



**BENDURA BANK**  
BENDURA BANK AG · LIECHTENSTEIN

# INVESTMENT OUTLOOK

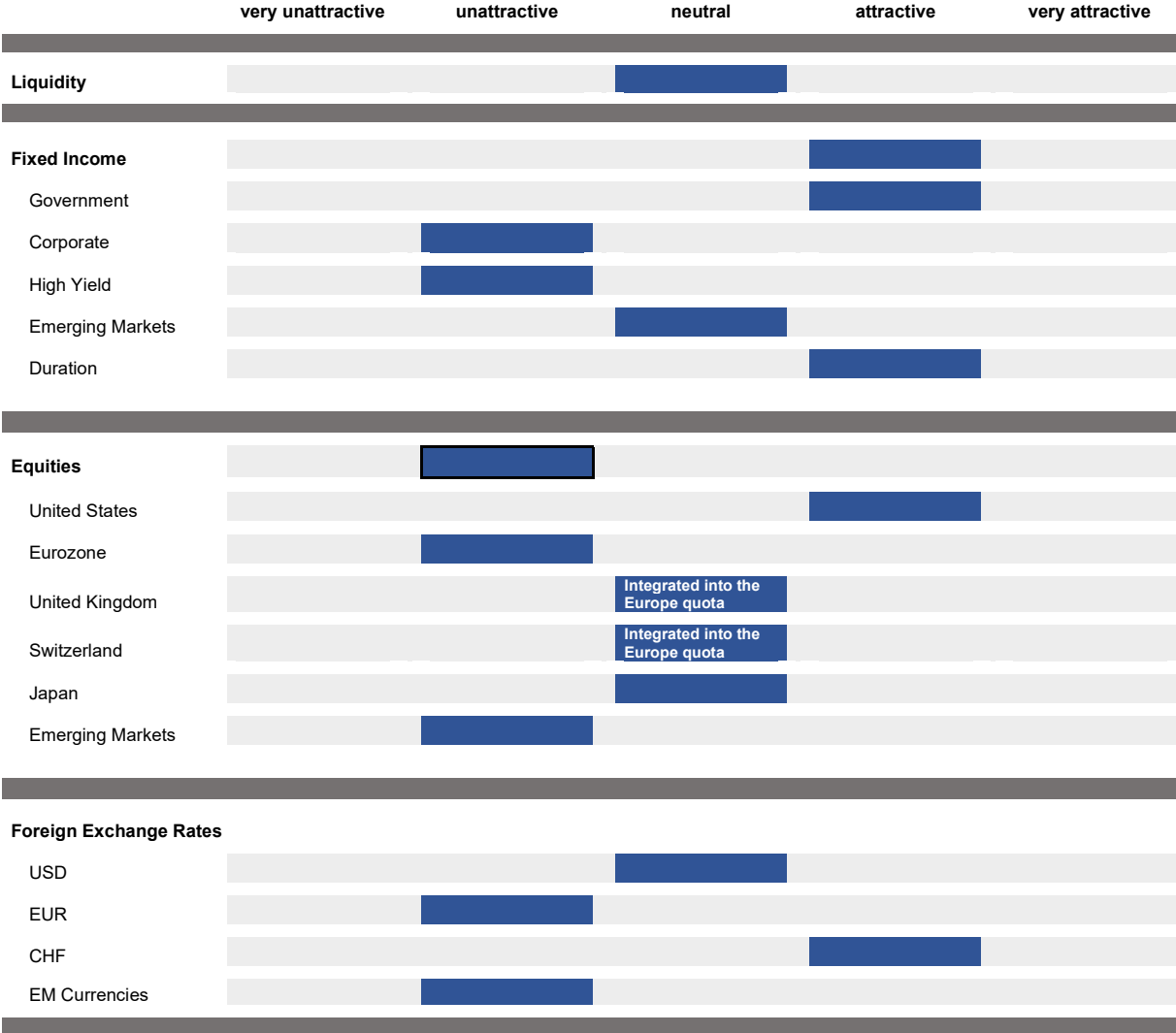
## SEPTEMBER 2024

Investors and traders faced significant volatility during the first week of August, which continued to make headlines throughout the month. However, by the end of August, major stock indices finished positively—something that wasn't apparent at the start. Those expecting a quiet beginning to the month were left disappointed. It is now widely understood that the sell-off was technical, driven by overcrowded positions, rather than caused by an unexpected "black swan" event.

