BERENBERG
*Markets*

# INVESTMENT COMMITTEE MINUTES

11 February 2021

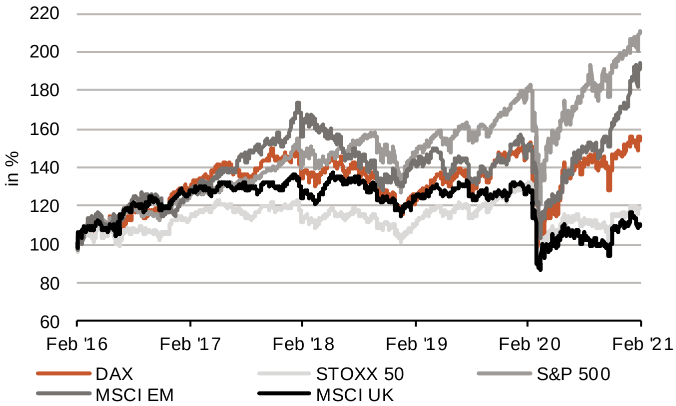
## Managers of the Committee

*Prof Dr Bernd Meyer*
*Chief Investment Strategist*
*Chairman*

*Dr Holger Schmieding*
*Chief Economist,*
*Vice Chairman*

The **Committee Members** are listed in the notes.

## Development of selected equity indices




Source: Bloomberg, 10/02/2016 - 10/02/2021.

## Most important assessments at a glance

| | |
|---|---|
| **Economics** | • Gloomy pandemic winter in Europe and the USA. However, despite virus mutations, the outlook for spring is good<br>• Biden delivers: calmer foreign and trade policy is good for the world, with a strong fiscal stimulus<br>• 2021: strong growth in large parts of the world; monetary and fiscal policy very expansionary; and inflation slowly picking up |
| **Equities** | • The global equity market recently reached an all-time high, despite temporary market dislocation. Outlook remains positive<br>• Small caps have the wind in their sails. Growth stocks outperformed value stocks, despite rising interest rates<br>• We remain medium overweight in equity and have a cyclical bias, for the time being, following the recent risk reduction |
| **Bonds** | • Inflation concerns are pushing up yields on European and US government bonds. This environment is likely to persist<br>• Corporate bonds with inflows and falling risk premiums. EUR high-yield bonds are becoming increasingly unattractive<br>• We are underweight bonds and focus on credit risk and off-benchmark themes. Duration: short |
| **Commodities** | • Gold is currently not in demand, with the price temporarily falling below USD 1,800 per ounce. We remain optimistic<br>• Brent oil now above USD 60 per barrel. Supply deficit thanks to restrictive OPEC+ provides tailwind<br>• Industrial metals continued their positive price trend. Rising demand due to the economic recovery is supporting |
| **Currencies** | • EUR/USD with slight correction. Overarching picture remains intact, but euro rise could be delayed<br>• As expected, GBP is heading upwards. The Bank of England's rate changes remain on hold<br>• CHF is fluctuating, with little amplitude, around CHF1.08 per-euro and, therefore, remains very stable |

## Current market commentary

The tailwind for risk assets does not appear to be diminishing. Despite the temporary market dislocation at the end of January, some equity markets such as the American S&P 500 or the German DAX recently reached all-time highs. A positive Q4 reporting season so far, solid economic data, impulse progress, as well as continued monetary policy assistance, are supporting the markets. Under the surface, things also remained exciting. Small caps were able to continue their positive development. Value stocks have recently underperformed growth stocks despite rising interest rates and steeper yield curves. Growth stocks should continue to perform well in the future, even though we believe there is catch-up potential for value stocks due to rising inflation/interest rates. In this environment, small-cap and cyclical stocks should continue to gain alongside value stocks. However, the market has already priced in much of the economic recovery and investor positioning is elevated; therefore, we have slightly reduced our equity overweight. We currently feel comfortable with our medium overweight position – with a more cyclical bias – as we see further potential in the markets over the coming months. However, this potential is offset by increased market vulnerability. The next step, therefore, is more of a further risk reduction.

