BERGOS

PRIVATE BANK

THIS IS THE MONTHLY NEWSLETTER
BY AND FOR
THE BERGOS NEXT COMMUNITY.

NEXT MONTH

THIS MONTH IS:
AUGUST

Reminder

Next Weekend *Hamburg*

NEXT WEEKEND 9-10 SEPTEMBER 2022

with Guest Speaker Dr. Andreas Jacobs

A BERGOS BRIEFING

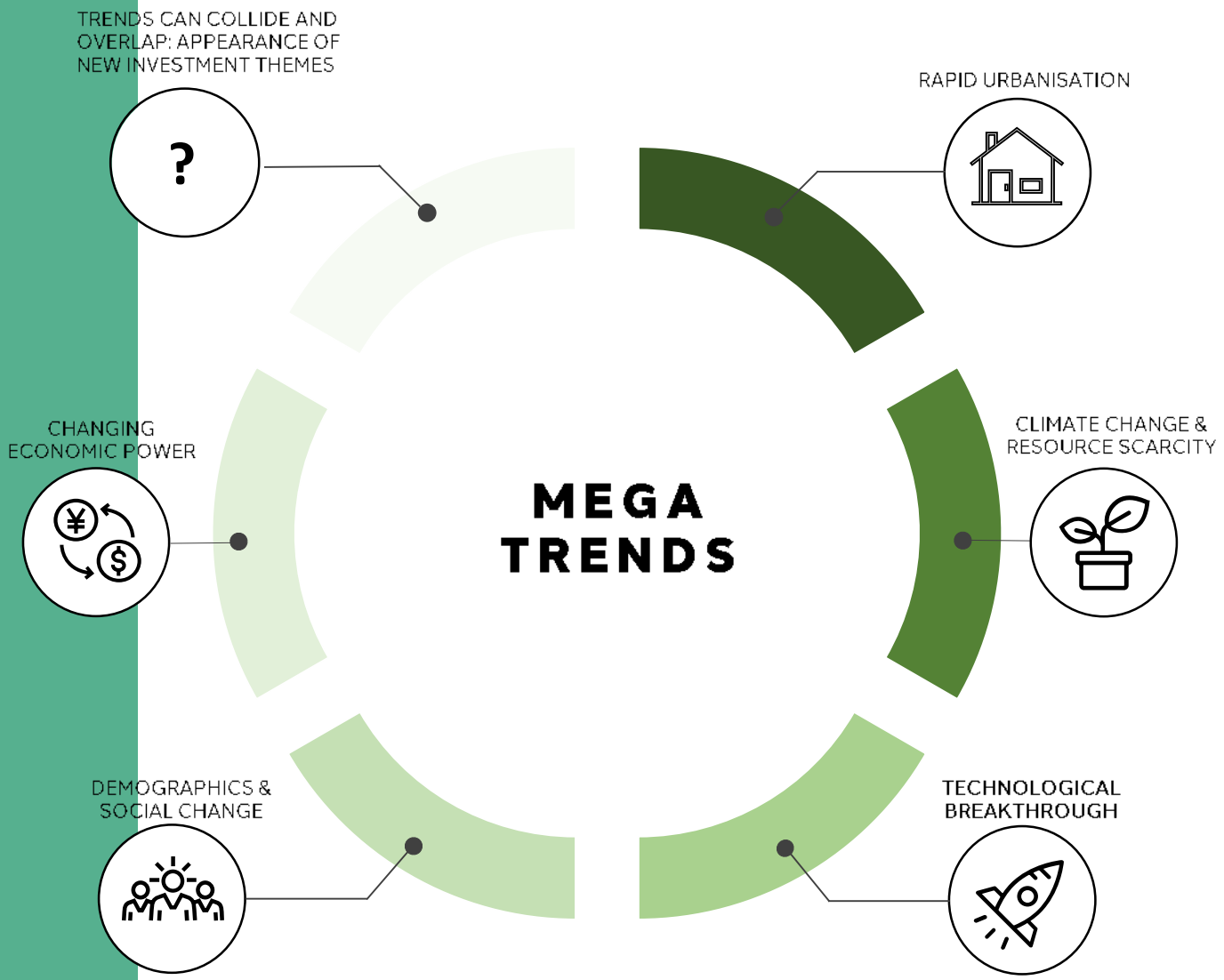
Luxury Industry

NEXT INVESTOR

Megatrends

WHAT IS THEMATIC INVESTING

New long-term trends are transforming the global economy. Thematic investing is about finding companies that are set to benefit from a global structural change backed by the Megatrends, which we believe will drive outperformance compared to global equities in the long-run. Moreover, thematic investing seeks to align asset selection with certain economic, political, and social themes prevalent in modern society. In order to represent a long-term component in the portfolio, we seek to capture the arising opportunities across sectors and geographies.



