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# HORIZON *handout*

The Berenberg Capital Markets Outlook • Wealth and Asset Management

August | 2023

# Horizon Handout – Capital Market Outlook
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Date 27/07/2023.

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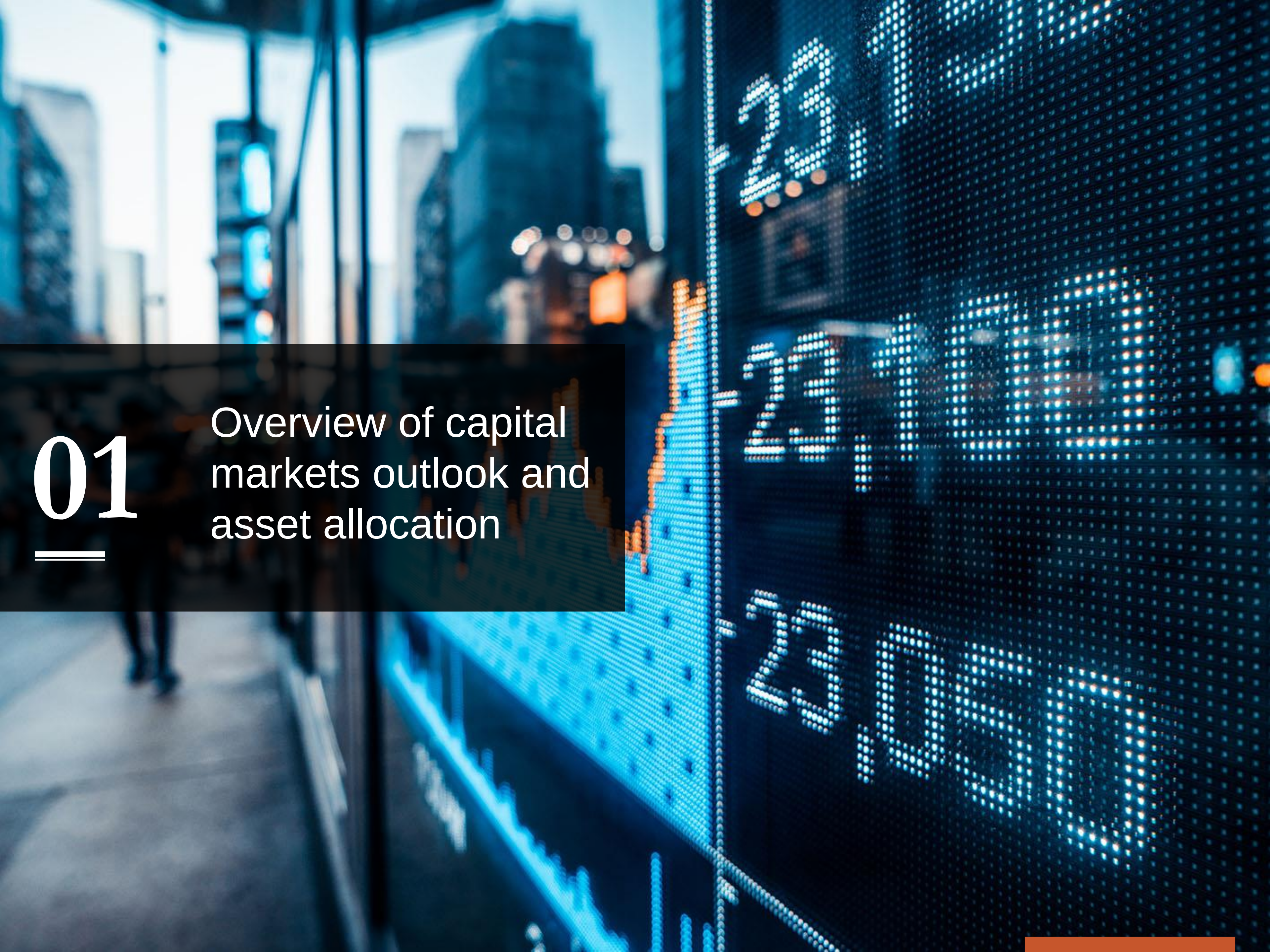
An online glossary with definitions of technical terms is available at www.berenberg.de/en/glossary



# 01 Overview of capital markets outlook and asset allocation

# Overview of capital markets
## Performance review

### 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 (27/06/23 - 25/07/23) | YTD (30/12/22 - 25/07/23) | 25/07/22 25/07/23 | 25/07/21 25/07/22 | 25/07/20 25/07/21 | 25/07/19 25/07/20 | 25/07/18 25/07/19 |
| Brent | 14.8 | -1.4 | -11.2 | 93.5 | 64.6 | -35.2 | -6.6 |
| MSCI Frontier Markets | 4.8 | 7.6 | -4.9 | -2.6 | 36.7 | -18.6 | 8.5 |
| REITs | 3.7 | 0.1 | -15.8 | 3.0 | 29.9 | -14.4 | 16.7 |
| MSCI World | 3.5 | 14.7 | 8.1 | 0.9 | 34.5 | 1.1 | 9.2 |
| MSCI Emerging Markets | 3.5 | 6.5 | -0.4 | -11.0 | 24.5 | -1.4 | 4.2 |
| Industrial Metals | 3.3 | -10.7 | -3.4 | 8.2 | 41.3 | -6.5 | 0.8 |
| Global Convertibles | 2.2 | 7.4 | -1.1 | -11.0 | 34.6 | 12.5 | 5.0 |
| Gold | 1.8 | 4.3 | 5.6 | 9.9 | -6.2 | 28.6 | 20.8 |
| EUR Coporates | 0.8 | 3.1 | -2.6 | -10.5 | 3.2 | -0.5 | 5.8 |
| Euro overnight deposit | 0.3 | 1.6 | 1.9 | -0.6 | -0.6 | -0.4 | -0.4 |
| EUR Sovereign Debt | 0.1 | 2.0 | -4.4 | -7.2 | 0.8 | 0.4 | 4.2 |
| USDEUR | -0.9 | -3.2 | -7.6 | 15.2 | -1.0 | -4.4 | 5.2 |

MSCI World: MSCI World Net Retur; 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 Coporates: IBOXX Euro Corporates Overall TR; Global Convertibles: SPDR Convertible Securities ETF; Gold: Gold US Dollar Spot; Brent: 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: 25/07/2018 – 25/07/2023.

# Overview of capital markets
## Outlook by asset class

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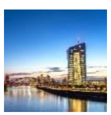
### Economics

- In Germany and the Eurozone, sentiment remains weak after the winter recession.
- Disinflation: Inflation is decreasing in the Eurozone, the US and now also in the UK.
- Even though inflation is still too high, central banks are approaching or have already reached the interest rate peak.

### Equities

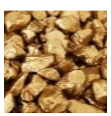
- The Q2 reporting has season started. Company outlook more crucial from Q4 onwards as analysts are still quite optimistic.
- Equity performance predominantly valuation-driven. Optimism dominates, which makes the market vulnerable.
- We maintain the equity underweight and see a risk of a setback in Q3. Disappointment potential has increased.

### Bonds



- In the face of possible interest rate cuts safe government bonds in the US and the Eurozone are now in demand.
- European high yield bonds are not priced attractively anymore, so our preference is for investment grade bonds.
- In emerging markets, we remain overweight in Latin America. Asia, on the other hand, offers significant catch-up potential.

### Alternative investments / commodities



- Oil price with strong recovery thanks to tighter supply. Developments in China and OPEC policy crucial in the short term.
- Gold remains highly valued. Investors are steadily reducing their positions. Still an important portfolio constituent for hedging.
- Industrial metals continue to stabilise. Structural growth in demand due to renewable energies already visible.

### Currencies

- In the US, inflation is falling faster than expected. In the Eurozone, the economy is sluggish. What are the central banks doing?
- The US Fed and the ECB are very close to the interest rate peak. The probability of further tightening is decreasing.
- The Swiss franc remains strong - both externally and domestically: inflation has fallen below 2% again.

