INVESTMENT COMMITTEE MINUTES

25 April 2024

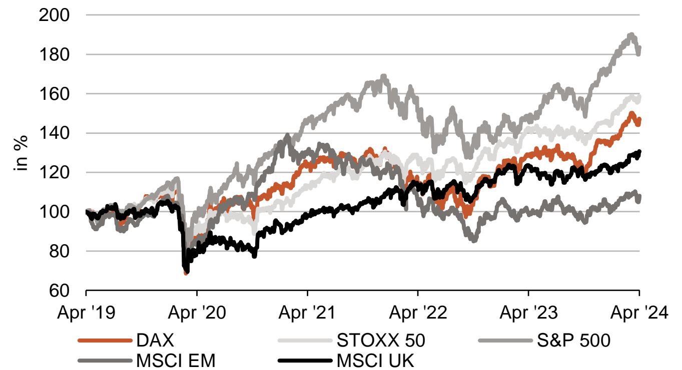
Managers of the Committee

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, 24/04/2019 - 24/04/2024.

Most important assessments at a glance

Economics	• US economy remains robust. China's growth stabilizes at a comparatively low level. • Europe: economy slowly regaining momentum, consumption-supported upturn from the summer. • ECB moves ahead with interest rate cuts from June, Fed expected to follow at the end of the year.
Equities	• The stock markets have recently corrected slightly. US equities have fallen more sharply than their European counterparts. • We have used the recent weakness to neutralize our equity allocation and reduced our US underweight. • Until the US elections, we expect a volatile sideways movement with limited upside potential.
Bonds	• Interest rate cut expectations for the Fed further reduced in view of stubborn inflation data in the US. • Increased rate volatility and inverse rate structures on both sides of the Atlantic continue to favour duration close to neutral. • Idiosyncratic stress in HY, IG fundamentally and technically well supported. EM local currency bonds favoured.
Commodities	• Gold defies higher real interest rates, a firm dollar and ETF outflows. Hot in the short term, but still an important hedge. • Crude oil in a sideways trend without geopolitical escalation. Supply and demand currently appear to be in balance. • Industrial metals benefit from recovery in the manufacturing sector and ban on Russian metal. Overheated in the short term.
Currencies	• The robust US economy and the later start of the US interest rate turnaround are giving the US dollar a tailwind. • However, these factors are now largely priced in, so further upside potential appears limited. • We expect the exchange rate to tend to move sideways until the end of the year.

Current market commentary

After a strong start to the year, the stock markets appear to be running out of steam for the time being. Last week, the S&P 500 closed in the red for the third week in a row, while European equities proved to be more robust. The still high positioning continues to make the markets vulnerable, especially as the previously moderate realised volatility could increase as days with lower volatility fall out of the observation period. However, the high VIX option demand (currently at its highest level since the "Volmageddon" event in spring 2018) and the increased put skew in the S&P 500 show an increased demand for hedging. In addition to the brightening economic situation, the ongoing reporting season is likely to set the direction in the coming weeks. We have used the recent weakness to neutralise our underweight in equities and reduce our underweight in US equities. Until the US elections, we expect a volatile sideways movement with limited upside potential.

In bond markets, yields rose on the back of more persistent inflation data in March and the resulting repricing of rate cut expectations. After the sharp rise in interest rates this year, bonds look more attractive to us. We therefore maintain a very balanced position in our multi-asset strategies. Within safe bonds, we continue to favour covered bonds over government bonds due to the attractive yield pick-up. In Europe, we favour financials and avoid cyclical sectors. In emerging markets, we continue to favour the local currency segment.

The last few weeks have been a good time for commodities. Gold reached new all-time highs, driven by purchases by central banks and Chinese private investors, defying the strong US dollar and real interest rates. Crude oil and industrial metals received a tailwind from the tense geopolitical situation and the improving economy.

