BERGOS

Reflexions

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BERGOS

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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CONTRIBUTING AUTHORS

MAXIMILIAN HEFELE

CFA - DEPUTY CHIEF INVESTMENT OFFICER

Maximilian Hefele is Head of Asset Management at Bergos since 2003. He is responsible for all discretionary investment solutions offered by the bank. He is also Managing Director, Deputy Chief Investment Officer and member of the bank's investment committee.

TILL C. BUDELMANN

CHIEF INVESTMENT OFFICER

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´s 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.

FREDERIK CARSTENSEN

EQUITY STRATEGIST

Frederik Carstensen joined Bergos in 2015 as a portfolio manager and has since been responsible for various equity funds and mandates. As a member of the investment committee, he leads the top-down equity strategy and regularly comments on events in the international equity markets.

CHRISTOPH JUNG

CIIA, FRM - BOND STRATEGIST

Christoph Jung joined Bergos in 2022 and is responsible for the top-down strategy as well as the bottom-up approach for fixed income investments. As a member of the investment committee, he is responsible for the fixed income strategy.

SOUMAILA TÉKÉTÉ

CAIA, CIIA STRATEGIST ALTERNATIVE INVESTMENTS

Soumaila Tékété joined Bergos in 2016 as a cross-asset strategist and has since been responsible for various investment strategies. As a member of the investment committee, he is also responsible for strategy in the alternative investments area. Previously, he held various portfolio management positions at Union Investment and DZ Privatbank in Frankfurt and Zurich.

STEFFEN KILLMAIER

CURRENCY STRATEGIST

Steffen Killmaier joined Bergos in 2013. Among other things, he is responsible for the development of the top-down currency strategy and is a member of the bank´s investment committee. Killmaier holds a degree in Banking and Finance from the University of Zurich.

EXECUTIVE SUMMARY

ABOUT OUR WINTER ISSUE

Dear Readers,

Global equity and bond markets experienced dynamic upward trends as 2023 drew to a close. Thanks to a favorably positioned investment strategy, it even proved possible to make up the sharp losses suffered in 2022, which was a disastrous year on the capital markets. The major challenge lay in the huge performance dispersion between different segments of the market. At the regional level, the "Magnificent Seven" tech stocks – Apple, Microsoft, Amazon, Alphabet, Nvidia, Meta Platforms and Tesla – drove the US stock market. Investors with too little in these index heavyweights found it hard to keep up with the market. The S&P 500 leaped 24% in local currency terms; Chinese stocks as measured by the Hang Seng Index fell more than 13% – an unusually high level of divergence.

The Japanese equity market, on the other hand, produced a positive surprise, with the Nikkei shooting up more than 28% in local currency. The Bank of Japan was the only central bank among the major industrial nations to stick to its policy of low interest rates. This was good for the economy and the equity market, but constituted a huge headwind for the currency. This delighted any Western investors who had hedged the yen against their home currency in addition to holding Japanese stocks.

The dominant theme in 2023 was an easing of the situation on the inflation front. The trend is heading in the right direction in the United States and Europe. Bond yields in US dollars and euros continued to rise until mid- to late October, however – whereupon they abruptly changed course. In December, the Federal Reserve warned market players to get ready for rate cuts in 2024 – a totally different scenario for the bond markets. Not only are we kicking 2024 off with rates at a high level, but investors are also anticipating that they will come back down, bringing further price gains.

In our view this opens up new prospects for the asset class, which has become more attractive compared to equities. This is reflected in our positioning on the capital markets for 2024.

In traditional balanced mandates where the focus is on bonds and equities, we are now making use of the ability to diversify once again in this normally conservative asset class and are overweight bonds.

A more detailed look at our views of the capital markets and our positions for 2024 are available in the usual format in this publication.

I hope you enjoy reading it and wish you a healthy and successful 2024.

Kind regards,

Maximilian Hefele

Deputy Chief Investment Officer

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

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C O M P A S S

BASE-CASE SCENARIO

BY TILL C. BUDELMANN, CHIEF INVESTMENT OFFICER

The economies of the developed world are still heading for a soft landing. There are obviously a variety of global problems: In addition to the geopolitical pressures described below, the real purchasing power of consumers, for example, remains under pressure and China´s structural problems are becoming increasingly apparent, particularly in the real estate sector. Nevertheless, a global recession seems rather unlikely at this point in time – even if a technical recession remains part of our base scenario in certain countries, such as Germany.

The interest rate hiking cycle has reached its peak on both sides of the Atlantic. However, monetary policy will remain restrictive for a while and key interest rates will stay elevated. Further actions by central banks will depend on the data situation, which is tending to deteriorate, particularly in Europe. The pace of balance sheet reduction could be increased and become more relevant as a monetary policy tool instead of interest rate hikes. The futures markets expect the Fed and the ECB to cut interest rates for the first time in the spring, which seems realistic to us, at least with regard to the Fed.

In geopolitical terms, the Hamas-led attack on Israel from the Gaza Strip in October has added an additional burden. In purely economic terms, the effects of the war on the oil price and consumer confidence in the western world appear to be decisive. In addition, the ongoing Russian war against Ukraine naturally remains relevant. Our basic assumption remains that Russia will shy away from directly attacking a NATO member state. In addition, it is important to keep an eye on tensions between China and Taiwan.

