Bendio
WEALTH MANAGEMENT

MAY 2023

HOUSE VIEW

S2 - 2023

MIRIAM MAZOLA
MANAGING DIRECTOR

ANDRÉS S. TRUJILLO RENZI
SENIOR PORTFOLIO MANAGER

WWW.BENDIO.CH
+41795802628
BODENHOF 2A, 6403
KÜSSNACHT AM RIGI

THE BEGINNING OF A NEW BULL CYCLE

SP500 - YTD price evolution

Source: Bendio AG, Trading View

Against the consensus, we expect a promising year ahead for investors looking for higher returns through riskier asset classes in 2023, compared to the previous year. However, we recommend that investors approach these opportunities with caution, and conduct thorough research to carefully select themes and industries that align with their investment goals and risk tolerance.

As with the beginning of any bull market, volatility is still high, pessimism prevails, and investors need to exercise patience, focus, and a calm mindset to spot the opportunities and manage the fluctuations that my arise throughout the year.

Needless to say, near the bottom opportunities tend to show the best risk-return relationship possible to investors because of the defined line in the sand for risk management and the potential rewards.

> "Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria"
>
> John Templeton

THE CONTEXT: WHERE WE COME FROM?

The correction in the financial markets did not begin in 2022, as many had expected, due to the combination of a tight monetary policy by the FED and fears of war with Russia. In fact, signs of exhaustion in the market's risk appetite emerged in 2021, particularly in the Growth/Innovation fund managed by renowned and star of the Covid Crisis, Cathie Wood (ARKK Fund Manager).

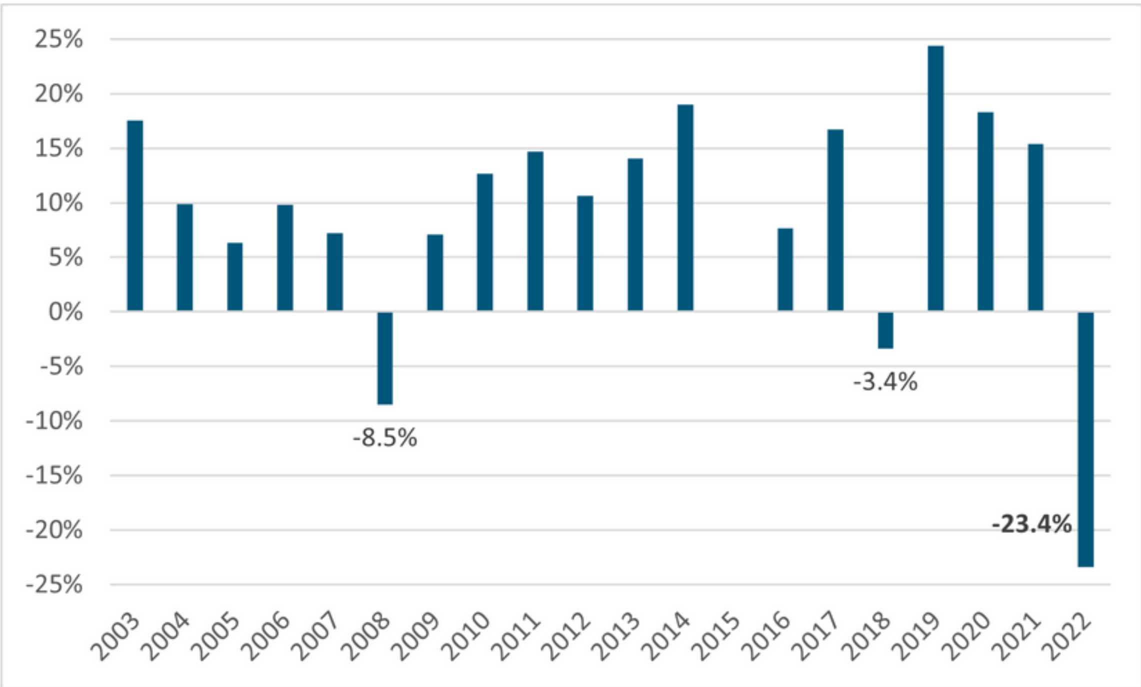
The ARKK fund reached its peak in February 2021 and entered a pronounced downtrend that resulted in an approximately 80% decline in its value (see chart Nr. 1. ARKK weekly prices). The growth and high-beta ecosystem that tends to lead the market experienced significant pressure early on, which then spilled over into broader market indexes in 2022. We saw reductions of nearly 30% in the Nasdaq and 25% in the S&P 500.

