HORIZON

The Berenberg Capital Market Outlook · Wealth and Asset Management

HIGH UNCERTAINTY

The war brings more inflation, less growth and high uncertainty – the economic damper is yet to come. The risk of stagflation increases. But central banks are less restrictive in the short term.

SOLID STARTING POINT

The economy and profits surprised positively and the coming burdens are likely to pass. Equity markets have corrected, valuations and positioning are lower, pessimism dominates.

CHANCES OF RECOVERY

Market recovery is likely with some easing of uncertainty, inflation and volatility. However, a balanced positioning is still advisable.

Q2 | 2022

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FOREWORD

Prof Dr Bernd Meyer
Chief Investment Strategist

Dear Readers,
We had already predicted in December 2021 that 2022 would be a challenging year for investors. However, we too were surprised that the market was caught on the wrong foot twice within the first two months. First, it was the surprisingly quick turnaround in monetary policy in the face of further upward surprises in inflation figures. Sharply rising real yields led to one of the strongest ever rotations in equities, out of growth and quality stocks and into value. Shortly afterwards, the escalation of the simmering Russia-Ukraine conflict into a real war weighed on the market. Our rational base scenario, in line with the market consensus, was that there would not be a Russian invasion, but that Vladimir Putin would rattle his sabre in order to be noticed on the international stage. Especially since this was also good for Russia economically, because commodity prices went up. In the end, it is indeed commodities that have been the only asset class to give investors positive returns since the beginning of the year. Bonds and equities together lost significantly – as expected, the diversification between equities and bonds did not work.

Uncertainty about the future combination of growth and inflation has increased significantly. Temporarily, there is likely to be less growth and more inflation. On the other hand, the risk of central banks becoming too restrictive too quickly has diminished. If growth is more strained as a result of the war, central banks are likely to be more hesitant to raise interest rates and vice versa. In addition, the end of the Omicron wave is supporting the economy and there are increasing signs of an economic upswing coming from China. We expect that a recession or prolonged stagflation can be avoided.

Financial Markets have reacted to the uncertainty. Equity markets have corrected by well over ten percent, equity market valuations have largely normalised, investor sentiment is pessimistic, the positioning of systematic strategies in particular is low and money market fund holdings ("dry powder") are high with negative real interest rates. We believe that it is likely that uncertainty will begin to ease somewhat in the second quarter, especially since history also shows that capital market stresses caused by geopolitical risks are often short-lived. If volatility and uncertainty really subside, the starting point for a market recovery in the second quarter is good, even if the year remains challenging. We have therefore raised the equity ratio back to a moderate overweight during the crisis. However, diversification across regions and sectors is more important than ever. We are focusing on a combination of growth and quality stocks in Europe, commodity-heavy equity regions such as Latin America and a pronounced commodity position. Government bonds remain uninteresting for us.

In the Insights interview starting on p. 14, Klaus Naeve, Co-Head of Berenberg Wealth and Asset Management and Head of Sales, analyses what developments he sees among our clients and how we react to them. I hope you enjoy reading this issue of Horizon.

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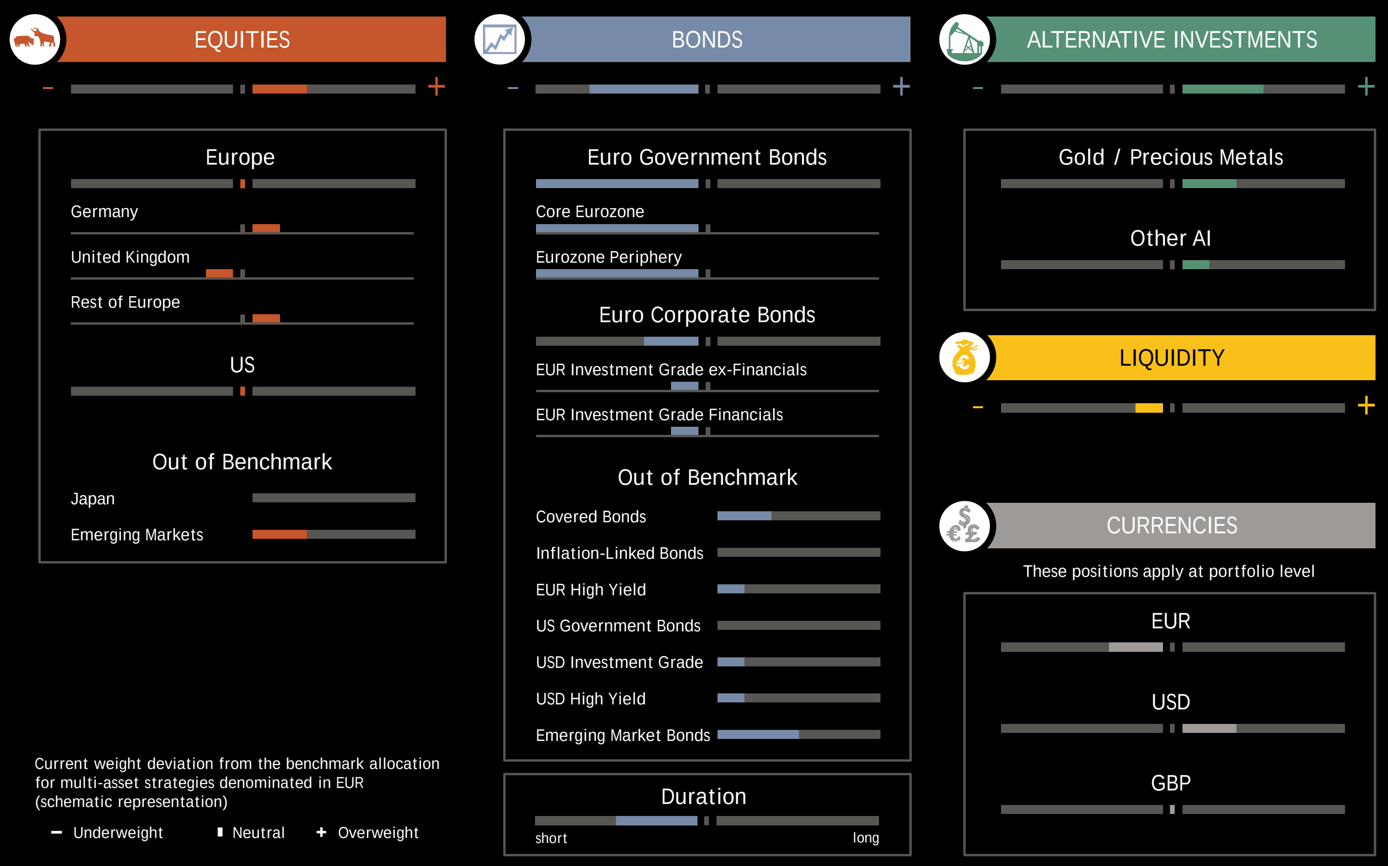
HIGH UNCERTAINTY BRINGS CHANCES IN THE MID-TERM

IN A NUTSHELL

- As we expected, economic and earnings growth continued to surprise on the upside so far.
- Putin's war brings even more inflation, less growth and high uncertainty. The stagflation risk is increasing, but we think that prolonged stagflation is only a risk scenario.
- Risk assets have corrected significantly, valuations are more attractive, pessimism dominates and systematic investment strategies in particular are positioned low.
- If the uncertainty subsides somewhat in the second quarter, investors' risk appetite should slowly return.

