BERENBERG
PARTNERSHIP SINCE 1590

HORIZON *handout*

The Berenberg Capital Markets Outlook • Wealth and Asset Management

August | 2021

Horizon Handout – Capital Market Outlook
Disclaimer

This document 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.

The statements contained in this document are based either on the company’s own 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.

Date: 28 July 2021.

Table of contents

BERENBERG
PARTNERSHIP SINCE 1590

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

Concise 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 the last 5 years				
	4W (28/06/21 - 26/07/21)	YTD (31/12/20 - 26/07/21)	26/07/20 26/07/21	26/07/19 26/07/20	26/07/18 26/07/19	26/07/17 26/07/18	26/07/16 26/07/17
S&P 500	4.1	22.8	37.6	3.6	14.1	16.4	10.2
Gold	2.1	-2.0	-6.7	28.0	21.4	-2.3	-10.6
Brent	1.4	53.7	64.5	-35.4	-7.4	55.3	-4.3
EUR IG Bonds	1.0	0.5	3.3	-0.5	5.8	0.8	0.4
USDEUR	1.0	3.5	-1.2	-4.5	4.6	0.8	-6.4
EUR Sovereign Bonds	0.9	-0.3	0.8	0.5	4.2	0.4	-1.0
EM Hard Currency Bonds	0.4	-0.1	4.5	5.8	8.5	0.5	5.6
DAX	0.4	13.9	21.7	3.4	-3.0	4.1	20.1
Euro Stoxx 50	0.4	17.3	26.2	-4.1	3.2	3.2	20.2
Eonia	0.0	-0.3	-0.5	-0.4	-0.4	-0.4	-0.4
Topix	-0.8	5.1	19.1	0.1	-2.3	12.0	11.9
MSCI Emerging Markets	-6.1	3.9	21.1	-1.0	3.6	4.6	17.9

S&P 500: S&P 500 TR (US equities); Euro Stoxx 50: Euro Stoxx 50 TR; DAX: DAX TR (German equities); Topix: Topix TR (Japanese equities);
MSCI Emerging Markets: MSCI EM NR (EM equities); EUR Sovereign Bonds: IBOXX Euro Eurozone Sovereign 1-10 TR; EUR IG Bonds: IBOXX Euro Corporates Overall TR;
EM Hard Currency Bonds: Barclays EM Hard Currency Agg Govt Related TR; Gold: Gold US Dollar Spot; Brent: Bloomberg Brent Crude Subindex TR;
Eonia: Eonia Capitalization Index; USDEUR: USDEUR: Price of 1 USD in EUR. All return data are calculalated in EUR.

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

Time period: 26/07/2016 – 26/07/2021.

Concise overview of capital markets

Outlook by asset class

BERENBERG
PARTNERSHIP SINCE 1590

Economics

- The economy in the Eurozone is picking up. The inflation rate is still moderate at 2%.
- Inflation is currently in the spotlight in the US. Both overall and core inflation are rising strongly.
- Despite the rising inflation rates, central banks continue to maintain their support. Fiscal policy is also providing support.

Equities

- Strong Q2 reporting season, analysts have increased earnings estimates for all regions and, in particular, Europe.
- Equities remain expensively valued compared to its own history, especially in the US. However, there is no attractive alternative.
- We expect a volatile sideways movement over the summer with little upside potential at index level.

Bonds

- Safe government bonds have recently seen falling yields as well as flatter yield curves.
- Euro corporate bonds: avoid duration risk, current yield more attractive at the short end.
- In emerging markets, we favour high-yield government bonds and the local currency segment.

Alternative investments / commodities

- OPEC production expansion is only a burden in the short term, focus should return to supply shortages in the medium term.
- Short-term decoupling of the gold price from real interest rates, persistent ETF outflows prevented a strong recovery.
- Declining economic upswing momentum caused a short-lived correction in the industrial metals in July.

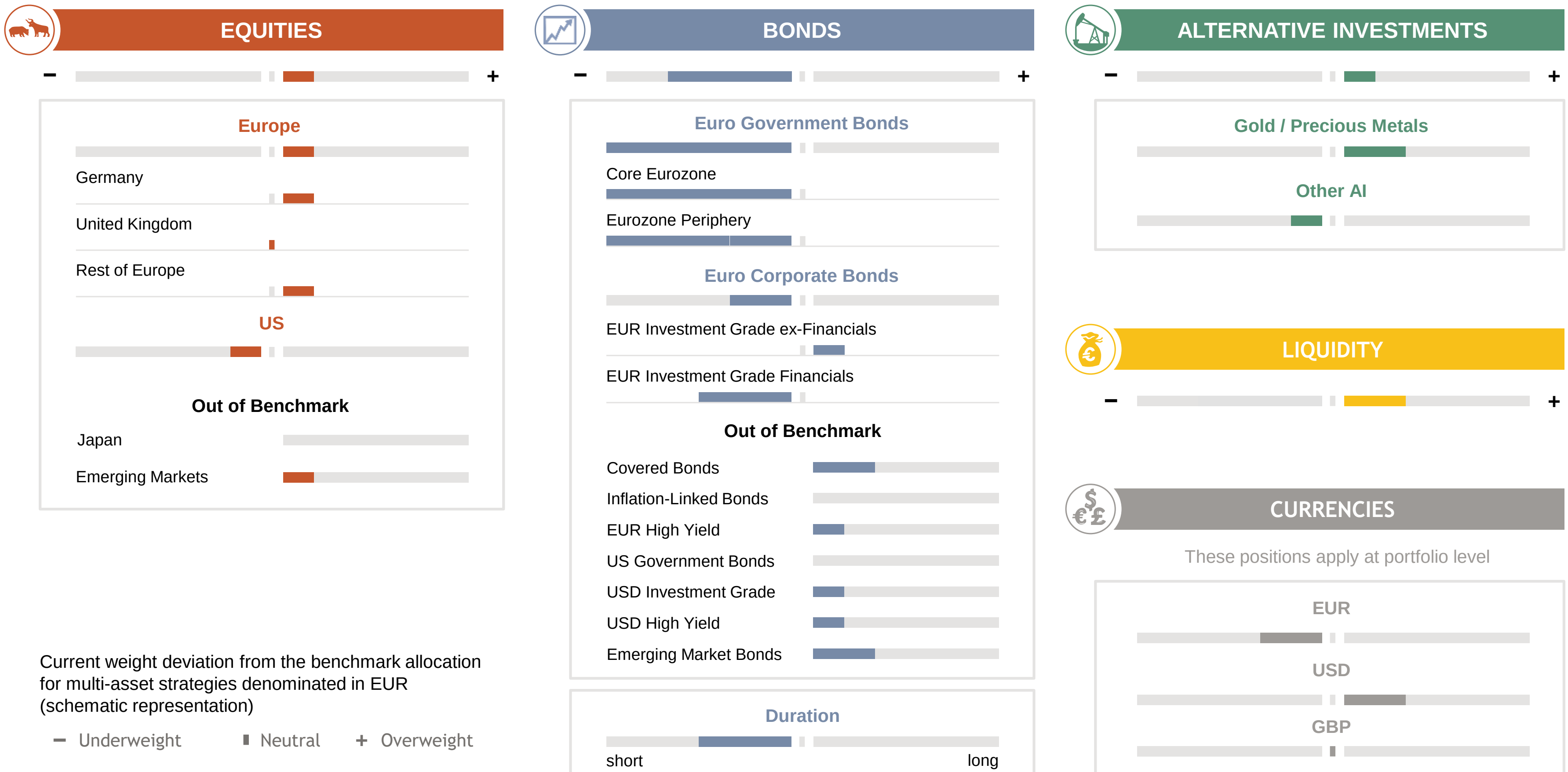
Currencies

- The US dollar is strong - at least temporarily - and the euro lacks momentum. The ECB is also contributing to this.
- The British pound continues its sideways trend after the bearish first quarter.
- The euro's jump from 1.08 to 1.11 in the first quarter is a thing of the past - the franc has fought its way back.

