

B E R G O S

R E F L E X I O N S

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Bergos AG is an internationally operating, independent Swiss private bank with headquarters in Zurich and a branch in Geneva. With a history traced back to the founding of Joh. Berenberg, Gossler & Co. KG in 1590, we have been active in the Swiss financial center for over 30 years. 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

Dear Investors,

We have a lot in store for the journey into 2021. Even with the rampant Covid-crisis, we may take a ray of hope into the new year due to the approved vaccines. Against this backdrop, it is permissible to focus on other developments that are significant in their own right and, taken together, strengthen our confidence for the new year.

These include the political environment, which - with the new President of the United States, Joe Biden, and the end of the unspeakable Brexit saga - offers us a new

outlook for the global economic recovery. In this environment, we expect further impetus from the investment side in addition to already robust consumption.

In any case, there is no lack of sufficient liquidity for investment in the real economy and in the capital markets. On the contrary, support from governments and central banks is taking on astonishing proportions. As a result, the issue of inflation will increasingly take center stage. In the USA, we still expect inflation to rise, but not much more dynamically than

the market is already expecting. Against this scenario, however, a sudden turnaround in monetary policy is not yet in sight, not least because of the high unemployment rates in the United States and Europe.

If we broaden our perspective from the Western industrialized countries to Asia, we discover advantageous conditions compared with Europe. In China, for example, monetary policy is far from being exhausted. In combination with other countries in the region, China offers structurally higher growth potential. This applies in particular to corporate profits, which are growing many times faster than in Europe. The emerging markets are also receiving a tailwind from the weakening US Dollar, which is also providing for looser financing conditions.

In addition to equities in general, we remain optimistic about emerging market bonds this year. Otherwise, yields are extremely meager in almost all Western currency areas. As a complement to equities and/or bonds, we consider gold to be a sensible diversification. Especially in the environment of rising debt in the United States, an allocation to the precious metal makes sense.

As you can see, on this overarching level alone, the baggage for the new year is already bulging. To complement our capital markets outlook, I'd like to draw your attention to our TOPIC column. Our guest authors Vanessa Skoura and Guy Aufenacker shed light on the opportunities and challenges of the shipping industry as experts.

Furthermore, I am particularly pleased to present the first issue of Reflexions under our new flag as Bergos Private Bank.

I wish you all the best for 2021 - stay healthy and confident!

With best regards,  
Your Maximilian Hefe



## E D I T O R



MAXIMILIAN HEFELE CFA  
HEAD OF ASSET MANAGEMENT

Maximilian Hefe is Head of Asset Management at Bergos since 2003. He is responsible for all discretionary investments solutions offered by the bank. He is Managing Director and Chairman of the bank's Investment Committee.



# M A C R O 2 0 2 1 O U T L O O K

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RARELY HAS THE OUTLOOK FOR A YEAR  
BEEN AS PROMISING AS IT IS NOW

BY DR. HOLGER SCHMIEDING

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No shock lasts forever. In the wake of the Covid-19 mega-recession, medical progress and policy makers are setting the stage for a rapid rebound in global GDP in 2021. The winter is still dark in major parts of the world amid high rates of SARS-Cov-2 infections. However, economic growth can surprise to the upside once lockdowns are eased from spring onwards. Even beyond the short-term snapback from recession, growth can remain elevated for years to come across most of the globe.

Ahead of the pandemic, the global economy had already been battered by a different shock. In 2019, Donald Trump's trade war against China and his threats against others caused a

dramatic spike in trade policy uncertainty that weighed heavily on global manufacturing.

Shortly after this uncertainty started to fade in late 2019 due to a "phase one" US-China trade deal, the pandemic dealt an unprecedented blow to the world economy in early 2020. Amid draconian lockdowns to contain the spread of the virus, economic activity plunged at a record pace in February in China and in March and April in most of the world beyond China. All we now need to justify a positive outlook for 2021 is a simple assumption: neither of these two shocks will be repeated in the New Year. No black swan for once.

More precisely, we base our optimism on three key factors:

1. With the advent of spring in the northern hemisphere, the worst of the Covid-19 pandemic should finally be over by April at the latest. Warmer weather and rapid vaccination of the most vulnerable or exposed groups should ease strains on medical systems sufficiently to allow for a large-scale easing of restrictions and a return to more normal behaviour across the advanced world and many emerging markets from March or April onwards. Thanks to vaccines, the world will likely be spared a new wave of medical complications in autumn 2021 that could be severe enough to require another round of disruptive lockdowns.

2. The new US President Joe Biden will pursue a much calmer foreign and trade policy than his disruptive predecessor. Although Biden will take a hard line against China, he will try to work together with the EU, Japan and other key allies rather than threatening all sides. The shift back from a narrow “America first” approach to support for multilateral institutions will make global trade policy much more predictable. This can underpin a recovery in global trade and investment.

3. Monetary and fiscal policy will support the cyclical recovery more than ever before. Whereas we do not expect the US Fed and the European Central Bank to scale up their stimulus again, they will maintain their super-easy stance even beyond 2021. Although fiscal deficits will be less dramatic in 2021 than in 2020, this will reflect a reduced need for survival support as economies recover rather than a genuine withdrawal of stimulus. Most governments are likely to raise public investment instead.

Demand is likely to rebound rapidly once supply restrictions are removed. Across the advanced world, activity snapped back rapidly in Q3 from the first wave of the pandemic.

For example, the Eurozone recouped almost the entire Q2 plunge in real GDP (-11.7% qoq) with a 12.5% qoq surge in Q3. Based on this experience, we look for a solid recovery in spring from the damage which the second wave of the Covid-19 pandemic is inflicting this winter.

As a rule, those countries that suffered the worst recession in 2020 will enjoy the most impressive rebounds from Spring 2021 onwards. For them, the return to more normal conditions will make a bigger difference than for those that were hit less badly. For example, GDP may expand by 6.0% in the UK and by 7.1% in Spain in 2021 after plunges of 11.5% and 11.7%, respectively, in 2020. These rates of change are well beyond those for Europe as a whole (a 7.2% drop in GDP 2020 followed by 4.7% growth in 2021). The better way to gauge the performance is not the rebound in GDP in 2021 but the time it will likely take countries to return to their pre-pandemic level of activity. Helped by a huge fiscal stimulus, the US will likely get there by Q3 2021 already, followed by Japan and Germany (Q4 2021), France (Q1 2022) and the Eurozone average (Q2 2022). The Brexit-impaired UK may need until Q4 2022 while Italy may have to wait until early 2023 unless it unleashes its growth potential through supply-side reforms.

China is the major exception to the rule that the worst-hit countries will record the strongest recoveries in 2021. After China raised its GDP by 2.7% in 2020 thanks to a very determined if somewhat belated response to the pandemic, we look for a strong 9% rise in Chinese GDP on the back of major monetary, credit and fiscal support. However, China’s short-term success cannot obscure its long-run problems resulting from the inevitable deceleration in trend growth of an economy that is gradually exhausting its catching-up potential, an excess debt burden accumulated in a succession

of credit binges, increasing government interference in the private economy, and a shrinking labour force. Reflecting economic factors such as higher wage costs in China as well as political trends, other countries will likely trim their reliance on Chinese supplies over time.

Many emerging markets should benefit strongly from rapid growth in the US, Europe and solid demand from China in 2021. Whether or not they grasp this opportunity will largely depend on their domestic political choices, though.

Our call that most of the advanced world as well as many emerging markets can enjoy the sweet spot of the new cycle with rapid growth at low inflation and record support from Spring 2021 onwards rests on one fundamental assumption: we do not expect inflation to soar to such an extent that central banks would be forced into an early tightening cycle. Our positive outlook thus comes with a warning: the sweet spot of the cycle will not last forever. Once markets begin to price in the sustained rise in inflation to come, which will push benchmark interest rates that are used in equity valuations, stock markets will no longer outperform economic activity. In two to three years, central banks will need to and want to row back amid a further gradual rise in inflation. This should not be an issue for 2021 yet.

For 2021, however, solid economic growth can justify some upside for risk assets and a further flow of money out of safe-havens such as the US dollar into other currencies in 2021. With money flowing out of US Treasuries into other assets and currencies, the dollar can weaken to \$1.28 to the euro or less.