Portfolio positioning at a glance

We start the year only slightly overweight equities, as we saw limited potential for 2022 and considered setbacks of more than ten percent more likely. However, our expectation of a positive quarter with the expiry of the Omicron wave was disappointed. In January, our focus on quality and growth stocks weighed on us with sharply rising (real) yields. At the beginning of February, we reduced the risk somewhat. We supplemented many of our strategies with a derivative-based product to cushion extreme risks. This already proved its worth during Russia's invasion of Ukraine. We also better balanced the portfolio with new investments in UK and Latin American equity indices. Our already high commodity exposure has thus increased once again. At the end of February and in March, we took advantage of the market correction and the dominating pessimism to add to equities in order to maintain a slight overweight, as we considered the prices to be attractive in the long term. Our equity overweight is mainly in China and Latin America. We remain cautious on government bonds following the renewed decline in bond yields in March and in the face of persistently high inflation. We continue to selectively favour emerging market and corporate bonds.



Looking back on the first quarter - the perfect storm

Persistent inflation resulting in globally more restrictive central bank policies and the escalation of the Russia-Ukraine conflict have dominated capital markets since the beginning of the year. Initially, growth companies in particular came under significant pressure as a result of the rapid and sharp rise in real interest rates (top figure page 5). Markets experienced one of the strongest rotations ever measured in equities – out of quality, small caps and growth and into "value", "low growth" and "low quality". European and emerging market equities significantly outperformed US equities. Bonds lost a lot of their value. From mid-February onwards, markets focused on the Russia-Ukraine conflict. Stock markets corrected by more than ten percent from their highs in the fourth quarter of 2021 and early 2022. European equities, especially from the Eurozone, suffered particularly badly from the conflict due to their geographical proximity and energy dependence on Russia. Real yields fell. Safe haven bonds were in demand again, but could not make up for the losses from the beginning of the year. Commodities rose significantly, especially oil, gas and palladium. Gold and the US dollar were also up.

Increased uncertainty regarding the further course of the economy

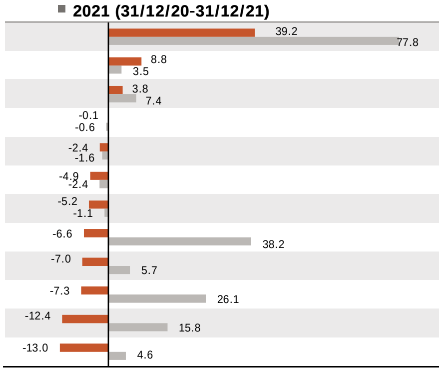
Uncertainty about the future combination of inflation and growth has increased significantly. At least temporarily, there will be less growth and more inflation than previously expected. A major difference to the crises of the last two decades (e.g. pandemic, euro sovereign debt crisis, financial market crisis) is that the current crisis is inflationary instead of deflationary via rising commodity, food and energy prices and possible supply shortages. Therefore central banks cannot support the economy and markets through monetary easing, quite the opposite.

So far, however, economic and earnings growth has proved to be more solid than the consensus expected – positive economic surprises and earnings revisions have also dominated Q1 after Q4, both in Europe and in the USA. Now, however, there is the threat of Putin's war, the extent of which is difficult to assess. For the euro area, Russia is relatively insignificant as a trading partner, with only three per cent of exports going there. But the burden comes from high energy and commodity prices, supply chain problems and falling share prices, which affect sentiment, economic activity and probably also consumption and investment behaviour. However, governments are likely to resist and try to cushion the impact with fiscal measures. Our economists expect that the economic momentum that should come from the end of the omicron wave will be significantly dampened and delayed by several months. In the summer and autumn, however, the economy should return to a clear expansionary course. However, this is only true if Russia does not attack another NATO member and Russia does not turn off the gas tap to Europe. In our base scenario we continue to assume that there will be no sustained stagflation, i.e. high inflation with economic stagnation. However, this remains a risk scenario.

High uncertainty reflected in capital markets

The high economic and geopolitical uncertainty, which as measured by the US Federal Reserve's geopolitical risk index (middle

Only commodities with positive returns, equities and bonds in the red, EM equities weak due to Eastern Europe, US-Dollar strong



Total return	YTD (31/12/21-15/03/22)	2021 (31/12/20-31/12/21)	15/03/21 15/03/22	15/03/20 15/03/21	15/03/19 15/03/20	15/03/18 15/03/19	15/03/17 15/03/18	CAGR* 15/03/17 15/03/22	Std. dev.* 15/03/17 15/03/22
	YTD and in 2021 (in %, EUR)		12-month periods of the last 5 years (in %, in EUR)						
Brent	39.2	77.8	80.5	56.8	-39.7	16.7	8.9	16.8	38.4
Gold	8.8	3.5	20.6	5.3	19.8	7.5	-5.9	9.0	12.5
USDEUR	3.8	7.4	8.9	-6.9	2.0	8.6	-12.8	-0.4	6.6
Euro Overnight Deposit	-0.1	-0.6	-0.6	-0.5	-0.4	-0.4	-0.4	-0.4	0.0
EUR Sovereigns	-2.4	-1.6	-3.3	1.8	1.7	1.5	1.4	0.6	2.2
US Sovereigns	-4.9	-2.4	-3.0	-2.7	13.0	3.5	0.6	2.1	3.8
EUR Corporates	-5.2	-1.1	-5.7	4.5	1.3	1.5	2.1	0.7	2.6
S&P 500	-6.6	38.2	18.8	38.4	0.1	14.2	1.2	13.7	20.2
EM Sovereigns	-7.0	5.7	0.5	1.6	2.2	12.1	-10.0	1.0	7.9
Stoxx Europe 50	-7.3	26.1	10.7	34.1	-17.3	7.4	-0.6	5.6	16.1
DAX	-12.4	15.8	-3.8	56.6	-21.0	-5.3	2.8	3.0	19.8
MSCI EM	-13.0	4.6	-14.6	42.7	-11.7	-2.9	13.6	3.5	16.0

Time period: 15/03/2017-15/03/2022.
Source: Bloomberg   * CAGR = annualised return (in %, in EUR); Std. dev. = Annualised standard deviation (in %, in EUR).

chart next page) is currently at the level of the Gulf war or the Iraq war, is also reflected in financial markets. At over 30, the VIX index is at the same level as at the time of the Gulf or Iraq war. Financial markets have already clearly reacted to the increased uncertainty. Pessimistic sentiment dominates among investors, as shown by the weekly survey of the American Association of Individual Investors (AAII) or the high prices for hedges. Equity valuations have largely normalised. European equities, for example, trade at a price-to-earnings ratio of 13.4 – well below the average since 1988 of 14.6, despite low bond yields. Equity positions have already been reduced significantly, especially through systematic investment strategies. Money market fund holdings also remain high, with negative real interest rates. The starting point for a market recovery when volatility and uncertainty subside appears good.

Uncertainty and inflation expected to ease in second quarter…

We expect some clarification of the many uncertainties in the coming months. A prolonged, costly military conflict is not likely to be in the interest of the Russian leadership, as otherwise the resentment of its own population could increase. The economic effects of the war and the sanctions can also be increasingly better assessed. Despite the effects of the war on inflation, inflation rates are likely to exceed their peak in the second quarter. After the first interest rate move by the US Federal Reserve in March, more clarity about Fed policy can also be expected – a stabilising behaviour seems likely. It is likely to be more hesitant to raise interest rates in the event of stronger growth pressures and vice versa. Economic development is supported by the opening after the Omicron wave and more signs of an upswing are coming from China.

