INVESTMENT OUTLOOK
JULY 2023

In the first half of 2023, the international financial markets were characterized by a certain volatility and some market-determining events. On the one hand, we had the banking crisis at the beginning of the year with the purchase of Credit Suisse by UBS and the bankruptcies of Silicon Valley Bank and Signature Bank. On the other hand, we saw many technology stocks, which were a driving force on the stock markets in the first half of the year. In particular, technology stocks related to artificial intelligence posted solid gains. The technology-backed NASDAQ index had its best first half since 1983, while the S&P 500 is up about 20% since its low in October 2022, usually reflecting signs of a bull market.

Inflation concerns accompanied us strongly in the first half of the year. Rising inflation and discussions about possible further interest rate hikes repeatedly led to large fluctuations in the markets, especially in bonds and interest rate-sensitive sectors. The Federal Reserve Board announced at least 2 more interest rate hikes for the second half of the year, as inflation remained above the target level. The European Central Bank (ECB) and the Bank of England (BoE) also announced further rate hikes.

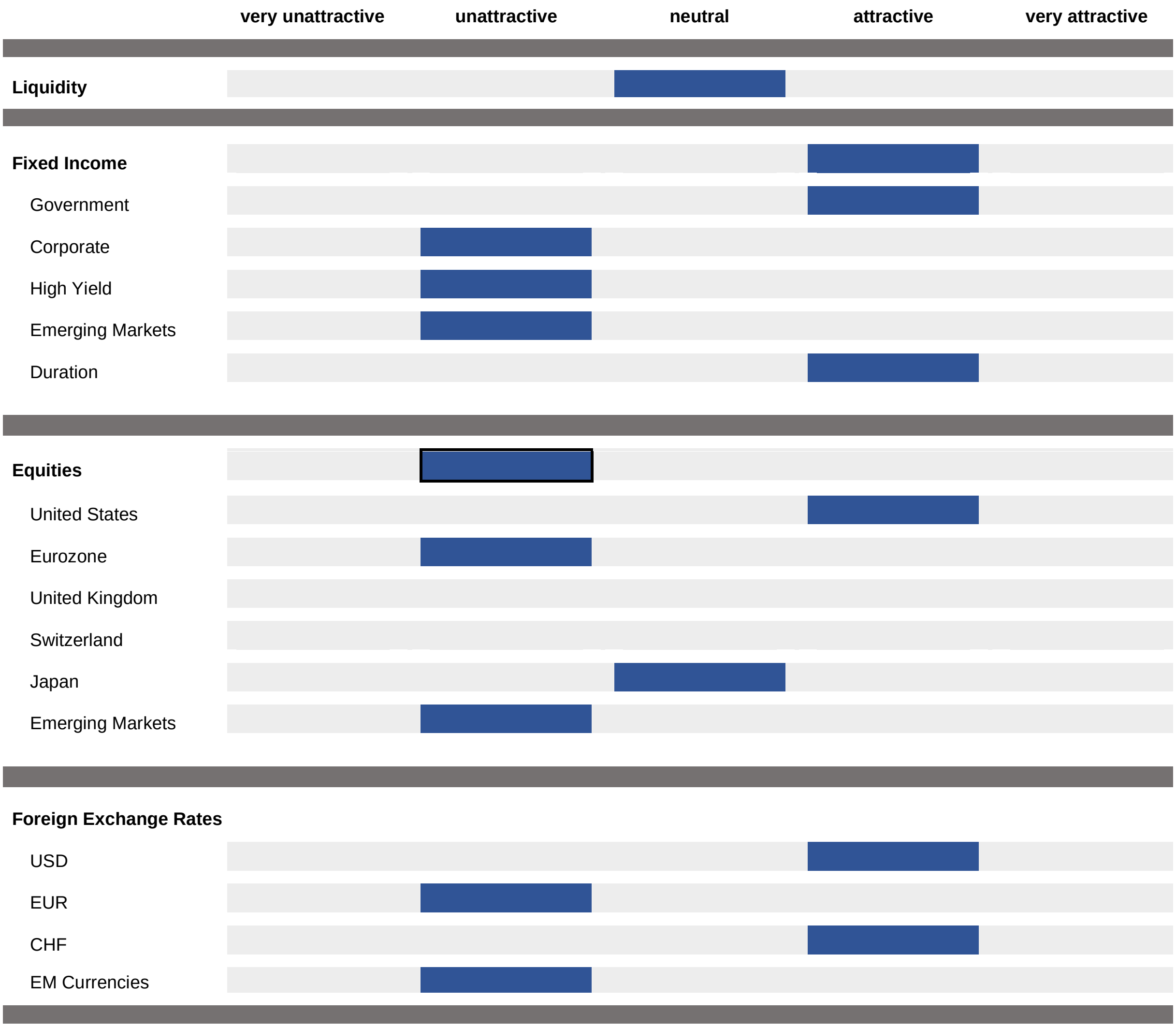
On the geopolitical side, we have Russia's still ongoing war of aggression on Ukraine and the tense situation between the U.S. and China.