Concise 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 26/07/2021.

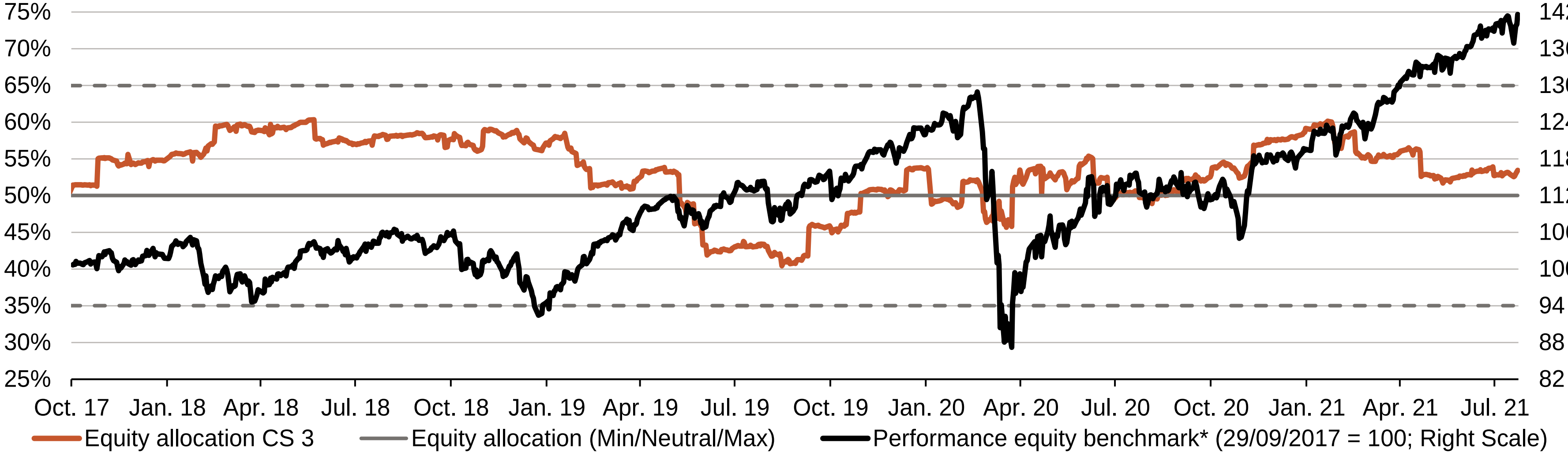
Concise overview of Berenberg's asset allocation

Review of Core Strategy 3

BERENBERG
PARTNERSHIP SINCE 1590

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

Performance equity benchmark	23/07/16 - 23/07/17	23/07/17 - 23/07/18	23/07/18 - 23/07/19	23/07/19 - 23/07/20	23/07/20 - 23/07/21
	10.88%	6.22%	9.62%	-0.06%	24.01%



Sources: SimCorp, Bloomberg, Berenberg. *The "equity benchmark" is 70% STOXX Europe Net Return Index and 30% S&P 500 Net Return Index. Time period: 26/07/2016 – 26/07/2021.
Note: The historical performance presented here is not a reliable indicator of future performance.

- Going into the second quarter, we had already halved the high equity overweight from the beginning of the year. After the persistently strong stock market momentum in April, we continued this course. We reduced the equity quota to only a slight overweight, as the summer is likely to be bumpier. Until there is more clarity about the behaviour of central banks and markets set their sights on the continuation of the economic upswing in 2022, we feel comfortable with the reduced risk.
- The liquidity position allows us to seize opportunities in the event that major setbacks occur. Otherwise, the portfolio structure is little changed. We continue to tactically supplement our strategic focus on structural growth with cyclical and value-heavy elements. However, we have realised the first gains in Latin American equities. We prefer corporate and emerging market bonds to government bonds, even though a further narrowing of risk premiums is less likely. Gold remains an important portfolio component for diversification, even with rising yields.

02 Economics

Eurozone
GDP and inflation

BERENBERG
PARTNERSHIP SINCE 1590

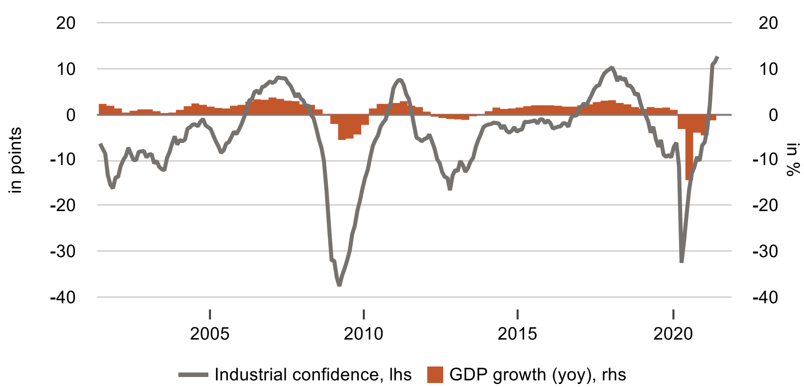
Purchasing managers' index: positive surprise

- The Eurozone PMIs rises to a 21-year high of 60.6 points in July. This slightly exceeds expectations (consensus: 60.0 points). The figures are consistent with the strong economic recovery within the Eurozone. Key risks remain the severe supply constraints and uncertainty associated with the spread of the delta variant.
- Given the solid data, the Eurozone should reach its pre-crisis GDP level in Q4 2021.

Inflation remains at a slightly higher level

- The Eurozone inflation rate had recently increased gradually due to unique factors. In May, it was 2% year-on-year. In June, it fell slightly to 1.9%. The base effect of the lowered German VAT from the second half of 2020 is likely to raise inflation to over 2% year-on-year in the coming months. Despite the spike in inflation, the European Central Bank does not yet see any reason to tighten its monetary policy.
- For 2021 as a whole, we expect an inflation rate of 1.8%.

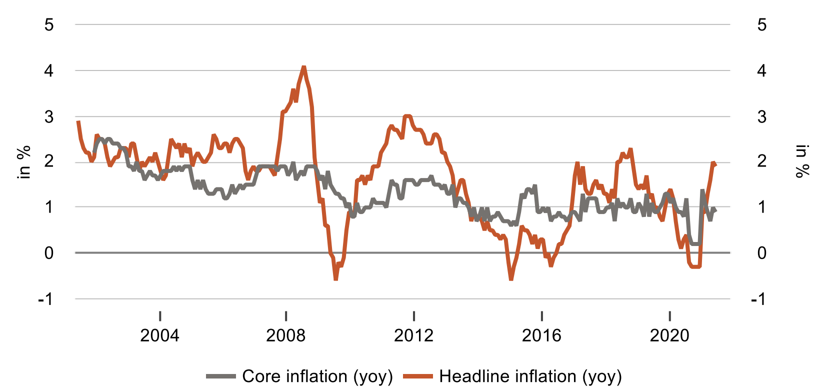
Eurozone GDP growth and industrial confidence