ECONOMICS

USA lands softly, Europe emerges from stagnation

US economy remains robust. China's growth stabilizes at a comparatively low level.
Europe: economy slowly regaining momentum, consumption-supported upturn from the summer.
ECB moves ahead with interest rate cuts from June, Fed expected to follow at the end of the year.

- **US economy remains robust:** 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 labor market remaining robust, private consumers' propensity to spend is unbroken. The expansive fiscal policy is supporting demand through extensive subsidies for private investment and a rapid increase in government spending. After a strong first quarter, US growth is expected to approach the trend rate of 2% from above over the course of the year. For 2024 as a whole, we expect a solid GDP increase of 2.7%.
- **Waiting for the upturn:** The eurozone economy is slowly regaining momentum after near-stagnation in 2023. In view of unexpectedly weak global trade in 2023, many companies are once again reducing their inventories by producing less than they sell. However, this correction is now largely complete in the global manufacturing sector. In addition, consumer purchasing power has been increasing again since spring 2023 due to rising wages and falling inflation. This could stimulate demand for services in particular. We expect the economy in the eurozone to slowly pick up from the spring. GDP growth could reach 0.7% for 2024 as a whole and accelerate to 1.6% in the coming year.
- **China structurally 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 real estate market from triggering a major financial crisis. The situation is slowly stabilizing. Foreign trade is slowly picking up again. Unlike in 2023, China is unlikely to weigh on the global economy in 2024.
- **A mixed picture for inflation:** In the US, the inflation rate has stabilized at around 3% since the end of 2023. In view of the robust economy, price pressure in the USA is not decreasing any further. In the eurozone, on the other hand, inflation may fall to 2% or slightly lower in the fall as gas and electricity prices fall. From mid-2025, however, inflationary pressure is also likely to increase again in Europe if companies are able to pass on rising wage costs to consumers when the economy improves.

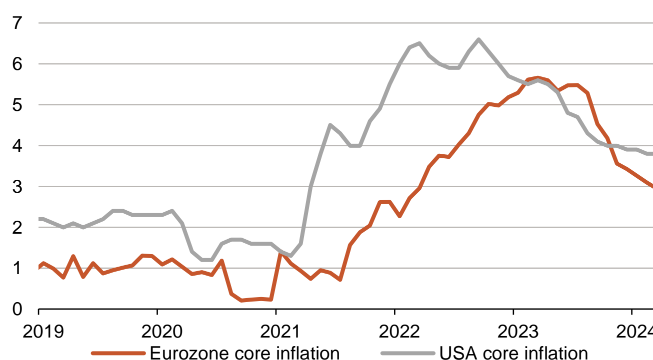
ECB first: The ECB is expected to start the interest rate reduction cycle as early as June and lower the deposit rate to 2.5% by mid-2025. In 2026, a renewed rise in inflation will force it to raise the interest rate back to 3.0%. The Fed will probably wait until December before lowering the interest rate in four steps to 4.5% by mid-2025.

GDP and inflation forecasts (%)

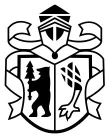
		GDP growth			Inflation		
	Share	2024	2025	2026	2024	2025	2026
World	100.0	2.5	2.6	2.6			
US	26.1	2.7	1.8	2.0	3.2	2.8	2.7
China	16.9	5.0	4.3	4.2	0.5	1.8	2.0
Japan	4.0	0.6	1.1	1.1	2.1	1.9	1.7
India	3.4	6.5	6.0	6.0			
Latin America	6.3	2.2	2.5	2.6			
Europe	24.3	0.8	1.7	1.5			
Eurozone	14.8	0.7	1.6	1.5	2.2	2.1	2.4
Germany	4.3	0.1	1.4	1.3	2.2	2.2	2.4
France	2.9	0.8	1.7	1.6	2.1	2.1	2.4
Italy	2.2	0.8	1.3	1.2	1.2	2.0	2.3
Spain	1.5	1.9	2.1	2.1	2.9	2.4	2.6
Other Western Europe							
United Kingdom	3.2	0.6	1.7	1.7	2.3	2.3	2.5
Switzerland	0.8	1.2	1.5	1.5	1.5	1.4	1.5
Sweden	0.6	0.3	2.0	2.0	3.0	2.3	2.5
Eastern Europe							
Russia	1.9	1.5	1.0	0.0	7.0	6.0	6.0
Turkey	1.1	2.6	3.0	2.5	55.0	30.0	20.0

