

B E R G O S

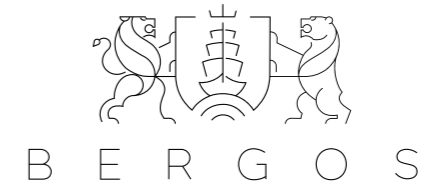
R E F L E X I O N S
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Bergos AG is an internationally operating, independent Swiss Private Bank with headquarters in Zurich and a branch in Geneva. We have been active in the Swiss financial centre for over 30 years and can trace our history to the founding of Joh. Berenberg, Gossler & Co. KG in 1590. Our international team is dedicated to all aspects of wealth management and advisory, with a special focus on private individuals, family entrepreneurs, next generation and shipping clients. With a business model focused on pure private banking, we advise our clients on all liquid and non-liquid asset classes and alternative investments.



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E X E C U T I V E S U M M A R Y

Dear Readers,

Global equity and bond markets suffered a severe double blow in the first half of the year. The equity market now finds itself in a bear market, and the rich gains of 2021 have been more or less erased. In the bond market, investors suffered even significant losses on a historic scale. Neither gold and certainly not hyped cryptocurrencies were safe havens in this environment.

The mix is complicated and a number of risk factors can be listed. But in the end, it is probably rapidly declining purchasing power

that is acting as the main culprit at all levels. Inflation is driving central banks in most industrialized countries and fuelling the current fears of recession. Thus, a key question is whether we have reached the peak in inflation rates. In this context, it can at least be noted that oil and gas prices declined slightly in the short term. The industrial metals copper and aluminium suffered significant setbacks. At the same time, shipping container freight rates are coming back dynamically. There are also increasing signs that the hot semiconductor

cycle is increasingly cooling down. Indeed, these are the first early signs of relief for various input factors, but unfortunately far from an all-clear. Whether and how quickly these initial developments will have a positive impact on consumer prices is still subject to a high degree of uncertainty.

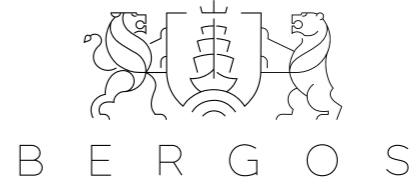
However, it is worth keeping a close eye on these developments, as the capital markets react early to preliminary signs of easing on the price front. The bond market in particular is a seismograph for the economic and inflation outlook. Judging by the risk premiums in the credit markets, the economic alarm signals are ringing here. We also expect a significant economic slowdown and consider a mild recession in the U.S. and Europe in 2023 to be likely.

In this issue of our Reflections, you will find out why we also see opportunities in certain market segments despite these challenging signs.

As always, I wish you the confidence you need in these times.

Enjoy reading and best regards,

Maximilian Hefe
Head of Asset Management

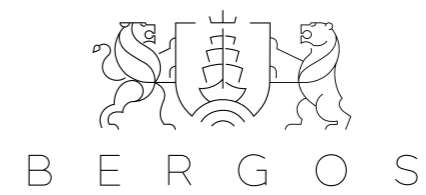


EDITOR



MAXIMILIAN HEFELE CFA
HEAD OF ASSET MANAGEMENT

Maximilian Hefe is Head of Asset Management at Bergos since 2003. He is responsible for all discretionary investments solutions offered by the bank. He is Managing Director, Deputy Chief Investment Officer and member of the Bank's Investment Committee.



INVESTMENTS OUR EXPERT



TILL CHRISTIAN BUDELMANN
CHIEF INVESTMENT OFFICER

As Bergos' Chief Investment Officer, Till Christian Budelmann regularly comments on events in the international capital markets and examines them in the context of economic and political trends. In close coordination with the responsible asset class heads, he and the CIO Office define the base case scenario, which provides the foundation for the work within the asset class teams. Budelmann is member of the bank's executive board and heads the investment committee.



C O M P A S S

BASE CASE SCENARIO

BY TILL C. BUDELMANN, CHIEF INVESTMENT OFFICER

The continuing rise in energy and food prices is eroding consumers' real purchasing power and, combined with the global supply chain issues, provides a significant drag on the global economic outlook. We expect a recession for the developed world over the next twelve months, but this should already be largely anticipated by capital markets.

As a response to the severe inflation environment, central banks are stepping up their pace of monetary tightening. The Fed now considers an interest rate level of 3.25-3.50% to be appropriate at year end which is also reflected by futures markets. For the next four Fed meetings until the end of the year, a total of seven further steps of 25 basis points can be expected. We anticipate a tightening of 75 basis points in July and 50 basis points in September. The ECB has announced the first rate hike of 25 basis points for its July meeting and holds out the prospect of further, possibly more pronounced, rate hikes in September if the medium-term inflation outlook persists or deteriorates further.

Geopolitically, we are currently obviously concerned about the ongoing Russian war against Ukraine. For the time being, our basic assumption remains that Russia will shy away from directly attacking a NATO member state and thus triggering the alliance case. In the US, the Biden administration will not be able to introduce any ground-breaking packages until the November midterms due to the tight distribution of seats in Congress and disunity within the Democratic caucus in the Senate. Biden's approval rating remains under pressure and Republicans are expected to gain further ground through the midterm elections.

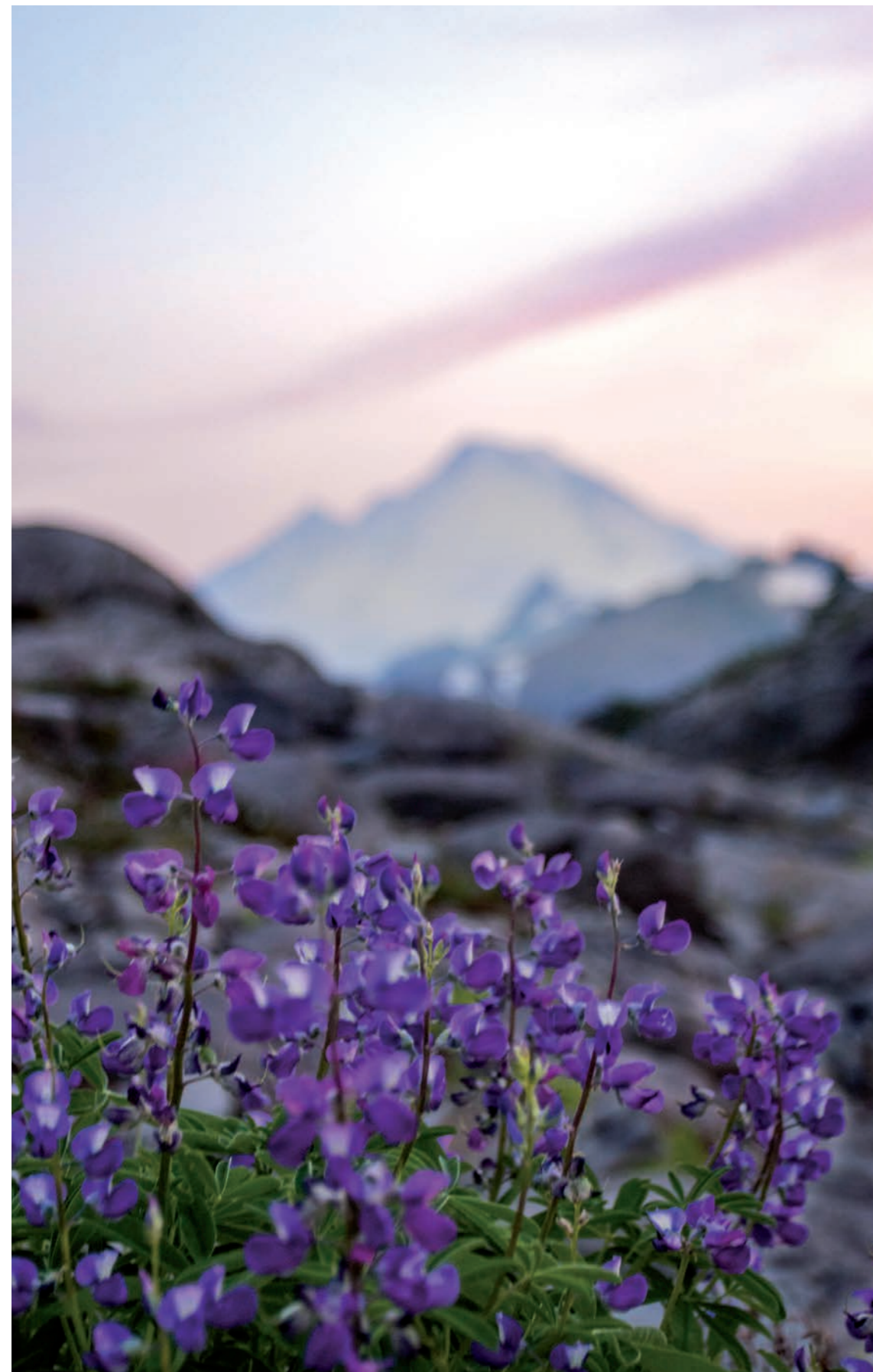
In Europe and the United States, the economic burdens caused by Covid measures are hardly noticeable, although Covid and the risk of renewed restrictions should once again accompany us from the fall onwards (especially in the euro zone, less so in Switzerland/UK and probably not in the US). China's "zero-covid policy" and the resulting consequences need to be further monitored.