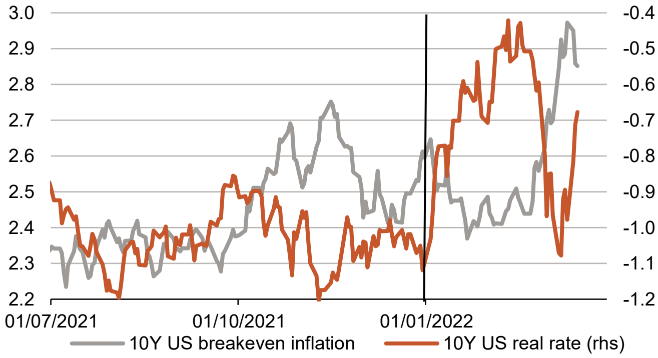
… and offer opportunities for recovery

History also demonstrates that capital market burdens due to geopolitical risks are often short-lived and usually offer buying opportunities. We consider the risk-return ratio for the second quarter to be good. However, the year remains challenging with much uncertainty, the end of central bank bond purchases and the first interest rate hikes.

Prof. Dr. Bernd Meyer, Chief Investment Strategist

Real yields rise quickly at first, then fall all the more quickly

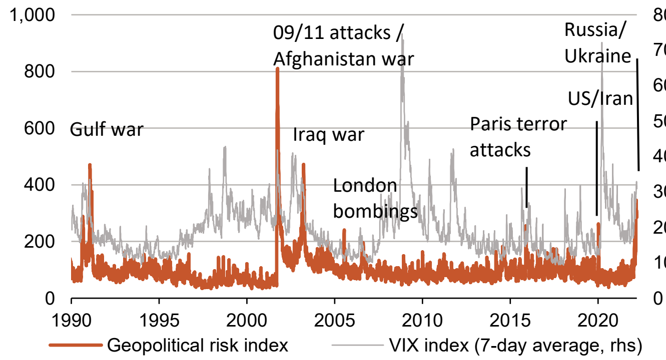
Central banks' turnaround at the beginning of the year drove real yields up and inflation expectations down; Putin war triggered significant countermovement



Time period: 01/07/2021-15/03/2022.
Source: Bloomberg.

Geopolitical risks drive financial market uncertainty

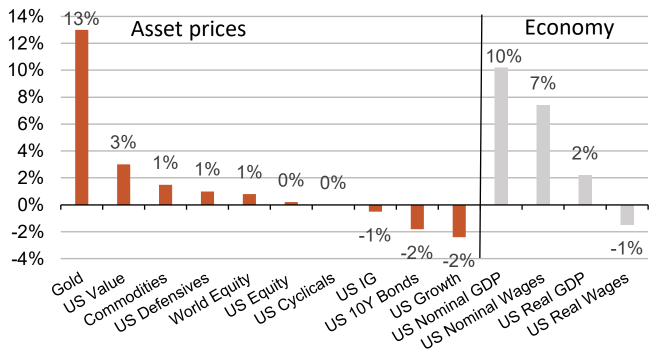
Index of geopolitical risks (measured on the basis of the share of relevant newspaper articles in the USA) and VIX Index at levels of the Gulf or Iraq War



Time period: 01/01/1990-15/03/2022.
Source: https://www.policyuncertainty.com/gpr.html, Bloomberg, own calculations.

What if there were to be sustained stagflation?

Annualised average total return between January 1974 and October 1982: commodities and equities ahead of bonds!



Time period: 01/01/1974-31/10/1982.
Source: Goldman Sachs Global Investment Research, own calculations.

PUTIN'S WAR: BRIEF STAGFLATION, UPSWING AFTERWARDS

IN A NUTSHELL

- Putin's war against Ukraine also hits the economy, in Europe far more than in the US
- Inflation shock due to higher prices for energy and food; new growth starting in early summer
- Central banks still initiate turnaround – ECB only slowly

Stagflation in Europe for a few months

Putin's brutal attack on Ukraine is not only changing the geopolitical situation like no other event since the collapse of communism in Europe in 1989/1990. The shock of the war and the skyrocketing prices for energy, food and important raw materials are also hitting the economy, especially in Europe. Since November 2021, economic output in the Eurozone has stagnated. The strong recovery that began to emerge in February with the fading of the pandemic's omicron wave is now being slowed down initially by the inflation shock, the general climate of uncertainty and exacerbated supply bottlenecks in the automotive industry, for example. With exceptionally high inflation, economic output on the European continent is likely to stagnate or even decline slightly in March and April. The situation can currently be described as stagflation. However, no recession, i.e. a decline in economic output in two consecutive quarters, is emerging for the Eurozone so far.

The upward forces of the economy remain strong. Households have built up substantial additional savings during the pandemic. Companies and governments want to invest more. As soon as the – terrible – situation has improved somewhat, the shock may subside. Unless Russia actually – and against its own interests – turns off the gas and oil tap to Western Europe (or the EU, for its part, drastically reduces imports), the prices for oil and gas will then also leave their short-term peaks behind. Perhaps from May onwards, the economy will be able to regain its footing. In response to the possible consequences of war, we have lowered our growth forecast for the Eurozone this year from 4.3% to 3.2%.

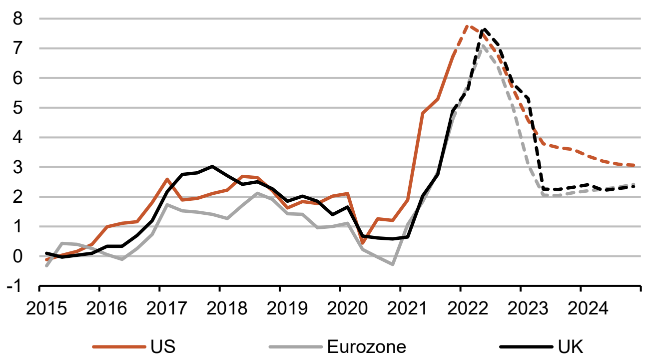
Transatlantic Difference

The USA is far less affected than Europe. The shock to consumer confidence and the business climate will be much smaller there due to the large geographical distance. Moreover, the US is not dependent on Russian natural gas. As a reaction to the extraordinarily high energy prices, US companies will probably increase their investments in their own production (keyword "fracking"). This will give the US economy a boost that will largely offset the small damper on private consumption. We have therefore lowered our forecast for US growth this year only slightly from 3.9% to 3.8%.

As soon as the immediate shock subsides, there are good arguments for quite strong growth in Europe from around May. Unlike in the US, where the delta and omicron waves of the pandemic have hardly weighed on the economy, there is still considerable catch-up potential for private consumption in Europe after the end of the restrictions. This is especially true for services. Moreover, we expect the summer travel season, which was still very subdued in 2021, to return to almost normal this year. For the southern

The big inflation hump

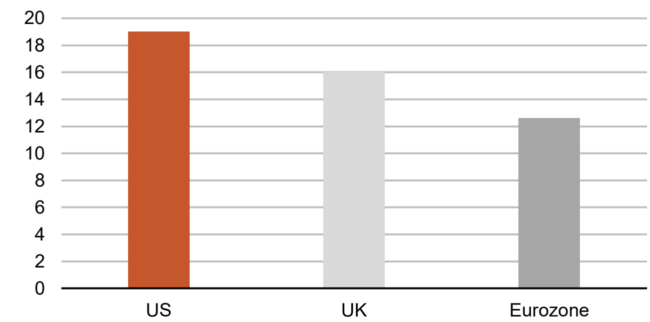
Increase in consumer prices compared to the previous year's period in %



Dashed: Berenberg forecast. US: CPI-U, Eurozone: HICP, UK: CPI
Sources: BLS, Eurostat, ONS, Berenberg

Additional savings of private households

% of consumption in 2019



Additional savings Q1 2020 to Q3 2021 relative to normal savings rate, expressed as % of private consumption 2019; normal savings = quarterly average 2019.
Sources: BEA, Eurostat, ONS, Berenberg.

members of the Eurozone in particular, this would mean a strong economic boost. In addition, a slow widening of the currently pronounced supply bottlenecks for semiconductors and other important intermediate products may stimulate production in the industry, which is currently working far below its potential capacity despite full order books.

