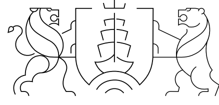

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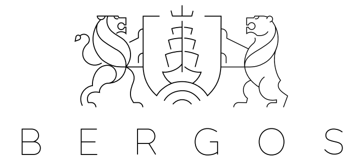

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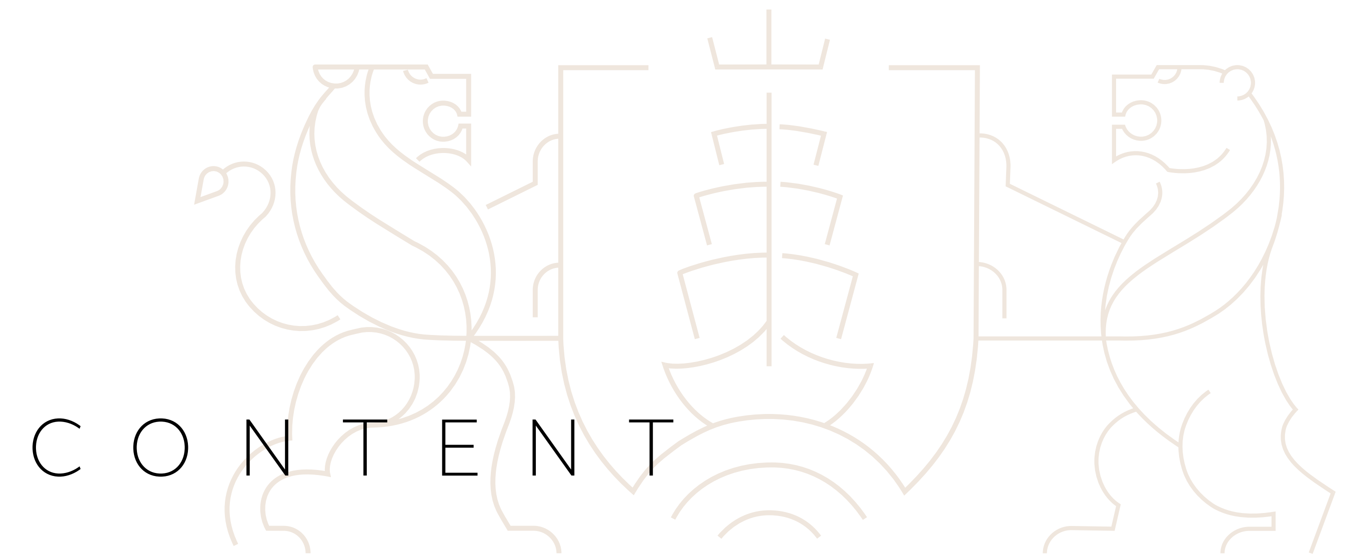

CONTENT

10 EXECUTIVE SUMMARY
MAXIMILIAN HEFELE

14 COMPASS
TILL C. BUDELMANN

17 MACRO
DR. JÖRN QUITZAU

21 EQUITIES
FREDERIK CARSTENSEN

27 BONDS
CHRISTOPH JUNG

33 ALTERNATIVE INVESTMENTS
OLIVER WATOL

39 CURRENCIES
STEFFEN KILLMAIER

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EXECUTIVE SUMMARY

ABOUT OUR SPRING ISSUE

Dear Readers,

The economic trend in the US remains robust and has prompted the US Federal Reserve under Jerome Powell to significantly revise its growth forecasts for the US economy upwards. A recession or a "hard landing" in 2024 has become unlikely based on the current data. The six interest rate cuts priced in by the futures markets at the start of the year were too optimistic. More and more voices are predicting only two interest rate cuts. The dynamic rise in oil and petrol prices and the still very robust labor market support the trend towards fewer and later interest rate cuts.

With the changed probabilities for US Fed Funds rates, yields on US government bonds have also risen significantly again. And how are equities performing in this new interest rate environment?

Measured by the S&P 500 Index, the market is completely unimpressed and is continuing the positive trend that has prevailed since October 2023. And without any significant setbacks. Corporate earnings are above expectations. In our view, it is pleasing that market breadth has increased. On the one hand, Tesla and Apple, stocks from the dominant individual stock bloc of the "Magnificent 7", are crumbling, while on the other, the financial services, industrials and energy sectors have joined IT and communications among the winners.

Regionally, the US equity market remains the global value driver. Japanese shares continue to perform dynamically this year. Structurally, the economy and companies are benefiting from the end of decades of deflation.

It is also worth noting that the price of gold continues to rise in an environment of most likely less and later interest rate cuts, also against the backdrop of financial investors continuously reducing their holdings in gold ETFs. On the other hand, demand from eastern central banks has increased significantly. China is massively increasing its gold reserves, which is also a cause for concern from a geopolitical perspective.

Geopolitics and the economy are the focal points that our new Chief Economist Dr. Jörn Quitzau will be analysing for our bank in future. I am delighted that we have been able to recruit Jörn as an expert for Bergos and that he will regularly highlight the economic analyses in our Reflexions.

I would also like to welcome Oliver Watol to the circle of authors. With immediate effect, he will take over the analyses of liquid alternative investments, including the commodities markets. I would like to thank the previous author for alternative investments, Soumaila Tékété, for his contributions and valued commitment. In future, he will be focussing more on private markets such as private equities and I look forward to a guest article on this exciting investment segment from his pen.

Please enjoy reading our Reflexions!

Kindest regards,

Maximilian Hefele
Deputy Chief Investment Officer

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

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COMPASS

BASE-CASE SCENARIO

BY TILL C. BUDELMANN, CHIEF INVESTMENT OFFICER

The economies of the developed world are heading for a soft landing despite a variety of global problems. Although the pressure on consumers' real purchasing power is easing somewhat, China's structural problems, particularly in the real estate sector, for example, clearly remain in addition to the geopolitical burdens described below. 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.

After Switzerland cut its key interest rate in March, the ECB is set to make its first rate cut in June. Since US inflation surprisingly rose to 3.5% in March, the Fed will not be able to initiate a turnaround in interest rates until later this year. This would mean that, for once, the ECB would lead the way and not follow the Fed as usual. A weaker euro could slightly increase inflationary pressure in the eurozone. However, the ECB would unlikely shy away from taking action because the general inflation trend is sufficiently downward.

Geopolitically, our attention remains focused on the worrying developments in the Middle East. Especially after Iran's retaliatory attack on Israel. Currently, however, the impact on the oil price and consumer confidence in the western world appears manageable. 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. It is also important to keep an eye on the tensions between China and Taiwan.

Other than that, the political focus is now on the US. There, the approaching presidential elections are increasingly coming into focus. The group of relevant candidates has now been reduced to three: Biden among the Democrats, Trump among the Republicans and Kennedy as an Independent. The probabilities of victory according to the Bergos Prediction Market Mix currently see Trump as the frontrunner, slightly favored over Biden and both far ahead of the field. Possible replacement candidates for Biden would be (Michelle) Obama, Newsom or Harris.