BOTTOM UP: THE LUXURY INDUSTRY

LUXURY SECTOR PRICING

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. YTD the sector underperformed the MSCI World Index by 12%. However, most companies reported solid double-digit revenue growth compared to 1Q21. We do not observe that normalized revenue growth trends have slowed down compared to 4Q21, the strongest quarter last year.

Bank of America believes that the luxury sector share prices have underperformed the market this year for three reasons. First, they argue that bullish positioning at the beginning of the year caused stocks to sell off during the slowdown. Second, the higher yield environment led to value rotation and a downgrade of higher quality compounders. Third, they see fear in global growth as luxury goods companies are considered highly cyclical. However, they emphasize that 2009 saw a moderate decline of 4% followed by double-digit growth.

IMPACT OF THE CHINA LOCKDOWN

The 1Q22 earnings season showed strong results with companies beating consensus estimates. Usually, the first quarter of the year is fairly impacted by demand from Chinese customers. On the one hand, many buy around the important Chinese New Year and, on the other, the sector benefits from two additional Valentine's Days. In March, rising COVID cases and the implemented lockdowns in China weighed on the luxury goods sector. However, historically, the second quarter has been a lot less exposed to Chinese consumption given less travel and important shopping holidays.

We believe that the reopening of China's borders will be the biggest positive tailwind for global luxury demand.

FIVE OPPORTUNITIES FOR LUXURY FASHION

While inflation worries and the risk the Federal Reserve and other central bankers may throw the global economy into a tailspin, the luxury demand has remained solid in 2Q22, despite China lockdowns. The Boston Consulting Group has recently published a study on the luxury industry, where they argue that "the luxury industry has shown resilience with a return to pre-COVID performance levels and an estimated sector growth of more than 6% between 2022 and 2026"[1]. Moreover, they argue that the industry is facing paradigm shifts in all areas and mention particularly the areas:

- production and resources → in the face of resource scarcity, industry must maintain quality and accelerate innovation
- life cycle → the industry must balance sustainability, utility, rarity and novelty.
- customer relationships → From physical experience to digital reconciliation
- corporate responsibility → ESG transition
- and globalization → companies must open up new territories and anticipate risks

[1]: Boston Consulting Group x Comité Colbert, Luxury Outlook 2022, Advancing as a responsible pioneer

