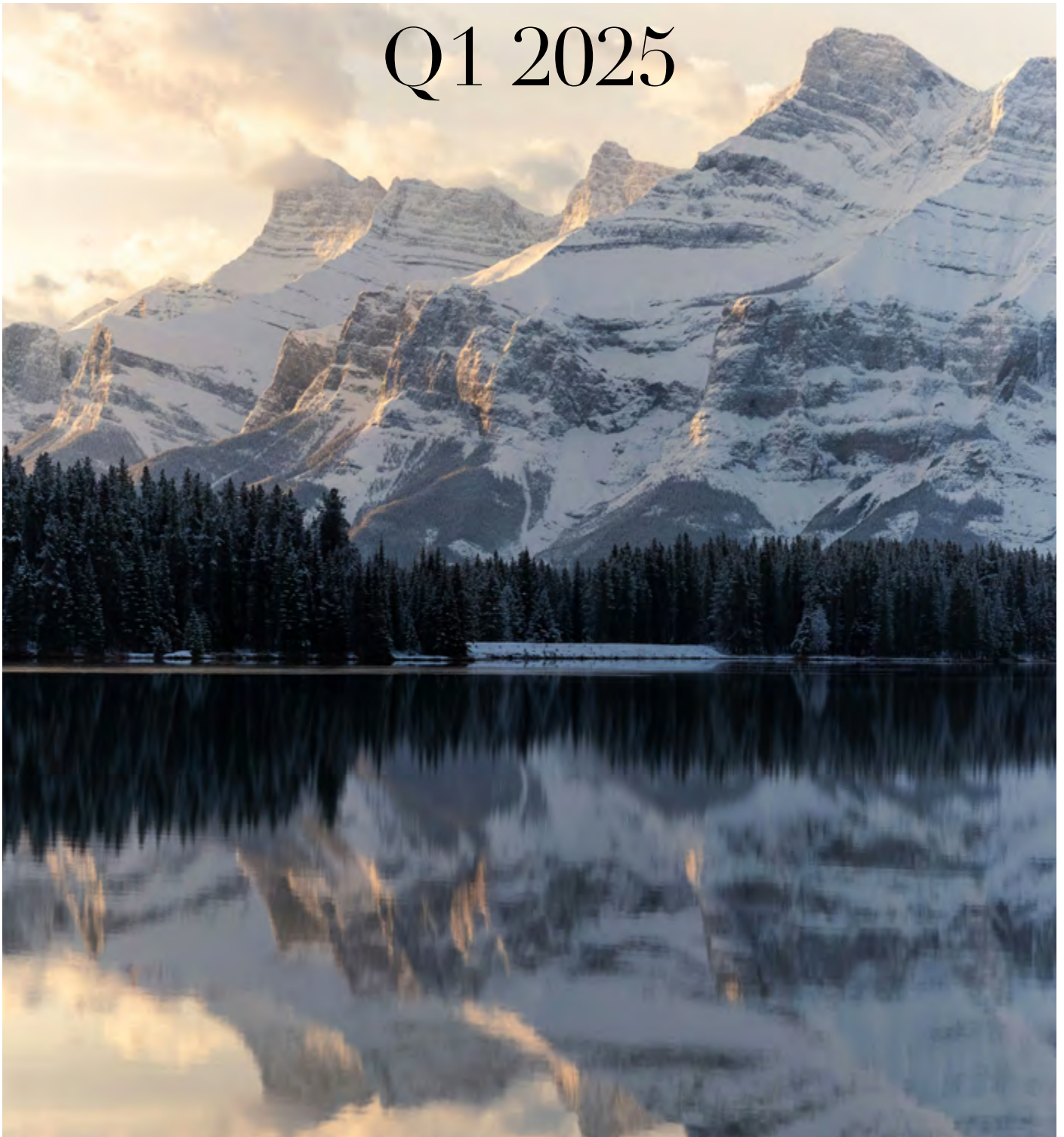
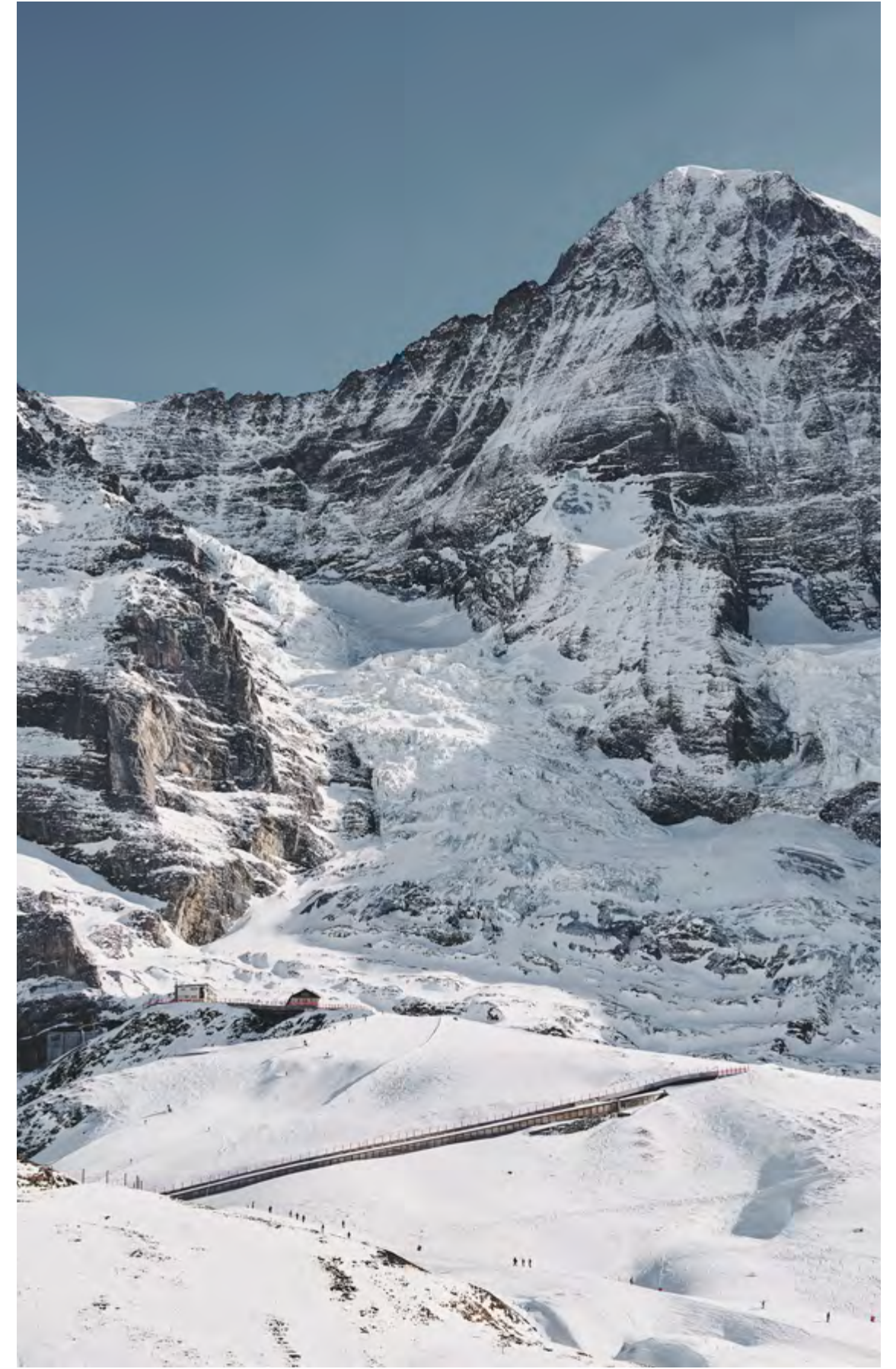


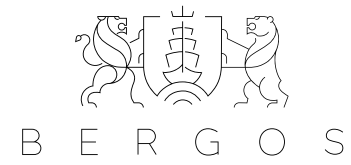
# Reflexions

Q1 2025









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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# EXECUTIVE SUMMARY

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## ABOUT OUR WINTER PUBLICATION

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Dear Readers

The economic development of the United States has once again surprised many market participants. An exceptionally robust labor market, which has driven substantial wage growth, has provided additional momentum to the already spending-oriented US consumers. With a share of approximately 70% of the US gross domestic product, consumption remains the central pillar of economic growth in the United States. In our baseline scenario, we do not anticipate any significant developments that could noticeably dampen American consumer confidence in the near future.

In this context, there are currently few arguments for the US Federal Reserve to

significantly lower interest rates further. The jumbo rate cut in September 2024 was, in hindsight, probably unnecessary. This also explains why the bond market is increasingly decoupling from the monetary policy of the central bank. Despite the new rate-cutting path, yields on 10-year US Treasury bonds are rising. This is due to a combination of the robust economy, persistently high core inflation, and the sizeable US budget deficit.

In the medium- and short-term maturities segment (1–5 years), which is somewhat more closely tied to central bank policies, we remain optimistic for 2025. Here, we consider the return potential relative to the risk to be

attractive in both the US dollar and euro areas. In contrast, interest rates in Swiss francs are already unattractively low.

The US equity market remains unfazed by the diminishing rate-cutting expectations. With historically above-average price gains, the world's leading equity market once again outperformed all other major equity regions. Particularly surprising was the increasing concentration within the S&P 500 index. Without sufficient exposure to the largest US equities, globally active investment managers who focus on diversification and quality standards faced significant challenges in keeping pace with global markets.

For 2025, we do not anticipate further valuation expansion in global equities. However, we expect moderate earnings growth per share, supported by revenue growth and continued share buyback programs. Consequently, we continue to forecast moderate positive returns in global equity markets and remain particularly optimistic about US equities.

In addition to US equities, the gold price also performed exceptionally well in 2024. In classic multi-asset portfolios, gold remains a core component for 2025.

A key factor for the future development of the capital markets will be US politics under the newly elected president. However, which of the prominently communicated ideas will ultimately be implemented remains to be seen. As with the presidential election itself, we will closely analyze developments and act consistently in line with our established investment process.

In connection with the US economy, I am delighted to introduce in this edition our guest author, Dr Mickey D. Levy. As a longstanding member of the Shadow Open Market Committee and a visiting scholar at the Hoover Institution at Stanford University, he is a highly regarded expert on US economics and politics and is frequently cited in the financial press.

I wish you great enjoyment in reading and a healthy and successful 2025!

Yours sincerely,

Maximilian Hefe  
Deputy Chief Investment Officer

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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 US economy has coped well with the higher Fed Funds Rates over the past year and is still in solid shape. The ongoing expansionary fiscal policy, which is also likely to be continued by the new Trump administration, is helping to cushion other negative factors. Nevertheless, the economy should cool down slightly over the course of the year. The eurozone is struggling economically. Stagnation in Germany in particular is a negative factor. Within Europe, Switzerland and the UK are growing faster than the eurozone average. China can no longer fulfill its role as the growth engine of the global economy. However, the government and central bank are stimulating the economy in order to avert greater weakness.

Inflation has fallen significantly worldwide. In Switzerland, the inflation rate has now been back within the target range (0–2%) of the Swiss National Bank (SNB) for one and a half years. In many other countries, overall inflation has fallen towards the central bank’s targets, but the core rate is still higher. This means that inflation has not yet been defeated for good. The major Western central banks are easing monetary policy in this environment, but they must remain cautious. The US Federal Reserve is likely to ease monetary policy further with one or two small interest rate cuts by the end of 2025. In view of the weak economy and possible political risks, the ECB is under greater pressure to act and could cut interest rates four more times by 25 basis points each until the end of 2025, even if inflation remains moderately above the ECB’s target. The Bank of England will remain cautious due to the renewed rise in inflation. Two small interest rate cuts are nevertheless possible by the end of 2025. For the SNB, the focus is on the strength of the franc. Even after the surprisingly large interest rate cut (50 basis points) in December, monetary policy could be eased further.

