



# Economic Situation and Strategy

8. September 2023

## Sleepy DAX: Comeback after summer break?

After a strong start to the year with high gains in January and February, a correction triggered by the US regional banking crisis in March, and further gains until the end of April, the German stock index DAX has since been moving within a narrow range between 15,500 and 16,500 points. The current increase of 13 percent is remarkable and surpasses most expectations expressed at the beginning of the year. But what lies ahead? September is traditionally the weakest month for the stock market. Since 1980, this month has shown the highest probability of losses for the DAX, with nearly 60 percent, followed by August with 51 percent. On average, the DAX has lost 1.7 percent in September over the past years, with particularly poor performance in 2001 (-17 percent), 2002 (-25 percent), and 2009 (-9 percent).

The DAX has been restrained in recent weeks, on one hand, by weak economic data and, on the other hand, by concerns about persistently high inflation rates that could necessitate further interest rate hikes. Early indicators and real economic time series for the German economy suggest that there will be no economic growth in the next two quarters, but rather stagnation or slight contraction. Therefore, we have revised our growth forecast for this year downwards to -0.5 percent. The good news is that the current economic situation is more of a "mini-recession" than a full-fledged recession. The bad news is that given the structural problems in Germany, a strong recovery is not expected in the next year either. The proposed "Germany Pact" by Chancellor Scholz this week is unlikely to bring about a quick and comprehensive reduction in bureaucracy in Berlin (and Brussels!). Therefore,

we expect the real gross domestic product to grow by just under one percent in 2024, which is not a groundbreaking improvement.

**Probability of loss and average performance in the respective month (period: 1980-2022)**

|           | DAX | S&P | DAX   | S&P   |
|-----------|-----|-----|-------|-------|
| Januar    | 44% | 42% | 0,2%  | 0,9%  |
| Februar   | 47% | 40% | 0,8%  | 0,2%  |
| März      | 42% | 37% | 1,1%  | 0,9%  |
| April     | 26% | 28% | 2,6%  | 1,7%  |
| Mai       | 42% | 30% | 0,5%  | 0,9%  |
| Juni      | 44% | 40% | 0,6%  | 0,1%  |
| Juli      | 37% | 47% | 1,3%  | 1,2%  |
| August    | 51% | 42% | -1,1% | 0,1%  |
| September | 58% | 53% | -1,7% | -0,9% |
| Oktober   | 30% | 35% | 1,6%  | 1,3%  |
| November  | 35% | 28% | 1,9%  | 1,9%  |
| Dezember  | 30% | 28% | 2,0%  | 1,2%  |

Source: Refinitiv Datastream

The economic weakness in Germany, however, is not a sufficient reason to be pessimistic about the German stock market. Those who remember the 90s know that Germany had a growth problem back then and was referred to as the "sick man of Europe" - just like today. Nevertheless, the performance of the DAX was impressive during that time: from early 1995 to the end of 1999, the DAX climbed from around 2,000 to almost 7,000 points, a gain of 230 percent in just five years. This shows that the DAX companies are influenced more by the development of the global economy than by the state of the German economy, as they generate a large portion of their revenues and profits abroad. Even though the global economy is currently not growing very dynamically, the International Monetary Fund expects global growth of three percent in the next two years. This is not much less than the years 2012 to 2016, after the financial and economic crisis and the European debt crisis, during which the DAX almost doubled.

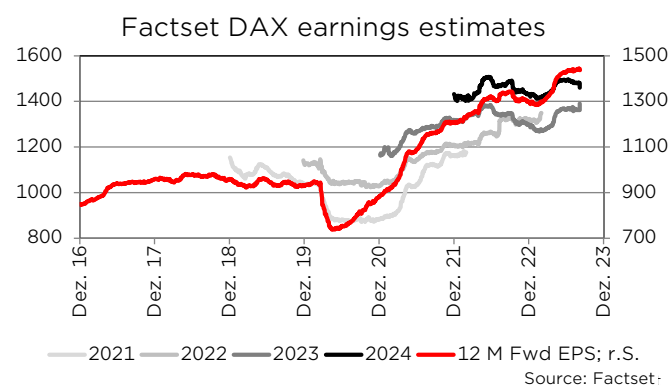
## Key factors influencing the DAX: inflation, interest rates, and profits

For the DAX, the further development of inflation and the outlook for the monetary policy of the European Central Bank are more important than German economic data, at least as long as the economic downturn does not significantly worsen. Although the current inflation rate of 5.3 percent is still significantly high, it is becoming apparent that the rate of price increases will decrease in the coming months. However, this is not a linear process. The increase in oil prices from around \$70 to nearly \$90 per barrel of WTI crude in the past two months will be reflected in a rising overall inflation rate in August. However, this does not fundamentally question the further downward trend. As core inflation is expected to decline, we consider a further interest rate hike by the ECB not only at the next meeting on September 14, but also at the following meetings at the end of October and mid-December to be unlikely.