GDP ESTIMATES

EUROZONE	2021: +5.3%
	2022: +1.8%
	2023: -0.5%
	(2024: +1 - 2%)
GERMANY	2021: +2.9%
	2022: +0.8%
	2023: -0.8%
	(2024: +1.5 - 2.5%)
SWITZERLAND	2021: +3.7%
	2022: +1.8%
	2023: -0.2%
	(2024: +1 - 2%)
GREAT BRITAIN	2021: +7.4%
	2022: +2.3%
	2023: -0.8%
	(2024: +1 - 2%)
UNITED STATES	2021: +5.7%
	2022: +1.6%
	2023: -0.2%
	(2024: +0.5 - 1.5%)
CHINA	2021: +8.8%
	2022: +3.8%
	2023: +3.8%
	(2024: +4.5 - 5.5%)
JAPAN	2021: +1.7%
	2022: +1.0%
	2023: +0.0%
	(2024: +0.5 - 1.5%)

CPI ESTIMATES

EUROZONE	2021: 2.6%
	2022: 7.5 - 8%
	2023: 3.5 - 4%
UNITED STATES	2021: 4.7%
	2022: 7.5 - 8%
	2023: 3.5 - 4%



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

HEADING FOR A MILD RECESSION

BY DR. HOLGER SCHMIEDING

The skyrocketing prices of energy, food and key commodities following Putin's brutal attack on Ukraine is hitting the economy hard. The strong rebound in eurozone economic performance that began to emerge in February as the pandemic omicron wave subsided is being held back by the inflation shock and renewed supply bottlenecks as a result of Chinese lockdowns. With inflation exceptionally high, economic output in the euro zone and the UK may have declined slightly in the second quarter.

There is a threat of further trouble in terms of price inflation in the coming months. Unlike in the case of oil, the high gas prices have probably not yet fully reached house

holds, as electricity and gas suppliers are only gradually adjusting their sales prices to the market situation. After Russia cut its gas supplies through the Nord Stream 1 pipeline in mid-June, price pressure increased once again. Apparently, Russia has profited handsomely from higher oil and gas prices so far this year, despite lower sales volumes. Putin may believe he can afford to restrict gas supplies to Europe. Since gas - unlike oil - is mainly tied to pipelines and thus cannot be quickly replaced by other suppliers on the world market, gas prices in Europe are thus likely to be even higher than we had previously expected, even if a complete gas freeze remains unlikely. In that case, Putin would lose a lot of money.

By the end of the coming winter, inflation in the euro zone is likely to exceed the rise in incomes. At the same time, the global economy is slowing down noticeably in the face of a U.S. Federal Reserve that is treading comparatively hard on the monetary brakes, so Europe - like the U.S. - is likely to see at least a mild recession. In the euro zone, the return of tourists to the beaches after two Corona years may still provide a small boost to growth in the summer. But from the autumn to next spring, economic output is likely to decline.

Not everything points to recession. Some of the classic boosters to the economy remain strong. Households built up substantial additional savings during the pandemic, which they can now use as a buffer. Companies and governments want to invest more. Even though new orders are currently declining, order books are still well filled. Although a recession is likely, there is therefore a chance that it will be relatively mild.

In the recession, private consumption of goods, private investment and foreign trade in goods are likely to decline in particular. By contrast, governments will continue to expand their investment. In view of the currently very high demand for labor, unemployment is likely to rise only slightly in the recession in the euro zone. This limits the downside risks.

Over time, the decline in demand can contribute significantly to solving the current supply chain problems to a large extent. Raw material prices and transport costs are also likely to fall again somewhat in the course of the coming year. This will help to both dampen inflation and strengthen growth forces. We therefore expect the euro zone to return to growth in the middle of next year, which may then be strong again

in late 2023 and 2024. After a 0.8% decline in economic output in the euro zone in 2023, we expect growth of 2.1% in 2024.

Transatlantic difference

Consumers in the US are also suffering from high prices. But unlike Europe, the USA is not dependent on Russian natural gas. By contrast, the USA is facing home-grown inflationary pressures. With its late but more forceful turnaround on interest rates, the Fed is likely to dampen demand in such a way that the US economy stagnates in the final quarter of 2022 and the USA then falls into a mild recession until the fall of 2023, with declining consumption and less investment.

Highest inflation in 40 years

In the US, there are initial signs that price and wage pressures may soon have passed their peak. By contrast, consumers in Europe will have to adjust to noticeably higher electricity, gas and food prices for the time being. From around October, inflation rates on both sides of the Atlantic may start to fall. Then the rise in energy prices, which picked up speed in fall 2021, will gradually drop out of the year-on-year comparison. Further declining inflation will help end the recession in 2023.

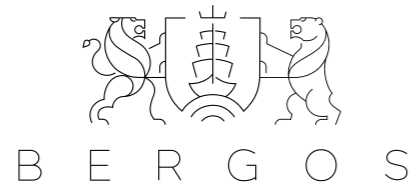
Central banks steer course - Fed more aggressive than ECB

To prevent high inflation from becoming entrenched, the major central banks are tightening their monetary policy. The US Fed is even deliberately putting the brakes on. In the US, the key interest rate could reach 3.75% in early 2023 before the Fed pauses in the face of the recession. Once the Fed sees sufficient signs that the reces-

sion has sufficiently dampened wage and price pressures, it will then cut rates again somewhat, probably starting in the fall of 2023. By the end of 2024, the Fed could be back at 3%.

With inflation very high for the time being, the ECB has announced that it will raise its key rates in July, September and probably also in December, probably by as much as 50bp in September instead of 25bp. If the eurozone does slip into recession, the ECB will go no further in 2023 and then keep its main refinancing rate at a low 1%.

Holger Schmieding

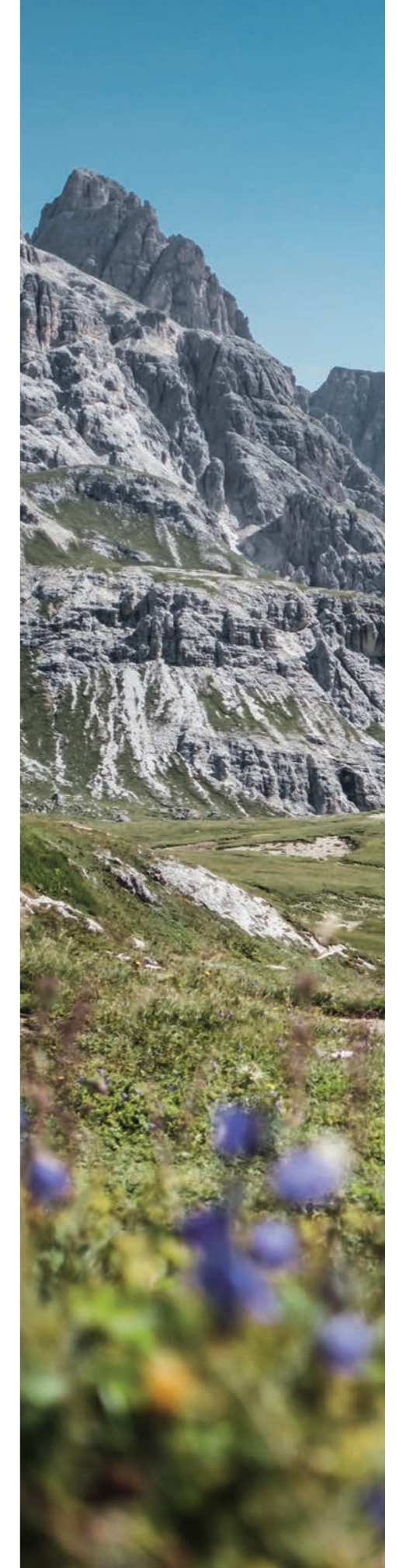


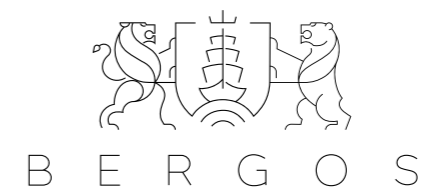
MACRO OUR EXPERT



DR. HOLGER SCHMIEDING
CHIEF ECONOMIST, BERENBERG

Since 2010 Chief Economist of Berenberg Hamburg and one of the best-known German bank economists. He has received several awards for his forecasts and analyses. In 2016, for example, he was named forecaster of the year by the “Süddeutschen Zeitung” and in 2015 he was voted best banking economist for Europe for the third time in a row by more than 16,000 international financial experts in the renowned Extel Surveys. He has worked at the Kiel Institute for the World Economy and the International Monetary Fund, among others, and served as Chief





E Q U I T I E S

INFLATION, INCREASINGLY RESTRICTIVE MONETARY POLICY AND FEARS
OF RECESSION SHAPE EQUITY MARKETS

BY FREDERIK CARSTENSEN

Uncertainties in the equity markets remain extreme. Persistently high inflation, combined with the global supply chain issues, provides a significant drag on the global economic outlook. As described in the economic section, we expect a (mild) recession for the developed world over the next twelve months, but this should already be largely anticipated by capital markets. Central banks are facing a dilemma: on the one hand, they must demonstrate a willingness to fight high inflation; on the other hand, they must avoid a sharp economic slowdown (and thus a so-called “hard landing”) through an overly tight monetary policy.

