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HORIZON *handout*

The Berenberg Capital Markets Outlook • Wealth and Asset Management

January | 2025

Horizon Handout – Capital Market Outlook
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Date 28/11/2024.

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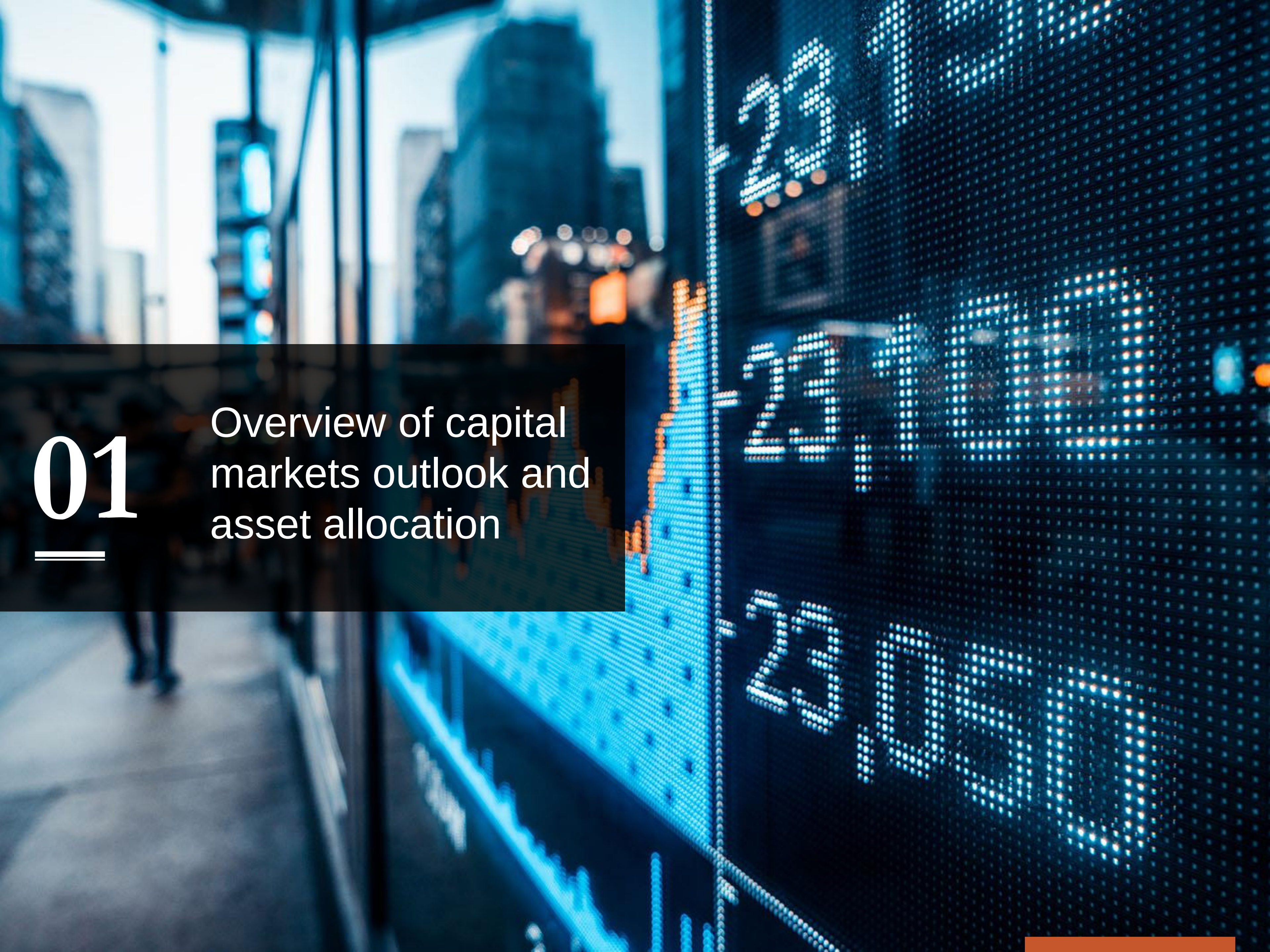
An online glossary with definitions of technical terms is available at www.berenberg.de/en/glossary



01 Overview of capital markets outlook and asset allocation

Overview of capital markets
Performance review

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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 (19/11/24 - 17/12/24)	YTD (29/12/23 - 17/12/24)	17/12/23 17/12/24	17/12/22 17/12/23	17/12/21 17/12/22	17/12/20 17/12/21	17/12/19 17/12/20
MSCI World	2,8	28,5	28,5	18,5	-10,4	29,5	5,8
MSCI Frontier Markets	2,3	16,7	17,0	4,3	-18,6	30,6	-7,2
Global Convertibles	1,9	18,0	17,4	6,4	-14,7	6,5	36,6
Gold	1,5	35,0	36,1	9,4	5,9	4,1	16,1
Brent	1,2	12,4	11,4	3,7	47,2	71,1	-37,2
USDEUR	1,0	5,2	3,9	-2,8	6,1	9,2	-9,1
EUR Coporates	0,9	5,0	5,5	6,4	-13,7	-0,4	2,4
EUR Sovereign Debt	0,7	2,8	3,2	4,1	-11,4	-0,9	1,8
MSCI Emerging Markets	0,7	15,1	16,2	4,3	-13,9	6,2	7,4
Euro overnight deposit	0,2	3,7	3,8	3,2	-0,1	-0,6	-0,5
Industrial Metals	-0,5	10,5	11,5	-12,0	5,9	31,7	10,0
REITs	-2,8	8,1	7,8	2,2	-19,8	39,3	-12,9

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: 17/12/2019 – 17/12/2024.

Overview of capital markets
Outlook by asset class

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Economics

- ECB torn between growth concerns and persistent inflationary pressure.
- Ultra-soft landing in the US followed by a Trump boost.
- Interrupted recovery in the UK.

Equities

- US equities significantly outperformed in 2024, but this divergence is unlikely to be repeated in 2025.
- 2025 with more M&A activity. European small caps are in focus due to the weak euro and low valuations.
- We expect healthy market breadth in 2025, but the upside potential for global equities is likely to be limited.

Bonds

- Safe government bonds look attractive for hedging purposes but offer little return potential.
- European corporate bonds offer at least fair, and in some cases attractive, yields.
- Emerging market local currency bonds offer the prospect of positive returns.

Alternative investments / commodities

- Despite the continuation of production cuts by OPEC+, supply remains ample. China's demand remains weak.
- Fundamental drivers should give the gold price a further boost after a period of consolidation.
- In the short term, an economic recovery in industry is needed for industrial metals. Medium-term drivers remain intact.

Currencies

- Politics, not central banks, are driving exchange rates.
- The US dollar currently has a number of advantages, but the wind could change somewhat next year.
- The strong franc is a cause for concern for the Swiss National Bank.