GDP ESTIMATES

	2022	2023	2024
EUROZONE	+3.4%	+0.5%	+0.7%
GERMANY	+1.9%	–0.1%	+0.0%
SWITZERLAND	+2.1%	+0.8%	+1.2%
GREAT BRITAIN	+4.3%	+0.1%	+0.5%
UNITED STATES	+1.9%	+2.5%	+2.5%
CHINA	+3.0%	+5.1%	+4.3%
JAPAN	+0.9%	+1.9%	+0.5%

CPI ESTIMATES

	2022	2023	2024
EUROZONE	8.4%	5.4%	2.5%
UNITED STATES	8.0%	4.1%	3.0%

M A C R O

LOOKING TO THE CYCLICAL RECOVERY

BY DR. JÖRN QUITZAU

First the good news: Europe survived the second winter since war broke out between Russia and Ukraine with no major disruptions to output. Much of the fear of the war and its associated energy crisis has faded. Energy costs are mostly back to bearable levels, so there has been a clear easing in the upward pressure on prices. Inflation rates are on their way down and heading towards the 2% level central banks target in most of the major economic areas in the west. The 2% goal has not quite been reached in most countries, but companies and financial markets can hope for a change in the direction of interest rates in the near future. This means monetary policy would be supporting the forthcoming cyclical upturn.

Switzerland is ahead of the pack in this respect. The Swiss National Bank (SNB) already cut its benchmark rate in March, as inflation has been below 2% since the middle of 2023. That gave the SNB scope to loosen and cut the benchmark rate 25 basis points to 1.50%. With inflation having risen only modestly in the past two years by international standards, the central bank clearly has inflation under control. It sees price rises averaging of 1.4% this year and remaining well below 2% in both of the two years after that.

The eurozone, the UK and the USA are all lagging behind Switzerland in the fight against higher prices. But inflation rates don't

necessarily have to fall to 2% or less before central banks can reduce interest rates – monetary policy is felt with a lag. That means the current high levels of interest rates will still continue to put a dampener on inflation for a while even once monetary policy has been relaxed.

Inflation in the eurozone fell to 2.4% in February. That's still some way off the 2% target, but nevertheless a hefty decline from the record 10.7% seen in fall 2022. The signs coming out of the European Central Bank (ECB) suggest rates will be cut at the meeting in June.

In the UK, getting inflation down is proving trickier. In January it was still at 4.0%, but fell more than expected to 3.4% in February – the lowest level since September 2021. The Bank of England (BoE) anticipates inflation will hit or move below 2% in the second quarter, due to the freeze on fuel duty. This could allow the BoE to start cutting its benchmark interest rate in the second quarter, giving a boost to the economy.

In the USA inflation increased to 3.5% in March. That dashed hopes of rate cuts. At the same time, the labor market remains distinctly robust. There are signs employment is cooling, though. The unemployment rate slowly moves in the direction of 4%. The US economy has coped remarkably well with high interest rates, so the Fed is no longer under such pressure to slash rates drastically. It will therefore take a more cautious approach to monetary policy than the market was expecting even recently. The Fed will likely begin loosening later this year.

So within the foreseeable future monetary policy will cease to have a dampening effect. The economy is benefiting, helped not least by the fact that real incomes are rising, with salary increases exceeding inflation in many countries. Having been hit hard by inflation, purchasing power is now enjoying a modest recovery. A shopping frenzy is not yet on the cards though; the purchasing power lost to inflation will only be made up gradually. In Germany, for example, the leading economic research institutes are saying that it will take until the second quarter of 2025 for real incomes to get back to where they were at the end of 2021, before the big spurt in inflation.

All in all, the picture we have painted suggests a slightly livelier economic trend. But the upturn will likely prove lackluster. The eurozone's largest economy, Germany, is set to see growth only just in positive territory in 2024. The one-time locomotive of growth for the eurozone is now a drag factor: growth in the single currency zone will be less than 1% this year. The UK too will only have very moderate growth to boast about, in the region of 0.5%. Things look rosier for Switzerland, where 1% is possible. And even better in the USA; expansive fiscal policy means the country should grow around 2.5%, with the trend slowing a little as the year progresses.

The presidential elections will increasingly dominate the landscape. Former president Donald Trump has secured his party's mandate, so this election is starting to look like a re-run of the last one: Joe Biden vs. Donald Trump. In terms of economic policy it remains to be seen whether the USA maintains its expansive fiscal policy and risks a debt crisis in the longer term. Short term, however, the greater risk for Europe lies in America's foreign and defense policy. What position would the USA take under a President Trump when it comes to supporting Ukraine? And how are we to read his threats that in some circumstances he might quit NATO?

Beyond that, the familiar risks remain; primarily, escalation or expansion of the war in Ukraine and the tensions between China and Taiwan, with the associated implications for geopolitics. The Iran-Israel conflict has recently been added to the risks. Provided these risks do not come to pass or escalate, the global economy should pick up speed again in the next few months. But given the many negative factors, there is no prospect of a real boom.

E Q U I T I E S

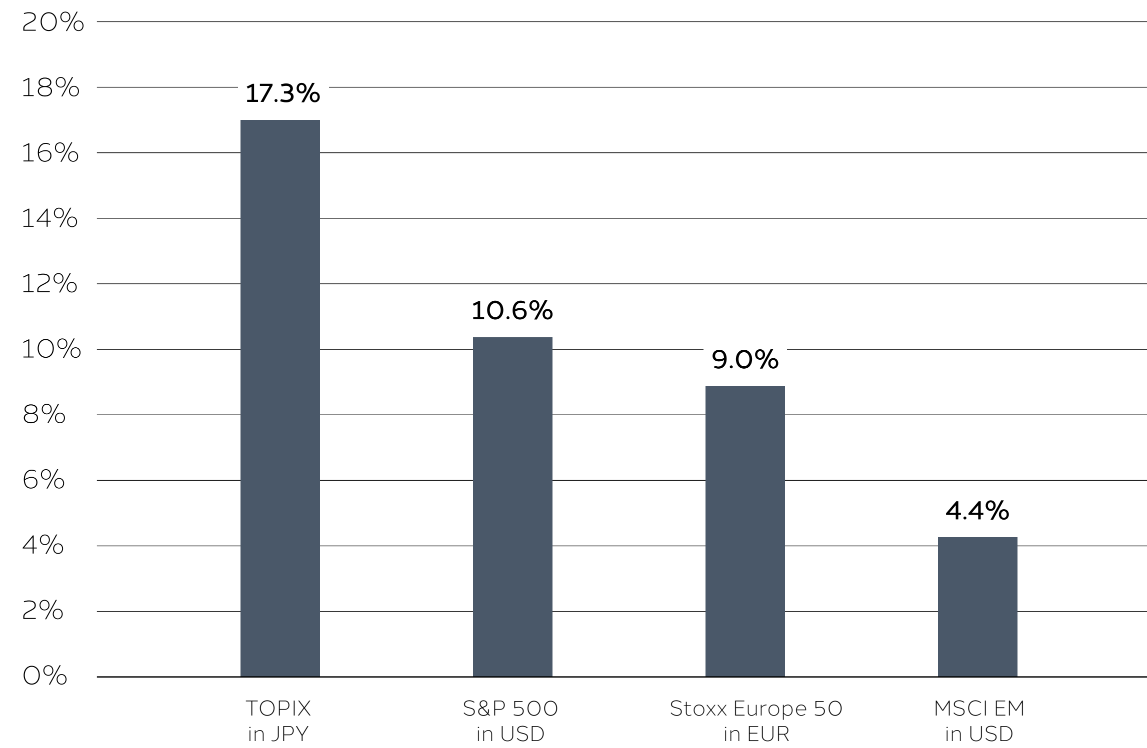
GLOBAL EQUITY MARKETS WITH A SOLID START TO THE YEAR

BY FREDERIK CARSTENSEN

Contrary to the expectations of most market participants, the global equity markets got off to a surprisingly positive start to the year. The US equity market continued its positive performance since October 2023 thanks to better economic data and an encouraging reporting season. The S&P 500 has made over 20 new all-time highs so far this year, rallying well above the 5,000 mark. Inspired by the price gains on Wall Street, the Nikkei index in Tokyo reached its highest level in 34 years in the first quarter. Japanese equities benefited from continued positive momentum due to a still expansive monetary policy and foreign inflows. The Topix index gained over 17% in local currency terms. Only the emerging markets showed relative weakness in the first quarter, but were ultimately able to post a slight gain. The Chinese stock exchanges, on the other hand, were down slightly.