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

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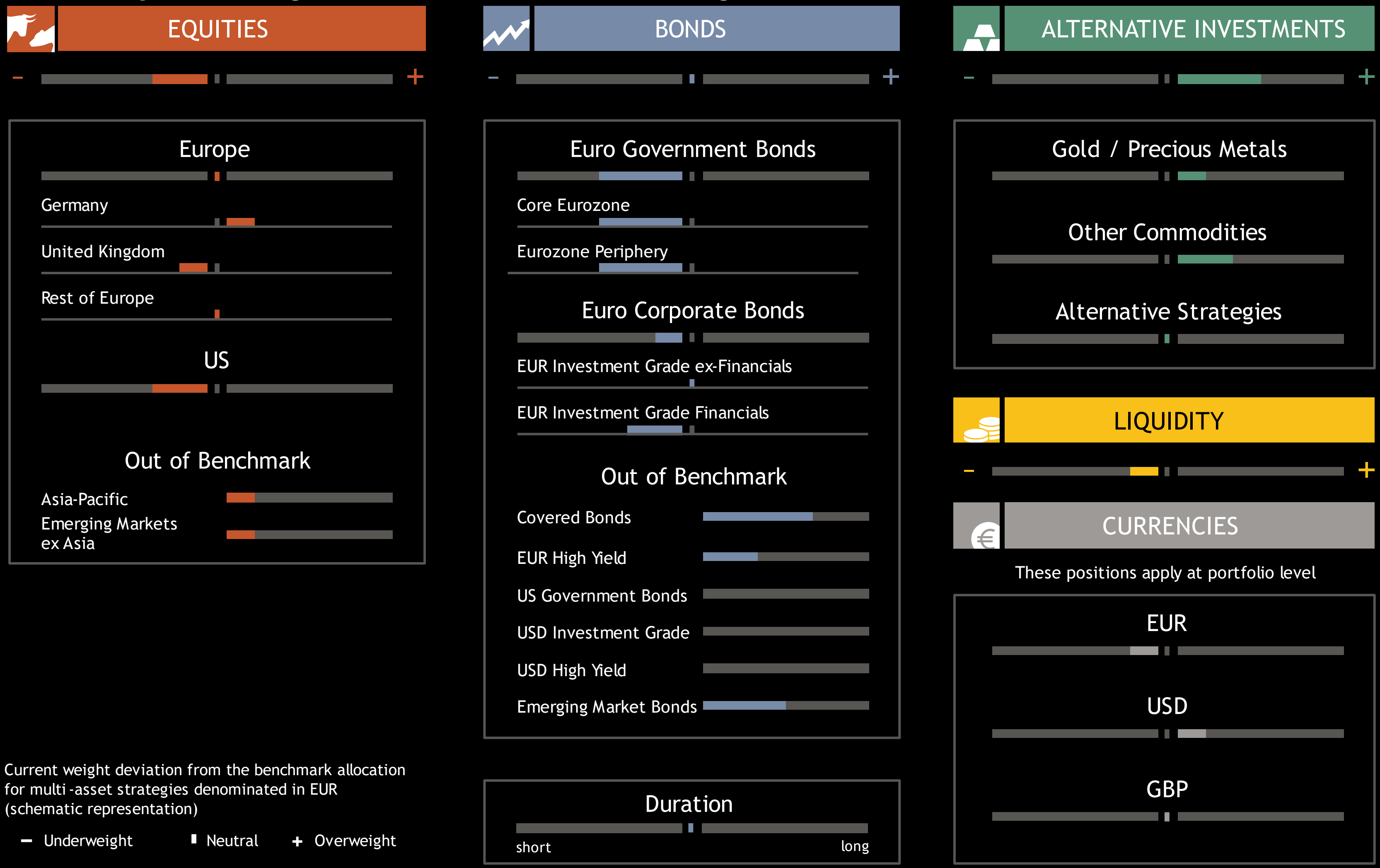
### Portfolio positioning of a balanced mandate at a glance




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

– Underweight ▮ Neutral + Overweight

Source: Berenberg

As of 26/07/2023.

# Overview of Berenberg's asset allocation
## Review of Core Strategy 3

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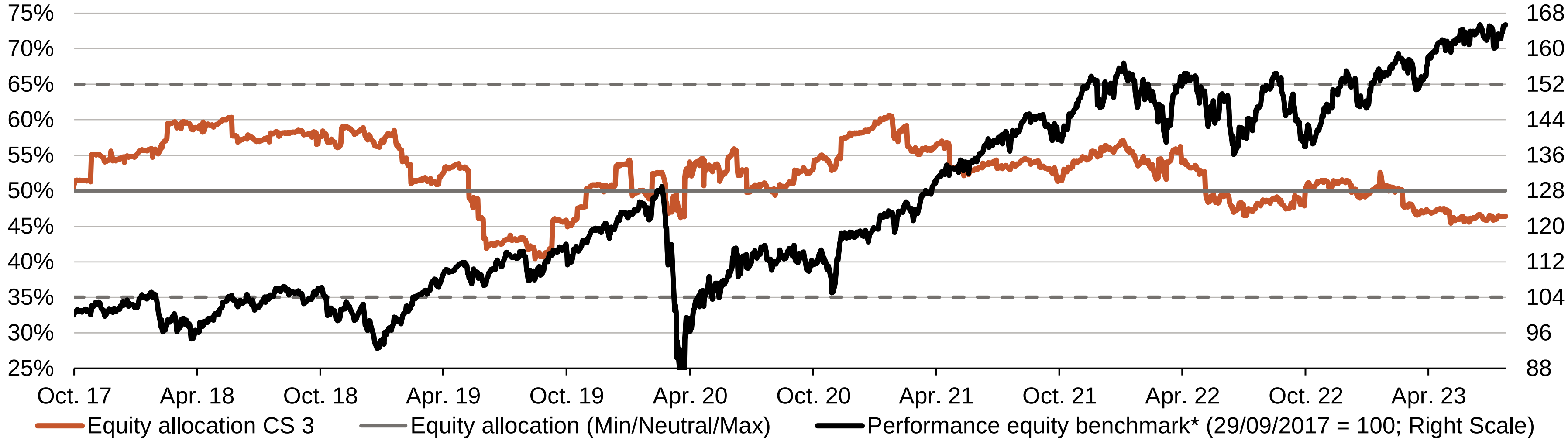
### Management of the equity allocation of a balanced multi-asset mandate since inception

| Performance equity benchmark | 24/07/18 - 24/07/19 | 24/07/19 - 24/07/20 | 24/07/20 - 24/07/21 | 24/07/21 - 24/07/22 | 24/07/22 - 24/07/23 |
|---|---|---|---|---|---|
| | 8.70% | -1.48% | 25.86% | 3.44% | 12.90% |




Sources: SimCorp, Bloomberg, Berenberg. *The "equity benchmark" is 70% STOXX Europe Net Return Index and 30% S&P 500 Net Return Index. Time period: 29/09/2017 – 24/07/2023.
Note: The historical performance presented here is not a reliable indicator of future performance.

- We have only made small changes to our allocation recently. After interest rates rose again in recent months, we have mainly invested cash in bonds with longer duration. The pressure on the ECB to raise interest rates further has eased recently thanks to weaker than expected inflation and economic data. Moreover, even hawks in the ECB Governing Council such as the Dutchman Knot have recently rowed back verbally.
- We remain slightly underweighted in equities. However, as economic data seems to be weakening more and more, we have reduced our equity beta and added a minimum volatility ETF in the US countercyclically at the expense of an equally weighted S&P 500 ETF. Despite the underweight in equities, our equity beta remains close to neutral as we are strategically invested in small caps and commodity stocks, which have higher equity sensitivity. Commodity stocks had strongly underperformed until the end of June but were among the biggest winners in July.

# 02 Economics

# Eurozone
## GDP and inflation

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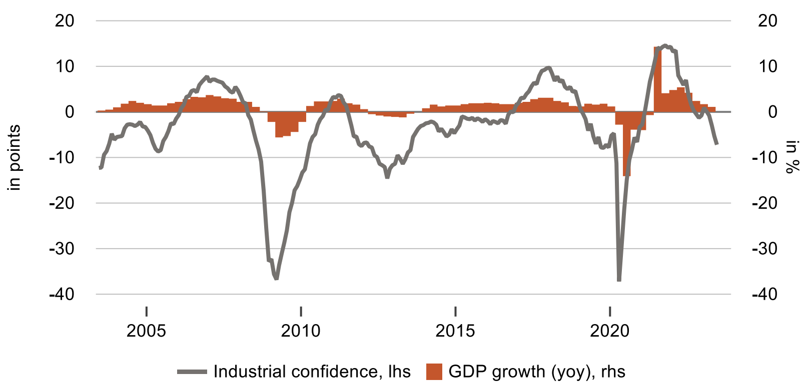
### Economic environment remains challenging

- The Purchasing Managers' Index (PMI) has declined once more in July. The PMI registered 48.9 points in July, indicating a more substantial decline than anticipated. Consequently, the index not only stands well below the 50-point expansion threshold but also marks the lowest value observed in the past eight months.
- We expect a very modest growth in the Eurozone for the remainder of 2023. However, once the downturn in the United States comes to an end, the Eurozone could potentially experience a rebound in growth surpassing its trend rate, starting in spring 2024.

