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HORIZON *handout*

The Berenberg Capital Markets Outlook • Wealth and Asset Management

December | 2024

Horizon Handout – Capital Market Outlook

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Date 28/11/2024.

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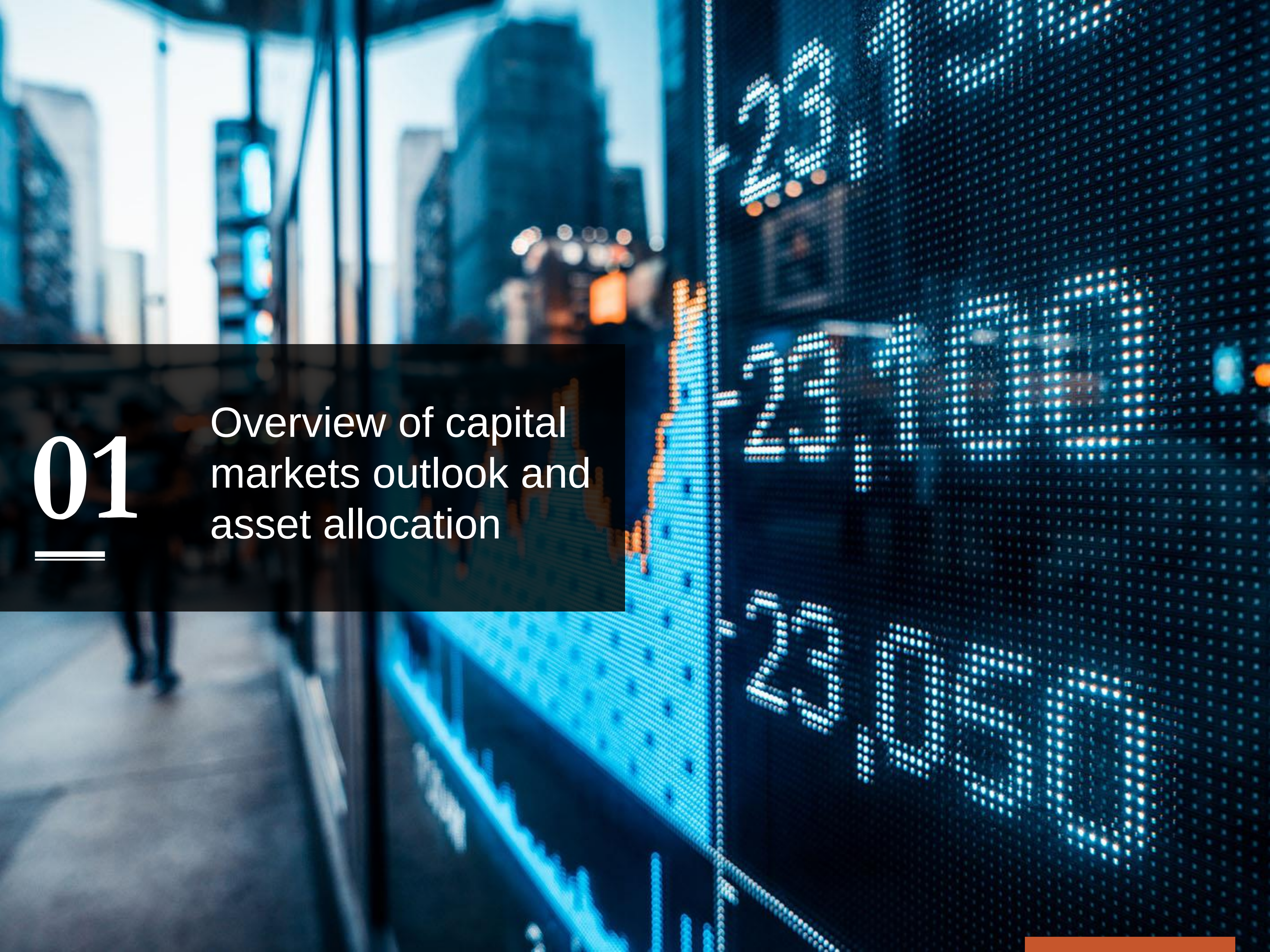
An online glossary with definitions of technical terms is available at www.berenberg.de/en/glossary



01

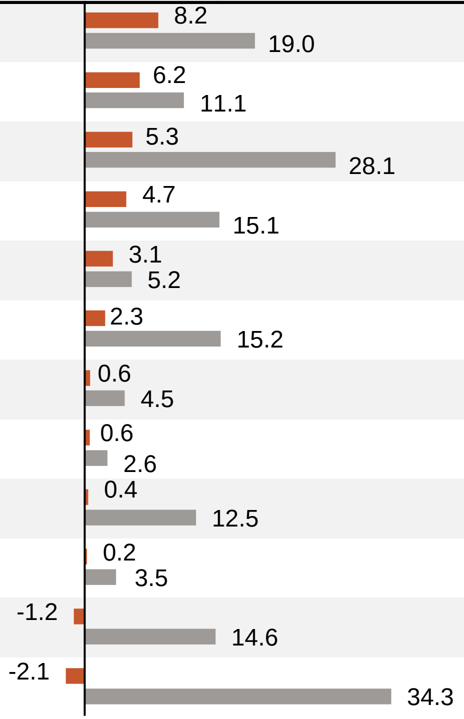
Overview of capital markets outlook and asset allocation

Overview of capital markets

Performance review

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 (29/10/24 - 26/11/24)	▨ YTD (29/12/23 - 26/11/24)	26/11/23 26/11/24	26/11/22 26/11/23	26/11/21 26/11/22	26/11/20 26/11/21	26/11/19 26/11/20
Global Convertibles	8.2	19.0	25.4	-2.7	-15.7	15.5	31.7
Brent	6.2	11.1	5.9	0.9	62.9	70.5	-37.3
MSCI World	5.3	28.1	33.3	7.8	-4.7	29.2	6.1
REITs	4.7	15.1	25.9	-11.5	-12.4	31.8	-15.4
USDEUR	3.1	5.2	4.3	-5.0	8.9	5.2	-7.5
MSCI Frontier Markets	2.3	15.2	17.6	4.2	-21.0	32.1	-5.8
EUR Coporates	0.6	4.5	8.6	2.5	-12.9	-1.0	2.5
EUR Sovereign Debt	0.6	2.6	6.0	0.0	-10.4	-0.8	1.6
Industrial Metals	0.4	12.5	15.1	-10.8	5.6	32.8	6.0
Euro overnight deposit	0.2	3.5	3.9	3.0	-0.2	-0.6	-0.5
MSCI Emerging Markets	-1.2	14.6	18.6	1.7	-14.0	7.0	11.0
Gold	-2.1	34.3	37.2	8.4	6.3	4.5	14.6

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: 26/11/2019 – 26/11/2024.

Overview of capital markets

Outlook by asset class

Economics

- European Central Bank with small interest rate cut in December.
- Donald Trump is back and threatening tariffs.
- The Bank of England is hampered by price pressures in the services sector.

Equities

- Trump's US election victory sparks US equity rally. Trade war concerns weigh on European and Asian equities.
- Q3 earnings growth of Stoxx 600 companies at +5%, while sales growth weakens year-on-year.
- We remain optimistic for the year-end. Positive year-end seasonality likely, especially in the US.

Bonds

- Strong US economy and Trump re-election support US yields. Europe faces political and fiscal uncertainties.
- Weaker eurozone activity and the prospect of US tariffs are weighing on corporate bonds.
- Given the increased interest rate volatility, we are keeping duration at a neutral level across bonds.

Alternative investments / commodities

- The supply of crude oil remains abundant, but a massive increase in US production under Trump is unlikely.
- Despite a temporary setback, gold remains supported by fundamental factors.
- In the short term, industrial metals need an economic recovery in the industrial sector. Medium-term drivers remain intact.