US economic data and reporting season better than expected

Global equity markets were supported above all by the robust US economy and positive reporting on the fourth quarter of 2023. The risk of a hard landing for the US economy has thus decreased further. The US labour market could weaken but should remain relatively healthy with an unemployment rate below 4.5%. Our Chief Economist is cautiously optimistic that the global economy will start to recover from the second quarter onwards.



Global Equity Market Performance in 2024
Source: Bloomberg, Bergos. Performance as of 03/31/2024 and incl. net dividends

US Inflation, on the other hand, surprised to the upside in March and remains sticky. Consequently, the majority of the anticipated rate cuts from earlier this year are now priced out and the Fed will probably not initiate a turnaround in interest rates until later this year. The fact that the stock markets were still able to gain should be seen as a positive.

Stock markets gain breadth

Also supportive is the fact that the US stock market has not recently been led by just a handful of highly capitalized technology companies, as was predominantly the case last year. It is true that some of the heavyweights (the Magnificent 7) once again proved their worth in the last reporting season – despite high expectations – and rekindled the AI euphoria. However, other market segments outside the Magnificent 7, such as the energy and basic materials sectors, also made positive contributions in March. It is particularly noteworthy that the US equity market was able to reach new highs even though the Magnificent 7 lost two of their larger anchors (with Apple and Tesla being underperformers this year). This positive performance across different market segments points to broad-based gains and investor confidence in different sectors and market capitalizations.

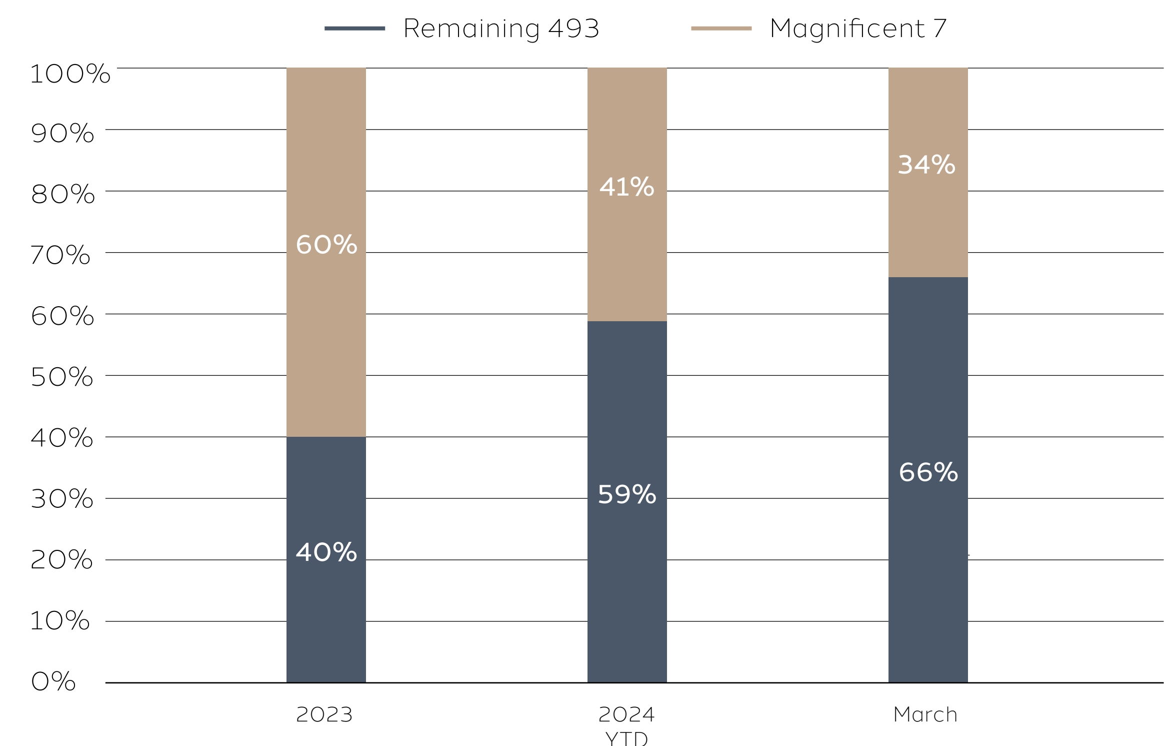
In view of the robust economic data and solid reporting season, analysts have revised their earnings estimates for this year slightly upwards. In Japan in particular, analysts see potential in the next 12 months. The fundamental picture has therefore brightened. However, this optimism is already reflected in equity valuations and investor sentiment. Although bullish sentiment is above the historical average, it is still far from euphoria. This value can serve as a contrarian indicator, especially for extreme values.

Short-term setbacks cannot be ruled out

After the encouraging start to the year (the S&P 500 has risen by more than 25% since the lows in October last year – the strongest 100-day return since September 2020), the question is what the future holds for global equity markets. In the short term, markets could be facing a healthy consolidation phase after the strong rally. There would be numerous possible triggers for such a scenario (e.g. more stubborn inflation, geopolitics, summer seasonality, US elections). However, we do not see room for a deep or prolonged correction or a bear market (a setback of 20% or more). On the other hand, there is a certain risk that the positive trend will continue.

The rally tends to keep going after climbs like this one

With such large gains in such a short period of time, many investors feel they have missed out. But the opposite is true. When the S&P 500 has risen by at least 25% in a 100-day period over the last 50 years (as it has done recently), the index has been up another 15% on average a year later and up 98% of the time overall. This is also supported by the fact that systematic investors are being driven into the market as volatility remains low. The share buyback programs, which picked up speed

