BENDURA BANK
BENDURA BANK AG · LIECHTENSTEIN

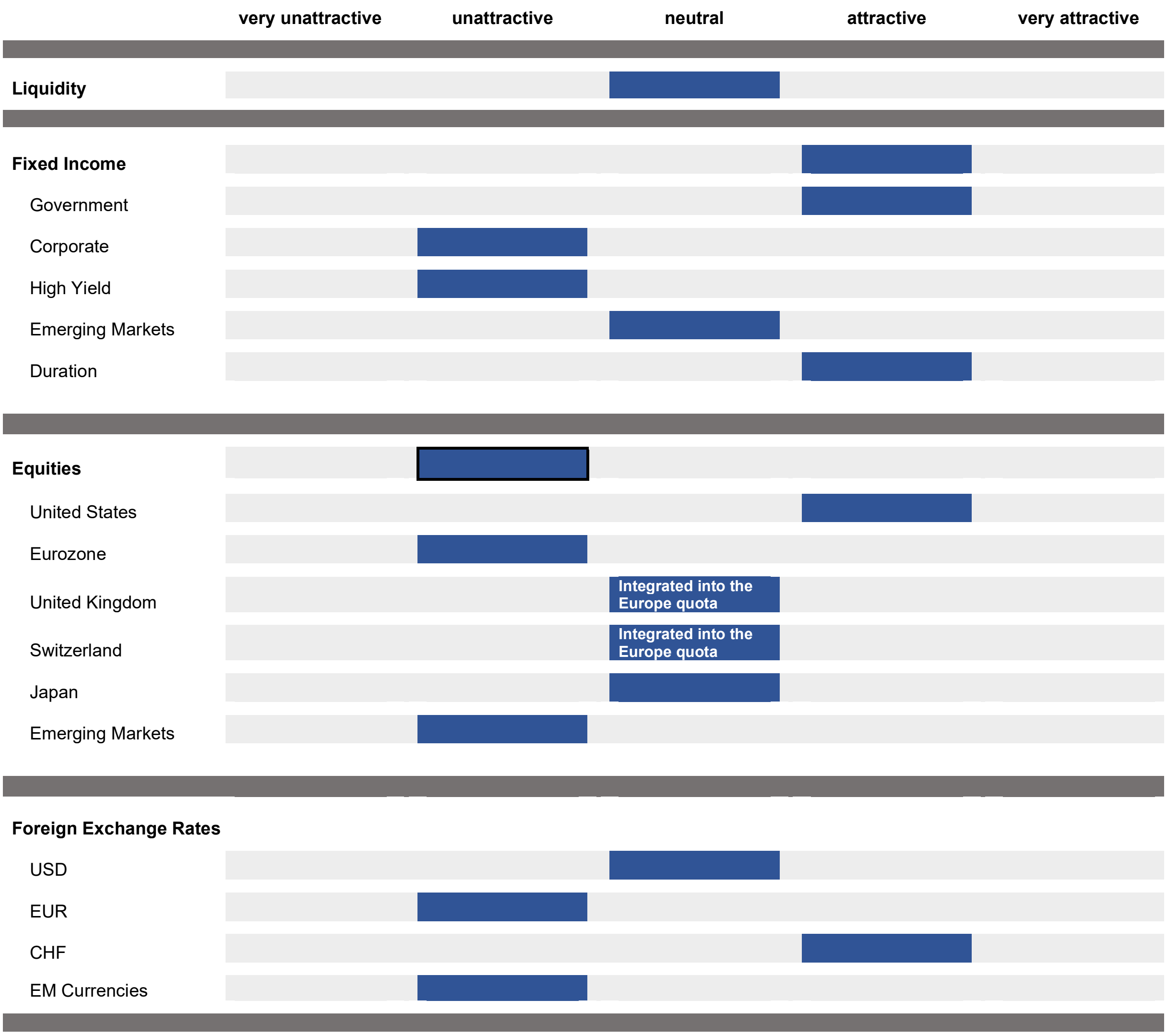
INVESTMENT OUTLOOK
OCTOBER 2024

Stocks performed unexpectedly well during what is typically their most challenging time of year. The month started with a selloff in risk assets, mirroring August, but ended with another surge. Both August and September saw weak starts due to disappointing macroeconomic data, including persistent inflation and low unemployment, which initially suggested that the Federal Reserve would not cut interest rates by more than 25 basis points—but they did anyway. Despite these challenges, the S&P 500 just had its strongest first nine months of the year since 1997, pushing its market cap above $50 trillion – an achievement made in September, historically the worst month for stocks.