A key takeaway is that investor concerns have shifted. Initially, there was worry that the economy was too strong for the Fed to cut rates; now, the concern is that the Fed is being too slow to lower rates as the economy weakens. This new perspective means investors are viewing the economy differently. The optimism of earlier in the year has faded, and the market is less able to brush off bad news.

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

Investors not on summer vacation at the beginning of August experienced a temporary tremor on the global capital markets. A stronger yen and fears of a recession in the USA led to widespread risk aversion. The latter led to so-called carry trades being quickly unwound. These are positions held by foreign investors in Japanese currency in which they exchange the yen for another currency and invest at higher interest rates. Sentiment had already been dampened by heightened geopolitical risks and concerns about the profitability of investment spending in artificial intelligence (AI).

Powell also strongly hinted that the first rate cut would come on September 18. The market has bought into this narrative. Sentiment among private investors and advisors is very positive. Investment institutions and private households have now fully invested in equities and there is little cash left.

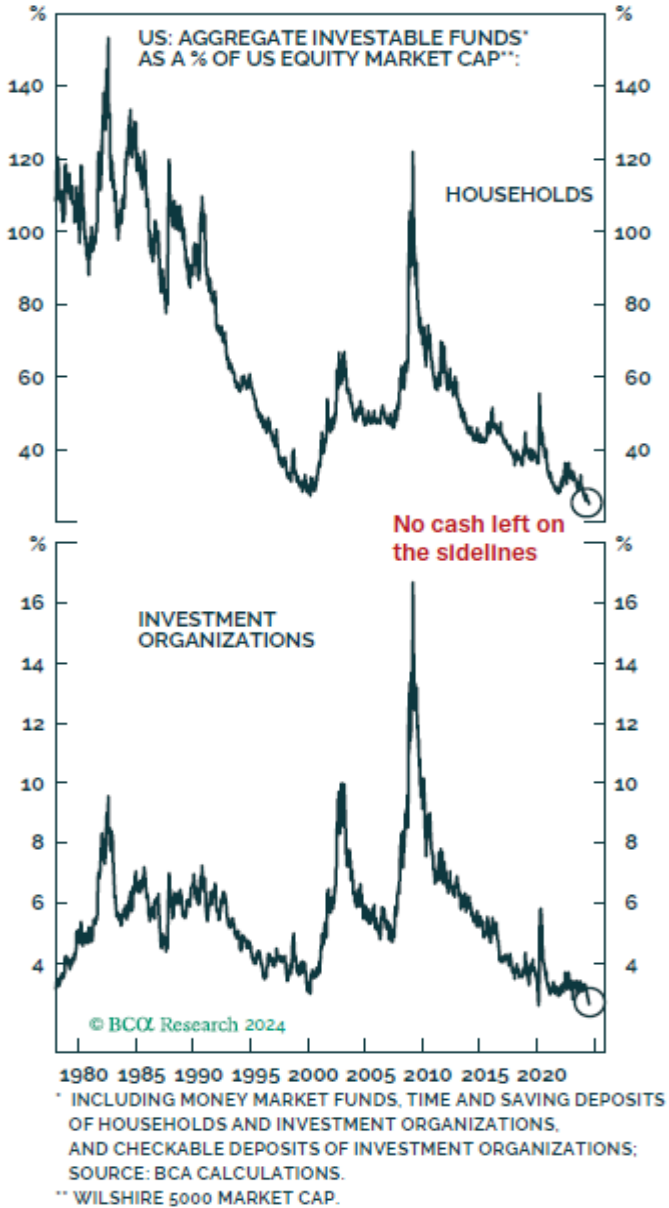


Chart 1: Share movements around the first interest rate cut. Source: BCA Research, www.bcaresearch.com

## Equities

We see the market volatility in late July/early August as a first call of things to come. The S&P 500 corrected 9% due to the poor ISM manufacturing index, weak wage and salary data and concerns about the sustainability of AI-related investment spending. Stocks soon recovered as a soft landing was expected. However, this scenario could easily be put to the test if data deteriorates **further**, or tech company profit margins show signs of a decline. Despite sporadic rally attempts by small-cap, value and non-tech sectors, the performance of equity markets continues to be dominated by large-cap tech stocks, particularly those in the US. However, should there be a sell-off and a recession, these big tech companies will suffer the most. We therefore continue to favor classic defensive stocks such as consumer staples, healthcare and utilities.

