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Kapitalmarktperspektiven: Sommerpause, Ferien? Nicht an den Kapitalmärkten!

Dr. Jürgen Callies | MEAG Research | 18. August 2021

Kapitalmarktperspektiven:

Sommerpause, Ferien?

Nicht an den Kapitalmärkten!

Dr. Jürgen Callies
Leiter MEAG Research





Agenda

- 01 Executive Summary**
- 02 Corona & Growth: Connected
- 03 New scenario setup
- 04 Central banks: The ECB will wait – all eyes on the FED
- 05 Capital markets: Uncertainty and low interest rate environment
- 06 Appendix: Capital market expectations for the alternative scenarios

Executive Summary: Delta reveals the limits of some of the strategies to fight COVID – vaccinations important to keep global economy on track

1 Growth: Unevenness limits upside
Reopening dynamics pushed US and Eurozone growth in Q2. Supply bottlenecks are a limiting factor now but should support later when reopening is more progressed and less uneven. But the spread of Delta risks that a broader synchronization of global growth will take longer.

2 Inflation: Commodity price pressures ease
Reasons for a view of transitory inflation are still well-founded, but new COVID outbreaks could prolong supply chain disruptions. US inflation should be close to peaking but decline will only be very gradual. The Eurozone will see the peak in inflation rates only in Q4.

3 Fiscal Policy: Remains supportive
Several issues are coming up in the US with focus on the debt ceiling and the fiscal packages. Although short term growth impulses will be limited, this could help to alleviate some of the long term growth fears. In the EU and China, fiscal spending should become more supportive.

4 Central banks: FED in the lead
FED members seem to be closing in on a tapering start around the turn of the year. Views on rate hikes differ but those are still far off. ECB cemented its dovish stance with a new forward guidance after the strategy review. After the PBoC's dovish pivot, further support likely.

5 Pandemic: Delta is reducing the options
The Delta variant is driving the next global wave and is questioning “zero-COVID-strategies” with Asia currently in focus. This highlights the importance of vaccinations which should limit the fallout in the Western World. Main risk is still a mutation that strongly limits vaccine efficacy.

6 Conviction – “Regeneration”
Our highest conviction (65%) remains for a “Regeneration” of the global economy. But with the broader spread of Delta in Asia, risks have shifted more towards “Multiple Dips” (15%). Supply chains could tip the balance between “Boom” or “Stagflationary Concerns” (10% each).

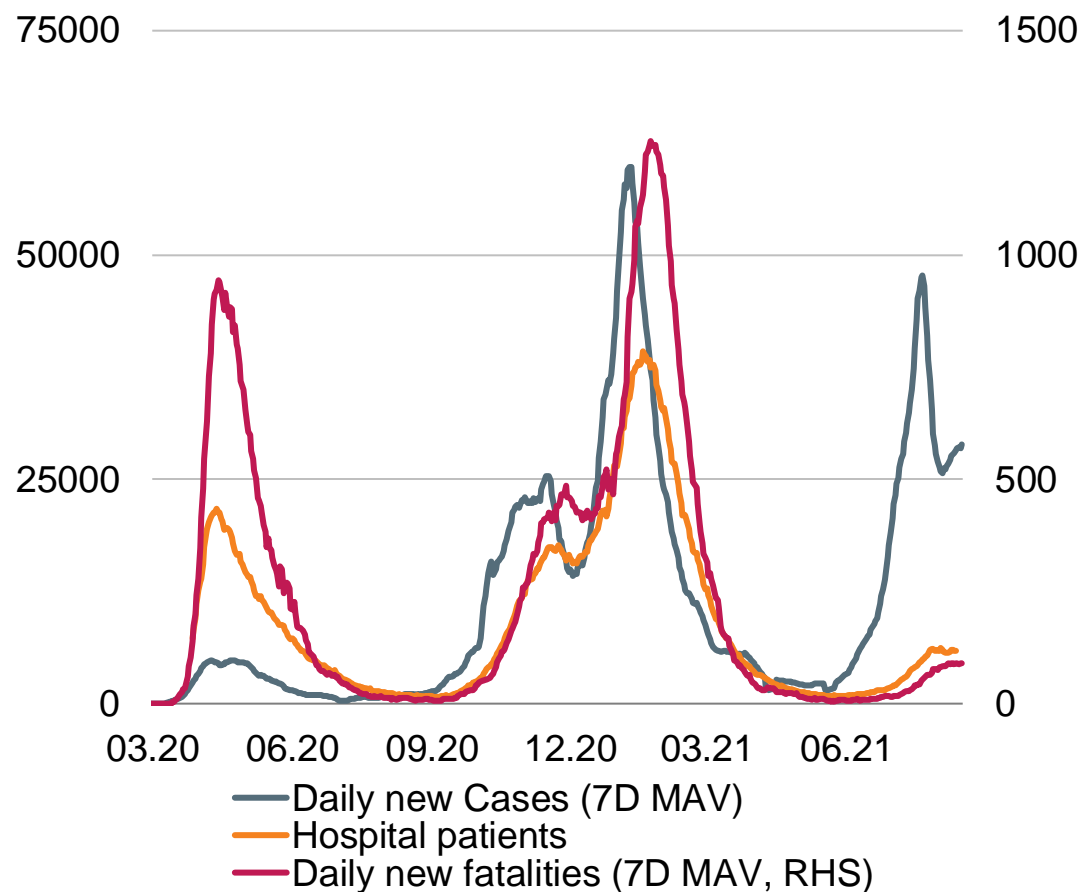


Agenda

- 01 Executive Summary
- 02 **Corona & Growth: Connected**
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- 04 Central banks: The ECB will wait – all eyes on the FED
- 05 Capital markets: Uncertainty and low interest rate environment
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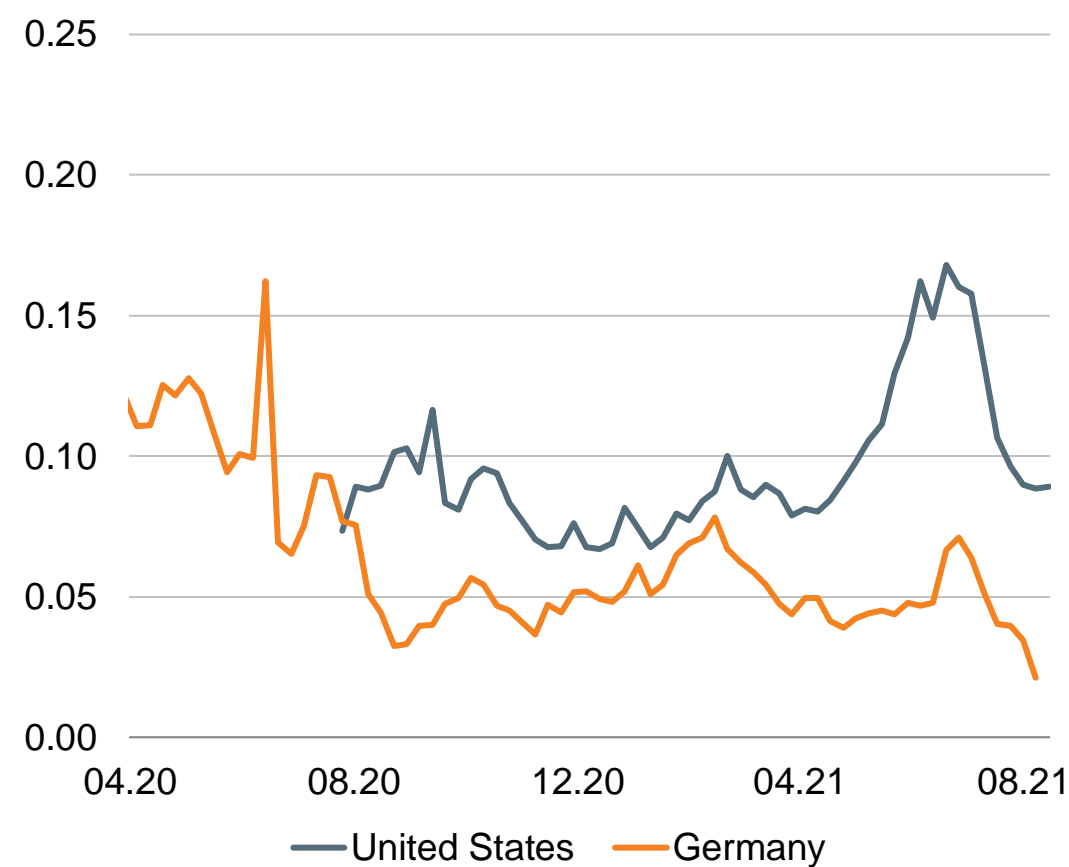
The high level of vaccinations in the UK helped to limit the fallout of the Delta wave – picture for the US so far less favourable

UK: Cases, hospitalisations and fatalities



Source: MEAG Research, OurWorldInData, 16.08.2021

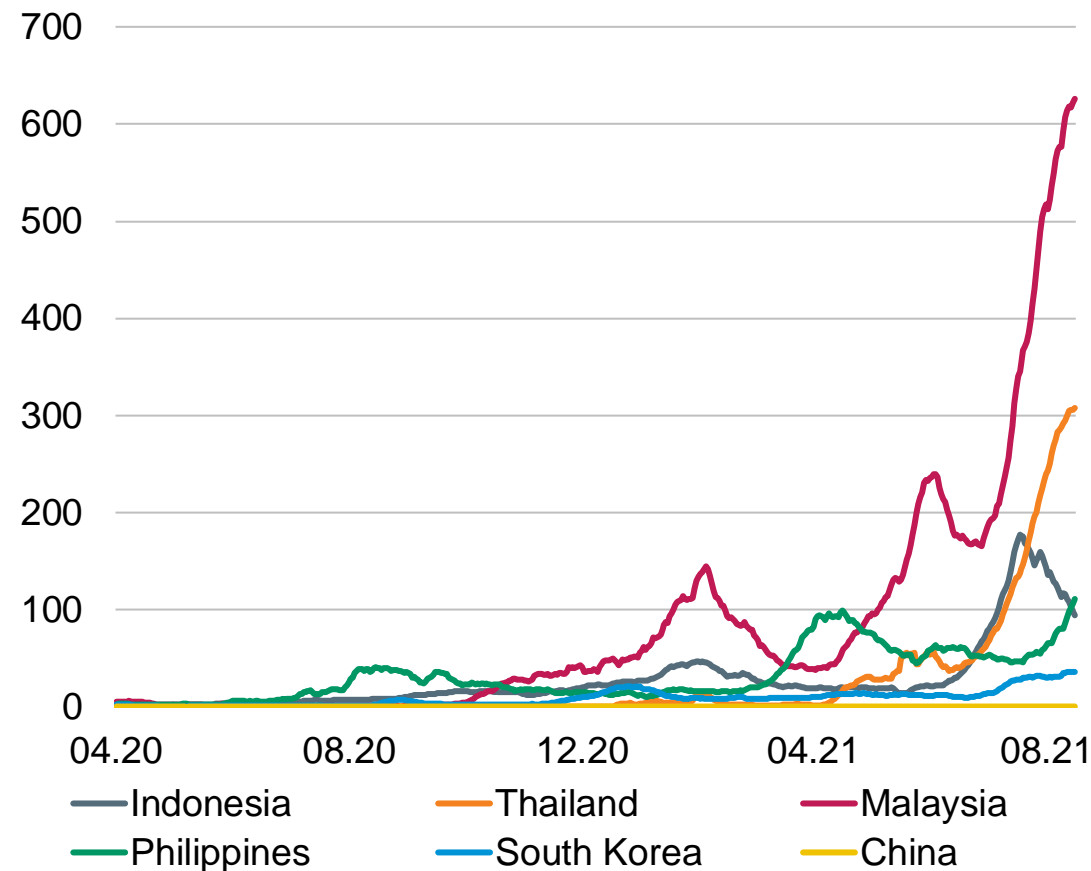
Ratio of weekly new hospital admissions to weekly new cases



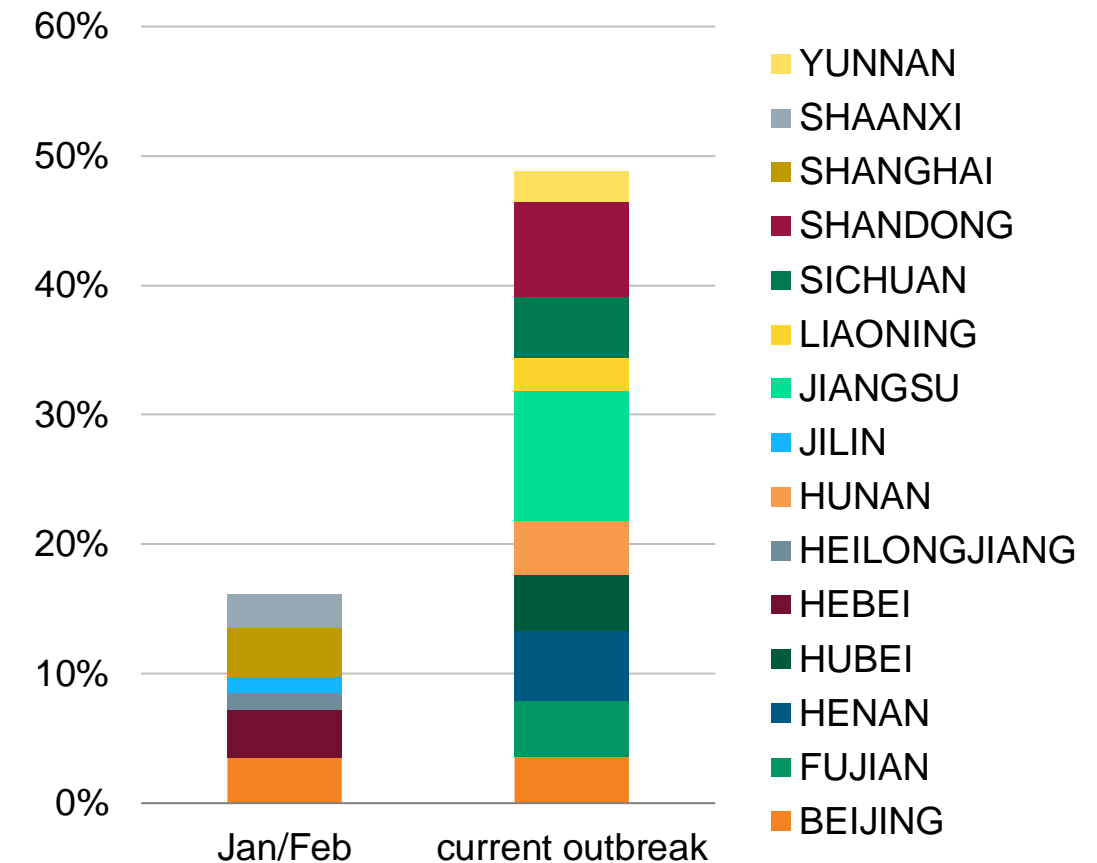
Source: MEAG Research, OurWorldInData, 16.08.2021

Southeast Asia as new COVID hotspot – China’s “zero-COVID-strategy” is coming under increasing pressure with the Delta variant

Daily new cases per million (7D MAV)



China: Provinces with more than 2 cases (local and symptomatic) as % of national GDP

