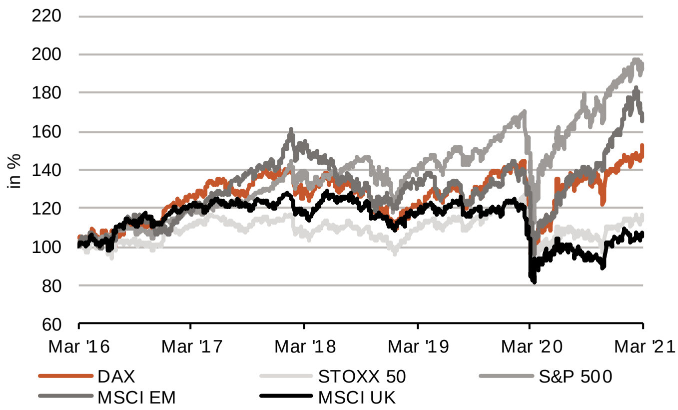
Managers of the Committee

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, 10/03/2016 - 10/03/2021.

Most important assessments at a glance

Economics	• Pandemic subsides in US and UK, cautious easing also in Eurozone despite mild third wave • Biden delivers: rapid progress on vaccines, strong fiscal stimulus, calmer trade policy are good for the world • Strong growth from spring onwards, monetary and fiscal policy very expansionary, inflation picking up
Equities	• European equities recently ahead of US counterparts as yields rise. Rapid rise in yields creates volatility • Interest rate hikes put growth stocks under pressure and the value rotation continues, but is likely to lose pace • We keep a moderate equity overweight and a more cyclical exposure for the time being. Outlook still positive
Bonds	• Sell-off in government bonds amid hesitant central banks and good economic data - especially in the US • Volatility in spreads increases slightly. EM local currency and EM corporate bonds preferred • We underweight bonds and focus on credit risk and off-benchmark themes. Duration: short
Commodities	• Gold suffered from selling pressure from investors as real rates rose and temporarily fell below USD1,700 per ounce • A restrictive OPEC+, combined with rising demand, provides strong support for the oil price • Industrial metals continue to offer potential due to structural drivers, even if much is priced in for the short term
Currencies	• EUR/USD with renewed correction. USD benefits from economic stimulus and rapid progress on vaccination • The GBP is reaping the benefits of the Brexit agreement and the rapid progress in vaccinations. The exchange rate rises • Surprising setback for the chronically strong Swiss franc: The currency falls to its lowest value since mid-2019

Current market commentary

The sell-off of government bonds and the resulting further increase in yields led to a continuation of the rotation from growth stocks ("long duration") to value stocks on the stock market. Regionally, this was particularly noticeable in the better development of European shares compared with US shares. The Dax, for example, was able to reach an all-time high, while the S&P 500 lost almost 1% and the Nasdaq 100 over 6% in the last four weeks. The high market volatility has its roots in style differentials. Value stocks, cyclical stocks and small caps were the winners of the rotation, while defensive stocks and growth companies were the losers. As inflation expectations and real/nominal interest rate trends stabilise, rotation is likely to lose tailwinds and corporate earnings performance will return to investors' focus. Although rotation is likely to see further spurts, we ultimately view it as temporary and valuation-driven. We are sticking to our style for quality and growth stocks, but are currently adding significant cyclical components. The upcoming US fiscal package, supportive central banks, high savings rates, strong equity buyback programmes, significant equity fund inflows and improving fundamentals continue to support equities over the medium term. We maintain our moderate equity overweight.

The rise in yields continued in the last four weeks due to good economic data and hesitant central banks - especially in the US. This led to slightly higher spread volatility and moderately rising spreads for corporate bonds. Emerging market bonds have recently suffered from USD strength and rising US nominal interest rates. We continue to like EM local currency and EM corporate bonds – the latter mainly for their high yield and the comparatively short duration.

Gold continued to be sold by investors and temporarily fell below USD1,700 per ounce. Crude oil, on the other hand, remains in demand.

