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HORIZON *handout*

The Berenberg Capital Markets Outlook • Wealth and Asset Management

April | 2024

Horizon Handout – Capital Market Outlook
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Date 28/03/2024.

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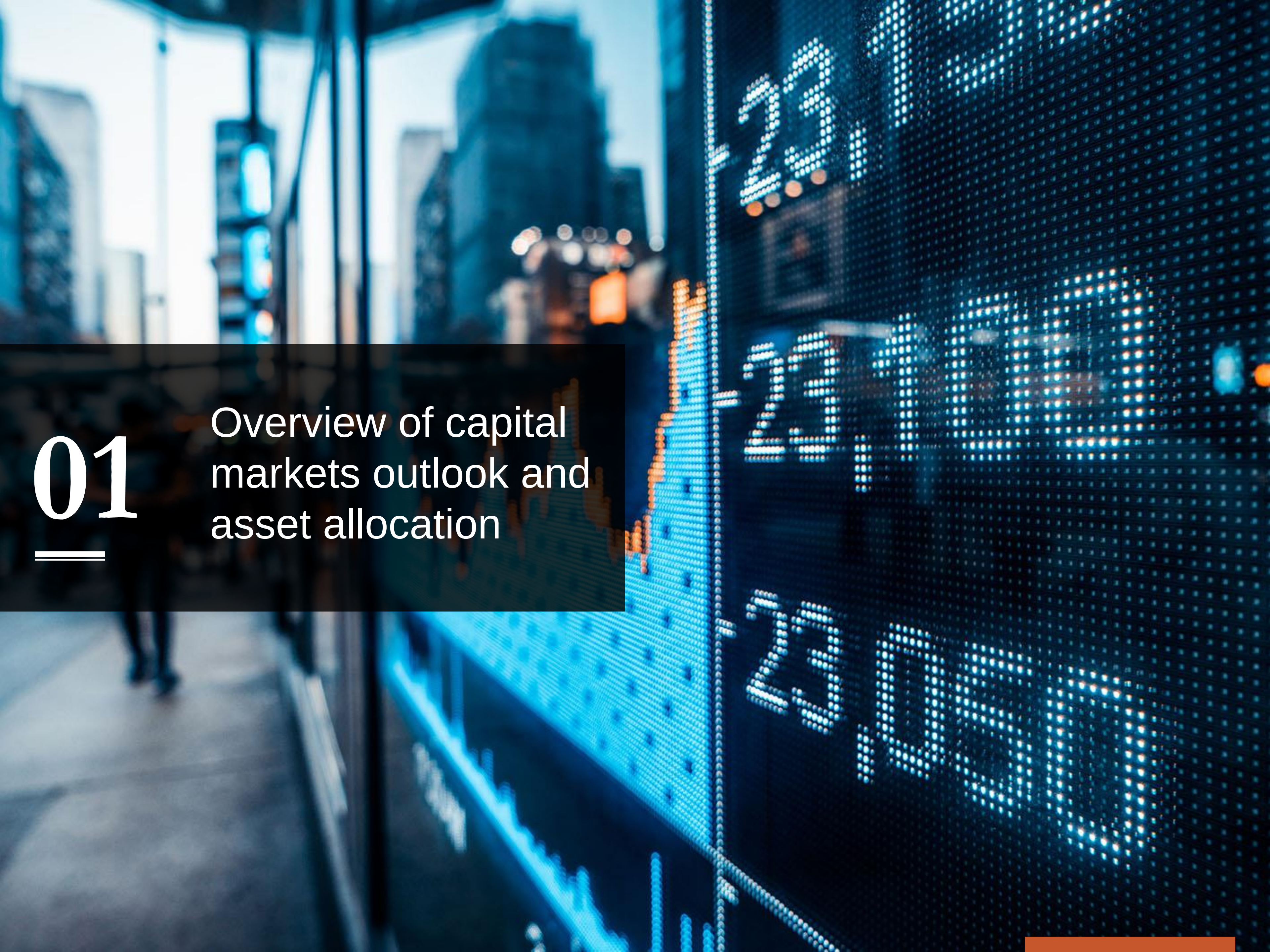
An online glossary with definitions of technical terms is available at www.berenberg.de/en/glossary



01 Overview of capital markets outlook and asset allocation

Overview of capital markets
Performance review

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Performance of selected asset classes

Total return of asset classes in the last 4 weeks, year-to-date and over 5 years (%, EUR)

	4-week & YTD		12-month periods over that last 5 years				
	4W (27/02/24 - 26/03/24)	YTD (29/12/23 - 26/03/24)	26/03/23 26/03/24	26/03/22 26/03/23	26/03/21 26/03/22	26/03/20 26/03/21	26/03/19 26/03/20
Gold	7.3	7.5	9.3	3.1	21.4	-0.6	26.6
Brent	4.8	16.4	26.7	-19.2	122.9	75.5	-48.8
MSCI World	2.8	10.4	28.0	-8.3	17.8	42.5	-6.9
MSCI Frontier Markets	2.3	7.1	15.0	-16.8	16.9	27.9	-15.7
Industrial Metals	2.1	0.8	-7.7	-23.5	59.9	48.8	-20.7
Global Convertibles	1.9	3.0	10.6	-12.7	-0.3	61.0	-5.9
MSCI Emerging Markets	1.7	4.2	9.2	-9.2	-5.7	46.7	-14.9
EUR Coporates	0.9	0.1	6.0	-7.1	-6.1	9.6	-3.8
EUR Sovereign Debt	0.7	-0.7	2.5	-6.4	-4.3	1.6	1.8
REITs	0.5	-2.7	5.1	-22.5	22.8	20.1	-16.5
Euro overnight deposit	0.3	1.0	3.7	0.6	-0.6	-0.5	-0.4
USDEUR	0.1	1.9	-0.7	2.1	7.4	-6.5	2.1

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: 26/03/2019 – 26/03/2024.

Note: The historical performance presented here is not a reliable indicator of future performance.

Overview of capital markets

Outlook by asset class

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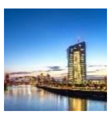
Economics

- USA: Fiscal policy supports economy despite high interest rates. Europe: stagnation in winter, upturn in spring.
- Price pressure has eased considerably on both sides of the Atlantic – but not permanently to 2%.
- In view of falling inflation rates, we expect the FED, ECB and BoE to make the first interest rate cuts from June 2024.

Equities

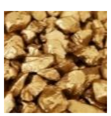
- Equity indices could rise slightly by the end of the year. US without further major valuation increases.
- Small caps offer more potential, also supported by increasing M&A transactions.
- The focus is on quality growth stocks with high earnings growth rates; Latin America remains an attractive addition.

Bonds



- After a weak start to the year for government bonds, British securities in local currency promise recovery potential.
- In European corporate bonds, we avoid high-yield securities, while bank bonds offer selective entry opportunities.
- In the emerging markets, falling interest rates make the local currency bond segment particularly attractive.

Alternative investments / commodities



- Crude oil benefits from geopolitics and higher demand, but supply remains plentiful. Volatile sideways movement likely.
- Gold reaches new highs, driven by technical drivers and physical demand.
- Industrial metals await the recovery in the manufacturing sector. Supply remains structurally tight.

Currencies

- The ECB, Fed and BoE are likely to initiate their interest rate reversals close together later in the second quarter.
- The exact sequence of the first rate cut could cause volatility in the short term but should be irrelevant in the long term.
- In the medium term, interest rates in the US are likely to be just under one percentage point higher than those in the eurozone.