The increased inflation expectations are now having a stronger impact on the bond markets. In addition to US government bond yields, European government bond yields are also starting to rise noticeably. Only Italy is an exception here, as the hope of a government formation under Mario Draghi has put investors in a positive mood. In corporate bonds, risk premiums have fallen further in recent weeks. In our opinion, EUR high-yield bonds are, therefore, becoming increasingly unattractive, as the balance-sheet risk is no longer adequately rewarded.

In the commodities space, Gold has been less in demand recently, while the crude oil price has risen.

# ECONOMICS

## Despite the second wave of the pandemic, economic traffic lights are green as of spring 2021

**We expect a strong recovery of the global economy from spring 2021 after the mega-recession in 2020**
**Calm trade policy thanks to Biden: good prospects for world trade. Strong fiscal stimulus in the US**
**Second wave of the pandemic: economic setback in winter for Europe, but far milder than in the first wave**

- **Upswing without inflation:** Despite the current setback in Europe and - to a lesser extent - in the US, the traffic lights should turn green for the global economy in spring 2021. The early phase of a new upswing is usually characterised by strong growth, with low inflation initially. Economic policy is boosting the economy more than ever before. China remains robust for the time being thanks to its own credit stimulus, despite significant long-term risks. Strong growth in key consumer countries, coupled with low interest rates, is also positive for many emerging markets.
- **Limited setback:** The second major wave of the pandemic is slowly subsiding in the US and Europe. Even in countries like the UK and Spain, where the particularly contagious virus mutations have spread rapidly, case numbers are falling fast. Despite significant restrictions that can only be eased slowly, the economy suffers far less now than in March and April 2020. This is because measures are more targeted and do not come as a shock. Instead of disrupted supply chains, strong demand from China and the US is shaping the state of the industry. Overall, economic data in the US and Europe has been less bad than feared in recent months.
- **Hope for spring:** Most countries have started vaccinating citizens. The UK and the US are far ahead of the EU. The situation should ease noticeably in spring thanks to warmer weather and vaccination progress, somewhat later in the EU than in the UK and the US. After the first wave, the eurozone had made up almost all of its Q2 2020 losses in Q3. This suggests that the economy will also be able to recover from the current setback in spring 2021. Pent-up demand for services may spur the recovery. Unlike what is typically seen after recessions, many households have high savings (see chart).
- **Biden delivers:** The new US president stands for a calm foreign and trade policy. This will benefit world trade and Europe, which is particularly dependent on exports, in 2021. For the US, a new fiscal stimulus of at least $1.2 trillion is on the horizon, followed by a large infrastructure package in the summer. We have, therefore, raised our US growth forecast for 2021 from 5.3% to 6.5%. Given the Democrats' only slim majority in US Congress, Biden is likely to only marginally burden the economy with higher taxes and regulations.

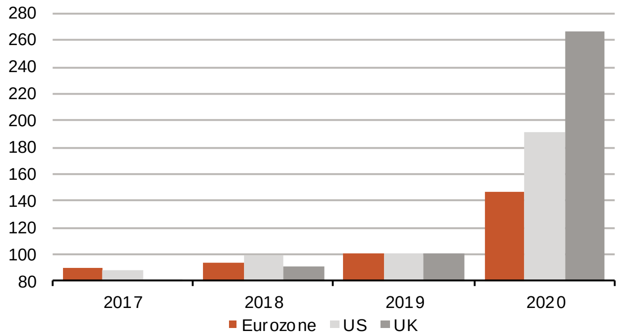
**Too early for big inflation worries:** Inflation and interest rates will rise in this year's economic upswing, with special effects and higher transport costs also contributing to this in 2021. The US Federal Reserve and the ECB will allow this for the time being, after years of falling short of their inflation targets. They want to support the economy for a long time and will only take countermeasures when inflation is much higher.

