BENDURA BANK
BENDURA BANK AG · LIECHTENSTEIN

BENDURA ANALYSIS & NEWS

Dear clients, fellow investors and friends

The year is drawing to a close and so it's also time for retrospectives of all kinds. Whether journalists, priests or artists, they will all delight us with a retrospective in their very own way. Even our smartphone will serve us a "Best of 2020" with the funniest snapshots of the year - such as a photo in underpants and tie in the home office. As with photos, instead of a review from today's perspective, we would like to present the following excerpts from our past publications in 2020:

January 15th
“Donald Trump will do everything he can to win the elections on November 3rd.”

February 10th
“Suddenly there is fear that a new, previously unknown virus could potentially paralyze half of the world`s population.”

March 12th
“There is still a huge amount of uncertainty in the markets.”

April 22th
“Dolphins are swimming in the canals of Venice.”

May 20th
“There are considerable uncertainties in both society and the economy.”

June 19th
“We definitely see a decoupling in financial market prices to the current economic reality.”

July 20th
“Now, in the midst of summer, it is clear that Corona is far from over.”

August 20th
“The Coronavirus has accelerated the digitalisation and virtualization of many businesses and society as a whole.”

September 21th
“A breakthrough in the search of a vaccine might change the market sentiment from a more prudent risk-off mode back to a more euphoric mood.”

October 22th
“We want a spectacle with a fair fight and a defeated candidate respecting the result.”

November 25th
“Monday after the elections featured breaking news that Pfizer's vaccine is highly effective against the corona virus.”

With or without vaccination, we wish you in any case a healthy and successful 2021!

Giovanni Leu
Head of Investment Consulting

FIXED INCOME

Government Bonds

US Treasury yields moved higher prior to the US elections and even more so after encouraging COVID-19 vaccine news flow. With US Congress likely remaining divided, the outlook for substantial fiscal stimulus has been dampened in the short term, probably shifting the focus to central banks. These are likely to keep monetary stimulus high by keeping short-term rates low and increasing asset purchases to support the economy. Nevertheless, we think that government bond yields have further upside potential for longer maturities and see a likely reacceleration in the global economy next year, medium-term inflation and bond supply as the main risk factors. We thus continue to expect a moderate steepening of the curves and consider government bonds as unattractive. We stay underweight in a portfolio context. With current rates at historical lows, government bonds no longer offer a strong hedge for riskier assets, as central banks have limited ability to cut interest rates much further. We maintain a short-duration stance in the USA, the Eurozone and Switzerland and continue to favour US inflation-linked bonds relative to nominal US government bonds.

Investment Grade Bonds

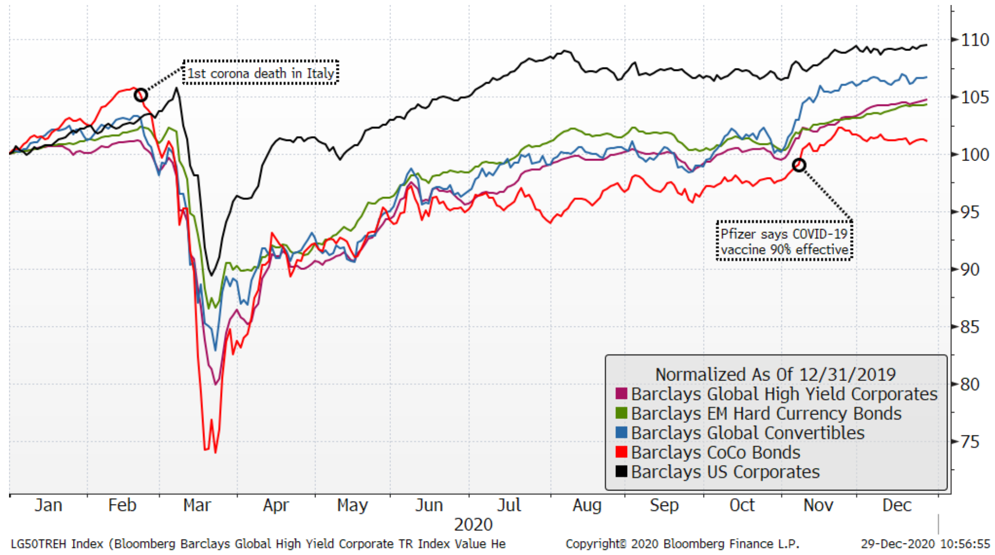
We expect attractive returns in Investment Grade Bonds over the next 3–6 months. With a divided US government now the most likely scenario, we think the size and scope of the next US fiscal stimulus might be more limited. Yet, even a modest fiscal stimulus should improve the default outlook going into 2021 and support credit in general.

