GENERAL INVESTMENT CLIMATE

The Economy

The first quarter of 2018 was rather pale in comparison with 2017. Nonetheless the markets had a decent start with stable to slight growth but they faced a correction in February with declines around 10%. The reason was a combination of factors: First of all investors saw president Trump proclaim more and more protectionist propaganda, motivated by the trade deficits of the US with a number of countries. Moreover, we saw steel prices rebound after a long period of depression, which meant bad news for car and machine builders, component producers and other industrials. Finally the biggest culprit was perhaps the growing fear of rising long-term interest rates after it became clear that central banks would finally put an end to the free money era. Nevertheless, the stock markets managed to regain their footing recovered to a limited extent by the end of February.

At the beginning of March, the markets took another hit after the US announced its import taxes on steel and aluminium. After Europe and China threatened with countermeasures, a trade war seemed closer than ever. Later it became clear the situation wasn’t as bad as it seemed. Import duties would not apply to the EU and a number of other countries including Brazil, South Korea and Australia. By the end of March, China in turn announced import tariffs for US products worth 60 billion dollars. The country drew up a long list of products that will possibly be targeted, ranging from steel pipes to various plastic variants. Despite fierce criticism, including from his own Republican ranks, it does not appear that Trump will back down, which could mean the tug of war between the US and China will drag on for a long time to come.
In the meantime in Italy there was the striking election victory of the anti-establishment party "MoVimento 5 Stelle". However, due to the turbulent geopolitical environment it went by almost unnoticed.

Of course, there was also plenty of speculation on the policy communication of the central banks. First we had Draghi on the 25th of January. He was remarkably positive about the European economy but denied that this could mean an earlier abandonment of the purchase program. Furthermore, Draghi repeated that the interest remains at the current zero level for some time after the bond purchases have stopped. In addition, the ECB President estimated the probability of a first rate hike in 2018 to be very small. Finally, he acknowledged that the continuing climb of the euro was a "source of uncertainty" for the ECB.
Everyone eagerly awaited the first performance by Jerome Powell on the 27th of February. The brand-new Fed chairman emphasized that there is no major realignment in terms of interest rate policy. Just as planned, three interest rate increases will be introduced this year, the first of which was already implemented in March. However Powell did make it clear that a fourth rate hike may be added if the economy and inflation continue to pick up at this rate. The fourth rate hike became fact on the 22nd of March during the first interest conference. At the same time, it was also announced that interest rates will increase more than anticipated in 2019 as a result of increased inflation expectations. In concrete terms, the Fed wants to raise the base rate to 2.9 percent at the end of 2019 and 3.4 percent at the end of 2020.

Finally macroeconomics: GDP in the Eurozone grew by 0.6% on a quarterly basis, just like the previous period. In the US, the economic expansion was 2.9%, a slight decline compared to the 3.1% of last quarter. Inflation in the Eurozone was more volatile than before and fell to just 1.1% in February but managed to close at 1.4% as in the previous quarter. Inflation remained unchanged at 2.2% in the US. Finally, the unemployment rate in the Eurozone dropped from 8.6% to 8.5%, the lowest level since December 2008. Nowadays in the US there's talk of "too low unemployment", contributing to excessive inflation. Unemployment remained unchanged at 4.1%. In the long term, "natural unemployment" is estimated at 4.6%.

Currency and money markets

The euro's advance did not falter this quarter. In February, the currency even exceeded the level of 1.25 USD several times. The exchange rate volatility declined towards the end of the quarter and closed at a level of 1.23 USD. This brings the appreciation of the euro against the dollar on a 12-month basis to 15.69%. One possible explanation for the ever-stronger euro could be the coming end of European quantitative easing. Meanwhile, the British pound remained fairly stable around a level of 1.14 euros.

