BERENBERG
PARTNERSHIP SINCE 1590

HORIZON *handout*

The Berenberg Capital Markets Outlook • Wealth and Asset Management

July | 2024

Horizon Handout – Capital Market Outlook
Disclaimer

BERENBERG
PARTNERSHIP SINCE 1590

This information is a marketing communication. This information and references to issuers, financial instruments or financial products do not constitute an investment strategy recommendation pursuant to Article 3 (1) No. 34 Regulation (EU) No 596/2014 on market abuse (market abuse regulation) nor an investment recommendations pursuant to Article 3 (1) No. 35 Regulation (EU) No 596/2014, both provisions in connection with section 85 (1) of the German Securities Trading Act (WpHG). As a marketing communication this document does not meet all legal requirements to warrant the objectivity of investment recommendations and investment strategy recommendations and is not subject to the ban on trading prior to the publication of investment recommendations and investment strategy recommendations. This document is intended to give you an opportunity to form your own view of an investment. However, it does not replace a legal, tax or individual financial advice. Your investment objectives and your personal and financial circumstances were not taken into account. We therefore expressly point out that this information does not constitute individual investment advice. Any products or securities described may not be available for purchase in all countries or only in certain investor categories. This information may only be distributed within the framework of applicable law and in particular not to citizens of the USA or persons resident in the USA. The statements made herein have not been audited by any external party, particularly not by an independent auditing firm. Any future returns on fund investments may be subject to taxation, which depends on the personal situation of the investor and may change in the future. Returns on investments in foreign currencies may increase or decrease due to currency fluctuations. In the case of investment funds, you should always make an investment decision on the basis of the sales documents (key investor document, sales prospectus, current annual, if applicable, semi- annual report), which contain detailed information on the opportunities and risks of the relevant fund. In the case of securities for which a securities prospectus is available, investment decisions should always be made on the basis of the securities prospectus, which contains detailed information on the opportunities and risks of this financial instrument, otherwise at least on the basis of the product information document. An investment decision should be based on all characteristics of the fund and not just on the sustainability-related aspects . All the aforementioned documents can be obtained from Joh. Berenberg, Gossler & Co. KG (Berenberg), Neuer Jungfernstieg 20, 20354 Hamburg, Germany, free of charge. The fund sales documents and the product information sheets for other securities are available via a download portal using the password »berenberg« at the Internet address https://docman.vwd.com/portal/berenberg/index.html. The sales documents of the funds can also be requested from the respective investment management company. We will be pleased to provide you with the specific address details upon request. A fund investment involves the purchase of shares in an investment fund, but not a specific underlying asset (e.g. shares in a company) held by that fund. The statements contained in this document are based either on own company sources or on publicly accessible third-party sources, and reflect the status of information as of the date of preparation of the presentation stated below. Subsequent changes cannot be taken into account in this document. The information given can become incorrect due to the passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. Past performance, simulations and forecasts are not a reliable indicator of future performance and custody fees may occur which can reduce overall performance. Please refer to the online glossary at www.berenberg.de/glossar for definitions of the technical terms used in this document. For important disclosures and information on index- and market data, see https://www.berenberg.de/en/legal-notice/license-notice/.

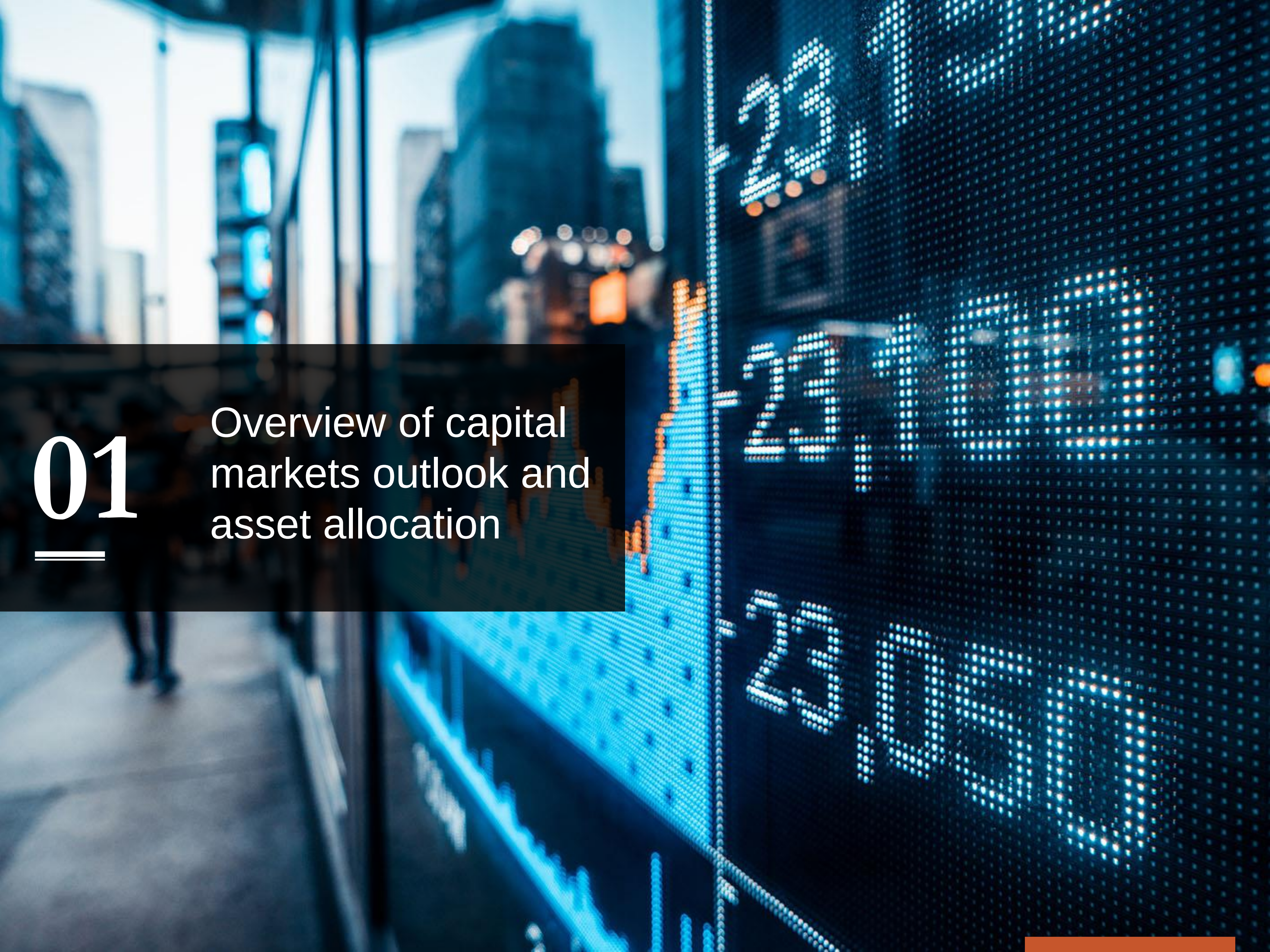
Date 27/06/2024.

Table of contents

BERENBERG
PARTNERSHIP SINCE 1590

01	Capital market and asset allocation Sideways over the summer.	4
02	Economics Economic growth and interest rates normalise.	9
03	Equities Preference for countercyclical action.	14
04	Bonds Focus remains on higher-risk bond segments.	20
05	Commodities Not only gold shines.	25
06	Currencies Start of the interest rate turnaround hardly weighs on the euro.	28

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



01 Overview of capital markets outlook and asset allocation

Overview of capital markets
Performance review

BERENBERG
PARTNERSHIP SINCE 1590

Performance of selected asset classes

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

	4-week & YTD		12-month periods over that last 5 years				
	4W (28/05/24 - 25/06/24)	YTD (29/12/23 - 25/06/24)	25/06/23 25/06/24	25/06/22 25/06/23	25/06/21 25/06/22	25/06/20 25/06/21	25/06/19 25/06/20
REITs	3.7	-2.0	7.5	-17.3	3.0	22.0	-11.2
MSCI World	3.3	15.8	25.3	9.2	-0.5	31.6	4.4
Brent	2.9	19.9	30.3	-21.7	96.1	69.2	-36.3
MSCI Emerging Markets	1.6	10.9	14.2	-2.2	-15.0	31.8	-0.4
MSCI Frontier Markets	1.4	10.1	15.8	-5.9	-5.8	28.1	-9.3
USDEUR	1.3	3.0	1.7	-3.1	13.1	-6.0	1.3
Global Convertibles	0.9	2.8	6.0	0.9	-14.1	37.1	15.9
EUR Coporates	0.6	0.6	6.3	0.1	-12.5	3.2	-0.4
EUR Sovereign Debt	0.5	-0.6	3.3	-2.8	-7.8	0.0	0.9
Euro overnight deposit	0.3	2.0	4.0	1.5	-0.6	-0.5	-0.4
Gold	-0.4	15.8	22.8	1.9	16.0	-5.1	25.6
Industrial Metals	-8.6	11.5	12.3	-8.4	15.6	42.3	-7.4

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

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

Time period: 25/06/2019 – 25/06/2024.