Noticeable setback in the first half of 2022 – followed by a strong upswing

This will then particularly benefit the Eurozone and especially Germany with the high share of industry in its economic output. For 2023 and 2024, we have therefore raised our European growth forecasts somewhat, by a total of 0.6 percentage points. If this were to happen, it would offset about half of the dampener now expected for 2022.

The highest inflation in 40 years

On both sides of the Atlantic, supply shortages and the high prices of energy, food and raw materials are driving inflation to its highest level in about 40 years. However, there is a crucial difference between the USA and the Eurozone. In the US, inflation is additionally fuelled by fiscally driven excess consumer demand and high wage growth around 5%. This is not the case in the Eurozone. Unlike in the US, euro inflation is shaped only by factors that a central bank cannot influence. Monetary policy can indeed dampen demand and thus also counteract excessive wage pressure. But it cannot prevent an oil price shock or eliminate supply bottlenecks. The immediate outlook for the economy and inflation is more uncertain than ever before. All in all, we think it likely that Russia's war against Ukraine will lose intensity in a few months one way or another. Provided that Russia does not completely cut off its oil and gas supplies to Europe – as it has done so far – markets for energy commodities should also calm down again somewhat. For our economic scenario, we expect oil to fall from 125 USD per barrel in March and April to 90 USD early next year. So if oil is less overpriced in a year's time, inflation in the euro zone could then return to normal from a good 6% this year to only slightly above 2% in spring 2023.

Central banks shift - ECB takes more time than the Fed

In view of the particularly high inflation, which in the USA is also driven by excess consumer demand, the US Fed is likely to raise its interest rates six times this year by 25 basis points each time, starting in March – with the risk that the Fed will raise rates even more. The ECB, on the other hand, is more likely to take a more cautious approach in view of the extraordinary uncertainty. While it continues to reduce its bond purchases, it is leaving the timing of the first interest rate step open for the time being. Provided the economy picks up again in early summer, it could then raise its key rates by 25 basis points in the fourth quarter.

Dr. Holger Schmieding, Chief Economist

Growth and inflation forecasts

	GDP Growth (in %)						Inflation (in %)					
	2022		2023		2024		2022		2023		2024	
		∅**		∅**		∅**		∅**		∅**		∅**
USA	3.8	3.6	3.1	2.4	2.7	2.1	6.9	6.1	3.9	2.6	3.2	2.2
Eurozone	3.2	3.5	3.3	2.5	2.2	1.8	6.1	5.0	2.3	2.0	2.3	1.8
Germany	2.8	3.1	3.5	2.7	2.3	1.6	5.7	4.9	2.6	2.0	2.5	1.8
France	3.5	3.5	3.0	2.2	2.4	1.7	4.5	3.8	2.2	1.8	2.3	1.5
Italy	3.2	3.5	2.6	2.1	1.5	1.5	6.0	5.5	2.0	1.7	2.1	1.5
Spain	5.1	5.4	4.2	3.5	2.3	2.4	6.9	5.2	1.9	1.8	2.2	1.7
UK	4.0	4.0	2.8	2.0	2.4	1.6	6.6	6.1	3.0	2.7	2.3	2.0
Japan	2.7	2.4	2.4	1.7	1.5	1.1	0.9	1.3	0.7	0.8	0.7	0.8
China	4.8	5.2	4.7	5.2	4.3	5.0	1.8	2.2	2.3	2.2	2.3	2.3
World*	3.8	-	3.4	-	2.9	-	-	-	-	-	-	-

* * Berenberg data at actual exchange rates, not purchasing power parities (PPPs). PPPs lend more weight to the fast-growing emerging-market countries.
** Average, Bloomberg consensus as of 15/03/2022.

DIVERSIFICATION MORE IMPORTANT THAN EVER

IN A NUTSHELL

- Earnings estimates up to date, but may be adjusted as the economic effects of the war become clearer. Risk for Europe high.
- Valuation ratios have fallen sharply, especially in the US and Europe. Much of the valuation adjustment should now be behind us. Europe now fairly valued.
- Diversification across regions and sectors makes a lot of sense given the high uncertainty. We are betting on a combination of quality companies and commodity-rich regions.

Difficult start into 2022

Stock markets have ridden a rollercoaster in the first quarter, with a downward trend: first, the strong rise in real interest rates and inflation concerns weighed on growth stocks (e.g. US tech). Then Russia's invasion of Ukraine weighed on European equities in particular – especially beneficiaries of the previous interest rate increase such as banks, which now suffered from their exposure to Russia and growth concerns. Since the beginning of the year, UK equities have outperformed with their mix of defensive and commodity stocks. US equities also held up relatively well, thanks to the USD appreciation. Eastern Europe came under the most pressure, with equities there losing nearly 80%. But European small caps also fell more sharply, weighed down by the effects of the Russian sanctions and higher energy prices.

2022 earnings estimates have recently been further increased

Earnings estimates have mostly risen over the past three months. Latin America benefited from the commodity rally and saw by far the most positive earnings revisions. The UK and Japan followed behind, while earnings estimates for the US rose only slightly. The big loser was Eastern Europe, especially Russia. Sanctions and the massive ruble devaluation weighed heavily on corporate earnings. In the coming weeks, analysts are likely to adjust earnings estimates further as the effects of the war become clearer. The relative losers are likely to be companies with a high exposure to Russia and companies that cannot pass on the increased input costs. Relative winners are likely to be companies with pricing power and commodity producers not affected by sanctions. The consensus expects global earnings to grow in the high single digits this year. It is particularly optimistic in regards to Japan and the Eurozone. Eurozone corporate earnings, however, are now likely to face greater uncertainty.

Valuation adjustment faster than we expected

We had argued at the end of last year that equities should undergo a valuation adjustment due to rising interest rates. However, we did not expect the Fed to adopt extremely restrictive tones within a few weeks. The resulting rise in real interest rates by mid-February has led to a massive valuation adjustment. US equities are no longer extremely expensive and European equities are fairly valued. Much of the valuation adjustment should now be behind us.

Strong performance spread between regions: UK is relative winner, Eastern Europe, European small caps and Asia are the losers

Total return	YTD and in 2021 (in %, EUR): YTD (31/12/21-15/03/22)	2021 (31/12/20-31/12/21)	12-month periods of the last 5 years (in %, EUR): 15/03/21 15/03/22	15/03/20 15/03/21	15/03/19 15/03/20	15/03/18 15/03/19	15/03/17 15/03/18	P/B* 15/03/22	Div.* 15/03/22	P/E* 15/03/22
MSCI UK	-0.5	27.5	15.6	32.5	-26.6	9.5	-1.1	1.6	4.1	10.9
Stoxx Europe Defensives	-2.7	21.7	14.8	28.3	-17.0	15.0	-1.8			
S&P 500	-6.6	38.2	18.8	38.4	0.1	14.2	1.2	3.9	1.5	18.9
MSCI USA Small Caps	-7.0	27.9	-1.8	76.9	-18.2	11.3	-1.0	2.0	1.5	18.2
Stoxx Europe 50	-7.3	26.1	10.7	34.1	-17.3	7.4	-0.6	2.1	3.4	13.2
MSCI Japan	-8.5	9.4	-5.2	44.9	-12.5	-1.9	4.2	1.3	2.5	12.8
Stoxx Europe Cyclicals	-12.0	26.6	2.5	57.7	-23.4	-3.8	7.7			
DAX	-12.4	15.8	-3.8	56.6	-21.0	-5.3	2.8	1.6	3.3	12.4
Euro Stoxx 50	-12.8	23.3	-0.5	51.1	-21.5	1.9	2.6	1.7	3.5	12.7
MSCI EM Asia	-14.8	1.9	-18.8	46.6	-6.2	-3.5	16.6	1.4	2.8	11.6
Stoxx Europe Small 200	-14.9	22.9	-2.4	58.7	-20.0	0.0	10.8	1.6	2.8	15.3
MSCI EM Eastern Europe	-79.4	26.4	-76.4	39.8	-21.1	8.1	9.7	1.0	4.3	9.2

Time period: 15/03/2017-15/03/2022.
Source: Bloomberg * PBV = Price/book value ratio; Div. = Dividend yield (%); PER = Price/earnings ratio. Values based on estimates for the next 12 months.

