BENDURA BANK
BENDURA BANK AG · LIECHTENSTEIN

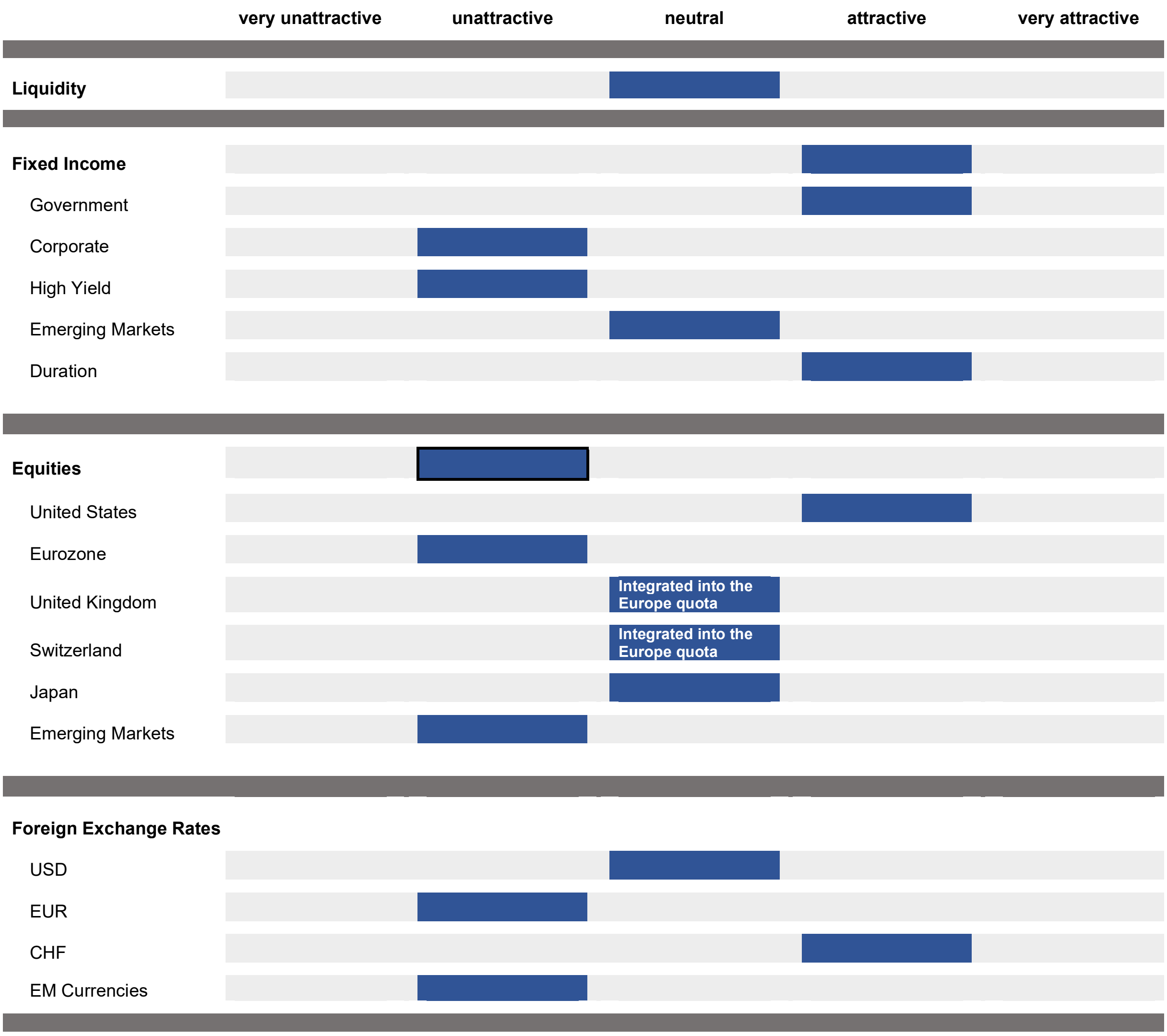
INVESTMENT OUTLOOK
AUGUST 2024

The US Federal Reserve, Japanese central bank, labor market figures, US presidential election, gains in the technology sector and escalation in the Middle East – all led to a sharp risk-off mood and profit-taking in the market. Volatility was low and complacency was high when prices peaked in mid-July. What exactly led to the current sharp exodus from the overcrowded carry positions since then will be the subject of debate for weeks to come.

However, with the S&P 500 trading at a 47% premium to its net present value at the end of July – the highest level of overvaluation since September 2000 – the risk of a major sell-off in equities is still very high.

We therefore remain defensively positioned. We are therefore 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



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 stock markets have changed direction in recent weeks. The new election in France is one of the reasons for the current weak phase on the European stock markets. Meanwhile in the technology sector, consolidation was only a matter of time and understandable from a market perspective.

