

MARKET OUTLOOK

March 2025



BENDURA BANK
BENDURA BANK AG · LIECHTENSTEIN

Investors see Europe as a museum: a continent stuck in the past, with no ability to innovate, much less generate profits.

The United States has far outpaced the European Union in terms of economic growth since the COVID pandemic. The US real GDP has grown 14% since the pandemic trough, compared to just 9% in the euro area.

Investors forget that the stock market is not the economy. American economic growth over the past five years may have been exceptional, but the profitability of the US stock market has not been much better than Europe's.

Today, the investment community seems stuck in the paradigm of the 2010s, when European earnings growth lagged 45%

behind that of the US. At that time, Europe was struggling with structural problems in its financial sector. However, most of the problems from that period have now been resolved. Banks' balance sheets have been cleaned up, allowing financials to return to the same profitability as before the global financial crisis.

Today, European financials' return on equity is higher than that of their vaunted US counterparts, even though they trade at a significant discount on a price-to-book basis.

It is also important to note that the composition of the European market has changed significantly. The days when

European stocks were dominated by insolvent banks and unprofitable car manufacturers are long gone.

BENDURA Investment policy

	Very unattractive	Unattractive	Neutral	Attractive	Very attractive
Liquidity	●	●	●	●	●
Fixed Income	●	●	●	●	●
Government	●	●	●	●	●
Corporate	●	●	●	●	●
High Yield	●	●	●	●	●
Emerging Markets	●	●	●	●	●
Duration	●	●	●	●	●
Equities	●	●	●	●	●
United States	●	●	●	●	●
Eurozone*	●	●	●	●	●
Japan	●	●	●	●	●
Emerging Markets	●	●	●	●	●
Rates					
USD	●	●	●	●	●
EUR	●	●	●	●	●
CHF	●	●	●	●	●
EM Currencies	●	●	●	●	●

*inkl. UK and Switzerland

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

USA

In many ways, the US is a mirror image of Europe. As we have warned in recent months, investors have been overly optimistic about the US growth outlook. The general belief among market participants was that Trump's second term would be a repeat of his first: with strong growth, tax cuts and deregulation boosting a US economy that has been able to beat expectations for two years.

But the market has begun to realize that Trump's second term will be very different. Policy incentives have completely shifted since 2016. Lowering inflation and interest rates have replaced higher growth and jobs as priorities for this administration. Elon Musk and the Department of Government Efficiency (DOGE) are putting a chainsaw to government spending, both figuratively and literally. Lawmakers have also proven to be more fiscally conservative than investors

expected. On February 25, House Republicans approved a budget that extends Trump's tax cuts but also cuts spending by USD 2 trillion, including cuts to Medicaid.

The final bill will likely contain more tax cuts and fewer spending cuts than the current version. Overall, this will result in a modest fiscal boost down the road. DOGE's aggressive job cuts could also be stopped by the courts.

Importantly, however, the economic uncertainty caused by these policies, as well as the back and forth on tariffs, have reversed the "animal spirits" rally that followed Trump's election. Consumer sentiment fell to its lowest level in 15 months in February, with news about government policies being the main reason for this decline.

Europe

In Europe, political events have been unfolding rapidly in recent weeks. On the one hand, the European export economy remains the biggest problem due to the threat of an increase in punitive tariffs. On the other hand, European politicians were largely ignored by Washington's proposal to quickly end the war in Ukraine. Various European heads of state used the wake-up call from the USA to campaign for an increase in defense spending. In Germany, the Union and the SPD agreed on a huge financial package nine days after the federal election. In order to be able to put more money into Germany's defense, the debt brake anchored in the constitution is to be relaxed in the coming days. In addition, a special fund of EUR 500 billion is planned for the modernization of infrastructure. In general, Europe is far behind in terms of defense spending, and it can be assumed that the European Union will approve the

nationally planned defense spending, even if it contradicts current fiscal rules.

Asia

The impact is getting closer and closer for the Chinese government. Recently, American President Donald Trump announced that he would raise tariffs on Chinese imports by a further 10%. A month ago, he had already ordered a 10% increase in tariffs. Speculation that Trump could be seeking a "big deal" with the USA's fiercest rival is thus increasingly being undermined.

The days when Chinese companies and private individuals invested billions in the USA are long gone. In total, China invested around 200 billion USD in the USA between 2005 and 2024.

