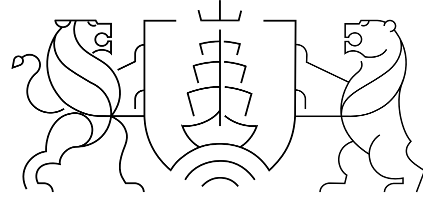

BERGOS

REFLEXIONS

Q3 21

A Capital Market Publication by the Private Bank Bergos

Reflexions - No 11 July 2021

BERGOS

Bergos AG is an internationally operating, independent Swiss Private Bank with headquarters in Zurich and a branch in Geneva. We have been active in the Swiss financial centre for over 30 years and can trace our history to the founding of Joh. Berenberg, Gossler & Co. KG in 1590. Our international team is dedicated to all aspects of wealth management and advisory, with a special focus on private individuals, family entrepreneurs, next generation and shipping clients. With a business model focused on pure private banking, we advise our clients on all liquid and non-liquid asset classes and alternative investments.

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EXECUTIVE SUMMARY

Dear Investors,

The extremely dynamic economic upswing continued in the second quarter and further boosted global stock markets. "Good news" in an economic sense meant "good news" for capital markets. This pattern was not affected even when inflation figures in the US repeatedly exceeded expectations. Surprisingly, yields on 10-year US government bonds even fell slightly against this background. A sign no doubt, that not all market participants are carefree about the future.

In the second half of the year, we will have to keep a close eye on the dynamics of the upswing and its impact on inflation and the labour market. Now that the US Federal Reserve is freely tolerating higher inflation rates, the US labour market will become the dominant yardstick for US central bank policy. In the next six months, we expect Fed Chairman Jerome Powell to report on when and how unconventional monetary policy will be curtailed. While we assume that the danger of a "tapering shock" will not be massively pronounced, the topic, however, will increasingly preoccupy us and may lead us to leave the current phase of low market volatility.

It will also be interesting to see how the battle between value and growth stocks continues. The breather on the interest rate front boosted

the large technology stocks again in June and within a very short space of time this year's gap to the value stocks was closed. We continue to focus on structural winners in the technology and communications sector and thus benefit from this development.

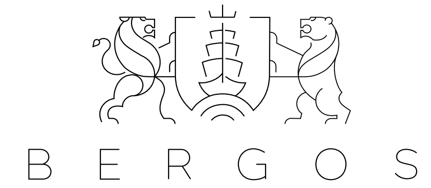
For the detailed equity market analysis, I refer this time in particular to the contribution by Frederik Carstensen. He is now responsible for the capital market analysis for the asset class equities and I am pleased to welcome him into our circle of Reflexions authors.

I hope you enjoy this edition of Reflexions.

Stay healthy and confident!

Yours, Maximilian Hefele

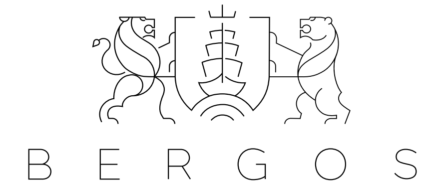
HEAD OF ASSET MANAGEMENT



EDITOR

MAXIMILIAN HEFELE CFA
HEAD OF ASSET MANAGEMENT

Maximilian Hefele 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 member of the bank's Investment Committee.



INVESTMENTS
OUR EXPERT

TILL CHRISTIAN BUDELMANN
CHIEF INVESTMENT OFFICER

As Bergos´s CIO, 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.

COMPASS

BASE CASE SCENARIO FOR 2021

BY TILL C. BUDELMANN, CHIEF INVESTMENT OFFICER

The global economy continues to pick up speed and corporate profits are rising significantly.

Despite the recent rise in inflation (primarily due to temporary base effects), major central banks are holding on to their course for the time being.

A large part of the western population will have been vaccinated by the end of 2021 and Corona measures will continue to ease (risk: political reactions to Covid mutations).

A Biden presidency provides for a more conventional foreign and trade policy. Thanks to the narrow distribution of seats in Congress, there will be only limited shifts in US tax policy.

(A green-red-red federal government after the German elections currently appears unlikely.)

GDP ESTIMATES

EUROZONE

2020: -6.7%
2021: +4.7% (Cons. +4.2%)
2022: +4.5% (Cons. +4.1%)

GERMANY

2020: - 5.1%
2021: + 3.8%
2022: +4.5%

SWITZERLAND

2020: - 3.0%
2021: + 2.5%
2022: +2.2%

GREAT BRITAIN

2020: -9.8%
2021: + 7.0%
2022: + 5.5%

UNITED STATES

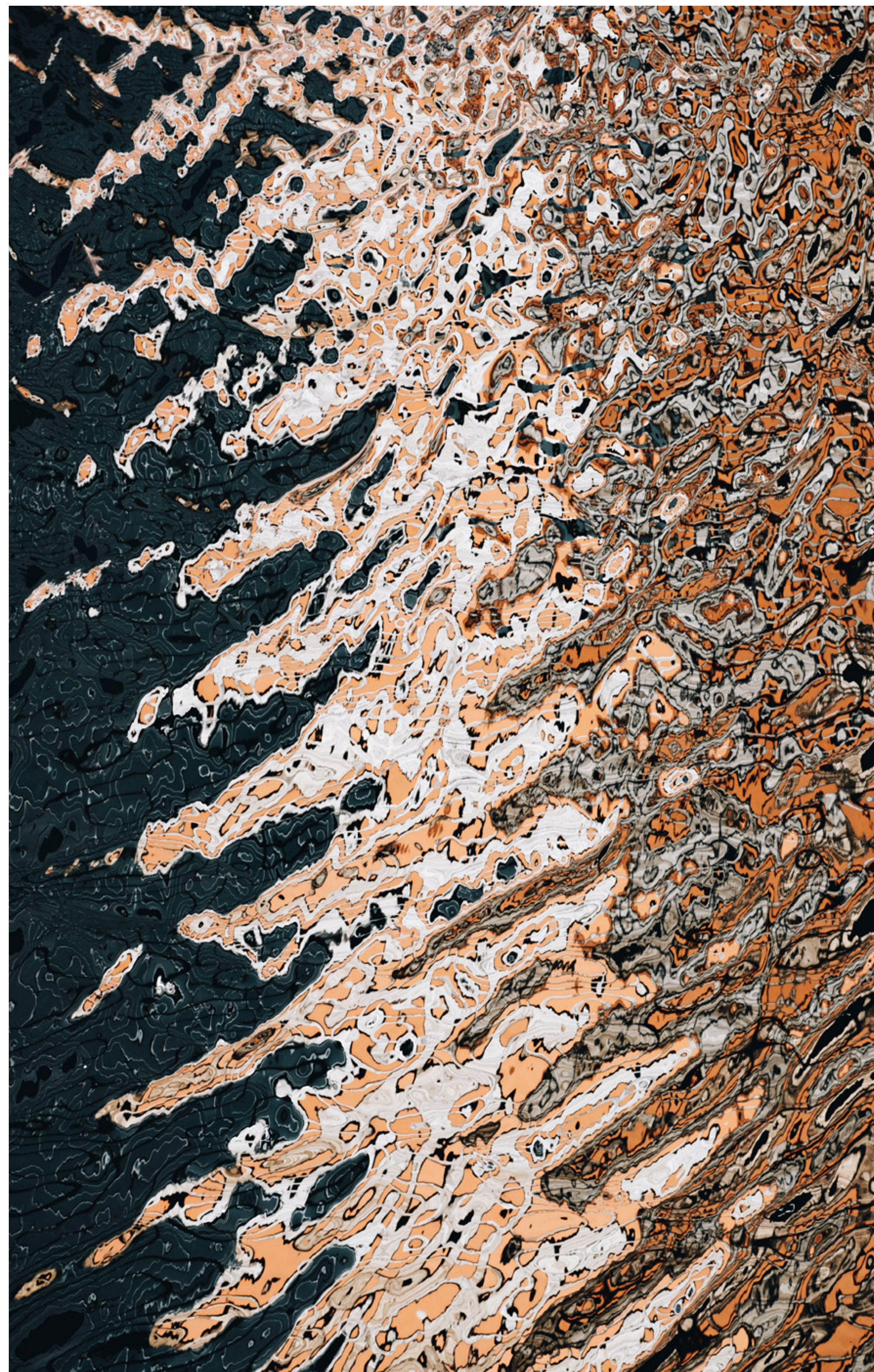
2020: - 3.5%
2021: + 7.0% (Cons. +6.6%)
2022: +4.5% (Cons. +4.0%)

