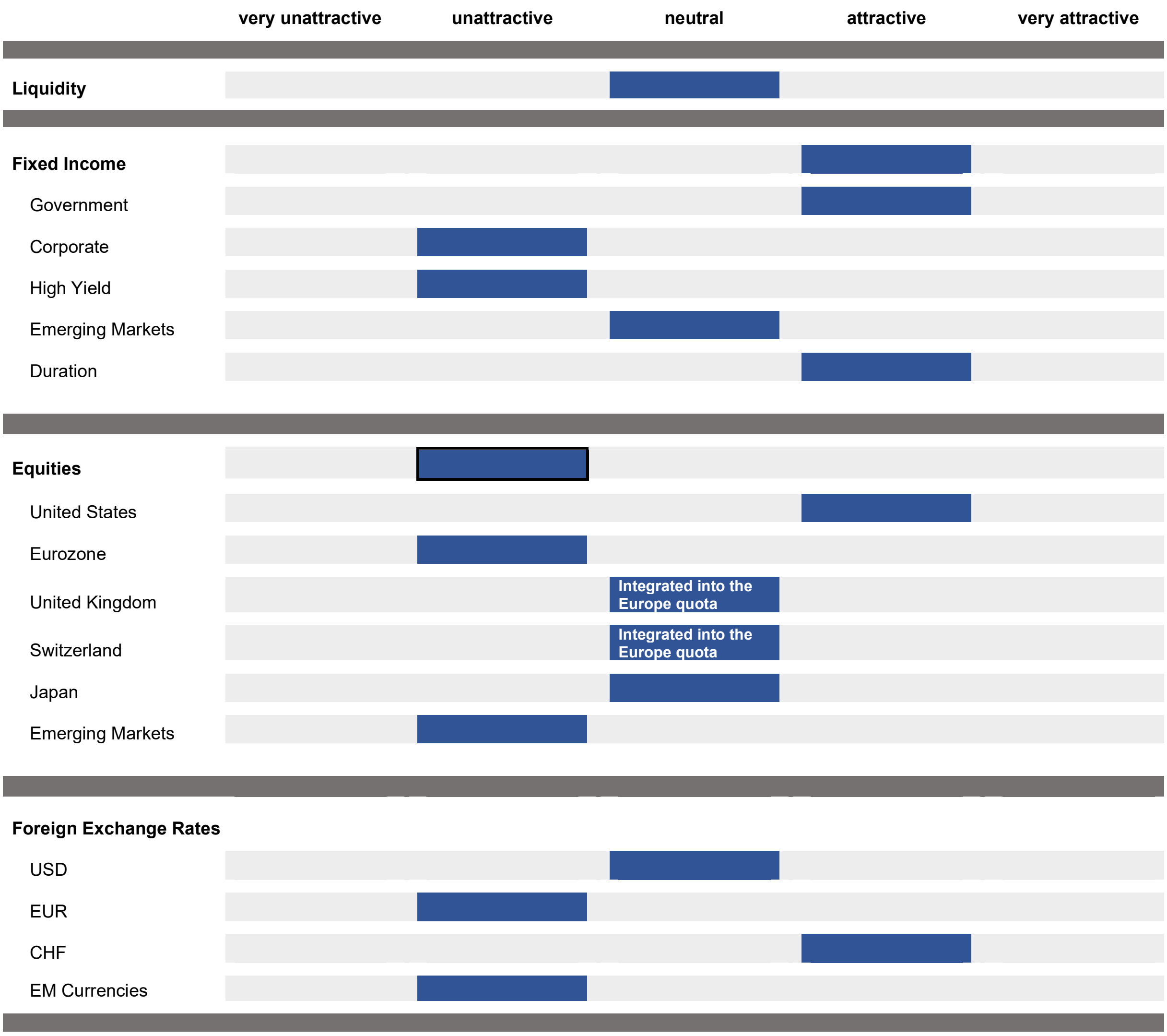
BENDURA BANK
BENDURA BANK AG · LIECHTENSTEIN

INVESTMENT OUTLOOK
JULY 2024

The economic indicators have risen worldwide in recent months. For example, the Purchasing Managers' Index rose to its highest level in two years, pointing to a cyclical recovery in the manufacturing sector. While June in Europe was dominated by the European elections, the race for the presidency between incumbent Biden and his predecessor Donald Trump is slowly beginning in the USA. It remains to be seen whether the economic data will be robust enough to defy the various flashpoints. Such events are the source of more volatility, but only have a minor impact on many analysts' assessments of the financial markets.

We therefore remain defensively positioned. We are trending towards a low-risk portfolio strategy with an underweight in equities and credit risks and a 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

In recent months, concerns about the global economy have shifted from stubborn inflation to slowing growth. Annual inflation remains above the central banks' 2% target and has even risen slightly in some countries. But the bigger problem now is growth: the effects of two and a half years of tight monetary policy are finally being felt, even in the US.

The Citi Economic Surprise Indexes, which showed positive surprises at the end of last year and the beginning of this year, are now starting to surprise negatively across the major industrialized countries. The latest US data is disappointing: retail sales, investment intentions and housing starts are falling, which normally only happens before recessions.