High Yield corporate Bonds

Given the medium-term supportive backdrop related to COVID-19 vaccines, we expect High Yield corporate credit to outperform Investment Grade Bonds next year. A fiscal stimulus, even if modest, should improve the default outlook going into 2021 and particularly support lower-rated credits.

Emerging Market Bonds

We maintain a positive view on Emerging Market Hard Currency bonds and remain overweight in a portfolio context. The asset class has coped well with the uncertainty related to the US elections, even regaining momentum in the aftermath, driven by expectations that the new US administration will have a less confrontational approach to foreign policy. In terms of regional preference, we remain positive on Eastern Europe, Middle East and Africa and are negative on Latin America where we continue to hold a negative view on Brazil as a strained fiscal debt situation is likely to prevent Brazil from outperforming.



Selected Fixed Income Indices as of December 28. Source: Bloomberg

EQUITIES

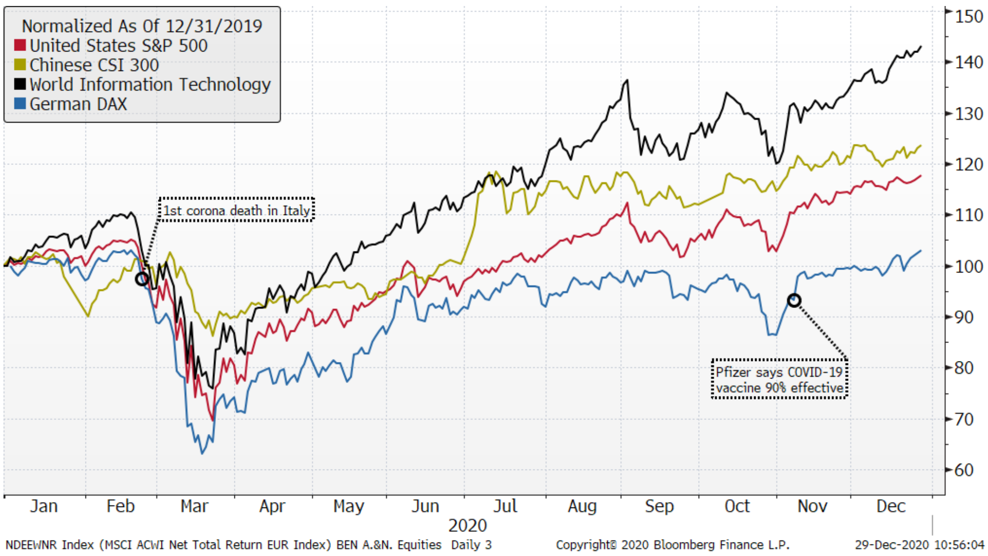
We maintain our attractive stance on global equities. We maintain the view that equity markets offer an attractive medium-term return outlook, as companies have weathered the lockdown-driven economic contraction fairly well, central banks retain a strongly supportive stance to overcome the COVID-19 crisis and an expected vaccine rollout over the course of 2021 will allow business activity to normalize also in sectors that are most severely affected. Overall, we maintain our pro-cyclical stance, but refrain from further increasing cyclicality, as we expect some economic weakness in the near term and tactical indicators suggest that after strong advances in recent weeks, the risk of a consolidation has increased.

Developed market equities

We expect attractive returns from developed market equities and have a preference for Germany. German equities offer further rebound potential, as the market's cyclicality comes with some quality. This is balanced by an underperform view on Japanese equities, which face a fragile macroeconomic situation. In sectors, we have a preference for healthcare and cyclical industries, especially the automobile industry. Healthcare companies have resilient earnings prospects also in these challenging economic times and offer appealing growth opportunities as healthcare access in emerging markets is growing.

Emerging market equities

We see a number of tailwinds for Emerging Market (EM) equities: Further US dollar weakness, positive vaccine news, loose monetary and fiscal policy, appealing valuation compared to Developed Markets (DM), economic recovery, higher commodity prices and long-term growth drivers (e.g. more innovation, rising middle class). Fundamentals, such as the earnings picture and the macroeconomic backdrop, continue to look better in EM Asia compared to other EM. We therefore continue to expect EM Asia to outperform broad EM thanks to better fundamentals and the region's exposure to the "new economy". On a country basis, we prefer China and Vietnam.



