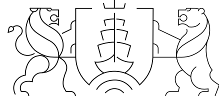


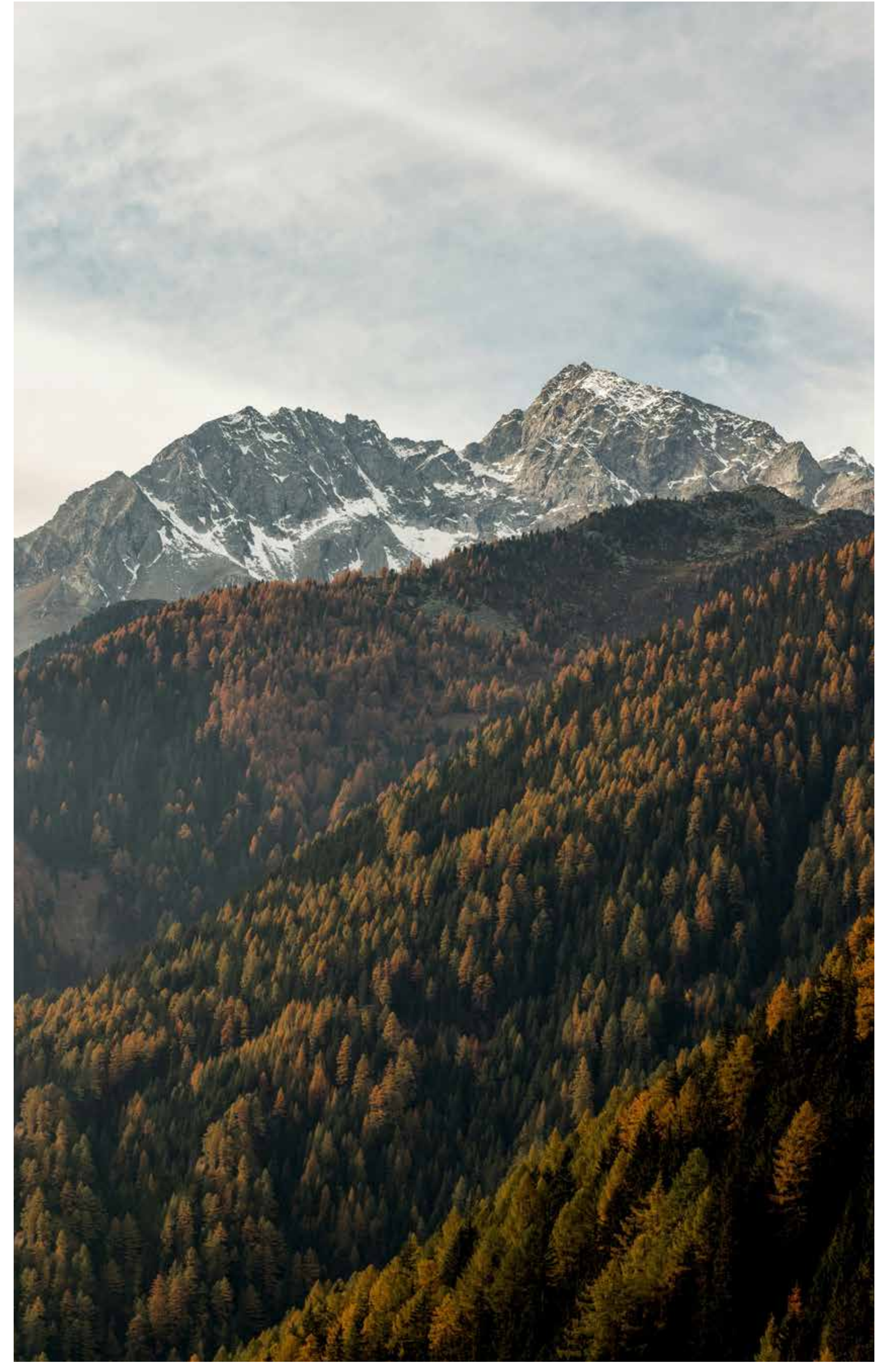
BERGOS

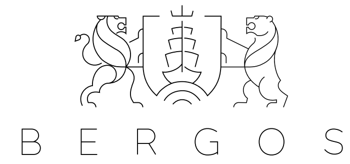
Reflexions

Q4 2024

The Capital Markt Publication by the Private Bank Bergos

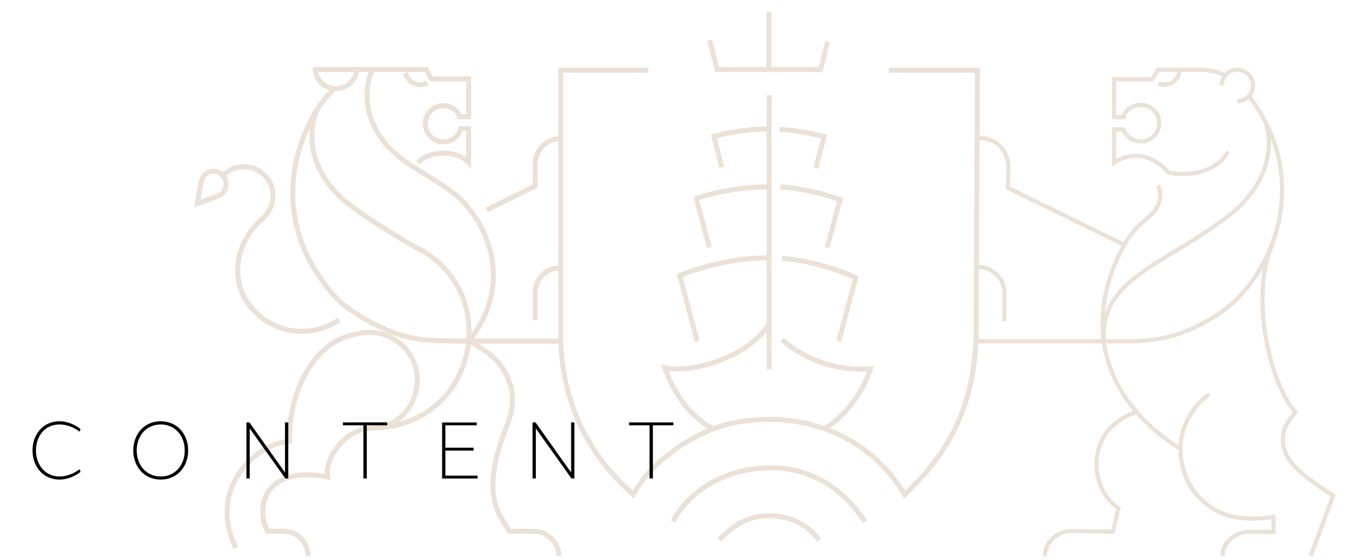
Reflexions – No. 24 October 2024





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 center 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.

PUBLISHED BY
BERGOS AG
ZURICH, OCTOBER 2024
ALL RIGHTS RESERVED



CONTENT

10 EXECUTIVE SUMMARY
MAXIMILIAN HEFELE

14 COMPASS
TILL C. BUDELMANN

17 MACRO
DR. JÖRN QUITZAU

21 EQUITIES
FREDERIK CARSTENSEN

25 BONDS
CHRISTOPH JUNG

31 ALTERNATIVE INVESTMENTS
OLIVER WATOL

37 CURRENCIES
STEFFEN KILLMAIER

45 TOPIC: US-ELECTIONS
DR. JÖRN QUITZAU

CONTRIBUTING AUTHORS

MAXIMILIAN HEFELE

CFA – DEPUTY CHIEF INVESTMENT OFFICER

Maximilian Hefele is Head of Asset Management at Bergos since 2003. He is responsible for all discretionary investment solutions offered by the bank. He is also Managing Director, Deputy Chief Investment Officer and member of the bank's investment committee.

TILL C. BUDELMANN

CHIEF INVESTMENT OFFICER

As Bergos´s Chief Investment Officer, Till Christian Budelmann regularly comments on events in the international capital markets and examines them in the context of economic and political trends. In close coordination with the responsible asset class heads, he and the CIO´s office define the base-case scenario, which lays the foundation for the work within the asset class teams. Budelmann is a member of the bank´s executive board and heads the investment committee.

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.

DR. JÖRN QUITZAU

CHIEF ECONOMIST

Dr. Jörn Quitzau is Chief Economist at Bergos AG and responsible for macroeconomic analysis. Previously, he worked for 17 years at Bankhaus Berenberg.

CHRISTOPH JUNG

CIIA, FRM, BOND STRATEGIST

Christoph Jung joined Bergos in 2022 and is responsible for the top-down strategy as well as the bottom-up approach for fixed income investments. As a member of the investment committee, he is responsible for the fixed income strategy.

OLIVER WATOL

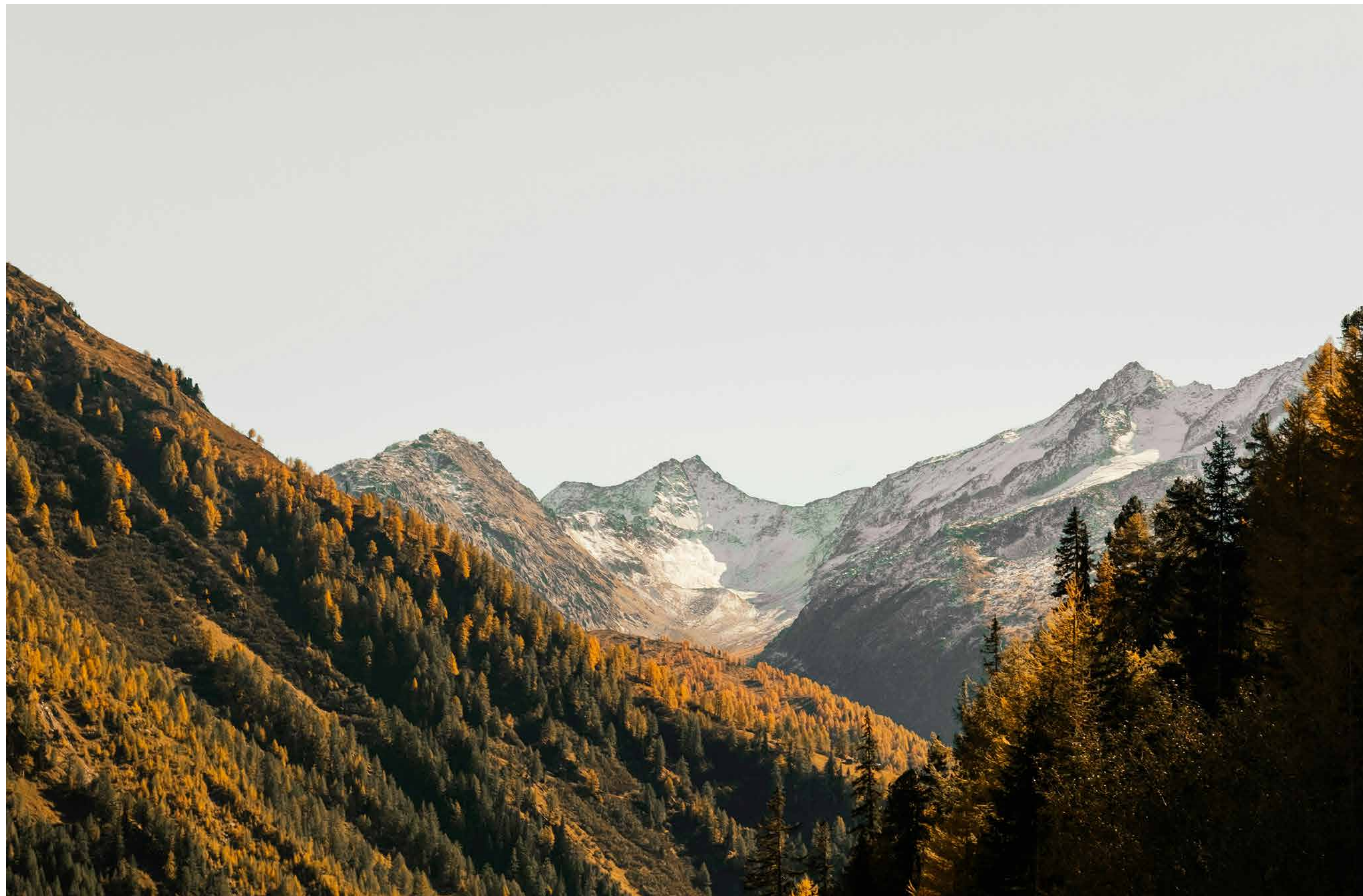
ALTERNATIVE INVESTMENTS STRATEGIST

Oliver Watol started as a portfolio manager at Bergos Asset Management in 2013. Among other things, he is responsible for the top-down strategy and the bottom-up selection of liquid alternative investments. He is also a member of the Investment Committee of Bergos AG.