ECONOMICS

Despite continuing pandemic risks, economic traffic lights turn green in spring 2021

Strong recovery of the global economy from spring 2021 after the mega-recession in 2020
After the easing of the lockdowns, pent-up demand from private consumers. In addition, strong fiscal stimulus in the US
Despite mild third wave of pandemic in EU, vaccination progress supports outlook

- **Limited setback in Europe:** In the US and the UK, the second wave of the pandemic is subsiding. In the Eurozone, the picture remains mixed. While the countries hit first by more contagious virus mutations, such as Spain, Portugal and Ireland, have also got the situation under control, case numbers are increasing slowly in Germany and France and somewhat faster in Italy. However, with the exception of Italy, which may have to tighten its lockdown once again, there is reason to hope that warmer and sunnier weather, as well as further vaccination progress, will allow a slow easing of the lockdowns in much of the Eurozone as well.
- **Strong upswing ahead:** Despite the current setback in Europe, there are increasing signs that the lights will turn green for the global economy in spring 2021. The early phase of a new upswing is characterised by strong growth with initially continued support from monetary and fiscal policy. This time, economic policy is pushing the economy harder than ever before. China remains robust for the time being thanks to its own credit stimuli, despite considerable long-term risks. Strong growth in key consumer countries is also positive for many emerging markets.
- **Hope for the spring:** After the first wave of the pandemic, the euro area had been able to make up almost all the losses from Q2 2020 in Q3 2020. This suggests that the economy can also recover from the current setback in spring 2021. Pent-up demand for services may spur the recovery. Unlike the usual situation after a recession, many households have built up high savings.
- **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. A new fiscal stimulus of $1.9 trillion is on the horizon for the US, followed by a large infrastructure package in the summer.
- **No need to worry about a little more inflation:** Inflation and interest rates will rise in the upswing. Special effects such as the return to a normal oil price and higher transport costs will contribute in 2021. In the summer, inflation in Germany and the US may briefly reach 3%. However, as the special effects fade out, the price climate will calm down again in 2022 with normal inflation of around 1.5% in Germany and the euro area.

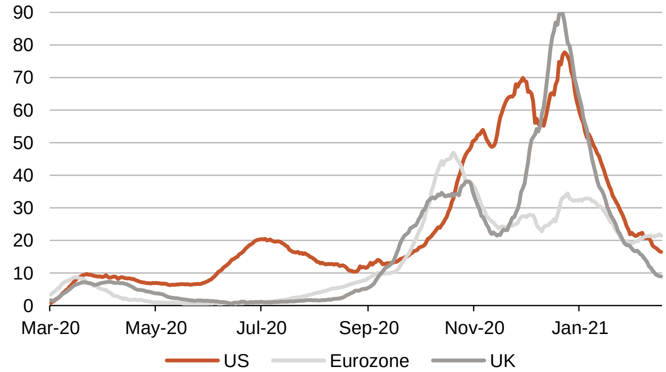
Central banks remain calm: After years of falling short of their inflation targets, the central banks will not react to the rise in inflation in the summer of 2021, which will be driven by special effects. They want to continue to support the economy and the labour market. Only when the upswing has stabilised will they reduce their bond purchases in 2022.

GDP and inflation forecasts (%)

		GDP growth			Inflation		
	%	2020	2021	2022	2020	2021	2022
World	100.0	-3.3	4.8	3.3			
US	24.5	-3.5	6.5	4.5	1.2	2.4	2.6
China	16.4	2.1	9.3	4.8	2.5	1.5	2.2
Japan	5.8	-4.9	5.0	2.0	0.0	0.0	0.6
India	3.3	-9.0	8.0	6.5			
Latin America	5.9	-8.1	4.2	3.5			
Europe	24.4	-6.4	4.3	4.0			
Eurozone	15.3	-6.8	4.4	4.4	0.3	2.0	1.5
Germany	4.4	-5.3	4.0	4.0	0.4	2.4	1.6
France	3.1	-8.2	6.4	4.0	0.5	1.5	1.4
Italy	2.3	-8.9	4.9	3.5	-0.1	1.5	1.3
Spain	1.6	-11.0	6.2	5.7	-0.3	1.0	1.2
Rest of western Europe							
UK	3.2	-9.9	6.2	5.7	1.8	0.9	2.2
Switzerland	0.8	-3.0	2.6	2.2	0.4	-8.0	0.6
Sweden	0.6	1.3	-3.0	2.1	1.8	0.7	1.3
Eastern Europe							
Russia	1.9	-3.3	2.8	2.0	3.4	3.0	3.5
Turkey	0.9	0.7	2.3	2.0	12.0	10.0	8.0

