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Markets

INVESTMENT COMMITTEE MINUTES

06 May 2021

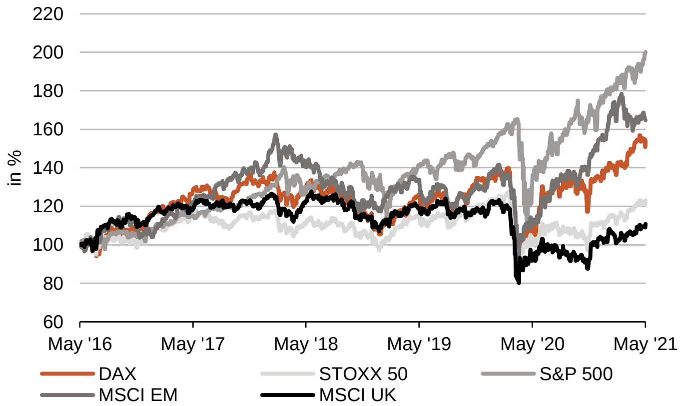
Managers of the Committee

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, 05/05/2016 - 05/05/2021.

Most important assessments at a glance

Economics	• Pandemic subsides in the western world; after the US and the UK, the EU is also making progress on vaccination • Strong fiscal stimulus drives growth; buoyant world trade supports economic activity in Europe • Inflation is on the rise; special factors are exaggerating the trend – central banks will not take countermeasures before 2022
Equities	• Seasonally strong April also lived up to its reputation thanks to good corporate figures and significant vaccination progress • We expect more volatile markets in the coming months, but believe the downside potential for equities is limited • We are continuing to position ourselves in a balanced way into the summer with only a slight overweight in equities
Bonds	• Pressure on yields in Europe increases due to positive economic outlook and rising inflation expectations • Falling spreads on EUR corporate bonds helped yields rise. Corporate bonds favoured • We underweight bonds and focus on credit risk and off-benchmark themes; duration short
Commodities	• The gold price has stabilised recently, despite continued investment outflows. Jewellery demand supported • Crude oil has risen significantly in recent weeks now that the economic opening in the West is gaining momentum • Industrial metals are supported cyclically and above all structurally. Possible super cycle ahead
Currencies	• EUR/USD is hovering around the 1.20 mark. Our EUR outlook for the rest of the year remains positive • GBP with moderate correction after very strong first quarter. However, economic prospects remain good • CHF gains slightly again. The EUR/CHF exchange rate nevertheless remains close to the 1.10 mark

Current market commentary

April lived up to its reputation as a seasonally strong month for equity markets. The S&P 500 gained more than 5% and the Euro Stoxx 50 more than 2%. The good performance was supported by the progress in Covid-19 vaccinations, the expansive fiscal policy, good economic data and positively surprising corporate profits. At the style level, the growth factor recovered over the past few weeks and outperformed value. However, we do not see the end of the rotation from growth to value yet. Particularly over the summer, with the economic opening in Europe and then in the emerging markets, there are likely to be further rotations. In addition to increased style volatility, weak summer seasonality and risks from higher US taxes, tighter monetary policy and high equity valuations are likely to cause turmoil in the market. On the other hand, the expected strong Q2 reporting season, good economic data and continued high liquidity levels should support markets. The summer thus brings both light and shade. We have therefore recently reduced our equity exposure to a slight overweight and continue to focus on more cyclical segments, such as commodities, alongside quality companies with sustainable growth.

Yield pressure is now also increasing in Europe, after yields in the US have already seen a significant rise since the beginning of the year. Good economic data and increased inflation expectations should continue to drive yields. Safe-haven government bonds remain unattractive going into the summer. We prefer corporate and emerging market bonds, which offer a buffer against rising yields due to the spreads in a solid economic environment.

Demand for industrial metals is unabated and has recently driven prices to new highs. In addition to the cyclical surge in demand, structural demand is supporting the market and could lift industrial metals into a new super cycle. Gold recently stabilised, while crude oil continued to rise.

ECONOMICS

As pandemic risks in Europe subside, economic lights turn green

The strong recovery of the global economy has begun. US in the lead, Eurozone to follow in the second quarter.
After the easing of the lockdowns: consumers have pent-up demand, companies want to invest, politicians support.
Inflation returns with the upswing, but central banks will only slowly tighten their policies from 2022 onwards.

