GENERAL INVESTMENT CLIMATE

The Economy

The global economic climate was tainted with uncertainty in the aftermath of the Brexit, causing many investors to adopt a wait-and-see attitude. However, at the start of this quarter most of this initial hesitance had already waned and European and American stock market indices were restored to pre-Brexit levels. This could be explained mostly by the perception that the Brexit might not turn out to be the global economic disaster it was made out to be. As explained in our last quarterly report, the European economic scene gained a new protagonist, namely the Bank of England, which surprised with its first performance. On the 14th of July, the day after the appointment of the new prime minister Theresa May, it was decided that the anticipated rate cut of 0.5% to 0.25% was to be postponed until after the results of the new economic report in August. Nevertheless, this didn't seem to dissuade the investor very much and expectations were simply adjusted to August. Consensus was proven right this time as on the 4th of August Governor of the Bank of England, Mark Carney, announced a rate cut to 0.25%, its lowest level in 322 years. On top of that came a new Term Funding Scheme to reinforce the pass-through of the cut in bank rate, the purchase of up to £10 billion of UK corporate bonds and an expansion of the asset purchase scheme for UK government bonds of £60 billion, taking the total stock of these asset purchases to £435 billion. This news triggered a strong recovery of the global stock markets and pushed the Sterling and UK gilt yields even further down.

Unsurprisingly, the ECB opted for status quo during its meeting on the 21st of July. Draghi did promise they would stand by with the necessary measures should the economy take a turn for the worse. In the meantime the ECB continued its quantitative easing; buying not only government bonds but since June also corporate bonds which are considered "Investment Grade". From June until the end of September the ECB already bought over 16 billion euros of corporate debt and this had a significant impact on its yield. Citigroup calculated that the yield discrepancy between investment grade and non-investment grade debt widened with 30% since the start of the program.
In the US the Federal Reserve announced it was suspending a rate bump once again but Chairwoman Yellen did state we should expect one near the end of the year, probably after the elections. This decision meant the suffering of the banking sector wasn't nearing its end. The low rates are mainly an issue for German banks like Deutsche Bank and Commerzbank, which are suffering from a chronic lack of profitability and not from bad loans like their Italian peers.

As before, oil prices underwent some back and forth swings because of mixed communication coming from OPEC. At the very end of the third quarter Brent crude oil prices made a resurgence due to a supposed agreement to lower production from 40 million barrels a day to 32.5 million. However, experts remain sceptical about whether the deal will hold as right after its announcement, Iraq's oil minister already disputed the data used in the calculations of his country's oil production.

Finally an update on macroeconomic fundamentals: as the ECB communicated, the Euro Area's economic recovery continued at a "moderate but steady pace" with annualized GDP growth quarter on quarter of 0.3% compared to 0.5% last time. The US economy expanded an annualized 1.4% in the second quarter of 2016, much better than 0.8% reported in the first three months of 2016. Meanwhile, inflation in the Eurozone went up from 0.2% to 0.4%, suggesting the ECB measures might be bearing fruit. Inflation in the US also increased from 0.8% to 1.1% while unemployment rates in both Western economies remained stable.

Currency and money markets

The Brexit left the British pound devastated with no chance of a real recovery all quarter long. Sterling started off around €1.20 in July and finished at about €1.15 by the end of September. There were some small improvements along the way but it never managed to rise above its starting point. The euro did manage to regain some ground, rising from circa $1.11 to $1.135 in August but dropped back to $1.12 by the end of the quarter. So far, previous talks of Euroscepticism hurting the euro seem ungrounded.

