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MARKET COMMENTARY

BERGOS
PRIVATE BANK



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As Bergos' Chief Investment Officer, Till Christian Budelmann regularly comments on events on the international capital markets and examines them in the context of economic and political trends. Since 2004, Budelmann has been responsible for various investment strategies and sits on the bank's Investment Committee. He has been Managing Director since 2013.

GLOBAL OUTLOOK: EQUITIES REMAIN THE KEY PERFORMANCE DRIVER IN 2022

After an exceptionally good year for investors in 2021, Till Christian Budelmann, Chief Investment Officer at the Swiss private bank Bergos, takes a constructive view of the new year, although he anticipates more modest investment returns overall. While bond yields can be expected to rise, equities are still the more attractive asset class for now. However, it will become more difficult to generate high returns from equities. Active management, which steers capital to the right regions, sectors and sub-segments, will be more important in 2022. For example, the IT sector as a whole will no longer be among the structural winners in the United States.

"After slowing somewhat over the winter, the global economy should return to decent growth again in 2022. We anticipate growth of more than 3.5 percent, slightly above the trend growth rate", Till Budelmann said. According to Bergos' forecasts, the Eurozone and the United Kingdom will contribute 5 percent, the United States nearly 4 percent to global growth. The 3.1 percent drop in global economic output caused by corona measures in 2020 will already be more than offset by the growth of over 4.5 percent expected by Bergos for the current year.

However, the corona crisis is not over yet. In fact, it has moved to the forefront of attention again due to the recent emergence of the omicron variant. Although pressure is being applied to unvaccinated persons in the United States, it is unlikely that stricter nationwide restrictions will be imposed on everyone, which will benefit the US economy. In Europe and especially in the Eurozone, on the other hand, lockdowns have already been imposed in certain regions and further restrictions on public life can be expected.

Interest rate hike in the United States, but not in the Eurozone

This development further supports our assumption that there will be no interest rate increases in the Eurozone in 2022, unlike the case in the United States", Budelmann said. The US central bank began to gradually reduce its bond purchases in November; this tapering should be completed by the middle of 2022 and a first interest rate hike can be expected in the second half of 2022. From today's point of view, Budelmann considers a second interest rate hike to be rather improbable, but not impossible. According to Bergos' forecasts, inflation will decline from 4.5 percent in the current year to 4 percent in the coming year and then to somewhere between 2.5 to 3 percent in 2023. The Swiss private bank expects a similar development, albeit at a lower level, for the Eurozone. After 2.5 percent in 2021, the inflation rate should come out in a range of 2 to 2.5 percent in 2022.

On the political side, the upcoming US midterm elections in November are an important event. The entire House of Representatives and one third of the Senate will be up for re-election. "It is unlikely that the Democrats will retain their majorities in both chambers. It will therefore be even more difficult for President Joe Biden to push through major Democratic packages after the elections. This is not a negative prospect from a capital market perspective. Tax increases, for example, would be completely off the table", Budelmann explained. In Europe, the French Presidential election will already be held in the spring. "There is indeed a risk that a right-wing populist could take power. In our base case scenario, however, we expect that Emmanuel Macron will be re-elected", Budelmann said.

Rising corporate earnings will drive share prices

The fundamental environment continues to argue for an overweight of equities versus bonds. Bergos has developed three scenarios for equity performance in 2022. "In our base case scenario on which our positioning is based, we expect that valuation multiples will not widen further and will follow a sideways pattern. Therefore, equity price gains will have to be driven by a rise in corporate earnings, which we certainly expect", Budelmann said. He therefore anticipates a positive overall performance for equities in 2022, although it will only amount to roughly one quarter to one third of the excellent returns in 2021 to date.

In the second scenario, the upside scenario, the economy will grow at a faster rate than expected and corporate profits will also rise much more substantially, while inflation will increase at a slower rate than expected. With less pressure on interest rates, valuation multiples could actually widen further. In this case, the full-year performance could certainly come close to that in 2021. In the third scenario, the downside scenario, on the other hand, a negative equity performance would be likely. In this case, the economy would not grow as much and inflation would increase further. This kind of stagflation would be bad for all risk markets.

Differentiated view on the technology sector

Regionally, Budelmann still sees the greatest upside potential in the United States in 2022, as in the previous years, and now also in Japan. Bergos has adopted a neutral weighting for Europe, while emerging markets including China are expected to continue to lag behind and therefore remain underweighted in the bank's investment strategies. In terms of sectors, the Bergos CIO prefers structural winners in the United States, including communications service providers and software companies in the IT sector. Bergos is more cautious about hardware suppliers, not least of all due to the current supply bottlenecks. Bergos also takes a positive view of selected cyclical stocks such as US financials and European industrial and basic material companies. So-called bond proxies in the sectors of real estate, utilities and consumer staples will remain underweighted on balance at the start of the year.

Short durations for bonds, gold as a hedge, appreciation potential for the Euro

Within the bond market, Budelmann expects yields to trend upward: "Yields of 10-year US Treasuries can be expected to rise in the direction of 2 percent in the coming year." Accordingly, Bergos prefers an extremely short duration in the United States in order to minimize potential price losses. Bergos also prefers a short duration in Europe, albeit not quite as pronounced as in the United States. "These days, bonds should be seen not so much as a source of investment returns, but more as a diversifier in the multi-asset portfolio", Budelmann concluded.

Among alternative investments, he considers industrial metals and convertible bonds to be especially promising. Bergos currently sees gold less as a performance driver, but values the precious metal as a natural hedge against equity risk in the portfolio.

The euro has been relatively weak for some time already and this weakness has been intensified by the renewed corona stress. "We think the market has exaggerated here. Against the dollar and the Swiss franc, the euro has appreciation potential again", Budelmann said. Euro investors should therefore consider partial currency hedging, especially to protect their US investments.



B E R G O S

P R I V A T E B A N K

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