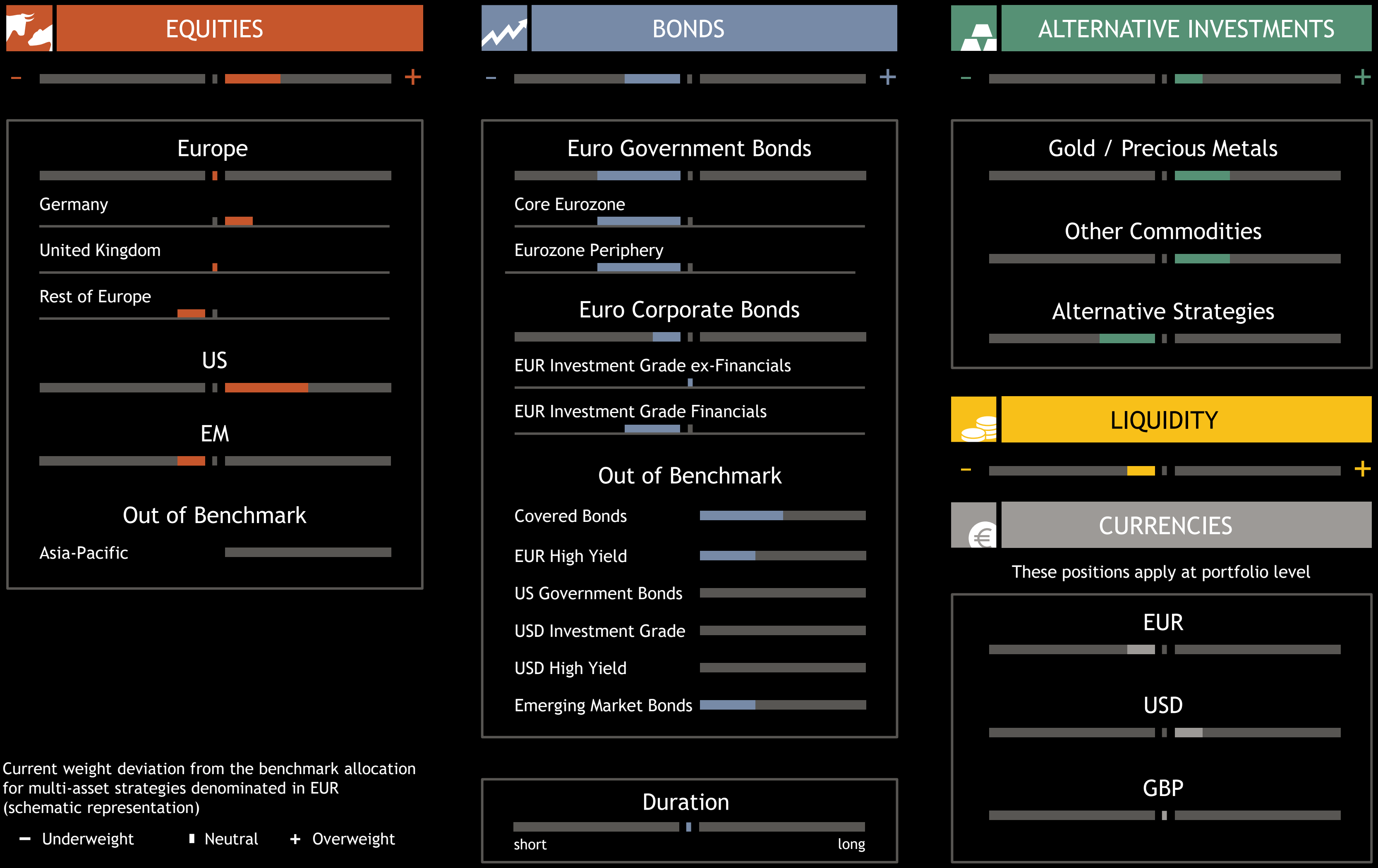
Currencies

- In the short and medium term, there is a lot going on in favour of the US dollar.
- Weak economic data and the war in Ukraine weigh on the euro.
- The strong franc is a cause for concern for the Swiss National Bank.

Overview of Berenberg's asset allocation

Current positioning within asset classes

Portfolio positioning of a balanced mandate at a glance



EQUITIES

- +

Europe

Germany

United Kingdom

Rest of Europe

US

EM

Out of Benchmark

Asia-Pacific

BONDS

- +

Euro Government Bonds

Core Eurozone

Eurozone Periphery

Euro Corporate Bonds

EUR Investment Grade ex-Financials

EUR Investment Grade Financials

Out of Benchmark

Covered Bonds

EUR High Yield

US Government Bonds

USD Investment Grade

USD High Yield

Emerging Market Bonds

Duration

short long

ALTERNATIVE INVESTMENTS

- +

Gold / Precious Metals

Other Commodities

Alternative Strategies

LIQUIDITY

- +

CURRENCIES

These positions apply at portfolio level

EUR

USD

GBP

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

━ Underweight ▮ Neutral + Overweight

Source: Berenberg

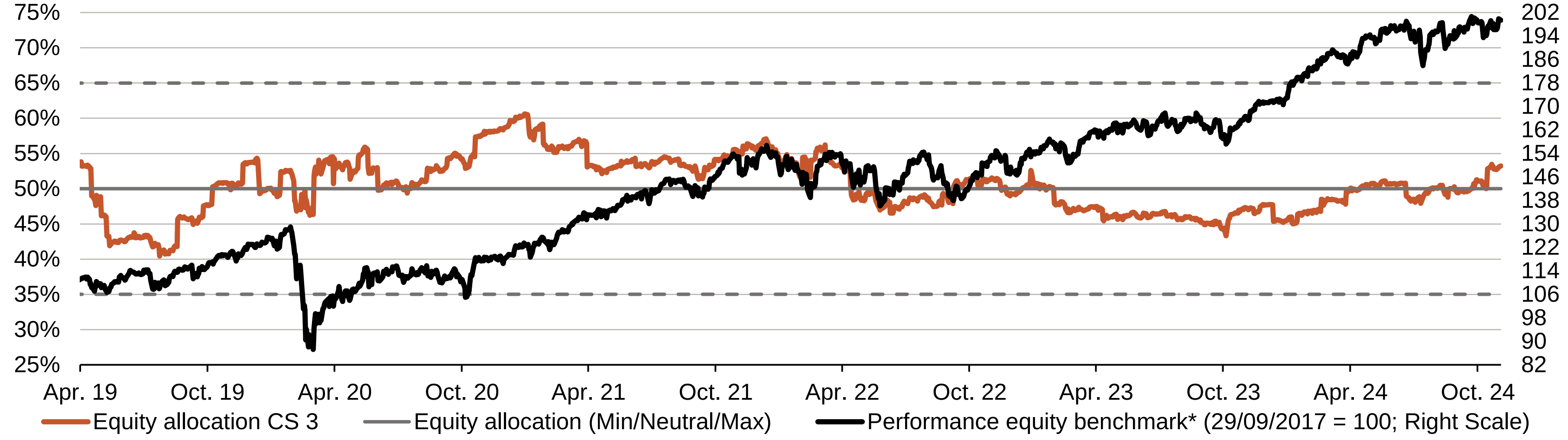
As of 26/11/2024.

Overview of Berenberg's asset allocation

Review of Core Strategy 3

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

	25/11/19 - 25/11/20	25/11/20 - 25/11/21	25/11/21 - 25/11/22	25/11/22 - 25/11/23	25/11/23 - 25/11/24
Performance equity benchmark	**-1.52%**	**29.04%**	**0.24%**	**8.74%**	**19.40%**



Time period: 25/11/2019 – 25/11/2024.

Sources: SimCorp, Bloomberg, Berenberg *'Equity benchmark' comprised 70% STOXX Europe NR Index and 30% S&P 500 NR Index until 30 September 2024. From 1 October 2024, the equity benchmark consists of 60% STOXX Europe NR Index, 34% S&P 500 NR Index and 6% MSCI EM NR Index.
Note: The historical performance presented here is not a reliable indicator of future performance.

- Our increase in the equity allocation to overweight, our focus on US equities and, in particular, the tactical addition of a US midcap ETF have paid off. Since Donald Trump's election victory, the gap between US equities and the rest of the world has widened further due to his "America First" agenda and tariff fears. Support also came from the currency side. The US dollar appreciated by around 7% against the euro at its peak since the end of September.
- Most recently, we have taken advantage of the weakness of gold since Trump's election victory to further expand our overweight in gold. On the one hand, central banks are continuing to buy gold in order to reduce their dependence on US government bonds, which should support the precious metal. On the other hand, Trump's policies (tariffs, less migration, higher national debt) are likely to increase political uncertainty and the risk of inflation in the US. In this environment, tangible assets and especially gold are likely to remain in demand.