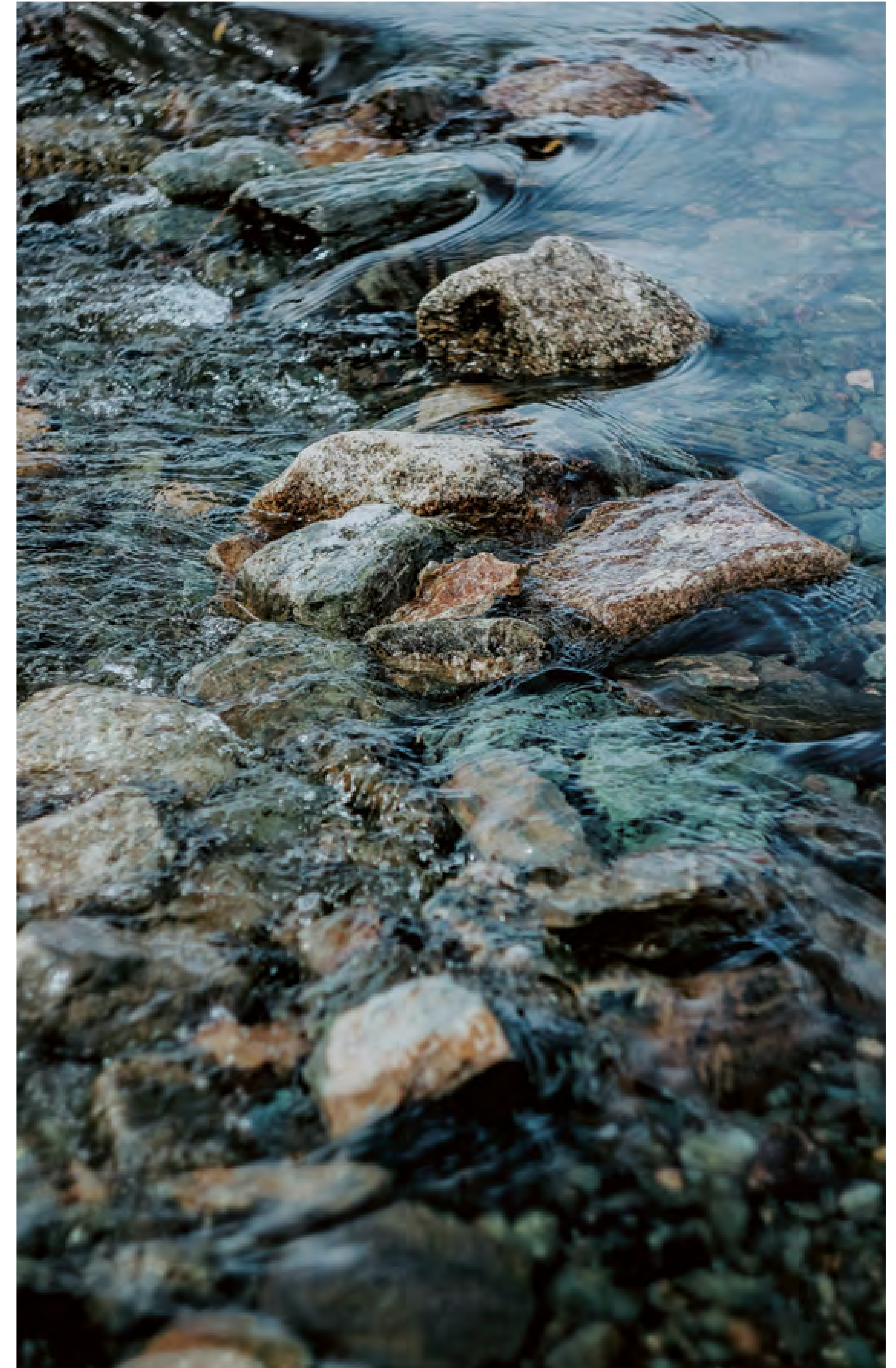


Contribution to S&P 500 Retuns in %
Source: JPMorgan, Bloomberg Finance L.P., Bergos. Data as of 03/26/2024

again after the end of the reporting season, are also having a supportive effect. In the second quarter, the typically positive April seasonality and the first interest rate cuts by the Fed and ECB, which may then become apparent in June, could continue to support the markets, even if the upside potential appears limited. We are therefore holding on to our neutral overall equity quota for the time being.

USA, Japan, India, European small caps preferred

To take account of the uncertainties mentioned above and in consideration of the newly gained market breadth, there is a case for a balanced positioning. In our view, the opportunities lie beneath the surface. In addition to selected US growth stocks, Japan, and India, we also see opportunities in smaller stocks, especially European small caps, from an anti-cyclical perspective. Many of these companies are now massively undervalued, which is likely to decrease to some extent. They 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. The start of the year shows that a careful selection of sectors and individual stocks seems more valuable than ever this year.



B O N D S

CORE INFLATION DOES NOT ALLOW FOR AN EARLY INTEREST RATE CUT

BY CHRISTOPH JUNG

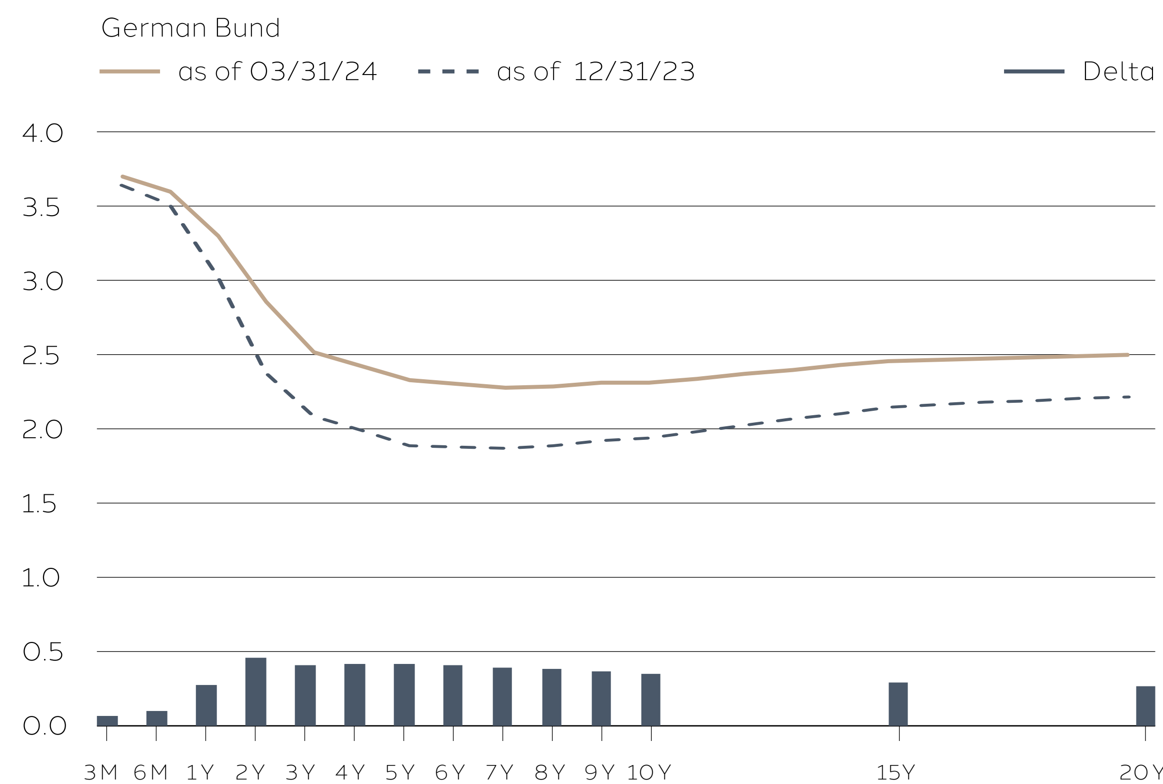
The first quarter of 2024 was characterized by significant changes in market assessment based on various economic indicators on both sides of the Atlantic. Particularly noteworthy was the robustness of the labor market, the strength of the service sector, and the continuous growth of wages. Additionally, the cost increases in shelter did not slow down as desired, which plays an important role in the currently high overall inflation. This led to a persistent stability of core inflation at undesirably elevated levels. Consequently, adjustments were also made to GDP growth forecasts for this year. For example, the Fed revised its forecast from 1.4% to 2.1% upward and also slightly adjusted inflation from 2.4% to 2.6%. The market realized that such an environment does not allow for an imminent interest rate cut, and interest rates may remain at higher levels for longer than previously assumed. Therefore, probabilities for future interest rate cuts were also adjusted, with the market increasingly expecting such action to be taken starting in the summer. The number of expected interest rate cuts during the quarter was significantly adjusted. At the beginning of the year, six interest rate cuts by the Fed and even seven by the ECB were priced in – by the end of March, only about three interest rate cuts were expected for both central banks. This resulted in a convergence with the assessments of the central banks or the Fed. The dot plot chart after the March Open Market Committee meeting showed that the majority of members

considered three interest rate cuts in 2024 to be appropriate.

