BENDURA BANK
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BENDURA ANALYSIS & NEWS

Dear clients, fellow investors and friends

As we approach the US election rapidly, the leading indices have been moving sideways since mid-July. Like the Fifa World Cup, the US presidential election receives massive worldwide attention, both held every four years. At the same time, financial market participants wear out. Some of them even restructure the entire portfolio according to the candidate most likely elected.

With Trump, we will see an increased demand for technology and energy stocks, while with Biden demand on renewable energy and dividend stocks will increase. Apparently, some investors fear getting Biden as the next president more than they fear Covid-19, as Democrats most likely will reverse some of Trump's tax cuts. Others can hardly wait for the end of the Trump era since they fear a further escalation of the trade dispute between the United States and China.

We do not expect Biden to maintain his current lead; hence, the election may once again turn into a neck-and-neck race. We as bankers are fundamentally politically neutral and, like in football, we want a spectacle with a fair fight and a defeated candidate respecting the result. On November 3, this is crucial as a disputed election result can lead to a prolonged legal and political dispute, adding further economic and social instability in the middle of the ongoing Corona crisis.

In the meantime, we wish our readers an exciting election thriller, hopefully completed and resolved by the next edition of this publication.

Giovanni Leu
BENDURA Investment Consulting

German DAX Index, YTD as of October 20. Source: Bloomberg

FIXED INCOME

Government Bonds

As the economic recovery continues to unfold, US nominal yields broke out of their trading range edging marginally higher in the beginning of October. Short-dated yields remain anchored at low levels, thus we still expect a moderate steepening of the curves along strong recovery signs. Long-term yields are likely to climb moderately as bond issuances have increased significantly to finance large fiscal stimulus. In addition, the expected US fiscal stimulus could increase the risks of higher long-term US bond yields. Consequently, **we consider government bonds unattractive**. Adding to that government bonds are unable to provide strong hedging for risk assets, should central banks decide on not cutting interest rates further.

We prefer short durations in the USA, the Eurozone and Switzerland, and continue to favour US inflation-linked bonds relative to nominal US government bonds on a similar duration basis. We remain underweight global treasuries in a portfolio context.

Investment Grade Bonds

Following the extension of the Fed's credit facilities to the end of December 2020, we expect global IG to continue its delivery of positive returns and **maintain our overweight** preference in a portfolio context. Within the asset class, we are overweight cyclical exposure at the 7–10 year maturity bucket and long-term utility bonds. Moreover, there are opportunities in cyclical IG hybrids, such as the automotive industry, and we favour them in case of a correction.

High Yield corporate Bonds

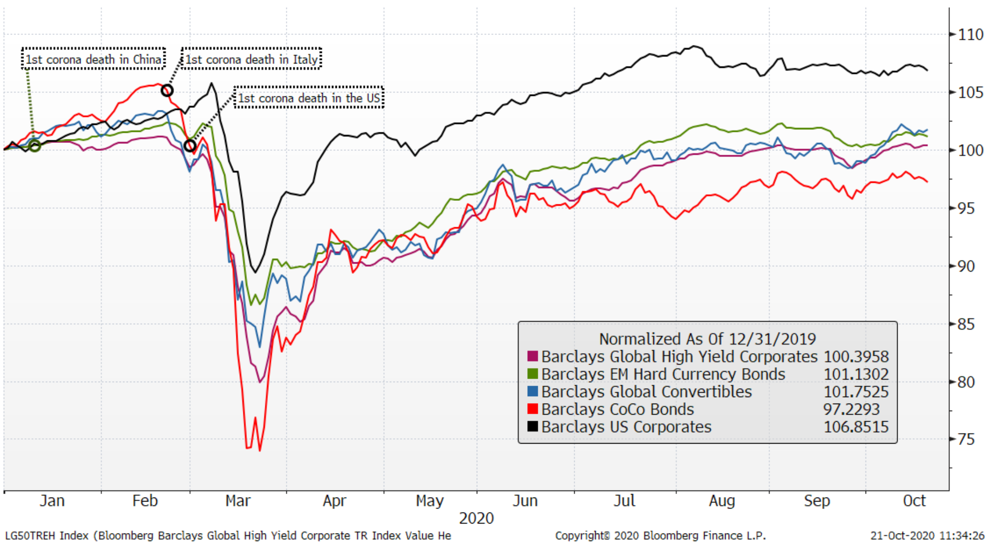
We continue to expect global HY to produce attractive returns above cash. However, in light of the expected peaking of default rates, we have reduced our portfolio allocation to neutral, highlighting the importance of security selection.

