GENERAL INVESTMENT CLIMATE

The Economy

We closed off the year 2019 with a very strong quarter. Whereas in the previous quarter we were bombarded with reports of a possible recession and falling productivity, we were given reasons to become optimistic again this quarter. All in all reported results for the third quarter were quite alright, even in the automotive industry. There were also the first signs of a possible reconciliation between the US and China. Furthermore, the American economy remained strong and the European economy did not deteriorate as much as expected.

Oil prices also had a good run this quarter. The Brent price increased from around $60 to roughly $67 per barrel. However, this increase did not go over smoothly. The price fell from $ 64 to around $ 61 after rumours that Russia and other OPEC + members weren't on board with an additional production cut. For Saudi Arabia, even more than usual was at stake with the ongoing Saudi Aramco IPO. This made it a top priority for the Kingdom to keep oil prices stable at around $60. However, their cartel partners did end up giving the green light. This triggered a recovery of up to $ 66 per VAT. Despite the major shocks the oil market had to endure, 2019 became a relatively stable year for oil prices, with an increase of around $ 57 to $ 67 per barrel.

On December 13, the US and China announced a "Phase-One" trade agreement, establishing a basic agreement on the trade in energy, agricultural products and other goods. This meant that the new import tariffs planned for the 15th of December were scrapped by both nations. Still, a number of things remain unclear about this "deal". On the American side, it was claimed that China would purchase at least another $16 billion in agricultural products in each of the following 2 years. Experts, however, were very sceptical about this claim because Chinese officials were reluctant to share any precise targets during their press conference. Also, it's still unclear how and when the U.S. will roll back other tariffs, a condition for a Phase-One deal that the Chinese side has firmly maintained. For now the US will keep 25% tariffs on about $250 billion of Chinese imports, along with 7.5% duties on ~ $120 billion of Chinese imports.

As expected, the Fed announced another interest rate cut on the 30th of October. The interest bandwidth was reduced by 25 basis points from 1.75 to 2% to 1.5 to 1.75%. Chairman Powell praised the US labour market and stated that economic activity continues to rise at a moderate pace. However, fixed investments and exports remained weak. Moreover, his language suggested that no further interest rate cuts would follow for the time being. This was confirmed at the last session of the year on 11 December. Moreover, it was implied that no further rate adjustments were planned for 2020.

On October 24, Draghi waved goodbye to Frankfurt after 8 years of ECB presidency. His final act was to leave base and deposit rates unchanged at historically low levels of respectively 0% and -0.5%. The latest economic data for the Eurozone indicated that growth in the second half of the year was moderate but positive. The biggest problem was still weak international trade affecting the manufacturing industry. From 1 November on former IMF director Christine Lagarde was at the helm. It's generally expected that she will continue Draghi's policy.

A final word on macroeconomics: quarterly economic expansion in the euro zone remained at the 0.2% level. The US economy kept its pace with an increase from 2% to 2.1%. Furthermore, inflation in the euro area recovered with a significant increase from 0.8% to 1.3%. In the US inflation also rose: from 1.7% to 2.1%. The unemployment rate in the euro area stopped its descent for the first time in years and remained stable at around 7.5%. The unemployment rate in the US remained around the natural bottom of 3.5%.

Currency and Money Markets

This quarter we saw the euro push higher against the USD, appreciating from ~ 1.095 to ~ 1.12 USD. This is no surprise in the light of the interest rate decisions of the respective central banks. Market sentiment also seems to have turned in favor of the euro through the stabilization of European economic indicators. Some analysts have already gone as far as predicting that 2020 will be a year for euro bulls. The big winner of last quarter is the British pound that appreciated from ~ 1.125 to ~ 1.17 euros. This recovery was due to the election victory of Brexiteer Boris Johnson, who should finally be able to guide the UK to the exit.