Overview of capital markets
Outlook by asset class

BERENBERG
PARTNERSHIP SINCE 1590

Economics

- The hesitant economic recovery in the eurozone is being driven primarily by the services sector.
- Inflation falls and confidence rises in the UK.
- The US economy is slowly cooling down, but there is no sign of a slump.

Equities

- Equity markets to trend sideways in a volatile manner until the US elections. Anti-cyclical action therefore seems sensible.
- In terms of valuation, Europe has room for upside, especially if the economic upturn continues.
- Focus on megatrend winners, European small caps and commodity shares. Defensive equities as a tactical addition.

Bonds

- Investors in safe government bonds are benefiting from the rise in interest rates; price gains are not to be expected.
- In the case of European corporate bonds, high-yield securities are back.
- Improved economic prospects and yield premiums make local currency securities in emerging markets attractive.

Alternative investments / commodities

- Gold with structural potential despite strong momentum.
- Oil with a tailwind over the summer.
- Industrial metals attractive in the long term after consolidation.

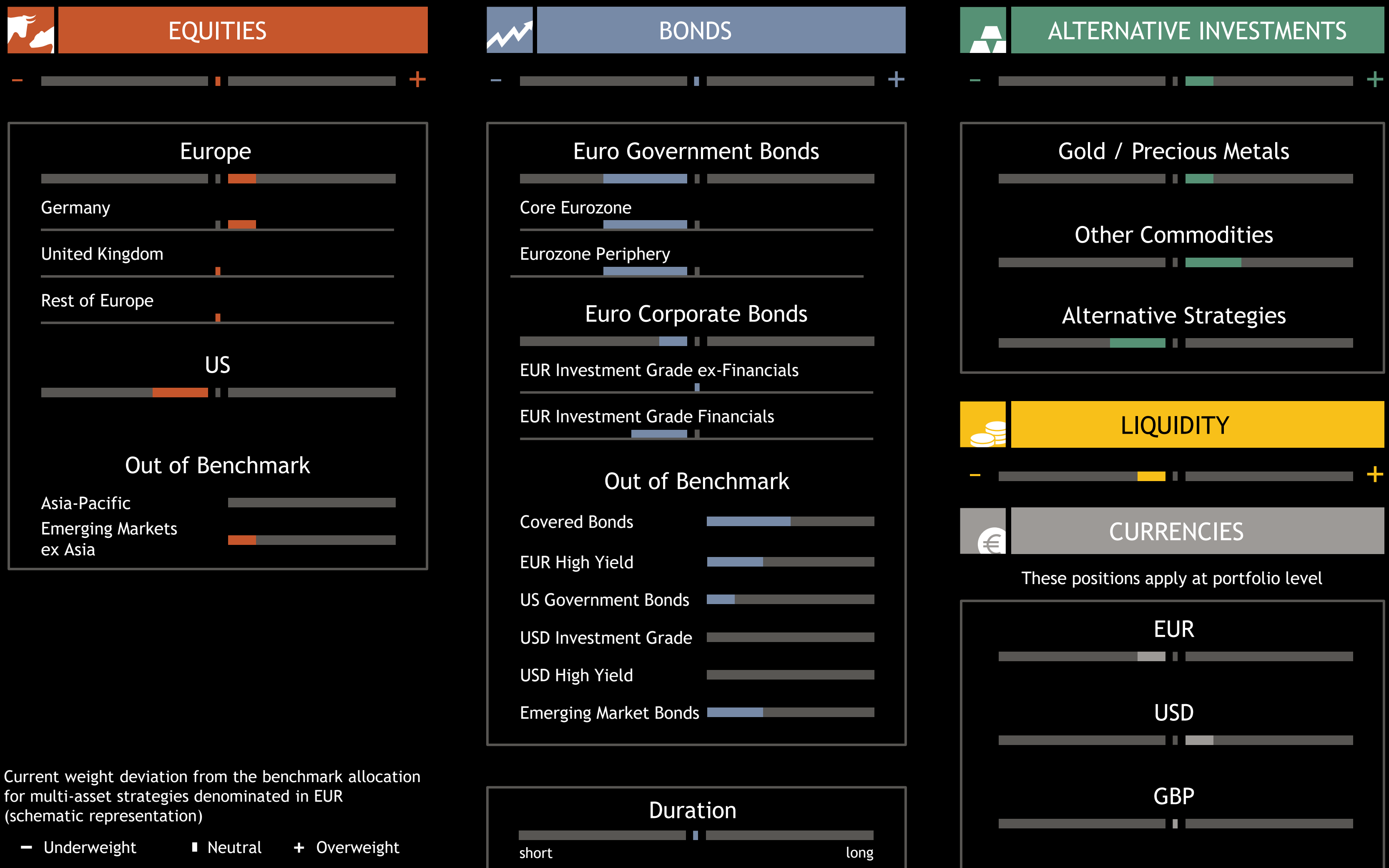
Currencies

- Start of the interest rate turnaround hardly weighs on the euro.
- Currency effects of falling interest rates will be offset by economic recovery.
- Swiss National Bank will prevent the franc from appreciating too much.

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

BERENBERG
PARTNERSHIP SINCE 1590

Portfolio positioning of a balanced mandate at a glance



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

– Underweight ▮ Neutral + Overweight

Source: Berenberg

As of 26/06/2024.

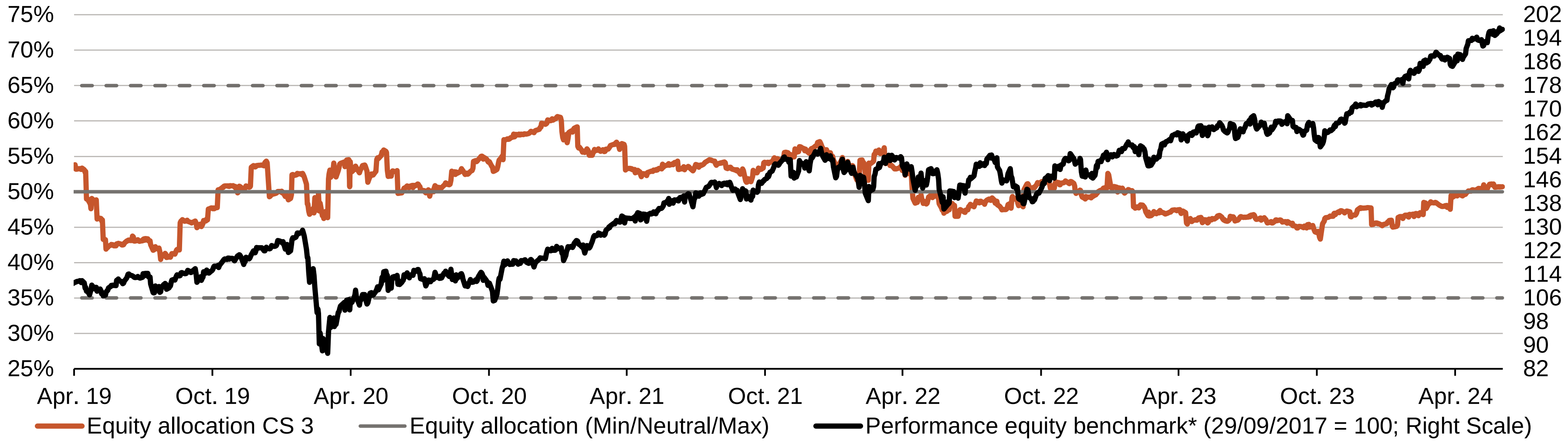
Overview of Berenberg's asset allocation

Review of Core Strategy 3

BERENBERG
PARTNERSHIP SINCE 1590

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

	24/06/19 - 24/06/20	24/06/20 - 24/06/21	24/06/21 - 24/06/22	24/06/22 - 24/06/23	24/06/23 - 24/06/24
Performance equity benchmark	**-0.82%**	**25.69%**	**2.29%**	**14.17%**	**21.30%**



Sources: SimCorp, Bloomberg, Berenberg. *The "equity benchmark" is 70% STOXX Europe Net Return Index and 30% S&P 500 Net Return Index. Time period: 24/06/2019 – 24/06/2024.
Note: The historical performance presented here is not a reliable indicator of future performance.

