



The Capital Markets Publication by Bergos Berenberg AG N 0 5 January 2020

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BERGOS BERENBERG

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Executive Summary



MAXIMILIAN HEFELE, CFA
Head of Asset Management

Dear Investors,

The year 2019 was without question exciting. Expectations of a global recession, the possibility of a hard, incalculable Brexit, instability caused by the trade disputes between the major powers USA and China - these were just some of the factors that led to remarkable scepticism among investors. However, the contrast between investor fears and the ultimately very positive developments on the capital markets could not have been greater. 2019 brought neither a recession nor a “hard” Brexit, and as the year drew to a close, the first positive impulses even were felt in the ongoing conflict between the US and China. How sustainable the current conciliatory tones are is of course written in the stars.

Now we look forward to the new year with excitement. This is a good time to - all in the spirit of this publication - “reflect” on our assessment of the important market factors as well as our investment principles.

“Never fight the Fed” has proven itself again in 2019. The continued expansive monetary policy should remain a positive factor for equities in the new year,



as we do not expect any significant change in this policy, neither in the USA nor in the Euro zone. As a result, the yield potential of fixed-income securities remains low and the yield potential of equities relatively attractive.

In addition, the further development of corporate earnings is under scrutiny. After the brilliant previous years, profit growth paused last year. In the context of a moderately growing global economy, we expect positive corporate earnings growth in 2020. We see higher earnings growth opportunities for US companies than in Europe or in the emerging markets. US equities therefore continue to be favoured.

Even though the recession risks for 2020 have decreased significantly, we still recommend gold and certain liquidity reserves. Opportunity costs in a low interest rate environment are low for gold and growth risks cannot be excluded. Considering this, we cannot avoid price setbacks in 2020.

It is important here to orient your personal investment strategy for the long term and to remain true to it. In 2019, there was a strong temptation to no longer follow this investment principle and to realise profits too early. Investors who resisted this temptation were rewarded with above-average returns and can start the new year without investment pressure and confidence.

With this in mind, I hope you enjoy reading the fifth edition of Reflexions and remain

with warm wishes,

MAXIMILIAN HEFELE, CFA
Head of Asset Management



Bergos Berenberg House View



BANK VIEW

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	--	-	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	○	○	●	○	○
Emerging Markets	○	●	○	○	○

Fixed Income

-- - 0 + ++

	--	-	0	+	++
Fixed Income	○	●	○	○	○
Denomination U.S. 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	○	○	●	○	○
Corporates High Yield	○	○	●	○	○
Emerging Markets	○	○	○	●	○
Hard Currency	○	○	○	●	○
Local Currency	○	○	○	●	○

Alternative Investments

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	--	-	0	+	++
Alternative Investments	○	○	○	●	○
Commodities	○	○	○	●	○
Energy	○	○	○	●	○
Industrials Metals	○	○	●	○	○
Precious Metals	○	○	○	●	○
Hedge Fund Strategies	○	○	●	○	○
Long/Short	○	○	●	○	○
Relative Value	○	○	○	●	○
Macro	○	○	●	○	○
Event Driven	○	○	●	○	○
Convertibles	○	○	○	●	○
Real Estate	○	○	●	○	○



M

Economics

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Outlook for 2020: Good chances of a turn for the better



Dr. HOLGER SCHMIEDING
Chief Economist, Berenberg

Three years after Donald Trump's election victory, the world's most important growth engine, international trade, stalled in 2019. Trump's erratic trade wars and China's growing problems have brought global trade and manufacturing growth to a standstill. More open economies such as those of Germany and Switzerland have been especially hard hit by this development. In Europe, Brexit turmoil exacerbated the economic slowdown over the course of 2019.

Even in the United States, the economy weakened somewhat in 2019. A similar pattern can be observed on both sides of the Atlantic. Companies are holding off on investments because manufacturing has slipped into a crisis due to the uncertainty surrounding the future of world trade. They also reacted to the lower demand for exports by reducing inventories in 2019. On the other hand, consumer spending increased substantially again. Residential construction and higher government spending are also supporting the domestic economy on both sides of the Atlantic.



The sharp divide between largely robust domestic demand and faltering international trade in large parts of the world cannot go on forever. Either the foreign trade shocks fade or the weakness of export-oriented manufacturing will continue and increasingly spill over to other parts of the economy. Therefore, the outlook for 2020 mainly depends on the answers to the following three questions:

- 1) Will Trump moderate his stances somewhat in the 2020 election year or will he instead destabilise world trade even more?
- 2) Can China stabilise its growth course at least halfway despite its great structural problems?
- 3) After Boris Johnson's clear election victory, will the United Kingdom leave the EU in an orderly way that limits the damage?

At the end of 2019, there are good reasons to believe that the answers to all three questions will be yes. The United States and China are on the verge of concluding an extensive deal, Johnson is aiming for a regulated Brexit and China has announced additional economic stimulus. If these developments materialise in 2020, global trade and manufacturing would likely bottom out in the Winter and could then slowly recover beginning in the Spring of 2020. That would make a considerable difference for Germany and Switzerland in particular.

Despite the persistent weakness of world trade, there have been some signs of a turn for the better in 2020 already since September. The trade situation has remained calm in the three months after Trump announced and partially implemented new punitive tariffs against China in August. The absence of fresh bad news has recently brightened the sentiment of many industrial enterprises somewhat.



We expect this trend to continue in 2020:

- Even if the United States and China will continue to be geostrategic rivals for a long time, both sides still have an interest in not letting their trade war spiral out of control. The mere absence of bad news would probably suffice for companies to take a somewhat more positive view of the future again and ramp up their capital expenditures a little. In that case, global trade and manufacturing could slowly recover. After all, the damage to both sides is appreciable. The “phase 1” trade deal that the two sides have just agreed could effectively defuse the dispute. It feeds the hope that President Donald Trump would rather make “deals” in the 2020 election year instead of endangering the US economic upturn and lessen his re-election chances by further escalating his trade wars.
- While China's economy will remain weak, Beijing will probably again manage to prevent a collapse by taking a number of small monetary and credit policy steps. The weak export business will probably recover a bit in the coming year. After slumping in 2019, China's economically important automobile market will probably bottom out soon.
- In all probability, the United Kingdom will avoid a hard Brexit without a follow-on agreement. After Boris Johnson clearly won the election on 12 December, the country will leave

the EU on 31 January. However, the political exit itself will not solve any economic issues. The time left until the expiration of the transition period at the end of 2020, during which the United Kingdom will remain in the EU single market and customs union, will hardly be enough to conclude an extensive trade agreement. Thanks to his clear majority in Parliament, however, Johnson will not have to heed the anti-European hardliners in his party as much as before. That should make it easier for him to negotiate an at least partial agreement on trade in goods, which is especially important for the EU, or extend the transition period by one year.

Barring fresh political and economic shocks, Germany could overcome the stagnation of the last three quarters in the Spring of 2020 and return to a somewhat normal year-over-year growth rate of slightly less than 1.5% in the coming autumn. As usual, the growth of the flexible Swiss economy will probably be somewhat higher than in Germany in 2020 as well.