STEFFEN KILLMAIER

CURRENCY STRATEGIST

Steffen Killmaier joined Bergos in 2013. Among other things, he is responsible for the development of the top-down currency strategy and is a member of the bank´s investment committee. Killmaier holds a degree in Banking and Finance from the University of Zurich.



EXECUTIVE SUMMARY

ABOUT OUR FALL PUBLICATION

Dear Readers

The third quarter of 2024 was remarkable for the capital markets from various perspectives. After temporary setbacks in August and September, global equity markets, as measured by the MSCI World All Countries Index, closed the quarter at historic record levels. The seasonal September correction, feared by some market participants, did not materialize.

Additionally, the yield curve in US dollars finally overcame the inversion between two-year and ten-year Treasury bonds, and bond markets performed positively across the board. Furthermore, the gold price continued its rise, reaching one record high after another.

The decisive 50-basis-point rate cut by the US Federal Reserve in September also contributed positively to all these developments. Monetary policy, with the exception of Japan, is becoming increasingly expansionary in the largest economies. Most recently, China has also reopened the monetary taps.

On the fiscal front, both US presidential candidates are promising massive support for the economy and consumers. The issue of inflation no longer plays a major role for monetary and fiscal policymakers. Structural inflation risks such as deglobalization, decarbonization, and the ongoing labor shortage in Western countries are being sidelined in favor of economic recovery.

Falling interest rates remain a positive factor for bonds for the foreseeable future, although we have become somewhat more cautious with longer maturities. Our base scenario assumes a "bull steepening", where yields for bonds with shorter maturities (<2 years) will fall more sharply than those with longer maturities (>5 years). Adjusted for risk, we see very good opportunities in bonds with maturities between 1 and 3 years.

Overall, bonds, even after the recent rally, remain our preferred asset class in a classic multi-asset strategy. Together with gold, they provide optimal diversification of equity risks. For equity markets in general, we maintain a neutral stance, keeping the weighting as high as defined in the respective strategy.

In this edition, I would like to draw your attention to our "Topic" section. Here, our Chief Economist Dr. Jörn Quitzau takes a closer look at the U.S. presidential election and its potential impact on the future policy of the United States.

I hope you enjoy reading!

Best regards,

Maximilian Hefele
Deputy Chief Investment Officer

MAXIMILIAN HEFELE CFA
DEPUTY CHIEF INVESTMENT OFFICER AND HEAD OF ASSET MANAGEMENT

West London
0
20
40
340
320
300
280
100
120
140
160
180
200
N.W
N.E
S.E
S.W
S
N

COMPASS

BASE-CASE SCENARIO

BY TILL C. BUDELMANN, CHIEF INVESTMENT OFFICER

The US economy continues to cool down but remains in solid shape. We see a good chance of a soft landing for the economy, with a recession being only a risk scenario. The ongoing expansionary fiscal policy is helping to cushion other negative factors. The upturn in the eurozone remains sluggish, with Germany, in particular, becoming a burden. Instead of the expected recovery, stagnation appears more likely this year. Within Europe, Switzerland and the UK are growing faster than the eurozone average. China can no longer fulfill its role as the growth engine of the global economy. However, the government and central bank are stimulating the economy sufficiently to avert greater weakness.

Inflation rates have fallen significantly worldwide. In Switzerland, the inflation rate has been below the two percent mark for over a year now, placing it within the range targeted by the Swiss National Bank (SNB). Although overall inflation has dropped significantly in many other countries, core inflation is usually still higher and shows that inflation has not yet been defeated for good. The major Western central banks have begun to ease monetary policy in this inflationary environment. After a long period of hesitation, the US Federal Reserve initiated the rate cutting cycle in September with a significant reduction of 50 basis points. The Fed Funds Rate is likely to fall by another 50 basis points by the end of the year. The ECB cut its key interest rates for the second time in September and is likely to make at least two more rate cuts of 25 basis points each by the end of the year. The Bank of England paused its cuts in September but is expected to make another reduction by the end of the year. The SNB is focusing on the strength of the Swiss franc. Following the rate cut in September, monetary policy could be loosened even further.

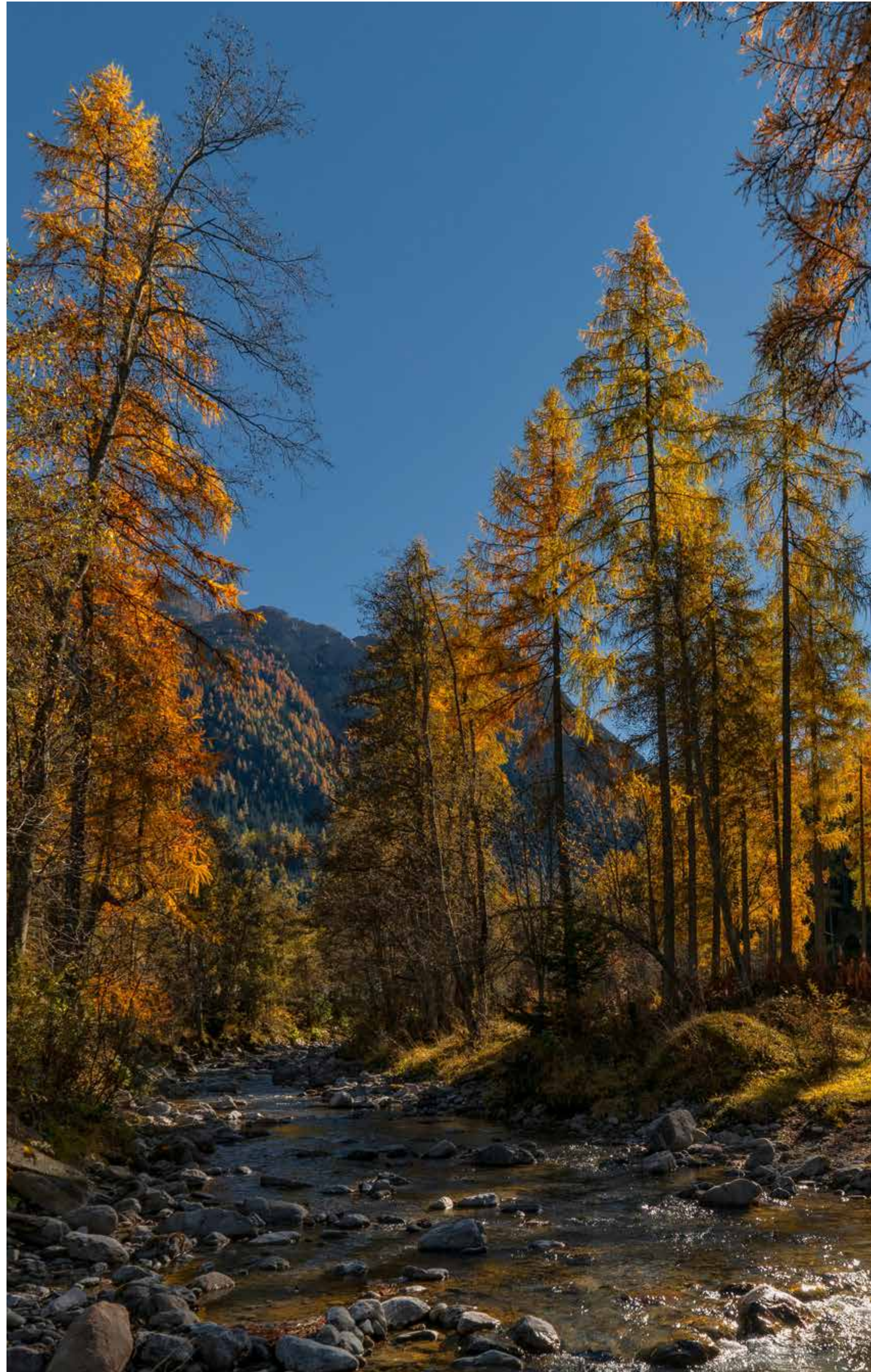
Geopolitically, the focus remains primarily on developments in the Middle East and the Russia-Ukraine war. The Middle East is a high-risk area. The financial markets have so far coped surprisingly well with the ongoing escalations. The global economy could be burdened in particular by a higher oil price. However, the oil price is currently at a relatively low starting level. Additionally, the situation between China and Taiwan continues to be an ongoing concern that requires close monitoring. The US elections are also dominating the headlines. Now that Vice President Kamala Harris is running against Donald Trump instead of President Biden, the race has become more competitive. We currently estimate the odds at 50/50, with the Republicans appearing favored for the Senate and the Democrats for the House of Representatives. The shift away from free trade and the debt-increasing fiscal policies are issues relevant not only to the US election but also to global growth, presenting potential risks for the world economy.

GDP ESTIMATES

	2023	2024	2025
EUROZONE	+0.5%	+0.8%	+1.4%
GERMANY	−0.1%	+0.0%	+0.7%
SWITZERLAND	+0.8%	+1.3%	+1.4%
GREAT BRITAIN	+0.1%	+1.0%	+1.6%
UNITED STATES	+2.5%	+2.5%	+1.6%
CHINA	+5.1%	+5.0%	+4.5%
JAPAN	+1.9%	+0.2%	+1.1%

INFLATION ESTIMATES (CPI)

	2023	2024	2025
EUROZONE	5.4%	2.4%	2.2%
UNITED STATES	4.1%	3.0%	2.5%



M A C R O

CHALLENGING ECONOMIC ENVIRONMENT IN POLITICALLY INTERESTING TIMES

BY DR. JÖRN QUITZAU

The economic outlook has largely clouded during the summer months. Although the US economy remains solid, the labor market is showing signs of slowing down. In the eurozone, the upturn is proving very sluggish, partly because Germany's economy is treading water and thus weighing on the eurozone. Switzerland is in a better position than the eurozone, but the economy is not booming. The British economy has performed surprisingly well so far.

For inflation, the picture is similar in the USA and Europe: Overall inflation has fallen significantly, but core inflation is still well above the targets set by the US Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of England (BoE). Switzerland is an exception. Here, inflation can be considered defeated, as both overall inflation and core inflation have been comfortably below the 2% mark since summer 2023.

The changed overall situation, with weaker economic data and weaker inflation, has enabled central banks to ease monetary policy. The US Federal Reserve hesitated the longest, as the economic situation remained too robust for a long time. With the weaker labor market report at the beginning of August, the Fed came under pressure to act. Monthly job growth has been noticeably weaker for several months, and the unemployment rate had risen more sharply than expected to 4.3% (the low for 2023 was 3.4%). By historical standards,

the unemployment rate is therefore still at a low level. Fed Chairman Jerome Powell said at the press conference following the interest rate decision in September that an unemployment rate of just over 4% was still a good figure. Nevertheless, the Fed decided to initiate the rate cut cycle with a large rate cut of 50 basis points in order to maintain the comparatively solid state of the economy. Overall, the US economy looks set for a soft landing. A recession is only to be expected in a risk scenario.