- We maintain a moderately constructive portfolio positioning with a focus on commodities, corporate bonds and small caps with a near-neutral equity allocation. Given the optimistic investor sentiment and positioning, the stretched valuations of US equities in particular, and the persistently high risks (inflation, US economy, elections, geopolitics), we do not believe a more aggressive positioning is appropriate.
- We think it is unlikely that equity markets will continue to rise sharply. After the strong performance so far this year, many investors are likely to slow down given the political risks in the run-up to the US elections, especially as liquidity will diminish over the summer. We are therefore waiting patiently for good opportunities. Recently, for example, we bought European equities at the expense of US equities after the latter had massively underperformed on the back of the French elections.

02 Economics

Eurozone
GDP and Inflation

BERENBERG
PARTNERSHIP SINCE 1590

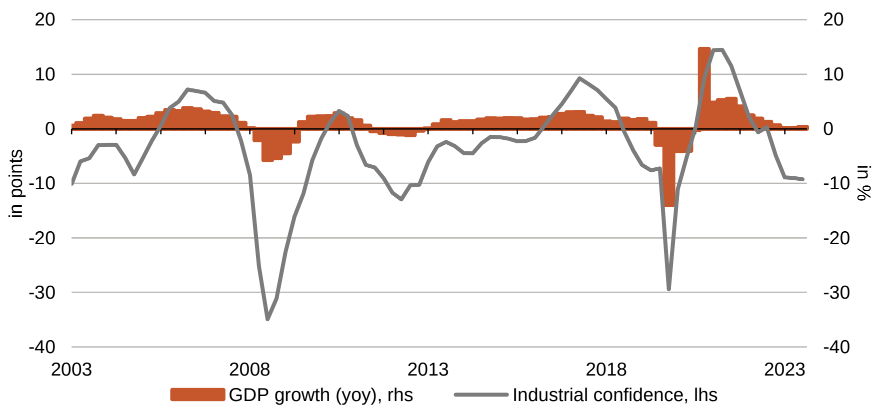
Hesitant economic recovery

- After almost stagnating in 2023, the eurozone economy is slowly regaining momentum. GDP growth in the first quarter was surprisingly positive at 0.3% compared to the previous quarter. Even though the latest purchasing managers' surveys have recently been disappointing, rising real wages and slowly falling interest rates should help to consolidate the upturn in the summer.
- On the demand side, consumer purchasing power is increasing again thanks to rising wages and falling inflation. A slightly expansive fiscal policy in southern Europe is also having a supportive effect, so we are optimistic about the second half of the year.

ECB interest rate turnaround has begun

- As expected, the ECB lowered its key interest rates by 25 bp on 6 June. However, President Lagarde did not give any concrete indications of further action in the coming months in the subsequent press conference.
- In our opinion, it would take a major surprise in GDP and inflation for the next rate cut to take place in July. We expect a further rate cut of 25 basis points in September, before a slight rise in inflation at the end of the year prevents the ECB from making further cuts for the time being. For the coming year, we expect two further interest rate cuts, so that the deposit rate will then be 3.0% in summer 2025.

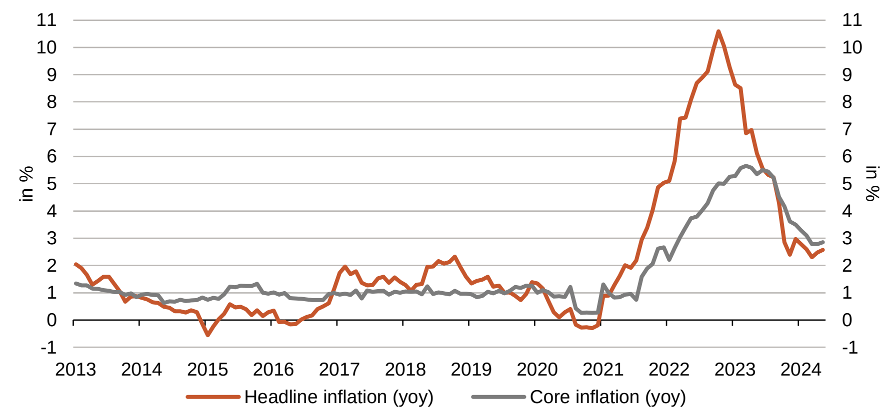
Eurozone GDP growth and industrial confidence



Source: Haver

Period: 09/2003 - 03/2024

Eurozone Inflation



Source: Haver

Period: 01/2013 - 05/2024

United Kingdom
GDP and Inflation

BERENBERG
PARTNERSHIP SINCE 1590

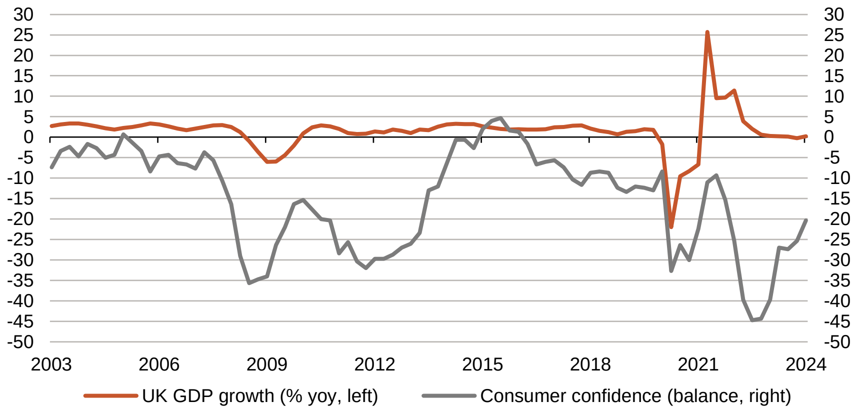
Economy slowly gaining momentum

- Following a mini recession at the end of the year, the British economy grew more strongly than expected in the first three months of the year, at 0.6% compared to the previous quarter. In April, economic output stagnated compared to March, although this was partly due to the bad weather.
- After years of self-inflicted Brexit turbulence, we expect the British economy to grow at least at the same pace as its largest trading partner, the eurozone, in the coming quarters. We expect GDP growth of 0.8% for the year as a whole.

Inflation falls to target, but core rate still too high

- Inflation fell to the target level of 2% in May, but wage pressure in the service sector in particular is keeping core inflation at 3.5%, which is still too high for the BoE.
- At its June meeting, the central bank therefore left the key interest rate unchanged at 5.25%. We assume that core inflation will fall slightly in the coming months and that the BoE will cut the key interest rate by 25 bp at its next meeting in August, i.e. after the elections. After that, we expect six further interest rate cuts of 25 bp each, so that the key interest rate will be 3.5% by mid-2025.

