ECONOMIC SITUATION AND STRATEGY

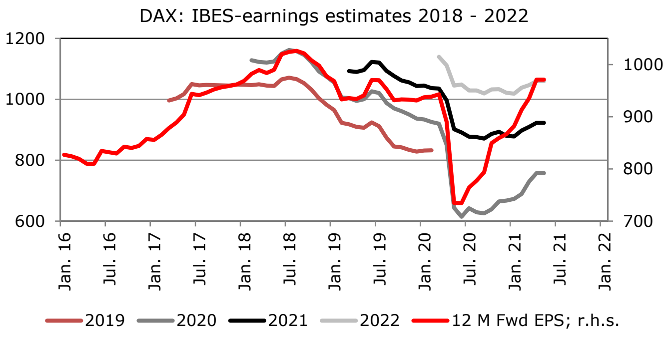
April 9, 2021

Stock market rally continues!

Most stock markets have exhibited impressive performance since the beginning of the year. Germany's DAX index cleared the hurdle at 15,000 points at the end of March and thus hit our target for year's end sooner than expected. Surprising many investors, euro zone stocks have performed very robustly despite continuing or even tightened economic restrictions and only slow vaccination progress compared with other countries and regions. In the United States, the Dow Jones and S&P 500 indexes have also reached new record levels. On the other hand, last year's leaders have fallen somewhat behind. The NASDAQ, America's tech-oriented index, and the stock exchanges in most emerging countries have registered price gains, but on a smaller scale.

Expectations of a strong economic recovery this year are the main reason for the positive stock market trend. They are based on the expansionary influence of monetary and fiscal policy and the prospect of ending the coronavirus pandemic as the year proceeds. As a case in point, the International Monetary Fund has raised its 2021 global growth forecast this week from 5.5% to 6.0%, which would be by far the strongest economic growth of the last 40 years.

Two questions arise for investors who have so far missed the rally. Does it still pay to enter the stock market, and if so, which stocks and regions are especially promising? Reasons not to invest in stocks may be found in droves, as usual, whether it be extreme fluctuations that jangle the nerves of investors or high valuations that lead many media commentators to believe a price-pounding crash might not be long in coming. But this very skepticism is fertile ground for a continuing advance of stock prices. As long as the wall of worry is high enough, there will still be sufficient liquidity that is not invested in stocks. The situation will not become dangerous until everyone is euphoric and believes that prices can only go up, because that is often the point at which all investors are already in the market.

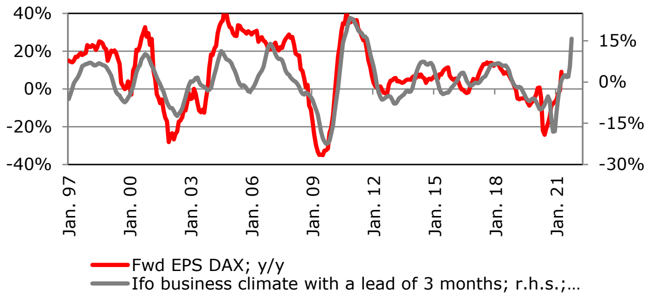


Source: Refinitiv Datastream

However, we believe there are also good reasons to expect the positive stock price trend to continue from a fundamental perspective. The improved economic prospects have prompted corporate analysts to raise their earnings estimates in the past months. While they expected in December 2020 aggregate earnings for the DAX 30 of 880 index points for 2021 and 1,020 index points for 2022, their forecasts have meanwhile increased to just over 920 and 1,060 points, respectively. At that time, we had discounted the price-earnings ratio a little and thus arrived at our price target of 15,000 points. Using the same procedure, one would obtain a target of 16,100 based on the upward-adjusted earnings forecasts.