Overview of Berenberg's asset allocation

Current positioning within asset classes

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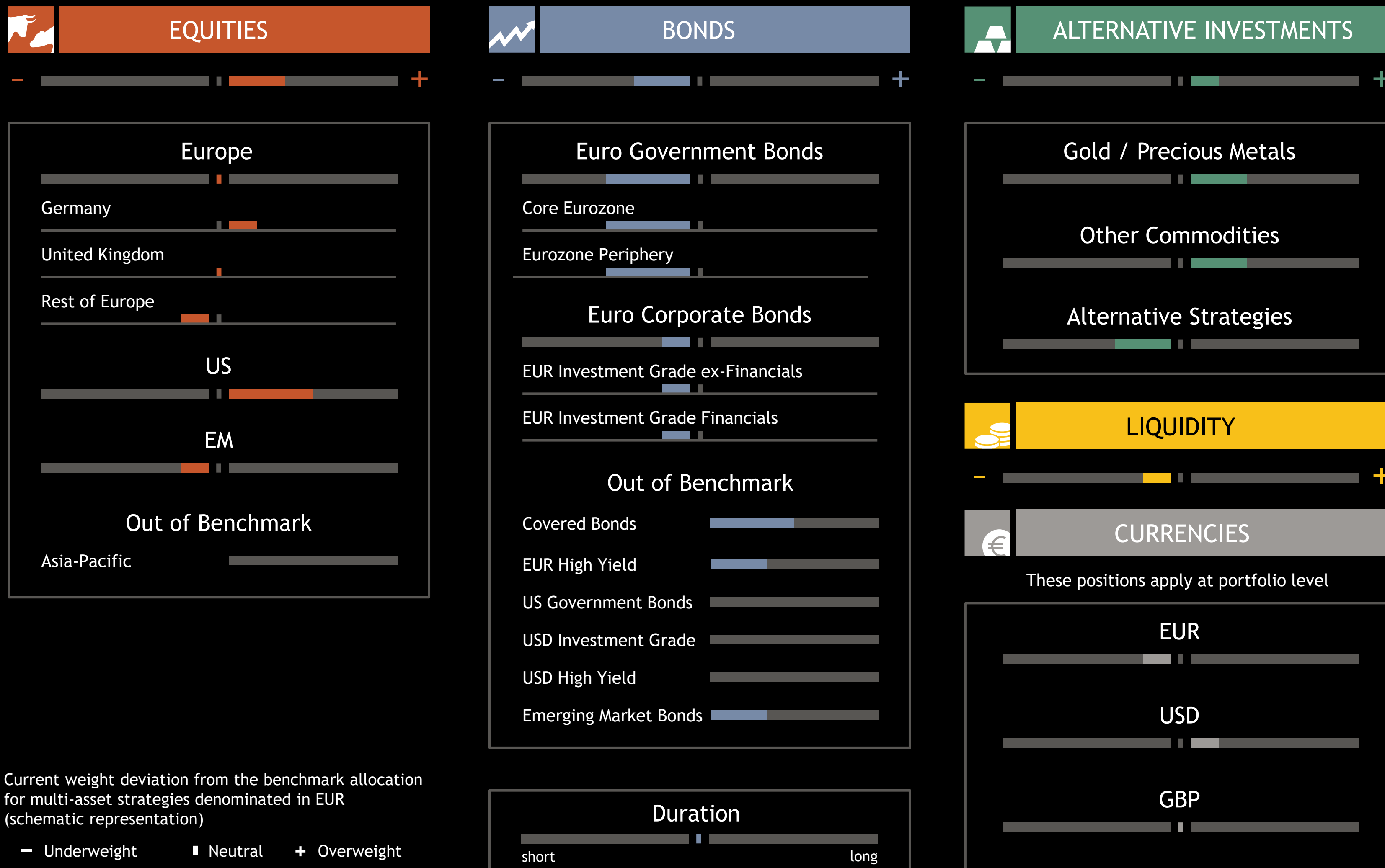
Portfolio positioning of a balanced mandate at a glance



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

− Underweight ▮ Neutral + Overweight

Source: Berenberg

As of 17/12/2024.

Overview of Berenberg's asset allocation

Review of Core Strategy 3

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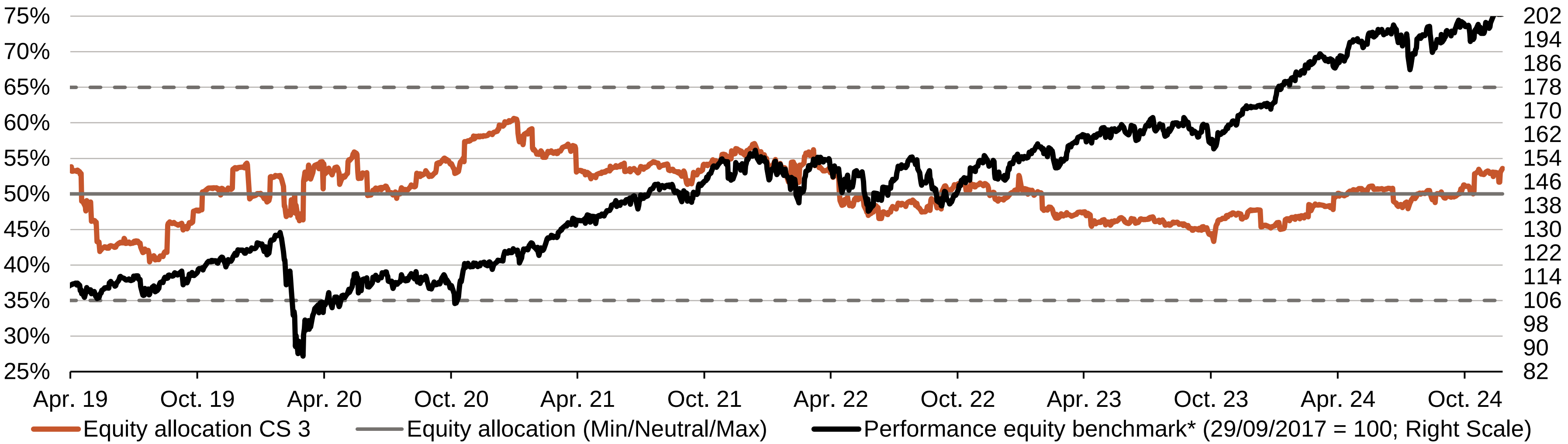
Management of the equity allocation of a balanced multi-asset mandate since inception

Performance equity benchmark	16/12/19 - 16/12/20	16/12/20 - 16/12/21	16/12/21 - 16/12/22	16/12/22 - 16/12/23	16/12/23 - 16/12/24
	-2.48%	27.98%	-3.23%	16.22%	17.60%



Time period: 16/12/2019 – 16/12/2024.

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.

- Given the uncertainty surrounding the outcome of the US election, we entered the fourth quarter with a balanced position. An overweight position in bonds or a long duration was not an obvious choice either, as we felt that market expectations of interest rate cuts were overdone. As the probability of a Trump victory increased, we continued to add to equities before the election, particularly US mid-caps, partly at the expense of Europe. We took a further step immediately after Trump's victory.
- We are maintaining our overweight in (US) equities and commodities/gold over bonds and cash into the new year but expect markets to become more volatile once Donald Trump is sworn in at the latest.

02 Economics

Eurozone
GDP and Inflation

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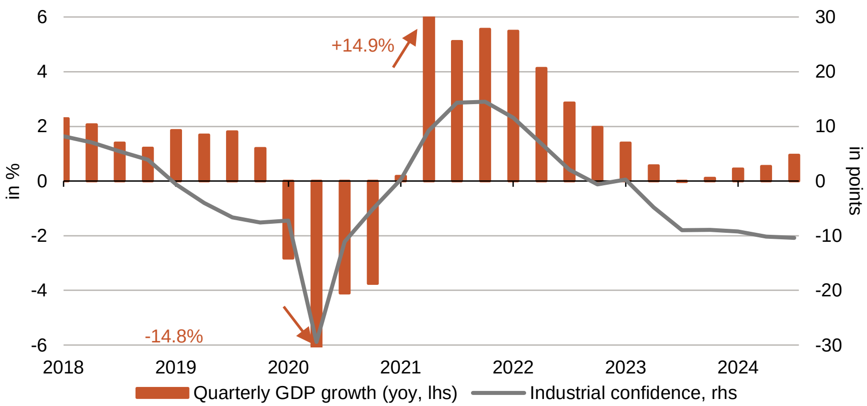
Hope of a slight upturn in 2025

- The eurozone economy is currently being weighed down in particular by the weak growth and political uncertainties in the two largest economies, Germany and France. After fairly solid growth in the third quarter, the leading economic indicators are currently pointing to a slowdown in growth momentum.
- In 2025, however, the ECB's interest rate cuts and rising real wages should provide some tailwind for the economy in the eurozone. One risk is that Trump could increase tariffs on European products after taking office.

