BERENBERG
Markets

INVESTMENT COMMITTEE MINUTES

13 June 2024

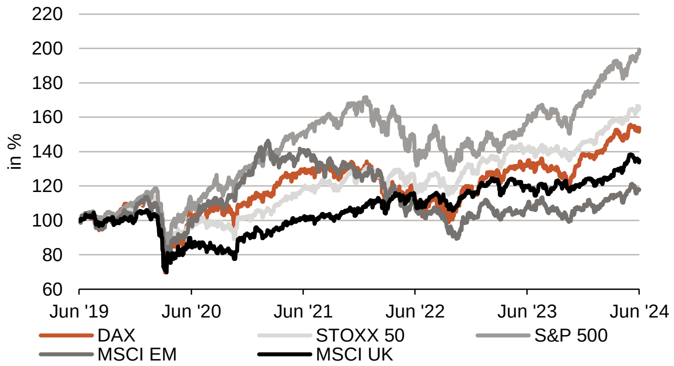
Managers of the Committee

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, 12/06/2019 – 12/06/2024.

Most important assessments at a glance

Economics	• US economy loses some momentum, China's growth stabilizes, consumption-driven upturn in Europe. • ECB lowers key interest rates at a snail's pace, Fed expected to follow at the end of the year. Wage pressure remains high. • Political risks: Trump leads in US polls, shift to the right in snap elections in France could weaken Europe.
Equities	• The stock markets are trading at new all-time highs following the correction in April. US market breadth remains low. • Small caps in Europe with rebound potential due to economic recovery, M&A activities and inflows. • Volatile sideways movement expected until the US elections. Short-term support from seasonality in July.
Bonds	• Despite the ECB's first interest rate cut, the path ahead remains uncertain due to volatile economic data. • Increased rate volatility and inverse rate structure on both sides of the Atlantic continue to favor duration close to neutral. • IG segment valued more attractively than high-yield bonds. EM local currency bonds preferred.
Commodities	• Gold defies higher real rates and a strong dollar. ETF, central bank and EM private buying provide structural support for gold. • Crude oil in summer with tailwind from US travel season. Declining OPEC production cuts increase supply. • Base metals with potential after consolidation. Long-term demand intact due to decarbonisation and digitalisation.
Currencies	• Opposing forces are currently at work in the euro-dollar exchange rate. • The widening interest rate differential is weakening the euro, while the economic recovery in the eurozone is providing support. • All in all, we therefore expect the exchange rate to move sideways until the end of the year.

Current market commentary

The economic recovery in the second quarter weighed on bonds but boosted equities and industrial metals. Gold also remained robust in the face of higher real interest rates and the stronger US dollar. The economies in Europe and China surprised on the upside. At the same time, more and more macro data points to a slowdown in the US economy. Investors significantly reduced their US interest rate cut expectations. Despite this, the equity markets continued to rise after the setback in April. European and emerging market equities caught up. European small caps performed significantly better than their US counterparts. Here, the prospects of an economic recovery, combined with the prospect of interest rate cuts and rising M&A activity, are providing support. In the USA, on the other hand, the "higher for longer" narrative, which has once again come to the fore, had a negative impact. Despite the setback on the stock markets in April, there was no adjustment to the positioning. This remains vulnerable at the high levels. We are sticking to our anti-cyclical approach to equities over the summer: If there are stronger corrections in the coming months, these could offer entry opportunities in our view. If, on the other hand, the markets continue to rise, we can imagine taking profits on equities. We believe an upward breakout is unlikely. Especially as liquidity is likely to decrease over the summer.

In the bond segment, we expect that yields on long-term bonds will hardly fall if central banks are reluctant to cut interest rates in an already recovering economy. We see better opportunities in riskier segments such as corporate bonds with short to medium maturities. The risk premiums on corporate bonds are unlikely to widen much in the event of an economic recovery. We also prefer local currency bonds from emerging and frontier markets.

Commodities remain attractive in the medium term, especially gold and industrial metals, and continue to be a focus in our portfolios.