- **Strong recovery:** In the US and UK, the pandemic has largely subsided. Thanks to progress in vaccination, life there is gradually returning to normal. In the US, the upswing is gaining momentum. An extraordinarily expansive fiscal policy is contributing to this. Instead of 6.9%, we now even expect 7.2% growth for the US in the current year. In the UK, the economy is also expected to recover quickly with 6.6% growth in 2021 with the gradual loosening of the lockdown from April.
- **Setback for the Eurozone soon over:** Since the end of March, COVID-19 case numbers have also been decreasing somewhat in Germany, France and many neighbouring countries. After a faltering start, the vaccination campaign has also picked up speed in the EU. In April, as many people were vaccinated as in the first three months of the year combined. An even faster pace is on the horizon for May and June.
- **New growth in the Eurozone:** Data on consumer mobility, retail sales and business confidence suggest that the economy already rebounded in March and has been gaining momentum since then. We have raised our 2021 growth forecast for the Eurozone from 3.9% to 4.4%.
- **After the pandemic – full speed ahead:** Consumers have built up additional savings during the lockdowns. In the US, it is already evident that they want to spend more money again as soon as they can. Businesses want to invest more and restock as demand picks up. Monetary and fiscal policies are supporting demand in the developed world more than ever before. After the first wave of the pandemic, the Eurozone had made up almost all of its Q2 2020 losses in Q3 2020. This also speaks for a quick recovery as soon as the lockdowns can be eased.
- **China** remains robust for the time being thanks to its credit stimulus, despite significant long-term risks. Strong growth in key consumer countries is supporting many emerging markets. However, some countries, such as India, Brazil and Turkey, have damaged themselves by mishandling the pandemic.
- **Do not worry about a little more inflation:** Inflation and interest rates will rise in the upswing, with special effects such as the return to a normal oil price and higher transport costs contributing to this. However, as the special effects fade out, the price climate will calm down again in 2022 with inflation of around 1.5% in Germany and the Eurozone.

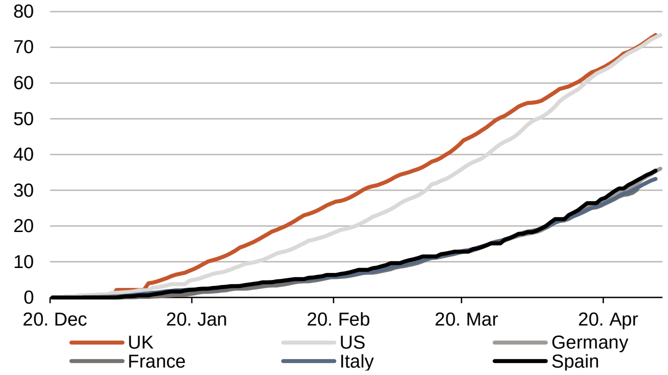
Central banks remain calm: After years of falling short of their inflation targets, the central banks will not react to the current rise in inflation driven by special effects. They want to continue to support the economy and labour markets. Only when the upswing has stabilised will they significantly reduce bond purchases in 2022.

GDP and inflation forecasts (%)

		GDP growth			Inflation		
	%	2020	2021	2022	2020	2021	2022
World	100.0	-3.3	4.7	3.5			
US	24.5	-3.5	6.9	4.6	1.2	2.4	2.6
China	16.4	2.0	9.5	5.3	2.5	1.6	2.2
Japan	5.8	-4.9	4.8	2.0	0.0	0.1	0.6
India	3.3	-9.0	8.0	6.5			
Latin America	5.9	-8.1	4.2	3.5			
Europe	24.4	-6.4	4.1	4.4			
Eurozone	15.3	-6.8	3.9	4.9	0.3	2.0	1.5
Germany	4.4	-5.3	3.5	4.6	0.4	2.6	1.6
France	3.1	-8.2	4.9	5.0	0.5	1.9	1.5
Italy	2.3	-8.9	4.5	4.7	-0.1	1.3	1.3
Spain	1.6	-10.8	5.7	6.8	-0.3	1.4	1.3
Rest of western Europe							
UK	3.2	-9.8	6.2	5.6	0.9	1.6	2.2
Switzerland	0.8	-3.0	2.6	2.2	-0.8	0.4	0.6
Sweden	0.6	-3.0	2.9	2.1	0.7	1.7	1.3
Eastern Europe							
Russia	1.9	-3.3	2.8	2.0	3.4	3.0	3.5
Turkey	0.9	0.7	1.5	2.0	12.0	10.0	8.0