### GDP and inflation forecasts (%)

| | | GDP growth | | | Inflation | | |
|---|---|---|---|---|---|---|---|
| | % | 2019 | 2020 | 2021 | 2019 | 2020 | 2021 |
| **World** | 100.0 | 2.3 | -3.4 | 4.6 | | | |
| US | 24.5 | 2.2 | -3.5 | 6.5 | 1.8 | 1.3 | 2.5 |
| China | 16.4 | 6.0 | 2.0 | 10.0 | 2.9 | 2.5 | 1.4 |
| Japan | 5.8 | 0.3 | -5.3 | 3.4 | 0.5 | 0.0 | 0.0 |
| India | 3.3 | 4.8 | -9.0 | 8.0 | | | |
| Latin America | 5.9 | 0.0 | -8.1 | 4.0 | | | |
| **Europe** | 24.4 | 1.3 | -6.5 | 4.1 | | | |
| Eurozone | 15.3 | 1.3 | -6.8 | 4.1 | 1.2 | 0.3 | 1.3 |
| Germany | 4.4 | 0.6 | -5.3 | 3.6 | 1.4 | 0.4 | 1.6 |
| France | 3.1 | 1.5 | -8.3 | 6.2 | 1.3 | 0.5 | 1.3 |
| Italy | 2.3 | 0.3 | -8.9 | 4.3 | 0.6 | -0.1 | 1.1 |
| Spain | 1.6 | 2.0 | -11.0 | 6.2 | 0.8 | -0.3 | 1.2 |
| **Rest of western Europe** | | | | | | | |
| UK | 3.2 | 1.4 | -10.1 | 6.1 | 1.8 | 0.9 | 1.3 |
| Switzerland | 0.8 | 0.8 | -3.1 | 2.5 | 0.4 | -0.7 | 0.0 |
| Sweden | 0.6 | 1.3 | -3.1 | 2.9 | 1.8 | 0.5 | 1.0 |
| **Eastern Europe** | | | | | | | |
| Russia | 1.9 | 1.3 | -3.4 | 2.5 | 4.5 | 3.4 | 3.0 |
| Turkey | 0.9 | 1.0 | -1.3 | 2.3 | 15.2 | 12.0 | 10.0 |

Source: Berenberg

### Households can spend money - they have saved a lot




Household savings (Berenberg estimate for Eurozone and GB in Q4), 2019=100. Figures in US dollars for the US, in euros for Europe (GB converted at the respective GBP/EUR exchange rate). Source: BEA, Eurostat, ONS, BoE, Berenberg

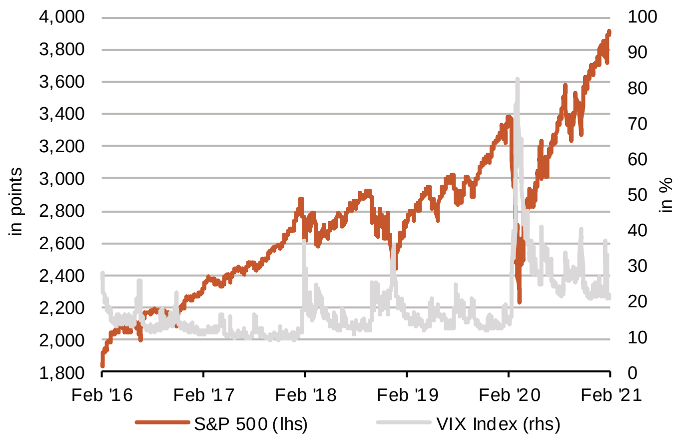
# EQUITIES

## Risk assets remain in demand

**The global equity market recently reached an all-time high, despite temporary market dislocation. Outlook remains positive**
**Small caps continue to deliver returns. Growth stocks outperformed value stocks, despite rising interest rates**
**We remain medium overweight in equity, with a cyclical bias, following the recent risk reduction**