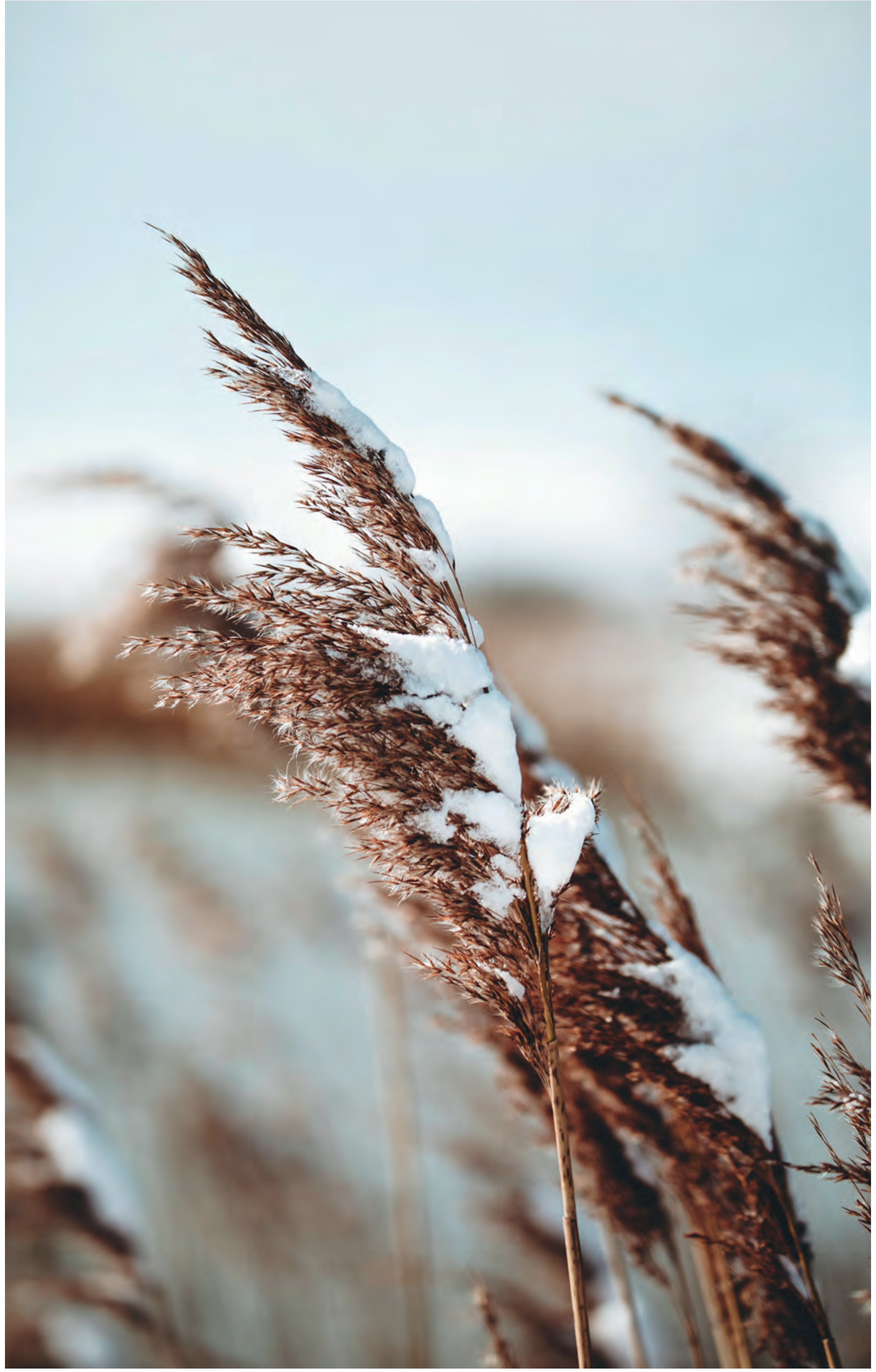
Other than that, the political focus is on the US. There, the approaching presidential primaries are increasingly coming into focus. The following candidates currently appear to have the best chances: Biden, Newsom and Harris among the Democrats and Trump, Haley and DeSantis among the Republicans (each in order of likelihood of being nominated as a presidential candidate according to the Bergos Prediction Market Mix). In addition, Kennedy is now running as an independent candidate.

GDP ESTIMATES

	2022	2023	2024
EUROZONE	+3.4%	+0.5%	+0.7%
GERMANY	+1.9%	-0.2%	+0.5%
SWITZERLAND	+2.1%	+0.7%	+1.2%
GREAT BRITAIN	+4.3%	+0.5%	+0.7%
UNITED STATES	+1.9%	+2.5%	+1.5%
CHINA	+3.0%	+5.0%	+4.0%
JAPAN	+0.9%	+1.7%	+1.0%

CPI ESTIMATES

	2022	2023	2024
EUROZONE	8.4%	5.5%	2.8%
UNITED STATES	8.0%	4.2%	2.8%



M A C R O

E C O N O M I C   O U T L O O K

B Y   T I L L   C .   B U D E L M A N N ,   C H I E F   I N V E S T M E N T   O F F I C E R

The year 2023 was full of challenges. A year ago, the list of economic and political risks was long. Some of the risk scenarios were frightening. The US economy was expected to have a hard landing because the Fed had strongly tightened its monetary policy to fight sky-high inflation. For Europe, a gas shortage with serious economic and social consequences could not be ruled out. There were also fears of blackouts or brownouts (targeted power cuts to stabilize overloaded electricity grids). Politically, an escalation of the Russia-Ukraine war and heightened geopolitical tensions were seen as major risks.

One year later, at the start of 2024, we know that most of the major risks have not materialized: In the USA, it currently looks more like a soft economic landing than a full-blown recession. Europe got through the winter of 2022/23 without any gas shortages or significant power cuts. The economic environment in Europe was certainly difficult, but fortunately there was no severe recession. Although the Russia-Ukraine war is still ongoing and continues to cause great human suffering, the war has lost much of its horror for the economy and the financial markets. Economic players usually react with particular trepidation when the familiar and proven political and economic framework conditions change abruptly. The outbreak of war was therefore a real shock. However, after a phase of adjustment to the new realities, a certain familiarization effect usually sets in. Once the shock has been digested, economic and financial market players come to terms with the new realities. Some of the concerns that paralyzed the economy and weighed on the financial markets a year ago now often only play a subordinate role and have been pushed to the back of people´s minds – even if the dangers have not yet been completely averted.

Focus on relieving factors

The economic and political situation at the beginning of 2024 is once again very challenging. However, many players are now crisis-approved. In the economic outlook, the focus is therefore more on the relieving factors that give rise to hopes of at least a moderate recovery over the course of the year. Particularly high hopes are pinned on the central banks. As inflation rates are falling again almost as quickly as they had previously shot up, the conviction that key interest rates have peaked has prevailed. The major central banks are likely to gradually lower key interest rates again over the course of the year. It currently looks as if the US Federal Reserve and the Bank of England will initiate the turnaround in interest rates somewhat earlier than the European Central Bank (ECB) and also loosen monetary policy somewhat more than the ECB over the course of the year.

The major central banks are likely to start easing monetary policy, although inflation in the US, the eurozone and the UK is still expected to average around 2.5% to 3% in 2024, which is above the central banks´ 2% target. By easing monetary policy, the economy would regain a little more momentum.

Real incomes rise thanks to falling inflation

Rising purchasing power is having a supporting effect. With the sharp fall in inflation, the rate of inflation is falling below the rate of growth in wage income. This means that real wages are rising again and therefore purchasing power is increasing. As a rule, this will not yet compensate for the inflation-related loss of purchasing power in recent years. However, consumer sentiment is likely to brighten because the direction of real wage growth is right.

The recovery in Europe could begin in spring. The fact that the inventory correction in the manufacturing sector could end at the beginning of 2024 should contribute to the upturn. Overall, the economic situation in Europe and Germany is somewhat better than public reporting suggests. The discrepancy between the situation and perception can be explained by the fact that the economy is undergoing profound structural change. Digitalization and ecological restructuring of the economy are leaving their mark. Previously successful business models are coming under pressure. The losers of this change are receiving a lot of media attention. However, new business areas are also emerging elsewhere. In macro-economic terms, things are often leveling out. The highly aggregated economic figures therefore conceal the pressure to adapt that many companies are currently facing.

USA: Weak economy in the first half of the year

For the global economy it remains particularly important how the US economy is going to perform. The economy is likely to cool down further in the first half of the year. The unemployment rate could rise from 3.7% in November 2023 to 4.5%. Even if this would still be a low unemployment rate by historical standards, the Federal Reserve

could use it as an opportunity to stimulate the economy again by cutting interest rates. With a bit of luck, the economy may still manage a low-level growth in the first half of the year before picking up again in the second half. However, GDP growth in the first two quarters is likely to be so close to zero that it will not take much to push growth rates into negative territory in the first two quarters. A technical recession is therefore within the realms of possibility.