Source: Berenberg

Confirmed SARS-CoV-2 infections, per 100,000 population



Seven-day averages. Source: Johns Hopkins University, 23/03/2020 – 09/03/2021

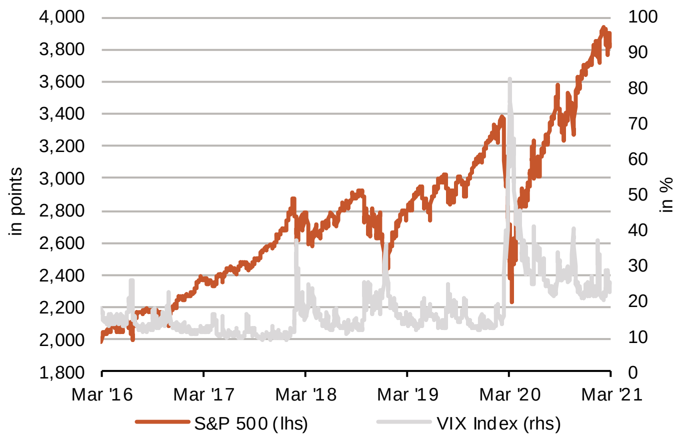
EQUITIES

Europe ahead of the US

European equities recently ahead of US counterparts as yields rise. Rapid rise in yields creates volatility
Interest rate hikes put growth stocks under pressure and the value rotation continues, but is likely to lose pace
We are maintaining a moderate equity overweight and the more cyclical orientation for the time being. Outlook still positive

- **European equities clearly outperformed US equities:** This development was mainly due to the sell-off of government bonds and thus rising interest rates. This in turn weighed on growth stocks (long duration), which are mainly found in the US. As a result, the S&P 500 lost almost 1% and the Nasdaq 100 over 6%, while the Euro Stoxx 50 gained over 3%. This style development could continue for a while, but is likely to be temporarily limited. If inflation expectations and interest rate increases stabilise, there could be a noticeable counter-movement.
- The rotation from **growth to value** over the last four weeks has been massive. Value stocks gained over 4% globally and over 6% in Europe, while growth stocks lost around 6% globally and less than 1% in Europe. European **small caps** (+3%), **large caps** (+2%) and **cyclical stocks** (+2%) also gained over the same period, while **defensive stocks** (-1%) suffered. In an environment of improving fundamentals, the latter are less in demand. At the **sector level**, value sectors such as oil & gas (+18%) and financials (+9%) were the main gainers in Europe over the past four weeks.
- The headwind from rising yields came as we expected – but much earlier and stronger than anticipated. The quota reduction that has already taken place was thus helpful. Nevertheless, we remain positive as the upcoming US fiscal package, supportive central banks, high savings rates, strong equity buyback programmes, significant equity fund inflows and improving fundamentals argue for equities despite rising bond yields.
- We are maintaining a **moderate equity overweight** and a **cyclical bias** for the time being due to our continued positive outlook.

Performance and volatility of the S&P 500 Index



Source: Bloomberg, 10/03/2016 - 10/03/2021.

Overview of equity markets (short/medium term)

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

		Performance in local currency				
	As of 10/03/2021	ytd	1-year	3-year	P/E	Dividend yield
DAX	14,540	+6.0%	+38.8%	+17.8%	16.1	2.8%
SMI	10,910	+2.6%	+22.8%	+35.1%	17.9	3.0%
MSCI UK	1,886	+5.0%	+14.8%	+2.0%	14.4	3.9%
EURO STOXX 50	3,820	+7.9%	+34.8%	+23.1%	18.8	2.8%
STOXX EUROPE 50	7,782	+5.8%	+21.3%	+18.8%	17.3	3.3%
S&P 500	3,899	+4.1%	+37.6%	+48.1%	22.6	1.5%
MSCI Em. Markets	1,325	+2.7%	+40.8%	+19.1%	15.9	2.3%

