



Economic Situation and Strategy

16 January 2025

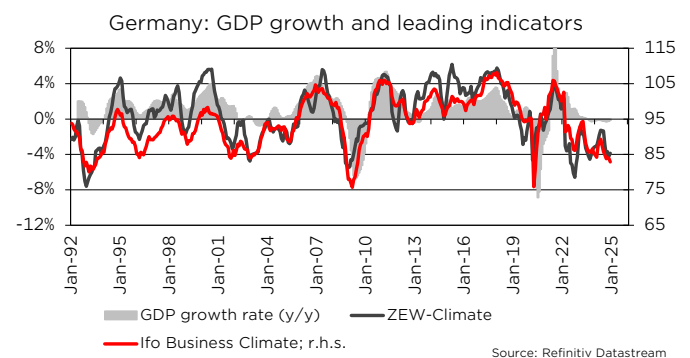
Germany: Economy in hibernation - Spring fever on the DAX

Now it's official: the German economy shrank again in 2024. With a rate of change of -0.2 percent, real gross domestic product decoupled from the positive development of the global economy, as in the previous year (-0.3 percent). The main reasons for the decline were weak private consumption, which was barely higher than in the previous year (+0.3%) despite rising real wages, falling investments (construction: -3.5%, equipment: -5.5%) and declining exports (-0.8%). At +2.6%, government consumer spending was the only economic aggregate to record significant growth. This is primarily due to the significant increase in state social benefits, as more money was spent on pensions, long-term care and citizens' benefits. The last year in which Germany recorded significant economic growth was a long time ago. Since 2017, the economy has been more or less treading water. This shows that Germany not only has an economic problem, but above all a structural one.

Economy remains in reverse gear in 2025

Things do not look much better for 2025, with an economic upturn unlikely for the time being. Donald Trump's election could even prove to be an additional brake on the German economy if the new US president implements his announcement of higher tariffs shortly after his inauguration on January 20. The vulnerability of the German economy is demonstrated by the fact that exports to the USA increased by three percent last year, while trade with the eurozone countries (-1.1 percent) and China (-4.8 percent) fell compared to the previous

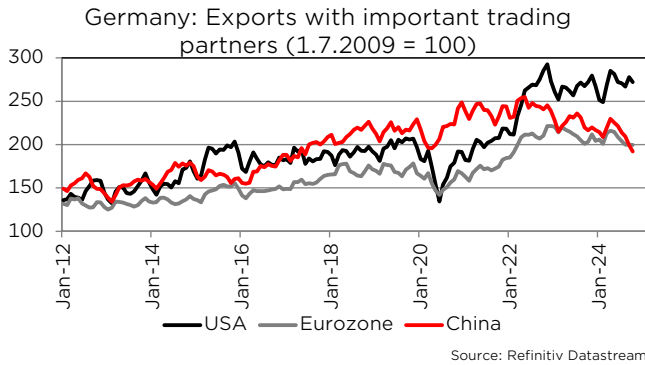
year. The German business model of a strong, export-oriented industry seems to have had its day. We therefore expect real GDP to fall by a further 0.2% in 2025.



This makes it all the more important to set the right political course quickly. The competitiveness of the location urgently needs to be improved. The new elections on February 23 offer the opportunity for a new government to make the right decisions, which will also contribute to a change of mood in our country. Friedrich Ebert once said: "Democracy needs democrats!" These simple words remind us that a functioning democracy cannot be taken for granted. It requires the active commitment and participation of each and every one of us. In times of increasing polarization and challenges for our democratic institutions, it is more important than ever that we as citizens get involved and use our voice. Every vote counts and each of us bears responsibility for the future of our country. So let's all make use of our right to vote on February 23, 2025 - with the necessary seriousness and sense of responsibility, but also with the knowledge that good civic participation is like Christmas, because you never know exactly what you're really going to get beforehand. Because even if the parties announce the right plans from an economic point of view (of which almost everyone has

Economic Situation and Strategy

a different idea anyway), this does not mean that they will be able to win over the public.