Even though the market has got excited by the large stimulus in China and 50 bps FED cuts, these can be recognized as significant signs of weakness, since implications of monetary and fiscal easing will not impact the economies quickly enough to prevent them from falling into recession.

We therefore remain defensively positioned and are tending towards a low-risk portfolio strategy with an underweight in equities and credit risk and a higher allocation to government bonds.

BENDURA Market Views



The terms attractive / unattractive describe the return potential of the various asset classes. An asset class is considered attractive if its expected return is above the local cash rate. It is considered unattractive if the expected return is negative. Very attractive / very unattractive denote the highest conviction views of the BENDURA Investment Committee. The time horizon for these views is 3-6 months.

Global Economy

Last month, Federal Reserve Chair Jerome Powell surprised markets by cutting interest rates by 50 basis points. Powell described the cut as a necessary “recalibration” of monetary policy to fit an economy where inflation is easing and labor market demand is slowing. While such large cuts are usually reserved for major economic shocks, the decision reflected the Fed’s attempt to balance risks. The next challenge is determining the pace of future cuts to reach a neutral policy rate. However, the labor market now seems to be bigger problem than inflation.

European data pointed to a slowing economy, with key indicators signaling contraction in major economies like Germany. The composite PMI hit an eight-month low of 48.9, while The European Commission's sentiment indicator dipped too and there was also negative news in Eurozone's biggest economy, Germany. The ZEW indicator dropped to the lowest level in nearly a year and Ifo business climate index fell for the fifth consecutive month. Central banks across the continent, including the ECB and SNB, continued to cut rates, and basic resources stocks surged thanks to China’s stimulus measures.

Meanwhile, China implemented a trio of stimulus measures, including rate cuts, support for stock buybacks, and a promise of fiscal action, which initially boosted investor sentiment. However, there is skepticism about whether this will be enough to revive the economy, given past disappointments. Investors remember how China’s massive 2008 stimulus boosted the global economy, but that also left a legacy of local government debt and overbuilt infrastructure. This time, China’s smaller stimulus package may not have the same global impact, though industrial metals like copper have seen a positive response. While the stimulus lifted Chinese equities, deeper issues like real estate market troubles remain unresolved. Despite this, the rally in Chinese stocks appears more like a short-term trade rather than a long-term investment opportunity.

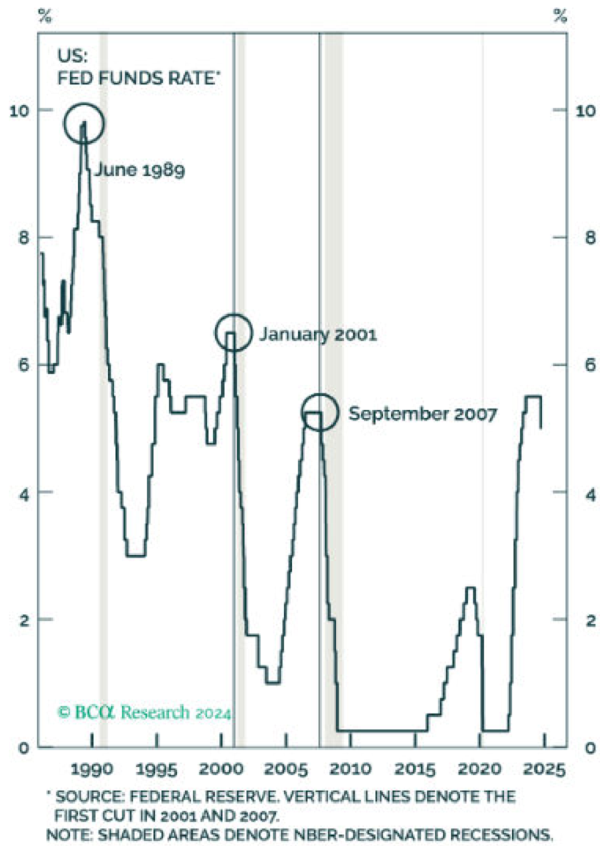


Chart 1: Fed usually cuts rates just before recession begins. Source: BCA Research, www.bcaresearch.com