Good news is also coming from the other side of the Rhine. Despite the protests, Macron's reforms in France are beginning to bear fruit. The number of new business start-ups has risen by almost 50% in the last three years. If Macron sticks to his reform course as expected, France could embark on a golden decade of high trend growth of the kind that Germany has experienced in the last ten years, despite



short-term economic fluctuations.

After the major setbacks of the last three years, which were primarily due to the UK's decision to leave the EU and the subsequent political turmoil, the British economy could recover appreciably in 2020. Because companies have postponed many investment decisions, there is a certain need for them to catch up. Moreover, the government will artificially stimulate demand with a major fiscal program to cover up the Brexit damage for a while. Growth rates could therefore temporarily reach 2% in the autumn of 2020 unless fresh uncertainty concerning future trade relations with the EU overpowers the positive factors.

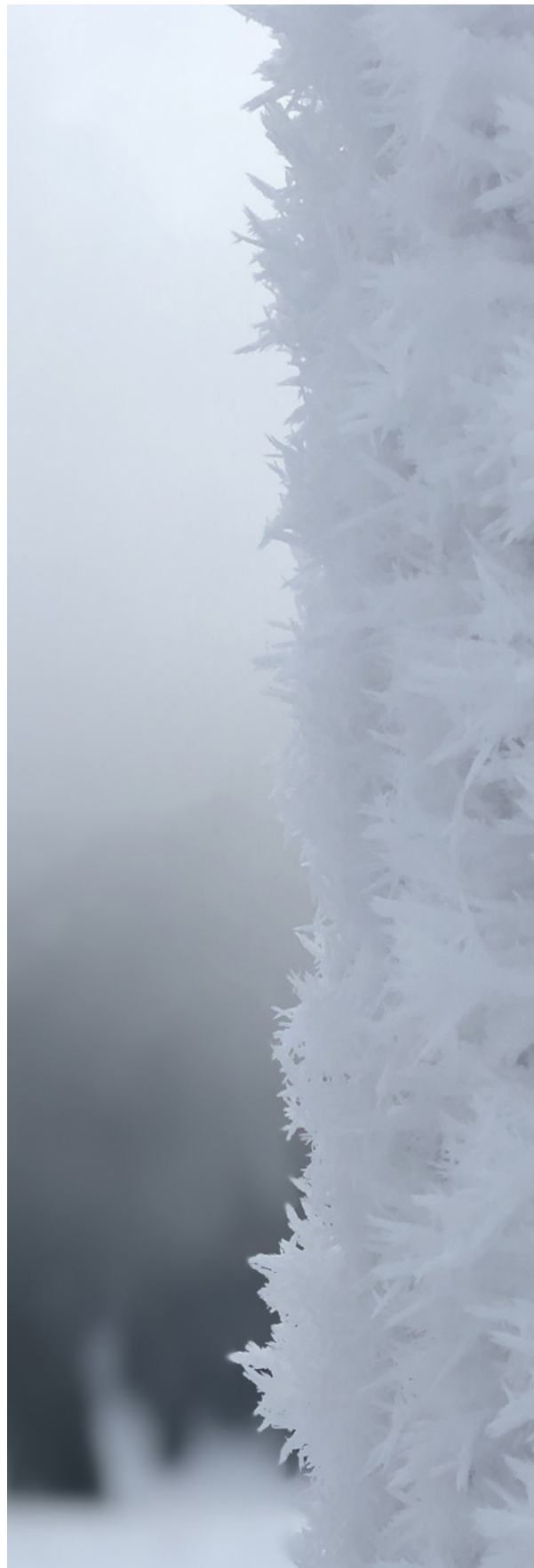
2020 could be a mostly satisfactory year for financial markets as well, with somewhat higher bond yields, a further rise of major equity indices, a rotation into higher-risk stocks within the equity indices on the part of many investors, and capital flows out of the dollar into other currencies like the Euro. In that case, the Euro could rise somewhat against the Dollar and the Swiss Franc. In view of only slowly rising inflation pressure, however, a turn towards higher base interest rates cannot be expected on either side of the Atlantic in the foreseeable future.

Nevertheless, great uncertainties remain. Trump is unpredictable, the economic issues associated with Brexit have not yet been solved, and many countries will have to contend with new or old political risks. In the United States, the political

cards will be reshuffled by the elections in November 2020. If Trump is re-elected but if his Republicans do not regain the majority in the House of Representatives, very little would change. Although Trump would continue to cut some regulations, his erratic trade policy and foreign policy would continue to fuel uncertainty. If on the other hand a Democrat moves into the White House, the situation would presumably be reversed: more regulation and more emphasis on environmental protection coupled with largely predictable foreign policy and trade policy, which would benefit countries such as Germany and Switzerland that are more open. At any rate, 2020 is likely to be another suspenseful year.



*2020 can also be expected
to be a good year
for the financial markets*



E Q U I T I E S

Equities still not expensive compared to other asset classes

No signs of a sustained economic downturn despite political uncertainties

International central banks with ongoing expansive monetary policies

“Yield gap” to bonds and positioning of market participants positive for equities

US Presidential election the key political event in 2020



TILL C. BUDELMANN
Equity Strategist

The year 2019 was dominated by political discussions. Above all, the trade conflicts instigated by the United States, but also the Brexit question in Europe continually stoked uncertainty and stress among market participants. Nevertheless, capital markets exhibited an extremely positive performance on balance in the past calendar year. The broad S&P 500 Index hit many new all-time highs, marking the 11th year of rising equity prices in the US stock market. As in previous years, it was the right decision in 2019 to fundamentally overweight US equities compared to European and emerging-market equities. Equity markets were supported by a change of course in the monetary policy of central banks and more recently, a partial agreement in the trade dispute between the world’s two largest economies, the United States and China. Moreover, the uncertainty surrounding the ultimate Brexit outcome has diminished after the clear victory of the Conservatives led by Prime Minister Boris Johnson in the parliamentary elections in mid-December.