Bottom up: The Luxury Industry

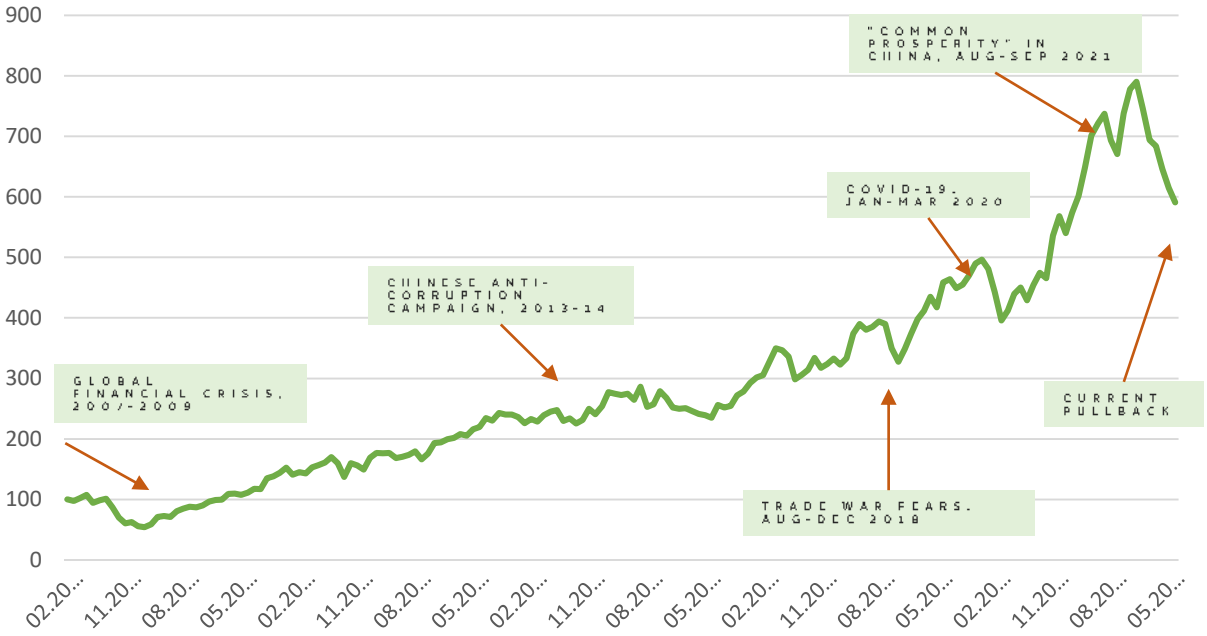
BOTTOM UP: THE LUXURY INDUSTRY

SIX MAJOR PULLBACKS IN PAST 20 YEARS

The figure emphasizes that the sector has been hit by 6 major pullbacks in the past 20 years. (1) the Global Financial Crisis, (2) the Chinese anti-corruption campaign, (3) fears of a China-US trade war, (4) the COVID pandemic; and (5) the China Common Prosperity announcement. (6) Currently, the share price decline for the sector is 23%.

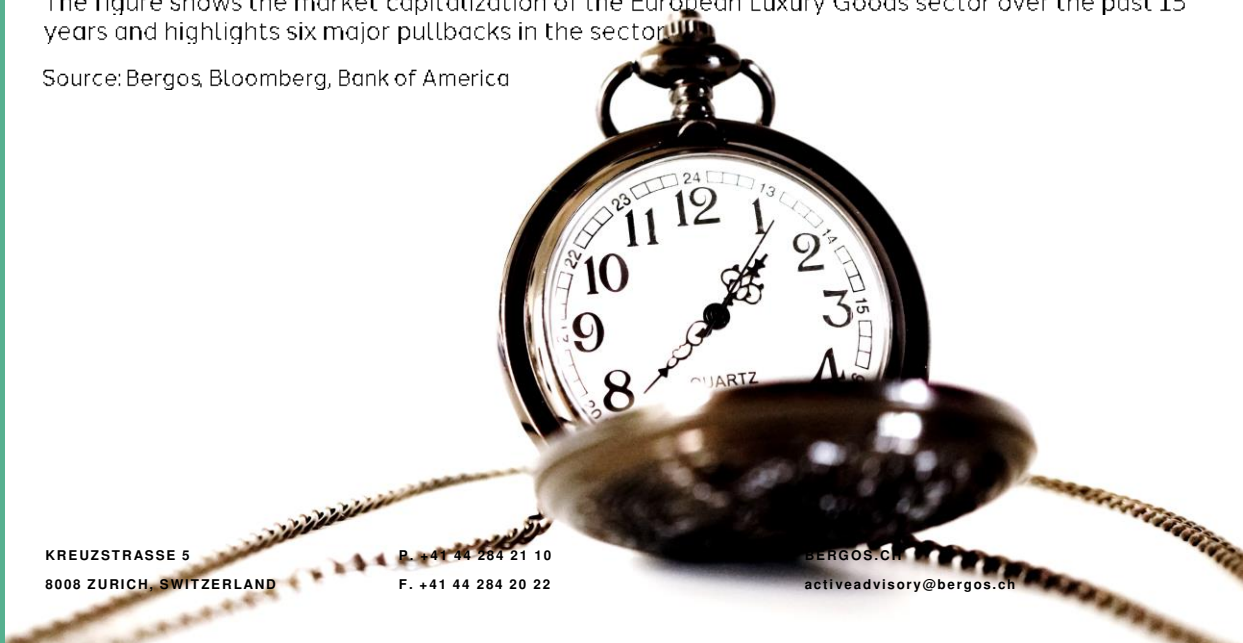
Moreover, the illustration shows that the luxury industry has demonstrated its ability to endure and overcome crises. Boston Consulting Group estimates sector growth to be more than 6% between 2022 and 2026 and Bank of America writes that luxury demand (excl. China) is solid.

MSCI EUROPEAN LUXURY INDEX



The figure shows the market capitalization of the European Luxury Goods sector over the past 15 years and highlights six major pullbacks in the sector.