Stock markets

Table 1.1 - General

	30-sep-16	30-jun-16 - 3 mnd	31-mrt-16 - 6 mnd	31-dec-15 - 9 mnd	30-sep-15 - 12 mnd
AEX	452,33	3,07%	2,78%	2,38%	7,41%
BEL20	3555,92	6,29%	5,42%	-3,90%	6,32%
DAX	10511,02	8,58%	5,47%	-2,16%	8,80%
EU50	3002,24	4,80%	-0,09%	-8,12%	-3,17%
DJ	18308,15	2,11%	3,52%	5,07%	12,43%
SP500	2168,27	3,31%	5,27%	6,08%	12,93%
Nasdaq	5312,00	9,69%	9,08%	6,08%	14,97%
EUR/USD	1,1240	1,23%	-1,23%	3,54%	0,56%
Euribor 3 months	-0,3010	-0,0150	-0,0570	-0,1700	-0,2610
NL govt 10 year	0,0040	-0,0820	-0,3540	-0,7890	-0,7770

The European stock markets showed their resilience this quarter as they grew almost unabated despite several setbacks like the coup attempt in Turkey and growing concerns surrounding the German and Italian banking sector. In anticipation of further monetary stimuli by the ECB in September the Euro Stoxx 50 reached its quarterly peak. However, additional monetary measures were held off and the index had to settle with merely regaining the losses of the last quarter. The DAX and BEL20 performed particularly well, rising 8.58% and 6.29% respectively compared to last quarter.

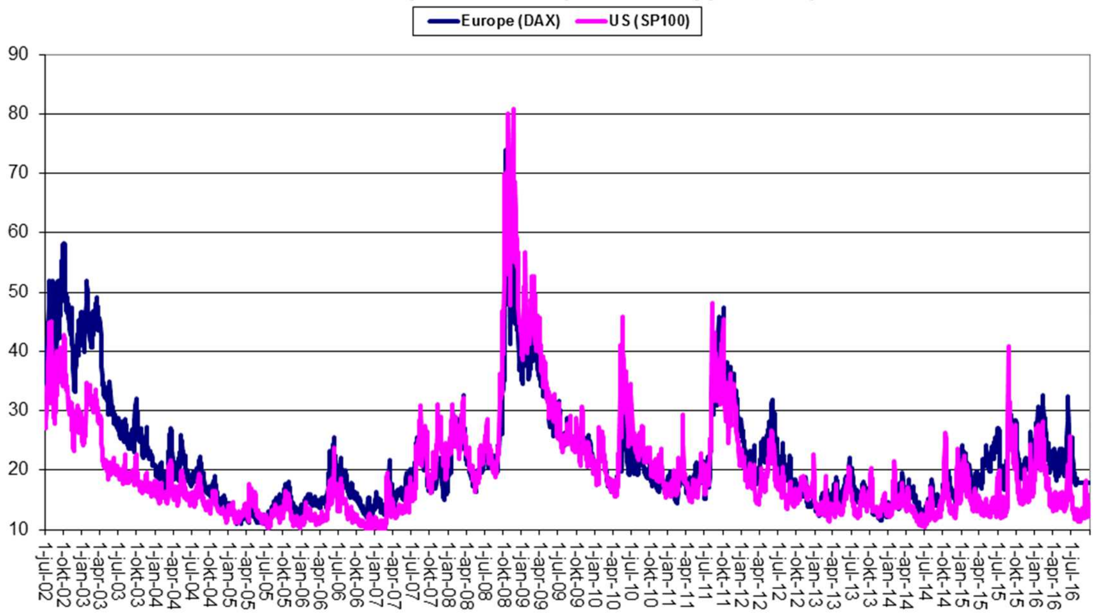
In the United States we see an interesting gap in performance between Nasdaq and the other American stock indices. The Nasdaq gained almost 10% compared to last quarter and – unlike the DJ and S&P500 – reached its peak after the disappointing announcement by the Fed in September. The DJ and S&P500 also managed to recover after the bad news but didn't succeed at regaining their former level.

Overall it would seem the stock markets left the Brexit behind them and grew almost undeterred, still mostly dancing to the tunes of the Central Banks.

Implied Volatility

Calm returned to the markets after the Brexit upheaval and short-term volatility dropped to its lowest level in 2016 in both the European and American stock markets. Nearing the end of the quarter the fall of the European volatility stagnated while it increased in the American markets.

Table 1.2 Development of the implied volatility jul 02 - sep 16



The long term

After a small dip in the beginning of July the AEX quickly reclaimed its pre-Brexit level. Although the index's quarter on quarter performance wasn't as strong as the other European indices, its moving average showed an upward trend.

Table 1.3 Long-term development AEX jan 03 - sep 16