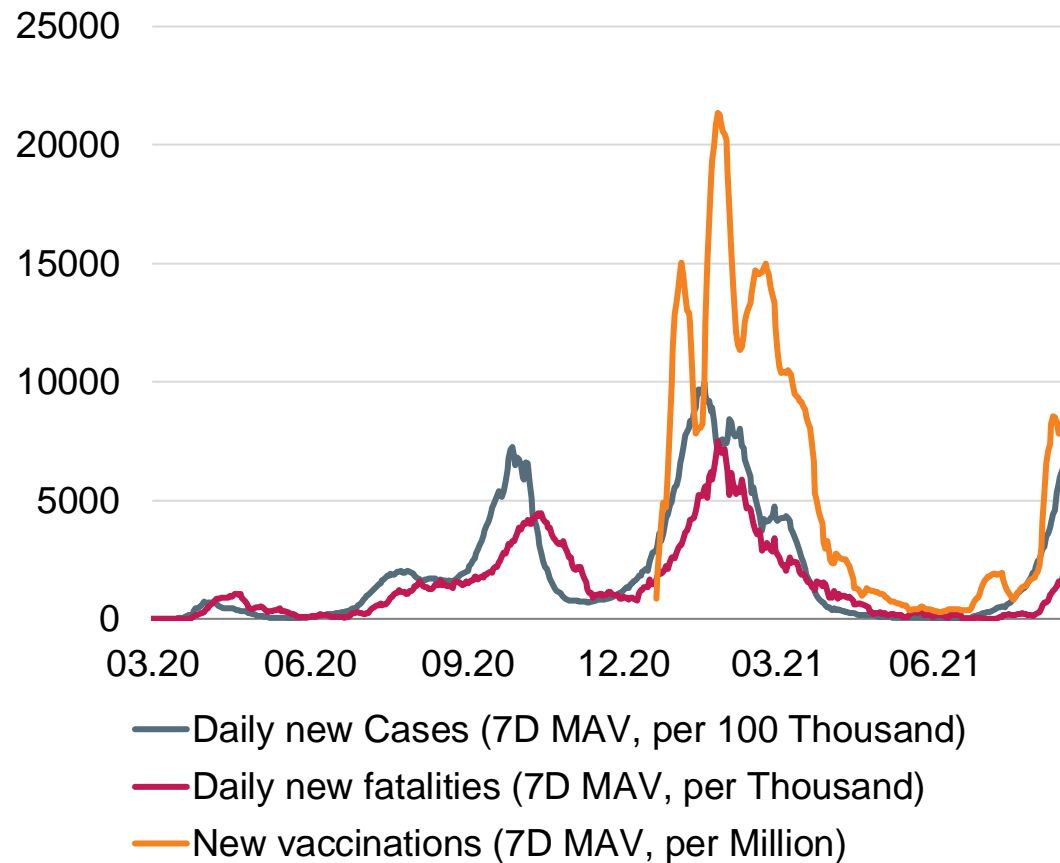


Source: MEAG Research, OurWorldInData, 16.08.2021

Source: MEAG Research, NHC. Data for the current outbreak from July 22 to August 11, Jan/Feb outbreak from Jan 19 to Feb 5

Israel started to apply booster shots to citizens over 50 years

COVID development in Israel



Findings in Israel

- Initial results about the effects of a third dose show a 50% reduction in the number of new cases.
- Israel has expanded its vaccine campaign to give booster shots against COVID-19 to anyone over 50.
- According to the latest figures issued by the Health Ministry, more than 866,000 people received a third dose.

Q2 GDP numbers: Eurozone left the double dip recession with an upside surprise while inventory drawdown weighed on the US number

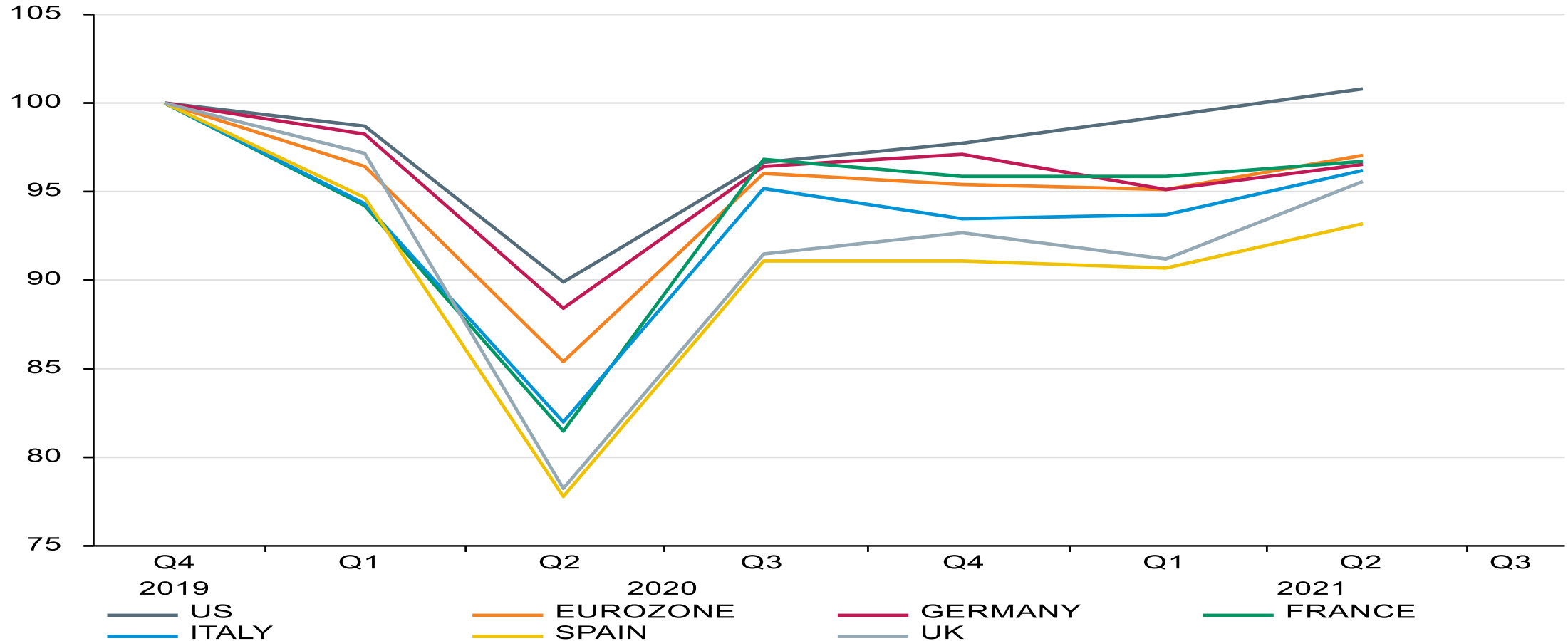
GDP: Quarterly growth rates (in %)

% q/q	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
Euroland	0.1	0.5	0.1	0.5	0.5	0.2	0.2	0.0	-3.6	-11.4	12.4	-0.6	-0.3	2.0
GER	-0.4	0.6	-0.4	0.4	1.1	-0.5	0.4	-0.1	-1.8	-10.0	9.0	0.7	-2.1	1.5
FR	0.0	0.4	0.4	0.7	0.7	0.5	0.1	-0.4	-5.8	-13.5	18.8	-1.0	0.0	0.9
ITA	0.0	0.0	0.1	0.2	0.0	0.1	0.2	-0.4	-5.7	-13.1	16.0	-1.8	0.2	2.7
SPA	0.5	0.5	0.6	0.6	0.5	0.4	0.4	0.4	-5.4	-17.8	17.1	0.0	-0.4	2.8
USA	0.8	0.8	0.5	0.2	0.6	0.8	0.7	0.5	-1.3	-8.9	7.5	1.1	1.5	1.6
JAP	0.0	0.0	-0.7	0.4	0.3	0.2	0.1	-1.9	-0.6	-7.9	5.3	2.8	-0.9	0.3
UK	0.1	0.4	0.6	0.2	0.6	0.1	0.5	0.0	-2.8	-19.5	16.9	1.3	-1.6	4.8
CHN	1.8	1.7	1.3	1.5	1.6	1.4	1.2	1.5	-8.7	10.0	2.8	3.0	0.4	1.3

US as the first major DM economy with real GDP back to pre-crisis level

REAL GDP - REBASED TO 100

17.08.2021

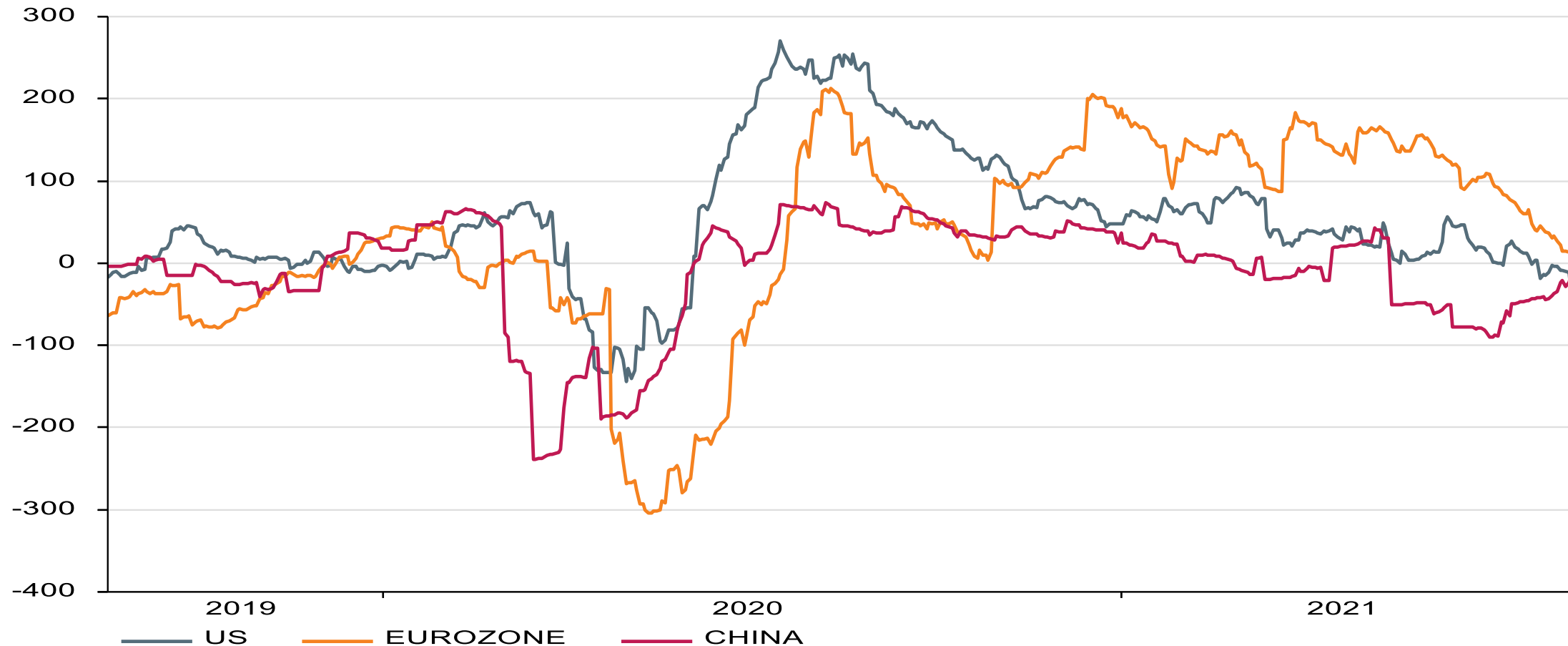


Quelle: Refinitiv Datastream

Economic surprises are coming down as it is increasingly difficult to beat elevated expectations

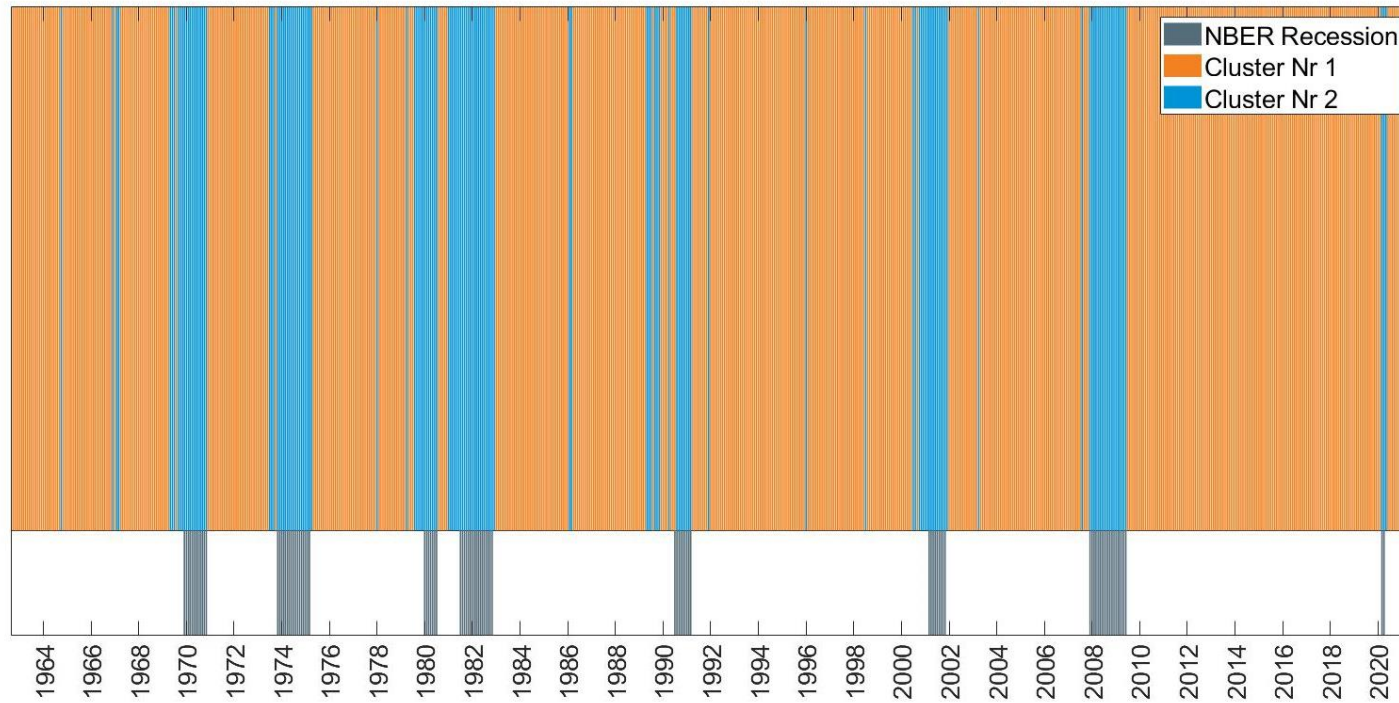
CITIGROUP SURPRISE INDEX

17.08.2021



Quelle: Refinitiv Datastream

After the NBER finally dated the recession, confirmation that our cluster model also has a good out of sample fit and is much timelier

