



M A R K E T C O M M E N T A R Y

Zurich, 09 February 2021

GLOBAL EQUITY MARKETS: EARNINGS GROWTH IS THE BIG FUNDAMENTAL QUESTION MARK IN 2021

Despite the corona crisis, equity markets are soaring again after the temporary slump in the spring of 2020. For the rally to continue, companies will now need to deliver earnings in 2021, said Till Budelmann, Chief Investment Officer at the Swiss private bank Bergos. And he believes they will be able to do that. He anticipates a strong recovery, globally and especially in the United States, at the level of both the overall economy and individual companies.

Although the Covid-19 situation is currently dampening the mood of many individuals, the global economic outlook for 2021 remains promising. “However, the outlook varies by region. Once again, the outlook for the United States is much more favourable than for Europe”, said Bergos CIO Till Budelmann. In some European economies, the coronavirus measures will probably make for a dark winter. For the full year 2021, Bergos anticipates economic growth of 4 percent in the eurozone, as compared to a forecast of 4.5 percent not long ago. However, the forecasts for individual European countries vary widely. Switzerland and Sweden will probably make up nearly all the decline in economic output of 2020, which had not been as severe in the first place, in the course of this year. The same cannot be said of Germany: According to Bergos’ forecasts, Germany will experience economic growth of 3.5% in 2021, after a 5.5 percent contraction in 2020. In the eurozone overall, economic output will remain well below the pre-crisis level.

THE US ECONOMY CAN RECOVER FROM THE CORONAVIRUS-INDUCED DECLINE BY THE MIDDLE OF THIS YEAR

The outlook in the United States is much different. After a 3.5 percent contraction in 2020, which was only half as bad as in the eurozone according to Bergos’ estimates, the US economy is forecast to expand by 6 percent in 2021. “The United States should be able to recover from the coronavirus-induced decline in economic output already by around the middle of this year”, Budelmann said. This view of his is much more optimistic than the market consensus, but he has good reasons to be optimistic: “The massive coronavirus aid package announced by the new US President Joe Biden will lend a boost to economic growth. Moreover, US residents saved part of last year’s aid payments and these deferred savings will now be ploughed into consumption.” Besides the scope of government aid measures, the US has the advantage compared to Europe that lockdown measures are less severe and vaccinations are proceeding at a faster pace. Moreover, the United States – like Asia too – is strongly positioned in structurally favoured sectors such as technology and communications, which actually experienced faster growth during the crisis. “While we are generally optimistic, it must be kept in mind that our forecasts are currently subject to a major uncertainty factor: the progression of the coronavirus pandemic and especially the adverse economic impact of the resulting government measures”, Budelmann warned.



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CURRENT REPORTING SEASON GIVES REASON FOR CONFIDENCE

The generally positive macroeconomic outlook provides a solid foundation for equity markets. But just as important will be the microeconomic development at the level of individual companies. The equity market in its function as a discounting machine has already charged ahead. In the United States, for example, the equity market retraced the Covid-19 dip long ago and equity prices are now substantially higher than before the crisis. The market has not been fazed by the massive decline in corporate earnings. “The numbers for the fourth quarter are not all in yet, but corporate earnings in the United States are expected to have fallen by almost 15 percent in 2020; in the eurozone, the decline could actually be almost 40 percent”, Budelmann remarked, adding: “The key question now is: Will companies actually deliver in 2021, as expected?”

According to Budelmann, the current reporting season for the fourth quarter is propitious. Many companies beat profit expectations by a wide margin. The surprise factor, which indicates the average percentage difference between corporate profit and revenue expectations and actual results, is remarkably higher than average. Whereas average fourth-quarter profit growth for companies in the US S&P 500 index will already be modestly positive compared to the fourth quarter of last year, Budelmann anticipates significant year-on-year gains beginning in the first quarter of this year. Market expectations for 2021 profit growth are currently around 24 percent for US equities and around 30 to 35 percent for European companies. These forecasts also make it clear that the United States will more than make up the coronavirus-induced decline this year, whereas Europe will not regain the pre-crisis profit level by the end of 2021.



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US AND EMERGING-MARKET EQUITIES ARE FAVOURED

What counts for equity markets, however, is not only that profits rise again, but that they rise quickly enough to fulfil the expectations that are already priced-in by the market. “Earnings growth is the big fundamental question mark for equity markets in 2021. Overly slow earnings growth would likely create headwinds for equity markets. If our assumptions are incorrect and corporate profits in the United States do not make up the decline in 2020, equity prices will probably be lower at the end of the year than now”, Budelmann said. However, this is not the scenario he anticipates. Instead, the Bergos Chief Investment Officer sees rising equity markets in 2021, albeit with significant volatility. Budelmann: “US equities will probably continue to outperform European equities. And we take an extremely positive view of emerging markets, especially in Asia. For this reason, we hold positions in Chinese, South Korean, and Taiwanese equities in our globally oriented mandates.”

TILL CHRISTIAN BUDELMANN

As Bergos’s Chief Investment Officer, 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.





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B E R G O S A G

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