



B E R G O S

# Reflexions

Q4 2023







C O N T E N T

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 center 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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## TILL C. BUDELMANN CHIEF INVESTMENT OFFICER

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As Bergos's 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 lays the foundation for the work within the asset class teams. Budelmann is a member of the bank's executive board and heads the investment committee.



## DR. HOLGER SCHMIEDING CHIEF ECONOMIST, BERENBERG

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Chief Economist of Berenberg Hamburg since 2010 and one of the best-known German bank economists. Dr. Holger Schmieding has received several awards for his forecasts and analyses. In 2016, for example, he was named forecaster of the year by the Süddeutsche 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 Exel Surveys. He has worked at the Kiel Institute for the World Economy and the International Monetary Fund, among others, and served as Head of European Economics at Bank of America Merrill Lynch.



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## DR. JÖRN QUITZAU CURRENCY STRATEGIST, BERENBERG

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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 German Studies (AICGS), Washington DC.





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

ABOUT OUR FALL ISSUE

Dear readers,

“Higher for longer” is the new interest rate mantra that has dominated the financial markets since the last Fed meeting on September 20, 2023. As a result, yields on US dollars and euros have risen once again, offering investors returns not seen in many years. High-quality US dollar corporate bonds often yield over 6%. In the eurozone, investors can easily expect yields of more than 4.5% in the same segment.

This new interest rate environment provides a completely different starting point, especially for investors who rely on the classic mix of stocks and bonds. The increased yield opportunities in

bonds enhance diversification against stocks. The risk-return ratio in multi-asset portfolios is now as attractive as it has been in many years.

When it comes to the interest rate outlook, there is much to suggest that both the United States and the eurozone have reached the end of the interest rate cycle, at least for now. Even a potential final interest rate hike in the United States doesn't change the situation much for bonds.

Decreasing inflation is crucial in this context. There are initial signs that the overheated labor market in the United States is cooling down

slightly. In Europe, the economic outlook remains somewhat subdued. Both factors contribute to central banks observing the effects of their bold monetary policies and refraining from significant interest rate decisions in the near future.

The recent movement in interest rates has also led to a minor correction in the stock markets. Large technology companies have given up some of their hefty annual gains. On the other hand, financial stocks have benefited from higher interest rates, and oil stocks have profited from the increased oil prices.

The current development also highlights how dependent the major market indices have become on huge companies like Apple, Microsoft, Amazon, Alphabet, and, since this year, Nvidia.

In the S&P 500, the combined weight of these five stocks exceeds 20%. If these heavyweights falter, the positive performance of financial and oil stocks won't make much difference. Therefore, the assessment of these top stocks is of paramount importance for the outlook of the stock markets. The further development of artificial intelligence also plays a significant role in this regard, a topic covered by our Chief Equity Strategist, Frederik Carstensen, in his overall analysis of the stock markets.

We are excited about the new topics which the last quarter will bring. The upcoming quarterly earnings reports of companies are the next milestone that we eagerly anticipate.

I hope you enjoy reading!

MAXIMILIAN HEFELE CFA  
DEPUTY CHIEF INVESTMENT  
OFFICER AND HEAD OF  
ASSET MANAGEMENT





# C O M P A S S

## BASE-CASE SCENARIO

BY TILL C. BUDELMANN, CHIEF INVESTMENT OFFICER

The economies of the developed world now seem to be heading for a “soft landing” or even a “no landing”. While several global problems remain (e.g. consumers’ real purchasing power remains under pressure and China’s structural problems are becoming increasingly evident), a wide-ranging global recession does not seem very realistic at this point in time – even if a technical recession continues to be part of our baseline scenario in certain countries, e.g. Germany. The labor market remains surprisingly robust, especially in the United States.

The ECB’s latest key rate hike (to 4.00% in the meantime) came as a surprise to some market participants, who had expected a pause in view of the subdued economic outlook and the easing inflationary environment. The ECB signaled that it would keep interest rates at this level for a longer period of time. The Fed, on the other hand, decided at its last meeting to leave the range for the fed funds rate unchanged at 5.25-5.50%. However, the median FOMC member expects a further 25 basis points hike by the end of the year. And Fed Chair Powell hinted that rates could remain higher for even longer. Currently, the futures market is pricing in a 50% probability of another rate hike by the Fed at the end of the year. In our baseline scenario, we currently assume that there be no further rate hikes on either side of the Atlantic.

Politically, the focus in the USA is now primarily on the primaries for the presidential elections next year. The following candidates currently appear to have the best chances: Biden, Newsom, Harris and Kennedy for the Democrats and Trump, DeSantis, Ramaswamy and Haley for the Republicans (in order of probability). Geopolitically, of course, the focus remains on the ongoing Russian war against Ukraine. Our basic assumption remains that Russia will shy away from directly attacking a NATO member country and thus triggering the alliance case. In addition, we need to keep an eye on the escalating Middle East conflict and the tensions between China and Taiwan.

## GDP ESTIMATES

EUROZONE	2022 :	+3.4%
	2023 :	+0.5%
	2024 :	+0.8%
GERMANY	2022 :	+1.9%
	2023 :	-0.5%
	2024 :	+0.5%
SWITZERLAND	2022 :	+2.1%
	2023 :	+0.7%
	2024 :	+1.2%
GREAT BRITAIN	2022 :	+4.1%
	2023 :	+0.3%
	2024 :	+0.8%
UNITED STATES	2022 :	+2.1%
	2023 :	+2.0%
	2024 :	+1.2%
CHINA	2022 :	+3.0%
	2023 :	+4.5%
	2024 :	+3.8%
JAPAN	2022 :	+1.0%
	2023 :	+1.5%
	2024 :	+0.7%

## CPI ESTIMATES

EUROZONE	2022 :	8.4%
	2023 :	5.5%
	2024 :	3.0%
UNITED STATES	2022 :	8.0%
	2023 :	4.0%
	2024 :	2.7%



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

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REFLEXIONS: AN ECONOMY SPLIT IN TWO

BY DR. HOLGER SCHMIEDING

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In large parts of the world, the manufacturing industry is facing headwinds. Consumers had to miss out on more services than goods during the pandemic, so now they feel a greater need to catch up on travel, restaurants and other services rather than on things. The upshot is an unusual split between robust demand for services and clear weakness in the manufacturing industry. On top of this, in late 2022 and early 2023, many companies around the world used the end of the severe supply bottlenecks to stock up their inventories of intermediate and finished products. Now, with demand from the USA, China and Europe fading, they are running these inventories down again. So for the time being they are making less

than they sell. Often, though, it only takes two or three quarters to clear warehouses sufficiently. We expect the manufacturing industry to hit bottom at the end of 2023, with a new uptick setting in soon after.

