BENDURA BANK
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Quarterly report on 30.09.2018

REVIEW

Developments on the financial markets during the summer months were dominated, on one hand, by trials of strength between US President Trump and Turkish President Erdogan and the smouldering trade conflict of the USA with the rest of the world. On the other hand, the stuttering economic motor of the Eurozone prevented further potential for recovery. According to the Ifo Business Climate Index, the sentiment of German top managers in July was at least clearly better. The political situation in Italy still has potential for interference: Finance minister Tria agreed to reduce the budgetary deficit in accordance with EU targets. This differs greatly from the plans of Lega and the Five Stars Movement. Furthermore, the current economic downturn is likely to make budgetary planning more difficult. Concern over financial stability of the Eurozone therefore persists. Market participants have also paid close attention in recent months to possible changes in the monetary policy of central banks. The US labour market report was convincing in September and paved the way for the Federal Reserve Bank to make further interest hikes. Just before the end of the quarter, as a result of the positive assessment of the economic situation and contrary to the “wish” of President Trump, the US central bank decided to make its eighth interest rate hike since the interest rate turnaround at the end of 2015, the third key interest rate hike this year. Apart from that, the Fed reiterated that moderate interest hikes would continue. Conversely, a couple of days before, the European Central Bank confirmed that it will leave key interest rates unchanged until summer 2019. Amongst the reasons for this decision was the slight decrease in growth expectations for the Eurozone for 2018 and 2019 as well as no change to ECB inflation forecasts until 2020. The ECB will therefore continue to provide the economy with cheap money. The bond purchasing programme will cease at the end of the year, maturities will continue to be invested. The Bank of England left its key interest rate unchanged. Concerns over recession at the time of the Brexit vote in 2016 have proved to be unfounded, the depreciation of the British pound created competitive advantages. The gridlocked Brexit negotiations and mixed economic data enabled monetary watchdogs to maintain key interest at the rate it was raised by last month of 0.75%. The tax decision of the Turkish central bank was of particular interest following the depreciation of the Turkish lira this year and the ratings downgrade. Despite the recommendation to the contrary by President Erdogan, the key interest rate was raised to 24%. Pressure on emerging country currencies continued. For example, the South African rand fell to its lowest level against the US dollar in two years. Likewise, the Indian rupee achieved its lowest level against the US dollar since July 1998. Emerging country currencies also dramatically depreciated against the euro.

The stock markets of industrial countries are continuing the inconsistent course of the first half of the year. Short-term recovery tendencies have been unsustainable so far. The desire of investors to buy was subdued due to the political situation in Italy, the yet to be negotiated Brexit and the trade conflict. After ups and downs in the last quarter, the German blue-chip index DAX recorded a moderate increase, the Paris lead index CAC40 was clearly more successful in the same period. The continuity and independence with which the US lead indices evolved was noticeable again, regardless of the currency effect. Corporate earnings in the USA increased due to the US tax reform once again. However, according to experts from Landesbank Baden-Württemberg, earnings growth has reached its peak compared with the year before. The DAX companies had

BENDURA BANK AG
Schaaner Strasse 27
9487 Gamprin-Bendern
Principality of Liechtenstein

P: +423 / 265 56 56
F: +423 / 265 56 99
info@bendura.li
www.bendura.li

VAT No. 53242
Reg.-No. FL-0001.534.001-6
SIC Code: 08803-7
SWIFT Code: HYIBLI22

a slight surplus of positive earnings surprises. The outlook on the Euro Stoxx 50 is reserved.

In asset management we use general, distinct price corrections on additional purchases and tranche investments. Within stock allocation, we reduced the share of Germany in Europe to the benefit of France and internationally to the benefit of the USA. The temporary weakness of emerging countries was the reason for another reduction of the previous share and transfer of US stocks.

OUTLOOK

The world economy remains on an expansion course. Experts from Landesbank Baden-Württemberg envisage similar to slightly lower growth rates for the Eurozone, USA and China in 2019. US punitive tariffs are having no dramatic effects on consumer behaviour but are ensuring increased volatility on the finance markets. The potential for price setbacks will therefore remain high. The development of corporate earnings continues to profit from the stable economy. The high valuation ratios for US stocks should be noted, particularly under the influence of share repurchases. Savings interest will remain unattractive in the Eurozone, money market interest will even be negative. EUR yields for long-dated bonds are moderately rising but are still to be assessed in consideration of the increased price risk. Sought after corporate bonds represent diversification possibilities.

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