Source: Berenberg

COVID-19 vaccine doses administered per 100 inhabitants



Source: Our world in data, 20/12/2020 - 02/05/2021

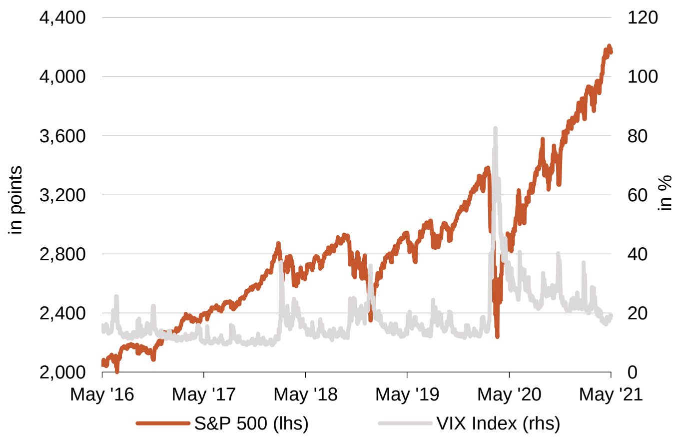
EQUITIES

Light and shadow

Seasonally strong April also lived up to its reputation thanks to good corporate figures and significant vaccination progress. We expect more volatile markets in the coming months, but believe that the downside potential for equities is limited. We are continuing to position ourselves in a balanced way into the summer with only a slight overweight in equities.

- **April lived up to its reputation as a seasonally strong month for equity markets.** The S&P 500 gained more than 5% and the Euro Stoxx 50 more than 2%. The good development was supported by the progress made on vaccines, the expansive fiscal policy, good economic data and positively surprising corporate profits. These positive factors outweighed the risks from tax discussions, more restrictive monetary policy and high valuations.
- In Europe, **growth stocks** gained more than 3%, while **value stocks** only gained around 1%. Even though the growth strength is convenient for us, we do not consider the rotation from growth to value to be complete yet. With the economic recovery in Europe and thus rising interest rates, there should be further rotations over the summer. At the style level, the summer should therefore be volatile. **Cyclical stocks**, which already gained more than 4% in April, should benefit from the rotation. **Small-caps** again outperformed **large-caps**.
- The still expansionary monetary and fiscal policy, the good economic outlook thanks to the opening in Europe and then in the emerging markets, strong Q1 corporate figures and strengthening share buyback programmes keep us positive on the equity markets. Nevertheless, the upside potential has diminished due to the already partially priced-in economic recovery (high valuations) and the possible tightening of monetary policy. In addition, the summer tends to be weak for equities. We have therefore reduced our equity quota to only a slight overweight.
- We are positioning ourselves for the volatile summer with a **slight overweight in equities** and **remain balanced.**

Performance and volatility of the S&P 500 Index



Source: Bloomberg, 05/05/2016 - 05/05/2021.

Overview of equity markets (short/medium term)

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

		Performance in local currency				
	As of 05/05/2021	ytd	1-year	3-year	P/E	Dividend yield
DAX	15,171	+10.6%	+41.4%	+18.3%	15.9	2.7%
SMI	11,109	+6.5%	+20.3%	+37.5%	18.1	2.9%
MSCI UK	1,974	+10.6%	+23.1%	+2.2%	13.6	3.9%
EURO STOXX 50	4,003	+13.9%	+43.1%	+24.0%	18.7	2.8%
STOXX EUROPE 50	8,197	+11.4%	+24.2%	+20.8%	17.0	3.2%
S&P 500	4,168	+11.5%	+47.7%	+65.5%	22.7	1.1%
MSCI Em. Markets	1,333	+3.7%	+52.4%	+27.3%	14.5	2.5%

