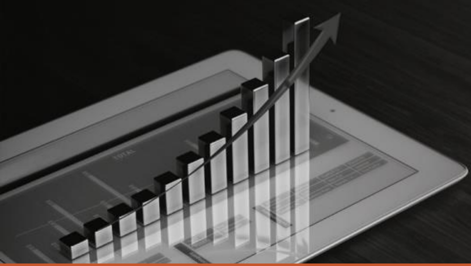


BERENBERG
Funds and Solutions

SPOTLIGHT – MULTI ASSET

14 August 2023

True multi-asset approach is also beneficial in a world with positive bond yields

Interest rates are back and bonds are once again an attractive asset class after years of low or negative yields. With 3-4% interest rates on fixed deposits and 4% yields on high-quality euro area bonds, investors are parking a lot of capital in fixed-term deposits and short-dated bonds. In doing so, they overlook the added value that true multi-asset approaches offer: diversification across all asset classes as a "free lunch", higher long-term return potential and better inflation protection.

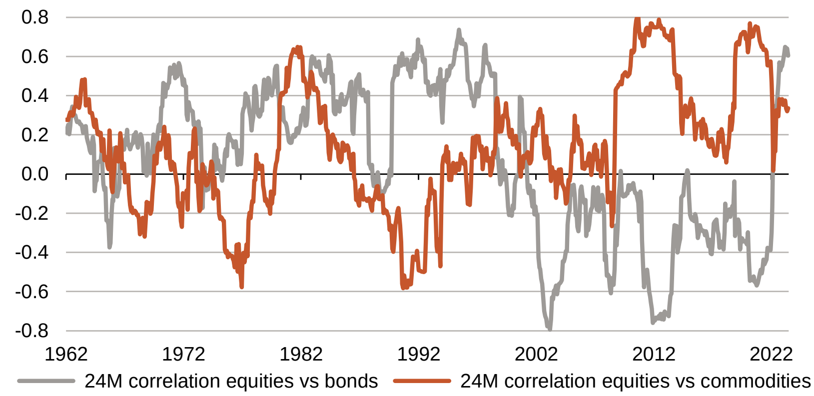
Even if fixed-term deposits and short-term bonds appear attractive in the short term, they are fraught with uncertainties in the medium term. The current high interest rates on short-term bonds are likely to be a special situation, as the euro yield curve is more inverted than at any time since the early 1990s. Short-term investments thus have a clear reinvestment risk with likely lower yields in the medium term. In addition, the level of nominal yields, although attractive, is still not sufficient to maintain purchasing power or even real asset growth in view of current inflation.

Utilisation of all diversification opportunities

For more return potential in bonds, investors must be willing to take higher risks – and if they are, they should include other asset classes besides bonds. Compared to multi-asset portfolios, pure bond portfolios leave diversification opportunities and thus the only "free lunch" on the market largely unused. We consider a true multi-asset strategy, ie a broad diversification beyond equities and bonds, to be sensible. In this decade we expect an environment of structurally increased inflation (volatility) and therefore non-stable correlations and a frequent synchronisation of equities and bonds, as has already occurred in the recent past.[1] Hence, other asset classes such as commodities should also be taken into account, because it is precisely these that

Fig. 1: Diversification benefits of commodities - these often move in opposing directions precisely when equities and bonds are positively correlated

24M rolling correlation of the development of the S&P500 index and 10-year US government bonds and of the S&P 500 index and commodities



Source: Bloomberg, own calculations.
Time period: 01/01/1962 - 30/06/2023.

The following publications are part of the series Berenberg Funds and Solutions:

Insights
► Spotlight
Equities
Fixed Income
Multi Asset
Risk-focused solutions
Sustainability
Consulting

***Spotlight** offers insights into the Berenberg product universe and highlights key topics related to current market developments.*

With fixed-term deposits, no real asset growth is likely to be achieved in the short or medium term.

The risk-reducing effect of broad diversification is the only "free lunch" on the market and should not go unused.

[1] See "What comes after the inflation hump? Implications for Investors" Berenberg Markets Focus, 3 November 2022.

have often made a positive contribution precisely when bonds and equities have suffered in tandem. The focus of a portfolio should thus still be on a balanced relationship between current income, opportunities for price increases and asset protection measures.

Higher return potential

Multi-asset approaches can leverage opportunities across all asset classes.

Multi-asset approaches also offer more return potential because they can take advantage of opportunities in the market across all asset classes. For example, to take advantage of trends such as artificial intelligence or internet security, you have to own equities. Active quota management is crucial here. Of course, in the changed interest rate environment, multi-asset portfolios also benefit from the increased interest rates with their bond positions. Many multi-asset investors have increased their bond allocation in recent quarters, including us. In addition, there is the stronger return potential of other asset classes. For example, most strategists, including ourselves, expect commodity prices to rise significantly over the next few years due to the energy transition and supply deficits. In addition, tactical allocation management and short-term investment opportunities offer further return potential.

Better inflation protection

Assets with real tangible value are advantageous with higher-than-expected inflation.