The emerging prospect of a longer period of higher interest rates in the euro area and the USA had significant effects on their yield curves, as evidenced in the following chart. Short-term bonds such as 2-year Treasury notes were particularly sensitive, with yields on 2-year German government bonds rising from 2.4% to 2.85% during the quarter. The yield on the 10-year German government bond also rose noticeably, albeit less pronouncedly, from 2% to about 2.3%. A similar trend was observed in the USA, where the yield on 2-year Treasuries increased by 37 basis points to 4.62% and the yield on 10-year rose by 32 basis points to 4.2%. This development had a negative price effect, which government bonds with their currently attractive high yields could not offset. The broad Bloomberg US Aggregate Bond Index recorded a loss of -0.78%, and the eurozone counterpart -0.33%. In Switzerland, the SNB's interest rate cut had a positive impact on the Swiss Bond Index, which closed 0.47% higher.

High investor demand meets high supply of new issuances

Many issuers, especially at the beginning of the year, took advantage of the previous correction in the bond markets to refinance themselves at lower interest rates. According to Bloomberg, the issue of US investment grade corporate bonds reached a record level of around USD 556 billion in the first quarter of 2024, which is a good USD 150 billion more than in the previous year. Although geopolitical tensions occasionally caused slight uncertainties, confidence in the markets was high enough to absorb the flood of new issuances effortlessly – the appetite for bonds with credit risk premiums was high. This was particularly evident in the fact that the increased supply of investment-grade bonds in the first quarter met such high demand that it led to a broad narrowing of credit risk premiums, and new issuances of corporate bonds were sometimes oversubscribed tenfold. An optimistic mood prevailed that the central banks could manage to bring inflation to the desired target of around 2% without triggering a recession. The strong economy in the Western world led to a "risk on"-sentiment in the markets, which particularly favored the demand for corporate bonds and emerging market bonds. Credit risk premiums decreased almost everywhere, with high-yield and emerging market bonds benefiting particularly. In the case of emerging market bonds denominated in hard currency, the high-yield segment outperformed the investment-grade segment in the first quarter, reflecting the general trend in the developed world. The Middle East was the region with the worst performance, reflecting the general mood of escalating geopolitical tensions there. Countries in Latin America and especially in Africa tended to surprise positively, and credit default swaps decreased significantly in some cases. We continue to believe that emerging market bonds will benefit disproportionately in this environment. Some emerging market central banks, particularly in Latin America, have already cut interest rates over the past year and have been offering attractive real interest rates for some time.



Yield curves German government bonds
Source: Bloomberg, Illustration by Bergos AG

The yield curve will normalize

We believe in our base scenario that higher interest rates will lead to a slowdown in economic growth, and a gradual decline in inflation will allow central banks to loosen their restrictive monetary policies and cut interest rates in the middle of the year. Historically, a phase of interest rate cuts is a good time to increase duration in fixed-income investments, as high-quality fixed-income securities with medium duration, in our opinion, have the potential to achieve total returns significantly above current yields. In particular, the front and middle parts of the yield curve offer an attractive entry point. On the other hand, the very long end of the yield curve may react less strongly to interest rate cuts by the Fed due to the currently high volume of US Treasury issuances and the return of a term premium. Consequently, there would be a normalization of the yield curve, with the inversion being lifted and returning to a normal pattern with adequate term premiums. It is quite possible that the Fed in the US will slow down the pace of the quantitative tightening process to avoid a liquidity squeeze and unwanted volatility. The ECB, on the other hand, is likely to accelerate tightening and begin phasing out the pandemic emergency purchase program in June. However, the market will most likely have to absorb a net increase in government bonds.

Given the current price levels, there is little room for unexpected economic, monetary, or geopolitical events to have significant impacts. Compared to stocks, bond total returns tend to be less sensitive, as the yield cushion, i.e., the coupon, helps mitigate potential negative impacts. We remain optimistic for the asset class as a whole and maintain tactical positions in the portfolio context on overweight.

ALTERNATIVE INVESTMENTS

COMMODITIES WITH REMARKABLE COMEBACK

BY OLIVER WATOL

Over the past quarter, commodities experienced a resurgence following an 18 months period of consolidation. After hitting a year low in mid-February of 2024, the Bloomberg Commodity TR Index rallied close to 5% to end the quarter with gains. Various subsectors of the commodity market showed a reversal and bounced back particularly during the last month of the first quarter, notably precious metals led by gold, industrial metals led by copper, energy led by crude oil and parts of the agricultural subsector dominated by the surge in cocoa prices. Investor sentiment remains heavily influenced by monetary policy, with a notable shift towards convergence in expectations for rate cuts by both the US Federal Reserve and the European Central Bank around mid-year. Fed chair Jerome Powell, in congressional testimony, seemed confident in a soft landing and saw disinflation on track. Commodities historically rise as interest rates fall when there is no recession. Rising performance can be attributed to growing raw materials demand. Furthermore, the attraction of diversifying into commodities becomes more pronounced for investors as yields decline.

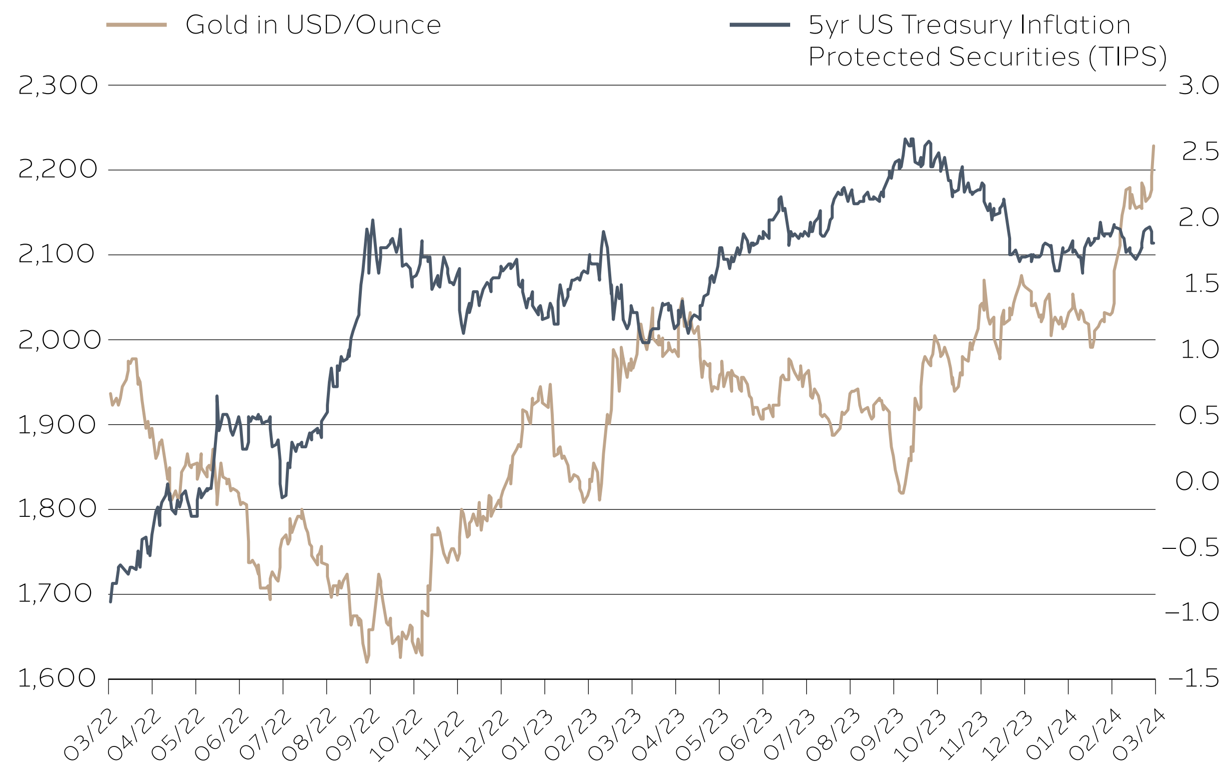
Breaking traditions: gold defies historical price patterns