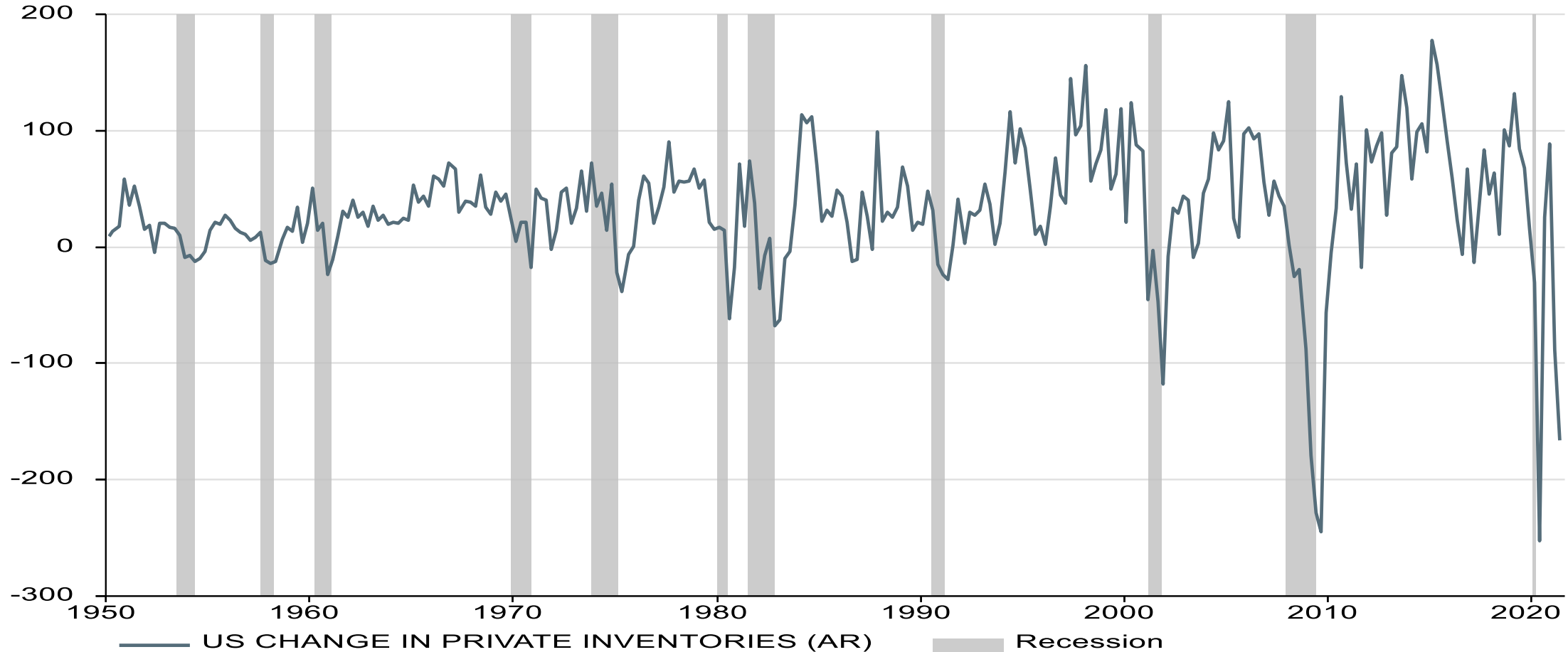


- We detect 2 different patterns in a large set of economic and financial variables using the unsupervised machine learning method „k-means clustering“ and a set of approx. 90 monthly time series*
- The months in cluster 2 (blue) have frequently been recession months.
- The model performed well for the COVID-19 induced recession which was not included in the model development phase. The model has dated the recession from March to May 2020 and gave this signal for the end of the recession already in June 2020. More than one year later, the NBER finally has also confirmed that the recession has ended and has officially dated it from March to April 2020.
- Data for February 2021 was very weak due to COVID restrictions and the severe winter storms, so that this month is marginally attached to the “recession cluster”.

* The clustering method employed here is inspired by recent research papers from BofAML and uses publicly available data published by the FED. We tested, modified and extended this analysis and use a subset of more recent data from Refinitiv Datastream (as available by August 6, 2021; latest data for June 2021)
Source: MEAG Research, St. Louis FED, BofAML

Large inventory drawdowns usually in the context of a recession, but not this time as demand is so strong that supply cannot keep up

17.08.2021



Quelle: Refinitiv Datastream

Several fiscal policy issues simultaneously ongoing in the US – new impulses could help to alleviate some of the long term growth fears

A

Debt ceiling reinstated

The debt ceiling has been reinstated on August 1 and the US is now running on extraordinary measures. Given the pandemic, estimates regarding the “x-date” are more uncertain than usual with the Treasury saying this could be as early as September, but October seems more likely.

C

Bipartisan infrastructure bill

The bipartisan infrastructure bill with 550bn in new spending has finally passed the Senate on a broad basis (69-30). However, the House should take up the bill only after summer break. Progressive Democrats strongly link it to the reconciliation bill which can complicate the passage there.

B

Budget for FY 2022

The new fiscal year starts on October 1 in the US. To allow for federal spending, a budget or at least a continuing resolution which allows for temporary spending has to be passed until then. Otherwise, a government shutdown would be the consequence.

D

Democratic 3.5tr reconciliation bill

This bill, financed by higher taxes, mainly for corporates & wealthy individuals, aims to implement the rest of Biden’s agenda. However, finding enough funding seems difficult, so a size of around 2tr seems more realistic but even then, passage is not guaranteed given narrow majorities.

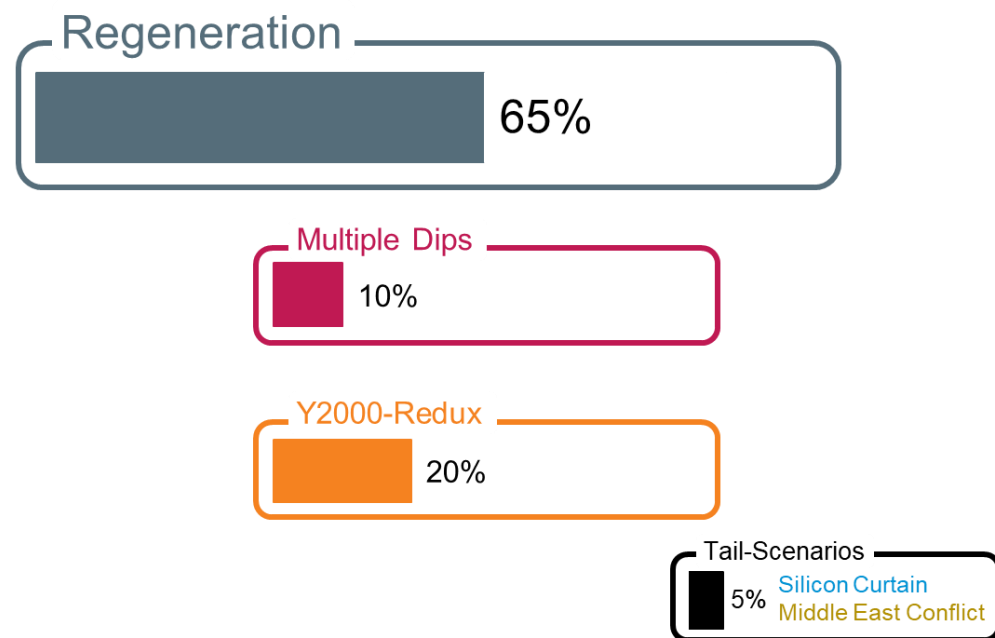


Agenda

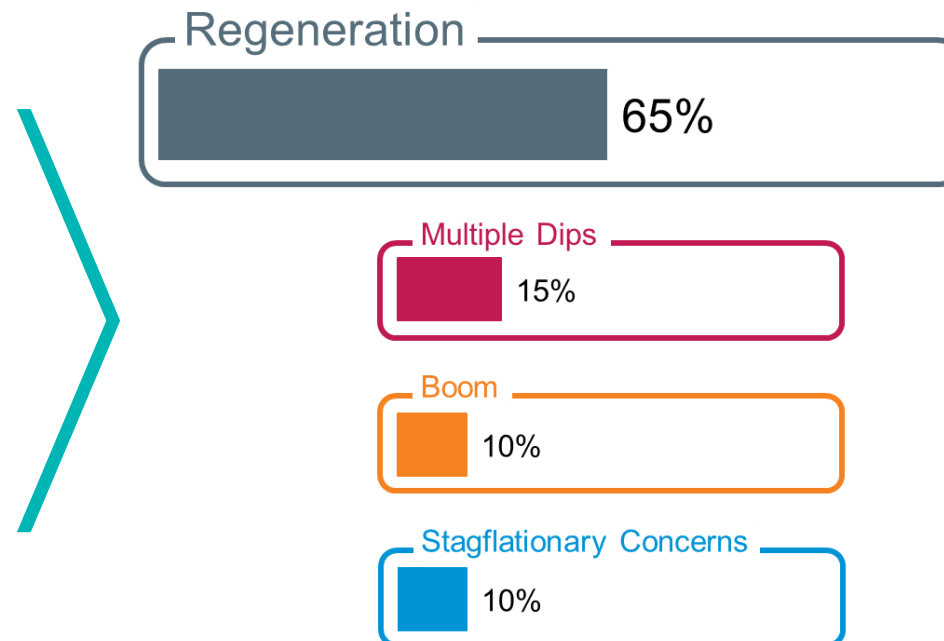
- 01 Executive Summary
- 02 Corona & Growth: Connected
- 03 **New scenario setup**
- 04 Central banks: The ECB will wait – all eyes on the FED
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Research long term view: Spread of the Delta variant in China increased downside risks – “Y2000-Redux” now replaced by two new scenarios

MEAG Research scenario convictions – July 2021



MEAG Research scenario convictions – August 2021



Scenario Overview: The evolution of supply chain issues could mark the difference between a boom and stagflationary tendencies

Market view: Regeneration

The economy is recovering from the Corona-induced lockdowns during 2021 on vaccination success. Nevertheless, a full recovery should take some time and Corona is unlikely to disappear completely. Fiscal and monetary policy are supportive despite some cautious moves to pare back monetary stimulus. Headline inflation rates should normalize over 2022 as supply chain issues ease and transitory effects run out. Interest rates rise somewhat, and the environment is broadly supportive for most risky assets.

Multiple Dips

The success story of the different vaccines could be preliminary, because new virus mutations develop, side effects are underestimated, distributional problems, transmissibility remains high despite vaccinations, etc.. So, containment fails. Burden for sentiment, reintroduced restrictions, new supply chain disruptions, increasing insolvencies a result.

Boom

Strong growth dynamics hold up due to a sharp reduction in the households' savings rates, elevated investments and as supply bottlenecks ease faster, also due to meaningfully increased commodity supply. Inflation proves transitory, allowing central banks to wait until underlying price pressures finally rise, further supporting the booming economy.

Stagflationary Concerns

Aggravated by limited commodity supply, shortages for several products remain as pandemic-induced demand shifts prove more persistent. Occasional COVID-outbreaks in Asia also put additional strains on supply chains periodically. This causes a more persistent phase of higher inflation which also causes monetary policy to react, despite the loss of purchasing power.

Forecasts for “Regeneration”¹⁾

GDP in %	2020	2021e	2022e	Consensus	
				2021e	2022e
US	-3.4	6.3	4.2	6.2	4.4
Euroland	-6.6	5.0	4.2	4.8	4.4
Germany	-4.9	3.0	3.9	3.3	4.4
France	-8.0	6.2	4.1	5.9	3.9
Italy	-8.9	6.0	4.0	5.3	4.2
Spain	-10.8	6.4	6.2	6.0	5.9
UK	-9.8	6.4	5.3	6.8	5.4
Japan	-4.7	2.5	2.6	2.4	3.0
China	2.3	↓ 8.5	6.2	8.6	5.6
Brazil	-4.4	4.2	2.0	4.9	2.3
Russia	-3.0	3.0	2.8	3.5	2.7
India	-7.0	10.0	7.0	8.6	7.1
Poland	-2.7	4.4	5.0	4.8	5.1
G20	-3.4	6.0	4.5	5.9	4.5
G20 DM	-4.9	5.5	4.1	5.3	4.3
G20 EM	-0.8	6.9	5.1	7.0	4.9

CPI in %	2020	2021e	2022e	Consensus	
				2021e	2022e
US	1.2	4.1	2.5	4.1	2.9
Euroland	0.3	2.2	1.6	2.1	1.5
Germany	0.4	2.9	2.0	2.8	1.9
France	0.5	1.8	1.5	1.5	1.3
Italy	-0.2	1.5	1.1	1.4	1.2
Spain	-0.3	2.2	1.5	2.1	1.4
UK	0.9	2.2	2.0	2.2	2.7
Japan	0.0	-0.1	0.8	0.1	0.5
China	2.5	1.2	2.0	1.4	2.3
Brazil	3.2	7.4	4.4	7.5	4.3
Russia	3.4	6.0	4.1	6.1	4.5
India	6.6	5.4	5.0	5.4	5.1
Poland	3.4	4.3	2.7	4.0	3.4
G20	2.0	3.3	2.7	3.3	2.8
G20 DM	0.8	2.9	2.0	2.9	2.2
G20 EM	3.9	4.0	3.8	4.0	3.8
Oil Price		70	70	70	66

1) MEAG Research estimates, GDP & CPI: Calendar Yearly Average, Oil: Calendar Year End, current consensus as of 17.08.2021
Source: MEAG Research, www.ConsensusEconomics.com, Refinitiv Datastream, IMF, Bloomberg, current data as of 16.08.2021

Alternative scenarios: Base effects should keep growth numbers positive in 2022, we see upside inflation risks except in case of a big Covid impact

GDP in %	2020	Multiple Dips (15%)			Stagflationary Concerns (10%)			Boom (10%)		
		2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
US	-3.4	5.6	1.3	2.2	6.0	3.0	1.3	6.6	5.4	2.6
Euroland	-6.6	4.2	1.2	0.5	4.8	3.2	1.0	5.2	5.0	2.1
China	2.3	↓8.1	4.5	5.0	↓8.3	5.2	5.0	↓9.0	7.0	6.2

CPI in %	2020	Multiple Dips (15%)			Stagflationary Concerns (10%)			Boom (10%)		
		2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
US	1.2	3.9	1.6	1.4	4.4	3.8	2.1	4.3	3.2	2.6
Euroland	0.3	2.0	0.8	0.6	2.4	2.6	1.3	2.3	2.3	1.8
China	2.5	0.8	0.0	0.2	1.4	3.6	2.0	1.4	3.0	2.8
Oil Price		60	50	52	87	80	75	82	90	90