And it gets even better. We believe it is likely that earnings expectations for this year and next do not fully reflect the true extent of the economic recovery. For example, the DAX is a stock index that contains many cyclical companies from the industrial sector whose well-being is heavily influenced by the economic trend. But current earnings forecasts still do not adequately reflect the record level of the manufacturing sector's PMI or the significant improvement of the Ifo business climate index. This applies, by the way, not only to DAX companies. Further positive earnings revisions may also be expected for US companies, which are benefiting from an even stronger economic upswing that will give stock prices more upward impetus. The US reporting season starting next week should confirm that.

DAX: Corporate earnings and Ifo business climate



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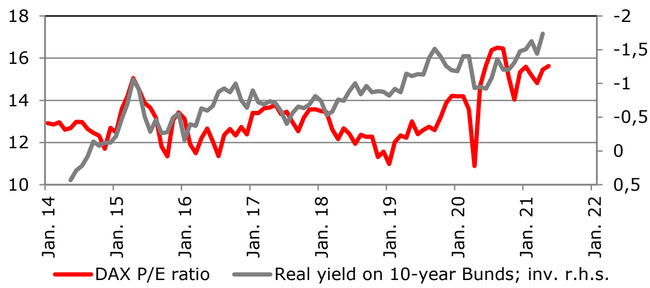
But what should one make of the argument that a price bubble has formed and could soon burst? Undoubtedly, stocks have become more expensive in the past months, and some names and market segments actually exhibit signs of a bubble. There is a great deal of speculative money circulating, which is being employed by day traders on platforms like Robinhood or Trade Republic, but also by hedge funds and family offices like now distressed Archegos Capital Management – and that with considerable leverage in some cases such that the risks to financial stability may not be overlooked. However, this is primarily a result of very accommodative central bank monetary policy. But since the US Federal Reserve and European Central Bank are not going to adjust interest rate policy in the coming months, the fact that stocks as well as all other asset classes are valued high is probably not going to change. This means, however, that the discount from the current valuation level that we made to be on the safe side can be reduced. Since, in contrast to the "normal" nominal yield on a 10-year German government bond (Bund), which has risen slightly since the beginning for the year from -0.58% to -0.34%, the real yield on a 10-year inflation-protected bond has fallen from -1.50% to -1.75% (also a record), this even increases the latitude from a valuation perspective. We are therefore raising our DAX price target to 16,500 points.

DAX: P/E ratio for the next 12 months and yield on 10-year German inflation-linked bonds



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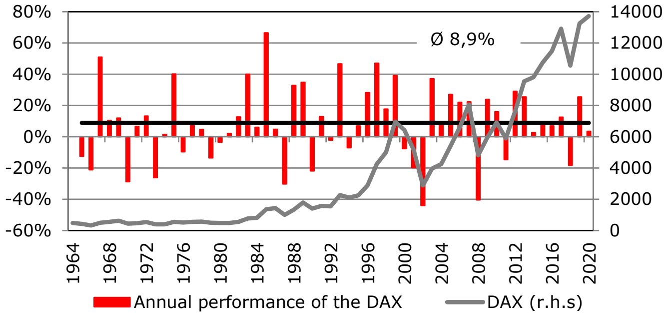
Proceeding analogously, we obtain the following price target adjustments for our other stock market forecasts: the Euro Stoxx 50 up from 4,000 to 4,350 points, the Stoxx 50 from 3,450 to 3,550 points, and the S&P 500 from 4,000 to 4,400 points.

A few may ask themselves now whether a DAX forecast of 16,500 points is not a bit too optimistic despite what looks like a record-breaking economic environment and continuing low interest rates. After all, if that forecast proved correct, it would mean a DAX gain of 20% in 2021. To put this possible performance into historical perspective, we have looked at all the annual returns of the DAX, back-calculated to 1965. Our findings show that the annual performance of the DAX has ranged between +66% (1985) and -44% (2002) in the past 56 years. The simple arithmetic mean comes to +8.9%, but the geometric mean is lower at +6.3%. In the period between 1965 and 2020, the DAX achieved an increase between zero and 10% in 13 years (23% of the cases), while performance was between zero and -10% in 5 years (9% of the cases) and worse than -10% (21% of the cases) in 12 years. However, in almost half of all the years since 1965, the DAX has achieved a value gain of more than 10%, and performance has even been above 20% in about one-third of the cases. It is thus clear that very good performance is by no means improbable.