There is no denying that gold's record-breaking rally has been nothing short of impressive. Never before in history have we seen the precious metal score multiple all-time record

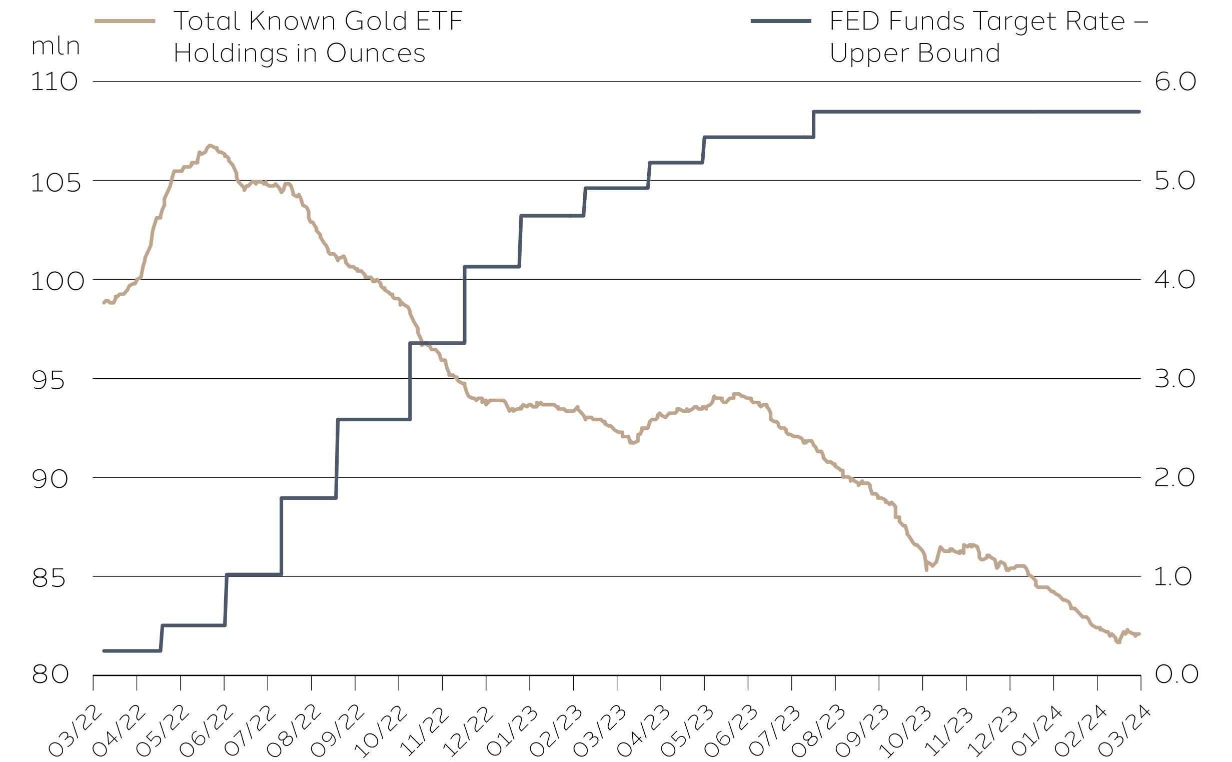
highs in such a short period of time. During March, gold prices notched up ten closing all-time highs within a period of just 20 trading days. Over the first quarter of 2024 spot gold prices are up 8%.

What is remarkable is the fact that gold prices are at record highs, despite the latest interest rate hiking cycle being the most violent since the late 1970s. So, despite US real rates moving very rapidly from negative to positive, over the last two years, gold prices have surged. Traditionally, such conditions would lead to a decline in gold prices. However, the market has defied these expectations and the longstanding inverse relationship between gold prices and real bond returns started to diverge.

The divergence can be closely linked to geopolitical events, notably the conflict involving Russia and Ukraine, which had a profound impact on gold demand dynamics. The freezing of foreign exchange reserves by Western countries, as seen in the case of Russia, has likely spurred other central banks, particularly in countries feeling vulnerable to potential conflicts with the West, to significantly increase their gold reserves as a protective measure. Gold demand especially in China has been pronounced in recent quarters. The nation's central bank has added substantial volumes of bullion to its reserves, boosting holdings in each of the past 16 months. In addition, gold-buying has also been gaining in popularity among younger Chinese. Central banks generally, especially in countries with historically low gold holdings relative to their total reserves, have increased their gold purchases since 2022, with demand almost doubling the post-2008 average. This surge in



Gold vs. 5yr US real rates
Source: Bloomberg, Bergos, Data as of 03/31/2024



Total gold ETF holdings vs. Fed Funds rate
Source: Bloomberg, Bergos, Data as of 03/31/2024

central bank demand, alongside robust demand for gold bars and coins especially from China, India and the Middle East, has been offsetting the selling pressure from Western investors reacting to monetary policy tightening. In this context, investment holdings in bullion-backed ETFs have shrunk by more than 680 tons since the peak in 2022 and continued to decline during the first quarter of 2024, hitting the lowest level since 2019 in mid-March.

Recent inflation figures, along with specific remarks from Powell, have bolstered support for gold, leading the market to increasingly believe that the Federal Reserve will initiate rate cuts in June. Despite this, expectations for US interest rates have remained relatively stable over the last month, and the decrease in bond yields hasn't matched the pace at which gold prices have moved up, suggesting that the gold prices may have gotten ahead of itself and other assets classes in the short run. Gold prices are trading far above levels usually implied by changes in US real yields and the USD, and this premium expanded further after the Fed released updated projections at the March FOMC meeting. Given the strong disparity between real government bond yields, the dollar and gold, a retreat in gold prices wouldn't come as a surprise, which is why we are maintaining a neutral stance on gold for the time being. We do expect to see signs of buying exhaustion as well as increased price volatility in the short run. In addition, gold remains in overbought territory. However, as the rate cuts become a certainty, we could see gold prices rise again to a higher high. With the assurance of monetary easing by major central banks and the effect of a reduction in borrowing costs, a host of positive drivers seem to point in the same direction. If one were to imagine a situation where ETF liquidations stopped, investment

interest in gold coming back in the US and in Europe, while structural central bank bid remained. If you had that coordinated demand impulse coming from both the West and the East, then one could see a continuation of the surprisingly strong trends in gold prices. Apart from this gold continues to remain an essential component of a diversified portfolio, acting as a significant pillar of stability especially during times of uncertainty.

Energy: OPEC+ cuts and geopolitical risks support oil

The first quarter concluded with notable gains in oil prices. Brent for June rose above USD 87 a barrel and surged by 13% in the first three months of the year. Oil's move higher was underpinned by resilient demand in Europe and signs of a nascent recovery in China. The strengthening demand outlook was further supported by China's industrial activity rebound, ending a five-month decline in March and sparking optimism about recovery in oil consumption by the world's largest crude importer. The uptick in oil prices was largely facilitated by strategic supply cuts from OPEC+ aimed at pushing prices higher to counterbalance increased flows from outside the cartel. The group confirmed its current output policy at its last meeting. The geopolitical landscape added to the bullish sentiment, with Ukrainian attacks on Russian energy infrastructure and sustained tensions in the Middle East contributing to the market dynamics. As the second quarter unfolds, the backdrop of Middle East geopolitical tensions, continued Ukrainian offensives against Russian energy facilities, and the ongoing OPEC+ cuts form a constructive framework for oil prices. The global macroeconomic climate, especially the recovery signs in China, will play a crucial role in guiding OPEC+'s decisions on extending output curbs into the second half of the year. We consider the unexpectedly strong demand in Europe and extensions of OPEC+ cuts as bullish factors.