Source: Macrobond

Time period: 06/2001 – 06/2021

Eurozone inflation



Source: Macrobond

Time period: 06/2001 – 06/2021

Great Britain
GDP and inflation

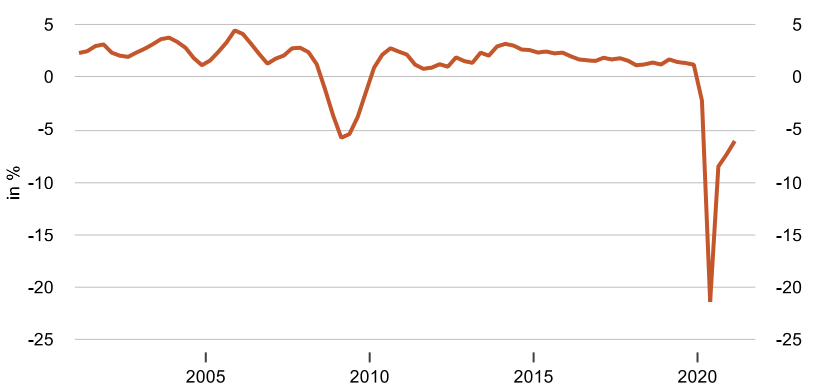
Strong retail sales

- (Real) retail sales increased by 0.3% in June (month-on-month). This means they are already 10% above their pre-crisis level (January 2020). Compared to Q1, sales in Q2 2021 increase by a strong 11.2%.
- As a leading indicator for general consumer behaviour, the current rise in sales is very positive: household consumption accounts for almost two-thirds of GDP. We expect real GDP to grow by 4.7% in Q2 2021 (quarter-on-quarter).

Prices pick up more than expected in June

- Compared to June 2020, consumer price inflation rises to 2.5% (consensus: 2.2%) in June. In March it was still at 0.7%.
- Currently, several one-off events (higher oil prices, expiring special measures, supply bottlenecks) are responsible for the rising prices. As soon as these effects subside, inflation will moderate again. However, we expect the general inflation trend to remain upward for the time being.
- For the full year 2021, we forecast an inflation rate of 2.1%.

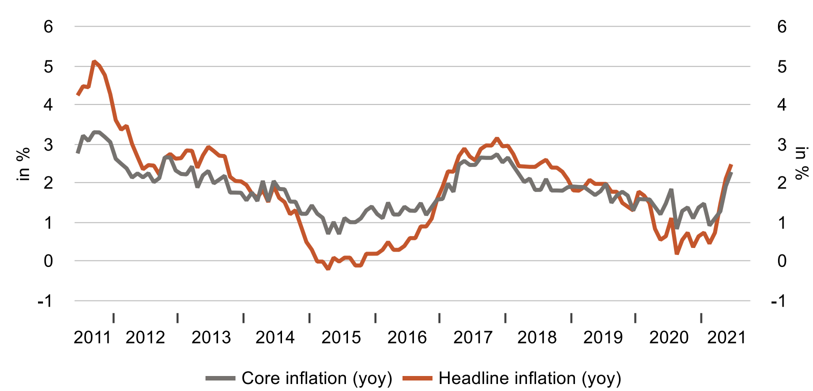
UK GDP growth



Source: Macrobond

Time periode: 03/2001 – 03/2021

UK inflation



Source: Macrobond

Time periode: 06/2011 – 06/2021

USA
GDP and inflation

BERENBERG
PARTNERSHIP SINCE 1590

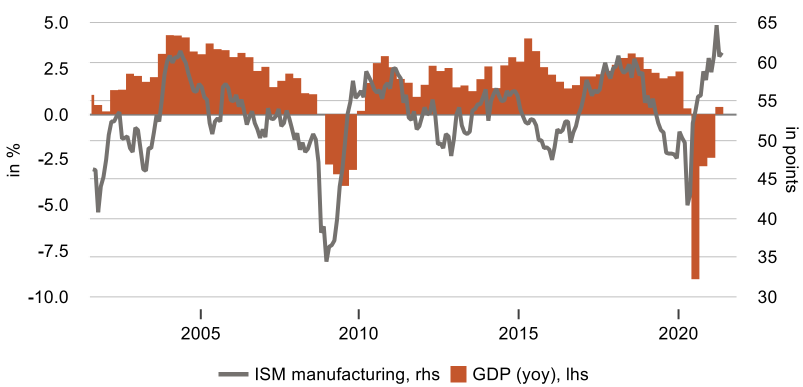
Prices for residential real estate continue to rise significantly

- Despite extremely low mortgage rates, residential real estate is becoming less affordable as prices continue to rise.
- The median price of all inventory units sold climbed to an all-time high of 363,000 US dollars. In terms of single-family homes only, this is 370,600 US dollars.
- Nevertheless, construction beginnings are up in June and new home sales are expected to increase despite the current price momentum. So, despite some limiting factors, the sector remains strong overall.

Another strong price increase in the USA

- Consumer prices in the US rose significantly by 0.9% in June month-on-month. Compared to June 2020, the inflation rate is now 5.3%. The US Federal Reserve argues that such strong price increases are only temporary. However, the price increases recorded so far are already far above their forecasts.
- Producer prices for final demand also increased significantly by 1.0% in June compared to the previous month. Overall, inflationary pressure remains high, which is why we expect consumer price inflation of 4.0% for the full year 2021.

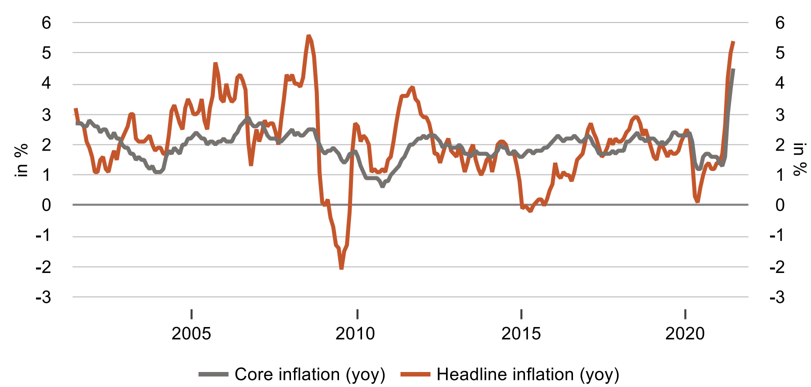
US GDP growth and Purchasing Managers Index



Source: Macrobond

Time period: 06/2001 – 06/2021

US inflation



Source: Macrobond

Time period: 06/2001 – 06/2021

Economic forecasts
Most important estimates at a glance

BERENBERG
PARTNERSHIP SINCE 1590

	GDP growth (in %)						Inflation (in %)					
	2020		2021		2022		2020		2021		2022	
		Ø**		Ø**		Ø**		Ø**		Ø**		Ø**
USA	-3.5	-3.5	7.1	6.6	4.4	4.2	1.2	1.3	4.0	3.8	3.0	2.7
Eurozone	-6.5	-6.8	4.7	4.6	4.9	4.3	0.3	0.3	1.8	1.9	1.6	1.4
Germany	-5.1	-5.3	3.7	3.4	5.1	4.5	0.4	0.5	2.7	2.6	1.6	1.6
France	-8.0	-8.3	5.9	5.7	4.7	4.0	0.5	0.5	1.6	1.6	1.5	1.3
Italy	-8.9	-8.9	5.2	5.0	4.8	4.2	-0.1	-0.1	1.1	1.3	1.5	1.1
Spain	-10.8	-11.4	5.6	5.9	6.9	5.7	-0.3	-0.3	1.9	1.9	1.5	1.3
United Kingdom	-9.8	-9.9	6.8	6.9	5.5	5.5	0.9	0.9	2.1	1.8	2.4	2.1
Japan	-4.7	-4.8	3.3	2.6	2.2	2.6	0.0	0.0	0.1	0.1	0.7	0.6
China	2.0	2.3	8.6	8.5	5.3	5.6	2.5	2.5	1.3	1.4	2.2	2.3
World*	-3.2	-	5.1	-	3.8	-	-	2.2	-	3.4	-	3.0