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

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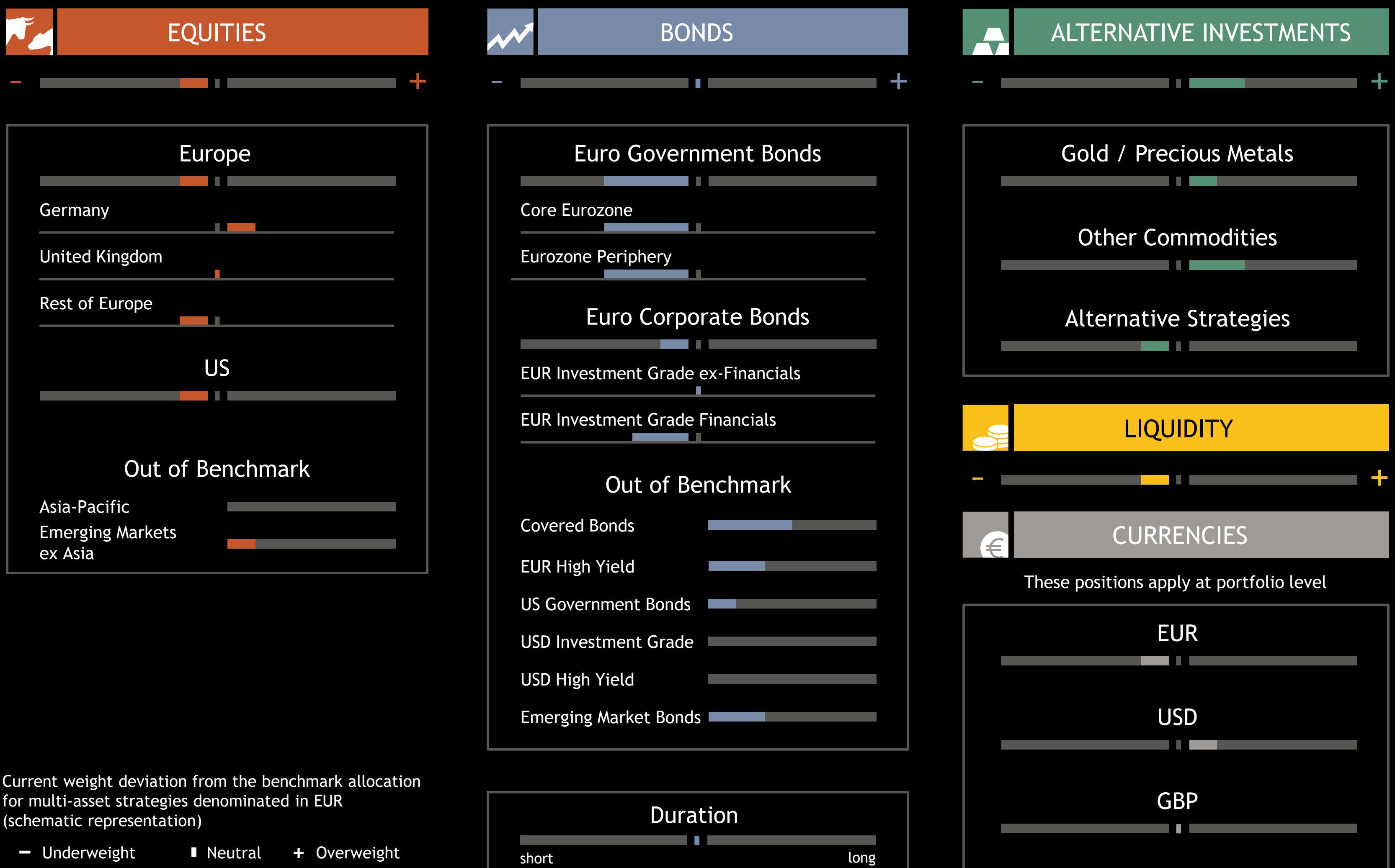
Portfolio positioning of a balanced mandate at a glance



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

– Underweight ▮ Neutral + Overweight

Source: Berenberg

As of 26/03/2024.

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

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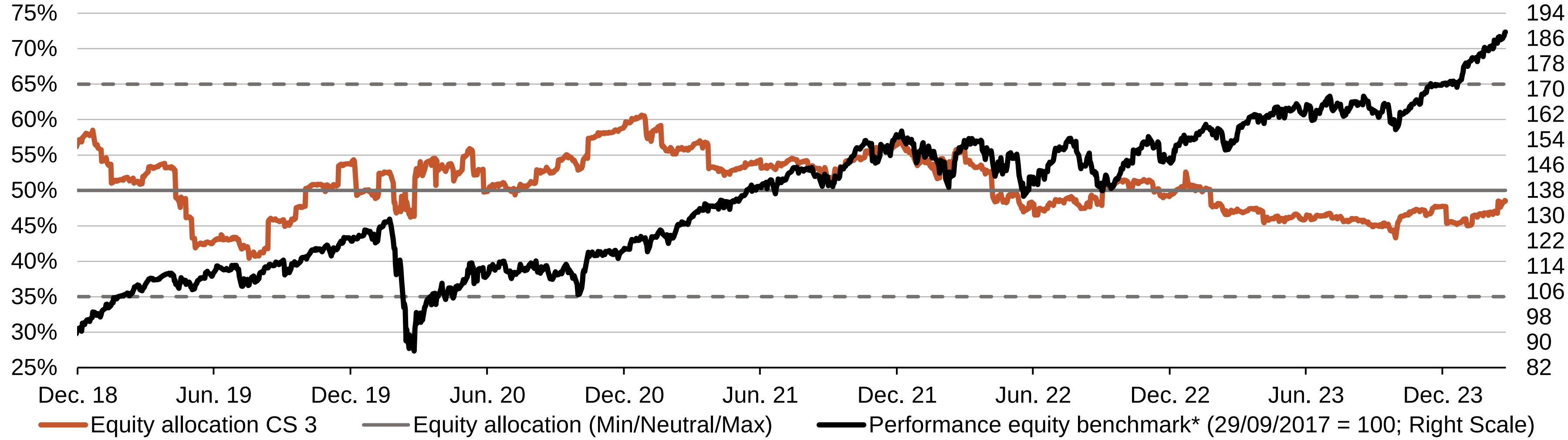
Management of the equity allocation of a balanced multi-asset mandate since inception

Performance equity benchmark	22/03/19 - 22/03/20	22/03/20 - 22/03/21	22/03/21 - 22/03/22	22/03/22 - 22/03/23	22/03/23 - 22/03/24
	-14.85%	40.57%	18.71%	1.22%	22.63%



Sources: SimCorp, Bloomberg, Berenberg. *The "equity benchmark" is 70% STOXX Europe Net Return Index and 30% S&P 500 Net Return Index. Time period: 22/03/2019 – 22/03/2024.
Note: The historical performance presented here is not a reliable indicator of future performance.

- A look in the rear-view mirror shows that we started the year with an overly defensive positioning. Although we increased our equity weighting with US equities at the beginning of November, we closed this position again at the beginning of January after significant gains. The expected weakness in growth before things can pick up again has so far failed to materialise. With the strong price gains, the equity markets are now relying on a very positive outlook for the economy and corporate profits.
- However, without a correction in the optimistic sentiment and high positioning, we remain balanced in view of the many risks to this positive scenario. We have the strongest convictions below the surface in precious and industrial metals, broadly diversified US equities (new positioning since mid-March), European small caps, covered bonds, subordinated bank bonds, catastrophe bonds, emerging market bonds in local currency and a position that would benefit from a steeper US yield curve. Our focus on quality and growth stocks should also benefit from falling interest rates.

02 Economics

Eurozone
GDP and Inflation

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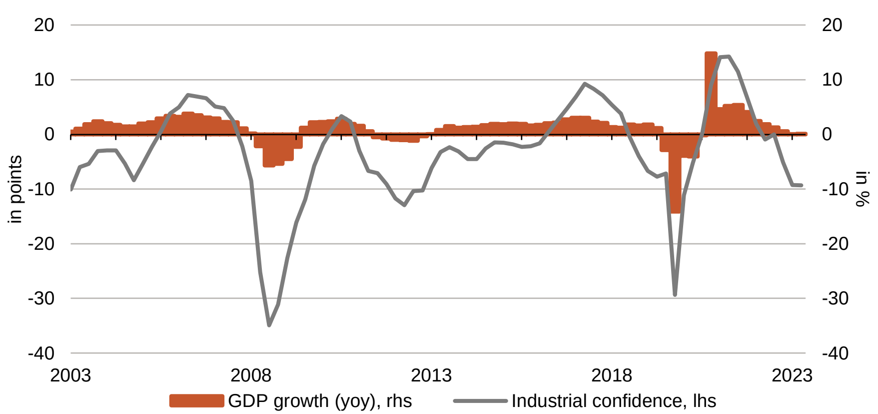
Mixed outlook for Europe

- Two very different forces characterise the outlook for the European economy in the coming months. On the one hand, the continent has weathered the second winter after the Putin shock well. In addition, consumer incomes have been rising faster than prices again since spring 2023 with falling inflation, a largely stable labour market and higher wage growth.
- On the other hand, the manufacturing sector remains in recession. Weak global trade is particularly affecting countries like Germany that specialise in exporting goods.