By the end of the year, inflation in the Eurozone is expected to decrease to three percent, and from early 2024, the inflation rate should have a two-digit number before the decimal point again. However, another interest rate hike would be critical in view of the weak economy. Not only Germany, but also Italy, the Netherlands, and Austria have growth problems. Therefore, the economic expectations of the ECB are too optimistic and need to be revised downwards. Conversely, inflation expectations are too high, as weak economic phases usually lead to companies lowering their prices or at least not increasing them further in order to avoid completely stifling demand.

This could lead to a decrease in profit margins for companies and put pressure on corporate profits or profit expectations. So far, there is no sign of this in the analysts' forecasts. Both the profit expectations for 2023 and 2024 are stable. Overall, the profit expectations for the next 12 months are still at a record level, which supports further gains in the DAX until the end of the year. The fact that the purchasing prices of companies are decreasing more than the selling prices has a positive effect on profit margins. The inflation rate for German consumer prices was recently 6.1 percent, while producer prices were six percent below the previous year's level. The expected increase in DAX profits of one percent in 2023 may therefore be too low, while the projected increase of nearly nine percent in 2024 appears too optimistic. In our opinion, more realistic growth rates are three and five percent,

which would result in unchanged profit expectations over a twelve-month period. The DAX's price-earnings ratio (P/E ratio) based on these forecasts, which is below eleven, is not only very favorable in historical comparison but also the lowest P/E ratio this year. Together with the high-expected dividend yield of 3.6 percent, the valuation factors of the DAX do not argue against further price gains - especially since the three seasonally best stock market months of October, November, and December are still ahead of us. Therefore, we consider our target of 17,000 points for the DAX by the end of the year to be achievable.



## US stock exchange sets the tone

Investors interested in the DAX should pay close attention to developments in the US markets. This is because the US economy is performing very robustly, unlike Germany. The anticipated US recession has not materialized so far, and according to the GDP Now forecast by the Federal Reserve Bank of Atlanta, there is even an expected acceleration in growth to 5.6 percent in the third quarter. Unlike in Germany, the US economy is providing tailwinds for stock prices. However, even in the US, stock prices declined slightly in August due to concerns that the strong economy could lead to higher inflation. This phenomenon, known as "good news are bad news," could also shape market developments in September. Therefore, the release of the next inflation data in the middle of next week will play an important role. If inflation rates turn out to be higher than expected, September could live up to its reputation as a negative month for the stock market. Conversely, if inflation is lower than expected, the correction could come to an end.

Similar to the DAX, earnings estimates for the S&P 500 and the Nasdaq technology exchange show that analysts have not lowered their forecasts as is typical in late summer. On the contrary, expectations have been raised. Technology companies play a crucial role in this, as their

earnings expectations have consistently improved in recent weeks and months. This is mainly due to positive expectations related to "Artificial Intelligence" (AI). Although opinions on AI differ, it is not a passing trend and will continue to impact the stock market in the coming months and quarters. The significant investments made by companies like Nvidia in AI models and applications have enormous potential, not only for their own profits and stock prices but also for the entire economy.

When considering whether US stocks, especially technology stocks, are overpriced, it is important to note that the high price-earnings ratios of the S&P 500 Index (19) and the Nasdaq 100 Index (26) are primarily driven by a few large US technology companies. Apple, Amazon, Alphabet, Meta, Microsoft, Netflix, Nvidia, and Tesla, the pacesetters of this year, have an average P/E ratio of 35. Without these eight companies, the valuation of the US stock market would be in line with the long-term average. However, given the potential for significant profit growth through AI and their proven crisis-resistant business models, a valuation premium for these technology stocks is justified. Although the valuation of technology stocks is high, history has shown that it can go even higher. For example, the current P/E ratio of the MSCI World Technology Index is 26, compared to 52 in April 2000. Therefore, what is expensive can still become (much) more expensive, and vice versa. For this reason, valuation metrics are not suitable as timing instruments for market entry or exit.

