BERENBERG
Markets

INVESTMENT COMMITTEE MINUTES

05 December 2024

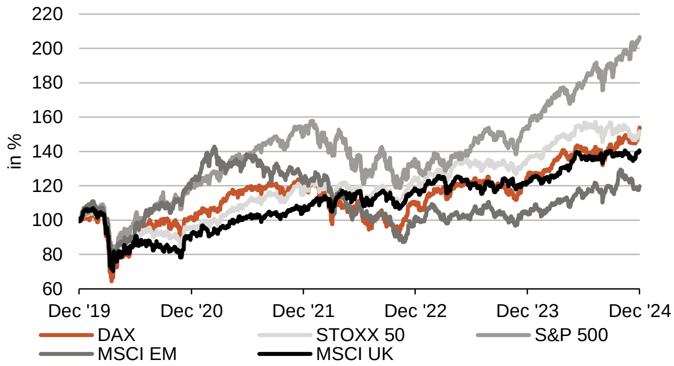
Managers of the Committee

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, 04/12/2019 – 04/12/2024.

Most important assessments at a glance

Economics	• Weak growth in the eurozone, with no additional momentum expected until spring 2025. • France and Germany are weighing on the eurozone. 2025 will see more growth due to falling interest rates and rising real wages. • For central banks, the last few metres of monetary easing are the most difficult.
Equities	• Positive economic data, favourable seasonality and gradual interest rate cuts are supporting the US equity market. • Global liquidity, hopes of a soft landing and Donald Trump's election victory are adding breadth to the market. • We remain optimistic for the end of the year. In Europe, the negatives seem to be largely priced in.
Bonds	• Trump's policy agenda (tariffs, immigration, debt) increases the risk of inflation. We are keeping duration close to neutral. • Euro IG credit has positive fundamentals, but increased risk of setbacks. HY offers selective opportunities. • EM local currency bonds are an attractive portfolio addition.
Commodities	• Gold corrects after Trump victory, but remains supported by central bank buying and geopolitical risks. • Crude oil sideways for now. Price rise unlikely without geopolitical escalation and strong demand growth. • Industrial metals weighed down by potential trade wars following Trump's victory. Long-term drivers remain intact
Currencies	• Politics, not central banks, are driving exchange rates. • The US dollar currently has a lot going for it – but the wind could change somewhat in the coming year. • The strong franc is a cause for concern for the Swiss National Bank.

Current market commentary

Donald Trump's election victory in early November triggered a strong rally in risky assets, particularly US banks (on hopes of less regulation and more M&A activity), US mid-caps and cryptocurrencies (Trump is seen as crypto-friendly). The US dollar also strengthened significantly against the euro. European equity markets, on the other hand, have underperformed since Trump's victory, weighed down by fears of tariffs, concerns about trade conflicts, weaker economic data and political uncertainties. Our decision to increase the equity allocation, favour US equities and tactically add a US mid-cap ETF has paid off. Since Trump's election victory, the gap between US equities and international markets has widened on the back of the "America First" agenda and rising tariff fears. We remain optimistic for the end of the year, supported by a robust US economy, positive seasonality and strong support from share buyback programmes and fund inflows.

In the bond market, we favour IG financials as they are less exposed to tariffs and should benefit from the deregulation of the US financial sector. In the area of safe bonds, we prefer covered bonds to government bonds, even though the potential for narrowing swap spreads is limited. In Europe, we see selective opportunities in high-yield bonds, while in emerging markets we prefer local-currency bonds, which offer more attractive yields.

In alternatives, we have taken advantage of the fall in gold prices since Trump's election victory to increase our overweight position. While the high positioning is a short-term risk, factors such as central bank buying, rising government debt, geopolitical tensions and falling interest rates will support gold in the long term. Given the uncertainty surrounding Trump's policy plans and developments in China, cyclical commodities are likely to move sideways in a volatile manner for the time being.

ECONOMICS

Politics determines the economic outlook.