Equities

US stocks had a positive September, with the S&P 500 and Dow Jones Industrial Average both rising for the fifth month in a row. The S&P 500 saw a 2.02% rise in September, outperformed by the tech-heavy Nasdaq, which gained 2.68%. The S&P 500 has now risen for four consecutive quarters and seven of the past eight. The equal-weight S&P 500 outperformed the cap-weighted version, gaining around 9%, as some megacaps trimmed their earlier gains. Although September started with a significant drop, Fed's aggressive rate cut helped fuel a rebound. Meanwhile, the Magnificent Seven tech stocks experienced divergent performances as investors grew cautious about heavy spending on AI. In contrast, small-cap and value stocks outperformed.

European equities ended September on a mixed note, with Stoxx Europe 600 pulling back from record high on the last day of the month. While Spanish and German stocks rose (4.17% & 2.21% respectively), the Swiss and UK markets lagged (-2.15% & 1.67%). European data pointed to a slowing economy, with key indicators signaling contraction in major economies like Germany. Central banks across the continent, including the ECB and SNB, continued to cut rates, and basic resources stocks surged thanks to China's stimulus measures.

In Asia, China's political leadership gave a boost to markets with a significant fiscal and monetary stimulus plan, leading the CSI 300 index to jump 15.7% in one week—the best performance since 2008. While China's markets remain unattractive for long-term investment, short-term trading opportunities are promising. Looking ahead, the question is whether the rally can continue through the end of the year. Based on investor positioning, few are hedging against further volatility after playing it safe earlier in the summer.

			S&P 500		
Date Of First Cut	No. Of Months From First Rate Cut To Start Of Recession	Rate Cuts Over Following 12 Months (BPs)	Change Over 1 Month After Cut	Max Decline Over Following 3 Months	Max Decline Over Following 12 Months
Jul-74	-9	768	-5.6%	-25.1%	-25.1%
Mar-80	-3	508	4.1%	-2.2%	-2.2%
Jul-81	-1	1171	1.4%	-11.5%	-15.9%
Aug-84	No recession	410	3.3%	0.2%	0.2%
Jun-89	13	220	-1.2%	-1.2%	-1.2%
Jul-95	No recession	213	0.9%	-0.5%	-0.5%
Jan-01	2	495	0.1%	-17.9%	-28.3%
Aug-07	3	331	4.3%	-3.9%	-17.0%
Aug-19	6	230	-0.9%	-3.8%	-24.2%
Average	**2**	**483**	**0.7%**	**-7.3%**	**-12.7%**
Median	**2**	**446**	**0.8%**	**-3.8%**	**-14.3%**

Chart 2: How US stocks behaved around the first fed rate cut. BCA Research, www.bcaresearch.com.

Fixed Income

In September, Fed Chair Jerome Powell announced a more aggressive 50-basis-point rate cut, lowering the federal funds rate to 4.75-5%, marking the first easing cycle in over four years. Reacting to the change US Treasury yields fell, and the yield curve inversion (where short-term rates are higher than long-term ones) began to unwind. The next significant move in yields should still be downward. The labor market is slowly materializing, while the bond market is still priced for a soft landing. Despite the recovery in risk assets, the stock-bond correlation is becoming negative again, meaning bonds are reverting to their purpose as a safe-haven asset. US Investment grade-credit outperformed duration-matched Treasurys by 66 basis points over the past quarter. Meanwhile, high-yield credit outperformed by 142 basis points over the same time frame.

In view of the fragile economic situation and the US Federal Reserve's decision to start the easing cycle with a major interest rate cut, expectations of the number of interest rate cuts by the European Central Bank (ECB) have risen. However, there are still arguments in favor of a gradual approach: inflationary pressure in the services sector in Europe remains high; the situation on the labor market is better than in the US; neither the political uncertainty in Europe nor the structural problems. The central bank is likely to add to this in December at the latest and then loosen the interest rates more quickly next year if inflation recedes as expected.