Source: Bloomberg. Berenberg as of 26/07/2021.
* 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

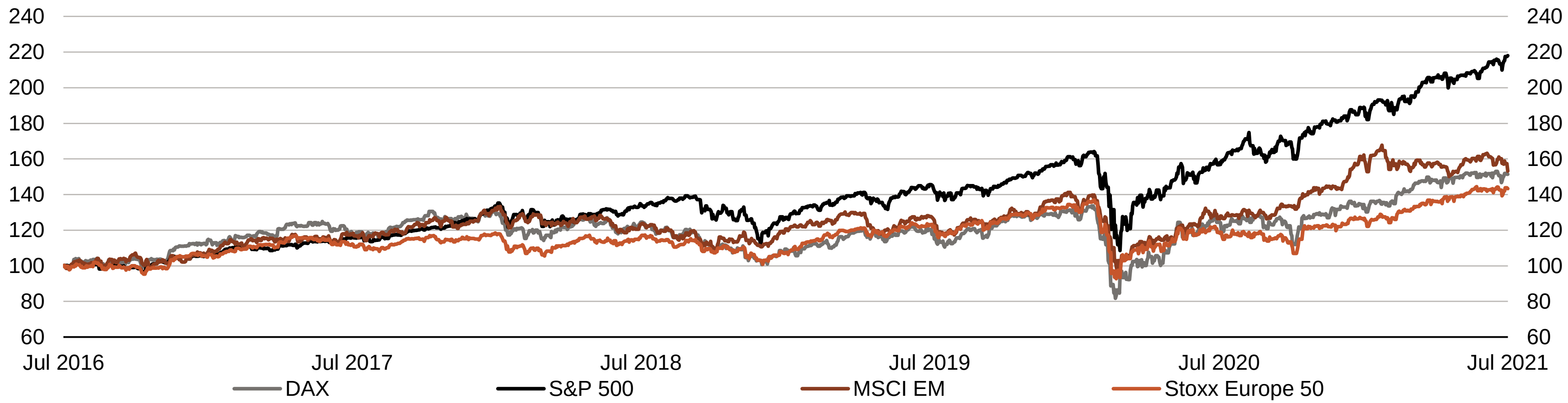
Market developments
Mixed stock market performance in July

BERENBERG
PARTNERSHIP SINCE 1590

While the Nasdaq 100 climbed to new record highs, Chinese stocks plunged

- Equity markets were mixed in July. US equities continued to rise, supported by inflows from US retail investors, who seem to buy any small correction, and by strong Q2 corporate results. They also benefitted from weakness amongst Chinese stocks. Chinese equities came under pressure after the Chinese government continued to tighten the regulatory thumbscrews. Since China makes up a large part of the emerging market equity index, it also underperformed in July.
- Within equity market segments, cyclical sectors tended to decline, driven by growth concerns, Covid-19 fears and falling bond yields. By contrast, growth sectors such as technology, but also some defensive sectors outperformed.

Performance of selected equity indices



Source: Bloomberg; performance scaled to 100.

Time period: 26/07/2016–26/07/2021.

Corporate earnings

Positive earnings revisions due to strong Q2 reporting season

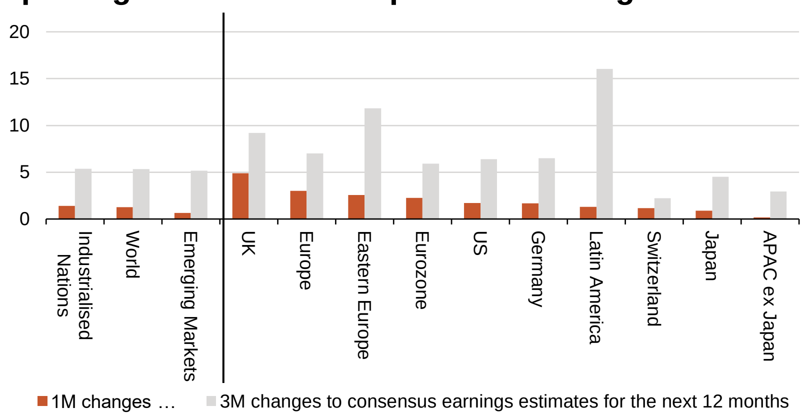
Q2 reporting season convinces

- More than 120 S&P 500 companies have published their quarterly results so far. Almost 90% of the companies were able to beat earnings estimates, by more than 17% on average. No sector has surprised negatively on aggregate so far which is another strong sign.
- Accordingly, positive earnings revisions continue. Over the past month, analysts have raised their earnings estimates for all regions and Europe in particular.

Most regions with strong 2021 earnings growth

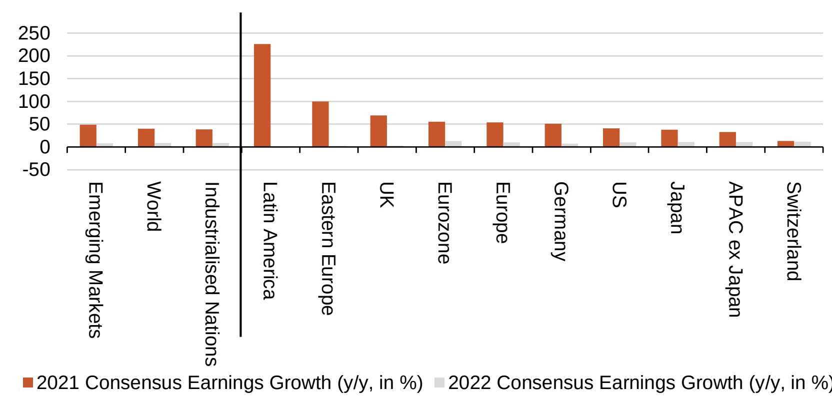
- The consensus expects earnings growth for 2021 of almost 50% for the emerging markets - Latin America with almost 225% and Eastern Europe with 100% earnings growth are the main drivers for this.
- For all regions outside Switzerland, earnings growth of more than 30% is expected for this year. The analysts expect corporate profits in Switzerland to grow by around 13% year-on-year this year.

Reporting season leads to positive earnings revisions



Source: FactSet. As of 27/07/2021.

Earnings recovery in Latin America & Eastern Europe



Source: FactSet. As of 27/07/2021.

Valuations & Positioning
Equities not cheap, investors partially hedged

BERENBERG
PARTNERSHIP SINCE 1590

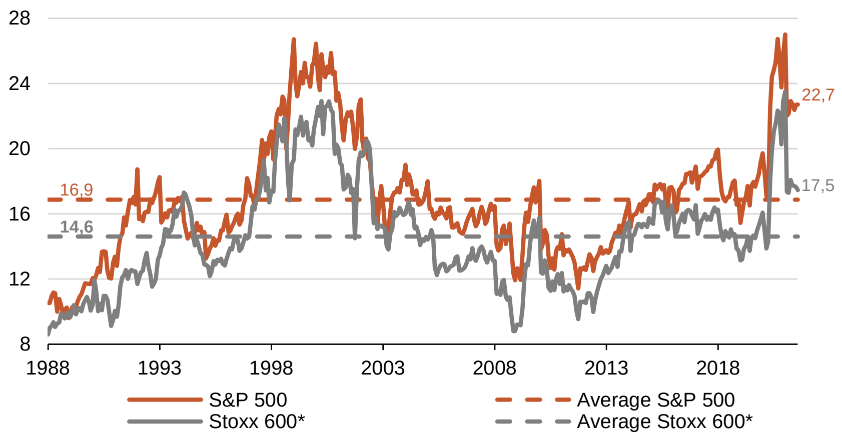
Equity markets are still ambitiously valued

- Recently, the P/E valuation for the Euro Stoxx 50 and S&P 500 remained relatively constant. Equity markets have risen slightly while positive earnings revisions continued.
- The P/E ratio of the S&P 500 index currently stands at 22.7, which is more than 30% above the long-term average of 16.9.