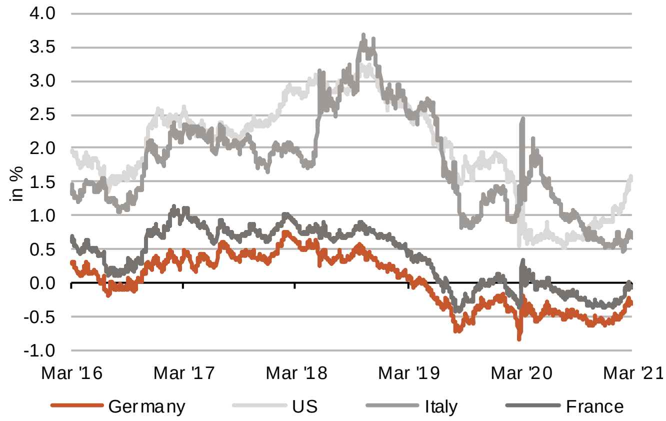
BONDS

Sell-off in government bonds

Sell-off in government bonds amid hesitant central banks and good economic data - especially in the US
Volatility in risk premiums increases slightly. EM local currency and EM corporate bonds preferred
We underweight bonds and focus on credit risk and off-benchmark themes. Duration: short

- The sell-off in government bonds continued in recent weeks, especially as central banks do not yet feel the need to react, which was also evident in Fed Chairman Powell's recent speech. In **European government bonds**, therefore **German**, **French** and **Italian** as well as **UK government bonds**, yields have risen by over 10bp in the last four weeks. Besides inflation expectations, rising real interest rates were the main driver of the movement.
- The yield on 10-year **US government bonds**, on the other hand, has risen much more strongly in the last four weeks, by around 40bp. The more positive economic news, such as the labour market report, has had an effect there. As a result, the steepness of the US yield curve (10Y-2Y) has jumped above the 140bp mark.
- Volatility has increased in the **corporate bond market** as spreads have come under pressure – albeit only slightly – in the recent market volatility. For **USD-IG corporate bonds**, risk premiums have risen by 10bp and for **USD high-yield bonds** by 17bp in the last four weeks. In contrast, there was hardly any widening of spreads for **EUR corporate bonds**. In Europe, a significant rise in interest rates is likely to become more difficult and companies are less highly indebted on average. **Emerging market bonds** have suffered from the strong USD and rising US yields. Nevertheless, we like EM local currency bonds from a cyclical perspective and EM corporate bonds due to their attractive yield and lower duration.
- **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, 10/03/2016 - 10/03/2021.

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	↗	↗

	As of 10/03/2021	Performance in index currency ytd	1-year	3-year
Government bonds (iBOXX Europe Sovereigns Eurozone)	257.85	-2.1%	-0.5%	+10.7%
Covered bonds (iBOXX Euro Germany Covered)	205.79	-0.8%	-0.8%	+4.4%
Corporate bonds (iBOXX Euro Liquid Corporates 100 Non-Financials)	161.79	-0.8%	+1.8%	+7.2%
Financial bonds (iBOXX Euro Liquid Corporates 100 Financials)	160.86	-0.3%	+2.6%	+6.1%
Emerging market bonds (Bloomberg Barclays EM USD Aggregate TR Index Unhedged)	1,243.88	-3.4%	+3.7%	+15.4%
High-yield bonds (Bloomberg Barclays Global High Yield Total Return Index, USD)	1,499.36	-1.0%	+11.6%	+14.6%

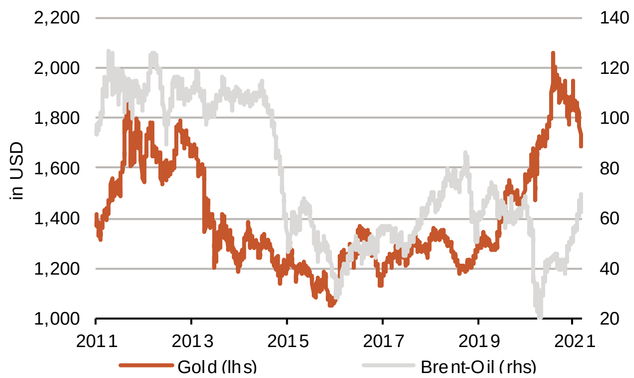
COMMODITIES

Crude oil in demand, gold spurned

Gold currently less in demand among investors
OPEC+ and US cold snap boosted oil prices
Industrial metals remain structurally interesting