02

Economics

Eurozone
GDP and Inflation

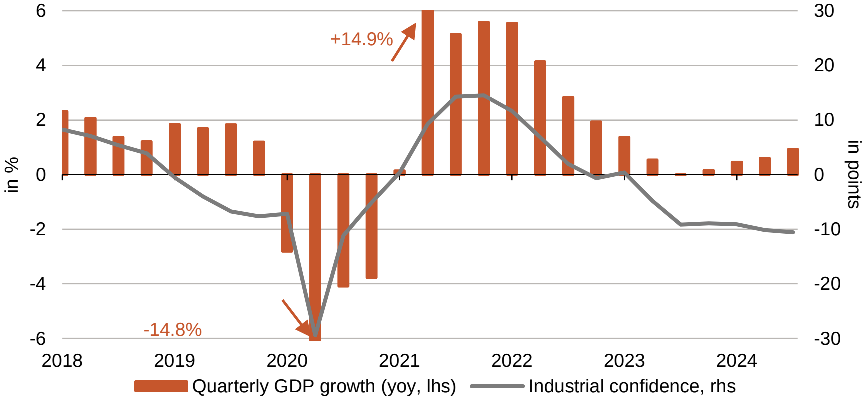
Solid growth in Q3, but leading indicators weak

- Supported by strong consumer spending in Spain, a boost from the Olympics in France and an increase in private and public consumption in Germany, GDP growth in the eurozone accelerated to 0.4% in Q3 compared to the previous quarter.
- However, leading economic indicators are currently pointing to a slowdown in growth momentum. But in 2025, the ECB's interest rate cuts and rising real wages should provide some tailwind for the eurozone economy. There is also a risk that Trump could raise tariffs on European products once he takes office.

Small interest rate cut in December

- Inflation in the eurozone was 2.0% in October compared to the previous year, well above the September figure of 1.7%. The core inflation rate moved sideways at a level of 2.7%, which is too high for the ECB.
- The stubborn core inflation and the unexpectedly strong growth in the eurozone in Q3 should prompt the ECB to cut the key interest rate by only 25 bp at its next meeting on 12 December. We then expect two further interest rate cuts of the same amount in Q1 2025, meaning that the deposit rate will then stand at 2.5%.

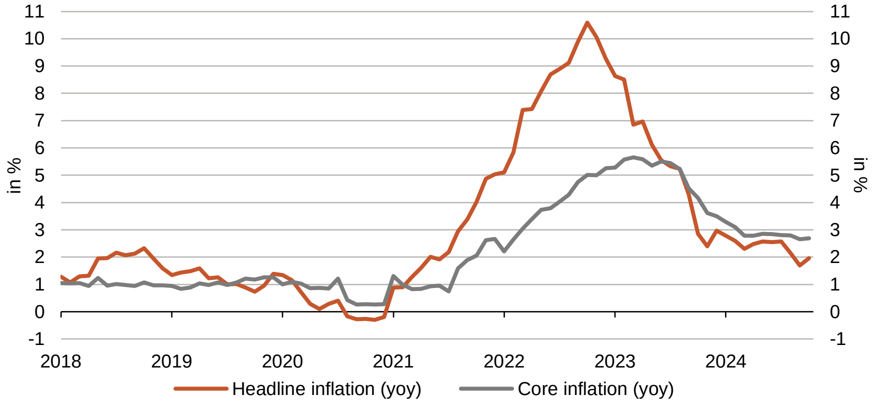
Very slow economic recovery



Source: Haver

Period: 01/2018 – 09/2024

Hardly any progress on core inflation



Source: Haver

Period: 01/2018 - 10/2024

United Kingdom

GDP and Inflation

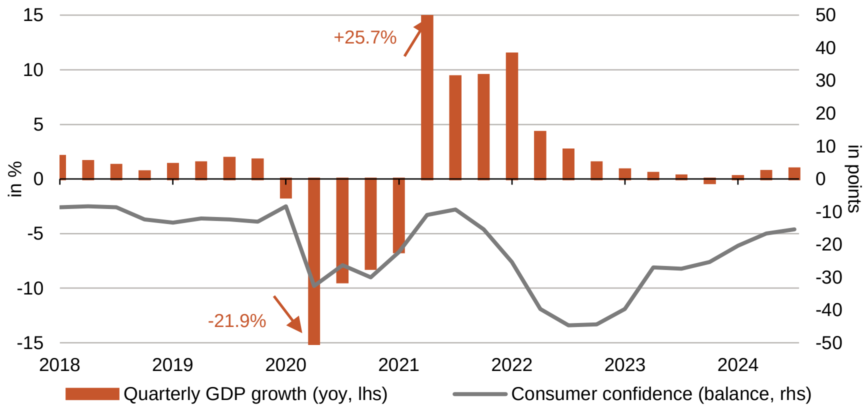
Disappointing growth in the third quarter

- The British economy contracted surprisingly in September and only grew by 0.1% in the third quarter compared to the previous quarter. We expect moderate GDP growth of 0.9% for the year as a whole.
- The British economy should regain some momentum in the coming year. Falling interest rates and declining inflation should have a positive effect. In addition, the new government has announced a significant increase in government spending in its budget. We expect GDP growth of 1.6% for 2025.

Price pressure in the services sector hampers the BoE

- The year-on-year inflation rate rose from 1.7% to 2.3% in October. This increase is primarily due to base effects in energy prices. However, the persistently high price pressure in the services sector is likely to prevent the BoE from lowering the key interest rate again at its next meeting on 19 December.
- We expect monetary easing to progress slowly in 2025. We expect interest rates to be cut by 25 basis points in each of the first two quarters of 2025, implying that the key interest rate should fall to 4.25% by the summer of 2025.

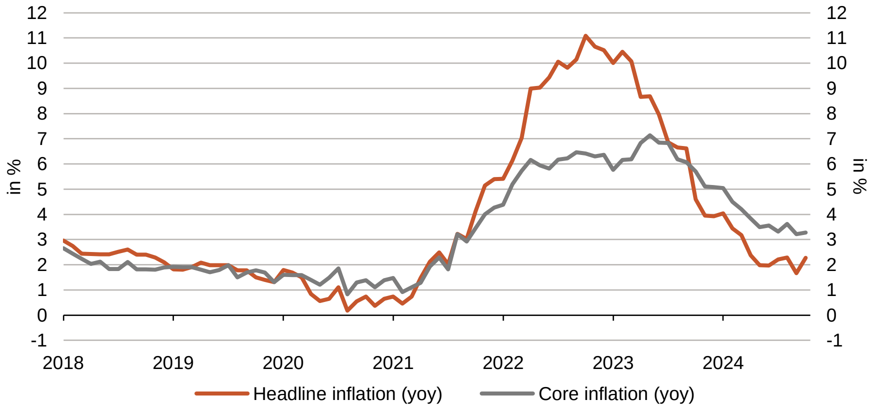
Consumer sentiment slowly brightens



Source: Haver

Period: 01/2018 - 09/2024

Services sector keeps core inflation high



Source: Haver

Period: 01/2018 - 10/2024

USA

GDP and Inflation

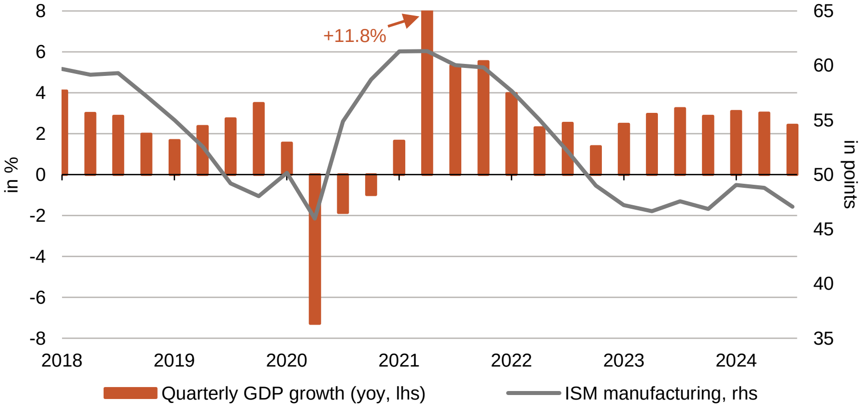
Trump is back

- The US economy has hardly lost any momentum and grew again in the third quarter by an annualised 0.8% compared to the previous quarter. The economy was supported by solid private consumption, exports and government spending.
- It currently looks like a very soft landing for the US economy. And the re-elected former President Trump could even unleash further growth impetus in the coming year. This is because he promised tax cuts and deregulation during the election campaign. In the medium term, however, the tightening of immigration policy and tariffs that were also announced could weaken the trend growth in the US.

