



MARKET COMMENTARY

BERGOS
PRIVATE BANK



TILL C. BUDELMANN

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.

STRONG ECONOMIC RECOVERY, BUT SUMMER OF CONSOLIDATION FOR THE MARKETS?

The global economic recovery is hitting on all cylinders. "However, the global equity market in its function as a huge discounting machine has already anticipated much in the way of future positive developments", says Till Christian Budelmann, Chief Investment Officer at the Swiss private bank Bergos. Despite excellent macroeconomic and microeconomic numbers, he therefore expects a volatile sideways movement in the global equity market – at least until more clarity emerges regarding the trend of inflation. Long-term bond yields will probably rise further in the near term.

"We are seeing very strong numbers, both for the overall economy and for individual companies", says Bergos CIO Till Budelmann. Consequently, the Swiss private bank has upgraded its already optimistic forecasts and expects a stronger recovery in the most important regions compared to the consensus view of economists. For the United States, the bank expects economic growth of 7.2 percent in 2021 – which would more than make up the 3.5 percent contraction in 2020. In the Eurozone, the bank expects growth of 4.5 percent this year, with 3.8 percent in Germany and 2.5 percent in Switzerland. China continues to lead the world in economic growth. Bergos expects that the Chinese authorities will report economic growth of 9 percent for the full year.

"The economic recovery is underpinned by vaccination progress and a continuation of historically expansive monetary and fiscal policy. Consumers are in good shape: private households saved a lot of money during the corona crisis, which can now be spent. In addition, businesses are beginning to increase spending on capital goods", Budelmann explains. He does not expect any major obstacles from the political side. In the United States, excessively high tax increases are unlikely. He also does not expect much trouble from the upcoming parliamentary elections in Germany, which are relatively insignificant for the global economy anyway: "A so-called green-red-red coalition in Berlin, meaning an alliance of the Greens, the SPD and the Left Party, which would present a considerable risk for the economy and financial markets in Germany and therefore Europe as well, is currently rather improbable. In our base scenario, we expect the CDU candidate Armin Laschet to become Federal Chancellor, in whose government more business-friendly forces should then play a certain role."

EQUITY POSITIONING CHANGED FROM OVERWEIGHT TO NEUTRAL

On the corporate level, profits are rising at a significant pace and many companies are delivering positive surprises. However, this does not automatically mean that equity prices will continue to rise unabated. "Companies have recently not been rewarded as much in the equity markets for reporting results that exceeded expectations. This is a sign that equity prices have discounted much in the way of future positive developments", Budelmann said. He also sees this as a sign to act. Bergos had raised its equity positioning to overweight right after the US Presidential election in November 2020; it has now lowered it back to neutral. "The strong price developments in the past months have further diminished the relative attractiveness of equities compared to bonds. The difference between the earnings yield of equities in the S&P 500 Index and the yield of ten-year US Treasuries has narrowed and is now only minimally higher than the historical average", Budelmann says in explaining the bank's rationale for this step. He also points to the continuously improving sentiment, which is a good contrarian indicator. Seasonality is another, albeit less pivotal argument. For example, June is one of the historically worst months in equity markets, especially when they performed well at the beginning of the year.

PARADIGM SHIFT: THE DISINFLATION PHASE HAS ENDED

Budelmann expects a consolidation period in the coming months: "We are likely to see a volatile sideways movement in the early summer. Markets have become more nervous. The investment styles growth and value alternate in the favour of investors. It will take until late summer to make a better assessment of whether or not the current inflation rise is truly only temporary in nature." In his opinion, inflation will probably accelerate again after a decade of disinflation. "After the financial crisis, austerity and deleveraging ruled the day as companies held back on new investment spending. We now see a clear paradigm shift. Although we are in a new phase, it is still hard to assess the impact of temporary factors on inflation", Budelmann says. However, he does not expect key interest rate hikes in the United States this year, and certainly not in the Eurozone. Central banks are showing an increased tolerance for inflation, also given that they have continually tended to overestimate inflation in the past years. "This poses the risk that central banks could find themselves in trouble at a later date if they are too tolerant", Budelmann warns. For the United States, Bergos expects inflation of 2.9 percent in 2021 and 2.6 percent in 2022 – after just 1.2 percent last year.

OVERWEIGHT CYCLICALS AND STRUCTURAL WINNERS, REDUCE DURATION

In the equity market, Budelmann currently prefers cyclical consumer companies and commodity stocks: "These have already performed well in the past few months and the trend is likely to continue." Many of these stocks can be found in Europe, where sentiment has improved thanks to the good progress made on vaccinations in the meantime. He also recommends an overweight of structural winners, such as companies in the IT and communications sectors. These companies are mainly found in the United States, as well as Asia to a lesser extent. By contrast, he has underweighted defensive value stocks such as consumer staples. In the bond market, Budelmann expects rising yields. "The yield of ten-year US Treasuries, which is currently around 1.6 percent, will probably move in the direction of 2 percent by the end of the year. We have therefore shortened the duration of US bonds. This also fits our macroeconomic forecast", says the Bergos CIO.



B E R G O S

P R I V A T E B A N K

Bergos AG is an independent Swiss private bank with headquarters in Zurich and offices in Geneva. It emerged from Joh. Berenberg, Gossler & Co. KG, it has been active in the Swiss financial centre for international private clients and entrepreneurs for over thirty years. The Swiss private bank specializes in asset management and advisory services. For its more than 100 employees, the focus is on providing advice in all known liquid and non-liquid asset classes, as well as in alternative investments such as real estate, private equity or art. It provides entrepreneurial clients with access to M&A and other corporate finance services. Bergos AG offers private clients, entrepreneurs and their families a holistic service spanning several generations, which, in addition to investment recommendations, aims at security, neutrality, internationality and cosmopolitanism.

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