HORIZON

The Berenberg Capital Market Outlook · Wealth and Asset Management

POLITICAL STOCK MARKETS

Trump sets the pace! Political uncertainty has risen sharply. Geopolitical chaos, tariffs, austerity measures and immigration restrictions dominate, but not deregulation or tax cuts. US consumers are disillusioned, and the US economy is at risk of a temporary slowdown.

WAKE-UP CALL FOR EUROPE

Trump's wake-up call has been heard – in politics and in the markets. The strength of European equities and the euro, and the weakness of the Magnificent Seven, show once again that a broad portfolio, diversification and healthy scepticism towards strong market consensus and high optimism pay off.

BULL MARKET FALTERS

Trump's political stock markets are likely to have longer legs. Persistent volatility, declining liquidity and worsening seasonality argue against aggressive positioning. However, we stick to our guns: 2025 is likely to be another bull year, albeit a much tougher one. Major pullbacks are likely to present opportunities.

Q2 | 2025

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FOREWORD

Prof Dr Bernd Meyer
Chief Investment Strategist

Dear Readers,

Optimism about US equities was high after Donald Trump's election victory, and market expectations, as measured by equity valuations and investor positioning and sentiment, were even higher at the end of 2024. As it turned out, European and Chinese equities, which had been scorned, made a spectacular comeback that few expected. Even our optimistic target of 22,000 points for the DAX by the end of 2025 was shattered in February. This shows once again that diversification pays off just as much as healthy scepticism when the market consensus is too strong and sentiment too extreme. For investors, it was initially a good start to the year, with the vast majority of investment opportunities performing positively. This changed with the inauguration of President Trump, the political uncertainty and the resulting market volatility. US equities in particular corrected. Winners in the first quarter included European equities, emerging market equities and precious and industrial metals.

We had expected markets to be more challenging following Donald Trump's inauguration. The combination of tighter financial conditions in Q4, austerity measures (DOGE), immigration restrictions, rising tariffs and high uncertainty is likely to lead to a contractionary economic impulse in the US, at least temporarily – US economic data has been disappointing of late. This could play into Trump's hands, as weaker growth is already leading to lower interest rates and a weaker US dollar, and could also lead to a reduction in still too high inflation, all of which are medium-term pro-growth goals of the Trump administration. Combined with the withdrawal of liquidity due to the capital gains tax for the year 2024 due in the US in April and the typically weaker equity seasonality from May onwards, the period of increased market volatility is likely to continue for the time being – Trump's political stock markets are likely to have longer legs. Inflation in the US is still too high and tariffs are not helping to bring it down. Now that Europe's public debt is also likely to rise more sharply, with defence and infrastructure spending on the rise and with it demand for commodities and labour, investors should not lose sight of the medium-term inflation risks. As a result, bond yields are likely to remain volatile. Commodities remain an attractive addition to any portfolio. European equities have further potential if international investors seriously change their allocation. However, the strong relative performance could be tempered for the time being by tariffs against Europe and improved financial conditions in the USA. Markets are likely to remain challenging in the second quarter and a balanced positioning is therefore appropriate. In the medium term, we remain optimistic and could see ourselves adding to our holdings on stronger corrections.

In the Insights interview on page 14, Kay Eichhorn-Schott, an equity portfolio manager specialising in the healthcare sector, talks about what makes the sector interesting for investors at the moment, and which trends and sub-sectors he finds particularly exciting.

CONTENT

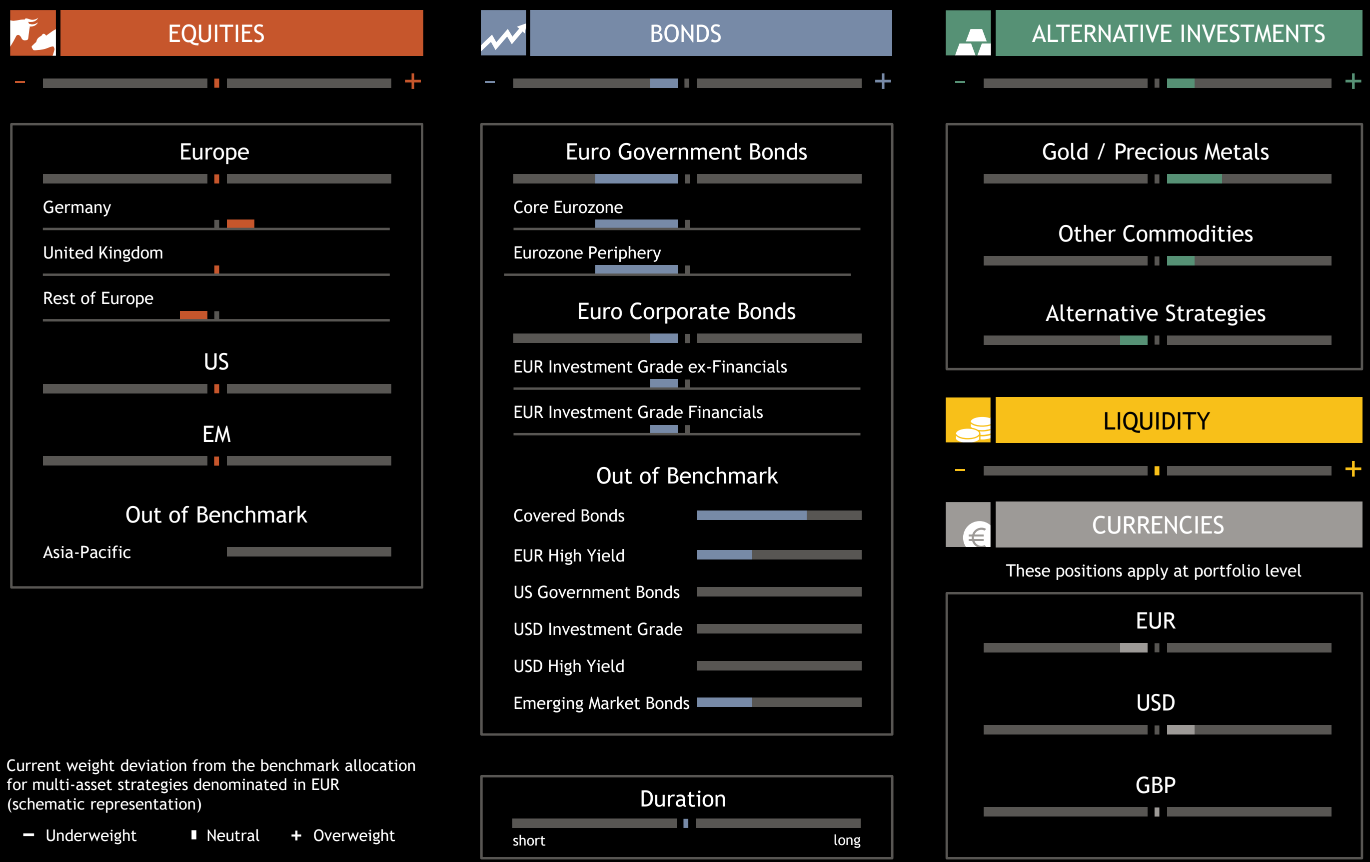
TRUMP'S POLITICAL STOCK MARKETS MAY HAVE LONGER LEGS

IN A NUTSHELL

- Political uncertainty and growth concerns in the US are likely to persist and economic weakness there has become more likely, but we do not see a recession.
- Europe's strong outperformance may falter initially. However, it has further potential over the medium term.
- Inflation risks have increased further. Gold and base metals remain in demand.
- Sharper setbacks in equities in the coming months should offer opportunities over the medium term.
- Risks: Sharper-than-expected US downturn, rising inflation, no viable solution to the Russia-Ukraine war.