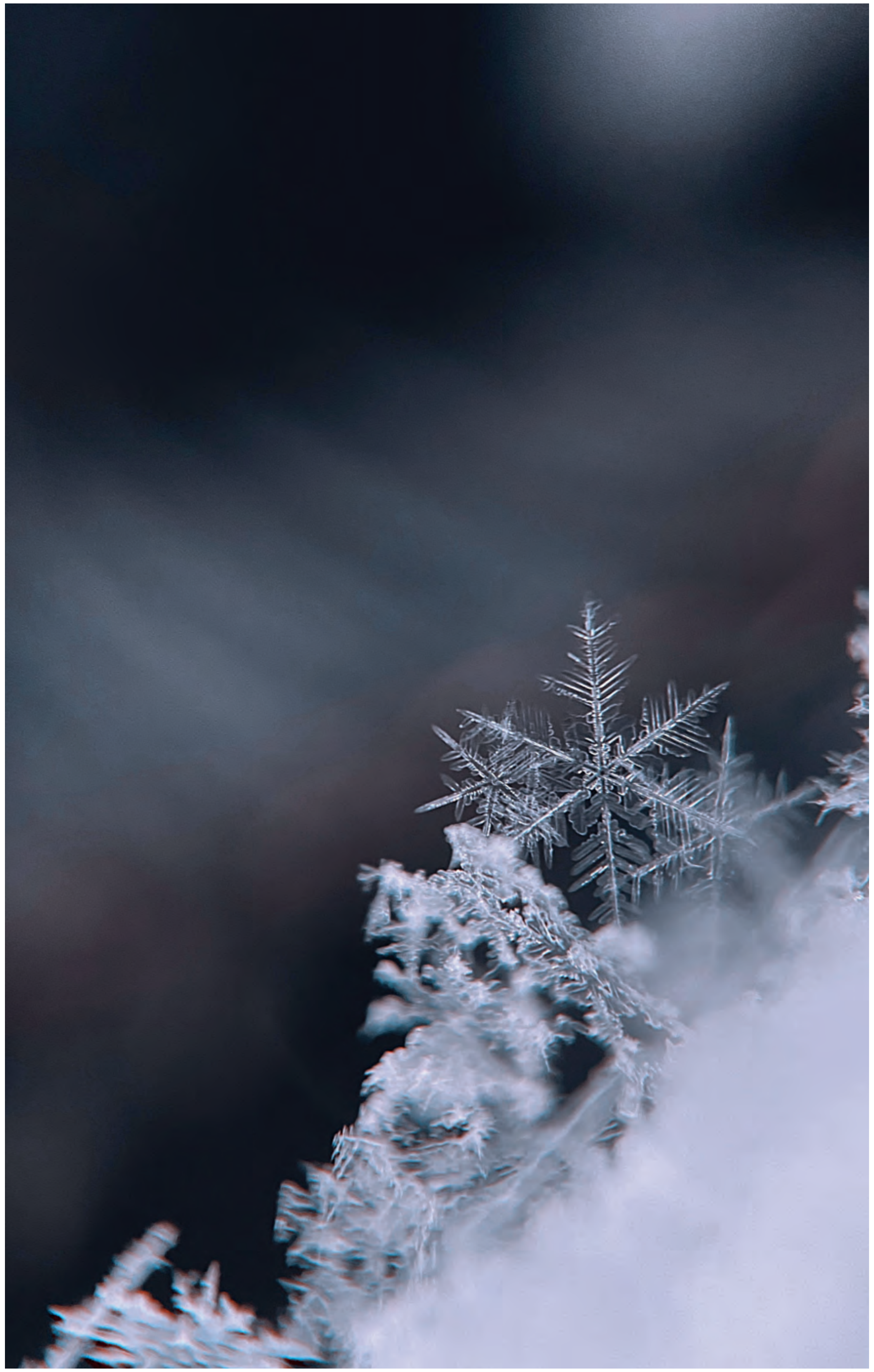
Growth in the eurozone is also so weak that even slight disruptions could extend the technical recession into spring 2024. Actually, it makes little difference whether the economy grows very slightly or shrinks very slightly for two quarters in a row. However, for the media – and therefore also for public perception – it makes a big difference, as reporting may be dominated by the buzzword “recession”.

Risks: Inflation, China, US elections

What are the biggest risks to the economic outlook? Our moderately positive assessment depends largely on the central banks being able to loosen the monetary reins this year. However, inflation must not flare up too much again. This could happen if energy prices rise again. Above all, sharp wage increases that prompt companies to raise their prices further pose a risk. In any case, it is still too early to declare inflation finally defeated.

China – the former growth engine of the global economy – remains a risk factor. Chinese growth has picked up again following the end of the rigid COVID-19 policy. However, China is still a long way from the high growth rates of the past. Monetary and fiscal policy instruments are increasingly blunt and the real estate sector is a latent risk. Moreover, economic growth is no longer the top priority for China. If political goals cannot be achieved in any other way, China may accept a loss of growth. There is therefore no guarantee that China will not allow the Taiwan conflict to escalate further for its own economic interests.

After all, the presidential election in the USA will take place on November 5, 2024. Will it once again come down to a duel between Joe Biden and Donald Trump? Due to the advanced age of the two candidates alone, the presidential election is associated with considerable uncertainties. The reelection of Donald Trump would be particularly relevant for the financial markets and political observers. From an economic perspective, a President Donald Trump would probably be less exciting than at the beginning of his first term in office. Joe Biden has continued many measures that were considered taboo back then – for example the tough stance against China or the protection of domestic industry. Internationally, too, there was a move away from the liberal economic order and a comeback of industrial policy. A return of Donald Trump would therefore be less of a major risk from an economic perspective. The explosive question is how the USA would position itself geopolitically under Donald Trump. Would the United States remain reliable for Europe?