Bear market rally or the start of a new bull market - this question is on investors' minds as they look ahead to the second half of the year. Many participants have not fully participated in the rally so far, as the macroeconomic picture was weak at the beginning of the year. The answer to the above question depends very much on what one is looking at. In the past, the index always performed better in the first half of the year (+7%) than in the second half. (+4.6%) In addition, contrary to the assumptions of most investors, the S&P500 is now back at the level it was at the beginning of the Fed's interest rate hikes.

Given the current situation, where inflation in the US remains stubbornly high and economic growth shows no signs of slowing, we expect the slowdown to continue, which will put downward pressure on equity prices.

We therefore continue to recommend a defensive stance with an overweight in government bonds and an underweight in equities and credit.

BENDURA Market Views



The terms attractive / unattractive describe the return potential of the various asset classes. An asset class is considered attractive if its expected return is above the local cash rate. It is considered unattractive if the expected return is negative. Very attractive / very unattractive denote the highest conviction views of the BENDURA Investment Committee. The time horizon for these views is 3-6 months.

Global Economy

The unbroken boom on the labor market in the USA is causing investors to worry about higher interest rates in the long term. Once again, more new jobs were created in the private sector in June than expected. The roughly 500,000 new jobs created are the strongest increase since February 2022 - while economists had assumed around 250,000.

The trade conflict between the US and China is entering the next round. Beijing recently restricted exports of key rare earth metals used to make semiconductors. However, the restriction on exports of gallium and germanium will not apply until August 1, 2023, which we interpret as a clear signal from Beijing to Washington that they are willing to negotiate trade agreements between now and August. However, if the US continues to block access to semi-finished products, China will retaliate.

In June, 209,000 nonfarm jobs were created in the United States. This is significantly less than economists had expected. However, this significantly reduces the probabilities of two rate hikes.

In Europe, we have seen strong economic development in recent weeks. There are several reasons for this. On the one hand, the mild weather, which has eased the energy situation significantly. On the other hand, there are plans for budget support and the resumption of economic activity in China which is supporting Europe. Likewise, the interest rate environment, which seems to be more rational again, should favor companies whose business activities had a greater benefit for the economy in the past.

Equities

June was a difficult month for equity markets. Global equities fell by 8.4% and reached a short-lived low for the year mid-month. On top of ongoing inflation risks, global growth concerns increased further in June. Key interest rates were raised in many countries and the central banks became somewhat more restrictive with their monetary policy.

The question now is: If the economy is heading for a recession, why has the stock market recovered so strongly, or rather, have global share prices risen by around 23% since last October?

Since World War II, stocks have peaked on average six months before the onset of a recession. This means that the stock market could gain strength for a few more months. However, since the onset of a recession is not exactly predictable, the current high, which we see especially in some technology stocks, could also be seen as the end of the current rally.

Moreover, the expansion in the first half of the year was concentrated in only three sectors. These are technology, consumer cyclical and communication services, where the few AI companies are located.

The S&P 500 is trading at a 12-month forward price/earnings ratio of 19.1, well above the 20-year average of 15.8 and 30-year-average of around 16.5. This is hugely inflated by the tech sector, which is trading around 27 times forward earnings.

We therefore recommend that our readers remain cautious and defensively positioned when investing in equities.

