BERENBERG
Markets

INVESTMENT COMMITTEE MINUTES

23 January 2025

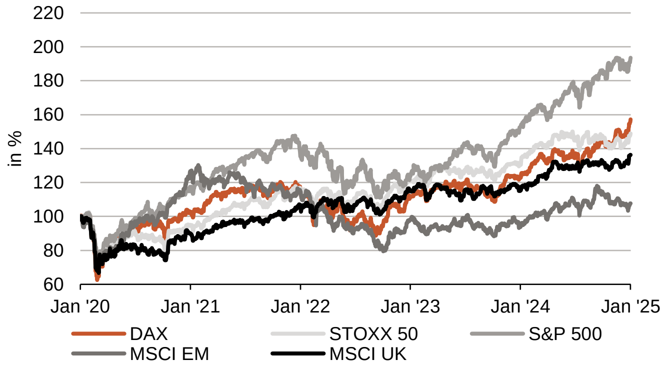
Managers of the Committee

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, 22/01/2020 – 22/01/2025.

Most important assessments at a glance

Economics	• Initially weak growth in the eurozone, German reforms could contribute to more momentum from spring onwards. • The US economy remains robust. Trump's programme gives economy a short-term boost with long-term risks. • Inflation remains stubborn, especially in the USA (tariffs, wage pressure). Fed interest rates remain high, ECB can cut further.
Equities	• Europe is outperforming, at least temporarily. However, structural problems and weak growth remain. • Global liquidity, rate cuts and growth provide support. Market breadth should increase. • US policy remains a source of uncertainty. Counter-cyclical action and balanced positioning needed.
Bonds	• The Fed's surprisingly hawkish outlook for this year and the robust US economy supported US yields. • Trump's policy agenda (tariffs, immigration, debt) increases the risk of inflation. We are keeping duration close to neutral. • High cash inflows and solid fundamentals continue to speak in favour of credit despite high valuations.
Commodities	• Gold remains well supported by falling interest rate expectations and geopolitical uncertainties. • New sanctions on Russian energy exports and colder temperatures are supporting oil. • Industrial demand for copper and aluminium remains firm.
Currencies	• The dollar has appreciated significantly in Q4 2024 as the market is pricing in an end to interest rate cuts in the USA. • However, the tailwind for the greenback is likely to ease somewhat as the year progresses. • The Swiss National Bank continues to try to limit the strength of the Swiss franc by lowering the key interest rate.

Current market commentary

Equity markets had a mixed start to the year. Rising yields, the stronger US dollar, the market's more hawkish expectations of the Fed and one-sided positioning weighed on investor sentiment and made highly valued US equities look particularly vulnerable. European equities, on the other hand, benefited from the weak euro and relatively better financing conditions. The outperformance of European equities could continue in the short term as many of the negative factors for Europe are already priced into valuations. This means that Europe has the potential for positive surprises (softer tariffs, reforms, positive earnings revisions, better economic data, Chinese stimulus, peace in Ukraine, positive effects of the weaker euro). In the medium term, however, Europe needs to address its current weak growth and structural problems. By contrast, the US economy remains rosy at the start of the year. Sustained economic strength should support the earnings performance of US companies, thereby increasing market breadth. However, high valuations and optimistic earnings expectations leave little room for disappointment. Interest rate developments, the US dollar and Trump's next steps remain uncertainties for the markets. However, the M&A and deregulation narrative, rebalancing and the current bearish sentiment (bull/bear spread temporarily at its lowest since 2023) are positive signals. We continue to favour counter-cyclical trading.

On the bond markets, robust US economic data and inflation concerns on both sides of the Atlantic have led to a significant rise in yields. We continue to favour covered bonds over government bonds. In emerging markets, we prefer the local currency segment and in hard currency government bonds over corporate bonds due to higher spreads and attractive carry. We remain neutral on duration.

Our allocation to commodities has paid off since the beginning of the year. Oil, gold and metals have even outperformed equities year-to-date.

ECONOMICS

Trump is back: new risks (trade wars?), new opportunities (ceasefire in Ukraine?)

Initially, growth in the eurozone will be weak, with additional momentum not expected until spring 2025.
President Trump: more US growth, more inflation and higher yields in the short term - but long term risks.
Inflation remains stubborn, especially in the US (higher tariffs, fewer immigrants). US Fed stable, ECB cuts interest rates.