Portfolio positioning at a glance

We started the year overweight in equities and commodities relative to bonds and cash. After a strong start to the year in equities and commodities, we took some profits at the end of January. We reduced equities to neutral and closed the overweight in the US and the underweight in emerging markets. This left us in a balanced position as equity market volatility increased. Given the economic and political risks, a balanced portfolio positioning regarding equities and bonds remains appropriate, as does our overweight in commodities with a focus on precious and industrial metals. After Europe's strong outperformance, we have no regional preferences for the time being as the financial conditions in the US are improving. US government bond yields have fallen significantly and are not very attractive given the inflation risks. In Europe, bond yields have risen sharply on the back of rising government debt and positive economic stimuli. We remain cautious for the time being and continue to favour corporate bonds, especially in the financial sector, and local-currency emerging market bonds. The latter are benefiting from the weaker US dollar, possible peace in Ukraine and stronger growth in China.



Current weight deviation from the benchmark allocation for multi-asset strategies denominated in EUR (schematic representation)

− Underweight ▮ Neutral + Overweight

First quarter review: Europe surprises many

At the beginning of the year, the "higher for longer" thesis dominated financial markets. Growth was a foregone conclusion. Almost all assets performed well in January. However, when Trump really got going in mid-February, things became predictably uncomfortable, volatility rose with political uncertainty (top chart, page 5) and investors began to question everything. The laggards of recent years, European and emerging market equities (especially China and eastern Europe), surprised with strong gains. US equities, the winners of the last two years and overweighted by the market consensus at the beginning of the year, fell sharply, especially the technology sector and the Magnificent Seven. Gold, industrial metals, energy commodities (natural gas) and bonds outperformed the global equity index. Bond yields fell in the US on rising growth concerns and rose in Europe, especially Germany, on the announcement of massive new borrowing for defence and infrastructure. The US dollar weakened as a result. Within bonds, our preferred emerging market local currency bonds were the best performers.

Economy and politics continue to favour a tough bull market

Our expectations for the economy and financial markets in 2025 have changed little since the beginning of the year. The global economy is likely to grow at a similar pace as in 2024, slightly weaker in the US and slightly stronger in Europe. Central bank interest rates will initially continue to fall (Europe) and last year's cuts will continue to have a positive effect (US). In this environment, corporate profits are likely to rise, mergers and acquisitions will increase, investors will move money out of short-term interest-bearing assets and the bull market in risky assets will continue. However, after two good years for equities, with high valuations, optimistic sentiment and high investor confidence – especially in the US – and given the uncertainty created by Trump's trade and foreign policy, it is likely to be a much more difficult bull year, with setbacks, higher volatility and ultimately less potential for equity markets. This has been evident since mid-February, after an initially calm and positive start to the year.

US economic slowdown more likely

Tighter financial conditions at the start of the year (higher bond yields, stronger US dollar, higher oil price), political uncertainty, tariffs, austerity measures (DOGE) and lower immigration are weighing on the US economy. Consumers are reluctant to spend and businesses are reluctant to invest. US economic data has been disappointing of late (middle chart, page 5). However, a temporary economic slowdown could work in Trump's favour to prevent tariffs from further fuelling inflation, to persuade the Fed to cut interest rates and to ensure lower bond yields and a weakening of the overvalued US dollar. The second quarter of 2025 is likely to remain characterised by high economic uncertainty in the US. However, US bond yields have already fallen significantly, the US dollar has weakened and energy prices have fallen. This easing of financial conditions could support the US economy in the second quarter. A recession remains unlikely.

Strong first quarter for European equities and commodities (precious and industrial metals); US equities, Dollar and euro bonds weaken

Total return	YTD and in 2024 (in %, in EUR): YTD (31/12/24-17/03/25)	YTD and in 2024 (in %, in EUR): 2024 (31/12/23-31/12/24)	12-month periods of the last 5 years (in %, in EUR): 17/03/24 17/03/25	17/03/23 17/03/24	17/03/22 17/03/23	17/03/21 17/03/22	17/03/20 17/03/21	CAGR* 17/03/20 17/03/25	Std.-dev.* 17/03/20 17/03/25
DAX	16.3	18.8	29.1	21.5	2.6	-1.4	63.3	21.0	19.1
Stoxx Europe 50	9.2	8.2	9.9	20.1	5.6	13.8	35.2	16.5	15.1
Gold	8.4	35.6	38.7	6.2	6.4	20.2	4.9	14.6	13.8
US Sovereigns	2.6	7.2	10.4	-3.2	-1.5	4.8	-10.9	-0.3	7.4
Euro Overnight Deposit	0.5	3.8	3.4	3.7	0.6	-0.6	-0.5	1.3	0.1
MSCI EM	0.1	14.9	11.6	9.5	-8.9	-8.7	53.2	9.2	16.0
EUR Corporates	-0.3	4.6	4.6	6.1	-7.9	-5.5	6.7	0.6	3.9
EUR Sovereigns	-0.4	2.4	3.1	2.3	-7.3	-3.4	3.0	-0.5	3.9
EM Sovereigns	-2.7	13.0	8.2	7.0	-3.1	0.1	4.9	3.3	8.0
USDEUR	-5.2	6.6	-0.3	-2.0	4.0	8.0	-8.2	0.1	7.4
Brent	-6.9	17.0	-4.9	26.9	-9.6	88.7	77.7	29.6	37.2
S&P 500	-8.2	33.7	12.1	30.1	-5.9	20.5	47.5	19.5	18.2

Time period: 17/03/2020-17/03/2025
Source: Bloomberg * CAGR = annualised return (in %, in EUR); Std. dev. = annualised standard deviation (in %, in EUR).

European equities with further medium-term potential

The strong rally in European equities was initially driven by tactical investors. There has been no broad rotation of investor money out of the US and into Europe. There has been little change in the positioning of global investors. There is therefore a chance that the current sentiment rally could turn into a structural recovery rally if global investors actually start to build up their positions in Europe. However, this will require more than hope. Peace negotiations in the Russia-Ukraine war will have to lead to a viable outcome for Ukraine too, the European economy will have to recover, European corporate profits will have to rise more strongly, and Europe will have to act as one and stand up for its interests, even without the US if necessary. Recent political developments in Germany, in particular the infrastructure package passed and the easing of the debt brake on defence spending, give us hope in this regard. However, after the strong relative performance since the beginning of the year, Europe's relative outperformance may initially falter, especially as Trump also threatens to impose tariffs on Europe. However, international investors are likely to take advantage of any major setbacks in Europe.

Keeping an eye on medium-term inflation risks

In addition to the structural trends of demographics, deglobalisation and decarbonisation, other drivers of inflation include rising government debt in Europe, rearmament, infrastructure investment, rising global tariffs and immigration restrictions in the US. In addition, inflation is still too high, especially in the US. All this reinforces our expectation in recent years of higher inflation in the medium term and increased inflation volatility. A significant portfolio position in real assets, especially commodities, diversification beyond developed market equities and bonds, the addition of hedging strategies and increased tactical trading remain important.