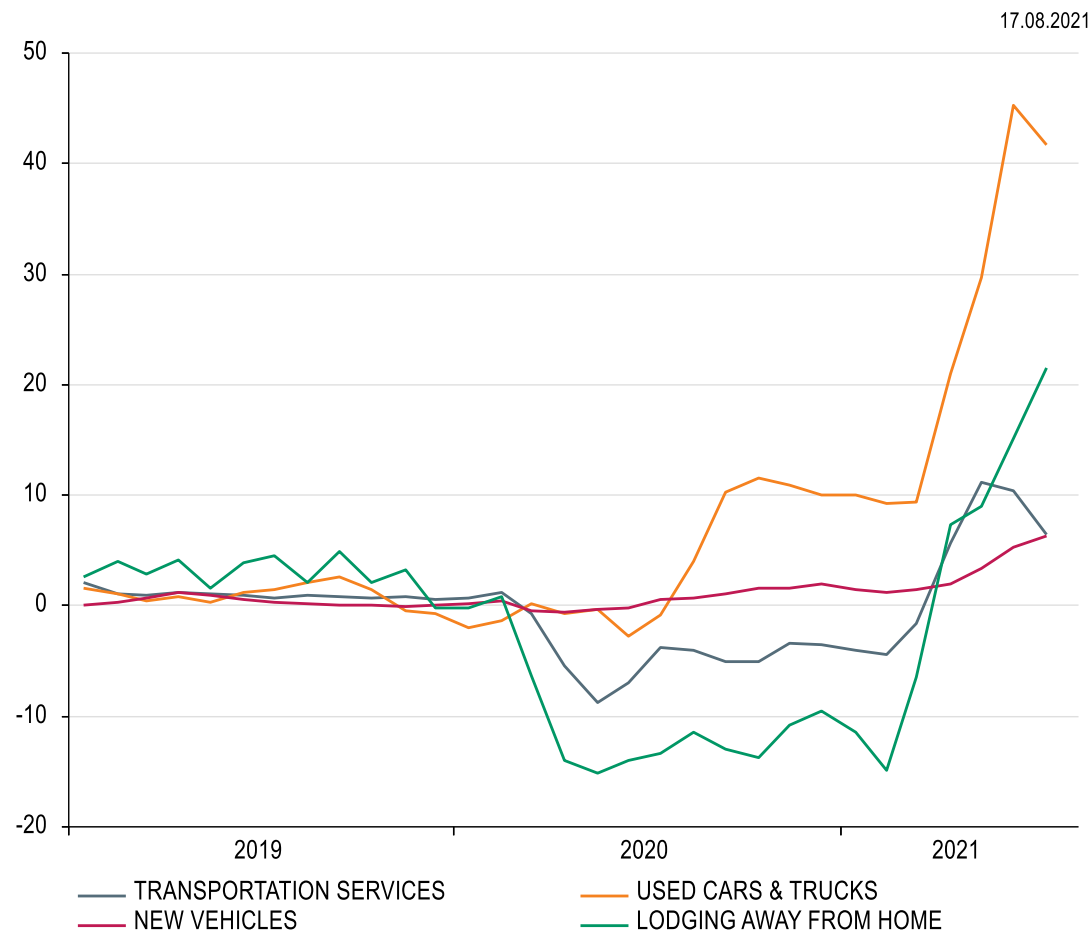


Agenda

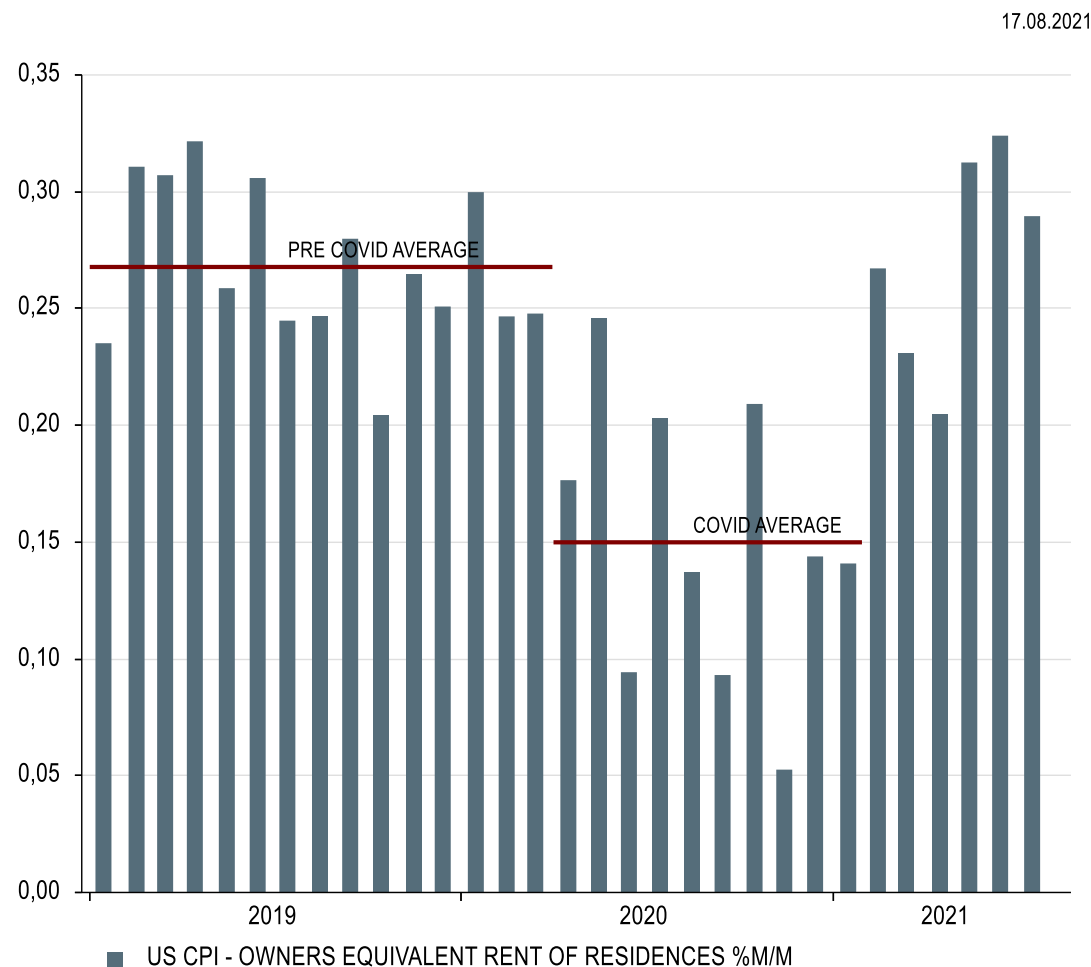
- 01 Executive Summary
- 02 Corona & Growth: Connected
- 03 New scenario setup
- 04 Central banks: The ECB will wait – all eyes on the FED**
- 05 Capital markets: Uncertainty and low interest rate environment
- 06 Appendix: Capital market expectations for the alternative scenarios

US inflation: After three months of outsized gains, transitory effects are slowly starting to fade – underlying price pressure is more important

US CPI %Y/Y - SELECTED COMPONENTS

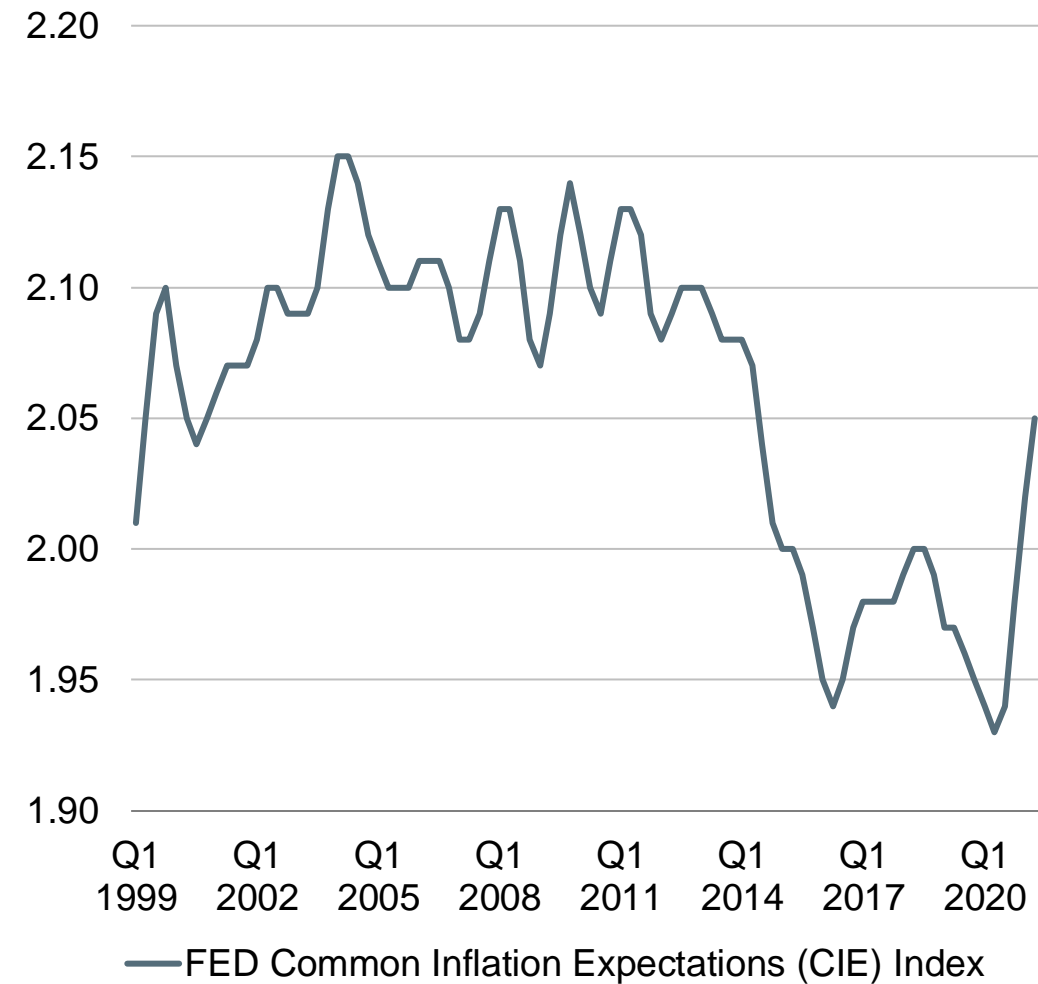
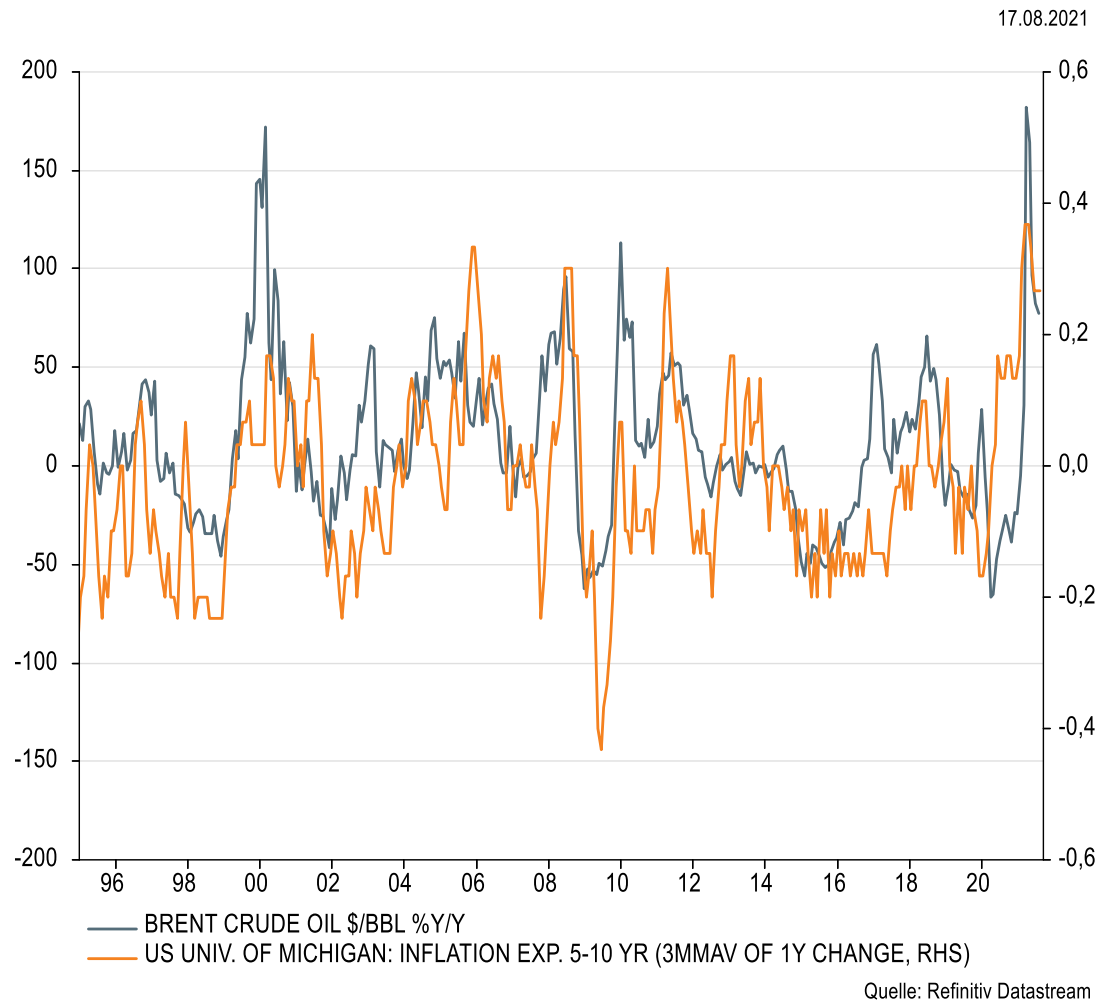


Quelle: Refinitiv Datastream



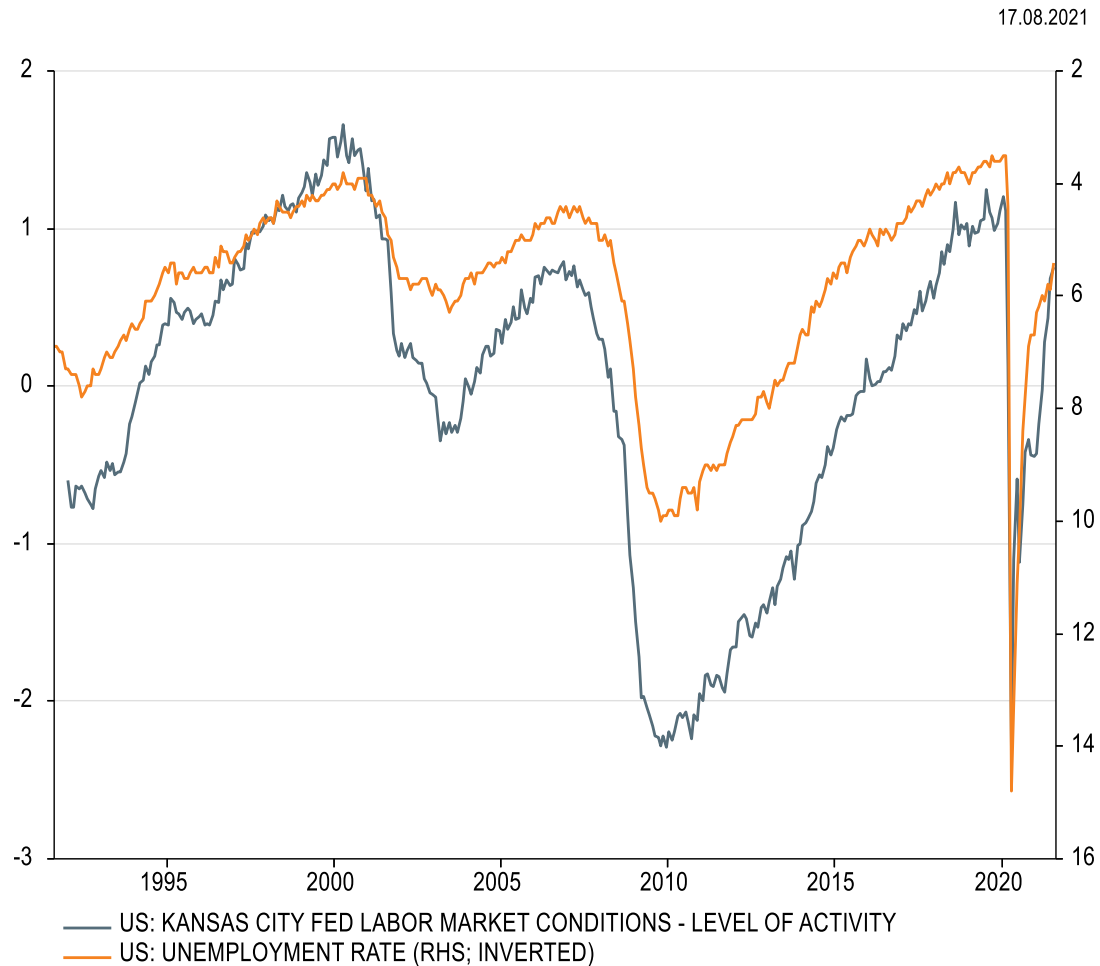
Quelle: Refinitiv Datastream

FED: Inflation expectations are always closely watched but so far, they are broadly consistent with the FED's goal