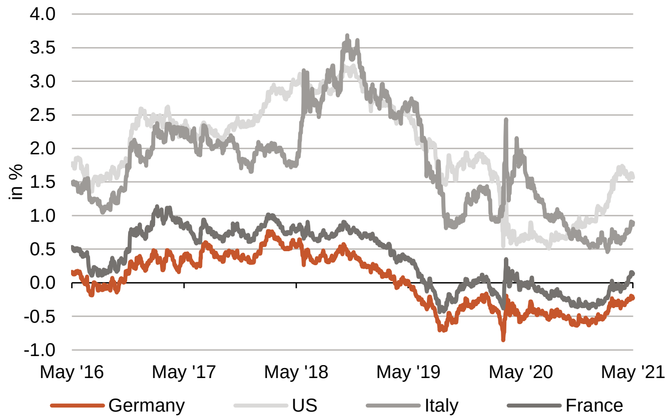
BONDS

Yields rise in Europe

Pressure on yields in Europe increases due to positive economic outlook and rising inflation expectations. Falling spreads on EUR corporate bonds helped yields rise. Corporate bonds favoured. We underweight bonds and focus on credit risk and off-benchmark themes. Duration: short.

- The **rise in interest rates in Europe** has picked up speed. The emerging success of vaccinations should allow the economy to open up in the near future and thus continue to drive the economic recovery. This should lead to rising prices. The prospect of rising inflation should therefore push up the term premium further. In the past four weeks, yields in particular on **10-year Italian government bonds** have risen by more than 20bp, while **10-year German government bonds** have risen by around 10bp.
- The yield on 10-year **US government bonds,** on the other hand, has not risen any further. In the past four weeks, the yield even came down by 10bp, as the Fed is sticking to its loose monetary policy for the time being and recently reaffirmed this. Many market participants have therefore reduced their short positions in recent weeks. In the medium term, however, interest rates in the US are likely to rise further with high economic growth and rising prices.
- Corporate bonds remain in demand and we also prefer corporate bonds to safe government bonds in the current yield environment. In the past four weeks, spreads on **EUR-IG corporate bonds** fell by around 5bp and on **EUR high-yield bonds** by around 10bp. In the case of **USD corporate bonds**, there was hardly any change in spreads as yields declined. In **emerging market (EM) bonds**, we particularly like EM local currency bonds from a cyclical point of view and EM corporate bonds due to attractive yields.
- **We significantly underweight bonds.** We keep our focus on corporate and emerging market bonds and keep the duration comparatively short.

Yields on 10-year government bonds



Source: Bloomberg, 05/05/2016 - 05/05/2021.

Overview of bond markets (short/medium term)

Orientation	Old	New
Duration	Short	Short
Government bonds	↘	↘
Corporate bonds	→	→
High-yield bonds	→	↗
Emerging market bonds	↗	↗

Yields (10-year)	Old	New
Germany	↗	↗
UK	↗	↗
US	↗	↗

	As of 05/05/2021	Performance in index currency ytd	1-year	3-year
Government bonds (iBOXX Europe Sovereigns Eurozone)	255.11	-3.2%	+1.3%	+8.4%
Covered bonds (iBOXX Euro Germany Covered)	205.23	-1.1%	-0.0%	+3.8%
Corporate bonds (iBOXX Euro Liquid Corporates 100 Non-Financials)	161.82	-0.8%	+3.6%	+7.3%
Financial bonds (iBOXX Euro Liquid Corporates 100 Financials)	160.94	-0.3%	+4.2%	+6.3%
Emerging market bonds (Bloomberg Barclays EM USD Aggregate TR Index Unhedged)	1,262.18	-2.0%	+11.9%	+19.1%
High-yield bonds (Bloomberg Barclays Global High Yield Total Return Index, USD)	1,529.85	+1.0%	+21.9%	+18.4%

COMMODITIES

Industrial metals at new highs

Gold price stable thanks to strong jewellery demand.
Oil price remains supported by the rebound in demand.
Industrial metals in demand cyclically and structurally.

- The **gold price** should have found its bottom and could stabilise despite negative investment flows and thanks to strong jewellery demand. The negative interest rate sensitivity has diminished, and the hedging character should come back into focus as the economic euphoria wanes.
- The **price of crude oil** (Brent) is trying to reach the USD70 per barrel mark. Demand is increasing in the economic upswing, while supply remains manageable.
- Demand for **industrial metals** is unabated thanks to the numerous economic stimulus programmes. Many metals are at multi-year highs. But they are also gaining longer-term tailwinds, as they are central raw materials in many key technologies to decarbonise our society and thus slow down climate change. For industrial metals, a new structural boom, a super cycle, may have begun.