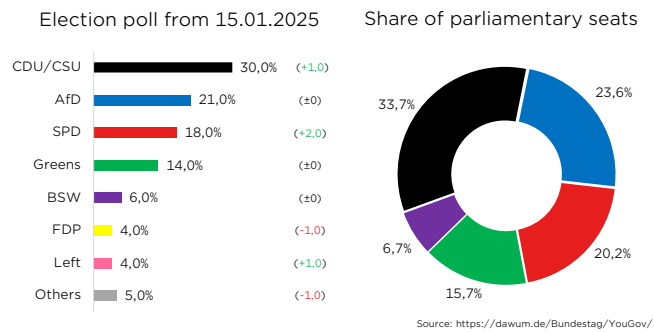


Bundestag election with opportunities and risks

This is why only a few parties dare to address the unpleasant consequences of necessary reforms. This is because almost every necessary reform follows the so-called J-curve effect: it takes time for the measures to have a positive impact, and the situation can continue to deteriorate until an improvement occurs. In the current election campaign, for example, we are once again seeing many parties promising benefits, but the financing of these remains largely unclear. The fact that our social system is reaching its limits and can hardly be financed in its current form due to our demographic development is not being addressed, nor is the question of how to finance tax relief for companies (and private households?) if we are not prepared to accept higher levels of debt at the same time. However, this is not only down to the parties, but also to us voters, very few of whom are prepared to accept unpopular measures and their consequences. Because in a democracy, most reformers are chased out of office after one legislative term. Just look at our neighboring country France, where Prime Minister Bayrou's minority government has been forced to put the increase in the retirement age from 62 to 64 in 2023, as decided by President Macron, up for discussion in order to avoid a vote of no confidence. As an economist, you can only shake your head at this, as people in France should also be working longer and retiring later rather than at 64, as is the case here. This is the obvious weakness of democratic voting processes: they often do not lead to optimal decisions. The solution would be a "benevolent" dictator who is far-sighted enough to make the right decisions for the good of the people. But this is, of course, pure fantasy.

The phase of political uncertainty could continue for the time being after the general election, as the formation of

a new federal government is likely to be difficult and protracted. According to current polls, an alliance between the CDU/CSU and FDP, which is favored by many economists, has no chance of forming a government majority, as the Liberals are below the five percent threshold in almost all polls. This would only change if the FDP were to receive at least seven to eight percent of the vote and the CDU/CSU were to achieve a very good result of over 35 percent. In addition, many votes would be needed for parties that do not make it into the Bundestag. A black-green coalition could achieve a narrow majority, but the CSU has ruled out such a coalition. That would leave only a new grand coalition between the CDU/CSU and SPD, as all parties have ruled out a coalition with the AfD. However, hardly anyone would associate a grand coalition with new departures and reforms.



DAX on a high - How much longer?

The German share index DAX has so far shrugged off our country's economic problems. On the contrary: with an increase of almost 19 percent, it was one of the best performing European indices last year. However, this impressive development is largely due to a single company: SAP. The company benefited from the global AI boom, with its share price rising by around 70 percent. Due to its high index weighting, the Walldorf-based company accounted for almost half of the DAX performance in 2024. The DAX has also started the new year with momentum and SAP is once again one of the top performers. At 20,500 points, the index is not far off our year-end target of 21,000 points. So is our assessment too cautious?

