GENERAL INVESTMENT CLIMATE

The Economy

The year 2019 had a promising start. We witnessed a global relief rally spurred on by renewed optimism on a potential trade agreement between the US and China. However, this exuberance was limited to the first two months because in March doubt crept back into the market. This came as no surprise since there was still plenty to worry about. After all, the economic data indicated faltering growth in China, the US and Europe. Among other things, a global decline in the industrial manufacturing industry was reported, a particularly negative trend for the German economy. Quick as ever, China reacted by reducing the standard VAT rate from 16% to 13%. Meanwhile, the Brexit debacle drags on with little hope for a swift conclusion. May continues to bounce back and forth between the EU and the British parliament without noticeable progress. Whether the above indicates an impending crisis is a different story. The bears point out rising government and corporate debt, but the relationship with income has remained fairly stable. Not to mention that most companies are reporting a robust development of order intake.
Oil prices made a comeback after the disastrous final quarter but failed to reobtain the high levels of early October. The Brent crude oil price rose 26%, from 54 to 68 USD per barrel. OPEC + managed to compensate for the inflow from the ongoing expansion of the American shale oil industry through handy manipulation of the supply base. Of course the price level was also supported by the start of the heating season and reports of unrest in major oil states such as Venezuela and Libya.

On to monetary policy: In January, Fed Chairman Powell made a 180-degree turn. Last year's determination to further crank up rates – drawing the ire of president Trump – seemed to have vanished. Instead we saw a more "patient" Fed, preferring to wait out further economic developments before adjusting the rate. Powell didn't even exclude the possibility of a rate decrease. Additionally, the central bankers indicated they were willing - if necessary - to slow down or even stop the slimming down of their USD 4000 billion balance sheet. Most likely, this drastic reversal is based on more sombre economic prospects, but that did not spoil the fun on the stock market. Others argue that this is proof of the continuing erosion of the independence of the Central Bank.

Powell's European counterpart, Mario Draghi, once again had to carefully balance between recognizing the economic truth and reassuring the market. At the end of January, the ECB indicated that the slowdown of economic growth in the Eurozone turned out to be greater than expected, but that the risk of a recession is low. The poor prospects were mainly linked to the automotive industry and the banking sector. In March was announced that the base rate of 0 percent and deposit rate of -0.4 percent will now be maintained at least until the end of 2019, whereas before it was planned to end this summer. In addition, between September 2019 and March 2021, the ECB will provide the banks with several cheap loans (TLTROs). By the end of March, Draghi also inadvertently caused a rally in European banks by proclaiming that, if necessary, the ECB would consider measures which preserve the favourable impact of the negative interest rate on the economy and mitigate the negative side effects on the profitability of the banks.

Finally, macroeconomics: quarterly economic expansion in the Euro Area remained at the low level of 0.2%. American growth continued to drop from 3.4% to 2.2%. Furthermore, inflation in the Euro Area fell again from 1.6% to 1.4%. In the US, inflation also dropped further, from 1.9% to even 1.5%, followed by recovery in March. Despite signs of economic slowdown, the unemployment rate in the Euro Area continued to fall from 8.1% to 7.8%. The unemployment rate in the US fell a little further to 3.8%.

Currency and Money Markets

Over the first quarter the euro depreciated further against the USD, from 1.14 to 1.12 USD. This development was more due to the weakness of the euro than due to the strength of the USD. Towards the end of January, the ECB brought down the euro with its report of underperforming growth and concerns about falling inflation. Draghi hurt the euro again in March by once again postponing the end of the low interest rate policy. The return to more dovish interest rate policies in the US prevented the USD from appreciating even more compared to the euro. Despite the Brexit theatre, the British pound strengthened considerably from 1.11 to 1.16 euros.