- **Gold** suffered from selling pressure from ETF and speculative investors as real interest rates rose. Both groups of investors recently even made further reductions to their positions, whereupon gold temporarily fell below the USD1,700 per ounce mark. **Silver** also suffered despite its industrial character. In the medium term, however, it remains supported by the US fiscal programme and the energy transition.
- The **price of crude oil** (Brent) seems unstoppable and was able to crack the USD70 per barrel mark, at least temporarily. The restrictive OPEC+ allowed inventories to fall further and drove the price up. Fundamentally, the starting position is very good in the short term, but in the course of the year the first production expansions should come and the oil price should have reached its peak.
- **Industrial metals** have already run very far, but still offer potential due to structural demand drivers such as the energy transition with limited supply due to missed investments.

Price development



Source: Bloomberg, 01/01/2011 - 10/03/2021.

Overview of commodities (short/medium term)

	Old	New
Gold	↗	→
Oil (Brent)	→	→

	As of 10/03/2021	Performance ytd	1-year	3-year
Gold USD/ounce	1,727	-9.0%	+4.7%	+30.4%
Silver USD/ounce	26.2	-0.7%	+55.2%	+58.0%
Copper USD/pound	404.2	+14.9%	+59.5%	+29.7%
Brent USD/bbl	67.90	+31.1%	+82.4%	+3.7%

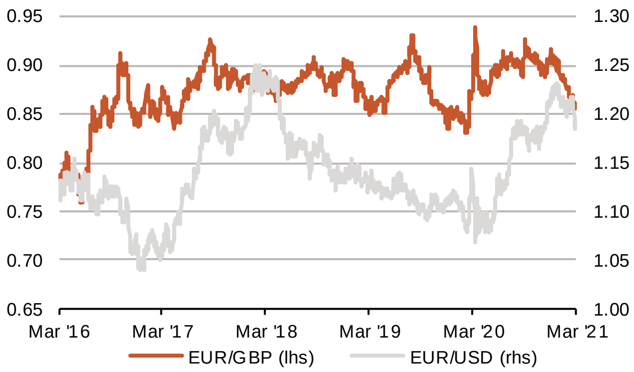
CURRENCIES

EUR/USD falls below the 1.20 mark

USD with temporary upswing
GBP is now also benefiting from rapid vaccinations
Swiss currency with unusual correction

- **EUR/USD:** The USD is benefiting against the euro from the comparatively good economic situation, the faster progress in the vaccination process (which holds out the prospect of a faster return to economic normality) and the extremely expansive monetary and fiscal policy. Nevertheless, we expect higher euro rates again in the course of the year, among other things because the higher government debt associated with fiscal policy weakens the USD.
- **EUR/GBP:** While more than 30 vaccine doses per 100 people have already been administered in the UK, figures in Germany and many other countries in the Eurozone are only in the single digits. This is another reason why the pound has risen.
- **EUR/CHF:** Since mid-February, the euro has gained around three cents and is currently trading at 1.11 francs per euro, its highest level in a good one and a half years. The Swiss currency is currently no longer so much in demand as a safe haven. There are also technical factors.

Exchange rates



Source: Bloomberg, 10/03/2016 - 10/03/2021.

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	↗	→

	As of 10/03/2021	Performance ytd	1-year	3-year
EUR/USD	1.19	-2.3%	+5.7%	-3.1%
EUR/CHF	1.11	+2.6%	+4.6%	-5.3%
EUR/GBP	0.86	-4.2%	-2.0%	-3.7%
EUR/JPY	129.29	+2.5%	+8.5%	-1.7%

IMPORTANT NOTES

Members of the Investment Committee

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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
Robert Reichle | Bonds
Daniel Fuchs | Bonds
Ludwig Kemper | Commodities
Marco Höchst | Commodities
Karsten Schneider | Multi Asset Strategist, Minutes

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