CHINA

2020: + 2.0%
2021: + 9.0% (Cons. +8.5%)
2022: + 5.3% (Cons. +5.5 %)

JAPAN

2020: -4.7%
2021: + 3.3%
2022: +2.2%



MACRO ECONOMY

POWERFUL UPSWING DESPITE SOME DELTA RISKS

BY DR. HOLGER SCHMIEDING

In the second summer of the pandemic, both the opportunities and the risks for the economy are more pronounced than usual. On the one hand, many leading indicators suggest that the recovery in large parts of the world could be even stronger and more sustained than already expected. On the other hand, the highly contagious delta virus variant, first emerging in India has now reached the West. After Great Britain, many parts of mainland Europe have been affected. In the last days, increasingly high number of cases have now been recognised in the US.

However, more infections do not necessarily lead to new economic losses. Last winter's pandemic wave, which was mainly caused by the alpha variant of the virus first detected in England, led to far less economic damage than the first wave the year before. Now Great Britain has once again become a test case. The number of new infections has been rising steeply since 23 May. As it is mainly unvaccinated young people who are infected at relatively low risk, we do not currently expect the medical system to be overloaded. While the number of people being hospitalised, treated in intensive care units and mortality rate has been increasing since mid-June in the UK comparatively speaking in terms of previous waves the rise has been very modest.

With about 90 doses of vaccine currently administered per 100 inhabitants, the European Union is about five weeks behind the UK in vaccination progress. However, since the delta

wave is also five weeks later on the continent than on the other side of the Channel, the chances are good that the medical situation in continental Europe will not worsen to such an extent that new severe restrictions on economic life become necessary.

We base our positive economic outlook on four major assumptions about the pandemic:

1) The major countries of the developed world will not have to impose new lockdowns in the summer.

2) Mediterranean countries can welcome at least half as many tourists this summer as usual, despite the delta wave.

3) Vaccines continue to work, possibly with booster shots in autumn or winter against further mutants of the virus.

4) By 2022 vaccination will have also progressed rapidly in emerging and developing countries enabling them to finally get a grip on the pandemic.

While we will of course have to keep checking whether these assumptions are correct, overall, things look good so far. However, the risk has increased that summer tourism in the Mediterranean countries could fall somewhat short of our expectations due to the delta wave. This would be a bitter setback for Portugal, Spain, Greece and Cyprus in particular. However, the average for the Eurozone as a whole would only be affected to a very limited extent.

With the winter wave of the pandemic subsiding, recovery in the Western world has gained momentum. Surveys show that the mood among companies, both in industry and in many areas of the service sector, is better than ever before. Unless the pandemic - or economic policy - throws a spanner in the works, all components of demand on both sides of the Atlantic can contribute to a strong increase in economic output. Consumers have been able and willing to spend less money than usual during the pandemic. At the same time, governments have generously propped up incomes, in the US even more so than in Europe. With the loosening of restrictions, consumers can now spend more money again. After a pause in investment during the first phase of the pandemic and in the face of high demand, companies are ramping up their investments. They also want to replenish their stocks. On both sides of the Atlantic, the public sector is planning additional investments. At the same time, world trade is flourishing.

In the meantime, the biggest brake on the steeply rising economy is supply bottlenecks in parts of industry and in the construction sector. In the short term, this could even cause the economy to lag somewhat behind our forecasts, especially in Europe, which is heavily dependent on industry and exports. But postponed is not abandoned. Prices for scarce inputs and transport capacities are signalling that it is worthwhile to widen the bottlenecks. Over the coming months, this should increasingly succeed. The bottlenecks are shifting production into the future. Once they have the inputs they need, many companies are likely to work overtime to fill the orders on hand. A little less growth in the summer and autumn would thus be offset by more growth thereafter.

Since autumn 2020, the US has been ahead of the Eurozone in terms of economic growth. In the US, governments and citizens have reacted less to the winter wave of the pandemic. Moreover, citizens have already spent part of the generous stimulus cheques on durable goods. The transatlantic gap, however, is unlikely to widen much after the summer.

Europe, too, is now loosening most of the remaining restrictions. While the particularly high additional savings of US households should continue to support the rise in private consumption more strongly than is the case on this side of the Atlantic, the eurozone should benefit especially from robust global trade and strong demand for capital goods.

GOLDEN TWENTIES ARE POSSIBLE

Beyond mere recovery from the shock of the pandemic, there are good reasons for a prolonged phase of higher growth in economic output per capita in the Western world. The “Golden twenties” are possible, provided that economic policy does not prevent this through excessive regulations, taxes and social contributions. Shocks force us to put our habits to the test and try new things. Crises drive innovation. The last decade has also seen an unusual gap open up between those companies that use cutting-edge technologies and those that lag far behind. During the crisis, the front-runners have been able to strengthen their position. Many other companies that have not yet made sufficient use of new technologies will come under pressure. Either they catch up - or they disappear from the market permanently. Both increase overall economic productivity.

In addition, there is demography. In Europe, North America and China, the baby boomers are retiring in the course of the twenties. As soon as the economy has recovered from the Corona slump, good workers will become scarcer and more sought-after every year. To cushion the resulting wage pressure, companies will invest more in labour-saving technologies. This will increase economic output per worker.