In this difficult environment, global equity markets have suffered significant losses since the beginning of the year, and even an interim recovery rally was short-lived. The broad US equity market, as measured by the S&P 500, has lost more than 20% from its all-time high in early January and is now officially in a bear market. From a regional perspective, the US, Europe, emerging markets and Japan have (when measured in single currency) performed more or less in line in 2022. Major shifts are primarily taking place below the surface.

“Energy war” and China’s “zero covid policy” weigh on markets

In addition to the above mentioned uncertainty with regard to monetary policy, Europe’s energy dependence on Russia also represents a particular factor of uncertainty for Europe’s economic outlook. After Russia recently reduced its gas supplies to Europe, some observers are already talking about an “energy war”. This is likely to have a negative impact on consumer prices in Europe and provides the US, which is not dependent on Russian natural gas, with a regional advantage. In addition to the war as a burdening factor, we are now expecting a tighter monetary policy by the ECB as well,

which is likely to be disadvantageous to the weaker eurozone countries in particular. At the same time, the industry-heavy eurozone is far more affected by supply bottlenecks resulting from China’s “zero covid policy”.

Fundamentals somewhat counterintuitive

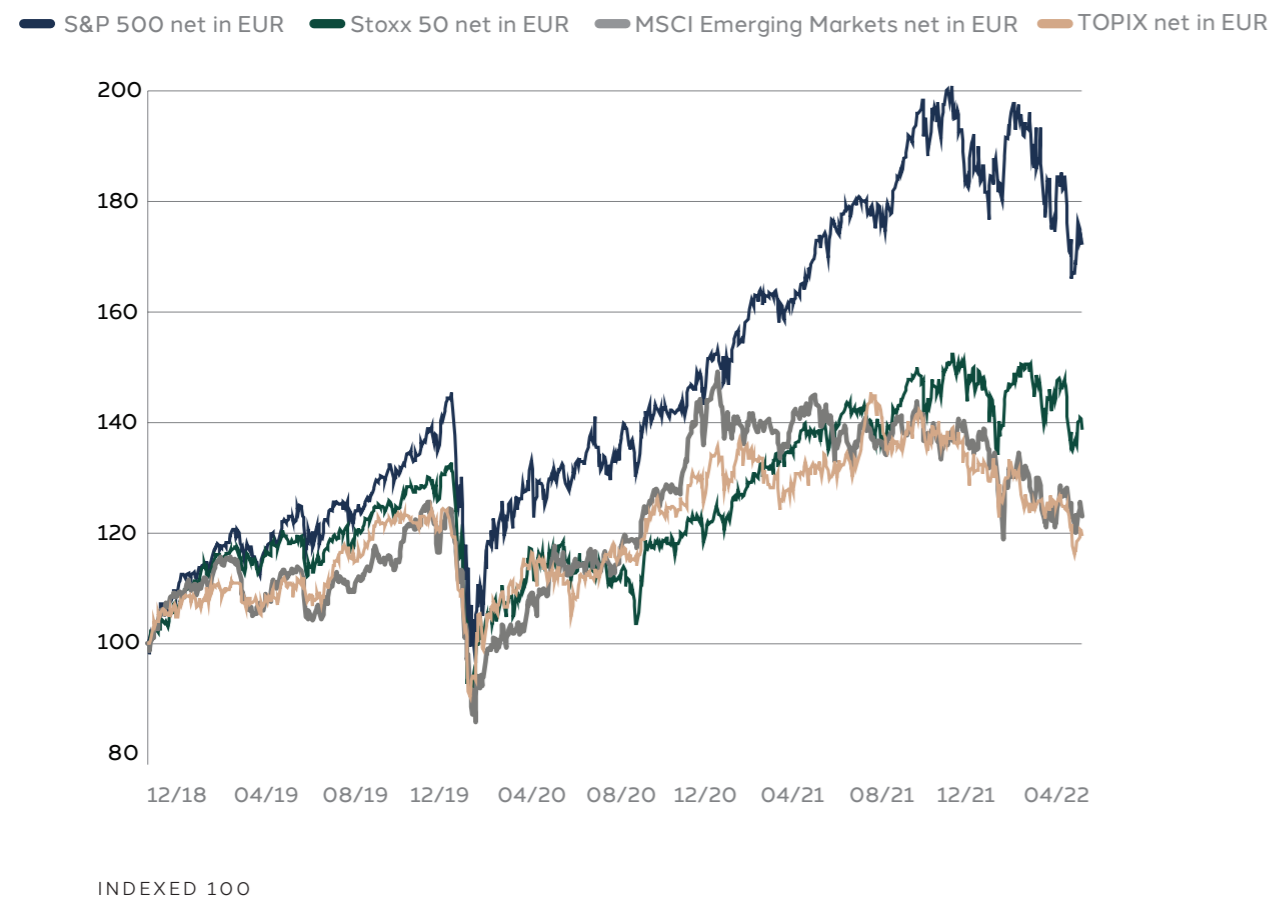
Despite a decline in GDP estimates, analyst consensus continues to expect earnings growth in the high single digits this year. What is particularly striking is the fact that the adjustments that have taken place so far (even most recently) have been to the upside. Instead of a 7% growth at the begin-

ning of the year, analysts now expect an increase of 10% for this year. And once again, the US seems to have a minimal advantage, because while US sales are only affected to a limited extent by the current (military) events in Europe, corporate earnings in the eurozone are likely to be subject to greater uncertainty. While the S&P 500 has fallen about 20% from the beginning of the year to date, expected earnings for the next 12 months have increased by 8%. As a result, the price earnings (PE) ratio fell from 21.6 to 16.1, making equities (measured against themselves) more attractive than they were at the beginning of the year.

Investor sentiment and positioning as a ray of hope

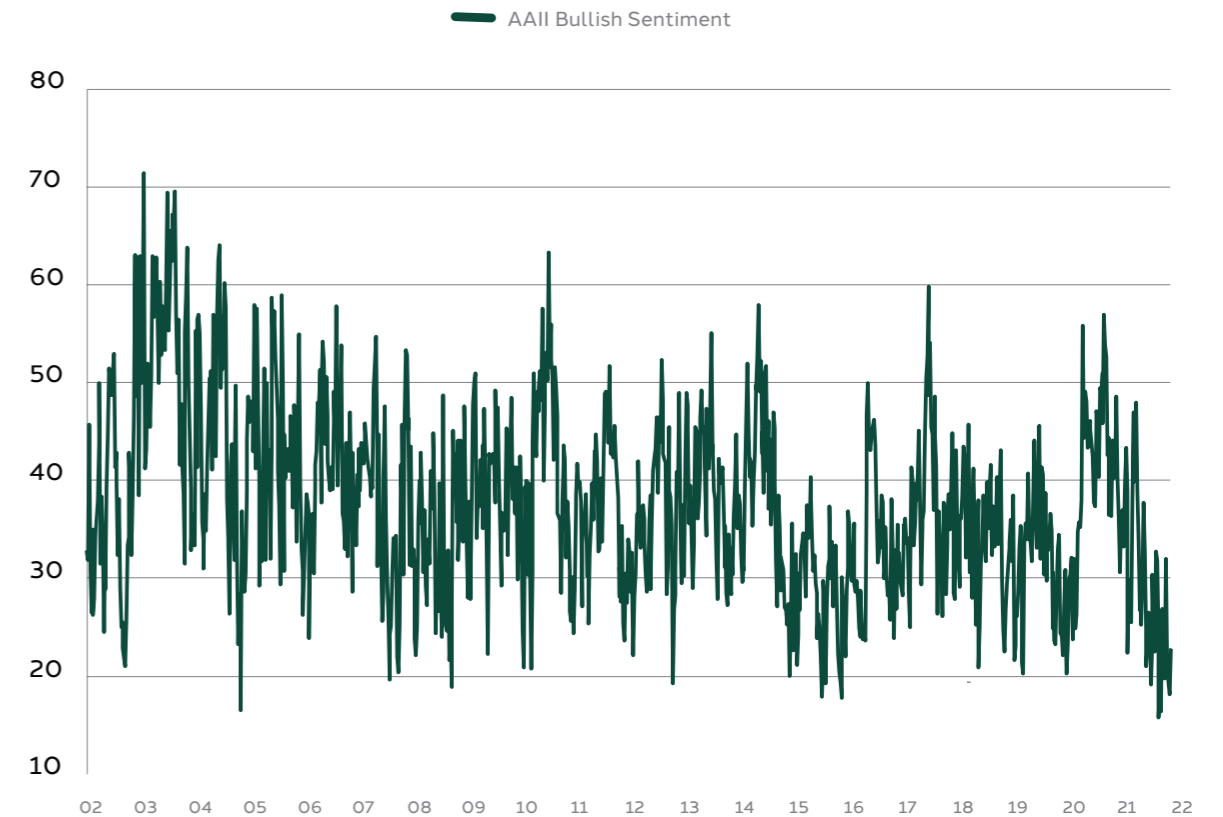
Due to monetary and geopolitical uncertainties, many market participants have become increasingly cautious. This is reflected in both investor sentiment and positioning. For example, the American Association of Individual Investors (AAII) asks its members each week a simple question about whether they feel the direction of the equity market over the next six months will be up (bullish), no change (neutral) or down (bearish). The sentiment survey has proven to be a reliable contrarian indicator in the past: above-average market returns have often followed unusually low levels of

FIGURE 1: DEVELOPMENT OF INTERNATIONAL EQUITY MARKETS



SOURCE: BLOOMBERG, BERGOS, DATA AS OF 30.06.2022

FIGURE 2: AAII BULLISH SENTIMENT



SOURCE: BLOOMBERG, BERGOS, DATA AS OF 30.06.2022

optimism, while below-average market returns have often followed unusually high levels of optimism.

