BERENBERG
Markets

INVESTMENT COMMITTEE MINUTES

14 March 2024

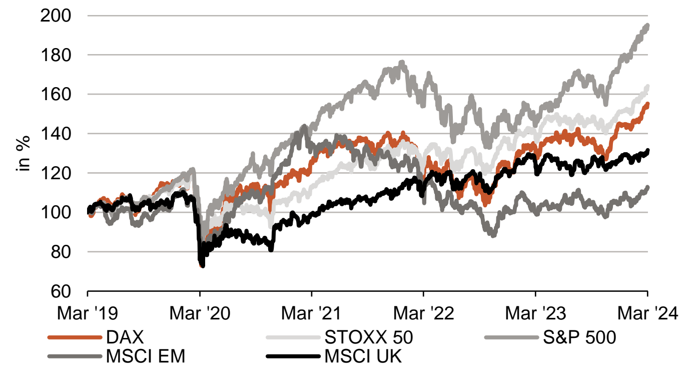
Managers of the Committee

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, 13/03/2019 - 13/03/2024.

Most important assessments at a glance

Economics	• Very soft landing for the US economy. China's growth stabilises at a comparatively low level. • Europe: inventory correction in industry ends at the beginning of 2024, upturn from spring. • Central banks exercise caution with interest rate turnaround: Fed, ECB and BoE will probably wait until June.
Equities	• Equity markets have continued their strength since the start of the year. US and European equities roughly on a par. • Bubble comparisons in the US too exaggerated. Further valuation expansion in the US nevertheless limited. • We are sticking to our balanced positioning. Small caps and broad US equity market attractive once the economy recovers.
Bonds	• Interest rate cut expectations for the Fed and ECB almost halved since the start of the year in the face of stubborn inflation. • Increased interest rate volatility on both sides of the Atlantic continues to argue for duration close to neutral. • High yield valuation unattractive, IG fundamentally and technically well supported. EM local currency bonds favoured.
Commodities	• Gold at new highs. Structural buyers, Fed turnaround and low positioning support gold in the medium term. • Crude oil continues to move sideways. Supply and demand are likely to balance out in the medium term and limit upside potential. • Brightening economic expectations and supply concerns supported industrial metals across the board.
Currencies	• Since February, the euro has made up some ground against the dollar and franc. • Further upside potential against the strong dollar if the euro economy recovers as expected in the spring. • Future trends dependent on interest rate policy – the ECB has signalled that it does not intend to cut rates before June.

Current market commentary

The last few weeks have seen an "everything" rally. After a strong start to the year, equity markets are continuing their bull run. Strong economic data, a solid earnings season, positive earnings reports and share buyback programmes are supporting equity prices. In addition, the decline in equity and bond volatility and the lower correlation between the two asset classes has boosted risk parity strategies in particular. Although the fundamental picture appears more robust, optimism is already widely reflected in investor sentiment, high positioning and stretched equity valuations. Accordingly, we see limited potential for further valuation expansion in the US. Instead, we see opportunities in the recovery of US market breadth and in European small cap stocks, which are likely to benefit from an economic recovery.

On the bond markets, the robust US labour market and surprisingly strong inflation data have led to a receding of strong expectations of interest rate cuts. At the same time, more hawkish comments from central bankers weighed on safe-haven government bonds. Yield curves flattened as the rise in rates at the short end was much stronger than at the middle and long ends. In the case of safe bonds, we continue to favour covered bonds and their European counterparts over government bonds due to the attractive additional yield. In Europe, we favour corporate bonds from the financial sector and avoid cyclical sectors. In emerging markets, we continue to favour the local currency segment. In the hard currency segment, we favour government bonds over IG corporate bonds due to their higher yields and longer duration.

Gold has climbed to new all-time highs thanks to central bank and Chinese retail buying and technical factors. Other commodities such as oil and copper have also risen since the beginning of the year, supported by positive economic indicators.

ECONOMICS

USA lands softly, Europe emerges from stagnation

Very soft landing for the US economy. China's growth stabilises at a comparatively low level.
Europe: inventory correction in industry slowly coming to an end in 2024, consumption-driven upturn from spring.
Central banks exercise caution with interest rate turnaround: Fed, ECB and BoE will probably wait until June.