Possible interest rate pause at Christmas

- The Fed cut its key interest rate for the second time in November. Following the major interest rate cut of 50 bp in September, this time the key interest rate range was only lowered by 25 bp to between 4.5% and 4.75%.
- In view of the very robust economic growth and the unexpectedly stubborn core inflation, the Fed is likely to take a break at its next meeting on 18 December. The speed and extent of future rate cuts are likely to depend heavily on the new administration. Higher inflation due to tariffs and tighter immigration policy could force the Fed to end the rate cut cycle earlier.

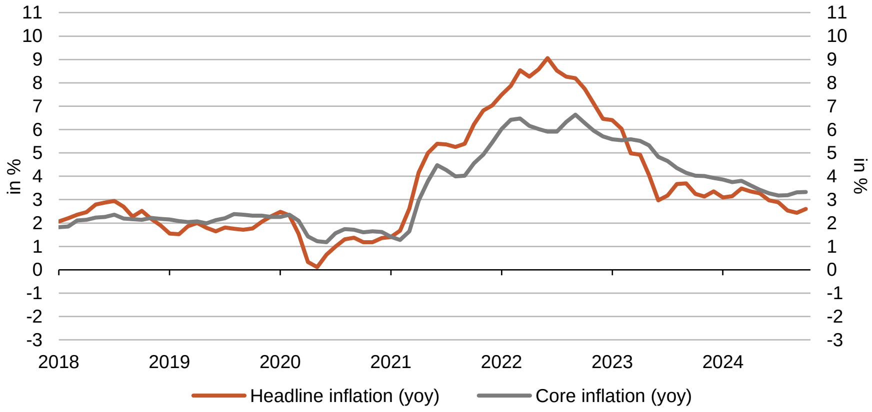
Strong growth...



Source: Haver

Period: 01/2018 - 09/2024

... and stubborn core inflation hamper the Fed



Source: Haver

Period: 01/2018 - 10/2024

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	2.7	2.7	2.4	2.1	2.1	2.0	2.9	2.9	2.7	2.3	2.6	2.5
Eurozone	0.7	0.8	1.0	1.2	1.5	1.3	2.3	2.4	2.1	2.0	2.3	2.0
Germany	-0.2	-0.1	0.3	0.7	1.2	1.2	2.5	2.4	2.4	2.1	2.3	2.0
France	1.1	1.1	0.7	0.9	1.2	1.3	2.3	2.3	1.8	1.7	2.3	1.9
Italy	0.5	0.5	0.8	0.9	1.2	1.0	1.1	1.1	2.0	1.7	2.3	1.8
Spain	3.1	3.0	2.2	2.2	2.1	1.8	2.8	2.8	2.3	2.0	2.6	2.0
United Kingdom	0.9	0.9	1.6	1.4	1.7	1.5	2.5	2.5	2.7	2.4	2.6	2.1
Japan	-0.3	-0.2	1.1	1.2	1.0	0.9	2.6	2.5	2.1	2.0	1.7	1.8
China	4.7	4.8	4.5	4.5	4.3	4.1	0.3	0.4	0.8	1.1	1.4	1.5
World*	2.5	-	2.7	-	2.7	-	-	-	-	-	-	-

Source: Bloomberg. Berenberg as of 27/11/2024.

* 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

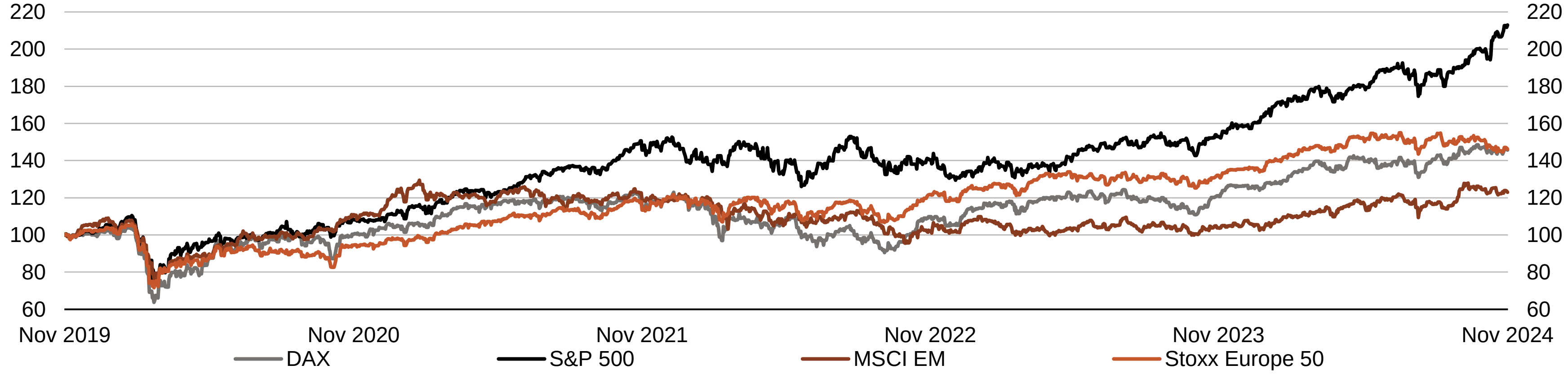
Market developments

Positive year-end seasonality likely

Trump election boosted US share prices in November

- Donald Trump's election victory triggered a major rally in risk assets in the first week of November, with US equity sectors such as banks (simplified regulatory environment, mergers and acquisitions), engineering (reshoring) and cryptocurrencies (Trump is seen as more crypto-friendly) outperforming. According to Goldman Sachs, Trump's proposed cut in corporate taxes from 21% to 15% should boost S&P 500 earnings by ~4%. The removal of election uncertainty and the decline in volatility, which led to systematic buying, as well as favourable seasonality and the end of the buyback blackout period (UBS estimates that companies will buy USD 25-50bn by the end of the year), also supported equity markets.
- Other equity regions, such as Europe, were left behind. In addition to disappointing economic data, fears of new trade wars weighed on exporters in particular.
- We remain optimistic for the end of the year and believe that positive year-end seasonality is likely, especially in the US.

Performance of selected equity indices



Source: Bloomberg; performance in EUR scaled to 100.

Time period: 26/11/2019 – 26/11/2024.

Corporate earnings

Q3 reporting season draws to a close

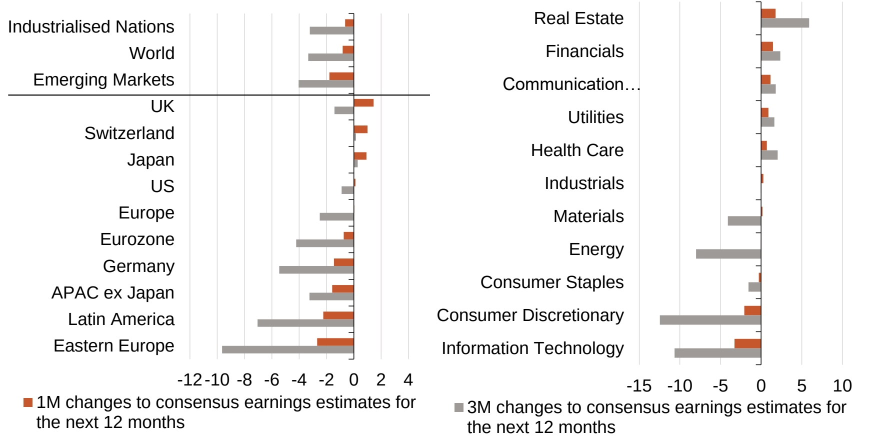
Q3 reports: financials drive, cyclicals slow

- The Q3 reporting season for European companies is almost over. The results show a mixed picture: while financial companies such as banks posted strong earnings growth, real estate, automotive and industrial companies disappointed on the earnings side.
- Overall, earnings growth (EPS) in Europe was around +5% year-on-year. However, excluding the financial sector, it was only -7%, with energy and consumer discretionary (mainly autos and luxury goods) being the biggest drag factors. However, revenue figures remain weak: only 41% of companies exceeded expectations, which is well below the long-term average of 53%.