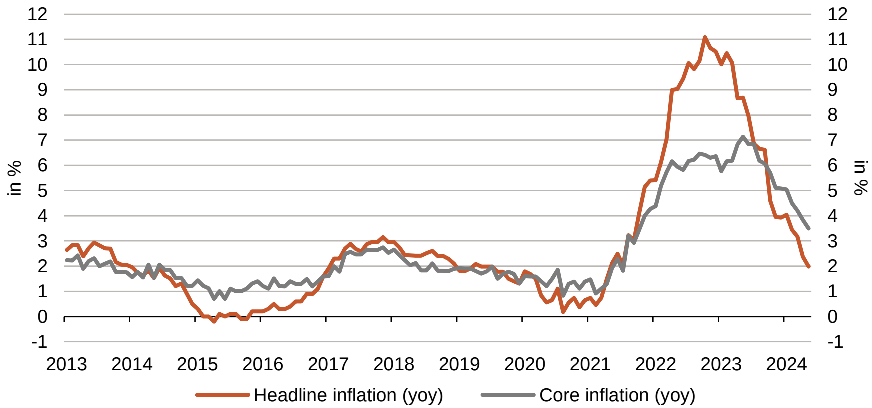
UK GDP growth and consumer sentiment



Source: Haver

Period: 03/2003 - 06/2024

United Kingdom Inflation



Source: Haver

Period: 01/2013 - 05/2024

USA
GDP and Inflation

BERENBERG
PARTNERSHIP SINCE 1590

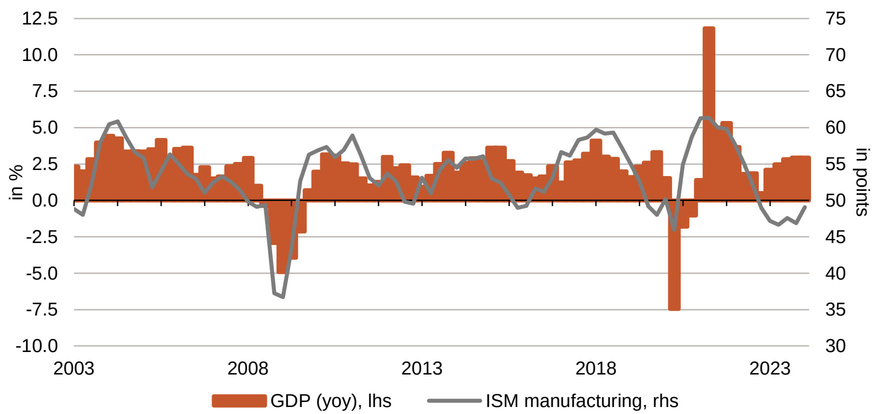
US economy slowly cools down somewhat

- Due to the strong fluctuations in the volatile components of net exports and inventories, US growth slowed significantly in Q1 to 0.4% quarter-on-quarter. However, the solid increase in domestic final demand shows that the underlying momentum of the US economy was still very robust at the beginning of the year.
- The fact that the economy is only slowly losing momentum despite the Fed's restrictive monetary policy is primarily due to the expansive fiscal policy. On the one hand, the state continues to spend a lot of money directly, and on the other hand, it promotes green (and some other) investments through tax incentives.

Fed expresses concern about sticky inflation

- As the economy has only cooled slowly so far and the inflation rate has recently been trending sideways just above 3%, the US Federal Reserve currently has no reason to cut interest rates. At its June meeting, the Fed confirmed its growth expectations and revised its inflation forecasts upwards. On average, the monetary authorities are now only expecting an interest rate cut of 25 bp for this year.
- We also continue to expect the first interest rate cut in December – and therefore after the elections. We expect a total of four interest rate cuts of 25 bp each by autumn 2025, meaning that the key interest rate range will then be 4.25 % to 4.50 %.

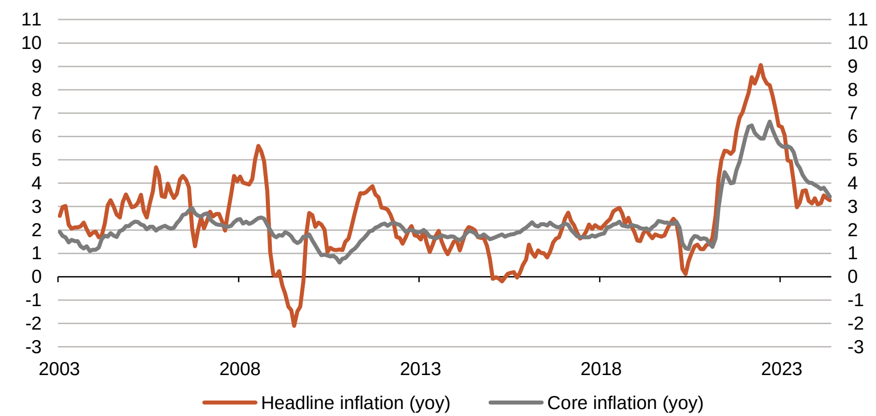
US GDP growth and Purchasing Managers Index



Source: Haver

Period: 03/2003 - 03/2024

USA Inflation (in %)



Source: Haver

Period: 01/2003 - 05/2024

Economic forecasts

Key estimates at a glance

	GDP growth (in %)						Inflation (in %)					
	2024		2025		2026		2024		2025		2026	
		Ø**		Ø**		Ø**		Ø**		Ø**		Ø**
USA	2.4	2.3	1.8	1.8	2.0	2.0	3.2	3.1	2.7	2.4	2.7	2.3
Eurozone	0.8	0.7	1.6	1.4	1.5	1.3	2.4	2.4	2.2	2.1	2.4	2.0
Germany	0.2	0.2	1.4	1.2	1.3	1.4	2.5	2.5	2.4	2.1	2.4	2.0
France	1.1	0.9	1.4	1.3	1.4	1.4	2.5	2.5	2.1	2.0	2.4	1.9
Italy	1.0	0.8	1.3	1.0	1.2	1.0	1.1	1.2	2.0	1.8	2.3	1.7
Spain	2.2	2.2	2.0	1.9	2.1	1.8	3.1	3.1	2.5	2.2	2.6	2.0
United Kingdom	0.8	0.7	1.7	1.2	1.7	1.4	2.5	2.6	2.4	2.2	2.5	2.0
Japan	0.2	0.3	1.2	1.1	1.1	0.9	2.4	2.4	1.9	1.9	1.7	1.8
China	5.0	4.9	4.3	4.5	4.2	4.2	0.5	0.6	1.8	1.5	2.0	1.9
World*	2.5	-	2.6	-	2.6	-	-	-	-	-	-	-

Source: Bloomberg. Berenberg as of 26/06/2024.
* 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

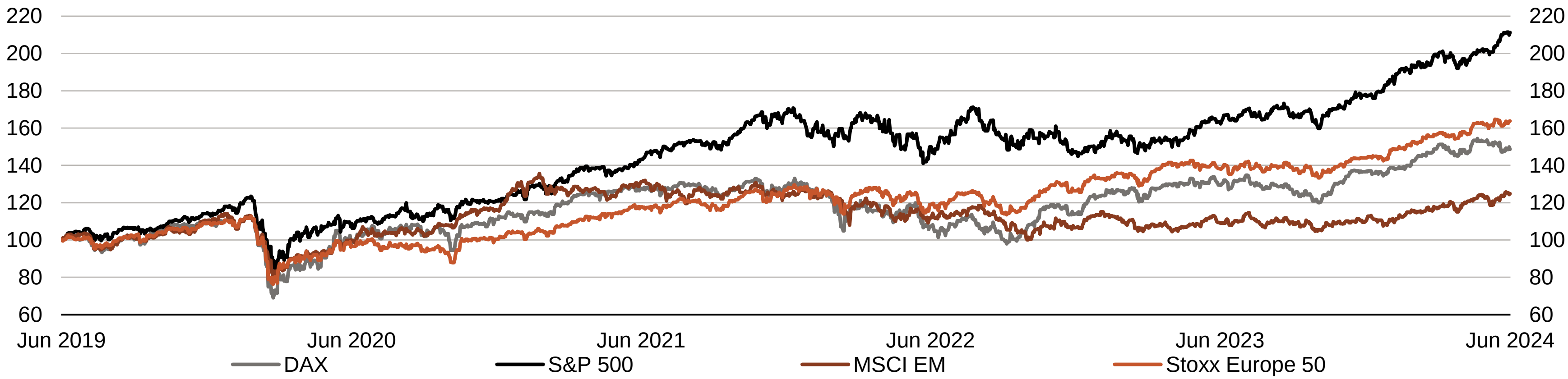
Preference for countercyclical action

BERENBERG
PARTNERSHIP SINCE 1590

Equity markets are likely to trend sideways in a volatile manner until the US elections

- In April, the withdrawal of liquidity due to the US tax season and rising interest rates weighed on markets. In May, Goldilocks hopes and a positive earnings season prevailed. In June, eurozone equities were hit by the announcement of snap elections in France. The best performers in the second quarter were Asian emerging markets, US large caps and UK equities. Robust economic data and positive earnings revisions helped. The biggest losers were Latin American equities, which suffered from political turmoil and currency devaluations.
- We see little upside potential for US equity markets at index level until the US elections in November, which argues for a counter-cyclical approach over the summer months. If the markets continue to rise, we can well imagine taking profits in equities. If, on the other hand, markets consolidate, we see this more as an opportunity to add to equities. We think it is unlikely that markets will continue to rise strongly. High positioning and already positive investor sentiment should limit the upside potential. Moreover, after the strong performance so far this year, many investors are likely to slow down given the political risks in the run-up to the US elections, especially as liquidity will diminish over the summer. We are therefore waiting patiently for good opportunities. Recently, for example, we bought European equities at the expense of US equities after the latter had massively underperformed on the back of the French new elections.