Stock Markets

Table 1.1 - General

	31-mrt-19	31-dec-18 - 3 mnth	30-sep-18 - 6 mnth	30-jun-18 - 9 mnth	31-mrt-18 - 12 mnth
AEX	548,98	12,52%	-0,12%	-0,49%	3,68%
BEL20	3658,72	12,80%	-1,30%	-1,64%	-5,14%
DAX	11526,04	9,16%	-5,88%	-6,34%	-4,72%
EU50	3351,71	11,67%	-1,40%	-1,29%	-0,29%
DJ	25928,68	11,15%	-2,00%	6,83%	7,57%
SP500	2834,40	13,07%	-2,73%	4,27%	7,33%
Nasdaq	7729,32	16,49%	-3,94%	2,92%	9,43%
EUR/USD	1,1217	-2,20%	-3,34%	-3,99%	-8,98%
Euribor 3 months	-0,311	-0,002	0,007	0,010	0,017
NL govt 10 year	0,032	-0,358	-0,548	-0,430	-0,611

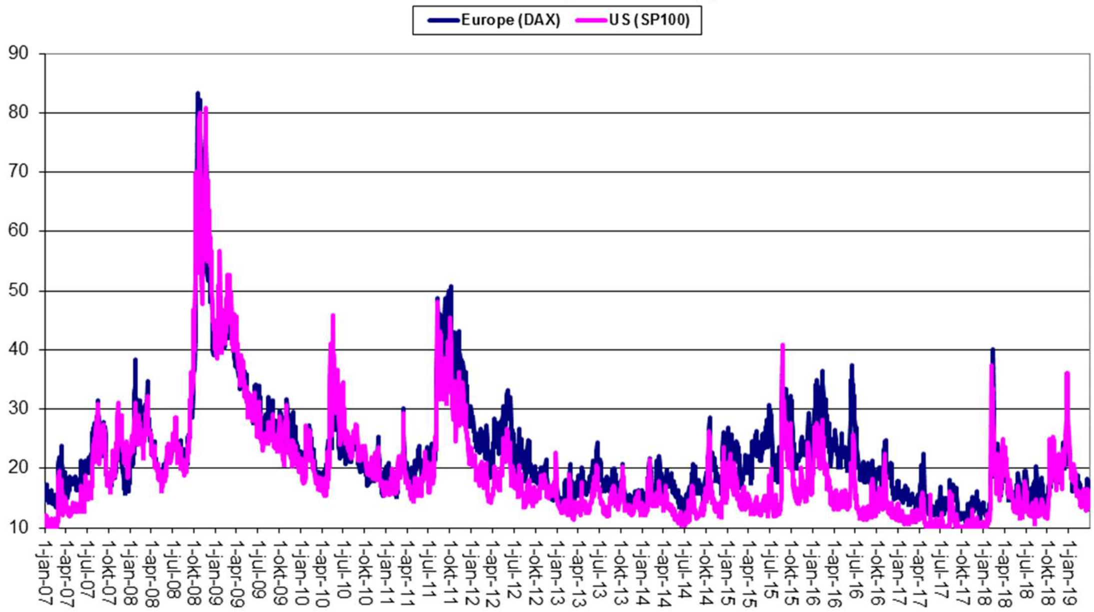
Despite an abundance of negative signals, optimism prevailed on the stock market. Even the classic inverted yield curve could not discourage investors. In general, companies were cautiously optimistic about the year 2019, and in the end that proved to be sufficient to bring most of the indices back to the level of 6 months ago. The DAX stood out as underperformer with only 9.16% growth compared to 12.52% for the AEX and 12.8% for the BEL20. Circumstances remain grim for German car builders as they face challenges on multiple fronts, with the transition to electric propulsion, the introduction of increasingly strict CO_2 standards and now also the slowdown of profit driver China. Furthermore, we also had yields on German 10-year bonds drop below zero for the first time since October 2016. In the US, everything seems to be going well again, certainly with the Tech sector looking forward to a whole series of IPOs planned for this year. After the "FAANG" shares, we may now get the

"A-PLUS" with Airbnb, Pinterest, Lyft, Uber and Slack. The IPO of Lyft made for a promising start with a whopping $24bn valuation despite being heavily loss-making.

Implied Volatility

Wall Street's depression was short-lived and market volatility seems to have subsided with the arrival of the new year. In our opinion, this is largely due to a more positive view on the outcome of the US-China negotiations. Moreover, the investor has become more immune for Brexit news as the latest news was mainly about postponing the deadline. Nevertheless, it is clear that we can still expect significant Brexit turbulence in the coming year, be it through the "hard" or "soft" variant.

Table 1.2 Development of the implied volatility jan 07 - mrt 19



The Long Term

Just like the other indices, the AEX recovered nicely this quarter, with more than 12.5% growth. After the dip in the last quarter we saw the index rise above the moving average again.

Table 1.3 Long-term development AEX jan 03 - mrt 19