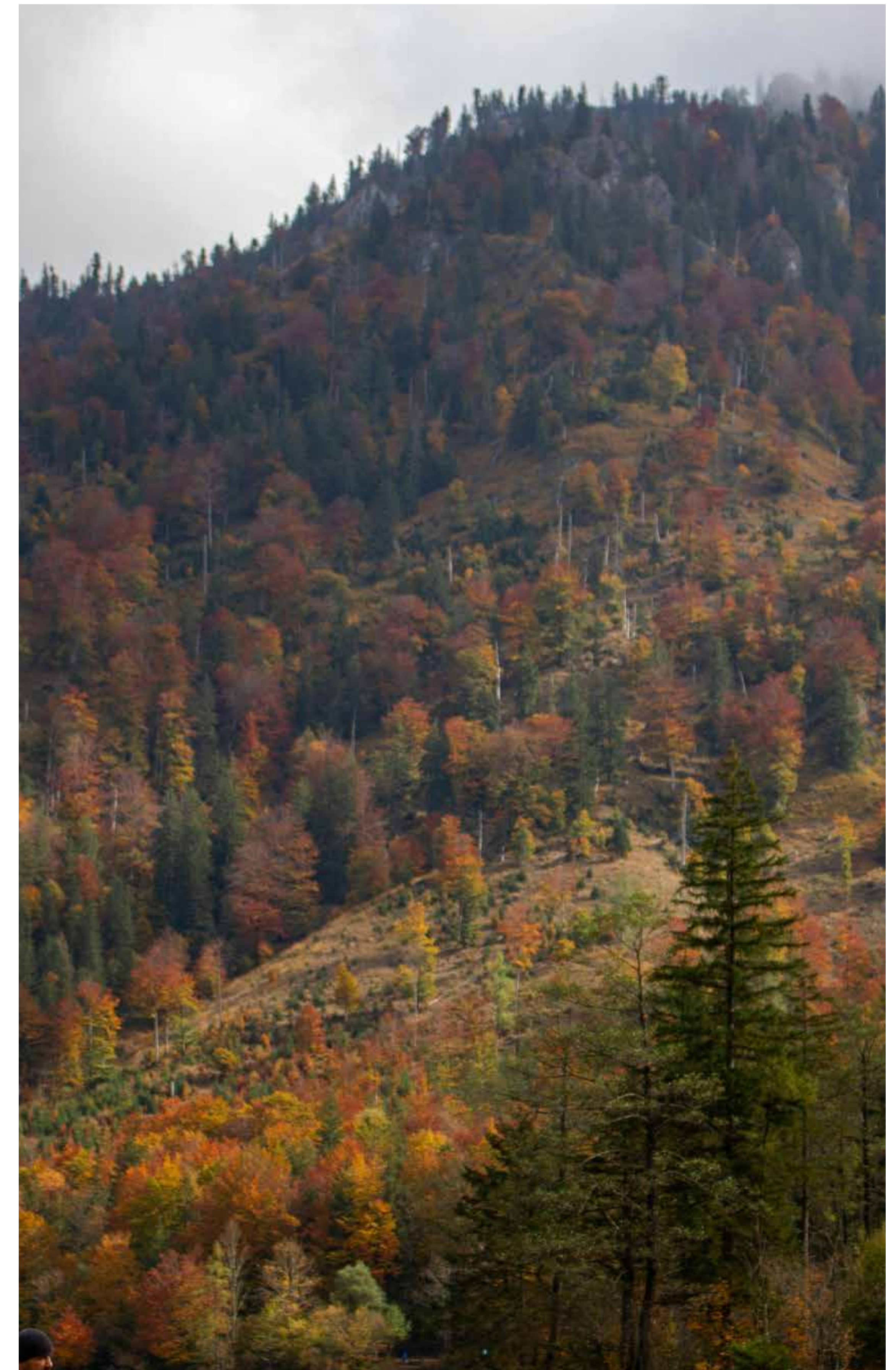
Inflation in the eurozone fell to 1.8% in September, giving the ECB the leeway to cut key interest rates for the second time this year. The economy's hopes are now also pinned on monetary policy. The economic recovery is proving difficult. The Purchasing Managers' Index for the eurozone fell from 51.0 to 48.9 in September, indicating contraction. It was an eight-month low. Industry is particularly weak, while the service sector is still just managing to stay in expansionary territory.

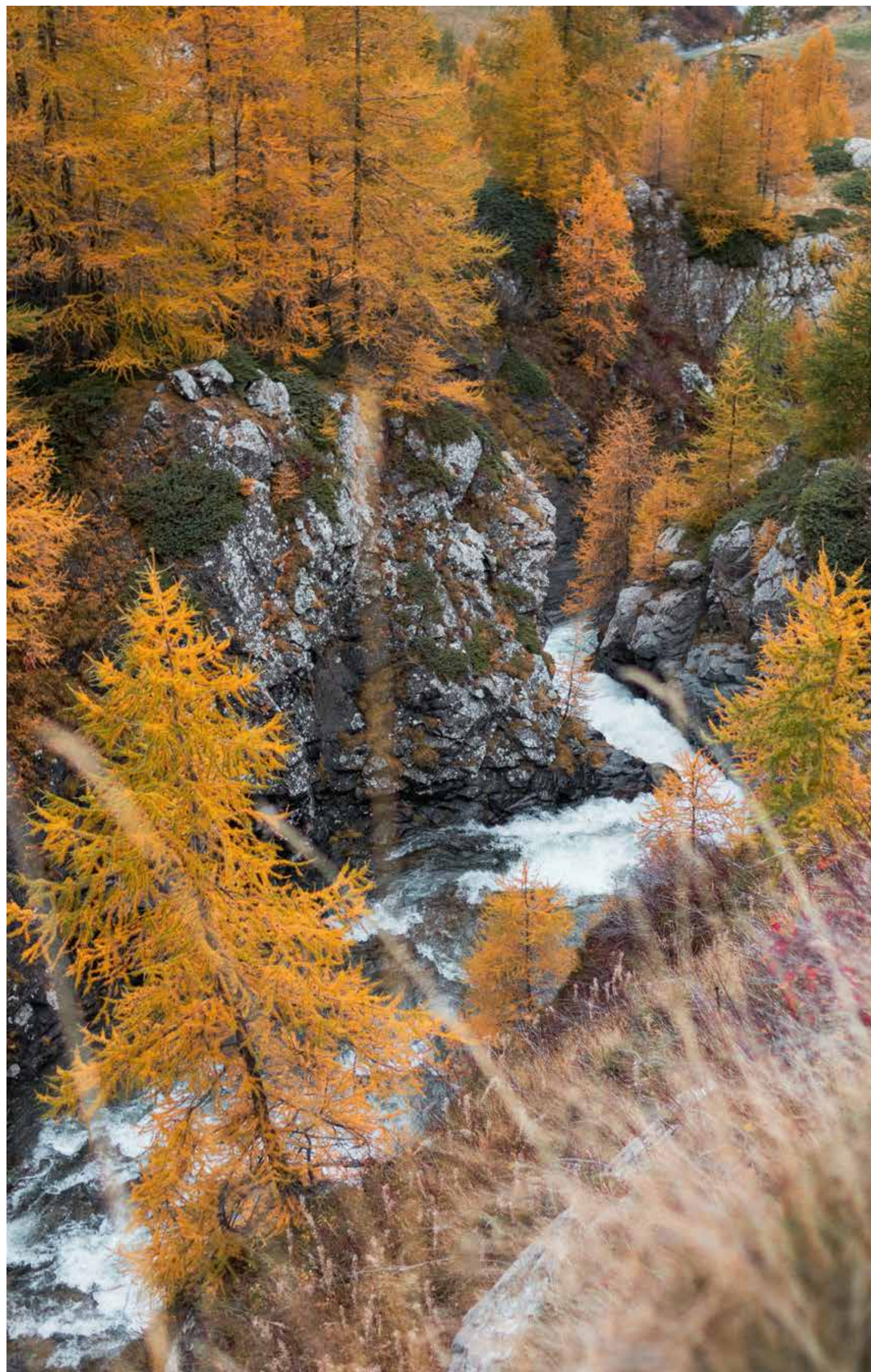
Germany is increasingly becoming a burden for the eurozone. Instead of the expected recovery, it now appears that another difficult year without economic growth is ahead. Numerous economic indicators are pointing downwards, including the ifo Business Climate Index, ZEW, and the Purchasing Managers' Index. Germany's economic success to date is at risk for several reasons. In addition to deglobalization, which is threatening the German "business model", economic policy is also becoming more of a burden. For Germany and the eurozone, a looser monetary policy could at least provide a small economic stimulus, even if lower interest rates take some time to actually filter through to the economy.

The Swiss National Bank (SNB) lowered its key interest rate by 25 basis points to 1.0% in September. In view of the appreciation of the Swiss franc and the further decline in inflationary pressure, the SNB believes that further interest rate cuts are possible in the coming quarters. For the coming year, the SNB expects inflation of only 0.6%, given the current key interest rate level. According to the SNB, the greatest risks to the moderate growth of the Swiss economy continue to lie abroad.

The US presidential elections will attract a lot of attention in the fourth quarter. The candidates have already provided plenty to talk about during the summer months. A good two weeks after the first TV debate between Joe Biden and Donald Trump, which was disastrous for the incumbent President Biden, there was an assassination attempt on Donald Trump. After that, the situation was almost hopeless for Joe Biden. In order to still have a serious chance of winning the election, the Democrats had to swap candidates. They nominated Vice President Kamala Harris and were thus able to make the race open again. It will also be important to see which majority the elections produce for Congress. It currently looks as though the Republicans have a good chance of winning a majority in the Senate, while the Democrats currently have a better chance of winning the House of Representatives.

Geopolitically, caution is still required. The situation in the Middle East, in particular, remains highly dangerous. In addition, the Russia-Ukraine war and tensions between China and Taiwan must be kept in mind. In all three conflicts, the outcome of the US presidential elections could introduce new dynamics.