Diversification is the key

The war is likely to dampen growth and lead to prolonged inflation. Accordingly, stagflation concerns are rising. As a result, the monetary policy path of central banks is becoming more uncertain, making it more sensible than ever for multi-asset investors to diversify. We invested in commodity-rich equity regions such as the UK and Latin America within our multi-asset portfolios in the first quarter. These balance our "quality growth" style of European equities well, resulting in lower portfolio volatility. However, Latin America in particular has other reasons besides its advantageous correlation properties: Latin America is benefiting from higher commodity prices, which has recently led to the strongest positive earnings revisions globally. The valuation (index P/E of approx. 9) is relatively favourable. In addition, most Latin American central banks have already raised key interest rates sharply, so that the currencies have a high carry and have appreciated recently. Moreover, Latin America is an indirect geopolitical hedge for us. Not only is the region far away from Ukraine, but it also benefits from the most likely lower commodity exports from Russia and Ukraine in the coming months. Chinese equities are also likely to perform relatively independently. They are also relatively cheaply valued and there are early signs of an economic upswing in China, supported by stimulus measures from the Chinese central bank.

Ulrich Urbahn, Head of Multi Asset Strategy & Research

WHAT IS ON COMPANIES' MINDS?

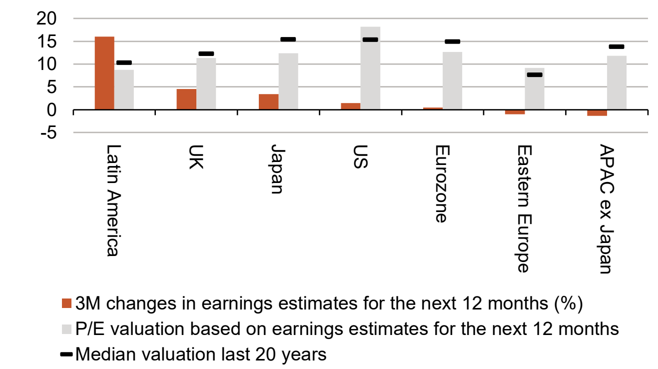
Quality in difficult times

As always at this time of year, the first quarter of 2022 was dominated for us by a large number of discussions with the management teams of our existing, but also potentially new investments. The focus was on the predominantly positive annual financial statements for 2021 and the ambitious outlooks for the current financial year. For example, spirits and luxury goods manufacturers reported strong consumer demand, the semiconductor industry a continuation of the special economic situation and software companies a digitalisation trend that goes beyond COVID-19. The pandemic was hardly a topic, while inflation and supply bottlenecks, on the other hand, were an integral part of the discussions. Distributors of speciality chemicals, but also food supplement manufacturers, reported extreme difficulties in sticking to schedules, but emphasised that their global presence pays off and often makes market share gains possible. They were also confident that they would pass on the strong price increases to their customers. This process has already begun. The fact that our companies can deliver top performance under difficult conditions and provide critical products and services to their customers proves their quality and is the best guarantee for the coming quarters.

Matthias Born, CIO Equities

Latin America relatively cheap and with positive profit revisions

Consensus earnings revisions over the last three months and P/E valuation based on earnings estimates for the next twelve months (incl. median)

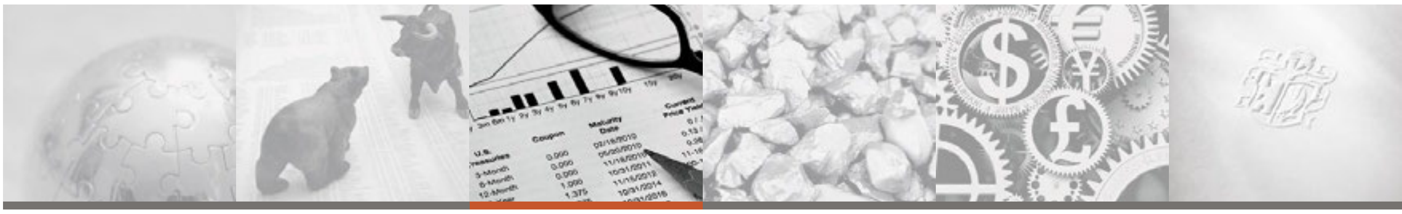


Time period: 15/03/2022.
Source: Factset, Berenberg.

Forecast summary: Equities with limited upside potential

Index forecasts	Currently 15/03/2022	31/12/2022	30/06/2023	∅* in 12 months
S&P500	4,262	4,650	4,850	5,237
Dax	13,917	15,500	16,500	18,652
EuroStoxx 50	3,738	4,150	4,400	4,971
MSCI UK	2,051	2,200	2,350	2,487
Index potential (in %)				
S&P500	-	9.1	13.8	22.9
Dax	-	11.4	18.6	34.0
EuroStoxx 50	-	11.0	17.7	33.0
MSCI UK	-	7.3	14.6	21.3

* Average, consensus as of 15/03/2022.
Source: Bloomberg, FactSet, Berenberg.



TREND OF RISING YIELDS ONLY BRIEFLY INTERRUPTED

IN A NUTSHELL

- Safe government bonds continue to lose ground beyond temporary hedging demand and remain on the losing side.
- We see potential for corporate bonds in the medium term due to reduced supply and after a valuation correction.
- Emerging market bonds are also benefiting from limited issuing activity and are attractively valued.

Geopolitical crisis does not change our medium-term outlook

While we wrote about the challenges of the new year in the last issue of "Horizon", focusing primarily on those of an economic nature, a geopolitical war has now also become a reality. However, if we look through the Russian aggression and concentrate on the factors that have an effect on bonds in the medium to long term, our current picture of individual market segments has hardly changed since the beginning of the year.

Safe government bonds continue their downward trend

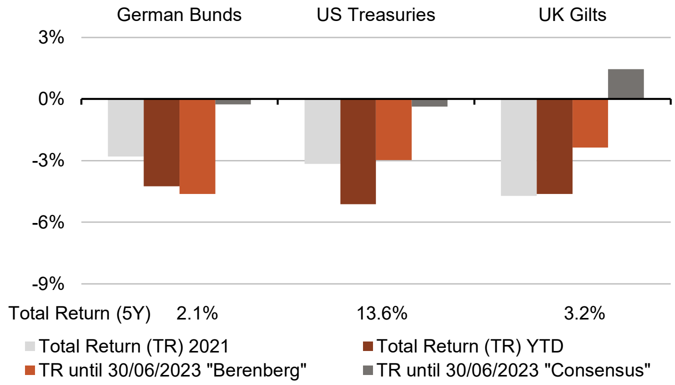
As expected, the first months of the year brought price losses in the safe government bond segment. Although the increased need for security in the wake of the Russian invasion of Ukraine led to a temporary rise in demand for German Bunds, for example, this was not enough to offset the previous rise in yields. Several factors suggest that, beyond geopolitical influences, the trend of rising yields will resume. Above all, we should mention our positive medium- and long-term economic outlook, inflation that is expected to slow down in the course of the year but settle above the level of the 2010s, and the central banks reacting to this by ending their extremely expansive monetary policy. The COVID-19 pandemic also seems to be increasingly losing its horror. In this environment, safe government bonds will incur losses. At best, they can be selectively interesting as temporary hedges, but by no means as a permanent investment beyond the "safe haven" argument.