Central banks will allow some increase in bond yields in 2021 as the recovery firms. But if need be, they would use verbal or actual intervention

in markets to prevent an excessive rise in yields that could slow down the pace of the rebound. Economic fundamentals point to a robust global recovery from the deep recession of 2020. However, as the last two years have shown, life is always full of risks. Most importantly, we have to watch the medical situation carefully. We base our calls on the assumption that restrictions in the northern hemisphere, most importantly the comparatively tight restrictions in Europe, can be eased materially from March onwards. Ongoing vaccinations of the most vulnerable and exposed should reduce the strain on medical systems. A serious lack of such progress, or new and more dangerous virus mutations, could put this at risk.

Longer and temporarily harsher lockdowns would not change our overall story by very much. Some output would be lost for good, fiscal deficits would be higher. But by and large, a delayed easing of restrictions would merely postpone the rapid rebound by a month or two. If so, such a shift would show up in a slower average annual rate of GDP growth in 2021 to be largely offset by faster growth in 2022.

Beyond economic risks, we also need to keep an eye on the geopolitical situation. Following Beijing’s subjugation of Hong Kong in 2020, the situation around Taiwan could turn into a potential flashpoint for conflict in coming years. Russian President Vladimir Putin could always cause trouble to deflect from corruption and misery at home, especially ahead of the Russian parliamentary election on 24 September. Other aspects of geopolitics (North Korea, Iran, Turkey, etc) also merit attention. At the moment, however, these risks do not look acute enough to shape our economic and financial outlook for 2021. With Biden at the helm in the US, the risk of geopolitical accidents could be lower than it was under erratic Trump.

M A C R O  
O U R E X P E R T



**DR. HOLGER SCHMIEDING**  
CHIEF ECONOMIST, BERENBERG

Since 2010 Chief Economist of Berenberg Hamburg and one of the best-known German bank economists. He has received several awards for his forecasts and analyses. In 2016, for example, he was named forecaster of the year by the Süddeutsche Zeitung and in 2015 he was voted best banking economist for Europe for the third time in a row by more than 16,000 international financial experts in the renowned Extel Surveys. He has worked at the Kiel Institute for the World Economy and the International Monetary Fund, among others, and served as Chief Economist Europe for Bank of America Merrill Lynch.

GROWTH CAN REMAIN ELEVATED  
FOR YEARS TO COME  
ACROSS MOST OF THE GLOBE





# E Q U I T I E S

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AFTER A CHALLENGING 2020, WE ARE MORE CONFIDENT FOR 2021

BY TILL CHRISTIAN BUDELMANN

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The year 2020 was an exceptional and very challenging year for equities, dominated by the Corona-crisis. Other topics, such as the 59th US presidential election, remained in the background for a long time. The global economy was hit hard by the virus as an exogenous shock and brought an unprecedented decline in economic output. Capital markets plunged almost without exception. The MSCI World for example fell by 32% in just one month. Thanks to an immediate and extensive monetary and fiscal policy response around the globe, the

downturn was only short lived. It took the Dow Jones only eight months not only to make up for the complete Corona induced losses from the spring, but also to exceed the 30,000 point mark for the first time in its history. Barely any market participant might have assumed at the end of the first quarter that the US stock market would see a V-shaped recovery and reach new highs. The emerging markets also partly achieved new record highs, while most European indices have not yet been able to recover the losses from the first quarter.



**Performance of International Equity Markets**

Indexed to 100; All indices are in EUR, including net dividends and as of 12/31/2020  
Source: Bloomberg; Illustration: Bergos



**POSITIVE OUTCOME OF THE US PRESIDENTIAL ELECTION AND PROGRESS IN VACCINE DEVELOPMENT**

The margin of error in polls, which we pointed out several times in the run-up to the US presidential election, indeed tilted in Trump's direction and led to a much closer presidential race than many had expected. Now, however, it does seem certain that Democrat Joe Biden will be sworn in as the 46th president of the United States on January 20. Trade and foreign policy should then become more conventional again, the tone more objective. This is positive for the global economy. The distribution of seats in Congress has also turned out to be much tighter than many experts had assumed beforehand. This is also an advantage for markets, as it gives the Democrats a

counterweight. The very narrow majorities in the House of Representatives and the Senate should decisively restrict the Democrats from implementing a progressive agenda. The enforcement of planned tax increases will be more difficult.

Another ray of hope is provided by the progress in the development of Covid-19 vaccines. The United Kingdom was the first Western European country to launch a large-scale Corona vaccination campaign. Vaccines have now also been approved by the European Union and other countries in the Western world, and we expect more to follow later this year. This should then lead to a gradual normalization. Despite all the optimism, we still expect a difficult start to the year in economic terms. We are more cautious about

growth in the first quarter of 2021 than the consensus among economists. However, further fiscal measures, which many countries are striving for, should have a supporting effect.

**BETTER-THAN-EXPECTED Q3 EARNINGS SEASON AND ATTRACTIVE EQUITY VALUATIONS ON A CROSS-ASSET BASIS**

**THE US CAN MAKE UP FOR ECONOMIC DECLINE IN 2021 - EUROPE CANNOT**

We expect the recovery of the global economy, which can already be observed, to dynamically continue in 2021 and growth figures to turn back into the green. After an anticipated US GDP decline of 3.5 percent in 2020, we expect growth of over 4 percent again this year. The Eurozone will not be able to compensate for last year's decline in 2021. Here, a minus of just under 8 percent in 2020 will be offset by a plus of only 4 to 5 percent in 2021. Among the major economies, only China is unlikely to report a decline in 2020; for 2021, we expect official growth figures of 9 percent. Within just one year, markets have thus shifted from the late phase of the cycle to an early phase due to corona effects.

After one of the strongest relative Q2 reporting seasons ever, third quarter corporate earnings were also significantly better than expected, providing support for global equity markets. Nevertheless, the absolute figures remain negative and substantial earnings declines are expected for 2020. The consensus expects a 15% drop in profits for the US, while a decline of almost 40% is assumed for Europe. Following the sharp dip in 2020, we expect corporate earnings to recover significantly this year.

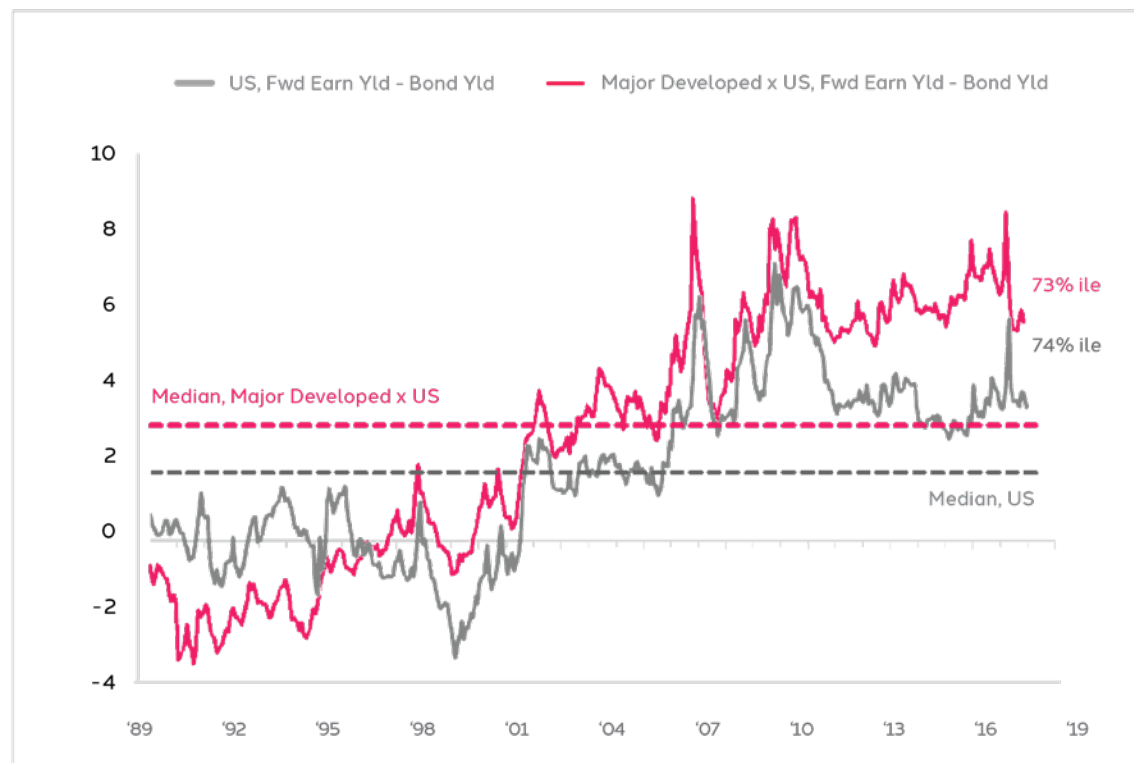
In addition to the expected strong corporate earnings growth, the relative attractiveness of equities compared to bonds continues to favour equities. The equity PE multiple is expensive in absolute terms but not when low rates and reasonable growth prospects are taken into account. A current S&P 500 forward PE multiple of just above 20 may appear expensive at face value but seems less



extreme when measured against the low 10-year bond yield which is close to historical lows. The spread between the forward earnings yield (reciprocal of PE) and bond yield, the so-called Fed Model (or yield gap), is at 74%ile relative to 30-year history. The larger the spread, the cheaper the equity market relative to the fixed income market. International equity markets (ex US) appear even cheaper on this metric in absolute terms.