ECB caught between growth worries and price pressure

- Core inflation has been moving sideways at a level that the ECB considers too high for the past three months, and the inflation rate actually rose from 2.0% to 2.3% in November. Although we expect a slight weakening of price pressure in the coming year, the ECB must continue to act cautiously for the time being.
- At its December meeting, the ECB cut interest rates by only 25 basis points for the fourth time in a row despite the weakening economy. We expect three further interest rate cuts of the same amount in the first half of 2025, bringing the deposit rate to 2.25%.

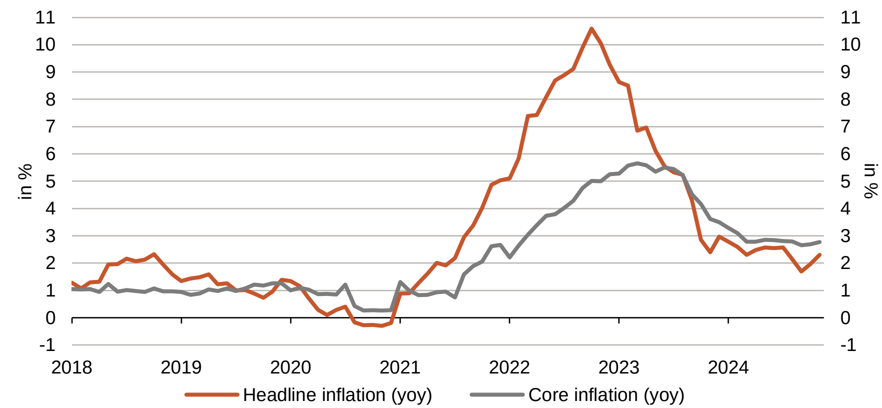
Very slow economic recovery



Source: Haver

Period: 01/2018 – 09/2024

Hardly any progress on core inflation



Source: Haver

Period: 01/2018 - 11/2024

United Kingdom
GDP and Inflation

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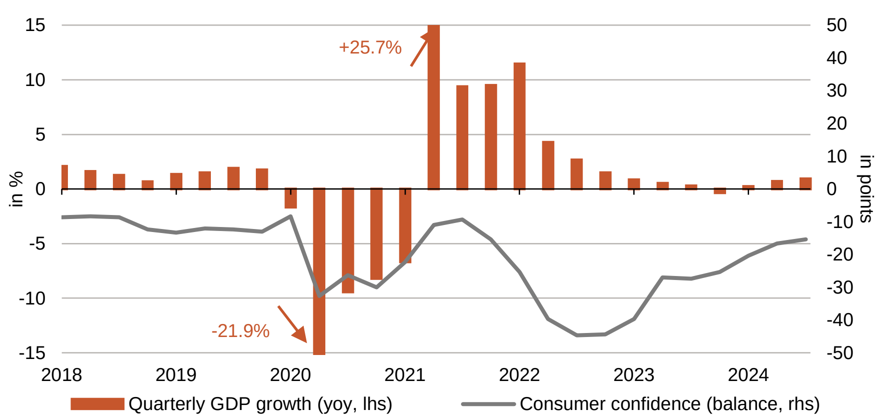
More growth in the new year

- The year 2024 has started well for the British economy, but the snap election and the associated concerns about the budget have recently caused the economy to lose some momentum. For the year as a whole, we expect moderate GDP growth of 0.9%.
- The British economy is likely to recover somewhat in the coming year. The political uncertainties are over and the new government has announced significant spending increases. Declining interest rates and falling inflation will also have a positive impact. We expect GDP to grow by 1.4% in 2025.

Little scope for further interest rate cuts

- Although the rise in the inflation rate from 2.3% in October to 2.6% in November (mostly due to the more volatile components of inflation, rising wage costs limit the scope for a further decline in services inflation.
- The Bank of England is therefore likely to find it difficult to cut interest rates significantly. We expect to see a slow progression in monetary easing in 2025. We expect interest rates to be cut by 25 basis points in each of the first two quarters of 2025, bringing the key rate down to 4.25% by the summer of 2025.

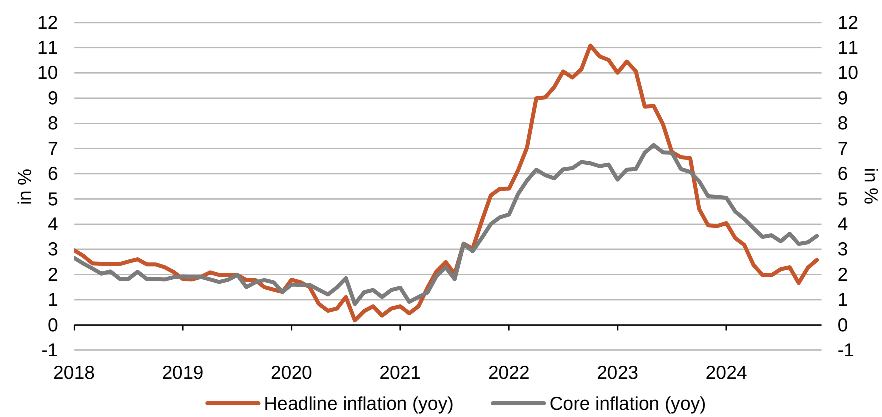
Consumer sentiment slowly brightens



Source: Haver

Period: 01/2018 - 09/2024

Services sector keeps core inflation high



Source: Haver

Period: 01/2018 - 11/2024

USA
GDP and Inflation

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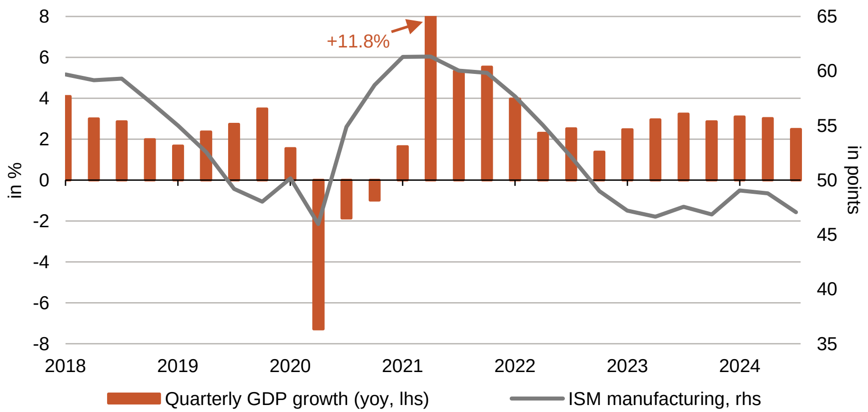
Trump is back

- The US economy has barely lost any momentum and, in the third quarter, grew again by an annualized 0.8 % quarter-on-quarter. The economy was supported by solid consumer spending, exports and government spending.
- At the moment, it looks like the US economy will experience a very soft landing. And re-elected former President Trump could even provide further growth impetus in the coming year. During his election campaign, he promised tax cuts and deregulation. In the medium term, however, the announced tightening of immigration policy and tariffs could weaken trend growth in the US.

Fed lowers key interest rate, but remains very cautious

- Core inflation moved sideways at 3.3% in November for the third month in a row.
- At its December meeting, the Fed cut the key interest rate range by 25 basis points to 4.25–4.50 %. For 2025, the central bankers now expect interest rates to fall by only 50 basis points in total, whereas in September they had still assumed a drop of 100 basis points. Stubborn core inflation, the very robust economy and Donald Trump, whose policies are likely to drive up inflation, will leave the Fed with no leeway for further easing of monetary policy.