In addition to the BB rating, we favour B rated credit with good fundamentals, especially in Asia, where valuation is more attractive.

Within Financials we maintain our preference for European Coco-Bonds compared to US-Sub-financials.

Emerging Market Bonds

The asset class has recently shown modest underperformance, mainly because the deterioration of global risk sentiment had a negative impact on EM high-yield countries. EM IG are holding up well despite the market volatility and additional periods of spread tightening. Our preferred regions are Emerging Europe and Middle East and Africa (EEMEA).



Selected Fixed Income Indices as of October 20. Source: Bloomberg

EQUITIES

We maintain an optimistic view of equities, which should perform well over the next six months. However, volatility should remain on the rise over the coming weeks, thus **we reduce equity allocations slightly below strategic levels** for now. The upcoming US elections and a rising number of Covid-19 infections are the main risk factors. We are expecting an upcoming peak in short-term economic growth and there are pessimistic expectations for earnings in 2021, especially if we see a postponement of the Covid-19 vaccine.

Developed market equities

We expect attractive returns from developed market equities and prefer **Switzerland and Germany**. Swiss equities are convincing through robust earnings and resilient dividends. German equities offer interesting rebound potential, as the markets cyclicality offers some quality. We finance these overweighs by underweighting Japanese equities, which face a fragile macroeconomic situation.

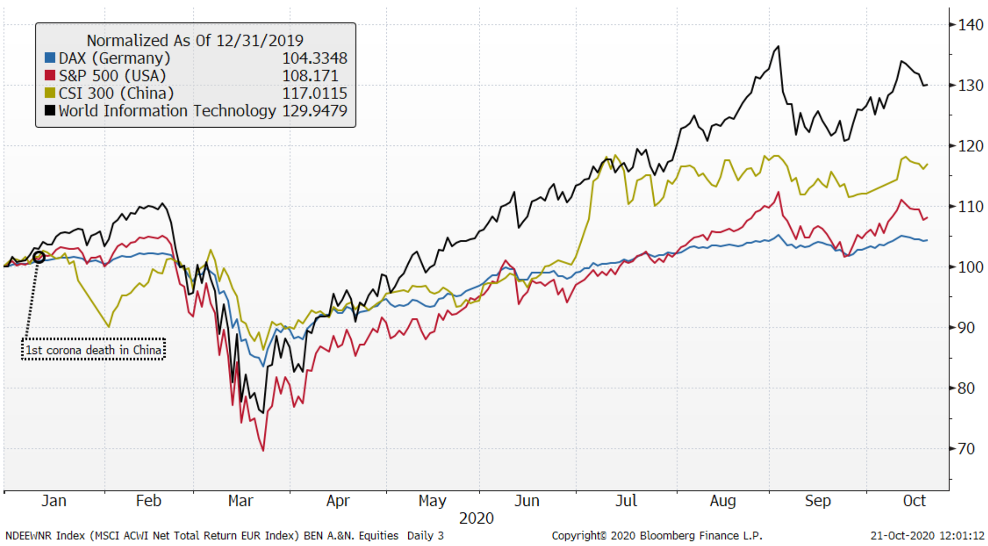
Healthcare and IT are our preferred sectors. Healthcare companies balance out the increased short-term volatility for the IT-sector as they offer stability due to their resilient earnings prospects in these challenging economic times. In addition healthcare companies may profit from appealing growth opportunities as their access in emerging markets is growing.

Emerging market equities

We see a number of tailwinds ahead for EM equities: Unprecedented monetary and fiscal stimuli across the globe, attractive valuation compared to DM, economic recovery, higher commodity prices (tend to correlate with EM equity outperformance), long-term growth drivers (e.g. more innovation, rising middle class) and our view of a weaker USD index. However, the slowdown in global economic recovery and uncertainty around US elections are headwinds in the near term.