### Weak economy alleviates pressure on the ECB

- In June, the inflation rate in the Eurozone declined from 6.1% to 5.5% (however, the core rate increased from 5.3% to 5.4%). This suggests a continued disinflationary trend. In Italy, inflation decreased from 8.0% to 6.7%, while inflation in Spain declined from 2.9% to 1.6%.
- The ECB is likely approaching the end of its tightening policy. The weak economy is tempering upward price pressures. Moreover, the impact of recent interest rate hikes is still unfolding. The restrictive monetary policy has not yet unfolded its full impact for the economy and the inflation rates.

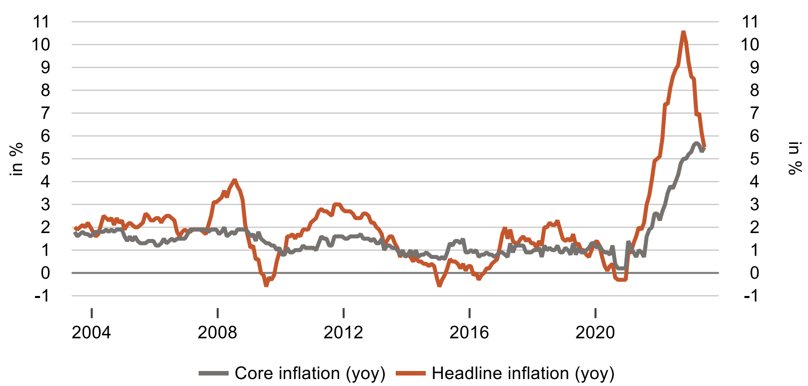
### Eurozone GDP growth and industrial confidence




Source: Macrobond

Period: 06/2003 - 06/2023

### Eurozone Inflation




Source: Macrobond

Period: 06/2003 - 06/2023

# United Kingdom
## GDP and inflation

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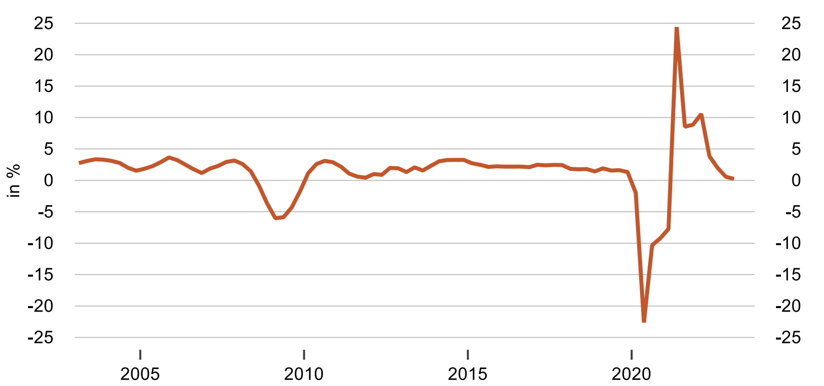
### Positive surprise in inflation figures

- After several months of negative surprises, the unexpectedly sharp decline in the inflation rate in June comes as a relief. Specifically, the overall inflation rate decreased from 8.7 % to 7.9 %, falling below the anticipated Bloomberg consensus of 8.2 %. Nevertheless, it is noteworthy that the inflation rate, at nearly four times the Bank of England's (BoE) 2 % target, remains considerably elevated.
- Moreover, in June, the core inflation rate decreased to 6.9 % from 7.1 % in May, contrary to analysts' expectations, which had foreseen no change in the core inflation rate.

### Some relief for the Bank of England

- The positive surprise has alleviated some of the pressure for strong action from the Bank of England. However, the BoE has not yet reached the end of its interest rate hiking cycle. In our baseline scenario, we anticipate the policy rate to peak at 5.5 % in September. Nevertheless, there remains a risk that the interest rate increase could go as high as 5.75 %.
- Recently, the BoE implemented a 0.5 percentage point increase in the policy rate, responding to persistent price pressures, a resilient labor market, and wage inflation.

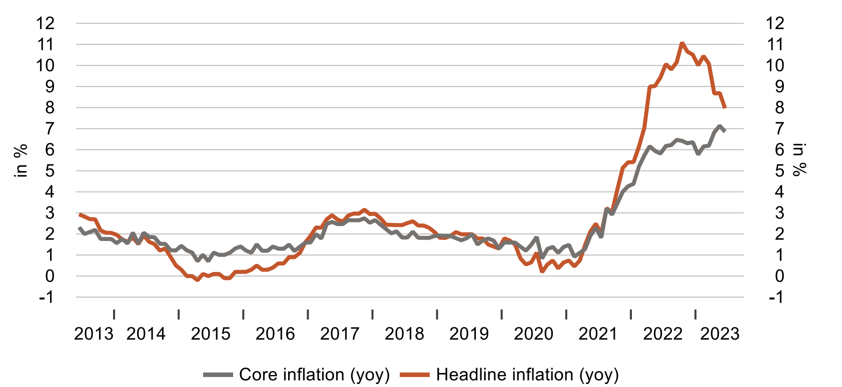
### United Kingdom GDP growth (yoy)




Source: Macrobond

Period: 03/2003 - 03/2023

### United Kingdom Inflation (yoy)




Source: Macrobond

Period: 06/2013 - 06/2023

# USA
# GDP and inflation

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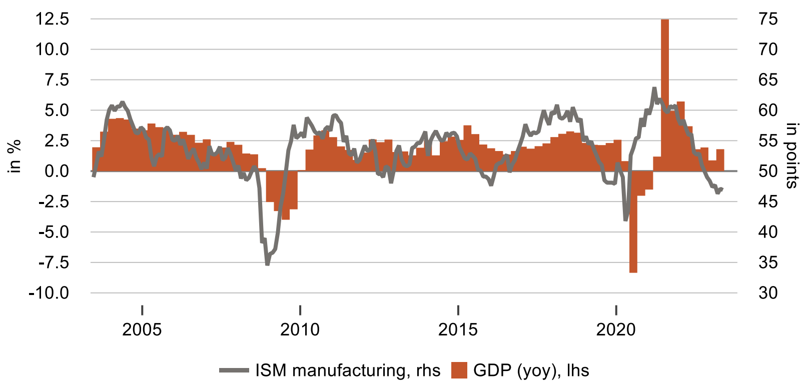
## Likely a soft economic landing

- The US economy is expected to experience only a slight contraction until the end of 2023 and early 2024 before returning to its trend growth in the spring of 2024. The underlying fundamental indicators, particularly the resilient labor market, remain stable, with the housing sector experiencing an upswing. Additionally, fiscal policy is likely to partially offset the strain caused by higher interest rates.
- A mild recession or a soft landing appears considerably more likely than a significant decline in real GDP.

## Has the Fed done its work?

- The US Federal Reserve has raised its benchmark interest rates by 25 basis points to 5.25-5.50 %. It seems that this has been the final rate hike in the current tightening cycle.
- The June inflation data were welcome, as inflation unexpectedly declined significantly from 4.0 % to 3.0 %. Similar to the situation in the Eurozone, monetary policy in the US operates with a time lag. Therefore, the interest rate hikes implemented in previous months will continue to exert a dampening effect on price pressures in the near future.

