



B E R G O S
P R I V A T E B A N K

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

N E X T
M O N T H



THIS MONTH IS:
SEPTEMBER



NEXT.

OKTOBERFEST

20. SEP 2022

Program

Lunch at Käfer Wiesn-Schänke

Transportation from Hotel München Palace to Oktoberfest

Dinner at Kufflers Weinzelt

Optional Transportation from Oktoberfest to the Hotel München Palace

Given the limited places for this event we kindly ask that you contact the Next team for invitation on how to register NextDesk@bergos.ch

Podcast of the month

1 Can *investing* be a form of *Activism*?

With Sebastiano Cassia Castiglioni, entrepreneur, investor and advisor to companies and governments around the world

2 Earnings Season a “*Bottom-Up*” Perspective

With our investment specialist Maximilian Mahn

3 China & Taiwan

With Nico Luchsinger, Executive Director of the Asia Society Switzerland

4 *Private Banking* in the current market environment

With Dr. Dominik Helberger, Head of Private Banking

A BERGOS BRIEFING

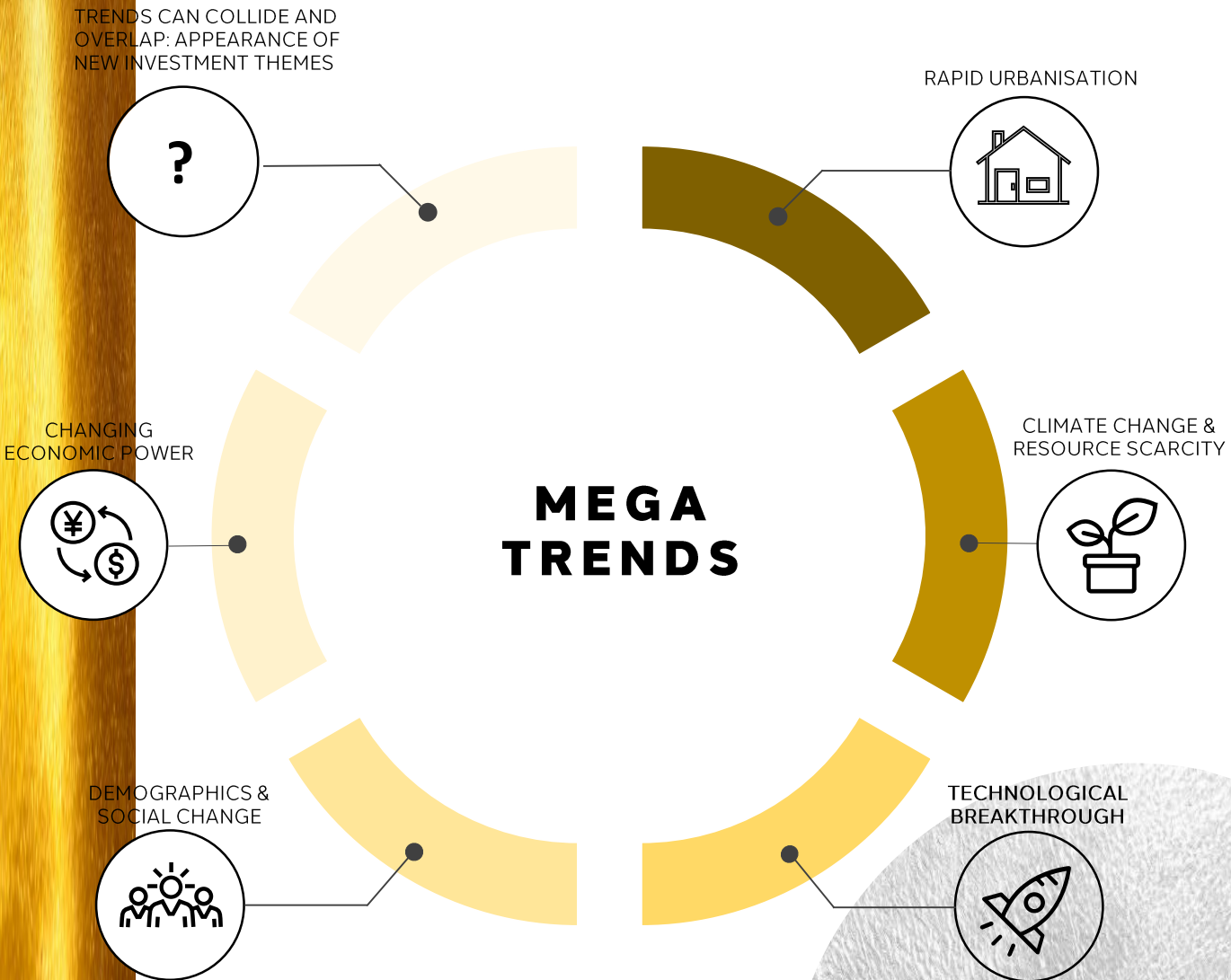


Material Sector

NEXT INVESTOR

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.



