BERENBERG
*Markets*

# INVESTMENT COMMITTEE MINUTES

24 October 2024

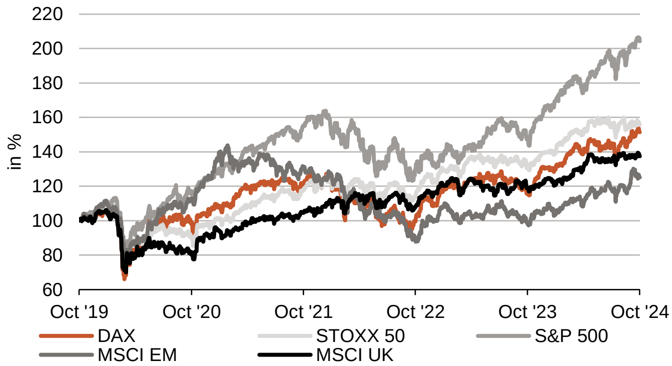
## Managers of the Committee

*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, 23/10/2019 – 23/10/2024.

## Most important assessments at a glance

| | |
|---|---|
| **Economics** | • Weak growth in the eurozone, with no pick-up expected until spring 2025.<br>• The US economy is set for a soft landing. Interest rate turnaround points to more growth from spring 2025.<br>• The US election could change the outlook. Trump represents a short-term economic boost with long-term risks. |
| **Equities** | • Positive economic data, a solid earnings season and gradual interest rate cuts are supporting the US equity market.<br>• Global liquidity, hopes of a soft landing and an increased likelihood of a Trump victory are causing the market to widen.<br>• The US election remains a source of uncertainty. Counter-cyclical behaviour and balanced positioning are preferred. |
| **Bonds** | • Bond markets have priced in a sharp fall in interest rates on the back of better-than-expected economic data.<br>• Trump's policy agenda (tariffs, immigration, debt) increases the risk of inflation. We are keeping duration close to neutral.<br>• High inflows, strong balance sheets and a positive economic outlook remain supportive for credit despite high valuations. |
| **Commodities** | • Gold at next all-time high despite strong dollar and high real interest rates. Interest from financial investors rises as rates fall.<br>• Crude oil has recently been affected by the Middle East conflict. Oversupply and rising inventories are negative in the mid-term.<br>• Industrial metals benefit from Chinese stimulus, with long-term growth supported by stable demand. |
| **Currencies** | • The US dollar has recently been in demand as a safe haven.<br>• A smaller growth differential between the US and the eurozone by 2025 could support the euro.<br>• On the other hand, a potential Trump victory in the US presidential election would be good news for the dollar. |

## Current market commentary

The positive trend in equity markets has continued. In particular, better-than-expected US economic data, a good start to the reporting season and expectations of gradual interest rate cuts have supported US equity markets. European cyclicals in particular have benefited from the announcement of a large stimulus package in China. However, the lack of details on the size of the stimulus has so far proved to be a flash in the pan and European equity markets have given up some of their positive performance. The outcome of the US election remains a source of uncertainty for markets. Donald Trump has made significant gains in the betting markets and is now the favourite (60% probability) to win the US presidency. As a result, the 'Trump trades' (US banks, US small caps, the US dollar and bitcoin) have rallied recently. We are taking counter-cyclical opportunities and believe that a balanced (regional) positioning makes sense. Despite a fundamentally positive outlook, we are keeping the equity allocation close to neutral due to already high earnings expectations (especially in the US) and strong investor optimism. Better-than-expected US economic data, rising inflation expectations and (excessive) interest rate optimism have recently led to a renewed rise in bond yields. Ten-year US Treasuries are currently trading at around 4.2%, while the yield on German Bunds is 2.3%. A neutral duration positioning and a moderate overweight in high-quality corporate bonds seems appropriate.

Gold continued to rally, reaching new all-time highs, thanks to sustained inflows into ETFs and despite higher interest rates and a stronger US dollar. Cyclical commodities briefly benefited from euphoria over the Chinese stimulus package. While crude oil is likely to suffer from rising supply in the medium term, industrial metals should remain supported next year thanks to a structural supply shortage.

# ECONOMICS

The outlook may change depending on how the US Election turns out.