Corporate bonds: first glimmer of light at the end of the tunnel

"False start" – it is difficult to describe the beginning of the year on European corporate bond markets in a more positive light. The expectation of earlier and more frequent interest rate steps by the central banks as well as the escalation of the Russia-Ukraine conflict have clearly left their mark. Although we had expected a difficult year, the speed and vehemence of the movement is surprising. Looking ahead, it therefore seems useful to reassess some key drivers. For example, many companies published convincing quarterly results as profits continued to be used to reduce debt. However, more time is needed to assess with greater certainty to what extent persistently high inflation and, in particular, rising commodity prices will have an emphatically negative impact on companies. On the other hand, another factor could have a clear positive impact: after we had initially assumed a significantly higher supply of new issues and, therefore, pressure on valuations, it can now be observed that some investment banks are correcting their

Safe government bonds still on a downward slide

Past and expected performance of 10-year government bonds, overall effect from yield/price change, coupon income, and roll-down effect



Time period: 15/03/2017-15/03/2022.
Source: Bloomberg, own calculations, iBoxx Government Bond Indices (7-10 years, TR)

Forecasts: base interest rates and government bond yields (in %)

Berenberg and consensus forecast in comparison, values at year-end and mid-year 2023

	15/03/2022	31/12/2022		30/06/2023	
	Currently		∅*		∅*
USA					
Base interest rate	0.25-0.50	1.50-1.75	1.55	2.00-2.25	2.00
10Y US yield	2.19	2.60	2.30	2.80	2.49
Eurozone					
Base interest rate	0.00	0.25	0.10	0.75	0.40
10Y Bund yield	0.39	0.70	0.41	1.05	0.58
UK					
Base interest rate	0.50	1.00	1.20	1.25	1.40
10Y Gilt yield	1.63	1.90	1.59	2.20	1.76

* Average, consensus as of 15/03/2022.
Source: Bloomberg.

expectations in this regard downwards. J.P. Morgan, for example, reduced its estimate for the net offering in the euro high-yield segment for 2022 from 140 to only 90 billion euros. According to the US bank, significantly higher refinancing costs, more attractive conditions on the market for securitised loans and less merger and acquisition activity should lead to significantly lower new issues and less risk premiums in the secondary market. The most exciting factor at the moment, however, is valuation. The left-hand chart below illustrates that we have witnessed a marked increase in spreads since the turn of the year in both investment grade and high yield. Even if risk premiums cannot yet be described as attractive, an interesting entry window could open in the medium term once the market stabilises. Until then, we feel comfortable in short-dated positions from both sub-segments and also confirm our preference for financial bonds.

Emerging markets: local currency bonds remain preferred

In the environment of Covid, rising interest rates and the Ukraine crisis, hard currency bonds lost significant value in the first quarter, while emerging market securities in local currency performed relatively better; some regions, especially Latin America, even traded positively recently. The three market drivers mentioned above make the emerging market segment seem more heterogeneous than ever. Our assumption that the negative effect of rising US yields on hard currency bonds would be stronger relative to local currencies proved to be correct, which is why we preferred the latter (see right-hand chart below). We continue to see currency investments as opportune in Asia and Latin America, which stands out due to its regional distance from Russia and Eastern Europe and its already advanced rate hike cycles. Countries such as Colombia or Angola as well as higher-rated states from the Middle East should also benefit from rising commodity prices. On the other hand, caution is warranted with regard to countries that are not commodity exporters and will suffer from higher energy and food inflation. We are positive about current valuations and the overall technical picture. The risk premiums have risen to very attractive levels – when the market calms down, an entry seems worthwhile. Last but not least, issuance activity remains manageable for the time being, which should also support emerging market securities.

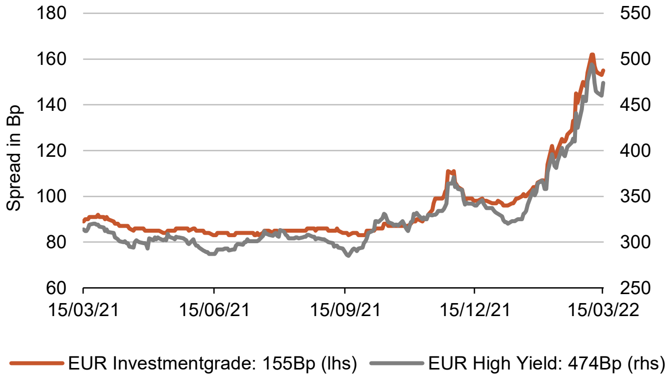
Conclusion: No change of favourites despite geopolitical crisis

In a comparison of different fixed income segments, emerging market securities remain our favourite, especially in local currency(ies). European corporate bonds have already started to regain attractiveness, but we still lack clearer signals for a fully convinced entry, and until then we are positioning ourselves defensively at the short end. Finally, safe government bonds should remain on the losing side; they will only be in demand temporarily as a "safe haven" during periods of uncertainty.

Martin Mayer, Senior Portfolio Manager Multi Asset
Christian Bettinger, Head of Fixed Income Euro Flexible
Robert Reichle, Head of Fixed Income Global & EM

Euro corporate bonds offer noticeably higher risk premiums

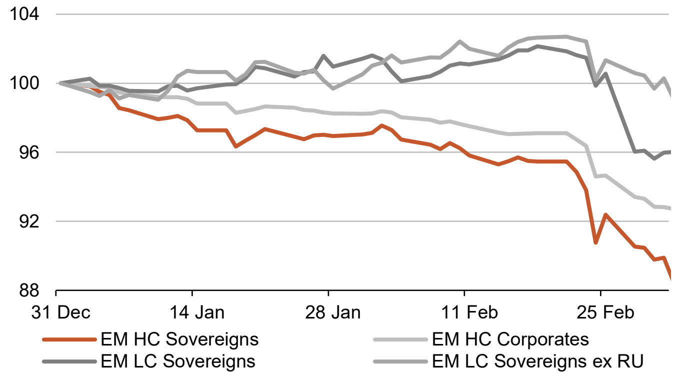
Since the turn of the year, yield premiums for investment grade and high yield bonds have risen noticeably above the previous year's level



Time period: 15/03/2021-15/03/2022, Source: Bloomberg, ICE, own calculation
Figure: Yield premium versus government bonds

Emerging markets: local currency securities remain preferred

The outperformance of government and corporate bonds in local versus hard currency since the beginning of the year should continue



Time period: 01/01/2022-15/03/2022, Source: Bloomberg, own calculation, RU: Russia, HW/LW: Hard/local currency, normalised to 100 at the beginning of the year (unhedged, from EUR perspective)

COMMODITIES REMAIN EXPENSIVE AND VOLATILE

Oil remains scarce, volatility and prices high

The oil price exploded in Q1 and temporarily was the highest it has been since 2008. While oil was already scarce at the beginning of the year, concerns are now high that Europe will run out of energy as Putin's war continues. Currently, oil and gas are still flowing to the West. If supplies were to be cut off, the lack of oil would have to be provided by someone else. Higher production volumes on the part of OPEC+ would be an obvious solution. So far, however, they have been reluctant to raise the quotas. However, Iran could reappear on the world market in the next few weeks, as a new agreement with the USA is currently being negotiated. A redistribution of Russian oil in the direction of China and the partial liquidation of strategic reserves could additionally bridge shortages. In any case, oil is likely to remain scarce and volatility and prices high.