In the short term, new growth impulses in the US thanks to Trump, but trend growth could suffer in the longer term. France and Germany are a drag on the Eurozone. 2025 more growth due to falling interest rates and rising real wages. For central banks, the last metres of monetary easing are the most difficult.

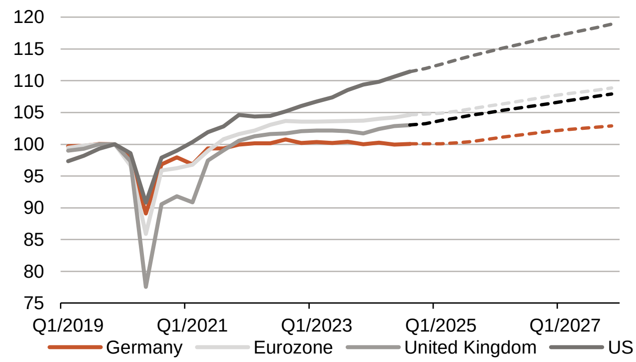
- **Ultra-smooth landing in the US followed by a Trump boost:** The US economy remains very robust and re-elected US President Donald Trump could even unleash further growth impulses in the coming year through tax cuts and deregulation. In the medium term, however, the announced tightening of immigration policy and tariffs could weaken trend growth in the US.
- **France and Germany are a burden on the eurozone:** The leading economic indicators for the eurozone suggest that growth momentum will slow towards the end of the year. Sentiment is particularly poor in the two largest economies in the eurozone, France and Germany. What the two countries have in common is that political uncertainty is dampening economic development. For the coming year, however, we expect a certain revival of the economy in the eurozone due to the increasing purchasing power of consumers and falling interest rates. In addition, the measures to support the economy in China and the growth impulses from Trump in the USA will revive foreign demand. The recent devaluation of the euro against the US dollar will also have a positive effect on exports. On the other hand, the biggest risk for the eurozone economy comes from possible US tariffs.
- **New elections in Germany open up opportunities:** The German economy has been treading water for three years now. There are many reasons for this. On the one hand, global demand continues to weaken, which hits Germany particularly hard as an export nation. In addition, Chinese products are increasingly competing with German products in global markets. The labour shortage and excessive bureaucracy are also having a negative impact. The coalition government's disputes have also had a paralysing effect, as they have been more controversial than necessary reforms. The new elections on 23 February 2025 therefore also offer the opportunity to tackle overdue reforms.
- **Difficult last metres for central banks:** Central banks have recently made little progress on either side of the Atlantic in combating core inflation. The ECB will therefore probably only lower its interest rates by 25 basis points at each of the next three meetings and leave the deposit rate at 2.5% from the end of Q1 2025. In the US, by contrast, Trump's return to the White House has significantly complicated the situation for the Fed. This is because Trump's plans to loosen fiscal policy further, impose extensive tariffs and severely restrict immigration are likely to drive up inflation, provided Trump actually implements these plans. This is likely to force the Fed to lower key rates more cautiously and to a lesser extent than we had previously expected. We therefore now only expect the Fed to lower key rates once in Q1 2025, leaving the key interest rate spread at 4.25% to 4.50%.

GDP and inflation forecasts (%)

		GDP growth			Inflation		
	Share	2024	2025	2026	2024	2025	2026
World	100.0	2.5	2.6	2.7			
US	26.1	2.7	2.4	2.1	2.9	2.7	2.6
China	16.9	4.7	4.5	4.3	0.3	0.8	1.4
Japan	4.0	-0.3	1.1	1.0	2.6	2.1	1.7
India	3.4	7.0	6.5	6.5			
Latin America	6.3	2.2	2.5	2.5			
Europe	24.3	1.0	1.3	1.6			
Eurozone	14.8	0.7	1.0	1.5	2.3	2.1	2.3
Germany	4.3	-0.2	0.3	1.2	2.5	2.4	2.3
France	2.9	1.1	0.7	1.2	2.3	1.8	2.3
Italy	2.2	0.5	0.8	1.2	1.1	2.0	2.3
Spain	1.5	3.1	2.2	2.1	2.8	2.3	2.6
Other Western Europe							
United Kingdom	3.2	0.9	1.4	1.5	2.5	2.7	2.6
Switzerland	0.8	1.3	1.5	1.5	1.4	1.3	1.3
Sweden	0.6	0.7	1.6	1.8	3.0	2.2	2.2
Eastern Europe							
Russia	1.9	3.3	1.4	1.4	8.1	9.0	8.0
Turkey	1.1	2.9	3.0	3.0	56.0	28.0	20.0