Chart 1: ARKK Fund 2021 peak

Source: Bendio AG, Trading View

On another note, rates started to climb very fast and treasury bills suffered sharp declines. It is worth noting that 2021 was considered a challenging year for the traditional 60/40 portfolio, as bonds performed worse than stocks, for the first time ever, which limited the portfolio diversification potential (see chart Nr 2. Annual Returns Portfolio 60/40). A standard 60/40 portfolio would have seen its worse performance in the last 15 years with a 23% decrease. Indeed, performance was worse than the Great Financial Crisis(-8,5%) and trade war fears in 2018 (-3,4%). Such a breakdown in the traditional relationship between stocks and bonds has made some investors question the effectiveness of a 60/40 portfolio in today's market conditions which in our view represents an interesting psychological feature for this edge in the coming months.

Chart 2: Historical returns % of a 60/40 Portfolio (Stocks and bonds)



Source: Bendio AG

NEW YEAR, NEW DYNAMIC

Bitcoin and speculative assets leading the uptrend

The year 2023 has presented a significant shift in market dynamics.

Towards the end of 2022, we observed a growing appetite for riskier assets, which gained momentum as the new year began.

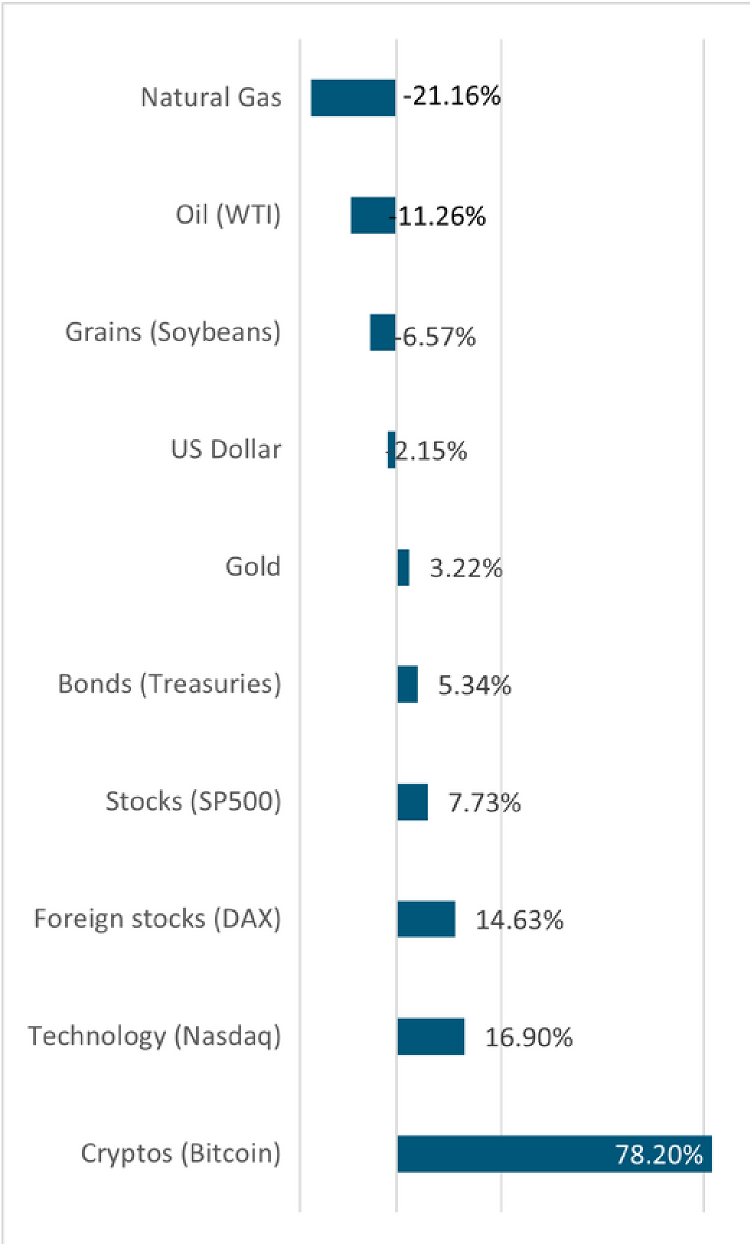
The demand for such assets has begun to outpace supply, leading to significant market gains in several asset classes.