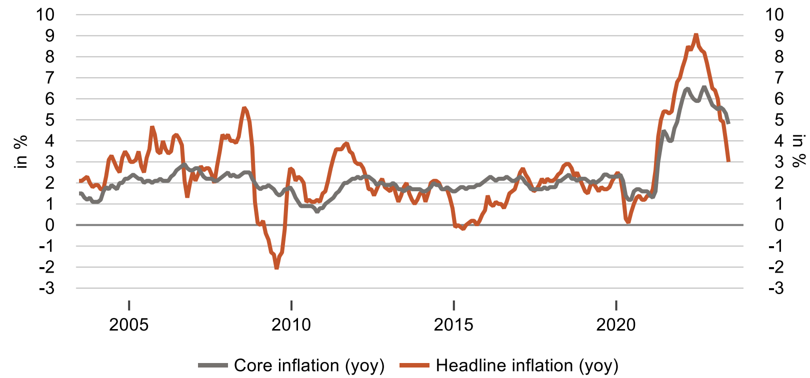
### US GDP growth and Purchasing Managers Index




Source: Macrobond

Period: 06/2003 - 06/2023

### US Inflation (yoy)




Source: Macrobond

Period: 06/2003 - 06/2023

# Economic forecasts
## Key estimates at a glance

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| | GDP growth (in %) | | | | | | Inflation (in %) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | | 2024 | | 2025 | | 2023 | | 2024 | | 2025 | |
| | | Ø** | | Ø** | | Ø** | | Ø** | | Ø** | | Ø** |
| USA | 1.7 | 1.5 | 0.5 | 0.6 | 1.8 | 1.9 | 4.0 | 4.1 | 2.5 | 2.5 | 2.4 | 2.3 |
| Eurozone | 0.5 | 0.5 | 1.1 | 1.0 | 1.8 | 1.6 | 5.4 | 5.4 | 2.6 | 2.5 | 2.5 | 2.1 |
| Germany | -0.5 | -0.3 | 1.0 | 1.0 | 1.7 | 1.6 | 6.0 | 6.0 | 2.5 | 2.7 | 2.5 | 2.1 |
| France | 0.5 | 0.6 | 1.4 | 1.0 | 1.7 | 1.3 | 5.5 | 5.5 | 2.4 | 2.7 | 2.5 | 2.1 |
| Italy | 1.1 | 1.1 | 0.9 | 0.8 | 1.2 | 1.1 | 6.2 | 6.3 | 2.1 | 2.4 | 2.4 | 1.9 |
| Spain | 2.2 | 2.2 | 1.6 | 1.5 | 2.1 | 1.8 | 3.4 | 3.4 | 2.9 | 2.6 | 2.7 | 1.9 |
| United Kingdom | 0.4 | 0.2 | 1.0 | 0.6 | 1.7 | 1.5 | 7.4 | 7.5 | 2.7 | 3.0 | 2.0 | 2.0 |
| Japan | 1.2 | 1.3 | 1.1 | 1.0 | 1.3 | 1.0 | 2.9 | 2.9 | 1.7 | 1.7 | 1.3 | 1.5 |
| China | 4.9 | 5.2 | 3.9 | 4.7 | 3.9 | 4.6 | 1.0 | 0.9 | 2.5 | 2.0 | 2.2 | 2.0 |
| World* | 2.2 | - | 2.1 | - | 2.6 | - | - | - | - | - | - | - |

Source: Bloomberg. Berenberg as of 25/07/2023.
* 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
## Optimism reflected in prices

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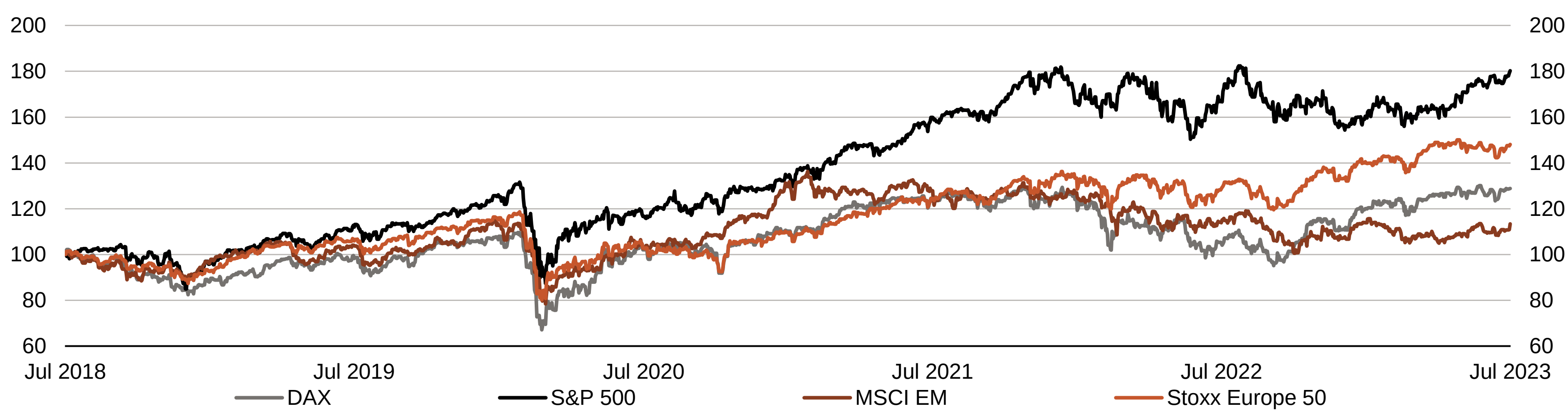
### Market development driven by valuation expansion

- Markets continued to perform well in July as concerns about inflation and the economy diminished. The decreasing concerns apply in particular to the US, which is why US equities rose more than European equities. The main driver of the positive development was a valuation expansion, which we did not expect to this extent. Since the beginning of the year, the price-earnings ratio of the S&P 500 has risen from around 17 to over 21. US equities are thus pricing in a golden scenario of low inflation and stable economic activity. European equities, on the other hand, are priced much more inexpensively with higher economic risks. This holds positive surprise potential if the economy holds up better than expected.
- With the start of the Q2 reporting season, investors are likely to look more closely at fundamental data again. The fact that not everything is rosy is shown by an increasing number of profit warnings from the cyclical sectors as well as the first disappointments from larger technology companies. The weakening economy is thus leaving its first traces. This, coupled with a return to very optimistic investor sentiment, is making equity markets increasingly vulnerable. We therefore see only limited potential in the coming months.

### Performance of selected equity indices




Source: Bloomberg; performance in EUR scaled to 100.

Time period: 25/07/2018 – 25/07/2023

# Corporate earnings
Analysts very optimistic

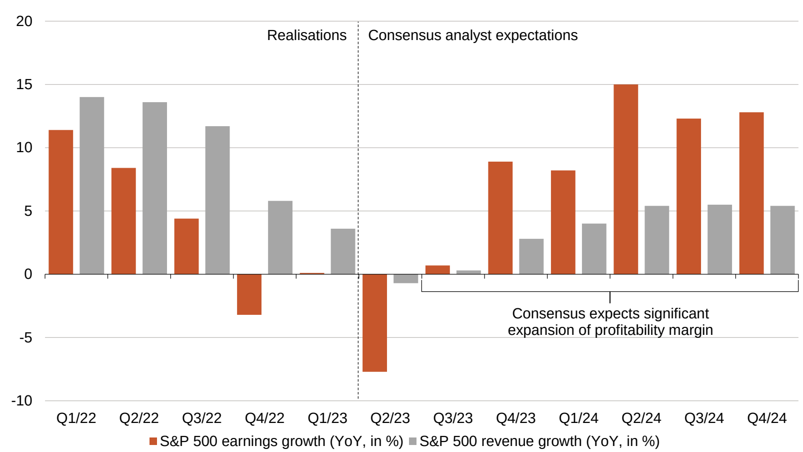
## Fundamental data moves into the foreground

- With the Q2 reporting season, fundamentals are coming into focus. Earnings for the S&P 500 are expected to decline by more than 7% year-on-year. Low expectations, the robust economy in Q2 and the weaker US dollar create opportunities for positive surprises.
- For Q4 and beyond, however, analysts are very optimistic, which we believe will be challenging amid slowing growth, declining inflation and rising labour costs. The outlook provided by the companies should therefore be exciting.

## Profit growth expected to be noticeably positive in 2024

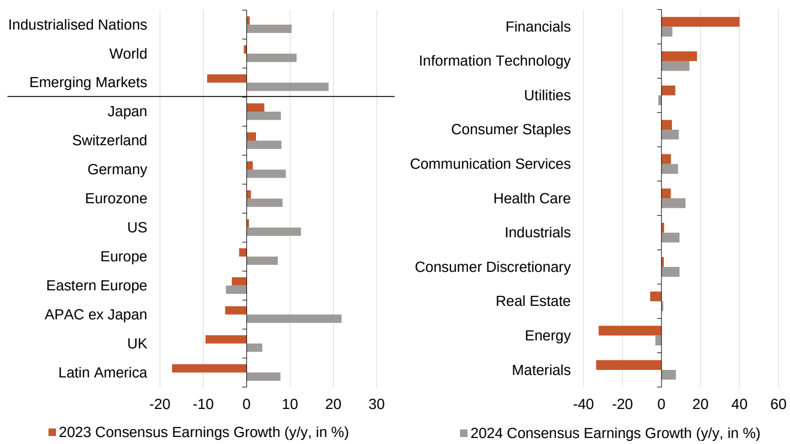
- After a tepid earnings year in 2023, analysts expect earnings growth to be around 10% in the developed world in 2024. For the emerging markets, the consensus assumes earnings growth of just under 20% in 2024 after an earnings recession this year. The driver of the massive earnings growth is likely to be Asia Pacific ex Japan, according to analysts.
- Among the European sectors, analysts expect the biggest earnings growth in 2024 to come from information technology and healthcare stocks.