The European stock markets started September with little movement. After initial slight losses, the Euro Stoxx recovered and climbed a little towards the 5,000-point mark. Investors were still not prepared to take large profits on the eurozone's leading index.

Despite good results from the purchasing managers' survey, the Chinese stock markets recorded losses. In Japan, investors held back in anticipation of important economic data.

However, the economic picture outside the USA has deteriorated somewhat in recent months. It is difficult to predict, but we believe that cyclical markets such as Europe, Japan and the emerging markets will fare worse in a recession than the US markets.



Chart 2: Rally attempts by non-technology stocks have failed. BCA Research, [www.bcaresearch.com](http://www.bcaresearch.com).

## Fixed Income

The highlight of month August took place in Jackson Hole, when Powell paved the way for interest rate cuts as early as September. On August 23, Jérôme Powell stated that “the time for policy adjustment has come”. Powell's speech came closer to a declaration of victory over the inflationary surge than any of his previous statements.

Even if the Fed cuts rates as quickly as the market expects, monetary policy will remain tight for some time, given that the FOMC expects the nominal neutral rate to remain at 2.8%.

With the market pricing in 106 basis points of Fed rate cuts before the end of this year and 234 basis points by the end of 2025, there is a risk that the Fed will not ease as much - if there are no signs of recession. However, based on our recession scenario, we assume that the yield on 10-year US government bonds will bottom out at 2-2.5%. This still gives a yield of 14-19% from a treasury position and therefore we continue to view government bonds as a good recession hedge over the 12-month investment horizon. We remain underweight in high yield corporate bonds.

Eight months into the year, two-year German bonds face a startling reality: A yield that is roughly at the level of the end of 2023. By all appearances, the ECB is about to embark on further easing, with consumer price rises still in line with its outlook for a return to the 2% target at the end of next year. We suggest that the Governing Council will cut interest rates by 25 basis points on September 12th, coinciding with the experts' new forecasts for inflation and growth. We expect the ECB to stick to quarterly easing, with the next move coming in December. While the main risk is that wage growth and inflation in the services sector slow too slowly, policymakers also seem increasingly cautious about the dangers of growth stumbling.

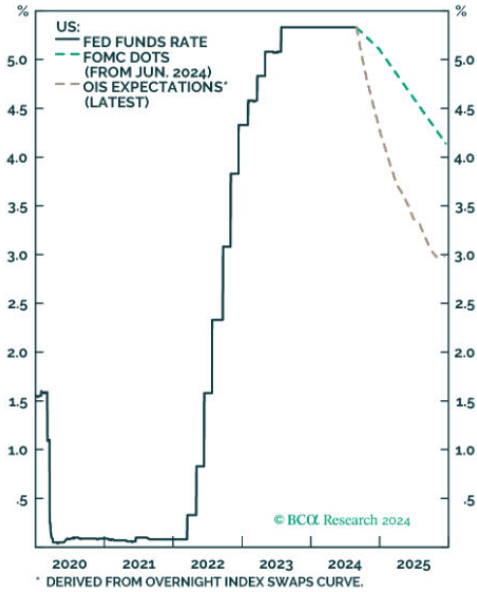


Chart 3: How quickly will the FED cut interest rates. BCA Research, [www.bcaresearch.com](http://www.bcaresearch.com)

## Commodities and Currencies

Gold has risen to a new historic high. As gold has not proved to be as good a recession hedge in the past as the consensus believes, we are currently taking a neutral stance. Gold has also generated a negative return in almost half of the quarters since 1960, when global equity prices fell.

Rather than focusing on consumption, housing or infrastructure investment, the Chinese government continues to focus on boosting manufacturing production, particularly in high-tech industries such as electric vehicles. It is bad news for commodities. For example, demand for copper in China has started to weaken after a surge last year due to electric vehicles.

It is not unusual for the dollar to temporarily weaken against currencies such as the euro ahead of the Fed's first rate cut. Moreover, the markets have jumped the gun with their expectations that the Fed would cut rates more aggressively than other central banks. We remain neutral on the dollar for the time being. An overweight position in the yen has paid off in recent weeks, as the Bank of Japan unexpectedly raised interest rates for the second time and interest rate differentials narrowed significantly.

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