Notably, last year top performers such as energy, food, and the USD dollar have started to lag, and investor money is now flowing towards indexes, bonds, and cryptos.

This can be observed in the YTD performance by asset class (See Chart 3), which indicates that cryptocurrencies, technology stocks, and foreign stocks are leading the board.

Other assets, such as gold, have also demonstrated impressive performance so far.

Chart 3: Year to date performance by asset class



Source: Bendio AG

WHY INVESTORS ARE SO SCARED?

Investors are currently exhibiting a great deal of fear and worry about the markets.

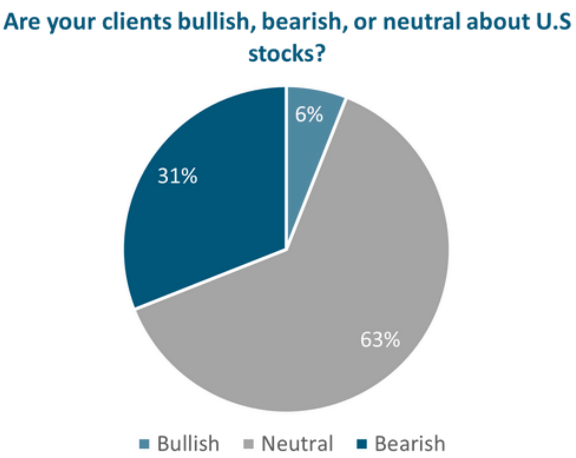
The media selling the news: The banking crisis, the recession, the FED pivot, among others, there is always a narrative that media throw into the market to cause fear and anxiety. As John Templeton once said, ¨Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria¨.

Sentiments leans towards fear: However, the current market environment is far from euphoric. Several polls reflect the pessimistic expectations of both individual investors and money managers for the upcoming year.

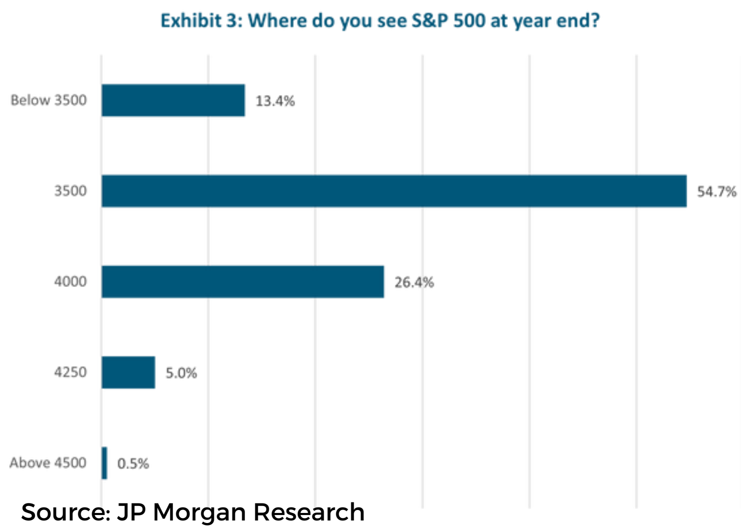
Recent polls from big players: For instance, a recent study conducted by JP Morgan found that less than 1% of their investors believe that the S&P500 will close higher by the end of the year. Similarly, Barron's Big Money poll revealed that only 6% of the 130 managers polled reported that their clients are bullish.

Bendio view: Despite this constant pessimism, we believe that the market may continue to climb in price amid a classic 'wall of worry' environment that will keep investors out of the uptrend until visible.