Source: Berenberg

Inflation: declining in Europe, but no longer in the USA



In % compared to the same month of the previous year. Core rate: excluding food and energy.
Sources: Eurostat, BLS



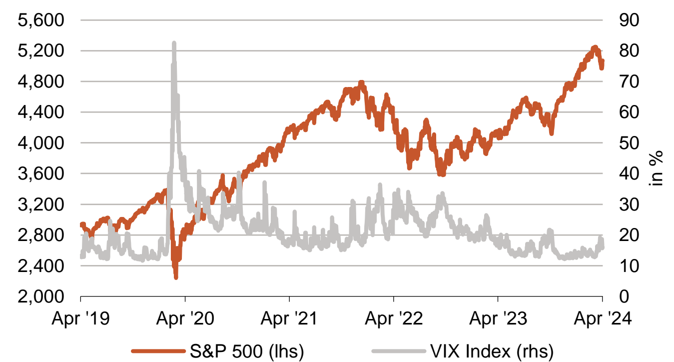
EQUITIES

Slight setback on the stock market

The stock market has recently corrected slightly. US equities have fallen more sharply than their European counterparts. We have used the recent weakness to neutralize our equity allocation and reduced our US underweight. Until the US elections, we expect a volatile sideways movement with limited upside potential.

- Following their strong performance since the beginning of the year, the **stock market** has lost momentum in the last four weeks and has retreated slightly. Fears of an escalation between Iran and Israel, the temporary end of disinflation and the expectation of later interest rate cuts have weighed on share prices. European equities outperformed relative to US equities.
- At sector level, there have been some discrepancies in Europe over the last four weeks. **Energy** stocks were clearly ahead. **Telecommunications** and **basic materials stocks** as well as **consumer staples** and **utilities** also rose. **Information technology stocks** have fallen significantly. **Industrial stocks** and **cyclical consumer goods** also lagged behind. At the style level, **value stocks** performed well, while **growth stocks** lost slightly. In Europe, **large caps** also performed better than **small caps**.
- While risk appetite on the stock markets has been quite high recently, investor sentiment has normalised somewhat following the slight setback. Although positioning has only changed slightly, the economic environment has continued to improve overall, which could represent a buying opportunity in the event of a further sell-off. The fact that companies' share buyback programmes will soon pick up again also speaks in favour of a recovery. The focus of the current reporting season is primarily on the major technology stocks. The commodities sector, where negative earnings growth is expected for 2024, could have positive surprise potential.
- We have used the recent weakness to neutralize the underweight in equities and reduce the underweight in US equities.

Performance and volatility of the S&P 500 Index



Source: Bloomberg, 24/04/2019 - 24/04/2024.

Overview of equity markets (short/medium term)

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

		Total return in local currency				
	As of 24/04/2024	ytd	1-year	3-year	P/E	Dividend yield
DAX	18,089	+8.0%	+14.0%	+18.4%	13.1	3.2%
SMI	3,643	+3.3%	-0.6%	+3.6%	18.4	3.3%
MSCI UK	2,305	+5.5%	+5.5%	+33.3%	11.8	4.0%
EURO STOXX 50	4,990	+11.5%	+17.4%	+37.2%	14.0	3.3%
STOXX EUROPE 50	11,382	+8.6%	+10.9%	+40.0%	14.9	3.4%
S&P 500	9,567	+6.6%	+23.9%	+25.4%	21.0	1.5%
MSCI Em. Markets	1,035	+1.7%	+9.1%	-16.5%	12.4	3.0%