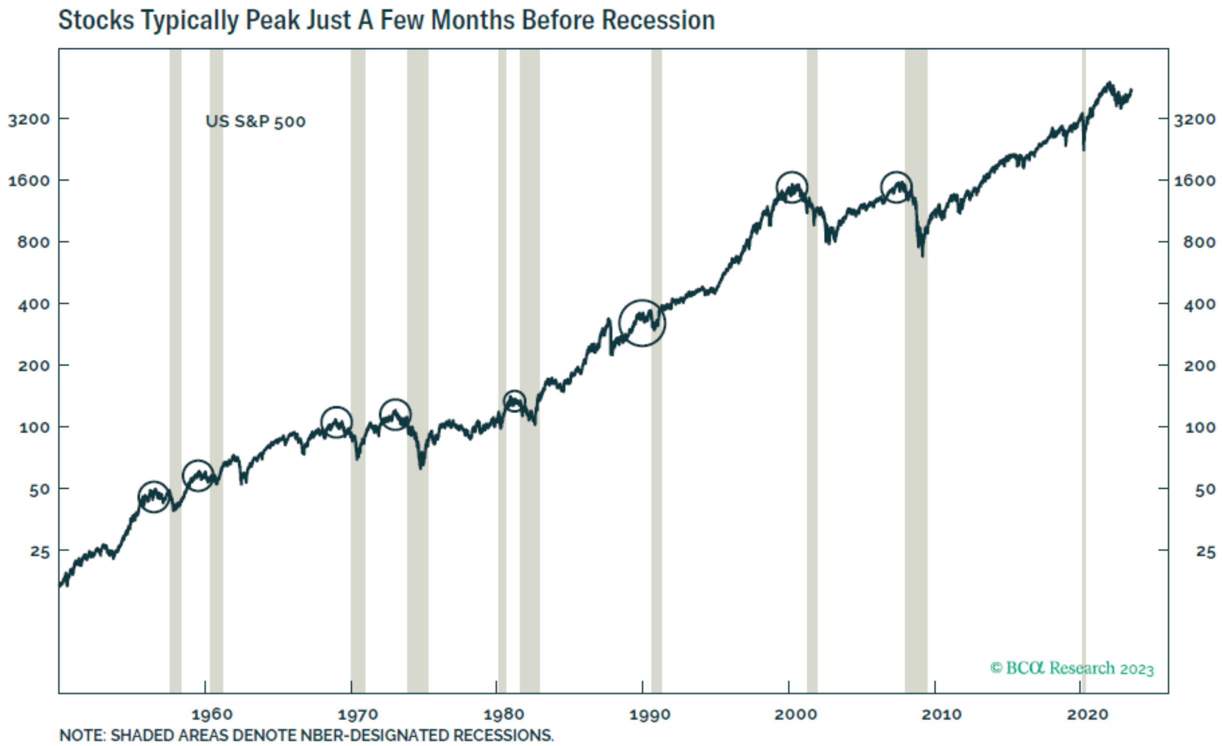


Chart 1: Stocks typically peak just a few months before recession. Source: BCA Research, www.bcaresearch.com

Fixed Income

Since reaching its peak, inflation in the euro area and the USA has almost halved but is still above the 2% target range defined by the monetary authorities.

Although the US Federal Reserve refrained from raising interest rates at its June meeting, it, like the other most important Central Banks in the world, does not yet want to know about an end to interest rate hikes.

The most recently published minutes of the last meeting of the Federal Open Market Committee (FOMC) confirm the earlier statements of the FED members that further interest rate hikes are to be expected. Market participants expect at least two more interest rate hikes in the USA this year and anticipate interest rate cuts at the beginning of 2024.

After the banking crisis in March led to a sharp decline in yields in most government bond markets, yields started to rise again in the second quarter. The yield curve also continued to invert over the quarter, i.e., the yields of government bonds with short maturities are higher than those of longer maturities. This can be explained by the fact that yields at the short end of the yield curve react primarily to changes in key interest rates, while longer yields are guided by long-term growth and inflation expectations.

We still believe that government bonds are the best safe haven and remain overweight. We maintain our cautious stance on both investment grade and high yield bonds and remain underweight in both segments. We have a more positive outlook on emerging markets bonds, as the markets have started to raise interest rates earlier and are therefore further advanced in this cycle than developed markets. We are therefore upgrading emerging market bonds from underweight to neutral.

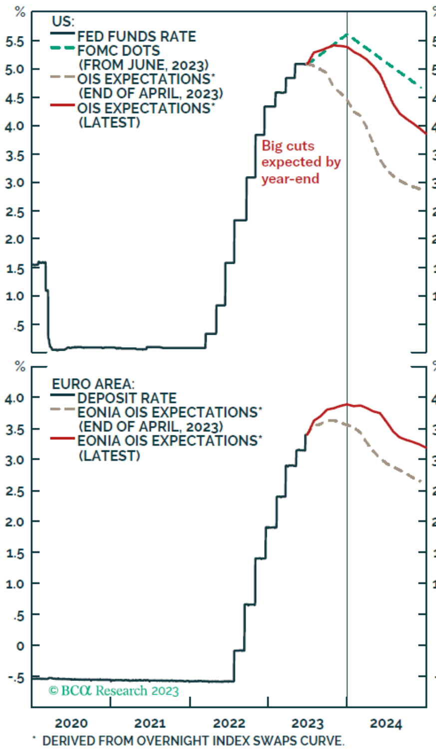


Chart 2: Market expectation key interest rates
Source: BCA Research, www.bcaresearch.com