**EQUITIES ARE A MUST IN 2021, BUT „COVID LOSERS“ ARE NOT NECESSARILY „VACCINE WINNERS“**

Overall, we are constructive about this year. A more market-friendly US trade policy, a breakthrough on the vaccine front, central banks that continue to act expansively, and a significant recovery in the global economy will provide a favourable environment for markets in 2021. Equities are likely to remain the most important source of return in a portfolio this year. Renewed extreme market volatility, as we



**Fed Model: Earnings Yield and Bond Yield Spread**

Wtd. average of yield spread of Japan, UK, Germany, France, Italy, Canada and Australia  
Source: J.P. Morgan US Equity Strategy & Global Quantitative Research

experienced it in 2020, is not to be expected. While we favoured large caps throughout 2020, we now see good opportunities for equities of all market capitalizations.

Even though we see light at the end of the Corona tunnel, „Covid losers“ are not necessarily also the „vaccine winners of 2021“. For various companies, it is not even clear yet whether they will survive at all. And a normalization of the world does not mean that everything will be the same as before. In 2020, we have successfully backed IT and communications companies, among others, and we are not yet turning away from them. Regionally, the US and Asian emerging markets, especially China, South Korea and Taiwan, remain on our high conviction list. The US should also continue to outperform during this period due to its sectoral composition. With regard to Europe, we remain more cautious. Within Europe, we have recently closed our underweight in UK equities, however. The last minute trade deal between the EU and Great Britain means the end of years of Brexit uncertainty and we now expect noticeably higher growth for the UK economy in 2021.

**SENTIMENT IS SOMETHING TO KEEP AN EYE ON**

Despite the promising outlook, it is important for investors to remain humble and to constantly question assumptions and actions. Potential further Covid measures are still causing uncertainty. Sentiment also deserves special attention at the moment. Investor sentiment has improved noticeably recently. This does support markets in this phase. However, if it continues to rise towards euphoria, this can be a contrarian indicator and a sign of possible setbacks. It is still a moving time, personally and for capital markets, but we believe there is improvement in sight in 2021.

# EQUITIES OUR EXPERT



TILL CHRISTIAN BUDELMANN  
EQUITY STRATEGIST

As Bergos's Equity Strategist, 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.

„COVID LOSERS“  
ARE NOT NECESSARILY  
„VACCINE WINNERS“





# B O N D S

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2020 - THE CORONA ISSUE

BY RENÉ BOLHAR

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During these first days of 2021, we look back at the past year and – I am not stating a novel thought here – struggle for words to adequately describe it. After a smooth and promising start, developments around the Coronavirus at the end of February 2020 took investors on a wild rollercoaster ride with initial sharp losses across almost all asset classes and a recovery that left real money investors scratching their heads even more. Although the medical threat is still prevalent in most parts of the world, there are good news to report, too:

Unseen and coordinated efforts on the fiscal and monetary side helped restore faith in the functioning of the financial markets and

seemingly re-established a certain degree of normality there. Furthermore, the arrival of multiple vaccines and the immense efforts that preceded all throughout 2020 give hope for the year ahead.

Besides Corona being the dominant economic shock of 2020, the US-Presidential Election and Brexit left their mark on the developments of the past year. With President-Elect Joe Biden, a presumably more reliable statesman will take over soon, most likely removing erratic rhetoric and diplomatic unease going forward. Involved parties achieved a viable Brexit-plan shortly before reaching the deadline of a disorderly exit. And companies

worldwide suffered less from the pandemic-induced recession than initially feared. The increased predictability shall reduce the perceived uncertainty and therefore reduce volatility.

**BUT IS THIS REFLECTED IN FIXED INCOME MARKETS AS WELL?**

To answer that question we have to differentiate between the two major components of fixed income returns: Interest rates and credit risk spreads.

In light of the sudden and severe impact the surge of the virus in the western world had on markets, global central banks, first and foremost the US Fed and the European equivalent ECB, acted quick and sober-headed. While the central banks of both economic regions set up asset purchase programs amounting to incredible sums, the US Fed - with more leeway when it comes to interest rates - also cut the refinancing rates in two emergency cuts to levels now close to the zero-line. With deposit rates being already negative in Europe, the impact of such a measure has been deemed limited by the ECB governing body, though. The remaining big global central banks like Bank of England, Bank of Japan and the Bank of China followed suit with similar measures. According to common belief that was needed to restore the functionality of capital markets and spurred what we now consider one of the fastest recoveries in history. The good news is, there is little reason to believe those measures will be withdrawn soon. The phrase “low for longer” had to be adjusted to “even lower for much longer” in a way.

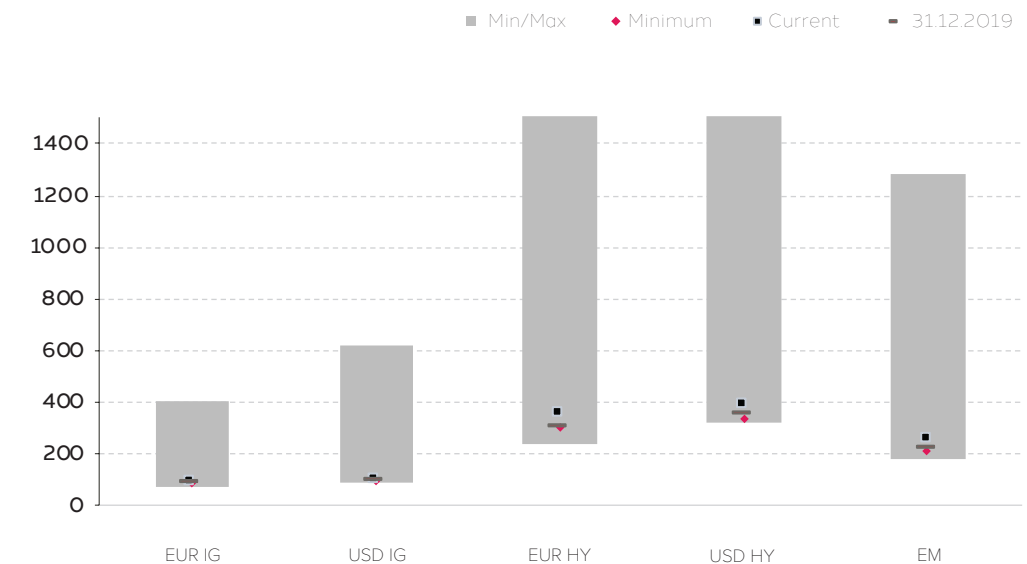
**DOESN'T THE VAST AMOUNT OF LIQUIDITY SOON LEAD TO OVERSHOOTING INFLATION?**

Text book knowledge at least advises to be careful in the mid- to long-term, especially as Fed and ECB somewhat changed their interpretation on inflationary pressure and how it will be considered in their efforts. For the near future we see little reason to believe a jump in inflation will spoil the party soon.

But even without a sustainable and notable rise in inflation, the question may be allowed whether the low interest rates will stay at their current level over the coming twelve months. Well, with two of the major impacting variables, monetary policy and inflationary pressure, being in check, it mostly will depend on the general growth outlook developed by investors. As the vaccination of the public slowly but surely started in the major regions and countries around the world, we are cautiously optimistic that investor sentiment will soon completely look through the current situation and focus on the post-Covid era. This is already notable in the increasing frequency of upward revisions on growth projections. With no additional and unforeseen negative drawback this will ultimately lead to somewhat higher interest rates, as less and less safe-haven assets will be needed as portfolio insurance.

But markets always contain some degree of uncertainty which keeps investors invested to a notable extent. Together with the ongoing central bank purchases and an ongoing structural overhang (e.g. retirement industry, Insurance and Corporate treasury investments) the demand will, however, stay healthy. With the spread development pointing towards an ongoing improvement and rates are being held steady due to other reasons, fixed income markets indeed already started to reflect the increased optimism.