Good sign - investors not overly euphoric

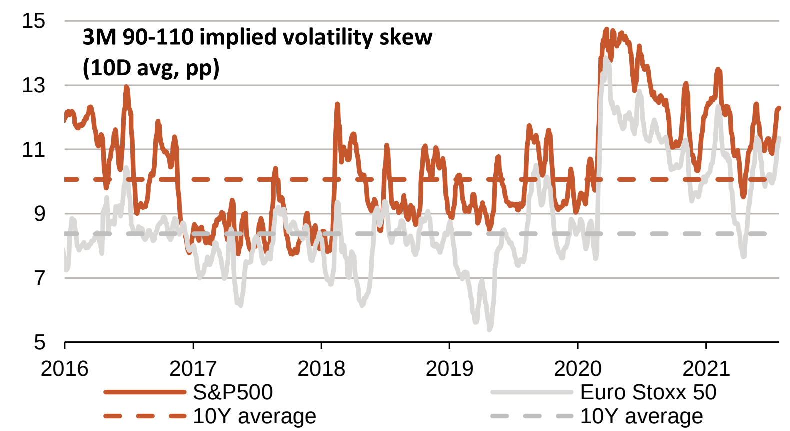
- The implied volatility for 3M put options (10% out of the money) is generally significantly higher than for 3M call options (10% out of the money).
- This can be explained by the increased hedging demand from institutional customers and the tendency for volatility to increase when selling. However, this skew (price difference between put and call options) is now significantly higher than in the last 10 years. Investors thus seem to be more likely to sell off, which should limit the downside potential for equities.

US equity indices are no bargain



Source: Bloomberg, own calculations. Time period: 01/01/1988 – 26/07/2021.

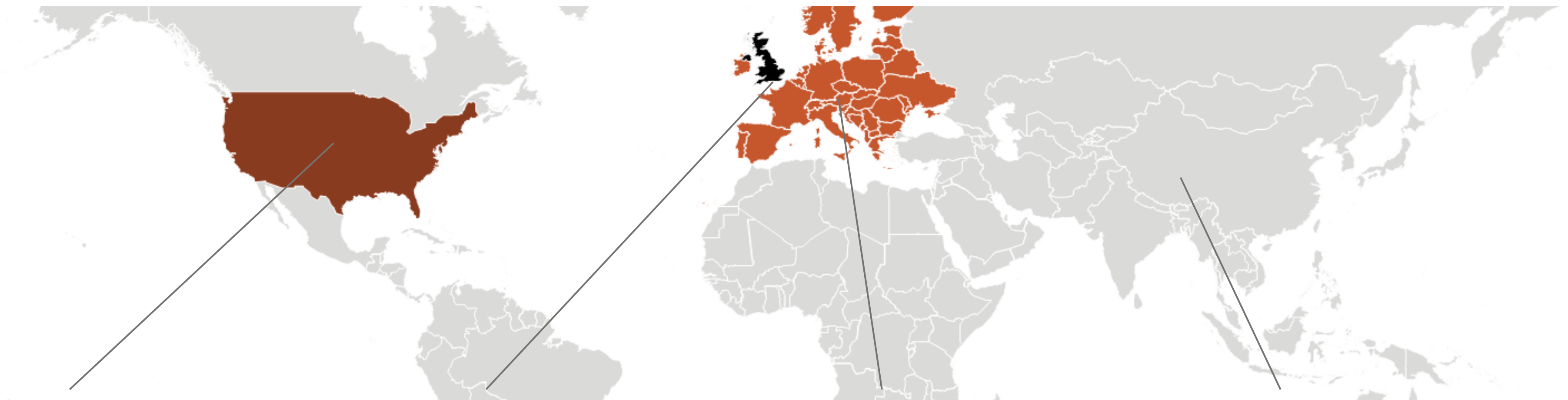
Investors appear to be hedging via put options



Source: Bloomberg, own calculations. Time period: 01/01/2016– 27/07/2021.

Equity allocation

Emerging markets and Europe ex. UK overweight



US

Underweight

- If bond yields rise again, as we expect by the end of the year, highly valued US equities are likely to underperform.
- Within our equity regions, we are underweight US. However, thanks to our equity overweight, US equities remain neutrally weighted at the portfolio level.
- The US remains the region most supported by share buybacks.

United Kingdom

Underweight

- We had partially realised gains in UK equities - especially in the small cap sector after the strong performance into the spring.
- We remain slightly underweight UK equities.

Europe ex. UK

Overweight

- A global economic recovery after last year's COVID-19 induced recession should benefit export-dependent European companies in particular.
- Fiscal packages and the ECB's monetary policy should also be supportive.

Emerging markets

Overweight

- Emerging market equities are likely to be one of the main beneficiaries of a global economic recovery.
- Tactically, we find Latin American equities interesting. Positive earnings revisions, negative investor sentiment and attractive valuation levels offer catch-up potential after the significant underperformance since the start of the COVID-19 crisis.

Equity market forecasts

Estimates for selected indices

BERENBERG
PARTNERSHIP SINCE 1590

Index forecasts	Current 26/07/2021	31/12/2021	30/06/2022	Ø* in 12 months
S&P 500	4,422	4,250	4,400	4,782
Dax	15,619	15,800	16,300	18,395
Euro Stoxx 50	4,103	4,150	4,300	4,631
MSCI UK	1,977	2,050	2,200	2,250

Index potential (in %)				
S&P 500	-	-3.9	-0.5	8.1
Dax	-	1.2	4.4	17.8
Euro Stoxx 50	-	1.2	4.8	12.9
MSCI UK	-	3.7	11.3	13.8

Source: Bloomberg, Berenberg, as of 26/07/2021.
*Average based on bottom-up estimates.

6m 1y 2y 3y 4y 5y 6y 7y 8y 9y 10y 15y 20y
Current
Price Yield
Maturity
Date
Coupon
U.S.
Treasuries
3-Month
6-Month
12-Month
2-Year
3-Year
5-Year
7-Year
10-Year
0.000
0.000
0.000
1.000
1.375
2.375
3.125
3.375
4.375
11/18/2010
10/31/2011
11/15/2012
10/31/2014
10/31/2016
11/15/2019
11/15/2039
0 / .01
0.13 / .13
0.26 / .26
11-16+ / .72
11/20

04 Bonds

Government bonds
Temporary change of direction

BERENBERG
PARTNERSHIP SINCE 1590

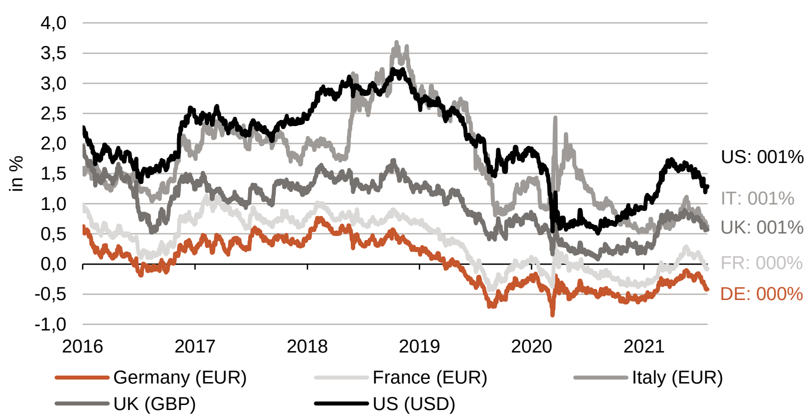
Interruption in the rise of interest rates

- After the yield on 10-year German bonds had risen in the first half of the year, it fell by more than 20 basis points in July. It thus swung into line with British and US yields, which had already reversed their upward trend in the second quarter.
- In contrast, inflation expectations in all three currency areas have recently remained stable or even increased slightly, meaning that yields were also on the decline in real terms. We see this development as temporary and continue to expect yields to rise (again) in the medium term.