Neutral overall quota, global orientation

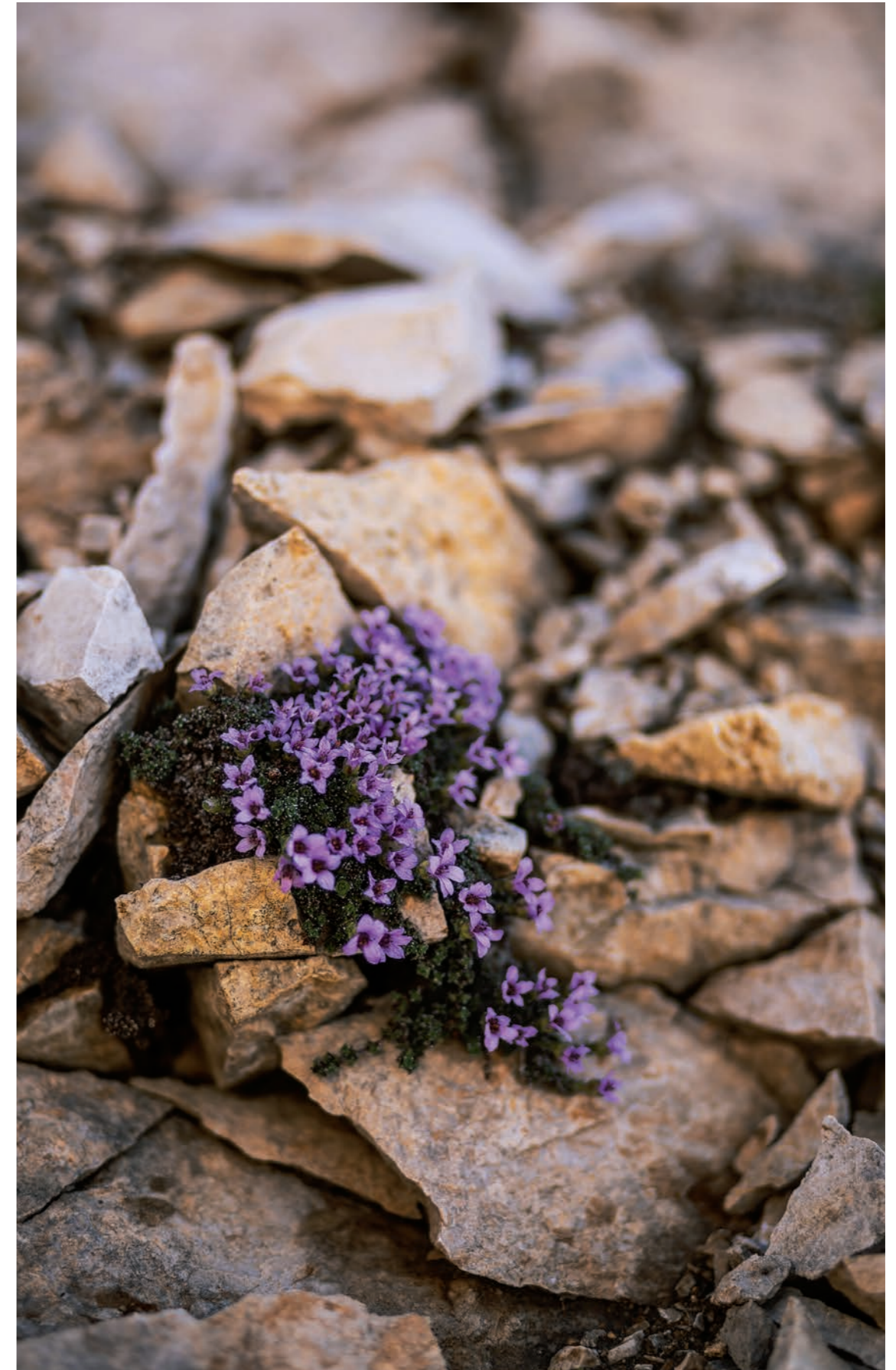
As current opportunities and risks balance each other out, our view on equities overall remains neutral at this point in time. After reducing our equity quota from an overweight last year, we remain neutral in 2022 so far. Although we do not expect a major recovery in the short term (if the current problems persist) we do see opportunities for a fundamentally positive development in the course of the second half of the year. Every time the S&P has fallen more than 20% in any two-quarter period since World War II, the index has been able to make significant gains over the next year (or the next four quarters). This is another reason why we believe it would be wrong to subscribe to the widespread pessimism at this point in time and currently refrain from underweighting equities.

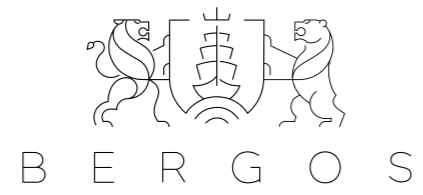
Regionally, we continue to see the greatest upside potential in the US. We remain neutral European equities. We continue to be less constructive on emerging markets, although a strong distinction must be made here in some cases. China's "zero-covid policy" and the resulting consequences need to be further monitored, despite its recent relative strength. Compared to the rest of the major industrialized countries, we see hardly any inflation in Japan so far and monetary policy therefore remains expansive. As a result, we continue to overweight Japan. In principle, we argue for a more international strategic orientation in an equity portfolio and thus a diversification across various currencies.

A lot of movement below the surface, active management more in demand than ever

At the beginning of the year, we already emphasized that active management, which steers capital into the right regions, sectors and sub-segments, is gaining in importance this year. And indeed, we saw a lot of movement below the surface in the first half of the year. In fact, sector allocation seems to be more important than regional allocation in 2022. Sharply rising real yields led to one of the strongest rotations ever measured in equities, out of growth and quality stocks and into value. Commodity prices almost exploded in the first quarter, boosting the energy sector in particular as a classic value sector. After years of growth outperformance, value is 17% points ahead this year.

Even if the old lows may be tested or surpassed in the short and medium term, we remain constructive for equities in the long term. Volatility is likely to remain elevated in the third quarter as central banks continue to withdraw liquidity from the market, and stylistically it is also likely to remain challenging, with changing style or sector outperformance and many rotations. Having said that, a broadly diversified portfolio seems more important than ever as the year progresses. While we continue to see potential for cyclical stocks in times of rising bond yields, with a potential peak in inflation, opportunities for quality growth stocks are likely to re-emerge.





