INVESTMENT OUTLOOK
JUNE 2024

The markets coped well with April's weakness and returned to growth in May. After a sustained rise over the course of the month, the rally stagnated in the final days of May as fears of interest rate hikes resurfaced. Not even another strong quarter from AI darling Nvidia was enough to push the market higher, making some investors nervous about what could drive the rally from here. At the macro level, the pricing out of interest rate cuts has continued globally. Gradually, investors in developed markets are giving up hope that central banks will cut rates this year. The market has so far been relaxed about the shifting expectations of interest rate cuts in 2024. But with equities near record highs, AI losing momentum as a driver and rate hikes back on the table, the summer months could become more choppy.

We therefore remain defensively positioned. We are tending towards a low-risk portfolio strategy with an underweighting in equities and credit risks and a higher allocation to government bonds.

BENDURA Market Views

	very unattractive	unattractive	neutral	attractive	very attractive
Liquidity			■		
Fixed Income				■	
Government				■	
Corporate		■			
High Yield		■			
Emerging Markets			■		
Duration				■	
Equities		■			
United States				■	
Eurozone		■			
United Kingdom			Integrated into the Europe quota		
Switzerland			Integrated into the Europe quota		
Japan			■		
Emerging Markets		■			
Foreign Exchange Rates					
USD			■		
EUR		■			
CHF				■	
EM Currencies		■			

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

Over the last nine months, economists have had to revise their forecasts for US GDP growth in 2024 upwards and at the same time their inflation expectations. We have been in the “overheating phase” for some time with signs of slowing growth and persistently high inflation. The most likely next step is a “recession”, although the market expects a soft landing.

Growth data has improved in recent months, particularly in Europe, where real wage growth has stabilized consumption. This is due to three main factors: strong US consumer goods imports, the Fed's dovish turnaround in December and an inventory-based rebound in the manufacturing cycle. Tight monetary policy typically takes a long time to impact the economy. Historically, the lag between the Fed's first rate hike and a recession averages 29 months. The high proportion of long-term fixed-rate mortgages and favorable corporate financing from 2020 could delay the impact of high interest rates. However, rising default rates on corporate bonds and personal insolvencies as well as increased credit card and car loan defaults are still showing initial signs.

Inflation remains high in the USA. While flexible inflation, especially for goods, is falling, persistent inflation remains. This makes it difficult for the Fed to make significant interest rate cuts before there are clear signs of a recession. The market has recognized this, which is reflected in the reduced rate cut expectations for 2024.

Interesting developments can also be seen in Asia. China and India continue to record strong growth, with China benefiting in particular from a revival of the domestic market and government investment. At the same time, emerging markets in South East Asia offer attractive investment opportunities, which could further change the global economic balance.