Higher earnings growth expected for 2025

- The consensus expects stronger earnings growth in developed markets in 2025, supported by central bank cuts and strong economic growth in much of the world. Earnings are expected to grow by around 13%, supported by broad-based growth across a number of sectors.
- In the US, deregulation and tax cuts should provide a tailwind for earnings. However, challenges such as potential trade tariffs and political uncertainties related to Trump as the new US president could slow growth to some extent.

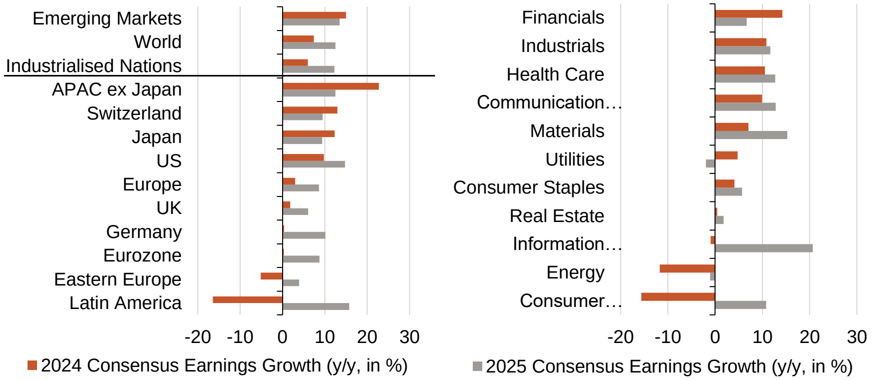
Negative earnings revisions dominate



Source: FactSet

As of: 26/11/2024

Positive earnings growth prospects for 2025



Source: Bloomberg

As of: 26/11/2024

Performance & Valuation

US equity valuation widening

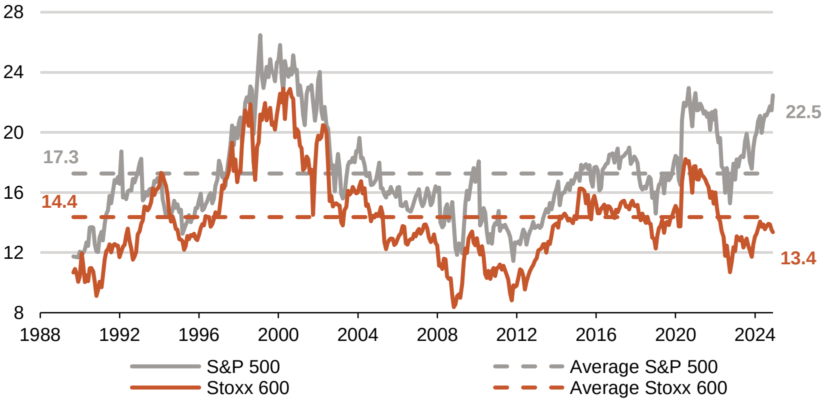
US equities reach new valuation high this year

- PP/E valuations for US equities over the next twelve months widened again in November and recently reached a new high for the year. The S&P 500 currently trades at a P/E ratio of 22.5x, well above the historical average since 1988, while the Stoxx Europe 600 remains at historically cheap valuations, especially after the renewed valuation tightening in November.
- With the Q3 reporting season now over, investors are likely to focus more on economic developments.

Trump election hits European equities

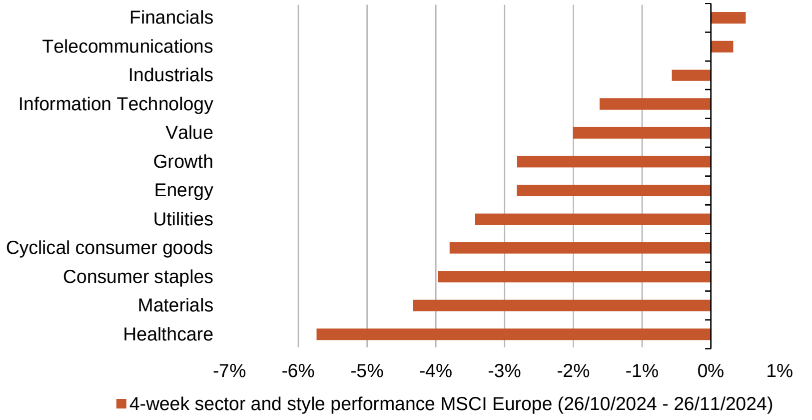
- European equities were weaker in November. Weak growth forecasts, Donald Trump's election victory and fears of tariffs for Europe and possible trade wars with key markets such as China weighed on the region. Since Trump's victory on 6 November, the Euro Stoxx 50 has lost almost 4.4%.
- In Europe, defensive sectors such as healthcare, materials and consumer staples have suffered the most over the past four weeks.

Highest valuation difference between USA and Europe



Source: Bloomberg, own calculations. Time period: 01/01/1988 – 26/11/2024

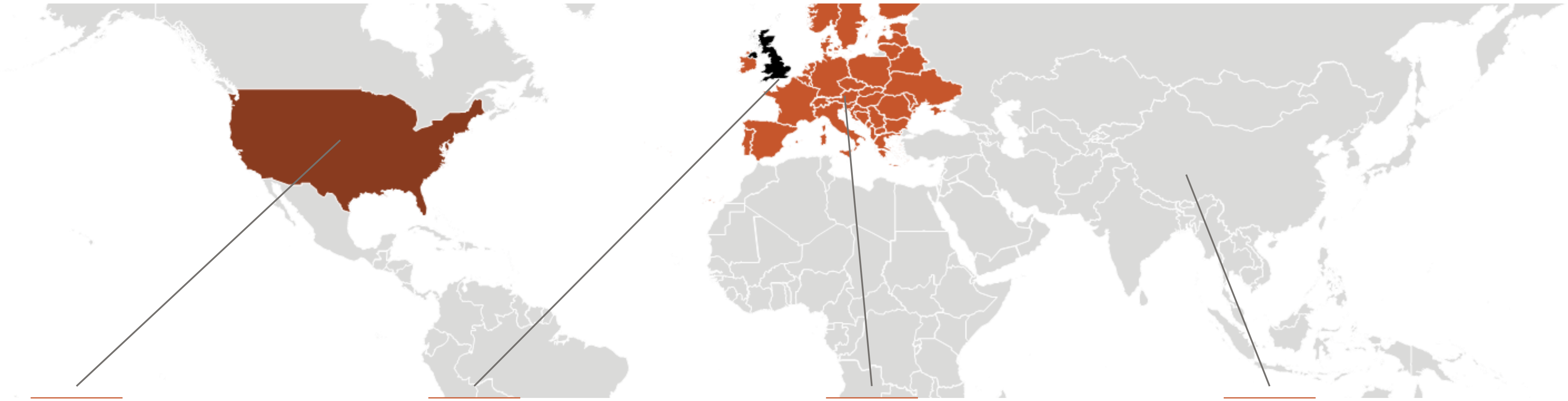
European defensive sectors under pressure



Source: Bloomberg, own calculations. Time period: 26/10/2024-26/11/2024

Equity allocation

Optimism for equities as year-end approaches



US

Overweight

- The high weighting of US mega-caps and the persistently high 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 robust. We remain optimistic for the end of the year and favour an overweight in US equities, with a focus on the more attractively valued mid and small caps, given the likely positive seasonality at the end of the year.

United Kingdom

Neutral

- At the index level, UK equities have a more defensive and commodity-rich profile, which should pay off in an environment of high inflation and geopolitical risk.

Europe ex. UK

Slightly overweight

- Despite the positive performance since the beginning of the year, European companies are not highly valued. Weaker growth prospects therefore appear to be largely reflected in prices. If the economy recovers, there is considerable catch-up potential. The Trump policy remains a risk.
- We are slightly overweight in Europe ex UK. We see opportunities particularly in European second-line stocks.

Emerging markets

Underweight

- Given the uncertainty surrounding the consequences of Trump's policies and the associated potential trade wars, we are comfortable with an underweight position in emerging market equities.

