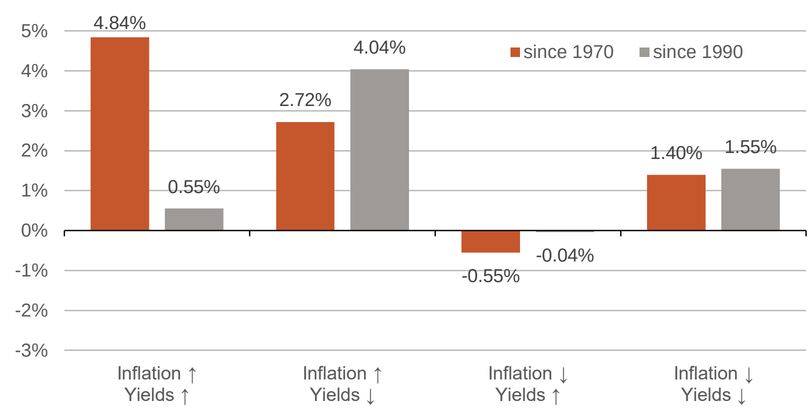
### Gold persists in old patterns

- Gold was unable to break out of the pattern of the previous months in Q4 and continued to move volatile sideways. In view of the strong appreciation of the USD, however, gold held up surprisingly well thanks to increased inflation expectations.
- Given the trend towards rising real interest rates, things are not likely to get any easier for gold in the coming months. All in all, we expect a volatile sideways movement. Nevertheless, we consider gold an important portfolio component as a hedge against tail risks such as stagflation fears or geopolitical conflicts that have moved into the background.

### Industrial metals as profiteers of economic expansion

- Industrial metals are among the winners of 2021. However, the upward trend did not continue in the fourth quarter as a result of more negative economic surprises.
- While the issue of sustainability is keeping both demand (use of metals in green technologies) and supply (reduction of emissions in raw material extraction) busy and thus providing a longer-term tailwind, the short- to medium-term global economic outlook is likely to determine the further development of industrial metals in the coming months.

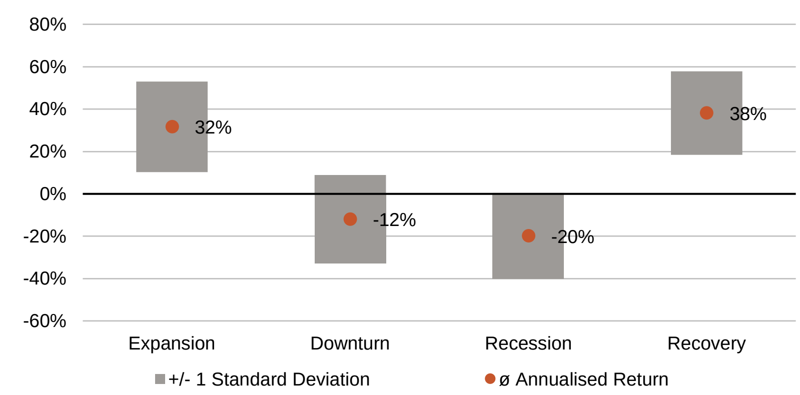
### Potentially rising real interest rates slow down gold




Average rolling 3m gold price development

Source: Bloomberg, own calculations. Time period: 01/01/1970 – 30/11/2021.

### Economic outlook determines development of metals




Average of the equally weighted ann. Returns of copper, aluminium, nickel & zinc depending on OECD & Major 6 NME leading indicator

Source: Bloomberg, own calculations. Time period: 01/01/1998 – 30/11/2021.

