GENERAL INVESTMENT CLIMATE

The Economy

As the year came to a close it became clear that 2017 was a good year for the European and especially the American stock markets. Not unlike the previous quarters the fourth quarter showed that the European stock markets were considerably more sensitive to negative news flow than American stock markets. Whereas the European indices barely moved or even weakened, all US indices kept hitting new records without slowing down. The quarter started off strong with the positive ECB announcement on the 26th of October. Investors breathed a sigh of relief as Draghi stated the stimulus program would continue at least until September 2018. However, the monthly asset purchases would be reduced from 60 billion to 30 billion EUR. The ECB stressed the need for continued stimulus to remedy the low inflation. On top of that it was promised that the first rate hike would not be coming before the start of 2019. The positive momentum did not last long as the European indices started sliding during the first week of November. Bearishness came over the market as US president Trump continuously failed in getting his promised tax reforms through. Strangely enough this affected the European markets more than the American markets. In December these losses would largely be compensated again after it became clear that Trump's tax reforms would be coming into effect in 2018 after all. Another positive trigger was the increased growth forecasts by both the ECB and the Fed.

On November 2nd Trump nominated ex-investment banker and mainstream republican Jerome Powell as the new Fed chairman. The choice was a logical one since Powell is known for his preference for deregulation of the financial sector, one of Trump's campaign promises. Unlike his predecessor Yellen, Powell is a proponent of abolishing the periodic stress tests for banks which were introduced after the Lehman crisis. Furthermore, his dovish predisposition could mean a slowdown of the implementation of the announced rate hike. On the 13th of December Janet Yellen signed off as Fed Chair with the planned third rate hike of 2017 to a range of 1.25% to 1.5% and the message that – in absence of dramatic economic changes – there will be three more rate hikes in 2018. Also, the predicted economic growth over the next three years was stronger than before. The Fed revised its forecast for 2018 from the 2.1% published in September to 2.5%. Yellen did note this revision should not be viewed as an estimate of the impact of the tax reforms. Her response to Trump's claim that his reform would propel growth to 4% was that this would be "challenging".

Oil prices continued their strong hike initiated in the last quarter with another gain of almost 20%. Brent prices increased from 57 USD to about 67 USD per barrel.

Perhaps the most striking development this quarter was the explosion of the Bitcoin price and other cryptocurrencies. The hype created by the surge of media attention caused its value to skyrocket, albeit with very strong swings back and forth due to its highly speculative nature. The virtual currency crossed the finish line at roughly 13.860 USD with a yearly performance of 1440%. Of course this success did not go unnoticed; suddenly all kinds of parties, from entrepreneurs to actual governments like China and Venezuela, started developing their own cryptocurrencies. We even had exchanges like CME introducing Bitcoin futures. The question remains whether this is a temporary hype or the beginning of an economic revolution.

Concluding with a macroeconomic summary: The Euro Area GDP grew 0.6% quarter on quarter, on par with last quarter. GDP growth picked up in Italy and Germany and eased slightly in France and Spain. The US economy expanded an annualized 3.2% quarter on quarter, slightly up compared to last quarter's 3.1% and the strongest quarter since 2015 Q1. Inflation in the Euro Area remained fairly stable this quarter, settling around 1.4%. The ECB monetary policy inflation or "annual core inflation", which excludes volatile prices of energy, unprocessed food and tobacco, is expected to remain at 0.9%. In the US inflation rose further to 2.2%. Finally, the unemployment rate in the Euro Area decreased further from 9% to 8.7%, the lowest level since January 2009. In the US we saw the jobless rate drop even further to 4.1%, the record low of 2017.

Currency and money markets

The euro started off stable around 1.1800 USD and decreased slightly to 1.1600 USD after the ECB's announcement on the 26th of October to extend the purchasing program until September 2018. However, after this the euro recovered and even rose to about 1.2000 USD by the end of the year. This puts the yearly depreciation of the USD against the euro at roughly 14%. The GBP also had a weaker start but managed to appreciate from roughly 1.3300 to 1.3500 USD over the course of the quarter. Sterling didn't change much against the euro and ended up depreciating slightly.