- **A soft landing for the US economy:** Although the US Federal Reserve has slammed on the brakes, the US economy continues to perform better than expected. Even interest rate-sensitive residential construction is slowly emerging from the trough. Since, unlike in previous cycles, companies do not have to correct overcapacity, they have not yet cut back on their investments despite high interest rates. With the labour market remaining robust, private consumers' propensity to spend is unbroken. The expansive fiscal policy is supporting demand. Overall, it appears to be heading for a very soft economic landing. GDP expansion rates may even rise again from the end of 2024. Despite remaining risks, we now expect GDP to grow by 2.4% in 2024 instead of 1.8%.
- **Stagnation in Europe:** After the end of the pandemic-related supply bottlenecks, many companies had built up their stocks too much. In view of unexpectedly weak global trade in 2023, they have been reducing their stocks again since May. As a result, they are producing less than they are selling. The recession in industry and residential construction is also weighing on consumer sentiment and demand. Overall, the euro economy has recently stagnated.
- **New upswing in spring:** However, there are increasing signs that the industry has bottomed out. Companies are gradually shedding their pessimism. This suggests that the inventory correction will soon come to an end. Consumer purchasing power has been increasing again since spring 2023 due to rising wages and falling inflation. If the news situation improves, they will probably spend more again in the coming months and thus give the economy some momentum.
- **China weak:** China's long-term problems (demographics, state control, credit overhang) are becoming increasingly apparent. However, China can and wants to prevent the correction on the property market from triggering a major financial crisis. The data suggests that the situation is stabilising.
- **Inflation declining:** Despite the turmoil in the Middle East, inflation in the US and Europe has continued to fall so far, although only very slowly in the US. We expect inflation in the eurozone to be around 2% in the summer, while in the USA it is likely to be 2.5% or slightly higher. However, inflationary pressure may also increase again in Europe in 2025 if companies are able to pass on rising labour costs to consumers when the economy improves.

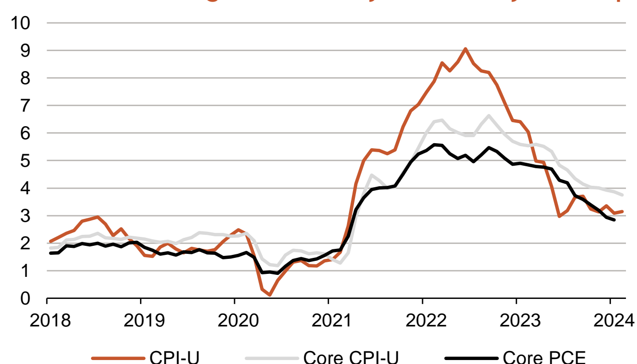
Interest rate turnaround from June: We expect the US Fed to cut its key interest rate from June, from 5.5% to probably 4.5% at the end of 2024 and 4.0% in 2025. However, if inflation remains somewhat excessive, the Fed could cut its rates less rather than more. The ECB will probably wait until June before starting to cut its deposit rate from 4.0% to 3.0% at the beginning of 2025.

GDP and inflation forecasts (%)

		GDP growth			Inflation		
	Share	2023	2024	2025	2023	2024	2025
World	100.0	3.0	2.3	2.5			
US	24.2	2.5	2.4	1.7	4.1	2.7	2.4
China	18.4	5.1	4.3	3.8	0.2	0.7	2.0
Japan	5.2	1.9	0.5	1.1	3.3	2.0	1.9
India	3.3	6.0	6.5	6.0			
Latin America	5.2	2.0	2.2	2.5			
Europe	26.4	1.1	0.7	1.7			
Eurozone	15.2	0.5	0.7	1.6	5.4	2.4	2.3
Germany	4.4	-0.1	0.1	1.4	6.0	2.2	2.2
France	3.1	0.9	0.7	1.7	5.7	2.6	2.4
Italy	2.2	1.0	0.8	1.3	5.9	1.6	2.1
Spain	1.5	2.5	1.9	2.1	3.4	2.7	2.4
Other Western Europe							
United Kingdom	3.2	0.1	0.4	1.6	7.3	2.4	2.0
Switzerland	0.8	0.8	1.2	1.5	2.2	1.5	1.4
Sweden	0.7	-0.4	0.3	2.0	8.5	3.0	2.3
Eastern Europe							
Russia	1.9	2.8	1.5	1.0	6.0	7.0	6.0
Turkey	0.8	4.0	2.6	3.0	54.0	50.0	30.0