# 06 Currencies

# Market Development
## Interest rates and currencies

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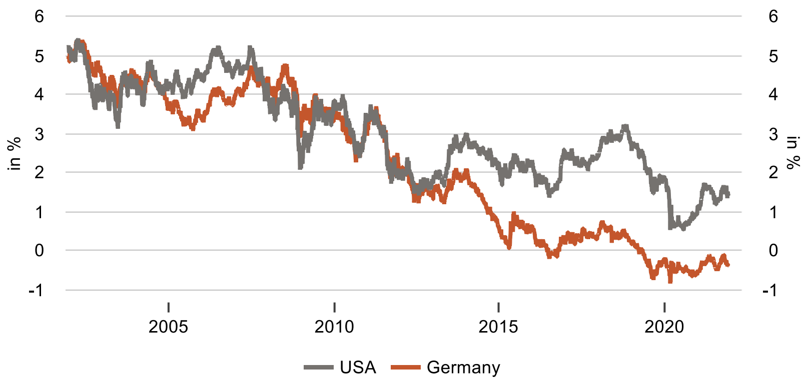
### Fed and BoE on tightening course

- The Fed has raised its inflation forecasts. As a result, securities purchases will be curtailed more quickly, so that net purchases will end in March 2022.
- Three interest rate hikes are expected from the central bank for 2022. We even expect four hikes to 1.00-1.25%. A further three hikes are likely to follow in 2023.
- First triple hike by the Bank of England: the central bank has risen the key interest rate to 0.25% from 0.10%. We expect two hikes of 25 basis points each in 2022, 2023 and 2024.
- Market interest rates are also likely to rise in 2022.

### ECB remains cautious

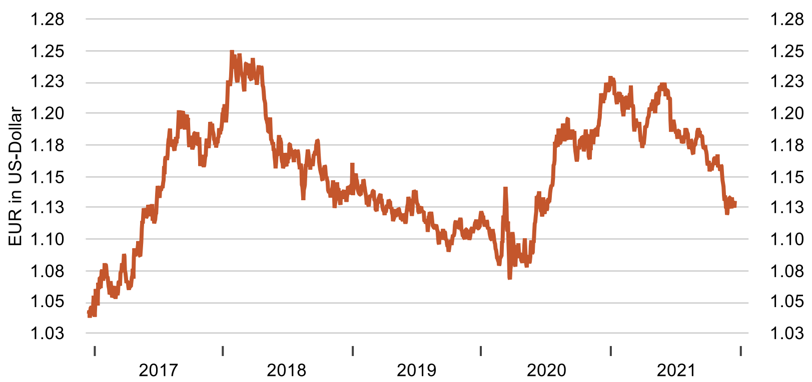
- The ECB is raising its inflation forecast for 2022 to 3.2% from 1.7% . In 2023 the ECB expects inflation to return to 1.8%. It sees the reasons for the upward trend in prices predominantly in temporary factors over which it has only limited influence. It is therefore tightening monetary policy only by reducing its asset purchases.
- The ECB decision did not harm the euro exchange rate further. Apparently, markets had already anticipated the monetary policy divergences. This could be an indication that the euro-dollar exchange rate has found its bottom.