New momentum in spring

- After stagnating in the winter, a new upturn is on the horizon for the eurozone in the spring. As soon as the economy has gained some momentum after the end of the inventory correction, many companies will invest more again in order to restructure supply chains and replace scarce labour.
- With better news from the manufacturing sector, consumer spending in the eurozone is also likely to pick up again somewhat in the spring. Driven by rising domestic demand, the economy in the eurozone could return to a growth rate slightly above the trend rate of 1.3% in autumn.

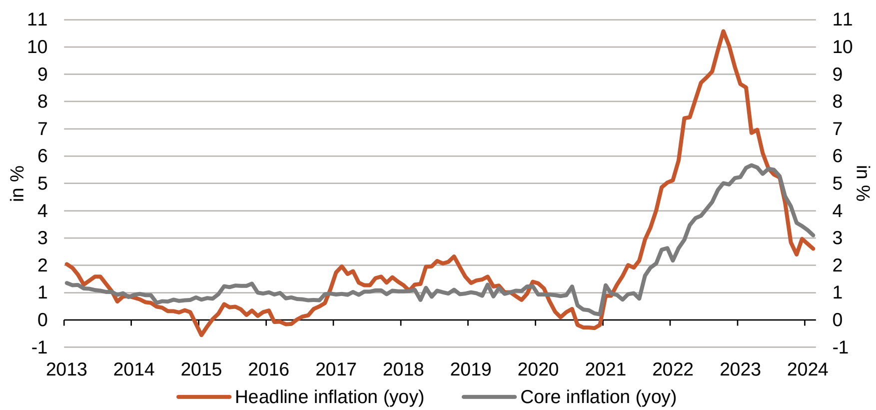
Eurozone GDP growth and industrial confidence



Source: Haver

Period: 09/2003 - 12/2023

Eurozone Inflation



Source: Haver

Period: 01/2003 - 02/2024

United Kingdom
GDP and Inflation

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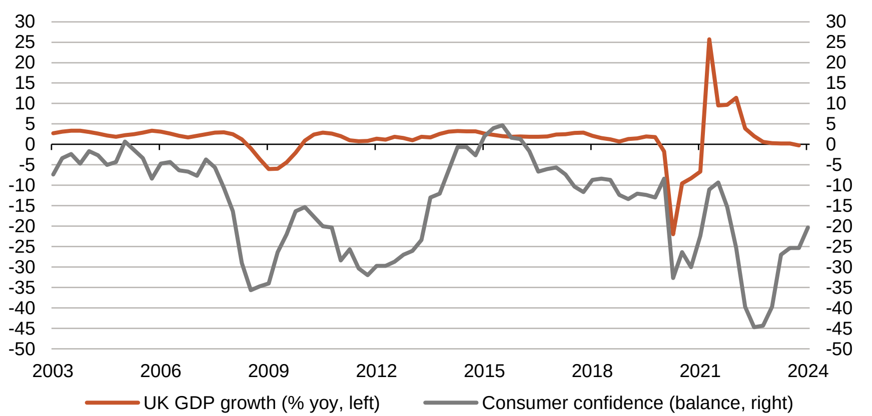
Growth returns

- Leading indicators suggest that the economy expanded again in Q1 after a shallow recession in the second half of last year. Data on monthly GDP, house prices, purchasing managers' indices, consumer confidence and retail sales all fit with our view that the worst is over.
- The upswing is likely to gather pace over the course of the year due to 1) decent real wage increases in the wake of falling inflation rates and a continued robust labour market, 2) a recovery in global trade and 3) a more favourable financing environment in the wake of interest rate cuts by the Bank of England (BoE).

Inflation retreats

- Inflation in the UK is also falling slightly later than in the eurozone – to 3.4% in February. Base effects and a further reduction in the energy price cap in April are likely to contribute to inflation reaching around the 2% target again in Q2.
- At its most recent meeting on 21 March, the BoE left the key interest rate unchanged at 5.25%. But as inflation eases, it is likely to start cutting it in June – and as the BoE is starting from a higher level than the ECB, it will probably cut more in 2024 with five 25 basis point steps than the ECB with its three.

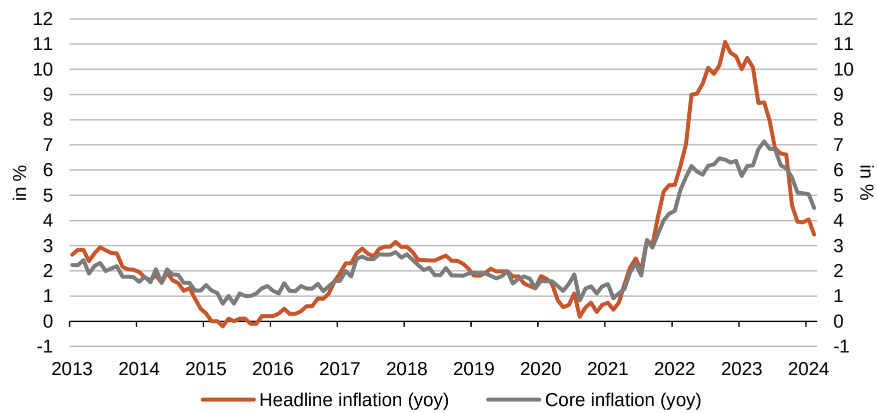
UK GDP growth and consumer sentiment



Source: Haver

Period: 03/2003 - 03/2024

United Kingdom Inflation



Source: Haver

Period: 01/2013 - 02/2024

USA
GDP and Inflation

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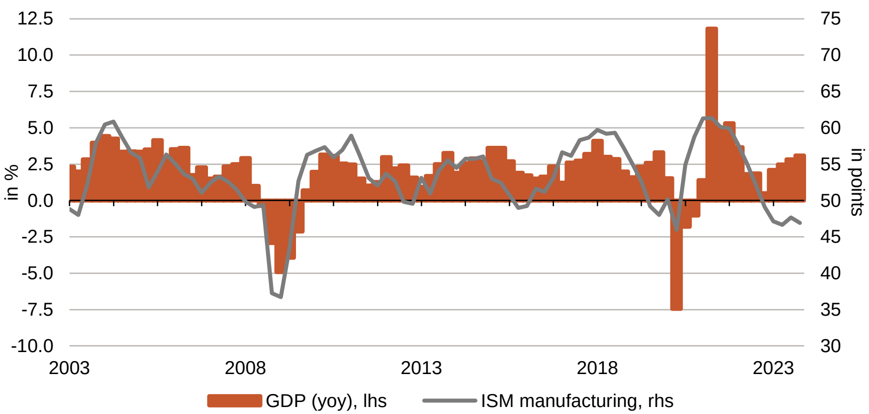
Fiscal policy supports economy despite high rates

- Despite the Fed's vigorous interest rate hike, the US economy continues to perform better than expected. Thanks to a still robust labour market, private consumers' propensity to spend remains unbroken. Despite higher financing costs, companies have also not cut back on their investments so far. Thanks to high reserves, they are less reliant on credit than in the past.
- The most important reason for the sustained high US growth is fiscal policy. Firstly, the tax incentives for green (and some other) investments counteract the restrictive monetary policy. Secondly, the government is massively increasing its own spending.

Significant risks remain, however

- Of course, considerable risks remain, as monetary policy has a delayed effect. It may therefore slow down the economy this year, even though the US had already reached the interest rate peak in autumn 2023. However, fiscal policy is likely to remain expansionary in the election year 2024.
- We continue to expect growth to weaken somewhat in spring and summer after a good start to 2024, before regaining momentum after an initial easing of monetary policy at the end of 2024.