Source: Bergos, Bloomberg, Bank of America



KREUZSTRASSE 5
8008 ZURICH, SWITZERLAND
P. +41 44 284 21 10
F. +41 44 284 20 22
BERGOS.CH
activeadvisory@bergos.ch

Spotlight: Swiss Watch Industry

SPOTLIGHT: SWISS WATCH INDUSTRY

SOME INDUSTRY HIGHLIGHTS

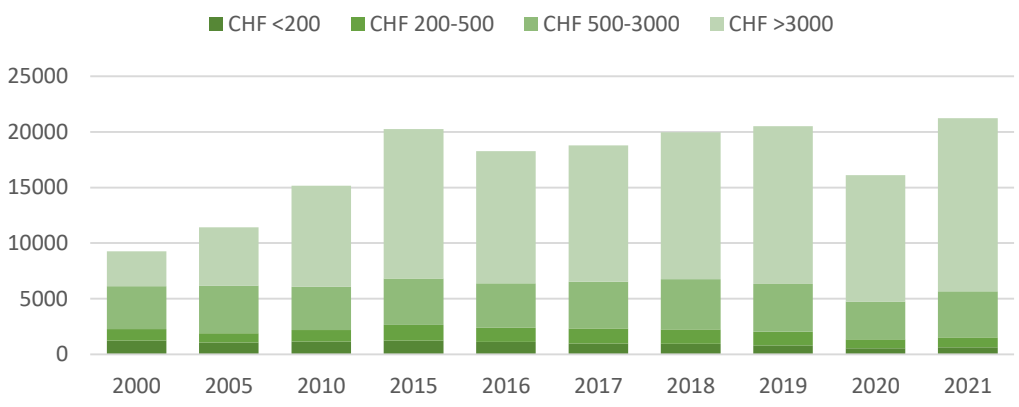
In the 16th century, the Swiss watch and clock industry emerged in Geneva. In 1541, the French reformer Jean Calvin banned the wearing of ornamental objects and, hence, forced Swiss jewelers to rethink their business, turning to watchmaking. By the end of the century, Geneva had established a decent reputation and already by the late 18th century, Swiss manufacturers accounted for more than half of global watch production. Thus, many inventions were born, such as the first wristwatch, first quartz watch, first waterproof wristwatch, thinnest wristwatch in the world, smallest wristwatch in the world, most expensive watch and many more...

In the 20st century, the mass production of watches began, which ultimately enabled the Swiss watch industry to extend its global dominance. Product branding, the capacity for innovation as well as the tradition of its major players all have enabled the industry to remain resilient despite changing market conditions and crises.

Over the past two decades, the Swiss watch industry has experienced solid growth rates. The environment of this industry is quite complex and dynamic, with Switzerland still holding a unique position within the high-end of the industry, where the term high-end refers to watches worth more than 3'000. It is estimated that 95% of all watches worth more than CHF 10'000 are produced in Switzerland.

The figure below manifests that the majority of high-end Swiss watches represent the primary driver of growth over the past years and the high-end segment was also the least affected by the pandemic. Moreover, the figure shows the shrinking share of low-end watches, which have faced increased competition from smartwatches since the launch of the Apple Watch in 2015. In addition, the decline of low-end watches was even further accelerated by COVID-19 as this price range was impacted by cautious spending, growing competition, and less need for the "Swiss Made" label.

SWISS WATCHES BY PRICE POINTS



Source: Bergos, data from FHS

KREUZSTRASSE 5
8008 ZURICH, SWITZERLAND
P. +41 44 284 21 10
F. +41 44 284 20 22
BERGOS.CH
activeadvisory@bergos.ch

Spotlight: Swiss Watch Industry

SPOTLIGHT: SWISS WATCH INDUSTRY

KEY TOPICS

SUSTAINABILITY

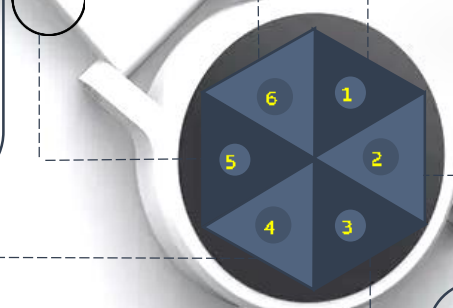
The watch industry is also influenced by the dynamics of sustainability. There are several ways on how the Swiss watch industry can have an impact. Some examples are the recycling of materials, the search for alternatives in animal products (leather bands), as well as the reduction of the overall carbon footprint. Furthermore, an increasing number of Swiss watch brands have become a member of the Responsible Jewelry Council (RJC), which is a leading authority for sustainability standards in the global watch and jewelry industry across the entire supply chain.

CHINA

Chinese consumers have helped the industry through the pandemic. Even before the pandemic, China was one of the top three markets for Swiss watches, with the export share doubling since 2015.

