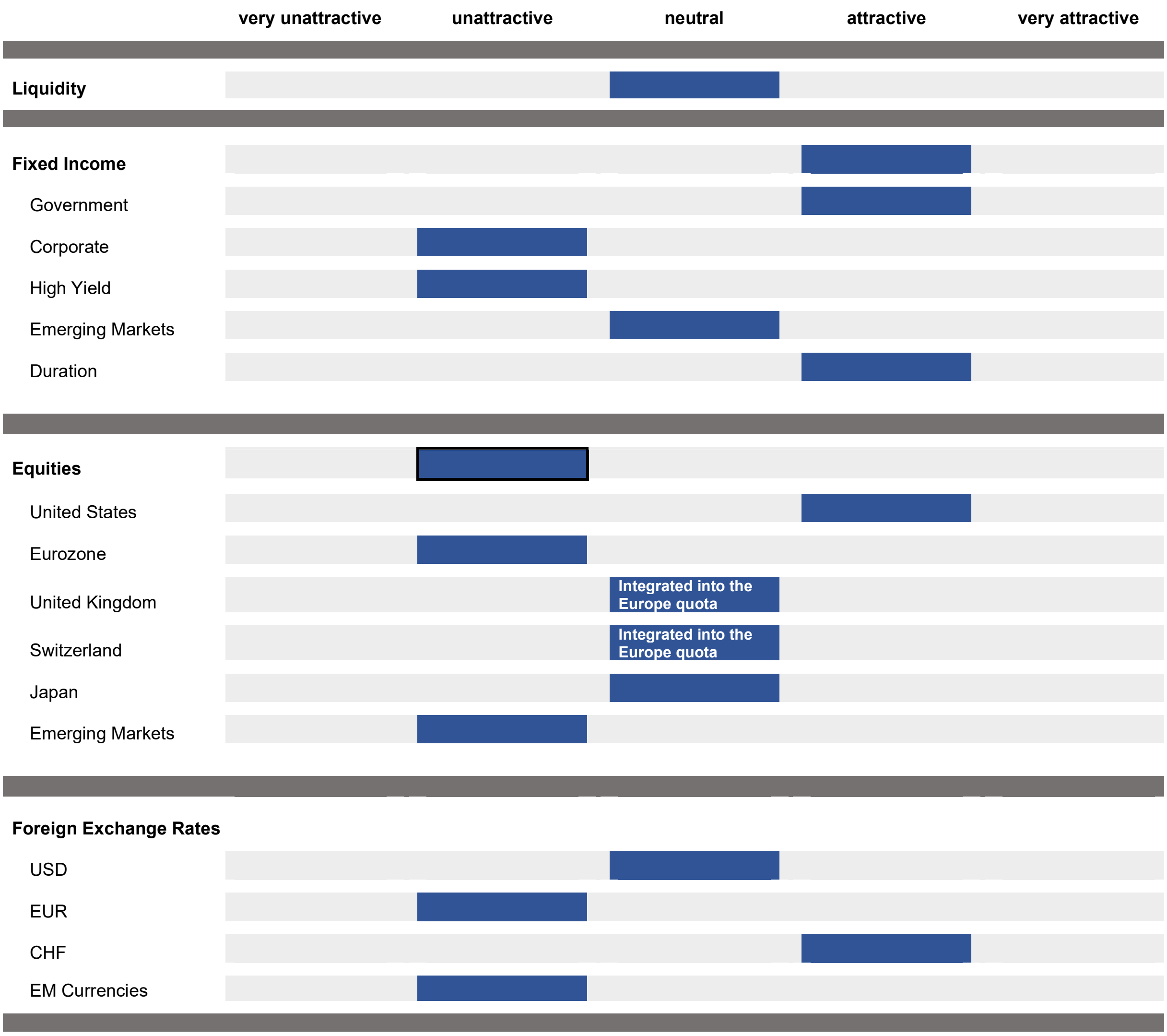
BENDURA BANK
BENDURA BANK AG · LIECHTENSTEIN

INVESTMENT OUTLOOK
MAY 2024

Global markets ended a streak of five consecutive months of gains as most equity indices experienced losses in April. The decline during the month was driven by several factors including heightened geopolitical tensions, robust economic data from the US raising concerns about Federal Reserve actions on interest rate cuts, and a shift away from Big Tech stocks ahead of earnings reports. Economic expansion largely persists, yet uncertainties loom regarding the durability of US consumer spending, with indications of weaknesses emerging in the labor market. April proved to be eventful overall, though expectations for Federal Reserve rate cuts were scaled back significantly. At the beginning of March, traders anticipated around 75 basis points (bps) in cuts for the year, but after the latest Federal Open Market Committee (FOMC) meeting, expectations were reduced to just 25 bps. While Western markets saw declines in their indices, China and Hong Kong, which had been underperforming recently, had a notably strong month.