Gold can defy rising real interest rate if the Fed hikes

The first quarter was characterised by risks – first inflation risks, then geopolitical and economic risks with the Russian invasion. Gold, as a real safe haven, benefited from the many uncertainties and performed much better than its nominal counterparts. In the short term, the tailwind from Putin's war is likely to vanish, provided the situation does not escalate further. Past conflicts show that it is not the war itself but rather the fear of it that drives the share price. Meanwhile, real interest rates are likely to rise again in the wake of upcoming Fed rate hikes. Taken by themselves, rising real interest rates are actually a strong headwind for gold. In combination with rising key interest rates, however, the downward pressure is typically much lower, as this also increases the risks of a possible "policy error". All in all, gold is likely to continue to move volatilely sideways in the coming months.

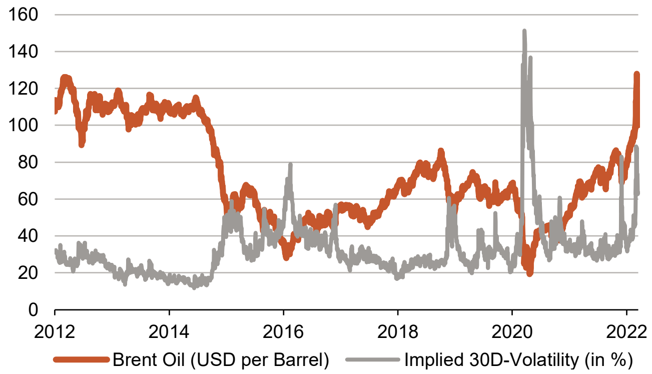
Putin's war accelerates structural trends in industrial metals

Industrial metals have also performed well in general. Because of their energy-intensive production, all metals benefited from the high oil prices. However, there are divergences beneath the surface. While nickel experienced a "short-squeeze" and aluminium gained more than 15%, copper and zinc gained less than 10%. In the case of the former, Russia-related supply concerns prevailed. The increase in the latter, on the other hand, was dampened by increasing concerns about the economic outlook. While Nickel should normalize initially, the general divergence is likely to continue in the coming months. The trend towards decarbonisation, on the other hand, has probably been accelerated even further by the war. All metals should benefit from this.

Ludwig Kemper, Analyst Multi Asset Strategy & Research

Crude oil at multi-year high amid high volatility

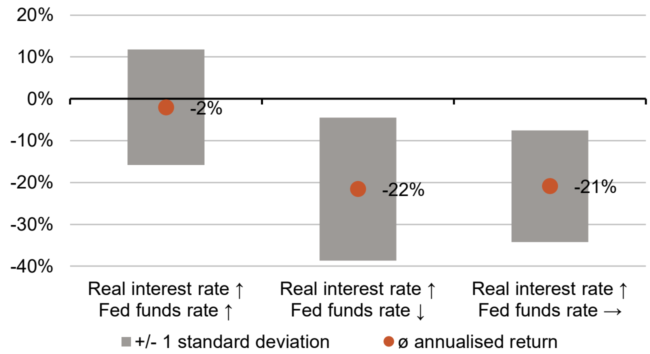
Price of Brent oil in US dollars per barrel versus the implied volatility of Brent oil over the next 30 days



Zeitraum: 15/03/2012-15/03/2022.
Source: Bloomberg.

Real rate rise less dangerous with a restrictive central bank

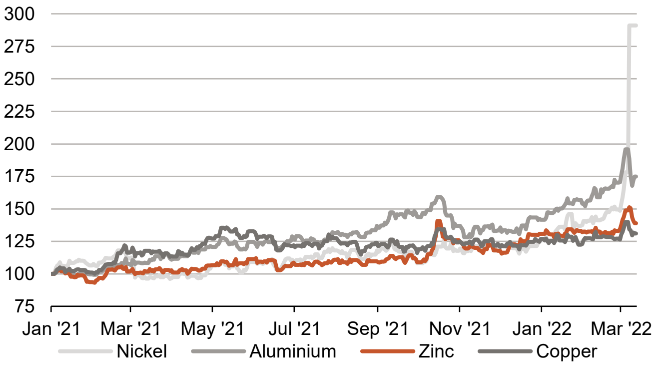
Annualised return on gold in the event of rising real interest rates depending on the Fed's key interest rate development



Time period: 01/01/2000-28/02/2022.
Source: Bloomberg, own calculations.

Divergence within the industrial metals

Performance of selected industrial metals indexed to 100 at 01/01/2021



Time period: 01/01/2021-15/03/2022.
Source: Bloomberg, own calculations.

UNDER THE SPELL OF WAR AND INFLATION

Two big themes

In the first quarter of 2022, two topics dominated the foreign exchange market: 1. inflation/money policy, 2. the Russia-Ukraine war. At first, inflation rates were surprising because they remained at a very high level at the beginning of the year. At the same time, it became increasingly clear that the US Federal Reserve and the Bank of England were prepared to change their monetary policy course, while the European Central Bank remained hesitant in its fight against inflation. So the euro remained under pressure at first. Only at the ECB press conference at the beginning of February did Christine Lagarde seem to be able to turn the tide for the euro. Her statements fuelled speculation in the markets that the ECB could initiate a turnaround in interest rates as early as this year. The common currency temporarily rose to almost 1.15 US dollars per euro.

War nips euro hopes in the bud - “safe havens” in demand

But no sooner had there been some hope for the euro than the escalation in the Russia-Ukraine conflict turned the mood again. Now the classic "safe haven" currencies are in demand again: the US dollar, the Swiss franc and the Japanese yen rose again and extinguished the previous euro gains. The euro is having a hard time in this situation, because the war is clouding the economic outlook in the Eurozone again and the ECB's monetary policy change could now be delayed again. For the time being, the ECB is likely to drive more "on sight" again. In addition, the longer-term outlook may be clouded due to the proximity to Russia. The peace dividend that had resulted from the easing of East-West tensions has now probably been depleted. The euro could suffer more than the geographically more distant countries and their currencies (eg the US dollar/yen). For the time being, the development of the euro exchange rate depends primarily on the news situation regarding the Russia-Ukraine war – increased volatility is pre-programmed.

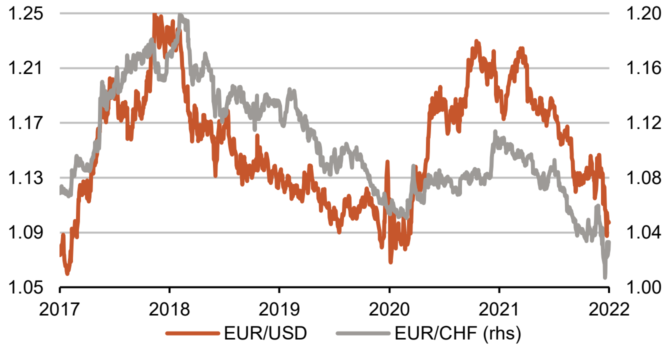
Pound sterling remains firm

In contrast to the ECB and the Fed, the Bank of England (BoE) has already initiated the interest rate turnaround. With a triple step of 15 basis points in December and a regular step of 25 basis points, the BoE has already raised interest rates twice. Thanks to this support from the central bank, the pound has been able to hold at a high level. At times, the euro has fallen to 0.82 pounds per euro.