**Risk premiums of investment grade, High Yield and emerging market bonds in EUR and USD**  
 Period: 01 August 2007 - 31 December 2020  
 Source: Bloomberg; Illustration: Bergos



**BUT WHAT ABOUT THE CREDIT RISK SPREADS, IS THERE MORE RELAXATION AND TIGHTENING TO BE EXPECTED?**

To get a first indication it might help to look at the development of credit risk spreads over the past: as described earlier, demand for fixed income securities, regardless of currency, quality or maturity was and remains solid. But albeit this positive overhang, credit risk spreads on average are still slightly higher than pre-crisis — even though central bank balance sheets inflated significantly. It is obvious

that market participants are still somewhat hesitant. Given the factors described earlier, risk spreads on the broad market likely will soon tighten through their lows seen at this time last year. We still see some room left to provide for positive total returns going forward: spreads on European Corporate debt to our assessment will likely decrease by 15 to 20 bps; those denominated in US Dollar have room to tighten by around the same until year end. Given that the recovery in High Yield investments is less advanced than in the investment grade space, the potential here is more pronounced with around 70-80 bps for both currencies.

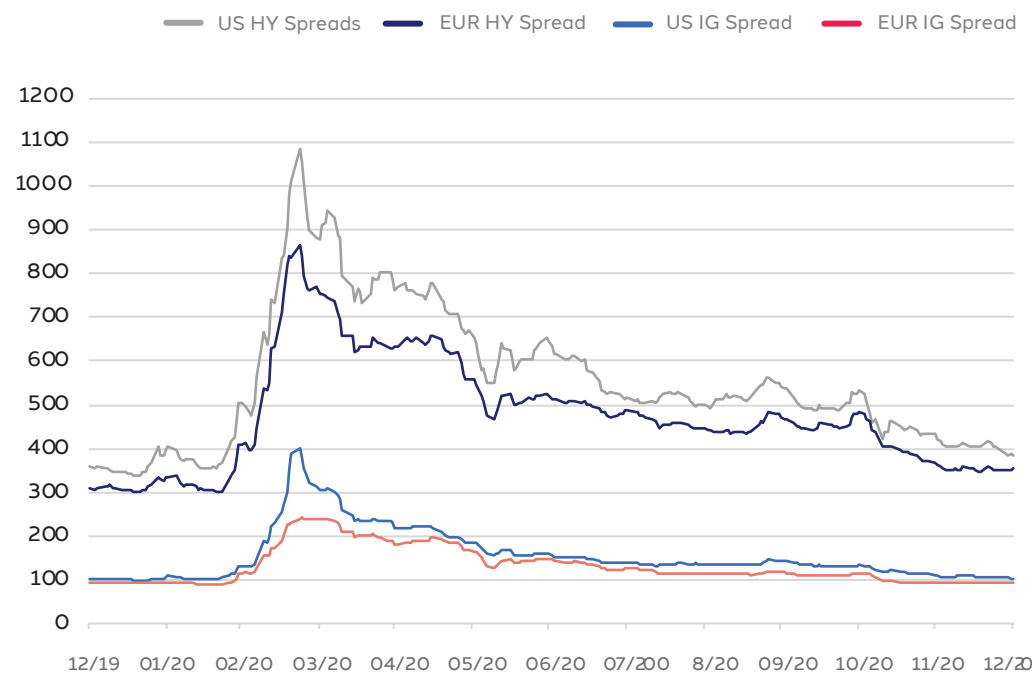
Needless to say, the figures depicted consider average benchmark indexes. Individual companies, however, experience a varying direct and indirect impact from the current situation which makes a diligent and profound analysis and selection key to achieve superior returns going forward.

**BUT WHAT DOES THAT MEAN IN TERMS OF POSITIONING?**

Those assets with a higher inherent risk, such as subordinated issues or High Yield Investments, most likely will continue to benefit from the improving sentiment. Nonetheless, we enter the new year with a neutral position as we need to gain more clarity on the sustainability of the current development.

The most favorable sub-segment remains to be the emerging market space: Not only is the recovery potential there the biggest, the corporate fundamentals and the dynamic of the recovery seem to be the most promising among the liquid fixed income universe going forward. A slight underinvestment by investors adds as a positive contributor. Albeit we stay constructive on EM in general, the exchange rates volatility needs to be carefully monitored on the side of local currency investments.

This, however, does not mean that higher rated issuers do not offer leftover-potential anymore. We prefer an active selection approach over a simple beta-play: instead of just increasing the exposure to the sub-asset class (beta) we focus on identifying the right companies out of the broad basket in order to achieve alpha-return.



**Year to Date Yield Credit Risk Spreads on Euro and US Dollar IG and HY Debt**  
Source: Bloomberg, as of Dec 31st 2020; Illustration: Bergos

We continue to like stabilizing portfolio components like highest quality sovereign exposure and especially, covered bond investments. Even on what looked like a sunny day, it might rain every now and then. The mentioned investments have the potential to decrease portfolio volatility in such periods. To put that into perspective: Despite the already low starting point at the beginning of 2020, fixed income proved to still act as a diversifier for risk in the previous year. Germany's 10-year Bund yields for example started the year 2020 slightly negative but plunged to -0.86% due to the Covid-related volatility in the first year, but only recovered to around -0.57% towards year end.

Because of the rather low running yield due to the inherent insurance character, however, we might reduce our exposure over time going forward, depending on actual market developments. Considering the shape and development of the yield curve in addition to just the general yield level creates room for an active performance contribution beside the already mentioned investments in spread securities.

As described earlier, we don't expect significant interest rate hikes in the near term. In such a market environment variable interest rate exposure, like Floating Rate Notes, offer little benefit in the overall portfolio context so. We consequently underweight this particular segment for the time being.



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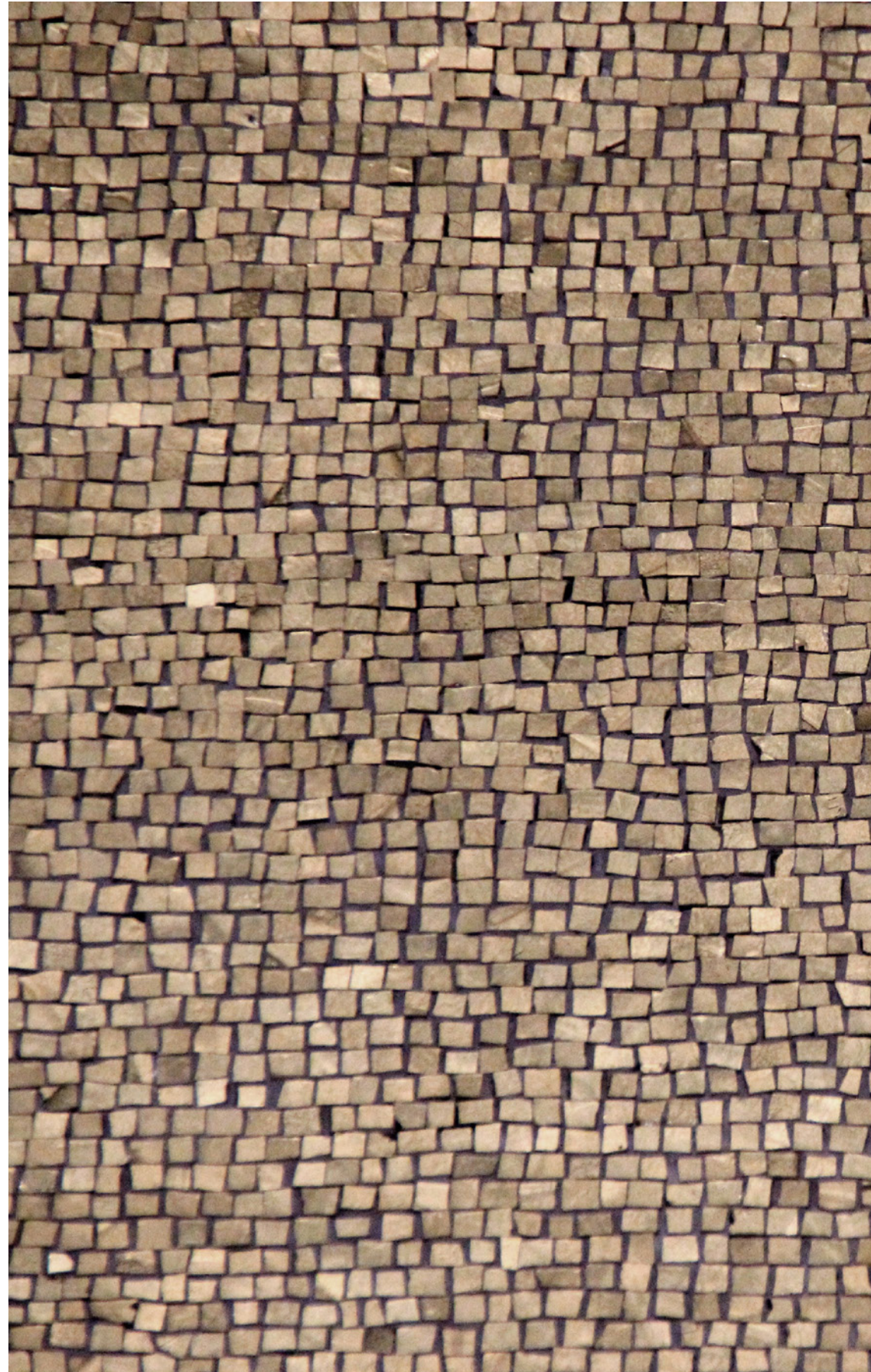