ECONOMICS

USA lands softly, Europe emerges from stagnation – but political risks could cloud the outlook

US economy loses some momentum, China's growth stabilizes, consumption-driven upturn in Europe.
ECB lowers key interest rates at a snail's pace, Fed expected to follow at the end of the year, wage pressure remains high.
Political risks: Trump leads in US polls, shift to the right in snap elections in France could weaken Europe.

- **US economy largely robust:** Although the Fed has hit the brakes hard, the economy has so far held up better than expected. The expansive fiscal policy is supporting demand through extensive subsidies for private investment and a rapid increase in government spending. However, many data points indicate that the domestic economy is slowly losing momentum after a strong start to the year. For the remainder of the year, we expect growth in private consumption and GDP to be slightly below the respective annualized trend rate of 2%. This still results in GDP growth of 2.4% for 2024.
- **Europe's recovery has begun:** The eurozone economy is slowly regaining momentum after near-stagnation in 2023. The inventory correction in the manufacturing sector is largely complete. In addition, consumer purchasing power has been increasing again since spring 2023 due to rising wages and falling inflation. As expected, this is stimulating demand for services in particular. Exports are also increasing again somewhat after a decline in 2023. The economy could grow at a rate of 0.4% quarter-on-quarter from the summer onwards and achieve overall growth of 1.6% in 2025.
- **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 picks up again somewhat. Unlike in 2023, China is unlikely to weigh on the global economy in 2024 and 2025.
- **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 will not decrease any further. In the eurozone, on the other hand, inflation may fall to around 2% by the start of 2025 as gas and electricity prices decline. However, inflationary pressure is also likely to increase again in Europe by 2026 at the latest if companies are able to pass on wage costs, which continue to rise by around 4% per year, to consumers when the economy improves.
- **Political risks:** Donald Trump is narrowly ahead in the polls for the US election in November. His return to the White House could contribute to geopolitical risks and trade tensions. This would be neutral for the US economy but could have a negative impact on Europe. A possible shift to the right in the snap elections in France could also make political decisions more difficult at EU level.

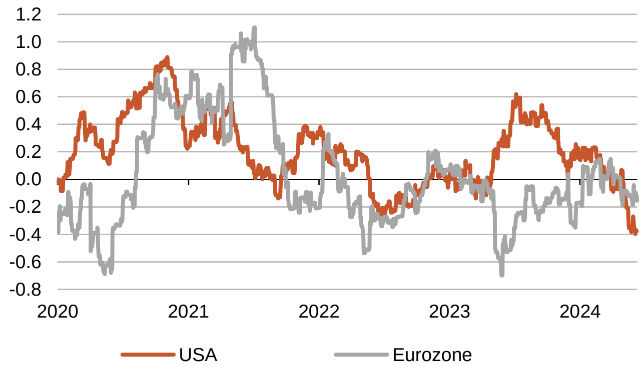
ECB first: The ECB initiated the cycle of interest rate cuts in June. However, it is likely to proceed only slowly, with a maximum of two further steps of 0.25 percentage points each before the end of the year. Although the Fed could follow suit as early as July or September, it will probably wait for the outcome of the election, which is important for fiscal policy, before lowering the upper limit of its key interest rate band in four steps to 4.5% from December.

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	2.4	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	0.1	1.2	1.1	2.3	2.0	1.7
India	3.4	7.0	6.5	6.0			
Latin America	6.3	2.2	2.5	2.6			
Europe	24.3	1.0	1.6	1.5			
Eurozone	14.8	0.8	1.6	1.5	2.3	2.2	2.5
Germany	4.3	0.2	1.4	1.3	2.5	2.2	2.4
France	2.9	1.1	1.6	1.6	2.4	2.3	2.5
Italy	2.2	1.0	1.3	1.2	1.2	2.0	2.3
Spain	1.5	2.2	2.0	2.1	3.0	2.5	2.6
Other Western Europe							
United Kingdom	3.2	0.8	1.7	1.7	2.5	2.4	2.5
Switzerland	0.8	1.2	1.5	1.5	1.4	1.4	1.5
Sweden	0.6	0.5	2.0	2.0	3.0	2.2	2.5
Eastern Europe							
Russia	1.9	2.3	1.1	0.0	7.0	6.0	6.0
Turkey	1.1	2.9	3.0	2.5	56.0	28.0	20.0