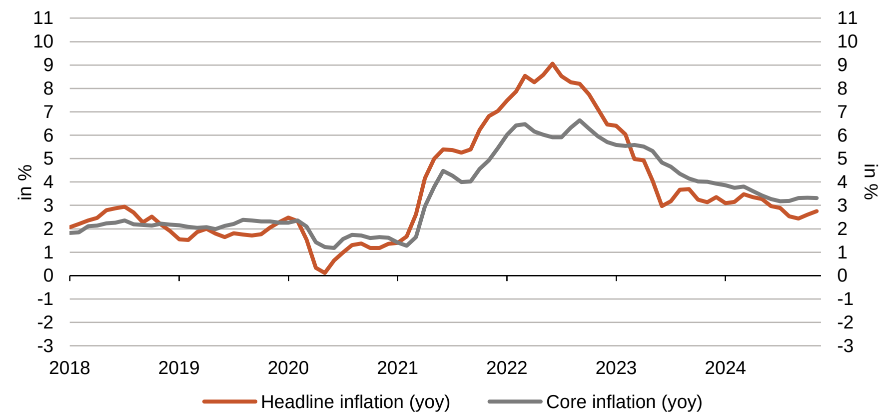
Strong growth...



Source: Haver

Period: 01/2018 - 09/2024

... and stubborn core inflation hamper the Fed



Source: Haver

Period: 01/2018 - 11/2024

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	2.8	2.7	2.4	2.1	2.2	2.0	3.0	2.9	2.9	2.5	2.6	2.5
Eurozone	0.7	0.8	1.0	1.1	1.5	1.3	2.4	2.4	2.0	2.0	2.2	2.0
Germany	-0.2	-0.1	0.3	0.6	1.2	1.2	2.5	2.4	2.1	2.1	2.1	1.9
France	1.1	1.1	0.5	0.8	1.2	1.2	2.3	2.3	1.8	1.7	2.1	1.9
Italy	0.5	0.5	0.8	0.8	1.2	1.0	1.1	1.1	1.8	1.7	2.1	1.8
Spain	3.1	3.0	2.3	2.2	2.3	1.8	2.8	2.8	2.1	2.1	2.3	2.0
United Kingdom	0.9	0.9	1.4	1.4	1.5	1.5	2.5	2.5	2.8	2.5	2.6	2.2
Japan	-0.2	-0.2	1.1	1.2	1.0	0.9	2.6	2.6	2.1	2.1	1.7	1.8
China	4.7	4.8	4.5	4.5	4.3	4.2	0.3	0.4	0.8	1.0	1.4	1.5
World*	2.6	-	2.6	-	2.7	-	-	-	-	-	-	-

Source: Bloomberg. Berenberg as of 17/12/2024.
* 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
Less upside in 2025, but healthy market breadth

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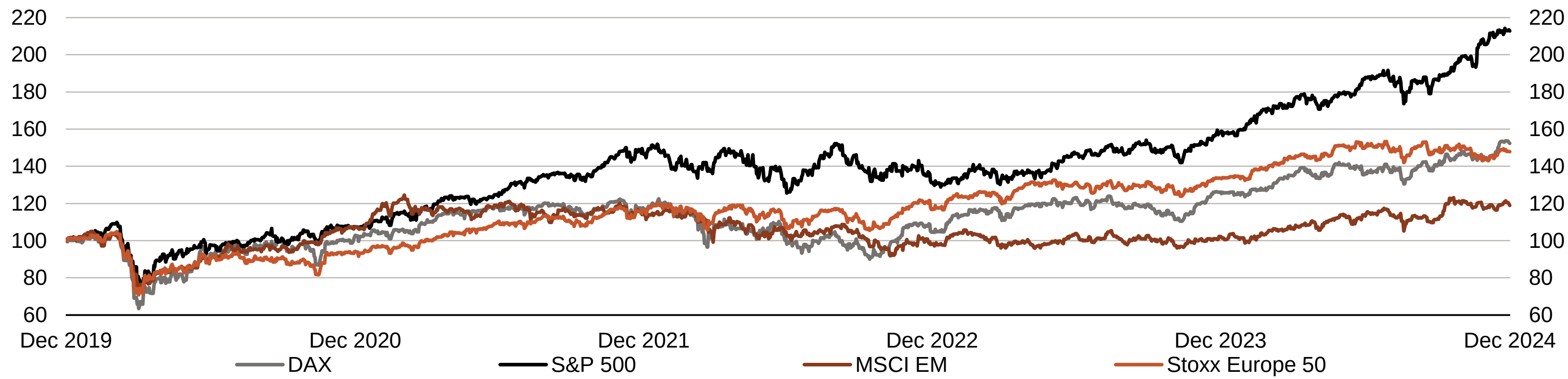
US equities clearly outperform in the fourth quarter

- With Donald Trump's election victory, the market also played out its "America First" policy. This was doubly profitable for euro investors invested in US equities. Our decision to add to US equities in the run-up to and immediately after the US elections paid off. Not only did US equities rise sharply, but so did the US dollar. US small caps have gained more than 11% in euro terms so far in Q4. European and Asian equities, on the other hand, showed a volatile sideways trend in the same period. The difference in performance between US and European equities in 2024 is more than 23%, a record in this millennium.
- Following Donald Trump's victory in the US election, there is still much to be said for US equities. After all, the new US president intends to campaign for lower taxes, less regulation and a strengthening of the domestic economy. He also sees the stock market as a good barometer of his political success. So there is a kind of Trump put, similar to the Fed put. The president and the central bank have a vested interest in a robust S&P 500. After all, a rising stock market is accompanied by improved business and consumer sentiment and higher tax revenues. This, combined with the strong innovative capacity of US companies in future technologies such as AI, argues in favour of US equities. However, this has already been heavily priced in by the market.

Performance of selected equity indices



Source: Bloomberg; performance in EUR scaled to 100.

Time period: 17/12/2019 – 17/12/2024.

Corporate earnings

Less regional performance divergence in 2025

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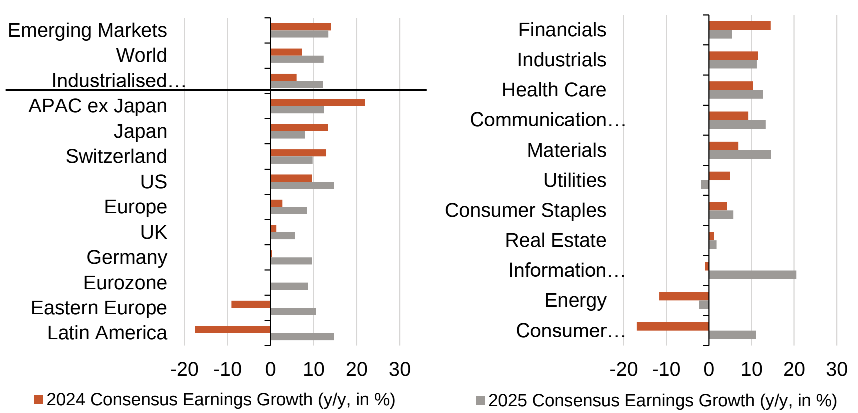
Reduced divergence between US and European equities

- We expect the divergence between US and European equities to narrow significantly in 2025, for several reasons. Although the majority of economists still expect the US economy to grow faster than the eurozone, they also expect the growth advantage to halve from around 2% in real GDP in 2024 to around 1% in 2025.
- Analysts take a similar view with regard to earnings estimates for 2025, with just under 15% expected for the US and just under 9% for the eurozone. By contrast, the expected earnings growth for 2024 is around 10% for the US and only around 3% for the eurozone.

Risks in Europe already reflected in share prices

- For European equities, there are many stumbling blocks and risks in addition to the threat of a trade war with China's weakness, the local economic slowdown, higher energy prices and the war in Ukraine. However, these are already reflected in share prices in the form of high risk premiums. Europe is currently trading at a record-high valuation discount of around 40% to US equities on a P/E basis.
- The extreme positioning and valuation are therefore susceptible to positive surprises from Europe. Among an imminent end to the Ukraine war, the favourable financial conditions (weak euro versus strong US dollar, widening interest rate differential between the US and Europe) should provide relative support for European companies.