For some time now, economic data has also indicated that the USA and China are cooling down in a controlled manner, while Europe is somewhat emerging from the stagnation. The rather moderate inflation figures in the USA illustrate this.

The turnaround in interest rates has also slowly reached the industrialized countries. It was primarily the emerging markets in Latin America and Eastern Europe that led the cycle of interest rate cuts. However, it is now increasingly extending to the other emerging markets and industrialized countries. The key interest rate of the Bank of Canada (BoC) and the Swiss National Bank (SNB) has already been cut twice. The FED has also announced that it will probably cut its interest rates in September.

China is unlikely to achieve its growth target of 5% this year. Even though industrial data has once again been solid, due to weak consumption and the ongoing structural adjustment on the Chinese real estate market, an economic acceleration is currently rather unlikely.

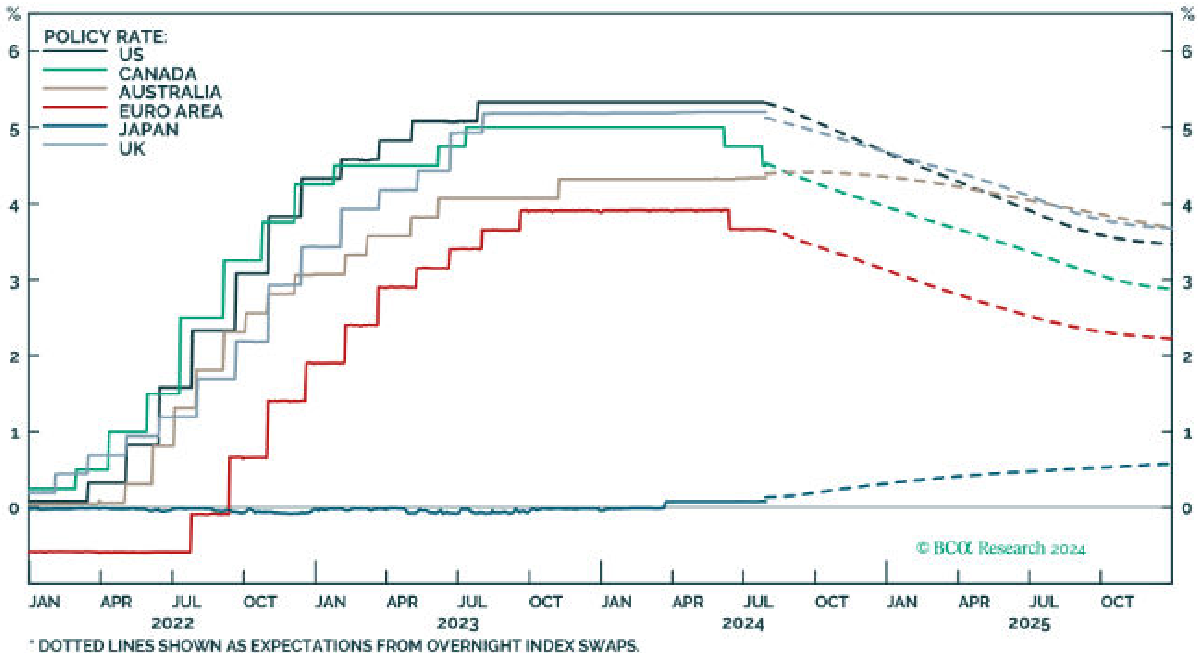


Chart 1: Expected interest rate cuts on the industrial markets. Source: BCA Research, www.bcaresearch.com

Equities

The US stock market underwent a spectacular change of direction in July. The previously dominant technology companies corrected sharply, while the previously neglected US small caps made a leap in performance. Some companies have been punished on the stock market despite posting pleasing figures. This should be seen as a warning signal in the short term, but we believe that high earnings growth should support the technology sector again in the medium term.

It is difficult to know which countries and regions to shift to in order to avoid the effects of a bear market. US stocks, which generally have a lower beta and are more defensive, are vulnerable to the bursting of the AI bubble. A rotation into SMID stocks (small-mid caps), which have rallied strongly in July, would only be logical if one believes in the soft-landing narrative, which we do not. We continue to favor defensive sectors such as consumer staples, healthcare and utilities.

