



## 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. Budelmann is member of the bank's executive board and heads the investment committee.

## TURMOIL IN THE BANKING SECTOR POINTS TO OPPORTUNITIES ELSEWHERE

**Financial markets remain volatile. The bank collapse in the United States and the emergency rescue of Credit Suisse are forcing central banks again to weigh the trade-off between systemic risks and inflation risks. "An end to the interest-raising cycle would possibly send a positive signal to equity markets in the short term, but would also fuel the risk of persistently high inflation", said Till Christian Budelmann, Chief Investment Officer of the Swiss private bank Bergos. In this environment, investors should opt for a selective approach. Quality and growth seem to be attractive factors. And bonds can again serve as a diversifying element in an investment portfolio.**

The hopes for more stability proved to be illusory as financial markets remain stuck in crisis mode. The Covid-19 crisis was followed almost immediately by the resurgence of inflation, the war in Ukraine, and the energy crisis. Beginning in the fourth quarter of 2022, however, a certain stabilisation trend set in. The energy crisis turned out to be less serious than expected, inflation rates were decreasing again, albeit by not as much as had been hoped, and economic data in the United States and Europe were somewhat better than expected. "We see lingering growth weakness in the developed world over the next six to nine months, followed by an upward tendency beginning in the first quarter of 2024", said the Bergos CIO Budelmann.

After a good start to the year, risk assets have since been thrown into turmoil again. The collapse of Silicon Valley Bank and Signature Bank in the United States, and the emergency rescue of the struggling Swiss bank Credit Suisse by the much larger and more stable UBS, which became necessary over the weekend, have unleashed tremendous volatility in capital markets. "In the United States, quick action by the US Federal Reserve (the "Fed") and other government agencies averted a bank run. And the Swiss solution, accompanied by the government and central bank, was of course quite the headline on Sunday evening", Budelmann said, adding: "While the further course of developments remains hard to predict, we do not expect a massive global escalation of the current banking crisis at this time."

### **Bank problems are dominating the headlines**

The emergence of the turbulences had an impressive effect on interest rate expectations. On 8 March, markets had expected that the key interest rate in the United States would stand at 5.66 percent after the Fed meeting in July. But on 13 March, just three workdays later, market expectations pointed to an interest rate of only 4.1 percent in July, about 50 basis points below the current rate. "This shows that an exogenous shock of the kind we just experienced can not only trigger increased volatility in the markets, but also relieve some pressure on the interest rate front. The Fed will presumably be forced to admit that besides combating inflation, it must also deal with systemic risks", Budelmann said. Moreover, the interest rate conundrum could possibly be alleviated by the current trend of inflation in the United States. In line with expectations, the Consumer Price Index rose by 6.0 percent year-over-year in February, this being a lower rate than in January (6.4 percent) and the smallest rise since September 2021. The core inflation rate has fallen to 5.5 percent. While still high, it is nevertheless the lowest rate since December 2021. And the recent year-on-year rise in producer prices was likewise smaller than feared.

As a result, there is certainly a chance that, after a certain period of time, the market will positively welcome the fact that the Fed is now taking systemic risks more into account again and focusing somewhat less on fighting inflation. "In the longer term, however, the markets' initial positive sentiment could sour. It is important to get inflation under control. If the Fed is actually too quick to take its foot off the monetary brakes and does not raise interest rates further, inflation could become entrenched in the form of wage-price spirals", Budelmann warned.

### **Interest rate-hiking cycle at the end?**

Bergos expects that the US central bank will leave the fed funds rate either unchanged this week or raise it by no more than another 25 basis points. Budelmann: "That could be the last step in the present interest rate-hiking cycle. After that, the Fed is likely to refrain from further interest rate hikes and focus on the incoming data." Already last week, the European Central Bank raised its key interest rate by 50 basis points to 3.5 percent, as announced, in spite of the turmoil in the banking sector. The deposit rate, which is important for financial markets, was likewise increased by half a percentage point to 3.0 percent. "Previously, we had expected this rate to peak at 3.5 percent in the summer. This level no longer appears to be reachable in light of current events", Budelmann predicted.

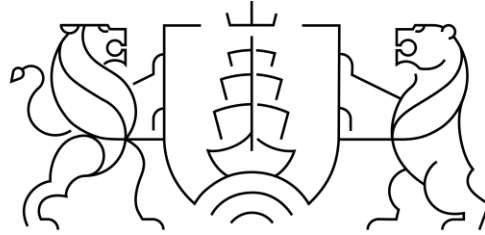
### **High-quality growth stocks are attractive**

What do these developments mean for the individual asset classes? As in 2022, a selective approach will be extremely important for investment success in 2023. The wide divergences beneath the market surface should be exploited by actively setting priorities.

Based on the current gap between equity yields and bond yields, it cannot yet be said that equities are more attractive than bonds. But that could change if bond yields fall further. “We continue to prefer quality stocks in growth sectors. If the interest rate-hiking cycle is indeed nearing an end now, growth stocks in particular stand to benefit, whose future profits would then be discounted at a lower rate”, Budelmann said. In terms of geographical regions, therefore, he still sees the greatest potential in the United States, along with Japan, which seems set to continue its distinct monetary policy. Bergos gives Europe a neutral weighting and remains cautious towards emerging-market equities.

Bergos will continue to keep its gold allocation at least at the level of the strategic quota. Also in the midst of the current stress, gold has proven itself to be an important element of any broadly conceived investment portfolio.

Since the end of last year, moreover, bonds have again played a more important role in the bank’s multi-asset mandates. Whereas stocks and bonds fell in tandem in 2022, bonds are again acting as a antipole to stocks, making them a useful portfolio diversification element. This trend has been obvious recently when the Global Aggregate Bond Index has gained on poor trading days for equities. Budelmann: “Despite the current turmoil, we continue to believe that it is quite likely that both bonds and equities can ultimately deliver positive returns for a balanced portfolio this year, after significant swings in the meantime.”



# B E R G O S

## P R I V A T E B A N K

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## MEDIA CONTACTS

**Bergos AG**  
Kreuzstrasse 5  
8008 Zurich, Switzerland

[presse@bergos.ch](mailto:presse@bergos.ch)  
[www.bergos.ch](http://www.bergos.ch)

**GLT Communications**  
Kommunikationsberatung & PR  
Utoquai 37  
8008 Zurich, Switzerland

Jörg Röthlisberger  
Founder & CEO  
Tel: +41 44 396 90 90  
Mobile: +41 75 44 88 000  
[jr@glt-communications.ch](mailto:jr@glt-communications.ch)