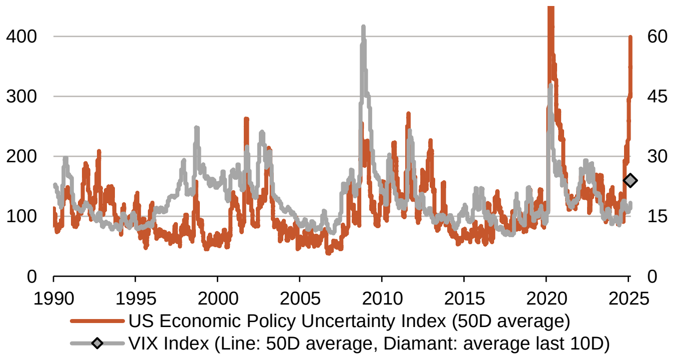
Longer legs likely for Trump's political stock market

Persistent volatility, declining liquidity and worsening seasonality argue against aggressive positioning. Moreover, investor positioning is still not low, despite weaker sentiment. However, we stick to our guns: 2025 is likely to be another bull year, albeit a much tougher one. Major pullbacks are likely to provide opportunities.

Prof Dr Bernd Meyer, Chief Investment Strategist

Trump's political uncertainty adds to volatility

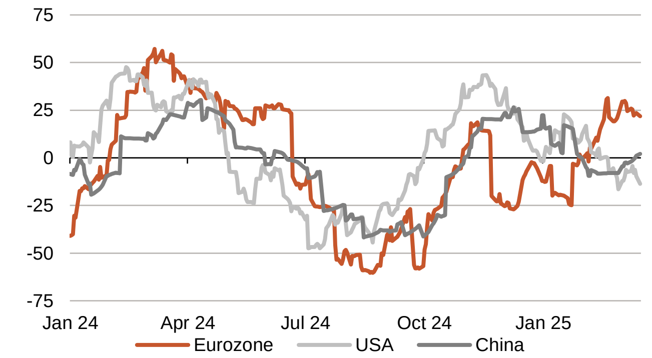
Economic policy uncertainty in the US is at its second highest level since 1990 and equity volatility has increased since mid-February.



Time period: 01/01/1990-17/03/2025
Source: Baker, Bloom & Davis, Bloomberg, own calculations

Macro data: Eurozone surprises on the upside, US disappoints

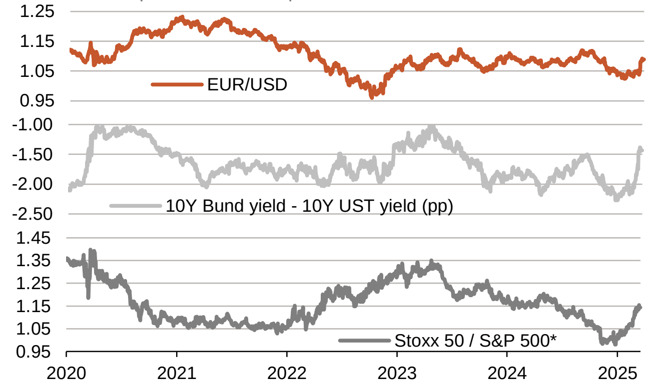
Since the beginning of the year, the surprise indices for economic data in the eurozone and the US have diverged significantly.



Time period: 01/01/2024-17/03/2025
Source: Bloomberg, Citigroup, own calculations

Euro and European equities benefit, euro bonds fall

The euro, European bond yields and European equities rose sharply relative to their US counterparts in the first quarter.



Time period: 01/01/2020-17/03/2025 *Total return indices in local currency
Source: Bloomberg, own calculations

USA TURNS AWAY – EUROPE RESPONDS

IN A NUTSHELL

- Germany: Government-in-waiting starts immediately.
- Europe: Trump threatens growth recovery.
- ECB: Autopilot switched off.
- US: Trump wields the tariff club.

Germany has voted

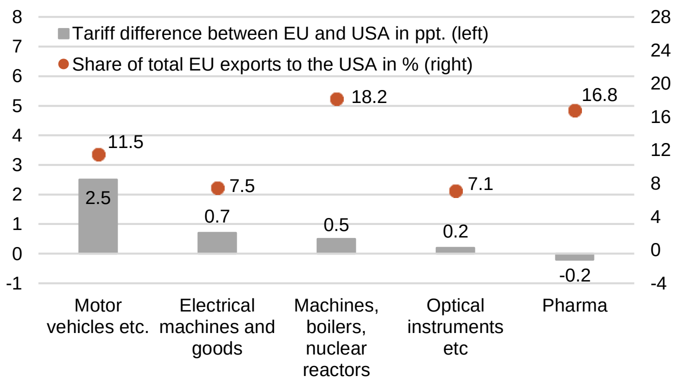
It is good news that the CDU/CSU and SPD received enough votes in the federal election to form the new federal government as a coalition of two parties. This will speed up the coalition negotiations compared to a coalition of three parties and facilitate cooperation in the new government. Meanwhile, it seems to have been understood in Berlin that the current challenges for Germany are formidable, and so the coalition partners-to-be agreed just a week and a half after the election on extensive changes in fiscal policy, which were passed with the help of the votes of the Greens in the old Bundestag with a two-thirds majority. The reforms include exempting defence spending in excess of 1% of GDP from the debt brake, allowing the federal states to take on debt of 0.35% of GDP, and creating a special fund of EUR500bn for infrastructure spending over the next twelve years. The overdue investments in these two areas are thus financed for the foreseeable future. However, it remains essential that the new government, once sworn in, also launches urgently needed structural reforms to put the German economy on a sustainable growth path. These include reducing bureaucracy, social reforms, lowering corporate taxes and realigning immigration and energy policy. However, it will take some time for the planned additional spending and possible reforms to have an impact on the real economy, so we expect GDP growth in Germany this year to be a mere 0.2%, accelerating to 1.4% next year.

Trump jeopardises the recovery of growth in the eurozone

After the eurozone economy grew by just 0.2% quarter-on-quarter in the last quarter of 2024, the lights have recently turned green in some of the continent's problem areas. France has finally adopted a budget for 2025 and Germany is likely to have a functioning government again relatively soon. The ECB's decision to cut interest rates further and the fact that wages in the eurozone have been rising faster than prices for some time are also providing an economic tailwind. The mood among European companies has already brightened somewhat. However, the recovery is still on shaky ground, as global uncertainties have increased noticeably of late. On the one hand, the geopolitical threat to the euro area has increased significantly since the US turned its back on Europe and Ukraine in favour of Russia. On the other hand, Trump has not just left it at threats when it comes to tariffs, but has recently increased import duties on goods from China; Mexico and Canada could follow suit at the beginning of April. In addition to reciprocal tariffs for all trading partners, the US President has also announced import tariffs of 25% on goods from the EU. Reciprocal tariffs would be painful for individual sectors in

EU-US tariff difference low for important EU exports to the USA

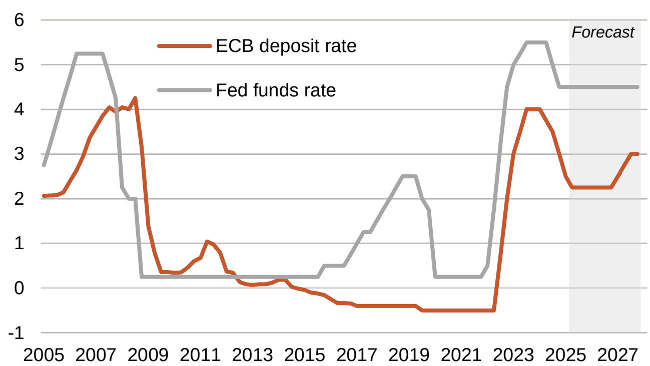
Difference between the EU and US WTO average tariffs for the five most important product groups from the EU perspective in 2023



5 most important industrial product groups according to their share of total EU exports to the USA. Sources: WTO, UN Comtrade, German Economic Institute

Central banks are almost there

Key interest rates in the eurozone and the US in %



Upper limit of the Fed funds target rate, ECB money market rate until 2017, deposit rate thereafter. Grey area: forecasts. Sources: ECB, Fed, Berenberg forecasts

Europe, such as the automotive industry, where the tariff differential between the EU and the US is not very high. However, the overall impact would be manageable. By contrast, a 25% tariff on EU imports would be much more devastating, and Brussels would likely respond with counter-tariffs. Such a trade conflict could derail the current positive momentum in the eurozone. The high level of uncertainty also makes it difficult for the ECB to form a clear picture of how economic and inflation trends will evolve this year. On 6 March, the guardians of the currency in Frankfurt cut the deposit rate by a further 25bp to 2.5%, but otherwise kept their options open. The fact that the ECB now describes its monetary policy as "perceptibly less restrictive" reinforces our view that it will hold fire on 17 April before cutting the deposit rate for the last time to 2.25% on 5 June. However, if the growth outlook for the euro area deteriorates significantly between now and then as a result of the trade conflict with the US, the ECB may be forced to cut rates further.