- **Weak growth in Europe:** 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:** During this 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. German reforms after the election on February 23 could strengthen the economy. That would help the whole of Europe.
- **Robust US economy:** An expansive fiscal policy, rising corporate investment and strong private consumption continue to support the US economy. Although many homeowners currently have to extend their mortgages at higher interest rates, the Fed's interest rate cuts from the previous year will slowly have a revitalizing effect. The high asset prices are also enabling consumers to cope with the still slightly higher interest rates.
- **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. We expect China to ramp up this year to stabilize demand. However, this does not change the fundamental problems of an economy that is being increasingly controlled by the party.
- **The Trump effect:** The new US president stand for deregulation and cutting taxes. Both are initially good for the US economy, equities and the US dollar, but bad for bonds. The markets have already priced in much of this. However, higher tariffs and the deportation of immigrants will increase inflationary pressure and weaken trend growth in the long run. Tariffs could hit trading partners hard. But sharp price increases would be unpopular in the US, and we expect Trump to follow through on only some of his threats, instead using them as a tool to open negotiations with Europe, China, Canada and Mexico. Should he be able to end the war in Ukraine on terms acceptable to Ukraine, this would be positive for Europe.

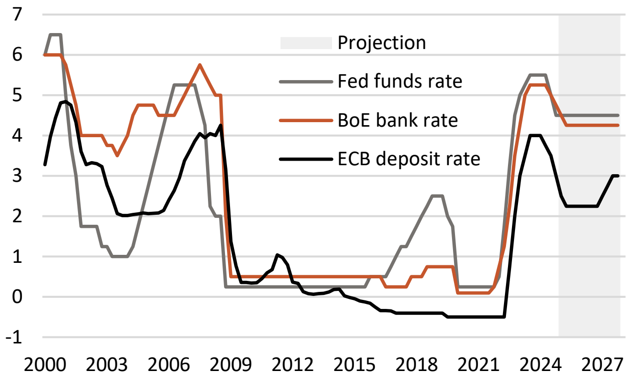
Interest rates bottom out: Inflation is sufficiently under control on both sides of the Atlantic. With the European economy initially weak and wage pressure easing, the ECB will be able to reduce its deposit rate from 3.0% to 2.25% by June 2025. In the US, however, Trump's agenda is inflationary. This leaves the Fed with little room to cut rates further.

GDP and inflation forecasts (%)

		GDP growth			Inflation		
	Share	2024	2025	2026	2024	2025	2026
World	100.0	2.6	2.7	2.7			
US	26.1	2.8	2.4	2.2	3.0	2.9	2.6
China	16.9	5.0	5.0	4.3	0.2	0.8	1.4
Japan	4.0	-0.2	1.1	1.0	2.7	2.4	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	1.2	1.6			
Eurozone	14.8	0.7	1.0	1.5	2.4	2.1	2.1
Germany	4.3	-0.2	0.2	1.2	2.5	2.1	2.1
France	2.9	1.1	0.5	1.0	2.3	1.8	2.1
Italy	2.2	0.5	0.8	1.2	1.1	1.6	2.1
Spain	1.5	3.0	2.3	2.3	2.9	2.3	2.3
Other Western Europe							
United Kingdom	3.2	0.8	1.0	1.4	2.5	3.0	2.7
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	28.0

Source: Berenberg

Key policy rates



Upper limit of Fed funds target rate, BoE bank rate, money market rate for ECB until 2017, deposit rate thereafter. Sources: ECB, Fed, BoE, Berenberg projections.

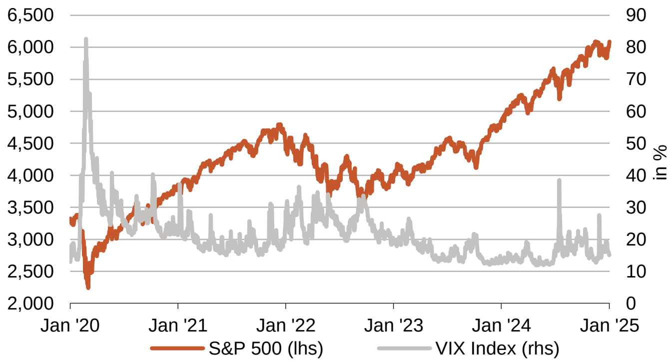
EQUITIES

Europe with chances for positive surprises.

Europe is outperforming, at least temporarily. However, structural problems and weak growth remain.
Global liquidity, rate cuts and growth provide support. Market breadth should increase.
US policy remains a source of uncertainty. Counter-cyclical action and balanced positioning needed

- Equity markets had a mixed start to the new year, having closed 2024 with double-digit gains on an aggregate basis (developed equities 2024 in EUR: 26.9%, emerging markets: 14.9%). The combination of a stronger dollar and higher yields (due, among other things, to lingering concerns about more persistent inflation, public debt and increased government and corporate bond issuance) was increasingly perceived as a drag on equity market sentiment. The rise in yields put pressure on some large US technology companies in particular, as concerns arose about high valuations. The turnaround followed cooler US core inflation data for December and a solid start to the fourth-quarter reporting season.
- While US equities have had a mixed start to the year, European equities have benefited from more favourable financing conditions and the weak euro. With the exception of consumer staples, all European sectors have performed positively year-to-date. The macroeconomic environment, earnings performance and Trump's next steps remain risk factors, but on a P/E basis many negative factors for Europe have already been priced in. Positive triggers have the potential to surprise and could continue the outperformance in the short term. However, structural problems and weak growth remain. The US economy, on the other hand, remains solid and should drive market breadth through a positive fundamental earnings trend. However, uncertainties such as the USD and interest rate trends remain. We continue to favour counter-cyclical trading.