We expect **EM Asia to outperform** global EM thanks to better handling of the COVID-19 pandemic, smaller and shorter economic downturns compared to the other EM regions and the region's exposure to the "new economy."

Key risks for EM equities are a worsening of the second COVID-19 wave, abrupt tightening in financial conditions, a re-escalation of tensions between the USA and China, and de-globalization and geopolitics trends.



Selected Equity Indices as of October 20. Source: Bloomberg

ALTERNATIVE INVESTMENTS

Energy

Oil has met some resistance lately following a strong rebound in 2Q and a consolidation phase in early 3Q. The market has been pricing a slightly slower inventory normalization path, which seems realistic given ongoing macro uncertainty and negative virus news. That said, we consider the latest weakness in oil as transient (and partly seasonal) given supply remains constrained and demand is set to continue its recovery beyond the near-term, especially once a COVID-19 vaccine is rolled out. We see improved benefits once stocks are nearer average levels again.

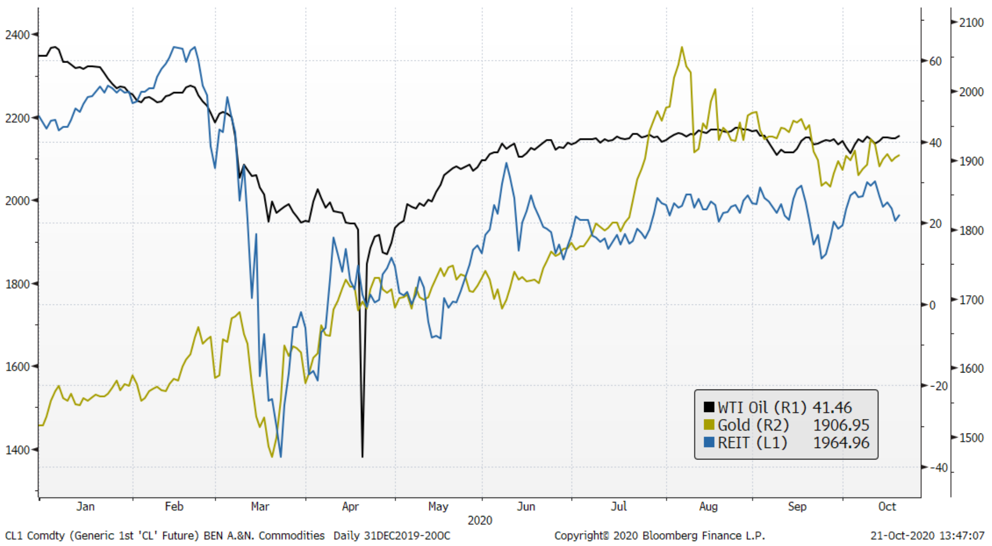
Precious metals

For now, precious metals are heavily dependent on investor flows, amid weak jewellery markets. As the industrial production momentum is moderating, the USD ticked higher which weighed on precious metals lately. However, our FX strategists expect the greenback to depreciate further in the coming months, while the dovish monetary policies are likely to keep rates anchored at low levels. Efforts like these provide precious metals a friendly environment, especially if inflation expectations rise.. We maintain our positive view in the medium-term.

Real Estate

Global listed real estate outperformed equities over the last 30 days (MSCI World Real Estate: +0.9% vs. MSCI World -0.4%). The strong performance is supported by solid gains in segments benefitting from structural tailwinds, such as industrial/logistics as well as data centres and cell towers. Entering the upcoming earnings season, **we retain a neutral view on global listed real estate**. Earnings expectations, relative to broader equities, are low from a historical perspective, which offers upside surprise potential. However, the uncertainty surrounding the effect of increasing e-commerce impact and work from home on the company's earnings is still high. On a positive note, valuation multiples are undemanding when compared to global equities and low interest rates will continue.

Regionally, **we favour Swiss real estate** stocks due to their defensive nature. Valuation has improved over recent months and multiples are now in line with their long-term average values.