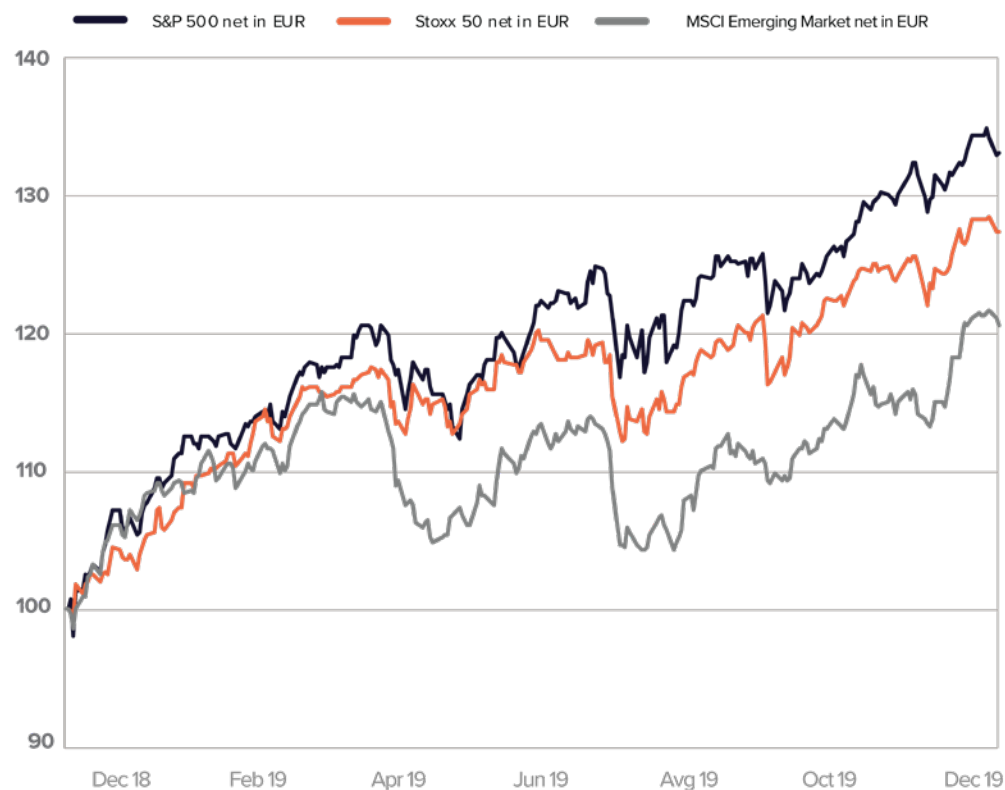


Figure 1: Global equity market performance in 2019

Indexed to 100
Source: Bloomberg, Bergos Berenberg, Data as of 12/31/2019

No recession, also thanks to looser monetary policy

Even though it was not apparent in the performance of equity markets in the last few weeks, political unrest clearly impacted the global economy during the course of last year. Highly export-oriented economies such as that of Germany were particularly hard hit. Consequently, many central banks loosened their monetary policy, especially the US Fed with a total

of three interest rate cuts, so-called “insurance cuts”. Assuming that adverse political factors (trade war, geopolitical tensions between the US and Iran etc.) do not escalate, the global economy should turn in a solid performance this year. We anticipate economic growth of two percent in the United States; in the Eurozone, we expect a modest recovery of economic momentum and GDP growth of one percent.



Moderate profit growth in 2020

The US policy of deregulation and tax cuts gave a tremendous boost to sales in the 2017 and 2018 calendar years and led to a massive margin expansion especially in 2018. As a result, corporate profits soared by a spectacular 38 percent in just two years. In 2019, on the other hand, corporate results were weighed down by the damage from trade stress. At the end, corporate profit growth in the United States will probably be no more than zero. The situation in emerging-market countries appears to be similar, whereas corporate profits in Europe will likely show a modest decline. This development coupled with higher equity prices led to an increase in valuations across the world.

The analyst consensus is calling for the usual ten percent growth in corporate profits in the United States and Europe and even somewhat higher growth in emerging-market countries. Among actual market participants, however, the expectations are not even half as high. We too consider the margin expansion anticipated by analysts to be unrealistic; we think that the various factors affecting corporate profit growth will offset each other and consequently we

expect neither an appreciable increase nor a relevant contraction of profit margins. On the other hand, our expectations for global sales growth (four to five percent) and the extent of stock buybacks are close to analysts’ projections. In combination with an assumed, very modest increase in valuations and an ordinary dividend yield, we anticipate good fundamental conditions as the basis for the overall return on equities in 2020.

Especially with a view to valuations compared to other asset classes, there would seem to be no alternative to equities in a liquid portfolio in 2020 either. This conclusion is particularly supported by the so-called “yield gap”. For example, if you deduct the yields of 10-year US government bonds from earnings yields in the S&P 500, the yield gap is currently 3.6 percentage points. If you then compare this value with the various average values of the last few years and decades, US equities still appear to be rather attractive compared to other asset classes. The yield gap is even more pronounced in Europe.



No euphoria in the market for now

Investor positioning seems not to be aggressive on average at the moment and there are still no signs of euphoria. However, a “capitulation of bears” (market participants who have been pessimistic thus far) is certainly conceivable at the start of the new year. While this would be good for the markets in the short term, it could potentially be dangerous in the medium term, considering that the generally prevailing scepticism was a pleasant companion to the broad upward movement of equity markets last year as well.

We are at a technically interesting point in Europe: The broad Stoxx 600 equity index is currently at the level of its old all-time high reached in 2000, 2007, and 2015. If this resistance point is significantly overcome, that could trigger heavy follow-on buying. This is not an unrealistic scenario, especially considering the current positioning.

Basically speaking, we recommend not underweighting equities in a multi-asset portfolio at the start of the year. And even though the bull market in the United States is now more than ten years old, we still prefer US equities to the rest of the world due to the current trend of relative

profit growth and the decidedly positive technical environment; that being said, we have recently taken European equities up a notch and prefer them to emerging-market equities.

US elections right around the corner

As was the case last year, capital market participants will be preoccupied with politics in 2020, which could possibly fuel rising volatility during the course of the year. Trade conflicts and Brexit issues will continue to dominate the headlines. However, US politics will ultimately be the prevailing topic. News of the impeachment of President Trump has dominated the media headlines in the last few weeks. Despite all the hype, we consider it practically impossible that he will not serve out his first term for non-health-related reasons. However, we attach great importance to the Democratic primaries (beginning with Iowa and New Hampshire in February) and then the Presidential election campaign up to until 3 November. An alternating sideways movement of international equity markets in the lead-up to the main election does not appear to be improbable. Naturally, the market’s reaction to the election will depend very much on the final outcome.

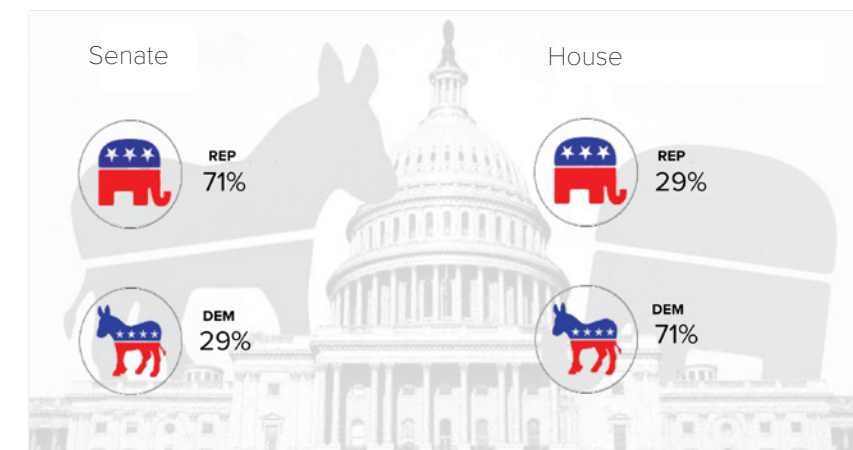
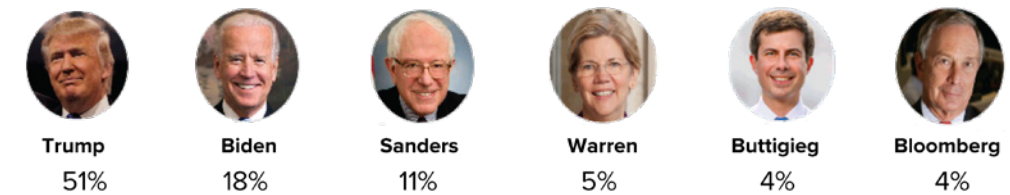