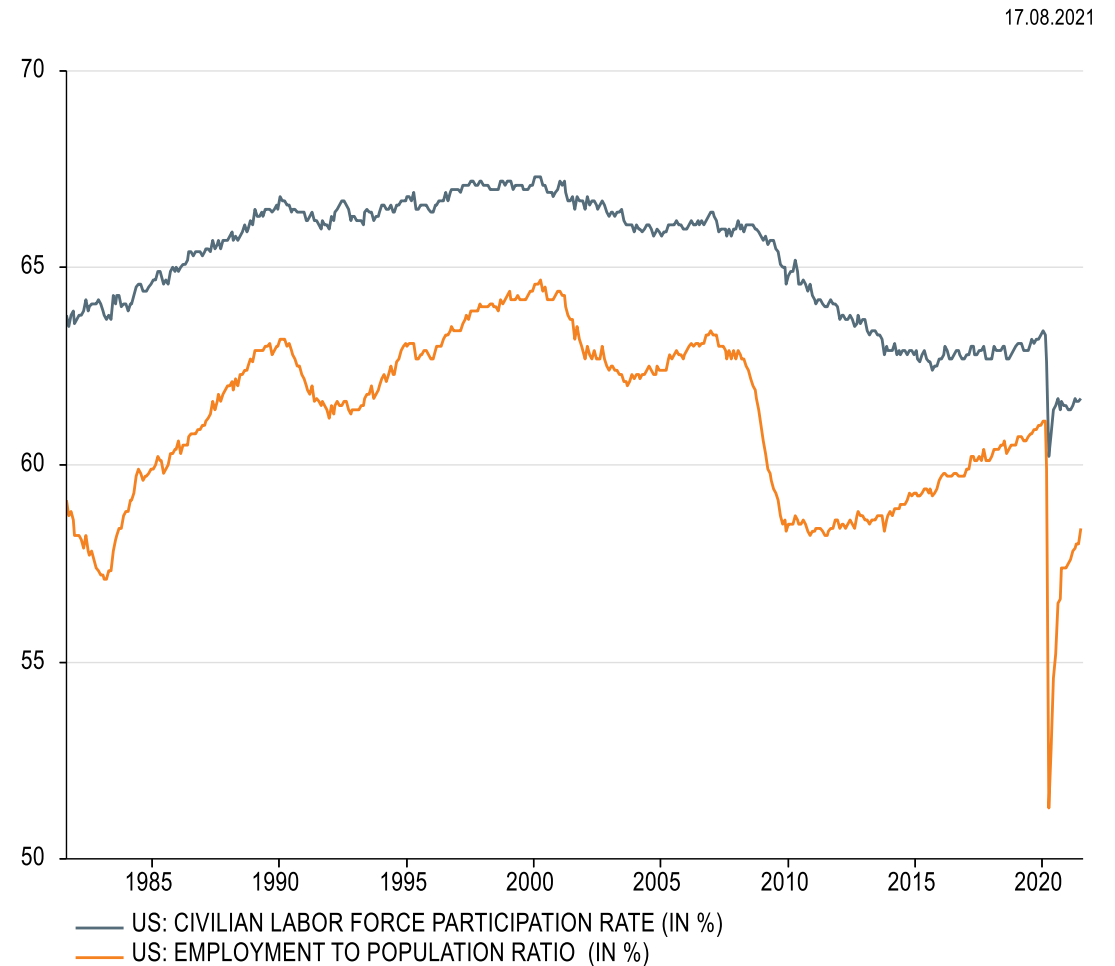


Source: MEAG Research, Bloomberg

US labour market: “No substantial further progress” yet, but on track to justify a taper announcement later this year

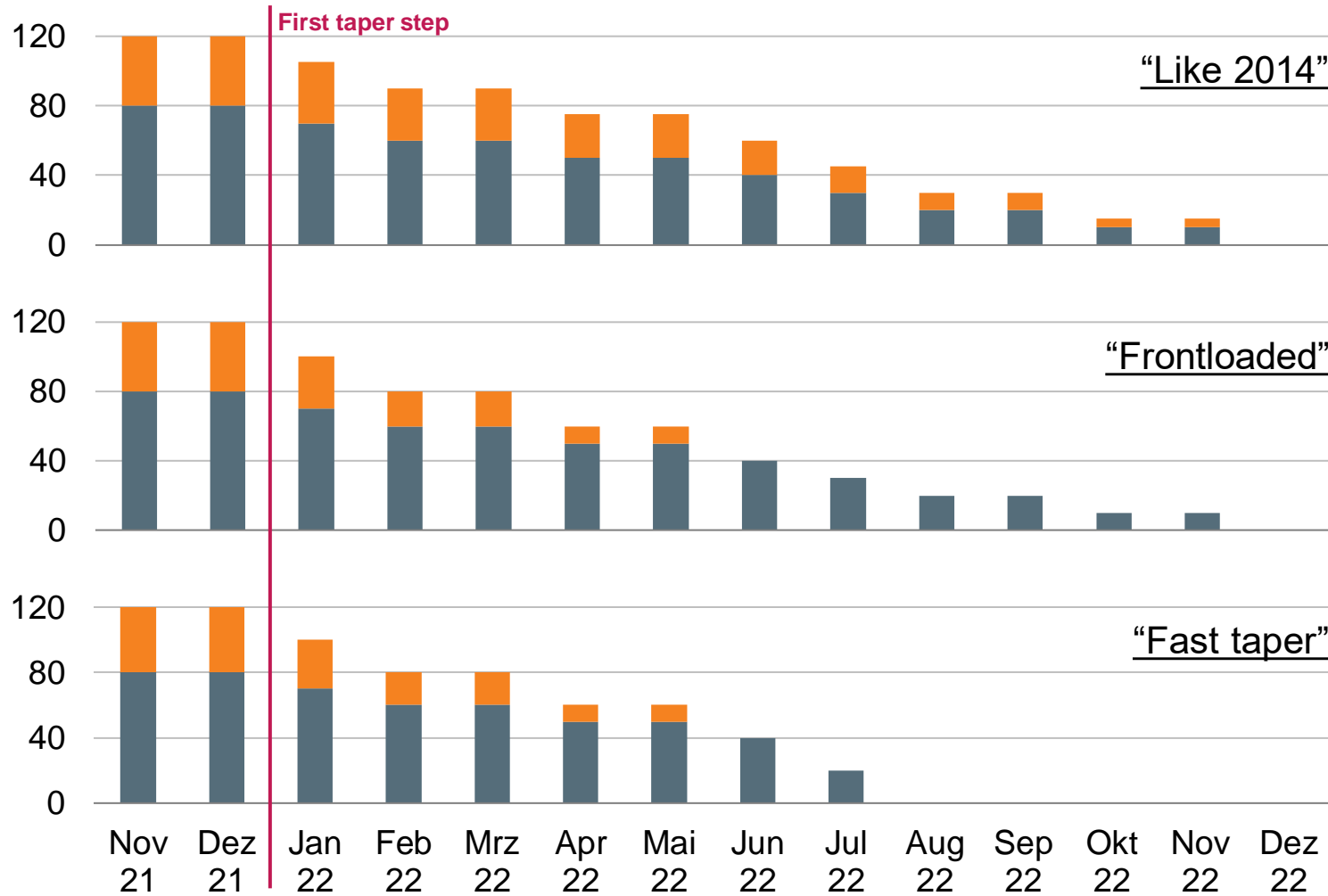


Quelle: Refinitiv Datastream



Quelle: Refinitiv Datastream

FED tapering: Lots of discussion about the start, but the pace is equally important

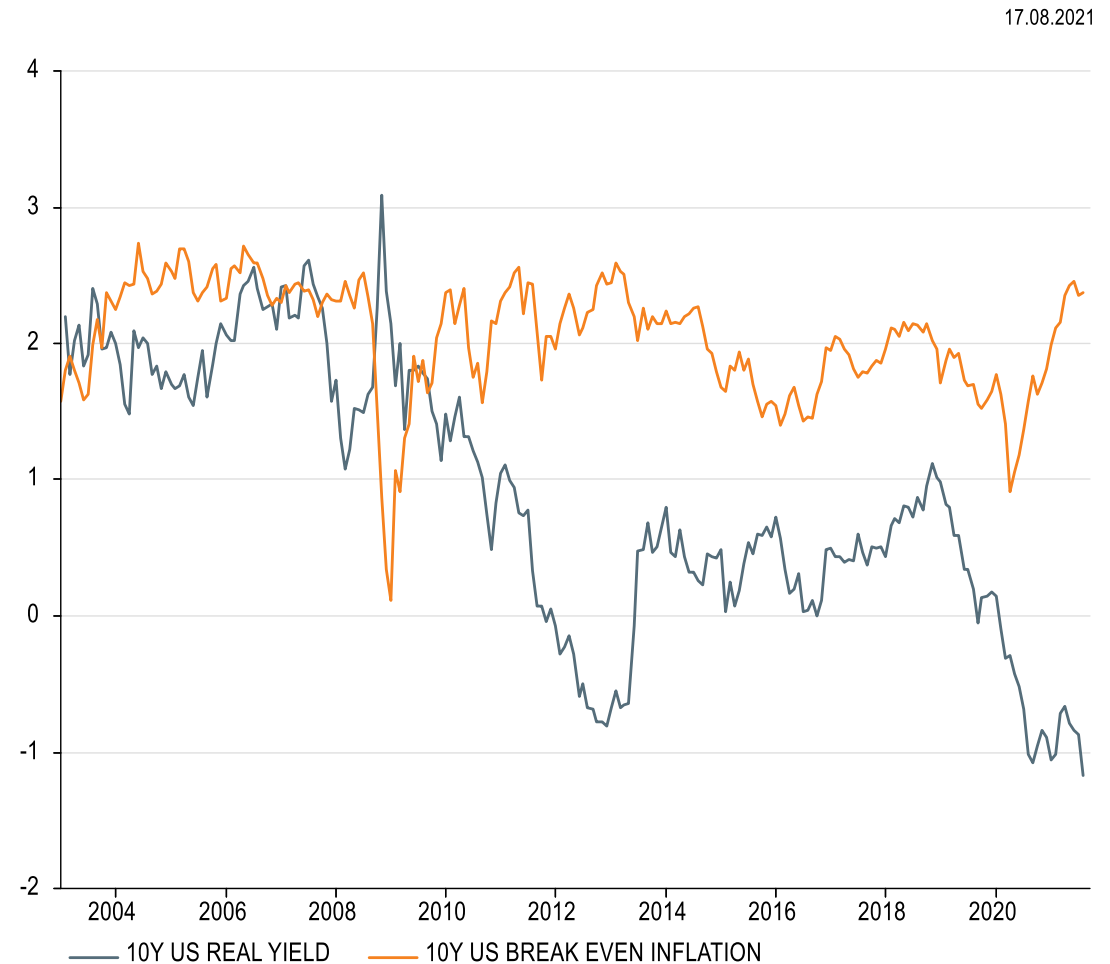
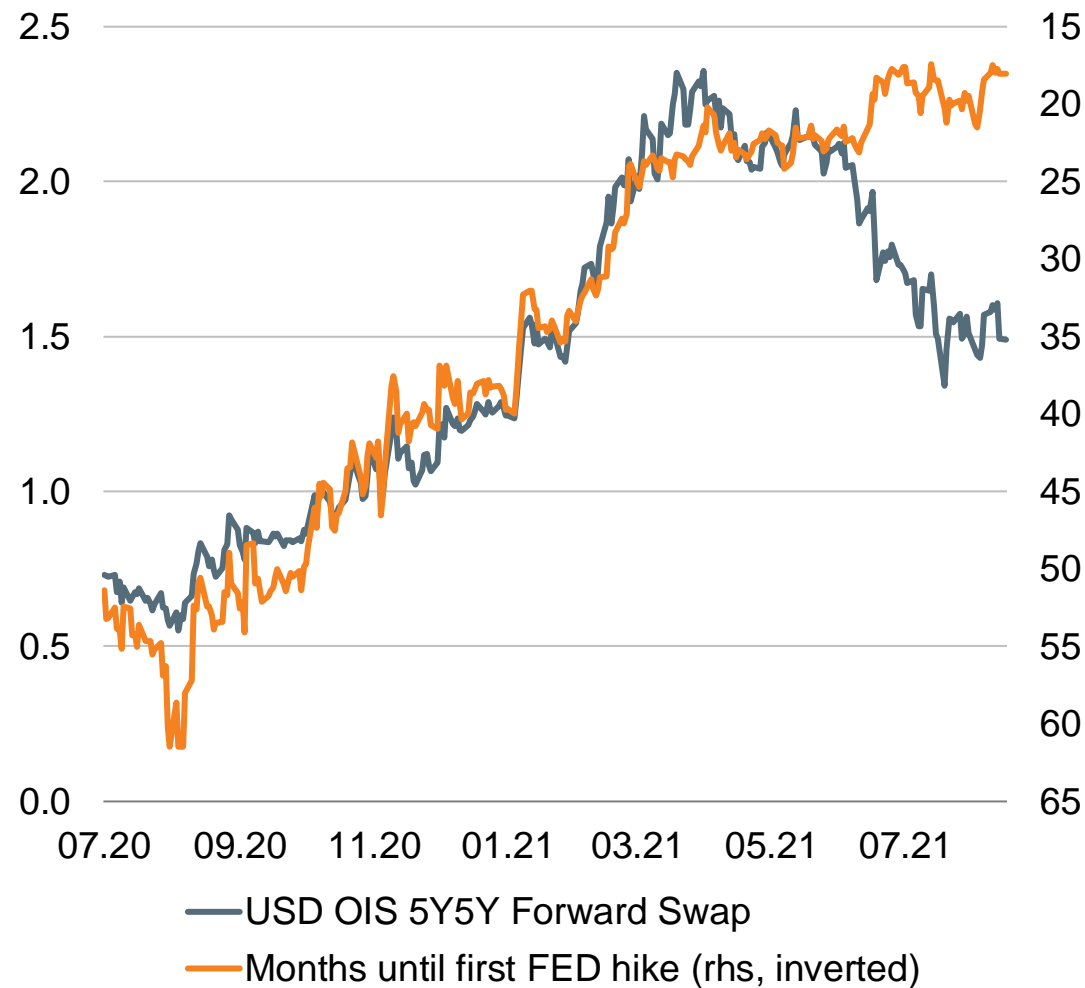


- Simulation of three different possible tapering paths for the FED
- Calibrated on a start of the tapering process at the beginning of 2022
- All three paths assume that decision for the next tapering step is only made on a FED meeting

