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Markets

INVESTMENT COMMITTEE MINUTES

09 April 2021

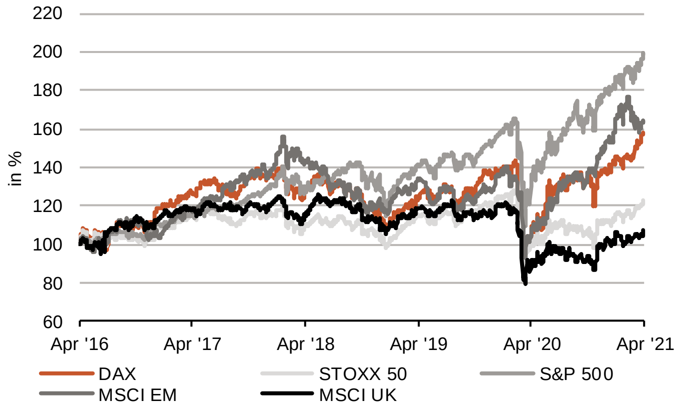
Managers of the Committee

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, 08/04/2016 - 08/04/2021.

Most important assessments at a glance

Economics	• Pandemic subsides in US and UK, third wave delays Eurozone recovery • US ahead: rapid progress in vaccination and a strong fiscal stimulus are driving growth • Inflation is on the rise, special factors are exaggerating the trend – central banks will not take countermeasures before 2022
Equities	• Markets at all-time highs; tailwinds should continue for now thanks to seasonality, momentum and the reporting season • Growth stocks ahead of value stocks due to temporary interest rate pause; technology stocks were the winners • We are maintaining our moderate overweight in equities and a more cyclical orientation; positive outlook for now
Bonds	• The rise in yields has paused but is likely to pick up speed again in the medium term; government bonds unattractive • Corporate bonds are still preferred; falling spreads have also helped investors recently • We underweight bonds and focus on credit risk and off-benchmark themes; duration short
Commodities	• Gold has stabilised above the USD1,700 per ounce mark; rising jewellery demand supports • Crude oil was unable to maintain its positive trend recently, but the demand overhang should provide a new tailwind • Industrial metals remain well supported cyclically, and above all structurally
Currencies	• EUR/USD remains below the 1.20 mark; the euro could nevertheless partially recover previous losses • Sterling benefits from impulse progress and economic reopening prospects; exchange rate potential almost exhausted • Swiss franc slightly less in demand as a refuge currency; euro remains above the 1.10 mark

Current market commentary

The equity markets recently reached new highs after vaccination successes in the US, the next massive US fiscal programme and continued loose monetary policy made investors increasingly optimistic as nothing more stands in the way of a global economic recovery. Inflation concerns, on the other hand, have eased somewhat following the latest data, with central banks remaining dovish, leading to a lack of further interest rate hikes for the time being. The rotation in the equity market took a breather. Growth stocks have thus outperformed value stocks in recent weeks. The performance differences in the other factors were also significantly smaller than in the previous months. The rotation momentum has thus decreased. In addition, market volatility has continued to fall, which is also a healthy sign and should tempt increasingly systematic investors into the market. We keep our positive view as vaccination successes are still likely in Europe, the Q1 reporting season is expected to be positive, monetary and fiscal support is unabated and April has historically been a strong month for equities. We therefore feel comfortable with our moderate equity overweight and increased cyclical bias for now. However, the market environment is likely to become more challenging in the summer.

In the bond markets, on the other hand, there is no way around corporate bonds, as government bonds remain unattractive in an environment of rising interest rates in the medium term and a significant economic recovery. Although the rise in interest rates has lost momentum in recent weeks, it should regain momentum by the end of the year as inflation rises and the economy recovers significantly. Falling spreads on corporate bonds, on the other hand, have helped investors recently.

In commodities, the gold price stabilised as jewellery demand picked up and investor selling levelled off.