Cocoa prices soar to unprecedented highs

After a steady rise over two years, the price of cocoa beans skyrocketed this year. Global cocoa prices breached USD 10,000 per ton, surging by over 100% in 2024 alone, due to a supply shortfall from key producers like Ivory Coast and Ghana. Regions in West Africa produce 60% of the world's cocoa. This significant price increase can be attributed to a set of factors. In particular Ivory Coast and Ghana have been experiencing difficult weather conditions since last year, especially extreme heat, negatively impacting cocoa production. The increasing costs of pesticides and fertilizers have placed financial pressure on farmers, making it difficult for them to purchase these vital components for crop maintenance. Pests targeting cocoa plants have led to further crop reduction. Farmers have been unable to restore old trees because it costs too much to buy pesticides. This in turn led to the spread of black pod disease and swollen shoot virus during the last quarter of 2023. From the consumer's perspective, the direct effects of the significant increase in cocoa prices may not be immediately noticeable. Typically, these price hikes may take six to 12 months to be reflected in the retail prices of products.

Convertible bonds: optimism extends into 2024

After a strong fourth quarter of 2023 optimism for convertible bonds has continued into 2024 on the back of reasonable valuations, historically low equity volatility and better opportunities. The frequently used Refinitiv Qualified Global Convertible EUR index returned 3.2% YTD as per the end of March. Attractive yields still exist for the majority of the convertible bond market. There is yet a reasonably large universe of convertible bonds trading below 80% of par value and of these many have no other debt, making the convertible bond a more lucrative source of alpha for idiosyncratic opportunities. Unlike traditional credit markets, spreads in convertible bonds remain wide. Therefore, the additional yield pick-up is a useful tailwind within a diversified portfolio.

Activity in the primary market is likely to stay robust as issuers aim to proactively manage the anticipated surge in bond maturities set for 2025 and 2026. We expect new issuance to further increase after last year's total issuance was USD 78bn (with 159 issuers and an average coupon of 3%), which represents almost half of the record levels set in 2020 and 2021. Convertible securities are likely to gain from the looming refinancing wall, attributing this to the considerable cost reductions for borrowers. Because of lower coupons and the significant saving advantages for issuers, convertibles can also be expected to capture a portion of the market share from straight high-yield and BBB-rated debt maturities. This is especially relevant in the US, which will see the majority of this refinancing activity and where interest rates rank among the highest. Notably, the US accounts for about 60% convertible bond market. The expansion of the convertible bond markets and increase in issuer diversity are also positive tailwinds for the strategy in the long run. In the past, small to mid-market tech companies were the main players. Lastly a noteworthy change in the US recently was the rise in investment-grade companies seeking funding via the convertible market. Against this backdrop we maintain a positive stance towards the convertible bond asset class and remain overweight in the segment.

CURRENCIES

THE RACE FOR INTEREST RATE CUTS ENTERS ITS DECISIVE PHASE

BY STEFFEN KILLMAIER

In the first quarter of the year, the currency markets mainly focused on the latest economic data and central bank policy. The US economy in particular remains surprisingly robust. This is reflected in the labor market, among other things. Employment and wages are continuing to rise. In addition, inflation in the US, but also in the eurozone and the UK, remains above the two percent target. Accordingly, the long wait for a turnaround in interest rates continues on both sides of the Atlantic. An exception here is Switzerland. The Swiss National Bank (SNB) had already cut its key interest rate by 25 basis points in March. This decision came as a surprise to many market participants and is a clear signal in the direction of other central banks.

The key question for the currency markets in the second quarter will be when the Fed and the ECB will initiate the interest rate turnaround and how many interest rate cuts will follow this year. Geopolitics must also continue to be closely monitored. Iran's retaliatory attack on Israel has recently brought the Middle East conflict back into focus. General developments in the Middle East remain worrying and the ongoing Russian war against Ukraine also remains relevant. Possible further escalations could quickly make safe-haven currencies attractive again. In addition, the presidential elections in the US are coming more into focus and could cause volatility on the currency markets to rise in the coming months.

Development of the EUR/USD exchange rate
Source: Bloomberg, Bergos, Data as of 03/31/2024

Continued high interest rates in the US support demand for the US dollar

An early turnaround in interest rates in the US, which many market participants had hoped for at the beginning of the year, has failed to materialise. The US economy is proving surprisingly robust and inflation remains more stubborn than expected. The still high US inflation figures in March now make a key interest rate cut by the Fed in June unlikely. We now assume that the Fed will continue to focus on fighting inflation, while the ECB will cut interest rates in June. This does not favour an appreciation of the euro against the US dollar in the coming months. In addition, geopolitical uncertainties recently increased again with the Iranian drone and missile attacks on Israel. This could strengthen safe-haven currencies, which include the US dollar, in the short term.

We therefore recently neutralised our positive 3-month outlook for the EUR/USD currency pair and now expect a sideways movement in the coming months.

However, once the Fed then starts to cut interest rates later in the year, this should help to reduce the fundamental overvaluation of the US dollar. We still see the US dollar as overvalued after the noticeable appreciation in 2021 and 2022, taking purchasing power and interest rate parity into account. Another factor in favour of a certain appreciation of the European single currency is that European economic growth is likely to accelerate again over the course of the year. We maintain our slightly positive outlook for EUR/USD on a 12-month horizon.

One risk for our outlook are the US presidential elections, which are now increasingly coming into focus. It is still too early to provide precise analyses of the potential outcome on November 5. However, if the 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. This could keep the US currency at a higher level than we currently expect.

Early interest rate turnaround in Switzerland

In March, the Swiss National Bank surprisingly decided to cut key interest rates by 25 basis points. This makes the SNB the first major Western central bank to cut interest rates after the global cycle of interest rate hikes in 2022/23. The measures taken over the past two years to combat inflation have proven effective. Among other things, the SNB has strengthened the Swiss franc by selling foreign currency reserves. This is because the high franc exchange rate makes import prices cheaper, which contributes to a relatively moderate upward price trend.

