INVESTMENT COMMITTEE MINUTES

10 June 2021

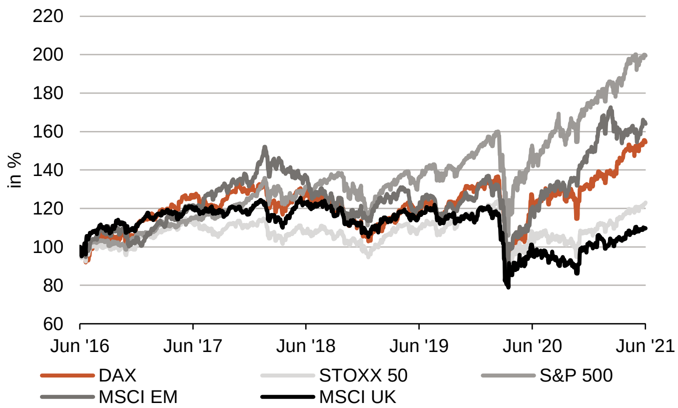
Managers of the Committee

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, 09/06/2016 - 09/06/2021.

Most important assessments at a glance

Economics	• The recovery of the global economy is gaining momentum - US ahead, Europe catching up • After the easing of the lockdowns: consumers have pent-up demand, companies want to invest, politicians lend support • Inflation returns with the upswing - but central banks will only slowly tighten their policies from 2022 onwards
Equities	• EUR equities moved ahead of US counterparts. This is likely to remain unchanged due to economic catch-up potential • The ups and downs in styles make it difficult to get a clear market picture. However, the tailwind for value is still there • We have a balanced position and are only slighty overweight in equities, as the summer is likely to be bumpy
Bonds	• There has been a pause in the rise in yields; looking ahead, however, yields are likely to rise again • Corporate bonds remain in demand with positive economic development and thanks to a comparatively shorter duration • We underweight bonds and focus on credit risk and off-benchmark themes. Duration: short
Commodities	• The gold price has seen the bottom and is on its way up amid high investor demand • Brent oil made further gains recently and is well supported even with production expansions thanks to rising demand • Industrial metals recently paused for a healthy breather. However, the investment case remains intact
Currencies	• EUR/USD is hovering around the 1.20 mark. Our euro outlook for the rest of the year remains positive • GDP 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

The stock markets remain supported - especially outside the USA. While economic data in the USA, unlike in other regions, have not been able to surprise positively on average lately, the positive earnings revisions continued globally - especially in commodity-heavy regions such as Latin America and eastern Europe. Accordingly, emerging market equities outside Asia have also recently outperformed. Until it becomes clear how the Federal Reserve (Fed) will act and what Joe Biden can actually implement of his stimulus plans, we believe the market is likely to remain in a wait-and-see mode over the next few months. The summer is therefore likely to be bumpy - especially in terms of investment styles. In contrast, high central bank liquidity, fiscal stimulus, high demand potential thanks to high savings rates, share buybacks, significant share inflows and the reopening momentum speak in favour of equities. Without an external trigger, we do not expect a stronger correction. We are maintaining our slightly overweight position in equities and, in addition to quality companies with sustainable growth, we are focusing on more cyclical segments, even if we believe that profit-taking is appropriate in individual cases.

There has been a pause in the rise in yields. Recently, yields on safe government bonds have even fallen, as central banks and some market participants view the increased inflation as only temporary and believe that the economic peak is already behind us. In our view, however, the rise in yields is not over yet and is likely to gain momentum once more. Risk premiums on corporate bonds have fallen slightly amid positive developments in corporate key figures. Corporate bonds thus remain in demand. In emerging market bonds, we like local currency bonds due to their cyclical behaviour and high-yield hard currency bonds due to the attractive current yield.

Gold is in greater demand again and should return to its former strength. Crude oil is also on an upward trend.