### Too much profit optimism from Q4




Source: Refinitiv I/B/E/S Global Aggregates As of 25/07/2023

### Analysts optimistic for 2024




Source: Bloomberg, MSCI European sectors As of 25/07/2023

# Valuation & Positioning
## Equities at any price?

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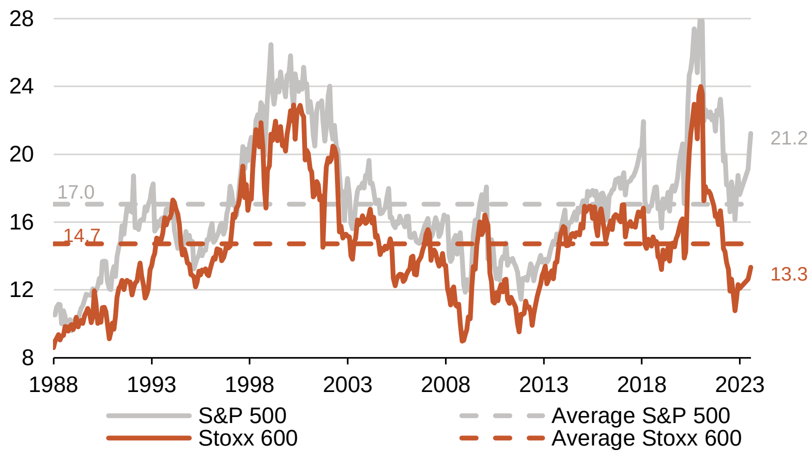
### Valuation decline from 2022 almost revised again

- Contrary to our expectations, there has been a significant valuation expansion since the beginning of the year after the valuation tightening in 2022 – and this despite continued high interest rates. In addition to the AI euphoria, falling inflation values coupled with a relatively stable economy led investors to buy more equities. As we expected, however, corporate earnings growth was weak.
- With a P/E ratio of close to 21, the S&P 500 is almost back to the levels of the beginning of 2022. In terms of valuation, there is not much to be gained from US equities.

### Optimism now prevails for several weeks

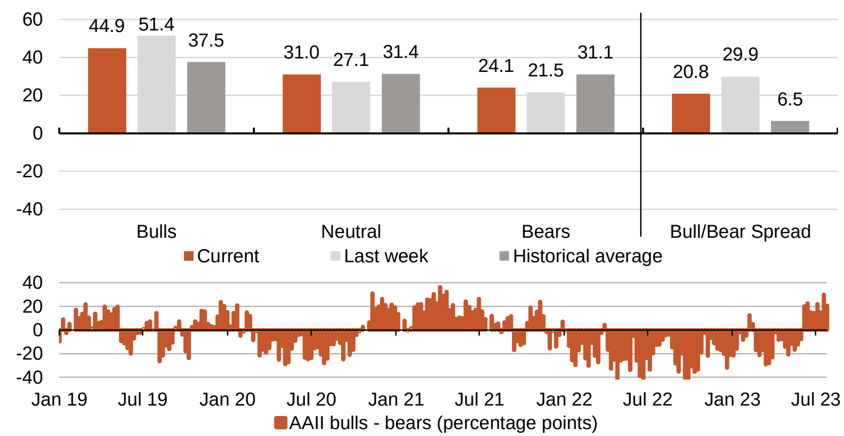
- The bull/bear spread is now in positive territory for the eighth week in a row. The last time we saw this was in 2021. Private investor positioning is thus likely to be significantly elevated.
- In addition to retail investors, systematic strategies also have significantly increased equity exposure again due to positive momentum and low volatility.
- If investor optimism is not justified, which is likely to become apparent in the coming months, at least in terms of the economy, the potential for a stronger setback is increased.

### US equities more expensive than in the last 15 months




Source: Bloomberg, own calculations. Time period: 01/01/1988 – 25/07/2023

### Optimists in the majority




Source: Bloomberg, own calculations. Time period: 23/07/1987 – 27/07/2023

# Equity allocation
## Emerging markets with surprise potential

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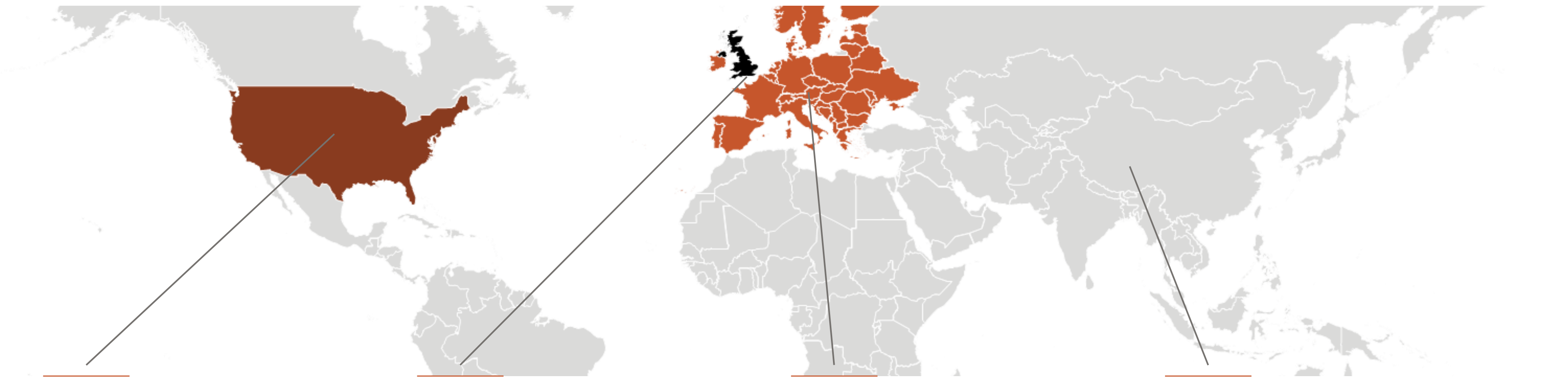

### US
**Underweight**
- The high positioning and continued high valuation of US equities make the region less attractive compared to more favourable regions such as Europe or emerging markets.
- Within equity regions, we are underweight in US equities.

### United Kingdom
**Underweight**
- UK equities are cheap compared to many other regions. At the index level, UK equities have a rather defensive as well as commodity-rich profile, which should pay off in an environment of high inflation and geopolitical risks.
- However, we remain slightly underweight UK equities as we see greater opportunities in other regions.

### Europe ex. UK
**Overweight**
- European companies do not have a high valuation despite the good development since the beginning of the year. The difficult economic outlook is thus at least partially reflected in prices. Should the economy develop better than expected, there is potential for recovery.
- We are slightly overweight in Europe ex UK.

### Emerging markets
**Overweight**
- Latin American equities should benefit from the positive commodity price outlook and offer a value-heavy portfolio addition.
- Chinese equities suffered from overly high expectations after the reopening. Positive surprise potential with pessimistic investor positioning.