Inflation remains an issue

- Notwithstanding the recent decline in economic optimism, it will be important to observe over the rest of the summer whether expected and actual inflation rates are subject to a structural upward trend.
- With the establishment of a symmetrical 2% inflation target, the ECB has signalled a certain expansion of its "inflation tolerance". Within this framework, yields have room to factor in further price level increases.

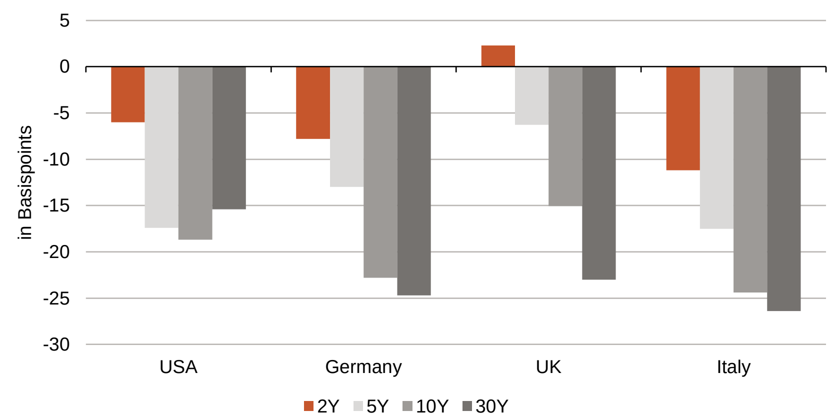
Safe government bonds recently with falling yields...



Source: Bloomberg, own calculations, iBoxx. Government Bond Indices (7–10 years, TR)

Time period: 01/01/2016–26/07/2021.

… sowie flacheren Renditestrukturkurven



Source: Bloomberg, 10Y-Government Bonds.

Time period: 28/06/2016–26/07/2021.

Corporate & EM bonds
Opportunities despite caution

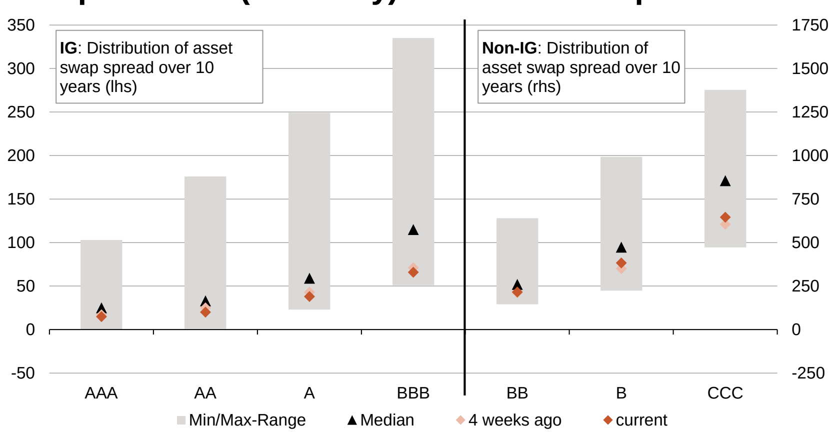
Risk premiums remain below historical level

- Healthy balance sheets and corresponding corporate news reinforce the fundamentally positive picture for corporate bonds.
- There is moderate potential for risk premiums to narrow. However, a rapid rise in interest rates could also have a negative impact on spreads. This and the high valuations call for a certain degree of caution.
- We continue to focus on current yields at the shorter end, as the risks of higher duration are not sufficiently remunerated.

EM: High-yield government bonds with potential

- In absolute terms, we consider both EM government and corporate bonds to be attractive, but individual sub-segments should be distinguished. The high-yield segment is expected to outperform its investment-grade counterpart in the mid-term. Coupled with a lower sensitivity to US yields, high-yield government securities promise good performance.
- We also rate local currency bonds as worthwhile due to their cyclical nature and low interest rate sensitivity.

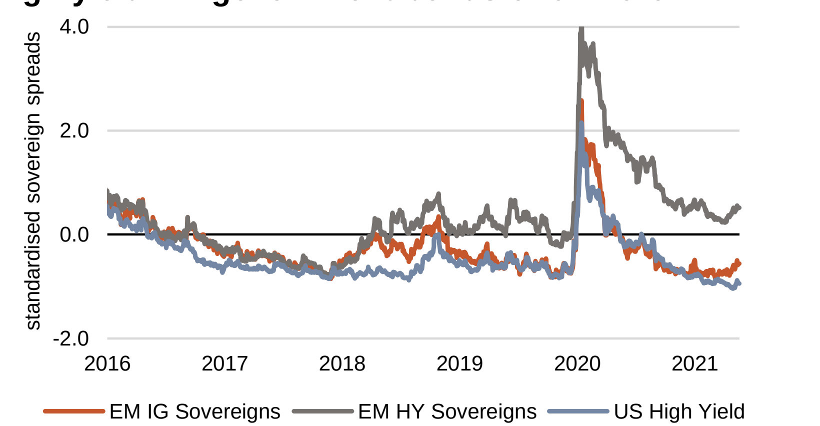
Risk premiums (now only) with moderate potential



Source: Bloomberg, ICE; Presentation: Option Adjusted Spreads (OAS) versus Libor

Time period: 26/07/2016–26/07/2021

High-yield EM government bonds offer more



Source: Bloomberg, Risk premiums of EM government bonds and US high-yield securities, normalised 15Y period (starting 26/207/06)

Time period: 26/07/2006–26/07/2021

Capital market strategy
Bonds

BERENBERG
PARTNERSHIP SINCE 1590

Core segments

Government bonds
Underweight

- Euro bonds have recently interrupted the downward trend that started at the beginning of the year and yields have become less attractive again. In the case of high credit ratings, safe government bonds remain fundamentally in demand in risk-off phases.
- We expect yields to rise again, although the central banks' low interest rate policy will continue. Duration should be kept short - interest rate risks are not sufficiently remunerated.

Corporate bonds
Overweight

- The loose monetary policy and the low yields on government bonds make us prefer corporate bonds to government bonds, despite the now limited spread margins.
- Within the corporate bond segment, we prefer securities with more credit risk and shorter maturities.

Other segments

Emerging market bonds
Overweight

- Emerging market bonds remain strategically interesting due to the higher yield and economic catch-up potential.
- We are explicitly optimistic about emerging market local currency bonds and prefer high-yield bonds to investment grade.

High yield bonds
Overweight

- Despite the narrowing of spreads, the relatively attractive risk premiums still argue in favour of a tactical allocation. In the case of US exposures, the currency risk should be hedged.
- For European high-yield bonds, we are positioning ourselves away from the usual securities.

Forecasts

Estimates for selected bond markets

BERENBERG
PARTNERSHIP SINCE 1590

Base interest rates and government bond yields (in %)	26/07/2021	31/12/2021		30/06/2022	
	Current		Ø*		Ø*
USA					
Base interest rate	0.00-0.25	0.00-0.25	0.25	0.00-0.25	0.30
10Y US yield	1.29	2.00	1.80	2.30	1.96
Eurozone					
Base interest rate	0.00	0.00	0.00	0.00	0.00
10Y Bund yield	-0.42	0.10	-0.14	0.30	-0.02
United Kingdom					
Base interest rate	0.10	0.10	0.10	0.10	0.15
10Y Gilt yield	0.57	1.30	0.96	1.50	1.07

Source: Bloomberg. Berenberg as of 26/07/2021.
*Average of estimates by other experts (Bloomberg) consensus.