RENÉ BOLHAR  
BOND STRATEGIST

René Bolhar joined the bank at the end of 2017 and is Deputy Head of our Asset Management. He is a member of the Investment Committee and leads the bank's fixed income strategy. He is also responsible for managing large institutional bond portfolios.

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BONDS: POTENTIAL IN 2021



# COMMODITIES

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GOLD – POSITIVE OUTLOOK DESPITE SHORT TERM VOLATILITY  
CRUDE OIL – SPARE CAPACITY AS LIMITING FACTOR

BY SOUMAILA TÉKÉTÉ

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## **GOLD – POSITIVE OUTLOOK DESPITE SHORT TERM VOLATILITY**

Rising inflation expectations could act as catalyst and replace declining nominal interest rates as main driver

Our outlook for Gold remains favourable despite this volatile transition period

Gold as a „safe-haven“ and „protection in times of crisis“ was one of the few assets that was able to withstand market turmoil in the wake of the Covid-19 crisis. It has even benefitted from price rises as witnessed new record highs for the precious metal in 2020.

Due to this significant and rare diversification characteristic, we continue to consider Gold as an indispensable, long-term and strategic element within any well-balanced multi-asset portfolio – irrespective of the prevailing short-term market view.

Ongoing budget deficits and renewed discussions about the sustainability of ever rising global debt levels represent long term supporting factors for Gold as store of value.



Meanwhile, the current market rally and increased risk appetite have caused a short-term setback in Gold prices, as the demand for this “natural economic hedge” has been declining recently. Besides protection in times of economic hardship, Gold may also offer a natural hedge against real devaluation through inflation. This is particularly true as opposed to fiat currencies - the supply of the precious metal cannot be increased arbitrarily. Rising inflation may translate into rising Gold prices. Therefore, Gold may offer substantial upside even in a booming economic environment as long as inflationary forces are in place. The necessary condition for the latter seems to be met by the mere monetary expansion in order to fight the global recession caused by the Corona-crisis. And inflation expectations are in the act of rising - yet, slowly but steadily.

We maintain our positive view towards the precious metal, regardless of our tactical and long-term affinity for Gold. However, we must continue to expect increased volatility in the short-term until inflation rates are accelerating and draw full attention of market participants.

**CRUDE OIL – SPARE CAPACITY AS LIMITING FACTOR**

In parallel to the further global economic recovery, we expect oil prices to continue to gradually increase

However, the global spare capacity should limit and slow the price potential down

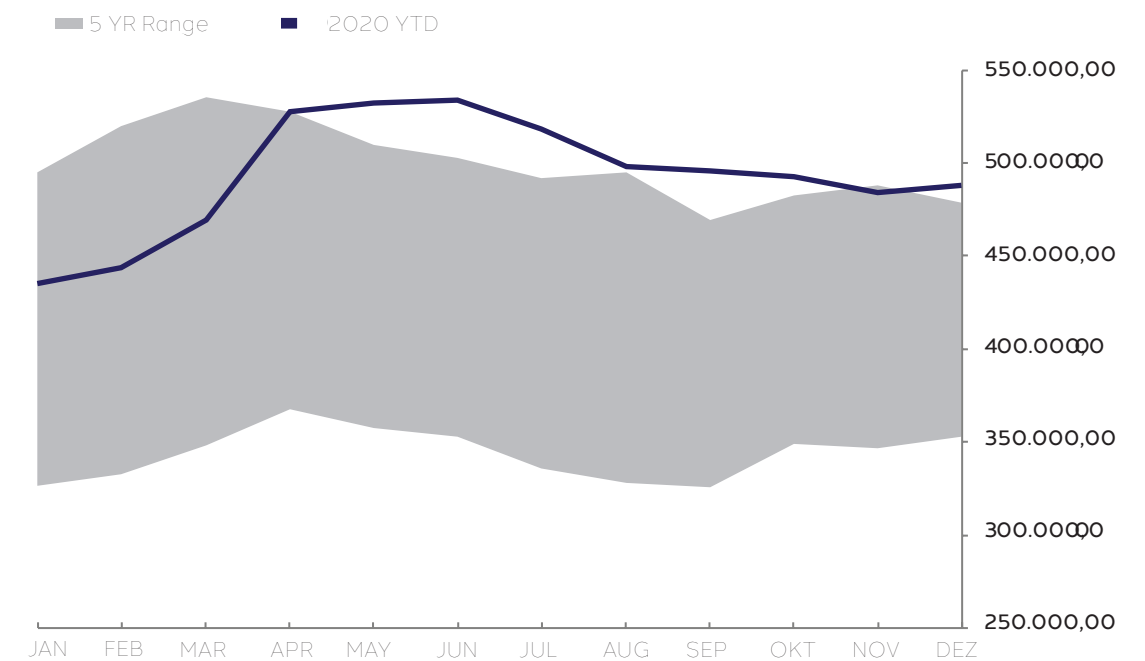
The lapsed calendar year certainly has gone down in history as - for the first time ever - we had witnessed negative oil prices. This happened as some market participants felt compelled to let their future contracts expire worthless. On top of that, they even had to accept a premium to avoid physical delivery in times of exhausted inventory levels. Even though those negative prices were very short-lived and only represented a certain part of the oil market, they still reflect the immense pressure oil prices were suffering from in 2020. The consequences of the Covid-19 related economic lockdowns and the accompanying collapse in oil demand can still be felt today. Cyclical and particularly oil-consuming sectors of the economy (e.g. airborne travel) are still a long way from pre-Covid capacity

utilization. The ongoing artificial OPEC production cuts and member states willingness to keep within the agreed quotas partially helps compensating for the decline in global oil demand. Lower price levels themselves have also provided some natural reduction in drilling activity, output and supply. However, global oil demand is still considerably below pre-crisis levels. Inventory levels remain very high, and thus offering little buffer to dampen the effect of potential future lockdowns and demand shocks.

Nonetheless, the gradual global economic recovery does also offer further potential for the oil price. But we consider the global fracking related capacity expansion that took place in the last decade to be more of

a structural problem that has led to large overcapacities. These can timely and easily be reactivated whenever needed.

Therefore, we do expect oil prices to rise further from current (still depressed) levels. Large overcapacity, however, should continue to weigh on oil markets for quite some time, strongly limiting any potential upside.



**Crude Oil Inventories in the context of their historical range**  
 Period: 31 December 2015 – 31 December 2020  
 Source: Bloomberg; Illustration & calculation Bergos AG



C O M M O D I T I E S  
O U R E X P E R T



**S O U M A I L A T É K É T É** CAIA, CIIA  
A L T E R N A T I V E I N V E S T M E N T S  
S T R A T E G I S T

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RISING MONEY SUPPLY  
AND THE ECONOMIC RECOVERY  
SET THE STAGE  
FOR RISING COMMODITY PRICES

# C U R R E N C I E S

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OFF TO NEW SHORES

BY DR. JÖRN QUITZAU, BERENBERG

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The currency market too was significantly impacted by the coronavirus pandemic. At the end of 2020, the Euro must have felt like the winner and the US Dollar like the loser. Nevertheless, 2020 was a veritable rollercoaster ride, with the European single currency falling as far as just under 1.06 US Dollars per Euro before rising to 1.23 by the end of December, its highest level in at least two and a half years.