Source: Berenberg

US inflation is falling - but recently more slowly than hoped



In % compared to the same month of the previous year. CPI: urban consumer price index. Core rate: excluding food and energy. Deflator of personal consumption expenditure. Sources: BEA, BLS

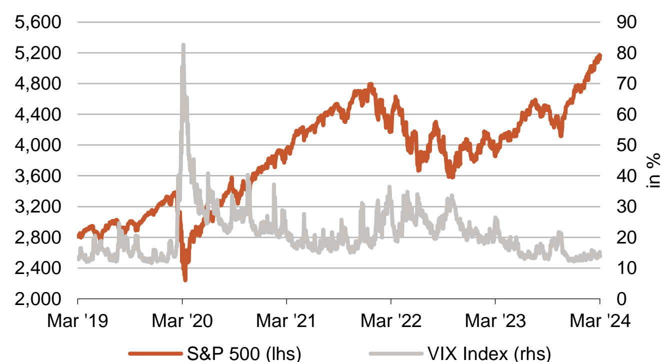
EQUITIES

Market breadth likely to increase

Equity markets have continued their strength since the start of the year. US and European equities roughly on a par. Bubble comparisons in the US too exaggerated. Further valuation expansion in the US nevertheless limited. We are sticking to our balanced positioning. Small caps and broad US equity market attractive once the economy recovers

- Over the last four weeks, **equity markets** have continued their bullish trend since the start of the year. Robust economic data, easing financial conditions and a solid reporting season gave prices a tailwind. European and US equities rose in roughly equal measure, while Latin American equities brought up the rear due to a mixed reporting season for the fourth quarter.
- At sector level, performance in Europe has been broad-based over the last four weeks. **Financial** and **basic materials stocks** led the way. **Healthcare** and **industrial stocks** as well as **cyclical consumer goods** and **technology stocks** also rose. Only **telecoms** and **consumer staples** lagged behind. At the style level, **growth** and **value stocks** have balanced each other out in Europe over the last four weeks. In Europe, **large caps** also performed better than **small caps**.
- In the US, the strong performance of AI profiteers has led to comparisons with previous stock market bubbles. However, we believe these are overdone. While we agree that recent moves have been euphoric, the current valuation levels of the ten largest stocks in the S&P 500 are well below those of previous bubbles, and earnings revisions remain positive. Nevertheless, further valuation expansion in the US is likely to be limited. This is because the recent bull market was strongly driven by valuations, fuelled by share buyback programmes, fund inflows into the US technology sector and also risk parity strategies that were driven into the equity market. Given the high positioning of non-fundamental investors, the potential for a major valuation expansion is limited. Instead, we see opportunities for the broad US equity market and European small caps, which are likely to benefit from an economic recovery.

Performance and volatility of the S&P 500 Index



Source: Bloomberg, 13/03/2019 - 13/03/2024.

Overview of equity markets (short/medium term)

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

		Total return in local currency				
	As of 13/03/2024	ytd	1-year	3-year	P/E	Dividend yield
DAX	17,961	+7.2%	+20.1%	+23.9%	12.9	3.2%
SMI	3,728	+5.7%	+11.0%	+11.7%	19.3	3.1%
MSCI UK	2,230	+1.6%	+7.1%	+32.3%	11.5	4.1%
EURO STOXX 50	5,001	+10.9%	+26.2%	+43.3%	14.2	3.2%
STOXX EUROPE 50	11,331	+8.1%	+19.8%	+45.9%	15.1	3.3%
S&P 500	9,735	+8.5%	+35.5%	+35.3%	21.5	1.5%
MSCI Em. Markets	1,047	+2.5%	+12.2%	-15.4%	14.5	3.0%