We would regard Trump’s re-election as neutral to slightly positive. It would potentially result in a continuation of the policy of tax cuts and deregulation, though also a continuation or perhaps even intensification of trade stress. Such stress could be prevented if a centrist Democrat whose name begins with the letter “B” (Biden, Buttigieg, or Bloomberg) is elected leader of the free world, although such an outcome would not entail the same supply-side advantages. It would be a rather negative scenario if Bernie Sanders or Elizabeth Warren wins the election

and the Senate remains under Republican control. Trump’s tax reform would essentially remain in effect, but growth-inhibiting regulations would presumably set in. And a President Sanders or Warren with a reliable Democratic majority in both chambers of Congress would be clearly negative. Such a scenario represents the greatest risk to our cautiously positive view of equity markets in 2020.

Figure 2: 2020 US Election Probabilities

Presidential Candidates



Source: Election Betting Odds, Betfair, PredictIt, Bergos Berenberg, Data as of 01/06/2020



BONDS:

EVERY CLOUD HAS A SILVER LINING

Global growth slowdown not as fast as feared

Central banks across the world are working to support a continuation of growth

The “phase-1” deal between the United States and China and the UK parliamentary election provide fresh impetus for a recovery of global manufacturing and trade

Yield curves also point to easing



RENÉ BOLHAR, CAIA
Bond Strategist

Two major geopolitical conflicts dictated the behaviour and development of financial markets for large parts of the year. Besides the question of a more or less orderly departure of the UK from the EU, the trials and tribulations of the protracted trade conflict between the United States and China exerted the greatest influence on market activity. Phases of presumed easing were inevitably followed by Twitter salvos and negative headlines that stoked the conflict and therefore the stress of market participants.

But all of a sudden, everything has changed. In the United Kingdom, a strong majority approved the further Brexit course led by PM Johnson. On the other side of the Atlantic, a willingness to compromise and find consensus has suddenly emerged in view of the looming US Presidential election in the coming year. Whereas the weapon of choice had earlier been threats and escalations of existing tariffs and trade restrictions, the two sides actually appear to be coming closer since September of 2019.

The breakthrough was announced in mid-December, just in time for a year-end rally, when a first, so-called “phase-1” deal was reached. Although some questions remain unanswered, this agreement can nevertheless be described as more far-reaching than the name suggests. Besides a reduction of some existing tariffs and a declaration of intent regarding



far-reaching agricultural purchases in the coming years, the final document also includes details about structural aspects related to knowledge transfer, easier access to the Chinese financial market, and the manner of negotiating fresh disputes. Some of these aspects may well turn out to be beneficial for world trade in general, not only in the short term but permanently. Apparently benefitting from the de-escalation, the global economy is showing the first green shoots of an improvement. Admittedly, some areas of the US labour market had seemingly been unaffected by the trade conflict and global equity markets trended up throughout the year.

Nevertheless, market sentiment was characterised by worry and caution due to deteriorating macro-indicators in many parts of the world.

This scepticism was reflected in the actual development of interest rate markets. Since the start of the year, the yields of 10-year US Treasuries, for example, declined from 2.69% to a low of 1.46% in late August before settling in around 1.90% towards the end of the year. Moreover, yield curve shapes are showing only minor mark-ups for longer maturities compared to the short end. Complete relief would look different.

Nevertheless, it can be said that growth worries have eased towards the end of the year.

This relief can also be credited in large part

to the central banks of the world, especially the European Central Bank (ECB) and the US Federal Reserve. Whereas we had still anticipated an increase in refinancing rates at the beginning of the year, central banks made a complete about-face by actually lowering interest rates to support economic growth. After a resumption of bond purchases coupled with a further reduction of deposit facility rates to -50 basis points in Europe, together with three consecutive interest rate cuts by the US Fed, the goal of stabilising support has been achieved for now and central banks are currently “on hold”. It would take new developments in either direction for additional measures to be taken.

Financial markets at least are pricing in no further interest rate cuts on either side of the Atlantic in the coming year.

Instead, higher-yielding, i.e. riskier investments such as high-yield bonds are benefitting in two ways. Declining interest rates have generally contributed to a positive performance across the board. The perennial “hunt for yield” and ultimately also the resumption of central bank purchases have been supportive of credit risk premiums.



But why
have interest rates
remained stuck
at low levels,
despite the
above-mentioned
developments?

One can only guess the answer to this question. First, there are some signs of a continuation of growth momentum. The fundamental situation of companies is strong and consumer spending is providing strong support to growth. Demand for fixed-interest investments remains constantly high. After such a long phase of expansion, however, many market participants apparently lack the necessary confidence and belief to power another round of growth.

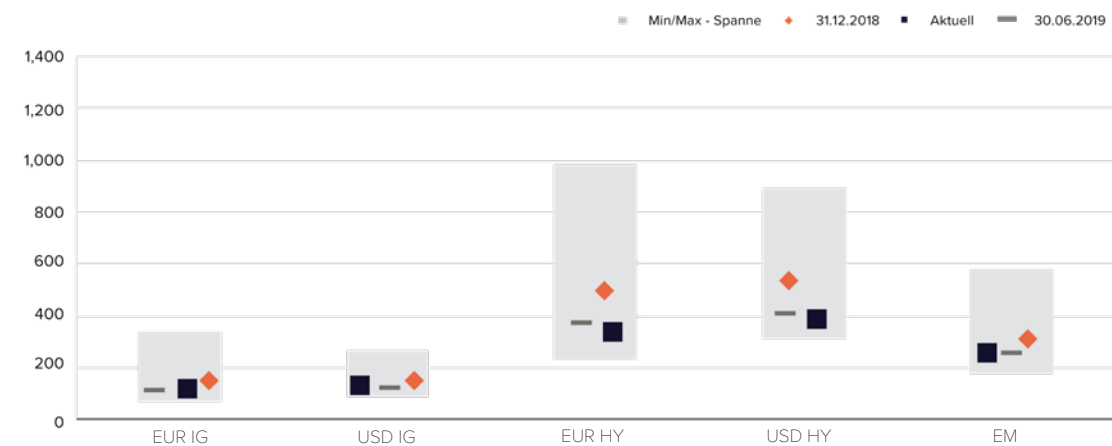
In our opinion, however, there are currently no signs of a pronounced weakening of growth and therefore also financial market valuations. While we remain cautious and have successively increased the average quality of our holdings, we still see potential outside of the investment-grade spectrum.