Outside the developed world, the outlook is also mostly positive, at least for the economy in the coming years. China remains robust for the time being thanks to its credit stimuli, despite considerable long-term risks. Strong growth in key consumer countries is supporting many emerging markets. However, some, such as India, Brazil and Turkey, have damaged themselves by mishandling the pandemic.

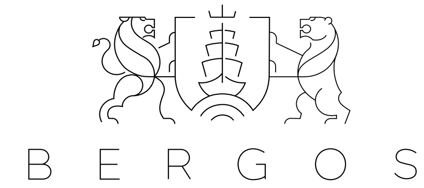
DO NOT FEAR A LITTLE MORE INFLATION

As the economy picks up, so do inflation concerns. Special effects such as the return to a normal oil price and higher transport costs contribute to rising inflation rates. As the special effects fade out, however, the price climate will calm down again in 2022 with inflation at just under 1.5% in the euro area. For the USA, however, we also expect stronger price increases in the medium term.

The central banks do not see any acute need for action for the time being because the current rise in inflation rates is largely driven by temporary special effects. Overall, however, they will come under greater pressure to act if the upward trend in prices solidifies. The Fed and the BoE are therefore proceeding cautiously, also to test the markets‘ reactions. The ECB will follow.

We expect the Fed to announce in September at the latest that it will reduce its bond purchases from the beginning of 2022 and end them in the summer. The first rate-hike should then follow at the end of 2022. In view of much lower inflationary pressure, the European Central Bank can take more time. It is likely to reduce the pace of its purchases under its flexible emergency programme (PEPP) from September onwards. But it will probably not end its net bond purchases completely until autumn 2023. We expect the ECB to raise interest rates again for the first time at the end of 2023.

The slowly emerging turnaround in monetary policy will always be a topic of conversation on the markets. But in our view, central banks will merely take their foot off the gas, as the economy has already picked up sufficient speed, even if this might be the case somewhat sooner than the markets - and many central bankers - seem to expect at present. But higher interest rates would be more than offset for companies and governments by higher revenues thanks to a good economy. It would be dangerous for the economy and the markets if the central banks were forced by high inflation rates to step hard on the brakes instead of just taking their foot off the gas. So far, however, there are no signs of such pronounced inflationary pressure, even in the USA.



MACRO
OUR EXPERT

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.

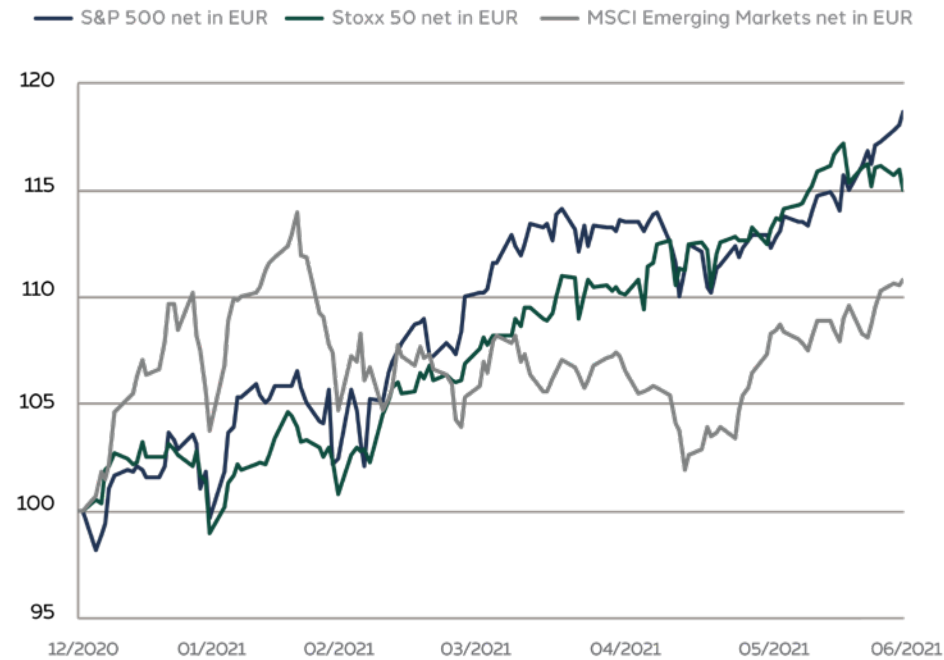
EQUITIES

SIDEWAYS MOVEMENT OVER THE SUMMER, POSITIVE LONG-TERM OUTLOOK

BY FREDERIK CARSTENSEN

The economy and equity markets continued to recover dynamically in the second quarter. In addition to positive growth surprises, markets were supported primarily by an improved investor sentiment thanks to vaccination progress and the resulting opening of the economy. The Eurozone has emerged from the covid lockdown and moved to the forefront of investors' attention. Nevertheless, US equities still showed relative strength compared to their counterparts in Europe and emerging market countries in the second quarter. Underpinning the economic recovery is the continuation of a historically expansive monetary and fiscal policy. Consumers are in high spirits and private households saved a lot of money during the corona crisis, which can now be spent. The global equity market as a huge discounting machine has already anticipated many positive developments, however.

Performance of International Equity Markets
Indexed to 100. Source: Bloomberg, Bergos, Data as of 06/30/2021



S&P 500	18.7%
Stoxx 50 Europe	15.0%
MSCI Emerging Markets	10.9%

EQUITY POSITIONING REDUCED FROM OVERWEIGHT TO NEUTRAL

At the corporate level, earnings are rising significantly and many companies are delivering positive surprises. This does not, however, automatically mean that equity prices will continue to rise unabated. Companies have recently not been rewarded to the usual extent for reporting results that exceeded expectations. This is a sign that equity markets have discounted much in the way of future positive developments. The recent positive economic and earnings surprises are likely to decline further in the coming weeks. At the same time, the strong price gains of the last months have further reduced the relative attractiveness of equities compared to bonds. The difference between the earnings yield of equities in the US S&P 500 index and the yield of 10-year US Treasuries is now only minimally higher than the historical average. Another factor to consider is the steadily improving sentiment, which serves as a good contrarian indicator. We therefore expect a consolidation in the equity markets over the summer and have lowered our equity positioning to neutral after having been consistently overweight from the US Presidential election in November 2020 to the middle of the second quarter.