**Initially, growth in the eurozone will be weak, with additional momentum not expected until spring 2025.**
**The US economy is cooling only slowly. Lower policy rates could provide a boost in 2025.**
**President Trump? In the short term, more growth, higher profits, more inflation and higher yields than under Harris.**

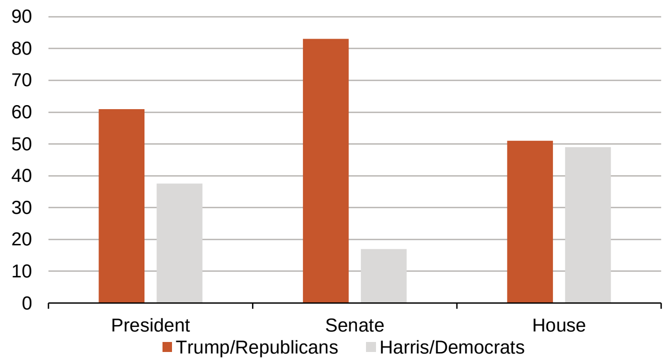
- **Weak growth in Europe:** The eurozone economy has weathered the first half of the year better than we expected. While Germany is in a mini recession, the southern member states are benefiting from a mix of reforms and slightly expansionary fiscal policies (partly financed by EU funds). However, the ongoing weakness in world trade and China's attempts to buy market share through subsidies are weighing on the manufacturing sector, more so in Germany than in other countries less dependent on exports. Leading economic indicators suggest that growth in the euro area will continue to slow for the time being.
- **New impetus from spring 2025:** But next year, the European Central Bank's interest rate cuts, an end to the housing slump and Chinese stimulus should also provide a boost to the eurozone economy. Another positive factor is that falling inflation and rising real wages will encourage eurozone consumers to spend more in the medium term.
- **Ultra-smooth landing in the US:** US economic growth has surprised on the upside again this year. An expansionary fiscal policy and continued robust private consumption are contributing to this. However, the previously very overheated labour market and housing sector have recently cooled off. This suggests that the US economy could lose some momentum in late 2024 and early 2025. Many homeowners are currently having to roll over their mortgages at higher interest rates. However, the Federal Reserve is already beginning to lift the lid on interest rates. This could provide a noticeable boost to the US economy from spring 2025.
- **Stimulus in China:** After much hesitation, China has launched a stimulus package aimed primarily at boosting private consumption and ending the slump in residential construction. It will probably have an effect. But it is likely to be a flash in the pan. After all, it does nothing to address the fundamental problems of an economy that is increasingly controlled by the party.
- **Interest rates are coming down from their peak:** Inflation is sufficiently under control on both sides of the Atlantic. This will allow the Fed and the European Central Bank to lower their key rates further. We expect rates to bottom out at 2.5% in the eurozone and 3.75-4.0% in the US in spring 2025.
- **President Trump?** Our forecasts have so far been based on the assumption that there will be no fundamental change in US policy. However, Donald Trump is now favourite to win the presidential election. He wants to deregulate and cut taxes, while imposing new tariffs and allowing fewer immigrants into the country. His programme could strengthen the economy in the short term (initially good for equities and the US dollar, bad for bonds), but weaken growth in the long term. The announced tariffs could hit Europe hard.

### GDP and inflation forecasts (%)

| | | GDP growth | | | Inflation | | |
|---|---|---|---|---|---|---|---|
| | Share | 2024 | 2025 | 2026 | 2024 | 2025 | 2026 |
| **World** | 100.0 | 2.5 | 2.5 | 2.6 | | | |
| US | 26.1 | 2.6 | 1.7 | 2.0 | 2.8 | 2.3 | 2.4 |
| China | 16.9 | 4.7 | 4.6 | 4.4 | 0.3 | 0.8 | 1.4 |
| Japan | 4.0 | -0.2 | 1.2 | 1.1 | 2.6 | 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 | 1.5 | 1.6 | | | |
| Eurozone | 14.8 | 0.7 | 1.3 | 1.5 | 2.3 | 2.0 | 2.3 |
| Germany | 4.3 | -0.2 | 0.5 | 1.3 | 2.4 | 2.2 | 2.3 |
| France | 2.9 | 1.1 | 1.1 | 1.3 | 2.3 | 1.9 | 2.3 |
| Italy | 2.2 | 0.6 | 1.2 | 1.2 | 1.1 | 1.9 | 2.3 |
| Spain | 1.5 | 2.9 | 2.2 | 2.1 | 2.9 | 2.5 | 2.6 |
| **Other Western Europe** | | | | | | | |
| United Kingdom | 3.2 | 0.9 | 1.5 | 1.7 | 2.5 | 2.5 | 2.4 |
| Switzerland | 0.8 | 1.3 | 1.5 | 1.5 | 1.4 | 1.3 | 1.5 |
| Sweden | 0.6 | 0.9 | 2.0 | 2.0 | 3.0 | 2.2 | 2.5 |
| **Eastern Europe** | | | | | | | |
| Russia | 1.9 | 2.3 | 1.1 | 0.5 | 7.0 | 6.0 | 6.0 |
| Turkey | 1.1 | 2.9 | 3.0 | 2.5 | 56.0 | 28.0 | 20.0 |