Selected Equity Indices as of December 28. Source: Bloomberg

ALTERNATIVE INVESTMENTS

Energy

After consolidating through 3Q20, oil prices have started to shift upward again in early 4Q20 amid expectations that OPEC+ would manage supply to address near-term demand concerns. The group indeed tweaked its strategy and will conduct monthly reviews starting from January 2021. While it may appear slightly premature to call for a sustained bull market, we have confidence in the medium-term rebalancing case where we see inventories normalizing in H2 2021, warranting prices above equilibrium, which we see around USD 50.

Precious metals

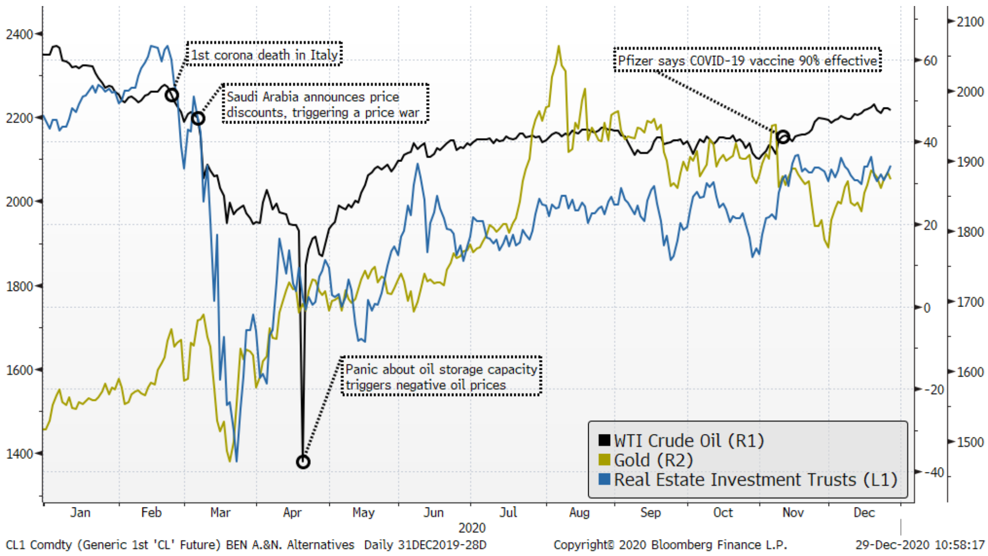
Gold has suffered some outflows lately as vaccine progress triggered a rotation into equities. However, we think the ingredients stimulating investor demand, i.e. USD weakness and eventually lower real yields, are still likely to remain supportive heading into next year. The lack of US stimulus shifts the burden to the Fed to do more QE, which should help keep yields in check. Meanwhile, inflation expectations may take a bit longer to pick up but we still see a good case for that. Traditional demand segments, jewellery and central banks have room to pick up, reducing the burden on investors.

Silver, on the other hand, is likely to outperform during phases of accelerating industrial activity.

Real Estate

Global listed real estate underperformed global equities over the last 30 days (MSCI World Real Estate: +2.3% vs. MSCI World +4.6%) as the positive impact from headlines of a potential COVID-19 vaccine has started to fade, especially on the more cyclical sub-sectors. Going forward, we keep a neutral view on global listed real estate. On one side, valuation multiples are undemanding when compared with global equities and low interest rates are supportive. Though, on the other side, structural concerns are likely to persist beyond a vaccine.

Swiss real estate stocks underperformed the global benchmark (-1.7% over the last 30 days). Over the coming months, we expect Swiss real estate stocks to perform in line with the global benchmark. While valuation has improved over recent months and multiples are in line with their long-term average values, large exposure to cyclical sectors (office, retail) mute the outlook given continued structural concerns from work-from-home and e-commerce.



Oil, Gold and REITs as of December 28. Source: Bloomberg

CURRENCIES

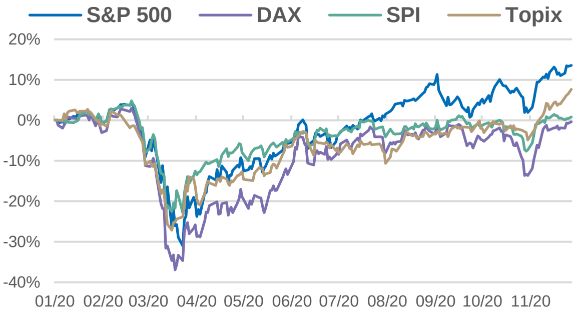
A likely split US government might still deliver a stimulus, albeit more limited and delayed in time than initially thought. With potentially less fiscal support, the Fed will have to stay very accommodative and potentially extend stimulus if needed. We thus do not see any rate support for the USD on the horizon. As we have argued, the Federal Reserve's new policy framework increases the prospects of stable to lower US real yields. AS the US twin deficits remain the largest among major countries, the USD should need to adjust lower in the absence of higher real rates. We continue to advocate diversifying out of the USD.