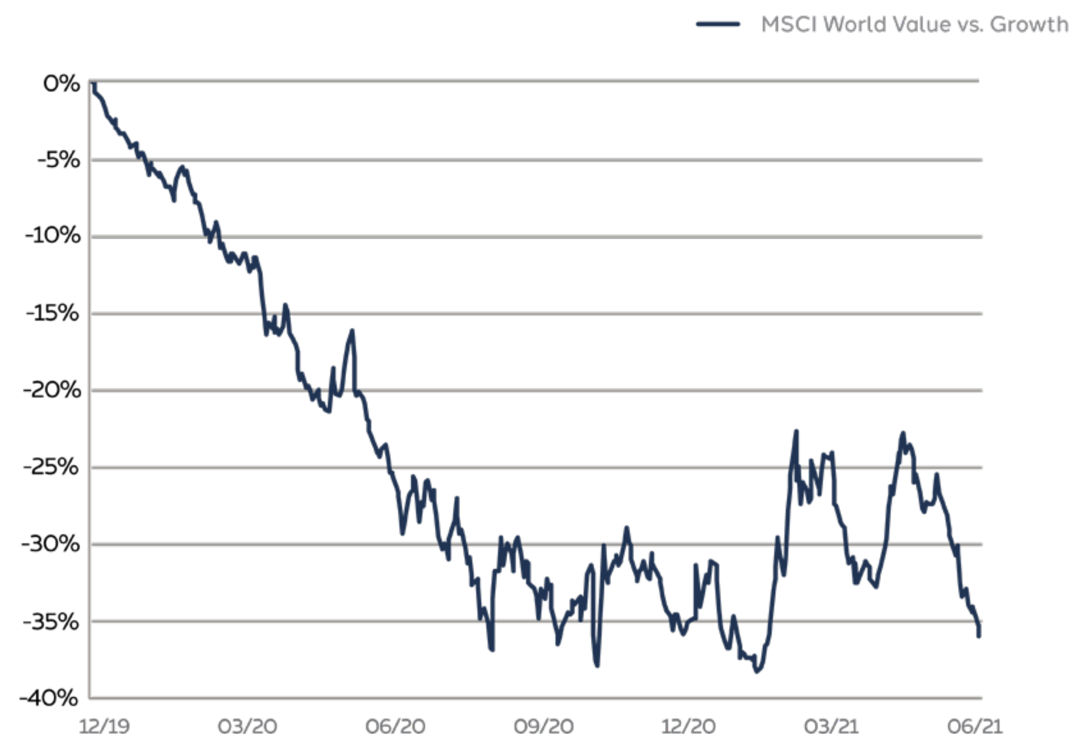
US CONTINUES TO ENJOY A REGIONAL ADVANTAGE

At the regional level, we still see the greatest potential for US equities even though European equities have shown relative strength, especially in the second quarter, thanks to positive earnings revisions and improved investor sentiment. Not only does the extent of government aid measures put the US at an advantage over the rest of the world, but the better than expected GDP development is also supportive. In Europe, we remain neutrally positioned after having closed our underweight in late May due to vaccination progress and the resulting opening of the economy. Emerging markets also remain neutrally positioned due to short-term inflation risks and the somewhat deteriorating covid situation. In addition, we recently added Japan to our house view with a neutral recommendation.

STYLE VOLATILITY LIKELY TO REMAIN HIGH, OVERWEIGHT CYCLICALS AND STRUCTURAL WINNERS

The interplay between reflation hopes and inflation fears has recently resulted not only in greater market volatility with less growth, but also led to a constant alternation between investment styles. Clear trends are likely to remain absent in the coming weeks and style volatility high. Within equities, we currently prefer cyclical consumer stocks and commodity stocks, which have already performed well in the past months. Many of these stocks can be found in Europe, where sentiment has improved recently, due to positive vaccination progress. We also recommend an overweight of structural winners, such as companies in the IT and communications sectors. These firms are mainly found in the United States, as well as in Asia to some extent. On the other hand, we are underweight defensive value stocks such as the consumer staples sector. In terms of caps, we continue to see good opportunities for equities in all market cap categories after having largely favoured large caps in the last year.

Style Development in 2020/21
Source: Bloomberg, Bergos, Data as of 06/30/2021

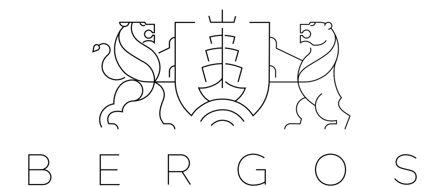


INFLATION TOPIC WEIGHS ON MARKETS

Inflation is likely to be the main factor determining the further development of equities. After a decade of disinflation, we now expect inflation to accelerate again. However, it will take until late summer to make a better assessment of whether or not the current rise in inflation is truly only temporary in nature. In any case, central banks are exhibiting a higher tolerance for inflation, also given that they have usually overestimated the rate of inflation in the past few years. This poses the risk that central banks could later find themselves painted into a corner if they tolerate inflation too much. In the United States, we expect inflation of 3.7% in 2021 and 3.3% in 2022 – after only 1.2% last year. We foresee further potential for equities, if the recent rise in inflation (primarily due to temporary base effects) subsides somewhat, enabling further clarity in the behaviour of central banks and a continuation of the economic recovery in 2022. Should there be any market setbacks between now and then, our current neutral positioning will allow us to seize opportunities.

LONG-TERM OUTLOOK REMAINS POSITIVE

Despite the anticipated consolidation, the long-term outlook for equities remains fundamentally favourable. The global economy is expected to grow strongly in the coming years. A possible market correction would not be the beginning of a long-lasting bear market, but rather the start for the next upswing. Economic and corporate earnings growth will remain high, even if year-on-year growth rates are slowing. At the same time, equities will continue to be supported by intense investment pressure and the weak positioning of systematic investment strategies. Aside from the inflation issue, the short-term focus will be on the upcoming reporting season, in which companies will present their results for the second quarter. It remains to be seen whether the high expectations can be fulfilled and especially whether companies will be rewarded by the market for their reported figures.



EQUITIES
OUR EXPERT

FREDERIK CARSTENSEN
EQUITY STRATEGIST

Frederik Carstensen joined Bergos in 2015 as a portfolio manager and has since been responsible for various equity funds and mandates. As a member of the Investment Committee, he leads the top-down equity strategy and regularly comments on events in the international equity markets.