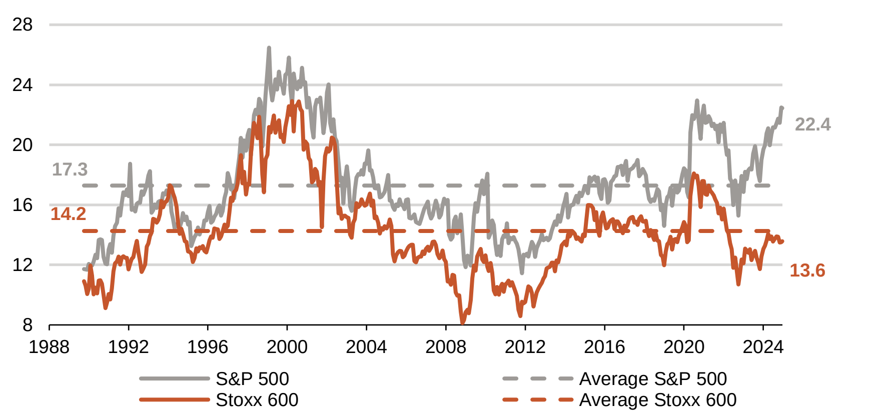
Convergence of earnings growth in the US and Europe



Source: FactSet

As of: 17/12/2024

Record high valuation difference between USA and Europe



Source: Bloomberg, own calculations

Time period: 01/01/1988 – 17/12/2024

Performance & Valuation

Healthy market breadth in 2025 –thanks to more M&A activity

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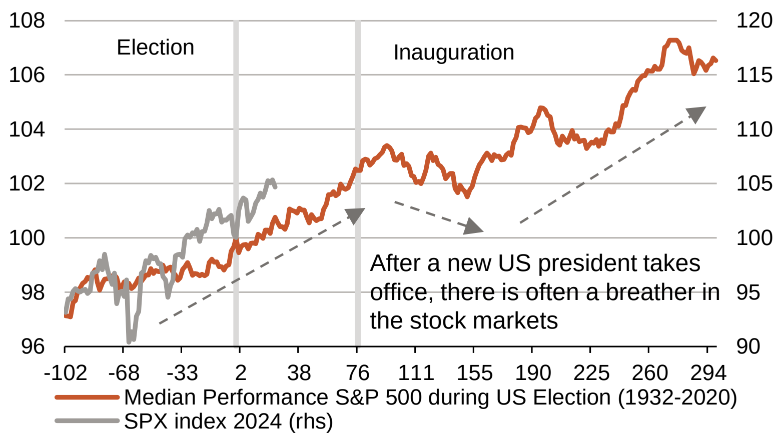
US equities susceptible to negative surprises, ...

- Given the record-high profit margins and the current P/E valuations of US equities, the starting position is more difficult than it was under Trump eight years ago.
- Around USD 1.1 trillion has flowed into US equity funds and ETFs since the beginning of the decade. The rest of the world has seen inflows of less than USD 250 billion over the same period. Extreme positioning and valuation make US equities vulnerable to disappointment. Europe, on the other hand, offers the potential for positive surprises.

... but robust economy and deregulation provide support

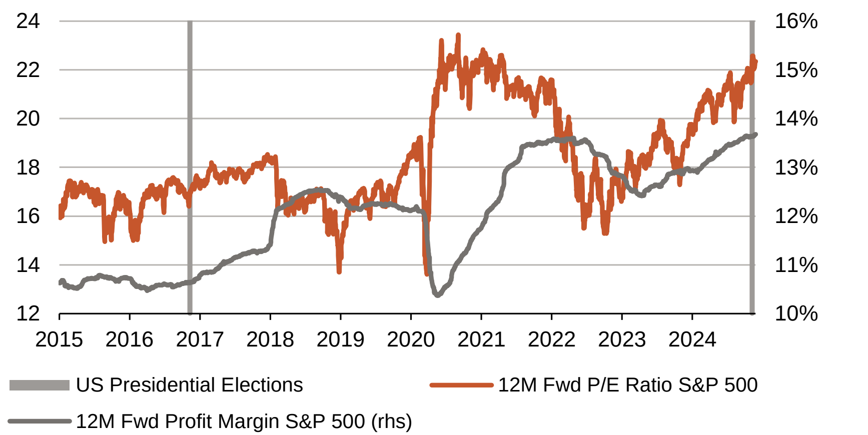
- In the US, the imminent tax certainty for companies and a wave of deregulation are likely to boost not only the M&A market but also IPO activity. In addition to the robust economic environment, all of this should lead to a decent market breadth in 2025, in which small caps are also likely to shine. For the S&P 500, we do not see any further valuation expansion in 2025, meaning that earnings are likely to be limited to earnings growth at most.
- For the rest of the world, it depends heavily on how many risks materialise. If many fail to materialise, European and emerging market equities should also receive support from valuation increases.

A stock market rally without setbacks unlikely in 2025



Source: Bloomberg, own calculations. Time period: 01/01/1932-09/12/2024

US equities with higher expectations under Trump 2.0



Source: Bloomberg, own calculations. Time period: 01/01/2015–09/12/2024

Equity allocation
Optimism for equities as year-end approaches

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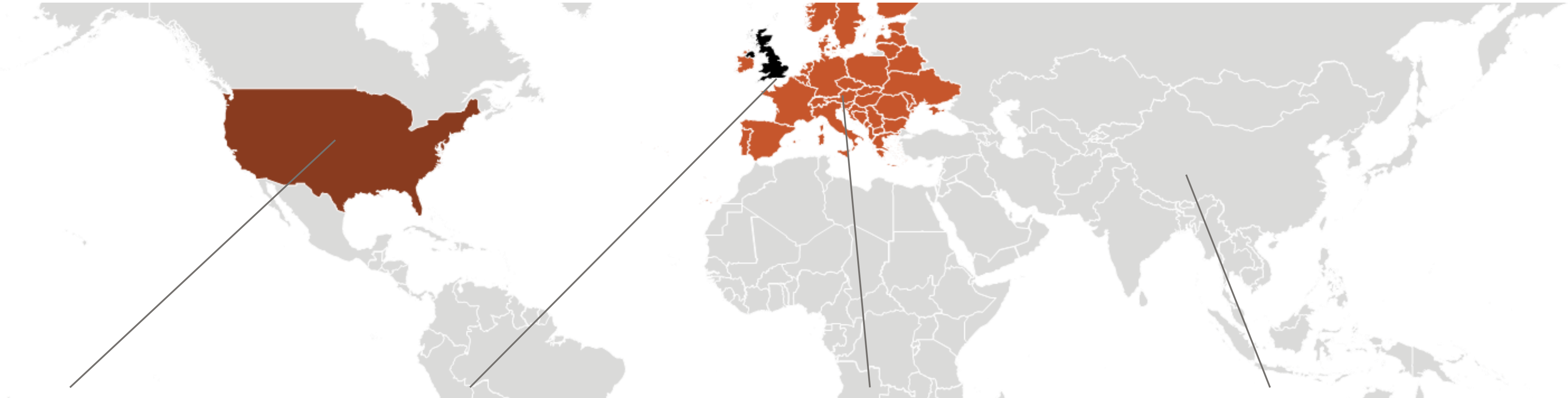

US
Overweight
- The high weighting of US mega-caps and the persistently high valuation of US equities make the region less attractive than more favourable regions such as Europe or emerging markets. On the other hand, the US economy remains robust. We remain optimistic for the end of the year and favour an overweight in US equities, with a focus on the more attractively valued mid and mid 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 small caps.