Against the USD, we currently like EUR the most, as the Eurozone tail risks have receded considerably with the comprehensive EU budget and recovery fund agreement. Despite some widening fiscal deficit, EU structural external balances are sound (3% surplus on average over the last 5 years) and real interest rates are set to remain supportive. The European Central Bank (ECB) will likely expand its policy support via asset purchases and refinancing operations in December, but should refrain from lowering short-term rates. As such, we do not anticipate an outright negative policy impact on the EUR. The common currency should stay supported beyond the short term COVID-19 led growth slowdown. Our EUR/USD targets are 1.24 in 3M and 1.25 in 12M.

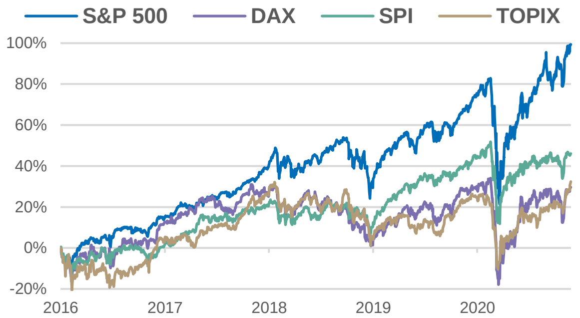
EURUSD Rate as of December 28. Source: Bloomberg

MARKET MONITOR AS PER 28.12.2020

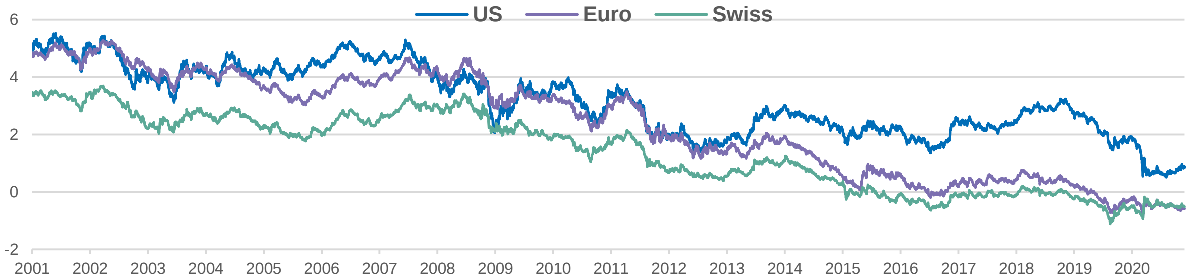
Equities YTD



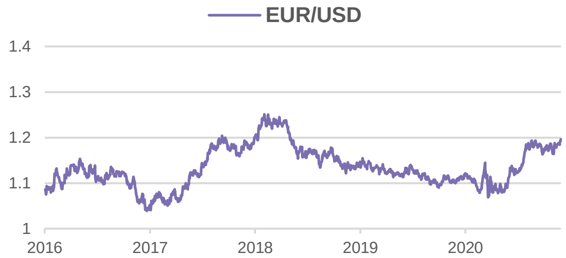
Equities 5-Years

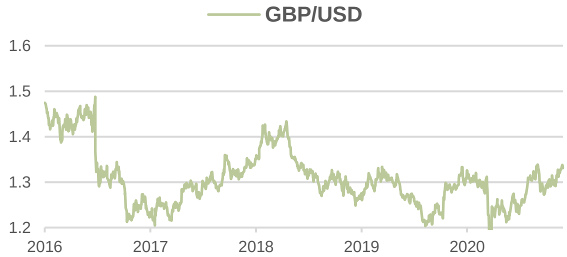


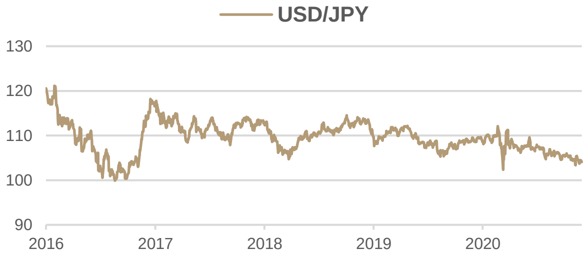
10-Year Government Bonds



Foreign Exchange







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