# Equity market forecasts
## Estimates for selected indices

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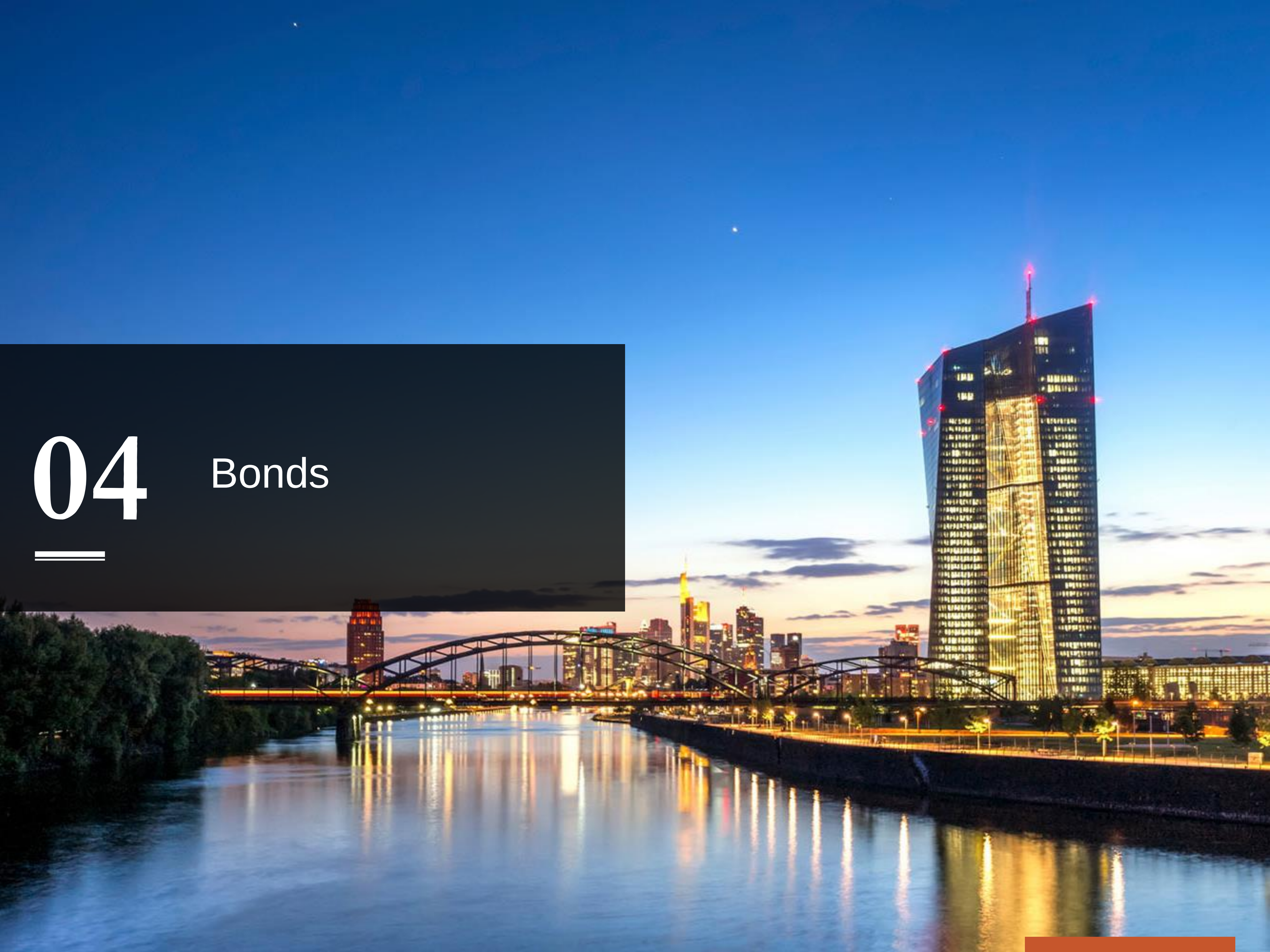
| Index forecasts | Current 25/07/2023 | 31/12/2023 | 30/06/2024 | Ø* in 12 months |
|---|---|---|---|---|
| S&P 500 | 4,567 | 4,300 | 4,600 | 4,913 |
| DAX | 16,212 | 16,200 | 17,300 | 19,627 |
| Euro Stoxx 50 | 4,391 | 4,350 | 4,700 | 5,072 |
| MSCI UK | 2,199 | 2,200 | 2,350 | 2,570 |

| Index potential (in %) | | | | |
|---|---|---|---|---|
| S&P 500 | - | -5.9 | 0.7 | 7.6 |
| DAX | - | -0.1 | 6.7 | 21.1 |
| Euro Stoxx 50 | - | -0.9 | 7.0 | 15.5 |
| MSCI UK | - | 0.1 | 6.9 | 16.9 |

Source: Bloomberg. Berenberg. as of 25/07/2023.
*Average based on bottom-up estimates.

# 04 Bonds



# Government bonds
Bond markets continue to offer earnings opportunities

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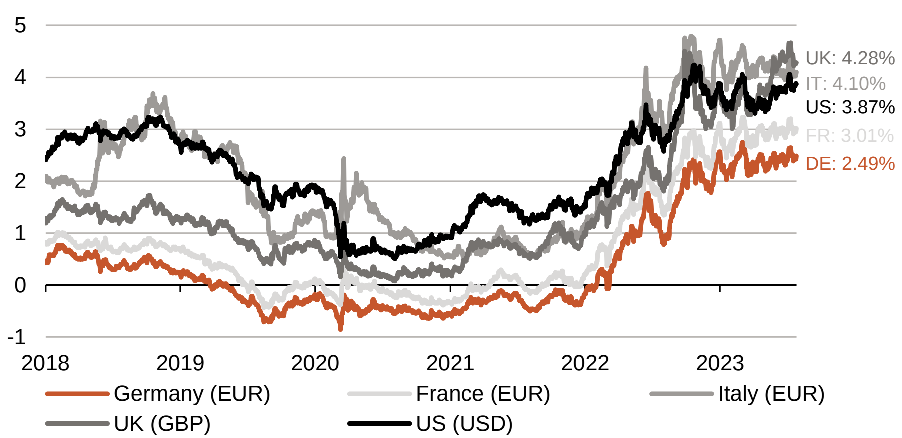
## Interest rate duration now neutral to the benchmark

- Yields of creditworthy sovereigns rose at the beginning of the month in anticipation of continued high core inflation. After weak purchasing managers' indices, yields fell again and closed only slightly higher.
- Only UK gilts recorded a slight decline in yields over the past month, after they had risen strongly in previous months.
- The end of the interest rate hike cycle is increasingly approaching. The Fed has quite possibly committed its' final hike while the in the Eurozone the final hikes are priced in the fourth quarter before interest rates could be lowered again next year.

## Government bonds from the euro periphery attractive

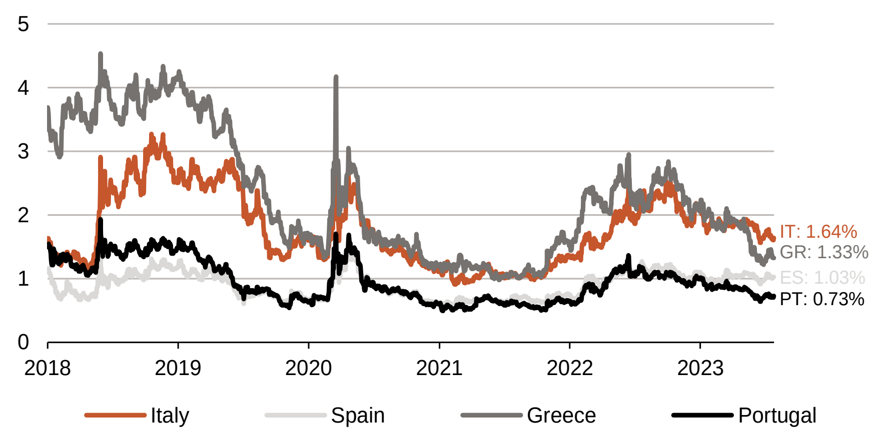
- The yield premium of government bonds from the euro periphery over Bunds has narrowed significantly since the beginning of the year. As this narrowing is based on positive economic indicators, we nevertheless consider the spreads attractive and intend to continue collecting the additional carry.
- The shrinking parliamentary majority of the Greek government and the unclear election results of the early parliamentary elections in Spain partly explain the spread widening of their government bonds.
- Greek government bonds now have tighter spreads than Italian BTPs despite their high yield rating.

### Yields of safe government bonds high but range-bound




Source: Bloomberg Time period: 01/01/2018 – 26/07/2023

### Spreads of peripheral countries are falling




Source: Bloomberg, own calculations, (spreads between 10Y Government bonds and Bunds) Time period: 01/01/2018 – 25/07/2023

# Corporate & EM bonds

## The return of the interest rate creates opportunities

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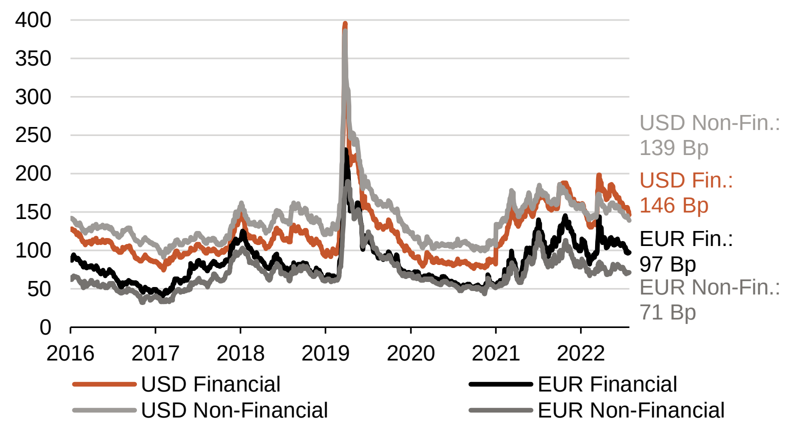
### IG corporate bonds preferred

- The risk premiums on IG corporate bonds continued the trend of the last quarter and narrowed further in the past four weeks. Financial bonds in particular were able to show a positive performance due to stronger spread narrowing.
- Isolated profit warnings from cyclical companies were overshadowed by continued strong key figures from the service and banking sectors. The market's risk appetite was thus able to compensate for the slight outflows from the segment and rising interest rates.
- Risk premiums in the HY segment are increasingly tightly priced by historical standards and thus unattractive.