However, below the surface of rising stock indexes, significant changes have occurred since the beginning of the year. For example, multiple changes of market favorites made life difficult for investors in the first quarter. Until mid-February, tech stocks continued to expand the above-average price gains they already made last year. The prospect of a very strong economic recovery and emerging inflation worries, which caused interest rates to rise especially in the United States, then triggered a sharp correction in growth stocks, a category that mainly consists of tech stocks. Value stocks, including industrials, raw materials, and financials, were the beneficiaries of this development from mid-February to mid-March. When the financial distress at Archegos, a major family office in the United States, became known, investors focused more attention on defensive sectors like food and utility stocks.

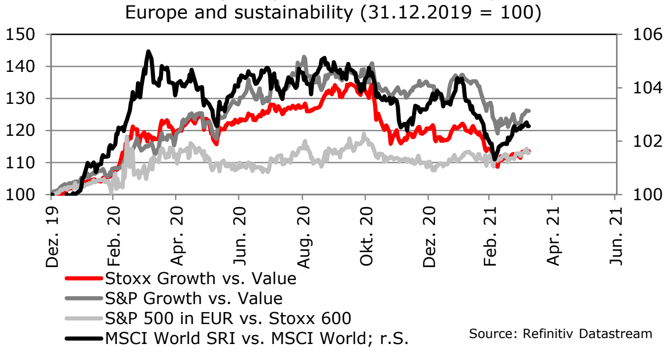
Performance of the DAX: Annual perspective



Source: Refinitiv Datastream

There have been no clear and continuing trends so far this year, so active trading and regular investment strategy adjustments have been necessary. That European indexes contain more value stocks than US indexes explains why many European stocks have outperformed their US counterparts this year for the first time in a long time.

Investment styles: growth vs. value , US equities vs. Europe and sustainability (31.12.2019 = 100)



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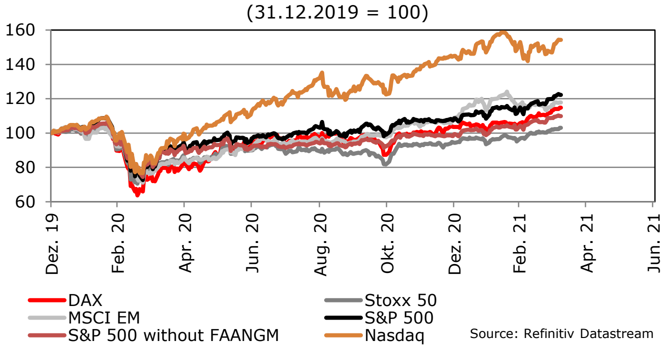
Tech stocks having been mainly responsible for a positive stock market trend in recent years, the relatively better performance of cyclical companies and sectors is likely to continue in the coming months. However, this trend is already fully under way, and how long it will last can hardly be forecast. We therefore consider it sensible for now to keep a balanced mix of growth and value stocks.

Performance of stock markets in EUR (31.12.2019 = 100)