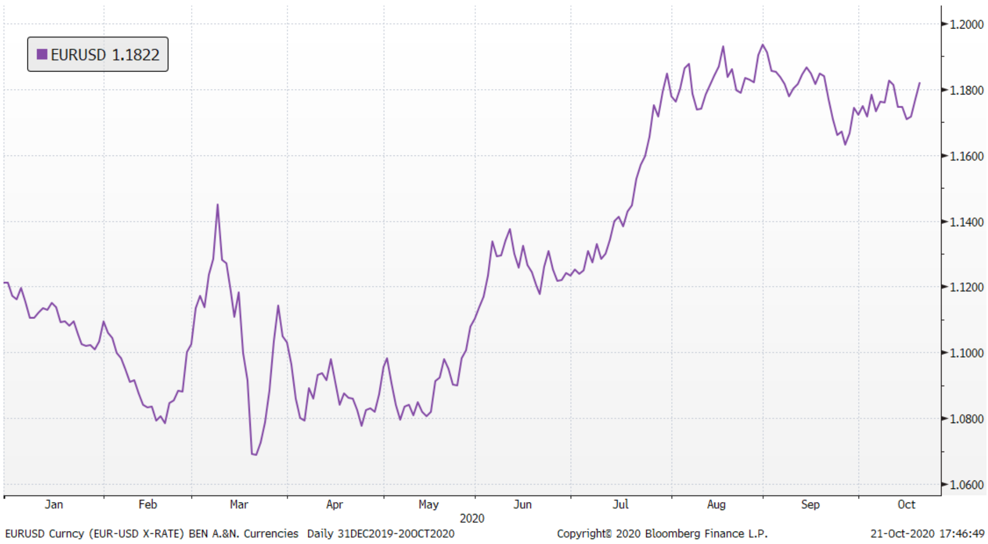


Oil, Gold and REITs as of October 20. Source: Bloomberg

CURRENCIES

Alongside declining risk sentiment, the USD continued to consolidate in September, the USD Index showing modest gains (+1.5%). Uncertainty over the US elections, growth momentum slowdown, and risks related to COVID-19 and geopolitics are likely to keep volatility elevated in the near term. Even so, further US stimuli are likely in the coming months, which would support the global recovery and probably have negative implications for the US fiscal deficit and the USD. Hence, we do not believe that short-term risks will change the downtrend of the USD. The absent carry advantage and the prospect of poor US fiscal and external balances will most likely lead to a weaker USD. As we have argued, the Federal Reserve's new policy framework increases the prospects of stable to lower US real yields. We believe that this should further weigh on the USD.

We currently prefer the EUR to the USD, as the EU zone tail risks have receded considerably with the comprehensive EU agreement reached last month on the common budget and recovery fund. Despite widening fiscal deficit, EU structural external balances are sound (3% surplus on average over the last 5 years) and leading indicators confirm that the EU is gathering pace over the US in terms of cyclical recovery. Finally, EUR/USD valuations are cheap, and we estimate that the current fair value lies in the mid-1.20s. **Our EUR/USD targets are 1.22 in 3M and 1.25 in 12M**.



USD Index and EURUSD Rate as of October 20. Source: Bloomberg

MANDATE PERFORMANCE

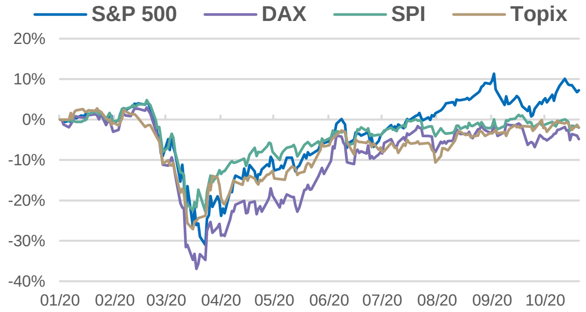
Our discretionary mandates performance for 31.12.2019 – 30.09.2020:

	EUR	USD
Interest income	-0.76%	2.78%
Income	-2.08%	0.88%
Balanced	-1.19%	4.08%
Growth	-2.21%	7.61%
Capital gains	-2.73%	-