US economy is booming, but Trump's policies harbour risks

The US economy is showing little sign of losing momentum. GDP grew at an annualised rate of 2.3% quarter-on-quarter in the fourth quarter, and although some recent economic indicators have been somewhat disappointing, the US economy as a whole appears to remain in fairly robust shape. The new administration is cutting regulations and looking to lower taxes. Both may continue to support the economy in the short term. However, aggressive immigration and trade policies are causing concern and pose significant medium-term risks to the US economy. Lower immigration will reduce the supply of labour and lead to higher wage inflation, especially in the service sector. High tariffs will also raise price levels in the US. If tariffs of 25% on goods imported from Canada and Mexico (and 10% on Canadian energy) are indeed imposed, combined with tariffs of 20% on imports from China, we expect this to add around 0.6ppt to US core inflation by the end of 2025. On top of the tariffs that have already been imposed, Trump is currently threatening a series of additional tariffs that would further increase the impact on US inflation. This would be bad news for the Fed, as core inflation has already been moving sideways at just above 3% for nine months. We therefore expect the Fed to leave the federal funds rate range at 4.25-4.50 and to refrain from further rate cuts. If President Trump follows through on his far-reaching tariff threats, the Fed may even be forced to raise rates again somewhat later in the year. Overall, we expect the US economy to post very solid growth of 2.6% this year. However, labour shortages and protectionism will increasingly weigh on economic momentum in the coming years. As a result, GDP growth is expected to slow to 2.2% in 2026 and 1.8% in 2027.

Dr Felix Schmidt, Senior Economist

Growth and inflation forecasts

	GDP growth (in %)						Inflation (in %)					
	2025		2026		2027		2025		2026		2027	
		∅**		∅**		∅**		∅**		∅**		∅**
USA	2.6	2.2	2.2	2.0	1.8	2.0	2.9	2.9	2.6	2.6	2.6	2.5
Eurozone	1.0	0.9	1.6	1.2	1.5	1.4	2.3	2.2	2.3	1.9	2.5	2.0
Germany	0.2	0.3	1.4	1.0	1.4	1.3	2.2	2.3	2.4	2.1	2.5	2.0
France	0.5	0.7	1.0	1.1	1.2	1.4	1.1	1.5	1.9	1.9	2.3	2.0
Italy	0.8	0.6	1.2	0.9	0.9	0.9	2.2	1.8	2.1	1.7	2.4	1.8
Spain	2.5	2.5	2.3	1.9	2.4	1.7	2.7	2.4	2.2	2.0	2.4	2.0
UK	0.9	1.0	1.4	1.4	1.4	1.5	3.7	3.0	3.0	2.4	2.2	2.0
Japan	1.1	1.2	1.0	0.9	1.0	0.8	2.7	2.6	1.7	1.9	1.7	1.8
China	5.0	4.5	4.3	4.2	3.9	4.0	0.6	0.6	1.4	1.3	1.9	1.5
World*	2.8	-	2.7	-	2.4	-	-	-	-	-	-	-

* Berenberg data at actual exchange rates, not according to purchasing power parities (PPP). PPPs lend more weight to fast-growing emerging markets
** Average, Bloomberg consensus as of 18/03/2025.

MAKE EUROPE GREAT AGAIN

IN A NUTSHELL

- After Europe's strong outperformance, justified by fundamentals and valuations, we have no regional preference for the time being.
- Europe is still cheaply valued, but the US is now getting a tailwind from a weaker US dollar and a narrowing of the interest rate differential with Europe. Emerging market equities remain attractive as a complement.

Strong, stronger, Europe

As we suspected, the positioning and consensus for US stocks after the Trump election were overly positive. In the first quarter, there was a significant countermovement: Europe outperformed the US by more than 17 percentage points in euro terms. While Europe recently saw positive earnings revisions, US companies, on aggregate, experienced negative earnings revisions. Many indicators point to a slowdown in US growth in the spring. The rally was therefore fundamentally justified and was supported by the relatively extreme positioning of investors, which was also reflected in relative valuations.

However, not only the US but also other regions, such as Japan, recently experienced setbacks. Somewhat surprisingly, European small caps have so far barely benefited from the shift in sentiment, which is likely due to the lack of capital inflows into this segment.

Can Europe continue to outperform?

Foreign investors have so far barely participated in the recovery rally. Based on fund flows, Bank of America estimates that only 4% of the outflows since Russia's invasion of Ukraine have returned to Europe. According to brokers, interest in Europe remains low in Asia. The valuation discount between Europe and the US, based on the price-to-earnings ratio, still exceeds 30%.

If investors were to genuinely believe in a sustained turnaround for Europe, the sentiment-driven rally could turn into a structural catch-up phase. Ironically, Donald Trump may play a significant role in this – by forcing Europe to become more self-reliant and invest more.

Let's not forget: Over the past fifteen years, European fiscal policy has oscillated between austerity measures and government spending focused mainly on social or environmental goals – both of which contributed to a loss of global competitiveness. Insufficient investments, burdensome regulations, a declining population, weak productivity, and, more recently, rising energy prices have exacerbated these issues. As a result, the prevailing narrative has been that, unlike the dynamic US with its better demographics and fiscal support, Europe has little room for growth. However, Germany's massive rearmament and investment package may now change that.

Not only because it is likely to lead to more growth and rising profits for many companies, but also because it could trigger a shift in sentiment and thus bring capital inflows into Europe. After all, the stock market is driven by psychology.

Historic Quarter: DAX outperforms S&P 500 by more than 20 percentage points in euro terms in the first quarter so far

Total return	YTD and in 2024 (in %, in EUR): YTD (31/12/24-17/03/25)	2024 (31/12/23-31/12/24)	12-month periods of the last 5 years (in %, in EUR): 17/03/24 17/03/25	17/03/23 17/03/24	17/03/22 17/03/23	17/03/21 17/03/22	17/03/20 17/03/21	P/B* 17/03/25	Div.* 17/03/25	P/E* 17/03/25
DAX	16.3	18.8	29.1	21.5	2.6	-1.4	63.3	1.8	2.7	15.3
Stoxx Europe Cyclicals	13.1	15.2	22.3	26.3	-3.7	6.8	67.7			
Euro Stoxx 50	11.5	11.0	12.0	25.8	7.3	2.9	55.2	2.1	3.1	15.2
MSCI EM Latin America	9.9	-21.3	-10.3	26.1	-3.8	19.7	32.9	1.5	5.9	8.8
Stoxx Europe 50	9.2	8.2	9.9	20.1	5.6	13.8	35.2	2.5	3.3	15.1
Stoxx Europe Defensives	7.7	6.1	10.5	14.0	0.8	16.4	27.3			
MSCI UK	5.6	14.7	18.3	12.6	-0.1	17.7	37.9	1.9	3.7	12.2
Stoxx Europe Small 200	4.9	4.3	7.6	12.1	-12.8	1.9	70.0	1.5	3.4	13.3
MSCI EM Asia	-1.2	19.7	13.7	7.1	-8.2	-12.3	56.8	1.8	2.2	13.0
MSCI Japan	-1.7	15.5	4.0	22.3	-2.1	-3.1	45.1	1.4	2.6	14.8
S&P 500	-8.2	33.7	12.1	30.1	-5.9	20.5	47.5	4.3	1.4	20.6
MSCI USA Small Caps	-10.8	19.3	3.6	18.5	-9.3	1.7	93.7	1.6	2.1	17.8

Time period: 17/03/2020-17/03/2025.
Source: Bloomberg * P/B = price-to-book ratio; Div. = dividend yield (%); P/E = price-to-earnings ratio. Values based on estimates for the next 12 months.

