GENERAL INVESTMENT CLIMATE

The Economy

The year 2017 started off calm and investor sentiment was on average quite bullish. During the start of the year the crude oil price continued staying above its newfound level of $50 per barrel but growing concerns of an oil glut caused a price dip by the end of the quarter. Oil bears believed the production cuts of the OPEC countries did not alleviate the overhang in inventories and prices were doomed to drop. The result was several OPEC members and Russia showing support for an extension of the production cut beyond June. This statement seemed to comfort the market and prices still managed to finish above the $50 mark.

On January the 20th, the United States' new president moved into the Oval Office. Immediately it became clear Trump was set on fulfilling his campaign promises as after only a week he withdrew from the Trans-Pacific Partnership trade deal and announced that he wanted to renegotiate the NAFTA agreement with Mexico and Canada. Meanwhile in Europe problem child Greece was giving cause for concern again. Since the European governments and the IMF couldn't agree on the continuation of the bailout program, a scenario of prolonged shaky investor confidence in Greece was looming. On top of that several important European elections were coming up in Germany, France and the Netherlands. Some feared Trump-like scenarios with the voter casting his lot with anti-migration populists. Neither Greek worries nor potential political upsets seemed to impress the investor as bullishness remained prevalent. The market was proven right a first time when far-right populist Geert Wilders did not succeed to convince the Dutch voters.

Meanwhile the ECB kept its quantitative-easing program unchanged as policy makers gauge whether a recent jump in inflation will endure. Draghi motivated this decision by pointing out that price acceleration is largely driven by rising energy costs and the risk of national elections interfering with the recovery. Moreover, they followed through with their decision to reduce monthly asset purchases to €60 billion from April on, compared with the previous €80 billion. Policy makers also left the refinancing rate at zero and the deposit rate at minus 0.4%, in line with general consensus. It was also mentioned that rates will stay at present or lower levels for an extended period, well past the horizon of the asset purchases.

Their American counterpart, the Fed, increased its benchmark interest rate a quarter point for the second time in three months. This puts the overnight funds rate at a target range of 0.75% to 1% and sets the Fed on a likely path of regular hikes ahead. It came as no surprise since consensus believes the economy is poised for strong growth. Some investors were worried the Fed would continue on a more Hawkish note with accelerated interest rate hikes, but this ended up not being the case.

Concluding with a macroeconomic update: the Euro Area's economy advanced 0.4% quarter on quarter, in line with the previous period. Growth was mainly driven by household consumption and fixed investment. The US economic expansion stood at an annualized 2.1%, slightly lower than the strong 3.5% of the previous quarter. In

March European prices increased 1.5% year-on-year, easing from a 2% increase in the month before. It was the lowest inflation rate of the first quarter. At the same time consumer prices in the US keep going up with 2.7% inflation in February. Finally, the unemployment rate in the Euro Area slightly dropped again from 9.6% to 9.5% from January to February. The US reached its lowest jobless rate since May 2007 with 4.5%.

Currency and money markets

Over the course of the first quarter the euro gained some ground on the USD in spite of the increased difference in interest rates. After Trump's defeat over the healthcare bill it became clear he doesn't have the unconditional support of the Republican Party members in Congress. Due to the fact that these Republicans aren't fans of big deficits, doubts arose surrounding Trump's trillion-dollar infrastructure plan, which ultimately weakened the development of the USD. The euro first increased from $1.04 to $1.08 but dropped to roughly $1.07 again by the end of the quarter. Sterling slightly swung back and forth, dropping to €1.13 in January and rising to €1.19 in February but stood unchanged at the end of quarter at €1.16. The pound did recover against the USD from $1.22 to $1.26.