The US Dollar is always strong when uncertainty in the markets is especially high. This was certainly the case in March when Europe imposed far-reaching restrictions on economic life to stem the wave of coronavirus infections. Staring at a once-in-a-century recession, many investors shifted money to the safe-haven US Dollar. The Presidential election also briefly triggered safe-haven inflows to the US currency when it temporarily seemed

that Donald Trump would win, leading to four more years of erratic policy. When it became clear that Joe Biden had prevailed, the safe-haven inflow subsided as investors' risk appetite increased. The US Dollar then lost considerable ground.

Apart from these rather short-term exchange rate swings, the strong Euro trend can mainly be attributed to two other factors. The agreement reached on a European "Recovery Fund" ("Next Generation EU") in the early summer marked a trend reversal for the Euro. To assist those countries that were particularly hard hit by the pandemic, the EU Commission and member states enacted a EUR 750 billion solidarity fund financed by substantial collective borrowing for the first time ever. This helped Italy above all. The country's economic, structural, and fiscal malaise was



compounded by a health emergency early in the year.

Financial market players had increasingly doubted that Italy would be able to overcome its problems on its own. The “Recovery Fund” sent the signal to markets that Europe will tackle the coronavirus crisis with a united front. Fears of a repeat of the Euro crisis faded and were priced out of the currency market. This positive attitude towards the Euro was reinforced by monetary policy. Although both the US Federal Reserve and the European Central Bank launched massive emergency programs to counteract the crisis, the Fed stood out from other central banks at first for its extremely determined approach and historically unprecedented aid volumes. In

late August, the Fed confirmed its willingness to pursue extremely lax monetary policy by adopting a new monetary strategy. By transitioning to “average inflation targeting”, the Fed signalled that it will continue its lax monetary policy for a very long time, even if inflation rises above the former target of 2%. This weakens the US Dollar and strengthens the Euro.

Euro Strength and U.S. Dollar Weakness: The Comeback of the Single Currency



in US Dollar

The Euro buoyed by the solidarity fund and the US Dollar weighed down by lax monetary policy and high government budget deficits: This sums up the starting position for the exchange rate’s development in 2021. We expect the Euro to rise further in the coming year and reach around 1.25 US Dollars per Euro at the latest by the end of 2021. The exchange rate would then have reached a level that can be described as fair on the basis of fundamental criteria. And the Euro would have overcome the undervaluation that has lasted for years. Given our expectation of a dynamic recovery in 2021 and more dependable US policy under President Biden, the basic sentiment in financial markets should be positive and therefore the US Dollar will not be permanently in demand as a safe-haven. Naturally, there are risks that can unsettle the markets from time to time and therefore the Euro/US Dollar exchange rate could suffer at least temporary setbacks. In terms of the underlying trend, however, the Euro will probably continue to rise. Moreover, we would not be surprised if the upward trend continues beyond the year 2021 because the factors outlined here will remain in effect for several years. It will be interesting to see how the ECB modifies its monetary policy strategy. This prospect harbours the potential for surprises that could also influence our longer-term currency outlook.

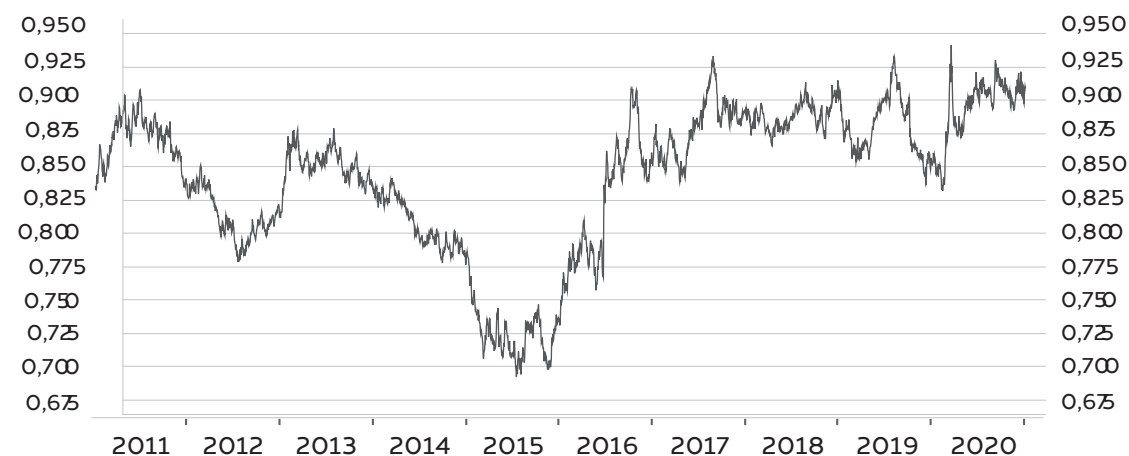
In the last few years, the British Pound has been very much under the influence of the Brexit decision and the related negotiations on a post-Brexit trade deal with the European Union. In the past months, the exchange rate of the Euro/Pound currency pair reacted almost exclusively to the news flow around the prospects for the follow-on deal. When the outlook was especially poor in September, the Pound came under pressure again and the Euro rose to nearly 0.93 Pounds per Euro. As hopes for an agreement grew, the market successively priced out the hard Brexit scenario and the Pound rose to a little more than 0.89 Pounds

per Euro at the end of the year, shortly before an agreement was actually reached.

Currency market players can be expected to increasingly shift their focus to other factors again. Interest rates and more precisely, the differences between interest rates will probably play an important role. In this respect, the advantages lie with the United Kingdom. At the end of 2020, the yields of 10-year British Gilts were about 90 basis points higher than those of 10-year German Bunds. Although this difference will probably narrow somewhat in the coming year, we still expect the Pound to have a yield advantage of 70 basis points at the end of 2021. Because yield differences were only peripherally important in the last few years due to the Brexit drama, they could soon provide a tailwind for the Pound. We now see a certain probability that the Euro will fall back in the direction of 0.85 Pounds per Euro in the coming year, with the larger part of this movement occurring in the first half. An exchange rate of 0.85 would represent a remarkable recovery for the Pound. Nevertheless, it would still be a little less than 10% below the level from before the Brexit referendum in 2016.



Will the Pound Benefit from the Brexit Connection Agreement?



in GBP

Swiss Franc still in demand during Corona pandemic



in GBP

The Swiss Franc's performance in the year of the pandemic was exactly as one would have expected: It came under appreciation pressure, once more affirming its appeal as a safe-haven investment. Especially in the spring when the first wave of infections swept across Europe, the Franc appreciated and the Swiss National Bank (SNB) pushed back with currency market interventions, spending CHF 90 billion francs for that purpose in the first half alone. However, the Franc's appreciation could not be fully checked and the common currency fell at times to 1.05 Francs per Euro. By the end of the year, the Euro had at least risen back to slightly more than 1.08. Given our expectation

of a sunnier market environment in 2021, the Franc could well weaken further, enabling the Euro to appreciate to somewhat higher than 1.10 Francs per Euro. Even then, the Swiss Franc would be incredibly strong, but at least the SNB's work would be somewhat easier. As a result of the SNB's currency market intervention, the United States recently put Switzerland back on the list of countries that manipulate their currencies.

#### EXCURSION: DIGITAL CENTRAL BANK CURRENCIES

Cryptocurrencies continued to make headlines in 2020. For one thing, Bitcoin rallied again in November and December, lifting its price to almost USD 30'000 by the end of the year, well above its previous record high of around USD 20'000 in December 2017. Before that, however, a topic that had previously only been discussed in expert circles grabbed the public's attention: digital central bank currencies.

What to make of such electronic currency variants? Already now, a significant portion of payments is conducted not with cash, but electronically, at least in countries with advanced financial systems. Electronic payment options, including not only instant and mobile payments, but also Internet payment services, have proliferated even more in the past few years. And so, the question becomes: What is novel about the E-Euro and what niche is it supposed to occupy? The answer is simple: The primary purpose of digital central bank money would be to serve as a counterpart to cash in countries with well-developed payment systems.

The European Central Bank published its "Report on a Digital Euro" in the autumn of 2020. With this publication, the ECB officially joined a debate that had previously been conducted by the Swedish, Chinese, and Swiss central banks. Sweden and China had already launched pilot projects and pursued them aggressively and so their preparations have reached an advanced stage. By contrast, the Swiss National Bank has been content to act behind the scenes. Other countries are also considering the possibility of digital central bank currencies. And now the ECB too is officially weighing the pros and cons of an "E-Euro".