Source: Berenberg

Bloomberg economic surprise index: USA loses momentum



Source: Bloomberg

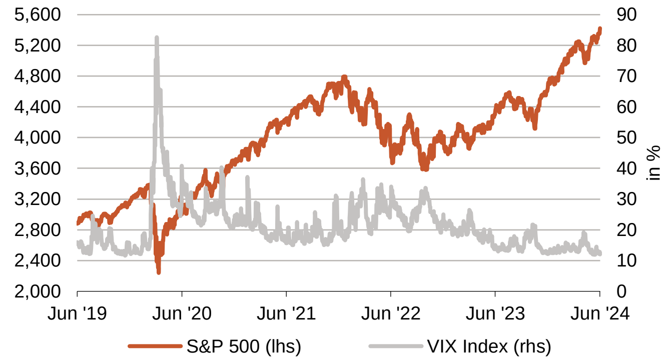
EQUITIES

Stock markets tend to be weak in summer – except for seasonality at the beginning of July

The stock markets are trading at new all-time highs following the correction in April. US market breadth remains low. Small caps in Europe with recovery potential due to economic recovery, M&A activities and inflows. Volatile sideways movement expected until the US elections. Short-term support from seasonality in July.

- Following the correction at the end of April, the stock markets continued to soar in May and June. The S&P 500 and Nasdaq even reached new all-time highs. However, market breadth in the US was again very low and the equally weighted S&P 500 was relatively underperforming. US small caps also struggled. The market focus was once again on the large tech stocks and the solid reporting season. At the same time, however, the large number of current interest rate and economic risks created uncertainty about the US Fed's interest rate policy.
- European stock markets have developed very heterogeneously at sector level over the last four weeks. **Information technology stocks** were clearly ahead. **Healthcare and telecommunications stocks** as well as **industrials** also gained. **Energy stocks**, on the other hand, lagged behind, weighed down by the weak oil price. **Utilities** and **basic materials** also fell.
- Following the recent high level of risk appetite on the equity markets, investor sentiment is now somewhat more balanced again after the setback. However, the market correction in April did not lead to an adjustment in positioning. It is therefore still vulnerable, but not extremely so.
- Even though summer historically means weaker equity markets, the seasonality at the beginning of July tended to be very supportive. Market breadth in Europe should continue to increase as the economy recovers. Small caps are likely to recover, supported by increasing M&A activity and stronger inflows. In this environment, commodity stocks should also continue to benefit, especially as investor positioning in these sectors is not high. As we expect higher volatility in the summer and the ECB has cut interest rates for the first time, we are also considering more defensive sectors such as utilities or consumer staples as tactical additions.

Performance and volatility of the S&P 500 Index



Source: Bloomberg, 12/06/2019 - 12/06/2024.

Overview of equity markets (short/medium term)

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

		Total return in local currency				
	As of 12/06/2024	ytd	1-year	3-year	P/E	Dividend yield
DAX	18,631	+11.2%	+15.7%	+18.7%	13.5	3.1%
SMI	3,889	+10.3%	+7.9%	+4.6%	19.0	3.0%
MSCI UK	2,346	+8.2%	+12.8%	+32.1%	11.8	3.9%
EURO STOXX 50	5,034	+14.3%	+20.5%	+35.1%	14.1	3.3%
STOXX EUROPE 50	11,907	+13.6%	+17.9%	+39.7%	15.3	3.2%
S&P 500	10,242	+14.2%	+26.3%	+31.9%	22.5	1.4%
MSCI Em. Markets	1,069	+5.6%	+9.8%	-15.4%	12.9	2.9%