Equity market forecasts

Estimates for selected indices

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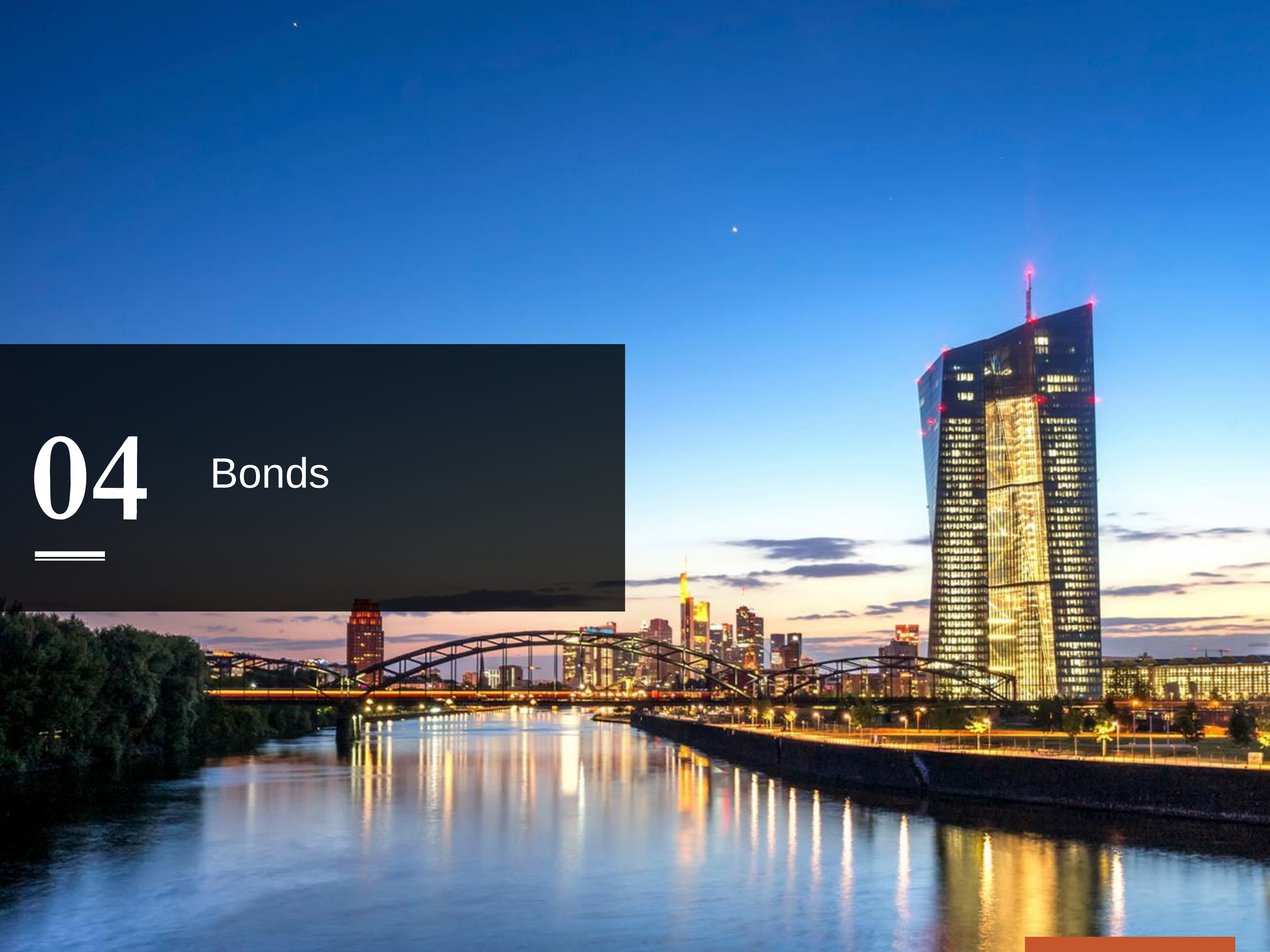
	Current			Ø*
Index forecasts	**27/11/2024**	**30/06/2025**	**31/12/2025**	**in 12 months**
S&P 500	5,999	6,200	6,500	6,548
DAX	19,262	20,000	21,000	22,541
Euro Stoxx 50	4,733	5,000	5,300	5,606
MSCI UK	2,362	2,450	2,600	2,709

Index potential (in %)				
S&P 500	-	3.4	8.4	9.2
DAX	-	3.8	9.0	17.0
Euro Stoxx 50	-	5.6	12.0	18.4
MSCI UK	-	3.7	10.1	14.7

Source: Bloomberg, Berenberg as of 27/11/2024.
*Average based on bottom-up estimates.



04

Bonds

Government bonds

Fed: Between pause and cut in December

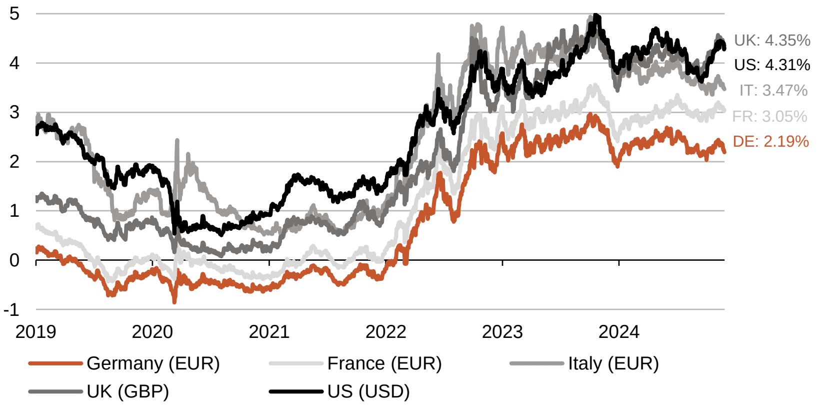
US economy and Trump re-elected support yields

- After its scheduled meeting in November, the Fed lowered the federal funds rate by 25 basis points, in line with market expectations. In his speech, Chairman Powell did not give a specific forecast for the December decision but acknowledged that the strength of the economy had recently surprised on the upside and that core inflation had been somewhat more persistent than forecast in September.
- The inauguration of Donald Trump and the associated reorientation of economic and trade policy pose increased inflation risks for the US, which, together with the strong US economy, could lead the Fed to pause its rate-cutting cycle.

Europe's political and fiscal uncertainties

- On the other side of the Atlantic, economic data has recently shown negative momentum, with eurozone economic surprises turning negative again recently, supporting the case for further interest rate cuts by the ECB.
- In addition to economic weakness, the eurozone continues to be plagued by political uncertainty. While Germany is awaiting new elections in February after the collapse of the "traffic light" coalition, France is still in the midst of a budget debate in parliament, which has led to infighting within the government. The OAT-Bund spread recently reached its highest level since 2012.

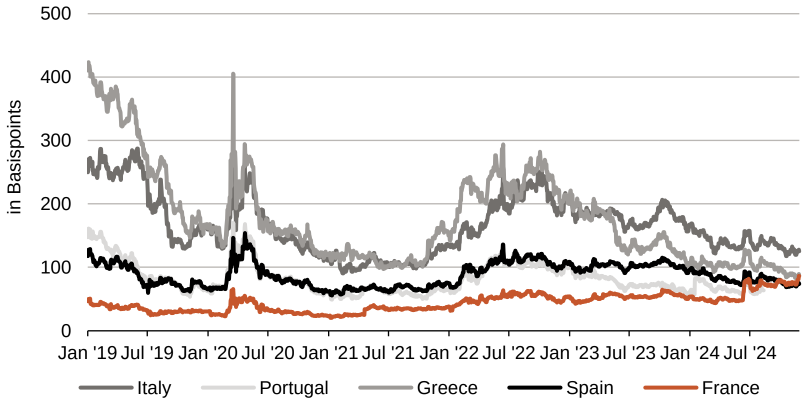
10-year yields (%) recently volatile



Source: Bloomberg

Time period: 01/01/2019 – 26/11/2024

Recently higher risk premium in France



Source: Bloomberg, own calculations, (Spread 10-year government bonds vs. Bunds)

Time period: 01/01/2019 – 27/11/2024

Corporate & EM bonds

Europe and emerging markets brace for Trump

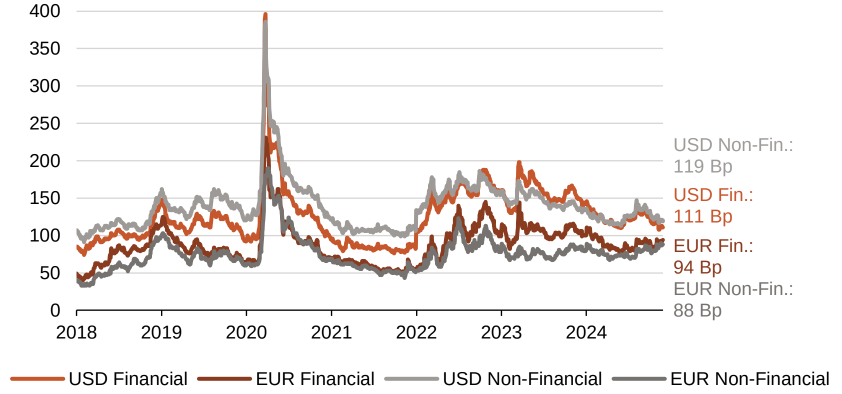
Corporate bonds: Spreads quiver at Trump prospect

- Spreads on IG and high yield corporate bonds widened slightly in November. In addition to the weaker eurozone economy, the prospect of US tariffs on European goods, and thus a potential trade war between the two sides of the Atlantic, is a significant risk that calls for caution.
- The relative attractiveness of the risk-return ratio at current valuations compared to safer government bonds, particularly in the IG corporate bond segment, has gradually deteriorated recently, while we currently see a few interesting opportunities in the area of high-yield bonds.