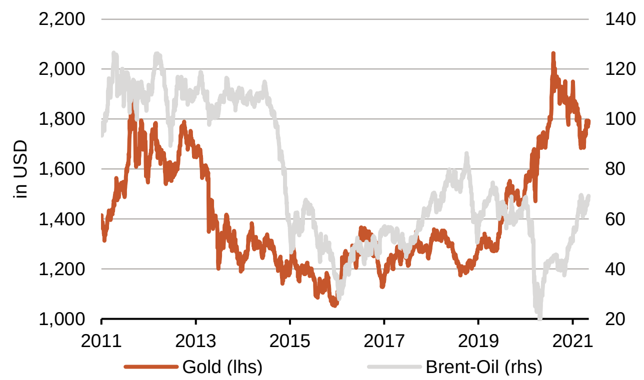
CURRENCIES

EUR/USD remains below 1.20

EUR/USD: Positive outlook for the EUR.
GBP with slight correction after highs.
CHF remains strong and hovers around 1.10.

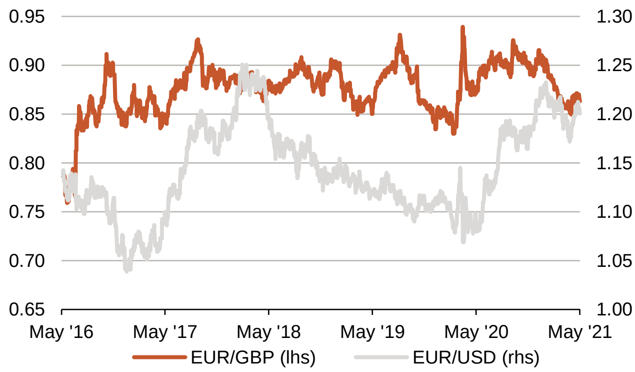
- **EUR/USD:** After a weak phase in March, the common currency fought its way back above the 1.20 USD per EUR mark in April. However, the upward movement was interrupted recently. Overall, the outlook for the rest of the year remains positive. Europe is making progress with COVID-19 vaccinations, the economic outlook is brightening and the EU reconstruction fund has cleared an important hurdle: The Federal Constitutional Court has given the green light for German participation in the aid fund, which was decided last year to finance COVID-19 burdens. Although the approval of all member states has not yet been obtained, this removes one factor of uncertainty.
- **EUR/GBP:** GBP made an impressive comeback in the first quarter, partly because the UK achieved rapid success with vaccinations. Recently there has been a countermovement, also because Europe is likely to catch up with the vaccination backlog.

Price development



Source: Bloomberg, 01/01/2011 - 05/05/2021.

Exchange rates



Source: Bloomberg, 05/05/2016 - 05/05/2021.

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

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 05/05/2021	ytd	1-year	3-year
Gold USD/ounce	1,787	-5.9%	+4.7%	+35.9%
Silver USD/ounce	26.5	+0.3%	+77.0%	+60.2%
Copper USD/pound	453.9	+29.0%	+93.9%	+48.1%
Brent USD/bbl	68.96	+33.1%	+122.7%	-7.9%

		Performance		
	As of 05/05/2021	ytd	1-year	3-year
EUR/USD	1.20	-1.7%	+10.7%	+0.4%
EUR/CHF	1.10	+1.4%	+3.9%	-8.3%
EUR/GBP	0.86	-3.4%	-0.9%	-2.3%
EUR/JPY	131.11	+3.9%	+13.4%	+0.5%

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, European Equities
Ulrich Urbahn | Head Multi Asset Strategy & Research
Oliver Brunner | Co-Head Portfolio Management Multi Asset
Ansgar Nolte | Co-Head Portfolio Management Multi Asset
Till Budelmann | US Equities
Daniel Fuchs | Bonds
Alexander Pichler | Bonds
Ludwig Kemper | Commodities
Marco Höchst | Commodities
Karsten Schneider | Multi Asset Strategist, Minutes

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