



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.

THE UNITED STATES IS STILL THE PACESETTER OF THE GLOBAL ECONOMY AND EQUITY MARKETS

By the end of the year, the global economy will have made up the losses caused by the measures taken to combat the coronavirus. The US economy in particular has proven to be impressively resilient, but Europe's economy is also on the mend. "The relative attractiveness of equity markets has risen again, the US market remains our favourite", said Till Christian Budelmann, Chief Investment Officer of the Swiss private bank Bergos. At a certain point, the upcoming tapering of the US Federal Reserve could prove to be a disruptive factor.

Never bet against the US consumer! This recommendation remains valid even in times of Covid-19, during which retail shops everywhere were shuttered by lockdowns. "The development of retail sales in the United States is downright fascinating. Whereas after the global financial crisis, it took 40 months for sales to regain the pre-crisis level, this time it only took five months. And after that, sales have risen sharply by almost 20 percent", Budelmann said. The main drivers of this impressive recovery were direct coronavirus aid and other government stimulus measures. As these incentives fade, retail sales will probably revert to the previous growth line.

Not only the US consumer, but the US economy in general is still setting the pace for the global economy, which is back on track. Bergos expects global economic growth of 5 percent in 2021, which would more than offset last year's contraction of around 3 percent. "Although peak growth by a year-on-year comparison is already behind us, we do not expect growth rates to fall below the trend line, as seen for some period of time after the financial crisis. Instead, we expect solid gains in the next few years", said the Bergos CIO.

Bullish view on economic growth, diminishing risks from anti-coronavirus measures

The Swiss private bank's growth forecasts for the three major regions of the United States, Europe, and China are above consensus. Bergos expects that China will report growth of 8.8 percent in 2021 and 5.8 percent in 2022. For the United States, Bergos predicts growth rates of 6.5 and 4.3 percent in 2021 and 2022, respectively. In Europe, the catch-up race has begun after a delay, so that the 2020 drop in Eurozone economic output will probably not yet be made up in 2021. Bergos expects Eurozone growth of 5 percent in both 2021 and 2022. The EU's big stimulus package is only now really being rolled out and should continue to boost the economy, Budelmann said.

In Germany, federal parliamentary elections will be held in late September. "The risk to the economy posed by a potential "red-green-red" government has increased significantly in the last few weeks. All other constellations would not be expected to have a major economic impact. And although the polls currently see the SPD clearly ahead, we believe it is just as likely that the order to form a government will ultimately be given to the CDU/CSU," said Budelmann.

Extreme growth-inhibiting policies related to Covid-19 should have little impact on the economy in the future. "Of course, we are keeping a close eye on the Delta wave at the moment. But the political debate has shifted, especially in Europe: The focus is now on increasing the vaccination rate and a broad lockdown for all is no longer very likely. This is an advantageous development from the standpoint of markets alone", explained the Bergos CIO.

Tapering debate as a potential source of uncertainty for markets

The pending shift of US monetary policy could prove to be less than advantageous for markets. At last week's annual meeting of central bankers in Jackson Hole, US Federal Reserve Chairman Jerome Powell again hinted that the Fed's bond purchases would be reduced as soon as a further recovery in the labour market can be observed. "Unlike the case in 2013, this kind of tapering will hopefully not come as a surprise for capital markets. Nevertheless, the tapering discussion will cause stress and uncertainty", Budelmann warned. He no longer expects key interest rate increases this year, but at the earliest directly after the end of the purchases in the second half of 2022.

Even higher inflation rates will not change his assessment. Bergos expects that consumer prices in the United States will rise by 4 percent in 2021 and then by 3 percent in each of the two subsequent years. "Those are considerably higher rates than we have been accustomed to in recent times. However, central banks have a high tolerance threshold and will not react immediately to somewhat higher inflation. I do not believe that central banks would hit the brakes hard enough to choke off economic growth", Budelmann said. The same applies for Europe, where inflation will probably be somewhat lower and the tapering debate will become relevant later than in the United States.

Equity market pullbacks are treated as entry opportunities, technology stocks remain attractive

All in all, the performance of global equity markets has been encouraging of late, even if the currently positive economic trend has been largely priced in already. Historically speaking, equity valuations are relatively high at the moment. Unlike bonds, however, they have become somewhat more attractive again. The difference between the earnings yield of equities and the yield of 10-year government bonds has widened in the past few weeks. Moreover, the somewhat weakened sentiment of market participants can be interpreted as a positive contrarian indicator. On the other hand, an adverse factor can be seen in the traditional seasonal patterns in equity markets, which tend to exhibit greater volatility in autumn. This pattern coupled with the tapering discussion could lead to more turbulence in the markets. For these reasons, Budelmann considers a neutral equity weighting to be advisable for the time being.

In terms of regions, he still prefers that US equities remain overweight in the Bergos portfolios, as it has been the case for many years already, due to the high level of economic stability in the United States: "Once again, US equities have proven to be outperformers. There has been no pullback greater than 5 percent since October 2020. The smallest market drops have always been treated as an entry opportunity". Bergos recently upgraded European equity markets. On the other hand, the Bank reduced its emerging markets allocation a little already before the latest regulatory announcements in China.

In terms of economic sectors, Bergos continues to favour structural winners such as technology stocks primarily, but also telecommunications stocks in the United States. "We think that the current cycle will be much shorter than the previous one and we are already at the end of the early phase of the current cycle", Budelmann said. For this reason, he also gives preference to selected cyclical stocks especially in the sectors of cyclical consumer goods and raw materials. Defensive value stocks in the sectors of staple consumer goods and utilities, for example, remain underweighted. These could potentially become more attractive again only in the later phase of the cycle.



B E R G O S

P R I V A T E B A N K

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