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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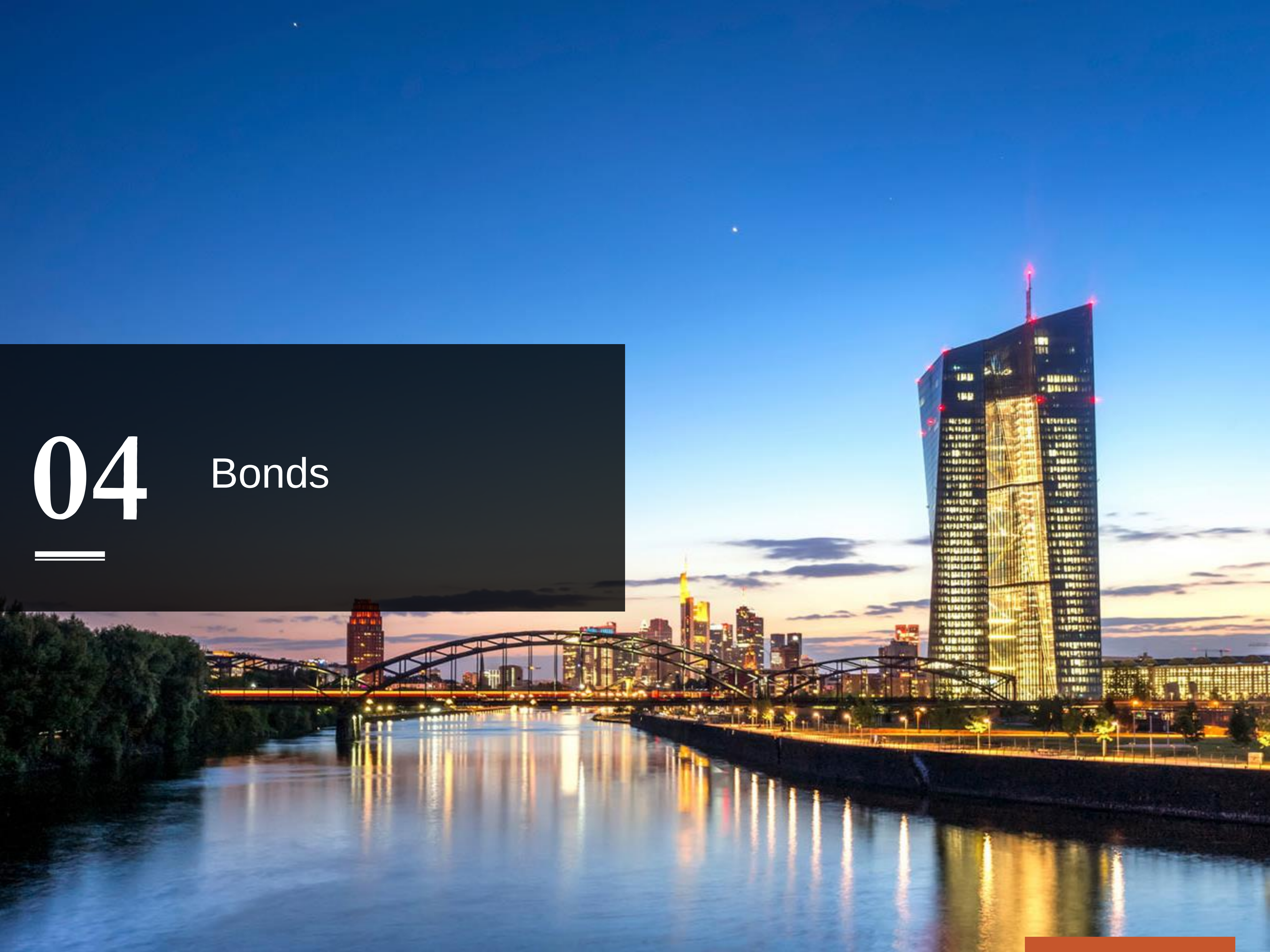
	Current			Ø*
Index forecasts	17/12/2024	30/06/2025	31/12/2025	in 12 months
S&P 500	6,051	6,200	6,500	6,649
DAX	20,246	21,000	22,000	22,886
Euro Stoxx 50	4,943	5,100	5,300	5,624
MSCI UK	2,337	2,450	2,600	2,728

Index potential (in %)				
S&P 500	-	2.5	7.4	9.9
DAX	-	3.7	8.7	13.0
Euro Stoxx 50	-	3.2	7.2	13.8
MSCI UK	-	4.8	11.2	16.7

Source: Bloomberg, Berenberg as of 17/12/2024.
*Average based on bottom-up estimates.

04 Bonds



Government bonds

Expectations of further interest rate cuts are diminishing

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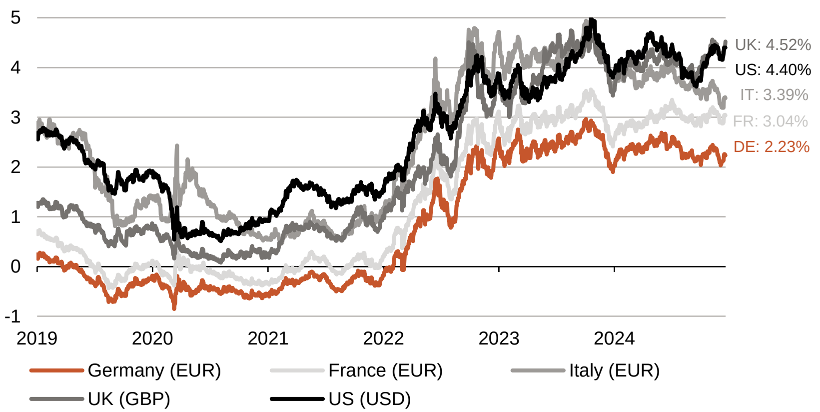
Bond markets between politics and economics

- In the past four weeks, government bond yields have risen overall, with yields on longer-dated bonds in particular rising due to higher consumer prices and higher-than-expected producer prices in the US.
- In addition to the ongoing Russian war against Ukraine and the conflicts in the Middle East, the US elections and the “red sweep” as well as the break-up of the German governing coalition complicated the situation in recent months. The consequences of these developments will not leave the bond markets untouched in the new year either.

Safe government bonds with a cautious outlook

- In the US, optimism about interest rate cuts was dampened by the prospect that the change of administration will be accompanied by higher tariffs, stricter immigration policies, increasing price pressure and a growing budget deficit.
- But even in Europe, inflation will not return to pre-pandemic levels, which means that there is no room for falling yields, unless there is an economic downturn or a further escalation of (geo)political conflicts. Against this backdrop, we consider safe government bonds to be interesting at most as an addition for hedging purposes.

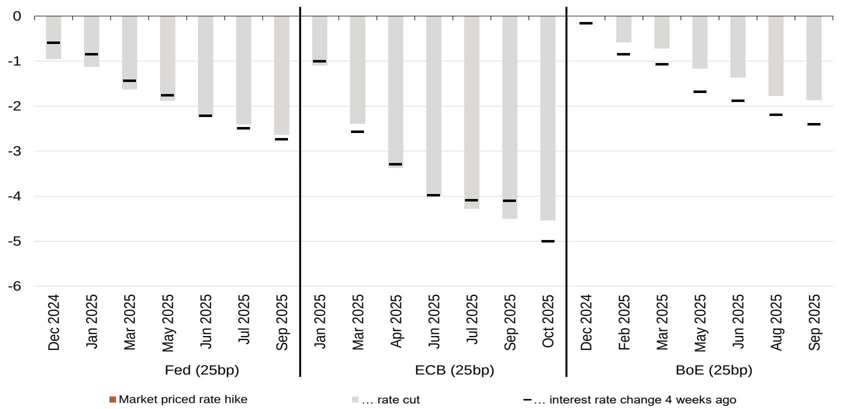
10-year yields (%) recently volatile



Source: Bloomberg

Time period: 01/01/2019 – 17/12/2024

Fewer interest rate cuts expected in the US



Source: Bloomberg, own calculations

Time period: 17/11/2024 – 17/12/2024

Corporate & EM bonds
European Credit offers fair yields

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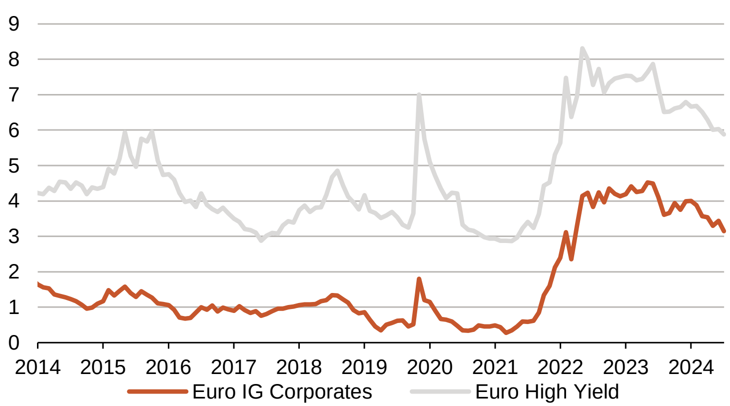
Corporate bonds: Perspective matters