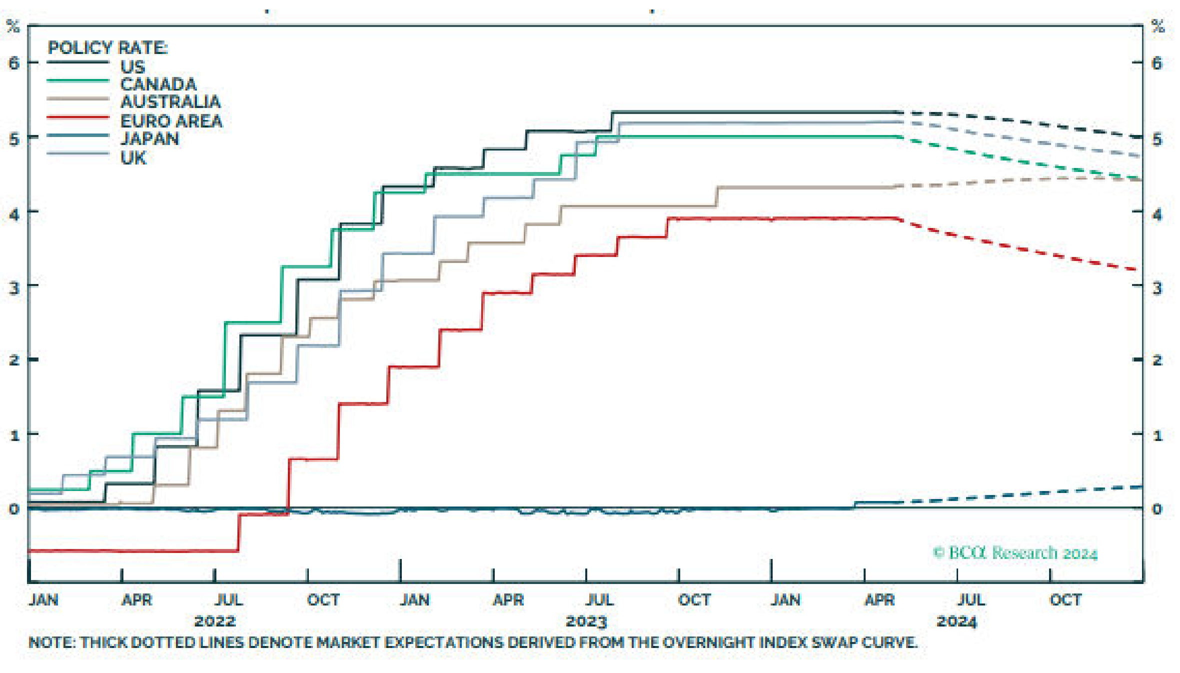

Chart 1: Central Banks Are Expected to Cut rates At Different Speeds. Source: BCA Research, www.bcaresearch.com

Equities

Equities put in a solid performance in May, led by the USA. All three major US indices briefly reached new record highs. The S&P 500 rose by 4.8% and the Nasdaq by 6.88%. However, this strong performance was concentrated on a small number of stocks, as the S&P 500 outperformed its equally weighted version for the fifth time in a row. In Europe, the indices were also up, but lagged behind the US stocks. The Euro Stoxx rose by 1.27 %, the DAX by 3 % and the CAC 40 by 0.1 %. In Asia, equities had no clear direction in May, but the MSCI Asia Pac-ex Japan rose by 1.5%. The Hang Seng posted its fourth consecutive month of gains, while Japanese equities partially recovered from April's decline. Chinese mainland indices fell slightly, ending a three-month winning streak. The Kospi in South Korea fell due to weak battery stocks and the Indian markets suffered from election uncertainties.

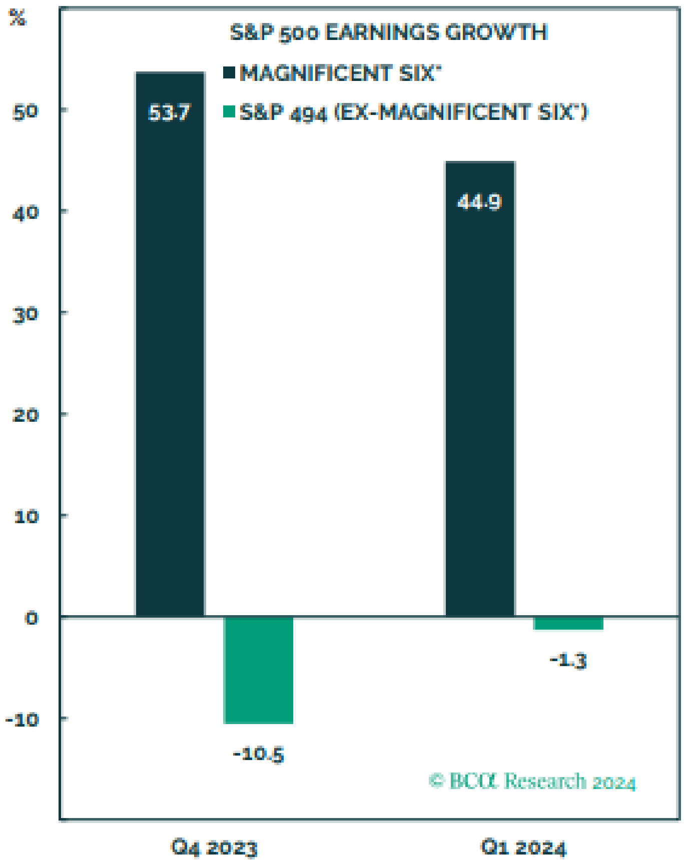

Chart 2 Without the big tech companies, profits are unspectacular. BCA Research, www.bcaresearch.com.