### **Soft landing in the USA**

Despite the Fed's vigorous shift in the direction of interest rates, the US economy continues to do better than expected. Residential construction, which is especially rate-sensitive, appears to be steadying gradually after falling 23% since the start of 2021. The labor market is running out of steam and private consumers are seeing slower

salary growth, but the sharp fall in inflation means their purchasing power – following the deduction of price increases – is rising. This is supporting private consumption.

Instead of a mini-recession at the turn of the year we are now forecasting a soft landing in the USA. In other words, we expect a period of weak growth well below the 2% trend, but we no longer see output declining. The global weakness in manufacturing affects the USA less than Europe. From mid-2024 onwards, a looser monetary policy will likely assist the upward movement in the economy. Given the structurally high demand for housing, residential construction should be able to pick up from early in the year. Fiscal policy is also helping boost demand. We anticipate that the US economy will achieve annualized growth of 2% again in mid-2024.

### **Mixed outlook for Europe**

Two very different forces are shaping the outlook for the European economy over the coming months. On the one hand, the continent has successfully survived the shock imposed by Vladimir Putin. With receding inflation, a stable labor market and increased growth in wages, consumer incomes have been rising faster than prices since the end of the second quarter. Hence in real terms – after adjusting for inflation – consumers once again have more money in their pockets. This was apparent from the increase in travel seen over the summer. Manufacturing industry, by contrast, remains mired in recession. Weak global demand for goods and the inventory correction are particularly hitting countries like Germany that specialize in goods exports. Having stagnated over the summer, economic output in the eurozone looks set to decline slightly in the final quarter.

However, there are signs of a new uptick next year. We anticipate that the inventory correction will have run its course by the end of 2023. Many companies are currently holding back on their capex because of the major uncertainties. As soon as the economy finds its feet again next year they will start spending more again on restructuring their supply chains and replacing skilled workers, who are hard to come by. China will remain structurally weak, but exports to the country look set to increase again slightly in the coming year. Ultimately, China will likely grow 3-4% in 2024. By mid-2024 – when the US economy resumes its strong growth – the European economy could also regain the momentum it had been experiencing prior to the Russian invasion of Ukraine. We anticipate that the UK economy will move in a similar way to the eurozone.

Switzerland suffered far less than other European countries from the Putin shock of higher energy prices, thanks to a better energy mix. Although heavily dependent on demand from abroad, the Swiss economy should therefore be able to grow faster than the eurozone as a whole in 2023 and 2024, while enjoying lower inflation.

### **Inflation recedes further**

Pressure on prices is continuing to ease on both sides of the Atlantic, but at a faster pace in the USA than Europe. As the US labor market continues to lose momentum, wage pressure is slowly subsiding as well. In contrast, in the eurozone wages will probably increase by at least 5% in 2023, before rises drop back to around 4% over the course of 2024. Inflation will weaken further in both the USA and Europe. Slightly higher oil prices will put only a temporary dampener on this. Food inflation has peaked. As transport costs have

dropped, price pressure in this area will drop too in the face of declining demand for goods. However, higher wage increases will push up the prices of wage-intensive services again, with the result that – from the fourth quarter of 2024 onward – inflation rates in Europe will probably stabilize at about 2.5%, instead of the approximately 1.5% experienced in the years before the pandemic. We also see inflation at around 2.5% in the USA in 2024 and 2025.

### **Central banks – rates have likely peaked**

The less robust US labor market and weaker economy will probably prevent the Fed and the ECB from hiking their already high benchmark interest rates any further. Once the period of economic weakness has calmed inflationary pressure sufficiently, the Fed will then cut rates again starting in early 2024; but the ECB is unlikely to ease next year while inflation remains over 2%. The Swiss National Bank has probably also reached the peak in rates, but like the ECB is not expected to cut its relatively low benchmark rate for the time being.