ECONOMICS

As pandemic risks in Europe subside, economic lights turn green

The recovery of the global economy is gaining momentum. USA ahead, Europe catching up.
After the easing of the lockdowns: consumers have pent-up demand, companies want to invest, politicians support.
Inflation is returning with the upswing - but central banks will only slowly tighten their policies from 2022 onwards.

- **Strong recovery:** In the USA, the COVID-19 has largely subsided. Life there has gradually returned to normal. Supported by an expansive fiscal policy, the upswing is gaining more and more momentum. An extraordinarily expansive monetary policy contributes to this.
- **Eurozone catching up:** Since the end of March, COVID-19 case numbers in the Eurozone have also been declining significantly. After a faltering start, the vaccination campaign has also picked up speed in the EU since March. The rapid rise in the business climate has been gaining momentum since the end of April. With the gradual easing of restrictions, consumer mobility, which gives an indication of private consumption expenditure, had already returned to almost normal levels at the beginning of June.
- **The British test:** Since 23 May, the number of new infections in the UK has been rising despite rapid progress in vaccination. It is mainly people who are still unvaccinated who are becoming infected. In the UK, it remains to be seen whether this will have to lead to new restrictions. But since these are often young people at relatively low risk, we do not currently expect the medical system to be overburdened. We still have to keep an eye on the risk.
- **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 recovered almost all of its Q2 2020 losses in Q3 2020. This argues for a quick recovery this summer as well.
- **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, 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 - special effects such as the return to a normal oil price and higher transport costs will contribute 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.

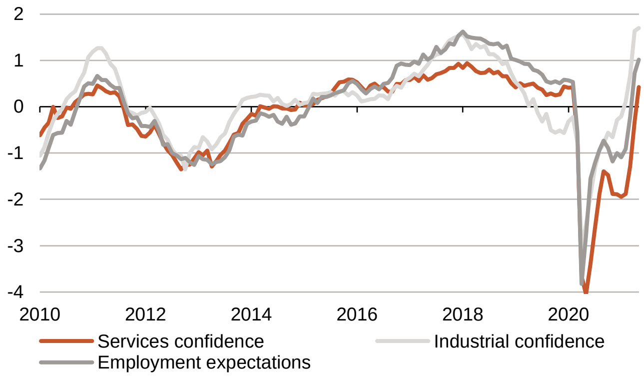
Central banks remain calm: After years of falling short of their inflation targets, the central banks will react only cautiously to the current rise in inflation driven by special effects. They want to continue to support the economy and labour markets. Therefore, they will only cautiously reduce their bond purchases in the coming quarters.

GDP and inflation forecasts (%)

		GDP growth			Inflation		
	%	2020	2021	2022	2020	2021	2022
World	100.0	-3.3	4.7	3.4			
US	24.5	-3.5	7.1	4.6	1.2	2.9	2.6
China	16.4	2.0	8.9	5.3	2.5	1.5	2.2
Japan	5.8	-4.7	3.4	2.3	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	-6.3	4.4	4.0			
Eurozone	15.3	-6.7	4.5	4.4	0.3	1.9	1.5
Germany	4.4	-5.1	3.8	4.4	0.4	2.7	1.7
France	3.1	-8.0	5.9	4.4	0.5	1.5	1.5
Italy	2.3	-8.9	5.2	4.6	-0.1	1.1	1.2
Spain	1.6	-10.8	6.2	6.5	-0.3	1.9	1.8
Rest of western Europe							
UK	3.2	-9.8	6.8	5.5	0.9	1.7	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	12.0	8.0

Source: Berenberg

Eurozone business climate



Source: European Commission, 01/01/2010 – 31/05/2021.