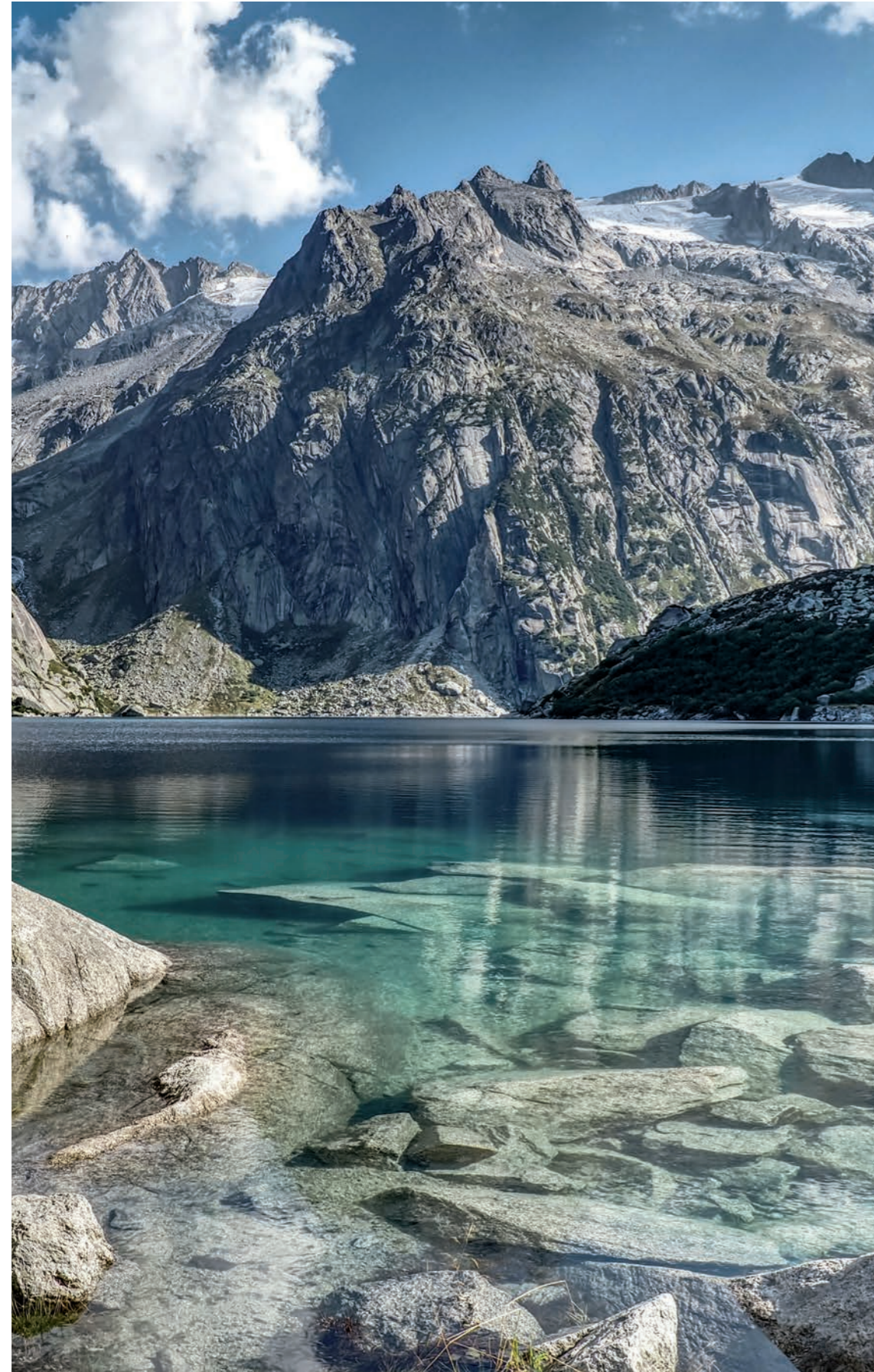
EQUITIES OUR EXPERT



FREDERIK CARSTENSEN
EQUITY STRATEGIST

Frederik Carstensen joined Bergos in 2015 as a portfolio manager and has since been responsible for various equity funds and mandates. As a member of the Investment Committee, he leads the top-down equity strategy and regularly comments on events in the international equity markets.





B O N D S

SHOCK AND AWE

BY RENÉ BOLHAR

What had already begun more than a year ago, at the end of the intensive corona pandemic waves, has now clearly reflected in the movements and valuations within the bond markets in the past quarter as well. At the same time, most of the current negative factors are not unknown and should - according to earlier expectations - have already lost their explosive power. Nevertheless, inflation readings, regardless of currency area, continue to rise. In the U.S., for example, inflation recently reached a

forty-year high. While for the U.S. economy the main contributors are the still existing global supply bottlenecks, restrictions due to isolated lockdowns worldwide and the exorbitantly expansive monetary policy of the recent past, in Europe the additional escalating energy prices caused by Russia's invasion of Ukraine are providing additional impetus. These primarily supply-specific factors are accompanied by the all-encompassing danger of a "policy error," i.e. a wrong or too extreme turnaround by the

central banks, which stands in the way of an easing of tensions on the financial markets.

However, if we look beneath the surface, we discover not only continuing risks, but also astonishing developments and perhaps even opportunities in the near future.

Stranger things in the bond markets

Unsurprisingly, in view of a much tighter monetary policy, be it through the now heralded interest rate hike cycles of the US Fed, SNB, Bank of England and ECB, but also the complete termination of bond purchase programs, the asset class clearly suffered from an adjustment of general interest rate levels.

The U.S. is the most advanced in this respect. As a result of the interest rate hikes already implemented, there was a significant increase in yields, particularly at the short end of maturities. This trend continued in the past quarter: the increase was most pronounced for maturities below 12 months. In particular, variable money market rates such as LIBOR and SOFR directly reflected the Fed's hikes, whereas in the previous quarter the rise was most pronounced in the two-to five-year range.

From a maturity range of two years and longer, the yield curve for U.S. government bonds is virtually flat or even inverted in places. This clearly reflects investors' skepticism regarding medium-term growth prospects and the future shape of monetary policy strategy.

The effect resulting from the rise in interest rates was felt across the board, irrespective of the issuer. The situation is different, however, when looking at total return, where differences were certainly to be expected in view of a growth dynamic that is cooling off, as it were, but have materialized in an unusual form. The performance of highly rated or investment grade companies is only slightly better than that of their speculative grade segment ("high yield"). In the USA, investment grade assets have actually lost more than the high yield segment. Although this can be partly explained by the structurally lower duration of the high-yield market, in risk-adjusted terms the qualitatively weaker segment is better off in both currency areas.

Are bonds now "attractive" again?

The outlook for the coming months largely depends on the further development of the aforementioned risk factors. An escalation of the Russian war in Ukraine or even expansion to NATO member states, a corona-induced return to the darkest hours of the pandemic or a significant overshooting of monetary tightening certainly have the potential for a further widening of risk premiums. Much also depends on the further development of inflation rates, both in direct comparison with achievable yields ("real interest rates") and in relation to any incisive measures by central banks that may be necessary in the future.

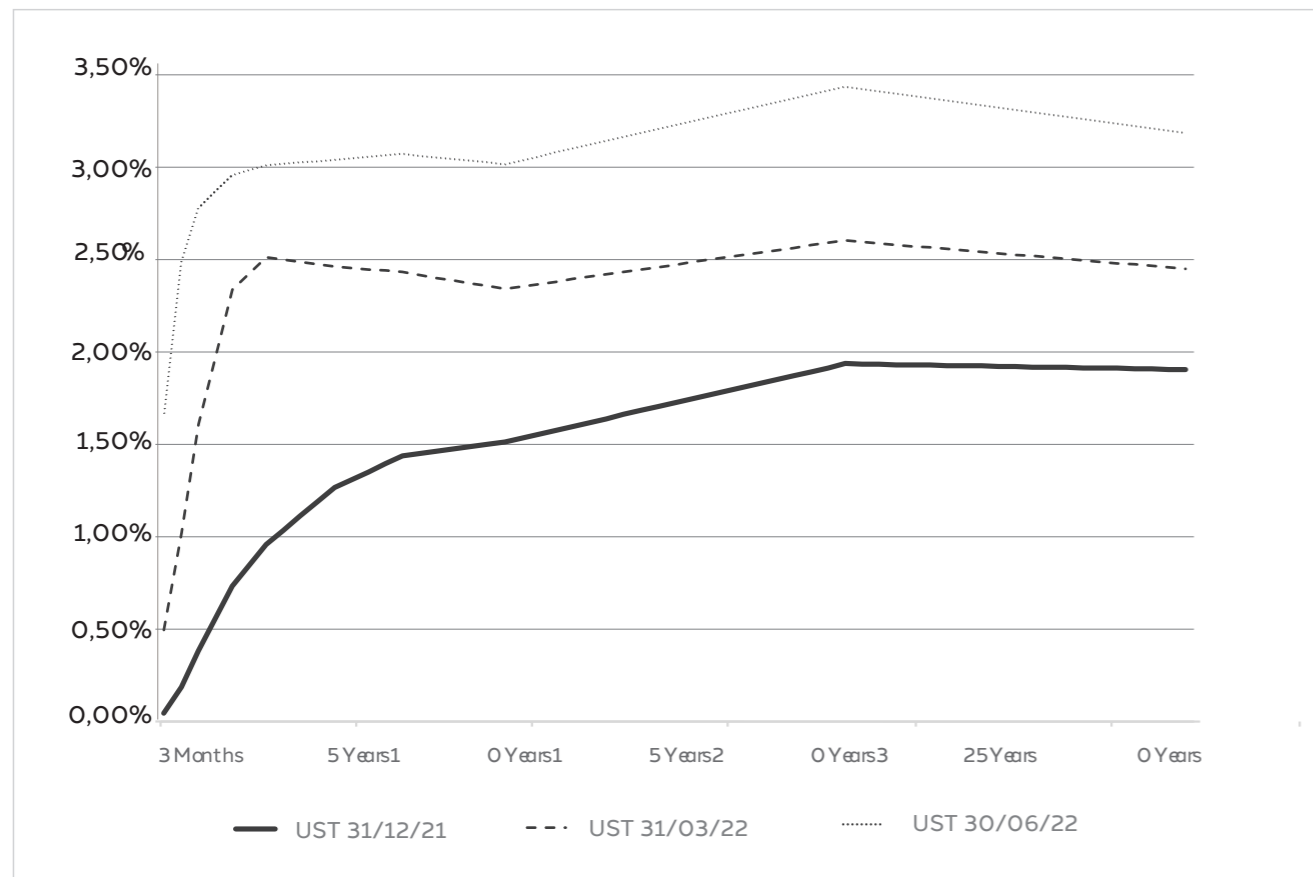
In general, we are cautiously optimistic about the second half of the year. Even if the current tense situation will not be resolved immediately, the starting situation can be described as constructive. Particularly in the US, we can expect the pace of interest rate rises to slow towards the end of the year. The fundamental situation of

companies is robust, the need for short-term refinancing is manageable, and the risk premiums, which have meanwhile risen significantly, also offer some protection against interest rates continuing to rise in order to be able to generate positive return contributions in the second half of the year.