E Q U I T I E S

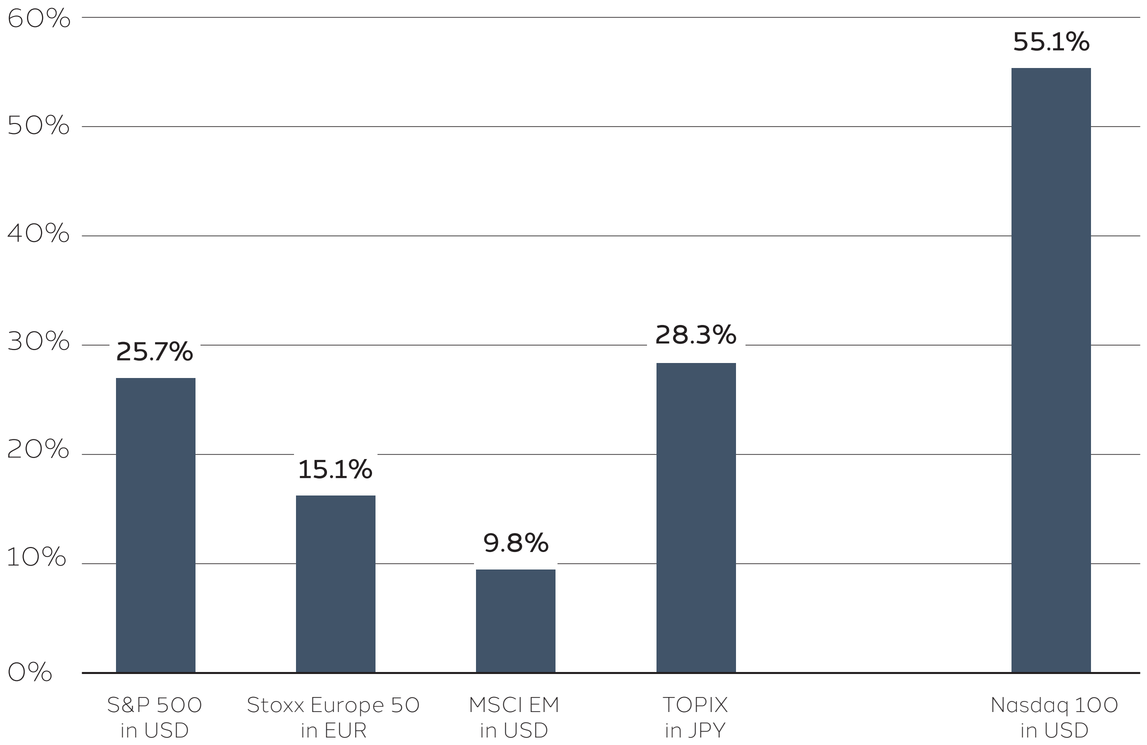
LIMITED POTENTIAL FOR GLOBAL EQUITIES AT THE START OF THE YEAR

BY FREDERIK CARSTENSEN

Overall, the fourth quarter was a solid one for equities as an asset class. After global indices fell in October in the face of geopolitical concerns and rising interest rates, November – one of the historically better months for equities in seasonal terms – saw a technical countermovement in the oversold markets. Driven by weaker US economic data and inflation figures and the expectation that interest rates have not only peaked but could soon be lowered in 2024, equities made some strong gains. The combination of falling volatility and rather pessimistic investor sentiment also boosted share prices. The MSCI World Index rose by 6.8% in the fourth quarter and US equities in particular once again recorded strong gains. The S&P 500 ended the year just below its record high reached at the beginning of 2022.

Central bank policy and geopolitics remain in focus in 2024

For 2024, the majority of investors and market strategists have a very uniform opinion: the US economy will make a soft landing in the first half of 2024, the Fed will cut interest rates from the second quarter, bond yields and the US dollar will fall and yield curves will steepen. If there is then a prospect of an economic upturn, this supports the equity markets (especially in the second half of the year) and promises positive, single-digit returns.



Global Equity Market Performance in 2023
Source: Bloomberg, Bergos. Performance as of 12/31/2023 and incl. net dividends

These cautiously optimistic prospects are offset by uncertainties and risks that need to be monitored. These include the ongoing Russia-Ukraine war, the conflict in the Middle East and structural problems in China. In case of the latter, it is important to closely watch the relationship with Taiwan. The presidential elections in the US and the preceding primaries should also keep the markets busy this year. Accordingly, volatility is likely to increase again.

Expected earnings growth too optimistic as always

The strong stock market performance in 2023 was primarily driven by valuations. 12-month forward P/E ratio for the S&P 500 is now back at 20, which is above the historical average of 17. Equities do not currently appear particularly attractive compared to bonds either. The yield gap, i.e. the difference between the earnings yield on equities and the yield on ten-year bonds, continued to narrow over the course of the year. In the US, it is now well below the historical average. Further price potential should therefore come primarily from corporate profits.

After earnings stagnation in 2023, the consensus expects global earnings growth of around 9% for 2024. We believe this is too ambitious for several reasons. Economic growth is likely to weaken in the first half of the year. Continued high wage inflation and rising refinancing costs for companies, together with the now more pronounced onset of disinflation, are likely to limit earnings growth. Accordingly, we expect global earnings growth to more likey be in the mid-single-digit range.

Neutral overall rating; USA, Japan and India preferred

After the strong rally in the fourth quarter, we consider the further potential upside (valuations, corporate earnings, optimistic investor sentiment) and downside (positioning not extreme, central banks probably more supportive) to be limited. Given the cooldown in economic data, a consolidation in the first half of the year after the strong rally since October 2023 does not seem unlikely. We are therefore sticking to our neutral overall rating for the time being.

From a regional perspective, we continue to favor the US and Japan over Europe and the emerging markets. The US is proving to be more economically robust than Europe. In Japan, the comparatively accommodative monetary policy is supporting the stock market. While currency hedging has been an advantage here in the past, it should no longer be necessary in the future. We believe that the significant depreciation of the yen in recent years has come to an end. The Japanese currency should remain stable against the euro in 2024 and even appreciate slightly against the US dollar. We remain skeptical about the emerging markets, especially China, but take a more positive stand on India, which shows strong economic growth and above-average earnings growth.