Will there be another
interest rate reversal?

That is not to be expected. The majority of market participants are cautiously optimistic about the overall market, but evidently need some more conviction before further increasing risk by rotating into equities. Therefore, the demand from this side should remain high. And the second decisive factor, central banks, currently seem to not be willing to make a move in either direction. The risk of being surprised by restrictive measures is therefore also limited. There remains the general outlook for the global economy. Whether the first green shoots signal the beginning of a new growth phase remains to be seen. We see interest rates moving within a relatively constant corridor until further notice.



Figure 1: Credit spreads on Investment Grade and High Yield Bonds in EUR and USD and Emerging Markets Debt
Period 01/01/2010 - 12/31/2019



Source: Bloomberg, 12/31/2019

Where in the segment of fixed-interest investments can return still be earned in 2020?

In view of the latest developments in the trade conflict, we believe that our preference for emerging-market bonds has been vindicated. We still see potential for positive return contributions in both hard currency and local currency in the coming year. However, we think the decisive contribution will come from current coupon income and not as much from rising valuations.

We are more cautious regarding US high-yields. Although the level of risk spreads appears to be more attractive at first glance than in 2018, the movement has been essentially led by a small number of individual instruments that have a disproportionately large effect on the average premium. Most companies have benefitted throughout the year and this level can be described as fair in the best case. If growth momentum slows again in the new year, this segment would be more sensitive, in all probability, after the extremely strong performance in 2019. Technical aspects in the market for corporate loans also play a role: Stricter covenants in loan agreement clauses are likely to increasingly push their issuers into the regular high-yield bond

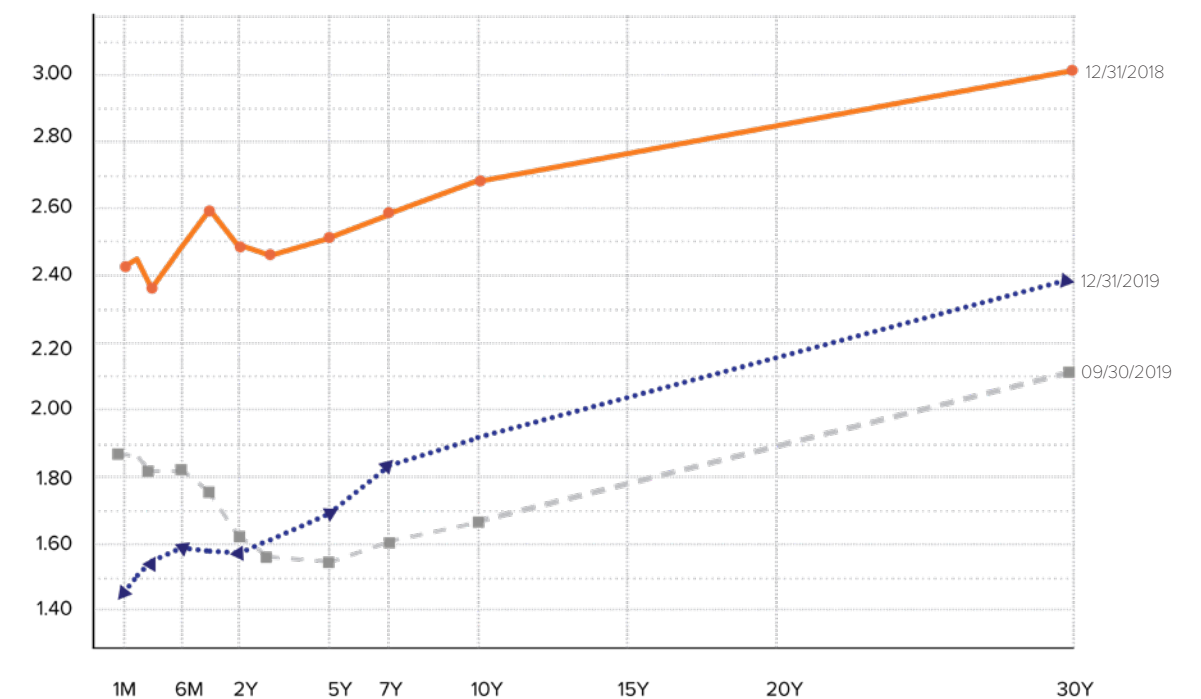


segment in the new year. In itself, the higher level of net issuance activity would have a delayed effect on the overall market.

Thus, the picture as it appears at the end of the year is not as negative as it seemed to be throughout 2019. However, we think heightened volatility of both interest rates and risk spreads is the most probable scenario in the coming months. The current level of risk spreads will presumably tend to rise but we do not expect a sharp upward spike. Accordingly,

we are comfortable in the segment of investment-grade corporate bonds due to the earned premium. Now as before, an active trading strategy adapted to the current situation will play a decisive role in earning a positive return contribution in the coming year.

Figure 2: Development of Interest Rate Curve
As of 12/31/2018; 09/30/2019; 12/31/2019



Source: Bloomberg, 12/31/2019



COMMODITIES



More expansive monetary policy and a possible renewed acceleration of the global economy create an interesting starting point for the commodity complex in 2020

Nevertheless, trade disputes and economic development are still the most important factors determining the price potential of cyclical commodities

Precious metals are still supported by the current market environment



SOUMAILA TÉKÉTÉ, CAIA, CIIA
Strategie Alternative Investments

The current phase of global economic weakness is also putting some pressure on commodity markets. Although commodity markets exhibited a clearly positive performance throughout the year, the catch-up momentum began to falter a little around the middle of the year in particular, mainly due to the trade disputes between China and the United States, which continued to weigh on the market. After the considerable worsening of sentiment, which was ultimately also reflected in various leading indicators such as purchasing manager indices during the course of the year, these indicators are showing signs of bottoming out. Considering this in combination with much more expansive central bank policies across the world and the market-specific dynamics of individual commodities, we think the outlook for the commodity complex in the coming year remains constructive.