MATERIALS SECTOR CHARACTERISTICS

Materials like metal, concrete, and chemicals, etc. build the foundation of the global economy. Material sector companies produce the core materials used by other industries. This includes manufacturing of chemicals, building materials, and paper products. This sector also includes companies engaged in commodities exploration and processing, however, it excludes the processing of oil, natural gas, and coal.

- **Chemicals:** These companies produce industrial chemicals. More specifically, they convert raw materials such as oil, water, metals, etc. into a variety of different products used in a modern economy such as polymers, synthetic rubber, inorganic chemicals or fertilizers, to name a few.
- **Construction Materials:** This industry includes manufacturers of construction materials such as sand, clay, marble, cement, or concrete, to name a few.
- **Paper and Packaging:** Companies in the Paper and Packaging industry produce flexible and rigid paper packaging formats such as boxes, cartoons, bags, etc. In 2022, a company developed the first 100% recyclable water-resistant paper. As a result of increasing environmental concerns, one expects this industry to rise in the years to come.
- **Metals and Mining:** this industry extracts metals and minerals around the world. Metals are commonly split into the groups Major Industrial Metals, Minor Industrial Metals, Precious Metals (excl. gold), and Gold. One should also consider that the various groups of metals fit into the macro picture. Major Industrial Metals are affected by prospects for economic growth.



Bottom up: The Material Sector



The Materials sector is a cyclical sector, which means that it follows the up-and-down trends of the market. Equipment sales, construction, real estate, and technology companies are cyclical stocks. Generally, revenues are higher in periods of economic prosperity and expansion and lower in periods of economic downturn and contraction, as material prices tend to fall, hence, hurting stock price performance. On the other hand, material stocks tend to perform well when the economy is expanding and when there is more demand for building houses, having money to buy new equipment or to invest in research and development. Moreover, countries like China and India that continue to develop and expand their economy drive demand for materials and build a backbone for long-term basic material stocks.

Since the Materials sector produces core material used by other industries and since they are necessary to build any product, there is usually a certain floor of demand no matter what the global economy is doing, especially for essential materials used in sectors such as health care, food and power generation. Moreover, these stocks typically pay higher dividends to their shareholders. On the other hand, however, this sector is less innovative and has fewer opportunities for fast growth compared to other sectors (e.g. technology).

THE IMPACT OF ENERGY PRICES ON THE MATERIALS SECTOR

According to the World Bank's latest Commodity Markets Outlook report, "the war in Ukraine has dealt a major shock to commodity markets, altering global patterns of trade, production, and consumption in ways that will keep prices at historically high levels through the end of 2024."¹

Because of war-related trade and production disruptions, prices for oil and natural gas were also reaching all-time highs in nominal terms. Therefore, a key priority should be to invest in energy efficiency, including weatherization as well as insulation of

Bottom up: The Material Sector

buildings. It also calls on countries to accelerate the development of zero-carbon sources of energy such as renewables. Soaring gas and electricity costs are adding pressure on construction companies. Particularly, on energy intensive industries such as steel, concrete, and cement. Moreover, metals and mining as well as inorganic chemical manufacturing were affected by the price increase of energy costs. Both had to spend a large portion of their revenue on purchases of energy as well as raw materials, leading to lower profit margins and less value created for the stocks that follow these sub-sectors.

The war is also leading to more costly patterns of trade that could result in longer-lasting inflation. Furthermore, some countries switched to coal suppliers from more remote areas, leading to a major diversion of trade in energy. At the same time, some major coal importers could step up imports from Russia while reducing demand from other large exporters. It is highly likely that this diversion will be more costly as it involves greater transportation distances for a material that is heavy and expensive to transport. Similar diversions are occurring with natural gas and oil.

In addition to increased raw material, commodity and also freight prices due to several factors such as the economic recovery after the Covid-19 crisis as well as the ongoing war, rising energy prices are also putting upward price pressure on renewables as manufacturers of materials critical for renewable energy equipment have cut production in Asia and Europe to avoid higher fuel and electricity costs. Unfortunately, higher prices threaten to delay the transition towards cleaner energy. As higher commodity prices have also impacted the costs of producing solar PV modules, wind turbines as well as biofuels, which in turn has short-term implications for equipment manufacturers. Moreover, high metal prices are also driving up the cost of renewable energy, which depends on metals such as aluminum and battery-grade nickel.