EQUITIES

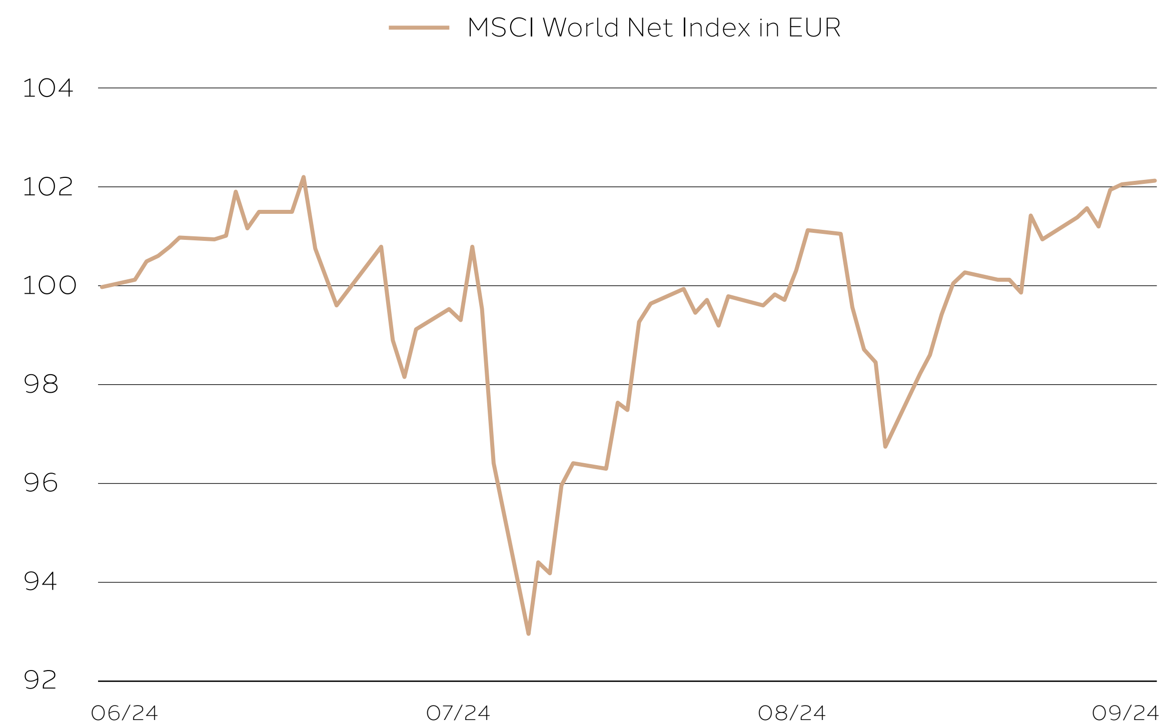
AN EVENTFUL SUMMER FOR GLOBAL EQUITY MARKETS

BY FREDERIK CARSTENSEN

Little potential for equities and more volatility over the summer – that was our expectation three months ago. In fact, it was not a quiet summer on the global capital markets. In addition to the Trump assassination attempt and Joe Biden's resignation as US presidential candidate, investors' minds were on fears of recession in the US, a stronger yen and the unwinding of carry trades, leading to increased volatility and a broad sell-off of risky assets. The VIX jumped briefly, and the Nikkei 225 recorded its biggest daily loss since 1987 at -12.4%. However, the subsequent recovery was almost as fast as the sell-off. Overall, the global equity market still recorded a slight gain in the third quarter, which was certainly also due to the fact that central banks started cutting interest rate across the board. The S&P 500, the Dow Jones, and the German DAX index reached new all-time highs. Noteworthy is also the relative strength of Chinese equities recently, although they are still trading well below their highs.

Growth concerns provide a drag in the short term

For more than a year, the markets have been grappling with the question of whether the US economy will make a soft landing. In the first half of the year, the US economy surprised to the upside, while inflation remained stubborn. Hopes of interest rate cuts were priced out. With disappointing economic data and falling inflation, the risk of a stronger economic



Performance of the MSCI World Net Index during the third Quarter
Indexed to 100. Source: Bloomberg, Bergos, Data as of 09/30/2024

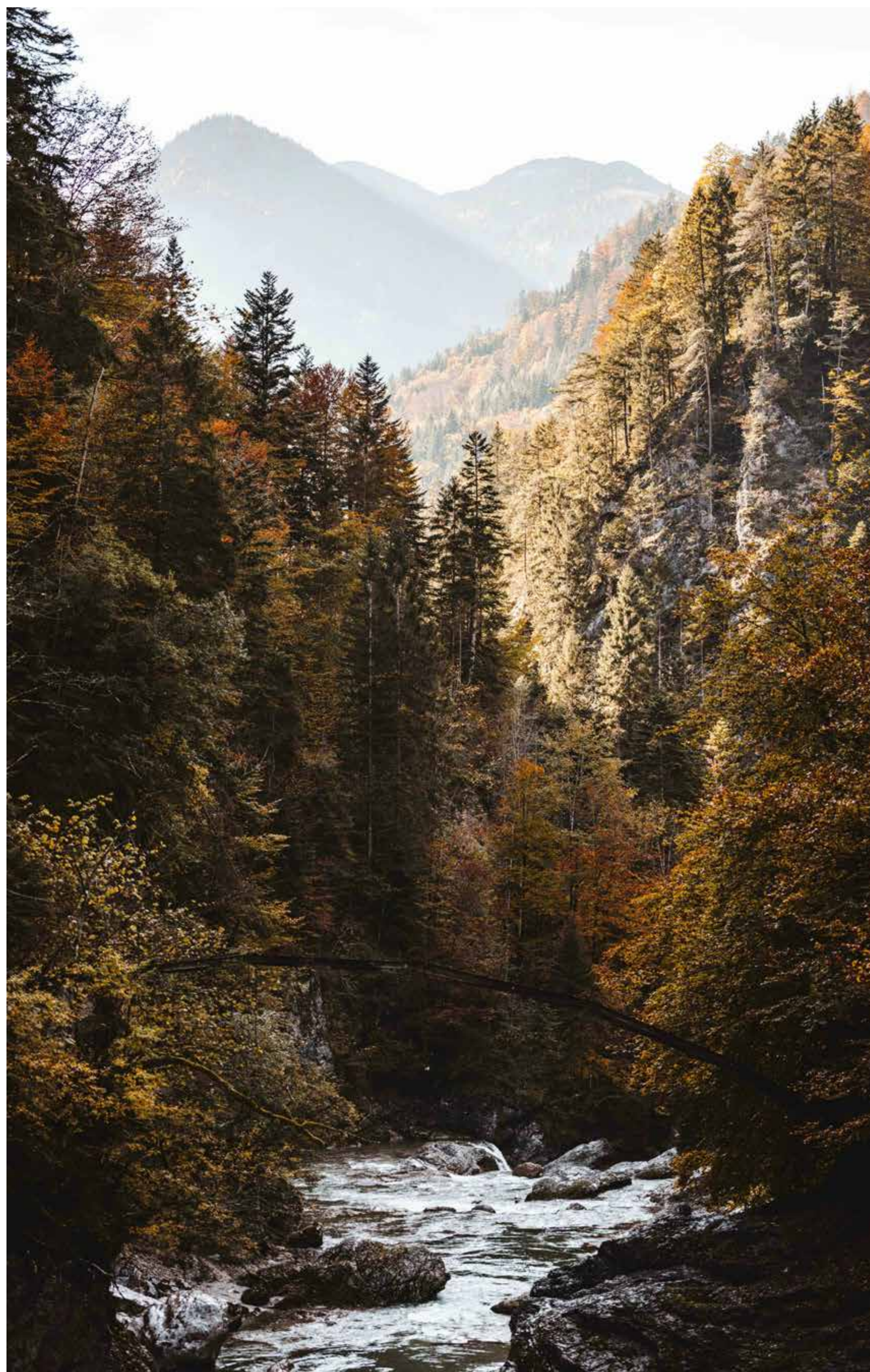
slowdown came to the fore in the third quarter. Although fears of recession have recently increased, mainly due to disappointing US economic data, analysts' earnings estimates for the next twelve months remain surprisingly stable, and in some cases even ambitious. Earnings growth of 15% is currently expected for US equities in 2025 – despite a weakening US labor market and the threat of an economic slowdown. It remains to be seen whether these expectations can be met. One thing is clear: equity valuations remain unattractive after the recent highs and despite interest rate cuts.

Rate cutting cycle has begun
The fact that the long-awaited central bank turnaround has officially begun is supportive for equity markets. The ECB lowered its key interest rate for the first time in June, the Bank of England in August, and the US Fed in September. Further steps are likely to follow. Such a change in direction is generally positive for risk assets such as equities, as long as it is not associated with a recession, which we do not currently expect. Easier financial conditions (interest rate cuts, a recently weaker US dollar, a lower oil price) could give the US economy some tailwind again after a certain delay. After months dominated by disappointing US economic data, US economic surprises could then turn positive in the fourth quarter. Especially, if the end of uncertainty about the outcome of the US elections leads to postponed investment or consumer decisions being made.

Market breadth is supportive
The current highly "data-dependent" approach of the central banks does not provide an environment for bold portfolio positions, especially as geopolitical risks remain high and the race for the US presidency is very tight. However, as market breadth increases, extreme positions are also less necessary. While the major equity indices barely moved in the third quarter, there was some rotation below the surface. Technology stocks – the winners since the beginning of the year – took a breather and showed some relative weakness due to growth concerns. We only recently reduced this still relevant and very important sector to a neutral weighting. By contrast, defensive equity sectors were among the relative winners. Utilities, real estate, consumer staples, and healthcare performed positively. Small caps performed slightly better than large caps, supported by falling interest rates.

More opportunities after the US election
The race for the US presidency and the US Congress is entering the decisive phase and is likely to continue to cause volatility in October, especially as October is historically the month with the highest volatility anyway. Due to the newly gained market breadth, we currently feel well-positioned with a balanced positioning. With the end of the election uncertainty and supported by further interest rate cuts, equities could perform better again in the new year, in line with the typical positive seasonality. This is particularly true if the markets are able to put growth concerns behind them with more positive economic data and further interest rate reductions – this would then be the Goldilocks scenario of a soft landing. Investors are also likely to shift more capital out of short-term interest-bearing investments as interest rates fall. A sustained rise above the all-time highs for equities would then be possible.

US equities, India and European small caps preferred
We are currently maintaining our overweight position in the US and in Europe. Although the European economy has struggled again recently, European small cap stocks continue to be noticeably undervalued, which is likely to decrease to some extent. Although other regions, such as the emerging markets, have recently benefited from the Fed's change of direction and a weaker US dollar, some of them still have considerable structural problems. Chinese stocks have recently performed particularly well as a result of the announced stimulus package, but it remains to be seen whether this will lead to a sustained positive performance of Chinese equities. This depends, among other things, on the development of the Chinese real estate market, but also partly on the outcome of the US election. Should Trump stir up sentiment against China with threats of a trade war, this could certainly be detrimental to Chinese equities. India, on the other hand, appears less exposed and continues to impress with strong economic growth and above-average earnings growth.



B O N D S

SYNCHRONIZED DECLINE OF SHORT-TERM YIELDS AND INVERSION

BY CHRISTOPH JUNG

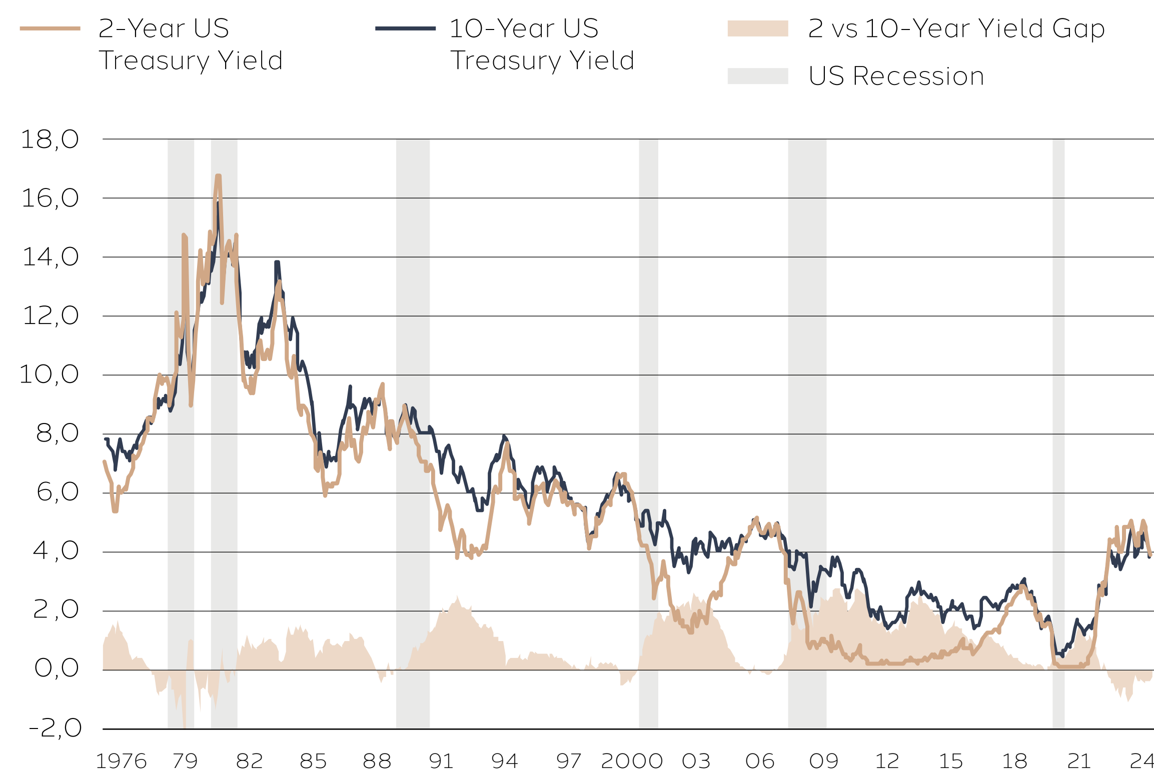
In the third quarter, a movement in the bond markets was observed in line with expectations of a loose monetary policy. The inflation rates continued to move towards the widely used target mark of 2%, while macroeconomic data indicated that growth momentum presented a mixed picture. In Europe, the stagnation of the German economy was a cause for concern, while in the US, the rise in the unemployment rate and its trend were a thorn in the side of the Federal Reserve (Fed). Due to these signals, the market anticipated several and especially larger interest rate cuts in most advanced economies, leading to a synchronized decline in short-term yields. In the third quarter, yields on two-year German government bonds fell by 75 basis points (bps), French bonds by 80 bps, Italian bonds by 100 bps, and US government bonds even by 110 bps.