The US labor market remains crucial. Leading indicators such as job openings, layoffs and hiring are deteriorating rapidly. The unemployment rate in the US has risen to 4.0% (from a low of 3.4% in April 2023). The "Beveridge curve" is likely at an inflection point, so a further decline in job openings will lead to a sharp rise in unemployment.

Chinese activity data appears to have bottomed out, albeit at a low level. The Caixin Manufacturing PMI stood at 51.7 points in May, the highest reading since February 2023, after hovering around the boom/bust line. Consumer confidence remains at historic lows and well below pre-pandemic levels. Overall, price pressures remain on the decline, with producer inflation at -1.4% and consumer price inflation at 0.3% year-on-year.

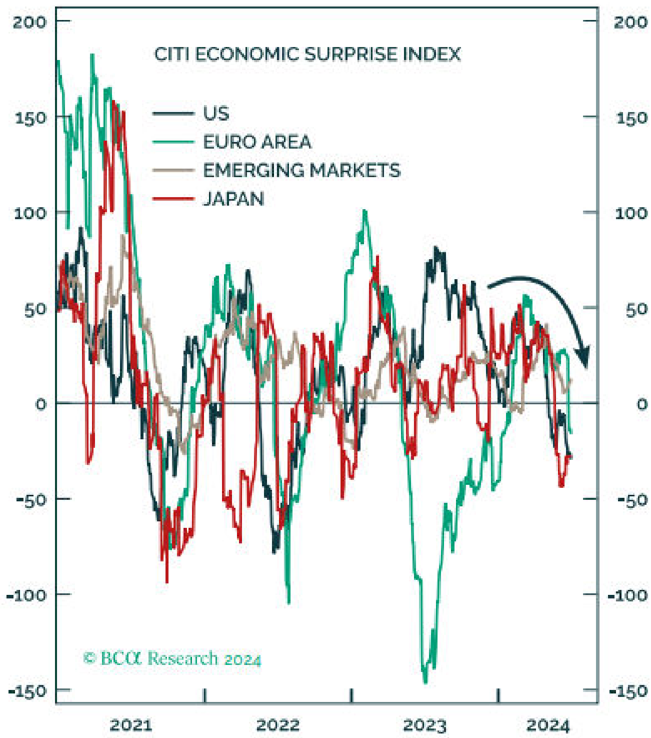


Chart 1: Growth disappointments are now the big concern. Source: BCA Research, www.bcaresearch.com

Equities

In June 2024, Nvidia reached a glorious moment when it became the world's most valuable company. The enthusiasm for generative AI (GAI) has continued to skew global stock performance by country and sector. So far, the Netherlands (represented by ASML) and the US (represented by Technology and Communication Services) have been the only two developed countries and Info Tech and Communication Services the only two global sectors to outperform the global equity index.

The reporting season for the 2nd quarter begins in mid-July. On average, financial analysts expect an annual increase in earnings of just under 9% for the companies in the S&P 500. In view of the continuing strong economic development, we believe this target is achievable. The decisive factor for market reactions will be the results in the technology and communications sectors. Expectations for the technology sector are around 16%, with Nvidia accounting for almost ten percentage points of this. In the communications sector, earnings growth expectations are even higher (18.5%), mainly driven by Meta and Alphabet.

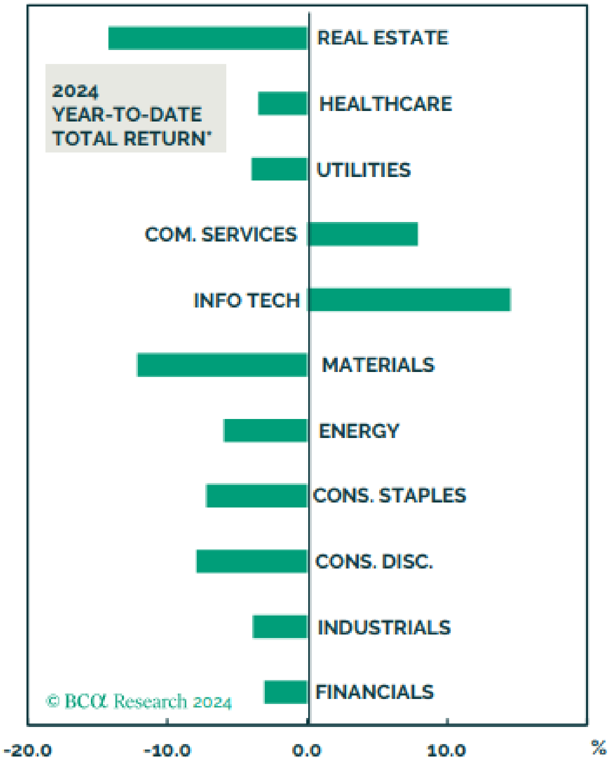


Chart 2: Global equity performance since the beginning of the year. BCA Research, www.bcaresearch.com.