BONDS

BY RENÉ BOLHAR

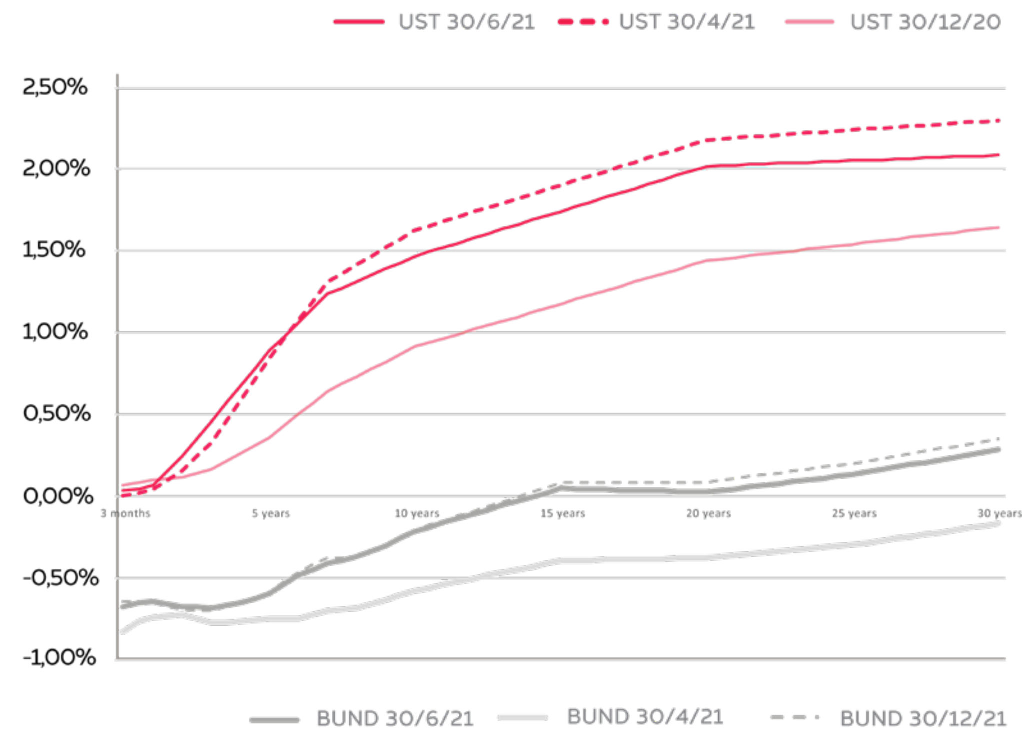
NOTHING TO SEE HERE, MOVE ALONG.

Throughout the second quarter, economic prospects continued to brighten for major advanced economies. The global economy currently is posting buoyant activity levels supported by reopening businesses and ongoing generous monetary and fiscal support. The global upswing has been, however, also accompanied by supply chain bottlenecks and sharp increases in the prices of certain inputs and also, recently, swift increases in consumer price inflation rates.

This has been reflected mainly in the valuation of fixed income securities during the first quarter of the year. Over time the inflation debate fortunately lost some momentum as investors realized that most of the recent pick-up stems from one-offs and base effects and hence most likely will be transitory. Investors thus received some relief after a period of significant rises along most of the maturity spectrum. Looking at US yields as an example, the longer maturities came back significantly towards the end of the second quarter. At the same time, fueled by elevated investor demand and ongoing central bank purchases, credit risk spreads remained roughly unchanged at very low levels.

Development of the Credit Risk Spreads on Euro and US Dollar IG and HY Bonds

Source: Bloomberg, as of 03/31/2021; Illustration: Bergos



With the usually quiet summer months ahead, we expect this trend to continue somewhat further. Headline risk as well as volatility around rates and spreads will most likely return end of august.

WHAT CAUSED THE CHANGE IN PERCEPTION?

Although large parts of the western world still remained in lockdown during the first quarter, the economic recovery that has been in place since spring 2020 continued to unfold. After the immediate stop caused by the pandemic, producers worldwide faced severe shortages of input factors like components, raw material and transportation. The immediate reaction to this in some parts of the supply chain were significant increases in prices which led to an overshooting of inflation expectations during the first quarter of the year. The subsequent months allowed time to put the developments into perspective. Although US headline inflation reached its highest level since 2008 and the core inflation measure printed its highest levels since the early 1990s it is worth mentioning that the highest contribution so far came from temporary effects like the ones mentioned before. Year on year comparison of inflation figures, be it in the US or Europe, is highly biased by the very low-price levels for major components a year ago. Additional measures that were put in place to mitigate the adverse effects of the pandemic, such as the temporary reduction of value added tax in Germany, ran out in the meantime and also contributed notably to rising inflation numbers. For the time being it looks as if the rise in inflation indeed is only transitory, with inflation figures returning to the levels seen before the pandemic once the bottlenecks are removed.

To see a more pronounced and most notably lasting effect on inflation numbers, a lot more has to happen constituting a structural change with consumers frontloading purchases in expectation of rising prices and employees demanding pay increases to maintain purchasing power. While this pressure isn't visible in the labour market yet, a large part of the unskilled labour work force made redundant in the pandemic is still unemployed. On the other hand, wages are rising in some parts of the economy, vacancies are high and many employers, according to the feds survey of business sentiment, are experiencing labor shortages and difficulties hiring suitable candidates. Whether this will reverse entirely once the extraordinary unemployment benefits under the pandemic relief package will run out later this year remains to be seen. A large unemployed workforce will likely remain a key restraining factor influencing the US Fed. Market participants seem to be happy to leave this realization for after the summer break with activity and hence turnover and liquidity in markets already having slowed down. So far central bank officials did a good job reassuring that they will not act on expectations alone but need to see a change in the real data. Until then the potential remains for heightened volatility in thin market liquidity due to headline risk. As of now markets follow US Feds guidance: "Nothing to see here, move along!"

BUT WHAT DID THAT REMAINING UNCERTAINTY DO WITH FIXED INCOME SECURITIES?

In absence of a major key headline large parts of the investment universe show low volatility at the moment. Like in every other year, rates tend to decline, albeit at a slow and uneventful pace. Credit spreads are hovering at or even below their historic lows.

Only the more opportunistic part of the bond universe, emerging markets, subordinated or high yield debt, still offer some potential for positive total returns from valuation gains whereas the bulk of the market, especially the highest quality end of the spectrum, offer meager returns.

WILL THAT GO ON FOR THE REST OF THE YEAR?

Most likely not. With the ongoing recovery of global economic growth, we come closer to a decision on the future path of monetary policy with every day. Some already expect to receive first indications at the Fed's Jackson Hole meeting in August. But even without a clear sign, the return of market participants after the summer will bring higher attention for comments and the need to adjust portfolios for the remaining months of the year. As of now the state of the market pretty much prefigures a return of upward pressure on benchmark yields, elevated demand for opportunistic investments like high yield and EM debt and certainly more focus on the question whether high inflation will cannibalise the entire bond returns in future.

HOW TO POSITION FOR A RISK-ON GROWTH ENVIRONMENT

Being in the early stage of a new cycle, fixed income in general offers only humble return

potential. We nonetheless see value in some pockets of the market.

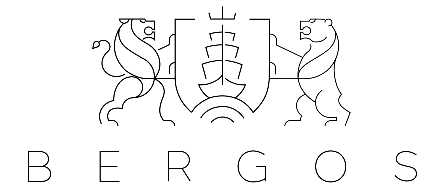
We prefer to have a very straight and yet flexible approach to our investments. Nonetheless markets pre-indicate some general themes. High quality debt like those of developed sovereign countries but also govern-ment related debt will to our understanding further lose attractiveness going forward. As the segment represents a large chunk of the overall listed fixed income market we keep positions with a shorter duration profile as a stabilizer in the overall portfolio context. Within the category we prefer government-related securities with some form of spread pick up like, for example, covered bonds or mortgage backed securities to mimic sovereign exposure. Safe haven assets like US treasury debt or German bunds will likely continue to experience a rise in yield levels, although institutional demand should keep the pace and extent of yield increases limited towards year end.