This macroeconomic environment also exerted downward pressure on long-term yields, albeit to a more moderate extent. Consequently, negative term spreads in advanced economies continued to shrink and even turned positive in some countries, meaning that the curve inversion was eroded by a so-called "bull steepening." This was historically significant, as it marked the end of the longest inversion of the US yield curve, lasting over 790 days, as shown in Figure 1. By the end of September, the yield on ten-year US Treasuries at 3.78% was slightly above the yield on two-year government bonds at 3.64%. In Europe, the easing cycle

had already begun earlier, and a similar development was observed in the third quarter. For example, the yield difference between two-year and ten-year German government bonds has been continuously shrinking since May and ultimately turned positive by the end of September. Finally, it seems that a term premium is being re-established.

The direction seems clear

Of course, an important driver was market expectations regarding possible actions by central banks based on progress in combating inflation. The Fed held its key interest rate steady at 5.25–5.5% from July 2023 to September 2024, and the restrictive interest rates have clearly taken effect. The Personal Consumption Expenditures Price Index, favored by the Fed, which has garnered much attention, recently published a value of 2.2% for the month of August, indicating a clear approach to the desired target value of 2%. Core inflation still appears somewhat stickier in the USA, but nonetheless – the market and now also the Fed already saw the necessity for precautionary interest rate cuts in September to counter the anticipated deterioration in the labor market. And it did so with a surprisingly brisk reduction of the key rates by 50 bps. Fed members project a median of two more rate cuts this year and as many as four for 2025, indicating a potentially much faster return to a so-called neutral interest rate.



Historical yield development of 10-year and 2-year US government bonds
Source: Bloomberg, llustration by Bergos AG

The neutral interest rate, or long-term equilibrium rate, is the level at which monetary policy is neither contractionary nor expansionary, i.e., full employment would prevail alongside stable inflation. The majority of FOMC members estimated this level in the last meeting to be in a target range between 2.75% and 3%, which they believe should be reached by 2026. Most market participants expect this level to be reached as early as 2025.

The ECB, in its decision in September, connected to the interest rate turnaround initiated in early summer: For the second time, the Council reduced the current key interest rate, the deposit facility rate, by 0.25 percentage points to currently 3.5%. On the one hand, domestic core inflation could remain higher in many areas due to ongoing price pressures in the service sector, and monetary policy may need to remain restrictive. On the other hand, headline inflation has significantly weakened due to falling energy prices, and given the weak growth, key interest rates should not remain at a high level for too long. Here, too, the market expects some significant moves. A total of seven rate cuts are expected by 2025, including three in 2024.

Appropriate credit risk premiums for highly indebted states

In the traded euro government bonds, the risk assessment of individual countries has noticeably changed. For the first time since the financial crisis in 2008, as of the end of the third quarter, the yields on 10-year French bonds stand at the same level as those of Spain, at approximately 2.9%. Even Portugal, which was rescued during the crisis within the Eurozone, has exhibited lower yields than France since June. On the one hand, Portugal has demonstrated great discipline and achieved the highest budget surplus since the country returned to democracy 50 years ago. On the other hand, France has generated considerable uncertainty at both political and economic levels. Generally, the rise of populist parties is associated with increased scepticism regarding the implementation of budget cuts required by the EU or other regulators. They often even publicly campaign in favor of less sustainable additional spending and tax cuts. There are currently several examples that point in this direction, including the USA. In the USA, it is currently likely that the 'America First' mantra will endure with either a Harris or a Trump presidency and will be accompanied by a budget deficit. In the eyes of politicians, the level of national debt is no longer an obstacle to fiscal stimulus, regardless of which party they belong to. Currently, national debt as a percentage of GDP is just over 120%, and the IMF has pointed out in its latest report that such a comprehensive budget deficit and debt level pose a growing risk to the US economy and ultimately also for investors. It is quite conceivable that the market will recalibrate risks in the future due to the increased debt burden and price these into the traded credit risk premiums. In addition to the price pressure from the '3-Ds' deglobalisation, decarbonisation and demographics, we therefore see forces in the yield curve that argue for higher interest rates for individual countries in the long term, particularly at the long end of the curve. To benefit from the anticipated shift in the yield curve, we consider risk-adjusted positions in shorter to medium maturities to be the most suitable. We believe that there will be a continuation of "bull steepening" in both the EUR and USD markets, with short-term interest rates moving southward faster than long-term rates. Furthermore, we see increasingly less potential in government bonds with long or very long maturities. Therefore, we have also tactically adjusted our positioning, which has been in place since November 2023 with increased duration, to an overall neutral stance.

Soft landing likely – bonds with good hedging properties

Despite the slowdown in the labor market, we are currently less concerned about the risk of a recession in the USA. We know that the Fed and other central banks have a variety of tools at their disposal to stimulate growth again. Therefore, we currently see the probability of a strong global widening of credit risk premiums as rather low. Nevertheless, it is worthwhile to weigh credit and interest rate risks against each other and remain selective. We aim to avoid the weaker part of the credit market in favor of companies with good credit quality, i.e., those with fundamentally healthy, manageable debt levels and sustainable business models. We want to invest in companies capable of bearing the higher refinancing costs even in the face of weaker growth. In this way, we construct a portfolio that has the potential to generate attractive returns independent of the development of the yield curves. From a relative return-risk evaluation perspective, investment-grade bonds have appeared more attractive than high-yield bonds for some time. Additionally, we assess the growth prospects of most emerging markets as relatively robust compared to developed countries, while central banks there have begun cutting interest rates early and are now also receiving "support" from a depreciating USD. Compared to other credit markets, emerging market bonds remain attractive.

Recent market fluctuations, such as those in early August, demonstrate the hedging properties of bonds that are particularly relevant in the current environment. The diversification offered by an actively managed global bond allocation has the potential to achieve attractive returns and capital gains relative to the risk taken. We believe bonds still offer attractive opportunities at these entry levels.

ALTERNATIVE INVESTMENTS

GOLD IS SHINING BRIGHT

BY OLIVER WATOL

Gold has surged more than 28% this year, reaching a record of more than US-Dollar 2,600 per troy ounce. With this, the price of the precious metal has doubled since 2019, with a notable acceleration in its increase during the last two years. As stated in previous publications, especially the move higher in 2023 was rather exceptional and unexpected, given that rising US real interest rates, a slowdown in inflation and a strong dollar have historically been observed as headwinds for gold. However, purchases by predominantly emerging market central banks concerned about US financial sanctions have bolstered demand and can be held accountable for the perceived disconnect between gold prices and US interest rates. Additionally, factors including safe-haven demand due to geopolitical tensions and conflicts in the Middle East and Ukraine, global economic uncertainty and the most recent support by the Fed's path to monetary easing have influenced the price of gold. Looking ahead, the investment outlook for gold remains positive, with expectations of continued strength in the market reflecting the convergence of several supportive factors.

Central bank activity: The tripling in central bank purchases since mid-2022, driven by fears about financial sanctions, seems structural and will likely continue to act as a floor for the gold price. Countries such as China and Russia have notably increased their gold reserves, signaling a desire to diversify away from USD-denominated assets. With ongoing

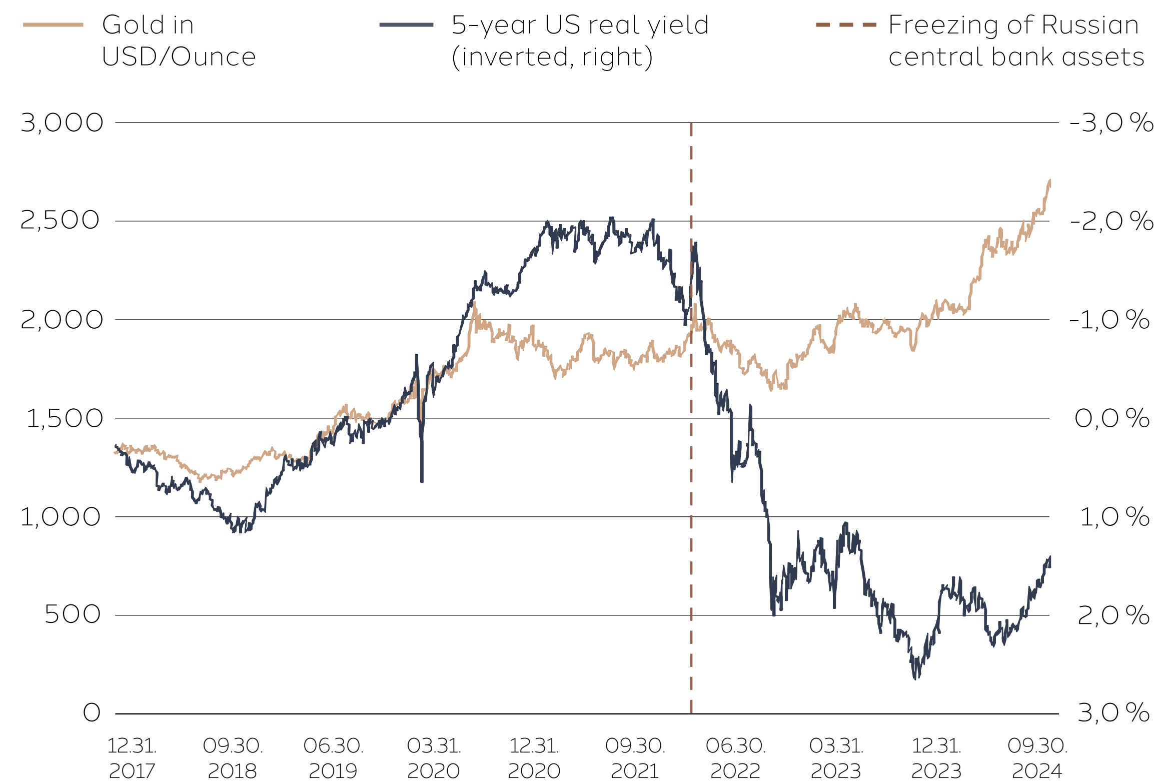
Western sanctions and the increasing focus on de-dollarization, particularly among BRICS nations, the sustained demand should provide a consistent layer of support for gold.

Monetary policies and interest rates: Following the Federal Reserve's first 50 basis-point rate cut since March 2020, further rate cuts will likely bring Western investors back into the gold market and capital back into Gold ETFs, after largely being absent during the metal's sharp rally over the past two years.