The world remains full of trouble spots. In the Middle East, the China-Taiwan conflict and the Russia-Ukraine war, surprising turns are possible at any time. This is all the more true as future foreign policy under the new President Trump is still unpredictable. Escalating national debt in the USA, but also in some European countries, could become an issue for the financial markets in the long term. In Germany, new elections will be held on February 23 following the break-up of the governing coalition. The CDU/CSU is far ahead in the polls. Nevertheless, the CDU/CSU would need one or two coalition partners. The direction of future policy will ultimately depend on this constellation.

GDP ESTIMATES

INFLATION ESTIMATES (CPI)

UNITED STATES	2 0 2 3 :	+ 2.5%	UNITED STATES	2 0 2 3 :	4.1%
	2 0 2 4 :	+ 2.6%		2 0 2 4 :	3.0%
	2 0 2 5 :	+ 2.3%		2 0 2 5 :	2.5%
EUROZONE	2 0 2 3 :	+ 0.5%	EUROZONE	2 0 2 3 :	5.4%
	2 0 2 4 :	+ 0.7%		2 0 2 4 :	2.4%
	2 0 2 5 :	+ 1.1%		2 0 2 5 :	2.2%
GERMANY	2 0 2 3 :	- 0.1%			
	2 0 2 4 :	- 0.1%			
	2 0 2 5 :	+ 0.2%			
SWITZERLAND	2 0 2 3 :	+ 0.8%			
	2 0 2 4 :	+ 1.3%			
	2 0 2 5 :	+ 1.4%			
GREAT BRITAIN	2 0 2 3 :	+ 0.1%			
	2 0 2 4 :	+ 1.0%			
	2 0 2 5 :	+ 1.4%			
CHINA	2 0 2 3 :	+ 5.1%			
	2 0 2 4 :	+ 4.8%			
	2 0 2 5 :	+ 4.5%			
JAPAN	2 0 2 3 :	+ 1.9%			
	2 0 2 4 :	+ 0.1%			
	2 0 2 5 :	+ 1.1%			





# M A C R O

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GLOBAL ECONOMY NOT MOVING IN LOCKSTEP

BY DR JÖRN QUITZAU

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## Review 2024:

### The year of surprises

A year full of surprises has come to an end. Politically, there were several major events that will also – or especially – leave their mark on the economy in 2025: In the US, Donald Trump was re-elected president after a spectacular election campaign. He will take over from Joe Biden on January 20. In the eurozone, the governments of the two largest economies have collapsed prematurely: In France, President Macron called new parliamentary elections after the eurosceptic party Rassemblement National (RN) won a clear victory in the European elections in June. In Germany, the so-called traffic-light coalition failed in November. The new election are scheduled for on February 23.

From an economic perspective, the resilient US economy once again came as a surprise. Even though economic development clouded over slightly, it was more stable overall than many observers had expected. The labor market has only shown slight signs of slowing down so far. Although the unemployment rate rose from 3.7% in January to 4.2% in November, this still leaves unemployment at a historically very low level. In the eurozone, on the other hand, growth was surprisingly weak at probably slightly less than one percent because the expected upturn in the eurozone's largest economy – Germany – failed to materialize at all. The Swiss economy is suffering as a result, because the eurozone is Switzerland's most important trading partner. Despite this, the Swiss economy once again



presented itself as solid, with growth expected to reach a bit more than one percent in 2024.

#### **Outlook 2025:**

##### **Global economy not in lockstep**

What are the prospects for 2025? The global economy is expected to grow moderately by a good 3%. The momentum is unevenly distributed from region to region. The emerging and developing countries are growing at an above-average rate. The Chinese economy is likely to grow by around 4.5% thanks to monetary and fiscal policy support. However, the former growth engine of the global economy continues to struggle with considerable problems, particularly in the real estate sector.

Among the major developed economies, the US and Canada are expected to grow very solidly by a good 2%. The eurozone forms a stark contrast to this. Economic momentum is only developing in the periphery (Southern and Eastern Europe). The core of Europe, on the other hand, is treading water. Germany is facing another year of economic stagnation without a change in economic policy following the Federal elections. France's economic output is likely to grow moderately, but the high national debt combined with persistently high budget deficits is a latent risk. Overall, the eurozone economy is likely to grow by just under 1%. Things look better for Switzerland. Gross domestic product growth of up to 1.5% is possible here. Swiss growth will be supported by the eased monetary policy, but will be burdened by the economic weakness of neighboring countries.

##### **Monetary policy and inflation:**

##### **No "all-clear" yet**

In terms of price stability, Switzerland differs significantly from the majority of the big Western industrialized nations. As the inflation rate has been back within the Swiss National

Bank's (SNB) target range of 0–2% since mid-2023, inflation can be considered defeated. For 2025, the SNB expects an average inflation rate of 0.3%. Thus, there is a risk that inflation will fall short of the target rather than exceed it. The very high exchange rate of the Swiss franc is a key factor in the low inflation. The SNB is therefore trying to reduce the attractiveness of the Swiss franc by cutting interest rates in order to prevent a further fall in the inflation rate. Further interest rate cuts are possible this year and even negative interest rates have already been discussed.

The situation is very different in many other Western economic areas. Although inflation rates in the US, the eurozone and the UK have fallen significantly from their highs, they are still – or again – above the respective central bank's target. This applies in particular to the core inflation rates, which better reflect the underlying inflationary pressure. At the beginning of 2025, it is therefore clear that inflation has not yet been finally tamed. This year is therefore likely to be a balancing act for the US Federal Reserve, the European Central Bank (ECB) and the Bank of England.

The central banks will attempt to continue the rate cut cycle that has already begun and to further loosen the monetary brakes without stoking inflation again. Due to the weak economy and possible fiscal tensions (e.g., in France), the ECB is under pressure to ease monetary policy. Key interest rates in the eurozone could be one percentage point lower at the end of the year than they are today. By contrast, the Bank of England and the US Fed are likely to take a more cautious approach and cut their key interest rates by half a percentage point each over the course of the year. The Bank of England has already refrained from cutting interest rates in December. The US Federal Reserve is also likely to keep the key interest rate constant

at its next meeting at the end of January. The signals from the Fed point to two interest rate cuts this year. In view of the macroeconomic data, only one move would even be possible. It should also be borne in mind that the Fed may have to react to economic policy surprises from the new Trump administration (Contribution to the US economy on page 47).

##### **Politics:**

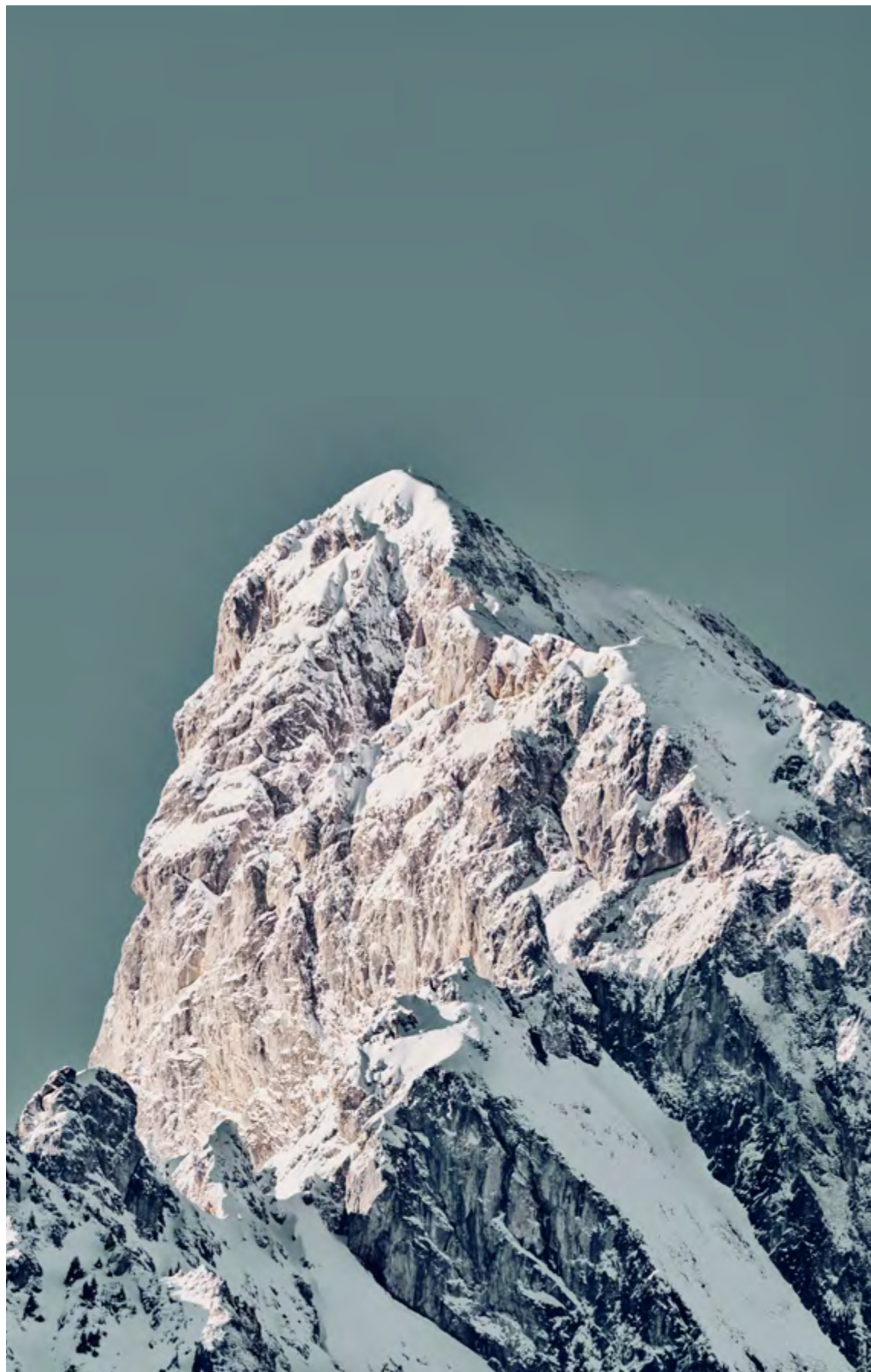
##### **Between hope and fear**

Politically, it is likely to be a year between hope and fear. This applies first and foremost to the USA. Some of Donald Trump's election campaign announcements are a cause for great concern. The key question is: what was merely campaign rhetoric, and what was actually meant seriously? There is no reliable answer to this question. However, we assume that many announcements will only be implemented in a watered-down form. For the current year, we expect a market- and business-friendly economic policy, despite all the uncertainties that Donald Trump's second term in office will bring. In addition to tax policy, the announced deregulation in particular should boost the economy. The potentially negative effects of trade and migration policy are only likely to have an impact in the medium and longer term.

In Europe, it is particularly important to keep an eye on the situation in France. The political majorities are clearly preventing the necessary restructuring of public finances. The financial markets are surprisingly relaxed about the situation. They are evidently counting on the solidarity of the European community and the ECB to help France if need be. The way problems within the eurozone have been handled to date supports this view. In Germany, there could at least be a slight economic recovery after the new elections. However, a real growth agenda is unlikely, as current polls suggest that a genuine reform coalition will not be possible.

