ZURICH
12/2024

MARKET COMMENTARY

BERGOS
PRIVATE BANK

TILL C. BUDELMANN

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. Budelmann is a member of the bank´s executive committee and heads the investment committee.

2025 MARKET OUTLOOK: TRUMP'S POLICIES SHOULD BE SUPPORTIVE FOR US EQUITIES

After a very good year for equities so far in 2024, Till Budelmann, Chief Investment Officer of the Swiss private bank Bergos, sees good opportunities for further gains on the equity markets in 2025. The US market in particular could deliver total returns in the high single-digit range thanks to the fairly stable economy and the expected market-friendly policies of the incoming President Donald Trump. Bonds, which have become relatively more attractive from a valuation perspective, can also make a positive contribution to the portfolio. As an alternative component, convertible bonds promise attractive returns.

“Bergos has always been very positive about US equities. The outcome of the US elections allows us to maintain our long-standing overweight position,” says Bergos CIO Till Budelmann. Republican Donald Trump prevailed in the presidential elections in November and his party was able to secure a majority in both chambers of Congress. This “red sweep” enables Trump to largely force policies through. However, there are also traditional Republicans in the Senate and House of Representatives who should at least maintain the checks-and-balances system somewhat.

After the change of presidency, lower taxes can be expected, which will benefit US companies. “The expected deregulation will have an even stronger effect than the tax cuts. Even during his first term in office, deregulation measures were good for the US economy,” says Budelmann. However, he also points out that the banking crisis in the US in spring 2023 was due to this very deregulation. Another positive development for the capital markets is the nomination of former hedge fund manager Scott Bessent as future Treasury Secretary. On the other hand, Trump's plans around the topic of trade, in particular his tariff policy, are less beneficial. This is likely to be particularly negative for growth in other countries. However, the inflationary effects of the tariff policy would also affect American companies and consumers.

KREUZSTRASSE 5
8008 ZÜRICH, SCHWEIZ
T +41 44 284 20 20
BERGOS.CH

Equity markets: expectations for 2025

“All of these points together – lower taxes, deregulation, a market-friendly Treasury Secretary – create a favorable environment for US equities,” says Budelmann. He expects that going forward it will no longer be just a few stocks that will account for the majority of the performance, but that the market will gain breadth. Second-tier stocks are also likely to catch up. “We decided on election night to add a broad US small caps investment to the existing stocks in our client portfolios and have already been able to benefit from the upward trend,” says Budelmann. At sector level, he sees one beneficiary in particular: US financial stocks, especially US banks.

The Bergos investment specialists expect a total return of 5 to 12.5% for the US S&P 500 equity index in 2025. The main contribution is expected to come from earnings growth of 7 to 12%. On the valuation side, they expect a headwind (-3 to -1 percentage points), with the current price/earnings ratio (PE) of well over 20 suggesting valuation contractions. The dividend yield should be between 1% and 1.5%.

Bergos is less convinced about other equity markets. Equities from the emerging markets and Japan are underweighted, while European equities are neutrally weighted. For Europe (Stoxx 600 Index), the Bergos forecasts for total returns in 2025 are significantly lower than for the US at 0 to 7.5%. Profits are likely to stagnate here. The forecasted earnings growth is -2.5 to +2.5 percent. However, the PE ratio for the Stoxx 600 is comparatively low at around 15 and leaves room for valuation expansion, which could contribute 0 to 2 percentage points to total returns. Added to this is a dividend yield of 2.5 to 3%.

Economic growth and interest rate policy: outlook for 2025

The different equity forecasts are also due to macroeconomic expectations. “The US economy is more robust than generally perceived. Our growth forecasts are above consensus. We expect growth of 2.6 percent for 2024 and 2.1 percent for 2025,” says Budelmann. Due to the stable economy and the expected slight inflationary effect of Trump's policies, the Bergos experts expect fewer interest rate cuts than the market. By the end of 2025, they expect one to two further cuts of 25 basis points each.