Source: Berenberg

### US Election Odds - Chance of Winning in %




Probability of winning in %. President: probability of winning the 2024 presidential election; Senate/House: probability of control after the 2024 election. Source: Realclearpolling, Polymarket. As of 23 October 2024

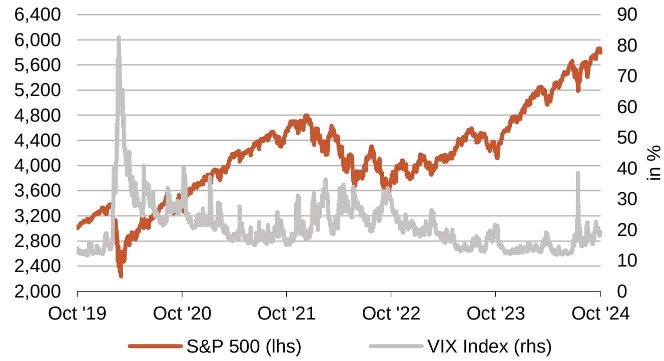
# EQUITIES

Anti-cyclical trading favoured.

**Positive economic data, a solid earnings season and gradual interest rate cuts support the US equity market. Global liquidity, hopes of a soft landing and an increased likelihood of a Trump victory are causing the market to widen. The US election remains a source of uncertainty. Counter-cyclical and balanced positioning is preferred.**

- The positive trend in equity markets has continued in recent weeks. In particular, better-than-expected US economic data, a good start to the reporting season and expectations of gradual interest rate cuts are supporting the US equity market. In the wake of this soft landing scenario, coupled with rising global liquidity, **market breadth** has also increased significantly in the third quarter of this year. In addition, the index heavyweights have recently underperformed the broad index.
- The announcement of a large stimulus package in China gave a boost to **European cyclical stocks** at the end of September. However, in the absence of details on the size of the stimulus, this has so far proved to be a flash in the pan, with European equity markets giving up some of their positive reaction and underperforming the US equity market. We expect this relative weakness to continue in the current reporting season and the earnings gap to widen further. However, US equities are significantly more expensive, so we do not have a strong regional preference at the moment.
- The outcome of the **US election** remains a source of uncertainty for markets. According to the betting markets, Donald Trump has recently made significant gains in the swing states and is now the favourite (60% probability) to win the US presidency. Accordingly, the 'Trump trades' (US banks, US small caps, US dollar and bitcoin) have performed well recently. Small and medium-sized companies in the US are widely expected to benefit from Trump's programme of deregulation and protectionism. We have therefore recently built up a position in US mid-caps and are taking a counter-cyclical approach to the opportunities that lie beneath the surface. Despite the fundamentally positive outlook, we are keeping the equity allocation close to neutral due to high valuations (especially for US large caps) and strong investor optimism.

## Performance and volatility of the S&P 500 Index




Source: Bloomberg, 23/10/2019 - 23/10/2024.

## Overview of equity markets (short/medium term)

| Regions | Old | New |
|---|---|---|
| US | → | ↗ |
| Europe | ↗ | ↗ |
| Emerging markets | ↗ | ↗ |

| | | Total return in local currency | | | | |
|---|---|---|---|---|---|---|
| | As of 23/10/2024 | ytd | 1-year | 3-year | P/E | Dividend yield |
| **DAX** | 19,378 | +15.7% | +30.9% | +24.7% | 14.7 | 2.9% |
| **SMI** | 3,892 | +10.4% | +18.4% | +2.7% | 19.3 | 3.0% |
| **MSCI UK** | 2,360 | +10.1% | +16.0% | +30.8% | 12.4 | 3.8% |
| **EURO STOXX 50** | 4,923 | +12.2% | +25.8% | +29.9% | 14.3 | 3.3% |
| **STOXX EUROPE 50** | 11,638 | +11.0% | +19.3% | +32.1% | 15.0 | 3.3% |
| **S&P 500** | 10,989 | +22.5% | +38.9% | +31.8% | 24.5 | 1.3% |
| **MSCI Em. Markets** | 1,142 | +14.3% | +28.0% | -3.4% | 13.9 | 3.4% |