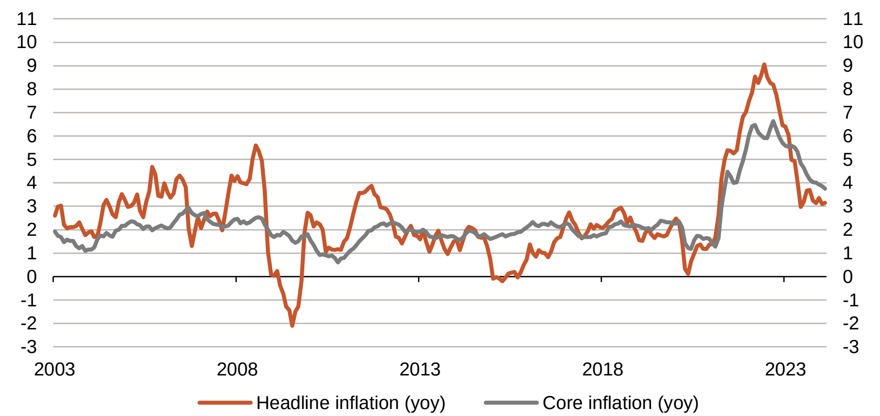
US GDP growth and Purchasing Managers Index



Source: Haver

Period: 03/2003 - 12/2023

USA Inflation (in %)



Source: Haver

Period: 01/2003 - 02/2024

Economic forecasts

Key estimates at a glance

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	GDP growth (in %)						Inflation (in %)					
	2024		2025		2026		2024		2025		2026	
		Ø**		Ø**		Ø**		Ø**		Ø**		Ø**
USA	2.4	2.2	1.7	1.7	2.0	2.0	2.9	2.9	2.7	2.4	2.7	2.3
Eurozone	0.7	0.5	1.6	1.3	1.5	1.4	2.4	2.4	2.3	2.1	2.5	2.0
Germany	0.1	0.1	1.4	1.1	1.3	1.3	2.2	2.5	2.2	2.1	2.4	1.9
France	0.7	0.7	1.7	1.3	1.6	1.5	2.6	2.6	2.4	2.0	2.6	1.9
Italy	0.8	0.6	1.3	1.1	1.2	1.0	1.6	1.6	2.1	2.0	2.3	1.8
Spain	1.9	1.6	2.1	1.9	2.1	1.7	2.7	3.0	2.4	2.2	2.6	2.1
United Kingdom	0.4	0.3	1.6	1.2	1.7	1.5	2.4	2.5	2.0	2.1	2.3	2.0
Japan	0.6	0.7	1.1	1.1	1.1	0.9	2.0	2.3	1.9	1.8	1.7	1.7
China	4.3	4.6	3.8	4.3	3.9	4.1	1.0	0.8	2.0	1.7	2.0	2.0
World*	2.3	-	2.5	-	2.6	-	-	-	-	-	-	-

Source: Bloomberg. Berenberg as of 26/03/2024.
* 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
Moderate upside potential

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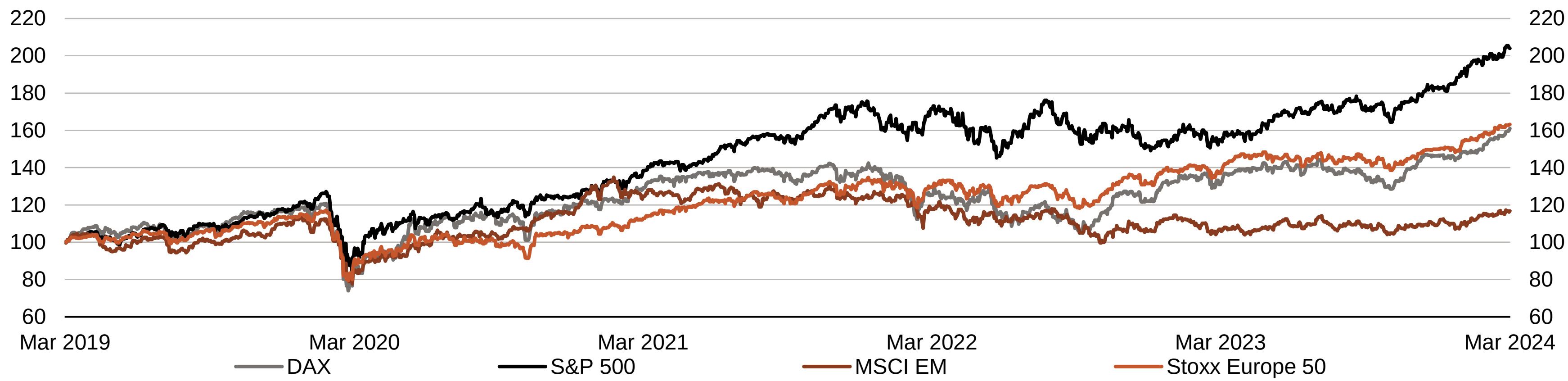
Favourable start to the year

- Continued robust US macro data and positive economic surprises for Japan and the eurozone have led to a continuation of the bull market in equities, supported by eased financial conditions and a solid earnings season. However, rising real yields due to increasing inflation risks and the pricing out of central bank rate cuts were, at least superficially, ignored by the market. In contrast to the year-end rally, however, market breadth has declined again. Interest-rate-sensitive small caps have lagged their large cap counterparts so far this year.
- We see opportunities mainly below the surface. For example, we like healthcare companies, which are benefiting from several megatrends such as the ageing population and digitalisation. We believe small caps with healthy balance sheets have catch-up potential. This is supported by favourable valuations, increasing M&A activity and stabilising interest rates. Our focus remains on high-quality European growth stocks, which should benefit from their above-average earnings growth rates. We like "value" regions such as Latin America for diversification, as a cyclical play and because commodity stocks, which are relatively well represented in the index, have risen significantly less than commodities themselves.

Performance of selected equity indices



Source: Bloomberg; performance in EUR scaled to 100. Time period: 26/03/2019 – 26/03/2024.

Corporate earnings
Mixed revisions to earnings expectations

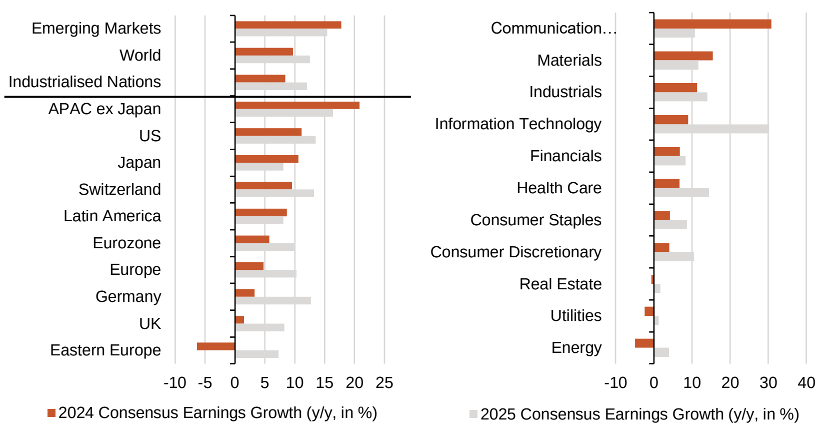
Positive earnings revisions especially in Japan and US tech

- Although the Q4 reporting season surprised positively in the aggregate, the changes in earnings expectations for 2024 are mixed. Japan is benefiting in particular from the weak yen and has seen the biggest positive earnings revisions.
- In the case of US equities, the AI winners in particular have seen their earnings estimates rise, with the result that aggregate EPS estimates for the S&P 500 have risen at least slightly. By contrast, negative earnings revisions dominated in Europe and emerging markets. With interest rates and wages still high and commodity prices on the rise again, we continue to believe that corporate earnings will struggle to surprise on the upside this year.