- The **global equity market (MSCI World) reached another all-time high** recently. A positive Q4 reporting season to this point, solid economic data, impulse progress, as well as continued monetary and fiscal policy support, are buttressing the markets. This is in spite of the short-term market dislocation at the end of January. In this environment, US equities, in particular, proved their worth as they outperformed eurozone equities by 3% over the past four weeks. However, not all market participants trust the current bull market. Implied volatility remains at elevated levels and investor sentiment fluctuates between optimism and pessimism.
- In the last four weeks, **small caps** have been the winners, with a return of around 3%, while **cyclical stocks** have only made slight gains. **Growth stocks**, on the other hand, are experiencing a new upward thrust both in Europe (+1%) and on a global level (+4%). Conversely, **Value stocks** were only able to gain slightly on a global level, with a 1% return. However, value stocks should remain supported as interest rates continue to rise. At the **sector level** in Europe, stocks from the technology sector gained the most in the last four weeks (over 5%), while utilities lost over 7%.
- Equities remain attractive, especially compared to other asset classes. Nevertheless, we have recently reduced our equity overweight somewhat, as market vulnerability has increased and investor positioning is already very pronounced. However, we anticipate further potential in risk assets over the next month thanks to: falling infection figures; foreseeable economic recovery; loose monetary and fiscal policy; high liquidity levels; and good corporate figures.
- We are maintaining a **medium equity overweight** and a **cyclical bias** for the time being. However, our next step will be to reduce risk, rather than to increase it.

### Performance and volatility of the S&P 500 Index




Source: Bloomberg, 10/02/2016 - 10/02/2021.

### Overview of equity markets (short/medium term)

| Regions | Old | New |
|---|---|---|
| US | ↗ | ↗ |
| Europe | ↗ | ↗ |
| Emerging markets | ↗ | ↗ |
| Japan | → | → |

| | | Performance in local currency | | | | |
|---|---|---|---|---|---|---|
| | As of 10/02/2021 | ytd | 1-year | 3-year | P/E | Dividend yield |
| DAX | 13,933 | +1.6% | +3.3% | +15.1% | 15.7 | 2.8% |
| SMI | 10,826 | +1.1% | +1.4% | +37.9% | 18.0 | 3.0% |
| MSCI UK | 1,827 | +1.0% | -11.1% | +0.7% | 14.5 | 4.1% |
| EURO STOXX 50 | 3,648 | +3.0% | -1.2% | +20.9% | 18.2 | 2.9% |
| STOXX EUROPE 50 | 7,517 | +2.2% | -6.5% | +17.0% | 17.0 | 3.3% |
| S&P 500 | 3,910 | +4.2% | +18.7% | +58.0% | 22.9 | 1.5% |
| MSCI Em. Markets | 1,423 | +10.2% | +34.2% | +35.1% | 16.8 | 2.2% |

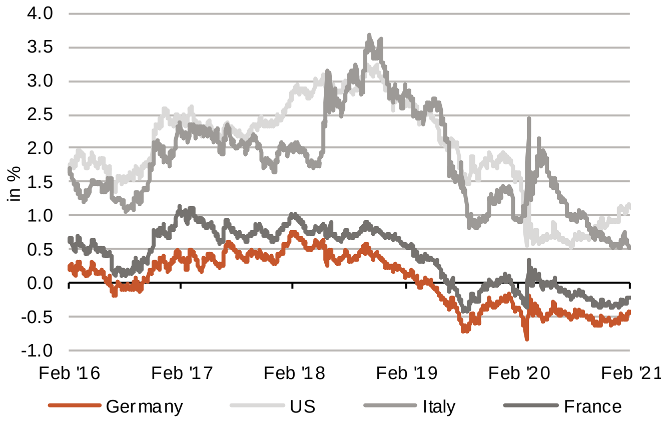
# BONDS

## Yields on the way up

**Inflation concerns are pushing up yields on European and US government bonds. This environment is likely to persist**
**Corporate bonds with inflows and falling risk premiums. EUR high-yield bonds are becoming increasingly unattractive**
**We underweight bonds and focus on credit risk and off-benchmark themes. Duration: short**