■ MBS ■ UST

Monthly purchases in bln USD
Source: MEAG Research, Federal Reserve

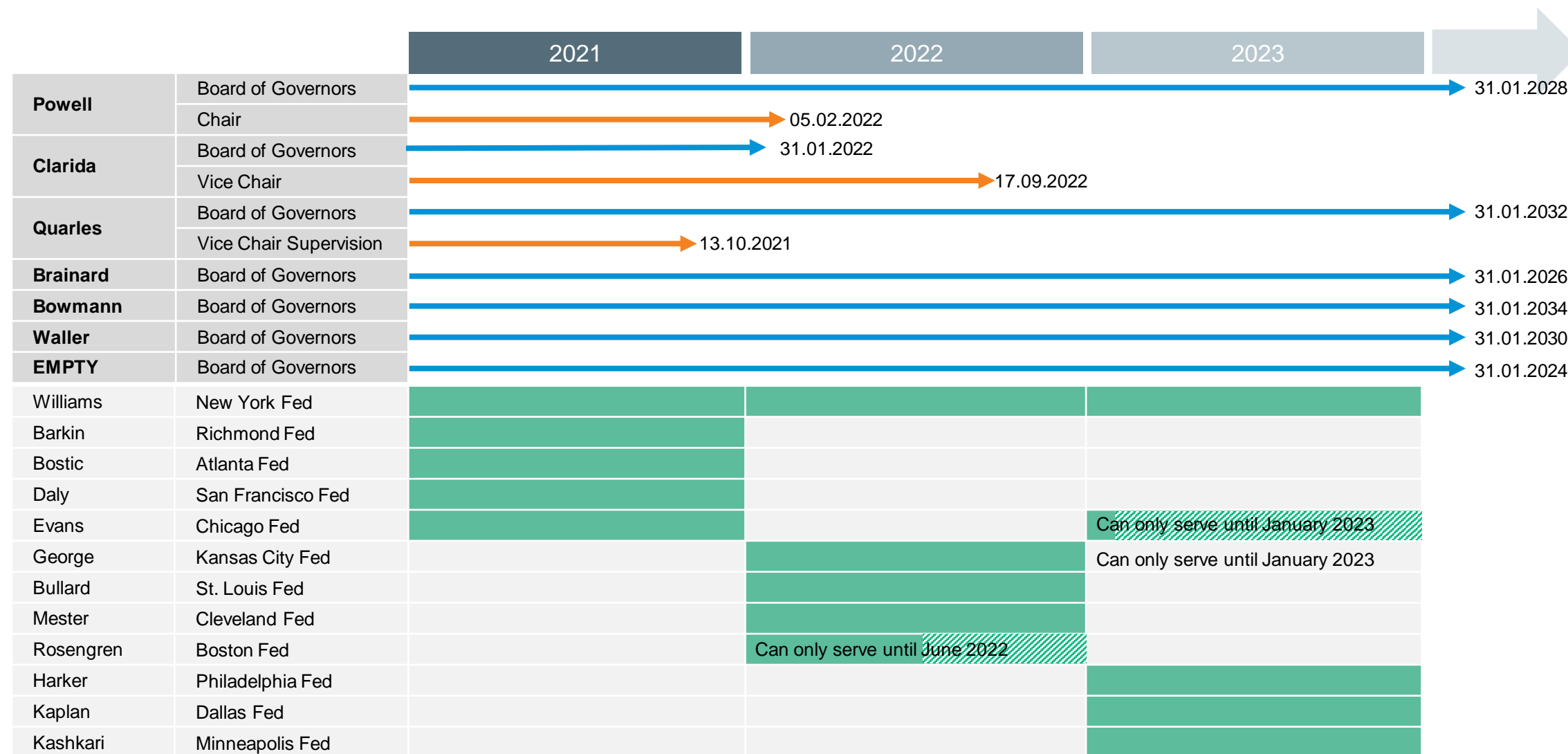
Very low real yields but high inflation expectations coupled with an early but very flat hiking path: Smells of stagflation and policy error “angst”



17.08.2021

Quelle: Refinitiv Datastream

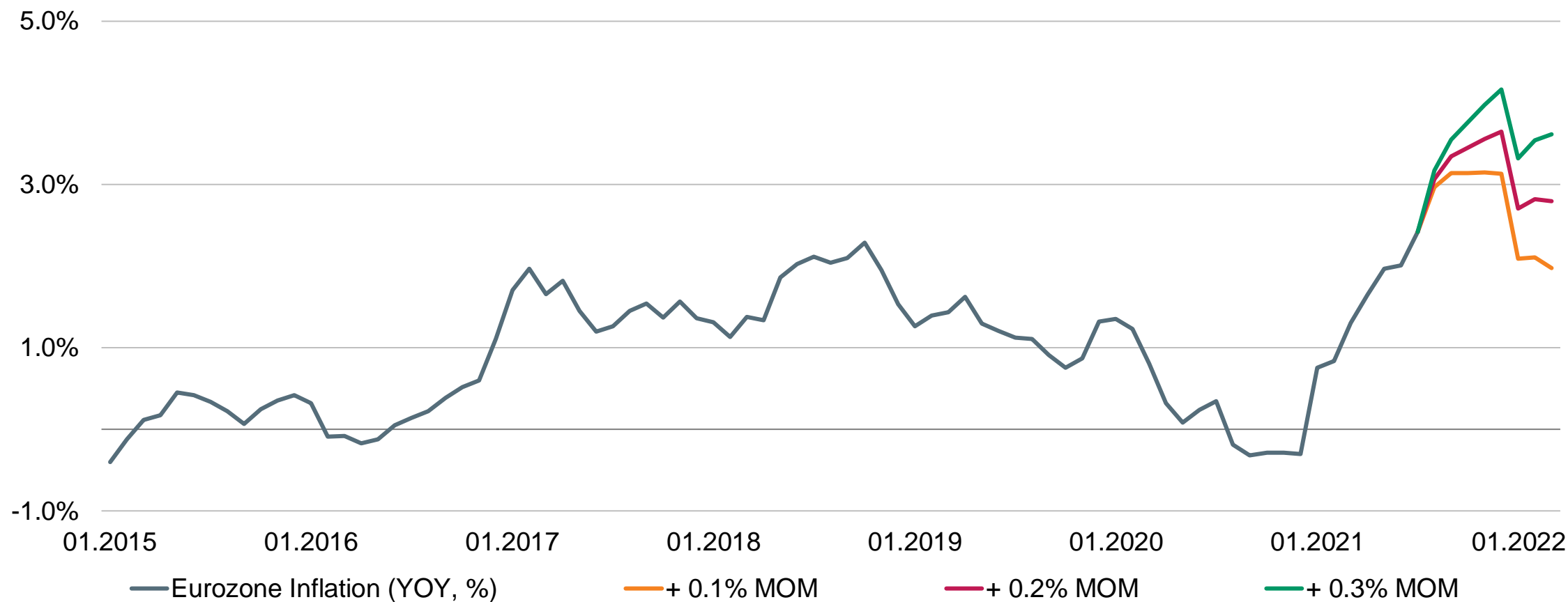
FED: Massive shifts possible over the coming months for the Board of Governors – movements for regional FED presidents only thereafter



Source: MEAG Research, Federal Reserve; Green area for regional FED Presidents denotes voting rights in the respective year

Eurozone headline CPI should rise significantly in H2 on base and tax effects before falling in Q1 22 again

Eurozone inflation development (YOY, %): Simulation



ECB Strategy Review: A new strategy justifying the old instruments with a new focus on climate – cementing its dovish stance, at least for this cycle

Symmetric inflation target of 2% but unchanged toolbox

The ECB now officially adopted a symmetrical inflation target which allows for a transitory period in which inflation is moderately above target. Interest rates will remain the primary policy tool, however, unconventional tools are now upgraded and remain in the toolbox for the time being.

Measuring inflation shall change - with no/limited immediate effect

HICP remains the appropriate measure for price stability. Owner occupied-housing costs will be included in 2026 at the earliest. Until the publication of the series, the ECB will take into consideration supplementary variables. There is no immediate impact, but there should be somewhat higher inflation in the long term.

Green ECB

The ECB published a comprehensive action plan with clear targets for the coming years. Among them is the introduction of eligibility criteria, climate stress tests and including climate risks in macroeconomic models. This is a major shift and will also affect ECB purchases and collateral in the future.

Implications

The announcements of the ECB were overall broadly as expected. It underlines the continuously dovish stance of the central bank. The strategy review underlines that the ECB will keep its low interest rates for long. This should keep the short end anchored and argues rather for a slightly steeper curve, since inflation expectations could grow. The ECB will also continue to deliver favourable financing conditions which should be positive for equities. The green focus will give additional opportunities for single name selection.



STRATEGY
REVIEW

ECB: New forward guidance is cementing the dovish stance

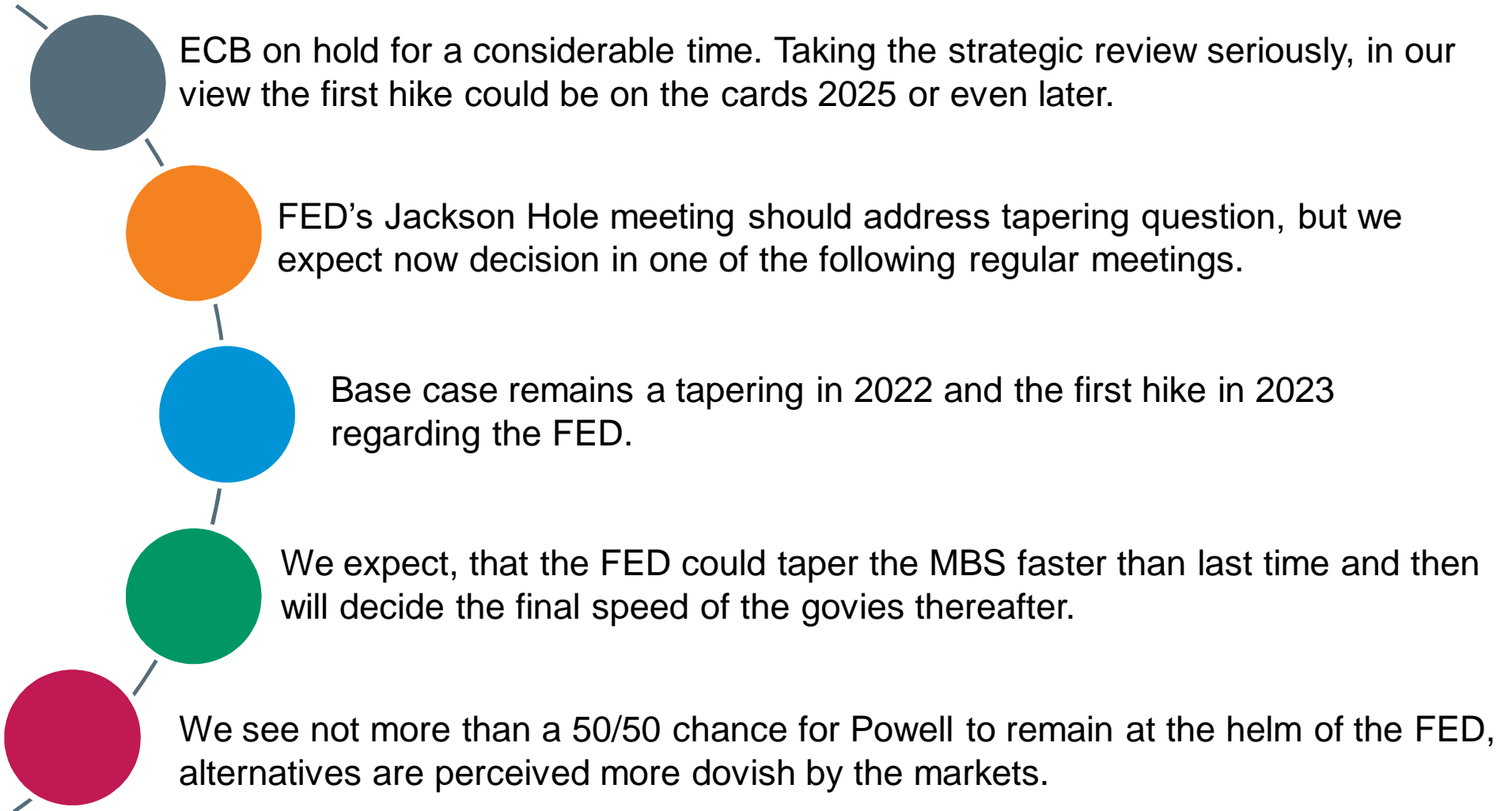
Eurozone HICP %Y/Y with ECB/Eurosysteem staff projections since 2004



Source: MEAG Research, ECB

Central bank summary

FED in the spotlight





Agenda

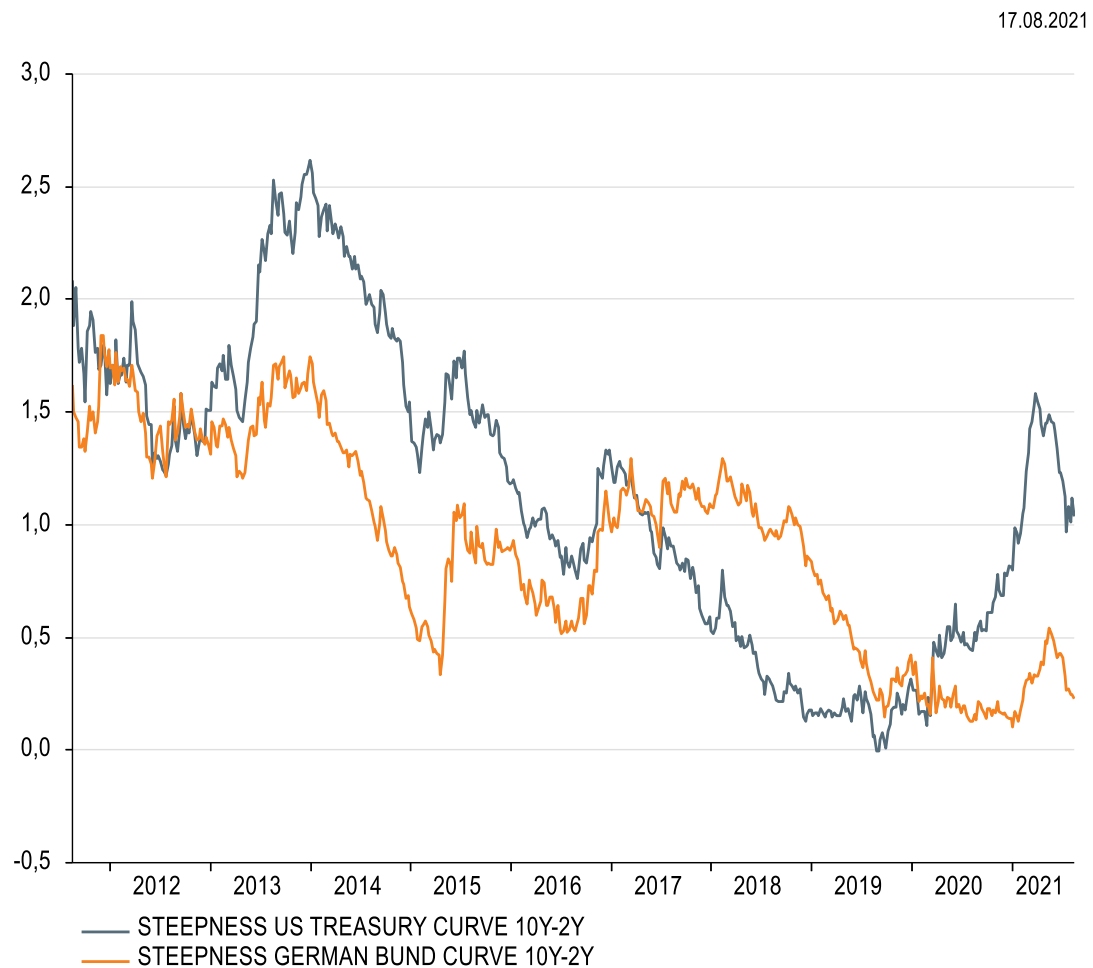
- 01 Executive Summary
- 02 Corona & Growth: Connected
- 03 New scenario setup
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Positive performance so far in Q3 for nearly all asset classes – negative asset classes returns could be triggered by Covid effects

