

**GLOBAL OUTLOOK 2021: "EQUITIES REMAIN THE MOST  
IMPORTANT SOURCE OF RETURN IN A PORTFOLIO"**

According to Capital Market Strategist Till Budelmann of the Swiss private bank Bergos Berenberg, a more market-friendly US trade policy, the breakthrough in corona vaccines, expansive central bank policies, and a significant recovery of the global economy will provide a beneficial environment for markets in 2021. The focus remains on equities, with the US and Asia's emerging markets appearing most promising. In addition to gold as a hedge and bonds as a diversifier, illiquid investments can be a useful addition to the portfolio. Despite all the confidence, one should still keep an eye on investor sentiment as a possible contrarian indicator.

After a challenging year 2020, Capital Market Strategist Till Budelmann is more confident about 2021. His fundamental optimism is based on four assumptions, which should bring more calm to markets in the coming year and gradually lead to more normal conditions.

First, Budelmann assumes that the Democrat Joe Biden will be sworn in as the 46th US President on January 20. "Trade and foreign policy should then become more conventional again, the tone more objective. This is positive for the world economy," said Budelmann. At the same time, he expects that the Republicans will at least partially win the outstanding senatorial elections in Georgia on January 5 and thus retain the majority in the Senate. This would also be beneficial for markets, he said, as it would give the Democrats a counterweight. The planned tax increases are therefore more difficult to implement. But even if the Democrats should surprisingly win both senatorial seats in Georgia, the very narrow majorities in the House of Representatives and the Senate would decisively restrict the Democrats from implementing a progressive agenda.

A second ray of hope for Budelmann is provided by the progress in the development of Covid-19 vaccines: "We expect at least one approved vaccine in 2021 which can be widely distributed in the western world. This should gradually contribute to a certain normalization in the coming year". Despite all his optimism, he still expects an economically difficult winter: "For the fourth quarter of 2020 and the first quarter of 2021, we are more cautious about growth than the consensus among economists." However, further fiscal measures, which many countries are striving for, should have a supporting effect.

Also he expects central banks to continue to pursue a decidedly expansive policy in the coming year. Budelmann explicitly does not fear rising interest rates. The US Federal Reserve in particular is likely to keep the Fed fund rate in the range of 0 to 25 basis points.

THE US CAN MAKE UP FOR THE ECONOMIC DECLINE  
IN EARLY 2021 – EUROPE CANNOT

The fourth is based on these three assumptions: "The recovery of the global economy, which can already be observed, will dynamically continue in 2021 and growth figures will turn back into the green. We also assume that corporate earnings will recover significantly next year after the sharp decline in 2020," Budelmann said. According to Bergos Berenberg's forecast, US GDP will shrink by 3.5 percent in 2020, but will already grow again by 4 percent in 2021, thus offsetting the slump. The euro zone will not be able to do this. Here, a minus of almost 8 percent in 2020 will be offset by a plus of only 4 to 5 percent in 2021. Among the large economies, only China is unlikely to report a minus in 2020, while the Swiss private bank expects growth figures of 9 percent for 2021. Within just one year, markets have thus shifted from the late phase of the cycle to an early phase due to corona effects.

EQUITIES ARE A MUST IN 2021, BUT COVID LOSERS  
ARE NOT NECESSARILY THE VACCINE WINNERS

What do the assumptions mean for the positioning? "We are generally positive about the coming year. Equities are likely to be the most important source of return in a portfolio in 2021 as well," said Budelmann. "Another period of extreme volatility, as we experienced it in 2020, is not to be expected. Next to the estimated significant increase in corporate earnings, the continued relative attractiveness of equities compared to bonds calls for equities. In a historical context, equities no longer appear to be cheap, but they do if compared to bonds. The gap between bond yields and earnings yields of equities is still above average", explained Budelmann.

While he continuously preferred large caps in 2020, he now sees good opportunities for equities of all market capitalizations. Regionally, the US and Asian emerging markets, especially China, South Korea and Taiwan are on Bergos' list of favourites. He remains more cautious with regard to Europe. "The US should also continue to outperform through this period due to its sectoral composition," Budelmann explained. He is now more positive with regard to Brexit, however: "The probabilities of finding a solution which is positively received by markets have increased. Even if the Capital Market Strategist sees light at the end of the Corona tunnel, for him, the Covid losers are not necessarily also the vaccine winners: "For various companies it is not yet clear whether they will survive at all. And a normalization of the world does not mean that everything will be the same as before. In 2020, we have successfully backed IT and communications companies, among others, and we are not yet turning away from them".

LONG-TERM PRIVATE MARKET INVESTMENTS AS A  
VIABLE PORTFOLIO ADDITION

He also holds on to gold as an important portfolio component. However, in 2021, the asset class should primarily serve as a hedge. Bonds are above all a diversifier for him: "It will be difficult to earn good money in the bond sector. Here, we see the best opportunities in emerging market bonds with a focus on Asia". In order not to rely exclusively on the volatile equity markets as a source of returns in an age of extremely low risk-free interest rates, Budelmann believes that investors should also open up to new opportunities. "Illiquid investments can be a good addition to many portfolios. With private market investments, for example private debt or private equity, attractive illiquidity premiums can be collected", explained Budelmann. Banks are making fewer loans available for venture capital due to equity considerations and private debt funds benefit from this scarcity.

Despite the promising outlook, it is important for investors to remain humble and to constantly question assumptions and actions. Potential further Covid measures are still causing uncertainty. Sentiment also deserves special attention at the moment. "Investor sentiment has improved noticeably recently. This does support markets in this phase. However, if it continues to rise in the direction of euphoria, this could be a contrarian indicator and a sign of possible setbacks," said Budelmann. He concludes: "It is still a moving time, both personally and for capital markets, but we believe improvement is in sight in 2021".

## TILL CHRISTIAN BUDELMANN

As Capital Market Strategist of the private bank Bergos Berenberg, 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.





M A R K E T C O M M E N T A R Y

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