Fixed Income

The outlook for yields depends on inflation levels and - in line with our “golden rule of bond investing” - on whether the Fed will react more favorably or unfavorably than the market is pricing in over the next 12 months. As long as the Fed does not raise interest rates again - which we believe is unlikely - the yield on 10-year government bonds is unlikely to rise above 5%. The high of 5% in October last year is therefore in line with the Fed's last rate hike in July. The mood in US industry deteriorated unexpectedly in May. The ISM purchasing managers' index continues to signal a contraction in the sector. By contrast, analysts had on average expected an increase. Construction spending also unexpectedly fell again in April compared to the previous month.

Nevertheless, we still see government bonds as an attractive hedge against a recession over the next 12 months. We continue to underweight credit. Valuations are very unattractive, and the first signs of stress can be seen at the riskier end of the credit spectrum. This is reflected in the high spreads for lower-rated bonds and the significant net rating downgrades for high-yield bonds.

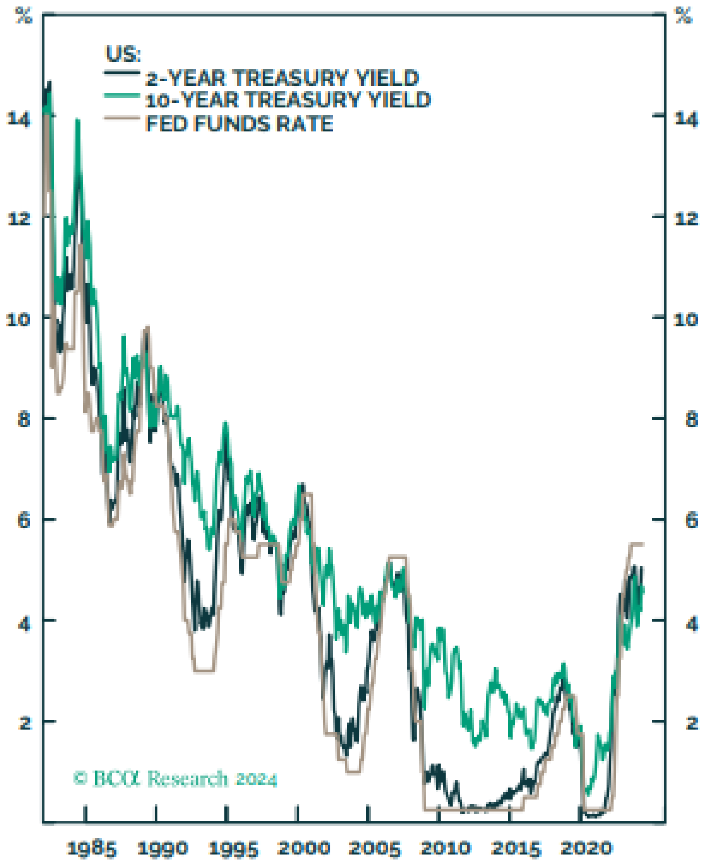

Chart 3: Bond interest rates usually peak with the last interest rate hike. BCA Research, www.bcaresearch.com

Commodities and Currencies

The price of gold has risen by over 17% since the beginning of the year (source: Bloomberg data, as at May 17), making it one of the best-performing investments this year. After hovering between USD 1,800 and USD 2,000 in 2023, the price of gold rose sharply in March and April 2024, quickly reaching USD 2,400. The rise in the price of gold came at a time when real interest rates were rising, the US dollar was strengthening and high-risk investments continued to soar at the beginning of the year. The link between real interest rates and gold has no longer existed since the beginning of 2022.

Concerns about an escalation in the Middle East have recently driven oil prices up again. The focus is currently on the high tensions between Israel and Iran. An escalation with Iran has been considered a major risk on the oil market for some time. Not only is the country a major supplier of crude oil and a member of the Opec+ production association. Iran is also located on a strategically important strait, which is of considerable importance for the transportation of crude oil by ship. Disruptions would probably have a major impact on the Gulf states' oil supplies. Despite the recent fall in the oil price, we see a lot of volatility after OPEC+ announced that it would be scaling back voluntary production cuts from the fourth quarter.

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