A digital Euro could perform the same functions as cash or even supplant cash in the long term. Cash is still popular among people in Switzerland and Germany, even though the proportion of cash payments has fallen of late, not least of all due to the coronavirus pandemic. Replacing cash with an E-Franc or E-Euro would provoke considerable resistance in society. As a precaution, the ECB clarified that it has no intention of doing away with

cash, but only to introduce an E-Euro as a complement to cash. It remains to be seen if a digital central bank currency would encounter any significant demand at all under these circumstances. Already now, those who do not wish to pay with cash have a plethora of non-cash payment options to choose from. A digital Franc or Euro would simply be one more option, which would most likely be used by tech-savvy people. On the other hand, those who prefer to pay with cash have their reasons for this preference and would hardly be persuaded to stop using cash by the availability of a digital central bank currency.

For these reasons, the ECB is probably not much motivated by any acute need or demand for an E-Euro. Instead, it refers to the future and cites various reasons in its report as to why a digital Euro could be advantageous at a later time. Such reasons include possibly growing demand for electronic payment options, noticeably declining cash usage, the issuance of digital central bank currencies by other central banks, and the competition posed by private cryptocurrencies (like Bitcoin or the planned Facebook currency Libra, which is recently supposed to be called Diem). The latter scenario could endanger financial stability and violate basic consumer protection interests.

Seen in this light, the ECB's initiative to study the possibilities of an E-Euro and discuss them with different stakeholders is not only legitimate, but indeed urgently necessary if the ECB does not want to become irrelevant in a digital world. The ECB itself has stressed the point that it is only studying the possibility of issuing a digital Euro and has made no final decision.

The uncertainties are considerable. Opportunities and risks cannot yet be properly assessed. Digital central bank money could deprive commercial banks of sight deposits if financial intermediaries are no longer needed. The choice between cash and sight deposits

could be rendered moot if the two are deemed to be virtually equivalent. Digital central bank money could also put pressure on the business models of private payment services providers. Finally, there is the question of what will happen with the data and information generated in connection with payment transactions. Besides the issues related to data security and data protection, there is a distinct possibility that private enterprises will be cut off from valuable information and data they could otherwise commercially exploit.

The elimination of cash at some point in the future would be politically controversial. If that happens, central banks would be able to enhance the efficacy of their interest rate policy by imposing negative interest rates. Today, savers can avoid negative interest rates to some extent by withdrawing money from their accounts and holding it in the form of cash. However, this option would vanish in a world with only digital central bank policy, although a "flight" to other asset classes would still be possible, and negative interest rates would erode the value of savings. For this reason alone, the demand for digital central bank money would probably be restrained even if it were only introduced as an alternative to existing cash.

# C U R R E N C I E S O U R E X P E R T



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# TOPIC





# SHIPPING

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WHAT SHIPPING HAS IN STORE FOR US IN 2021

BY VANESSA SKOURA  
AND GUY AUFENACKER

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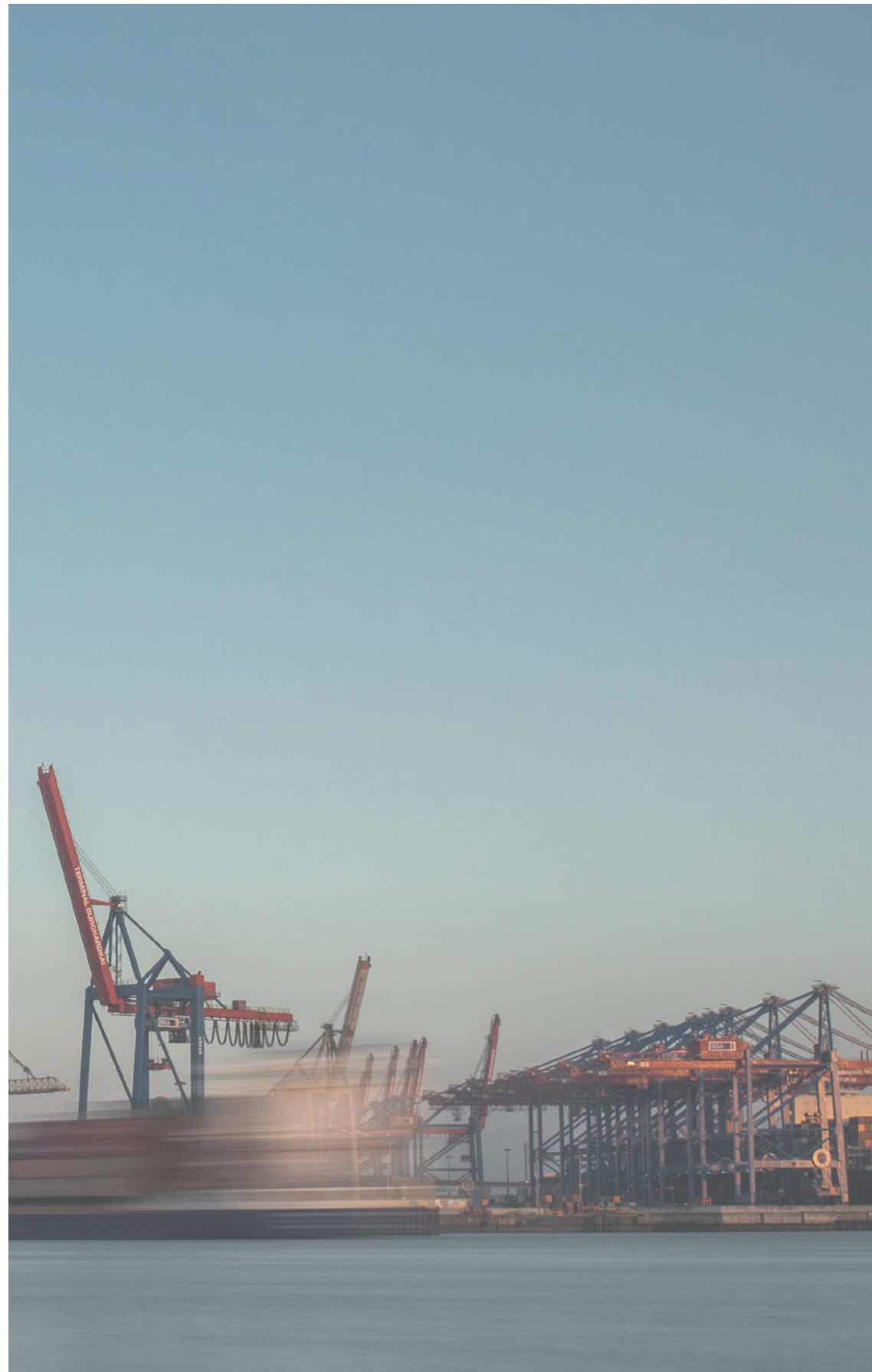
**EMPTY SHOPPING STREETS,  
BUT FULLY LOADED CONTAINERS**  
**POLITICAL DISPUTES OVER COAL**  
**ESG FOCUS**

It has been almost a year, that we have been living with the Coronavirus pandemic and a severe long-lasting second wave is posing major challenges to the Western economies. The lockdown/slowdown is forcing the population to keep social distancing and stay at home with their families. Year-end shopping with “Glühwein” and Christmas crackers was cancelled - of course, retailers suffered.

Meanwhile on the supply side:  
In Zurich, sports stores continue to have problems with the delivery of electric bicycles,

in Boston, the latest QLED SAMSUNG TV „Frame“ has a delivery time of 3 months and in Shanghai car dealers are desperately waiting for delivery for the new Porsche “Taycan”.

The Corona pandemic has led to a shift in consumption patterns. People are ordering online in the West and making up for missed purchases in the East. Goods traffic is booming like it hasn't in a long time. Container shipping is enjoying extremely high charter rates in the midst of the biggest health crisis of our time. 2020 was a year of extremes for international shipping. Due to lack of storage capacity tanker-owners enjoyed the best spot rates in April, surpassing even the boom years at the beginning of the millennium. For container-owners, 2020 came to a close in a real good way. During the pandemic, of all times, the „big three“ (Hapag, Maersk and CMA



CGM) even reported record earnings. The share prices of second-tier container shipping companies have also been skyrocketing since August 2020, in some cases reaching multi-year highs. Companies such as COSCO, Costamare, Danaos and Evergreen Marine are enjoying full order books, which even leads to bottlenecks in the delivery of TEU containers themselves.

It is well known that shipping is generally considered as a leading indicator as it measures the flow of goods. Almost 80% of cross-border trade is seaborne.