# E Q U I T I E S

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FROM AI EUPHORIA TO “HIGHER FOR LONGER” HEADWINDS

BY FREDERIK CARSTENSEN

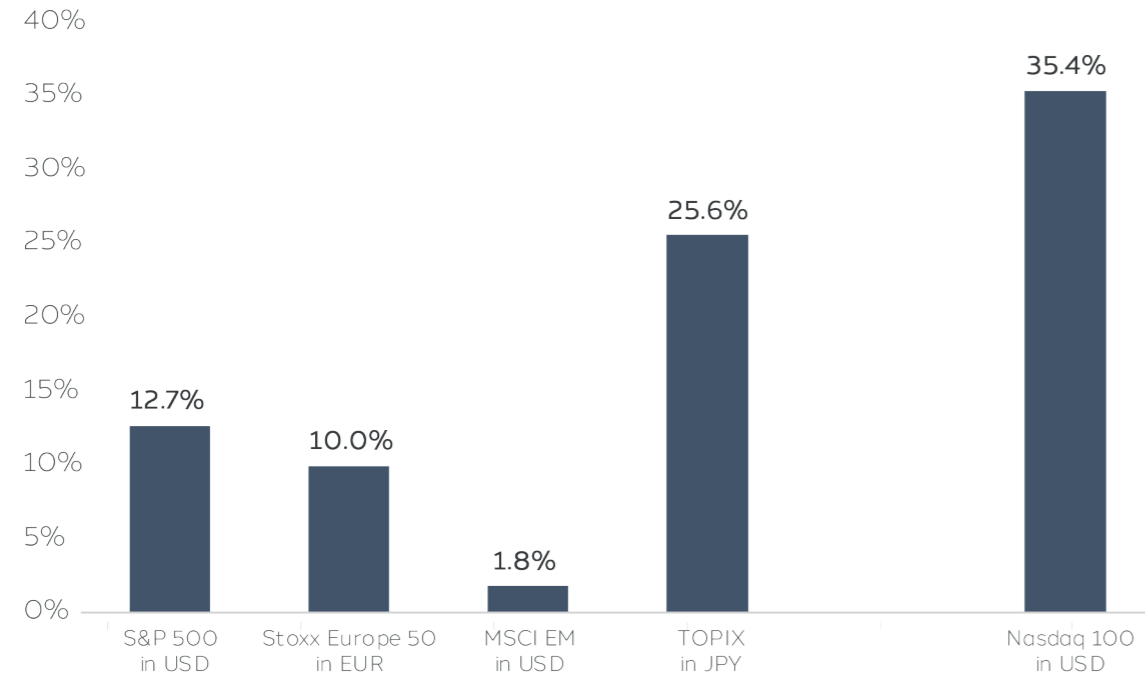
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After several factors (macro and earnings revisions, low positioning, and enthusiasm for artificial intelligence) supported especially the technology-heavy Nasdaq 100 Index in the first half of the year, the third quarter saw a normalization in this segment. Above all, because continued positive surprises in US economic data fueled expectations of higher interest rates for an extended period of time and prospects of rapid rate cuts were priced out. Indeed, 10-year US Treasury yields rose about 75 basis points over the past three months to a new 15-year high and the market tenor changed from “AI euphoria” to “higher for longer”. In this environment, the global equity

market, as measured by the MSCI World Index, has recently moved volatily sideways – certainly a healthy breather in our view and evidence that investors are digesting the excessive gains.

#### **Soft landing of the economy**

The main reason for the positive equity market development since the beginning of the year is the better-than-expected fundamental data relating to the overall economy, inflation and corporate earnings. Especially the fact that the economic downturn is weaker than initially assumed is supporting the markets in this phase. For example,



**Global equity market performance 2023**  
Source: Bloomberg, Bergos, as of 09/30/23 and incl. net dividends

the economies of the developed world now seem to be heading for a “soft landing” or even a “no landing” – a scenario in which the economy avoids a significant economic slump. Even if a wide range of global problems persist (e.g. consumers’ real purchasing power remains under pressure and China’s structural problems are becoming increasingly apparent), a veritable global recession does not seem very realistic at this point in time. The USA in particular is proving to be more robust in macroeconomic terms than initially assumed.

Although core inflation in the United States remains well above target and higher than the Fed would like, inflation has recently moved in the right direction. However, given the expiration of negative base effects and the renewed rise in commodity prices, inflation is likely to struggle to fall further in the medium term, which increases the likelihood of higher central bank interest

rates in the longer term. The peak in key rates this year will therefore probably be followed by an interest rate plateau and not an early return to low interest rates. This is assuming that there are no negative surprises in inflation and that the market is spared escalating event risks.

**Better-than-feared Q2 reporting season**

The Q2 reporting season was also better than analysts had feared at the beginning, supporting markets over the summer. Despite decelerating growth and high inflation, companies are expected to report 2023 earnings in line with last year. However, higher interest rates are increasingly making bonds look like an attractive alternative to equities. The gap between the earnings yield of the S&P 500 and the yield on 10-year US government bonds – the so-called yield gap – has now decreased to a few basis points, the smallest gap since the

global financial crisis. Nevertheless, a look at history gives hope: in the bull markets of the 1980s to 1990s, the yield gap was consistently negative.

**Different developments below the market surface**

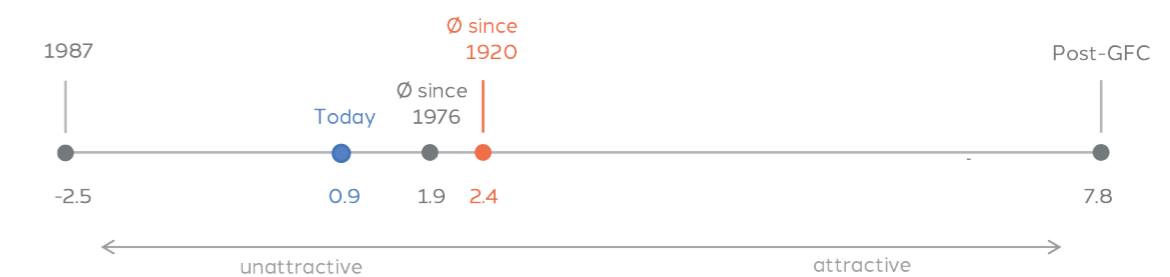
Apart from some ultra-large-cap US companies (the so-called “Magnificent 7”), it has not been a particularly encouraging year so far for the rest of the market. Even though the cap-weighted S&P 500 is still up more than 12% for the year, things do not look nearly as promising under the surface. The equally weighted S&P 500 as well as the small-cap indices are lagging behind, in some cases significantly. Similarly, some noteworthy regional differences can be observed. While our preference for growth stocks has paid off in the USA, the two investment styles (growth and value) have performed more or less the same in Europe. After the strong trend at the beginning of the year, the market currently seems to lack direction.

**Divergences in Asia**

The end of zero-covid constraints in China led to much excitement about the outlook for the Chinese economy and equity market in 2023, and both have disappointed so far. The improvement in China’s data has not matched the development in the USA and Europe, and it appears that the economic boost from China’s rebound is fading faster than expected. By contrast, longer-term structural challenges, particularly in the housing market, continue to weigh on demand and confidence. While the rest of the world is struggling with excessive inflation, China may actually be moving toward deflation. This could cause consumers and businesses to defer spending and investment, making it even more difficult to reignite economic growth.