A significant part of the US outperformance in recent years has been due to valuation expansion (i.e., psychology), driven by the notion of US exceptionalism. The recent underperformance is also linked to the fact that Trump – like many new presidents – has started with unpopular, growth-dampening measures: austerity, reduced immigration, and tariffs. Growth-friendly policies, such as deregulation and (an extension of) tax cuts, are likely to follow later.

Neutral regional positioning towards Q2

Whether Europe can continue to outperform the rest of the world will likely depend on further political actions and how it is perceived abroad. Additionally, other regions, such as the US which has been negative in euro terms since the start of the year are expected to improve at least in absolute terms. The emerging weakness in US growth is already partially priced in, and the outlook should improve towards the second half of the year. Moreover, the relative tailwind for European companies from lower interest rates and a weak euro has recently diminished significantly. We have recently increased our allocation to emerging market equities, as the announcement of DeepSeek has sparked interest in undervalued Asian tech companies. Additionally, China, like Europe, has implemented significant economic stimulus measures – partly in response to US tariffs. Against this backdrop, we currently feel comfortable with a neutral geographic positioning. Volatility is likely to remain high due to major macroeconomic shifts and Donald Trump's unpredictability, presenting both risks and opportunities.

Ulrich Urbahn, Head of Multi Asset Strategy & Research

WHAT DRIVES COMPANIES

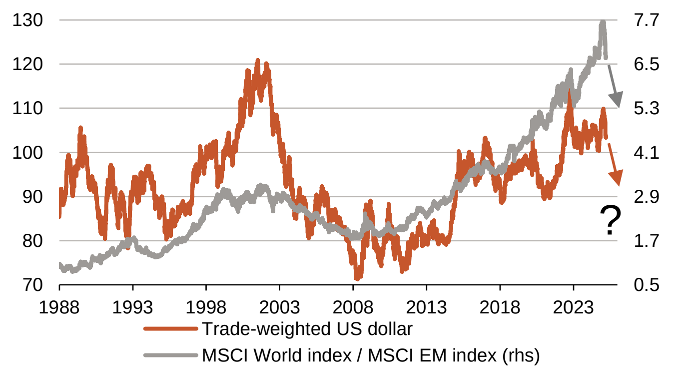
Politics and AI are creating uncertainty

Our discussions with companies over the past quarter have been dominated by order books, AI and politics. We are seeing increasing uncertainty and caution among companies across all sectors due to the current very dynamic US policy on tariffs. In industry, inventory levels have continued to normalise in recent months. In the automation sector in particular, we are now seeing a bottoming out, which should lead to a new upturn. Industrial companies with a focus on data centres continue to report good growth figures, but are disappointed with the outlook and new orders. Technology companies also disappointed relative to their strength in previous quarters, and the size of the positive earnings surprise narrowed significantly. The DeepSeek news has created a lot of uncertainty for semiconductor manufacturers, while many software companies should benefit from potentially lower application costs. Otherwise, companies in the luxury goods sector surprised on the upside, driven by consumer sentiment in the US. However, a significant recovery in end markets is likely to take some time. In healthcare, we are seeing an increase in orders and a recovery in the life science end markets after a difficult few years.

Matthias Born, CIO Equities

Is the US dominance of the last 20 years coming to an end?

Development of trade-weighted US dollars and relative performance of MSCI USA against MSCI AC ex USA, normalised: 1.1.1988 = 1



Time period: 01/01/1988-17/03/2025
Source: Bloomberg, own calculations.

Forecast overview: upside potential until the end of the year

Comparison of the Berenberg and consensus forecasts, figures as of year-end 2025 and mid-2026

Index forecasts	Current 17/03/2025	31/12/2025	30/06/2026	Ø* In 12 months
S&P 500	5,675	6,000	6,400	6,847
DAX	23,155	24,000	26,000	24,886
Euro Stoxx 50	5,446	5,700	6,000	6,012
MSCI UK	2,482	2,600	2,750	2,695
Index potential (in %)				
S&P 500	-	5.7	12.8	20.6
DAX	-	3.6	12.3	7.5
Euro Stoxx 50	-	4.7	10.2	10.4
MSCI UK	-	4.8	10.8	8.6

* Average, consensus bottom-up as of 17/03/2025.
Source: Bloomberg, FactSet, Berenberg.

BONDS: SECURITY CAN PAY OFF AGAIN

IN A NUTSHELL

- Safe government bonds with regionally varied prospects; German Bunds are becoming more attractive.
- European corporate bonds remain interesting, especially in the high-yielding financial sector.
- Emerging market bonds are benefiting from hopes of peace in Ukraine and an economic recovery in China.

Global swell, stability anchor ECB

Amid a whirlwind of changes of government (US, Germany), increasing protectionism, geopolitical realignments and rising defence budgets, at least one thing has proven reliable so far this year: the ECB's key interest rate trend. In March, it made a further cut of 25bp. While this helps the bond market in general, individual bond segments are influenced by different factors in particular. How do we see the coming months?

Safe government bonds: Germany and the UK more attractive again

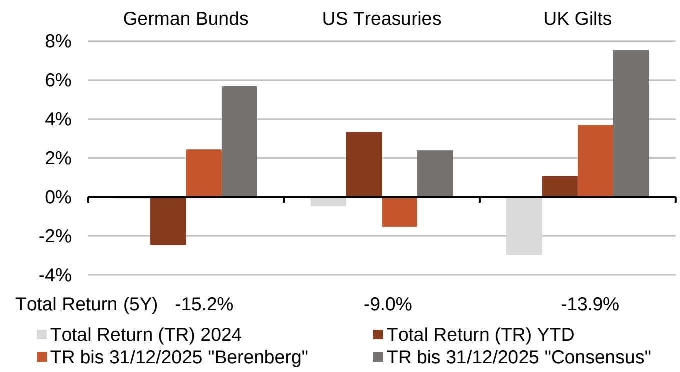
In 2024, there was nothing to be gained from government bonds with high and the highest credit ratings, but the picture has brightened in the first quarter of 2025, at least for US Treasuries. They rose against the backdrop of waning US economic optimism. It is questionable whether this trend will continue, because higher tariffs, wage pressure due to the expulsion of migrants and rising national debt suggest that US yields will rise again in the medium term. In addition, the Fed has little room for manoeuvre in terms of monetary policy due to inflation, which is likely to remain well above the Fed's target for the reasons mentioned above. Our economists expect the US key interest rate to remain unchanged for the rest of the year. In the eurozone, by contrast, falling energy prices, among other things, should allow the ECB to cut interest rates by a further 25bp in June (Fig. bottom right). In addition, the prospect of additional debt-financed defence and infrastructure spending has recently caused the yield on German Bunds to rise significantly. In contrast to US Treasuries, we see positive yield potential here until the end of the year, as we do for British Gilts (Fig. bottom left). So the outlook for investments in Europe has also brightened in the market for safe government bonds.