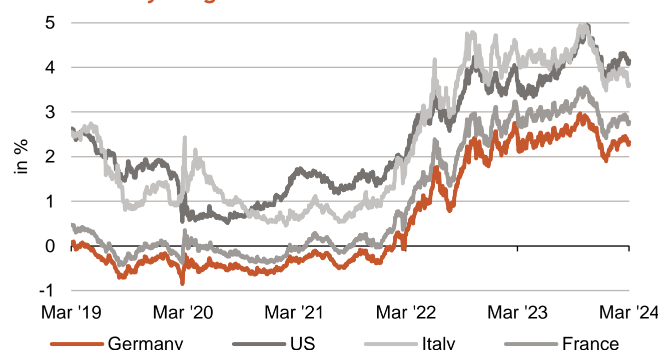
FIXED INCOME

Stubborn inflation and more hawkish central bankers support yields

Interest rate cut expectations for the Fed and ECB almost halved since the start of the year in the face of stubborn inflation. Increased interest rate volatility on both sides of the Atlantic continues to argue for duration close to neutral. High yield valuation unattractive, IG fundamentally and technically well supported. EM local currency bonds favoured.

- Since the beginning of the year, the robust labour market in the US and persistent inflation risks on both sides of the Atlantic have dampened markets' expectations of sharp interest rate cuts in the near future. More hawkish statements by central bankers on both sides of the Atlantic have weighed on **safe government bonds** since the end of January. The yield curves flattened due to the significantly stronger rise in interest rates at the short end than at the medium and long end. As a result, the yield on **10-year government bonds** in the **USA** was 4.2% and 2.4% in **Germany**. Better-than-expected economic data and the low level of planned new issues compared to the European core countries, coupled with robust demand, provided a tailwind for government bonds from the peripheral countries – the **BTP-Bund spread** narrowed further to around 120 bp.
- **Corporate bonds** have once again benefited from the further narrowing of spreads since the end of January. In a long-term comparison, the relative valuation of the **IG segment**, combined with solid balance sheets and generous liquidity reserves of most issuers, remains more attractive than the risk premiums in the **HY segment**. The IG segment is also supported by historically high inflows of funds. A shortage of new issues and narrowing spreads also supported **emerging market bonds**.
- In the case of safe bonds, we continue to favour **covered bonds** over government bonds due to the attractive additional yield. In Europe, we favour corporate bonds from the financial sector and avoid cyclical sectors. In **emerging markets**, we continue to favour the local currency segment. In the hard currency segment, we favour government bonds over IG corporate bonds due to their higher yields and longer duration. Due to the high interest rate volatility, we continue to favour neutral duration at the overall bond level.

Yields on 10-year government bonds



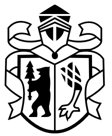
Source: Bloomberg, 13/03/2019 - 13/03/2024.

Overview of bond markets (medium term)

Orientation	Old	New
Duration	Neutral	Neutral
Government bonds	→	→
Corporate bonds	↗	↗
High-yield bonds	→	→
Emerging market bonds	↗	↗

Yields (10-year)	Old	New
Germany	→	→
UK	→	→
US	→	→

	As of 13/03/2024	Performance in index currency ytd	1-year	3-year
Government bonds (iBOXX Europe Sovereigns Eurozone)	220.49	-0.8%	+3.8%	-14.5%
Covered bonds (iBOXX Euro Germany Covered)	184.60	-0.8%	+3.5%	-10.2%
Corporate bonds (iBOXX Euro Liquid Corporates 100 Non-Financials)	146.13	-1.0%	+5.3%	-9.6%
Financial bonds (iBOXX Euro Liquid Corporates 100 Financials)	155.61	+0.5%	+7.9%	-3.3%
Emerging market bonds (J.P. Morgan EMBI Global Diversified unhedged Return EUR)	578.90	+2.1%	+8.8%	+3.5%
High-yield bonds (ICE BofA Global High Yield Index)	453.70	+1.5%	+12.9%	+1.2%