Stock markets

Table 1.1 - General

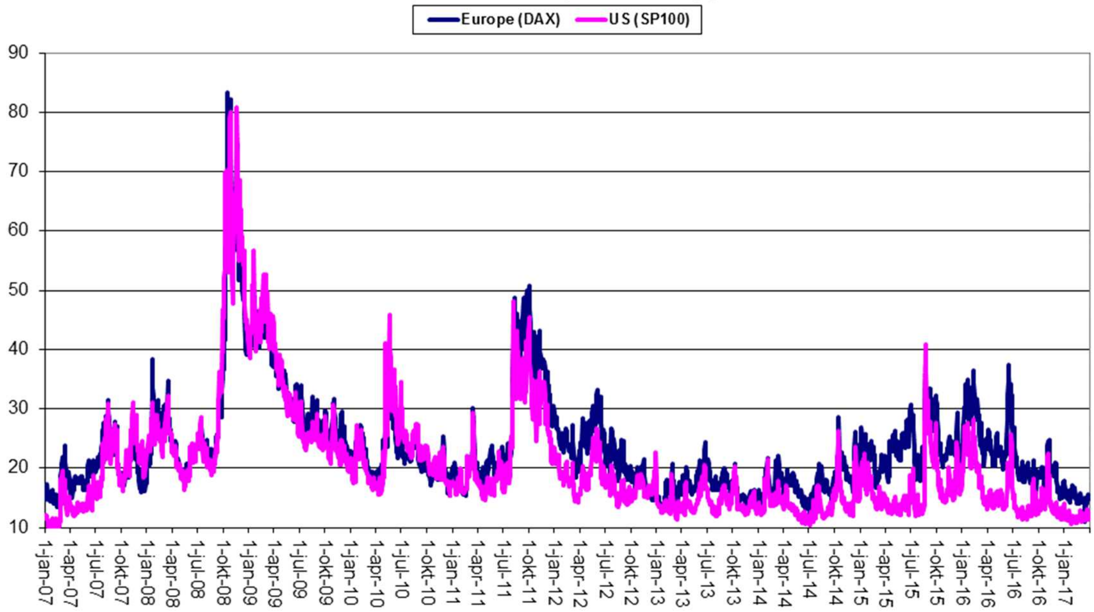
	31-mrt-17	31-dec-16 - 3 mnd	30-sep-16 - 6 mnd	30-jun-16 - 9 mnd	31-mrt-16 - 12 mnd
AEX	516,54	6,91%	14,20%	17,70%	17,37%
BEL20	3817,02	5,84%	7,34%	14,09%	13,16%
DAX	12312,87	7,25%	17,14%	27,20%	23,55%
EU50	3500,93	6,39%	16,61%	22,21%	16,51%
DJ	20663,22	4,56%	12,86%	15,24%	16,84%
SP500	2362,72	5,53%	8,97%	12,57%	14,71%
Nasdaq	5911,74	9,82%	11,29%	22,08%	21,39%
EUR/USD	1,0653	1,26%	-5,22%	-4,05%	-6,39%
Euribor 3 months	-0,3290	-0,0100	-0,0280	-0,0430	-0,0850
NL govt 10 year	0,5780	0,2210	0,5740	0,4920	0,2200

Overall a very strong first quarter for both European and American stock markets. The general trend was roughly stable development until mid-February and then an increase for the last part of the quarter. Industrial companies and capital goods manufacturers witnessed exceptional bullishness and the first notable rebound of the oil & gas industry is expected for the second half of this year. Meanwhile the automotive industry is showing no signs of slowing down so 2017 is looking to be a strong year for the stock markets. At the same time it's striking how indifferent the markets have become to negative (geo)political news and related risks. This state of frenzied bullishness and ever increasing company valuations comes with an increased risk of correction. However, market watchers have been saying this for a while now and when the correction will come is anyone's guess. Unlike previous quarters, monetary policy decisions had little to no impact on the markets as they were in line with consensus.

Implied Volatility

The first cracks are starting to show in Trump's grand design as he failed to push his healthcare reform. This is was notable in the US implied volatility, which started a slight upward trend by the end of the quarter. At the same time European implied volatility remained stable, equaling US volatility for the first time since October 2016.

Table 1.2 Development of the implied volatility jan 07 - mrt 17



The long term

The AEX continued its strong growth trajectory of the last quarter and rose significantly above the moving average. This time around oil stocks were weighing down the AEX due to faltering oil prices. A small part of the strong performance can also be explained by the inflated Unilever stock price after the bid by Kraft Heinz.

Table 1.3 Long-term development AEX jan 03 - mrt 17