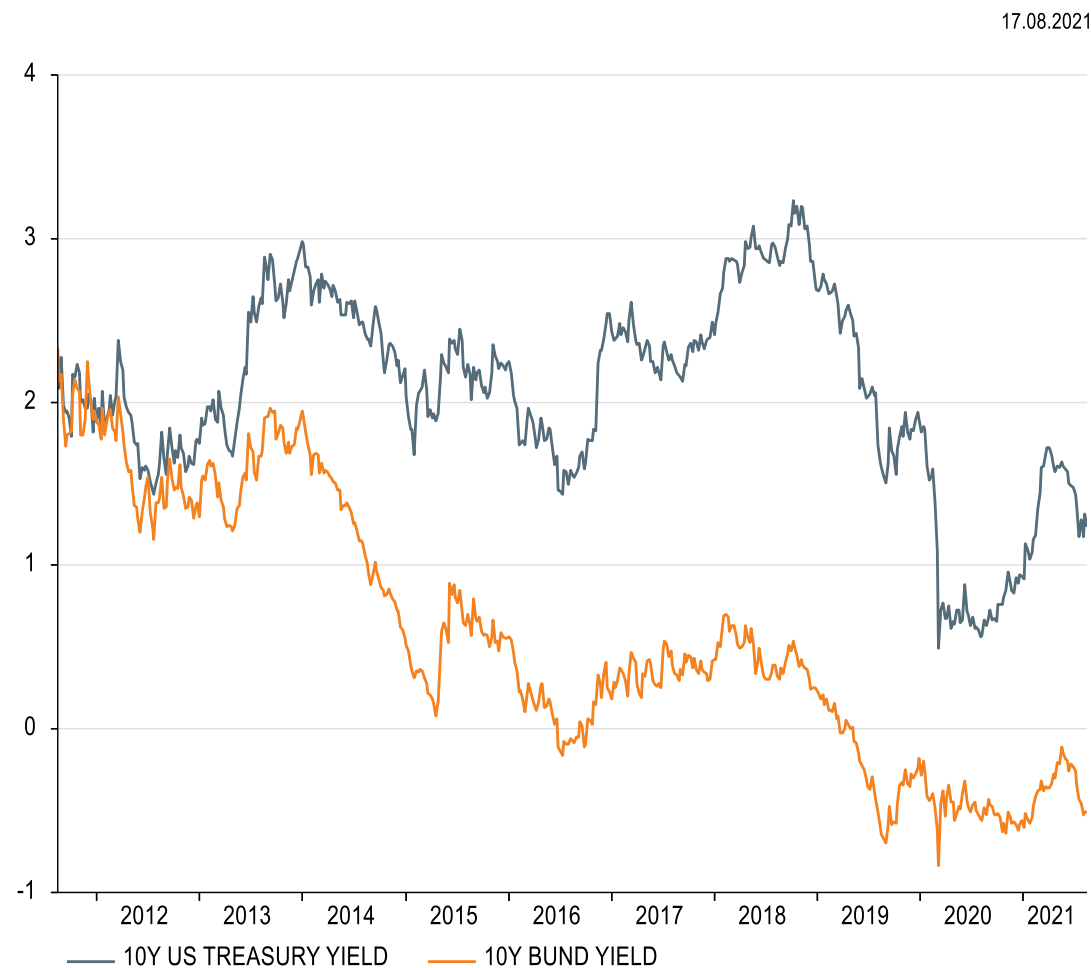
	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
10Y Bunds	0.8%	0.5%	0.0%	1.9%	-0.9%	2.3%	3.7%	2.4%	2.7%	-3.8%	2.9%	0.3%	0.5%	0.4%	-2.4%	-0.4%	2.5%
10Y UST	0.6%	-0.2%	-2.4%	-0.6%	-1.5%	4.6%	3.0%	4.4%	3.8%	-1.9%	14.3%	0.3%	0.1%	-1.9%	-6.7%	3.8%	2.0%
10Y JGB	0.3%	0.3%	0.1%	0.1%	-0.8%	1.3%	1.0%	0.8%	0.6%	-1.8%	-0.3%	-0.1%	0.2%	0.1%	-0.5%	0.5%	0.5%
10Y Gilts	-0.3%	1.9%	-1.1%	0.8%	-0.9%	3.2%	2.7%	1.7%	3.9%	-3.0%	5.1%	1.7%	-0.6%	0.3%	-5.8%	1.4%	1.3%
10Y Italy	0.9%	1.9%	3.1%	-7.0%	-1.8%	4.2%	3.1%	5.3%	11.9%	-3.8%	-1.6%	3.4%	4.2%	3.4%	-0.9%	-0.8%	2.6%
EUR ILBs 1-10	1.0%	1.3%	0.6%	-0.5%	-0.9%	-0.1%	0.7%	1.7%	2.0%	-0.4%	-4.4%	2.4%	0.8%	2.1%	1.6%	0.9%	1.8%
USD TIPS 5-10	0.9%	0.9%	-0.9%	0.7%	-0.8%	0.1%	3.4%	3.2%	0.9%	0.8%	1.4%	4.7%	3.2%	1.7%	-1.5%	3.1%	3.1%
GBP ILBs 1-10	-0.1%	0.6%	-1.0%	0.9%	0.4%	1.4%	0.9%	2.0%	3.2%	-4.4%	0.6%	1.3%	0.8%	-0.9%	-0.8%	1.3%	1.7%
JPM GBI-EM Global Composite	2.7%	0.8%	2.8%	-2.2%	0.5%	3.1%	2.8%	4.2%	3.5%	1.7%	-1.0%	5.5%	0.8%	2.6%	-2.3%	1.5%	0.7%
EUR non-fin Corporates 7-10	1.4%	0.9%	-0.6%	-0.3%	-0.3%	-0.7%	5.1%	3.5%	2.1%	-0.9%	-7.5%	6.8%	2.7%	2.7%	-1.4%	0.3%	1.9%
EUR fin Corporates 7-10	1.9%	1.9%	-1.5%	-1.2%	0.3%	-0.9%	5.7%	4.0%	2.9%	-0.8%	-9.9%	9.6%	2.7%	3.2%	-1.6%	0.4%	2.1%
EUR High Yield	1.5%	0.6%	-0.6%	-0.9%	1.9%	-3.6%	5.0%	2.2%	0.9%	1.8%	-14.4%	10.3%	2.4%	5.3%	1.2%	1.3%	0.7%
USD non-fin Corporates 5-10	1.3%	0.3%	-2.1%	-0.6%	0.9%	0.5%	5.1%	4.2%	2.5%	1.0%	-4.1%	9.5%	1.8%	2.1%	-3.9%	2.7%	1.0%
USD fin Corporates 5-10	1.6%	0.7%	-2.7%	-0.6%	0.8%	0.4%	5.7%	4.6%	2.4%	1.5%	-3.4%	9.4%	1.8%	2.8%	-3.9%	2.9%	1.0%
USD High Yield	2.0%	0.4%	-1.6%	-0.2%	2.3%	-2.9%	7.2%	3.1%	2.0%	2.4%	-10.2%	11.5%	4.0%	5.7%	-0.1%	2.9%	0.5%
GBP non-fin Corporates 7-10	0.2%	1.6%	-1.3%	0.3%	-0.1%	0.6%	3.8%	2.3%	3.2%	-0.5%	-4.0%	7.7%	1.6%	3.2%	-4.2%	1.6%	1.3%
GBP fin Corporates 7-10	0.8%	2.8%	-2.1%	-0.6%	-0.2%	-0.1%	4.9%	2.4%	3.4%	0.6%	-7.6%	9.2%	2.9%	4.6%	-3.8%	2.2%	1.3%
EUR Pfandbriefs 7-10	0.8%	0.8%	-0.2%	0.4%	-0.7%	0.9%	3.4%	2.9%	2.6%	-2.7%	0.1%	2.5%	0.8%	0.4%	-1.8%	-0.3%	1.7%
GBP Collateralized Bonds 7-10	0.0%	1.8%	-1.1%	0.7%	-0.8%	1.2%	2.6%	1.7%	3.1%	-1.3%	-0.5%	2.3%	1.1%	2.1%	-2.8%	1.6%	1.2%
EuroStoxx50	4.8%	-2.2%	-3.7%	3.6%	0.4%	-11.4%	12.3%	6.1%	3.1%	5.2%	-25.3%	17.8%	-0.7%	11.4%	10.8%	5.2%	3.6%
S&P 500	4.5%	6.6%	-0.8%	3.4%	7.7%	-13.5%	13.6%	4.3%	1.7%	9.1%	-19.6%	20.5%	8.9%	12.1%	6.2%	8.5%	4.4%
TOPIX	4.7%	8.7%	-4.7%	1.1%	5.9%	-17.6%	7.7%	-2.4%	3.4%	8.6%	-17.5%	11.2%	5.2%	11.2%	9.3%	-0.3%	-0.9%
FTSE100	1.8%	5.0%	-7.2%	9.6%	-0.7%	-9.6%	9.5%	3.3%	1.0%	2.7%	-23.8%	9.1%	-4.0%	10.9%	5.0%	5.7%	2.3%
MSCI EM Asia (\$)	6.8%	8.8%	0.7%	-5.8%	-2.0%	-9.1%	10.8%	-1.4%	-3.5%	12.1%	-18.9%	18.8%	12.3%	19.1%	2.9%	4.6%	-8.0%
MSCI EM Eastern Europe (\$)	14.6%	4.5%	3.7%	-7.9%	6.7%	-6.5%	8.5%	12.5%	-3.8%	14.6%	-36.4%	19.8%	-3.2%	22.0%	3.3%	15.0%	2.9%
MSCI EM Latin America (\$)	15.5%	-2.3%	7.7%	-17.7%	4.5%	0.6%	8.0%	5.0%	-5.2%	11.5%	-46.3%	20.2%	-0.8%	34.5%	-5.1%	15.7%	-6.3%
GSCI (\$)	7.2%	9.9%	2.2%	8.0%	1.3%	-22.9%	15.0%	-1.4%	-4.2%	8.3%	-42.3%	10.5%	4.6%	14.5%	13.5%	15.7%	-2.1%
Brent Oil (\$)	20.4%	15.7%	5.2%	13.3%	4.2%	-35.8%	29.0%	-2.5%	-8.9%	8.9%	-65.9%	82.5%	-0.6%	26.6%	22.4%	18.5%	-7.3%
EURUSD	-3.5%	-1.5%	-2.4%	5.3%	0.5%	1.6%	1.8%	-1.4%	4.5%	-2.9%	2.3%	-2.3%	-4.2%	-4.2%	4.1%	-0.9%	0.6%
EURJPY	-3.7%	-1.6%	3.4%	1.1%	-2.0%	5.2%	0.9%	1.3%	4.1%	-3.4%	3.0%	-2.2%	-2.1%	-2.0%	-2.7%	-1.3%	2.3%
EURGBP	-0.4%	-0.7%	1.2%	-0.9%	-0.7%	-0.8%	4.2%	-3.7%	1.1%	4.4%	-4.2%	-2.7%	0.2%	1.3%	5.1%	-0.8%	0.9%

Source: MEAG Research, Refinitiv Datastream; closing prices: 16.08.2021

The decline in long term yields caused yield curves to flatten – some re-steepening possible when growth worries fade

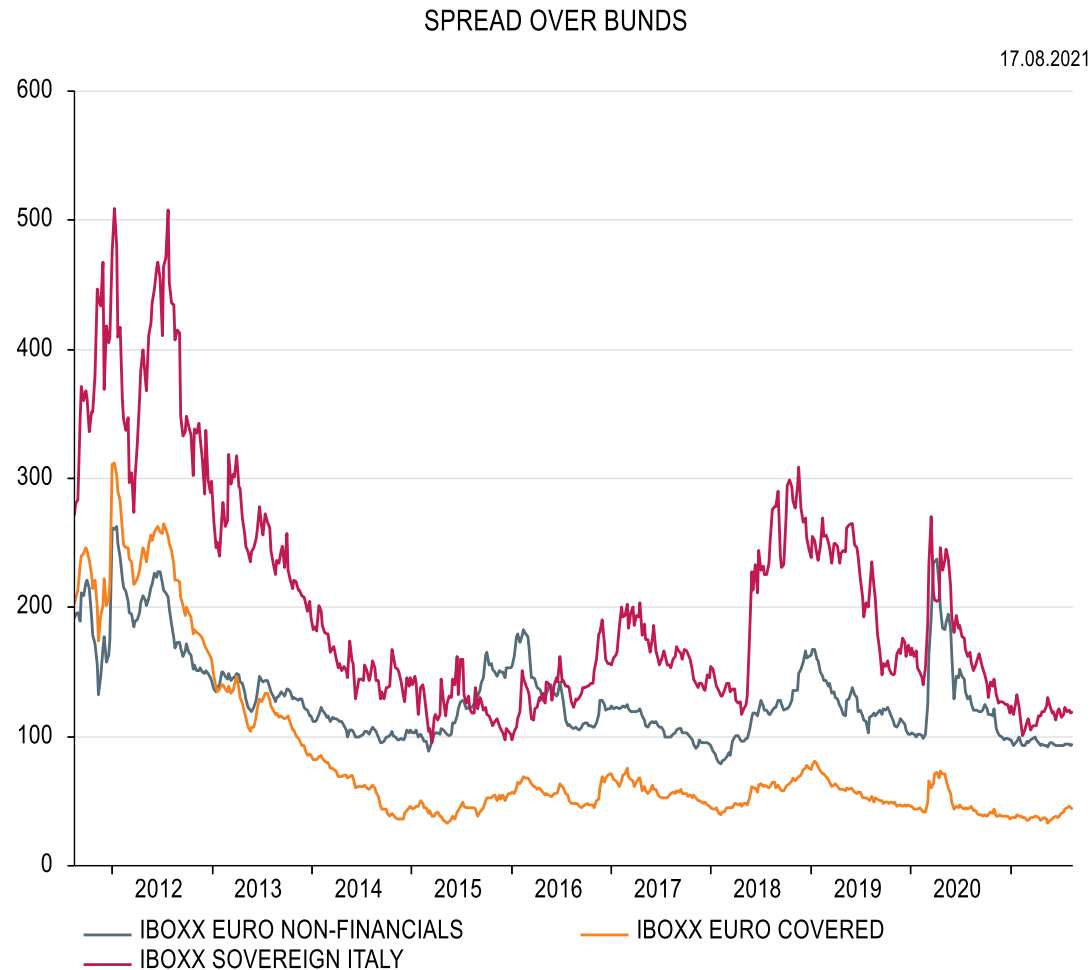


Quelle: Refinitiv Datastream



Quelle: Refinitiv Datastream

EUR spread products: Recent positive performance mostly driven by falling Bund yields while spreads were rather stable