Nevertheless, we keep driving on sight: during the upcoming quiet summer months, which are generally characterized by low market activity and thus liquidity, negative developments may well have a pronounced temporary impact on valuations.

At the end of the new quarter, the buying mood is likely to pick up noticeably in the hope and anticipation of a year-end rally.

The European market may be preoccupied with the same fundamental factors, but certain differences can still be identified. For one thing, the European central bank has been very late in recognizing, or at least now officially acknowledging, the explosive nature of price increases. Accordingly, the bulk of the interest rate movement is probably still ahead of us. In addition, however, special attention is being paid to the economically less strong European periphery. Following the expiry of the existing purchase programs, the valuations of Spanish, Portuguese and, above all, Italian government bonds showed a significant increase in credit spreads. Although refinancing conditions are far from the highs seen, for example, during the European debt crisis, the ECB has already announced new measures to prevent a fragmentation of European interest rates.

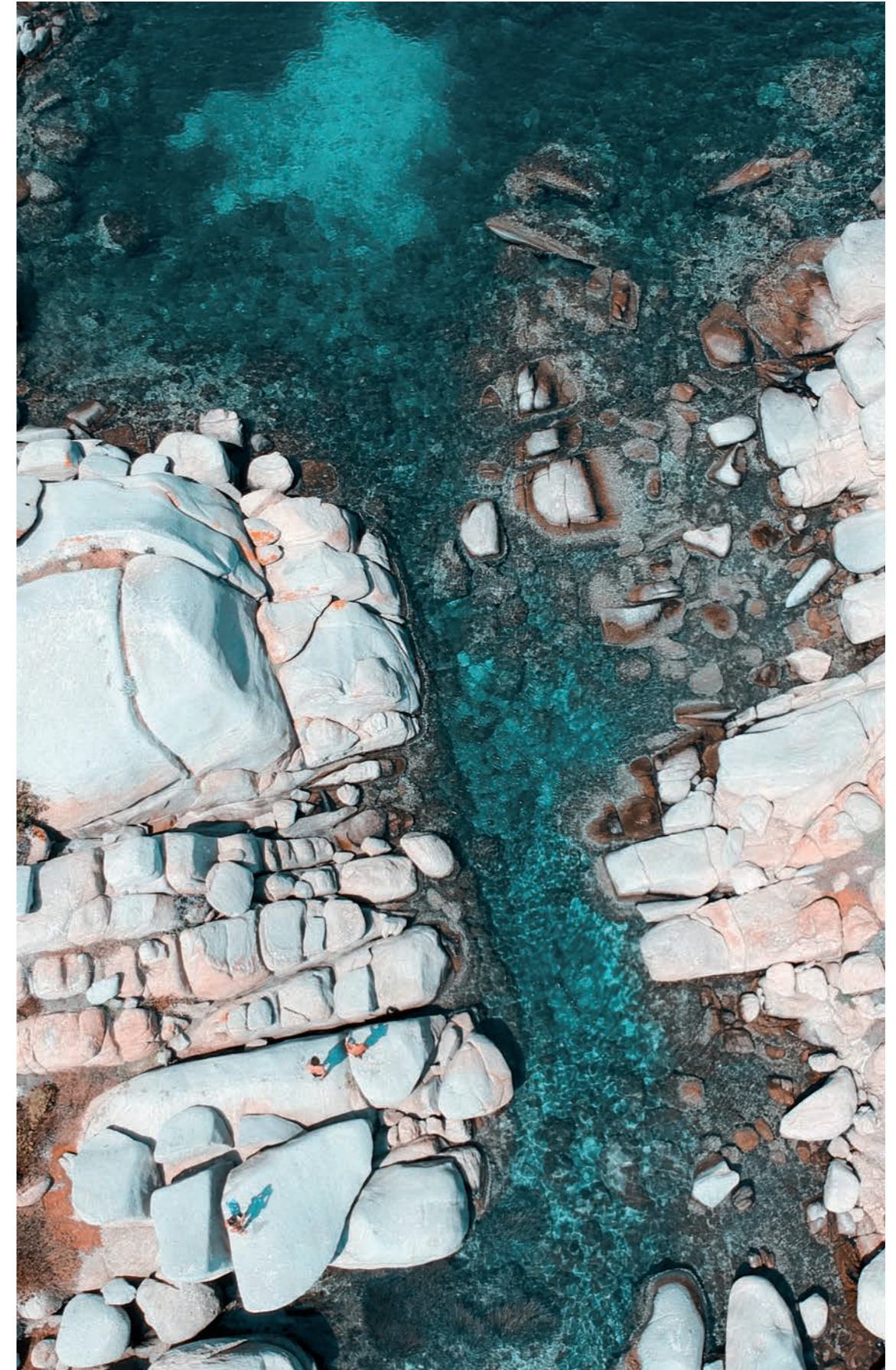


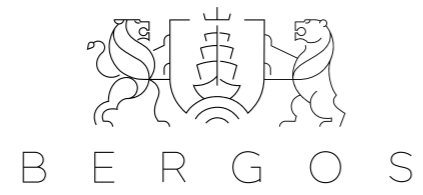
Where can acceptable returns be expected in the second half of the year?

In general, the trend toward rising interest rates at the very short end of the yield curve will continue. For both currency areas, we maintain our recommendation for floating rate notes. As the coupons are generally adjusted quarterly to the development of the reference interest rates, investors benefit from increased protection and even participation in rising interest rates. In addition, we see pronounced narrowing Potenzial and thus positive returns in investments in the European periphery.

The problem child of the first half of the year, emerging market bonds, has the chance to play out its full Potenzial as the pace of interest rate increases wanes. Despite robust balance sheets, developments in recent months have led to a significant decline in valuations, so that yields in the upper single-digit percentage range are now often achievable.

All in all, there is reason for cautious optimism. For the time being, the sight remains limited. Active management with a flexible approach and situational adjustments remains the means of choice to defy market fluctuations in the future and to achieve long-term portfolio growth.





BONDS OUR EXPERT



RENÉ BOLHAR, CAIA, CESGA
BOND STRATEGIST

René Bolhar joined the bank at the end of 2017 and is Deputy Head of our Asset Management. He is a member of the Investment Committee and leads the bank's fixed income strategy. He is also responsible for managing large institutional bond portfolios.





ALTERNATIVE INVESTMENTS

BY SOUMAILA TÉKÉTÉ

Only few hedge fund strategies are able to profit from market pressure

In the domain of liquid hedge fund strategies, trend-followers are currently doing particularly well, because they can specifically play the persistent trend in inflation and interest rates. Thus, purely trend-oriented CTAs are among the very few asset classes that can come up with clearly positive returns this year. To a certain extent, this also applies to global macro funds, which benefited in particular from the clear trend in interest rates, as they were able to exploit

this through targeted short bets. Most directional hedge fund strategies, especially long/short equity funds, had significantly lower losses than the equity market - but they could not escape the market turmoil either, due to their directional nature. Eventually even market-neutral strategies, which per se do not exhibit directionality and had held up very well until May, also suffered price losses in the wake of general spread widening.

Cryptos in the storm

Our assessment from the beginning of the year, that the change in central bank policy and monetary and interest rate tightening would likely pose a serious challenge to cryptocurrency prices over the course of the year, has come true rather quickly. While cryptocurrencies were still being touted in many public media as the ultimate protection against inflation and new record highs were being celebrated, you are more likely to read about the “crypto winter” and various “crashes” today. In fact, the large and most important coins have lost a good three quarters of their market value since their highs.

The number of “projects” had skyrocketed in the previous 18 months, while the existing technical and regulatory challenges and issues have been pushed into the back-

ground. The euphoria and the supposed quick gains had attracted a large number of “free riders” in the last two years -and this boom has also fed many dubious business models. Therefore, by far not all projects will survive the current correction and the tighter conditions on the market. Thus, the current price crash can definitely also be understood as a necessary clean-up phase.

The long-term theoretical application possibilities associated with blockchain technology are extremely diverse and continue to leave plenty of room for visions. However, this needs not necessarily translate into rising coins and token valuations and this crash once again highlights the highly speculative nature of the associated coins and tokens. The restrictive monetary and interest rate policy is likely to weigh on the market for the time being.

FIGURE 1: LIQUID HEDGE FUND PERFORMANCE YTD



Energy and metals caught between slowing economic momentum and persistent supply fears

In the case of cyclical commodities, such as industrial metals, most of the risk premiums created in the course of the Ukraine war have now been almost entirely priced out again. This is a clear sign that the imminent economic slowdown and the anticipated decline in demand currently weigh more heavily in the interpretation of market participants than the short-term fear of possible production losses, supply bottlenecks, embargoes and export restrictions by Russia.