ECONOMICS

Despite continuing pandemic risks in Europe, economic traffic lights jump to green

The strong recovery of the global economy has begun; US in front, Eurozone to follow from around May 2021
After the easing of the lockdowns, consumers have pent-up demand, companies want to invest, politicians support
Inflation returns with the upswing – but central banks will only slowly tighten their policies from 2022

- **Strong recovery in the US:** The pandemic has largely subsided in the US and the UK. Thanks to rapid progress in vaccination, life there is slowly returning to normal. Despite a brief setback in the unusually frosty month of February, the upswing in the US is gaining momentum. An extraordinarily expansionary fiscal policy is contributing to this. Instead of 6.5%, we now even expect 6.9% growth for the US in the current year. In the UK, the economy is also expected to recover quickly with a gradual easing of lockdowns from April.
- **Temporary setback for Eurozone:** While the countries hit first by more contagious virus mutations, such as Spain, Portugal and Ireland, have managed to control the situation through tough restrictions, similar to the UK's, case numbers in Germany, France and many neighbouring countries have risen sharply in the past two months. New and longer lockdowns in core Europe are likely to weigh heavily on the economy until at least the end of April. This postpones the recovery. But postponed is not cancelled. While we have lowered our Eurozone growth forecast for 2021 from 4.4% to 3.9%, we expect 4.9% instead of 4.4% for 2022.
- **After the pandemic, full speed ahead.** Consumers have built up additional savings during lockdowns. In the US, it is already evident that they want to spend more money again as soon as they can. Businesses want to invest more and restock as demand picks up. Monetary and fiscal policies are supporting demand in the developed world more than ever before. After the first wave of the pandemic, the Eurozone had made up almost all of its Q2 2020 losses in Q3 2020. This also speaks for a quick recovery as soon as the lockdowns can be eased.
- **China** remains robust for the time being thanks to its own credit stimulus, despite significant long-term risks. Strong growth in key consumer countries is supporting many emerging markets.
- **Don't 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 should calm down again in 2022, with normal inflation of 1.5% in Germany and the euro area.

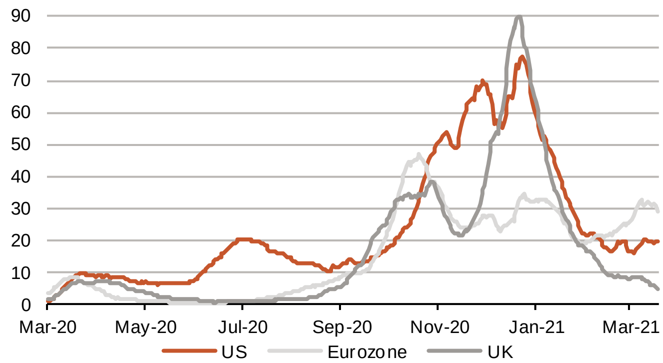
Central banks remain calm: After years of falling short of their inflation targets, central banks are unlikely to react to the rise in inflation in the spring and summer, which was driven by special effects. They want to continue to support the economy and labour markets. Only when the upswing has stabilised will they reduce bond purchases in 2022.

GDP and inflation forecasts (%)

		GDP growth			Inflation		
	%	2020	2021	2022	2020	2021	2022
World	100.0	-3.3	4.7	3.5			
US	24.5	-3.5	6.9	4.6	1.2	2.4	2.6
China	16.4	2.0	9.5	5.3	2.5	1.6	2.2
Japan	5.8	-4.9	4.8	2.0	0.0	0.1	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	4.1	4.4			
Eurozone	15.3	-6.8	3.9	4.9	0.3	2.0	1.5
Germany	4.4	-5.3	3.5	4.6	0.4	2.6	1.6
France	3.1	-8.2	4.9	5.0	0.5	1.9	1.5
Italy	2.3	-8.9	4.5	4.7	-0.1	1.3	1.3
Spain	1.6	-10.8	5.7	6.8	-0.3	1.4	1.3
Rest of western Europe							
UK	3.2	-9.8	6.2	5.6	0.9	1.6	2.2
Switzerland	0.8	-3.0	2.6	2.2	-0.8	0.4	0.6
Sweden	0.6	-3.0	2.9	2.1	0.7	1.7	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 – 06/04/2021