Finally, a look at geopolitics: the world remains full of trouble spots. In the Middle East, the China-Taiwan conflict and the Russia-Ukraine war, surprising turns are possible at any time. This is all the more true as future foreign policy under the new President Trump is still unpredictable. If the war in Ukraine comes to an end in the course of the year, this would be a blessing for the battered population. If the war ends on terms that are reasonably acceptable to Ukraine, this would also be a positive boost for the entire European continent. This would lift the economic sentiment, and the economy could receive a boost that was not included in our previous forecasts.





# E Q U I T I E S

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THE BULL MARKET WILL CONTINUE IN 2025

BY FREDERIK CARSTENSEN

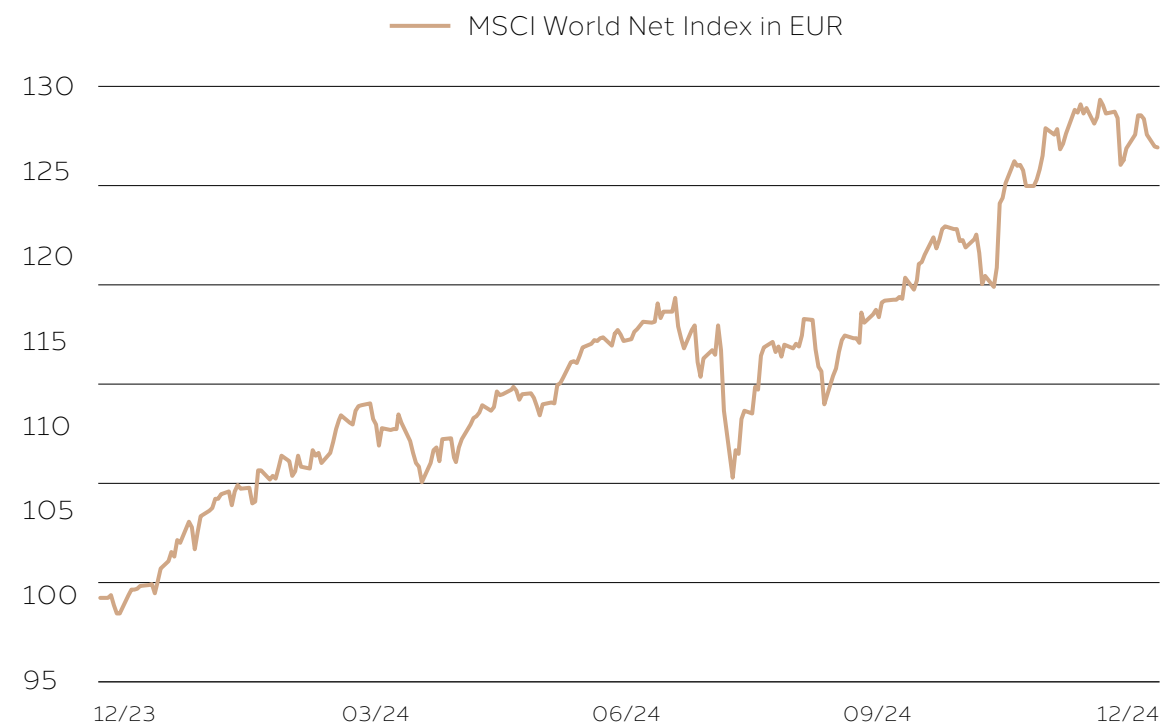
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Despite numerous challenges and against all expectations, global equity markets recorded a strong performance in 2024. However, it is worth noting that there were significant regional differences. US stocks performed significantly better than other regions in 2024. This is partly due to the dominant weight of technology stocks and the different index compositions compared to their European counterparts, for example. The decisive factor, above all, was whether Nvidia was part of the portfolio. Apart from that, the US economy proved to be impressively robust. Our decision to overweight US equities throughout the year has once again paid off. All in all, global investors were able to enjoy double-digit percentage gains. This makes

2024 another above-average year for equities in a historical context after 2023.

**Return potential is likely to be more limited this year**

The chances of further gains on the stock markets are also good in 2025. Lower inflation rates than in previous years, possible interest rate cuts – especially in Europe – and new government spending programs could stimulate the economy and continue to drive the stock market higher. A possible reallocation of investor funds from short-term interest-bearing investments also speaks in favour of a continuation of the equity bull market that has lasted since October 2022. In principle,



**Performance of the MSCI World Net Index in 2024**  
Source: Bloomberg, Bergos, Data as of 12/31/2024

however, the upside potential for global equities is likely to be lower than in the last two years.

The sword of Damocles of geopolitical unrest hangs over all forecasts, for example in Ukraine and the Middle East, but also China and Taiwan remain an ongoing issue. It also remains to be seen what the early federal elections in Germany at the end of February will bring. The markets have formed certain expectations of an easing of the geopolitical situation, which could be disappointed. An increase in volatility is therefore likely.

In the short term, valuations are less in favour of equities, so we are sticking to our neutral overall rating. The yield gap, the difference between the earnings yield on equities and the yield on ten-year bonds, has narrowed. Following the recent significant rise in bond yields, the equity advantage is now only 0.1 percentage points

(historical average: 2.5 percentage points). A great deal of optimism has already been priced in and investors' positioning is already pronounced, meaning that the upside potential appears more limited than recently.

It is quite possible that the year will be split into two halves: A weaker first half of the year, characterized by political uncertainties, followed by a more optimistic second half, especially in Europe. Historically, there is often a breather on the stock markets after a new US president takes office.

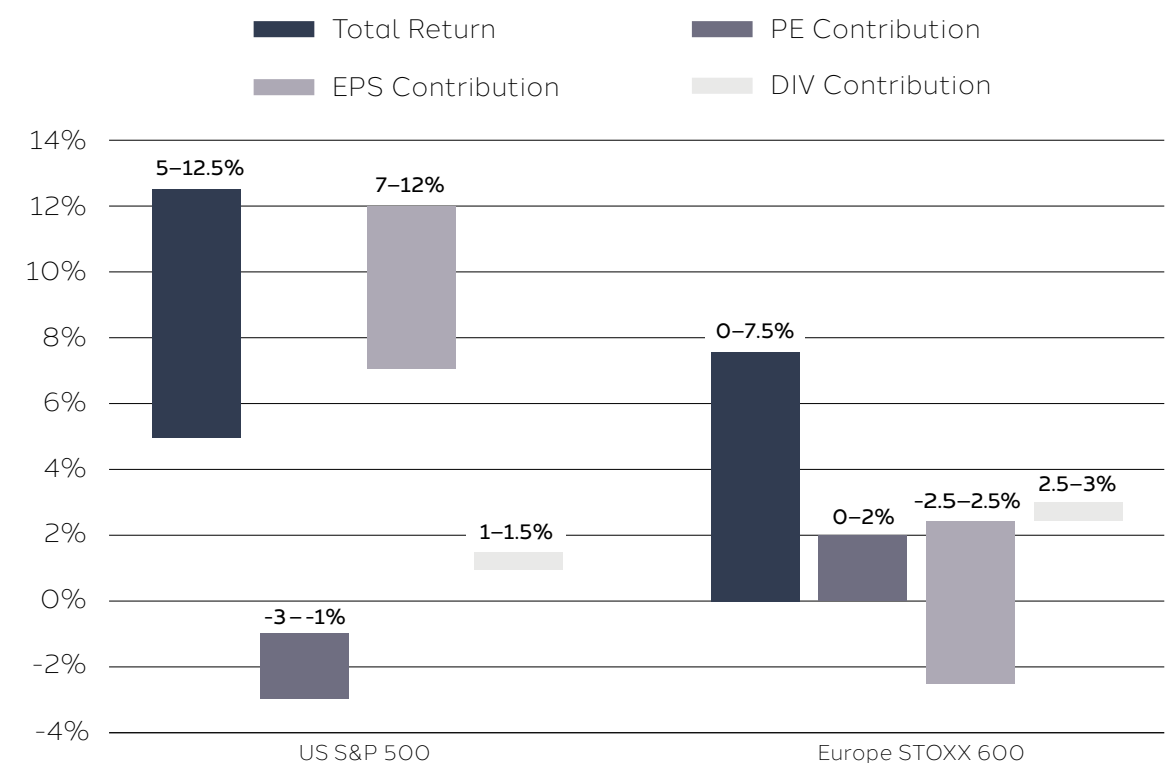
#### US economy and profits remain stronger than in Europe

Donald Trump's victory in the US elections continues to provide strong reasons to favour US equities. After all, the new US president wants to advocate lower taxes, deregulation and an "America First" policy (including import

tariffs) to strengthen the domestic economy. He also sees the stock market as a good barometer for his political successes, as we know from his first term in office. Over the course of the year – thanks to the fairly stable economy and Trump's likely market-friendly policies – the US market in particular could deliver total returns in the high single-digit range. The "red sweep" will allow Trump to largely govern. Lower taxes, deregulation and a market-friendly Treasury Secretary (Scott Bessent) create a favourable environment for US equities. Immediately after the US election, we bought US small caps, partly at the expense of Europe.

The consensus among economists expects the US economy to continue to grow faster than the eurozone. Earnings growth is also an important factor. Over the long term,

rising corporate earnings play a crucial role in driving share prices higher, as they form the foundation for a share's value appreciation. A notable example is the stronger performance of US companies compared to their European counterparts. This strength has contributed to Wall Street's significantly better performance in recent years. Thanks to a strong domestic economy and leading technology companies, US companies could also significantly increase their profits in 2025. For the S&P 500 US equity index, we expect a total return of 5 to 12.5% in 2025. Earnings growth is expected to account for the lion's share at 7 to 12%. On the valuation side, we expect more of a headwind (-3 to -1 percentage points). The current price-to-earnings ratio (PE) of over 20 suggests valuation contractions. The dividend yield should be between 1 and 1.5%.