Performance of selected equity indices



Source: Bloomberg; performance in EUR scaled to 100. Time period: 25/06/2019 – 25/06/2024.

Corporate earnings
Encouraging Q1 reporting season

BERENBERG
PARTNERSHIP SINCE 1590

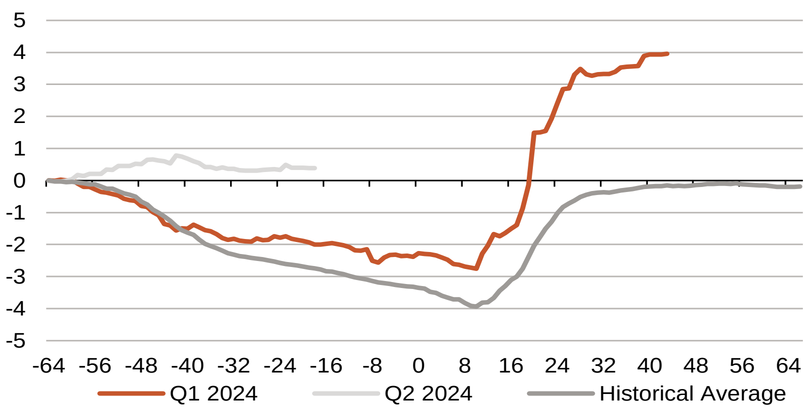
Positive earnings revisions

- The Q1 reporting season was very encouraging. Not only did analysts' earnings expectations generally get beaten, but many companies also gave a positive outlook for the rest of the year. As a result, earnings revisions have been broadly positive. The consensus now expects earnings growth of 11.5% for US equities and 6.6% for European equities this year.
- Given the already record high profit margins and the recent negative economic surprises in the US, the downside risks are likely to outweigh the upside risks, especially for US equity estimates. This is all the more true as the pricing power of many companies is likely to diminish with the decline in inflation.

Opportunities below the surface

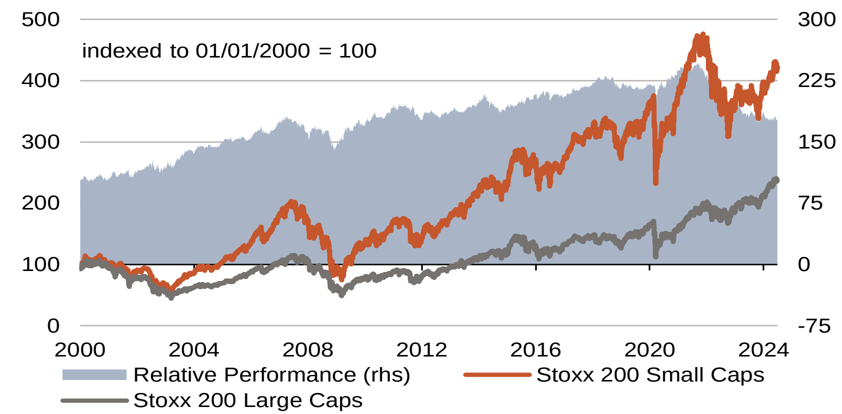
- We continue to see opportunities, particularly below the surface. In addition to the megatrend winners in technology, we favour European small caps, which are not only cheaply valued but should also benefit from increased M&A activity and better flow dynamics.
- As we expect volatility to increase over the summer and the ECB has cut interest rates for the first time, we also see tactical appeal in more defensive sectors such as consumer staples. Finally, we continue to like the commodity sectors, which remain structurally supported by the energy transition and years of underinvestment, especially as investor positioning in these sectors is not high.

Expectations for the Q2 reporting season are high



Source: UBS, own calculations; historical average = Q1 2011 to Q4 2019. As of: 14/06/2024

Small caps with clear outperformance since 2000



Source: Bloomberg, own calculations Time period: 01/01/2000-25/06/2024

Performance & Valuation

Europe advantage? Fundamentally yes, but with political risks

BERENBERG
PARTNERSHIP SINCE 1590

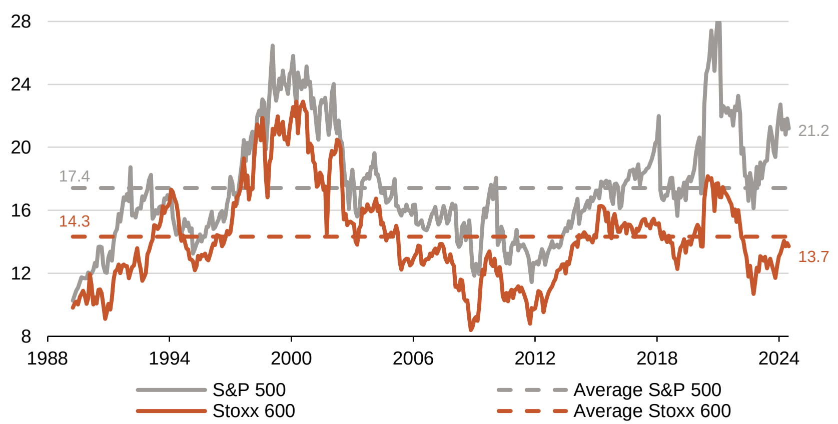
Increase in valuation possible, especially in Europe

- After the sharp rise in valuations since November, valuations at the index level did not rise further in the second quarter. Equity indices rose in line with higher earnings estimates. At 21.2 times forward earnings, US equities remain expensive by historical standards. By contrast, more negative factors are priced in for Europe. The Euro Stoxx 50, at 13.7 times forward earnings, is even trading below its historical average.
- Fundamentally, much speaks in favour of Europe: more attractive valuations, the earlier interest rate cut, the pick-up in economic growth, the low positioning of international investors and the positive inflows. However, the French and US elections remain major risks.

Only a moderate convergence in valuations possible

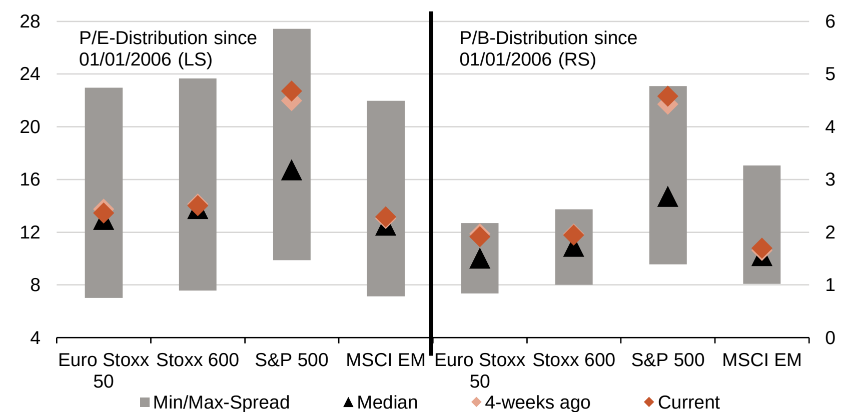
- In addition to different (geo)political risks, we see three reasons for this valuation gap. First, the industry structure in the US is more growth-oriented than in Europe, with a high proportion of companies in old, mature industries.
- Second, the US is home to the world's most innovative companies (e.g. the so-called Mag 7), for which many investors are willing to pay a premium.
- Third, the US has the strongest support from non-fundamental investors and flows (e.g. meme stocks, ETF savings plans, systematic strategies). As a result, we believe there is likely to be only a moderate convergence in valuations.

Valuations trended sideways over the second quarter



Source: Bloomberg, own calculations. Time period: 01/01/1988 – 25/06/2024.