## The biggest risks for the stock market

If inflation cannot be contained as expected, monetary policy and interest rate developments could become a spoiler for the stock markets, as was the case last year. A global economic downturn or exogenous shocks such as wars or a potential energy or food shortage are also prevalent risks for investors. One particular risk in the next 12 to 15 months is the political landscape. A re-election of Donald Trump would likely lead to a new global trade war. He has announced that in the event of his re-election, all imports into the US would be subject to tariffs of 10 percent. Furthermore, an exit of the US from NATO is also conceivable from his perspective.

Political uncertainties are not only looming in the US but also in Germany. Given the significant differences in content between the three coalition partners (SPD, Greens, and FDP), it is questionable whether the Berlin coalition will survive the entire legislative period. Early federal elections could further complicate future government formation, as the AfD gains strength and all parties have ruled out forming a coalition with them. It is possible that this behavior will drive more protest voters into the arms of the AfD. The international community is likely to view this development critically, which could lead to fewer direct investments in Germany and negatively affect economic prospects.

Carsten Klude

## Market data

| Stock markets                  | As of               | Change versus         |                        |                         |                       |                   |
|--------------------------------|---------------------|-----------------------|------------------------|-------------------------|-----------------------|-------------------|
|                                | 08.09.2023<br>10:35 | 01.09.2023<br>-1 week | 07.08.2023<br>-1 month | 07.06.2023<br>-3 months | 07.09.2022<br>-1 year | 30.12.2022<br>YTD |
| Dow Jones                      | 34501               | -1,0%                 | -2,7%                  | 2,5%                    | 9,2%                  | 4,1%              |
| S&P 500                        | 4453                | -1,4%                 | -1,5%                  | 4,3%                    | 11,9%                 | 16,0%             |
| Nasdaq                         | 13749               | -2,0%                 | -1,6%                  | 4,9%                    | 16,6%                 | 31,4%             |
| DAX                            | 15643               | -1,2%                 | -1,9%                  | -2,0%                   | 21,1%                 | 12,4%             |
| MDAX                           | 27050               | -2,7%                 | -3,5%                  | -0,3%                   | 8,2%                  | 7,7%              |
| TecDAX                         | 3095                | -2,0%                 | -2,1%                  | -3,7%                   | 5,7%                  | 5,9%              |
| EuroStoxx 50                   | 4209                | -1,7%                 | -3,0%                  | -1,9%                   | 20,2%                 | 10,9%             |
| Stoxx 50                       | 3939                | -0,7%                 | -0,2%                  | -1,0%                   | 13,4%                 | 7,9%              |
| SMI (Swiss Market Index)       | 10957               | -1,1%                 | -1,4%                  | -3,4%                   | 1,4%                  | 2,1%              |
| Nikkei 225                     | 32607               | -0,3%                 | 1,1%                   | 2,2%                    | 18,9%                 | 25,0%             |
| Brasilien BOVESPA              | 115985              | -1,6%                 | -2,8%                  | 0,4%                    | 5,7%                  | 5,7%              |
| Russland RTS                   | 1009                | -4,4%                 | -0,8%                  | -2,6%                   | -18,9%                | 4,0%              |
| Indien BSE 30                  | 66580               | 1,8%                  | 0,9%                   | 5,4%                    | 12,8%                 | 9,4%              |
| China CSI 300                  | 3740                | -1,4%                 | -6,3%                  | -1,3%                   | -7,8%                 | -3,4%             |
| MSCI Welt                      | 2947                | -1,4%                 | -1,9%                  | 2,8%                    | 12,7%                 | 13,2%             |
| MSCI Emerging Markets          | 974                 | -1,2%                 | -4,2%                  | -2,2%                   | 1,8%                  | 1,8%              |
| <b>Bond markets</b>            |                     |                       |                        |                         |                       |                   |
| Bund-Future                    | 130,84              | -154                  | -96                    | -333                    | -1669                 | -209              |
| Bobl-Future                    | 116,63              | 77                    | 97                     | -48                     | -665                  | 88                |
| Schatz-Future                  | 105,24              | 16                    | 12                     | 3                       | -376                  | -18               |
| 3 Monats Euribor               | 3,80                | 14                    | 14                     | 65                      | 297                   | 191               |