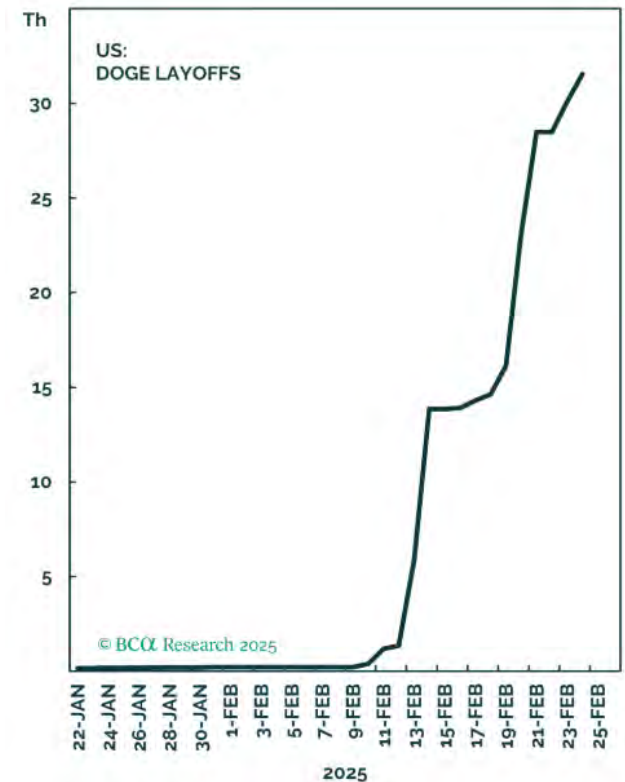


Chart 1: DOGE starts with cutting jobs.
Source: BCA Research,
www.bcaresearch.com

EQUITIES

The S&P 500's earnings growth expectations for 2025 have fallen since the beginning of the year. The outlook for the "Magnificent Seven" remains a major risk. The fourth quarter of 2024 was the first time since 2022 that these companies exceeded sales expectations by such a small margin.

The capital intensity of the hyperscalers continues to increase, meaning that less cash is available for distributions to shareholders. Buybacks now account for only 18% of operating cash flow, the lowest share in the last seven years.

The US market remains the measure of all things. The business-friendly framework conditions have been reflected for years in earnings growth, which is well above average compared to the region. However, earnings growth is currently dominated by only a few companies that mainly come from

technology-related growth sectors and have monopoly-like market positions.

Most European stock markets closed higher for the 10th week in a row. The benchmark Stoxx Europe 600 hit another record high and the FTSE 100 closed at record levels, while the CAC40 lost around 0.7% after the previous week's negative weekly performance. Banks, insurance and utilities fared better, while media, technology and basic materials lagged.

Following the German elections, equities continued to outperform, despite US President Trump threatening Europe with broad-based tariffs of 25%. Coalition talks between the CDU and SPD started on, but the Chancellor-elect Friedrich Merz faces a tough battle.

With tariff risks flaring up again, we think it is best at this point to wait for a better entry point when looking at the overall China index. However, we believe Chinese



companies are better than their stretched valuations suggest. Chinese growth stocks in particular have experienced a rapid recovery in earnings per share over the past two years.