### Emerging markets: Latin America holds opportunities

- EM local currency bonds continued to perform very well in the second quarter. From a regional perspective, Latin America once again outperformed all other EM regions. Notwithstanding the positive performance already accumulated so far, we continue to consider regional investments in Latin America as opportune.
- After a sluggish first half, Asia could gain in importance during the rest of the year. A gradual recovery of the Chinese economy and a still robust US economy could provide tailwinds.

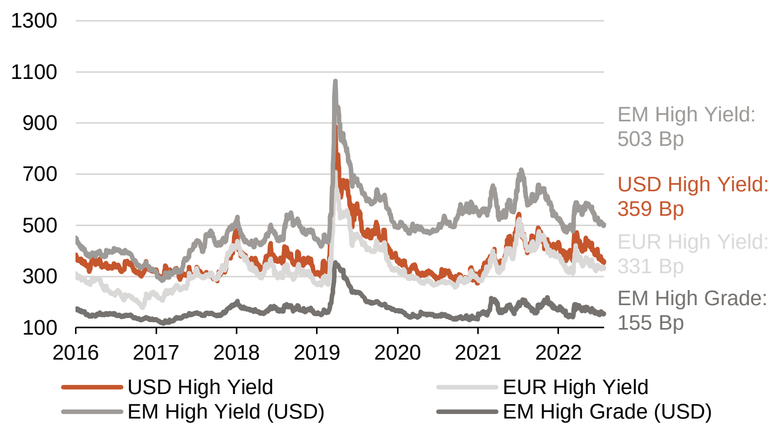
### Risk premiums for IG credits continue to tighten




Source: Factset

Time period: 01/01/2018 – 26/07/2023

### HY EM bonds continue to benefit from strong demand




Source: Factset

Time period: 01/01/2018 – 26/07/2023

# Capital market strategy
Bonds



## Core segments

### Government bonds
**Underweight**

- After weaker sentiment indicators in the US and European economies, the upward pressure on yields of safe government bonds has subsided. The picture of an imminent end to the rate hiking cycle is reinforced by slowly diminishing (core) inflation.
- We still prefer quasi-government bonds and covered bonds to traditional government bonds, as they offer an attractive excess yield. We see particular value in increasing interest rate duration in this segment.

### Corporate bonds
**Overweight**

- Current financial results continue to imply a stable earnings picture and robust balance sheets. Nevertheless, a possible recession would lead to credit spreads widening, which is why we continue to focus on IG issuers with strong credit ratings.
- We are increasing spread duration at the short end of the curve although we consider increasing it in the belly for IG bonds given the opportunities a steepening spread curve will provide.
- Deposit outflows from US banks have stabilised, but we still prefer large European banks due to their extremely strong earnings power and low credit loss provisioning.

## Other segments

### Emerging market bonds
**Overweight**

- For emerging market securities, fundamental factors such as a manageable refinancing volume and technical factors such as a persistent supply shortage provide tailwinds.
- We continue to favour the local currency segment and are positioning ourselves longer in duration here in view of an imminent interest rate turnaround by emerging market central banks.

### High yield bonds
**Overweight**

- As out-of-benchmark positions, we currently hold e.g. catastrophe bonds and financial subordinated bonds.
- Apart from that, however, many high-yield bonds are no longer attractively priced compared to their own history. We are increasingly cautious in our selection here.
- In recent months, some issuers were able to place new bonds in the market. In the meantime, however, it must be questioned which issuers will be able to afford the high coupon bonds in the future.

# Forecasts

## Estimates for selected bond markets

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| Base interest rates and government bond yields (in %) | 25/07/2023 | 31/12/2023 | | 30/06/2024 | |
|---|---|---|---|---|---|
| | Current | Berenberg | Ø* | Berenberg | Ø* |
| **US** | | | | | |
| Base interest rate | 5.00-5.25 | 5.25-5.50 | 5.50 | 4.25-4.50 | 4.80 |
| 10Y US yield | 3.89 | 3.80 | 3.64 | 3.90 | 3.48 |
| **Eurozone** | | | | | |
| Base interest rate | 4.00 | 4.50 | 4.35 | 4.50 | 4.15 |
| 10Y Bund yield | 2.42 | 2.70 | 2.32 | 2.80 | 2.18 |
| **United Kingdom** | | | | | |
| Base interest rate | 5.00 | 5.50 | 5.65 | 4.75 | 5.30 |
| 10Y Gilt yield | 4.26 | 4.30 | 4.06 | 4.30 | 3.77 |

Source: Bloomberg. Berenberg. as of 25/07/2023.
*Average of estimates by other experts (Bloomberg) consensus.

# 05 Commodities

# Crude oil
## The recovery has finally arrived

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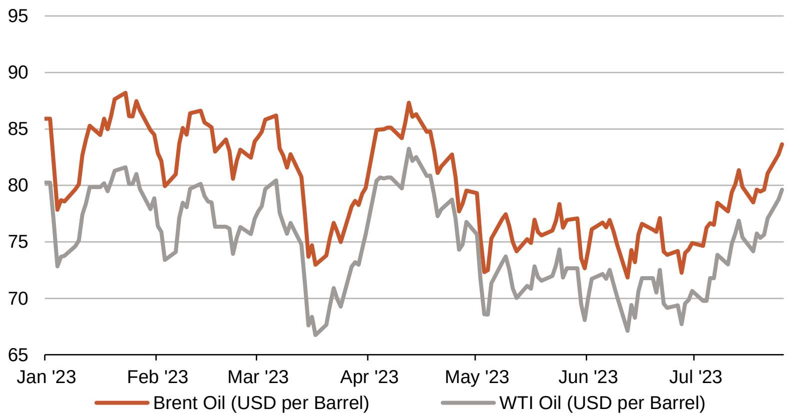
### Improvements on both sides of the supply-demand equation boost oil price

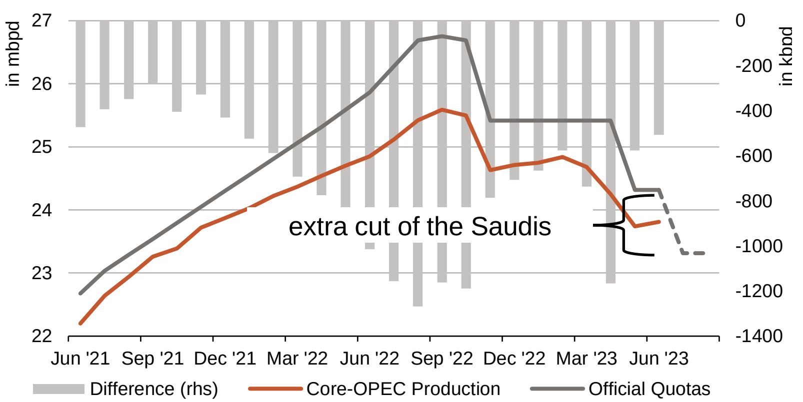
- After a difficult second quarter, oil got off to a flying start in the second half of the year. In the previous months, the oil price suffered not only from economic concerns in the West, but also from the weaker-than-expected recovery in demand in China and, above all, from the surprisingly strong supply from Russia and Iran as well as further releases of the strategic US oil reserve. Fundamentally, there were good reasons for the lacklustre price development.
- From July onwards, however, the picture turned on both sides of the equation. Demand is likely to have picked up with the travel season. Supply has likely tightened considerably with the additional production cut by the Saudis of 1mpbd and the export cut by Russia of 500kbpd. As a result, the oil price rose by about 12% over the last month.
- In the short term, oil could also benefit from follow-on purchases of systematic strategies in addition to the tight supply-demand structure. Brent, for example, recently broke through the 200-day moving average. In the coming months, it will be important whether and how long Saudi Arabia maintains the voluntary extra cut and whether the Chinese government finally manages to stimulate the domestic economy noticeably.

### Steep oil price recovery in July




Source: Bloomberg. Time period: 01/01/2023 – 25/07/2023.