US equities relatively supported despite high valuation

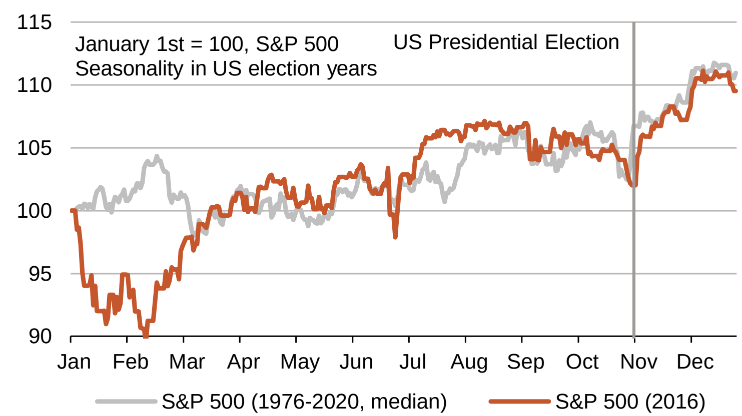
- The US equity market should remain relatively supported despite its high valuation. In addition to the stronger US economy, lower energy costs and more innovative companies, this is mainly because the mega-caps are still the most supported by non-fundamental inflows (ETFs, options, buybacks).
- Overall, we see only moderate upside potential for equity indices until the end of the year due to positioning and valuation. The probability of a pullback over the summer has increased significantly, in line with typical seasonality. This is especially true as the US presidential election campaign enters its hot phase. This will naturally lead to some volatility in the markets.

Consensus expects strong earnings growth for 2024



Source: Factset, MSCI Europe sectors, own calculations. As of: 26/03/2024.

Volatility likely to increase over the summer



Source: Bloomberg, own calculations. Time period: 01/01/1976 – 31/12/2020.

Performance & Valuation

Market breadth likely to increase as year progresses

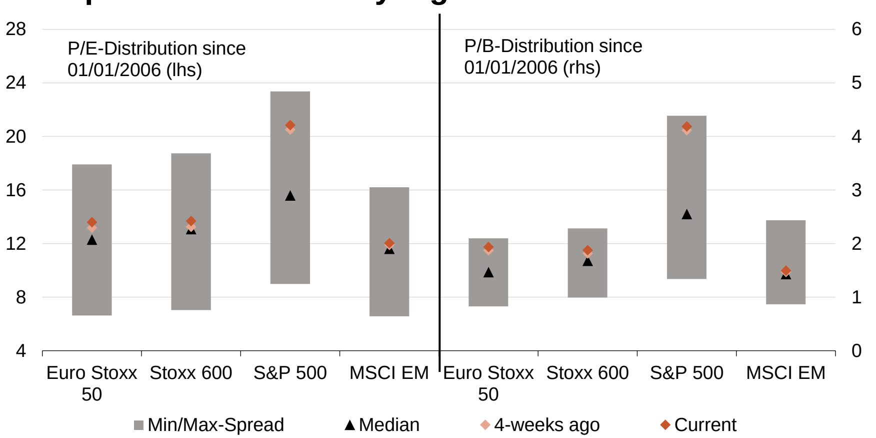
Further valuation expansion limited in the US

- The recent bull market has been strongly driven by valuations, despite rising interest rates, which is rather unusual. The forward P/E for the S&P 500 is now back at just under 21 (90th percentile over the past 10 years), well above the historical average of 17.
- In addition to hopes of higher long-term profits from the AI revolution, one driver has been the continued inflows into US technology – the only equity sector to see massive inflows in recent months, thanks to the AI euphoria. In addition, systematic strategies have continued to increase their equity exposure, especially risk-parity strategies, due to the falling correlation between equities and bonds.

Opportunities beneath the surface

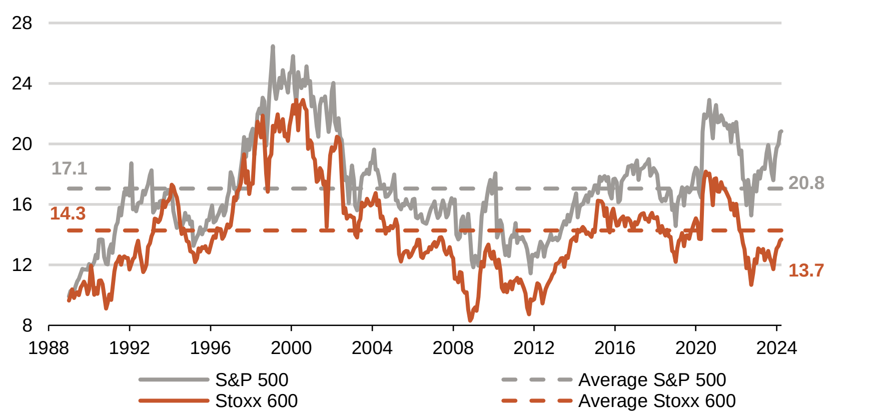
- Given the already high positioning of non-fundamental investors, we believe that the potential for a significant rise in valuations is limited, even in the event of central bank rate cuts.
- By contrast, other segments such as European equities and small caps are cheap relative to their own history. If our economists are right and European growth accelerates from the second quarter of 2024, not only earnings but also valuations of European companies should rise.

US equities at historically high valuations



Source: Factset, own calculations. Time period: 01/01/2006 – 26/03/2024.

European equities still historically cheap



Source: Bloomberg, own calculations. Time period: 01/01/1988 – 26/03/2024.

Equity allocation
Overweight in EM and Europe ex. UK

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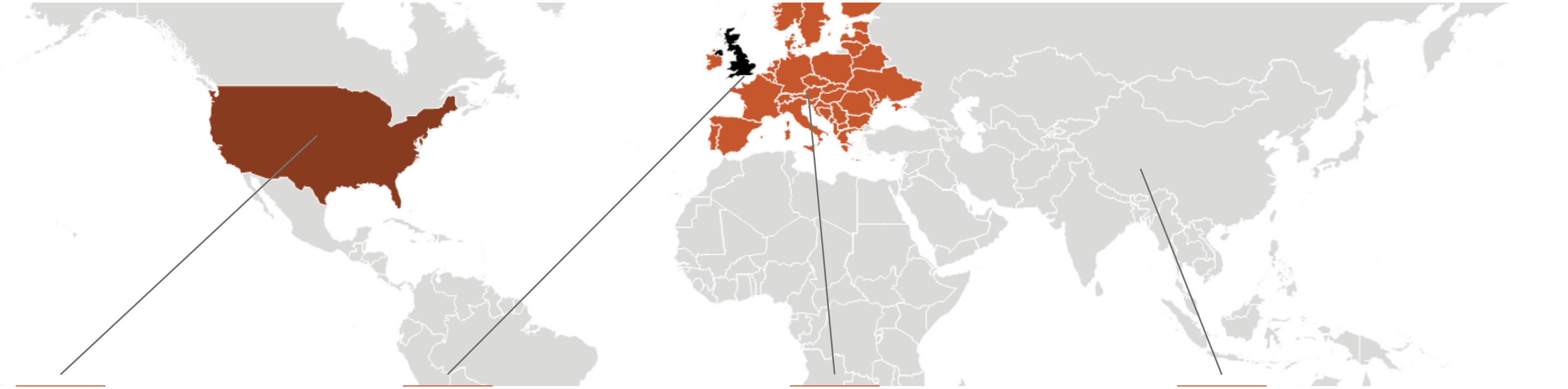

US
Slightly underweight

- The high weighting of US mega caps and the continued higher valuation of US equities make the region less attractive than more favourable regions such as Europe or emerging markets. On the other hand, the US economy remains surprisingly robust and the AI euphoria currently favours US equities in particular.
- Within the equity regions, we are slightly underweight US equities.

United Kingdom
Neutral

- UK equities are cheap compared to many other regions. At index level, UK equities have a rather defensive and commodity-rich profile, which should pay off in an environment of high inflation and geopolitical risks.

Europe ex. UK
Slightly underweight

- Despite the positive development since the beginning of the year, European companies do not have a high valuation. The current difficult economic situation therefore appears to be largely reflected in prices. If the economy recovers, there is significant potential for recovery.
- We are slightly overweight on Europe ex UK. We see opportunities in European small caps and broad US equities (new positioning since mid-March).

Emerging markets
Overweight

- Latin American equities offer a value-orientated addition to the portfolio. In addition to the favourable valuations, the region's high commodity exposure also argues for relative outperformance in the event of an economic recovery, especially as the region is already further advanced in the interest rate cycle and an easing of monetary policy should support both earnings growth and valuations.