Indeed, it is Japan that has led Asian – and global – markets this year. Thanks to foreign inflows and attractive valuations, Japanese equities recently

S&P 500 (closing price 09/30/2023)	4,288.05 Points
Forward EPS (Q3 2023 - Q2 2024)	232.63 USD
Earnings yield	5.43%
10-year bond yield	4.57%



**S&P 500 earnings yield minus 10-year bond yield from a historical perspective**  
Source: Bloomberg, Refinitiv, Bergos, Data as of 09/30/2023

reached their highest level since 1990. Two key factors could continue this trend: First, the economy. Japan seems to have finally escaped the threat of deflation, in part because of the special path taken by Japan's central bank, the Bank of Japan. The second change is a newfound focus on corporate profitability. Japanese companies are more willing to restructure their businesses and are returning more capital to shareholders than ever before. We therefore remain constructive on Japan and underweight China.

### Outlook

The seasonal weakness in August and September has proven true again this year. From now on, however, seasonality should be beneficial again, as the fourth quarter is usually the best time of the year for equities. Similarly, the end of the interest rate hiking cycle has historically been good for equity markets. For example, the S&P gained an average of 16% in the 12 months following the last rate hike. The return to less bullish investor sentiment can also be seen as a positive signal and should support equity markets in this phase. Nevertheless, most of this year's performance has probably been made and the further upside potential for equities from here seems limited for the time being. We therefore maintain a neutral overall quota.

In view of a less restrictive central bank policy, there is definitely hope for a continuation of the positive equity market development in 2024. Regarding AI, there is a possibility that this will be a secular, rather than cyclical wave, and that these segments of the market are going to benefit in the longer term. Every week there seems to be a new technology unveiled in the AI space, and search interest in AI topics remains high and continue to trend upward. If investors are betting on a broader economic recovery in the medium term, other parts of the market (beyond AI) could

catch up. After all, companies have delivered solid results in a challenging environment, suggesting they are well positioned for the longer term.





# B O N D S

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NAVIGATING BY THE STARS UNDER CLOUDY SKIES

BY CHRISTOPH JUNG

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In principle, the third quarter began as a fluid continuation. The fight against inflation was still in full swing and thus the interest rate cycle was expected to continue. The consumer price index for the USA in July was still too high at 3.2% year-on-year, and even recorded a slightly higher increase than in the previous month, driven by energy prices. In Europe, headline inflation fell to 5.3%, but core inflation was still at an uncomfortably high 5.5%. In response to persistently stubborn inflation, the Fed's Federal Open Market Committee (FOMC) decided, as expected, to raise the target range for the federal funds rate to between 5.25% and 5.5% in July -

the highest level in 22 years. The European Central Bank (ECB) also decided to ensure a timely return of inflation to its medium-term target of 2% and raised its three key interest rates by 25 basis points (bps) each. The interest rate for the main refinancing operations was subsequently quoted at 4.25%, the last time the key rate was this high was at the beginning of the global financial crisis in early October 2008.

After the annual meeting in Jackson Hole, the Fed Chairman (Jerome Powell) and ECB President (Christine Lagarde) reiterated that they would keep interest rates at restrictive levels until there

were signs that inflation was moving toward its 2% target in a sustainable manner. On the inflation outlook, Powell noted that rates “still have a long way to go”, and despite the hawkish tone, Powell opened the door for a pause in rate hikes at the September meeting. In the current environment, the difficulty of achieving a controlled slowdown in the economy should not be underestimated. It is a complex undertaking and even the data used often show their true colors in retrospect. In this regard, Fed Chairman Powell memorably described this difficulty at the Jackson Hole Symposium: “As is often the case, we are navigating by the stars under cloudy skies.”

In August, the figures for new hires in the USA for the two previous months were revised downward significantly, i.e. the effective momentum on the labor market had thus already been weaker in June and July than the preliminary figures had implied. The long-awaited slowdown is now becoming more apparent, and the unemployment rate rose from 3.5% to 3.8%. As expected, the Fed then announced no change in key interest rates in September but reaffirmed the robustness of the USA economy and even revised its economic growth forecasts upward. As a result, there was also a 50 bps increase in the median Fed funds rate forecast for 2024. This had provided further momentum in the market and increased the consensus that we are likely to see higher interest rates over a longer period of time. On the other hand, the Governing Council of the ECB surprisingly decided in September to raise the three key interest rates by 25 bps each and thus also the main lending rate to now 4.5%. But unlike the Fed, the ECB has significantly lowered its economic growth projections due to the increasing impact of its monetary tightening. Both central banks believe that key interest rates will probably soon have reached a level needed to provide the desired price stability. This statement was also

received by the market as measured by the implied interest rate futures, with only a low probability of a further rate hike.