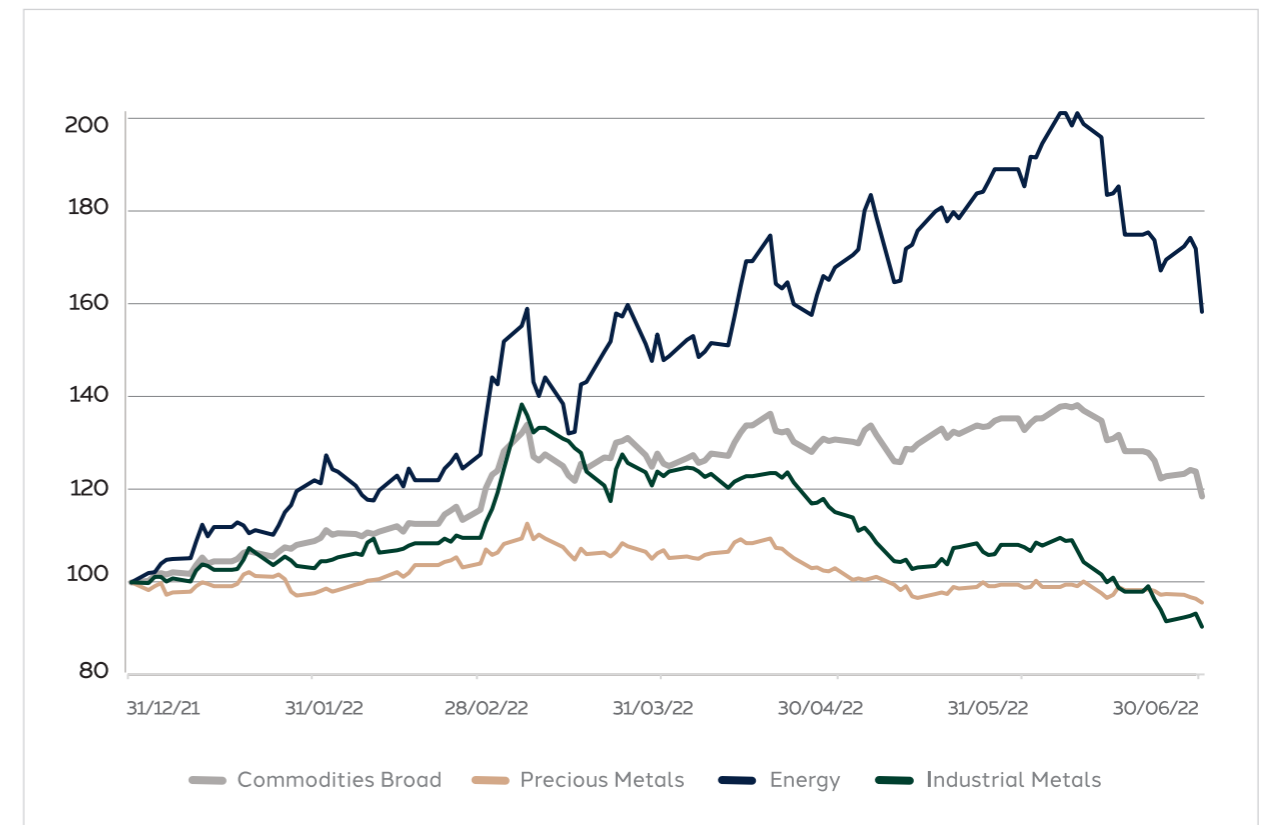
The only exception are the quotations within the energy complex. Here, too, a slight decline was recorded recently, but the risk premiums prove to be much more

persistent here due to the strong dependence on Russian oil and gas supplies. This dependency is particularly noticeable in Europe, and raises even more regional economic question marks with regard to the approaching winter months.

Gold is not in demand, despite rising recession fears

Gold, which is generally regarded as a crisis-proof investment and safe haven tool, is actually in negative territory since the beginning of the year, despite the Ukraine war and increasing fears of recession. This is primarily due to the increased opportunity costs and the uncertainty regarding the further development of real interest rates. A scenario in which central banks stick to their interest rate hike strategy, while the weakening economic momentum leads

FIGURE 2: COMMODITIES PERFORMANCE YTD

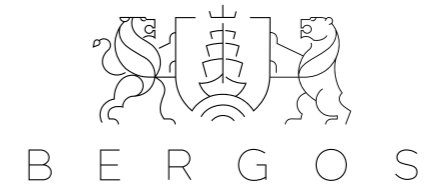


to a decline in inflation, would represent a major stress test for gold, as this would mean further increases in real interest rates and opportunity costs. Accordingly, we are rather cautious in our gold positions, despite increased risk aversion in the market.

Alternative Credit & Private Debt still an attractive alternative to fixed income

In our view, private debt & alternative credit continues to be a very attractive alternative to fixed-income in the current environment, mainly due to the mostly variable interest rate component, the lack of direct interest rate risks and the indirect inflation protection. The higher current yield also provides a certain buffer against a limited number

of credit defaults and price fluctuations. Ultimately however, this is also a form of corporate credit. Consequently, the burgeoning economic concerns are also making themselves felt here in the form of rising spreads. In view of the likely increase in default rates, we prefer a selective approach as we currently favor senior debt instruments and products with collateralization or credit enhancement.



A L T E R N A T I V E
I N V E S T M E N T S
O U R E X P E R T



S O U M A I L A T É K É T É C A I A , C I I A
A L T E R N A T I V E I N V E S T M E N T S
S T R A T E G I S T

Soumaila Tékété joined Bergos in 2016 as a cross-asset strategist and has since been responsible for various investment strategies. As a member of the investment committee, he is also responsible for strategy in the alternative investment area. Previously, he held various portfolio management positions at Union Investment and DZ Privatbank in Frankfurt and Zurich.



C U R R E N C I E S

SNB SURPRISES, ECB LAGS BEHIND: THE EURO REMAINS WEAK

BY DR. JÖRN QUITZAU, BERENBERG GROUP

The central banks weeks

In June, the major central banks convened and caused a few surprises. The first was the European Central Bank (ECB), which bowed to the ever-increasing inflationary pressure. While it did not touch key interest rates in June, it announced a 25 basis point rate hike for the next meeting in July. In addition, net bond purchases were discontinued as of July 1. Somewhat surprisingly, however, the Frankfurt-based monetary watchdogs did not announce a new measure at their regular meeting to counter the “fragmentation” of the bond market in the eurozone. In this respect, the ECB’s official statement was not entirely in line with ECB President Christine Lagarde’s May 23 blog

post, in which she had hinted that the ECB could develop and deploy new tools to ensure monetary policy transmission if needed. As markets reacted coldly to the lack of specifics and interest rates continued to rise for countries such as Italy, the ECB reconvened the following week for an unscheduled meeting. At this session, it deliberated on appropriate means to avert a recurrence of the euro crisis.

The Fed raised its key interest rate by 75 basis points to 1.50-1.75% in June. Only a few weeks ago, few observers would have considered such a large interest rate step conceivable. The Fed has also

announced even more decisive action against inflation for the coming monetary policy meetings. The U.S. dollar has risen further in view of this now tighter monetary policy.

In a particularly surprising development, the Swiss National Bank (SNB) raised its key interest rate by 50 basis points. Although the inflation rate in Switzerland has also recently risen significantly, at 2.9% it is still at a moderate level by international standards. The SNB has now started to counteract the upward trend in prices at an early stage and has thus pre-empted the ECB. It is prepared to raise interest rates further at the next meetings and, if necessary, to intervene on the foreign exchange market - possibly even

to strengthen the Swiss franc, which would contribute to lower inflation rates.

Finally, the Bank of England (BoE) raised the key interest rate by 25 basis points to 1.25%, as expected. It was the fifth consecutive rate hike. Three more rate hikes of 25 basis points each are likely to follow this year.