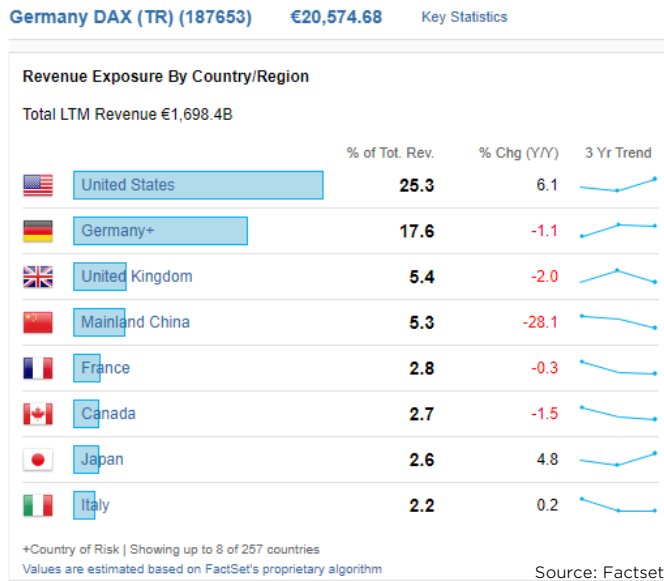
Two factors are of fundamental importance for deriving our price target: the earnings performance of companies and the valuation multiples that investors are willing to pay for the DAX on the stock market. Based on corporate analysts' earnings expectations and the current DAX P/E ratio of 13.7, the DAX could rise to around 23,000 points by the end of the year. Our more cautious forecast is based on the fact that we believe the earnings estimates

Economic Situation and Strategy

for 2025 and 2026 (+9.3% and +13.7%; source: Factset) are too optimistic. Even though the DAX companies generate around a quarter of their sales in the US and benefit from the strong economy there, Germany accounts for just under 20% of sales, the rest of Europe for around 25% and China for around 5%. For this reason, we only expect earnings growth rates of three and ten percent for 2025 and 2026, respectively, and thus arrive at a price target of 21,000 points.

An increase in valuation multiples (e.g. an increase in the DAX P/E ratio from the current 13.7 to 15) would result in a price target of just under 23,000 points, even with our lower earnings expectations. The prerequisite for higher equity market valuation multiples would be, above all, falling interest rates and yields. As we expect the ECB to cut interest rates in the eurozone at least four times this year, each time by 100 basis points, yields on ten-year German government bonds should tend to fall. We expect yields on ten-year European bonds to fall to just under two percent by the end of the year. More important, however, are US yields, for which we forecast only a slight decline. However, this could also provide some tailwind for valuations. We therefore advise investors to remain invested in the equity market. Price targets can only ever be a rough guideline for orientation. And as we remain optimistic for the US equity markets in particular, higher prices on the other side of the Atlantic could also pull the equity markets in this country up further.