### Higher for longer

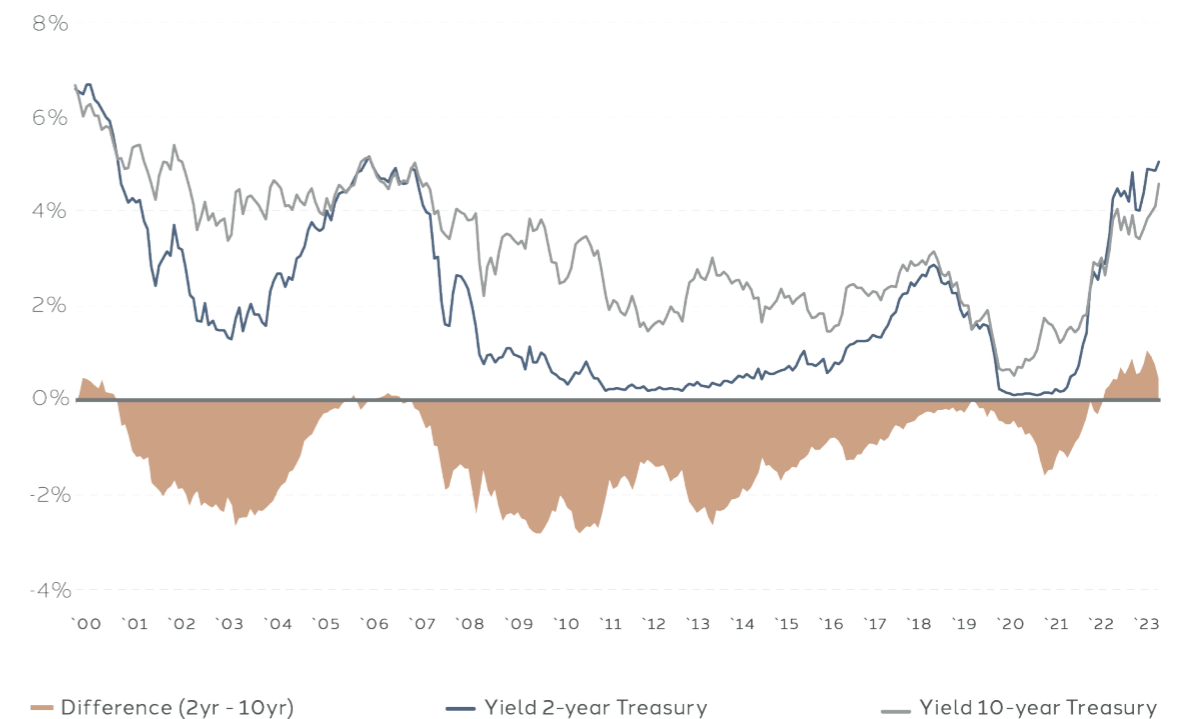
In the second quarter, we observed an increasingly pronounced inversion of the yield curve not only in Europe, but also in the USA. Short market interest rates are strongly influenced by the monetary policy of the central bank, while long interest rates are also increasingly driven by growth and inflation expectations by the financial markets. A steeper yield curve is usually associated with stronger growth in the economy. An inverted yield curve with a fear that the economy is cooling. Many US banks have traditionally financed themselves through the short end of the yield curve, earning income through longer-dated loans. Thus, a flattening or even inverted yield curve has historically also signaled dwindling profitability in the banking system, and thus often more difficult times. As bond investors, it seems clear that this inversion of the yield curve cannot be sustained. The third quarter was characterized by a “paradigm shift” on the part of investors, who began to accept that interest rates would remain at an elevated level for some time. In the third quarter, we therefore also saw a sharp rise in yields not only on US, but also European government bonds. However, this increase did not occur in parallel across the entire yield curve, but in the form of a “steepening” of the yield curve, also known as a “bear steepener”. A “bear steepener” is the widening of the yield curve that occurs when long-term interest rates rise faster than short-term interest rates. For example, 2-year US Treasuries rose by only about 14 bps from the end of June to 5.08%, whereas 10-year US Treasuries gained a whopping 72 bps, rising from 3.85% to 4.57%. A similar trend was seen, for example, in the German Bund, where the yield on the 2-year Bund stagnated around 3.2%, but the

10-year rose noticeably from 2.4% to 2.9%. The pronounced inversion of the yield curve, which peaked around the beginning of July, thus declined noticeably, as can be seen in the figure below. In the USA, the rating downgrade by Fitch from AAA to AA+ certainly also helped to push up interest rates.

The full effects of monetary tightening have yet to be seen, and given the delays, we are entering a delicate phase of monetary policy. What can be observed is that bank lending and the money supply are declining. Leading economic indicators, such as the Purchasing Managers’ Index, have also been showing a less rosy picture of the economy for some time, especially in the eurozone. Such a more fragile economic environment makes it more likely, in our view, that the ECB has already peaked on interest rates. Assuming that we are slowly reaching the end of the rate hike cycle, we have taken duration to a neutral weighting in our

EUR portfolios in order to log in these yield levels over a longer time period. Overall, we feel that the current interest rate levels of government bonds in the EUR area and the USD are appealing.

Outside the Western world, we see a certain heterogeneity in developments. For example, some emerging markets such as Brazil or Chile have already started monetary easing and are showing appealing real yields. China is still struggling with difficulties in the real estate market and will probably miss its growth targets, but seems to have inflation under control. As measured by the J.P Morgan Emerging Market Bond Index, yields to maturity are slightly above 9% in USD terms. These are attractive yield levels and we see opportunities in emerging market bonds, some of which still have solid economic growth. In our tactical portfolio positioning, we have an above-average weighting in the segment.



**The yield spread of 10-year and 2-year US government bonds declines**

Source: Bloomberg, illustration by Bergos AG

### Credit spreads could rise again

Credit spreads on corporate bonds have been moving more or less sideways since the July tightening, and it may well be that while or after policy rates peak, they will soon reach a cyclical low. In any case, default rates on consumer loans tended to rise again under the pressure of the interest rate burden, after having been cushioned by fiscal support in the wake of the pandemic. In addition, default rates on leveraged corporate loans rose steadily in both the USA and the euro area. The trend in credit quality is turning negative, as financing conditions tighten and interest coverage ratios tend to decline. Real estate companies remain one of the most vulnerable sectors, as they are also often highly leveraged and their portfolios are sensitive to interest rates.

S&P expects default rates for bonds with a speculative grade rating, i.e. below investment grade, in the USA and Europe to rise by more than 3 percentage points from their lows at the beginning of 2022 to around 4.5% by the third quarter of 2024. The global credit cycle indicator (CCI) developed by S&P, a leading indicator for predicting potential stress in the credit system, was at a peak in the second quarter of 2021. Historically, such peaks in the CCI have occurred six to ten quarters before periods of stress in the credit system. While defaults have increased, headwinds from support money due to the COVID-19 pandemic, years of cheap money, and economic resilience appear to have pushed the peak of credit stress beyond 2023. For us as investors, this means that we prefer to focus on quality in the corporate bond segment. In high-yield bonds, we consider credit spreads to be too low. They reflect an optimistic picture of the future and are rather expensive relative to investment grade bonds. We therefore remain underweight high-yield bonds in our portfolio.