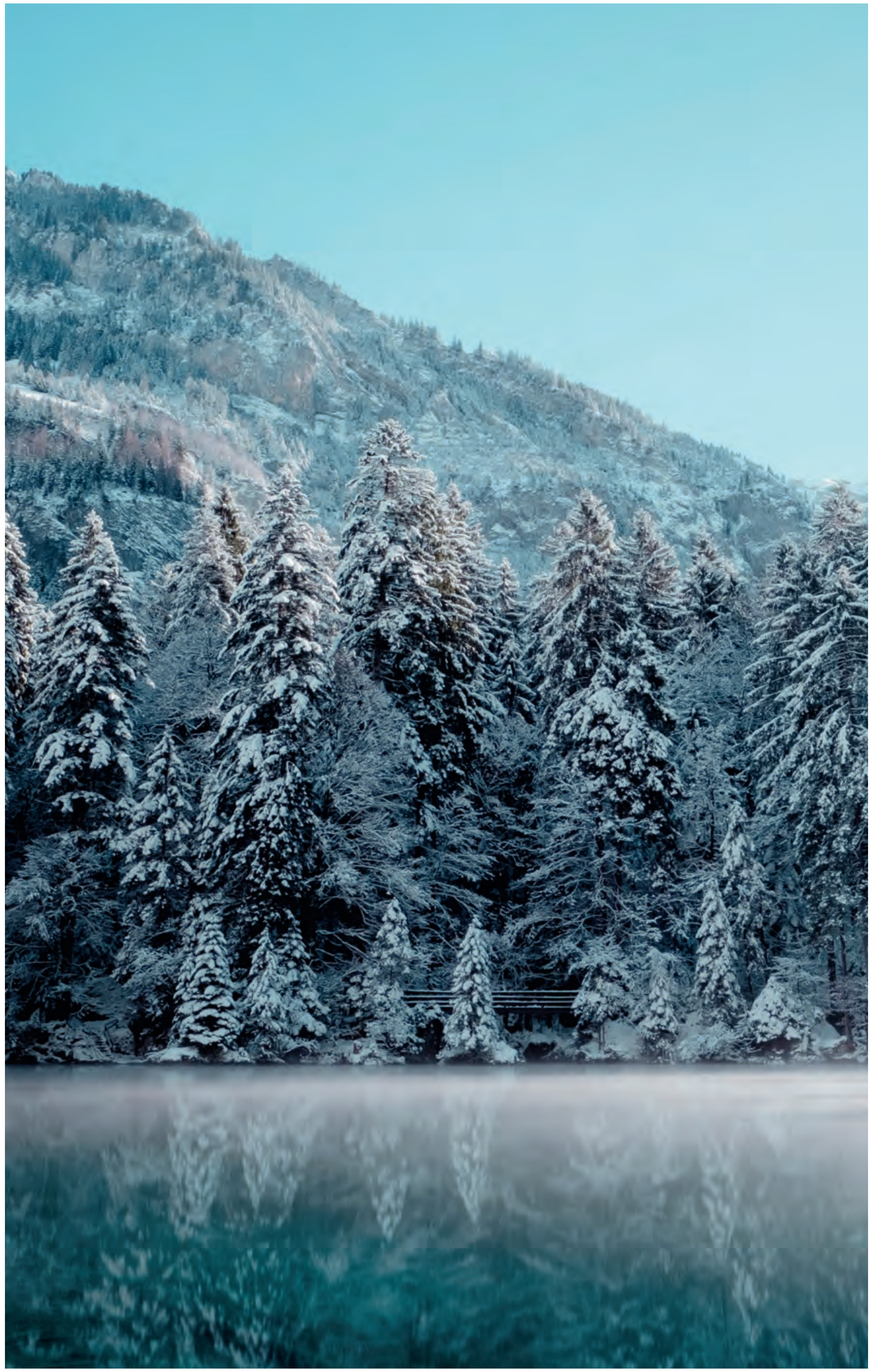
Opportunities for European small caps

Below the surface, market breadth was very low last year. A few highly capitalized companies ("Magnificent 7") accounted for a large part of the overall market performance in 2023. Market breadth is likely to increase again in 2024, meaning that the 2023 laggards still have catch-up potential. This is supported by the fact that the

Growth stocks with significant relative strength in 2023
Source: Bloomberg, Bergos, Data as of 12/31/2023

"Magnificent 7" have already seen enormous inflows and both valuations and earnings growth appear very ambitious in some cases. After focusing heavily on stocks from the "US ultra-large-cap quality growth" segment throughout 2023, we have recently downgraded US technology stocks and now prefer a balanced positioning in value and growth stocks.

From an anti-cyclical perspective, we see particular price opportunities in smaller stocks, especially European small caps. Many of these companies are now massively undervalued, which is likely to decrease to some extent. They are already pricing in an economic downturn and are underrepresented in international portfolios. If European growth accelerates again from the second quarter of 2024, not only profits but also the valuations of European companies are likely to rise. In particular, small-cap stocks, which tend to be interest rate-sensitive, have relative catch-up potential and should benefit disproportionately. We see this as a major opportunity for 2024.



B O N D S

THE PATH TO AN IMPRESSIVE YEAR-END RALLY

BY CHRISTOPH JUNG

In October, some uncertainty was noticeable in the international bond markets. On one hand, there was concern about further geopolitical risks following the outbreak of conflict in the Middle East, and on the other hand – and this was the main driver – the still relatively good economic data, especially from the USA, fueled fears that interest rates could rise in the long term. Thus, the steepening of the US and European yield curves continued, and the negative difference between 10-year and 2-year Treasury yields melted away. This was mainly driven by the long end of the yield curve. For instance, yields on 10-year US Treasuries briefly rose above the 5% mark - a level last seen in 2007. Higher long-term borrowing costs were also evident elsewhere. For example, the average interest rate for 30-year mortgages in the USA reached 7.9%, the highest level since 2000. In Europe, the movement was similar, with yields on ten-year Italian BTPs also rising to nearly 5%, and the 10-year German Bund to almost 3%. Credit risk premiums were burdened by rising interest rates and a mixed earnings season.

Then came a turning point in November and the start of a bond rally triggered by the first "dovish" tones at the November meeting of the US Federal Reserve´s Open Market Committee. Based on the current macro data, the US Federal Reserve kept its benchmark interest rate unchanged at the beginning of November in a range of 5.25% to 5.5%, and the European Central Bank also kept the interest rate for the deposit facility unchanged at 4% after a series of rate hikes. Both institutions signaled a move away from an aggressive interest rate hike cycle to a more stable policy, although they will keep interest rates at a restrictive level for the foreseeable future. Furthermore, a pronounced disinflationary trend was apparent. Notably, core inflation in the Eurozone published for October fell significantly from 4.3% to 2.9%, and in the USA, the consumer price index in October rose by only 3.2% compared to the previous year.

The market adjusted to the new situation, and the yields of US and European government bonds fell. There was also an expectation that the Fed and the ECB would cut rates sooner than originally indicated. The Fed followed suit in December, shifting to an approach that provides for interest rate cuts in 2024. The forecasts published by the Fed on the so-called "dot plot" chart show that the central bank will lower interest rates to an average of 4.6% by the end of 2024, which corresponds to a tightening of three-quarters of a point. Moreover, the Fed also adjusted its inflation forecast for 2024 from 2.6% to 2.4%. The ECB was less confident in its rhetoric and made no statements about interest rate cuts, also keeping the benchmark interest rates unchanged at 4%. By the end of December, markets expected US benchmark interest rates to be between 3.75% and 4% by the end of 2024. Not bad, considering that six rate cuts are twice as many as the Fed is planning. They are even expecting seven rate cuts to 2.25% for Europe.

In the wake of this dynamic, the yields on 10-year US government bonds, which were still scratching the 5% mark in mid-October, closed more or less the same as at the beginning of the year at around 3.9%, the 10-year German government bonds fell from the high by nearly one percent to around 2%, and the yields for 10-year Swiss Confederates closed at 0.7%. In the last two months alone, the Bloomberg Global Aggregate Bond Index in USD (LEGATRUU Index) achieved a total return of 9.4% - making it 5.72% for the year as a whole.