Source: Berenberg

Real GDP growth since Q4 2019



Q4 2019 = 100. Quarterly data. Dotted lines = Berenberg forecasts. Source: Destatis, Eurostat, ONS, BEA, Berenberg.

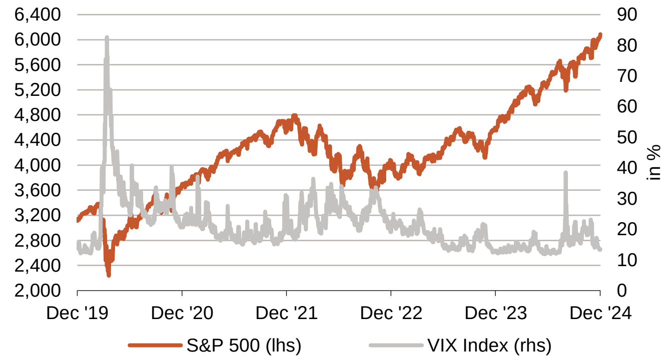
EQUITIES

Equity markets likely to remain supported until the end of the year

Positive economic data, favourable seasonality and gradual interest rate cuts are supporting the US equity market. Global liquidity, hopes of a soft landing and Donald Trump's election victory are adding breadth to the market. We remain optimistic for the end of the year. In Europe, the negatives seem to be largely priced in.

- Donald Trump's election victory triggered a strong rally in equities in November, especially in the US. US banks, US mid-caps in particular, but also the US dollar and bitcoin benefited significantly. A continued robust US economy, gradual interest rate cuts and positive seasonality, combined with the end of the buyback blackout period, provide good conditions for equity markets to perform well in the new year. We increased our US equity exposure to a moderate overweight immediately after the US elections, focusing on US mid-caps.
- The uncertainty surrounding the US election was quickly and positively resolved in favour of the US equity markets with Donald Trump's clear victory. In particular, planned deregulation measures and the proposed reduction in corporate taxes, which could add around 4% to S&P 500 earnings, are supporting US equities. However, elevated valuations and high growth and earnings estimates leave little room for economic or political disappointment.
- The rest of the world, on the other hand, has been left behind since Donald Trump's election victory. There are many reasons for this. In particular, fears of tariffs, worries about new trade wars, increasingly disappointing economic data and political uncertainty have weighed on European equities. However, we believe that these issues are already largely reflected in equity prices due to a significant valuation discount and low investor positioning. Europe is therefore susceptible to positive surprises, such as a timely end to the war in Ukraine or a new reform-friendly government in Germany.

Performance and volatility of the S&P 500 Index



Source: Bloomberg, 04/12/2019 - 04/12/2024.

Overview of equity markets (short/medium term)

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

		Total return in local currency				
	As of 04/12/2024	ytd	1-year	3-year	P/E	Dividend yield
DAX	20,232	+20.8%	+23.3%	+33.4%	15.5	2.7%
SMI	3,774	+7.0%	+8.7%	-1.0%	18.7	3.1%
MSCI UK	2,377	+11.4%	+14.7%	+32.8%	12.2	3.9%
EURO STOXX 50	4,919	+12.4%	+15.1%	+33.5%	14.5	3.3%
STOXX EUROPE 50	11,557	+10.2%	+12.3%	+31.7%	14.8	3.4%
S&P 500	11,550	+28.7%	+34.5%	+38.5%	25.8	1.3%
MSCI Em. Markets	1,100	+10.3%	+15.4%	-1.7%	13.7	2.8%