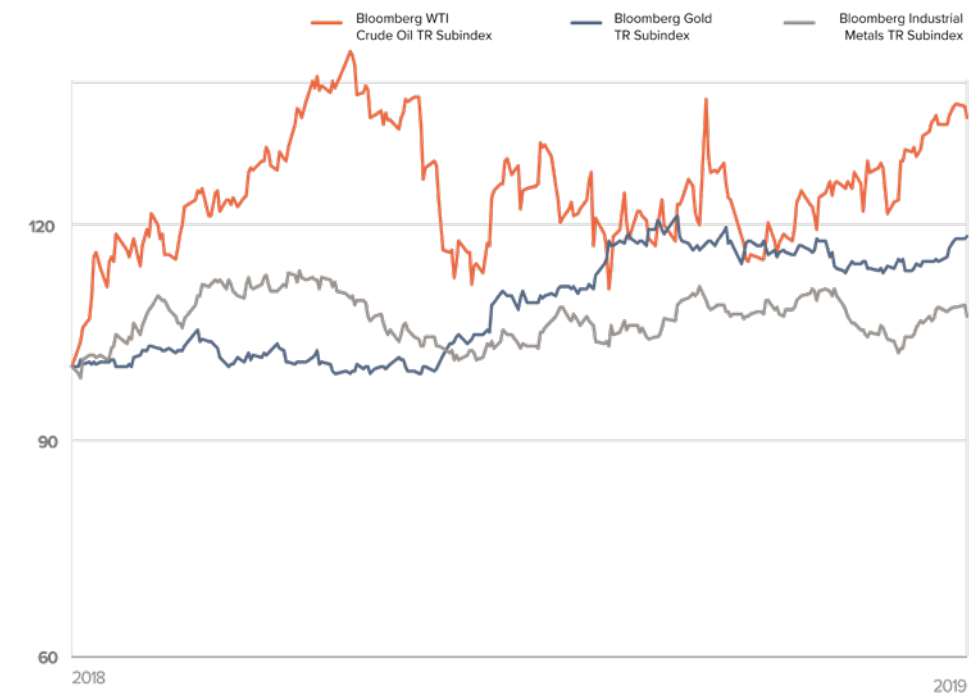


Figure 1: One Year Commodity Performance

Indexed to 100
Source: Bloomberg, Bergos Berenberg (12/31/2018-12/31/2019)



Oil prices to begin the new year with support

The price of oil gained ground especially at the beginning of last year, before tracing a volatile sideways pattern in the second half. Despite the economic uncertainty that arose during the course of the year, oil markets were mainly stabilised by the sustained OPEC+ cuts and strong production discipline. Also in the United States, where shale oil production has increased dramatically in the last few years, there was no real drop in demand despite slowing economic growth. Accordingly, US crude oil inventories completely followed their customary seasonal pattern in the second half of the year.

Side note: Shale oil production

This refers to the extraction of crude oil from hard-to-tap shale layers, which became technically possible only a few years ago. Thanks to this production technology, which is commonly also known as “fracking” and is highly controversial from the standpoint of environmental protection, the United States has increased its daily crude oil production from around 5.2 million barrels per day (2018) to currently 12.5 million barrels per day. Thus, the United States has advanced to the status of the world’s biggest oil producer within a few years.

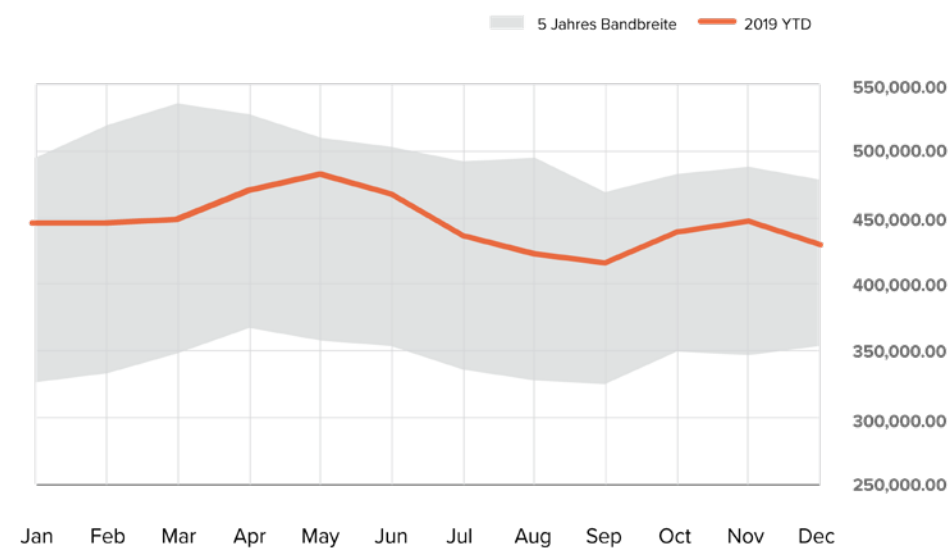


Figure 2: 5YR Crude Oil Inventory Range, US Department of Energy
Source: Bloomberg, Bergos Berenberg (01/01/2015-12/31/2019)



Geopolitical risks, which have manifested themselves in the sabotage of oil tankers in the Gulf of Oman and the drone attacks on production facilities in Saudi Arabia, among other places, remain in effect. The drone attack knocked out nearly half the production of the world’s biggest crude oil exporter virtually overnight. A risk premium may be repriced into oil markets at any time as the recent US airstrike killing of an Iranian General emphasizes this risk even more.

Continuing positive environment for gold

Gold was clearly one of the winners among commodities in the past year. In the current market environment, gold will probably benefit from sustained tailwinds in the new year as well as all important central banks have adopted more expansive monetary policies again. This will keep the opportunity costs for gold very low and will probably ensure continuing investor interest also in 2020. In the current economic environment, gold’s safe-haven function will probably remain attractive for many investors. After the sharp price gains in the second half of the year and due to the high number of speculative positions (Figure 4), the price of gold could still undergo a certain consolidation in the short term. In the medium term, however, we expect the price of gold to continue its positive trend in the coming year.

Opportunities for industrial metals

Industrial metal prices underwent a volatile sideways phase for nearly all of 2019. The prices of industrially used metals were particularly held back by China’s economic

Side note: OPEC+ cuts

Already since 2017, the Organisation of Petroleum-Exporting Countries and their allies have actively reduced their crude oil production to counter the drastic increase in crude oil production by the United States. Since the latest meeting on 19 December, the agreed reduction has totalled 2.1 million barrels of crude oil per day.