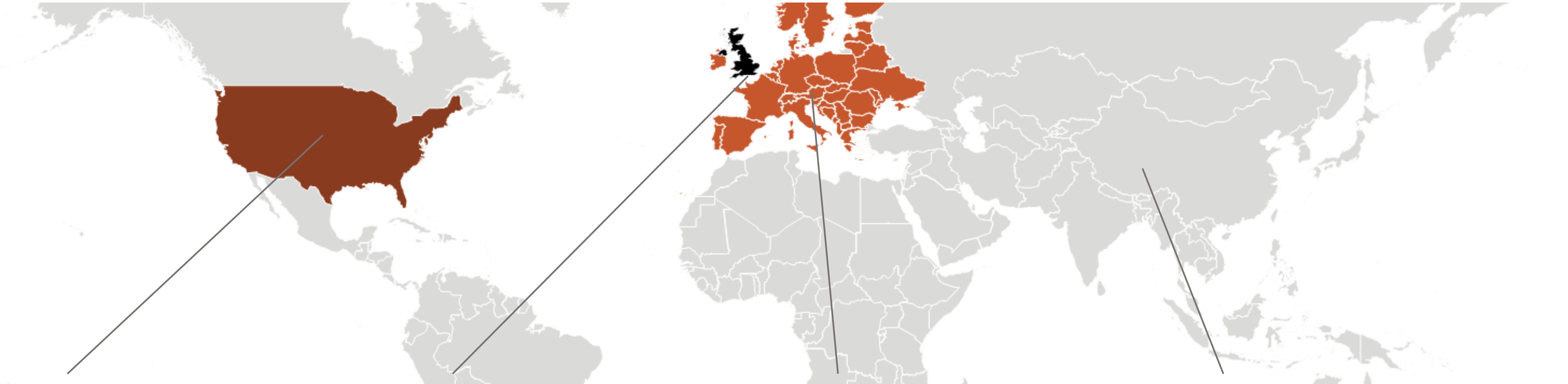
US equities at historically high valuations



Source: Bloomberg, own calculations. Time period: 01/01/2006 - 25/06/2024.

Equity allocation
Overweight in EM and Europe ex. UK

BERENBERG
PARTNERSHIP SINCE 1590



US
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.
- Following the strong outperformance of US equities in the wake of the French elections, we reduced US equities in favour of European 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
Lightly overweight

- 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 Europe ex UK. We see opportunities in European small caps in particular.

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

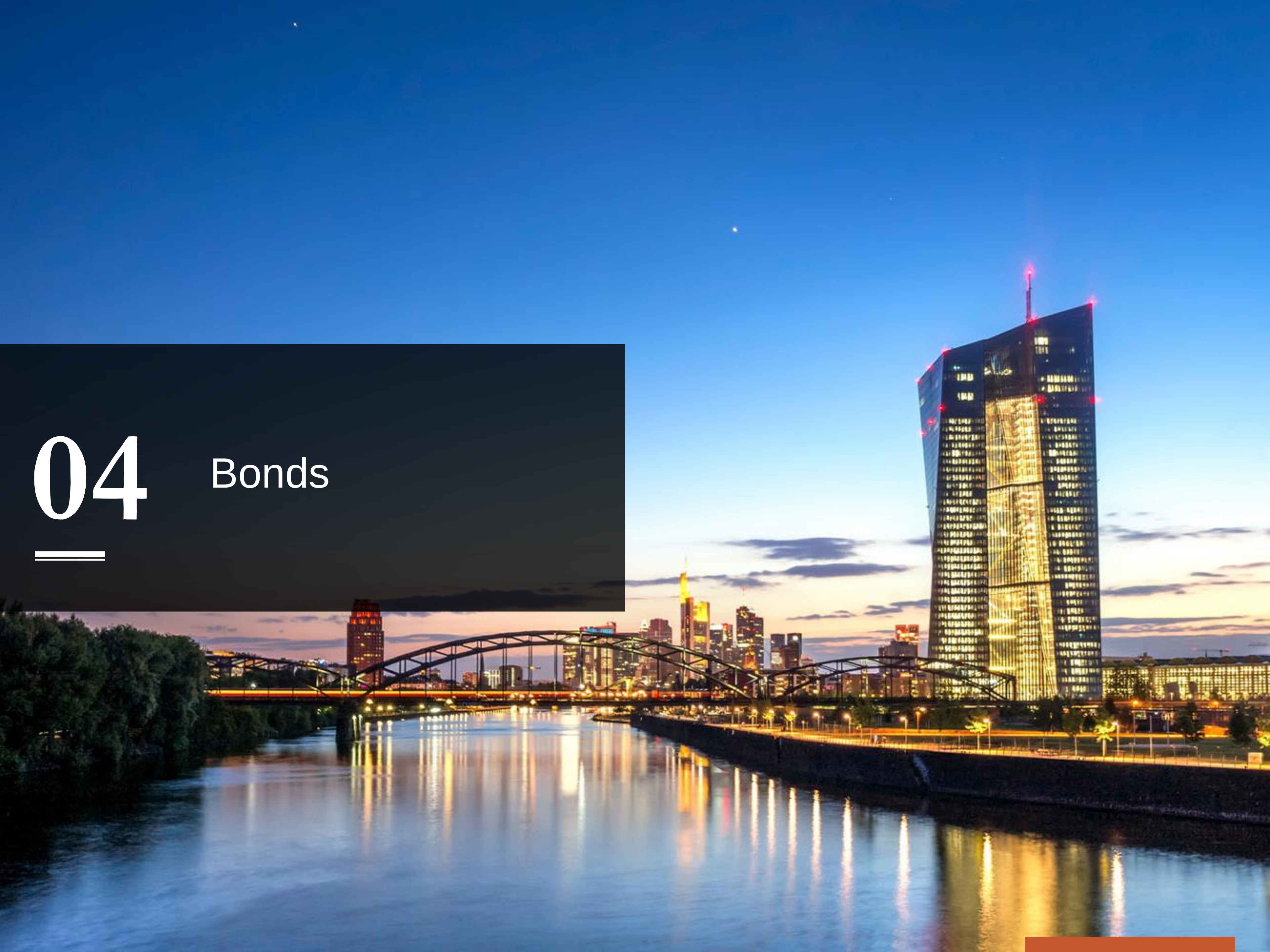
BERENBERG
PARTNERSHIP SINCE 1590

Index forecasts	Current 26/06/2024	31/12/2024	30/06/2025	Ø* in 12 months
S&P 500	5,478	5,500	5,700	6,492
DAX	18,155	19,500	20,500	21,521
Euro Stoxx 50	4,916	5,200	5,400	5,646
MSCI UK	2,352	2,450	2,580	2,681

Index potential (in %)				
S&P 500	-	0.4	4.1	18.5
DAX	-	7.4	12.9	18.5
Euro Stoxx 50	-	5.8	9.8	14.8
MSCI UK	-	4.2	9.7	14.0

Source: Bloomberg, Berenberg as of 26/06/2024.
*Average based on bottom-up estimates.

04 Bonds



Government bonds
No price impulses expected

BERENBERG
PARTNERSHIP SINCE 1590

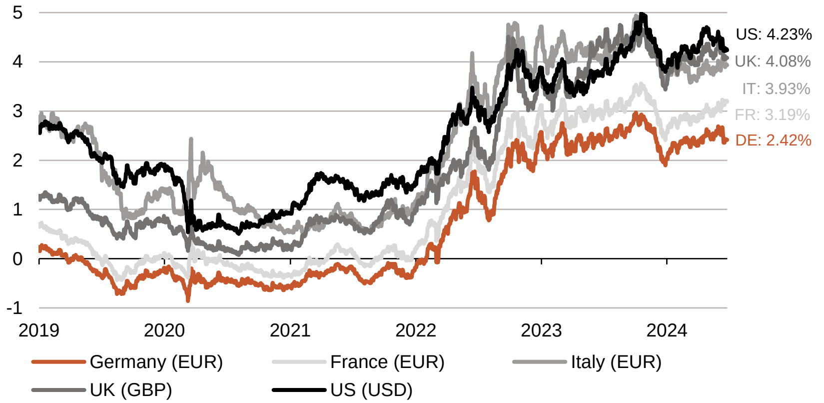
Investors benefit from higher interest rates

- After a significant rise in the first quarter of this year, yields on safe government bonds stabilised on both sides of the Atlantic in the second quarter. In Germany and the eurozone, the recent easing of the disinflation trend created a headwind, but price pressure also remained high in the USA.
- The confidence for this bond segment expressed in the Q1 issue of "Horizons" remains intact. We expect positive performance over the next twelve months in the three currency areas we analyse.

UK Gilts in local currency with the greatest potential

- Falling key interest rates on the part of the major central banks are generally having a supportive effect, with the European Central Bank (ECB) having already made a start with a move of -25 basis points in June. The US Fed, on the other hand, is not expected to start its cycle of interest rate cuts until December.
- Despite falling central bank interest rates, we do not expect yields on longer-term bonds to fall in our base scenario, meaning that investors should at best be able to realise the current interest rate. Anyone wishing to benefit from the current yield advantage of British or US government bonds must keep an eye on the exchange rate risk from a local perspective.