Geopolitical risks and shocks: The Russia-Ukraine war, which began in February 2022, has been a significant driver of volatility in global markets. Gold's historical role as a hedge against geopolitical instability has reinforced its attractiveness, particularly in an environment where other assets, such as equities, have faced heightened volatility.

Interest rate trends, alongside central bank demand and ongoing political risks, are likely to continue driving gold's appeal. Gold should therefore be considered a vital component of a diversified investment portfolio, not only for its traditional benefits but also for its potential to deliver significant returns in a complex global economic environment.

The perceived disconnect between gold prices and US interest rates is due to gold purchases by predominately EM central banks concerned about financial sanctions.



Gold vs. 5-year US real rates
Source: Bloomberg, Bergos, Data as of 09/30/2024

Convertibles offer stability in selloffs
The past quarter, despite being volatile, proved to be favorable for the global convertible bond market. Convertibles temporarily sold off at the start of August but recovered quickly as fears subsided and were subsequently supported by the Fed's rate cut decision in mid-September. During this time, convertible bonds demonstrated resilience and emerged as stable performers. Ultimately, global convertible bonds generated positive total returns during the 3rd quarter of 2024, as well as since the start of the year. The Refinitiv Qualified Global Convertible Index in EUR is up over 6% as per the end of September on a year-to-date basis. The convertible bond market continues to present a unique and attractive asset class for investors, particularly in the current volatile environment.

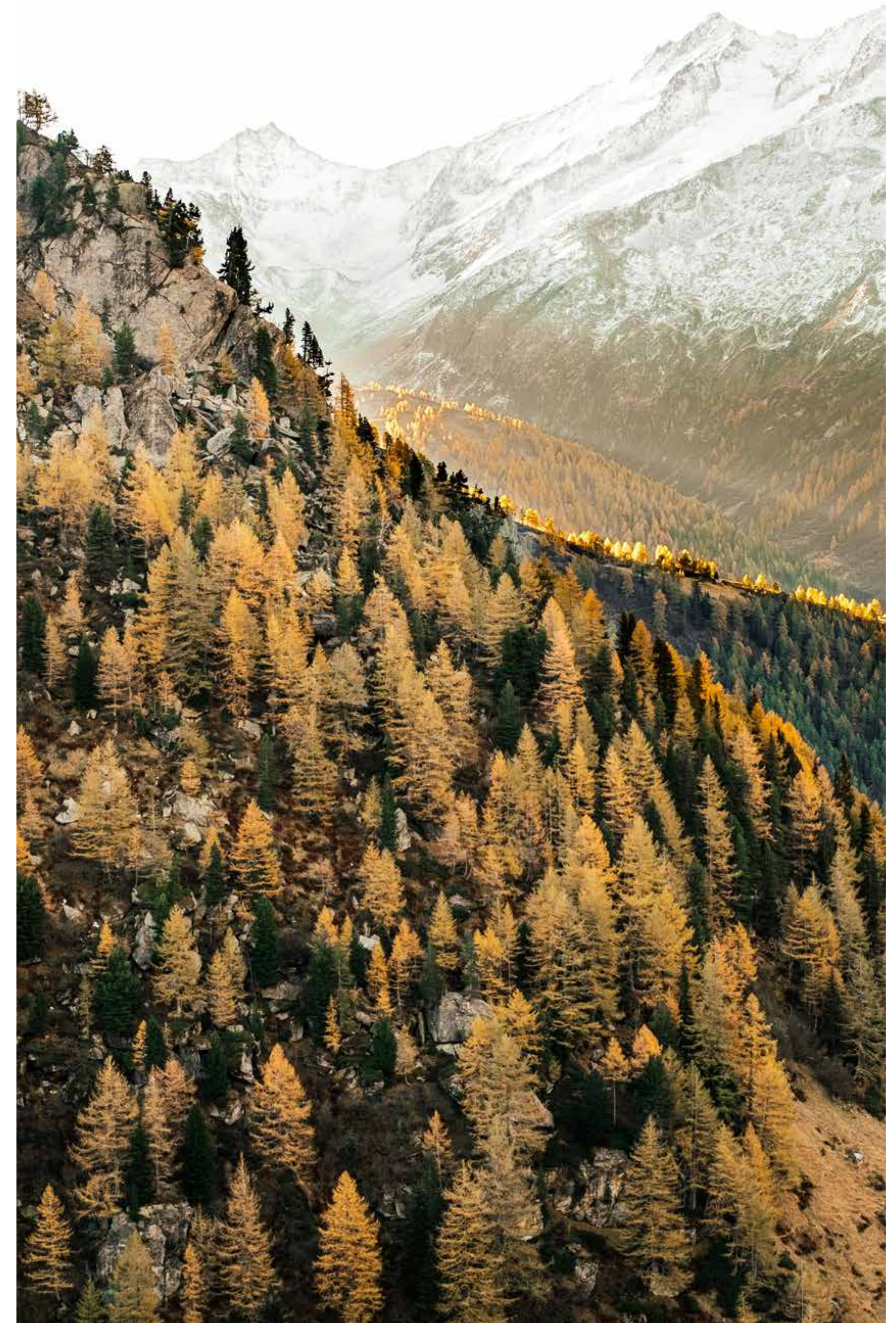
As we move through the last quarter of 2024, we remain constructive on the global convertible bond market. We therefore maintain our overweight position, recognizing their unique ability to offer equity-like returns while providing downside protection through their bond component. This combination makes them particularly appealing during periods of market volatility. In today's landscape of persistent macroeconomic uncertainties – such as geopolitical tensions and inflationary pressures – holding investments that not only present growth opportunities but also offer a cushion against setbacks is essential. The market conditions this year have been especially favorable, with a notable increase in issuance providing improved pricing and convexity. Additionally, the uptick in M&A activity could further bolster returns for convertible bond investors. Furthermore, secular growth trends in areas like artificial intelligence (AI), healthcare, and e-commerce continue to fuel innovation and value creation. Many convertible bond issuers are key players in these sectors, enabling investors to participate in these high-growth opportunities while benefiting from downside protection. In summary, convertible bonds remain a compelling investment choice in today's unpredictable markets, offering both growth potential and risk mitigation, and continue to be a central component of our recommended portfolios.

Alternative credit markets on the rise
The market for alternative credit is proving to be one of the most attractive segments, even in the current economic environment. In particular, stricter regulatory requirements and the withdrawal of traditional banks mean that companies are increasingly turning to alternative sources of financing. These developments are increasing the importance of investments in this area, as they meet the growing demand for loans beyond traditional bank financing.

Investors benefit from an advantageous negotiating position and attractive conditions. In addition to structural growth, the segment is particularly attractive due to the high carry and the expected attractive returns. Compared to other asset classes, the absolute return stands out positively. The current interest rate level is a challenge for many companies that require refinancing. The interest burden could affect the sustainability of debt and lead to higher probabilities of default. However, major rating agencies expect only a moderate increase in default rates, as many refinancing requirements are spread over a longer period of time, mitigating acute stress situations.

The risks are distributed differently depending on the sector and company, which makes a selective investment strategy advisable. Nevertheless, the alternative credit market remains promising, especially as a diversifier in multi-asset portfolios. The interest premium over traditional bonds also remains attractive due to recent interest rate cuts. Since the

beginning of the year, investors have benefited from the high spreads in the CLO segment and the subsequent narrowing of spreads, which added significant price gains to current interest payments. We consider this development in the CLO segment to be advanced, which means that other segments are moving into focus due to their greater relative attractiveness. Increased attention must now be paid to asset-backed categories and mortgage-backed security structures, which offer interesting opportunities due to historically high spreads.



C U R R E N C I E S

VOLATILITY ON THE CURRENCY MARKETS IS EXPECTED TO INCREASE FURTHER IN THE SHORT TERM

BY STEFFEN KILLMAIER

The usually quiet summer months were anything but quiet this year. Both monetary policy and geopolitics influenced the currency markets in the third quarter. After the Swiss National Bank (SNB) and the European Central Bank (ECB) had already initiated the interest rate cutting cycle, the US Federal Reserve (Fed) and the Bank of England (BoE) followed suit in the past quarter and lowered key interest rates. Central banks' further action remains crucial and continues to depend heavily on inflation and economic data in the coming months. These can quickly steer market participants' expectations in one direction or another.

In terms of (geo)politics, things did not calm down over the summer months either. Quite the opposite. The conflict in the Middle East escalated, and the region is increasingly turning into a powder keg. In addition, the US narrowly avoided a major political catastrophe after the assassination attempt on Donald Trump, and the next headline came shortly afterwards with Joe Biden's withdrawal from the presidential race. These uncertainties influenced the currency markets and supported the safe-haven currencies in particular, especially the Swiss franc.

The US Federal Reserve initiates the rate cutting cycle with an aggressive move

In the US, falling inflation and a cooling labor market over the summer months led investors to price in an earlier and more aggressive interest

Development of the EUR/USD exchange rate
Source: Bloomberg, Bergos, Data as of 09/30/2024

rate turnaround by the Fed. In September, the time had finally come and the Fed initiated the long-awaited interest rate cutting cycle. While the market was firmly expecting a rate cut, the significant move of 50 basis points came as a surprise to many market participants. This monetary policy development created headwinds for the US dollar in recent months, which depreciated significantly against the European single currency. Even if the monetary policy environment does not speak in favour of the US dollar in the coming months, we assume that, at the current level, much has now been priced in from a central bank policy perspective. Accordingly, we consider the further downside risk for the US dollar to be limited.

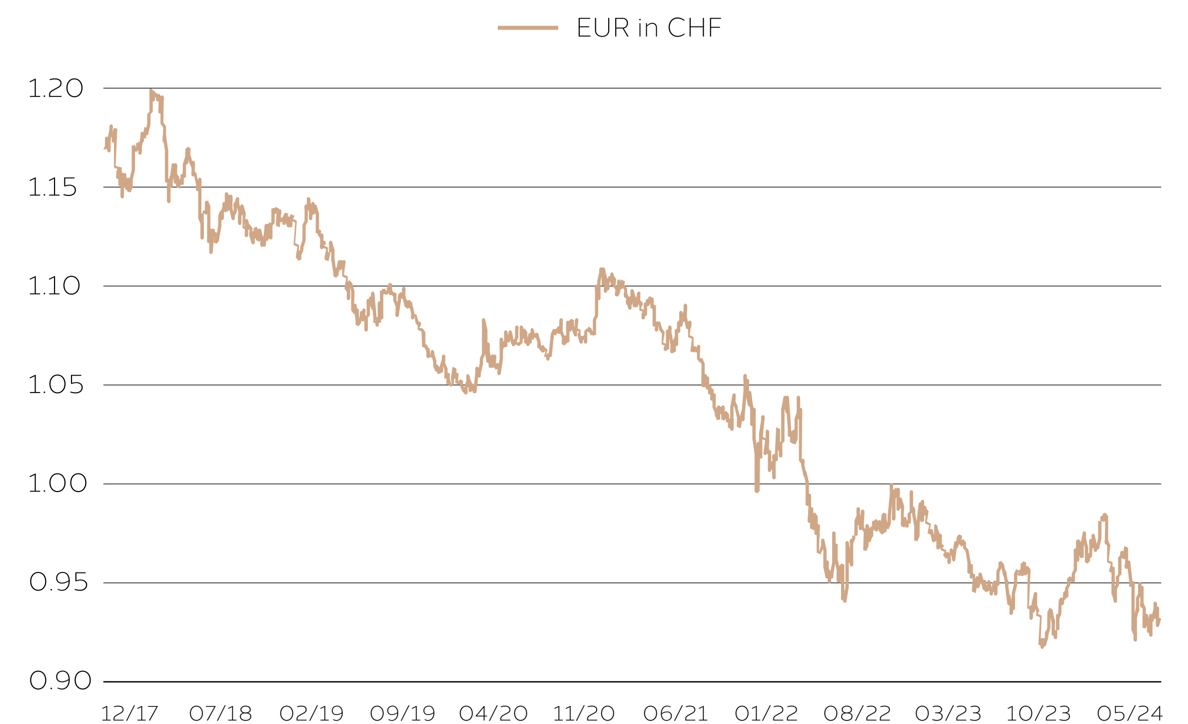
In the eurozone, the economic outlook has deteriorated further in recent months. The anticipated economic upturn has failed to materialise so far. In September, the Purchasing Managers' Index for the eurozone fell into contractionary territory. Germany, in particular, is increasingly becoming a burden for the eurozone. The economy's hopes are now also pinned on the interest rate cuts by the ECB, which lowered key interest rates again by 25 basis points in September. This environment does not favour an appreciation of the European single currency in the coming months. We have recently neutralised our slightly positive long-term outlook for EUR/USD and now expect the currency pair to move sideways on both a 3-month and 12-month horizon.

