BENDURA BANK
BENDURA BANK AG · LIECHTENSTEIN

Quarterly report on 31.12.2017

MARKET REVIEW

The economic upturn in the Eurozone has noticeably spread and solidified. Ultimately, with a plus of 2.2% in 2017, the nineteen EU countries are likely to have experienced their largest growth in ten years. Early indicators such as the Purchasing Managers' Index, Economic Sentiment or the German ifo-Business Climate are signalling long-term highs and even an accelerated upturn. The interest rate rose slightly against the background of a very good fundamental environment and the resulting initial signals from the European Central Bank to abandon its ultra-expansive course. The yield of ten-year German federal bonds was recently around 20 basis points higher than its level at the start of the year. Historically based, this movement can be described as exceedingly moderate but in view of the extremely low initial yield this minor increase is already enough to push the overall annual performance of federal bonds into the negative segment. Investors who were prepared to take a somewhat higher risk fared considerably better, in the form of bank or corporate bonds. Admittedly, these asset classes also suffered due to the general yield increase but the improved economic perspectives in Europe simultaneously ensured a decrease in risk mark-ups which more than made up for the negative effect of the slight increase.

On the stock market, the leading German index, the DAX, recorded a record high of 13.525 points. On one hand, it was due to the pleasing performance of a dynamically growing economy. This had a positive effect on the profit development of corporations. Another reason for this plus was the relaxed monetary policy of the European Central Bank (ECB). Cheap money from the Central Bank additionally stimulated economic growth. Furthermore, the ECB's billion-euro bond purchases pushed yields on the monetary and capital market massively downwards. Some government bonds merely offered negative yields and risky corporate bonds also only partly compensated investors for the greater risk. The consequence was an investment emergency – due to a lack of alternatives the investors were practically obliged to place their money on the stock market. After the year-end rally, which began around one month earlier than usual, air certainly became increasingly thinner on the market. Hence, the large stock exchanges have registered slight price losses again since achieving the annual high. This brought an extraordinary stock market year to a close. It was not the level of the performance that distinguished 2017 from other years but the stunning volatility with its historically low extent. On average the global stock index, MSCI World, moves up or down by more than one percent on around 50 days of the year. So far this year there have been three such days!

MARKET OUTLOOK

On the verge of the tenth year after the financial crisis the economic traffic lights, based on the early indicators, remain on "green" in large parts of the world. In this environment the central banks are likely to continue along their path towards an exit from their ultra-expansive policy. Indeed they will continue to proceed cautiously here in order not to risk any upheavals on the capital markets. Debt levels are still very high and a clear yield increase would barely be tolerable, not least in the Euro periphery. Inflation development certainly gives central banks the necessary scope. The development of goods prices, barely above the zero line in Europe and even in the deflationary segment in the USA, is not least having a dampening effect on inflation. In total, due to the slightly more restrictive international central bank policy and improved growth perspectives, the mix suggests a yield increase on the bond market in 2018 as well. Ten-year federal bonds are likely to be within the range of 1% again by the end of 2018. In view of the still very low starting yield, this increase should also lead to a negative performance again in 2018. To avoid this, we will maintain the somewhat more offensive investment policy on the bond market, e.g. in the form of corporate bonds. You do not need to be a prophet to state that the new year will certainly not continue to be as quiet on the stock market as it was in 2017. In the past, the hurricane did not immediately follow the “calm before the storm”. Before this, such as when the bursting of the internet bubble or the financial crisis really devastated the stock exchanges, volatility initially only rose again to normal or slightly above-average levels. Due to dynamic economic development and continually inadequate investment alternatives, we are maintaining our fundamentally positive assessment of stocks. In doing so, we especially remain overweighted with European dividend-bearing securities. Based on valuation aspects they still have reserves, particularly in relation to other investment classes. Generally, the cycle has already progressed far. Wall Street will find it especially tough to perform further due to the high valuations of stock prices and planned interest rate hikes by the US Federal Reserve. Therefore, we will take a cautious stance. Moderate profits should still be achievable for diversified stock portfolios in 2018. In the meantime, the risk of a setback has risen.