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Market Data

Stock marktes	As of 09.04.2021 14:25	Change versus 02.04.2021 -1 week	08.03.2021 -1 month	08.01.2021 -3 months	08.04.2020 -1 year	31.12.2020 YTD
Dow Jones	33504	1,1%	5,3%	7,7%	43,0%	9,5%
S&P 500	4097	1,9%	7,2%	7,1%	49,0%	9,1%
Nasdaq	13829	2,6%	9,7%	4,8%	70,9%	7,3%
DAX	15213	0,7%	5,8%	8,3%	47,2%	10,9%
MDAX	32755	1,4%	4,6%	4,5%	50,9%	6,4%
TecDAX	3478	1,0%	6,9%	5,6%	26,6%	8,3%
EuroStoxx 50	3980	0,9%	5,8%	9,2%	39,6%	12,0%
Stoxx 50	3372	1,1%	4,3%	5,6%	21,9%	8,5%
SMI (Swiss Market Index)	11211	0,8%	3,5%	3,8%	18,9%	4,7%
Nikkei 225	29768	-0,3%	3,6%	5,8%	53,8%	8,5%
Brasilien BOVESPA	118313	2,7%	7,0%	-5,4%	50,5%	-0,6%
Russland RTS	1421	-3,1%	-1,8%	-3,1%	27,5%	2,4%
Indien BSE 30	49591	-0,9%	-1,7%	1,7%	65,9%	3,9%
China Shanghai Composite	3451	-1,0%	0,9%	-3,3%	22,6%	-0,6%
MSCI Welt (in €)	2896	0,8%	6,3%	8,5%	36,6%	11,2%
MSCI Emerging Markets (in €)	1343	-0,7%	2,6%	2,4%	40,7%	7,5%
Bond markets						
Bund-Future	171,89	6	-212	-541	143	-575
Bobl-Future	135,05	-22	47	-8	51	-13
Schatz-Future	112,11	-3	-6	-17	9	-17
3 Monats Euribor	-0,55	2	1	2	-29	4
3M Euribor Future, Dec 2017	-0,56	0	-3	0	-23	0
3 Monats $ Libor	0,19	-1	1	-4	-112	-5
Fed Funds Future, Dec 2017	0,08	-1	0	0	-6	0
10 year US Treasuries	1,68	0	8	57	91	76
10 year Bunds	-0,29	8	3	26	2	29
10 year JGB	0,11	0	0	8	10	9
10 year Swiss Government	-0,25	6	0	22	4	25
US Treas 10Y Performance	678,27	0,9%	0,2%	-3,5%	-6,0%	-5,3%
Bund 10Y Performance	670,87	0,1%	0,5%	-1,8%	0,5%	-2,0%
REX Performance Index	494,32	0,0%	0,1%	-1,0%	0,0%	-1,0%
US mortgage rate	0,00	0	0	0	0	0
IBOXX AA, €	0,18	-1	-4	15	-89	16
IBOXX BBB, €	0,62	-3	-8	12	-177	7
ML US High Yield	4,76	-12	-20	-18	-466	-22
Convertible Bonds, Exane 25	8328	0,0%	2,8%	-1,3%	18,2%	0,0%
Commodities						
MG Base Metal Index	398,88	1,8%	2,0%	7,7%	62,8%	12,5%
Crude oil Brent	62,83	-3,3%	-8,1%	12,1%	90,9%	21,1%
Gold	1739,79	0,6%	3,4%	-6,2%	5,5%	-8,3%
Silver	25,49	2,8%	1,4%	-0,4%	70,4%	-3,4%
Aluminium	2266,11	2,9%	4,8%	12,0%	58,9%	14,8%
Copper	9018,25	2,5%	0,0%	11,1%	81,2%	16,4%
Iron ore	170,45	4,1%	-1,8%	0,5%	105,7%	9,4%
Freight rates Baltic Dry Index	2088	0,8%	12,7%	30,0%	244,0%	52,9%
Currencies						
EUR/ USD	1,1874	1,1%	0,1%	-3,1%	9,2%	-3,2%
EUR/ GBP	0,8664	1,8%	0,9%	-3,9%	-1,2%	-3,2%
EUR/ JPY	130,39	0,3%	1,2%	2,5%	10,2%	3,1%
EUR/ CHF	1,1007	-0,8%	-0,7%	1,7%	4,3%	1,9%
USD/ CNY	6,5543	-0,2%	0,4%	1,2%	-7,3%	0,4%
USD/ JPY	109,26	-1,3%	0,3%	5,1%	0,4%	5,8%
USD/ GBP	0,73	0,9%	0,8%	-0,8%	-9,6%	-0,2%

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