Stock markets

Table 1.1 - General

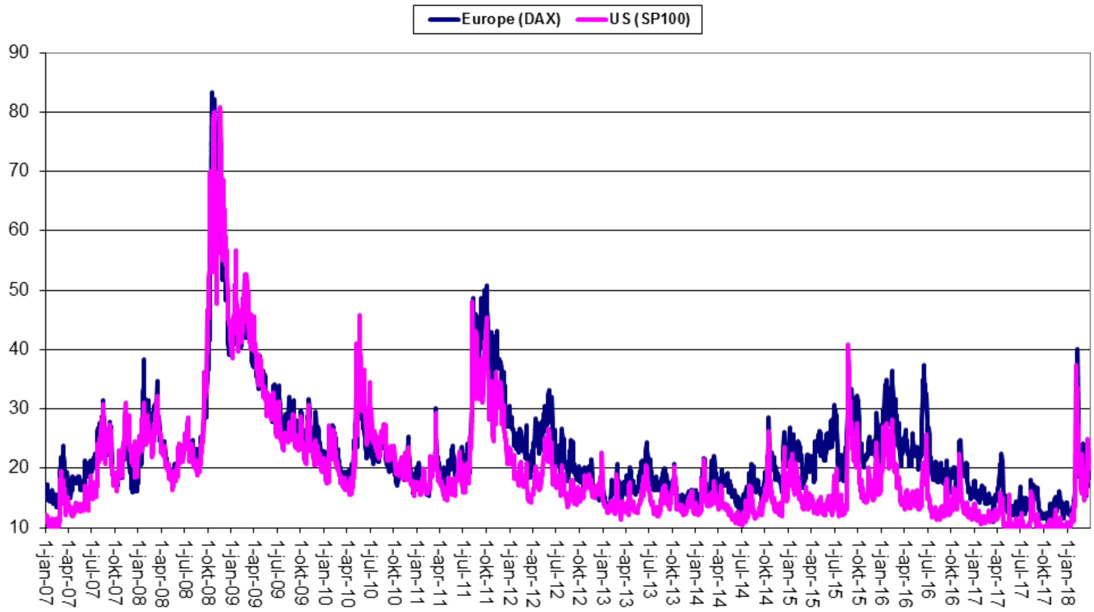
	31-mrt-18	31-dec-17 - 3 mnd	30-sep-17 - 6 mnd	30-jun-17 - 9 mnd	31-mrt-17 - 12 mnd
AEX	529,52	-2,77%	-1,40%	4,41%	2,51%
BEL20	3857,10	-3,04%	-4,00%	1,67%	1,05%
DAX	12096,73	-6,35%	-5,71%	-1,85%	-1,76%
EU50	3361,50	-4,07%	-6,49%	-2,34%	-3,98%
DJ	24103,11	-2,49%	7,58%	12,90%	16,65%
SP500	2640,87	-1,22%	4,82%	8,97%	11,77%
Nasdaq	7063,45	2,32%	8,74%	15,03%	19,48%
EUR/USD	1,2324	2,66%	4,32%	7,86%	15,69%
Euribor 3 months	-0,3280	-0,0030	-0,0030	-0,0091	-0,0030
NL govt 10 year	0,6430	0,2155	0,1125	-0,0198	0,1125

It was a tough quarter for the European stock markets but it was clear that Germany got the worst of it. After all, this export-driven economy had much to lose in a possible trade war. Furthermore, rising steel prices had a negative impact due to the overrepresentation of car and machine builders. For the other Western European indices, we can say that the growth of approximately the past six months was reversed. The American stock markets suffered relatively less damage. Nasdaq was the only major stock index that even recorded a profit for this quarter. In hindsight this is quite remarkable as the technology exchange went through a turbulent period, mainly due to the news about data abuse of the social media company Facebook. Due to the scandal the demand for stricter regulation of the technology sector gained a lot of traction, an unwelcome prospect for any company.

Implied Volatility

After months of historically low volatility the stock markets had a rudely awakening. Suddenly the investor had to account for all kinds of new risks. The main reason for concern was, of course, Trump's declaration of trade war and the subsequent reactions. Furthermore, the fact that the end of the free money era is in sight is also leaving its mark. After all, for many investors rising interest rates signify the writing is on the wall for the stock markets.

Table 1.2 Development of the implied volatility jan 07 - mrt 18



The long term

Similar to other European indices, the AEX had a solid start to the new year but suffered dearly from the negative geopolitical climate. For the first time in a long while we saw the index dipping below the moving average.

Table 1.3 Long-term development AEX jan 03 - mrt 18