05
Commodities

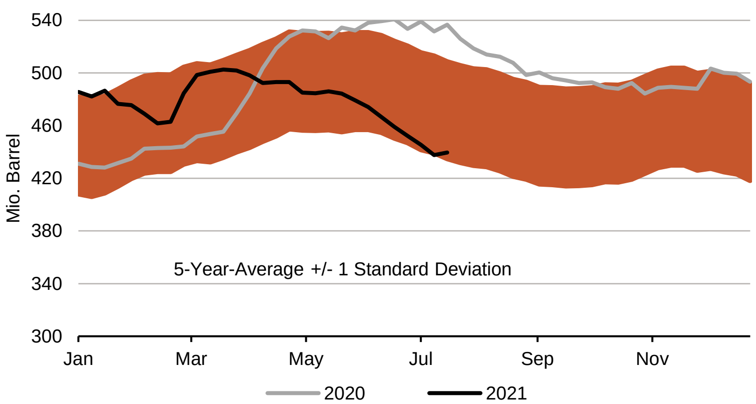
Crude oil
Supply situation dominates the price

BERENBERG
PARTNERSHIP SINCE 1590

Supply response to demand recovery determines oil price

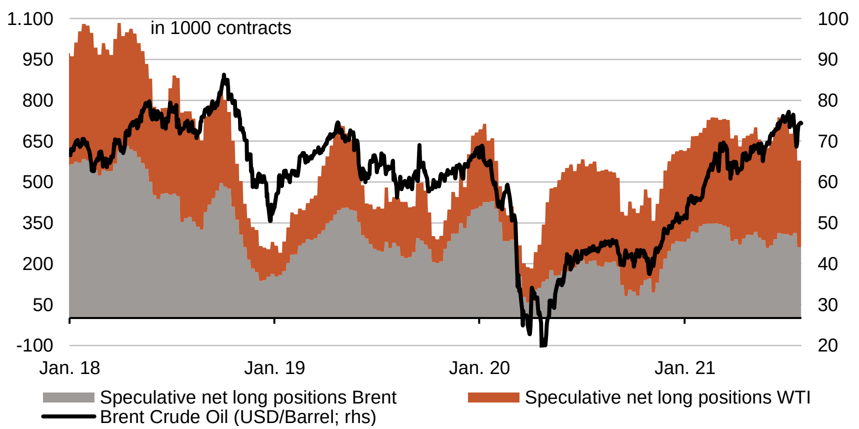
- The oil price in July was marked by stubborn negotiations between OPEC+. For a long time, Saudi Arabia insisted on keeping the original agreement to keep production constant over the course of the year. The United Arab Emirates, on the other hand, argued for an increase in production, fearing that the supply shortage due to rapidly rising oil prices could become a stumbling block to the global economic recovery. As no agreement could be reached, the oil price rose to its highest level since 2018 in anticipation of this shortage, until a production expansion of 400t barrels/day was announced two weeks later. The oil price reacted strongly negative to this agreement and is now trading roughly unchanged for the month. The agreed slight increase in production will hardly be able to compensate for the significant supply deficit and the shortage is likely to return to the market's focus soon.
- Speculative investors bet early on the supply shortage described above and built up the highest net long position since 2018 over the course of the year. However, concerns about the economic recovery due to the rapid spread of the delta variant, as well as the OPEC+ agreement, recently caused profit-taking and position reduction.

Lack of supply causes stocks to fall



Source: Bloomberg, own calcuations. Time period: 01/01/2018 – 27/07/2021.

Speculative investors with position reduction



Source: Bloomberg, own calcuations. Time period: 01/01/2018 – 27/07/2021.

Precious and industrial metals

The commodity market is still reflationary

BERENBERG
PARTNERSHIP SINCE 1590

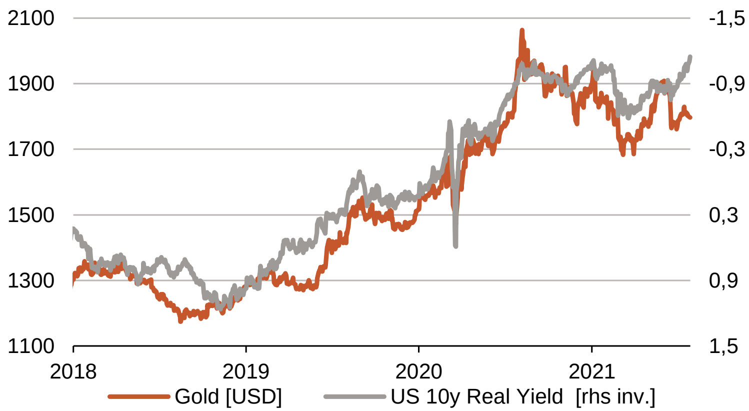
Gold sees uncharacteristic weakness

- In July, the gold price seemed to be further shocked by the Fed's June meeting, in which an earlier interest rate hike was promised. However, the subsequent rise in real interest rates quickly became passé again and real interest rates even marked a new all-time low at the end of July due to emerging growth concerns and the spread of the delta variant. The gold price, on the other hand, hardly reacted positively and showed an untypical decoupling from the real interest rate.
- One reason for the surprisingly small reaction of the gold price could be found among ETF investors, who - after a brief countermovement in Q2 - continued to reduce their positions, which had been ongoing since the end of 2020.

Industrial metals with decreasing tailwind

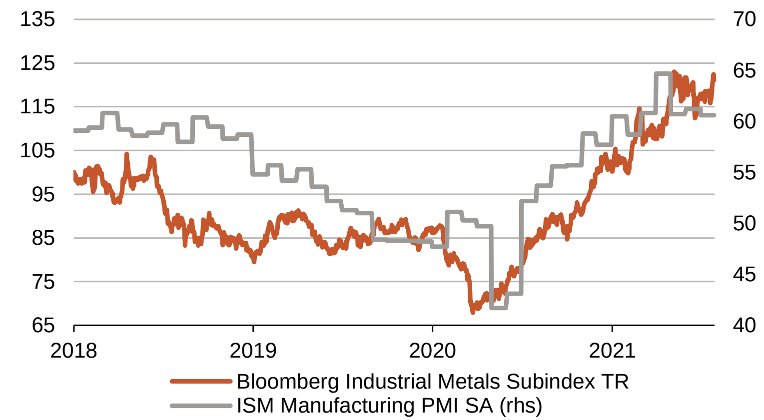
- Diminishing economic upswing momentum in the form of positive but falling growth rates coupled with PMIs that failed to continue to rise caused a brief correction in the base metals in July. In addition, the waning credit impulse in China, which is important for industrial metals, worried investors, as historically this has often been a harbinger of a cyclical slowdown.
- However, unlike many other cyclically sensitive asset classes, industrial metals managed to regain strength. Structural trends towards green energy and extensive fiscal programmes are likely to be the real economic drivers behind this strength.

Gold price hardly reacted to falling real interest rates



Source: Bloomberg, own calculations. Time period: 01/01/2018 – 27/07/2021.

Declining upswing momentum burdens only briefly



Source: Bloomberg, own calculations. Time period: 01/01/2018 – 27/07/2021.