Therefore, staying positioned defensively is our base case. We are leaning towards a low-risk portfolio strategy, with an underweight allocation to equities and credit and higher allocation to government bonds.

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 most recent overview of the US economy unsettled both stock and bond markets with two potentially disappointing pieces of data: slower economic growth and persistent inflation. In the first quarter, GDP expanded at a seasonally adjusted annual rate of 1.6%, falling short of economists' expectations of 2.4%. However, this figure was somewhat misleading as both the trade deficit and inventories weighed it down, while demand remained robust. Additionally, latest report hinted that inflation, measured by the Fed's preferred gauge, was likely stronger than anticipated in March.

For much of the last two years, there has been a noticeable disparity in economic performance between the US and Europe. In 2024, US GDP experienced year-over-year growth of 3.1%, contrasting sharply with the Eurozone's modest 0.5% growth. In the past year, global industrial activity posed a significant obstacle to economic growth in Europe. The dynamics of real wages also played a role in contributing to the Eurozone's weaker growth compared to that of the US last year. The low European real wages have adversely affected consumption, particularly in comparison to the US. However, today, real wage growth in the Eurozone has caught up with that of the US. Meanwhile, US consumers have used up surplus savings, whereas Eurozone consumers still retain excess savings equivalent to 12% of GDP. Therefore, an increase in Eurozone growth should alleviate the prevailing pessimism towards European equities, as reflected in their current valuations.

China will likely need to continue lowering interest rates to support its economy, which could lead to a depreciation of the Renminbi (RMB). Consequently, this downward pressure on the RMB is expected to affect other emerging market (EM) currencies, particularly those in Asia, which tend to be closely linked to the movements of the RMB.