| 3M Euribor Future, Dec 2023    | 3,89                | 3                     | 0                      | 9                       | 156                   | 28                |
| 3 Monats \$ Libor              | 5,66                | 0                     | 3                      | 15                      | 247                   | 89                |
| Fed Funds Future, Dec 2023     | 5,44                | 3                     | 5                      | 36                      | 188                   | 80                |
| 10 year US Treasuries          | 4,24                | 6                     | 15                     | 45                      | 98                    | 41                |
| 10 year Bunds                  | 2,61                | 10                    | 5                      | 17                      | 104                   | 5                 |
| 10 year JGB                    | 0,65                | 3                     | 3                      | 24                      | 41                    | 24                |
| 10 year Swiss Government       | 1,04                | 8                     | 0                      | 10                      | 13                    | -57               |
| US Treas 10Y Performance       | 575,54              | -0,6%                 | -1,1%                  | -2,9%                   | -4,7%                 | -0,7%             |
| Bund 10Y Performance           | 535,10              | -0,6%                 | 0,0%                   | -0,6%                   | -6,0%                 | 1,9%              |
| REX Performance Index          | 432,10              | -0,6%                 | -0,2%                  | -0,8%                   | -4,2%                 | -0,1%             |
| IBOXX AA, €                    | 3,81                | 11                    | 12                     | 14                      | 105                   | 22                |
| IBOXX BBB, €                   | 4,67                | 11                    | 16                     | 8                       | 73                    | -3                |
| ML US High Yield               | 8,67                | 15                    | 12                     | -1                      | 16                    | -31               |
| Convertible Bonds, Exane 25    | 6620                | 0,0%                  | 0,0%                   | 0,0%                    | 0,8%                  | 0,0%              |
| <b>Commodities</b>             |                     |                       |                        |                         |                       |                   |
| MG Base Metal Index            | 381,67              | -2,5%                 | -2,8%                  | -0,3%                   | 1,8%                  | -8,8%             |
| Crude oil Brent                | 89,79               | 1,3%                  | 5,2%                   | 16,7%                   | 1,8%                  | 5,7%              |
| Gold                           | 1923,84             | -0,8%                 | -0,5%                  | -1,7%                   | 12,4%                 | 6,0%              |
| Silver                         | 24,23               | 0,0%                  | 4,9%                   | 3,1%                    | 32,7%                 | 2,0%              |
| Aluminium                      | 2151,50             | -1,8%                 | -1,3%                  | -1,0%                   | -3,3%                 | -8,4%             |
| Copper                         | 8309,25             | -2,0%                 | -1,5%                  | 0,2%                    | 7,9%                  | -0,7%             |
| Iron ore                       | 117,40              | -0,7%                 | 12,1%                  | 7,5%                    | 20,8%                 | 5,5%              |
| Freight rates Baltic Dry Index | 1141                | 7,1%                  | -0,3%                  | 11,9%                   | 0,7%                  | -24,7%            |
| <b>Currencies</b>              |                     |                       |                        |                         |                       |                   |
| EUR/ USD                       | 1,0715              | -1,2%                 | -2,4%                  | 0,0%                    | 8,4%                  | 0,5%              |
| EUR/ GBP                       | 0,8574              | 0,1%                  | -0,5%                  | -0,2%                   | -1,2%                 | -3,4%             |
| EUR/ JPY                       | 157,91              | 0,3%                  | 1,1%                   | 5,7%                    | 10,3%                 | 12,3%             |
| EUR/ CHF                       | 0,9542              | -0,3%                 | -0,9%                  | -1,7%                   | -2,1%                 | -3,1%             |
| USD/ CNY                       | 7,3430              | 1,0%                  | 2,1%                   | 3,0%                    | 5,4%                  | 6,4%              |
| USD/ JPY                       | 147,30              | 0,7%                  | 3,4%                   | 5,1%                    | 2,5%                  | 12,3%             |
| USD/ GBP                       | 0,80                | 1,0%                  | 2,2%                   | -0,3%                   | -8,2%                 | -3,7%             |

Source: Refinitiv Datastream

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