However, the geopolitical uncertainties must continue to be monitored closely. The situation in the Middle East, in particular, is highly dangerous. In addition, the US presidential elections are approaching and could lead to increased volatility in the short term. With the candidacy of Kamala Harris, the race for the presidency is once again completely open. In general, there is a greater risk of major political changes in the event of a Republican victory, which could increase volatility on the currency markets and tend to strengthen the US dollar.

The Swiss National Bank is attempting to weaken the franc

After the Swiss franc tended to weaken in the first half of the year, it has appreciated significantly again since the summer. The Swiss currency benefited primarily from its function as a safe haven amid the global (geo-)political uncertainties described above. At the current level, however, we do not expect any further noticeable appreciation of the Swiss franc. The stronger Swiss currency is a growing burden for export-orientated companies in Switzerland. We expect the Swiss National Bank to increasingly intervene in the currency market if the franc appreciates further. In addition, the SNB lowered key interest rates for the third time in a row in September, after being the first major central bank to initiate the turnaround in interest rates in March. The main reason for the further interest rate cut is likely to have been the strong Swiss currency. Further rate cuts have also been announced.

However, due to Switzerland's economic and political stability, the Swiss franc is expected to remain in demand in the future. Geopolitical uncertainties are likely to keep us busy for some time to come, and the upcoming US presidential elections suggest increased volatility in the coming months. This environment, along with the recent disappointing economic data from the eurozone, recently prompted us to



Development of the EUR/CHF exchange rate
Source: Bloomberg, Bergos, Data as of 09/30/2024

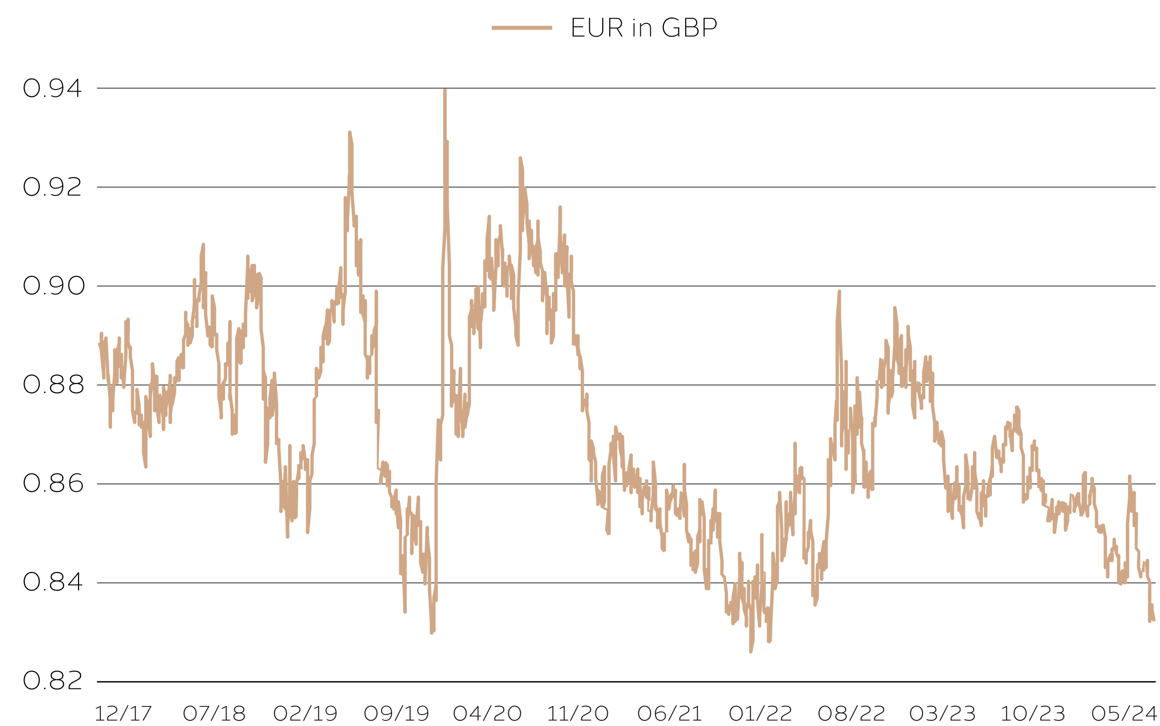
neutralise our positive 12-month outlook for the EUR/CHF currency pair. We now expect neither a strong appreciation nor depreciation of the euro against the Swiss franc in the short and long term.

The British economy surprises to the upside

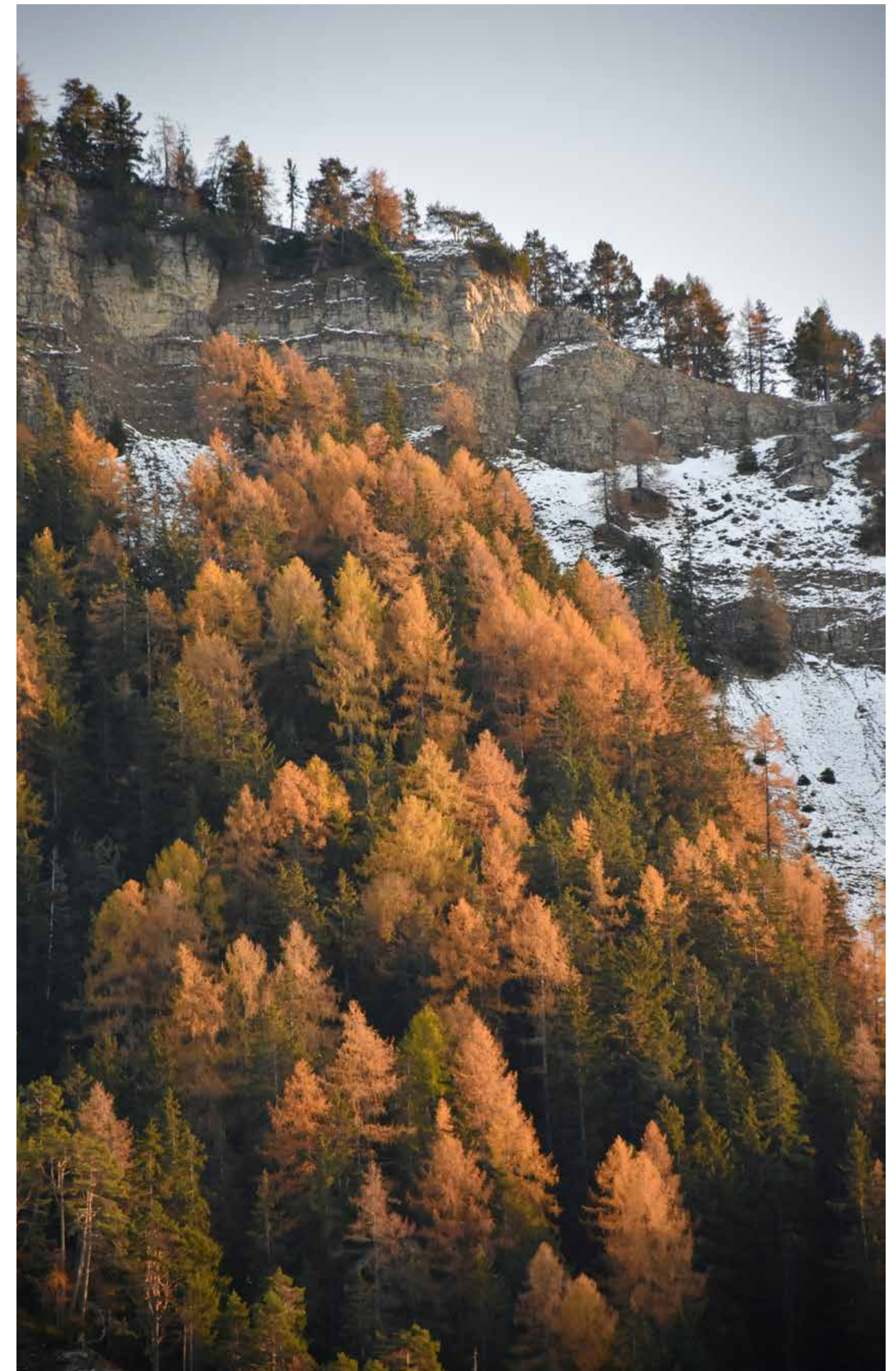
While the economic upturn in the eurozone is proving to be extremely sluggish, the UK has surprised with positive economic data in recent months. Most recently, the published Purchasing Managers' Index pointed to continued expansion in both the manufacturing and service sectors. In contrast, the index in the eurozone recently fell below the growth threshold, reaching an eight-month low. We now expect economic growth in the UK for the coming year to exceed market expectations and outperform that of the eurozone. This should have a positive impact on the British pound in the coming months.

In contrast to the other major central banks, the Bank of England left key interest rates unchanged in September. Inflation in the UK was only slightly above the inflation target of two per cent in August. However, core inflation, which excludes energy and food prices, rose noticeably. Due to the positive economic development and higher core inflation, we expect only one further interest rate cut by the BoE this year.

The surprisingly positive economic data and the Bank of England's rather hesitant behaviour compared to the other major central banks recently prompted us to change our positioning on the EUR/GBP currency pair. Having been neutral on the currency pair for some time, we now expect the British pound to appreciate against the European single currency in both the short and long term.



Development of the EUR/GBP exchange rate
Source: Bloomberg, Bergos, Data as of 09/30/2024



T O P I C

T O P I C

IN FOCUS: US PRESIDENTIAL ELECTION

BY DR. JÖRN QUITZAU

Breaking taboos – this was in vogue when Donald Trump became president of the United States of America in 2017. With his "America first" policy, the trade war with China and other trade conflicts, Donald Trump ushered in a new era. The global financial crisis had already raised doubts about the liberal global economic order. At the time, however, the criticism was mainly directed at the globally connected financial markets and their temporary excesses. With Donald Trump's presidency, the globalization of the real economy also came under fire. His trade policy ideas ushered in a new view of the international division of labor and free trade. Both were no longer seen primarily as the basis for increasing prosperity in the interests of all those involved. In Trump's view, free trade was one thing above all: harmful to American industry and American jobs.

With the pandemic and the Russia-Ukraine war, the focus later shifted to the disruption of supply chains and thus the issue of supply security. Instead of selectively correcting the shape of globalization, the pendulum now swung in the other direction. Trump's trade policy, the pandemic, and the war in Ukraine have led to what is now referred to as deglobalization.

Paradigm shift

The world has experienced a paradigm shift in economic policy that can no longer be associated solely with the name Donald Trump.