Equity market forecasts

Estimates for selected indices

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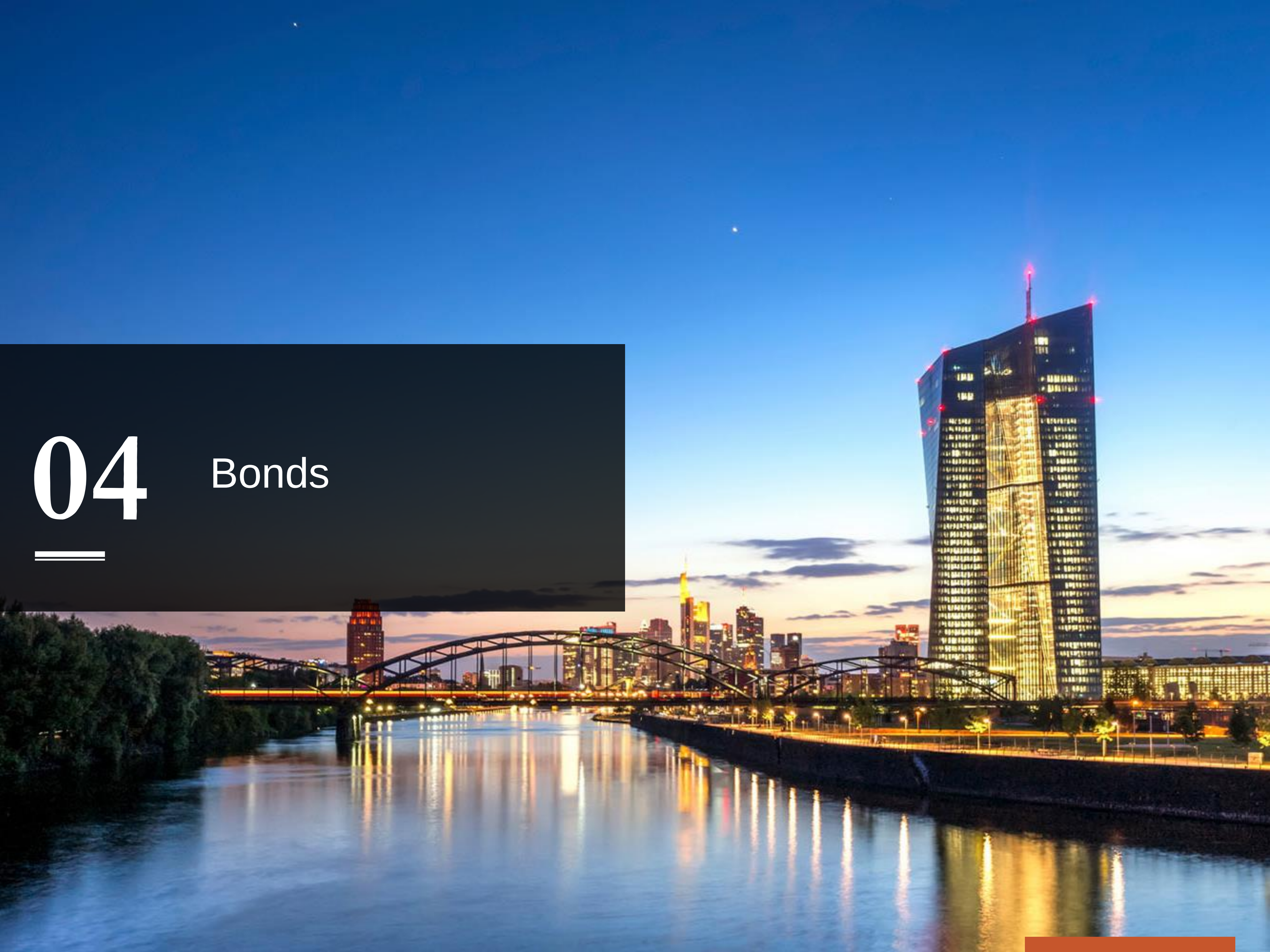
Index forecasts	Current 26/03/2024	31/12/2024	30/06/2025	Ø* in 12 months
S&P 500	5,204	5,300	5,500	5,636
DAX	18,384	18,500	20,000	20,509
Euro Stoxx 50	5,064	5,100	5,400	5,374
MSCI UK	2,274	2,300	2,400	2,582

Index potential (in %)				
S&P 500	-	1.9	5.7	8.3
DAX	-	0.6	8.8	11.6
Euro Stoxx 50	-	0.7	6.6	6.1
MSCI UK	-	1.1	5.5	13.5

Source: Bloomberg. Berenberg. as of 26/03/2024.
*Average based on bottom-up estimates.

04 Bonds



Government bonds

Divided prospects offer differentiated opportunities

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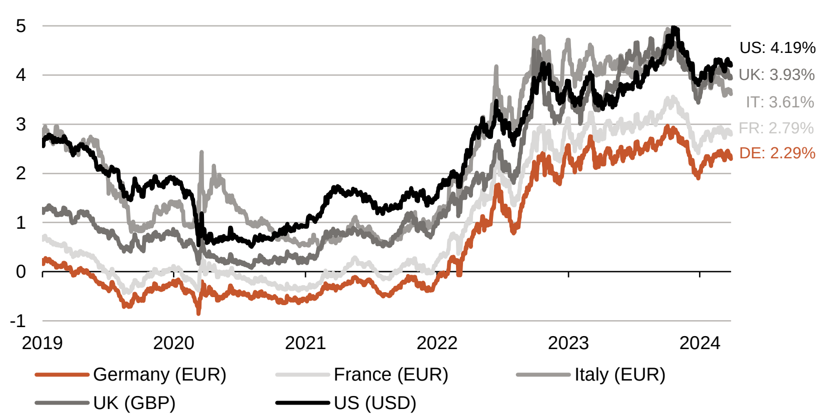
Heterogeneous markets offer different opportunities

- The 2024 bond year got off to a mixed start. In the face of positive economic surprises, headwinds emerged in the form of rising yields, which individual bond segments were able to counter to varying degrees. Following the sharp fall in yields on safe government bonds in the final weeks of last year, the past quarter was characterised by a countermovement.
- Heterogeneity is also likely to characterise the rest of the year, although we are not retracting our slogan "The good times are not over", but emphasising that differentiation is essential within the submarkets we have discussed.

Divided outlook for the course of the year

- However, the corresponding price losses on safe government bonds have resulted in a positive message: the most difficult phase of the year is probably already behind us. As the current yield levels have come a good deal closer to those we forecast, the outlook for the coming months is promising, at least in part.
- UK government bonds in particular could benefit strongly in the 10-year segment, while German Bunds are riskier due to lower interest rates. We expect central banks, including the ECB, to cut interest rates further to support the markets, with one more rate cut than initially thought.

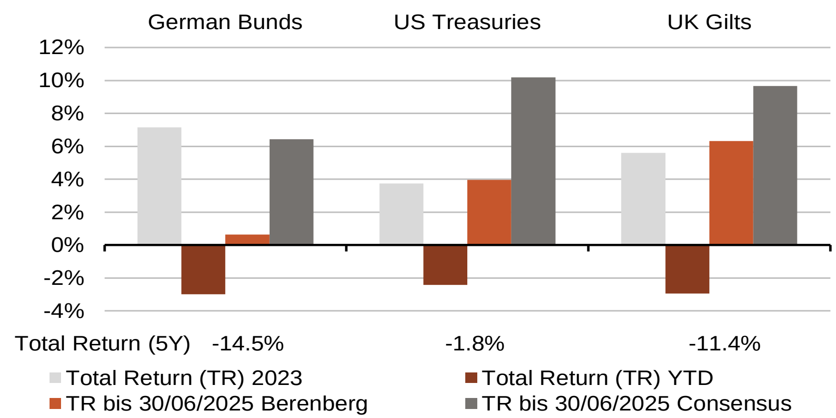
Rising yields across the board in 2024 so far



Source: Bloomberg

Time period: 01/01/2019 – 27/03/2024

The worst is over for safe government bonds



Source: Bloomberg, own calculations, iBoxx government bond indices (7-10 years, TR)