Stock Markets

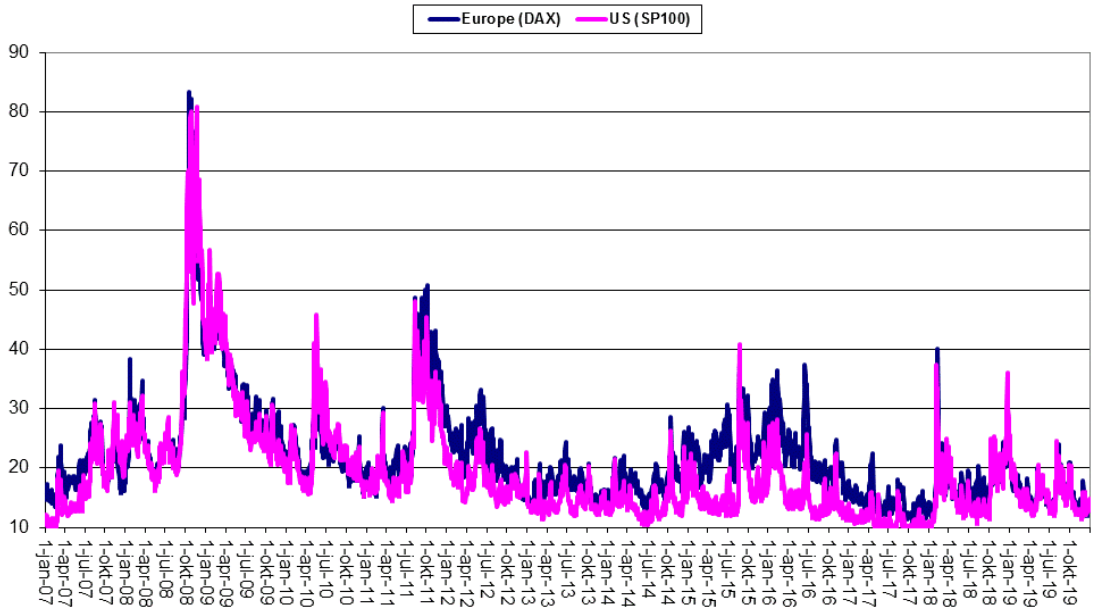
Table 1.1 - General

	31-dec-19	30-sep-19 - 3 mnth	30-jun-19 - 6 mnth	31-mrt-19 - 9 mnth	31-dec-18 - 12 mnth
AEX	604,58	4,20%	7,62%	10,13%	23,92%
BEL20	3955,83	6,51%	11,51%	8,12%	21,96%
DAX	13249,01	6,61%	6,86%	14,95%	25,48%
EU50	3745,15	4,92%	7,81%	11,74%	24,78%
DJ	28538,44	6,02%	7,29%	10,07%	22,34%
SP500	3230,78	8,53%	9,82%	13,98%	28,88%
Nasdaq	8972,60	12,17%	12,07%	16,09%	35,23%
EUR/USD	1,1214	2,88%	-1,35%	-0,03%	-2,22%
Euribor 3 months	-0,383	0,035	-0,038	-0,072	-0,074
NL govt 10 year	-0,052	0,372	0,104	-0,084	-0,442

After a year full of uncertainty, the fourth quarter was a breath of fresh air for investors. With all the positive news related to the trade war, the Brexit and the economy, the dark recession clouds were finally dispelled and shorters began to cover themselves en masse. The DAX was the strongest climber in Europe. The explanation lies among other things in the hope for the recovery of German exports, which were severely affected by the trade war. We also saw the first signs of a potential recovery of investments in the automotive industry. Across the pond, the Nasdaq set one record after the other. This strong growth was partly driven by heavyweight Amazon reporting its strongest holiday season to date, and Tesla that exceeded Q4 expectations for car deliveries. This made the Nasdaq the best-performing index in 2019 with an increase of 35.23%. The most extreme risers in the fourth quarter were generally the more cyclical stocks that regained the benefit of the doubt in light of the improved economic outlook. Chief among these were industrials, materials and financials.

Implied Volatility

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



Thanks to positive newsflow, it was very calm quarter for the stock markets. The optimist finally got it right as we saw the US and China take the first concrete step towards resolving the trade dispute, a possible solution to the Brexit impasse and the improvement of the general economic outlook. Volatility therefore remained at a historically low level.

The Long Term

Just like the other indices, the AEX has had a strong quarter. However, the Dutch index did not rise as fast as its European peers. This can be attributed to the fact that these countries' greater dependence on industrial exports meant they had more to gain from a general economic recovery.

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