COVID-19 AND PANDEMIC PROGRESSION

The Swiss watch exports were first affected by the pandemic in the first quarter of 2020, however, the impact was more severe during the second quarter. Globally, sales declined by about 80% in February 2020.



PRE-OWNED WATCHES

For a long time, luxury brands have stayed away from the pre-owned watch market, however, within the past years, large brands started to enter into this growing market. Pre-owned watches offer a platform for both newcomers and collectors.

SMARTWATCHES

In 2015, the company introduced the first Apple Watch, and just two years later, Apple declared itself the biggest watch brand. In fact, in 2019, the Apple Watch surpassed the entire watch industry in terms of volume. They sold 30.7 million units, outselling Switzerland with 20.6 million.

CHANGING CONSUMER BEHAVIOR

Baby Boomers show a very clear preference for traditional watches, whereas GenZ have a clear preference for smartwatches. Here, one must point out that income certainly plays a role. Deloitte did a consumer survey on this and found that 58% Gen Z, 61% Millennials and 65% Gen X would also opt out a smartwatch for a traditional watch.

KREUZSTRASSE 5
8008 ZURICH, SWITZERLAND

P. +41 44 284 21 10
F. +41 44 284 20 22

BERGOS.CH
activeadvisory@bergos.ch

Who is *Next*

Introducing – Doris Aquino

THE NEXT TEAM

THE NEXT TEAM: *Doris Aquino*

How did you come to the bank?

I started my career in banking 19 Years ago with my apprenticeship at a large Swiss bank in Zurich. This enabled me to gain vast insights into the financial sector from a young age onwards. During the course of time I gained crucial experience in various departments (as for finance processing for private as well as corporate clients) and spent the last 11 years in private banking. Handling a lot of clients during that time, I came to the conclusion that direct contact with my clients and the support I can offer to realize their dreams is what I enjoy the most and do best. After 18 years working for the same company I felt the urge for a new challenge and decided to take the next step in my career path. That's how I joined the Bergos family at the beginning of 2022. .

What is your regular job with us?

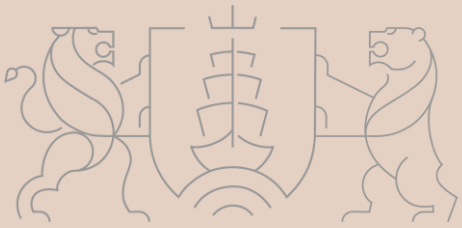
Within Bergos, I am part of the Key Clients Team and the Next Team. In my double role as a co-relationship manager and an account manager I can leverage the knowledge I gained within the private banking industry over the years, in particular the experience of being the main point of contact for clients' administrative matters, such as account opening and payment orders. Besides the direct client handling for Next clients I am also supporting the relationship managers in the Key Client Team. This allows me to learn from the experiences in client portfolio management of very wealthy and asset rich clients and it complements my insights into the younger Next Clients. .

What is my role in Next?

The needs and expectations of each generation are constantly changing. With the accelerating change in digitalization, it is a big challenge to explore these needs and satisfy them accordingly. I joined Next to get to know the Next clients. To know and understand their needs and at the same time to be able to provide my own contribution gives me a lot of pleasure. This is a challenge that I like to take on.

What do you do when your are not at the bank?

Outside of work I enjoy to travel around the world and sometimes do some volunteering with children (as far as the current situation allows it). I am a passionate cook and enjoy good food as well. I love to spend time with my family, friends and godchildren, or on my motorcycle.



Disclaimer

This publication is for information and marketing purposes only. The provided information is not legally binding and neither constitutes a financial analysis, nor a sales prospectus, an offer for investment-transactions, an asset management mandate or an investment idea and does not substitute any legal, tax or financial advice.

Bergos does not guarantee the timeliness, accuracy or completeness of the information. The information is intended solely for the use of the recipient and may not be forwarded to third parties. This information may not be reproduced in whole or in part without the written consent of Bergos.

© Copyright Bergos AG. All rights reserved

WHO WE ARE

You probably know us, but if not, here are a few words about us. We'd be happy to chat more! Reach out: info@bergos.ch or next@bergos.ch are great ways to get in touch! So here we go:

We are Bergos, an independent, internationally operating Swiss Private Bank. We have a clear focus: protecting and growing private wealth.

Our name honors the many generations who, for more than four centuries, fostered entrepreneurial thinking, good education, and personal integrity. It expresses the ideals of independence, continuity, and openness to the world. We understand, respect and value this responsibility.

And we are glad you are here!

BERGOS AG
Headquarters:
Kreuzstrasse 5, 8008 Zürich, CH

www.bergos.ch