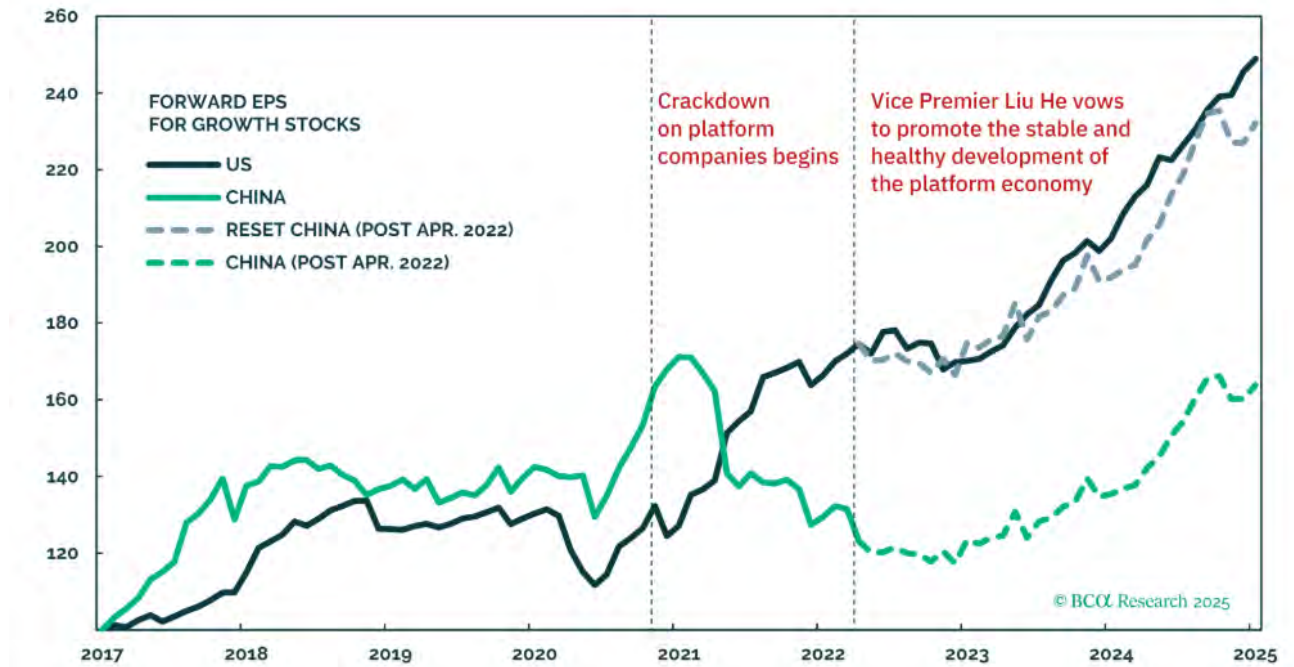


Chart 2: Chinese growth stocks are in line with US-pendants: Source BCA Research, www.bcaresearch.com



BONDS

Yields have fallen 29 basis points since the beginning of the year. We remain overweight on duration for now. The index of outstanding home sales in the US recently fell to 70.6, reaching a multi-decade low below the low of the 2020 Corona crisis. This is happening against the backdrop of rising housing supply.

Expectations of a rate cut for the Fed have risen from 50 basis points at the beginning of the year to 90 basis points. In our view, we would need to see clear signs of a deterioration in the labor market for the 10-year yield to fall below 4%.

Spreads on emerging market government bonds remain at low levels. Currently, US dollar-denominated emerging market government bonds offer a yield premium of 3.2% over US Treasuries. This is a low value by historical standards; in the last ten years,

the spread was higher than it is now in 84% of the time.

On an annual basis, the 17 most important emerging market currencies have depreciated by an average of 4% against the US dollar. Another headwind for emerging markets is the political uncertainty since Donald Trump took office.

The resilience of spreads in the face of these headwinds is partly due to improvements at the country level. Many countries have recently made fundamental improvements and the rating agencies have rewarded these by upgrading their credit ratings. In addition, emerging market bonds are benefiting from the general market situation in which risky investments continue to be in demand.

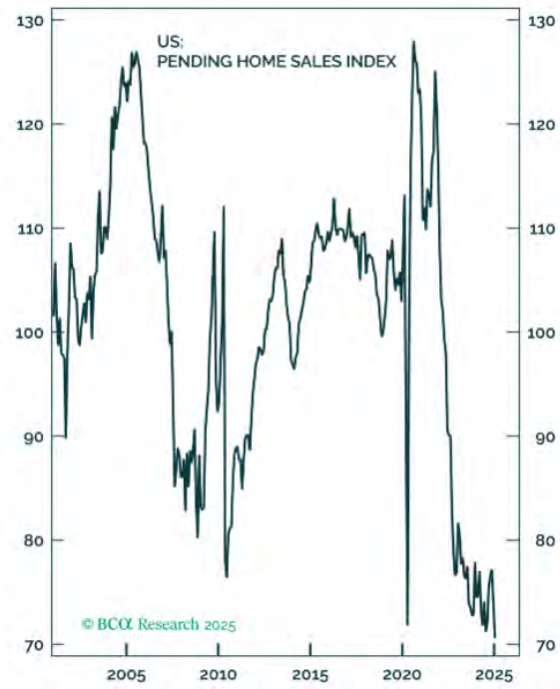


Chart 3: No one is buying in the US. Source: BCA Research, www.bcaresearch.com

COMMODITIES AND CURRENCIES

Some investors argue that gold has become too expensive. However, analysts conclude that there is no obvious overvaluation of the yellow metal.

While gold's benefits as a safe haven and inflation hedge are often overstated from the perspective of US investors, gold represents a more effective hedge for investors in other base currencies.

Given our expectations of lower growth in the US, oil demand is also likely to remain subdued. Nevertheless, supply dynamics could put a floor under prices. The number of oil drilling rigs continues to decline and private US oil companies are unlikely to increase supply without the incentive of higher prices.

On March 2, US President Trump announced progress on a strategic crypto reserve. This includes Bitcoin, Ethereum, Ripple, Solana and Cardano. The crypto scene is divided after this announcement. Bitcoin maximalists demand that the reserve consist exclusively of BTC.

James Butterfill, Head of Research at CoinShares, is also surprised by the crypto reserve plans. In a statement, he explains: "Unlike Bitcoin, which can serve as a limited supply asset to hedge against a depreciating fiat currency, these other assets are more like technology investments.





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