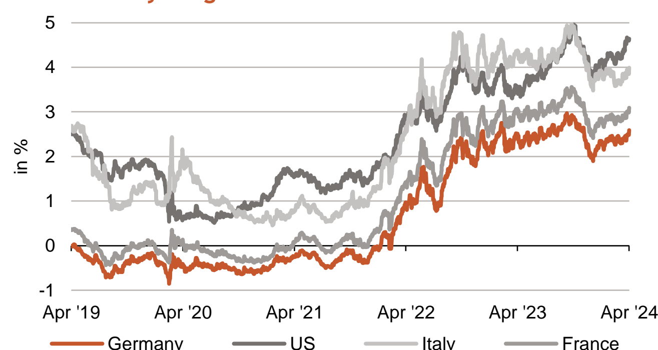
FIXED INCOME

Stubborn inflation in the USA jeopardises the Fed's prospects of lowering interest rates

Interest rate cut expectations for the Fed further reduced in view of stubborn inflation data in the US.
Increased rate volatility and inverse rate structures on both sides of the Atlantic continue to favour duration close to neutral.
Idiosyncratic stress in HY, IG fundamentally and technically well supported. EM local currency bonds favoured.

- Stubborn inflation data in the US in March called into question the Fed's rate cut outlook for this year, causing the priced-in rate cut expectations to fall further and the yield on **10-year US government bonds** to rise to its highest level since November 2023. Despite the positive picture of the fight against inflation in the eurozone and the resulting increase in expectations of the ECB's first interest rate cut in the summer, **European government bonds** also came under pressure. As a result, the yield on **10-year government bonds** in the **USA** was 4.6% and 2.6% in **Germany**. Differing inflation trends on this and the other side of the Atlantic, and therefore most likely different paths of interest rate cuts by the Fed and the ECB, led to a further widening of the interest rate differential between 10-year German and US government bonds to 205 bp.
- The **high-yield segment of corporate** bonds has recently come under slight pressure due to a series of defaults but remains supported by technical factors. The relative valuation of the **IG segment** together with solid balance sheets and generous liquidity reserves of most issuers as well as historically high cash inflows remain more attractive than the high-yield segment in a long-term comparison. 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



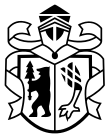
Source: Bloomberg, 24/04/2019 - 24/04/2024.

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 24/04/2024	Performance in index currency		
		ytd	1-year	3-year
Government bonds (iBOXX Europe Sovereigns Eurozone)	217.31	-2.3%	+3.5%	-15.2%
Covered bonds (iBOXX Euro Germany Covered)	183.43	-1.4%	+3.2%	-10.7%
Corporate bonds (iBOXX Euro Liquid Corporates 100 Non-Financials)	145.65	-1.3%	+4.5%	-10.1%
Financial bonds (iBOXX Euro Liquid Corporates 100 Financials)	155.06	+0.2%	+6.6%	-3.6%
Emerging market bonds (J.P. Morgan EMBI Global Diversified unhedged Return EUR)	586.00	+3.3%	+12.9%	+3.4%
High-yield bonds (ICE BofA Global High Yield Index)	449.00	+0.4%	+9.1%	-1.1%



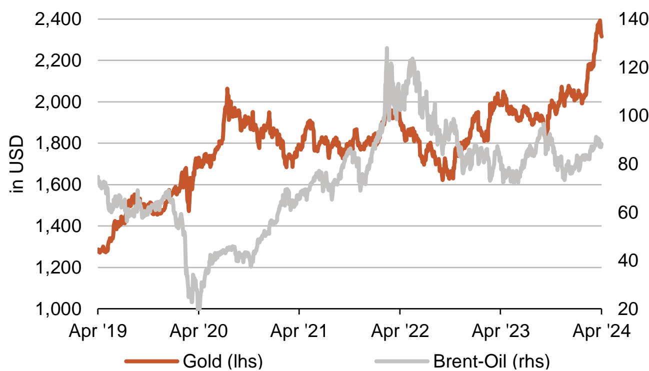
COMMODITIES

Precious, industrial metals or energy: everything shines

Gold defies real interest rates, the dollar and ETF flows. Oil in a sideways trend without geopolitical escalation. Metals attractive in the long, overheated in the short term.