Performance and volatility of the S&P 500 Index



Source: Bloomberg, 22/01/2020 - 22/01/2025.

Overview of equity markets (short/medium term)

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

		Total return in local currency				
	As of 22/01/2025	ytd	1-year	3-year	P/E	Dividend yield
DAX	21,254	+6.8%	+27.4%	+36.2%	15.9	2.6%
SMI	3,914	+5.2%	+9.9%	+1.7%	19.1	3.0%
MSCI UK	2,436	+4.5%	+17.9%	+28.7%	12.6	3.9%
EURO STOXX 50	5,206	+6.5%	+20.1%	+36.3%	15.4	3.1%
STOXX EUROPE 50	11,873	+4.7%	+13.7%	+29.2%	15.1	3.4%
S&P 500	11,563	+3.5%	+26.7%	+43.0%	25.6	1.3%
MSCI Em. Markets	1,082	+0.8%	+15.5%	-4.8%	13.3	2.8%

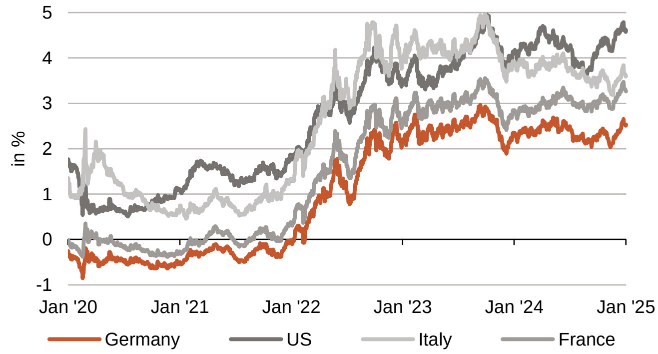
FIXED INCOME

Robust US labour market and rising inflation expectations lead to renewed rise in yields.

The Fed's surprisingly hawkish outlook for this year and the robust US economy supported US yields.
Trump's policy agenda (tariffs, immigration, debt) increases the risk of inflation. We are keeping duration close to neutral.
High cash inflows and solid fundamentals continue to speak in favour of credit despite high valuations.

- Renewed positive economic surprises in the **US**, rising inflation expectations (partly due to rising energy prices) and a surprisingly hawkish outlook from the Fed for this year led to a renewed rise in bond yields, particularly at the long end. The yield on 10-year **US government bonds** has risen from 4.2% at the beginning of December to 4.6% recently. Expectations of interest rate cuts have also diminished. The market now only expects rates to be cut by 25 basis points by the end of the year. The US yield curve has steepened and thus normalised further. Rising energy prices also led to renewed inflationary concerns in Europe and caused the yield on 10-year **German government bonds** to rise to around 2.6% recently. However, the weak economic situation in the eurozone gives the ECB leeway for the next rate cut after the regular meeting on 30 January.
- The **high-yield** and **IG segments** continue to be supported by solid balance sheets and cash inflows, while new issues continue to be very well received by the market. However, due to historically low spreads, the risk of valuation corrections has recently increased. Continued inflows, more attractive risk premiums than for corporate bonds and potential upgrades are in favour of **emerging market** government bonds, particularly in the high-yield segment.
- In the case of safe bonds, we continue to favour **covered bonds** over government bonds, although the swap spread offers little potential for narrowing. In Europe, we are primarily focussing on good qualities from the IG segment. In **emerging markets**, we favour the local currency segment and in hard currency government bonds over corporate bonds due to the higher spreads and attractive carry. Due to the increased interest rate volatility, we continue to leave the duration at the overall bond level at neutral.

Yields on 10-year government bonds



Source: Bloomberg, 22/01/2020 - 22/01/2025.

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 22/01/2025	ytd	1-year	3-year
Government bonds (iBOXX Europe Sovereigns Eurozone)	225.05	-0.5%	+2.6%	-11.1%
Covered bonds (iBOXX Euro Germany Covered)	191.10	-0.2%	+3.7%	-5.5%
Corporate bonds (iBOXX Euro Liquid Corporates 100 Non-Financials)	152.05	-0.2%	+4.3%	-5.1%
Financial bonds (iBOXX Euro Liquid Corporates 100 Financials)	163.05	+0.0%	+5.9%	+2.2%
Emerging market bonds (J.P. Morgan EMBI Global Diversified unhedged Return EUR)	646.24	+0.3%	+14.3%	+9.7%
High-yield bonds (ICE BofA Global High Yield Index)	485.17	+1.0%	+8.9%	+8.3%

COMMODITIES

Mid-term support for precious and industrial metals

Gold remains structurally supported, crude oil fluctuates in view of geopolitical tensions, industrial metals benefit from stable industrial demand.