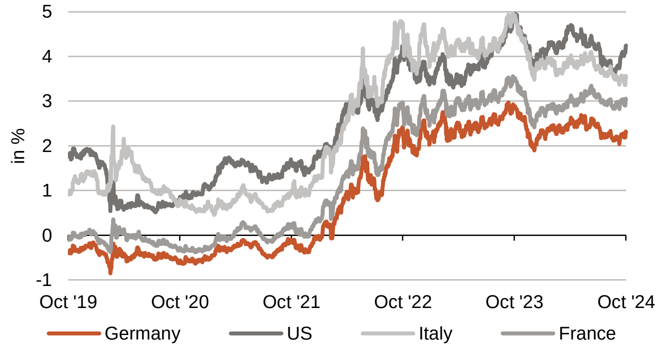
# FIXED INCOME

Yields have risen again on the back of robust US economic data and rising inflation expectations.

**Bond markets have priced out significant rate cuts on the back of better-than-expected economic data.
Trump's policy agenda (tariffs, immigration, debt) increases the risk of inflation. We keep duration close to neutral.
High inflows, strong balance sheets and a positive economic outlook remain supportive for credit despite high valuations.**

- Better-than-expected **US** economic data, rising inflation expectations (partly due to Trump) and (excessive) interest rate optimism of late led to a renewed rise in bond yields, especially at the long end. The yield on 10-year **US Treasuries** rose from 3.7% to 4.2%. Expectations of rate cuts have also fallen. The market now expects only two rate cuts of 25 basis points each by the end of the year. Overall, the US yield curve has steepened and thus continued to normalise. Meanwhile, Christine Lagarde stressed that inflation is expected to pick up in the coming months and that interest rates will remain restrictive for as long as necessary, prompting the yield on 10-year **German government bonds** to rise to around 2.3% recently. Meanwhile, the risk premium on Italian BTPs continued to decline, while that on French OATs remained elevated. The spread between Italian and French government bonds is now less than 50 bp.
- The high yield and investment grade segments remain supported by strong balance sheets and cash flows, while the market continues to absorb record levels of new issuance. Ongoing cash inflows, further spread widening versus corporate bonds and significant upgrades support **emerging market** sovereigns, especially in the high yield segment.
- In safer bonds, we continue to favour **covered bonds** over government bonds, even though the swap spread has little potential to narrow. In Europe, our main focus is on good quality IG paper. In **emerging markets**, we favour the local currency segment and, in hard currency, government bonds over corporate bonds due to higher spreads and attractive carry. Due to increased interest rate volatility, we are keeping duration at a neutral level across bonds.

### Yields on 10-year government bonds




Source: Bloomberg, 23/10/2019 - 23/10/2024.

### 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 23/10/2024 | ytd | 1-year | 3-year |
| **Government bonds** (iBOXX Europe Sovereigns Eurozone) | 225.14 | +1.3% | +8.8% | -11.7% |
| **Covered bonds** (iBOXX Euro Germany Covered) | 190.84 | +2.6% | +7.3% | -6.0% |
| **Corporate bonds** (iBOXX Euro Liquid Corporates 100 Non-Financials) | 151.50 | +2.7% | +9.9% | -5.9% |
| **Financial bonds** (iBOXX Euro Liquid Corporates 100 Financials) | 161.83 | +4.5% | +9.8% | +0.9% |
| **Emerging market bonds** (J.P. Morgan EMBI Global Diversified unhedged Return EUR) | 619.32 | +9.2% | +17.6% | +5.2% |
| **High-yield bonds** (ICE BofA Global High Yield Index) | 480.59 | +7.5% | +17.4% | +5.6% |