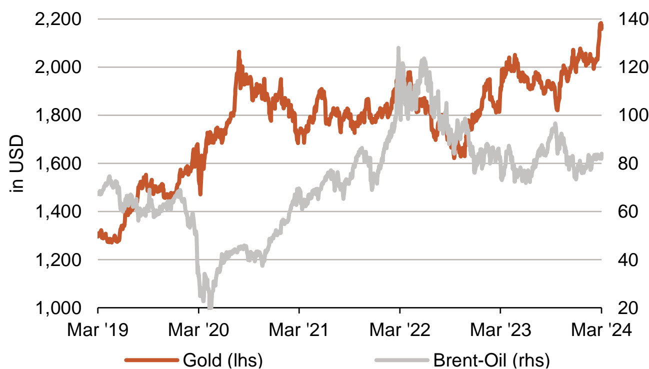
COMMODITIES

Hope for economic recovery

Gold reached new historic highs.
Crude oil caught between supply and demand.
Metals supported by improved economic expectations.

- **Gold** reached new highs in March despite little fundamental momentum. The rally is likely to be primarily due to strong physical demand from central banks and China, as well as technical factors. In the medium term, structural buyers, the Fed's turnaround, low positioning and geopolitical tensions should continue to support gold after a possible normalisation.
- **Crude oil** recently maintained its sideways movement above the USD 80 per barrel mark. The extension of the OPEC cuts was also unable to boost prices, as there are doubts as to whether the cuts will actually be implemented. In the medium term, supply and demand are likely to balance out and the oil price will continue to trend sideways.
- **Industrial metals** have recently benefited from more optimistic economic expectations. Copper remains attractive due to the supply deficit and rising green demand. However, the highly cyclical metals require a broad economic recovery for sustained upside potential.

Price development



Source: Bloomberg, 13/03/2019 - 13/03/2024.

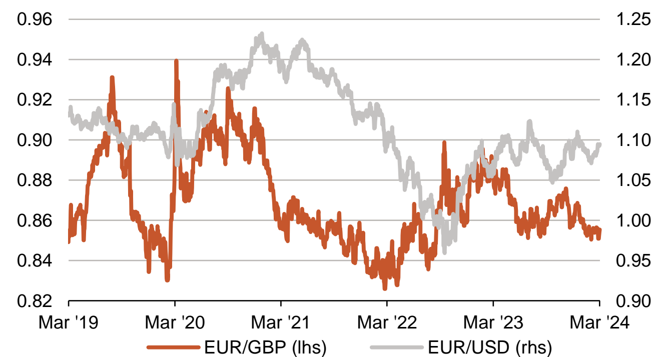
CURRENCIES

Euro catches up somewhat against the strong dollar

Further upside potential for the euro against the dollar if the eurozone recovers from spring onwards.
Central banks remain in the spotlight.

- **Economic tailwind for the euro:** The US economy has been more dynamic than other economic areas in recent years, which has also helped the dollar. If the eurozone can emerge from its stagnation from the spring, as we expect, there is some upside potential for the euro. It could rise slightly to 1.12 dollars by the end of the year. However, this would not yet be a real high for the euro. Geopolitical uncertainties in the wake of the US election (trade wars, no US aid for Ukraine) could pose a risk for the euro.
- **ECB takes a stand:** ECB President Christine Lagarde recently signalled very clearly that the bank intends to wait until June before cutting rates. We expect the ECB, the US Fed and the Bank of England to start their rate cuts close to each other. The exact sequence of the first cuts could cause short-term volatility in the currency markets. In the long run, however, it should be insignificant.

Exchange rates



Source: Bloomberg, 13/03/2019 - 13/03/2024.