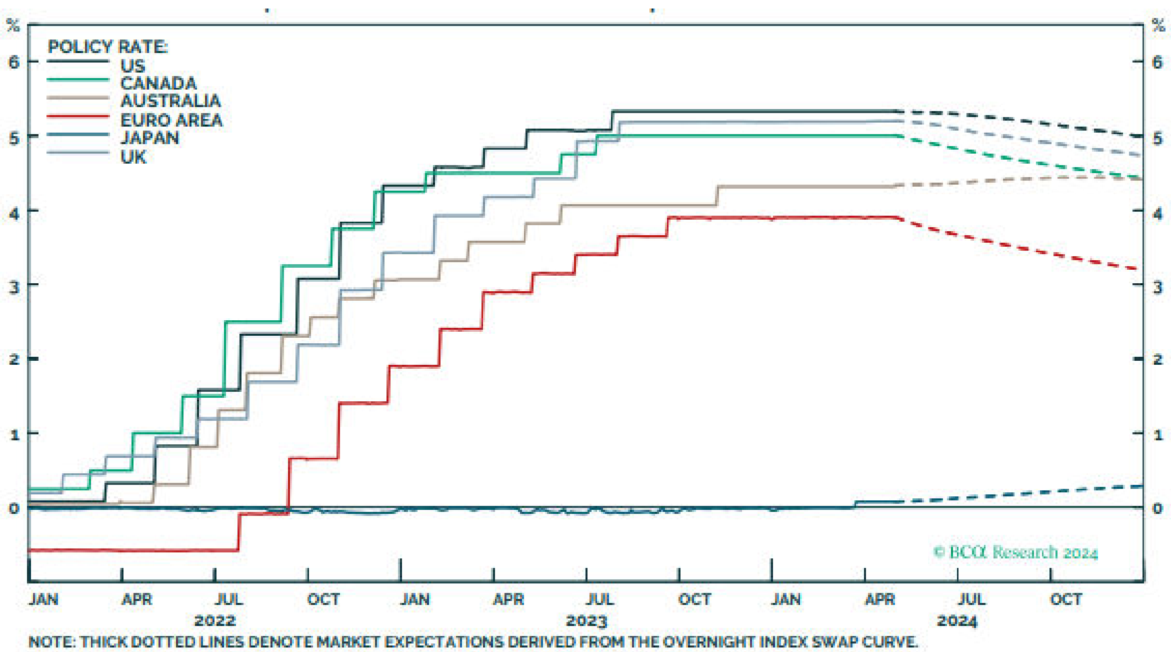


Chart 1: Central Banks Are Expected to Cut rates At Different Speeds. Source: BCA Research, www.bcaresearch.com

Equities

In April, US equities experienced a downturn, with major indices retracing some of the gains made in the first quarter. Following a fresh record high of 5254 at the end of March, the S&P 500 declined by nearly 5.5% through April 19th, falling back below the 5000 mark after a six-session decline, before stabilizing towards the end of the month. Similarly, the Nasdaq dropped by 4.41%, while small and mid-cap stocks, as measured by the Russell 2000, recorded a decline of over 7%. Growth stocks fared better than value stocks, with the IVW (growth) ETF down by 3.8% and the IVE (value) ETF down by 4.3%. The equal-weighted S&P 500 index underperformed the official index. Despite the April declines, US markets remained in positive territory for the year, except for the Russell 2000 index.

European equity markets experienced a mostly downward trend in April. The Stoxx Europe 600 index declined after registering gains for five consecutive months. The FTSE 100 index, however, outperformed, rising by approximately 2.4%, driven by strong performance from mining and energy companies, which are significant components of the index. Other European indices also ended the month in negative territory, with the DAX down by 3%, the French CAC down by 2.69%, and the Swiss SMI performing poorly, recording a loss of around 4%. Among these, the Swiss SMI has emerged as one of the weakest performers year-to-date, with only a modest gain of 1.11%.

The Hong Kong stock market has quietly surged in recent weeks, with the index rising by 20% from its January lows. This recent rebound has propelled Hong Kong stocks to become some of the top performers globally this month, with cautious optimism playing a role in the turnaround after years of losses, according to some money managers. The rally has also pushed other indexes in China and Hong Kong into technical bull markets in recent weeks. What initially began as significant inflows from the mainland, coupled with global funds rotating into relatively inexpensive Chinese internet stocks, is now displaying signs of exuberance. The surge is fueling a fear of missing out, as noted by strategists at Goldman Sachs Group Inc., with key indicators posting their strongest gains in years last week.

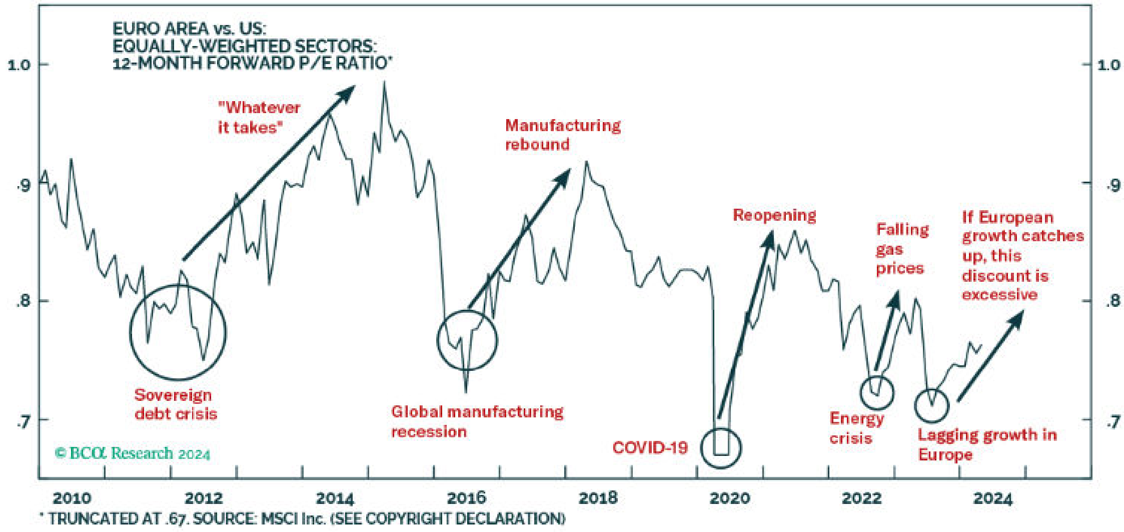


Chart 2: On an Equal sector weight basis, Eurozone Equities Trade At a 24% Discount to US Ones.