Corporate credit, from financial as well as non-financial issuers still show return potential. To achieve satisfactory returns, requires however a more active approach: a simple buy and hold strategy will be negatively impacted by the current strong growth environment and likely reduction of central bank purchases. The meanwhile constructive rating trend within the segment represents occasional opportunities for example in the area of so-called "rising stars", that is bonds and issuer getting lifted from high yield to investment grade ratings. We see this period as a good chance for active managers to contribute positive returns through relative value trades and market timing. However, moving forward the air gets thinner...

We continue to like the higher risk and hence more opportunistic pockets of the market. Capital structure arbitrage makes subordinated debt a suitable candidate to continue to deliver attractive returns. With many of subordinate issues having a speculative grade rating, credit analysis is key to avoid unpleasant market corrections. The same holds true for emerging markets debt instruments. As so often there are different shades within emerging markets be it when it comes to the role of energy and commodities (export vs. import nation) the geographic region (Asia, Latin America, Rest of World) or other, individual factors like the still prevalent Covid 19 pandemic that shows very differing impact among the various countries. At least EM economies profit from the favourable economic backdrop in the developed economies and from a humming global trade and manufacturing cycle, subject to supply-chain bottlenecks from soaring prices for input factors and transportation. On average we stay overweight for emerging markets, both for hard currency as well as local currency denominated issues.

WILL THIS YEAR BE TRANSITIONAL FOR FIXED INCOME THEN?

We tried to give an answer already in the previous edition of Reflexions and with half of 2021 already behind us it is still proving to be a challenge to give a clear answer. The general picture is good, benefitting corporate credit and higher risk buckets of the segment to the detriment of safe haven investments. Indeed, to a larger extent the outlook is already too good. Credit risk spread in some parts of the market no longer compensate for risks taken. Investors need to deploy a careful and selective approach on selection of the respective instruments. 2021 will indeed likely be a year of sub-par returns on the assets class. After decades of strong performance figures, this year will be the time to have a breather.



BONDS OUR EXPERT

RENÉ BOLHAR, CAIA, CESGA
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.

BERGOS

COMMODITIES

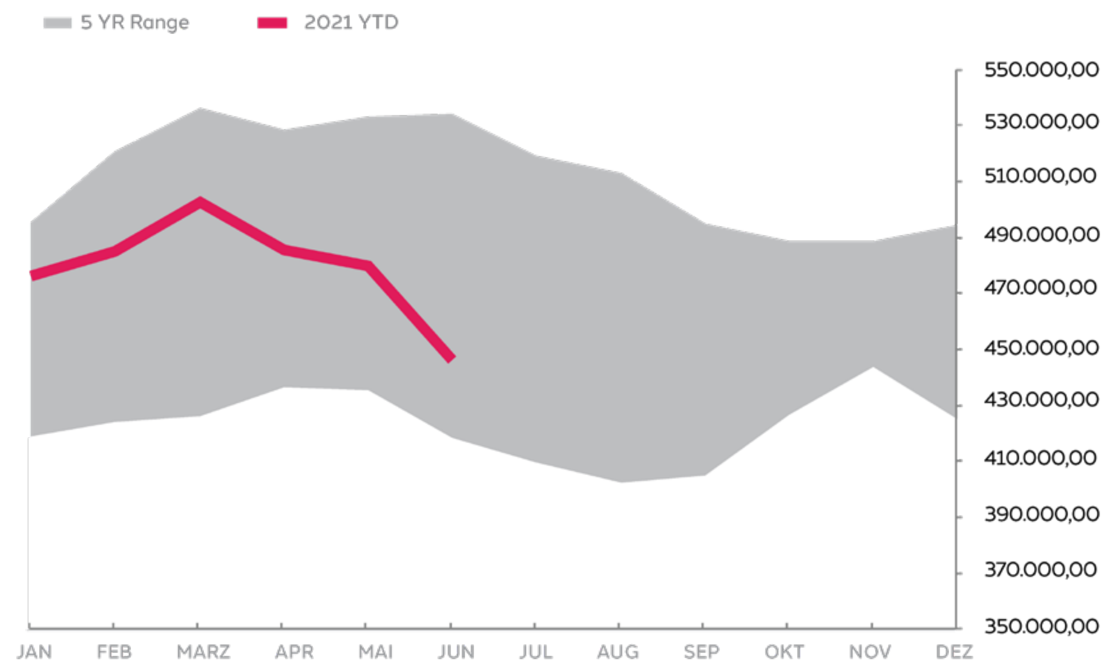
BY SOUMAILA TÉKÉTÉ

CRUDE OIL – VOLATILITY TO BE EXPECTED

Oil prices have recently been supported by improved economic data

Political factors should dominate in the short run and lead to increased volatility

WTI Crude prices have passed 70 USD per barrel for the first time in years. This positive momentum is primarily due to an improved economic picture and OPEC countries sticking to their agreed production cuts. OPEC+ states have kept production artificially low for more than a year now. On top of the Corona induced shock, daily cuts amounted up to 9,7 mil. barrels per day which reflects roughly 10% of global production. This artificially improved fundamental balance is best reflected in crude oil inventory levels, which have eventually fallen back to the lower end of their long-term seasonally adjusted bandwidth and range again.



US Crude Oil Inventories in the context of their historical range
Period: April 2015 - July 2021
Source: Bloomberg; Illustration & calculation Bergos AG

The political dependence of oil markets remains very elevated. This has been proven once more by the clash between Saudi Arabia and the Emirates at the most recent OPEC meeting. The two parties could not agree on a common path how to reduce the cuts in place and the three-day meeting ended without any results. Coherence and production discipline could eventually come to an end. Political risks have therefore increased drastically and could lead to increased volatility in the weeks and months ahead.

Structural overcapacity remains the limiting factor for oil prices – as ample global capacity from Non-OPEC (e.g. USA) as well as OPEC nations is available and could easily be reactivated. Oil markets continuously rely on OPEC+ mutual consent and discipline to curb supply, which as previously mentioned is currently in question after the recent OPEC Meeting.

GOLD : WAITING FOR NEW DRIVERS

Gold remains an important part of a well-balanced multi-asset portfolio

From a tactical viewpoint however, a new impulse or catalyst is still missing

We consider Gold to be an indispensable strategic element within any well-balanced multi-asset portfolio especially due to its diversification benefits and its safe haven function in times of stress. It may also offer a store of value for investors questioning the sustainability of ever rising global debt levels and the stability of fiat currencies given the unprecedented global monetary and fiscal stimulus we have witnessed recently.