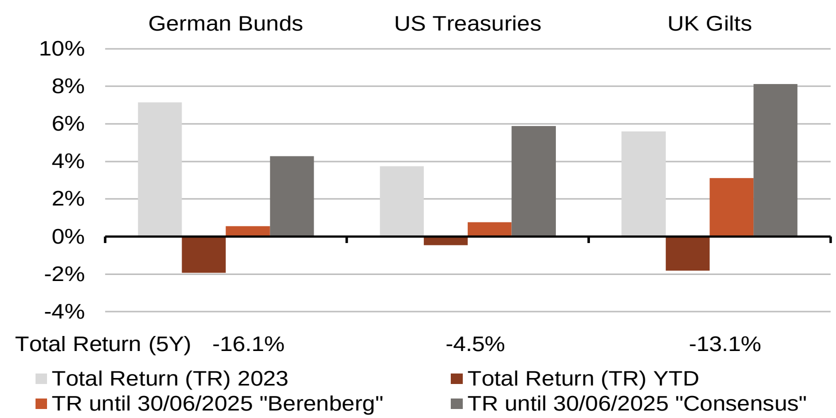
10-year yields (%) up since start of year



Source: Bloomberg

Time period: 01/01/2019 – 24/06/2024

Past/expected performance 10Y government bonds



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

Time period: 18/06/2019 – 18/06/2024

Corporate & EM bonds

Corporate and emerging market bonds favoured

BERENBERG
PARTNERSHIP SINCE 1590

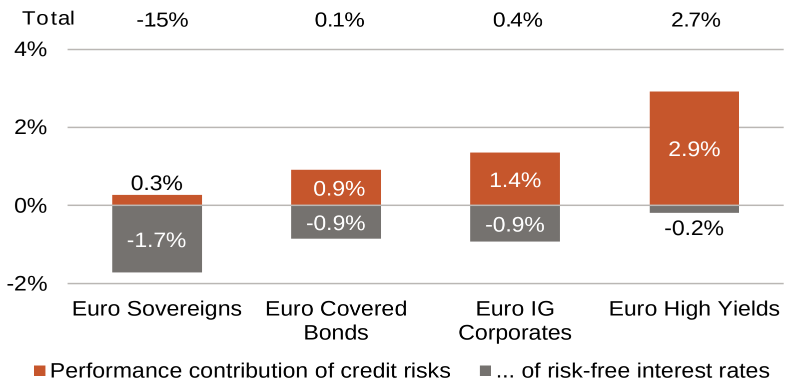
European high-yield bonds remain attractive

- Corporate bonds were among the beneficiaries of the brightening economic outlook. The segment received an additional tailwind from positive capital flows and a very robust development on the new issue markets. Overall, this led to a decline in risk premiums across the board. Although the potential for a further decline in risk premiums appears limited, we are constructive on high-yield bonds at current yields of over 6.7 %. The ongoing economic recovery coupled with positive technical factors should provide further support.

EM: clear opportunities in local currency bonds

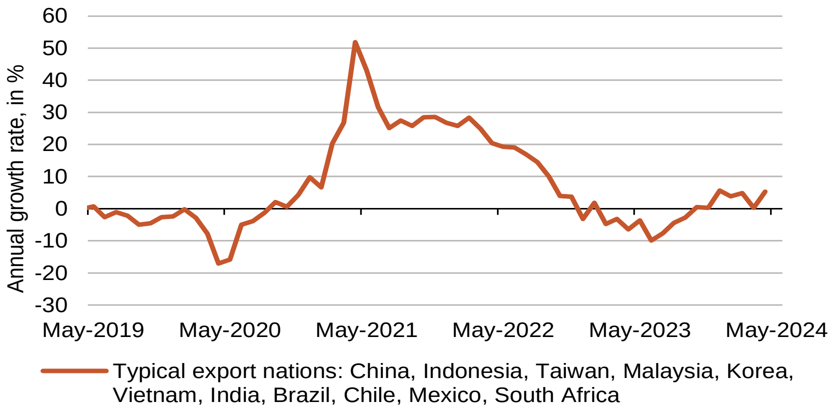
- Thanks to the slight recovery in the global economy, the export outlook for emerging markets has improved. In addition, the situation in China has stabilised, resulting in a recovery in commodity prices. In this environment, the local currency segment in particular is very attractive. On the one hand, many countries have successfully combated inflation through restrictive monetary and fiscal policies, leading to the highest real interest rates in a decade. Secondly, many countries are benefiting from the recovery in commodity prices, which has given local currencies an additional boost. Against the backdrop of historical differences to US government bonds, the current yield level offers international investors interesting opportunities.

Performance since start of the year: the riskier, the better



Source: ICE, own calculations Time period: 31/12/2023 – 17/06/2024
High Yield = high yield bonds, IG = Investment Grade.

Emerging markets: exports pick up speed



Source: Bloomberg, own calculations Time period: 31/05/2019 – 31/05/2024

Capital market strategy
Bonds

BERENBERG
PARTNERSHIP SINCE 1590

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 due to high real yields, the recovery in commodity prices, positive economic surprises combined with a continuing disinflation trend in the emerging markets and higher US interest rates in the longer term.
- 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

- The high-yield bond segment remains attractive to many investors due to the positive economic outlook and high carry, even though risk premiums are historically low.
- 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

Base interest rates and government bond yields (in %)	25/06/2024	31/12/2024		30/06/2025	
	Current		Ø*		Ø*
US					
Base interest rate	5.25-5.50	5.00-5.25	5.05	4.50-4.75	4.40
10Y US yield	4.25	4.70	4.13	4.70	4.01
Eurozone					
Base interest rate	4.25	3.65	3.35	3.15	2.84
10Y Bund yield	2.41	2.60	2.24	2.70	2.24
United Kingdom					
Base interest rate	5.25	4.50	4.65	3.50	4.00
10Y Gilt yield	4.08	4.30	3.78	4.30	3.62

Source: Bloomberg. Berenberg. as of 25/06/2024.
*Average of estimates by other experts (Bloomberg) consensus.

05 Commodities

Crude oil

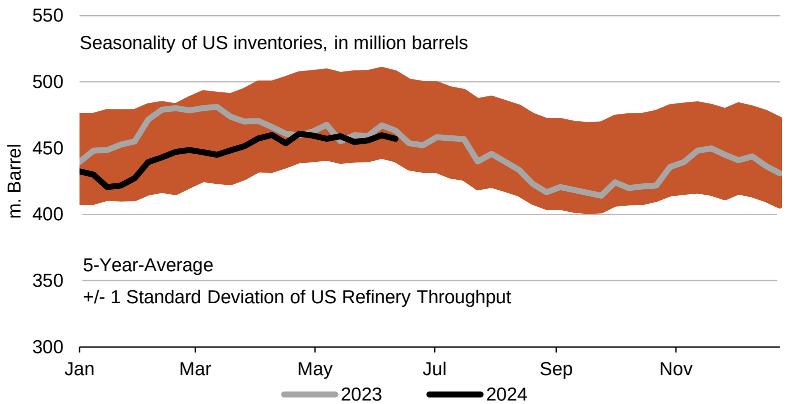
Oil with a tailwind over the summer

BERENBERG
PARTNERSHIP SINCE 1590

Oil likely to have a tougher time in the medium term

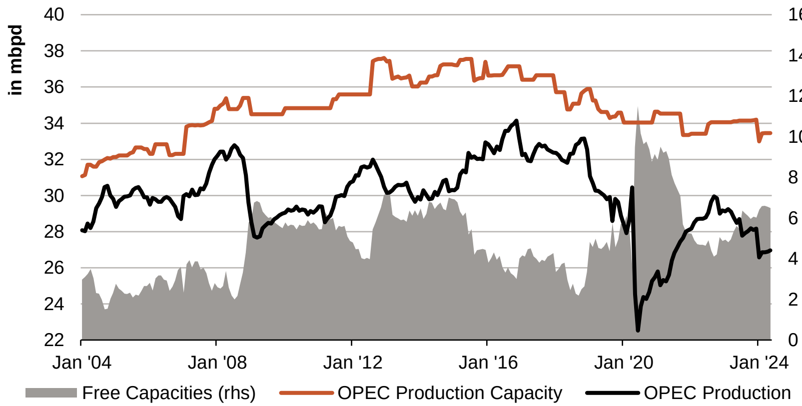
- Crude oil (Brent) fell below the USD 80 mark temporarily again in early June. Despite new escalations in the Israeli war, the risk premium was steadily priced out again. In addition, the lax adherence to production cuts by some OPEC+ members led to a slight supply surplus and thus to rising oil inventories. This is likely to change in the short term as the US driving season gets underway over the summer, supported by strong holiday sentiment (almost 60% of US consumers are planning at least one trip this summer).
- In the medium term, however, oil is likely to have a tougher time. Although OPEC+ has extended its cuts until 2025, the small print suggests that these cuts are on the decline and that OPEC+ members intend to put more barrels on the market from October and to increase production significantly next year. Based on the path published by Saudi officials, OPEC+ production would be more than 500,000 barrels per day higher than today in December and around 1.8 million barrels per day higher by mid-2025. In addition, OPEC+ currently has enormous spare capacity. Oil prices are therefore likely to remain capped in most economic and geopolitical scenarios, unless geopolitical obstacles prevent OPEC from leveraging its spare capacity.