**Return Expectations S&P 500 vs. Stoxx 600 for 2025**  
Source: Bergos

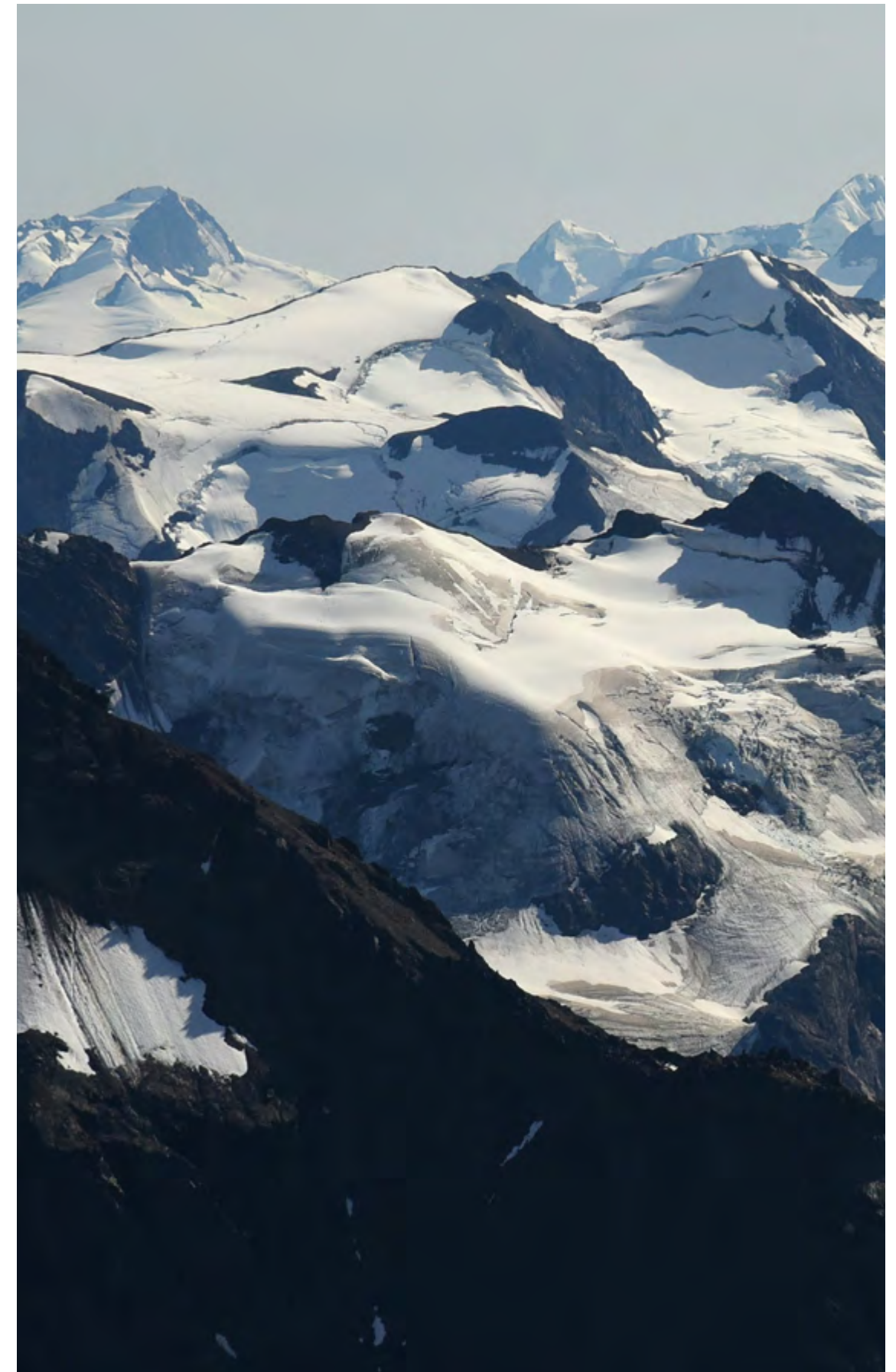


We are less optimistic about other regions, however. We underweight equities from the emerging markets and Japan and are neutral on European equities. For Europe (Stoxx 600 Index), our forecasts for total returns in 2025 are significantly lower than for the US at 0 to 7.5%. Earnings are likely to stagnate here. The forecast earnings growth is -2.5% to +2.5%. However, the PE ratio for the Stoxx 600 is comparatively low at around 15, leaving scope for valuation increases that could contribute 0 to 2 percentage points to total returns. Added to this is a dividend yield of 2.5 to 3%.

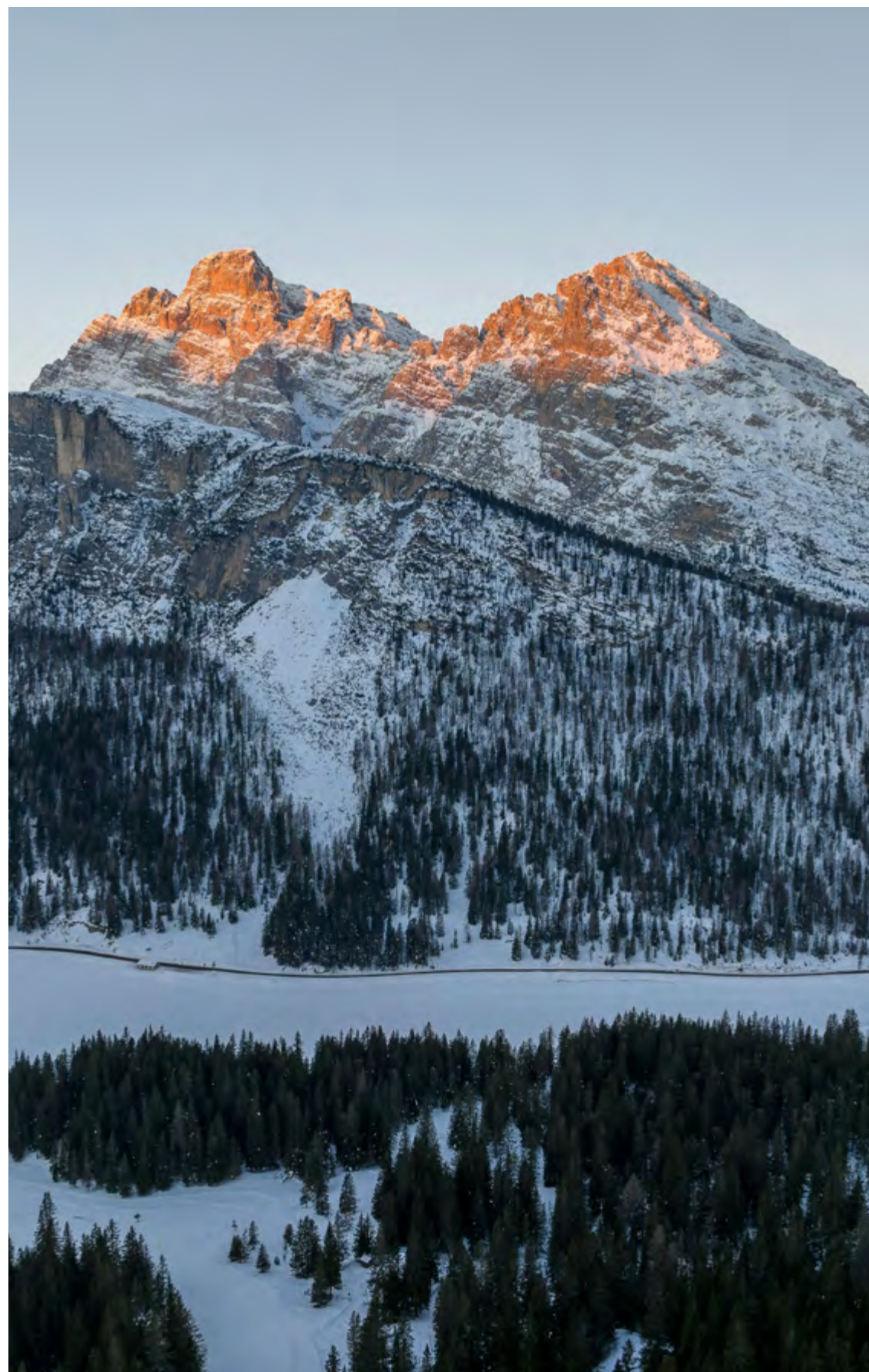
In addition to the threat of a trade war, there are many obstacles and risks for European equities due to China's weakness, the local economic slump, higher energy prices and the war in Ukraine. However, an imminent end to the war in Ukraine and the Middle East could come as a positive surprise. Trump's protectionism

is likely to weigh on the European continent and individual emerging markets in particular. Having already taken a cautious position in the emerging markets (particularly with regard to China), we have therefore reduced our weighting in Europe recently. One exception in the rest of the world remains India, which appears to be largely insulated from Trump's trade policy and continues to impress with above-average (earnings) growth.

After a year of relative strength for US technology stocks, the hope remains that growth in 2025 will be more broadly distributed across the various sectors. Smaller companies that have received little attention in recent years could also come back into focus. Going forward, the majority of the performance should no longer be driven by just a few stocks. Instead, the market should gain breadth. At sector level, US financial stocks, in particular, are likely to benefit.







# B O N D S

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A TENSION BETWEEN CENTRAL BANKS INTEREST RATE CUT PLANS,  
THE RISK OF HIGHER INFLATION AND RISING GOVERNMENT DEBT

BY CHRISTOPH JUNG

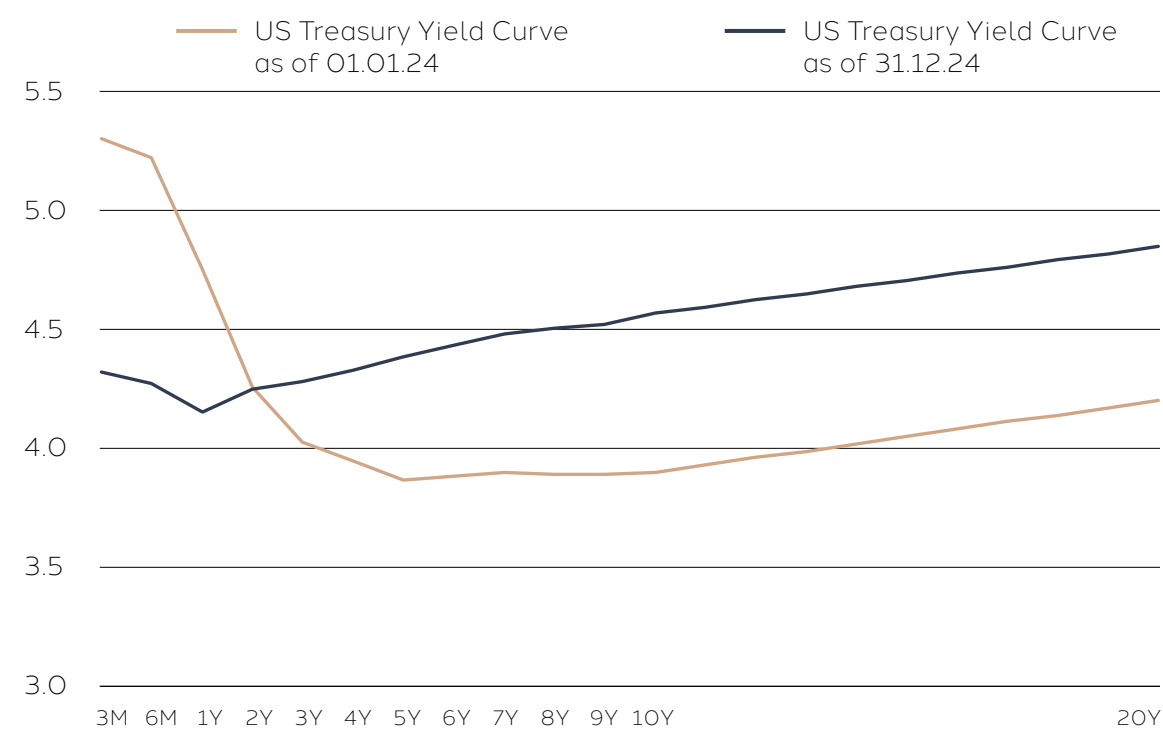
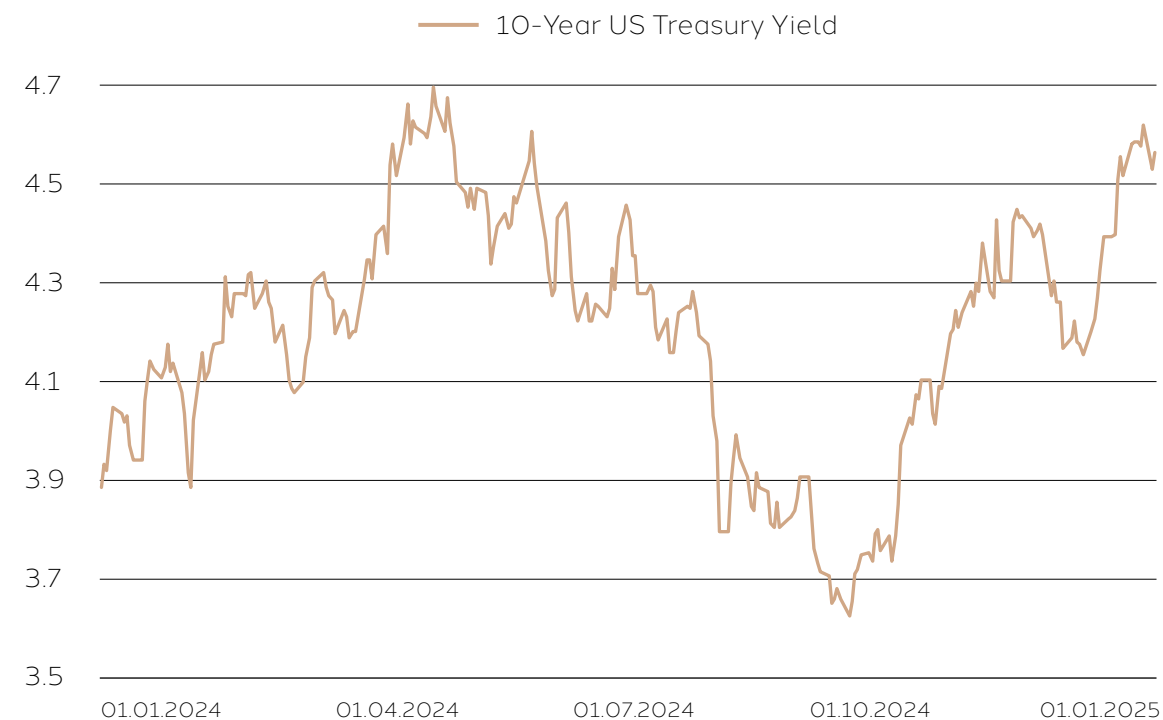
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At the beginning of October, the yield on 10-year US Treasuries was around 3.8% and had settled at 4.57% by the end of the year. This is an increase of a whopping 80 basis points, even though the US Federal Reserve (Fed) decided to cut interest rates by 25 basis points at each of its two meetings in the last quarter. The trend was similar on the other side of the Atlantic. The European Central Bank (ECB) also lowered its key interest rate twice in the fourth quarter. Nevertheless, the yield on 10-year German government bonds, for example, rose by almost 30 basis points to 2.37% in December.