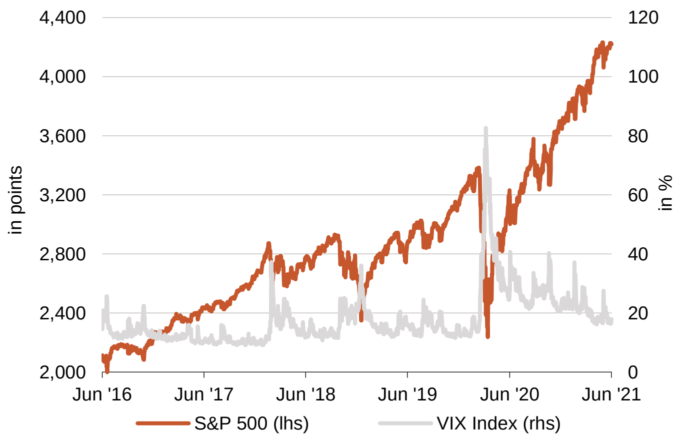
EQUITIES

Eurozone accelerates

Eurozone equities ahead of their US counterparts. This is likely to remain for now, thanks to economic catch-up potential. The ups and downs in styles make it difficult to get a clear market picture. However, the tailwind for value is still there. We have a balanced position with only a slightly overweight position in equities, as the summer is likely to be bumpy.

- **Steadily declining COVID-19 infection rates, a strong Q1 earnings season and the positive economic data have continued to support the stock markets.** In this environment, Eurozone equities (Euro Stoxx 50) in particular were able to prove their worth, gaining almost 4% since beginning of May and in some cases reaching new all-time highs. US equities (S&P 500), on the other hand, were only able to gain around 1%. In contrast to the USA, the Eurozone continues to surprise on the upside in economic terms. Since the Eurozone also has more economic catch-up potential, equities there should also perform better in the coming months.
- May was a cyclical month. In Europe, cyclical stocks (+3.5%) slightly outperformed defensive stocks (+3%) thanks to large vaccination advances. Globally, **value stocks,** with a performance of more than 3%, clearly outperformed **growth stocks,** which generated a negative return. In Europe, however, the investment styles were almost equal. **Small caps**, on the other hand, performed similarly to **large caps both** globally and in Europe. At the sector level, the real estate sector in particular was able to gain in Europe in the last four weeks (+8%).
- High levels of central bank liquidity, fiscal stimulus, high demand potential thanks to high savings rates, share buybacks, significant equity inflows and the reopening momentum continue to speak in favour of equities despite a potentially bumpy summer. Without an external trigger, we therefore do not expect a stronger correction.
- We have a **slightly overweight position in equities** going into the bumpy summer and **remain balanced.** The regional focus is currently on Europe and the emerging markets.

Performance and volatility of the S&P 500 Index



Source: Bloomberg, 09/06/2016 - 09/06/2021.

Overview of equity markets (short/medium term)

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

		Performance in local currency				
	As of 09/06/2021	ytd	1-year	3-year	P/E	Dividend yield
DAX	15,581	+13.6%	+23.5%	+22.0%	15.6	2.8%
SMI	11,788	+13.2%	+19.2%	+52.3%	19.2	2.8%
MSCI UK	1,988	+11.8%	+14.9%	+1.2%	13.3	4.0%
EURO STOXX 50	4,097	+17.4%	+27.0%	+29.9%	18.7	2.7%
STOXX EUROPE 50	8,452	+14.9%	+18.2%	+25.1%	17.2	3.1%
S&P 500	4,220	+13.1%	+33.6%	+60.5%	22.4	1.4%
MSCI Em. Markets	1,373	+7.1%	+39.2%	+31.1%	14.7	2.4%