Fixed Income

Yields on the industrial markets rose slightly compared to the last quarter and fluctuated within a broad trading range. After reaching a recent high of 4.7%, which is below the cycle high of 4.98% in 2023, the yield on the 10-year US Treasury bond has risen by around 40 basis points over the course of the year, causing the Bloomberg Global Treasury Index 2024 to fall by 4.7%. The next significant move in yields will be downwards. However, we expect yields to move sideways until the labor market weakens noticeably. We will wait until the correlation between equities and bonds turns negative before extending our duration further. Until then, falling yields will be offset by rising share prices.

In government bonds, we recommend a neutral allocation to US government bonds and an overweight in European and Canadian government bonds. The theme of the second quarter for interest rates in developed markets was "confidence" and we expect the theme for the second half of the year to be "divergence". The process of central banks waiting for disinflation has led to different outcomes in different bond markets. One important aspect is that the current rate-cutting cycle is aimed at reducing restrictions, but without moving into easing territory. The "restrictive-for-longer" approach will have a greater impact on weaker economies such as Europe and Canada, especially compared to the US economy, which is showing a solid and resilient pace of growth. The short-term rise in yields we see in Europe, as well as political volatility, could pose a challenge to our positioning, but we do not see Europe escaping recession in the next 12 months.

Commodities and Currencies

Prices on the oil market continued to trade in a narrow range. At the end of the month, a barrel of Brent crude was trading at just under USD 85. This corresponds to a monthly increase of 6.0 %. The price of gold was virtually unchanged at USD 2,326 per troy ounce at the end of June. By contrast, the price of a troy ounce of silver fell. Over the month, the price of a troy ounce of silver lost 4.11 % in value.

We also do not currently see a market for industrial metals. Prices have been under pressure since the end of 2022 and recorded a further decline of 5% in May. The poor performance is mainly due to weak global industrial production and the lack of effective stimulus measures for China's economy. Aluminum and nickel are behaving counterproductively, indicating weak demand and oversupply. Iron ore shows a decreasing backwardation, which indicates a convergence of supply and demand. The price increase in the copper market was due to improved investment optimism and not to fundamental supply and demand factors.

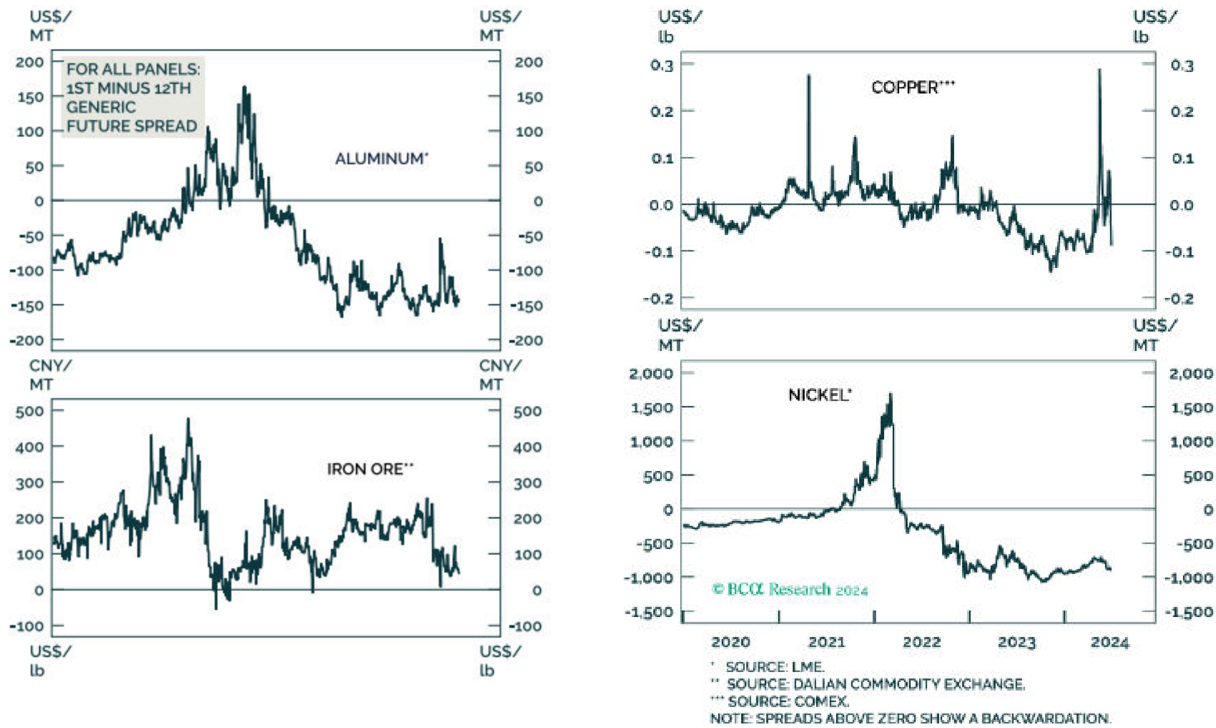


Chart 3: Changes in industrial metals. BCA Research, www.bcaresearch.com

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