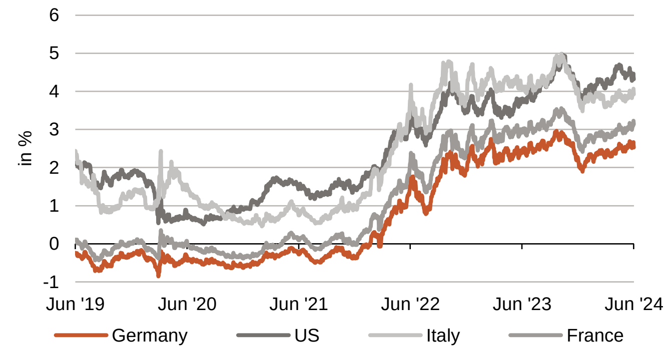
FIXED INCOME

ECB makes first interest rate cut, uncertainty surrounding Fed's first rate cut

Despite the ECB's first interest rate cut, the path ahead remains uncertain due to volatile economic data. Increased rate volatility and inverse rate structure on both sides of the Atlantic continue to favor duration close to neutral. IG segment valued more attractively than high-yield bonds. EM local currency bonds preferred.

- - A robust labour market and volatile inflation data in the **US** are keeping uncertainty about possible interest rate cuts by the Fed this year high and are causing continued volatility on the bond market, with the yield on 10-year **US government bonds** recently standing at 4.32%. The yield on 10-year **German government bonds** recently rose to 2.55%, close to its high for the year, following higher inflation expectations from the ECB and the strength of the right-wing spectrum in the European elections. Following the announcement of snap elections in France, the **OAT-Bund spread** widened to its highest level since October. The uncertainty surrounding the path of interest rate cuts continues to cause interest rate volatility and inverted yield curves on both sides of the Atlantic.
- **IG corporate bonds** continue to offer more attractive valuations on a spread basis compared to the high-yield segment. The months of July and August generally represent a seasonal opportunity for **corporate bonds** due to the low volume of new issues and low market liquidity. Both the high-yield and IG segments continue to be supported by positive fund flows. In **emerging markets**, high-yield hard currency bonds from commodity-exporting countries offer attractive carry due to solid trade balances.
- When it comes to safe bonds, we continue to prefer **covered bonds** to government bonds. In Europe, we prefer financial bonds from the IG segment. **In emerging markets**, we continue to prefer the local currency segment and in hard currency government bonds over corporate bonds due to the higher spreads and attractive carry. Due to the interest rate volatility, we are leaving the duration at the overall bond level at neutral.

Yields on 10-year government bonds



Source: Bloomberg, 12/06/2019 - 12/06/2024.

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	→	→

		Performance in index currency		
	As of 12/06/2024	ytd	1-year	3-year
Government bonds (iBOXX Europe Sovereigns Eurozone)	218.24	-1.8%	+2.6%	-14.9%
Covered bonds (iBOXX Euro Germany Covered)	184.72	-0.7%	+2.9%	-10.1%
Corporate bonds (iBOXX Euro Liquid Corporates 100 Non-Financials)	146.27	-0.9%	+4.4%	-9.9%
Financial bonds (iBOXX Euro Liquid Corporates 100 Financials)	156.00	+0.8%	+6.2%	-3.2%
Emerging market bonds (J.P. Morgan EMBI Global Diversified unhedged Return EUR)	592.72	+4.5%	+9.7%	+2.9%
High-yield bonds (ICE BofA Global High Yield Index)	460.21	+2.9%	+11.6%	-0.0%

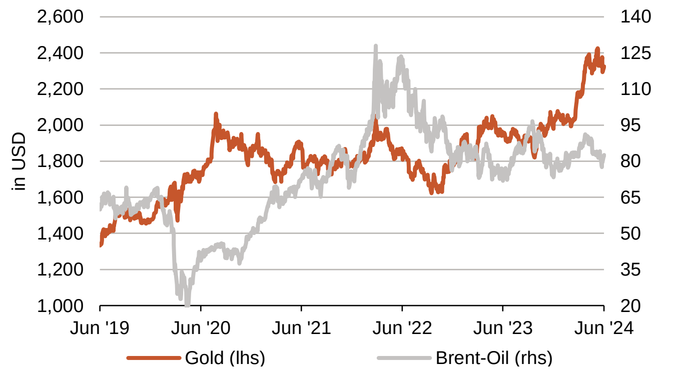
COMMODITIES

In particular (precious) metals with potential

ETF, central bank and EM private purchases support gold. Oil with tailwind in summer due to US travel season. Metals benefit from strong demand in data centers.