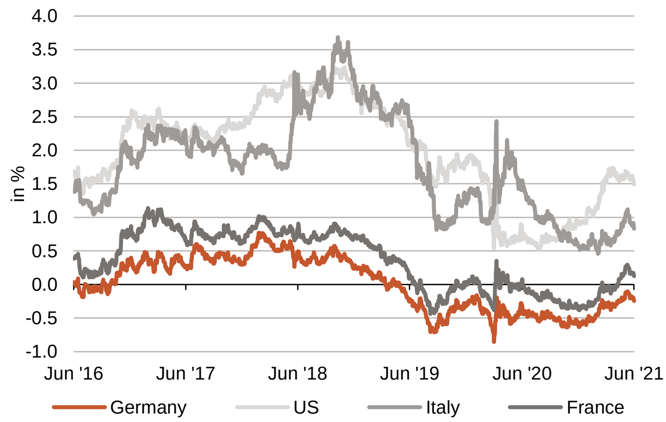
BONDS

Rise in yields temporarily curbed

There has been a pause in the rise in yields. Looking ahead, however, yields are likely to rise again. Corporate bonds remain in demand due to positive economic development and thanks to a comparatively shorter duration. We are underweight in bonds and focus on credit risk and off-benchmark themes. Duration: short.

- There has been a pause in the rise in yields in **Europe**. However, the path upwards is likely to be only temporarily interrupted, as both the increased inflation data and the clear economic recovery argue for a more restrictive monetary policy. Yields on 10-year **German, French** and **UK government bonds** have fallen by around 15 basis points (bps) in the last four weeks, while they have fallen by around 20 bps on Italian government bonds.
- The yield on 10-year **US government bonds** has also fallen significantly in recent weeks. The Fed remains dovish and continues to see inflation as temporary. Many market participants have thus unwound their US government bond short positions, putting downward pressure on yields. Moreover, the steepness of the US yield curve has not increased further despite the ongoing economic recovery, as some market participants, unlike us, consider the cyclical peak to have already passed.
- The positive development of corporate key figures makes investors buy corporate bonds. In addition, these tend to have a shorter duration than government bonds, which is advantageous when interest rates are rising. Risk premiums, which are at a historically low level, have not fallen significantly recently. In **EUR-IG** and **USD-IG corporate bonds,** risk premiums have barely moved in the last four weeks, while they fell by around 10 bp in **EUR high-yield bonds**. In **emerging market bonds,** we especially like local currency bonds from a cyclical point of view and high-yield hard currency bonds due to attractive yield.
- **We are 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, 09/06/2016 - 09/06/2021.

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	↗	↗

		Performance in index currency		
	As of 09/06/2021	ytd	1-year	3-year
Government bonds (iBOXX Europe Sovereigns Eurozone)	255.90	-2.9%	+1.5%	+11.1%
Covered bonds (iBOXX Euro Germany Covered)	205.32	-1.0%	+0.2%	+3.9%
Corporate bonds (iBOXX Euro Liquid Corporates 100 Non-Financials)	162.16	-0.6%	+2.7%	+8.0%
Financial bonds (iBOXX Euro Liquid Corporates 100 Financials)	161.12	-0.2%	+2.3%	+7.0%
Emerging market bonds (Bloomberg Barclays EM USD Aggregate TR Index Unhedged)	1,280.65	-0.6%	+6.7%	+21.3%
High-yield bonds (Bloomberg Barclays Global High Yield Total Return Index, USD)	1,551.98	+2.5%	+13.2%	+20.6%

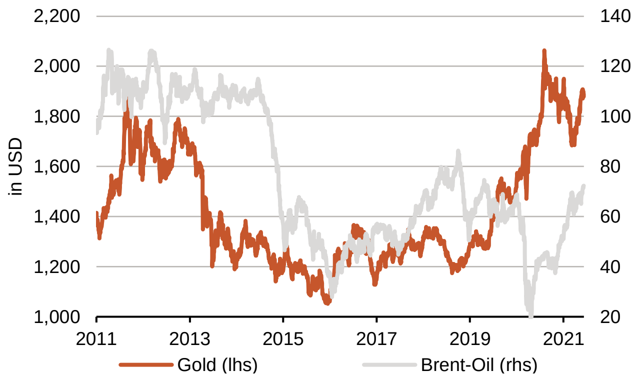
COMMODITIES

Gold on the way to regaining its old strength

Gold regains investor favour and old strength.
Oil is trending upwards thanks to OPEC+ and demand.
Industrial metals are taking a temporary breather.