Dr. Jörn Quitzau, Senior Economist

Euro loses against the "safe haven" currencies

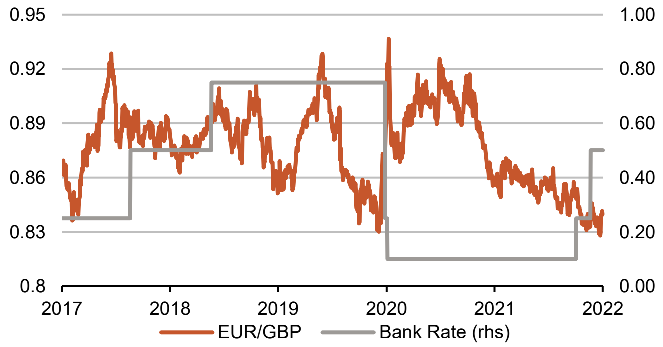
The Russia-Ukraine war is driving investors into safe havens. US dollar, franc and yen benefit.



Time period: 15/03/2017-15/03/2022
Source: Macrobond

EUR/GBP: Euro falls further against strong pound

The Bank of England marches ahead in the interest rate turnaround.



Time period: 15/03/2017-15/03/2022
Source: Macrobond

Exchange rate forecasts

US dollar weakness likely to persist

	15/03/2022	31/12/2022		30/06/2023	
Exchange rate forecast	Currently		Ø*		Ø*
EUR/USD	1.10	1.18	1.15	1.22	-
EUR/GBP	0.84	0.85	0.84	0.85	-
EUR/CHF	1.03	1.08	1.07	1.09	-
EUR/JPY	130	129	133	131	-
Change against the euro in %					
USD	-	-7.2	-4.7	-10.2	-
GBP	-	-1.2	0.0	-1.2	-
CHF	-	-4.5	-3.6	-5.4	-
JPY	-	0.5	-2.6	-1.1	-

* Average, consensus as of 15/03/2022.
Source: Bloomberg.

INTERVIEW WITH KLAUS NAEVE

Mr Naeve, you are Co-Head of Berenberg Wealth and Asset Management and Head of Sales. What are the responsibilities of your position?

My work focuses on our clients and our relationship with them. I mainly take care of the organisation and further development of client services. This includes further developing the existing offers and developing new services and products together with my co-head Matthias Born, who as Head of Investments is also the ideal partner for this.

That sounds like a lot of variety, but also a lot of challenges! What does your day-to-day work look like in concrete terms?

Fortunately, there is no such thing as a daily routine that is always the same. Actually, I am in constant dialogue with other people. First of all, of course, there is the regular dialogue with the customers, whom, like all managers in our company, I continue to look after personally. That is how I find out what is on their minds and where we should develop further. At work, I talk a lot with the heads of the individual client departments about the current sentiments and needs of our clients. In addition, there is a regular exchange with colleagues from the investment division and from the various units of the bank that work in the background, such as Business Management, IT or Compliance and many more. Since we are also growing, we are constantly looking for new colleagues – another exciting communicative task.

What particularly appeals to you about your work? Where do you think there is potential for improvement?

I like to develop topics further together with other people, also because client requirements and the structure of capital markets are constantly changing. Unfortunately, it is still true that there are always more ideas for improvements than capacities and so we often have to focus. At the moment, the digitalisation of customer and settlement processes is a big topic.

Who is the typical Berenberg client?

There is no such thing as a typical client. We serve clients with a direct account relationship with us in the wealth management segments such as private clients, foundations and companies. In the various institutional client segments such as insurance companies, pension funds or companies, the transition to asset management is fluid. Some of them simply buy our excellent funds, and this does not always require an account relationship. In addition, many of our fund investors come via the so-called wholesale sector or from the cooperation partner business with savings banks and Volksbanks. We therefore combine the classic offers of a private bank with those of an asset manager.

What does the cooperation between Wealth Management and Asset Management look like?

In a way, my task in Wealth Management is to bring our investment competence in Asset Management together with the right clients in the best possible way. For the Investments division, it is ultimately unimportant whether an investment strategy is implemented in the form of a mutual fund, special fund, institutional mandate or wealth management mandate. My job is to network and translate – because for us, an investment strategy is only as good as it is explained to a client and it must fit their needs. That is why there is an exchange every morning between all employees of both divisions, where colleagues from the investment division assess current capital markets or present investment ideas in detail and answer questions from the advisors. This allows the latter to provide valuable support to the clients at any time. How well this works is also shown by the fact that we have been repeatedly awarded in Wealth Management as well as on the investment side. In recent years, we have also been able to achieve very good profit contributions in almost all of our strategies.

What challenges are your clients currently facing?

In my view, the overarching main issue across all client segments continues to be that there are no longer any truly safe and at the same time profitable investments. Therefore, clients have to take more risks to achieve real value preservation or even real positive performance. This challenge is not made any easier by concerns about inflation and interest rate increases. This mix raises many questions about diversification, or in other words: what can I do today to continue to build a portfolio that is as robust as possible? Of course we can help here. There is no simple off-the-shelf solution or standard advice. Solutions are quite different and individually adapted at Berenberg, depending on the regulatory requirements and the taste of the clients.

Why do clients like to be with Berenberg? What is unique to Berenberg?

Over our long history, we have established a clear entrepreneurial culture and a constant will to develop and become better for our clients. Conversely, we do not offer everything everywhere and for everyone. Instead, we focus on those things that we believe we can do excellently. Therefore, clients will find a broad product range with a clear profile in the area of liquid investments, which can be supplemented by private equity or private debt investments or real estate or direct investments, for example in capital rounds shortly before an IPO, so-called pre-IPOs. At the same time, despite our size, cooperation across all areas of the bank is really lived for the benefit of the client. And our clients feel that. Another aspect is the transparency that we provide when it comes to communicating our approach. This applies to our approach, for example in asset management, as well as in active communication when a conflict of interest may arise.

Keyword transparency: In your weekly podcast you discuss together with Berenberg Chief Economist Dr. Schmieding and other guests what is moving markets but also Berenberg at the moment. What have you learned from these discussions?

For me, Dr. Schmieding is of course an exciting discussion partner who always knows how to soberly look at contexts and thus economic effects. In my opinion, he regularly resists the excitement of the media's treatment of topics and his regular dose of optimism has proven valuable to me over time. After all, we all need this positive view of the future if we want to shape it or even if we want to invest in it.

The Berenberg Platform is growing. What is coming up next?

We have already seen a tremendous development of our area in the past four years. We have created or expanded more client units and established ourselves in new segments and countries. We have also digitalised various processes, for example, fully digital account opening and a new online banking system. We have also set up new investment strategies and a partnership in the area of private equity. In the future, we will continue to work on three P's: We want to offer first-class products, with processes that are convenient for the customer, and this should be accompanied by people who are passionate about our customers.

BRIEF BIOGRAPHY

Klaus Naeve heads Wealth and Asset Management together with Matthias Born and is primarily responsible for the client service units in this area. As a graduate in banking, he coordinates the strategy and further development of all client services. Through various qualification measures, such as becoming an SRI advisor or certified foundation advisor, he complements his more than 25 years of practical experience in client care for various client groups. In addition, he is responsible for German wealth management and acts as an operational client advisor.

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IMPORTANT NOTICES

Date: 18 March 2022

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