Carsten Klude



Market data

	As of 17.01.2025 10:33	Change versus				
		10.01.2025 -1 week	16.12.2024 -1 month	16.10.2024 -3 months	16.01.2024 -1 year	29.12.2023 YTD
Stock markets						
Dow Jones	43153	2,9%	-1,3%	0,2%	15,5%	14,5%
S&P 500	5996	2,9%	-1,3%	2,6%	25,8%	25,7%
Nasdaq	19338	0,9%	-4,1%	5,3%	29,4%	28,8%
DAX	20871	3,2%	2,7%	7,4%	25,9%	24,6%
MDAX	25749	1,5%	-1,7%	-4,8%	0,2%	-5,1%
TecDAX	3573	2,1%	1,7%	5,4%	9,6%	7,1%
EuroStoxx 50	5146	3,4%	4,0%	4,8%	15,7%	13,8%
Stoxx 50	4478	2,2%	2,0%	1,1%	9,9%	9,4%
SMI (Swiss Market Index)	11990	1,7%	2,5%	-1,7%	6,8%	7,7%
Nikkei 225	38451	-1,9%	-2,5%	-1,9%	8,0%	14,9%
Brasilien BOVESPA	121234	2,0%	-1,9%	-8,0%	-6,2%	-9,7%
Indien BSE 30	76692	-0,9%	-6,2%	-5,9%	4,9%	6,2%
China CSI 300	3812	2,1%	-2,5%	-0,5%	15,5%	11,1%
MSCI Welt	3747	1,9%	-2,1%	0,3%	19,1%	18,2%
MSCI Emerging Markets	1067	0,9%	-3,3%	-6,8%	8,9%	4,2%
Bond markets						
Bund-Future	131,51	39	-322	-269	-345	-571
Bobl-Future	117,01	36	-135	-246	-109	-227
Schatz-Future	106,66	9	-44	-24	56	11
3 Monats Euribor	2,75	-2	-12	-46	-115	-116
3M Euribor Future, Dec 2025	2,07	-6	20	-83	-41	-23
3 Monats \$ Libor	4,34	-2	-3	-38	-111	-106
Fed Funds Future, Dec 2025	3,91	-16	5	-59	5	8
10 year US Treasuries	4,60	-17	21	59	54	73
10 year Bunds	2,50	-7	26	32	29	50
10 year JGB	1,20	3	14	28	63	58
10 year Swiss Government	0,40	-4	16	-3	-44	-30
US Treas 10Y Performance	591,17	1,3%	-1,3%	-3,6%	-0,3%	-1,6%
Bund 10Y Performance	557,83	0,4%	-2,1%	-2,3%	0,1%	-1,3%
REX Performance Index	449,87	0,1%	-1,1%	-0,7%	1,4%	0,4%
IBOXX AA, €	3,15	-5	25	21	-16	9
IBOXX BBB, €	3,60	-5	27	15	-36	-15
ML US High Yield	7,50	-20	12	24	-48	-29
Commodities						
MGBase Metal Index	418,34	1,3%	0,7%	-3,7%	10,9%	7,0%
Crude oil Brent	81,57	3,4%	10,5%	10,2%	4,1%	5,0%
Gold	2707,60	0,6%	2,0%	1,4%	33,0%	31,1%
Silver	30,86	0,9%	0,8%	-2,6%	34,3%	27,3%
Aluminium	2625,84	2,7%	3,9%	3,1%	21,4%	12,0%
Copper	9123,09	1,5%	2,0%	-3,1%	10,3%	7,8%
Iron ore	100,49	2,4%	-4,7%	-5,4%	-26,5%	-26,3%
Freight rates Baltic Dry Index	1023	-2,4%	-4,5%	-39,0%	-22,7%	-51,1%
Currencies						
EUR/ USD	1,0298	-0,1%	-1,9%	-5,5%	-5,4%	-6,8%
EUR/ GBP	0,8442	0,7%	2,0%	0,9%	-1,8%	-2,6%
EUR/ JPY	160,39	-1,5%	-0,8%	-1,3%	0,5%	2,6%
EUR/ CHF	0,9375	-0,4%	0,0%	-0,2%	0,1%	1,2%
USD/ CNY	7,3288	-0,1%	0,6%	2,9%	1,9%	3,2%
USD/ JPY	155,15	-1,6%	0,6%	3,7%	5,4%	10,0%
USD/ GBP	0,82	0,3%	4,1%	6,7%	3,8%	4,5%

Source: Refinitiv Datastream

Carsten Klude
+49 40 3282-2572
cklude@mmwarburg.com

Dr. Rebekka Haller
+49 40 3282-2452
rhaller@mmwarburg.com

Martin Hasse
+49 40 3282-2411
mhasse@mmwarburg.com

Dr. Christian Jasperneite
+49 40 3282-2439
cjasperneite@mmwarburg.com

Simon Landt
+49 40 3282-2401
mlandt@mmwarburg.com

Jan Mooren
+49 40 3282-2132
jmooren@mmwarburg.com

This article does not constitute an offer or an invitation to submit an offer but is solely intended to provide guidance and present possible business activities. This information does not purport to be complete and is therefore not binding. The information provided should not be considered a recommendation to purchase financial instruments individually but serves only as a proposal for a possible asset allocation. The opinions expressed herein are subject to change without notice. Where statements were made with respect to prices, interest rates or other indications, these solely refer to the time when the information was prepared and do not imply any forecasts about future development, particularly regarding future gains or losses. In addition, this information does not constitute advice or a recommendation. Before completing any deal described in this information, a product-specific consultation tailored to the customer's individual needs is required. This information is confidential and exclusively intended for the addressee described herein. Any use by parties other than the addressee is not permissible without our approval. This particularly applies to reproductions, translations, microfilms, saving and processing in electronic media as well as publishing the entire contents or parts thereof.

This article is freely available on our website.