Positive summer seasonality to support in the short term



Source: Bloomberg. Time period: 01/01/2019 – 14/06/2024.

OPEC+ has high free capacities



Source: Bloomberg, Berenberg calculations. Time period: 01/01/2004 – 31/05/2024.

Precious and industrial metals

Not only gold shines

BERENBERG
PARTNERSHIP SINCE 1590

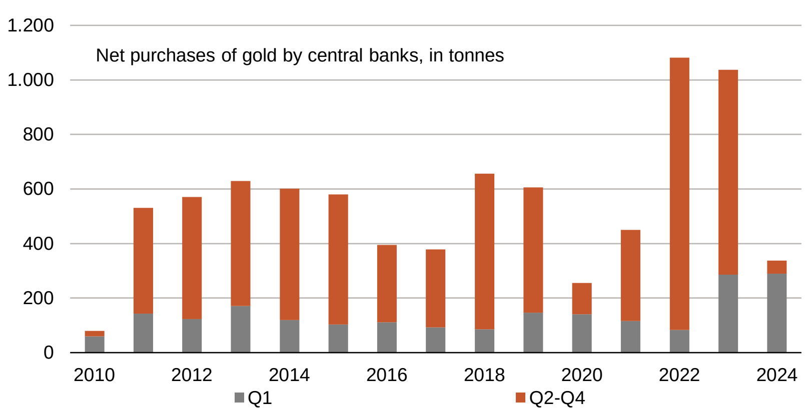
Gold with structural potential despite strong momentum

- Gold prices continued to rise in the second quarter, reaching new highs despite traditional factors such as real interest rates, the US dollar and interest rate expectations. Momentum came mainly from emerging markets, where central banks increased their gold reserves and private investors, particularly in China, invested more heavily in gold.
- These new demand drivers are likely to be structural in nature, given the heightened geopolitical risks. A possible turnaround in Western interest rate policy and rising ETF holdings could also provide upward momentum, making gold attractive in the medium term in addition to its diversification and tangible asset properties.

Metals look attractive long term after consolidating

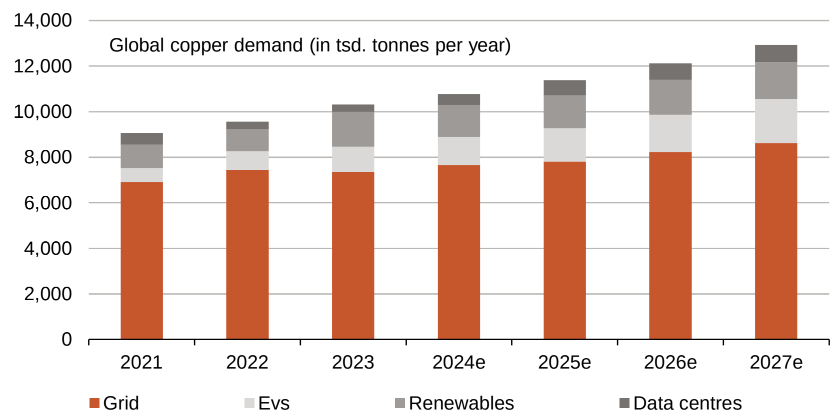
- The LME industrial metal index rose sharply over the second quarter with a performance of roughly 8%. Rising industrial activity in the West and in China, sanctions against Russian metal exports and technicals drove metals higher.
- In the short term, consolidation is likely to continue after the strength, partly because positioning is still elevated. The energy transition and digitalisation will provide long-term support.

Central banks carry gold buying momentum into 2024



Source: Bloomberg, own calculations. Time period: 01/01/2010-30/04/2024

Energy transition and digitalisation drive metal demand



Source: Woodmac, Morgan Stanley Research Time period: 01/01/2021-31/12/2027, e = annual estimates

06 Currencies

Market Development
FX markets

BERENBERG
PARTNERSHIP SINCE 1590

Opposing forces for the euro-dollar exchange rate

- The fact that the ECB has already initiated the interest rate turnaround and the Fed is not expected to follow suit until the end of the year is weighing on the euro. However, a large part of this future development has already been priced into the markets, so we expect only limited devaluation pressure on the euro over the rest of the year due to an increasing interest rate differential.
- On the other hand, the euro could be supported by the fact that the economy in the eurozone is likely to recover somewhat over the course of the year, while a slight economic slowdown is expected in the USA. All in all, we therefore expect the exchange rate to move sideways.

Swiss National Bank has its eye on the franc

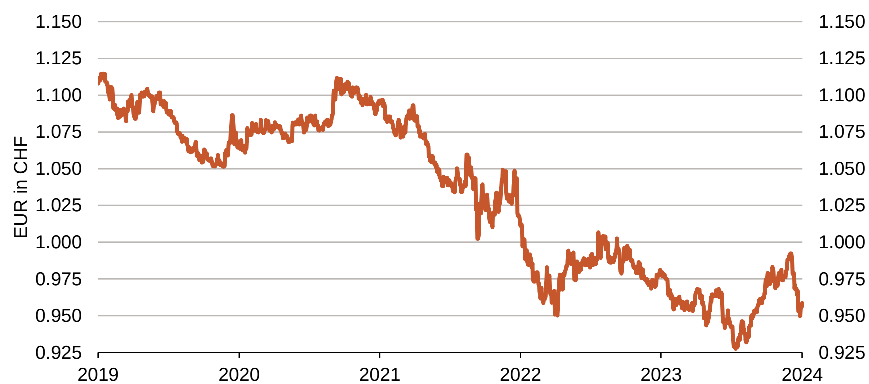
- The uncertainty triggered by the new elections in France recently led to an appreciation of the Swiss franc. However, the second cut in the key interest rate by 25 basis points to 1.25% then led to a countermovement. With this move, the SNB wanted to counteract an excessively strong franc and at the same time prevent inflation from falling too much.
- At the press conference, SNB Chairman Jordan indicated that the SNB would also actively counteract an excessively strong franc on the foreign exchange market. This means that the Swiss currency does not have much room for manoeuvre. We therefore expect the exchange rate to move sideways around CHF 0.98 per euro.

EUR/USD exchange rate recently trended sideways

Source: Bloomberg

Period: 06/2019 – 06/2024

EUR/CHF exchange rate recently volatile



Source: Bloomberg

Period: 06/2019 – 06/2024

Forecasts
Estimates of key currencies

	25/06/2024	31/12/2024		30/06/2025	
Exchange rate forecasts	**Current**		**Ø***		**Ø***
EUR/USD	1.07	1.08	1.09	1.10	1.11
EUR/GBP	0.84	0.85	0.86	0.85	0.85
EUR/CHF	0.96	0.98	0.99	0.98	1.00
EUR/JPY	171	167	165	165	162

Change against the Euro (in %)					
USD	-	-0.8	-1.7	-2.6	-3.5
GBP	-	-0.6	-1.8	-0.6	-0.6
CHF	-	-2.2	-3.2	-2.2	-4.1
JPY	-	2.5	4.0	3.7	5.6

Source: Bloomberg. Berenberg as of 25/06/2024.
*Average of estimates of other experts (Bloomberg); consensus.

Publishing information

Publishing information

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

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

Publisher

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

Authors

Ulrich Urbahn, CFA
Head Multi Asset Strategy & Research

Ludwig Kemper, CFA
Analyst Multi Asset Strategy & Research

Philina Kuhzarani
Analyst Multi Asset Strategy & Research

Dr Konstantin Ignatov
Analyst Multi Asset Strategy & Research

Dr Felix Schmidt
Senior Economist

Contact details

www.berenberg.de/en
MultiAssetStrategyResearch@berenberg.de