Corporate bonds: Solid as a rock

Corporate bonds remain solid as a rock. Neither the previous sharp decline in risk premiums nor the ongoing US tariff discussions have so far led to a sustained increase in risk premiums in this segment. With Bund yields averaging 2.6%, corporate bonds in the investment grade and high-yield segments remain attractive for yield buyers – especially since their current interest rate is well above the German inflation rate of 2.3% and thus continues to offer real added value. However, in view of the low-risk premiums, a market correction has become more likely. This should only be short-lived, however, since technical factors, such as sustained inflows of funds into investment funds from this segment, should result in stable demand. In addition, the ECB's monetary policy could make corporate bonds more

Safe government bonds: German Bunds can be worthwhile

Past and expected performance of 10-year government bonds, overall effect of yield/price change, coupon yield and roll-down effect



Time period: 19/03/2020-19/03/2025
Source: Bloomberg, Berenberg calculations, iBoxx government bond indices (7-10 years, TR)

Forecasts: Key interest rates and government bond yields (in %)

Berenberg and consensus forecast in comparison, values at the end of 2025 and mid-2026

	19/03/2025	31/12/2025		30/06/2026	
	Current		∅*		∅*
USA					
Key interest rate	4,25-4,50	4,25-4,50	4,10	4,25-4,50	3,85
10Y US yield	4,24	4,90	4,38	4,95	4,27
Eurozone					
Key interest rate	2,50	2,25	2,00	2,25	1,85
10Y Bund yield	2,80	2,80	2,40	2,90	2,40
Great Britain					
Key interest rate	4,50	4,25	3,80	4,00	3,45
10Y Gilts yield	4,63	4,70	4,18	4,70	4,00

* Average, consensus as of 19/03/2024, ** Deposit rate
Source: Bloomberg

attractive relative to overnight and time deposits, appealing to additional groups of buyers. Below the surface, we continue to prefer financial bonds to industrial bonds. We like their solid capital base and reinvigorated earnings power, coupled with higher yields and better credit quality.

Emerging market bonds: Chinese economic recovery provides support

The markets for emerging market bonds are focusing on the uncertainty surrounding the protectionist measures of the new US administration and the increasing speculation about a peaceful solution for Ukraine. While the tariff threats are keeping markets on tenterhooks and leading to stronger price fluctuations, a potential peaceful solution could become a positive catalyst for emerging markets, particularly in eastern Europe. Whether and under what conditions this will come about remains to be seen. Nevertheless, the mere start of such talks is positive for the market. Eastern European currencies – including the Polish zloty, the Hungarian forint and the Czech koruna – could continue to benefit in particular from the expectation of falling energy prices. On the other side of the continent, the focus is on China. The country, which has been struggling with structural economic problems for years, was recently able to demonstrate its resilience not only through DeepSeek – economic data such as lending have also recently given hope that the economy is bottoming out to a certain extent (Fig. bottom right). Equity investors had already rushed ahead and gave the Hang Seng Index the world's strongest stock market performance since the beginning of the year. A strengthening Chinese economy has historically been a boon for the global economy, particularly for emerging markets that typically have large trade flows with China. The resulting tailwind should support all emerging market asset classes over the medium term and thus also help the bond sector.

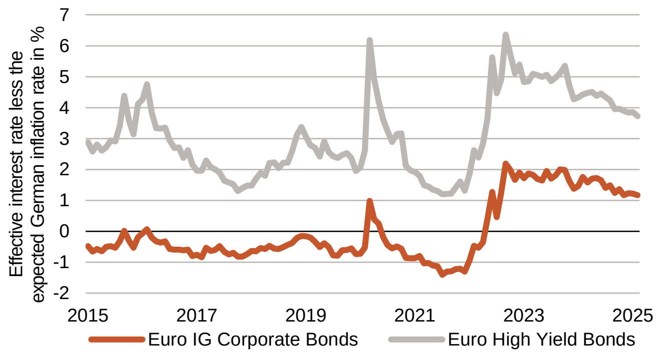
Conclusion: Opportunities in all segments under review

In the context of geopolitical influences, safe government bonds are under the spell of rising national debt, which is likely to remain an important factor on both sides of the Atlantic for the time being. In view of the market reaction that has already taken place, the further outlook for German Bunds has improved – they offer more interesting prospects than US government securities. In view of their yield levels, euro-denominated corporate bonds continue to offer attractive opportunities, particularly in view of the (lower) inflation rate – the expected depreciation of money can be more than compensated for. Within the segment, we favour securities from the financial sector. In the emerging markets, eastern European issuers offer opportunities against the background of a possible peace solution in Ukraine, especially in local currency. In Asia, it is also hoped that China's economy could strengthen, thereby giving new impetus not only to its own country, but also to emerging markets linked to it through trade.

Martin Mayer, Senior Portfolio Manager Multi Asset
Felix Stern, Senior Portfolio Manager Fixed Income Euro
Wei Lon Sung, Senior Portfolio Manager Fixed Income Emerging Markets

Corporate bonds offer a consistently positive real return

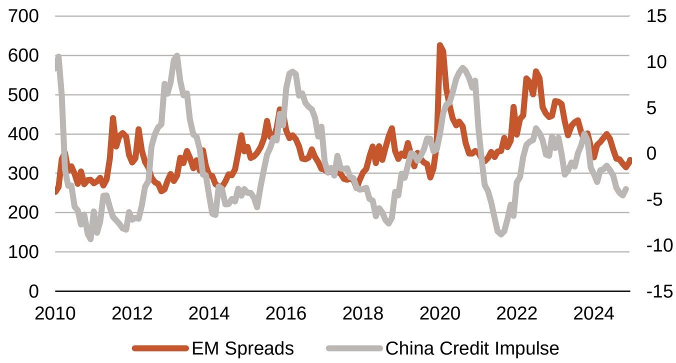
Yields on euro investment grade (IG) corporate and high yield bonds offer added value after deducting the expected German inflation rate



Period: 30/01/2015 – 28/02/2025. Source: ICE, Bloomberg. Inflation expectations: forward yield on nominal minus yield on inflation-linked 5-year German government bonds.

Lending supports risk premia for emerging market bonds

A recovery in Chinese lending (right) should lead to tighter spreads in emerging market bonds, as seen before the Covid pandemic



Period: 31/12/2010 – 28/02/2025. Source: Bloomberg, own calculations. Net change in lending in China based on total social financing.

(PRECIOUS) METAL MARKETS WITH STRUCTURAL TAILWIND

Plenty of supply on the oil market, but only at the right price

After a brief rally in the wake of new US sanctions on Russian tankers, the oil price fell in the first quarter to its lowest level since the beginning of the year. The main headwind came from the supply side. On the one hand, peace negotiations in the Ukraine war and the resulting hopes for more cheap energy from Russia weighed on the market. On the other hand, OPEC+ surprised by reducing existing production cuts despite weak prices. In this environment, the upside potential is clearly limited, especially as global demand growth is expected to remain moderate. At the same time, the downside risk is also limited. Even with abundant supply, US shale oil in particular will become increasingly unprofitable as prices fall. Many OPEC+ members would also face problems financing their national budgets. A continuation of last year's sideways movement therefore seems likely, although the corridor (previously USD70-90/barrel) is now likely to be somewhat lower.