Time period: 18/03/2019 – 18/03/2024

Corporate & EM bonds

HY scepticism despite recovery; rate cuts boost EM bonds

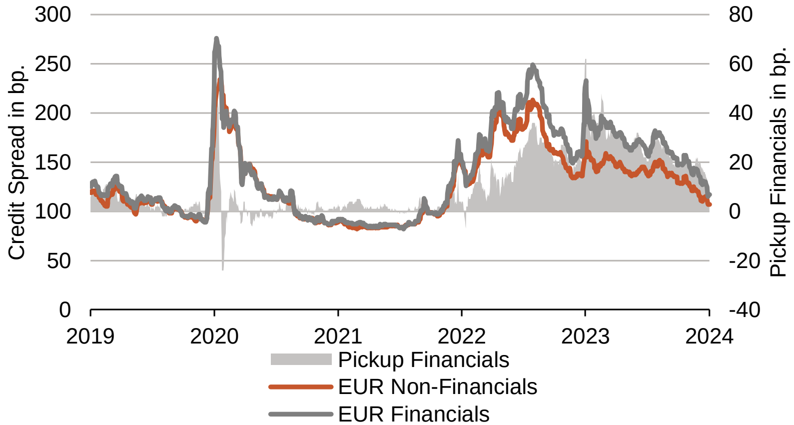
Corporate bonds: Avoid the high-yield segment

- At the end of 2023, we were sceptical about European high-yield bonds. Positive economic data is now mitigating the risk of recession, which gave high-yield bonds a boost at the start of the year (+1.8%). Nevertheless, we favour the safer investment-grade bonds with a yield of around 3.8% due to the high valuations of high-yield bonds.
- The risk premiums for German financial institutions have risen, but we do not currently see an acute threat. We advise against new investments in this area, but are on the lookout for opportunities in senior bonds issued by leading banks.

EM: Interest rate cuts support local currency bonds

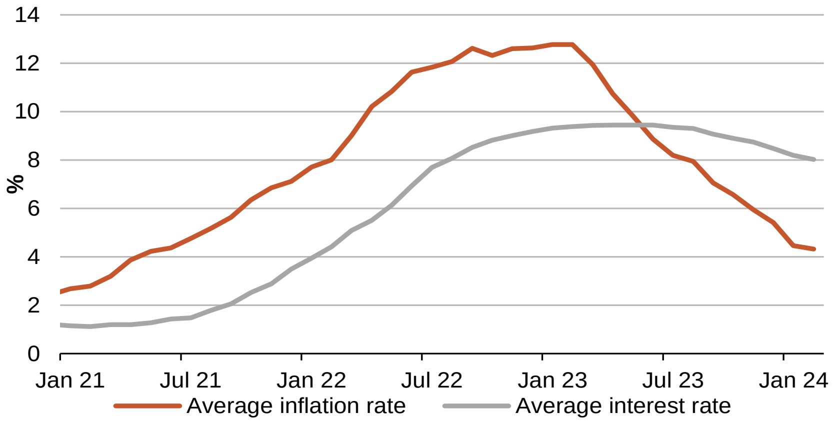
- Stable US labour market data and high inflation indicate that US interest rates could remain stable for longer, which has an impact on global yield curves and changes the expectations for interest rate cuts.
- Emerging markets with early interest rate cuts offer investors attractive opportunities, especially in regions with a solid economic outlook. The upcoming elections in these countries should not affect the favourable investment climate.

Financial bonds still pay significant excess premiums



Source: ICE, Berenberg calculations. Time period: 18/03/2019 – 18/03/2024

EM: the trend towards lower rates is gathering pace



Source: Bloomberg, Berenberg calculations. Time period: 01/01/2021 – 29/02/2024

Capital market strategy
Bonds

Core segments

Government bonds
Underweight

- As the range of fluctuation in macro data remains elevated, interest rate volatility for safe government bonds is also likely to remain high.
- Secured covered bonds have a similar credit risk profile but offer a higher yield. This risk-return profile seems more attractive to us compared to government bonds.

Corporate bonds
Overweight

- We continue to favour the IG segment of corporate bonds, but continue to focus on shorter maturities. The vast majority of issuers continue to impress with solid balance sheets and generous liquidity reserves. In terms of sector selection, we focus on defensive industries and avoid cyclical ones.
- Financial bonds continue to offer a higher yield than non-financial bonds and also have better financial ratios. We therefore continue to favour them.

Other segments

Emerging markets
Overweight

- Local currency bonds remain attractive, as there have recently been more net interest rate cuts than interest rate hikes by EM central banks (e.g. Brazil and Chile).
- In the case of hard currency bonds from emerging markets, we favour government bonds over IG corporate bonds due to higher yields and longer duration.

High yield bonds
Overweight

- As risk premiums in the high-yield bond segment are historically low, we are cautious across the board, but we do see interesting opportunities on a selective basis.
- We continue to consider special themes such as financial subordinated debt from creditworthy banks and insurers as well as catastrophe bonds attractive.

Forecasts

Estimates for selected bond markets

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Base interest rates and government bond yields (in %)	26/03/2024	31/12/2024		30/06/2025	
	Current		Ø*		Ø*
US					
Base interest rate	5.25-5.50	4.50-4.75	4.60	4.00	3.95
10Y US yield	4.23	4.50	3.87	4.50	3.75
Eurozone					
Base interest rate	4.50	3.40	3.20	3.00	2.80
10Y Bund yield	2.35	2.60	2.11	2.80	2.10
United Kingdom					
Base interest rate	5.25	4.00	4.30	3.50	3.55
10Y Gilt yield	3.97	4.00	3.61	4.00	3.57

Source: Bloomberg. Berenberg. as of 26/03/2024.
*Average of estimates by other experts (Bloomberg) consensus.

05 Commodities

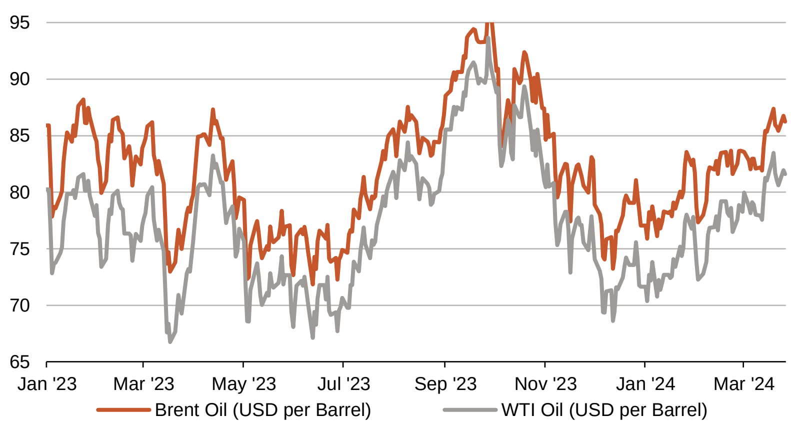
Crude oil
Opportunities outweigh risks

BERENBERG
PARTNERSHIP SINCE 1590

Oil continues to move sideways despite positive developments

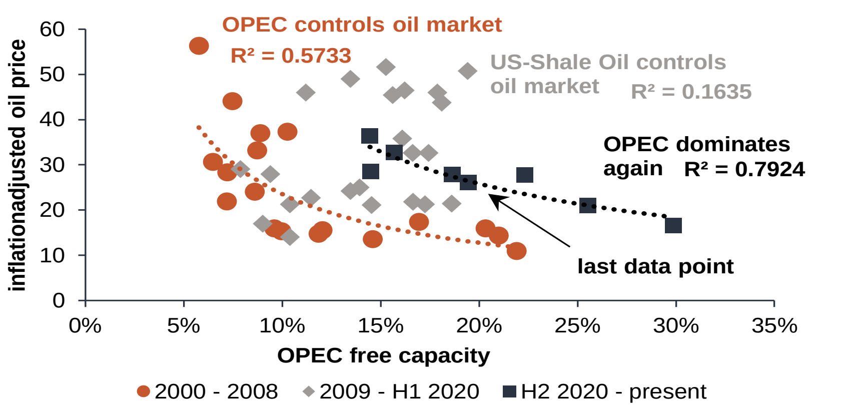
- Crude oil (Brent) has recently stabilised above the USD 80 per barrel mark following the considerable weakness in Q4 last year. Tailwinds came from two sides. Firstly, many shipping companies are now rerouting their oil tankers via the much longer route around the Cape of Good Hope as a result of the attacks by the Houthi rebels in the Red Sea. This not only increases transport costs, but also ties up more supply on the world's oceans. Secondly, the increasingly positive economic surprises around the world point to improved demand.
- However, supply also remains plentiful. OPEC+, which has considerable spare capacity, has, of necessity, extended its voluntary cuts until the end of June, although compliance among members has recently weakened somewhat. In addition, production in non-OPEC countries is likely to increase further this year, albeit at a slightly lower rate than last year. Overall, the oil price is likely to fluctuate sideways in a volatile manner in the coming months. Geopolitical escalations, such as the recent drone attacks by Ukraine on Russian refineries, or a stronger recovery in China offer positive potential for surprises.