Stock markets

Table 1.1 - General

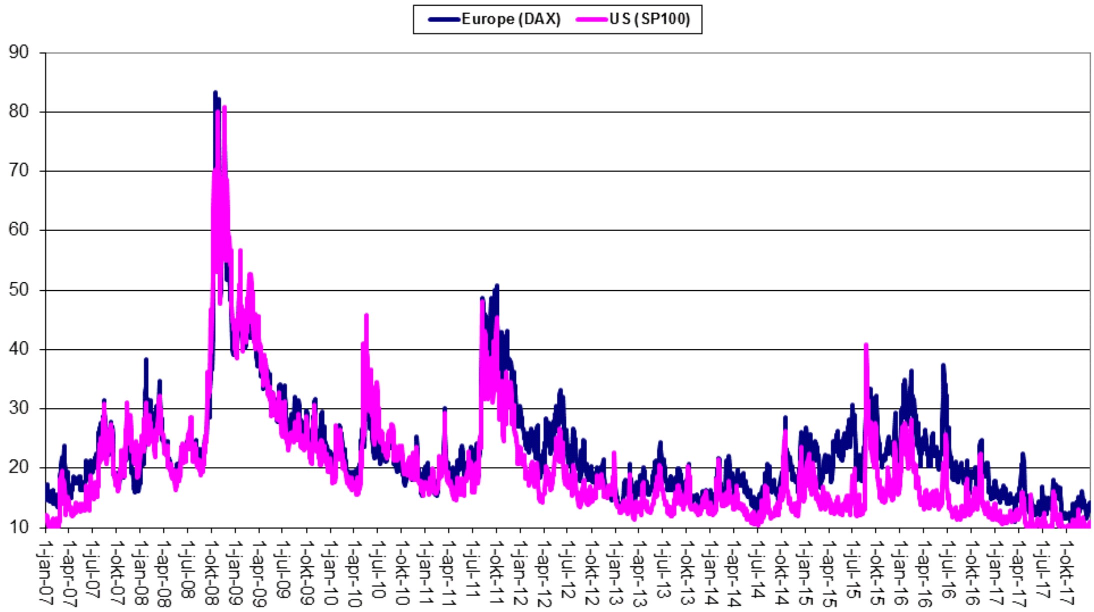
	31-dec-17	30-sep-17 - 3 mnd	30-jun-17 - 6 mnd	31-mrt-17 - 9 mnd	31-dec-16 - 12 mnd
AEX	544,58	1,40%	7,38%	5,43%	12,71%
BEL20	3977,88	-0,99%	4,86%	4,21%	10,30%
DAX	12917,64	0,69%	4,81%	4,91%	12,51%
EU50	3503,96	-2,53%	1,80%	0,09%	6,49%
DJ	24719,22	10,33%	15,78%	19,63%	25,08%
SP500	2673,61	6,12%	10,32%	13,16%	19,42%
Nasdaq	6903,39	6,27%	12,43%	16,77%	28,24%
EUR/USD	1,2005	1,62%	5,07%	12,69%	14,12%
Euribor 3 months	-0,3290	0,0000	-0,0060	0,0000	0,0313
NL govt 10 year	0,5290	-0,0848	-0,1936	-0,0848	0,4818

Once again we see a strong discrepancy between European and American performance. Arguably the most striking difference is how the US stock markets didn't experience the wave of profit taking during the first weeks of November like we saw in Europe. However, this performance gap should be taken with a grain of salt. If you take into account the USD depreciation compared to the euro then you end up with about 14% less performance for all US indexes. Then there is the matter of how representative these indices really are: The EU50 performed considerably worse than all major European indices due to the specific companies comprised in it and questionable weighting. Also, US stocks had relatively more windfall gains from the tax reform than European stocks. Despite the weak Q4 the AEX, BEL20 and DAX all performed well in 2017 with an annual growth of 12.7%, 10.3% and 12.5% respectively. The year 2017 was characterized by very strong performance of tech stocks due to strong trends like digitalization, autonomous driving, electric vehicles and Internet of Things.

Implied Volatility

The implied volatility remained higher in Europe than in the US, following roughly the same pattern. Volatility was mainly driven by speculation surrounding the US tax reforms pulling through or not. Once the tax bill was signed volatility in both markets returned to their previous low levels. It would seem investors are looking forward with optimism to the new year.

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



The long term

Just like the other European indices the AEX experienced a turbulent final quarter. In the end it did come out with a small plus, making it best in class among all European markets.

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