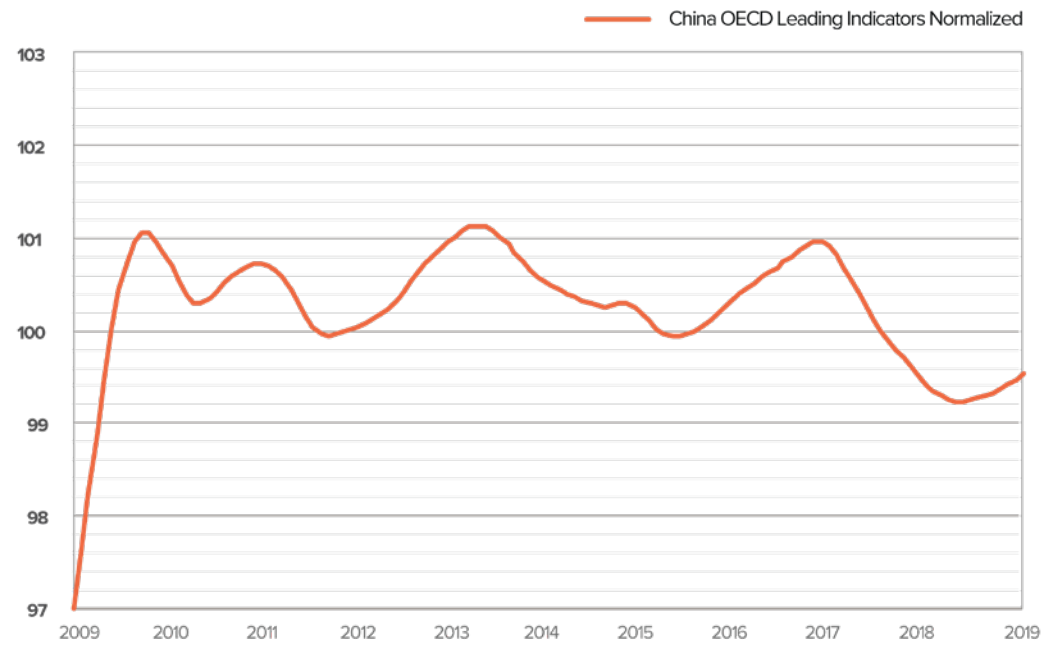


Figure 3: China OECD Leading Indicator - normalized

Source: Bloomberg, Bergos Berenberg (03/14/2009-12/31/2019)

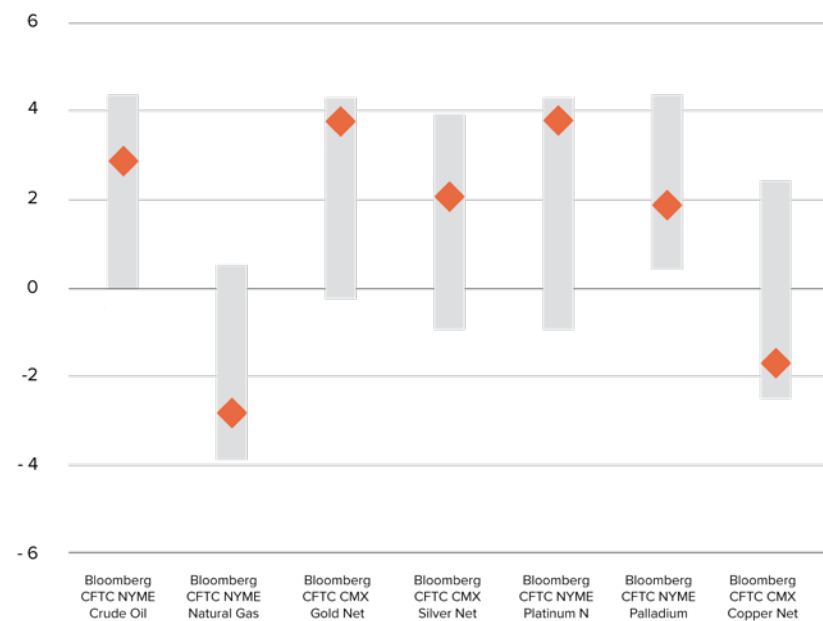


Figure 4: CFTC - Current Net Speculative Positioning and Historical Range

Source: Bloomberg, Bergos Berenberg (12/31/2008-12/31/ 2019)

and the protracted trade conflict with the United States. However, Chinese economic and monetary policy measures can still be expected to fuel an economic acceleration. This expectation is especially supported by the OECD's aggregated leading indicators for China, which have recently gathered momentum again after bottoming out last year.

For this reason, we see good chances for higher industrial metal prices in 2020. However, a renewed and further escalation of the trade dispute between the economic superpowers USA and China could destroy these chances.

This possible economic acceleration would come up against reduced supply as the stocks of individual metals have fallen substantially at times in the last few quarters. In addition, speculative positioning in copper, for example, is currently still at historically low levels, with considerable net short positions (Figure 4). This enhances the price potential because these market participants will be compelled to cover their shorts with follow-up purchases if prices recover further.



Dr JÖRN QUITZAU
Currency Strategist, Berenberg



Currency markets: Waiting for new trends

While 2019 was certainly eventful, there was a lack of striking currency trends. Despite the monetary policy reversal in the United States, the resumption of bond purchases by the ECB, and trade war turmoil, no strong trend driving the most important currencies emerged. The Euro/US Dollar exchange rate remained

within a range of 1.10 to 1.15 US Dollars per Euro for most of the year, with slight advantages for the US currency. The British Pound fluctuated more widely, but primarily as a reflex to the constant flow of Brexit-related news and rumours. Although the Swiss Franc rose appreciably against the Euro from April to August, benefitting from political uncertainty in its role as a safe-haven investment, it fluctuated within a rather tight range for the rest of the year. And so it is time for new trends in the currency market.

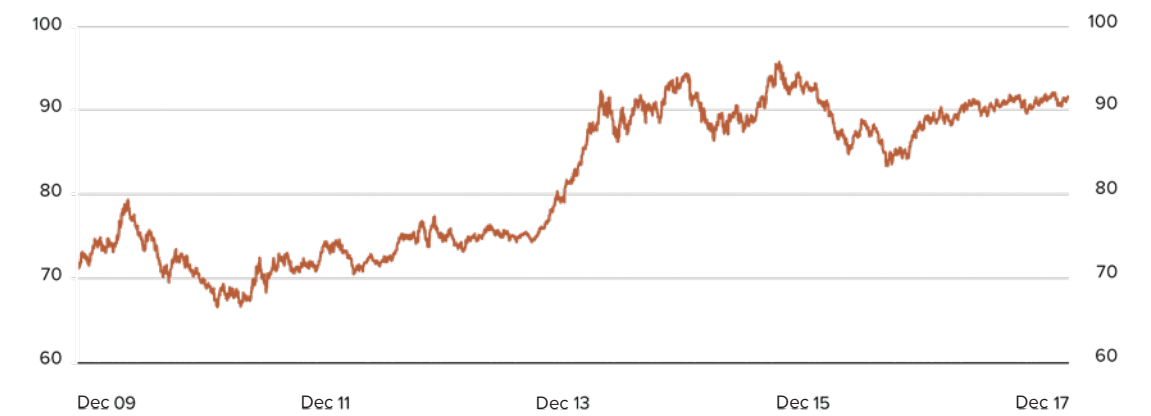


Figure 1: Trade weighted US-Dollar

Source: Bloomberg



US Dollar: Diminishing risks are likely to weigh on the US currency

The US Dollar appreciated modestly by around 2% on a trade-weighted basis over the course of the year. The Dollar was buoyed by the still quite strong US economy and higher market interest rates compared to the Eurozone. However, it faced headwinds from monetary policy as the interest rate hikes that were expected by the market at the beginning of the year never arrived; instead, the Fed actually lowered interest rates three times. The Dollar was also helped by its status as a safe-haven currency in 2019 given the many risks. Against the Euro, the US Dollar appreciated by a somewhat stronger rate of around 3% because the European single currency suffered from the resumption of more expansive monetary policy and from economic weakness. For this reason, the Euro comeback we had expected for 2019 did not materialise.