Rising government debt + high uncertainty = gold a 'must'

With a year-to-date performance of more than 15 %, gold is once again one of the best performing assets. The safe-haven asset benefited from several factors. Fundamentally, the weaker US dollar and lower real interest rates provided a tailwind. However, the most important driver in the first quarter was the sharp rise in global economic uncertainty. This time around – unlike last year – demand came from both central banks and international investors. Many of the latter are likely to have missed the rally and have a lot of catching up to do. ETF holdings are still some 25 million ounces (23%) below their highs, while gold is trading at all-time highs. With rising sovereign debt (now increasingly also in Europe), high economic and geopolitical uncertainty and a still uncertain inflation outlook, gold remains an essential asset in our portfolios despite its high valuation relative to real interest rates.

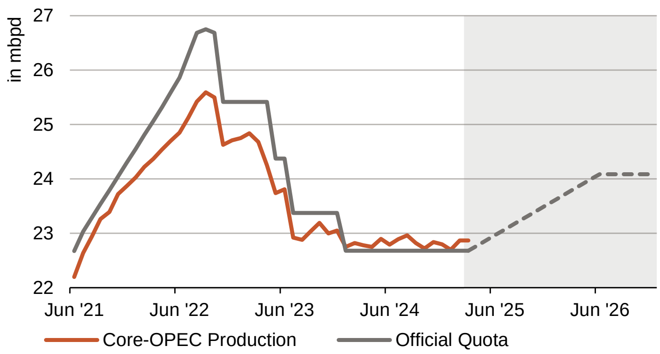
Even more structural tailwind for industrial metals

Industrial metals benefited from higher activity in the manufacturing sector in Q1, but the main driver was the prospect of US tariffs, with US manufacturers trying to import as much metal as possible before the tariffs kick in. In the short term, however, the trade war could also be a drag. Longer term, the outlook for industrial metals has improved once again. In addition to the decarbonisation of the global economy, higher defence and infrastructure spending in Europe and the potential reconstruction of Ukraine should further boost demand, which will be met by tight supply.

Ludwig Kemper, Multi Asset Strategy & Research

OPEC+ plans gradual production increases despite low prices

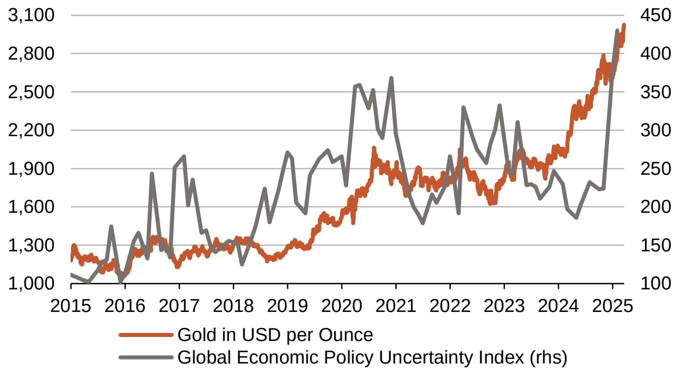
Actual production compared to the official core OPEC quota; estimate of official quota from April 2025 to December 2026



Time period: 30/06/2021 -31/12/2026
Source: Bloomberg, own calculations

Global uncertainty drives investors into gold

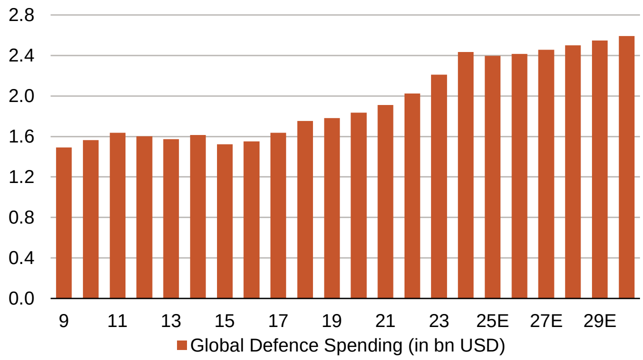
GDP-weighted Global Policy Uncertainty Index by Baker, Bloom & Davis against the gold price in US dollars per ounce



Time period: 01/01/2015-17/03/2025
Source: Backer, Bloom & Davis, Bloomberg

Defence spending likely to boost demand for industrial metals

(Estimated) development of global defence spending until 2030



Time period: 2009 -2030, yearly data
Source: IISI, BofA Global Research

EUROPE AND THE EURO EMERGE FROM SHOCK RIGOUR

Geopolitics and trade policy move the currency markets

Donald Trump's aggressive tariff policy, the associated inflation concerns and the prospect that the Fed has little room for further interest rate cuts had given the dollar a significant tailwind at the beginning of the year. Recently, however, the tide has turned. On the one hand, the currency market, among others, seems to be increasingly asking itself how many allies and trading partners President Trump can take on at the same time without also damaging the US economy in the medium term. On the other hand, the new geopolitical realities have finally shaken Europe out of its complacency. In Germany and at the EU level, defence spending will increase significantly in the coming years. In addition, Germany will establish a EUR500bn special fund for infrastructure investments. These fiscal stimuli will strengthen growth, but also increase debt. The bond markets and the currency markets are reacting to this development; the euro gained significant ground against the dollar at the beginning of March. The ongoing economic recovery in the eurozone and the sense of a new dawn in Germany should continue to support the single currency in the coming months. However, a lot will also depend on the further development of the trade disputes between the US and Europe, which are likely to contribute to ongoing volatility.

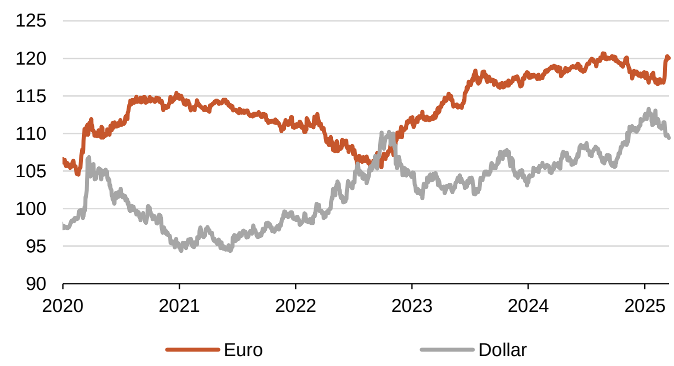
In Switzerland, inflation in February was 0.3% year-on-year, the lowest level in almost four years. The Swiss National Bank is trying to counteract low inflation and the strong franc, but after the key interest rate cut on 20 March from 0.5% to 0.25%, the scope for further easing of monetary policy is limited. Direct intervention in the currency market would be an alternative, but this in turn carries the risk of the US labelling it a currency manipulator. However, since the ECB is also only likely to lower its key rate slightly this year, we expect the euro-franc exchange rate to move sideways in the medium term, roughly at the current level.

In Japan, the economy is picking up momentum and inflation continues to rise. This allows the Japanese central bank to cautiously continue its cycle of interest rate hikes. The narrowing interest rate differential with the ECB and the Fed should give the yen further tailwind this year. We expect a euro/yen exchange rate of 154 by the end of 2025.