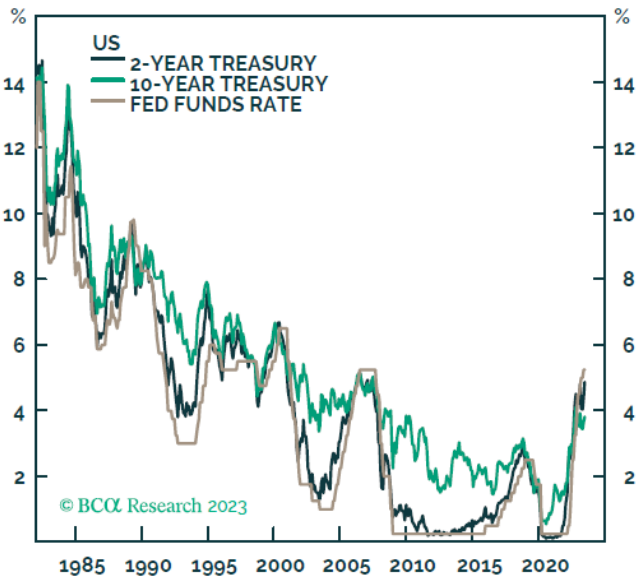


Chart 3: US-interest rate 2 & 10 year government bonds
Source: BCA Research, www.bcaresearch.com

Commodities and Currencies

In gold, we see a predominant trend among national banks, with one exception. While almost all national banks are increasing their gold holdings, the Turkish government is divesting large parts of its gold reserves. According to a report by the World Gold Council, national banks sold about 27 tons of gold last month. However, if you take a closer look at the report, you can see that Turkey alone sold about 63 tons. "Since March, the central bank has sold nearly 160 tons, representing the cumulative purchases of the past 12 months," the WGC wrote in its report.

One notes that specific factors are driving Turkey's gold sales this year. The country is facing very high inflation and consumers are buying gold to protect their purchasing power. Thus, they forced the National Bank to sell to meet domestic demand.

The strong sales by the Turkish National Bank are also reflected in the price. Therefore, we maintain our cautious stance and refrain from buying.

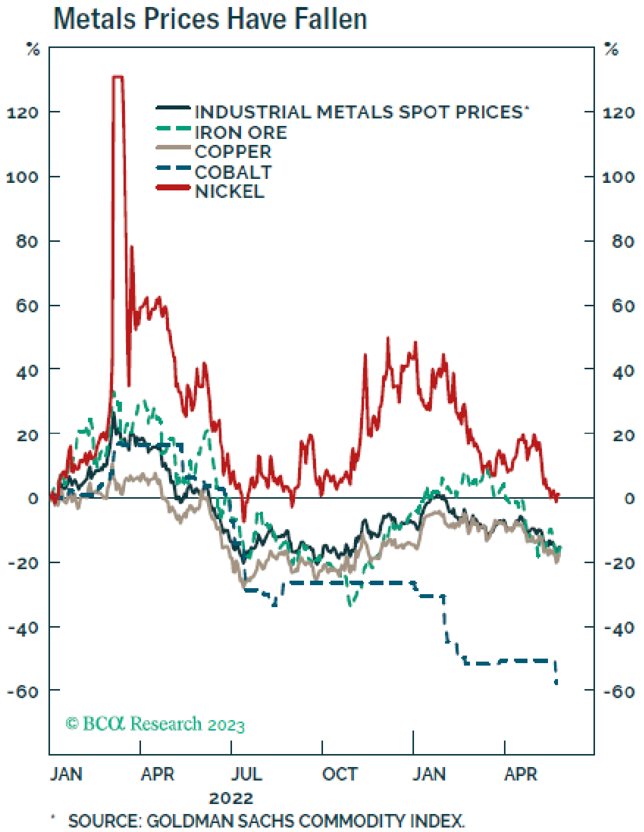


Chart 3: Sinking Industrial metals prices. Source: BCA Research, www.bcaresearch.com

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