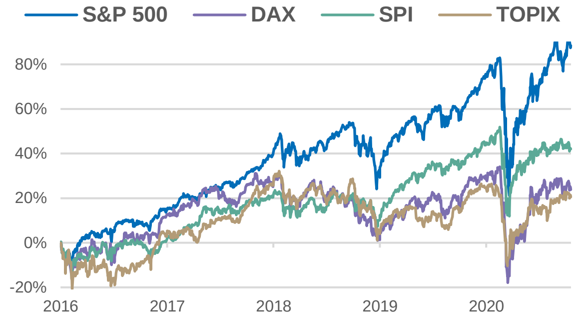
BENDURA mandate strategies (return after fees)

MARKET MONITOR AS PER 20.10.2020

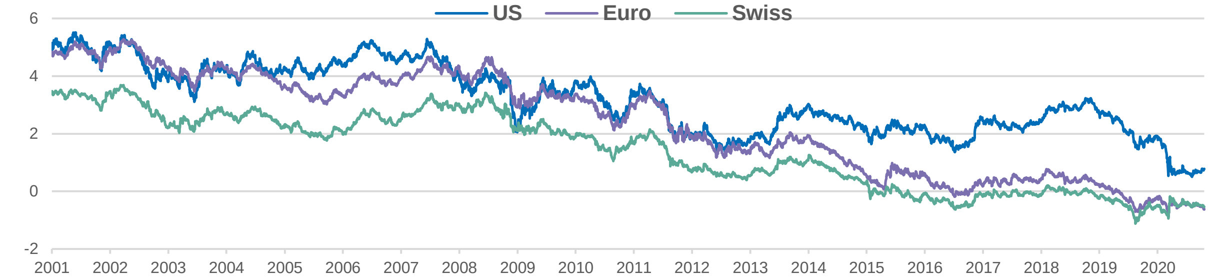
Equities YTD



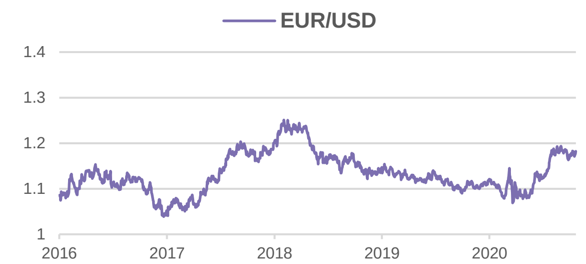
Equities 5-Years

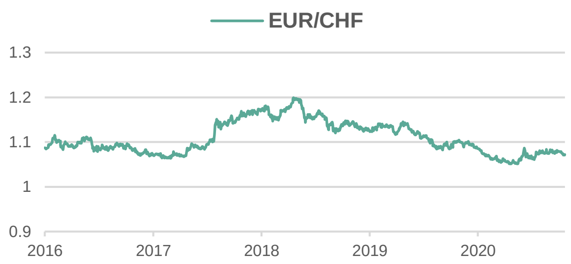


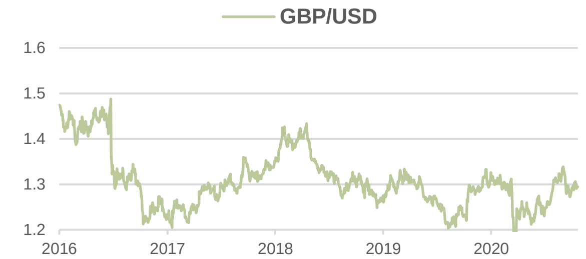
10-Year Government Bonds

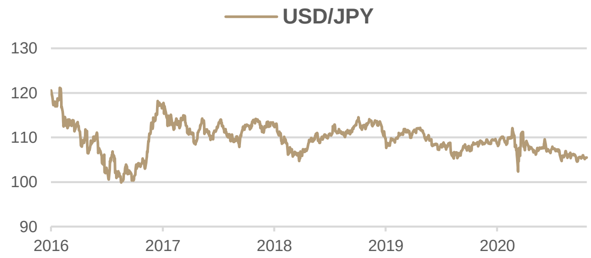


Foreign Exchange









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