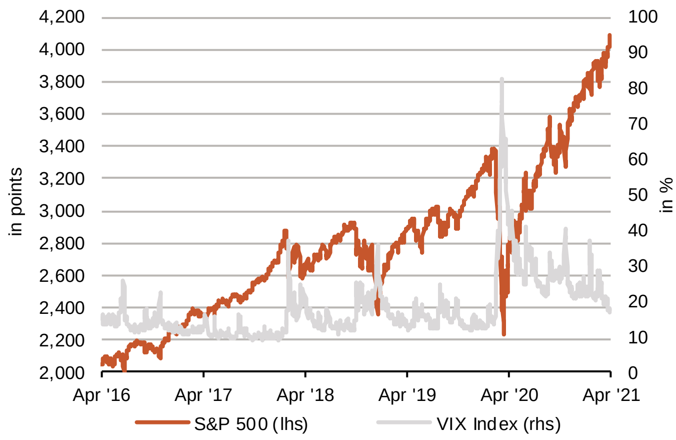
EQUITIES

Tailwind continues for the time being

Markets at all-time highs; tailwinds should continue for now thanks to seasonality, momentum and the reporting season
Growth stocks ahead of value stocks due to temporary interest rate pause; technology stocks were the winners
We are maintaining our moderate overweight in equities and a more cyclical orientation; positive outlook for the time being

- **The global stock market was able to break out of the sideways channel at the beginning of April and reached new highs.** In the last four weeks, the S&P 500 gained more than 4% and the Euro Stoxx 50 more than 3%. The markets were driven by the strong recovery of the US economy and the successes of the US vaccines, the massive US fiscal programmes and the announcement by the ECB and the Fed that they would continue to pursue an expansive monetary policy. Technology stocks were the winners, while sectors that had been strong since the beginning of the year, such as energy and financials, were among the losers.
- With the temporary absence of a further rise in interest rates, the rotation from **growth** to **value has** also come to a standstill for the time being. In the past four weeks, growth shares were even able to regain ground. On a global level, they gained more than 4%, while value stocks gained around 3%. In Europe, both **small caps** and **large caps** gained around 3%. **Cyclical stocks** (+2%) have performed similarly to **defensive stocks** (+1%). Thus, there has been less pronounced factor dispersion recently. We also expect a less pronounced rotation in the coming months. At the European **sector level,** technology (+12%), utilities (+9%) and consumer goods (+6%) were the most recent gainers, while energy stocks (-6%) lost ground.
- Looking ahead, we remain positive for the time being as, in addition to the positive seasonality in April, the Q1 reporting season, continued strong economic data and positive momentum should provide further tailwind to the markets. The situation is likely to become more difficult from summer onwards, as many positive factors are likely to lose traction.
- 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, 08/04/2016 - 08/04/2021.

Overview of equity markets (short/medium term)

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

		Performance in local currency				
	As of 08/04/2021	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%

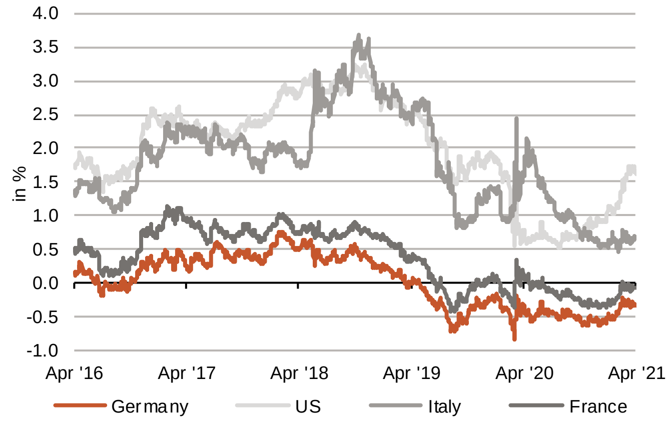
BONDS

Corporate bonds are still preferred

The rise in yields has paused but is likely to pick up speed again in the medium term; government bonds unattractive
Corporate bonds are still preferred; falling risk premiums have also helped investors recently
We underweight bonds and focus on credit risk and off-benchmark themes; duration short

- The rise in yields on safe-haven government bonds has taken a breather in Europe over the last four weeks. The reason for this, apart from the reconfirmed dovish central bank policy, was the sluggish economic recovery due to high infection figures. In the case of **European government bonds**, interest rates have only risen significantly in the **UK** in the past four weeks, while a sideways movement was observed in most other countries.
- The yield on 10-year **US government bonds**, on the other hand, has risen further by around 10bp in the past four weeks. The more positive economic news, such as the recent strong labour market report or the strong ISM-Index and the possible next massive fiscal programme, have had an effect. The steepness of the US yield curve (10y-2y) remains close to the 150bp mark.
- On the bond market, there is currently no way around corporate bonds. In an environment of rising yields, the spreads help to at least somewhat offset the rise in interest rates in a positive economic environment. Investors have also been able to profit from this recently. For **USD-IG corporate bonds**, spreads have fallen by 10bp and for **USD high-yield bonds** by 38bp in the past four weeks. Spreads on **EUR corporate bonds** have narrowed somewhat. We currently prefer high-yield bonds, which continue to have clearly positive spreads. In **emerging market bonds**, we particularly like EM local currency bonds from a cyclical point of view and EM corporate bonds due to attractive yields 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, 08/04/2016 - 08/04/2021.