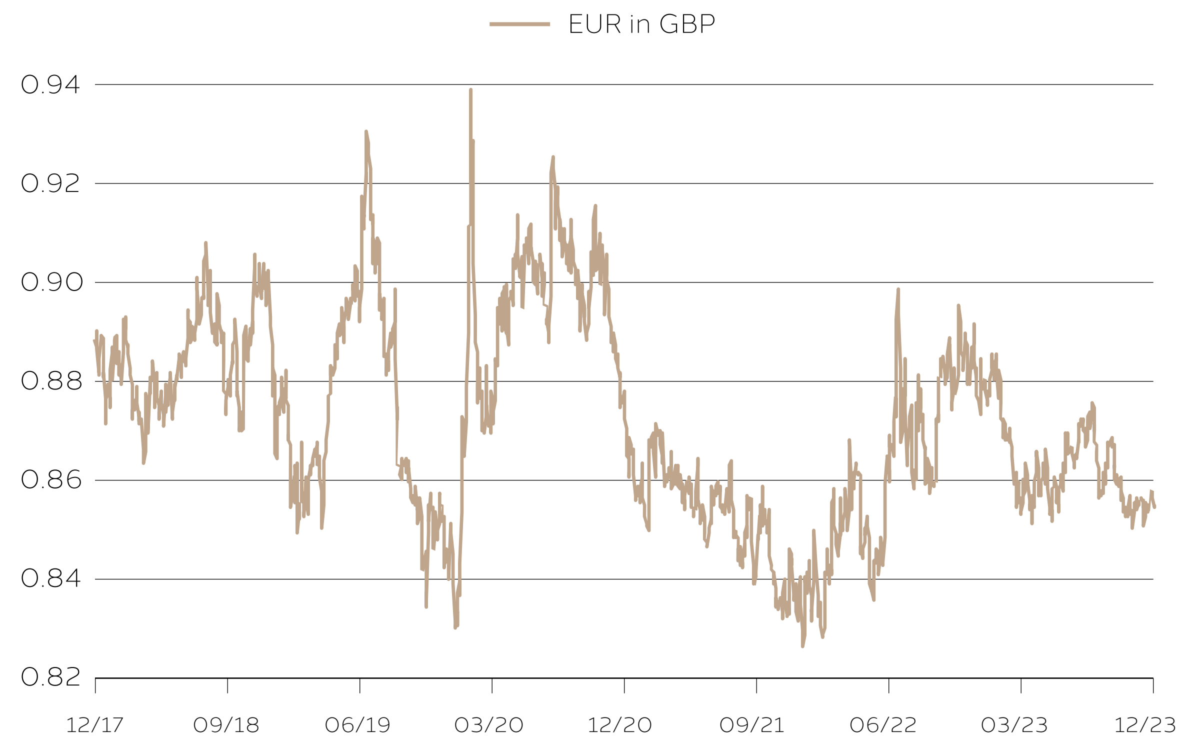
Inflation in Switzerland has been well below two percent for several months now and is therefore within the price stability range. This development and the surprising interest rate cut meant headwinds for the Swiss franc, which has recently depreciated against the euro following last year's significant appreciation. However, as we now see the latest monetary policy developments as largely priced into the current EUR/CHF exchange rate and given that (geopolitical) risks remain, the Swiss franc is unlikely to depreciate further, at least in the short term. We therefore expect EUR/CHF to move sideways over the next three months. In the long term, however, we see further catch-up potential for the euro, which is why we remain slightly positive on a 12-month horizon.

Development of the EUR/CHF exchange rate
Source: Bloomberg, Bergos, Data as of 03/31/2024

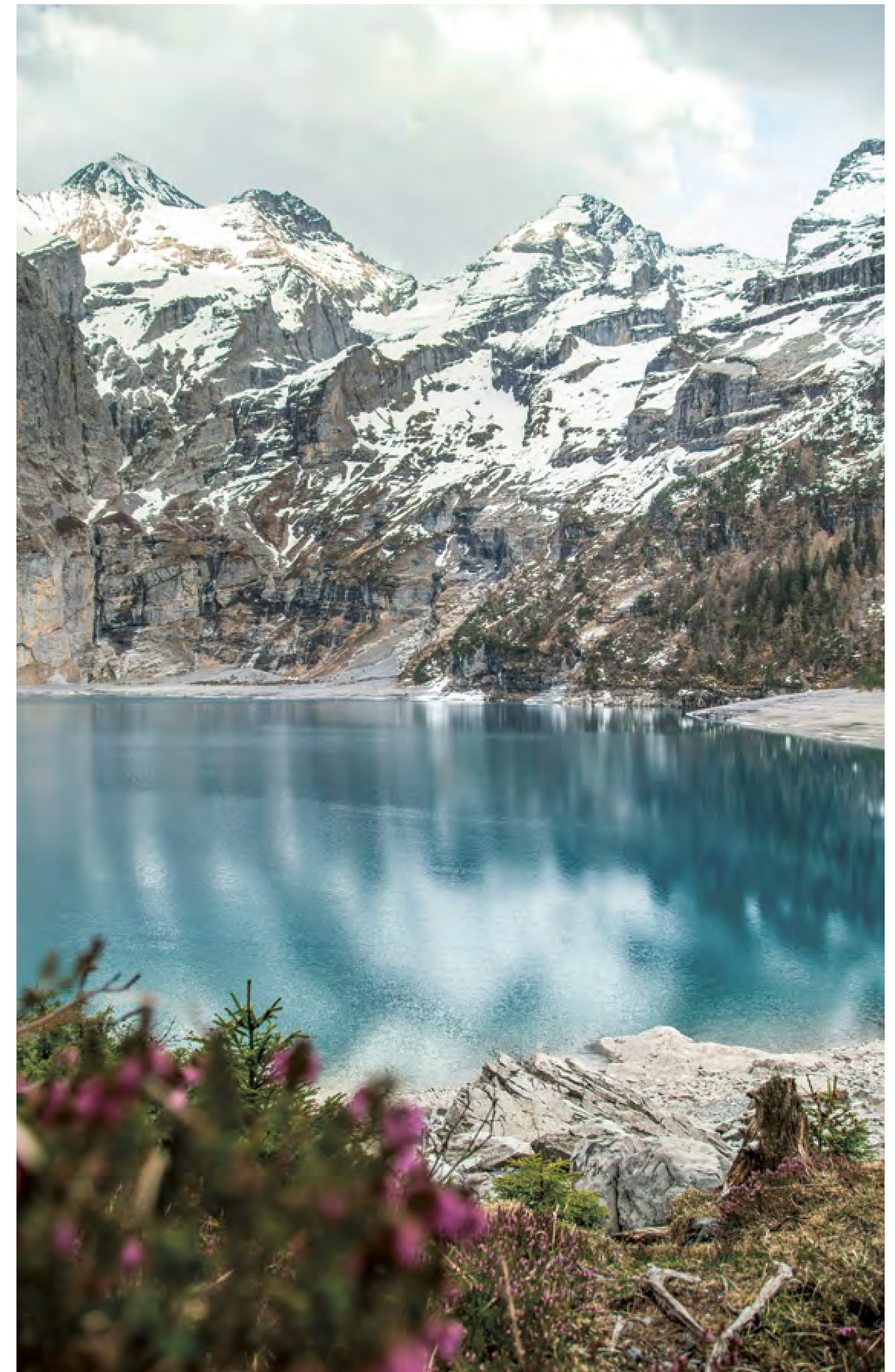
British pound continues to move sideways against the euro

At its most recent meeting, the Bank of England (BoE) left its key interest rate unchanged, as expected by the market. However, it is noteworthy that for the first time in this cycle, no member of the Monetary Policy Committee voted in favour of a further rate hike, after two members had voted in favour of a hike at the last meeting. This rather dovish vote as well as the minutes of the meeting point to an earlier rate cut than previously expected by the market. Inflation has also fallen significantly in the UK in recent months. A price increase of 3.4% was reported for February, the lowest level since September 2021. The BoE is now expected to cut interest rates for the first time in the summer, around the same time as the ECB. In general, the economic trend in the UK is similar to that of the eurozone.

At current levels, we still consider the British pound to be fairly valued against the euro, which is why we expect EUR/GBP to continue to move sideways in the future. However, short-term breakouts to the upside or downside cannot be ruled out, partly due to the upcoming general election in the UK.



Development of the EUR/GBP exchange rate
Source: Bloomberg, Bergos, Data as of 03/31/2024

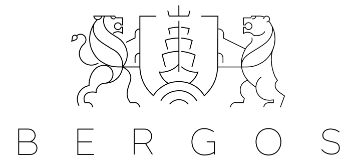


B E R G O S   V I E W

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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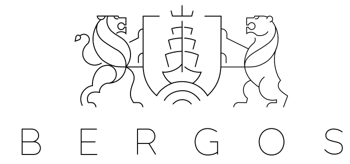

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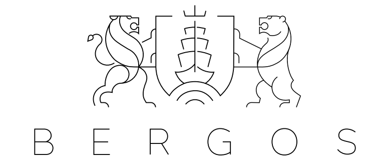

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