- Corporate bonds were the main beneficiaries of 2024. However, after the strong performance, risk premiums in the IG segment can be described as fair at best and even unattractive in the high yield segment. However, a look at yields reveals a historically fair, and in some cases attractive, valuation. Combined with a more expansionary monetary policy and a stable economy, this makes us cautiously positive on corporate bonds.
- However, further spread tightening is unlikely in 2025, meaning that the upside potential is capped by current yields. A market correction could brighten the picture and provide opportunities for better valuation levels.

EM: focus on the “phoenix from the ashes” countries

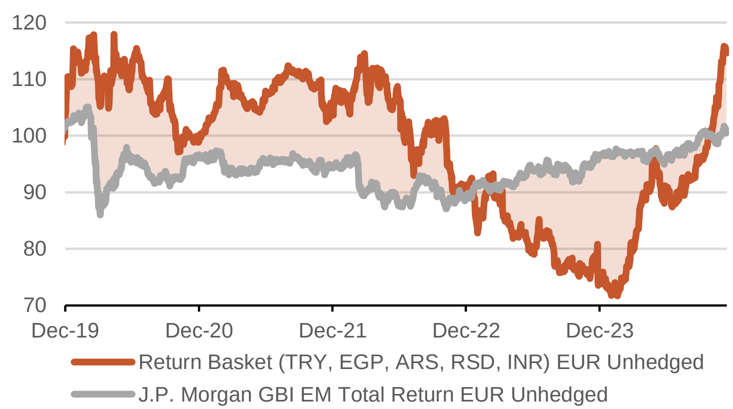
- Trump's victory has clearly affected investor sentiment towards emerging market bonds. However, there are emerging market issuers that have regained investor confidence thanks to fiscal reforms and the strengthening of institutional independence from fiscal and monetary policy. These positive "recovery stories" (Turkey, Egypt, Argentina, Serbia and India) have outperformed the broader emerging markets because of their idiosyncratic nature. We see good opportunities for positive returns due to high real yields, stable fundamentals, moderate currency risks versus the euro and low correlation to other asset classes, especially in the local currency segment.

Corporate bonds: yield levels remain attractive



Source: ICE, own presentation; monthly data. Time period: 31/12/2013-30/11/2024
IG = Investmentgrade; Euro-denominated corporate bond yields since the European Central Bank cut the deposit rate into negative territory for the first time in June 2014

EM: country selection continues to pay off



Source: Factset, own calculations Time period: 18/12/2019-18/12/2024
Performance of an equal-weighted basket of EM currencies (Turkish lira, Egyptian pound, Argentine peso, Serbian dinar, Indian rupee).

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 in relative terms 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.

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Forecasts

Estimates for selected bond markets

Base interest rates and government bond yields (in %)	17/12/2024	30/06/2025		31/12/2025	
	Current		Ø*		Ø*
US					
Base interest rate	5.00-4.75	4.25-4.50	4.03	4.25-4.50	3.75
10Y US yield	4.40	4.70	4.17	4.90	4.13
Eurozone					
Base interest rate	3.15	2.40	2.35	2.40	2.20
10Y Bund yield	2.23	2.30	2.25	2.50	2.30
United Kingdom					
Base interest rate	4.75	4.25	4.15	4.25	3.70
10Y Gilt yield	4.52	4.60	4.16	4.70	4.07

Source: Bloomberg. Berenberg. as of 17/12/2024.
*Average of estimates by other experts (Bloomberg) consensus.

05 Commodities

Crude oil
Oil supply surplus ahead

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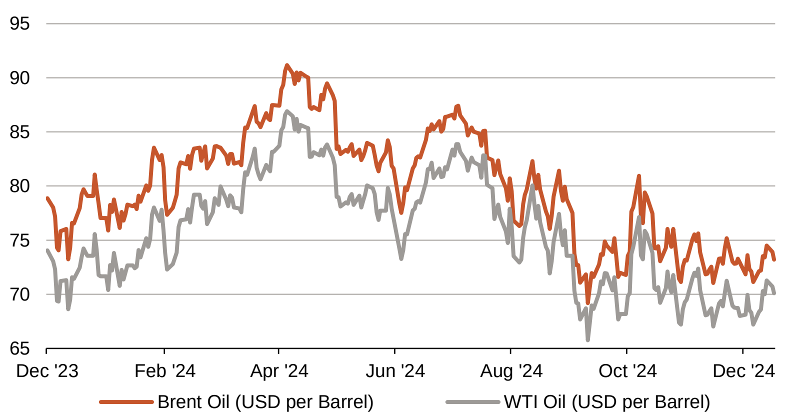
Crude oil continues sideways without geopolitical escalation

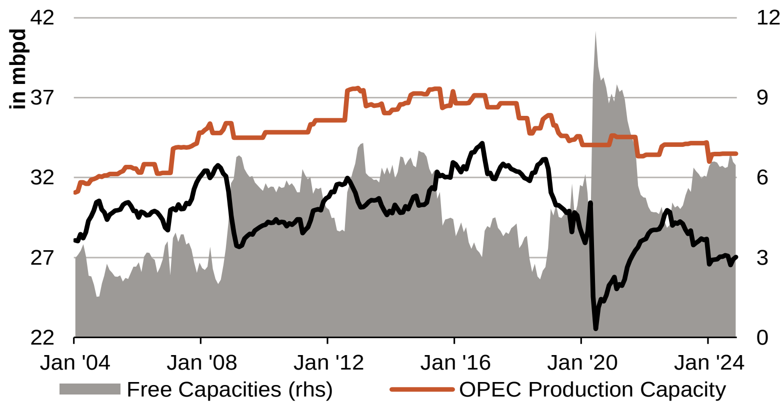
- Crude oil remained trapped in a volatile sideways range in the fourth quarter. There was no new impetus from OPEC+, which has been keeping production artificially low for several months: at the beginning of December, the cartel again postponed the planned production increases by three months to April. While Donald Trump's election victory had little impact, China's newly announced stimulus measures and geopolitical developments caused the oil price to fluctuate sharply. A significant price increase remains unlikely without strong demand growth in China or a geopolitical escalation, as supply is ample and demand prospects are weak. However, a sharp price decline is also unlikely. The risks are well known and offer little potential for negative surprises. Trump's “drill, baby, drill” policy is also likely to be limited by oil companies' focus on profit distribution rather than production expansion. The oil price is therefore likely to trend sideways in volatile fashion for the time being.
- This is also supported by weak oil demand from China, the most important consumer. The latest data from the National Bureau of Statistics (NBS) show that crude oil processing is at its lowest level in five months. This could be the second time that China has recorded a year-on-year decline. More recently, weaker economic data, in particular lower growth in Chinese retail sales, weighed additionally on crude oil.

Crude oil is trending sideways for the time being



Source: Bloomberg. Time period: 01/12/2023 – 17/12/2024.

OPEC's spare capacity is weighing on oil prices



Source: Bloomberg, own calculations. Time period: 31/01/2004 – 30/11/2024.