### Saudi Arabia noticeably tightens supply




Source: Bloomberg, own calculations. Time period: 01/06/2021 – 30/06/2023.

# Precious and industrial metals
# Gold remains a portfolio hedge

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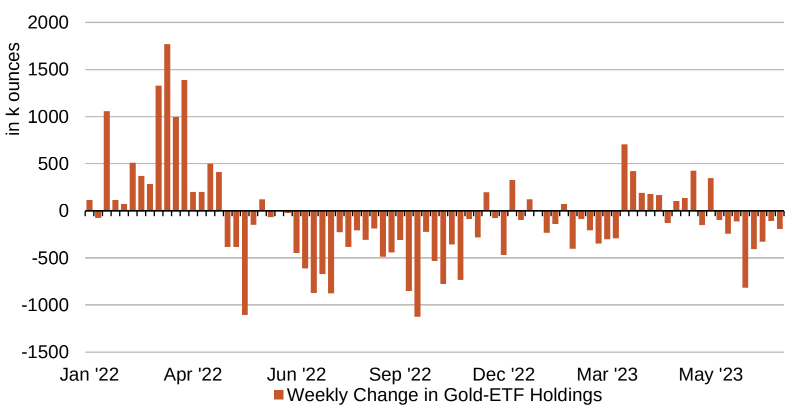
## Gold remains primarily a hedge in the portfolio

- After two months of negative performance, gold gained moderately again in July (ca. +3%). It initially benefited from a weaker US dollar and later from slightly lower real interest rates, which at 1.8% (10Y) at the beginning of July were at their highest level since 2009. However, at the current 1.5%, the opportunity costs for gold remain high. Thus, the relative valuation offers little scope for further upside potential.
- Many investors seem to share this view. Gold ETFs have seen almost continuous outflows since the regional banking crisis and the debt ceiling debate in the US subsided.
- As a hedge against tail risks, it nevertheless remains an important portfolio constituent.

## Industrial metals remain scarce and in demand

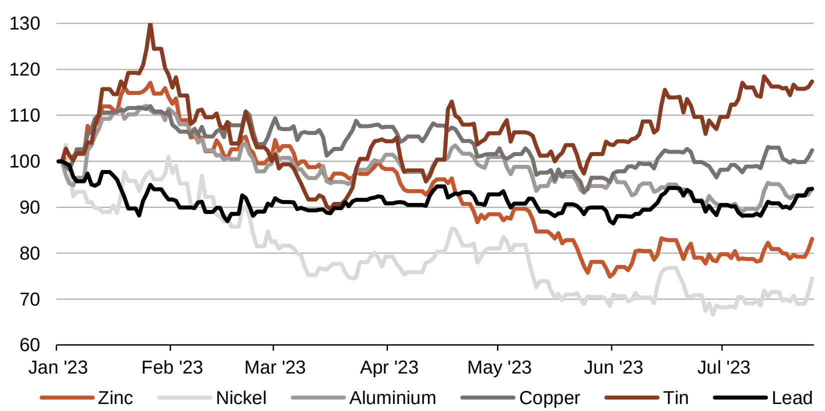
- The stabilisation of industrial metal prices continued in July. Most recently, additional tailwinds came from the Politburo in China. The sentence from the April statement "Real estate is for living, but not for speculation" has now been deleted in July, giving investors hope for more stimulus.
- Regardless, demand in China for copper, for example, has been surprisingly robust in recent months. What was lacking in demand from construction was compensated for by demand for grid expansion (for renewable energies) and electric cars. So, the structural tailwind seems to be pushing demand already now, while inventories remain low.

### Investors have lost interest in gold




Source: Bloomberg, own calculations. Time period: 01/01/2022 – 21/07/2023.

### Industrial metals at the start of the recovery?




Source: Bloomberg, own calculations. Time period: 01/01/2023 – 25/07/2023.


# 06 Currencies

# Market Development
FX markets

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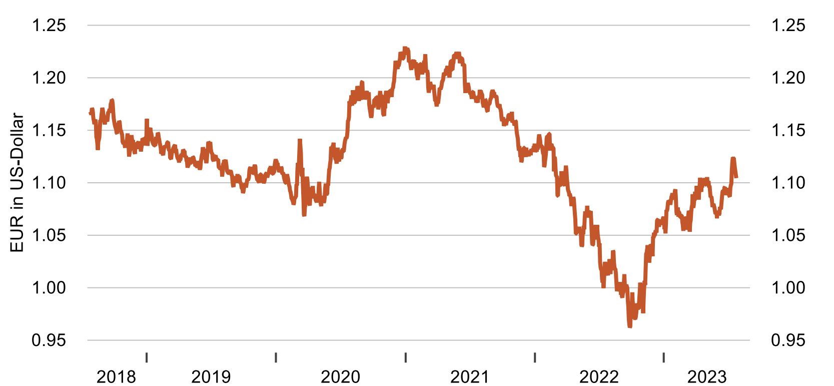
## EUR/USD: A roller coaster of emotions

- Following a stronger-than-expected decline in inflation from 4.0 % to 3.0 % in the US, expectations for further interest rate hikes by the Federal Reserve have been revised. It is likely that the Fed has conducted its final interest rate hike in July, thereby concluding its tightening cycle. Due to the altered interest rate outlook, the Euro initially experienced a significant appreciation, temporarily reaching above 1.12 US dollars per Euro.
- However, there have been slight setbacks for the Euro since then. Following weak economic data (July PMIs), the exchange rate retraced towards 1.11 US dollars per Euro.

### Exchange rate: Euro/US-Dollar



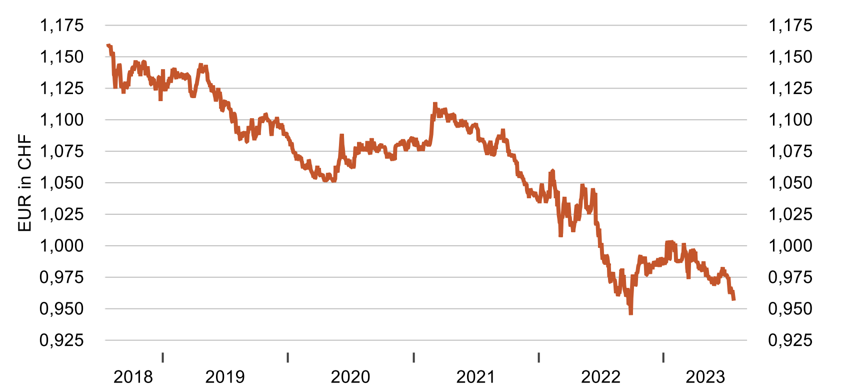

Source: Macrobond

Period: 07/2018 - 07/2023

## Economic conditions dampen the euro outlook

- The weak economic conditions in the Eurozone are weighing on the Euro outlook. By the end of the year, we anticipate the EUR/USD exchange rate to be around 1.12, only slightly higher than the current level. The subdued economic data reduce the likelihood of an interest rate hike by the ECB in September, which would prevent the Eurozone from further narrowing the interest rate differential with the United States.
- When the Eurozone makes a recovery in economic performance next year, the Euro is expected to strengthen further. We expect the Euro to appreciate to approximately 1.18 by the end of 2024.

### Exchange rate: EUR/CHF




Source: Macrobond

Period: 07/2018 - 07/2023

# Forecasts
## Estimates of key currencies

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| | 25/07/2023 | 31/12/2023 | | 30/06/2024 | |
|---|---|---|---|---|---|
| **Exchange rate forecasts** | **Current** | | **Ø*** | | **Ø*** |
| **EUR/USD** | 1.11 | 1.12 | 1.12 | 1.15 | 1.13 |
| **EUR/GBP** | 0.86 | 0.85 | 0.88 | 0.85 | 0.88 |
| **EUR/CHF** | 0.96 | 1.00 | 0.99 | 1.00 | 1.01 |
| **EUR/JPY** | 156 | 162 | 150 | 163 | 145 |

| **Change against the Euro (in %)** | | | | | |
|---|---|---|---|---|---|
| **USD** | - | -1.3 | -1.3 | -3.9 | -2.2 |
| **GBP** | - | 0.8 | -2.6 | 0.8 | -2.6 |
| **CHF** | - | -4.5 | -3.5 | -4.5 | -5.4 |
| **JPY** | - | -3.8 | 3.9 | -4.4 | 7.4 |

Source: Bloomberg. Berenberg as of 25/07/2023.
*Average of estimates of other experts (Bloomberg); consensus.

# Publishing information

# Publishing information


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