Europe is clearly in a worse position. Within Europe, the eurozone in particular is weakening, including Germany. “Structural problems are slowing economic growth. Overregulation is preventing innovation. Our estimates for GDP growth in the eurozone are only 0.7 percent for 2024 and 1.2 percent for 2025,” says Budelmann. They are even lower for Germany (-0.1 and +0.4 percent). The forecasts for Switzerland and the UK, on the other hand, are above the eurozone average. “The weak economy and political risks are putting pressure on the European Central Bank. It could cut interest rates four more times by the end of 2025,” says Budelmann.

The sword of Damocles of geopolitical unrest hangs over all forecasts, for example in Ukraine and the Middle East, but also China and Taiwan remain an ongoing issue. It also remains to be seen what the early federal elections in Germany at the end of February will bring. The current polls show the conservatives (CDU/CSU) clearly in the lead, but the party will be dependent on one or even two coalition partners. Budelmann is particularly skeptical about a specific coalition: “A coalition of conservatives, social democrats (SPD) and the green party (Bündnis 90/Die Grünen) would be as unpopular as the recent “traffic light” coalition after six months at the latest. From a capital market perspective, that wouldn't be a real change of policy for Germany, the markets don't need that.”

Bonds: gained in relative attractiveness

While equities are neutrally weighted overall in the Bergos portfolios, bonds are overweighted. In the US, bonds have become more attractive than equities from a valuation point of view. The yield gap, the difference between the earnings yield on equities and the yield on ten-year bonds, has narrowed. Following the recent significant rise in bond yields, the equity advantage is now only 0.1 percentage points. The historical average is 2.5 percentage points. The normalization of the yield curve is likely to continue. “In the bond sector, we are focusing primarily on quality at the individual security level. We remain cautious with high-yield bonds. Emerging market bonds, which offer good yields, are promising,” says Budelmann.

Alternatives and currencies: favorable environment for convertible bonds

Convertible bonds are also a promising choice for alternative investments in 2025. “The current conditions offer an excellent environment for this asset class. In addition, they are often issued by smaller or medium-sized companies, for which we currently see improved share price potential, which increases the return prospects of convertibles,” explains Budelmann.

Gold is an integral part of the Bergos portfolios. In recent years, it has been overweight for some time. Following the strong price rally, the position is currently in line with the strategic quota.

Budelmann does not consider it necessary for euro investors to hedge the US dollar risk statically: “We do not believe that the dollar will appreciate significantly against the euro from its current level. We do not expect parity. But the dollar should remain strong. This also applies to the Swiss franc,” says Budelmann.

Bergos AG is an independent Swiss Private Bank focusing on private wealth management. Bergos AG emerged in 2021 with a new shareholder base from its former mother company, the Berenberg Group founded in 1590, and has been serving international private clients and entrepreneurs in the Swiss financial center for over thirty years. Its headquarters are in Zurich with an office in Geneva. The Swiss Private Bank is dedicated to "Human Private Banking" and specializes in wealth management and advisory services. With more than 130 employees, the focus is on providing expert guidance in all known liquid asset classes, as well as in private markets and alternative investments. Following a "beyond money" approach, we also offer expertise in art collecting and philanthropy. For entrepreneurial clients, Bergos AG offers access to M&A and other corporate finance services. Bergos AG offers private clients, entrepreneurs and their families a holistic, cross-generational service that focuses on security, neutrality, internationality and openness to the world.

MEDIA CONTACTS

BERGOS AG
Kreuzstrasse 5
8008 Zurich, Switzerland

Sarah Thalmann
Head of Communications

communications@bergos.ch
www.bergos.ch

GLT Communications
Kommunikationsberatung & PR
Utoquai 37
8008 Zurich, Switzerland

Jörg Röthlisberger
Founder & CEO
Tel: +41 44 396 90 90
Mobile: +41 75 44 88 000
jr@glt-communications.ch