- Inflation concerns continued to put pressure on yields over the past four weeks. The reflationary trend is, therefore, continuing and is likely to persist as the economy recovers. We saw rising yields in **European government bonds,** with yields on **German, French** and **British government bonds, among others,** all rising. Italian government bonds, on the other hand, saw falling yields, thanks to hopes for a Mario Draghi government. The yield differential between German and Italian government bonds recently fell to levels last seen in 2015. However, we anticipate little potential for further spread-narrowing at the current low level.
- The yield on 10-year **US government bonds** has also risen significantly in the last four weeks, by almost 5 basis points (bp). The steepness of the US yield curve (10y-2y) has also recently jumped above the 100bp-mark.
- New issuance activity in **corporate bonds** has remained high so far in 2021, with continued inflows into the corporate bond market. While spreads for **investment-grade corporate bonds** fell only slightly, risk premiums for **USD high-yield bonds have** declined by almost 20bp and for **EUR high-yield bonds** by a good 10bp in the last four weeks. EUR high-yield bonds are increasingly unattractive at current spread levels, as we believe the spreads no longer reflect the balance-sheet health of issuers. **Emerging market bonds** also remain an attractive segment. We prefer sovereign over corporate bonds and local currency over hard currency.
- **We significantly underweight bonds.** We keep our focus on corporate and emerging market bonds, and keep the duration comparatively short.

**Yields on 10-year government bonds**




Source: Bloomberg, 10/02/2016 - 10/02/2021.

**Overview of bond markets (short/medium term)**

| Orientation | Old | New |
|---|---|---|
| Duration | Short | Short |
| Government bonds | ↘ | ↘ |
| Corporate bonds | → | → |
| High-yield bonds | ↗ | → |
| Emerging market bonds | ↗ | ↗ |

| Yields (10-year) | Old | New |
|---|---|---|
| Germany | ↗ | ↗ |
| UK | ↗ | ↗ |
| US | ↗ | ↗ |

| | | Performance in index currency | | |
|---|---|---|---|---|
| | As of 10/02/2021 | ytd | 1-year | 3-year |
| **Government bonds** (iBOXX Europe Sovereigns Eurozone) | 261.15 | -0.9% | +1.7% | +12.7% |
| **Covered bonds** (iBOXX Euro Germany Covered) | 206.67 | -0.4% | +0.3% | +5.1% |
| **Corporate bonds** (iBOXX Euro Liquid Corporates 100 Non-Financials) | 162.78 | -0.2% | +1.1% | +8.1% |
| **Financial bonds** (iBOXX Euro Liquid Corporates 100 Financials) | 161.43 | +0.0% | +1.4% | +6.7% |
| **Emerging market bonds** (Bloomberg Barclays EM USD Aggregate TR Index Unhedged) | 1,281.71 | -0.5% | +4.1% | +19.2% |
| **High-yield bonds** (Bloomberg Barclays Global High Yield Total Return Index, USD) | 1,525.08 | +0.7% | +7.4% | +17.5% |

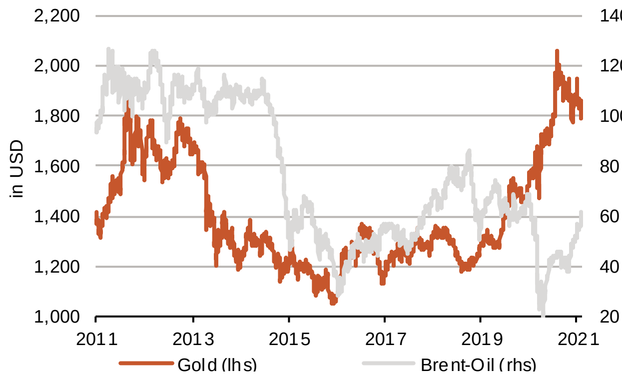
# COMMODITIES

## Crude oil soaring

**Gold continues to suffer from the risk-on environment**
**Oil market still supported thanks to supply deficit**
**Industrial metals benefit from the cyclical upswing**

- **Gold** has been in scant demand in the risk-on environment and its price temporarily fell below USD1,800 per ounce. In addition, the strong USD and rising nominal interest rates weighed on the price. However, real interest rates should remain negative in the longer term and gold should, therefore, rise again. With rising uncertainty, gold should come back into focus.
- The **price of crude oil** (Brent) continued its positive momentum and was able to crack the USD60 per-barrel mark. Falling inventories and the restrictive policy of OPEC+ drove the price up. The organisation's meeting in March is likely to be decisive. An expansion of production would slow down the oil price.
- **Industrial metals** have shown almost consistently positive returns since the beginning of the year. Although the metal market appears to be overheated in the short term, industrial metals remain well supported and should, therefore, continue to gain in the future.