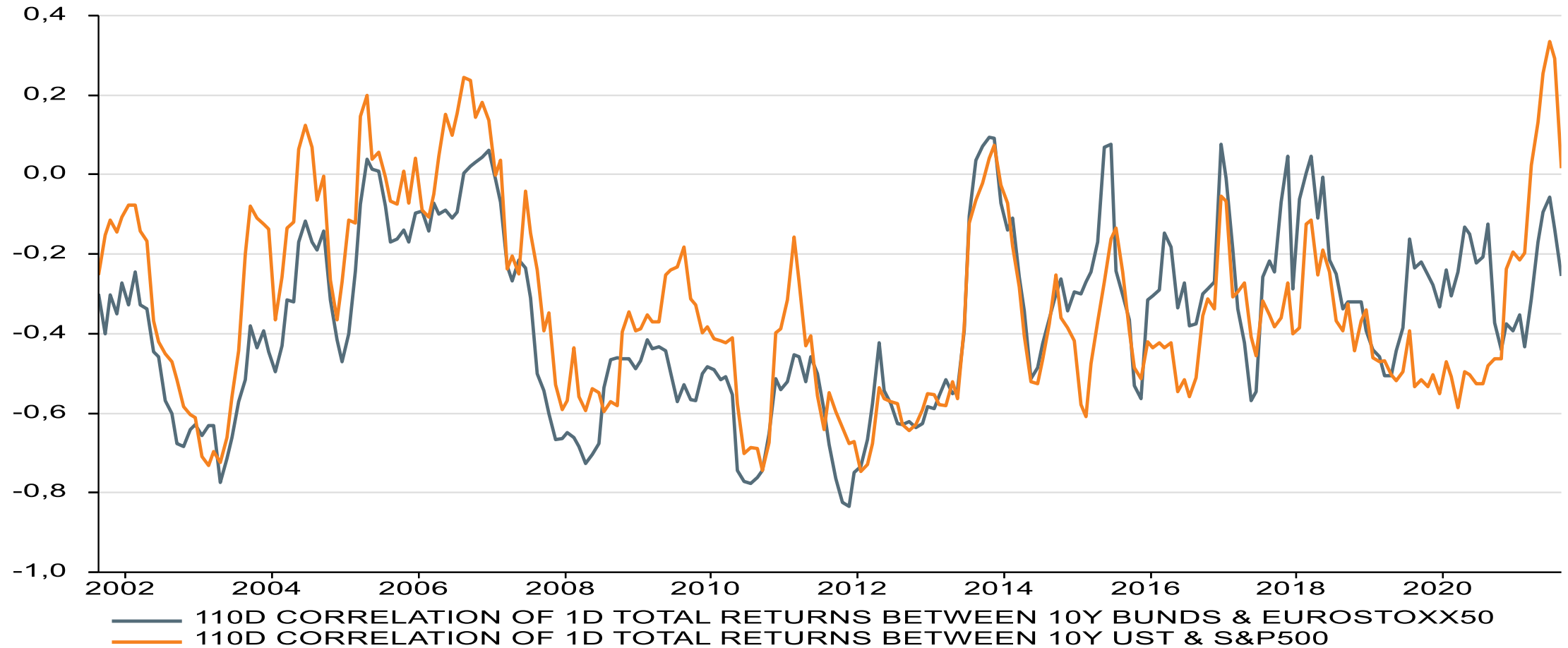
Quelle: Refinitiv Datastream



Quelle: Refinitiv Datastream

Correlation between 10Y US Treasury and S&P500 returns turned positive over Q2 – US equities can cope better with growth uncertainties

17.08.2021



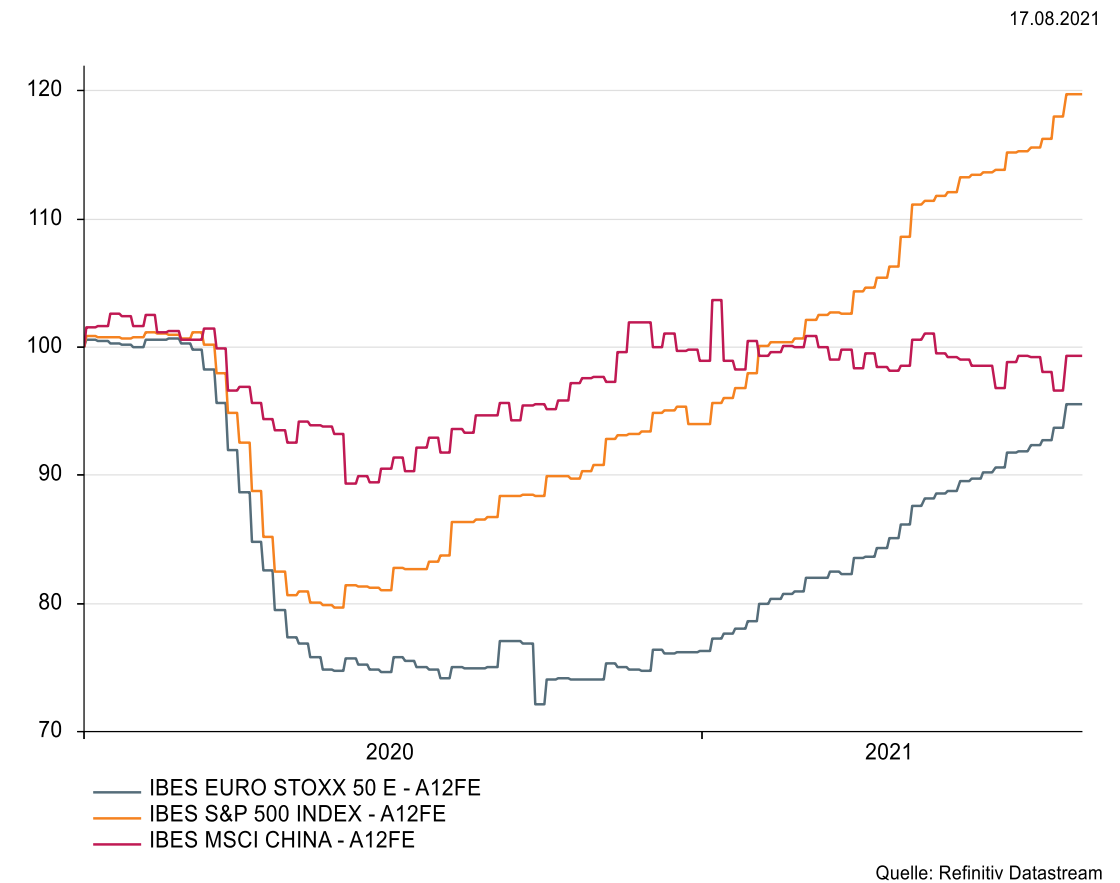
Quelle: Refinitiv Datastream

US and European equities strong, driven by earnings estimates, Chinese equities underperforming due to regulatory campaign

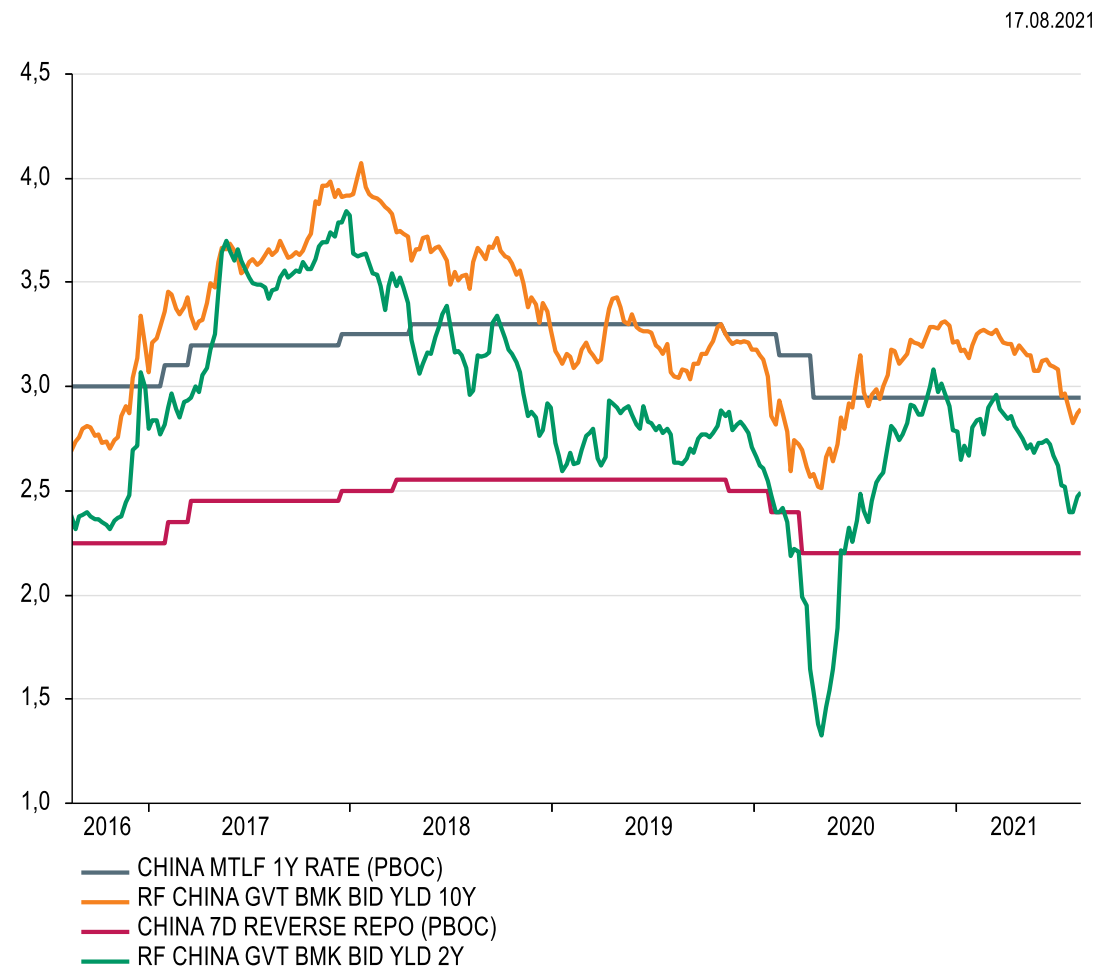
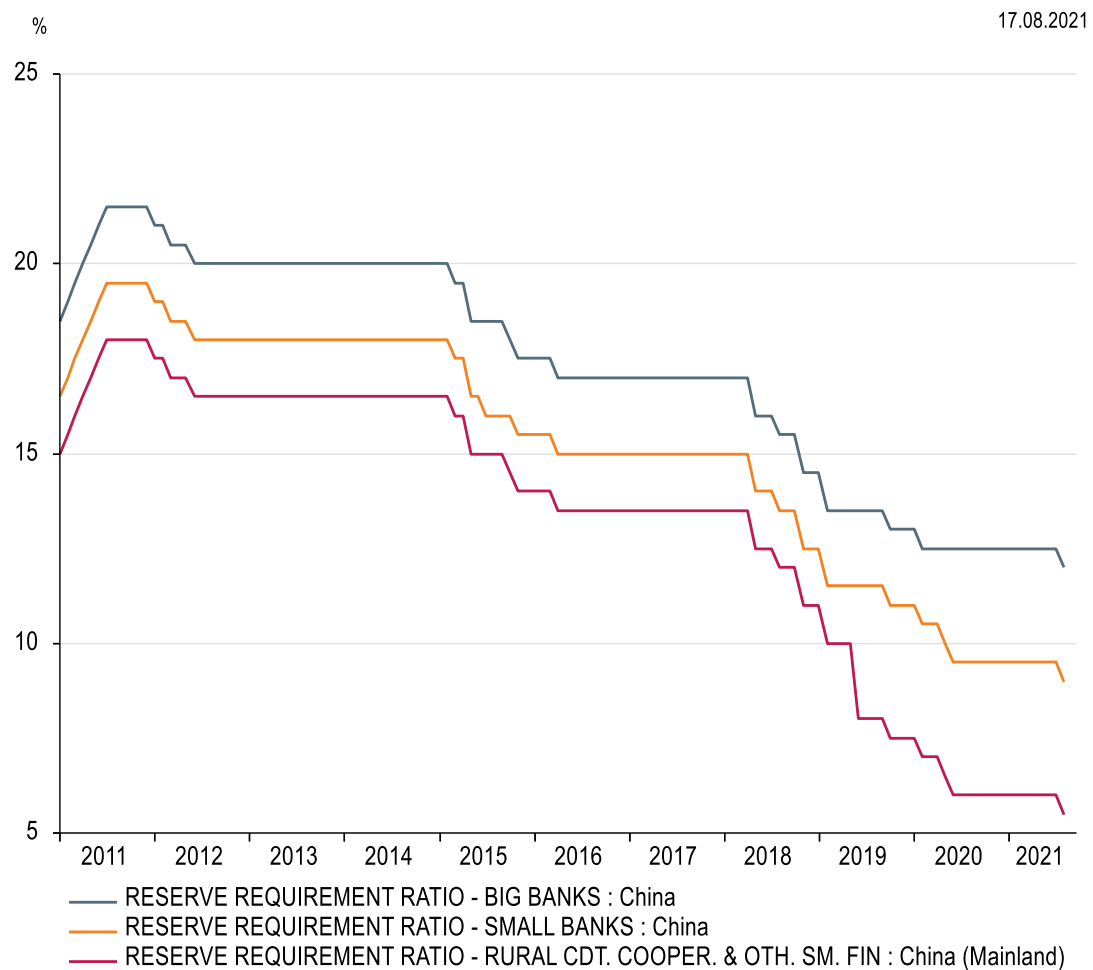
Equity return indices, rebased to 100



Equity indices 12m forward earnings, rebased to 100



With growing economic risks, monetary policy in China turns also more supportive to accommodate more fiscal bond issuance



Capital Market Forecasts for “Regeneration”¹⁾

Capital Markets	16.08.2021	2022e
DEU 10Y Yields	-0.5	0.1
US 10Y Yields	1.3	2.0
EUR IG Corp Spread*	57	55
USD IG Corp Spread*	89	80
EUR/USD	1.18	1.23
EuroStoxx 50	4202	4500
S&P 500	4480	4700
BCOM ex A+L	528	570



1) MEAG Research estimates, Calendar Year End

* Non-fin Corp Swap Spread in bp

Source: MEAG Research, Bloomberg; BCOM ex A+L = Bloomberg Commodity ex-Agriculture and Livestock Index 1M Forward Total Return



Agenda

- 01 Executive Summary
- 02 Corona & Growth: Connected
- 03 New scenario setup
- 04 Central banks: The ECB will wait – all eyes on the FED
- 05 Capital markets: Uncertainty and low interest rate environment
- 06 **Appendix: Capital market expectations for the alternative scenarios**

We have split the “Y2000-Redux” scenario into “Stagflationary Concerns” and “Boom”, resulting in different possible paths for yields and stocks

	Capital Markets	16.08.2021	2022e	2023e
Multiple Dips	DEU 10Y Yields	-0.5	-0.8	-0.6
	US 10Y Yields	1.3	0.4	0.7
	EUR/USD	1.18	1.14	1.18
	EuroStoxx 50	4202	3300	3000
	S&P 500	4480	3700	3200
		Capital Markets	16.08.2021	2022e
Stagflationary Concerns	DEU 10Y Yields	-0.5	0.0	-0.2
	US 10Y Yields	1.3	1.8	1.5
	EUR/USD	1.18	1.15	1.16
	EuroStoxx 50	4202	3500	3500
	S&P 500	4480	4000	4000
		Capital Markets	16.08.2021	2022e
Boom	DEU 10Y Yields	-0.5	0.4	0.5
	US 10Y Yields	1.3	2.8	3.0
	EUR/USD	1.18	1.26	1.25
	EuroStoxx 50	4202	5200	5300
	S&P 500	4480	5200	5300

Scenario with MEAG Research estimates, Calendar Year End
Source: MEAG Research, Bloomberg

Auf Wiedersehen!

Ihr Ansprechpartner heute



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Leiter MEAG Research

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