# ALTERNATIVE INVESTMENTS

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COMMODITY MARKETS ON THE MOVE

BY SOUMAILA TÉKÉTÉ

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## **Gold is increasingly losing its appeal for investors**

We have been pointing out for some time that the gradual pricing in of a nominal interest rate cap does not equate to falling real interest rates. In fact, the market is currently showing just the opposite, as the real cost of raising capital has continued to rise in recent weeks. Higher real interest rates have also increased the opportunity cost of potential investments, which poses a challenge to the investment environment - especially for non-interest bearing assets such as gold and precious metals.

The recent strength of the US dollar has further complicated the situation. Unsurprisingly, gold ETFs globally are seeing a steady decline in their holdings. This reflects increasing investor skepticism. This deteriorating short-term sentiment cannot be helped by the fact that central banks continue to be net buyers in the gold market and should continue to support demand in the medium term.

Gold also failed a technical stress test. Thus, the recent short-term downward movement intensified after the most important moving average price lines were broken downward. Interestingly, gold's classic

role as a safe haven has also arguably become less attractive to investors recently. Therefore, as long as economic fears do not increase again in the near future, there are many indications that the upside potential for gold prices will remain limited.

### **The recent rise in oil prices is likely to fuel inflation again**

Following the quiet phase of recent months, the energy markets are currently seeing renewed price increases - this time primarily on the crude oil market. The International Energy Agency (IEA) forecasts that the extended oil production cuts by Saudi Arabia until the end of 2023 will lead to a significant market deficit in the fourth quarter. These cuts, launched by OPEC+ in 2022 and increasingly intensified, caused the benchmark price for crude oil to rise above \$90 per barrel for the first time this year. Although OPEC+ production cuts of more than 2.5 million barrels per day in 2023 have so far been offset by higher supplies from producers outside the alliance, the IEA warned of an imminent supply shortage.

However, continuing economic concerns, particularly regarding China, and differing demand forecasts add to the complexity of the situation. For their part, higher energy costs are likely to have a negative impact on economic growth. First and foremost, however, they are likely to fuel the inflation issue once again. Indirectly, this also strengthens the “higher for longer” proponents on the market, who are counting on a prolonged phase of sustained high interest rates to further combat inflation.

Regardless of the further development of demand, the latest additional production cuts by OPEC+ and the voluntary cuts by Saudi Arabia are likely to further reduce global production by another 1.3

million barrels of oil per day at least until the end of the year. In the USA, crude oil inventories are now also at the lower end of the range of what is typically expected at this point in the year.

The forward curve is in “backwardation”, i.e. contracts with an exercise date in the near future are significantly more expensive than long-dated contracts with later exercise dates. This usually indicates a rather tight physical supply-demand situation.

In principle, we expect a plateau to form near current oil prices. In view of the forecast deficit and tight inventories, an overshooting of prices to beyond the USD 100 mark cannot be ruled out. This applies in particular if the OPEC+ countries maintain their restrictive production policy beyond the end of the year and speculation gains momentum.

### **“Alternative credit and private debt” remains one of the most attractive market segments in the current environment**

The market for alternative and private loans continues to be rather stable. In the current environment, the asset class is benefiting from various developments. Stricter regulations and the declining presence of traditional banks mean that companies are increasingly looking for alternative financing options. Alternative credit and private debt investments are gaining in importance as they precisely serve this growing demand for financing outside the usual bank financing channels. Investors have a strong negotiating position in negotiations with companies due to the current market conditions and can obtain advantageous terms.

For investors, however, the segment is interesting not only because of the structural growth but

also because of the high “carry”. The expected absolute return that investors are likely to achieve from their investments remains very attractive. This makes the asset class appealing, especially in relative comparison with other asset classes.

The rise in interest rates will be a challenge though, especially for companies with refinancing needs. Debt sustainability is likely to deteriorate for many and the number of defaults will increase. Interestingly, the major rating agencies have so far forecast only moderate increases in default rates. Refinancing requirements are often stretched over a long period of time, avoiding acute stress situations. However, the risks here are very unevenly distributed between individual sectors and individual companies. Overall, the market for private lending thus remains a very promising segment for investors. Nonetheless, a selective approach to investing remains advisable.





# C U R R E N C I E S

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ECONOMIC DEVELOPMENT STRENGTHENS THE DOLLAR

BY DR. JÖRN QUITZAU, BERENBERG GRUPPE

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Inflation rates declined further in the third quarter, and key interest rates continued to rise in many countries. In Switzerland, inflation fell back below the 2% mark (August: 1.6%). Despite the disinflationary trend, prices are still rising too fast in the USA, the UK and the eurozone. Monetary policy takes time to have its effect, so the rate hikes of the past few months have not yet been fully felt in the economy and consumer prices. In the absence of any further action, the tighter monetary policy being pursued by central banks will continue to have a dampening effect on prices over the next few months. From the standpoint of the end of September, it therefore looks like the major central

banks have reached the peak in their interest rates, or at least come close to it. The actions, economic projections and monetary policy outlooks of central banks were having a tangible effect on the currency market in recent weeks.

**Positive economic surprises in the USA,  
Negatives ones in the eurozone**

Following a positive breakout above 1.12 US dollar in July the euro then came under pressure, falling to 1.06 by the end of September. The main reason for this weakness was a re-assessment of the economic situation on both sides of the Atlantic



**EUR/USD – Euro falls back again**  
 in US dollars  
 Source: Macrobond

and the resultant shift in monetary policy outlook. The performance of the eurozone economy remains sluggish. Stagflation is the order of the day. Germany, the largest economy in the eurozone, is proving to be a brake on growth. At the moment it looks as if winter may witness another small recession. With the economy weakening, pressure on the European Central Bank (ECB) to raise its key rate another large step has eased. The hike in September may well turn out to mark the end of the interest rate hiking cycle. The US economy, on the other hand, is proving remarkably robust despite the strong tightening of monetary policy. The widely feared recession looks set to be avoided. A soft landing for the economy now looks likely. This in turn reduces the probability of any major rate cuts from the Fed next year, which would likely have been necessary to revive the economy in the event of a major recession. In fact, a further increase in rates cannot be entirely ruled out. The consequence is that, in recent weeks, the currency

market has priced in less tightening from the ECB and less loosening next year from the Fed than was anticipated until recently. As a result, the interest rate pickup in the USA will not disappear for some time, further strengthening the dollar and dashing hopes of euro appreciation.