- The **gold price** has reached a robust bottom and is on its way up again. The main drivers are stagnating interest rates in the US and the resurgence of investor demand. As macro momentum wanes towards the end of the year, gold is likely to move further into investors' focus. The $2,000 mark seems within reach again thanks to positive trends.
- The **crude oil price** (Brent) continued to gain and reached its highest level since May 2019. The decision by OPEC+ to continue its production increases as planned was received positively by the market, with demand also expected to rise strongly in the coming months.
- **Industrial metals** recently took a breather. After the post-COVID rally in industrial metals continued unabated in 2021, there was a consolidation last month. However, this appears healthy and the investment case remains intact.

Price development



Source: Bloomberg, 01/01/2011 - 09/06/2021.

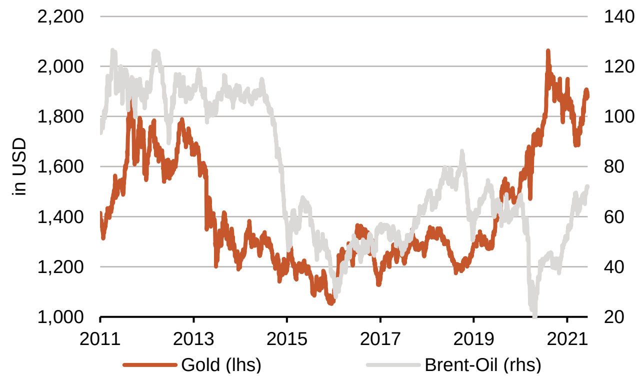
CURRENCIES

Euro/US dollar rate settles above 1.20

EUR/USD: The EUR has further upside potential.
The GBP is fluctuating sideways at very solid level.
CHF currency gains are again taking place in small steps.

- **EUR/USD:** As the COVID-19 infection rates in Europe fall sharply, the economic outlook is brightening perceptible. This is also noticeable in the euro exchange rate: The interim weakness of the first quarter has been overcome and the exchange rate has settled back above 1.20 US dollars per EUR. This is also helpful for the EUR: Although the US economy is buzzing, inflation and the unprecedentedly expansive monetary and fiscal policy are weighing on the USD. The influence of monetary policy can also be seen in the USD vs. CAD. After the Canadian central bank began to reduce its bond purchases in April, the "Loonie" rose strongly and has been able to maintain its gains so far.
- **EUR/GBP:** As expected, the GBP was unable to continue its rise from the first quarter. Nevertheless, the pound has almost maintained the most recent high level and is now fluctuating around the mark of 0.86 GBP per EUR. We do not expect a new strong trend for the time being.

Exchange rates



Source: Bloomberg, 09/06/2016 - 09/06/2021.

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 09/06/2021	ytd	1-year	3-year
Gold USD/ounce	1,889	-0.5%	+10.1%	+45.5%
Silver USD/ounce	27.8	+5.2%	+58.4%	+65.4%
Copper USD/pound	453.1	+28.8%	+74.3%	+37.3%
Brent USD/bbl	72.22	+39.4%	+75.4%	-5.5%

		Performance		
	As of 09/06/2021	ytd	1-year	3-year
EUR/USD	1.22	-0.3%	+7.4%	+3.5%
EUR/CHF	1.09	+0.9%	+1.2%	-5.9%
EUR/GBP	0.86	-3.5%	-3.2%	-1.7%
EUR/JPY	133.53	+5.8%	+9.3%	+3.6%

IMPORTANT NOTES

Members of the Investment Committee

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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
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Christian Bettinger | Bonds
Felix Stern | Bonds
Ludwig Kemper | Commodities
Marco Höchst | Commodities
Karsten Schneider | Multi Asset Strategist, Minutes

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