Chart 4: Sentiment polls Barons and JP Morgan



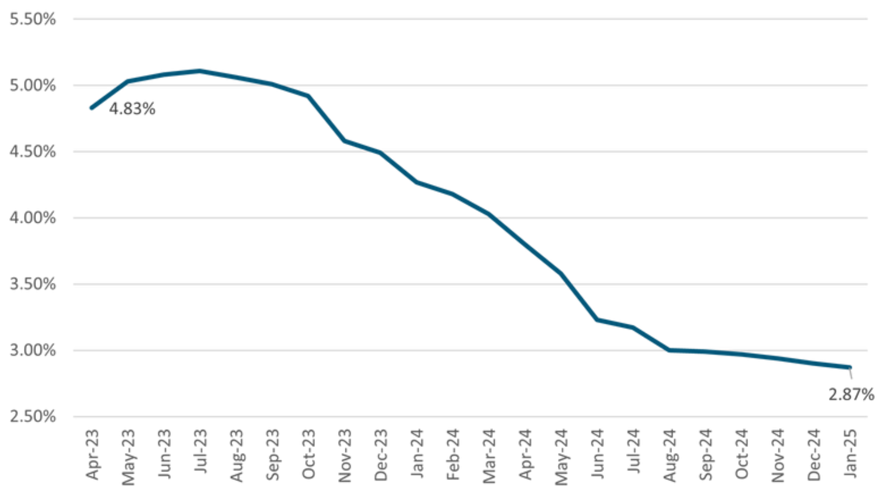
Source: Barrons Poll



Source: JP Morgan Research

PLEASE DON'T FIGHT THE FED

Chart 5: Market Expectations for Fed Funds Rate



Source: Bendio AG, Fed Funds Futures, Apr 2023 - Jan 205

Market Turbulence and Upcoming Shifts: It is important to remember not to fight the Federal Reserve (FED) when it comes to the market tide. The primary force behind the market tide is the Monetary Policy, and the turbulence started to emerge once the FED decided to start cooling the economy by reducing the stimulus and increasing interest rates. However, there are compelling reasons to believe that this trend is about to change.

Breaking Records, the regional banks turbulence: First, the bankruptcy of First Republic Bank has had a profound impact on the financial system, becoming the 2nd largest bank failure in history with assets over USD 229 billion. Also, this has caused a lot of regional banks to experience turbulence. It is worth mentioning that even though inflation is a big objective of the monetary authority, the financial stability of the system remains a top priority.

Preparing for a Recession?: Furthermore, the tightening cycle will likely cause a recession in the economy, as has been priced into the financial markets (first bonds, then stocks and now commodities). However, for all these reasons, as can be seen in Chart Nr. 5, the market is expecting a pause in the tightening policy in the June-July window, followed by a rate cut for the September meeting. It is important to note that this expectation curve can change drastically based on new events, but it serves as a guide.

In summary, it is crucial to keep an eye on the FED's actions and not fight against them. The recent turbulence in the financial system and the expectation of recession indicate that we might see a pivot or pause in monetary policy. However, investors should remain vigilant and adaptable, as events can change the expectation curve quickly. .

DEEPING INTO THE TECHNICALS

Chart 6. Price action SP500 (weekly bars)

Source: Bendio AG, Trading View

Bases: A Sign of Transition to New Uptrends

In the current market environment, the price action of several asset classes can be best summarized by the word "bases." A base is defined as a bottoming process in which buyers absorb selling, marking a transition from a correction to a new uptrend. This trend is evident in various indexes, both in the US and abroad, as well as in the bond market, where buyers have been absorbing selling pressure, resulting in a stabilization of prices, and potentially setting the stage for a new upward trend. However, while the S&P500 has been going nowhere for a year, the participation beneath the surface as measured as the number of stocks moving in the same direction as the market has been expanding. See Chart 6.

Spreading Risk Appetite All Over the World

The number of S&P500 stocks performing above its 50-day moving average currently stands at 40-50%, increasing versus last year. Moreover, the number of markets across the world making new highs is increasing, with the Dax of Germany, CAC of France, and FTSE of UK at or near all-time highs, indicating a spreading risk appetite all over the world.

Technology Sector Leading the Market

In addition, leaders have been performing as expected, with the technology sector leading the market. META has been going up for six months in a row, and semiconductors, the tech leader, have shown impressive performance with names such as NVDA making triple-digit moves YTD.