Precious and industrial metals
rising prices next year

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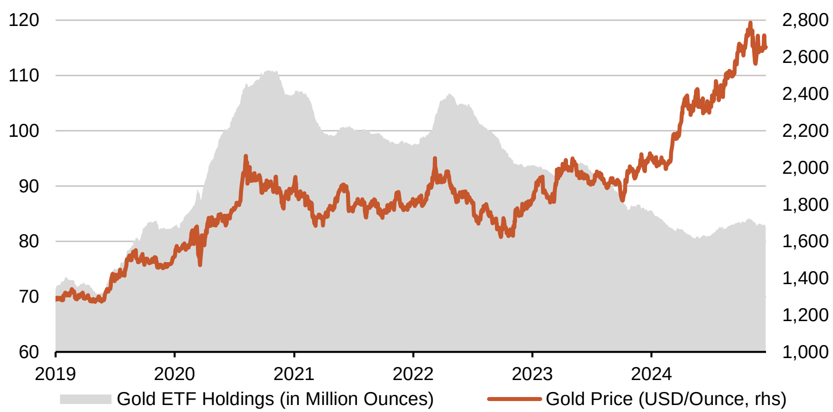
Gold has further potential after consolidation

- Gold continued its upward trend in the fourth quarter, reaching new all-time highs. At the beginning of November, the gold price consolidated and temporarily fell by up to 8 %. This was triggered by Donald Trump's election victory, which favoured a strong dollar appreciation, temporarily rising bond yields and a risk-on mode in markets. A strong performance, geopolitical easing and high positioning made gold particularly susceptible to a consolidation.
- Nevertheless, increased central bank and ETF purchases, rising government debt, geopolitical risks and likely falling central bank interest rates should continue to support the gold price next year.

Industrial metals remain structurally supported

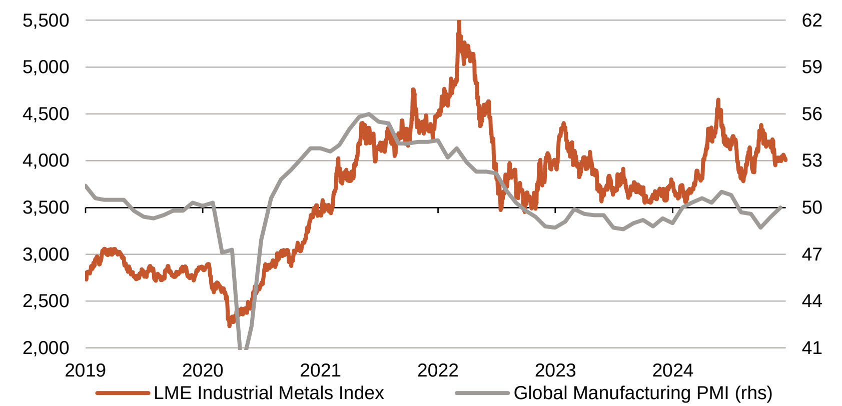
- Industrial metals were under pressure in the fourth quarter due to the continued weakness in manufacturing activity. Donald Trump's election victory also had an impact, as the tariffs he plans to impose could weigh on Chinese exports, which in turn could weaken demand for industrial metals.
- Nevertheless, the downside potential is limited by factors such as structural supply shortages, high demand from decarbonisation and economic recovery. In the short term, however, a noticeable recovery in the manufacturing sector is needed to boost industrial metal prices significantly.

ETF holdings have recently stagnated



Source: Bloomberg, own calculations. Time period: 01/01/2020 – 17/12/2024.

More industrial activity = increasing demand for metal



Source: Bloomberg, own calculations. Time period: 01/01/2019 – 17/12/2024.

06 Currencies

Market Development
FX markets

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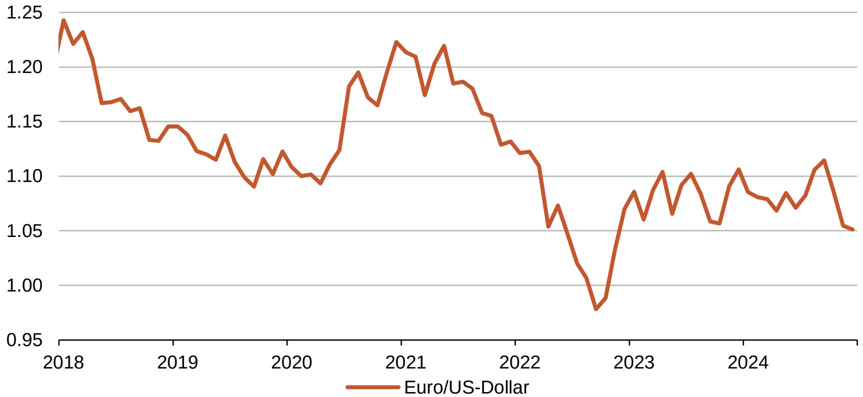
There is still a lot to be said for the dollar

- Significantly stronger US economic data compared to the eurozone, geopolitical uncertainties and Trump's election victory have recently caused the dollar to appreciate against the euro. However, all of the factors mentioned are now largely priced into the exchange rate.
- Should geopolitical tensions ease somewhat, economic momentum in the US slow or the eurozone gain some momentum, the dollar is likely to lose some of its current strength next year. We expect an exchange rate of 1.08 for the coming year.

Switzerland flirts with deflation

- Geopolitical risks are leading to a sustained strength of the Swiss franc. This makes Swiss imports cheaper, which, together with falling energy prices, means that Switzerland is at risk of sliding into deflation. In October, the inflation rate fell again and, at 0.6 % year-on-year, reached its lowest level since July 2021.
- The SNB tried to counteract this in December by lowering interest rates by 50 basis points. However, with the key interest rate now at 0.5%, there is limited further scope. Direct exchange rate interventions are therefore more likely.

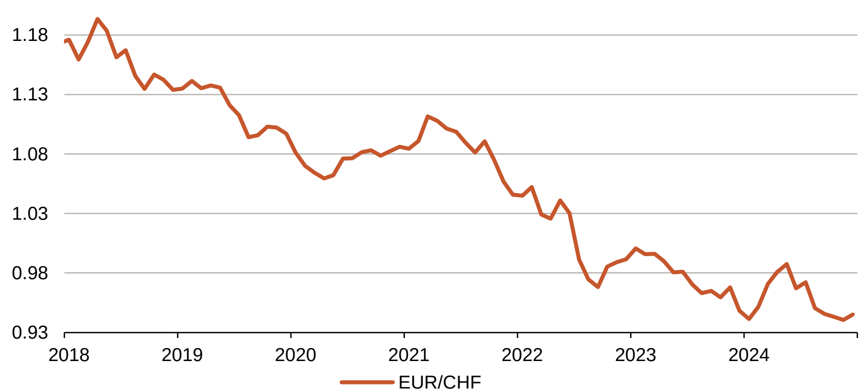
There is a lot going on in favour of the USD



Source: Bloomberg

Period: 01/2018 – 12/2024

Strong franc worries the SNB



Source: Bloomberg

Period: 01/2018 – 12/2024

Forecasts
Estimates of key currencies

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	17/12/2024	30/06/2025		31/12/2025	
Exchange rate forecasts	**Current**		**Ø***		**Ø***
EUR/USD	1.05	1.06	1.04	1.08	1.05
EUR/GBP	0.83	0.84	0.82	0.84	0.82
EUR/CHF	0.94	0.94	0.94	0.95	0.94
EUR/JPY	161	154	154	151	156
Change against the Euro (in %)					
USD	-	-1.0	0.9	-2.9	-0.1
GBP	-	-1.7	0.7	-1.7	0.7
CHF	-	-0.4	-0.4	-1.4	-0.4
JPY	-	4.5	4.5	6.6	3.2

Source: Bloomberg. Berenberg as of 17/12/2024.
*Average of estimates of other experts (Bloomberg); consensus.

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