Trump broke the taboo at the time, but Joe Biden continued Trump's tough stance against China and its protectionist stance during his presidency. With the "Inflation Reduction Act", Joe Biden also sent a strong industrial policy signal. However, strategic industrial and trade policy to protect the domestic economy is no longer a purely American phenomenon. It is now practiced in many countries, including Europe. "Big government", i.e. a strong influence of the state, is back in vogue.

What happens next? What economic policy can we expect from the two candidates? The unpleasant answer is that, as far as can be foreseen so far, neither Kamala Harris nor Donald Trump will fully rely on the power of market-based solutions. Instead, both want – each in their own way – a continued strong state influence on the economy.

Trade policy: both candidates are protectionist

What Harris and Trump have in common is their protectionist approach. Both would renounce significant parts of the prosperity-boosting free trade – and apparently beyond a level that could be justified for greater security of supply for the country. Despite their shared protectionist stance – new free trade agreements are not expected from either candidate – another term in office for Donald Trump would probably be significantly more dangerous geo-economically and geopolitically than a Kamala Harris presidency. Harris would probably implement protectionist measures in a much more targeted manner than Trump, and she would probably be far more reliable and predictable for friendly states. Trump, on the other hand, has come up with some downright audacious trade policy ideas: he has in mind a general base tariff of 10% on all imports. The tariff on Chinese products should be 60%, and a tariff of 100% could even be imposed on cars.

Migration: Trump's ideas drive inflation and weaken growth

Trump is known for his tough stance on migration. He intends to limit irregular migration and possibly even deport large numbers of migrants. As with many of Donald Trump's announcements, his plans are not easy to implement. Immigrants are an important pillar of the labor market. Their absence would create a gap in the supply of services and in production. According to calculations by the Peterson Institute for International Economics, the US economy could almost stagnate by 2028 in a scenario with massive deportations. Not having immigrants, or even partially expelling them, would also lead to an increase in consumer prices, especially in combination with high import duties.

One effect should not be forgotten: The constant influx of cheap foreign labor permanently puts pressure on wages in the lower wage segment. A shortage in the supply of labor would therefore have a potentially wage-increasing effect for domestic workers. It is possible that this aspect of distribution policy in the battle for votes is at least a side effect of Trump's migration policy ideas.

Tax policy: big differences between the candidates

There are major differences between Donald Trump and Kamala Harris when it comes to tax policy. Trump intends to make the tax cuts passed during his term of office as part of the "Tax Cuts and Jobs Act" permanent; otherwise they would end in 2025. Corporate tax should be reduced even further if possible. Kamala Harris, on the other hand, intends to raise the corporation tax rate from the current 21% to 28%. She would also increase taxes for high incomes and the wealthy in order to finance redistribution with the additional revenue. Harris also intends to increase distributive justice through price caps – for example on food.

There is a weakness in the economic policy concepts of both parties and candidates: they underestimate the behavioral effects associated with the measures they propose. Higher tax rates often do not lead to correspondingly higher tax revenues because taxpayers react by avoiding them. And higher customs duties do not lead to correspondingly higher customs revenues because the volume of trade decreases as a result of the levying of customs duties. However, this also means that one of Donald Trump's ideas is built on sand, namely, to replace federal income tax with higher customs revenue. The calculation would not work out.

Fiscal policy: higher debt foreseeable

The programs and projects of Kamala Harris and Donald Trump can only be financed with high annual budget deficits of probably more than 5% of GDP. This is positive for the business cycle. However, this means that US government debt is likely to rise further. Financial market players will charge risk premiums for the associated risk in the long term. Higher market interest rates are therefore likely. At a certain point, financing the national debt might become a problem for the US government. The Fed will then find itself in a dilemma again and will have to loosen its monetary policy, possibly by buying government bonds again.

An overly expansive fiscal policy will force the central bank to take measures that it would not take under regular circumstances ("fiscal dominance"). Monetary policy thus indirectly loses some of its independence without politicians having to exert any direct influence. This "fiscal dominance" is the real threat to the independence of US monetary policy. Donald Trump's plan to have a say in monetary policy decisions as president is fundamentally problematic. However, this plan to restrict the independence of the central bank de jure would be difficult to put into practice thanks to institutional precautions. However, with a lax fiscal policy and thus rising debt, the independent actions of the central bank would de facto be in danger.

Conclusion

The economic policy concepts of both candidates should be viewed critically from an economic perspective – albeit for different reasons in some cases. For Kamala Harris, it is the tax policy approach; for Donald Trump, it is the combination of tighter trade policy, restrictive migration policy, and political influence on monetary policy.

Calculations by the Peterson Institute for International Economics show that the implementation of Donald Trump's plans – higher tariffs, mass deportations, and political influence on the US Federal Reserve – is likely to lead to significantly less employment, significantly less growth and significantly more inflation. It is hard to imagine that Trump's economic advisors do not see the serious negative consequences of such an economic policy. In this respect, the plans announced during the election campaign are likely to be implemented only to a very limited extent.

The debt-driven fiscal policy represents a long-term challenge for the USA and, therefore, also for the global financial system. In the short and medium term, however, the deficits will initially continue to strengthen the economy.

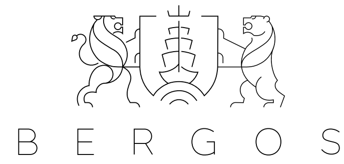
Finally, some positive news: on November 5, not only will the US president be elected, but congressional elections will also take place. It currently looks as though there will be a split Congress – the Democrats are favorites for the House of Representatives, and the Republicans favorites for the Senate. In order to push through their own plans undiluted, Kamala Harris or Donald Trump would need a majority in both chambers of Congress. As it currently looks like a divided Congress, there is a good chance that the economic policy changes will ultimately only be moderate.

BERGOS VIEW

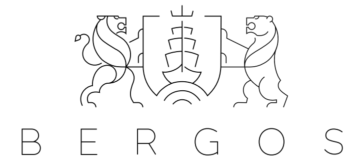
BANK VIEW	--	-	0	+	++
EQUITIES	○	○	●	○	○
NORTH AMERICA	○	○	○	●	○
CONSUMER DISCRETIONARY	○	○	○	●	○
CONSUMER STAPLES	○	●	○	○	○
ENERGY	○	○	●	○	○
FINANCIALS	○	○	○	●	○
HEALTH CARE	○	○	●	○	○
INDUSTRIALS	○	○	○	●	○
INFORMATION TECHNOLOGY	○	○	●	○	○
MATERIALS	○	○	●	○	○
REAL ESTATE	○	●	○	○	○
COMMUNICATION SERVICES	○	○	●	○	○
UTILITIES	○	○	●	○	○
EUROPE	○	○	○	●	○
CONSUMER DISCRETIONARY	○	○	○	●	○
CONSUMER STAPLES	○	●	○	○	○
ENERGY	○	○	●	○	○
FINANCIALS	○	○	○	●	○
HEALTH CARE	○	●	○	○	○
INDUSTRIALS	○	○	●	○	○
INFORMATION TECHNOLOGY	○	○	○	●	○
MATERIALS	○	○	●	○	○
REAL ESTATE	○	○	●	○	○
COMMUNICATION SERVICES	○	●	○	○	○
UTILITIES	○	○	●	○	○
JAPAN	○	●	○	○	○
EMERGING MARKETS	○	●	○	○	○

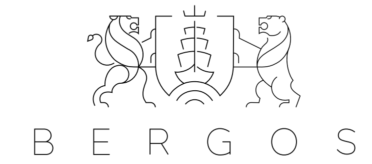
	--	-	0	+	++
FIXED INCOME	○	○	○	●	○
DENOMINATION US DOLLAR	○	○	●	○	○
DURATION	○	○	●	○	○
SOVEREIGNS	○	○	●	○	○
CORPORATES NON-FINANCIAL	○	○	●	○	○
CORPORATES FINANCIAL	○	○	●	○	○
SENIOR	○	○	●	○	○
SUBORDINATED DEBT	○	○	●	○	○
CORPORATE HIGH YIELD	○	●	○	○	○
DENOMINATION EURO	○	○	●	○	○
DURATION	○	○	●	○	○
SOVEREIGNS	○	○	●	○	○
CORE	○	○	●	○	○
PERIPHERAL	○	○	●	○	○
CORPORATES NON-FINANCIAL	○	○	●	○	○
CORPORATES FINANCIAL	○	○	●	○	○
SENIOR	○	○	●	○	○
SUBORDINATED DEBT	○	○	●	○	○
CORPORATE HIGH YIELD	○	●	○	○	○
EMERGING MARKETS	○	○	○	●	○

	--	-	0	+	++
ALTERNATIVE INVESTMENTS	○	○	●	○	○
COMMODITIES	○	○	●	○	○
ENERGY	○	○	●	○	○
INDUSTRIAL METALS	○	○	●	○	○
PRECIOUS METALS	○	○	●	○	○
HEDGE FUND STRATEGIES	○	●	○	○	○
LONG / SHORT	○	●	○	○	○
RELATIVE VALUE	○	○	○	●	○
MACRO	○	○	●	○	○
EVENT-DRIVEN	○	○	●	○	○
CONVERTIBLES	○	○	○	●	○
ALTERNATIVE CREDIT AND PRIVATE DEBT	○	○	○	●	○
REAL ESTATE	○	○	●	○	○



This publication only serves information and marketing purposes. The information provided is not legally binding and does not constitute a financial analysis, nor a sales prospectus, nor an offer for investment transactions, nor asset management, nor investment advice, and is not a substitute for legal, tax, or financial advice. Bergos AG (referred to hereinafter as "Bergos") reserves the right to change the offering of services and products, as well as prices, at any time without prior notice. Bergos assumes no responsibility for the topicality, correctness, or completeness of the information. Bergos refuses any and all liability for the realization of the forecasts or other statements concerning returns, price gains or other asset appreciation contained in this publication. This publication was not prepared in compliance with the Directives on the Independence of Financial Research and is also not subject to the prohibition of trading after the dissemination of financial research. The investment suggestions and investment ideas stated herein have not been tailored to your personal circumstances. Investment decisions should always be made on the basis of a given portfolio and consideration should always be given to your personal situation, risk appetite and risk tolerance. Because investment suggestions and investment ideas can exhibit different risk characteristics, we ask that you read the specific product information and brochure entitled "Risks Involved in Trading Financial Instruments" and consult your client advisor if you have any questions. It is possible that Bergos itself or its directors or employees have invested, currently invest, or will invest in investment instruments concerning which this document contains information or opinions. It is also possible that Bergos has provided, currently provides, or will provide services to the issuers of such investment instruments. It can also not be ruled out that employees or directors of Bergos have worked, currently work, or will work for the issuers of such investment instruments. Therefore, Bergos itself or its directors or employees could have an interest in the future performance of investment instruments. This information is only intended for use by the recipient and may not be forwarded to third parties. The present information may not be copied in part or in full without the written consent of Bergos.





COPYRIGHT
BERGOS AG

ALL RIGHTS RESERVED
ZURICH, OCTOBER 2024

Editor
Maximilian Hefele, CFA
Deputy Chief Investment Officer
and Head of Asset Management

Authors
Maximilian Hefele, CFA | Deputy Chief Investment Officer
Till Christian Budelmann | Chief Investment Officer
Frederik Carstensen | Equity Strategist
Dr. Jörn Quitzau | Chief Economist
Christoph Jung CIIA, FRM | Bond Strategist
Oliver Watol | Alternative Investments Strategist
Steffen Killmaier | Currency Strategist

Managing Editor
Sarah Thalmann | Head of Communications

BERGOS AG

HEADQUATERS
Kreuzstrasse 5
8008 Zurich · Switzerland

Phone +41 44 284 20 20

GENEVA OFFICE
29, Quai du Mont-Blanc
1201 Geneva · Switzerland

Phone +41 22 308 59 00

www.bergos.ch
info@bergos.ch