Emerging market bonds: Trade wars loom

- Donald Trump's upcoming term in office and the associated risks of the introduction of tariffs, trade restrictions and a general review of relations with emerging markets remain a major risk for emerging markets. Risk premiums on corporate bonds reacted most strongly to the re-election of Donald Trump, widening in November.
- However, the robustness of the US economy and the monetary and fiscal measures announced in China create a positive macroeconomic environment for EM bonds. Robust fundamentals and manageable debt ratios should counteract the upward trend in EM risk premiums.

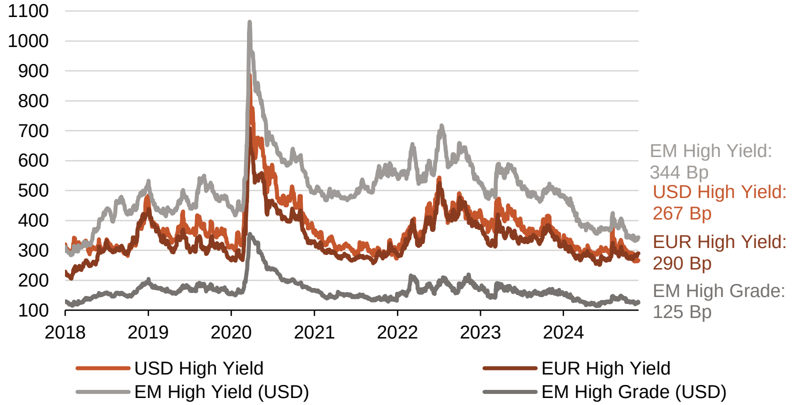
Corporate bonds: Spreads widened slightly recently



Source: Factset, own calculations

Time period: 01/01/2018 – 26/11/2024

EM risk premiums have recently risen slightly



Source: Factset, own calculations

Time period: 01/01/2018 – 26/11/2024

Capital market strategy

Bonds

Core segments

− Government bonds

Underweight

- Since the degree of fluctuation in macro data remains elevated, interest rate volatility for safe government bonds is also likely to remain elevated.
- Secured covered bonds have a similar credit risk profile but offer a higher yield. We consider this risk-return profile to be more attractive than that of government bonds, even though it has become less attractive due to tighter swap spreads.

+ Corporate bonds

Underweight

- The risk-return ratio has recently deteriorated gradually with the current valuations compared to safer government bonds, especially in the IG corporate bond segment. We still see selective opportunities in the high-yield bond segment. In sector selection, we are focusing on defensive industries and avoiding cyclical ones.

Other segments

+ Emerging markets

Overweight

- Local currency bonds remain attractive due to high real yields, solid fundamentals combined with the ongoing disinflationary trend in emerging markets and offer good risk/reward.
- In hard currency emerging market debt, we favour government bonds over IG corporate bonds due to higher yields, longer duration and higher cash inflows.

+ High yield bonds

Overweight

- The high-yield bond segment remains attractive for many investors due to the positive economic outlook and the high carry. Although risk premiums are at historic lows, the average quality of companies in the segment is also better than it used to be.
- We continue to consider catastrophe bonds and high-yield bond funds with a more defensive profile to be attractive.

Forecasts

Estimates for selected bond markets

	26/11/2024	30/06/2025		31/12/2025	
Base interest rates and government bond yields (in %)	**Current**		**Ø***		**Ø***
US					
Base interest rate	4.50-4.75	4.25-4.50	3.95	4.25-4.50	3.65
10Y US yield	4.31	4.70	4.15	4.90	4.10
Eurozone					
Base interest rate	3.40	2.50	2.35	2.50	2.20
10Y Bund yield	2.19	2.50	2.25	2.60	2.30
United Kingdom					
Base interest rate	4.75	4.25	4.10	4.25	3.65
10Y Gilt yield	4.35	4.60	4.06	4.70	3.91

Source: Bloomberg. Berenberg. as of 26/11/2024.
*Average of estimates by other experts (Bloomberg) consensus.

05

Commodities

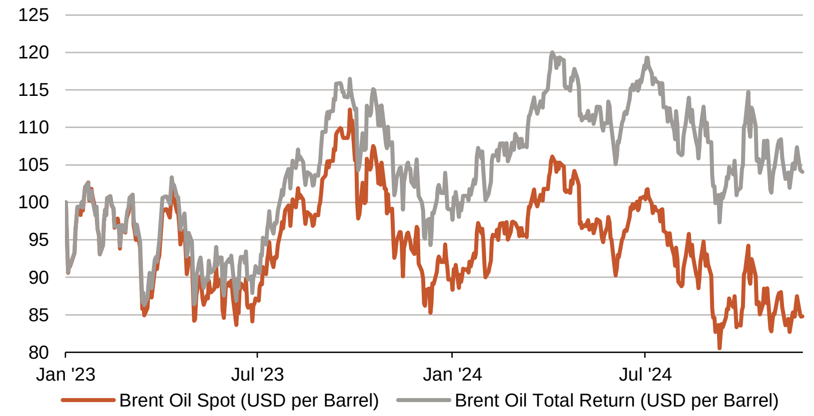
Crude oil

Sideways until further notice

Plenty supply, but 'Drill, baby, drill' is unlikely

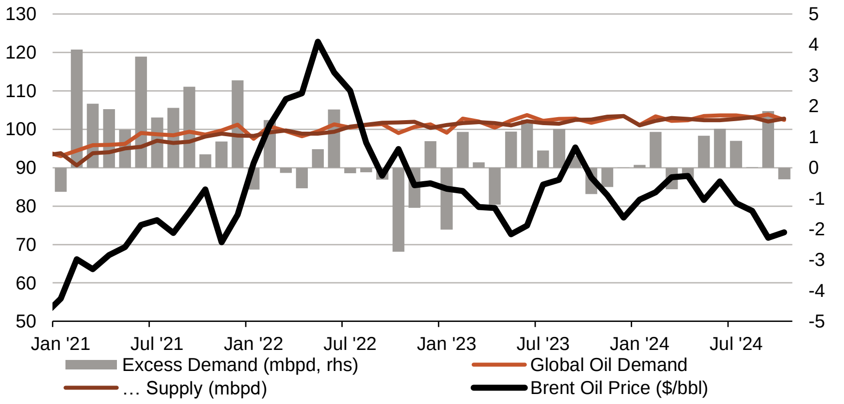
- The oil price continued to move sideways last month. Since the beginning of the year, Brent is slightly down by almost 5%, but thanks to the backwardation of the futures curve, the total return is +7%. At the beginning of November, OPEC+ once again postponed the planned production increases from December to January. Meanwhile, Donald Trump's victory in the US presidential elections had little impact on the oil price. However, the stimulus measures announced by China shortly afterwards disappointed energy markets. The last few weeks have been dominated by geopolitical developments. The escalation of the war between Russia and Ukraine initially provided a boost to prices, while the prospect of a ceasefire between Israel and Hezbollah caused oil prices to fall again.
- A sustained rise in oil prices in the coming months seems unlikely. There is plenty of supply: OPEC+ has high spare capacity, while non-OPEC countries are planning to increase production further. Any upside potential would therefore require either significant demand growth in China or a geopolitical escalation. A significant drop in prices, as postulated by some of Trump's supporters, seems equally unlikely. The loss-making production expansions under the motto 'drill, baby, drill' seem to be a thing of the past. Nowadays “cash(flow) is king” among US producers. Therefore, the oil price is likely to remain volatile and trend sideways for the time being.