**Yields: 10-year government bonds**




Source: Macrobond Period: 12/2001 - 12/2021

**Exchange rate: Euro/US-Dollar**




Source: Macrobond Period: 12/2016 - 12/2021

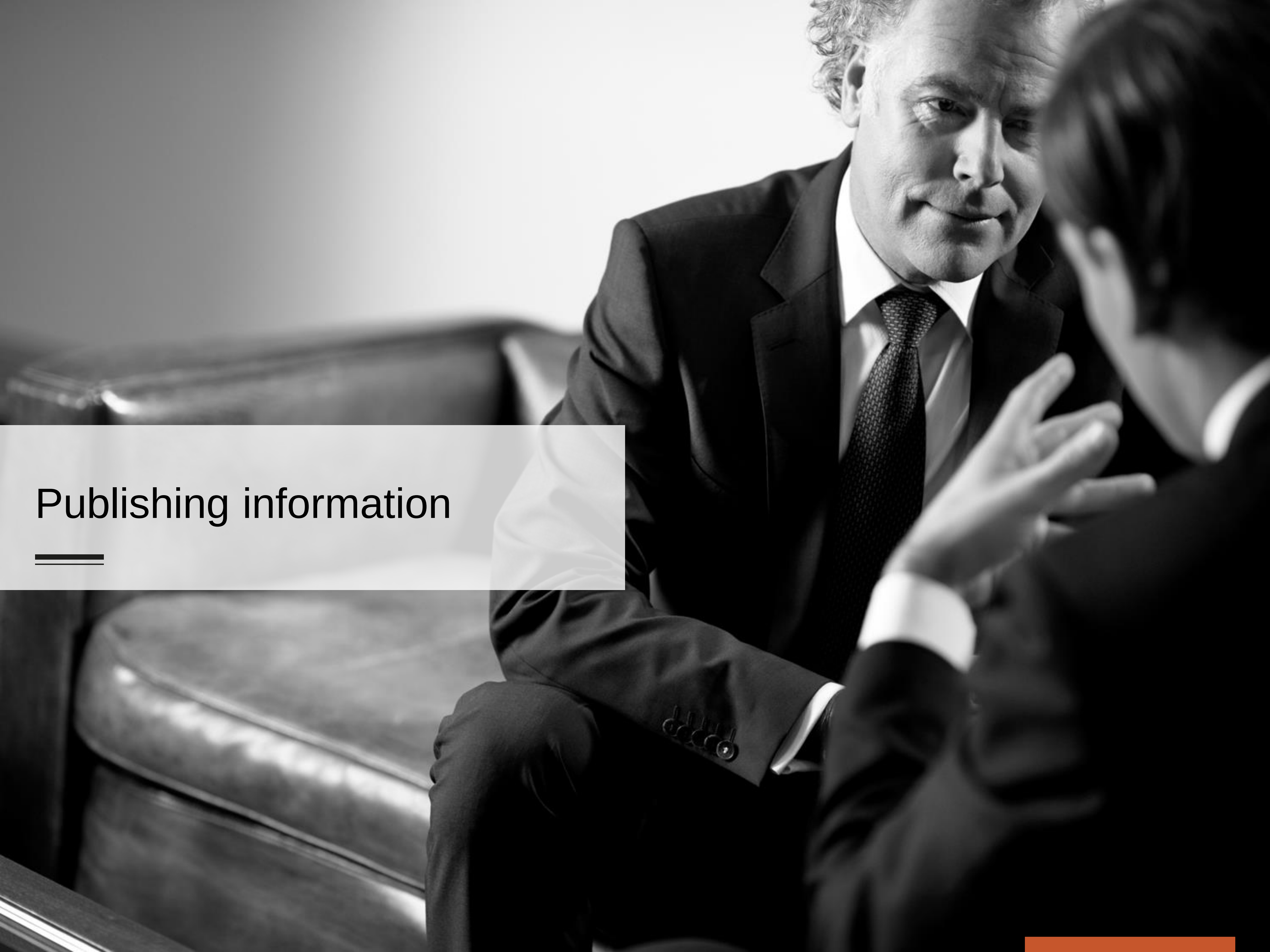
# Forecasts

## Estimates of key currencies

| | 17/12/2021 | 30/06/2022 | | 31/12/2022 | |
|---|---|---|---|---|---|
| **Exchange rate forecasts** | Current | | Ø* | | Ø* |
| **EUR/USD** | 1.12 | 1.14 | 1.13 | 1.17 | 1.16 |
| **EUR/GBP** | 0.85 | 0.85 | 0.84 | 0.85 | 0.84 |
| **EUR/CHF** | 1.04 | 1.05 | 1.07 | 1.08 | 1.09 |
| **EUR/JPY** | 128 | 127 | 130 | 128 | 132 |

| | | | | | |
|---|---|---|---|---|---|
| **Change against the Euro (in %)** | | | | | |
| **USD** | - | -1.4 | -0.5 | -3.9 | -3.1 |
| **GBP** | - | -0.1 | 1.1 | -0.1 | 1.1 |
| **CHF** | - | -1.1 | -2.9 | -3.8 | -4.7 |
| **JPY** | - | 0.7 | -1.7 | -0.1 | -3.2 |

*Source: Bloomberg. Berenberg as of 17/12/2021.
*Average of estimates of other experts (Bloomberg); consensus.



# Publishing information

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