- **Gold:** Gold posted its third consecutive weekly gain. While (geo)political uncertainties such as the Middle East conflict initially supported the price, falling rate expectations and a weaker US dollar are now taking centre stage. Central bank and ETF buying should support gold in the medium term.
- **Crude oil (Brent):** Oil got off to a flying start to the new year. First, the US and Europe announced a series of sanctions targeting Russian energy exports. The sanctions cover 183 new vessels. In addition, much of the northern hemisphere experienced much colder temperatures than in previous years. In the medium term, despite more optimistic demand forecasts, the potential is likely to be limited as supply is also likely to be plentiful.
- **Industrial metals:** Industrial demand for copper and aluminium remains stable, supported in particular by the increasing production of green technologies such as solar cells (+17%, 2024, year-on-year), lithium-ion batteries (+13.5%) and new energy vehicles (+41.4%).

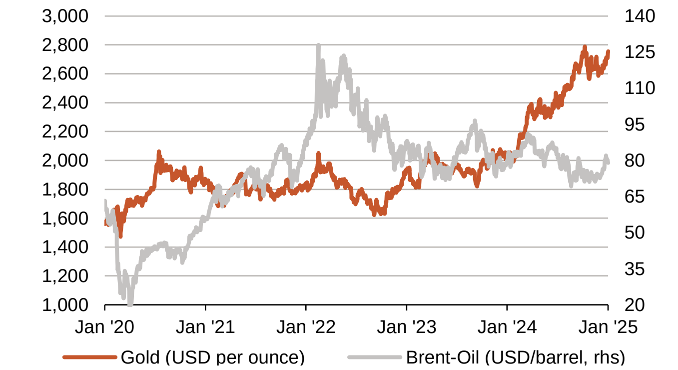
CURRENCIES

Central banks final stretch

US dollar at two-year high against the euro.
Dollar strength could ease over the course of the year.
SNB struggles with the strength of the franc.

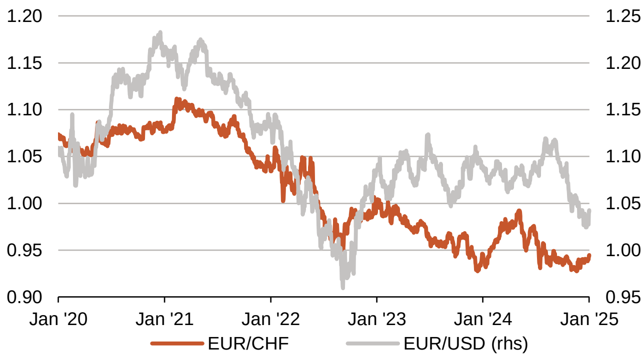
- **USD flirts with parity against EUR:** Due to the strong US economic data, the markets have recently increasingly priced in the possibility that the Fed will not cut key interest rates any further. For the ECB, however, the markets and we expect further cuts in the deposit rate in 2025. As a result, the dollar has strengthened against the euro since October. However, if the US economy disappoints the high expectations or the eurozone economy gains some momentum in the spring, as we expect, the dollar could lose some of its current strength.
- **SNB braces itself against strong franc:** The Swiss National Bank (SNB) continues to try to stabilise inflation and limit the strength of the Swiss franc by cutting key interest rates. As both the SNB and the ECB are likely to ease their monetary policy further in the coming months, we expect the euro-franc exchange rate to move sideways.

Price development



Source: Bloomberg, 22/01/2020 - 22/01/2025.

Exchange rates



Source: Bloomberg, 22/01/2020 - 22/01/2025.

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 22/01/2025	ytd	1-year	3-year
Gold USD/ounce	2,756	+5.0%	+36.3%	+50.2%
Silver USD/ounce	30.8	+6.7%	+39.5%	+26.9%
Copper USD/pound	430.1	+6.8%	+14.3%	-4.9%
Brent USD/bbl	79.00	+5.8%	-1.3%	-10.1%

		Performance		
	As of 22/01/2025	ytd	1-year	3-year
EUR/USD	1.04	+0.5%	-4.4%	-8.2%
EUR/CHF	0.94	+0.4%	-0.2%	-8.7%
EUR/GBP	0.85	+2.1%	-1.3%	+1.0%
EUR/JPY	162.93	+0.1%	+1.1%	+26.3%

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
Felix Stern | Fixed Income
Philina Kuhzarani | Commodities, Minutes
Dr Konstantin Ignatov | Minutes
Mirko Schmidt | Minutes

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