### Price development




Source: Bloomberg, 01/01/2011 - 10/02/2021.

| Overview of commodities (short/medium term) | Old | New |
|---|---|---|
| Gold | ↗ | ↗ |
| Oil (Brent) | → | → |

| | | Performance | | |
|---|---|---|---|---|
| | As of 10/02/2021 | ytd | 1-year | 3-year |
| Gold USD/ounce | 1,843 | -2.9% | +17.2% | +40.0% |
| Silver USD/ounce | 27.0 | +2.4% | +52.1% | +65.1% |
| Copper USD/pound | 377.3 | +7.2% | +47.9% | +24.4% |
| Brent USD/bbl | 61.47 | +18.7% | +15.4% | -2.1% |

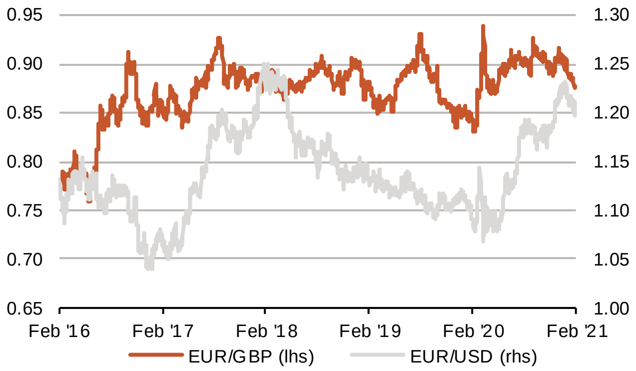
# CURRENCIES

## Euro/US dollar correction

**Euro with slight problems, US dollar stronger**
**Pound further strong after Brexit follow-on agreement**
**Swiss franc structurally strong, only minor fluctuations**

- **EUR/USD**: After reaching a high of over USD1.23 per euro, the exchange rate corrected and even briefly fell below the 1.20 mark. Difficulties in the eurozone – the sluggish vaccination start and the government crisis in Italy – helped to contribute to this. More positive news boosted the US dollar, including good US economic data and the increased likelihood of a new stimulus package. Our general picture of a higher euro/dollar exchange rate remains intact. In a positive economic environment, with good market sentiment, capital is more likely to flow from the US to emerging markets. However, a rise in the euro could be somewhat slower if Europe continues to lag behind the US economically for the time being.
- **EUR/GBP:** As expected, the pound has gained. The successful start of the UK's vaccination programme provides optimism. Meanwhile, the Bank of England remains on hold and did not change its monetary policy at the February meeting.

### Exchange rates




Source: Bloomberg, 10/02/2016 - 10/02/2021.

| Overview of currencies (short/medium term) | Old | New |
|---|---|---|
| EUR/USD \| Euro/US dollar | ↗ | ↗ |
| EUR/CHF \| Euro/Swiss franc | → | → |
| EUR/GBP \| Euro/Sterling | ↘ | ↘ |
| EUR/JPY \| Euro/Japanese yen | ↗ | ↗ |

| | | Performance | | |
|---|---|---|---|---|
| | As of 10/02/2021 | ytd | 1-year | 3-year |
| EUR/USD | 1.21 | -0.8% | +11.1% | -1.1% |
| EUR/CHF | 1.08 | -0.2% | +1.2% | -6.3% |
| EUR/GBP | 0.88 | -2.0% | +3.7% | -1.2% |
| EUR/JPY | 126.76 | +0.5% | +5.8% | -4.9% |

# IMPORTANT NOTES

## Members of the Investment Committee

Prof Dr Bernd Meyer | Chief Investment Strategist, Chairman
Dr Holger Schmieding | Chief Economist, Vice-Chairman
Matthias Born | Head Portfolio Management Equities, European Equities
Ulrich Urbahn | Head Multi Asset Strategy & Research
Oliver Brunner | Co-Head Portfolio Management Multi Asset
Ansgar Nolte | Co-Head Portfolio Management Multi Asset
Till Budelmann | US Equities
Christian Bettinger | Bonds
Christoph Mäder | Bonds
Ludwig Kemper | Commodities
Marco Höchst | Commodities
Karsten Schneider | Multi Asset Strategist, Minutes

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