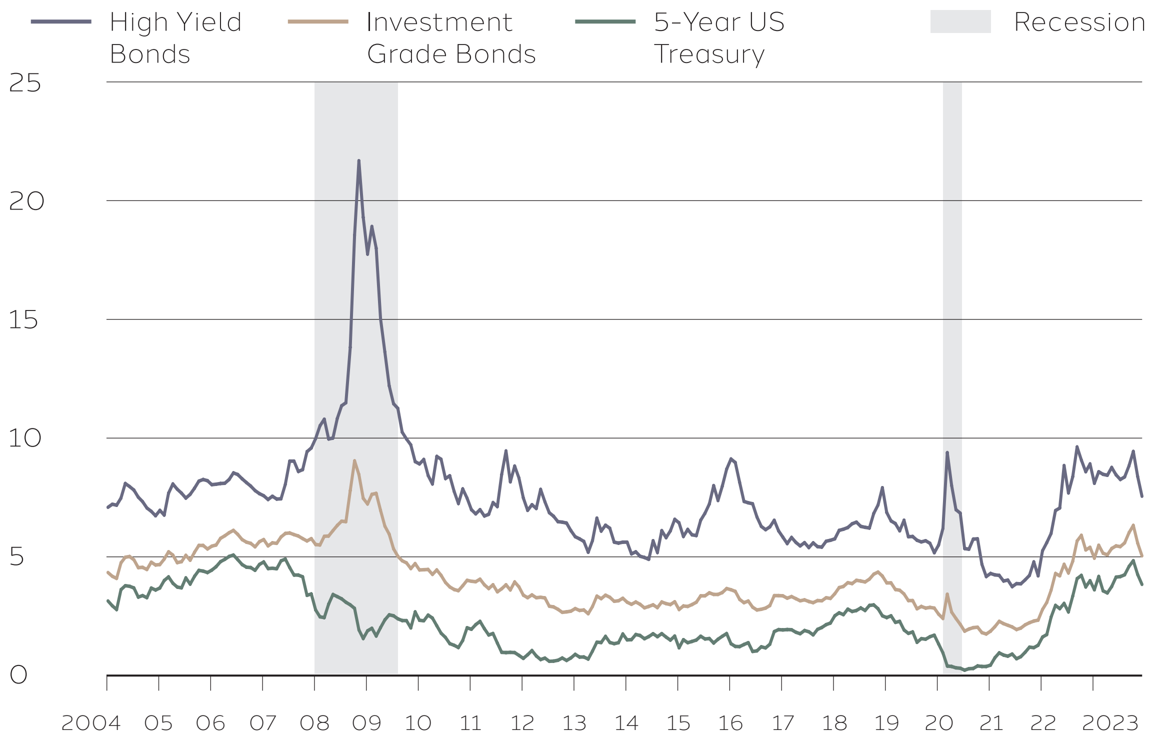
Too early to declare victory against inflation

Central banks must be careful not to declare victory too soon. They saw the rise in inflation too late or not at all for a long time, so a cautious approach by the central banks is understandable to nip any doubts about their credibility in the bud and make it clear to everyone their determination to fight inflation. We see two driving forces. On one hand, falling US commodity prices are pulling inflation down, as pandemic-related expenditure fluctuations ease and supply chains function again. On the other hand, we see the tight labor market, which could cause persistently high wage growth for 2024.

A recent IMF working paper titled "One Hundred Inflation Shocks: Seven Stylized Factst" showed over 100 inflation shocks in 56 countries since the 1970s, including over 60 episodes related to the 1973-79 oil crises. Interestingly, inflation was only reduced to the desired level within five years in 60 percent of the cases, and most unresolved cases could be linked to "premature celebration", where inflation initially fell but then remained at a high level or rose again. The countries that solved the inflation problem pursued a tighter monetary policy and implemented restrictive measures more consistently over time. The key question for central banks will be how long they must keep monetary policy restrictive to be sure that inflation is on a sustainable path back to 2%. Currently, the market is probably too optimistic, but we see it as realistic that the first cut by the Fed will come in the spring, followed by a slight delay by the ECB, and we expect a normalization of the yield curve. In the emerging scenario, high-quality fixed-income strategies offer a compelling opportunity from both a relative and absolute perspective in 2024. We have therefore increased the weighting of fixed income within our multi-asset strategies. In addition, we have consistently increased the interest rate sensitivity (modified duration) and quality of our portfolios.

We focus on quality in the investment-grade range and emerging markets

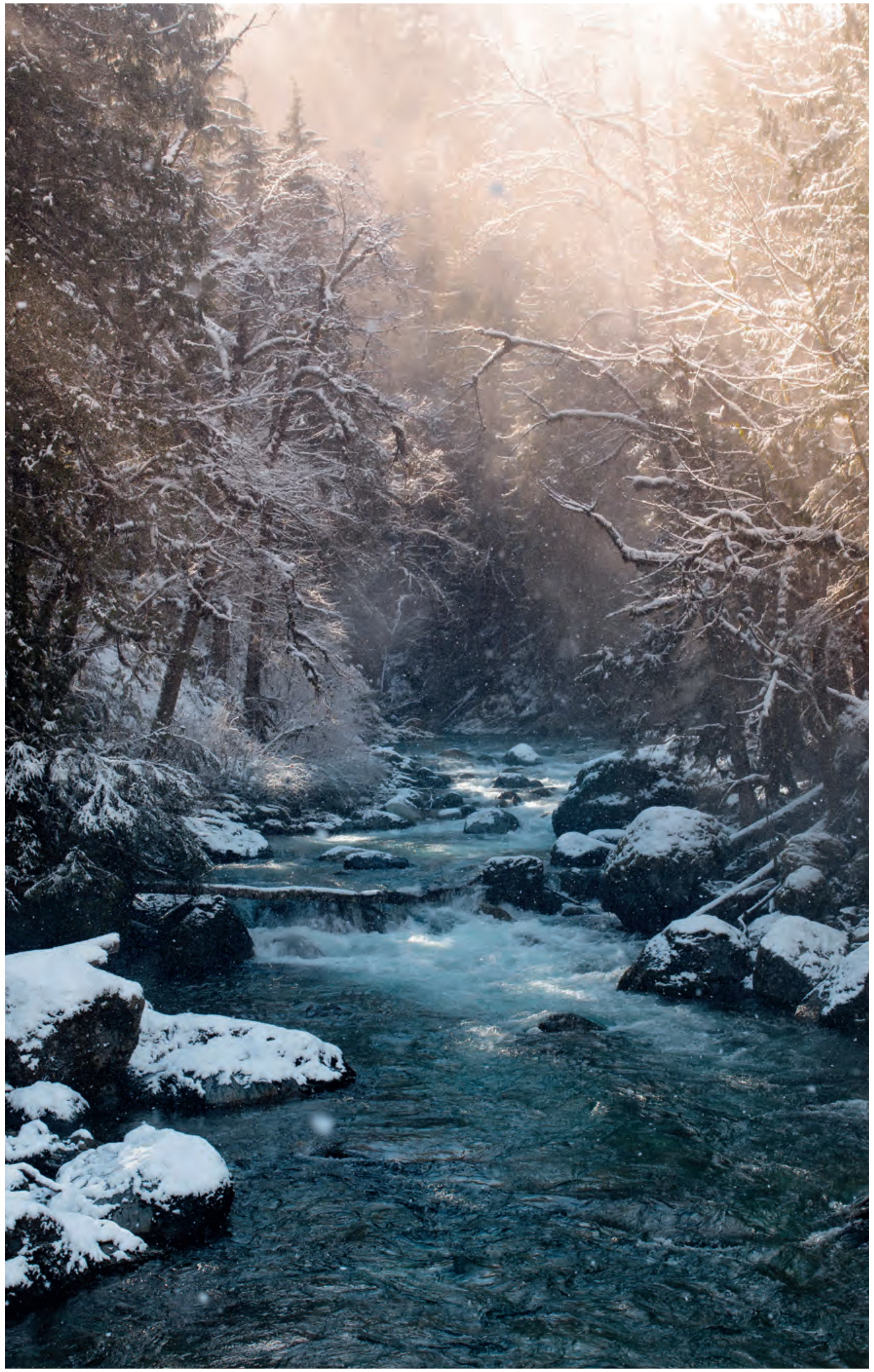
Corporate borrowers are already feeling the effects of higher interest rates, and the erosion of profit margins is becoming increasingly evident. Especially companies in consumer-oriented sectors such as consumer goods, media, and entertainment rely on robust consumer spending – which is under pressure due to inflation and high interest rates. A further erosion of margins due to weaker growth would likely have longer-term effects and lead to an increase in unemployment. Defaults in the US and Europe are already above the historical average and are expected to increase further in 2024. S&P Global Ratings now expects default rates for speculative bonds in the US and Europe to rise noticeably. As the following chart shows, credit risk premiums increase in an economic downturn. Especially in the high-yield segment, credit risk premiums rise sharply and far exceed the effect of a lower yield curve. We generally focus on defensive high-quality borrowers and prefer non-cyclical bonds over cyclical. Active, selective