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

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 13/03/2024	Performance ytd	1-year	3-year
Gold USD/ounce	2,174	+5.4%	+13.6%	+25.9%
Silver USD/ounce	25.0	+5.1%	+14.7%	-3.5%
Copper USD/pound	405.3	+4.2%	-0.4%	-2.2%
Brent USD/bbl	84.03	+9.1%	+4.0%	+21.4%

	As of 13/03/2024	Performance ytd	1-year	3-year
EUR/USD	1.09	-0.8%	+2.0%	-8.4%
EUR/CHF	0.96	+3.6%	-1.7%	-13.4%
EUR/GBP	0.86	-1.3%	-2.9%	-0.4%
EUR/JPY	161.77	+3.9%	+13.2%	+24.2%

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
Ulrich Urbahn | Head Multi Asset Strategy & Research
Oliver Brunner | Co-Head Portfolio Management Multi Asset
Ansgar Nolte | Co-Head Portfolio Management Multi Asset
Marco Höchst | Equities
Christian Bettinger | Fixed Income
Philina Kuhzarani | Commodities, Minutes
Dr Konstantin Ignatov | Minutes
Katharina Finken | Minutes

Disclaimer

This information is a marketing communication. This information and references to issuers, financial instruments or financial products do not constitute an investment strategy recommendation pursuant to Article 3 (1) No. 34 Regulation (EU) No 596/2014 on market abuse (market abuse regulation) nor an investment recommendations pursuant to Article 3 (1) No. 35 Regulation (EU) No 596/2014, both provisions in connection with section 85 (1) of the German Securities Trading Act (WpHG). As a marketing communication this document does not meet all legal requirements to warrant the objectivity of investment recommendations and investment strategy recommendations and is not subject to the ban on trading prior to the publication of investment recommendations and investment strategy recommendations. This document is intended to give you an opportunity to form your own view of an investment. However, it does not replace a legal, tax or individual financial advice. Your investment objectives and your personal and financial circumstances were not taken into account. We therefore expressly point out that this information does not constitute individual investment advice. Any products or securities described may not be available for purchase in all countries or only in certain investor categories. This information may only be distributed within the framework of applicable law and in particular not to citizens of the USA or persons resident in the USA. The statements made herein have not been audited by any external party, particularly not by an independent auditing firm. Any future returns on fund investments may be subject to taxation, which depends on the personal situation of the investor and may change in the future. Returns on investments in foreign currencies may increase or decrease due to currency fluctuations. The purchase, holding, conversion or sale of a financial instrument, as well as the use or termination of an investment service, may give rise to costs that affect the expected income. In the case of investment funds, you should always make an investment decision on the basis of the sales documents (key investor document, presentation of past performance, sales prospectus, current annual, if applicable, semi- annual report), which contain detailed information on the opportunities and risks of the relevant fund. In the case of securities for which a securities prospectus is available, investment decisions should always be made on the basis of the securities prospectus, which contains detailed information on the opportunities and risks of this financial instrument, otherwise at least on the basis of the product information document. An investment decision should be based on all characteristics of the fund and not just on the sustainability-related aspects . All the aforementioned documents can be obtained from Joh. Berenberg, Gossler & Co. KG (Berenberg), Neuer Jungfernstieg 20, 20354 Hamburg, Germany, free of charge. The fund sales documents and the product information sheets for other securities are available via a download portal using the password »berenberg« at the Internet address https://docman.vwd.com/portal/berenberg/index.html. The sales documents of the funds can also be requested from the respective investment management company. We will be pleased to provide you with the specific address details upon request. A fund investment involves the purchase of shares in an investment fund, but not a specific underlying asset (e.g. shares in a company) held by that fund. The statements contained in this document are based either on own company sources or on publicly accessible third-party sources, and reflect the status of information as of the date of preparation of the presentation stated below. Subsequent changes cannot be taken into account in this document. The information given can become incorrect due to the passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. For important disclosures and information on index- and market data, see https://www.berenberg.de/en/legal-notice/license-notice/. Past performance, simulations and forecasts are not a reliable indicator of future performance. Please refer to the online glossary at www.berenberg.de/glossar for definitions of the technical terms used in this document. Date 14.03.2024

Joh. Berenberg, Gossler & Co. KG
Neuer Jungfernstieg 20
20354 Hamburg
Telephone +49 40 350 60-0
www.berenberg.de
MultiAssetStrategyResearch@berenberg.de