Cryptos' Resilience and Changing Correlation with Traditional Markets

Moreover, the crypto space, namely Bitcoin and Ethereum, which were severely punished last year, have been showing top performance and resilience to recent corrections. In fact, the correlation between traditional markets and cryptos has been getting lower than last year showing the character change.

US Dollar's Price Correction and Risk-On Environment

Last year darling US dollar has suffered a price correction followed by the risk-on environment. After its peak in September last year, where the euro was below 1 dollar now has experienced a 10% decrease in less than a year.

WHICH ARE THE POTENTIAL HEADWINDS?

1. Inflation Concerns

The first aspect to consider is the persistent inflation, which might force the FED to maintain the high-rate policy unchanged. If the authority continues the path of tightening, it will undoubtedly deteriorate the value of assets. Therefore, we need to monitor any signals of changes in monetary policy and its impact on the markets.

2. Banking Crisis

Another aspect to consider is the potential escalation of the banking crisis. According to the FDIC, in a normal year, almost 5 banks fail, and during unstable times, even 75 banks fail. Although we believe that more than 60% of liquidity is concentrated in big players such as JP Morgan, Bank of America, Wells Fargo, etc., if regional and medium-sized banks continue to fall like domino pieces, the risk of contagion or systemic risk will increase. This will manifest in new lows on the banking and small-cap ETFs such as XLF, KRE, and IWM that will drag the overall markets. Therefore, we need to keep an eye on any signs of instability in the banking sector.

Stay Flexible

As active investors, our capacity to adapt to new information is vital. It is crucial to keep an open mind and manage risks, as our views are not written in stone. While we strongly believe that this should be a stellar year for risky assets, we remain cautious about several aspects that might generate further market turmoil.

BOTTOMLINE:

In a nutshell, these are some of the reasons why we keep a positive outlook:

- Risk appetite has been punished for over 2 years first with Growth stocks and then Big indexes.
- Pessimism sentiment remains elevated, and prices are climbing the wall of worry of news.
- Possible pause or even pivot in the tightening monetary cycle from the FED.
- Base type formation in several assets as bonds, stocks (US and abroad) and crypto.
- Participation expanding within US markets and abroad. Stellar performance of DAX, CAC, FTSE.
- Classic leaders leading the market: Nasdaq and Semis with excellent YTD performance.
- Gold is approaching all-time highs while the dollar is getting to monthly lows.

MODEL ALLOCATION MAY 2023

- **10%** GOLD
- **20%** SP500
- **10%** SEMICONDUCTORS
- **10%** INTERNATIONAL STOCKS
- **10%** NASDAQ
- **40%** LONG TERM TREASURIES

BEWARE OF OUR ALGORITHMIC MULTI-ASSET STRATEGY:

At Bendio, we are proud to offer a managed futures strategy that leverages sophisticated investment algorithms. These algorithms are mechanical rules that can be programmed and executed automatically by a computer. Our strategy has been rigorously tested over years of historical back testing and has successfully weathered various market cycles, including the Great Financial Crisis, Europe Crisis, and Covid crisis, among others.

Our strategy focuses exclusively on the futures market, which we believe provides the optimal framework for achieving the holy grail of low correlation (-0.2 to 0.2) across different asset classes, including indexes, energies, grains, softs, and metals. Furthermore, our strategy diversifies across various market biases, such as long, short, and long-short, and trading styles, such as day trading and swing trading. Our bar size ranges from 30-100 minutes, offering flexibility and customization to meet our risk return goals.

Table 1 showcases the impressive returns our managed futures strategy has generated since its implementation, including a 17.5% return in 2022 and a 3% return in the current year, both with a 1-digit drawdown in a complicated environment. For more information about our strategy and how it can benefit your portfolio, please visit our website at www.bendio.ch.

Table 1. Multi Assets Strategy Returns for a USD 100.000 investment

Annual Returns

Year	Net Profit	Add/With	End Equity	Return(%)	Drawdown	Drawdown(%)	Trades	Wins(%)	P Fac
2023	$12,416.70	$0.00	$442,494.55	2.887	$4,806.50	1.095	197	39.09	1.293
2022	$64,122.00	$0.00	$430,077.85	17.52	$11,173.90	2.884	564	32.62	1.449

Source: Bendio AG