- After reaching numerous all-time highs, **gold** recently bounced off the USD 2,400 mark. The rally is likely to have been driven primarily by EM central banks and private investors as well as systematic investors. The majority of professional investors in the West, on the other hand, consider gold to be overvalued, which is reflected not least in steadily falling ETF holdings. In the short term, gold also appears to have run hot in view of higher interest rates and the stronger dollar. We have therefore reduced our overweight slightly.
- **Crude oil** is currently being driven primarily by geopolitics in the Middle East. If there is no escalation and thus no disruption to the oil infrastructure there, oil should continue to fluctuate sideways, as supply and demand currently appear to be fundamentally balanced.
- **Industrial metals** have recently benefited from rising manufacturing activity and the new US and UK restrictions on Russian exports. Although attractive in the medium to long term, metals are likely to consolidate in the short term.

Price development



Source: Bloomberg, 24/04/2019 - 24/04/2024.

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

	As of 24/04/2024	Performance ytd	1-year	3-year
Gold USD/ounce	2,316	+12.3%	+16.4%	+30.3%
Silver USD/ounce	27.2	+14.2%	+8.0%	+4.4%
Copper USD/pound	445.8	+14.6%	+12.7%	+2.8%
Brent USD/bbl	88.02	+14.3%	+6.4%	+33.1%

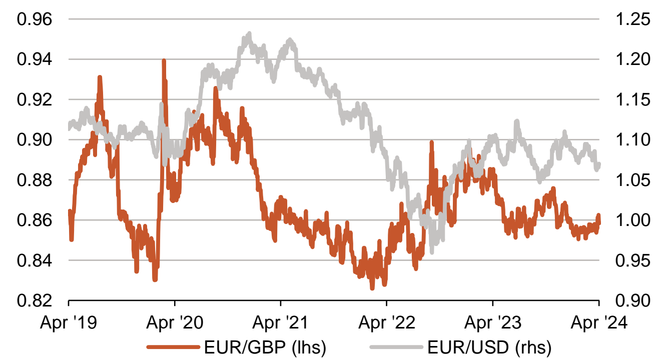
CURRENCIES

Many factors already priced into the dollar

Recently, there was a lot in favour of the US dollar. However, further upside potential is limited.

- **Tailwind for the dollar:** A number of factors have recently given the US dollar a tailwind. These include the robust US economy, a US Federal Reserve that is likely to refrain from cutting interest rates in the near future and the resurgence of geopolitical risks, which are causing additional capital to flow into the safe haven of the greenback. In addition, the economy in the eurozone continues to weaken.
- **However, some of the factors currently supporting the US dollar could weaken in the coming months:** The US economy is expected to lose some momentum by the end of the year, whereas the economy in the eurozone could pick up again somewhat, also supported by interest rate cuts. In addition, the expected interest rate differential between the ECB and the US Fed is largely priced in. We therefore expect the exchange rate to tend to move sideways until the end of the year. Should geopolitical risks increase, however, this could strengthen the dollar.

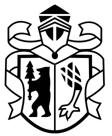
Exchange rates



Source: Bloomberg, 24/04/2019 - 24/04/2024.

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 24/04/2024	Performance ytd	1-year	3-year
EUR/USD	1.07	-3.1%	-3.1%	-11.6%
EUR/CHF	0.98	+5.4%	-0.2%	-11.4%
EUR/GBP	0.86	-1.0%	-3.0%	-1.5%
EUR/JPY	166.21	+6.7%	+12.1%	+27.4%



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
Gerald Deutsch | Fixed Income
Ludwig Kemper | Commodities
Philina Kuhzarani | Minutes
Dr Konstantin Ignatov | Minutes

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