



ZÜRICH
12/2023

MARKET-COMMENTARY

BERGOS
PRIVATE BANK



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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.

OUTLOOK 2024: BONDS OVERWEIGHT FOR THE FIRST TIME IN MANY YEARS

Investors should rethink their positioning ahead of the coming year, according to Till Christian Budelmann, Chief Investment Officer of the private bank Bergos. The higher level of interest rates and the economic outlook have fundamentally changed the investment landscape. Investors can earn money on bonds again, while the return prospects for equities appear to be limited. According to Budelmann, the big US technology stocks will no longer be the main drivers of stock markets in 2024. He is now looking at smaller-cap stocks as well.

"Interest rates have peaked", said Till Budelmann. He expects no further interest rate hikes either by the US Federal Reserve or the European Central Bank in 2024. On the contrary, first the Fed and then the ECB could actually lower interest rates in the spring or summer. Inflation risks appear to be receding. Swiss private bank Bergos anticipates an inflation rate of 2.8 percent in both the United States and the Eurozone in 2024. Despite the sharp rise in interest rates, Budelmann does not expect a global recession: "We expect a soft landing for the developed economies." For the United States, Bergos expects that economic growth will slow to 1.5 percent in 2024, after 2.5 percent in 2023. For the Eurozone, the Bank expects economic growth of 0.7 percent in the coming year, after 0.5 percent in 2023. However, the German economy could temporarily dip into a technical recession.

This cautiously constructive outlook is tempered by uncertainties and risks that bear watching, including those arising from the ongoing Russia-Ukraine war, the conflict in the Middle East, and structural problems in China. The upcoming presidential elections in Taiwan could increase the tensions between China and Taiwan. Markets will also be preoccupied with the primary and general elections in the United States next year.

Solid return with a balanced portfolio

"The changed situation and the macroeconomic outlook for 2024 necessitate some changes in our positioning. Thanks to higher interest rates, bonds offer more attractive returns again. For the first time in a long time, we see modestly better chances for bonds than for equities globally", Budelmann said. Although he believes that the income potential of equities is limited, he anticipates a positive year for equities with a performance in the mid-single digits. In his view, a return of more than 5 percent – and thus a positive result after inflation – can be achieved with a balanced, actively managed investment portfolio in 2024.

Bonds: Overweight and longer durations

Bonds had long been underweighted in the Bergos portfolios. The weight was raised to neutral about a year ago. And now the bank is overweighting them. "Investors lost money with global bonds in 2021 and they lost a whole lot more money in 2022. Global bonds generated a modest return in 2023. And now bonds are again expected to yield a higher return in 2024, maybe even more than equities", Budelmann said. The higher relative attractiveness of bonds can be seen in the yield gap, which is the difference between the earnings yield of equities and the yield of 10-year government bonds. In the US market, the yield gap is less than 1 percent, well below the long-term average.

In line with the private bank's anti-cyclical investment approach, bonds are now overweighted, and durations are longer, both for US dollar bonds and euro bonds. "If our expectations materialise and we see a noticeable decline in interest rates, we could realise disproportionately high gains", Budelmann said. He is cautious regarding high-yield bonds because the spreads in this segment are relatively low, meaning that the risk assumed is not adequately rewarded. He sees a better risk reward from emerging-market bonds.

Equity focus: USA, Japan, India, and European small caps

The Bergos Chief Investment Officer still recommends a neutral positioning in equities. "From a regional perspective, we continue to prefer the United States and Japan over Europe and emerging markets", Budelmann said. Economic growth in the United States is more robust than in Europe. In Japan, equities are supported by comparatively loose monetary policy. Whereas currency hedging had made sense earlier, that will probably no longer be needed in the future. "We think that the substantial Yen devaluation of the past years has come to an end. The Japanese currency can be expected to remain stable against the euro and it could actually gain a little against the US dollar in 2024", Budelmann said. Bergos continues to take a generally sceptical view of emerging-market equities, especially in the Chinese stock markets. The Bank takes a more positive view of India, where strong economic growth and earnings growth are expected. Therefore, Indian equities are being added to the Bergos portfolios as a new diversification element, effective immediately.

Budelmann sees a need to change positioning in the big US technology growth stocks, which were once again the driving force for stock markets in 2023 thanks to the progress made in artificial intelligence (AI). "AI is not just short-term hype; it will in fact change our world over the long term. However, a good share of AI's potential is already priced in. After betting heavily on stocks in the "US Ultra Large Cap Quality Growth" segment, we have since downgraded US technology stocks", Budelmann said. He now prefers a balanced mixture of value stocks and growth stocks. From an anti-cyclical perspective, he also sees upside potential in smaller stocks, especially European small caps: "Many of these stocks are now massively undervalued and can therefore be expected to close some of the gap."

Liquid alternative investments: Gold remains an important portfolio component

Alternative investments had long been overweighted in the liquid portfolios of Bergos. They mainly served as an alternative to low-yielding bonds. But now such an alternative is no longer absolutely necessary, for which reason the bank has downgraded this asset class to neutral. Budelmann's favourites include alternative credit and convertible bonds. Bergos is still maintaining an at least strategic gold allocation considering that it always proves itself in times of crisis. Budelmann: "The negative effect of rising interest rates on gold has been overshadowed by geopolitical events. And if interest rates fall again, the opportunity costs of holding gold will also go down."



Bergos AG is an independent Swiss private bank with headquarters in Zurich and offices in Geneva. It emerged from Joh. Berenberg, Gossler & Co. KG, it has been active in the Swiss financial centre for international private clients and entrepreneurs for over thirty years. The Swiss private bank specializes in asset management and advisory services. For its more than 100 employees, the focus is on providing advice in all known liquid and non-liquid asset classes, as well as in alternative investments such as real estate, private equity or art. It provides entrepreneurial clients with access to M&A and other corporate finance services. Bergos AG offers private clients, entrepreneurs and their families a holistic service spanning several generations, which, in addition to investment recommendations, aims at security, neutrality, internationality and cosmopolitanism.

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