Container indices are calculated from prices of nearly 10 most important trade routes between Asia, Europe and the USA. The indices have not been as high as they are now for 15 years. For example, Howe Robinson's Container Index has more than doubled since the Spring. This despite the fact that global economic growth was forecast to be negative in 2020 at -3.3%. The US contributes -3.5%, Europe -7.5%, Japan -5.3% and Russia -5%.

Is the world upside-down? At the outbreak of the pandemic, container shipping was the big loser, as various lockdowns brought all global trade to a standstill. In Antwerp, Busan, Hamburg, Hong Kong, Los Angeles, Rotterdam, Shanghai and Singapore, the loading cranes at the terminals came to a sudden halt. Some seafarers were confined to the ships and quarantined for months. There was no shore leave. And as demand collapsed completely, shipowners reacted by shutting down. The traffic of goods collapsed. The consequence was so-called „hot laid-ups,“ where the captain pulls the plug and waits with the crew for employment. The seaborne trade collapsed.

The container freight market is now virtually an oligopoly, with the 3 major operator alliances - Maersk, Hapag and CMA CGM - controlling around 80% of the global container

market. They all had the same interest in the Spring when the pandemic broke out: saving money and cutting routes. By tightening their own supply, they were able to prevent rates from crashing, as they did in the aftermath of the Lehman bankruptcy. In the first four months of last year, about 7 million fewer TEU containers were shipped than planned. Such route cancellations brought cost savings of up to 60% on average.

What was to turn into a real disaster in goods trade and earnings was fortunately almost offset by another phenomenon in April. Due to the global economic standstill, the demand for crude oil dropped abruptly. In April, WTI (West Texas Intermediate) traded negatively for the first time. The so-called bunker fuel cost less than USD 140 per tonne. This corresponds to only 25% of the 2019 price in the 4th quarter. As a consequence, the major shipping companies were able to increase earnings despite lower turnover.

This situation of supply reduction was then followed by the euphoria of late Summer. Corona-fatigue sent the population of the northern hemisphere to the shopping malls and restaurants, which had a significant impact on consumption. In April, the WHO predicted a 30% slump in international freight traffic towards the end of 2020. In October, this was then revised to a minus of only 9% and currently even a positive premium is predicted again in the trade barometer.

Whether this is sustainable for 2021 remains to be seen. According to the „Kiel Institute for the World Economy“, the solid result had been shaped by special effects. This catch-up effect, which triggered the „mini-boom“, is likely to be only temporary. Accordingly, freight rates for containers are expected to settle down again in the 1st quarter and trend lower. However, this correction will be at a very high level, so rates should remain attractive for 2021, but the current price jubilation will be corrected.



So in general, shipping should do better in 2021 than in 2020 - the „Annus Horribilis“. Still Containers, Tankers and Drybulk will not see synchronised growth. Tankers and Containers have had their peak moments in recent times, whereas Bulkers are still waiting for it.

China's renewed demand for dry bulk was a consequence of their very harsh, but successful fight against the pandemic. The re-gained demand, though, was offset by other regions such as India, Europe and rest of Asia taking in less dry commodities during the ongoing Corona battle.

On another note, although Europe is now generally reducing its consumption of fossil fuels and specifically declaring war on coal, the commodity remains indispensable for most countries around the world. The forced global lockdown led to less consumption which is why coal trade declined by 10% from April for the rest of 2020. China and India, however, have reverted to business as usual and are consuming the same amount as before the crisis. Old-established coal and iron ore producers, such as Australia and Russia, are again producing on a large scale. But newcomers such as Mongolia, South Africa and Colombia have

also discovered the resource as a source of income. The decarbonisation pursued in the western world, also triggered by ESG, fails to balance with the needs of the developing countries. China continues to consume about 40% of the world's coal and imports the majority of it from Australia.

The global return to consumption, despite daily new highs in Covid-19 infection cases, should therefore boost demand for goods, spurring seaborne trade. Combined with low net fleet growth and an uptick in dry bulk trade should lift markets in this segment.

The positive dry bulk forecast would look promising, if it were not for the political escalation between China and Australia who have been close trading partners for many years. China is currently discussing a ban on Australian coal which is a dangerous conflict. Problems originated from China's refusal to recognise an international court ruling that dismissed its claims to have historic rights over various islands in South China Sea. Canberra recognised the court ruling creating the basis for this conflict. However, if China was to carry out the threat, they would have to produce more coal themselves or, given the additional nautical miles, raise more money to



transport it from the U.S., Russia, Colombia, or South Africa.

It would be dangerous for international maritime trade if Australian Prime Minister Scott Morrison were to follow up his muscle flexing by banning the iron ore exports to China. Shipping would suffer from collateral damage. At present, China satisfies about half of its appetite for this commodity from Australia.

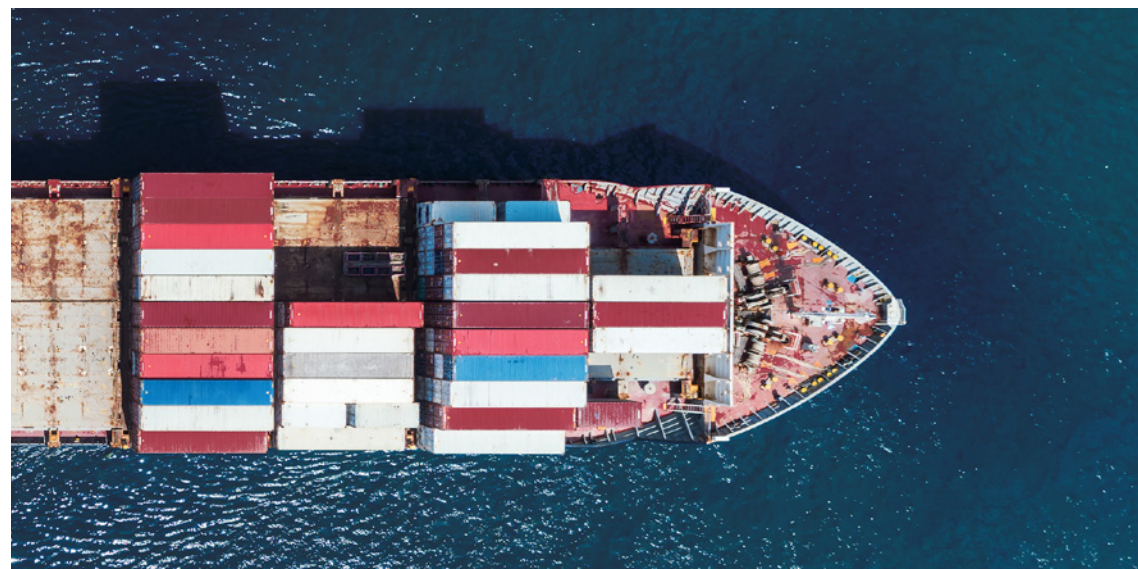
This could lead to new spikes in spot rates for certain routes - the re-arising issue of protectionism being extremely detrimental to trade. An escalating trade conflict should not steal momentum from the increase in demand for dry bulk forecast for 2021.

Throughout the first quarters, Tanker rates should continue to be weak followed by the wind-down of floating storage, which sky lifted rates beginning of last year. But general demand should rise again in a post-Covid environment, leading to a slow steady recovery in rates. Many vessels that were built in the boom after the Millennium are also reaching their commercial age in the coming years. These effects should stimulate rates towards the last quarter of the year and well into 2022.

As for the sale-and-purchase market, good quality assets available at attractive valuations, creates opportunities for healthy shipping companies to renew part of the fleet and support the growing strategies into the future.

For the distant future, it remains to be seen how shipping companies and commodity traders will respond to the increased ESG awareness. Shareholders could strive for an increase in their shareholder value. They could work towards abandoning the lucrative, but environmentally unfriendly transport of oil, coal or iron ore.

Then we could see an oversupply of vessels in the market. But in the current generation at the helm, revenue and profit still come before ESG. Reaching the ultimate ESG goal of zero emissions requires shipowners to make investments and take bold decisions but would also create differentiation and new revenues stream.



# SHIPPING OUR EXPERTS



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Vanessa Skoura heads our branch in Geneva. She is a senior banker with more than 25 years experience in private wealth management. Her career focus have been in providing holistic advice to Entrepreneurs and their Family Offices. She is also actively involved with services to Trustees and Foundations. Vanessa is a Chartered Fellow of CISI.

Guy Aufenacker has been responsible for advising international shipping families for over two decades. At Bergos, Guy heads the Maritime competence center and he is a Member of the Investment Committee where he is actively involved with the Bank's Investment Strategy. Guy is a Certified Wealth Management Advisor, CWMA.