While we do not see a powerful new trend emerging in 2020, we do see two factors that could strengthen the Euro by a couple of cents in the direction of 1.15 US Dollars to the Euro over the course of the year: 1. If the trade conflict eases somewhat in the coming year and an orderly Brexit is completed, there would be two fewer important reasons to seek out safe-haven investments. Capital would then flow out of these safe havens – including US Treasuries, for example. The US Dollar would become less attractive and would come under modest selling pressure. 2. The European Central Bank can be expected to continue its extremely expansive monetary policy but not loosen it further. Because the ECB's package of measures from last September have already come to be regarded as normal and priced into the exchange rate, market participants can cautiously look forward to a rising Euro again.



Figure 2: Euro in US-Dollar

Source: Bloomberg

Aside from a very short interruption, the Euro exchange rate has remained just below the 200-day moving average since early May 2018. In mid-December, after the election in the UK and positive headlines about the trade conflict, the exchange rate is fighting to break out above the 200-day line. This could be the long-awaited signal for a trend reversal in the currency market.

Assuming that the economy develops in accordance with our moderately positive main scenario, arguments in favour of a rising Euro will gradually emerge in the early months of the new year. An orderly Brexit at the end of January would reduce uncertainties within Europe. A pause or

agreement in the trade dispute would at least temporarily remove the principal global risk for companies. If that happens, the export-oriented European economy could regain its footing and the economy could pick up again. On the other hand, if the problems continue in 2020, contrary to our main scenario, or an unforeseen event triggers fresh risk aversion in the markets, the Euro comeback would be delayed.



Swiss Franc: A never-ending story

The strength of the Swiss Franc is becoming a never-ending story. As a safe-haven currency, the Franc was also subject to upward pressure in 2019. As in 2018, when the Euro rose temporarily to 1.20 against the Franc, bringing a certain exchange rate normalcy within range, there were likewise some glimmers of hope in 2019: In April, the Euro rose to almost 1.15 Francs to the Euro. In both years, however, Franc strength ultimately prevailed as the Euro fell below the mark of 1.10 Francs per Euro again.

The Swiss National Bank (SNB) is using all its tools to stem the rise of its currency and is continuing to pursue extremely

expansive monetary policy. With a base interest rate of -0.75 % and an interest rate on demand deposits of likewise -0.75 %, the SNB actually stands out from the group of all the other expansive central banks. To compare, the ECB has set its base interest rate at “only” 0.0 % and its deposit interest rate at -0.5 %. Moreover, the SNB has continued to emphasize its willingness to intervene in the currency market to counter the strength of the Franc.

Thanks to this monetary and currency policy course, the Franc will probably not rise far beyond the current level. However, we also see only modest downside potential for the Franc in the coming year. If the Euro manages to approach 1.15 Francs per Euro again during the course of the year, that in itself would be a success. On the other hand, if our main scenario of diminishing risks comes to pass, the Euro should be able to trace this path.

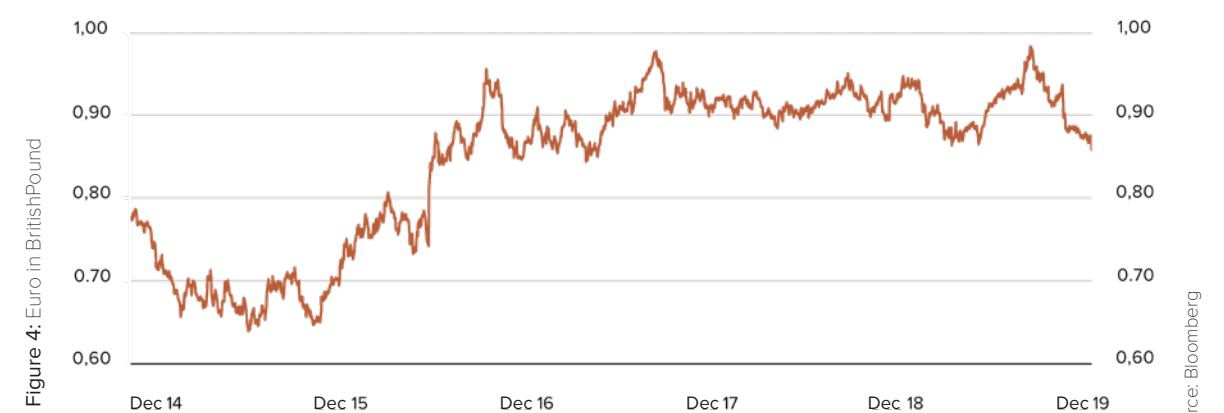


British Pound: After Brexit

– back to normality?

The British Pound fluctuated widely in 2019. The exchange rate was mainly driven by news regarding the outcome of the Brexit turmoil. When a no-deal exit from the EU became more probable and the pound came under pressure, the Euro rose above 0.93 Pounds per Euro at the peak in August. In the meantime, the currency market has priced out a hard Brexit. The Pound has appreciated considerably against the Euro. Shortly after the election in the UK, the European single currency fell to a low for the year of only 0.83 Pounds per Euro. If a contractually regulated departure succeeds and all remaining doubts are thereby removed, the British currency could enjoy another brief, temporary euphoria boost. All things considered, we think the current level of 0.83 Pounds per Euro is appropriate for next year.

The Bank of England has held back on changing interest rates in the last few months and is currently in “wait-and-see” mode. After the election victory of the Conservatives on 12 December and an orderly departure from the European Union on 31 January 2020, the BoE will probably keep interest rates unchanged at first before raising them later in the year, presumably in the third quarter. That is because first of all, Boris Johnson is planning a fiscal stimulus and second, British consumption will increase once the Brexit uncertainties have been dispelled. Both developments will lead to higher inflation rates, making it probable that the central bank will tighten its monetary policy. We would first have to become accustomed to the return of a normal situation in which the exchange rate is no longer driven primarily by Brexit news. Despite the tighter monetary policy, we do not expect larger exchange rate rises in the further course of 2020.





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Editor

Maximilian Hefe­le, CFA
Head of Asset Management

Authors

René Bolhar, CAIA | Bond Strategist
Till Christian Budelmann | Equity Strategist, Head of Fundmanagement
Maximilian Hefe­le, CFA | Head of Asset Management
Dr Jörn Quitzau | Currency Strategist
Dr Holger Schmieding | Chief Economist
Soumaila Tékété, CAIA, CIIA | Alternative Investments



**BERGOS
BERENBERG**

Bergos Berenberg AG

HEADQUARTERS

Kreuzstrasse 5
8008 Zurich · CH

Fon +41 44 284 20 20
Fax +41 44 284 20 22

OFFICE

29, Quai du Mont-Blanc
1201 Geneva · CH

Fon +41 22 308 59 00
Fax +41 22 308 59 20

www.bergos-berenberg.ch
info@bergos-berenberg.ch