BENDURA BANK
BENDURA BANK AG · LIECHTENSTEIN

Quarterly report on 30.06.2018

REVIEW

Negative economic news became more frequent in the Eurozone during the last quarter and was threefold. Firstly, the political climate deteriorated due to US trade politics based on confrontation and increasing protectionism. Secondly, early indicators decreased on a broad scale. Thirdly, hard economic data as well as monthly industrial production also declined recently. The slowdown from the first quarter continued into the second quarter thus reaching a level which brought about a lowering of economic forecasts for the Eurozone by all big economic research institutes. The US was considerably more robust. As a consequence of inflation rising as a general tendency, the US Federal Reserve increased key interest again and also announced two further moves for this year. The yields of ten-year US government bonds rose to around 3.00%, the interest rate curve was flatter overall. On the foreign currency market, the price of the US dollar rose against the euro.

Due to the weak euro and price gains on Wall Street in New York, European stock markets experienced a minor spring-time rally from the beginning of the second quarter until mid-May. This way, April somewhat placated DAX investors after two successive months of losses. The trade dispute stirred up by US President Donald Trump escalated but faded into the background albeit temporarily. The air strikes against targets in Syria and rising inflation was received in a surprisingly relaxed manner by the markets. Whilst US companies initially benefited from the effects of the tax reform in the USA and announced predominantly rising earnings, results and outlooks in Europe were rather subdued. Expectations were partly exceeded and forecasts were raised but also partly adjusted downwards. As expected. Currency effects especially played a significant role in the first quarter and made it very difficult for export-oriented companies to produce sales increases for figures reported in Euro. At the end of May there was a sharp decline on the markets. Trump imposed punitive tariffs on steel and aluminium imports, Juncker countered with retaliatory action. Apart from that, political uncertainty in the south of Europe, particularly in Italy, weighed on sentiment. The fact that a coalition was formed in Rome by two generally eurosceptic parties increased the fear of a new Eurozone crisis. Dividend values abroad fared better. In May, Wall Street topped the international performance rankings. All New York exchanges closed the month just ended with a plus. The Nasdaq Technology Sector Index even increased by more than 5%. In Europe however, there was also another dampener on the stock exchanges. China and the USA moved towards a substantial trade war after new threats by the US president. In particular, the profit warning by Daimler spoilt the sentiment for investors. Worries spread that this could be just the start of a chain of negative effects on the economy from the trade war.

OUTLOOK

Despite the decreasing early indicators which show weaker growth of the global economy, we are not in an environment that indicates a downturn or even a recession. The usual signs of this, such as an inverted interest rate curve or a decrease of early indicators at or towards recession level are lacking. The prospects for next year remain satisfactory to good. In particular, the interest rate in the Eurozone is likely to remain low for the foreseeable future, as also affirmed by the European Central Bank Council at its meeting last week. The world

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economy is being affected, on one hand, by US trade politics and ever increasing key interest in the USA. On the other hand, the very expansive fiscal policy in the USA is likely to strike a certain balance. Furthermore, it is reassuring that the new Italian government clearly pledged itself to the euro lately. Nevertheless, coalition plans represent a risk since they are combined with immense spending and subsequent risk of rising debt. It is to be hoped that the capital markets will force the government into a real policy. However, the political climate concerning Italy is likely to remain variable until a clear course of the Italian government becomes apparent.

It is unlikely that the political uncertainty will disappear again, the same can be said of economic concerns. Capital markets should consequently keep moving in a volatile environment. Our research partner's economists estimate that euro long-term interest will remain on its moderate upward path in the medium term. The performance prospects of federal bonds therefore remain limited. Indeed, US government bonds offer more attractive yields at first sight but continued key interest yields are likely to ensure rising yields there as well. In the stocks segment, analysts adjusted their original earnings estimates since the start of the year slightly upwards. They expect an earnings excess of around 10% for the DAX companies, the potential turns out to be somewhat lower by around 7% for the Euro Stoxx 50. After a sharp correction in the opening quarter, US stocks have clearly recovered thanks to a major boost in Q1. The positive framework data thus basically remains intact for stocks. In light of interest normalisation by the US Federal Reserve, the Trump uncertainties and persistent EU worries, setbacks are always to be taken into account with a view to the seasonally more difficult summer months as well. However, we see upward potential over the year as a whole.

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