Should inflation prove more persistent than expected in the coming years, a significant proportion of assets with real attributes, such as commodities or to some extent equities, offers a better protection in comparison to bonds. The market currently assumes that inflation will move sustainably towards 2% in the next few years. We are not entirely convinced of this. Above all, the energy transition – as well as deglobalisation, demographics and higher defence budgets – are likely to increase inflation structurally over the next decade. In addition, the high level of government debt in many countries supports the argument for at least limited financial repression and thus, at best, a limited positive real interest rate on government bonds. Even in the scenario that central banks continue to restrict liquidity on the capital market with a tight monetary policy that could even cause a debt crisis in the medium term, investments with a tangible asset character such as precious metals and equities appear to have an advantage.

Multi-asset strategies remain attractive for medium- to long-term investors

The probability of returns above the interest rate market increases significantly with increasing investment duration.

Of course, in multi-asset strategies, in contrast to fixed-term deposits, price declines can occur despite the skillful use of all diversification options. However, if one looks at past developments, the probability of an attractive return above the interest rate market increases significantly with the duration of the investment. The higher yield potential, the use of the diversification effects freely available on the market and the better protection against inflation make multi-asset strategies attractive for medium- to long-term investors even in the current environment of positive bond yields – especially if they have some risk appetite.

PUBLISHER INFORMATION

PUBLISHER

Prof. Dr. Bernd Meyer, CFA | Chief Investment Strategist

AUTHORS

Prof. Dr. Bernd Meyer, CFA | Chief Investment Strategist and Head of Multi Asset
Head of Multi Asset and responsible for the Capital Markets Opinion of Wealth and Asset Management
+49 69 91 30 90-500 | bernd.meyer@berenberg.de

BERENBERG
PARTNERSHIP SINCE 1590

The following publications are part of the series Berenberg Funds and Solutions:

- Insights
- ► Spotlight
  - Equities
  - Fixed Income
  - Multi Asset
  - Risk-focused solutions
  - Sustainability
  - Consulting

www.berenberg.de/en/

IMPORTANT NOTICE

This information is a marketing communication. This information and references to issuers, financial instruments or financial products do not constitute an investment strategy recommendation pursuant to Article 3 (1) No. 34 Regulation (EU) No 596/2014 on market abuse (market abuse regulation) nor an investment recommendations pursuant to Article 3 (1) No. 35 Regulation (EU) No 596/2014, both provisions in connection with section 85 (1) of the German Securities Trading Act (WpHG). As a marketing communication this document does not meet all legal requirements to warrant the objectivity of investment recommendations and investment strategy recommendations and is not subject to the ban on trading prior to the publication of investment recommendations and investment strategy recommendations. This document is intended to give you an opportunity to form your own view of an investment. However, it does not replace a legal, tax or individual financial advice. Your investment objectives and your personal and financial circumstances were not taken into account. We therefore expressly point out that this information does not constitute individual investment advice. Any products or securities described may not be available for purchase in all countries or only in certain investor categories. This information may only be distributed within the framework of applicable law and in particular not to citizens of the USA or persons resident in the USA. The statements made herein have not been audited by any external party, particularly not by an independent auditing firm. Any future returns on fund investments may be subject to taxation, which depends on the personal situation of the investor and may change in the future. Returns on investments in foreign currencies may increase or decrease due to currency fluctuations. The purchase, holding, conversion or sale of a financial instrument, as well as the use or termination of an investment service, may give rise to costs that affect the expected income. In the case of investment funds, you should always make an investment decision on the basis of the sales documents (key investor document, presentation of past performance, sales prospectus, current annual, if applicable, semi- annual report), which contain detailed information on the opportunities and risks of the relevant fund. In the case of securities for which a securities prospectus is available, investment decisions should always be made on the basis of the securities prospectus, which contains detailed information on the opportunities and risks of this financial instrument, otherwise at least on the basis of the product information document. An investment decision should be based on all characteristics of the fund and not just on the sustainability-related aspects . All the aforementioned documents can be obtained from Joh. Berenberg, Gossler & Co. KG (Berenberg), Neuer Jungfernstieg 20, 20354 Hamburg, Germany, free of charge. The fund sales documents and the product information sheets for other securities are available via a download portal using the password »berenberg« at the Internet address https://docman.vwd.com/portal/berenberg/index.html. The sales documents of the funds can also be requested from the respective investment management company. We will be pleased to provide you with the specific address details upon request. A fund investment involves the purchase of shares in an investment fund, but not a specific underlying asset (e.g. shares in a company) held by that fund. The statements contained in this document are based either on own company sources or on publicly accessible third-party sources, and reflect the status of information as of the date of preparation of the presentation stated below. Subsequent changes cannot be taken into account in this document. The information given can become incorrect due to the passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. For important disclosures and information on index- and market data, see https://www.berenberg.de/en/legal-notice/license-notice/. Past performance, simulations and forecasts are not a reliable indicator of future performance. Please refer to the online glossary at www.berenberg.de/glossar for definitions of the technical terms used in this document.
Date 14.08.2023

Joh. Berenberg, Gossler & Co. KG
Neuer Jungfernstieg 20
20354 Hamburg
Telephone +49 40 350 60-0
Telefax +49 40 350 60-900
www.berenberg.de/en/
MultiAssetStrategyResearch@berenberg.de