Looking at the year as a whole, it can be said that government bond yields have been on a

rollercoaster ride in 2024. Figure 1 illustrates this turbulent development based on ten-year US government bonds. It shows an initial upward movement from 4% to 4.7% in April, then a downward movement to almost 3.6% and, from September onwards, an approach to the highs for the year. Interest rate volatility, as measured by the renowned ICE BofA MOVE Index, was significantly elevated relative to the last 15 years. A comparison of the yield curve for US government bonds at the beginning and end of the year shows that the Fed's interest rate cuts pushed the short end of the curve down, while the long end rose, driven by inflation and growth expectations, contrary to many forecasts at the end of 2023.





Development of the 10-year US Treasury yield and the US Treasury yield curve as at 01.01.2024 and 31.12.2024

Source: Bloomberg, Illustration by Bergos

After initial fears of a recession in 2024, the scenario of a soft landing with moderate growth and falling inflation tended to drive bond yields down for much of the year. However, upward revisions to growth forecasts and increased expectations of political intentions, which could even fuel inflation again in 2025, led to a reassessment of the situation. The political instability in France and Germany and fears of a trade war following Donald Trump's election victory in the US, for example, certainly contributed to a certain degree of uncertainty towards the end of the year. Against this backdrop, central banks tended to consider a more restrictive monetary policy for the future in December. In line with market expectations, the four interest rate cuts that the Fed had forecast for 2025 in September were reduced to just two. Last but not least, rising government debt and the planned budgets, which could lead to high budget deficits, increasingly made the headlines. Government debt in the USA, but also in other countries such as France, has risen significantly in recent years. According to provisional figures from the IMF, the national debt ratio will reach 121% of GDP in the US and 112% in France in 2024. This situation would be more sustainable if interest rates were very low or close to zero, as was the case a few years ago. But now that the cost of borrowing has risen sharply, as has the cost of servicing the debt, there are growing concerns about this development and long-term sustainability. This combination has led to the significant steepening of the yield curve seen in the lower part of Figure.

#### Record low credit spreads priced to "perfection"

Following the election of Donald Trump, the average option-adjusted credit risk premiums for investment-grade corporate bonds fell to a record low. Measured by the Bloomberg US Aggregate Corporate Index, for example, they fell to 74 basis points in mid-December,

their lowest level since 1998. Since then, they have widened only slightly. A similar picture can be seen in the spreads of riskier high-yield corporate bonds, which are also not far off their historic lows. Credit risk premiums may remain at these levels for some time to come, as long as there are no negative surprises. Investors currently appear to be optimistic. The attractive absolute yield levels are appealing to investors. At the end of 2024, the average yield to maturity for USD corporate bonds was around 5.3%. The high demand for corporate bonds is also evident on the primary market. The global primary market volume for corporate and financial bonds for the 2024 financial year, based on Bloomberg (LEAG) issuance tables, rose by 20.78% year-on-year to USD 6 trillion (!) and was easily absorbed. And this despite the fact that credit risk premiums are pricing in an almost perfect scenario.

#### It will be a bumpy ride in an uncertain world

The scenarios we are evaluating are complex. Given the robust economic situation, especially in the US, there is a risk that too much fiscal stimulus could lead to a renewed acceleration in inflation. There is still a lot of money in the system. The market is not prepared for a stimulus that leads to a growth and inflation shock and forces the central bank to suspend for a longer period or even inevitably restart a rate hike cycle. On the other hand, more aggressive tariffs that lead to retaliatory measures or an immigration policy that severely disrupts the labor market could unsettle the markets and cause spreads to widen. Depending on the political decision, companies and countries are affected differently. The bond markets are likely to experience a bumpy ride in 2025, as forecasts can change quickly due to new facts.

In our base scenario, the global economy will develop moderately with very different regional dynamics. Europe, particularly the

German economy, is weakening and the ECB is therefore in a different position than the Fed, for example. The ECB could continue its rate-cutting cycle, while the Fed needs more evidence of a slowdown in inflation and a cooling of the economy. Given the unpredictability of potential final policy decisions and their geopolitical implications, we are currently taking a more cautious approach to interest rate sensitivity and credit risk in the portfolio. We are maintaining a benchmark neutral duration at the start of the new year. In addition, we continue to favor corporate bonds with good credit ratings. While credit risk premiums are at the lower end of the historical ranges, we assume that the credit risk figures for selected companies will remain stable overall – as will their probability of default. Selectivity in the choice of individual issuers remains essential and, finally, we recognize that systematically and idiosyncratically driven volatility can lead to opportunities in this environment.







# ALTERNATIVE INVESTMENTS

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CONVERTIBLE BONDS: CARRYING STRENGTH INTO 2025

BY OLIVER WATOL

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The past year highlighted the resilience of convertible bonds. The first half of 2024 delivered modest single-digit returns, as the first six months were once again dominated by an already well-known theme. Market concentration and the “Magnificent Seven”. The strong performance of a select group of mega-cap stocks, referred to as the “M7”, provided significant momentum to equity markets. However, this rally offered limited opportunities for the convertible bond market, as none of these companies had recently issued convertible bonds.

However, the narrative shifted in the second half of the year. Market volatility underscored the defensive qualities of convertible bonds,

allowing them to outperform. Notably, towards the end of the year, convertibles reacted positively to the US election results, which delivered a pro-growth political landscape. Overall global convertible bonds posted an impressive year-to-date total return of 10.7% as measured by the Refinitiv Global Convertible Qualified Monthly (hedged in US dollars).

## **A Promising Outlook**

Looking ahead, we expect convertible bonds to remain closely linked to US domestic policy dynamics. The Trump administration’s pro-growth agenda, encompassing tax cuts and deregulation, is expected to support small- and mid-cap issuers, which dominate the convertible bond landscape.

Concentration in US equity markets is still elevated. As market leadership broadens, small- and mid-cap companies are well-positioned to benefit, aligning closely with the opportunities in convertible bonds.

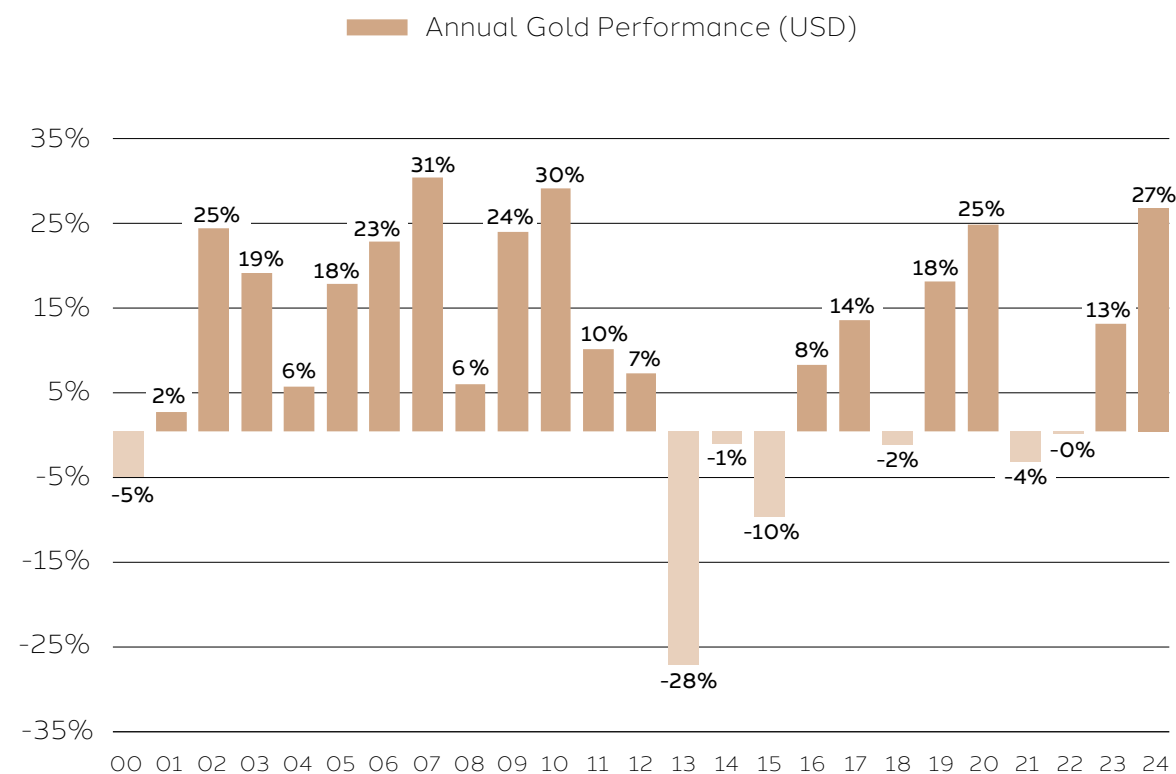
In addition, the resurgence of mergers and acquisitions (M&A) further strengthens the case for convertible bonds. The Trump administration's policies, combined with a lower interest rate environment, are expected to lower regulatory barriers and unlock corporate cash reserves. Small- and mid-cap companies, still trading at a discount to their larger counterparts, stand to gain disproportionately from heightened M&A activity. This trend, in our view, will enhance the value proposition of convertible bonds.

In our assessment, convertible bonds are well-positioned for a positive year in 2025, leveraging strong fundamentals, favorable market conditions, and their distinctive ability to combine equity-like appreciation with bond-like protection. This optimism is reflected in our house view for 2025, where we maintain our overweight for convertibles.