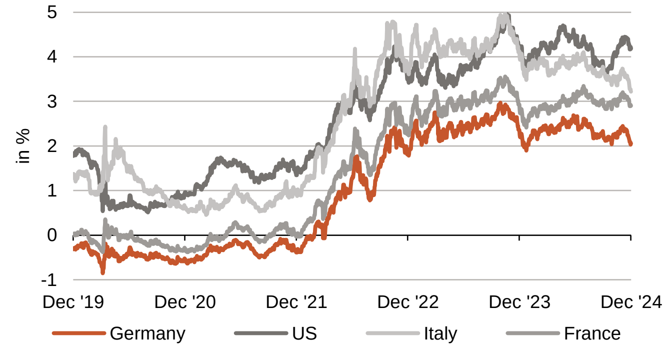
FIXED INCOME

Fed: In December between a pause and a cut.

Trump's policy agenda (tariffs, immigration, debt) increases the risk of inflation. We are keeping duration close to neutral. Euro IG credit has positive fundamentals, but increased risk of setbacks. HY offers selective opportunities. EM local currency bonds are an attractive portfolio addition.

- After its scheduled meeting in November, the Fed cut the key interest rate by 25 basis points, as expected by market participants. In his speech, Fed Chairman Powell did not give a specific forecast for the interest rate decision in December, but he did admit that the strength of the economy had recently come as a positive surprise and that core inflation was proving somewhat more persistent than forecast in September. Donald Trump's new term in office and the associated realignment of economic and trade policy harbour increased inflation risks for the US, which, in addition to the strong US economy, could cause the Fed to take a break in its cycle of interest rate cuts. The yield on **10-year US government bonds** was recently at 4.2%, while the yield on **10-year German government** bonds remained at 2.1%. On the other side of the Atlantic, political and fiscal uncertainties in France led to a widening of the OAT-Bund spread to its highest level since 2012, most recently to almost 81 basis points.
- The **IG segment** of corporate bonds continues to be supported by good fundamentals, but there is a high risk of a setback in current valuations. Within the IG sector, we consider **financials** to be attractive, as we expect these issuers to be less affected by possible US tariffs and believe that the deregulation of the US financial market should provide additional support.
- In the area of safe-haven bonds, we continue to favour **covered bonds** over government bonds, although technical factors may continue to pose obstacles for the former. In Europe, we see selective opportunities in the **high yield bond segment**.
- In **emerging markets**, we favour the local currency segment due to its better risk-return profile, particularly for euro investors. Due to increased interest rate volatility, we are maintaining a neutral duration at the overall bond level.

Yields on 10-year government bonds



Source: Bloomberg, 04/12/2019 - 04/12/2024.

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 04/12/2024	ytd	1-year	3-year
Government bonds (iBOXX Europe Sovereigns Eurozone)	230.25	+3.6%	+6.4%	-11.1%
Covered bonds (iBOXX Euro Germany Covered)	192.72	+3.6%	+5.3%	-5.8%
Corporate bonds (iBOXX Euro Liquid Corporates 100 Non-Financials)	154.05	+4.4%	+6.8%	-5.1%
Financial bonds (iBOXX Euro Liquid Corporates 100 Financials)	164.42	+6.2%	+7.9%	+2.3%
Emerging market bonds (J.P. Morgan EMBI Global Diversified unhedged Return EUR)	644.14	+13.6%	+15.8%	+6.3%
High-yield bonds (ICE BofA Global High Yield Index)	484.60	+8.4%	+12.2%	+8.0%

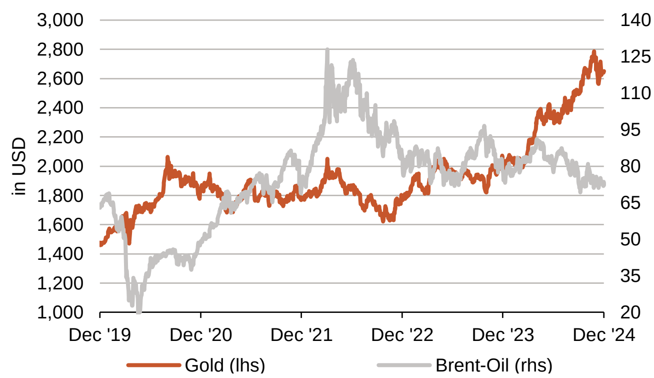
COMMODITIES

Gold and metals structurally supported in long term

Gold remains attractive despite pullback.
Crude oil sideways for now.
Base metals remain structurally supported.