OUTLOOK OF THE SECTOR

Despite the direct link between the Materials sector and global growth, and fears that we are heading to recession, we remain positive on the Materials sector in the U.S. and neutral in Europe. This is based on our view that prices have adjusted on decreasing Metal prices, and global growth is indeed slowing down but not to the extent markets expect. Most importantly, however, we believe that markets do not give credit to the sectors strong fundamentals. Materials profitability in terms of both margins and ROE has been the highest we have ever seen, while companies are able to spend on organic growth while retaining the dividend pay-out programs. Finally, the sector is seeing strong behavioral support as we are seeing strong inflows from a large underweight position.

HOW DISRUPTION IS RESHAPING THE WORLDS LARGEST INDUSTRY

The construction industry and its broader ecosystem construct buildings, infrastructure and industrial structures that form the basis of our economy and are essential to our daily lives. The entire construction ecosystem represents approx. 13 percent of global GDP.

However, similar to other industries, this sector is also affected by several influences and will transform. We evaluated seven shifts that will radically change the way construction projects are delivered.

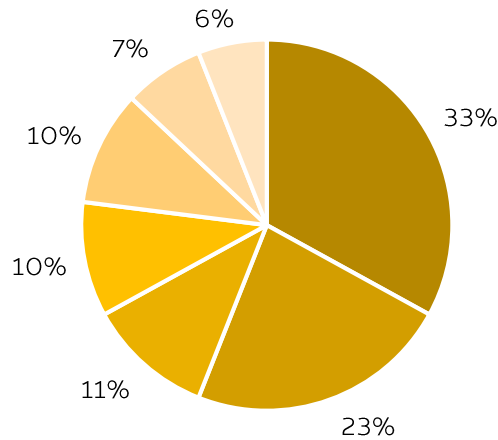


SUSTAINABILITY TRENDS

Following the industrial revolution, global temperature started rising as a result of greenhouse gases (GHG) emitted into the atmosphere, such as CO₂ and methane. With rising awareness, governments and corporations have been pledging to limit CO₂ emissions and reach net zero by 2050. The International Energy Agency, IEA, states that this gap between rhetoric and action needs to be closed if the world is to stand a fighting chance of reaching net zero by 2050 and of limiting the rise in global temperatures to 1.5 °C relative to pre-industrial levels by the end of the decade.

According to the World Economic Forum, the buildings and construction sector accounts for 37% of total global energy-related CO₂ emissions. Within this total, around one third of the emissions are associated with the construction ecosystem. Mainly two components are key drivers: raw-material processing for buildings and infrastructure through energy-intensive cement and steel production and buildings operations. The current carbon footprint of the construction sector is significant, however, actions such as insulations and a move to renewable technologies for heating already account of emission reductions.

EMISSIONS



- Other industry
- Transport
- Residential (indirect)
- Other construction industry
- Buildings construction industry
- Non-residential (indirect)
- Other

Reducing emissions for new builds requires a different approach than that for decarbonizing building operations. One needs to rethink construction based on the principles of reusing, reducing, and sequestration, including the use of recycled materials. The European Commission supports sector decarbonization. In order to reduce emissions, the EU announced a renovation wave in 2020 focusing on worst-performing buildings. Moreover, in order to reduce its dependency of Russian energy imports, the EU proposed raising the Energy Efficiency Directive’s 2030 target from 9% to 13%. Moreover, new buildings are now subject to the Energy Performance of Buildings Directive.

On the other side, however, the largest regions in the constructions market are Emerging Markets, including China, Brazil, India, Saudi Arabia, and Indonesia. Cities in Emerging Markets are expanding at a fast pace and usually, environmental standards are not advanced in within these markets.

CONNECTED CONSTRUCTION

The industry landscape is rapidly evolving as engineering firms and other participants across the value chain realize the benefits of connected construction technologies. These technologies include building information management, digital twins, predictive maintenance, autonomous drones, modular construction, etc., which present several benefits such as a larger integration of modularization or better control over emissions. onected construction will likely develop to become a growing industry as they offer data-driven decisions, enable better control costs and ensure timely project delivery.

Next Weekend

Hamburg

9-10 SEPTEMBER 2022

with Guest Speaker Dr. Andreas Jacobs

Program

Next Weekend

Hamburg

Friday 9 September 2022

17.00 Welcome Cocktail - Anglo German Club
([Website](#))

Saturday, 10 September 2022

10.30 Welcome Coffee & Remarks - Automuseum Prototyp
([Website](#))

11.15 Case Study Corporate Responsibility
by [Dr. Andreas Jacobs](#)

12.00 Lunch

13.30 Guided Tour / Network Sessions

15.00 Keynote by Nils Kohle (Founder of [Ownr](#))

16.30 End of workshop sessions

18.45 Meeting for Private Reception ([The Fontenay](#))

19.00 Start of Private Reception followed by Flying Dinner

23.30 Bus Transport to City Center

To register please RSVP using the official
email invitation.



B E R G O S
P R I V A T E B A N K

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

W H O W E A R E

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