Dr Felix Schmidt, Senior Economist

Strength of the dollar wanes since beginning of the year

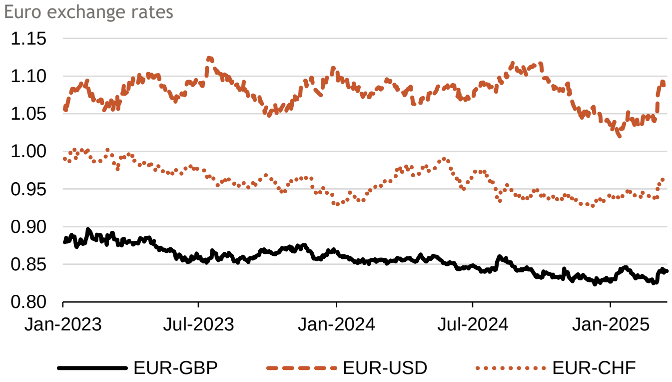
Nominal effective exchange rates



Time period: 01/01/2020-18/03/2025
Euro and dollar against trading partner currency baskets. Source: Bloomberg

Fiscal stimulus boosts Euro

Euro exchange rates



Time period: 01/01/2023-18/03/2025
Source: Haver, FT

Exchange rate forecasts

Berenberg and consensus forecast in comparison, values at the end of 2025 and mid-2026

	18/03/2025	31/12/2025		30/06/2025	
Exchange rate forecast	**Current**		∅*		∅*
EUR/USD	1.09	1.10	1.07	1.13	-
EUR/GBP	0.84	0.85	0.83	0.86	-
EUR/CHF	0.96	0.95	0.95	0.95	-
EUR/JPY	162	154	156	154	-
Change against the euro (in %)					
USD	-	-0.9	1.9	-3.5	-
GBP	-	-1.2	1.2	-2.3	-
CHF	-	1.1	1.1	1.1	-
JPY	-	5.2	3.8	5.2	-

* Average, consensus as of 18/03/2025
Source: Bloomberg

INTERVIEW WITH KAY EICHHORN-SCHOTT

Mr Eichhorn-Schott, you have been a portfolio manager at Berenberg for more than seven years, focusing on equities in the healthcare sector. How did you arrive at your current position?

I started my career in 2015 on the Berenberg trainee programme in London. I was exposed to asset management and portfolio management at an early stage. At the time, I was already managing discretionary equity mandates with a focus on healthcare for a number of UK clients, which I was able to support as a trainee. When I moved to the equities team in Frankfurt in 2017, I had the opportunity to take on full responsibility for these mandates. Managing the mandates and my work as a portfolio manager in our All Cap team complemented each other well, as we also have relevant exposure to the healthcare sector in our European and global equity strategies.

What fascinates you most about the healthcare sector as a portfolio manager?

Health is the be-all and end-all for all of us, which is why it is exciting to look at investments in the healthcare sector. In addition to its social relevance, there are three other aspects of the healthcare sector that fascinate me: the complexity of the business models, the diversity of the sector, and the innovation of the companies.

First, healthcare is more complex than other sectors for a number of reasons. The products are difficult to understand and there are a large number of stakeholders. These include patients, insurers, regulators and companies. That's why I believe that, as an expert, you can add value for clients. In addition, the sector is very diverse and varied with its sub-segments of pharma and biotech, medical technology, life sciences and healthcare services. This makes the analysis exciting and you are constantly learning new things. Finally, I am fascinated by the innovative power of the sector. On a personal level, it's exciting to see how many innovations the sector produces every year. Patients and we as a society benefit from this. From an investor's perspective, innovative companies can build strong competitive positions and generate above-average growth.

You mentioned different sub-sectors within the healthcare sector. How do they differ from an investor's perspective? Which of these sub-sectors do you favour in the current environment?

The main sub-sectors in healthcare are pharmaceuticals, medical technology, life sciences, biotechnology and healthcare services.

We find many exciting companies in medical technology. Innovation in this segment is very high, competition in larger end markets is often limited to three or four companies and the growth profile is attractive, for example because, unlike pharmaceutical companies, there is no need to compensate for patent expiries. We also find many niche players in the small-cap segment that can grow strongly in their markets and have established good competitive positions. Pharmaceutical companies, on the other hand, grow more slowly on average than companies in other market segments. This is mainly due to the size of these companies and the fierce competition they face. Nevertheless, companies such as Eli Lilly, Novo Nordisk and AstraZeneca have been able to achieve attractive growth rates in recent years and create significant value for their shareholders.

How has the sector performed over the past year and what makes it interesting for investors at the moment?

The global healthcare sector delivered a positive return last year, but underperformed the broad equity market. Interestingly, the performance gap only widened in the fourth quarter. In the run-up to the US elections and in anticipation of another Donald Trump presidency, cyclical segments of the market were more sought after by investors, rising interest rates acted as a headwind and, most importantly, the nomination of Robert F. Kennedy Jr. as Secretary of Health and Human Services caused great uncertainty among investors in the sector.

These sharp moves in the fourth quarter of 2002 – a rising stock market and falling healthcare stocks – have left the sector trading at its cheapest valuation relative to the broader market in 20 years. The fundamental trends in healthcare are solid and we believe some political concerns are overdone. Surveys of fund managers also show that investor positioning in the sector is historically low. This is a good starting point for positive performance this year.

What long-term trends do you see in the healthcare sector and where do you see the biggest opportunities for investors in the coming years? Are there any current developments or trends in the healthcare sector that investors are currently overlooking?

The major trends in the sector are well known: an ageing population is driving demand, and rising prosperity in developing countries has historically led to increased healthcare spending relative to economic output. Beneath the surface, however, we are seeing much more exciting trends in the industry that can benefit patients, companies and shareholders alike. In the pharmaceutical industry, for example, we are seeing more and more biological drugs replacing traditional chemical preparations because they are more targeted and have fewer side effects. Innovation is increasingly taking place in smaller, digital companies, which are more dependent than large pharmaceutical companies on external service providers such as contract manufacturers. However, large pharmaceutical companies are also outsourcing more and more of the value chain. Compared to other sectors, such as automotive, healthcare is still in the early stages. We believe we are also in an exciting phase in medical technology. Robot-assisted surgery is becoming increasingly popular, and more and more operations are being performed using minimally invasive techniques. In addition, reimbursement systems are slowly but steadily changing, particularly in the US. We see the reimbursement of healthcare services becoming increasingly dependent on the success of the treatment.

You manage the Berenberg Health Focus Fund. What is special about this fund and how does it differ from its competitors?

With the Berenberg Health Focus Fund, we are more active than our competitors. Many established sector funds are very benchmark driven. Our investment process and the active selection of individual stocks set us apart. We select 35-50 stocks in the fund, which is much more concentrated than most of our competitors. We also have a stronger focus on growth. We select companies that can generate significantly above-average growth over the medium to long term. Companies that are not growing attractively are of little interest to us. We therefore also look for opportunities in the small-cap segment, where there are many niche players with strong growth prospects. Finally, we do not invest in deficit-ridden and high-risk business models. For this reason, small biotech companies are not given much consideration in the fund. Finally, our aim in the Healthcare Fund is to invest in companies that benefit from the "micro-trends" in the healthcare sector discussed above and have a strong market position. We are optimistic that these companies will be able to generate attractive and sustainable growth over the long term.

SHORT VITA

Kay Eichhorn-Schott has been an equity portfolio manager at Berenberg since 2017. After completing his bachelor's and master's degrees in management and finance at EBS Business School, the University of Bath and Texas A&M University, he started his career in Berenberg's international trainee programme in London in 2015. Since moving to Frankfurt in 2017, he has been a Portfolio Manager in Berenberg's All Cap Portfolio Management team, where he has increasingly focused on healthcare stocks. Since December 2018, he has been co-manager of the Berenberg Global Focus Fund, and from 2019 to 2023, he was the lead manager of the offensive multi-asset fund Berenberg Aktien Global Plus. Since December 2023, he has been managing the newly launched Berenberg Health Focus Fund. Kay Eichhorn-Schott is a CFA charterholder.

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