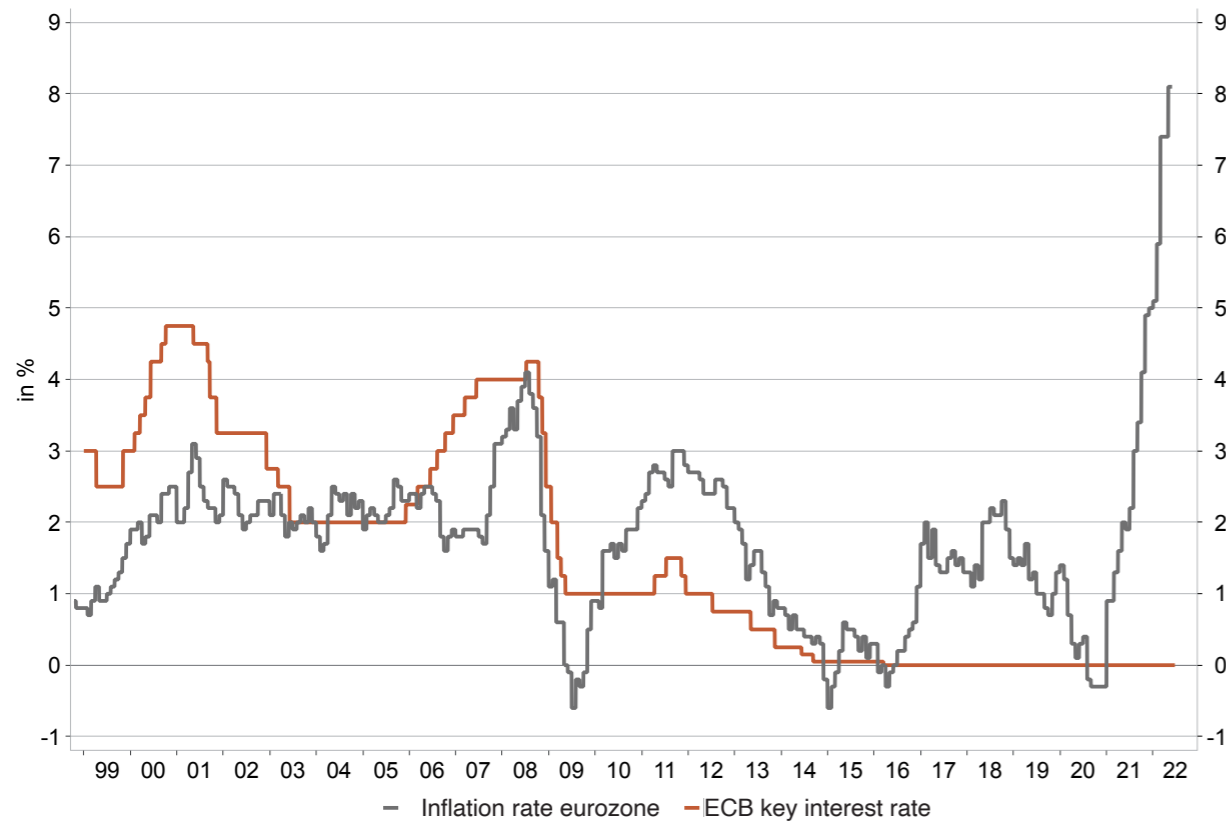
The Euro remains under pressure

The euro exchange rate reached a new low in the second quarter. The single currency temporarily fell below 1.04 US dollars per euro - the lowest rate in more than five years. Despite a brief recovery, the euro was not quite able to move off its low and

was quoted at \$1.05 per euro at the end of the second quarter. The European Central Bank (ECB) is largely responsible for the weakness of the euro. Its hesitant stance compared with the other major central banks is weighing on the exchange rate. The U.S. Federal Reserve and the Bank of England were also late with their monetary policy turnaround. However, they have now tightened the interest rate reins considerably and are thus far ahead of the ECB. For a while the ECB announced at its last meeting the end of net bond purchases on July 1 and a first rate hike of 25 basis points for the July 21 meeting, other central banks such as the Fed and the SNB are putting their money where their mouth is. Thus, the ECB's rate turnaround announcement has

fizzled out in the foreign exchange market. Worse still, there are concerns circulating in the market that after the end of net bond purchases, market interest rates for some euro participating countries - Italy, for example - will rise so sharply that they will no longer be able to bear the interest burden in the medium term. To prevent a recurrence of the euro crisis, the ECB announced at its special meeting that it would intensify work on an "anti-fragmentation instrument." tighten monetary policy. In this environment, the upside potential for the euro in the current year is now limited to a few cents.

KEY INTEREST RATE: ECB HAS NOT YET REACTED TO INFLATION SURGE



SOURCE: MACROBOND

EUR/ USD: WAR AND ECB POLICY WEIGH ON THE EURO EXCHANGE RATE



SOURCE: MACROBOND

British pound trends sideways

The Bank of England (BoE) has raised key interest rates to the current 1.25% at every meeting since December 2021. The tightening is likely to continue until it peaks at 2.50% in mid-2023, but the tighter monetary policy is probably already priced into the current exchange rate. An even tougher monetary policy is unlikely because the economy is also cooling noticeably in the UK and the central bank cannot therefore tighten the interest rate reins too much. As a result, the exchange rate should continue to hover around the 0.85 pound per euro mark.

SNB surprise gives the franc yet more upward momentum

The Swiss National Bank is responding to the onset of inflation in the way expected of a central bank: with a tighter monetary policy. Even when inflation was still low by international standards at 2.9% in May, the SNB raised the key interest rate by 50 basis points. Although the key interest rate is still negative (-0.25%), the new course of monetary policy has thus been set. Since inflationary pressure has also increased in Switzerland recently (in January, the inflation rate was still 1.6%), the interest rate hike was an important signal. As a result, the already high Swiss franc exchange rate rose

even further, so the euro weakened. At the end of June, the exchange rate was again on its way toward parity. In the meantime, the SNB no longer sees the strong franc primarily as an obstacle to domestic exports - as in previous years - but rather as a welcome helper in the fight against inflation. The strength of the franc is thus likely to continue thanks to the central bank's backing.

EUR/GBP: TIGHTER MONETARY POLICY PRICED IN

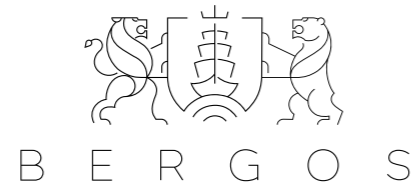


SOURCE: MACROBOND

EUR/CHF: STRONG FRANC A WELCOME HELP FOR THE CENTRAL BANK



SOURCE: MACROBOND



C U R R E N C I E S O U R E X P E R T



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Dr. Jörn Quitzau has been with Berenberg since 2007, where he is Head of Economic Trends and responsible for currency analysis. Prior to that, he spent six years at Deutsche Bank Research in Frankfurt. Since 2014, he has been a Non-Resident Fellow at the American Institute for Contemporary Studies (AICGS), Washington D.C.



BERGOS VIEW MATRIX

BANK VIEW

-- - 0 + ++

	--	-	0	+	++
EQUITIES	○	○	●	○	○
NORTH AMERICA	○	○	○	●	○
CONSUMER DISCRETIONARY	○	○	●	○	○
CONSUMER STAPLES	○	●	○	○	○
ENERGY	○	○	●	○	○
FINANCIALS	○	○	○	●	○
HEALTH CARE	○	○	○	●	○
INDUSTRIALS	○	○	●	○	○
INFORMATION TECHNOLOGY	○	○	●	○	○
MATERIALS	○	○	●	○	○
REAL ESTATE	○	●	○	○	○
COMMUNICATION SERVICES	○	○	○	●	○
UTILITIES	○	●	○	○	○
EUROPE	○	○	●	○	○
CONSUMER DISCRETIONARY	○	○	○	●	○
CONSUMER STAPLES	○	○	●	○	○
ENERGY	○	○	●	○	○
FINANCIALS	○	○	●	○	○
HEALTH CARE	○	○	●	○	○
INDUSTRIALS	○	○	○	●	○
INFORMATION TECHNOLOGY	○	○	●	○	○
MATERIALS	○	○	○	●	○
REAL ESTATE	○	●	○	○	○
COMMUNICATION SERVICES	○	●	○	○	○
UTILITIES	○	●	○	○	○
JAPAN	○	○	○	●	○
EMERGING MARKETS	○	●	○	○	○

FIXED INCOME

-- - 0 + ++

	--	-	0	+	++
DENOMINATION U.S.DOLLAR	○	●	○	○	○
DURATION	○	●	○	○	○
SOVEREIGNS	○	○	●	○	○
CORPORATES NON-FINANCIAL	○	○	●	○	○
CORPORATES FINANCIAL	○	○	○	●	○
SENIOR	○	○	●	○	○
SUBORDINATED DEBT	○	○	●	○	○
CORPORATE HIGH YIELD	○	○	●	○	○
DENOMINATION EURO	○	●	○	○	○
DURATION	●	○	○	○	○
SOVEREIGNS	○	●	○	○	○
CORE	○	○	●	○	○
PERIPHERAL	○	○	○	●	○
CORPORATES NON-FINANCIAL	○	○	●	○	○
CORPORATES FINANCIAL	○	○	○	●	○
SENIOR	○	○	●	○	○
SUBORDINATED DEBT	○	○	●	○	○
CORPORATE HIGH YIELD	○	○	●	○	○
EMERGING MARKETS	○	○	○	●	○

ALTERNATIVE INVESTMENTS

-- - 0 + ++

	--	-	0	+	++
COMMODITIES	○	○	○	●	○
ENERGY	○	○	●	○	○
INDUSTRIAL METALS	○	○	●	○	○
PRECIOUS METALS	○	○	●	○	○
HEDGEFONDS STRATEGIES	○	○	●	○	○
LONG / SHORT	○	○	●	○	○
RELATIVE VALUE	○	○	○	●	○
MACRO	○	○	●	○	○
EVENT DRIVEN	○	○	●	○	○
CONVERTIBLES	○	○	●	○	○
ALTERNATIVE CREDIT AND PRIVATE DEBT	○	○	○	●	○
REAL ESTATE	○	○	●	○	○