USD Yield in %
Source: Bloomberg, Illustration by Bergos AG

action is of great importance in this phase. The high-yield segment is vulnerable, and we prefer to remain cautious given the low compensation if we look at credit risk premiums.

Coupon earnings have been the main driver of the performance of emerging market bonds in hard currency so far. The larger carry cushion allows creditors to better withstand unfavorable developments in spread and duration. We believe that bonds from emerging markets will continue to perform well in 2024, not least because of the anticipation of a "soft landing" in the USA. Major central banks in emerging markets are very likely to continue their rate cuts in 2024 (Brazil, China, Chile, Hungary, Peru, and Poland); therefore, the contribution of carry yields in local currency is likely to decrease over the course of 2024.



ALTERNATIVE INVESTMENTS

ALTERNATIVE CREDIT & PRIVATE DEBT REMAIN ONE OF THE MOST ATTRACTIVE MARKET SEGMENTS IN THE CURRENT ENVIRONMENT

BY SOUMAILA TÉKÉTÉ

The market for alternative and private loans continues to grow and offers very attractive conditions at the start of the new year. The segment therefore remains highly attractive for interest and income-oriented investors. The asset class is benefiting from various developments in the current environment. Alternative credit and private debt investments are gaining in importance as they can meet the growing demand for corporate financing outside of the usual bank financing channels. Due to the current market conditions, investors have a strong negotiating position when dealing with companies that seek financing and can therefore achieve very advantageous conditions. The market for private lending therefore remains a very promising segment for investors overall.

Gold was in demand again in the fourth quarter

Gold prices staged a veritable rally in the fourth quarter of last year. In addition to the war in Gaza, which led to an increase in geopolitical risk premiums, this was due in particular to the change in market expectations regarding future central bank policy. The significant decline in market interest rates is a very strong support for gold, as the forgone opportunity costs of holding a non-interest-bearing gold position are thus declining.

From a technical perspective, the gold price has recently made several attempts to break through the three-and-a-half-year trading range to the upside. This has not yet been sustained – gold is once again at the upper end of the trading range, although new all-time highs have already been recorded in intraday trading. However, further fundamental impetus is probably required for a clear breakout.

A further escalation of the situation in the Middle East cannot be completely ruled out. An accompanying possible stagflation scenario with far-reaching supply chain and energy supply disruptions and rapidly increasing risk aversion represents to a certain extent the extreme scenario against which few participants are seeking to hedge with gold positions. The traditional role of gold as a safe haven has therefore become more attractive to investors recently, even if this has not yet been directly reflected in rising ETF holdings.

We expect volatility on the gold market to remain high for the time being. However, with the declining expectations for interest rates, the further price potential also remains. This applies in particular in the event that the Fed actually starts to cut interest rates. On the other hand, there is still a risk of inflation rising again. This, in turn, could destroy the potential for interest rate cuts for the time being.

The oil price is likely to remain volatile

After crude oil prices initially rose to levels of around USD 90 per barrel in the wake of the outbreak of war in Gaza, prices have actually fallen since then despite the ongoing war and in contrary to the expectations of many market participants. Prices are now back at around USD 70, roughly the same level as in the summer months.

From a fundamental point of view, there is indeed a lot to be said for weaker prices. Inventories have continued to rise recently – as has total production by OPEC and non-OPEC countries. In addition, Saudi Aramco, the largest OPEC exporter, recently cut its prices for important types of crude oil in the Asian region significantly, indicating a weak phase on the demand side. This more negative fundamental situation has led to prices falling again despite the geopolitical situation.

However, the risk of a possible further geographical expansion of the conflict in Gaza unfortunately remains real, as the events of recent weeks have once again made clear. This also means that there is still a certain risk of possible exogenous shocks and corresponding price spikes. Due to this mixed situation, we assume that volatility on the crude oil market will remain high throughout the first half of the year and that much attention will be focused on the next OPEC meeting in February. The futures curve is still in "backwardation", i.e. contracts with an early exercise date are significantly more expensive than long contracts with an exercise date in one to two years. This constellation is interesting for speculative investors as it results in additional positive roll yields, contrary to the usual contango situation for commodities. In other words, if futures prices remain unchanged, investors make profits as the futures contract they hold increases in value as time passes and the exercise date approaches. Likewise, this makes entering and holding a position more attractive for potential medium- to long-term investors.

C U R R E N C I E S

MONETARY POLICY AND GEOPOLITICS CONTINUE TO DRIVE CURRENCY MARKETS

BY STEFFEN KILLMAIER

Last year was an eventful year, with two topics in particular having a major impact on the foreign exchange markets. Firstly, the actions of central banks in the inflationary environment repeatedly fueled the imagination of market players and led to corresponding shifts in exchange rates. This was particularly evident in the final weeks of the year. Secondly, safe havens such as the Swiss franc but also the US dollar benefited from geopolitical uncertainties, primarily due to the wars in Ukraine and the Middle East.

It currently looks as if these two factors will continue to play a significant role on the currency markets this year. Market players are likely to keep a very close eye on how inflation develops on both sides of the Atlantic and what can be derived from this for the monetary policy of the major central banks. Furthermore, the geopolitical situation does not look to be easing. The existing conflicts (Russia/Ukraine; Israel/Gaza) are keeping the world in suspense. It is also important to keep an eye on tensions between China and Taiwan. The generally fragile global situation is likely to continue to make safe havens attractive.