#### 2024: A landmark year for Gold

The yellow metal climbed more than 27% year-to-date in US dollar terms after repeatedly hitting record levels and reaching an all-time high of 2,787 US dollars per ounce in October of 2024. In fact, gold delivered one of its best performances in over a decade notching its biggest annual gain since 2010. Several factors contributed to this surge, including the

**The Strength of Gold over time:** The 27% surge in gold prices in 2024 (in US dollars) underscores its role as a trusted store of value during uncertain times. Gold has provided investors with an impressive annualized return of 9.2% since 2000.



Source: Bloomberg, Bergos, Data as of 12/31/2024

Federal Reserve's rate-cutting cycle, escalating geopolitical tensions, and once again a wave of purchases by predominately emerging market central banks. However, the rally eased after the election of Donald Trump, which led to a strong appreciation of the US dollar, temporarily rising bond yields, and a risk-on mode in the markets. Additionally, gold's prior strong performance, geopolitical easing, and high positioning made it particularly vulnerable to consolidation.

#### Will Gold keep shining in 2025?

As we look ahead to 2025, the outlook for gold remains nuanced, shaped by a blend of supportive and challenging factors. Increased central bank and ETF purchases, rising government debt, geopolitical risks, and a general trend toward lower central bank interest rates are likely to continue supporting the gold price in the coming year.

However, gold may encounter headwinds in 2025, particularly in light of anticipated policy shifts under President-elect Donald Trump. Proposed tariffs and tax cuts, which are likely to be inflationary, could prompt the Federal Reserve to take a more cautious approach to interest rate reductions. Markets have already adjusted their expectations for Federal Reserve policy in response to the outcome of the US election. Furthermore, heightened growth expectations and inflation stemming from Trump's trade policies could strengthen the US dollar, presenting a notable challenge for gold prices. As the interplay of positive and negative drivers suggests a balanced outlook in the short run, we remain at a neutral positioning for the time being.

Nevertheless, Gold's performance has underscored its importance as a strategic asset in a well-balanced investment portfolio. With expectations of moderating inflation, geopolitical risks, and shifts in monetary policy, precious metals are poised to remain resilient

in 2025. Investors should view gold (and to a lesser extent also silver) not merely as short-term speculative assets but as long-term wealth preservation tools and strategic hedges against uncertainty.

While the yellow metal may take time to surpass its all-time high from the previous year, a continuation of its long-term rally remains a possibility. Gold retains the potential to deliver returns in 2025 that align with its historical averages. Should favorable developments materialize, 2025 could even mark a third consecutive year of stellar performance for gold.

#### Oversupply dynamics weigh on oil prices

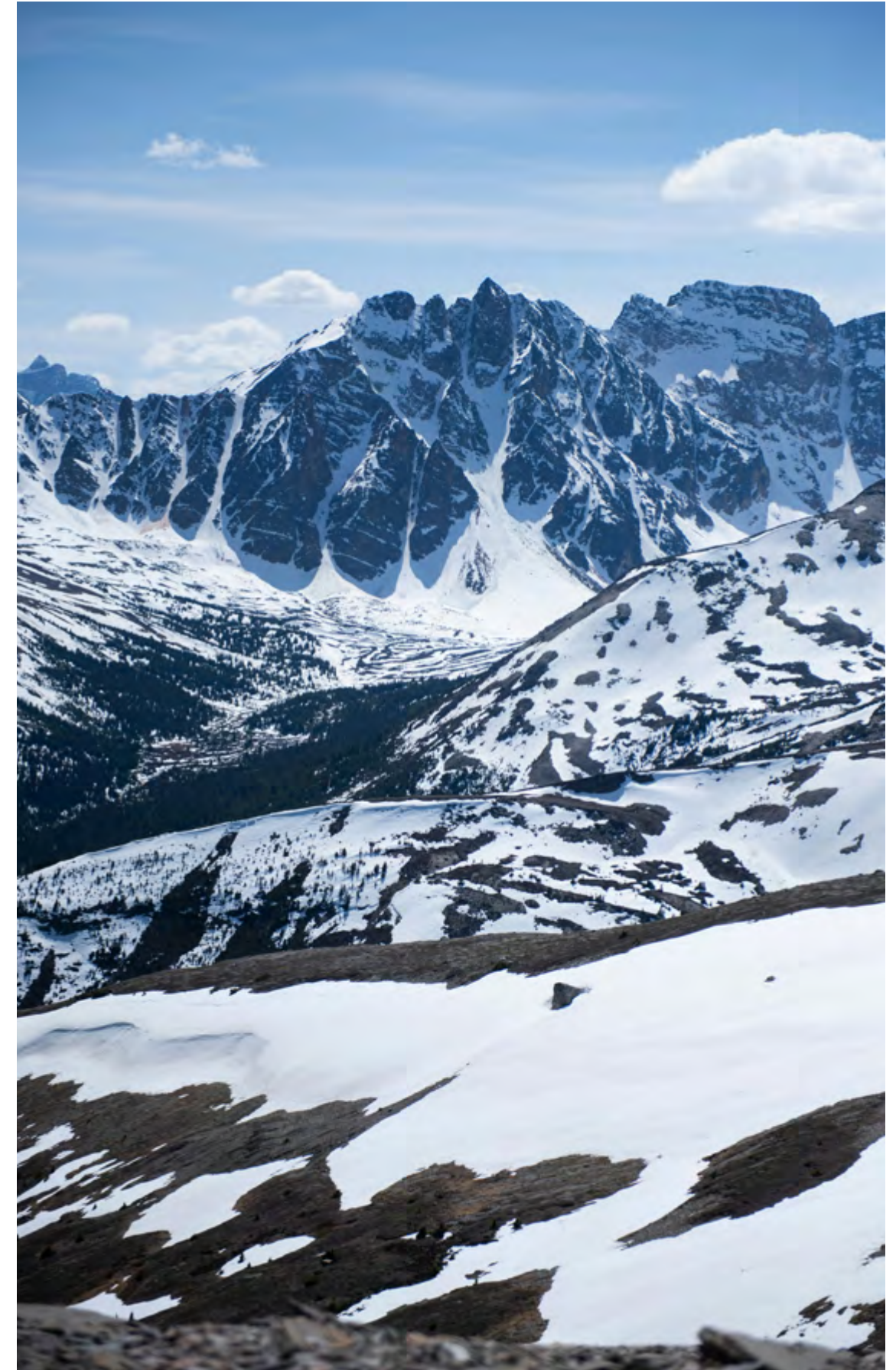
In 2024, the oil market has come under pressure, marked predominantly by the weakening demand from China, the world's biggest importer. Brent crude prices fell around 3% in 2024, slipping for a second straight year, whereas US West Texas Intermediate (WTI) was roughly flat. This has resulted in a rather stable year in oil prices, and the stability should continue in 2025.

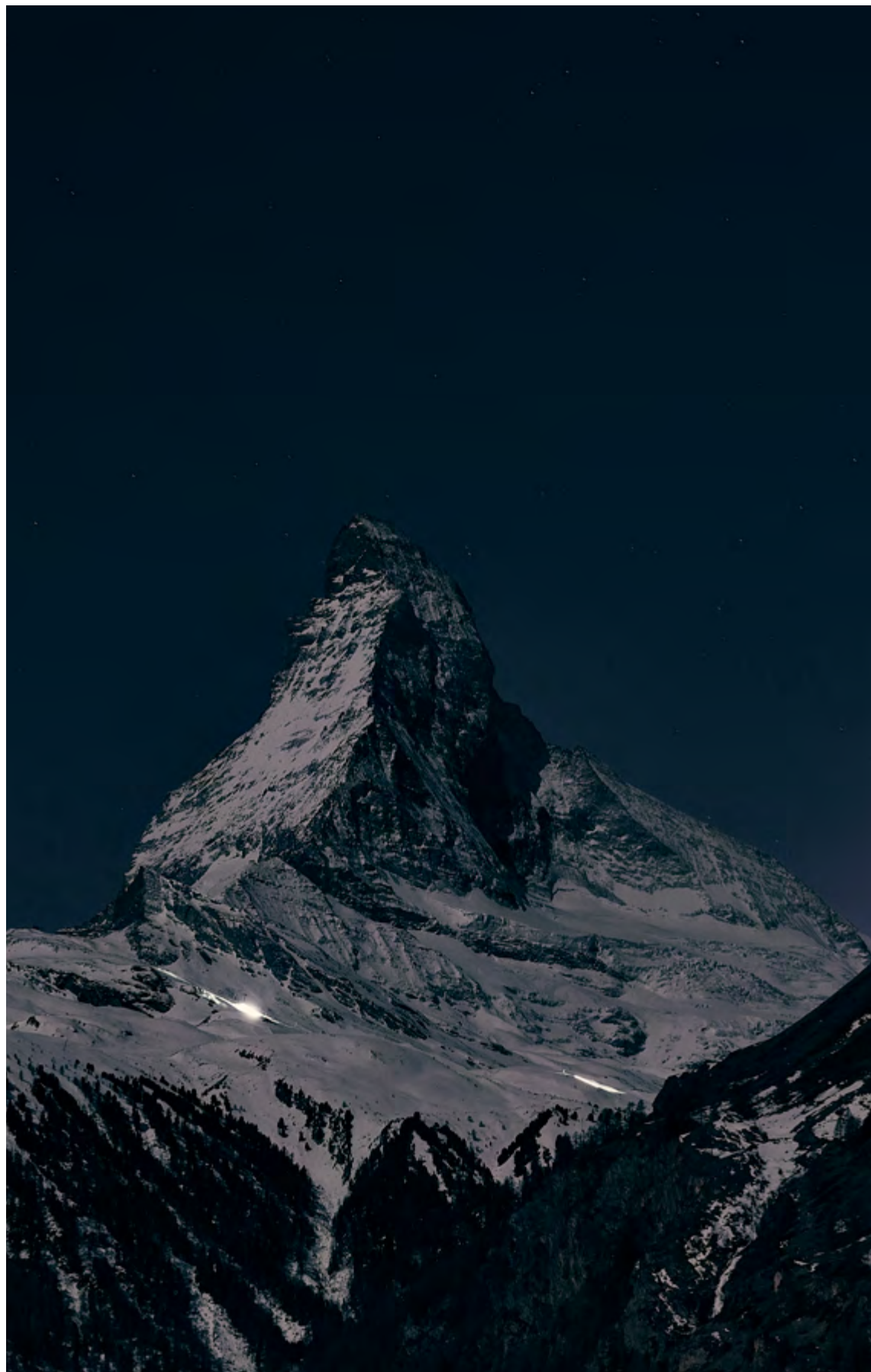
Focus on China and pessimism about its demand is likely to keep that lid in place in 2025 as well. In addition, oil-producing countries that are not members of OPEC+, in particular the US, are increasing supply. Markets are bracing for substantial US policy shifts, encompassing tariffs, deregulation, and tax amendments as Donald Trump is set to return to the White House in January 2025. One of his campaign slogans reads "drill, baby drill," which is his push for a less expensive economy by boosting oil supplies.

The US Energy Information Administration (EIA) forecasts that Brent crude oil spot price will remain close to its current level in 2025, averaging 74 US dollars per barrel for the year, as oil markets will be relatively balanced on an annual average basis. The latest monthly



survey conducted by Reuters of 31 economists and analysts predicted that Brent crude would average 74.3 US dollars per barrel in 2025, marking an eighth straight downward revision. Major investment banks have also provided conservative price outlooks for 2025. Most forecasts reflect expectations of ample market supply and moderate demand growth. Given the expectations of stable oil prices and a largely sideways trend, we see no reason to adjust our current neutral weighting in the energy sector.