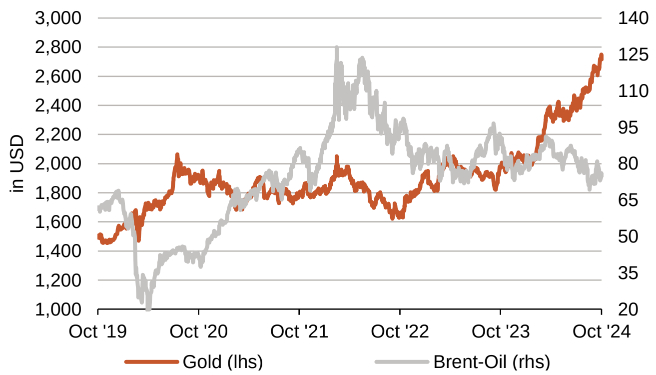
# COMMODITIES

## Mid-term support for precious and industrial metals

**Gold remains supported at all-time high.**
**Long-term outlook for crude oil remains muted.**
**Metals benefit from Chinese stimulus in the short term.**

- **Gold** hits new all-time highs despite higher real interest rates and a stronger dollar. In the absence of recent strong central bank buying from the Far East, Western investors have been the main buyers of late. ETF flows have been positive for the fourth consecutive month, although holdings are still 30 million ounces below the all-time high. With rising sovereign debt levels, falling central bank rates and a host of geopolitical risks, gold should remain well supported.
- Driven by the conflicts and tensions in the Middle East, the price of **crude oil** (Brent) has recently moved sideways. Apart from geopolitical risks, fundamental drivers are lacking, with seasonally rising inventories and a looming supply surplus also weighing on prices.
- **Industrial metals** benefited briefly from China's stimulus measures, but structural supply shortages continue to support the long-term uptrend.

### Price development




Source: Bloomberg, 23/10/2019 - 23/10/2024.

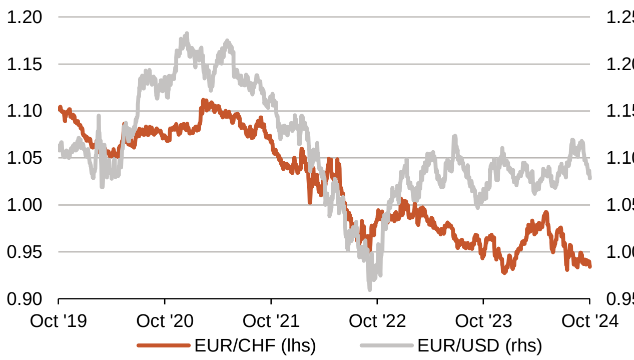
# CURRENCIES

## A Trump victory would strengthen the dollar.

**A smaller growth advantage for the US compared to the eurozone could support the euro in 2025. However, this is offset by the possibility of a Trump election victory.**

- **The economy favours the euro:** While the US economy is likely to cool down somewhat in the coming months, the eurozone economy is expected to pick up again next spring. We therefore expect the euro to appreciate slightly against the US dollar in 2025.
- **Trump's victory is bullish for the dollar:** A Trump victory could initially halt the euro's strength against the US dollar and give the dollar a further boost, at least in the short term. On the one hand, this would be due to higher economic activity in the US as a result of some deregulation and possible tax cuts. On the other hand, higher tariffs and stricter immigration policies would probably lead to higher inflation and a higher key interest rate. In the medium term, however, protectionism and stricter immigration policies under Trump are likely to weaken economic growth and the US dollar.

### Exchange rates




Source: Bloomberg, 23/10/2019 - 23/10/2024.

| 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 | → | → |

| | | Performance | | |
|---|---|---|---|---|
| | As of 23/10/2024 | ytd | 1-year | 3-year |
| Gold USD/ounce | 2,716 | +31.6% | +37.6% | +51.5% |
| Silver USD/ounce | 33.7 | +41.6% | +46.7% | +38.5% |
| Copper USD/pound | 433.7 | +11.5% | +20.9% | -3.6% |
| Brent USD/bbl | 74.96 | -2.7% | -16.6% | -12.4% |

| | | Performance | | |
|---|---|---|---|---|
| | As of 23/10/2024 | ytd | 1-year | 3-year |
| EUR/USD | 1.08 | -2.3% | +1.0% | -7.4% |
| EUR/CHF | 0.93 | +0.6% | -1.8% | -12.4% |
| EUR/GBP | 0.83 | -3.7% | -4.2% | -1.4% |
| EUR/JPY | 164.69 | +5.8% | +3.1% | +24.6% |

# 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
Dejan Djukic | Head Portfolio Management Multi Asset
Oliver Brunner | Head Multi Asset Income & ESG
Daniel Sutter | Equities
Christian Bettinger | Fixed Income
Philina Kuhzarani | Commodities
Mirko Schmidt | Commodities, Minutes

### Disclaimer



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