- **Gold** consolidated above USD 2,300 after reaching new highs in May. Strong buying by central banks and private investors in the emerging markets counteracted the appreciation of the US dollar and real interest rates in the second quarter and kept the gold price robust. ETF inflows were also positive again for the first time in twelve months. Rising purchases by ETFs, central banks and EM private investors as well as the turnaround in interest rates should give gold a tailwind in the medium term.
- **Crude oil** (Brent) is trading above the USD 80 mark again following the sell-off since April. The US driving season is likely to support the oil price in the short term. However, the gradual withdrawal of OPEC cuts should bring more supply back onto the market after the summer.
- **Industrial metals** corrected after the strong rise in May. Concerns about weaker demand in particular from China have recently had a negative impact. In the long term, decarbonization and investments in data centers are providing support.

Price development



Source: Bloomberg, 12/06/2019 - 12/06/2024.

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

	As of 12/06/2024	Performance ytd	1-year	3-year
Gold USD/ounce	2,325	+12.7%	+18.8%	+23.8%
Silver USD/ounce	29.7	+24.9%	+23.6%	+6.5%
Copper USD/pound	456.7	+17.4%	+21.7%	+0.7%
Brent USD/bbl	82.60	+7.2%	+15.0%	+13.6%

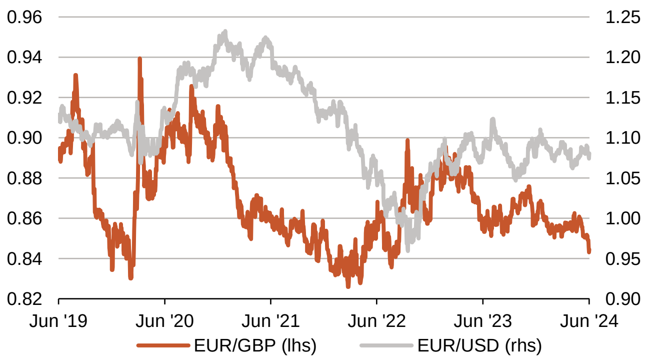
CURRENCIES

Opposing forces in the euro-dollar exchange rate

The widening of the interest rate differential is roughly offset by a simultaneous reduction in the growth differential.

- **Increasing interest rate differential tends to weaken the euro:** The fact that the ECB already initiated the interest rate turnaround in June weakens the euro. This is because the Fed is not expected to follow suit until December. Until then, every interest rate cut by the ECB will increase the interest rate differential with the Fed, and the greater the differential, the more capital will tend to flow into the USA. However, a large part of this future development has already been priced into the markets, so that we expect only limited downward pressure on the euro over the rest of the year due to an increasing interest rate differential.
- **Economic recovery in the eurozone supports the common currency:** The euro could be supported by the fact that the economy in the eurozone is likely to recover somewhat over the course of the year, while a slight economic slowdown is expected in the USA. On balance, we therefore expect the exchange rate to move sideways.

Exchange rates



Source: Bloomberg, 12/06/2019 - 12/06/2024.

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 12/06/2024	Performance ytd	1-year	3-year
EUR/USD	1.08	-2.1%	+0.5%	-10.7%
EUR/CHF	0.97	+4.1%	-1.1%	-11.1%
EUR/GBP	0.84	-2.6%	-1.8%	-1.6%
EUR/JPY	169.41	+8.8%	+12.8%	+27.6%

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
Daniel Sutter | Equities
Felix Stern | Fixed Income
Philina Kuhzarani | Commodities, Minutes
Dr Konstantin Ignatov | Minutes

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