Oil investors benefit from backwardation



Source: Bloomberg. Time period: 01/01/2023 – 25/11/2024.

No more supply deficit in the oil market



Source: Bloomberg, EIA own calculations. Time period: 01/01/2021 – 31/10/2024.

Precious and industrial metals

Gold consolidates, base metals slightly weaker

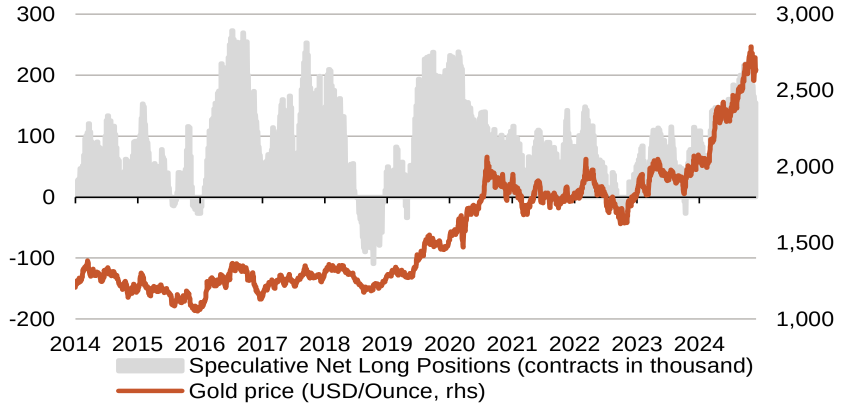
Despite setback, gold remains attractive

- Since peaking at the end of October, gold has recently suffered a significant setback. At one point, the precious metal fell by as much as 8%. This was due to Donald Trump's election victory, which led to a significant appreciation of the dollar, a temporary rise in bond yields and a risk-on mode in markets. A previously strong performance, geopolitical tensions and pronounced positioning made the precious metal vulnerable to consolidation.
- However, fundamental factors such as structurally higher central bank purchases, higher government debt, geopolitical risks and falling key interest rates should continue to support gold next year.

Industrial metals remain structurally supported

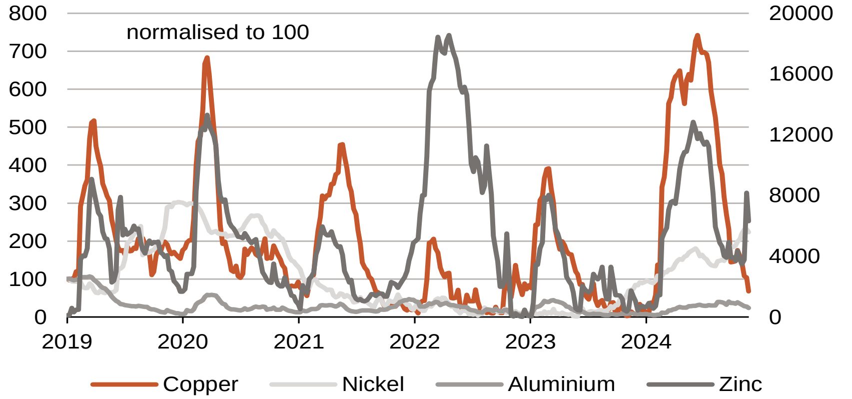
- Donald Trump's victory also left its mark on industrial metals. In particular, the announced tariffs would weigh on Chinese exports and lead to a reduction in economic activity. This should have a negative impact on the demand for industrial metals.
- However, a structural supply shortage, high demand due to decarbonisation and an economic recovery also limit the downside risk.
- In the short term, however, a significant recovery in the manufacturing sector will be needed for industrial metals prices to rise significantly.

Positioning made gold vulnerable to setbacks



Source: Bloomberg, own calculations. Time period: 01/01/2014 – 26/11/2024.

Supply tightened by low stock levels



Source: Bloomberg, own calculations. Time period: 01/01/2019 – 26/11/2024.

06

Currencies

Market Development

FX markets

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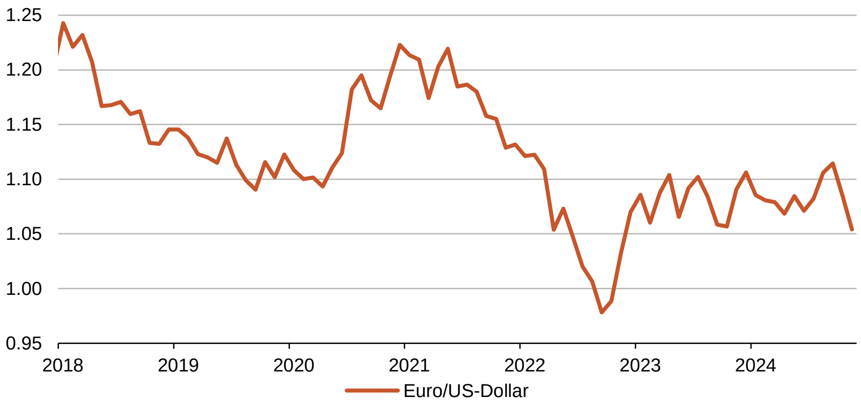
Trump gives the dollar a tailwind

- Weak economic data in the eurozone, geopolitical uncertainties and Donald Trump's election victory have recently caused the dollar to appreciate against the euro. Under the new president, deregulation and possible tax cuts are expected, which should boost the US economy.
- In addition, higher tariffs and a stricter immigration policy are likely to lead to an increase in inflation and thus to higher key interest rates. This would result in more capital flowing into the US, which would give the greenback a tailwind. This argues in favour of a stronger dollar than previously thought, but the market may have run a little too far at the moment.

Switzerland flirts with deflation

- The geopolitical risks are leading to a persistently strong franc. This is making Swiss imports cheaper, which, together with falling energy prices, is threatening to push Switzerland into deflation. The inflation rate fell again in October, reaching 0.6% year-on-year, the lowest level since July 2021.
- The Swiss National Bank (SNB) will counteract this with further interest rate cuts. However, as the key interest rate is already at 1%, the room for manoeuvre is limited. Direct exchange rate interventions are therefore becoming more likely.

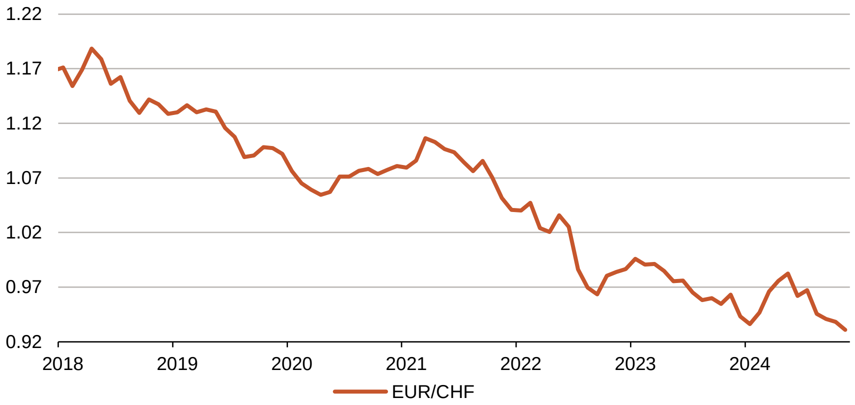
There is a lot going on in favour of the USD



Source: Bloomberg

Period: 01/2018 – 11/2024

Strong franc worries the SNB



Source: Bloomberg

Period: 01/2018 – 11/2024

Forecasts

Estimates of key currencies

	26/11/2024	30/06/2025		31/12/2025	
Exchange rate forecasts	**Current**	🛡	**Ø***	🛡	**Ø***
EUR/USD	1.05	1.08	1.05	1.08	1.06
EUR/GBP	0.83	0.84	0.83	0.84	0.83
EUR/CHF	0.93	0.95	0.94	0.96	0.96
EUR/JPY	161	157	158	151	155
Change against the Euro (in %)					
USD	-	-2.9	-0.1	-2.9	-1.0
GBP	-	-0.7	0.5	-0.7	0.5
CHF	-	-2.1	-1.1	-3.1	-3.1
JPY	-	2.3	1.6	6.3	3.6

Source: Bloomberg. Berenberg as of 26/11/2024.
*Average of estimates of other experts (Bloomberg); consensus.

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