Brent stabilises above USD 80 per barrel



Source: Bloomberg. Time period: 01/01/2023 – 26/03/2024.

OPEC dominates market, high capacities weigh on oil



Source: Bloomberg, Berenberg calculations Time period: 01/01/2000 – 31/12/2023

Precious and industrial metals
Gold price rises, industrial metals wait for impulses

BERENBERG
PARTNERSHIP SINCE 1590

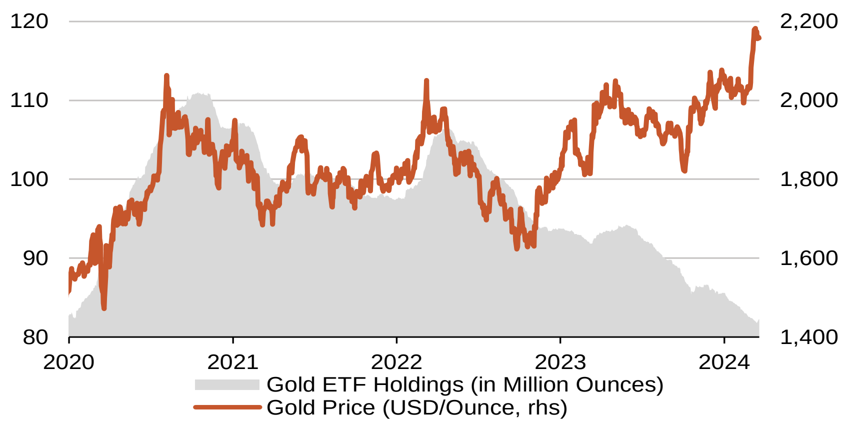
Gold still has room to rise despite all-time high

- Gold climbed to new all-time highs in Q1, although there was actually no fundamental trigger for this – both real interest rates and the US dollar are higher today than at the start of the year. At the same time, ETFs recorded continuous outflows. The breakout is therefore likely to be driven primarily by technical factors.
- Historically, gold tends to move sideways on a soft landing. Nevertheless, there are some upside opportunities. In addition to central bank demand and private demand in China, the positioning of investors in the West has significant upside potential in the event of a hard landing or geopolitical escalation. Only sharply rising interest rates remain a risk for the gold price.

Metals with positive outlook despite weak industry

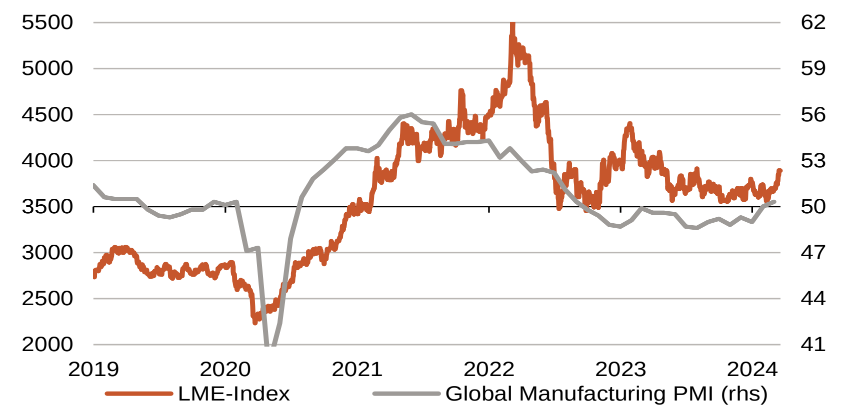
- The LME industrial metal index has fluctuated sideways since the beginning of the year. Although the economic outlook has brightened considerably, activity in the manufacturing sector is currently still very subdued.
- However, as there are still no signs of a substantial increase in supply, even though the growth in demand for the green transformation is gaining momentum, prices are likely to rise (sharply) sooner or later. First, however, the industry needs to recover for prices to rise.

Price is rising, although ETF holdings continue to fall



Source: Bloomberg, own calculations. Time period: 01/01/2020 – 18/03/2024

Metals are waiting for rising industrial activity



Source: Bloomberg, own calculations. Time period: 01/01/2019 – 18/03/2024.

06 Currencies

Market Development
FX markets

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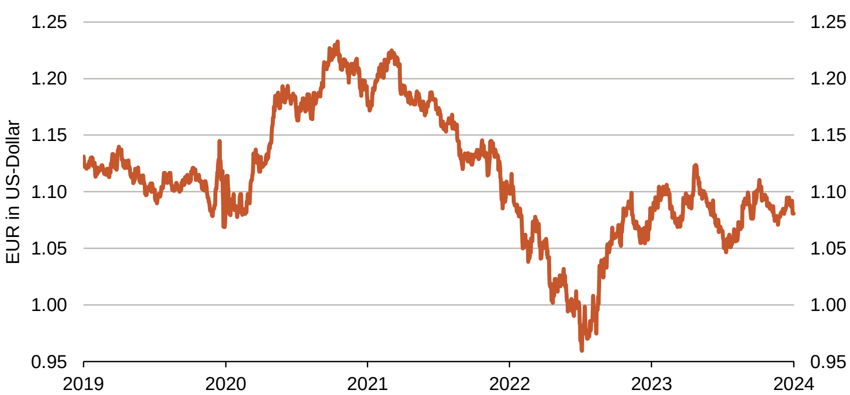
The euro makes up some ground

- The euro has recently been able to make up some ground. Since mid-February, the euro has appreciated moderately against the strong dollar and recently reached a rate of 1.09 US dollars per euro – close to the value of 1.10 that we assume for the middle of the year. Whether the euro economy recovers as expected and when and by how much interest rates will fall will be of great importance for future developments.
- After the most recent monetary policy meeting on 7 March, ECB President Christine Lagarde signalled very clearly that the bank intends to wait until June before possibly cutting interest rates.

Focus on central banks and the economy

- The ECB, the US Fed and the Bank of England are likely to initiate their interest rate reversals close together later in the second quarter. The exact sequence of the first interest rate cut could cause short-term volatility on the currency markets. In the long term, however, it should be insignificant.
- In the medium term, central bank interest rates in the USA are likely to be just under one percentage point higher than those in the eurozone. Due to the higher starting level, we nevertheless expect the Fed to cut interest rates more than the ECB over the next twelve months – by 150 basis points compared to 100.

Exchange rate: Euro/US-Dollar



Source: Bloomberg

Period: 03/2019 – 03/2024

Exchange rate: EUR/CHF

Source: Bloomberg

Period: 03/2019 – 03/2024

Forecasts

Estimates of key currencies

	26/03/2024	31/12/2024		30/06/2025	
Exchange rate forecasts	**Current**		**Ø***		**Ø***
EUR/USD	1.08	1.12	1.10	1.13	1.09
EUR/GBP	0.86	0.85	0.87	0.85	0.85
EUR/CHF	0.98	0.96	0.98	0.96	0.96
EUR/JPY	164	157	156	156	160

Change against the Euro (in %)					
USD	-	-3.3	-1.5	-4.2	-0.6
GBP	-	0.9	-1.4	0.9	0.9
CHF	-	2.0	-0.1	2.0	2.0
JPY	-	4.6	5.2	5.2	2.6

Source: Bloomberg. Berenberg as of 26/03/2024.
*Average of estimates of other experts (Bloomberg); consensus.

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