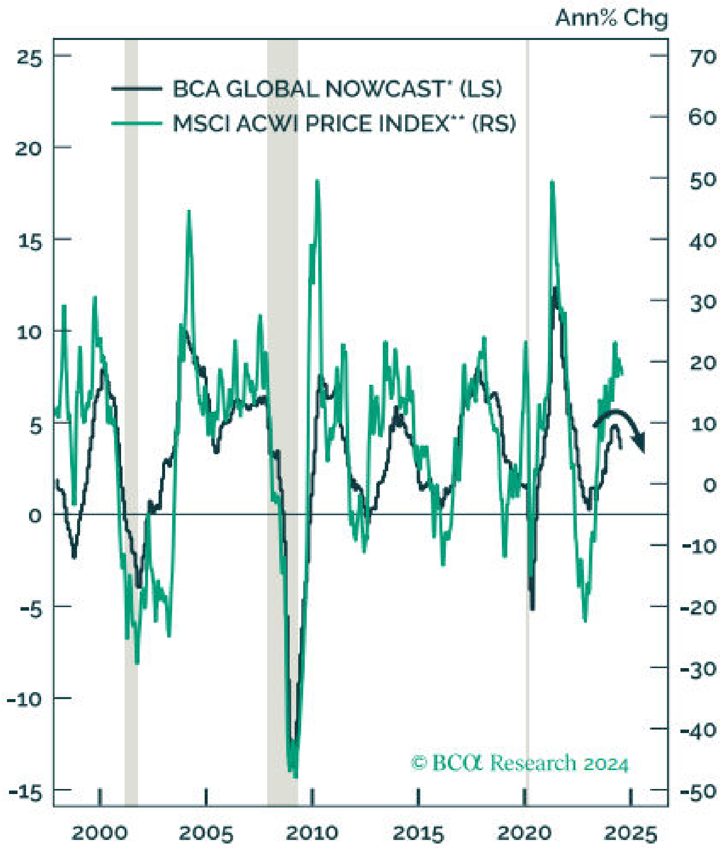


Chart 2: Clear signs that growth is slowing down. BCA Research, www.bcaresearch.com.

Fixed Income

We continue to favor government bonds as a safe haven and remain overweight on duration. Further signs of weakening in the labor market, reduced concerns about the risk of Trump reflation given the decreasing likelihood of him winning the presidential election in November, and less clarity on whether he would aggressively cut taxes and push the Fed into excessive easing, as well as a worsening global growth picture, confirm our view.

Emerging markets are improving in many areas. They are therefore currently showing more robust economic growth momentum. We also note that the trend towards deflation is accelerating. This has developed better in the emerging countries than in the USA or the EU. One of the reasons for this is that the monetary and fiscal policy incentives – especially during the coronavirus pandemic – were significantly lower in the emerging economies than in the US or the EU. In addition, the central banks of the emerging economies started their interest rate hike cycle much earlier.

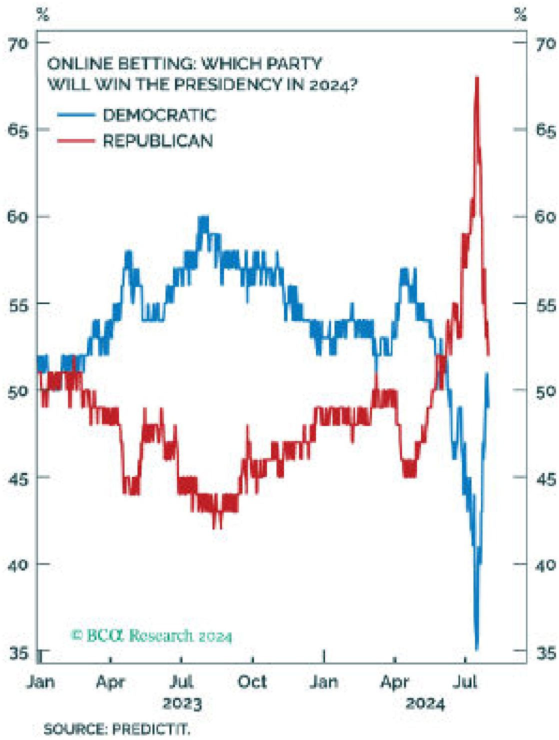


Chart 3: Trump's chances of victory have diminished. BCA Research, www.bcaresearch.com

Commodities and Currencies

Commodities will have difficult months ahead of them, where the main reason is the weakness of Chinese demand. Even for metals such as copper, which have a positive long-term trend due to the energy transition, the economic outlook is weak. According to estimates by commodity strategists, growth in Chinese copper demand will slow to 4% this year, compared to 12% in 2023. The oil price is also very cyclical. However, we are sticking with a neutral rating, as geopolitical risks, particularly in the Middle East between Israel and Iran, are likely to drive up the price of crude oil.

Our thesis on the US dollar is unchanged: we are neutral although the USD is an anti-cyclical currency and is likely to rise in the early stages of a recession, it seems to be heavily overvalued, so its appreciation could be short-lived and only moderate. Emerging market currencies are vulnerable to a depreciation of the yuan as the Chinese authorities continue to cut interest rates in an attempt to stimulate the economy.

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