# C U R R E N C I E S

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THE CURRENCY MARKETS REMAIN VOLATILE

BY STEFFEN KILLMAIER

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With 2024, another eventful year came to an end on the currency markets. The beginning of the interest rate cutting cycle in the western world, the US presidential elections and geopolitical trouble spots moved the markets. While the question of the timing of the first interest rate cut was still at the centre of attention at the beginning of the year, the question of the number of interest rate cuts increasingly came to the fore as the year progressed. Geopolitically, the war in the Middle East escalated and fuelled fears, while the Russia-Ukraine war remained omnipresent. Safe haven currencies such as the Swiss franc and the US dollar benefited as a result. In addition, the US presidential elections in November were the biggest event of the year.

The topics already mentioned are also likely to take centre stage this year. The question of how the major central banks will continue to cut interest rates will probably steer currencies in one direction or another. Geopolitically, the world remains full of trouble spots that could come back into focus at any time. And with the imminent inauguration of the new US President Donald Trump, there are still many uncertainties that promise increased volatility, particularly in the first quarter.

## **Much speaks in favour of a continued strong US dollar**

In the US, the past few months have been dominated by the presidential elections.





**Development of the EUR/USD exchange rate**  
Source: Bloomberg, Bergos, Data as of 12/31/2024

Already in the run-up to the elections, the US dollar benefited from a shift in probabilities in favour of Donald Trump and the Republicans. The announced trade tariffs will play an important role in US policy. The next few months will show how far Donald Trump is really prepared to go. In addition to tax policy, the announced deregulation in particular is likely to have a positive impact on the US economy. Continued positive economic developments and persistently increased inflation speak in favour of a cautious stance by the Federal Reserve (Fed) this year. The Fed's signals currently point to a reduction of key interest rates by half a percentage point over the course of the year. In view of the macroeconomic data, only one small interest rate cut might even be possible.

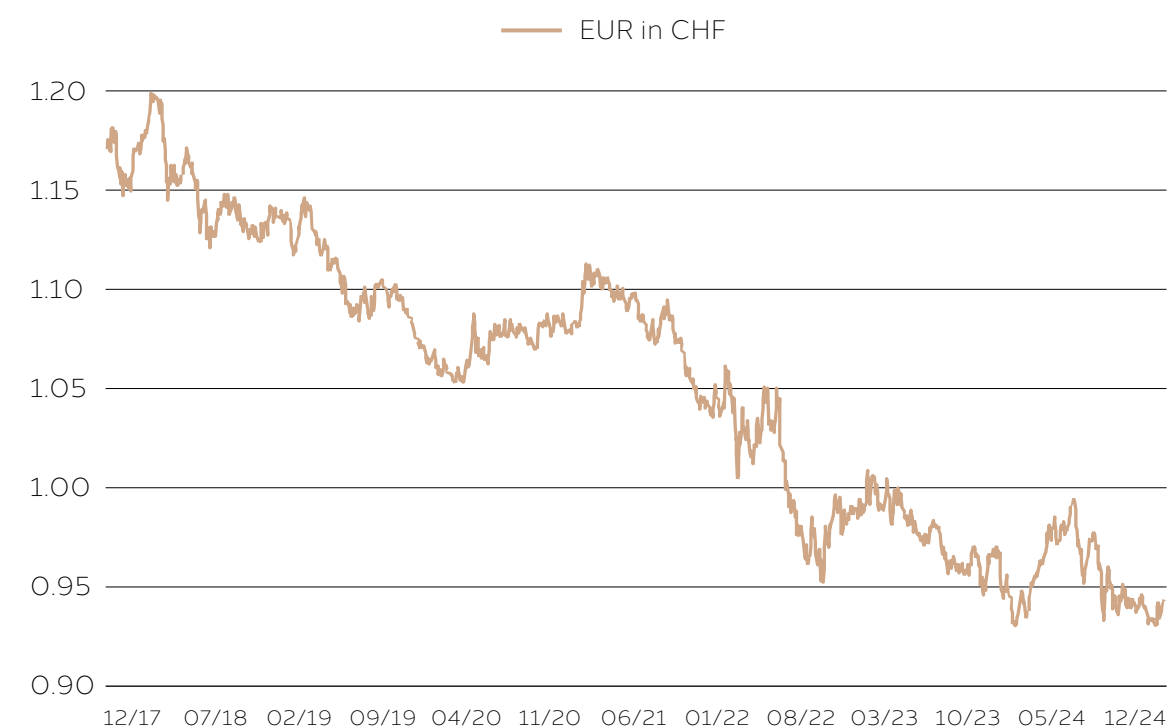
In the eurozone, the situation is different. The European Central Bank (ECB) is under strong pressure to ease monetary policy due to the weak economy and possible financial policy tensions (e.g. in France). Key interest rates in the eurozone could be a full percentage point lower at the end of the year than they are today. The widening interest rate differential between the US and the eurozone, as well as the political tensions in the eurozone, still do not favour a major appreciation of the euro against the US dollar, even if we assume that a lot is already priced in at the current level. A change in direction would require new stimuli, such as an unexpected end of the Russia-Ukraine war or significantly stronger economic data from the eurozone. We are neutrally positioned for the EUR/USD currency pair in the short and long term.

### Strong Swiss franc is now more of a curse than a blessing

In the fourth quarter of 2024, the Swiss franc remained in demand as a safe haven amid global (geo-)political uncertainties. At the current level, however, we do not expect any further noticeable appreciation of the franc. While the inflation rate in many countries is still above the respective central bank's target, inflation in Switzerland is considered to be defeated. In Switzerland, there is a risk that inflation will fall below the target rather than exceed it in the future. The Swiss National Bank (SNB) is therefore trying to weaken the strong Swiss franc, which is a key contributor to low inflation in Switzerland, by cutting interest rates. In addition, the strong Swiss currency is an ever greater burden for export-orientated

companies. In addition to further interest rate cuts this year, we expect the SNB to intervene in the currency market to counteract the strong Swiss franc.

However, the Swiss franc could continue to benefit from its role as a safe haven currency. The world remains full of trouble spots, be it the Middle East, the Russia-Ukraine war or the China-Taiwan conflict. In addition, the inauguration of Donald Trump could further increase uncertainty, at least in the short term. Due to Switzerland's economic and political stability, the franc should therefore remain in demand in the future. We do not expect the Swiss franc to appreciate or depreciate significantly against the euro in the short or long term.



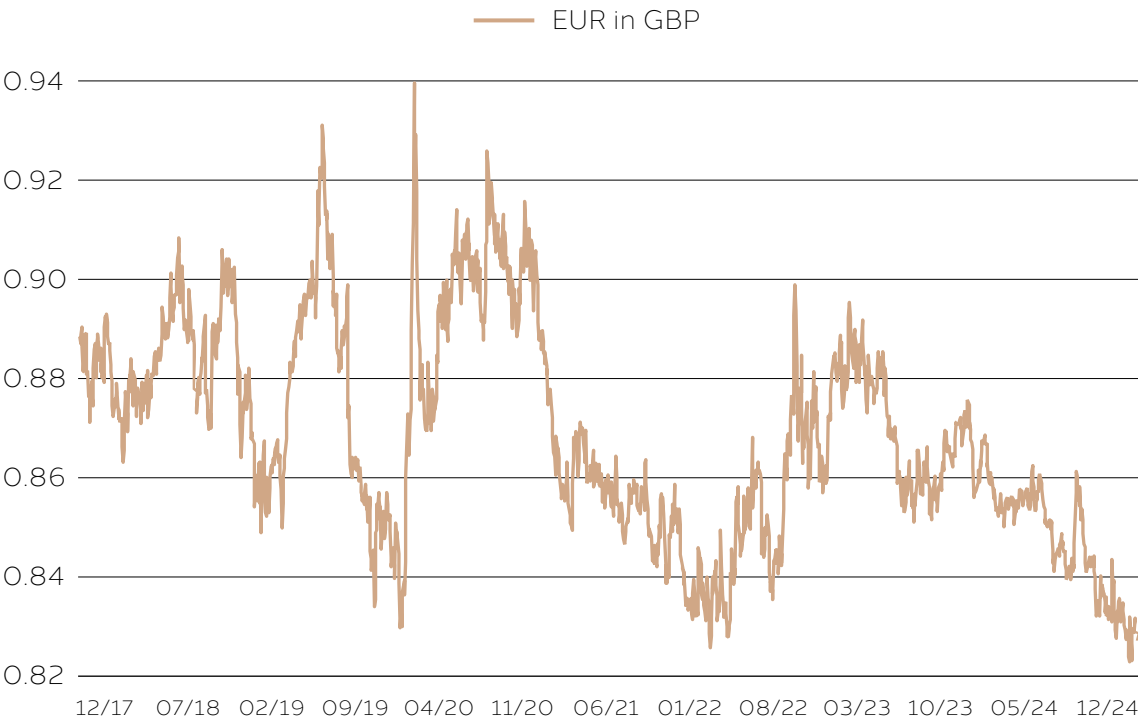
**Development of the EUR/CHF exchange rate**  
Source: Bloomberg, Bergos, Data as of 12/31/2024

**Optimism for the British pound continues**

We have been constructive on the British pound for several months now and believe that most of the arguments in favour of a continued strength of the pound are still valid. While the hoped-for economic upturn in the eurozone largely failed to materialise last year, the UK surprised with relatively positive economic data. In addition, the British government announced a notable expansion in borrowing and investment in its recently presented budget, which should further favour continued positive growth momentum in the UK. We expect economic growth in the UK this year to be above market expectations and above that of the eurozone. This should have a positive impact on the British pound. Furthermore, the UK's core inflation (inflation excluding the food and energy segments) in particular remains higher than in other G10 countries, which, alongside robust economic

growth, also favours a rather cautious and gradual easing of key interest rates by the Bank of England (BoE). We currently expect up to two small interest rate cuts by the end of 2025, while we do not rule out four rate cuts of 25 basis points each in the eurozone. The higher yields in the UK should further strengthen the pound in the coming months.

In terms of politics, we also see certain advantages for the British pound. Since the Brexit vote in 2016, the UK has faced an unusual degree of political uncertainty. With the Labour Party now enjoying a solid majority and a five-year term ahead, this stands in contrast to the political risks in Germany and France in particular. We remain positive for the British pound and expect a slight appreciation against the European single currency in both the short and long term.



**Development of the EUR/GBP exchange rate**  
Source: Bloomberg, Bergos, Data as of 12/31/2024







# TOPIC





# T O P I C

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SPOTLIGHT USA: OBSERVATIONS AS 2025 UNFOLDS

BY DR MICKEY LEVY

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2025 will be heavily influenced by three factors: the economic data, the Fed's monetary policy (and its forward guidance), and Trump's economic policies. Here are my observations about each.

## **The US economy**

The economy continued to outperform in 2024 with sustained healthy gains in productivity and employment following its impressive growth in 2022–2023. It cannot perform much better, and the highest probability is growth will continue in 2025, but at a slower pace, that is, unless already healthy productivity gains accelerate. The biggest downside risk is sizable across-the-board tariffs that upset trade flows.

Consumption is expected to moderate in early 2025 as consumers take a breather following the positive 2024 holiday season. Critical variables affecting consumer spending – disposable personal income, interest rates and household net worth – have all contributed positively to spending. Gains in real disposable personal income, up 2.6% yr/yr, are expected to slow as new job creation moderates. Businesses have kept worker layoffs to a minimum (initial unemployment claims that have hit their lowest percent of establishment payrolls in history), but hiring has also slowed. The Fed's easing of interest rates in 2024 lowered the costs of debt-financed purchases and boosted durable goods consumption – most prominently, motor



vehicle sales reached 16.5 million annualized in November, their highest level since spring 2021. Auto sales should moderate. Household net worth surged in 2024, reflecting the appreciation of the stock market and real estate, which lifted the propensity to spend disposable income.