Right now, the economic backdrop does not favor the euro. However, if market participants start to shift their attention towards the end of the year to the possibility of an economic recovery in the eurozone in the spring, sentiment could easily switch back in favor of the euro. A moderate rise in the exchange rate for the common currency thus remains a realistic scenario.

**Swiss franc: Switzerland remains an anchor of stability**

The euro remains on the defensive against the Swiss franc, and has been trading consistently below parity since March. At times the distance from parity has been substantial: CHF 0.95 to 0.97. Apart from its safe haven status, the franc has also been profiting from the policy of the Swiss National Bank (SNB) to keep the currency strong as a way of fighting inflation. This has been successful; since June, Swiss inflation has been back below the 2% mark again. Hence it is questionable how long the SNB will stick to its strong franc policy. At its last meeting in September, it kept the key rate unchanged. Nevertheless, the euro seems likely to tread water against the franc.

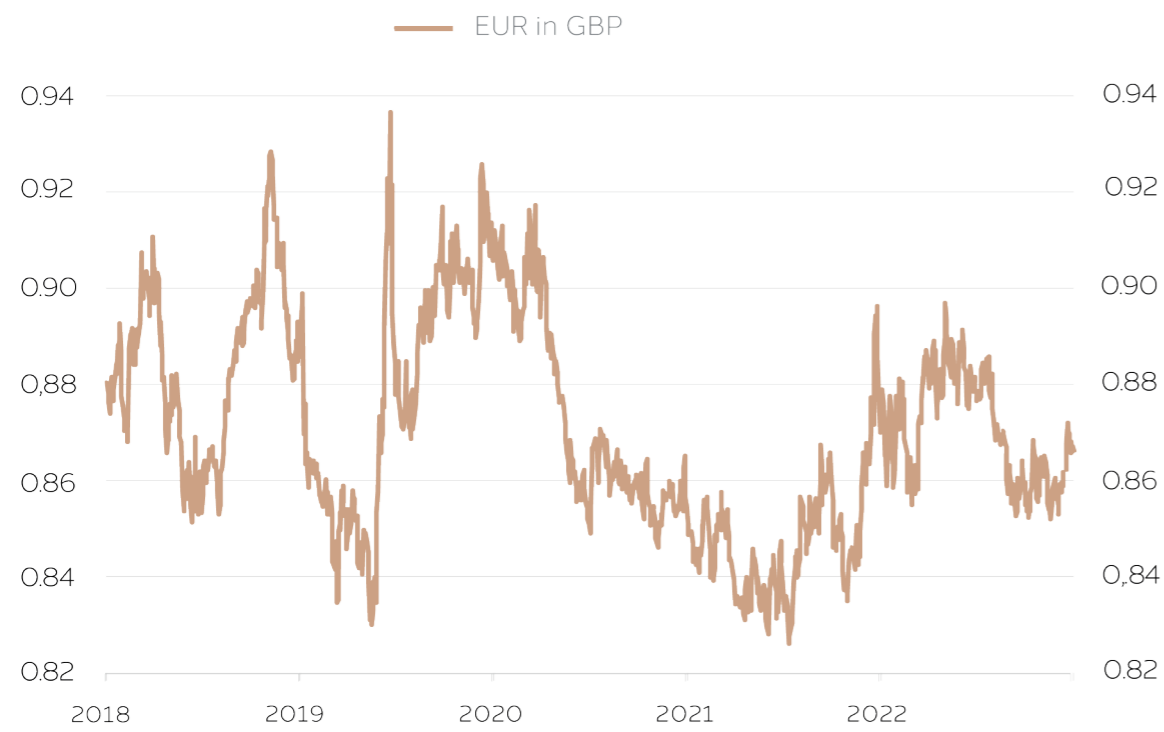
**British pound: inflation finally on track, EUR/GBP tracks sideways with volatility**

Inflation has remained particularly stubborn in the UK, with figures surprising on the upside for several months. This has compelled the Bank of England (BoE) to tighten monetary policy more than observers had expected. The tighter monetary policy has supported the British pound, driving the euro down to a range of 0.85–0.86. The August inflation data released in mid-September then came as a positive surprise; instead of rising from 6.8% to 7.0% (as the consensus had anticipated), price increases slowed in the month to 6.7% year on year. Core inflation, excluding volatile food and energy prices and giving a more accurate picture of domestic price pressures, produced an even greater surprise than inflation overall. This fell