Swiss National Bank (SNB) lowered its key interest rate by a further 25 basis points (bp) to 1.0%. The SNB carried out the third reduction in a row against the backdrop of declining price pressure and the appreciation of the Swiss franc. Most recently, a larger interest rate cut of 50 bp was even discussed. However, at the last monetary policy assessment under SNB Chairman Thomas Jordan, the monetary policy committee preferred not to reduce its room for maneuver prematurely. However, the falling inflation risks and the continuing support for the Swiss franc make further interest rate cuts likely under the new Chairman Martin Schlegel. Surprisingly, the SNB also explicitly held out the prospect of this. Market assumes that the SNB will cut its key interest rate to 0.75% in December and expect a further cut in 2025.

Commodities and Currencies

Silver has risen by around 34% this year, surpassing gold, which continues to set record highs – gold has reached a new high of over $2,650 per ounce. The iShares Silver Trust, an ETF holding physical silver bullion, has seen $856 million in inflows year-to-date. Silver demand has been strong both as a store of value and for industrial use. According to The Silver Institute, demand has exceeded supply for three years, with another deficit expected this year due to weak mine output. Over 70% of mined silver comes as a byproduct of other metals like lead, zinc, copper, and gold, while weak zinc prices have led to mine closures. In addition to that, this year's silver rally has partly been driven by investors seeking precious metals.

Microsoft's deal to purchase nuclear energy from Constellation Energy’s Three Mile Island plant has bolstered the nuclear supply chain, benefiting uranium mining companies. Following the deal, shares in nuclear reactor companies surged, with Constellation reaching a record high and Vistra becoming the S&P 500's top performer for the year. Uranium mining stocks, which had been down, turned positive as analysts expect the nuclear fuel supply deficit to worsen due to increased demand for electricity from data centers. Uranium demand has been rising by about 4% annually, a significant increase compared to the 1% growth seen between 2010 and 2020. With higher electricity demand from data centers and AI, along with decommissioned nuclear plants restarting, demand growth could accelerate.

The dollar index fell 0.9%, marking its third consecutive monthly decline. In September, the yen strengthened on policy divergence, while the euro and British pound also gained against the dollar. Year-to-date, the pound stands out, rising 4.7%, including 4.7% and 4.1% gains against the U.S. dollar and euro, respectively, making it the top-performing currency among G-10 nations.

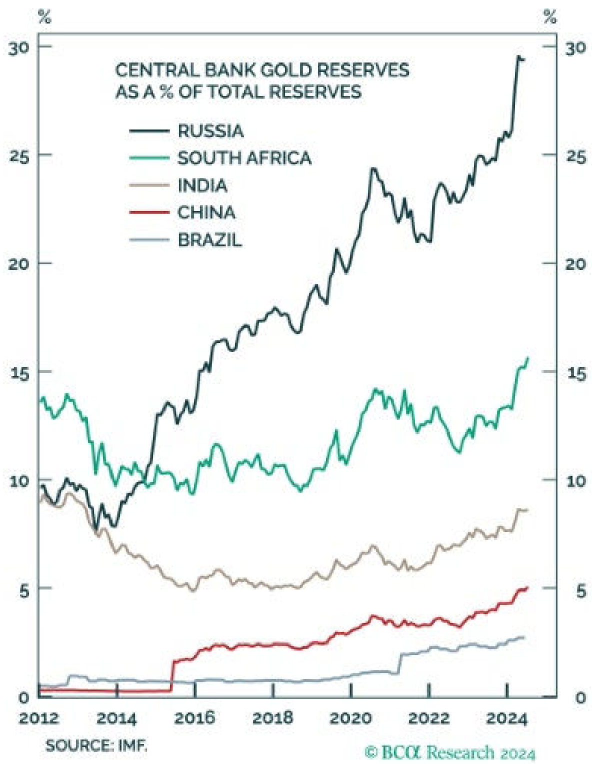


Chart 3: Gold Purchases by EM central banks have slowed. BCA Research, www.bcaresearch.com

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