From a tactical standpoint however, we currently have a neutral stance on gold. Slightly higher interest rate levels and the ongoing economic recovery are loading factors while elevated inflation expectations represent a tailwind for gold prices. The future net-effect on real-rates however remains to be seen. The further track of inflation and inflation expectations will therefore be crucial in defining the future path of the gold price.

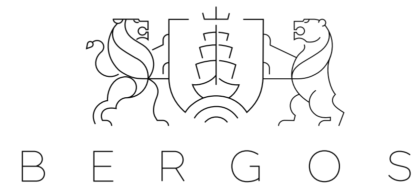
INDUSTRIAL METALS: POSITIVE OUTLOOK

Limited supply and increasing demand form a positive backdrop for industrial metals

Infrastructure projects and a rising electric vehicles market are the main drivers

Demand for industrial metals should develop parallel to the importance and magnitude of current trends and topics such as electric vehicles, decarbonization and green energy. The fall in investments over the last decade has started translating into decreased capacity and declining inventories, because mining projects usually have a limited viability and show shrinking productivity over time. Therefore, capital expenditures will be needed in order to meet potential increases in global demand. In the meantime, formerly oversupplied metals markets may potentially turn into deficit, which would increase price sensitivity of industrial metals.

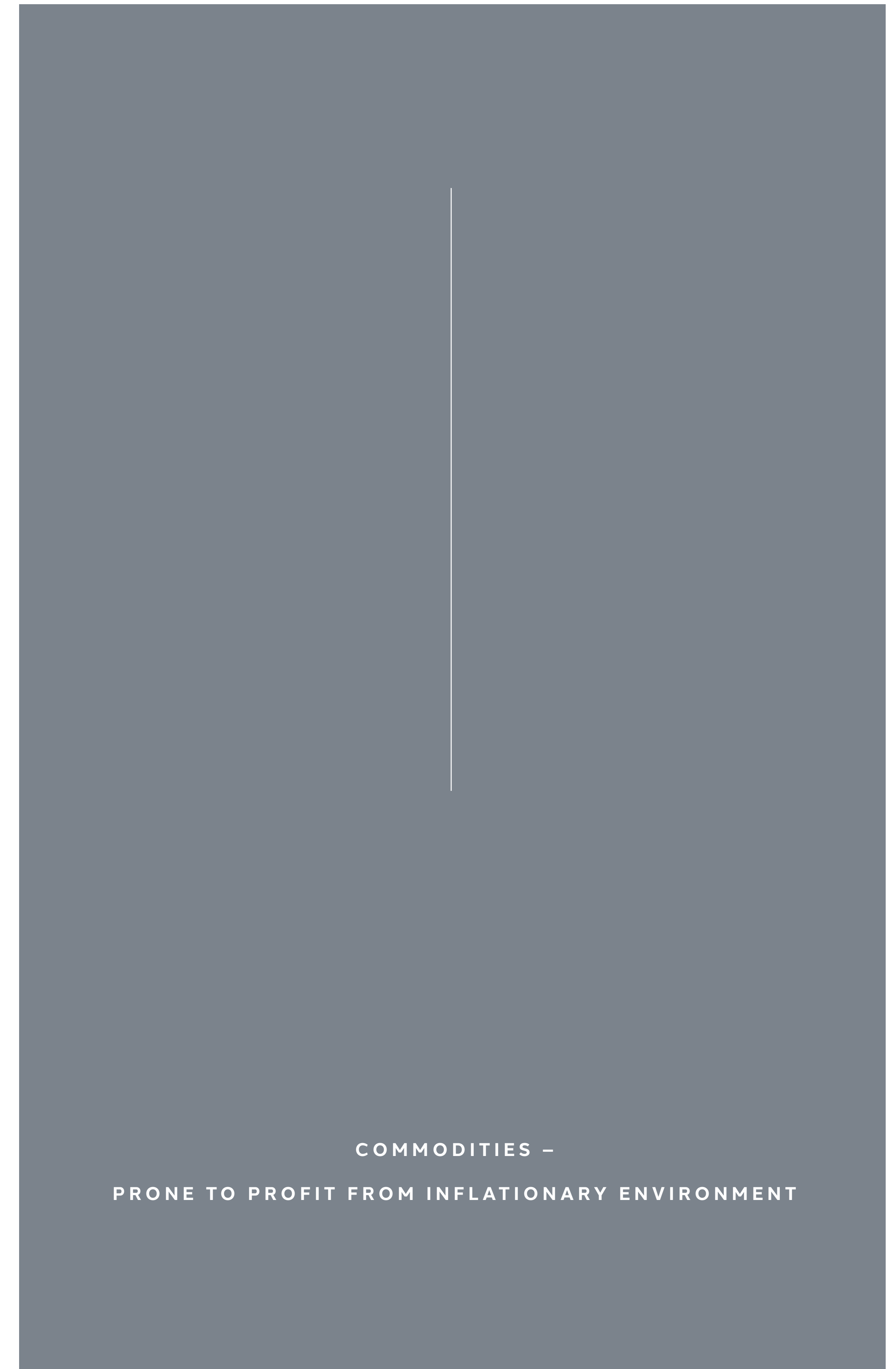
Despite the rally we have seen recently within the industrial metals complex, we believe there is still reasonable upside potential left on the medium run.

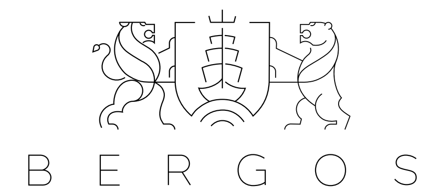


COMMODITIES
OUR EXPERT

SOUMAILA TÉKÉTÉ CAIA, CIIA
ALTERNATIVE INVESTMENTS STRATEGIST

Soumaila Tékété joined Bergos in 2016 as a cross-asset strategist and has since been responsible for various investment strategies. As a member of the investment committee, he is also responsible for strategy in the alternative investment area. Previously, he held various portfolio management positions at Union Investment and DZ Privatbank in Frankfurt and Zurich.





CURRENCIES

BY DR. JÖRN QUITZAU, BERENBERG

US CENTRAL BANK LIFTS US DOLLAR TO INTERMEDIATE HIGH

The first quarter of 2021 had a few surprises in store. The US Dollar and the British Pound were buoyed by an impressive vaccination progress in the United States and Great Britain in comparison to the sluggish rate of vaccinations in the Eurozone. The situation in the currency market normalised in the second quarter. Although the two above-mentioned countries maintained their vaccination advantage, declining cases in many parts of Europe created positive sentiment. The currency market is no longer focusing as much on the vaccination advantage of the United States and Great Britain. Instead, the focus of attention shifted to the economic outlook, which has turned highly positive also for Europe in the meantime, pointing to a powerful economic upswing. Benefitting from this new perception in the currency markets, the Euro rose above USD 1.22 per Euro at times.