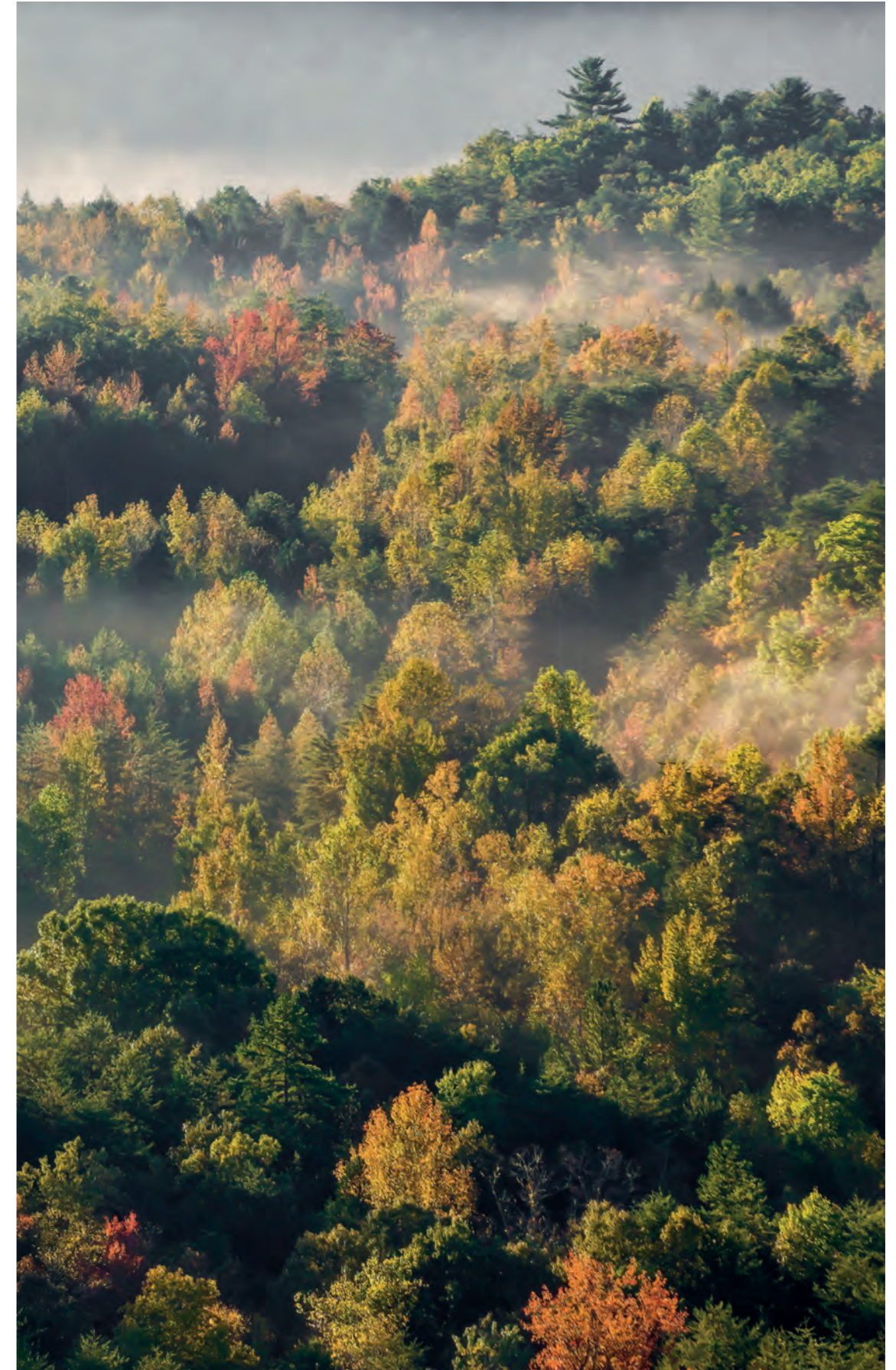


**EUR/CHF – Stable below parity**  
 In Swiss francs  
 Source: Macrobond

from 6.9% in July to 6.2% in August, compared to a consensus expectation of 6.8%. The inflation data gave the BoE good grounds not to raise the key interest rate. At the September meeting of its Monetary Policy Committee, the nine members voted 5:4 in favor of leaving the key rate at 5.25%. That is good for the UK economy but the decision triggered a minor correction for the pound. The euro rose towards 0.87 pounds per euro. We do not see the rate moving far from this level, however. A sideways trend with the normal fluctuations is likely.



**EUR/GBP – Bank of England leaves key rate unchanged in September, pound weakens slightly**  
In pounds sterling  
Source: Macrobond





# B E R G O S V I E W

## BANK VIEW

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

## FIXED INCOME

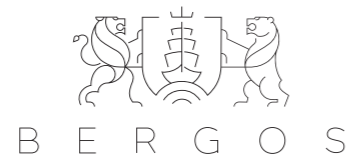
	--	-	0	+	++
<b>FIXED INCOME</b>	○	○	●	○	○
<b>DENOMINATION US DOLLAR</b>	○	○	●	○	○
DURATION	○	○	●	○	○
SOVEREIGNS	○	○	●	○	○
CORPORATES NON-FINANCIAL	○	○	●	○	○
CORPORATES FINANCIAL	○	○	●	○	○
SENIOR	○	○	●	○	○
SUBORDINATED DEBT	○	○	●	○	○
CORPORATE HIGH YIELD	○	●	○	○	○
<b>DENOMINATION EURO</b>	○	●	○	○	○
DURATION	○	○	●	○	○
SOVEREIGNS	○	○	●	○	○
CORE	○	○	●	○	○
PERIPHERAL	○	○	●	○	○
CORPORATES NON-FINANCIAL	○	○	●	○	○
CORPORATES FINANCIAL	○	○	●	○	○
SENIOR	○	○	●	○	○
SUBORDINATED DEBT	○	○	●	○	○
CORPORATE HIGH YIELD	○	●	○	○	○
<b>EMERGING MARKETS</b>	○	○	○	●	○

## ALTERNATIVE INVESTMENTS

	--	-	0	+	++
<b>ALTERNATIVE INVESTMENTS</b>	○	○	○	●	○
<b>COMMODITIES</b>	○	○	●	○	○
ENERGY	○	○	●	○	○
INDUSTRIAL METALS	○	○	●	○	○
PRECIOUS METALS	○	○	●	○	○
<b>HEDGE FUND STRATEGIES</b>	○	○	●	○	○
LONG / SHORT	○	○	●	○	○
RELATIVE VALUE	○	○	●	○	○
MACRO	○	○	●	○	○
EVENT-DRIVEN	○	○	●	○	○
<b>CONVERTIBLES</b>	○	○	○	●	○
<b>ALTERNATIVE CREDIT AND PRIVATE DEBT</b>	○	○	○	●	○
<b>REAL ESTATE</b>	○	○	●	○	○

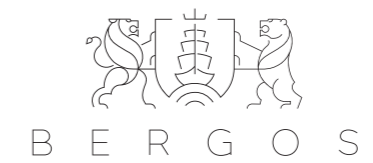
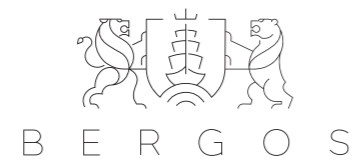






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