Housing activity remained constrained by supply shortages in 2024, and the recent rise in mortgage rates – a 30-year conventional has risen to 7.35% from 7% in early December – will weigh on affordability and demand in early 2025. Of note, while new home building has fallen in the last year, spending on home improvements has continued to rise rapidly and has been the primary source of growth in residential investment.

Business investment in recent years has been driven largely by spending on software and R&D and has received a boost from tax credit-incentives for building manufacturing facilities for semiconductors and power generation and storage. Business investment in 2025 will be buffeted by conflicting forces: the Trump administration's thrust toward deregulation is expected to boost business confidence and capital spending, while the imposition of higher tariffs may adversely impact corporate profits and cash flows, depending on the US dollar and its implications for corporate margins and profits. During Trump's first term, the deregulatory environment lifted business investment, while tariffs were a depressant and boosted the US dollar.

Productivity gains have exceeded consensus (and Fed) expectations for several years. Expected continued gains will contribute to profits and ease inflation pressures. Efforts to reduce burdensome regulations may increase production efficiencies, but are not likely enough to make a material difference in the aggregate productivity data.

The trade deficit has widened continuously since 2023Q1, as imports have grown faster than exports and lowered growth of GDP (domestic production) relative to the growth of domestic demand. (Note: while the US bilateral trade deficit with China has narrowed, it has widened with Mexico, Europe, Canada and Vietnam.) The impact of Trump's expected imposition of tariffs will depend on a host of factors, including their magnitude and how they are imposed, the impact on the US dollar, inflation and overall aggregate demand. As I described in "[An Evenhanded Analysis of Trump's Economic Policies](#)", following the tariffs of 2018–2019, the trade deficit widened, the US dollar appreciated, growth in US domestic demand softened and inflation decelerated a bit.

#### **The Fed, inflation and interest rates**

The Fed's next FOMC meeting is January 28–29. Whereas the Fed's December meeting focused on what the Fed said (signal pausing) rather than what it did (ease), at the January meeting the Fed's interest rate policy will be at least as important as its forward guidance. To set the context, several observations are important. First, while the Fed says that the risks of inflation and employment are evenly balanced, the recent back-up in inflation and worries about a further softening of labor markets create a quandary. While the Fed says it remains committed to its longer-run 2% inflation target, the Fed has a history of prioritizing its employment mandate. The sticky inflation has forced the Fed to reduce the number of rate cuts it estimates to be appropriate in 2025, but labor market conditions are the key operative.

Second, based on its effective Fed funds rate of 4.33% (target range of 4.25%–4.5%), relative to 2.4% PCE inflation and 2.8% core PCE inflation excluding food and energy, the Fed continues to characterize monetary policy as restrictive, despite the economy

growing faster than potential and inflation remaining well above its targets and ongoing easy financial conditions. At the same time, FOMC members have grudgingly raised their estimates of the longer-run terminal Fed funds rate, acknowledging a higher natural rate of interest.

The Fed emphasizes that its monetary policy deliberations are made on a meeting-to-meeting basis, and that it is data dependent. In that regard, key data releases prior to the meeting – particularly December data for employment, inflation and Q4 GDP – will influence the Fed.

**Employment.** Monthly changes in establishment payrolls have bounced wildly in the last four months through November (+78k, +255k, +36k, +226k) while the monthly average of +149k is a moderating trend. Any number shy of +125k would signal weakness to the Fed. The Household Survey's erratic monthly changes in the labor force, employment and unemployment have been difficult to interpret, but the 4.2% unemployment rate equals the Fed's longer-run estimate of the natural rate of unemployment (so-called full employment), and the Fed would be sensitive to a persistent rise.

**Inflation.** The factors are in place for inflation to recede in the early months of 2025, but the December inflation reports are likely to show continued stickiness. Looking beyond December data, several factors point to decelerating inflation in 2025. Aggregate demand is gradually moderating, as evidenced by the slower growth in nominal GDP, while healthy gains in labor productivity have constrained unit labor costs. The large shelter component of inflation will continue to recede in 2025, reflecting slower monthly gains in rental costs and OER (Owners' Equivalent Rent). Low monthly increases in inflation in the early months of 2024 establish a favorable base

for declining yr/yr inflation. On the other hand, sizable tariffs would likely result in modest one-time increases in the price indexes.

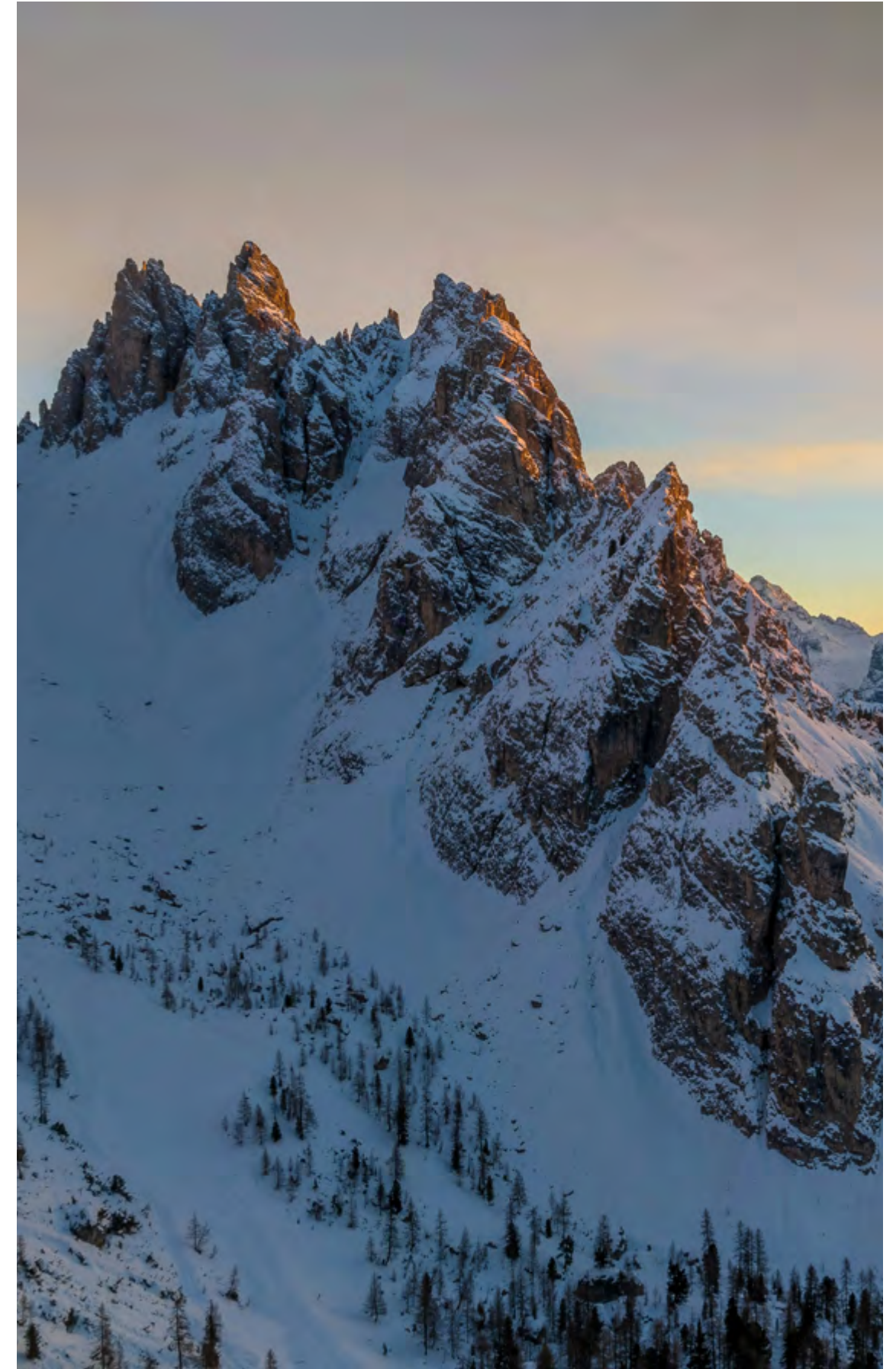
**GDP.** The GDP Report for 2024 Q4 is likely to show continued healthy growth, although another quarterly widening of the trade deficit (that may reflect the front loading of imports in anticipation of tariffs) may offset strong growth in domestic demand. Based on solid monthly gains, real consumption in November is 3.1% annualized higher than its Q3 average, establishing the base for healthy quarterly gains in final sales. Of note, in their latest estimates for Q4 GDP growth, the Federal Reserve Bank of New York's NOWCAST is 1.9% (it has tended to underestimate GDP) while the Federal Reserve Bank of Atlanta's GDPNOW (which has been more accurate) is 3.1%.

If inflation remains sticky in December – staying the same yr/yr or rising – and December employment gains are reasonable and the Q4 GDP Report is solid, the current assessment is the Fed is on hold at its January meeting and eases at its March meeting.

#### **Trump's economic policies**

The programmatic specifics of Trump's proposals and the timing and sequencing of implementation, along with US dollar responses, will determine their economic and financial market impacts. Of note, the recent US dollar strengthening versus most major currencies sets the stage for Trump's policies. Here are my current expectations. The thrust toward deregulation and efforts to streamline the government bureaucracies will commence "on day 1" with great fanfare. This has already begun to lift business confidence. Initiatives to extend the 2017 tax cuts and related fiscal issues will likely be rolled out more slowly. The Trump administration needs to develop a workable strategy with Congress, whose recent actions suggest that it will not be a rubber stamp for Trump's wishes.

Economic and financial market performance in early 2025 will revolve closely around the tariff and immigration issues. Sizable, across-the-board tariffs would have negative economic impacts and would harm financial markets, whereas selective tariffs geared toward national security issues would be more acceptable. An orderly deportation of select groups of immigrants – such as identifiable criminals and groups of undocumented – would have neutral to positive impacts on the economy and government budgets, and would be considered favorable, whereas massive, non-selective deportations would raise uncertainties and have negative effects. Remember, on both tariffs and deportation of immigrants, media coverage will focus on the negatives. Trump's first presidential term presumably provided valuable experience that should improve the policymaking processes in his second term. Nevertheless, households, businesses and financial markets must adjust to the heightened uncertainties that his new regime will bring.





# BERGOS VIEW

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

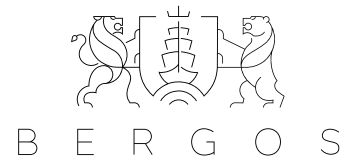
	--	-	0	+	++
<b>FIXED INCOME</b>	○	○	○	●	○
<b>DENOMINATION US DOLLAR</b>	○	○	●	○	○
DURATION	○	○	●	○	○
SOVEREIGNS	○	○	●	○	○
CORPORATES NON-FINANCIAL	○	○	●	○	○
CORPORATES FINANCIAL	○	○	●	○	○
SENIOR	○	○	●	○	○
SUBORDINATED DEBT	○	○	●	○	○
CORPORATE HIGH YIELD	○	●	○	○	○
<b>DENOMINATION EURO</b>	○	○	●	○	○
DURATION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

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



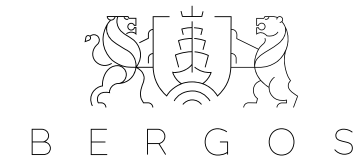
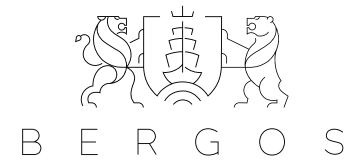






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