BERGOS BERENBERG

# MARKET COMMENTARY

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## KEEP CALM IN TURBULENT TIMES

**The global economy has been massively weakened by the extremely unpredictable impact of the coronavirus (COVID-19). This and the plunge in the oil price a week ago has led to market turmoil of almost unprecedented levels recently. In its baseline scenario, the Swiss private bank Bergos Berenberg only expects an economic recovery in the second half of the year, which would then at least not be further disrupted by the risk of an anti-market US presidential candidate from the democratic party. Compared to the bond market, equities appear relatively attractive – even if one assumes a similar earnings decline as in the last financial crisis of 2008. Gold could serve as a hedge to a balanced portfolio.**

Exogenous shocks hit the capital markets from time to time. "In the form of a virus, this type of shock is very difficult for us market observers to assess, however, its implications for the global economy are enormous and can currently only be assessed in large bandwidths and with the greatest uncertainty. Next to the development of the virus itself, the main focus now obviously lies on the political response", says Till Christian Budelmann, Bergos Berenberg's capital market strategist. The coronavirus has struck twice at the same time, both the supply and demand side are severely affected. Production sites have been shut down, while consumption declines. The oil price shock following failed negotiations between OPEC and Russia has created further difficulties. "Although cheap oil benefits consumers and transportation companies, we are viewing the sharp price drop in the currently weak situation as another net negative for economic growth," says Budelmann.

### MARKETS ALREADY PRICING IN TWO WEAK QUARTERS

Due to the difficulty in predicting the development of the virus, Bergos Berenberg laid out a few scenarios several weeks ago. Meanwhile, the focus is essentially on two of them. "Equity markets are already pricing in a trend that roughly corresponds to our "escalation" scenario, which we currently believe to be the most likely despite all the uncertainty," says Budelmann. According to this, the worst could be over by mid-year. Macroeconomic data for March will be very distressed and continue to deteriorate significantly in April and May.

Based on this scenario, Bergos Berenberg predicts a recession of the Eurozone for 2020 with the economy shrinking by three to six percents, even under the assumption of a substantial recovery in the second half of the year. In the "massive escalation" scenario, the disruption continues at least until year end. "Markets have definitely not yet priced in such a development," says the strategist. The consequence would be an even more severe GDP decline for the Eurozone. In the "massive escalation" scenario, the disruption continues at least until year end. "Markets have definitely not yet priced in such a development," says the strategist. The consequence would be an even more severe GDP decline for the Eurozone.

## EQUITIES PARTICULARLY ATTRACTIVE AFTER THE CRASH

The economic stress caused by the pandemic will obviously also have a strong impact on the development of corporate earnings. Almost certainly, there will be a significant broad based decline in global earnings in 2020 and the energy sector will suffer in particular. However, as equities have declined massively and bond yields already anticipated the steps taken by the central banks, the valuation of equities compared to bonds now appears to be even more attractive. "The price-earnings ratio of the MSCI World is currently slightly below the long-term historical average. Compared to bonds, equities have a yield advantage far above the long-term average", explains Budelmann. The so-called "yield gap", i.e. the difference between the earnings yields of equities and government bond yields, remains noticeably above the historical average if one assumes a similar decline in corporate profits as during the year of the financial crisis in 2008.

## ALL-CLEAR IN US POLITICS: MODERATE DEMOCRAT AHEAD IN PRIMARY ELECTIONS

There has been some relief regarding another topic that until recently still appeared to constitute a major market risk for 2020. US primary results now indicate that it will be the more moderate candidate Joe Biden rather than the left-leaning and somewhat market-hostile Bernie Sanders who will go forward as the Democratic candidate to the US presidential elections. "Either Republican Donald Trump or Democrat Biden would make for an acceptable president from the perspective of markets. While Trump wins points for his supply-side policies such as lower taxes and less regulation, his trade related policies provide a stress a factor. There would likely be less trade related stress under Biden but he would probably try to reverse some of Trump's tax cuts", says Budelmann. According to Bergos Berenberg, the likelihood for Trump to remain president or Biden to take office is at approx. 47 percent each, for Sanders on the other hand it is only in the low single-digit percentage range.

## UNCERTAINTY COULD TURN INTO A BUYING OPPORTUNITY

In this environment, Budelmann currently prefers a neutral positioning for equities. "Markets are likely to remain volatile for the foreseeable future and further setbacks cannot be ruled out during this phase of the pandemic. However, for long-term investors this may not be a bad time to start adding some equity risk”, says the capital market strategist. In times of market turmoil, it is important for investors not to panic but to keep calm. In retrospect, the high level of uncertainty could prove to be a good opportunity to position oneself rationally and at a reasonable price in long-term, future-oriented market areas. All of the bank's multi-asset portfolios have been overweight in gold for over a year. “We see gold as a natural hedge. In times of crisis, a gold allocation usually reduces losses in a balanced portfolio”, says Budelmann. The duration of US bonds has also been extended, a decision that has paid off so far as bond yields continued to fall.

TILL CHRISTIAN BUDELMANN

As capital market strategist of the private bank Bergos Berenberg, Till Christian Budelmann regularly comments on events on the international capital markets and examines them in the context of economic and political trends. Since 2004, Budelmann has been responsible for various investment strategies and sits on the bank's Investment Committee. He has been Managing Director since 2013.

## BERGOS BERENBERG AG

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



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