In mid-June, however, the US Federal Reserve halted the rise in the Euro's exchange rate by signalling an earlier tightening of its monetary policy, benefitting the US Dollar and causing the Euro to decline again. At the end of the first half of 2021, the Euro's exchange rate fell below USD 1.19 per Euro.

USD/Euro. Source: Macrobond

GBP/Euro. Source: Macrobond

EUR/USD: BETWEEN DEBT, INTEREST RATES AND INFLATION

The macroeconomic picture is complex, especially on the other side of the Atlantic. Positive factors include an improved political sentimane after the early successes of new President Joe Biden, rapid job growth in the labour market, the highly positive economic outlook, and the interest rate advantage compared to the Eurozone. However, the positive economic outlook comes at a price. Reviving the economy costs money; money that the Americans do not have themselves. The US budget deficit was around 15% in both 2020 and 2021. The Fed must maintain an aggressively expansive monetary policy to keep the government's funding costs low even as the government's expansive fiscal policy is pushing up inflation rates. Consumer prices in May were around 5% higher than a year ago. In effect, the much higher inflation compared to Europe more than offsets the nominal interest rate advantage of the United States.

The situation in Europe is different. Although the economic recovery is less dynamic, it seems to be more stable: the Eurozone will make it through the crisis in 2020 and 2021 with deficits of "only" around 7% and the inflation rate is currently not even half as high as in the United States. Financial market players are putting somewhat more faith in the European model, in principle. It was only the Fed's signal that it will tighten monetary policy a little earlier, which caught the markets somewhat by surprise, that has boosted the US Dollar of late. Nonetheless, we consider the current strength of the Dollar to be temporary. We see upside potential for the Euro in the second half of the year again and expect that it will rise to USD 1.25 to the Euro by the end of the year.

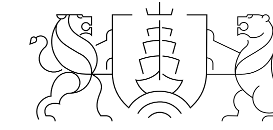
The European Central Bank recently presented the results of its fundamental strategy review: It will raise the inflation target to 2% (previously: „below, but close to 2%") and it will not immediately take countermeasures in the event of target overshoots, but will show a little more patience. As a result, it will become a bit more „inflation-tolerant". Nevertheless, this is not a big surprise.

CHF/Euro. Source: Macrobond

BRITISH POUND AND SWISS FRANC ARE STUCK IN PLACE

The British currency has been unable to continue its strong rise in the first quarter. The Pound settled in at around 0.86 Pounds per Euro in the second quarter and can be expected to continue fluctuating around this level for now. The Bank of England's course of action bears watching. It could tighten its monetary policy more quickly than the ECB, which could create somewhat more upside potential for the Pound. After the modest tightening in the spring, however, it left its monetary policy unchanged at its last meeting in June.

The Swiss Franc likewise exhibited only little movement in the second quarter. After a larger pullback in February, the Swiss currency has begun to creep upwards again. Although it was somewhat more volatile in June, the Euro-Franc exchange rate has essentially remained in a range of 1.09 to 1.10 Francs to the Euro since late April. Given that the Swiss National Bank has also kept relatively calm, major exchange rate jumps are not to be expected in the near future.



CURRENCIES OUR EXPERT

DR. JÖRN QUITZAU
CURRENCY STRATEGIST, BERENBERG

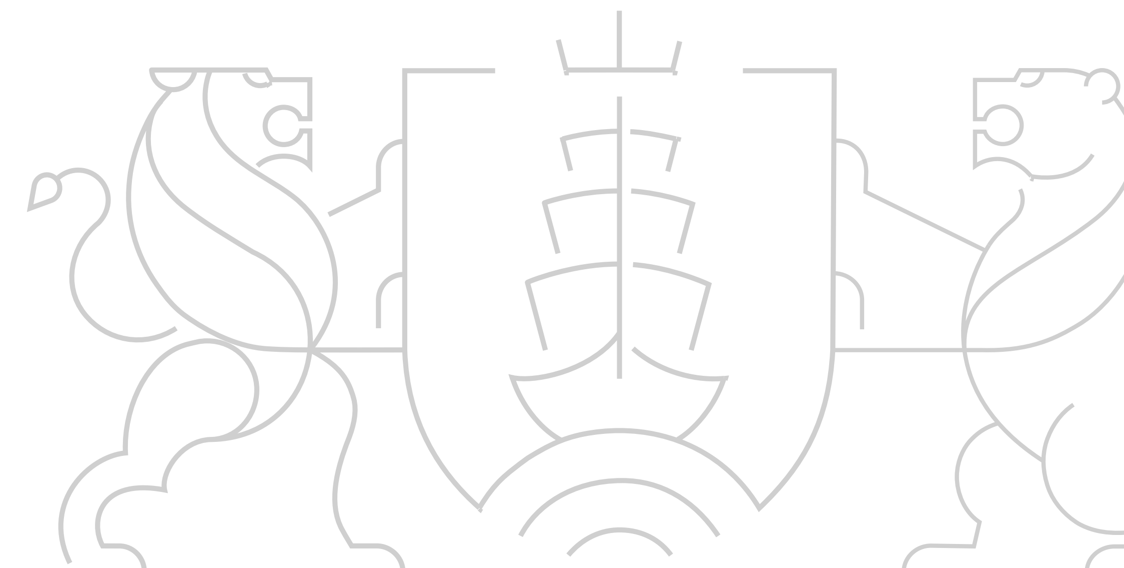
Dr. Jörn Quitzau has been with Berenberg since 2007, where he is Head of Economic Trends and responsible for currency analysis. Prior to that, he spent six years at Deutsche Bank Research in Frankfurt. Since 2014, he has been a Non-Resident Fellow at the American Institute for Contemporary Studies (AICGS), Washington D.C.

BERGOS VIEW MATRIX

BANK VIEW	--	-	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	○	○	○	●	○

	--	-	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	○	○	●	○	○

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



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Editor
Maximilian Hefele, CFA
Head of Asset Management

Authors
René Bolhar, CAIA, CESGA | Bond Strategist
Till Christian Budelmann | Chief Investment Officer
Frederik Carstensen | Equity Strategist
Maximilian Hefele, CFA | Head of Asset Management
Dr Jörn Quitzau | Currency Strategist, Berenberg
Dr Holger Schmieding | Chief Economist, Berenberg
Soumaila Tékété, CAIA, CIIA | Alternative Investments

Managing Editor
Aurelia Rauch | Head of Communications

BERGOS AG

HEADQUARTERS
Kreuzstrasse 5
8008 Zurich · Switzerland

phone +41 44 284 20 20
fax +41 44 284 20 22

OFFICES
29, Quai du Mont-Blanc
1201 Geneva · Switzerland

phone +41 22 308 59 00
fax +41 22 308 59 20

www.bergos.ch
info@bergos.ch