Development of the EUR/USD exchange rate
Source: Bloomberg, Bergos, Data as of 12/31/2023

Supporting factors for the US dollar are diminishing

When and how quickly the central banks adjust their monetary policy will be crucial for the further development of the EUR/USD exchange rate in particular. After the US Federal Reserve vehemently fought inflation with interest rate hikes in recent years, the current relatively high interest rates are supporting demand for the US dollar. However, interest rates are now likely to have peaked in both the US and the eurozone. It currently looks as if the Fed will initiate the interest rate turnaround somewhat earlier than the European Central Bank and also ease monetary policy somewhat more over the course of the year. This diminishing interest rate advantage of the US should mean further headwinds for the US dollar in the coming months. In addition, we still see the US dollar as fundamentally overvalued after the noticeable appreciation in 2021 and 2022, taking purchasing power and interest rate parity into account. Another factor in favor of a certain appreciation of the European single currency is the recovery in Europe, which could begin in the spring. Overall, the economic situation in Europe and Germany is somewhat better than the public reports suggest. We are maintaining our slightly positive outlook for EUR/USD in the short and long term.

One risk to our longer-term outlook is the presidential election in the US this year, which will be important for the international economy, international politics and therefore also for the currency markets. It is still too early to provide precise analyses of the potential outcome on November 5. However, it is quite clear that the

Fed will already have this event in mind when making its monetary policy decisions over the course of the year. If markets gain the impression that the possible outcome of the election is more likely to increase geopolitical risks, this would probably lead to some capital flows into the US dollar in the second half of the year. This could keep the US currency at a higher level than we currently expect for the end of 2024.

Swiss franc once again proves its worth as a safe haven

The Swiss franc was the strongest currency among the G10 currencies last year. For example, the franc appreciated by a full 9 percentage points against the US dollar last year and also appreciated noticeably against the European single currency. The Swiss franc has recently benefited not only from its function as a safe haven in the face of geopolitical uncertainties, but in particular from the policy of the Swiss National Bank. In order to combat increased inflation, the SNB strengthened the franc by selling foreign currency reserves and reduced these reserves to a six-year low in November. This is because the high franc exchange rate makes import prices cheaper, which contributes to a relatively moderate upward price trend.

However, this support is now likely to disappear. As the inflation rate is now below the two percent target, the SNB's interest in a strong franc is expected to fade. Yet due to the continuing (geopolitical) uncertainties, the Swiss franc is likely to remain in demand as a safe haven,

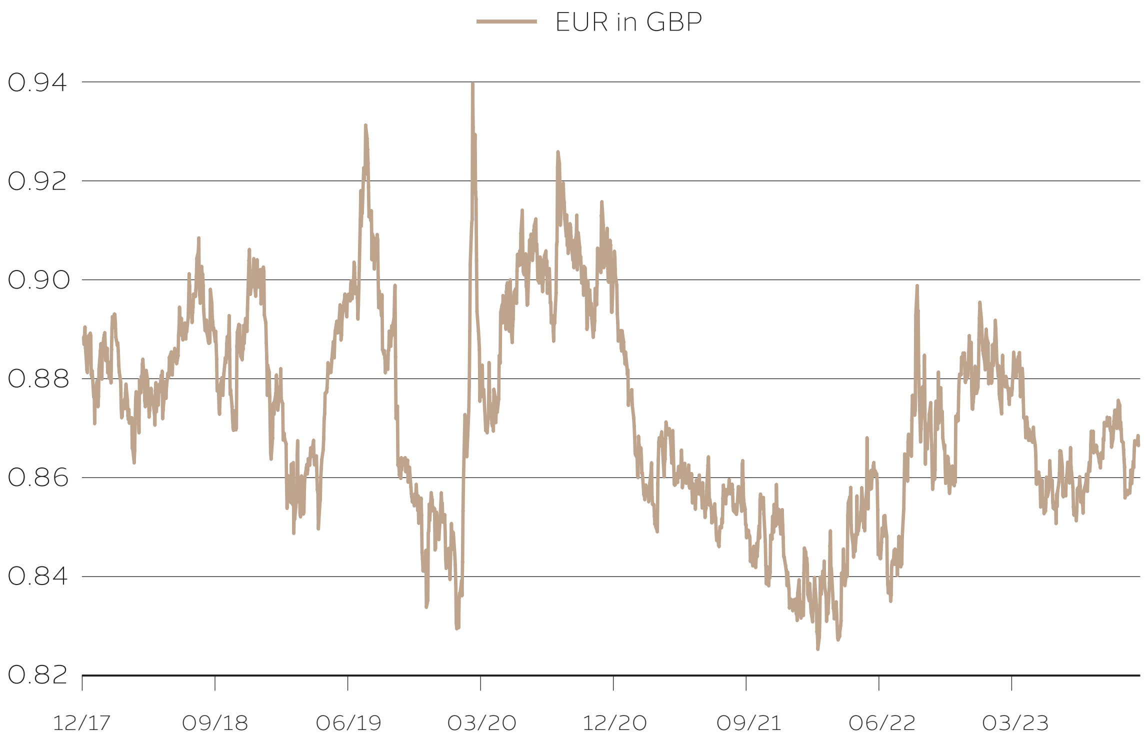
Development of the EUR/CHF exchange rate
Source: Bloomberg, Bergos, Data as of 12/31/2023

at least in the short term. We therefore expect the EUR/CHF currency pair to move sideways over the next three months. However, we see some catch-up potential for the euro against the Swiss franc by the end of 2024.

The British pound is trending sideways against the euro

The British pound has been trending sideways for several years and little is likely to change this year either. The Bank of England left the key interest rate at 5.25% in December, which is also likely to be the interest rate peak. Like the ECB, the BoE hardly commented on cutting interest rates. The BoE has been criticized in the past for the fact that the UK has a greater inflation problem than other European countries. We believe it is quite possible that the BoE will initiate the interest rate turnaround somewhat earlier than the ECB this year and also ease monetary policy somewhat more over the course of the year. This would mean a slight headwind for the British pound. On the other hand, a new parliament will be elected in the UK this year. Fiscal stimulus could be a slight plus for sterling at the margin if introduced in a credible way.

At current levels, we consider the pound to be fairly valued against the euro, which is why we expect the currency pair to continue to move sideways. Short-term breakouts are possible at any time. However, the 0.86 pound per euro mark is likely to retain its appeal.



Development of the EUR/GBP exchange rate
Source: Bloomberg, Bergos, Data as of 12/31/2023

BERGOS VIEW

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

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

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

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Editor
Maximilian Hefele, CFA
Deputy Chief Investment Officer
and Head of Asset Management

Authors
Maximilian Hefele, CFA | Deputy Chief Investment Officer
Till Christian Budelmann | Chief Investment Officer
Frederik Carstensen | Equity Strategist
Christoph Jung, CIIA, FRM | Bond Strategist
Soumaila Tékété, CAIA, CIIA Strategist | Alternative Investments
Steffen Killmaier | Currency Strategist

Managing Editor
Aurelia Rauch | Head of Communications

BERGOS AG

HEADQUARTERS
Kreuzstrasse 5
8008 Zurich · Switzerland

P +41 44 284 20 20

OFFICES
29, Quai du Mont-Blanc
1201 Geneva · Switzerland

P +41 22 308 59 00

www.bergos.ch
info@bergos.ch