06 Currencies

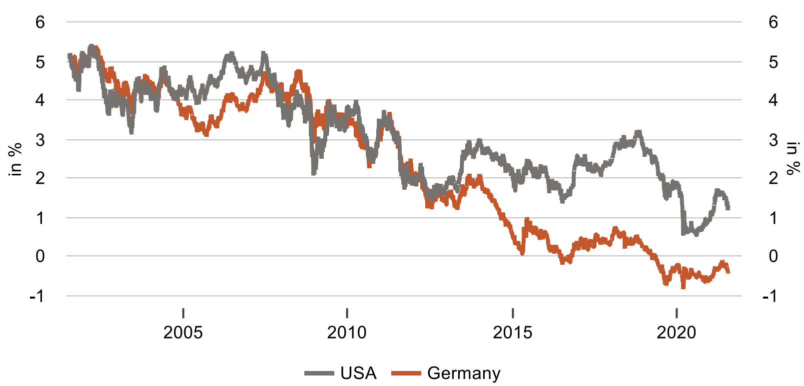
Market developments
Interest rates and currencies

BERENBERG
PARTNERSHIP SINCE 1590

ECB: First meeting after strategy review

- Last week, the ECB again made it clear that it would tolerate temporarily higher inflation levels. This was no surprise after the results of the policy review.
- Currently, the ECB continues to forecast an inflation rate of just 1.4% for 2023. The central bank thus assumes that the key interest rate will remain at its record low until after 2023.
- In contrast, we assume that the growth and inflation rates actually achieved will deviate upwards from their forecasts.
- In other words, the ECB is likely to start normalising its monetary policy sooner than the ECB currently believes itself.
- We therefore forecast the first interest rate hike in December 2023. Net purchases under the Pandemic Emergency Programme ("PEPP") will end somewhat earlier, in our view: These are likely to be gradually scaled back and then completely discontinued in September 2023.

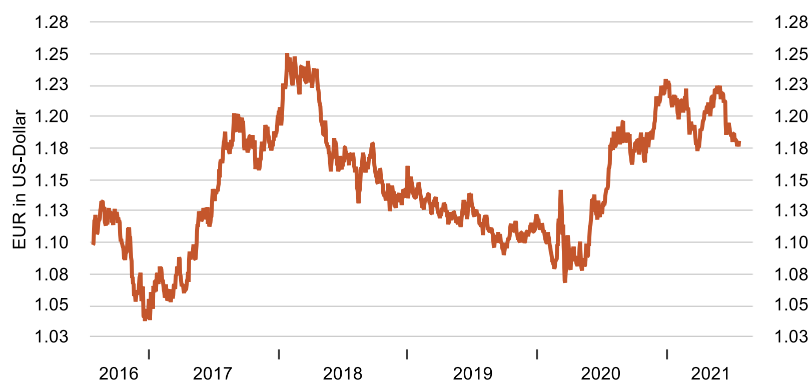
10-year government bonds



Source: Macrobond

Time period: 07/2001 – 07/2021

Exchange rate: Euro/US-Dollar



Source: Macrobond

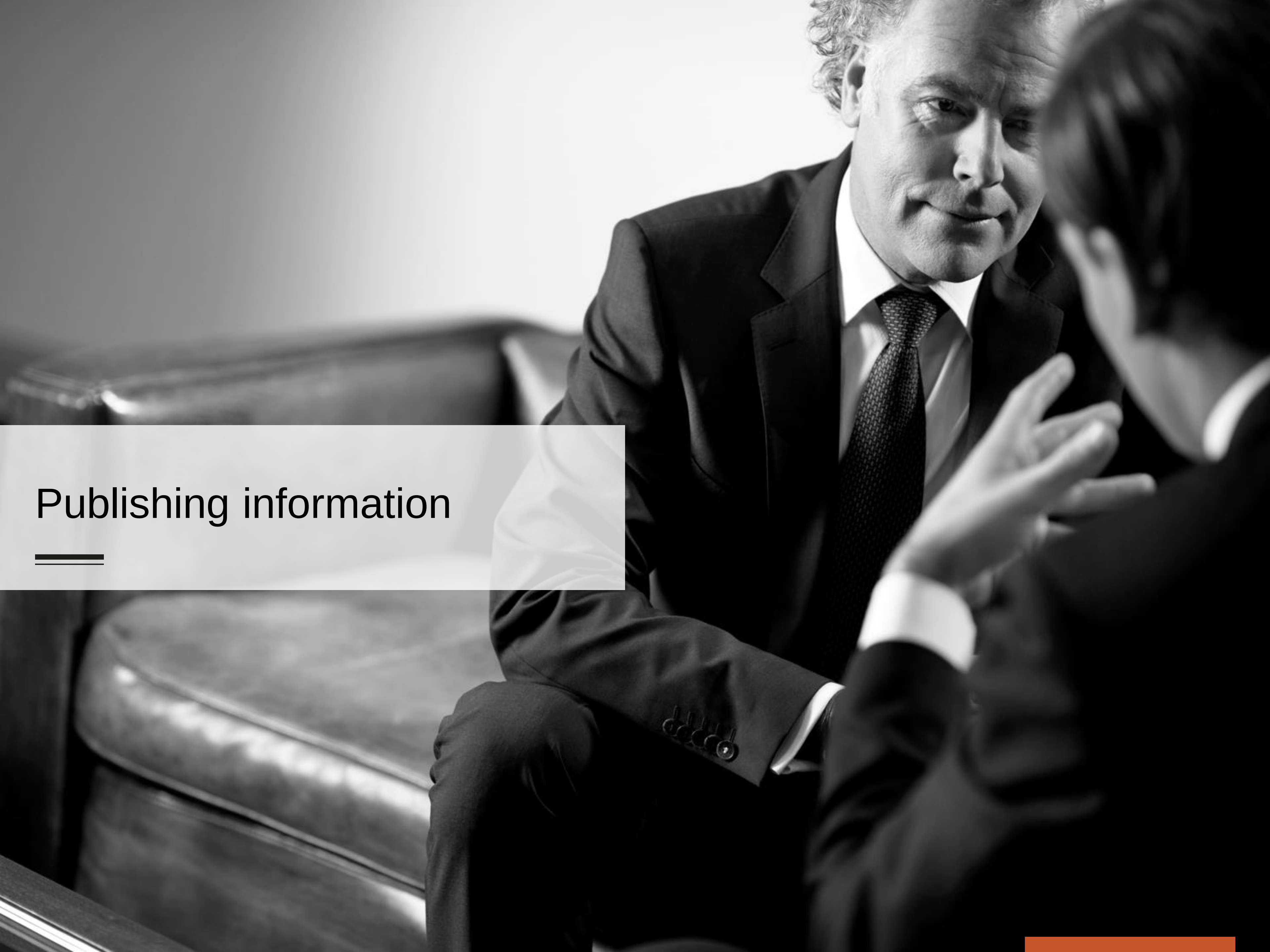
Time period: 07/2016 – 07/2021

Forecasts
Estimates of key currencies

Exchange rate forecasts	26/07/2021 Current	31/12/2021 Berenberg	31/12/2021 Ø*	30/06/2022 Berenberg	30/06/2022 Ø*
EUR/USD	1.18	1.23	1.20	1.25	1.20
EUR/GBP	0.85	0.85	0.85	0.85	0.85
EUR/CHF	1.08	1.10	1.11	1.10	1.12
EUR/JPY	130	133	132	135	132

Change against the Euro (in %)					
USD	-	-4.0	-1.6	-5.6	-1.6
GBP	-	0.5	0.5	0.5	0.5
CHF	-	-1.7	-2.6	-1.7	-3.5
JPY	-	-2.0	-1.3	-3.5	-1.3

*Source: Bloomberg. Berenberg as of 26/07/2021.
*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

Karsten Schneider
Analyst Multi Asset Strategy & Research

Ludwig Kemper
Analyst Multi Asset Strategy & Research

Dr Jörn Quitzau
Senior Economist

Contact details

www.berenberg.de
MultiAssetStrategyResearch@berenberg.de