- **Gold** underwent a correction in early November, triggered by Trump's election victory, the dollar's appreciation and rising bond yields. Although high positioning continues to make gold vulnerable in the short term, central bank buying, rising government debt, geopolitical risks and falling interest rates provide support in the longer term.
- Crude oil fluctuated volatile sideways in November. In the absence of geopolitical escalation or strong demand growth in China, a significant price increase remains unlikely given the abundant supply and weak demand outlook. However, a sharp fall in prices is also unlikely as Trump's 'drill, baby, drill' policy will have limited impact as oil companies focus on distributing profits rather than expanding production.
- **Industrial metals** have been weighed down by Trump's election victory and concerns about trade conflicts, but supply shortages, the demand for decarbonisation and an economic recovery should provide tailwinds in the long term.

Price development



Source: Bloomberg, 04/12/2019 - 04/12/2024.

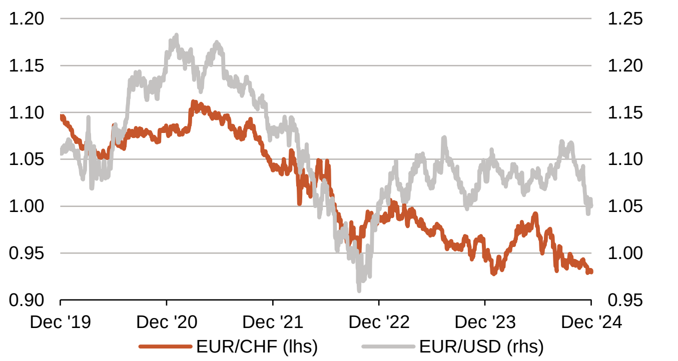
CURRENCIES

Politics as an exchange rate driver.

There is currently a lot to be said in favour of the US dollar, but the wind could change somewhat in the coming year. The strong franc is a cause for concern for the SNB.

- **The dollar still has a lot going for it:** Significantly stronger US economic data compared to the eurozone, geopolitical uncertainties and Trump's election victory have recently caused the dollar to appreciate against the euro. However, all of these factors are already priced into the exchange rate. If the geopolitical tensions ease somewhat, the economic momentum in the US slows or the eurozone picks up some momentum, the dollar is likely to lose some of its current strength in the coming year.
- **Switzerland flirting with deflation:** Geopolitical risks are leading to a sustained strength of the franc. This makes Swiss imports cheaper, which, together with falling energy prices, means that Switzerland is at risk of sliding into deflation. The Swiss National Bank (SNB) will take countermeasures by cutting interest rates further. However, as the key interest rate is already at 1%, its room for manoeuvre is limited. Direct exchange rate interventions are therefore more likely.

Exchange rates



Source: Bloomberg, 04/12/2019 - 04/12/2024.

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 04/12/2024	ytd	1-year	3-year
Gold USD/ounce	2,650	+28.5%	+30.6%	+48.6%
Silver USD/ounce	31.3	+31.5%	+27.7%	+39.0%
Copper USD/pound	414.2	+6.5%	+8.4%	-2.9%
Brent USD/bbl	72.31	-6.1%	-7.3%	+3.5%

		Performance		
	As of 04/12/2024	ytd	1-year	3-year
EUR/USD	1.05	-4.8%	-3.0%	-7.1%
EUR/CHF	0.93	+0.1%	-1.7%	-10.5%
EUR/GBP	0.83	-4.5%	-3.5%	-3.2%
EUR/JPY	158.30	+1.7%	-0.8%	+24.0%

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
Felix Schmidt | Economics
Moritz Immel | Equities
Gerald Deutsch | Fixed Income
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