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 08/04/2021	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%

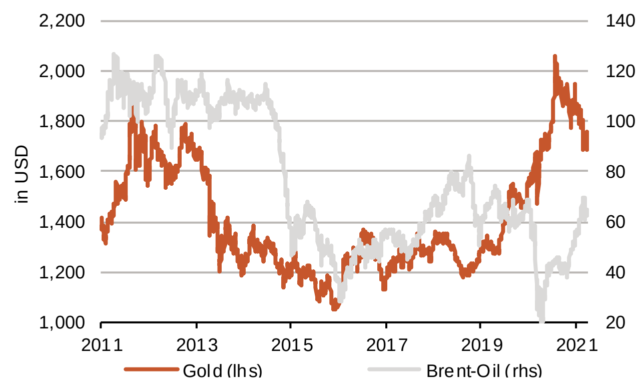
COMMODITIES

Gold price stabilises

Gold price stable thanks to high jewellery demand
Excess demand should support the oil price
Industrial metals remain supported by the economy

- In recent weeks, the **gold price** has stabilised above USD1,700 per ounce. This was helped by rising jewellery demand, especially from China. In addition, investors have recently sold less gold. The sell-off in gold should thus have come to an end, although rising interest rates will remain the biggest burden. Higher inflation data and a falling USD, on the other hand, could provide tailwind.
- The **price of crude oil** (Brent) could not hold above the USD70 per barrel mark and fell to slightly above USD60 per barrel. The reasons were demand concerns in Asia and renewed lockdowns in Europe. However, the market should remain in demand overhang thanks to rapid import progress in the US and controlled production expansions on the part of OPEC+, which is why we expect the oil price to rise again in the short to medium term.
- **Industrial metals** remain supported in the positive economic environment.

Price development



Source: Bloomberg, 01/01/2011 - 08/04/2021.

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

	As of 08/04/2021	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%

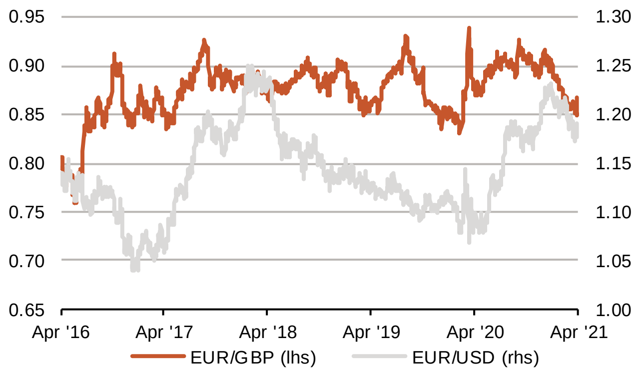
CURRENCIES

Euro/US dollar remains below 1.20

The USD remains strong, but the euro is fighting back
The pound has largely exhausted its potential
The Swiss currency remains strong despite a setback

- **EUR/USD**: The dollar's surge pushed the euro down to 1.17 at the end of March. Since then, the European single currency has gained around two cents, but even at the current exchange rate of USD1.19 per euro, the US currency is still unexpectedly strong. The dollar is likely to weaken as the year progresses: We expect the euro exchange rate to rise towards USD1.25 per euro.
- **EUR/GBP:** Progress in inoculating the UK population and the associated prospect of a return to economic and social normality have supported the rise in the sterling exchange rate. At 0.86 EUR/GBP, however, the potential is almost exhausted.
- **EUR/CHF:** The euro could not quite maintain the February/March rise of around three cents, but it continues to trade above the EUR1.10 /CHF mark. From the perspective of the Swiss National Bank, the CHF is thus still highly valued.

Exchange rates



Source: Bloomberg, 08/04/2016 - 08/04/2021.

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 08/04/2021	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

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
Marco Höchst | Equities
Felix Stern | Bonds
Christoph Mäder | Bonds
Ludwig Kemper | Commodities
Karsten Schneider | Multi Asset Strategist, Minutes

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