BCA Research, www.bcaresearch.com.

Fixed Income

Treasuries experienced significant weakness, with the 2-year yield rising by 33 basis points and surpassing 5% for the first time since November 2023. The 10-year yield surged to a yearly high during the month, reaching slightly above 4.7%, before ending the month at 4.68%. In Europe, the trend was comparable, with yields increasing despite expectations that the European Central Bank (ECB) is likely to cut rates in June. In United Kingdom, the focus will be on the BoE on whether they will follow through with their cuts by mid-year.

Credit remains highly unappealing in terms of pricing, particularly in the US. The breakeven spread, which indicates the spread cushion necessary for credit to outperform duration-matched Treasurys, is at historically low levels. For investment-grade bonds, it stands at the 17th percentile relative to historical data, while for high-yield bonds, it's at the 34th percentile. In our assessment, this level of return doesn't adequately compensate for the cyclical risks involved.

We maintain a neutral stance on duration, as government bond yields may continue to rise slightly. However, US Treasuries remain the preferred safe-haven asset, with an anticipated 25% return in the event of a recession.

IMPLIED 1-YEAR RETURNS (%) OF A 10-YEAR GOVERNMENT BOND BASED ON DIFFERENT YIELD LEVELS

Yield Level	US	GERMANY	FRANCE	SWITZERLAND	JAPAN	UK	AUSTRALIA
7.0%	-10.9	-26.5	-22.9	-40.1	-38.5	-13.3	-11.9
6.5%	-7.9	-23.8	-20.1	-37.7	-36.1	-10.3	-8.9
6.0%	-4.8	-21.0	-17.3	-35.1	-33.5	-7.3	-5.8
5.5%	-1.5	-18.0	-14.2	-32.4	-30.9	-4.1	-2.5
5.0%	1.9	-15.0	-11.1	-29.6	-28.0	-0.7	0.8
4.5%	5.5	-11.7	-7.8	-26.7	-25.1	2.8	4.4
4.0%	9.2	-8.3	-4.4	-23.6	-22.0	6.5	8.1
3.5%	13.1	-4.8	-0.7	-20.3	-18.8	10.3	12.0
3.0%	17.2	-1.1	3.0	-17.0	-15.4	14.3	16.0
2.5%	21.5	2.8	7.0	-13.4	-11.8	18.5	20.3
2.0%	26.0	6.9	11.2	-9.6	-8.1	22.9	24.7
1.5%	30.7	11.1	15.5	-5.7	-4.1	27.5	29.4
1.0%	35.6	15.6	20.1	-1.6	0.0	32.4	34.3
0.5%	40.8	20.3	24.9	2.7	4.3	37.4	39.4
0.0%	46.2	25.2	29.9	7.3	8.8	42.8	44.8
-0.5%	51.9	30.4	35.2	12.1	13.6	48.3	50.4
-1.0%	57.8	35.9	40.7	17.1	18.6	54.2	56.3
-1.5%	64.1	41.6	46.5	22.4	23.9	60.3	62.5

NOTE: CALCULATION INCLUDES CURRENT YIELD, ROLLDOWN AND PRICE CHANGES.

Chart 3: Implied 1-Year Returns (%) of a 10-year Government Bonds. BCA Research, www.bcaresearch.com

Commodities and Currencies

The current situation on the gold market is characterized by a mixture of geopolitical uncertainty and global economic conditions, which are increasing the demand for gold as a safe haven. Due to inflation fears and the uncertain situation, gold has seen a steep rally to a high of $2430 in recent months.

A major event has taken place in the digital alternatives sector in recent weeks. The Bitcoin Halving, which typically takes place every four years, is very significant for the crypto community. During this event, the reward a miner receives for adding a new block is halved from 6.25 to 3.125 bitcoins. This change has potentially far-reaching implications for the economics of Bitcoin. Investors and market participants are watching the event closely as it may provide significant clues as to the future direction and health of the cryptocurrency market.

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